RESEARCH BRIEF
CANADA EMPLOYMENT

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Employment Drops for Third Consecutive Month in August; Labour Demand Persists

Labour market continues to soften. Canada's unemployment rate increased by 50 basis points to 5.4 per cent. This is still slightly below the pre-pandemic level of 5.6 per cent seen in January 2020, however, it appears the labour market is beginning to cool. This was primarily driven by the 40,000 jobs lost in August, which were mostly in the public sector, as well as the construction industry. This suggests higher interest rates may be impacting development activity, especially in the residential housing sector. Nonetheless, these losses were partially offset by the rise in professional service employment, despite widespread tech layoffs, as well as an increase in financial services and real estate employment. Furthermore, Canada is beginning to see an uptick in immigration, causing the country's participation rate to rise, and ultimately the unemployment rate, as it takes time to find jobs. However, immigration only has a marginally impact on unemployment, and the main driver is the significant job loss seen within the public sector and construction industry.

Supply and demand imbalance persists. Job openings remain elevated compared to historic levels, suggesting that labour demand continues to outpace supply. In turn, wage growth remains robust, increasing 5.4 per cent year-over-year in August, which is up from the 5.2 per cent annual growth witnessed in July. These elevated wages are a primary reason the Bank of Canada is continuing its aggressive fight against inflation, which was again seen in the recent rate hike of 75 basis points in September. However, with employment continuing to fall and GDP slowing, it is likely the BoC will slow its hawkish monetary policy response and rate hikes may be nearing its peak.

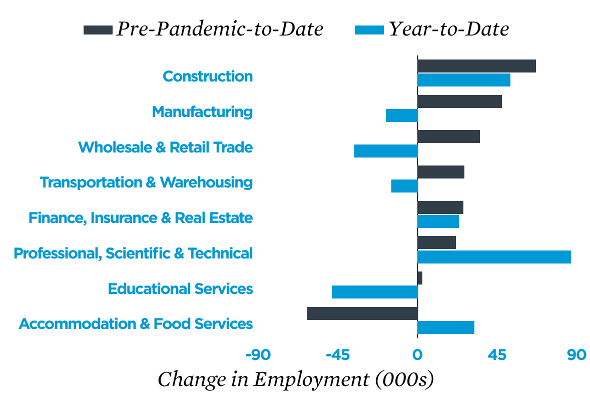
Commercial Real Estate Implications

Industrial employment pulls back after record growth. The pandemic resulted in unprecedented demand for industrial space. National vacancy dropped 80 basis points to 1.1 per cent, and the average asking rent increased 20 per cent. This newfound demand stemmed from elevated levels of online shopping, plus supply chain disruption from the war in Ukraine and unpredictable shutdowns in China's major port cities. However, with restrictions being lifted and supply chains re-establishing, online shopping and the need for onshoring are softening. This is partially contributing to the drops in employment within the manufacturing, and transportation and warehousing industries. Despite this temporary pull-back, long-term tailwinds should support industrial demand and employment growth as the health crisis stalled globalization, and just-in-case inventory will likely remain for the foreseeable future. With this, industrial-related employment and space demand will likely remain robust.

Promising signs for office sector. With office real estate facing significant headwinds during the health crisis, underlying fundamentals suffered. From the start of 2020 to the end of the second quarter of 2022, national vacancy rose 350 basis points to 12.1 per cent and the average asking rent only increased 3.5 per cent. However, office-using industries — such as professional and technical services, plus finance, insurance and real estate — have seen robust job growth throughout 2022, even with tech firms making headlines due to downsizing initiatives. Strong employment growth, coupled with the increasing number of companies implementing return-to-work policies this fall, is resulting in cautious optimism towards the office market.

Labour Market Begins to Cool

Industries Feeling Economic Slowdown



** As of August; year-to-date through August for employment growth*
Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada

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