



Canadian Macroeconomic Outlook

Confronting economic, trade and
geopolitical uncertainty

February 2025



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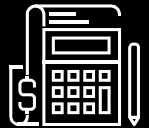
Bracing for uncertainty: the Canada-US trade relationship

As we reflect on the current economic landscape, it is important to acknowledge the potential downside risks that may impact the Canadian outlook. The forecasts for 2025 are highly dependent on how effectively Canada manages its relationship with the United States (US). Given the interconnectedness of Canada-US trade, even modest tariff rates have the potential to push the Canadian economy to a mild recession, emphasizing the need for Canadian businesses and consumers to remain vigilant and adaptable.



The tariff threat

The recent announcement of tariffs on US imports of steel and aluminum from Canada, alongside the paused 25% tariffs on Canadian and Mexican goods imported into the US, has heightened concerns for Canadian industries. These measures are poised to significantly alter trade dynamics between the two countries.



Impact on Canadian industries

The implications of these tariffs are considerable, especially given the deep trade ties established under the United States-Mexico-Canada Agreement. The size and duration of the tariffs would not only disrupt markets, but would create further economic uncertainty, dampening business investment and consumer confidence. As Canada navigates this evolving trade landscape, businesses must closely monitor developments and adapt their strategies to mitigate risks.



Retaliatory measures and inflationary pressures

Tariffs, if introduced, will contribute to inflationary pressures, as increased costs for imported products can drive up prices for final goods. Retaliatory measures could further amplify these effects, resulting in higher costs for consumers and businesses alike.



Longer term investment uncertainty

Uncertainty surrounding US trade policy and the potential for additional tariff increases will weigh heavily on business sentiment and investment trends in Canada. Potential outcomes can include delayed and reduced investments and/or investment plans being cancelled altogether due to concerns about rising costs and market volatility. This environment of uncertainty threatens to prolong longer-term underperformance in business investment, putting further downward pressure on productivity and wage growth in the Canadian economy.

The above points highlight key concerns that warrant attention as we move forward. As such, we will provide addendums or supplements to this outlook as needed.

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Executive summary

February 2025

By mid-2024, the Canadian economy regained momentum as consumers and businesses moved past earlier recessionary fears. However, despite this soft recovery, today Canada faces heightened uncertainty due to several factors including domestic political instability, slower population growth, and uncertainty in terms of its future trade relationship with the US. These challenges are expected to weigh on economic momentum in the near term, prompting households and businesses to adopt a more cautious outlook.

Quarter in review: key insights and developments



As 2024 drew to a close, **core economic indicators remained stable**, with accelerated growth in employment and wages, alongside robust gains in GDP.



Despite slight improvements, **business sentiment remained low** in December 2024, a trend likely to persist due to ongoing economic and political uncertainty.



Slowing inflation in late 2024, along with consistent interest rate cuts, provided **much-needed relief to household finances** and supported increased spending.

On the horizon: what to watch in 2025



Although economic momentum is building as we enter 2025, **newly introduced uncertainties** from tariff impositions are expected to adversely impact business and economic activity.



Fiscal and monetary policy measures are expected to offer short-term relief, while the long-term policy outlook remains unclear.



The US economy is expected to remain relatively strong in 2025. Tax cuts, higher interest rates and trade tensions may put further pressure on the **Canadian dollar and inflation**.

A glimpse ahead: future considerations and emerging trends



Evolving global and regional geopolitical events will likely influence domestic economic activity.



Canada's 2025 federal election is expected to impact business and policy decisions, increasing uncertainty.



