RESEARCH BRIEF
CANADA EMPLOYMENT

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

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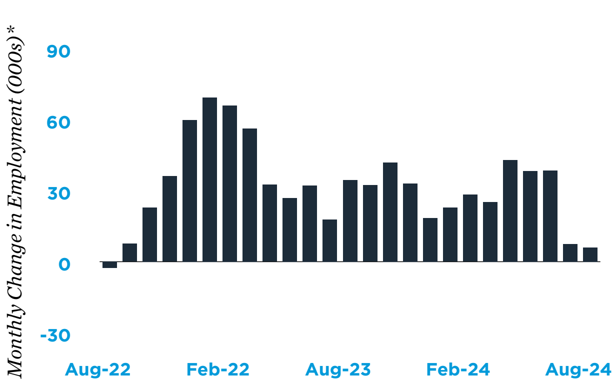
Continued Slack in Job Market Helps Cement Rate Cut Path

Labour market remained sluggish. Canada's economy added 22,000 jobs in August, ending the consecutive job losses seen in the previous two months. Employment rose the most in educational services, followed by health care and social assistance as well as wholesale and retail trade. Despite the job gain, underlying details continue to reveal softening labour market conditions. The gap between the pace of job creation and labour force growth widened, causing the unemployment rate to increase to 6.6 per cent. Furthermore, the employment gain in August was primarily driven by the addition of approximately 66,000 part-time positions, which itself was partially offset by a decrease of 44,000 full-time jobs. This points to a lack of quality employment opportunities and hesitancy in firms' hiring processes, as employers avoid long-term commitments. On a three-month average basis, the monthly gain in total employment declined to 6,000, marking the lowest level in two years.

Labour market weakening supports further rate cuts. As job creation lagged behind population growth again in August, the labour market continued to demonstrate excess supply in Canada's economy. This condition has become the primary driver of lower inflationary pressure, and the evidence presented in the August job report is expected to keep the Bank of Canada (BOC) on track to continue its rate cuts for the remainder of 2024. The latest market consensus has fully priced in two 25-basis-point cuts by year-end. If the BOC observes an overly weakened economy and an increasingly rapid decline of inflation that undershoots the target, however, the central bank may choose to accelerate the pace of rate reductions.

Job Creation Has Slowed in Canada

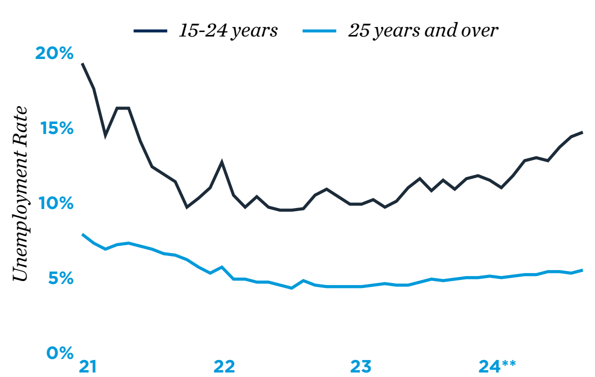


Commercial Real Estate Outlook

Office demand wanes as job creation decelerates. Consistent with the all-industry trend, job gains in office-using sectors have slowed significantly this year. The deceleration was particularly pronounced in professional, scientific and technical services, as well as business support services, where total employment contracted in August. With elevated interest rates continuing to exert downward pressure on the labour market, office-using employment is expected to further weaken in the near term. This will, in turn, lead to diminishing office space demand. From the final quarter of 2023 to the second quarter of 2024 alone, office net absorption decreased from over 2 million square feet to below 400,000 square feet. Alongside this waning demand, however, the construction pipeline has also fallen to its lowest level since 2011. This limited supply-side pressure will help stabilize the vacancy rate in the coming years.

High youth unemployment provides relief in tight rental market. In addition to slowing job creation, the rapidly rising rate of youth joblessness is another sign of weakness in the labour market. Although unemployment has risen across all age groups, joblessness has climbed at a faster rate for those ages 15 to 24. This highlights a lack of entry-level positions and higher barriers to entry into the labour market. Because this age group represents a core source of demand in the rental market, rising youth unemployment means that more young renters will likely share rent with additional roommates or continue living with their parents longer. As a result, apartment demand is expected to soften, helping to mitigate the steep vacancy rate declines observed over the past two years in Canada.

Youth Unemployment Rising Rapidly



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* Three-month moving average; ** Through August
Sources: Marcus & Millichap Research Services; Altus Data Solutions; Statistics Canada