

Economics

MORTGAGE RATE FORECAST



March 2026

HIGHLIGHTS

- Canadian fixed mortgage rates face upward pressure as geopolitical instability sends oil soaring.
- Tariffs and the Iran conflict are driving growth and inflation concerns.
- The Bank of Canada is walking a tight rope of double-sided risks.





Mortgage Rate Outlook

After sliding lower through most of February, Canadian and American bond markets have responded to the Iran war with trepidation as five-year bonds have risen back to levels last seen near the end of 2025.

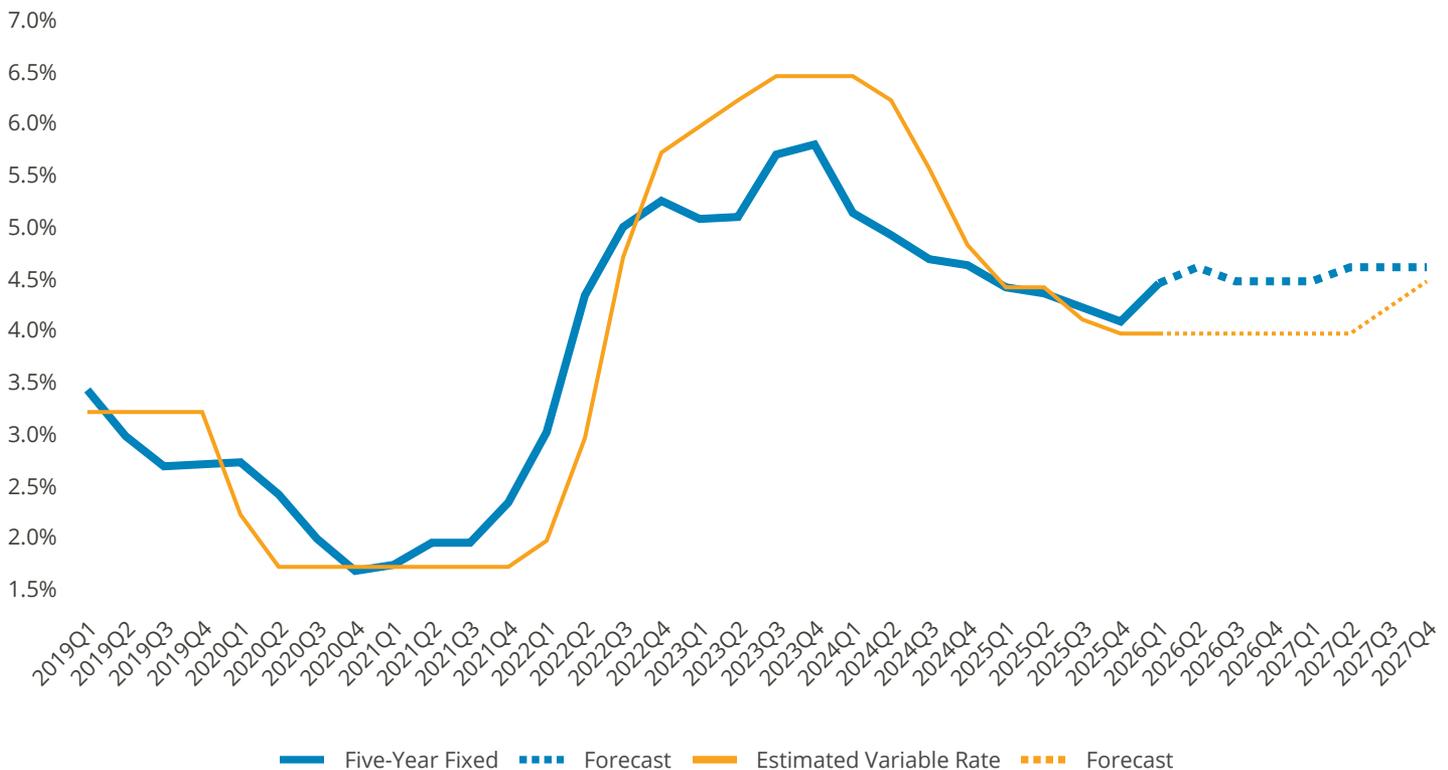
Given the impact of a volatile geopolitical environment on bond yields, fixed mortgage rates have also retraced after initial declines this year, with uninsured five-year fixed rates stabilizing around 4.6 per cent. With the five-year yield rising above 3 per cent, we expect five-year fixed rates to rise slightly over the next quarter as markets price in an expected monetary policy response to rising oil prices as well as a rising risk premium. Guidance from the Bank of Canada at its April meeting will be key to the ultimate direction of fixed rates.

