BCrea
British Columbia
Real Estate Association

Economics
MARKET INTELLIGENCE

February 2025

Choose Your Own (Mis)Adventure: How US Tariffs Could Impact BC Housing

Summary of Findings

- A tariff on all Canadian imports to the United States would have serious consequences for the Canadian and BC economies.
- A 25 per cent tariff would push both the Canadian and BC economies into recession, and the impact could be compounded by a broader trade war and retaliatory tariffs by Canada.
- Under the most likely scenario, the BC housing market would see a temporary decline in activity before posting a robust recovery as mortgage rates decline substantially, thereby unleashing pent-up demand.

Introduction

Until quite recently, the Canadian economic outlook appeared clear. After a relatively "soft landing," Canada was braced for a stronger 2025, driven by higher consumption and business investment on the back of lower interest rates.

However, that outlook has become much cloudier following the results of the American election. More specifically, threats of tariffs from the newly installed American administration have sent bond markets, economists, and the Bank of Canada into a frenzy of uncertainty. Given the strong bilateral trade activity and integrated supply chains that underpin both economies, broad-based American tariffs, coupled with potential Canadian retaliation, could have serious implications for the Canadian economy and the housing market.

This Market Intelligence report seeks to unpack the uncertainty surrounding potential tariffs by exploring several potential tariff scenarios and their implications for the BC housing market.

Big-Picture Impacts – The Canadian Economy

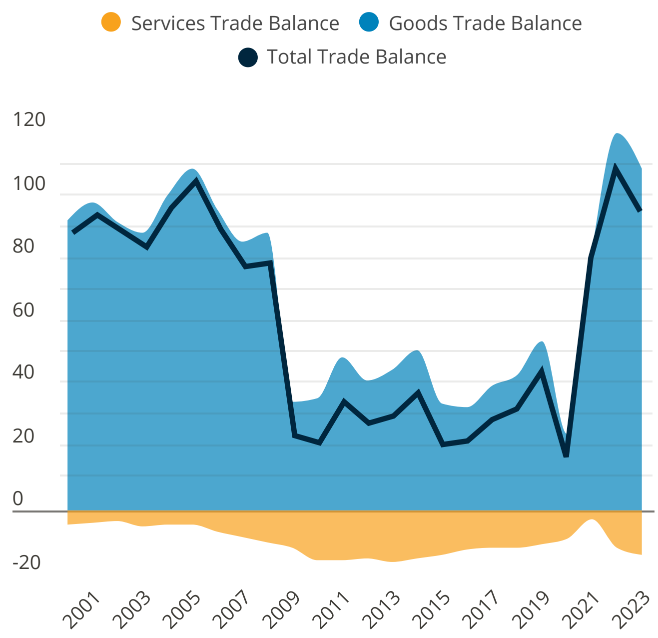
Before focusing on the implications of tariffs on housing activity, we must first discuss the impact on the overall Canadian economy. During the first three quarters of 2024, approximately C$800 billion (US$600 billion) worth of goods and services crossed the Canada–United States border.[1] This relationship is broad-based, with energy, durable goods, and services from many different industries flowing across the border to the benefit of both economies.

Nonetheless, Canada has maintained a trade surplus with the US almost entirely as a consequence of exports of crude oil to US refineries. Because of this trade imbalance – and more specifically, due to US President Donald Trump's unique view of its meaning – President Trump is considering imposing tariffs on all Canadian imports. First proposed at 10 per cent, the potential tariffs later and without reason increased to 25 per cent. Trump's goal is to rebalance global trade in America's favour.

Ignoring the glaring misconceptions in his rationale, these policies would certainly bear strong consequences for the Canadian economy. In the next section of this report, we will explore just what those consequences could look like.

Canadian Trade Balance with the United States

CA $Billions



Source: Statistics Canada

[1] U.S. Census Bureau. (n.d.). U.S. International Trade in Goods and Services: Balance of Payments Basis (Census Bureau Report C1220). U.S. Department of Commerce. Retrieved January 21, 2025. https://www.census.gov/foreign-trade/balance/c1220.html.

