

PRE-BUDGET SUBMISSION

TO

**STANDING COMMITTEE ON FINANCE
HOUSE OF COMMONS**

SUBMITTED JOINTLY BY:

**CANADIAN RETAIL BUILDING SUPPLY COUNCIL
AND
CANADIAN HARDWARE & HOUSEWARES MANUFACTURERS
ASSOCIATION**

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August 12, 2011

Mr. James Rajotte, M.P.
Chair
Standing Committee on Finance
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Mr. Rajotte:

Canadian Retail Building Supply Council (CRBSC) is a national umbrella organization comprising Canada's five regional and provincial building supply dealers associations. All five associations have reviewed and fully support this brief.

Total sales of the retail building supply industry in 2010 are estimated to have been in the \$40 billion range and the industry provided employment to some 50,000 Canadians last year. Our five associations count more than 2,000 companies as their members. Most of these firms are smaller businesses.

The contents of this brief reflect closely the results of our pre-budget survey. This year, 429 retailers and their suppliers located in all parts of Canada participated in our survey.

We have restricted this submission to just three recommendations. It has been amply documented that a robust housing market is fundamentally important to a healthy national economy. Therefore, our key recommendations detail steps that can be taken to promote the health of the housing market.

Thank you for your consideration of our views. We would appreciate an invitation to appear before the Standing Committee this autumn to elaborate on them further.

Yours sincerely,

Donald Sherwood
Chair,
Canadian Retail Building Supply Council

August 12, 2011

Mr. James Rajotte, M.P.
Chair
Standing Committee on Finance
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Mr. Rajotte:

The Canadian Hardware & Housewares Manufacturers Association (CHHMA) has participated actively in the preparation of this pre-budget submission and supports it without reservation. Our members regard this position paper as particularly important since it represents the views of an entire industry, from manufacturers through to wholesalers and retailers.

CHHMA is a national business association comprised of 250 companies that manufacture and distribute hardware and housewares products. Total industry sales in 2010 are estimated to have been in the \$43 billion range and the industry employs about 25,000 Canadians. The customers of CHHMA members are largely retailers.

As manufacturers and distributors, many of our members were severely tested by the recent recession. Budget 2012 should regard the health of the housing market as fundamentally important to the health of the national economy.

Yours sincerely,

Vaughn W. Crofford
President
Canadian Hardware & Housewares Manufacturers Association

(i)

EXECUTIVE SUMMARY

This submission has been prepared by a coalition comprised of the Canadian Retail Building Supply Council (CRBSC) and the Canadian Hardware & Housewares Manufacturers Association (CHHMA). They represent some 2,300 companies employing 75,000 Canadians and generated 2010 sales of about \$83 billion. Members of the two organizations include all aspects of the building materials, hardware, housewares and lawn and garden product industries. They are located in all Canadian communities of any size, creating widespread economic benefit.

The views of CRBSC members were sought by means of a pre-budget survey. A total of 429 companies participated in the survey. As a result, CRBSC can legitimately claim to be speaking on behalf of the Canadian retail building supply industry in this year's pre-budget consultations.

Our brief reports that the outlook for the housing market this year and next shows no sign of robust growth. Give the well-documented fact that a flourishing housing market is of fundamental importance to a healthy national economy, this position paper recommends as follows:

- **Re-introduce and make permanent the Home Renovation Tax Credit.**
- **Seek opportunities for Canadians to make temporary use of their RRSP savings to finance home improvements, using the model of repayment provisions of the First Time Homebuyers Program.**

The ENERGY STAR program is regarded by a strong majority of building supply retailers as important to their companies. Our third recommendation states:

- **The Government of Canada should be seeking additional opportunities to use financial incentives and education/information to emulate the success of the ENERGY STAR program with other programs designed to facilitate environmentally responsible consumer behaviour.**

The Standing Committee wishes to receive the views of individuals and groups about four primary issues: how to achieve a sustained economic recovery in Canada, how to create quality sustainable jobs, how to ensure relatively low rates of taxation, and how to achieve a balanced budget. In particular, the thoughts and suggestions of Canadians about how to attain high levels of job growth and business investment in order to ensure shared prosperity and a high standard of living for all are being sought.

Our coalition has described how its three recommendations are capable of stimulating the job growth and business investment being looked for by the Committee.

