Canadian Construction Association
Best Practices Services

ICIC Construction Sector Quarterly Insights

Published August 2024

Key insights from Q1 2024

- **Canada's economic landscape:** Canada's economy exhibited modest growth in the first quarter of 2024, with GDP increasing by 0.6 per cent. Despite lagging behind the U.S. and other nations, this slower growth has led to a more favourable inflation scenario in Canada, prompting early interest rate cuts.

- **Monetary policy adjustments:** Due to eased inflation pressures, the Bank of Canada implemented its first two interest rate cuts in four years in June and July, lowering the overnight rate to 4.50 per cent. Further rate cuts are anticipated this year.

- **Construction sector overview:** The construction industry witnessed slow growth, primarily due to a significant downturn in residential construction. Non-residential, repair, and engineering construction sectors posted positive growth in the first quarter of the year. Investments in non-residential construction extended its growth streak to nine consecutive quarters.

- **Material costs and price indexes:** The Building Construction Price Index (BCPI) has decelerated for five consecutive quarters, indicating moderated construction costs.

- **Construction industry dynamics:** In 2023, Canada's construction industry demonstrated resilience despite economic challenges, with around 396,000 active businesses. The industry also saw a significant increase in the total number of businesses due to a notable influx of new entrants.

- **Lagging productivity:** Canada trails behind other nations in productivity growth, impacting small and medium-sized enterprises (SMEs) that do not benefit from the scale advantages of larger companies.

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.

GDP and inflation trends in Q1 2024 support loosening monetary policy

In the first quarter of 2024, Canada's GDP showed a modest increase of 0.6 per cent. Despite this growth, Canada's per-capita GDP continues to trail significantly behind pre-pandemic levels, currently three per cent lower than in 2019 and showing little change over the past decade. [Chart 1: CA & US]

This contrasts sharply with the United States, where per-capita GDP has increased by seven per cent during the same period. Economic growth in the U.S. has been largely driven by its services sector, a dynamic that has not been mirrored to the same extent in Canada. The disparity has not only hindered relative economic performance but has also contributed to lower inflation rates in Canada. This economic backdrop has positioned the Bank of Canada to implement interest rate cuts ahead of the U.S. Federal Reserve this year.

The modest economic growth experienced in Canada has eased inflation pressures, allowing the Bank of Canada to enact its first two interest rate cuts in four years in June and July, a move aligned with global central bank trends in Switzerland, Sweden, and the European Union. Despite this reduction, the Canadian overnight rate remains at 4.50

per cent, which is considerably above the Bank's estimated neutral impact range of 2.25 per cent to 3.25 per cent. Households and businesses continue to adjust to higher interest rates and their impact on debt payments, suggesting that further rate cuts may be necessary to support economic stability.

Meanwhile, Canadian consumer sentiment is showing signs of improvement as anticipation of falling interest rates grows, prompting adjustments in spending in response to easing economic pressures, leading to a less pessimistic view of their financial futures and the broader economic landscape.

Construction activities remained subdued in the first quarter of the year, largely due to a significant decline in the residential sector. In contrast, non-residential construction, repair construction, engineering, and other construction activities saw growth.

These trends and the potential for further interest rate cuts could have significant implications for the construction industry. Lower interest rates would stimulate investment in construction projects by reducing the cost of borrowing, which could help offset some of the challenges posed by current economic conditions.

ICIC construction sector: performance and sectoral trends

Construction industry activity remained largely unchanged in the first quarter of 2024, as seen in the latest quarterly GDP data. The industry saw a slight growth of 0.1 per cent [Chart 2: GDP], primarily due to a significant 1.1 per cent contraction in the residential construction sector.

In contrast, other sectors within the construction industry exhibited growth. Non-residential construction activity rose by 0.6 per cent, while repair construction saw a modest increase of 0.2 per cent. Engineering and other construction activities, which had faced two consecutive quarters of contraction in 2023, rebounded with a one per cent increase. The move away from the two quarterly contractions at the end of 2023 is critical as engineering and other construction activities continue to be the major driver of total construction activities across Canada.

Investments in building construction

The building construction sector experienced a mixed performance in investment trends, reflecting a divergence between residential and non-residential construction. Overall, the sector saw a contraction in investments by 0.6 per cent [Chart 3: Investment in building construction]. This decline was largely driven by the residential sector, particularly in multi-residential construction, which fell by 3.6 per cent. The decrease in residential investment underscores the impact of market dynamics and economic conditions that continue to challenge this sector of the industry.

Conversely, the non-residential sector demonstrated continued resilience, maintaining its growth trajectory for the ninth consecutive quarter, albeit at a slower pace. The growth rate has moderated since the first quarter of 2023, with a modest increase of 0.2 per cent, amounting to an additional $152 million in investments. This growth was predominantly fueled by a 1.2 per cent increase in industrial construction, which added $57 million, and a significant 4.6 per cent rise, equivalent to $165 million, in institutional construction investments. This marks an important recovery for institutional construction following five quarters of decline.

The commercial subsector, however, has not mirrored this positive trend and has experienced its sixth consecutive quarterly contraction, with a 2.5 per cent decrease in investments totaling $71 million. This divergence in performance between the residential and non-residential sectors is indicative of their differing capacities to adapt to the prevailing high interest rates and a slowing economy.

Quarterly focus: Canada's construction industry dynamics

Economic downturns and monetary tightening aimed at curbing inflation have impacted the construction sector by increasing borrowing costs and affecting operational sustainability, which in turn have influenced market entry and exit trends among construction businesses. The size of a business plays a significant role in its financial resilience. Smaller firms, while agile and able to adapt quickly, often face greater risks during economic downturns. In contrast, larger firms, equipped with stronger financial reserves, generally fare better under economic pressure. Despite these challenges, the construction industry has demonstrated resilience by quickly responding to rising costs and adjusting its strategies to maintain stability.

SMEs in construction

The Canadian construction industry primarily comprises small and medium-sized enterprises (SMEs), which play a crucial role in the sector's economic dynamics and resilience. From 2015 to 2023, the size distribution of active businesses within the construction industry has remained relatively stable. Micro businesses, those with one to four employees, constitute 68 per cent of all firms in the sector. Small businesses with 5 to 99 employees make up 32 per cent. In comparison, medium-sized businesses with 100 to 499 employees account for 0.8 per cent, and large businesses with over 500 employees represent less than one per cent of the total.

This distribution reflects the industry's fragmented nature, which is characterized by a variety of specialized activities. According to Statistics Canada, as of 2023, the construction industry includes approximately 396,000 businesses. This includes around 20,000 firms engaged in non-residential construction, 36,385 in heavy and civil engineering construction, and a significant 226,048 in specialty trade contracting [Table 1: Distribution of construction businesses].

Operating with smaller financial buffers and limited scale, SMEs in the construction sector face significant challenges during economic downturns. These firms are generally more vulnerable to market exits compared to their larger counterparts, often resulting in a higher rate of closures. Given the high proportion of SMEs and the sector's reliance on these businesses, it's essential to recognize and address the unique challenges they face.

Bankruptcies and proposals in construction

The cost of borrowing capital has escalated due to inflation and higher interest rates. Such economic conditions can lead to unsustainable operational costs causing businesses to either delay market entry or exit. This trend has affected bankruptcy and proposal rates across industries in Canada. The Bankruptcy and Insolvency Act (BIA) in Canada provides legal avenues for companies facing insolvency, which include liquidating assets through bankruptcy or restructuring debt through a proposal to continue operations.

From 2019 to 2023, bankruptcies and proposals varied widely among industries with the overall rate across all industries averaging 30.6 percent during this period. The rate was driven by the accommodation and food services sector and the professional, scientific, and technical services sector, which have both seen significant rises in insolvency and proposal rates beyond their pre-COVID levels.

In contrast, the construction industry presented a unique case; after reaching historic lows in 2020, the number of bankruptcies and proposals has only modestly increased, returning to historical averages by the end of 2023. While bankruptcies in all industries have risen by 34.7 per cent during this period, they have only marginally increased by 0.2 per cent in the construction sector. Meanwhile, proposals across all industries rose by 18.6 per cent but fell by 2.2 per cent in construction [Chart 4: Bankruptcies and proposals].

The construction sector generally has a higher proportion of bankruptcies and proposals compared to other industries, although this gap has narrowed since 2020 as fewer construction firms have filed. From 2019 to 2023, the rate for bankruptcies and proposals for all industries increased from 0.25 to 0.33 per cent, or an increase of 953 more insolvencies in 2023 than in 2019. Meanwhile, in construction, this ratio contracted by 0.02 percentage points.

Business dynamics in construction – entries and exits

According to a study from Statistics Canada, small firms, which are predominant in the construction sector, typically exhibit lower bankruptcy rates than larger firms. Yet, smaller firms are more prone to exit the market than large firms.

