Catalogue no. 36-28-0001
ISSN 2563-8955

Economic and Social Reports

Recent developments in the Canadian economy: Fall 2026



by Guy Gellatly and Carter McCormack

Release date: October 28, 2026

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Recent developments in the Canadian economy: Fall 2026

By Guy Gellatly and Carter McCormack

DOI: https://doi.org/10.25318/36280001202601000004-eng

This article provides an integrated summary of recent changes in output, employment, international trade, consumer prices and household finances. It highlights movements in the economic data during the first half of 2026 and into the summer months. The article explores 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 9, 2026. Presentations on selected topics, including information on Canada–U.S. trade, are available at *A Presentation Series from Statistics Canada about the Economy, Environment and Society* (Statistics Canada, n.d.).

Overview

After edging up in the first quarter of 2026, real gross domestic product (GDP) expanded on broad-based momentum in the second, marking the largest quarter-over-quarter increase since before the onset of the Canada–U.S. trade conflict. Higher export volumes, increases in household and government spending, and higher business outlays on both residential and non-residential assets contributed to growth in the second quarter as economic activity rose in most industrial sectors. Labour productivity expanded at its fastest pace since the pandemic-related shutdowns in early 2020, while real GDP per capita posted its largest quarterly increase since the second quarter of 2022. Canada recorded its first current account surplus in four years in the second quarter of 2026, the largest in over 20 years. Household net worth expanded for the 11th quarter in a row.

Labour market conditions improved during the spring and early summer of 2026 as net employment gains from May to July offset cumulative declines over the first four months of the year. Gains during the spring and early summer were concentrated among private sector employees and core-aged workers and reflected increases in full-time work. The unemployment rate was 6.4% in July, down from a year-to-date high of 6.9% in April. From May to July, the job finding rate—the percentage of job seekers who were able to find work from one month to the next—rose above levels reported during the same three-month period in 2025 while aggregate layoff rates remained similar. More recently, employment contracted in August and September. Combined losses during this two month period were concentrated among public sector employees and reflected lower employment among youth.

After easing below the 2% mark in February 2026, headline consumer inflation accelerated as disruptions in the Strait of Hormuz caused by the military conflict between the United States and Iran put upward pressure on energy prices. The headline rate rose to 3.2% in May, and, after slowing to 2.8% in June as gas prices eased, edged up to 3.0% in July. Excluding gasoline, the pace of consumer price growth held steady at 2.2% from May to July. Higher grocery prices continued to put upward pressure on headline consumer inflation during the first half of 2026, while smaller price increases for shelter tempered the growth in the headline rate. Beyond the direct effects on energy prices, disruptions in trade caused by the conflict in the Middle East had a relatively limited impact on the overall pace of consumer price growth during the spring and summer months. Headline inflation held steady at 3.0% in August.

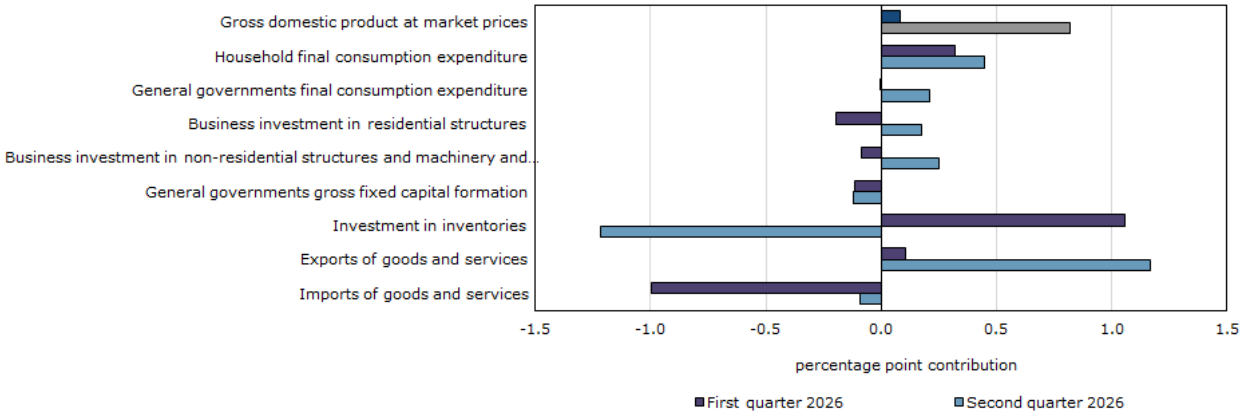
Authors

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Economic growth strengthened on broad-based increases in economic activity

