Q3 2021: Canada Construction Monitor

Growth in workloads continues to accelerate at the national level

- **Construction Activity Index improves for a seventh consecutive quarter**
- **All sectors continue to display a firmly positive outlook for the next twelve months**
- **Concerns still evident around the cost and availability of materials**

Feedback to the Q3 2021 RICS-CIQS Canada Construction Monitor points to the ongoing market recovery gaining further impetus at the headline level. The Construction Activity Index* (CAI), shown in Chart 1, rose to +46 in Q3 from +39 in Q2. Significantly, this marks the strongest reading on record (survey started in Q4 2019), with the latest returns consistent with a solid upswing in overall construction output over the quarter. When breaking the results down by company size, all categories (large, medium, small and micro) posted CAI readings firmly in expansionary territory. Indeed, growth appears to be becoming more evenly spread of late, whereas large businesses had accounted for the bulk of the acceleration in workloads previously.

Infrastructure and private residential particularly strong

As has been the case in each of the last three reports, infrastructure output continues to see the strongest growth on a sectoral comparison. During Q3, a net balance of +57% of respondents cited an increase in infrastructure workloads, rising slightly from an already robust reading of +49% back in Q2. Within this, social infrastructure projects and transport saw a noticeable pick-up in momentum, as the latest net balances rose to +49% and +45% (up from +34% and +32% respectively last time). What's more, respondents also cited strong growth across the ICT and energy sub-sectors, with the Q3 net balances coming in at +42% and +41%.

Alongside this, the private residential sector saw a firm uptick in output over the quarter, evidenced by a net balance of +48% of survey participants noting a rise (an increase on +34% in Q2). At the same time, workloads also rose across the private commercial sector which, although still lagging the other two areas slightly in terms of the feedback, has now posted growth in each of the last four quarters.

With regards to the outlook, Chart 2 shows that twelve-month workload expectations are upbeat across all market segments, with the infrastructure and private residential sectors posting especially firm readings for this forward looking indicator.

Chart 1: Construction Activity Index*

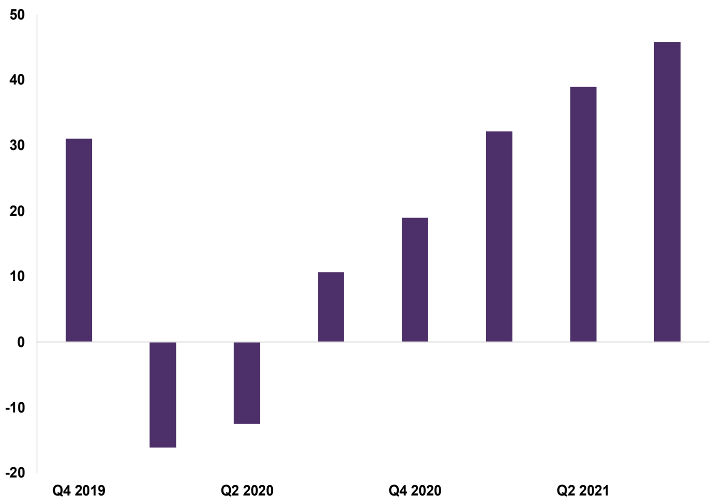
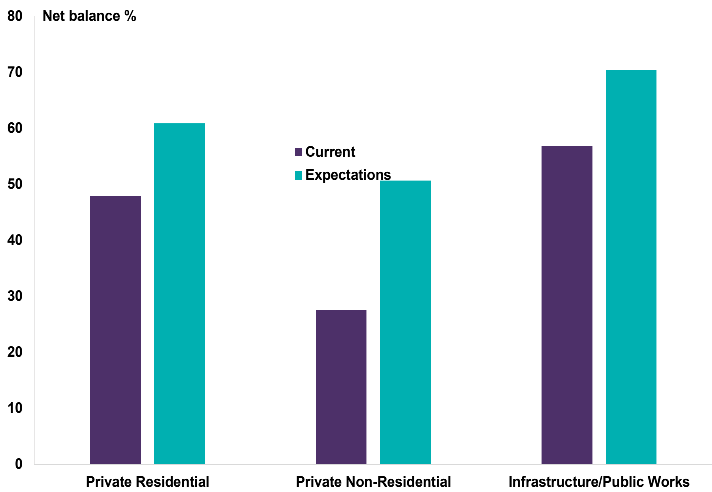


