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A slow thaw

Growth remains soft, but improvements are ahead

Economic outlook | Spring edition

Modest growth in store for this year but risks are tilted to the downside

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Canadian consumers and businesses are navigating murky waters. The jolt in energy prices resulting from the war in the Middle East, persistent uncertainty about the future of the Canada/US/Mexico trade agreement and structural challenges from slowing population growth are weighing on the economy. Yet there are important factors that are providing some relief. The Bank of Canada is expected to hold the policy rate at 2.25% throughout 2026, government investment will continue to address some of Canada's structural challenges while boosting demand for Canadian-made goods and services, and technological adoption will help offset the changing dynamics in the labour market.

While there is no doubt the current environment is challenging, we remain cautiously optimistic that Canada's economy will post modest growth of 1.2% in 2026. This forecast assumes that most Canadian goods exports will continue to avoid tariffs and that the CUSMA review will pass without major alteration. We are retaining the industry specific tariffs in our baseline assumption which opens the door to a stronger outcome should they be removed. The government's aggressive policy to create additional free trade agreements with other global partners also provides some upside for exports.

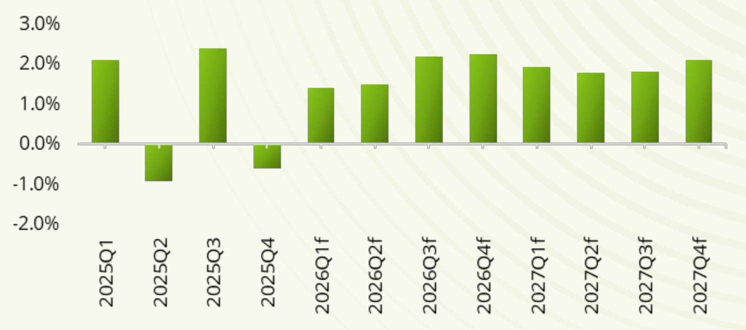
Clarity on CUSMA will be a key factor for a recovery in business confidence in 2026. However, the willingness to invest will also be influenced by other factors including the war in the Middle East, higher energy costs, and disrupted supply chains. Consumers facing the prospect of higher energy costs and a softer labour market are likely to remain cautious with spending projected to be relatively restrained and the housing market recovery to be slower than we previously expected.

Canada's economy is expected to grow more slowly this year following 2025's 1.7% gain with some sectors and regions more at risk than others. However, the renewed focus on developing our resources, rebuilding our military capabilities, and reducing impediments to business investment will act as important mitigants to pressures coming outside our borders.

Key insights

- Trade and geopolitical uncertainty continue to weigh on growth prospects.
- Policy support and government investment are expected to provide an important buffer to weak external demand conditions.
- Improved clarity on trade policy is critical to unlocking a stronger recovery in the second half of 2026.
- Real GDP is expected to grow just 1.2% this year after a 1.7% gain last year.

Figure 1: Soft economic growth expected over the first half of 2026, GDP, expenditure based, percent change

