



SUMMER 2025

Construction Quarterly Economic Insights



Canadian Construction
Association
Best Practices Services

Key insights from summer 2025

- **Economy afloat by pre-tariff trade:** In Q1, Canada's real GDP grew by 2.2 per cent annualized. Most of Q1's growth was driven by a surge in international trade, as companies stockpiled goods ahead of anticipated tariffs. The economy grew faster than expected, but this growth has already reversed in April.
- **Bank of Canada taps the brake on rate cuts:** The overnight rate was held at 2.75 per cent. While deteriorating labour market conditions fueled expectations for further cuts, stubborn core inflation undermines those hopes. If retaliatory tariffs persist, inflation will climb further. We anticipate at most one more rate cut to 2.50 per cent before year-end.
- **Economic performance of the construction industry:** Real GDP in construction grew by 0.22 per cent, driven by continued strength in non-residential buildings. Output now stands 1.52 per cent above Q1 2024, as a rebound in residential more than offset a rare decline in engineering activities. The sector continues to show signs of resilience.
- **Material costs and price indexes:** Industrial Product Price Index (IPPI) rose 1.17 per cent year-over-year (YOY), the slowest in the past six months. From February to May, lumber prices fell back while energy continued to decline; primary ferrous metals rose 3.38 per cent, although still down YOY, the recent upward trend is worrying. Cement is up 0.93 per cent from April to May. The Building Construction Price Index (BCPI) again saw a modest increase of under one per cent, with New Brunswick, Alberta, and British Columbia recording the highest regional gains.
- **Infrastructure and fiscal policy in construction:** Non-residential projects are becoming the sector's growth engine as private demand softens amid waning confidence. Ottawa's record \$50 billion construction package from the platform, could boost sector GDP directly by around five per cent if capital funding materializes on schedule.



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.

Forces shaping construction and the Canadian economy

At mid-year, the Canadian economy remains in a holding pattern, weighed down by unresolved trade tensions, slowing demand, and falling business confidence. The economy saw a burst in both imports and exports. Exports jumped 7.5 per cent, while imports rose seven per cent, with net exports adding roughly half a percentage point to real GDP in Q1. That quickly reversed in the following month. We already saw exports drop by 10.8 per cent in April, while imports fell by only -3.5 per cent. That gap resulted in the largest trade deficit on record. Construction, which is domestically oriented (no exports), proved to be comparatively resilient despite lagging in aggregate growth in Q1. Momentum has nonetheless cooled as the second quarter began: the seasonally adjusted value of building permits slipped 4.1 per cent in March and a further 6.6 per cent to about \$10.5 billion in April. Public-sector investment will become the principal engine for the industry in the face of recession and private pullback. Fiscal policy is expansionary and pro-build; rising deficits and slower revenue growth will test that stance in the quarters ahead.

After a wave of rate cuts that brought the Bank of Canada's policy rate to 2.75 per cent, credit is more accessible than a year ago, yet investment appetite is subdued. Markets foresee limited to no additional cuts in the second half of 2025: headline Consumer Price Index (CPI) fell to 1.7 per cent in April after the federal fuel-charge suspension, but core measures (CPI-trim three per cent, CPI-median three per cent YOY in May) testify to persistent embedded pressure. With tariff-related cost increases still lurking in supply chains, the Bank is likely to stay on hold. In this environment, firms face an erosion of certainty rather than a single shock, and large private projects are increasingly subject to cautious underwriting and delayed investment decisions.

Labour market trends reflect broader economic fatigue. National unemployment rose to 6.9 per cent in April, contract employment is becoming a more common phenomenon, and further weakening is expected. Yet the construction industry continues to operate under the capacity constraints of skilled labour rather than unwillingness to employ. Wage pressure in the sector remains elevated, especially in specialized trades tied to infrastructure and large-scale public builds.

Trade policy continues to dominate the risk landscape. Since January, developments have been poor: the U.S. imposed an additional 25 per cent tariff on Canadian steel and aluminium; President Trump also announced the termination of talks with Canada. Although construction commodity prices have been stable so far—equipment and freight rates have softened a touch—prolonged volatility cements itself and hangs over the financial viability of every project.

Headline inflation's decline has been driven largely by one-off factors—lower energy prices, a firmer Canadian dollar, and the removal of the fuel charge. Meanwhile core inflation remains stubbornly high. Upstream suppliers have so far absorbed tariff shocks by drawing down pre-tariff inventories, which smooths cost pass-through. Downstream firms—contractors and final-goods producers—operate with lean inventories and must replenish inputs at current, higher spot prices, exposing them to cost spikes and passing costs to consumers.

Many Canadians are encouraged by talks of lowering inter-provincial trade barriers. For construction, freer movement of input materials should benefit sourcing and logistics, though the country's vast east-west geography still poses the bigger challenge. The reforms are likely to deliver even greater gains in utilities, food safety, and fields with provincially designated licensing and certification such as health care and education. Overall, this initiative is an important step toward a more integrated Canadian economy and will support long-term growth, not a shield that tariff proofs and insulates the country alone from effects of deteriorating international trade.

Quarterly focus: Bricks, budgets, balance

The new Liberal minority administration entered office with an unmistakably pro-build agenda. Construction was front and centre in both the throne speech and the first bill to clear the House of Commons, and the industry is ready to step up and cooperate. This is a historic moment that's unfolding amid economic uncertainty—the devil will be in the details.

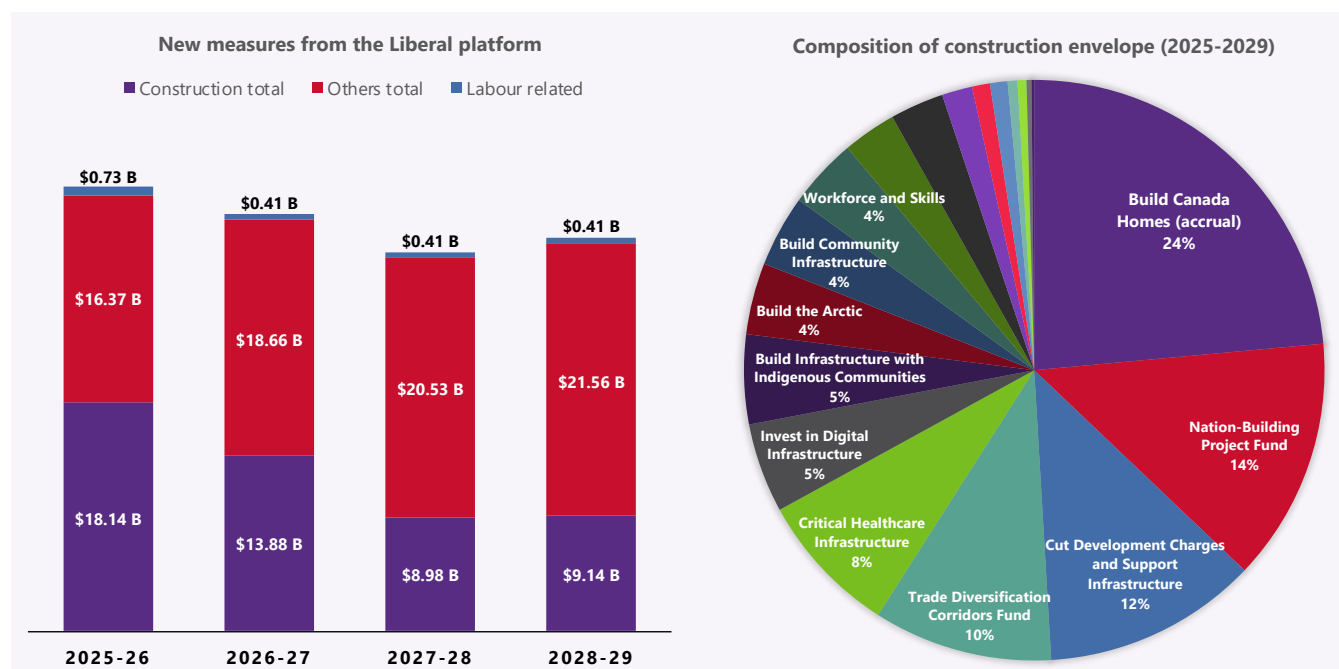
This quarter, we examine the new government's fiscal plans. Three months into the fiscal year, the official spending blueprint is still missing—the longest budget delay in over three decades—so we're taking a closer look at the fiscal and costing plan released during the campaign.



Liberal platform

New measures (\$ millions)	2025-26	2026-27	2027-28	2028-29	Total
Unite					
Nation-Building Project Fund	\$2,500	\$2,500	\$1,100	\$700	\$6,800
Trade Diversification Corridors Fund	\$3,500	\$500	\$500	\$500	\$5,000
Build the Arctic	\$500	\$500	\$500	\$500	\$2,000
Build Out Canada's East-West Electricity Grid	\$-	\$500	\$500	\$500	\$1,500
Invest in Digital Infrastructure	\$1,500	\$1,000	\$-	\$-	\$2,500
Top-Up to Disaster Mitigation and Adaptation Fund	\$500	\$-	\$-	\$-	\$500
Critical Healthcare Infrastructure	\$2,000	\$1,000	\$500	\$500	\$4,000
Build Community Infrastructure	\$1,000	\$1,000	\$-	\$-	\$2,000
Secure					
New Defence Capital Investment (accrual)	\$-	\$100	\$250	\$500	\$850
Small Craft Harbours	\$62.5	\$62.5	\$62	\$62.5	\$250
New RCMP Capital Investment (accrual)	\$16	\$68	\$68	\$120	\$272
Secure Our Borders (land border facilities)	\$200	\$200	\$45	\$45	\$490
Protect					
Build Infrastructure with Indigenous Communities	\$1,250	\$1,250	\$-	\$-	\$2,500
Build					
Build Canada Homes (accrual)	\$2,839	\$2,989	\$2,989	\$2,989	\$11,806
Cut Development Charges and Support Infrastructure	\$1,500	\$1,500	\$1,500	\$1,500	\$6,000
Facilitate Affordable Housing Conversion	\$25	\$35	\$38	\$40	\$138
First and Last Mile Fund	\$-	\$250	\$500	\$750	\$1,500
Expand EV Charging Infrastructure	\$19	\$19	\$19	\$19	\$76
Apprenticeship Grant	\$729	\$214	\$214	\$216	\$1,373
Double UTIP for Skilled Trades	\$-	\$25	\$25	\$25	\$75
Capital Funding to Colleges for Apprenticeships	\$-	\$20	\$20	\$20	\$60
Expand the Labour Mobility Tax Deduction	\$1	\$2	\$2	\$2	\$7
Mid-Career Training and Upskilling	\$-	\$150	\$150	\$150	\$450

Construction composition



Fiscal and costing plan

Over its four-year horizon, the platform sets out \$129 billion in new measures, of which 38.8 per cent (\$50 billion) will directly benefit construction businesses. A further 1.52 per cent (\$1.97 billion) is reserved for workforce and skills programs to help the sector meet its labour needs. In both dollar amount and share of the budget, the 2025-29 package is the largest commitment to construction in at least a decade—about \$3 billion a year more than Budget 2024 (itself roughly \$9.6 billion) and far above Budget 2023's \$5.8 billion. It also arrives with a workforce envelope that, while modest, is materially larger than previous offerings and explicitly tied to trade shortages. The combination leaves the industry in its most constructive—literally and figuratively—policy position since the post-war highway era. Note that these are costs to the government, not the full-size of available loans.

Federal construction outlay is set to reach \$18 billion in 2025-26 before settling closer to roughly \$9 billion (about 30 per cent of the construction envelope) by 2028-29. The trajectory suggests an early jolt from shovel-ready projects, followed by a pivot toward sustained program funding. That downward slope may prove illusory. Much of the early spending is allocated to non-residential projects. Even with Bill C-5 reducing approval cycles from five years to two, many of these projects won't break ground quickly enough to absorb funds within the first year. Housing and infrastructure also follow different approval clocks. As a result, the impact of these measures will unfold unevenly.

The envelope can be split into five functional families. Together, these measures broaden demand and give contractors clearer signals on where to deploy resources. Top of the list, the economic corridors and digital cluster accounts for 38.6 per cent of the construction-related budget (\$19.4 billion), which bundles the Nation-Building Project Fund (13.56 per cent), Trade Diversification Corridors Fund (9.97 per cent), Invest in Digital Infrastructure (4.98 per cent), Build the Arctic (3.99 per cent), East-West Electricity Grid (2.99 per cent), First and Last Mile Fund (2.99 per cent), and a modest EV-charging expansion (0.15 per cent).

Close behind is the housing stream, 35.8 per cent (\$17.9 billion), driven chiefly by Build Canada Homes (BCH) (23.54 per cent)—the single largest initiative. Championed by Prime Minister Mark Carney, BCH focuses on prefabricated, low-storey, multi-unit housing to address the housing crisis and aims to double Canada's residential construction rate to 500,000 homes annually over the next decade. It carries \$25 billion in below-market debt financing, \$10 billion in low-cost loans for affordable, Indigenous, student and seniors housing. Other measures include cutting development charges and support infrastructure (11.96 per cent)—a five-year municipal fee rebate, and a small affordable-housing conversion program (0.28 per cent).

Social and community infrastructure accounts for a further 18.4 per cent (\$9.2 billion), spanning critical health-care facilities (7.98 per cent), infrastructure in Indigenous communities (4.99 per cent), building community infrastructure (3.99 per cent), disaster-mitigation upgrades (one per cent), and small-craft harbours (0.50 per cent). There is also 3.1 per cent (\$1.6 billion) earmarked for security-related capital, which includes defence capital, RCMP facilities, and land-border modernization.

Combined, infrastructure and housing absorb 74.4 per cent of the construction envelope and roughly 28.9 per cent of the entire platform, cementing them as the centrepiece of the plan. Nearly two-fifths of every construction dollar targets the nation's economic spine—ports, rail, roads, power, and digital backbones—while a comparably large share tackles the housing shortage. The steady, multi-year cadence of both streams should give businesses a predictably robust pipeline. Excluding BCH, which will help manufacturing more than construction, the remaining envelope averages \$9.6 billion per year. Annualized Q1 GDP for our industry in nominal terms is \$209.9 billion, so the funding represents approximately a 4.57 per cent boost to sectoral GDP—assuming the new labour supports succeed in alleviating chronic skilled-trade shortages.

Workforce and Skills programs—anchored by \$1.37 billion in apprenticeship grants, \$450 million for mid-career training and upskilling, and three smaller initiatives (UTIP top-ups, college apprenticeships, and a labour-mobility deduction)—make up a small share of the overall funding envelope. Still, they play a critical role. These programs are the essential lubricant that prevents skills shortages from stalling project delivery.

New stance in defence

Canada's defence strategy is shifting significantly. Following the NATO summit, Prime Minister Carney announced a major build-up that would eventually bring defence spending to five per cent of GDP. This is an ambitious target that will take 10 years to reach and boost construction demand. In the near-term, Ottawa has already pledged to reach two per cent of GDP by the end of this fiscal year.

From a construction and economic perspective, how the money is spent is just as important as *how much*. The Liberal platform set aside \$18 billion for defence—about 14 per cent of all new measures. Of that, 4.7 per cent is true capital spending that would directly impact contractors; the rest goes towards operating investments.

Previously, Canada was spending 1.4 per cent of its GDP on defence, or about \$41 billion in 2024. Assuming GDP grows by one per cent in 2025 (in line with OECD forecasts) and the two per cent target is met, defence spending in FY 2024-25 will expand by \$18.16 billion—well above the platform’s envelope. If that higher level is sustained for another four years and the platform’s capital-to-operating split within each year stays intact, none of that extra cash would reach construction this year or next. The platform shows no new capital outlays until 2026-27. After that, it would add on top of the costing plan, about \$450 million in 2026-27, \$500 million in 2027-28, and \$830 million in 2028-29.

Defence spending, especially arms procurement, carries a lower economic multiplier than most civilian spending. However, bricks-and-mortar projects—think ports, airfields, logistics depots, data-centre hardening, secure signal towers—spread the economic benefits more broadly.

We hope to see a capital-intensive plan and an efficient procurement process. Historically, restrictive rules—not funding—have been the biggest bottleneck for military infrastructure spending. A more detailed plan showing how much of the total spending is allocated towards construction each year remains to be seen, and whether procurement processes can keep pace with the deeper pockets.





Guardrails to ensure effectiveness

The administration has pledged to initiate the “One Project, One Review” framework to expedite approval processes. Bill C-5, now through Parliament, compresses federal approvals from five years to two—a direct answer to the industry’s call for “shovel-worthy” projects that can break ground quickly. Faster permitting, however, solves only one bottleneck. The construction labour gap is widening again as retirements outpace apprenticeship inflows. On top of that, the 2025-27 Immigration Levels Plan trims admissions by about 20 per cent, creating uncertainty that makes it harder to attract skilled workers. This will pose a challenge to programs en route.