Scenario One: Tariffs With Limited or No Retaliation from Canada

We begin by discussing the impacts of American tariffs on Canadian imports without retaliation, or with limited and targeted retaliation from our government. Simply put, a tariff entails an additional tax on Canadian goods being sold in the US. Therefore, a tariff would disincentivize Americans from purchasing Canadian goods and services, leading to a drop in demand for our goods south of the border.

As a result, Canadian producers would pass previously exported goods into the domestic economy, temporarily leaving markets in a state of excess supply. This would be transitory, as producers would eventually scale back production to accommodate their (now) smaller market demand.

A one-way tariff levied by the US would lead to lower Canadian GDP directly through weaker exports, while indirectly impacting consumption and investment through increased uncertainty. At higher tariff levels, disinflation could become non-transitory, as weaker Canadian demand and diminished sales expectations would dramatically lower Canadian economic activity, putting stronger downward pressure on prices. Due to lower economic activity and a dip in inflation, the Bank of Canada would likely lower rates more aggressively. How much the Bank would need to lower its policy rate depends on the severity of the economic downturn.

Under this scenario, the CAD/USD exchange rate would likely depreciate further due to both the outflow of demand away from Canadian exports and from a widening differential between Canadian and US interest rates. This depreciation of the loonie could offset some of the higher cost of imports to the US, but would pass through to Canadian inflation via a higher cost of imported goods.

At a 10 per cent tariff, we project a peak loss of 0.9 per cent in GDP compared to a no-tariff baseline and a slight dip in inflation below the Bank of Canada's 2 per cent target. This would prompt the Bank to lower its policy rate by 50 basis points below our baseline forecast of 2.75 per cent.

If America imposed a 25 per cent tariff, Canadian real GDP would contract by close to 4 per cent, which would be reflected by a 1.5-point drop in inflation to just 0.5 per cent. Consequently, with the economy contracting and inflation falling, the Bank would likely have to return its policy rate to an emergency level of 0.25 per cent.

Ultimately, a one-way tariff imposed by America on Canadian imports would inflict significant damage on the Canadian economy as lower total demand for our goods would reduce overall economic growth, lead to significant job losses, and temper investment due to increased uncertainty for Canadian businesses.

Scenario Two: Tariffs With Retaliation

A scenario involving two-way tariffs between Canada and the US appears much more likely with the Prime Minister and provincial premiers signalling an appetite for at least some degree of retaliation. Although it presents a grimmer picture for both economies, retaliatory tariffs from Canada appear to be the only viable response to dissuade the American government from pursuing these policies. Hence, we must explore the ramifications of Canadian retaliation to reinforce how damaging these policies would be to both countries.

At a high level, retaliatory tariffs from Canada would deepen the negative economic impacts explored in our first scenario, but through different levers. While one-way American tariffs could be considered a negative aggregate demand shock to Canada, two-way tariffs are primarily a negative supply shock, which bears downstream effects on Canadian investment and consumption.

Currently, Canada imports well over C$400 billion of American goods per year, many of which are raw materials that constitute the integrated North American supply chain.[2] Typically, upward pressure on supply costs is either directly passed on to final prices or reflected by much lower production levels. In either outcome, Canadian purchasing power declines and inflation rises. Coupled with lower demand from south of the border, these forces could ultimately cripple the production capacities of Canadian companies.

With respect to output, mechanisms similar to non-retaliatory tariffs contribute to a decline in real GDP compared to baseline. However, Canadian retaliation further propagates these negative shocks and could cause a ripple effect on consumption and investment as firms and households are faced with rising costs, falling demand, and increased uncertainty.

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2 Statistics Canada. Table 12-10-0011-01 International merchandise trade for all countries and by Principal Trading Partners, monthly (x 1,000,000).

Taken together, this scenario creates a grim economic landscape where inflation is rising and output is falling, the exact inverse of what government and central bankers hope for.

Under these circumstances, the Bank of Canada faces a much more challenging question of determining whether these inflationary pressures are persistent or transitory. As stated, these tariffs would likely cause a one-time spike in final prices, but it remains unclear how long this would last.

