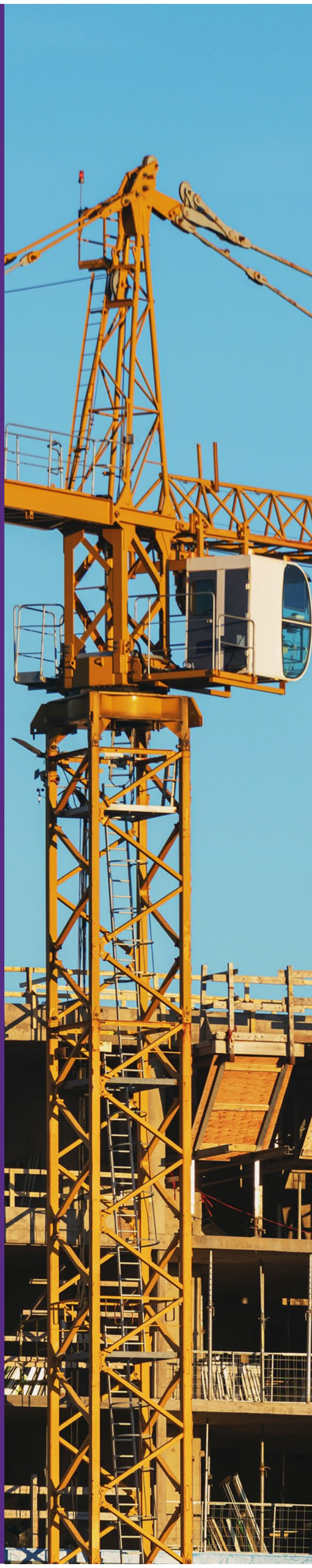
Canadian Construction Association
Best Practices Services

FALL 2025

Construction Quarterly Economic Insights

Key insights from fall 2025

- **Economy contracts, but consumer spending holds steady:** Canada's economy contracted in the second quarter of 2025, with real GDP falling by an annualized rate of 1.6 per cent. The decline was largely driven by a sharp 9.7 per cent drop in net exports, bringing total exports below $700 billion. The temporary boost in Q1 due to front-loaded activity wasn't large enough to make up for this loss. As a result, the merchandise trade deficit widened by 26.9 per cent over the first half of the year compared to 2024. Fortunately, that has been partially offset by increases in final domestic demand, with consumption up by 1.1 per cent over the first quarter.
- **Rate cuts resume:** The Bank of Canada lowered its overnight rate to 2.5 per cent in its latest announcement. The removal of most retaliatory tariffs alleviated future inflationary risks, giving the bank more leeway for further cuts. Monetary policy is now shifting its focus to support job growth. A final rate of 2.25 per cent will likely be the final target before year-end.
- **Construction outpaces the broader economy:** Real GDP in construction grew by 0.24 per cent in Q2 2025, outpacing the all-industry average of -0.17 per cent. Growth was led by residential building construction, while engineering and other construction activities continued to decline for a second quarter. Residential activity is expected to slow in the coming months, as the number of permits declined. Overall, construction output is 1.56 per cent higher compared to Q2 2024.
- **Construction costs continue to rise:** The Building Construction Price Index (BCPI) is up by four per cent year-over-year (YOY) in the second quarter, led by metal fabrications (+5.5 per cent), structural steel (+5.9 per cent), and concrete divisions (+3.1 per cent). Increases were most significant in London (+6.6 per cent) and Quebec City (+6.4 per cent). The Industrial Produce Price Index (IPPI) rose 2.6 per cent YOY, picking up speed since our last report. The price of primary non-ferrous metal products surged by 17.3 per cent, mainly due to rising inflationary costs of aluminum and copper. Meanwhile, energy product prices fell by 6.7 per cent. Lumber and other wood products are up by 4.6 per cent.
- **Trade policy still weighing on construction:** Canada's trade regime has shifted from U.S. retaliation to Tariff Rate Quotas (TRQs) and targeted surtaxes. Supply chains are being shaped by tighter sourcing rules on federally funded projects (coming in November) and the surtax on U.S. steel and aluminum, plus tariffs on Chinese metals. Since construction relies heavily on imported materials, these trade measures can shrink the number of viable projects under fixed budgets. This quarter's report recaps the recent changes, what remains, and what lies ahead, including the role of trade deals like the Canada-United States-Mexico Agreement (CUSMA).



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

Forces shaping construction and the Canadian economy

The Canadian economy began to contract in the second quarter of 2025, with real GDP declining by 1.6 per cent compared to the first quarter. Most of the declines were the result of fluctuations in exports.

In the first quarter, U.S. firms reportedly stockpiled Canadian goods, which had a “pull-forward” effect in exports. However, that temporary boost wasn’t enough to offset the decreases in the second quarter. The merchandise trade deficit widened by 27 per cent over the first half of the year compared to 2024, with the largest declines being in exports of industrial machinery, equipment, and parts.

Consumption remained resilient, contributing 3.5 percentage points (pp) to GDP growth in Q2, and overall GDP in the first half of 2025 is still net positive compared to 2024. However, warning signs are emerging. Even though domestic demand didn’t show signs of slowing in Q2, the unemployment rate remains elevated and is expected to take a toll on domestic demand in the coming months.

Gross fixed capital formation (investment activity) has slowed, sliding by 1.26 per cent in Q1 from Q4 2024, then another 0.1 per cent in Q2 from Q1. This slowdown signals lingering uncertainty among both businesses and households. One bright spot was investment in residential construction, which grew by 1.5 per cent in the second quarter, driven largely by developments in British Columbia. There was a surge in apartment permits issued in the first quarter, and many of those projects started in the second.

Neither the unemployment rate nor inflation show any signs of improving. In August, unemployment was 7.1 per cent, YOY inflation was 1.9 per cent, and core-inflation around 3.1 per cent. To make matters worse, the average hourly wage in Canada has been declining since the start of the year. YOY growth was four per cent last December and is only 3.2 per cent in August. These signals left the policy direction unclear in the last two Bank of Canada meetings.

What stopped the bank from cutting rates further was the risk of persistent inflation due to retaliatory tariffs. Now that more than half of the retaliatory tariffs have been lifted – including duties on $44 billion worth of goods, regardless of CUSMA eligibility – the inflationary pressure has relaxed. This enabled the Bank to resume monetary easing, with one more cut expected by the end of October, bringing the rate to 2.25 per cent.

Still, risks remain. Tariffs on steel, aluminum, and auto products not only remained in place but have expanded in scope. It has become unrealistic to not expect any pass throughs in those producer prices.

Since the last report, the federal government has taken a series of steps involving construction. Build Canada Homes (BCH) has been relaunched as both a developer and a financier. It is using federal land, taking Canada Lands Company sites into its portfolio, and piloting factory-built homes on six federal sites. It also became the new home for the Canada Rental Protection Fund, which finances nonprofit acquisitions of existing rentals to keep them affordable. The Major Projects Office (MPO) has also been established to streamline federal reviews for seven nationally significant projects. Ottawa has signaled plans for an SME procurement program to simplify bidding for smaller firms.

Quarterly focus: Is the trade situation over?

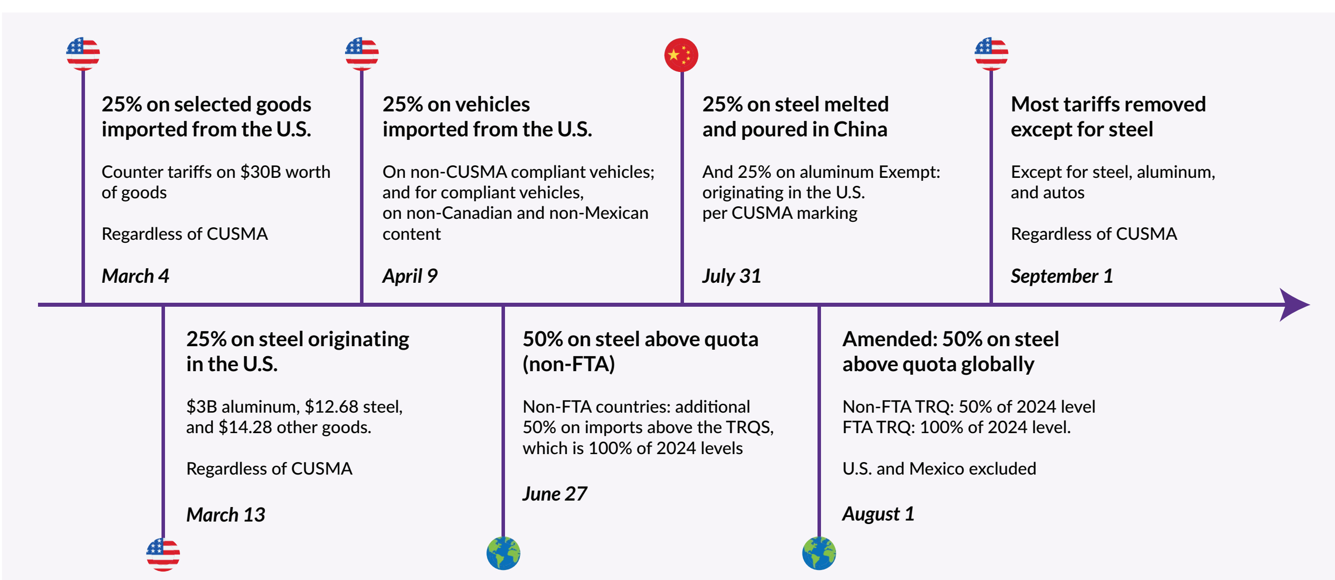
Trade policies have increasingly shaped the construction landscape since the beginning of the year. With evolving tariff policies and shifting trade relationships, questions are emerging about the current and future state of construction in Canada. This quarterly focus recaps key developments, outlines new measures, and highlights implications for the construction sector, including supply chain challenges, input costs, and long-term industry resilience.

