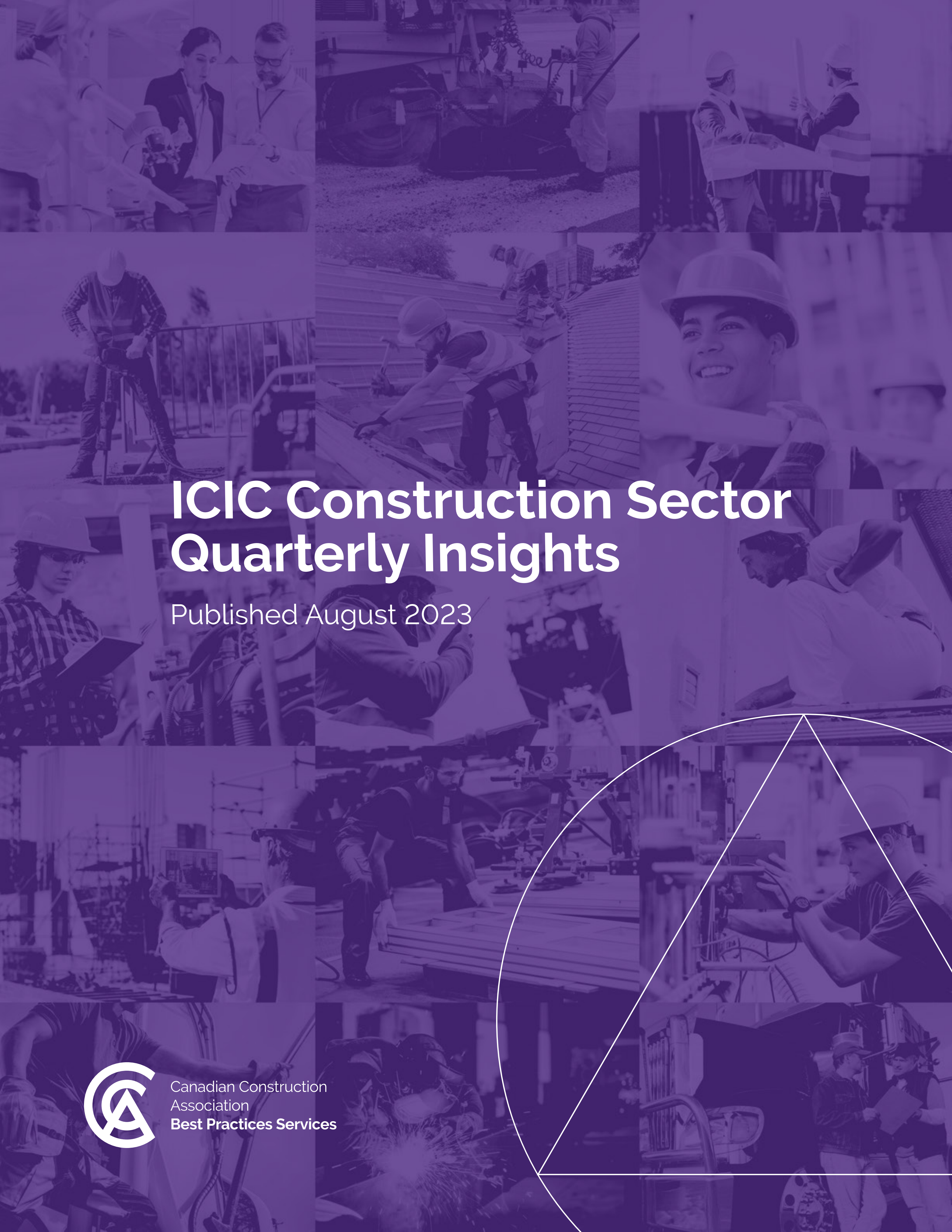


ICIC Construction Sector Quarterly Insights

Published August 2023

Canadian Construction Association
Best Practices Services

Key highlights first half of 2023

+4.3%

Activities in Engineering and other construction

+1.8%

Construction spending increase

-1.2%

Quarterly material inflation

5.7%

Construction job vacancy rate in Canada as of May 2023

- The Canadian economy exceeded expectations in Q1 2023, with a slight increase of 0.7 per cent across all business activities.
- Construction activity remains stable, making it one of the only two sectors in the goods-producing industry to experience growth in Q1 2023. ICIC sector activity witnessed a 1.8 per cent quarterly increase.
- Supply chain disruptions and inflation continue to ease in Q2 2023, with the exception of steel pipes and hot-rolled iron products which experienced notable increases.
- Despite a decreasing job vacancy rate and a greater number of employment opportunities, the acute construction labour market shortage persists.

This report was prepared by the Canadian Construction Association (CCA) to provide an overview of the last quarter and current economic health of the industry and its implications for member businesses.

Canada's surprising growth

The Canadian economy grew by 0.7 per cent in the first quarter of 2023, surprising analysts after two consecutive declining quarters in 2022. The Canadian economy grew at an annualized rate of 2.5 per cent, beating expectations. Based on preliminary estimates for the second quarter of 2023, it is expected that the economy grew by 0.3 per cent in June. When annualized, this growth rate amounts to one per cent for the quarter.

ICIC construction sector remains resilient

The construction sector proved resilient, registering a modest growth of 0.3 per cent during Q1 2023. Regrettably, this overall growth was offset by a notable decline of 4.1 per cent in the residential sector. On the other hand, the ICIC sector continued its upward trajectory, driven by high activity in the engineering and other construction activities sector, which contributed to a substantial growth of 4.3 per cent, a trend observed since Q4 2020. Additionally, non-residential sector activities recorded a slight increase for the second consecutive quarter, rising by 0.6 per cent [Chart 1: GDP].

Industrial capacity utilization rate

The industrial capacity utilization rate serves as a valuable indicator of an industry's output compared to its estimated potential output, reflecting the balance of demand and supply dynamics. Recent data on the industrial capacity utilization rate reveals that the construction industry has remained relatively stable, with a rate of approximately 90.2 per cent in the first quarter of 2023. In comparison, the average capacity utilization rate for all industries was at 80 per cent during the same quarter. Prior to the pandemic, the average capacity utilization rate for the construction industry over a ten-year period was approximately 87 per cent. Since then, the construction industry has maintained an average capacity utilization rate of about 90 per cent, indicating the sustained high demand that the sector has experienced over the last three years [Chart 2: CUR].

The capacity utilization rate measures how much a business is producing compared to its maximum potential. It is defined as the ratio of actual output to capacity (potential) output. It is calculated by dividing the actual production by the maximum (potential) production a business can achieve under normal conditions. Actual production is observable and measurable, but potential production is not directly observable. Maximum (potential) production is determined based on factors like working hours and days per week. The capacity is calculated based on actual operating practices, such as the number of shifts and working days, to get an accurate measure. The capacity utilization rate helps us understand how efficiently a business is using its resources to produce goods or services.

Investments

During Q1 2023, investment growth in the ICIC building construction sector experienced a slight contraction, declining by 0.5 per cent to $37.1 billion. This decrease was primarily driven by a second consecutive and more pronounced decline in investments made to the multiple-dwelling buildings component, a component whose investments contracted by 2.8 per cent to $20.2 billion.

