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British Columbia
Real Estate Association

Economics
MORTGAGE RATE FORECAST

March 2025

HIGHLIGHTS

- Ongoing trade tensions are creating significant uncertainty in financial markets.

- Surprisingly strong economic growth to close 2024 could be upended by tariffs.

- The Bank of Canada's response to tariffs is complicated by potentially higher inflation.

Mortgage Rate Outlook

The bond market has experienced significant volatility since the 2024 US presidential election, reflecting the market's uncertainty about the Trump administration's commitment to its campaign rhetoric. That volatility has only continued with the on-again, off-again nature of US tariff policy and the erratic approach to policy in general. While uncertainty remains extremely elevated, markets appear to be assuming at least some level of tariffs will be in place over the next year, and as such are pricing in a much weaker economic outlook. Consequently, the Government of Canada five-year bond yield appears to be settling in a range of 2.6 to 2.75, implying that the Bank of Canada still has some rate cuts left.

Assuming that US tariffs on Canadian imports remain in effect, we anticipate a further decline in yields as investors seek safer assets amidst the economic uncertainty. Meanwhile, the impact on five-year fixed mortgage rates is expected to be twofold.

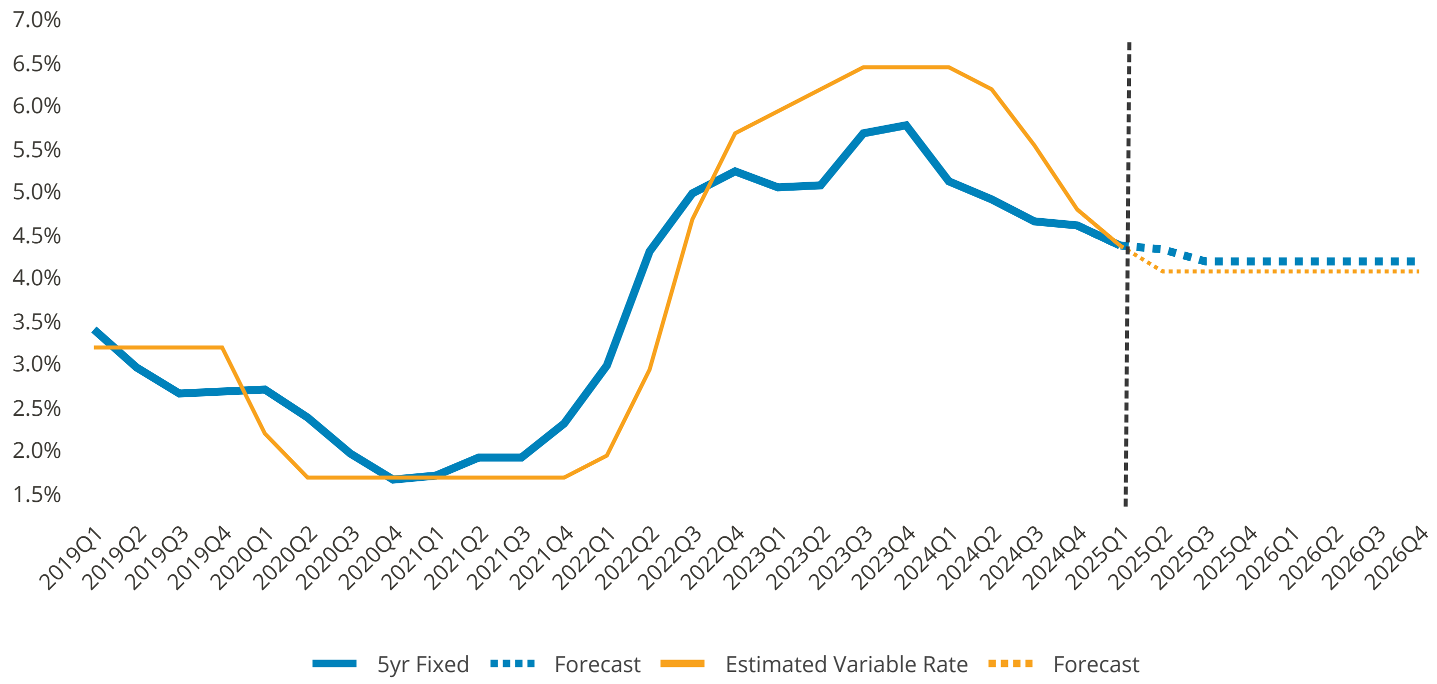
Initially, there may be a temporary rise in rates as lenders price in the higher risk associated with the economic environment, but that risk should ultimately fade and rates should move lower if the Bank of Canada needs to act aggressively to stimulate the economy. That said, the impact of retaliatory tariffs on US imports to Canada complicates matters in that they will drive inflation higher. The Bank of Canada expects that the impact of a trade war will mean approximately 0.5 points of higher inflation compared to a no-tariff baseline. If inflation is running slightly hotter than the Bank of Canada prefers, it may be somewhat handcuffed in how it can respond to a weakening economy.

Our forecast assumes that the Bank of Canada lowers its policy rate to 2.5 per cent but is thereafter constrained by the inflationary impact of tariffs. Given that, we anticipate the average uninsured five-year fixed mortgage rate will trend near 4.35 per cent. Of course, this forecast has a much higher level of uncertainty than is the norm.

