



Canadian Macroeconomic Outlook

Navigating the economy amid evolving
trade and geopolitical developments

June 2025



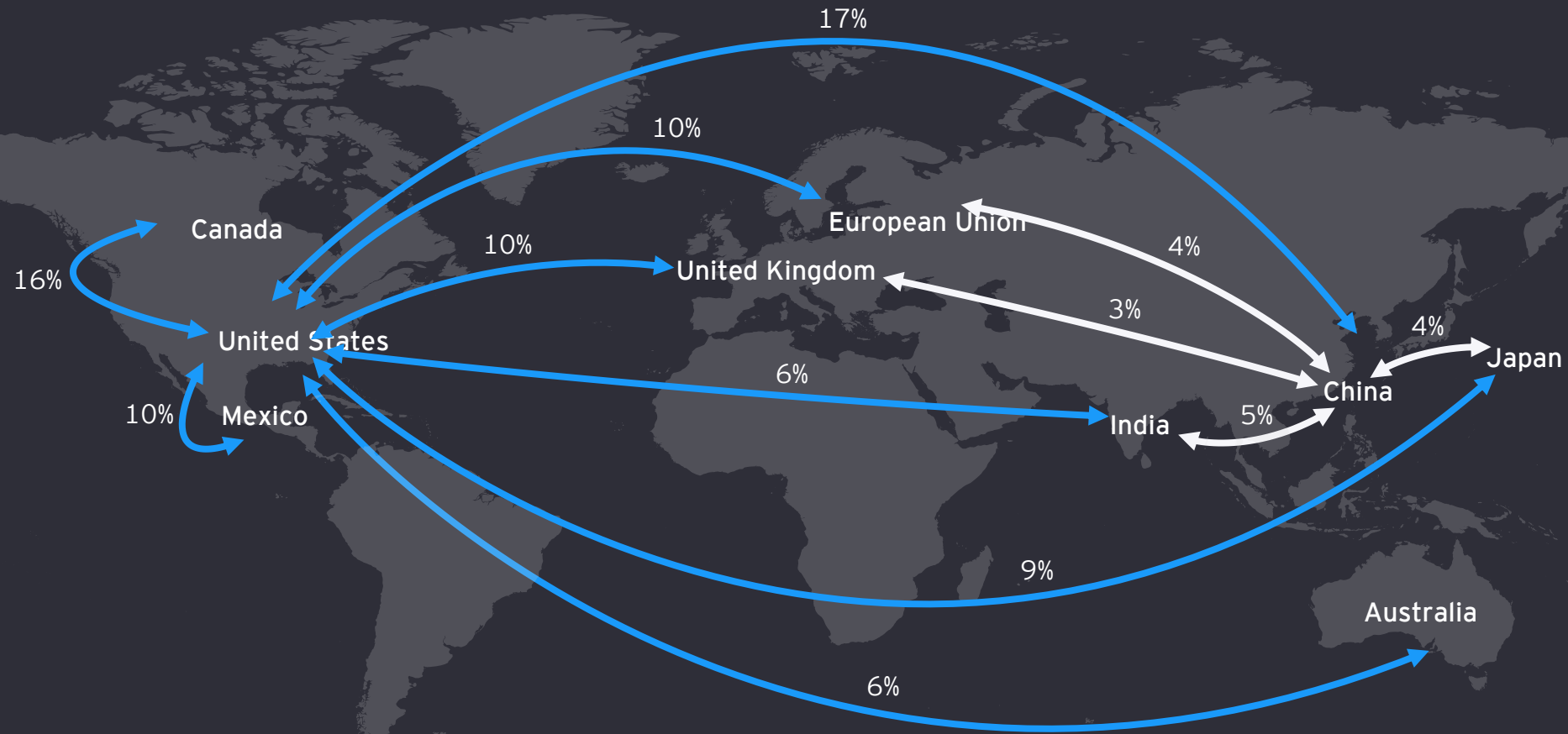
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Global Macroeconomic perspectives

Which current or potential tariff or trade disputes would have the biggest impact on your business?



Geopolitical, macroeconomic and trade uncertainty is top of mind for business leaders

What is the primary risk to your business achieving its growth targets in the next 12 months?

