

Economic and Social Reports

Recent developments in the Canadian economy: Fall 2025



by Guy Gellatly and Carter McCormack

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Recent developments in the Canadian economy: Fall 2025

by Guy Gellatly and Carter McCormack

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This article provides an integrated summary of recent changes in output, consumer prices, employment, and household finances. It highlights movements in the economic data during the first half of 2025 and into the summer months. The article examines how economic conditions have changed as trade tensions between Canada and the United States continue to unfold.

The report is based on data that are publicly available as of October 10, 2025. Monthly information on government, business, and financial market developments, including detailed information on tariffs and countermeasures, is available at [Canadian Economic News](#) (Statistics Canada n.d.). An integrated data module designed to support the analysis of current economic conditions, which includes monthly summaries for selected economic indicators, is available at [Canadian Economic Tracker](#) (Statistics Canada n.d.). Presentations on selected topics, including recent trends related to inflation, growth, productivity and household debt, are available at [A Presentation Series from Statistics Canada about the Economy, Environment and Society](#) (Statistics Canada n.d.).

Overview

After supporting economic growth as trade tensions escalated in the first quarter, exports scaled back in the second quarter as gross domestic product fell 0.4%, the largest quarterly contraction in nine years outside of the pandemic period. Imports and business outlays on machinery and equipment also pulled back in the second quarter as U.S. tariffs and uncertainty weighed on economic activity. Increases in business inventories and household spending partly mitigated the declines in trade and investment. Much of the decrease in economy-wide output in the second quarter reflected lower activity among manufacturers and wholesalers as U.S. tariffs on Canadian steel and aluminum and autos were in effect. Employment growth stalled in the first half of 2025 as uncertainty weighed on hiring intentions while layoff rates remained similar to levels reported in 2024. Nationally, there was no net employment growth from January to August 2025 and no net increase in payroll employment from January to June 2025. The unemployment rate increased to 7.1% in August and has risen 0.5 percentage points since the start of the year.

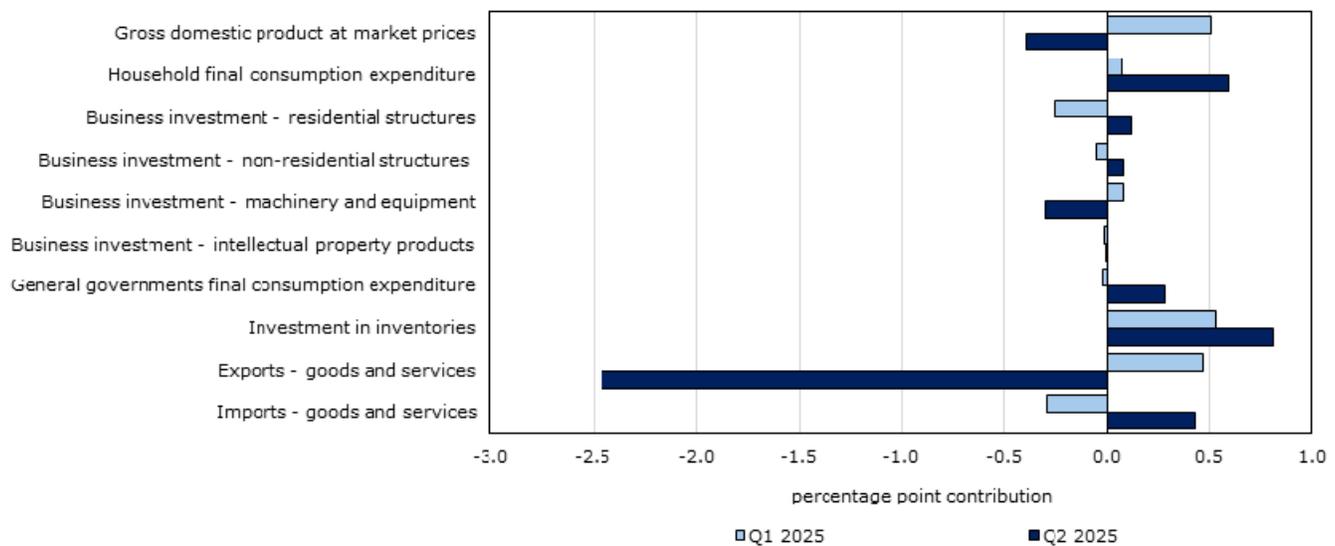
Headline consumer inflation fell below 2% from April to August 2025 due in large part to the removal of the consumer carbon levy. Excluding energy prices, annual consumer price growth averaged 2.7% during this five-month period. While prices for certain consumer goods have been directly or indirectly affected by tariffs, the overall impact of tariffs on consumer prices remains difficult to gauge.

Household wealth rose during the first half of 2025, strengthening in the second quarter as equity markets surged. Mortgage borrowing eased during the first half but remained well above levels observed during 2023 and early 2024. The ratio of household credit-market debt to disposable income edged higher as wage growth slowed.

