Canadian Construction Association
Best Practices Services

SUMMER 2026

Construction Quarterly

Economic Insights

Key insights: **Summer 2026**

GDP missed again in Q1, outlook remains soft

Canadian real GDP was essentially flat in the first quarter of 2026, edging down at an annualized rate of 0.1 per cent. The margin was small, but the reading again fell short of expectations. Higher imports accounted for much of the drag, while weaker investment was the bigger surprise. Business capital spending fell for a fifth straight quarter, driven by weak real estate resale activity and a pause in oil and gas capital expenditures. Government capital investment also pulled back as weapons-system spending eased from its late-2025 peak. Even so, defence investment remains far above historical norms and should stay elevated as Canada moves toward NATO's 3.5 per cent core defence target. Overall, the economy is projected to remain softer through 2026 than in 2025.

Monetary policy risk clears as oil shock fades

The immediate inflation risk from higher oil and transportation costs has eased. Oil prices have fallen sharply since the interim peace agreement was reached, reducing cost pressures and allowing inflation to move back toward a more contained path. The cloud has lifted for the Bank of Canada, which now has more room to keep rates on hold through early 2027, especially while the domestic economy remains soft.

Construction activity declines while intentions mixed

Construction sector GDP contracted 1.3 per cent in Q1, following a 0.8 per cent decline in Q4. The largest drag came from engineering and other construction activities, which were down by 4.2 per cent. Building construction investment also declined, down 1.5 per cent, as weakness in the residential sector outweighed continued gains in commercial and institutional investment. Building permits were effectively flat from the previous quarter, but the mix suggested the opposite direction from current activity: commercial and institutional intentions weakened, while single-residential and industrial permits recovered.

Steel tariffs blunt slowdown in the BCPI

Building Construction Price Index (BCPI) inflation cooled across most divisions, regions, and building types in Q1, in line with broader moderation in price pressures. However, structural steel framing and metal fabrications ran roughly 10 per cent higher than a year earlier. Openings also continue to face tariff and trade-related exposure through aluminum-intensive inputs. Regionally, inflation slowed in almost all major Census Metropolitan Areas (CMA), although St. John's and Halifax bucked the trend. By building type, inflation remained lowest for high-rise apartments, and highest for factories.

CUSMA remains critical amid rising trade issues

As the scheduled review date passed, CUSMA continues to serve as an important shield for Canadian exports. However, economic policies are becoming increasingly shaped by economic security, with growing use of sector-specific tariffs and local procurement measures. This is increasing requirements related to domestic content, origin documentation, and compliance burden.

This quarterly focus reviews recent tariff developments, examines the key issues at the negotiating table, and explains what they could mean for contractors' costs, supply chains, and procurement requirements.

This report, prepared by the Canadian Construction Association (CCA), offers a quarterly overview of the construction sector's economic performance and outlines the implications for member businesses.

Forces shaping the Canadian economy

The "technical recession" made headlines in the first quarter of 2026 and sparked fierce debate between the government and the opposition. Real GDP slipped by an annualized rate of 0.1 per cent from Q4 2025. While the margin is small, the reading fell short of expectations. Per capita GDP rose 0.2 per cent quarter-over-quarter (QOQ), as the National Accounts' implied population estimate declined for a second consecutive quarter, more than offsetting the weak per capita growth.

Component-wise, the decline was driven largely by a wider trade deficit. Imports increased by 2.9 per cent, roughly half of which reflected higher gold imports after gold had boosted exports in the second half of 2025. Gold flows have become increasingly volatile due to the lumpy nature of individual transactions and elevated prices over the past year. The remainder of the increase can be attributable to a combination of higher imports of passenger cars, light trucks, and industrial machinery.

Exports were essentially unchanged despite higher exports of oil and bitumen, supported by rising prices. These gains were offset by lower exports of passenger cars and light trucks. This appears less a story of weaker U.S. demand than of production stoppages and factory retooling. More broadly, automakers seem to be shifting production of some high-revenue models to U.S. plants, while Canadian facilities transition to other models.

Investment was the real surprise rather than trade, since merchandise trade data are released ahead of final GDP estimates. Government investment in weapons systems fell by 24 per cent from Q4 2025. Even so, spending remained approximately four times higher than its average in the past decade. Investment is expected to stay elevated as Canada advances major defence procurements, like submarines, and moves toward its commitment to lift core defence spending to 3.5 per cent of GDP by 2035.

Investment in structures also weakened. Both residential and non-residential investment in structures declined by just over two per cent from Q4 2025. The softness in residential investment was largely attributable to lower resale activity, which is captured in the National Accounts as ownership transfer costs, while investment on new residential construction remained stable. Excluding the pandemic trough in Q2 2020, combined business investment in structures fell to its lowest level since the end of 2011.

The larger drag came from engineering structures, where investment fell 4.6 per cent. There is little public commentary on the source of that weakness, but the number lines up with oil and gas capital spending, which fell 13 per cent in Q1, far more than earlier annual guidance had implied. Lower investment in engineering structures is also visible in GDP by industry, which is discussed further in later sections of this report.

Household consumption continued to grow, but no longer a strong signal of resilient demand. Spending increased in financial services and food, rather than in more discretionary categories such as travel abroad or new vehicle purchases. Change in inventories continued to swing sharply with imports and exports, though these movements should become more subdued through the rest of 2026. In the first quarter, inventories recovered after being depleted in Q4 2025. Excluding gold, the increase was driven by manufacturers rebuilding stocks, while retail and wholesale inventories continued to decline.

Financial markets also became increasingly sensitive to the prospect of higher interest rates. Oil prices have moved more closely with the U.S. dollar, limiting the typical support that higher crude prices provide to the Canadian dollar. At the same time, lower gold prices reduced another source of demand for the Canadian dollar, while weaker economic fundamentals contributed to expectations that U.S. interest rates would remain higher.

Inflation risks stemming from the initial rise in oil and transportation costs have since eased. Oil prices fell sharply since the interim peace agreement was reached, reducing upward pressure on inflation and supporting a return toward a more typical inflation path. Still, crude oil and refined fuel prices will remain above pre-war levels. Power dynamics in the Gulf have shifted materially and geopolitical risks remain elevated.

Quarterly focus: **CUSMA remedies - procurement patchwork, paperwork pileups, and the price of politics**

Engagement with Washington intensified through the second quarter of 2026. Federal and provincial officials increased their presence in Washington D.C., while informal meetings between Canadian and U.S. stakeholders became more frequent. Canada had already been engaged in bilateral discussions with the U.S. in the lead-up to the scheduled review period, and now those efforts have accelerated as Canada formally seeks renewal. The CUSMA file is top of mind for Canadian industries as we move past the scheduled review date.

Recent developments in tariffs

Canada has largely maintained its tariff position since the end 2025, while the U.S. tariff regime has continued to evolve following the International Emergency Economic Powers Act (IEEPA) ruling. To recap: on February 20, the U.S. Supreme Court ruled that tariffs imposed under IEEPA are unlawful. On February 24, the White House responded by implementing a global 10 per cent tariff regime under Section 122, which, similar to IEEPA, exempts Canadian exports if they are CUSMA-compliant.

On April 6, changes to section 232 recast the treatment of steel and aluminum. Rather than applying tariffs solely to embedded steel and aluminum content, the revised framework expanded coverage to the full value of affected products and added copper to the list. Some low-metal-content goods were exempted, and the derivative list was narrowed. While the tax base broadened for covered products, tariff rates on many derivative products were reduced from the previous 50 per cent structure. According to the Brookings Institution, the changes lowered average steel and aluminum tariff rates.

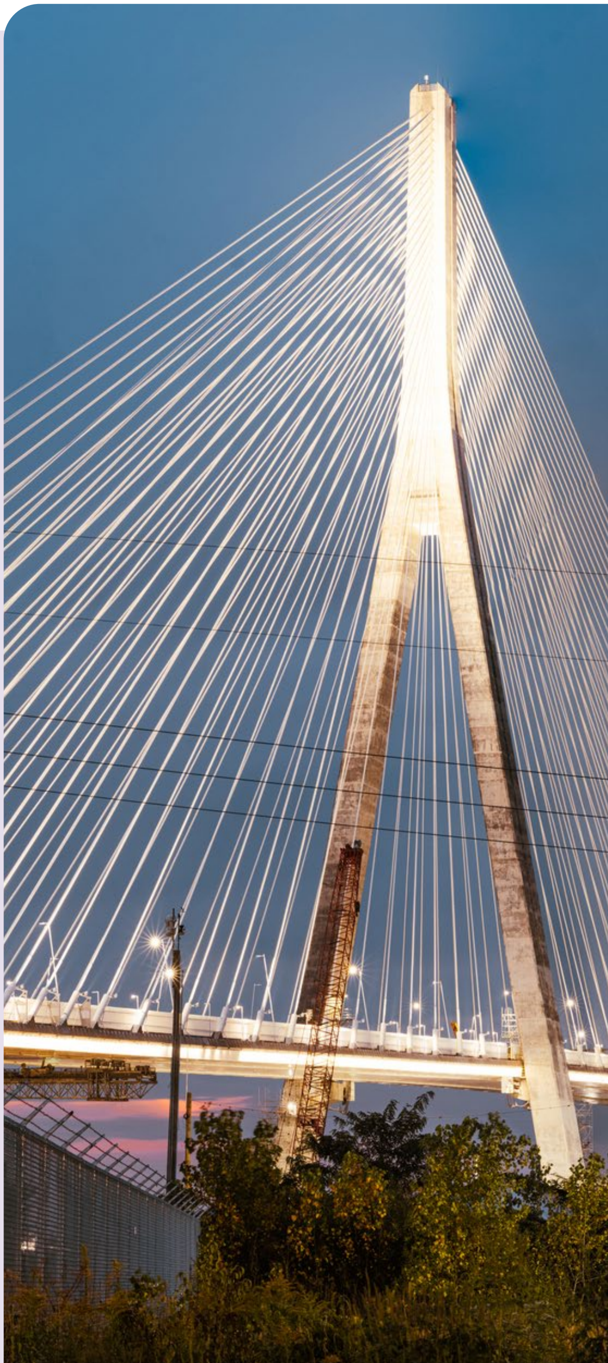
Other Section 232 tariffs on automobiles, trucks, buses, softwood timber and lumber, upholstered furniture, and kitchen cabinets and vanities remained unchanged. Effective June 8, several targeted adjustments were made to Section 232 that further refined – and in some cases relaxed – the regime. Separately, the U.S. Trade Representative (USTR) made Section 301 findings related to forced-labour import enforcement against 60 economies and proposed additional tariffs, with hearings beginning July 7. CUSMA-compliant Canadian exports are proposed to be exempt.

