



CURRENT INFRASTRUCTURE DEFICIT PUTS CANADIAN ECONOMY AT RISK

***Report shows underinvestment will affect Canada's future prosperity:
~ Lower GDP, productivity, wages, societal risks and a major burden on the next
generation~***

TORONTO (July 15, 2010) – A report released today by the Residential and Civil Construction Alliance of Ontario (RCCAO) reveals that Canada's current long term spending levels on infrastructure, even with increased investment over the past decade, are inadequate. If these trends continue, the growth and productivity of Canada's economy could be at risk.

The report, funded by RCCAO and produced by RiskAnalytica, looks ahead 50 years to point out the potential risks of public infrastructure underinvestment. An examination of the data and results reveal negative effects on the Canadian economy and the personal prosperity of individual Canadians.

To download a copy of the report, visit <http://www.rccao.com/>

To view a video synopsis of the findings, visit <http://www.youtube.com/watch?v=e4IH2GbvBSI>

"Infrastructure funding is a critical issue for Canada," says Andy Manahan, Executive Director of RCCAO. "Unless we improve the stability and predictability of infrastructure investment and asset management, a major burden will be placed on a future generation of Canadians."

The quality and quantity of Canada's infrastructure has a direct impact on the robustness and resilience of Canada's economy, future growth and productivity. The government of Ontario has made great efforts to invest in infrastructure over the past several years and these efforts have resulted in increased employment and economic stimulus. However, the current trend of funding, which shows volatility and underinvestment, could undermine the value and benefit of current investment, affecting the full potential of Canada's much needed infrastructure projects.

"Our government recognized early on the importance that infrastructure investments have in increasing productivity and building a stronger economy," says Ontario's Infrastructure Minister Brad Duguid. "That's why in Ontario we have made unprecedented investments through programs such as ReNew Ontario and recent stimulus funding that is helping to revitalize Ontario's infrastructure. The RCCAO report will serve as an important resource as we develop a 10-year capital plan in the months to come."

The report shows that the risk of public infrastructure investment could negatively affect Canadians in many ways, including costing:

- 1.1% of real GDP growth in the Canadian economy;

- The average Canadian worker between \$9,000 and \$51,000 with the younger generation disproportionately at risk;
- Canadian business after-tax profitability growing to a long-term average of 20% per year. Businesses with long-term goals in Canada are disproportionately at risk.

The report recommends that over the long term, mitigating the underinvestment risk would require an increase in infrastructure spending of up to 62 per cent (44 per cent increase required for new investment and 179 per cent increase for maintenance).

“From a macroeconomic point of view, there is a degree of underinvestment in infrastructure spending in the country,” says Paul Smetanin, President and CEO, RiskAnalytica. “At present, long term spending levels are around 3.1 % and our analysis suggest they could be increased to 5% in order to maximize economic benefits.”

The consequences of underinvestment are: (1) lower wage levels, because of the impact on productivity in the working community and (2) lower business after tax profits because the productivity of business is so dependent on infrastructure. The burden is borne by the younger generation because they have more years of working life ahead of them, hence a greater potential exposure to the risk of infrastructure underinvestment.

“The impact of not pursuing a higher infrastructure investment level can be as high as \$51,000 for someone at the age of 15 today,” says Smetanin. “When coupled with recent estimates of a significant infrastructure deficit in Canada, the identified risk of infrastructure underinvestment is persuasive and in need of coordinated action.”

“This report is different from the typical infrastructure deficit analysis as it considers the level of infrastructure investment from a strictly macroeconomic point of view. However, RiskAnalytica's findings clearly reinforce the messages of the Federation of Canadian Municipalities and many other organizations. It now appears that we are at risk of future underinvestment while living in a situation of a current infrastructure deficit,” says Manahan. “If Canada is going to manage its present and future infrastructure risk, further analysis should be urgently conducted that combines a national infrastructure inventory and deficit estimates with macroeconomic policy analysis.”

ABOUT

The Residential and Civil Construction Alliance of Ontario (RCCAO) is an alliance composed of management and labour groups that represent all facets of the construction industry. Its stakeholders stem from residential and civil sectors of the construction industry, creating a unified voice. The RCCAO’s goal is to work in cooperation with governments and related stakeholders to offer realistic solutions to a variety of challenges facing the construction industry. For more information please visit www.rccao.com.

RiskAnalytica is a Toronto based management science firm specializing in independent evaluation and analytical services that support better policy, business and investment decisions. The RiskAnalytica team is an independent and multidisciplinary group of consultants and researchers (management, risk management, economics, demographics, mathematical methods), with a dedication to supporting responsible managers in making accountable and financially sound choices. For more information please visit www.riskanalytica.com

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BACKGROUND:

The following individuals and organizations have offered their thoughts on the report:

"RiskAnalytica's report demonstrates that investment levels in our infrastructure have decreased in recent decades and highlights the economic impacts of that underinvestment to both individual Canadians and Canadian businesses. We look forward to working with RCCAO and other organizations in promoting the predictable and long-term funding which is critical for safe and sustainable infrastructure in Ontario."

Joe Tiernay, Chair, Ontario Coalition for Sustainable Infrastructure

" A robust research study that should put to rest why investments in public infrastructure are vital to Canada's economy and well being, and shift the attention to developing a National Infrastructure Strategy that includes sound asset management practices."

Dr. Guy Félio, P.Eng., Adjunct Professor, Carleton University