RESEARCH BRIEF
CANADA GROSS DOMESTIC PRODUCT

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

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Second Quarter GDP Growth Remains Positive; Select CRE Sectors Deliver Strong Results

Economy continues to grow. Canada's gross domestic product increased 3.3 per cent annually in the second quarter. However, year-over-year growth was lower than the Bank of Canada's expectation of 4.0 per cent. Nonetheless, given the current environment of rising interest rates and elevated inflation, economic expansion is a positive outcome, especially given the contraction the United States is experiencing. Slower than expected growth was partly due to net trade weighing more heavily on GDP as imports surged by 31 per cent, while exports rose by a more moderate 11 per cent. Additionally, the 28 per cent annualized slump in residential investment far exceeded the initial expectation of 19 per cent. However, household consumption, which holds the largest share of overall GDP, rose by 10 per cent year-over-year. Looking forward, economic growth is anticipated to slow, with preliminary data suggesting a 0.1 per cent month-over-month contraction in July, resulting in a sluggish 1 per cent annualized growth rate for the third quarter.

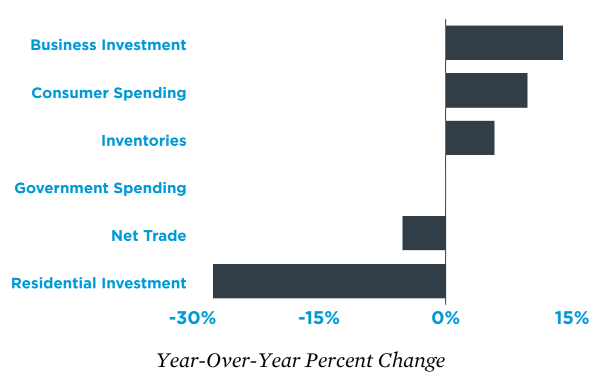
Bank of Canada continues fight against inflation. Even with economic growth showing signs of slowing the BoC increased the overnight rate again in September by 75 basis points to 3.25 per cent. While inflation began to cool in June, the 7.6 per cent annualized level is still well above the Bank's 2 per cent target. Additionally, strong domestic demand implies that inflationary pressures will likely persist. These factors are what contributed to the BoC's decision to raise their overnight rate for the fifth time this year. Nonetheless, with inflation slowing and the economy beginning to feel the impact of higher rates, hawkish monetary policy may soon reach its peak.

Commercial Real Estate Implications

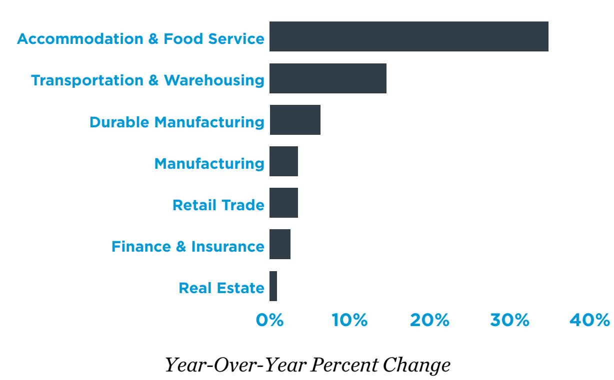
Hospitality sector shows strongest growth. The accommodation and food service industry experienced some of the strongest year-over-year growth in the second quarter. Pent-up travel demand, coupled with the removal of stay-at-home orders, vaccination mandates and testing requirements, drove much of this strong expansion. As a result, Canadian hospitality fundamentals have now exceeded pre-pandemic levels after two years of extreme hardship. In July, all three of the key hotel indicators were exceeding levels from the same month in 2019. Occupancy of 75.5 per cent is up 20 basis points, while an average daily rate of $214.75 is roughly 16 per cent greater. Revenue per available room is also up 16 per cent, to $162.10. Strong demand is expected to continue throughout the summer and fall months, implied through inbound international air travel reaching pre-pandemic levels in June.

Industrial space-using sectors show robust performance. With online shopping and onshoring increasing significantly throughout the health crisis, industrial real estate sectors showed strong space demand. This was led by transportation and warehousing, followed by manufacturing. These gains have benefited the industrial sector as companies look for distribution, warehousing and manufacturing options to transport and store inventories, as well as manufacture goods domestically. Underlying fundamentals have remained robust, with vacancy dropping to a historic low of 1.1 per cent, and the average asking rent increasing by 20 per cent since the end of 2019. Strong industrial performance is likely to continue over the coming months, resulting in a positive investment outlook.

GDP Change by Category



GDP Change by Industry



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