The concept of "business exit" refers to the permanent closure of a business and its departure from the marketplace. Unlike insolvency, which is often due to financial distress, exits can occur for a variety of reasons, making it a more diverse category. As of 2023, exits across all industries had stabilized to pre-pandemic levels, with the most significant increase occurring in that year. In 2023, the sectors with the highest exit rates were the professional, scientific and technical services sector (13 per cent) and the construction sector (11 per cent).

In the construction sector, the number of exits hit a historic low in Q2 2020, largely due to a spike in temporary closures during that period. Since then, exits have steadily increased, returning to 2019 levels by the end of 2023. Throughout 2023, exits increased by 17 per cent, with 16,500 firms leaving the market. Micro-sized companies represented 91 per cent of these exits, while small businesses constituted the remaining nine per cent [Chart 5: Exits and entries].

On the other hand, business entries across all sectors have also reverted to their historical averages post-COVID-19. In 2023, construction accounted for the second-largest share of new business entries among all industries, with approximately 23,000 firms entering the market. The pattern of entries into the construction market mirrored the trends observed in exits, with a significant recovery from the record lows recorded in 2020. Since then, the number of new entrants has stabilized, surpassing average pre-covid levels, with micro businesses comprising 91 per cent of new entrants and small businesses making up the remainder 9 per cent.

From From 2020 to 2023, the interplay between entries and exits has led to a consistent increase in the total number of active businesses within the construction sector. Comparing two periods, 2015-2019 and 2020-2023, the annual growth rate of active businesses in construction rose from 1.2 per cent to 1.6 per cent. This growth contrasts with the overall industry trend, where the growth rate was less than one per cent during both periods. The exit rate in construction, defined as the ratio of exits to the total number of active businesses, averaged 1.1 per cent from

2015-2019 but saw a reduction to -3.3 per cent during 2020-2023, indicating fewer exits. Conversely, entry rates, which had contracted by four per cent from 2015-2019, increased to 3.1 per cent during 2020-2023, primarily driven by the surge in micro firm entries.

Current status of the industry and looking forward

As we continue to observe the lagged effects of monetary policy adjustments through 2024 and anticipate further interest rate cuts, the future for SMEs in the construction industry looks hopeful. Despite the economic challenges posed by monetary tightening in previous years, the construction sector has shown remarkable resilience. Surprisingly, the number of business exits contracted, and the overall number of active businesses in construction notably increased in 2023. This positive trend suggests a robust capacity for adaptation among construction SMEs, supported by a decreasing rate of exits and a stabilized entry rate. Moving forward, the anticipated interest rate cuts in 2024 are expected to improve the financial landscape for these businesses further, potentially sustaining or even improving the current positive trajectory of SME health within the construction industry.

Labour market in construction

Labour trends in the construction industry continue to show positive signs, with sustained employment gains highlighting a robust demand for skilled workers. While this quarter showed a decline in job vacancies within the construction sector, the numbers remain significantly higher than pre-pandemic averages.

Meanwhile, unemployment within the construction industry remains stable. The industry's ability to maintain stable employment levels amidst an economic downturn stresses the ongoing need for labour, driven by steady population growth and a high volume of active projects. Together, these factors confirm that labour remains one of the most pressing challenges for the construction industry.

Employment

In the first quarter of 2024, national employment figures for the construction industry saw a total increase of 0.1 per cent, translating to an addition of 1,600 workers across Canada. This uptrend follows a similar rise in employment during the last quarter of 2023, signaling a continued positive shift in the sector's per cent market. Despite this overall growth, the changes in employment across various provinces and territories presented a mixed landscape [Chart 6: Employment change by province].

Significant employment gains were seen in several regions, with Manitoba, New Brunswick, and Alberta experiencing the most notable increases. Manitoba's construction employment grew by 6.2 per cent, adding 3,500 workers. Alberta added 2,800 jobs, or a 1.1 per cent increase. New Brunswick saw a 7.3 per cent rise with an additional 2,400 new jobs in the province. Newfoundland and Labrador and Nova Scotia also reported increases, with 1,400 workers (a 7.1 per cent increase) and 870 new workers (a 2.3 per cent increase), respectively.

Conversely, certain regions faced setbacks in construction employment. Saskatchewan and Prince Edward Island experienced declines in employment, with Saskatchewan losing 2,770 workers (a 6.2 per cent decrease) and Prince Edward Island seeing a drop of 430 workers (5.3 per cent decrease). The territories showed mixed employment changes: Yukon and Nunavut increased by 100 workers (0.4 per cent) and 500 workers (3.6 per cent), respectively, while the Northwest Territories faced a decrease of 3.6 per cent, marking 830 jobs lost. Furthermore, the larger provinces such as Ontario, Quebec, and British Columbia, while not seeing dramatic shifts, also reported reductions in employment, which significantly impacted the national figures due to their large size. Ontario's employment decreased by 0.1 per cent (270 workers), Quebec by 1.2 per cent (about 3,700 workers), and British Columbia by one per cent (2,230 workers).

Unemployment

In the first quarter of 2024, the construction industry in Canada witnessed a slight decrease in its unemployment rate, dropping by 0.3 basis points from 5.6 per cent to 5.3 per cent. This stands in contrast to the overall unemployment rate across all industries, which experienced a marginal increase of 0.1 basis points, rising to 5.9 per cent. This variance highlights the construction sector's unique position in the labour market.

Typically, unemployment rates tend to increase during economic slowdowns. However, the construction industry in Canada has sustained a relatively low unemployment rate due to the consistently high demand for construction work. Rather than experiencing the expected rise in unemployment as the industry's growth rate slows, there has been a slight decrease in the number of job vacancies. This trend highlights the ongoing rebalancing of labour supply and demand within the construction sector, indicating a stabilizing employment landscape despite slower sectoral growth.

Vacancies in construction

Vacancies decreased for another consecutive quarter as the economy continued to decelerate. In Q1 2024, vacancies in construction declined by 9.7 per cent to a total of 52,000 vacant positions in the construction sector. The continued decline in the number of vacant positions since the record high levels in Q2 2022 reflects the general deceleration in the economy. Yet, the construction labour market still remains tighter than its pre-pandemic average. The number of vacancies remains 7,000 above the pre-pandemic average of 47,000 vacancies.

Another measure of labour market tightness is the vacancy-to-unemployment ratio, which has slowly increased since its record low levels in Q1 2022. The latest number of unemployed individuals per vacancy increased to 1.8. However, this is less than half the pre-pandemic average ratio of 4.2. Although vacancies continue to decline, the labour market remains tight, as reflected by this ratio [Chart 7: Vacancies].

Industrial capacity utilization rate and measures of productivity

The focus on productivity in Canada has recently intensified, shifting from ongoing concerns about inflation to addressing broader productivity challenges. The Bank of Canada has highlighted that strong productivity is crucial for fostering faster economic growth, creating more jobs, and improving wages—key components that buffer against the risks posed by high inflation. Despite Canada's efforts to expand economy through workforce growth, the productivity output per worker has not seen matching increases. Therefore, other factors beyond immigration may be contributing to the national productivity challenges. Canada has fallen behind some other countries in productivity gains. Improving productivity is especially vital for small and medium-sized enterprises that lack the scale advantages of larger firms and demand a more competitive business environment to spur innovation and efficiency.

Capacity utilization rate

The Capacity Utilization Rate (CUR) serves as a primary indicator of industry efficiency, measuring the actual output of an industry against its potential output. In the first quarter of 2024, Canadian industries operated at 78.5 per cent of their production capacity, a rate consistent with the end of 2023. The construction industry, however, reached a pivotal moment in the same period. After a gradual decline from the record highs of early 2022, the CUR for construction showed signs of stabilization and modest recovery, increasing by one percentage point to 86.7 per cent, standing 8.2 percentage points above the industry average [Chart 8: Measures of productivity].

An increase in CUR typically signals rising sector demand. This indicates that while reaching 100 per cent capacity is generally not feasible due to various operational constraints, the construction sector is operating closer to its full capacity than other industries.

Unit labour cost

Unit Labour Cost (ULC) is a productivity metric calculated by dividing labour compensation by real output. ULC reflects the cost of labour per unit of output, identifying inflationary pressures from wage growth. During the pandemic, average weekly wages across all Canadian industries spiked significantly, primarily due to disproportionate job losses at the low end of the wage scale. From 2021 to 2023, the average weekly wage growth across all industries was 3.2 per cent annually, while in the construction sector, wages grew at a higher annual rate of 4.7 per cent. Despite nominal wage increases, real wage growth lagged due to high inflation levels. Real wages for all industries declined for five consecutive quarters. Meanwhile, the construction sector recorded just one quarterly contraction in real wages—a 0.6 per cent decrease in Q2 2022 during the peak of inflation [Chart 9: Wages and ULC].