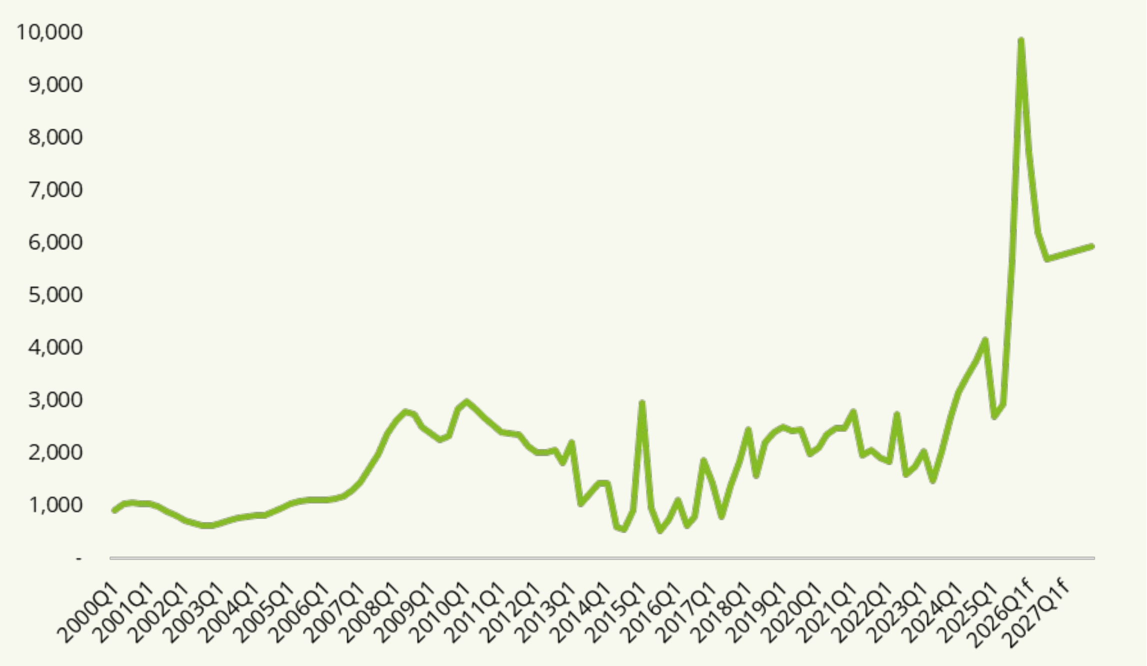


f = forecast
Source: forecast by Deloitte; history Statistics Canada Table 36-10-0104-01 Gross domestic product, expenditure-based, Canada, quarterly.

Monetary and fiscal policy

- Headline inflation cooled to 1.8% in February and the average of the Bank of Canada's two preferred core measures declined to 2.3%. Despite this easing, persistent strength in food prices remains one of the largest headwinds to stabilizing inflation in Canada.
- We expect inflation to remain around 2% this year, though variability will persist due to trade-related costs, higher energy prices, and base-year effects from last year's policy shifts, including the removal of the consumer carbon tax and the short-lived GST/HST break. Economic slack will largely offset the near-term rise in energy prices keeping the headline rate close to the Bank of Canada's 2% target on average in 2026.
- Slower growth and a range-bound inflation rate set the stage for the Bank of Canada to maintain its policy rate at 2.25% throughout 2026. Looking ahead to 2027, our forecast assumes economic conditions begin to heat up as major project construction ramps up, at which point rate hikes are expected toward the end of the year.
- Given the uncertain trade outlook, there are downside risks to this projection. A further deterioration in Canada's trade relationship with the US would create additional slack to the economy and could negate the need for future rate hikes.
- Government program spending is not expected to add much to near-term growth. The federal government is actively seeking to shrink the size of the public service, while provinces face deteriorating fiscal positions that will constrain spending capacity.
- Despite these constraints, the federal government remains important to the economic outlook for two reasons. First, defence-related investment increased meaningfully through the second half of 2025. While we expect some near-term unwinding of that growth, the level of spending is expected to remain elevated, helping to support economic activity.
- Second, the federal government is expected to play a key role in crowding in private investment, particularly through efforts to reduce investment-inhibiting regulations and secure trade agreements that help diversify exports away from the US.

Figure 2: Government investment in weapons systems
(real $2017, millions)



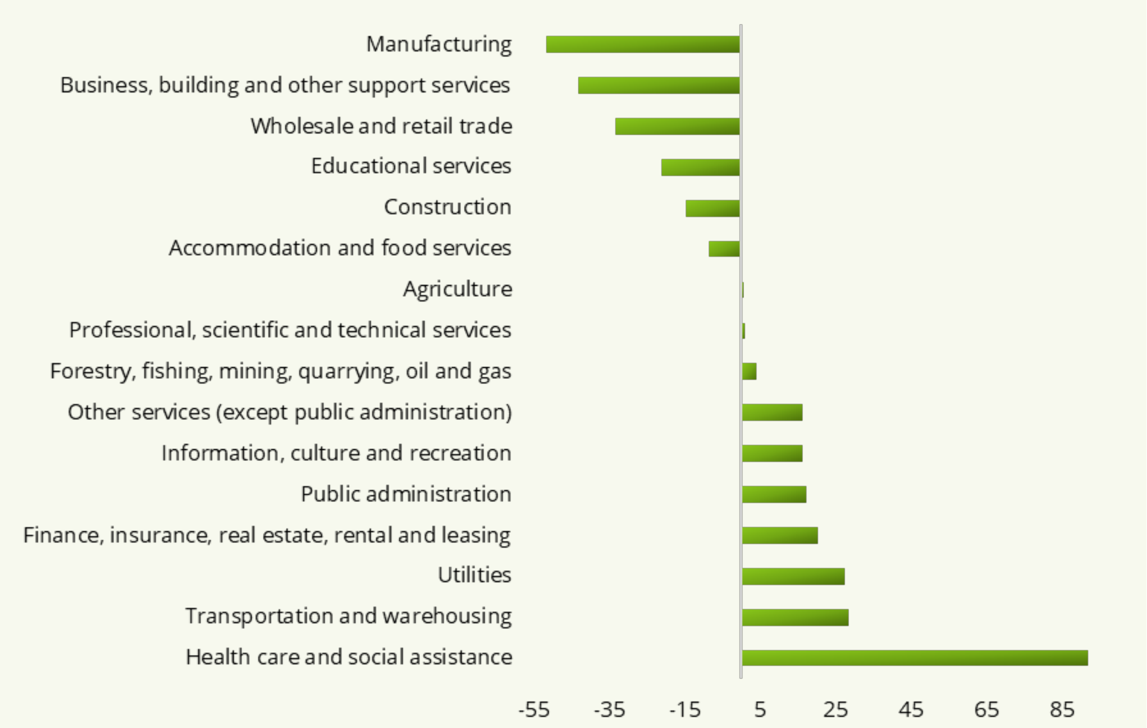
f = forecast
Source: forecast by Deloitte; history Statistics Canada Table 36-10-0108-01 Gross fixed capital formation, quarterly, Canada (x 1,000,000).

