

# Focus

## Feature Article

## Canada Commercial Real Estate Market Update

## Our Thoughts

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## Fog of War, Haze of Ceasefire, Mist of Blockade

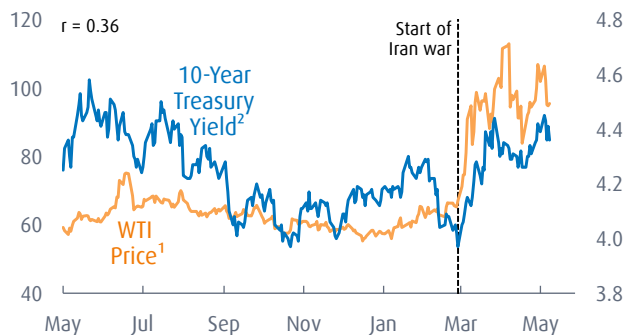


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They say that attention spans are getting ever shorter, but this is ridiculous. Amid the biggest energy shock in recent history, even the oil market doesn't seem to be all that interested... let alone other financial markets and the broader economy. **Amid all of this week's uncertainty** around the status of the ceasefire, and the two-way tests of the dueling blockades, **oil prices moderated on net** by roughly 7% to \$95. This left WTI a bit below its average of the past two months (roughly US\$98/bbl). Meantime, in what was a generally quiet week for major market moves, bond yields drifted a touch lower and the U.S. dollar barely budged. As for equities, stocks have seemingly long since moved on from the Iran conflict, with the robust Q1 earnings season helping drive the S&P 500 to record highs this week and now up nearly 30% from a year ago.

### Chart 1 One Giant Step

United States — 2025-2026 (as of May 8, 2026, 11:20 am)



<sup>1</sup> (lhs : \$/bbl); <sup>2</sup> (rhs : %)

Sources: BMO Economics, Haver Analytics, CME, U.S. Treasury

Providing some serious ballast for markets generally is evidence that **the U.S. economy is holding up quite well**, even in the face of the persistent run-up in fuel costs. Earlier signs hinted that the job market had actually been gathering strength in recent weeks, and the April nonfarm payroll report pounded home that reality with full force. Employment handily topped expectations with a solid 115,000 gain, building on the upwardly-revised 185,000 March advance. Just as almost everyone had become conditioned to the idea that monthly job gains were going to be much more modest than in the past due to much slower labour force growth, the economy naturally reels off triple-digit payroll gains in three of the first four months of the year. The companion household survey has been notably weaker, but the fact that **the unemployment rate** has been stuck at 4.3%—matching last year's average—**doesn't highlight any serious pain**.

Most of the focus of this week's economic data was on the job market, but the other limited indicators also sent a soothing signal. True, the services ISM slipped a bit to 53.6, but that's still well above the norm of the past two years, and, combined with a sturdy 52.7 reading on the factory ISM, suggests that growth is holding up just fine. Suffice it to say that **consumers still aren't quite seeing it that way**, as the University of Michigan's sentiment survey plunged to just 48.2 in May, a record low. For context, that's about 40 points below what would be considered normal. Clearly, the pain at the pumps is skewering confidence, though five-year inflation expectations are not running wild at 3.4% (similar to the NY Fed's latest finding of 3.0%).

But even as U.S. consumers are feeling very downbeat, it doesn't seem to be weighing on actual spending activity. Auto sales held up remarkably well in April at 16.1 million units, down only slightly from the prior month and last year's average (both clocking in at 16.3 mln). **One lingering concern is that spending continues to outrun underlying income growth**; over the past year, total outlays are up 5.6% y/y in nominal terms, while disposable incomes are up by just under 4% y/y. The gap has been bridged by a drop in the saving rate to 3.6% (a point below last year's average), but also by a ramp-up in borrowing. Consumer credit saw its biggest rise in a year in

March, of almost \$25 billion. Still, we would note that outstandings are up a modest 2.3% from a year ago, hardly signalling a borrowing spree.

Of course, the other big factor holding the economy aloft—and “big” is almost certainly an understatement—is the relentless **corporate spending on the AI build-out**. Investment in related infrastructure is flattering factory orders, with computer equipment and electronics jumping 15% y/y. But the full impact on the U.S. economy is somewhat more muted, as a high portion of the necessary equipment is imported. Led by semiconductors, imports from Taiwan have gone into the stratosphere in the past year, surging 98% y/y in the first quarter of this year. In turn, this has led to the extremely unusual circumstance that the U.S. is now running a larger trade deficit with Taiwan (US\$177 billion in the past 12 months) than with China (\$165 billion). That’s a dramatic shift: China’s imbalance was 28x larger than Taiwan’s as recently as 2018.

**The trade war also re-emerged** this week, as the President followed up on last week’s threat of a 25% tariff on European autos with a broader warning to the continent to approve its earlier trade deal. Crashing the proceedings, the International Trade Court ruled the Administration’s 10% global tariff out of bounds, although it was due to expire in July in any event. As Michael details below, there are no doubt plenty of other tariff options at the disposal of the White House, so this is far from the last word. But, the economy and markets have shown an impressive ability to navigate the twists and turns of the trade uncertainty over the past 15 months. Those skills have clearly helped them deal with the information whipsaw from this year’s war.

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It’s no secret that this space has long doubted the market’s pricing of more than one rate hike by the Bank of Canada this year. But the Bank’s hawkish turn in last week’s Statement—where it openly mused about “consecutive” hikes—suddenly vindicated the market: Hawks 1, Doves 0. Let’s just say that the ongoing weakness in the Canadian job market, highlighted by the April figures, may have just tied the series.

**Canada’s jobs report sent a very different signal** than its U.S. counterpart in April. Unlike the quiet comeback in U.S. job trends, Canada has sounded a series of flat notes so far in 2026. The economy lost 17,700 jobs last month, the third drop in four months. Discouragingly, full-time positions have been especially weak, dragging hours worked down so far this year. While we would never over-react to any single jobs result, and the weakness does follow some surprising strength late last year, the reality is that employment is up just 0.3% y/y. And even with the big slowdown in underlying population, some slack appears to be building in the job market. True, the unemployment rate at 6.9% is back to precisely where it stood a year ago, but that is on the soft side—particularly for those aged 15-24, as the youth rate jumped to 14.3%.