The rise in unit labour costs, which increased by 15 per cent overall for all industries during this period, reflects the implications of these wage adjustments. In the construction industry, unit labour costs surged by 30.2 per cent, indicating that wage increases significantly outpaced productivity gains and contributed to labour inflationary pressures. Wage growth is expected to continue easing gradually as the tightness in the labour market and inflationary pressures subside.

Material inflation

The Industrial Product Price Index (IPPI), which tracks the price movements of goods used in the construction sector, experienced a slight decline of 0.21 per cent in the first quarter of 2024. While a seemingly minor change, this overall downturn reflects varied changes across several key product groups essential to the construction industry. Noteworthy exceptions for construction were the chemicals and chemical products group, which saw a rise of 0.63 per cent, and the cement and other non-metallic mineral products group, which increased by 2.93 per cent [Chart 10: IPPI].

The energy products group recorded a significant 4.25 per cent decrease during the first quarter. Within this group, refined petroleum products dropped by 4.49 per cent, motor gasoline slightly decreased by 0.02 per cent, and asphalt fell by 2.18 per cent. Diesel, another important construction-related product, experienced a substantial drop of 9.05 per cent. U.S. crude production exceeded forecasts in the first quarter of 2024, growing by two per cent more than expected. Additionally, crude inventories within the OPEC+ group continue to be substantial. In late 2022, OPEC+ made a decision to maintain their voluntary production cuts to stabilize oil prices, a policy they have decided to extend until the fourth quarter of 2024. Despite initial market expectations that these cuts would be scaled back starting in May, OPEC+ chose to continue the reductions as production is projected to exceed consumption throughout the year.

Lumber and other wood products, another vital construction material group, saw a significant increase of 2.42 per cent in Q1 2024. Specific components important to construction showed notable trends: softwood lumber surged by 5.99 per cent, while veneer and plywood increased by 2.21 per cent. Wood windows and doors also saw a rise of 2.14 per cent, while wood cabinets and countertops experienced a slight decline of 0.34 per cent. Uncertainty surrounding U.S. tariffs on Canadian softwood lumber has been a factor in driving up prices. In the latest developments of this ongoing dispute, the U.S. Department of Commerce has been ordered to correct errors in its most recent duty decision. Despite this directive, the countervailing duties imposed on Canadian softwood lumber by the U.S. remain in effect. This issue is expected to be a focal point during the review of the Canada-United States-Mexico Agreement (CUSMA) scheduled for 2026.

The primary ferrous metal product group, crucial for construction, experienced a substantial increase of 4.51 per cent, reversing the downward trend observed in previous quarters. This rise was driven by significant price increases in hot-rolled iron or steel products (11.91 per cent) and iron or steel pipes and tubes (7.82 per cent). Ferrous metal castings, however, saw a further decline of 3.19 per cent. Steel consumption in China, a leading global producer and consumer, is forecasted to shrink again this year as a protracted property crisis has yet to find a bottom and as infrastructure demand growth slows. This is reducing worldwide steel production and intensifying competition for this essential construction material. New anti-dumping tariffs from the U.S. on Chinese steel exports and the harmonization of these tariffs by Canada and Mexico could fuel higher prices for this group of products.

Building Construction Price Index (BCPI)

The Building Construction Price Index (BCPI), which measures the aggregate cost of constructing an average non-residential building, including land, labour, and material expenses, has continued its deceleration trend. For the fifth consecutive quarter, the index' growth slowed, registering an increase of only 0.77 per cent in the first quarter of 2024. This marks the slowest pace of growth since the first quarter of 2021, reflecting a notable moderation in construction costs across the board [Chart 11: BCPI].

The decline in aggregate non-residential construction costs extends across various provinces, with differential impacts evident in different census metropolitan areas. For instance, Saskatoon experienced a rise in construction costs by 0.7 percentage points, contrasting sharply with Vancouver, where the BCPI saw a contraction of 1.03 percentage points. This ongoing deceleration of the BCPI brings considerable relief to the industry as the cost to build decreases, creating a more favourable environment for stakeholders and signalling a positive shift in the financial dynamics of construction.

What's ahead for the industry?

Recent surveys conducted by Statistics Canada and the Bank of Canada provide an optimistic outlook for construction businesses. Results from Statistics Canada's **Canadian Survey on Business Conditions** indicate that businesses in the construction sector have improved their expectations for sales of goods and profitability in the first quarter of the year by 5.3 and 3.8 percentage points, respectively. The survey also points out a notable decrease in the expectation of future price increases for services offered, dropping by 4.5 per cent.

These findings align closely with the results from the Bank of Canada's **Business Outlook Survey and the Business Leaders' Pulse**. These surveys reveal that while business sentiment and expectations for sales growth have stabilized, overall demand remains restrained. This lack of robust demand has led to reduced price pressures and a loosening of the labour market environment. As a result, fewer firms are planning to implement significant or frequent price hikes in the coming year.

Additional insights from the Canadian Survey on Business Conditions highlight the main challenges that construction businesses foresee in the next quarter. The most pressing challenges identified are the rising cost of inputs, rising inflation, and concerns about increasing interest rates and debt costs. However, these concerns have decreased by 12.8, 8.1, and 3.2 percentage points, respectively, since the last survey conducted. Issues related to maintaining inventory levels, supply chain disruptions, and difficulties in procuring products internationally and domestically have also shown improvement **[Table 2: Business obstacles]**.

Labour-related challenges continue to be the most significant concern for the industry. According to survey data, 56.6 per cent of respondents identified labour issues as a major obstacle for the upcoming three months – a nine percentage point increase from the previous quarterly survey. These challenges are especially pronounced in the Atlantic Provinces, British Columbia, Alberta, and Quebec, where over 55 per cent of respondents anticipate labour difficulties impeding growth in the next quarter.

The outlook for the remainder of 2024 presents an optimistic picture, though it is not without risks. As the House of Commons concludes its spring session, several unresolved policy issues linger, which could impact various sectors, including construction. One concern for the construction industry is the potential implementation of a capital gains tax, the effects of which will need careful monitoring due to its implications for investment and development costs.

Internationally, the upcoming U.S. elections pose another layer of uncertainty, particularly the possibility of a return to a Trump administration and the potential reintroduction of tariffs. Given Canada's heavy reliance on trade with our southern neighbour, any imposition of tariffs on exports to the United States could be economically damaging. However, these effects can be mitigated if CUSMA signatories are exempt or if Canada refrains from retaliatory tariffs. Yet, the tariffs have the potential to create global increases in the price of imports and disruptions in supply chains, which could exert upward pressure on inflation.

The situation in the Middle East continues to inject uncertainty into global markets, particularly affecting oil prices. Although current global oil prices are low, they remain about $5 higher than what the Bank of Canada anticipated in January, driven by increased regional risks. This ongoing instability could lead to further fluctuations in oil prices in the months ahead.

Domestically, inflation and interest rates remain key focus areas for the Bank of Canada. The Bank has recently decided to cut the interest rate by 50 basis points after studying various indicators of impacting inflation. This decision aligns with commitments to steer economic conditions towards stability, though the trajectory remains closely tied to ongoing economic developments.

Looking forward, the unexpected inflation rise in May has complicated the Bank of Canada's July decision on further interest rate cuts. While more rate reductions are anticipated later this year—with economists predicting up to three cuts—the Bank maintains that any subsequent decreases will be gradual and assessed on a meeting-by-meeting basis. Each inflation report issued in 2024 will play a critical role in shaping these rate decisions, highlighting the importance of closely monitoring upcoming economic indicators for the remainder of the year.

CCA will continue to closely monitor the Canadian macroeconomic environment in the upcoming quarter as the House of Commons returns for a crucial fall session and will keep the industry informed of any significant economic and political shifts from these changes.

Looking ahead: key economic and policy considerations

- **Continued optimism for a soft landing:** Despite external pressures, the sector is expected to continue gradually stabilizing its activity levels without triggering a significant downturn, leading to cautious optimism that the Canadian economy and the construction sector will achieve a 'soft landing.'

- **Interest rate adjustments:** Following the Bank of Canada's rate cuts in June and July, further interest rate cuts are anticipated throughout 2024. These adjustments are crucial as they could lower borrowing costs, potentially stimulating investment and easing the financial strain on construction projects.

- **Impact of interest rate differential with the U.S.:** The ongoing disparity in interest rates between Canada and the U.S. will influence the Canadian dollar. A lower interest rate relative to the U.S. could weaken the Canadian dollar, affecting the cost of imported construction materials and potentially increasing the sector's overall expenses.

- **Renewed focus on multi-residential construction:** Addressing the housing market's challenges remain a priority, with increased investments in multi-residential construction expected to continue. This focus aims to improve housing availability and affordability in response to the persistent demand within the housing sector.