Negotiations

CUSMA still protects a large share of Canadian exports into the U.S. While that protection remains significant, it has not prevented Washington from applying pressure through sector-specific tariffs. The key challenge is no longer simply the review of CUSMA itself, but whether trade disputes can be resolved in a sustainable manner. Although President Trump has repeatedly threatened to withdraw from CUSMA, the agreement remains in force. At the same time, the continued use and/or threat of sectoral tariffs suggests that renewal alone may not eliminate risk and uncertainty for some Canadian businesses.

On March 31, 2026, USTR submitted its 2026 National Trade Estimate (NTE) to the President and Congress. For Canada, the report gives Washington a formal catalogue of trade irritants ahead of the CUSMA joint review. The report extends beyond tariffs, covering import policies, technical barriers to trade, government procurement, and other areas. Steel, aluminum, and autos remain the central issue for all three CUSMA partners.

Specific concerns include Canada's supply-management system for dairy and poultry, as well as the removal of U.S. alcohol from provincial liquor-board distribution channels. Washington is also pressing Canada on government procurement, including the federal Buy Canadian policy, U.S. business access to provincial procurement, namely in Ontario, Quebec, and British Columbia, and the proposed sovereign cloud initiative. On customs administration, the NTE flags how importers face delays because they have to register and post bond themselves before shipments arrive, rather than relying on brokers to carry that process.



Canada has sought to strengthen its negotiating position by proposing deals on energy and critical minerals. To date, however, these efforts have gained limited traction. Mexico has progressed further in formal talks with Washington. Canada has taken steps by appointing a chief trade negotiator, Janice Charette, and creating a new Advisory Committee on Canada-U.S. Economic Relations.

Washington is using the review to advance its own economic security objectives. These objectives include stricter North American content rules, more screening on foreign direct investment (FDI), heightened scrutiny of origin claims, and aligning North American tariffs against the rest of the world. These asks are at odds with Canada's need to diversify trade. As such, the negotiations walk a fine line between securing immediate tariff relief and preserving Canada's long-term room to manoeuvre.

Remedies

CUSMA discussions extend beyond the bilateral Canada-U.S. relationship. First, what began as retaliation against U.S. measures has expanded into global trade barriers in critical sectors such as steel. Second, the U.S. has signalled that it expects Canada and Mexico to fall in line by hardening North American trade rules against third-country supply chains. Conforming to those demands means abandoning other trade relationships and limiting the ability to diversify.

At the same time, Buy Canadian policies are moving forward with scheduled changes and additional details. On June 1, Public Services and Procurement Canada (PSPC) released the Canadian materials compliance framework, formalizing how existing obligations will be monitored and enforced. For contractors, the main evidence requirements include self-attestations, proof-of-origin records, and chain-of-custody documentation, while PSPC continues to operationalize the framework. On June 15, the Canadian Suppliers and Canadian Content Policy threshold dropped from $25 million to $5 million for competitive strategic procurements. The transition period for existing in-scope Supply Arrangements (SA) will conclude on July 14, requiring continuing SAs to include reciprocal procurement clauses in their renewals or amendments. The expected shift from supplier-location eligibility to goods-and-services-origin eligibility still has no date.

Local procurement policies

While international trade is primarily a federal matter, the tariff response has opened the door to local protectionism. Many provinces have moved to restrict U.S. contractors from public procurement. A few others have gone further by favouring provincial, rather than merely Canadian, suppliers. Ontario is the clearest example.

Bill 72, the Buy Ontario Act, was introduced on November 20, 2025. In less than three weeks, the Bill passed the legislature with broad support. As of June 1, all Buy Ontario directive requirements had taken effect across the covered public sector entities with no set expiry date. The timing is awkward. Provinces are promising to reduce interprovincial trade barriers, yet Buy Ontario moves in the opposite direction. Although the policy is designed around Canadian Free Trade Agreement (CFTA) thresholds, it cuts against the broader spirit of internal free trade. Ontario's provisions apply only to covered public sector owners, but they carry implications for contractors across Canada. Any contractor seeking work in Ontario will need to understand how the rules affect eligibility, bid evaluation, sourcing, documentation, and risk.

Measure	Municipal Buy Ontario directive	Buy Ontario directive
Strategic categories: Fleet vehicles*	✓	✓
Strategic categories: Capital infrastructure*	✓	✓
Building Ontario Businesses Initiative (BOBI)		✓
Procurement Restriction Policy, U.S. businesses		✓

*Strategic category requirements newly introduced in 2026.

Buy Ontario is both a procurement and a funding requirement. Ontario may withhold funding if a municipal or broader public sector (BPS) entity fails to comply. The Act brings together two pre-existing measures and adds two new strategic categories. The first pre-existing measure is the Building Ontario Businesses Initiative (BOBI), introduced in 2022, which created a preference for Ontario businesses. The second is the procurement restriction policy launched in 2025 in response to trade tensions with the U.S., which limited the participation of U.S. businesses. The two strategic categories are fleet vehicles and capital infrastructure.

The two pre-existing measures apply through the Buy Ontario Directive, which covers provincial government entities, including ministries, provincial agencies, and electricity-sector entities such as Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO), as well as designated BPS entities such as hospitals, school boards, universities, and colleges. The two additional strategic categories extend that framework through the Municipal Buy Ontario Directive, which applies to municipalities, local boards, and municipal services corporations.

What this means for construction procurements

For the construction sector, the key change is that Buy Ontario replaces the old BOBI framework with a dedicated capital infrastructure stream. The new stream introduces two important changes to new public construction procurement. First, it expands the scope by bringing municipal projects within the framework. Second, where the old BOBI framework gave Ontario bidders an edge over out-of-province bidders, the infrastructure rules now reward the bidder with the highest Ontario content, regardless of where the contractor is based.

Vendors are required to submit a Domestic Supply Chain Plan (DSCP), using either the commitment approach or the evaluated approach. This requirement cannot be sidestepped through Vendor of Record (VOR) or other arrangements. Under the commitment approach, the vendor must meet a minimum level of Ontario content and, where applicable, Canadian content specified by the project owner.

Under the evaluated approach, the rule depends on whether the procurement falls below or above CFTA thresholds. Below the CFTA thresholds, a 10 per cent evaluation advantage is given to the vendor with the highest Ontario content. At or above the threshold, a 10 per cent advantage is given to the vendor with the highest domestic content, with Ontario content weighted twice, and other Canadian content weighted once. Unlike BOBI, the strategic categories do not contain separate provisions procurements that exceed the thresholds established under the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) or the Canada-United Kingdom Trade Continuity Agreement (TBA). Because Ontario's trade agreement obligations are not built into the design, this leaves potential grounds for challenge.

Relevant CFTA thresholds

Entity type	Goods	Services	Construction
Government entities	$34,700	$139,000	$139,000
Municipal / BPS entities	$139,000	$139,000	$347,400

For larger procurements, owners may select a lower-ranked vendor if its Domestic Supply Chain Plan (DSCP) score is at least 50 per cent higher than the top-ranked vendor, provided that neither its bid price nor construction schedule is more than 10 per cent greater. For provincial government and BPS entities, excluding municipal entities, procurements above $368,000 must apply the Weighted Domestic Criteria (WDC) wherever feasible, capped at 35 per cent of the total evaluation score.

There are some exclusions. The capital infrastructure stream does not apply to Ontario Power Generation (OPG) or the Independent Electricity System Operator (IESO). These entities remain subject to the BOBI rules, which are based on the location of the business rather than project-level domestic content. For other entities, exclusions are considered on a case-by-case basis and require approval by the deputy minister, CEO, or equivalent authority. Approval may be granted only where a detailed market assessment indicates that applying the requirements would increase project costs by 25 per cent or more.

Overall, Buy Ontario is less restrictive than the federal Buy Canadian policy, but it makes DSCPs, origin documentation, and reporting a key part of the bidding process. As a result, it creates significant administrative burden to contractors, adding cost pressures and delivery challenges.

CUSMA and Canada's future

As discussed in the preceding section on negotiations, much of current trade discussion is focused on exports. However, exports represent only one side of the trade equation. As Canada seeks to build more, faster, CUSMA should be viewed not only as an export framework, but also as a development policy. The construction sector relies on integrated global supply chains to deliver the infrastructure, housing, and defence assets that Canadians depend on every day, safeguarding its sovereignty and interests without undermining its growth and competitiveness.

