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Quantity Surveyors

Institut canadien des
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RICS®

Q1 2020: Canada Construction and Infrastructure Survey

Covid-19 shock hits expectations

- Workloads fall modestly in Q1 as virus begins to bite towards end of period
- Expectations turn negative from strongly positive readings in Q4
- Profit margins viewed as likely to come under significant pressure

Respondents to the Q1 2020 RICS/CIQS Canada Construction and Infrastructure Survey are inevitably reflecting the impact of the spread of the pandemic in their feedback. Fears about implications for economic activity have deepened, and despite a huge array of government fiscal interventions (worth in the region of 14% of GDP), the recovery process is likely to prove quite protracted.

Expectations revised downwards

The suspicion that the legacy of the pandemic will cast a shadow over the Construction and Infrastructure sectors for some time to come is evident in the forward looking metrics contained in the survey. Workloads are anticipated to remain subdued over the next twelve months, with employment projected to drop and, most notably, profit margins viewed as coming under pressure. In net balance terms, the headline reading for the latter has turned around from +28 to -32 as concerns have grown about the pricing environment in a more challenging market.

Skills still a concern

Despite the overarching shift in the narrative regarding the delivery of construction and infrastructure projects for the time being, shortages of skills and labour more generally continue to be highlighted as obstacles to activity by contributors to the survey (with the inference that they will again be relevant when the lockdown ends). That said, the proportion of respondents signalling concerns about these issues has diminished somewhat since the end of last year. For skills, the proportion identifying this to be a problem has dropped from over 60% to less than 50%. And for the wider category of labour, it has slipped from just under 60% to close 40%.

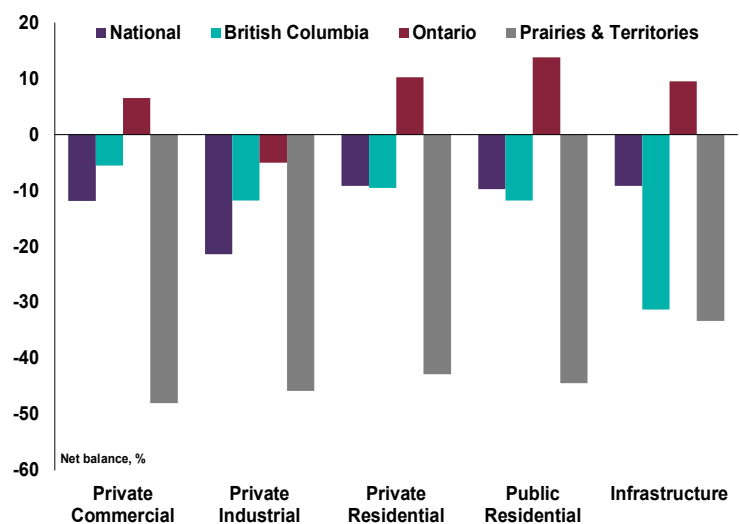
Predictably, insufficient demand is now viewed as more of a threat with an increasing number of responses

noting material shortages as a barrier. Financial constraints remain an ongoing theme although encouragingly for now at least, this issue doesn't appear to be worsening.

High degree of geographic dispersion

As shown in the below chart, there is a substantial disparity in conditions based on geography. In net balance terms, workloads in the Prairies and Northwest Territories contracted at a much quicker pace than in other parts of the country. The bulk of respondents in this region are based in Alberta and also dealing with the fallout from the collapse in oil prices. This dynamic is mirrored in other metrics, most notably expectations for tender prices and construction costs, where deflation appears to be a significant risk (full details on page 6).

Current Workloads



*Large Firms = more than 250 employees, Medium = 50 to 249 employees, Small = 10 to 49 employees, Micro = less than 10 employees

Comments from Survey Participants in Canada



"Covid-19 - I expect 10-15% of contractors and subcontractors will go insolvent through 2020."

-Calgary, Alberta



"The global pandemic has created less demand, and will have major economic ripple effects for years."

-Calgary, Alberta



"Price of oil and COVID-19 will have significant impact in our region."

-Edmonton, Alberta



"Customers are very apprehensive to allow work to continue or would like delayed to May/June."

-Toronto, Ontario



"Labour shortage challenges as a result of increased demand from the public sector."

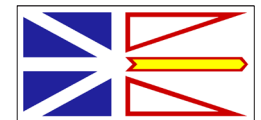
-Ottawa, Ontario



"Covid 19 va detruire le marche de la construction il y aura une chute des valeurs immobilière"

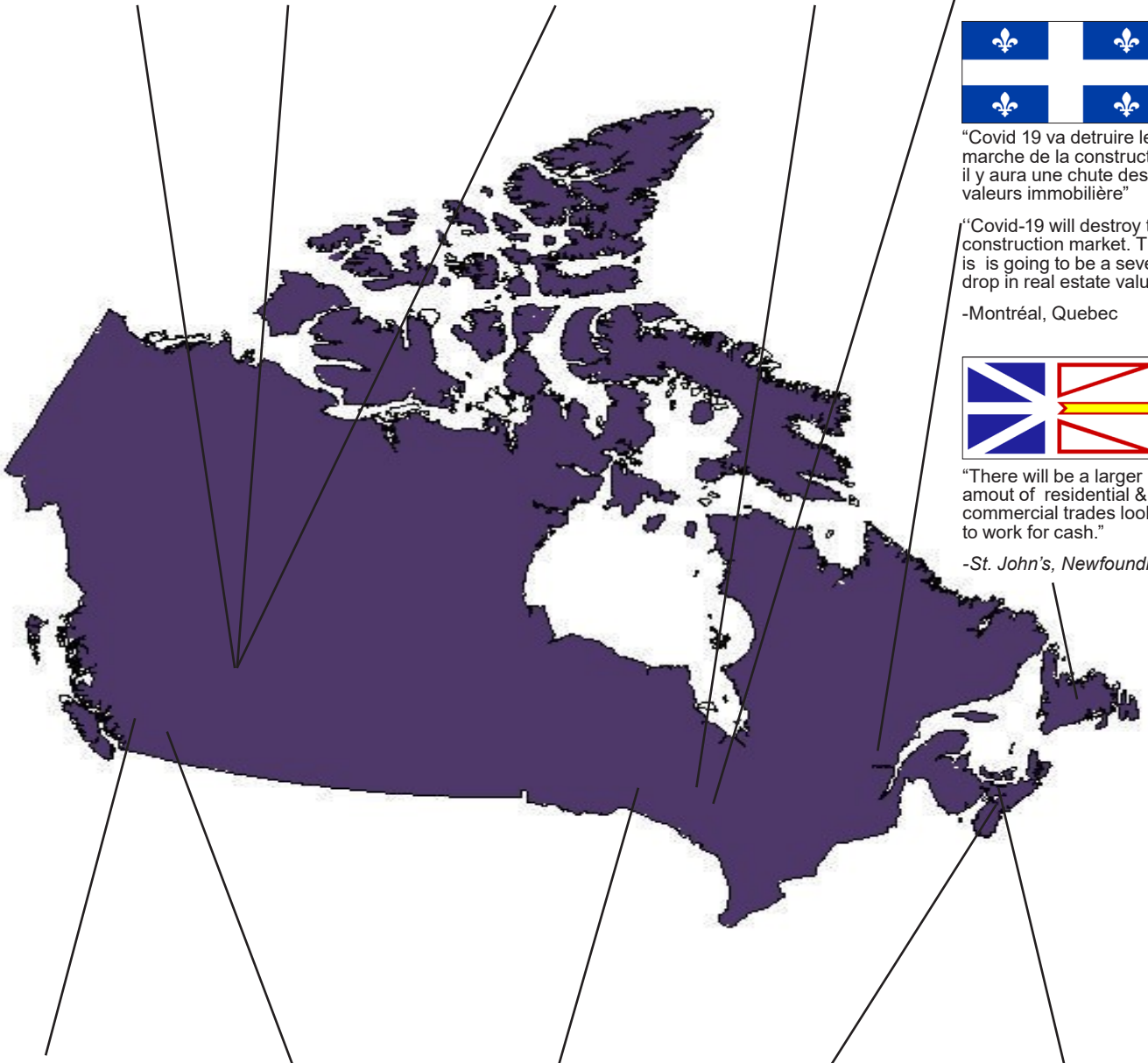
"Covid-19 will destroy the construction market. There is going to be a severe drop in real estate values"

-Montréal, Quebec



"There will be a larger amount of residential & commercial trades looking to work for cash."

