RESEARCH BRIEF

Marcus & Millichap

CANADA EMPLOYMENT

JANUARY 2025

Canada's Labour Market Ends the Year Strong as Lower Borrowing Costs Are Absorbed

Job gains beat expectations. Canada's labour market strengthened in December as lower interest rates began to feed through, with the economy adding 91,000 jobs. This was well above the consensus estimate of 25,000 and was the largest employment gain in two years. At the same time, Canada's population growth slowed to its lowest reading since early 2023, suggesting that the government's new immigration policies are working. The combination of strong job gains and easing labour force growth drove the unemployment rate down 10 basis points to 6.7 per cent. This was nevertheless a small change relative to the 90-basis-point increase for the full year, driven by strong resident gains earlier in 2024. Canada's labour market did show healthy gains last year, however, by adding 413,000 jobs — a 2.0 per cent yearly increase — which largely aligns with 2023 figures.

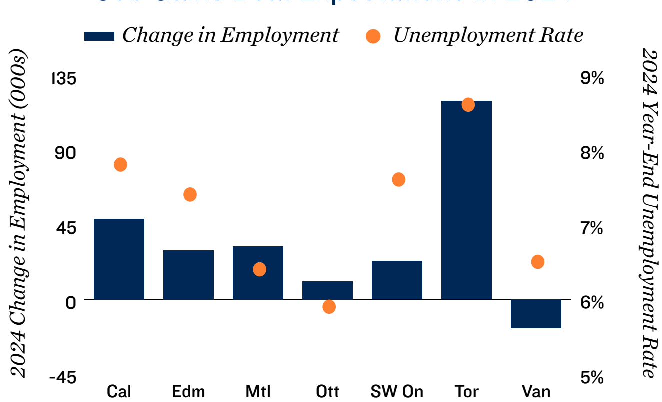
Central Bank has many factors to consider. Given a largely positive labour report amid strong job gains, lower unemployment and a jump in hours worked, investors pared back their bets for future rate cuts. Immediately following Canada's labour release, the odds of a 25-basis-point rate reduction in January fell from 70 per cent to 55 per cent. Even so, markets and many economists believe a January rate cut is likely. The unemployment rate is still up 190 basis points compared with the 2022 low, average annual hourly wage growth continued to slow to 3.8 per cent and job gains were led by public sector hiring. With roughly 8.8 per cent of Canadian workers dependent on U.S. demand for exports, potential tariffs could also drastically impact labour market conditions and economic growth, furthering the need for a less restrictive monetary environment.

Commercial Real Estate Outlook

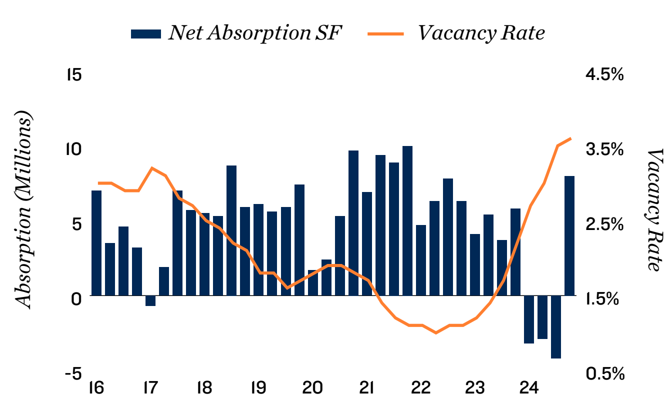
Industrial-related sectors end the year with healthy job gains. The transportation and warehousing industry, along with the manufacturing sector, saw some of the largest monthly job gains in December, increasing by 17,000 and 13,000 positions, respectively. This hiring corresponds with a return to positive territory for net absorption in the fourth quarter, following negative readings in the first nine months of 2024. Meanwhile, the under-construction pipeline is tapering. New demand and less new supply may lead to improved industrial fundamentals over the course of the year, especially under a less restrictive monetary policy environment. Vacancy could stabilize around the 4.0 per cent to 4.5 per cent range by year-end. Regardless, with the sector at large holding the highest proportion of employment dependent on U.S. demand, Canada's industrial sector is the most exposed to potential tariffs. Investors should be aware of these evolving risks.

Specialized office-using employment leads annual gains. Canada's office sector outlook could become more positive over the course of 2025. With interest rates now firmly trending down, hiring intentions are likely to rise in the year ahead; at the same time, a growing number of firms are implementing return-to-work policies. Complemented by the nation's historic construction cycle nearing completion, the sector could see some stabilization by year-end. Some specialized office sectors are in particularly favourable states, such as health care and life science uses. In 2024, this trend was highlighted by a 130,000-position increase in health care and social assistance employment, representing the largest sector increase.

Job Gains Beat Expectations in 2024



Industrial Sector Could Stabilize in 2025



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