The Canadian construction industry creates value at home by transforming materials, equipment, and components into domestic assets: homes, hospitals, roads, utilities, energy infrastructure, and industrial facilities. In that sense, construction's trade exposure is often felt more directly through Canadian tariffs and procurement restrictions rather than through U.S. tariffs alone. Policymakers frequently characterize U.S. tariffs as self-defeating because they increase costs for domestic users. The same logic applies when Canadian tariffs raise the cost of construction inputs.

Tariffs and trade barriers are unlikely to disappear in the near term. Requirements related to rules of origin, domestic content, and supply chain documentation are likely to remain as governments place greater emphasis on economic nationalism. A common theme is emerging across both international trade policy and domestic procurement: greater scrutiny of documenting where goods, services, and value originate. These requirements increase the complexity of bid preparation and compliance, potentially limiting supplier options, weakening competition, extending procurement timelines, and increasing project delivery costs.

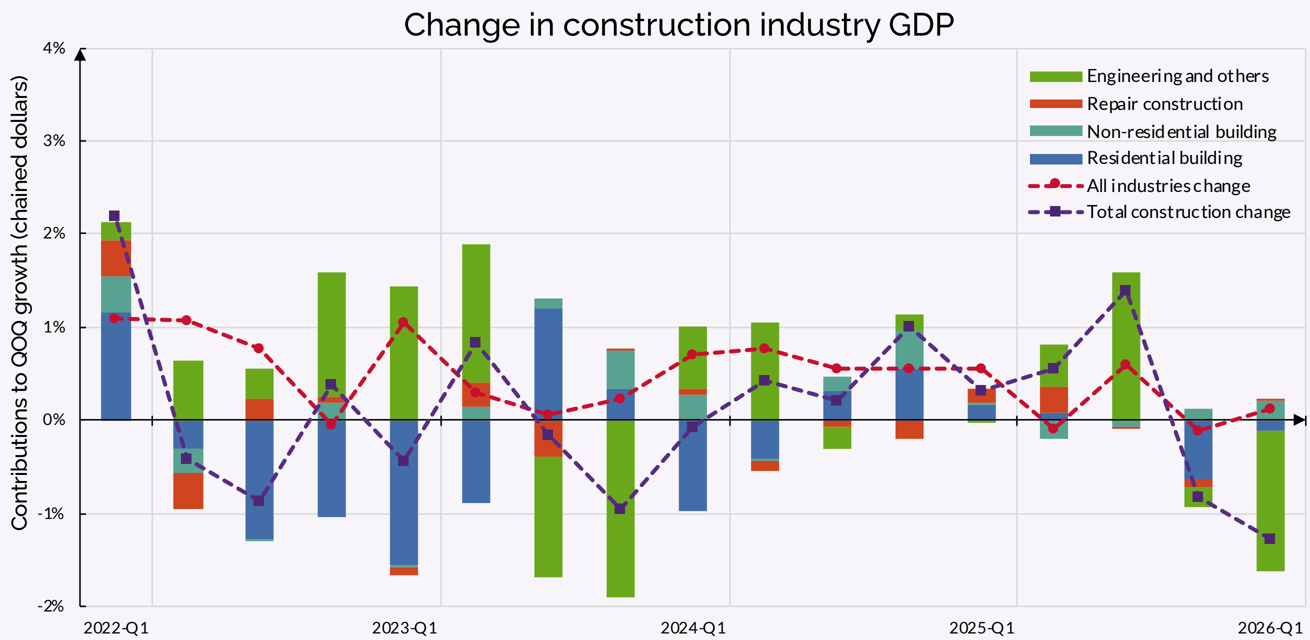
ICIC construction sector: **Performance and sectoral trends**

Sectoral GDP

GDP by industry measures the value added generated by an industry, including wages paid, gross operating surplus, and tax on production, after subtracting intermediate costs. It is calculated using the production approach rather than the expenditure approach and is therefore not directly comparable with the headline national GDP number. Under the North American Industry Classification System (NAICS), the construction industry encompasses residential and non-residential building construction, repair construction, and engineering and other construction activities.

Construction was the largest drag on GDP by industry in the first quarter of 2026. Sector GDP contracted by 1.3 per cent QOQ following a 0.8 per cent drop in the pervious quarter. By comparison, the all-industry average increased by 0.1 per cent. Among subsectors, residential building construction edged down by a further 0.4 per cent from Q4 2025, while non-residential building construction increased by 1.5 per cent.

Construction GDP



Source: CCA, StatCan

The largest contributor to this drop was engineering and other construction activities, which declined by 4.2 per cent QOQ. The slowdown was visible across provinces and subtrades. In addition to the pause in oil and gas capital expenditures discussed earlier, notable declines were recorded in highway, street, and bridge construction, consistent with payroll employment data. Higher oil prices have not translated into increased capital investment in the oil and gas sector. The near-term shortage isn't guaranteed to be sustained and isn't enough to incentivize major long-term investments in production capacity, particularly as global oil demand is expected to peak near the end of the decade.

After two consecutive quarters of considerable decline, the sector has now shrunk back to just below its level in the same quarter of 2025. While most subsectors are still positive year-over-year (YOY), and engineering and other construction activities remain one per cent higher, residential building construction is down by two per cent.

Investments in building construction

Investment in building construction measures the amount spent by individuals and organizations on construction projects, and does not include investment in land. The amount is estimated for the month in which work was carried out and is based on permits issued and housing starts. Typically, this indicator exhibits a two-month lag from when buildings permits are issued.

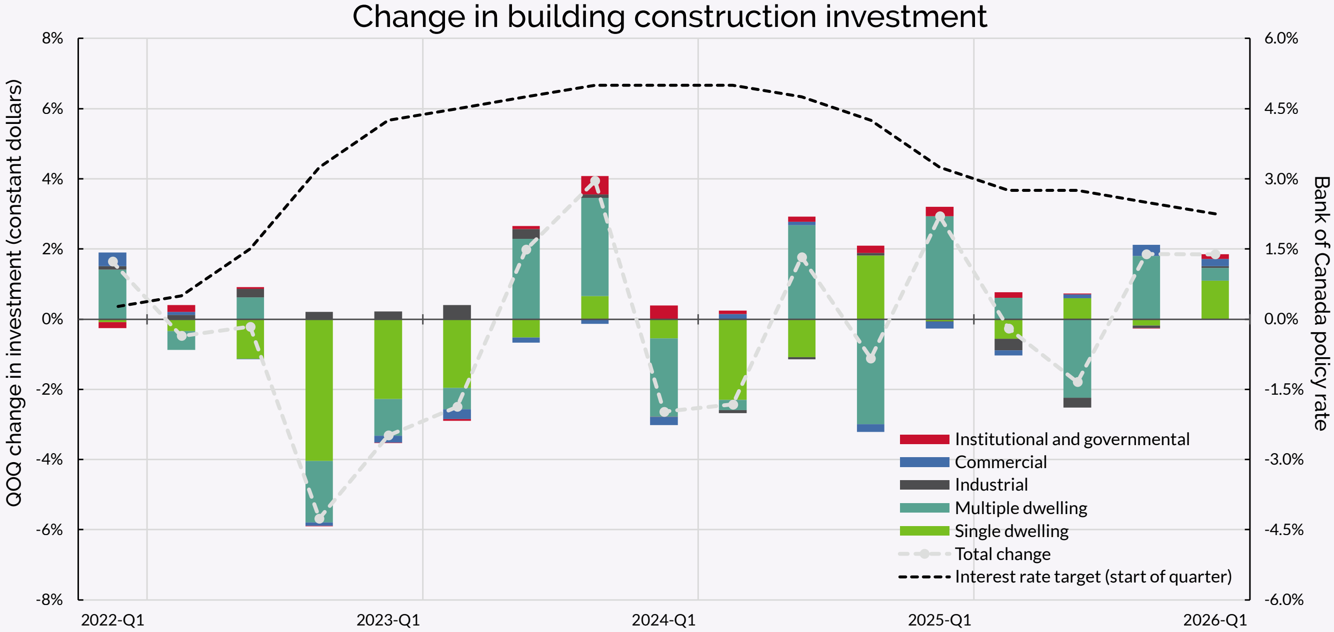
In the first quarter of 2026, Canada recorded $62.9 billion in building construction investment, down 1.5 per cent from the previous quarter and 1.6 per cent lower YOY. The overall decrease was driven by residential construction, with single-family homes down 1.7 per cent and multi-family homes down 3.8 per cent. On a YOY basis, single-family homes were still up 1.2 per cent and multi-family homes were up 4.4 per cent. Weak demand remained the main drag. The pause in rate cuts offered little relief, while uncertainty around new-home rebates added another reason for buyers to wait.

There was wide variation between provinces. Most of national decline came from multi-residential construction in Quebec, which fell 12.5 per cent from the previous quarter and was slightly below its level from the same quarter a year ago. Alberta and Saskatchewan were the only two provinces to record growth, with Alberta up 7.2 per cent from the previous quarter and 14 per cent from YOY.

Industrial investment remained weak, edging down 0.6 per cent further and sitting 14.5 per cent below where it was a year earlier. Commercial and institutional investment continued to move in the other direction. Commercial investment increased by 2.5 per cent from the previous quarter and 2.2 per cent YOY, while institutional investment rose 1.9 per cent QOQ and 4.5 YOY.

Investments

Change in building construction investment



Source: CCA, StatCan

Building permits

The value of building permits is a leading indicator of vertical construction activity. It is collected monthly from approximately 2,400 municipalities that issue permits before construction can begin, based on the cost declared on the permit application. This indicator provides insight into the volume of work the sector can expect to see within the next six months. It primarily reflects new building activity, as many renovation and civil projects may not require building permitting. All values are reported in constant dollars and are seasonally adjusted.

