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

RICS®

Q4 2020: Canada Construction Monitor

Construction market recovery strengthens, led by infrastructure, residential

- **Construction market firmly on recovery footing, led by infrastructure and residential**
- **Financial conditions remain tight as materials prices push up overall costs**
- **After four consecutive quarters of decline, headcount expected to grow in 2021**

Canada's construction market appears to be on much firmer footing, according to data from the RICS-CIQS Canada Construction Monitor. Nationally, the Construction Activity Index (CAI)* increased from +11 in Q3 to +19 in Q4, indicative of the market being in expansionary territory and well off the low of -16 recorded in Q1 (Chart 1). The reading of +19 indicates that the Canadian market is tracking ahead of a more tepid recovery in the global construction market; globally the CAI came in at +3, indicative of more of a stabilization than a recovery.

Chart 1 shows that respondents at small and medium sized companies (those with 10 to 249 employees) are slightly more upbeat about conditions, although the CAI at large (more than employees) and small (less than 10 employees) still came in above the global average in Q4. Respondents in the eastern parts of Canada - Ontario, Quebec and Atlantic Canada - also seemed to be slightly more upbeat than those from the Prairies or British Columbia. However, it is important to stress in all of these cases the dispersion in aggregate conditions were modest, and the recover does appear to be fairly broad-based.

Infrastructure, residential lead recovery

As can be seen in Chart 2, participants once again highlighted the strength of the infrastructure in Q4. Workloads in this segment of the market were seen to have increased throughout the quarter, driven by an increase in work on information and communications technology (ICT) project. Contributors expect aggregate work on infrastructure projects to continue at a robust pace (in net balance terms) throughout 2021. This was also picked up to a lesser degree in the global data (Chart 2).

Perhaps more surprising was the resilience of the residential segment of the market. Activity on residential projects was seen increasing at a similar pace to infrastructure projects during the fourth quarter, though the expansion in activity over the next twelve months is expected to be not quite as strong. This dynamic is not unique to Canada - a similar trend was picked up in parts of Europe - but it does indicate that the residential construction market is in better shape in Canada than it is in many parts of the world.

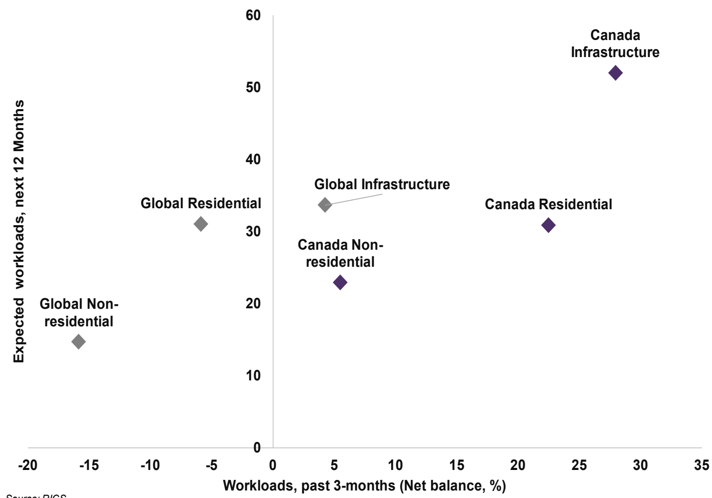
Price of materials drive construction costs

Expectations for how tenders and construction costs would change over the next year were stable from Q3 to Q4. Tenders are expected to increase 3% throughout 2021. An expected 5% increase in construction costs over this same period does likely indicate a period of prolonged pressure on margins,

Chart 1: Construction Activity Index*

Source: RICS

Chart 2: Current and expected workloads



Source: RICS

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

Survey responses were supported by the following organisations:

AACE International | Canadian Institute of Quantity Surveyors | Institut canadien des économistes en construction | PICQS though contributors do expect some degree of relief for profit margins to come over the next twelve months (Chart 4).

This increase in construction cost does appear to be driven by the cost of materials. This trend is consistent with feedback from respondents globally, where supply chain bottlenecks and increased demand in some segments of the market (such as infrastructure) appears to be pushing up the costs of materials. Nearly 60% of respondents in Canada cited the cost of materials as a constraint, in line with the global average (Chart 6). This issue appears to be particularly acute at larger companies, where three quarters of respondents cited the cost of materials as a drag on activity.

Hiring expected to resume in 2021

As can be seen in Chart 3, there is little difference in cost and tender expectations between firms of various sizes, though smaller firms do appear to be facing a quicker escalation in labour costs**. Survey participants, particularly those at larger companies, noted a continued reduction in headcounts during the fourth quarter (Chart 5). Note that headcounts were said to have been cut in every quarter of 2020.

On a more positive note, headcounts are expected to expand once more in 2021, at a quicker pace (in net balance terms) than the global average. Interestingly, nearly half of respondents highlighted labour and skills shortages as constraints on activity (Chart 6), though these appear more acute at larger companies. Feedback suggests that a shortage of skilled trades is the main strain on activity: 55% of respondents in Canada (65% at large companies) highlighted a shortage of skilled labour in the market.

Financial conditions remain tight

57% of respondents noted that financial conditions were a drag on activity. This is slightly below the global average of 69%, perhaps owing to the Canadian market being on firmer footing than its global peers. However, finances do remain tight at bigger companies as an uncertain outlook has likely dampened investors appetite for large projects. Respondents generally did not view weather as an impediment to activity during the fourth quarter, potentially a result of winter temperatures being milder than usual at the end of 2020.

Chart 3: 12-month expectations

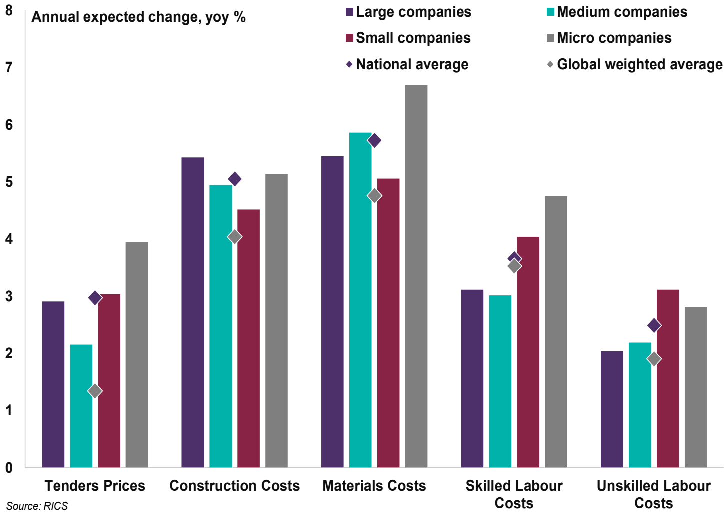


Chart 4: Profit margins

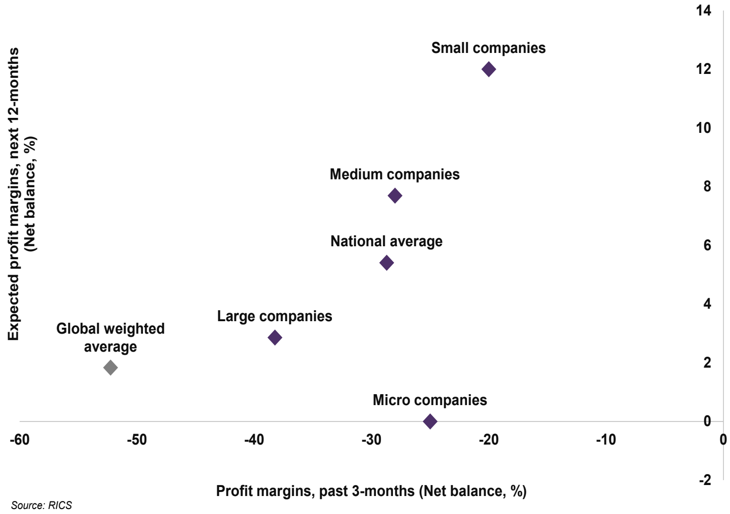


Chart 5: Headcount

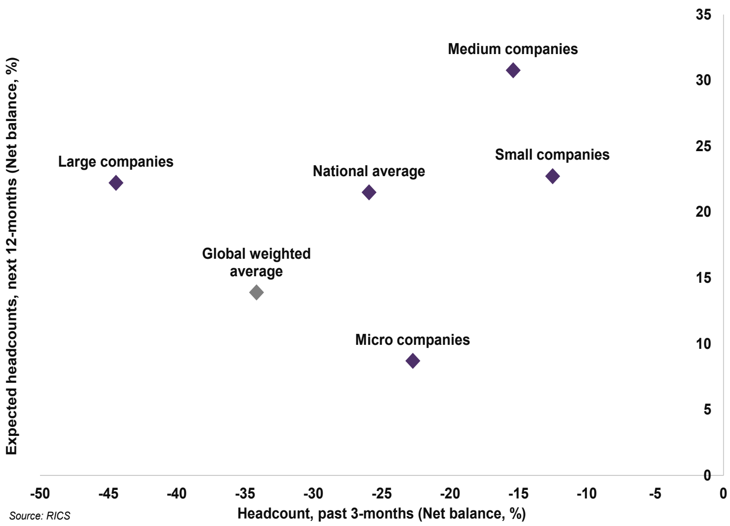
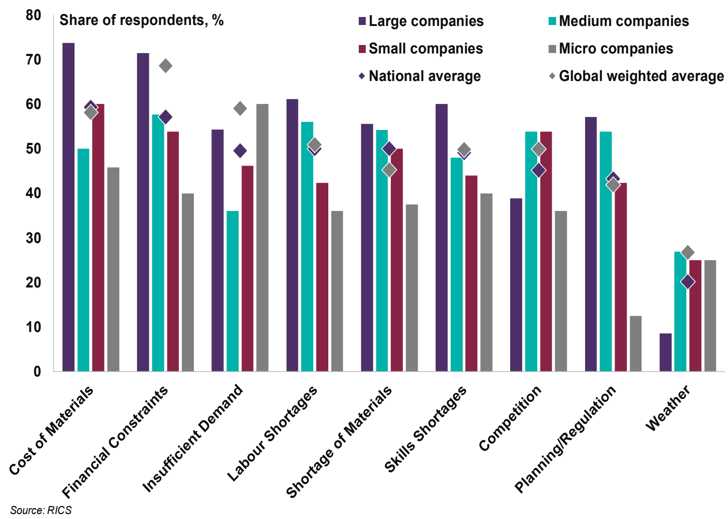


Chart 6: Factors holding back activity



**Skilled and unskilled labour are expected changes of per unit skilled and unskilled labour costs; a full breakdown of tender and cost expectations can be found on page 8 of this report

Atlantic Canada: Supply chain bottlenecks do not dampen outlook for non-residential, infrastructure workloads

Respondents from Atlantic Canada to the Monitor in Q4 of 2020 indicated that the construction market transitioned from one of stabilization in Q3 to recovery in Q4. The Construction Activity Index, shown in Chart 1, rose from -10 in Q3 to +22 in Q4 of 2020, just shy of the pre-pandemic level of +23 in Q4 of 2019. The reading also indicates that the construction market in Atlantic Canada is on firmer footing than the national (+19) and global (+3) construction markets.

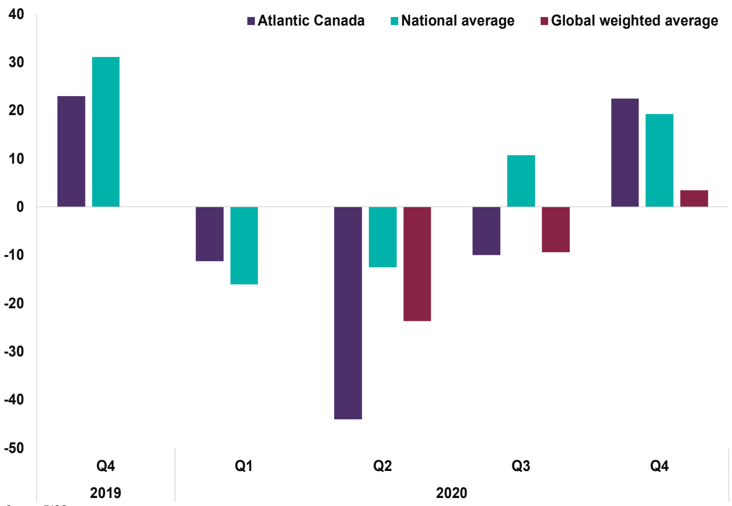
Chart 2 shows that the non-residential and infrastructure segements of the market appear to be in better shape than the residential segment. A net balance of 26% and 33% of respondents noted an increase in work on non-residential and infrastructure projects during the fourth quarter. Meanwhile, a net balance of 24% of respondents noted a decline in work on residential projects during the same period.

