RESEARCH BRIEF
CANADA INDUSTRIAL

IPA INSTITUTIONAL PROPERTY ADVISORS
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Industrial Space Demand Holds Steady as Trade Tensions Trigger Stockpiling

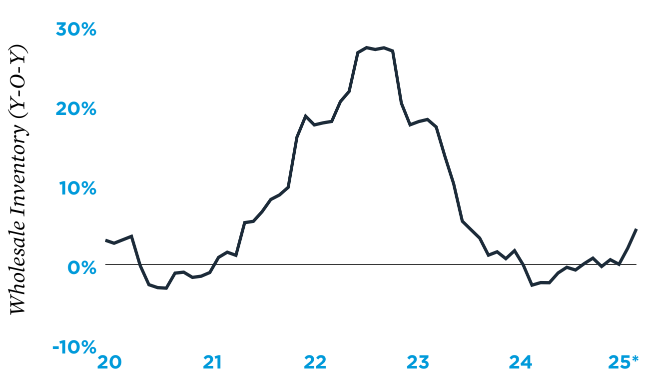
Manufacturing shipments remain sluggish. Sales of manufactured goods eked out a 0.2 per cent monthly gain in February, fuelled by increases in sales of primary metals and chemical products. Once again, the rise in nominal sales was entirely due to higher prices, which have been the sole driver of shipment increases over the past five months. Adjusted for inflation, real manufacturing sales were flat month over month, extending the year-over-year decline. New orders fell by 1.8 per cent compared with the prior month; as a leading indicator of future production, this metric suggests manufacturing shipments may stay weak in the coming months. This trend aligns with softening business sentiment tied to tariff threats, which likely dampened production activity in the first quarter of 2025.

Wholesale sector reacts to trade policy changes. Wholesale activity rose in February, with inventories jumping 2.2 per cent month over month – the largest gain in two years. Because wholesalers operate between manufacturers and retailers, this increase suggests strategic stockpiling and preemptive buying amid uncertainty surrounding trade tensions. For the first time since September 2022, wholesale inventories rose across all seven subsectors. A 4.2 per cent increase in machinery, equipment and supplies led this upturn, followed by a 3.5 per cent rise in farm products and a 2.1 per cent gain in building materials. This front-loading trend may have continued into March and April, as suppliers built up both just-in-time and just-in-case inventories to hedge against tariff risks.

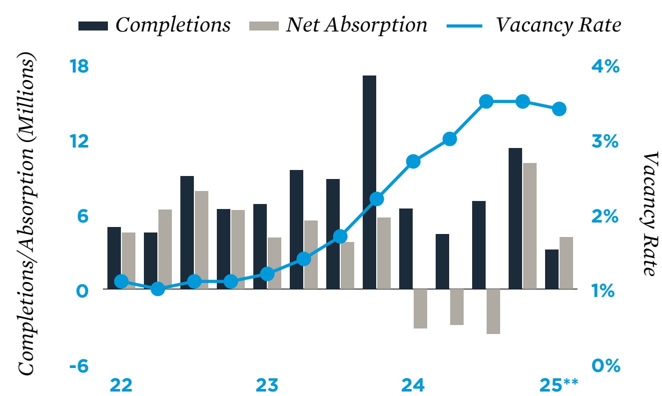
Trade tensions' impact limited for industrial sector. The rise in U.S. tariffs on Canadian imports has introduced headwinds within the auto industry. Companies like Stellantis and Linamar have paused production in response to new tariffs. The broader impact, however, has been relatively contained: no widespread plant closures or significant layoffs. As a result, industrial sector fundamentals held steady in the first quarter, with net absorption softening but staying in positive territory. Tariff levels to date have stayed well below the worst-case scenario first feared, reducing the risk of major future disruptions. Looking ahead, greater clarity around trade policy is expected to support a rebound in business confidence, helping sustain the recovery in space demand through the rest of 2025.

Developers and investors more sensitive to trade tensions. In the first quarter of 2025, industrial construction fell to its lowest level in five years, with some markets experiencing particularly subdued supply growth. This trend was also evident in the transaction market for industrial properties, where the number of deals declined by 21 per cent year over year. While the recent easing of trade tensions is expected to restore confidence among developers and buyers, the recovery may be more measured, especially because rising vacancy over the past two years has already dampened the appetite for new projects. As such, a meaningful rebound in development and investment activity may not materialize until later in the year, once stronger leasing fundamentals and policy clarity take firmer hold.

Wholesalers Building Up Inventory



Industrial Vacancy Rate Edged Lower in 1Q25



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* Through February; ** Through 1Q

Sources: IPA Research Services; Altus Data Solutions; Statistics Canada