Building permits in Q1 2026 showed a mirroring pattern from building investment. While permit intentions improved in parts of the residential and industrial construction where recent activity had weakened, the non-residential categories that cushioned investment began to soften in the permit pipeline. Q1 maintained the recovery that began at the end of 2025, with permits edged up 0.5 per cent from the previous quarter, though they remained slightly below levels from a year earlier.

Results varied considerably across subsectors and provinces. The standout was industrial permits, which increased by more than 35 per cent and were almost 70 per cent higher than a year earlier. The increase was concentrated in British Columbia, where industrial permits nearly tripled after the approval of Metro Vancouver's North Shore Wastewater Treatment Plant. Most provinces also recorded significant industrial gains, except Newfoundland and Labrador and Nova Scotia. Newfoundland and Labrador had almost no new industrial permits approved in the quarter.

Industrial gains were offset by commercial permits, which fell 12 per cent from the previous quarter and were 11 per cent lower YOY. Two provinces accounted for almost all of the national decline: Ontario and Alberta, down 18 per cent and 27 per cent, respectively. Outside the Atlantic provinces, which saw a combined increase of more than 40 per cent, commercial permit values declined almost across the board.

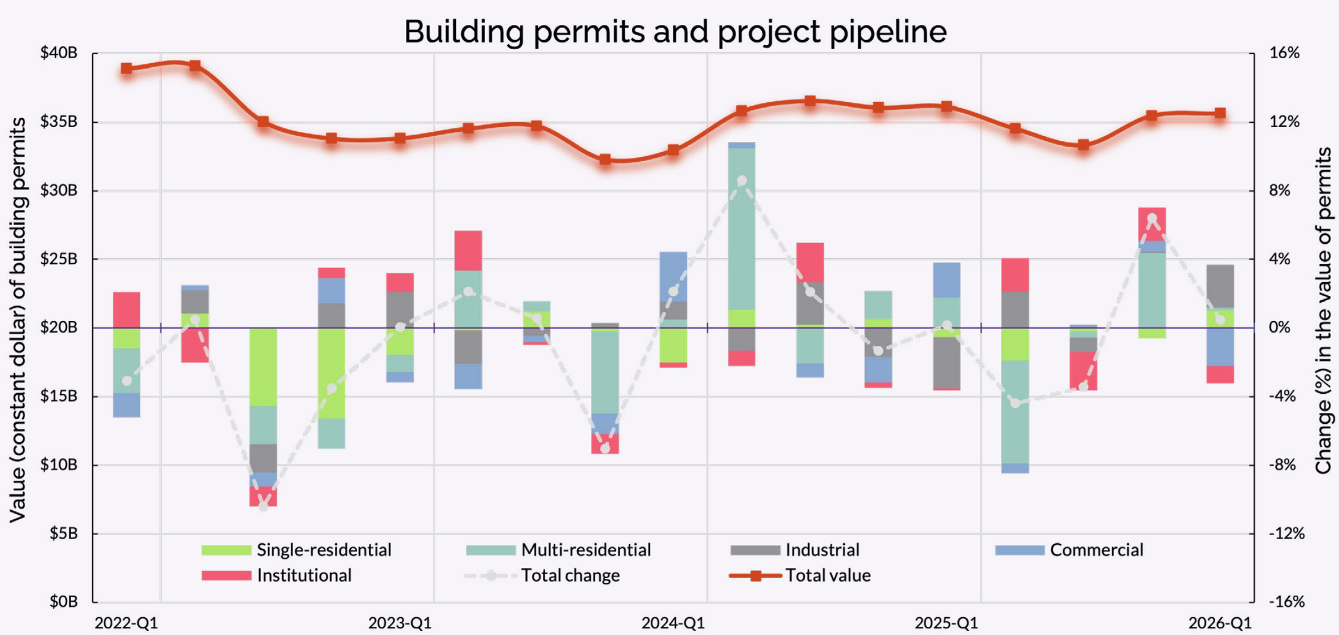
Institutional permits declined by almost eight per cent, although they remained 5.5 per cent higher than a year earlier. The decrease was driven primarily by the Atlantic region and British Columbia, where permits fell by 68 per cent and 23 per cent, respectively. Ontario moved in the opposite direction, increasing by 26 per cent, supported by the approval of University Health Network's (UHN) $800 million mega surgical tower at Toronto Western Hospital.

These declines in institutional construction were cancelled out by broad gains in single-residential permits, which rose by five per cent. This marked the first quarterly increase after a long decline since its peak at the start of 2021. Despite the increase, levels remain seven per cent below those of a year earlier.

Multi-residential permits were relatively unchanged from the previous quarter and remained five per cent below YOY levels. The two notable provincial changes were in Ontario, where multi-residential permits recovered by eight per cent, and in Alberta, where permits fell by almost 30 per cent, reaching its lowest levels in two years.

Provincially, Alberta permits fell by more than 16 per cent, while Atlantic provinces were down by almost 10 per cent on average. Both were also significantly below year-earlier levels. These losses were offset by recoveries in Ontario and Quebec, where permits rose by five per cent and seven per cent, respectively.

Permits



Source: CCA, StatCan

Labour market conditions

Construction is a cornerstone of the Canadian economy, employing approximately 1.64 million people, or nearly eight per cent of the Canadian workforce, making it the sixth-largest sector nationally. Yet the industry faces unique labour challenges. BuildForce Canada estimates a shortfall of 108,300 workers by 2034, driven largely by retirements and aging demographics. For contractors, labour availability directly affects project timelines, bid pricing, and competitiveness. This section examines current employment levels, job vacancies, and labour market tightness. Unless otherwise stated, calculations are based on seasonally adjusted values.

Vacancies

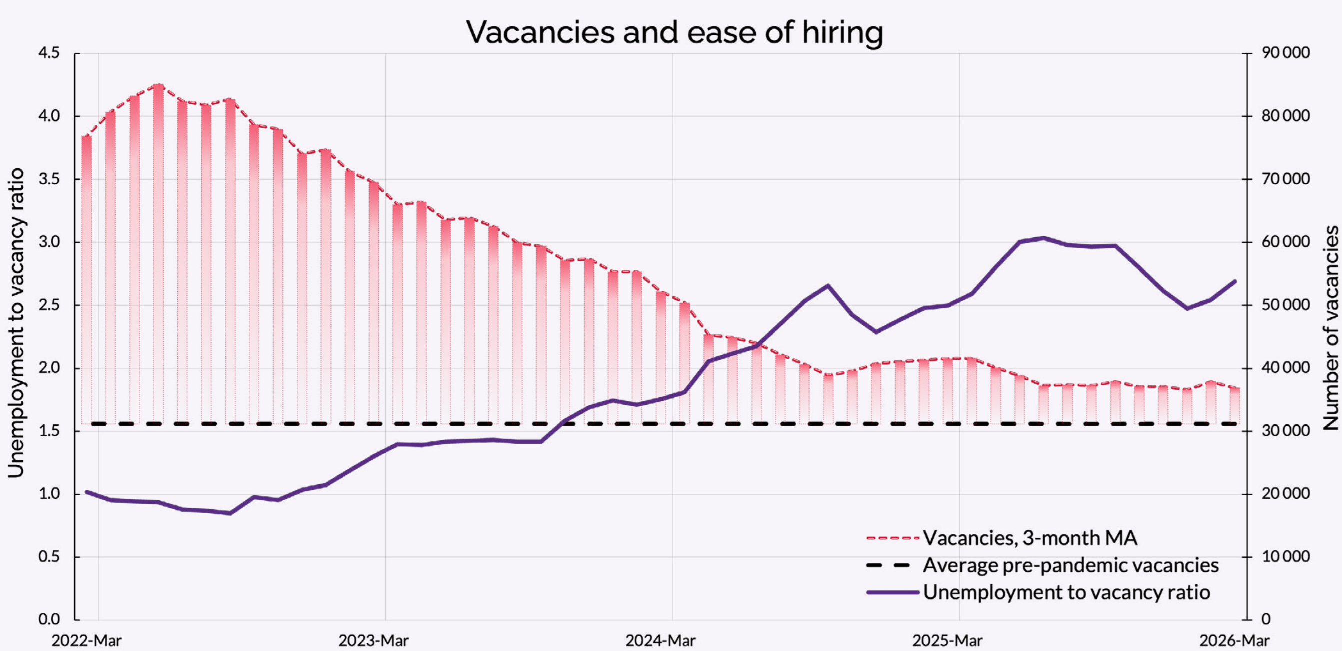
Labour market conditions are best assessed by examining both labour demand and supply. Job vacancies reflect employers' hiring needs and, when considered together with unemployment, provide insight into how difficult it is to fill positions or find work.

Job postings averaged nearly 36,610 in Q1, down 2.8 per cent from about 37,680 in Q4. This represents the lowest reading since 2018, though still noticeably above the pre-pandemic average of just over 31,000 recorded between 2015 to 2019.

The vacancy rate, measured as vacant positions as a share of total labour demand, fell to three per cent in Q1 and continued to moderate. Labour challenges are not disappearing any time soon. Aging and retirements will keep pressure on labour availability, but construction employment will continue to expand, albeit at a slower pace.

At present, the drivers that supported labour growth in the past few years, such as residential demand, are fading. New sources of demand from major projects are emerging. As a result, the sector is in a transitional phase between moderating existing demand and still-developing investment cycles.