Survey participants in Atlantic Canada do generally expect an expansion in workloads throughout 2021, but work on residential projects is still expected to lag. A net balance of 65% and 59% respectively expect an increase in non-residential and infrastructure work, both substantially above the national and global average. A less-robust net balance of 23% expect an increase in residential workloads, weaker than both the national and global averages. The general expansion in workloads appears to support expectations for an increase in headcount throughout 2021.

The upbeat expectations for 2021 are not without their challenges in Atlantic Canada. Disruptions in the supply chain and the subsequent affect on the cost of materials appear to be chief amongst these. Chart 3 shows that 70% of respondents highlighted shortages of materials as a constraint, while a further 82% cited the costs of materials as a constraint, both well above the national and global averages. Some respondents commented that materials were becoming difficult to source.

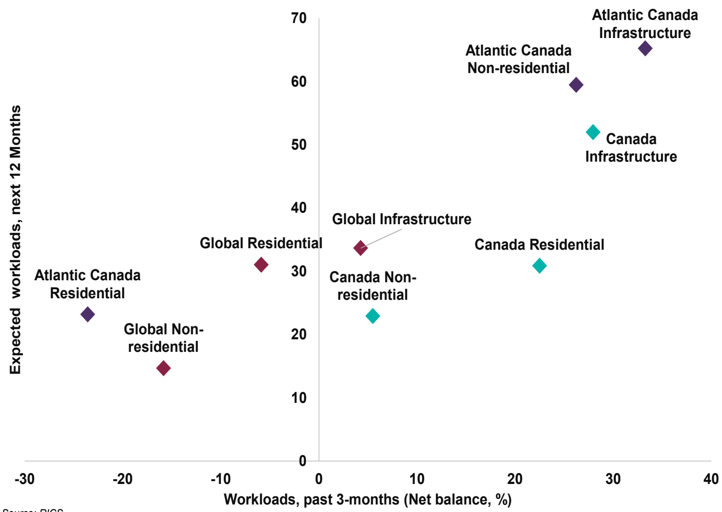
Perhaps unsurprisingly, Chart 4 shows that the cost of materials are expected to push up aggregate construction costs more than are the cost of labour over the next twelve months. Given that construction costs are seen rising faster than tenders over this period, financial constraints are likely to remain an obstacle for market activity through 2021.

Chart 1: Construction Activity Index



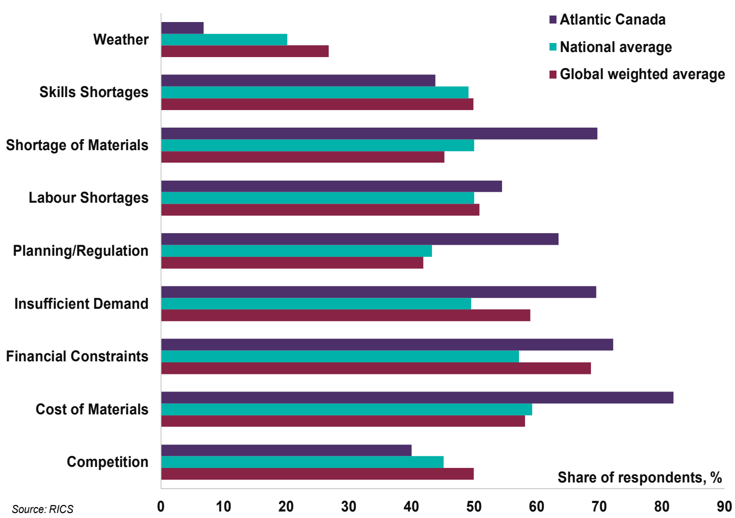
Source: RICS

Chart 2: Workloads



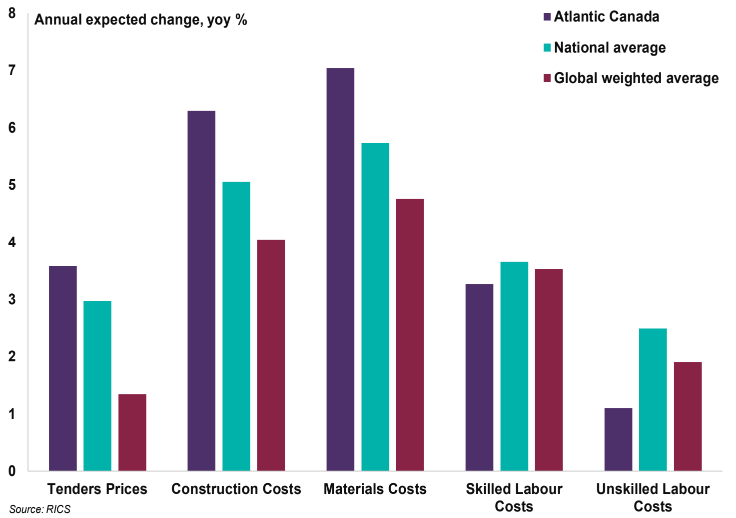
Source: RICS

Chart 3: Factors holding back activity



Source: RICS

Chart 4: 12-month expectations



Source: RICS

British Columbia: Tepid rebound expected to continue through 2021

The construction market recovery in British Columbia appears to be more subdued than in other parts of the country, according to feedback from survey participants. The Construction Activity Index, shown in Chart 1, rose slightly to +10 in Q4 from +7 in Q3. Although this reading is indicative of an expansion, it does signal that conditions in British Columbia are not as upbeat as in other parts of Canada.

