

A HUMAN RESOURCES STUDY OF THE CONSTRUCTION INDUSTRY ON PRINCE EDWARD ISLAND

*Findings and Policy Considerations
Executive Report*

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Introduction

1.0 Introduction

The “*Findings and Policy Considerations*” report focuses on the objectives of the study established in the Terms of Reference:

- ▲ To develop an overall profile of the PEI construction industry and its workforce.
- ▲ To analyze labour supply and demand in the PEI construction industry.
- ▲ To study skilled labour shortages and surpluses.
- ▲ To create a profile of training needs and availability by sub-sector.
- ▲ To document emerging trends affecting the industry and its workforce.

This report contains key findings related to each of these objectives. The evidence that supports each finding is presented along with policy considerations associated with these findings.

Background Research and Reports

2.0 Background Research and Reports

The study used a variety of research methods to collect the information required to support the findings. These are:

- ▲ Survey of Employers – 356 surveys were conducted accounting for 35% of the businesses in the construction industry.
- ▲ Surveys of Carpenters (100) and Construction Electricians (100) Who Drew EI.
- ▲ Focus Groups – Twelve focus group sessions were held in the three counties of the province.
- ▲ Key Informant Interviews – Interviews were held with nineteen key informants.
- ▲ Literature Review – A large number of reports were reviewed for this study.
- ▲ Secondary Data Analysis – All available data sources were used in this study.
- ▲ Individual Reports – The following individual reports were produced:

Secondary Data Report.

Emerging Trends Report.

Employer Survey Report.

PEI Construction Electricians EI Beneficiary Survey Report.

PEI Carpenters EI Beneficiary Survey Report.

Training and Apprenticeship Report.

Demand and Supply Projections Report.

Focus Group Report.

Size, Scope, Structure and Location of Firms in the Construction Industry

3.0 Size, Scope, Structure and Location of Firms in the Construction Industry

3.1 Findings

The construction industry on Prince Edward Island comprises approximately 1,000 small and mostly owner-operated firms. Slightly under one-half of these firms were primarily involved in residential construction with about one-quarter primarily involved in non-residential construction and 15% in engineering construction. Approximately 15% of firms in the industry focused primarily on non-construction activities but also were involved in the construction industry.

Approximately 60% of the firms in the construction industry were located in the Charlottetown Human Resource Centre area, with 20% in Summerside, 12% in Montague/Souris and 8% in O'Leary.

3.2 Evidence

Data on the number, size, geographic dispersion and ownership structure of firms in the construction industry came from *The Business Register* produced by Statistics Canada and the PRAXIS employer survey.

Profile of the Workforce

4.0 Profile of the Workforce

4.1 Findings

There were roughly 5,000 workers in the construction industry in 2001. The distribution of employment by sector in the industry is presented in the following table:

Industrial, Commercial, Institutional	25%
New Home Construction	24%
Home Renovation	21%
Engineering Construction	15%
Non-Construction	8%
Unclassified Construction	7%

Source: PRAXIS Construction Industry Survey, Question 11A

The residential construction sector employed almost one-half of the workers in the construction industry. Carpenters and labourers were the largest trades in the industry followed by heavy equipment operators, electricians, truck drivers and plumbers. A significant proportion of construction electricians worked exclusively in non-residential building construction, or in non-residential building construction and one other sector. A similar proportion of carpenters worked exclusively in one or two industry sectors but these carpenters worked in a variety of sectors in addition to non-residential building construction. The majority of both construction electricians and carpenters were highly mobile working in three or more industry sectors in 2002.

4.2 Evidence

Data from the 2001 Census and the PRAXIS employer survey were used to estimate of the number and occupational composition of workers in the construction industry. The distribution of workers by industry sector was based on the PRAXIS employer survey. The mobility of carpenters and construction electricians between sectors was documented in the PRAXIS surveys of EI claimants.

Segmentation of the Labour Force

5.0 Segmentation of the Labour Force

5.1 Findings

There are many levels of skills and experience in the labour market in the construction industry. Significant differences in skills and experience exist within occupational groups such as carpenters as well as between occupations such as carpenters and trades helpers and labourers.

Employers believe that there is a wide range of skills in all trades and that demand conditions for workers in the industry are highly dependent on the skills, experience and ability of workers to work independently. They indicated that skilled and experienced trades workers were highly-sought after by employers while unskilled workers were not in high demand.