-St. John's, Newfoundland



"The impact of coronavirus on labour and economy is expected to be significant with a long recovery."

-Vancouver, British Columbia



"COVID-19 affecting productivity amongst consultants/owners and sites, claims for loss and/or expense."

-Kelowna, British Columbia



"The value of Canadian Dollar vs USD greatly affects our pricing."

-Thunder Bay, Ontario



"Covid 19 already a limiting factor on face-to-face design team meetings and bi-weekly site meetings."

-Parrsboro, Nova Scotia



"Available specified or preferred materials are delayed from Quebec closures."

-Halifax, Nova Scotia

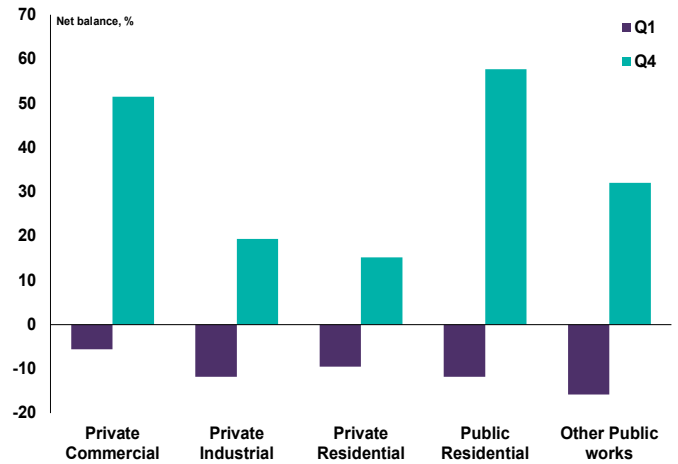
Regional Charts - British Columbia

Participants in the Q1 survey from British Columbia noted a sharp reversal in activity. After reporting increasing workloads in all sectors (including infrastructure) in Q4 of 2019, construction market activity was said to have contracted, albeit modestly, at the start of 2020.

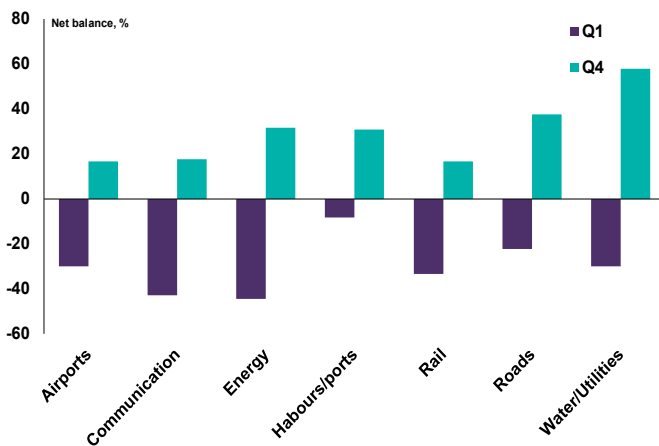
There are some signs that this will persist in the near term with new enquiries and new workloads contracting, as delays in payment are rising. There does not yet appear to be a significant reduction in headcounts, however.

Contributors appear to believe that it may get worse before it gets better. Workloads (both infrastructure and non-infrastructure) are expected to contract over the next twelve months, as headcounts are trimmed and profit margins deteriorate.

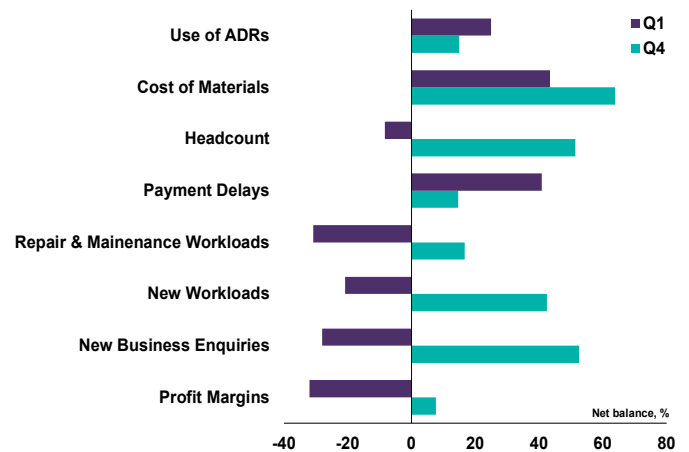
Workloads



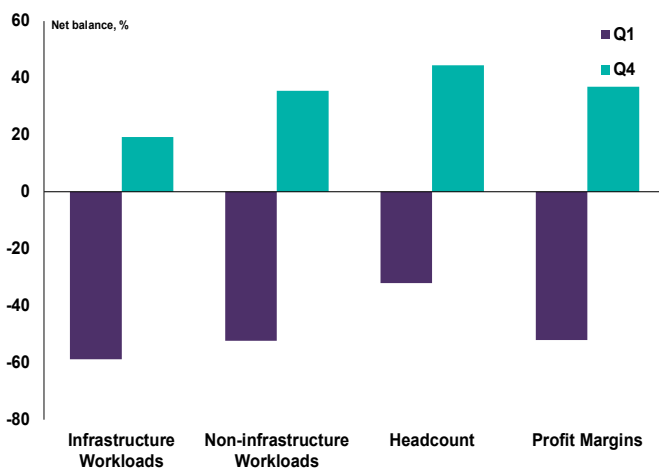
Infrastructure Workloads



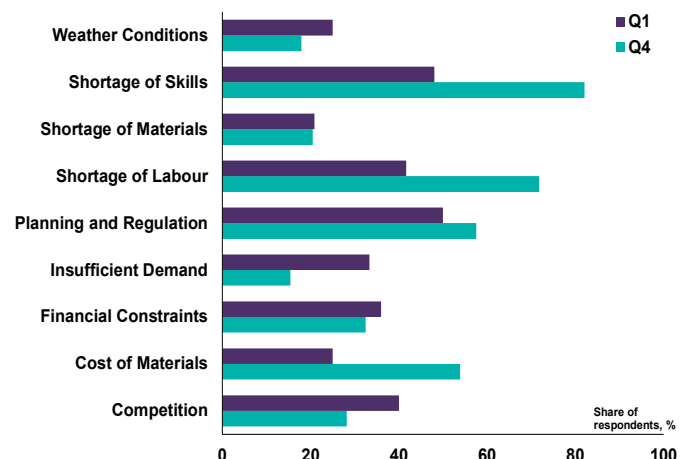
Current Conditions



12-month Expectations



Factors Holding Back Activity



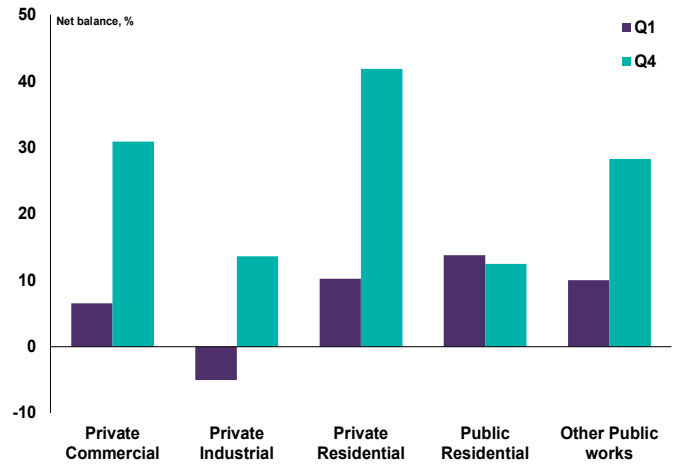
Regional Charts - Ontario

Although respondents in Ontario saw a significant slowdown in construction market activity during Q1, they were more upbeat than in many other parts of the country. After reporting an increase in workloads across most segments of the construction and in Q4, the market appears to be in somewhat of a 'holding pattern', with activity neither increasing nor decreasing.