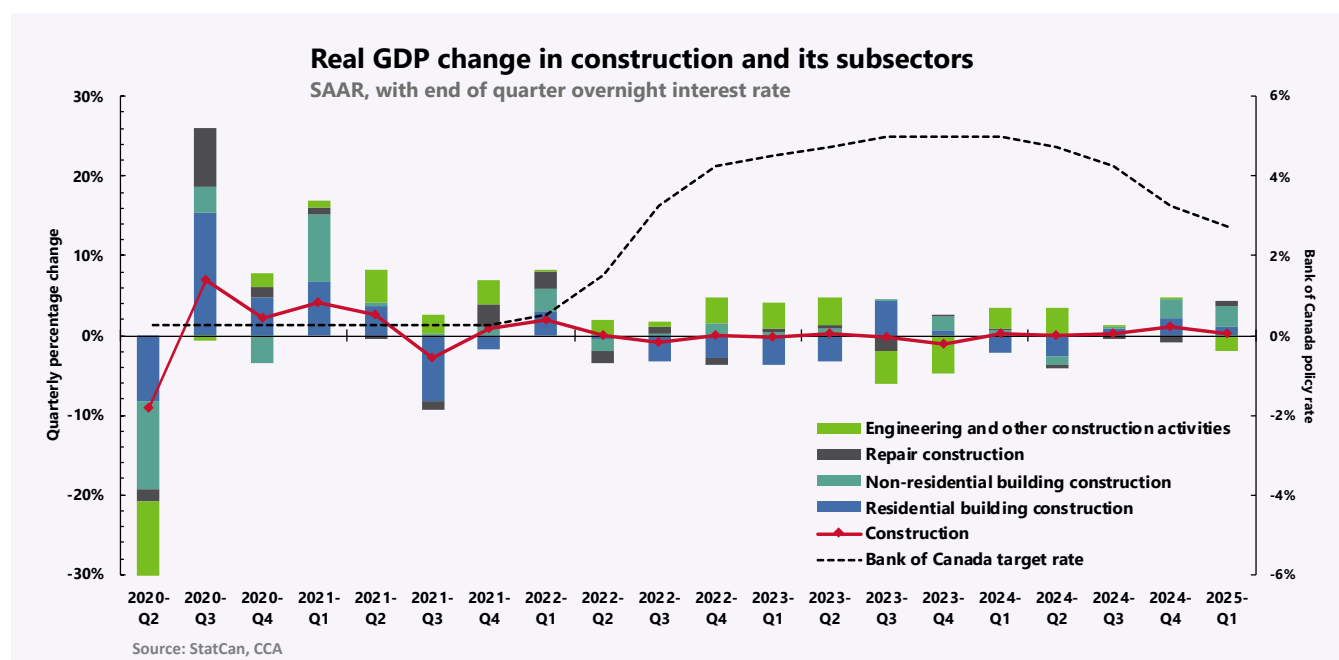
The 2024 Fall Economic Statement added \$24 billion in new spending and lifted the projected 2024-25 deficit to \$61.9 billion, up from \$40.1 billion in Budget 2024. The debt-to-GDP ratio still edges lower, but higher borrowing now leaves less headroom if growth disappoints. The silver lining is cheaper financing: long-term yields are roughly 120 basis points below last year’s peak, cutting Ottawa’s real cost of capital and making it easier to lock in debt for projects with multi-decade payoffs.

Budgeting the ambitious agenda is a balancing act with monetary restraint. The planned defence build-out and other flagship programs must be paid for—either by issuing new debt or by reallocating dollars from existing spending. In other words, every extra dollar that goes to armour or asphalt is a dollar that cannot flow to some other priority. We will track upcoming budgets closely, not just for the headline totals, but to see where the trade-offs land and whether capital commitments to housing, infrastructure, and productivity-enhancing projects are being protected or quietly pared back.

ICIC construction sector: Performance and sectoral trends

The construction sector experienced a steady expansion in the first quarter of 2024. Real GDP grew by 0.22 per cent to \$167 billion, after the strong growth (1.01 per cent) during the last quarter, reaching the highest level since Q3 2022. All subsectors of construction saw gains during this quarter, with the exception of engineering and other construction activities.

GDP construction



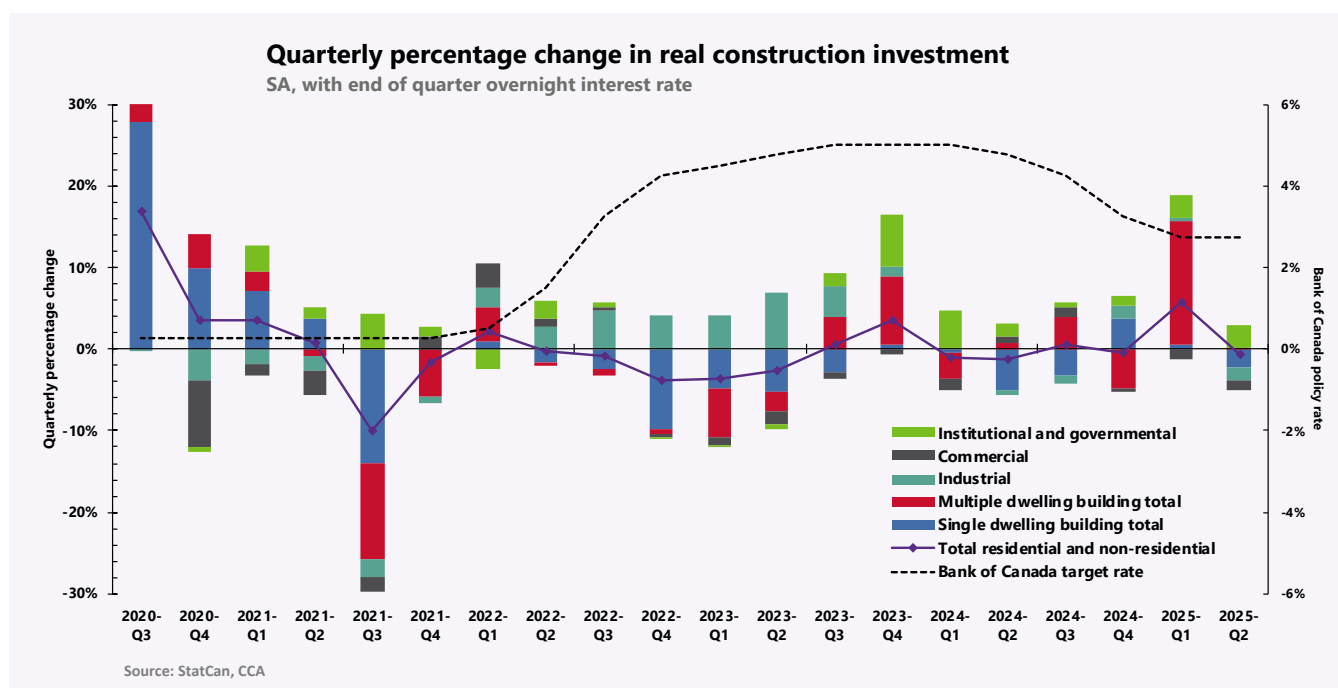
Residential building construction expanded 1.14 per cent in the first quarter. We continue to see non-residential building construction being the major contributor to growth in the quarter, as the sector expanded by 2.54 per cent. Engineering and other construction activities decreased by 1.98 per cent, a rare occasion in the last five years and offsetting all gains from residential and non-residential in terms of real dollar amount. The repair construction subsector has seen contraction since its peak of \$32.24 billion in Q1 2022. In Q1 2025, it increased to \$31.21 billion from a low of \$30.99 billion in Q4 2024, but it's typical to see a jump during this season, and still a decline of 1.07 per cent YOY.

The construction industry is recovering YOY, and the first quarter is a strong start, with a 1.52 per cent gain compared to Q1 2024. Residential building construction recovered from the weakness in Q3 and Q4 last year, expanding by 1.56 per cent YOY and ending the three-year streak of negative growth. Share of non-residential in the industry has been growing very steadily after the pandemic, and on track to reach pandemic levels as more and more organizations are returning to office. Overall, we are seeing an upward trend in the economic performance of the sector, and this will continue with a national push to build Canada.

Investments in building construction

Investment in Q1 grew by 5.65 per cent (+\$1,136 million) from the fourth quarter of 2024, marking the steepest quarterly gain since 2021 and reflecting the impact of lower interest rates. The surge was driven almost entirely by multiple-dwelling buildings (+15.11 per cent, +\$1,081 million), now approaching their 2021 peak during the same months. Institutional and governmental construction edged up 2.91 per cent (+\$53.9 million), while commercial fell 1.24 per cent (-\$39.8 million). Industrial (+0.36 per cent, +\$5 million) and single-dwelling buildings (+0.54 per cent, +\$35.3 million) were largely unchanged. Provincially, increases were most significant in P.E.I. (+25 per cent, +\$24.1 million) and Ontario (+9.4 per cent, +\$751 million), whereas Newfoundland and Labrador declined 39 per cent (-\$85.6 million).

Investments



According to the latest April release, total investment in building construction rose 5.64 per cent YOY to \$21.1 billion. Multiple-dwelling buildings (16.59 per cent, +\$1,174 million) again leads the chart, though rebounding after March's high, and institutional and governmental construction (7.98 per cent, +\$145 million) is up as well. In contrast, single-dwelling buildings fell 2.35 per cent (-\$154 million), again slipping below the non-residential total in absolute terms and continuing to shrink in terms of market share, to 30.32 per cent from 32.80 per cent in April last year. Industrial (-1.08 per cent, -\$15 million) and commercial (-0.74 per cent, -\$24 million) volumes remained stable.

Statistics Canada reported "residential construction down", due to an 18.6 per cent decline in owner-ship-transfer costs. These costs—real-estate commissions, land-transfer taxes, legal fees, and file-review charges—are accounted under gross fixed capital formation (GFCF) rather than investment in building construction. The decrease points to reduced activity in the resale market despite lower interest rates; however, appetite for new construction remains strong.

