

Our Insight, Your Advantage[®]

Economic Review
September 17, 2026

Canadian Economic Growth Has Been Volatile

**Trade uncertainty
continues to cloud
the economic
outlook**

Principal Takeaways

- Canada's economy remains resilient, but growth has become increasingly uneven, with the outlook highly sensitive to US trade policy and other external shocks.
- Trade tensions with the US remain the most significant risk to Canada's outlook, while diversification efforts to other trading partners unlikely to offset weaker US market access quickly.
- Labor market conditions remain soft but stable, with cautious hiring and unemployment above pre-pandemic levels.
- The Bank of Canada is expected to keep rates unchanged as weaker growth is offset by renewed inflation pressures from energy prices and tariffs.

According to the Bank of Canada, real GDP grew by 1.9% in 2025, broadly in line with growth in 2024. Economic activity was supported by household spending, business investment, and government spending. Consumer spending remained resilient despite ongoing trade uncertainty and a softening in the labor market, while government investment increased, partly reflecting higher spending on defense and infrastructure. Business investment was more subdued over the course of the year. Exports also weakened as US tariffs on Canadian steel, aluminum, and motor vehicles weighed on trade, although exports to countries outside the US provided some offset later in the year.

Economic conditions weakened toward the end of 2025 and into early 2026. Real GDP contracted at an annualized rate of 1.0% in the fourth quarter of 2025, partly reflecting weaker manufacturing activity and continued pressure on trade-sensitive industries. Growth remained subdued in the first quarter of 2026, with the economy expanding by just 0.3% at an annualized rate. Lower government spending and housing activity contributed to the weakness, along with a decline in oil and gas investment. Household spending remained relatively steady, helping to offset some of the weakness in other parts of the economy.

Economic activity strengthened considerably in the second quarter, with real GDP growing by 3.3% at an annualized rate, led by stronger exports, particularly energy and other goods. Despite the improvement, the durability of the rebound remains uncertain given the surrounding US trade policy and its potential impact on exports and the overall economy (**Exhibit 1**).

Trade Uncertainty Complicates the Economic Outlook

Trade relations between Canada and the US have become increasingly strained following a further escalation in August 2026. Although the United States-Mexico-Canada Agreement (USMCA) still protects most bilateral trade from tariffs, recent measures have reduced some of that protection. In August, the US imposed new 50% tariffs on approximately USD 20 billion

Analytical Contact:

Ann Modica, Oldwick
+1 (908) 882-2127
Ann.Modica@ambest.com

2026-120.1

of Canadian goods, equivalent to around 5% of Canadian exports to the US. Unlike many earlier tariff measures, the new Section 338 tariffs apply to covered Canadian goods, regardless of whether they qualify for preferential treatment under the USMCA, broadening the range of Canadian exports subject to US tariffs.

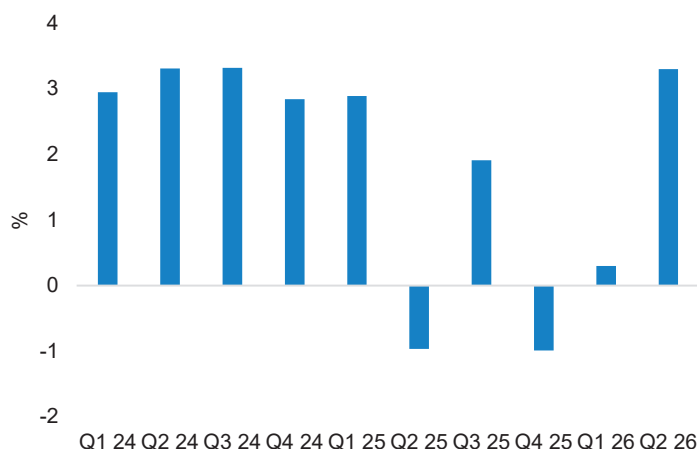
Prior to this most recent escalation, Canadian goods that met USMCA rules of origin generally continued to enter the US tariff-free, limiting the broader economic impact of the tariff measures. According to the Bank of Canada, the average US tariff rate on Canadian goods was approximately 5.0% in July 2026, up sharply from just 0.1% before 2025. Despite the increase, most Canadian exports to the US remained tariff-free under the USMCA (**Exhibit 2**). The recent escalation is likely to raise the overall effective tariff rate, although the magnitude will depend on the composition of affected trade.

Canada has removed most of the retaliatory tariffs it had imposed on US goods in September 2025. It maintained counter-tariffs on US steel, aluminum, and automobiles, but the latest escalation has reversed some of the earlier de-escalation in trade tensions. Following the breakdown in bilateral trade negotiations, Canada suspended further talks and announced plans for new dollar-for-dollar counter-tariffs on US goods. The US has also threatened to increase tariffs on Canadian cars, trucks, and auto parts to 50% beginning in January 2027. As a result, the dispute has broadened beyond the sectors initially most affected.

Despite the ongoing friction, the US remains by far Canada's largest trading partner. According to the Office of the US Trade Representative, more than three-quarters of Canadian goods exports are destined for the US, while nearly half of Canada's goods imports originate there. Canada's significant dependence on the US market leaves the economy particularly exposed to a prolonged trade dispute. Although the economic impact of the tariffs had been concentrated in sectors with significant US exposure, the broader effects have also been felt through weaker exports, softer business investment, and greater uncertainty. While Canada has made some progress in diversifying its export markets, its close economic ties with the US leave the economy highly exposed to further changes in US trade policy (**Exhibit 3**).

Over the medium-to-long term, Canadian exporters and businesses are likely to continue adjusting to a more uncertain trade environment. According to the Bank of Canada's latest Business Outlook Survey, firms have become more optimistic about future export sales, while strong US investment

Exhibit 1
Quarterly GDP Growth



Source: Statistics Canada

Exhibit 2
Average Tariff Rates
(goods only)

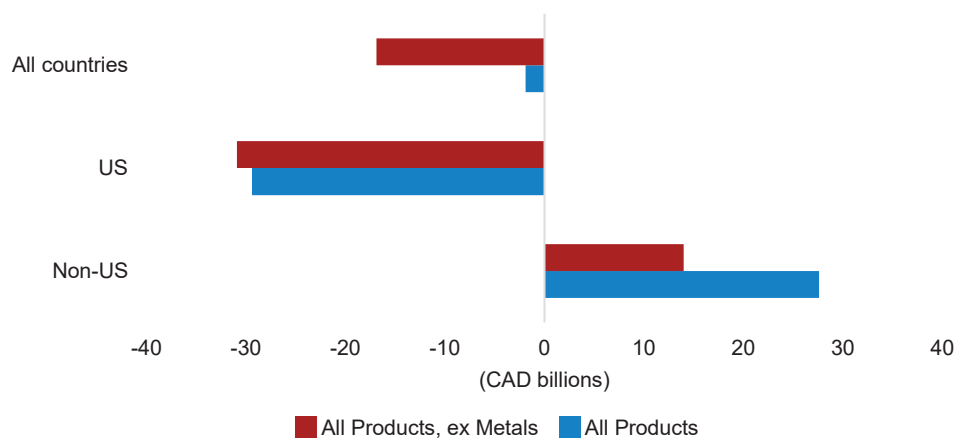
	Before 2025	October 2025	January 2026	April 2026	July 2026
US Tariffs on Canada	0.1%	5.9%	5.8%	5.1%	5.0%

Source: Bank of Canada

Exhibit 3

Annual change in exports by Country of Destination

(2024 - 2025)



Source: Statistics Canada

in artificial intelligence infrastructure is expected to support demand for Canadian raw materials, metal products, and electrical equipment. The weaker Canadian dollar should also help exporters by improving the competitiveness of Canadian goods abroad (**Exhibit 4**).

However, renewed trade uncertainty could slow the recovery in business investment and encourage firms to expand their presence in markets outside the US. Efforts to expand trade with other markets, including through the new Canada-China strategic partnership, could provide additional support. However, given the size of the US market and the integration of the two economies, diversification will take time and is unlikely to fully offset weaker access to the US market over the short term. As a result, the economic outlook will remain sensitive to further changes in US trade policy (**Exhibit 5**).

Household Spending Faces Headwinds

Personal consumption accounts for approximately 60% of Canada's GDP and remained an important source of economic growth in 2025, despite some volatility over the course of the year. Real household consumption increased by 2.3%, broadly in line with growth in the previous year, with spending particularly supportive during the first half of 2025. Household demand remains resilient despite elevated borrowing costs, a softer labor market, and continued uncertainty surrounding the economic outlook.