If the Bank signals a willingness to look through a temporary rise in inflation, we could see fixed rates moderate.

Variable mortgage rates have remained steady following three consecutive rate holds from the Bank of Canada. The average variable rate being offered by Canadian lenders has held at 4.1 per cent, or 35 basis points below the prime business rate. Heightened risk and elevated uncertainty mean lenders are unlikely to meaningfully change their discounts on variable rates. Ultimately, variable rate adjustments hinge on rate decisions that currently depend on the depth and length of the oil price shock. Therefore, we cautiously expect the variable rate to remain at 4.1 per cent throughout 2026.

Mortgage Rate Forecast								
Term	2026				2027			
	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Variable Rate	4.1	4.1	4.1	4.1	4.1	4.1	4.35	4.6
Five-Year Qualifying Rate	6.6	6.75	6.6	6.6	6.6	6.75	6.75	6.75
Five-Year Average Discounted Rate (Uninsured)	4.6	4.75	4.6	4.6	4.6	4.75	4.75	4.75

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



Source: Ratehub; BCREA Economics



Economic Outlook

The Canadian economy contracted in the fourth quarter of 2025 by 0.6 per cent on an annualized basis, falling short of the Bank of Canada's forecast for flat growth. The underperformance was driven largely by a drawdown in inventories, partially offset by strength in household and government spending. However, modest export recoveries were insufficient to offset earlier declines stemming from the implementation of tariffs, resulting in a net contraction in overall trade for 2025. Trade uncertainty continues to linger, while business investment remains weak, leaving little scope for robust growth in the near- to medium-term.

Ongoing tensions between the Canadian and US governments over tariffs have, at least temporarily, taken a back seat to the emerging supply-shock effects of the Iran war. As an oil-producing and exporting nation, Canada may see some short-term, uneven regional benefits from higher oil prices. However, rising fuel costs will weigh on household budgets and increase business input costs, leading to a negative overall economic impact even before accounting for monetary policy implications.

At the same time, a pronounced slowdown in population growth – driven by changes in immigration policy – is further constraining Canada's growth drivers. While the country is actively pursuing new trade relationships and large-scale national infrastructure projects, the economic effects of these efforts are unlikely to materialize within the forecast horizon. Taken together, we expect below-trend growth in 2026 in the range of 1 to 1.5 per cent.

