2024 CANADIAN CONSTRUCTION COST TRENDS

The impact of labour shortages, material price fluctuations, inflation, and severe weather on Canada's construction industry.

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Overview

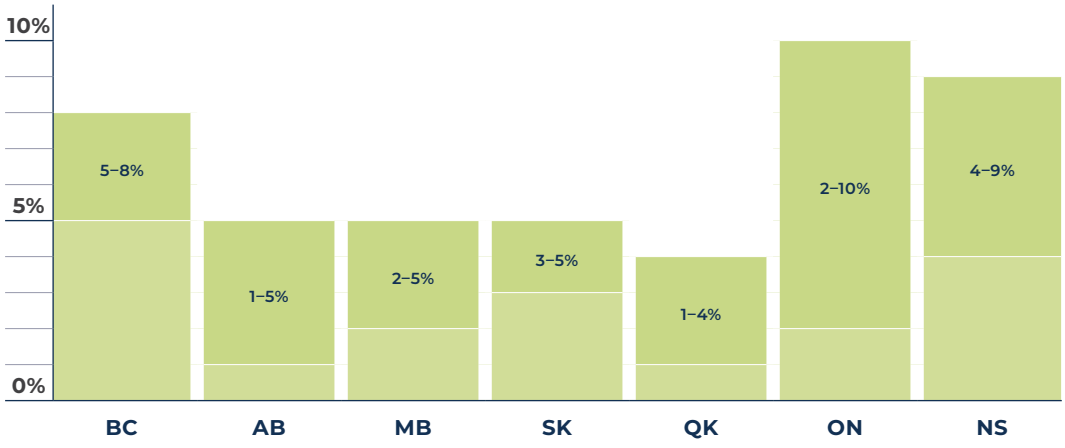
In 2023, we witnessed increased stability to our annual valuation fluctuations. Construction costs are primarily determined by the growth and strength of the industry. The construction industry experienced an 11% YOY growth in revenue in Q1 of 2023, but fell to only 3% in revenue growth by the end of Q3.[i] Price inflation was the primary contributor to the increase, rather than volume.[ii]

The fourth quarter of 2023 marked the slowest quarterly growth in residential and non-residential building construction since 2020, with an increase of only 0.9% and 0.7% respectively. The year-over-year national aggregate saw a 6% increase in residential buildings and a 5.4% increase in non-residential in Q4.[iii]

Although the residential sector experienced a significant decline in 2023, an overall rebound is expected to start in 2025 due to growth in transportation, manufacturing, and energy sectors.[iv] Additionally, increased government investments will help to drive the construction industry forward in 2024 and is likely to prevent price reductions.[v]

2024 Outlook

We anticipate the range of cost increases to be between **1–10%** across Canada.



REGIONAL RECONSTRUCTION COST INCREASES

i Statistics Canada, Building construction price indexes, by type of building and division, November 1, 2023
ii Deloitte, 2024 engineering and construction industry outlook
iii Statistics Canada, Building construction price indexes, fourth quarter 2023, February 1, 2024
iv Linesight, Linesight Canada Commodity Report – Q2 2023, August 22, 2023
v Research and Markets, Canada Construction Market Size, Trend Analysis by Sector, Competitive Landscape and Forecast, 2023–2027, December 2023

Top Contributors

Key factors impacting the construction sector include an ongoing shortage of labour, volatility in material prices and availability, severe weather and catastrophic losses, and sustained inflation.

Labour

The job vacancy rate ended 2023 at the lowest level since February 2021 at 4.5%.[i] Despite this, the demand for labour continues to outpace the supply. Not only are we seeing delayed timelines due to a tight labour market, but wage increases are up 16% since 2019,[ii] putting additional pressure on costs and productivity. Over the next 10 years, an anticipated 245,100 workers are expected to retire from the baby boomer generation – that's 20% of the total 2022 labour force. To account for the required expansion of the labour force to meet construction demands, close to 300,000 workers will be required by 2032. Forecasts show that there will be a likely deficit of at least 60,000 workers.[iii]

CONSTRUCTION LABOUR FORCE CHANGES

2022 → 2032

CURRENT LABOUR FORCE	WORKERS	REQUIRED LABOUR FORCE
1,216,500	+54,100	= 1,270,600

Source: Buildforce Canada

REQUIRED WORKERS	EXPECTED RETIREMENTS	ANTICIPATED NEW ENTRANTS	WORKER DEFICIT
+54,100	+245,100	–237,800	= 61,400

Materials

Although material prices generally stabilized in 2023 due to supply chain recovery, costs remain high compared to pre-pandemic levels. While lumber, steel, and copper have all dropped from their recent highs, materials expected to lead the price surge in the next year include concrete and machinery and equipment. This is due to scarce availability, stricter environmental regulations, long lead times, and high fuel costs. By the end of Q3 2023, conveying equipment and masonry reported the highest increases at 3.2% and 3.1% respectively.[iv] The cost to build high-rise apartments and office buildings grew the most due to the substantial use of these materials.

i Statistics Canada, Building construction price indexes, fourth quarter 2023, February 1, 2024
ii Statistics Canada, Employee wages by industry, annual, January 5, 2024
iii Onsite Magazine, Looking forward at construction labour, September 12, 2023
iv Statistics Canada, Building construction price indexes, percentage change, quarterly, November 1, 2023

PRICE FLUCTUATIONS, FEB 2020 – DEC 2023

NOTABLE INDUSTRIAL PRODUCTS & RAW MATERIALS	1 MONTH % CHANGE (NOV – DEC 2023)	12 MONTH % CHANGE (DEC 2022 – DEC 2023)	46 MONTH % CHANGE (FEB 2020 – DEC 2023)
Cement, glass, and other non-metallic mineral products	0.47%	11.39%	28.84%
Plastic and rubber products	1.50%	0.86%	28.63%
Lumber and other wood products	–0.81%	–7.09%	16.68%
Logs, pulpwood, natural rubber, and other forestry products	–1.75%	–1.52%	24.12%
Fabricated metal products and construction materials	0.00%	–3.13%	40.38%
Machinery and equipment	–0.34%	2.34%	16.85%
Crude energy products	–10.28%	–17.90%	38.44%
Energy and petroleum products	–8.48%	–14.18%	37.62%

Source: Statistics Canada, as of December 2023[i]

Inflation

While general inflation is causing prices to go up, strict monetary policies are expected to further cool both the residential and non-residential construction markets in the first half 2024. As a result of persistent interest rate hikes, Q3 2023 Stats Canada metrics showed the slowest growth in the residential construction sector since Q2 2022. Owners and builders are grappling with interest rate pressure and affordability issues, which is driving down demand.[ii] The Bank of Canada indicated in its January 25, 2024 Policy Rate Announcement that they have not ruled out further rate increases. There are ongoing concerns about underlying inflation and the Governing Council indicated that inflation is not expected to reach central bank's targets until 2025. However, discussions have shifted and now also include how long to maintain the current stance.[iii]

Severe Weather

In 2022, as a result of severe weather and natural disasters, Canada's property and casualty insurance paid out more than $3.1 billion in claims. Initial estimates show an aggregate loss nearing $3.5 billion from December 2022 to November 2023 with 27 major weather events, or catastrophes, up from 15 in 2022. Catastrophes are incidents resulting in insured losses surpassing $30 million.[iv] The impacts of these catastrophes include construction delays and insurability challenges, creating barriers for builders. This is especially true in provinces where exposures to hurricanes, wildfire, convective storms, and earthquakes are present,[v] such as BC, Alberta, Ontario, and Nova Scotia where the construction industry already boasts some of the highest costs in the country.

i Statistics Canada, Raw materials price index, monthly and Industrial product price index, by major product group, monthly, January 17, 2023
ii Construct Connect, Current Restraints on Res and Non-res Construction Costs to Continue into 2024, December 29, 2023
iii Bank of Canada, Monetary Policy Report Press Conference Opening Statement, January 24, 2024
iv Government of Canada, Canada's top 10 weather stories of 2023, January 16, 2023
v Canadian Underwriter, Where 2023 Cat losses stand after summer storms, September 20, 2023

What to Expect

In 2024, the Canadian construction industry is projected to contract by 3.1%[i] due to a weak economic outlook, declining building permits, and sustained frailty in the residential sector. However, it is critical to reiterate that the relationship between a shrinking construction industry and construction costs is not straightforward and depends on the aforementioned factors.

Nonetheless, the construction industry is expected to regain growth momentum starting from 2025, propelled by government investments aimed at enhancing affordable housing construction and the expansion of the energy and utilities sector. These publicly funded projects coupled with the existing pipeline of construction projects prevent decreases in anticipated construction costs despite a slowdown of private sector building starts.

We expect that the 2024 national range of reconstruction cost increases will be between 1–10%, which is moderate compared to construction cost increases in years past. We will continue to monitor construction increases as the sector regains growth momentum, ensuring that our appraisals consistently reflect the most accurate and reliable costing.

i Global Data, Canada Construction Market Size, Trend Analysis by Sector, Competitive Landscape and Forecast to 2027 (globaldata.com), December 21, 2023

About Normac

When Normac was founded in 1998, our goal was to provide the highest quality insurance appraisals in the business. Over 25 years later, we have remained dedicated to our initial goal and have earned a reputation as the go-to company for replacement cost reports in Canada. In that time, we have completed over 100,000 reports and appraised more than $1 trillion in replacement costs.

Insurance brokers, property managers, and owners trust us to provide exceptional customer service and the most reliable insurance appraisals in the industry. Our established history is based on the experience of accredited professionals, responsiveness to client needs, and ongoing education and growth. Our team of experts rely on local and regional cost guides and our own proprietary costing database to determine accurate replacement cost values and produce detailed reports.

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