Canadian Construction Association
Best Practices Services

WINTER 2025

Construction Quarterly Economic Insights

Key insights from Q3 2024

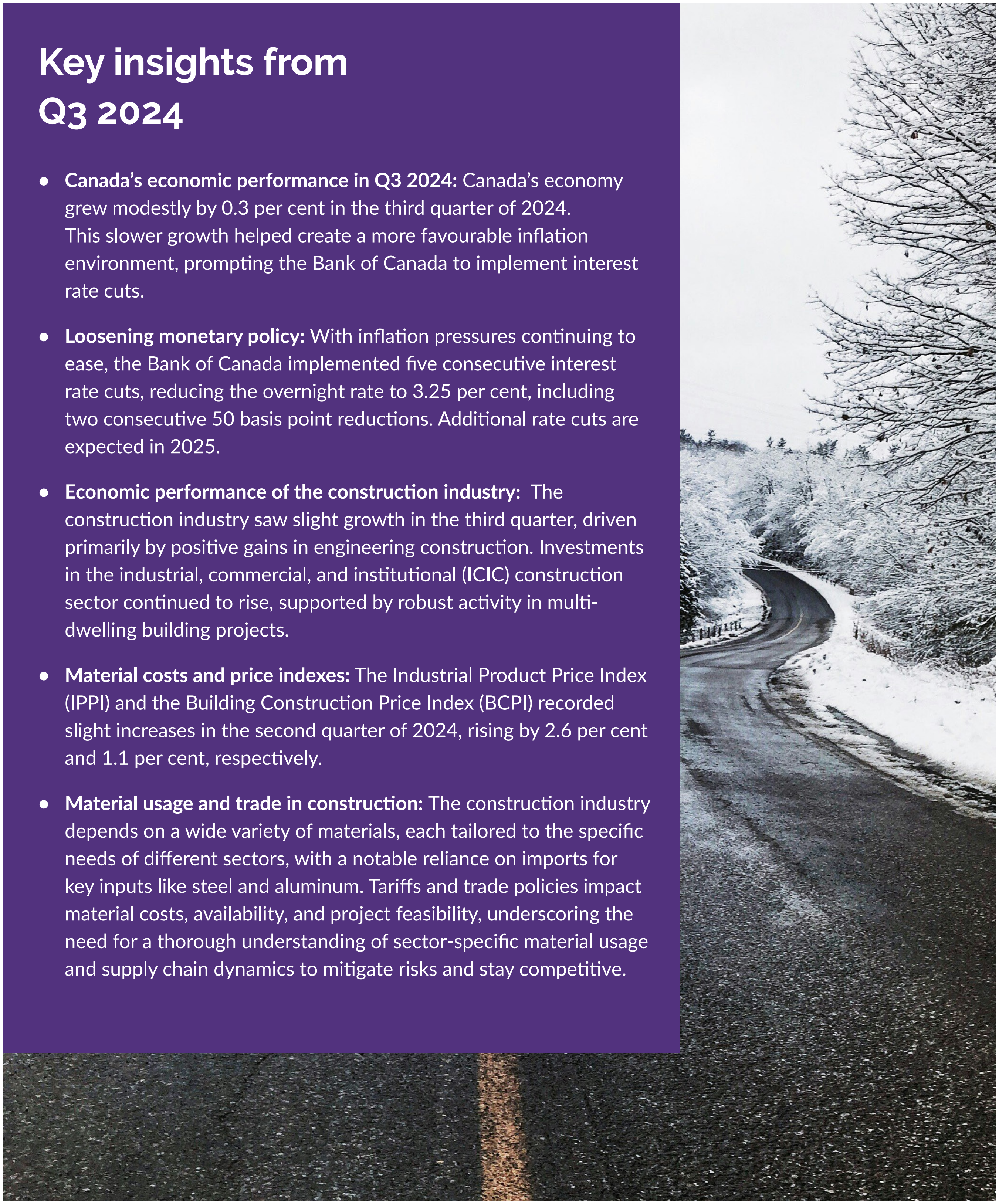
- **Canada's economic performance in Q3 2024:** Canada's economy grew modestly by 0.3 per cent in the third quarter of 2024. This slower growth helped create a more favourable inflation environment, prompting the Bank of Canada to implement interest rate cuts.

- **Loosening monetary policy:** With inflation pressures continuing to ease, the Bank of Canada implemented five consecutive interest rate cuts, reducing the overnight rate to 3.25 per cent, including two consecutive 50 basis point reductions. Additional rate cuts are expected in 2025.

- **Economic performance of the construction industry:** The construction industry saw slight growth in the third quarter, driven primarily by positive gains in engineering construction. Investments in the industrial, commercial, and institutional (ICIC) construction sector continued to rise, supported by robust activity in multi-dwelling building projects.

- **Material costs and price indexes:** The Industrial Product Price Index (IPPI) and the Building Construction Price Index (BCPI) recorded slight increases in the second quarter of 2024, rising by 2.6 per cent and 1.1 per cent, respectively.

- **Material usage and trade in construction:** The construction industry depends on a wide variety of materials, each tailored to the specific needs of different sectors, with a notable reliance on imports for key inputs like steel and aluminum. Tariffs and trade policies impact material costs, availability, and project feasibility, underscoring the need for a thorough understanding of sector-specific material usage and supply chain dynamics to mitigate risks and stay competitive.



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.

Rate cuts and tariff threats: the opposite forces shaping the economy in 2025

The Bank of Canada has been at the forefront of monetary easing among major central banks. It has reduced its policy interest rate five consecutive times, including two 50-basis-point cuts, bringing the rate down to 3.25 per cent. While other central banks, such as the European Central Bank (ECB) and the U.S. Federal Reserve have closely followed this trend, the global economic outlook for 2025 remains uncertain due to several geopolitical factors. Recent domestic political events in Canada, the election of Donald Trump, and the threats of potential new tariffs from the U.S. administration, all add to the challenges facing the global economy.

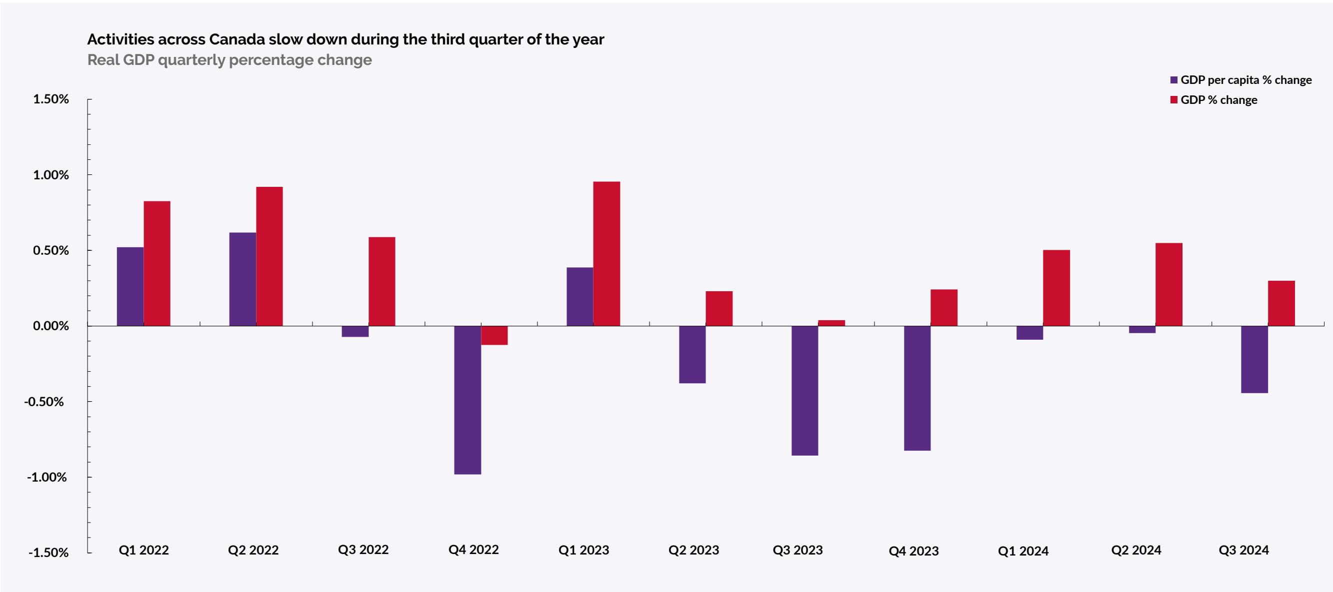
In Canada, real GDP grew by 0.3 per cent in the third quarter of 2024, following a 0.5 per cent increase in the two quarters of the year. Household spending was the largest contributor to this growth, rising by one per cent during the quarter, driven by lower interest rates. While household expenditures per capita increased slightly by 0.2 per cent—a welcome shift after declines in six of the last eight quarters—overall growth came in below the Bank of Canada's expectations outlined in its October Monetary Policy Report. Government spending also contributed, with expenditures across all levels of government rising by 1.1 per cent.