Labour markets and household spending

- Labour market conditions remain soft as trade uncertainty and slowing domestic demand continue to weigh on hiring. Employment losses in manufacturing are expected to persist through the first quarter of 2026, reflecting ongoing pressure from US trade policy, while weakness in educational services and public administration is likely as governments rein in spending and international student arrivals slow.
- These headwinds will limit employment gains and keep wage growth modest this year. Combined with negligible population growth, elevated uncertainty, and only gradual labour-market improvement, total consumer spending is expected to grow modestly in 2026.
- Looking ahead, labour market conditions are expected to stabilize throughout 2026, with the unemployment rate gradually declining to 6.3% by year-end. This improvement however will be driven more by constrained labour force growth, reflecting tighter immigration policies and an aging workforce, rather than by a strong pickup in labour demand. Consistent with this trend, over 146,000 people exited the labour force between December 2025 and February 2026.
- Declines in public administration employment may be partially offset by increased defence spending, which is expected to support employment in defence-related industries and military recruitment.
- Housing activity is expected to cool through 2026, with starts projected to decline to approximately 243,000 units, down from 259,000 in 2025 as the momentum that sustained near-record construction fades. Elevated construction costs, trade uncertainty, and rising inventories of unsold units are weighing on builder confidence and discouraging new project launches.
- The slowdown is most acute in the condominium segment, where presales have deteriorated sharply in Toronto and Vancouver, prompting developers to shelve projects. Purpose-built rental construction, which had been a key driver of activity in recent years, is also beginning to pull back as vacancy rates rise and rent growth moderates. Slowing population growth following federal immigration adjustments is further dampening demand, keeping the outlook for starts subdued into 2027.