The employer beliefs suggest that separate, skill-dependent labour markets exist within the occupational groupings produced in government data. The PRAXIS survey of carpenters and construction electricians who drew EI suggests that the labour market for these trades may be segmented according to the industry sector worked, unionization status and degree of on-the-job supervision.

5.2 Evidence

Evidence for segmentation of the labour force by skill level is based on information from employers provided in focus groups. The employer survey and focus groups provided evidence that skill levels and experience are important attributes that influence the demand for trades workers. The PRAXIS survey of carpenters and construction electricians who drew EI provided evidence on factors that influence labour market segmentation for carpenters and construction electricians.

The Underground Economy

6.0 The Underground Economy

6.1 Findings

The PRAXIS employer survey indicates that, aside from shortages of skilled workers, price competition from the underground economy is the single biggest problem faced by employers in the construction industry. Tradespeople and firms operating illegally in the underground economy do not pay taxes and therefore have a competitive advantage over legitimate operators. As a result, the profits of legitimate operators in the construction industry are reduced. Low profits, in turn, reduce wages that can be paid and make it difficult to attract and retain workers in the construction industry. Resolution of this problem is a prerequisite to resolving the recruitment and labour supply problems of the industry.

6.2 Evidence

The PRAXIS survey showed that about one-third of employers in the construction industry felt that price competition from the underground economy was a serious problem¹ for their businesses. Aside from shortages of entry-level and experienced workers, no other problem received a rating that was close to that of price competition from the underground economy.

Employers in all focus groups identified the underground economy as a critical issue in terms of their capacity to grow their businesses and charge for labour at a level where they could afford to pay higher wages and benefits.

Employers in focus groups felt that the residential building area, particularly the home renovations sector, was most affected by the underground economy. Many of the workers and apprentices who participated in the focus groups also felt that participation in the underground economy was widespread and contributed to the low wage structure in the construction industry. They felt that the low wage structure, in turn, was a major impediment to the recruitment and retention of both new entrants and skilled tradesmen.

¹ Employers who rated price competition from the underground economy as 4 or 5 on a scale of 1 to 5.

7.0 Wages and Incomes

7.1 Findings

Wage rates are critical to attracting skilled employees and play a key role in recruitment. Occupations with high wages and incomes attract skilled workers and provide a pay-off for investments in training.

Wage rate changes are a primary mechanism to eliminate labour shortages. Wage and labour supply rigidities reduce the effectiveness of wages in resolving labour shortages.

The wages offered by employers in the construction industry, particularly the residential sector of the industry, may be relatively low because of the underground economy. Relatively low wages and incomes increase the difficulties experienced in attracting and retaining skilled labour. Employers may experience and report shortages but they may be unable to raise wages enough to attract qualified applicants.

7.2 Evidence

Economic theory predicts that wages may be relatively low in the construction industry, especially the residential construction sector of the industry, for two reasons:

1. Easy entry into the industry and its occupations, and
2. The existence of a significant underground economy.

Secondary data and focus groups indicate that wages and incomes in the construction industry may be relatively low and may not have kept pace with wages in other industries in recent years. The focus groups found that chronically low wages in the industry are seen as a major problem for the recruitment and retention of young people. Low wages for apprentices were identified as an issue both by apprentices and employers who participated in focus groups. Employers indicated that they try to provide their apprentices with an adequate wage, but because the overall wage structure for journeymen is low, apprentice wages are low as well. The PRAXIS survey of carpenters and construction electricians showed that carpenters and construction electricians who worked in non-residential construction earned a modest wage premium compared to those who worked in residential construction.

Employment Insurance

8.0 Employment Insurance

8.1 Findings

The negative impact of the underground economy on wages may be magnified if abuse of Employment Insurance (EI) is as widespread as claimed by participants in both employer and worker focus groups.

Focus groups also identified other negative impacts of the EI and development programs tied to EI:

1. EI may exacerbate seasonality in the construction industry.
2. Development programs designed to qualify workers for EI “*compete for workers*” and exacerbate the labour supply problems of employers in the construction industry.
3. The emphasis on training workers who are on EI limits funds that are available to support training of workers who are already employed in the construction industry.