After a return to growth in the first quarter of 2026, real gross domestic product (GDP) rose 0.8% in the second, marking the largest quarterly expansion since before the onset of the Canada–U.S. trade conflict. Increases in exports and household spending led the growth in the second quarter, while combined business outlays on residential and non-residential assets rose for the first time since late 2024. Inventory withdrawals tempered the increase in headline GDP, reflecting drawdowns in manufacturing and wholesale trade (Chart 1).[1]

Chart 1
Contributions to quarterly change in real gross domestic product, selected components, first quarter and second quarter of 2026

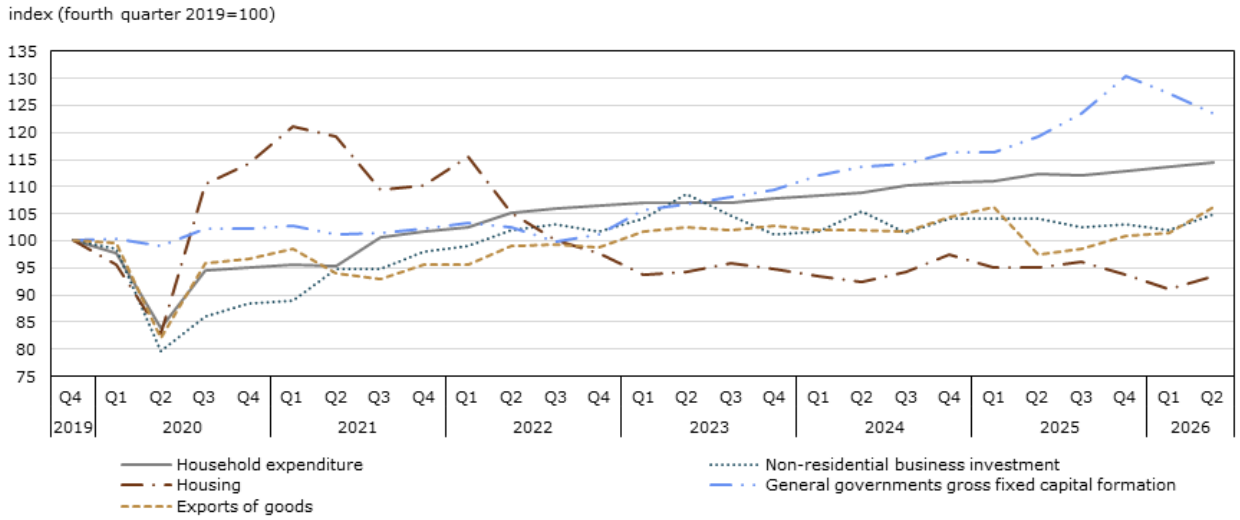


Notes: Data on gross domestic product are quarterly percentage changes; all other data are percentage-point contributions to the quarterly percentage change in real gross domestic product.
Source: Statistics Canada, table 36-10-0104-01.

Combined exports of goods and services rose 3.6% in the second quarter of 2026 after edging up 0.3% in the first. Goods exports expanded 4.9%, advancing for the fourth quarter in a row, while exports of services continued to edge lower (Chart 2). The growth in export volumes was led by higher shipments of passenger cars and light trucks, which rallied after lower auto production weighed on shipments during late 2025 and early 2026. Higher shipments of energy products, intermediate metal products, consumer goods, and industrial machinery and equipment (M&E) also contributed to stronger export volumes in the second quarter. Overall, total exports of goods and services were up 6.7% on a year-over-year basis, exceeding levels observed prior to the trade conflict (Chart 2).

1. The drawdown in business inventories was a substantial drag on growth in the second quarter, subtracting 1.2 percentage points off the headline increase in real GDP. Inventory adjustments have made large contributions to changes in real GDP in recent quarters. For background on the measurement of inventory movements, see *The Daily*—Gross domestic product, income and expenditure, second quarter 2026.

Chart 2
Real gross domestic product, selected aggregates



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

Combined imports of goods and services increased 0.3% in the second quarter, following a 3.1% gain in the first. Goods imports rose 0.6%, led by higher shipments of tires, motor vehicle engines and motor vehicle parts. Imports of basic chemicals and industrial chemical products and computers and computer peripherals also increased, while shipments of consumer goods declined for the sixth quarter in a row.

Household expenditures rose 0.8% in the second quarter after increasing 0.6% in the first (Chart 2). Growth in the quarter was led by higher spending on financial services, passenger vehicles and rent, while outlays on food edged lower. Total spending volumes in the second quarter were 1.9% higher than during the spring of 2025, when households were adjusting to heightened economic uncertainty.