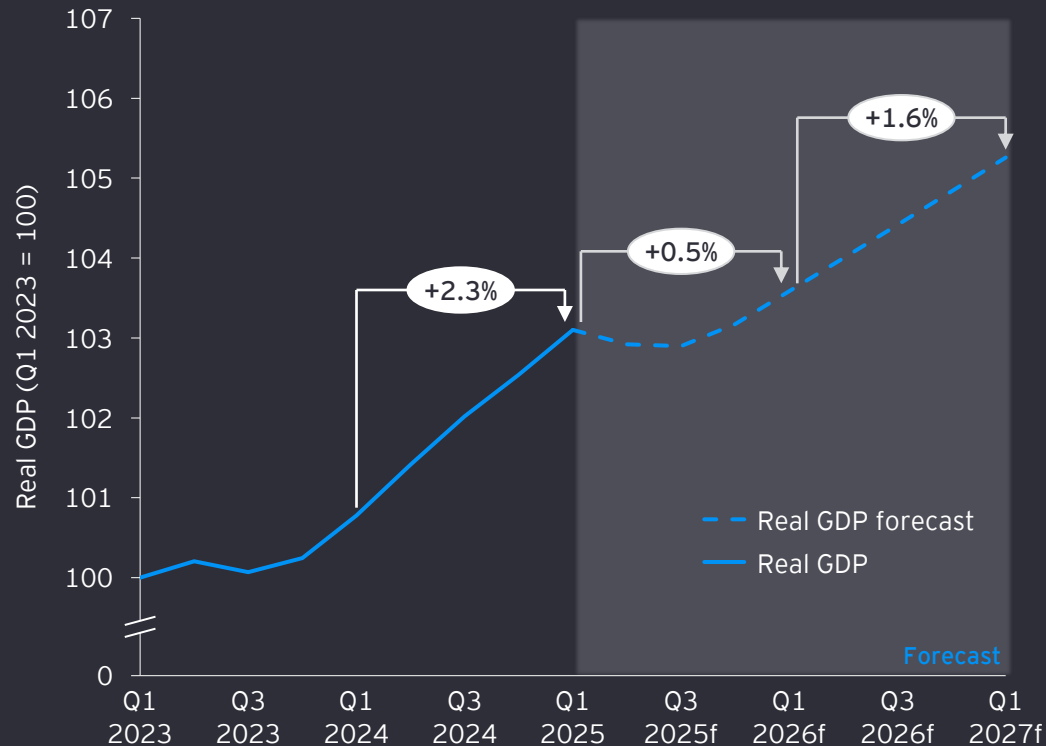


Canadian economic outlook

Trade tensions pose significant challenges, but a gradual recovery is on the horizon

Canada is likely to experience stagnant growth in 2025

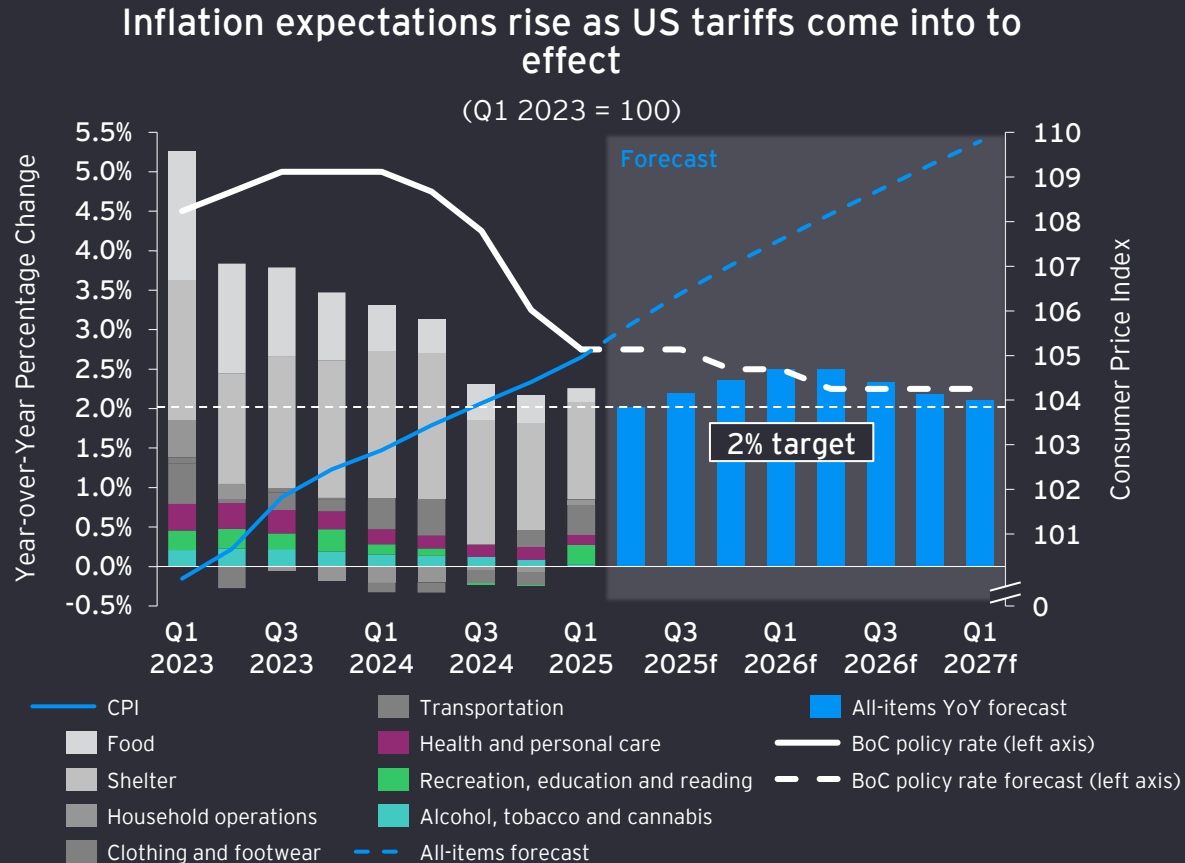
(Q1 2023 = 100)



- ▶ The Canadian economy entered 2025 with signs of momentum, but as **trade and geopolitical tensions have evolved, growth is expected to subside.**
- ▶ Trade tensions and the uncertainty they bring are likely to have **adverse impacts on the Canadian economy.**
- ▶ As a result, the economy **may experience stagnant growth** through mid-2025, with modest growth of 0.5% over the next four quarters. However, a **recovery is anticipated in 2026**, with growth projected to reach 1.6%.