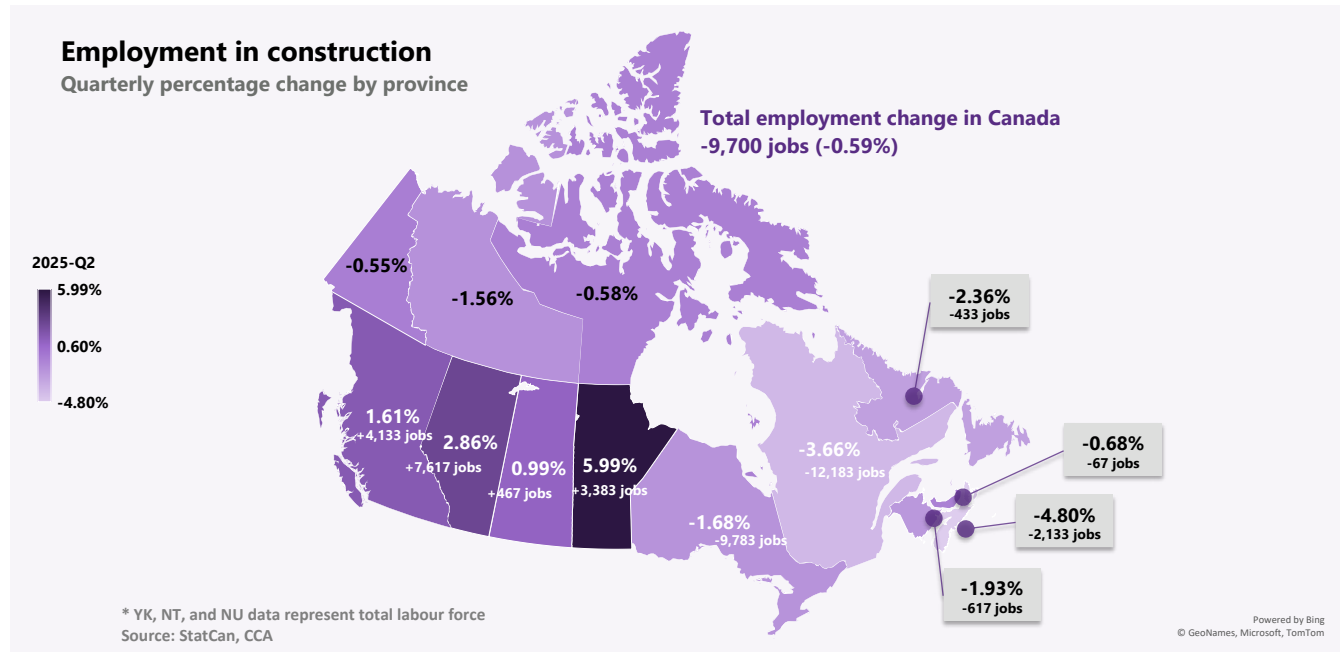
Labour market in construction

Construction accounts for nearly eight per cent (1.64 million) of total Canadian workforce, making it the sixth largest sectoral labour force.

Up until June, employment in the sector has decreased moderately since consecutive increases from Q4 2024. Nationwide, employment decreased by 0.59 per cent (-9,700 jobs). This is a departure from the industrial average and is mostly due to the residential construction strike in Quebec, which has reached an agreement and came to an end on June 18. So, expect the numbers to recover in June and we'll likely see an overall net increase by end of Q2. Quebec (-3.66 per cent, -12,183 jobs), Ontario (-1.68 per cent, -9,783 jobs), and Nova Scotia (-4.80 per cent, -2,133 jobs) recorded notable cuts, while all four of the western provinces recorded gains, particularly high in Alberta (+2.86 per cent, +7,617 jobs) and Manitoba (+5.99 per cent, +3,383 jobs).

Employment

Employment change



YOY, both Q1 (+2.58 per cent, +39,633 jobs) and Q2 (+2.57 per cent, +41,100 jobs) increased in Canada, but with notable regional disparities. Almost all provinces were positive, except for Newfoundland (-12.54 per cent, -2,567 jobs), New Brunswick (-5.96 per cent, -1,983 jobs), and Ontario (-0.75 per cent, -4,317 jobs). Newfoundland, in particular, has seen a declining job market since Q3 last year, same as Ontario, when there was a strong growing trend nation-wide, especially compared to leading provinces like Alberta (+12.67 per cent, +30,820 jobs), Saskatchewan (+13.91 per cent, +5,800 jobs), and P.E.I. (+11.92 per cent, +1,030 jobs).

We expect to see further growth in regions with national infrastructure projects currently being discussed driving more employment opportunities.

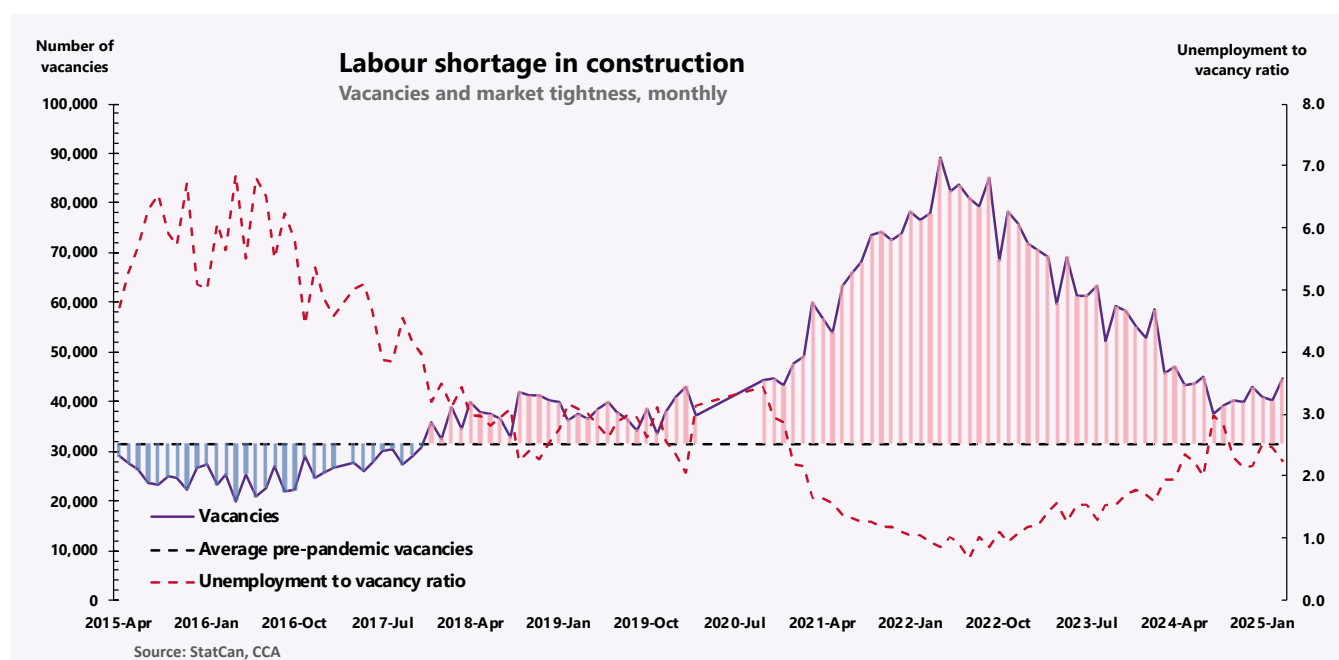
Unemployment

National unemployment rate is stable, high, and rising slowly. Total industrial recorded seven per cent in May, marking the highest level since September 2021. Construction contributed plenty, going from 5.7 per cent in March to 6.7 per cent in April, sitting well below the all industry average at 6.6 per cent in May. YOY, the unemployment rate increased by 43 basis points in Q1 and 88 basis points in Q2. Some of this may also be attributed to the strike in Quebec. July numbers should more accurately reflect market conditions.

Vacancies

As economic uncertainty takes hold, job vacancies experienced a quarterly decrease of 1.31 per cent across all industries in Canada. Contrary to this, latest data from Q1 shows an uptick of 2.09 per cent in the construction industry, continuing the increase from the fourth quarter of 2024, bringing the number of vacancies in construction to 44,640. Even so, vacancies remain well below a year ago, reduced by 20 per cent YOY.