The bottom line is that **the economy is struggling to even get to first base on the growth front**. Meantime, the early readings on housing activity in April showed only the faintest hints of a thaw, with prices still drifting lower in a variety of major markets. And, finally, there is the reality that the deep uncertainty of the USMCA review lingers, with few obvious grounds for optimism on that front. And the ongoing uncertainty continues to weigh heavily across manufacturing, but especially so in the domestic auto sector. This week brought news that the massive Honda investment in a new EV plant, heralded with much fanfare just two short years ago, has officially been put on ice. While many were quick to blame waning EV demand, and not the

trade war, it's quite clear that the wall of U.S. auto tariffs played a role in the decision. Unless and until the trade backdrop clears, we continue to assert that **it seems quite misguided to be considering even one rate hike**, let alone "consecutive" moves.

## Tariff Turbulence... Again



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On May 7, the U.S. Court of International Trade ruled that the **Section 122 tariffs** announced by President Trump in a February 20 Proclamation, which took effect on February 24 and imposed a 10% 'global tariff', were "**unauthorized by law**". A 'fundamental international payments problem' as envisioned by the Trade Act of 1974, was not demonstrated to exist. The court said "*the Proclamation's use of trade and current account deficits to stand in the place of balance-of-payment deficits within the meaning of the statute renders the Proclamation ultra vires [beyond the powers].*"

The Administration will likely appeal the ruling with the duties remaining in place in the interim. However, the tariffs **expire on July 24** (150 days after being imposed), unless Congress extends them (which is doubtful in an election year in which affordability issues are predominant). This case will end up being a battle over refunds, as Customs and Border Protection (CBP) continues to administer the refund of \$166 billion (plus interest) of tariffs paid under the International Emergency Economic Powers Act (IEEPA) which was ruled unlawful by the Supreme Court on February 20.

Meanwhile, the two **Section 301 investigations** (into unfair trade practices) by the Office of the U.S. Trade Representative continue. One involves 60 countries over their "*failure to impose and effectively enforce a prohibition on the importation of goods produced with forced labor.*" Another involves 16 countries over their "*structural excess capacity and production in manufacturing sectors.*" Public hearings on the former were held late last month and those on the latter were held this week. Given the IEEPA and Section 122 precedents, the definitions and data will probably be stretched to the limits in these investigations, which are expected to conclude this summer.

Elsewhere, March trade data were released this week. The U.S. imported just over \$302 billion worth of goods in the month (customs value, not seasonally adjusted). Meantime, CPB collected just over \$24 billion in gross tariffs, resulting in a '**collected' average tariff rate of 7.9%**. This is down from 10.7% in February and the peak of 12.2% in November. Including Section 122 tariffs, the 'posted' average tariff rate is around 11.8% by our estimate (in line with the Yale Budget Lab).

The difference between the collected and posted rates reflects a few factors. First, tariffs are recorded on a cash basis, and not all duties are collected on the spot. Some are invoiced and paid at a later date. Second, there should be some degree of demand substitution from higher-tariffed goods to lower or non-tariffed items. Third, the practice of tariff engineering (modifying a product so it incurs the least amount of duty), and other legal tariff mitigation strategies are being actively employed.

Of course, the posted or collected tariff rate is still just an average calculation. USMCA-compliant goods from Canada and Mexico that are not covered by Section 232 tariffs all enter the U.S. duty-free. Meanwhile, some goods incur tariffs as high as 50% (certain steel, aluminum, and copper items) or 100% (certain pharmaceutical products). It should be noted that even at 7.9% or 11.8%, these are still the highest rates in at least 80 years apart from 2025 (period-end values).

## The U.S. Labour Market Comes Back to Life—But for How Long?



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**The U.S. labour market** showed tantalizing signs of firming in Q1 and that **momentum appears to have carried over into April**. Nonfarm payrolls increased 115k last month and have risen at a 150k monthly pace over the past two months. There was a notable improvement in labour demand compared to the average monthly gain over the past 3, 6, and twelve months. Negative net revisions for the previous two months were a relatively small 16k, and these revisions have seen solid improvement since July 2025, adding to the labour market's stability and resilience.

I believe pent-up demand for labour built up last year as tariff and economic uncertainty skyrocketed; but now that tariff levels and uncertainty have eased off, **businesses are starting to plow record-high corporate profits and \$166 billion in tariff refunds into their businesses**. A measure of trade policy uncertainty sank to its lowest level since December 2024 in April. Even the headwinds of record-low consumer sentiment and rapidly rising retail gasoline prices were not enough to deter a steady pace of net hiring over the first two months of the year. Consumer sentiment plunged to a record low in May (48.2), according to the University of Michigan's preliminary report. The sharp drop in **sentiment** over the last two months is a possible red flag for real consumer spending growth that we think will cool some of the momentum in the labour market in the months ahead.

**The unemployment rate did move a bit higher** in April to 4.337%, from 4.256% in March, but on a rounded basis was unchanged at 4.3%. A big decline in household employment since the beginning of the year, down 1.37 million since December, has been more than matched by a 1.5 million decline in the labour force over the same period. The labour force participation rate dropped rapidly this year, sinking to 61.8% from 62.5% back in November 2025. This has kept the unemployment rate relatively stable despite modest 0.2% job growth over the past twelve months. There is a lot of noise in the household survey data month-to-month due to low survey response rates and changes in immigration policy that could be wreaking havoc on the estimates. But **the main message is that the labour market still appears to be in relative balance as labour supply shrinks**.

The breadth of job creation by sector still looks relatively healthy with solid April job gains coming from trade and transportation, education and health care, leisure and hospitality, construction, and professional and business services. Modest net job losses did occur in information and financial services, manufacturing, and government last month, but were not large enough to change the overall employment picture.

Considering the new labour market information, **we lowered our Q2 unemployment rate forecast** to 4.4% from 4.6% previously, and see it rising to 4.5% in Q3 before stabilizing. The revised data show nonfarm jobs increased at a 63k/month pace in the first quarter, a notable improvement from the fourth quarter's 39k average decline. We see average monthly job creation improving to around 80k jobs in Q2 given the solid April start, before dropping back to 50k in Q3 as the lagged effects of rising prices hit consumer spending and the labour market harder. Resilient and improving job growth with stable unemployment will **keep the Fed squarely focused on rising prices at upcoming FOMC meetings**. This puts the prospect of another Fed rate cut on the shelf for now despite the dovish bent of the incoming Fed Chair.