Canadian tariff timeline

The construction industry relies on imported intermediate inputs and exports very little, making it particularly sensitive to import disruptions. Since early this year, Canada's trade policy has shifted significantly in response to foreign measures, particularly from the United States.

- **March 4:** Canada announced a 25 per cent tariff on $30 billions of selected goods from the U.S., regardless of CUSMA provisions.
- **March 13:** A second round of tariffs is applied, including $3 billion on aluminum, $12.6 billion on steel, and $14.2 billion on other consumer goods. There tariffs were again applied regardless of CUSMA rules.
- **April 9:** A 25 per cent tariff on vehicles imported from the U.S. is introduced.
- **June 27:** The bilateral trade war morphed into a broader protectionist attitude in policy. Canada set a 50 per cent tariff on steel imports above quota from non-FTA (Free Trade Agreement) countries. Quotas were capped at 100 per cent of 2024 import levels. Anything above that quota from non-FTA partners faced the 50 per cent duty.
- **July 31:** The rules tightened further. Canada imposed a 25 per cent surtax on steel and aluminum melted and poured in China.
- **August 1:** The steel quota system was amended to a global TRQ regime, with different TRQ thresholds applied to different partners. It has now been extended to FTA partners with quota levels set to 100 per cent of 2024 imports, while non-FTA countries are now charged for anything above 50 per cent of 2024 import levels. The U.S. and Mexico are carved out under CUSMA rules of origin, but the 25 per cent base measures on U.S. steel remained in place.
- **September 1:** Most retaliatory tariffs on U.S. imports were lifted, with exceptions for steel, aluminum, and autos. These sectors remain under the tighter regime despite CUSMA.

Tariff timeline



Current Canadian policies still in effect

The majority of broad counter-tariffs on U.S. imports have been rolled back; however, key measures targeting steel remain in effect – and in some cases, broadened in scope.

- **U.S.:** Canada continues to apply a 25 per cent tariff on three buckets of U.S. goods: steel, aluminum, and autos. These measures are the ones that survived the broader rollback.
- **China:** A dual regime is applied to Chinese metals. First, a 25 per cent tariff on steel and aluminum. Then, a 50 per cent tariff kicks in on steel shipments that exceed the TRQ (50 per cent of 2024 tonnage).
- **Rest of the world:** TRQ is the main lever. Steel that arrives above the TRQ faces a 50 per cent tariff for all countries. The threshold is 50 per cent of 2024 imports for non-FTA countries, and 100 per cent for FTA countries. CUSMA exemptions apply for the U.S. and Mexico.
- **Upcoming:** Tighter procurement rules for all federally funded projects are scheduled to take effect in November. Federal projects will require Canadian-sourced steel and softwood lumber, mirroring the Build America, Buy America Act (BABA) in the U.S.

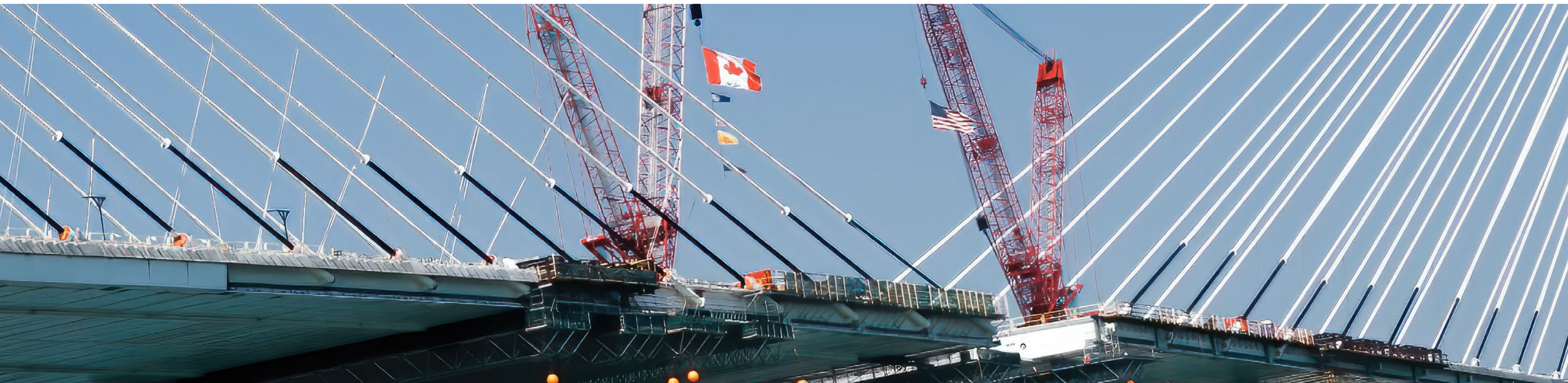
Tariffs and trade agreements

In practice, CUSMA has provided little meaningful benefits for importers. Under CUSMA, an importer can claim preferences using a certification of origin, though there is no standard form. Product-specific rules (PSR) are set largely at the Harmonized System 8-digit (HS8) level and enforced by each country's customs. Most of the retaliatory tariffs earlier this year were charged regardless of CUSMA compliance.

With most retaliatory tariffs now removed, the key question is: what determines imports taxes now? Prior to the U.S. imposing tariffs on Canada, most goods from the U.S. entered duty-free from the U.S. – though this has not always been the case. In 2015, Canada eliminated most tariffs on industrial inputs. As of 2024, Canada's Most Favoured Nation (MFN) tariff schedule applies to 99.7 per cent of non-agricultural goods, with a average rate of two per cent. Because these rates are so low, many importers haven't needed to claim CUSMA compliance to avoid duties.

Currently, steel tariffs remain the primary concern for the construction sector. However, it's important to note that MFN tariffs, CUSMA preferences, TRQs, and surtaxes operate as separate regimes that can overlap. This means that when new measures are introduced, they were not automatically offset or exempted by existing trade rules.

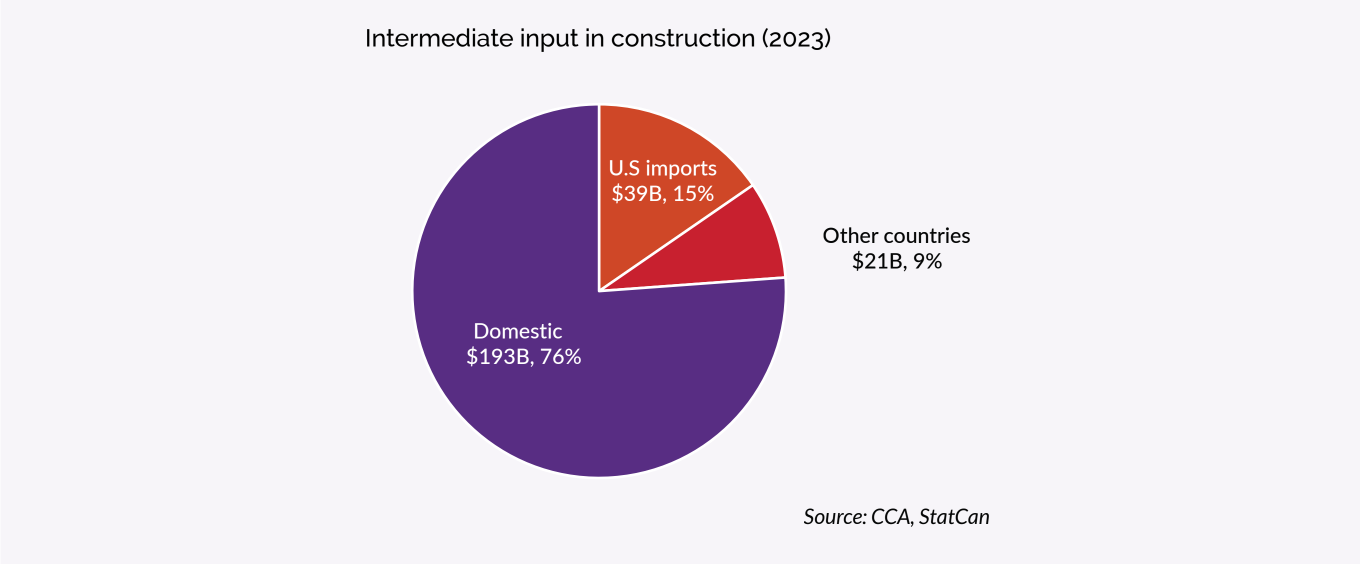
While intended to improve trade conditions, CUSMA has had a limited real-world impact on reducing costs or improving access to goods, making it largely irrelevant for many construction businesses relying on cross-border imports.



