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Recent developments in the Canadian economy: Spring 2026



by Guy Gellatly and Carter McCormack

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Recent developments in the Canadian economy: Spring 2026

by Guy Gellatly and Carter McCormack

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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 in the second half of 2025 and early 2026. 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 April 2, 2026. 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.). A presentation on changes in Canada's economy as trade tensions were developing is available at [Research to Insights: Canada's Economy During Recent Canada-U.S. Trade Developments](#).

Overview

After rebounding in the third quarter of 2025, real gross domestic product contracted in the fourth as businesses withdrew from inventories and factory output decreased. Export volumes, buoyed by gold shipments to countries other than the United States, partly rebounded from steep declines earlier in the year as U.S. tariffs on Canadian steel, aluminum and motor vehicles remained in effect. Import volumes edged higher in the fourth quarter after contracting sharply in the third. Household spending increased on higher expenditures on rent and financial services. Non-residential business investment rose in late 2025 as outlays on machinery and equipment increased. Investment by governments continued to strengthen, led by higher outlays on weapons systems.

Labour market conditions showed signs of improvement during the second half of 2025 as employment rose steadily from September to November. The unemployment rate was 6.8% at year-end, after edging above seven percent in August and September. The employment rate stood at 60.9% in December, up from a four-year low of 60.5% in August. Much of the net employment growth over the last four months of 2025 was concentrated in Ontario and Alberta. More recently, cumulative employment losses during the first two months of 2026, reflecting sizable declines among private sector employees, have weighed on the labour market outlook. Net employment losses during this two-month period were concentrated in Ontario and Quebec.

After five consecutive months below the midpoint of the Bank of Canada's target range, headline consumer inflation rose above two percent during the last four months of 2025, averaging 2.3% from September to December. Lower energy prices, in part reflecting the elimination of the consumer carbon levy in April 2025, put downward pressure on the headline rate during the second half of the year. Meanwhile, higher prices for grocery items put upward pressure on consumer inflation. More recently, the headline rate edged down to 2.3% in January 2026 before slowing to 1.8% in February. 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 continued to rise during the second half of 2025 as equity markets strengthened. The pace of mortgage borrowing edged higher in the fourth quarter as the demand for non-mortgage debt declined. While the ratio of household credit market debt to disposable income has increased in recent quarters, the household debt service ratio edged lower in late 2025 as interest costs eased.

Authors

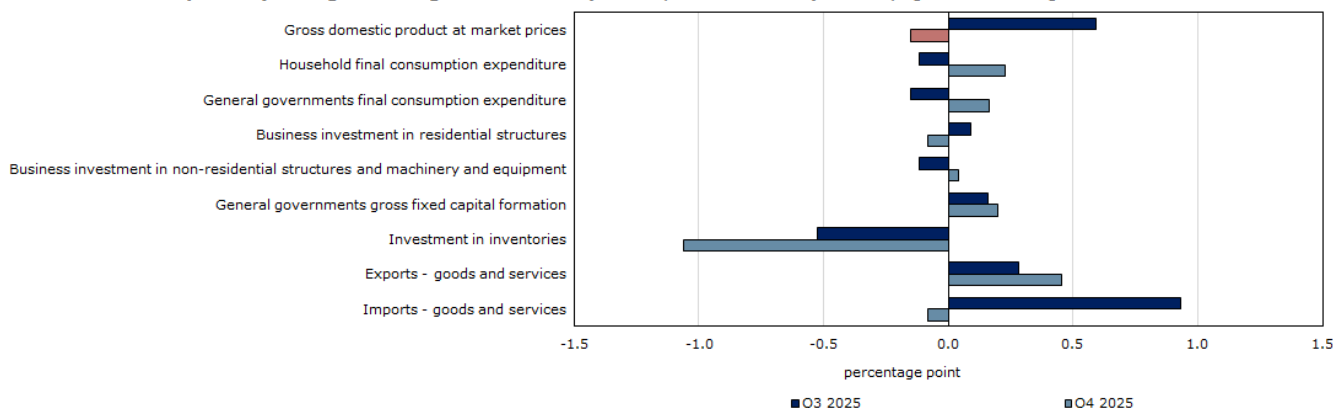
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Inventory drawdowns detracted from growth in late 2025 as exports continued to recover

After a return to growth in the third quarter of 2025, real gross domestic product (GDP) contracted 0.2% in the fourth as withdrawals from business inventories weighed on production. Stockpiles declined in manufacturing and wholesaling, while motor vehicle inventories in the retail sector also decreased.¹ Increases in exports, household spending and government investment partly offset inventory drawdowns, while non-residential business investment expanded for the first time in four quarters (Chart 1).

Chart 1

Contributions to quarterly change in real gross domestic product, selected components, Q3 2025 and Q4 2025



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.

