

Economics

MORTGAGE RATE FORECAST



June 2026

HIGHLIGHTS

- Canadian fixed mortgage rates are climbing as the oil price shock persists.
- Global conflict and trade uncertainty are pushing growth and inflation in opposite directions.
- The Bank of Canada remains resolute amidst double-sided risks.



Mortgage Rate Outlook

Canadian borrowers were effectively denied a period of lower rates that should have extended through much of 2026. The drop in bond yields seen earlier this year has been erased, as the Iran conflict and ensuing oil shock have driven yields back to early-2025 levels.

With the Strait of Hormuz remaining under contest, bond markets continue facing upward risks and pressure, pushing fixed mortgage rates to 4.7 per cent. However, a tentative peace agreement between the United States and Iran has unwound some of this pressure. Yields have cooled in recent weeks, underpinned both by the recent peace talks and shifting central bank sentiment, helping to quell inflation concerns.

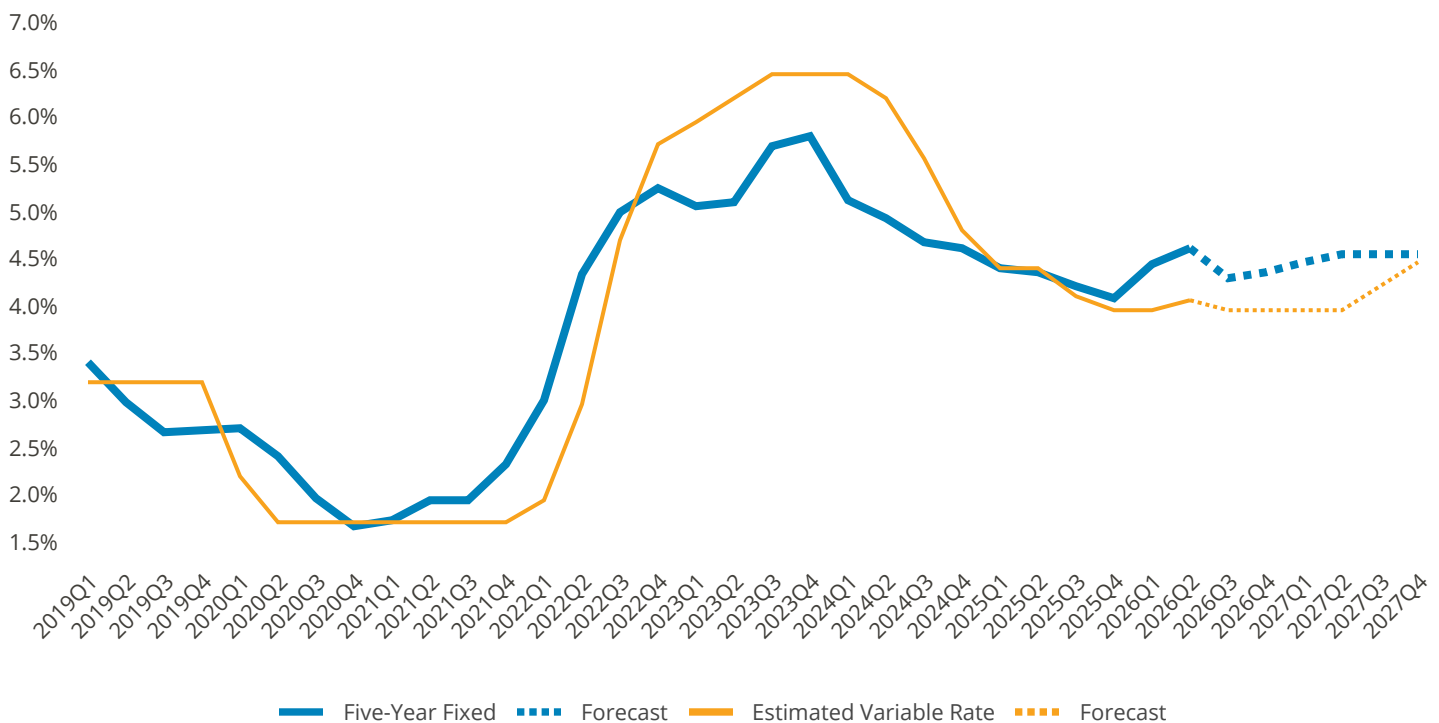
Given the lack of pass-through so far from spiking energy prices into broader consumer prices, alongside a recovering but still weak Canadian labour market, we may not see a change in the overnight rate this year,

