RESEARCH BRIEF
CANADA EMPLOYMENT

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Economic Resilience Continues; Labour Market Remains Extremely Tight, Despite Headwinds

Healthy job gains increase the likelihood of a soft landing. The Canadian economy added 150,000 jobs in January, the largest gain in almost a year and the fifth consecutive monthly increase. This surge in employment was 10 times greater than the general consensus estimate, partially due to an unusually large 63,000 rise in population last month, amid strong immigration. As a result, the labour force increased by an even greater 153,000 people. The unemployment rate, consequently, remained unchanged at 5.0 per cent. As the Canadian economy continues to show signs of resilience, first quarter GDP growth will likely be stronger than many anticipate. The potential for a soft landing, stemming from tighter central bank policy, remains a possibility, given Canada's tight labour market.

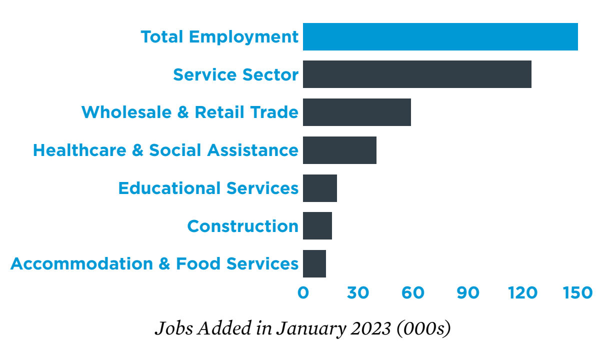
Labour market resilience unlikely to impact Central Bank policy. Last month, the Bank of Canada said it would be pausing interest rate increases in order to observe the impact previous rate hikes have on the overall economy. While the BoC did state that it would like to see the labour market soften, January's data is unlikely to change the Central Bank's outlook. One of the main labour market indicators the Bank has been closely monitoring is wage growth, which reached 4.5 per cent year-over-year in January, down from 4.7 per cent in December. This decline in wage growth, coupled with the 0.8 per cent month-over-month rise in hours worked, will likely result in the BoC holding its overnight rate at 4.5 per cent in March. However, if additional indicators continue to show signs of strength, a further rate increase could become a real possibility.

Commercial Real Estate Outlook

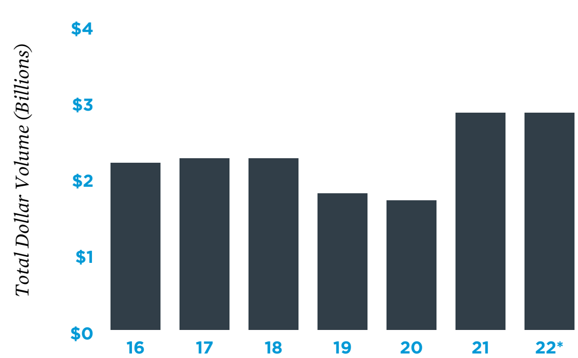
Investor sentiment likely to improve once uncertainty abates. With the BoC likely at the end of its tightening cycle, sales activity may see an uptick over the coming months. Fundamentals for almost all asset types remain healthy, and robust employment gains typically translate into further space demand. While rising borrowing costs throughout 2022 dampened transaction activity, an inflection point is likely approaching. If the Central Bank does indeed pause rate hikes in March, interest rate uncertainty will begin to abate. Once this new environment is fully absorbed by the market, large volumes of capital that currently sit on the sidelines will then be unlocked, despite ongoing economic headwinds.

Retail sector witnesses strongest monthly hiring. Wholesale and retail trade experienced the largest employment increase in January, rising by 59,000. Stronger-than-expected consumer spending likely drove this healthy increase, as preliminary estimates for December suggest that inflation-adjusted retail sales rose by 1.9 per cent month-over-month. From an investment standpoint, grocery-anchored — as well as other single-tenant, non-discretionary retailers — remain a preferred asset type. The essential nature of the products offered and the well-covenanted tenants that tend to occupy these spaces provide stability in times of uncertainty. Additionally, in recent years, these non-discretionary retail properties generated higher yields than many other property types. As a result, positive investor sentiment built. This will likely carry through 2023, despite a slowing economy.

Employment Leaders by Sector



Single-Tenant Retail Investment Favoured



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