

# RESEARCH BRIEF

## CANADA GROSS DOMESTIC PRODUCT

**IPA** INSTITUTIONAL  
PROPERTY  
ADVISORS  
A DIVISION OF  
MARCUS & MILLICAP, BROKERAGE

SEPTEMBER 2023

### Central Bank Likely to Hold Interest Rates Amid Economic Contraction

**GDP drifted lower in the second quarter.** Canada's GDP contracted 0.2 per cent annualized between April and June, which was well below market expectations, as rising interest rates began to impact the broader economy. On a quarterly basis, household spending decelerated sharply, with growth slowing to 0.2 per cent from 4.7 per cent recorded in the previous quarter. The housing market remained weak, as residential investment registered its fifth consecutive quarterly decline. Although temporary factors that weighed on economic activity in the second quarter, including the PSAC strike in April and wildfires throughout the summer, will likely fade, elevated borrowing costs are expected to continue exerting downward pressure on interest rate-sensitive sectors. Consequently, consumer spending will likely remain soft, and the unemployment rate is expected to rise further amid declining job vacancy.

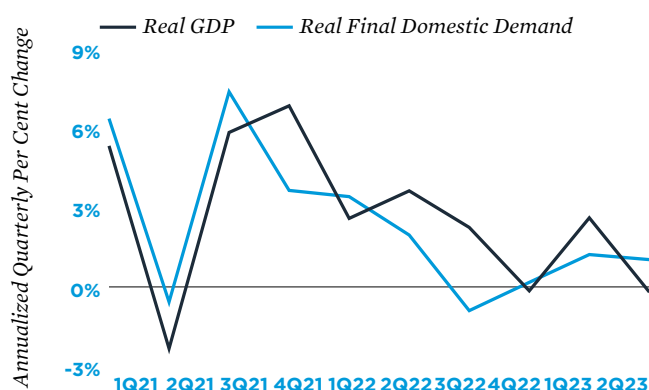
**Bank of Canada to remain on the sidelines.** One of the main reasons that prompted the BoC to restart rate hikes in June was strong domestic consumption in the first quarter. As Canada's second quarter GDP surprised on the downside, coupled with a job market that continued to soften in July, the Bank may feel convinced that its cumulative rate hikes are working as expected to tame inflationary pressures. Due to this, the BoC is anticipated to hold its overnight rate steady at 5.0 per cent for the remainder of 2023. However, the monetary authority will remain data-dependent and likely keep its door open for further rate hikes if inflation proves to be sticky and progresses toward its 2 per cent inflation goal stalls.

### Commercial Real Estate Outlook

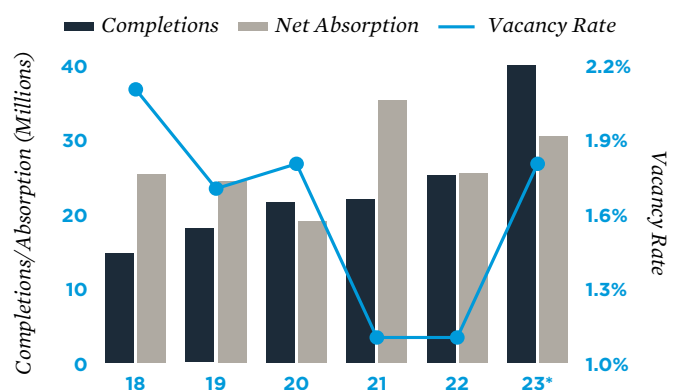
**Investment activity to stabilize in the near term.** If the BoC holds interest rates steady for the remainder of 2023, the transaction market will likely stabilize as uncertainties ease and price expectations between buyers and sellers become better aligned. Elevated interest rates will still weigh on financing activity, as lenders need to see resilient balance sheets from borrowers before providing lines of credit. Furthermore, with economic growth likely to remain subdued, moderating consumer spending and rising unemployment are anticipated to impact leasing demand in the retail and office sectors. Investors may become more cautious and selective as a result, likely focusing on areas with more robust fundamentals, such as the industrial and multifamily sectors.

**Industrial sector holding up well.** Despite an overall contraction in GDP, industrial space-using sectors continued to outperform in the second quarter. Output from the manufacturing sector, along with the transportation and warehousing sector, grew 3.6 per cent and 2.8 per cent quarter-over-quarter on an annualized rate, respectively. This was largely driven by elevated e-commerce and logistics activity, as well as nearshoring manufacturing supply chains, amid heightening geopolitical tensions. Ontario, for instance, is seeing a notable increase in investment in advanced manufacturing — including EV battery and machinery. Nationwide, construction activity in the industrial sector is on the upswing to meet this ballooning demand. Total completions will register a 60 per cent year-over-year increase in 2023. Calgary, Vancouver and Southwestern Ontario are expected to witness the highest pace of inventory expansion.

### GDP Growth Now in Negative Territory



### Industrial Fundamentals Remain Healthy



\* Forecast

Sources: IPA Research Services; Bank of Canada; CoStar Group, Inc.; Statistics Canada



Follow Us on Twitter @IPA\_USA