

Economics

MARKET INTELLIGENCE



May 2025

**What Comes After
Uncertainty?:
The Next Phase in
BC's Housing Market**





Summary of Findings

- Uncertainty related to the threat of tariffs has depressed home sales through the first quarter of 2025.
- As that uncertainty subsides, the path of sales activity will depend on the prevailing tariff regime and the ultimate impact of tariffs on the economy.
- A strong monetary policy response from the Bank of Canada could counteract the negative impact of tariffs, leading to a stronger, faster housing market recovery.

Introduction

The economic uncertainty engendered by the stochastic trade policy of the United States under President Donald Trump has upended what was set to be a return to normalcy in the British Columbia housing market. However, that uncertainty, while still elevated, appears to be subsiding. So, what comes next?

In this Market Intelligence report, we'll explore some potential scenarios for the BC housing market amidst a cloudier-than-usual outlook.

What is Uncertainty?

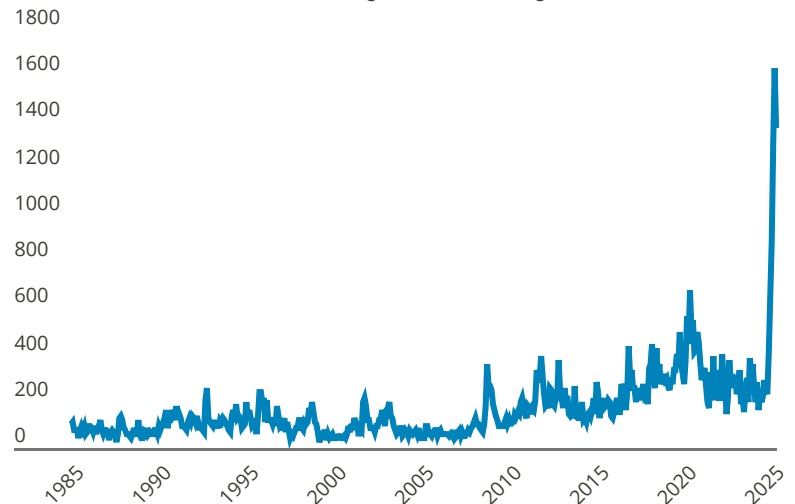
Uncertainty is not inherently measurable. It is much more a vibe or a mood than something that can be quantified. That means we are left to rely on imperfect measures to gauge people's sentiment about the future. One such measure that has been getting a lot of attention is the Economic Policy Uncertainty Index, produced by economists from Stanford University and Northwestern University. The index, which scrapes Canadian media sources for mentions of economic uncertainty, has the advantage of a long historical record, which makes its usefulness in quantitative modelling outweigh some of the concerns over its methodology. The index rose to a startling new high of 1,635 in February – almost 1,000 points higher than the previous record of 679, recorded during the heart of the pandemic in 2020.

Other approaches to measuring uncertainty tell a similar story – households and businesses are worried about the future, and those worries coincide with the unpredictability and potential consequences of the Trump administration's tariff policy. The 12-month outlook for the Canadian Federation of Independent Business (CFIB) Business Barometer index also collapsed after February, reaching its lowest level on record in March.

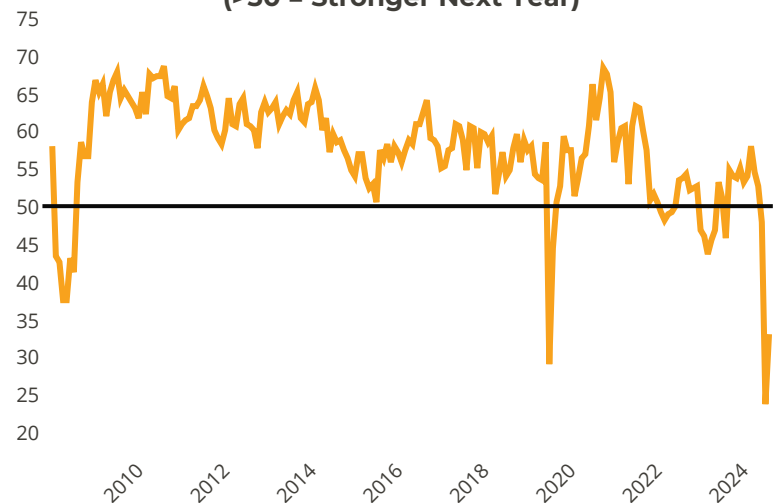
Meanwhile, a recent Bank of Canada survey showed that a majority of Canadian workers in industries that rely on exports to the US are worried about their job security if tariffs come into effect.

