RESEARCH BRIEF
CANADA EMPLOYMENT

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

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Jump in Unemployment Increases the Odds for a Second-Consecutive Outsized Rate Cut

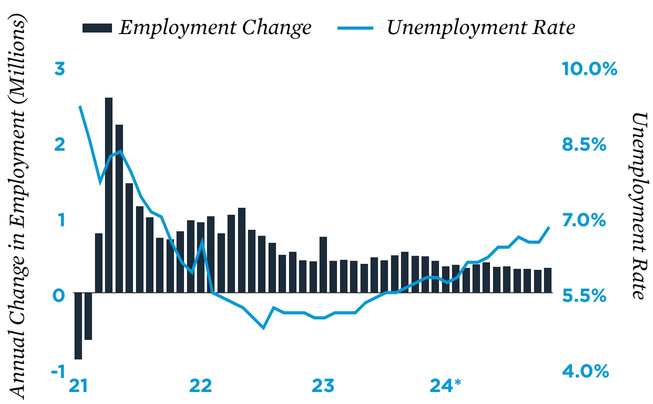
Healthy job gains offset by expanding labour force. Canada's economy added 50,500 jobs in November, led by wholesale and retail as well as construction. While November's labour gain was the second-largest monthly increase this year, underlying details suggest ongoing weakness in Canada's economy. The unemployment rate rose by 30 basis points to 6.8 per cent as Canada's labour force surged by nearly 140,000 job seekers. This jump has mainly been attributed to ongoing population growth, but a slowing economy and a higher cost of living could also be forcing more residents to seek employment. Canada's jobless rate has now risen by 180 basis points since the pandemic low; excluding the health crisis, the rate sits at its highest level since January 2017. Job gains were also largely concentrated in the public sector, with private sector hiring remaining subdued. Combined, these factors may nudge the central bank to lower its policy rate by 50 basis points at its December meeting.

Markets significantly raise odds of a further outsized rate cut. Annual hourly earnings growth for permanent employees fell from 4.9 per cent down to 3.9 per cent in November. Together with weaker underlying hiring and rising unemployment, the Bank of Canada is likely to grow more confident about inflation being largely under control. As a result, money markets substantially increased their bets for a second-consecutive 50-basis-point rate reduction next week. Prior to the labour release, markets were pricing in a roughly 50 per cent chance; immediately following, the odds rose to nearly 70 per cent. This outcome would result in the policy rate ending 2024 at 3.25 per cent – down from a peak rate of 5.0 per cent in June.

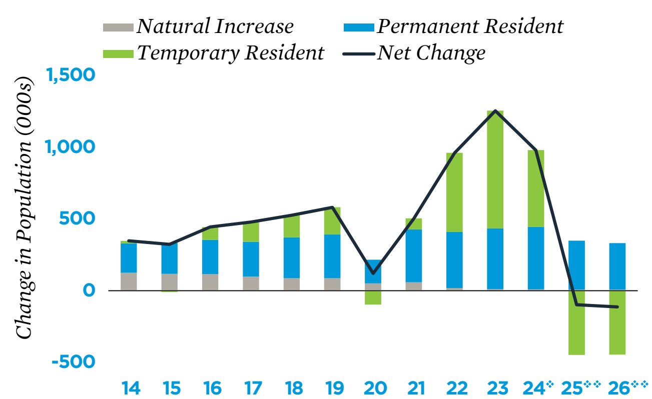
More rate-sensitive sectors led hiring. Firms in wholesale and retail, along with construction, saw the largest employment gains in November. On a year-over-year basis, employment within these fields was largely unchanged; however, it appears momentum is growing. November marked the second labour gain for the wholesale and retail sector in three months, while the construction industry saw its first increase after five consecutive periods of little change. These gains come after consumption growth surged by 3.6 per cent annualized in the third quarter and residential investment rose by 3.0 per cent – the first increase in four quarters. Given household consumption and real estate's sensitivity to interest rates, it appears lower borrowing costs are beginning to work their way through the broader economy. As further rate cuts are expected over the coming year – with a forecasted terminal rate of 2.25 per cent – both industries could continue to benefit. The outlook for Canada's residential and retail property sectors thus stays favourable.

New policies a risk to property sectors. Although wholesale and retail, as well as accommodations and food services, saw strong employment gains in November, recent changes to Canada's immigration policies could pose some challenges. As Canada looks to ease the cost of living, the federal government recently revised policy that will cause a drastic decrease in temporary residents over the coming two years. Consequently, some lower-wage industries like retail and hospitality could be faced with labour shortages, potentially impacting sector and real estate performance.

Labour Market Continues to Loosen



Population Projected to Decline



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* Through November; v Estimate; vv Forecast based on government's immigration target
Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Capital Economics; CoStar Group, Inc.; Statistics Canada