Therefore, the Bank would have to determine whether they want to reverse course with tighter monetary policy, which further slows the economy, or keep monetary policy relatively neutral. However, in the interest of keeping inflation expectations anchored, the Bank may be forced to raise its overnight rate to quell these price pressures.

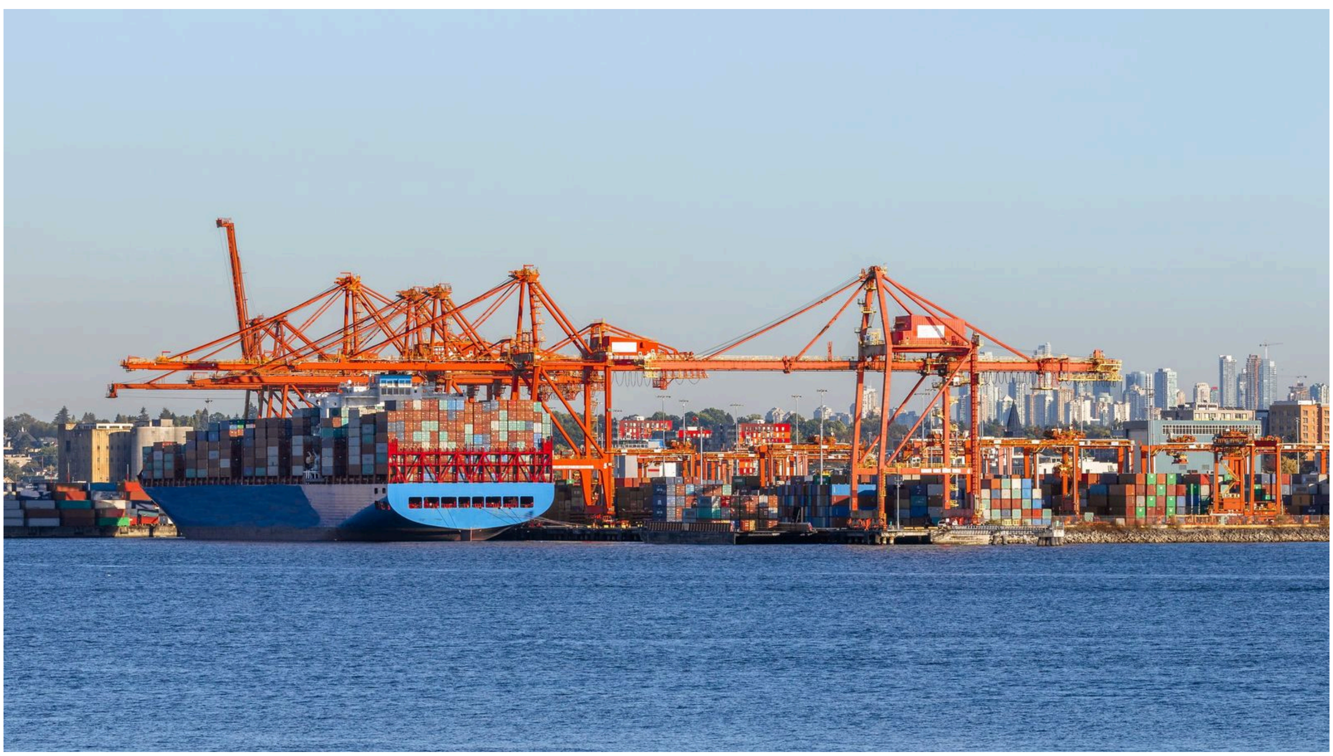
If this scenario sounds familiar, that's because it's quite close to the challenge the Bank of Canada just faced with rising inflation due to COVID-era supply-chain pressures.

Our model suggests that 10 per cent American tariffs with equivalent retaliation from Canada would cause a peak loss of 1.5 per cent of output compared to a no-tariff baseline coupled with a one-point bump to inflation.

With this backdrop, we project the Bank of Canada would leave its overnight rate about 50 basis points above its no-tariff baseline in a range of 3 to 3.25 per cent to bring inflation back to its 2 per cent target, further slowing the economy.

