ECONOMIC VIEWPOINT

Why Are Construction Costs Still Rising So Quickly?

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Construction costs have climbed more than 65% since late 2019, far outpacing the 17.2% rise in inflation. Although material costs have stabilized, construction costs are still rising. The main driver is now wages, which are being pushed higher by sustained demand for labour and new collective agreements. Productivity, which has been steadily declining for years, is adding to these pressures. And demand for labour is unlikely to slow given the strength of housing starts and the major public infrastructure projects on the horizon, such as Hydro-Québec's action plan and the high-speed train linking Quebec City to Toronto. Although material costs are expected to ease slightly, overall construction costs will remain elevated due to rising wages and strong competition for skilled workers. We see the residential Building Construction Price Index (BCPI) increasing by approximately 4% by the end of 2025, followed by a further 5% in 2026.

How Did We Get Here?

During the pandemic, the Building Construction Price Index—which tracks changes in the cost of materials, labour, equipment and other construction inputs—rose 65.6% for residential buildings between the fourth quarter of 2019 and the first quarter of 2025 (table 1).[1] The spike was triggered by soaring commodity prices and widespread supply chain disruptions. Construction costs went up across the board, affecting all building types and all provinces, and significantly outpacing the Consumer Price Index (CPI), which increased by just 17.2% over the same period.

Table 1

10 Largest Changes in the BCPI from Q4 2019 to Q1 2025

Non-residential indexes		Residential indexes	
Component	**% change**	**Component**	**% change**
Steel framing	84.2	Wood, plastics and composites	157.6
Metal fabrications	80.2	Metal fabrications	82.9
Special construction work	68.0	Concrete	71.5
Wood, plastics and composites	66.8	Steel framing	64.6
Concrete	47.0	Finishes	64.2
Openings	45.4	Thermal and moisture protection	62.0
Material and equipment	44.4	Material and equipment	61.9
Finishes	43.2	Masonry	56.4
Conveying equipment	38.8	Openings	52.4
Thermal and moisture protection	37.9	Earthwork	43.4
Total	**38.2**	**Total**	**65.6**

BCPI: Building Construction Price Index
Statistics Canada and Desjardins Economic Studies

[1] While the index excludes the price of land, certain geographic factors such as plot location, terrain and availability of infrastructure can still affect overall construction costs.

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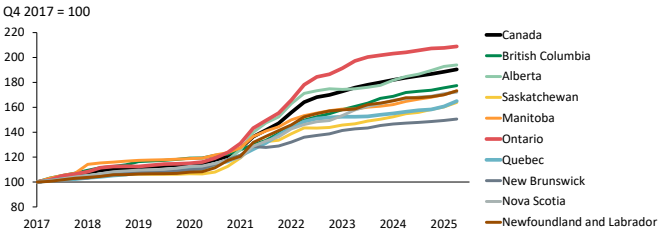
In Quebec, BCPI growth followed a similar trajectory as in the rest of the country, but it didn't climb quite as high (graph 1). Ontario was the only province to see a disproportionate surge, largely due to skyrocketing wood prices (+193.3% since the fourth quarter of 2019 versus +66.0% in Quebec). Quebec's BCPI dipped in 2023 amid a slowdown in the residential construction market. As a result, the increases seen in 2024 and 2025 can be partly attributed to a catch-up effect.

Graph 1
Quebec's BCPI Growth Has Been Similar to That of Other Provinces

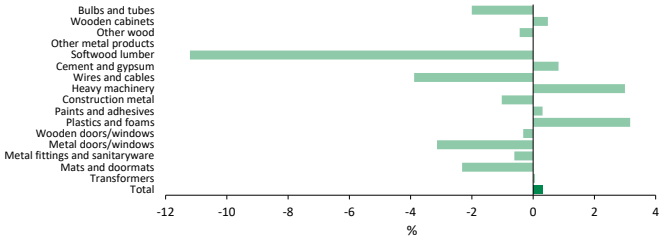


BCPI: Building Construction Price Index
Statistics Canada and Desjardins Economic Studies