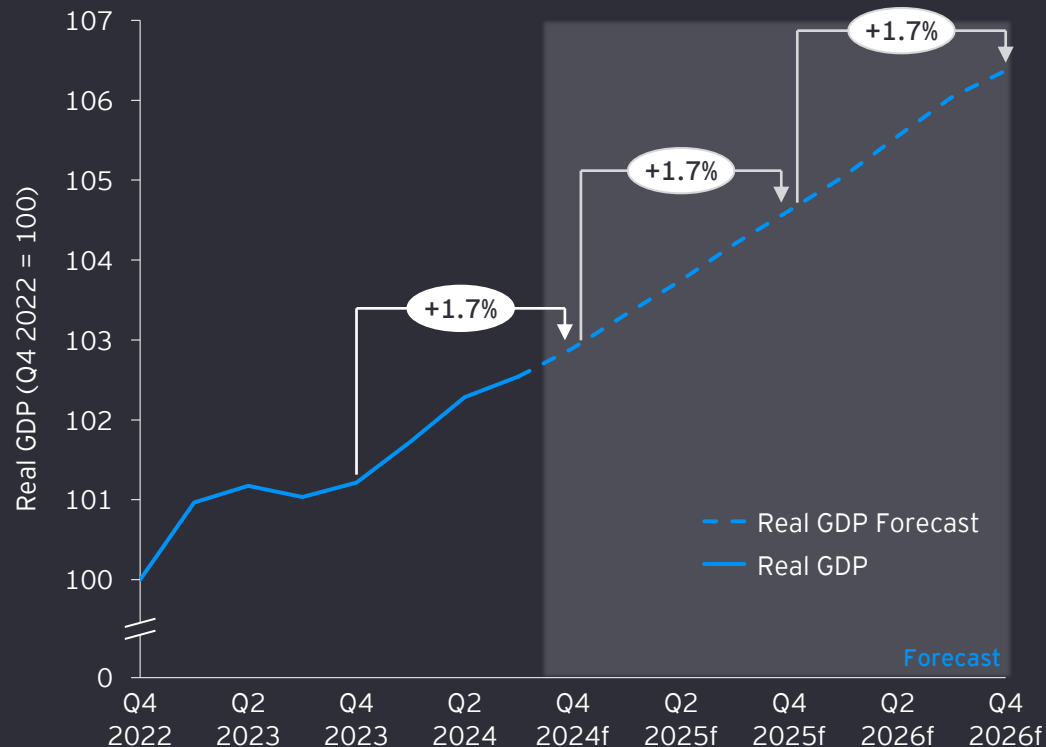
Future immigration policies, along with lower permanent resident targets and non-permanent resident outflows, will impact the labour market.

Canadian economic outlook

Economic momentum is set to slow down, owing to a range of contributing factors

Future economic growth may be slower than expected

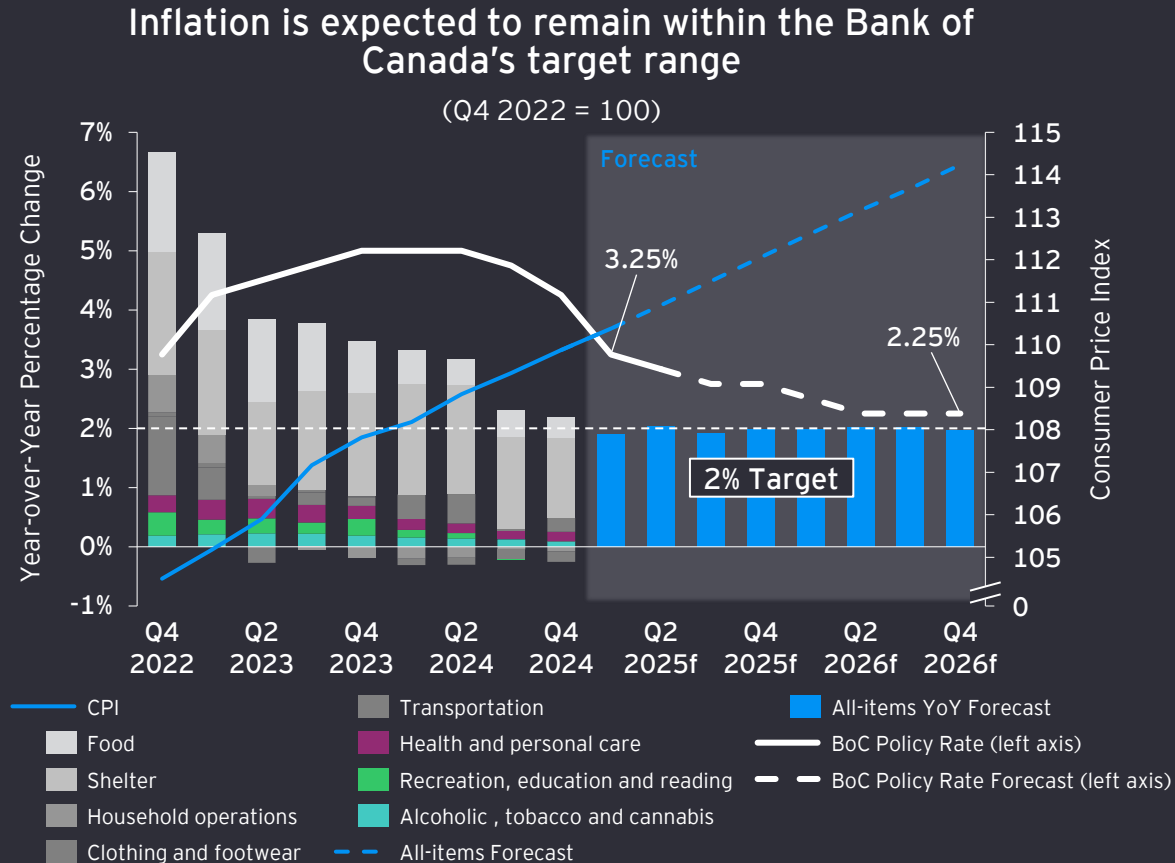
(Q4 2022 = 100)



