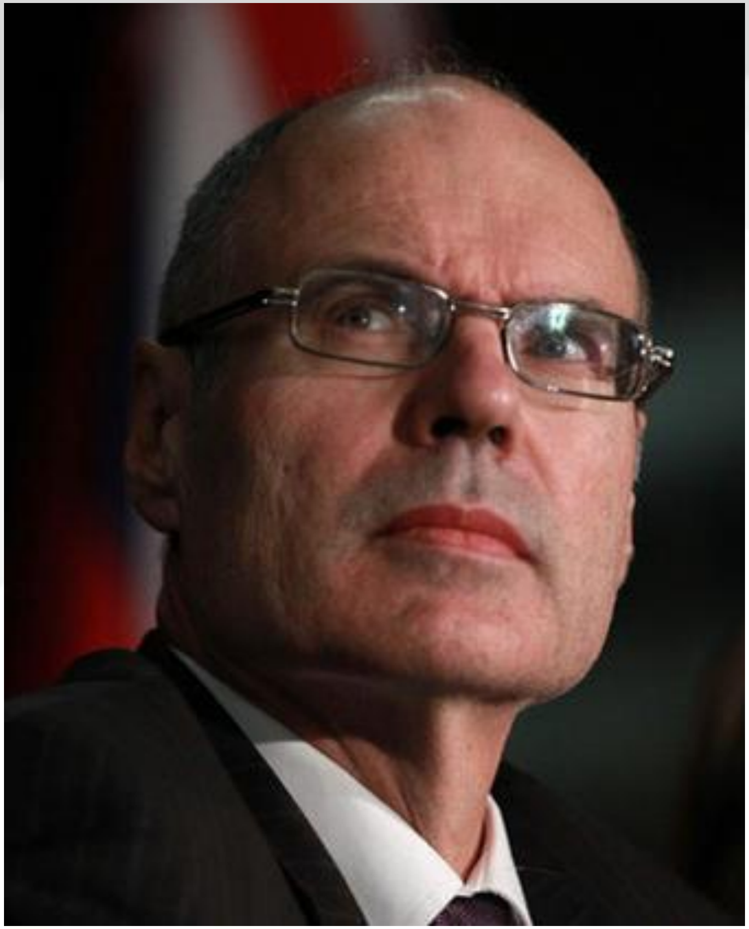
Crane Rental Association of Canada

Increasing Construction Productivity through Improved Asset Depreciation

Chris McNally

Chair, CCA Industry Advocacy and Regulatory Affairs Committee

June 6, 2014 – Whistler, B.C.



"Canada's productivity is barely growing at 1 per cent a year. In fact, we are even falling behind the United States…we are hopelessly under invested in machinery and equipment and that's a key driver of competitiveness."

Don Drummond – CanData Conference, September 2013

Workforce Shortages

BUILDFORCE CANADA

2014–2023 Key Highlights

Construction and Maintenance Looking Forward

National Summary

Construction remains among the fastest growing Canadian industries, but momentum has been slowing and the scope of activity has narrowed. Economic and demographic forces are altering market conditions. Labour requirements are shifting into Western resource projects and infrastructure markets and there is a need to address the challenges of an aging workforce as more baby boomers retire. These are not new trends, but they are growing more intense.

Construction is moving into a situation where, in some key markets, special skills and experience are in short supply, while other regions are experiencing employment losses as major projects peak and wind down, or markets slow. Mobility will be critical to meet industry's needs over the next five years, but movement may be limited by the willingness to work in remote locations, by the portability of skills, and by the start up and wind down of major projects. In 2013, some resource developments were delayed, others started and many continued as planned. Near-term pressures continued to build in Newfoundland and Labrador as big projects approached peaks, while work in Alberta, British Columbia and parts of Ontario started to pick up. For some regions, housing continued to rise over the near term, but by the end of the 2014–2023 scenario period, residential markets will slow, with employment declining slightly below 2013. Altogether, this results in recruiting challenges as markets rise and fall across the provinces.

Across the new 2014 scenario, the common theme is mobility, as retirements will rise across all provinces and sectors while labour requirements shift back and forth across different markets. Balancing markets will require a mix of short- and long-term mobility that includes fly-in, fly-out movement into remote northern locations and more long-term additions of young and permanent workers to each provincial labour market.

Expanding construction activity adds 64,000 jobs overall, with 52,000 jobs gained in the non-residential sector and another 12,000 gained in residential construction by 2023.

