

Economics
IN FOCUS

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If they come you will build it — Canada’s construction labour shortage

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Guesstimating the size of the housing shortage in Canada is rapidly becoming a national sport. There is no shortage of estimates using different methodologies and assumptions. The reality is that there is no one correct number. It really depends on what you are trying to measure. But what is common to all those estimates is that they are all big. CMHC suggests that we will need an extra 3.5 million units by 2030 to restore affordability, and the province of Ontario is calling for a doubling in the annual pace of housing construction in the province to 150,000. And the reality is that, as big as those numbers are, the real gap is even larger, as official figures (upon which those estimates are based on) grossly undercount housing demand by students and non-permanent residents, as we have illustrated in previous research. Even worse, the gap is growing with every day that passes without meaningful action.

The problem is multidimensional and will require fresh thinking, actionable policies, and a high level of coordination between all levels of government and the private sector. It’s easy to

set a multi-year supply target on paper, but that target won’t be achieved without policies aimed at ensuring that the construction sector has the capacity to meet that target. An important issue here is the labour shortage in general, and a shortage of skilled trades in particular.

Help wanted—urgently

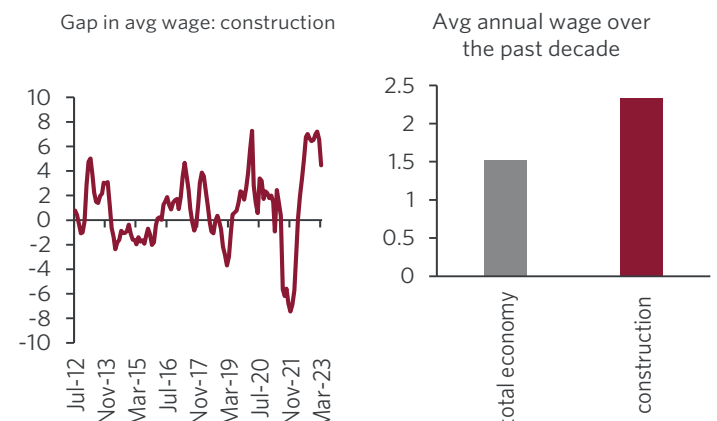
There are currently just under 1.6 million construction workers in Canada, representing almost 8% of total employment, evenly split between residential and non-residential construction. That’s roughly 200K fewer workers than in the manufacturing sector. While the construction industry has gained almost 80K new jobs since the beginning of the pandemic, that advance was only moderately stronger than what was seen in the economy as a whole. In fact, despite the booming housing market of the past decade, the share of construction employment in the total labour market has not risen in a way that is consistent with that growth (Chart 1).

Chart 1: Share of construction workers in total employment



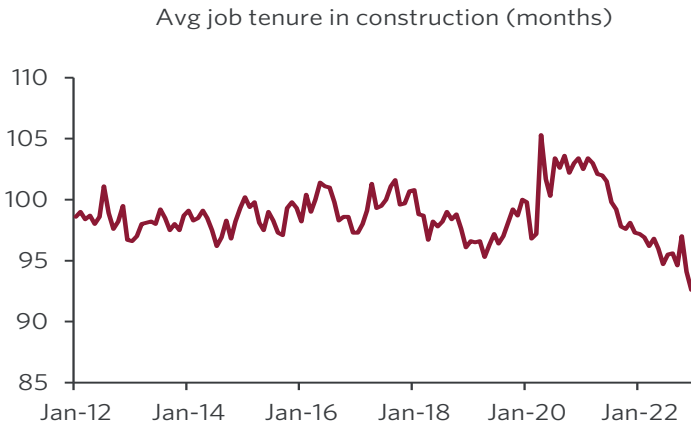
Source: Statistics Canada, CIBC

Chart 2: Wages in construction rising faster



Source: Statistics Canada, CIBC

Chart 3: Average job tenure in construction (months)



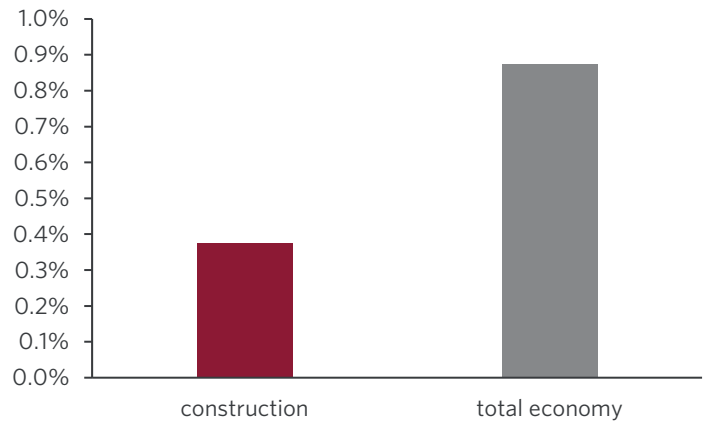
Source: Statistics Canada, CIBC

It is hardly a secret that the industry needs more workers, and fast. Ask any developer about supply issues and the availability of labour usually tops the list. And there is no shortage of statistical evidence of that shortage. With no less than 80k vacancies in the industry, the vacancy rate is at a record high and a full percentage point above the national average. More than half of that demand is for specialty trades contractors. The wage mechanism is clearly reflecting that reality, with average wages in construction rising notably faster than in the economy as a whole (Chart 2). The improved bargaining power of labour in the industry is also evident in the employment tenure statistics, where the average tenure has declined to a record low (Chart 3), reflecting an increased willingness among workers to jump ship in search of higher compensation or better working conditions.

Low productivity

This labour shortage is dramatically impacting the ability of the industry to function efficiently. The average number of workers

Chart 5: Average annual change in labour productivity over the past decade



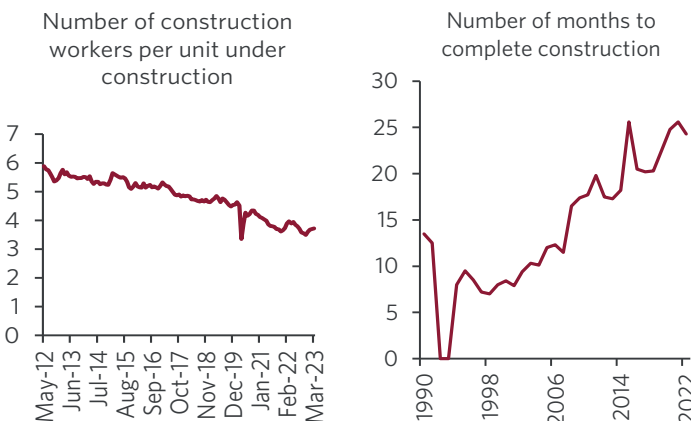
Source: Statistics Canada, CIBC

per unit under construction has fallen from 6 to 4 over the past decade. This suboptimal labour allocation is leading to a notable increase in the average length of completion- adding notably to the cost of construction, and ultimately to unit prices (Chart 4). What's more, the lack of labour on the job site is leading to a situation in which the industry is increasingly relying on new, untrained labour, which adds to the inefficiency issue, while safety is rapidly becoming a top concern for many construction companies. It's no surprise then, that productivity growth in the industry has been lagging the national average by a wide margin (Chart 5).

Aging faster

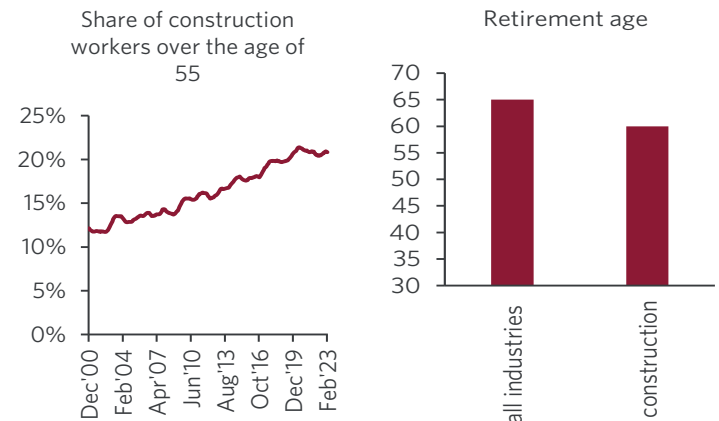
And it's likely to get worse. The Canadian labour market is aging and the construction sector is no exception. The share of construction workers over the age of 55 is now at a record high, and given that the average retirement age in construction is notably lower than what's seen in the rest of the economy, the demographic issue is much more pronounced (Chart 6).