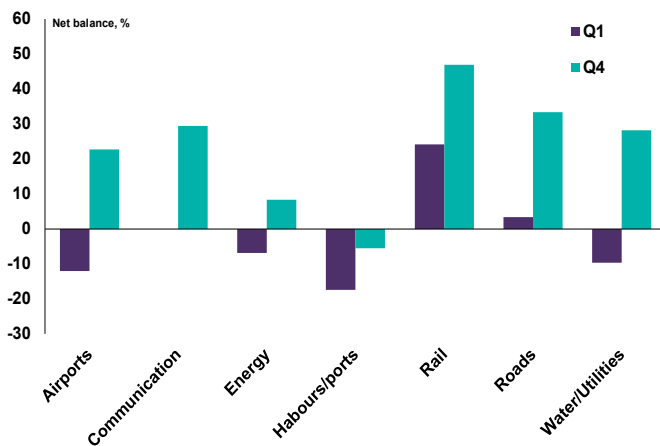
This also appears to be the case with the pipeline of current demand. Contributors reported little change in new business enquiries, new workloads and headcount. However, repair and maintenance workloads declined while delays in payment increase, perhaps serving as warning signs for the industry.

Amid the uncertainty of how the Covid-19 pandemic will play out, workloads and headcount are currently expected to be little changed over the next year.