Domestic capacity constraint

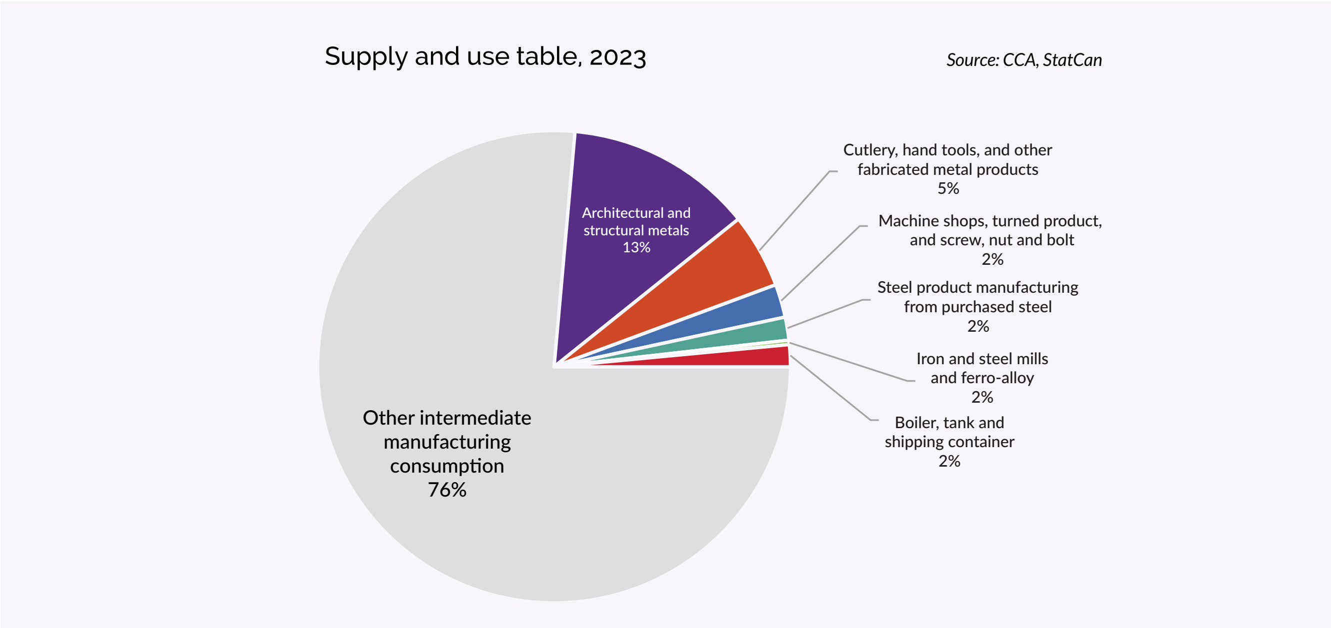
Building domestic capacity benefits Canada in the long term, but this doesn't happen overnight. Many of the materials used in construction come from other countries, making it impossible to build in Canada without using any imported goods. According to the 2023 symmetric input-output table (published in 2025 by Statistics Canada), approximately 24 per cent of intermediate goods and services used in construction are imported, with 15 per cent of that coming from the U.S. In dollar terms, construction spent a total of $253 billion in intermediate inputs in 2023, with $60 billion procured from foreign sources, among which $39 billion came from the U.S. Canada has virtually no domestic capacity to produce several critical inputs, such as wide-flange beams, float glass, and ceramic tile.

Construction imports



From a material perspective, at least 24 per cent of manufactured products used in construction are structural steel or other types of steel fabrications. At roughly $22 billion a year, architectural and structural metal is the largest material component in construction, accounting for 13 per cent of all manufactured inputs. This is followed by cutlery, hand tools, and other fabricated metal products at five per cent. Machine shop products, like bolts, nuts and screws, accounts for another two per cent. A further two per cent is paid to steel product manufacturing from purchased steel. Shipping containers, boilers, and tanks are also used across the industry, accounting for two per cent. The products mentioned above only include those that are made of steel and do not account for other categories that may include steel components.

Construction usage



Building costs have skyrocketed over the last four years. The BCPI has risen by more than 50 per cent since 2017, more than twice the rate of Consumer Price Index (CPI) inflation. Structural steel framing and metal fabrications have more than doubled since 2017.

The industry is facing a dual challenge: persistent cost pressures and a potential slowdown in economic growth. Builders are already being squeezed in the current market, but the need to build more homes, restore infrastructure, and develop major projects remain urgent. As businesses try to navigate this transitional period, added trade restrictions risk compounding the pressure, potentially creating lasting damage to the industry and its workforce.

Implications of protectionist measures

While protectionist measures like anti-dumping policies can safeguard domestic industries and prevent market monopolization by foreign suppliers, they can produce unintended consequences – especially when applied to intermediate inputs like steel. Economists typically evaluate policy through observable price effects and pass-throughs. The goal is to protect strategic sectors without imposing excessive costs to downstream users. In Canada, more people are employed in steel-using industries than steel-pouring industries. Research consistently shows that tariffs on intermediate inputs are largely passed on to end users.

Some of the world's biggest steel producers have supported growth in other industries. South Korea offers a useful case study. Despite lacking natural resources or steel expertise, the country invested heavily in steel production. This laid the groundwork for globally competitive downstream sectors like auto manufacturing and shipbuilding. The lesson: upstream policy decisions can shape, for better or worse, the cost base and options available to downstream industries.

Restricting steel imports and usage limits the number of projects that contractors can affordably build. Therefore, it is essential to consult downstream stakeholders – such as those in the construction industry – before restricting access to parts of the market. This point has often been overlooked in recent discussions about protectionism. For construction in particular, small changes in input costs can mean the difference between projects moving ahead or being deferred. With housing and infrastructure as national priorities, steel policies should be evaluated through a downstream lens – not treated as a sector-by-sector contest.

A lack of flexibility in procurement can negatively impact the construction sector. While design establishes the project's requirements, procurement determines which materials are available to meet them. When procurement is restricted, the choices available to architects and contractors are limited, ultimately constraining project outcomes. Given the complexity of construction, plans often need to adapt. If a supplier can't deliver a key input, contractors typically rely on alternative sources (sometimes from overseas) to stay on schedule. Restricting procurement to Canadian sources increases vulnerability to location-specific risks. Additionally, changes in project scope often require new field instructions, which can cause delays, leave crews idle, and result in lost wages.

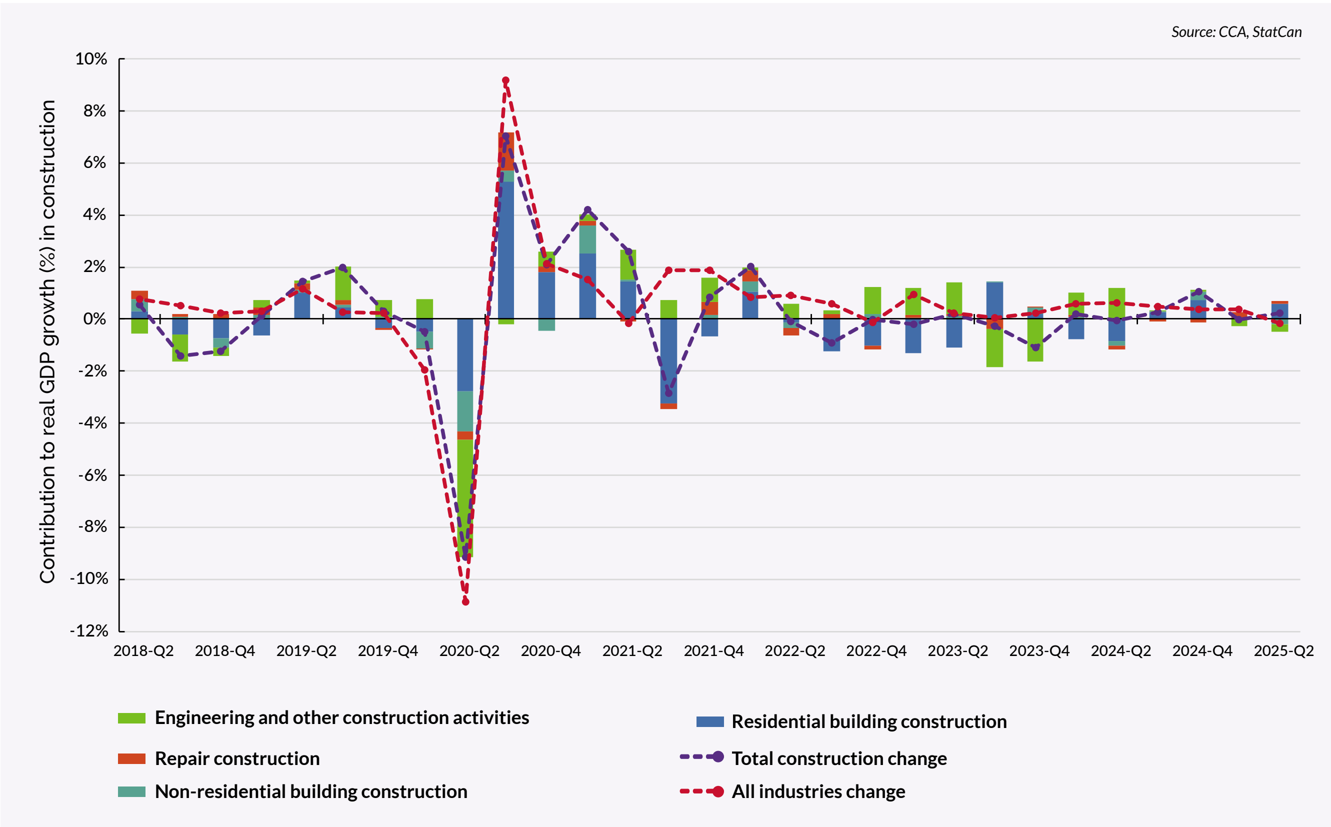
ICIC sector: Performance and sectoral trends

Sectoral GDP

GDP by industry measures the value added of an industry, which includes wages paid, gross operating surplus, tax contributions, etc., after subtracting intermediate costs. For construction, this includes all subsectors: residential building, non-residential building, repairs, and engineering and other construction activities. It is calculated via the production approach, rather than expenditure, and should not be compared directly with the headline national GDP number. Instead, it is compared to the GDP by all industries for consistency.

Real GDP of the construction sector has remained relatively stable over the past three years. In the second quarter of 2025, it grew by 0.24 per cent in chained dollars, reaching $167 billion from the first quarter. Statistics Canada has made a minor revision to the value in Q1, changing the previous growth rate from 0.26 per cent to -0.01 per cent. Although this has effectively delayed the speed of the industry's growth by a quarter, the scale of the revision itself is small and production-based GDP level growth rate has long been close to zero on a quarterly basis. Nevertheless, growth in construction is 0.41 per centage points higher than the all-industry growth, which declined by 0.17 per cent. YOY, construction grew by 1.56 per cent while all-industries grew by 1.08 per cent.