Construction saw a quarterly growth of 0.1 per cent, with residential construction stagnating at zero growth, the non-residential sector increasing by 0.2 per cent and, once more, the engineering and other construction activities driving the growth with 0.4 per cent growth.

Despite overall GDP growth, GDP per capita declined for the sixth consecutive quarter, stressing the persistent productivity challenges and concerns about individual economic well-being in Canada.

GDP and GDP per capita

Source: Statistics Canada, CCA



Consumer sentiment, as captured by the Canadian Survey of Consumers Expectations, remain muted. Although perceptions of current and short-run inflation have eased slightly, they remain higher than pre-pandemic levels. A positive prospect is that long-term inflation expectations remain anchored. Financial stress indicators have improved, with consumers slightly less pessimistic about their financial situations compared to the previous quarter. Labour market sentiment has weakened however, along with wage growth expectations declining for the first time since mid-2023. Consumers are also less likely to voluntarily leave their jobs, reflecting uncertainty in the job market.

As we enter 2025, the construction industry faces both challenges and opportunities. The Bank of Canada's interest rate cuts are having a slow pass through to the economy, and are beginning to stimulate investment, particularly in multi-residential developments and house-enabling infrastructure projects. In contrast, reduced immigration targets are likely to weigh on GDP growth, posing additional obstacles for the sector. In this evolving economic landscape, it will be important for the industry to closely track changes in activity and policy, especially as the U.S. begins a new presidential cycle.

Quarterly focus: Canada’s construction industry and global trade

Trade and tariffs: What are they and why do they matter?

Imported products often have a comparative advantage over domestically produced goods because they are often cheaper to produce abroad. Trade involves the exchange of goods and services across borders. For construction, this includes importing essential raw materials, such as steel, aluminum, and wood, as well as exporting finished goods and technical expertise. Tariffs, on the other hand, are taxes or duties imposed on imported goods designed to address price disparities caused by international trade. Governments use tariffs to protect domestic industries, generate revenue, or respond strategically to international trade policies.

The construction industry depends heavily on an interconnected chain of suppliers for materials and equipment. Disruptions in trade can result in shortages and price increases, creating challenges for projects. For example, Canada relies on imports for a significant portion of its steel and aluminum, both of which are critical for industrial and infrastructure projects.

The recent tariff threats have reintroduced market uncertainty. Tariffs, now employed as a tool to influence international policy changes, create risk and unpredictability. This uncertainty can lead to increased material costs as markets respond by factoring in potential disruptions and price volatility.

To fully assess the impact of tariffs on the construction sector, it is important to understand the materials used by each sector and subsector of the industry. The effects of blanket tariffs versus sector-specific tariffs can vary widely, making a sector-by-sector analysis necessary for developing effective strategies. Understanding the needs of each sector establishes the foundation for navigating trade challenges, ensuring that construction businesses can mitigate risks and stay competitive.

Materials across construction sectors: Usage patterns and trade impact

The construction industry encompasses a wide range of projects, each requiring specific materials based on the type of structure being built. This diversity in final products leads to substantial variation in material usage across different sectors. Trade policies, global supply chain trends, and economic shifts significantly influence the availability and cost of these materials, ultimately impacting the final cost of projects. Collectively, the construction industry consumes substantial quantities of certain materials. The industry accounts for the use of approximately 98 per cent of all concrete products, 98 per cent of ready-mixed concrete, 82 per cent of asphalt products and communication and electric wire, 77 per cent of fabricated steel plates, and 76 per cent of stone and lime gypsum products. These materials are used differently across sectors based on their specific requirements.

Top 10 materials by subsector

Material Rank	Residential building construction	Non-residential building construction	Transportation engineering construction	Oil and gas engineering construction	Electric power engineering construction
1	Wood cabinets and counter tops. **92.3%**	Office furniture. **72.0%**	Stone. **36.7%**	Support services for oil and gas extraction (except exploration). **52.2%**	Prefabricated metal buildings and other non-wood buildings, and components. **21.8%**
2	Wood trusses and engineered wood members. **87.0%**	Floriculture and nursery products (except cannabis), and sod. **52.5%**	Asphalt (except natural) and asphalt products. **33.4%**	Medical devices. **37.7%**	Other architectural metal products. **13.0%**
3	Wood products, n.e.c. **77.9%**	Lighting fixtures. **27.9%**	Ready-mixed concrete. **18.8%**	Metal valves and pipe fittings. **32.7%**	Communication and electric wire and cable. **12.8%**
4	Prefabricated wood and manufactured (mobile) buildings and components. **75.3%**	Prefabricated metal buildings and other non-wood buildings, and components. **26.8%**	Springs and wire products. **18.3%**	Boilers, tanks and heavy gauge metal containers. **29.5%**	Fabricated steel plate and other fabricated structural metal. **11.3%**
5	Wood windows and doors. **71.8%**	Ready-mixed concrete. **26.5%**	Fabricated steel plate and other fabricated structural metal. **17.0%**	Architectural, engineering and related services. **22.9%**	Ready-mixed concrete. **9.3%**
6	Other sawmill products and treated wood products. **66.8%**	Electric light bulbs and tubes. **26.5%**	Concrete products. **13.1%**	Prefabricated metal buildings and other non-wood buildings, and components. **21.1%**	Boilers, tanks and heavy gauge metal containers. **8.9%**
7	Lime and gypsum products. **53.1%**	Non-metallic mineral products, n.e.c. **25.7%**	Architectural, engineering and related services. **10.2%**	Asphalt (except natural) and asphalt products. **21.0%**	Architectural, engineering and related services. **8.4%**
8	Carpets, rugs and mats. **50.7%**	Concrete products. **25.0%**	Electric light bulbs and tubes. **7.9%**	Wholesale margins - building materials and supplies. **16.2%**	Springs and wire products. **7.0%**
9	Retail margins - furniture and home furnishings. **48.7%**	Clay and ceramic products and refractories. **22.7%**	Wholesale margins - building materials and supplies. **5.3%**	Rubber products, n.e.c. **14.4%**	Lighting fixtures. **5.2%**
10	Metal windows and doors. **47.0%**	Prefabricated wood and manufactured (mobile) buildings and components. **19.1%**	Clay and ceramic products and refractories. **4.8%**	Fabricated steel plate and other fabricated structural metal. **13.7%**	Electric light bulbs and tubes. **4.7%**

Material Rank	Communication engineering construction	Other engineering construction	Repair construction	Other activities of the construction industry	Construction
1	Communication and electric wire and cable. **23.1%**	Support services for mining and quarrying (except exploration). **51.7%**	Asphalt (except natural) and asphalt products. **23.7%**	Plastic and foam building and construction materials. **1.9%**	Prefabricated metal buildings and other non-wood buildings, and components. **98.8%**
2	Lighting fixtures. **4.6%**	Concrete products. **22.7%**	Stone. **18.2%**	Retail margins - furniture and home furnishings. **1.6%**	Concrete products. **98.4%**
3	Architectural, engineering and related services. **4.2%**	Prefabricated metal buildings and other non-wood buildings, and components. **20.9%**	Concrete products. **16.7%**	Retail margins - building materials, garden equipment and supplies. **1.0%**	Wood cabinets and counter tops. **98.0%**
4	Prefabricated metal buildings and other non-wood buildings, and components. **3.2%**	Fabricated steel plate and other fabricated structural metal. **13.3%**	Lime and gypsum products. **14.9%**	Wholesale margins - building materials and supplies. **0.9%**	Ready-mixed concrete. **97.9%**
5	Wholesale margins - building materials and supplies. **2.6%**	Other architectural metal products. **8.9%**	Clay and ceramic products and refractories. **14.8%**	Metal windows and doors. **0.8%**	Prefabricated wood and manufactured (mobile) buildings and components. **97.0%**
6	Springs and wire products. **2.5%**	Communication and electric wire and cable. **8.1%**	Rubber products, n.e.c. **13.0%**	Springs and wire products. **0.7%**	Wood trusses and engineered wood members. **95.9%**
7	Fabricated steel plate and other fabricated structural metal. **2.2%**	Stone. **7.1%**	Other sawmill products and treated wood products. **12.6%**	Major appliances. **0.7%**	Wood products, n.e.c. **89.6%**
8	Stone. **1.7%**	Rubber products, n.e.c. **6.4%**	Plastic and foam building and construction materials. **12.3%**	Architectural, engineering and related service. **0.6%**	Floriculture and nursery products (except cannabis), and sod. **89.1%**
9	Boilers, tanks and heavy gauge metal containers. **1.7%**	Architectural, engineering and related services. **5.9%**	Fabricated steel plate and other fabricated structural metal. **11.6%**	Heating and cooling equipment (except household refrigerators and freezers). **0.6%**	Other sawmill products and treated wood products. **87.9%**
10	Electric light bulbs and tubes. **1.7%**	Springs and wire products. **5.9%**	Metal windows and doors. **11.1%**	Boilers, tanks and heavy gauge metal containers. **0.5%**	Asphalt (except natural) and asphalt products. **82.5%**

The residential sector relies heavily on wood, consuming over 80 per cent of certain wood products in Canada. In contrast, the non-residential sector primarily utilizes ready-mixed concrete, concrete products, fabricated steel plates, and other fabricated structural metals for its projects. The transportation sector depends on stone and asphalt products for infrastructure development. Similarly, the oil and gas engineering construction sector requires significant quantities of metal valves, pipe fittings, iron and steel pipes, and turbines, including turbine generators and their sets.