The impact of all this uncertainty is quite clear. Decision making is paralyzed. Whether it's a business looking to hire or invest, or a family thinking of buying a home, these kinds of decisions are increasingly being delayed or put off completely. As usual, the most immediate impact of uncertainty is showing up in the housing market.

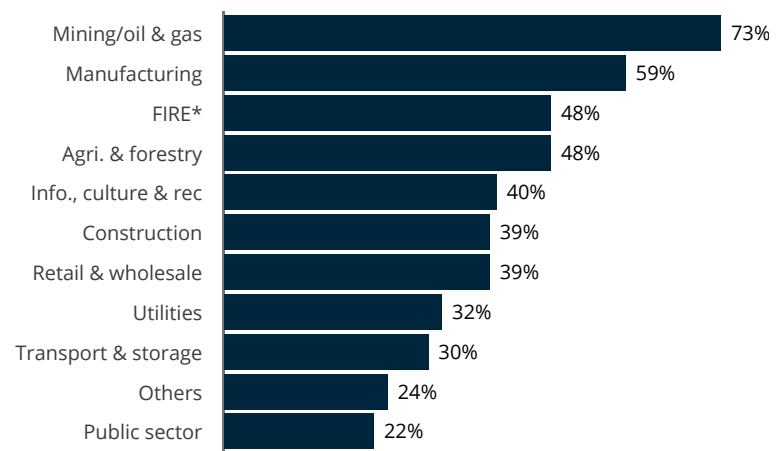
Uncertainty Across the Canadian Economy Economic Policy Uncertainty Index



CFIB Business Barometer - 12 Month Outlook (>50 = Stronger Next Year)



Bank of Canada, Survey of Consumer Expectations - Share of Workers Concerned about Job Security



*Finance, Insurance, and Real Estate

Sources: Economic Policy Index, CFIB, Bank of Canada



How Has Uncertainty Impacted the BC Housing Market?

After a slow couple of years, home sales picked up considerably toward the end of 2024, driven by falling interest rates and pent-up demand. Sales began 2025 relatively strong but fell off in February, with further declines in March and April. Home sales are now sitting at 25 per cent below their 10-year average.

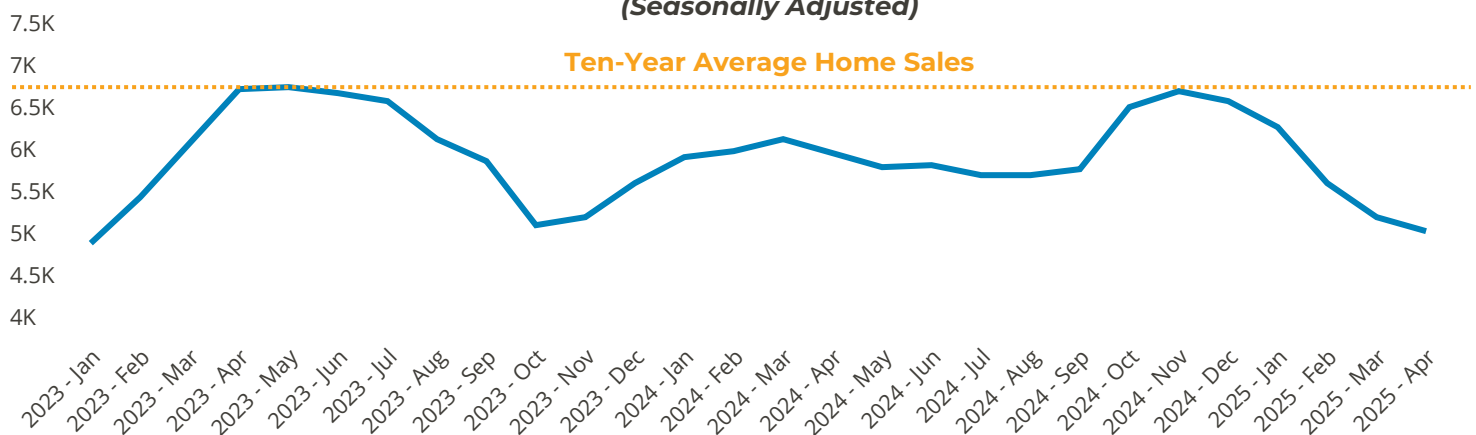
Given the fact that this fall-off in sales coincided with the beginning of the tariff madness that has since gripped the global economy, it would be easy to simply intuit that tariff uncertainty is the main driver of weak sales.

