

## So much for interest rate sensitivity

By Taylor Schleich & Daren King

Last week's slew of Canadian housing data (which we covered [here](#), [here](#) and [here](#)) saw prior trends extend into March. Housing activity remains low and technically inched down further, while home prices continue to slowly but steadily slide. Subdued activity is also reflected in mortgage credit trends. While the Canadian mortgage stock is expanding, it's doing so at a slower-than-normal pace, despite the nearly 300 bps of BoC policy rate cuts delivered over the last two years. Canada's economy is notoriously rate sensitive, but housing demand has been surprisingly and uncharacteristically unresponsive. BoC Governor Macklem has said that the policy rate at 2.25% is "providing some stimulus" but it appears that "some" is overstating the actual degree of support, at least in housing.

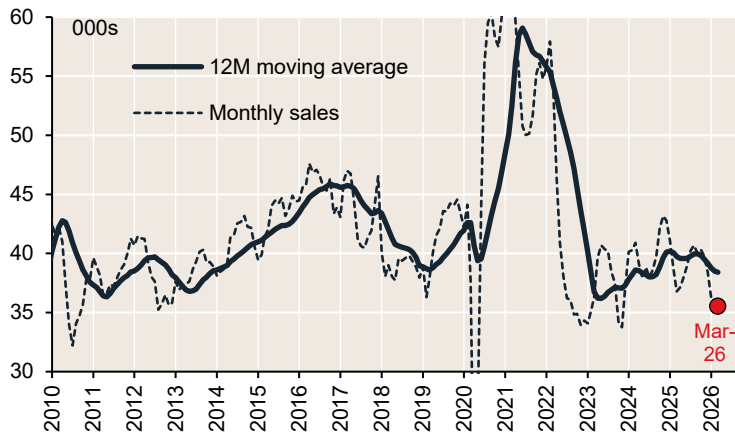
For the new mortgage activity that is taking place, Canadians continued to pile into variable rate products through February. The once-dominant 5-year fixed rate mortgage remains unpopular as households that do opt for fixed prefer a shorter term. This strategy, it seems, is driven by (slightly) lower 3-year rates and a hope that borrowing costs will eventually come back down to pre-COVID levels (we wouldn't hold our

breath). While markets are now pricing in the risk of 2026 hikes, it's not clear that recent behaviour will shift. Higher fixed rates (via higher GoC bond yields) make variable an even more attractive option and should also keep households from locking in for longer (i.e., for 5 years). That should mean relatively more paying pressure on 3-year swaps this spring.

With ongoing sluggishness, the Canadian Real Estate Association (CREA) revised down its projections for housing activity and prices last week. This isn't a new trend, as CREA has been forced to pare back expectations for much of the past five years. Consider that in January 2025, the group thought resale activity would grow 6.5% per year in 2025 and 2026. A little over a year later, they're conceding activity will be down slightly over this period. Even this outlook looks optimistic to us as we're bracing for a larger 5% drop in transactions in 2026 (after a modest decline last year). Overall, a renewed bout of inflation leaves risks skewed toward rate hikes, but real economic data—including in the housing market—continues to lean against tighter monetary policy.

### Chart 1: Resale housing market struggles continue

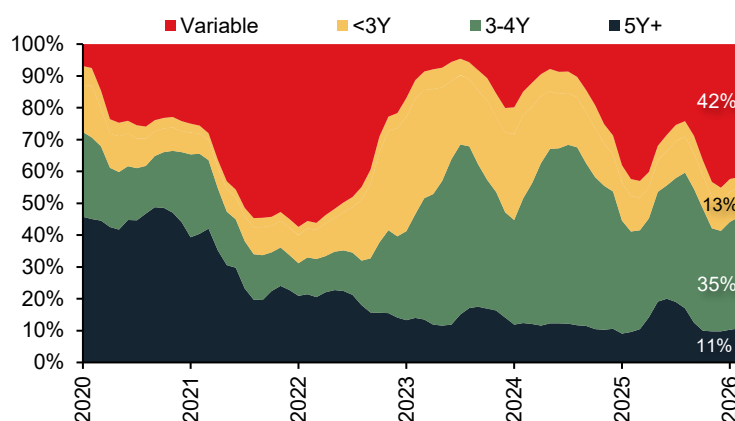
Seasonally adjusted Canadian monthly home sales



Source: NBC, CREA

### Chart 3: Variable remained most popular through February...

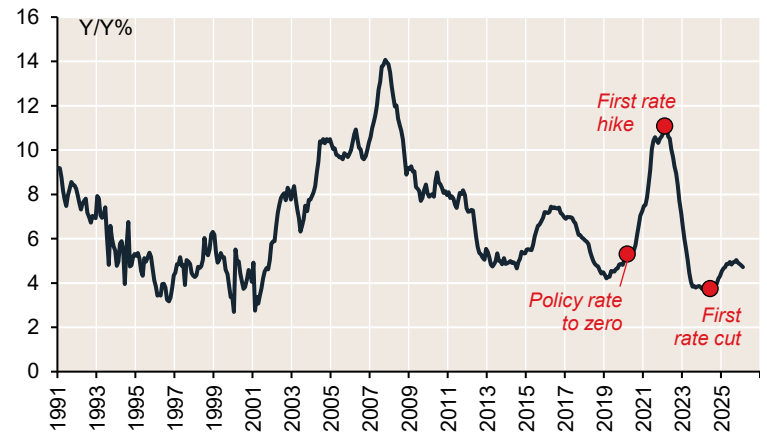
Share of mortgage funds advanced by type and term



Source: NBC, BoC | Note: Data label refers to latest (Feb-26) share.