8.2 Evidence

Key informant interviews, and participants in both employer and worker focus groups, provided the evidence for findings related to EI. The PRAXIS survey of carpenters and construction electricians showed that a high proportion of carpenters and construction electricians on PEI claimed EI on an annual basis between 1997 and 2002.

9.0 Seasonality

9.1 Findings

Construction on PEI is a highly seasonal industry. Seasonality negatively affects incomes and the recruitment of workers in the industry. It also adds significantly to the level of unemployment among construction trades workers. Worker behaviour patterns may exacerbate the inherent, weather-induced seasonality of the industry.

9.2 Evidence

The Survey of Employment, Payroll and Hours, The Labour Force Survey (LFS), The 2001 Census, the PRAXIS employer survey and the PRAXIS survey of carpenters and construction electricians who claimed EI all show that employment in the construction industry is highly seasonal and that seasonality adds significantly to the level of unemployment in the industry.

Frictional Unemployment

10.0 Frictional Unemployment

10.1 Findings

Frictional unemployment in the construction industry on PEI is significant. Frictional unemployment occurs because people looking for work take time to find employment and employers take time to fill vacant positions. It is associated with the normal turnover of the labour force and exists even when the economy is operating at full employment.

Job matching problems increase the level of frictional unemployment. Employers in the construction industry recruit primarily by word of mouth. This practice may inhibit job matching and contribute to frictional unemployment in the industry.

10.2 Evidence

A variety of indicators suggest the existence of frictional unemployment including vacancy and unemployment rates in trades occupations, and the degree of seasonality in the industry.

Structural Unemployment

11.0 Structural Unemployment

11.1 Findings

A significant degree of structural unemployment exists for unskilled trades workers in the construction industry despite the fact that the needs of employers for skilled workers are not being met.

Structural unemployment results when the skills or location of the unemployed are not matched with the characteristics of the job vacancies. Unemployed workers and job vacancies are considered to be in different labour markets, either by virtue of geography, or because they do not coincide in terms of qualifications and characteristics.

Structural unemployment is caused by imperfections and lags in the labour market. Rigidities and lags in the training system contribute to structural unemployment, as do programs such as EI that affect workers' labour market behaviour and choices.

Reduced labour productivity and profitability, lower quality for consumers, higher costs and fewer career opportunities all result from structural unemployment.

11.2 Evidence

The PRAXIS employer survey, the PRAXIS survey of carpenters and construction electricians who claimed EI, key informant interviews and focus groups provide evidence of the existence of significant levels of structural unemployment in the construction industry on PEI. However, the most compelling evidence of structural unemployment comes from data on unemployment rates.

According to the Labour Force Survey, the unemployment rate for construction trades averaged about 21% from 1997 to 2001 compared to about 13.5% for all occupations on PEI. The unemployment rate for trades helpers and labourers averaged approximately 37% -- almost triple the level for all occupations on PEI. The 2001 Census also shows that the unemployment rate for construction trades was relatively high with that for some trades exceeding 40%.

Growth in the Residential Construction Industry

12.0 Growth in the Residential Construction Industry

12.1 Findings

Demand for construction services has increased significantly in recent years. Projections point to a continuation of strong demand.

12.2 Evidence

Evidence of strong growth comes from a variety of Statistics Canada data sources supported by the PRAXIS employer survey. Evidence for a continuation of strong demand conditions comes from demand projections by sector for the construction industry completed by PRAXIS.

Recruitment and Changes in the Supply of Labour

13.0 Recruitment and Changes in the Supply of Labour

13.1 Findings

There has been a significant decrease in the supply of new entrants into the construction labour force over the last ten years. Changes in career preferences and negative public attitudes towards the trades have combined with demographic trends to cause a decrease in labour supply. Projections indicate that the labour supply problems of the industry will increase over the next ten years.

13.2 Evidence

Changes in the size and age profile of the trades labour force reported in the 1991 and 2001 Census were used to support findings regarding changes in labour supply. Key informant interviews, focus groups and the literature review documented the non-demographic factors affecting labour supply and recruitment into the trades.

PRAXIS projected that the trades labour force will decline by about 7% from 2001 to 2011 solely due to demographic forces. The labour force under 45 years old is projected to decrease by approximately one-third by 2011, largely due to the decrease in the number of new entrants that occurred in the 1990s.

