Canadian Institute of Quantity Surveyors | Institut canadien des économistes en construction

RICS®

# Q1 2024: Canada Construction Monitor

# Construction activity gains momentum in Q1

- Private residential development activity seen recovering in Q1
- Infrastructure workloads continue to rise with the outlook similarly solid
- Construction cost inflation expected to moderate further

The Q1 2024 RICS-CIQS Canada Construction Monitor results point to an improvement in market conditions through the early part of the year, with growth in workloads accelerating across both the private residential and non-residential sectors. Moreover, twelve-month expectations were upgraded for all sub-sectors relative to the previous iteration of the survey. Nevertheless, the backdrop is not without its challenges, with skills and labour shortages in particular still seen as a real issue for the industry.

**Construction Activity Index moves further into expansionary territory**

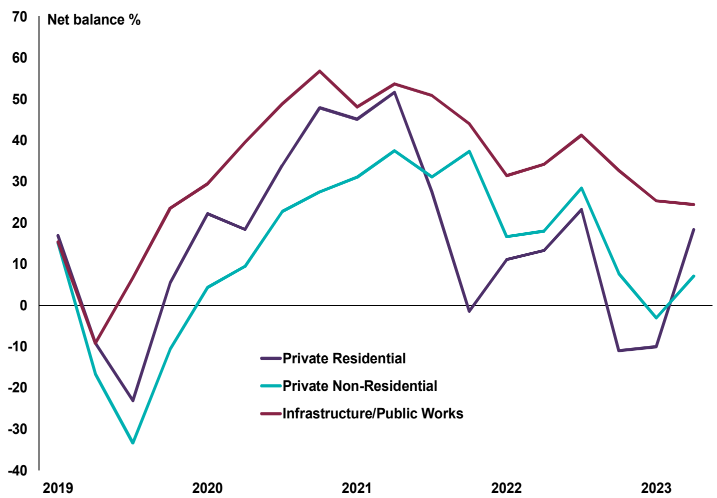
As depicted in Chart 1, the composite CAI reading across Canada improved to +24 in Q1, up from a figure of +12 beforehand. Looking into the regional level data, the strongest increase was registered in the Prairie Provinces, where the CAI rose to +50 from an already robust reading of +36 last time. Elsewhere, British Columbia also saw a noticeable improvement, as the CAI picked up to +21 from +8 previously. Meanwhile the uplift was also visible across the board when the the CAI is disaggregated  by company size.

Back at the national level and in keeping with the more upbeat tone across other indicators, new business enquiries increased in Q1 according to a net balance of +23% of contributors. This is up from a figure of just +6% in Q4 and marks the firmest reading since the early part of last year.

Chart 2 shows the picture for workloads across the various sub-sectors tracked. One particularly noteworthy development in the Q1 results was the rise in the net balance for the private residential indicator (from a negative reading of -10% in Q4 to +18% this time around). In conjuction with this, a net balance of +7% of respondents cited a rise in private non-residential workloads in Q1, up from a marginally negative reading of -3% last quarter. Although infrastructure remains the strongest performing segment (in net balance terms) the latest reading of +24% is more modest than the recent high of +41% posted back in Q2 2023.

Chart 1: Construction Activity Index*


Chart 2: Workloads by Sector




*The Construction Activity Index is a composite measure encompassing variables on current and expected market activity as well as margin pressures.

## Forward-looking metrics see broad-based upgrades

Chart 3 shows respondents' twelve-month expectations across several market variables. In most cases, these expectations were upgraded compared to last quarter, with the outlook for private residential workloads in particular seeing a sizeable improvement. In fact, the latest expectations net balance across the private residential sector now sits at an eight-quarter high, having risen to +40% from +13% in Q4. In parallel with this, forward-looking sentiment also improved across the private commercial sector, evidenced by the Q1 net balance climbing to +30% compared to +18% last time. Meanwhile, twelve-month expectations also increased (albeit only slightly) regarding infrastructure workloads, with the latest net balance of +46% again indicative of a strong outlook moving forward.

When disaggregated, all regions covered now display a positive twelve-month assessment when it comes to private residential workloads. Leading the way, the Prairies exhibits the most upbeat views on the twelve-month outlook, with a net balance of +75% of respondents anticipating an increase in private residential developments activity across the region. On the same basis, expectations are a little more moderate (although still comfortably positive) across Quebec, British Columbia and Ontario. For the private non-residential sector, respondents across virtually all regions now foresee an uplift in workloads over the year to come. The only exception is Quebec, where the net balance for the twelve-month private commercial expectations indicator sits at -11%.

## Skill shortages remain a significant challenge

As illustrated in Chart 4, both skills and general labour shortages remain widely referenced factors seen as holding back market activity. In each case, over two-thirds of respondents highlighted such scarcities, albeit the Q1 shares (72% for skilled trades and 66% for general labour) are marginally lower than last time. Alongside this, the cost of materials remains a significant impediment, with 68% of contributors singling out this issue. That said, there was a noticeable moderation in the proportion of survey participants citing a shortage of materials to be an isssue at present (down to 40% from 54% previously). Meanwhile, just over 60% of contributors continue to point to financial constraints as holding back activity.

