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

RICS®

Q3 2023: Canada Construction Monitor

Sentiment in the construction industry still positive in Q3 but less so

- Residential workloads begin to slip while infrastructure remains resilient
- Credit conditions tighten despite the pause in interest rate increases
- Profits outlook is still cautious

Signs are growing that the tightening in monetary policy by the Bank of Canada (BoC) is beginning to work its way through the economy. This is also, to some extent, visible in the Q3 RICS-CIQS Canada Construction Monitor; the headline (composite) Construction Activity Index (CAI) slipped back from a reading of +28 in Q2 to +13 as highlighted in Chart 1. While it remains in positive territory, the CAI is now at its lowest level since Q3 2020 which is indicative of a shift in tone in the feedback to a number of key questions included in the survey.

Disaggregating the results, the less solid feel to the insights provided by respondents is evident across the industry when it comes to company size but significantly less marked amongst the larger businesses where the CAI retreated from +34 to a still healthy +21. The contrast to this is provided by micro businesses where the headline index fell from +22 to +1. And from the perspective of responses at a province level, a similar pattern is played out with generally lower but still positive readings being recorded.

Residential workloads begin to soften

After what now looks to have been a brief spring revival in the housing market, a second leg to the correction appears underway. The trend in home sales and prices is now heading downwards once again and higher mortgage rates suggest this trend will continue through the first half of 2024. The housing starts numbers for now appear quite resilient but are gradually likely to reflect broader market trends. Significantly in this regard, a net balance of -11% of respondents suggested residential workloads declined in the second quarter (Chart 2); this is the weakest reading since the onset of COVID. Meanwhile, the feedback around commercial workloads was noticably softer that in the previous survey although the net balance reading remains in positive territory (+8% v +28%).

By way of contrast, the trend in infrastructure work remains strong according to contributors to the Monitor with a net balance of +33% suggesting it is still increasing on the back of recent initiatives. Breaking down this area of work, it appears that the social,

Chart 1: Construction Activity Index*

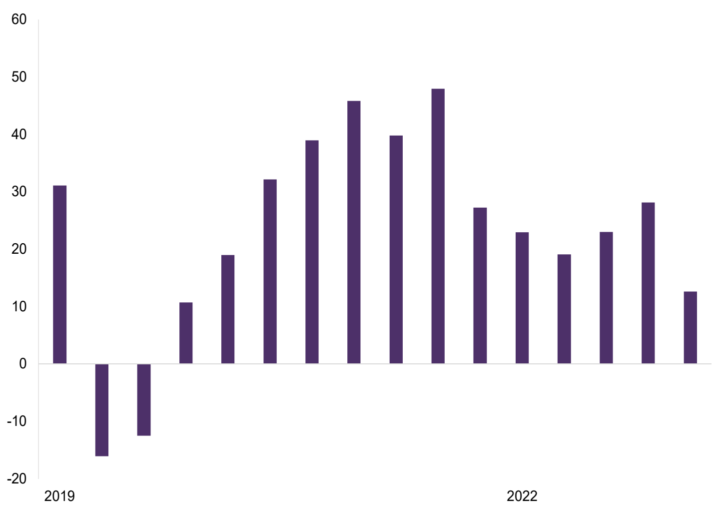
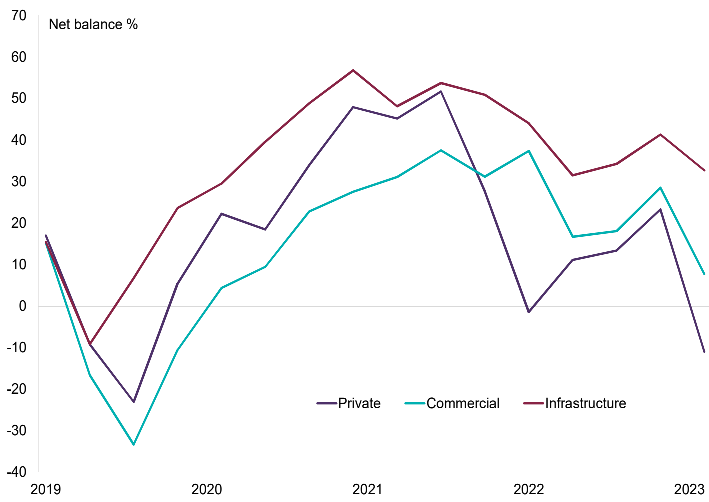


Chart 2: Workloads by Sector



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

transport and energy components are the key areas of growth according to contributors.

Looking forward over the next twelve months, the expectations regarding workloads follows a broadly similar pattern. So a net balance of +48% anticipate further growth in infrastructure activity which is little changed from last quarter (+46%). Meanwhile as far as residential is concerned, a more stable environment is viewed as gradually likely to emerge by the second half of 2024 with net balance perceiving an increase in workloads at +1% compared with +22% previously.

Financial challenges intensify

Notwithstanding the decision of the BoC to maintain the pause in the tightening cycle at the October meeting, the higher interest rate environment is becoming more embedded in credit conditions according to respondents to the survey. Chart 3 shows not just the picture has deteriorated over the past three months but also that it is seen as likely to worsen further over both the next quarter and the next year (and more so than previously viewed likely). Alongside this, around three-fifths of the contributions to the survey cite financial constraints as a factor holding back activity. Two other indicators which re-inforce this picture are first, the rising numbers of repondents drawing attention to payment delays and second, the more negative response around current profit margins.

Labour shortages still critical

Even though the results for workloads are less positive than in Q2 and previously, the issue around labour and skills remains intense. Chart 4 show the results for shortages of skilled trades and labour more generally as well as quantity surveyors and managers. Significantly, around three-quarters of respondents identify skill shortages as a major challenge. This is a theme that is also very visible in the anecdotal remarks provided by contributors and replicated on page three. And the ongoing importance of addressing this problem is highlighted in the expectation that headcount will need to rise (net balance +30%) to deliver on the construction activity planned for the next year.

Profit expectations metrics signal a broadly flat picture

The RICS-CIQS Construction Monitor aims to capture the prospects for profitability in the industry in two ways. The first is in simple net balance terms. Perhaps unsurprisingly, this indicator shows a modest decline in the share of respondents anticipating an increase in profits over the twelve month time horizon (+11% v +17% previously).

The other approach taken is to ask respondents to provide point estimate projections for tender prices and costs. The feedback here suggests that both variables are likely to rise by around 5% over the next year (Chart 5). Predictably it is forecasts for skilled labour that are the principal driver of the increase in constructions costs.