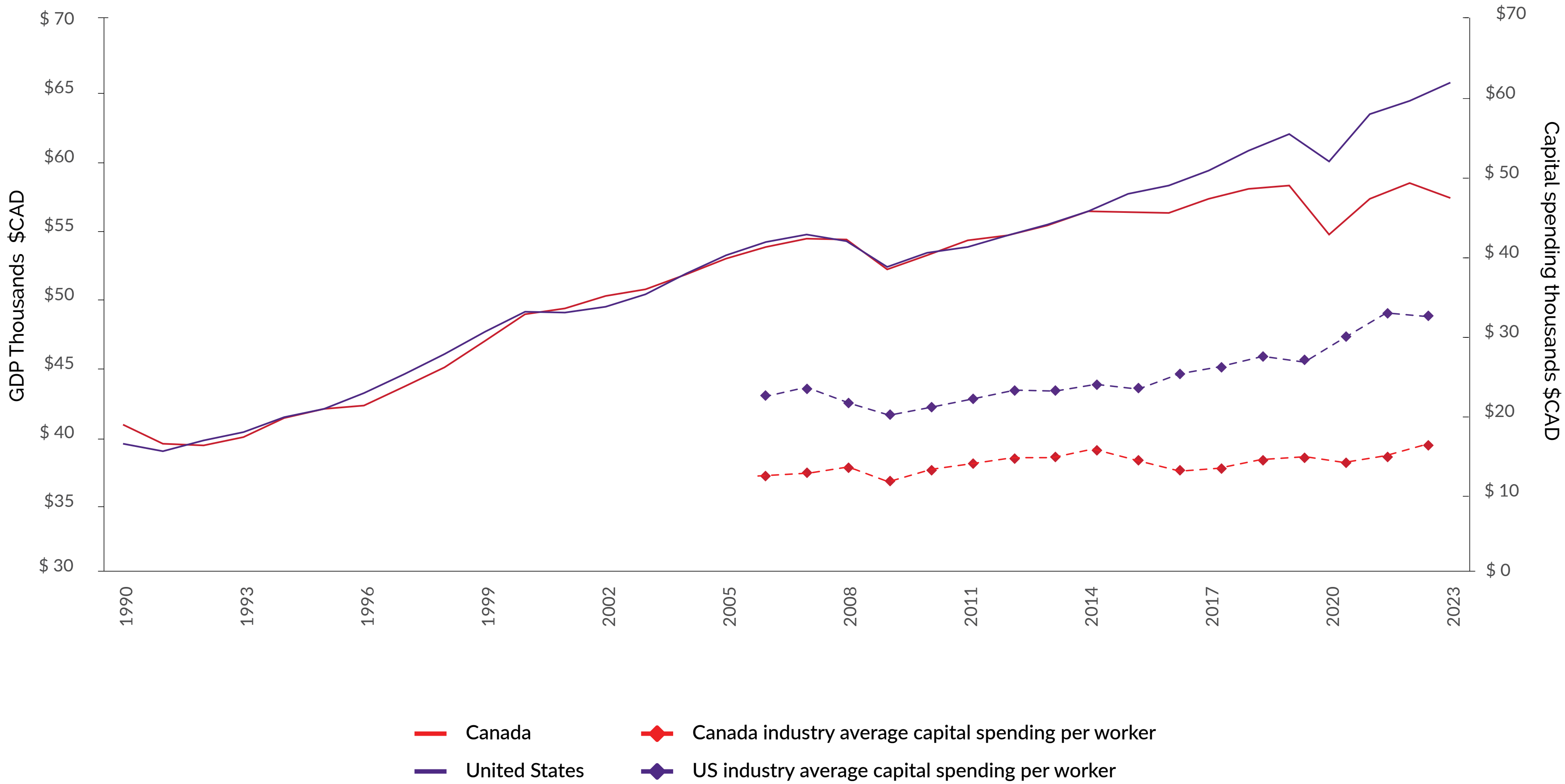
- **Navigating geopolitical tensions and tariffs:** The industry must stay alert for potential disruptions caused by geopolitical tensions and tariffs on construction materials. These factors could lead to increased costs and bring new uncertainties to global supply chains.

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

Chart 1

Between 2015 and 2023 real GDP per capita in Canada rose 1.8%, the United States rose 14%

Yearly real GDP per capita growth and yearly capital spending per worker 2006 - 2023

