Canadian Construction Association
Best Practices Services

SPRING 2025

Construction Quarterly Economic Insights

Key insights from Q4 2024

- **Canada's economic performance in Q4 2024 and early 2025:** Canada's economy demonstrated modest but steady resilience in the second half of 2024, with real GDP growing by 0.5 per cent in Q4 after a 0.3 per cent growth in Q3. Full-year growth reached 1.6 per cent, supported by lower interest rates and a temporary surge in exports. However, as 2025 begins, escalating tariff threats and political uncertainty are weighing on consumer sentiment and investment, limiting the economy's growth potential.
- **Loosening monetary policy:**The Bank of Canada continued to ease financial conditions, cutting the overnight rate to 2.75 per cent by the end of 2024. With inflation moderating and growth concerns mounting, additional rate cuts are anticipated in 2025. These reductions are helping to stimulate housing demand and infrastructure investment despite global volatility.
- **Economic performance of the construction industry:** The construction sector expanded for a second consecutive quarter in Q4 2024, with real GDP rising 1.1 per cent. Despite these quarterly gains, the sector posted a slight year-over-year contraction of -0.3 per cent in 2024, marking the second consecutive annual decline, largely due to persistent weakness in single-family homebuilding and repair construction.
- **Material costs and price indexes:** The Industrial Product Price Index (IPPI) rose 0.8 per cent, with lumber and wood products surging by seven per cent, while energy products and primary ferrous metals posted declines. The Building Construction Price Index (BCPI) saw a modest increase of under one per cent, with Ontario, Saskatchewan, and Alberta recording the highest regional gains.
- **Material usage and trade in construction:** Canada's construction industry remains deeply dependent on imported materials, particularly steel, aluminum, cement, and electrical components. Many of these inputs are sourced primarily from the U.S., making them highly vulnerable to new tariffs.

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

Economic growth, interest rates and uncertainty: Key forces shaping construction in 2025

As 2025 unfolds, economic uncertainty and trade instability remain key challenges for Canada's macroeconomic outlook. Ongoing tariff threats are disrupting business investments and creating an unpredictable economic environment. Even without new tariffs in place, uncertainty alone is expected to dampen economic growth, keeping expansion below its full potential. Meanwhile, the U.S. economy is showing signs of weakness, primarily due to slowing consumer spending. While this could negatively impact Canadian exports in the long run, recent trade data indicates a temporary increase in Canadian merchandise exports, helping to sustain short-term growth.

Consumer spending, a key driver of economic activity, is also expected to slow as concerns over tariffs and potential job losses prompt more cautious household budgets. However, the Bank of Canada's recent rate cuts, which have lowered the key interest rate to 2.75 per cent, are beginning to ease financial conditions, with further reductions expected throughout the year. Additionally, a weaker Canadian dollar, currently fluctuating between U.S.$0.68 and U.S.$0.70, may enhance the competitiveness of Canadian exports, partially offsetting trade-related challenges.

Despite these uncertainties, the Canadian economy demonstrated resilience in 2024, buoyed by a series of interest rate cuts. Real GDP grew by 0.5 per cent in the fourth quarter, following a 0.3 per cent increase in the third quarter. Over the course of the year, the economy expanded by 1.6 per cent, reflecting moderate but steady growth. These macroeconomic trends set the stage for investment decisions in the construction sector, where interest rates, consumer confidence, and trade policies play a crucial role.

The construction sector continued its expansion for the second consecutive quarter, growing 1.1 per cent in Q4 as most construction activities saw gains. Residential construction led growth for much of the year, but in the fourth quarter, non-residential construction became the primary driver. Engineering and infrastructure projects also continued to grow, though at a slower pace than in previous quarters.

Consumer sentiment, as reflected in the Canadian Survey of Consumer Expectations, helps explain some of this momentum. Lower interest rates and expectations of further reductions have improved financial conditions, encouraging higher spending and home purchases. However, concerns over high prices, economic uncertainty, and elevated housing costs are weighing on spending decisions. While inflation expectations have mostly returned to pre-pandemic levels, confidence in the labour market has weakened, particularly among younger and lower-educated workers. This presents both opportunities and risks for construction. Stronger home-buying intentions and demand for renovations and materials suggest potential growth, but economic uncertainty and labour market instability may limit overall investment.

As 2025 begins, the construction industry faces a mix of challenges and opportunities. The Bank of Canada's rate cuts are beginning to stimulate investment in multi-residential developments and infrastructure projects, providing some optimism. However, the threat of tariffs continues to create uncertainty, leading to disruptions in business investment and complicating long-term planning. Navigating these economic shifts will require close monitoring of trade policies, market trends, and investment conditions to anticipate the sector's evolving landscape.

Quarterly focus: Construction materials and trade vulnerabilities

The imposition of sweeping U.S. tariffs, 25 per cent on all Canadian imports and a further 25 per cent specifically targeting steel and aluminum, has sharply escalated trade tensions and exposed critical vulnerabilities in Canada's construction sector. While CUSMA-compliant goods were temporarily exempt, the resumption of tariffs has reintroduced inflationary pressures, increased material costs, and destabilized cross-border supply chains that underpin the industry.

Construction in Canada is heavily reliant on integrated North American supply chains, particularly for specialized inputs like fabricated steel, aluminum components, and homebuilding fixtures. Due to Canada's geography and interprovincial trade barriers, U.S. imports often remain more cost-effective than domestic alternatives, making the sector especially sensitive to rising tariffs. Blanket tariffs, coupled with retaliatory measures, are expected to contract GDP, increase unemployment, and amplify costs for construction materials, threatening project viability and sectoral investment.

What sectors are most exposed to tariffs?

The impact of tariffs is not felt evenly across Canada's construction industry. Certain sectors are far more exposed due to their material needs and reliance on U.S. imports. Sectors that use a high share of imported materials, or that depend on components which cross the border multiple times during production, are especially vulnerable to trade disruptions and cost volatility.

Residential construction is one of the most immediately affected sectors. It relies heavily on imported homebuilding components like windows, doors, toilets, and aluminum frames, most of which are sourced from the U.S. Rising material costs and delivery delays are already affecting housing project timelines and budgets.

Non-residential construction, including commercial, institutional, and industrial buildings, depends on construction machinery, prefabricated steel, and specialized electrical equipment, many of which are imported or assembled using parts that cross borders multiple times. These materials are directly exposed to tariffs, making cost escalation in this sector likely.

Infrastructure and engineering construction is particularly sensitive to changes in the price and availability of steel, aluminum, turbines, and piping systems. Public transit, bridges, and energy infrastructure projects often rely on long planning cycles and large material volumes. Tariff-induced price volatility adds uncertainty and can jeopardize procurement and construction timelines.

When breaking it down by subsector, those that make extensive use of iron and metal products, such as pipes, valves, tubes, electrical wiring, fittings, and fasteners, are the most trade-sensitive. This includes non-residential building construction, electric power and communication engineering, oil and gas engineering construction, and repair construction. These subsectors not only consume large volumes of imported components but often rely on U.S. suppliers for critical items, making them especially vulnerable to new tariffs and broader trade disruptions.

Products used and their vulnerability

The Canadian construction industry depends heavily on imported materials, with varying degrees of reliance across different regions and specific products. The effects of newly imposed tariffs are expected to disproportionately impact regions and industries with high import dependency, particularly those reliant on U.S. trade.

This section provides a detailed analysis of key construction materials, their distribution across Canada, the level of regional dependency on imports, and the specific exposure to U.S. imports. Using data from Statistics Canada, the U.S. Census Bureau and the Trade Data Online, and following the approach used by (HICC), we focus on materials important to institutional, commercial, industrial, and civil (ICIC) construction and how vulnerable they are to US tariffs. This approach allows us to have a deep look into the consumption of imports, Canada's construction industry reliance on imports, and the U.S. as a trade partner by province.