GDP construction



Looking at the subsectors, the biggest contributor is residential building construction, account for 0.61 pp of the 0.24 per cent increased. Residential building construction is up 5.06 per cent over the last quarter, and up by 1.83 per cent YOY. Engineering and other construction activities saw a quarterly decline by 0.83 per cent (-1.35 per cent YOY), contributing -0.28 pp to the total change in construction. The subsector has experienced consecutive declines since the start of the year, contracting by -1.6 per cent. As the chart shows, historically, these two subsectors explain most of the variation in sectoral GDP. While non-residential construction fell by 1.45 per cent, it is still up by 1.41 per cent when looking at YOY change. Repair construction stayed relatively close to last quarter's levels, increasing by 0.53 per cent and 0.45 per cent YOY.

Investment in building construction

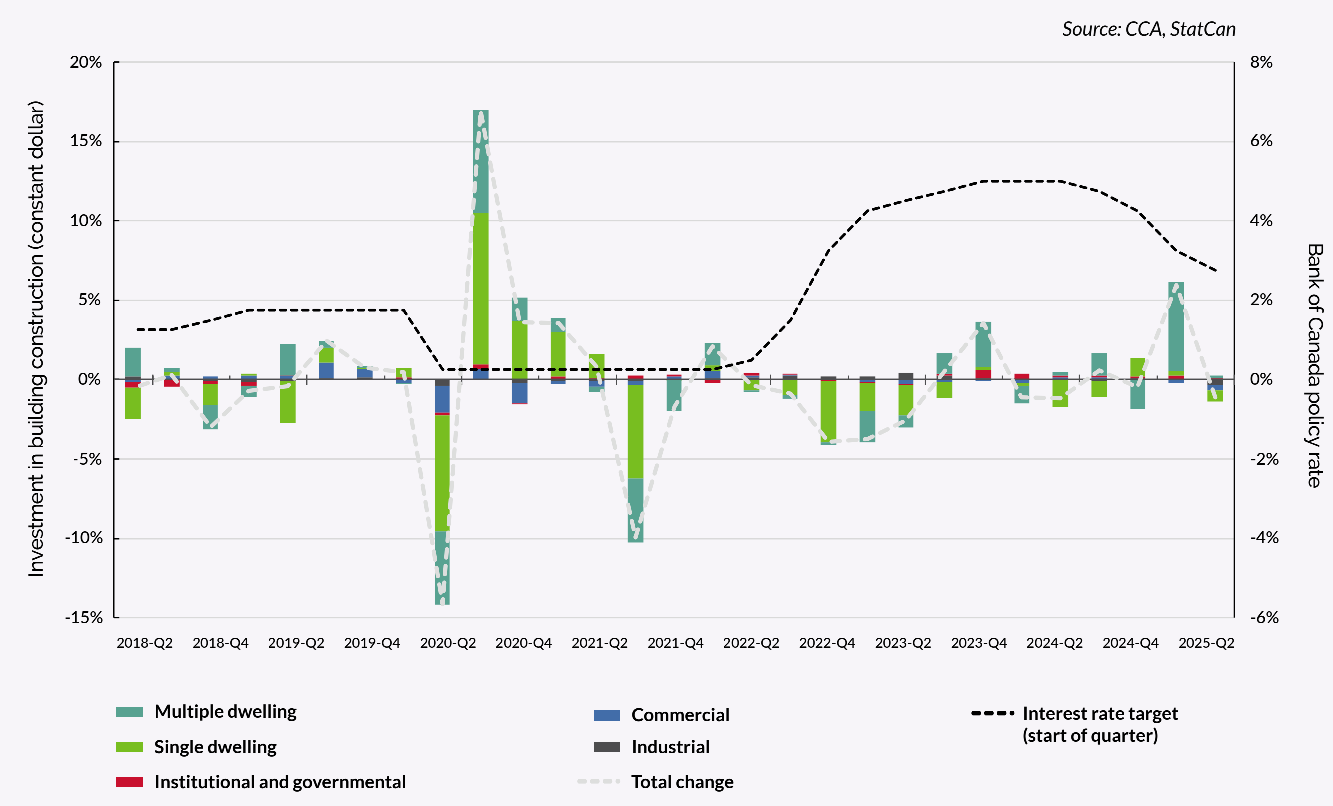
Investment in building construction measures the amount spent by individuals and organizations on construction projects at the time the work is carried out. The estimation is based on permits issued and housing starts, but does not include investment in land. Typically, this indicator has a two-month lag, from when building permits are issued.

Investment in Q2 contracted by 1.1 per cent (-$711 million) compared to Q1, however investment remains 4.9 per cent (+$2,953 million) higher YOY. Most of the gains made in Q1 were sustained. As the chart shows, investment in construction, particularly residential construction, is very sensitive to changes in the Bank of Canada's target rate. When rates were on the rise from Q3 2022 to Q2 2023, investment in single and multiple dwelling buildings had an almost immediate reaction. When rates started to lower in Q4 2024, investment in multiple dwelling construction began to rise.

The largest driver of the Q2 decline was single dwelling building construction, accounting for 0.7 pp of the 1.1 per cent decrease. This is a 2.3 per cent decrease over its own value in the first quarter, and a 1.1 per cent decrease from a year ago. Multiple residential construction is up by 0.5 per cent (+15.3 per cent YOY). Industrial construction is down by 5.2 per cent (-4.8 per cent YOY), commercial construction is down by 2.2 per cent over Q1 (-2.7 per cent YOY), and institutional and governmental construction is up by 0.8 per cent (+5.6 per cent YOY).

Provincially, nine out of thirteen provinces and territories recorded increases in investment compared to the first quarter. However, a few regions moved in the opposite direction. Newfoundland and Labrador continued to decline, down by 13.9 per cent (-39 per cent in Q1). Alberta saw a dip of -3.9 per cent (+1.9 per cent in Q1). In contrast, investment in British Columbia edged up by 6.7 per cent (+2.7 per cent in Q1) and Manitoba is up by 11 per cent (-0.2 per cent in Q1).

Investments



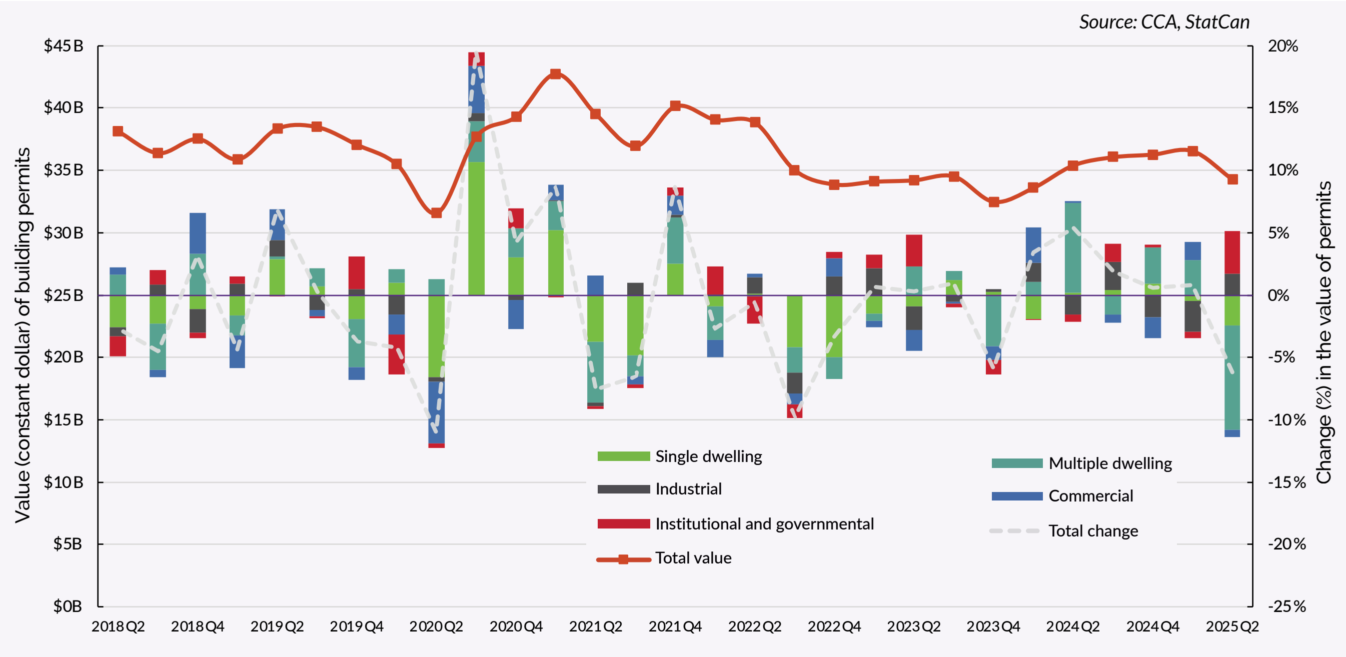
Building permits

The value of building permits is a leading indicator of construction activity. It is collected monthly from approximately 2,400 municipalities that issue permits before construction can begin, based on the cost declared on the permit application. This indicator provides insight into the volume of work the industry can expect in the near future, likely within the next six months. It primarily reflects new building activity, as many renovations and heavy civil projects do not require a building permit. All figures are in constant dollars and are seasonally adjusted.

In Q2 2025, the value of permits declined sharply by 6.2 per cent. It is also down YOY, by 3.1 per cent. The largest contributor to this decline was multiple dwelling builds, which accounted for -8.3 pp of the total decrease. Compared to its own value from Q2, the category slid by 19 per cent (-10.6 per cent YOY), a rather dramatic downturn. Similarly for single dwelling construction, values declined by 11 per cent in Q2 (-7.6 per cent YOY). Commercial builds are down as well, by 3.3 per cent (-7.5 per cent YOY). Most of the positive contributions come from institutional and governmental builds, accounting for 3.4 pp in total change. Quarter-over-quarter (QOQ), the category is up by 31.6 per cent, and +44.9 per cent YOY. Lastly, industrial builds are up by 29.9 per cent QOQ, but -3.1 per cent YOY.

