RESEARCH BRIEF

CANADA EMPLOYMENT

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

AUGUST 2023

Step Back in Jobs Market Could Create a Positive Counterbalance for Investors

Canada sees unexpected fall in employment. Canada's economy lost 6,400 jobs in July, which was well below the consensus estimate of a 21,000 gain and only the second labour market contraction over the previous 11 months. The labour force continued to grow, adding 13,000 active job seekers amid historic immigration. Combined, these factors caused the unemployment rate to increase 10 basis points to 5.5 per cent, taking it above the pre-pandemic low for the first time. Construction employment saw the largest monthly drop, which likely reflects the ongoing wildfires across Canada and the downward trend in housing starts. In contrast, the healthcare and social assistance industry saw the largest monthly gain.

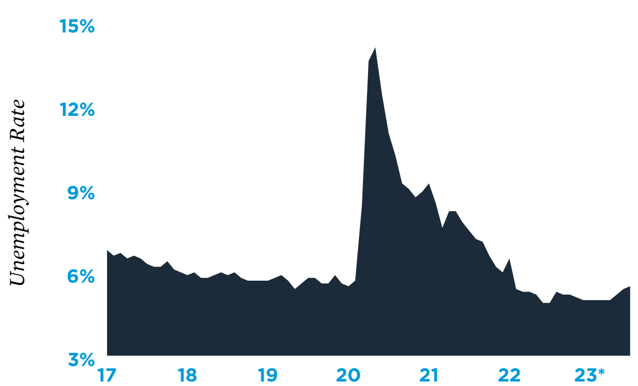
Easing labour market supports interest rate pause. With the Bank of Canada implying that upcoming data needs to surprise to the upside to warrant another rate hike, this recent release supports the general consensus that the Central Bank will hold its overnight rate at 5.0 per cent in September. The unemployment rate has been trending up for three consecutive months, making it clear that heightened borrowing costs are beginning to work their way through the economy more broadly. However, wage growth rebounded to 5.0 per cent annually in July, potentially putting upward pressure on inflation. With recent surveys indicating that labour shortages have eased significantly, it is likely that wage growth begins to slow over the remainder of the year. As a result, interest rate stabilization may occur over the coming months, lending support to an uptick in commercial real estate transaction activity.

Commercial Real Estate Outlook

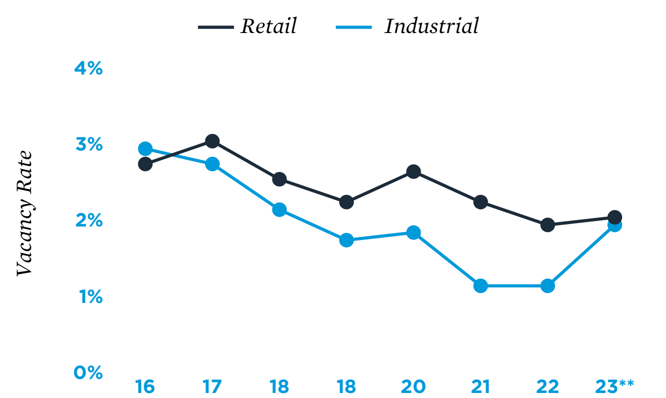
Retail property sector remains well-positioned. Despite rising interest rates eating into consumers' real disposable income, retail sales in Canada were up 2.9 per cent annually over the first half of the year. This robust consumer spending is partially due to elevated savings rates, but also because of Canada's tight labour market. Due to this healthy spending activity, the wholesale and retail sector has witnessed the strongest job gains over the first seven months of the year, adding just under 100,000 positions. Retailer expansions have kept up substantial space demand, with the national vacancy rate hovering around an all-time low. Interest rates are expected to stabilize over the coming months, likely keeping retail a preferred investment option — especially grocery-anchored plazas. This is because these properties tend to house tenants that offer essential products, allowing for more stability in times of economic uncertainty and higher initial yields.

Manufacturing to support industrial space demand. With the easing of supply chain bottlenecks allowing for better access to input materials, Canada's manufacturing sector has seen strong employment gains so far in 2023, adding just under 60,000 positions as of July. Looking forward, as nearshoring gains momentum, Canada's manufacturing sector is set to benefit. Specifically, the automotive industry will benefit as select provinces are beginning to carve out a key piece in the global supply chain of electric vehicle battery manufacturing. While vacancy is expected to trend up slightly to end the year, due to an influx of new supply, the long-term outlook is still positive, with vacancy forecast to remain sub-2 per cent.

Jobless Rate Jumps From Pre-Pandemic Low



Tight Markets Aid Investor Sentiment



** Through July; ** Forecast*

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