Vacancies



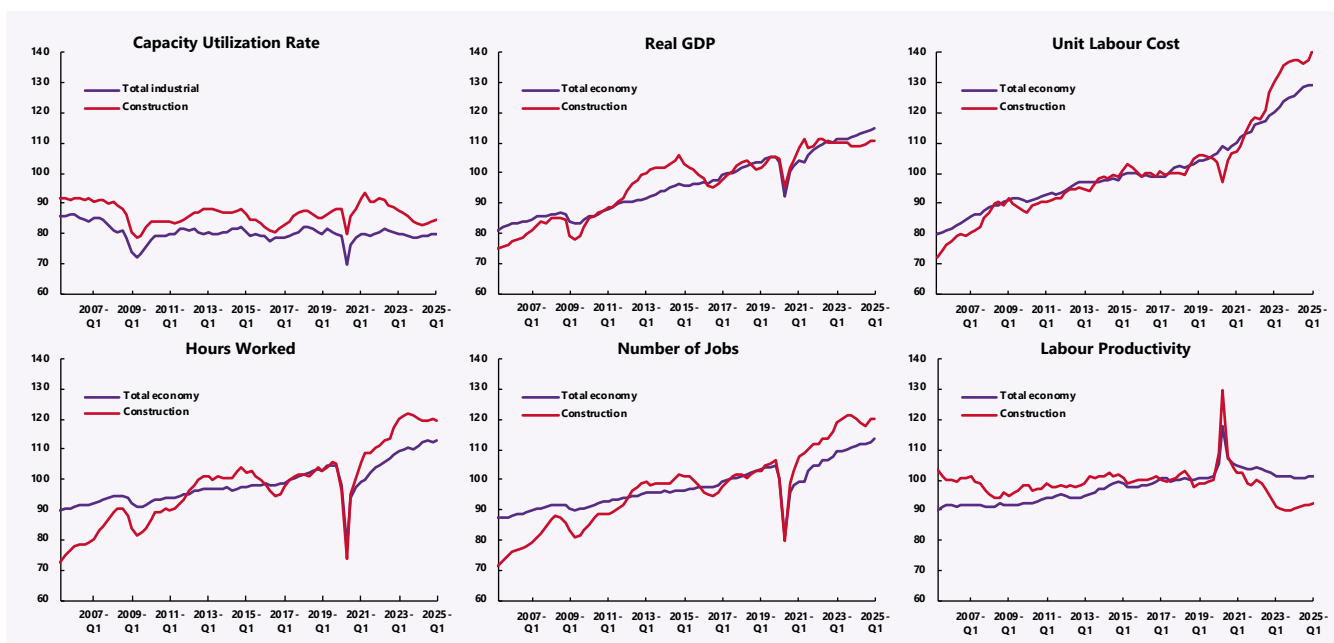
While vacancies have moderated significantly since their pandemic heights in Q2 2022, the gap has again started widening over the past six months and the labour force issue remains one of our top concerns. To build Canada and deliver critical projects effectively, we must actively grow and upskill our labour pool. While both unemployment and job vacancies are on the rise, the increase in vacancies in Q1 was more significant, tightening the labour market in construction.

Labour market tightness is measured by the ratio of unemployed individuals to job vacancies. A lower ratio indicates a tighter market, meaning companies face greater difficulty filling open positions. This ratio has been declining since August 2024, briefly recovering from December to February, but has now headed down again to 2.2. This means there are roughly two unemployed individuals for every job vacancy, moving away from the pre-pandemic average of 4.2. Given that the latest vacancy data is from March and employment data is from May, we anticipate this ratio will likely increase in Q2. However, with numerous projects underway, the construction industry continues to face considerable pressure on its labour supply. Therefore, expanding our labour force remains crucial.

Industrial capacity utilization rate and measures of productivity

Canada's housing, infrastructure, and economic goals all depend on a construction sector that can build more efficiently. Yet persistent gaps in capacity utilization, labour productivity, and unit labour costs highlight frictions that could throttle progress. By tracking these metrics against the broader economy, we can spot when inefficiencies are sector-specific—guiding governments, contractors and investors to transform every hour on site, every tonne of material, and every kilogram of pollution into a more prosperous Canada.

Productivity





Capacity Utilization Rate

The Industrial Capacity Utilization Rate (CUR) measures an industry's actual output as a percentage of its full-capacity potential (100 per cent utilization).

Since Q4 2024, the CUR has risen by 30 basis points to 84.3 per cent. This marks the third consecutive quarter of increases. Nevertheless, the gap between construction and total industrial (4.2 per cent) is still below the long-term average of 5.83 per cent. 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. How much the CUR can recover next quarter will depend on the extent to which reduced demand is offset by construction-specific fiscal measures and the cost of borrowing set by forthcoming monetary policy.

Unit Labour Cost

Unit Labour Cost (ULC) measures the ratio of labour compensation to real output. A higher ULC indicates you're spending more on labour per unit produced, directly signalling declining labour productivity and highlighting potential inflationary pressures from wage growth.

In construction, ULC rose by 2.27 per cent after a downward revision to its Q4 2024 level. This measure has been diverging from the broader economy (0.11 per cent from Q4 2024 to Q1 2025) since Q3 2023. Although growth slowed in the last two quarters of 2024, it took off again in Q1—even as industry wage growth continues to lag the national average. Together, these trends constrict the sector's ability to generate profits and attract talent.

Productivity

Productivity—measured as output per hour worked—showed a modest uptick in Q1 2025, with a 0.55 per cent gain over Q4 2024. The sector's productivity gap to the Canadian average, at 8.88 versus 9.37 last quarter, remains large but has been narrowing against the total-economy average since early 2024. Q3 and Q4 2024 figures were revised upward by around two per cent.

So far, efficiency initiatives in the industry have delivered limited impact. Stakeholders are interested in improving processes, better standards, and broader adoption of technologies such as Building Information Modeling (BIM) and AI to drive innovation.

Overall, despite statistical revisions, the core message is unchanged: Canada's construction sector is still grappling with a deepening productivity crisis. Hopefully, recent efforts to fast-track approvals and streamline processes may yet help turn the tide.

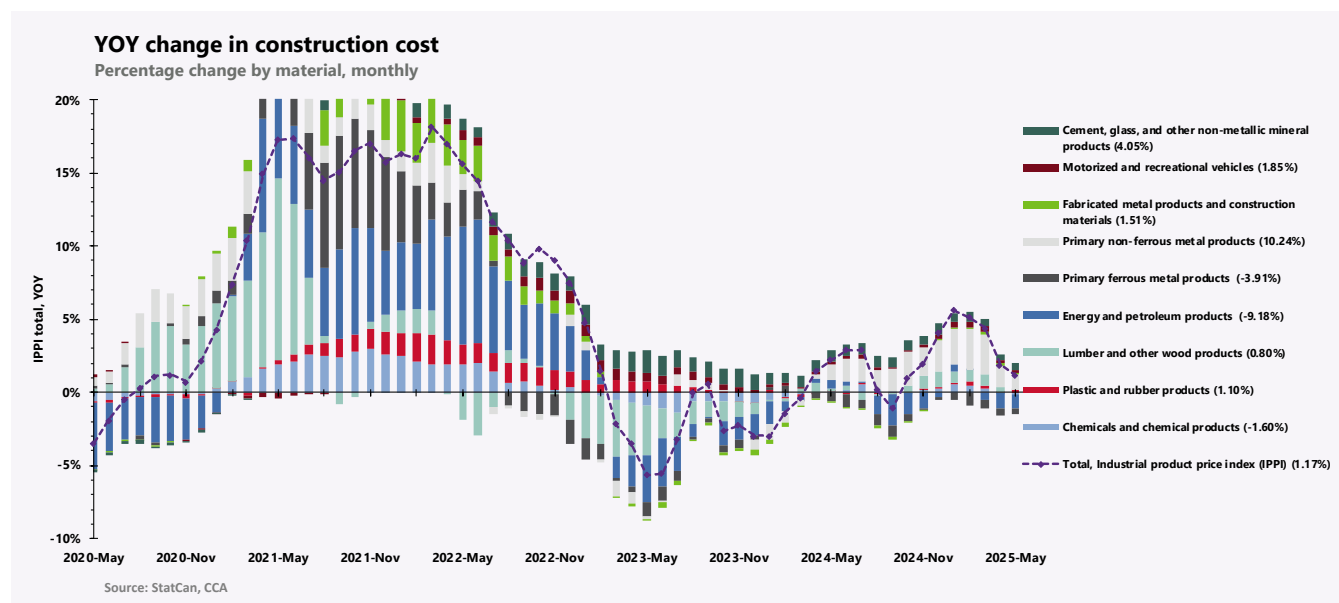
Inflation of construction materials

Inflation of goods used in construction for different types of buildings is tracked through the IPPI, which is one of two PPI type measures provided by StatCan. Compared to the other measure, the Raw Materials Price Index (RMPI), IPPI tracks price movements for products sold to industries like ours by manufacturers, rather than prices of raw materials purchased by manufacturers.

From the latest data in May, IPPI went up 1.17 per cent YOY, showing a slowing trend in inflation since the beginning of the year (5.6 per cent in January). This would be largely due to the removal of the carbon tax on April 1, which has a one-time negative effect on YOY inflation that will last until March 2026, explaining the accelerated slow down from 4.38 per cent in March.

Another major factor is the fluctuations in CAD/USD exchange rates, which is now back to the same levels as October last year. However, tariff and global conflict continue to assert uncertainty to commodity prices, with the volatility story playing a bigger role than outright price increases.

