

A New Phase of Easing Meets a Changing Auto Market

Welcome to our 5th quarterly publication focusing on the automotive industry, the goal of this newsletter is to give you an overview of what we’re hearing and seeing in the market both locally and across our shared border. Expect to hear relevant commentary from a macro-economic perspective as well as “boots on the ground” commentary from our regional leaders who are in the market meeting with dealers across Canada and the US.



[Kyle Kuchma](#)
Head, Dealer Finance, Canada



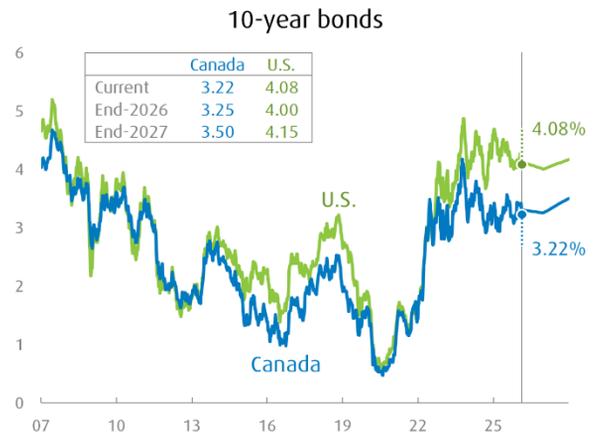
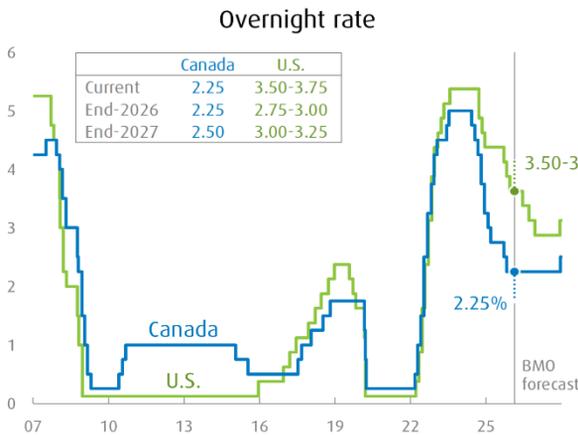
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Interest Rates (BoC & The Fed)

- Monetary policy on both sides of the border has entered a more gradual easing phase, and the timing matters greatly for dealer financing and consumer auto credit. The **BoC held its overnight rate at 2.25%** in January and is now expected to remain on hold through all of 2026. The Bank emphasized elevated uncertainty—particularly around U.S. trade policy and the upcoming **USMCA review**—as a key reason to avoid further cuts for now.
 - While core inflation measures are generally trending below 2% on a three month annualized basis, the Bank is signaling a policy stance that is **appropriate but cautious**, with only downside risks pointing to a possible cut later in the year. After three straight cuts in 2025, the Fed paused in January and is now projected to **resume easing in June**, not March as previously assumed. We expect **three 25 bp cuts in 2026**, ending the year with a fed funds target range of **2.75%–3.00%** (midpoint 2.875%). Sticky services inflation and a still firm labour market are reducing the urgency for near term easing, though the downward trend in core inflation (2.5% y/y) supports a gradual cutting cycle. Longer term yields have stabilized but remain above pre 2024 levels. **10 yr GoC yields** are expected to drift toward 3.25% through 2026 and 10-yr U.S. Treasuries are expected to hold near 4.00%-4.10% despite intermittent dips.
 - These levels keep auto financing costs elevated and dealers’ floorplan rates historically high. While upcoming Fed cuts should place mild downward pressure on term yields, structural forces—U.S. fiscal concerns, tariff related revenue distortions, and questions around Fed independence—are keeping a **firm floor under U.S. long bond yields**, limiting the relief available to consumers.
- Erik Johnson, Senior Economist

Future rate cuts: Fed incoming, BoC done

(% : as of February 20, 2026)



Kevin Warsh’s term begins May ‘26

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Automotive Industry Sales Overview

- U.S. inventory days' supply have slackened to start the year at close to 100, but OEMs—still dealing with tariff pressures—are pulling back on incentives rather than clearing inventory aggressively.
- Dealer margins remain stable despite lower incentives, supported by the shift toward more affordable vehicle segments.
- A defining trend in 2025–26 has been the rapid shift toward lower priced, smaller SUVs and compact vehicles as higher financing costs reshape consumer budgets. In Canada, Subcompact + compact + intermediate SUVs surpassed 50% of national sales for the first time. In the United States, these same segments reached 43% of sales, up sharply from pre tariff levels.
- This shift reflects both sticker price sensitivity and the financing arithmetic: shoppers are increasingly willing to trade down in size to keep monthly payments manageable.
- Despite affordability challenges, U.S. light vehicle sales remain near 16 million units, the highest since 2019. Canadian sales held close to 1.9 million units in 2025 and are poised to remain within that range absent further trade disruptions.
- The resilience in underlying demand, combined with the shift toward smaller vehicles, supports a relatively stable volume outlook even in an affordability-challenged environment.

- Erik Johnson, Senior Economist

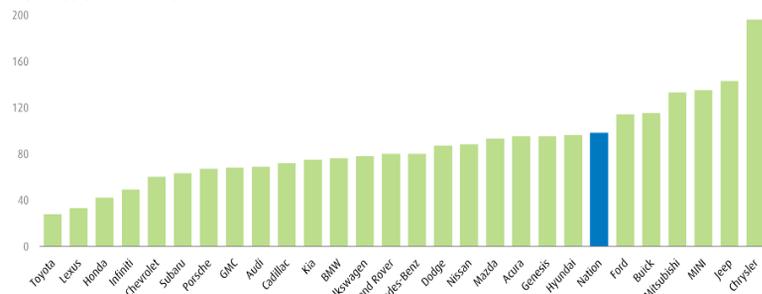
Labour Market Overview

- Canada's labour market saw some mild improvements in January, with the jobless rate falling to 6.5%. The details were a bit more concerning with the drop in the participation rate signaling that we could see the unemployment rate drift upward later in Q1, while job vacancies continue to drop relative to the number of unemployed—now more than three per vacancy, compared with about one in mid 2022.
- Although the BoC cannot offset trade related headwinds, easing in interest sensitive sectors such as housing should help to cushion the slowdown.
- The U.S. labour market results have been mixed but momentum is clearly cooling.
- Annual benchmark revisions revealed a sharp deterioration in job creation, with only 15k jobs per month added in 2025, concentrated almost entirely in health care. The January jobs report looked stronger on the surface (+172k private payrolls), but the breadth of hiring remains narrow and small business sentiment continues to soften—supporting the case for Fed cuts later in the year.

Vehicle supply supporting sales but significant differences across brands

United States (as of January 2026)

Days' supply of inventory

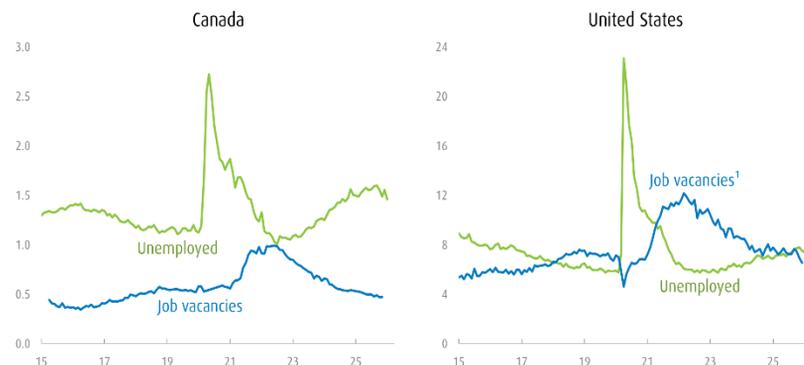


Days' supply calculation includes vehicles in dealer inventory and in-transit/pipeline - Automakers with days' supply at least twice the industry average: Jaguar

