RESEARCH BRIEF
CANADA EMPLOYMENT

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Mixed Indicators for the Bank of Canada to Consider as Unemployment Ticks Down

Labour market remains resilient. Despite concerns surrounding a potential recession, the Canadian economy added 10,100 jobs in November, bringing the year-to-date total to 290,100. While these gains were well below the 108,000 jobs added in October, the labour force participation rate contracted in November. This made the unemployment rate fall to 5.1 per cent, down 10 basis points month-over-month and 90 basis points when compared to the start of the year. High contact industries, like information, culture and recreation, as well as accommodation and food services, continued to recover, while the manufacturing and FIRE industries saw the largest gains.

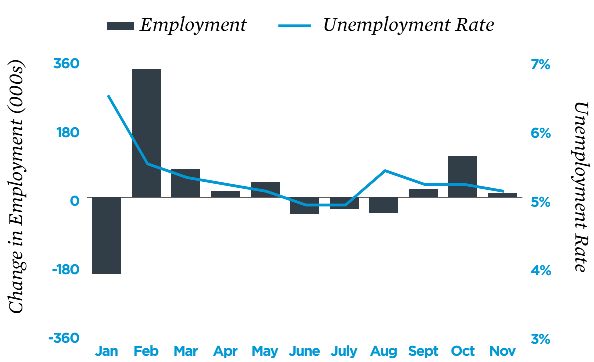
Tough decisions ahead. With inflation beginning to cool, it appears the Bank of Canada's hawkish monetary policy is beginning to make a material impact on price growth. As a result, the general consensus is that the BoC may be nearing the end of its quantitative tightening program. Last month, however, the Bank stated that unemployment would need to rise in order for interest rates to stabilize, which was not the case in November. However, average hourly wage growth, another main indicator to gauge price acceleration, was unchanged in November, indicating that the three-month annualized measure slowed to a seven-month low of 3.8 per cent. As a result, many economists believe the Bank's terminal rate will either be 4.00 per cent or 4.25 per cent, with a 25 basis point or 50 basis point hike expected next week. Real estate investment activity is likely to pick up once interest rates stabilize, as many market participants are currently taking a wait-and-see approach in order for more certainty to emerge surrounding the cost of borrowing.

Commercial Real Estate Outlook

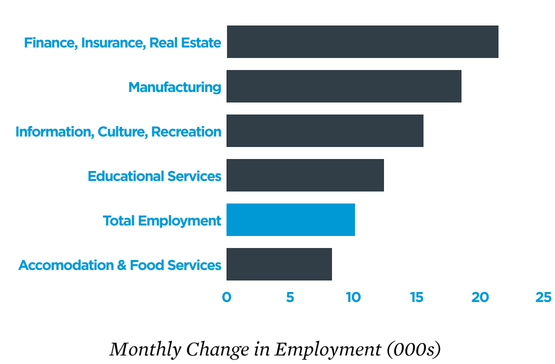
New industrial demand drivers emerge. Since 2020, Canada's industrial market saw net absorption reach 73 million square feet as of the third quarter, causing vacancy to fall 60 basis points to 1.1 per cent. This robust demand stemmed from the emergence of e-commerce-related activity brought on by the pandemic and the buildup of just-in-case inventories. Looking forward, however, it is likely that many retailers will burn through these elevated inventory levels as a potential recession looms and supply chains re-establish, softening distribution and warehouse demand. Nonetheless, inventory levels are expected to remain above the 2019 mark, as onshoring continues to emerge with companies attempting to mitigate supply chain risks. Furthermore, another byproduct of onshoring, domestic manufacturing, is also slowly surfacing in order to mitigate these same risks. This was highlighted over the past two months, with manufacturing employment rising by roughly 42,000 positions. Underlying fundamentals, as a result, are anticipated to remain healthy over the coming year as new sources of demand materialize.

Robust labour market aids retail sector. While elevated inflation and interest rates eat into consumers' real disposable income, a healthy labour market acts as a backstop to falling retail activity. This has been exemplified this year, as retail sales are up 5.5 per cent year-to-date and 18.4 per cent when compared to pre-pandemic times. Fundamentals, as a result, sit at historic levels, giving retailers more room for error if spending starts to slow, which may happen in the coming year. Nonetheless, with robust underlying numbers, the sector is likely able to weather a short-term economic slowdown.

2022 Labour Market Remains Resilient



Job Gains Per Industry



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