

RESEARCH BRIEF

CANADA EMPLOYMENT

IPA INSTITUTIONAL
PROPERTY
ADVISORS
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Hiring Momentum Continues Despite Uncertainties Hanging Over Broader Economy

Labour market strong across the board. Amid lower interest rates feeding through into the economy at large, Canada added 76,000 jobs in January. Well above the consensus estimate, this represented the third-largest monthly gain in the past year. With population and labour force growth also slowing on account of tighter immigration policies, Canada's unemployment rate fell 10 basis points to 6.6 per cent – the second-consecutive monthly drop. Employment gains were mainly fuelled by Ontario and British Columbia, as payrolls jumped 39,000 and 23,000 positions, respectively. Additionally, total hours worked rose 0.9 per cent in January and were up 2.2 per cent on a year-over-year basis, suggesting that GDP growth could also register a strong showing in the first quarter. While it was originally believed that lower borrowing costs would boost hiring over the course of 2025, a looming trade war could dampen business investment and hiring intentions, at least in the early parts of the year.

Bank of Canada has a wide range of indicators to consider. With Canada's economy experiencing two consecutive months of robust job gains and falling unemployment, it appears the labour market is heating up amid lower borrowing costs. Average hourly wage growth also eased 50 basis points to 3.5 per cent in January. Normally, these factors could cause the Bank of Canada to pause its rate cutting cycle in March; however, as tariffs are still scheduled to take effect next month, markets continue to price in an additional 25-basis-point cut. Canada's central bank will likely err on the side of caution in order to best position the nation's economy for a potential trade war.

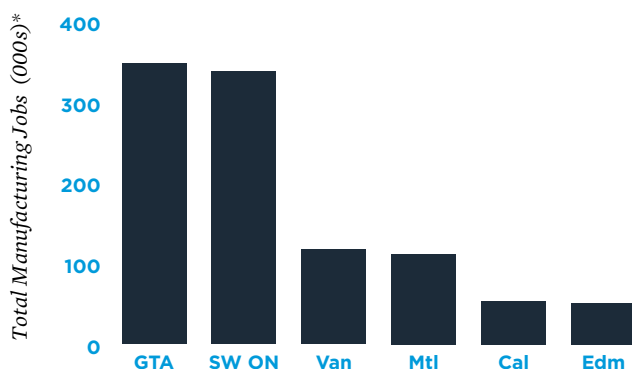
Commercial Real Estate Outlook

Sectors most exposed to tariffs show resilience. January job gains were led by manufacturing at 33,000 positions, with construction, transportation and warehousing – as well as agriculture – not far behind. Oddly enough, these more industrial-related sectors are highly dependent on global supply chains and face the most uncertainty and risk stemming from a potential trade war, yet all showed strong hiring activity in January. One explanation could be a rush in demand for these goods from U.S. firms ahead of potential tariffs. These sectors could be looking for temporary labour solutions in response, which may be one reason why part-time employment rose by a strong 40,900 positions. In regard to commercial real estate, while strong hiring could be an early indicator of future space needs, uncertainties arising from protectionist U.S. trade policy could put business expansion plans on hold, at least during the initial half of 2025. Consequently, the nation's industrial vacancy rate may surpass 4.0 per cent, which is higher than originally forecast.

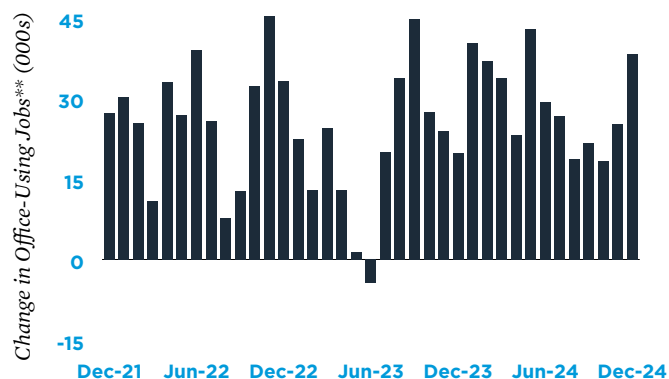
Signs of office recovery continue to hold, though risks rising.

Traditional office-using employment has shown strong gains over the past 18 months, which was further highlighted in January as professional, scientific and technical services saw the second-largest monthly job increase at 21,700 roles. Combined with a dwindling under construction pipeline, Canada's office sector could stabilize over 2025. Nevertheless, while not as directly exposed to tariffs as other property types, a looming trade war drastically raises recession risks in Canada. If this scenario does materialize, businesses are likely to cut costs, posing some risk to an office sector recovery.

Manufacturing Presence Poses Some Risks



Office-Using Job Creation at Healthy Pace



* As of January 2025; ** 3-month average

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Capital Economics; CoStar Group, Inc.; Statistics Canada



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