Canadian economic outlook

Rising inflation expectations will shape the economic landscape ahead



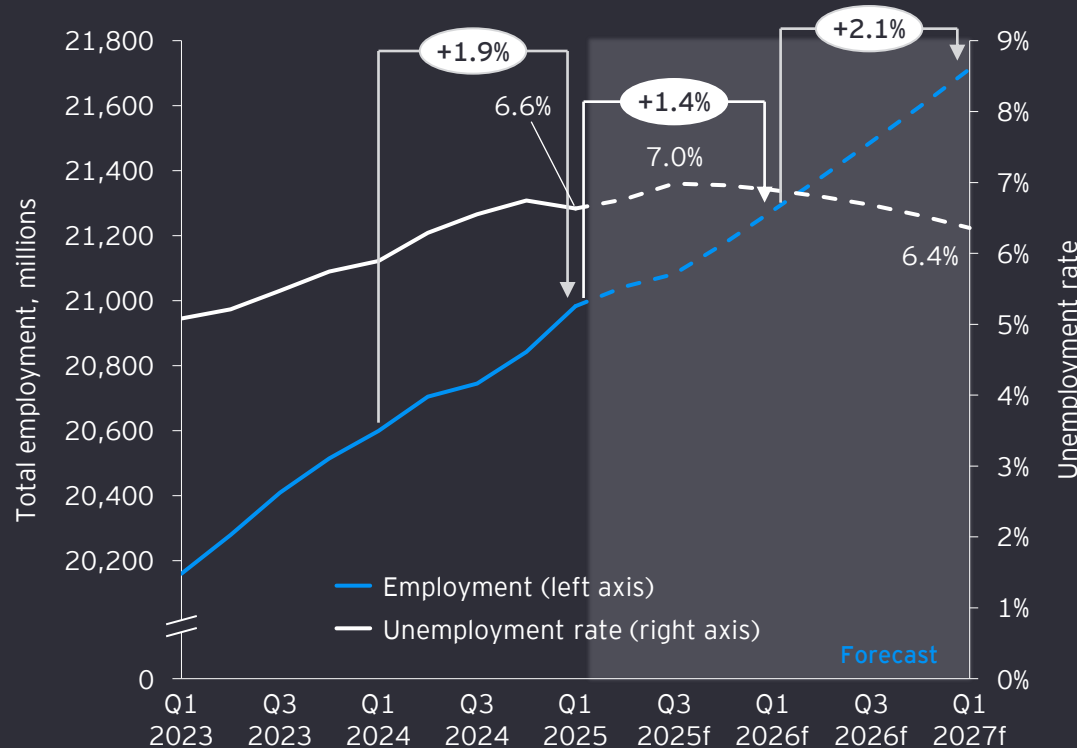
- ▶ Over the past year, the **Bank of Canada has engaged in policy easing**, lowering the policy rate from a high of 5.0% to the current rate of 2.75%.
- ▶ In April, the Bank **refrained from further rate cuts as inflation expectations have increased**, mainly **driven by the expected effects of tariffs imposed by the US**.
- ▶ Moving forward, the **Bank of Canada is likely to maintain a cautious approach**, monitoring economic conditions closely before making any additional adjustments to the policy rate.

Labour market trends

An increase in the unemployment rate is expected, but a recovery in employment growth is on the horizon for 2026

Tensions are expected to affect employment growth in the short term

(Employees in Canada aged 15 years and older)