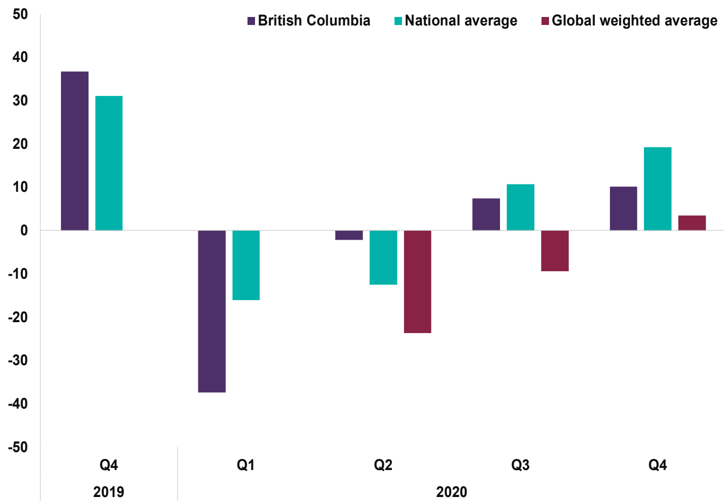
Chart 2 indicates that the residential sector appears to be the most resilient in British Columbia. Respondents indicated that work on residential projects increased at a similar pace to the national average in Q4 (in net balance terms). It is also expected to increase at a similar pace over the next twelve months. Infrastructure workloads were not as robust during the fourth quarter, and appear to be mostly driven by social infrastructure, but are expected to increase much more quickly throughout 2021. Meanwhile, work on non-residential projects declined in the fourth quarter, and only a net balance of 11% of respondents expect them to increase over the next year. This is short of both the national and global averages.

Survey participants highilighted several factors that were obstructing activity (Chart 3). More than half of respondents cited the costs of materials, financial constraints, labour shortages and skills shortages as impediments to activity. Though only labour and skills shortages appear to be more acute in British Columbia than they are in other parts of Canada (the weather also appears to have been slighly more inclement as well). The two skills that a majority of respondents highlighted a shortage of are skilled trades (79%) and quantity surveyors (55%).

Respondents in British Columbia continued to report a reduction in profit margins and headcounts during the fourth quarter. Although on a more positive note, payment delays did not increase substantially to end 2020. Headcounts are also expected to increase modestly by the end of 2021.

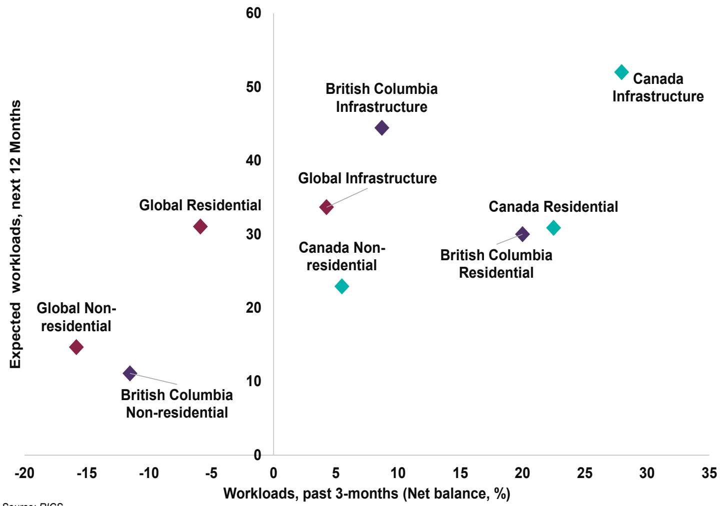
The outlook for profit margins is not quite as optimistic. Margins are neither expected to expand nor contract substantially over the next twelve months. Similar to other parts of the country, tenders are not expected to increase as quickly as construction costs (Chart 4). Construction costs appear to be driven by the cost of materials, and to a lesser degree, the (per unit) costs of skilled labour.

Chart 1: Construction Activity Index



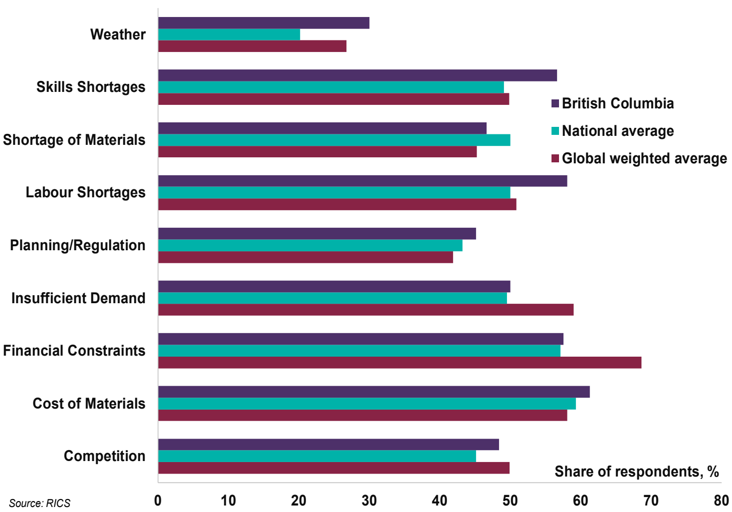
Source: RICS

Chart 2: Workloads



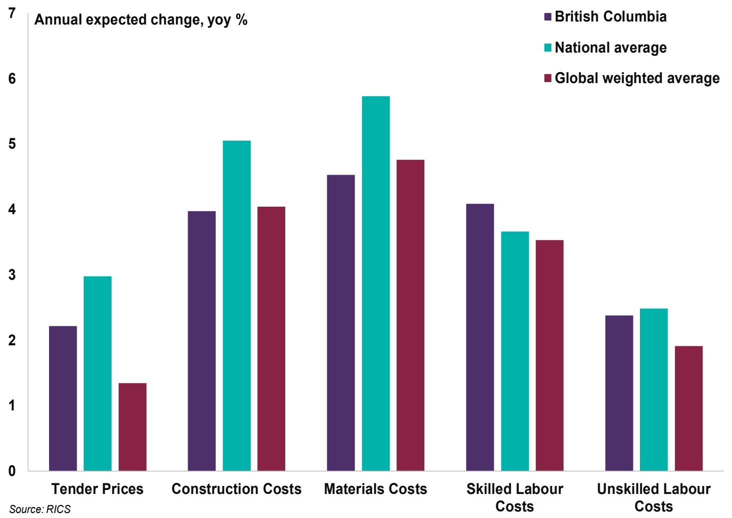
Source: RICS

Chart 3: Factors holding back activity



Source: RICS

Chart 4: 12-month expectations



Source: RICS

Ontario: Broad-based recovery underway, though materials prices puting upwards pressure on construction costs

Survey contributors from Ontario were fairly upbeat in Q4. The Construction Activity Index, shown in Chart 1, increased from +14 in Q3 to +26 in Q4. This is indicative of a robust expansion in market activity, as well as an optimistic outlook for future activity in the market. And although the index remains below its pre-pandemic peak of +49 in Q4 of 2019, it still signals a much stronger market than in other parts of the country, or world. In fact, throughout 2020 respondents only indicated a deterioration in overall conditions for one quarter (Q2), and this was much more modest than what was experienced at the global level.