A. THE TWO SPONSORING ASSOCIATIONS

Canadian Retail Building Supply Council comprises all five of Canada's regional and provincial building supply associations. Together, they represent over 2,000 companies. Total industry sales for 2010 were in the \$40 billion range at the retail level and the industry employs about 50,000 Canadians. Customers of CRBSC members are the building trades and end-use consumers.

Canadian Hardware & Housewares Manufacturers Association is a national organization of 250 firms manufacturing and distributing hardware and housewares products. Total industry sales in 2010 were about \$43 billion and the industry employs some 25,000 Canadians. Customers of CHHMA members are largely retailers.

The economic impact of the memberships of these associations is significant. They represent over 2,250 companies that, in 2010, employed 75,000 Canadians and generated some \$83 billion in sales. Members are manufacturers, distributors, wholesalers and retailers. They include all major aspects of the building materials, hardware, housewares and lawn and garden products industries. Their impact occurs nationally and regionally. Members are located in all major urban centres and in most smaller communities.

B. PRE-BUDGET SURVEY

Fundamental to this submission is the pre-budget survey conducted by CRBSC. This year, 429 firms from all parts of Canada participated in the survey. Fifty-six per cent of them are building supply retailers, while the remaining 44 per cent are suppliers to the industry. A significant number of retail members are located in rural parts of Canada. They, and their urban counterparts, are usually family-owned smaller businesses. In contrast, most supplier respondents are located in urban Canada.

C. THE ECONOMIC OUTLOOK

The June 6 federal Budget, predicted real GDP growth of 2.9 per cent this year and 2.8 per cent in 2012. CRBSC members were asked to compare their growth expectations with those produced by the private sector forecasters used by Finance Canada .

	2011 2.9% or less growth rate	2012 2.8% or less growth rate
Canada	93.5%	88.3%
Province	78.5%	72.5%
Industry	81.1%	76.0%
Firm	74.0%	66.8%

The above results show clearly that Canadian retail building supply dealers and their suppliers expect slower economic growth both this year and next than that projected in the June Budget. These reduced expectations are reflected in Statistics Canada's monthly

report entitled *Retail Trade*. One trade group tracked in that report is “Building material and garden equipment and supply dealers.” The July 22 report showed sales of \$12.1 billion during the first five months of 2010 compared with sales of \$11.0 billion for the same period this year. The loss of \$1.1 billion in sales in that period causes serious industry concern.

D. THE CANADIAN HOUSING MARKET

In its May 30 report, Canada Mortgage and Housing Corporation issued its latest National Housing Outlook. It forecast that total housing starts this year will amount to 179,500 units and will increase to 185,300 units in 2012. While that may seem like a hopeful sign of a strengthening housing market, it must be remembered that CHMA reported 189,930 actual starts in 2010, more than the 2012 forecast.

In its August 5 report entitled *Building Permits*, Statistics Canada showed that residential building permits worth \$22.5 billion were issued during the first five months of 2010 compared with a value of \$21.5 billion for the same period this year. A five month loss of \$ one billion is significant.

The low level of growth in residential construction is of major concern to our coalition. It should equally be a source of concern for the Standing Committee which should remember the following statement in Budget 2009 on the importance of the housing market to the Canadian economy:

“For many Canadians, owning a home represents both the achievement of a key life goal as the most important investment of their lives. A robust housing sector is also an important source of economic activity in Canada, as it promotes demand for labour, building materials and other goods.”

The housing market, including renovations, should be regarded as an economic driver capable of generating tremendous returns not only for wage earners and businesses, but also for governments at all levels.

Given the importance of the housing market, CRBSC asked retail building supply dealers and their suppliers for their forecasts about that market for the rest of this year and next. The results are as follows:

	<u>Increase</u>	<u>Same</u>	<u>Decrease</u>
Single-unit starts	21.5%	51.1%	27.4%
Multi-unit starts	27.7%	51.7%	20.6%
Renovations	43.6%	46.4%	10.0%
Luxury items	11.8%	49.5%	38.7%

Survey respondents were asked to indicate their employment goals for both the rest of this year and next year. Significantly, 76.5 per cent of them stated that their full-time employment would stay the same or decrease; 61.7 per cent said part-time employment would stay the same or decrease.

