

Canadian Macroeconomic Outlook

Unlocking opportunities for growth in a
shifting economic landscape

February 2026



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TABLE OF CONTENTS

Topics and EY-Parthenon perspectives

Global economic forces and mega trends Key themes shaping the global economy	3
Canadian economic outlook Canada enters 2026 with slowing momentum and subdued growth trajectory	4-5
Households and consumer insights Household activity strengthens modestly amid easing cost pressures	6-8
Business sentiments Despite continued declines in sentiment, Canadian CEOs are increasingly optimistic in navigating new economic realities	7-8
Looking ahead Recovery remains gradual as Canada adapts to an evolving global economy	15
Meet the team and explore our resources	16-17

Global economic forces and mega trends

Global economic resilience into 2026 amid shifting trade patterns, moderate consumer spending and AI-fuelled investment

Resilience but easing growth

- The global **economy remains resilient** but is increasingly shaped by shifting trade patterns, demographic pressures, evolving labour markets and rapid AI investment.
- Global **real GDP growth is projected to ease slightly**, from 3.3% in 2025 to 3.1% in 2026.

Slower developed market growth

- Developed markets **face a mix of structural and cyclical headwinds** – ageing populations, chronic underinvestment, immigration constraints and rising protectionism.
- We anticipate **developed market growth to ease from 1.7% in 2025 to 1.5% in 2026**.

Uneven emerging market growth

- Emerging markets show **uneven but firmer momentum**, supported by resilient concentrated demand and targeted policy measures.
- We anticipate emerging markets **growth to ease from 4.5% in 2025 to 4.1% in 2026**.

Tariff-led inflation divergence

- Global inflation is easing but remains uneven. Tariffs are keeping prices higher in some economies, while others see demand and commodity-driven disinflation.
- We anticipate **global headline inflation to average 2.8% in 2026** after 3.3% in 2025.

Bifurcated monetary policy

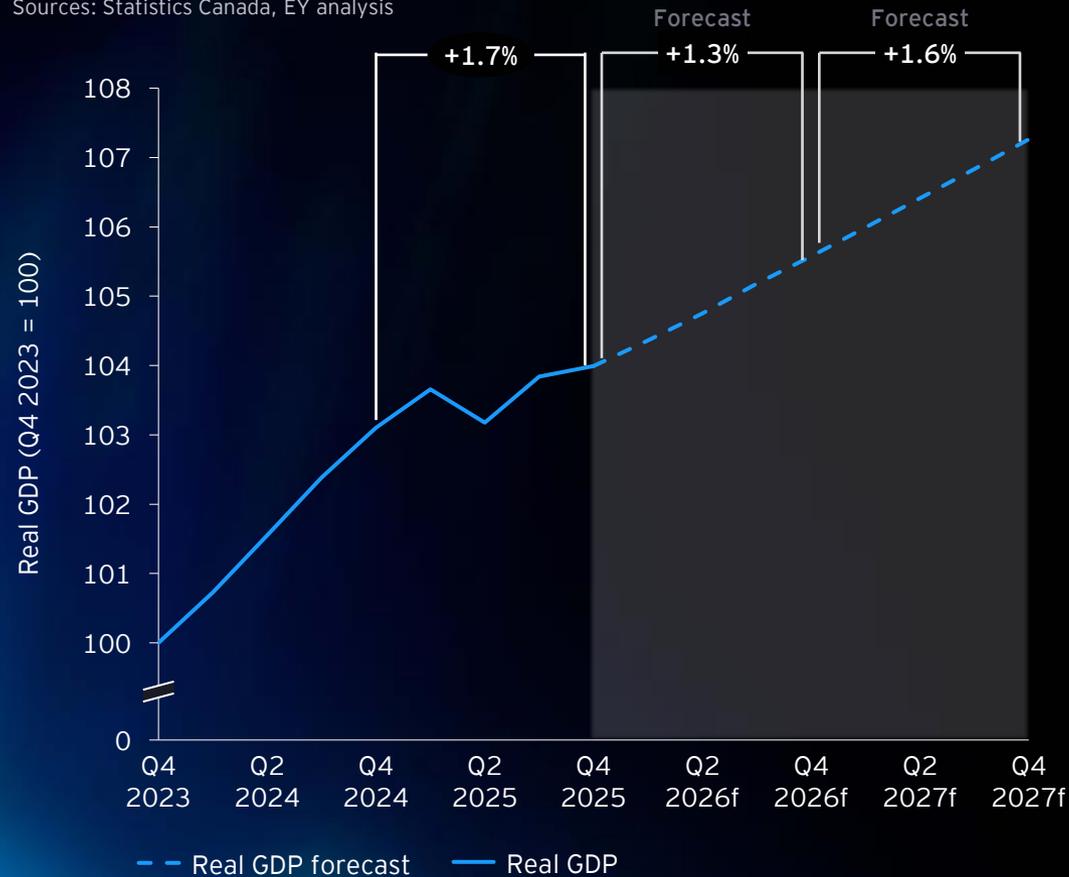
- Monetary policy remains bifurcated, with major **developed-market central banks acting cautiously amid inflation uncertainty**.
- **Emerging-market central banks balance modest cuts with a defensive stance** to manage inflation and currency pressures.

Canadian economic outlook

2026 marks a period of transition as Canada rebalances its economy in the face of structural and cyclical headwinds

Canada's GDP is expected to ease in 2026 amid persistent geopolitical and economic uncertainty.
(Q4 2023 = 100)

Sources: Statistics Canada, EY analysis



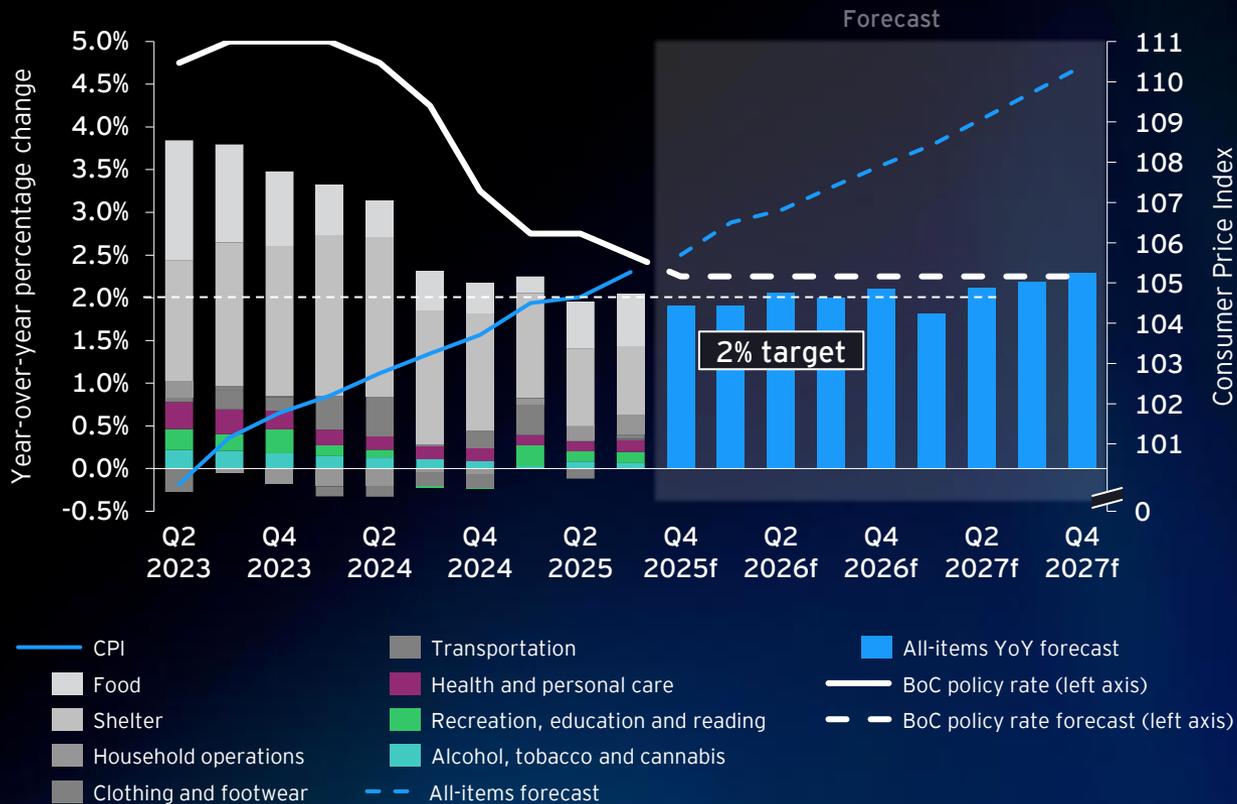
- Growth dipped temporarily in the middle of 2025 before **stabilizing towards the end of the year**, reflecting a turning point in the broader economic cycle.
- In 2026, Canada's annual GDP growth is projected at about **1.3%**, indicating a **slower pace of expansion**.
- Looking ahead to 2027, annual GDP growth is expected to be around **1.6%**, suggesting the economy is moving toward a **more stable, trend-like expansion** as supply conditions normalize and investment activity improves.

Canadian economic outlook

Inflation is expected to remain near target, with the policy rate holding steady over the forecast horizon

CPI likely to remain near the 2% target over the forecast horizon (Q2 2023 = 100)

Sources: Bank of Canada, Statistics Canada, EY analysis



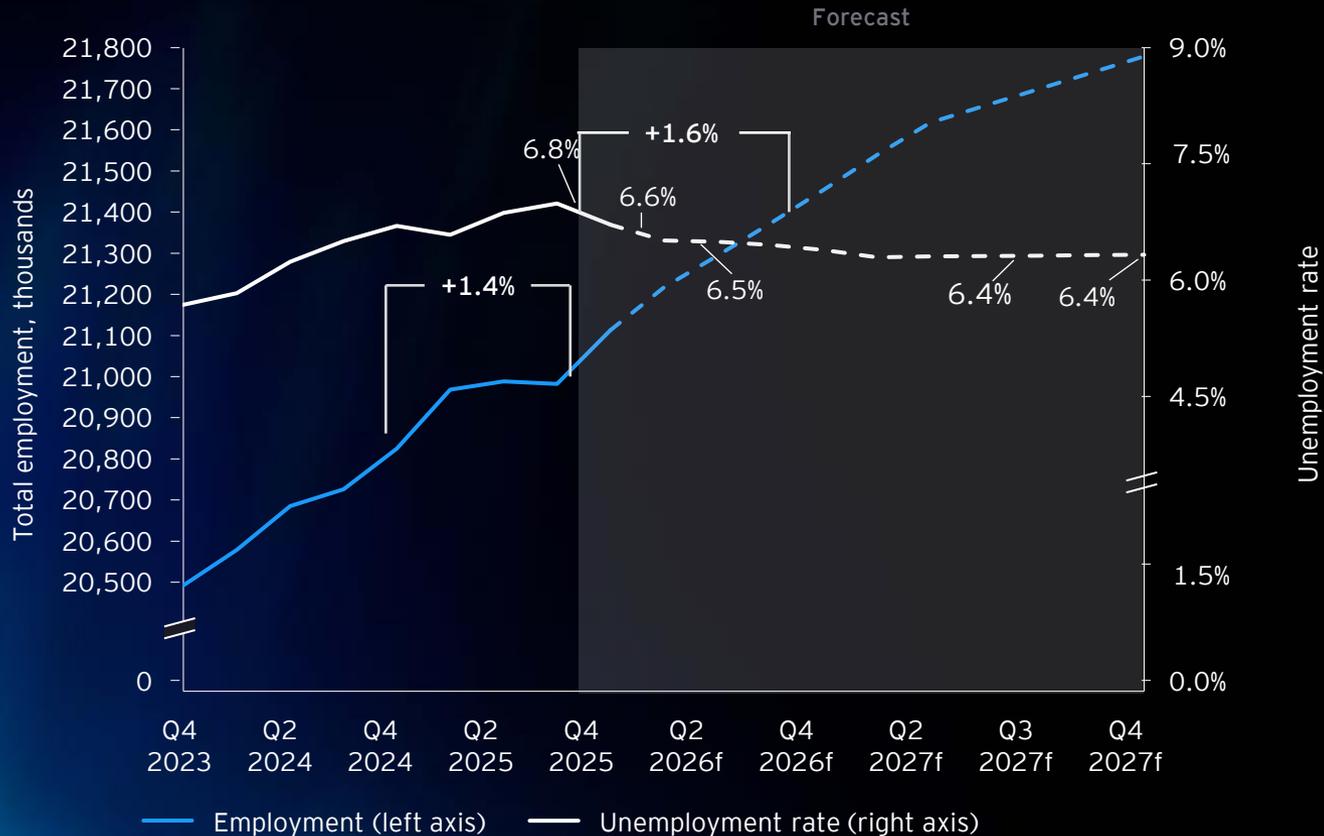
- Most major CPI components show **muted month-to-month changes**, with only small changes across food, shelter, transportation and other categories, consistent with a low-inflation environment.
- Inflation** is expected to remain **broadly aligned with the Bank of Canada's target**, with year-over-year CPI showing minimal movement over the forecast period.
- Policy settings are projected to remain **broadly accommodative and steady**. Following earlier rate cuts, the Bank of Canada's policy rate is expected to hold near **2.25% throughout 2026**, as it aims to carefully balance inflation and employment outcomes.

Labour market trends

Labour market conditions are stabilizing, with the unemployment rate projected to ease through 2026

Labour market conditions may improve gradually through 2026 (Employees in Canada aged 15 years and older)

Sources: Statistics Canada, EY analysis



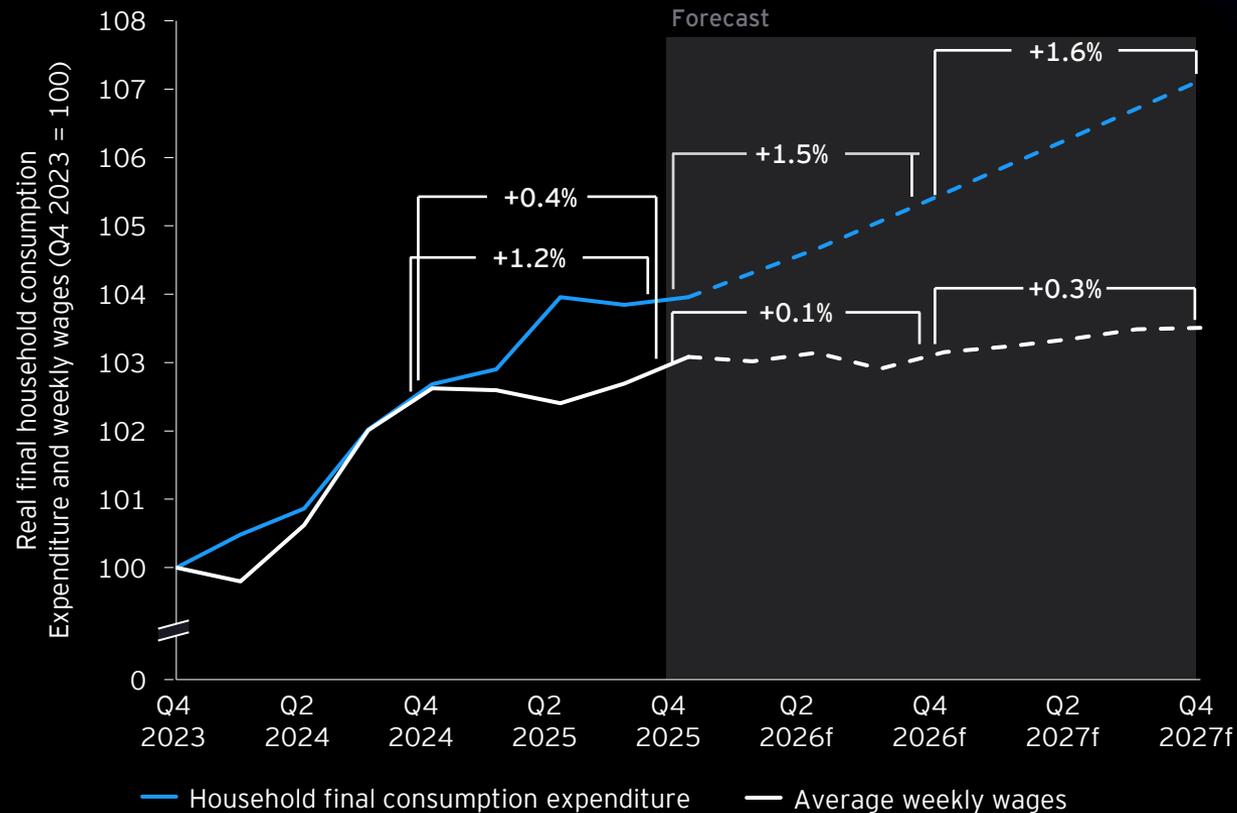
- Through 2026, labour-market conditions are projected to **improve modestly**, with the unemployment rate gradually moving toward **6.6%**.
- Employment levels continue to rise over the forecast horizon, reflecting a dynamic labour force and **gradual improvement in overall economic activity**.
- By 2027, the unemployment rate is expected to **stabilize around 6.3%-6.4%**, suggesting a more balanced labour-market environment.

Household and consumer insights

Household spending and real wages are expected to post modest gains through 2026

Gradual growth in household spending and real wages

Sources: Statistics Canada, EY analysis



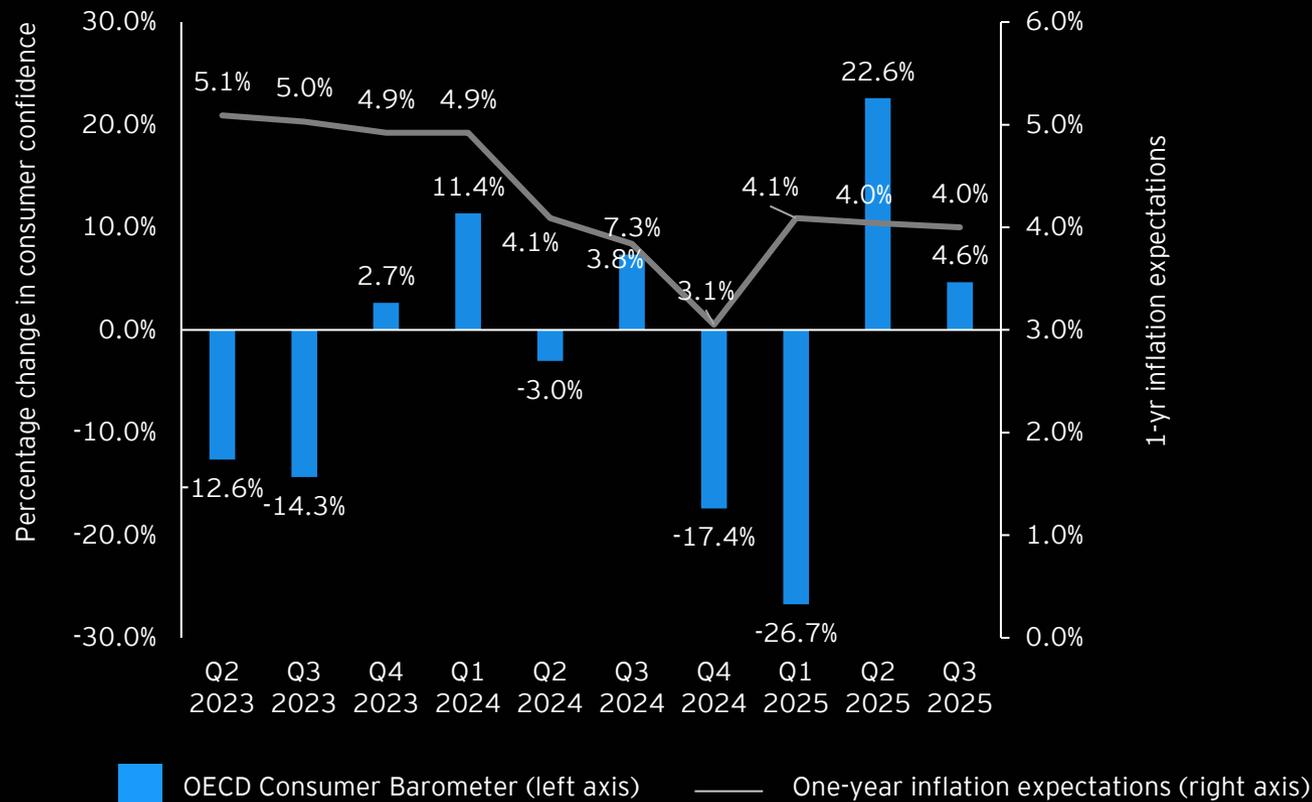
- **Household spending is expected to rise gradually**, with quarterly growth remaining modest across 2026 and broadly in line with the pace observed in late-2025.
- **Real wage growth remains relatively subdued**, showing small quarterly increases and limited upward momentum through the forecast period.
- Together, these trends suggest a **gradual improvement in household activity**, with consumption rising at a faster pace than real wages.

Household and consumer insights

Consumer confidence gains softened in Q3 2025 while inflation expectations remained stable

Consumer confidence shows a modest gain (Positive values indicate improving consumer confidence)

Sources: OECD Consumer Barometer, Bank of Canada, EY analysis



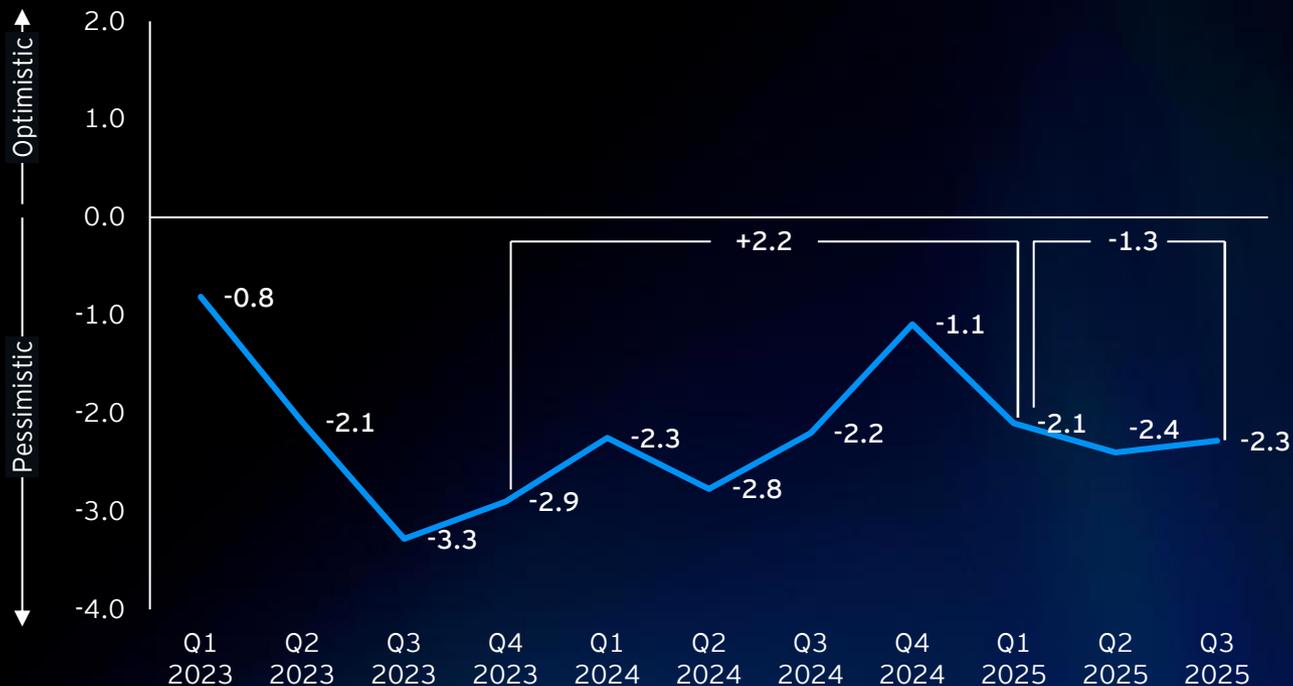
- Consumer confidence continued **to improve in Q3 2025 (+4.6%)**, but at a much softer pace than the surge seen in Q2 (+22.6%).
- The moderation in Q3 may suggest that while optimism improved earlier in the year, consumers remain **sensitive to ongoing cost pressures and broader economic uncertainty**.
- One-year inflation expectations continued to edge down, holding near **4.0% in Q3 2025**. Expectations remain **above long-term norms**, reflecting lingering concerns tied **to tariffs, supply-chain tensions and elevated price levels**.

Business sentiments

Ongoing economic uncertainty and geopolitical tensions continue to pose challenges for Canadian businesses

Business confidence shows limited improvement (a scale between -10 and +10)

Sources: Bank of Canada, EY analysis



- Business sentiment **softened slightly in Q3 2025** following a **steeper decline in Q2**, suggesting that sentiment remains **cautious but relatively stable**.
- While Q3 reflects a **modest improvement** from the deeper lows seen earlier in the year, business confidence continues to remain low, highlighting **persistent concerns** around **demand conditions, cost pressures and geopolitical uncertainty**.
- While the depth of negativity eased somewhat late in 2024, current readings still point to a **more neutral market outlook**.

The Bank of Canada's business outlook survey indicator reflects the expectations among business leaders regarding sales and growth expectations, as well as the overall business outlook.

Business sentiments

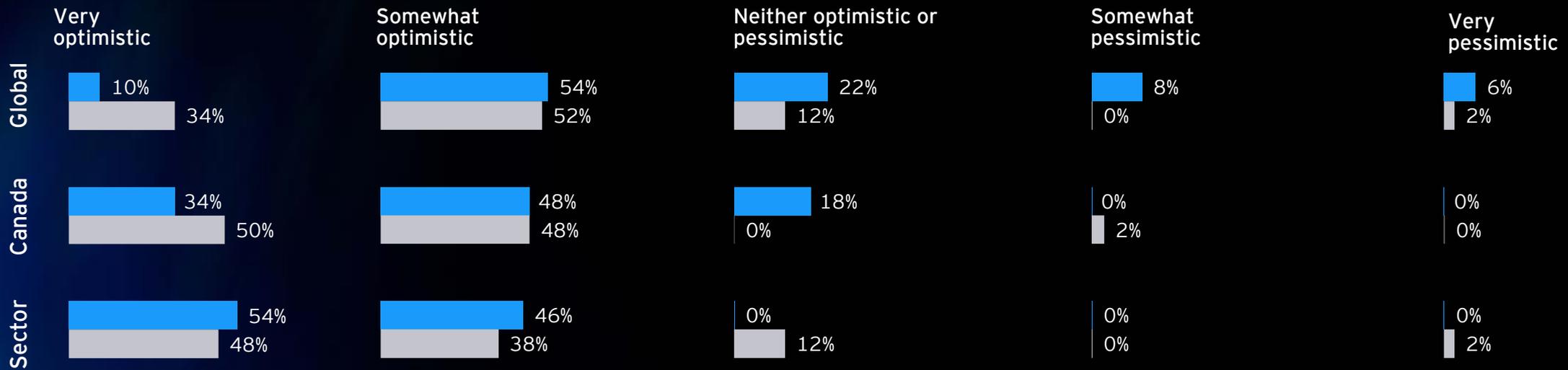
Canadian CEOs are more cautious on the macroeconomic outlook but remain confident in their sectors

CEO Confidence Index January 2026:

How confident do you feel about the outlook for the following areas over the next 12 months?

Sources: EY-Parthenon CEO Survey - January 2026, EY analysis

■ January 2026 ■ September 2025



- Canadian CEOs are recalibrating to a softer backdrop, with “very optimistic” views on the global outlook at 10% in January (down from 34%) and on Canada at 24% (down from 50%), indicating precaution amid tariffs and geopolitical risks.
- Confidence is bifurcating, as sector-level sentiment strengthened, suggesting investment plans may track sector fundamentals despite a cooler top-down outlook.

Business sentiments

While business sentiment remains low, Canadian leaders are rethinking near-term investment plans

Plans for strategic investments change due to geopolitical and trade policy shifts

Sources: EY-Parthenon CEO Survey - January 2026, EY analysis



2%

No - we have not altered any of our strategic investment plans due to geopolitical or trade policy developments

- 98% of surveyed Canadian CEOs have adjusted their strategic investment plans, with 46% delaying planned investments amid heightened geopolitical and trade uncertainty.
- Alongside delays, 34% of CEOs have accelerated planned investments, reflecting a divergent path as geopolitical shocks disproportionately affect sectors in Canada.

22% Stopped a planned investment

46% Delayed a planned investment

34% Accelerated a planned investment

30% Exited a geographic market

22% Entered a geographic market

16% Relocated operational assets to another geographic market

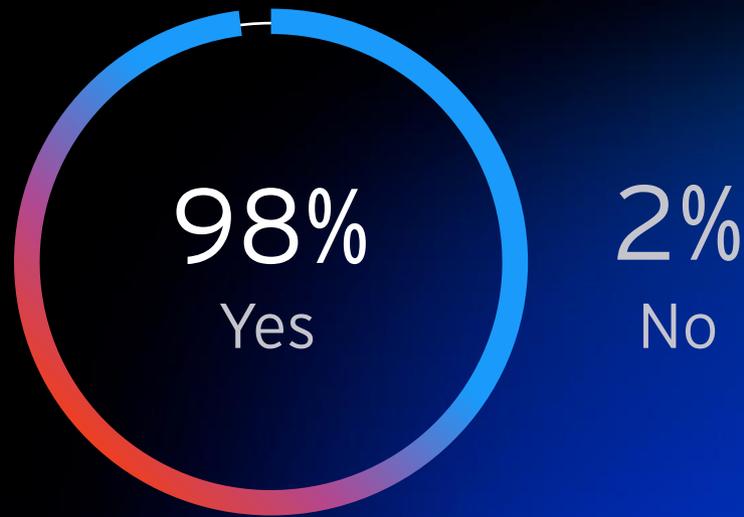
24% Shifted sourcing or suppliers to a different geographic market

Business sentiments

Deal intentions are shifting toward capital-light partnerships, with joint ventures far outpacing traditional M&A

Plan to actively pursue any of the following transaction initiatives

Sources: EY-Parthenon CEO Survey - January 2026, EY analysis



- Companies are considering **joint ventures and strategic alliances**, with **80% expecting to pursue them**, well ahead of **46% for M&A**, reflecting a more **cautious, capital conserving stance** with greater emphasis on risk-sharing.
- **Divestments (12%) signal a focus on core operations**, while acquisitions target operational optimization and top-line growth consistent with **uncertainty as the new normal**.

46% M&A

12% Divestments, spinoffs or IPOs

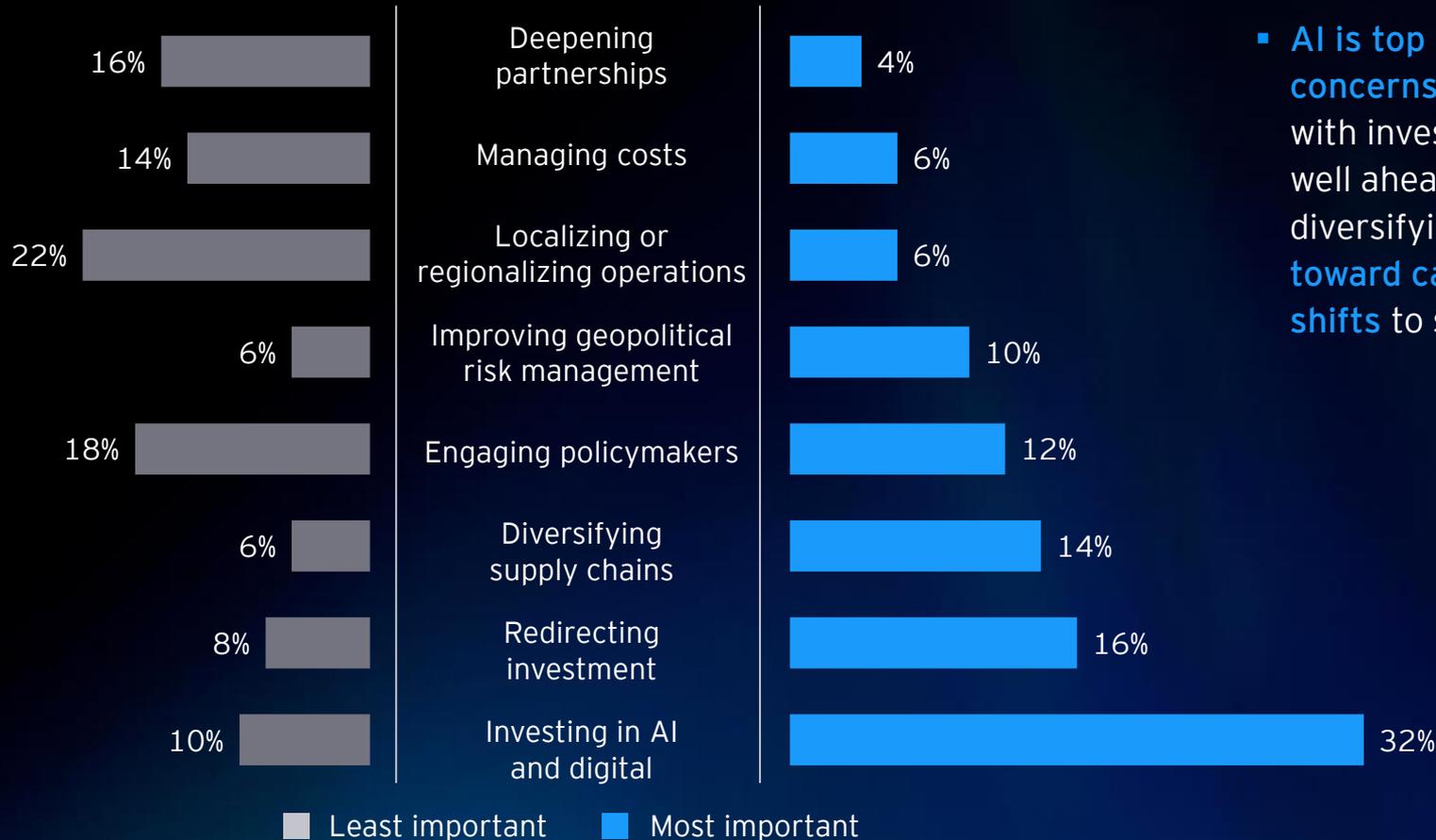
80% Joint ventures or strategic alliances with third parties

Business sentiments

Canadian leaders are shifting their attention to next-generation technologies to accelerate long-term growth

Priority actions for organizational adaptation and growth in 2026

Sources: EY-Parthenon CEO Survey - January 2026, EY analysis



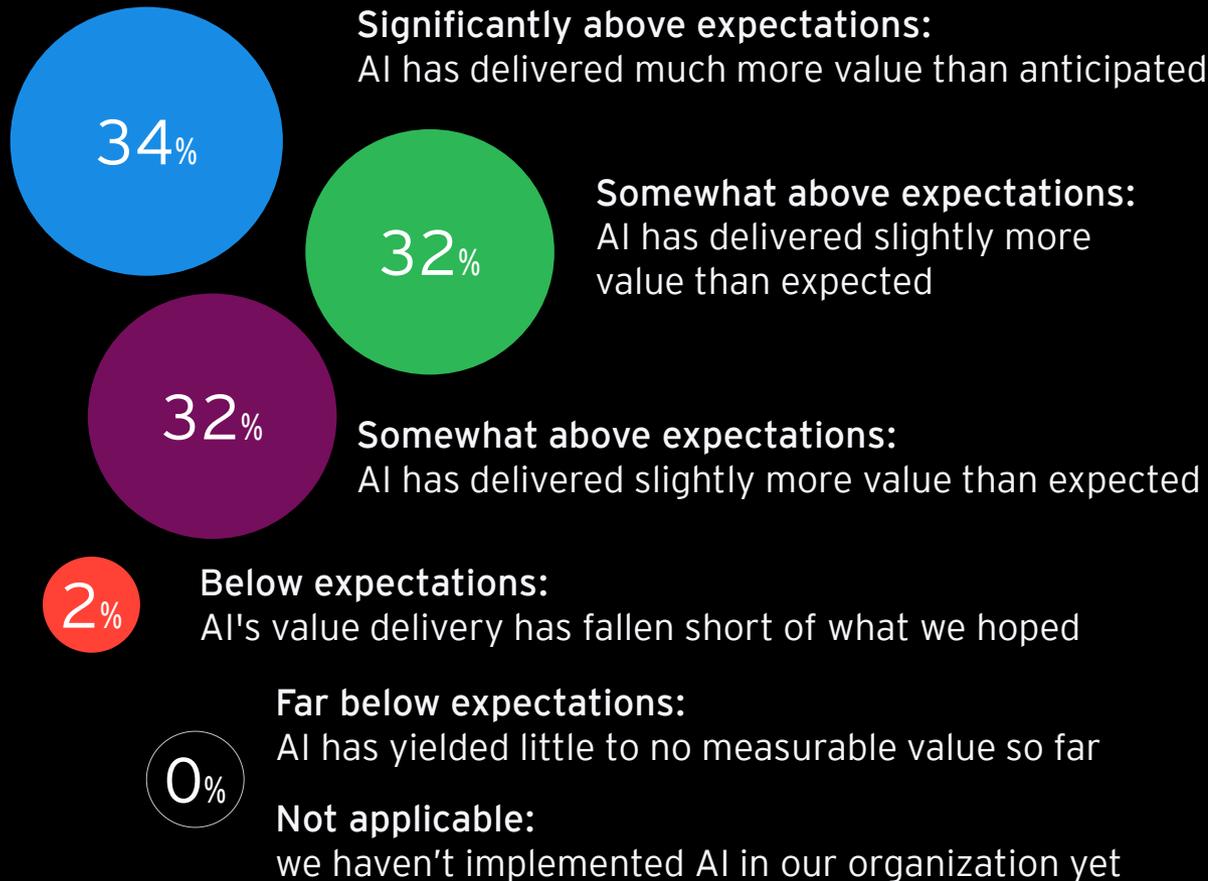
- AI is top of mind for businesses, surpassing concerns about geopolitical uncertainty, with investing in AI and digital (32% most important) well ahead of redirecting investment (16%) and diversifying supply chains (14%), signalling a **shift toward capability-building and targeted capital shifts** to strengthen resilience.

Business sentiments

AI adoption is driving commercial returns for Canadian businesses

Performance of organizations' AI initiatives against expectations for revenue growth and operational efficiency

Sources: EY-Parthenon CEO Survey - January 2026, EY analysis



- Organizations are capturing strong value from AI, with **nearly all respondents reporting outcomes that met or exceeded expectations**, suggesting that **the impacts are materializing faster than planned**.
- With AI delivering returns that generally exceed initial expectations, this may provide early adopters with a meaningful competitive edge.

You can find our latest insights in the EY-Parthenon CEO Survey.

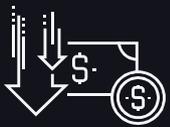
[Read more](#)

Looking ahead

Recovery remains gradual as Canada adapts to an evolving global economy

By late 2025, economic activity had lost momentum and settled at a subdued level: fluctuations in the unemployment rate reflected the structural and cyclical headwinds facing businesses, while consumer confidence stabilized and household spending held modestly. Looking ahead to 2026, growth is expected to slow down to about 1.3%, with the policy rate near 2.25% and labour-market conditions pointing to a gradual shift towards a rebalanced, investment-led economic landscape.

Quarter in review: key insights and developments



Canada's economy is expected to grow at a **slower pace of about 1.3% in 2026** as trade disruptions and broader geopolitical uncertainty dampen economic activity.



Recent **swings in the unemployment rate**, ranging from 6.5% to 7.1% and ending the year at 6.8%, signals how businesses are adapting to current economic conditions.



Recent data suggest that **consumer and business confidence have stabilized but still remain subdued** amid soft demand and persistent economic and trade headwinds.

On the horizon: what to watch in 2026



The **policy rate is expected to remain at 2.25%** in the near term, with the Bank of Canada likely to remain watchful as inflation risks from tariffs and trade frictions persist.



The 2025 federal budget outlines an **investment-driven plan** focused on infrastructure, housing, and innovation, with strong nation-building ambitions, while its impact on activating private capital remains to be seen.



The **upcoming CUSMA review** and **persistent tariff risks** continue to impact Canada's market access, trade flows, and cost structures, influencing competitiveness and investment decisions.

A glimpse ahead: future considerations and emerging trends

Economic recovery is expected to be gradual, with growth below long-term trends as trade disputes persist and global geopolitical instability heightens uncertainty.

Rebalancing the economy and recalibrating trades flows remain top of mind as businesses adapt to an evolving economy.

As AI adoption accelerates, Canadian businesses face rising technology-related risks and growing pressure to generate returns on digital investments.

Meet the team and explore our resources



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Canadian economic outlook

2026 marks a period of transition as Canada rebalances its economy in the face of structural and cyclical headwinds

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Economic assessments & strategy

Brings together quantitative assessments, qualitative market research and insights from key stakeholders to inform strategies, drive economic development, estimate economic impacts and foster growth.



Macro scenario analysis & forecasting

Macro-based forecasting, applies in-depth analyses of broader economic trends, sector and cluster analysis, and identification of lucrative market opportunities, helping enable business leaders to navigate uncertainties.

Investment attraction and value chain growth

Conducts detailed value chain assessments, evaluates comparative strengths, identifies areas of opportunity and defines regional value propositions, enabling us to provide recommendations that enhance competitiveness and attract investment.

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