The value of newly issued permits remained high in the previous year. The decline this quarter reflects a turning point in market conditions in some regions. Of the total -8.3 pp attributed to multiple-dwelling buildings, Ontario accounted for -4.2 pp and British Columbia for -3.6 pp. The soft presale market in these regions is constraining supply of new high-rises. Without enough presales, developers are finding it difficult to secure sufficient financing to start projects. The falling interest rate may help ease the pressure, but it could still take time for prices and costs to adjust, and market activities to be restored. Regional disparities are also becoming more evident, as the market for multiple dwelling construction continues to expand in Alberta.

Permits



Labour market in construction

Construction employs approximately 1.64 million people, accounting for nearly eight per cent of Canada's total workforce, making it the sixth-largest sector by labour force size. Ongoing labour challenges in the sector have been the persistent shortages of skilled trades workers and an aging workforce. This section examines current employment levels, job vacancy levels, and labour market tightness. Calculations are based on seasonally adjusted value if not otherwise stated.

Employment

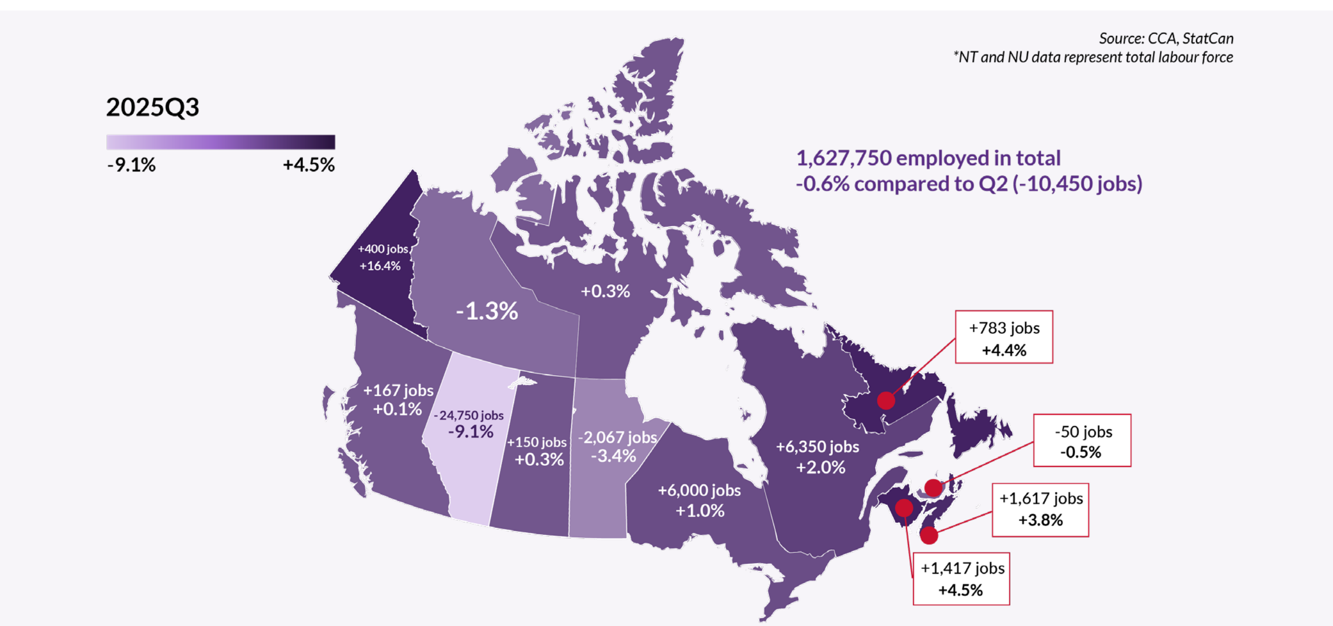
Average construction employment in Q3 (based on July and August data) declined by 0.6 per cent from Q2 and 1.1 per cent from Q1. However, employment remains 1.6 per cent higher than in Q3 2024. The largest contributor to the decline this quarter was Alberta, which accounted for -1.5 pp (0.6 per cent) of the total. While the number of jobs is down by 9.1 per cent QOQ, this does not yet indicate a declining market. Decreases were first seen in July, then did not recover significantly in August, but YOY, the number of jobs is still up by 1.3 per cent. The province remains a leader in new construction and in labour demand. Overall, nine out of thirteen provinces and territories saw gains in construction employment.

In Newfoundland and Labrador, employment increased by 4.4 per cent in July and August, recovering after dips in the second quarter. Prince Edward Island has seen little change during the past year. Nova Scotia posted a 3.8 per cent gain, and jobs were up by 4.5 per cent in New Brunswick. The Atlantic provinces led job growth in the first two months of Q3. While Quebec recovered from their dip in Q2 with a two per cent increase, it is still down -2.5 per cent YOY. While these are strong gains, Quebec remains just shy of its 2024 levels.

Ontario continues to maintain elevated employment levels relative to 2024, with a one per cent increase over the second quarter. Saskatchewan maintained their jobs gained during the second quarter. Manitoba experienced a slight pullback but is still up 4.8 per cent YOY. Employment in British Columbia has stayed strong, with steady growth since last year. In Yukon, 400 more jobs were added compared to the last quarter, representing a 16.4 per cent increase, bringing job numbers up from 2,500 in the beginning of the year to 3,000 in August.

Employment figures in this report are based on the first two months of the last quarter to provide the most up-to-date insight available. Further growth is expected in regions with major projects underway or in development. However, a cautious outlook remains for provinces such as British Columbia and Ontario where recent declines in building permits may signal upcoming slowdowns in construction activity.

Employment change

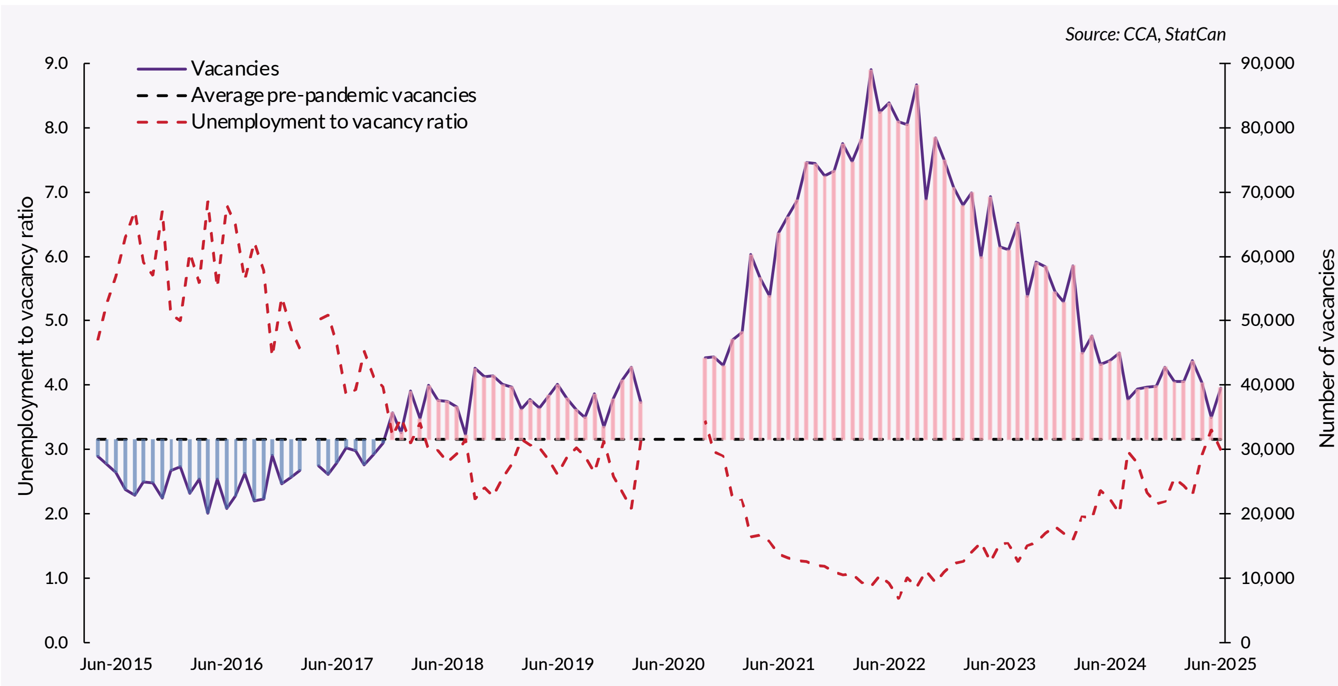


Vacancies

Understanding current labour market conditions requires examining both the supply and demand sides of the labour market. Job vacancies indicate employers' hiring needs and, when considered together with unemployment, help assess how difficult it is to fill positions or find work.

As economic uncertainty remains, the construction job vacancy rate declined by 0.3 pp to 3.1 per cent in Q2 compared to Q1. This is also 0.5 pp less than Q2 2024. The quarterly average was dragged down by a 2.9 per cent dip in May, which has recovered to 3.2 per cent in June. Nationally, the vacancy rate has stabilized in the past 12 months, sitting around 3.3 per cent. Translating the quarterly changes to real numbers, 38,285 vacancies were posted in Q2, down by 3,338 vacancies from Q1 (-8 per cent) and -6,620 YOY (-15 per cent).

Vacancies



While this downward trend may suggest that additional labour is no longer needed, this interpretation should be approached with caution.

