

# Canada Monetary Policy

March 2025



## **Amid Trade Threats, BoC Lowers Policy Rate Despite Growing Inflationary Pressures**

**Bank positioning economy for looming tariff uncertainties.** The Bank of Canada lowered its overnight rate 25 basis points to 2.75 per cent. Though markets were favouring a cut, it was not so certain among major banks, with some economists calling for a pause. In recent months, inflationary pressures have begun to mount, which was largely stoked by falling interest rates. In the fourth quarter, real GDP growth accelerated to 2.6 per cent annualized, driven by a 16.7 per cent surge in residential investment, a 10.7 per cent increase in business investment and a 5.6 per cent jump in consumer spending. Retaliatory tariffs are also heightening inflation risks.

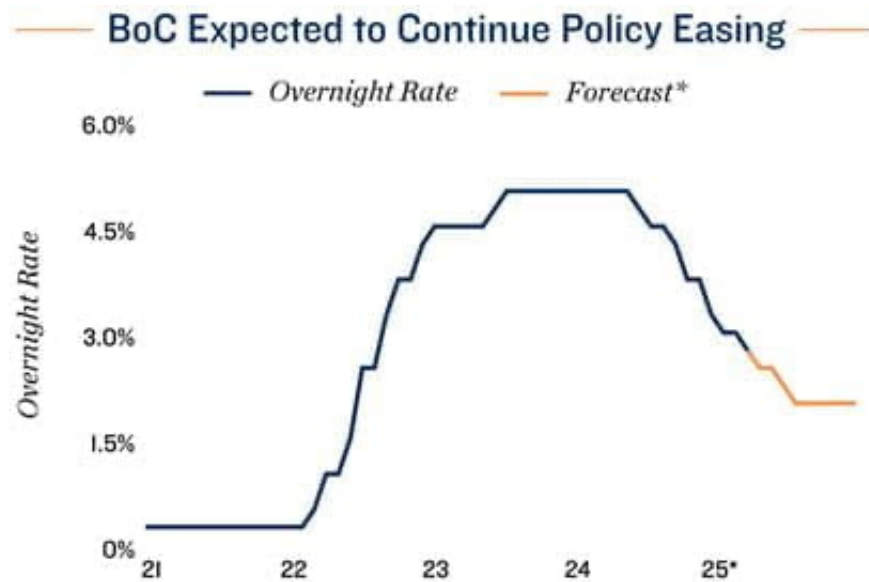
Nevertheless, the central bank believed the downside risks to economic growth amid an ongoing trade war outweighed these potential price pressures. In order to best position the economy against potential trade fallouts, the Bank of Canada continued its monetary easing.

**Uncertainties a driver for future rate cuts.** A prolonged trade war will drastically impact Canada's economy. While there is still hope a new trade agreement can be reached, the widespread uncertainty beginning the year is already weighing on business and consumer sentiment. Consequently, it is widely believed economic growth will slow over the first half of the year, with recession risks rising the longer trade uncertainties hold. As a result, future rate cuts are expected. Swap markets and many banks have lowered terminal rate forecasts to the 2.0 per cent to 2.25 per cent range. That said, the central bank noted that monetary policy cannot offset the impact of a trade war and that it must safeguard against tariff-related price increases, confirming future rate cuts are not a given.