Non-residential business investment rose 2.9% following declines in three of the previous four quarters. Business outlays on M&E expanded 5.2%, advancing for the third quarter in a row. About half of the total increase in M&E spending reflected higher outlays on computers and computer peripherals, while spending on motor vehicles and on communication and audio and video equipment also contributed to the gain. Outlays on industrial M&E were up for the third quarter in a row.

Business spending on non-residential structures rose 1.6% in the second quarter, following three consecutive declines. Higher spending on engineering structures contributed to the increase, while outlays on non-residential buildings edged down. Spending on intellectual property also edged lower following back-to-back gains.

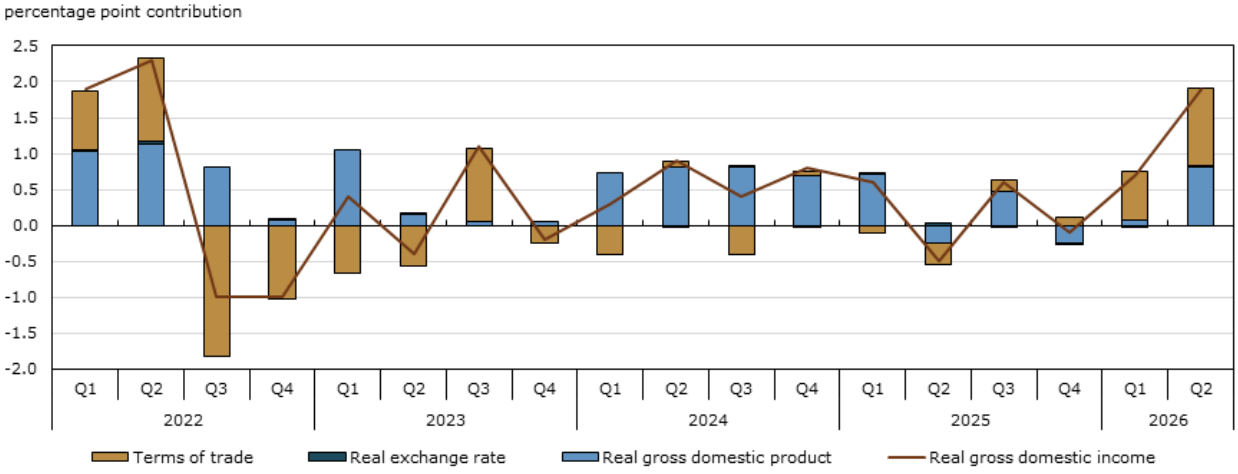
Overall, combined business investment in non-residential structures and M&E was up 1.0% from levels observed in the second quarter of 2025, when Canada–U.S. trade was scaling back amid the onset of tariffs and heightened uncertainty.[2]

2. Non-residential business investment in the quarter was 13.9% below peak levels observed in the fourth quarter of 2014 before investment scaled back during the oil-price shock.

Business investment in housing also rose in the second quarter of 2026 after back-to-back declines. Increases in ownership transfer costs—a measure of resale activity—contributed to the rise, while higher renovation activity also supported the growth. New housing construction increased 0.8% after three consecutive declines.

Household disposable income rose 2.1% in the second quarter, up from 1.1% in the first. The household saving rate rose 0.4 percentage points to 3.7% as income gains outpaced the increase in nominal dollar spending. Business labour productivity, a measure of the volume of goods and services produced per hour worked, rose 1.0% in the second quarter after back-to-back declines. Higher productivity in mining and oil and gas extraction, wholesale trade, and manufacturing supported the gain. The quarterly increase in business sector productivity was the largest since the pandemic-related shutdowns in 2020.[3] Real gross domestic income—a measure of the purchasing power of domestic production—rose 1.9% in the second quarter, buoyed by higher prices for energy exports. Improvements in the terms of trade have supported income growth for the past four quarters (Chart 3).

Chart 3
Contributions to percentage change in real gross domestic income



Notes: Data on gross domestic income are quarterly percentage changes; all other data are percentage-point contributions to the quarterly change in real gross domestic income.
Source: Statistics Canada, table 36-10-0105-01.