Figure 3: Manufacturing has shed significant jobs in the past year

Change in employment by industry February 2025 to February 2026, 000s



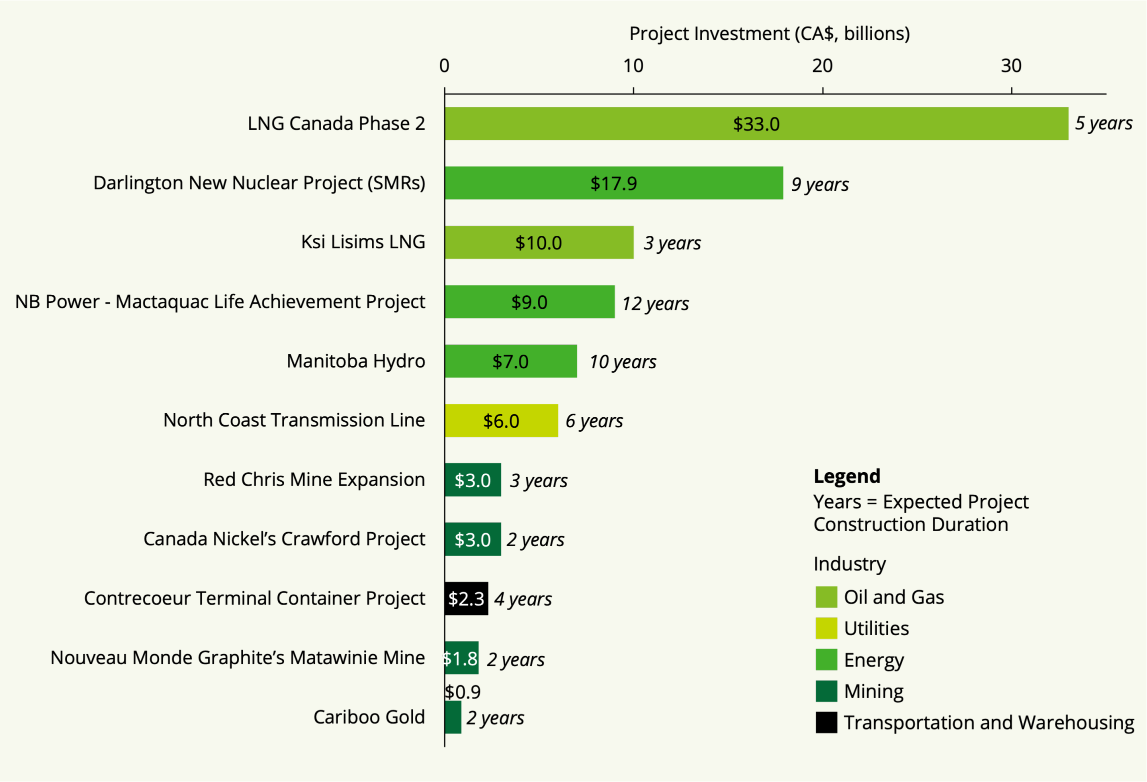
Source: Statistics Canada Table 14-10-0355-01 Employment by industry, monthly, seasonally adjusted and unadjusted, and trend-cycle, last 5 months (x 1,000).

Business investment and trade

- The Bank of Canada's December 2025 Business Outlook Survey and Statistics Canada's 2026 Capital Spending Intentions Survey both point to a still-cautious but gradually improving investment outlook. While trade uncertainty continues to weigh on sentiment and many firms remain focused on maintenance rather than expansion, conditions are beginning to shift. Near-term investment growth is expected to remain modest, particularly for machinery and equipment, but momentum is projected to build later in 2026 and into 2027 as major construction projects move from planning into execution.
- This turning point is reflected in the growing pipeline of large-scale projects shown in Figure 4, which highlights several major investments expected to begin construction before the end of 2027. Projects such as the Darlington New Nuclear Reactors, LNG Canada Phase 2, Ksi Lisims LNG, and the North Coast Transmission Line represent a meaningful uptick in capital spending. As these projects advance, they are expected to crowd in additional private investment across engineering, construction, manufacturing, and professional services, supporting a broader recovery in business investment beyond the energy sector.
- On the trade front, exports have partially recovered after a steep decline in Q2. A continuing recovery and targeted tariff relief will support growth this year. In particular, the recent removal or suspension of Chinese tariffs on key Canadian agri-food and seafood products is expected to provide a meaningful boost to farm, fishing, and food manufacturing exports through the end of 2026. Metal ores and non-metallic minerals are also expected to contribute meaningfully, reflecting sustained global demand for industrial inputs tied to infrastructure, manufacturing, and energy-transition investment.
- Service exports are projected to benefit from stronger international travel flows, with tourism-related activity expected to receive a lift from the 2026 FIFA World Cup. With both goods and services exports contributing, annual export growth of about 2.0% is forecast for 2026.
- Imports, by contrast, are expected to recover more gradually, resulting in a positive contribution to growth from net trade this year.

Figure 4: Major projects expected to begin construction by 2027

Expected private sector investment; nominal CA$, billions

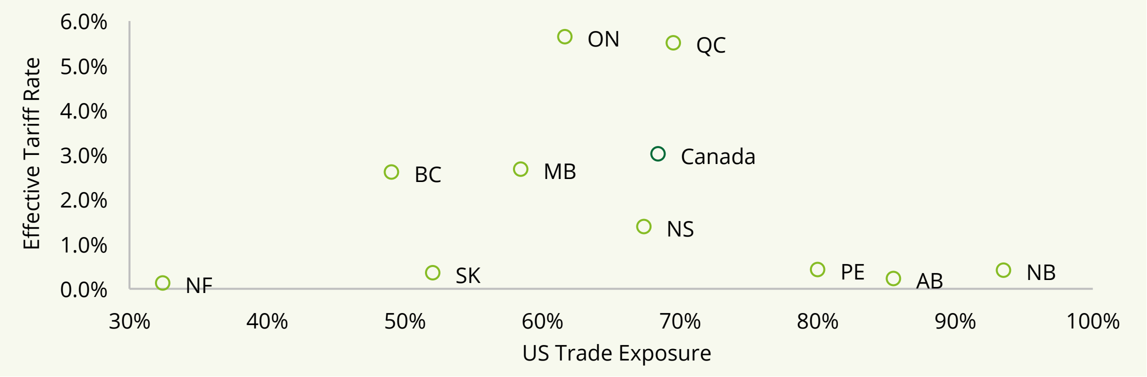


Source: Deloitte assumptions and secondary research based on list of projects submitted to the MPO.