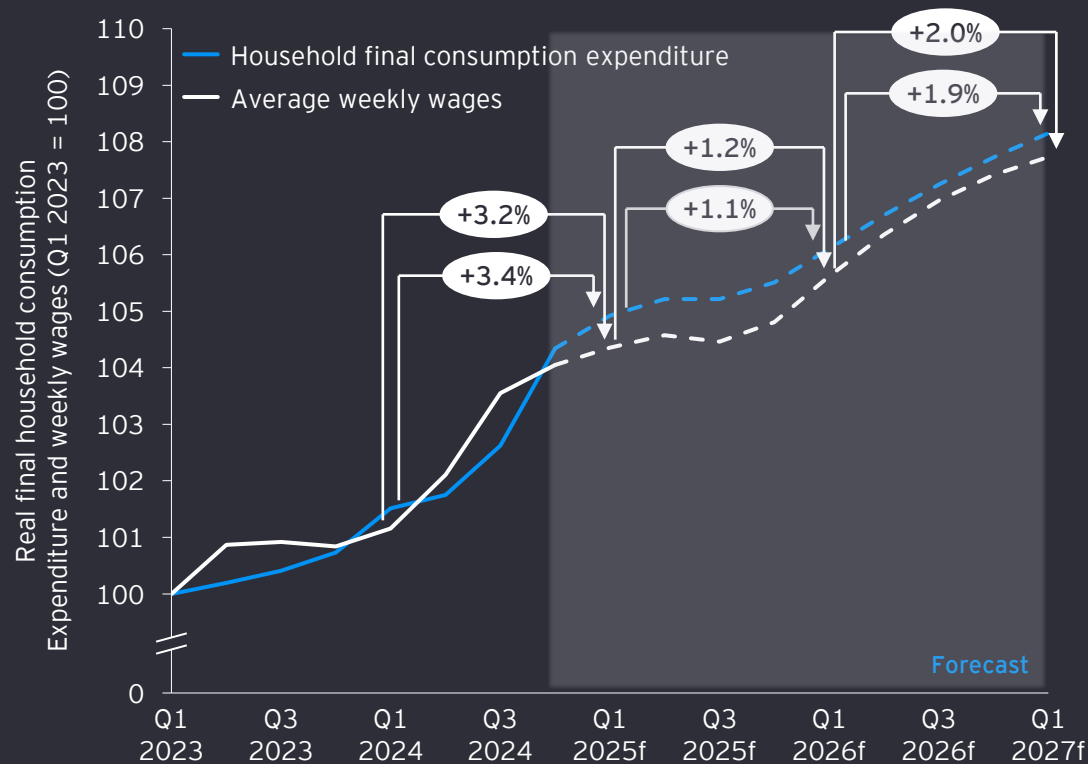


- ▶ In Q1 2025, the unemployment rate experienced a slight reduction to 6.6%.
- ▶ Geopolitical tensions have introduced **economic uncertainty** for Canada, impacting the **momentum of employment growth**.
- ▶ This trend is expected to persist throughout most of 2025. As a result, the **unemployment rate is projected to peak at 7.0% in Q3 2025**.
- ▶ Following this peak, employment growth is anticipated to gain momentum, **gradually reducing the unemployment rate over the course of 2026**.

Household and consumer insights

Stagnant growth in real wages and spending is expected, but a recovery is expected during 2026

Household spending and wages are expected to stagnate in 2025



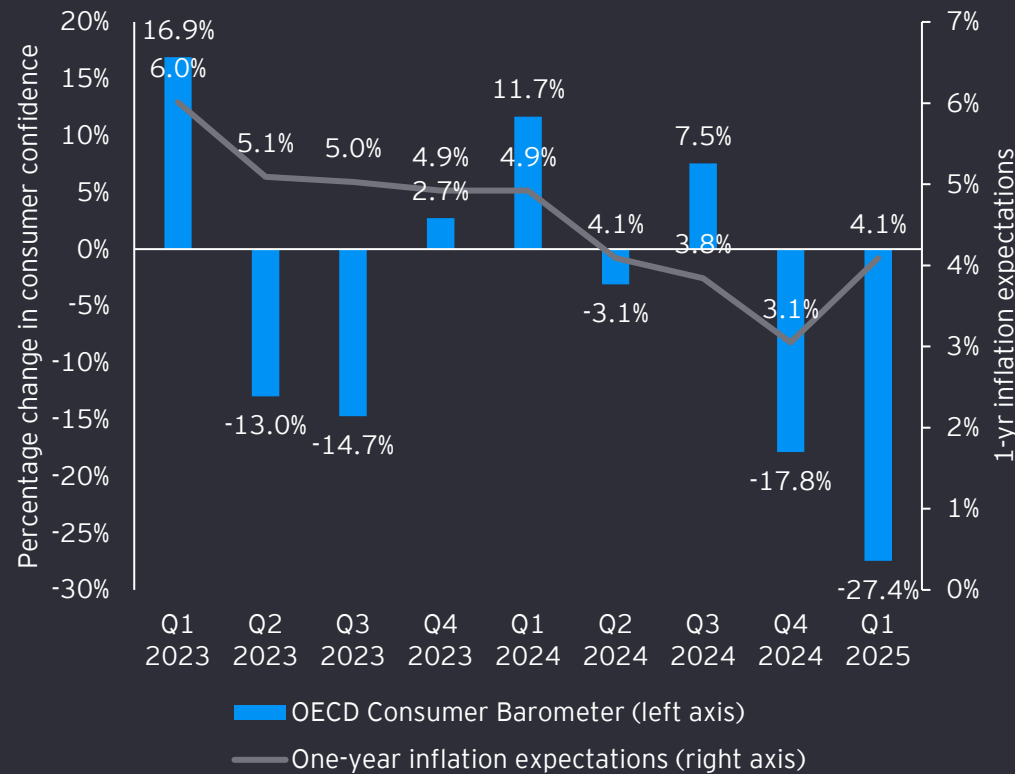
- ▶ **Economic uncertainty and the anticipated slowdown are expected to impact real wages and household spending.** Both are projected to experience stagnant growth through mid-2025, reflecting broader economic challenges.
- ▶ However, **as market conditions improve, a gradual recovery in both real wages and spending is anticipated** as we enter 2026, allowing for a more favourable economic environment.

Household and consumer insights

Consumer confidence declines sharply amid trade concerns, while inflation expectations rise significantly

Consumer confidence sharply declines amid trade tensions and geopolitical uncertainty

(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.