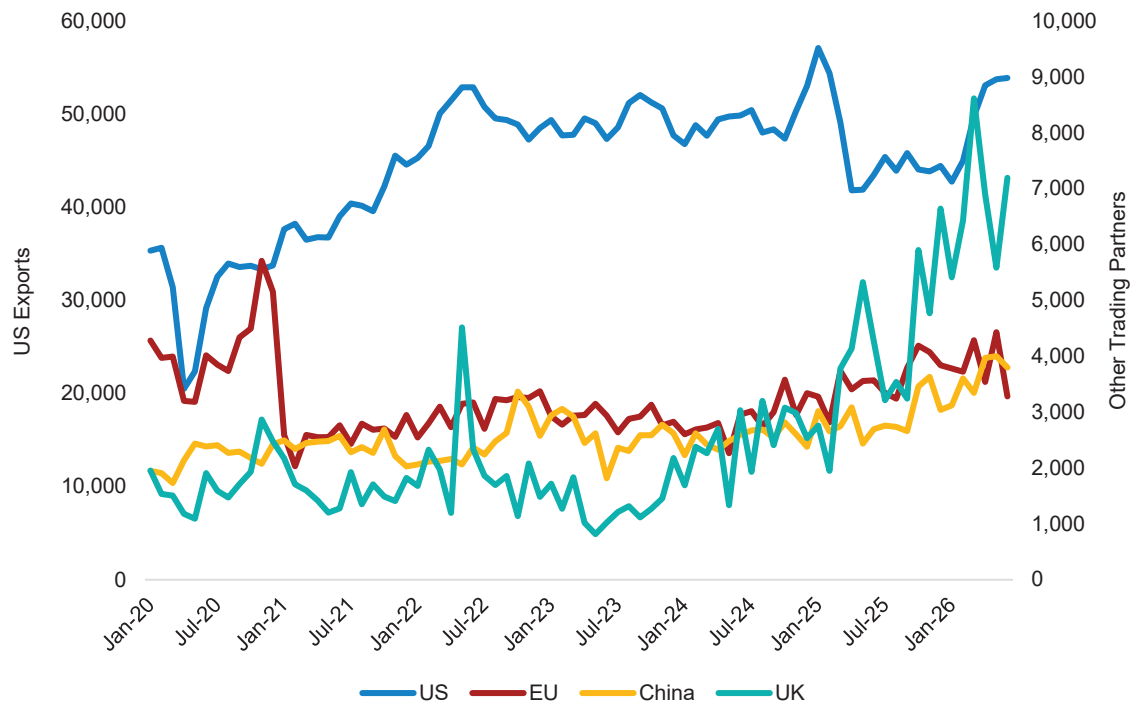
The Bank of Canada's Canadian Survey of Consumer Expectations (CSCE) – Second Quarter of 2026 says households are particularly concerned about high prices and economic uncertainty. Consumers have also become more cautious about discretionary spending, while concerns about job security and future income remain elevated. When asked which factors could negatively affect household spending over the next 12 months, respondents most frequently cited higher prices for goods and services, economic uncertainty, and high rent or mortgage payments. These pressures suggest that household spending is likely to remain cautious despite continued growth in incomes and lower interest rates (**Exhibit 6**).

Despite these concerns, household balance sheets remain relatively strong. Household wealth has increased year-over-year as stock markets have risen and home prices have remained elevated. According to Statistics Canada, household net worth reached CAD 18.6 trillion in late 2025 after