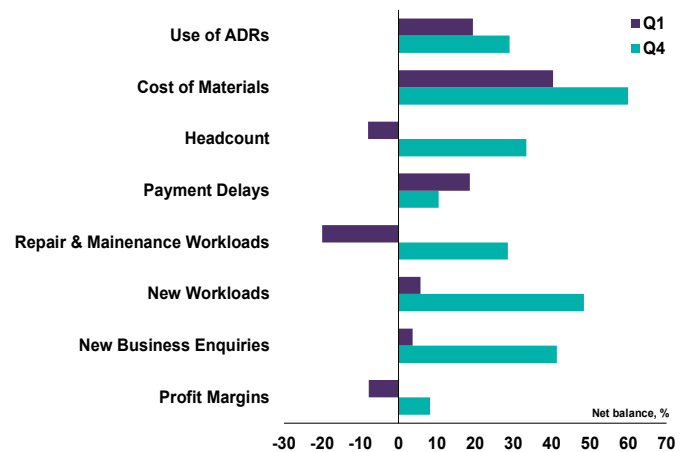
Workloads



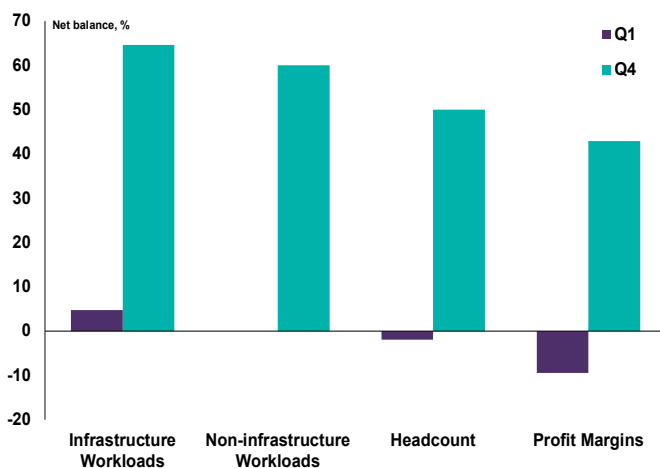
Infrastructure Workloads



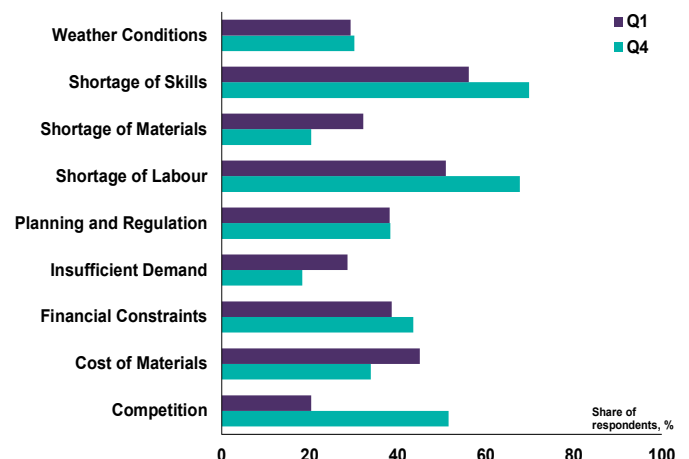
Current Conditions



12-month Expectations



Factors Holding Back Activity



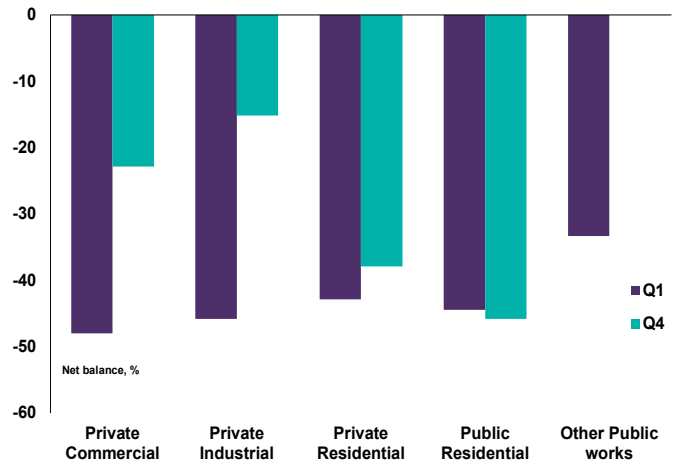
Regional Charts - Prairies & Territories

An already difficult market environment in the Prairies and Territories appears to be made worse by the Covid-19 outbreak and subsequent collapse in oil prices. Contributors noted that workloads across all segments of the market, including infrastructure, contracted sharply to start 2020.

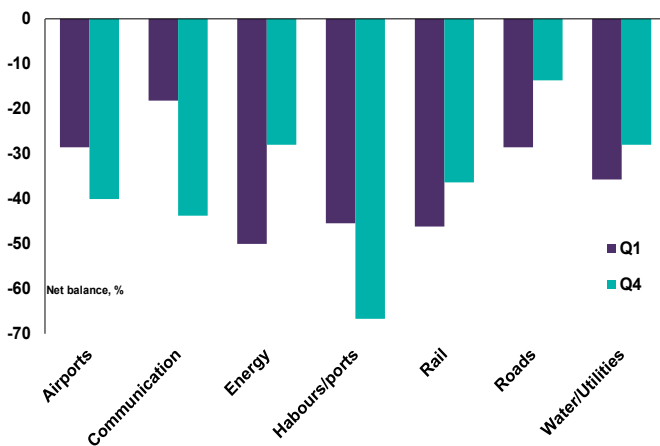
This is likely to persist given that new business demand and fresh workloads are also contracting at a quicker pace (in net balance terms) than what was reported in Q4. Meanwhile, payment delays are rising.

A lack of demand, financial constraints, and competition appear to be driving the contraction. Companies appear to have begun to trim headcounts, which is expected to continue over the next year as workloads contract and firms see a significant deterioration in profit margins.