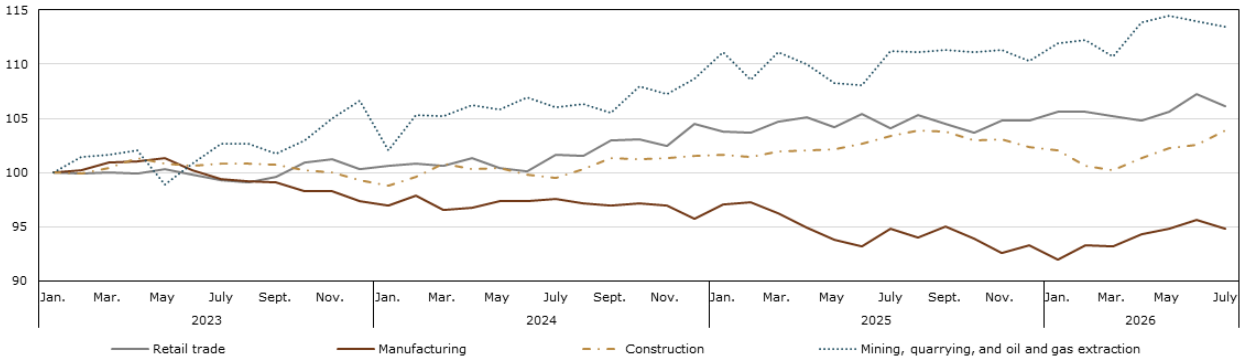
Increases in oil and gas extraction and manufacturing fuelled economy-wide gains

Economy-wide output expanded in the second quarter of 2026 as a rebound in goods production, led by increases in oil and gas extraction and manufacturing, bolstered activity (Chart 4). Output in service industries strengthened, supported by gains in wholesale trade, public administration, and real estate. Overall, 17 out of 20 industrial sectors posted gains in the second quarter.

3. Business labour productivity in the second quarter was up slightly (+0.7%) from levels observed prior to the trade conflict. Recent research at Statistics Canada (Mehdi and Frenette, 2026) has compared labour productivity growth in industries that are dependent on U.S. demand with productivity growth in other business-sector industries. It shows that, from 2019 to 2024, productivity grew more rapidly in industries that relied on U.S. demand, with clothing and leather and allied product manufacturing, pipeline transportation, and oil and gas extraction among the top performers.

Oil and gas extraction expanded in the second quarter as output rose to record levels. Output in the oil sands rose 5.8% after maintenance and repairs impacted production during the previous two quarters, while production off the Atlantic coast continued to ramp up. Mining output was down on lower activity at coal mines.

Chart 4
Real gross domestic product, selected industries



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

Manufacturing output expanded 2.3% in the second quarter, following back-to-back declines. Gains at motor vehicle and parts suppliers, petroleum refineries, and machinery manufacturers supported the increase. Combined output at motor vehicle manufacturers and parts suppliers rose 13.3%, rebounding to the highest level in over two years. Semiconductor shortages and retooling activities weighed on auto production during late 2025 and early 2026.

Output in several manufacturing industries directly impacted by U.S. tariffs remained below levels reported prior to the escalation of trade tensions. Despite stronger output in the second quarter, production at iron and steel mills was 17.7% below levels reported in late 2024, while output at aluminum producers was 12.4% below. Production at wood product manufacturers was down 11.3% over this period.

Wholesale trade activity rose 2.3% in the second quarter of 2026, supported by gains from motor vehicle and parts wholesalers and building materials and supplies wholesalers. Construction increased 1.0% as residential activity rose for the first time in four quarters.

Retail volumes grew 0.4% in the second quarter after expanding 1.0% in the first. Activity increased at motor vehicle and parts dealers, while volumes fell at gasoline stations. General merchandise retailers posted their sixth consecutive increase, while activity at food and beverage retailers contracted for the fourth time in five quarters.

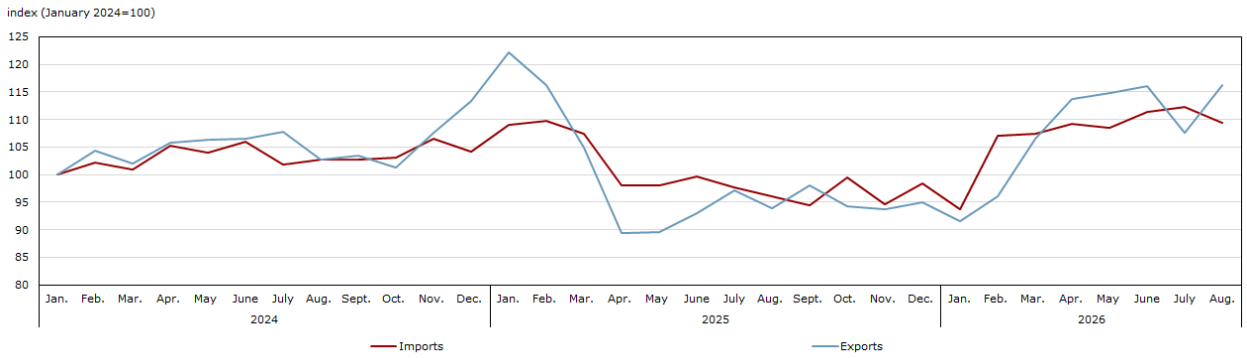
More recently, real GDP was basically unchanged in July, following notable gains in each of the previous three months. Construction activity expanded for the fourth month in a row, while manufacturing output declined after rising steadily from April to June. Overall, economy-wide output in July was 1.4% higher than in July 2025.

