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

RICS®

Q2 2023: Canada Construction Monitor

Construction sentiment improves in Q2

- Workload trend still firm despite macro challenges
- Infrastructure feedback remain strong but other sectors also displaying resilience
- Skill shortages continue to be a major headache for the industry

The more resilient macro environment over the past few months supported by a solid trend in consumer spending and a somewhat firmer picture in parts of the housing market is also clearly evident in the feedback received to the Q2 RICS-CIQS Canada Construction Monitor. The headline Construction Activity Index (CAI) actually edged higher into positive territory as demonstrated in Chart 1 and is now at its best level since Q1 2022.

What is more impressive still is that this picture is broadly replicated across the industry size categories with the exception of the micro sector, but even here, respondents are just a little less positive than they were in Q1 (+22 as against +25). In addition, the breakdown of the CAI at a province level tells a not dissimilar story according to contributors. That said, the numbers for Alberta are particularly strong benefitting from the focus on natural resources while the results for British Columbia and Quebec are, more modestly, still in positive territory.

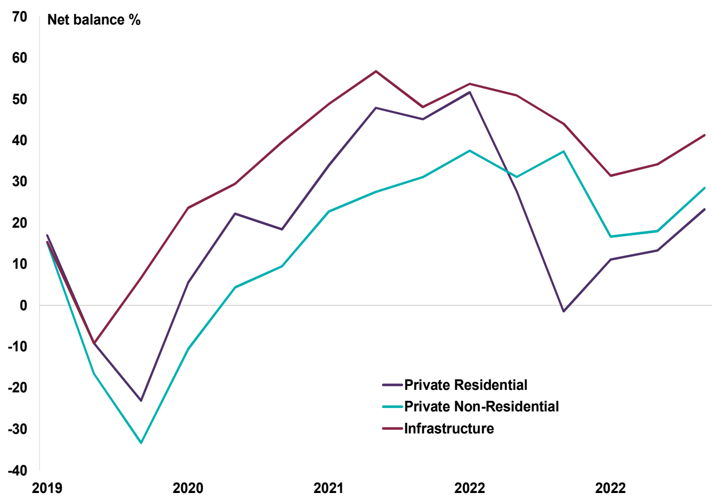
Infrastructure continues to lead the way

A clear message emanating from the latest Construction Monitor is that the major investment programme in infrastructure across the country is gathering pace. The net balance reading for workloads in this area of the industry rose from +34% to +41%, a point demonstrated in Chart 2. Within the broader infrastructure spend, respondents indicate that energy and transport are seeing the strongest growth. Meanwhile, it is evident that the feedback around ongoing activity in both the residential and commercial sectors has turned a little more positive with the former at its best level (in net balance terms) since the second quarter of last year despite the increase in interest rates. Interestingly, the more upbeat tone on housing is visible across much of the country although the results for Quebec are a little more cautious.

Looking forward, the insights provided are indicative of current momentum being maintained in terms of workloads even through there remains a risk the wider economy could enter a mild recession during

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 second half of this year. Significantly, the metric capturing new business enquiries jumped to +38% from +21% which is the best net balance reading in five quarters. This is also reflected in the workload expectations series. For infrastructure over the next twelve months, the net balance stands at an encouraging +46%. And this upbeat mood is also replicated in the results for non-residential workloads (+34%) and residential (+22%).

Pressure on finances contained for now

There is no doubt that the combination of a somewhat more restrictive lending environment and, more importantly, the higher cost of accessing finance is impacting the sector. Something in the region of two-thirds of respondents report financial constraints as holding back activity; this is, however, pretty much the same proportion as in each of the past four quarters. Despite this, the share of contributors identifying payment delays as a problem remains in the low teens. Moreover, when asked about the current picture for profit margins, a small net balance (+5%) suggested the picture was improving. This is the first time the result to this question has been positive since the early part of last year. In addition, as Chart 3 notes, there is some cautious optimism in the sector that the credit conditions environment will begin to stabilise through the back end of this year and into 2024.

No let up in abour shortages

There is little evidence of the challenge around recruitment in general and specific skill shortages in particular lessening across in the construction industry. Around three-quarters of contributors identified labour supply as a problem which is little different from the Q1 result (Chart 4). Meanwhile, more than 80% of contributors drew attention to the deficiency of relevant skills as a factor impeding activity. This is close to the high for the series since the question was introduced at the back end of 2019. Significantly, it is also a point made in many of the anecdotal remarks provided by participants in the survey. As has been the case previously, the key problem area appears to be around skilled trades although feedback also points to difficulting in hiring quantity surveyors.

Profits metrics continue to send a mixed picture

The RICS-CIQS Construction Monitor aims to capture the prospects for profitability in the construction industry in two ways. The first is in simple net balance terms. Interestingly, this indicator shows a further modest rise in the share of respondents anticipating an increase in profits over the twelve month time horizon. The disaggregation of the series suggests that this improvement in concentrated in larger businesses (Chart 5).

The other approach taken is to ask respondents to provide point estimate projections for tender prices and costs. The feedback here suggests that tender prices are on average likely to rise by around 5% over the next year with construction costs a touch ahead of this (between 5 and 6%). Higher wages for skilled labour is seen as an important reason for this increase in costs.

Chart 3: Credit Conditions

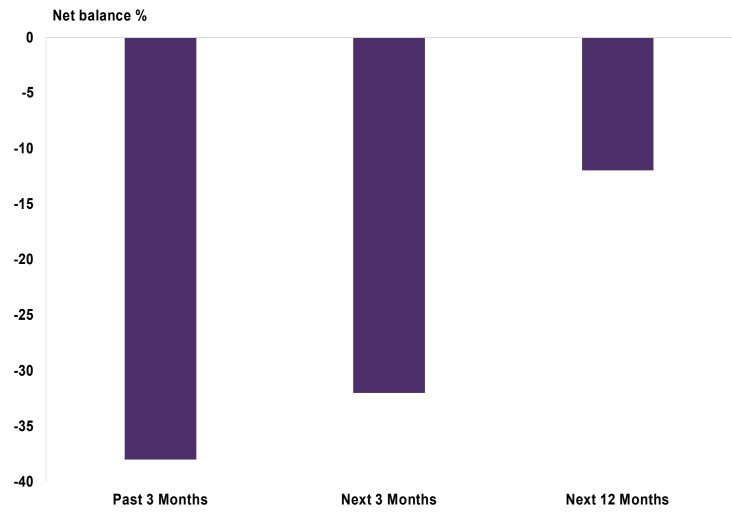


Chart 4: Factors Hindering Activity

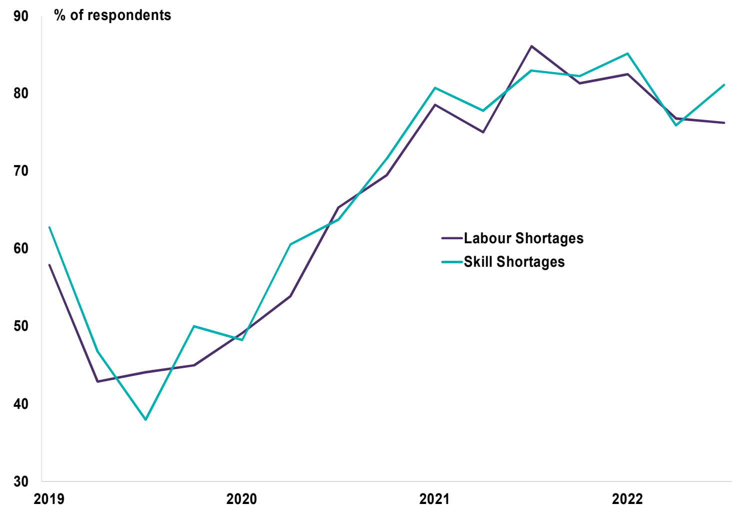
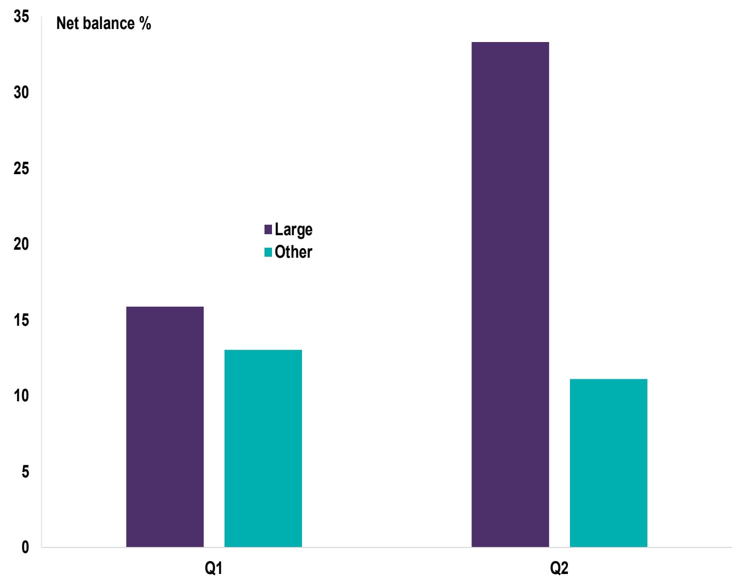


Chart 5: Profit Margin Expectations by Company Size



Regional Comments from Survey Participants in Canada

Alberta

Lack of research and development for innovation and new ideas.Thinking too insular. -Calgary

High interest rates and high inflation. - Edmonton

Supply chain constraints and transportation cost. - Edmonton

I believe this connects well to LEED certified buildings and the challenges of attaining this cert. - Winnipeg

The pursuit of LEED certification. - Winnipeg

British Columbia

Interest rates. - Burnaby

Government climate policy targets not in tune with reality. i.e. EV chargers - elect infrastructure. - Burnaby

BOC and their inacurate assessment of the economy has a negative impact on contraction activities. - Kelowna

Labour cost increase. - Langley

Extremely long building permitting time. - Surrey

Shortage of skilled labour. - Vancouver

Demand is higher than supply for multifamily housing projects. - Vancouver

Higher prices, tougher credit conditions, competition for talent - creates a challenging environment. - Vancouver

New carbon and new building codes requirement will cause major impact on construction costs. - Vancouver

Cost impacts on net zero, new codes, and rise if government fees. - Vancouver

Canada/US trade policy, tariffs and levies. - Vancouver

New rules and regulations on low carbon and net zero will dramatically increase the cost of construction. - Vancouver

Lack of skilled workers. - Victoria

Manitoba

I believe this connects well to LEED certified buildings and the challenges of attaining this cert. - Winnipeg

The pursuit of LEED certification. - Winnipeg

New Brunswick

Supply chain of construction material is a big challenge. - Moncton

Nova Scotia

Need skilled tradespeople. - Dartmouth

The low number of contractors submitting SPC bids on projects is signidicantly increasing prices- Halifax

Skilled labour shortages. - Halifax

Ontario

Shortage of skilled labour. - Brampton

Shortage of labours due to immigration rules. - Concord

Trade / subtrade capacity. - Hamilton

Delivery of materials. - Kitchener

Shortage of labour, prices of labour and materials, interest rates heading higher, all are affecting the industry. - Markham

Rebound from Pandemic and War in Ukraine are making for unpredictable economic forecasts. - Mississauga

Increased competition for labour in mega project construction sector. - Oakville

Government green incentive programs would definitely speed up the sustainable design and material sector. - Scarborough

Rising interest rates. - St.Thomas

High interest rate, foreign buyer ban. - Toronto

High interest rates, lack of pre-approved buyer in the market to close the purchase agreement. - Toronto

Interest rates. - Toronto

Interest rate increases are resulting in fewer presold residential projects breaking ground. - Toronto

Interest Rate increases causing demand issues. - Toronto

Most of public funds allocated to infrastructure projects. - Toronto

Record high interest rates cutting almost 50% of profits. - Toronto

Size of projects. Limited competition for massive infrastructure projects with one bidder. - Toronto

High demand a little competition has driven prices up higher than anticipated. - Windsor

Quebec

La spéculation des terrain pour construite des batisses résiodentiels abordables au canadiens. - Laval

Land speculationto build affordable residential buildings in Canada. - Lavel

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 167 responses in Q2 2023. It forms part of the RICS Global Construction Monitor. Questionnaires were sent out on 14 June 2023 with responses received until 21 July 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 2879 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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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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