Vacancies



Source: CCA, StatCan

Unemployment and labour market tightness

The national unemployment rate was 6.6 per cent in May, holding near its average over the past six months with no meaningful improvement. The construction industry recorded an unemployment rate of 5.8 per cent in the same month, still below the national average. However, it has climbed from late-2025 levels and has remained at or above 5.8 per cent for four consecutive months.

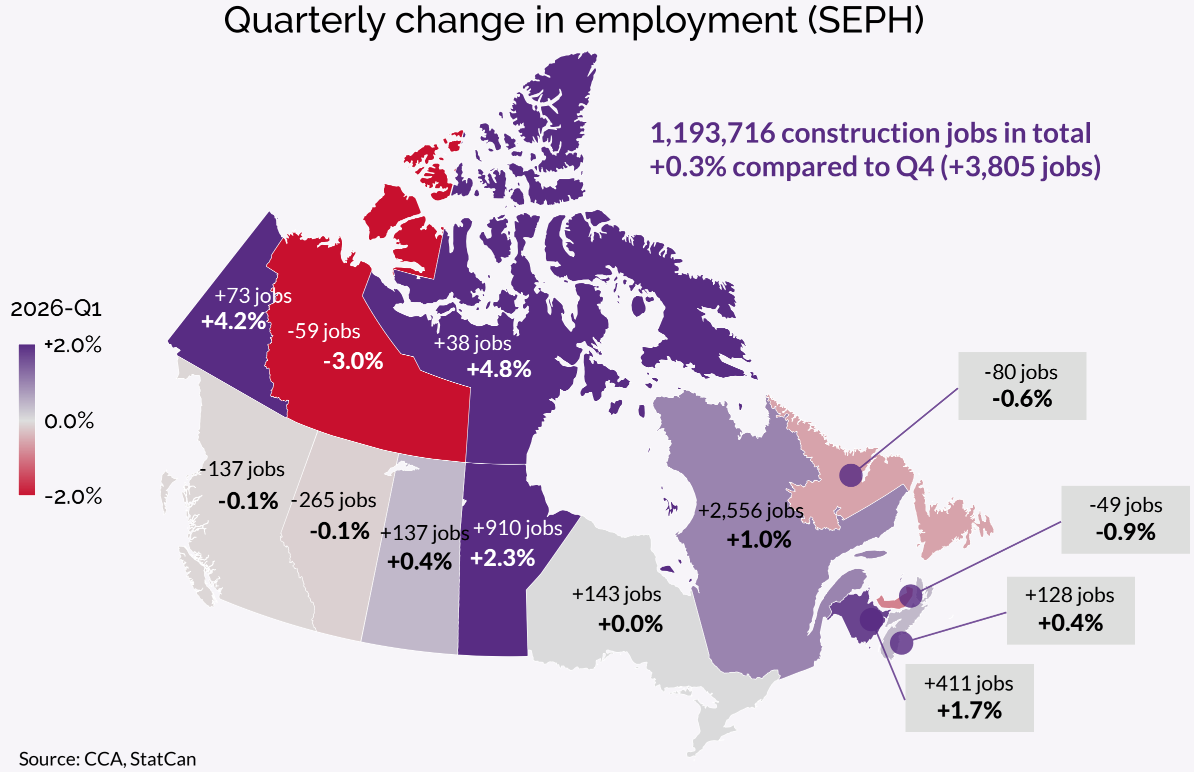
In Q1 2026, construction averaged 99,000 job seekers per month, representing 6.6 per cent of total unemployment. This is below the 2025 average of approximately 107,000 but above the 2024 average of nearly 96,000. Labour force growth has been partially constrained since late 2025 due to slowing population growth, and this dynamic persisted into Q1 2026. The Team Canada Strong initiative may help attract more young people to the sector, but its impact will take at least four years to be seen.

Labour market tightness is tracked by measuring the ratio of unemployed workers to vacant positions. A lower ratio indicates a tighter market, meaning businesses face greater difficulty filling open roles. As unemployment rebounded, ease of hiring improved in Q1. The tightness ratio rose by 0.1 to 2.7 in March compared with three months earlier, although it remained below the looser conditions observed in mid-2025, when the ratio averaged approximately three unemployed workers for every vacant position.

Employment: SEPH

The Survey of Employment, Payrolls and Hours (SEPH) tracks the number of jobs from payroll records, both salaried and paid-by-the-hour, providing a more stable indicator of sectoral employment trends. The SEPH provides a more granular view of subsector composition and hours worked, with geographic definition based on location of the job. According to SEPH, construction accounted for almost 1.3 million payroll jobs in 2025, representing seven per cent of total employment across all industries. This series exhibits low variations, typically less than two per cent in most provinces.

SEPH change



Source: CCA, StatCan

The total number of payroll employees in construction increased by 0.3 per cent in Q1 from the last quarter of 2025, marking the fourth consecutive quarterly increase. This contrasts with the decline in construction GDP noted earlier and indicates greater resilience in payroll employment, particularly in engineering-related activities. Overall gains were encouraging, with no province posting a significant decline. Quebec contributed the most to growth for a second straight quarter. Seasonal adjustments were large for this quarter.

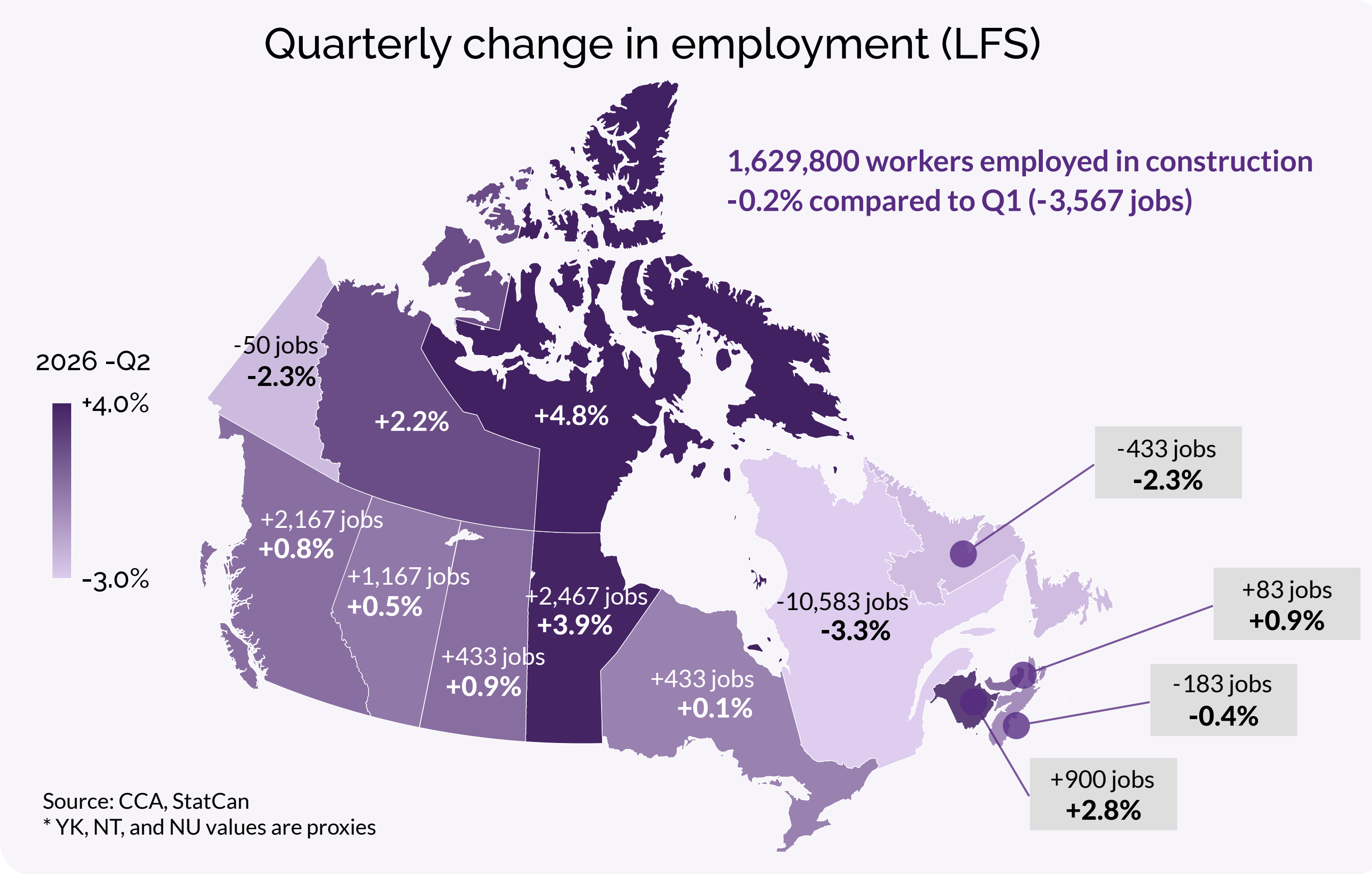
At the industry level, detailed SEPH data are unadjusted for seasonality. It shows where the weakness was concentrated, but is not meant to match the seasonally adjusted headline, which was roughly 10 pp higher than the unadjusted. Consistent with the weakness noted in the GDP section, heavy and civil engineering construction posted the largest QOQ decline, down 16 per cent on an unadjusted basis, though employment remained two per cent higher YOY.