Respondents were also asked to rate factors that could impact negatively on the profitability of their companies for the balance of this year and in 2012. The following table indicates their major concerns:

Slow-growth economy	93.4%
High gasoline prices	92.7%
Rising interest rates	89.7%
Declining consumer confidence	89.6%

Finally, respondents were asked to rank the importance of several potential measures that could contribute to the health of the home construction and home repairs/renovations sector. The following table identifies the measures that respondents rated as important:

Permit the use of RRSP savings to finance residential repairs and renovations.	80.8%
Permit the use of RRSP savings to finance residential retrofits for seniors.	75.0%
Re-introduce and make permanent the Home Renovation Tax Credit.	93.2%
Maintain low interest rates.	94.4%
Encourage consumer confidence.	90.1%

Our coalition recognizes that maintaining low interest rates and encouraging consumer confidence may be outside the mandate of the Standing Committee. However, measures to stimulate the housing market for the good of the Canadian economy are most certainly within that mandate. Accordingly, our first two recommendations follows.

Recommendation #1

Re-introduce and make permanent the Home Renovation Tax Credit.

Home Renovation Tax Credit (HRTC)

Budget 2009 allocated \$300 million for the HRTC in fiscal 2008-09 and fiscal 2009-10. It is the view of our coalition that this allocation was far more of an investment than

simply an expenditure. Amongst the benefits that accrued to the Government of Canada were:

- increased sales tax revenue;
- increased personal and corporate tax revenue;
- virtual elimination of the underground economy in the home repairs/renovations sector; and
- stimulation of a wide range of industries.

Recommendation #2

Seek opportunities for Canadians to make temporary use of their RRSP savings to finance home improvements, using the model of repayment provisions in the First Time Homebuyers Program.

RRSP Savings

Extending the model of the First Time Homebuyers Program to finance home improvements should be attractive to the Standing Committee because it is a method of helping Canadians to temporarily use their own money to finance projects that might otherwise be unaffordable. The fact that an administrative model is already in place means that the cost of creating a new Public Service function can be overcome, at least to some degree.

The notion of permitting the use of RRSP savings to retrofit residences to accommodate the needs of senior citizens is worth considering. There is no doubt about the aging Canadian population and the special needs of many seniors, such as ramps and bathroom fixtures. To the degree that these needs can be met at home rather than in an institution should be encouraged.

CRBSC's pre-budget survey also asked which of the following options would best motivate Canadians to become more environmentally friendly. Responses were as follows:

Financial incentives	53.3%
Education	28.9%
Tougher legislation	14.3%
Not sure	3.5%

Clearly, financial incentives and education are the keys to motivating Canadians to become more environmentally friendly. The earlier-than-anticipated end to the EcoENERGY Retrofit program not only was harmful to many Canadian companies, it did nothing to encourage consumers to become more environmentally friendly. The fact that Budget 2011 temporarily revived this program was welcomed by many in our industry. The ENERGY STAR program was rated as important by 69.3 per cent of

CRBSC's survey participants. This is a significantly high number since many of these participants are in lines of the industry to which the program does not apply.

Recommendation #3

The Government of Canada should be seeking additional opportunities to use financial incentives and education/information to emulate the success of the ENERGY STAR program with other programs designed to facilitate environmentally responsible consumer behaviour.

E. THE FISCAL OUTLOOK

Many respondents to our pre-budget survey expressed concern that government funds are not being allocated in ways that best serve the needs of Canadians and business. The ongoing review of program spending by the federal government has become an ever-increasing imperative because of the many years of annual deficits and the billions that will be added to the national debt in the years immediately ahead for the nation. This was the position of 89.3 per cent of CRBSC's survey respondents.

The June Budget (p.46) stated as follows about the downside risks of the private sector economists' outlook:

“Economists also expressed concern that the growth dynamics in the U.S. could be less strong than previously anticipated reflecting weaker-than-expected growth in the first quarter of 2011 and ongoing uncertainty over the fiscal situation in that country.”

Repercussions from the U.S. debt crisis have confirmed that the economists were correct in identifying this downside risk. Our coalition regards a spillover into Canada as likely and is concerned that the Government's reaction to it not include a further round of massive spending. Targeted stimulus, such as proposed in our Recommendations #1 and #2, would be a far better approach.

F. CONCLUSION

Thank you for your consideration of the views of our coalition. We look forward to the opportunity of discussing them directly with the Standing Committee during its pre-budget hearings.

Donald Sherwood
President, CRBSC

Vaughn Crofford
President, CHHMA