The electric power engineering construction sector consumes a smaller share of turbines, turbine generators, and prefabricated metal buildings, along with other non-wood building components. Meanwhile, the communication engineering construction sector uses a considerable share of communication and electric wire and cable, as well as smaller amounts of turbines, generators, and various metal products. Other engineering construction, repair construction, and additional activities within the construction industry rely on concrete products, prefabricated metal buildings and components, and other fabricated steel materials.

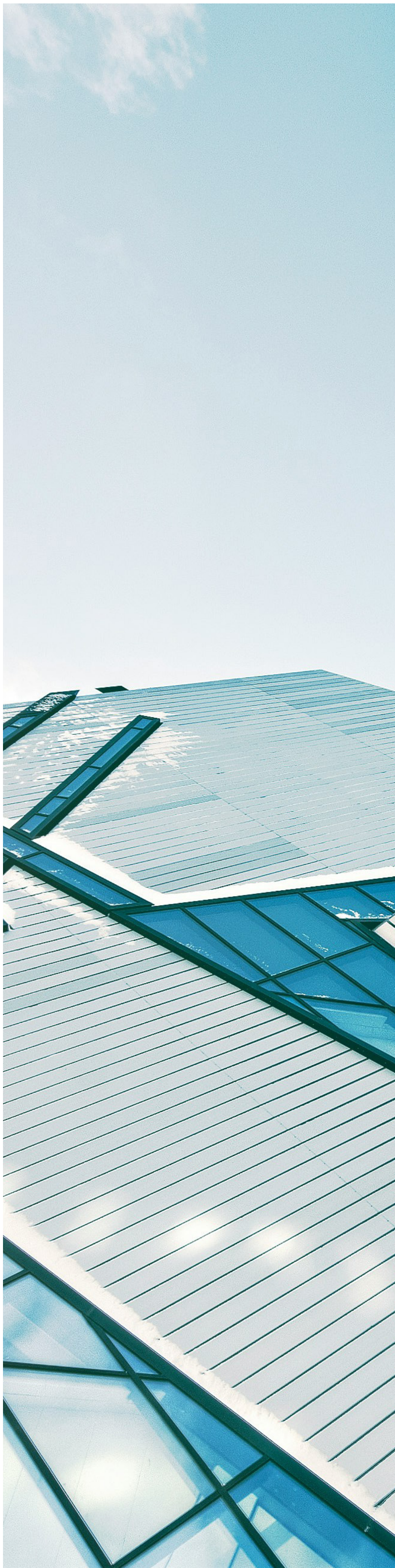
Understanding the materials used by each construction sector is critical for evaluating the potential impact of tariffs. By examining the material usage patterns specific to each sector, we can gain insight into how targeted or blanket tariffs might influence costs, availability, and the overall feasibility of projects.

Lessons from the 2018 steel tariffs

The 2018 U.S. tariffs on steel and aluminum, imposed under Section 232 of the Trade Expansion Act, were a watershed moment for the Canadian construction industry. These tariffs—25 per cent on steel and 10 per cent on aluminum—were justified by the U.S. Government as national security concerns. While they were eventually lifted, the tariffs left lasting lessons for the construction industry, particularly on supply chain resilience, cost management, and the importance of trade agreements.

Canada's steel and aluminum exports to the U.S., which had been growing strongly, experienced sharp declines following the implementation of tariffs, while Canada's retaliatory tariffs on U.S. imports had similarly disruptive effects. Canada's steel exports to the U.S. surged 22.6 per cent before the tariffs, but dropped by 37.8 per cent in June 2018 after the tariffs took effect. Similarly, aluminum exports fell more gradually, declining by over 50 per cent at their lowest point. Both sectors saw significant rebounds after the tariffs were lifted in May 2019, with steel exports increasing 15.8 per cent and aluminum exports increasing 47.2 per cent the following month. During this time, prices for imported steel and aluminum rose, increasing costs for Canadian industries reliant on these materials.

The tariffs caused volatility in trade, with significant declines in exports and imports during the tariff period. While trade values largely recovered after the tariffs were lifted, the episode highlighted the vulnerability of cross-border supply chains to trade disputes. The reliance on cross-border trade for essential materials like steel and aluminum exposed the sector to significant cost increases and supply disruptions. As the industry prepares for potential trade challenges, these lessons remain highly relevant for managing economic risks and maintaining competitiveness.



Navigating uncertainty from recent tariff threats

The imposition of a sweeping 25 per cent tariff would likely contravene provisions of the Canada-United States-Mexico Agreement (CUSMA), which is designed to promote free trade among member countries. For such a unilateral tariff to proceed, it would require justification under narrow exceptions, such as national security, which would likely prompt legal challenges from Canada and Mexico. There is speculation that former President Trump could use the looming CUSMA 2026 renegotiation deadline as leverage, threatening to withdraw from the agreement if changes are not made. While such rhetoric raises concerns, the implementation of broad tariffs remains unlikely and is more likely a bargaining tactic to influence upcoming negotiations.

Historically, tariff threats have often been used as leverage rather than fully implemented, with past examples highlighting their function as negotiating tools. The 1971 “Nixon Shocks” saw the U.S. impose a temporary import surcharge that caused economic strain but was lifted after renegotiations. Similarly, the 2018 U.S. tariffs on Canadian steel and aluminum disrupted markets and raised material costs, but were ultimately lifted following bilateral negotiations and the implementation of side agreements under the CUSMA framework. These instances reflect a pattern where tariff threats often give way to more targeted or negotiated measures once their broader economic implications become clear. In this light, the proposed 25 per cent tariff is likely intended as a bargaining strategy to extract political or economic concessions, though Canada must still prepare for potential disruptions in the face of policy unpredictability.

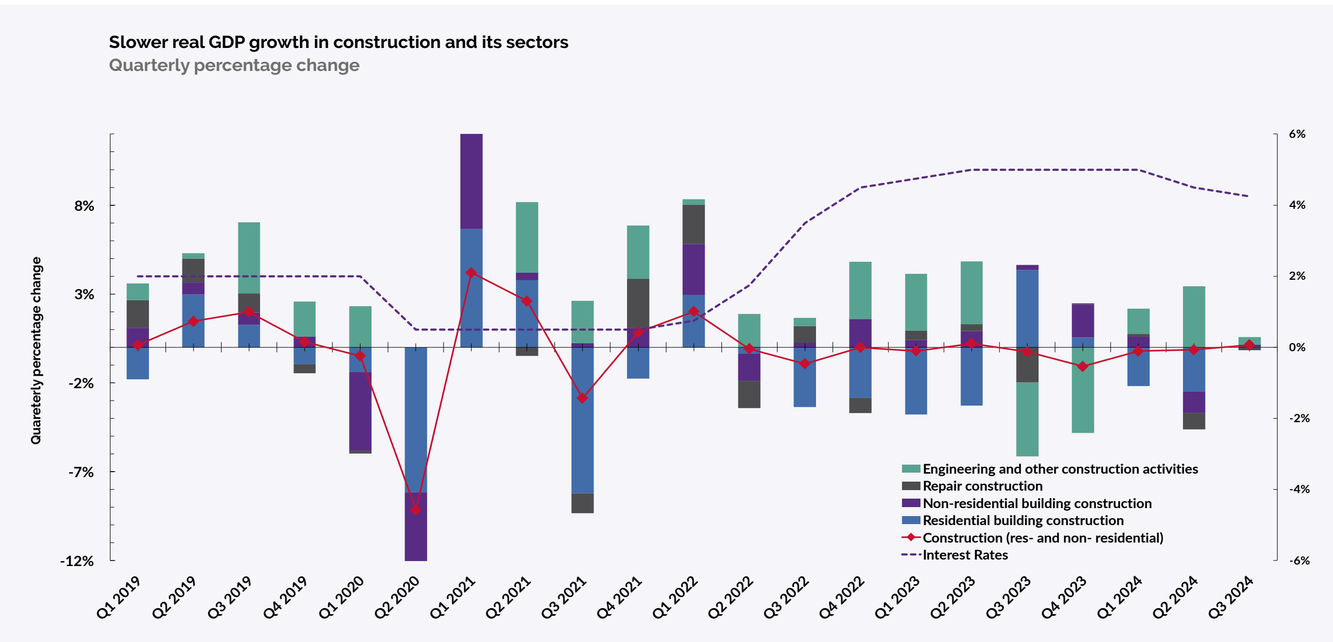
To mitigate risks, the construction industry can take proactive steps to safeguard their operations. Conducting thorough supply chain assessments to identifying vulnerabilities and planning for disruptions are essential. Reducing cross-border dependencies through vertical integration and strengthening domestic supplier networks and diversifying suppliers can enhance resilience as we approach the uncertainty of tariffs.