The non-residential sector continued to showcase its resilience, as it posted its eighth consecutive quarterly gain. It recorded an increase of approximately 2.3 per cent, reaching $17 billion, driven by gains in all its components. Investment in the industrial subsector saw robust growth of six per cent, while the institutional sector witnessed a solid increase of 2.5 per cent. Additionally, investment in the commercial sector rose by one per cent [Chart 3: Investments].

Preliminary investment estimates for the ICIC sector in Q2 2023 anticipate a continuation of the current trend, with slight increases in investments across all non-residential components, while the multiple-dwelling component is expected to experience another modest decline.

Rebalancing of the industry's workforce

Employment in the industry saw a decline of 0.6 per cent during Q2 2023, equivalent to approximately -10,130 fewer workers employed in the construction sector across Canada. Of the total employment losses, British Columbia experienced the highest quarterly losses with -14,000 workers, followed by Nova Scotia with -2,800 workers. Alberta and Ontario were able to offset some of their losses with an increase of 8,000 workers in Alberta and 2,500 workers in Ontario, allowing Ontario to reach its highest quarterly number of employed individuals in the sector [Chart 4: Employment by Province].

While this decline in employment may seem significant, construction employment in Q2 2023 remains 2.8 per cent higher than it was during the same period last year, with an additional 43,000 workers employed in the industry.

Although there has been a slight decrease in vacancies in the first half of the year, it is worth noting that vacancies in the industry still exceed their historical average. The job vacancy rate, which measures the ratio of job vacancies to overall labour demand in the industry, remains high, currently standing at 5.7 per cent. Despite the indications of increased worker availability for the industry, conditions remain tight in the labour market for construction.

Occupations in construction

11 occupations account for 61.5 per cent of the vacancies in construction. Nationally, 11 occupations, which are plumbers, construction millwrights and industrial mechanics, civil engineers, welders, heavy equipment operators, construction managers, electricians, carpenters, construction trades helpers and labourers, material handlers, and transport truck drivers, are the most prominent within the construction sector in terms of employment. (Chart 5: Employment by NOCS)

These 11 occupations collectively account for approximately 50 per cent of the total workforce in the construction industry.

According to the Canadian Occupation Projection System (COPS) program, six of these 11 occupations within the construction industry have been classified as being at risk due to projected shortages in the next 10 years. This assessment is further supported by research from the Canadian Apprenticeship Forum, which reveals that certain occupations in high demand, such as carpenters, welders, and millwright industrial mechanics, have a current shortage of certifications required to meet the labour demand in these trades. Age composition within these occupations also plays a significant role in the projected shortages, as a large number of workers are set to retire over the next decade. In fact, 25 per cent of total employment in occupations, such as heavy equipment operators, transport truck drivers, construction millwrights and industrial mechanics, are over the age of 55, with an average retirement age of 64. [Chart 6: NOCS by age]

The federal government recently introduced a new immigration stream to address the projected shortage of skilled workers in selected sectors over the next decade. This program aims to alleviate the labour shortages by allowing immigrants specializing in specific occupational categories to enter the Canadian job market.

Data from the 2021 census reveals that on average, 80 per cent of employment in these 11 occupations is comprised of workers born in Canada, while the remaining 20 per cent consists of workers who migrated to Canada through various programs. The largest group among migrants employed in these industries are immigrants sponsored by family, making up approximately six per cent of the total employment. The Skilled Workers Program is the second largest group, accounting for around 5 per cent. Notably, the Skilled Trades Program, which brings trade workers to Canada based on their qualifications, has the lowest participation in employment.

Despite a decrease in total vacancies in the construction sector for a second consecutive quarter, these 11 occupations still account for approximately 61.3 per cent of all vacancies in the sector. The number of vacancies in all these occupations has also seen a consistent increase since Q1 2019 due to the high demand for labour that the industry has experienced over the past three years. Notably, construction trade helpers and labourers, carpenters, electricians, and heavy equipment operators have seen a significant doubling of the number of vacancies during this period. [Chart 7: Vacancies by NOCS]

245,100*

Construction workers expected to retire over the next 10 years

69,375

Construction job vacancies in Canada as of May 2023

It comes as no surprise that wages for these trades have also increased by approximately 16 per cent. Given the high demand for these skilled workers, the unit labour cost in construction has also risen by approximately 16.6 per cent. These trends highlight the increased labour costs associated with meeting the demand for construction. [Chart 8: Wages by NOCS]

**Source: buildforce.ca/en/lmi/forecast-summary-reports*

Material inflation

Prices of certain components crucial to the construction industry have continued to decline, providing a positive outlook for the sector. The Industrial Product Price Index, which measures the average change in the price of goods used for production, experienced a second consecutive quarterly decrease, declining by 1.2 per cent during Q2 2023. Three key groups of materials used in construction, including lumber and wood products (-3.5 per cent) and energy products (-9.4 per cent), as well as fabricated metal and products and construction materials (-1.3 per cent), also witnessed consecutive quarterly declines during this period. On a year-over-year basis, the index is 5 per cent lower, marking the first significant decrease since the second quarter of 2020 [Chart 9: IPPI]. These trends align with what was informed in our last report and indicate improving supply chains and easing inflation due to lower energy prices and a more pronounced slowdown in the global economy, particularly in China.

It is worth noting that there have been significant increases in some components of ferrous (iron) materials, such as iron or steel pipes and tubes (+18 per cent) and hot-rolled iron products (+15 per cent). These increases are attributed to price hikes implemented by several steel mills in the United States and Canada during March and April. Overall, the declining prices of crucial construction components are expected to alleviate cost pressures within the industry.

-1.2%

Cost of goods used for production during Q2 2023

Building Construction Price Index (BCPI)

The second quarter of 2023 saw a notable shift in the price of construction for average non-residential buildings in Canada. After experiencing two quarters of relatively small growth and a small uptick in Q1, all non-residential components witnessed a relatively small slowdown in pricing in Q2. Each component increased at a similar rate, resulting in a cumulative increase of 1.5 per cent in the cost of non-residential building construction in Q2 2023, as captured by the Building Construction Price Index (BCPI). Since the first quarter of 2020, the cost of building an average non-residential structure in Canada has risen by a cumulative 28 per cent, highlighting the ongoing upward costs of labour and material in building construction [Chart 10 BCPI].

What's ahead for the industry

The Bank of Canada's latest monetary report outlines two stages in the future path of inflation. The first stage of inflation was characterized by a rapid decline in the growth of inflation, driven by significant declines in oil prices, lower inflation in other goods prices, and the base-year effects of large past price increases falling out of calculations. However, the Bank of Canada expects the next stage in the decline of inflation toward the target to take longer and be more uncertain as near-term inflation expectations remain elevated. As a result, interest rates are anticipated to remain at their current levels. The Bank predicts that inflation will gradually return to its target by mid-2025 and does not anticipate raising interest rates further in the near future.

According to the latest survey of business conditions, businesses in the construction sector across Canada have experienced a decrease in various obstacles since the previous survey. The report highlights that rising inflation and the recruitment of skilled employees continue to be the top challenges faced by businesses. However, the number of businesses citing these issues as obstacles has declined by five and two per cent, respectively. On the other hand, the survey reveals that obtaining financing has become a more significant challenge this quarter, with an increase in the number of businesses reporting it as an obstacle. Despite these challenges, approximately 20 per cent of businesses anticipate an improvement in their sales and income over the next three months.