- ▶ In mid to late 2024, the Canadian economy showed signs of momentum, fuelled by declining interest rates and stabilizing inflationary trends.
- ▶ Future **economic growth is expected to be slower than anticipated** due to a range of factors, including lower population growth from updated federal immigration policies, as well as ongoing geopolitical uncertainty.

Canadian economic outlook

Stabilized inflationary trends enabled substantial monetary policy easing throughout 2024



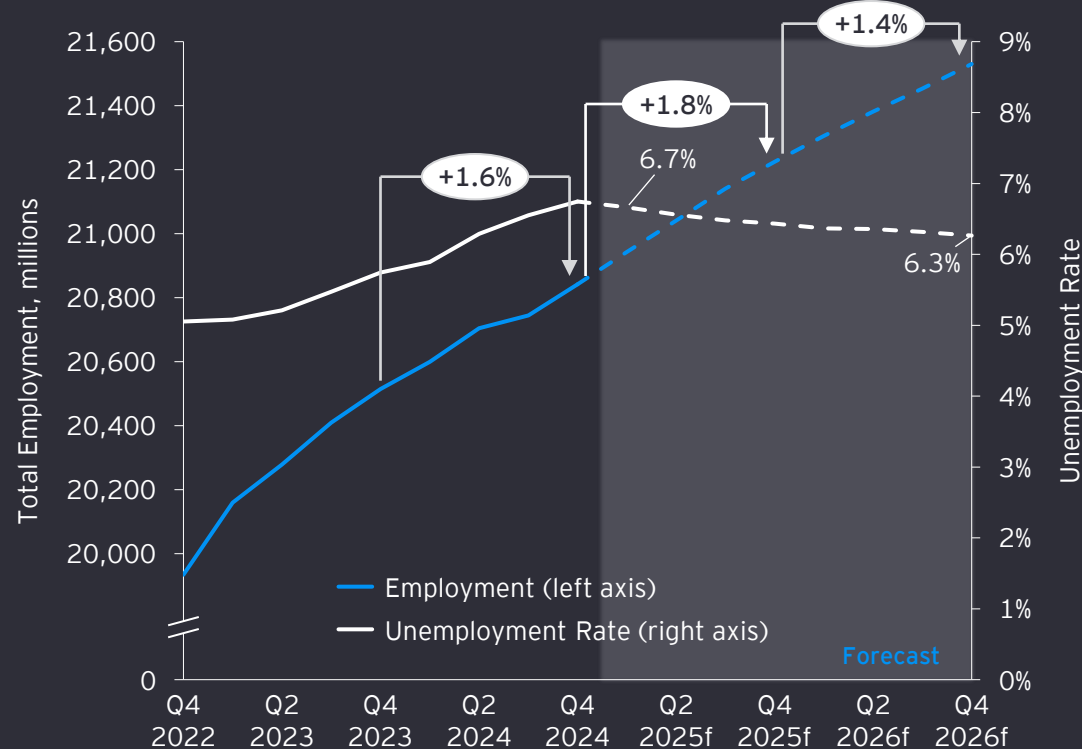
- ▶ The Bank of Canada **implemented monetary policy easing**, reducing the policy rate by 175 basis points in 2024, with an additional 25 basis points cut in January to 3.00%.
- ▶ **Improving perceptions on prices** may be supported by reduced borrowing costs and the removal of the temporary GST/HST break, but the inflation rate is expected to hover near the 2% target in the near term.