However, we pride ourselves on trying to put numbers to these questions. As such, we've augmented a conventional housing market model with a measure of uncertainty – the Economic Policy Uncertainty Index – from which we can derive what factors have been driving home sales in recent months.

Of note, this model shows significant underlying sales momentum, and a rate environment that has moved from weighing heavily on sales to being essentially neutral. The model also shows that uncertainty, while not usually much of a factor at all, is estimated to have lowered provincial home sales by approximately 3,000 sales over the first quarter of 2025.

The good news is that uncertainty doesn't last forever. The initial shock from uncertainty already appears to be fading and, given the tempestuous nature of recent tariff policy, could be resolved one way or the other at any moment. When that uncertainty subsides, we should see greater clarity in the outlook and a pick-up in activity. However, that also depends on the final shape of the tariff environment.

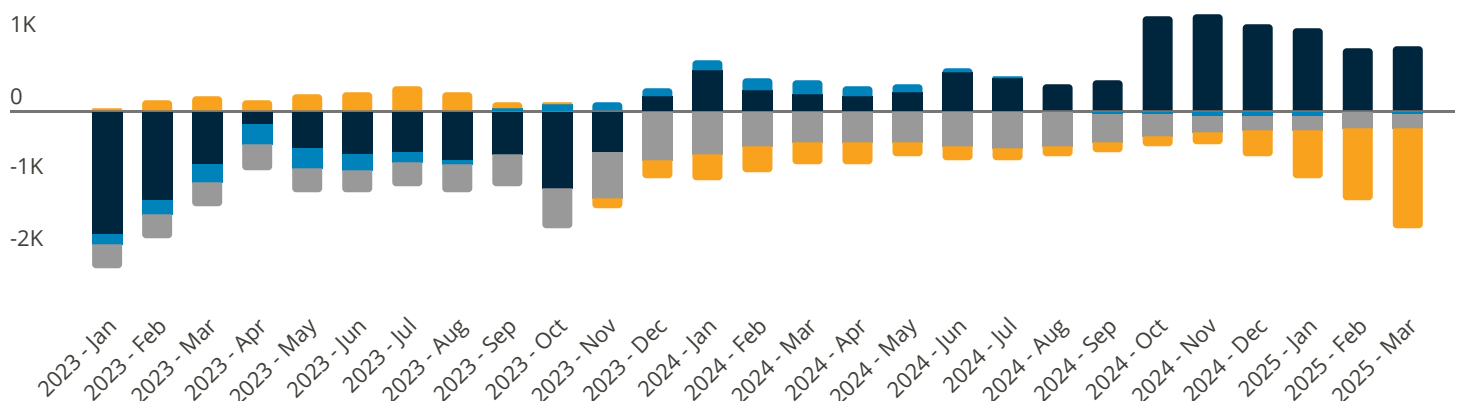
BC Residential Home Sales (Seasonally Adjusted)



Decomposition of Factors Driving BC Home Sales

Sales Impact vs Baseline

● Sales Trend (Momentum) ● Price Growth ● Rates ● Uncertainty



Source: BCREA Economics



What Comes After Uncertainty?

Since the Canadian federal election, we appear to be in a trade-tension holding pattern with at least friendlier discussions between Canada and the US. However, there is still a chance that Canada will be hit with expanded tariffs that have the potential to knock the economy into recession. Indeed, the Bank of Canada, eschewing its normal forecast, offered two scenarios for the economy under differing tariff regimes, the most negative of which assumes a year-long recession and rising inflation. While BC is more insulated from US tariffs than the rest of Canada, there will still be a significant drag on the BC economy from a trade war involving our two largest export markets.

With home sales already trending 25 per cent below the average pace of the past decade, where does the market go from here? Like the Bank of Canada, the best we can offer are scenarios.

Assuming a mutually beneficial conclusion to the US-Canada tariff war, a sharp decline in uncertainty, as well as no lingering effects on the economy from the latter, there is sufficient pent-up demand in the market to drive sales significantly higher.

However, if uncertainty is replaced by the cold reality of an economy subject to newly implemented tariffs, then recovery becomes largely about the monetary policy response. Currently, messaging from the Bank of Canada is focused on convincing the public and financial markets that monetary policy is not the right tool to fight the trade war:

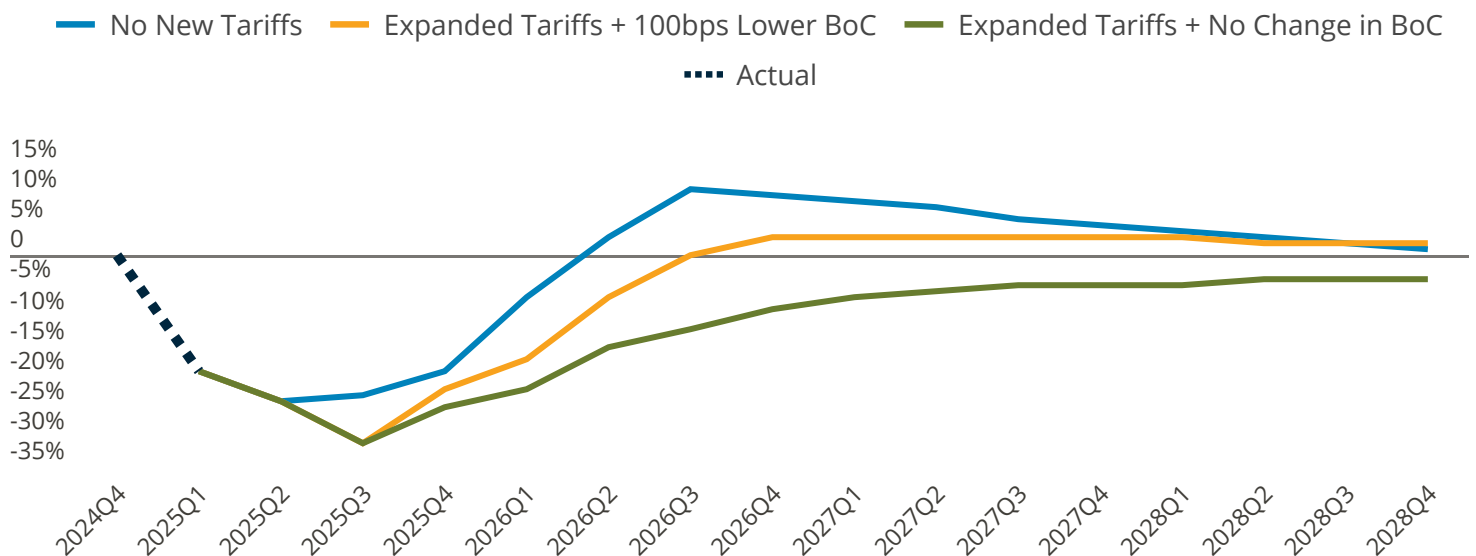
“Monetary policy cannot resolve trade uncertainty or offset the impacts of a trade war. What it can and must do is maintain price stability for Canadians.”

– Bank of Canada, April 16, 2025

In that case, we may not see much in the way of further monetary stimulus or falling mortgage rates. Instead, we'd be looking at a much more sluggish recovery in provincial home sales.

That said, there is emerging literature that argues the optimal course of action for central banks dealing with tariff effects is to look past the price impacts and instead react to falling output.¹ If the Bank finds that argument convincing enough to outweigh the lingering impact of its recent experience with COVID-era inflation, then we may see the Bank lower its policy rate, prompting fixed mortgage rates to fall below 3.5 per cent and thereby spurring a strong rebound in home sales.

Home Sales (per quarter) vs Pre-Tariff Baseline



Source: BCREA Economics

Conclusion

As the fog of trade uncertainty hopefully begins to lift, the BC housing market is at a bit of a turning point. Either political dialogue will yield a resolution, reinvigorating the market in a collective sigh of relief, or tariffs could dampen the recovery, leaving monetary policy as the primary lever to the market regaining traction.

As the year progresses, we can hopefully put this era of unprecedented uncertainty behind us, affording households the confidence necessary to make informed decisions with a clearer path ahead.

¹ Paul R. Bergin and Giancarlo Corsetti, “The Macroeconomic Stabilization of Tariff Shocks: What is the Optimal Monetary Response?” Working Paper, May 2023.



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