ICIC construction sector: performance and sectoral trends

The construction industry saw a slight expansion of activities during the third quarter of the year, with a real GDP quarter-over-quarter increase of 0.1 per cent.

GDP construction

Source: Statistics Canada, CCA



Activity levels rose during two of the three summer months, with three out of the four major construction sectors recording gains. The only contraction occurred in repair construction, which declined by 0.2 per cent. Overall, industry activity remained consistent with the levels observed in the second quarter of 2024.

Following a significant 1.9 per cent increase last quarter, the residential construction sector stagnated at 0 per cent growth. The non-residential construction expanded by 0.2 per cent, the second positive gains in 2024, driven by a boost in activities for this subsector during August. Engineering and other construction activities continued to be construction sector driving growth for the industry, although increased activities in the sector increased by only 0.4 per cent quarter-over-quarter.

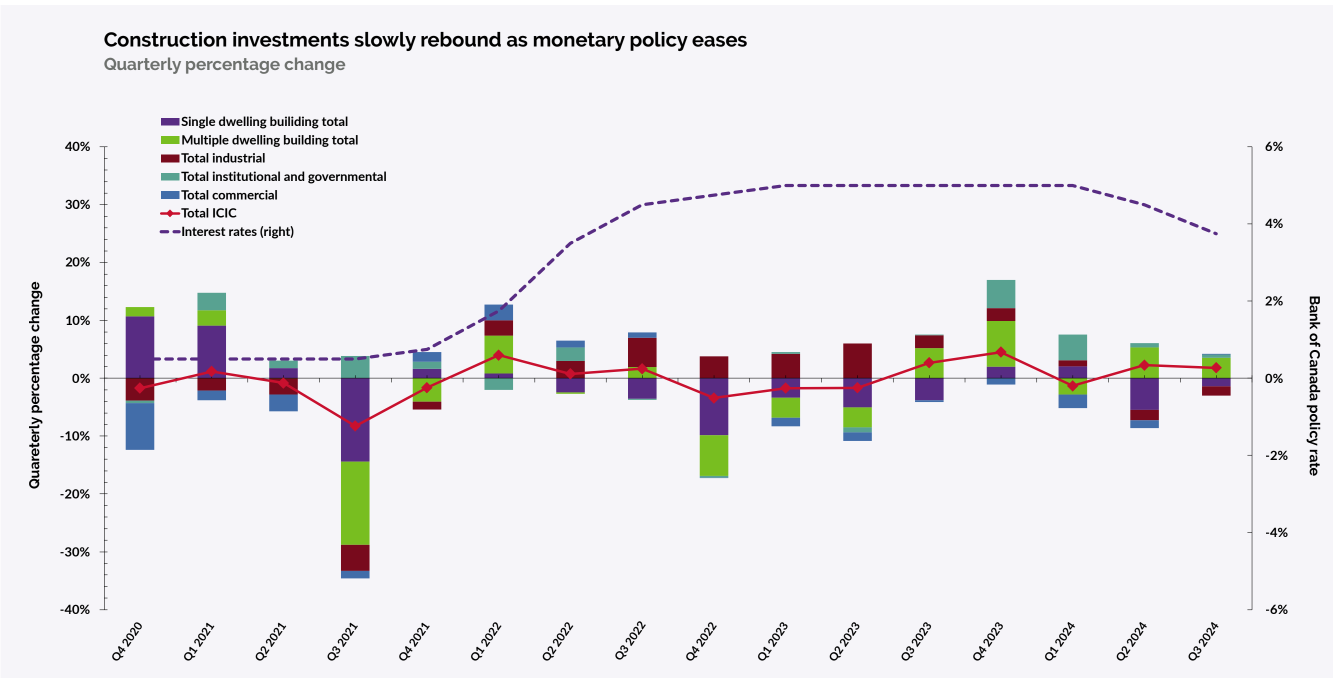
Investments in building construction

The building construction sector saw a second positive uptick in investments during the third quarter of 2024, driven once again by the strong performance in the multi-residential sub-sectors.

Overall, investments in construction increased by 1.7 per cent quarter-over-quarter, equal to an approximate increase of $458 million

Investments

Source: Statistics Canada, CCA



Multi-residential construction continued to lead the growth, with another significant quarterly increase of $484 million, or a 3.5 per cent increase. Increases in this sub-sector were seen in most provinces, with significant quarterly increases in Newfoundland and Labrador, Prince Edward Island, Saskatchewan, and Manitoba. This increase in investments reflects ongoing policy initiatives to address Canada's housing crisis by increasing the housing supply. As housing demand remains a priority for policymakers, and as interest rates are further cut, investments in multi-residential construction are expected to continue driving growth within the residential industry.

On the non-residential side, investments in the sector contracted by 0.2 per cent. The quarterly contraction was driven by a second quarterly decline of 1.4 in the industrial sector. Meanwhile the commercial and institutional sub-sectors both experienced slight expansions of 0.1 per cent, amounting to increases of $6.1 and $2.8 million, respectively. This marks the second contraction in industrial construction investments since 2022 and the first quarterly increase in commercial building investments. In contrast, the institutional sub-sector recorded its fifth consecutive quarter of growth, signalling continued strength in this area.

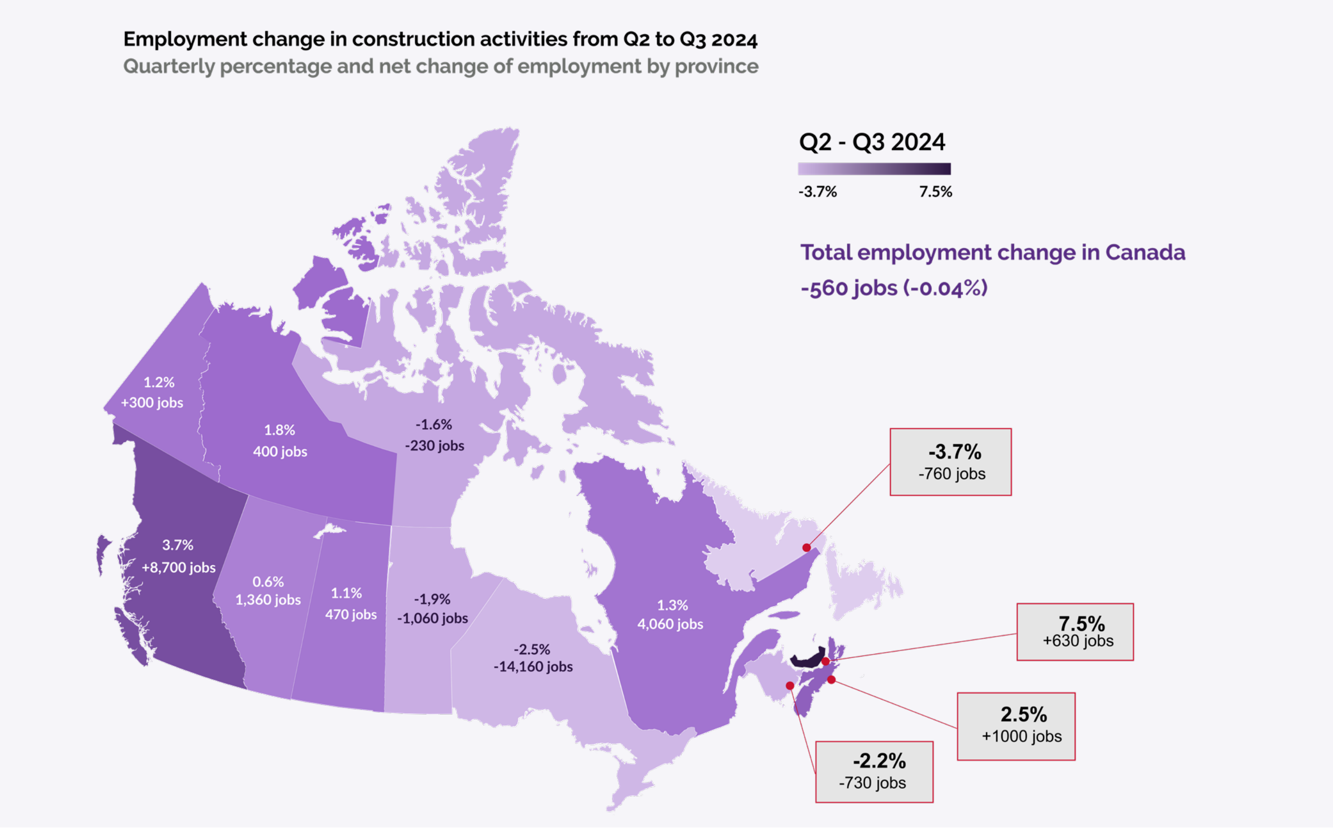
Labour market in construction

Labour in the construction industry remains at historical levels with sustained employment due to the high demand for construction in Canada. Following a decline of employment during the second quarter of the year, the construction industry saw a second slight decline in employment across the country. However, while the unemployment rate continues to rise across Canada, reaching 6.8 during the third quarter of the year, unemployment in construction continues a different labour trend than other industries.

