RESEARCH BRIEF
CANADA EMPLOYMENT

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

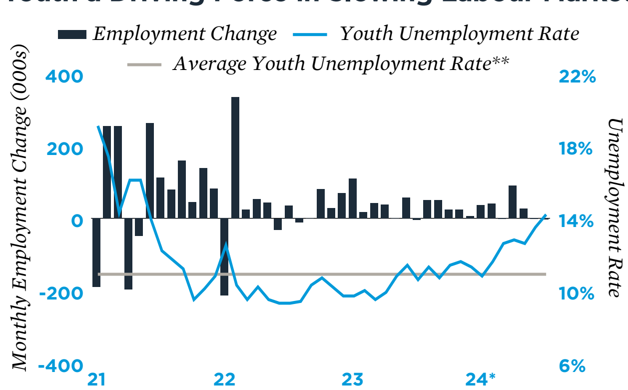
AUGUST 2024

Muted Activity in Labour Market Likely to Keep Central Bank on Track for Further Rate Cuts

Labour market little changed in July. Canada's economy lost a marginal 2,800 jobs in July, which was well below the consensus estimate of a 22,500-position gain and marked the second consecutive monthly contraction. This comes as businesses have curbed hiring intentions in the wake of slower economic growth. At the same time, the labour force participation rate fell to 65 per cent. This drop was mainly concentrated in younger job seekers, who may have stopped looking for work after being disproportionately impacted by the slowdown in hiring. The unemployment rate was unchanged at 6.4 per cent as a result. Combined, these factors lend support to a further 25-basis-point interest rate cut in September. Nevertheless, some risks remain that could slow the pace of rate reductions. Full-time, prime-age employment rose by 60,000 jobs, hours worked jumped 1.0 per cent monthly and annual wage growth — while down from 5.4 per cent in June — held at an elevated rate of 5.2 per cent.

Further rate cuts are expected. Following a weak July labour report in the United States, money markets in Canada were pricing in a 100 per cent chance of three further cuts at the Bank's remaining policy meetings in 2024. Markets also placed a nearly 25 per cent chance of a 50-basis-point cut in September. Immediately following the release of Canada's labour numbers, bond yields fell and the Canadian dollar depreciated, indicating the markets still expected additional rate cuts. However, with the unemployment rate unchanged and wage growth elevated, a 50-basis-point move is unlikely. Still, as bond yields inch lower, commercial real estate transaction activity is likely to gain momentum heading into 2025.

Youth a Driving Force in Slowing Labour Market

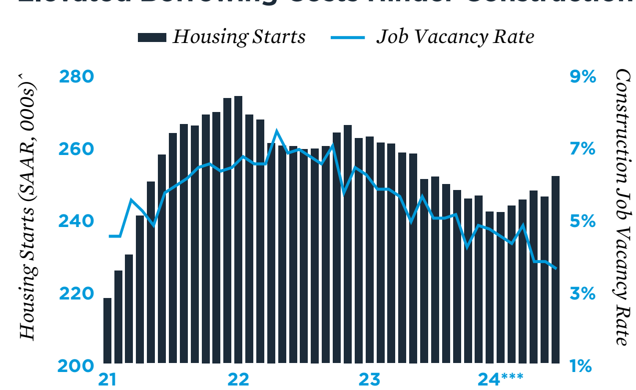


Commercial Real Estate Outlook

Industrial-related employment sees strong gains. Industrial continues to hold as a preferred investment option in Canada. Over the trailing 12 months ending in June, industrial properties accounted for 40 per cent of total dollar volume sold. In the second quarter alone, this share jumped to nearly 45 per cent. While a pullback in tenant demand amid restrictive borrowing costs and an influx of new supply has pushed Canada's industrial vacancy rate up 200 basis points from the pandemic low, it still holds at a healthy rate of 3.0 per cent as of the second quarter. Combined with a shrinking under-construction pipeline and falling interest rates likely to aid underlying space demand, investors remain optimistic about the sector's long-term outlook. This positive sentiment was highlighted in July, when the transportation and warehousing industry saw some of the strongest job gains, of 14,500 positions, pushing total employment in the sector up nearly 5.0 per cent year over year.

Construction capacity needed to meet housing needs. The construction industry is highly sensitive to interest rates. Given the rapid monetary tightening cycle seen in recent years, hiring within Canada's construction sector has stalled. Since the Bank of Canada began its interest rate hiking cycle in March 2022, total employment in the sector was only up 1.5 per cent as of July 2024. In addition, job vacancies have been trending down over the same time period, as builders curb hiring intentions amid restrictive borrowing costs causing a pullback in development. Consequently, the federal government's goal of roughly 4.0 million new homes by 2031 seems unlikely, maintaining extremely healthy multifamily fundamentals.

Elevated Borrowing Costs Hinder Construction



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*Through July; ** 2017-2019 average; *** Construction starts through June, job vacancy through May; ^ Trailing 12-month moving average
Sources: Altus Data Solutions; CMHC; Capital Economics; Statistics Canada