Exports and business investment pull back as households continue to spend

Real gross domestic product (GDP) contracted 0.4% in the second quarter after advancing 0.5% in the first. Steep declines in merchandise exports and lower business outlays on machinery and equipment weighed on economic activity, while business stockpiling and higher spending by households and governments tempered the headline decrease (Chart 1). The contraction in real GDP in the second quarter—with U.S. tariffs on selected imports from Canada and Canadian countermeasures on selected imports from the U.S. in place—was the first in seven quarters and the largest, excluding the pandemic, in nine years.

Chart 1
Contributions to percentage change in real GDP, selected components, Q1 2025 and Q2 2025

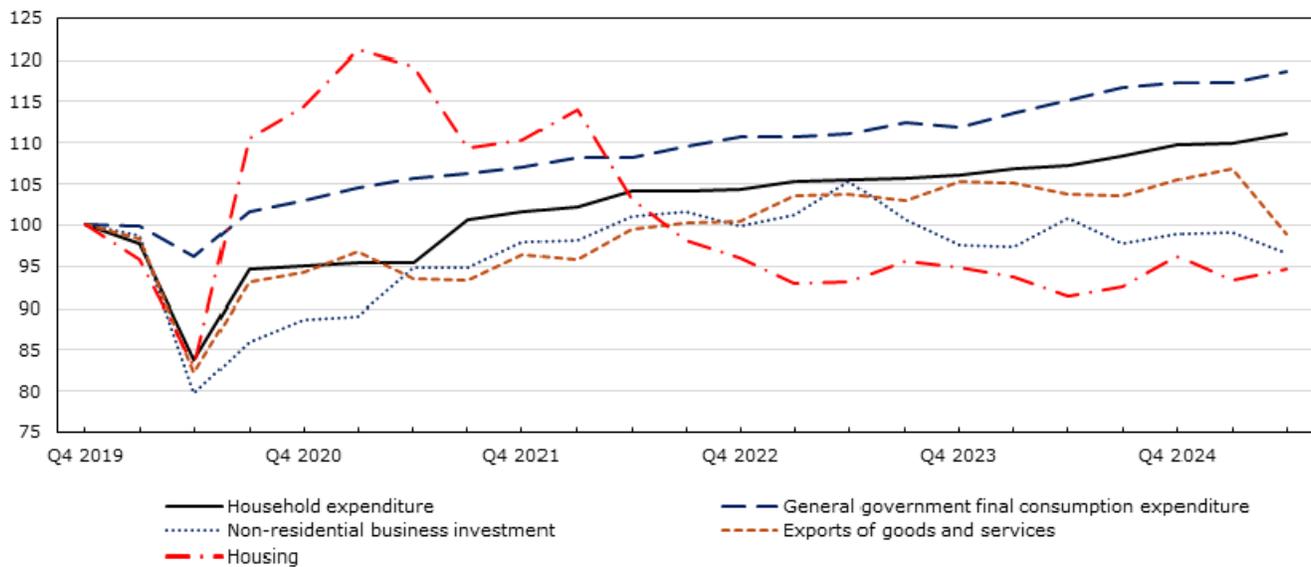


Notes: Data on gross domestic product are quarterly percentage changes; all other data are percentage-point contributions to the quarterly change in real GDP.
Source: Statistics Canada, table 36-10-0104-01.

After increasing 1.4% in the first quarter, export volumes plunged 7.5% in the second as tariffs and uncertainty hampered trade activity. Lower shipments of cars and light trucks, consumer goods, industrial machinery and parts, intermediate metal products, building and packaging materials, and travel services contributed to the decline. Merchandise exports fell 9.2% while service exports, reflecting steep declines in travel services, were down 1.4%. Overall, the quarterly contraction in total export volumes was the largest outside of the pandemic period since the 2008-2009 recession (Chart 2).

Chart 2
Real gross domestic product, selected aggregates

index (Q4 2019=100)



Source: Statistics Canada, table 36-10-0104-01.

Import volumes fell 1.3% in the second quarter after advancing 0.9% in the first. Lower shipments of motor vehicles and parts, consumer goods, crude oil and crude bitumen, and building and packaging materials contributed to the decrease, as did lower imports of travel services. Higher imports of intermediate metal products tempered the decline. The overall decrease in import volumes in the second quarter was the largest since late 2022.

Trade tensions weighed on business investment in the second quarter. Outlays on machinery and equipment (M&E) were down 9.4% on widespread declines across asset groups as business investment in M&E fell to its lowest level, outside of the pandemic, since late 2016. Higher expenditures on non-residential structures partly mitigated the pullback in M&E investment, supported by increased spending on engineering structures. Outlays on intellectual property products edged lower during the first half of 2025.

Consumer spending strengthened in the second quarter as the trade conflict became global in scope with the U.S. administration imposing baseline tariff rates on most countries. Household expenditures rose 1.1%, supported by higher spending on autos, which rebounded after pulling back in the first quarter. Higher spending on financial and investment services and food also supported the increase. Spending on durable goods rose 2.5%, fully offsetting the decline in the first quarter, while spending on services was up 1.1%.