Import reliance ratios

Commodity	Primary consumption of imports (Regional % of total national imports)				
	BC	Prairie	ON	QC	Atlantic
Construction equipment	18.5%	31.9%	37.3%	7.4%	5.0%
HVAC equipment	10.4%	16.3%	60.3%	11.3%	1.6%
Electrical components	11.1%	10.9%	63.3%	13.7%	1.0%
Lime and gypsum	16.6%	28.9%	35.9%	14.4%	4.0%
Steel	15.9%	8.4%	60.9%	13.8%	1.1%
Plastic product	12.2%	12.3%	63.9%	10.1%	1.5%
Cement	27.1%	19.8%	39.3%	12.4%	1.1%
Asphalt	22.9%	10.1%	59.3%	5.1%	2.7%
Aluminum	14.5%	0.8%	10.6%	74.1%	0.0%
Lumber	32.4%	6.8%	39.8%	15.2%	6.8%

Commodity	Import reliance ratio (Import % of total regional trade)					
	BC	Prairie	ON	QC	Atlantic	Canada
Construction equipment	92.3%	91.1%	73.7%	60.3%	89.5%	81.4%
HVAC equipment	86.0%	60.9%	75.8%	57.8%	69.5%	70.0%
Electrical components	68.3%	79.9%	70.2%	66.4%	68.4%	70.6%
Lime and gypsum	83.9%	96.9%	61.5%	54.5%	41.6%	67.7%
Steel	97.7%	65.6%	53.6%	51.8%	95.8%	72.9%
Plastic product	75.0%	61.0%	50.5%	37.5%	42.8%	53.4%
Cement	55.5%	60.1%	39.0%	23.4%	89.2%	53.4%
Asphalt	85.0%	30.5%	41.6%	10.3%	51.1%	43.7%
Aluminum	30.0%	57.9%	38.3%	22.6%	35.1%	36.8%
Lumber	6.3%	3.8%	28.5%	7.7%	6.9%	10.6%

Commodity	Import reliance from the U.S. (% of regional imports from the United States)					
	BC	Prairie	ON	QC	Atlantic	Canada
Construction equipment	15.3%	77.6%	43.9%	20.4%	9.2%	33.3%
HVAC equipment	30.6%	67.9%	56.2%	32.4%	27.0%	42.8%
Electrical components	21.4%	50.4%	40.9%	22.2%	23.6%	31.7%
Lime and gypsum	99.4%	99.4%	98.0%	95.1%	99.0%	98.2%
Steel	17.8%	64.3%	62.2%	11.4%	19.2%	35.0%
Plastic product	55.9%	67.6%	69.2%	32.2%	55.9%	56.2%
Cement	54.0%	54.0%	46.0%	22.6%	34.4%	42.2%
Asphalt	95.5%	97.8%	98.4%	73.7%	97.0%	92.5%
Aluminum	2.9%	83.2%	71.0%	0.4%	42.5%	40.0%
Lumber	87.0%	93.2%	87.4%	79.3%	95.2%	88.4%

Steel is a fundamental material in the construction sector, used in infrastructure, high-rise buildings, and transportation projects. Ontario receives the largest portion of imported steel, accounting for approximately 60.9 per cent of Canada's total steel imports, while British Columbia (15.9 per cent) and Quebec (13.8 per cent) also receive notable shares. However, the dependency on imported steel varies across regions, with British Columbia relying on imports for approximately 97.7 per cent of its steel supply, followed closely by Nova Scotia (99.3 per cent) and Newfoundland (98.6 per cent). Ontario and Quebec also exhibit significant exposure relying on imports for a bit more than half of their steel demand.

The construction industry's reliance on U.S. steel is especially concerning. Almost all of New Brunswick's imported steel comes from the U.S. (81.1 per cent), while regions like British Columbia (17.8 per cent) and Quebec (11.4 per cent) have a more diversified steel supply chain. Given that steel frequently crosses the Canada-U.S. border multiple times during processing, tariffs will substantially raise costs, particularly in infrastructure projects and manufacturing-heavy regions like Ontario (62.2 per cent).

Aluminum imports in Canada are largely concentrated in Quebec, which accounts for 74.1 per cent of all national aluminum imports, followed by Ontario (10.6 per cent) and British Columbia (14.5 per cent). Despite this, Quebec only sources about 22.6 per cent of its aluminum from imports thanks to its strong domestic production base. In contrast, other regions are far more dependent on foreign aluminum. The Prairies rely on imports for 57.9 per cent of their supply, Ontario for 38.3 per cent, and Atlantic Canada for 35.1 per cent. When it comes to trade exposure, New Brunswick is especially vulnerable, with 97.7 per cent of its aluminum imports coming from the U.S. By comparison, Quebec and B.C. are minimally affected, sourcing only 0.4 per cent and 2.9 per cent of their aluminum imports from the U.S., respectively. Ontario, however, stands out, with 71 per cent of its aluminum imports coming from the U.S., making it more exposed to tariff-related price increases.

Electrical components, like wiring, transformers, and circuit breakers, are essential across all types of construction. Ontario leads in volume, receiving 63.3 per cent of national imports in this category. Yet, import dependence is high across the board: Prairies (79.9 per cent), Ontario (70.2 per cent), British Columbia (68.3 per cent), and Quebec (66.4 per cent) all rely heavily on imported components. The U.S. remains a key supplier, especially for the Prairies and Ontario, where 50.4 and 40.9 per cent of their electrical imports originate from the U.S. As a result, any tariffs on these components could significantly impact construction costs and timelines across infrastructure and commercial projects.

Among other important materials, cement stands out for its high import dependence in Atlantic Canada (89.2 per cent), followed by the Prairies (60.1 per cent) and British Columbia (55.5 per cent). New Brunswick sources 90.8 per cent of its cement from the U.S., while B.C. and the Prairies both import 54 per cent of their supply from American producers, making these regions particularly sensitive to U.S. trade measures for this product.

Asphalt shows a similar risk profile. Although B.C. only accounts for 22.9 per cent of national asphalt imports, it is 85 per cent dependent on those imports to meet its needs. Atlantic Canada (51.1 per cent) and Ontario (41.6 per cent) also face significant dependency. All three regions import the overwhelming majority of their asphalt from the U.S., Atlantic Canada (97 per cent), Ontario (98.4 per cent), and B.C. (95.5 per cent), putting them squarely in the high-risk category for cost and supply shocks under new tariffs.

Lumber, by contrast, is a unique case. Canada is a net exporter of lumber and generally supplies its own market. Still, Ontario (39.8 per cent) and British Columbia (32.4 per cent) receive most of the country's lumber imports. Overall import dependence is low, ranging from 6.3 per cent in B.C. to 28.5 per cent in Ontario, but the fact that 88.4 per cent of imported lumber comes from the U.S. means that retaliatory U.S. tariffs on Canadian lumber could still disrupt pricing and supply chains, particularly in the short term.

Lime and gypsum products, which are essential for drywall, plaster, and cement, also present a major risk. The Prairies import 96.9 per cent of their supply, B.C. follows with 83.9 per cent, and Ontario and Quebec rely on imports for 61.5 per cent and 54.5 per cent, respectively. While Atlantic Canada appears less dependent at 41.6 per cent, some provinces, like Newfoundland and Labrador, rely entirely on imports (100 per cent). Compounding this issue is the fact that more than 95.1 per cent of lime and gypsum imports in nearly every province come from the U.S. This extreme concentration leaves multiple regions highly exposed to any disruption in cross-border trade, potentially delaying drywall manufacturing and construction timelines if tariffs are introduced or escalated.

Risk and uncertainty diverting investments even before tariffs are put through

Even before tariffs are fully implemented, the uncertainty surrounding them is already having a measurable impact on the construction industry. The mere threat of trade restrictions has prompted many businesses to change course. Builders and suppliers are stockpiling materials in anticipation of higher prices, and steel producers have begun limiting new orders to manage future risk. Contract terms are also evolving, price escalation clauses and delay provisions are increasingly being built in to protect against cost fluctuations and supply chain interruptions. At the same time, many investment decisions are being postponed as uncertainty clouds the outlook for large-scale projects.

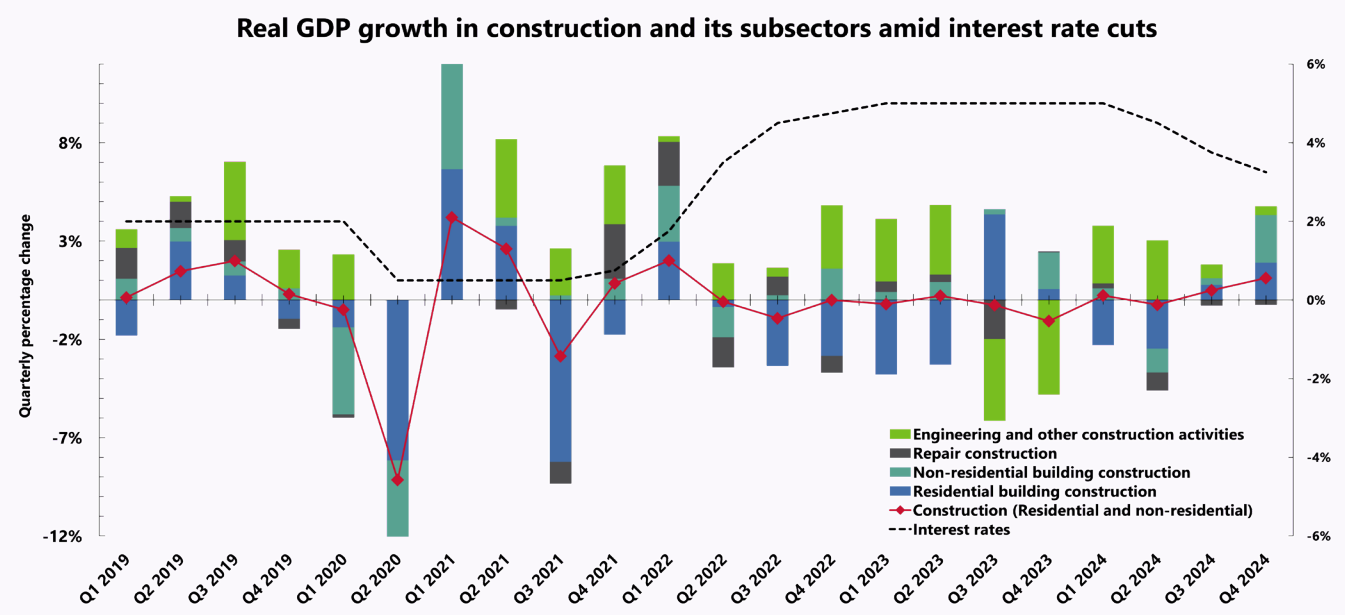
The construction sector depends on predictability and long-term planning to function effectively, but the current environment is anything but stable. The risk of tariffs is contributing to rising inflation and increasingly volatile material costs. This, in turn, is eroding demand as household incomes shrink and unemployment slowly rises. Developers are revising pre-sale forecasts downward, leading to a slowdown in new housing starts. Investor confidence is also weakening, particularly when it comes to major infrastructure and real estate investments that require long-term certainty.

ICIC construction sector: Performance and sectoral trends

The construction industry saw an expansion in its activities during the fourth quarter of 2024. Real GDP expanded by 1.1 per cent, the largest expansion since 2022. Activity levels rose during the last two months of the year with differences recorded by each sector. All sectors of construction, with the exception a slight decline in activities of the repair construction sector, recorded gains during this quarter.

GDP construction

Source: Statistics Canada, CCA



Residential building construction expanded 1.9 per cent in the fourth quarter as higher activity in the construction of single-family homes and apartments as well as home alterations and improvement drove the increase in the quarter. Non-residential building construction was another large contributor to growth in the quarter, mainly driven by increased activity in public and industrial building construction, as the sector expanded by 2.4 per cent. Engineering and other construction activities also increased by 0.5 per cent during the last quarter of the year, although this quarter records the slowest growth in activity of the year. The only contraction that dragged down the construction sector was repair construction, which contacted by 0.3 per cent, posting its third consecutive contraction.

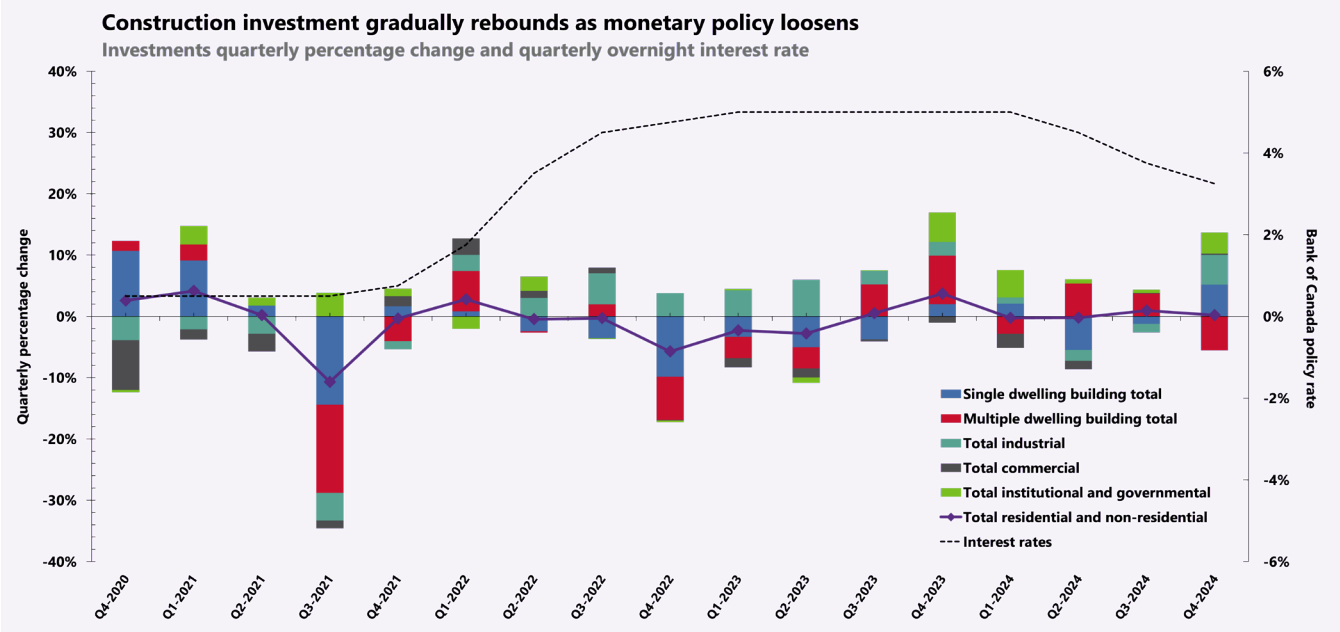
Year over year, the construction industry contracted for the second consecutive year, with a decline in activities of -0.3 per cent compared to 2023. Residential building construction contributed the most to the decline in 2024, with a contraction in activities of -1.6 per cent, in large part driven by lower activity in the construction of single detached homes and alterations and improvement. This was the third consecutive year of decline in residential building construction. On the other hand, non-residential construction and engineering and other construction activities continued to grow in 2024, with activities expanding by 2.2 and 0.6 per cent. The general decline in activity was much slower than in 2023, largely in part due to a more positive residential construction sector.

Investments in building construction

Investment in the construction sector saw a positive increase in the fourth quarter of 2024, driven by growth in non-residential building construction and single-dwelling construction. The increase in activity during the last quarter reflects the heightened investment in these sectors. Investment in building construction grew by one per cent (+$654.1 million) to reach $64.5 billion in the fourth quarter, marking the sixth consecutive quarterly increase.

Investments

Source: Statistics Canada, CCA



The quarterly rise in building construction investment was primarily led by the non-residential sector, which accounted for 88.9 per cent of the total growth in the quarter. The institutional and industrial components were the main drivers of this increase, while the commercial component contributed less.

Investments in non-residential construction increased by 2.1 per cent quarter-over-quarter, adding approximately $270 million in the fourth quarter of 2024. This marks the largest quarterly increase since the economy began reopening in 2020. The growth was led by a 4.9 per cent increase in industrial sector investments, equivalent to $125 million, a 3.4 per cent increase in institutional and governmental sector investments, equal to $130 million, and a marginal 0.2 per cent or $14 million increase in the commercial sector.

Increases in non-residential construction were most notable in Alberta (1.6 per cent), Ontario (5.2 per cent), and Prince Edward Island (12 per cent). The industrial sector saw substantial growth in Manitoba (39.8 per cent), British Columbia (9.8 per cent), Alberta (6.3 per cent), and Ontario (5.8 per cent). Meanwhile, the commercial sector recorded the largest increases in Prince Edward Island (9.3 per cent), Saskatchewan (3.4 per cent), and New Brunswick (2.2 per cent).

Investments in residential construction showed mixed results. Growth in single-family home investments was nearly offset by declines in the multi-unit component. Multi-residential construction, which had been the primary driver of sector growth throughout 2024, saw a quarterly decline of 5.5 per cent. Offsetting this decrease, investments in single-dwelling construction rose by 5.2 per cent, adding approximately $560 million.

On a year-over-year basis, total investment in building construction increased by 2.4 per cent to $154.1 billion in 2024. Investment in the residential sector grew by 3.0 per cent to $102.4 billion, driven by the multi-dwelling component, which rose 9.3 per cent to $54.6 billion following two consecutive annual declines. Meanwhile, investment in single-family homes fell by 3.3 per cent to $47.8 billion, marking the lowest level recorded in the data series.

Non-residential sector investment increased by 1.1 per cent to $51.7 billion in 2024. The industrial component rose by 4.4 per cent (+$440.7 million) to $10.5 billion, reaching a record high. Gains were recorded in six provinces and two territories, led by Ontario (+$397.6 million) and Alberta (+$228.5 million). Institutional construction investment grew by 9.7 per cent (+$1.3 billion) to $15.3 billion, marking the fifth consecutive year of growth. Ontario (+$930.1 million) saw the largest increase, followed by British Columbia (+$356.6 million) and five other provinces. Investment in the commercial sector, however, moderated the overall growth in non-residential construction, declining by 4.5 per cent (-$1.2 billion) to $25.9 billion in 2024.