Exhibit 4

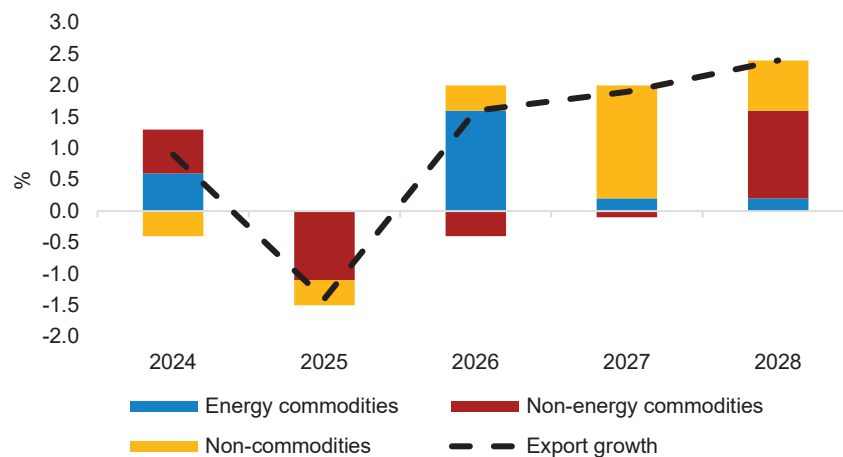
Canadian Exports by Principal Trading Partner

CAD X 1, 000, 000



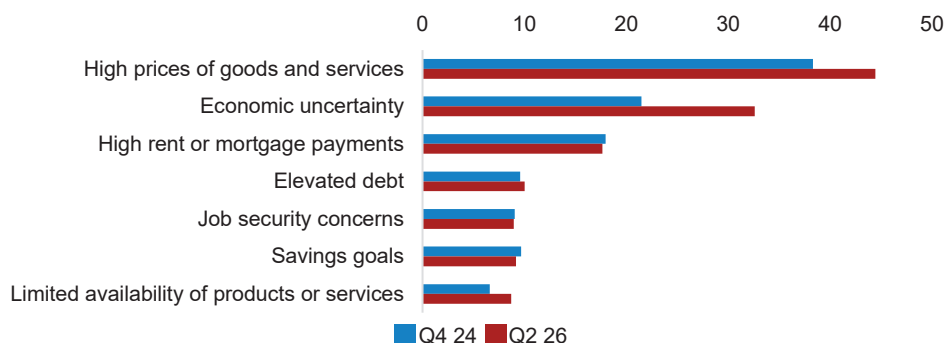
Source: Statistics Canada

Exhibit 5

Export Growth is Expected to Rise

Source: Bank of Canada

Exhibit 6
Factors Expected to Negatively Affect Household Spending



Source :Bank of Canada's Canadian Survey of Consumer Expectations (CSCE)

increasing for nine consecutive quarters. Higher household wealth should provide some support to consumer spending, although the benefits are likely to be concentrated among households with greater exposure to financial and housing assets.

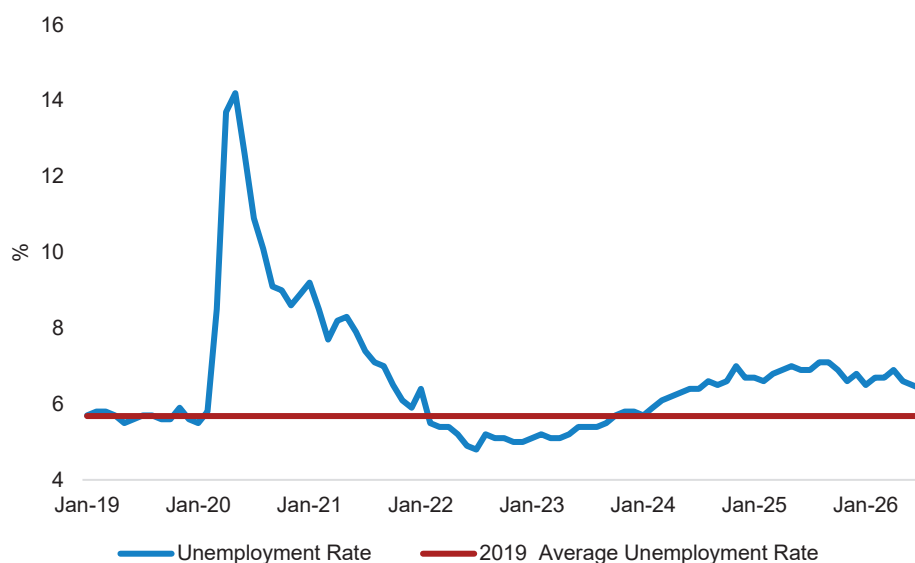
Labor Market Conditions Remain Soft but Stable

The labor market has softened over the past year as slower economic growth and heightened uncertainty have made businesses more cautious about hiring. The unemployment rate rose above 7% in August and September of 2025 before declining to 6.8% in December. The employment rate, the percentage of working-age people who are employed, fell to a four-year low before recovering somewhat toward year-end. The slowdown marked a clear shift from the tight labor market that followed the pandemic, when worker shortages and elevated job vacancies were widespread.

