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

RICS®

Q4 2023: Canada Construction Monitor

Sentiment in the construction industry remains marginally positive in Q4

- Infrastructure continues to be the driving force for construction activity
- Skills shortages both for professionals and trades remain challenging
- Credit conditions seen as likely to improve through the year

Despite a softening in economic activity in recent months, the feedback provided by respondents to the Q4 RICS-CIQS Canada Construction Monitor has remained relatively resilient (at least at a headline level). Indeed, as Chart1 demonstrates, the aggregate Construction Activity Index (CAI) was little changed in the latest quarter at +12 compared with +13 previously. However, drilling down a little further into the latest results does show a rather more mixed picture across the industry.

Infrastructure still the driver of activity

Chart 2 tracks the responses to the question around current workloads in the construction industry in net balance terms. Predictably, the most positive insights continue to be around the infrastructure sector where the latest reading of +25% was a little down on the Q3 number of +33%. Within this, it is the transport, social and energy sub-sectors where the momentum appears firmest at the present time. Meanwhile, residential workloads appear to have slipped modestly for the second successive quarter. Hard data regarding the housing market is still quite mixed but a solid turnaround in key price and sales indicators in the near term seems unlikely given the volume of loan renewals at higher mortgage rates taking place over the coming months. For non-residential workloads, the RICS-CIQS metric is broadly flat (net balance -3% v +8% in Q3). This aligns with the feedback from the Q4 RICS Canada Commercial Property Monitor where the investor enquiries net balance came in at -1%. On a note of caution, it is worth pointing out that the share of contributors identifying insufficient demand as an obstacle to activity continues to increase, climbing to 36% which is the highest level since the midst of the pandemic.

Credit environment remains tight for now

The Bank of Canada held interest rates steady at 5% at its first meeting of this year. It is now forecasting CPI inflation to average 2.8% in 2024, down 0.2ppts from October but still comfortably above the 2% target. Despite this, it still seems plausible that some easing in policy will begin to be sanctioned in the latter part of

Chart 1: Construction Activity Index*

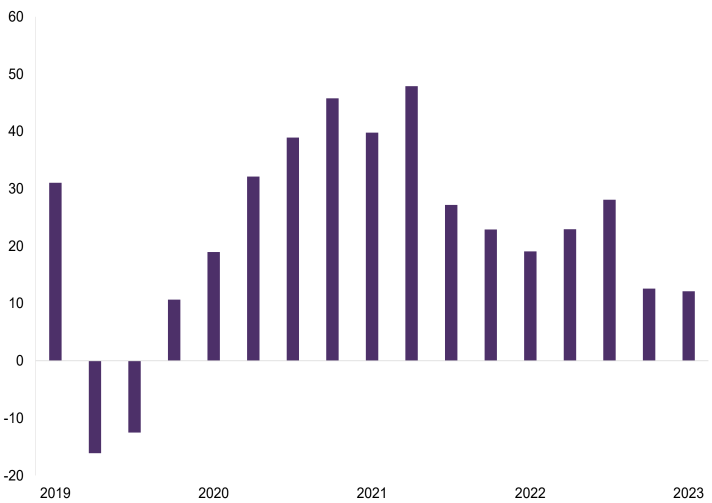
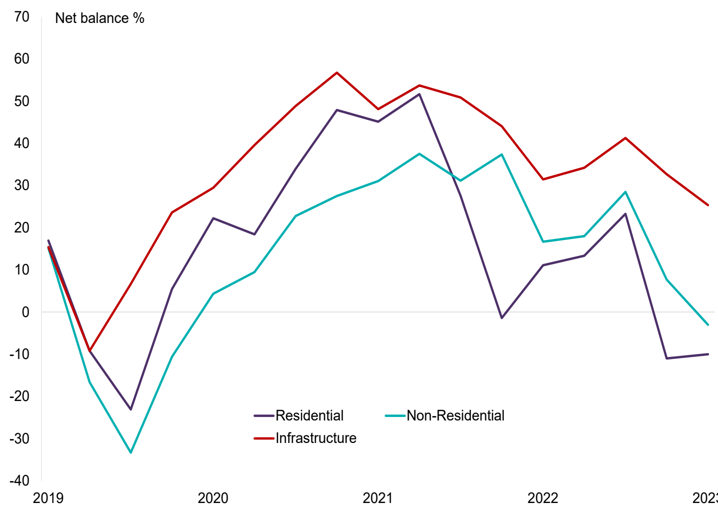


Chart 2: Workloads by Sector



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

the year in the face of the continuing subdued trend in economic growth. Responses to the questions around the credit conditions picture broadly bears this out as highlighted in Chart 3.

