

# RESEARCH BRIEF

## CANADA BUSINESS OUTLOOK SURVEY

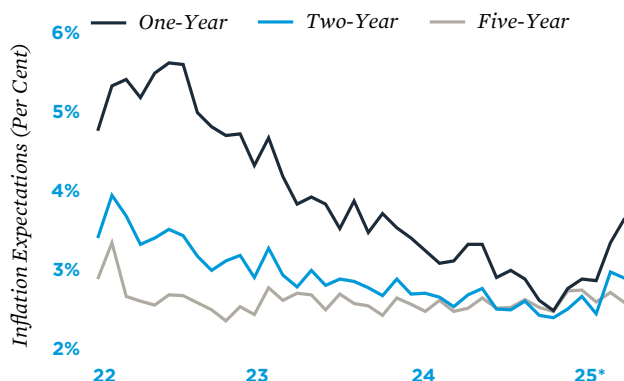
APRIL 2025

### Tariff Threats Shake Business Confidence, Leaving Investors on Edge

**Trade tensions dampened sentiment.** The Business Outlook Survey Indicator declined in the first quarter as businesses began factoring U.S. tariffs into their operations. Firms expected softer sales growth, driven by a deterioration in export orders. Uncertainty stemming from trade tensions took a toll on investment, reducing firms' future spending on machinery and equipment. Hiring intentions also nosedived, as the percentage of survey respondents planning to increase employment fell to a nine-year low. While these shifts in confidence reflect the impact of worsening trade relations, only 30 per cent of the firms surveyed had explicitly incorporated tariffs into their outlooks. Because the survey window coincided with the period when the U.S. paused the implementation of tariffs on Canada in February, most of the results likely do not reflect the current state of business sentiment.

**Reflation risks lower than initially feared.** While both this survey and the Consumer Expectations Survey were conducted before the broad escalation of U.S. tariffs, inflation expectations were already changing, which is an important consideration for the Bank of Canada. Tariff threats pushed up one-year inflation expectations, but businesses' five-year expectations stayed well anchored. The consumer survey also shows overall anticipated price growth is still well below post-pandemic heights. As Canada largely avoided the new U.S. tariffs announced in early April, inflation expectations will likely stay within the BoC's preferred range moving forward, easing the risk of significantly higher price growth. This outlook gives the central bank more room to remain dovish through the rest of 2025.

#### Canada Inflation Expectations Trends

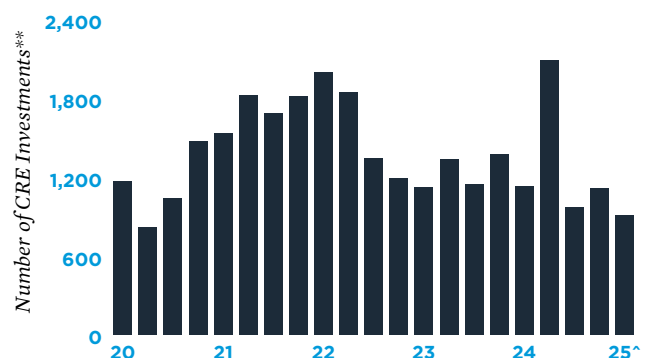


### Commercial Real Estate Outlook

**Canada poised to gain a trade edge.** Compared with the rest of the world now threatened by the new U.S. tariffs, Canada has a comparative advantage. Roughly 80 per cent of the nation's total exports to the U.S. – those that comply with the Canada-United States-Mexico Agreement – will be exempt. This latest development in trade relations marks a dramatic shift from the threat of 25 per cent import duties just a month ago and should bolster sentiment in Canada's commercial real estate sectors. The industrial sector was previously expected to stand at the forefront of trade tensions. Now, it will likely see less demand destruction, as slowing activity in manufacturing, transportation and warehousing should be less severe. That said, with 25 per cent tariffs imposed on steel, aluminum and motor vehicles, Ontario and Quebec – the primary sources of production for these commodities – may still face disproportionate headwinds.

**Investors still facing uncertainties.** The trade advantage Canada has gained will improve the near-term growth outlook; however, uncertainty still lingers for investors. Escalating trade tensions could plunge the global economy into recession, which would reduce overall trade volumes worldwide, weakening demand for Canada's exports. As an economy reliant on energy exports, Canada could also face an economic downturn from a sustained decline in oil prices – which has already fallen by 15 per cent in 2025 – driven by lower global demand. These new uncertainties may keep investors apprehensive about reentering the market prematurely. Nevertheless, more friendly borrowing conditions and softening prices present opportunities for investors with long-term strategies.

#### CRE Investment Declined in Early 2025



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\* Through March; \*\* Includes investments in apartment, hotel, industrial, office and retail properties valued over \$1 million; ^ Preliminary estimate for 1Q 2025.

Sources: IPA Research Services; Altus Data Solutions; BoC; Capital Economics