Chart 2: Current workloads and expectations



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

Employment outlook remains firmly positive

At the national level, employment levels were reported to have improved modestly during Q3, as a net balance of +19% of contributors noted a rise. Looking ahead, a net balance of +54% of respondents anticipate headcounts rising across the Canadian construction industry over the next twelve months. This is up slightly on last quarter's similarly strong reading of +52%, and represents a fresh record high for the series.

With respect to profit margins over the latest survey period, a net balance of +6% of respondents cited an improvement during Q3. Although only marginally positive and therefore just indicative of a small increase, this does mark the first occasion since the survey was formed in which this metric has moved out of negative territory. Furthermore, survey participants foresee profit margins continuing to widen over the next year, with the latest net balance coming in at +34% (a modest improvement on a figure of +28% returned in the previous survey round).

Material costs and shortages still seen as the most significant constraints

In keeping with the feedback from across the global at present, just over three-quarters of respondents based in Canada point to material costs and a lack of available materials as key factors holding back activity across the market. Not far behind, 69% of contributors single out labour shortages to be an impediment, with the share reporting such issues rising steadily over recent quarters (from 65% in Q2 and 54% in Q1).

Looking into the details, the shortfall appears most acute across skilled trades. Linked to this, respondents are now forecasting that skilled labour costs will rise by approximately 6% nationwide over the next twelve months (an upward revision on a 5% rise pencilled in last quarter). Over the same timeframe, unskilled labour costs are envisaged rising by a little over 4%, broadly in-line with the results from Q2.

Meanwhile, material costs are seen rising by a sharp 7.7% over the year to come, albeit these projections have at least been scaled back slightly from 8.4% last quarter. Overall, total construction costs are anticipated to pick-up by around 7% during the next twelve months, with these forecasts only marginally down on expectations of a 7.4% rise returned in the previous iteration of the survey.

Ontario displays the strongest momentum on a regional comparison

When disaggregated at the region level, it appears that Ontario is largely responsible for the stronger tone to construction activity data visible in the Q3 figures for Canada as a whole. While results also remain upbeat across British Columbia and the Prairie Provinces, these regions do not exhibit the same degree of positivity as Ontario. In fact, with regards to the Canadian Prairies, the Q3 feedback is actually a little more modest than beforehand. More details on the regional breakdown of the results can be found in the next section of the report.