### Chart 2: Where is the interest rate sensitivity lately?

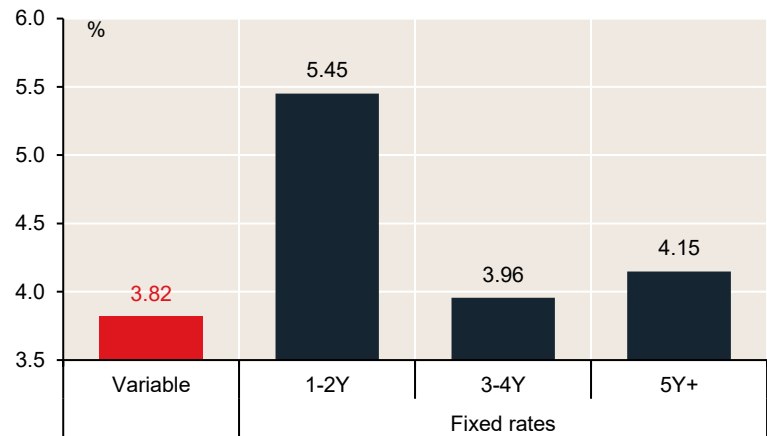
Year-over-year growth in outstanding mortgage credit



Source: NBC, StatCan | Note: Latest = Feb-26

### Chart 4: ...thanks to marginally lower borrowing costs

Average mortgage rate for funds advanced in Feb-26



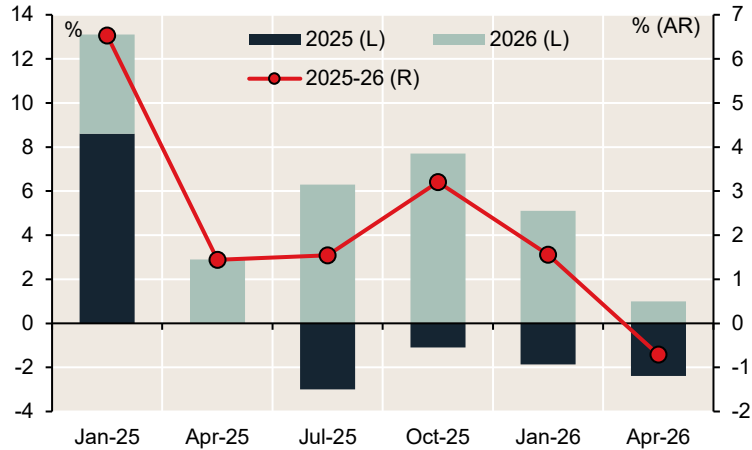
Source: NBC, BoC | Note: Rate = Weighted avg. of insured/uninsured mortgages in Feb-26.

In 2026, households have favoured variable rate mortgages due to lower borrowing costs, and at least in Feb, the chance of further cuts. 5Y mortgages remain unpopular as fixed-rate borrowers prefer a 3Y term. These data end in Feb but we don't expect major changes ahead. Rising bond yields make variable more attractive (and 3Y more attractive than 5Y) even if rate hike risks grew.



### Chart 5: Expectations for resale activity have steadily fallen

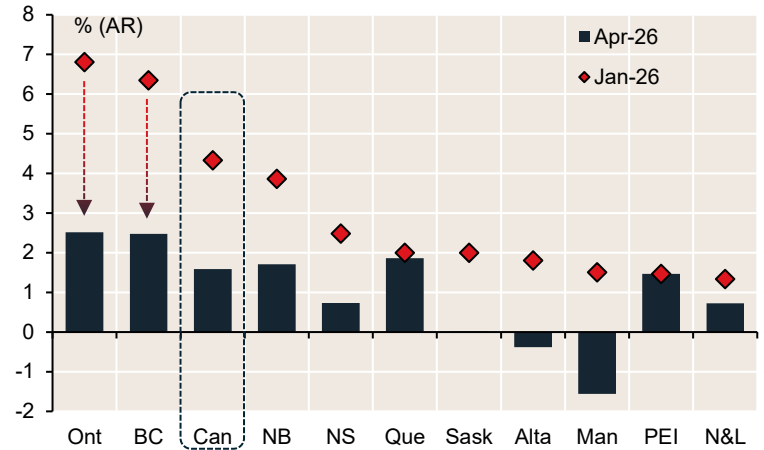
Projected growth in resale home sales by forecast date: 2025-26



