RESEARCH BRIEF
CANADA MONETARY POLICY

IPA INSTITUTIONAL PROPERTY ADVISORS
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Growing Momentum Prompts Central Bank to Return to a More Gradual Pace of Easing

Central bank moves as expected. The Bank of Canada cut its policy rate by 25 basis points in January, bringing it to 3.0 per cent. The central bank cited soft labour market conditions, at-target inflation and an economy operating in excess supply as its main reasons for undertaking additional easing efforts. The BoC did note, however, that past rate cuts are beginning to boost economic activity. The recent strengthening in consumption and housing is likely to continue, while new capacity in the oil and gas sector amid the opening of the Trans Mountain pipeline could support exports. Anticipating economic growth will come in slightly above potential, the central bank returned to a more gradual pace of easing.

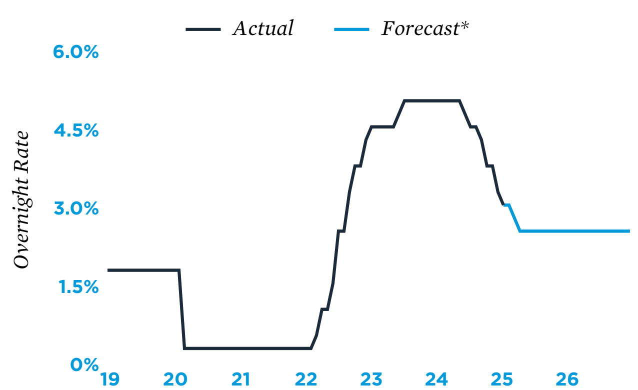
Tariff threat could alter Bank of Canada's outlook. Though the BoC expects an uptick in GDP growth to 1.8 per cent in both 2025 and 2026, these baseline forecasts are made excluding tariffs as a influencing factor due to the uncertainty surrounding U.S. trade policy. The bank did say, however, that if a 25 per cent levy does materialize, it could knock 2.5 per cent off GDP growth in year one, posing a challenging situation for Canada's monetary authority. The BoC dropped anything resembling forward guidance, suggesting there may be some uncertainty within the central bank's response. Nevertheless, it does appear the BoC expects some tariffs to be applied. The bank stated it would have to balance the upward and downward pressures on inflation that stem from a potential trade war. This could indicate that the bank may not cut interest rates by much more than expected, even if tariffs hit the economy hard.

Commercial Real Estate Outlook

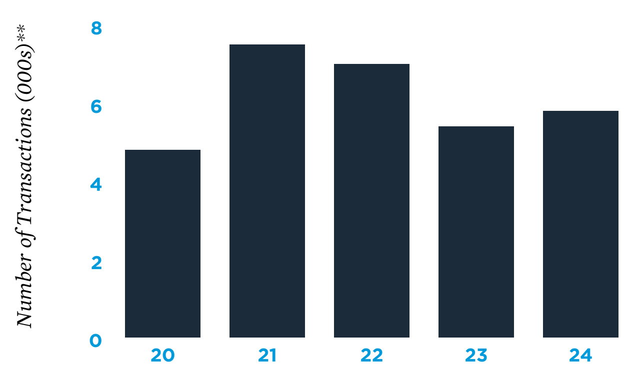
CRE investors trying to navigate economic landscape. The Bank of Canada has now cut its overnight rate six consecutive times, bringing it down 200 basis points from its April 2024 peak. This has instilled some cautious optimism in commercial real estate investors, with the total number of sales among major commercial property types jumping nearly 10 per cent annually in 2024. Regardless, ongoing uncertainties could taper the pace of increase over the early parts of 2025. Not only have longer-term bond yields largely stabilized since August of last year, but a slower pace of monetary easing could also mean that this loosening cycle is nearing completion. Meanwhile, potential U.S. tariffs are creating more uncertainty about Canada's global competitiveness. Taking these factors into account, it may take more time than initially expected for investors to come to terms with Canada's new investment climate.

Canada still offers long-term potential. Despite potential headwinds in the short- to medium-term, Canada's long-term investment prospects remain appealing. Supply-side pressures for most property types are starting to abate, likely preventing any major setback in underlying fundamentals. Demand-side dynamics are also favourable. Canada's economic and political stability maintain the nation's appeal as a market for foreign capital, while historic population growth in recent years will continue to act as a tailwind for retail, industrial and multifamily demand. Additionally, lower interest rates are likely to drive household consumption and overall economic growth, upholding tenant and investor demand across the property spectrum over the long term.

Policy Rate Forecast to Stabilize in 2025



Rate Cuts Create Some Optimism for Investors



* Forecast provided by Capital Economics; ** Includes multifamily, retail, office, industrial & hotels
Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Capital Economics; CoStar Group, Inc.; Statistics Canada