ICIC Construction Sector Quarterly Insights

Q1 2023

Canadian Construction Association
Best Practices Services

ICIC Construction Sector Quarterly Insights

Overview for first quarter 2023

HIGHLIGHTS:

- **The Canadian economy reported a slight increase of 0.6 per cent in its business activities during Q1 2023.**
- **Construction continued to grow in Q1 2023. Construction GDP increased by one per cent.**
- **Construction contributed $151 billion, or 7.4 per cent, to Canada's GDP in 2022.**
- **Severe workforce shortages and inflation of construction materials continue to weigh on the industry's expectations for growth.**

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 ICIC construction industry fares well despite a general economic slowdown

While the global economy is slowly returning to balance, the current situation is still far from ideal. The markets are still adjusting to major shocks, such as the after-effects of the pandemic and the Russian invasion of Ukraine, which have caused instability in global energy prices. Higher interest rates have also created pressure on the global banking system. The interest rates set by central banks are beginning to have their intended impact on reducing inflation, according to the latest Business Outlook Survey for Q1 2023. The survey also points out that inflation and acute labour challenges remain a key concern for business growth across Canada.

Although Canadian business activities decelerated for two consecutive quarters and stalled during Q1 2023, construction, excluding the residential sector, remained an outlier. The Canadian construction sector recorded a year-over-year increase of 1.2 per cent in 2022, following a 5.4 per cent rise in 2021. Engineering and other construction activities spearheaded this growth, expanding by 10.3 per cent, while residential construction tempered the overall sector's growth rate.

Q1 Industry performance snapshot

ICIC construction sector

Canada's economic growth experienced a slow down for the second consecutive quarter and remained almost unchanged during Q1 2023. The construction industry was a positive outlier, showing a growth rate of 0.81 per cent – its first positive growth since Q1 2022. While activity in the residential sector contracted by two per cent, non-residential construction activities helped offset the decline by increasing 0.7 per cent. More significantly, engineering and other construction activities grew by 4.8 per cent, emphasizing its importance to the sector's overall health in 2022 [Chart 1: GDP].

Investment

Investment in ICIC building construction surged ahead in the fourth quarter, increasing by 1.75 per cent to $37.4 billion. Although the multi-unit residential component dropped by 0.8 per cent to $20.8 billion, investments in non-residential construction rose for the seventh consecutive quarter, with a 2.6 per cent increase to $16.5 billion, driven by gains across all non-residential components. The commercial subsector reached a new record of $9.2 billion, up 13.1 per cent compared to the same period in 2021. Investments in the industrial subsector rose by 5.4 per cent, marking significant gains during 2022. Investments in the institutional and governmental subsector increased by 1.2 per cent after deteriorating over the preceding two quarters, remaining stagnant from the levels recorded in 2021 [Chart 2: ICIC Investments].

The Capital and Repair Expenditure Survey is an annual report that showcases infrastructure investments made during each fiscal year. The latest report consists of revised 2021 data, preliminary 2022 data and insights into the market's intention to allocate expenditure for infrastructure in 2023 [Chart 3: Capital and Repair Expenditures]. The report suggests that both businesses and governments are expected to invest $201 billion in non-residential construction in 2023, reflecting a modest increase of 3.8 per cent from 2022, compared to two prior years of high growth – 12.6 per cent in 2022 and 9.4 per cent in 2021. While the public sector contributed more than half of the $22.5 billion growth in 2022, the private sector is expected to lead the growth in 2023, with a rise of 4.5 per cent in capital investments to $108 billion, while the public sector's capital spending rate is expected to slow to three per cent in 2023.

Industry's workforce

Q1 2023 witnessed an increase in the total adult population available to work in the residential and ICIC construction sectors. This upswing was characterized by strong gains in January and February, resulting in a quarterly percentage increase of 2.2 per cent, equating to 36,230 new workers entering the labour force. Despite the increase of new entrants to the construction industry, and having the largest labour force ever recorded, the added labour was not sufficient to increase the tight gap between the supply and the high demand for labour.

During the same period, the national figures for employment continued to rise. Of the 36,230 new entrants, construction employed 23,460 new workers in Q1 2023, a quarterly gain of 1.49 per cent. Quebec, British Columbia, and Ontario recorded the highest gains in Q1 2023, employing 9,830, 8,130, and 7,830 new workers to the construction labour force, respectively. On the other hand, Alberta and Nova Scotia experienced declines of 3,500 and 1,100 workers, respectively [Chart 4: Employment Change by Province]. Year over year, employment in construction rose by eight per cent, corresponding to 117,000 more workers in Q4 2022 than in the same period a year ago.

Another indicator of the high demand for workers in the construction industry continues to be the elevated number of vacancies. As of January 2023, construction held the fifth largest number of vacancies across Canada, with 62,000 open positions available [Chart 5: Vacancies]. At the national level this means there are approximately 1.2 jobs available per unemployed person in the construction sector.

The elevated number of vacancies and low number of unemployed persons during a tight labour market indicates that the demand for workers in the industry remains significant. At the same time, the current supply of workers has not been able to meet the market's needs, highlighting the urgent need for measures to target skilled workers who can fill the open jobs.

Material inflation

Although supply chain pressures have continued to ease through Q1 2023, as shown by the Global Supply Chain Pressure Index [Chart 6: GSCPI], demand for certain consumer goods has kept upward pressure on the price of some goods.

The Industrial Product Price Index, a measure of the average change in the price of goods used for production, suffered a small uptick in Q4 (+1 per cent) offset by a similar decline in Q1 2023

(-1 per cent) [Chart 7: IPPI Quarterly Change]. The IPPI index suffered a significant increase in October (+2.3 per cent), offsetting the decreases in November, December, and February. In 2022, the IPPI saw an overall increase of 12.8 per cent, a slowdown from the record high of 14 per cent in 2021.

Important components for construction included in the IPPI:

The price of lumber products in Q1 continued to fall significantly. The group posted an eight per cent quarterly decline in its prices, driven by significant decreases in the price of softwood lumber (-16 per cent). Year over year, the shrinking demand for housing in the U.S. brought about by higher interest rate hikes helped ease the demand for Canadian lumber, leading to a 3 per cent decrease in prices of this group throughout 2022. This decline comes after an exceptional 2021, where the price of lumber products increased by a staggering 40 per cent.

The energy products group declined by approximately 12 per cent in Q1 2023, mainly due to decreases in diesel prices of 21 per cent and 20 per cent in light and heavy fuels. Motor gasoline also experienced a decline of 4.6 per cent. Year over year, the energy products group has steadily increased by 50 per cent, with similar increases in each product of the group. This notable increase is due to several factors, including the current demand for energy products and the global supply shifts of energy products caused by the Russian invasion of Ukraine in early 2022.

The group of ferreous (iron) materials continued its decline, registering its third consecutive quarterly drop, driven by substantial declines in hot-rolled iron products in Q1 2023. After recording a significant rise of 43 per cent in the price of this group in 2021, the price growth slowed down to 6.2 per cent in 2022 thanks to declines in the prices of hot rolled iron and steel and iron pipes. Prices have slowed down due to a low global demand for these products primarily caused by a reduced demand from interest rate sensitive industries, such as the automotive and construction sectors, particularly in countries that drive the price of steel, such as China.

Inflationary pressures and the tight labour market are captured in the Building Construction Price Index (BCPI), which reported a second consecutive slowdown of the growth of costs for building construction in the non-residential sector as of Q4 2022 [CHART 8: BCPI]. As the pressure on supply chains eases and inflation slowly comes down from its 6.8 per cent peak in November, the growth in building construction costs slightly increased by 1.5 per cent in Q4 2022 – less than half of the four per cent increase documented in Q2 2022. There was a decrease in the cost of all components of non-residential construction. Over the last three years, the accumulated costs of building construction induced by the supply shocks have led to non-residential building construction prices to remain 24.6 per cent higher at the end of 2022 than their levels in 2019.

What's ahead for the industry

Building permits across Canada increased in Q4 of 2022, with a two per cent rise in construction intentions in the non-residential sector compared to the previous quarter. This increase was mainly driven by a sharp rebound in industrial construction, which saw a 23.8 per cent rise ($2.7 billion), and a slight increase in commercial construction, which rose one per cent ($5.9 billion). Permits for institutional buildings decreased by 12.8 per cent ($2.4 billion) in Q4, following the highest investment recorded for the series in Q1 2022 [CHART 9: Building Permits]. The increase in construction intentions is a positive sign for the ICIC sector, indicating potential growth in the next months.

The Canadian Survey of Business Conditions for Q2 2023 indicates business conditions and owners' expectations for Q2 2023. Amongst the obstacles to growth cited by businesses, the most significant continue to be inflation and labour shortages [Table 1: Survey]. Although the industry continues to face a variety of challenges, approximately 75 per cent of businesses in construction believe their business will improve or remain the same over the next quarter, an increase of five percentage points from the last quarter. Seventeen per cent of respondents expect to expand on their number of employees, a 6.6 percentage points increase since the previous survey, while the demand and sales of their services are expected to remain the same.

The ICIC construction sector expectations for Q2 2023 have remained positive despite the tight labour market and financial conditions. Investment commitments already made by the public sector and expected private sector investments in 2023 will continue to fuel the industry's growth. Furthermore, inflationary pressures in the medium and long-term are easing. However, high interest rates and labour shortages are issues that will continue to impact the industry's growth. These challenges are expected to persist throughout 2023. Overall, the ICIC sector remains resilient. With continued investments, the ICIC sector will be able to endure these challenges and continue contributing to Canada's economic growth.

The following macroeconomic shifts are important for the industry to continue monitoring in 2023:

- **Inflation and interest rates:** As inflation slowly eases, the Bank of Canada continues to hold its key interest rate. Negative impacts of interest rate hikes on the economy have already begun to materialize.

- **Labour shortages:** The labour market remains tight. Plans towards attracting, training and retaining skilled workers in construction will remain a priority for the industry.

- **Tightness of financial and credit markets:** Businesses have begun to report issues with obtaining financing, the cost of insurance, and fluctuations in consumer demand for their services.

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

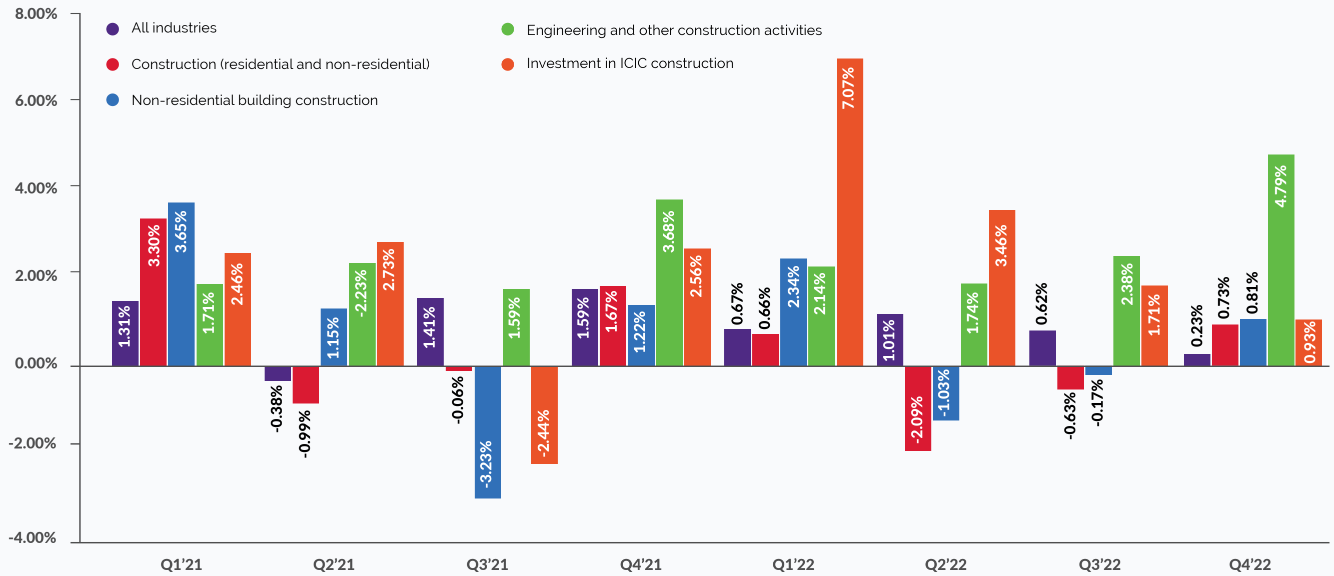
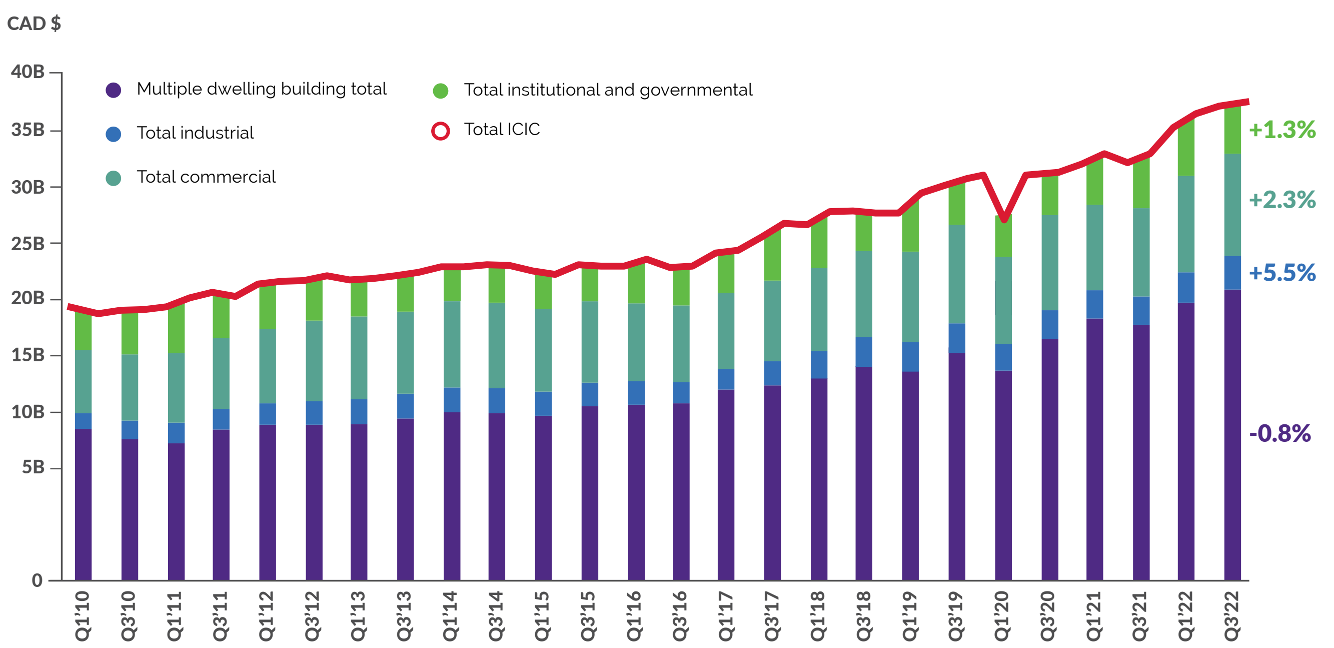


