RESEARCH BRIEF
CANADA EMPLOYMENT

IPA | INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

AUGUST 2022

Employment Continues to Fall, but Unemployment Remains Historically Low

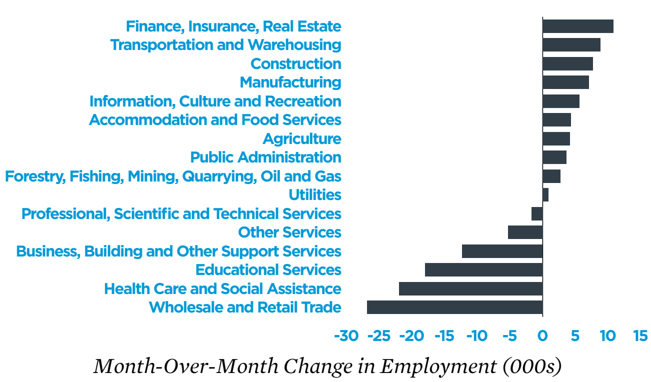
Second consecutive month of labour contraction. Once again, Canadian employment shrank by 31,000 jobs in July, following the 43,000 lost in June. However, Canada's unemployment rate remained unchanged at 4.9 per cent. Retirements are partially contributing to this loss, but unlike June, the jobs that disappeared in July were not due to seasonal effects, potentially signaling that the economy is losing momentum. Even though there are signs that the economy is beginning to slow, stable wage growth remains, with average hourly earnings increasing 0.4 per cent month-over-month. As such, many economists believe it is still too soon to expect the Bank of Canada to pivot in its fight against inflation.

Mixed employment results for office-using industries. Despite May GDP decreasing in office-dominated companies, employment gains in the finance, insurance and real estate industries outperformed all other sectors. This points to positive signs for the downtown office market, as these types of companies tend to occupy properties that are centrally located. However, when looking at the secondary office market — which consists of more suburban, less centralized and older/lower-tiered properties — the outlook is not as positive, as companies who tend to occupy these buildings saw significant job losses. Professional, scientific and technical services, other services (excluding public administration), business, building and support services, plus educational services saw a total of 37,000 jobs lost in July. With rising interest rates and high prices causing GDP to slow, it's likely that the office market will continue to face headwinds going forward, and vacancy will continue to face upward pressure. In the second quarter, vacancy increased by 40 basis points quarter-over-quarter, and average rent only increased by 0.88 per cent.

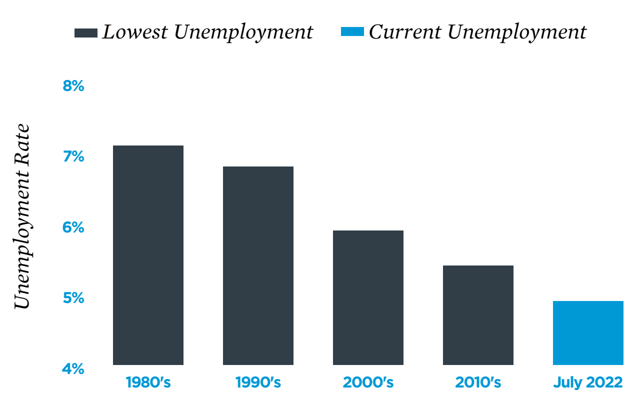
Industrial continues to outperform. Transportation and warehousing, construction, and manufacturing realized the strongest employment gains throughout July, with a total of 23,600 jobs added. Additionally, transportation and warehousing also saw the strongest gains in GDP month-over-month in May, furthering the demand for industrial real estate. These gains can be attributed to the supply chain disruptions facing the global economy, resulting in Canadian companies choosing to allocate more manufacturing capacity domestically, as well as holding a larger safely stock of inventory. This is resulting in increased demand for warehousing space and manufacturing facilities. As of the end of the second quarter, national vacancy remained historically low at 1.1 per cent, falling by 10 basis points quarter-over-quarter, and average rent was 20 per cent higher compared to pre-pandemic levels, hitting $11.38 per square foot. With limited land availability stunting construction activity, vacancy should continue on its downward trajectory, sustaining a positive investment outlook.

Despite strong gains in May GDP, retail-related industries suffer loss. Wholesale and retail trade were the weakest performers in the labour market, losing roughly 27,000 jobs in July, despite experiencing an increase in total sales back in May. This could be a potential signal that falling consumer confidence is beginning to spill over into the retail sector, driving down sales and overall profits. As inflation continues at an elevated pace, and the Bank of Canada raises interest rates in an attempt to combat increasing prices, it is probable that retail sales activity will slow. Still, underlying fundamentals remain strong, with vacancy 20 basis points below the level seen at the end of the second quarter of 2019, and average rent roughly 9 per cent higher.

July Employment Change by Industry



Canada's Unemployment by Decade



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Sources: IPA Research Services; Bank of Canada; Capital Economics; StatCan; CoStar Group, Inc..; Altus Data Solutions