Merchandise exports to countries other than the United States continued to expand

After scaling back in 2025, nominal merchandise exports to the United States rebounded during the first half of 2026, buoyed by higher energy prices. Current-dollar shipments to the U.S. rose steadily from February to June and, at mid-year, were 5.0% below record levels observed in January 2025 when shipments were front-loaded in advance of tariffs (Chart 5). Total merchandise exports to the United States during the first six months of 2026 were 11.6% higher than combined shipments during the last half of 2025. Merchandise imports from the United States also rebounded in the first half, surpassing levels observed before the onset of the trade conflict.

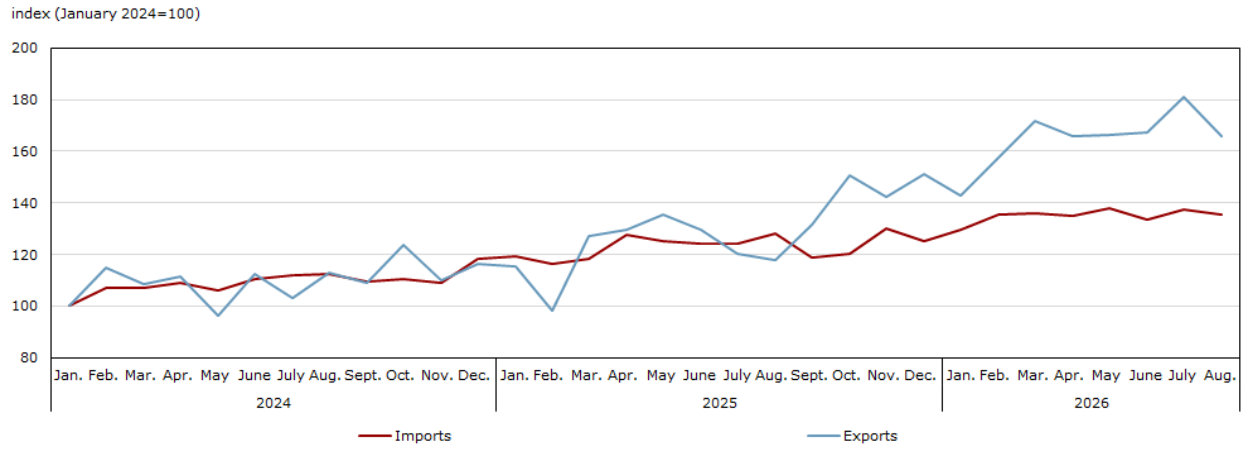
Building on substantial momentum in late 2025, nominal exports to countries other than the United States continued to ramp up during the first half of 2026 (Chart 6). Total merchandise exports to non-U.S. countries in the first half were 19.4% higher than combined shipments in the last half of 2025, buoyed by higher exports of precious metals and energy products. Nominal merchandise imports from countries other than the United States in the first half of 2026 were 8.2% higher.

Chart 5
Merchandise trade with the United States



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

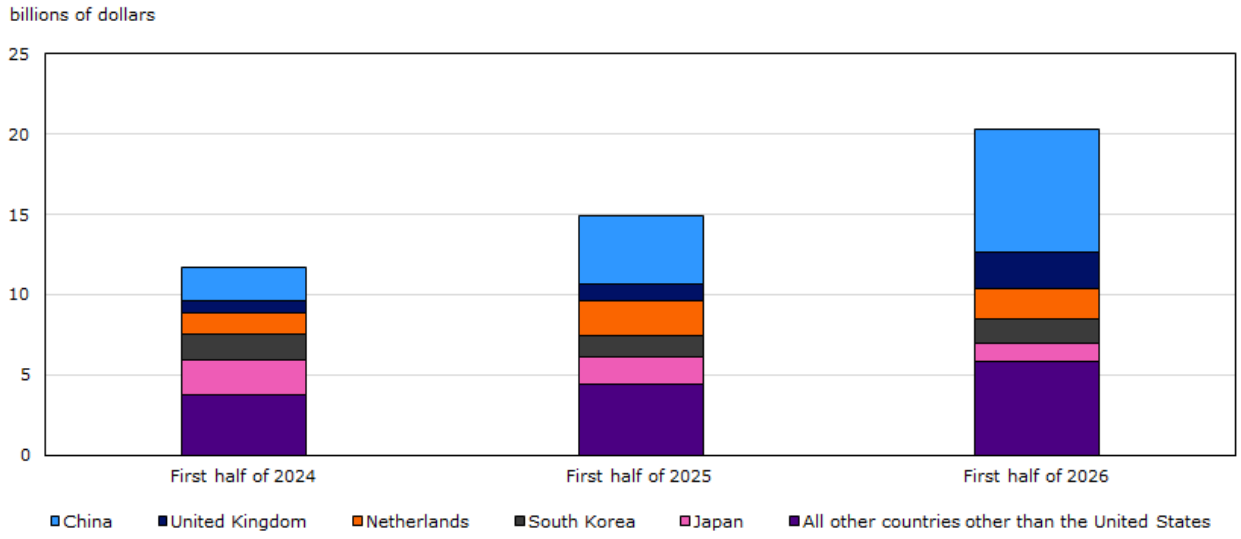
Chart 6
Merchandise trade with countries other than the United States