Investment in housing rose 1.5% in the second quarter after lower resale activity weighed on residential outlays in the first. Higher investment in new construction led the increase, expanding for the fourth quarter in a row. Housing starts, measured on an annualized basis, averaged 283,000 in the second quarter, while the number of new dwelling units authorized, measured on an annual basis, averaged 305,000 from April to June.

A faster pace of inventory accumulation, led by stockpiling by manufacturers and wholesalers, also tempered the headline contraction in the second quarter. Business inventories built up through the first half of the year as trade tensions escalated.

Income growth, measured in current dollars, slowed toward mid-year. Household disposable income rose 0.3% in the second quarter, down from 0.9% in the first. Wages and salaries edged up 0.2%, the lowest quarterly pace since 2016, excluding declines early in the pandemic. The household saving rate fell one percentage point to 5.0% as the growth in nominal consumption outpaced income gains.

Real GDP per capita fell 0.5% in the second quarter, offsetting the 0.3% increase in the first. Per capita growth was down 0.3% on a year-over-year basis and has been below its pre-pandemic baseline for eight consecutive quarters. Real gross domestic income (GDI), a measure of the purchasing power of domestic production, fell 0.7% in second quarter as the terms of trade deteriorated.

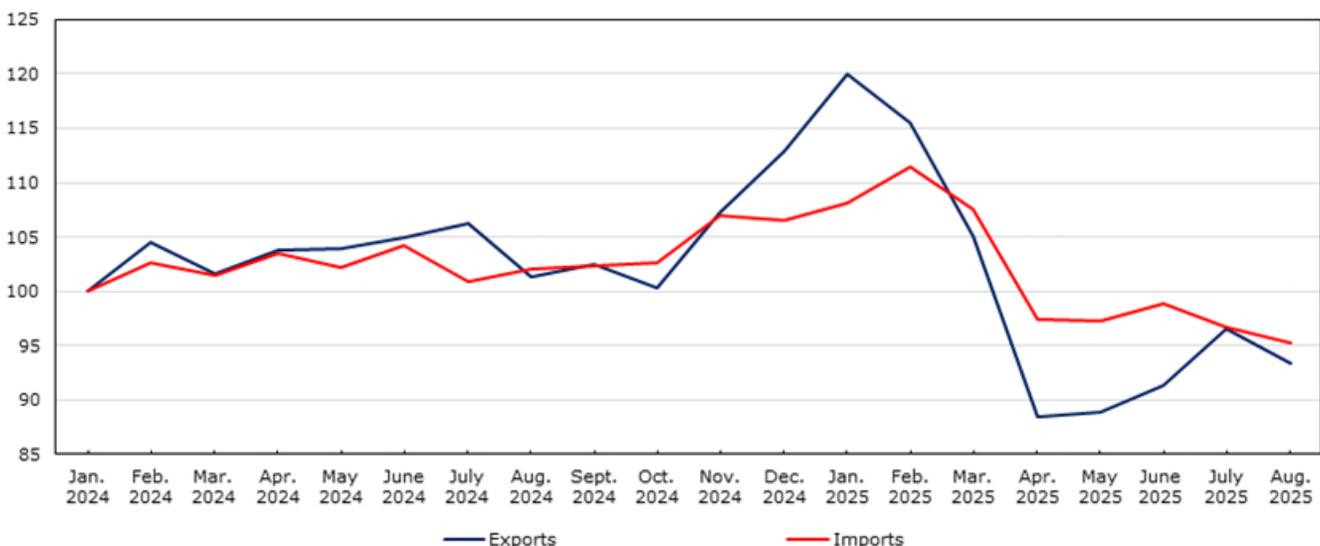
Business labour productivity, a measure of the volume of goods and services produced per hour worked, fell 1.0% in the second quarter after edging down 0.1% in the first. Labour productivity was flat on a year-over-year basis and similar to its pre-pandemic benchmark in late 2019.

Larger trade deficits as shipments to the U.S. remain below pre-tariff levels

Nominal exports to the U.S. ramped up in late 2024 and early 2025 as tariff threats intensified. In March 2025, the United States implemented 25% tariffs on Canadian steel and aluminum, while additional tariffs on motor vehicles manufactured in Canada went into effect in early April. Canada’s merchandise exports to the United States fell 15.8% in April as shipments of passenger cars and light trucks, consumer goods, industrial machinery and equipment, metal and non-metallic mineral products, forestry products and building materials all declined. Imports from the United States in April were down 9.5% (Chart 3).

Chart 3
Merchandise trade with the United States

index (January 2024=100)



Source: Statistics Canada, table 12-10-0011-01.

Shipments to the U.S. increased from May to July but remained well below pre-tariff levels. In July, Canada's exports to the U.S. were 20% below peak levels reported at the start of the year and 10% below levels observed before the escalation of trade tensions in late 2024. U.S. tariffs on Canadian steel and aluminum and on motor vehicles manufactured in Canada remained in effect during the spring and summer months.

