RESEARCH BRIEF
CANADA EMPLOYMENT

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

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Employment Beats Expectations But Easing Wage Growth is Promising for CRE Investors

Hiring activity continues at a healthy pace. Canada's economy added 41,000 jobs in February, which was above consensus and marked the sixth consecutive monthly gain. Hiring was largely concentrated in the public sector, while private sector employment declined. Despite February's strong job gains, the unemployment rate inched up 10 basis points to 5.8 per cent as heightened population growth caused the labour force to expand at a faster rate than hiring activity. This rise in unemployment came alongside a sharp decline in open positions as job vacancies were down roughly 25 per cent compared to last year's level. As Canada's labour market continues to rebalance, bargaining power is shifting away from workers, which caused wage growth to edge down to 5.0 per cent year over year in February, from 5.3 per cent in January.

Easing wage pressures support midyear rate cut. In the Bank of Canada's recent policy announcement, the monetary authority indicated that it needed to see further downward pressure on wages before pivoting to interest rate cuts. While the 5.0 per cent year over year measure remains too high to be consistent with the 2.0 per cent inflation target, other wage estimates from employer payrolls data shows a more significant slowdown in recent months. In addition, given Canada's strong population growth, a rebound in the labour force participation rate is expected in the coming months. This will provide more balance to the job market and cause wage growth to soften further. A midyear rate cut still holds as a possible outcome, which would act as a tailwind for commercial real estate investors.

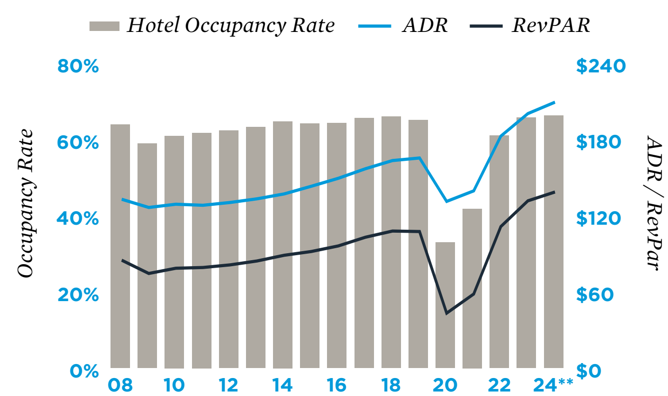
Wage Growth a Main Concern For Central Bank

Commercial Real Estate Outlook

Healthy labour market supports CRE space demand. Canada's unemployment rate is well below the nation's historical average of 8.0 per cent, despite largely trending up over the past year — rising from 5.0 per cent in January 2023 to 5.8 per cent as of February 2024. This has also caused wage growth to hold above long-term standards. These healthy labour market characteristics, combined with record population growth over the past year, have resulted in robust space demand for both retail and multifamily properties. Over the past two years, Canada's retail property sector saw vacancy trend down to sub-2.0 per cent, which helped the average asking rent grow by roughly 10 per cent over that period. In addition, Canada's apartment rental sector saw vacancy reach an all-time low of 1.5 per cent in 2023, helping annual rent growth reach a record level of 8.4 per cent. As a result, both anchor-based retail as well as apartment rentals continue to hold as preferred investment options.

Hospitality-related employment sees largest monthly gain. The accommodation and food services industry added 26,000 jobs in February, which was the largest increase among industries. This comes after Canada's hotel performance improved drastically in 2023, with revenue per available room up 18 per cent year over year and 23 per cent compared to 2019. Looking ahead, while demand and occupancy have normalized to 2019 levels, growth is still expected with the average daily rate forecast to rise 4.5 per cent and revenue per available room set to grow 5.3 per cent. This positive outlook is supported by people and businesses continuing to prioritize travel to a greater degree after years lost during the pandemic.

Consumers Continue to Prioritize Travel



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