CHART 2
Quarterly investments in ICIC increase driven by industrial investments



Source: Statistics Canada, CCA

CHART 3

Yearly investments in non-residential construction increase for a third consecutive year

Capital expenditures in non-residential construction and investment intentions

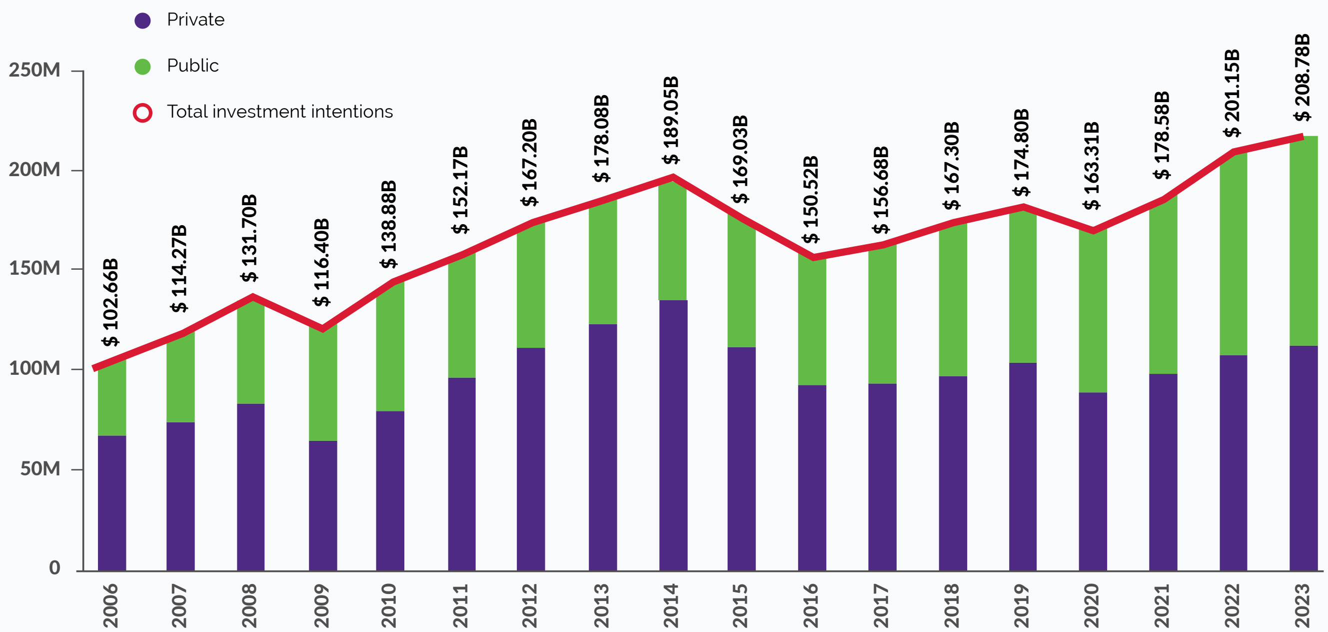
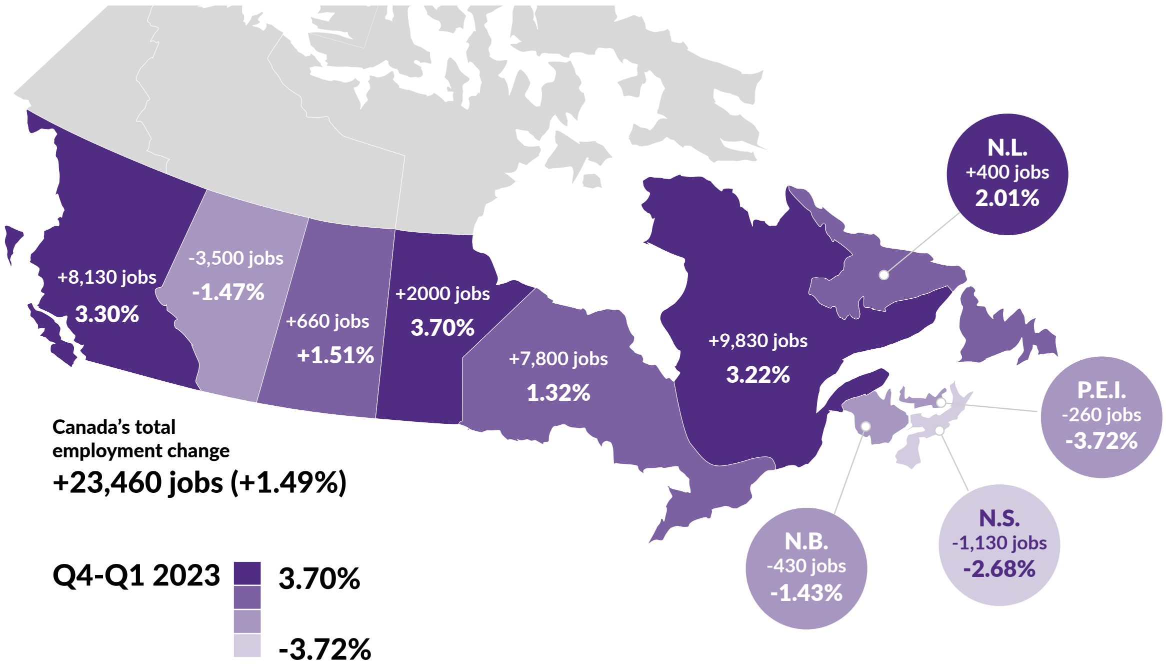


CHART 4

Quarterly employment change in construction activities Q4-Q1 2023



Source: Statistics Canada, CCA

CHART 5

Job vacancies in construction across canada

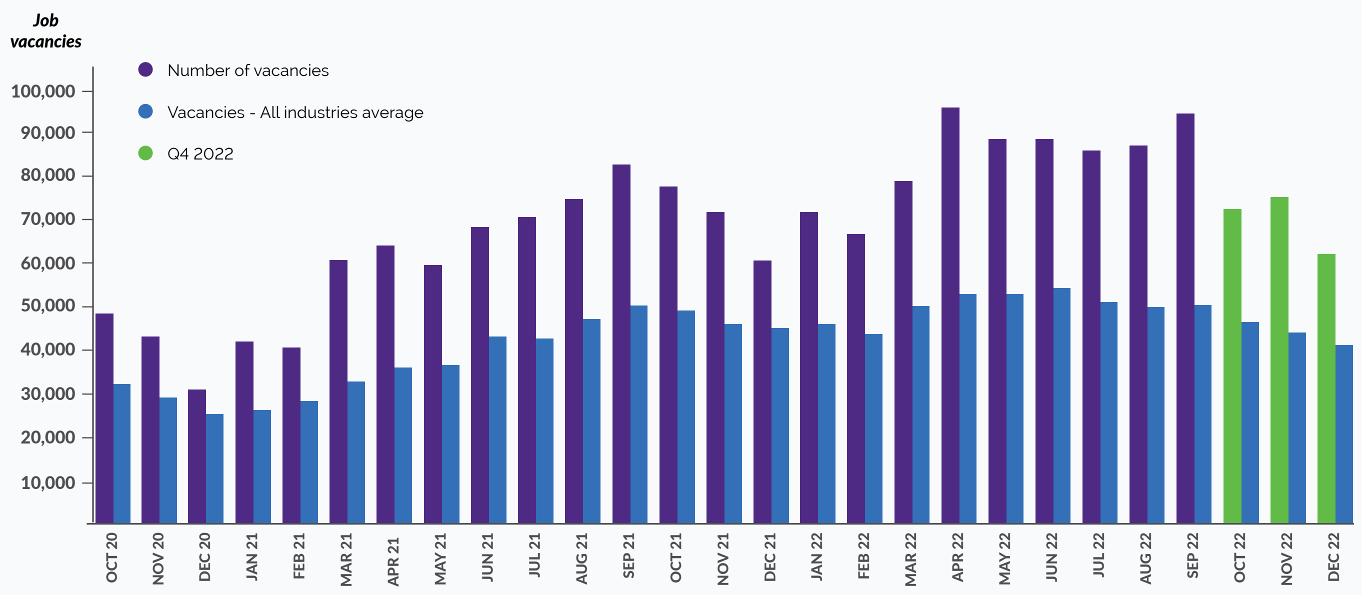
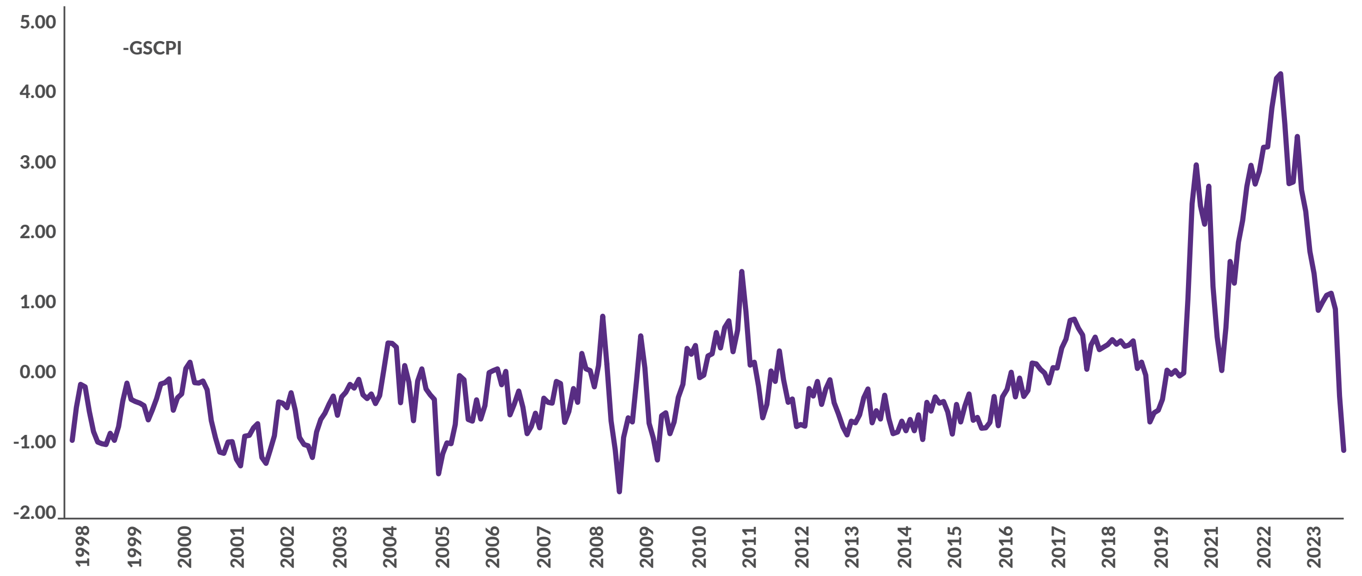


CHART 6

Global supply chain pressure index New York federal reserve 1998 - 2023



Source: Statistics Canada, CCA

CHART 7

Quarterly fluctations of the industrial product price index

Total index increase Q1 2020 - Q4 2022

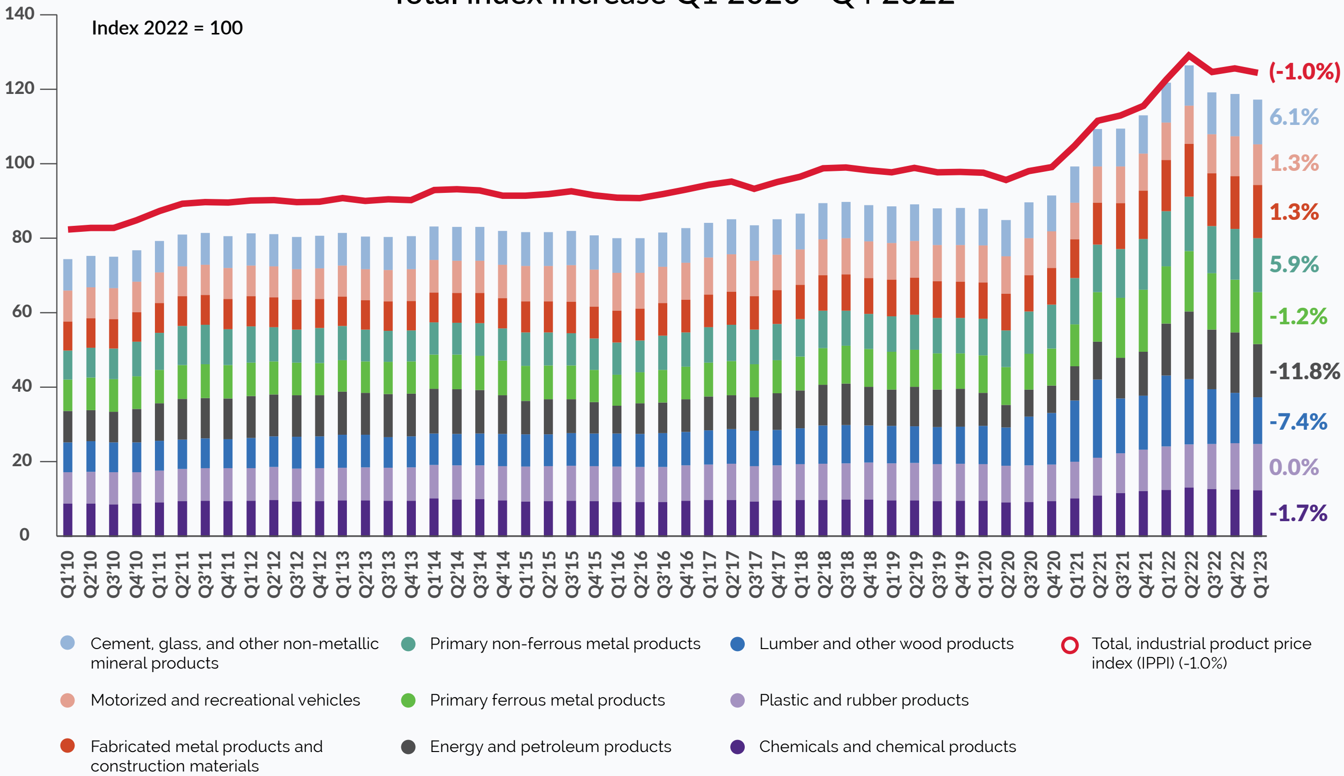
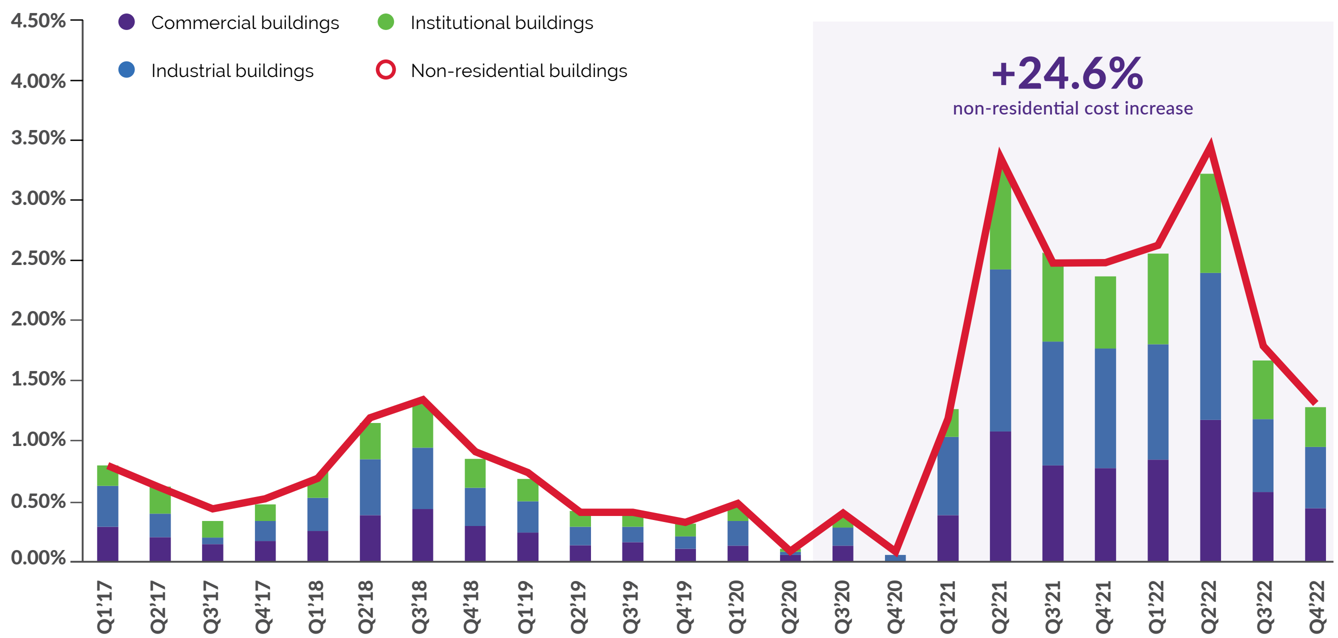