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

Canada's energy exports continued to expand into non-U.S. markets during the first half of 2026, supported by recent investments in transportation infrastructure and new production facilities. Measured on an unadjusted customs basis, energy exports to non-U.S. destinations accounted for 18.5% of total energy shipments during the first half of 2026, up from 15.2% during the same six-month period in 2025 and 12.1% during the same period in 2024. Higher energy exports to China and the United Kingdom accounted for much of the increase in non-U.S. energy shipments during the first half of 2026 (Chart 7).

Chart 7
Energy exports to countries other than the United States, selected destinations



Note: Data are tabulated on a customs basis and unadjusted for seasonality.
Source: Statistics Canada, table 12-10-0182-01.

Higher energy exports in the second quarter, fuelled by rising prices resulting from the conflict between the United States and Iran, had a sizable impact on Canada's overall trade position. The trade surplus in energy products rose from $36.3 billion in the first quarter to $49.3 billion in the second, shifting the trade-in-goods balance into a surplus position. Canada posted a current account surplus of $8.8 billion in the second quarter, the first quarterly surplus in four years and the largest since 2005.

Labour market conditions improved during late spring and early summer

After momentum in the labour market downshifted in early 2026, labour market conditions improved during the spring and early summer months. Following a net decline of 112,000 over the first four months of the year, employment expanded by 181,000 from April to July. Cumulative employment gains during the spring and early summer were concentrated among private sector employees and core-aged workers, and reflected increases in full-time work.[4] Gains were distributed across a range of sectors, including transportation and warehousing; professional,

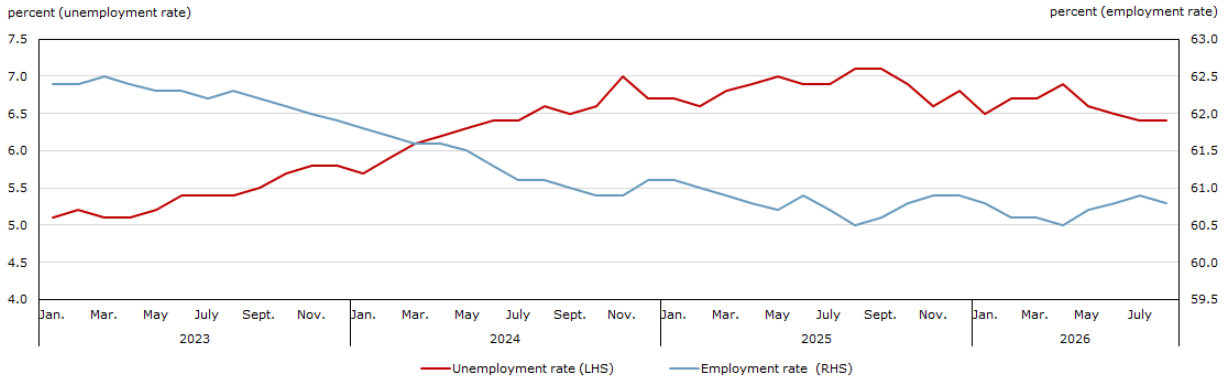
4. The growth in full-time work over this three-month period was driven by full-time gains in May (+154,000), offsetting losses earlier in the year.

scientific and technical services; construction; and accommodation and food services. Growth was concentrated in Ontario and British Columbia.

The unemployment rate declined from a year-to-date high of 6.9% in April to 6.4% in July as unemployment among core-aged workers and youth decreased (Chart 8). In Ontario, the unemployment rate fell below 7% in July for the first time since July 2024.

