



Project  
Leaders

# A Path Forward

Adjusting to Canada's New  
Economic Reality

OMAA Spring Workshop  
Jeff Fielding, Colliers Project Leaders



# Financial Kryptonite

Uncertainty is financial kryptonite to businesses and governments alike. The inability to accurately forecast expenditures and costs can paralyze decision-making.

KRP, 2022

# Risk Factors

A wide range of factors, including rising commodity prices, supply-chain disruptions, expansionary economic policies, tightening labor markets, and the sustainability imperative are driving the current market uncertainty and inflation.

McKinsey, 2022

# Cautious Approach

Many local governments are coming to terms with Canada's new economic reality and are doing their best to navigate a path forward, while also juggling election cycles. Throw in a shift to a remote workforce and changes to urban and rural demographics, and it's only natural that local governments are taking a cautious approach.

Fielding and Brady, 2022

# Deferred Investment

While infrastructure deficits continue to grow, the amount of deferred capital is hitting record levels. The average local government is now delivering about 55% of their capital program in the year the funds were originally allocated.

Fielding and Brady, 2022

# Construction Material Costs

**Percent changes:** for Y/Y column, +20% or steeper, red arrow; -20% or deeper, yellow arrow / for 'Latest 3 Months' column, +5% or steeper, red arrow; -5% or deeper, yellow arrow.










	Year over Year Jan 2022/Jan 2021	Latest 3 Months Jan 2022/Oct 2021
Paints, coatings, and adhesive products	11.6%	4.5%
Plastic and foam building and construction materials	→ 22.7%	3.4%
Hardwood lumber	→ 26.7%	→ 6.6%
Softwood lumber	→ 27.0%	→ 58.9%
Wood trusses and engineered wood members	→ 68.9%	→ 26.0%
Veneer and plywood	11.1%	→ 45.9%
Wood windows and doors	16.2%	0.6%
Wood cabinets and counter tops	9.9%	→ 8.5%
Coke and other coke oven products (for steelmaking)	→ 38.6%	3.6%
Motor gasoline	→ 45.2%	0.5%
Diesel and biodiesel fuels	→ 47.6%	→ 5.7%
Asphalt (except natural) and asphalt products	→ 31.1%	→ 5.3%
Iron or steel pipes and tubes	→ 32.8%	→ -15.0%
Waste and scrap of iron and steel	→ 38.8%	3.5%
Metal building and construction materials	→ 45.7%	-0.4%
Fabricated steel plate & other fabricated structural metal	→ 33.4%	1.2%
Metal windows and doors	→ 33.1%	→ 5.0%
Hardware	13.1%	2.4%
Heating & cooling equipment (except home fridges & freezers)	3.1%	4.3%
Industrial & commercial fans, blowers, air purification equipment	-0.3%	0.0%
Communication and electric wire and cable	→ 57.3%	0.9%
Electric lamps & lighting fixtures (except bulbs and tubes)	10.3%	-3.5%
Glass and glass products (except automotive glass)	9.1%	1.0%
Cement	-3.3%	→ -8.3%
Ready-mixed concrete	4.7%	2.5%
Lime and gypsum products	7.1%	3.7%

**Arrow Count:** 22 red vs 2 yellow.

Data source: Statistics Canada's Industrial Product Price Index (IPPI) series, Table 18-10-0266-01 / Chart: ConstructConnect-CanaData.

# Volatility

Materials costs have been skyrocketing this year in almost every building materials category