Labour market trends

Moderate employment growth is expected due to slowing immigration and dampened economic activity

Moderate employment growth is expected against a soft economic backdrop

(Employees in Canada aged 15 years or more)



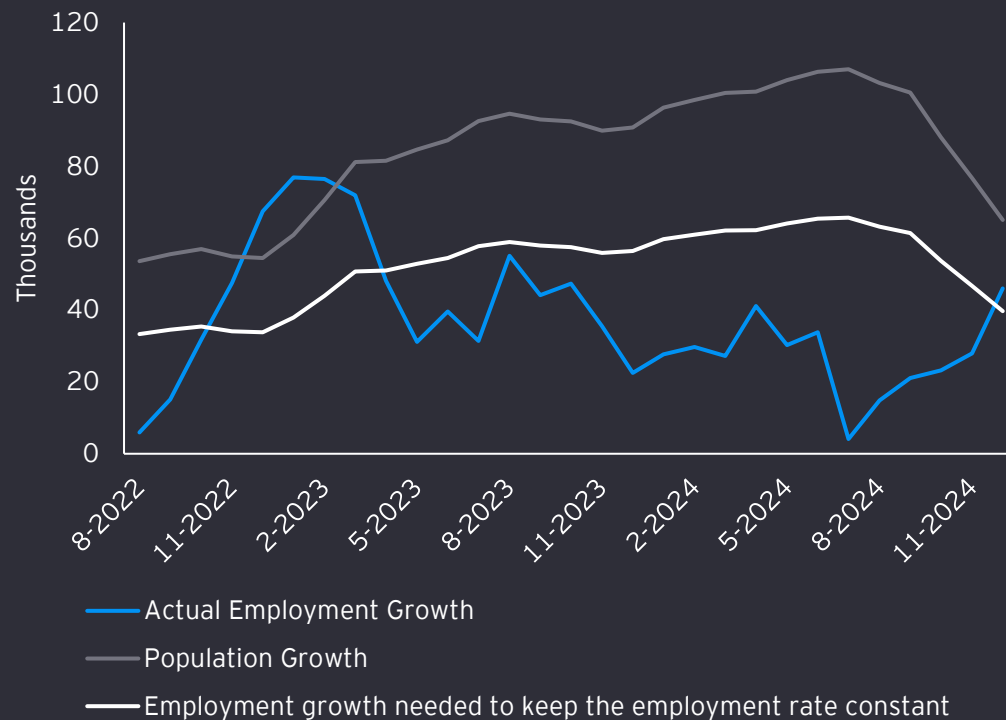
- ▶ **Employment growth accelerated** at the end of 2024, matching levels seen in Q4 2023.
- ▶ The unemployment rate fell in December as **labour force growth weakened**, partly due to revised immigration targets.
- ▶ Over the next two years, **moderate growth in employment** may be expected as economic activity slows and unemployment slowly eases.
- ▶ The slowdown in employment growth will likely support tighter labour markets and place upward pressure on wages.

Labour market trends

Employment gains may stall in the face of uncertainty

Decreases in population growth begin to affect the size of the labour force

(3-month moving average, seasonally adjusted, monthly data)