Within the subsector, highway, street, and bridge construction saw the sharpest quarterly decline, down 25 per cent, while still up four per cent YOY. Other components, including utility system construction, land subdivision, and other heavy and civil engineering construction, declined by approximately 10 per cent. Compared with the same quarter last year, utility system construction was essentially unchanged, land subdivision was down eight per cent, and the remaining heavy and civil subtrades were still positive, gaining around seven per cent.

Employment: LFS

The Labour Force Survey (LFS) captures the number of people employed from household survey results. It is the survey reported most often when referencing unemployment data in Canada and includes both payroll employees and self-employed workers. The LFS shows more than 1.6 million people employed in construction, representing 7.8 per cent of total employment, with geographic definition based on place of residence rather than place of job. Unless otherwise stated, figures are estimated based on results from the first two months of the represented quarter.

LFS change



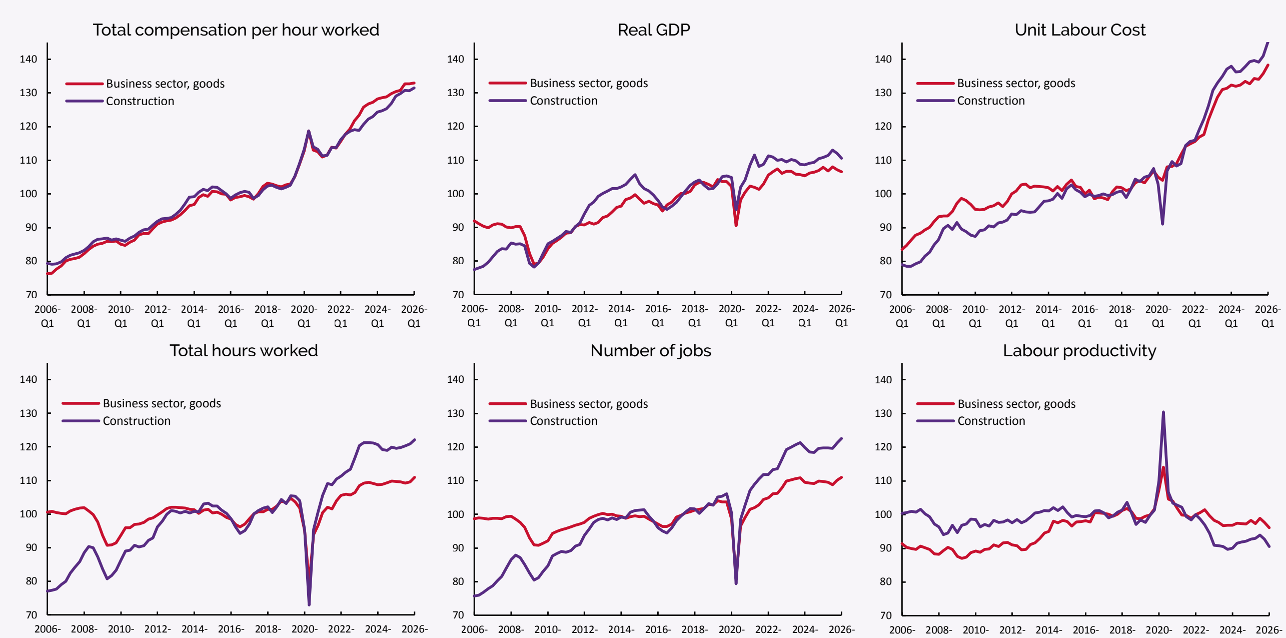
In the first two months of Q2 2026, construction employment edged down by 0.2 per cent, representing a decline of fewer than 4,000 workers from the first quarter. The monthly pattern was uneven, with weakness in April followed by a rebound in May. Overall, the movement was modest and broadly in line with the national labour market. On a YOY basis, construction employment was slightly lower, down 0.3 per cent, while total Canadian employment increased by 0.4 per cent over the same period.

Seven of 10 provinces recorded net gains over the period, while Quebec fell by 3.3 per cent and accounted for most of the national weakness. Quebec's LFS construction employment has been drifting lower since the start of 2026 and is now at its lowest point since Q3 2022. This stands in sharp contrast with SEPH payroll data, which continued to trend upward. The payroll-to-full ratio was already higher in Quebec construction in 2025, at 77 per cent compared with a national average of 72 per cent, and the recent divergence pushed it to 82 per cent by March. Since the LFS captures both employees and self-employed workers, while SEPH focuses on payroll employment, the widening gap suggests the weakness is concentrated in self-employed jobs. Newfoundland and Labrador also declined by more than two per cent.

Industrial capacity utilization rate and measures of productivity

Canada's housing, infrastructure, and economic goals depend on a construction sector that can build efficiently. Low labour productivity, rising unit labour cost, and a potential capacity utilization gap could throttle progress. Tracking these metrics against the broader economy can help spot areas of sector-specific inefficiencies.

Productivity



Source: CCA, StatCan

Labour input and compensation

Construction's labour input continued to rise in Q1, even as real output weakened. Total hours worked increased by one per cent from the previous quarter, close to the 1.2 per cent gain across goods-producing businesses. That combination indicates the sector used more labour hours while producing less real output. Total hours worked in construction has remained elevated since 2023 and continues to sit above the goods-producing business average. Average hours worked per job has been relatively stable but has been drifting lower over time, down approximately 1.4 per cent from its peak in Q2 2023. Compensation remains on par with national growth after lagging the goods-producing benchmark through 2023 and 2024.

Productivity and unit labour costs

Productivity, defined as value added per hour worked, dived after slowly improving through 2024 and 2025. Construction labour productivity declined 2.3 per cent from the previous quarter, a deeper drop than the 1.7 per cent decline across goods-producing businesses. The contrast with services was even sharper, as productivity in services-producing businesses edged up 0.3 per cent in the quarter. This reinforced the gap between construction and the broader economy. Part of the longer-run challenge is that construction, by its project-based, site-specific, and labour-intensive nature, has not benefited from existing technologies as much as service industries. Recent data from Statistics Canada show that only 9.2 per cent of construction businesses reported using AI to produce goods or deliver services, among the lowest adoption rates across major industries.

Unit Labour Cost (ULC) measures the ratio of labour compensation to real output. By definition, lower productivity pushes ULC higher, unless compensation per hour falls enough to offset it. With compensation per hour still rising, up 0.6 per cent in construction, the productivity decline fed directly into ULC. Construction ULC rose by approximately three per cent in Q1, compared with about 1.9 per cent for goods-producing businesses. The rise in ULC points to growing margin pressure for construction firms, with weaker productivity amplified by policy-driven cost friction.

Cost of building construction

The Building Construction Price Index (BCPI) tracks the total cost of constructing a typical building in 15 of Canada's largest census metropolitan areas (CMAs). It is based on the full bid price submitted by general contractors, and provides insight into which MasterFormat® divisions, regions, or types of building are experiencing higher inflationary pressures. Over the past nine years, since January 2017, the BCPI has increased by more than 50 per cent, doubling the increase in the Consumer Price Index (CPI). Consequently, contingency costs have risen, leading to project delays and cancellations.

By division

On a YOY basis, all divisions posted gains, but the data continues to show a clear split. Divisions with below-average BCPI inflation generally continued to cool alongside broader CPI inflation. HVAC stood out, slowing from 4.3 per cent in Q4 2025 to 1.3 per cent in Q1 2026.

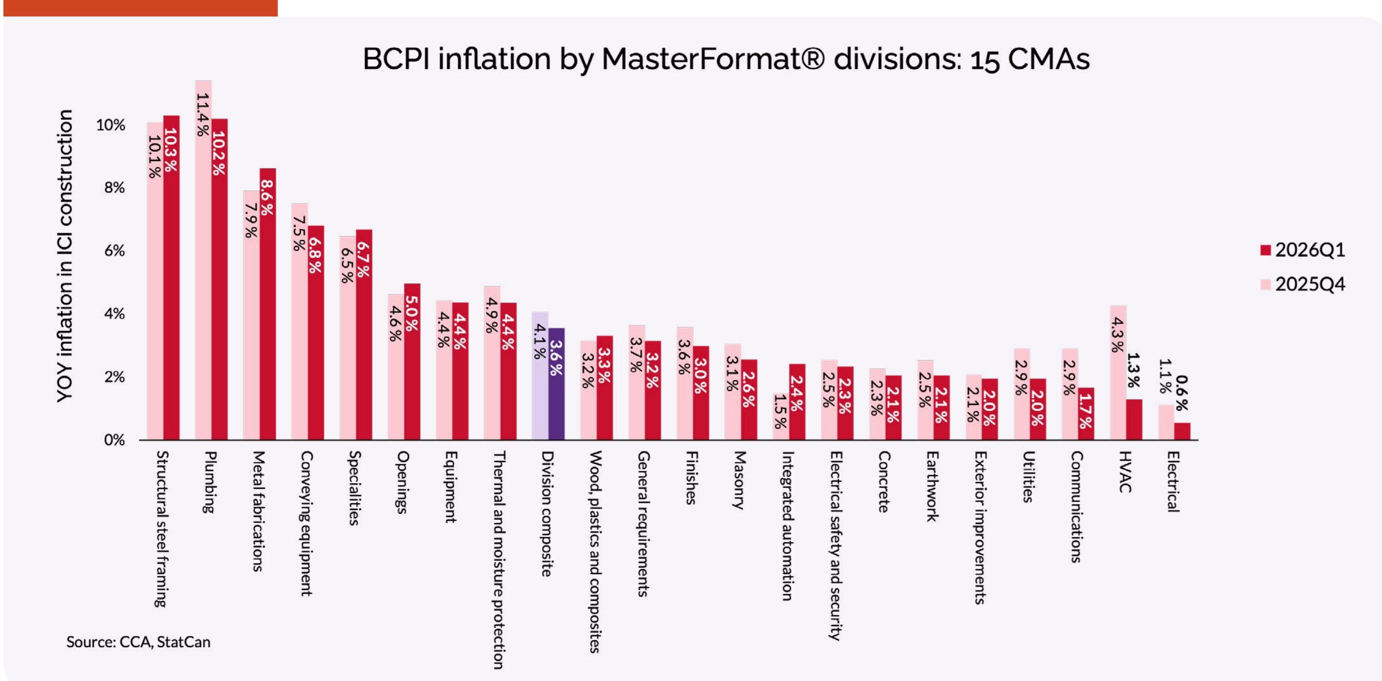
The main inflation drivers remain concentrated in divisions with heavier exposure to steel products in both residential and ICI construction, including structural steel framing, metal fabrications, and plumbing. These divisions continue to trend upwards, with prices still higher by approximately 10 per cent than a year ago. The opening division was five per cent higher YOY, up from 4.6 per cent in the previous quarter. This division is the most aluminum-intensive MasterFormat® division and remains exposed to Canadian tariffs and trade volatility.