First, labour demand varies significantly by region and data from the Job Vacancy and Wage Survey (JVWS) does not provide provincial-level detail for specific industries. For more insight into near-term regional activity, the building permits section provides useful context.

Second, postings can decline even when underlying long-term labour demand remains strong. The housing crisis and infrastructure deficit are widely recognized. Short-term fluctuations in job postings are driven more by project feasibility. Delivering innovative, environmentally efficient buildings at reasonable cost requires significant knowledge and experience. At the same time, the construction industry lacks enough tradespeople to take on these responsibilities. This is due in large part to instability in the project pipeline, which makes it difficult to retain workers with specific skills for the right jobs.

Unemployment and labour market tightness

Canada's overall unemployment rate reached 7.1 per cent in August, marking a new high. In contrast, the unemployment rate in the construction industry stood at 6.4 per cent, below the national average. Workers in the sector remain optimistic about their job prospects, with more than 61 per cent reporting "very confident" (distinct from "confident") in the July Labour Force Survey. On average, there were 117,000 job seekers in construction during Q2, an increase of 16,000 from Q1. This represents a 16 per cent quarterly increase, or 20 per cent increase YOY.

Labour market tightness is typically measured by the ratio of vacant positions to unemployed individuals. Here, the inverse is used: the number of unemployed individuals to vacant positions. This framing provides a clearer view of the industry perspective. A lower ratio indicates a tighter market, meaning companies face greater difficulty filling open positions.

In Q2 2025, there were about three applicants for every vacant position, up from 2.4 in Q1 and 2.1 in Q2 2024. This increase was anticipated in the previous report. Since the pandemic, it has been difficult for firms to fill positions and the number of applicants per position has been low. However, the labour shortage has eased somewhat over the past year.

That said, the combination of fewer vacancies and higher unemployment is not an ideal outcome. While a number of major projects are currently in the planning stages, the broader policy support needed to stabilize long-term construction activity has yet to materialize. As a result, fewer vacancies and higher unemployment is likely in the upcoming months.

Industrial capacity utilization rate and measures of productivity

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

Productivity

Capacity Utilization Rate

The industrial Capacity Utilization Rate (CUR) measures an industry's actual output as a percentage of its full-capacity potential (100 per cent utilization).

In Q2 2025, the CUR grew by 1.7 pp to 85 per cent YOY. This marks the fourth consecutive quarterly increase. Construction is up by 0.3 pp quarterly while all industrial average was down by -0.6 pp to 79 per cent. Wildfires and maintenance work put oil and gas extraction on hold while dry conditions in some regions lowered hydroelectric production. The decrease in manufacturing CUR was partially due to fossil fuels as well as the reduction in production due to tariffs in sectors like food manufacturing.

Productivity

Productivity, defined as value added per hour worked, has remained largely flat over the past three quarters, following a brief rebound in early 2024. YOY, productivity in the construction sector saw an increase of 0.8 per cent, but the gain isn't sufficient to close the gap to the rest of the economy that widened since the pandemic. The total economy average has essentially stayed the same compared to Q2 last year and is down slightly by 0.6 per cent from the first quarter.

The takeaway remains unchanged: Canada's construction sector continues to face productivity challenges. In some regions, the construction market is in transition. To support long-term productivity growth, it is essential to foster a stable project pipeline that allows expertise and industry knowledge to be retained in Canada. A productive labour force requires project experience and stable workload to build skills over time. The same holds true for professionals involved in planning, permitting, and project management.

Unit Labour Cost

Unit Labour Cost (ULC) measures the ratio of labour compensation to real output. By definition, lower productivity drives down ULC, which has been the trend over the last four years. Higher ULC in recent years is not indicative of rising wages, but rather lower value added as it typically indicates higher costs to projects, reducing investment viability.

In construction, ULC rose by 4.2 per cent YOY in Q2 2025, a further increase from Q1 by 0.9 per cent. Growth in ULC across the total economy has been relatively slow, up 2.4 per cent YOY and 0.5 per cent QOQ.

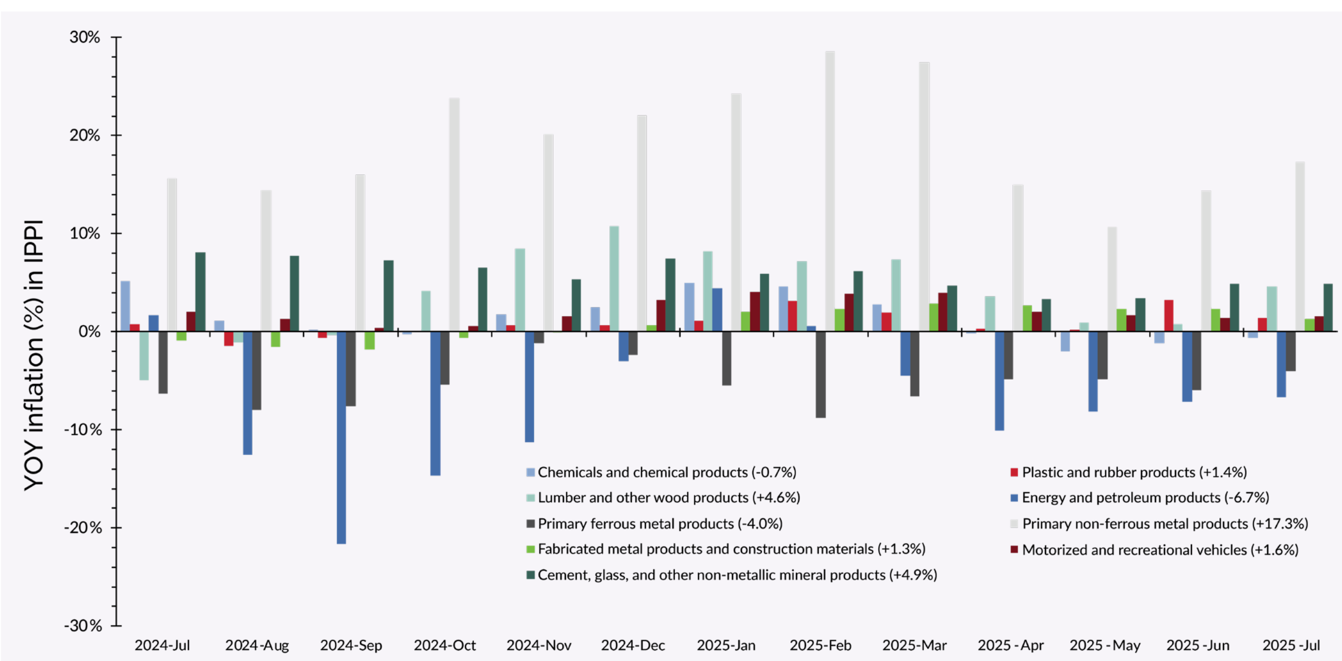
Industrial Product Price Index (IPPI)

Construction projects include many cost components, but material inputs represent the largest – approximately 44 per cent of total costs. To track material price trends, YOY inflation in Statistics Canada's Industrial Produce Price Index (IPPI) is used. Unlike the Raw Materials Price Index (RMPI), which measures what manufacturers pay for raw inputs, the IPPI measures the prices Canadian manufacturers receive for goods sold to industries such as construction.

It includes export sales and does not directly capture tariffs or freight costs. However, it serves as a proxy for upstream material cost pressures and provides a broader signal of goods-producing activity. The index is based on the North American Product Classification System (NAPCS), distinct from the Harmonized System (HS) used to classify goods for customs and tariffs.

As of July, the IPPI increased by 2.6 per cent YOY. May's YOY inflation was reported at 1.17 per cent, but has since been revised to 1.33 per cent. This upward trend suggests a faster passthrough of costs, following a slow down after tariffs were announced.

IPPI



Energy products

YOY, energy product prices are still negative in July (-6.7 per cent) and June (-7.1 per cent), however, this has started to trend upwards. Oil prices have bottomed out, while gas prices remain sticky in many regions.

Primary ferrous metal products

Prices for ferrous metals remain negative YOY, down by four per cent. To understand what this means for construction, it's important to define what is included. In the IPPI, primary ferrous metal products include both unwrought steel and basic or semi-finished steel products after being melted and poured into basic shapes. In Canada, these are mostly flat products used in manufacturing. In a construction context, this covers materials like rebar and simple standard sections. For contrast, items like fabricated bridge girders and open-web steel joists are not "primary" because they are fabricated structural products, not mill products.

Fabricated metal products and construction materials

Unlike raw steel, prices for fabricated metal products were up 1.3 per cent YOY in July. This is partly due to differences in their intermediate inputs. Steel mills use ore or scrap to produce billets and sheets, whereas fabricators use those mill shapes to make construction and manufacturing components. Canada is among the higher per-capita steel importers globally, but a net exporter to the U.S. Much of the flow is tied to the auto supply chain. This means there is a difference in purpose and stage of production across the border, and many job sites rely on foreign mill products and on Canadian fabricators who source imported steel. A closer look at the IPPI shows that structural metal product prices have increased by 2.1 per cent in July from last December.

Lumber and other wood products

Lumber is widely used in the construction of single-family homes, and more recently, mass-timber construction. The price index of lumber and other wood products rose by 4.6 per cent YOY. This comparison is largely driven by lower than usual levels last July, while recent levels have stayed flat since May (+0.8 per cent in June). Prices have come down from the beginning of the year. Construction demand for single-dwelling residence remains low, but procurement restrictions could lift prices by the end of the year.

Cement, glass, and other non-metallic mineral products

Cement, glass, and other non-metallic mineral products are vital for most construction projects. In July, the YOY inflation rate for this product group was 4.9 per cent, the same rate of change from June. Among sub-product groups, cement is up by 2.2 per cent, finally slowing down from the 7.7 per cent YOY change recorded in April. The price of ready-mixed concrete continues its steep ascent, recording a 6.3 per cent change YOY, same as April. Price changes continue to diverge from March to July. The price of glass and lime and gypsum products have not been as volatile in the past two years. The increases witnessed since 2021 is mostly attributed to two sources: higher margins and industrial carbon pricing.

