Canada Macroeconomic Snapshot

Growth Prospects Held Back By Uncertainty Over U.S. Tariffs

Satyam Panday

Gurleen Miglani

Debabrata Das

Amrita Bhattacharya

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S&P Global Ratings

This report does not constitute a rating action

U.S. tariffs on Canadian goods | State of play

- Canada received much lighter treatment than other U.S. trading partners during U.S. President Donald Trump's April 2 tariff announcement.
- The current 25% tariff--which the U.S. said it imposed to help spur action on border security and against fentanyl trafficking--will remain in place. But it comes with an exemption for goods complying with the United States-Mexico-Canada Agreement (USMCA), and a lower 10% tariff for energy and potash.
- On top of that, autos face a 25% tariff (albeit with an allowance for U.S. content in vehicles), and steel and aluminum face a 50% tariff.
- If we assume about 75% of Canadian exports will ultimately be deemed USMCA-compliant (certification rates continue to increase steadily), then the import-weighted U.S. tariff would be roughly 10%.

Canada-U.S. trade negotiations | Where do they stand?

- Talks are ongoing between Canada and the U.S. over a new trade and security deal. Both sides have expressed a desire to reach an agreement in coming weeks.
- The pause on the tariffs that were announced April 2 is due to expire July 9. While the U.S. so far has little to show for it in terms of new trade deals, an agreement with Canada could be low-hanging fruit.
- Any deal would likely serve as a stopgap until the USMCA is renegotiated in 2026.
- The Canadian government's new border security bill, which was recently made public, features measures that would give border agents greater authority to search for illicit drugs. The Trump administration could point to this as a concession earned and use it as justification for cutting a deal.

Economic outlook for Canada | Summary

- Since the U.S. has imposed higher tariffs on most other countries, Canada no longer appears to be at a competitive disadvantage (a position it appeared to be in before April).
- Real GDP grew at a respectable 2.2% annualized rate in the first quarter (driven by inventory accumulation and healthy growth in exports), up from 2.1% in the fourth quarter.
- Nonetheless, with the higher tariff on Canada's auto exports, and with consumers' and businesses' ongoing concerns about future U.S. trade policy, Canada's economy is still set to see below-potential GDP growth in the near term (even though we think it'll likely avoid a recession).
- Companies will likely keep major investment projects on hold ahead of the USMCA renegotiation.

Editor's note: S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential shifts and reassess our guidance accordingly (see our research here: spglobal.com/ratings).

Economic outlook for Canada | Summary

- The growth in Canadian exports to the U.S. will likely slow, but for a more conventional reason: Prospects for real GDP growth in the U.S. have deteriorated.
- The pace of job gains has slowed significantly this year, with businesses pausing their hiring plans. We think the unemployment rate will stay at roughly 7% through the end of 2025, up from the 6.4% average for 2024.
- The scrapping of the carbon tax will keep a lid on headline inflation, but the underlying core inflation (CPI-mean and CPI-median) has been rising recently, toward 3%.
- We think there will likely be three 25-basis-point rate cuts over the rest of 2025. This would take the policy rate to 2.0% at the end of the year, from 2.75% currently.

