

Prospects for a Building Boom

Forecasts of Reduced Costs fail to take into account the Immense Accumulated Shortage of Building, the Imitative Character of Investors, the Increased Freight Rates and the Shortage of Raw Materials

By B. K. SANDWELL.

Building contractors, both in Canada and the United States are reported to be prophesying a decided drop in building costs within the next two years. It would appear, at first sight, as though this prophesy were contrary to the financial interests of the contractors themselves, and were therefore so much the more likely to be sincere. There is, however, one consideration which may actuate the average contractor in expressing a willingness to have building operations postponed for the present season to next year or the year after, and that consideration is the extreme uncertainty of the supply of many building materials. Contractors are naturally not anxious to bid for work the cost of which may possibly be enhanced by 20, 30 or 50 per cent. on account of delays in the receipt of necessary structural materials. More especially is this the case towards the end of the summer in a northern country such as Canada, where the difference of a few days in the delivery of material in October or November may hold up an entire building, not for weeks but for four months of winter weather, and expose the structure to serious deterioration as well as loss of interest on all amounts previously expended.

The circumstances of the building situation in the United States, as set forth in a circular just issued by the Guaranty Trust Co. of New York (and they closely resemble the circumstances in Canada) are by no means such as to suggest any diminution in the price of building materials. The Trust Co. has compiled a table of building operations in the United States, from 1913 to 1919 inclusive, taking the value of building permits issued, discounting them in each year by a percentage calculated to cover the increased cost of building, and comparing the results with a standard normal year's work. The results are shown in the following table:—

	Value of Permits (in 143 to 151 cities)	Weight for Cost of Building	Estimated Building Operations for Entire U.S. Per Cent Normal	Deficit Per Cent Normal
1913	\$ 859,657,250	100	100	0
1914	785,525,746	100	...	-
1915	799,735,860	100	...	-
1916	1,024,211,675	117	...	-
1917	687,415,605	139	60	40
1918	430,014,365	159	31	69
1919	1,281,000,000	200	75	25

Accumulated deficit 134

It will be seen from this table that the building operations of \$1,281,000,000 in 1919 were really the equivalent of only \$640,000,000 in 1913 standards, and represent therefore only 75 per cent. of the normal 1913 building record. In 1918 the shortage was even greater, the actual building being less than one-third normal, and in 1917 the building was 60 per cent. and the shortage 40 per cent. It must be remembered, moreover, that in both these years a great deal of such building as was done was for purely temporary purposes, and added nothing to the permanent structural plant of the country. There was therefore an accumulated deficit in building in the United States

at the end of 1919, amounting to one and one-third years of normal building operations; and since the dislocation in Canada was at least equal to that in the United States, and lasted much longer, it is fair to assume that there is a deficit in this country amounting to a year and a half, and perhaps nearer to two full years.

The man who, in this situation, can foresee an extensive decline in building prices must surely be suffering from some form of obsession. The desire for building is largely imitative—in which, incidentally, it resembles the desire not to build. People today are imitating one another in saying that they will not build because prices ought to be going down. By next year, it is possible that some prices may have fallen off by one or two percent., or if they have not, people will be able to tell themselves that it is because of the increase in freight rates, and that stationary prices are really the equivalent of a considerable recession. Some of them will then start to build, succumbing to the attraction of the immense revenues which are now obtainable from any kind of well-conceived modern structure, whether residential or commercial. As soon as the beginning is made the imitators will flock in and will probably bid against themselves until the prices of building material and building labor are forced up beyond even the present standard.

The Guaranty Trust estimates that there is in the United States an excess plant capacity in the lumber, brick, stone and cement industries amounting to 50 per cent., although the circular unfortunately omits to state what is the standard

upon which that excess is measured. The statement may mean that the United States is capable of producing 1½ times the amount of building materials consumed last year, or 1½ times the amount consumed in a normal year such as 1913. In either cases, it is very doubtful if Canada possesses any corresponding excess of productive capacity except possibly in the brick and cement industries. Even in the United States, it is very doubtful if any such success exists in the forest operations of the lumber industry, though it may exist in the factories where logs are converted into building lumber. In Canada, at any rate, it would appear as if any attempt to catch up with some of the existing of shortage of building would lead to a shortage of building materials which, combined with increased freight-rates and the demands of labor, would run up prices to an unprecedented level.

The present hesitation is of course not wholly due to uncertainty about prices. The restricted supply of credit, and the keen demand for fixed capital in other lines of investment, have much to do with it, while in the United States, and to some extent in Canada, the transportation tangle is a very serious deterrent. It is conceivable that all these hostile factors might continue to operate for another year, but this will merely have the effect of increasing the seriousness of the shortage, and will therefore add to the impetus of the building boom whenever it does eventually start. The Guaranty Trust is suggesting the advisability of a system of freight properties for building materials. Canada is probably not in need of any such radical interference with the natural processes of transportation; but Canadians are so largely influenced by the psychological conditions prevailing in the United States that we are quite likely to be going slow on our own building operations on account of an obstacle which exists in the United States but does not exist in Canada, except in the minds of Canadians. The United States will probably have a building boom as soon as its transportation troubles are straightened out; and in that case Canada will have one a few months or a year later just because there has been one in the United States.

What June Trade Returns Showed

By OUR OTTAWA CORRESPONDENT.

The growing adverse balance of trade against Canada is further accentuated by the June trade returns, which show the imports to have exceeded the exports during the month by \$26,197,000. This brings the total adverse balance since the beginning of the present year up to \$128,167,000. It is probable that this will continue until the crop begins to move out in the Fall. This shows the very great importance that this year's crop is to the trade of Canada.

It is, however, very gratifying to find that exports increased last month over those for May, having been \$108,494,000, as compared with \$80,318,000. This apparently was due almost entirely to an increase in the shipments of lumber, pulp and paper, which were \$30,000,000, or approximately \$9,000,000 over those for May, and \$17,000,000 in excess of those for June, 1919. Among the imports those of textiles, fibres and their products were again most prominent, being \$34,500,000, as compared with a little over \$11,000,000 for June, 1919. During the last three months \$87,500,000 worth of these products have been brought into the country.

The reports of comparatively large exports of sugar to the United States during recent weeks direct attention to the stimulus to export that is being imparted by the premium on New York funds. As has been pointed out, it pays hand-

somely to export sugar to the United States, even if it is sold to the Americans at the same price that the exporter pays for it in Canada, the rate of exchange yielding a nice profit of from 13 to 15 per cent. As the rate of profit in this country is fixed at five per cent, it is not surprising that even retailers are going into the export business.

In this connection it may be pointed out that exporters to the Republic are receiving a return far in excess of that disclosed by the export returns. With exports running at the rate of approximately \$44,000,000 a month, the rate of exchange means an addition of nearly \$5,000,000 to the exporter. With this strong influence at work, exports to the country to the South will undoubtedly show a big increase this year.

An all rail shipment of 2,200 tons of Nova Scotia coal to a pulp mill 32 miles west of Cochrane on the National Transcontinental cost, including freight, about the same as Pennsylvania coal, plus duty, laid down at the same point. This apparently demonstrates that if the duty on bituminous coal remains, Nova Scotia coal can be shipped to southern Ontario at a profit even by rail, and much more advantageously by water.