The full national report highlights the distinct local market cycles and structural changes. More detailed descriptions of each market are available in the provincial highlights reports. In this 2014 annual update of the BuildForce Canada *Construction and Maintenance Looking Forward* report, the pattern of job growth shifts, but retains the same three paths that have distinguished the provincial scenarios in the past:

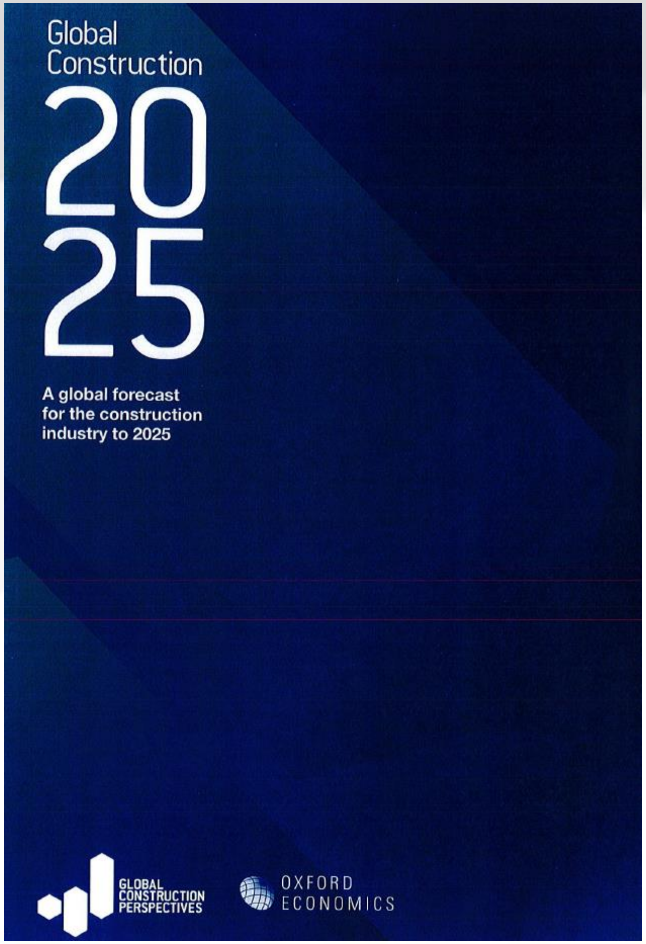
1. Recovery and expansion in Alberta, Ontario, British Columbia and Manitoba
2. Peaks and valleys in Saskatchewan and Newfoundland and Labrador
3. Sustained levels of employment in Quebec, New Brunswick, Nova Scotia and Prince Edward Island

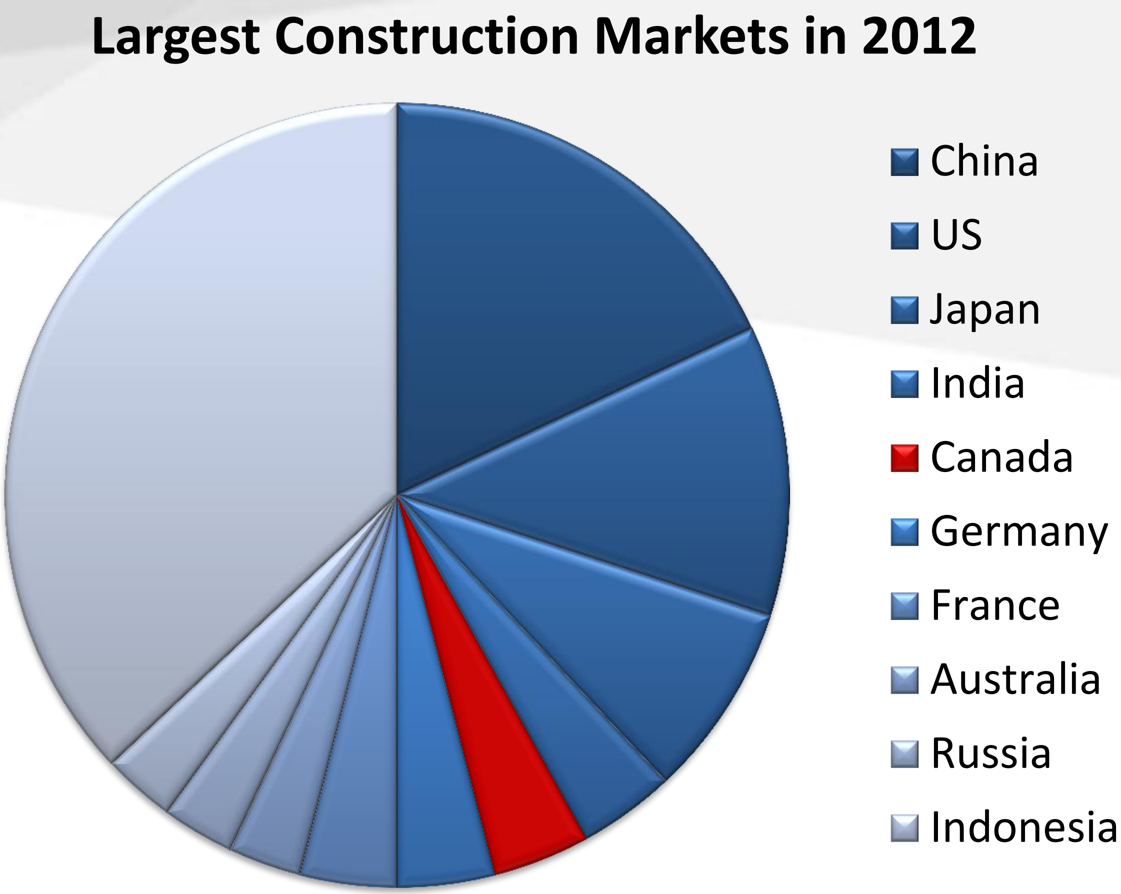
Non-residential construction leads the expansion, with steady growth in the commercial and industrial sectors and a series of resource and utility/infrastructure projects providing cyclical demands in many provinces. Residential construction lags. Several provincial housing markets experienced a brief downturn in 2013, but will see a moderate recovery to 2015 or 2016. Residential employment remains below the 2007 peak until 2023 in some provinces. Ontario, Alberta and

"Across the 2014-2023 scenario, replacement demand due to retirements will reach 235,000 – well in excess of the 64,000 workers needed to fill new jobs"

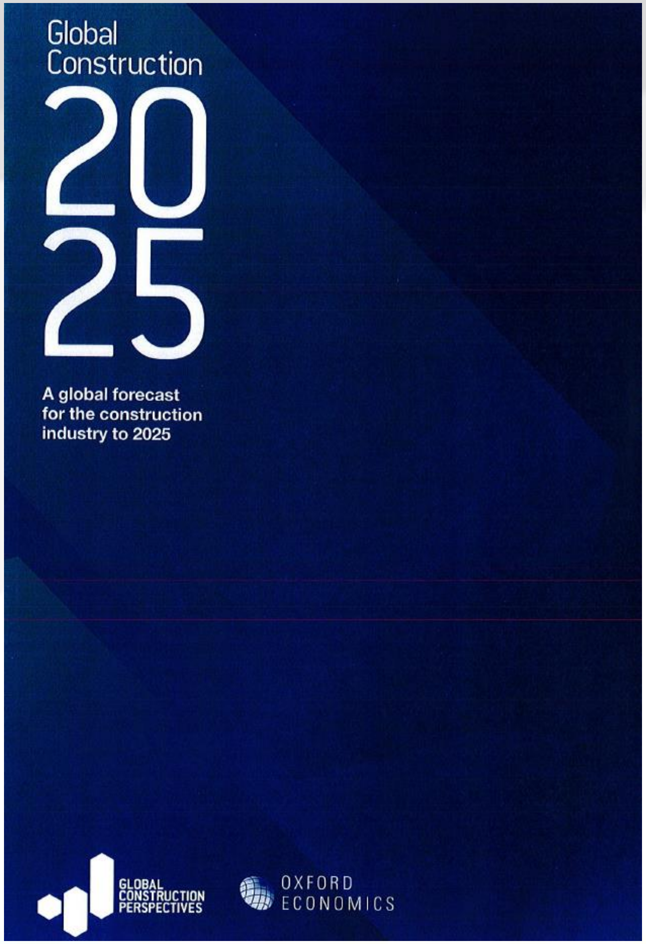
BuildForce Canada, 2014-2023 Construction Workforce Forecast