Building Construction Price Index (BCPI)

The Building Construction Price Index (BCPI) tracks the total cost of constructing a typical building in 15 census metropolitan areas (CMAs). It is based on the full bid price submitted by trade contractors across 23 MasterFormat divisions and provides insight into which divisions, regions, or types of building are experiencing higher inflationary pressures. Over the past eight years since January 2017, the BCPI has increased by more than 50 per cent, doubling the rise in the CPI. Consequently, contingency costs have risen, projects have been delayed, and more projects are becoming financially infeasible.

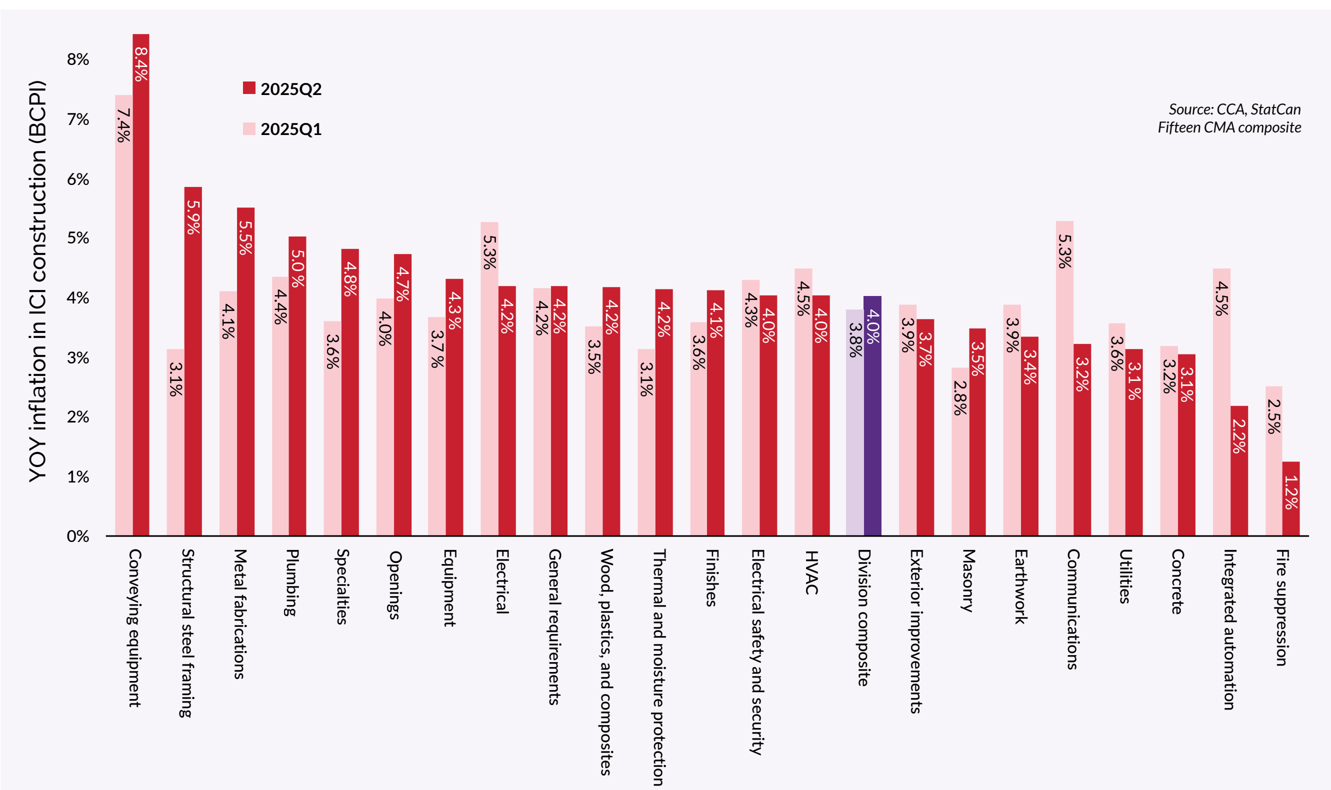
The BCPI for industrial, commercial, and institutional (ICI) construction rose by four per cent YOY in Q2, up from 3.8 per cent in Q1. Since the last report, Statistics Canada has made revisions, resulting in a steeper rate of inflation. This upward trend is raising concerns about the feasibility of future projects.

By division

The biggest contributors to the composite change are metal fabrications and concrete. Metal fabrications increased by 5.5 per cent (4.1 per cent in Q1) while concrete is up by 3.1 per cent (3.2 per cent in Q1). Structural steel also rose by 5.9 per cent (3.1 per cent in Q1). Conveying equipment has low weights in the index, but the division itself is up by 8.4 per cent in Q2, following 7.4 per cent recorded in Q1.

Steel continues to be the primary material driving cost increases across most construction divisions. Impacts from the already implemented TRQ and the upcoming procurement restrictions coming in November have not yet been reflected in the data. Costs have already risen significantly, and there is growing concern that these measures could have an even greater impact than the tariff on U.S. steel implemented earlier this year.

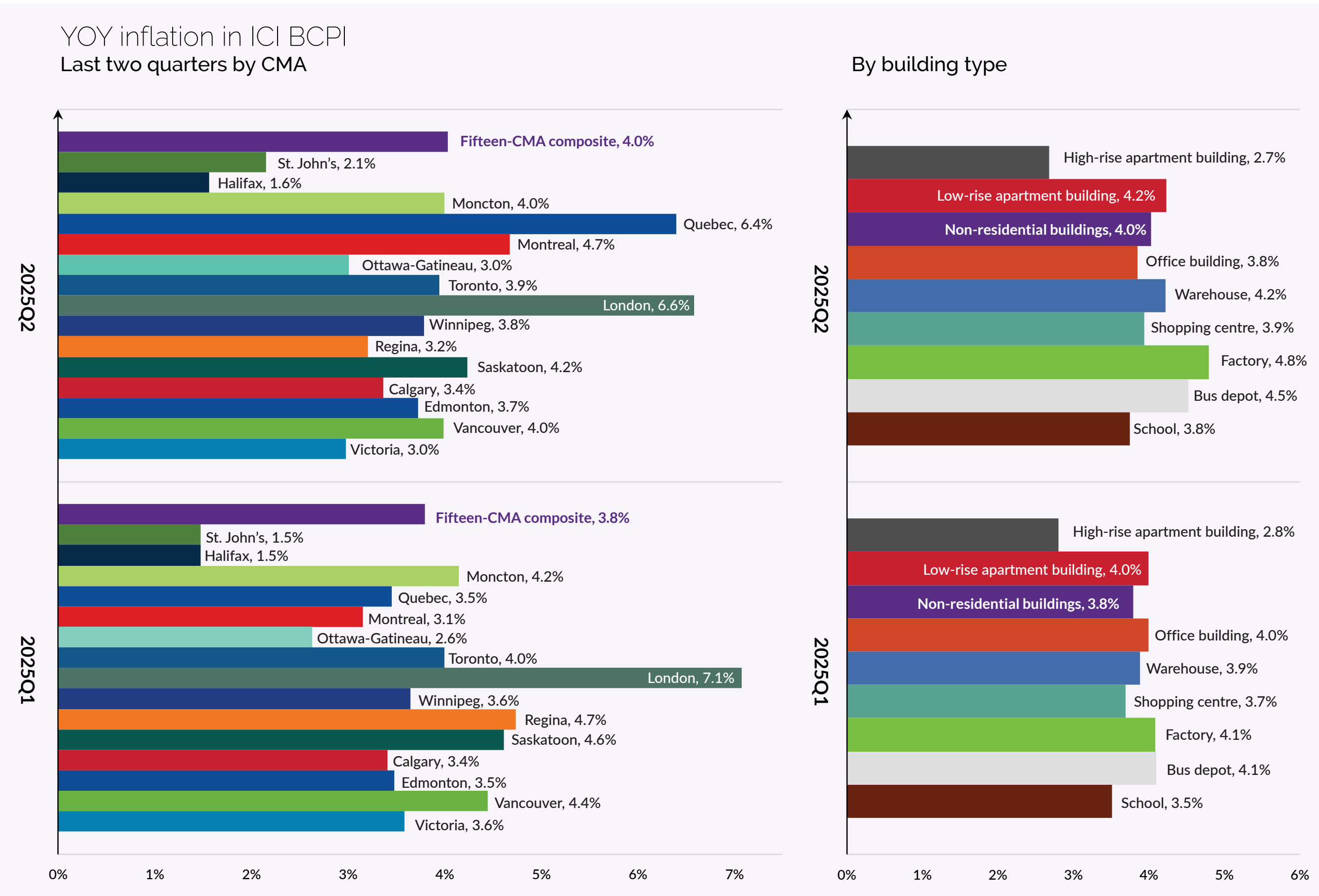
BCPI-Division



By CMA

Regionally, 11 of the 15 CMAs posted growth above three per cent. London led once again, with a 6.6 per cent increase (down slightly from 7.1 per cent in Q1), followed by Quebec City, which rose 6.4 per cent from 3.5 per cent in Q1. In both regions, growth was driven primarily by increases of 10 per cent or more in structural steel. At the other end of the spectrum, the three lowest rising CMAs continue to be Halifax, St. Johns, and Ottawa.

BCPI-CMA



By building type

Costs have increased across all building types, while rankings among them have remained consistent. High-rise apartments continue to experience the slowest cost growth, up by 2.7 per cent in Q2 (+2.8 per cent in Q1), whereas low-rise apartments saw a 4.2 per cent increase. The non-residential composite rose by four per cent in Q2 (+3.8 per cent in Q1). Within this category, factory buildings recorded the highest increase at 4.8 per cent, followed by bus depots at 4.5 per cent. Cost increases for other building types remained close to overall four per cent average.

