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

RICS®

Q1 2021: Canada Construction Monitor

Market activity continues to increase but supply-side issues emerging

- **Construction market remains firmly on recovery footing**
- **However shortages of materials, labour stand to weigh on activity moving forward**
- **COVID's impact on market expected to persist in medium-term**

Feedback from participants in the Q1 2021 RICS-CIQS Canada Construction Monitor indicates that the construction market recovery has gained momentum to start the year. The Construction Activity Index* (CAI), shown in Chart 1, rose to +32 in Q1 from +19 in Q4 pointing to a continued expansion in market activity. This also represents a similar reading prior to the COVID pandemic (+31 in Q4 of 2019), though it would appear that the current gains are spread much more equitably across companies of different sizes than they were prior to COVID.

Infrastructure continues to drive current activity

As can be seen in Chart 2, workloads in the current quarter were said to have increased across all segments of the market. However, it is evident that infrastructure workloads were said to have increased at a quicker pace (in net balance terms) than were private residential and non-residential workloads. Digging deeper into the data also reveals that much of the increase in private residential and non-residential workloads was seen in Ontario and Quebec, with respondents from other areas of the country noting little to no change in construction activity in these sectors.

There also appears to be not one segment of the infrastructure market responsible for the increase in current activity. Chart 4 shows that work on agribusiness projects was the only segment of the market that appears to have declined during the first quarter of 2021. However, there appears to be a strong regional dimension to infrastructure workloads, as a significant amount of dispersion can be seen between regions in the chart. Although there are exceptions, it appears that work on infrastructure projects appears to be increasing more in Quebec and less in the Prairies, while other parts of the country are more of a mixed bag.

Aggregate outlook upbeat, but obstacles remain

Moving from the current quarter, the outlook for work at the national level is extremely upbeat for the next twelve months (Chart 2). This is more or less spread across all segments of the market, and all regions of the country (though private residential workloads are expected to contract slightly in Quebec).

However, the outlook is not without its speedbumps. As in other parts of the world, survey contributors highlighted increased disruptions from the supply chain bottlenecks that have emerged as a result of COVID. Shortages of materials appear to be pushing the cost of materials used in construction higher. A shortage of materials and the cost of materials were cited as factors holding back activity by 60%

Chart 1: Construction Activity Index*

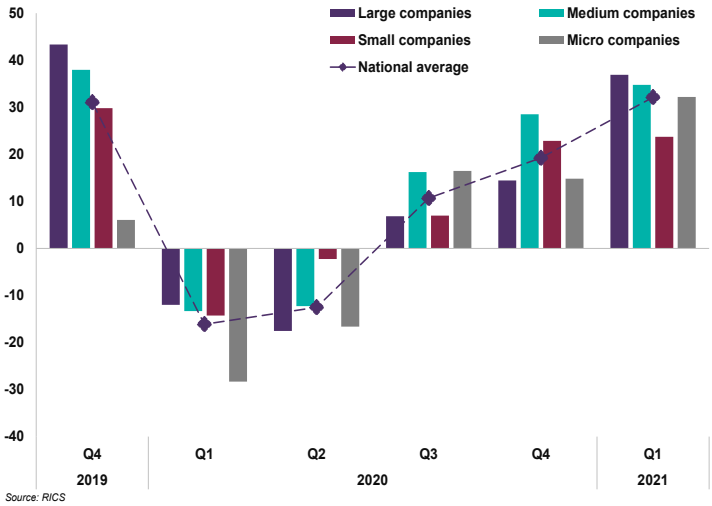


Chart 2: Current conditions and expectations

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

and 66% of respondents in Canada respectively, making them the third and first most cited barrier to activity. Respondents also provided anecdotal evidence that points to scarcity of supply weighing on activity, these can be found on page 5.

Rising costs to continue to pressure the market

It is perhaps unsurprising then, given the outlook for workloads and the difficulty in sourcing materials, that the cost of materials is expected to rise at nearly twice the pace of tenders over the next twelve months (5.7% vs 3%). A full breakdown of tender and cost expectations by region can be found on page 4 of this report, but construction costs are universally expected to rise more than tenders over this period. This may be one reason why the outlook for companies' profit margins is much more tepid than the outlook for workloads (Chart 2).

But materials are not the only factor driving construction costs. The cost of skilled labour is expected to rise substantially over the next year, especially in British Colombia and Quebec. Notably, the only two other factors cited as impediments to activity by a majority of respondents were a shortage of skills (61%) and labour (54%). Given the difficulties in securing headcount, there is the risk that the already modest expectations for hiring over the next twelve months (Chart 2) may turn out to be overly optimistic.

Underbidding an issue in some regions

Chart 3 reveals an interesting trend in the market. In British Colombia and the Prairies, 45% and 39% of respondents reported consistently receiving bids below a reasonably estimated cost for the project, above the Canadian average. Meanwhile, less than a quarter of respondents noted this in other parts of the country. The average 'underbid' observed in these regions was between 4% and 5%, slightly lower than the global average of 5.3%.

COVID has lingering issues on productivity

Respondents also highlighted the lasting impact that COVID is expected to have on productivity. The pandemic is expected to decrease onsite productivity by nearly 8% nationally, and close to 9% in Ontario.

Contributors also noted an increase in project cancellations as a result of the pandemic, though more for private non-residential projects, of which 7% were seen to have been cancelled, than private residential (4.9%) or infrastructure (4.3%). Cancellations also appeared to be higher in the Prairies than in other areas of the country.

Chart 3: Bids below cost

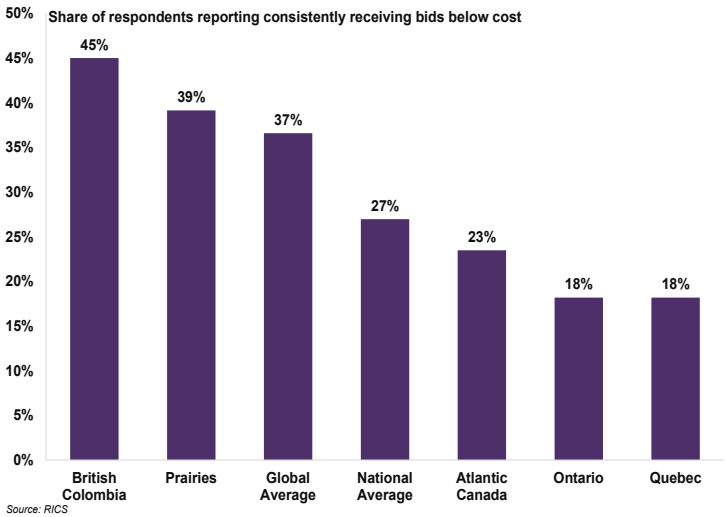
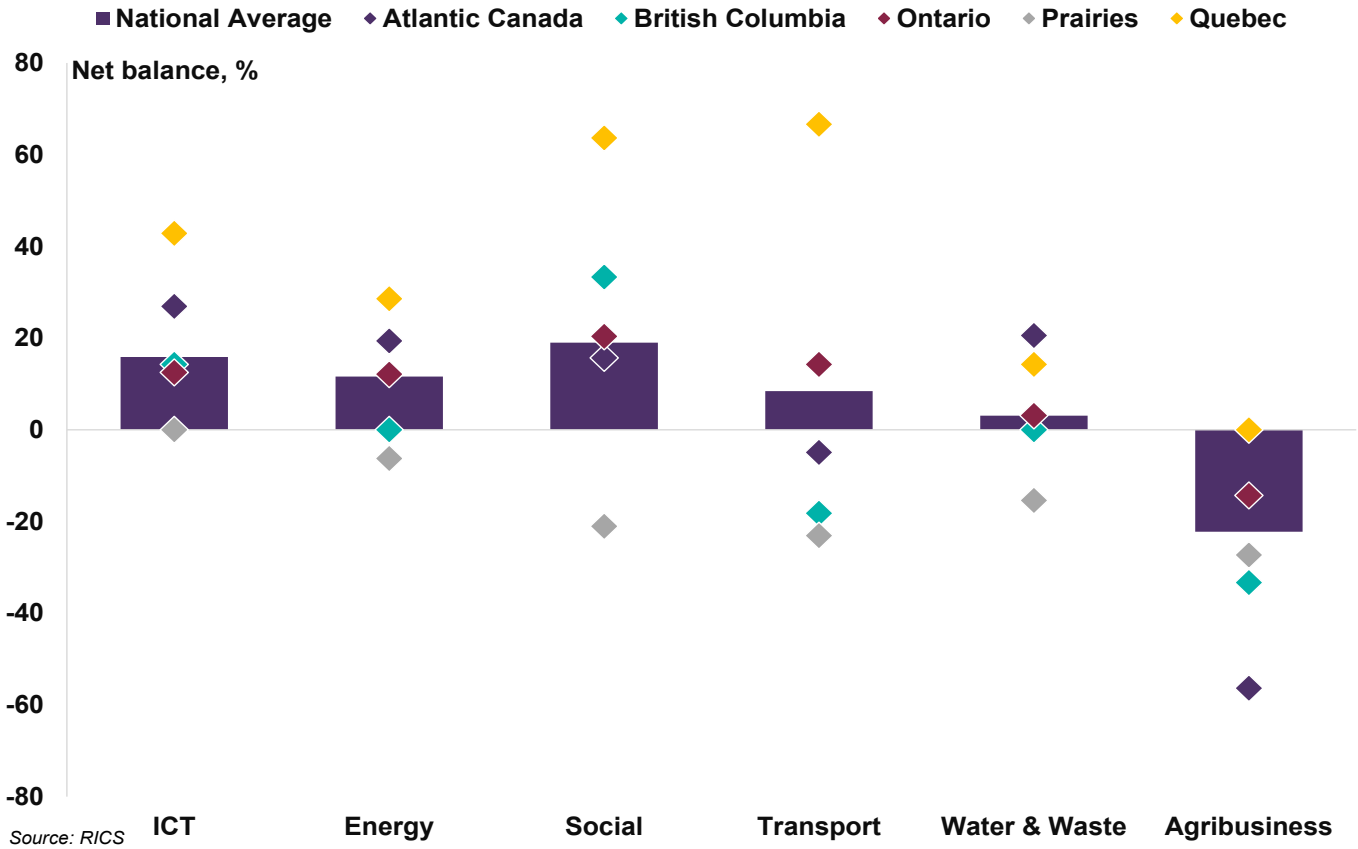
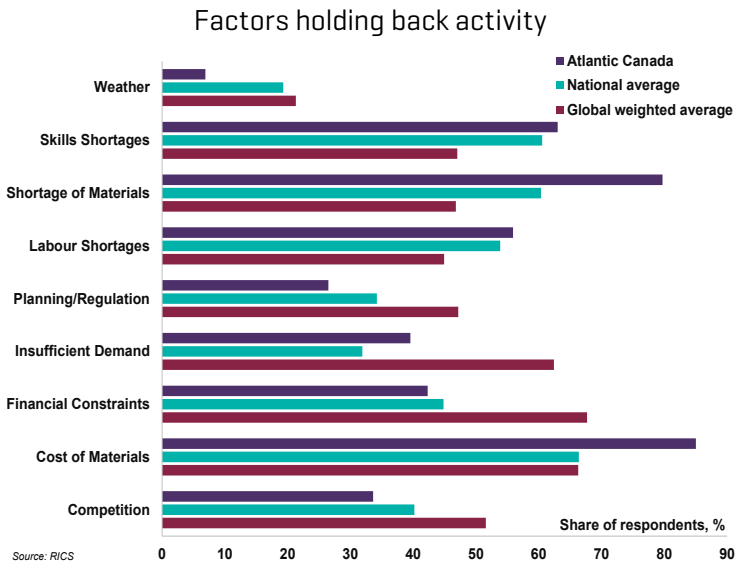


Chart 4: Infrastructure workloads



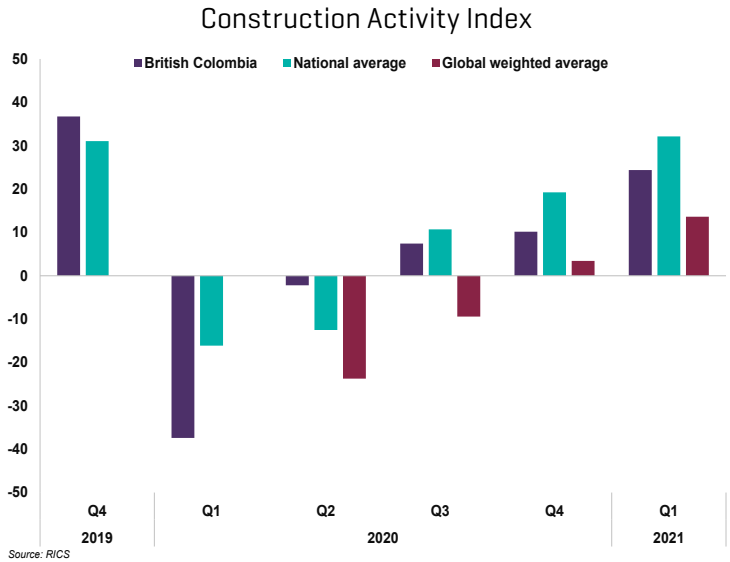
Atlantic Canada

- CAI rose to +42 in Q1 from +22 in Q4 as respondents noted an increase in private non-residential workloads for the second consecutive quarter (net balance +18%).
- The pipeline of demand appears strong in the short-term with a net balance of +50% of respondents noting an increase in new business enquiries.
- Material shortages cited by 80% of respondents, and the price of materials by 85% of respondents as factors holding back activity. This is substantially above the national and global average (see adjacent chart) and also an increase from Q4, when they were cited by 70% and 82% of respondents, respectively.
- Construction costs expected to rise faster than tenders over the next year (7.5% vs 5.7%), driven by an expected 8.2% increase in the cost of materials.



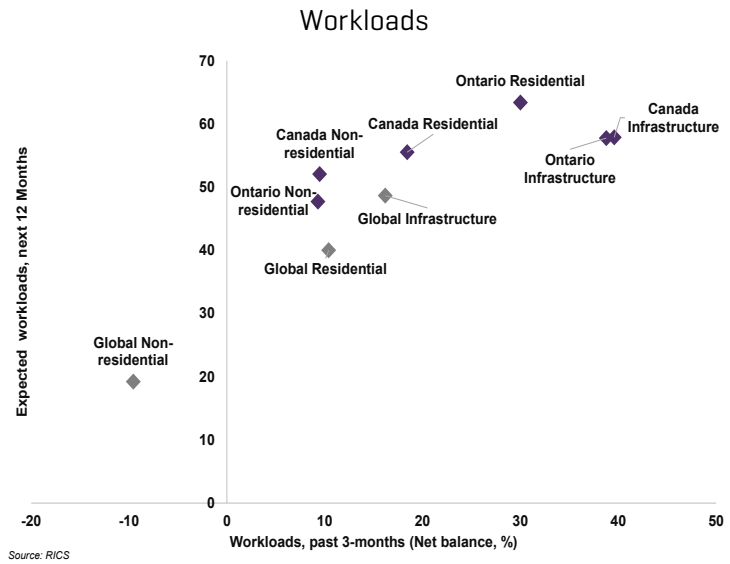
British Colombia

- CAI rose from +10 in Q4 to +24 in Q1.
- Although this does indicate a market expansion, the increases have been slightly less than what is reported at the national level since Q3 of 2020; however the British Colombia market does still appear to be on a surer footing than global construction markets, on average (see adjacent chart).
- Most increases in current workloads are said to be driven by social infrastructure and information and communications technology projects.
- Shortage of quantity surveyors and skilled tradespeople in the market.
- Labour costs are expected to rise quickly in the near-term relative to other parts of Canada.