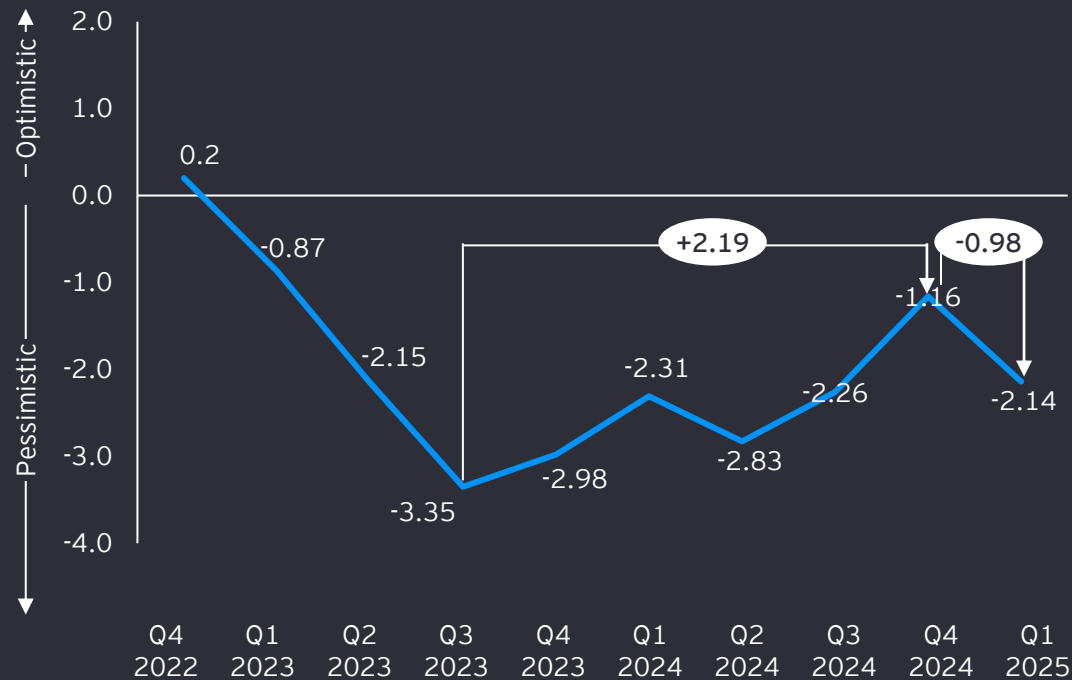
- ▶ In Q1 2025, **consumer confidence experienced a significant decline of 27.4%, marking the largest drop in the past two years**. This follows a notable decrease of 17.8% to the end of 2024. Decreasing consumer sentiment can be largely attributed to the ongoing trade and geopolitical concerns.
- ▶ Inflation expectations have also surged from 3.1% at the close of 2024 to 4.1%, a substantial increase after a period of consistent declines. The **rise in inflation expectations** is in great part driven by **anticipated higher price levels resulting from tariffs imposed on imports from the US**.

Business sentiments

Despite improvements in business confidence, ongoing trade tensions continue to pose significant challenges

Business confidence declines once again amid economic uncertainty in Canada

(a scale between -10 and +10)



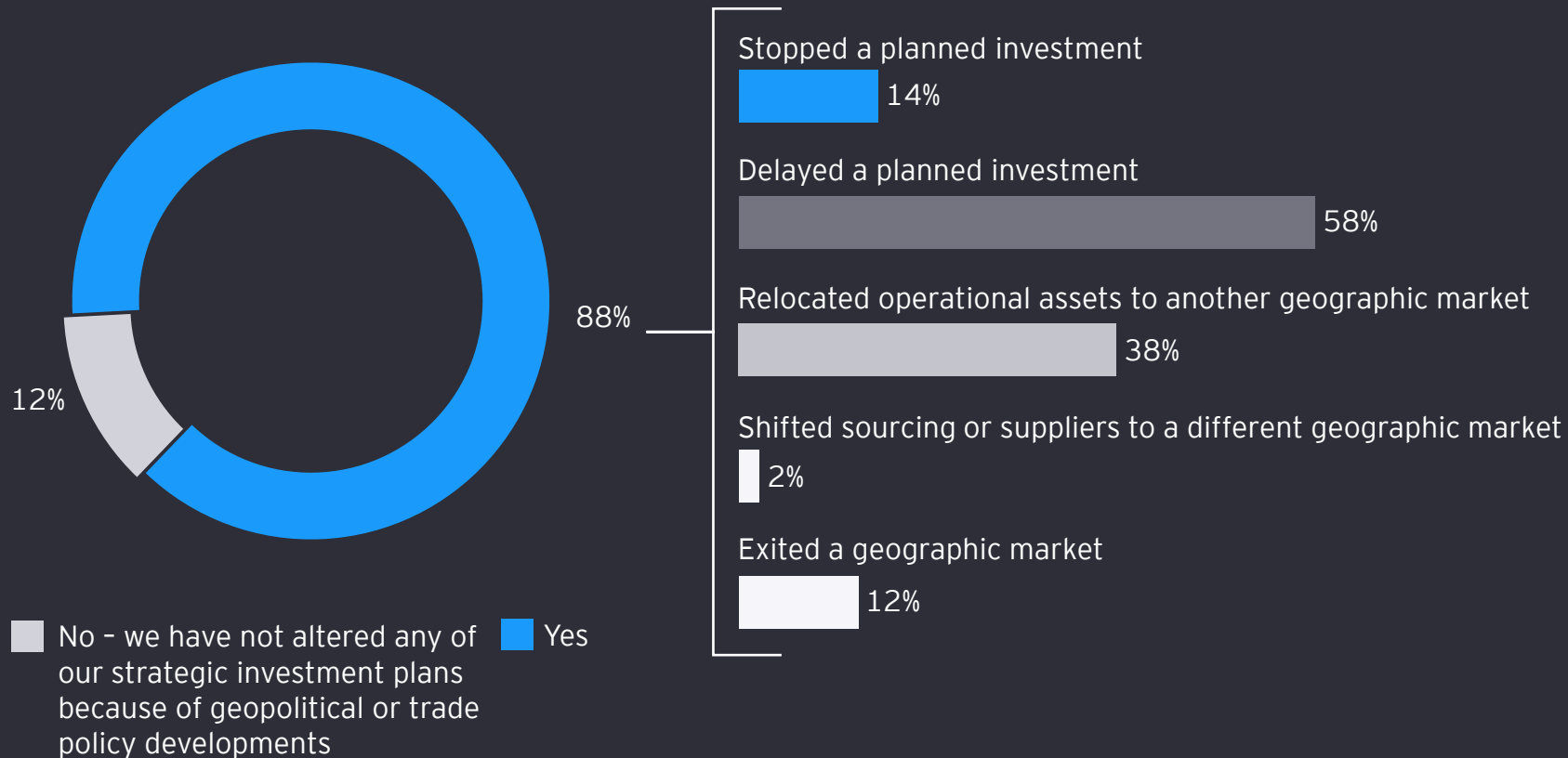
The Bank of Canada's business outlook survey indicator reflects the expectations among business leaders regarding sales and growth expectations, as well as the overall business outlook.