Employment

During the third quarter of 2024, national employment in the construction industry experienced a slight contraction as labour conditions continue to soften. Overall, employment in the sector remained relatively unchanged, with a slight contraction of -0.04 per cent quarter-over-quarter, resulting in a loss of approximately 600 jobs across Canada.

Employment by province



Four provinces saw declines in construction employment during this quarter. The most notable contraction occurred in Ontario, which saw a decline of 14,200 jobs. Manitoba, New Brunswick and Newfoundland and Labrador also experienced declines in employment, contracting by 1.9 per cent (1,070 jobs), -2.2 per cent (730 jobs), and -3.7 per cent (780 jobs), respectively.

The losses were mostly offset this quarter by gains in other provinces, with British Columbia adding 8,700 jobs (3.7 per cent increase), Quebec with an additional 4,100 jobs (1.3 per cent increase) and Prince Edward Island with 630 jobs (7.5 per cent increase). This marks the second consecutive quarter that British Columbia and Quebec offset large losses across Canada, particularly from Ontario.

Despite the employment contraction, the regional gains underscore the resilience of certain provinces and the continued demand for construction labour in key areas. This is particularly evident in regions responding to ongoing infrastructure and multi-residential development projects, which continue to drive employment opportunities within the industry.

Unemployment

Despite unemployment increasing across all industries, sending the unemployment rate to a high of 6.8 per cent across all industries during the third quarter of 2024—the construction sector continues to demonstrate resilience thanks to the demand for labour in the industry. While the unemployment rate in construction experienced a slight increase during this period, it remains well below historical averages at five per cent, 2.2 percentage points below the average unemployment rate of the 2010s, highlighting the industry's demand for skilled labour and ongoing workforce shortages.

The sustained demand for construction services, driven by infrastructure projects and investments to address the housing crisis, suggests that employment opportunities will remain strong. Looking ahead, the construction industry may see its unemployment rate stabilize at lower rates than those in the past as employment opportunities continue to expand across various regions of the country, all while tight labour market conditions are expected to persist thanks to the mix of demand for labour in construction and the impending retirements of the industry.

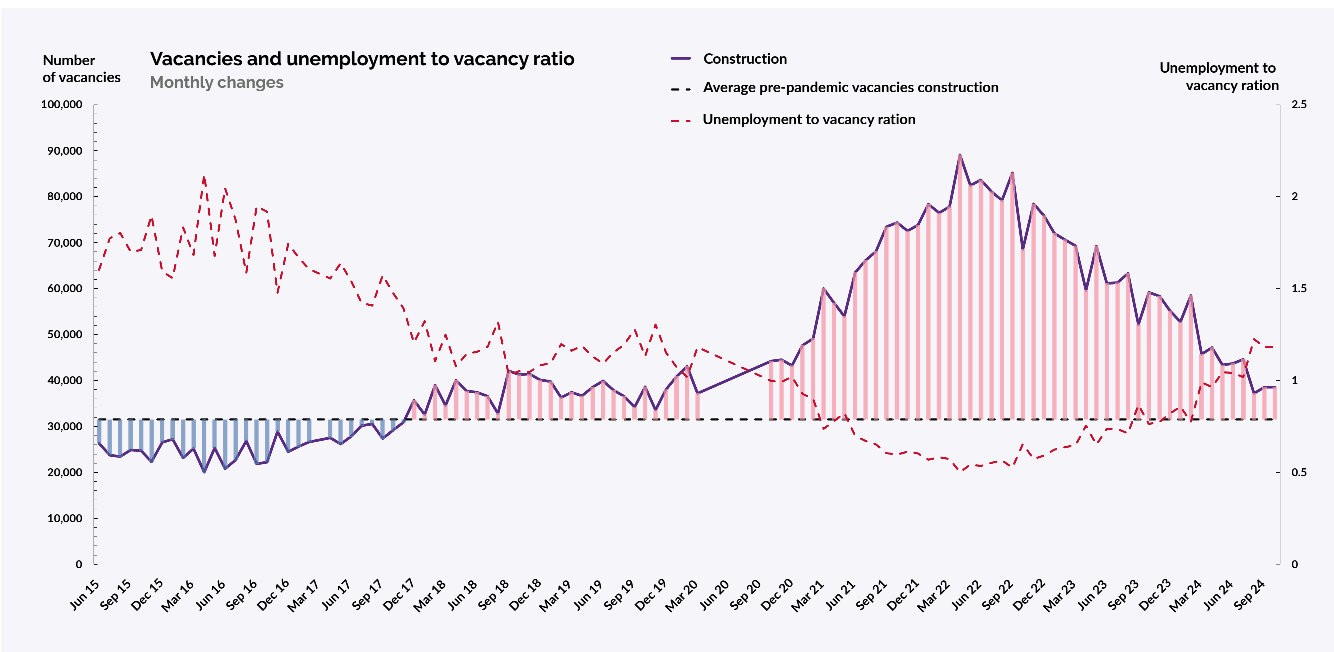
Vacancies in construction

Vacancies in the construction industry have stabilized at a higher rate than before the pandemic, although they have slowly declined over the last two years. During the third quarter of 2024, job vacancies across all industries in Canada saw a quarterly decrease of 7.8 per cent.

In the construction sector, vacancies declined slightly more than the average across industries, decreasing by 10 per cent. This reduction brought the number of job vacancies down to pre-pandemic levels of approximately 41,000 positions in the third quarter of the year.

Vacancies

Source: Statistics Canada, CCA



The ratio of unemployed individuals to job vacancies increased significantly, as the ratio changed from 1.9 unemployed persons per open position to 2.6. The small decline in vacancies, and the rise of unemployment in the industry has led this ratio to increase during the third quarter. Comparatively, the average pre-pandemic ratio was 4.2, which continues to demonstrate the tightness of the labour market.

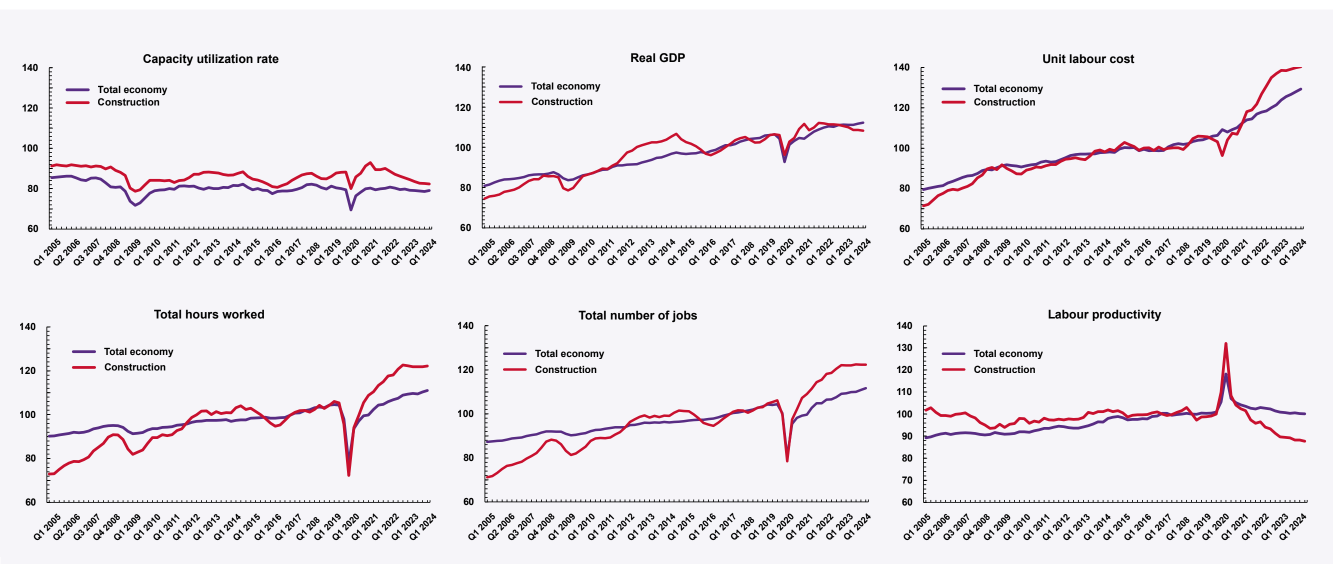
Industrial capacity utilization rate and measures of productivity

Productivity has become a key focus for policymakers and business leaders in Canada, viewed as essential for driving long-term economic growth and addressing challenges such as inflation, wage pressures, and slowing economic output. For the construction industry, improving productivity is particularly critical, given its central role in infrastructure development, housing supply, and overall economic activity. Productivity performance in this sector is measured through indicators like the Capacity Utilization Rate (CUR), total hours worked, productivity ratios, and unit labour costs (ULC), which collectively assess how effectively resources are being utilized to generate output and maintain competitiveness.