Ontario

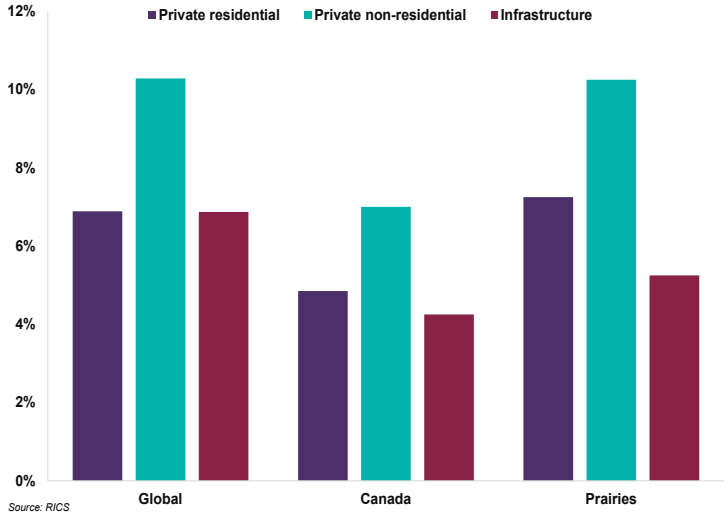
- CAI rose to +34 in Q1 from +25 in Q4.
- Both current and the outlook for future construction workloads are extremely robust. No segment of the market was said to have experienced a contraction in activity during Q1, and infrastructure and residential saw particularly robust increases.
- However shortages of labour, skills and materials all remain impediments to activity, cited by 53%, 59% and 57% of contributors respectively.
- All indicative of supply-chain bottlenecks, as is 60% of respondents highlighting the cost of materials as a constraint.
- On a more positive note, payment delays were seen not to have increased for a second consecutive quarter.



Prairies

- CAI rose from +12 in Q4 to +19 in Q1 2021.
- Increase predicated on the outlook. Workloads for private residential (net balance +50%), private non-residential (net balance +42%) and infrastructure (net balance +56%) all expectd to increase at a robust pace over the next year as current activity remains tepid.
- Unlike other parts of Canada, finances are a key constraint, cited by 67% of respondents (vs 45% nationally). Shortages of materials (55%) and the cost of materials (78%) are also seen as issues.
- As can be seen in the adjacent chart, the Prairies saw a greater share of residential (7.3% vs 4.9% nationally and 6.9% globally) and non-residential (10.3% vs 7% nationally and 10.3% globally) projects cancelled as a result of COVID.

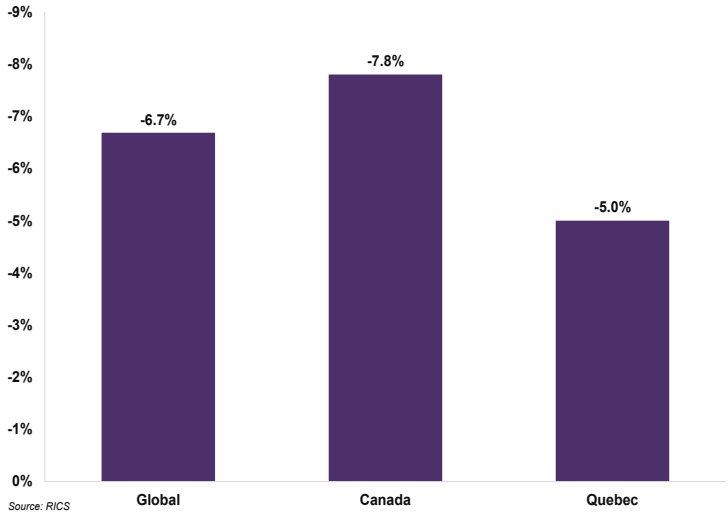
Share of project cancellations



Quebec

- CAI rose from +24 in Q4 to +48 in Q1.
- All segments of the market said to have experienced an increase in workloads, though the outlook for residential workloads are more modest than that for non-residential or infrastructure.
- COVID reportedly had minimal impact on market. Only a 5% reduction in onsite productivity (see adjacent chart), below both the national and global average. Also only between 1% and 3% of projects were reportedly cancelled across all market segments, vs between 7% and 10% globally (and 5% to 7% on average in Canada).
- Only 18% of respondents reported consistent underbidding (vs 37% globally), and the average underbid was only 2.5% below cost (vs 5.3% globally).