Labour market in construction

Labour in the construction industry remains at historical levels, driven by sustained employment due to the high demand for construction in Canada. With a labour force of approximately 1.7 million workers nationwide, the industry continues to support strong employment levels. This persistence is largely due to the ongoing demand for skilled labour to meet infrastructure and development needs across the country. While broader economic conditions may impact overall labour trends, construction employment remains a key pillar of Canada's workforce.

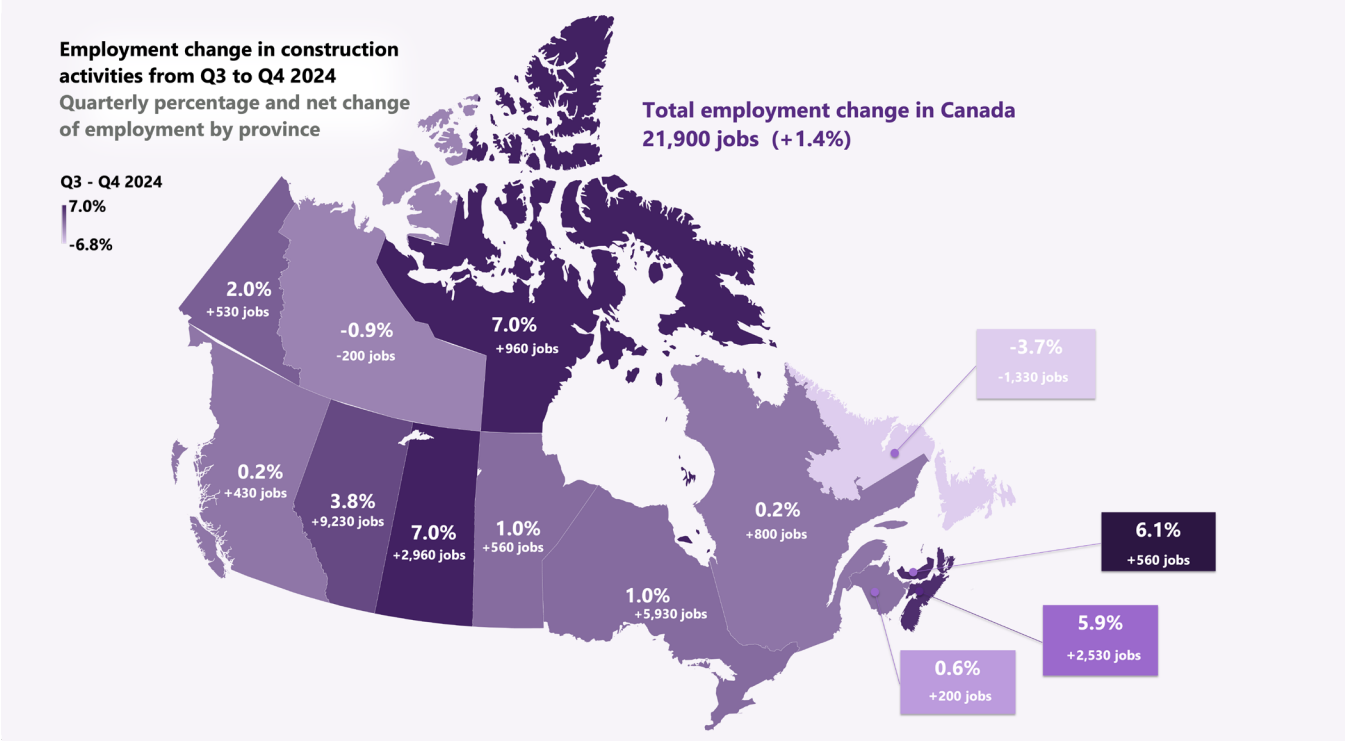
Employment in the sector has increased for two consecutive quarters, indicating a recovery in workforce levels. In the last quarter of the year, the unemployment rate in construction declined, contrasting with labour market trends in other industries. Meanwhile, job vacancy levels have stabilized but remain above their pre-pandemic average, highlighting the continued demand for skilled labour in the industry.

Employment

Construction employment increased for another consecutive quarter by 1.4 per cent, equivalent to approximately 22,000 newly employed by the construction industry. During the fourth quarter this brought employment levels to 1.62 million employed individuals in the construction industry.

Employment by province

Source: Statistics Canada, CCA



Provincially, only Newfoundland and Labrador and the Northwest Territories posted contractions in their employment, losing approximately 1,300 (-6.8 per cent) and 200 (-0.9 per cent) jobs respectively. The rest of the provinces and territories across Canada saw increases in construction employment. Employment increases were led by Alberta (3.8 per cent equivalent to 9,230 jobs), Ontario (one per cent equivalent to 5,930 jobs), Saskatchewan (seven per cent equivalent to 2,960 jobs) and Nova Scotia (5.9 per cent equivalent to 2,530 jobs).

2024 was a year that kept seeing increases in construction employment, however, at a slower pace than in the previous two years. Employment in construction increased year over year by 0.3 per cent, equivalent to 5,000 more people employed in construction compared to the previous year, adding to three strong years of employment gains to the industry.

Despite employment not rising at a larger rate as the previous year, the regional gains underscore the resilience of certain provinces and the continued demand for construction labour in key areas. This is particularly evident in regions responding to ongoing infrastructure and multi-residential development projects, which continue to drive employment opportunities within the industry.

Unemployment

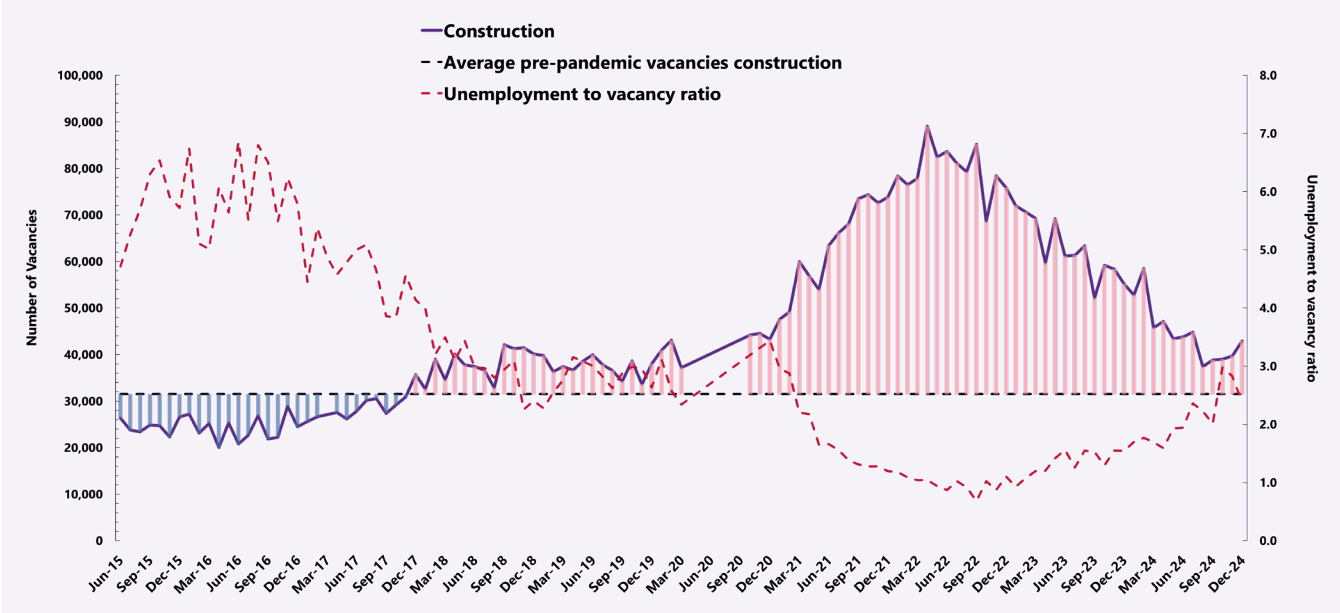
As employment in the construction industry increased, unemployment levels also declined. During the fourth quarter, unemployment in the sector fell by 12.8 per cent. With the construction labour force growing at a slower pace than employment and fewer unemployed workers, the industry's unemployment rate dropped by seven percentage points, reaching 5.3 per cent by the end of the quarter.