Provincial outlook

- Economic growth is expected to remain strong this year and next in Newfoundland and Labrador. Near-term momentum is being driven by rising oil production following the ramp-up of the White Rose oilfield. The province's relatively low trade exposure and effective tariff rate provide some insulation from US trade policy. However, weak population growth will remain a longer-term headwind, weighing on labour supply and consumer demand despite ongoing construction activity at projects such as the Queensway Gold Project.
- After nearly a decade of strong population gains, stalling population growth is now a headwind to PEI's economic performance. This will intensify labour shortages, especially in high-demand sectors like the trades and healthcare.[1] That said, provincial investment in affordable housing is expected to help ease affordability pressures and support construction activity, providing a modest offset to broader demographic headwinds.[2] As a result, we expect real GDP growth of 1.1% this year followed by 1.4% in 2027.
- Economic growth in Nova Scotia is expected to slow in 2026 as declining population growth weighs on labour markets, household incomes, consumer spending, and housing activity. Despite mounting fiscal pressures, several developments offer support to the outlook. China's removal of tariffs on seafood products should provide a boost to the fishing industry, while increased defence-related investment such as the Land-Based Test Facility at Hartlen Point in Eastern Passage, will help underpin growth over the medium term.[3]
- New Brunswick faces a challenging near-term outlook, reflecting slowing population growth and the province's high exposure to US trade. Elevated tariffs on softwood lumber and wood products will continue to weigh heavily on forestry and wood-manufacturing industries. Temporary delays in the implementation of additional tariffs on furniture and cabinetry provide some near-term relief, but overall economic conditions are expected to remain subdued. Economic activity is predicted to rise 0.9% in 2026 and 1.2% in 2027.
- Quebec is expected to experience one of the most pronounced slowdowns in population growth, reflecting reduced immigration and more restrictive intake targets. High trade exposure to the US further amplifies the impact of tariffs on aluminum, the province's largest US bound export. Offsetting some of these pressures is a comparatively resilient housing market supported by stable housing starts which will help support overall economic performance with growth of 0.7% expected this year and 1.5% in 2027.
- Ontario is expected to post subdued economic growth of 0.8% this year, ranking near the bottom among provinces. Tariffs are landing especially hard in Ontario because its economy is deeply anchored in the manufacturing sector, especially the automotive industry and the province's exports of iron and steel. In response, the new Canada-Ontario Workforce Tariff Response will help support and upskill nearly 27,000 workers affected by US tariffs in the softwood lumber, steel, and aluminum industries.[4] At the same time, weak housing demand, soft labour-market conditions, and low buyer confidence have left Ontario with the weakest housing market in the country despite elevated inventories.[5, 6] Looking forward, major investments such as the Darlington New Nuclear Project are expected to support the province's longer-term outlook and underpin a rebound in growth to 1.9% in 2027.

Figure 5: US trade exposure and effective tariff rate by province
December 2025



Source: Deloitte calculations using data from The U.S. International Trade Commission-Tariff Database; Trade Data Online.