Expected reduction in onsite productivity from COVID



RICS Consensus 12-month Expectations

	Tender Prices	Construction Costs	Materials Costs	Skilled Labour*	Unskilled Labour*
Global	**+3.1%**	**+5.9%**	**+6.3%**	**+4.1%**	**+2.9%**
Americas	**+3.8%**	**+6.4%**	**+7.7%**	**+4.0%**	**+2.4%**
Canada	**+4.4%**	**+7.0%**	**+8.4%**	**+4.4%**	**+3.4%**
Atlantic Canada	+5.7%	+7.5%	+8.2%	+4.3%	+2.3%
British Columbia	+3.5%	+5.2%	+7.0%	+4.5%	+3.5%
Ontario	+4.0%	+6.6%	+8.1%	+4.6%	+3.9%
Prairies	+4.4%	+7.9%	+8.6%	+3.3%	+1.4%
Quebec	+6.8%	+9.4%	+11.3%	+5.1%	+4.6%

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

Regional Comments from Survey Participants in Canada

Atlantic Canada

Halifax NS is experiencing unprecedented growth in all sectors; incl. large increases in home cost. -*Halifax*

Skilled labour demands and increase in construction of materials cost, plus delivery delays. -*St. John's*

British Columbia

Price of material, shortage of skilled worker, bad RFP requesting too many RFIs.

Material supply issues, especially wood. -*Kelowna*

Pricing uncertainty and availability of materials remains concerning in key trades. -*Vancouver*

Commodity uncertainty and metering price increases are adding to risk. -*Vancouver*

Cost of raw materials is increasing. -*Vancouver*

The market condition is still not stable due to Covid 19 and economy, until Sept. (vaccine). -*Vancouver*

Municipal fees. -*Vancouver*

Material cost increase, labour increase slightly but trade is willing to lower their profit margin. -*Vancouver*

Ontario

Supply of materials and good labour. -*Barrie*

Huge impact on construction projects due to the pandemic situation. -*Brampton*

Lack of certified Quantity Surveyors. -*Ottawa*

The price for Steel has increased as well as lumber. -*Ottawa*

Delayed delivery of materials, goods. -*Sarnia*

Restriction in working inside occupied buildings for the restoration and rehabilitation works. -*Scarborough*

Erratic pricing from both GC and subtrades. -*Sudbury*

Trade stacking. -*Toronto*

International investors/ students not able to access the market due to the closed border. -*Toronto*

Uptake on adjudication. -*Toronto*

No jobs, strict regulations - friends and family only have an access to construction job market. -*Toronto*

Steel and drywall pricing has shot up in Q1. -*Toronto*

Shorage of all labour. Material prices soaring. Contractors very busy. -*Toronto*

Government providing stimulus funding; shift from high rise residential to single homes slowing. -*Toronto*

Steel prices very high. Timber prices remain high from 2019. -*Toronto*

Residential high rise to remain active. -*Toronto*

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

Prairies

Lack of market activity and government infrastructure spending (federal). -*Calgary*

Oil and gas infrastructure spend reduced. -*Calgary*

Governments are in limbo awaiting COVID stable decline in numbers. -*Spruce Grove*

Carbon tax, Paris Accord impact on oil and gas industry and ripple effect. -*Spruce Grove*

Quebec

Market Conditions. Great amount of work. -*Gatineau*

Pénurie de matériaux et de bonne main-d'oeuvre -*Montreal*

Projet résidentiel fort et civil plus faible. -*Quebec City*

Les coûts de productions sont vraiment très élevés. -*Quebec*

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 12 March 2021 with responses received until 11 April 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 118 company responses were received across Canada.

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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