Conditions have remained relatively soft in 2026. Businesses have generally continued to retain existing workers but have remained cautious about adding to payrolls, making it more difficult for workers to find new jobs. More recently, however, conditions have shown some improvement, with employment strengthening and the unemployment rate declining to 6.4% in July, its lowest level in two years. Even so, the unemployment rate has remained consistently above its 2019 average of 5.7% (**Exhibit 7**).

Demographic changes are also shaping labor market conditions. Rapid population growth in recent years significantly expanded the available labor supply, putting additional pressure on the labor market as

Exhibit 7
Unemployment Rate, 2019-2026



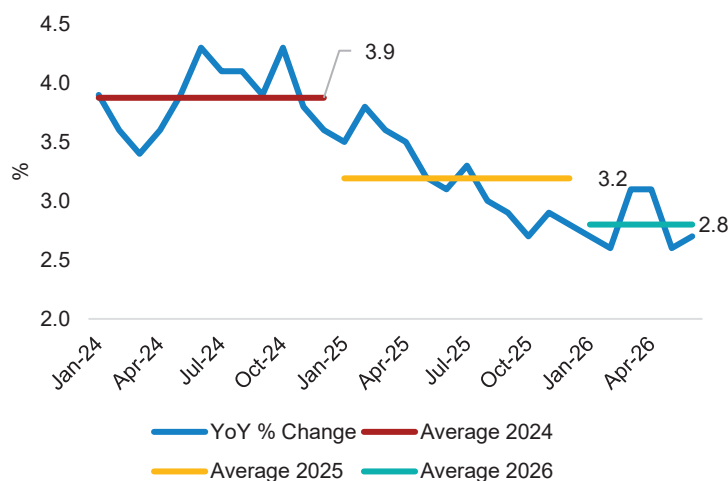
Source: Bank of Canada, AM Best data and research

hiring slowed. More recently, slower population growth has begun to moderate the pace of labor-force expansion, which should gradually reduce some of this pressure. At the same time, population aging continues to weigh on labor force participation.

Wage growth has also moderated as demand for labor has softened. According to the Labor Force Survey, year-over-year growth in average hourly wages averaged 3.9% in 2024 and 3.2% in 2025. Wage growth slowed further in 2026, averaging approximately 2.8%

through June. The moderation follows several years of stronger wage gains as labor shortages eased and businesses faced less competition for workers. Even so, wage growth remains positive and continues to support household incomes (**Exhibit 8**).