IPPI





Energy products

YOY, Energy product prices plunged in May (-9.18 per cent) and April (-10.59 per cent), led by the decrease in crude oil prices. As a direct result of OPEC+ accelerating the unwinding of its production cuts, WCS oil went from around \$60 USD to around \$50 a barrel.

Unfortunately, this did not last to the second half of June, as global markets were surprised by the rapid escalation of conflict between Israel, Iran, and the U.S. Oil prices jumped back up above \$60 a barrel. At time of writing, WTI crude prices have just come down from just below \$74 to \$66. Overall, crude oil prices have bottomed out, but where will it land? That's simply impossible to tell. This provides more incentives for Canada to invest in its energy infrastructure but will also increase cost of energy in construction.

Crude oil isn't the only energy product experiencing a changing landscape, LNG Canada has produced its first liquefied natural gas on June 22. Natural gas has long been restricted by reach of pipeline to domestic and U.S. markets. Liquefying the gas allows the shell-led entity to export gas overseas, which also 'liquefies' the rigid natural gas market. Such exports have an inflationary effect for Canadians, who were previously buying excess supply at a discount.

Primary ferrous metal products

Prices for primary ferrous metal products have been falling since their sharp increase during the pandemic, largely due to a persistent global oversupply of steel and iron products, particularly from China. It seems, though, that tides may be turning due to less-than-ideal policy conditions. In May 2025, price for the product group was 3.91 per cent lower than a year ago, but they have risen by 3.38 per cent since February 2025. This increase followed the announcement of new U.S. tariffs at the end of January, contrasting with an overall IPPI decrease of 1.15 per cent during the same period.

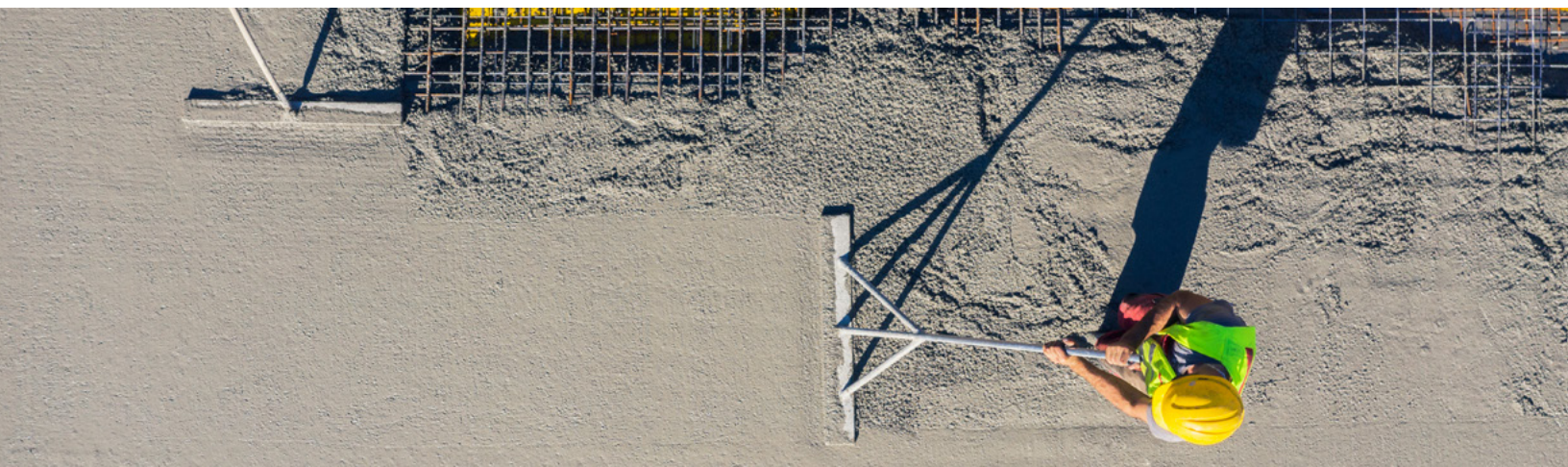
We anticipate further price increases for ferrous metal products in the June 2025 data release, influenced by the recent escalation of U.S. tariffs on steel and aluminum (doubled to 50 per cent effective June 4, 2025) and potential retaliatory measures threatened by Prime Minister Mark Carney. The U.S. tariffs, while ostensibly aimed at protecting U.S. industries, are largely ineffective in achieving that goal. Instead, increased costs and disruptions across global supply chains are their primary impact. If economic realities prevail, these tariffs on steel and other items should be irrelevant by the next report; however, it is uncertain if the actual policy landscape will follow such a trajectory.





Lumber and other wood products

Lumber products as a whole have been stable in the past two years, especially compared to during the pandemic. Nevertheless, there were some recent movements. A jump recorded in our last report and further markup following the tariffs from February to March. In May, lumber product prices were only up by 0.8 per cent YOY, representing a six per cent decrease from April, headed by decline in prices of softwood (-9 per cent) and driven by soft demand from a soft residential sector in May, where lumber is a key input. Prices may once again be affected for the June numbers due to the residential construction strike in Quebec.



Cement, glass, and other non-metallic mineral products

Cement, glass, and other non-metallic mineral products are vital for heavy civil construction. In Q1, the YOY inflation rate for this product group (+5.53 per cent) closely mirrored the overall industrial average (+5.03 per cent). However, it began to outpace that average in April (+3.48 per cent versus +1.88 per cent) and May (+4.05 per cent vs +1.17 per cent). Interestingly, this occurred despite key materials like cement being among the few exempts from Canadian retaliatory tariffs on U.S. imports, and ready-mix concrete being dominated by local supply.

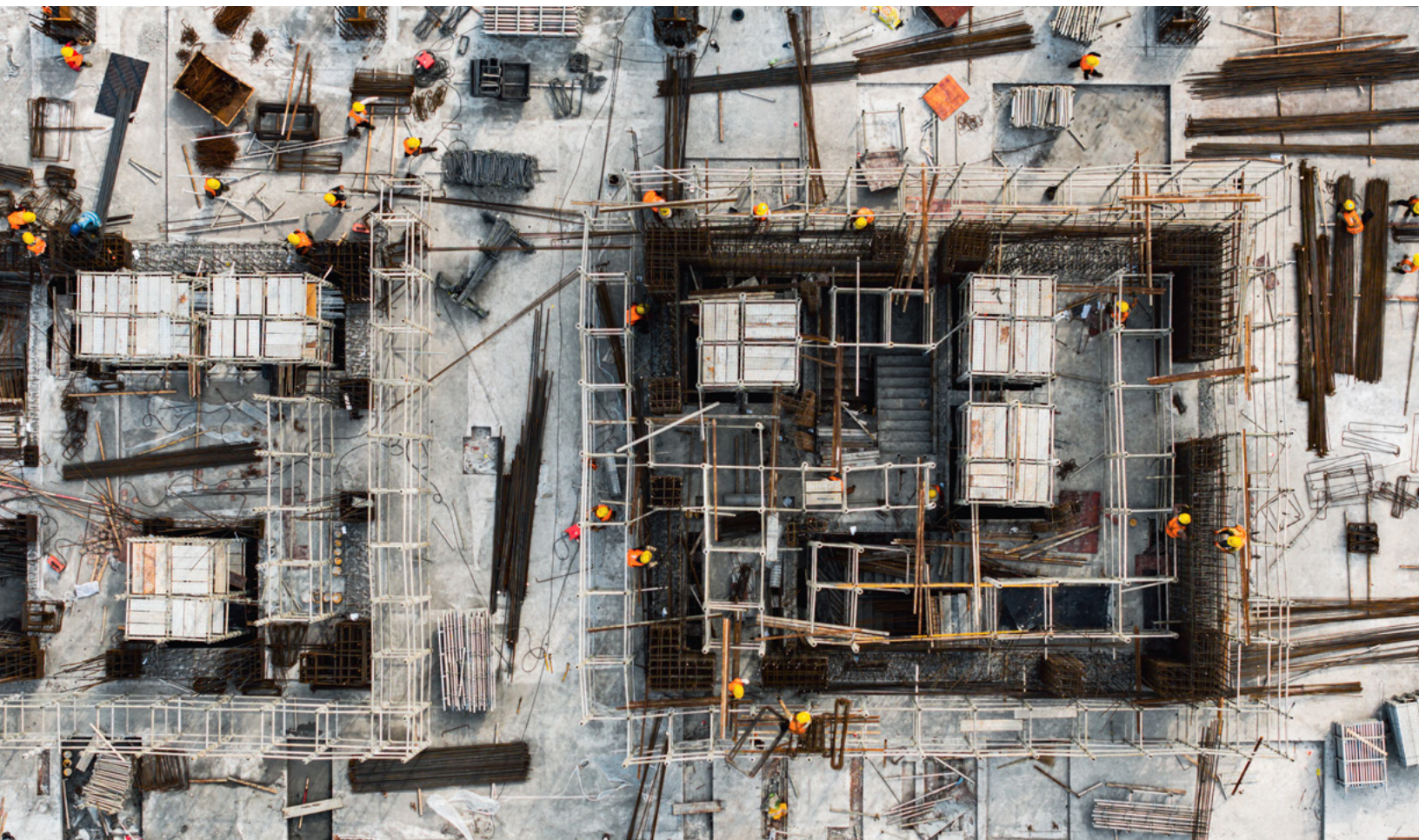
By May, both saw significant price hikes: cement increased by 4.71 per cent YOY, while ready-mix concrete was up by 6.09 per cent. This presents a curious contrast in trend since January. Cement inflation has slowed considerably from 15.71 per cent, yet concrete's inflation is just starting to gain momentum from 3.02 per cent. While it might be tempting to hypothesize that cement price changes drive concrete costs, our analysis found no statistically significant leading relationship.