Labour Shortages

14.0 Labour Shortages

14.1 Findings

Employers in the construction industry experience significant recruitment problems resulting from:

- ▲ Frictional unemployment and job matching problems.
- ▲ Low wages.
- ▲ Structural unemployment and the paucity of workers with the skills required by employers in the construction industry.

Employers interpret their recruitment problems as labour shortages but recruitment problems resulting from frictional unemployment and low wages are not shortages in the conventional economic sense.

Strong demand conditions combined with low recruitment of young people into the trades have magnified the recruitment and labour supply problems of employers in recent years. The labour market for trades occupations has increasingly moved towards a shortage situation over the last five to ten years. Despite this finding, however, no hard evidence exists that labour shortages in the construction industry are more severe than those experienced in other industries on the Island.

Projections of continued strong demand and decreasing labour supply indicate that the labour market tightening may accelerate in upcoming years.

14.2 Evidence

Employer focus groups indicate that low wages cause significant recruitment problems in the construction industry. The PRAXIS employer survey provided a number of indicators of employer concerns about labour shortages but no hard evidence that labour shortages were, in fact, significant. Data on vacancy and unemployment rates show that, although labour shortages are more evident today than in the past, they are less of a factor in the trades than in the PEI workforce as a whole.

The Impact of Labour Shortages

15.0 The Impact of Labour Shortages

15.1 Findings

Labour shortages affect the economy in four ways:

- ▲ Reduced business and economic activity.
- ▲ Higher costs.
- ▲ Lower quality.
- ▲ Less support to younger apprentices.

Employers in focus groups also indicated that their inability to recruit skilled tradespeople limited the level of mentorship and support available to younger apprentices.

15.2 Evidence

Employers in focus groups provided the most compelling evidence of the impact of labour shortages on their businesses. The PRAXIS Employer Survey also provided strong evidence of the above impacts.

16.0 Training

Trades training is critically important in producing certified tradespeople that meet the requirements of industry. A mismatch between the number and quality of graduates produced by the training system and the needs of industry can contribute to structural unemployment and skills shortages. Inadequate training also can reduce productivity, quality and impose training and other costs on employers. Because of the importance of training, a number of findings are presented on this subject.

16.1 Findings

- ▲ Educational institutions on PEI, notably Holland College and the Apprenticeship Program, have taken a proactive and innovative approach to fulfilling their mandates. While important training-related issues exist in the construction industry, educational institutions have demonstrated a willingness to provide the highest quality service possible.
- ▲ Apprenticeship completion rates and direct employment rates for graduates of Holland College limit the supply of certified trades workers. A number of factors contribute to low completion rates and direct employment rates, including: the need for extended on-the-job training in apprenticeship, a lack of youth exposure to the trades, training costs including foregone wages during apprenticeship and the lack of compulsory certification in most trades.
- ▲ Admission requirements for trades programs at Holland College pose a barrier for some individuals wishing to enter trades occupations.
- ▲ Focus groups and the employer survey provide conflicting information on the quality and adequacy of institutional training. The survey indicates that employers were reasonably satisfied with the training provided by institutions and with the graduates of these institutions. Focus groups with employers, workers and apprentices recorded consistent opinions that were critical of some aspects of the training system, in particular, the lack of “*job readiness*” among training graduates. They indicate that the lack of job readiness may be due to:

Inadequate integration of classroom training and work on job-sites.

A lack of exposure to trades in high schools.



- ▲ Many employers in the construction industry do not look to the training system as a source of labour supply. The employer survey shows that most employers in the industry did not hire community college graduates in the last five years and that a minority of employees in many trades were certified. Focus groups indicate that employers often hire new entrants based on their attitudes and provide training for these individuals on-the-job.
- ▲ Young people are not getting enough information on and exposure to trades in high school. There are few opportunities for young people to acquire “*hands on*” trades skills. There are three impacts of this problem:
 - Fewer young people choose trades careers.
 - Drop-out rates from Holland College and Apprenticeship increase.
 - Some Holland College graduates may not be sufficiently “*job ready*”.
- ▲ The closure of the integrated (academic and trades training) provincial vocational schools (Provincial Vocational Institute and Summerside Vocational) in the mid 1980’s was viewed as a major mistake by focus group participants.
- ▲ The lack of career exploration and counseling for secondary students was acknowledged by educational experts interviewed for this study as a large gap at most Island high schools.
- ▲ Employers feel that there should be a closer integration of institutional training and the workplace. In a practical sense, this would mean more time spent on job-sites by individuals enrolled in pre-apprenticeship training courses. The pay-off from closer integration would be an improvement in the job-readiness of graduates.
- ▲ More industry input into the training system, and more linkages of training with on-the-job experience, are the highest priority changes to the training system suggested by employers.
- ▲ Training of existing workers is inadequate. Employers provide on-the-job training but this training is limited by a number of factors including time and resource constraints faced by construction businesses and turnover of the workforce. Government support for the training of employed workers also is limited due to the fact that training funds are focused on EI recipients.
- ▲ The findings in this report on the barriers to Apprenticeship training are supported by those made by Canadian Apprenticeship Forum.