The ICIC sector is positioned for resilience, supported by the significant investments and strong demand for construction work. Despite the challenges faced by businesses, such as rising inflation and skilled labour recruitment, the overall sentiment suggests that the ICIC sector is poised to navigate challenges successfully, driven by ongoing investments and robust demand in the construction industry.

CCA will continue to monitor the following important shifts in 2023:

- **Future federal infrastructure announcements:** The Canadian government has signalled that plans for the next generation of infrastructure funding programs are underway. With newly appointed ministers in their portfolios, CCA will inform the industry about any announcements from the recently formed federal cabinet.

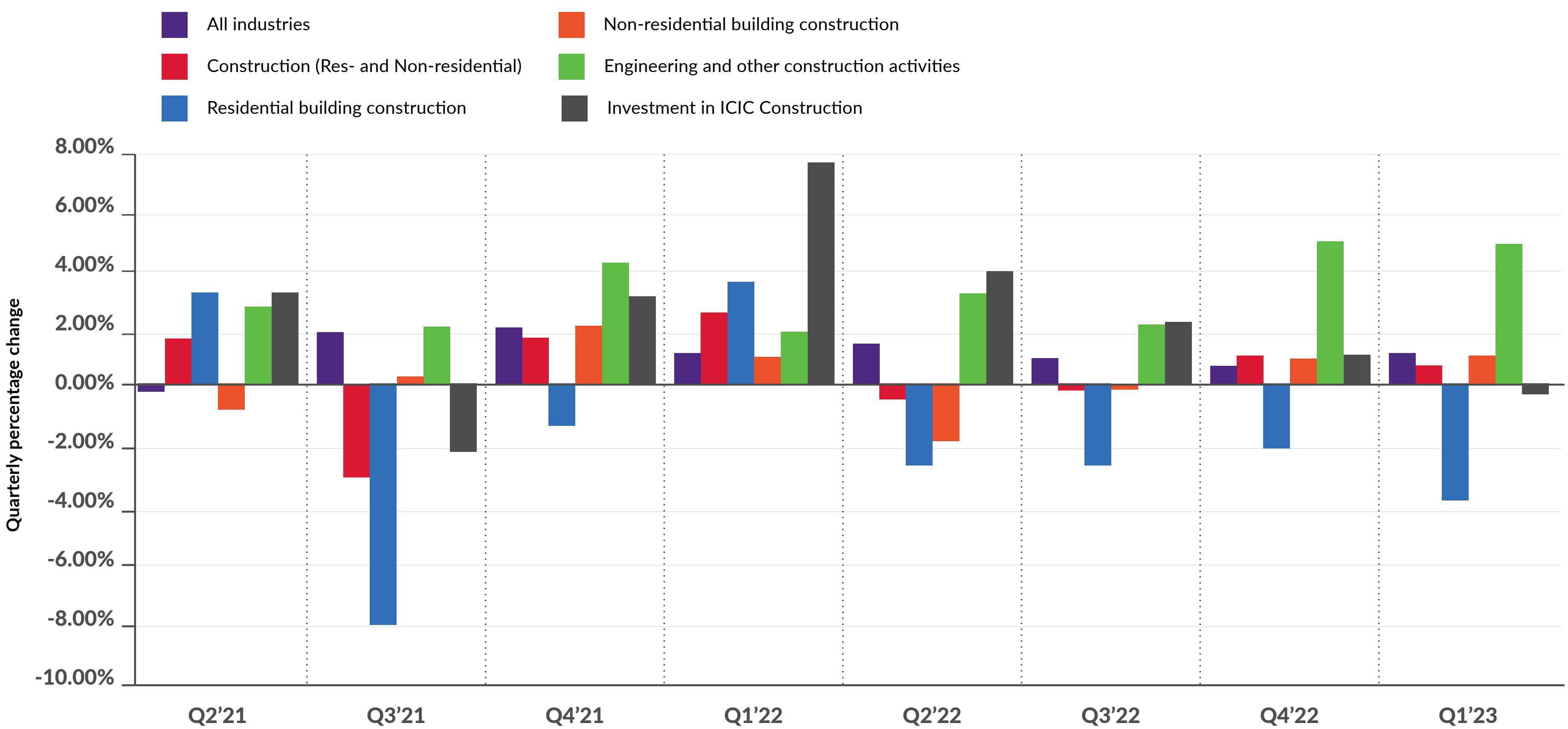
- **Economic slowdown:** Chinese economic slowdown is expected to have broad implications for global markets. As the world's second-largest economy, China's reduced economic growth can decrease global commodity demand, impact export-oriented industries, and disrupt global supply chains. This slowdown may lead to increased market volatility, affecting various sectors and industries worldwide.

- **Green building:** A rise in green construction initiatives is expected due to the surging demand for sustainable infrastructure projects.

For more information on this report or the work CCA is currently focused on to address these issues, please email CCA Assistant Manager of Economics and Policy Development, Mario Baker mbaker@cca-acc.com.

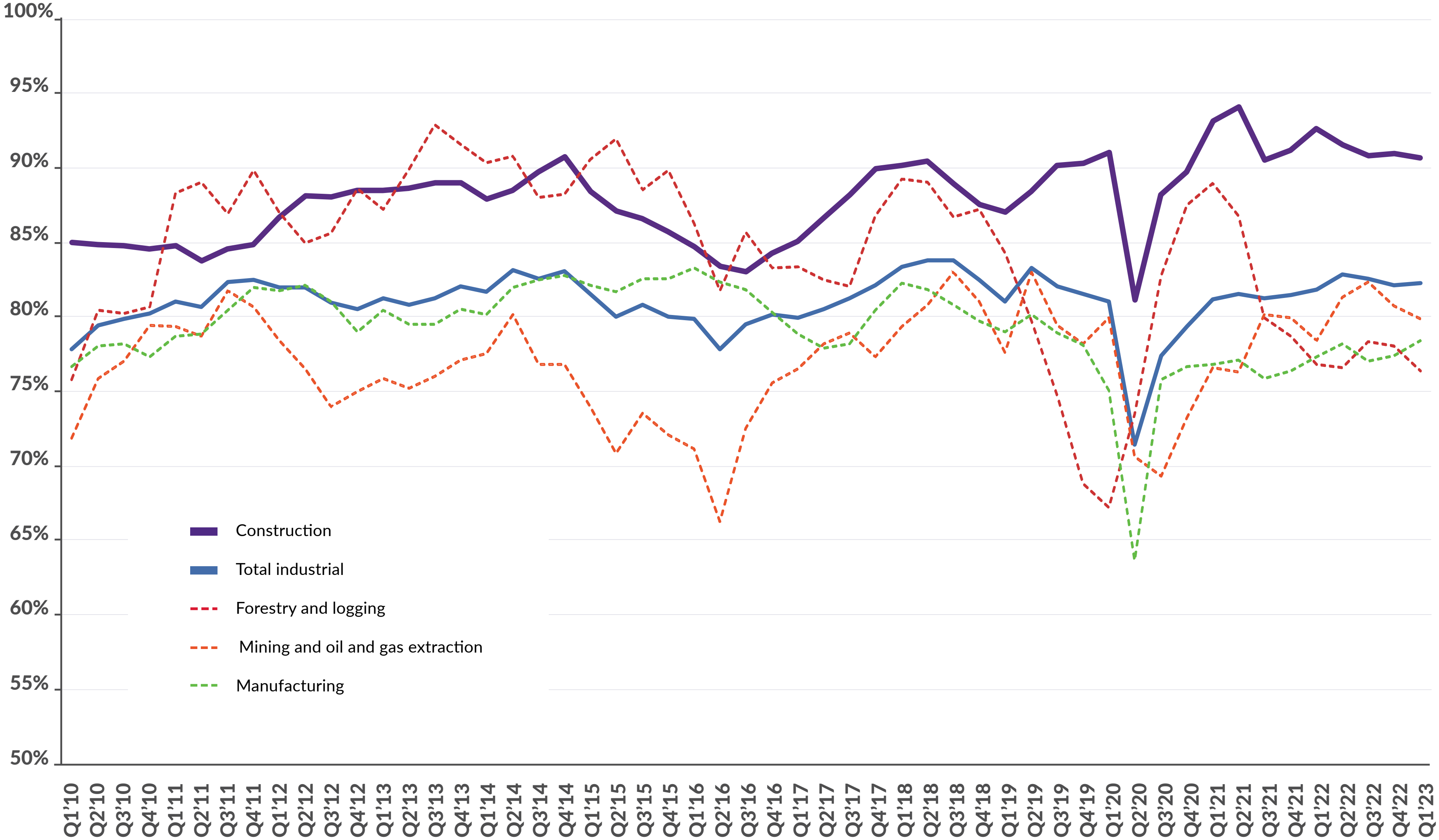
CHART 1

Real GDP growth of construction and non-residential investment growth



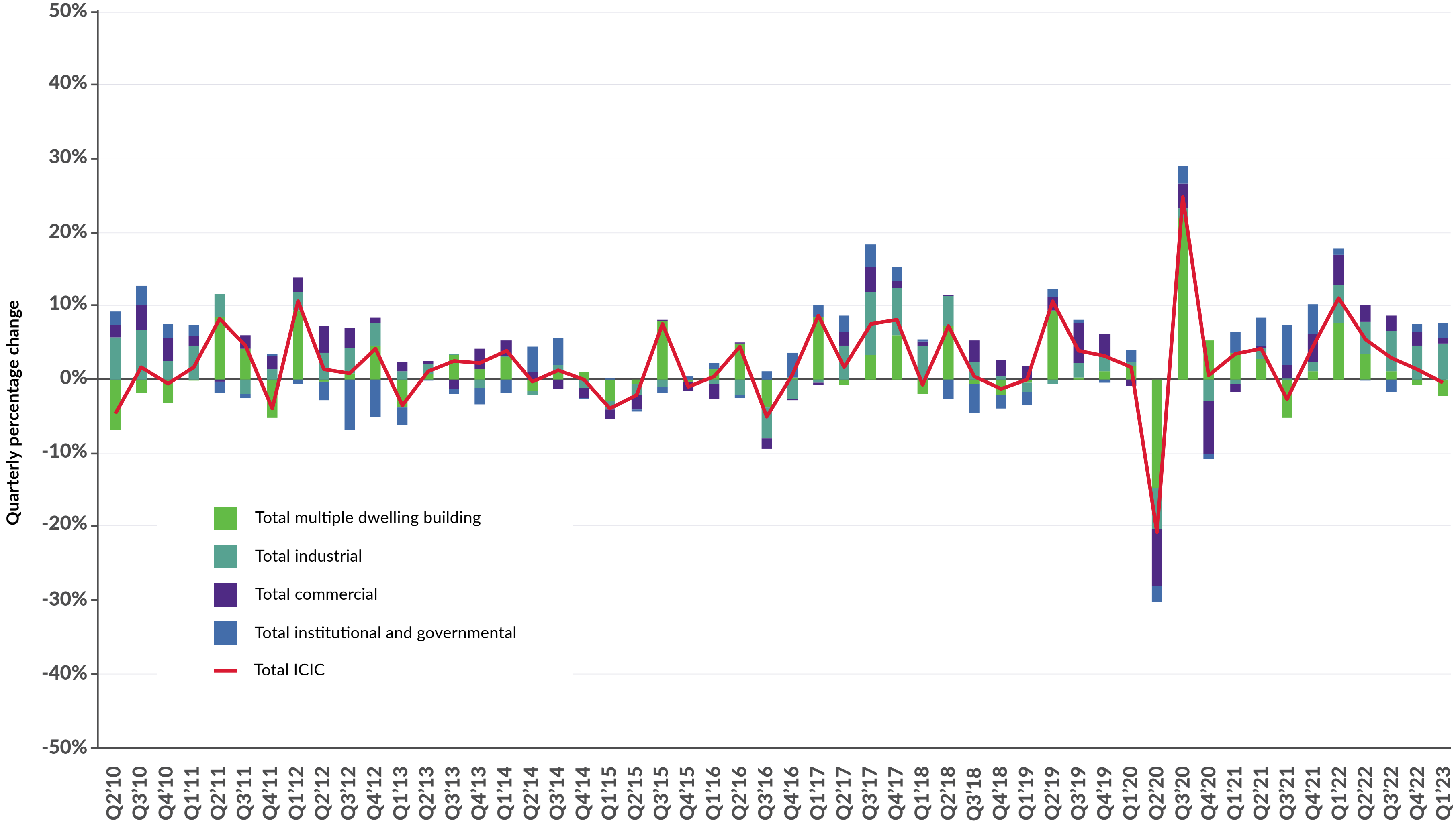
Source: Statistics Canada, CCA

CHART 2
Capacity utilization rate by industry



Source: Statistics Canada, CCA

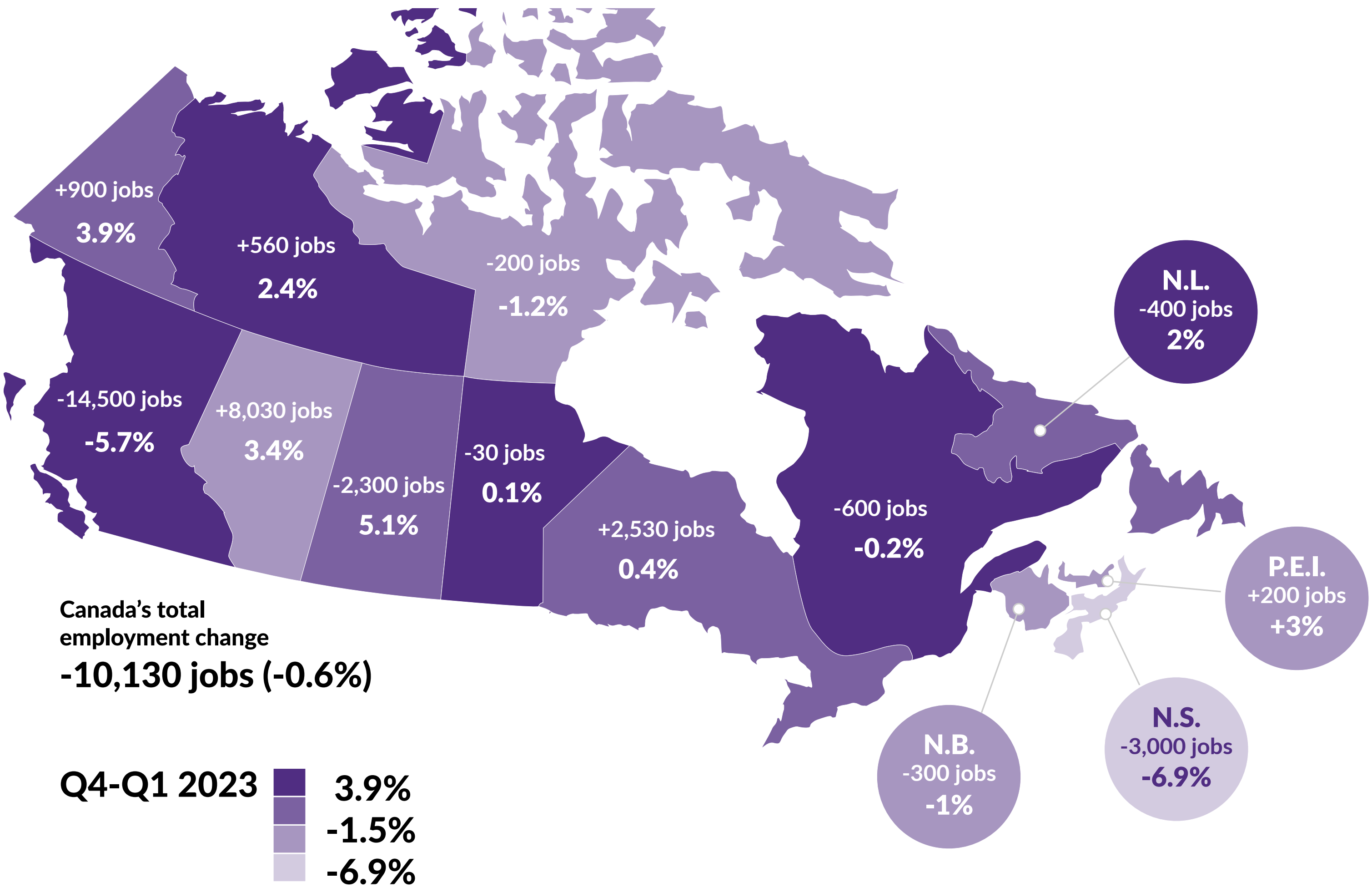
CHART 3
Investments



Source: Statistics Canada, CCA

CHART 4

Quarterly employment change in construction activities Q1-Q2 2023



Source: Statistics Canada, CCA

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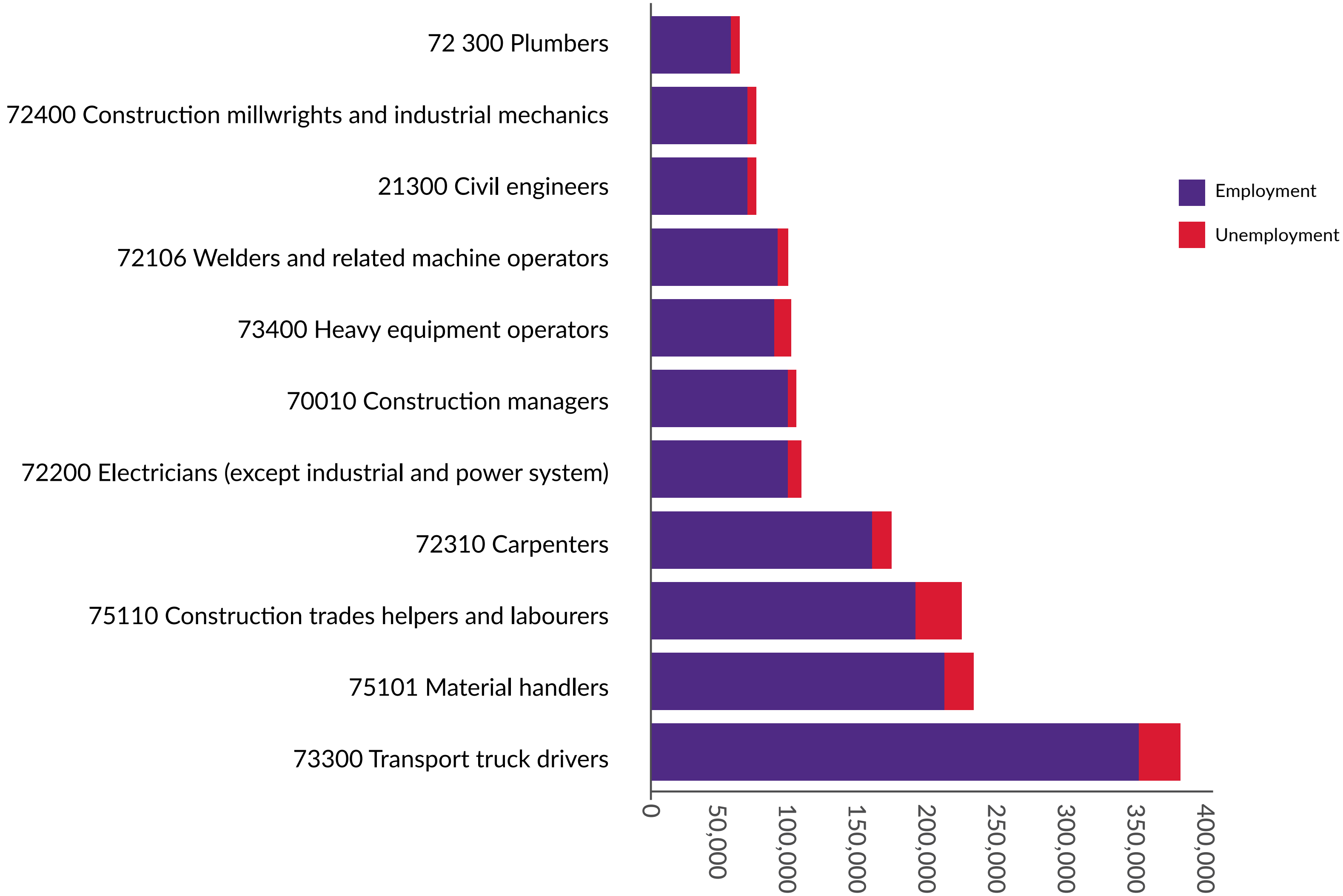
CHART 5

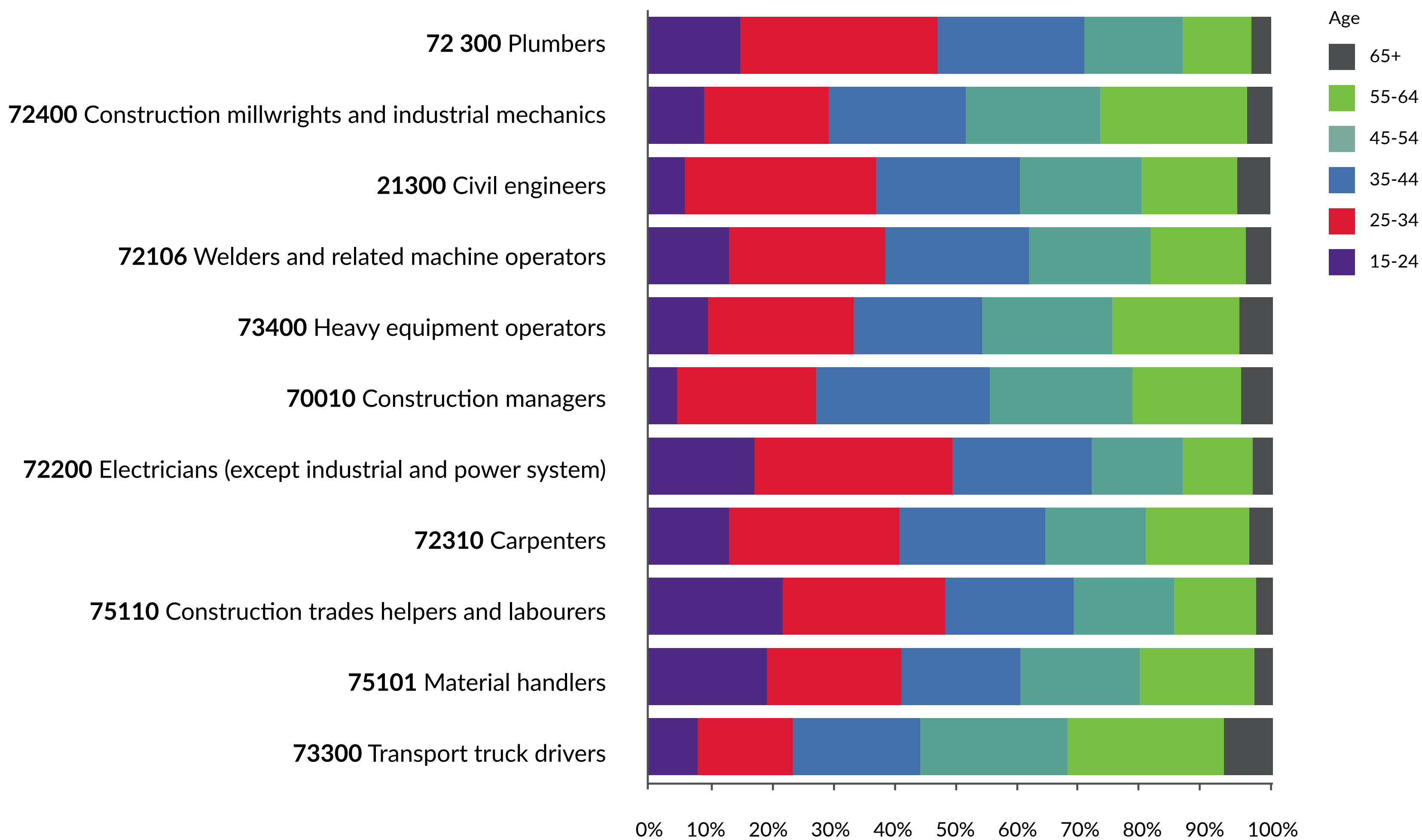
Employment by National Occupational Classification (NOCS)



Source: Statistics Canada, CCA

CHART 6

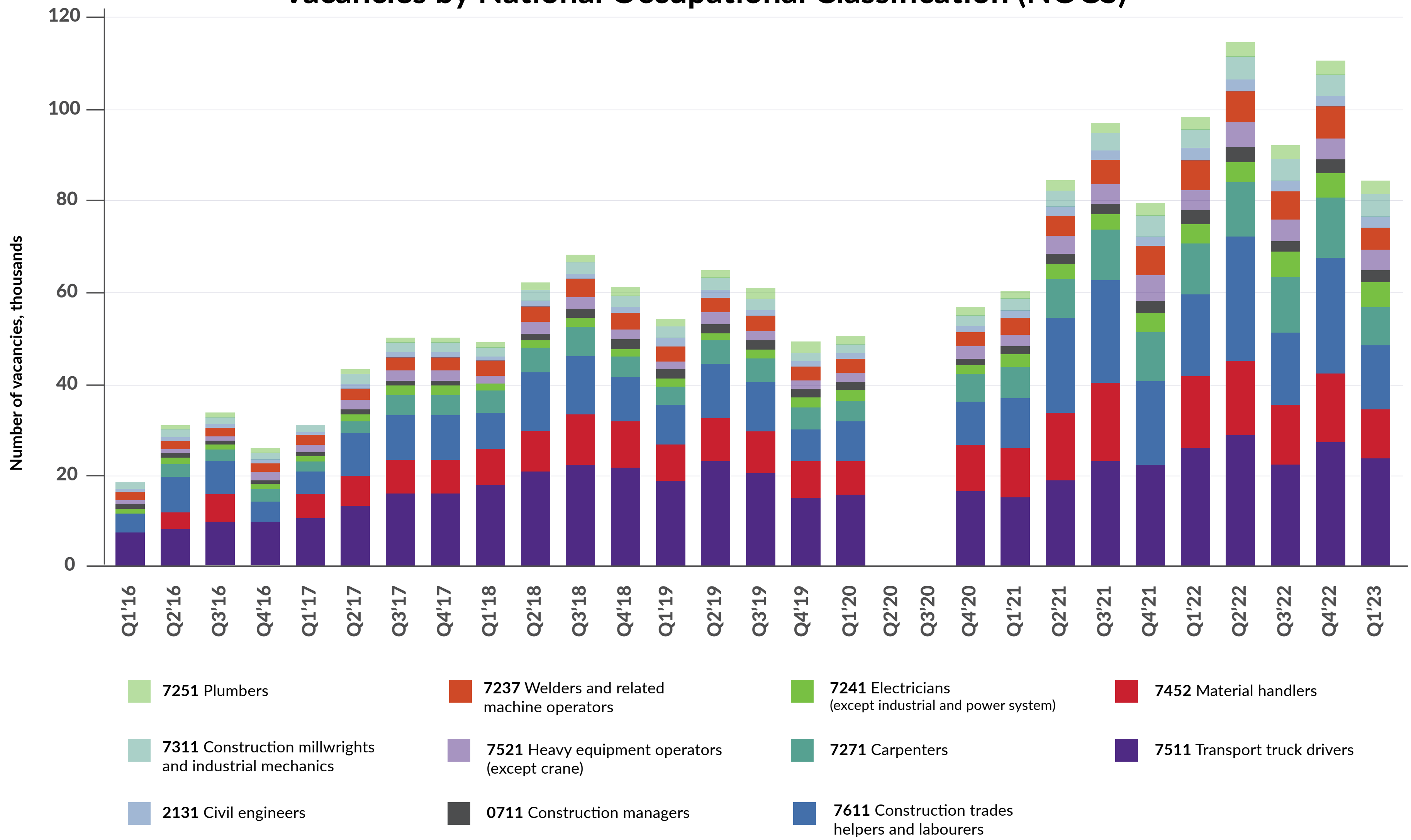
National Occupational Classification (NOCS) by age