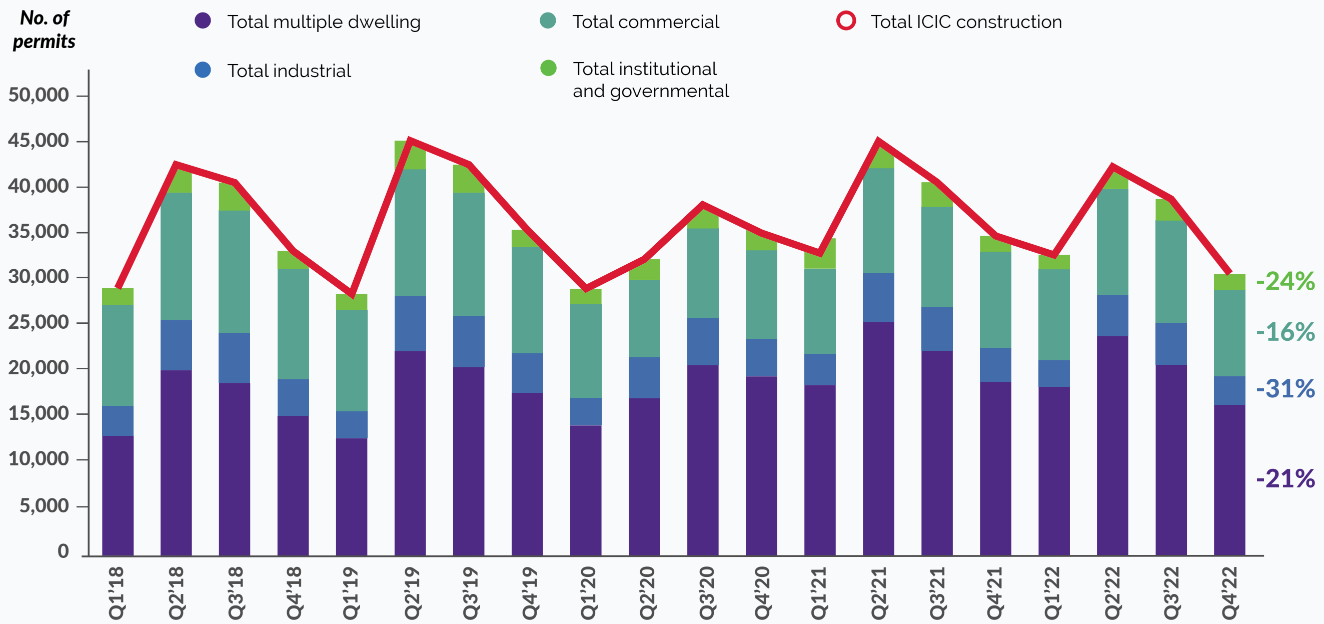
CHART 8

Quarterly inflation growth building construction price index



Source: Statistics Canada, CCA

CHART 9
Quarterly number of ICIC building construction permits



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	36.7%	34.3%	22.5%	43.7%	32.1%	18.2%	30.2%	25.1%	37.4%	41%	69.2%	42.1%	37.1%	39.8%
Difficulty acquiring inputs, products or supplies from abroad	10.2%	11.5%	0.6%	19.1%	4.2%	6.9%	6.2%	6.9%	10.1%	21.8%	13.9%	8.8%	18%	0%
Rising cost of inputs	55.5%	48.4%	48.3%	45.8%	42.6%	47.9%	50.4%	48.2%	78.2%	64.3%	68.3%	50.7%	37.8%	19.6%
Transportation costs	47.7%	63.3%	48%	56.4%	53.6%	40.6%	50.4%	32.4%	59.6%	55.7%	42.4%	50.9%	40.8%	43%
Fluctuations in consumer demand	22.4%	23.6%	9.7%	22.1%	28.5%	14.2%	22.1%	24%	27.3%	21.5%	31.6%	26.1%	17%	0%
Insufficient demand for goods or services offered	13%	18.2%	7.3%	9.1%	9.5%	12%	15.4%	21.1%	13.9%	6.4%	13.3%	13.3%	4.3%	2.6%
Obtaining financing	13%	18.1%	23.3%	12.7%	7.3%	6.2%	9.5%	2.2%	11.7%	18.1%	25.6%	16.8%	14.6%	7.2%
Cost of insurance	43.1%	50.9%	39.7%	34.2%	45.7%	36.7%	47.2%	16.6%	41.1%	55.4%	38%	44.1%	35.2%	34.6%
Recruiting skilled employees	43%	26%	53.3%	47.2%	46.4%	42.2%	46.8%	26.5%	45.8%	25.6%	51.1%	44%	60.8%	34.5%
Retaining skilled employees	26.5%	22.8%	30.8%	33.9%	32.6%	31.6%	23.1%	22.6%	24.2%	22.9%	30%	34%	34.2%	45.7%
Shortage of labour force	26.5%	17.1%	32.7%	49.8%	42.8%	38.9%	33.6%	29.2%	44.7%	31.1%	55.8%	58.7%	57%	44.7%

Source: Statistics Canada, CCA