## Equities: You Are What You Earn



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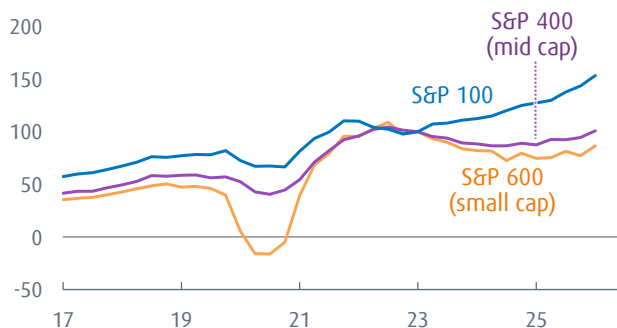
Many are wondering **why the equity market is holding up despite challenges imposed by tariffs and high oil prices**. Truth is, those factors have just been a leash holding the bulls back to a steady run, versus what would otherwise be a full-on stampede. Macro conditions since equities bottomed around late-2022 have been characterized by firm economic growth and an acceleration in productivity; which has expanded profit margins and driven earnings growth; all while we've seen disinflation allowing the central bank to ease policy. That's *the* recipe for a bull market. Tariffs and oil shocks directly push back on almost all of that, but the raw strength has been enough to keep the market moving. Earnings especially have been on a tear, and that performance has only strengthened into 2026.

Chart 1

### The Bigger They Are, the Faster They Grow

(4-qtr m.s. : 2023Q1 = 100)

#### Operating Earnings



Sources: BMO Economics, Haver Analytics, S&P

**We're almost 90% of the way through the 2026Q1 reporting period**, and S&P 500 earnings are on pace to grow a massive 29% y/y. Forward-year expectations have similarly ratcheted up. In fact, the current earnings performance has been so strong that, despite a 30% rally in the S&P 500 over the past year, valuations on a forward-looking basis have not expanded. What's driving it? Final private domestic demand (mainly consumer spending and business investment) in the U.S. economy is firm, growing 2.5% y/y in real terms as of Q1, and a hefty 5.6% y/y in nominal terms. The **AI boom** has driven combined spending on software, computer/peripheral equipment and data centres to above \$1.3 trillion per year, up 25% from a year ago, plus all of the offshoots.

This does raise **some concerns about concentration**. First, note that earnings among the S&P 100 large caps has surged by more than 50% since the start of 2023, while that for the S&P 600 small caps has actually contracted. In general, the bigger they are, the faster they are growing. Meantime, the Wall Street Journal highlights that profits for the Mag-7 alone will be up 61% y/y this quarter, versus growth of just 16% for the remaining 493 companies.

Concentration of profit growth, either related to the AI boom or company size, is real. Even so, those remaining 493 companies are still posting double-digit profit growth across financials, consumer discretionary and industrials, among others; and small- and mid-cap growth has now started to keep pace. While domestic demand (i.e., the top line) has held steady, firms have generally also been able to protect or expand margins. Cost pressure, either through tariffs or higher energy prices, can be more readily passed on in an environment where demand is firm. And, **productivity gains** are also suppressing unit labour cost growth and padding margins. Real output per hour has grown almost 3% annualized over the past three years—pandemic distortion aside, we've only recently seen performances like that very early in the cycle, or during the 1990 tech boom.

**The Bottom Line:** The equity bull market has been rooted in macro fundamentals. While we might be losing the tailwinds of disinflation and Fed easing, the earnings support is still very much there.



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*Indications of stronger growth and a move toward price stability are **good news** for the economy.*

### Good News

### Bad News

## Canada

- Jobs picture dimming
- Ottawa unveils new program for steel, aluminum industries hit by tariffs

**Merchandise Trade Balance** swung to a \$1.8 bln surplus (Mar.)—strong energy exports  
**Ivey PMI** +8.0 pts to 57.7 (Apr.)

**Employment** -17,700 (Apr.)  
**Jobless Rate** jumps 0.2 ppts to 6.9% (Apr.)  
**Auto Sales** -3.9% y/y (Apr.)

## United States

- April jobs report beats; first back-to-back monthly gain in nearly a year
- Stocks extend record highs
- President Trump sets July 4 trade deadline with EU
- Little progress toward Iran peace deal

**Nonfarm Payrolls** +115,000 (Apr.)  
**Jobless Rate** steady at 4.3% (Apr.)  
**Average Hourly Earnings** +0.2% (Apr.)  
**Auto Sales** 16.1 mln a.r. (Apr.)  
**Factory Orders** +1.5% (Mar.)  
**New Home Sales** +7.4% to 682,000 a.r. (Mar.)  
**Construction Spending** +0.6% (Mar.)  
**Consumer credit** +\$24.9 bln (Mar.)  
**NY Fed 5-Year Inflation Expectations** steady +3.0% y/y (Apr.)—but still elevated

**Productivity** slows to +0.8% a.r. (Q1)—and **Unit Labour Costs** +2.3% a.r.  
**Job Openings** fell to 6,866k (Mar.)  
**Initial Claims** +10k to 200k (May 2 week)  
**Goods & Services Trade Deficit** widens to \$60.3 bln (Mar.)  
**ISM Services PMI** -0.4 pts to 53.6 (Apr.)  
**Global Supply Chain Pressure Index** jumps to 1.82 (Apr.)—highest since 2022  
**U of M Consumer Sentiment** -1.6 pts to 48.2 (May)—fresh record low and inflation expectations stay elevated

## China

- Signs of property market stabilizing?

**RatingDog Composite PMI** +0.5 pts to 53.1 (Apr.)  
**Foreign Reserves** climb to \$3.4 trln (Apr.)

## Japan

- Yen jumps to strongest in 10 weeks amid more intervention

**Real Cash Earnings** slowed to +1.0% y/y (Mar.)  
**Composite PMI** revised down to 52.2 (Apr. F)—but still expanding

## Europe

- Norges Bank +25 bps to 4.25%; Riksbank on hold at 1.75%
- BoE's Bailey: rebuilding "trade relations with Europe is a sensible thing to do"
- PM Starmer said he's staying on as Labour leader

**Germany—Factory Orders** +5.0% (Mar.)  
**Germany—New Car Registrations** +2.7% y/y (Apr.)  
**France—Industrial Production** +1.0% (Mar.)  
**Italy—Retail Sales** +0.8% (Apr.)  
**U.K.—Composite PMI** +2.3 pts to a 2-mth high of 52.6 (Apr. F)

**Euro Area—Composite PMI** -1.9 pts to a 17-mth low of 47.8 (Apr. F)  
**Euro Area—Retail Sales** -0.1% (Mar.)  
**Germany—Industrial Production** -0.7% (Mar.)  
**Germany—Trade Surplus** narrowed to €14.3 bln (Mar.)  
**France—Trade Deficit** widened to €6.9 bln (Mar.)