That paints a bleak picture, but these effects of retaliation are drastically worse for Canada under a two-way 25 per cent tariff structure. This would likely cripple real GDP, causing a peak 5.5 per cent drop in Canadian output compared to the baseline. This estimate is broadly similar to the Bank of Canada's 2018 estimate of a 6 per cent loss of output due to a broad trade war sparked by US tariffs.[3] Accordingly, much higher prices for imported consumer goods and business inputs would push inflation back above 5 per cent, undoing the Bank's progress over the past year. As a result, the Bank would be forced to change course, temporarily raising its policy rate back to a peak of 4 per cent.

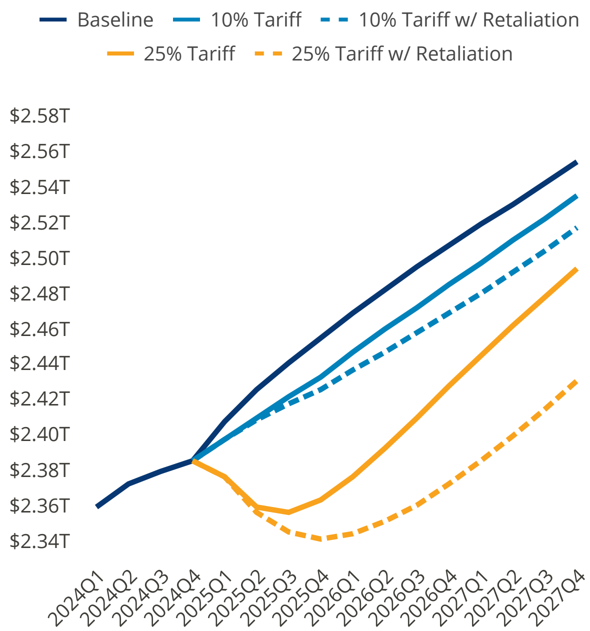
Canada wouldn't feel the pain of this alone. Under a two-way tariff scenario, especially at the 25 per cent tariff rate, both economies would shrink in size, as reflected through lower output, employment, investment, and trade.



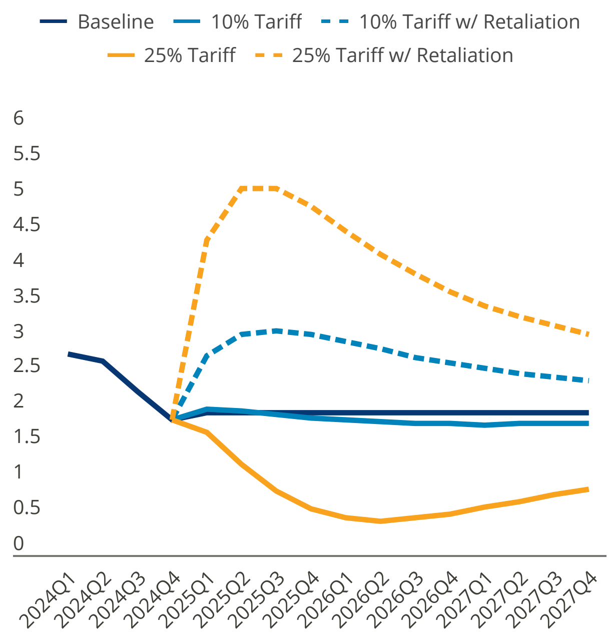
[3] Bank of Canada. (2019, July 10). Monetary policy report – July 2019. Bank of Canada.