Although a net balance of -13% of contributors report a further tightening in the credit environment towards the end of last year, little change is envisaged over the next few months. Moreover, some loosening over the course of the next twelve months is now anticipated (the net balance taking this view of +18% at this time horizon is in marked contrast to the -20% reading reported in the Q3 survey. Significantly, something in the region of two-thirds of respondents continue to point to financial constraints as presenting a material challenge to their business.

Skills shortages remain intense

It might be imagined that the less robust trend in both the wider economy and the construction industry may have led an easing in some of the labour related issues that have been so prevalent in recent years, but there is little evidence of this in the responses to the survey. Both the current and expected recruitment indicators remain in positive territory to a greater of lesser extent. Meanwhile as captured in Chart 4, the proportion of RICS and CIQS members completing the survey suggesting they are encountering labour shortages in general, and skill shortages in particular, remains at around three-quarters. Interestingly, when it comes to skilled trades, the picture is even starker. The share of respondents highlighting a scarcity of quantity surveyors also remains about 50%.

Regional results paint a mixed picture

We noted earlier that the headline CAI for Canada was little changed in Q4 at +12. Disaggregating this across the country points to contrasting fortunes however. The strongest responses are from the Prairies, as was the case previously with the CAI at +36. The reading for the Atlantic provinces is also relatively solid. By way of contrast, the CAI for both Ontario and Quebec point to a flatter trend in the construction sector.

Forward looking indicators provide more optimism

The prospect of some loosening in monetary policy as the year wears on does seem to be a factor in encouraging a more upbeat set of responses when it comes to the 12-month outlook. Chart 5 shows that while infrastructure workloads are predictably still likely to be the key driver of activity in the industry, both residential and non-residential workloads are viewed as likely to rise. It is also anticipated that profit margins will increase modestly (net balance of +13% as against +11% previously). This story is fairly consistent when the results are broken down by company size.

Meanwhile, when respondents are asked to provide point estimates for the likely rise in both tender prices and construction costs, at the same time horizon, they suggest that each variable will increase by roughly 5%. Unsurprisingly, skilled labour costs are viewed as likely to be a bigger influence on overall cost increases than either materials or general labour.