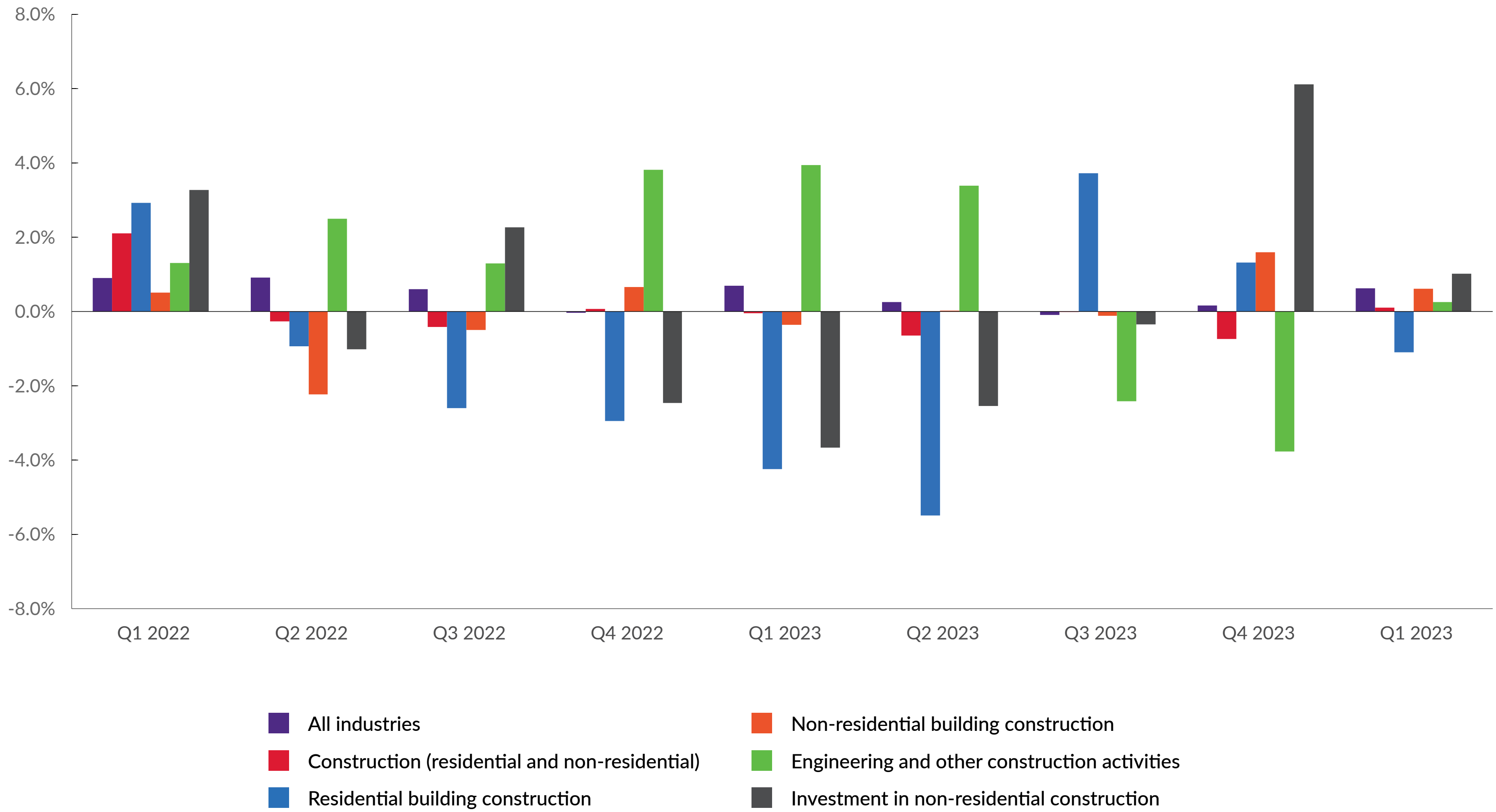


Source: OECD, Statistics Canada, US BEA, US BLS, CCA Calculations

Chart 2

Real GDP growth of construction and non-residential investment growth

Quarterly percentage change

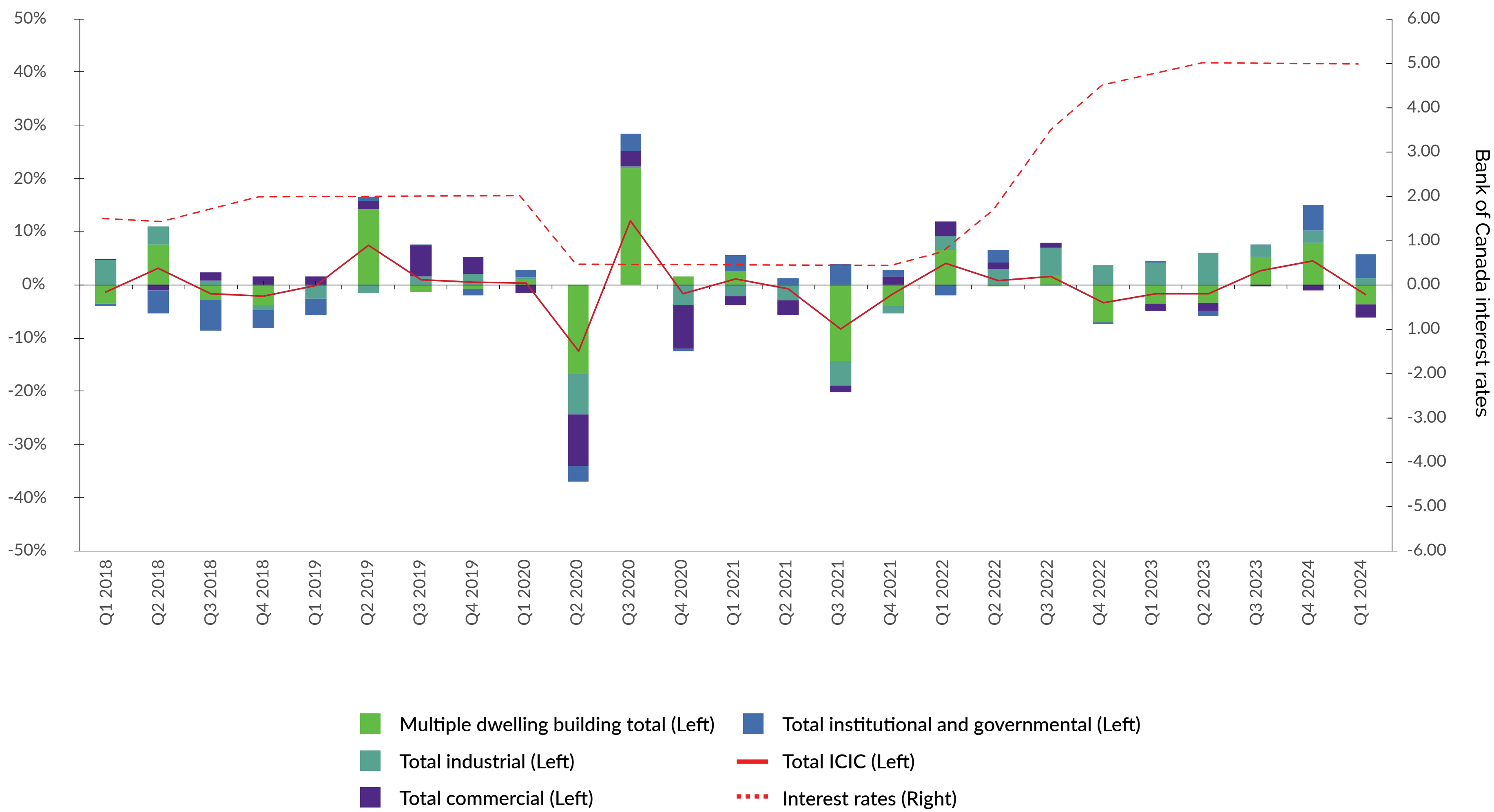


Source: Statistics Canada, CCA

Chart 3

Real GDP growth of construction and non-residential investment growth

Quarterly percentage change

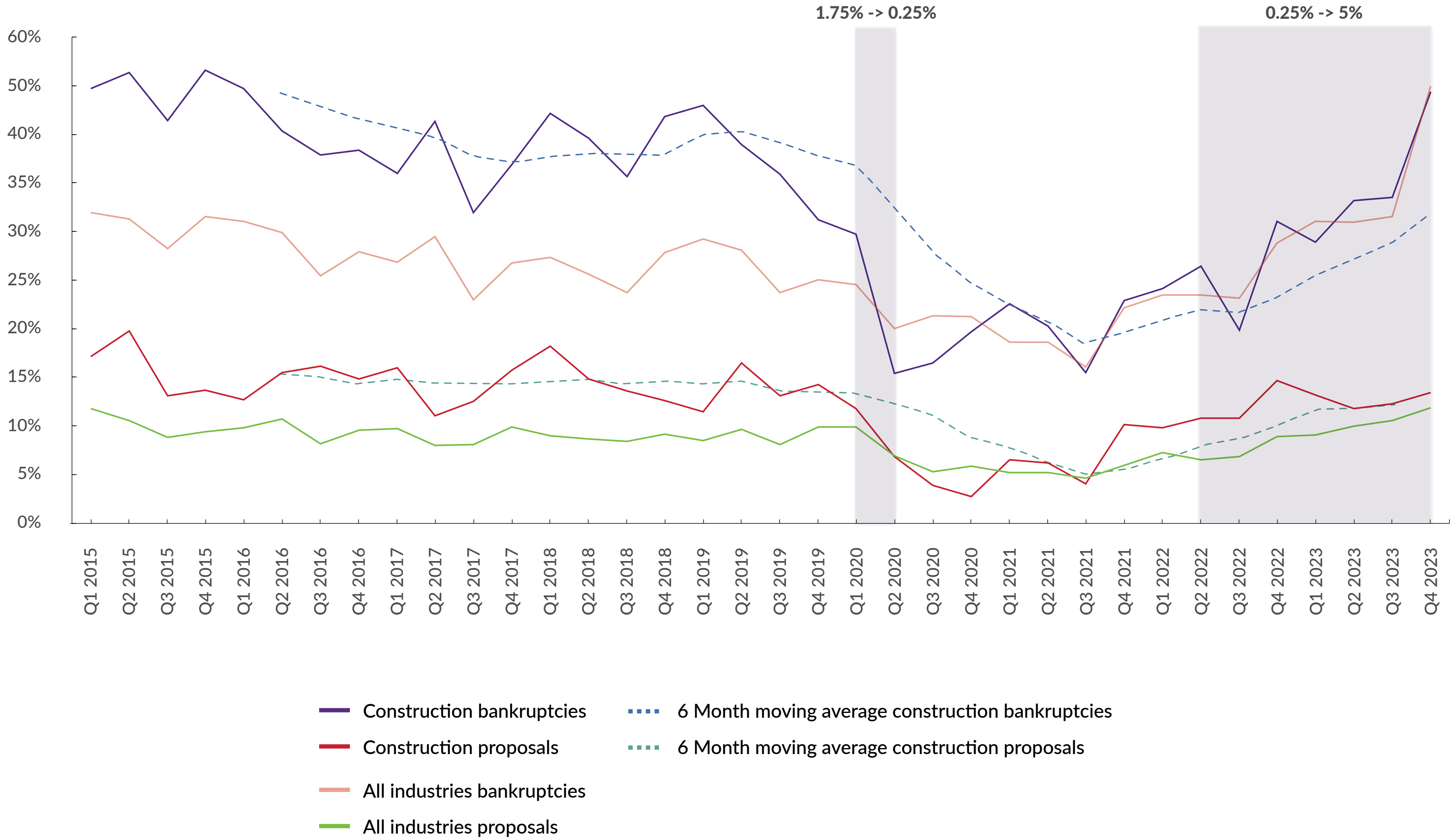


Source: Statistics Canada, CCA

Chart 4

Bankruptices picked up in 2022 and 2023

Bankruptcy and proposal ratio for construction and all industry average