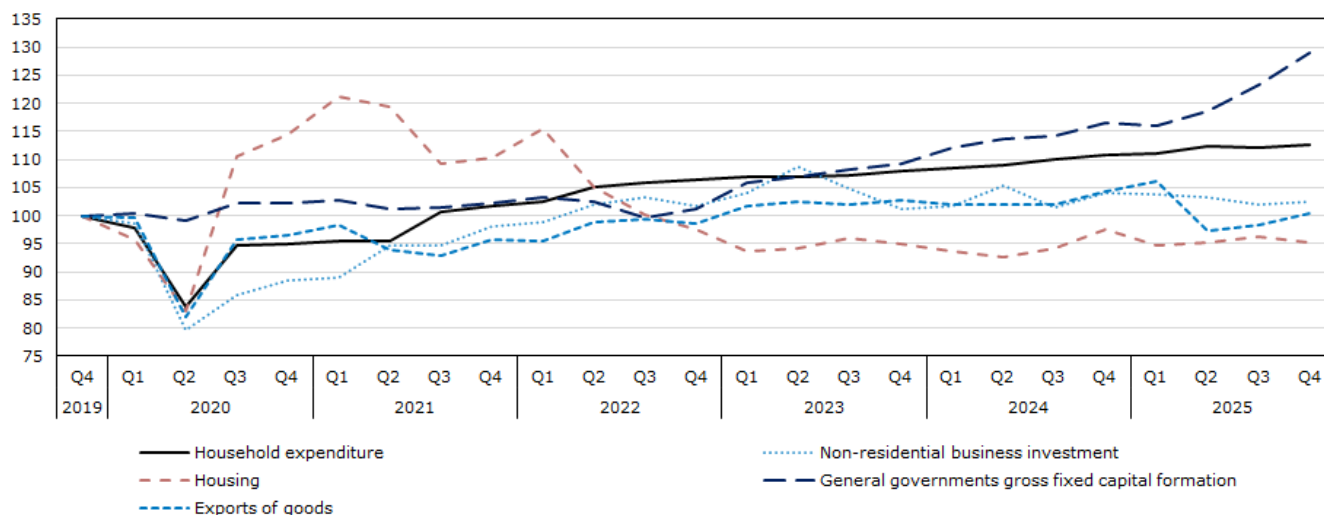
Export volumes have begun to recover from steep declines in the second quarter of 2025, when U.S. tariffs on selected products from Canada came into effect (Chart 2). After edging up 0.9% in the third

1. The drawdown in business inventories was a substantial drag on growth in the fourth quarter, subtracting 1.1 percentage points from the quarterly change in real GDP. Measured on an annual basis, the stock of non-farm business inventories declined in 2025 for the first time since 2020. See [The Daily — Gross domestic product, income and expenditure, fourth quarter 2025](#).

quarter, export volumes rose 1.5% in the fourth. Exports of intermediate metal products, led by higher shipments of unwrought gold and aluminum, supported the increase. Shipments of refined petroleum energy products and farm and fishing products also rose in late 2025. Conversely, exports of motor vehicles and parts fell 4.0% in the fourth quarter as a semiconductor shortage impacted auto production. Total exports of goods and services in the fourth quarter were 3.3% below levels reported before the onset of the trade disruption in late 2024.

Chart 2
Real gross domestic product, selected aggregates

index (Q4 2019=100)



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

Import volumes increased 0.3% in the fourth quarter after pulling back sharply in the third on steep declines in industrial machinery and intermediate metal products. Higher shipments of computers, clothing and footwear, and metal ores supported the increase in late 2025.

Household spending rose 0.4% in the fourth quarter after contracting 0.2% in the third. Higher spending on rent and financial services supported the increase, while spending on consumer durables declined for the second quarter in a row.

Non-residential business investment rose 0.5% in the fourth quarter after declining for three consecutive quarters. The increase in late 2025 reflected higher outlays on machinery and equipment (M&E) after spending pulled back during the second and third quarters as businesses adjusted their capital plans amid heightened uncertainty. Higher M&E spending in the fourth quarter was driven in large measure by purchases of computers and computer equipment. Meanwhile, investment in non-residential structures declined in the fourth quarter, as lower outlays on engineering structures offset higher spending on non-residential buildings. Spending on intellectual property increased for the first time since late 2024.

Business investment in housing fell 1.1% in the fourth quarter as resale activity, renovation activity and new construction all declined. Investment by governments continued to strengthen in late 2025, led by higher outlays on weapons systems.²

2. Government investment in weapons systems reflects defence capital expenditures on various assets, including but not limited to vehicles, ship, aircraft and weapons.

Measured on a year-over-year basis, combined outlays on non-residential structures and M&E were down 1.6% in late 2025, largely reflecting lower spending on M&E. Investment in new housing construction in late 2025 was up 1.0% from levels observed in the fourth quarter of 2024.

Household disposable income rose 0.6% in the fourth quarter, after increasing 1.1% in the third. The household saving rate declined 0.8 percentage points to 4.4% as the growth in nominal dollar spending outpaced income growth. Business labour productivity, a measure of the volume of goods and services produced per hour worked, edged down 0.1% in the fourth quarter after rising 1.1% in the third. Improvements in the terms of trade supported income growth during the second half of 2025.

For 2025 as a whole, real GDP rose 1.7% after increasing by 2.0% in each of the previous two years. Higher spending by households led the growth, supported by higher consumption and investment spending by governments. Lower export volumes detracted from growth in 2025, while non-residential business investment declined for the second straight year.

Outlays on non-residential tangible assets by private organizations, measured in nominal dollars, are expected to increase 2.8% in 2026 after spending edged down in 2025.³ Over two-thirds of the planned increase in private capital spending reflects higher anticipated outlays in Alberta after spending pulled back in 2025. Capital spending on tangible assets by public organizations is expected to rise by 5.1% in 2026. Higher planned outlays by public organizations account for over one-half of the anticipated increase in total capital spending. Higher capital outlays by public organizations also drove the growth in capital spending in 2024 and 2025.

Goods production declined in the fourth quarter on lower manufacturing output

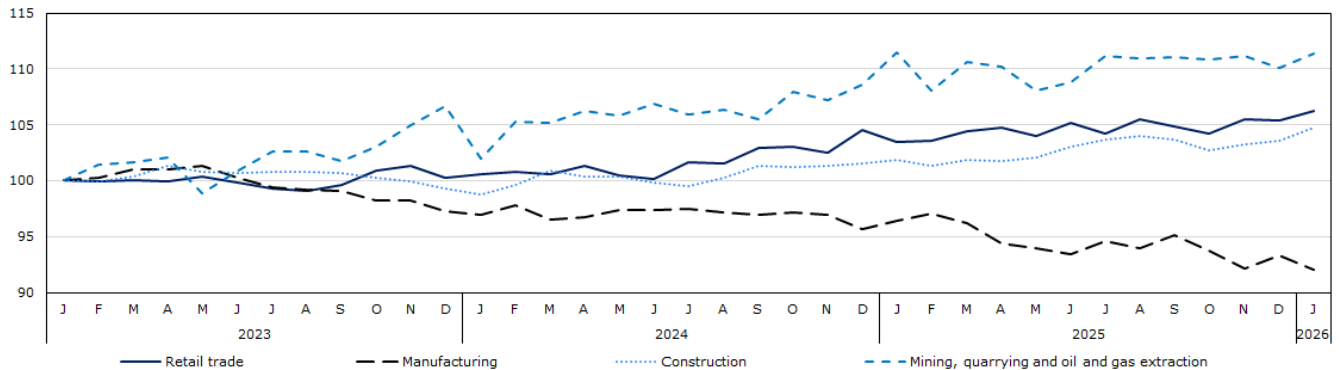
Economy-wide output edged down in the fourth quarter of 2025 after a rebound in goods production, supported by increases in oil and gas extraction and manufacturing, bolstered output in the third. Lower factory volumes detracted from growth in late 2025, reflecting declines among machinery producers, wood product manufacturers, motor vehicle and parts manufacturers, and fabricated metal product producers (Chart 3). In the fourth quarter, three in ten manufacturing businesses reported that U.S. tariffs on Canadian goods had a major negative impact on their business, while one in five manufacturers reported that they plan to delay investments or expenditures as a result of tariffs.⁴

3. For information on the 2026 capital intentions, see [The Daily — Non-residential capital and repair expenditures, 2024 \(revised\), 2025 \(preliminary\) and 2026 \(intentions\)](#).

4. For more information, see the Canadian Survey on Business Conditions, fourth quarter of 2025; Statistics Canada table 33-10-1070-01.

Chart 3
Real gross domestic product, selected industries

index (January 2023=100)



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

Output in several manufacturing industries directly impacted by U.S. tariffs remained below levels reported prior to the escalation of trade tensions. After pulling back during the second and third quarter, production at iron and steel mills and ferro-alloy manufacturers edged higher in the fourth. In December, output in this industry was 4.3% below levels reported at the end of 2024. Output at aluminum producers contracted for four quarters in a row and was down 19.5% on a year-over-year basis in December. Output at wood product manufacturers declined by 8.1%.⁵

Combined output at motor vehicle and parts manufacturers scaled back in the fourth quarter as semiconductor shortages impacted production. Output had rebounded early in the summer following lower motor vehicle production in the spring partly attributable to tariff-related disruptions. Output rose during the fall months until semiconductor shortages weighed on output late in the year. At year-end, combined output at motor vehicle and parts manufacturers was 2.5% below levels reported at the end of 2024, reflecting a 3.5% decrease at parts manufacturers.⁶

Oil and gas extraction edged down in the fourth quarter after production rebounded in the third quarter, following upgrading and maintenance activities in the spring. Production in the oil sands was down 1.7% in the fourth quarter after rising 5.0% in the third. Mining output also edged lower. Despite the declines, production volumes in the fourth quarter in mining, quarrying and oil and gas extraction were at their second-highest level on record.

Construction activity edged down in late 2025 after expanding for six consecutive quarters. Lower residential and engineering construction weighed on activity.

Retail volumes edged up in the fourth quarter despite lower activity at motor vehicle and parts dealers. Wholesale activity contracted on declines at motor vehicle and parts wholesalers and building material and supplies wholesalers.

5. For an analysis of employment trends in industries that are highly dependent on U.S. demand, see Clarke and Fields (2025).

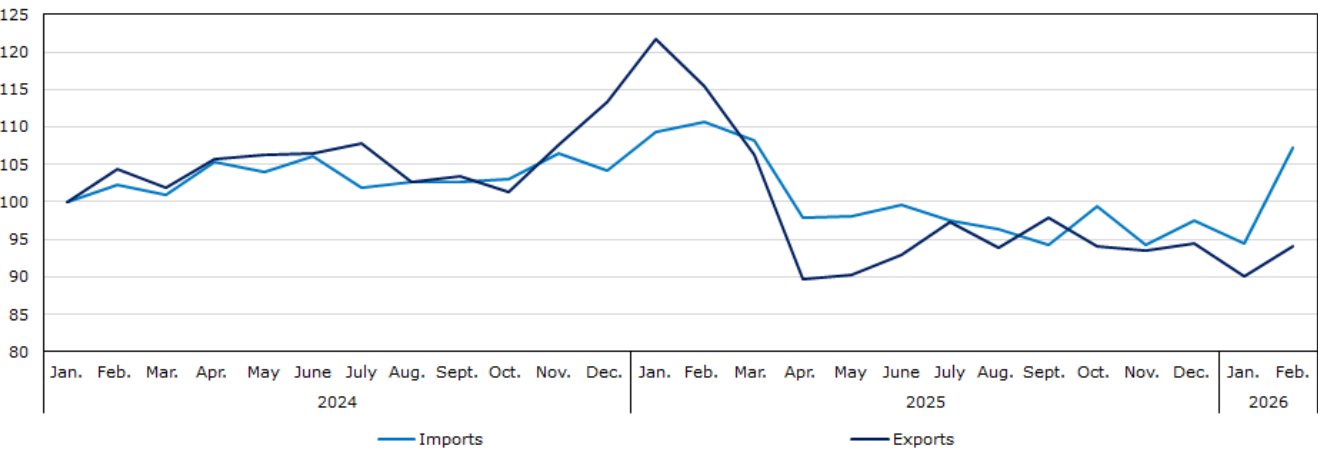
6. Output at motor vehicle manufacturers, measured year over year, was up 3.0% in December 2025, as production in December 2024 was at its fourth-lowest monthly level since the start of 2024. Output at motor vehicle manufacturers at the end of 2025 was 2.9% below levels reported in March 2025, before U.S. tariffs on motor vehicles produced in Canada went into effect.

Exports to the United States remained below pre-tariff levels in late 2025 as non-U.S. exports expanded

During the second half of 2025, merchandise exports to the United States remained well below levels reported before the steep declines in April when businesses were adjusting to U.S. tariffs and global economic uncertainty (Chart 4). At year-end, Canada’s nominal exports to the United States were 11.1% lower than levels reported in March 2025 and 16.7% lower than levels observed in December 2024. Nominal imports from the United States also remained below levels reported prior to the trade disruption, declining 9.8% from March to December 2025. More recently, both exports to the United States and imports from the United States decreased in January 2026 before rebounding in February.

Chart 4
Merchandise trade with the United States

index (January 2024=100)

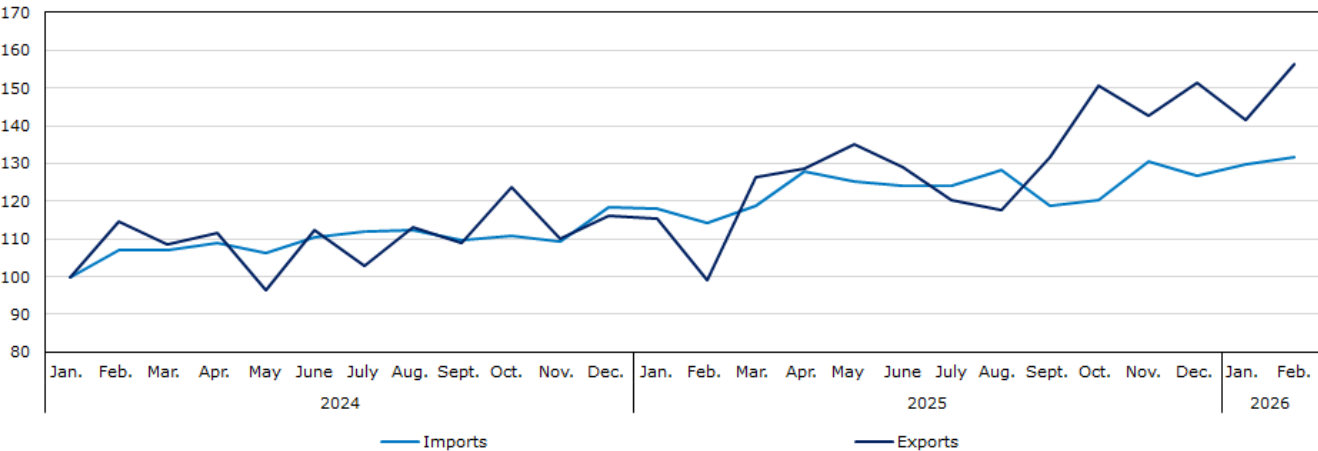


Source: Statistics Canada, table 12-10-0011-01.

Canada’s merchandise exports to countries other than the United States ramped up in the second half of 2025 (Chart 5). Shipments to non-U.S. countries rose as trade disruptions escalated toward mid-year and then strengthened during the fall months as businesses continued to navigate trade tensions. Total non-U.S. exports during the second half of the year were 10.9% higher than shipments during the first six months of the year. Imports from countries other than the United States were 2.7% higher in the second half of 2025.

Chart 5
Merchandise trade with non-U.S. countries

index (January 2024=100)



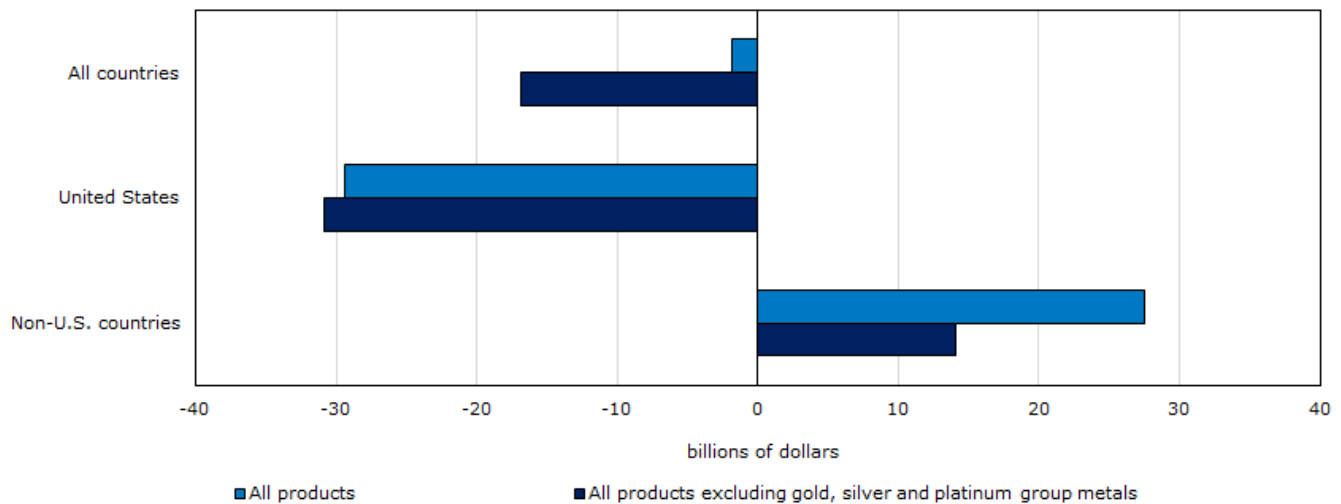
Source: Statistics Canada, table 12-10-0011-01.

For 2025 as a whole, higher merchandise exports to countries other than the United States largely offset lower shipments to the United States. Measured on a customs basis, domestic exports of goods to the United States fell by \$29.4 billion in 2025 (-5.4%), while shipments to other countries rose by \$27.6 billion (+15.8%).⁷ A substantial portion of the growth in non-U.S. exports reflected higher shipments of safe-haven metals as investors adjusted to high levels of risk and uncertainty (Chart 6). Exports of unwrought gold, silver, and platinum group metals and their alloys to countries other than the United States, led by high-value gold shipments to the United Kingdom, rose by \$13.5 billion in 2025. Excluding these shipments of precious metals, merchandise exports to countries other than the United States increased by \$14.0 billion in 2025, while shipments to the United States contracted by \$30.9 billion.

Product shipments to specific regions point to increases in export diversification during 2025. Canada’s high-value exports of energy products acquired a stronger foothold in markets other than the United States, supported by recent investments in transportation infrastructure and new production facilities. Annual exports of energy products to countries other than the United States rose 22.3% to \$28.8 billion in 2025, buoyed by higher shipments to China, Hong Kong and the Netherlands. Energy exports to Singapore, Germany and Italy also expanded. Exports of aluminum products, which have been subject to U.S. tariffs since March 2025, increased from \$738 million in 2024 to \$2.1 billion in 2025, led by higher shipments to the Netherlands and Italy.

7. Domestic exports are goods that are grown, extracted or manufactured in Canada—and exclude re-exports.

Chart 6
Annual change in domestic exports by region of destination, 2024 to 2025



Notes: Domestic exports are exports of goods that were grown, extracted, or manufactured in Canada.

Source: Statistics Canada, table 12-10-0182-01.

The pullback in Canada–U.S. merchandise trade during 2025 had a sizable impact on Canada’s overall trade position. Canada’s merchandise trade surplus with the United States, measured on a balance of payments basis, narrowed from \$101.3 billion in 2024 to \$80.9 billion in 2025. As trade tensions escalated during the spring and summer of 2025, steep reductions in Canada’s trade surplus with the U.S. gave rise to larger overall trade deficits. As a result, Canada’s merchandise trade deficit with the world widened from \$7.2 billion in 2024 to \$32.0 billion in 2025. Lower Canada–U.S. trade also pushed Canada’s current account deficit to \$30.4 billion in 2025, financed primarily through inflows of currency and deposits and foreign direct investment.⁸

Canadian direct investment in the United States pulled back in 2025

Foreign direct investment in Canada increased in 2025 as Canadian businesses navigated trade tensions and geopolitical uncertainty. Foreign direct investment in Canada was \$96.8 billion in 2025, the largest annual inflow since 2007. While over half of this inward direct investment originated in the United States, direct investment from other countries increased by \$13.1 billion to \$45.6 billion.⁹ By contrast, Canadian direct investment abroad scaled back by over one-third to \$79.4 billion in 2025, the lowest level of annual spending since 2020. Nearly all of the decline in Canadian direct investment abroad reflected lower spending in the United States.

While Canadian direct investment in the United States scaled back, Canadian portfolio investment in the United States expanded. Canadian investors increased their exposure to U.S. securities with net acquisitions totalling \$112.5 billion in 2025, an increase of \$29.0 billion from levels in 2024. The net increase reflected larger acquisitions of U.S. equities.¹⁰

8. After posting a record current account deficit of \$21.0 billion in the second quarter, the current account deficit narrowed to \$5.3 billion in the third quarter and \$700 million in the fourth; see [Statistics Canada table 36-10-0018-01](#).

9. Direct investment inflows from the United States were \$51.2 billion in 2025, down \$3.1 billion from levels in 2024.

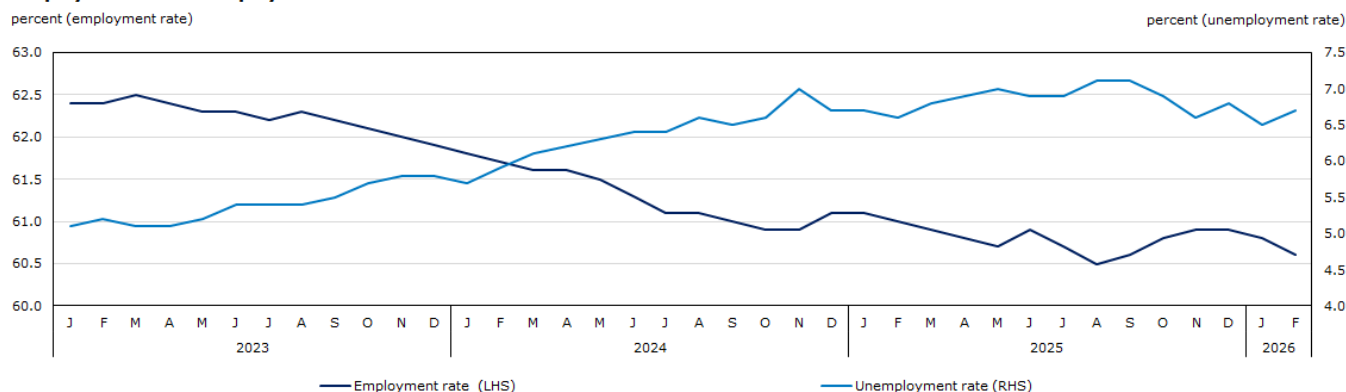
10. For an analysis of Canada’s international transactions in securities during the early stages of the trade conflict, see [Gellatly and Simard \(2025\)](#).

Labour market conditions showed signs of improvement toward the end of 2025

While momentum in the labour market downshifted in 2025 with the escalation of trade tensions, labour market conditions showed signs of improvement in the second half of the year. After no net employment growth from January to August, employment rose from September to November before holding steady at the end of the year. Cumulative gains over the last four months of 2025 totalled 189,000, with higher employment among private sector employees accounting for three-quarters of the increase. Gains during this four-month period were concentrated in Ontario and Alberta.

The unemployment rate at year-end was 6.8%, after edging above seven percent in August and September.¹¹ The employment rate—the percentage of working-age people who are employed—was 60.9% in December after declining to a four-year low of 60.5% in August (Chart 7).

Chart 7
Employment and unemployment rates



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

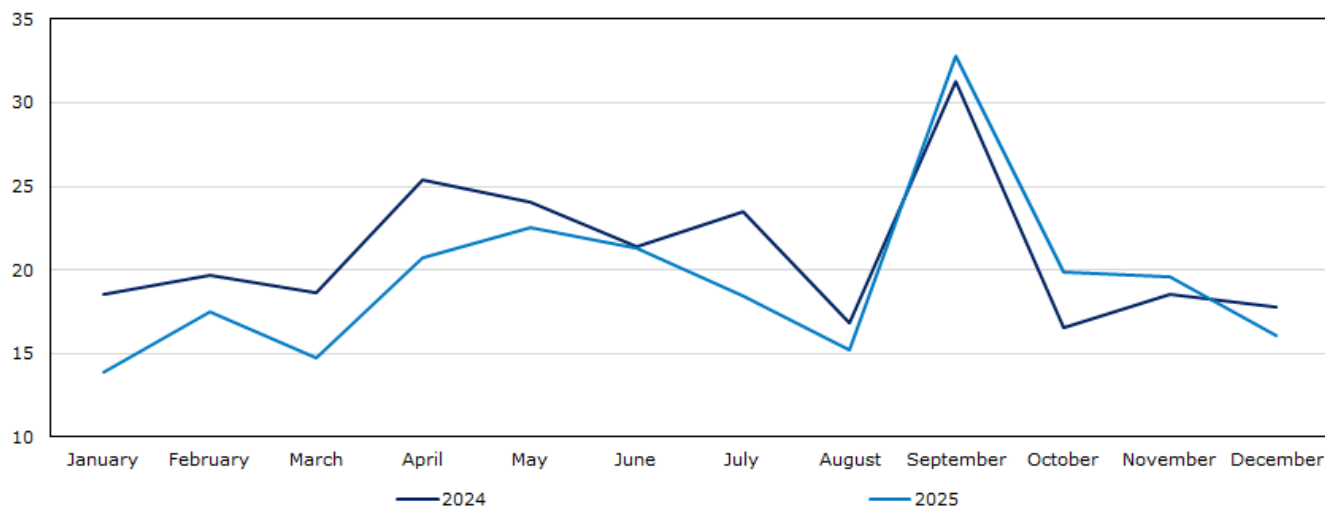
The escalation of trade tensions and economic uncertainty weighed on the pace of hiring in 2025. From January to August, the job-finding rate—the proportion of job seekers who found work from one month to the next—averaged 18.1%, substantially below the average rate of 21.0% reported during the first eight months of 2024.¹² As labour market conditions improved in the fall months, the job-finding rate was more aligned with the levels reported in the same months before the trade disruption in 2024 (Chart 8). The average job finding rate was 22.1% from September to December 2025, up from 21.0% during the last four months of 2024.

11. The unemployment rate was 7.1% in August and September, the highest rate since May 2016, excluding the pandemic period.

12. For background on labour market conditions in 2025, see the [Daily article](#) for the December 2025 Labour Force Survey.

Chart 8
Job finding rate, 2024 and 2025

percent

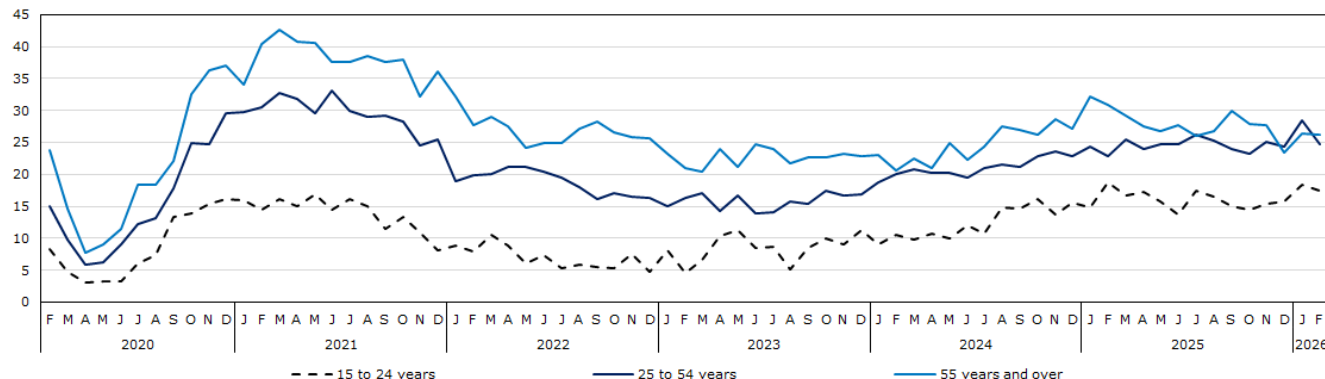


Source: Labour Force Survey, special tabulations.

Rates of long-term unemployment remained elevated throughout 2025. Among the 1.55 million people who were unemployed in December 2025, 21.9% were experiencing long-term unemployment, continuously searching for work for 27 weeks or more (Chart 9). This proportion was up slightly from December 2024, reflecting a higher incidence of long-term unemployment among core-age workers (Chart 9). Since mid-2024, the share of unemployed people experiencing long-term unemployment has been substantially above levels recorded before the COVID-19 pandemic.

Chart 9
Share unemployed persons who have been searching for work or on temporary layoff for 27 weeks or more

percent



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

After trending lower during the first eight months of 2025, the number of job vacancies increased in late 2025. In December, there were 505,900 vacant positions, a decrease of 29,100 over the previous year. The ratio of unemployed persons to job vacancies was 3.1 at year end.

Youth bore the brunt of a challenging labour market in 2025

Young Canadians continued to face difficult labour market conditions throughout 2025. After a challenging summer hiring season, the unemployment rate among 15- to 24-year-olds rose to 14.6% in

September, the highest rate since September 2010, outside the pandemic period. After eight consecutive months without a month-over-month increase, youth employment rose in October and November 2025 before edging down in December. At year-end, the unemployment rate among 15- to 24-year-olds was 13.3%, and the employment rate among youth was 54.8%. Among youth in Ontario, these rates were 15.6% and 52.0%, respectively.

Weaker labour market conditions in early 2026

More recently, cumulative employment losses of 109,000 during the first two months of 2026 have weighed on the labour market outlook. Just over half of these cumulative losses were in full-time work, and all of the net decrease was among private sector employees. Employment among core-age workers fell by 62,000 during the first two months of the year. Net losses during January and February were concentrated in Ontario and Quebec.

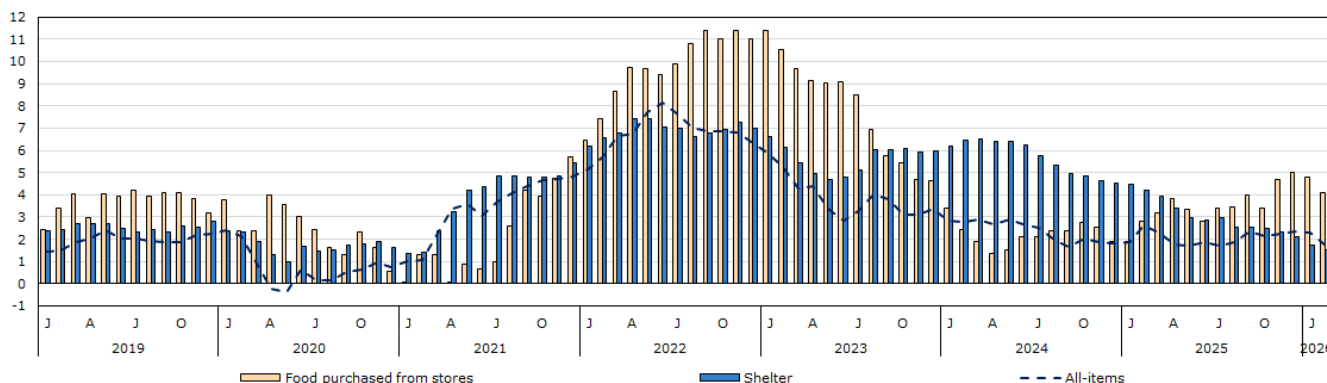
Labour market conditions worsened among youth in early 2026. After contracting by 23,000 at the end of 2025, youth employment fell by 64,000 in January and February. The unemployment rate among 15- to 24 year-olds edged back above 14 percent in February, while the percentage of youth who were employed fell to 53.7%, just above the recent low reported in September 2025.

Higher grocery prices put upward pressure on consumer inflation in 2025

After five consecutive months below the midpoint of the Bank of Canada's target range, headline consumer inflation rose above two percent during the last four months of 2025, averaging 2.3% from September to December. Lower energy prices, in part reflecting the elimination of the consumer carbon levy in April 2025, put downward pressure on the headline rate. Gasoline prices declined on a year-over-year basis from March to December 2025, ending the year 13.8% below prices at the pump twelve months prior. Excluding gasoline, consumer price growth averaged 2.6% during the second half of the year. Meanwhile, yearly price increases for grocery items put upward pressure on headline inflation, averaging 4.0% from July to December 2025 (Chart 10). Meat prices were up 8.5% in the twelve months to December, led by higher prices for fresh or frozen beef. Shelter costs, measured year-over-year, continued to slow in the second half of 2025 as mortgage interest costs eased.

Chart 10
Consumer price index

year-over-year percentage change



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

After edging down to 2.3% in January 2026, the headline rate slowed to 1.8% in February as base effects from the elimination of the GST/HST break midway through February 2025 put downward pressure on the headline rate. Grocery price inflation eased to 4.1% in February as price growth slowed across a broad range of items. Excluding the impact of food purchased from stores or restaurants, consumer price growth was 1.1% in February 2026, the slowest pace of price growth in five years.

While prices for various consumer goods were directly or indirectly affected by tariffs over the past year—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 disruptions. Tariff-related costs remain a potential source of price pressure going forward. In early 2026, nearly one in five businesses reported that they were very likely to pass on cost increases from tariffs to their customers over the coming year, including three in ten 10 manufacturers.¹³

Household wealth expanded in late 2025 as debt-to-income ratio edged higher

After expanding by \$408.6 billion in the third quarter, household net worth rose by \$230.2 billion in the fourth as equity markets continued to strengthen. Household net worth, at \$18.6 trillion, has expanded for nine consecutive quarters, with cumulative gains during this period driven almost entirely by increases in the value of financial assets.

Household credit market borrowing slowed to \$36.2 billion in the fourth quarter as the demand for non-mortgage debt fell. Mortgage borrowing in the fourth quarter was \$28.7 billion, up from \$26.8 billion in the third. The ratio of household credit market debt to disposable income continued to trend higher in the second half of the year, increasing from 176.3% in the third quarter to 177.2% in the fourth. The household debt service ratio edged down during the second half as mortgage interest costs eased.

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13. Estimates are based on data from the Canadian Survey on Business Conditions for the first quarter of 2026.