

# RESEARCH BRIEF

## CANADA GDP

MARCH 2026

### Domestic Demand Proves Resilient While Near-Term Outlook Depends on Trade Clarity

**Underlying details healthy despite weak headline.** Driven by a drawdown in inventories, Canada's economy contracted by a 0.6 per cent annualized rate in the final quarter of 2025 — weaker than the consensus expectation for a 0.2 per cent decline. Despite the soft headline print, the underlying composition of growth was more constructive. Household spending rose 1.7 per cent, underpinned by a 3.6 per cent increase in services consumption, suggesting domestic demand remained firm. Investment also improved, rising 3.3 per cent, largely reflecting a 20 per cent surge in public-sector outlays. However, business investment edged down 0.2 per cent, underscoring ongoing caution among firms as trade-related uncertainties continued to weigh on capital expenditure plans. That said, machinery and equipment investment rebounded after two consecutive quarterly declines, potentially signalling the early stages of a tentative recovery in private-sector capital spending.

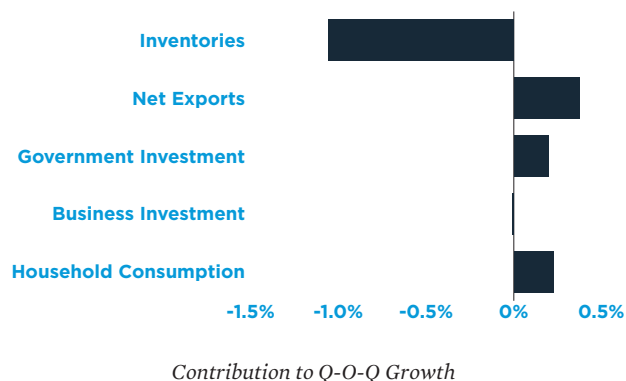
**Bank of Canada remains flexible to respond to near-term risks.** With growth of 1.7 per cent in 2025, Canada's economy avoided the recession that many had initially feared and demonstrated resilience through the remainder of the year. Earlier interest rate cuts helped stabilize consumer spending, while increased fiscal outlays provided an additional buffer to growth. Against this backdrop, the Bank of Canada has room to keep policy rates on hold in the near term, while retaining flexibility to respond to downside risks with further easing if necessary — particularly amid lingering uncertainty surrounding the midyear USMCA joint review.

### Commercial Real Estate Outlook

**Retailers reluctant to add space amid softening demand signals.** While household spending rose 2.3 per cent in 2025 — signalling a healthy consumer sector — this resilience did not translate into stronger retail market performance. Subdued business sentiment amid persistent trade-related uncertainties, coupled with slowing population growth, discouraged retailers from expanding. Combined with the closure of the Hudson's Bay, net absorption slipped into negative territory in major metros, including Vancouver, Toronto, and Southwestern Ontario. Looking ahead, lower interest rates should continue to underpin consumer spending. However, soft labour market conditions, subdued business confidence, and further tightening in immigration are expected to temper retailer expansion. Consequently, the vacancy rate is projected to approach 3.0 per cent by year-end. While still low by historical standards amid limited new supply, this would mark the highest level since 2017.

**Trade talks key to near-term industrial sector momentum.** The preliminary estimate shows that GDP was little changed in January, with manufacturing activity remaining weak — underscoring the persistence of trade-related headwinds. Although industrial space absorption staged a strong rebound in the final quarter of 2025, this softer manufacturing backdrop, combined with lingering uncertainty ahead of the USMCA joint review, may prompt some operators to delay expansion plans until greater policy clarity emerges. As a result, space demand could moderate in the near term, at least until trade conditions become clearer in the second half of the year.

### Decline in Inventories Weighed on 4Q GDP



### Retail Leasing and Household Spending