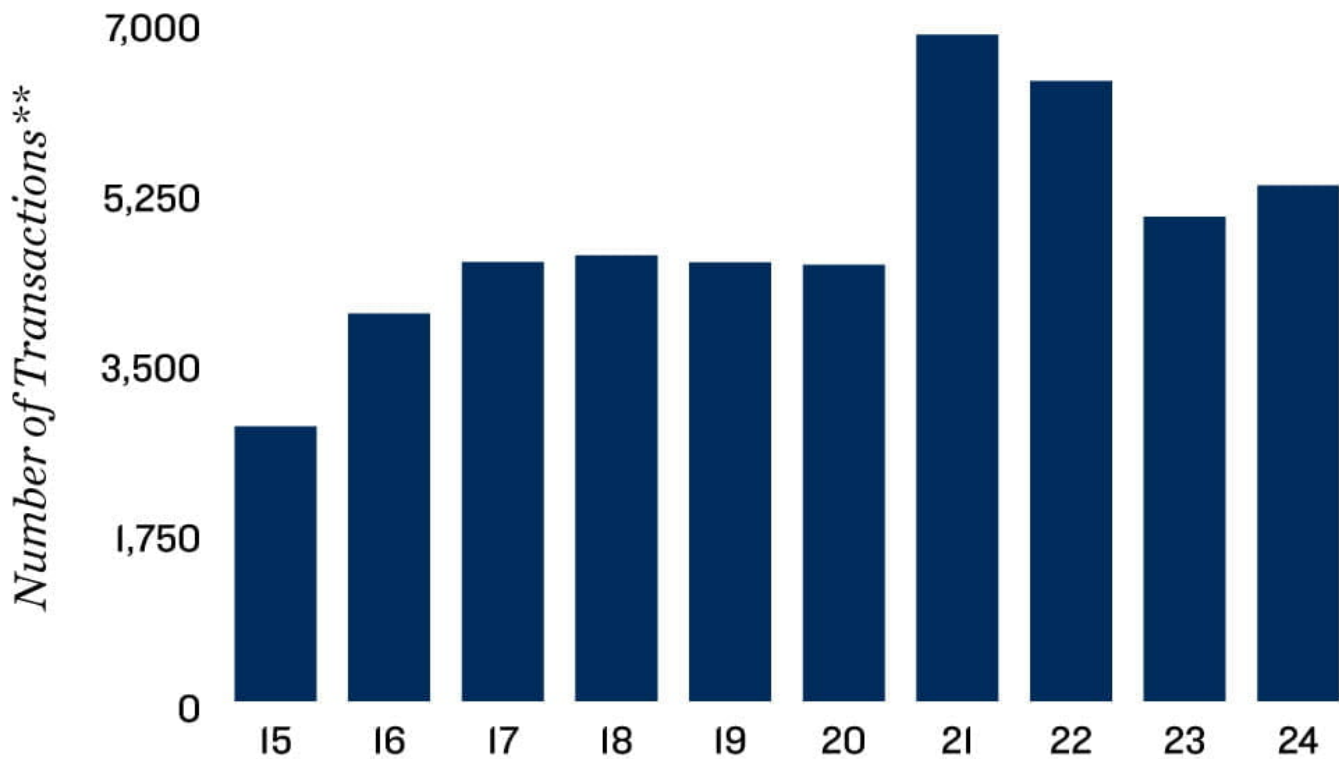
## **Commercial Real Estate Outlook**

**Sales recovery could stall.** Heading into 2025, commercial real estate sales showed early signs of recovery. The total number of transactions jump nearly 7.0 per cent annually last year, as lower interest rates narrowed price expectation gaps and drove investor confidence. At the same time, a more friendly monetary environment was also beginning to fuel economic momentum, painting an optimistic space demand outlook across the property spectrum. Sales were mainly fuelled by increases in the \$1 million to \$20 million category, as these relatively smaller deals were able to pencil more frequently in the still-restrictive interest rate environment. Looking ahead, however, ongoing trade uncertainties may cause investors to once again take a wait-and-see approach. While lower borrowing costs and healthy fundamentals were initially expected to stoke further investment activity, a more gradual recovery is now likely.

**Construction sector to face some challenges.** A lower overnight rate tends to bring down interest rates across the curve, but most commercial real estate loans are priced around longer-term money, such as five- and ten- year bond yields. These metrics have largely stabilized, as rate cuts have already been priced into the market. In contrast, construction loans tend to follow shorter-term yields, which are more influenced by changes in the policy rate. It was initially expected that development would gain momentum over the course of 2025 amid a less restrictive interest rate environment. However, demand uncertainties arising from ongoing trade threats and tighter immigration policies, in addition to tariffs on steel and aluminum pushing up costs, could cause construction to slow.



## — Investment Activity Began to Recover in 2024 —



*\* Overnight rate through March; forecast provided by Capital Economics; \*\* Includes sales \$1 million and above across multifamily, retail, office, industrial and hotel property types Sources: Altus Data Solutions; Bank of Canada; Capital Economics; Statistics Canada*