Source: NBC, CREA

### Chart 6: CREA's outlook for Ontario & BC hit the hardest

Projected growth in resale home sales by province and forecast date: 2026-27

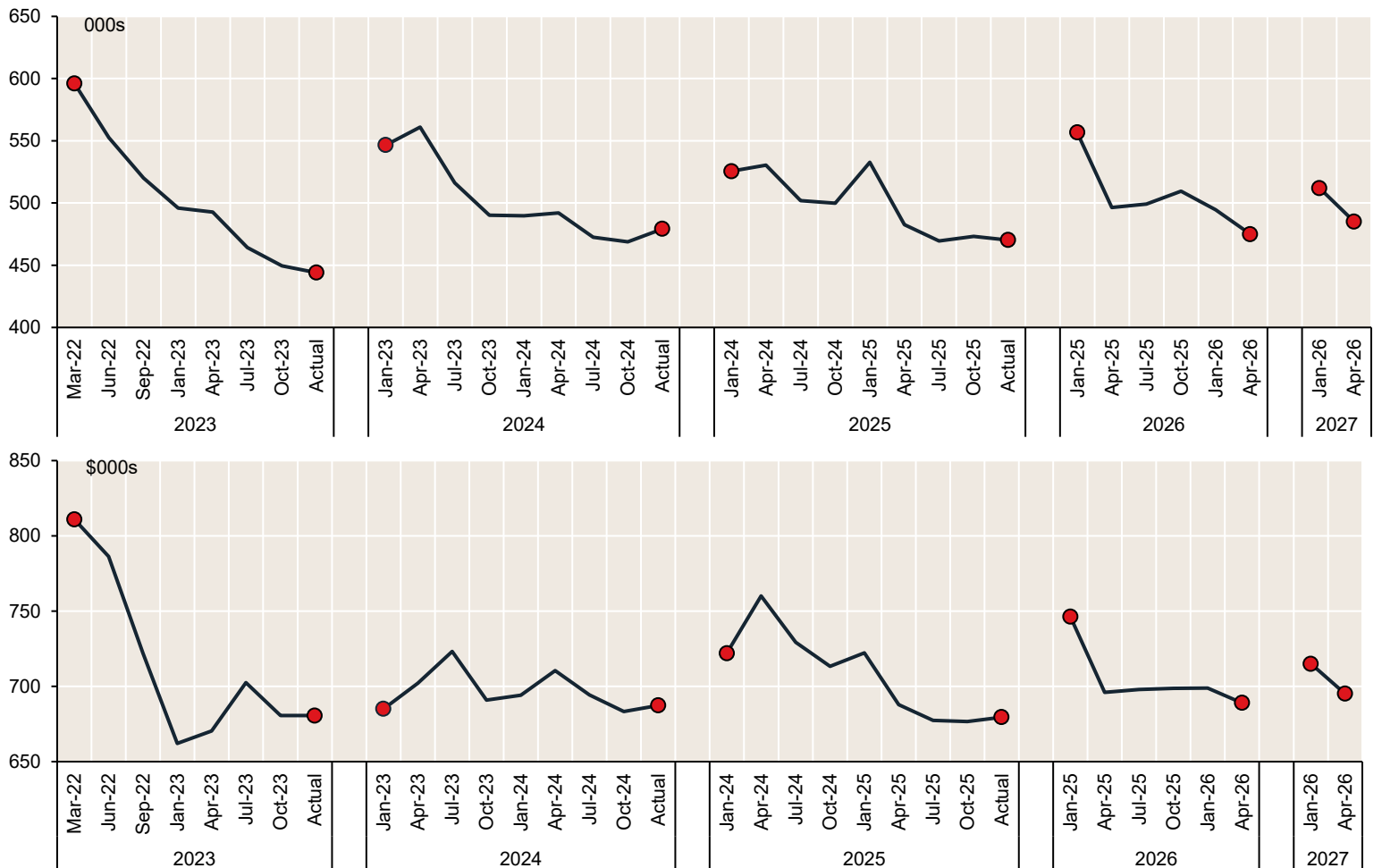


Source: NBC, CREA

It's been one battle after another for Canada's housing outlook. CREA was optimistic for 2025 and 2026 early last year, but tariff policy quickly upended that. Now, with the weak start to the year and a still-sluggish labour market, CREA revised down their 2026 outlook again. The outlook for 2027 was also slashed, particularly in the areas of the country struggling most: Ontario and B.C.

### Chart 7-8: Downwardly adjusting sales/price forecasts is nothing new for CREA (or other forecasters)

Evolution of annual CREA forecasts for housing sales (top) and average sales price (bottom), by forecast date



Source: NBC, CREA | Note: "Mmm-yy" refers to the date of the forecast and each "yyyy" refers to the year being forecasted.

If it feels like Canada's housing market has underperformed expectations for a while, that's because it has. CREA has tended to advance an optimistic forecast for a given year and then steadily revise down their forecast as time passes. That's true of the level of resale housing activity (as discussed above). It's also true of house prices, which consistently defy expectations for a rebound.



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