Building Construction Price Index

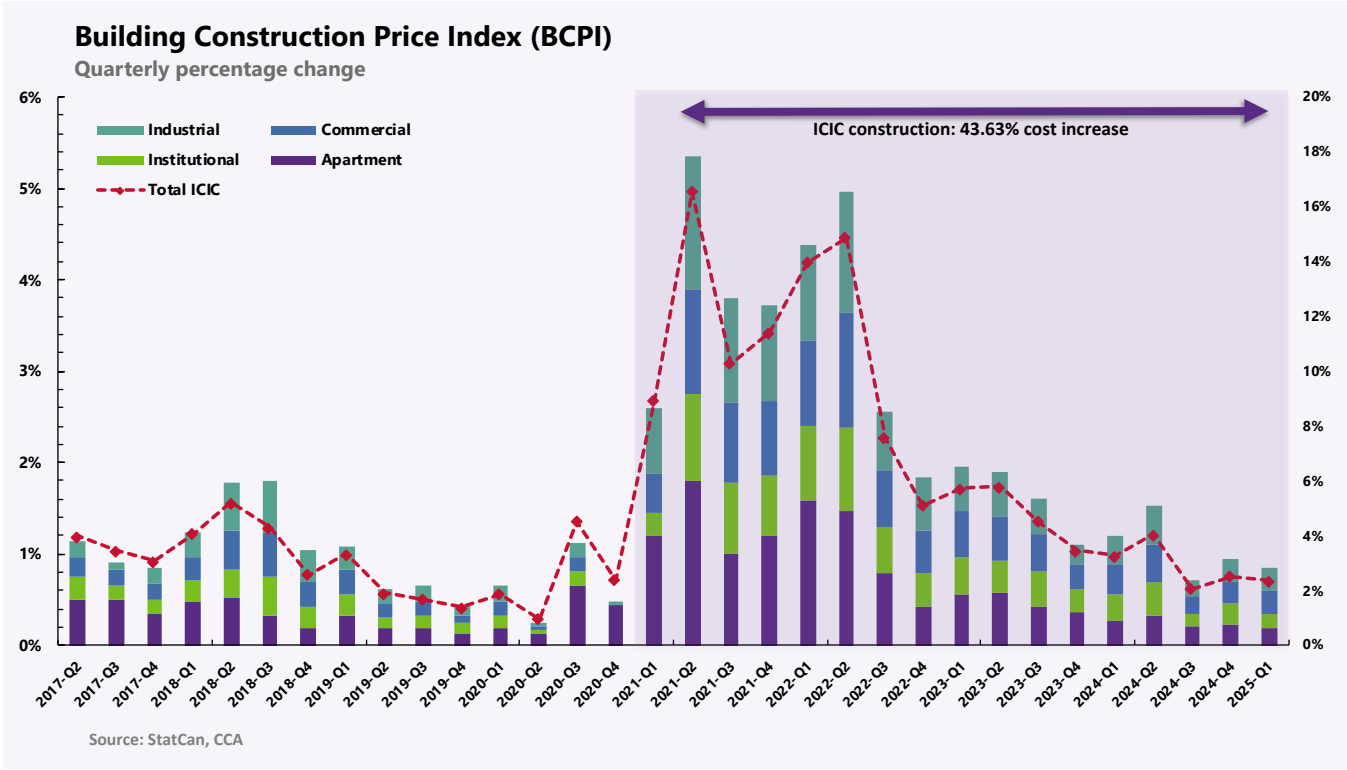
The BCPI tracks the total cost of constructing a typical building—by building type—at the census metropolitan area (CMA) level. It accounts for key expenses, including land, labour, and materials, providing insight into how fluctuations in these markets translate into overall construction costs.

Inflation in building construction has been consistently and significantly slowing since early 2022 across both residential and non-residential sectors, and the trend persisted in Q1 2025: the composite ICIC BCPI rose by only 0.71 per cent quarter-over-quarter. A closer look at the divisions reveals the biggest increases came from big ticket divisions that are heavily reliant on trade with the U.S. Conveying equipment (+1.65 per cent), metal fabrications (+1.55 per cent), structural steel framing (+1.13 per cent) takes the top three, and are all products manufactured from steel. On the other end, we have electrical (no change), exterior improvements (+0.10 per cent), earthwork (+0.16 per cent). Percentage changes are calculated from weighted average of both residential and non-residential buildings.

Before the pandemic, costs differed substantially across subsectors. Those gaps closed in 2022 and have stayed narrow. More recently, however, institutional projects have begun to diverge as their inflation slowed more than in other subsectors. The key factor is softer prices in MEP trades, which make up a larger share of total cost in institutional buildings—such as schools and hospitals—than in other non-residential construction. Electrical prices fell 1.12 per cent quarter-over-quarter and fire-suppression cost was flat. Meanwhile, conveying equipment posted the largest increase, up 2.59 per cent.

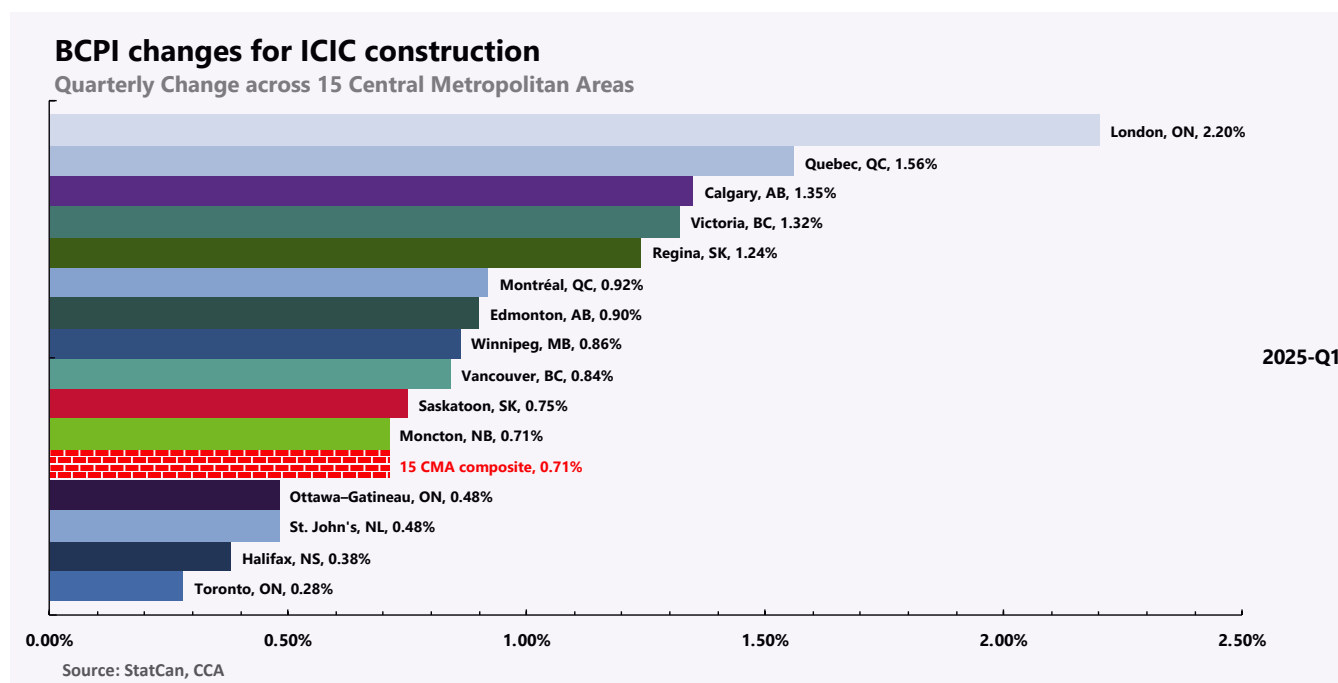


BCPI



Regionally, 10 of the 15 CMAs posted growth above the national composite (0.71 per cent). London led at 2.20 per cent, whereas Toronto's modest 0.28 per cent gain—given its outsized weight—pulled the average down.

