

The Construction Industry

1. Structure and PerformanceStructure

Construction is defined as the creation, renovation, repair and demolition of immobile structures and the alteration of the natural topography. Construction provides the physical means for resource exploration and industrial development, as well as the supporting infrastructure, such as transportation systems, commercial facilities and residential accommodation. The construction sector is composed of firms and labour engaged, on a contract basis, in the various activities whereby construction is accomplished. There is no vertical integration in the industry except in a few very specialized areas, such as structural steel, lift and conveyor systems and curtain walls.

The Canadian construction industry consists of 106 thousand firms located in all areas of the country. 14 thousand of these firms specialize in residential and non-residential buildings, 3 thousand are primarily involved in heavy engineering (electric power and oil and gas facilities and heavy industrial structures) and road building, and 89 thousand undertake mechanical, electrical and other special trades work.

While the majority of contracting companies serve only a very localized market, some of the larger firms may serve a regional market. The largest firms in the sector do, however, operate nationally. Only 5.5 percent of the industry's firms have gross operating revenues of \$1 billion or more and these undertake 65 percent of the work. These firms are more broadly based and therefore more capable of undertaking larger more complex projects.

Many firms, particularly in the special trades group, are highly specialized and technically competent. However, owners lack other basic skills in the areas of general management, marketing and finance.

Foreign ownership is an important issue for the industry, but it is not as critical as it may be in other sectors. The 1981 CILIMA report indicates that there were 191 foreign-controlled construction companies operating in Canada (a drop of 12 percent from 1980). These represent 0.3 percent of the number of firms, 10.5 percent of the industry's assets, 15.0 percent of the equity and 11 percent of the profits. Canadian controlled firms, unlike their foreign controlled counterparts, have not expanded their capability to include the engineering and procurement skills frequently sought by clients when considering major projects.

Performance

The industry is particularly vulnerable to business cycle fluctuations and recessionary trends in the economy. Nevertheless, over the past twenty years construction investment achieved an average annual rate of growth of 3.3 percent (slightly below that of GNP) to reach \$56 billion in 1981 and accounted for 38 percent of total capital investment in the Canadian economy. The construction industry (the 106 thousand firms) provided \$38 billion of the aggregate figure with the balance carried out by utility companies, governments and firms not primarily engaged in the industry.

Construction, traditionally, accounts for 5 to 6 percent of Canada's employed labour force. With the levelling off of industry output, the industry employed 566 thousand hourly paid wages earners, down 5.2 percent from 1982 and 13.6 percent from 1981.

In the late 1970s, there was a gradual shift away from the construction of residential and other buildings to engineering construction. While this shift appears to have ceased it did bring about a change in the structure of the industry. The slowdown in construction activity as a result of the current recession and high interest rates has led to greater competition among existing firms and it is suspected to increased company closures.