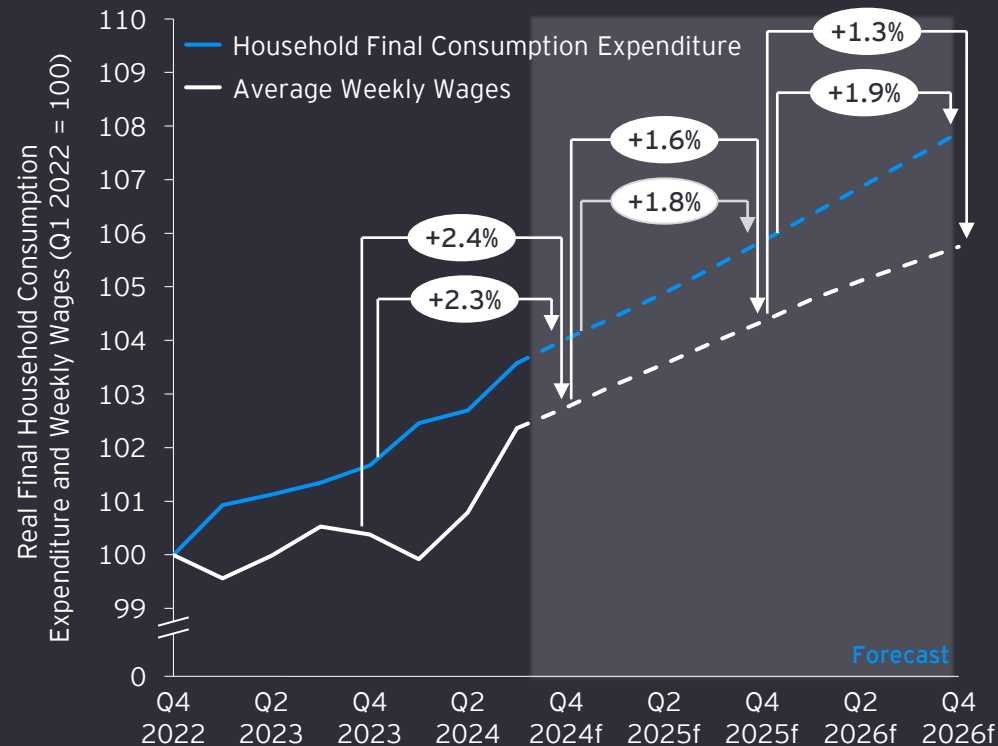


- ▶ Since the third quarter of 2024, **employment gains have accelerated**, while the growth rate of the working-age population has slowed.
- ▶ As of December 2024, positive employment growth and a declining population rate have exerted downward pressure on the unemployment rate.
- ▶ Despite this trend, **ongoing economic uncertainty** may lead to a further slowdown in employment gains, keeping the unemployment rate higher for longer.

Household and consumer insights

Spending and wage growth will be affected in a slower economic environment

Moderate growth is expected in household spending activity



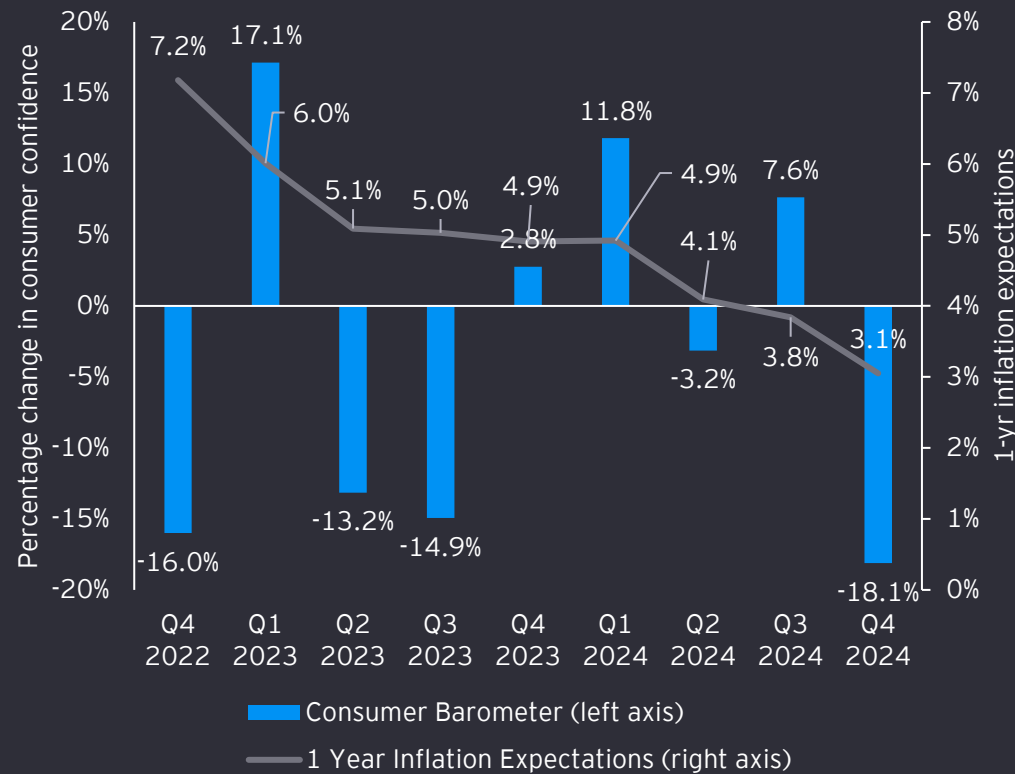
- ▶ Q3 2024 saw strong growth in household consumption expenditures and real wages, largely due to easing inflationary pressures.
- ▶ In the last quarter of 2024 and into 2025, wage and **spending growth is expected to continue**, albeit at a more moderate pace.
- ▶ However, **trade frictions may affect consumer sentiments**, potentially reducing household spending.

Households and consumer insights

Consumer confidence dropped as new uncertainties emerged

Consumer confidence shocked amid tariff threats

(Positive values indicate improving consumer confidence)



The OECD Consumer Barometer corresponds to the monthly growth rate of the normalized consumer confidence indicator (CCI), which includes the financial situation over the past 12 months, the financial situation over the next 12 months, the general economic situation over the next 12 months and major purchases over the 12 next months.