Nominal imports also remain well below their pre-tariff baseline. After the steep decline in April, imports from the U.S. remained relatively stable and, in July, were 10% below levels reported prior to the onset of trade tensions.

The pullback in Canada-U.S. trade had a pronounced impact on Canada's overall merchandise trade balance. Canada's merchandise trade surplus with the United States narrowed from \$31.7 billion in the first quarter to \$10.9 billion in the second. The steep reduction in Canada's trade surplus with the U.S., combined with large trade deficits with non-U.S. countries, resulted in large overall trade deficits with the world. After posting a small \$300 million deficit in the first quarter, Canada's overall merchandise trade deficit rose to \$18.7 billion in the second as the trade balance with non-U.S. countries remained at similar levels in both quarters.¹ Declines in Canada-U.S. trade, led by weaker exports, also pushed Canada's current account deficit to a record \$21.1 billion in the second quarter, financed primarily through inflows of currency and deposits from abroad. Meanwhile, foreign portfolio investors reduced their exposure to Canadian securities, posting the largest divestment since late 2007.

Merchandise trade with the United States decreased in August. Exports to the U.S. fell 3.4% while imports were down 1.4%. As a result, Canada's merchandise trade surplus with the United States narrowed to \$6.4 billion. Meanwhile, Canada's merchandise trade deficit with the world widened to \$6.3 billion in August as the trade deficit with non-U.S. countries reached a record level.

Lower activity in tariff-impacted industries as economy-wide output declines

Economy-wide output contracted in the second quarter after advancing in the first. Output edged down steadily from April to June, the first three-month span of consecutive declines since late 2022.

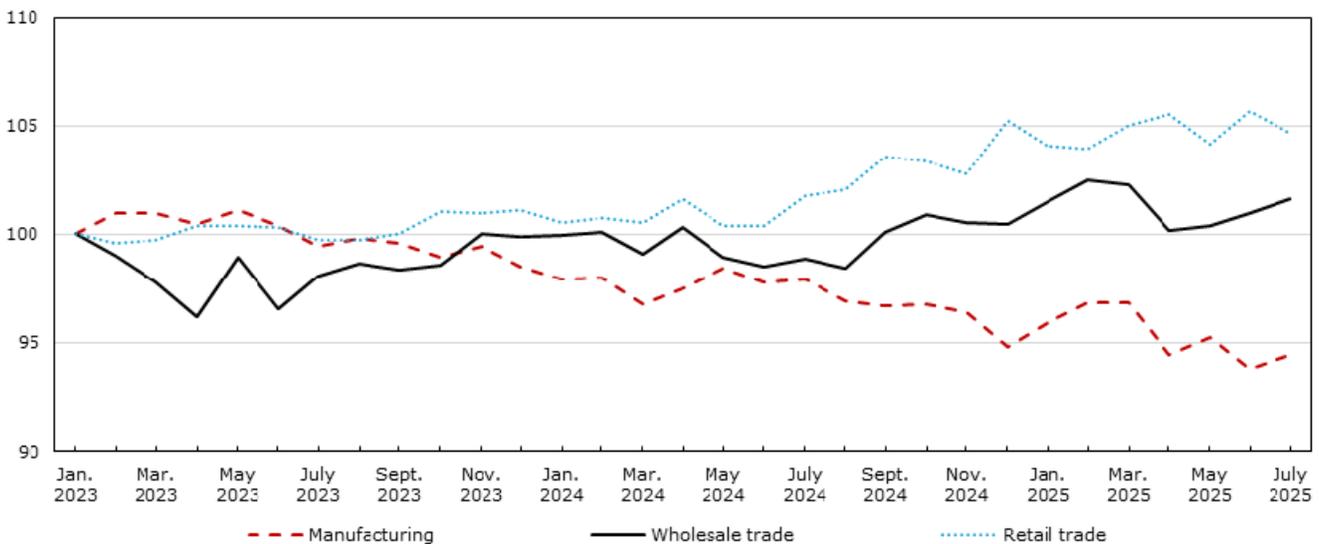
Lower manufacturing output weighed on economic activity in the second quarter as U.S. tariffs and trade tensions impacted factory volumes (Chart 4). Over one-half of manufacturing establishments (54%) reported that they were impacted by tariffs in April and four in ten reported impacts in June.² Manufacturing output at mid-year was 3.2% below levels in March when U.S. tariffs on selected products from Canada went into effect. Combined production at motor vehicle and parts manufacturers declined from April to June and was down 1.6% in the second quarter. Aluminum producers and iron and steel mills also posted declines in the second quarter after output rose in the first.

1. Canada's merchandise trade deficit with non-U.S. countries was \$32.0 billion in the first quarter and \$29.7 billion in the second.