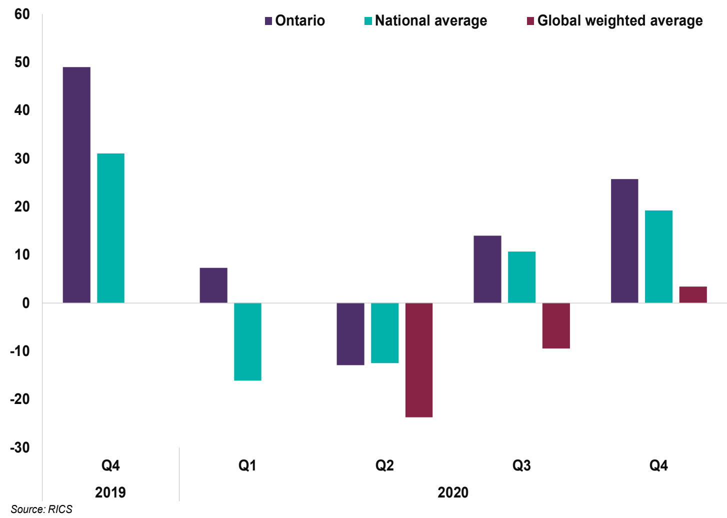
Chart 2 shows that activity in the market remained very strong to end 2020, relative to other parts of Canada. A net balance of contributors reported an increase in infrastructure (+37%), residential (+35%), and non-residential (+25%) workloads. This is both substantially stronger than what was reported nationally (+28%, +23%, +5% respectively) and globally (+4%, -6%, -16% respectively).

The outlook for workloads is also fairly upbeat. Work on non-residential projects is expected to increase in line with global and national averages, with a net balance of 21% of respondents projecting an increase. Expectations for an increase in residential workloads (a net balance of +36%) and infrastructure workloads (a net balance of 50%) over the same period were also expected to increase at a similar pace to what is expected across Canada.

The cost of materials appears to be the main constraint on activity for the construction market in Ontario. This was cited by 61% of respondents in the province. Additionally, a number of respondents commented on supply-chain bottlenecks pushing up the cost of materials. This appears likely to persist as the cost of materials is expected to increase 6.2% over the next twelve months, above the national and global averages of 5.7% and 4.8%, respectively (Chart 4).

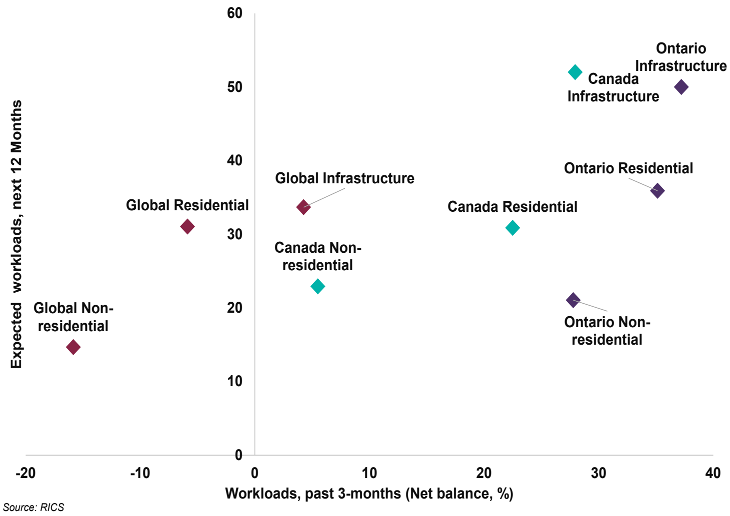
Chart 3 also shows that a majority of respondents also highlighted labour shortages (55%), a shortage of materials (53%), financial constraints (53%) and a shortage of skills as impediments to market activity. Similar to other parts of Canada, contributors in Ontario highlighted a shortage of skilled trades in the market.

Chart 1: Construction Activity Index



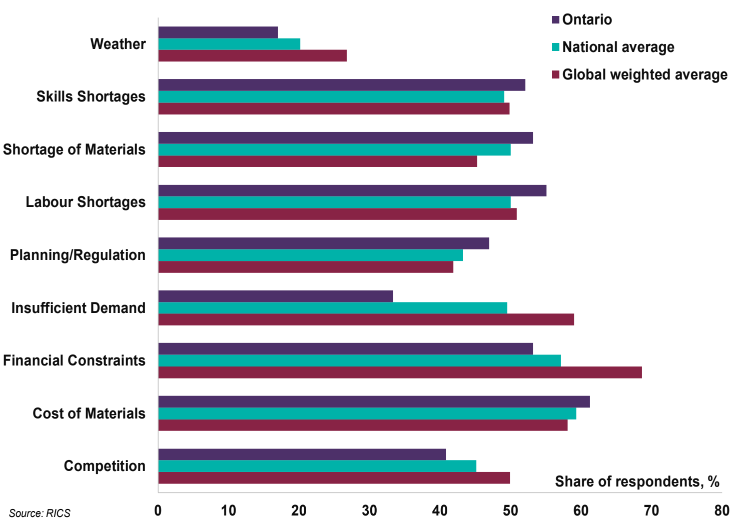
Source: RICS

Chart 2: Workloads



Source: RICS

Chart 3: Factors holding back activity



Source: RICS

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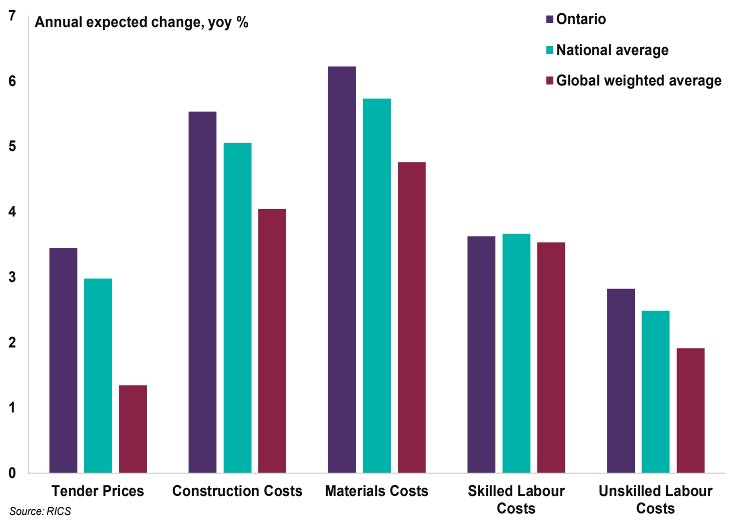


Source: RICS

Prairies: Non-infrastructure segment on the market weighs on recovery

The construction market in the Prairies appeared to get back on a recovery footing to end 2020, according to respondents to the Monitor. The Construction Activity Index, shown in Chart 1, rose to +12 in Q4 from -9 in Q3. It was the first positive reading after four quarters in negative territory. Although the construction market continues to lag the national average, but is ahead of the global average.