Capacity Utilization Rate

The Capacity Utilization Rate measures the actual output of an industry relative to its potential output if operating at full capacity (100 per cent utilization). In the third quarter of 2024, the CUR for the construction industry remained unchanged, staying at 82.3 per cent. Since reaching a peak of 93.5 in 2021, the CUR has reached levels last seen in 2016.

Measures of productivity



The gap between all industries and construction continues to narrow, dropping from 3.3 to 3 percentage points. For many years the construction industry has had a negative gap compared to the CUR of the all-industry average. During periods of economic expansion, demand for goods and services typically increases. This leads to higher capacity utilization rates. Conversely, during economic downturns or recessions, demand generally declines, causing a drop in capacity utilization rates. Lower capacity utilization in these periods reflects reduced economic activity and potential inefficiencies as businesses scale back operations in response to weaker demand. When capacity utilization rates are low, it indicates that a company is not fully utilizing its production resources, such as equipment, facilities, and labour. This underutilization often results in inefficiencies. The narrowing of the gap entails that the construction industry is following the dynamics of the other industries.

Other measures of productivity

Productivity is typically measured as the amount of output produced per hour worked. Before 2020, the construction industry experienced gradual growth in employment and total hours worked, following along the all-industry average. However, from 2020 to 2024, the sector saw a substantial increase in both the number of jobs and total hours worked—rising by approximately 22 per cent and 26 per cent, respectively. This surge has plateaued at a level higher than other sectors.

However, the industry's output growth has not correspondingly risen despite the increased labour input. Instead, output growth has gradually stagnated during the same period. This divergence means that as more hours are worked, the amount of output per worker has been declining—a trend more pronounced in construction than in other industries. While productivity across all industries has decreased by about five per cent since the pandemic, the construction sector has faced a steeper decline. This indicates challenges in translating additional labour into proportional output gains, highlighting potential inefficiencies or external factors affecting productivity. The productivity for construction has declined by 0.3 per cent during the third quarter of the year, it's fifth consecutive quarterly decline, compared to the industry average, which also decreased by 0.3 per cent during the third quarter, posing its tenth consecutive decline.

Unit Labour Cost

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

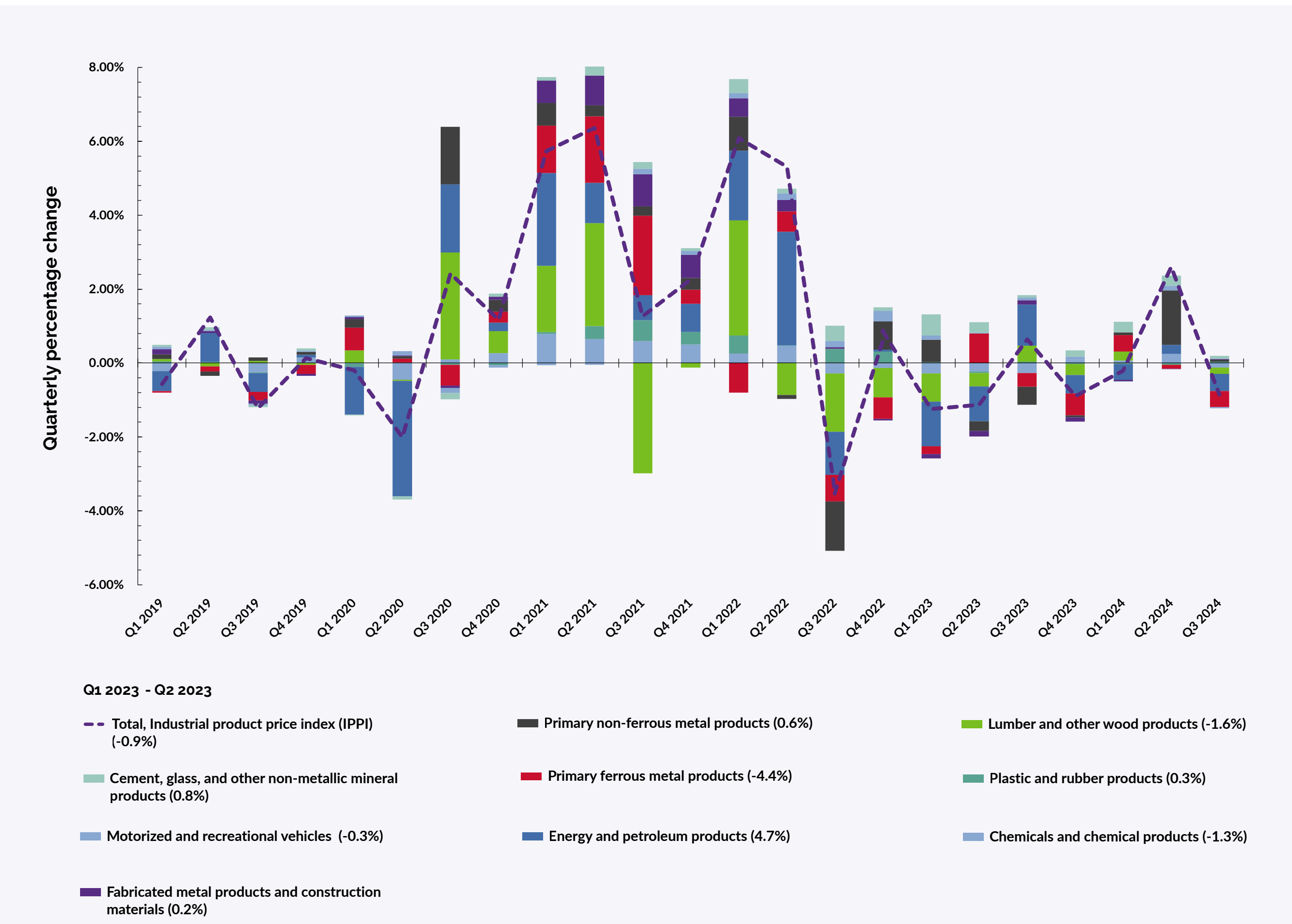
In the construction industry, ULC trends indicate that wage increases continue to outpace productivity gains, making it more expensive to produce each unit of output. However, there is a positive development: the growth rate of ULC is slowing. In the third quarter of 2024, ULC increased by just 1.1 per cent year-over-year, a significant improvement compared to the 6.6 per cent rise during the same quarter of the previous year. This deceleration suggests that while labour costs are still rising, the pace of increase continues moderating, which may help alleviate some cost pressures on the industry.

Inflation of construction materials

The Industrial Product Price Index (IPPI) tracks the price movements of goods used in the production of final products. For the construction industry, the IPPI provides valuable insights into the cost trends of essential materials. During the third quarter of 2024, the IPPI experienced a welcome growth contraction, slowing down from 2.6 per cent in the second quarter to 0.9 per cent quarter-over-quarter.

IPPI

Source: Statistics Canada, CCA



This slowdown was driven by price decreases in energy products, primary ferreous metal product group, as well as lumber and other wood products.

Primary ferrous metal products

The products in the primary ferrous metal group, which include metal products that contain iron, declined by 4.4 per cent. The group's growth decline was driven by an 8.2 per cent decline in the growth of prices from hot-rolled iron products. Another important contributor to the decline were iron and steel pipes and tubes with a decline of 6.8 per cent. All other products in this group saw declines, including basic and semi-finished iron or steel products (-4.4 per cent), unwrought iron, steel and ferro-alloys (-4.8 per cent), iron metal castings (-0.6 per cent), and cold-rolled iron (-1.6 per cent). This group is important to the non-residential and engineering and other construction activities sectors. These contractions may offer some cost relief for large-scale infrastructure projects requiring substantial metal inputs.

Energy products

As mentioned during our last update, the expectations for the third quarter indicated that some oil prices would continue to decline during the third quarter. The expectations were realized during the third quarter, as the energy group's price growth contracted by 4.7 per cent. The decrease was driven by almost all products in the energy group, including refined petroleum products with a decrease of 5.7 per cent, motor gasoline decreased by seven per cent, diesel and biodiesel fuels declined by four per cent, light fuel decreased by 6.7 per cent and heavy fuel by 2.5 per cent. The only product in the group to turn an increase in price was natural gas, offsetting the growth by increasing 3.1 per cent.

Cement, glass, and other non-metallic mineral products

Another key group of materials for construction saw a slight increase in the price of this product group. Prices in this group increased by 0.8 per cent during the third quarter. The drivers on this group's increases were concrete products with a 2.1 per cent increase, cement with a 1.7 per cent increase, and an increase of 0.8 per cent in the prices of pre-mixed concrete. Declines of 1.8 per cent in lime and gypsum products and a 0.9 decline in the prefabricated buildings and their components, which includes buildings that are built in a factory or manufacturing facility and delivered to the construction site and components to be assembled later at a construction site, offset some of the price increases in this group.