Canada | Summary of economic forecasts as of May 1, 2025

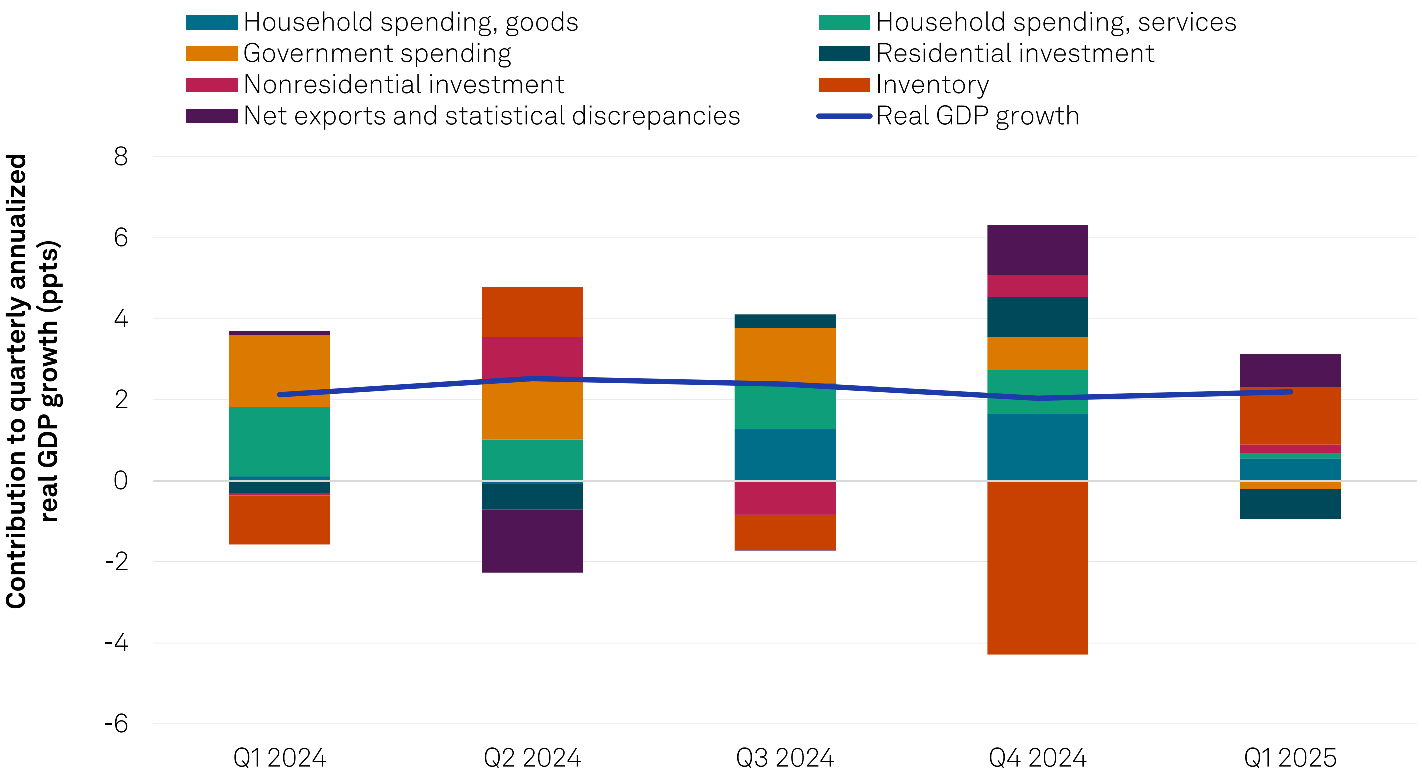
S&P Global Ratings' Canada economic forecast

May 2025										
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025f**	**2026f**	**2027f**	**2028f**
Key indicators										
(Annual average % change)										
Real GDP	1.9	(5.0)	6.0	4.2	1.5	1.5	1.4	1.6	2.1	2.1
Domestic demand	1.1	(5.4)	7.4	5.2	0.1	1.6	2.2	1.5	1.9	2.1
Consumer spending	1.6	(6.3)	5.8	5.5	1.9	2.4	2.5	2.0	2.1	2.0
Private nonresidential fixed investment	3.2	(12.4)	6.7	6.3	0.9	(1.9)	(0.2)	(1.6)	1.5	1.7
Private residential investment	(0.8)	2.9	14.0	(10.6)	(8.5)	(1.1)	1.7	1.6	1.3	1.9
Government consumption	1.1	1.3	5.6	3.2	2.2	3.2	3.3	2.6	1.6	1.7
Government fixed investment	(3.0)	2.2	0.9	(0.5)	4.8	7.2	2.2	2.3	2.2	1.6
Real exports	2.3	(9.0)	3.3	4.2	5.0	0.6	0.9	0.5	2.5	1.7
Real imports	(0.1)	(9.4)	8.4	7.5	0.3	0.6	0.8	0.4	2.0	1.9
CPI	2.0	0.7	3.4	6.8	3.9	2.4	2.4	2.1	1.8	1.9
Core CPI	2.1	1.1	2.4	5.0	3.9	2.6	2.5	2.2	1.9	2.4
(Annual average levels)										
Unemployment rate (%)	5.7	9.7	7.5	5.2	5.4	6.4	7.0	6.7	6.3	6.1
Housing starts ('000s)	207.40	218.90	273.20	261.80	241.00	245.50	227.50	214.40	210.90	207.30
Bank of Canada policy rate, year end (%)	1.80	0.20	0.30	4.30	5.00	3.25	2.00	2.25	2.75	2.75
10-year Treasury yield (%)	1.6	0.7	1.4	2.8	3.3	3.4	2.7	2.5	2.8	2.9
Exchange rate per US$	1.33	1.34	1.25	1.30	1.35	1.37	1.40	1.37	1.31	1.30
Exchange rate per US$, Q4 average	1.32	1.30	1.26	1.36	1.36	1.44	1.37	1.36	1.32	1.30

First-quarter GDP growth | Respectable, but signaling weakening domestic final sales

- Economic growth in Canada stayed steady in the first quarter--a 2.2% annualized rate, compared with 2.1% the previous quarter.
- The headline growth numbers look strong, but the underlying conditions suggest weakness in domestic demand.
- The labor market weakened in the first quarter, particularly in trade-intensive sectors. Household spending remained subdued, with consumer spending adding 0.6 percentage points (ppts) to growth. (The contribution to growth in the second half of 2024 averaged 2.5 ppts.)
- Government spending also declined in the first quarter, together with residential investment.