Provincial outlook

- Economic growth in Manitoba is expected to improve modestly in 2026, driven primarily by public infrastructure investment. The trade outlook with China has improved meaningfully, with tariffs removed on canola meal and peas and the canola seed tariff reduced earlier this year, providing near-term support to agriculture and food manufacturing. Manitoba is also seeing increased investment in climate-related initiatives following recent wildfire and drought conditions.[7] Looking ahead, major projects such as the Manitoba Hydro high-voltage direct current reliability project and the new Cancer Care Centre headquarters are expected to support longer-term growth despite ongoing economic uncertainty and trade disruptions. Overall, real GDP growth is forecast at 1.0% in 2026 and 1.8% in 2027.
- Saskatchewan is positioned for solid growth this year, underpinned by strong construction activity, rising mining output, and robust agricultural production. China's removal of canola tariffs in March is expected to lift agricultural exports in 2026, while oil and gas exports could also strengthen if elevated prices persist amid a prolonged conflict in the Middle East. Growth in mining output will be supported by the McIlvenna Bay copper mine, which is expected to begin production in mid-2026.[8] Elevated levels of housing starts are expected again this year supporting residential investment, while business investment is reinforced by development of the Denison uranium mine and a large potash project. Overall, real GDP growth is forecast at 1.9% in 2026 and 2.2% in 2027.
- Alberta is expected to be one of Canada's fastest-growing provinces, with economic growth of 1.7% in 2026 and 2.6% in 2027. The province faces the lowest effective US tariffs among Canadian jurisdictions, as its energy-heavy export mix is largely insulated from US trade measures.[9] Elevated energy prices, along with new oil sands capacity additions, are expected to support oil and gas exports in 2026.[10] While softer consumer spending, moderating population growth, and trade uncertainty remain headwinds, strong investment in infrastructure and energy should underpin solid economic growth, particularly in 2027. Housing starts are expected to ease from 2025 as projects are completed and demand cools, while business investment is projected to strengthen, led by AI data-centre development and large-scale engineering construction projects.
- Economic momentum in British Columbia is expected to remain muted in 2026, with growth of just 1.2%. The forestry sector continues to weigh heavily on the outlook, as US tariffs have led to production cutbacks and permanent mill closures across the province. Recent announcements, including extended temporary shutdowns and permanent closures at major forestry operations, underscore the depth of the downturn and its impact on employment. At the same time, population growth is projected to slow, further constraining near-term growth. Offsetting some of these pressures are the acceleration of major infrastructure projects such as BC Hydro's North Coast Transmission Line and Teck's Highland Valley Copper Mine life-extension which are expected to provide partial support and help cushion weakness in forestry and housing.

Figure 6: Real GDP at basic prices by province

	2025e	2026f	2027f
Newfoundland and Labrador	2.2%	1.1%	1.5%
Prince Edward Island	2.0%	1.1%	1.4%
Nova Scotia	1.5%	1.0%	1.3%
New Brunswick	1.3%	0.9%	1.2%
Quebec	1.4%	0.7%	1.5%
Ontario	1.3%	0.8%	1.9%
Manitoba	1.3%	1.0%	1.8%
Saskatchewan	2.4%	1.9%	2.2%
Alberta	2.5%	1.7%	2.6%
British Columbia	1.4%	1.2%	1.9%

Source: Deloitte, e = estimate, f = forecast.

Risks and key takeaways

- Our baseline outlook assumes that Canadian economic growth remains subdued in the near term, before strengthening as major project spending accelerates and population growth begins to recover. Together, rising investment and a return toward trend labour force growth lift potential output and help reverse a decade of weak productivity performance. While this outlook is optimistic relative to recent history, it remains achievable under the right policy and investment conditions.
- A key driver of an economic recovery next year is the scale and composition of expected investment. Strong spending on infrastructure and productive extractive industries provides a foundation for productivity gains, export capacity, and longer-term growth. If momentum builds as expected, Canada could finally begin to close the productivity gap that has weighed on economic performance for much of the past decade.
- That said, the outlook is subject to several important downside risks. Foremost among them is the ongoing conflict in the Middle East, which continues to inject volatility and uncertainty into the global economic environment. While higher energy prices could provide a short-term boost to Canada through stronger oil production and revenues, a prolonged conflict would raise the risk of a sharper global slowdown and renewed inflation pressures.
- Trade uncertainty also remains elevated. Upcoming CUSMA renegotiations in July represent a key risk for the Canadian outlook. While the recent US Supreme Court decision to strike down tariffs imposed under the International Emergency Economic Powers Act is encouraging, trade policy remains unpredictable and could still disrupt investment and export performance.
- Domestic risks are also material. Conditions in some housing markets remain fragile, and a larger-than-expected deterioration in housing activity could weigh on construction, household wealth, and consumer confidence. Given housing's importance to Canada's economic growth, this remains a key vulnerability in the forecast.
- Finally, the outlook hinges on the federal government's ability to successfully accelerate resource and infrastructure development through its efforts to streamline and fast-track approvals via the Major Projects Office. While this year will be a critical test of that approach, there is limited evidence so far that this model is materially changing investment decisions. The pace at which projects move from planning to construction will be central to determining whether Canada's growth potential can meaningfully improve.