Lumber and other wood products

This group, important mainly to the residential construction sector, experienced a welcome contraction. Important drivers of this group's contraction include an 8.7 per cent decrease in veneer and plywood, and a decrease of 2.5 per cent on lumber and other sawmill products, softwood lumber, and reconstituted wood products. The only increase to offset these declines was a 4.4 per cent increase in the price of hardwood lumber products.

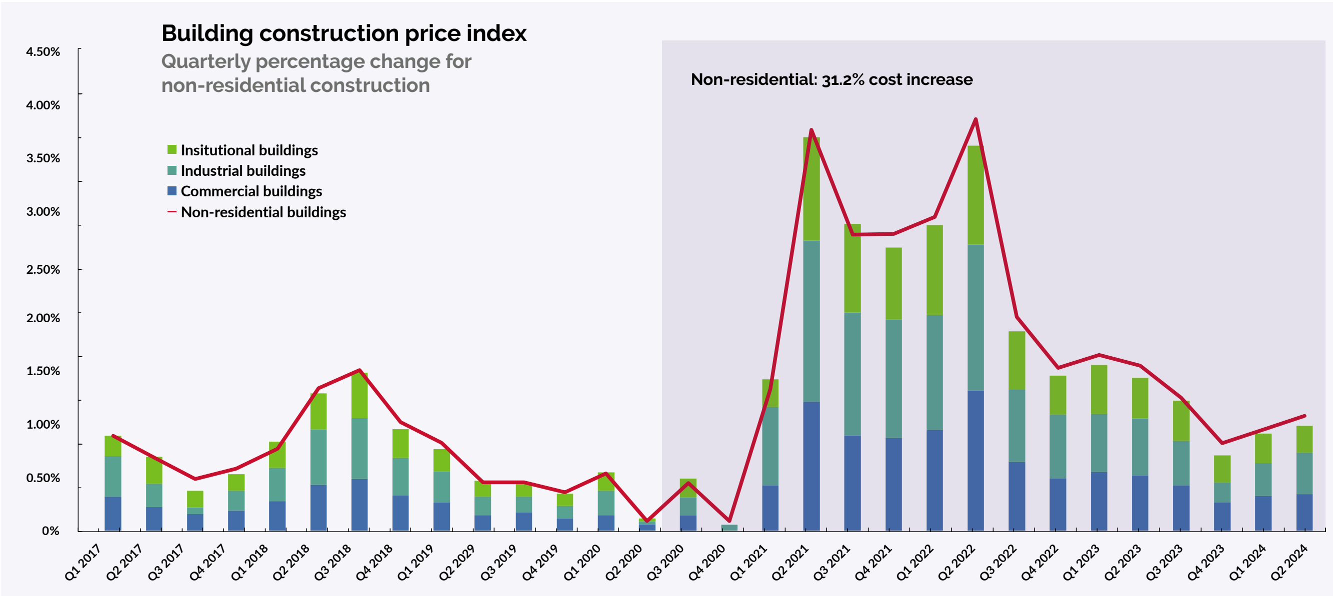
Building Construction Price Index (BCPI)

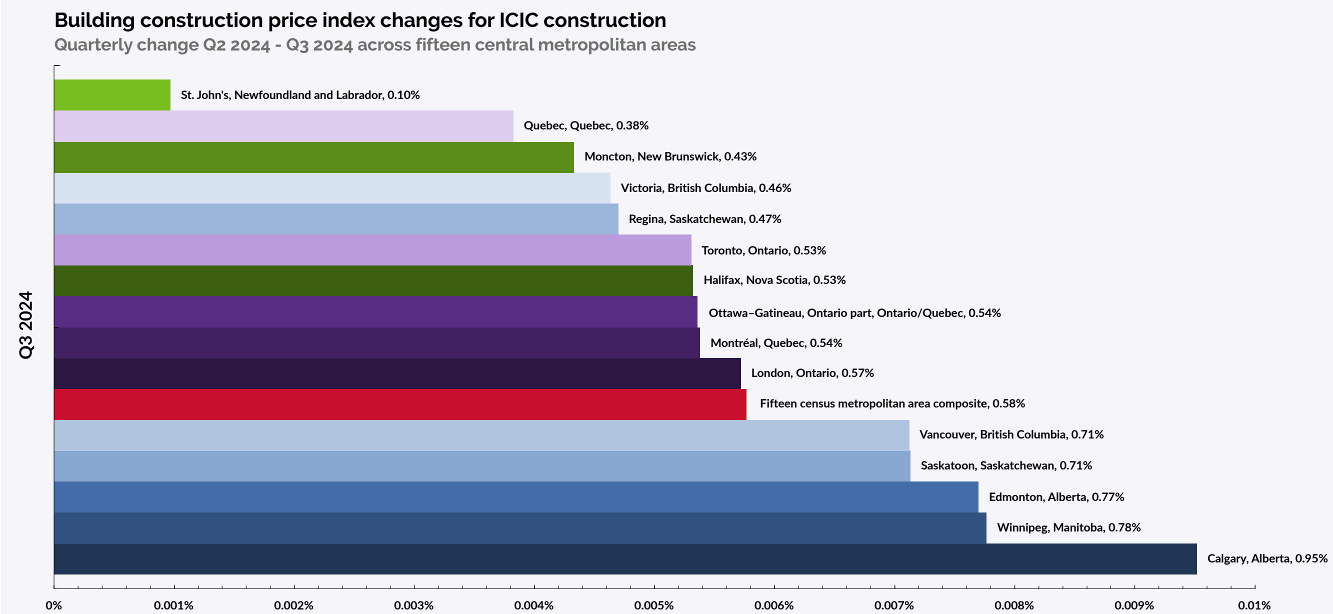
The Building Construction Price Index (BCPI) offers a comprehensive measure of the overall cost of constructing a typical non-residential building, incorporating expenses related to land, labour, and materials. This index provides valuable insights into how various factors, such as labour market pressures and material price fluctuations, affect the total cost of construction.

In the third quarter of 2024, the BCPI showed signs of deceleration, offering the industry some relief, following two consecutive quarters of cost increases. The index for ICIC construction rose by 0.6 per cent compared to the previous quarter, indicating rising construction costs across several key inputs. This sustained acceleration reflects ongoing challenges in the labour market and increases in the prices of certain essential materials and is the slowest pace increase that the index has seen since the slowdown in 2020.

BCPI by CMA

Source: Statistics Canada, CCA





Regionally, through the new fifteen CMAs used to calculate the composite across Canada, Alberta experienced the highest increase in construction prices, withs Calgary and Edmonton experiencing some of the highest increases at one and 0.8 per cent, respectively. Along with other CMAs, including Winnipeg (0.8 per cent), Saskatoon and Vancouver (0.7 per cent), these drove the increase of 0.6 per cent across Canada.

Business conditions and what's ahead for the industry

Shifting conditions and economic outlook

Businesses in Canada have shifted their concerns from labour shortages and supply chains challenges to concerns over softer demand and intensified competitive pressures. Meanwhile, recent political changes are also contributing to heightened market uncertainty. These issues are captured in the Bank of Canada's Q4 2024 Business Outlook Survey and Business Leader's Pulse.

Firms reported less favourable business conditions in the fourth quarter. As the labour market continues to soften across the country, concerns about wages and workforce shortages continue to diminish. Amid continued high interest rates, top concerns have shifted to demand and uncertainty about economic conditions. Softer demand also means labour markets and output price growth are easing. Still, wage growth on average is expected to be higher than normal over the next 12 months, often related to cost-of-living adjustments. As wage growth expectations continue to decline, businesses continue to anticipate a slowdown in price increases of their outputs. With lower expectations for both wages and prices, short-term inflation expectations are slowing.

Positive expectations in the construction industry

The results from the Canadian Survey on Business Conditions for the fourth quarter indicate increased optimism within the construction industry compared to the all-industry average and previous expectations from sectors. Construction firms are lowering their expectations regarding potential obstacles for the upcoming quarter. Notably, concerns across all key issues have declined, with significant reductions in those related to labour and rising interest rates. This positive shift is largely driven by improvements across most provinces. Specifically, firms have decreased their expectations of facing labour related obstacles by 11.4 percentage points. Additionally, concerns about rising inflation and interest rates have dropped by 17.4 and 10.8 percentage points, reflecting a broad improvement in industry sentiment.