Contribution to real GDP growth from major segments

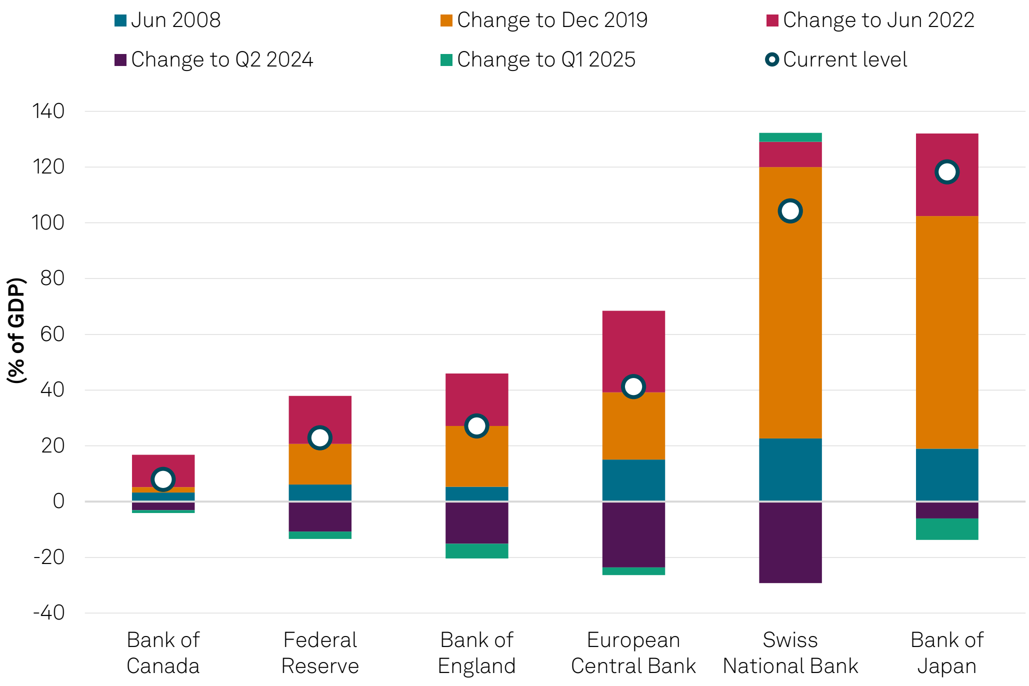


ppts--Percentage points. Sources: Statistics Canada, S&P Global Market Intelligence, and S&P Global Ratings Economics.

Monetary policy | The Bank of Canada takes a wait-and-see approach

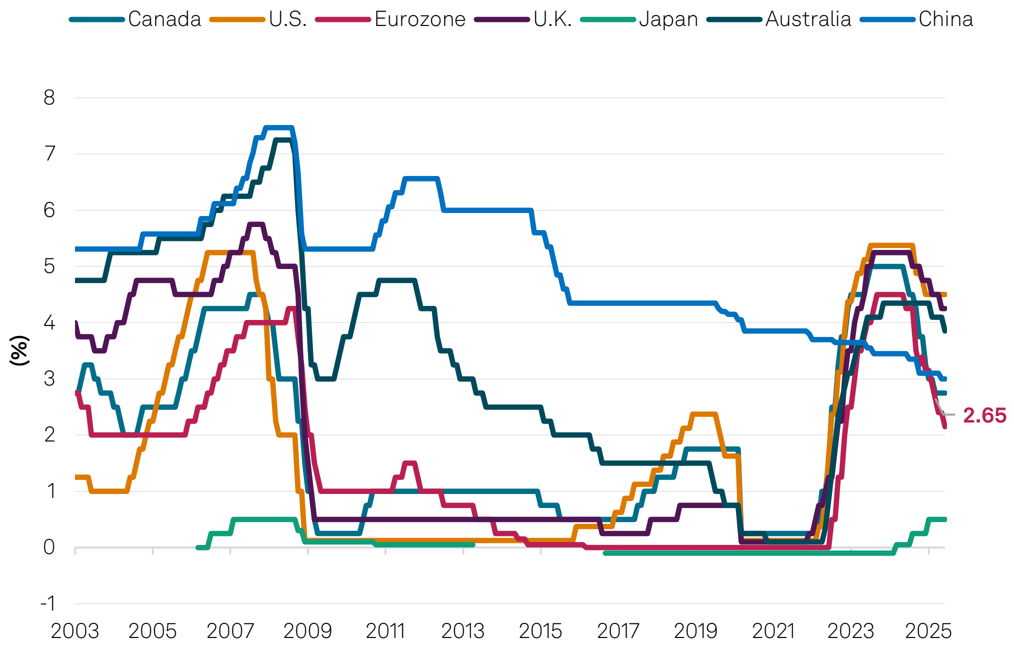
- The size of the Bank of Canada's balance sheet has gradually declined from its pandemic-era peak. The central bank has been unwinding emergency measures while maintaining stability in financial markets.
- It has kept its policy rate steady in recent meetings as it takes a cautious approach to lowering interest rates, and it's waiting for more economic data before making further rate cuts in 2025. The U.S. maintains the highest policy rate among the world's major economies.

