

RESEARCH BRIEF

CANADA BUSINESS OUTLOOK SURVEY

IPA INSTITUTIONAL
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Business Sentiment Bottomed Out But Could Turn Negative if Tariff Threats Materialize

Falling interest rates improved sentiment. Business confidence climbed in the final quarter of 2024, driven by better future sales expectations as well as reduced cost and price pressures. This positive outlook was primarily supported by easing financial conditions and the anticipation of further rate reductions. However, businesses also expressed concerns about the potential impact of the new U.S. administration. A significant share of surveyed firms anticipated rising input costs and declining export sales. Since the survey was conducted between Nov. 7 and Nov. 27 – with the announcement of a potential 25 per cent tariff on all U.S. imports from Canada on Nov. 25 – it is possible the survey did not fully capture the impact of trade tensions. Depending on the evolution of Canada–U.S. relations, business sentiment could worsen again in the first quarter of 2025.

BoC will stay dovish to support growth. As a leading indicator, the uptick in future sales expectations suggests that GDP climbed at an accelerated pace entering 2025. Inflation expectations rose slightly but remained anchored within the BoC's target, with wage and cost pressures continuing to soften. These dynamics are likely to be viewed positively by the central bank, as its rate reductions appear to have supported economic growth while maintaining inflation stability. Nevertheless, given the still-soft economic backdrop and the potential for U.S. tariffs to be officially announced on Feb. 1, investors continue to expect a 25-basis-point rate cut in January. Throughout 2025, monetary policy will likely remain supportive to cushion the economy against potential external headwinds.

– Sentiment Improving While Still Subdued –

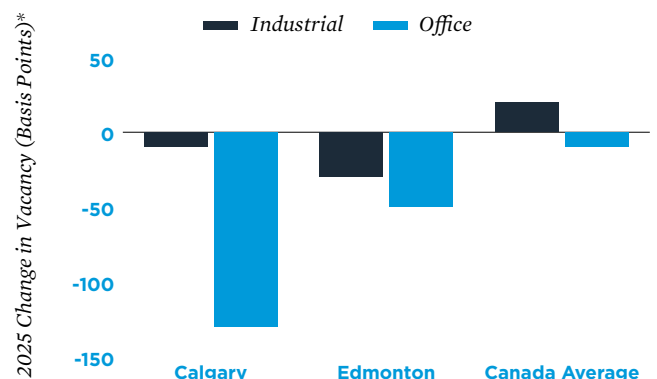


Commercial Real Estate Outlook

Western Canada to benefit from energy sector tailwinds. The BoC's consultations with industry leaders revealed strong business sentiment regarding future growth in Canada's energy sector. This optimism is fuelled by the commencement of commercial operations for the Trans Mountain Expansion pipeline, which is set to boost energy production and capital expenditures as well as expand access to a more diversified export market. Calgary and Edmonton are projected to see healthier gains compared with the rest of Canada as a result, strengthening fundamentals across major commercial real estate sectors. Demand for industrial space in these markets is expected to outpace construction and drive a decline in vacancy rates. Additionally, office demand will benefit from above-average job growth, leading to the largest vacancy rate reductions in Canada.

Retail fundamentals to remain sound. Similar to the Business Outlook Survey, the newly released Survey of Consumer Expectations also reflects a positive outlook. While still in negative territory, consumer sentiment improved for the second consecutive quarter, driven primarily by lower interest rates. Over the next 12 months, Canadian households are expected to increase both essential and discretionary spending, with outlays anticipated to rise faster than prices. This optimism is poised to bolster a per-capita recovery in consumer spending later this year despite demographic challenges stemming from tighter immigration policies. Although overall demand for retail space is forecast to edge lower, the vacancy rate is projected to hold near its record low, aided by a continued pullback in construction activity and growing per capita spending.

— Alberta Markets to Outperform in 2025 —



* Forecast

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



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