Construction Demand Increasing

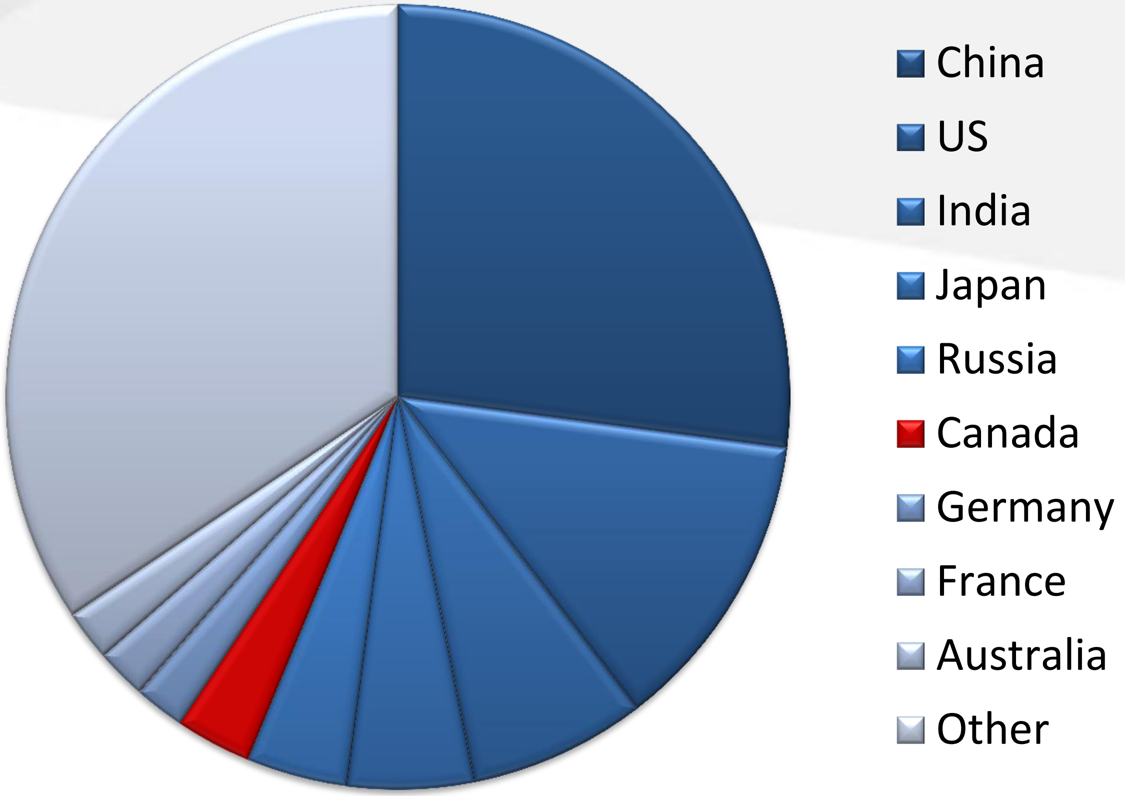




Construction Demand Increasing

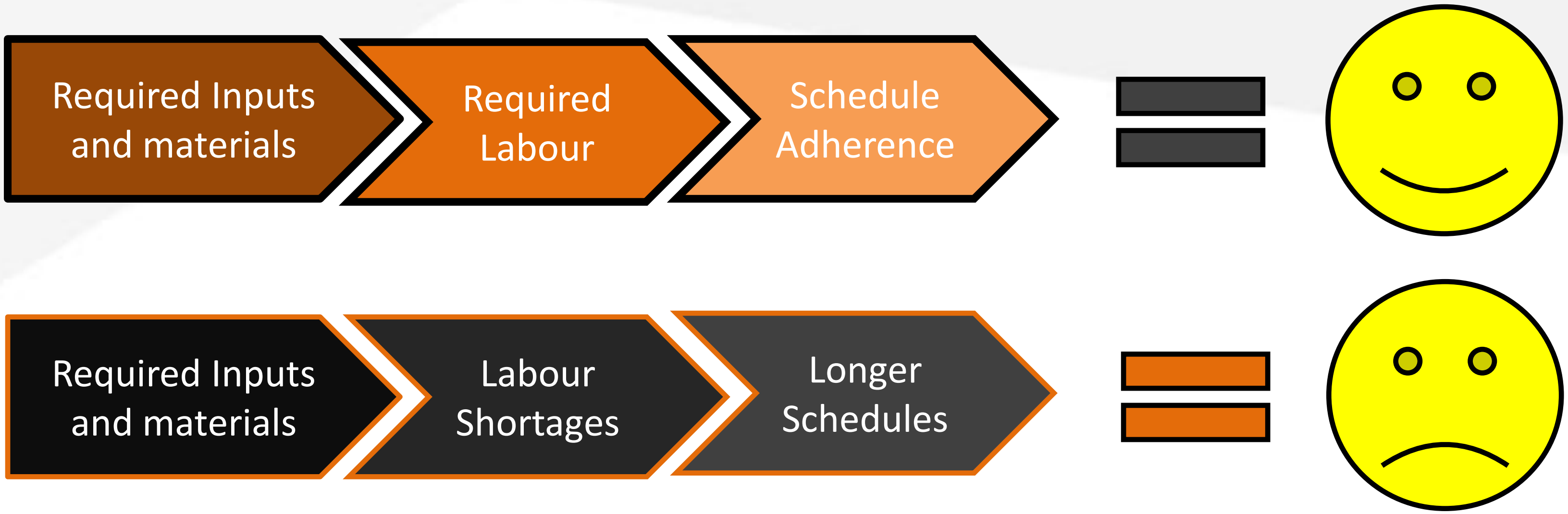


Largest Construction Markets in 2025



Construction Demand Increasing

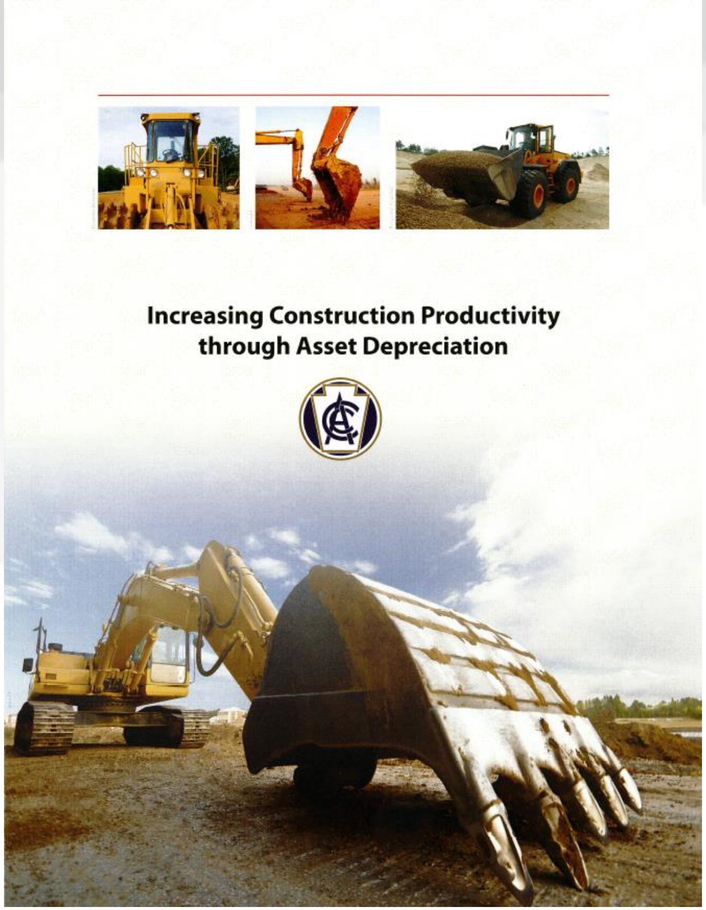
Construction 101



Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks.

Warren Buffett

Improving Productivity through Depreciation Policy



- Today, mobile construction assets are significantly more productive than similar assets produced just 10 years ago.
- Improvements to horsepower, maximum load weights and cycle rates have helped increase industry productivity by roughly 10 per cent over this period.
- In a world of skilled labour shortages and aggressive project completion timetables, these productivity increases are invaluable.

Improving Productivity through Depreciation Policy

$100,000 Piece of Equipment	Canadian Depreciation Rate Class 38 – 30% declining balance		US Depreciation Rate Class 15 – 5-year class (GDS)		Proposed CCA Rate 25% straight-line depreciation	
	Maximum Depreciable Value	% of Asset Value Depreciated	Maximum Depreciable Value	% of Asset Value Depreciated	Maximum Depreciable Value	% of Asset Value Depreciated
Year 1	$15,000	15%	$20,000	20%	$12,500	87.5%
Year 2	$25,500		$32,000		$25,000	
Year 3	$17,850	58%	$19,200	71%	$25,000	62.5%
Year 4	$12.495		$11,520		$25,000	
Year 5	$8,747	80%	$11,520		$12,500	100%
Year 6	$6,122		$5,760	100%		
Year 7	$4,286	90%				
Year 8	$3,000					
Year 9	$2,100	95%				
Year 10	$1,470					
Year 11	$1,029	98%				
Year 12	$720	99%				

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Thank You