16.2 Evidence

Evidence for findings on training come from numerous sources notably Holland College and the Apprenticeship Division.

Policy considerations rather than specific policy recommendations are put forward in this report. Further research, analysis and consultations by experts in training institutions, governments, and in the construction industry itself, are required to develop specific policy recommendations.

The policy considerations included in this report are designed to address five problems that undermine the efficiency of the construction industry and its labour force:

- ▲ Low profits, wages and incomes.
- ▲ Frictional unemployment.
- ▲ Structural unemployment.
- ▲ Problems recruiting highly skilled trades workers.
- ▲ Under-investment in training for existing workers.

Implementation of policies designed to improve labour market efficiency requires the development of industry capacities to plan, implement, coordinate and monitor labour market initiatives. For this reason, consideration should be given to the creation of a sector council or sector councils in the construction industry as a first priority. The workplan for the sector council(s) could be built around the policy considerations presented in this report.

A minimum target for human resource policies could be to maintain the trades labour force at 2001 levels. This would offset a 7% decline in the trades labour force by 2011 projected by PRAXIS. A more positive target would be to increase the labour force by 10% by 2011.

Policies Focused on Low Profits, Wages and Incomes

17.0 Policies Focused on Low Profits, Wages And Incomes

17.1 The Underground Economy

While the importance of dealing with the underground economy is obvious, the mechanisms to do so are not. Options include: improved enforcement of taxation instruments, changes to building inspection requirements, changes to mortgage or insurance provisions by banks and insurance companies, mandatory occupational certification and mandatory licencing of construction contractors. Further research and consultations are required to determine which of these options, or combination of options, would be most realistic and effective.

17.2 The EI System

The negative human resource impacts of the EI system warrant a more thorough review of the impacts of this program and the development of policies that could mitigate these impacts.

17.3 Compulsory Licensing and Certification of Firms and Trades

Compulsory licensing and certification were seen by focus group participants as policies that could bring up the overall standards of construction, reduce underground economy activity and improve Apprenticeship completion rates and recruitment into the trades. Further research and consultations within the construction industry, and between the industry, education institutions and governments, are required before these policies are implemented.

Policies Focused on Frictional Unemployment

18.0 Policies Focused on Frictional Unemployment

18.1 Labour Market Information

Improvements in the amount and quality of labour market information could reduce frictional unemployment and contribute to increased production and efficiency in the construction industry. The information must be easily accessible and fit with the actual search processes of workers and employers. It also must be tailored to the skill-dependent labour markets described in this report.

18.2 Job Matching

Improvements in the recruitment practices of employers and the search practices of workers would reduce frictional unemployment by improving job matching efficiency. It is important that any programs to improve labour market information be industry-driven to ensure that they are realistic and accessible to employers and workers.

Policies Focused on Structural Unemployment and Recruitment Problems

19.0 Policies Focused on Structural Unemployment and Recruitment Problems

19.1 Target Groups

Training and recruitment policies should target two groups: (1) trades helpers and labourers and (2) individuals who are under 30, have attended high school but have no post-secondary education.

Large numbers of individuals in these groups are structurally unemployed. The high level of structural unemployment among trades helpers and labourers was demonstrated in Section 11 of this report that showed that the unemployment rate for this group was almost triple the level for all occupations on PEI. The high level of structural unemployment among individuals who are under 30, have attended high school but have no post-secondary education is demonstrated by unemployment rates of 25% for these individuals (2001 Census). This rate was over twice that for graduates of community colleges in the same age group.

