Canada GDP

March 2025

Falling Interest Rates Fuel Strong Growth Rebound Ahead of Tariff Impact

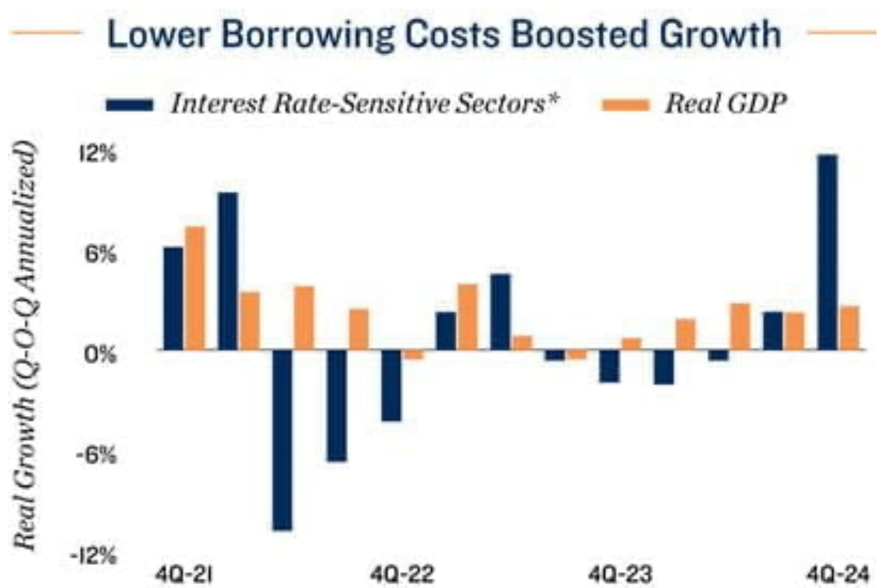
GDP growth staged a comeback. Canada’s economy grew at an annualized pace of 2.6 per cent in the final quarter of 2024, far exceeding market expectations. Lower interest rates spurred a substantial rebound in sectors sensitive to borrowing costs, led by a 16.7 per cent surge in residential investment and a 14.2 per cent jump in durable goods consumption. On a per-capita basis, GDP expanded at an annualized rate of 0.9 per cent amid slowing population growth, reaching its highest level since the first quarter of 2023. Combined with a sizable upwards revision for the first three quarters, total GDP grew 1.5 per cent in 2024, surpassing previous projections. While January is projected to see a 0.3 per cent monthly gain, trade tensions could weigh on economic growth in the near term, if escalated.

BoC to pause rate cuts in March amid growing uncertainties. The stronger-than-expected GDP growth, combined with upside surprises in the latest inflation and job reports, indicates that Canada's economy is rebounding faster than anticipated on the back of falling interest rates. While this strong momentum is welcome news for the Bank of Canada, it has also reduced the urgency for another rate cut in March. With mounting uncertainties surrounding trade tensions, holding interest rates unchanged for now would give the central bank more flexibility with policy easing if the U.S. tariffs take effect in March and significantly slow economic growth. The BoC will closely monitor upcoming data releases, which will provide crucial insights into the early impact of evolving trade policies.

Commercial Real Estate Outlook

Surge in consumption supports retail space demand. The 5.6 per cent annualized gain in final domestic demand lays a solid foundation for space demand across commercial real estate sectors. In the retail sector, for example, the strong rebound in household expenditure – particularly on a per-capita basis – signals a notable improvement in consumer confidence. This trend highlights the effectiveness of lower interest rates in boosting consumption, exceeding our expectations that such recovery would occur later in 2025. As consumer spending is expected to keep improving, space demand may surpass initial projections, putting additional downwards pressure on retail vacancy this year amid sluggish construction activity. This positive outlook, however, could be disrupted by an escalation in trade tensions. With over 13 per cent of total household final consumption expenditures dependent on imports from the U.S., a trade war could drive up the cost of living, posing some risks for consumers as well as retail property performance.

Investors adjust to new reality. Investor sentiment will largely hinge on upcoming developments in both trade and domestic policies, yet the stronger-than-expected GDP report, along with the delay of U.S. tariffs, may have led to some improvement. Investors will need to become comfortable with a greater level of uncertainty that is expected to persist throughout this year. Properties well positioned to weather tough economic conditions will likely be preferred among investors, including suburban neighbourhood centers anchored by essential-based retailers and industrial properties occupied by tenants with well-developed domestic supply chains.



Retail Vacancy Down to Record Low in 2024

** Sectors sensitive to interest rates include durable goods consumption and gross capital formation*

Sources: Marcus & Millichap Research Services; Altus Data Solutions; Bank of Canada; CoStar

Group, Inc.; Statistics Canada