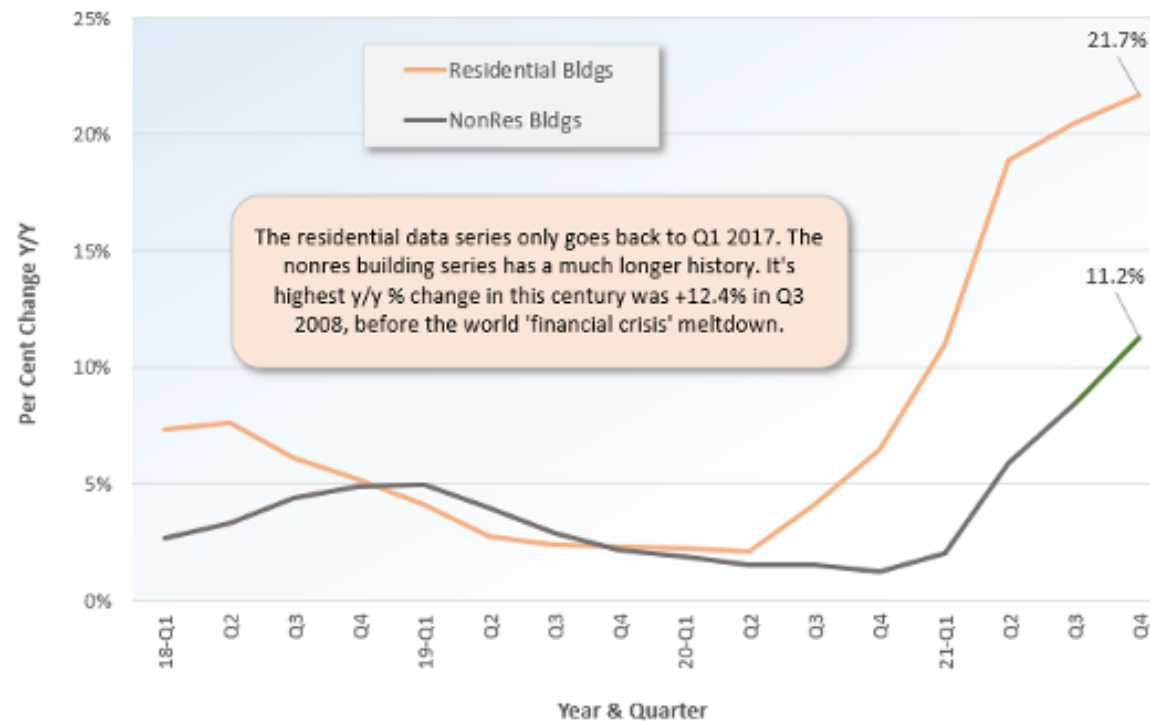
	Volatility rank (1 = most volatile)	Material	Quick chart (3-yr.)	10-yr. avg. change	3-yr. avg. change	1-yr. avg. change
Low volatility	9	Flat glass		+2.7%	+3.0%	+7.1%
	8	Concrete		+3.5%	+3.8%	+6.0%
	7	Insulation materials		+3.7%	+4.8%	+17.2%
	6	Plastic construction products		+4.1%	+9.9%	+29.6%
Medium volatility	5	Aluminum mill products		+2.1%	+4.8%	+35.1%
	4	Steel mill products		+6.1%	+21.3%	+123.1%
	3	Lumber and plywood		+6.4%	+10.2%	+15.9%
High volatility	2	Gypsum products		+6.9%	+4.0%	+22.9%
	1	Copper and brass products		+2.3%	+15.8%	+45.3%