Vacancies in construction

Vacancies in the construction industry have stabilized at a higher rate than before the pandemic, although they have slowly declined over the last two years. Across all industries in Canada, job vacancies went the opposite way as they saw a quarterly decrease of two per cent. Following nine consecutive quarters of declines, vacancies in construction increased by 0.4 per cent during the fourth quarter of 2024. This increase brought the number of job vacancies up to approximately 42,000 positions in the fourth quarter of the year.

Vacancies and unemployment to vacancy ratio

Source: Statistics Canada, CCA

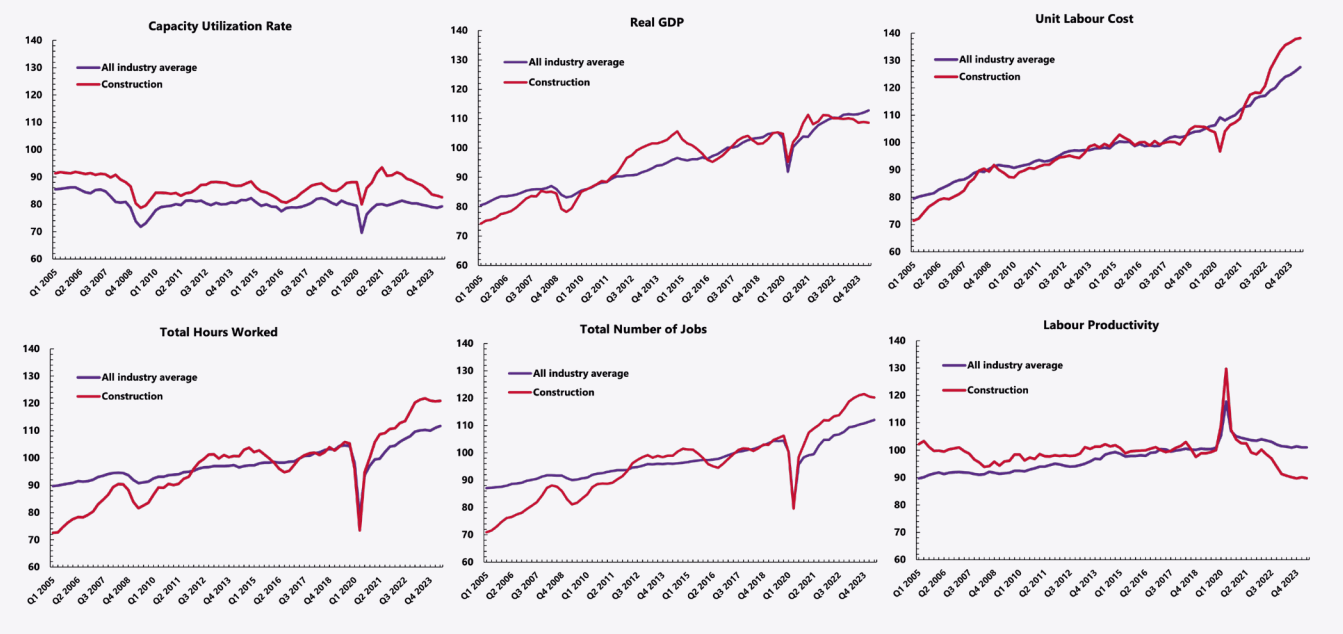


Despite some positive news on the labour market, as unemployment levels and the unemployment rate come down, the labour market in construction remains tight in the short term. A good measurement of labour tightness in construction is the ratio of unemployed individuals to job vacancies. This ratio which has increased significantly since seeing bottom lows of 0.8 unemployed individuals per vacant position in construction, the ratio has slowly climbed to reach 2.9. During the last quarter of the year, we saw this ratio decline once more from 2.6 unemployed persons per open position to a ratio of 2.2. The decline in ratio is a result of an increase in vacancies. Comparatively, the average pre-pandemic ratio was 4.2, which continues to showcase the tightness of the labour market for construction and the need to address labour shortages in construction.

Industrial capacity utilization rate and measures of productivity

Productivity remains a critical issue for Canada's construction industry, directly influencing economic growth and competitiveness. In 2024, productivity challenges persist, reflecting long-standing trends in the sector. Key performance indicators such as the Capacity Utilization Rate (CUR), total hours worked, productivity ratios, and unit labour costs (ULC) provide valuable insights into how efficiently resources are being used. These measures help assess the industry's ability to optimize output while managing costs.

Measures of productivity



Capacity Utilization Rate

The Capacity Utilization Rate measures the actual output of an industry relative to its potential output if operating at full capacity (100 per cent utilization). Productivity, as measured by the capacity utilization rate, increased by 0.5 per cent during the fourth quarter of 2024, reaching a level of 84 out of a hundred. This represents an increase of one percentage point from the previous quarter and the first increase since the third quarter of 2023. During periods of economic expansion, demand for goods and services typically increases. This leads to higher capacity utilization rates. Conversely, during economic downturns or recessions, demand generally declines, causing a drop in capacity utilization rates. Lower capacity utilization in these periods reflects reduced economic activity and potential inefficiencies as businesses scale back operations in response to weaker demand. This slight increase may be a result of past investments made and reflect the increase in output and activity of the industry in the last quarter of the year.

Unit Labour Cost

Unit Labour Cost (ULC) is a key productivity metric that measures the ratio of labour compensation to real output. It reflects the total labour cost required to produce a single unit of output and serves as an important indicator of inflationary pressures arising from wage growth. ULC increases when wages per hour rise faster than labour productivity, signaling higher production costs.

ULC in construction slightly increased in Q4 2024 from previous quarters by 1.2 per cent, a similar increase as to what was reported in Q3 and the slowest since the pandemic. The ULC has increased more rapidly for construction than other industries but seems to be stabilizing as its growth has continued to slow during 2024. After experiencing a very fast growth in 2021 and 2022, during 2024, the ULC in construction has continued to decelerate compared to other industries, as its growth has slowed below the all-industry average and below other industries, ranking the third slowest growth by industry across all industries.

Productivity

Productivity in the construction industry, measured as output per hour worked, continued to decline in the fourth quarter of 2024, contracting by 0.3 per cent. This brought the sector's productivity index down to 89.7, a slight decrease from 89.9 in the previous quarter. On an annual basis, construction productivity declined by 0.6 per cent, reflecting a 0.5 percentage point decrease compared to the previous year. This trend indicates ongoing challenges in improving efficiency within the sector. Examining additional productivity indicators provides further insight into the factors influencing this decline.

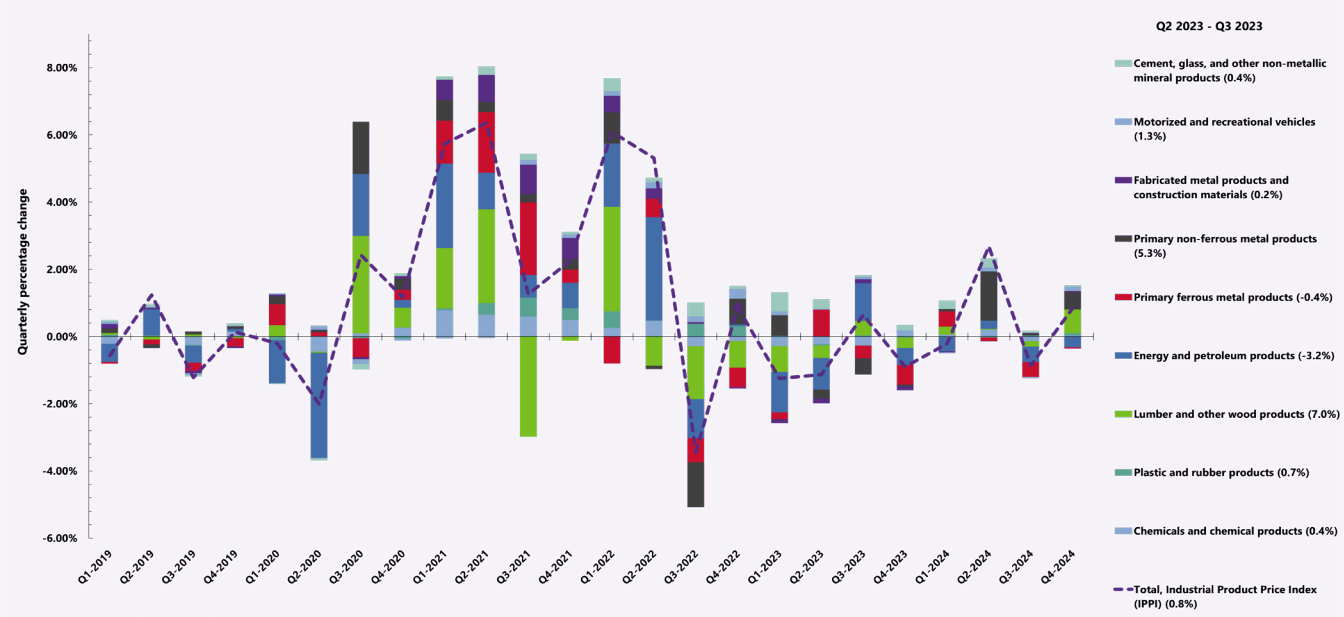
Year-over-year, productivity across all industries in Canada declined by 0.2 per cent, while the construction sector experienced a sharper decline of 0.6 per cent. This drop was primarily driven by total hours worked growing at a faster pace than output. In construction, total hours worked increased by 0.3 per cent over the year, whereas output, measured by GDP, contracted by 0.3 per cent leading to the decline in productivity. Additionally, unit labour costs, which reflect total compensation per hour worked, rose by 4.3 per cent across all industries and by 2.9 per cent in construction, indicating a 1.4 percentage point gap. These figures suggest that while construction employment remains strong, productivity challenges persist due to a mismatch between labour input and output growth.