BCPI-CMA



Business conditions and what's ahead for the industry

Shifting conditions and economic outlook

The [Business Outlook Survey—First Quarter of 2025](#) portrays a shift from last quarter's cautious optimism to broad caution, as escalating U.S. trade tensions cloud demand prospects. Softer sales expectations—especially among exporters—have offset the support from earlier interest-rate cuts and left most businesses with spare production and labour capacity, prompting many to defer capital spending and hiring until policy risks clear. 32 per cent of firms are now planning with the assumption that a recession will occur, up from 15 per cent over the past two quarters. Two-thirds of respondents expect tariffs to raise non-labour input costs, and most plan to pass at least part of those increases through to selling prices, lifting near-term inflation expectations even as demand cools.



Pressing challenges and obstacles

Results from the [Canadian Survey on Business Conditions, Second Quarter 2025](#) offers a closer look at obstacles facing businesses in the construction industry. Among the top 10 obstacles identified in the survey, five are cost-related (+8.8 pp) and three are labour-related (+ 0.2 pp). Compared to Q1, concern about the cost of insurance (+5.9 pp) has overtaken concerns about recruiting skilled employees (-4.1 pp), now ranking just below the long-standing top issue, inflation (up 1.8 pp). As the effects of political and economic uncertainty ripple through every corner of the world, businesses are facing increasingly higher insurance premiums. These costs will persist even if tariffs are eliminated tomorrow, exerting a lasting drag on Canadian businesses. Construction still leads all sectors in expected labour-related obstacles (44.9 per cent), while fears of a recession and an aging workforce show up in sharp increases for fluctuations in consumer demand (+ 6.2 pp) and difficulties retaining skilled employees (+ 6.0 pp).

Notably, even though supply chain obstacles in aggregate rose by 6.6 pp—including any difficulties obtaining inputs from abroad (+8.1 pp) or within Canada (+3.5 pp), as well as maintaining inventory levels (+ 0.7 pp)—it still isn't a top issue. This suggests to us today's tariffs are not prompting businesses to restructure their supply chains. Because construction projects involve long planning cycles, bespoke orders, and complex contracts, delays can prove extremely costly. Protectionist policies therefore tend to erode efficiency without meaningfully shielding domestic producers.

Business conditions

Geography	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	YT	NT	NU	CAN
Inflation	-10.1 pp	#N/A	20.3 pp	-11.7 pp	-9.7 pp	2.6 pp	18.7 pp	0.6 pp	-12.4 pp	30.9 pp	#N/A	#N/A	17 pp	1.8 pp
Cost of insurance	-14.6 pp	1.7 pp	16.6 pp	-6.7 pp	8.3 pp	9.1 pp	8 pp	-3.4 pp	-15.4 pp	18.4 pp	#N/A	#N/A	3.5 pp	5.9 pp
Interest rates and debt costs	23.2 pp	-12.6 pp	3.4 pp	2 pp	6 pp	3.7 pp	31.2 pp	-20.7 pp	-25.2 pp	19.8 pp	#N/A	#N/A	-4.1 pp	2.1 pp
Cost of inputs	9.1 pp	-11 pp	31.5 pp	13.2 pp	6 pp	5.7 pp	26.5 pp	4.5 pp	-30 pp	19.1 pp	#N/A	#N/A	17.3 pp	3.4 pp
Recruiting skilled employees	10.3 pp	9.3 pp	13.1 pp	-6.1 pp	-30.8 pp	-11.8 pp	3.3 pp	9.8 pp	8.8 pp	31.1 pp	#N/A	#N/A	-2.9 pp	-4.1 pp
Fluctuations in consumer demand	-2 pp	-11.8 pp	12.7 pp	-0.3 pp	15.8 pp	4.5 pp	20.7 pp	-11 pp	-13.7 pp	21 pp	#N/A	#N/A	-4.4 pp	6.2 pp
Shortage of labour force	0.4 pp	-1.3 pp	2.8 pp	-4.9 pp	-10.6 pp	7.1 pp	-13.4 pp	18 pp	-8.5 pp	28.3 pp	#N/A	#N/A	7.6 pp	3 pp
Retaining skilled employees	4.6 pp	-1.2 pp	2.8 pp	-4.8 pp	-2.7 pp	7.5 pp	2.3 pp	8.9 pp	-7.1 pp	27.8 pp	#N/A	#N/A	-21.6 pp	6 pp
Transportation costs	-21.4 pp	1.9 pp	-8.7 pp	-2.8 pp	8.9 pp	-5.6 pp	-4.2 pp	-12.5 pp	-3.5 pp	3.9 pp	#N/A	#N/A	#N/A	-1 pp
Increasing competition	13.7 pp	6 pp	4.7 pp	0.9 pp	-26.5 pp	18.4 pp	16.7 pp	-7.4 pp	-15.9 pp	-2.6 pp	#N/A	#N/A	-9.6 pp	-1.3 pp

British Columbia builders are signalling “red” across the board in their Q2 outlook. With virtually no local production of key inputs such as rebar and structural steel, they are bearing the brunt of the 25 per cent tariffs, while new provincial rules (adaptable-dwelling and seismic provisions, Zero-Carbon Step Code) threaten to compound cost pressures. Sentiment may improve once the long-awaited prompt payment legislation takes effect, easing cash-flow strains and bringing British Columbia in line with other provinces like Ontario and Alberta.

What's ahead for the industry?

Political consensus after the election has settled around the need to build—and to do it quickly—with bipartisan support. An expanded defence envelope widens the construction canvas, while housing and infrastructure projects remain central, backed by dedicated funding streams and supportive tax policy.

Entering the second half of 2025, Canadian construction confronts solid underlying demand and heightened strategic uncertainty. Domestically, rate cuts made financing easier but further monetary relief is stalled. Though perhaps less directly for contractors, businesses are still on the look-out weighing investment decisions in a climate where fear of uncertainty trumps real damage to profits. Real estate activity continues to cool relative to recent years, yet construction is expanding to address chronic affordability challenges, shifting away from single-unit properties toward higher-density housing and increased public sector infrastructure. While unemployment is edging higher, posing broader risks to the national economy, the sector itself still faces skill vacancies rather than labour surplus.

Cost risk is anchored to two variables: money and materials. The cost of financing and insurance continues to be one of the industry's biggest concerns. On the input side, levies on steel, aluminum, and other key commodities remain unresolved. President Trump's declaration—made at the time of writing—that he is ending all talks with Canada adds another layer of uncertainty and threatens North American supply chains. While such statements often reverse, there has been no meaningful progress in trade negotiations to date. Q1's spike gave way to calmer spot prices in April and May, but volatility remains the rule rather than the exception. Canadian suppliers and contractors want to plan for fluctuations in imported input costs and build flexibility into procurement strategies, but they may find it increasingly difficult to do so if the government mandates domestic sourcing.

Taken together, the road ahead is constructive but narrow. The demand story is as strong as it has been in decades, spread across segments and backed by clear public priorities. Yet success will hinge on nimble capital planning, disciplined procurement, and proactive workforce strategy. Firms that treat uncertainty as a design parameter—not a post-script—will turn today's momentum into long-term positioning.



Looking ahead: Key economic and policy considerations

- **Financing tailwind:** After 225 basis points of cumulative cuts since mid-2024, the policy rate sits at 2.75 per cent and the Bank's June statement hinted further easing if growth stalls. For ICI and high-rise projects that were put on pause when money cost five per cent plus, many are now clearing internal six-to-seven per cent hurdle rates. Expect shelved datacentre, lab and warehouse builds to re-enter tender pipelines over the next nine to twelve months.
- **Bill C-5 might front-load civil demand:** Passed on June 26, the Act lets Cabinet label "national-interest" projects and compress federal approvals to less than 24 months. Expected first-wave designations: Ring-of-Fire roads, Atlantic hydrogen corridor, and Prairie carbon pipelines. Look out for potential court-ordered pauses—Indigenous groups have already pledged legal challenges to the bill's "Henry VIII" clauses.
- **Prefab shifting from pilot to policy tool:** The \$6.8 billion Canada Housing Infrastructure Fund and its companion national Housing Design Catalogue hard-wire factory-built methods into Ottawa's core housing program. Toronto Building's March 2025 bulletin streamlines permits by accepting CSA A277 factory certificates in lieu of on-site inspections.
- **Labour as the cost escalator:** Retirements are accelerating across the trades just as infrastructure demand ramps up. While immigration will help, recent cuts to the Express Entry trades draw and Temporary Foreign Worker Programs (TFWP) are limiting backfill capacity. Expect premium pay on Red Seal trades and growing interest in site automation and prefabrication to blunt the gap.
- **Material prices subdued—for now:** IPPI rose only 1.17 per cent, and April permits data show a 6.6 per cent dip, indicating demand-side relief. The tariff shock may still be lurking and working through supply chains. The wild card is freight: war-risk insurance on Gulf routes jumped from 0.3 to 0.5 per cent of cargo value after late-June Hormuz tensions, and container detours are lengthening lead times on Asian steel fittings. Keep an eye on Q3 shipping quotes.





For more information on this report or the work CCA is currently focused on to address these issues, please email Yunhan Liu, Analyst, Economics and Policy, at yliu@cca-acc.com.