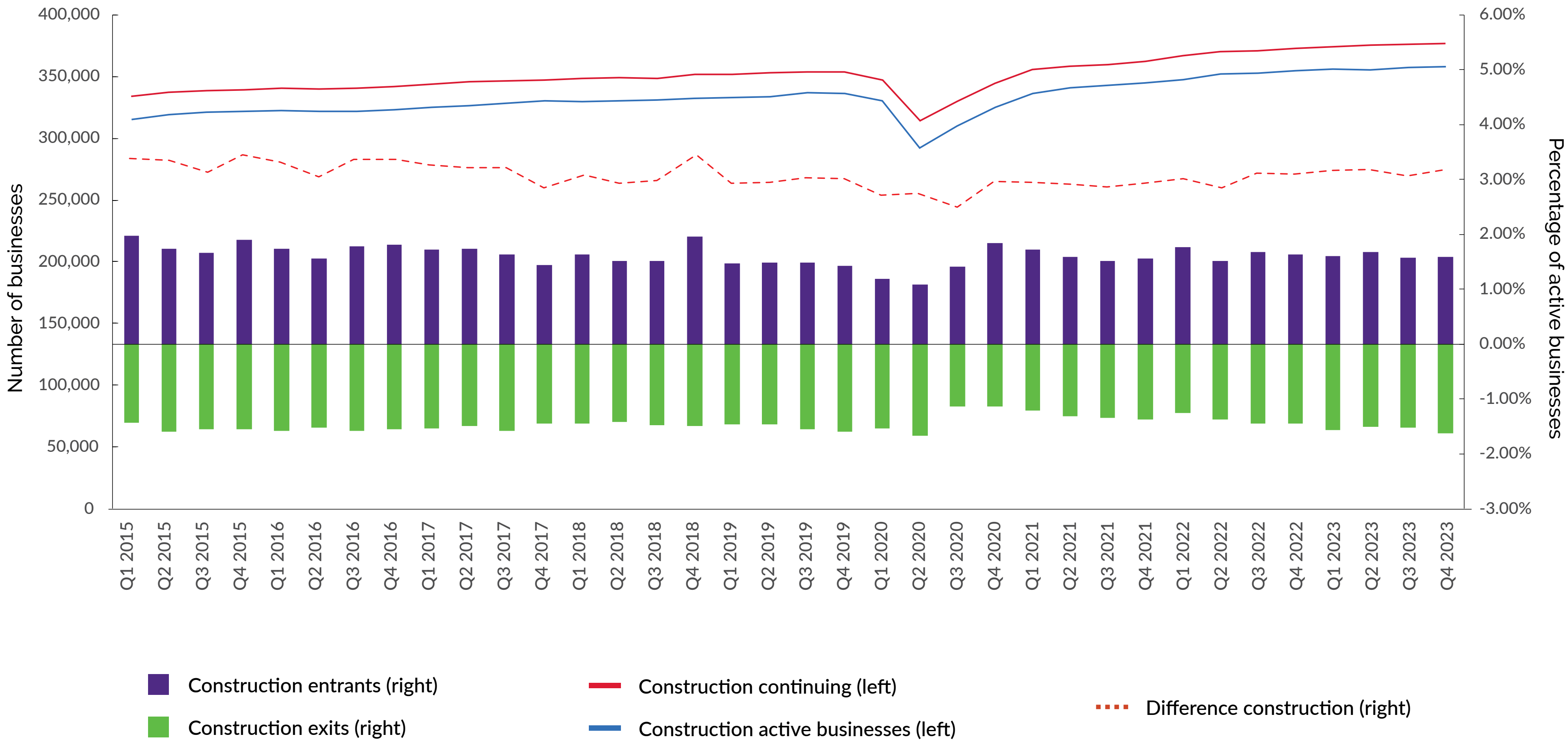


Source: Statistics Canada, CCA

Chart 5

The number of active businesses in construction have grown on average 1.3 per cent each quarter after Q2 2020

Total active businesses and exits, entries and difference as a ratio of active businesses in construction

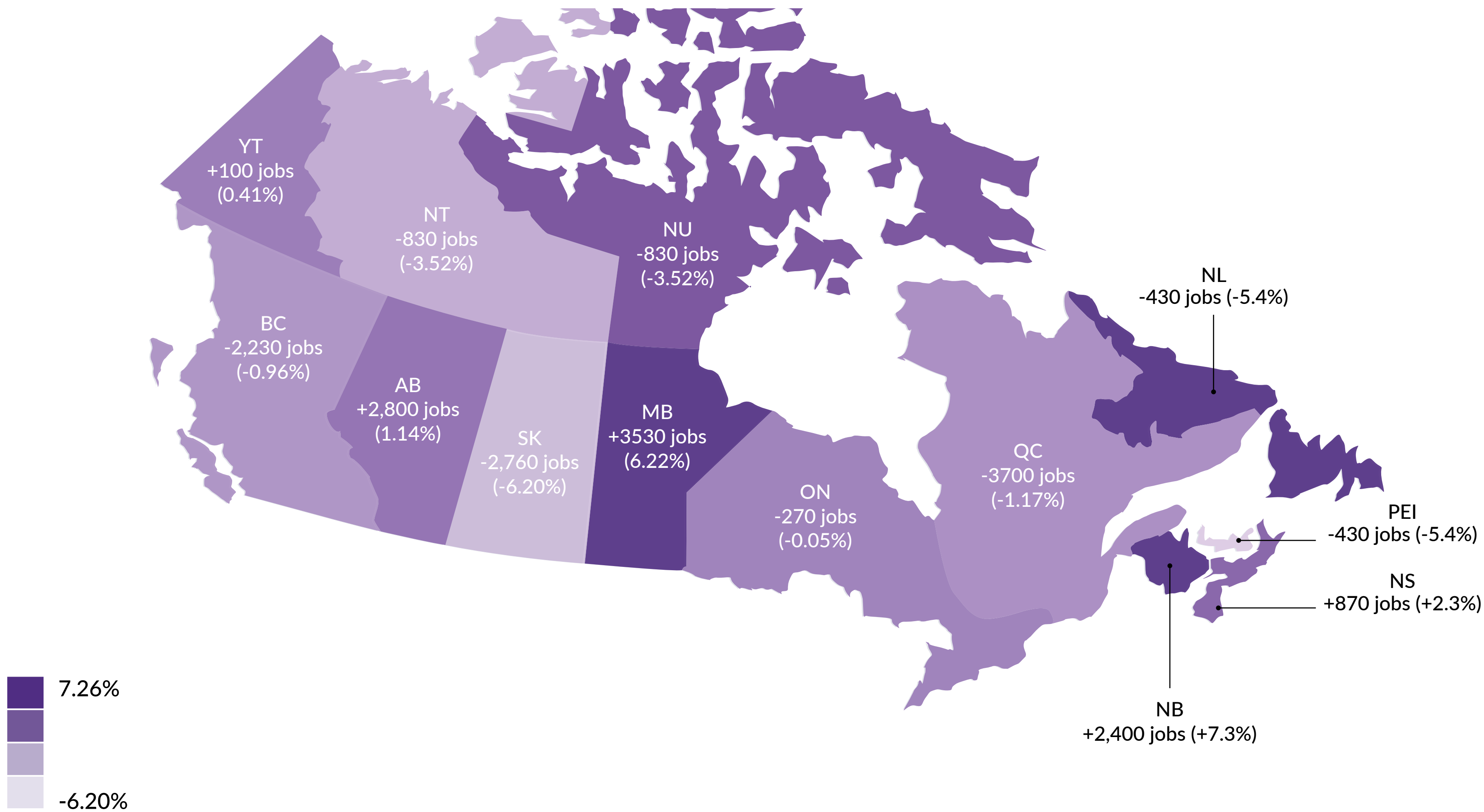


Source: Statistics Canada, CCA

Chart 6

Employment change in construction activities Q4 2023 to Q1 2024

Quarterly percentage change



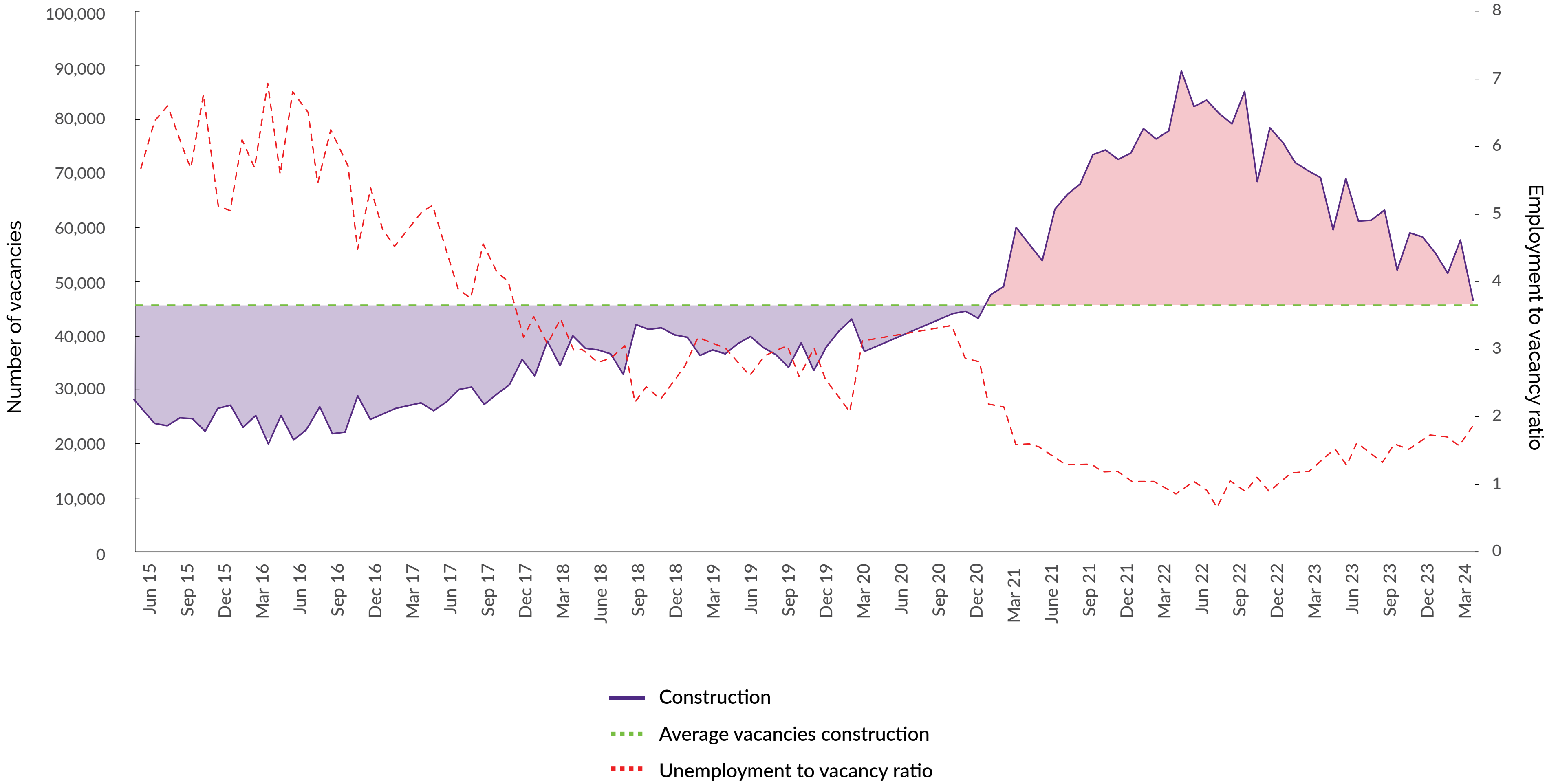
Canada's total employment change
1,630 jobs (+0.1%)