Chart 3: Factors holding back activity

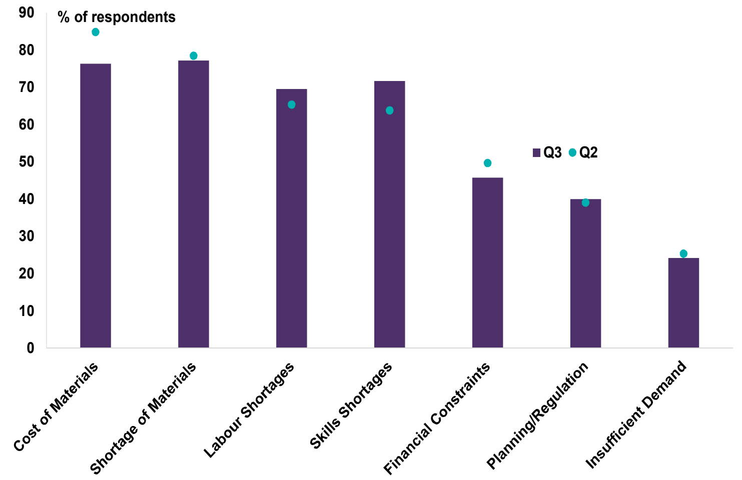


Chart 4: Twelve Month Expectations - point forecasts

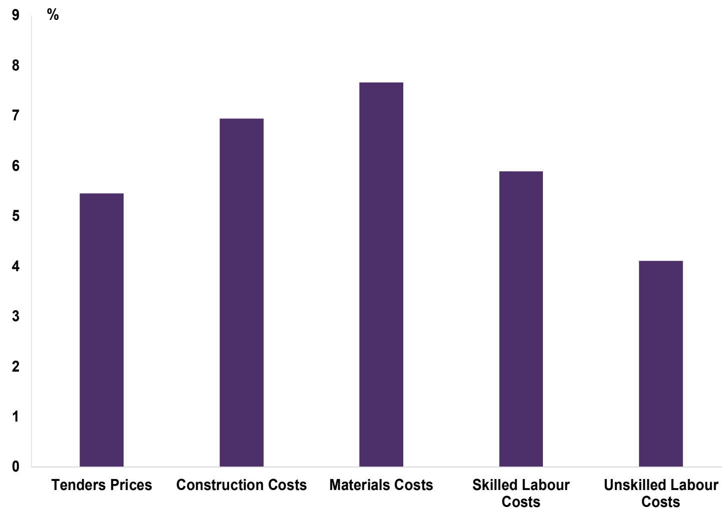
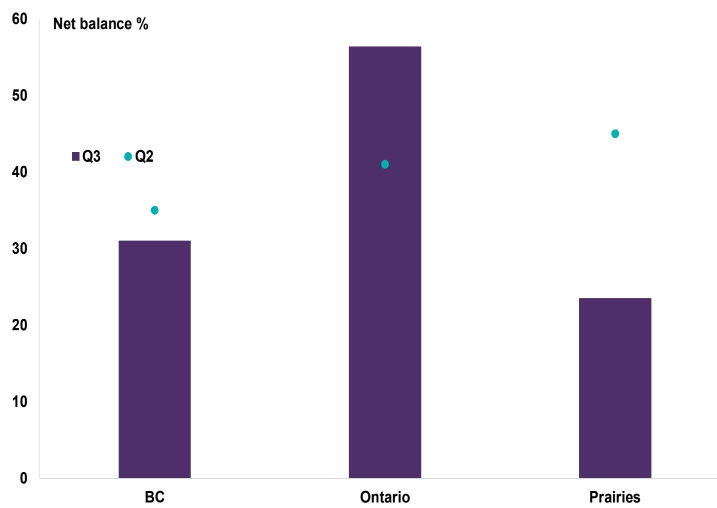


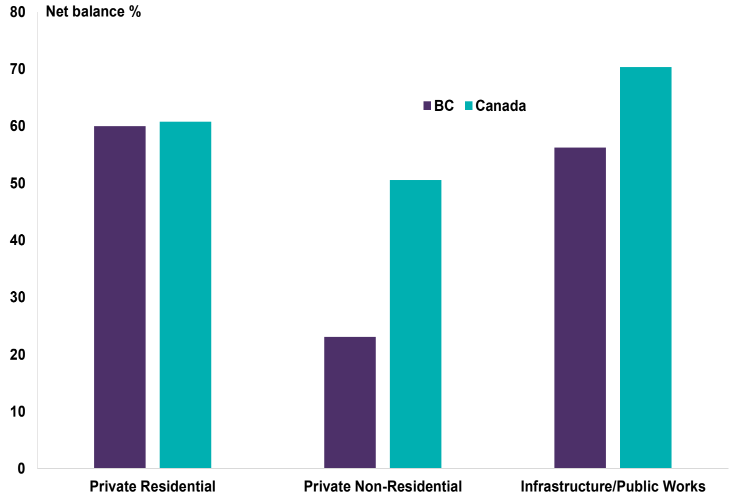
Chart 5: Construction Activity Index by region