## Profit margins outlook improves on the back of an expected easing in cost inflation

Looking ahead over the next twelve months, a headline net balance of +21% of respondents now envisage an increase in industry profit margins. This is up from a reading of +13% last quarter and does in fact mark the most positive return for this measure since Q1 2022. Supporting the improved outlook, Chart 5 shows that the gap between survey participants' forecasts for tender price growth and total construction cost inflation has more or less closed. Moreover, projections for growth in construction costs have now eased to their lowest level since Q2 2020.

Chart 3: Twelve-month expectations for workloads and other variables

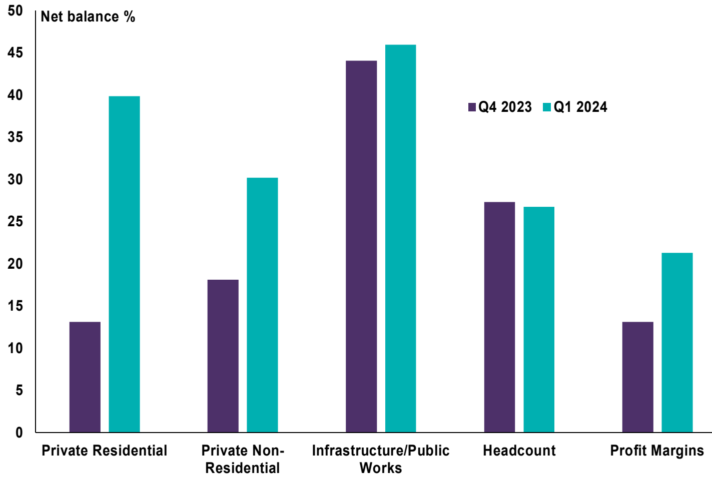



Chart 4: Factors holding back activity

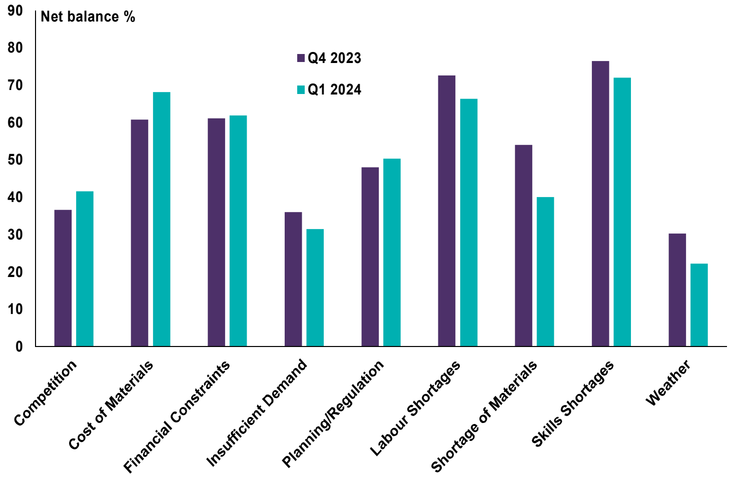
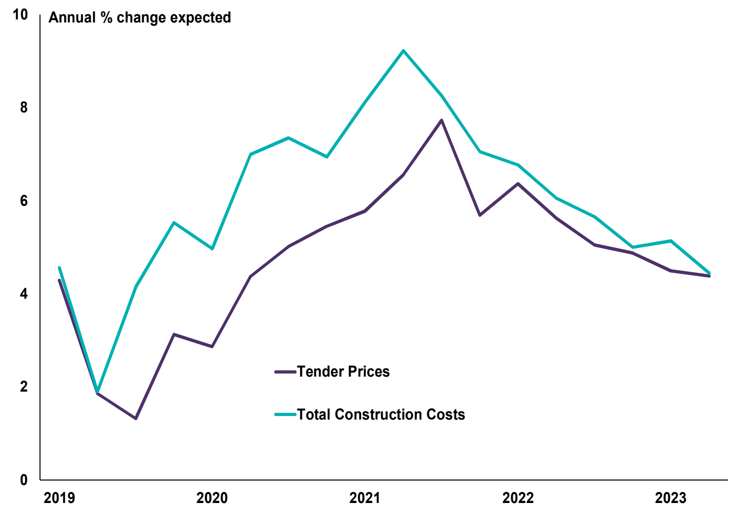



Chart 5: Twelve-month projections for tender prices and costs



# Regional Comments from Survey Participants in Canada

### Alberta

Huge housing and rental demand, population growth and rates rising. - Calgary

Huge influx of people, housing shortages - a lot of residential construction. City and Province have implemented programs in tandem with CMHC. - Calgary

Material rate and skilled labour shortage. - Calary

Most impactful is the shortage of skilled workers, which results in subcontractors being very selective in the work they are pursuing; this ultimately results in a much smaller pool of trade partners a general contractor can collaborate with, hence a much higher construction cost than what could be in a more competitive market. - Calgary

The prevailing market condition is subject to availability of resources such as skilled/unskilled labor, sourcing of materials and delivery to various sites. - Calgary

Housing demand is outpacing supply significantly. - Edmonton

### British Columbia

Slow approval and response from municipalities delaying projects for several years. Increases in regulations causes increased costs and lower profit margins. New laws affecting buyers like Airbnb bans and property flipping taxes have halted pre-sales meaning we can't start construction on projects which is preventing hundreds of additional units coming to the market. - Abbotsford

Delayed building permits. - Surrey

Massive increase in City Fees as a result of provincial housing & infrastructure mandates. - Vancouver

Skills shortage. - Vancouver

Demand for products challenged by high interest rates. - Vancouver

Lack of competitiveness amongst contractors. Fixed price bids causing excessive costs. - Vancouver

New code, net zero etc drive cost up. - Vancouver

Poor productivity. - Vancouver

Some projects have been postponed or shelved because of elevated construction costs, wavering demand, and unstable market conditions. - Vancouver

The rising cost of living continues to add pressure on labour costs. - Vancouver

Oversaturated. - Vernon

Delays in permitting and decision making on large projects is creating a large backlog with the timing for conversion into contracts remaining nebulous. - Victoria

Shortage of skilled labour. - Victoria

### Manitoba

General lack of experience and planning. Rushing to construction = increased costing. - Winnipeg

Market is slow as we have a new Provincial Government and are evaluating projects currently not awarding them. - Winnipeg

### Newfoundland

Transportation. - St. John's

### Nova Scotia

High interest rates. Labour shortfall. - Halifax

Interest rates for developers. - Halifax

Large infrastructure projects being stalled. - Halifax

### Ontario

Interest rate increases from 2023 will start to impact private sector investment. - Kingsville

Collusion amongst trades thereby driving prices up. - Mississauga

Government overspending, extra tax, high interest rate affecting the construction market. - North York

Volume of work within the market. - Ottawa

Residential downturn due to high interest rates = unafordable. - toronto

We notice there is a significant amount of competition.  We are noticing a lot of projects being re-tendered (for RFP) as the A&E firms bids are all higher than the client expects. We notice client expectations for work provided vs. the cost they assume it can be done for, are way out of line (especially for NetZero/sustainability projects). - Toronto

Deterioating demand as a result of higher interest rates. Skilled labour still remains a challenge. While the demand for sales is low at the minute, trades are more compatible with pricing, save for M&E where we still see price increases, largely linked to material costs and supply challenges. - Toronto

High cost of transportation and city permits. - Toronto

High interest rates are preventing developers from breaking ground on residential projects. Low pre-sales from our clients. - Toronto

High volume of work could impact supply chain availability and tender prices. - Toronto

Lack of qualified skilled workers are limiting production. - Toronto

Shortage of skilled labor with many major transit projects online. - Toronto

Significant public works projects affecting private sector projects resource availability. - Toronto

World events and fuel prices. - Toronto

### Quebec

Proximity to the city of Ottawa. - Gatineau

Lack of skilled trades. - Gatineau

Deadlines for obtaining city permits, Ministry of Environment authorization, Hydro-Quebec connection - Laval

Inflation and interest rates. - Laval

Project financing has increased, and approval times are too long. - Montréal

# Information

## Global Construction Monitor

RICS-CIQS Canadal Construction Monitor is a quarterly guide to the trends in the construction and infrastructure markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

## Methodology

This is the RICS-CIQS Canada Construction Monitor, which received 186 responses in Q1 2024. It forms part of the RICS Global Construction Monitor. Questionnaires were sent out on 13 March 2024 with responses received until 19 April 2024. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 2770 company responses were received globally.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100. A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline.

RICS Construction Activity Index is constructed by taking an unweighted average of current and 12-month expectations of four series: residential workloads, non-residential workloads, infrastructure workloads and profit margins. Global and regional series are weighted using the World Bank's GDP PPP (2017 constant prices) data series. Current responses were weighted using the prior years GDP (e.g. the 2020 responses were weighted using 2019 GDP data). Where responses are not sufficient to form a national-level sample, they are binned together to fill in any gaps in regional coverage.

## Disclaimer



## Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact a member of the RICS Economics Team.

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The Canadian Institute of Quantity Surveyors (CIQS) was founded in 1959 and is the voice for Canada's construction economists. It is a self-regulatory, professional body and the gatekeeper of the ethics and standards for construction and infrastructure economics in Canada and currently represents over 2,000 construction cost professionals from across Canada as well as internationally. CIQS owns and manages two professional and internationally known designations, the Professional Quantity Surveyor (PQS) and the Construction Estimator Certified (CEC), which can only be used by qualified, certified members of the Institute, PQS and CEC professionals counsel building owners, developers, government bodies, designers, and contractors at every stage of the design, procurement and construction process to help a return on investment is delivered.

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