Business conditions and what's ahead for the industry

Changes in business outlook

In the Bank of Canada's 2025 Q2 Business Outlook Survey, business leaders surveyed continue to be cautious about the path ahead.

The soft sales expectations reported in the previous quarter have deepened. However, many businesses believe conditions will not worsen further – particularly for exports to the U.S. While 44 per cent of respondents previously expected lower sales to the U.S., only 14 per cent now expect sales to drop even further.

In contrast, expectations for domestic sales remain subdued. Approximately 30 per cent of firms continue to anticipate Canadian sales to deteriorate, similar to last quarter. Although consumer spending in Q2 remained resilient, softening labour market conditions are expected to lead to weaker domestic demand in the coming months.

Even though demand is expected to be lower, 24 per cent of businesses still plan to increase their prices – although this is a notable slowdown from 44 per cent in Q1. This shift is likely tied to expectations of 36 per cent higher input costs. Although, this number is down significantly from the 66 per cent reported in Q1. Roughly one-third of respondents indicated they would absorb the cost increases. It is worth noting that the survey was conducted in May, when most retaliatory tariffs were still in place. Expectations have likely improved since then, despite the implementation of additional steel tariffs.

Lastly, in terms of operational plans, most businesses remain in a holding pattern. About 84 per cent reported no plans to expand investment and 95 per cent expect to maintain current employment levels. Fewer firms are planning for cuts than in Q1 and wage growth is expected to slow further.

Expectations and pressing obstacles

Results from the Q3 Canadian Survey on Business Conditions (CSBC) offer a closer look at obstacles faced by businesses in the construction industry. The survey is conducted regularly at the beginning of each quarter.

Compared to the start of Q2, business expectations have largely stabilized, with 6.7 per cent more firms now reporting they do not expect significant obstacles in Q3 (19.5 per cent of total). Among the top 10 obstacles identified, four are cost-related (-3 pp) and three are labour-related (-4 pp). Inflation remains the most cited concern. Compared to Q2, concern over insurance costs declined (-7.1 pp), moving this issue from second to third place. Concern about recruiting skilled employees is also down (-2.7 pp), at second place. Input costs rank fourth (-6.4 pp), and fewer firms are concerned about broad consumer demand (-7.4 pp).

The fastest rising concern in the top 10 is “insufficient demand for goods or services offered,” which is up by 3.1 pp. However, it remains relatively low overall, with 22.3 per cent of businesses reporting it as a concern.

Regional differences are notable. Newfoundland and Labrador is most concerned about cost-related obstacles (82 per cent), while they are less concerned about labour-related obstacles than other regions (36 per cent). A similar pattern is seen in Ontario and Quebec. Businesses in British Columbia are more concerned about labour-related obstacles (68 per cent), while less concerned about cost-related obstacles (57 per cent). Similar patterns are seen in Nova Scotia and Prince Edward Island. Businesses are most optimistic in New Brunswick and Nova Scotia, while more pessimistic in British Columbia and Newfoundland and Labrador.

Business conditions

Rank	Obstacle	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC	YT	NT	NU	CAN
#1	Inflation	17 pp	#N/A	-7 pp	-13 pp	4 pp	9 pp	-26 pp	-3 pp	-1 pp	-26 pp	-44 pp	#N/A	-18 pp	-0.6 pp
#2	Recruiting skilled employees	-20 pp	-29 pp	15 pp	2 pp	12 pp	-7 pp	-20 pp	-12 pp	-19 pp	-4 pp	#N/A	#N/A	-11 pp	-2.7 pp
#3	Cost of insurance	0 pp	9 pp	-17 pp	-4 pp	-11 pp	0 pp	0 pp	12 pp	-12 pp	-18 pp	#N/A	40 pp	10 pp	-7.1 pp
#4	Cost of inputs	-2 pp	-24 pp	-31 pp	-24 pp	-10 pp	0 pp	-13 pp	22 pp	9 pp	-30 pp	#N/A	#N/A	6 pp	-6.4 pp
#5	Interest rates and debt costs	-15 pp	5 pp	-1 pp	-20 pp	-16 pp	-9 pp	-16 pp	14 pp	10 pp	-14 pp	#N/A	#N/A	3 pp	-7.4 pp
#6	Increasing competition	2 pp	16 pp	8 pp	-10 pp	2 pp	-9 pp	-1 pp	20 pp	10 pp	9 pp	#N/A	#N/A	5 pp	1.3 pp
#7	Shortage of labour force	-16 pp	-13 pp	8 pp	-12 pp	0 pp	-5 pp	4 pp	5 pp	11 pp	-10 pp	#N/A	#N/A	18 pp	-0.8 pp
#8	Insufficient demand for goods or services offered	-13 pp	-8 pp	19 pp	-6 pp	-1 pp	0 pp	11 pp	0 pp	10 pp	5 pp	-10 pp	17 pp	7 pp	3.1 pp
#9	Retaining skilled employees	1 pp	-4 pp	35 pp	-25 pp	-9 pp	0 pp	-2 pp	-5 pp	-4 pp	3 pp	#N/A	#N/A	23 pp	-1.5 pp
#10	Fluctuations in consumer demand	-17 pp	-4 pp	-21 pp	-15 pp	-13 pp	1 pp	-32 pp	-1 pp	-2 pp	-20 pp	#N/A	#N/A	-4 pp	-7.4 pp

What's ahead for the industry?

As we enter the final quarter of 2025, the Canadian construction sector is still operating below historical capacity levels. Nevertheless, activity remains above the all-industry average and is showing signs of gradual recovery. Despite this, recent data on the number of new permits and vacancy rates indicate a slowdown may be emerging.

The lower interest rates resulting from monetary policy easing are expected to support investment in construction, particularly in apartment housing starts. Typically, investment activity tends to respond positively to rate cuts within three to six months. However, broader market confidence is waning. Factors such as slowing population growth, price adjustments, and high unemployment are contributing to uncertainty. As a result, there has been a decline in new permits of multiple-dwelling residences – primarily in Southern Ontario and Southern British Columbia.

Rising costs continue to be the top concern of businesses in the industry as they are limiting the number of viable projects that can be developed and completed. Rate cuts may not be sufficient to turn market sentiment on its own. The dip in permits in this market may persist longer than anticipated. It could take time for prices to adjust and project demand to recover. Apartment construction, although only one segment of the industry, tends to be the most volatile and is often where most variations are first felt.

The federal Buy Canadian policy could further reshape the market, though details on its implementation remain unclear. Ottawa has indicated that the policy may apply not only to federally owned projects, but also to any new project receiving federal funding – a decision that could expand its spill-over effect on the construction inputs market. Initially focused on steel and lumber, the policy aims to expand to all construction inputs.

This will have important implications not only for businesses involved in federal projects, but also for the industry at large. For business owners involved in federal procurement, procurement decisions may be constrained by domestic sourcing requirements, leading to higher costs, limited supplier options, or supply chain disruptions, especially in markets where Canadian production capacity is limited. For everyone else, these restrictions could indirectly drive up market prices of critical inputs, like structural steel and lumber. The full impact will depend on the degree to which the policy is enforced, making it critical to monitor its rollout and plan accordingly.

Material costs pose new challenges. While financing and insurance pressures have eased slightly, no notable progress has been made on the affordability of materials since most retaliatory tariffs were removed. The trade relationship with the U.S. remains gloomy and is beginning to spread to other trading partners like China. These conditions are contributing to ongoing cost uncertainty for construction businesses.

It's clear that Canada is experiencing an economic transition. Both households and businesses are facing difficulty making long-term investment decisions. Still, there is a clear national imperative: Canada needs to build more. More homes, more major projects, and more infrastructure are needed – not just to meet population needs but to stimulate trade, employment, economic growth. The construction industry is central to delivering these outcomes.

Looking ahead: Key economic and policy considerations

- **Further monetary easing:** The Bank of Canada has fulfilled its promise to cut rates if growth stalls. Export performance was a key trigger. With many of the retaliatory tariffs now removed, inflation expectations have cooled. The positive impact on construction investment should become visible in the next three to six months.
- **Apartment pre-sales:** As mentioned throughout this report, condo pre-sales are down in key regions like Southern Ontario and Southern British Columbia. Sentiment in this segment is not always easy to turn around, and interest rate cuts may not be enough to inject confidence back to the market. The lack of pre-sales makes it difficult for developers to kick start projects, which will eventually lead to less work for builders. Developments in the pre-sale market require careful attention.
- **Buy Canadian policy implementation:** The policy's impact will hinge on critical details, such as which materials are covered, which projects qualify (federally owned versus any with federal funding), and whether rules apply only to new projects in planning or also to those already under construction. Recent uncertainty has already pushed some builders to diversify procurement within Canada. While there have been discussions about introducing exemptions where no domestic alternative exists, the requirements introduce new red tape that make it harder to build Canada in today's economy.
- **Federal Budget 2025:** Set to be tabled on November 4, the federal budget will outline the amount of investment committed to infrastructure, housing, and financing. The government is expected to cut spending by 15 per cent over the next three years. This has been extended to Crown corporations such as the Bank of Canada, even though they do not draw from the federal budget. The government has already released its 2025–26 Debt Management Strategy, projecting total borrowing of $623 billion, roughly half in bonds and half in treasury bills, with an authorized limit of up to $733 billion. By historical standards, this is the highest since the pandemic peak, though it does not exceed those records. The scale of borrowing and spending restraint will influence construction-related funding and timelines.

For more information on this report or the work CCA is currently focused on to address these issues, please email Yunhan Liu, Analyst, Economics and Policy, at yliu@cca-acc.com.

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