Figure 7: Canada's productivity continues to linger well below our peers

GDP per hour worked, PPP converted US dollars per hour, current prices, 2024

Source: OECD Productivity Database.

Forecast tables

FORECAST TABLES

GDP by expenditure

	2025Q1	2025Q2	2025Q3	2025Q4	2026Q1f	2026Q2f	2026Q3f	2026Q4f	2027Q1f	2027Q2f3	2027Q3f	2027Q4f	2025	2026f	2027f
Canadian GDP	2.1	-0.9	2.4	-0.6	1.4	1.5	2.2	2.2	1.9	1.8	1.8	2.1	1.7	1.2	1.9
Household consumption	1.2	4.7	-0.8	1.7	1.1	1.1	2.0	2.0	1.9	1.9	1.9	1.9	2.3	1.3	1.9
Non-profit consumption	0.8	1.2	2.0	2.0	0.9	0.9	1.0	1.0	1.1	1.2	1.2	1.3	1.4	1.3	1.1
Government consumption	1.4	4.5	-2.7	3.1	1.7	1.5	1.4	1.1	1.1	1.1	1.1	1.1	2.4	1.4	1.2
Total investment	-4.5	1.3	2.1	3.3	-0.7	-0.2	1.1	1.8	1.6	0.7	1.3	2.2	1.4	1.0	1.3
Government investment	-1.5	9.2	16.5	20.4	-3.7	-1.9	1.3	2.3	2.1	2.1	2.1	2.2	6.7	5.0	1.8
Business investment	-5.0	-0.5	-0.9	-0.2	0.0	0.2	1.0	1.7	1.5	0.4	1.1	2.2	0.3	0.1	1.2
Residential investment	-11.1	2.0	5.0	-4.4	0.2	0.7	0.8	0.7	-3.0	-6.0	-4.2	-1.1	1.0	0.2	-2.2
• Residential – renovations	1.0	-5.2	5.1	-5.2	1.6	1.8	2.7	2.9	3.0	3.3	3.2	3.5	1.1	0.5	3.0
• Residential – ownership transfer costs	-49.5	-0.6	36.1	-9.2	2.4	2.0	1.8	1.5	1.4	1.5	1.5	1.3	-3.4	3.3	1.6
• Residential – new housing	2.7	8.4	-5.1	-1.8	-1.5	-0.6	-0.8	-1.2	-8.6	-14.8	-11.4	-5.6	2.7	-1.1	-7.2
Non-residential investment	-0.6	-1.9	-4.7	2.6	-0.1	-0.1	1.1	2.3	4.1	4.1	4.1	4.0	-0.1	0.0	3.1
• Engineering structures	-2.4	20.1	1.3	-5.9	1.2	1.9	2.4	2.5	7.1	7.0	6.9	6.8	3.1	1.3	5.3
• Non-residential buildings	-2.9	-13.1	-6.2	4.1	-0.8	0.2	1.4	2.0	1.7	1.9	1.8	1.7	-1.9	-0.8	1.7
• Machinery and equipment	2.7	-19.4	-12.8	12.3	-2.0	-3.3	-0.5	3.5	2.6	2.6	2.6	2.5	-3.5	-1.9	2.0
• Intellectual property	-1.0	-1.4	-2.6	4.9	0.7	0.7	0.7	0.7	2.6	2.5	2.5	2.5	0.3	0.9	1.9
Total exports	4.0	-23.6	3.8	6.1	4.1	3.2	2.8	2.6	2.5	2.5	2.2	2.0	-1.7	2.0	2.5
• Exports – goods	6.8	-29.4	4.3	8.6	4.8	3.3	2.9	2.4	1.9	2.1	2.1	2.0	-2.0	2.2	2.3
• Exports – services	-5.3	-1.1	2.1	-1.5	2.0	2.8	2.5	2.9	4.3	3.8	2.5	1.9	-0.6	1.4	3.3
Imports	4.0	0.4	-11.0	1.0	2.6	1.6	1.8	1.8	2.1	2.4	2.3	2.2	-0.4	0.0	2.1
• Imports – goods	6.9	-3.8	-11.2	1.4	2.9	1.5	1.6	1.8	2.0	2.1	2.1	2.0	-0.1	-0.2	1.9
• Imports – services	-5.4	16.5	-10.4	0.0	1.7	1.9	2.2	1.9	2.4	3.6	3.1	3.1	-1.3	0.7	2.6
Inventories	12,144	24,912	(12,284)	(23,463)	249	756	1,256	1,556	942	1,720	1,486	2,245	877	(15,678)	5,521
US GDP	-0.6	3.8	4.4	2.8	2.4	2.5	2.6	2.3	2.3	2.3	2.3	2.2	2.3	2.8	2.4

Notes: Unless otherwise noted, all figures are expressed as annualized % changes; data is based on seasonally adjusted real 2017 chained dollars; f = forecast.

