RESEARCH BRIEF
CANADA MONETARY POLICY

IPA INSTITUTIONAL PROPERTY ADVISORS
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Bank of Canada Holds Key Policy Rate as It Waits for More Trade Clarity

Uncertainties weigh on governing council's decision making. After seven consecutive cuts, the Bank of Canada held its policy rate at 2.75 per cent in April. The monetary authority stated that major shifts in U.S. trade policy and the unpredictability of tariffs were key factors being considered. Not only has protectionist trade diminished economic growth prospects and raised inflation expectations, but looming uncertainty also makes it challenging to project future outcomes. At the same time, price pressures have been mounting in recent months, which has also increased concerns over a repeat in the post-pandemic inflation experience. Taking these factors together, the central bank decided to maintain its overnight rate in order to see how the fluid trade policy plays out, highlighting two main scenarios: one where tariffs are limited in scope and inflation remains around 2.0 per cent, and another where a protracted trade war drives Canada into a recession and pushes inflation above 3.0 per cent.

Further rate cuts still expected. Despite the Bank of Canada pausing its monetary easing cycle, the accompanying press release was dovish. The Bank iterated that consumption, residential investment and business spending all looked to have weakened in the first quarter, while trade tensions are also disrupting the recovery in the labour market. As a result, GDP growth will likely weaken in the first and second quarter amid widespread uncertainty curbing business and consumer confidence. U.S. tariffs and retaliatory measures could also be limited in scope once the dust settles, mitigating some inflation risks and allowing the BoC to cut its policy rate to 2.0 per cent.

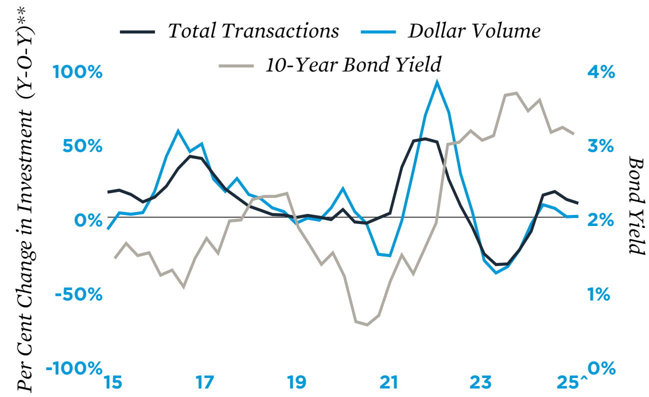
Commercial Real Estate Outlook

Market dynamics may present favourable entry point. Lower borrowing costs and growing economic momentum heading into 2025 were initially expected to drive a healthy recovery in commercial real estate transaction activity; however, looming tariff threats and still-fluid trade policy have stalled that progress. Preliminary estimates suggest total dollar volume transacted over the trailing 12 months ended March was largely unchanged, while the pace of increase continued to slow for total sales. Nevertheless, fundamentals remain sound across most major property types, as historic construction cycles are tailing off amid declining starts. An interest rate pause in April may signal to the market that a more stable lending environment is forming. Combined with softening prices over the past year, this shift could offer an attractive entry point for investors with a long-term strategy, driving a recovery in sales over the latter part of the year – albeit at a more gradual pace than originally anticipated.

Builders facing some headwinds. With construction financing primarily priced around shorter-term money, a lower overnight rate was first expected to benefit residential developers by helping projects pencil in a more stable lending environment. Protectionist trade policies, however, have the potential to disrupt supply chains, which could lead to higher prices. Meanwhile, easing demand-side dynamics – amid tariff-related labour risks, stretched affordability and tighter immigration – is causing pre-sales to weaken, while also pushing up vacancy and causing rents to soften in new-builds. This trend may stall development at a time when new housing is in dire need.

Longer-Term Money Could Soon Stabilize

Investment Recovery Stalls Amid Uncertainties



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** Through April 15; ** Four-quarter moving total; ^ Preliminary estimates through 1Q*
Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada