

## **THE CONSTRUCTION INDUSTRY: CONTROVERSY AND ECONOMIC PERFORMANCE**

**Montreal, June 12, 2012** – As the Charbonneau Commission is starting its investigation into the possible infiltration by organized crime of the construction industry, the HEC Montréal Centre for Productivity and Prosperity has released the results of a study on the economic performance of that industry in Quebec. “Our analysis shows that the industry has grown considerably since the early 2000s,” says Robert Gagné, the Centre’s Director. “Given the current context, we wanted to find out the reason for this amazing growth. What lies behind this performance? Are the workers in this industry exceptionally efficient?”

More specifically, the study shows that between 1997 and 2007 the Quebec construction industry generated 2.69 percentage points of the province’s 14.24% overall labour productivity growth. In other words, this industry alone accounted for close to 19% of the labour productivity growth for all Quebec firms during this decade. Inasmuch as the sector represents only 8% of the total hours worked in Quebec, its contribution far exceeds its relative weight in the economy.

The analysis also shows that the economic performance of the Quebec construction industry surpassed that of its counterparts in Ontario and in Canada as a whole. Its performance can be explained in part by the fact that labour productivity rose more rapidly in Quebec, but also because there was less pressure on wages than elsewhere in Canada.

### **Some hypotheses**

Since construction techniques in Canada should evolve in essentially the same way from one province to another, these findings are rather surprising. According to the researchers, there are three possible explanations:

- 1) Labour costs were relatively higher in Quebec than elsewhere in Canada in the early 2000s, so the Quebec construction industry was obliged to reduce the number of hours worked to boost its efficiency. This phenomenon led to stronger labour productivity growth in Quebec. In addition, the reduction in the amount of work reduced pressure on wages, thereby limiting growth in labour costs in recent years.
- 2) The skyrocketing investment in transportation infrastructures in Quebec since 2000 may also have boosted labour productivity in the construction industry. This change in the type of work is not permanent, however, and Quebec will eventually return to a more traditional composition. This hypothesis cannot be verified, of course, without a detailed analysis of the nature of construction work in each province.

- 3) Lastly, it is also possible that higher labour costs in Quebec than elsewhere in the early 2000s have encouraged more under-the-table work. In that it means that fewer hours worked are reported for the same production volume, under-the-table work leads to an overestimation of labour productivity and, consequently, an underestimation of unit labour costs. Although this argument could explain the differences observed in labour productivity levels and unit labour costs for a given year, it does not explain the wide variation in the growth in these indicators between Quebec and the rest of Canada, unless one assumes that under-the-table work has grown proportionally faster in Quebec than elsewhere in Canada. Obviously, given the very nature of under-the-table work, this hypothesis is practically impossible to verify.

“Working from official data, we found that the economic performance of the Quebec construction industry compares favourably with that in the rest of Canada,” concludes Robert Gagné. “The industry’s poor reputation, in particular in terms of labour relations and the presumed cost of work, is certainly not borne out by the findings of a rigorous analysis of the available economic indicators.”

**For more information:**

- Download the study, [La performance économique de l’industrie de la construction au Québec](#), by Jonathan Deslauriers and Robert Gagné;
- Consultez le [communiqué en français](#).

**About the Centre for Productivity and Prosperity**

The HEC Montréal Centre for Productivity and Prosperity, created in 2009, has a twofold mission. First of all, it is devoted to research on productivity and prosperity, mainly in Quebec and in Canada as a whole. The Centre then shares its research findings, making them widely accessible and, in the end, educating people about productivity and prosperity. [www.hec.ca/cpp](http://www.hec.ca/cpp).

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