- ▶ Despite greater pessimism of current market conditions, business confidence showed notable improvements between Q3 2023 and Q4 2024.
- ▶ Increased economic uncertainty driven by geopolitical tensions has had an **adverse impact on business confidence as we entered 2025**.
- ▶ General **ambiguity on tariff-related matters remains top of mind for businesses**, especially around **the outcomes of future trade negotiations**.

Business sentiments

Leaders are rethinking near-term investment plans

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

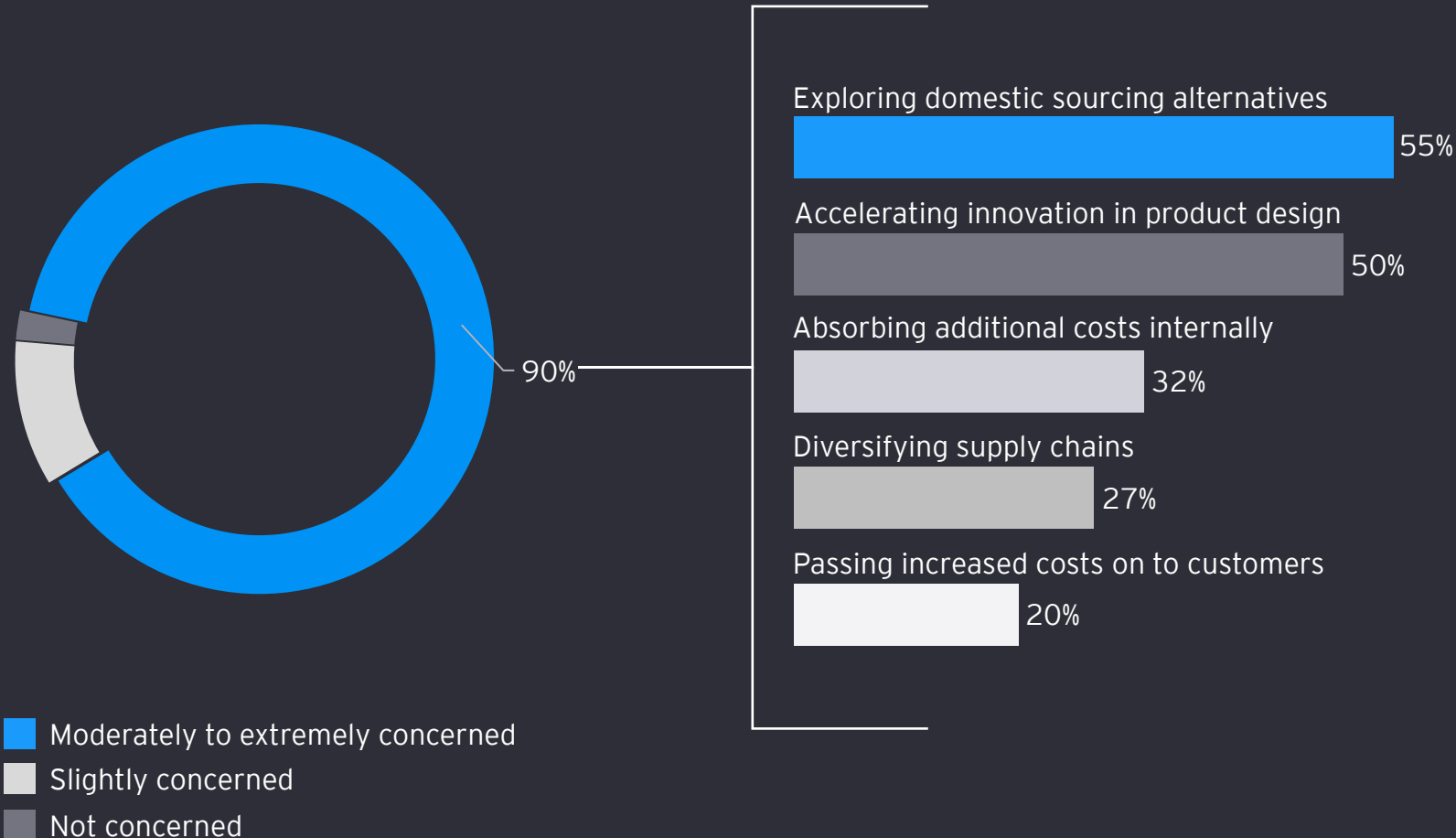


- ▶ 88% of surveyed Canadian CEOs have expressed that they have made **changes to strategic investment plans** driven by geopolitics and trade policy developments.