The employment rate increased in the spring and early summer as job gains outpaced the growth in the working-age population (Chart 8). After matching a four-year low of 60.5% in April, the employment rate increased steadily to 60.9% in July. Employment rates among core-aged workers and youth both increased during this period.

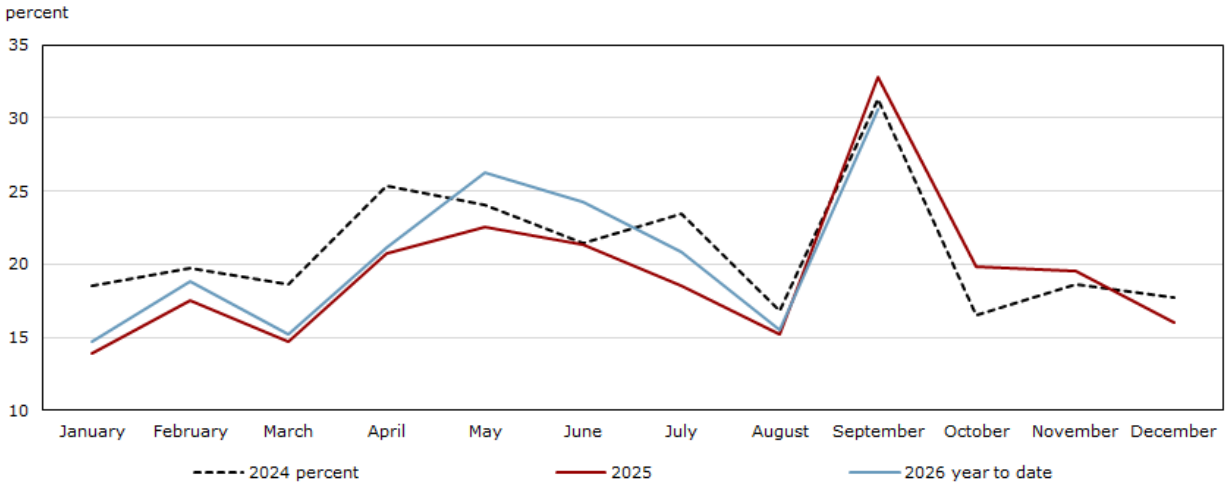
Chart 8
Employment and unemployment rates



Note: LHS denotes the left-hand-side axis, and RHS denotes the right-hand-side axis.
Source: Statistics Canada, table 14-10-0287-01.

Improvements in labour market conditions during the spring and early summer months coincided with a stronger pace of hiring. From May to July, the job finding rate—the proportion of job seekers who found work from one month to the next—rose above rates reported in the same months last year, when many businesses were navigating the early stages of the trade conflict (Chart 9).

Chart 9
Job finding rate, 2024 to 2026 year to date



Note: Data are not adjusted for seasonality
Source: Statistics Canada, Labour Force Survey, special tabulations.

Back-to-back employment losses in August and September

Employment contracted in August and September with combined losses totalling 110,000. Most of the net decline over this two-month period reflected lower employment among public sector employees (-90,000) and decreases in full-time work (-71,000). Employment fell in educational services, wholesale and retail trade, and health care and social assistance. More than half of the combined losses during August and September reflected lower employment among 15 to 24 year-olds. Employment in Quebec fell by 68,000 during this two-month period.

After holding steady at 6.4% in August, the unemployment rate increased to 6.5% in September as the job-finding rate fell below levels observed in September 2025. The employment rate declined 0.2 percentage points to 60.6% in September, slightly above the year-to-date low of 60.5% observed in April.

Little change in the number of job vacancies

While trade tensions and uncertainty continued to weigh on many businesses, the number of unfilled positions remained stable during the first half of 2026. Job vacancies in the second quarter were little changed, at 510,200, while the job vacancy rate held steady at 2.8%.

Measured on a year-over-year basis, total vacancies in the second quarter were little changed from levels observed in the second quarter of 2025. Higher vacancies in retail trade, manufacturing, and accommodation and food services were partially offset by declines in health care and social assistance. Despite the negative impacts of U.S. tariffs on Canadian manufacturers, the number of unfilled positions in manufacturing rose by 4,200 (+12.3%), supported by increases at food manufacturers, plastics and rubber products manufacturers, and machinery manufacturers. Much of the increase in manufacturing vacancies reflected demand for both full-time and permanent positions.