Materials Are No Longer Driving Construction Cost Growth

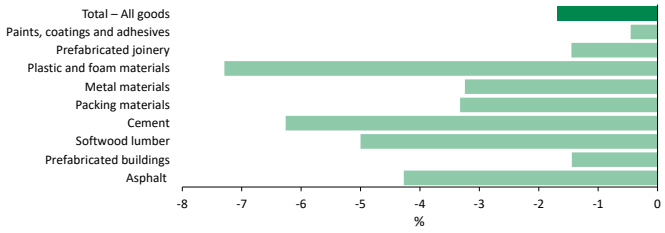
Commodity prices have retreated from their pandemic highs, and supply chain disruptions have largely been resolved, which has helped stabilize or even reduce the cost of Canadian-made construction materials (graph 2). Import price indexes have also declined since March 2025, with the steepest drop being -7.3% for plastic and foam materials (graph 3). It's worth noting that these indexes exclude the impact of Canadian countertariffs. That said, Statistics Canada has flagged some volatility in material prices within the BCPI, but it's unclear whether this stems from countertariffs or supply chain disruptions linked to the trade war. So far, there's no evidence that Canada's retaliatory measures

Graph 2
Building Material Prices Haven't Spiked Since Canada Announced Countertariffs
Change in select IPPIs between March and August 2025



IPPI: Industrial Product Price Index
Statistics Canada and Desjardins Economic Studies

Graph 3
Import Price Indexes for Building Materials Are Down More than the All-Goods Average
Change in select import price indexes since March 2025



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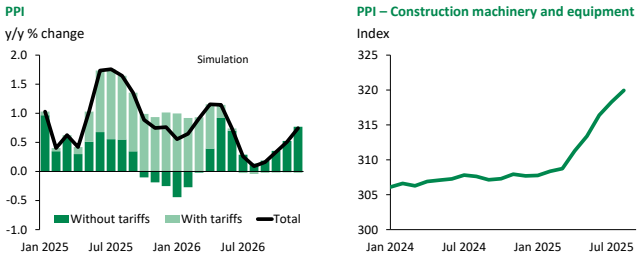
have caused lasting increases in material costs. However, we'll be closely monitoring steel and aluminum products in the months ahead.

In today's uncertain economic climate, we expect prices for key commodities like oil, wood and iron ore to ease slightly this year and next. Copper and aluminum will likely buck the trend, with modest increases anticipated due to their strategic importance as critical minerals. But overall, construction material costs should ease slightly over the coming months—though the trade war with the United States remains a key factor to watch.

The Indirect Effects of the Trade War Shouldn't Be Underestimated

Although Canada recently withdrew most of the countertariffs it introduced earlier this year, US tariffs remain in place. Based on our analysis, the US manufacturing sector is starting to feel the impact of these tariffs and the broader trade war, which could put upward pressure on production costs south of the border (graph 4), especially for machinery and construction equipment. We found that nearly 60% of the increase in the US Producer Price Index (PPI) between April and August was attributable to trade tensions. This means that Canadian companies may find themselves facing higher prices for certain materials and equipment sourced in the United States.

Graph 4
The Trade War Is Putting Upward Pressure on Producer Prices in the United States

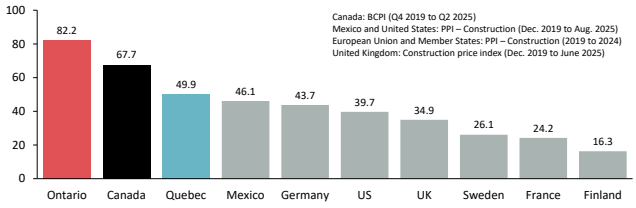


PPI: Producer Price Index
Datastream and Desjardins Economic Studies

BOX 1
International Comparison: Construction Costs Have Risen Faster in Canada Than Abroad

Construction costs shot up in all major economies (graph A) due to the global supply chain shock and soaring commodity prices in the wake of the pandemic. But the acceleration was greater in Canada due to regional factors. In Canada, residential construction costs have ballooned 67.7% since the end of 2019, far exceeding the rise in other advanced economies. Several factors have contributed to this runaway growth, including strong population gains, persistent shortages of skilled labour, pent-up housing demand, regulatory red tape and intense real estate speculation, particularly in Vancouver and Toronto.