- ▶ While many have expressed **delays or cancellation of investments** (72%), 38% have **relocated key assets to different jurisdictions**.

Business Operational Concerns

leaders are considering domestic supply chain alternatives and innovation to mitigate tariff effects

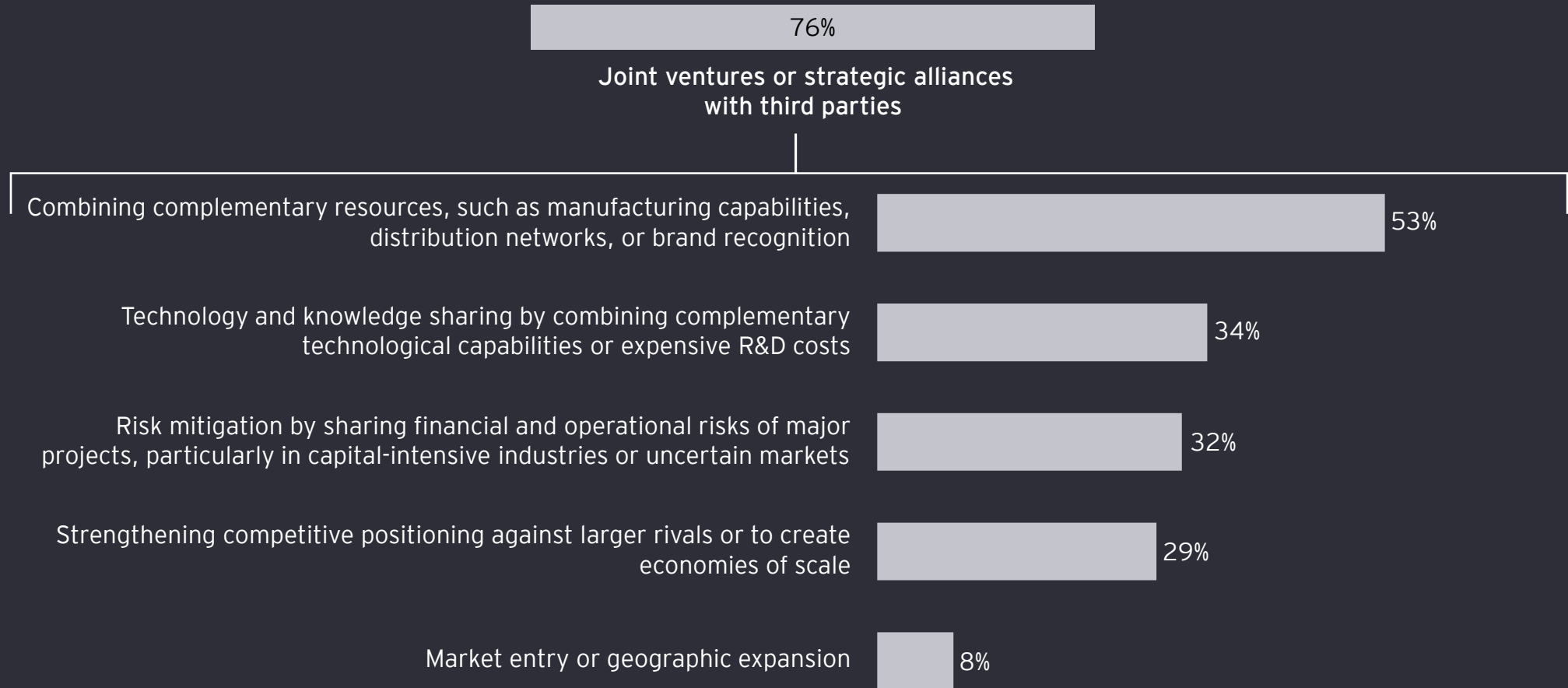
Plans to mitigate the potential impact of increased tariffs on company's operations and sales in the next 12 months



- ▶ 90% of surveyed Canadian CEOs have expressed plans to mitigate the potential impact of increased tariffs driven by the ongoing geopolitics and trade policy dynamics.
- ▶ While many have expressed exploring domestic sourcing alternatives (55%), 50% have plans to accelerate innovation in product design and materials to reduce reliance on tariffed materials.