Obstacles

Geography	Canada	Newfoundland and Labrador	Prince Edward Island	Nova Scotia	New Brunswick
Difficulty acquiring inputs, products or supplies from within Canada	1.2%	0.4%	0%	7.2%	0%
Difficulty acquiring inputs, products or supplies from abroad	6.6%	5.8%	1.7%	12.5%	3.7%
Rising cost of inputs	35.9%	37.9%	50.2%	26.5%	29.2%
Rising inflation	38.6%	50.9%	48.6%	38.4%	33.2%
Transportation costs	21.3%	15.5%	43.9%	15.7%	23%
Fluctuations in consumer demand	21.3%	18.6%	21.4%	17.6%	19.7%
Insufficient demand for goods or services offered	18%	2.9%	7.8%	9.5%	3.5%
Obtaining financing	16.1%	3.2%	18.6%	24.8%	10.4%
Cost of insurance	29.6%	29.6%	26.3%	15.4%	18.9%
Rising interest rates and debt costs	26.4%	7.9%	43.7%	31.4%	27.5%
Recruiting skilled employees	28%	44.6%	39.8%	36.9%	46.8%
Retaining skilled employees	15.2%	26.5%	26.6%	15.8%	41.9%
Shortage of labour force	21.7%	39.5%	37.9%	32.4%	58.6%

Geography	Quebec	Ontario	Manitoba	Saskatchewan	Alberta
Difficulty acquiring inputs, products or supplies from within Canada	0.5%	1.6%	1.5%	2.5%	0%
Difficulty acquiring inputs, products or supplies from abroad	1.6%	6.2%	7.5%	9.8%	0.7%
Rising cost of inputs	23.5%	36.3%	34.7%	56.5%	46.6%
Rising inflation	34.5%	35.7%	44.1%	53.6%	49.8%
Transportation costs	5.7%	23%	19.4%	19%	49.5%
Fluctuations in consumer demand	4.7%	29%	24.2%	15.9%	20.2%
Insufficient demand for goods or services offered	10.7%	27.7%	2.6%	4.3%	13.6%
Obtaining financing	31.3%	6.5%	1.8%	18.7%	32.5%
Cost of insurance	20.2%	33.3%	32.4%	30.4%	34.4%
Rising interest rates and debt costs	16.6%	34.1%	32.6%	32.1%	22.8%
Recruiting skilled employees	35.6%	19.1%	10.2%	49.4%	19.2%
Retaining skilled employees	22.9%	8.3%	13.4%	36%	10.6%
Shortage of labour force	21.9%	20.4%	12.7%	27.6%	10.3%

Geography	British Columbia	Yukon	Northwest Territories	Nunavut
Difficulty acquiring inputs, products or supplies from within Canada	1.8%	0%	5.8%	0%
Difficulty acquiring inputs, products or supplies from abroad	23.4%	N/A	26.7%	0%
Rising cost of inputs	44.9%	N/A	29%	24.2%
Rising inflation	37.6%	N/A	34%	N/A
Transportation costs	13.3%	11.5%	36.6%	3.6%
Fluctuations in consumer demand	29.3%	N/A	14.1%	18.4%
Insufficient demand for goods or services offered	17.7%	N/A	28.2%	0%
Obtaining financing	5.5%	0%	0%	12.3%
Cost of insurance	34%	6.5%	29.9%	N/A
Rising interest rates and debt costs	19.4%	9.2%	17.6%	30.6%
Recruiting skilled employees	48.3%	N/A	57.6%	31%
Retaining skilled employees	18.6%	15.7%	30.8%	N/A
Shortage of labour force	28.9%	N/A	49.6%	N/A

Pressing challenges and obstacles

Despite a positive outlook, the construction industry continues to face significant challenges, particularly related to labour shortages and rising inflation. Labour-related obstacles have taken the spot over the highest concern, with 36.2 per cent of surveyed businesses reporting challenges in this area. Labour-related issues are particularly pronounced in regions such as Yukon (71 per cent), Quebec (58.1 per cent), and New Brunswick (59.4 per cent).

Rising inflation remains another top concern at 36.2 per cent. Obstacles related to inflation have decreased for the coming quarter, including issues with supply chains and obtaining goods and supplies within Canada, which have decreased by 10.5 and nine percentage points, respectively, and those facing transportation cost increases declining by 9.2 percentage points.

What's ahead for the industry?

Looking ahead to 2025, the construction industry faces a mixed outlook. While the industry is expected to maintain strong demand for labour and services, several external factors may impact future business conditions.

The global economy is expected to face continued uncertainty, heavily influenced by political and economic developments in the United States. Key decisions made by the incoming Trump administration will warrant close monitoring, as they are likely to impact global markets and trade dynamics. In particular, the first quarter of the U.S. presidential cycle will be a critical period, with potential policy shifts directly affecting Canada. Additionally, the upcoming renewal of the CUSMA in 2026 is anticipated to involve intense deliberations and policy adjustments, which could have wide-ranging implications for the construction sector.

On the domestic front, political developments in Canada will contribute significantly to the uncertainty. The Liberal Party is facing challenges with unclear leadership and internal disarray, raising questions about the government's ability to effectively navigate key policy decisions. The federal government's decision to exceed the deficit ceiling set by Finance Canada further adds to these worries, as a higher deficit could limit future government spending, potentially affecting infrastructure investments and broader economic growth.

The Canadian economy is expected to proceed cautiously in 2025, with every economic indicator release playing a critical role in shaping the outlook for the construction sector. Demand for construction services remains strong, supported by record-high employment levels and unemployment rates below historical averages. Inflation, aligning with the Bank of Canada's two per cent target in August—the lowest since February 2021—signals a more stable pricing environment. There is growing support for additional interest rate cuts as the economy continues to slow down faster than anticipated, while the U.S. economy continues to run hot. Governor Tiff Macklem has signalled that any further cuts will be gradual and data driven. Such monetary easing is expected to encourage consumer spending and improve residential sector activities, leading to more favourable borrowing conditions for the construction industry, supporting continued growth and investment in the sector.

Yet, economic growth could face headwinds as the new immigration targets exert pressure, slowing GDP growth. For the first half of the year, the focus will be centred in monitoring whether economic activity continues to slow, as this could lead the Bank of Canada to introduce further measures to support growth and stability.

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

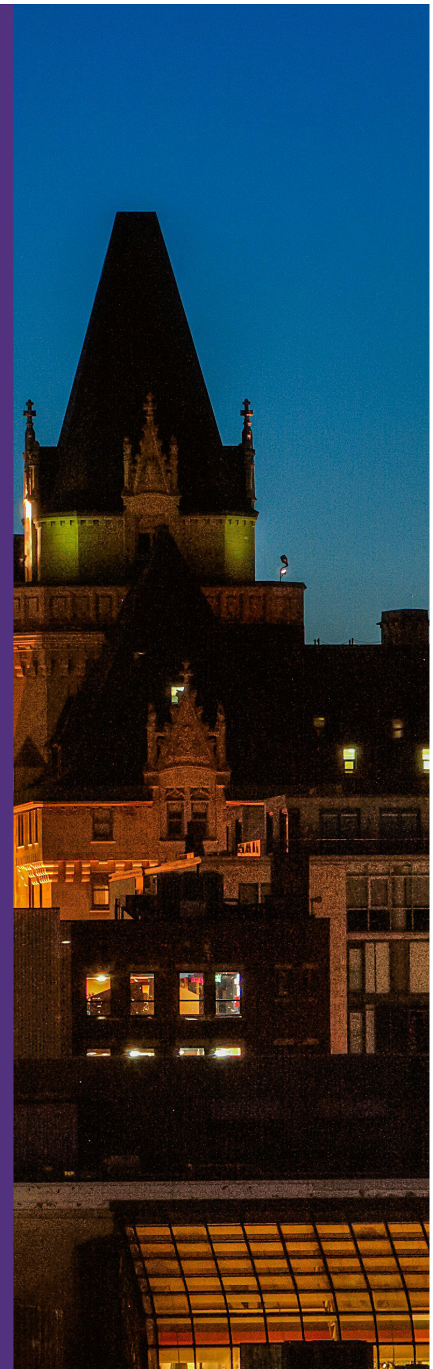
Looking ahead: Key economic and policy considerations

- **Interest rate cuts impact on market dynamics and economic activity:** The gradual impact of recent rate cuts will begin to flow back into the economy, supporting modest growth in 2025. GDP growth is projected at 1.5 per cent for the year, marking a third consecutive year of below-potential expansion. Further interest rate reductions expected in 2025 could lower borrowing costs, encourage investment, and stimulate activity in both multi-residential and non-residential construction sectors.

- **Labour market challenges persist:** Despite the construction sector's resilience and low unemployment, labour shortages and intense competition for skilled workers continue to pose significant challenges for the industry

- **Exchange rate fluctuations and material costs:** The Canadian dollar may face depreciation pressures as the U.S. economy outpaces Canada's, compounded by the Federal Reserve's announcement of slower rate cuts in 2025. While the Fed's unexpected 50-basis-point rate cut narrowed the interest rate gap between Canada and the U.S., any stabilization of the Canadian dollar might help mitigate the costs of imported construction materials. The interest rate disparity between Canada and the U.S. will be the driving force behind the exchange rate.

- **Political and trade uncertainties:** Both domestic and global political uncertainty, including the U.S. presidential inauguration, ongoing CUSMA renegotiations, and geopolitical tensions in the Middle East and Eastern Europe, create a challenging environment for trade and investment. These factors could influence market confidence and disrupt supply chains, impacting the construction industry's outlook.



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

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