RESEARCH BRIEF
CANADA EMPLOYMENT

INSTITUTIONAL PROPERTY ADVISORS
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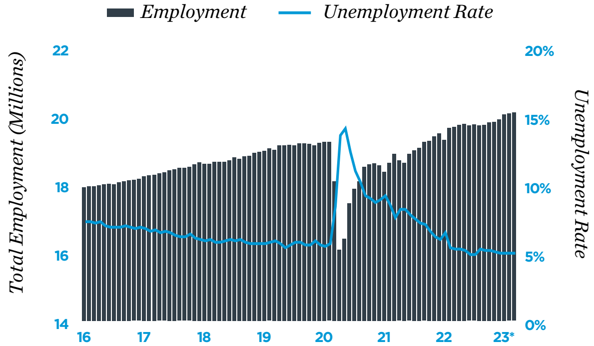
Labour Market Beats Expectations Once Again; Conditions Begin to Ease, Despite Growth

Labour market stays tight even with ongoing uncertainty. Canada's economy added 34,700 jobs in March, beating the consensus estimate of 12,000. As a result, total employment gains in the first quarter of the year reached just under 210,000. The unemployment rate remained unchanged at 5.0 per cent, a near historic low, even as the labour force continued to grow on the heels of record-breaking population growth. Employment gains in March were entirely driven by the service sectors, with transportation and warehousing leading the way. In contrast, employment fell in each of the good-producing sectors. While the Bank of Canada has stated that unemployment needs to rise in order to fully commit to an interest rate pause, additional indicators suggest that the next policy rate change will likely be a cut, rather than a hike.

Rate cut becoming the more likely outcome. While the BoC is likely to hold its overnight rate at 4.5 per cent in April, broad-based indicators suggest a rate cut could become a possibility in the latter part of this year. Wage growth has declined to 5.2 per cent year-over-year in March, which is a key indicator the BoC has been monitoring. While slower wage gains may be at odds with the low unemployment rate, they match the message from the recently released Business Outlook Survey, indicating a significant easing of labour shortages, which in turn puts downward pressure on long-term wage growth. This evidence of easing labour market conditions is one reason to expect that the Bank has reached the end of its rate hiking cycle. As a result, real estate investment may see a boost in the coming months as market participants absorb this higher-cost investment climate.

Labour Market Remains Resilient

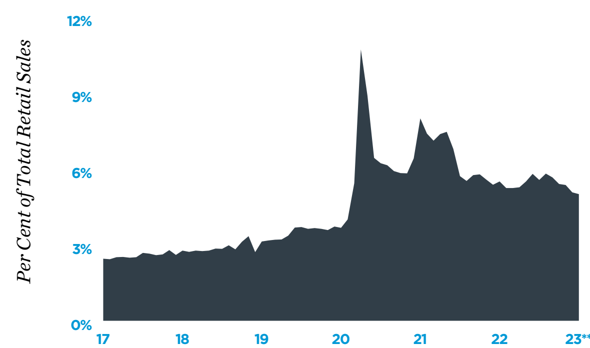


Commercial Real Estate Outlook

E-commerce space demand lingers. Between 2019 and 2022, Canada's industrial market saw vacancy drop 80 basis points to 1.1 per cent, with rent growth reaching 32 per cent. This was a result of robust e-commerce-related demand. While online sales continue to remain elevated today, accounting for roughly 5 per cent of total retail sales, activity has been reverting back to its long-term trend. Consequently, industrial space demand has cooled. However, transportation and warehousing employment has remained healthy, adding 41,000 jobs in March, which brought total employment back in line with 2019 levels. While it is still expected that e-commerce demand will continue to cool, it should remain above the 2019 level as retailers have adapted to changing consumer behaviour. Industrial fundamentals, as a result, should remain extremely healthy. Although, vacancy may inch up slightly as demand slows and an influx of new supply is released to market over the coming year.

Robust employment aids retail sector. In January, inflation-adjusted retail sales were up 1.5 per cent month-over-month, which translated into a nearly 5 per cent annual increase. Despite heightened inflation and elevated borrowing costs eating into households' real disposable income, retail sales have remained sound as a healthy labour market has helped cushion the blow of rising costs. While sales are expected to soften over the coming months, retail commercial real estate remains well positioned to weather short-term headwinds. This is especially true for single-tenant, non-discretionary retail assets as the essential nature of the products offered allows sales activity to remain relatively stable in times of uncertainty.

E-Commerce Sales Elevated, but Softening



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

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