RESEARCH BRIEF
CANADA EMPLOYMENT

IPA | INSTITUTIONAL PROPERTY ADVISORS
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Labour Market Results Could Hint Towards Future Implications for CRE Industry

Hiring intentions slow. After an average monthly gain of 84,000 positions in December and January, employment was largely unchanged in February, with Canada adding just 1,100 jobs. While some of this slowdown may be the first sign that tariff uncertainties are influencing employer's staffing decisions, labour market conditions were also impacted by severe weather. The latter condition was cited as the main contributor to a 1.3 per cent monthly drop in hours worked. Unemployment, meanwhile, held at 6.6 per cent, as a drop in labour force participation kept the jobless rate steady. Canada's unemployment rate is nevertheless expected to rise over the course of 2025 amid ongoing tariff threats; yet with recent policy changes poised to continue weighing on immigration and labour force growth, the rate could stabilize around 7.0 per cent by year-end.

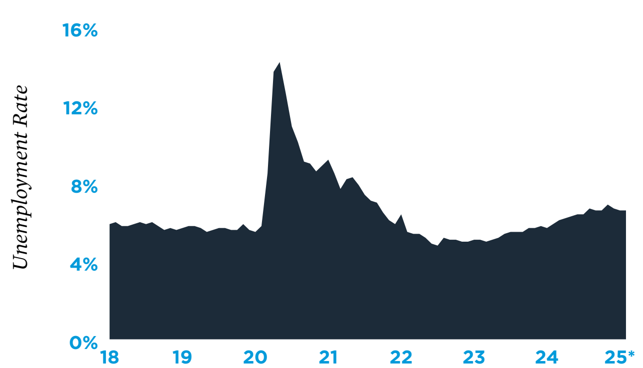
Further monetary easing expected. Strong job prints in December and January had begun to spark some underlying inflationary pressures, as had an acceleration in fourth quarter GDP growth to 2.6 annualized amid a 5.6 per cent increase in consumption. As a result, markets and economists were beginning to lean toward a rate pause at the Bank's next meeting in March. However, with employment coming in below consensus in February and looming tariffs likely to weigh on hiring intentions, business investment and GDP growth going forward, markets are now pricing in a nearly 80 per cent chance of additional monetary easing in March. Forecasters have also lowered terminal rate expectations to the 2.0 per cent to 2.25 per cent range by the end of 2025.

Commercial Real Estate Outlook

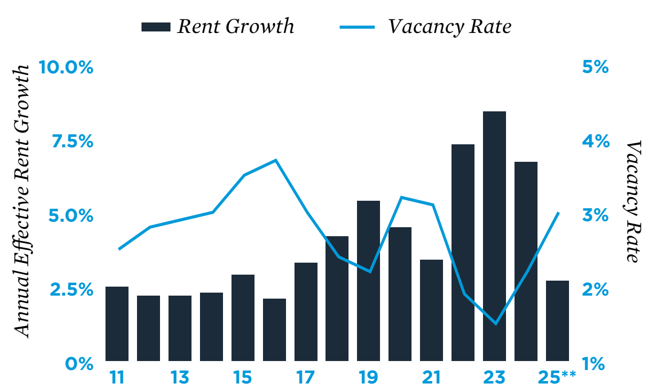
Retail sector well-positioned despite some risks. Wholesale and retail trade led hiring in February, noting a 50,800-position gain. This employment surge largely reflects strong conditions in Canada's retail sector. In 2024, the nation saw a 4.0 per cent jump in retail sales, which helped drive a nearly 20 per cent year-over-over increase in net absorption. Canada's retail vacancy rate fell to its lowest reading on record at 1.5 per cent, while annual rent growth outpaced inflation at 3.3 per cent. In recent years, this robust performance was largely fueled by historic population growth, with per capita consumption seeing some decline. Looking ahead, retail spending will likely be supported by lower interest rates and higher disposable incomes helping to unlock some consumer purchasing power. Nevertheless, ongoing tariff uncertainties pose a material risk to both labour market conditions as well as household spending, which could cause a slight softening in retail property fundamentals.

Multifamily development could slow in 2025. Canada's construction industry shed 5,000 positions in February, which could be an early indication that the nation's development cycle is slowing. Combined with tariffs announced for steel and aluminum, construction starts are likely to slow over the course of 2025 due to higher costs. An influx of purpose-built rental and for-owned condo supply in recent years has softened fundamentals, but a slowdown in future supply growth could exacerbate affordability challenges over the long term. Although vacancy is now rising and rent growth is slowing, over time, a drop in construction would put downwards pressure on vacancies and fuel rent growth.

Labour Market Stabilizing, Yet Risks Remain



Some Balance Returning to Multifamily Sector



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