Sources: Statistics Canada; Bank of Canada. Forecast by Deloitte Economic Advisory, as of March 13, 2026.

KEY INDICATORS

Key macroeconomic indicators

	2025Q1	2025Q2	2025Q3	2025Q4	2026Q1f	2026Q2f	2026Q3f	2026Q4f	2027Q1f	2027Q2f3	2027Q3f	2027Q4f	2025	2026f	2027f
Labour force participation rate (%)	65.4	65.3	65.2	65.3	65.0	65.0	65.0	64.9	64.9	64.9	64.9	64.8	65.3	65.0	64.9
Change in employment (000s)	118.4	15.0	1.0	126.9	-35.3	27.8	25.3	29.5	32.8	32.7	39.1	40.9	295.7	105.0	128.8
Unemployment rate (%)	6.7	6.9	7.0	6.8	6.6	6.5	6.3	6.2	6.0	5.9	5.8	5.7	6.9	6.4	5.8
Household savings rate (%)	5.4	4.5	5.2	4.4	6.4	6.5	6.4	6.2	5.9	5.7	5.5	5.4	4.9	6.4	5.6
Housing starts (000s, SAAR)	230.0	276.0	272.6	257.0	245.9	244.3	242.1	239.9	234.4	224.9	218.0	214.6	258.9	243.1	223.0
Consumer price index (year-over-year %)	2.3	1.8	2.0	2.2	2.3	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.0

Key financial market indicators

	2025Q1	2025Q2	2025Q3	2025Q4	2026Q1f	2026Q2f	2026Q3f	2026Q4f	2027Q1f	2027Q2f3	2027Q3f	2027Q4f	2025	2026f	2027f
Overnight rate	3.00	2.74	2.66	2.34	2.25	2.25	2.25	2.25	2.25	2.50	2.75	3.00	2.34	2.25	3.00
90-day t-bill	2.79	2.65	2.59	2.18	2.20	2.20	2.25	2.25	2.30	2.55	2.80	3.05	2.18	2.25	3.05
1 year t-bill	2.75	2.59	2.61	2.33	2.30	2.40	2.40	2.50	2.50	2.70	2.95	3.15	2.33	2.50	3.15
Government 2-year bond	2.68	2.58	2.64	2.47	2.50	2.70	2.80	3.00	3.25	3.40	3.55	3.65	2.47	3.00	3.65
Government 3-year bond	2.67	2.60	2.65	2.47	2.70	2.90	3.05	3.15	3.30	3.45	3.60	3.70	2.47	3.15	3.70
Government 5-year bond	2.78	2.81	2.91	2.80	2.85	3.00	3.15	3.25	3.40	3.55	3.65	3.75	2.80	3.25	3.75
Government 10-year bond	3.09	3.21	3.38	3.23	3.35	3.45	3.55	3.65	3.75	3.80	3.85	3.90	3.23	3.65	3.90
90-day 10-year spread	-0.30	-0.56	-0.79	-1.05	-1.15	-1.25	-1.30	-1.40	-1.45	-1.25	-1.05	-0.85	-1.05	-1.40	-0.85
2-year 10-year spread	-0.41	-0.63	-0.73	-0.76	-0.85	-0.75	-0.75	-0.65	-0.50	-0.40	-0.30	-0.25	-0.76	-0.65	-0.25
Exchange rate CAD/USD	0.697	0.723	0.726	0.717	0.730	0.732	0.738	0.744	0.747	0.748	0.750	0.752	0.716	0.736	0.749

Notes: f = forecast. The overnight rate represents the end of the period. All other indicators quarterly values are quarter averages. Annual figures reflect the end of the period as measured by Q4.

Sources: Statistics Canada; Bank of Canada. Forecast by Deloitte Economic Advisory, as of March 13, 2026.

Endnotes

1 Government of Prince Edward Island, "Expression of Interest Draws", February 19, 2026, https://www.princeedwardisland.ca/en/information/office-of-immigration/expression-of-interest-draws

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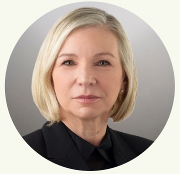

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