RESEARCH BRIEF
CANADA EMPLOYMENT

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

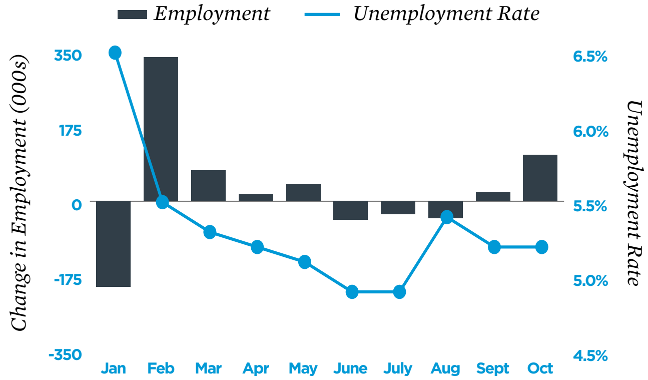
NOVEMBER 2022

October Records Second-Largest Job Gain of the Year; Soft Landing Remains a Possibility

Hiring surges, reducing odds of a recession this year. The Canadian economy added 108,000 jobs in October, the second-largest monthly increase of 2022, bringing year-to-date employment gains to 280,000. Nearly 70 per cent of total additions in October were in the private sector, and all of these gains were full-time positions. While total labour rose, the unemployment rate held at 5.2 per cent, which was a byproduct of the increase in the labour force participation rate, driven by a record pace of immigration. These labour market figures far exceeded the consensus estimate of 10,000 monthly job additions, and signal that the Canadian economy is showing resilience in the face of elevated interest rates.

Uncertainty still abounds. A robust labour market tends to bode well for GDP growth, as consumption — the largest share of the measure — is fueled by healthy household income. October labour figures, and positive retail sales numbers, suggest the possibility of Canada pulling off a soft landing and avoiding an economic recession. Strong employment, however, may also translate into further inflationary pressures, indicating that the Bank of Canada may need to raise interest rates by more than it has recently suggested. Higher borrowing costs, as a result, may begin to curb household consumption and residential investment, which has already softened significantly. Mixed indicators also translate over to the commercial real estate sector. Strong fundamentals exist for almost all asset types, yet elevated interest rates are causing many buyers and sellers to take a wait-and-see approach, causing investment activity to soften.

Labour Market Remains Resilient

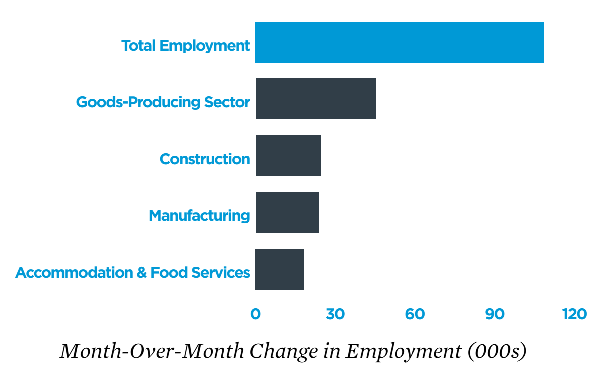


Commercial Real Estate Outlook

Industrial-related employment rebounds. The construction and manufacturing sectors saw the largest employment gains in October, which can likely be attributed to re-establishing supply chains and more readily available input materials. Industrial space demand, as a result, is expected to remain robust over the coming year. The motivations to onshore will likely bode well for manufacturing, warehousing and distribution needs, while the lack of available development land also continues to restrict supply. The current construction pipeline accounts for less than 2 per cent of total inventory, and a large share of this space is already pre-leased. Additionally, many large-bay opportunities are being leased on a speculative build basis, creating a market imbalance. Vacancy, as a result, is likely to track down, while upward pressure on rent is expected to sustain.

Hospitality sector continues to perform well. Elevated interest rates, rising costs and a potential recession have not yet curbed the pent-up travel demand accumulated throughout the global health crisis. The accommodation and food services sector, as a result, has experienced some of the strongest job gains in 2022, reflecting robust hotel demand. As a byproduct of this elevated travel activity, the hospitality sector has witnessed historic levels of momentum. Occupancy has already returned to the long-term average of 65 per cent, and income metrics, such as the average daily rate and revenue per available room, are both up 16 per cent as of the end of the third quarter when compared to pre-pandemic levels. This trend is expected to continue in 2023, as group and corporate travel have yet to return to 2019 levels, and are both rising at a steady pace.

Employment by Sector



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