Source: Statistics Canada, CCA

CHART 7

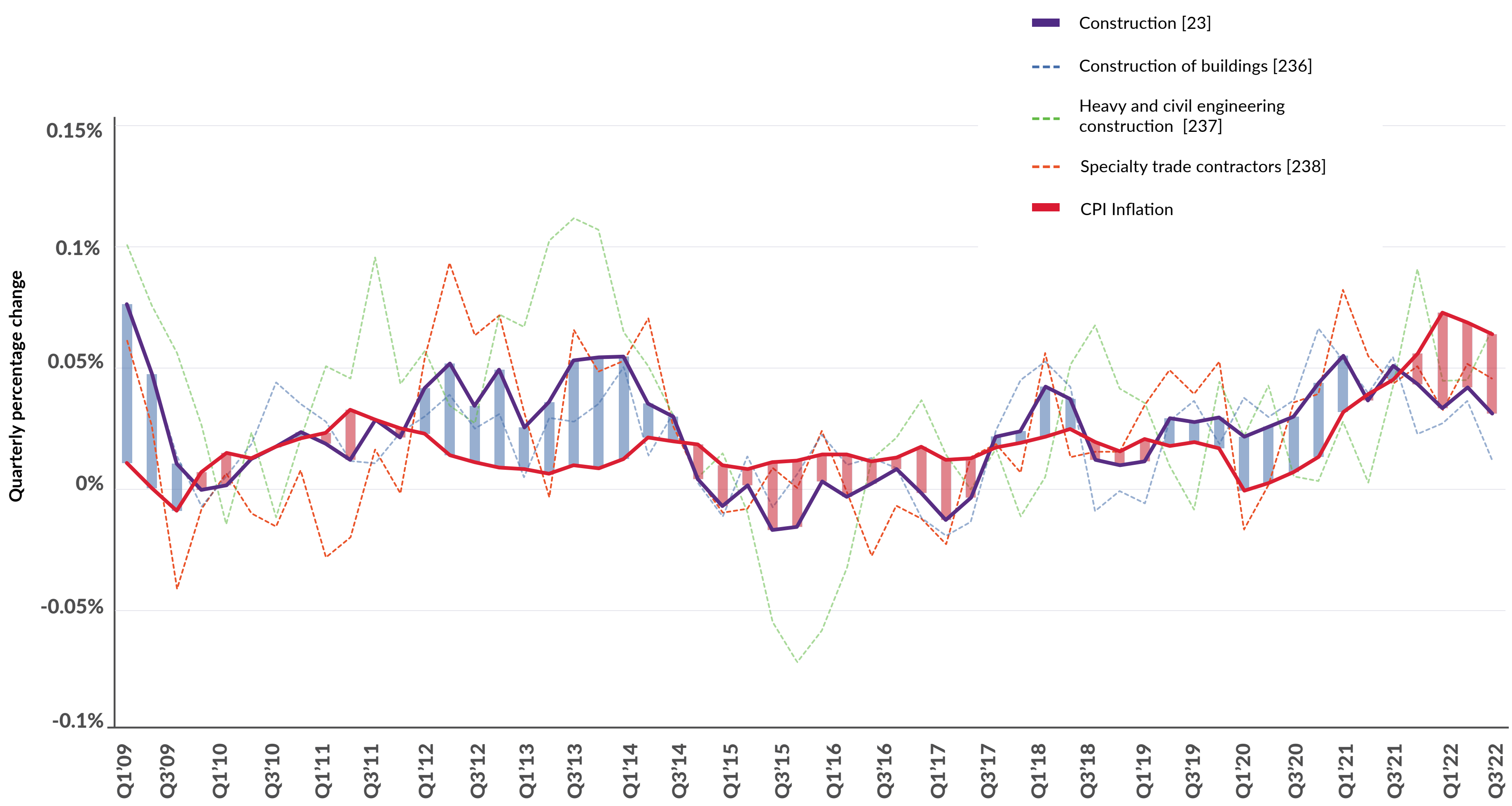
Vacancies by National Occupational Classification (NOCS)



Source: Statistics Canada, CCA

CHART 8

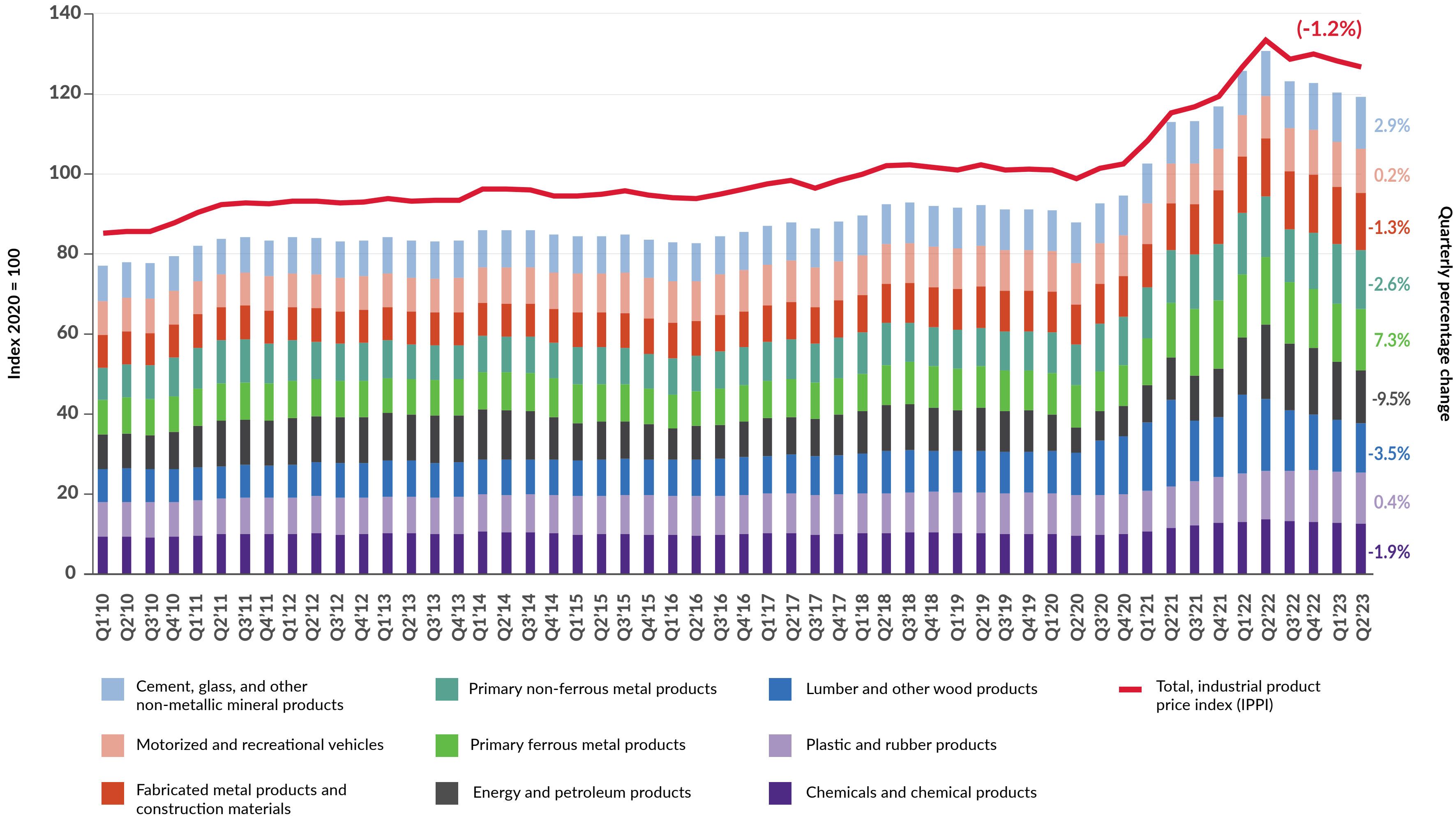
Wages by National Occupational Classification (NOCS)