Graph A
Canada Has Seen the Largest Increase in Construction Costs



BCPI: Building Construction Price Index; PPI: Producer Price Index
Statistics Canada, U.S. Bureau of Labor Statistics, Eurostat, UK Office for National Statistics, Mexico National System of Statistical and Geographical Information and Desjardins Economic Studies

And yet, despite the breakneck acceleration, Canada still doesn't figure among the jurisdictions with the highest construction costs. According to the World Population Review, which compares construction costs in the most expensive city of 47 countries, Vancouver ranks 15th at a cost of US$3,063 per square metre—well behind New York City, which tops the list at US$5,723 per square metre.[2] It's worth noting, however, that while construction cost indexes stabilized in most advanced economies in 2025, they continued to rise in Canada, particularly in Quebec.

[2] While land costs are excluded from the data, it's impossible to fully exclude geographic factors from total construction costs.

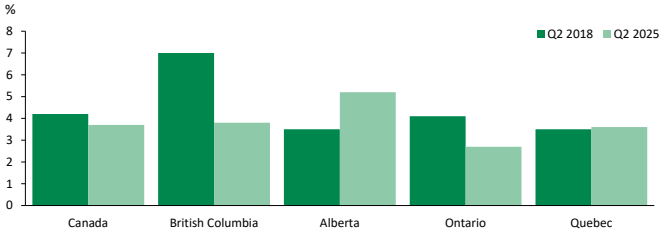
Other market distortions could also affect construction costs in Canada, including a potential glut of certain products. As a net exporter of lumber and aluminum, Quebec remains highly dependent on US demand. If this demand is curbed by duties, inventories of these products could build in the province and drive down local prices. However, certain mitigating mechanisms, such as pricing schemes for some products like aluminum, could diminish this effect.

Wages Are Fuelling Construction Cost Increases

Labour costs are now the primary driver of rising construction expenses. A shortage of construction workers contributed to wage increases in 2022 and 2023 (+7.2% in Quebec's construction sector in 2022, compared to 5.8% across all industries in the province and 3.8% in Ontario's construction sector). However, the labour shortage appears to be easing, with vacancy rates in the construction sector now at or below 2018 levels (graph 5). Easing labour market pressures should help moderate wage growth in the sector.

However, as of August 2025, 58% of employers surveyed by the Commission de la construction du Québec (CCQ) said recruitment is a challenge, up from 53% in fall 2024. An aging workforce and ongoing recruitment and retention challenges continue to keep demand high. The CCQ also reported that 59% of employers plan to hire in the coming year. Some of this hiring

Graph 5
Outside of Alberta, the Construction Job Vacancy Rate Is the Same or Lower Than It Was at This Time in 2018
Job vacancy rate – Construction



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is to replace retiring workers, but it nonetheless means that labour demands won't be easing in the coming months. These pressures help explain why wage increases persist, as employers often need to offer higher pay to attract workers. Quebec's stricter regulatory environment is also frequently cited as a factor contributing to elevated costs (box 2 on page 4).

Experienced construction workers want their wages to reflect the recent rise in inflation and make up for the increase in their cost of living. For this reason, most construction workers are demanding higher pay. And, indeed, wage increases are scheduled in the new collective agreements adopted in the construction industry. With salaries slated to go up, construction

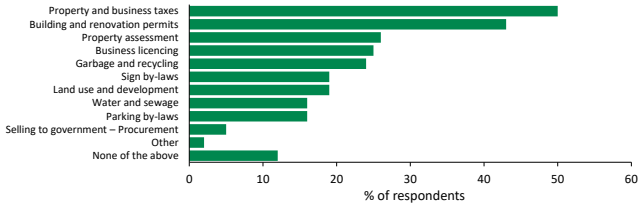
BOX 2
Scant Data Clouds the Picture on Regulatory Red Tape

Quebec's regulatory framework is often seen as a barrier by real estate developers due to the additional costs and delays it entails. Objective data on the topic is limited, however, making it difficult to distinguish between perception and reality. But the information available suggests that Quebec has strict regulations. A more relaxed regulatory framework could therefore potentially lead to productivity gains in the province's construction sector.

According to the Canadian Federation of Independent Business, building and renovation permits are the second most burdensome municipal regulation, cited by 43% of respondents in a recent survey (graph B). The survey also found that the regulatory burden falls especially hard on small businesses, which account for 80% of the construction sector.

Another worrying data point relates to the way building trades are organized: there are 25 protected trades in Quebec versus just 8 in Ontario. This fragmentation complicates interprovincial recruitment due to Quebec's certification requirements, limiting labour mobility. These constraints make it more difficult to address worker shortages in some trades and can exacerbate upward pressure on wages. However, progress has been made on this front by fast-tracking and simplifying skills recognition.

Graph B
Building and Renovation Permits Are the Second-Biggest Regulatory Burden at the Municipal Level
Which municipal government regulations are most burdensome to your business in terms of time and money spent on compliance?

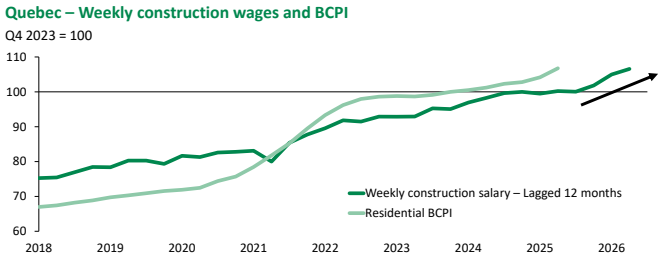


NOTE: Respondents were able to select multiple answers; 2,754 respondents. The survey was conducted in 2024.
Canadian Federation of Independent Business and Desjardins Economic Studies

Other irritants often cited by the construction industry include permitting delays, regulatory duplication, the cost of environmental and other mandatory studies, and unclear rules. But given the lack of hard data, it's difficult to measure their true impact.

costs probably won't be easing in Quebec over the next few years. What's more, compensation tends to have a lagging effect on costs, which means the effect could be smoothed over several years (graph 6).

Graph 6
It Takes Time for Wage Growth to Show Up in Building Costs



BCPI: Building Construction Price Index
Statistics Canada and Desjardins Economic Studies

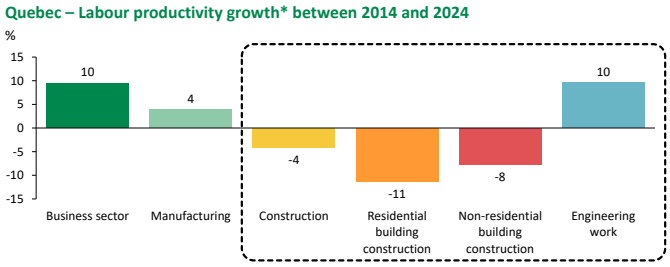
New collective agreements are also contributing to rising labour costs. For the non-residential sector, agreements that came into effect in April of this year include wage increases of 8% in 2025, followed by 5% in both 2026 and 2027, and 4% in 2028. In the residential sector, the agreement took effect in July 2025, meaning the 8% increase will be reflected in third-quarter figures.

Productivity Is Lagging Behind

Wage increases can only go so far to attract skilled labour and boost the industry's output. One solution proposed by industry stakeholders involves boosting productivity in the construction sector to optimize the work of current employees. Some of the measures being used include investing in workforce training, promoting the use and integration of new technologies, and streamlining industry regulations.

