

Labour Market Softens as Tariff Backdrop Creates Uncertainty for Investors

Economy loses jobs. Canada's economy was heading into 2025 with strong momentum. Lower interest rates were fuelling hiring intention – monthly employment gains averaged 70,000 positions between November and January – which in turn drove household consumption and economic growth. Recent tariff uncertainties, however, have curbed business and consumer confidence, which have now begun pulling through into Canada's labour market. Following a largely unchanged reading in February, Canada's economy shed 33,000 jobs in March. Well-below the consensus estimate of a 10,000-position gain, this represented the largest monthly drop in roughly three years. Consequently, the three-month moving average growth rate fell to 15,000 jobs in March – down from 56,000 last month. The unemployment rate also ticked up 10 basis points to 6.7 per cent.

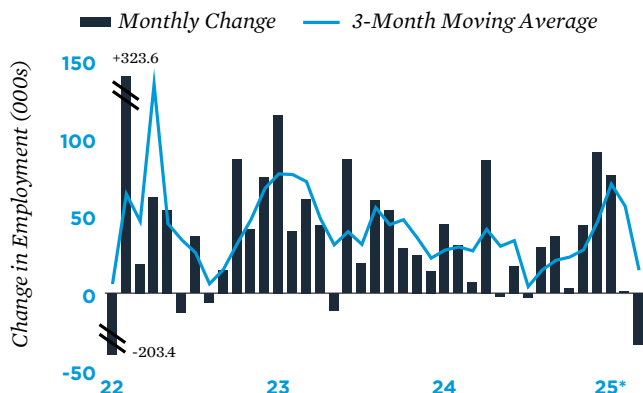
Market anticipates further easing. As a large share of exports are complaint under the USMCA trade agreement, Canada got off relatively lightly with recent tariffs. Even so, the Trump administration's protectionist approach to global trade has increased the odds of a broad-based economic slowdown in the United States as well as in the rest of the world, which will indirectly weigh on economic growth and hiring intentions in Canada. As a result, money markets upped their bets for an additional rate cut at the central bank's April meeting from roughly 40 per cent to just above 60 per cent. Investors are now pencilling in a total of three additional cuts by year-end, bringing the policy rate to 2.0 per cent. This is one factor that could benefit commercial real estate transactions in 2025.

Commercial Real Estate Outlook

Sales recovery to be more gradual. Canada's economy gained momentum heading into 2025 due to lower interest rates, which were also fuelling a recovery in commercial real estate sales activity. In 2024, the total number of trades increased by nearly 10 per cent, though dollar volume figures were largely unchanged. Amid still-restrictive interest rates and limited institutional participation, smaller-sized deals under \$20 million led sales. Looking ahead, investment activity was initially expected to gain further momentum in 2025 as economic conditions turned more positive. Trade uncertainties have since dampened that outlook, but a more gradual recovery may still materialize. Not only could investors gain more clarity on trade policy, but lower interest rates and softening prices may also create an attractive entry point for investors with a long-term strategy.

Labour report offers insight into property sectors. The long-term outlook for Canada's CRE sector is sound. Those with a longer investment horizon have reason to be optimistic, helped by manageable supply side-pressures, recent population growth and an upcoming federal election with more growth-oriented campaigns. Select sectors, however, may face some short-term challenges. The manufacturing sector, for instance, lost 8,000 jobs in March. As a result, tariff threats support further rebalancing in Canada's industrial sector, given its role in facilitating trade. Additionally, hiring intentions and consumer confidence have deteriorated in recent months, which could spill over into Canada's retail property sector. March's 29,000-position loss in retail trade may signal a potential softening in space demand.

Tariff Uncertainty Curbs Labour Momentum



Investment Recovery Stalls Amid Uncertainties