Inflation of construction materials

Inflation of goods used by the industry in the construction of different types of buildings is tracked through the Industrial Product Price Index. The IPPI provides insights to both aggregate groups of products and specific products used by the industry. During the fourth quarter of the year, the IPPI posted a slight increase of 0.8 per cent.

IPPI

Source: Statistics Canada, CCA



From the materials important to construction, a group of lumber and other wood products drove the growth with an increase of seven per cent. Other groups that posted increases saw minimal growth below a one per cent quarterly increase. Supporting some relief to material prices, the group of energy products and primary ferreous products saw declines that allowed some relief to the increased prices. The group of energy products declined by 3.2 per cent and the group of primary ferreous products declined by 0.4 per cent.

Energy products

The price growth of energy products slowed, with several key components experiencing declines. Refined petroleum products saw a price decrease of 3.8 per cent, while motor gasoline dropped by 8.1 per cent, and asphalt and asphalt products fell by 6.8 per cent. However, this overall trend was partially offset by an 11.5 per cent increase in the price of natural gas liquids and related products.

The decline in energy product prices can be attributed in part to shifting global crude oil dynamics. A combination of oversupply and weakening demand, particularly from China, has led to a drop in oil prices since the start of the year. OPEC+ recently announced an increase in production, contributing to a further decline in Brent crude prices, which fell below $70 per barrel in early March. Meanwhile, concerns over escalating trade tensions and potential tariffs on Canadian and Mexican energy exports to the U.S. have introduced uncertainty in global oil flows. While Canada's expanded Trans Mountain pipeline offers an alternative route to Asian markets, Mexico faces challenges in redirecting its exports without incurring higher transportation costs. These factors, coupled with ongoing geopolitical tensions and refinery shutdowns in the U.S., have created a complex pricing environment for refined petroleum products and asphalt, despite an increase in the price of natural gas liquids.

Primary ferrous metal products

The fluctuations in primary ferrous metal prices observed in the last quarter occurred before the announcement of new U.S. tariffs on steel and aluminum, indicating that other market factors were driving price changes at that time. Despite a 0.4 per cent overall decline, key materials such as iron and steel pipes and tubes saw a notable 4.9 per cent price drop, while hot-rolled iron fell by 2.5 per cent. Meanwhile, cold-rolled iron products experienced a modest price increase of 1.9 per cent, partially offsetting the overall decline. However, with tariffs now on the horizon, these past trends may not be indicative of future price movements.

Fluctuations in primary ferrous metal prices reflect broader market uncertainties, particularly in anticipation of new U.S. tariffs on steel and aluminum. Even before the tariffs take effect, price volatility has increased. The uncertainty has led to delayed supplier quotes, longer lead times, and panic buying as manufacturers brace for cost increases. Major U.S. steel producers, have repeatedly raised prices, capitalizing on expectations of reduced competition from imports. At the same time, many manufacturers reliant on steel and iron inputs are struggling to absorb rising costs, with some passing them down the supply chain to end customers. The 2018 tariff experience suggests that domestic producers often price just below import levels, further driving up costs. While Canadian construction firms have benefited from the recent price declines in iron and steel pipes and tubes, ongoing trade policy shifts may reverse this trend, creating cost pressures in future quarters.

Lumber and other wood products

Lumber products, which play a crucial role in residential construction, experienced a significant price increase in the fourth quarter following two consecutive quarters of slight declines. Overall, prices in this category rose by 9.2 per cent, with all major products in the group reporting gains. The most substantial driver of this increase was hardwood lumber, which surged by 14.6 per cent, followed by softwood lumber, which saw a rise of 9.2 per cent. Veneer and plywood prices also contributed to the overall growth, increasing by 7.7 per cent. These price increases reflect shifting market conditions and growing demand, particularly in the residential sector, where lumber is a key input.

The recent surge in lumber prices comes at a time of heightened uncertainty in the Canada-U.S. softwood lumber trade. While Canadian lumber remains a preferred choice for homebuilders due to its higher quality, its pricing is now being shaped by both market dynamics and impending trade policy shifts. The potential for new U.S. tariffs on Canadian softwood has already influenced supply chains, with some buyers rushing to secure materials before tariffs take effect, while others hold off on purchases amid uncertainty. The evolving trade environment makes it crucial to monitor lumber prices in the coming months.

Cement, glass, and other non-metallic mineral products

Cement, glass, and other non-metallic mineral products, a crucial category for heavy civil construction, recorded a modest quarterly increase of 0.4 per cent in the fourth quarter. Within this group, several key construction materials saw price gains. Concrete products experienced the largest increase at 2.1 per cent, followed by prefabricated buildings and components, which rose by 1.8 per cent. Cement prices also edged up by 1.1 per cent, contributing to the overall upward trend. These materials are essential for infrastructure projects, and their price movements reflect ongoing demand in the sector.

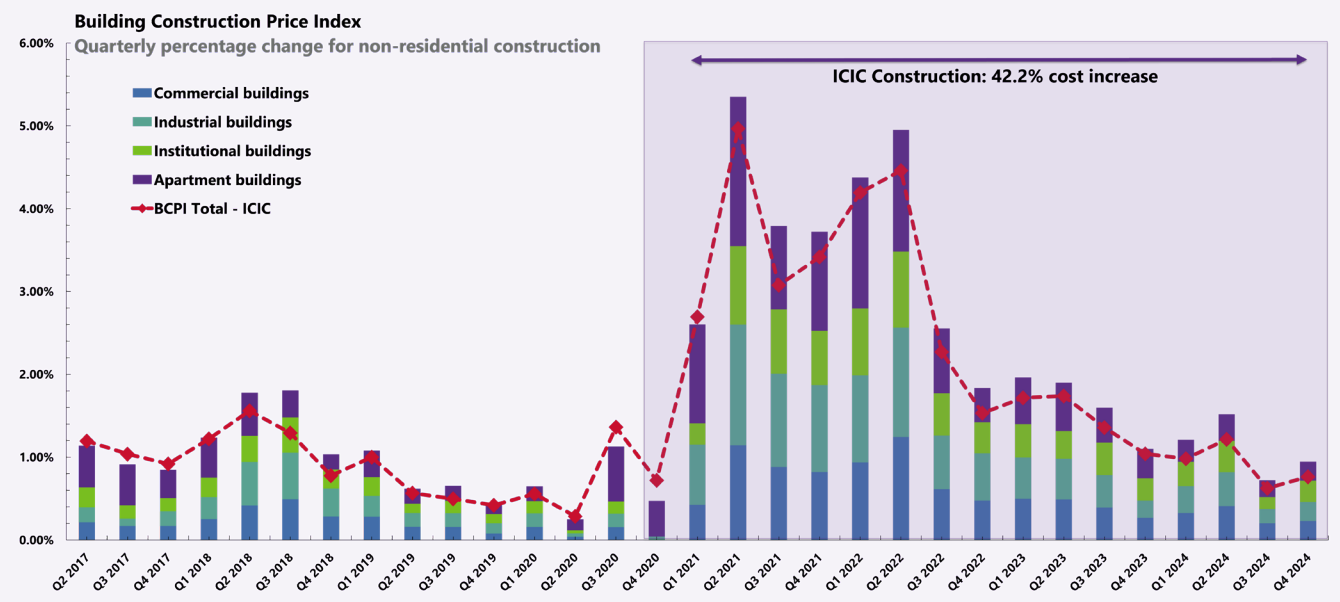
Building Construction Price Index (BCPI)

The Building Construction Price Index (BCPI) is a comprehensive measure of changes in the overall cost of constructing a typical building. It accounts for key expenses, including land, labour, and construction materials, providing insight into how these factors, combined with market fluctuations, influence total construction costs.