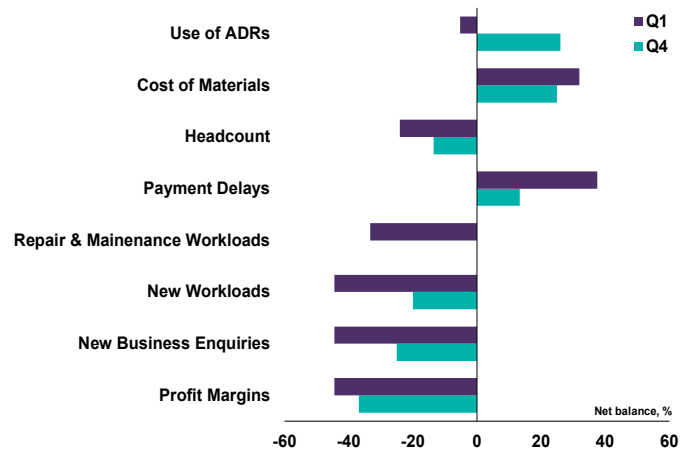
Workloads



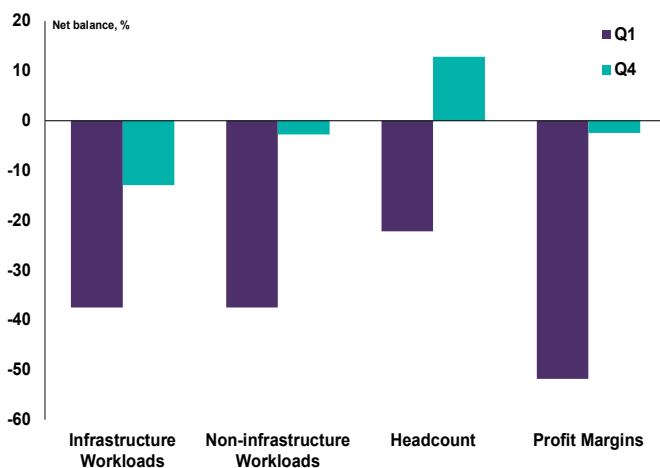
Infrastructure Workloads



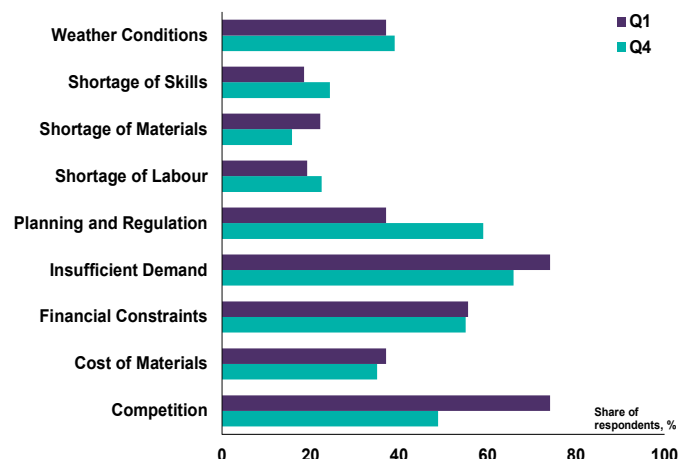
Current Conditions



12-month Expectations



Factors Holding Back Activity



RICS Consensus Tender Prices & Construction Costs [Next 12 months]

	Tender Prices		Construction Costs		
	Building	Civil Engineering	Commercial	Residential	Total
North America	+2.1%	+1.8%	+1.7%	+1.4%	+1.9%
Canada	+2.0%	+1.7%	+1.6%	+1.3%	+1.9%
British Columbia	+0.5%	+0.6%	+0.4%	+0.5%	+1.2%
Ontario	+3.4%	+3.1%	+3.2%	+3.1%	+3.2%
Praries & Territories	-1.0%	-1.2%	-1.0%	-1.1%	-0.3%
USA	+2.4%	+2.0%	+2.4%	+1.7%	+1.8%
Northeast	+2.3%	+0.2%	-0.6%	-0.5%	+0.7%
South	+4.1%	+4.4%	+3.4%	+1.6%	+4.1%
West	+1.2%	+1.3%	+3.1%	+2.9%	+0.8%
Asia Pacific	+1.2%	+1.6%	+2.1%	+1.9%	+2.3%
Australasia	+0.8%	+2.1%	+1.8%	+1.4%	+2.1%
Australia	+0.9%	+2.5%	+2.0%	+1.2%	+1.8%
New South Wales	+0.1%	+2.2%	+0.7%	+0.1%	+0.6%
Queensland	+2.6%	+4.9%	+4.2%	+3.1%	+3.5%
Victoria	+0.8%	+1.1%	+2.3%	+1.8%	+2.5%
Western Australia	+0.8%	+1.7%	+1.4%	+0.7%	+1.5%
New Zealand	+0.8%	+1.8%	+1.8%	+1.8%	+2.4%
North Island	+1.1%	+2.3%	+2.2%	+2.6%	+2.9%
South Island	-0.7%	-0.3%	+0.3%	-1.0%	+0.8%
East Asia	-0.1%	+0.1%	+1.0%	+0.8%	+0.9%
China	+4.4%	+4.6%	+4.3%	+3.8%	+4.6%
Eastern Region	+3.8%	+4.0%	+3.6%	+3.2%	+3.5%
Northern Region	+7.1%	+5.8%	+6.4%	+5.8%	+6.4%
South Central Region	+5.7%	+6.4%	+3.9%	+3.5%	+5.4%
Southwest Region	+3.1%	+3.5%	+5.6%	+4.0%	+4.8%
Hong Kong	-2.2%	-2.2%	-0.6%	-0.4%	-0.8%
Japan	+0.5%	+0.3%	+0.3%	-2.3%	+0.3%
South Asia	+4.4%	+4.1%	+4.5%	+4.3%	+4.9%
India	+4.1%	+3.9%	+4.2%	+3.9%	+4.4%
Northern Region	+3.7%	+4.0%	+4.1%	+3.7%	+4.0%
Southern Region	+3.5%	+3.6%	+3.7%	+4.0%	+4.0%
Western Region	+5.1%	+4.3%	+4.8%	+3.4%	+4.6%
Sri Lanka	+5.1%	+4.5%	+5.3%	+5.4%	+6.3%
Western Province	+5.3%	+4.7%	+5.9%	+6.2%	+7.2%