Thermal and moisture protection increased by 4.4 per cent YOY, still above the composite average. However, Q1 data did not show a meaningful increase from petrochemical supply disruptions. For oil and gas derivative materials, the risk was more visible upstream than downstream, moving from crude and diesel through natural gas liquids (NGL), petrochemicals, and then final construction products.

Natural gas and plastic resin prices were decoupled from that chain, reflecting different market conditions in North America. The price of plastic resin surged from February to April, with domestic producer prices rising by nearly 50 per cent in the Industrial Product Price Index (IPPI). This points to some upside risk for plumbing and other plastic-intensive categories in the next BCPI release. Plumbing was 10.2 per cent higher than a year ago, down from 11.4 per cent in Q4 2025.

Petro-exposed divisions could still see stronger pressure in Q2. If geopolitical conditions stabilize and shipping normalizes through the summer, some of these cost increases may unwind in the following quarter. In many cases, much of the increase may never fully reach final construction products. In that case, the next release may show a temporary flare-up.

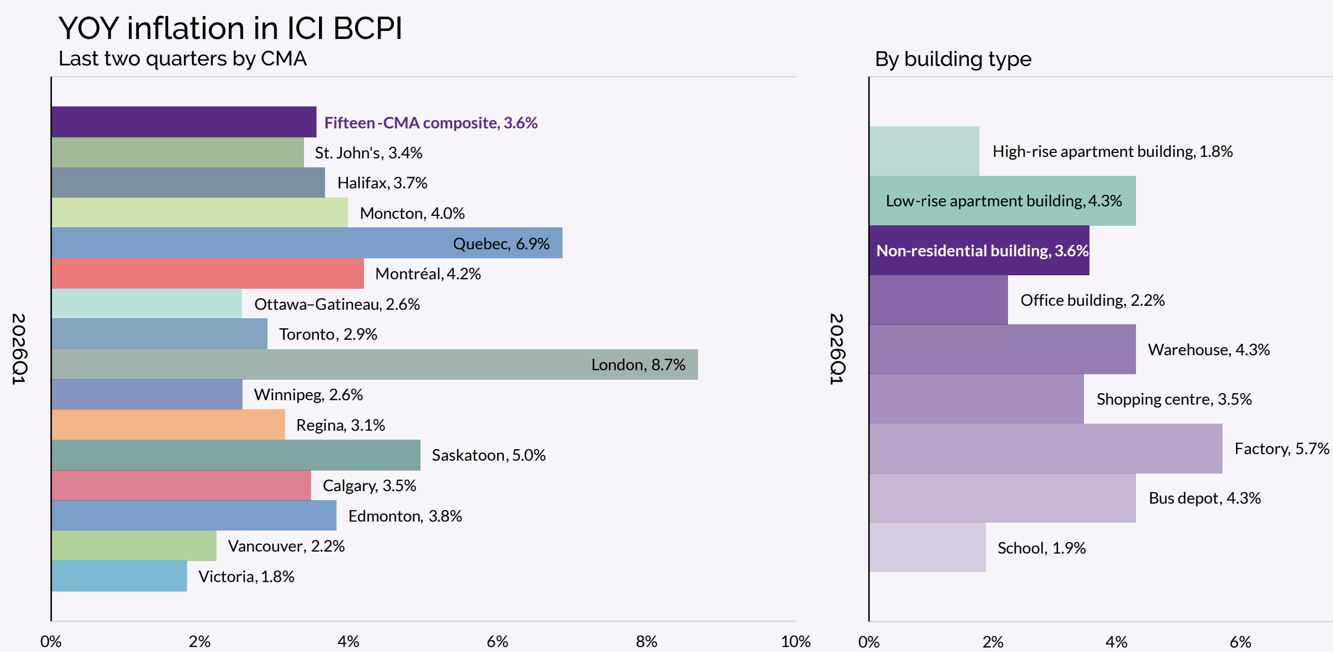
BCPI-Division



By census metropolitan area

Inflation slowed in almost all 15 CMAs, with St. John's (+0.5 pp) and Halifax (+1.4 pp) being the exceptions. Anecdotally, there are indications that some contractors, particularly in structural steel trades in the region, had been relying on stockpiles to avoid passing higher costs on to owners. As those inventories run down, some new building quotes may begin to reflect current replacement costs for steel products. Halifax (+3.7 per cent) is no longer the lowest CMA by cost-growth. Victoria now has the lowest inflation at 1.8 per cent, followed by Vancouver at 2.2 per cent. London remained the highest CMA by cost-growth at 8.7 per cent, followed again by Quebec at 6.9 per cent.

BCPI-CMA



Source: CCA, StatCan

By building type

ICI building construction costs were 3.6 per cent higher than a year ago in Q1 2026, down from 4.1 per cent in the previous period. Some deceleration is not surprising at this stage of the cycle. Broader inflation has cooled from its earlier peak, and softer demand is limiting how far some cost increases can be passed through. All building types saw inflation decelerate. The largest slowdowns were in building types with the lowest recorded inflation: schools (-1.1 pp), office buildings (-0.9 pp), and high-rise apartments (-0.4 pp).

These changes did not materially reshape the ranking across building types. Inflation remains lowest for high-rise apartments, at 1.8 per cent, as muted residential demand continues to weigh on pricing. It remains highest for factories, at 5.7 per cent, reflecting their greater exposure to structural steel and metal-intensive construction inputs. For contractors, the main lesson from the spring energy shock is that exposure will depend on contract structure, escalation clauses, and inventory positions.

Business conditions and what's ahead for the industry

Expectations and pressing obstacles

Results from the Q2 Canadian Survey on Business Conditions (CSBC) provides insight into the key obstacles currently facing construction businesses. The survey is conducted regularly at the beginning of each quarter.

Notably, this is the first recent quarter in which construction sentiment shows consistent signs of softening relative to the broader economy. When asked about their outlook over the next 12 months, only 57 per cent of construction firms were somewhat or very optimistic, down 14 pp from the previous quarter and below the 67 per cent share reported across all industries.

The deterioration in sentiment appears to be driven primarily by cost pressures. Construction firms reported facing higher costs over the next three months. More than half of businesses expect labour, energy, and raw material input costs to increase by at least five per cent, while the cost of capital was a slightly less prominent concern for contractors. Raw material cost increases were particularly elevated, 12 pp higher than the all industry average. In addition, 70 per cent of construction businesses expected supply chain challenges to worsen, well above the 52 per cent all-industry share, with none expecting improvement. These responses are consistent with pressure experienced from ongoing Canadian tariffs and procurement-related scrutiny.

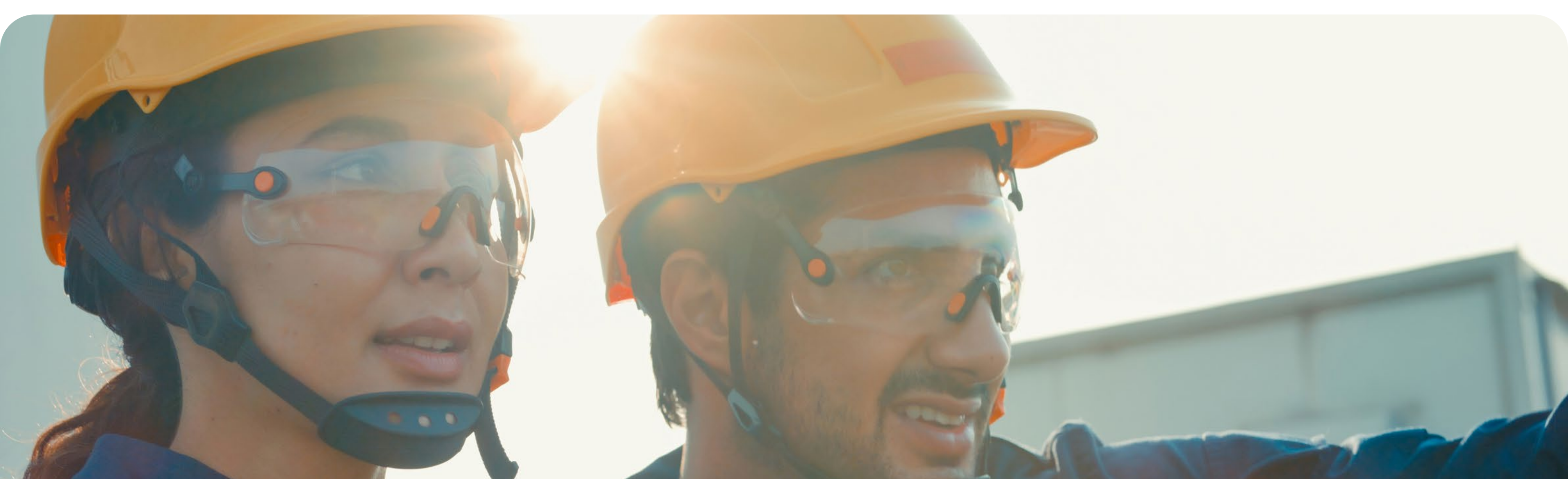
This edition of the CSBC was conducted after the closure of the Strait of Hormuz, and the results reflected heightened concerns related to oil prices and broader cost pressures. Inflation remained the most commonly cited obstacle, rising by nine pp and being identified by more than half of construction businesses. Transportation costs, input costs, and insurance costs also increased as reported concerns, reflecting the channels through which geopolitical developments were affecting the sector. At the time of writing this report, U.S. and Iran just signed the Memorandum of Understanding (MOU) and oil prices plummeted to nearly $70 a barrel. Cost concerns that arose from oil will hopefully be moderated by the next survey. Labour-related obstacles fell out of the top three reported concerns. While this partly reflects the increased prominence of cost-related issues due to geopolitical tensions, labour challenges eased modestly by around five pp.