In the fourth quarter of 2024, the BCPI continued to decelerate, increasing by less than one per cent, a trend not seen since before the pandemic. The index for ICI (Industrial, Commercial, and Institutional) construction rose by approximately 0.8 per cent during the quarter.

BCPI

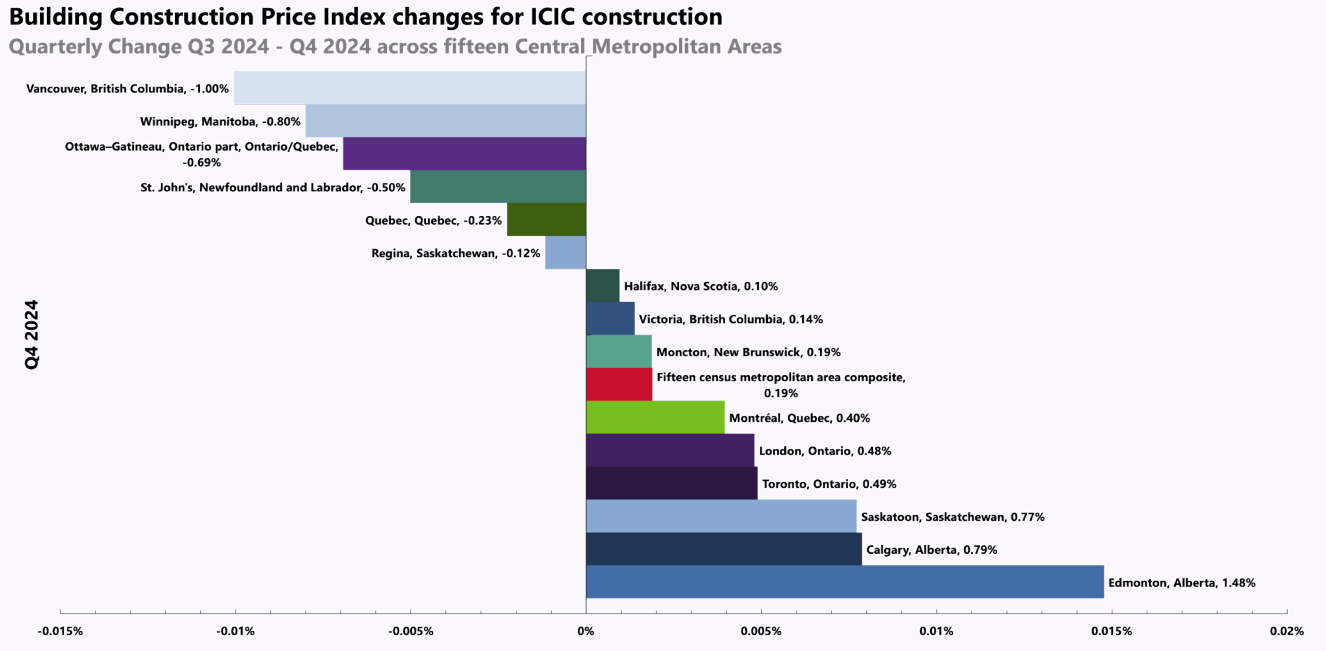
Source: Statistics Canada, CCA



This slowdown was largely driven by declines in key cost components, including a 1.2 per cent drop in electrical and finishes labour costs and a one per cent decrease in both the metal fabrications and conveying equipment divisions. The only category to record a price increase was structural steel framing, which saw a marginal uptick of 0.1 per cent. Regional variations were also evident, with Ontario (1.2 per cent), Saskatchewan (1 per cent), and Alberta (0.9 per cent) recording the largest increases. Meanwhile, Newfoundland and Labrador, Nova Scotia, and New Brunswick posted more modest gains of 0.4 per cent each.

BCPI by CMA

Source: Statistics Canada, CCA



Business conditions and what's ahead for the industry

Shifting conditions and economic outlook

The Business Outlook Survey, Fourth Quarter of 2024 presents a cautiously optimistic picture for the Canadian construction industry as firms anticipate improving demand conditions and stabilizing cost growth. Lower interest rates have contributed to a more positive outlook for sales, which may support increased investment activity. While hiring plans remain subdued due to available labour capacity, businesses expect fewer constraints on workforce availability than in previous years. Inflation expectations have edged slightly higher but remain within the Bank of Canada's target range, suggesting that cost pressures, though easing, will remain a factor in pricing decisions. However, ongoing uncertainty surrounding U.S. trade policies, particularly potential tariff increases, poses a risk to input costs.

Pressing challenges and obstacles

The results from the Canadian Survey on Business Conditions for the first quarter further highlight these ongoing challenges within the construction industry, particularly in inflation, labour recruitment, and supply chain disruptions. Compared to previous periods, concerns over obtaining financing (+11.5 pp), rising inflation (+10.9 pp), and recruiting skilled employees (+8.5 pp) have increased, showcasing persistent financial and workforce pressures.

Additionally, expectations of supply chain obstacles (+7.0 pp) and difficulties acquiring inputs from abroad (+6.0 pp) remain elevated.

These challenges are largely driven by Quebec and Ontario, where businesses report the highest concerns regarding financing, inflation, and supply chain risks. Alberta and British Columbia also experience regional pressures, with Alberta struggling to recruit workers and British Columbia facing shifting hiring needs.

Obstacles and business conditions

Geography	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL	YT	NT	NU	CA
Difficulty acquiring inputs, products or supplies from within Canada	-20 pp	5 pp	5 pp	9.8 pp	11 pp	8.6 pp	4 pp	-1.6 pp	2.3 pp	-2.1 pp	N/A	N/A	1.6 pp	4.3 pp
Difficulty acquiring inputs, products or supplies from abroad	5.5 pp	5.1 pp	1.4 pp	11.5 pp	5.2 pp	7.8 pp	13.2 pp	-5.2 pp	17.1 pp	8.5 pp	0 pp	-5.8 pp	0 pp	6 pp
Rising cost of inputs	-13.3 pp	2.6 pp	-30.1 pp	-2 pp	-10.6 pp	-0.3 pp	-6.3 pp	-14.5 pp	-3.5 pp	-17.7 pp	N/A	0 pp	0 pp	-6.3 pp
Rising inflation	-1.3 pp	13.7 pp	0.7 pp	5.1 pp	18.2 pp	12.5 pp	22.3 pp	-16.8 pp	-24.3 pp	-3 pp	0 pp	0 pp	0 pp	10.9 pp
Transportation costs	11.5 pp	-23.3 pp	12.8 pp	10.3 pp	2.1 pp	10.2 pp	5.2 pp	24.7 pp	-35.2 pp	20.9 pp	0 pp	0 pp	0 pp	2.9 pp
Fluctuations in consumer demand	-2.1 pp	8.8 pp	12.9 pp	4.1 pp	-5 pp	8.1 pp	-2.9 pp	-7.7 pp	-2.1 pp	0.2 pp	0 pp	N/A	-0.5 pp	1.5 pp
Insufficient demand for goods or services offered	2.9 pp	0.5 pp	0.8 pp	14.6 pp	-11.4 pp	19.4 pp	9.1 pp	1.5 pp	-5.8 pp	14.7 pp	N/A	N/A	0 pp	1 pp
Obtaining financing	12.8 pp	7.5 pp	-3.9 pp	4.4 pp	11.1 pp	17.4 pp	12.5 pp	8.7 pp	-4.2 pp	2.8 pp	0 pp	1.3 pp	N/A	11.5 pp
Cost of insurance	-6.8 pp	7 pp	-4.3 pp	-9.9 pp	-6.3 pp	9.3 pp	11 pp	4.3 pp	-8.9 pp	1.4 pp	0 pp	N/A	0 pp	-0.3 pp
Rising interest rates and debt costs	8 pp	18.1 pp	-6.2 pp	-7.7 pp	2.2 pp	8.6 pp	-4.1 pp	-12.3 pp	-4.1 pp	2 pp	0 pp	0 pp	0 pp	5.1 pp
Recruiting skilled employees	-24.6 pp	14.2 pp	-9.9 pp	38.2 pp	17.1 pp	14.2 pp	-2.5 pp	-12.1 pp	6.2 pp	-2.3 pp	0 pp	0 pp	0 pp	8.5 pp
Retaining skilled employees	-6.6 pp	18.3 pp	-17.4 pp	20.2 pp	1.9 pp	1.9 pp	-3.8 pp	-6.5 pp	0.7 pp	-15.4 pp	-0.4 pp	N/A	0 pp	2.4 pp
Shortage of labour force	-11.7 pp	17.1 pp	-14.5 pp	27.3 pp	-4.9 pp	2.5 pp	-26.2 pp	-5.7 pp	4.8 pp	-1.6 pp	0 pp	0 pp	0 pp	-0.9 pp

What's ahead for the industry?