Source: Statistics Canada, CCA

CHART 9

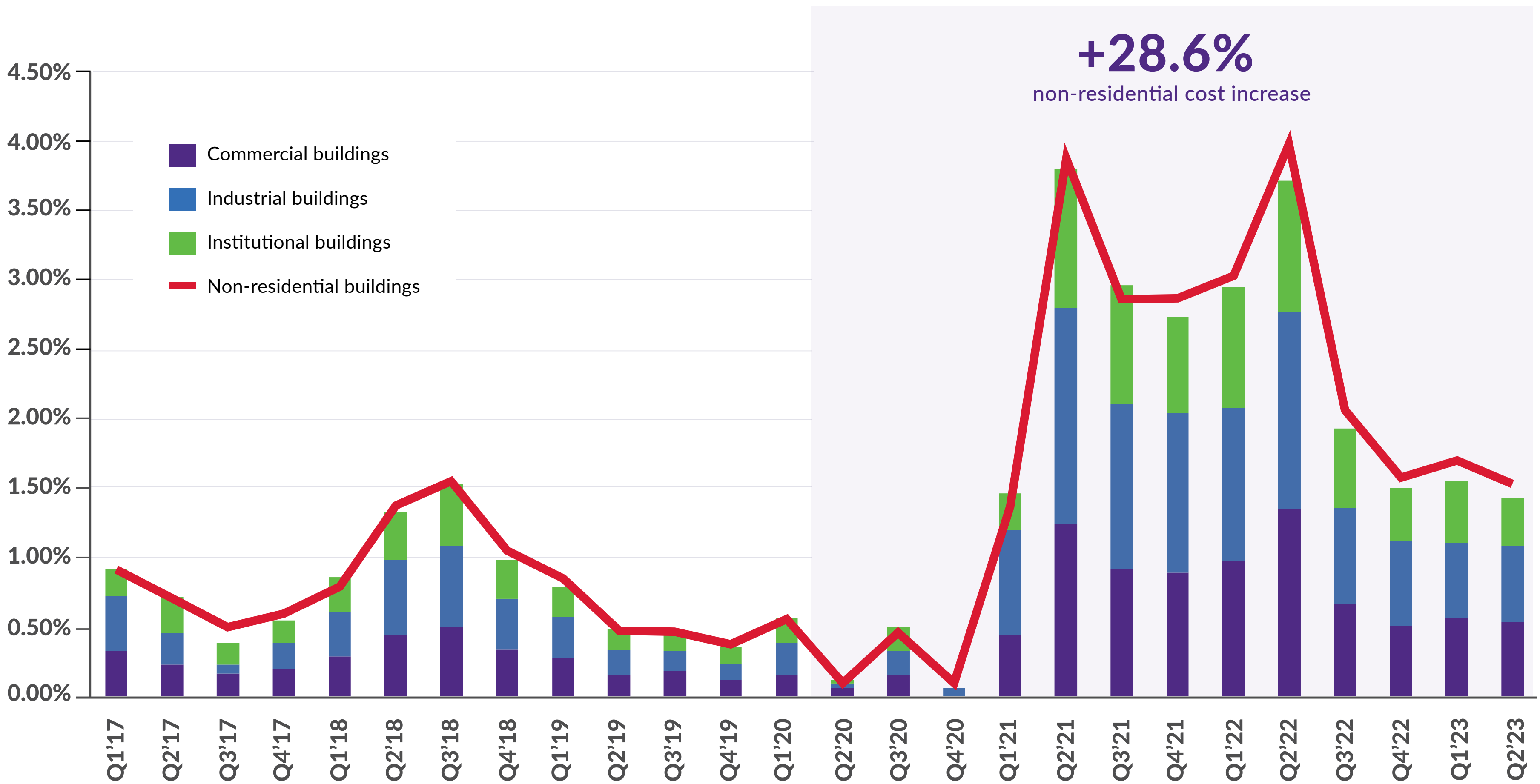
Quarterly fluctations of the industrial product price index



Source: Statistics Canada, CCA

CHART 10

Quarterly changes - Building Construction Price Index



Source: Statistics Canada, CCA

TABLE: SURVEY

Survey of business obstacles for Q2 2023

GEOGRAPHY	CA	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	YT	NT	NU
Difficulty acquiring inputs, products or supplies domestically	24.3%	29.5%	31.6%	47.6%	17%	18.9%	32%	17.4%	18.3%	26.2%	16.1%	25.7%	22.9%	23.1%
Difficulty acquiring inputs, products or supplies from abroad	6.1%	13.4%	2.7%	11.4%	3.7%	1.2%	9.8%	10.2%	1.7%	9%	3.4%	14.6%	18.8%	2.2%
Rising cost of inputs	42.6%	40.2%	46.9%	55.4%	55.8%	27.1%	43.3%	46.2%	59.9%	53.2%	48.1%	60.4%	65.2%	23.4%
Rising inflation	51.3%	67.8%	65%	54%	71.2%	48.7%	53.1%	65.3%	56.5%	58.5%	37.4%	67.2%	68.7%	47%
Transportation costs	38.8%	61.6%	46.3%	48.6%	45.4%	32.7%	43.1%	41.6%	46.9%	45.1%	29%	42.1%	24.2%	54.2%
Fluctuations in consumer demand	21.2%	14.2%	6.9%	11.6%	22.1%	15%	29.4%	20.6%	30.2%	27.9%	13.1%	34.3%	3.9%	18.5%
Insufficient demand for goods or services offered	12.7%	14.7%	4.6%	8.2%	2.9%	11.4%	21.5%	11.5%	9.7%	3%	11.3%	17.5%	3.9%	8.2%
Obtaining financing	16.3%	11.5%	3.1%	10.3%	26%	10.3%	27.9%	5.7%	32.6%	2.6%	17.3%	22.9%	7.5%	4.5%
Cost of insurance	37.9%	57.9%	22.7%	46.2%	42.3%	28%	40.5%	24.6%	36.3%	54.8%	34.5%	39.1%	19.6%	35.9%
Rising interest rates and debt costs	39%	43.7%	47.9%	51.4%	49.2%	42%	39.1%	43.5%	40.4%	47%	21.8%	67%	60.3%	30.7%
Recruiting skilled employees	40.6%	46.8%	55.9%	54.2%	53.2%	45.9%	42.5%	37.2%	34.2%	42%	24.4%	44.7%	65.3%	54.5%
Retaining skilled employees	28.3%	31.4%	49.4%	28%	25.7%	27.5%	35%	19.8%	29.2%	28.8%	18.7%	37%	43.3%	19.3%
Shortage of labour force	34.3%	30.4%	57.9%	49.7%	40.1%	43.5%	31.5%	24.4%	27.9%	29.4%	27.1%	55.2%	77.8%	33.8%

Source: Statistics Canada, CCA