Bank of Canada Outlook

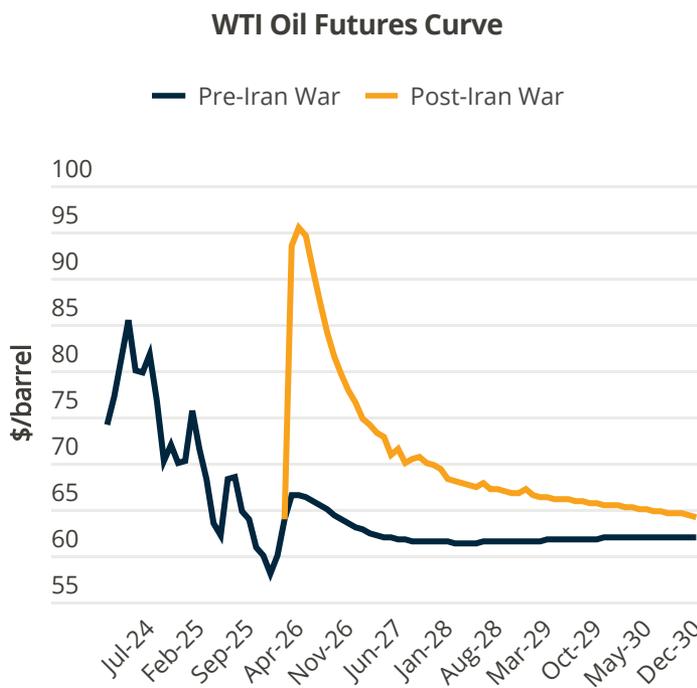
Following a brief rate-cutting cycle, the Bank of Canada has held its overnight rate at 2.25 per cent over its last three meetings. Prior to the Iran conflict, financial markets broadly expected the Bank to remain on hold through 2026. There was even a growing case for rate cuts this year, given the economic momentum observed at the start of 2026. Core inflation continues to decelerate, with three-month measures falling again in February and now averaging just over 1 per cent. Economic growth is also likely to come in below the Bank's relatively optimistic first-quarter forecast, while Canada has just recorded its weakest monthly employment growth since 2022.

That said, the recent war-driven spike in oil prices and its potential downstream cost pressures complicate the outlook. The Bank of Canada must now assess the inflationary impulse from a possible supply shock and the risk that higher energy costs could pass through to broader inflation expectations – an argument for caution. Our estimates suggest that a prolonged period of elevated oil prices could add up to 1 percentage point to inflation, potentially pushing consumer price growth back above 3 per cent.

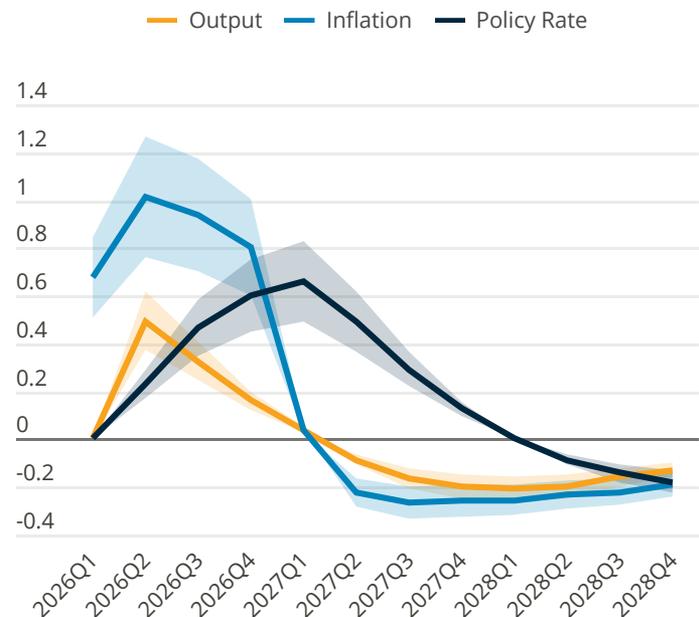
The critical question is whether such an increase would compel the Bank to raise its policy rate. In a timely speech, Bank of Canada Deputy Governor Sharon Kozicki highlighted that the appropriate monetary policy response to a supply shock depends on both its magnitude and persistence. A large and prolonged shock risks becoming embedded in inflation expectations – a dangerous outcome seen during COVID-era supply disruptions – while temporary price increases may not warrant a policy response.

While it remains possible that the Bank could look through a temporary price shock and focus instead on a weakening economy, uncertainty remains too high to form strong conviction around the future direction of policy.

Size and Duration of Oil Shock Will Determine Path of Interest Rates



Impact of Oil Shock on the Canadian Economy (ppt Deviation from Baseline)



Source: BCREA Economics; CME



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