The construction industry is expected to sustain strong demand for labour and services, supported by robust investment activity, particularly as Bank of Canada interest rate cuts provide more favorable financing conditions. However, both external and internal factors may influence future business conditions, requiring industry stakeholders to remain adaptable.

The global economy remains uncertain, largely shaped by political and economic developments in the U.S.. Key decisions made by the incoming Trump administration will need to be closely monitored, as they could significantly impact global markets and trade relationships. The first half of the 2025 U.S. presidential cycle is particularly important, with potential policy shifts affecting Canada's economic landscape. Recent policy reversals and proposed changes under the Trump administration, including a back and forth on tariffs, add to the uncertainty, making it essential for businesses to assess potential risks and adapt accordingly.

The U.S., like Canada, is a consumer-driven economy, making consumer sentiment a key predictor of future economic trends. In March, the University of Michigan Consumer Sentiment Index dropped to 57.9, its lowest level since November 2022, while the Conference Board's index recorded its steepest decline in over three years. These declines reflect growing concerns about inflation and the risk of a potential recession. The U.S. labour market remains strong, with the unemployment rate at 4.1 per cent in February, restoring employment levels to pre-pandemic conditions. However, the supports buffering the labour market are weakening as excess savings deplete and businesses face higher refinancing costs. Policy changes, including proposed cuts to the civil service, could further strain employment. Meanwhile, financial markets have shown signs of distress, with the S&P 500 falling below pre-election levels, wiping out over $5 trillion in post-election gains. Investor concerns over potential economic damage from tariff increases have driven this shift in sentiment. While the stock market decline currently appears to be a correction rather than a crisis, a prolonged sell-off could amplify economic instability.

On the domestic front, political developments in Canada are contributing significantly to uncertainty. Mark Carney, who was sworn in as the 24th Prime Minister on March 14, 2025, following Justin Trudeau's resignation, called a snap federal election for April 28, 2025. This decision adds further uncertainty to political and economic stability, as major policy decisions, including responses to Trump's escalating tariffs, may be delayed or altered depending on the election outcome. With the current government operating in a caretaker role, significant trade negotiations and tariff strategies could remain on hold, leaving businesses and industries without clear direction until a new leadership is established.

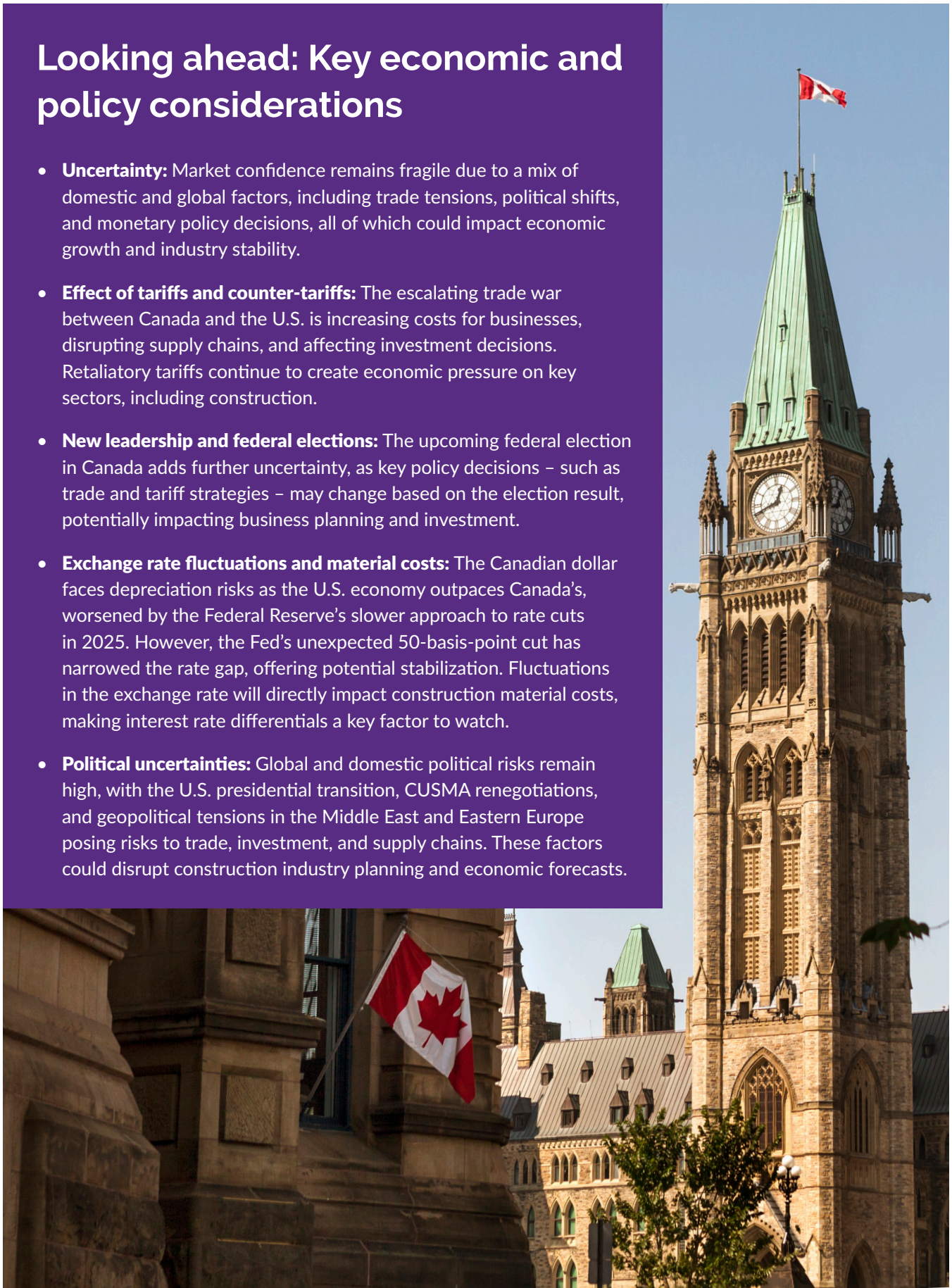
The Canadian economy faces heightened uncertainty in 2025, with economic indicators playing a crucial role in shaping the outlook for the construction sector. Demand for construction services remains strong, supported by high employment levels, but rising trade tensions with the U.S. and ongoing political uncertainty domestically present new risks. The April 28 federal election means that major policy decisions, including tariff responses and trade negotiations, may be delayed, leaving businesses in a period of uncertainty. At the same time, monetary policy remains a key factor. While there is growing support for additional interest rate cuts, recent inflation data may slow the Bank of Canada's ability to ease rates further.

In the first half of the year, international trade will remain a central focus, as Trump's escalating tariffs and Canada's retaliatory measures could disrupt supply chains, impact material costs, and slow investment in major projects. If economic activity continues to weaken, the Bank of Canada may be forced to introduce further measures to support growth and stability, making the next few months critical for business confidence and industry planning.

CCA will continue to monitor the macroeconomic environment closely as Canada and the global economy face a critical and uncertain political period.

Looking ahead: Key economic and policy considerations

- **Uncertainty:** Market confidence remains fragile due to a mix of domestic and global factors, including trade tensions, political shifts, and monetary policy decisions, all of which could impact economic growth and industry stability.
- **Effect of tariffs and counter-tariffs:** The escalating trade war between Canada and the U.S. is increasing costs for businesses, disrupting supply chains, and affecting investment decisions. Retaliatory tariffs continue to create economic pressure on key sectors, including construction.
- **New leadership and federal elections:** The upcoming federal election in Canada adds further uncertainty, as key policy decisions – such as trade and tariff strategies – may change based on the election result, potentially impacting business planning and investment.
- **Exchange rate fluctuations and material costs:** The Canadian dollar faces depreciation risks as the U.S. economy outpaces Canada's, worsened by the Federal Reserve's slower approach to rate cuts in 2025. However, the Fed's unexpected 50-basis-point cut has narrowed the rate gap, offering potential stabilization. Fluctuations in the exchange rate will directly impact construction material costs, making interest rate differentials a key factor to watch.
- **Political uncertainties:** Global and domestic political risks remain high, with the U.S. presidential transition, CUSMA renegotiations, and geopolitical tensions in the Middle East and Eastern Europe posing risks to trade, investment, and supply chains. These factors could disrupt construction industry planning and economic forecasts.



For more information on this report or the work CCA is currently focused on to address these issues, please email Louis-Philippe Champagne, Associate Vice-President, Public Affairs and Industry Practices at lpchmpagne@cca-acc.com.

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