



Canadian Institute of
Quantity Surveyors

Institut canadien des
économistes en construction



RICS®

Q3 2020: Canada Construction Monitor

Expectations pick-up despite Covid fears

- Workloads rebound in Q3 led by infrastructure
- Expectations return to positive territory in all sectors
- Profit margins still expected to remain under some pressure

Respondents to the Q3 2020 RICS/CIQS Canada Construction Monitor were more upbeat both about the current picture and the outlook despite signs that the economic recovery is flagging in the face of an upsurge in new Covid cases. Significantly, the Bank of Canada has responded to more challenging macro picture by signalling that interest rates will remain at current lows until the inflation target of 2% is 'sustainably achieved'. On the Bank's analysis, this does not occur until 2023.

Infrastructure leads the way

Feedback to the Monitor show infrastructure workloads picked up speed in the third quarter with indicator capturing this trend rising from +7 in (Q2) to +24. Private residential turned round from a negative reading last quarter to a modestly positive this one while private non-residential remained in negative territory, albeit less so than previously.

Significantly, infrastructure is anticipated to remain the most buoyant part of the construction sector looking out over the next twelve months which chimes with recent announcements from the Canadian government. This includes both the redirection of existing funds to support Covid resilience (announced in August) and the new C\$10bn three year package designed to drive growth and create jobs. Meanwhile the strong rebound in the housing market is viewed as likely to provide increasing support for private residential construction.

Headcount to slowly improve

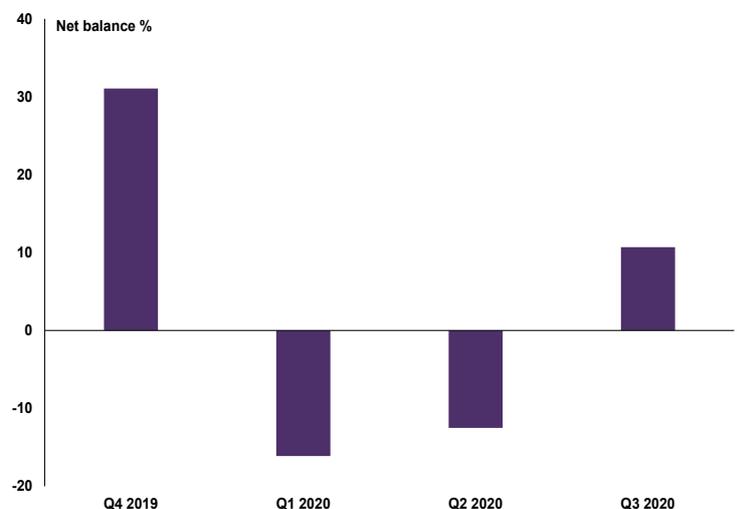
Notwithstanding the firmer picture regarding workloads, employment in the sector appears to have slipped further according to respondents to the survey. And though some improvement is anticipated over the course of the next year, the net balance reading only stands at +9. It is noteworthy that despite this, skills (or

the lack of them) continue to be viewed as an obstacle to activity. Nearly half of respondents identified this issue as a barrier, the highest reading since the end of last year; skilled trades and quantity surveyors are the two most problematic areas.

Profits recovery delayed

Expectations for work may be improving but profits are lagging. Indeed the margin indicator is pointing to a further smaller compression while the point estimates for tender prices and construction costs suggests the latter could outstrip the former by 2%. Although labour costs are projected to rise over the next twelve months, material costs are viewed as likely to post even sharper increases.

Construction Activity Index



*Large Firms = more than 250 employees, Medium = 50 to 249 employees, Small = 10 to 49 employees, Micro = less than 10 employees

Comments from Survey Participants in Canada



"I expect a higher number of bankruptcies in the Industrial, Commercial Contracting Market due to C19."

-Calgary, Alberta



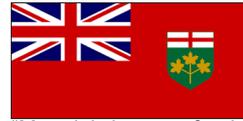
"Market Price of oil & gas."

-Calgary, Alberta



"Lack of private investment."

-Edmonton, Alberta



"Material shortage & price increase. Regulating authorities response time due to working from home."

-Toronto, Ontario



"Mainly the effect of Covid-19, plus low Interest rate is highly benefiting for home builders."