Chart 2 shows that the improvement in the CAI appears to be driven by the infrastructure segment. A net balance of 30% of respondents said that work on infrastructure projects increased in Q4, up from 10% in Q3. Contributors were also much more upbeat on the outlook for infrastructure workloads: a net balance of 60% expected an increase over the next twelve months, up from 27% in Q3. Both the current and expected infrastructure workloads are above the national average of +28% and +52%, respectively.

Feedback on residential and non-residential workloads indicates that activity in these segments on the market were more subdued. A net balance of 13% of respondents said residential workloads increased in Q4, and expected them to continue to increase over the next year. Though these are up from the net balance of 20% and 14% who thought work on residential projects decreased in Q3, and would continue to do so over the next year, respectively. Non-residential workloads were seen to have declined in Q4, and were expcted to expand only slightly quicker than residential workloads over the next year (in net balance terms).

A lack of demand was overwhelming seen as a constraint on activity, cited by more than three quarters (77%) of respondents. This is well above the national (50%) and global (59%) of activity. Insufficient demand has been cited as a constraint by at least 60% of respondents as a constraint for the past five quarters.

Financial constraints was also cited as a drag on activity by 57% of respondents. A net balance of 29% of respondents also noted a deterioration in profit margins in the fourth quarter. Pressure on profit margins is likely to persist throughout 2021. Chart 4 shows that construction costs are expected to increase at a faster pace than tenders over the next year, driven by a rapid run-up in materials prices.

Chart 1: Construction Activity Index

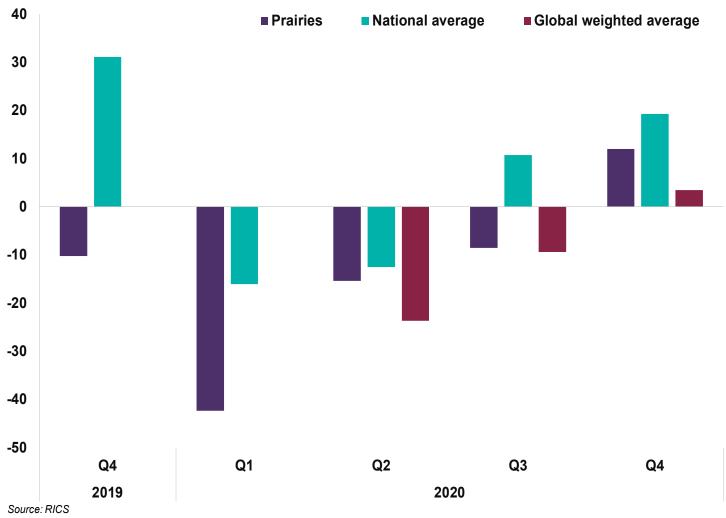


Chart 2: Workloads

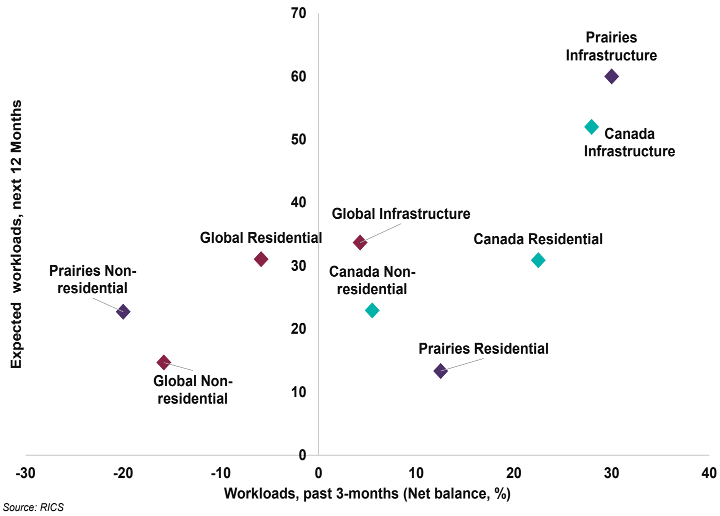


Chart 3: Factors holding back activity

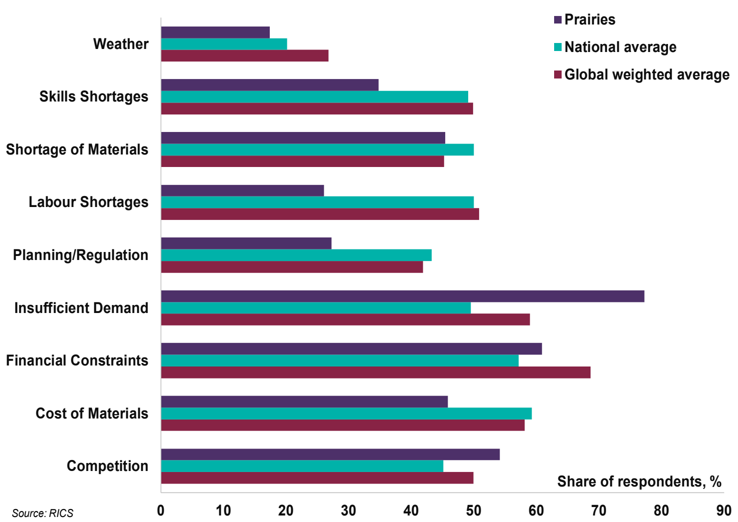
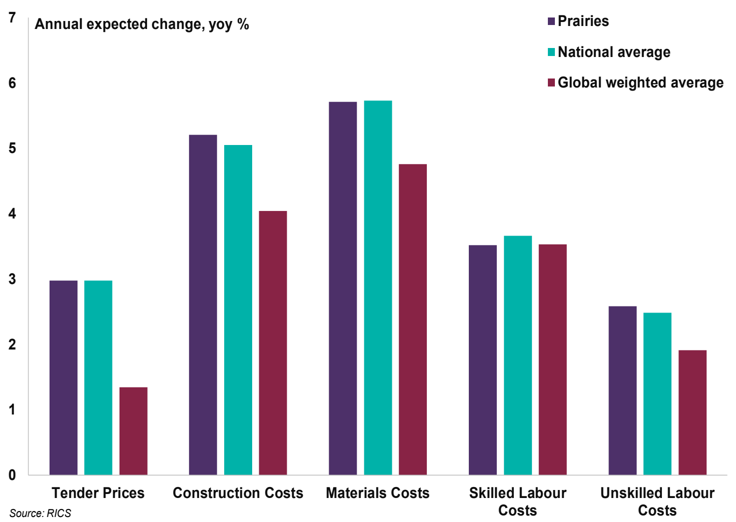