Implementing new construction methods could also help improve labour productivity, which has been declining for several years (graph 7 on page 5). On-site solutions include increasing the use of prefabricated and modular construction. These techniques are often cheaper than traditional methods because they lead to less material waste and allow for more efficient use of labour, with much of the construction done in a factory setting. Off-site productivity can also be enhanced with new technologies. For instance, artificial intelligence is increasingly being used to simplify administrative tasks, track processes more effectively and navigate complex regulations. Firms like Constructo AI and

Graph 7
AI Could Boost Productivity in Key Sectors Such as Construction

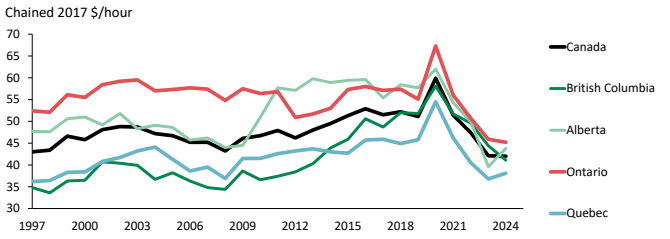


AI: Artificial intelligence; * Added value in chained 2017 dollars per hour worked.
Statistics Canada and Desjardins Economic Studies

Explorai provide AI solutions that are specific to the construction field. These solutions could very well lead to improved productivity in the next few years, but progress will be limited unless the regulatory framework is reviewed and optimized.

One complicating factor is the composition of Quebec's construction industry. More than 80% of Quebec construction companies have fewer than 10 employees, and these small businesses often have limited financial and human resources to dedicate to R&D or the acquisition of specialized equipment or technologies. The same dynamic is at play in other provinces, however, so this factor alone doesn't explain why productivity levels are lower in Quebec than elsewhere in Canada (graph 8).

Graph 8
Quebec's Residential Construction Productivity Is Lower than the National Average



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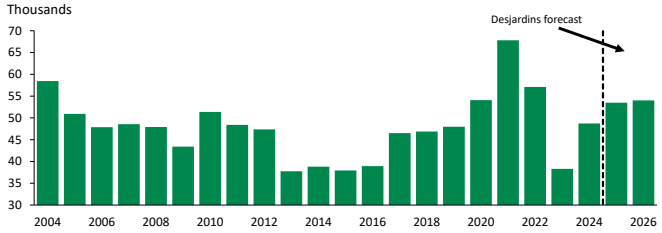
Housing Demand Won't Ease Anytime Soon

Despite these rising costs, housing market activity is up sharply since the start of the year, with housing starts up more than 25% in the first eight months of the year compared to the same period in 2024. The mismatch between supply and demand remains significant, however, pushing prices to new heights.

But residential construction should slow in Quebec in the coming months amid continued economic uncertainty. Nonetheless, municipalities are expected to keep measures in place to increase the number of housing units in their areas. We expect the Canada Mortgage and Housing Corporation and the federal government to stay the course as well, with measures like the GST/HST rebate for purpose-built rental housing that boost residential construction in participating provinces. These measures help builders contend with still-high construction costs. Overall, housing starts are expected to come in at 58,500 this year, up nearly 20% from last year, before levelling off around 60,000 in the following years (graph 9).

Graph 9
New Home Sales Will Remain Elevated in 2025 and 2026, but the Pace of Growth Will Moderate



Canada Mortgage and Housing Corporation and Desjardins Economic Studies

The federal government recently announced that it plans to invest heavily in housing through its new Build Canada Homes agency. This could also help keep Quebec housing starts elevated over the next few years, though we don't yet know how exactly this new agency and the private sector will work together. Direct government assistance will also help builders contend with high construction costs. And the agency is encouraging less costly options such as modular and prefabricated construction, which will help offset rising costs as well.