British Columbia

- The CAI registered a reading of +31 in British Columbia during Q3, little changed from +35 back in Q2.
- This suggests momentum has remained generally stable over the survey period, with workloads continuing to rise at a solid pace across the infrastructure and private residential sector. As depicted in chart 6, private non-residential workloads appear to have a little less impetus across British Columbia compared to the national average.
- Unlike the national feedback, profit margins across the region still appear to be under pressure, with a net balance of -19% of respondents noting a deterioration during Q3 (compared to a national reading +6%). Similarly, respondents expect a flat trend in profit margins in BC over the year ahead whereas margins are expected to widen across Canada as a whole.

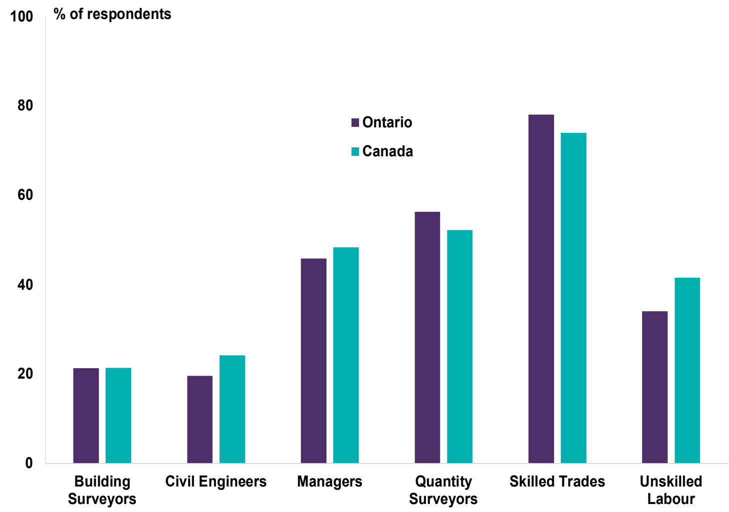
Chart 6 British Columbia v Canada Workload Expectations



Ontario

- The CAI rose from +41 in Q2 to +56 in Q3 across Ontario.
- This is indicative of a noticeable acceleration in momentum over the latest quarter, with Ontario displaying the strongest feedback on a regional comparison. The Q3 improvement was driven by an acceleration in growth across all market segments, while headcounts also picked-up to a greater degree than at the national level. As is evident elsewhere across the country, labour issues remain a challenge with 73% of respondents based in Ontario reporting a shortage of skilled workers (a rise on 60% beforehand).
- Twelve-month expectations are stronger across all categories in Ontario compared to the Canada-wide averages, with the private residential and infrastructure sectors exhibiting exceptionally upbeat readings.

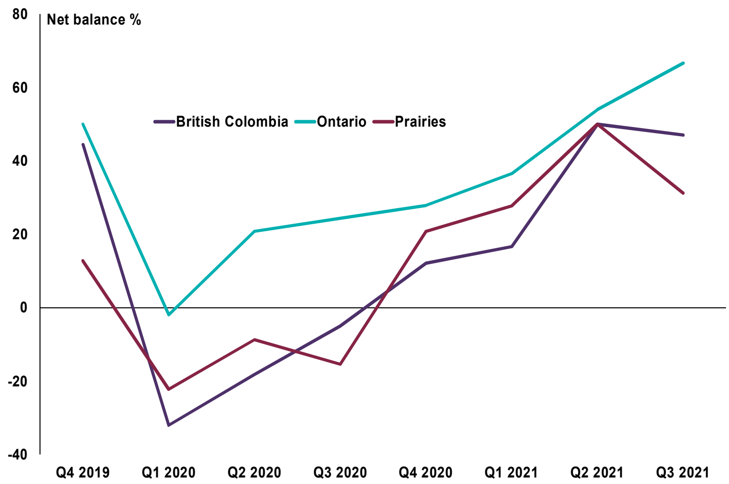
Chart 7 Ontario v Canada Skills Shortages