Chart 3: Credit Conditions

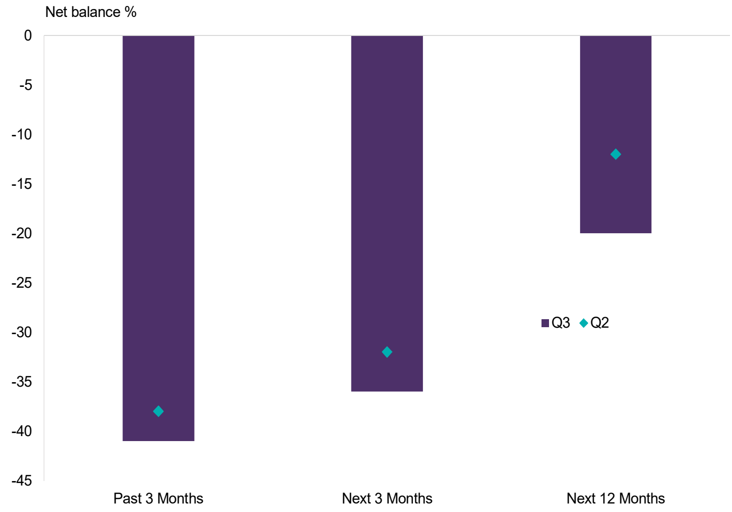


Chart 4: Labour Shortages

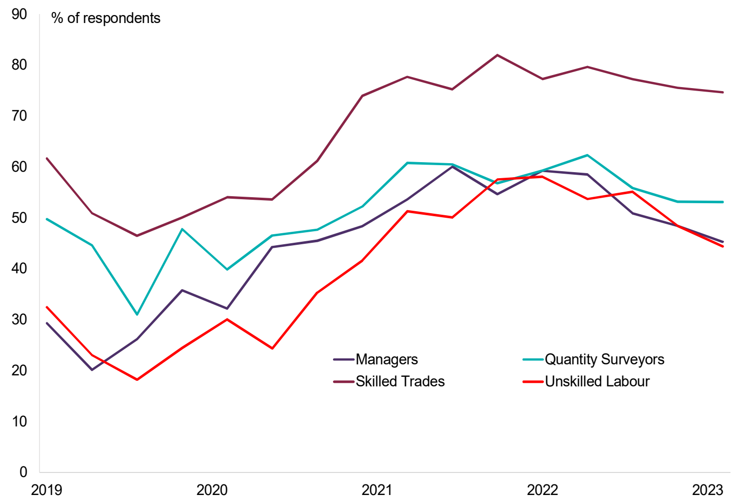
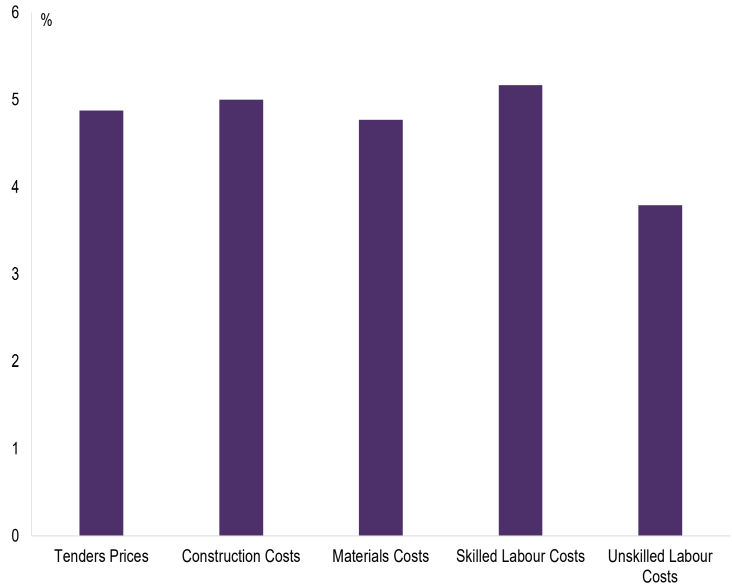


Chart 5: Tender Price and Construction Cost Expectations Next 12 Months



Regional Comments from Survey Participants in Canada

Alberta

Interest rates and incompetent federal government. -Calgary

Shortage of skilled labour especially QS.- Calgary

Government regulation. - Edmonton

Interest rates. - Edmonton

British Columbia

The economy and interest rates. - Burnaby

Owners budgets do not match desired builds. - Kelowna

Winter and rough terrain with difficulty in accessibility. – Prince George

High interest rates and buyer more cautious on their financial investments. New and increase in levy and government fees. New codes related to environmental issues. - Vancouver

The higher cost of borrowing has significantly reduced the demand for real estate and infrastructure assets.- Vancouver

Buildings/apartments are being sold at lower price yet cost of construction remains high. So developers are looking for value engineering options and ways to reduce overall cost. - Vancouver

Lack of skilled trades is causing huge demand and huge price increases as Subtrades pick and choose who they want to work for and at what profit margin. – Vancouver

Interest rates and recession. - Vancouver

Manitoba

Interest rates impacting private sector work. - Winnipeg

Shortage of work. - Winnipeg

Availability of skilled trades and unskilled labour specific to ag industril. - Winnipeg

Nova Scotia

Restrictions continue due to limited access to skilled workforce. – Halifax

Skilled labour shortages. - Halifax

Ontario

We are building the 1st Automotive battery plant in Canada and the learning curve applies to the customer as well as the builder because the design is constantly being changed to accommodate new process innovations. - Kingsville

Less skilled workers and improper training affecting construction market. – Kingsville

Political changes and coming elections; higher degree of competitiveness for work; remote working demands. – Oakville

Limited capacity, specifically in Ottawa keeps the strain on the local industry. The MoU signed by The Ottawa Hospital with the Trade Unions may have an effect on other programs and projects in the City. – Ottawa

Supply chain and high material costs. – Ottawa

High demand, short schedules, higher legislation restrictions, going into winter - slower construction. – Sudbury

Labour shortages are greatly impacting business. – Timmins

Immigration restricting importation of skilled workers. – Toronto

Poor quality of drawings and specifications. Continuing to decline on residential. – Toronto

Supply chain delivery lead time. – Toronto

Manpower. – Toronto

High interest rate forced residential construction to slow down in forming/ finish stages. – Toronto

Shortage of consultants and qualified contractors. – Toronto

Quebec

Interest rates and not enough subcontractors. - Gatineau

Too many big infrastructure projects at the same time has everyone too busy and denying work to new upcoming projects. – Montreal

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 134 responses in Q3 2023. It forms part of the RICS Global Construction Monitor. Questionnaires were sent out on 14 September 2023 with responses received until 23 October 2023. 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 3286 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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