2. These estimates are based on information collected from the Monthly Survey of Manufacturing.

Chart 4
Real gross domestic product, selected industries

index (January 2023=100)



Source: Statistics Canada, table 36-10-0434-01.

Lower wholesaling activity also contributed to the decrease in economy-wide output. Motor vehicle and parts wholesalers, machinery and equipment wholesalers, and building material and supplies wholesalers all posted declines in the second quarter. In April, over four in ten wholesalers (44%) were impacted by tariffs and about one third were impacted in June.³

Despite disruptions from tariffs, retail activity expanded 0.7% in the second quarter, buoyed by gains in nine out of twelve store types. Higher activity at building material and garden and equipment supplies dealers, and at sporting goods, hobby, book and music stores, contributed to the increase. Activity also rose at motor vehicle and parts dealers and clothing stores.

Economy-wide output rose 0.2% in July as goods production ramped up after contracting steadily from April to June. Gains in mining and oil and gas extraction and manufacturing led the growth as activity rose in 11 out of 20 industrial sectors. Output at motor vehicle manufacturers and parts suppliers rose 9.3% in July as the impact of seasonal closures at assembly plants in Ontario was less pronounced due to production slowdowns in the spring. Wholesale activity also expanded, while retail activity pulled back after strong growth in June.

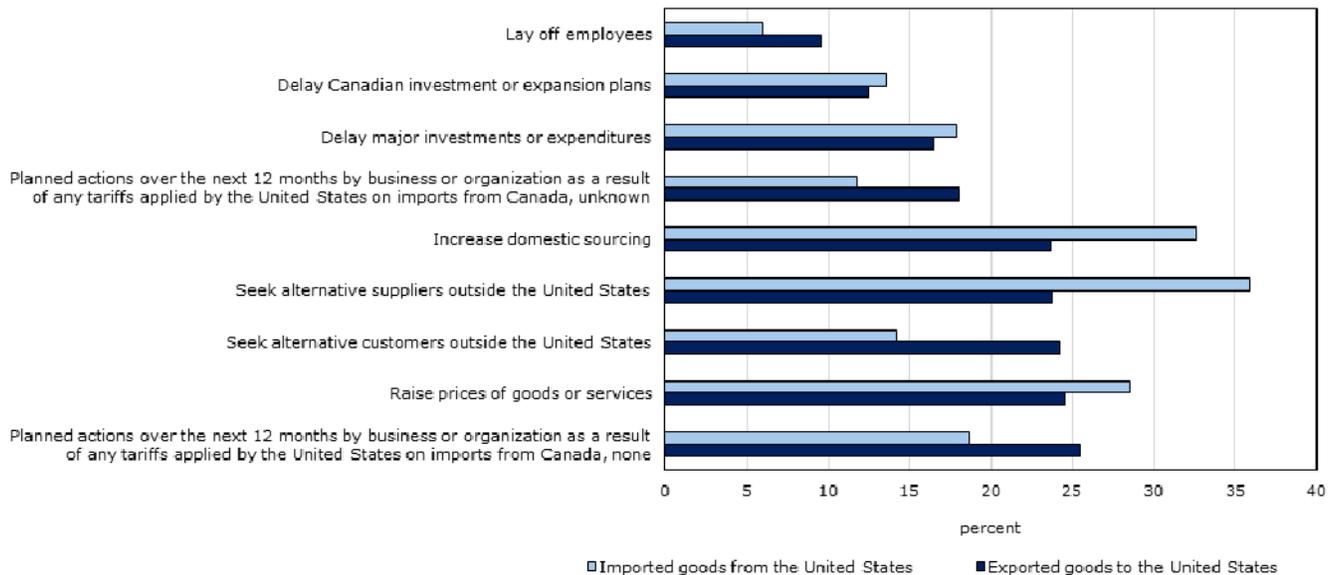
Businesses pursue strategies to mitigate the impact of tariffs

In 2023, exports to the United States accounted for about 17% of Canada’s gross domestic product and about 2.6 million Canadian jobs. Trade between the two countries benefits from deeply integrated supply chains that support economic activity on both sides of the border. According to the Canadian Survey on Business Conditions (third quarter 2025), over one-half of businesses that export to the United States expect U.S. tariffs to negatively impact their operations, along with two-thirds of businesses that import products from the U.S. As outlined by Sood (2025), many of these businesses plan to take actions over the next twelve months to mitigate the impacts of tariffs (Chart 5).

3. These estimates are based on information collected in the Monthly Wholesale Trade Survey.

Three-quarters of businesses that export to the U.S. intend to take mitigating actions, with one in four planning to seek alternative customers outside of the U.S. and one in six planning to delay major investments or expenditures. The vast majority of manufacturers that export to the U.S. expect to take actions with one in three seeking alternative customers elsewhere.

Chart 5
Planned actions over the next 12 months by business or organization as a result of any tariffs applied by the United States on imports from Canada, Q3 2025



Source: Statistics Canada, Canadian Survey on Business Conditions. For additional information, see Sood (2025).