Canadian Economy Scenarios

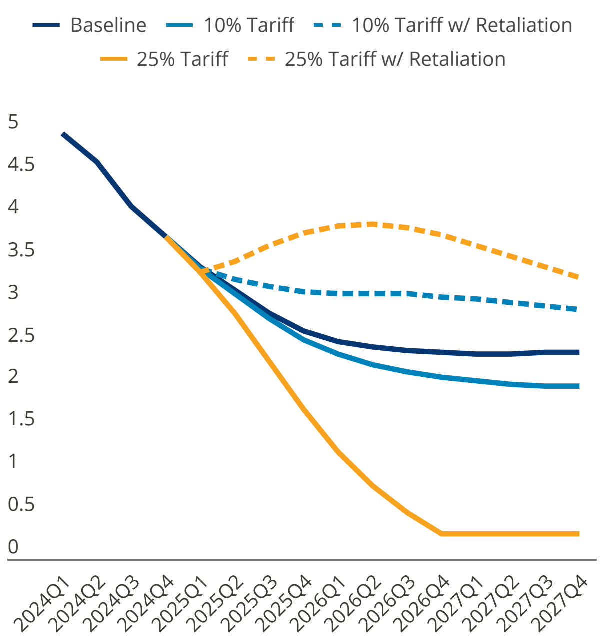
Real GDP



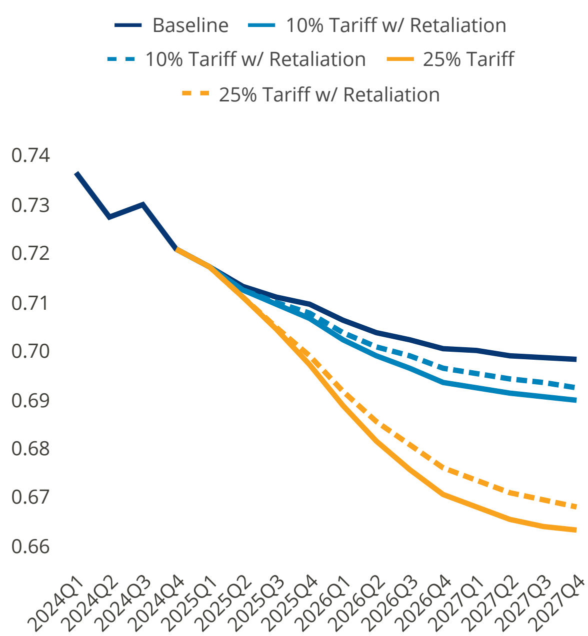
Inflation (%)



Bank of Canada Rate (%)



Exchange Rate



Sources: BCREA Economics; Statistics Canada

Implications of Tariffs for the British Columbia Economy

While the scenarios described above are dramatic for the Canadian economy, the impact of tariffs would vary across the country. More specifically, a province whose exports are mostly bound for America would suffer greater economic impacts from US tariffs than a province with more diverse trading partners. British Columbia belongs to the latter group, with about 55 per cent of its exports bound for America, compared with a 75 per cent share of Canadian exports in total.

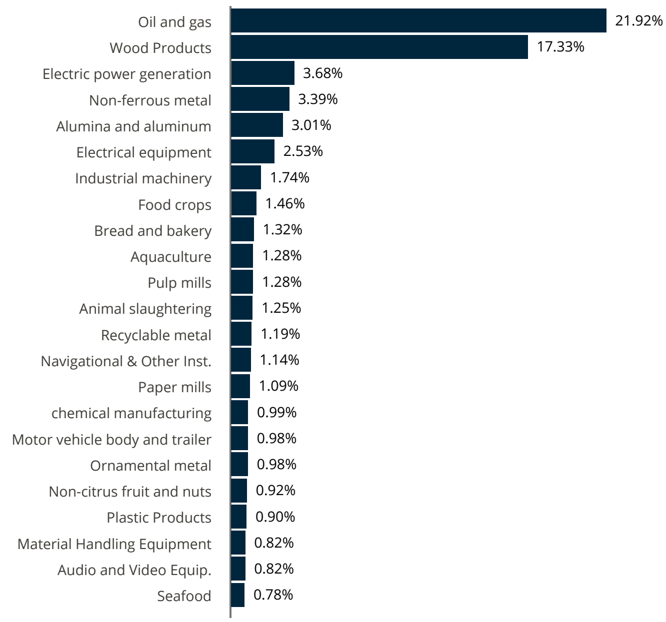
Nonetheless, tariffs would still damage provincial GDP, as many of BC's exports to the US appear to be fairly easy for US firms to substitute away from in favour of domestic producers. Accordingly, a move away from British Columbian goods drastically worsens our investment and employment environment. We saw this exact scenario play out in the BC forestry sector following the imposition of a 20 per cent US tariff on softwood lumber. That tariff prompted a dramatic decline in lumber exports, the production of manufactured wood products, and forestry employment. Indeed, the sector bears the scars of that policy more than half a decade later.