Exhibit 8
Wage Growth, Year-over-Year

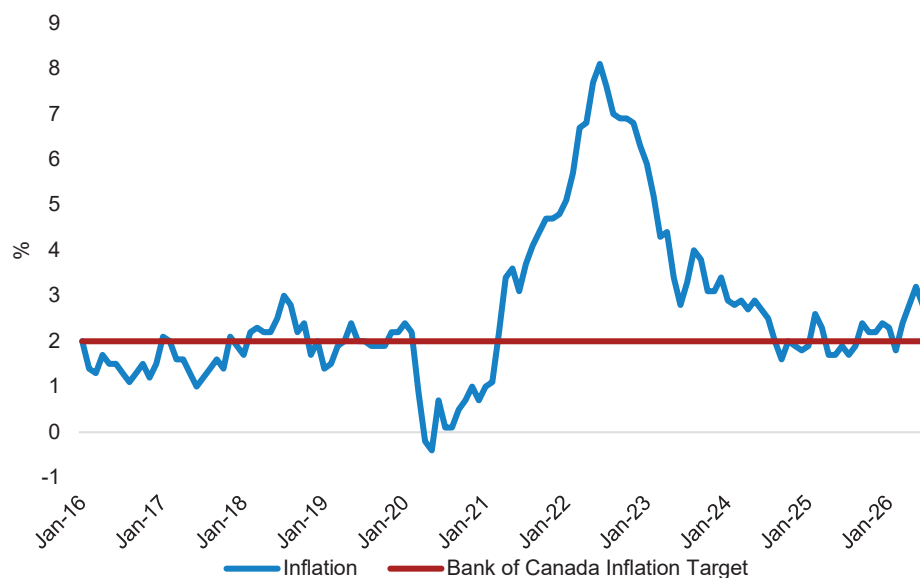


Source: Bank of Canada, AM Best data and research

Higher Energy Prices Driving Inflation Rise

Inflation picked up in 2026, reaching 3.0% year-over-year in July after remaining closer to the Bank of Canada's 2.0% inflation target during much of the previous year (**Exhibit 9**). According to the Bank of Canada, the increase in inflation has been driven largely by higher gasoline and other energy costs related to the conflict in the Middle East, along with some pass-through from tariffs. In July 2026, the price of gasoline increased by over 25% on a year-over-year basis (**Exhibit 10**).

Exhibit 9
Headline Inflation



Source: Bank of Canada

These pressures have been partly offset by slower wage growth and softer service-price inflation. The Bank of Canada expects inflation to ease during the second half of 2026, although the economic outlook remains sensitive to energy prices and ongoing developments in the trade environment. However, consumers' inflation expectations remain elevated, with households continuing to cite tariffs, energy prices, and the broader cost of living as important sources of future price pressures. Consumers expect inflation to remain above 3.0% over the medium term (**Exhibit 11**).

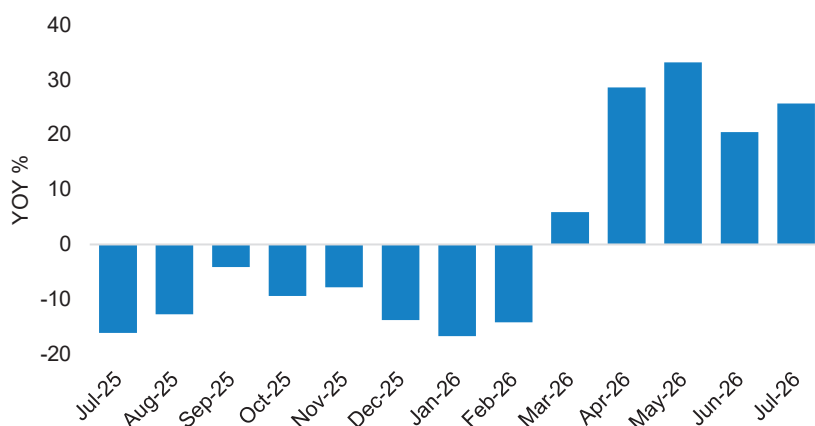
Bank of Canada Expected to Hold Rates

The Bank of Canada continued to ease monetary policy through 2025, lowering its policy rate by a cumulative 100 basis points to 2.25%, with the final rate cut occurring in October 2025. At that time, inflation was broadly around its 2.0% target, giving policymakers room to provide additional support as US tariffs and heightened trade uncertainty weighed on the economic outlook. However, persistent underlying inflation pressures and uncertainty surrounding the inflationary effects of tariffs led the Bank to pause further easing after October.

The Bank has maintained the policy rate at 2.25% throughout 2026. While weak economic growth and continued trade uncertainty have reduced the case for tighter monetary policy, higher energy prices have pushed headline inflation higher. Core inflation measures have generally eased, although inflation pressures remain uneven, supporting expectations that the Bank will keep rates unchanged through the remainder of 2026 (**Exhibit 12**).

Exhibit 10

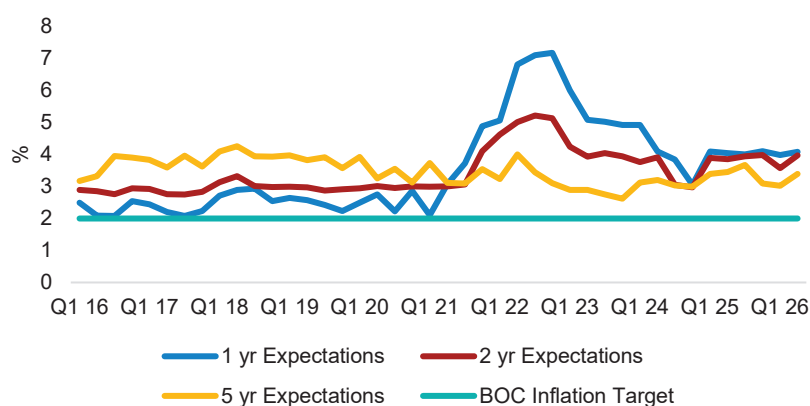
Gas Prices, Year-over-Year % Change



Source: Statistics Canada

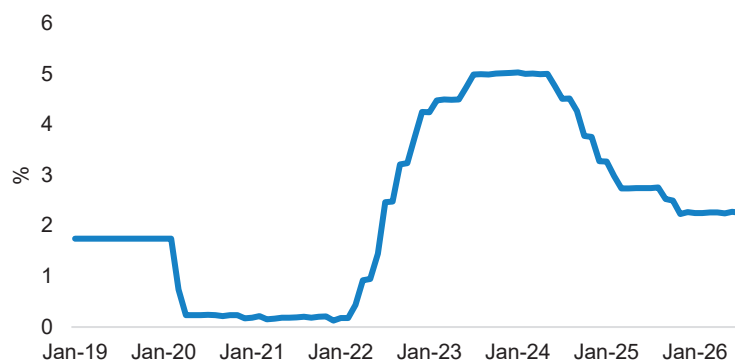
Exhibit 11

Consumers' Inflation Expectations



Source: Bank of Canada

Exhibit 12

Overnight Money Market Financing; 7- day average

Source: Bank of Canada

Published by AM Best
BEST'S SPECIAL REPORT

A.M. Best Company, Inc.
 Oldwick, NJ

CHAIRMAN, PRESIDENT & CEO Arthur Snyder III
SENIOR VICE PRESIDENT & CFO Cynthia Young
SENIOR VICE PRESIDENT Lee McDonald

A.M. Best Rating Services, Inc.
 Oldwick, NJ

PRESIDENT James Gillard
EXECUTIVE VICE PRESIDENT & COO Stefan W. Holzberger
EXECUTIVE VICE PRESIDENT & CSO Andrea Keenan
EXECUTIVE VICE PRESIDENT & CIO James F. Snee
SENIOR MANAGING DIRECTOR & CRO Kenneth Johnson
SENIOR MANAGING DIRECTOR & CCO Edward H. Easop

AMERICAS

WORLD HEADQUARTERS

A.M. Best Company, Inc.
 A.M. Best Rating Services, Inc.
 1 Ambest Road, Oldwick, NJ 08858
 Phone: +1 908 439 2200

MEXICO CITY

A.M. Best América Latina, S.A. de C.V.
 Av. Paseo de la Reforma 412, Piso 23,
 Col. Juárez, Alcaldía Cuauhtémoc, C.P. 06600, Mexico City, Mexico
 Phone: +52 55 1102 2720

EUROPE, MIDDLE EAST & AFRICA (EMEA)

LONDON

A.M. Best Europe - Information Services Limited
 A.M. Best Europe - Rating Services Limited
 12 Arthur Street, 8th Floor, London, UK EC4R 9AB
 Phone: +44 20 7626 6264

AMSTERDAM

A.M. Best (EU) Rating Services B.V.
 NoMA House, Gustav Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands
 Phone: +31 20 308 5420

DUBAI*

A.M. Best Europe - Rating Services Ltd. - DIFC Branch*
 Office 102, Tower 2, Currency House, DIFC
 P.O. Box 506617, Dubai, UAE
 Phone: +971 4375 2780

*Regulated by the DFSA as a Credit Rating Agency

ASIA-PACIFIC

HONG KONG

A.M. Best Asia-Pacific Limited
 Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
 Phone: +852 2827 3400

SINGAPORE

A.M. Best Asia-Pacific (Singapore) Pte. Ltd
 8 Cross Street, #21-03 Manulife Tower
 Singapore 048424
 Phone: +65 6303 5000



Best's Financial Strength Rating (FSR): an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts.

Best's Issuer Credit Rating (ICR): an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis.

Best's Issue Credit Rating (IR): an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

Best's National Scale Rating (NSR): a relative measure of credit-worthiness in a specific local jurisdiction that is issued on a long-term basis and derived exclusively by mapping the NSR from a corresponding global ICR using a transition chart.

Rating Disclosure: Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile, and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.