Chart 4: Fewer workers per unit under construction leads to longer completion time



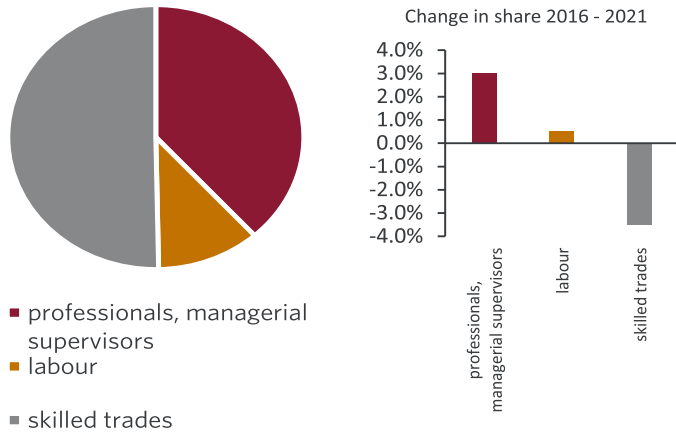
Source: Statistics Canada, CMHC, CIBC

Chart 6: Retirement wave in construction is coming



Source: Statistics Canada, CIBC

Chart 7: Share of construction labour by skill (2021)

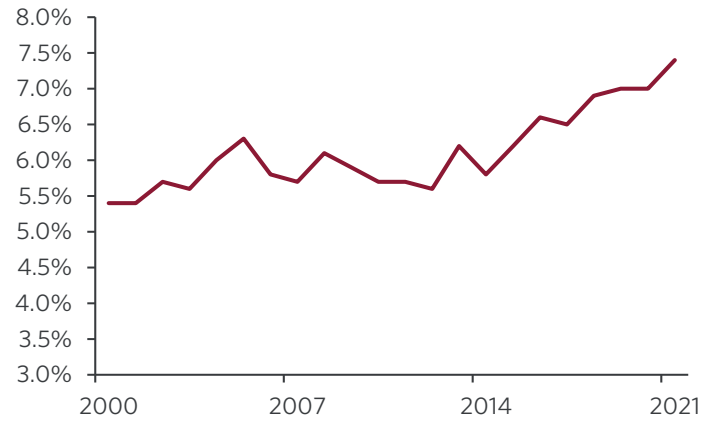


Source: Statistics Canada, CIBC

Based on the age distribution in the construction industry, we estimate that no fewer than 300K construction workers will retire in the coming decade. At the same time, even if we assume no acceleration in residential investment activity from the pace seen over the past decade, the already sizable labour shortage will grow by additional 60K positions by 2033.

That will be particularly evident in skilled trades. Based on detailed census information on more than 60 occupations in the sector, Chart 7 provides some perspective on the distribution of labour in the construction industry. Skilled trades account for roughly 50% of total employment, while professional, managerial, and supervision occupations account for close to 35%. Labourers account for just over 15%. What's more, most of the increase in overall employment in the sector between 2016 and 2021 was in the professional/managerial/supervision sub-group, while the number of skilled trades actually fell during this period.

Chart 9: Share of women in skilled trades is low, but rising



Source: Statistics Canada, CIBC

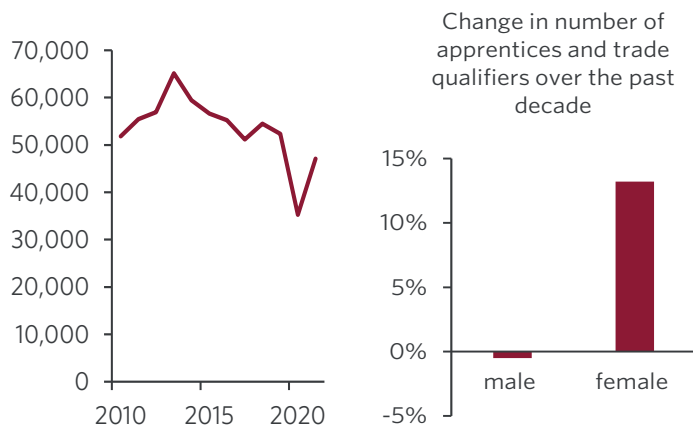
What's in the pipeline?

So the labour shortage problem is clear and real, and is getting worse. The industry is in desperate need of workers- mostly skilled trades. The obvious sources of labour are domestic training institutions, new immigrants, and foreign workers. And a quick look at what's in the pipeline is not encouraging.

The number of registered apprentices and trade qualifiers in Canada fell by 15% over the past decade (Chart 8). The only positive story here is that the number of women in the field has risen notably, but at only 7% of the total number of apprentices and trade qualifiers, that important source of future labour supply growth is still grossly underutilized (Chart 9).