despite current expectations of rate increases priced into financial markets. With this in mind, uninsured fixed rates may temporarily retrace to under 4.5 per cent in the short term as yields fall before rising next year as the Bank of Canada returns its overnight rate to 2.75 per cent.

Variable mortgage rates have ticked up after remaining steady across five consecutive rate holds from the Bank of Canada. Lenders have slightly reduced their discounts to protect their margins, pushing rates to 4.2 per cent, roughly 25 basis points below the prime business rate. Overall, the trajectory of variable rates depends on the Bank of Canada's response to the double-sided risks facing the economy. Given our cautious outlook of the Bank holding throughout the year, we expect variable rates to fall back to 4.1 per cent in 2026 as lenders increase their discounts to levels seen in the spring.

Mortgage Rate Forecast								
Term	2026				2027			
	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Variable Rate	4.1	4.2	4.1	4.1	4.1	4.1	4.35	4.6
Five-Year Qualifying Rate	6.6	6.75	6.45	6.5	6.6	6.7	6.7	6.7
Five-Year Average Discounted Rate (Uninsured)	4.6	4.75	4.45	4.5	4.6	4.7	4.7	4.7

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



Source: Ratehub; BCREA Economics



Economic Outlook

The Canadian economy contracted in the first quarter of 2026 by 0.1 per cent on an annualized basis, falling well short of the Bank of Canada’s forecast of 1.5 per cent growth. This contraction was driven by an anomalous surge in non-monetary gold imports and a more concerning drawdown in final domestic demand. Ongoing resilience in household consumption continues to be overpowered by weakening private sector investment.

Recently, tariff and trade uncertainty has been overtaken by the Iran conflict and its oil price shock as the largest concern facing the Canadian economy. The cumulative effect of this shock has raised costs for households and businesses, placing a drag on output. That said, as an oil exporter, Canada may benefit in the short term from higher prices in the global market. Discussions of a resolution may also mitigate some of the impacts from the shock, which would significantly shift the forces driving monetary policy expectations.

Paired with these global challenges is a continued pivot in immigration policy, which has led to a decline in Canada’s population over the past two quarters. Combined with headwinds to domestic demand and trade, the Canadian economy has limited avenues for growth over the forecast horizon. However, the implementation of large-scale federal projects, normalized immigration, and (hopeful) resolutions to trade and the Iran conflicts should steer the Canadian economy onto its traditional growth trajectory in 2028. After contracting for two straight quarters, we expect the economy to rebound modestly over the rest of the year, with about 1 per cent real GDP growth this year and 1.8 per cent in 2027.

Bank of Canada Outlook

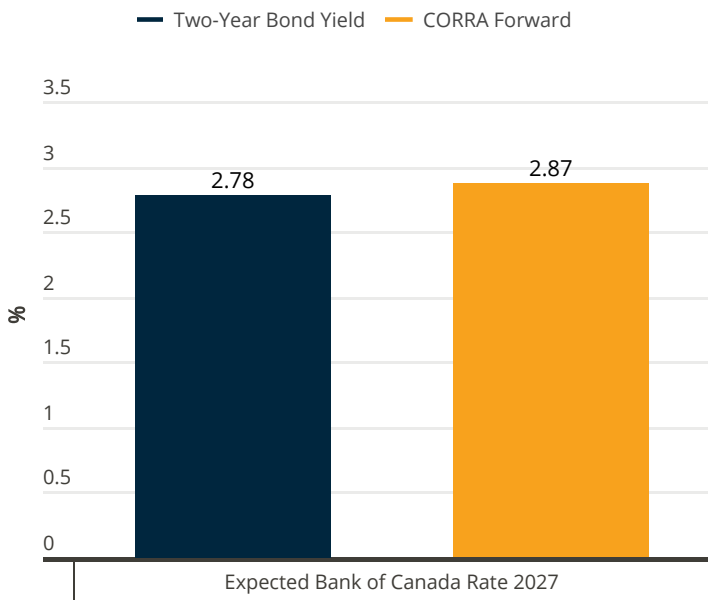
Rising inflation stemming from the Iran war has placed the Bank of Canada in an increasingly difficult position. Supply shocks like the closing of the Strait of Hormuz are particularly challenging for central banks because they cannot easily be “looked through” when they are both large in magnitude and persistent. While temporary spikes in commodity prices can often be ignored if policymakers believe inflation expectations will remain anchored and the effects will fade quickly, sustained increases in energy and input costs risk spreading more broadly through the economy via wages, transportation costs, and inflation expectations. In that environment, central banks may feel compelled to tighten monetary policy even as economic growth slows, raising the possibility of a stagflationary economic backdrop.