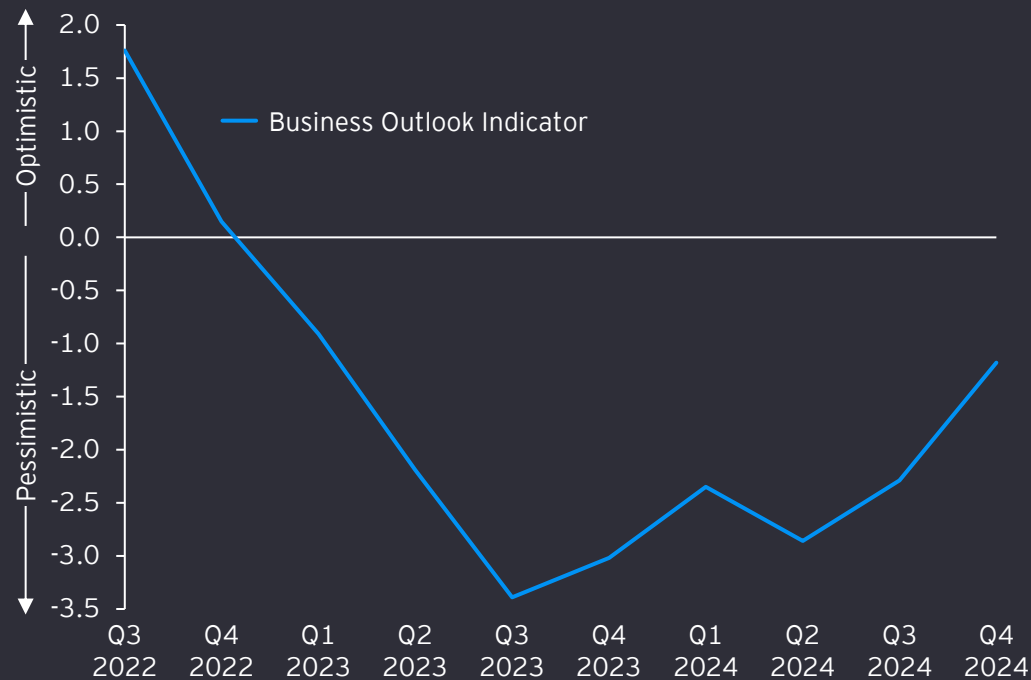
- ▶ Despite positive momentum over the past year from improved borrowing costs and stable prices, **consumer confidence fell in the last quarter of 2024**.
- ▶ Despite improvements in consumers' outlooks, largely driven by lower levels of financial stress, consumer sentiment remains subdued.

Business sentiments

Business confidence remains low in the face of economic headwinds

Despite improvements, the Canadian business outlook remains somewhat subdued

(a scale between -10 and +10)



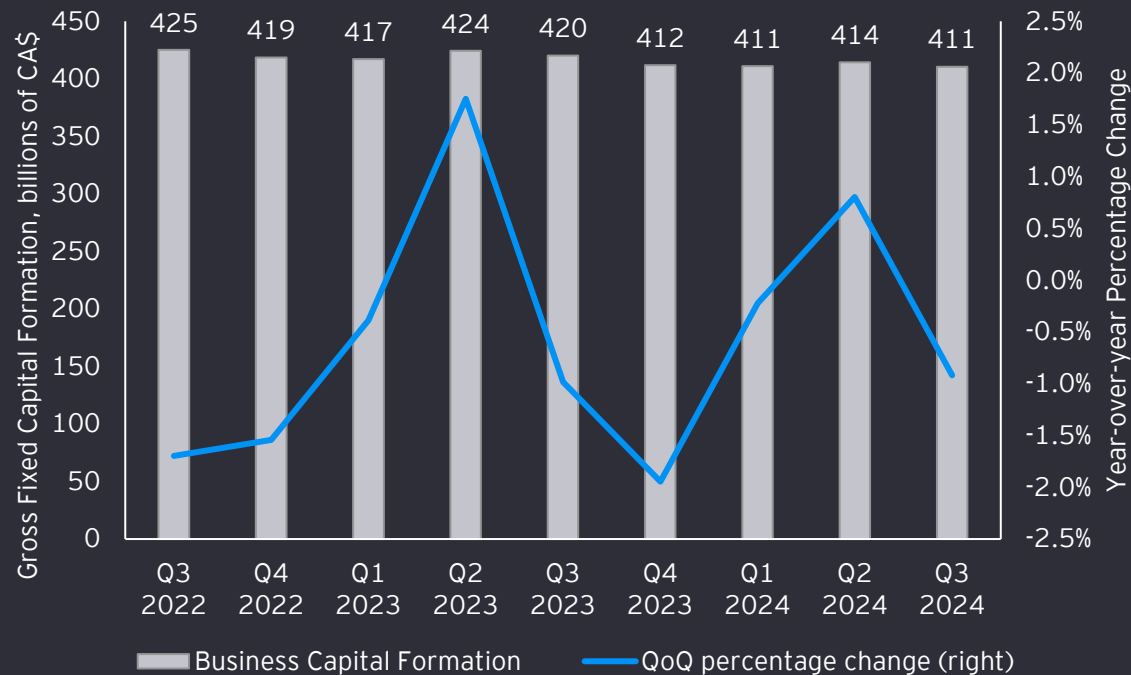
The Bank of Canada's business outlook survey indicator reflects the expectations among business leaders regarding sales and growth expectations, as well as the overall business outlook.

- ▶ While throughout 2024, **businesses showed mild improvements in their outlook**, the Business Outlook Survey indicator remained below average.
- ▶ Uncertainty regarding the new US administration and its associated impacts on trade tensions were top of mind among Canadian leaders: 40% of leaders anticipate negative effects on their businesses, including **higher input costs and lower export sales**, among others.

Business sentiments

Business investment declined amid a weaker Canadian dollar

Real business investment declined after showing earlier signs of improvement



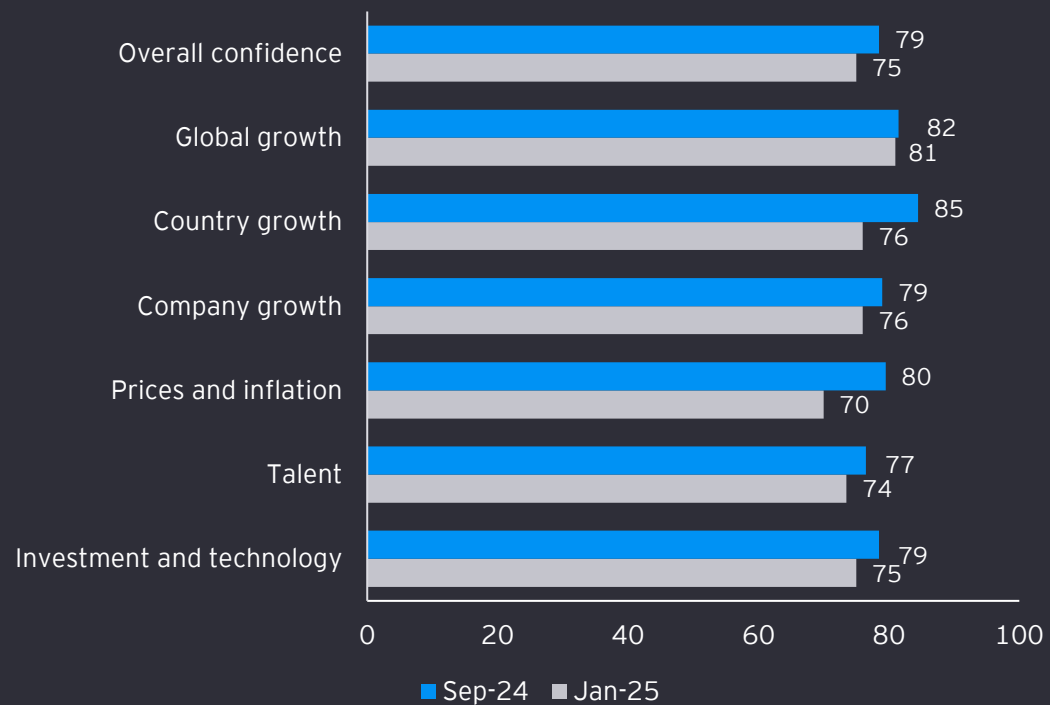
- ▶ Gross fixed capital formation captures the net value of business investment in nonfinancial fixed assets, such as machinery, buildings and equipment.
- ▶ **While early 2024 showed improved business investment, Q3 experienced a decrease** of nearly 1%. This decline is largely driven by the depreciation of the Canadian dollar against the US dollar, making imported machinery and equipment more expensive for Canadian firms.
- ▶ Growing uncertainty surrounding trade policies will further impact such trends in the short to medium term.

Business sentiments

The EY-Parthenon CEO Survey: A decline in optimism as economic and political challenges emerge

A relative adjustment in expectations is observed in 2025

(EY's CEO Confidence Index, "very pessimistic" (0) to "very optimistic" (100))



► EY's **CEO Confidence Index in Canada**

declined across all categories, falling from 78.5 in September 2024 to 75 in January 2025.

- Canadian CEOs are adjusting their expectations in response to various domestic and international challenges.
- This may be influenced by political uncertainty, potential higher tariffs, revised immigration targets and a slower economic environment.

Please access our latest insights from the EY-Parthenon CEO Survey [here](#).

Meet the team and explore our resources



Mauricio Zelaya, PhD
Partner & National Economics Leader
Toronto, Ernst & Young LLP
mauricio.zelaya@ca.ey.com



Huzaifa Akhtar, MSc
Vice President, Economic Advisory
Toronto, Ernst & Young LLP
huzaifa.akhtar@ca.ey.com



Colin O'Leary, CPA, CA, CBV, CFA, CFF
Partner & Valuation, Modelling and
Economics National Leader
Toronto, Ernst & Young LLP
colin.oleary@ca.ey.com



Alisa Nikolaeva, MA
Vice President, Economic Advisory
Toronto, Ernst & Young LLP
alisa.nikolaeva@ca.ey.com



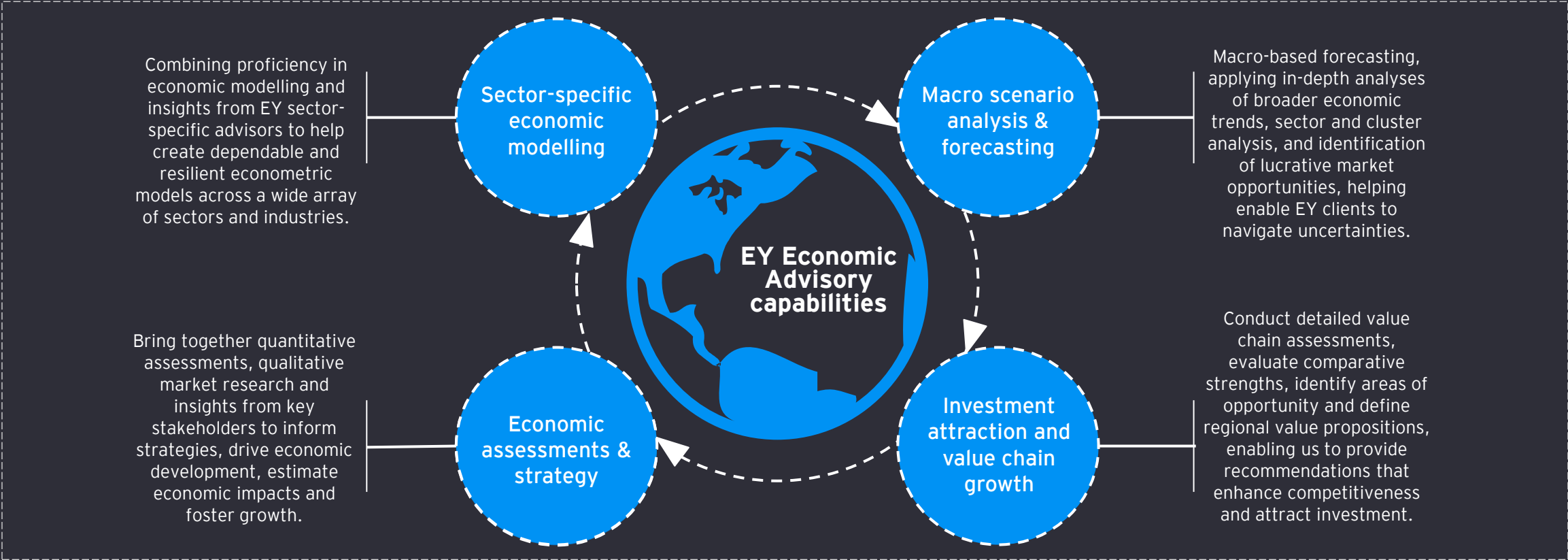
Alex Francis, MSc
Vice President, Economic Advisory
Vancouver, Ernst & Young LLP
alex.francis2@ca.ey.com



Eduardo Retes, MA
Manager, Economic Advisory
Toronto, Ernst & Young LLP
eduardo.retes@ca.ey.com

Meet the team and explore our resources

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