Chart 4: 12-month expectations



Quebec: Expansion remains robust despite labour, skills shortages

Respondents to the RICS-CIQS Canada Construction Monitor from Quebec continued to paint a relatively optimistic picture of market conditions in Q4 of 2020. Chart 1 shows the Construction Activity Index, which remained stable in Q4 at +24, little changed from +26 in Q3. Quebec is the only region in Canada where the CAI did not turn negative for all of 2020, and has consistently come in above the national and global averages.

The Q4 results were buoyed by a robust expansion in residential and infrastructure workloads. Although non-residential workloads were little changed during the fourth quarter, all three segments of th market (residential, non-residential and infrastructure) are expected to increase over the next twelve months (Chart 2).

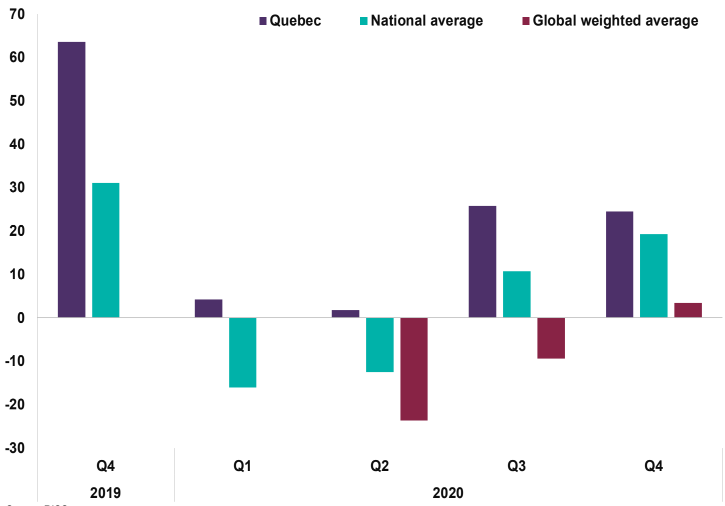
Despite the upbeat feedback, several factors were highlighted by survey participants as holding back activity. Chart 3 shows that a majority of respondents noted that the cost of materials (63%), skills shortages (61%), labour shortages (58%), and financial constraints were all seen as impediments to the Quebec construction market.

As in other parts of Canada, there appears to be a shortage of skilled tradespeople in Quebec. Additionally, there also appears to be a shortage of managers (project, BIM, construction etc.), according to 55% of respondents from the province.

Materials prices are also expected to rise significantly faster than both the national and global averages. Respondents in Quebec expect the cost of materials to rise 7.2% over the next year, vs 5.7% in Canada and 4.8% globally (Chart 4). Although tender prices are also expected to rise faster than the national and global average (3.9% vs 3% and 1.4% respectively), they are still likely to be outpaced by construction costs, which are expected to rise 6.1% throughout 2021 (vs 5.1% in Canada and 4% globally). Respondents do not see this significantly impacting margins, however, which are expected to expand modestly over the next twelve months.

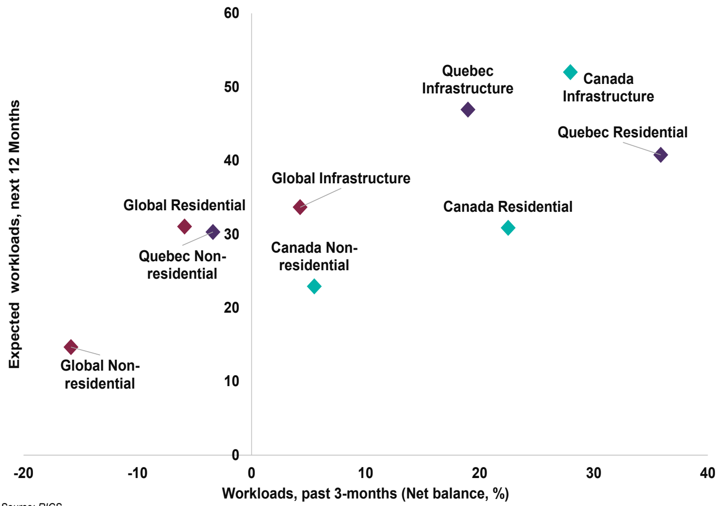
After reporting a further reduction in headcounts during the fourth quarter, a net balance of 15% of contributors expect headcounts to increase in 2021. Though Chart 4 indicates that firms in Quebec are expected to face a quicker escalation in labour costs than in other parts of the country.