Our model estimates that a 25 per cent tariff would cause a 0.75 per cent to 1.1 per cent contraction in BC's real GDP in the first year of the tariff, followed by slow but positive growth the next year.

That estimate is similar to the recently released analysis from the BC Government,[4] which estimated a worst-case scenario contraction of 0.6 per cent in the BC economy for 2025 and 2026 due to US tariffs.

BC Trade Exposure to the United States

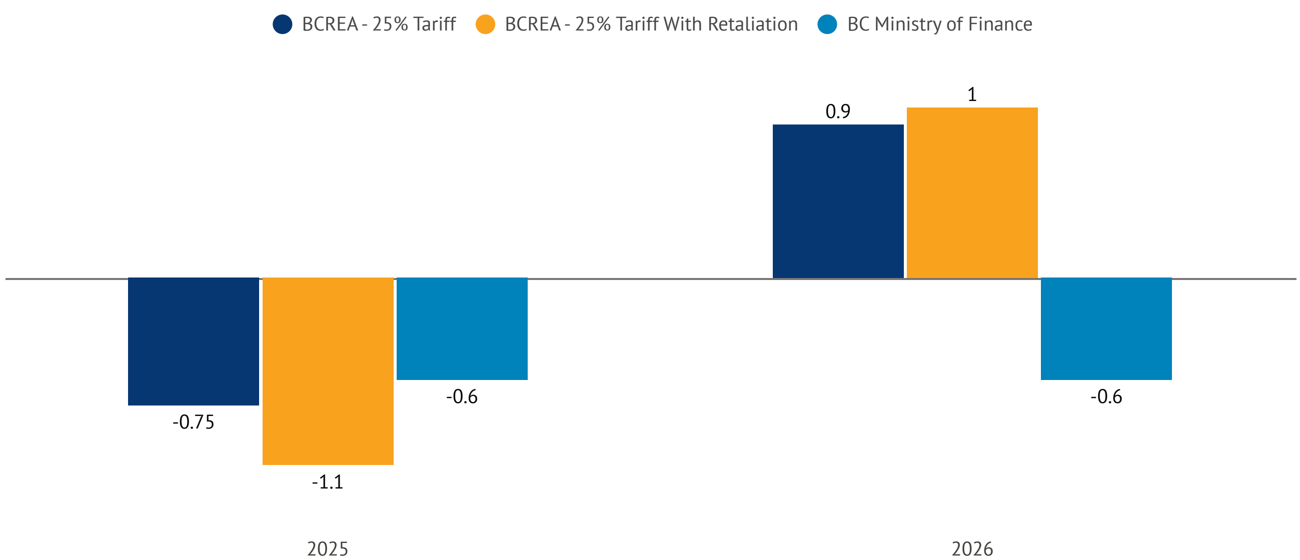
BC Exports to the US by Product Type



Source: Statistics Canada

Projected impact on the BC Economy

Forecast of Real GDP Growth with a 25% Tariff



Sources: BCREA Economics; BC Ministry of Finance

[4] B.C. provides economic assessment of Trump's tariff threat

Implications of Tariffs for the British Columbia Housing Market

Clearly, the broad spectrum of tariff policies discussed above creates a wide range of outcomes for British Columbia's housing market. The key connection between the overall economy and the housing environment is understanding how the Bank of Canada would respond to changes in the current inflation outlook. Depending on whether and how broadly Canada retaliates with its own tariffs, inflation could be higher or lower than the current forecast with divergent policy responses from the Bank and a diverse set of outcomes for sales activity and prices.

With regards to the economy, tariffs will have an unambiguously negative impact on economic growth in BC and at a 25 per cent level could push the economy into recession. As we have seen from previous recessions,[5] the usual pattern for the BC housing market is an immediate decline in housing activity and then a robust recovery as the central bank lowers rates to stimulate the economy. However, the effect on inflation caused by a potential Canadian retaliation and the Bank's ability to lower rates could short-circuit the normal pattern.