Source: Statistics Canada, CCA | *Sums of estimates presented may not add due to rounding

Chart 7

Vacancies and unemployment to vacancy ratio

Monthly changes



Source: Statistics Canada, CCA

Chart 8

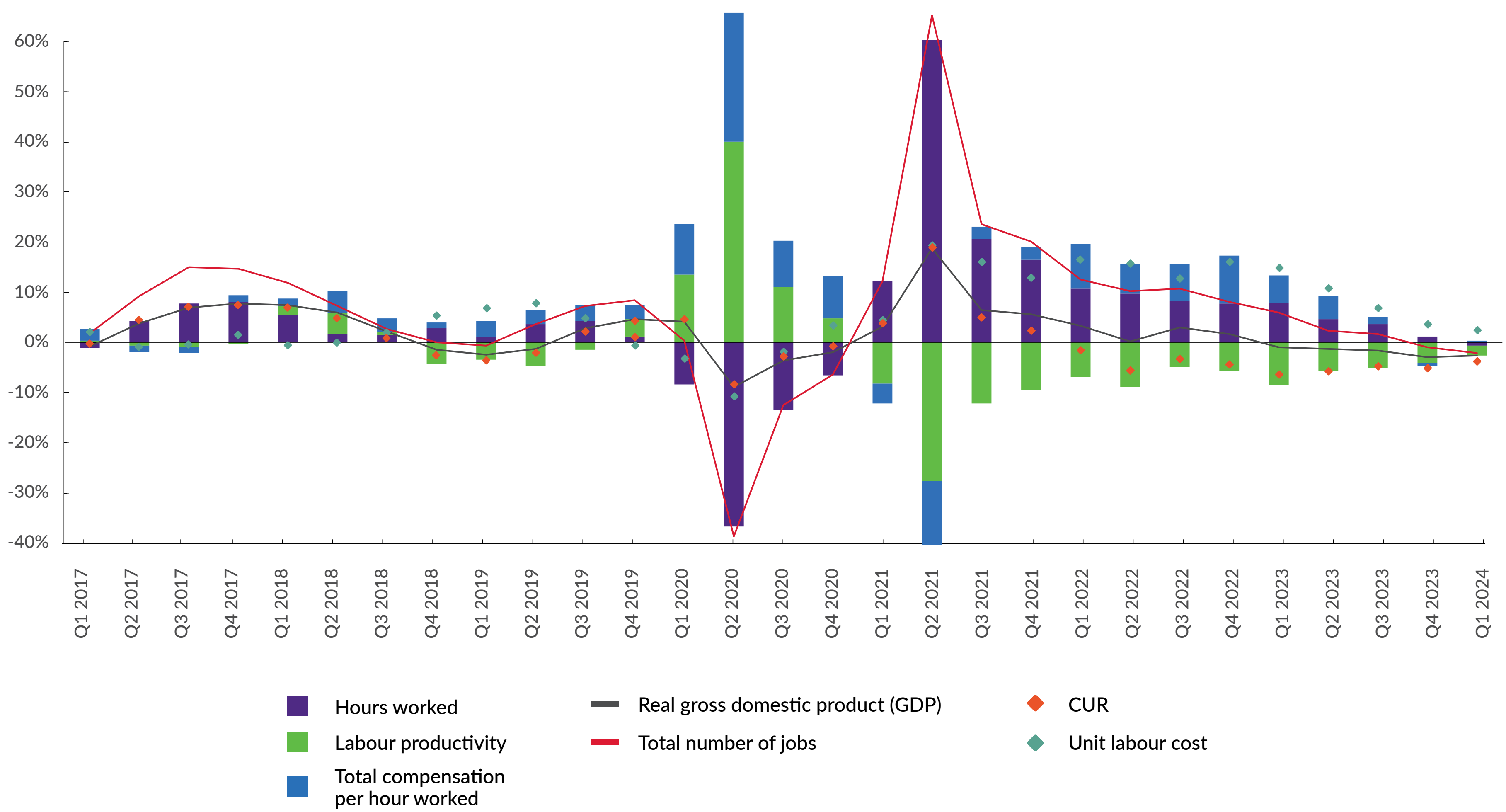
Measures of productivity in construction

Source: Statistics Canada, CCA

Chart 9

Canada construction sector labour productivity, unit labour cost and employee compensation