Sources: BMO Economics - Cox Automotive
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Softening labour market opens the door for faster rate cuts

(millions)



¹ Job Openings and Labor Turnover Survey (JOLTS)

Sources: BMO Economics - Haver Analytics
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EVs and Alternative Fuel Vehicle Sales

- EV sales in both Canada and the U.S. dropped significantly after government incentives expired. Canadian EV sales plunged ~35%, with market share falling from nearly 15% to ~9% in 2025. While in the U.S., EV sales dropped 34% y/y in Q4 after IRA credits expired in late September.
- The speed of the pullback highlights how price sensitive EV adoption remains, especially with average EV prices roughly US\$8,000 higher than gasoline vehicles
- While EVs struggle, hybrid electric vehicles (HEVs) are gaining significant traction. HEV sales are up ~58% YTD in Canada through 2025Q3. U.S. HEV sales were up ~35% in 2025.
- Consumers increasingly view hybrids as the “middle path”—lower upfront cost, no charging concerns, and materially improved fuel economy.
- Canada’s new automotive strategy represents a substantial policy pivot, including a repeal of the EV mandate in favour of GHG-based standards, new C\$5,000 EV and C\$2,500 PHEV rebates, C\$1.5 billion for charging infrastructure, an allowance for limited low-tariff Chinese EV imports.
- We expect EV sales to remain soft through mid 2026 until a combination of new rebates stabilize pricing, more affordable EV trims enter the market, and long term financing rates begin to moderate alongside Fed easing. Hybrids will remain the dominant growth segment in 2026.

- Erik Johnson, Senior Economist

- Canadian dealers are trying to determine how the recent announcement to permit the entry of China manufactured vehicles may impact their business going forward and whether this is an opportunity, a threat or both.

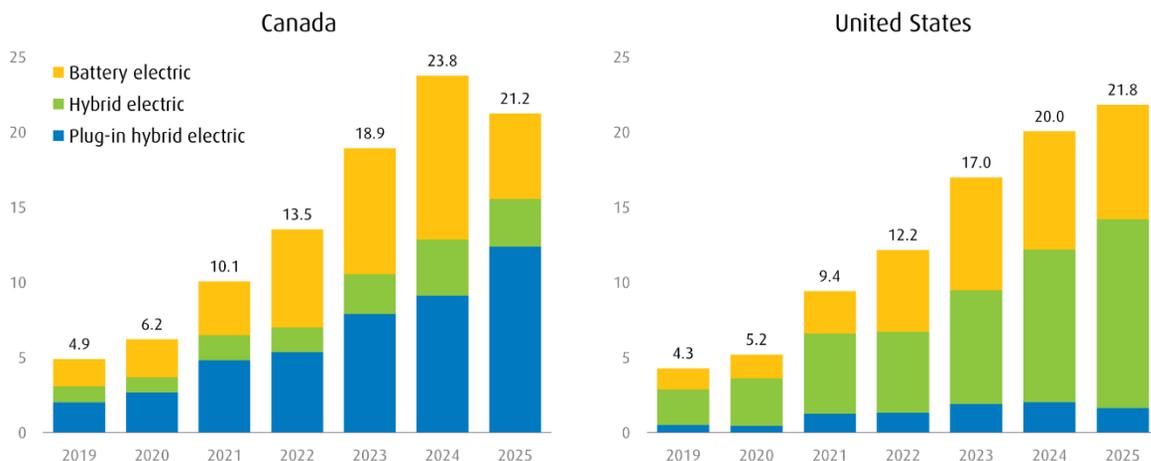
- Ethan Goldberg, Market Leader – Ontario/Atlantic

- US based dealers are aggressively moving away from EV inventory and working to aggressively liquidate at a loss if necessary, due to soft demand, and they are now focusing primarily on internal combustion engines and hybrid vehicles, which are in much greater demand, and have better profit margins

- Steve Gagnon, East Coast Regional Sales Manager (US)

Electric vehicle sales to slow after removal of tax credits

Alternative fuel new vehicle sales (% of total light vehicle sales)





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