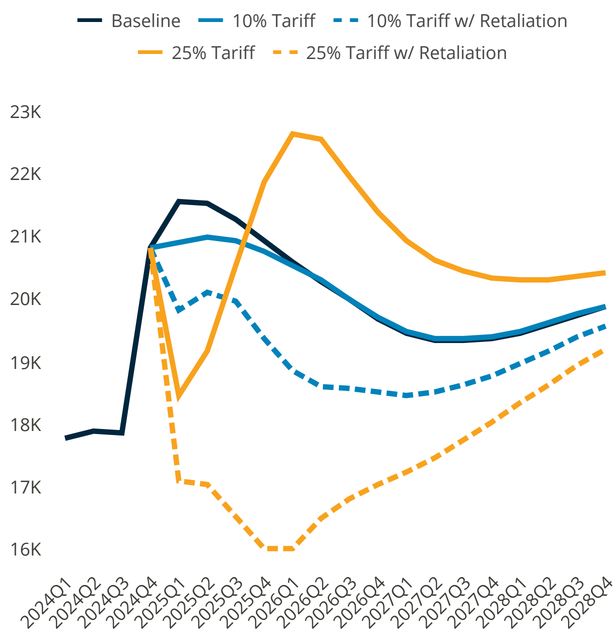
Our models illustrate this point with a diverse set of potential mortgage rates contingent on inflation and growth outcomes. In our simulations, mortgage rates could be as high as 6.25 per cent under a full-retaliation scenario, or as low as 2.5 per cent under no retaliation. Obviously, these scenarios have very different implications for housing market activity.

The most likely scenario, assuming US tariffs are levied, involves a limited and targeted set of tariffs on US imports, which would result in limited inflation impact and allow the Bank of Canada to respond to any severe injury to the economy. While a 10 per cent tariff would have only minor negative impacts for the housing market, a 25 per cent tariff, with no or limited retaliation, would generate a familiar pattern of temporary declining activity that gives way to strong market activity as plummeting mortgage rates unleash pent-up demand.

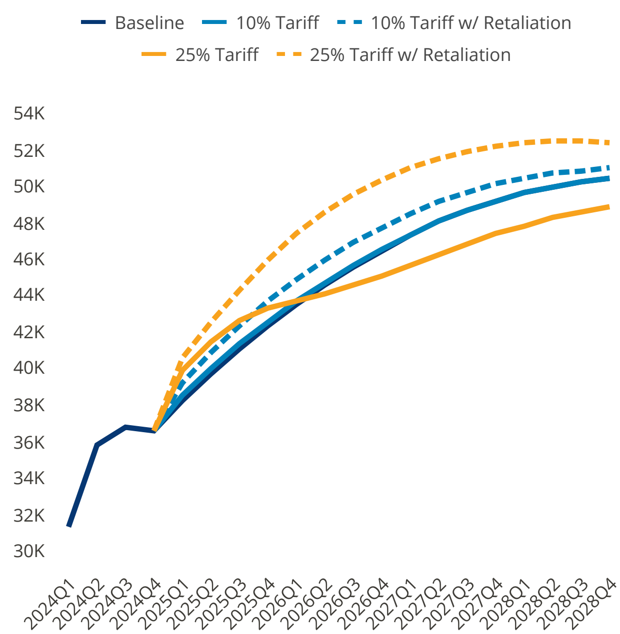
[5] British Columbia Real Estate Association. (2023, January 19). A guide to recessions and the BC housing market. British Columbia Real Estate Association.