The Bank of Canada enters this period with considerable institutional credibility earned over decades of successful inflation targeting. Since adopting its inflation-targeting framework in the early 1990s, the Bank has generally maintained confidence that growth in consumer prices would return to target over the medium term. That credibility was tested during the post-pandemic inflation surge, when the Bank was widely perceived to have waited too long to raise interest rates. Critics argued that policymakers underestimated the persistence of inflation pressures tied to supply disruptions, fiscal stimulus, and excess demand. As a result, the Bank may now be more sensitive to upside inflation risks and less willing to delay policy tightening in response to another major global supply shock.

However, with an agreement potentially in place to end the conflict in Iran, pressure to raise rates will certainly ease, and we expect the Bank to look through a temporary supply shock and hold its policy rate at 2.25 per cent this year. That said, because the Bank is at the low end of what it considers neutral for the economy, and because its outlook for growth and inflation assumes a gradual improvement through 2027, there is some upward bias in rates next year. Against this backdrop, the Bank may look to bring its policy rate back to the midpoint of its neutral range, 2.75 per cent.

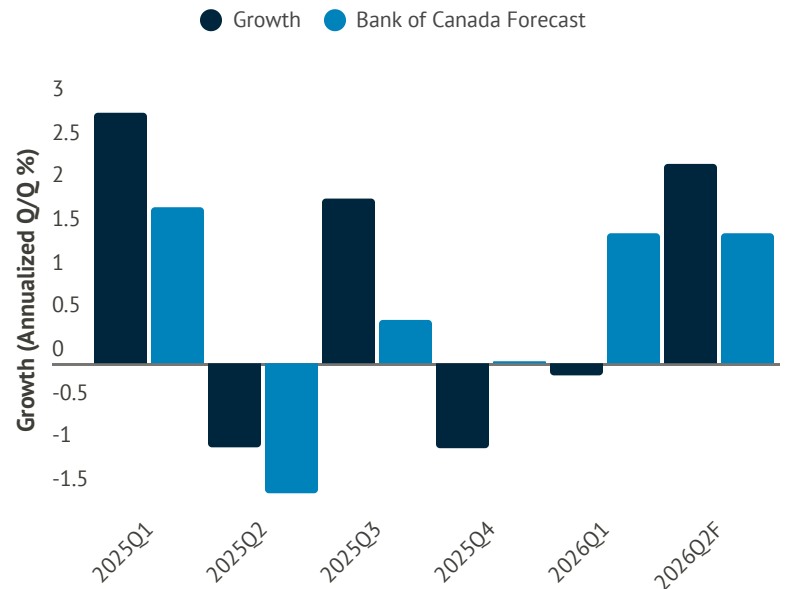
Markets Continue Expecting Rate Hikes Despite Mixed Signals from the Economy

Financial Market Expectations for Bank of Canada Rate



Source: Bank of Canada; Chatham Financial; Statistics Canada

Canadian Economic Growth Versus Bank of Canada Projections



NOTE: 2026Q2 estimate is based on April 2026 GDP by Industry Data



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