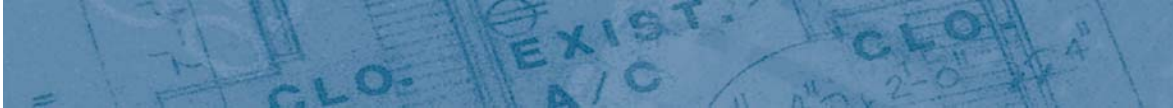
Improving the skills and employability of these groups would reduce structural unemployment among unskilled workers. It also could reduce recruiting problems experienced by employers in the construction industry.

A number of steps would be necessary to implement the targeting policy proposed in this section. Individuals in each group would have to be identified. The educational background, aptitudes and attitudes of these individuals would have to be assessed. An intervention strategy would then have to be devised with individuals who demonstrated the potential to become skilled trades workers.

19.2 Industry's Role on Training Policies

This report advocates a formal and decisive role for employers and workers in the construction industry into the development and implementation of training policies and programs. It further suggests that changes to the training system should focus on the five most highly-rated changes to the training system suggested by employers in the PRAXIS survey:

- ▲ More input from industry into training programs.
- ▲ Match training with on-the-job skill requirements.
- ▲ More on-the-job experience in training programs.

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- ▲ Use of short training modules.
 - ▲ Updating curriculum.

19.3 Earlier Exposure of Young People

Consideration should be given to increasing the exposure and familiarity of young people with the trades. One option in this regard is to re-introduce trades training into high schools. A popular recommendation in focus groups was to go back to the Provincial Vocational Institute (PVI) model. Other elements of this solution could include the introduction of hands-on courses, placement of students through work co-op programs and initiatives to bring about attitude changes among administrators and teachers. More information and career counselling in high schools also are important components of this policy initiative.

19.4 Review of Admissions Policies and Practices

Admission requirements for trades programs at Holland College should be reviewed in light of the need to minimize barriers to trades training.

19.5 Review of Apprenticeship Completion Rates and Holland College Employment Rates

A review of apprenticeship completion rates should be completed along with an analysis of the direct employment of graduates of trades training from Holland College. This review should examine the reasons why a significant proportion of apprentices do not complete their programs and why a significant proportion of graduates do not find direct employment in their trade. The review should identify actions that could be taken to address these problems.



19.6 Investments in Trades Training

Incremental investments in trades training should focus on implementing the policies identified in this report. Increases in training capacities should be contingent on addressing the problems with the training system presented in this report. Such increases also should follow consultations between the industry and training institutions supported by projections of demand and supply for specific trades.

19.7 Assistance with Training Costs

Mechanisms to improve the financial assistance available to young people taking pre-apprenticeship training, and to apprentices, should be identified and implemented. Consideration should be given to implementing mechanisms to support apprenticeship wages. Special consideration should be given to individuals who must relocate to take the training.

Policies Focused on Training for Existing Workers

20.0 Policies Focused on Training for Existing Workers

Devising programs to support on-the-job training provided by employers should receive the highest possible priority. The form of the assistance should be determined in consultation with industry. Industry also should have significant input and control of the delivery system that provides this training. The priorities of employers willing to invest in training for their existing workforce were documented in the employer survey. The highest rated priorities are:

- ▲ Health and safety skills.
- ▲ Upgrading of trade skills for experienced employees.
- ▲ Specialized trades skills.
- ▲ Business management skills.
- ▲ Tool and equipment skills.
- ▲ Knowledge of Building Code and regulations.

These priorities provide guidance for the development of programs to increase the level of training provided to workers already employed in the construction industry.

The Sector Council Option

21.0 The Sector Council Option

21.1 The Role of Industry

Industry should have a decisive, rather than an advisory, role in the development and implementation of new policies to improve the training system. Many builders and contractors who participated in the focus groups felt that a more formal relationship between industry and educational institutions was required.

21.2 Creation of a Sector Council(s)

The possibility of forming a sector council warrants careful analysis and broad discussion. A coordinated approach to human resource issues has major advantages for the construction industry. A separate Sector Council for residential construction, or special status for residential construction within a construction industry Sector Council, may be warranted. The specific workplan of the Sector Council(s) should be to develop and implement human resource policies and programs in response to the policy considerations presented in this report.