BC Housing Market Scenarios

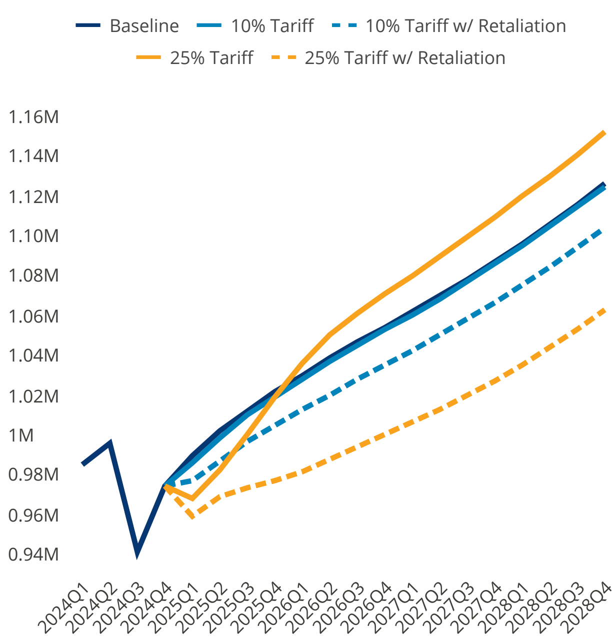
Home Sales (per quarter)



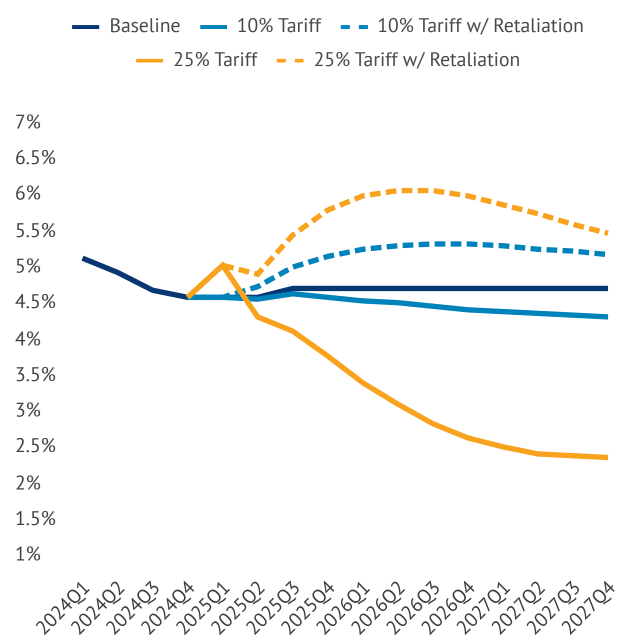
Active Listings



Average Home Price (BC)



Five-year Fixed Mortgage Rate Scenarios



Sources: BCREA Economics, CREA, RateHub

Conclusion

The spectre of tariffs looms large over the intertwined economies of Canada and the United States, threatening not only the macroeconomic stability of both nations but also the livelihoods of ordinary citizens and the vitality of essential industries. Canada, with its trade-heavy economic model, is particularly vulnerable to such disruptions as scenarios outlined herein starkly illustrate. Whether under unilateral US tariffs or the more perilous prospect of retaliatory measures, the ramifications are unequivocal: diminished output, volatile inflation, and a testing of the Bank of Canada's monetary resolve.

British Columbia, with its relatively diversified trade portfolio, may weather the storm better than other provinces more reliant on US markets. However, the scars left on the province's forestry sector by earlier trade skirmishes serve as a sobering reminder that even partial insulation offers limited reprieve. For the housing market, the stakes are equally high. A recession-induced drop in activity might be mitigated by central bank intervention, but the possibility of persistent inflation could keep mortgage rates uncomfortably high, stifling the recovery.

Ultimately, the story of tariffs is one of economic self-sabotage. While the stated aim is to bolster domestic industry, the reality is a litany of unintended consequences – rising costs, diminished competitiveness, and weakened ties with critical trading partners. For Canada and the United States, erstwhile allies in a deeply integrated North American economy, such measures are a lose-lose proposition.

The hope must be that cooler heads prevail before the situation escalates, paving the way for a recommitment to trade policies that build bridges rather than burn them. The stakes – economic growth, stability, and the prosperity of millions – are too high to allow things to spiral further.

BCREA is the provincial association for BC REALTORS®. As a champion for the real estate sector, BCREA advances REALTOR® professionalism and ensures the REALTOR® voice is heard, for the benefit of consumers and communities, across BC. By working in collaboration with the province's real estate boards and associations, our mission is to provide professional development opportunities, advocacy, economic and policy research, and standard forms so REALTORS® are trusted, respected, and proud of their profession.

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