



Institut canadien des économistes en construction



Q2 2024: Canada Construction Monitor

Construction sentiment remains positive in Q2

- Infrastructure remains the sector showing strongest momentum in workloads
- Credit conditions viewed as likely to ease in the wake of Bank of Canada rate cuts
- Skill shortages still a key challenge for the industry

Feedback to the Q2 2024 RICS-CIQS Canada Construction Monitor shows that, at an aggregate level, sentiment remains positive and to a similar extent as in the first three months of the year. The headline Construction Activity Index (CAI), which is a composite of key indicators captured in the survey, came in at +23 as against +24 in Q1 (Chart 1). Interestingly, when disaggregated by company size, the picture appears broadly similar.

Current workloads continue to grow

Chart 2 highlights the insight provided by contributors to the survey around the trend in current workloads. Unsurprisingly, the infrastructure component remains the segment where sentiment remains most robust with a net balance of +35% of respondents reporting an increase in activity over the past quarter. Within this figure, the strongest areas of growth appear to be energy and transportation followed by social, according to the survey results.

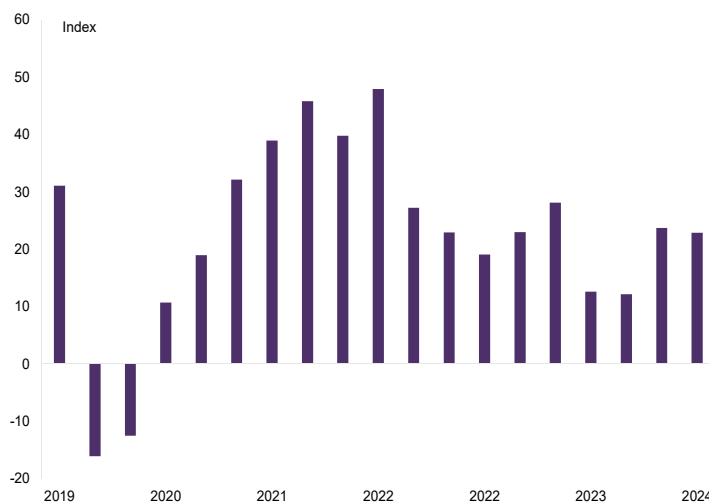
Interestingly, the results for both private residential

and non-residential workloads also remain in positive territory albeit only relatively modestly. Official data around house starts, prices and sales remain a little more subdued but the RICS-CIQS dataset is designed to capture ongoing development work rather than 'new spades in the ground' or completion transactions. As far as the non-residential workloads picture is concerned, although the RICS-CIQS questionnaire doesn't delve deeper into this area, the RICS Commercial Property Monitor does track sentiment around development starts and shows (in the Q2 report) continuing negative trends in both offices and retail.

Easing credit conditions to provide support

At the time the questionnaire was open, the Bank of Canada (BoC) had only made one cut in interest rates but since the period of field work closed, it has sanctioned a further quarter point move. Moreover, what appears to be a dovish pivot by the BoC is fuelling the suspicion that further monetary accommodation will come through quicker than markets had previously

Chart 1: Construction Activity Index*



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

Chart 2: Workloads by Sector



anticipated.

Chart 3 shows the responses from the last two Monitors regarding credit conditions as it impacts the the construction industry. The comparison highlights the improving expectations both in the near term and looking out over the next twelve months. The impact is also arguably visible in the New Business Enquires metric where the net balance remained broadly unchanged from the first quarter at +20%.

Forward-looking metrics show solid trend

Chart 4 displays respondents' twelve-month expectations across several market variables. Once again, it is the infrastructure sector where the forward-looking feedback is brightest and indeed, the net balance reading is very marginally higher than in the previous quarter. The results for the private residential and non-residential sectors are both firmer than the current reads, albeit a little down on the Q1 numbers. Drilling down to province level, the outlook for British Columbia is the most upbeat for workload expectations.

A further rise in headcounts is viewed as necessary to deliver the projects envisaged, with the net balance for this metric climbing from +27% to +35%. Meanwhile, profit margins are seen as likely to start growing again over this time period. The latest reading for the current picture is -11% but by the middle of 2025, a net balance of +12% view margins as set to expand. The RICS-CIQS survey also attempts the gauge the outlook for profits by asking about perceptions around tender prices and construction costs over the same time horizon. The Q2 results suggest that both metrics will rise by around 4%.

Skill shortages remain a significant challenge

As illustrated in Chart 5, both skills and general labour shortages are the two critical factors identified by respondents as holding back market activity. In each case, around two-thirds of respondents highlighted such scarcities, albeit the Q1 shares (66% for skilled trades and 61% for general labour) are marginally lower than last time. Looking at this issue in a little more detail, it is the area of skilled trades where the survey suggests the recruitment challenges are most severe. That said, around one-half of contributors indicated problems in sourcing quantity surveyors while 40% mentioned project managers.

Alongside the issue around labour, the cost of materials remains a significant impediment, with 59% of contributors singling out this issue. That said, it is worth bearing in mind that this is the lowest number since the fourth quarter of 2020 and is consistent with the flatter trend in material prices (though at a headline level, costs remain elevated. Meanwhile, a broadly similar proportion of contributors continue to point to financial constraints as holding back activity. Interesting this result doesn't differ much when the series is disaggregated by company size. Alongside this, the trend in payment delays still looks to be contained with a net balance of just +10% reporting an increase although this is somewhat higher for micro businesses.

Chart 3: Credit conditions



Chart 4: Twelve Months Expectations

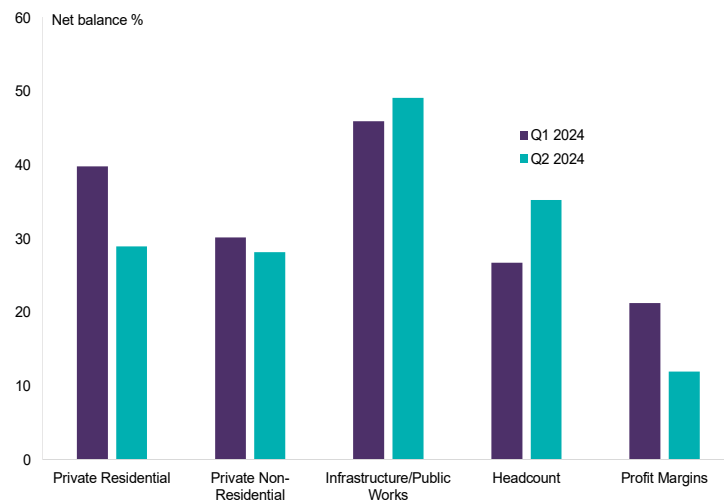


Chart 5: Factors holding back activity



Regional Comments from Survey Participants in Canada

Alberta

High borrowing costs leading to challenging pro-forma calculations for developers. Most work is being deferred to Q1/Q2 2025 in hopes that interest rates continue to decline- Calgary

There is no skills shortage. There is a willingness to pay a living wage shortage and it is affecting the entire industry negatively - Calgary

The government projected spending on infrastructure over the next 10 years is totally unreasonable, unsustainable and unrealistic. There is not the manpower or resources to deliver the projected spending - Calgary

Material and labor costs - Calgary

Lack of all skills, trade and management - Cochrane

Internal and external migration is putting lots of pressure into housing market, this has reduced competition during the tender phase - Edmonton

Level of construction knowledge is declining in Government - Spruce Grove

British Columbia

We see increased demand for budget, we believe interest rates will have to improve before getting projects to start. The demand for biodiversity or more sustainable material is still low - Kelowna

Building permit delays. Consultant/owners delays in approving changes - Surrey

Over regulation from all levels of government - Surrey

High labour and material costs and few skilled general contractors and trades - Vancouver

Current High Interest rates and high land values and construction costs - Vancouver

The market remains busy and volatile - Vancouver

A few large scale public-sector projects have recently reported significant budget overruns and schedule delays - Vancouver

Government policy introduces higher taxes - Vancouver

High interest rates. Srep codes issues - Vancouver

Delay in permits - Vancouver

Adverse weather, Climate change - Vancouver

Changes in government may impact current public sector spending - Victoria

Government backed projects have had a very strong presence in the local market. Without these projects the labour and materials market may have adjusted priced downwards but this has not occurred. The concern being that these will artificailly stave off the normal price depression seen in the down turns and when the market picks up again prices are starting high rather than at a corrected level - Victoria

Ontario

Competing major projects in Canada drawing skilled labour from the same labour pool - Mississauga

High developments costs - Ottawa

Inflation - Ottawa

For residential market there are lots of demand but prices are still very high and sales down or no sales at all, builders need to reduce the selling price to keep market moving - Toronto

Limited number of Contractors qualified to perform work as per Design Requirements - Toronto

For residential market there are lots of demand but prices are still very high and sales down or no sales at all, builders need to reduce the selling price to keep market moving - Toronto

Economic uncertainty - Toronto

Skills - Toronto

Escalation is likely the largest factor why projects don't get built. Another issue, is office buildings are cancelling their M&E plant upgrades, as they don't have enough tenants to justify the costs - Toronto

Poor quality tender documents (drawings and specs) requiring extensive requests for information, pre and post tender addenda, and change orders for flaws not corrected prior to contracts issued - Toronto

Government of Canada Housing development policies and Interest rate - Toronto

Prairies and the NWT

Inflation, high mortgage/loan interest. These have almost pushed loan repayment out of the reach of potential residential construction end users and therefore had and still having a great impact on residential construction - Brandon

Quebec

La proximité avec l'Ontario (Proximity to Ontario) - Gatineau

Les délais; permis de construction, permis du ministère de l'environnement, raccordement Hydro-Québec, PIIA, CCU (Delays; construction permit, permit from the Ministry of the Environment, Hydro-Québec connection, PIIA, CCU) - Laval

Saskatchewan

Weather and labour shortage - Regina

Information

Global Construction Monitor

RICS-CIQS Canada 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 149 responses in Q1 2024. It forms part of the RICS Global Construction Monitor. Questionnaires were sent out on 12 June 2024 with responses received until 21 July 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 2576 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.

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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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