Similarly, over four in five businesses that import from the United States plan to take actions over the next twelve months, with one in three expecting to increase domestic sourcing and almost three in ten expecting to raise their prices. Over 90% of manufacturers that import from the U.S. intend to take actions with one-half seeking alternative non-U.S. suppliers and nearly one-half planning to increase domestic sourcing.

Employment growth stalls as uncertainty weighs on the labour market

Employment edged up during the first eight months of 2025 (+38,000) as gains in January and June were partially offset by losses in March, July and August. Over this eight-month period, employment rose in retail trade, and in finance, insurance, and real estate industries. Employment declined in business, building and other support services and edged down in manufacturing. Neither young workers or core-age workers have seen cumulative employment gains during this period.

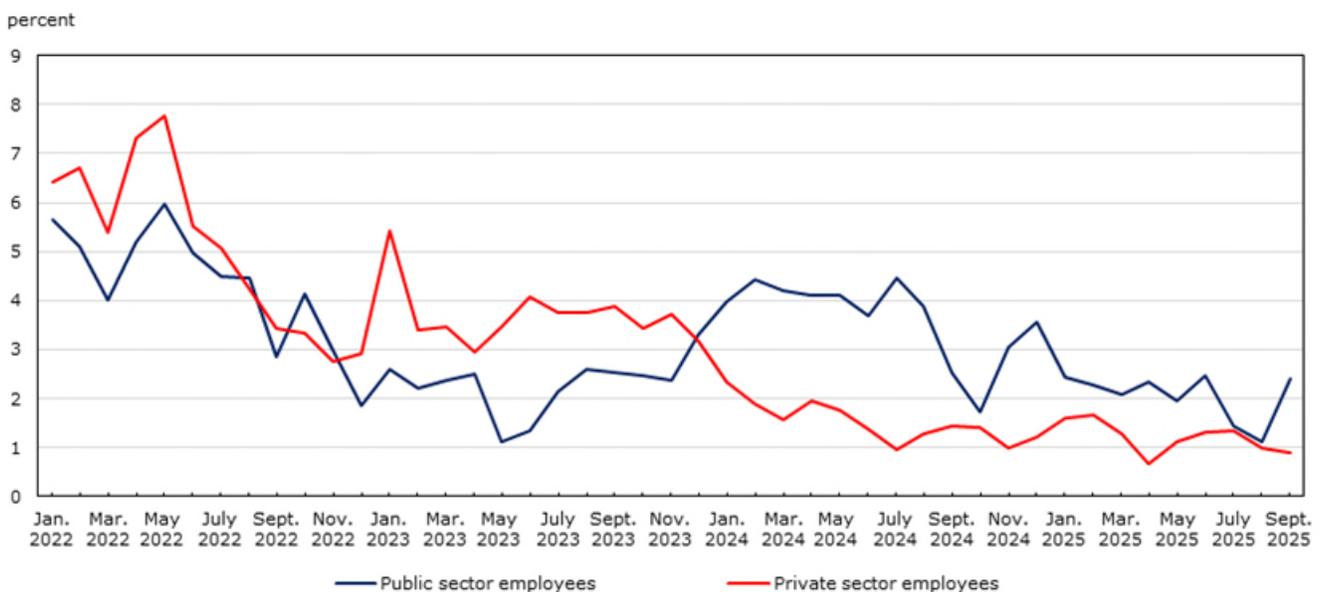
Momentum in the labour market has downshifted since the escalation of trade tensions early in the year. Nationally, there has been no net employment growth in the seven months since January, and no net increase in payroll employment from January to June. Weaker labour market conditions have not coincided with a sharp rise in layoff rates, which have remained similar to levels reported before the onset of the trade conflict.⁴ However, the labour market has become more challenging among those searching for work as hiring rates have remained subdued. Data on unemployment-to-employment transitions for

4. In August, the layoff rate was 1.0% in August, up slightly from the rate observed 12 months earlier (0.9%) (not seasonally adjusted).

July and August are illustrative; about one in six individuals who were unemployed in July were able to find work in August, down from about one in four who found work during this same month-to-month period from 2017 to 2019. These unemployment-to-employment transitions have remained lower than their historical averages during the trade conflict.⁵

Slower hiring momentum in the public sector has also contributed to weakness in the labour market. There was little net change in the number of public sector employees during the first eight months of 2025. Measured year-over-year, the pace of employment growth in public sector slowed to 1.1% in August, which largely reflected employment gains in late 2024 (Chart 6).⁶ Meanwhile, annual employment growth among private sector employees slowed to 1.0% in August and has remained below 2% for the past 17 months.

Chart 6
Employment, private and public sector employees, year-over-year change



Source: Statistics Canada, table 14-10-0288-01.

Long duration unemployment trends higher as job vacancies pull back

The unemployment rate trended up from 6.6% in January to 7.1% in August, the highest rate since 2016 excluding the pandemic period. The unemployment rate among core-age workers was 6.1% in August, while the rate among youth was 14.5%.