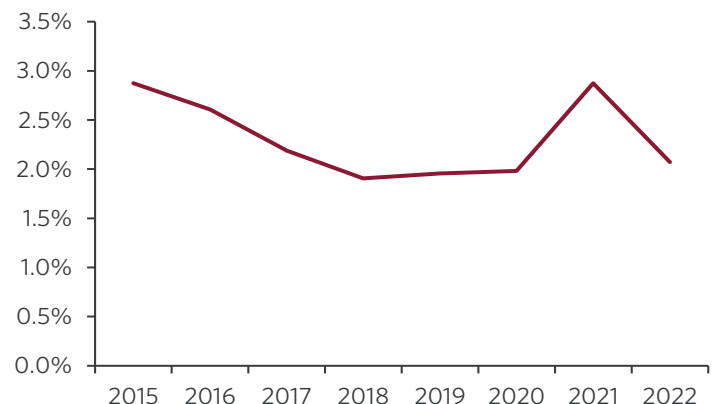
What about new immigrants? Using detailed information obtained from IRCC, we calculated the share of new immigrants in more than 60 construction related occupations. The results are illustrated in Chart 10. Not only is the share of new

Chart 8: Falling number of registered apprentices and trade qualifiers



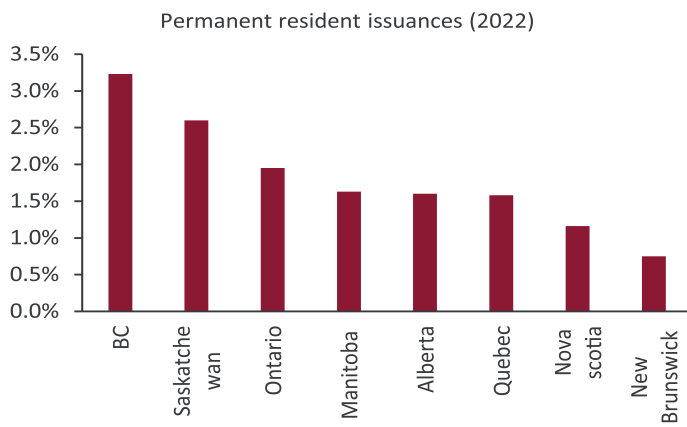
Source: Statistics Canada, CIBC

Chart 10: Share of construction workers in new immigrants



Source: IRCC, CIBC

Chart 11: Share of construction workers in new immigrants by province



Source: IRCC, CIBC

immigrants in construction extremely low (2%), but it has been trending downward over the past decade. The highest share of new immigrants in construction is in BC, followed by Saskatchewan (Chart 11). While a recent study by CIBC Economics suggests that new immigrants play a significant role in elevating the non-inflationary growth potential of the economy by participating in the labour market at a rate that exceeds the participation rate seen among those who were born in Canada, the low share of new immigrants in construction is suboptimal.

As for foreign workers, combining information from the Temporary Foreign Workers Program (TFWP) and the International Mobility Program (IMP), we found that the share of foreign workers in construction is now close to 11%, but even here, the trend is clearly in the wrong direction (Chart 12).¹

¹ While the share of Permanent Residents and Temporary Foreign Workers (IMP and TFWP) with construction occupations is falling, their absolute number is rising. Furthermore, the share of construction occupations of total visas issued under the TFWP and IMP, does not account for those temporary visa holders with occupations arriving under other IRCC programs, notably foreign students and CUAET (Emergency Ukrainian Visa Program) where NOC codes are not available.

Chart 12: Share of construction workers in foreign workers



Source: IRCC, CIBC

The elevated level of job vacancies in the economy as a whole might be exaggerated, as current wage pressures are inconsistent with that reported level of demand for labour. However, one exception is construction labour. This problem is not new, and it has worsened with time and is fully reflected in the wage and productivity statistics. The impact of the labour shortage on housing inflation is direct and substantial. While we are seeing some progress in the modular housing space, the reality is that relative to manufacturing, the construction industry is very limited in its ability to substitute labour with capital at the speed required to effectively deal with Canada's housing affordability crisis.

Thus, the focus must be on recruiting labour in general, and skilled trades in particular. Here we have to find ways to build on the current positive trend seen amongst women in skilled trades, and we have to reverse the negative trend seen in apprenticeships, while using the tax system as a tool. As an example, the recently introduced tax refund program to skilled trades in Nova Scotia is a step in the right direction. At only 2%, the share of new immigrants in construction is too low. The recent inclusion of skilled trades occupations in the express entry program is a welcome development, but much more needs to be done. This includes making changes to the immigration points system in order to increase the contribution of new immigrants to easing the severe shortage in construction labour in Canada.

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