RICS Consensus Tender Prices & Construction Costs [Next 12 months]

	Tender Prices		Construction Costs		
	Building	Civil Engineering	Commercial	Residential	Total
Southeast Asia	+0.6%	+1.0%	+1.7%	+1.5%	+2.0%
Malaysia	-1.9%	-1.6%	-0.8%	-1.1%	-0.7%
Borneo	-2.5%	-3.0%	-0.2%	-0.9%	+0.2%
Northern Region	-2.7%	-1.7%	-1.9%	-0.6%	-0.4%
Southern Region	-3.3%	-3.6%	-3.3%	-2.6%	-4.1%
Western Region	-1.6%	-1.3%	-0.5%	-1.1%	-0.5%
Philippines	+6.6%	+6.8%	+6.8%	+6.9%	+7.2%
Singapore	+0.2%	+1.4%	+1.5%	+1.7%	+2.7%
Middle East & Africa	+1.7%	+1.6%	+2.6%	+1.9%	+2.4%
Middle East	+0.2%	+0.1%	+1.1%	+0.4%	+1.0%
Bahrain	+2.1%	+1.1%	+2.1%	+1.7%	+2.7%
Kuwait	+3.2%	+1.9%	+3.6%	+1.9%	+3.2%
Oman	+1.5%	+1.6%	+2.9%	+2.4%	+2.7%
Qatar	+3.4%	+3.5%	+3.6%	+2.7%	+3.8%
Saudi Arabia	+2.2%	+1.4%	+3.4%	+3.2%	+2.6%
Makkah	+4.1%	+2.6%	+4.1%	+3.6%	+4.4%
Riyadh	+4.0%	+5.9%	+5.7%	+4.8%	+6.2%
UAE	-2.8%	-2.8%	-1.7%	-2.5%	-1.9%
Abu Dhabi	-4.0%	-4.0%	-3.1%	-4.5%	-3.7%
Dubai	-2.4%	-2.4%	-1.2%	-1.7%	-1.2%
Africa	+3.8%	+3.9%	+4.6%	+4.0%	+4.3%
Ghana	+3.1%	+2.6%	+2.6%	+2.7%	+1.8%
Mauritius	+6.5%	+6.4%	+7.1%	+6.9%	+7.1%
Nigeria	+6.8%	+7.8%	+7.3%	+5.5%	+6.3%
Northern States	+7.5%	+7.5%	+7.0%	+5.9%	+6.5%
Southern States	+6.4%	+8.0%	+7.5%	+5.3%	+6.3%
South Africa	+3.0%	+2.8%	+3.8%	+3.8%	+4.1%
Gauteng	+4.0%	+3.5%	+3.9%	+3.5%	+4.1%
KwaZulu Natal	+1.4%	+2.4%	+2.8%	+4.2%	+3.2%

Information

Construction and Infrastructure Survey

The RICS/CIQS Canada Construction and Infrastructure Survey 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 and on the CIQS website www.ciqs.org. For general questions about the survey or the methodology, please contact economics@rics.org. For press enquiries please contact Amie Silverwood on 437-990-4695.

Methodology

Survey questionnaires were sent out on 11 March 2020 with responses received until 16 April 2020. 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 1323 company responses were received globally. Results are collated at a country level with regional results only reported if a minimum of ten responses received. Responses in Canada were collected in conjunction with the Canadian Institute of Quantity Surveyors. Responses in the United States were collected in conjunction with the Association for the Advancement of Cost Engineering.

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.

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