A New Era of Major Public Works Projects

Strong demand for construction workers and materials isn't limited to the housing sector; it extends to public infrastructure projects as well as commercial and industrial building construction. Case in point: Hydro-Québec's Action Plan 2035, with its $155B in investments to add 8,000 to 9,000 MW of capacity. This project alone will require some 35,000 construction workers.

Then there's the federal government's new Major Projects Office, which is tasked with advancing initiatives of national importance. There are currently five such projects of varying sizes in the pipeline (table 2 on page 6), all of which will increase demand for construction inputs and labour.

The Alto project, which will provide high-speed rail service between Toronto and Quebec City, is expected to be added to this list soon. It would be the largest project by far, with

Table 2

List of Projects from the Major Projects Office

Project	Description	Location	Estimated cost $B
LNG Canada – Phase 2	Natural gas export terminal	Kitimat, BC	n/a
Darlington New Nuclear Project	Canada's first small nuclear reactor	Bowmanville, ON	0.97 (Phase 1)
Contrecoeur Terminal Container Project	Expanding the Port of Montreal's capacity by 60%	Contrecœur, QC	2.0
McIlvenna Bay Foran Copper Mine Project	New copper and zinc mine	East-Central, SK	1.0
Red Chris Mine Expansion	Increasing Canadian copper production by 15%	Northwest, BC	n/a
Northern Corridor*	Rail connection to transport ore from Quebec and Ontario to the Port of Saguenay	North, QC and ON	1.9
Alto*	High-speed train between Quebec City and Toronto	QC and ON	60 to 100

n/a: Not available; * Project under review for possible addition to the official list (non-exhaustive list).
Major Projects Office, Canada Infrastructure Bank, Office of the Premier of Quebec, Foran, Alto and Desjardins Economic Studies

over 1,000 kilometres of rail requiring the construction of new infrastructure and railway stations. And that's not counting the many initiatives laid out in the 2025–2035 Québec Infrastructure Plan [in French only], including work on roads, hospitals and schools. This broad-based demand for skilled labour and construction inputs is likely to maintain or magnify cost pressures across the public and private construction sectors.

Conclusion

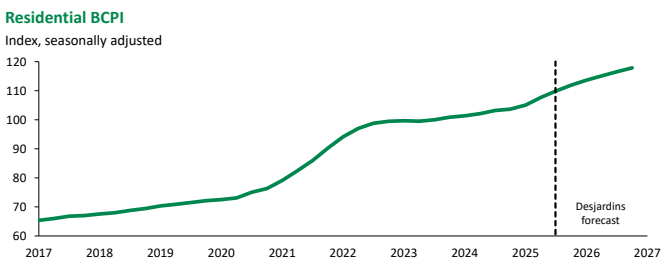
While the BCPI has been rising nationwide, Quebec has seen an especially large spike of late. This is due primarily to higher wages supported by collective agreements and strong labour demand. We expect this wage pressure to continue, especially given the sector's aging workforce and ongoing recruitment challenges.

Against this backdrop, we anticipate stronger growth in the residential BCPI over the coming quarters. We see it rising about 4% this year and nearly 5% in 2026 (graph 10). But higher costs could be partially offset by stabilizing material prices. The economic climate remains uncertain, and changes in US trade policy or the Canadian federal budget could impact the economic outlook and influence our forecasts. What's more, rising construction costs could limit the number and type of projects completed while encouraging the sector to innovate. We could also see BCPI growth vary from province to province depending on how regional markets evolve.

But some possible solutions could ease the upward pressure on prices. Such solutions include loosening regulations, facilitating access to capital for innovation, encouraging investment in technology, standardizing skills recognition at the national level and changing immigration criteria to attract skilled workers. Artificial intelligence could also help businesses with administrative tasks and regulatory compliance. That said, these solutions alone won't be enough to fully offset the expected rise in the BCPI in the short term.

Graph 10

Construction Costs Are Expected to Rise Faster in Quebec



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