The spring and summer months were particularly challenging for students seeking employment. From May to August 2025, the unemployment rate for returning students averaged 17.9%, the highest rate since the summer of 2009, excluding the pandemic.

Longer duration unemployment has also risen as labour market conditions became more challenging. Those who were experiencing unemployment spells of 27 weeks or more accounted for 23.0% of all

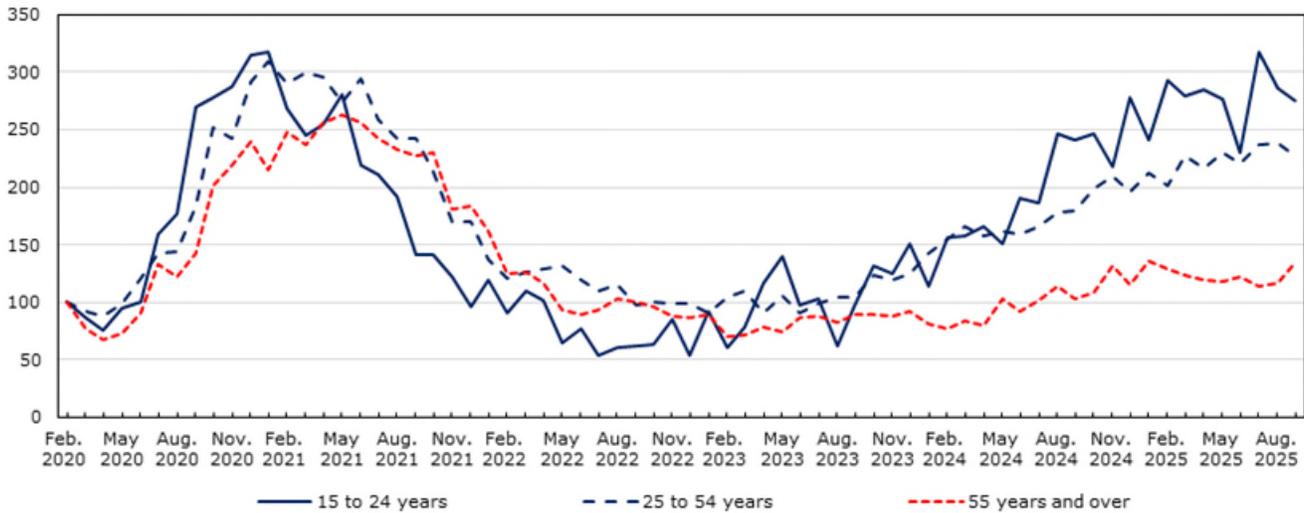
5. These hiring rates had begun trending lower before the trade conflict and have continued to edge lower this year.

6. The number of public sector employees rose by 3.5% in 2024 (+155,000) with over half of the cumulative increase reflecting gains in November and December.

unemployed people in August, up from 20.1% in August of last year. Over the past year, longer duration unemployment has increased among young, core-age and older workers (Chart 7).

Chart 7
Index of unemployed persons who have been searching for work or on temporary layoff for 27 weeks or more

index (February 2020=100)



Source: Statistics Canada, table 14-10-0342-01.

The demand for labour—the sum of filled and unfilled positions—edged lower as trade tensions escalated. The number of job vacancies fell from 527,400 in January to 469,900 in July. Declines were broad-based across industries, led by lower vacancies in health care and social assistance and accommodation and food services. Total vacancies in July were down 52% from the peak of nearly one million in the spring of 2022. Over 70% of the pullback in job vacancies over the past year was for positions requiring a high school diploma or less.

The unemployment-to-job vacancy ratio edged up to 3.3 in July, the fourth monthly increase in five months.⁷ The job vacancy rate was 2.6%, well below its pre-pandemic average of 3.2% in 2019.

Employment rose in September on gains in full-time work

Headline employment rose by 60,000 in September, partly offsetting cumulative declines of 106,000 during the previous two months. Gains were concentrated in full-time work and reflected higher employment among core-age women and men. Employment among youth was little changed in September. The number of people working in manufacturing rose by 28,000, partly offsetting net declines totaling 58,000 from January to August.

The unemployment rate held steady at 7.1% in September as there were more people in the labour force. The unemployment rate among 15 to 24 year-olds edged up to 14.7%, the highest rate since September 2010 excluding the pandemic period.

The overall employment rate—the percentage of working-age people who are employed—edged up to 60.6% in September but was 0.5 percentage points below the recent peak recorded in early 2025.

