RESEARCH BRIEF
CANADA EMPLOYMENT

INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

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Labour Market Continues to Show Resilience in the Face of Elevated Interest Rates

Employment experiences sixth straight monthly gain. Canada's economy added 21,800 jobs in February, beating the general consensus of 10,000. This gain was accompanied by a 42,000 increase in the labour force, which was a byproduct of historic immigration. Increasing labour force participation, however, was not enough to push the unemployment rate up, which remained at 5.0 per cent — a near historic low. While employment growth has slowed sharply from the 105,000 gain in December and the 150,000 jump in January, the 0.6 per cent month-over-month rise in hours worked indicates that the economy performed better than expected in February. This suggests the likely 0.3 per cent monthly rise in January GDP was followed by another small increase in February, meaning GDP growth should return to positive territory this quarter.

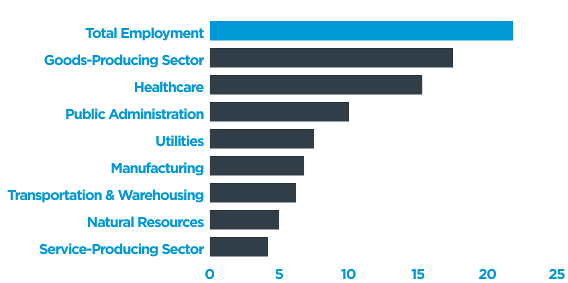
Central bank to continue to monitor labour market closely. In recent policy announcements, the Bank of Canada stated that unemployment would need to rise and wage growth to soften in order to get inflation back down to its 2 per cent target. While the February numbers suggested movement in the other direction, with unemployment remaining at a near historic low and wage growth rising to 5.4 per cent annually, it is likely the BoC will hold its policy rate at 4.5 per cent in April. The labour market is anticipated to soften in the coming months as the economy fully absorbs the new environment of higher borrowing costs, while inflation continues to show signs of cooling as the three-month annualized rate is approaching 3 per cent. Canada's major banks suggest borrowing costs will plateau at 4.5 per cent, before dropping in the later part of 2023.

Commercial Real Estate Outlook

Industrial space-using employment leads monthly gains. In February, the manufacturing sector added roughly 7,000 jobs — likely a result of re-establishing supply chains — which allows for easier access to input materials throughout the manufacturing process. While the quicker delivery of materials is one factor driving industrial space use, the continued uptick in onshoring will also help drive future demand as companies look to manufacture goods domestically in order to further decrease supply chain disruptions. Although e-commerce-related leasing may soften due to tightening consumer budgets, new demand drivers are beginning to emerge within the industry. Consequently, this sustained demand, coupled with limited supply, should keep fundamentals healthy throughout the year. As of the end of 2022, national vacancy hovered around 1 per cent, and annual rent growth approached 20 per cent. Looking forward, vacancy is expected to remain range bound, while rents are likely to grow further, although at a slower pace.

Hotels to benefit from weakening Canadian dollar. The accommodations and food services industry added 3,100 jobs in February as pent-up demand, a weak Canadian dollar and the removal of almost all pandemic-related restrictions fueled the return of international travel. While Canada's hotel recovery was mainly driven by domestic transient leisure travel over the past two years, international travel is expected to return to pre-pandemic levels in 2023 and further drive hotel growth. As a result, key revenue metrics, such as the average daily rate and revenue per available room, are forecast to surpass the 2019 levels by 14 per cent and 12 per cent, respectively.

February Employment Gains



Month-Over-Month Change in Employment (000s)

Industrial Vacancy Extremely Tight

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