RESEARCH BRIEF
CANADA INFLATION

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

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Inflation Print Suggests Rate Pause, While Investors Seek Stability

Price pressures persist. Canada inflation edged up 20 basis points to 1.9 per cent in June. Although the headline reading is still below the Bank of Canada's 2.0 per cent target amid the removal of the consumer carbon tax, when excluding energy, CPI inflation held steady at 2.7 per cent in June. Meanwhile, the three-month average annualized pace of CPI-trim and CPI-median hit a six-month high of 3.5 per cent. Gains were broad-based, as tariffs renewed upwards pressure on goods prices after two months of decline. Clothing and footwear prices rose 0.7 per cent monthly, while the index for health and personal care increased 0.3 per cent. Together, these factors suggest that costs pressures persist in Canada's economy, likely stemming from the earlier depreciation of the loonie and the impact of retaliatory tariffs.

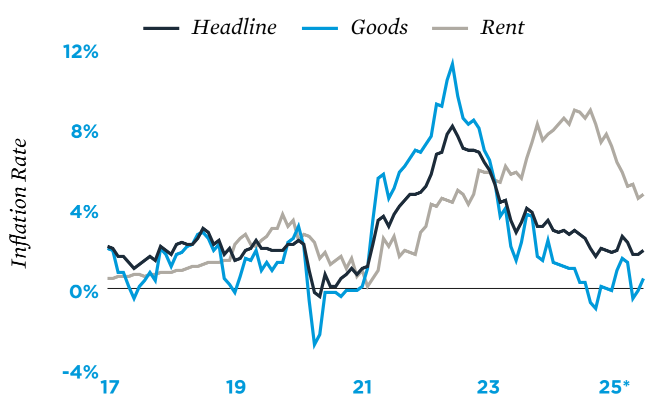
Third rate pause almost all but certain. Economic data over the past month has shown some resilience. Canada's economy added 83,100 jobs in June, and housing markets in some metros appear to be turning the corner. Meanwhile, an acceleration in headline inflation, as well as mounting core pressures, further underscore the uncertain economic environment Canada's Central Bank faces amid looming trade risks. Because of these factors, money markets and economists have essentially locked in a rate pause later this July, with the implied probability in the swap market increasing to 90 per cent. Nevertheless, a headline inflation rate below target also gives the BoC more room to stimulate an economy that is vulnerable to a prolonged trade war with the United States. Money markets and economists are still pencilling in one, maybe two additional cuts this year.

Commercial Real Estate Outlook

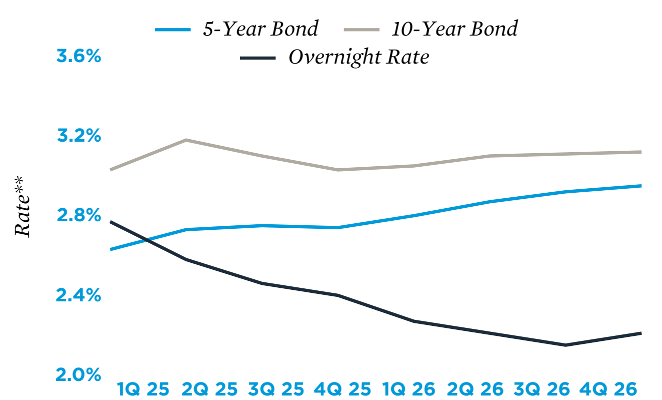
Housing costs creep up. Shelter prices rose by 0.2 per cent monthly in June, partially driven by a 0.4 per cent monthly jump in the rent index. As a result, the year-over-year change in rent rose to 4.7 per cent — up 20 basis points from May's reading. That said, this is likely not the beginning of a reacceleration in shelter inflation. When looking at actual multifamily rents, the pace of growth is slowing significantly, coming on the heels of historic completions, strained renters' budgets and tighter immigration. The nation's vacancy rate is projected to rise to the 3.5 per cent-to-4.0 per cent range this year — up from the all-time low of 1.5 per cent in 2023. Consequently, annual rent growth is set to slow across all major metros, with some segments and markets seeing an outright fall in effective rents.

Investors seeking stability. Commercial real estate sales appeared to bottom in late 2024 before picking up in the first quarter of 2025 amid lower and more stable borrowing conditions. Yet preliminary estimates for the second quarter suggest total sales were largely unchanged, meaning tariff risks slowed this momentum soon after it started. Trade headwinds could further temper buyer confidence this year, while June's strong inflation print may trim expectations for additional overnight rate cuts. Nevertheless, commercial real estate not only offers stable cash flows in times of economic uncertainty, but the current borrowing environment is also becoming less volatile. Major banks are forecasting stable bond yields over the coming years, which presents some clarity on mortgage rates. This may present favourable conditions for opportunistic investors to reenter the market.

Goods & Rent Inflation Accelerates



Mortgage Pricing Is Largely Stabilizing



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** Through June; ** Average of forecasts from RBC, TD, Scotiabank, BMO and CIBC*
Sources: IPA Research Services; Altus Data Solutions; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada