Canadian Macroeconomic Outlook

Constrained growth in a subdued environment

June 2026

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TABLE OF CONTENTS

Topics and EY-Parthenon perspectives

In summary: modest growth amid persistent constraints

Growth remains modest as continued uncertainty affects economic activity

In 2026, Canada's growth outlook remains constrained, with soft labour-market conditions and subdued sentiment limiting momentum. Growth is expected to remain around ~0.9%, with energy-driven inflation and continued uncertainty shaping the path ahead.

Quarter in review: key insights and developments

Canada's economy is expected to grow at a **slower pace of about 0.9% in 2026** as trade uncertainty persists and businesses continue to adjust to evolving global economic forces.

Labour-market conditions remain soft, reflecting weaker demand and structural constraints from aging and slower immigration.

Sentiment diverges as **consumer confidence weakens** amid affordability and labour market pressures, while **business sentiment edges up** despite rising costs and continued uncertainty.

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 energy markets materialize.

A renewed national growth agenda is taking shape, with government plans to mobilize up to **$1 trillion in investment** into nation-building projects.

The **upcoming CUSMA review and changing industrial policy** will reshape market access, rebalance economic activity and support trade diversification.

Structural pressures shaping the outlook

Global geopolitical uncertainty continues to reshape the domestic economy

Innovation and AI are a strategic imperative, creating disruptions and opportunities

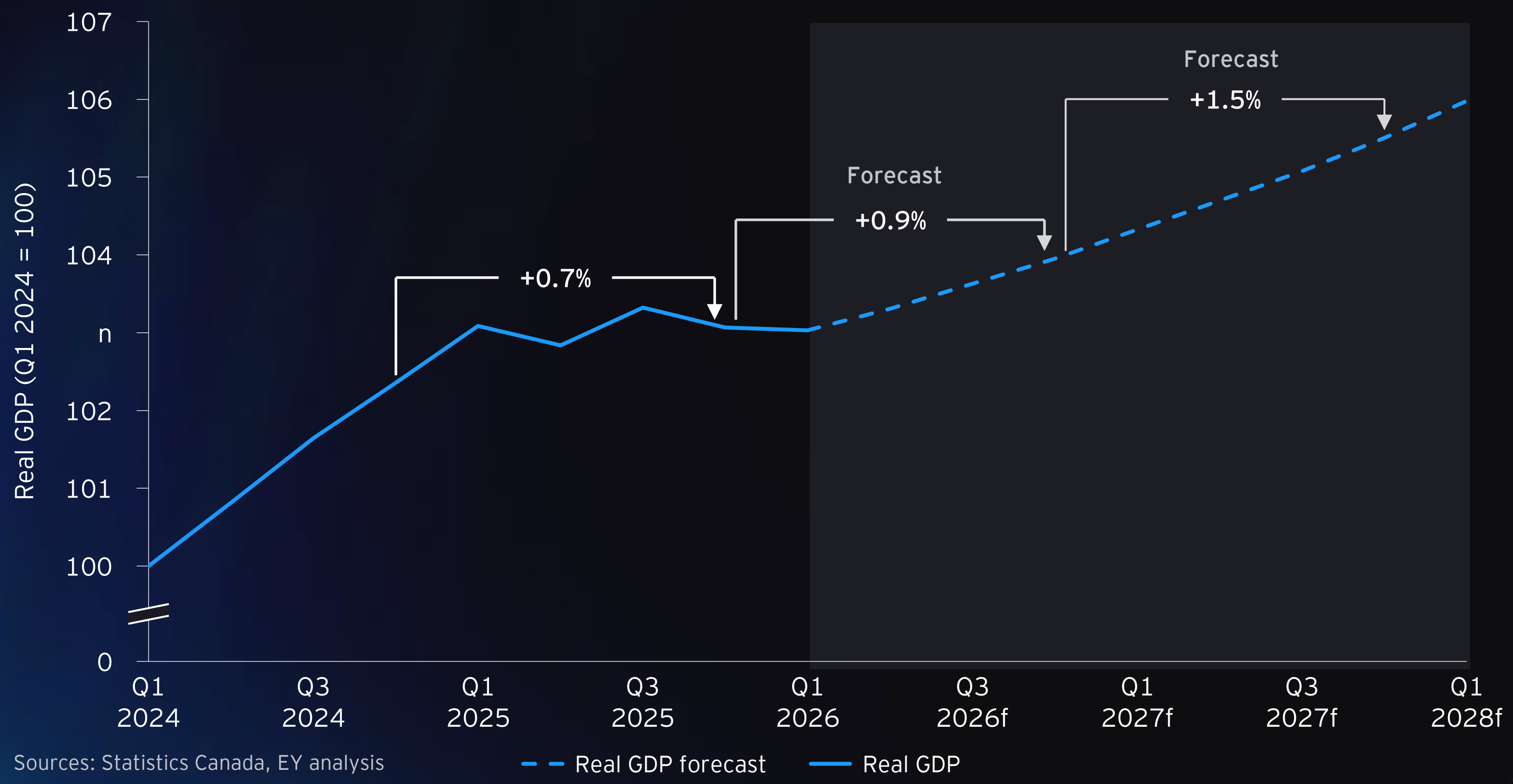
An ambitious government agenda to elevate the Canadian economy, **but capacity constraints may limit execution**

Canadian economic outlook

2026 reflects a period of adjustment as Canada navigates trade uncertainty and evolving global dynamics

GDP growth is expected to remain modest in 2026, constrained by trade uncertainty and geopolitical risks

(Q1 2024= 100)



Sources: Statistics Canada, EY analysis

- **In Q1 2026, GDP stalled,** with higher imports and continued decline in business investments, indicating a slow and uneven path forward.
- **In 2026,** Canada's annual GDP growth is projected at about **0.9%,** reflecting continued structural adjustment to trade risks, alongside weaker population growth and consumer confidence.
- Looking ahead to 2027, annual GDP growth is expected to be around **1.5%**, suggesting the economy will move toward a **more stable, trend-like expansion** as investment gradually recovers.

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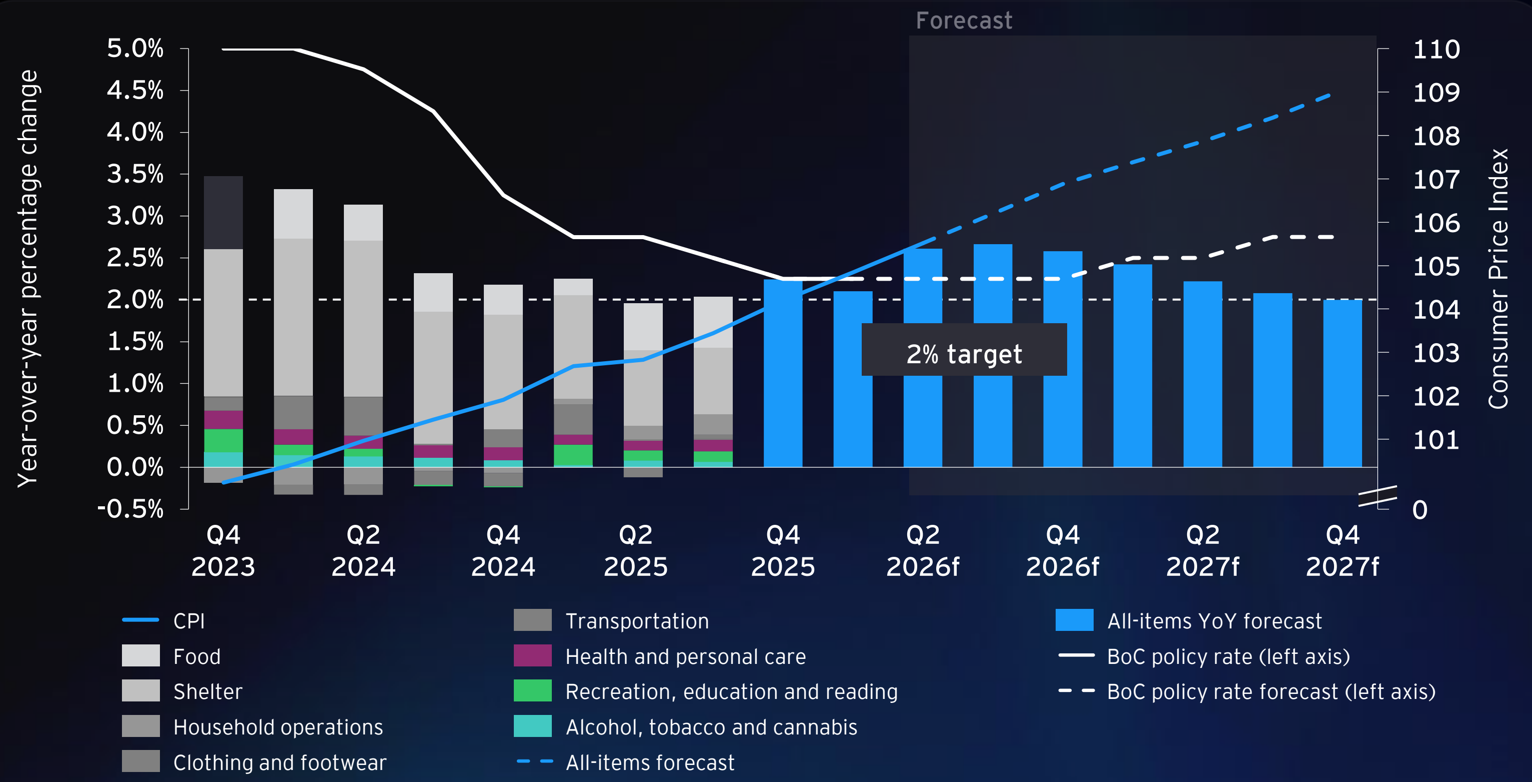
Canadian economic outlook

Inflation is near target but subject to near-term energy-driven volatility, with policy rates expected to hold steady in 2026

CPI likely to inch upwards of the 2% target over the forecast horizon

(Q4 2023 = 100)



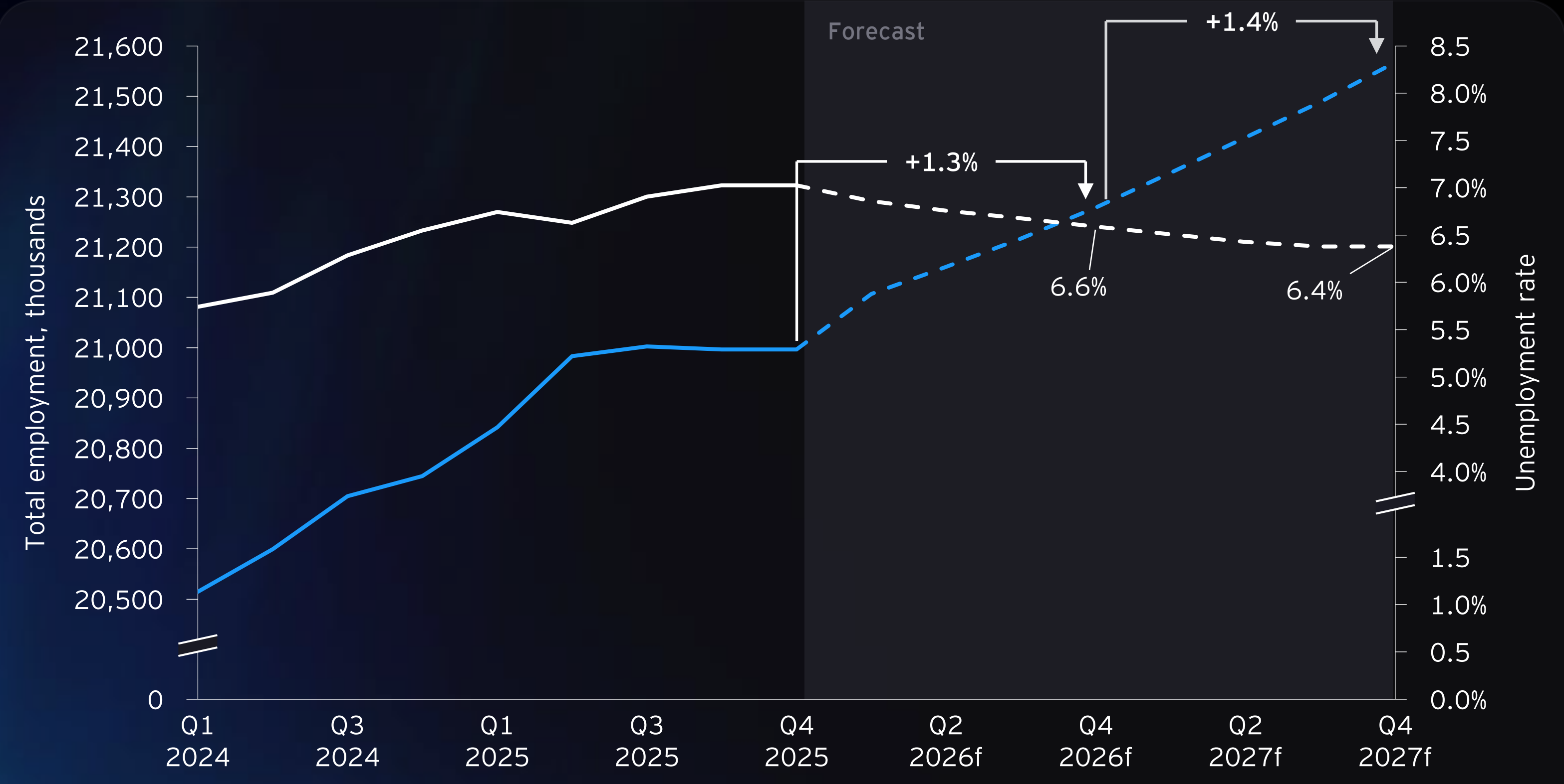
Sources: Bank of Canada, Statistics Canada, EY analysis

- Most major CPI components continue to show moderate and stable price growth, with **recent increases in headline inflation largely concentrated in energy components**.
- Through 2026, inflation is expected to inch upwards of the **Bank of Canada's 2% target**, with year-over-year CPI showing increasing pressures over the forecast horizon.
- **Policy response is expected to remain steady**, with the Bank of Canada likely to hold rates near **2.25% through 2026**, as it monitors energy-driven inflation risks and persistence in price pressures.

Labour market trends

Labour-market conditions remain soft, with gradual stabilization expected 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 easing towards ~6.6%**, driven more by slower labour-force growth than a strong pickup in hiring.
- Supply-side constraints such as **aging demographics and slower immigration** are expected to shape a slow recovery.
- By 2027, the unemployment rate is expected to **stabilize around 6.4%** as the economic environment gradually improves.

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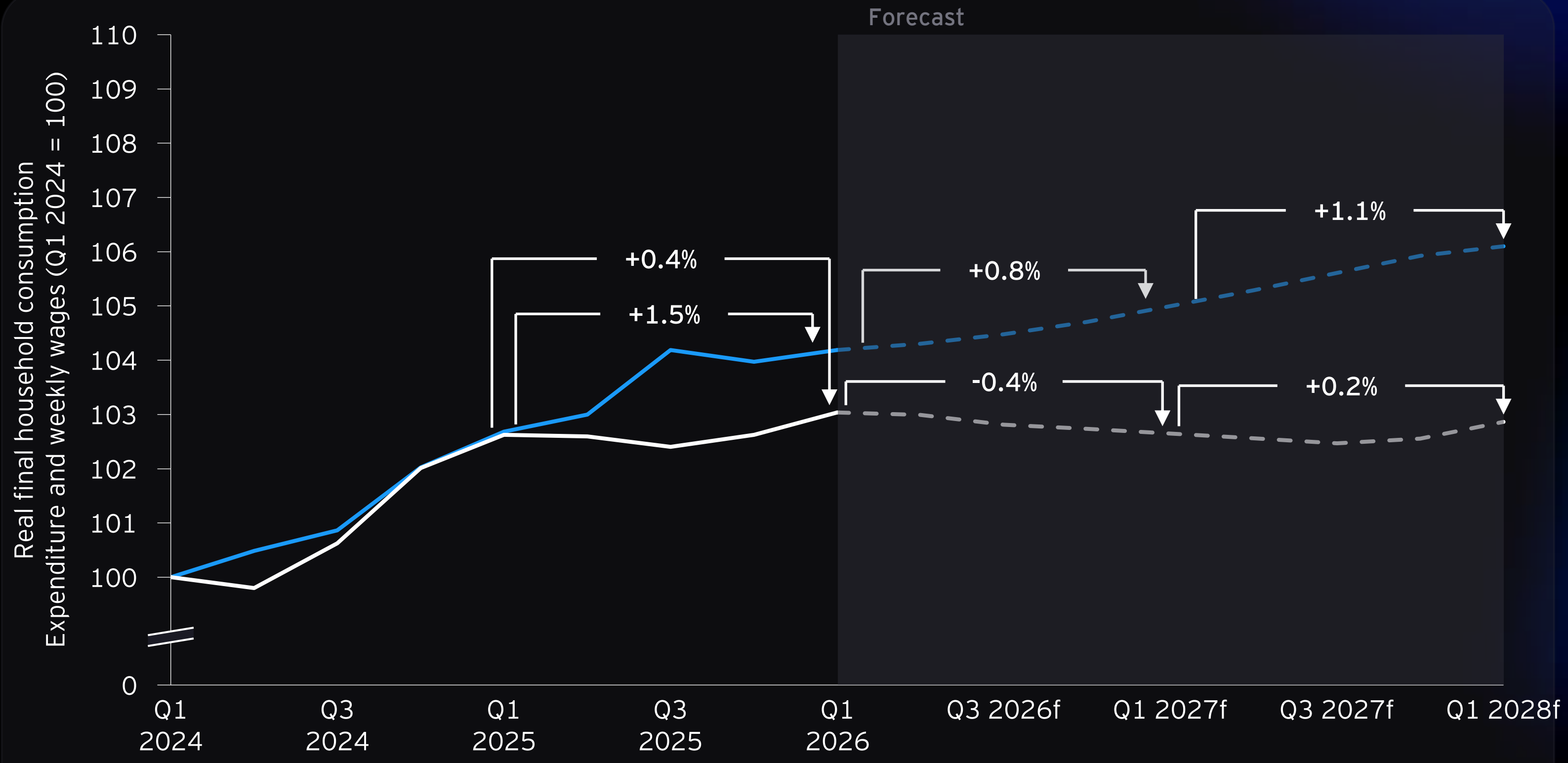
Household and consumer insights

Elevated costs and a softer economic outlook continue to constrain consumption

Household spending and real wages are expected to remain modest through 2026



Sources: Statistics Canada, EY analysis

- **Household spending is expected to remain moderate through 2026**, as elevated cost pressures and higher energy prices continue to weigh on household budgets.
- **Real wage growth is expected to be modest**, supported by productivity gains but constrained by ongoing softness in labour-market conditions.
- **Overall, consumption growth is expected to remain muted**, with only a gradual improvement into 2027 as real incomes stabilize and economic conditions improve. Spending is expected to remain **sensitive to energy price volatility and broader macroeconomic uncertainty.**

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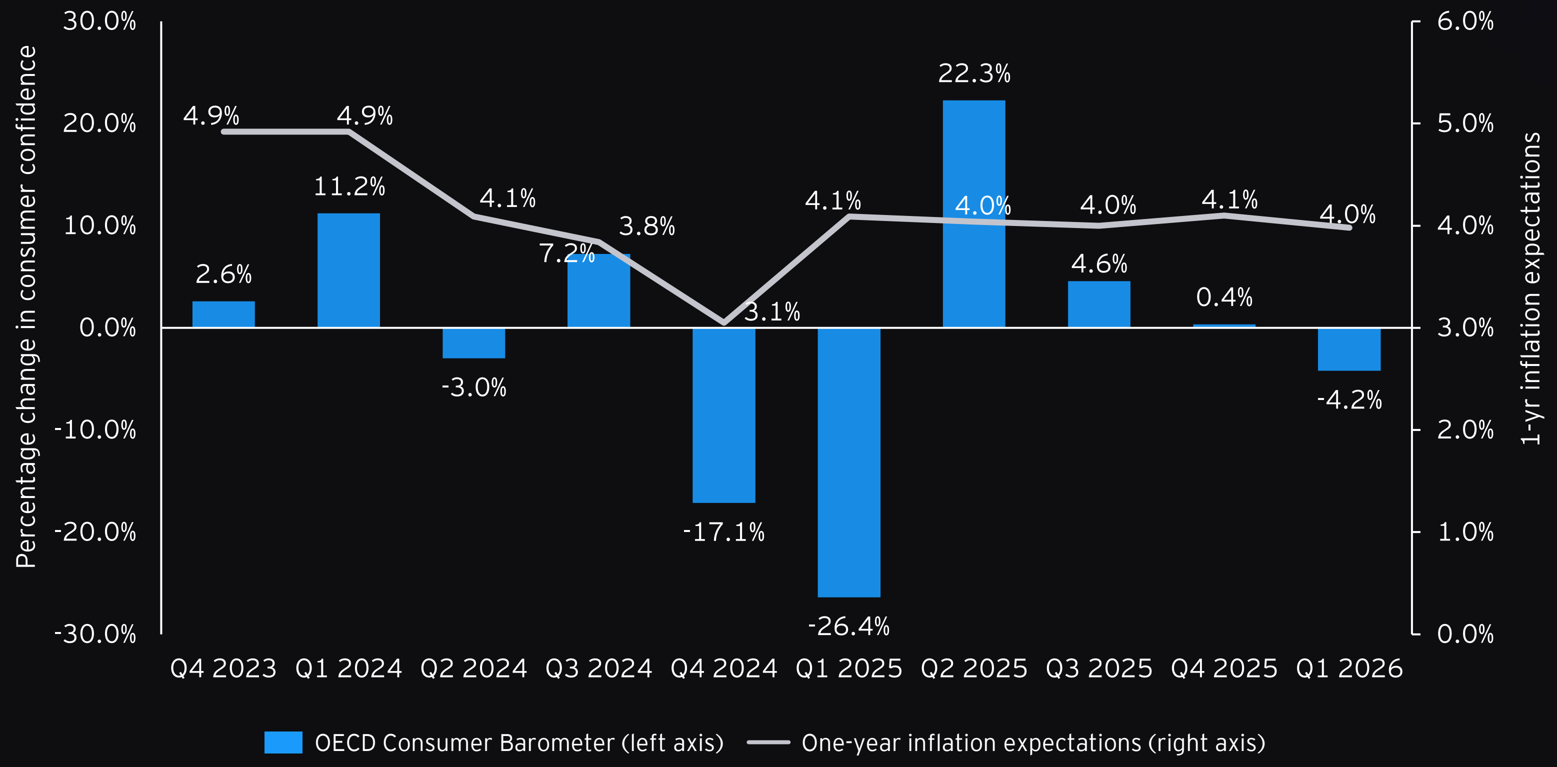
Household and consumer insights

Consumer confidence declines in 2026

Consumer confidence declines amid rising uncertainty (positive values indicate improving consumer confidence)



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

- Consumer confidence **declined in Q1 2026 (-4.2%)**, reversing the marginal **improvement seen in Q4 2025 (+0.4%)**.
- **Weak labour conditions and elevated job loss concerns** continue to weigh on household outlook.
- One-year **inflation expectations are easing but remain above average**, driven by elevated food prices. Rising energy prices linked to geopolitical conflict also present near-term upside inflationary pressures.

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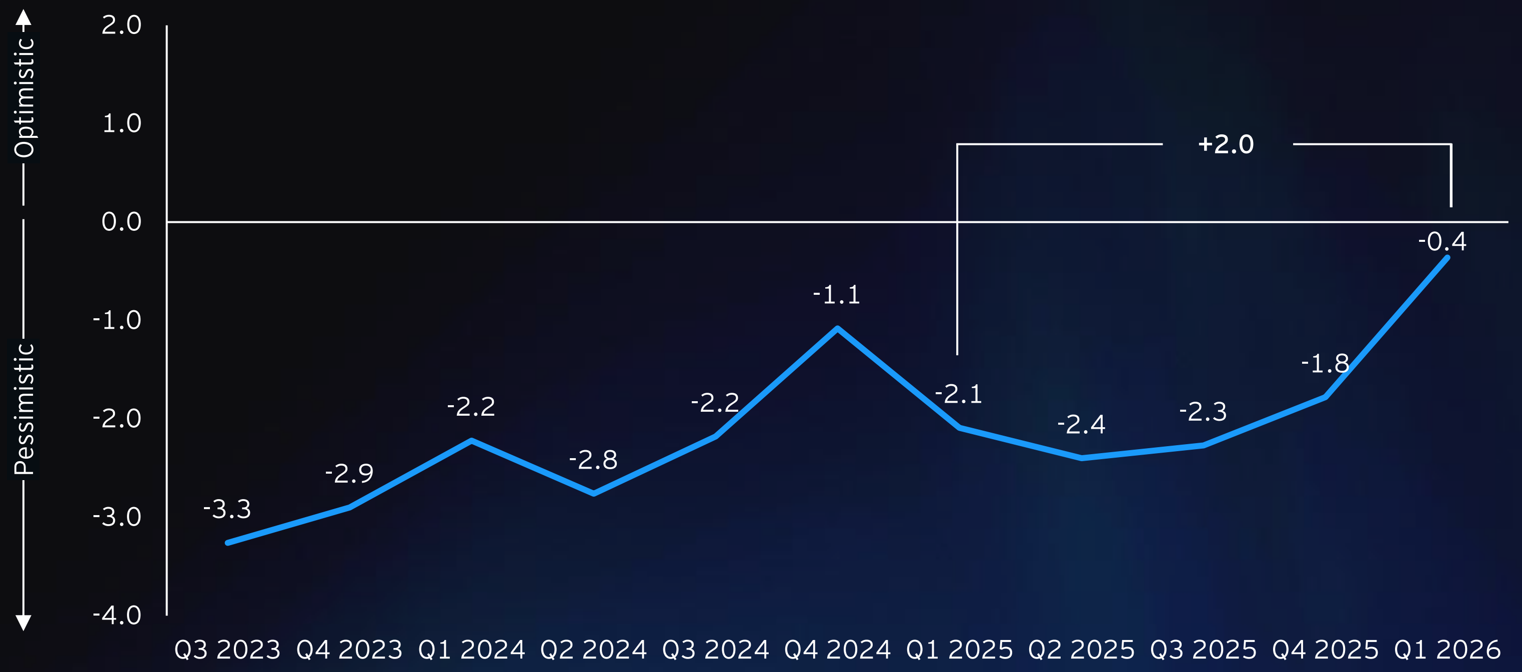
Business sentiments

Business sentiment strengthened but remains subdued, with cost pressures persisting

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



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.

Sources: Bank of Canada, EY analysis

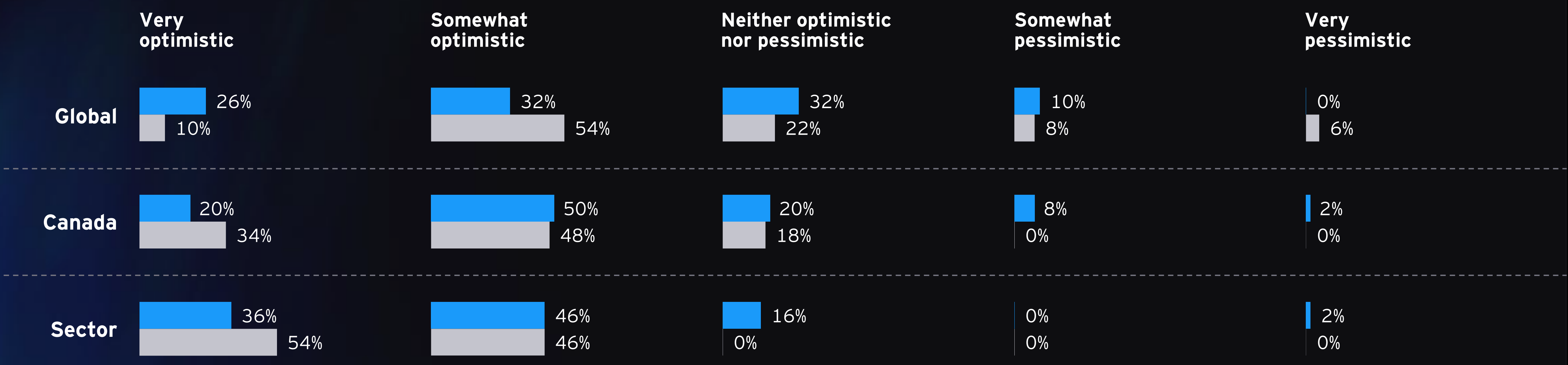
- Business **sentiment showcased consistent improvement** in **Q1 2026**, pointing to increasing confidence.
- The improvement reflects a positive trend in sentiment indicators, with **greater expectations for sales growth** alongside a **recovery in investment** and **hiring intentions**.
- However, businesses continue to face **higher input costs**, particularly for energy and transportation **following global conflicts**.

Business sentiments

Confidence has shifted toward more moderate expectations

CEO Confidence Index January 2026:

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



Confidence has softened, with firms prioritizing cost discipline over investment amid softer sentiment.

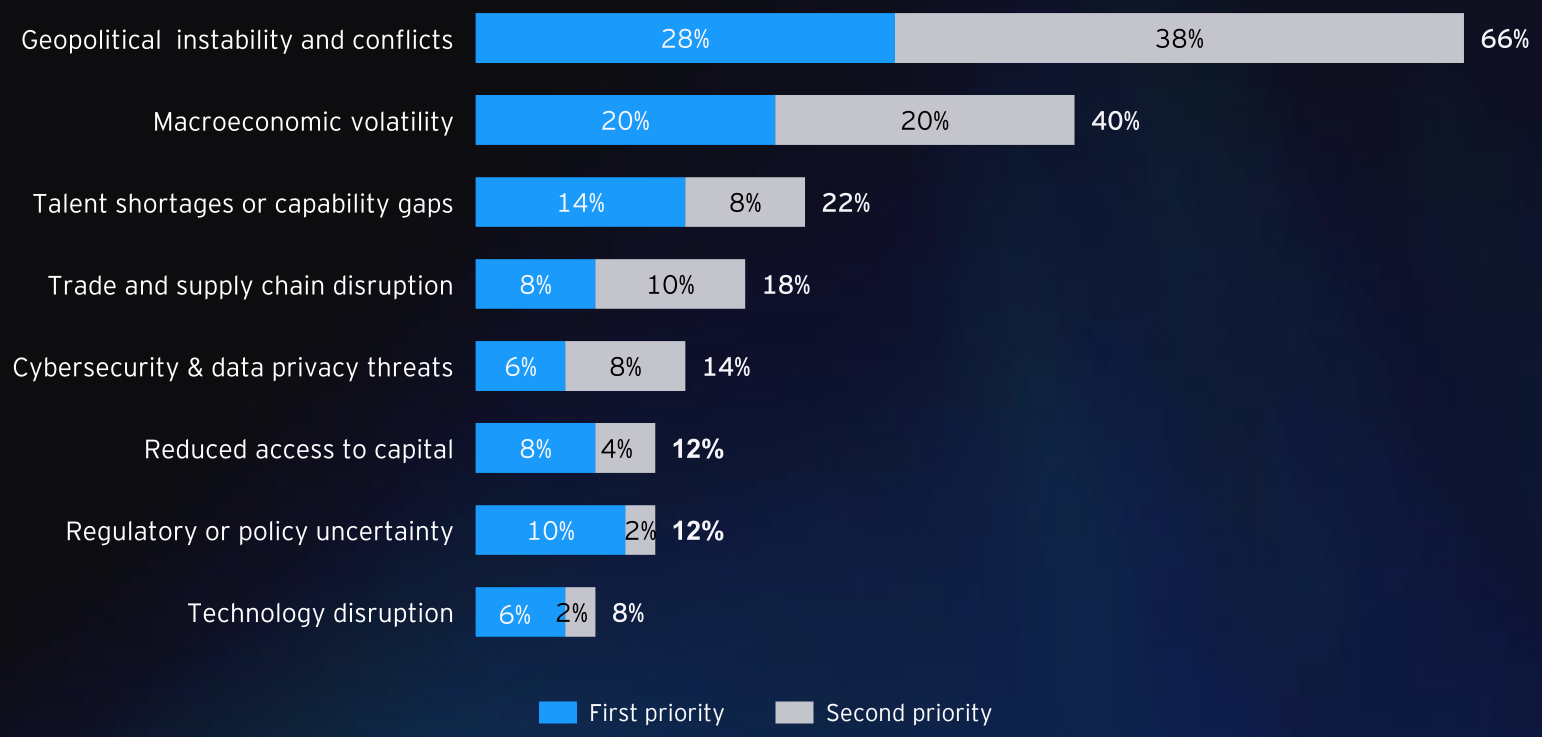
Sources: EY-Parthenon CEO Survey - May 2026, EY analysis

May 2026 January 2026

Business sentiments

Geopolitical and macroeconomic risks dominate the Canadian CEO agenda

Top risks shaping business outlook over the next 12 months



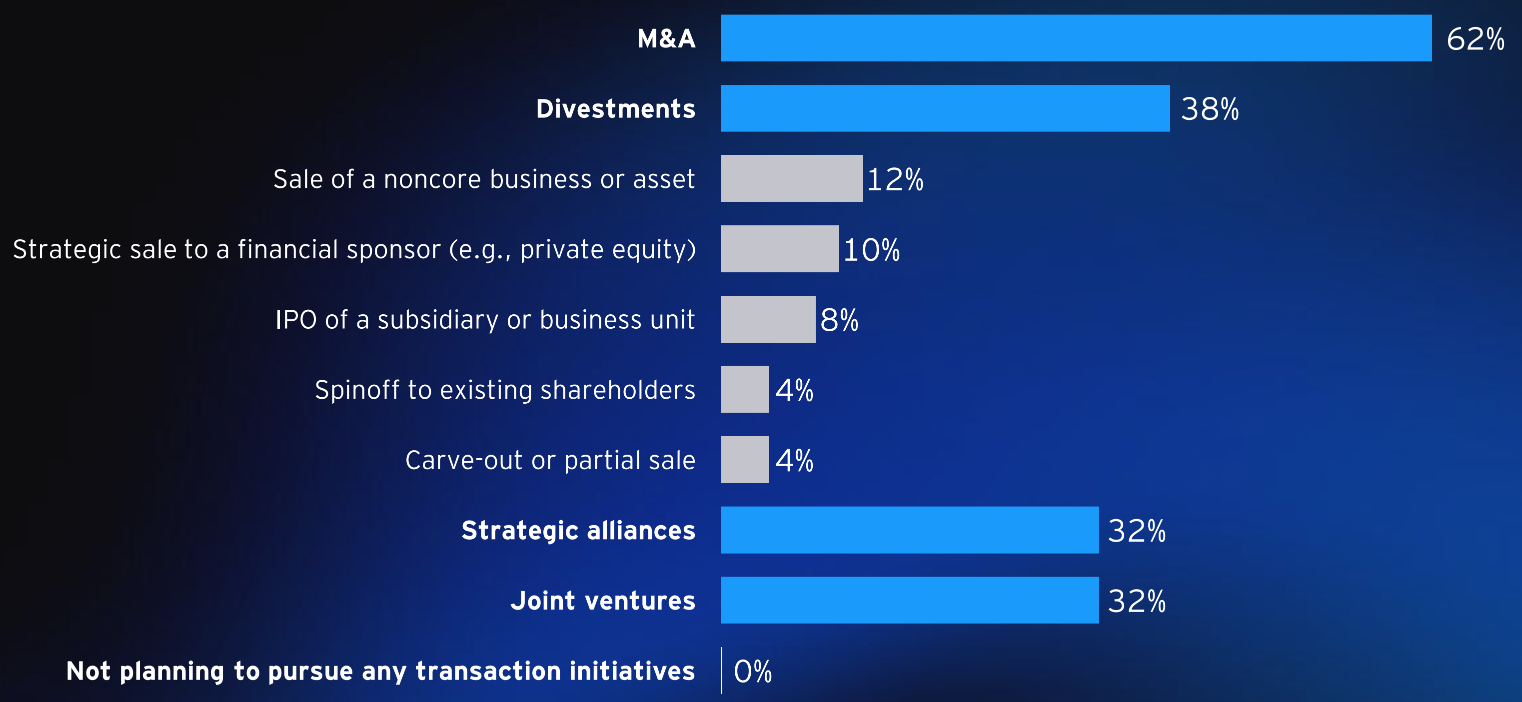
Sources: EY-Parthenon CEO Survey - May 2026, EY analysis

- Canadian leaders identify **geopolitical tensions and instability as the primary risk** to achieving financial targets, followed by macroeconomic volatility.
- In response, **firms are prioritizing resilience and cost discipline**, with a focus on disciplined growth and operational efficiency amid persistent external uncertainty.

Business sentiments

Transaction intent remains high, with CEOs using multiple strategic options to reposition amid ongoing uncertainty

Plan to actively pursue any of the following transaction initiatives



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

- Transaction intent remains elevated, with **62% of CEOs considering M&A**, and a **strong interest in partnerships** (32% joint ventures and 32% alliances).
- **Transaction activity reflects a focus on disciplined growth** and portfolio repositioning in a subdued macro environment.

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A glimpse ahead: future considerations and emerging trends

Continued geopolitical tensions are **driving more persistent energy market pressure,** with implications for inflation, trade flows and broader economic growth.

Canada's $1 trillion **nation-building agenda may outpace execution capacity**, constraining how many large-scale projects can advance in parallel.

Regulatory complexity risks stalling major projects if speed and certainty fail to match Canada's stability advantage.

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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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