Percentage change from previous quarter, seasonally adjusted annualized rate

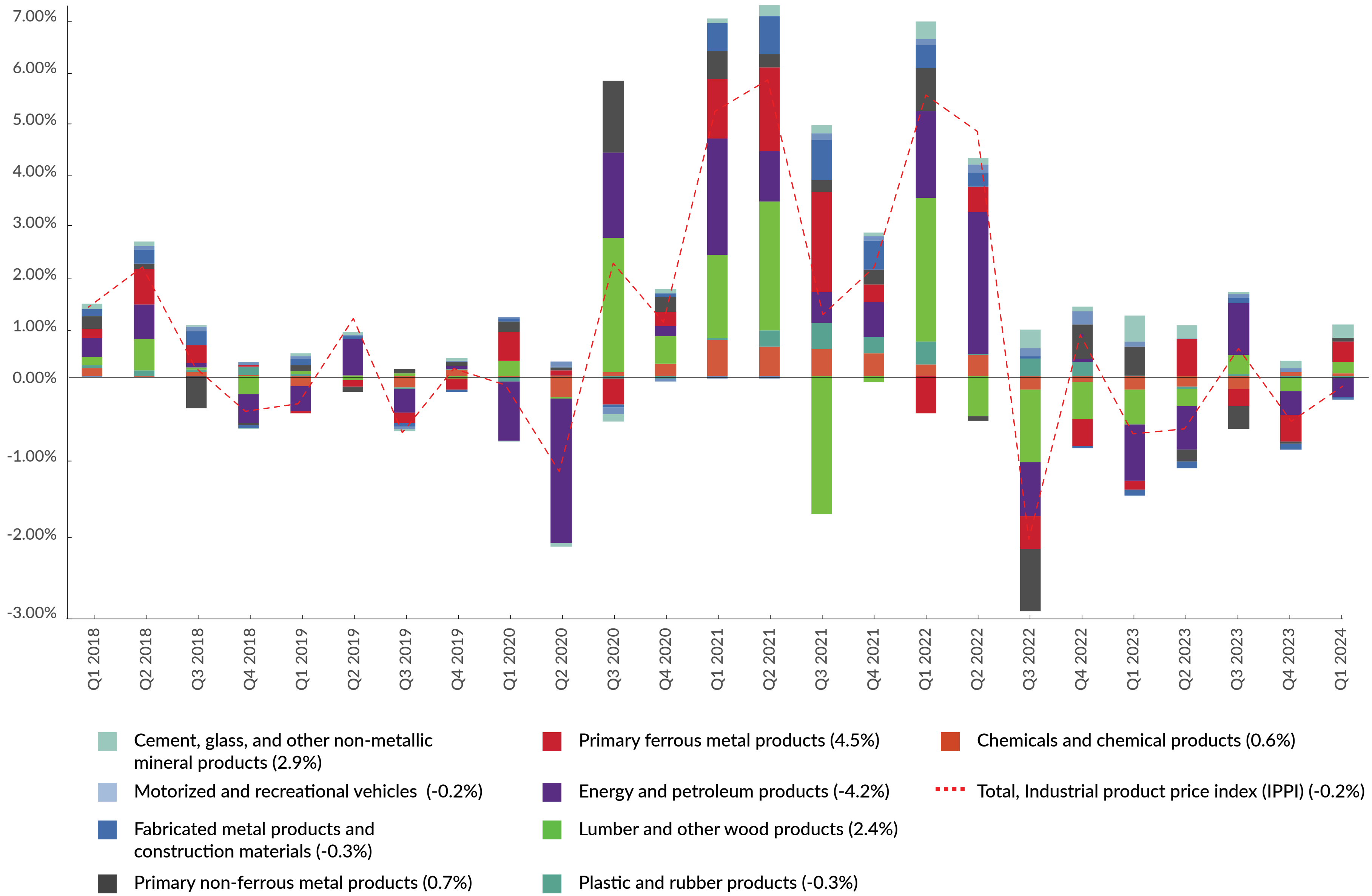


Source: Statistics Canada, CCA

Chart 10

Industrial product price index

Quarterly percentage change of key construction components

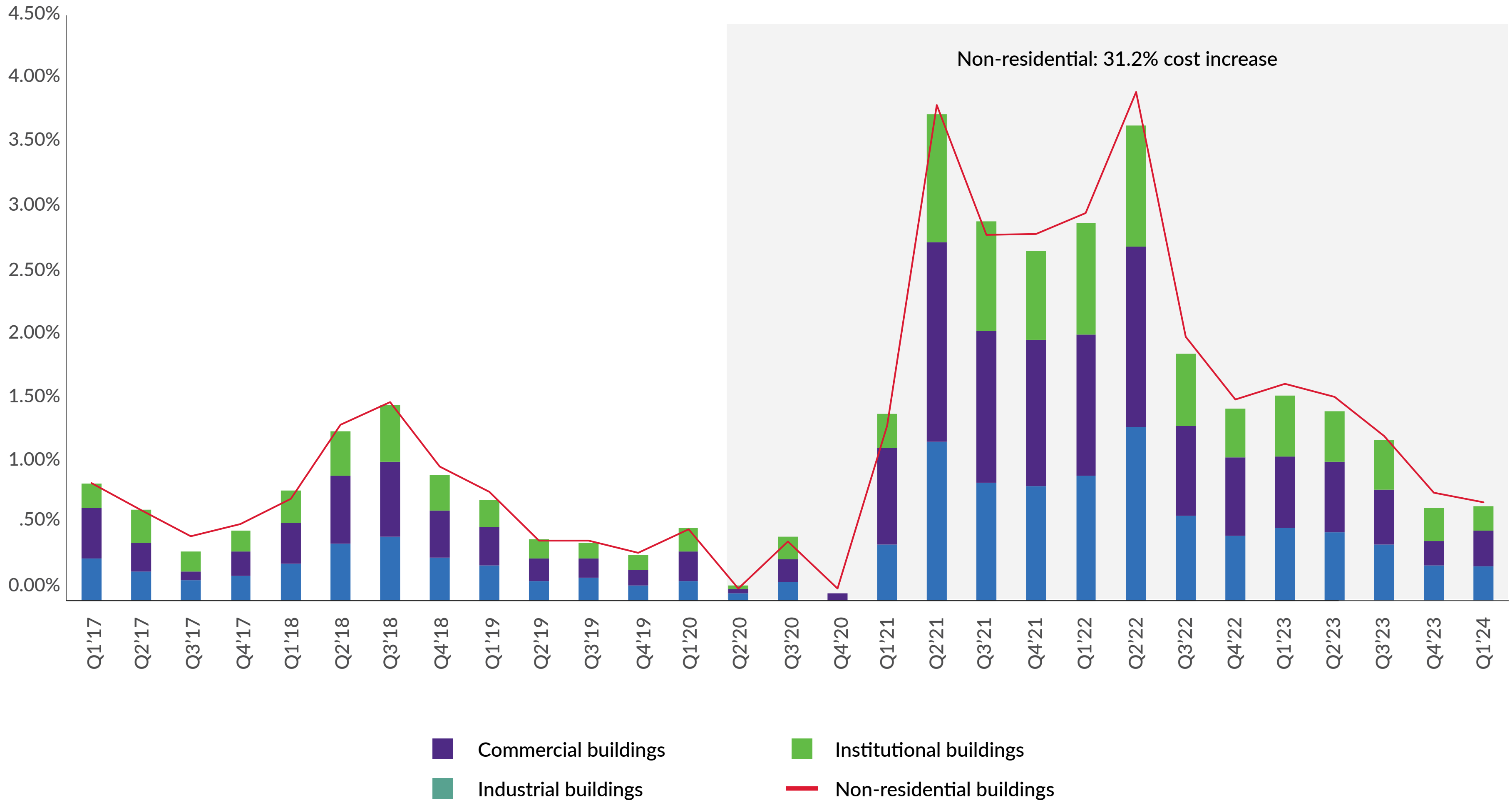


Source: Statistics Canada, CCA

Chart 11

Industrial Building Construction Price Index

Quarterly percentage change for non-residential construction



Source: Statistics Canada, CCA

Table 1

Distribution of construction businesses

2023		Micro (1-4)	Small (5-99)	Medium (100-499)	Large (500+)
Construction	Total	96,126	58,360	1,629	104
	% Distribution	61.5%	37.4%	1.0%	0.1%
Residential	Total	27,314	12,107	104	5
	% Distribution	69.1%	30.6%	0.3%	<0%
Non-residential	Total	3,923	4,194	187	21
	% Distribution	47.1%	50.4%	2.2%	0.2%
Heavy and civil engineering construction	Total	4,313	4,083	454	47
	% Distribution	48.50%	45.90%	5.10%	0.50%
Specialty trade contractors	Total	60,576	37,976	884	31
	% Distribution	60.9%	38.2%	0.9%	<0%
2015 - 2023		**Micro (1-4)**	**Small (5-99)**	**Medium (100-499)**	**Large (500+)**
Construction	Total	79,264	37,182	902	102
	% Distribution	67.5%	31.6%	0.8%	0.1%

Table 2

Survey of business obstacles for Q4 2023

GEOGRAPHY	CANADA	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	YT	NT	NU
Difficulty acquiring inputs, products or supplies from within Canada	7.4%	22.9%	10.5%	9%	11.8%	0.5%	7.1%	6.6%	15.3%	13.8%	7.5%	4.8%	30.1%	17.1%
Difficulty acquiring inputs, products or supplies from abroad	2.7%	0.1%	0%	6.6%	9.1%	2.3%	3.7%	0.8%	1.2%	0.5%	2.3%	0%	0%	0%
Rising cost of inputs	43.2%	53.3%	35.9%	53.2%	47.1%	27.6%	38.6%	38%	58.7%	55.1%	55.5%	91.7%	N/A	N/A
Rising inflation	52.2%	62.4%	50.6%	81.3%	57.2%	42.9%	46.8%	56.5%	56.5%	64.3%	55.7%	83.8%	N/A	N/A
Transportation costs	36.2%	53.9%	38.3%	72.8%	34.7%	28%	32.8%	29.6%	32.5%	58.5%	27.7%	#N/A	21.4%	14.5%
Fluctuations in consumer demand	19.6%	31.9%	7.4%	10.9%	14.6%	12.5%	24.2%	32.5%	19.9%	17.5%	20.4%	0.5%	15.8%	12.3%
Insufficient demand for goods or services offered	12.1%	8.1%	0%	15.7%	1.4%	21.3%	15%	15.4%	12.2%	1.8%	5.2%	0%	20%	3.9%
Obtaining financing	16.1%	3.2%	18.6%	24.8%	10.4%	31.3%	6.5%	1.8%	18.7%	32.5%	5.5%	0%	0%	12.3%
Cost of insurance	33.7%	29%	23.2%	61.8%	35.9%	25.5%	28%	29.7%	31.1%	61.1%	27.5%	N/A	29.8%	21.5%
Rising interest rates and debt costs	40.7%	34.4%	28.4%	66.8%	52.4%	36.5%	30.4%	36.2%	39.9%	58.9%	46.1%	N/A	N/A	N/A
Recruiting skilled employees	37.7%	35.5%	39.5%	56.5%	38.9%	32.7%	33.6%	28.6%	36.6%	39.8%	48.1%	N/A	N/A	N/A
Retaining skilled employees	28.2%	40.3%	24.1%	36.4%	39%	17.2%	27%	14.5%	12.6%	30.3%	42.8%	6.9%	34.9%	N/A
Shortage of labour force	37.8%	41.2%	43%	54.5%	39.1%	49.2%	22.9%	22.4%	34.3%	48.5%	45.1%	14.6%	N/A	N/A