RESEARCH BRIEF
CANADA EMPLOYMENT

IPA INSTITUTIONAL PROPERTY ADVISORS
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Cooling Job Market Offers Comfort for Central Bank; CRE Fundamentals on Divergent Path

Employment contracts for the first time in nine months. After three quarters of continuous expansion, Canada's job market recorded a monthly decline in May. Total employment fell by a net 17,000 positions, driven by a decline in youth employment. The biggest softening in the labour market was witnessed in the service sector, where business, professional services and domestic trade industries posted a job loss of 57,400 roles. Consistent with this decrease in total employment, the jobless rate climbed 20 basis points to 5.2 per cent, accompanied by a 110-basis-point increase in the youth unemployment rate. Meanwhile, the average hourly wage recorded a 0.4 per cent monthly decline, but remained 5.1 per cent higher year-over-year.

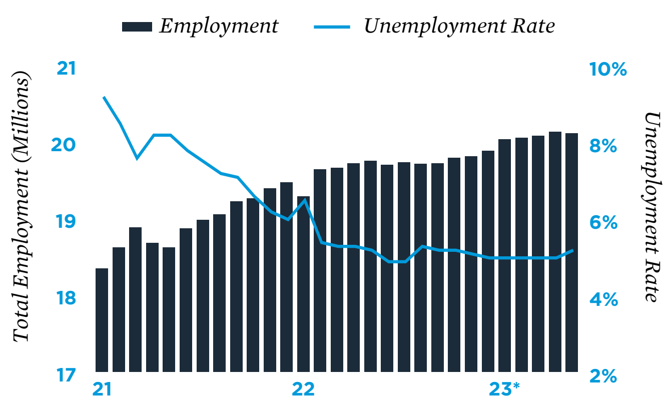
Bank of Canada needs further evidence to pause again. As the BoC restarted interest rate hikes at its June meeting, May's labour force report showed that softer hiring activity will be welcoming news for the monetary authority. With a high level of volatility associated with labour market statistics, the Bank will likely need to see more convincing evidence of a slowing economy from other indicators — including consumer price inflation, housing market dynamics and corporate pricing behaviour — to make sure that the job market cooling in May was not a one-off occurrence. Until then, it is likely that the BoC will stay on a tightening path over the near-term. The central bank's monetary policy will have to be sufficiently restrictive to re-balance supply and demand in the Canadian economy, which can ultimately help achieve price stability within the Bank's 2 per cent inflation target.

Commercial Real Estate Outlook

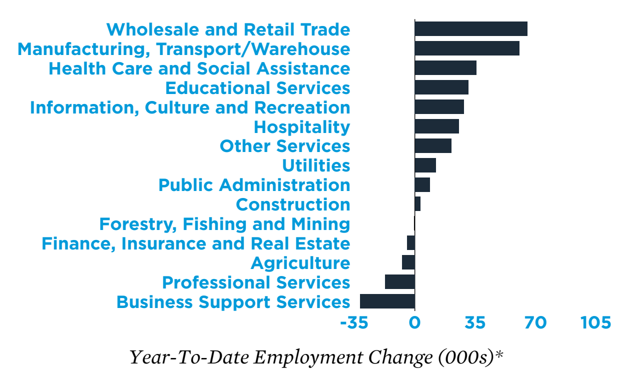
Industrial sector poised for a strong year. Within the first five months of 2023, employment in the manufacturing, transportation and warehousing sectors grew 2.2 per cent, which far outpaced the 1.2 per cent increase in total employment. This strong expansion was a byproduct of elevated demand in e-commerce and supply chain domestication. Although near-term economic headwinds may cause this growth to slow, long-term prospects remain positive as the sector's evolving demand is being driven by structural changes in consumer behaviours and international geopolitics. This momentum will, in turn, continue to maintain healthy demand in the industrial real estate sector. For the remainder of 2023, net absorption is expected to remain on an upward trajectory. With 40 million square feet of inventory expansion anticipated this year, however, the industrial vacancy rate will climb, but remain well below 2 per cent.

Office sector continues to face challenges. In contrast to the job market prosperity in the industrial sector, the finance, insurance and real estate sectors have experienced two consecutive months of job losses since March. As this segment of the economy is a major office user, the lacklustre labour market performance signals continued weakness in Canada's office demand in the second quarter. Coupled with a slow return-to-office trend, net absorption will likely remain muted between April and June. With the BoC restarting rate hikes, a further softening in employment is expected, which could further weigh on office demand. A large supply expansion expected this year in Toronto, Vancouver and Montreal will put additional upward pressure on national vacancy.

Labour Market Moderated Slightly in May



Industrial-Related Employment Remains Strong



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