## Other

- RBA hikes 25 bps to 4.35%, but hawkish pause signalled
- Mexico cuts 25 bps to 6.50%

**Australia—Household Spending** +1.6% (Mar.)

**Australia—Trade Balance** -A\$1.8 bln (Mar.)—first deficit in over 8 years

## Canada Commercial Real Estate Market Update

*Tariffs and the Iran war pose downside risks to all commercial property segments, but multifamily residential will remain notably soft this year amid stalled population growth, regional affordability issues, and a glut of condos.*



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### Highlights:

- The **industrial** segment weakened in 2025 due to large tariffs on key manufacturing industries and will face new challenges in 2026 amid rising energy costs and the uncertain fate of the USMCA.
- The **multifamily** residential market remains depressed amid a wave of purpose-built rental completions and a glut of unsold condos in some major cities, just as the population is shrinking. 2026 is unlikely to bring much relief to landlords or builders, as higher rental vacancies pressure rents lower.
- Despite a shrinking population, the **retail** property market held steady in 2025, with leasing demand supported by lower interest rates and decent consumer spending growth, keeping vacancies down and rents up. 2026 will likely see a repeat if the economy holds up.
- With more companies requiring in-person work, the **office** segment is awakening, though progress is uneven across regions and asset classes. Despite weak job growth, lofty vacancy rates are starting to ease, though largely among higher-quality buildings. Some further modest progress is likely this year.

### Industrial

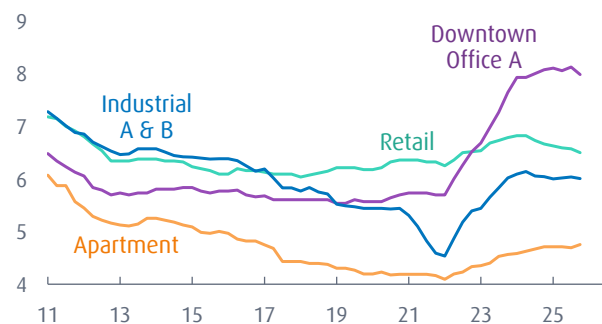
The **industrial segment softened in 2025 due to large tariffs** on a few key industries, notably autos, steel, and aluminum. While net absorption rose last year, it remained below average. Availability rates increased modestly further to the highest since 2015, but appear to have steadied at 5.5% in 2026Q1, or close to the past-decade average (CBRE). Availability of sublease space is at record highs. Consequently, the average asking rent (per square foot) is down 3.7% y/y in 2026Q1. Average asking prices were little changed last year, after falling in the prior two years from lofty valuations during the pandemic. As a result, industrial capitalization rates have steadied near normal levels (*Chart 1*).

Rising energy costs could challenge the energy-intensive manufacturing sector in 2026, compounding tariff-related pressures in some industries. However, with support from a low-valued currency, **availability rates should steady this year** as new supply ebbs and leasing activity improves, relieving downward pressure on rents. The largest threat

Chart 1  
**Cap Rates Mostly Easing**

Canada (percent)

### Cap Rate



Sources: BMO Economics, CBRE

to the industrial sector is if the U.S. opts to exit the USMCA and slap large tariffs on most Canadian exports.

### Multifamily Residential

**Fundamentals in multifamily remain challenging** with both the supply and demand curves working against the market. The **supply pipeline is loaded** with more than 180k rental units currently under construction. In fact, rental units under construction now outnumber combined condo and homeownership units for the first time (*Chart 2*). This reflects previously-tight rental markets (projects take a long time to reach completion), and various supply incentives that offered favourable financing terms for purpose-built projects. A large share of condos currently under construction is investor-owned, which will add further rental supply in the year ahead.

At the same time, **demand is fading** as population growth has stalled. Canada’s population fell 0.2% y/y as of January 1<sup>st</sup>, the first annual decline ever and down sharply from highs above 3% in mid-2024 (*Chart 3*). This is the result of tighter immigration policy, which was reinforced in the 2026-28 Immigration Levels Plan (released in November). While permanent immigration has remained solid at above 313k, nonpermanent resident outflows topped 460k over the past year. For the latter, Ottawa is targeting a 5% share of the population from 7.6% at the peak and 6.5% as of the latest quarter, implying further net outflows ahead. These temporary foreign workers and international students had previously absorbed significant rental supply. Improved affordability in the resale market could also pull some renters back toward homeownership.

Against that backdrop, **rents should continue to fade** across many major markets. Average asking rents hit a near three-year low in March, down 5.3% y/y. These supply-demand dynamics are toughest in B.C. and Southern Ontario, where rental/condo construction has been strongest, and nonpermanent resident caps are biting hardest. And they are also toughest for smaller bachelor/one-bedroom units that are swamped with supply—larger units should perform better. For investors, cap rates don’t provide enough cushion relative to risk-free yields to compensate for declining rent, tenant risk, and (in the condo space) a lack of price growth expectations.

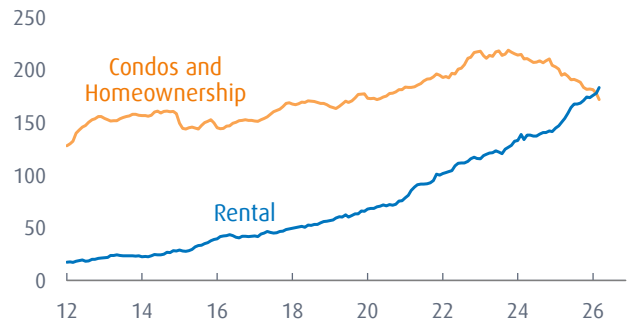
### Retail

The **retail sector held steady in 2025**. Leasing demand stayed healthy, supported by lower interest rates, rising equity values, and healthy 2.3% growth in real consumer spending, though undermined by weak job and population growth and trade-war related anxiety. New supply was limited, keeping vacancy rates low and rents rising modestly. Retail availability in Toronto reached new lows, according to JLL. National

Chart 2  
**Rental Supply to the Sky**

Canada (000s units)