Prairies

- The CAI dipped from +45 in Q2 to +24 in Q3.
- Growth in workloads reportedly stalled across the private residential and commercial sectors in Q3, although the rise in output across infrastructure remained solid. In contrast to the national findings, headcounts did not improve across the Prairies over the latest survey period, as the latest net balance came in at -6%. Looking ahead, although expectations for employment are positive across the region, they are more modest than those across BC and Ontario (Chart 8).
- Nevertheless, workloads are anticipated to rise across all sector over the year to come, even if the outlook is a little more modest for the private residential and commercial sectors in comparison to infrastructure.

Chart 8 Twelve-month Headcount expectations by region



RICS Consensus 12-month Expectations

	Tender Prices	Construction Costs	Materials Costs	Skilled Labour*	Unskilled Labour*
Global	**+3.5%**	**+6.9%**	**+7.4%**	**+5.7%**	**+4.6%**
Americas	**+4.1%**	**+7.5%**	**+7.7%**	**+5.7%**	**+4.3%**
Canada	**+5.5%**	**+7%**	**+7.7%**	**+5.9%**	**+4.1%**
British Columbia	+5.6%	+6.5%	+9.5%	+6.7%	+4.7%
Ontario	+5.8%	+7.1%	+8%	+5.8%	+4%
Prairies	+5%	+6.6%	+7.6%	+5.1%	+3.7%

*Skilled and unskilled labour are expected changes of per unit skilled and unskilled labour costs

Regional Comments from Survey Participants in Canada

Supply of materials and good quality labour - *Barrie*

It is a SubTrades market right now. Some SubTrades are filled up for next year and are not bidding. - *Cambridge*

Pandemic. - *Edmonton*

Climate change policies. - *Edmonton*

Worldwide delays in manufacturing are impacting lead times with real estate demand. - *Halifax*

Potential large amount of infrastructure projects may affect contractor capacity. - *Hamilton*

Price of material, shortage of skilled worker, bad RFP requesting too many RFIs, too many assumption. - *Kelowna*

Shortage of qualified residential renovation general contractors. - *Mississauga*

Manque de beton et acier (Lack of concrete and steel). - Montreal

Delays in manufacturing of steel and related supply chain. - *Ottowa*

The balance of cost, availability of trades and materials are dictating the construction method. - *Simcoe County & Muskoka*

Logistics, lack of lands, lack of investors. - *Toronto*

Supply chain, huge demand on trades creating price escalation and volatiliy. - *Toronto*

Government investment coming out of COVID impact on economy. - *Toronto*

Significant shortage of skilled and unskilled labour. - *Toronto*

Lack of sufficient skilled labour is extending schedule durations. - *Toronto*

Persistent supply chain and labour issues continue to cause pricing instability. - *Vancouver*

COVID pandemic has impacted material costs, freight costs and schedule delivery. - *Vancouver*

Covid has significantly affected supply chains causing shortages of materials, 20-50% increase time. - *Winnipeg*

Covid 19 still is a factor. Contractors are busy however and so am I. Lots of school work here. - *Winnipeg*

Information

Global Construction Monitor

RICS' Global 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

Survey questionnaires were sent out on 9 September 2021 with responses received until 19 October 2021. 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 1749 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

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Responses were gathered in conjunction with:

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

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Founded in 1959, The Canadian Institute of Quantity Surveyors (CIQS) is a self-regulatory, professional body that sets the highest standard for construction economics in Canada. Designated Professional Quantity Surveyors (PQS) and Construction Estimator Certified (CEC) professionals counsel building owners, developers, government bodies, designers and contractors at every stage of the design, procurement and construction process to help ensure a return on investment is delivered.

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