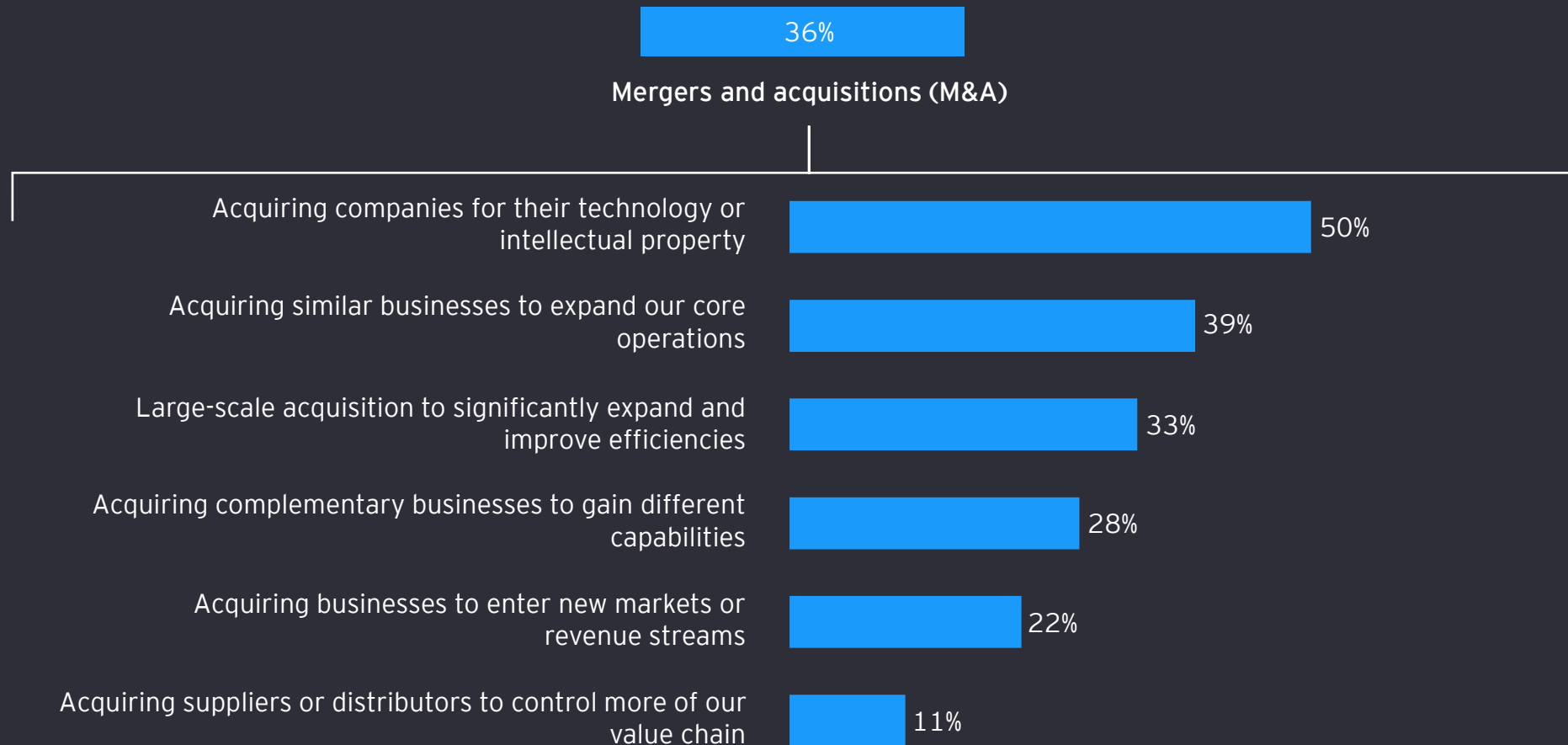
Business Operational Concerns

Joint ventures and strategic alliances are driven by the desire to deploy complimentary resources and technology



Business Operational Concerns

M&A activity is mostly driven by technology and intellectual property acquisitions



Business Operational Concerns

Leaders prioritize transactions that can improve financial performance as regulatory and geopolitical constraints persist



Looking ahead

A period of uncertainty lies ahead, marked with geopolitical shifts and rising inflation expectations

Quarter in review: key insights and developments



The Canadian **economy faces the risk of recession** as US tariff and Canada's retaliatory measures disrupt trade flows and dampen economic activity.



Unemployment in April has reached 6.9%, and it is projected to **reach a peak of over 7.0% by mid-2025**, reflecting mounting economic pressures for Canada.



Recent data suggest that **consumer and business confidence have declined** over the past quarter, signalling growing pessimism amid trade and general economic uncertainty.

On the horizon: what to watch in 2025



Anticipated **inflationary pressures from tariffs and geopolitical tensions** have led the Bank of Canada to maintain its policy rate at 2.75%, signalling a **more cautious monetary policy approach**.



The April 28 **federal election**, which resulted in a Liberal party minority government, may **lead to new fiscal policy** aimed at **addressing economic challenges and restoring growth**.



Ongoing **trade negotiations with the US** may be key to **Canada's economic future**, as ongoing discussions will influence the economic trajectory throughout the rest of the year.

A glimpse ahead: future considerations and emerging trends



Economic **recovery is expected to be gradual**, with economic growth expected to remain lower than long-term trends while trade disputes are resolved.



Canada's **economy may undergo structural changes**, including diversification of trade partnerships and strategic shifts in key industries



Slowing population growth and higher unemployment rate are expected to **impact economic performance**, likely requiring strategic policy responses.

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