# RESEARCH BRIEF
## CANADA INFLATION

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## As Inflation Pressures Mount, Canada's Central Bank May Consider a March Pause

**Underlying inflation details point to growing price pressures.** Canada's consumer price index edged up 10 basis points to 1.9 per cent year over year in January, marking the sixth consecutive month that inflation was at or below the Bank of Canada's 2.0 per cent target. Subdued headline growth was largely a result of the GST tax holiday, which runs between mid-December and mid-February; yet when excluded, underlying inflation pressures are starting to mount. As past interest rate cuts are absorbed by the broader economy, household spending has begun to gain momentum. Consequently, the central bank's preferred measures of core inflation, CPI-trim and CPI-median – which use tax-adjusted data – once again rose by an above-target rate of 0.23 per cent on average, with the three-month annualized rate hitting 3.0 per cent. This could suggest the Bank of Canada is nearing the end of their loosening cycle, though this depends on evolving trade relationships with the United States.

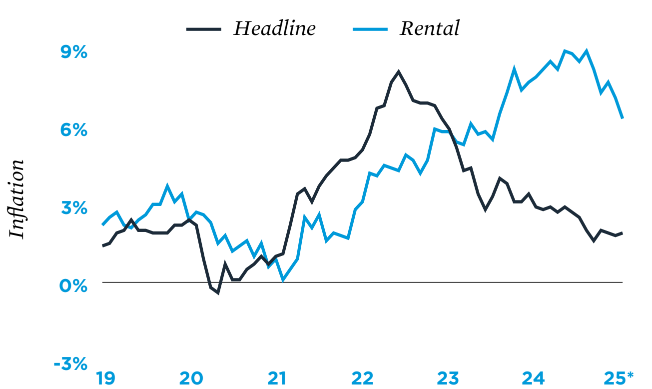
**Tariff threats to push central bank towards further cuts.** While underlying inflation pressures need to be monitored, real GDP growth for 2024 is estimated to come in at 1.3 per cent – the lowest reading since the global health crisis. With potential tariffs also hanging over Canada's economy, implemented or not, these looming trade threats and ongoing uncertainties are likely to weigh on investment activity over the early parts of the year. Real GDP growth is likely to remain subdued in 2025 as a result and could contract significantly if U.S. tariffs fully materialize. As such, although the Bank of Canada may pause in March, additional rate cuts are still expected in order to position Canada's economy for a potential trade war.

## Commercial Real Estate Outlook

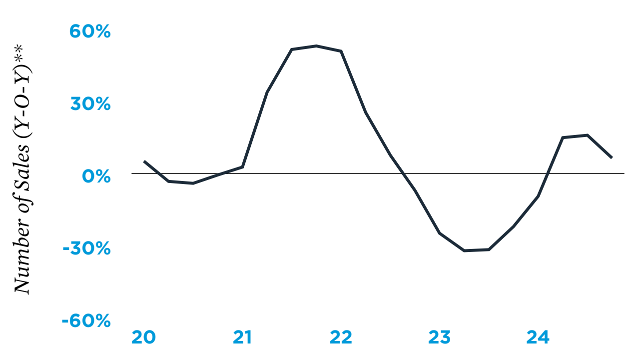
**Sales recovery to be more gradual than initially expected.** With the battle against inflation largely won and interest rates trending down, optimism was growing across the commercial real estate sector heading into 2025. Consumer and business confidence was gaining momentum, which was poised to drive a recovery in household spending and business investment. As a result, CRE investors were slowly returning from the sidelines. The number of sales rose 15 per cent quarter over quarter to end the year, translating into an annual increase of 6.0 per cent. As uncertainty returned to the economy amid protectionist U.S. trade policy, however, many investors that were ready to deploy capital have since transitioned back to a wait-and-see approach. The combination of lower borrowing costs and still-healthy fundamentals across most property types are still expected to drive an uptick in sales this year, but it is likely to be more gradual. Grocery-anchored retail, multifamily and multi-tenant industrial will hold as preferred investment options.

**Multifamily to help keep inflation at bay.** Canada's multifamily sector saw vacancy jump 70 basis points to 2.2 per cent in 2024, causing annual rent growth to moderate from a record high of 8.4 per cent in 2023 to 6.7 per cent last year. This shift is consistent with rental inflation, which has also trended down 60 basis points to 7.1 per cent over the course of 2024. Looking ahead, rent growth will continue to ease as tighter immigration policies and healthy supply growth bring some balance back into the market. Rental inflation falling further to 6.3 per cent in January highlights this, as it should help keep inflation around target over the coming year.

### Softening Rent Growth to Keep Inflation at Bay




### Investment Activity Softened Entering 2025




** Through January; ** Trailing 12 months*
*Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada*