

RESEARCH BRIEF

CANADA INDUSTRIAL

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JUNE 2026

Industrial Demand Set to Rise as Manufacturing Recovery Broadens

Manufacturing sales surged amid strong energy production. Manufacturing activity gathered further momentum in April, with output rising 4.2 per cent month-over-month and showing broad-based strength across 17 of 21 subsectors. Petroleum and coal products were the largest contributor to this gain, surging 23 per cent to reach an all-time high. Production of motor vehicle parts also increased, likely continuing to benefit from post-retooling recovery. In real terms, manufacturing sales rose 1.8 per cent, leaving them 1.7 per cent above the April 2025 level — marking the first year-over-year increase since December 2023. After muted growth in March, inflation-adjusted production in petroleum and coal products jumped 17.5 per cent, approaching the peak last observed in mid-2010.

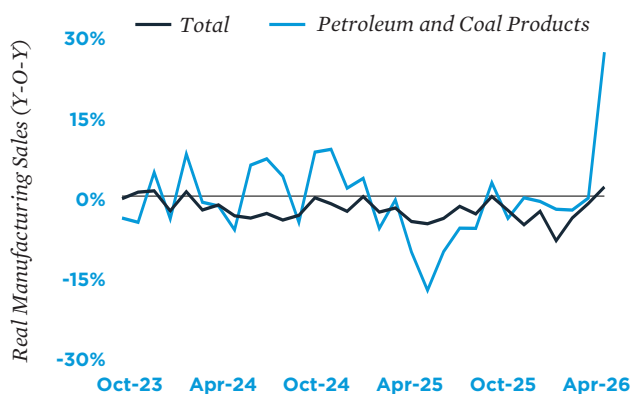
Nascent nonenergy manufacturing recovery taking shape. The global oil shortage, triggered by the closure of the Strait of Hormuz, was a key driver of manufacturing activity in March and April and is expected to keep total sales elevated through at least mid-June, supporting a rebound in second-quarter GDP growth. While the expected reopening of this critical energy corridor in late June may reverse some of the recent momentum in energy-related manufacturing, the broad-based gains recorded in April suggest that a recovery across non-energy sectors may be taking shape. The next key test for this recovery will be the near-term renegotiation of trade with the United States, which could introduce renewed uncertainty, as the U.S. has signaled that it may not renew the USMCA in its current form.

Industrial sector to benefit from manufacturing resurgence.

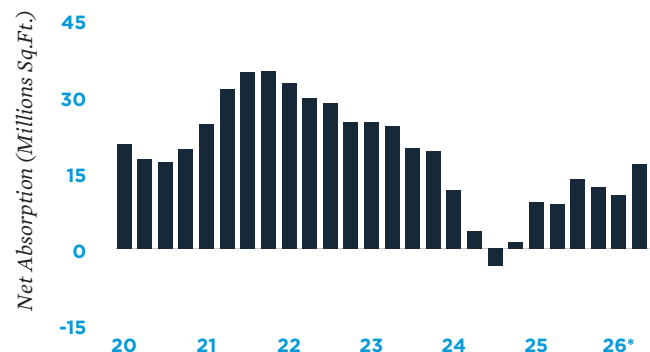
Alongside the rising production, inflation-adjusted unfilled orders reached a six-year high. At the same time, the inventory-to-sales ratio fell to pre-deterioration levels seen before trade conditions weakened last year. Together, these indicators point to a strengthening in underlying manufacturing demand. With capacity utilization remaining above 80 per cent in April, sustained demand at these levels could necessitate expanding production capacity, supporting increased demand for industrial space. Preliminary second-quarter data suggest that net absorption is on track to surpass first-quarter levels, indicating a steady recovery since the bottom in the third quarter of 2024. While trailing 12-month absorption remains roughly half of its 2021 peak, momentum has clearly shifted. If the recovery in manufacturing activity continues to broaden, this upward trend in absorption could have further room to extend.

Long-term oil dynamics support Alberta outlook. Alberta is leading the country in industrial demand, with second-quarter net absorption on track to reach the highest level nationally. While the reopening of the Strait of Hormuz may result in a near-term pause in oil production growth, longer-term momentum is likely to strengthen as Canada gains traction as a more reliable energy exporter. This is expected to support not only sustained demand for industrial space but also leasing momentum across other sectors in the province as the economy strengthens.

Oil Production Surge Drove Manufacturing



Industrial Leasing Momentum Broadening



* Preliminary trailing 12 months through 2Q

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