7. The ratio stood at 1.0 in mid-2022 when the labour market was experiencing historic levels of tightness.

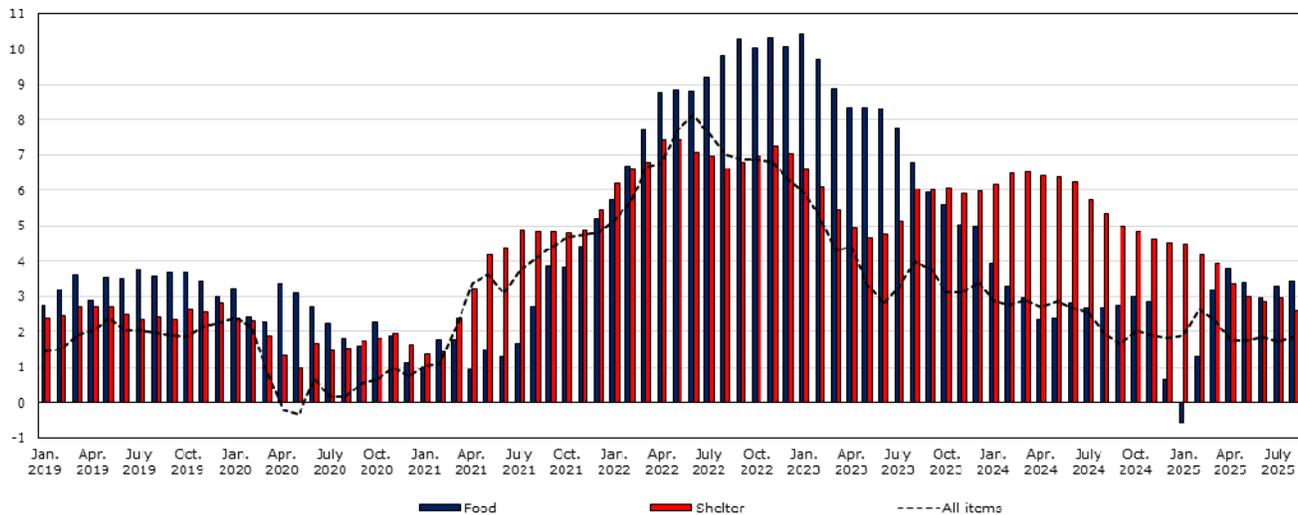
Slower inflation from lower gasoline prices as tariff impacts remain difficult to gauge

After starting 2025 just below the mid-point of the Bank of Canada’s target range, consumer price inflation rose above 2% in February and March as the end of the temporary GST/HST break on eligible products put upward pressure on prices. The headline rate then fell below 2% from April to August in large part due to the removal of the consumer carbon levy. Consumer price inflation fluctuated between 1.7% and 1.9% during this five-month period as changes in gas prices contributed to the variation in the headline rate. Excluding gas prices, consumer price growth has been fairly stable, averaging 2.5% over the past five months.

Food price inflation has been above 3% for five of the past six months (Chart 8). Grocery prices were up 3.5% year-over-year in August, led by higher prices for meat (7.2%) as tight supply conditions and strong demand have put upward pressures on prices. Yearly price increases at restaurants averaged 3.3% from March to August.

Chart 8
Consumer price index

year-over-year percentage change



Source: Statistics Canada, table 18-10-0004-01.

Shelter inflation has continued to ease, edging below 3% in June before decelerating to 2.6% in August, the slowest pace of price growth in almost four and a half years. While higher mortgage interest costs and rental prices continue to put upward pressure on the headline rate, yearly price increases have moderated. Annual price growth for rented accommodation, which reflect both new and existing rental contracts, was 4.3% in August, down from 6.0% in January 2025. Similarly, the annual increase in mortgage interest costs was 4.2% in August, down from 10.2% at the start of the year.

While prices for various consumer goods have been directly or indirectly affected by tariffs—including new cars, clothing and footwear, certain household appliances, a range of grocery items, and travel services—the overall impact of tariffs on consumer prices has been difficult to gauge as businesses and consumers continue to navigate trade tensions.

Tariff-related costs remain a key potential source of price pressure going forward. According to the Canadian Survey on Business Conditions (third quarter 2025), nearly one quarter of businesses have passed tariff costs onto consumers over the past six months, while nearly two-fifths of businesses reported being very or somewhat likely to pass cost increases from tariffs onto their customers over the

next year. Cost-related obstacles continue to cloud the outlook. Over 60% of businesses during the third quarter expected that rising input costs will continue to be an obstacle in the near term, while over half expect inflation to be an obstacle over the next three months.

Household wealth expands as debt-to-income ratio edges higher

After increasing by \$160.8 billion in the first quarter, household net worth expanded by \$257.7 billion in the second as equity markets surged. Household net worth, at \$17.9 trillion, has risen for seven consecutive quarters with cumulative gains over this period driven almost entirely by increases in the value of financial assets.

Household credit market borrowing eased during the first half of 2025, slowing to \$31.6 billion in the second quarter. While households added debt at a slower pace, credit market borrowing remained above levels reported during 2023 and early 2024 when interest rates and debt service costs were at higher levels. The ratio of household credit market debt to disposable income rose during the first half, increasing from 173.7% in the first quarter to 174.9% in the second as income growth slowed. The household debt service ratio ticked up in the second quarter after edging down for five quarters in a row.

Authors

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