RESEARCH BRIEF
CANADA EMPLOYMENT

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JANUARY 2023

Surge in Employment Likely to Translate into a Further Interest Rate Hike

Labour market remains tight, despite economic headwinds. The Canadian economy added 104,000 jobs in December, beating the general consensus of 8,000. Total employment gains for 2022, as a result, reached 394,000. Last month's growth was a byproduct of broad-based hiring across multiple sectors, which were able to generate a 90,000-person increase in the labour force, mostly among young people. The unemployment rate, consequently, edged down 10 basis points to 5.0 per cent, just above the all-time low of 4.9 per cent witnessed in June. This decline in unemployment — even amid an expanding labour force — indicates strength in the Canadian economy, despite rising interest rates and a potential recession.

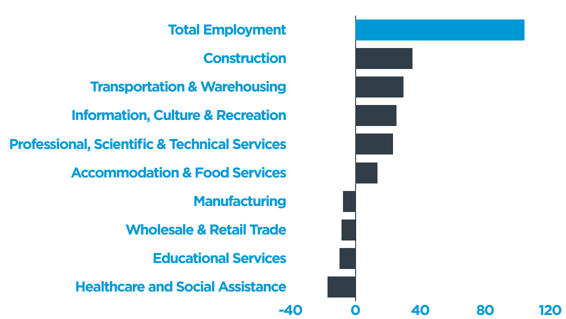
Rate hikes may be back on the table. In December, the Bank of Canada hinted at a possible pause to its monetary tightening program, if macroeconomic indicators suggested that elevated borrowing costs were further cooling the overall economy. However, with inflation only edging down by 10-basis-points in November to 6.8 per cent annually, coupled with a lower December unemployment rate, the central bank may increase its overnight rate once again in January. While the labour market remains extremely tight, the BoC can take some encouragement from the 40-basis-point fall in average hourly earnings to 5.1 per cent year-over-year in December. Additionally, the alternative fixed-weight earnings measure, which accounts for compositional effects, was even lower at just 4.0 per cent annually. This leaves a small possibility that the BoC will pause rate hikes, but it is becoming more likely that an additional 25-basis-point hike is on the horizon.

Commercial Real Estate Outlook

Uncertainty impacting investment activity. Healthy fundamentals for almost all property types are sustaining. Despite this, total dollar volume traded in the third quarter of 2022 was down nearly 45 per cent when compared to the previous year, as rising interest rates have curbed transaction activity. Many investors are taking a wait-and-see approach in order to monitor borrowing costs, and price expectation gaps continue to exist between buyers and sellers. The general dynamic is one where buyers believe that prices should drop, whereas sellers are willing to hold assets, given the stability real estate tends to offer in times of uncertainty. Nonetheless, activity will likely revive once uncertainty dissipates over the coming quarters. A considerable volume of capital, which currently sits on the sidelines, should be unlocked as investors look to benefit from sound underlying performance metrics in the near future.

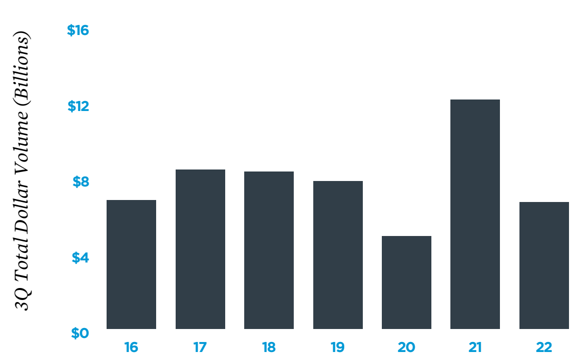
Hotel-related employment grows. For the fifth consecutive month, the accommodation and food service industry experienced historically elevated job gains. This uptick may be a byproduct of people willing to re-enter the workforce for lower-paying jobs, given a potential recession on the horizon, as well as pent-up travel demand continuing to prevail within the economy. As a result, the Canadian hotel industry is anticipated to continue to witness healthy growth in 2023. An increase in trans-border travel, due to a relatively strong U.S. dollar, is expected, and early signs are suggesting that corporate and group travel could approach pre-pandemic levels. Key income metrics, such as the average daily rate and revenue per available room, are forecast to rise 8 per cent and 15 per cent, respectively.

Broad-Based Employment Gains



Monthly Change in Employment (000's)

Investment Softens as Borrowing Costs Rise



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