Chart 1: Construction Activity Index



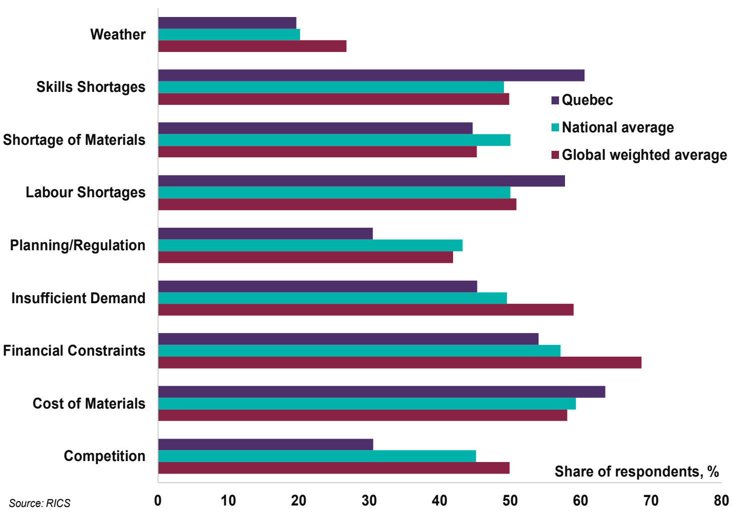
Source: RICS

Chart 2: Workloads



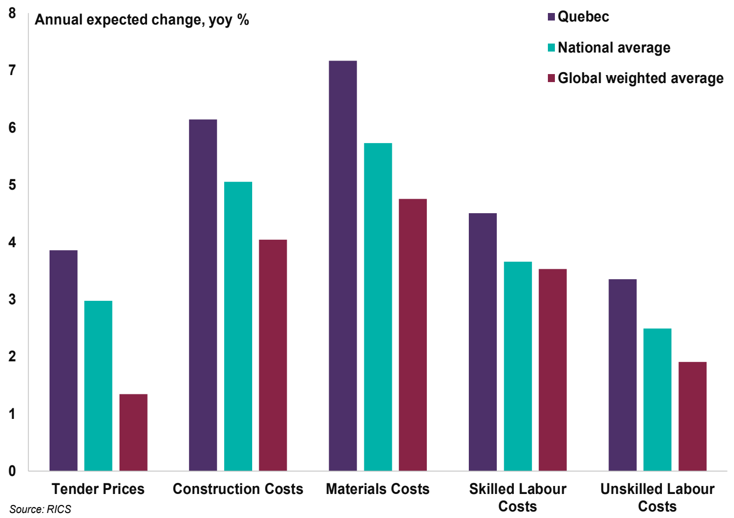
Source: RICS

Chart 3: Factors holding back activity



Source: RICS

Chart 4: 12-month expectations



Source: RICS

Regional Comments from Survey Participants in Canada

Atlantic Canada

Materials supply chain slowdown. -*St. John's*

Energy constraints. -*St. John's*

Provincial stimulus package details now known - roads, hospitals, musums, etc. New COVID funding. -*Parrsboro*

Delays with building permit approvals. -*Halifax*

British Columbia

Foreign buyers tax and other regulatory taxes negatively impacted residential market. -*Surrey*

The increase in government infrastructure spending will impact the private sector. -*Victoria*

Smaller business operators and subcontractors appear to be more negatively impacted. -*Vancouver*

Shortage of labour resources in COVID-19 situation. -*Victoria*

Regulation changes have impact on design; further impact on the building costs. -*Burnaby*

Pandemic has made construction procurement dysfunctional. -*Kelowna*

Pre-qualification abandoned for institutional work (healthcare). No compliance review before award. -*Kelowna*

Ontario

Lack of experienced management and design. -*Bolton*

Increase in material costs due to low supply. -*Ottawa*

Working time reduce due to COVID-19, sometimes we have closed the construction site if one person got COVID. -*Toronto*

A lot of govt spending happening to keep economy going helps. -*Ottawa*

Significant infrastructure work on the street requiring labour. -*Hamilton*

Recovery from COVID with the availability of the vaccines. -*Toronto*

Some key trades such as concrete forming have collectively been increasing costs on a unified basis. -*Toronto*

Downtown construction declining due to reduced demand since covid. -*Toronto*

COVID-19 regulations. -*Kitchener*

Trade shortages. -*Woodstock*

The pandemic is impacting productivity and material supply costs significantly. -*Windsor*

Social distancing, COVID-19 impact. -*Toronto*

Lockdowns due to Covid 19 pandemic are affecting project work. -*Toronto*

COVID-19 protocols impact on project schedule and delay of permits & utility providers. -*Toronto*

Pandemic affecting worksites being closed, site efficiency. -*Toronto*

Workers having to quarantine due to testing positive on COVID-19. -*Toronto*

Prairies

Material delivery times from US. -*Calgary*

Covid is affecting market confidence and projects being released to the market. -*Calgary*

Government debt. -*Spruce Grove*

International supply, pandemic. -*Edmonton*

Oil prices/industry are depressed global . Resulting impact depressed the construction industry. -*Calgary*

Competition on big companies and small companies. -*Edmonton*

Price of steel, lumber Supply, limited private sector work during the pandemic. -*Edmonton*

COVID restriction and tendered projects put on hold is slowing the entire construction industry. -*Edmonton*

Productivity due to COVID19 restrictions and strict lockdowns. -*Winnipeg*

Quebec

Main d'œuvre qualifiée et spécialisée. -*Laval*

COVID-19 pandemic affecting the construction market. -*Quebec*

Main-d'œuvre qualifié et coût des matériaux. -*Quebec City*

RICS Consensus 12-month Expectations

	Tender Prices	Construction Costs	Materials Costs	Skilled Labour*	Unskilled Labour*
Global	**+1.3%**	**+4.0%**	**+4.8%**	**+3.5%**	**+1.9%**
Americas	**+1.5%**	**+3.4%**	**+5.1%**	**+2.9%**	**+1.1%**
Canada	**+3.0%**	**+5.1%**	**+5.7%**	**+3.7%**	**+2.5%**
Atlantic Canada	+3.6%	+6.3%	+7.0%	+3.3%	+1.1%
British Columbia	+2.2%	+4.0%	+4.5%	+4.1%	+2.4%
Ontario	+3.4%	+5.5%	+6.2%	+3.6%	+2.8%
Prairies	+3.0%	+5.2%	+5.7%	+3.5%	+2.6%
Quebec	+3.9%	+6.1%	+7.2%	+4.5%	+3.4%

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

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 8 December 2020 with responses received until 18 January 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 1813 company responses were received globally, 669 of which were from the UK.

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

This document is intended as a means for debate and discussion and should not be relied on as legal or professional advice. Whilst every reasonable effort has been made to ensure the accuracy of the contents, no warranty is made with regard to that content. Data, information or any other material may not be accurate and there may be other more recent material elsewhere. RICS will have no responsibility for any errors or omissions. RICS recommends you seek professional, legal or technical advice where necessary. RICS cannot accept any liability for any loss or damage suffered by any person as a result of the editorial content, or by any person acting or refraining to act as a result of the material included.

Contact details

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Responses were gathered in conjunction with the following organisations:

AACE International

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

PICQS

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