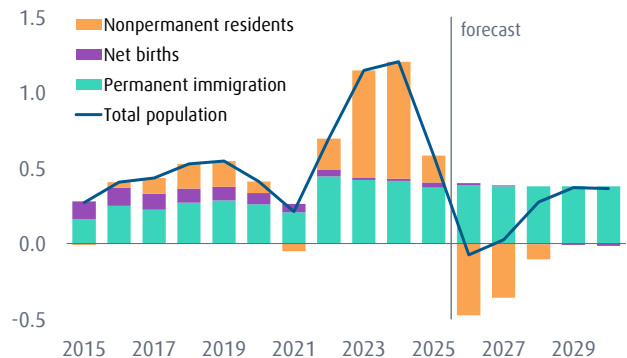
#### Units Under Construction



Sources: BMO Economics, Haver Analytics, CMHC

Chart 3  
**Rental Demand Destroyed**

Canada (mlns of persons : annual flow)



Sources: BMO Economics, Statistics Canada

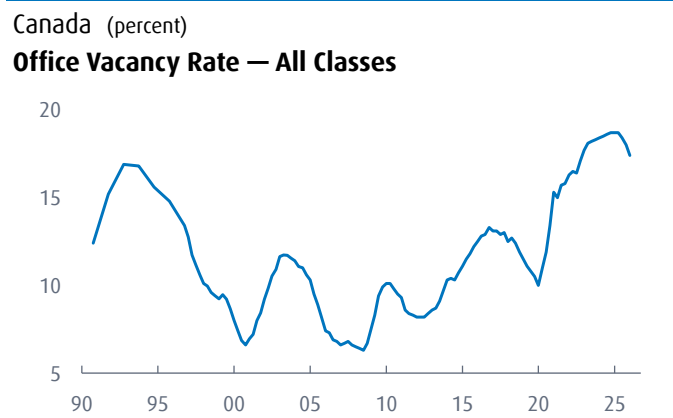
retailer insolvencies fell in 2025 toward long-run norms. Suburban strip malls anchored by grocery stores continue to perform well. The domestic hospitality sector benefitted from ‘Buy Canada’ sentiment. The **retail segment in 2026 will likely echo last year’s pedestrian performance**, with most stores seeing somewhat slower consumer spending growth. Rising energy and possibly food costs could challenge the restaurant business. The market will need to digest about 17 million square feet of space vacated by the Hudson’s Bay Company. Competition from large online and big-box sellers will continue to challenge smaller retail outlets.

**Office**

The **office market is gradually healing**. After reaching multi-decade highs the prior year, cap rates on downtown Class A buildings steadied near 8% in 2025 (CBRE). Net absorption was positive in the past three quarters to 2026Q1 amid stricter return-to-office mandates for financial sector and public employees (Ontario’s public workers are required to be in the office five days a week). Office occupancy reached 86% of pre-COVID levels in February, according to the Strategic Regional Research Alliance. Toronto accounted for the entire national increase in net absorption in 2025 amid a surge in leasing. National sublease availability shrank as new construction evaporated, while a record number of conversions (increasingly involving hotels) also helped reduce supply. Since 2021, conversions and demolitions have reduced inventory by 2.5%, finds CBRE. National office vacancy rates fell modestly to 18.0% in 2025 (*Chart 4*), led by downtown Toronto and Class A space. A recent CBRE survey of financial lenders found that downtown Class A office space was the most favoured asset class of all CRE loans. Downtown Toronto’s trophy vacancy rate (the top tier of Class A) is around 3%, compared with more than 20% for Class B and C properties. Vacancy rates remain above 20% in Calgary but are falling and should continue to do so if energy prices stay high. National Class A office rents rose further and are outperforming lower-tier buildings. Tenants are willing to pay for ‘trophy’ office space to attract and retain talent.

**Office vacancies should continue to fall in 2026.** Active construction is the lowest in at least two decades and little new building is planned this decade. Downtown Toronto is expected to lead the country in net absorption in 2026 amid growth in financial and technology services. By contrast, a downsizing federal government will delay Ottawa’s office recovery. Nationally, the shrinking availability of high-quality space could drive some demand toward lower-tier buildings, especially if job growth improves. Still, the average office value has fallen for six straight years and, apart from upper-tier segments, could soften further this year.

Chart 4  
**Office Vacancies Peak**



Sources: BMO Economics, CBRE

## Economic Forecast Summary for May 8, 2026

	2025				2026				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2025	2026	2027
<b>CANADA</b>											
Real GDP (q/q % chng : a.r.)	2.1	-0.9	2.4	-0.6	1.5	1.0	1.8	2.2	1.7	1.0	2.1
Consumer Price Index (y/y % chng)	2.3	1.8	2.0	2.2	2.2	3.3	3.3	3.0	2.1	3.0	2.2
Unemployment Rate (percent)	6.7	6.9	7.0	6.7	6.6	6.9 ↑	6.9 ↑	6.7 ↑	6.8	6.8 ↑	6.4 ↑
Housing Starts (000s : a.r.)	224	282	273	255	241	245	240	233	258	240	230
Current Account Balance (\$blns : a.r.)	-13.6	-84.1	-21.1	-2.8	-11.1 ↑	25.3 ↑	17.1 ↑	8.9 ↑	-30.4	10.0 ↑	-16.0 ↑
<b>Interest Rates</b> (average for the quarter : %)											
Overnight Rate	2.92	2.75	2.67	2.25	2.25	2.25	2.25	2.25	2.65	2.25	2.25
3-month Treasury Bill	2.85	2.63	2.60	2.23	2.21	2.30	2.30	2.30	2.58	2.25	2.30
10-year Bond	3.12	3.21	3.38	3.23	3.38	3.45	3.35	3.25	3.23	3.35	3.40
<b>Canada-U.S. Interest Rate Spreads</b> (average for the quarter : bps)											
90-day	-149	-173	-166	-164	-149	-140	-135	-102	-163	-131	-77
10-year	-134	-115	-88	-87	-82	-82	-80	-77	-106	-80	-71
<b>UNITED STATES</b>											
Real GDP (q/q % chng : a.r.)	-0.6	3.8	4.4	0.5	2.0	1.7	1.8	2.0	2.1	2.0	1.9
Consumer Price Index (y/y % chng)	2.7	2.5	2.9	2.7	2.7	4.0 ↑	3.7 ↑	3.5 ↑	2.7	3.5 ↑	2.3
Unemployment Rate (percent)	4.1	4.2	4.3	4.5	4.3	4.4 ↓	4.5	4.5	4.3	4.4 ↓	4.3
Housing Starts (mlns : a.r.)	1.40	1.35	1.35	1.32	1.42	1.40	1.40	1.41	1.36	1.41	1.42
Current Account Balance (\$trlns : a.r.)	-1.75	-0.99	-0.96	-0.76	-1.01	-1.06	-1.04	-1.03	-1.12	-1.04	-1.04
<b>Interest Rates</b> (average for the quarter : %)											
Fed Funds Target Rate	4.38	4.38	4.29	3.79	3.63	3.63	3.54	3.29	4.21	3.52	3.13
3-month Treasury Bill	4.34	4.37	4.26	3.87	3.69	3.70	3.65	3.30	4.21	3.60	3.05
10-year Note	4.45	4.36	4.26	4.10	4.20	4.25	4.15	4.05	4.29	4.15	4.10
<b>EXCHANGE RATES</b> (average for the quarter)											
US¢/C\$	69.7	72.3	72.6	71.7	72.9	73.0	73.8	74.7	71.6	73.6	76.0
C\$/US\$	1.43	1.38	1.38	1.39	1.37	1.37	1.35	1.34	1.40	1.36	1.32
¥/US\$	152	144	148	154	157	157	156	155	150	156	150
US\$/Euro	1.05	1.13	1.17	1.16	1.17	1.17	1.17	1.18	1.13	1.17	1.20
US\$/£	1.26	1.34	1.35	1.33	1.35	1.35	1.35	1.36	1.32	1.35	1.37

Blocked areas mark BMO Capital Markets forecasts; up and down arrows (↑↓) indicate forecast changes; spreads may differ due to rounding

## Canada



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### BoC Summary of Deliberations for the Apr. 29 decision

Wednesday, 1:30 pm

The **Bank of Canada's** April 29 meeting revealed more than usual despite the as-expected on-hold decision. Or, to be precise, Governor Macklem's statement did. He highlighted scenarios in which rates could go lower (e.g., to support growth if tariffs increase further) or higher (e.g., to combat inflation if oil prices remain elevated). However, the latter could come with "a need for *consecutive increases*" (emphasis added) since the overnight rate is already at the bottom end of the BoC's neutral range. We'll be looking through the **Summary of Deliberations** for more clues that point to this hawkish tilt. We judge that the Bank would need a few bad CPI reports to prompt a hike, and we're still a long way from that—recall, the momentum in core inflation has been disinflationary since late last year, while subdued demand could limit the pass-through of higher costs. For now, we continue to expect the BoC to remain on hold through 2026. — S.K.

### Existing Home Sales

Thursday, 5:00 am

	Existing Home Sales	Average Home Sales Prices
Apr. (e)	-2.0% y/y	+0.1% y/y
Mar.	-2.3% y/y	-0.8% y/y

### MLS Home Price Index

Apr. (e)	-4.0% y/y
Mar.	-4.7% y/y

The spring buying season provided little boost to Canada's lacklustre **housing market** in April. Nationally, we expect sales ticked up from March but remained about 2% below year-ago levels. Average prices are expected to be little changed from year-ago levels, while the quality-adjusted MLS HPI could be down 4% y/y. Beyond the seasonal support, the market remains balanced although regional differences persist. Softness in Southern Ontario is a key outlier, while smaller-to-medium-sized cities in Quebec and Atlantic Canada remain tight, albeit less so over the past year. Affordability is a key concern stopping the market from gaining meaningful traction, especially given elevated economic uncertainty. — S.K.

## United States



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### Existing Home Sales

Monday, 10:00 am

Apr. (e)	4.07 mln a.r. (+2.3%)
Consensus	4.05 mln a.r. (+1.8%)
Mar.	3.98 mln a.r. (-3.6%)

**Existing home sales** likely climbed in April as pending sales rose in the prior month. Despite the uptick, activity has remained in the trenches for about three years and conditions are likely to remain soggy in 2026 amid inflation pressures and a recent upturn in mortgage rates. Although the U.S. economy is generally holding up well, rate-sensitive sectors—like housing—will remain under pressure amid a Fed that is in no rush to cut rates. — P.T.

### Consumer Prices

Tuesday, 8:30 am

Apr. (e)	+0.7%	+3.8% y/y
Consensus	+0.6%	+3.7% y/y
Mar.	+0.9%	+3.3% y/y

### Ex. Food & Energy

Apr. (e)	+0.3%	+2.7% y/y
Consensus	+0.3%	+2.7% y/y
Mar.	+0.2%	+2.6% y/y

U.S. **consumer inflation** is expected to run hot again in April as a second month of the closure of the Strait of Hormuz sends retail gasoline and diesel prices soaring to their highest levels since 2022. We forecast a 0.7% increase in the **CPI**, only a slight moderation from the 0.9% jump in March. Retail gasoline prices increased another 13% on average in April, according to the Energy Information Administration, compared to a 25% surge in March. Meantime, the ISM Manufacturing Prices Paid index rose another 6 pts in April to 84.6, its highest level since April 2022 (and a 26-point jump since the beginning of the year). The comparable services measure was unchanged at an elevated 70.7. From a year ago, CPI inflation is expected to increase to 3.8% in April from 3.3% in March and a benign 2.4% in February.

The Fed will be scanning for evidence of inflation spreading beyond energy to general goods and other sectors such as transportation and food and beverages. A bigger-than-expected jump in rent, services, or core inflation would be seen as particularly menacing. **Core CPI**, excluding food and energy, is expected to increase at a slightly elevated 0.3% pace in April, a modest uptick from the 0.2% rise in March. The yearly rate looks to rise a tenth to 2.7%. For now, much of the inflation upside appears to be contained in sectors directly impacted by rising energy prices. This should give the majority of the FOMC voters the confidence to stay on the sidelines and wait out this energy price shock for now. — S.A.

### Retail Sales

Thursday, 8:30 am

		Ex. Autos/Gas
<b>Apr. (e)</b>	<b>+0.5%</b>	<b>+0.1%</b>
<i>Consensus</i>	<i>+0.5%</i>	<i>+0.4%</i>
Mar.	+1.7%	+0.6%

Consumer spending held up better than expected in March to the largest spike in fuel costs on record, supported by increased tax refunds, a stabilizing labour market, and rebounding equity prices. However, household resiliency will be tested by another spike in gasoline prices in April, which sent the University of Michigan consumer sentiment index plunging to new lows. **Retail sales** look to rise 0.5% in the month, but largely due to inflated service station receipts. Excluding this item and a likely dip in auto sales, retail sales could rise a modest 0.1%. This would anchor another quarter of decent, yet subdued, real consumer spending growth of around 1½% annualized. — S.G.

### Industrial Production

Friday, 9:15 am

	Industrial Production	Capacity Utilization
<b>Apr. (e)</b>	<b>+0.3%</b>	<b>76.0%</b>
<i>Consensus</i>	<i>+0.2%</i>	<i>75.8%</i>
Mar.	-0.5%	75.7%

**Industrial production** is expected to rise 0.3% in April, following a solid rebound in Q1. Although manufacturing continues to contend with cost pressures and tariff headwinds, rising orders for durable goods suggest underlying support. **Capacity utilization** likely edged up to 76.0%, though it still remains about 4 ppts below the long-run average, suggesting continued spare capacity. Overall, industrial production—and more specifically, manufacturing output—continues to hold up decently thanks to strong momentum in business investment. — P.T.

Financial Markets Update for May 8, 2026

		May 8 <sup>1</sup>	May 1	Week Ago	4 Weeks Ago	Dec 31, 2025
		(basis point change)				
Canadian Money Market	Call Money	2.25	2.25	0	0	0
	Prime Rate	4.45	4.45	0	0	0
U.S. Money Market	Fed Funds (effective)	3.75	3.75	0	0	0
	Prime Rate	6.75	6.75	0	0	0
3-Month Rates	Canada	2.29	2.29	0	4	14
	United States	3.67	3.65	2	0	5
	Japan	0.82	0.79	3	-1	24
	Australia	4.44	4.37	6	11	70
2-Year Bonds	Canada	2.88	2.93	-6	9	29
	United States	3.88	3.88	0	9	41
10-Year Bonds	Canada	3.48	3.53	-4	2	5
	United States	4.36	4.37	-1	4	19
	Japan	2.47	2.50	-3	4	41
	Germany	3.00	3.04	-3	-5	15
	United Kingdom	4.91	4.96	-6	7	43
	Australia	4.99	5.02	-3	2	25
Risk Indicators	VIX	17.3	17.0	0.3 pts	-2.0 pts	2.3 pts
	Inv. Grade CDS Spread <sup>2</sup>	53	54	-1	-3	3
	High Yield CDS Spread <sup>2</sup>	327	327	0	-19	10
		(percent change)				
Currencies	US¢/C\$	73.04	73.59	-0.8	1.1	0.2
	C\$/US\$	1.369	1.359	—	—	—
	¥/US\$	156.61	157.01	-0.3	-1.7	-0.1
	US\$/€	1.1772	1.1721	0.4	0.4	0.2
	US\$/£	1.362	1.358	0.3	1.2	1.1
	US¢/A\$	72.41	72.02	0.5	2.5	8.5
Commodities	CRB Futures Index	387.72	393.40	-1.4	5.0	29.8
	Oil (generic contract)	95.49	101.94	-6.3	-1.1	66.3
	Natural Gas (generic contract)	2.82	2.78	1.5	6.5	-23.5
	Gold (spot price)	4,709.13	4,614.21	2.1	-0.9	9.0
Equities	S&P/TSX Composite	34,098	33,891	0.6	1.2	7.5
	S&P 500	7,394	7,230	2.3	8.5	8.0
	Nasdaq	26,145	25,114	4.1	14.2	12.5
	Dow Jones Industrial	49,624	49,499	0.3	3.6	3.2
	Nikkei	62,714	59,513	5.4	10.2	24.6
	Frankfurt DAX	24,338	24,292	0.2	2.2	-0.6
	London FT100	10,231	10,364	-1.3	-3.5	3.0
	France CAC40	8,109	8,115	-0.1	-1.8	-0.5
	S&P ASX 200	8,744	8,730	0.2	-2.4	0.3

<sup>1</sup> = as of 11:20 am    <sup>2</sup> = One day delay

	Monday May 11	Tuesday May 12	Wednesday May 13	Thursday May 14	Friday May 15
China	<b>CPI</b> <b>Apr. (e)</b> +0.9% y/y <b>PPI</b> +1.8% y/y Mar. +1.0% y/y    +0.5% y/y <b>Aggregate Yuan Financing (YTD)<sup>o</sup></b> <b>Apr. (e)</b> 16.1 trln Mar. 14.8 trln <b>New Yuan Loans (YTD)<sup>o</sup></b> <b>Apr. (e)</b> 8.9 trln Mar. 8.6 trln <b>Trade Surplus<sup>o</sup></b> <b>Apr. (e)</b> \$83.6 bln Mar. \$51.1 bln			<b>Current Account Surplus<sup>o</sup></b> <b>Q1 P</b> Q4 \$243.8 bln <b>Trump-Xi Summit in Beijing (May 14-15)</b>	
		<b>Household Spending</b> <b>Mar. (e)</b> -1.3% y/y Feb. -1.8% y/y <b>BoJ Summary of Opinions</b>	<b>Bank Lending Ex. Trusts</b> <b>Apr.</b> Mar. +5.2% y/y		<b>Machine Tool Orders</b> <b>Apr. P</b> Mar. +28.0% y/y
Europe		<b>GERMANY</b> <b>Consumer Price Index</b> <b>Apr. F (e)</b> +0.5%    +2.9% y/y Mar. +1.2%    +2.8% y/y <b>ZEW Survey—Expectations</b> <b>May (e)</b> -19.9 Apr. -17.2 <b>ITALY</b> <b>Industrial Production</b> <b>Mar. (e)</b> +0.2%    +0.6% y/y Feb. +0.1%    +0.5% y/y	<b>EURO AREA</b> <b>Real GDP</b> <b>Q1 S (e)</b> +0.1%    +0.8% y/y Q4 +0.2%    +1.2% y/y <b>Industrial Production</b> <b>Mar. (e)</b> +0.3%    -1.6% y/y Feb. +0.4%    -0.6% y/y <b>FRANCE</b> <b>Consumer Price Index</b> <b>Apr. F (e)</b> +1.2%    +2.5% y/y Mar. +1.1%    +2.0% y/y	<b>UNITED KINGDOM</b> <b>Real GDP</b> <b>Q1 P (e)</b> +0.6%    +0.8% y/y Q4 +0.1%    +1.0% y/y <b>Monthly Real GDP</b> 3m/3m <b>Mar. (e)</b> -0.2%    n.a. Feb. +0.5%    +0.5% <b>Index of Services</b> 3m/3m <b>Mar. (e)</b> -0.1%    +0.6% Feb. +0.5%    +0.5% <b>Industrial Production</b> <b>Mar. (e)</b> -0.3%    +0.3% y/y Feb. +0.5%    -0.4% y/y <b>Trade Deficit</b> <b>Mar.</b> Feb. £18.8 bln	<b>EURO AREA</b> <b>ECB Economic Bulletin</b> <b>ITALY</b> <b>Consumer Price Index</b> <b>Apr. F (e)</b> +1.7%    +2.9% y/y Mar. +1.7%    +1.6% y/y
		<b>AUSTRALIA</b> <b>NAB Business Confidence</b> <b>Apr.</b> Mar. -29			
Other					

<sup>o</sup> = date approximate

**Upcoming Policy Meetings** | Bank of England: June 18, July 30, Sep. 17 | European Central Bank: June 11, July 23, Sep. 10

North American Calendar — May 11–May 15

	Monday May 11	Tuesday May 12	Wednesday May 13	Thursday May 14	Friday May 15
<b>Canada</b>	10:30 am <b>BoC Market Participants Survey (Q1)</b>	11:15 am Cash management bond buybacks \$0.5 bln	1:30 pm <b>BoC Summary of Deliberations for the Apr. 29 decision</b> <b>BoC External Deputy Governor Alexopoulos speaks in Ottawa</b> Noon 5-year bond auction \$5.0 bln	5:00 am <b>Existing Home Sales</b> Apr. (e) -2.0% y/y Mar. -2.3% y/y 5:00 am <b>Average Prices</b> Apr. (e) +0.1% y/y Mar. -0.8% y/y 5:00 am <b>MLS Home Price Index</b> Apr. (e) -4.0% y/y Mar. -4.7% y/y 8:30 am <b>Wholesale Trade</b> Mar. (e) +1.5% Consensus +1.4% Feb. +2.0% 8:30 am <b>New Motor Vehicle Sales</b> Mar. (e) -8.0% y/y Feb. -0.9% y/y 2-year bond auction announcement	8:15 am <b>Housing Starts<sup>D</sup></b> Apr. (e) 240,000 a.r. (+1.8%) Mar. 235,852 a.r. (-6.0%) 8:30 am <b>Mfg. Sales</b> Mar. (e) +3.5% Consensus +3.5% Feb. +3.6% 8:30 am <b>Mfg. New Orders</b> Mar. (e) +4.0% Consensus n.a. Feb. +6.7% 8:30 am <b>Int'l Securities Transactions Inflows</b> Mar. \$6.2 bln Feb. \$25.4 bln
<b>United States</b>	10:00 am <b>Existing Home Sales</b> Apr. (e) 4.07 mln a.r. (+2.3%) Consensus 4.05 mln a.r. (+1.8%) Mar. 3.98 mln a.r. (-3.6%) 11:30 am 13- & 26-week bill auctions \$166 bln 1:00 pm 3-year note auction \$58 bln	6:00 am <b>NFIB Small Business Economic Trends Survey</b> Apr. (e) 96.0 Consensus 96.0 Mar. 95.8 8:15 am <b>ADP Employment (4-week avg. change)</b> Apr. 25 +39,250 Apr. 18 8:30 am <b>Consumer Prices</b> Apr. (e) +0.7% +3.8% y/y Consensus +0.6% +3.7% y/y Mar. +0.9% +3.3% y/y 8:30 am <b>CPI ex. Food &amp; Energy</b> Apr. (e) +0.3% +2.7% y/y Consensus +0.3% +2.7% y/y Mar. +0.2% +2.6% y/y 2:00 pm <b>Budget Balance</b> Apr. '26 Apr. '25 -\$258.4 bln Fed Speaker: Chicago's Goolsbee (1:00 pm) 11:00 am 4-, 8- & 17-week bill auction announcements 11:30 am 6 & 52-week bill auctions \$130 bln 1:00 pm 10-year note auction \$42 bln	7:00 am <b>MBA Mortgage Applications 30-year FRM</b> May 8 May 1 -4.4% 6.45% 8:30 am <b>PPI Final Demand</b> Apr. (e) +0.6% +4.9% y/y Consensus +0.5% +4.8% y/y Mar. +0.5% +4.0% y/y 8:30 am <b>PPI Final Demand ex. F&amp;E</b> Apr. (e) +0.4% +4.4% y/y Consensus +0.3% +4.3% y/y Mar. +0.1% +3.8% y/y Fed Speakers: Boston's Collins (11:30 am); Minneapolis' Kashkari (1:15 pm); Dallas' Logan (7:00 pm) 11:30 am 17-week bill auction 1:00 pm 30-year bond auction \$25 bln	8:30 am <b>Initial Claims</b> May 9 (e) 205k (+5k) May 2 200k (+10k) 8:30 am <b>Continuing Claims</b> May 2 Apr. 25 1,766k (-10k) 8:30 am <b>Retail Sales Ex. Autos/Gas</b> Apr. (e) +0.5% +0.1% Consensus +0.5% +0.4% Mar. +1.7% +0.6% 8:30 am <b>Import Prices</b> Apr. (e) +1.0% +3.0% y/y Consensus +1.1% +3.1% y/y Mar. +0.8% +2.1% y/y 10:00 am <b>Business Inventories</b> Mar. F (e) +0.3% Consensus +0.3% Mar. P +0.9% Feb. +0.4% Fed Speakers: Cleveland's Hammack (1:00 pm); New York's Williams (5:45 pm); Governor Barr (7:00 pm) 11:00 am 6-, 13- & 26-week bill, 20-year bond, 10 <sup>R</sup> -year TIPS auction announcements 11:30 am 4- & 8-week bill auctions Trump-Xi Summit in Beijing (May 14-15)	8:30 am <b>Empire State Mfg.</b> May (e) 8.0 Apr. 11 9:15 am <b>Industrial Production</b> Apr. (e) +0.3% +76.0% Consensus +0.2% 75.8% Mar. -0.5% 75.7%

<sup>C</sup> = consensus; <sup>D</sup> = date approximate; <sup>R</sup> = reopening

Upcoming Policy Meetings | Bank of Canada: June 10, July 15, Sep. 2 | FOMC: June 16-17, July 28-29, Sep. 15-16

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