Source for all charts: U.S. Bureau of Labor Statistics Producer Price Index



# Building Construction Price Indices

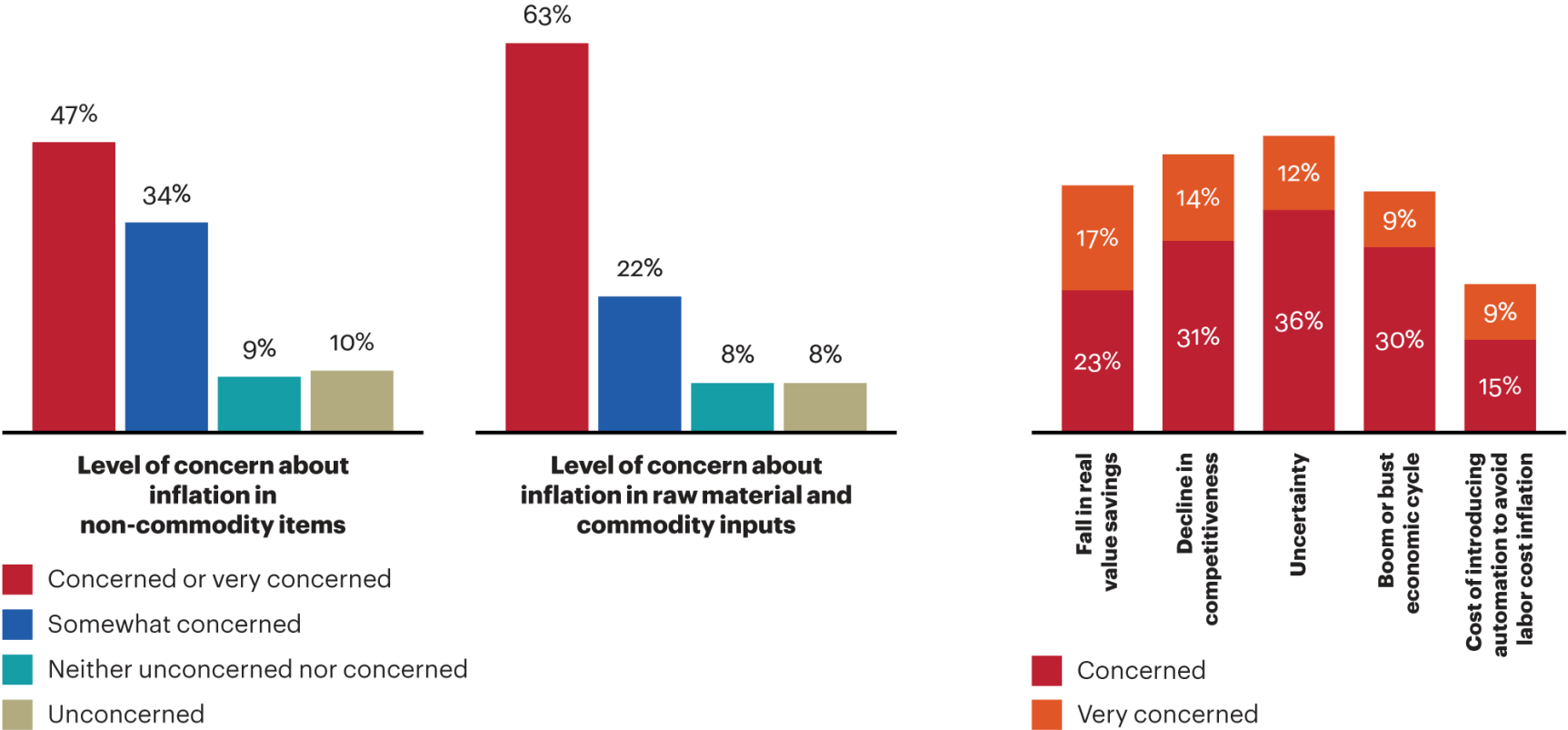
## CANADA BUILDING CONSTRUCTION PRICE INDICES (Part 1) (11-City Composites)





# Private Sector

Figure 2  
**Business leaders are concerned about price inflation for commodities**

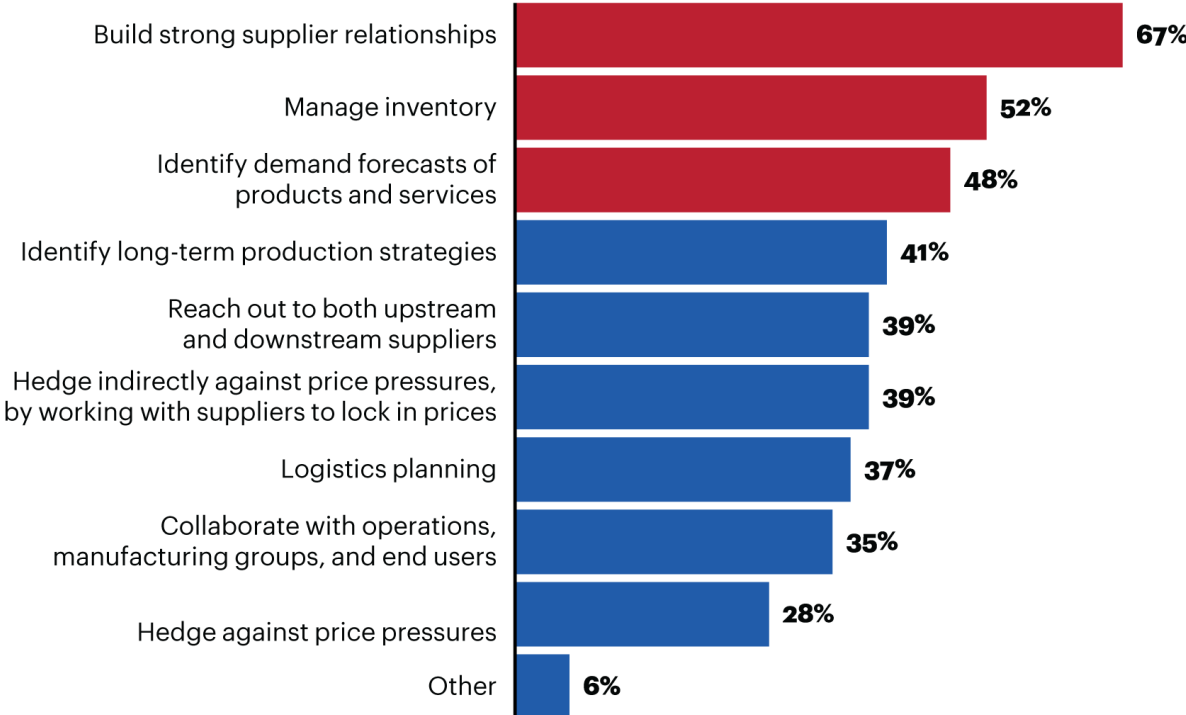


Sources: Institute for Supply Management; A.T. Kearney analysis

# Risk Mitigation

Figure 6  
**Supplier relationship management is often used to identify ways to limit cost inflation**

**Top approaches to managing costs**



Sources: Institute for Supply Management; A.T. Kearney analysis

# Keep Your Friends Close

Municipalities can identify which suppliers are their true strategic partners. The best incumbent suppliers will continue to collaborate.

McKinsey, 2022

# Procurement

Procurement ensures supply and price stability. Ensure flexibility and innovation in procurement practices including standing offer and agency of record opportunities.

McKinsey, 2022

# Prioritize

Prioritize capital investments categories based on risk exposure and be flexible in recasting your capital budgets and adjusting capital programs to reduce risk and uncertainty.

McKinsey, 2022

# Managing Inventory

Advance purchasing, maintaining critical inventories, and reducing waste helps municipalities get through short-term challenges. Moving inventory control to top of mind is critical and can help over the long term as well.

McKinsey, 2022

# Flexible Contracts

Commodities, construction materials, equipment and supply prices affect buyers, suppliers and contractors. Each party is interested in incentives, creating real opportunities to create manageable and predictable outcomes.

McKinsey, 2022



# Value Engineering

The time is right to revisit value engineering and design to value. Changes to material costs can change business cases and offer the largest savings.

McKinsey, 2022

# Plan for the Long Term

Contractors and suppliers want to plan ahead. They value long-term commitments and are willing to give something in exchange.

McKinsey, 2022

# Federal and Provincial Programs

The Federal Government has made it clear to 'use it or lose it' for infrastructure programs that are available and under-subscribed.

# Contingencies

Municipal administrators are advising Councils of the need to carry more realistic contingencies.

# Closing Comments

## **Getting ready for 2023**

- 1) Projects (backlog) may flood the market at the same time, causing pricing and trade availability issues.
- 2) Prices may not come down.
- 3) Carry contingencies not just for budget and pricing, but also be realistic about the project schedule due to trade shortages.
- 4) Contracts terms and conditions for design consultants and contractors are to be reevaluated