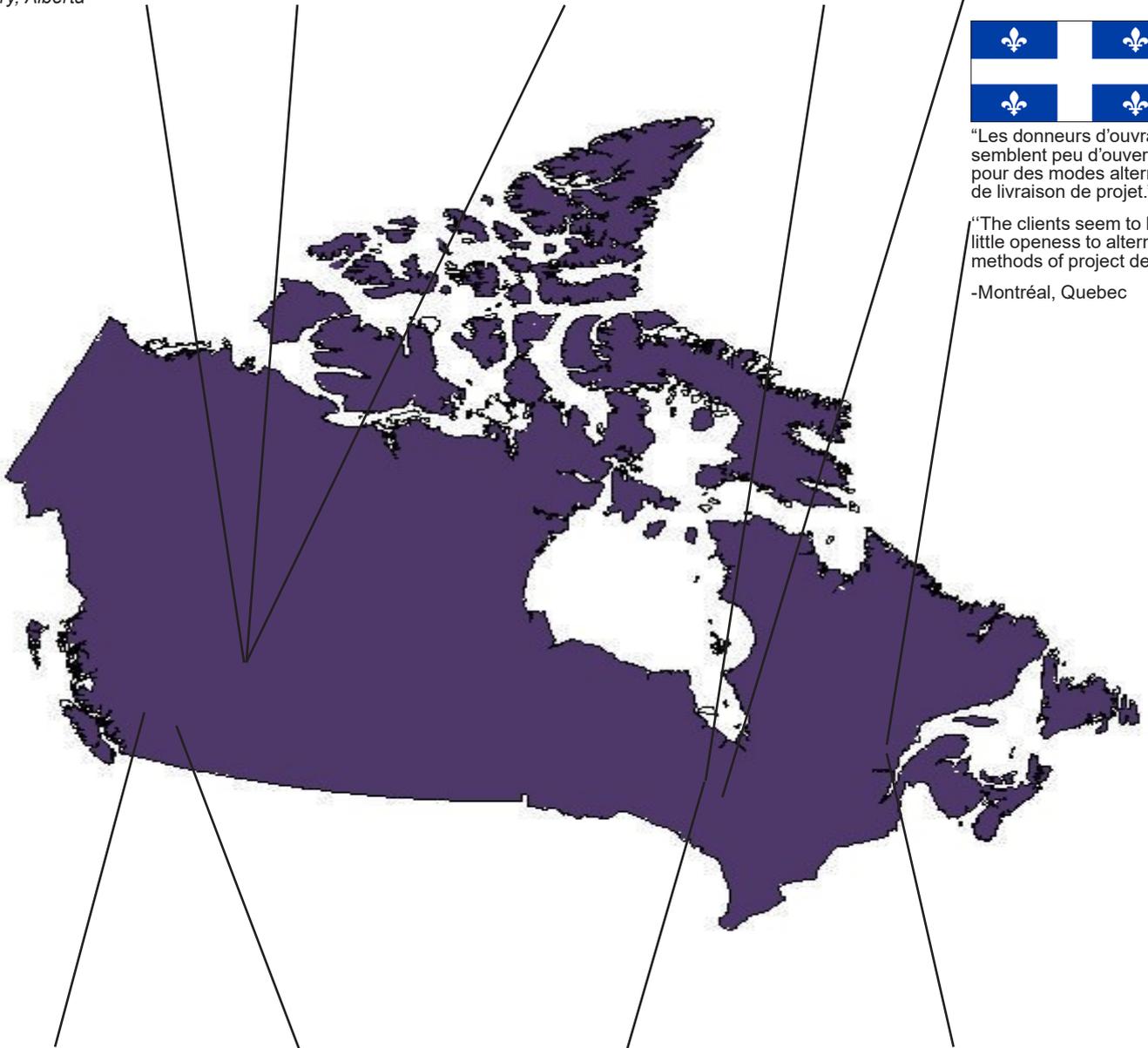
-Ottawa, Ontario



"Les donneurs d'ouvrage semblent peu d'ouverture pour des modes alternatifs de livraison de projet."

"The clients seem to have little openness to alternative methods of project delivery"

-Montréal, Quebec



"Increasing Real Estate Taxes, High Land Prices, not enough skilled workers"

-Vancouver, British Columbia



"Shortage of skilled labour."

-Victoria, British Columbia



"Supply of material, as certain suppliers are behind due to COVID-19 circumstances."

-Toronto, Ontario



"Conditions de marché, trop de projets en même temps et impact COVID."

"Market conditions, too many projects at the same time and COVID impact."

-Montréal, Quebec

Key Charts

Infrastructure has seen a strong uplift in workloads in Q3 with ICT leading the way followed by Energy-related and social infrastructure. Transport and waste and water were broadly flat after posting declines in Q2.

All areas of the construction sector are expected to post growth, to a greater or lesser extent, over the next twelve months. Infrastructure is anticipated to remain the strongest component and the headcount in the sector is viewed as likely to rise modestly.

Tender prices are projected to increase by around 3% but this gain will be outstripped by the likely rise in construction costs.

Financial constraints are still seen as a major impediment to activity but skill shortages and the availability of materials have picked up once again.

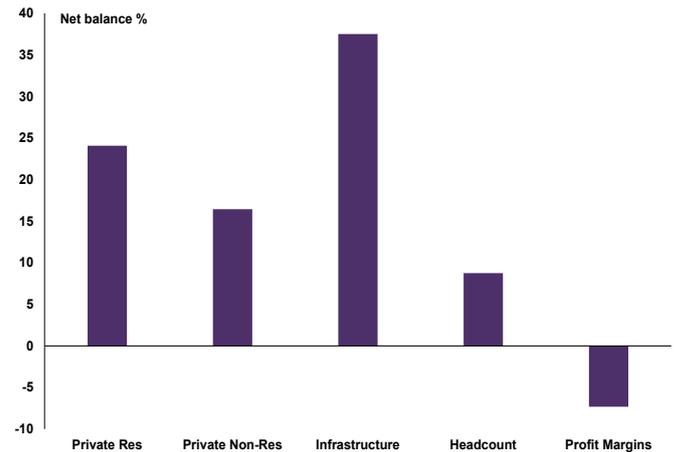
Current Workloads



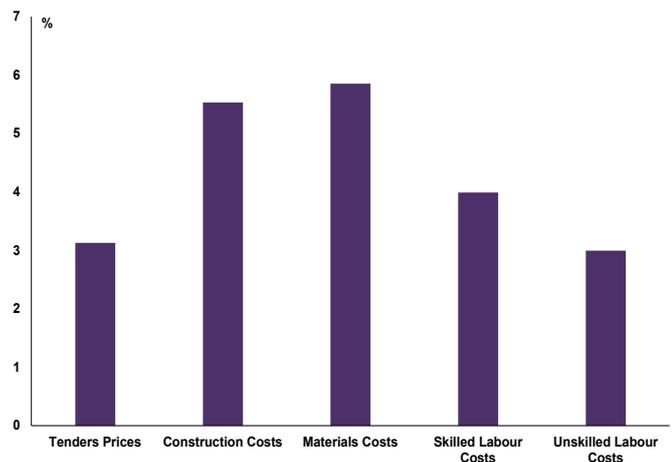
Infrastructure Workloads



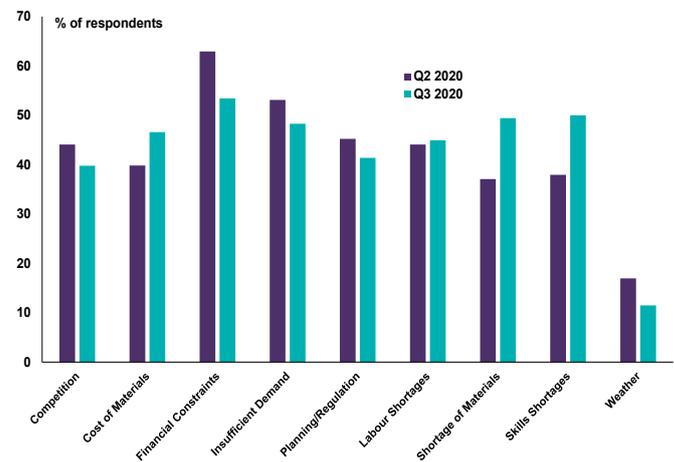
12 month Expectations



Tender Price and Cost Expectations



Factors Holding Back Activity



Information

Construction and Infrastructure Survey

The RICS/CIQS Canada Construction and Infrastructure Survey is a quarterly guide to the trends in the construction and infrastructure markets. The report is available from the RICS website www.rics.org/economics and on the CIQS website www.ciqs.org. For general questions about the survey or the methodology, please contact economics@rics.org. For press enquiries please contact Amie Silverwood on 437-990-4695.

Methodology

Survey questionnaires were sent out on 12 September 2020 with responses received until 18 October 2020. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1358 company responses were received globally, 367 of which were from the UK.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100. A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline.

RICS Construction Activity Index is constructed by taking an unweighted average of current and 12-month expectations of four series: residential workloads, non-residential workloads, infrastructure workloads and profit margins. Global and regional series are weighted using the World Bank's GDP PPP (2017 constant prices) data series. Current responses were weighted using the prior years GDP (e.g. the 2020 responses were weighted using 2019 GDP data). Where responses are not sufficient to form a national-level sample, they are binned together to fill in any gaps in regional coverage.

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Surveyors (CIQS) is a self-regulatory, professional body that sets the highest standard for construction economics in Canada. Designated Professional Quantity Surveyors (PQS) and Construction Estimator Certified (CEC) professionals counsel building owners, developers, government bodies, designers and contractors at every stage of the design, procurement and construction process to help ensure a return on investment is delivered.

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