A second important signal from this quarter is the rise in demand-related concerns. The share of construction firms citing fluctuations in consumer demand, insufficient demand for their goods and services, or difficulty attracting new or returning customers increased by nearly six pp. Each concern was cited by more than one-quarter of businesses. Canada has a strong appetite to build, but timing and outcomes might be uneven among firms, depending on region, subsector, and exposure to clients.

Regionally, Atlantic contractors were the most optimistic, while firms in British Columbia and Ontario were the most pessimistic. The regional gap was large: in the Atlantic region, optimistic contractors outnumbered pessimistic contractors by roughly one-third of the sector, while in British Columbia, pessimistic contractors outnumbered optimistic contractors by almost one-third.

CSBC 2026-Q2

Rank	Obstacles	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	YK	NT	NU	CAN
1	Inflation	43%	51%	52%	57%	57%	47%	52%	56%	67%	54%		23%		53% +9 pp
2	Transportation costs	45%	52%	50%	36%	25%	48%	57%	34%	50%	33%			4%	39% +14 pp
3	Cost of inputs	24%	41%	39%	35%	47%	26%	33%	33%	41%	26%		16%	0%	33% +6 pp
4	Fluctuations in consumer demand	13%	11%	21%	23%	20%	46%	29%	14%	22%	25%	13%	9%	0%	31% +4 pp
5	Recruiting skilled employees	24%	47%	35%	39%	28%	30%	54%	43%	32%	27%	15%		0%	30% -6 pp
6	Cost of insurance	14%	25%	17%	32%	42%	17%	29%	28%	51%	25%			0%	28% +5 pp
7	Interest rates and debt costs	10%	32%	17%	32%	18%	30%	26%	30%	28%	29%			0%	26% -1 pp
8	Insufficient demand for goods or services offered	4%	6%	18%	14%	24%	37%	3%	2%	11%	22%	1%	0%	10%	25% +7 pp
9	Attracting new or returning customers	12%	18%	7%	16%	24%	32%	13%	9%	9%	20%	0%	8%	0%	23% +6 pp
10	Shortage of labour force	33%	34%	28%	32%	26%	13%	40%	32%	26%	31%	1%		0%	23% -5 pp



What's ahead for the industry?

Canadian macroeconomic growth is expected to soften further. The 2026 real GDP outlook has been revised down from above one per cent at the end of Q1 to below by the end of Q2. The economy is soft, but inflation remains mostly contained. The recent increase in headline inflation is entirely an energy story. If the recent de-escalation in the Middle East holds and energy markets continue to stabilize, this risk should fade.

Engineering construction was a drag in Q1, but oil and gas capital expenditures should recover part of the Q1 decline while still trending lower over a longer period. The oil and gas industry has long shifted away from its rapid expansion in the 2010s toward higher shareholder returns. The Bank of Canada noted in its Q4 Business Outlook Survey that announced energy-sector capital expenditure plans for 2026 implied a 1.7 per cent nominal decline. Producer financial statements from Q1 commonly frame the response to higher oil prices as capturing stronger cash flow and lifting output where possible, while maintaining capital discipline. For construction, the larger long-term demand in the oil and gas sector is likely to come from LNG and market-access infrastructure that can diversify export beyond North America.

On the policy front, many of the measures discussed in previous reports are starting to take effect. The GST rebate is one example. The trade story has not disappeared either. While domestic tariff measures have changed little in recent months and major procurement policies were introduced earlier, several key implementation dates are recent, and compliance requirements continue to evolve. For contractors, the challenge is shifting from understanding policy announcements to navigating implementation and compliance obligations.

Construction firms continue to report sales momentum, consistent with pockets of demand in infrastructure, housing repair, and selected non-residential work. Yet acute and broad-based cost increases, coupled with demand volatility, leave profitability outlooks no better than the national norm. Employment plans are mildly expansionary while capital and training spending stay cautious.

Looking ahead: **Key economic and policy considerations**

CUSMA and trade

The range of potential outcomes remains wide. Over the past year, the discussion has evolved from broad concerns about trade dependence to more targeted concerns about sector-specific tariffs and cost effects. The next phase could bring prolonged negotiations in search of a final solution, or a faster agreement focused on providing greater certainty. The analysis changes each time Washington opens a new front. One takeaway is becoming clearer: origin documentation is becoming the new norm.

Defence spending

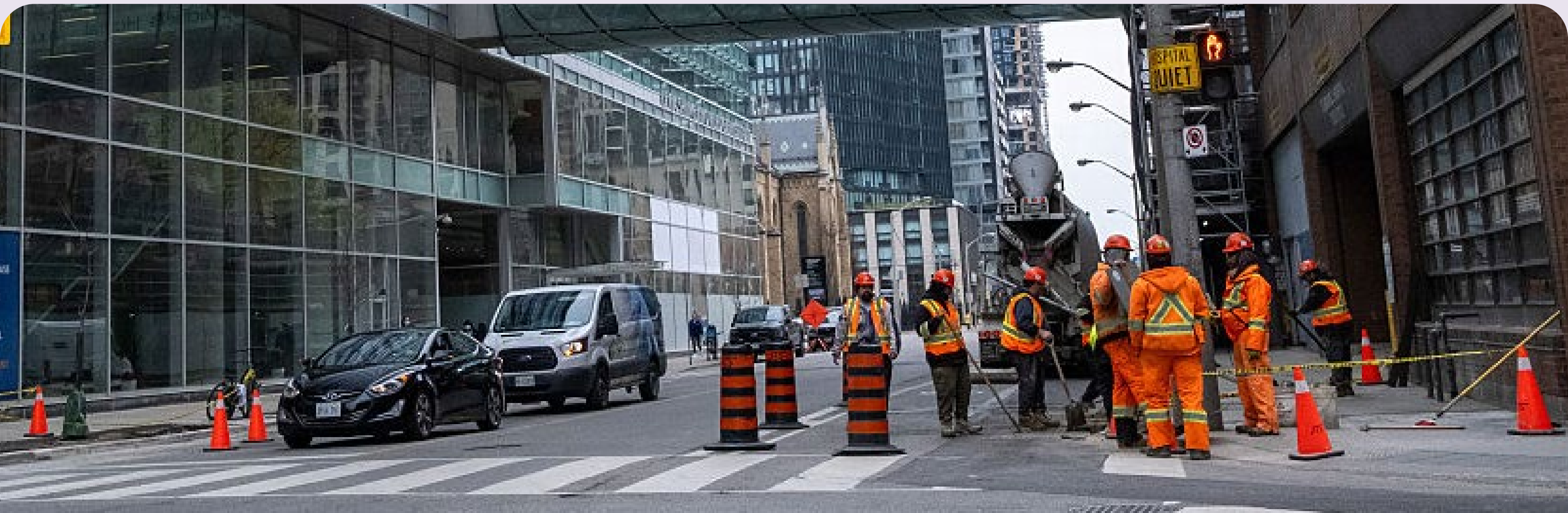
This is the clearest growth story in Canada right now. Spending is set to rise significantly, and while much of it will flow into equipment and weapons, there is also a meaningful construction demand, both on-base and off-base, including dual-use infrastructure. Defence also has a labour side through Team Canada Strong. The CAF stream gives cadets and junior rangers earlier exposure to the trades, while primary reservists can receive fully funded apprenticeship pathways tied to paid CAF infrastructure work.

Team Canada Strong (TCS)

Announced in the Spring Economic Statement, the program represents renewed and expanded federal apprenticeship support. At its core, TCS provides financial incentives aimed at encouraging young Canadians to enter the construction workforce. In addition, measures include wage supports for SMEs that hire first-year apprentices, plans to modernize the Red Seal program, and increased funding for the Union Training and Innovation Program (UTIP). The impact of the initiative will take time to materialize as implementation remains ongoing and apprenticeships take years to complete.

Immigration rulebook

Immigration remains a major policy risk. Federal Express Entry and provincial nominee systems are both being rebuilt, with Ontario's Provincial Nominee Program (PNP) redesign being one example. The direction points toward lower immigration levels and greater provincial influence over selection. However, the final policy implementation and timeline remain uncertain. Slower population growth is already contributing to cooler aggregate demand and housing demand, while labour force growth may face additional constraints.



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.

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