Mortgage Rate Forecast

	2025				2026			
Term	**Q1**	**Q2F**	**Q3F**	**Q4F**	**Q1F**	**Q2F**	**Q3F**	**Q4F**
Variable Rate	4.55	4.5	4.25	4.25	4.25	4.25	4.25	4.25
Five-Year Qualifying Rate	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Five-Year Average Discounted Rate (Uninsured)	4.5	4.5	4.35	4.35	4.35	4.35	4.35	4.35

Forecast: Five-Year Fixed (Uninsured) and Variable Rate



Source: RateSpy; BCREA Economics

Economic Outlook

The economy showed remarkable resilience in the fourth quarter of 2024, outperforming forecasts and demonstrating strong growth. This positive performance was a result of robust consumer spending, increased business investments, and favourable market conditions. However, the introduction of tariffs poses a significant threat to this recovery. Tariffs are likely to disrupt trade, increase costs for businesses, and reduce consumer spending power, all of which could hinder economic growth. Indeed, the uncertainty surrounding trade policies is already exacerbating economic risks and threatening to slow growth and the labour market.

If a blanket US tariff is implemented as planned in April, the Bank of Canada estimates a reduction of GDP of around three percentage points. That magnitude of impact would mean effectively zero growth for the Canadian economy over the next two years and may even be enough to tip the economy into a recession.

Ultimately, a good baseline for the Canadian economic outlook is for essentially a minor "stagflation," with growth that is slowing down – perhaps significantly – along with inflation that is firming at or slightly above the Bank's two per cent target.

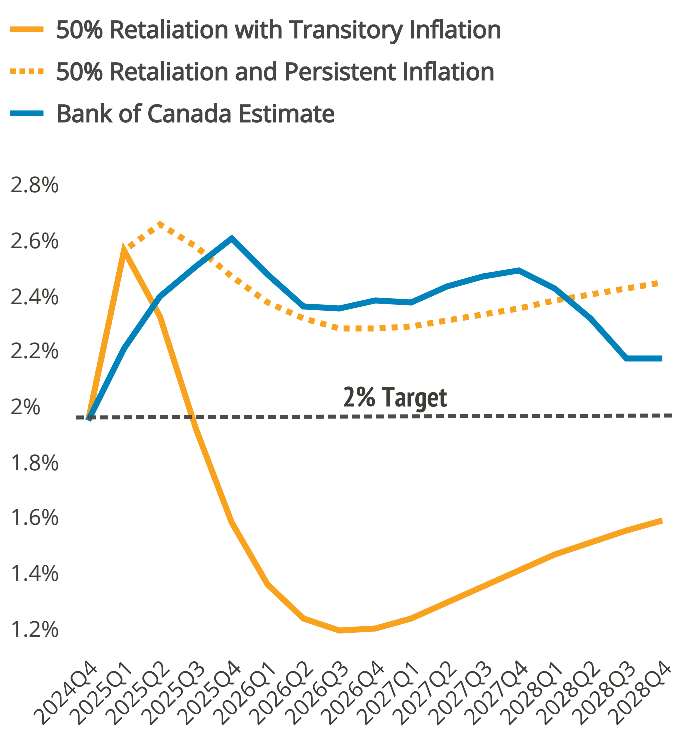
Bank of Canada Outlook

Thanks to tariffs, the Bank of Canada is faced with heightened uncertainty and an economy that may be set to slow down rather than speed up as was expected just a few months ago. With inflation running at near the Bank's two per cent target and a labour market that appears to have stalled in February, along with falling population growth, there is a strong argument for policy rates to be even lower. That path is complicated by the inflationary impact of retaliatory Canadian tariffs. Indeed, the Bank is cautioning that monetary policy cannot offset the impacts of a trade war, and that it can and must ensure that higher prices do not lead to ongoing inflation. Given that caution, future cuts to the Bank's policy rate will be highly dependent on the evolution of inflation and inflation expectations.

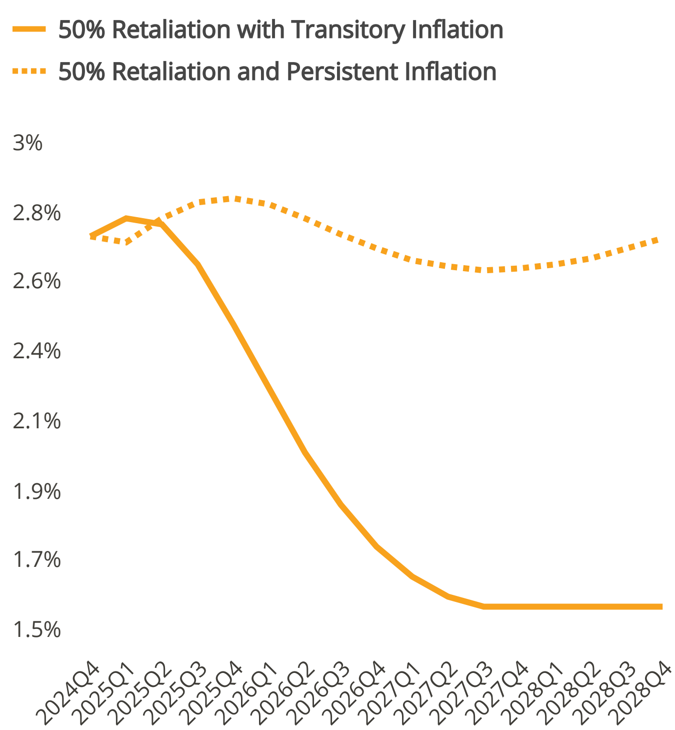
If the economy struggles to grow but avoids falling into a deep recession, all while inflation runs above target, our modelling suggests that the Bank of Canada may be hesitant to lower its policy rate below where it believes is neutral for the economy. That said, if inflation turns out to be transitory and fades after an initial shock, or if the economy deteriorates more than expected, then we assume the Bank would act more aggressively and cut its overnight rate by more than a full point.

The Bank of Canada's Response to Tariffs Depends on Inflation

Inflation Scenarios



Inflation Impact (vs Baseline)



Source: BCREA Economics

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