Chart 3: Credit Conditions

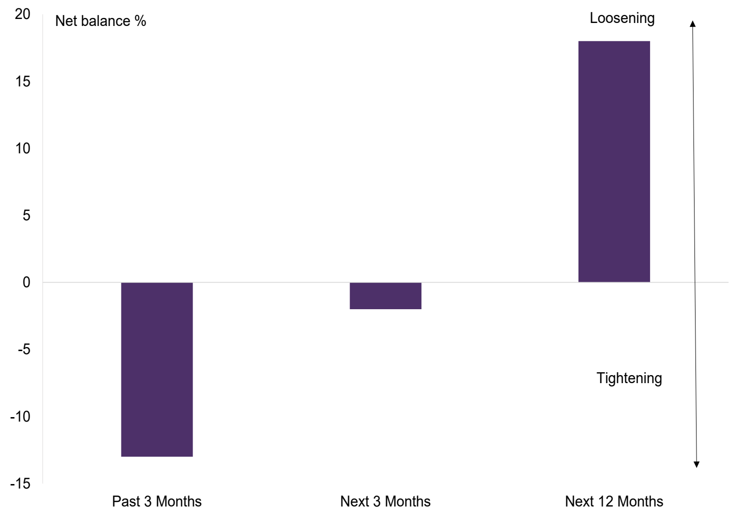


Chart 4: Labour and Skill Shortages

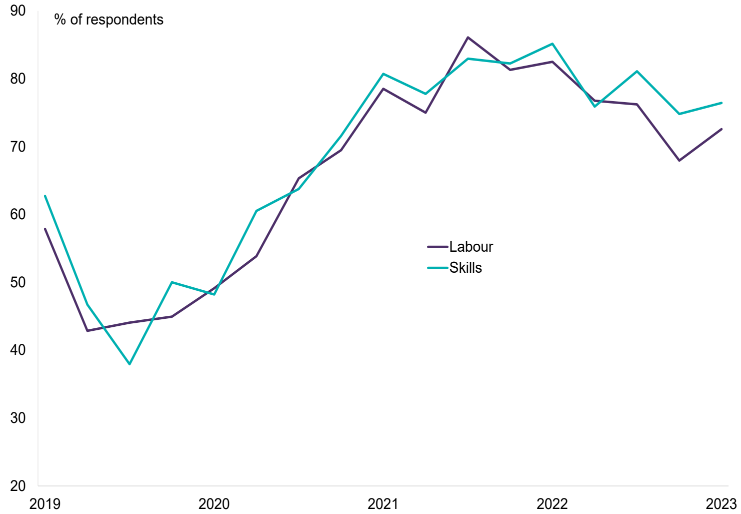
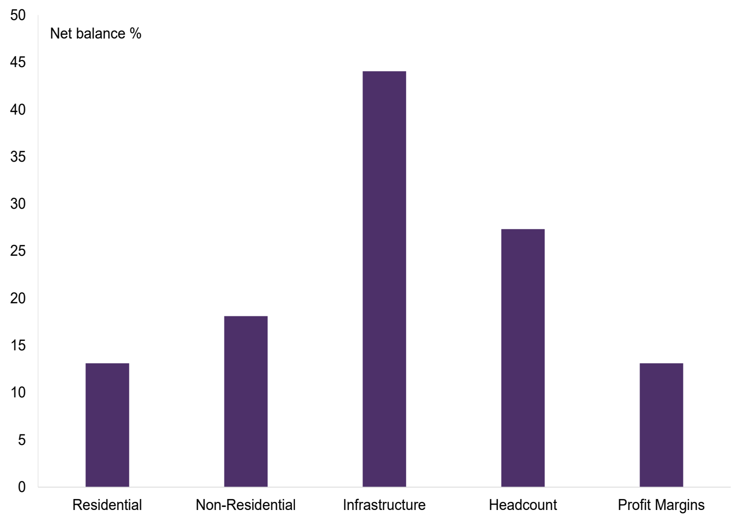


Chart 5: 12 Months Expectations



Regional Comments from Survey Participants in Canada

Alberta

Shortge of skills in wood frame buildings-Calgary

Government regulation - Edmonton

British Columbia

Municipal & other agencies red tape and bldg permit time - Surrey

Lack of dynamism and willingness to evolve. Downward pressure on fees - Vancouver

Tender price uncertainty remains a challenge to continued investment in the built environment - Vancouver

Changes in code will have an impact of the market this year - Victoria

Interest rates and recession. - Vancouver

Manitoba

Availability of Skilled Trades and Unskilled Labour specific to Ag Industrial - Winnipeg

Things are stable in Manitoba, We are working at a steady pace as usual - Winnipeg

Newfoundland

Labour shortage, lack of subtrade varity - St Johns

Diminished skilled trades pool - St Johns

Nova Scotia

The number of construction projects (large number of multi-residential projects) has been causing a strain on the availability of skilled trades, which has both caused an increase in construction costs but also delayed the construction schedules on many projects – Halifax

Shortage of skilled trades over several trades, plus an aging demographic in trades. There is a critical short of housing, especially for affordable housing. The Healthcare system is experiencing a lack of doctors & healthcare workers, and the infrastructure is lacking proper facilities, as many of current buildings are well beyond their lifespan and in need of replacement - Halifax

Ontario

Seasonal layoff. Winter weather - Collingwood

Winter conditions impact production by skilled trades - Kingsville

Lack of trade skills - Kitchener

Trade Availability/Quality - London

Government policies - Mississauga

High interest rates, lack of sufficient housing, not sufficient number of electricians and heavy equipment mechanics, supply chain disruptions, inflation, lack of global stability making mine owners more cautious to begin big projects, etc. - North Bay

Interest rates slowing peoples ability to purchase homes - Oakville

The typical factors, such as shortage of skilled trades, lakc of coordination between disciplines, rush timelines then pauses, etc - Toronto

Residential sector uncertainty - Toronto

Weather and timing of projects in order to stay operational - Toronto

Lack of response from government and utilities at all levels causing delays and increased costs. Lack of communication from same and no phone based responses to enquiries. Government Staff still not back on job post covid. Onerous fees from municipalities and utilities and long response times - Toronto

High interest rates and tough credit underwriting for new projects are making it difficult for clients to break ground on construction projects - Toronto

The rise of immigration and AI is making it difficult to compete for an adequate wage for the standard living costs in Canada - Wareloo

Quebec

Labour - Ottawa

Ralentissement du marché/ Market slowdown - Montreal

Credit availability - Montreal

Saskatchewan

Weather - Saskatoon

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 177 responses in Q4 2023. It forms part of the RICS Global Construction Monitor. Questionnaires were sent out on 6 December 2023 with responses received until 19 January 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 3040 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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