Higher gasoline prices bolstered consumer inflation amid escalating supply uncertainty

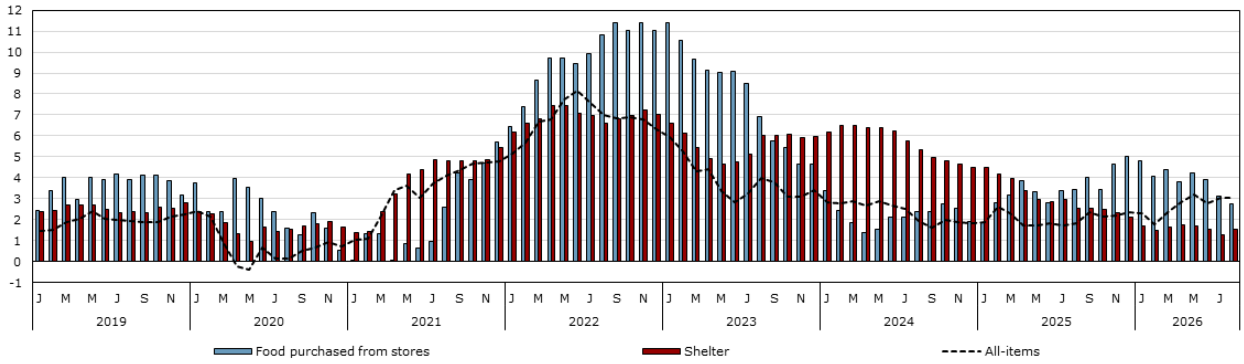
After easing to 2.3% in January 2026, headline consumer inflation slowed to 1.8% in February as base effects put downward pressure on the headline rate.[5] Consumer inflation accelerated from March to May as disruptions in the Strait of Hormuz related to the military conflict between the United States and Iran put upward pressure on energy prices. The headline rate rose to 3.2% in May, buoyed by a 33.2% year-over-year increase in gas prices, which reached their highest level since June 2022. The all-items rate slowed to 2.8% in June as gas prices eased, before edging up to 3.0% in July. Excluding gasoline, the pace of consumer price growth held steady at 2.2% from May to July. More recently, headline consumer inflation held steady at 3.0% in August, while price growth, excluding gasoline, accelerated to 2.4%. Beyond the direct effects on energy prices, disruptions in trade caused by the conflict in the Middle East had a limited impact on the overall pace of consumer price growth during the spring and summer months.[6]

5. These base effects stem from the elimination of GST/HST tax break on selected products in mid-February 2025.
6. The Bank of Canada noted in the July 2026 Monetary Policy Report that conflict between the United States and Iran "has generated both direct and indirect cost pressures that continue to feed through supply chains" and that "additional cost pressures are projected to have a peak impact… on consumer price index inflation in the first quarter of 2027."

During the first half of 2026, grocery price inflation continued to put upward pressure on the headline rate, averaging 4.2% from January to June. Yearly price increases for groceries have eased in recent months, falling below the 3% mark in August for the first time since June 2025 (Chart 10).

Chart 10
Consumer Price Index

year-over-year percentage change



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

Shelter costs, measured year over year, tempered the growth in the headline rate during the first half of 2026, averaging 1.7% from January to June. Yearly price increases for rented accommodation averaged 3.8% during the first half of the year, while annual price growth for owned accommodation averaged 0.6%, reflecting lower mortgage interest costs and homeowners' replacement costs. Yearly price increases for shelter eased to 1.3% in July, the slowest annual pace in over six years, before rising to 1.5% in August.

Tariff-related costs remain a potential source of price pressure going forward. According to the Canadian Survey on Business Conditions for the third quarter of 2026, over 1 in 4 businesses have passed tariff costs onto consumers over the past 12 months, while 3 in 10 reported being somewhat or very likely to pass cost increases from tariffs onto customers over the coming year. Cost-related obstacles continue to cloud the outlook with 6 in 10 businesses anticipating that these would be an obstacle in the near term.[7]

Household wealth expanded as debt-to-income and debt service ratios declined

After increasing by $234.5 billion in the first quarter, household net worth expanded by $546.3 billion in the second as equity markets surged. Household net worth, at $19.15 trillion, has expanded for 11 consecutive quarters, with cumulative gains during this period driven by increases in the value of financial assets. Per capita household wealth in the second quarter rose by $13,100 to $459,000.

Household credit market borrowing eased during the second quarter, slowing to $29.4 billion. Mortgage borrowing edged below $20 billion for the first time since early 2024. The ratio of household credit market debt to disposable income declined 2.2 percentage points to 176.4% in

7. The Canadian Survey on Business Conditions for the third quarter of 2026 was conducted from July 2 to August 6, before the introduction of additional U.S. tariffs on selected imports from Canada in August 2026.

the second quarter as the household debt service ratio edged down to its lowest level in nearly four years.

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