Quantitative tightening: Central bank assets shrink



Sources: Central bank data and S&P Global Ratings Economics.

Major central bank policy rates



Data through June 10, 2025. Sources: Bank for International Settlements and S&P Global Ratings Economics.

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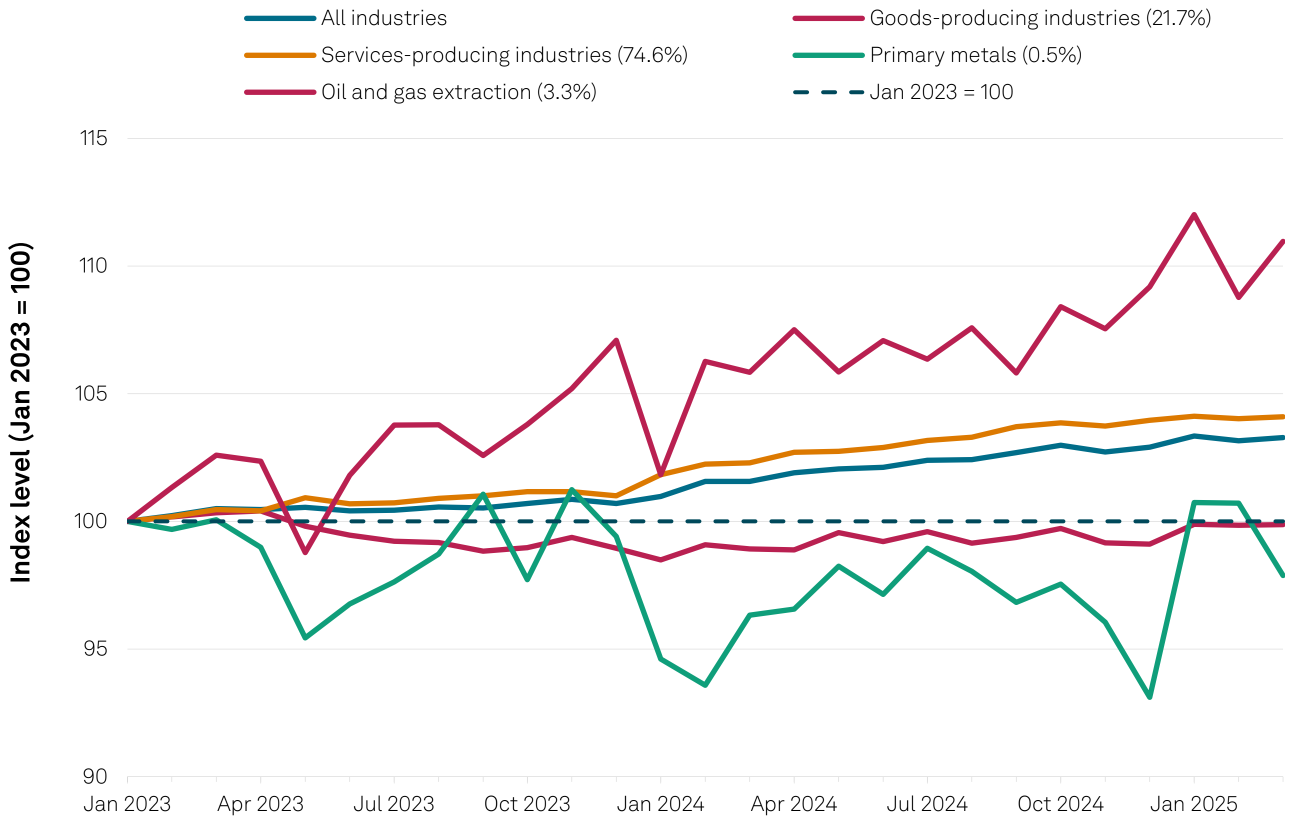
Goods-producing industries | Activity continues to be weak

GDP trends for Canada's major industries since 2023



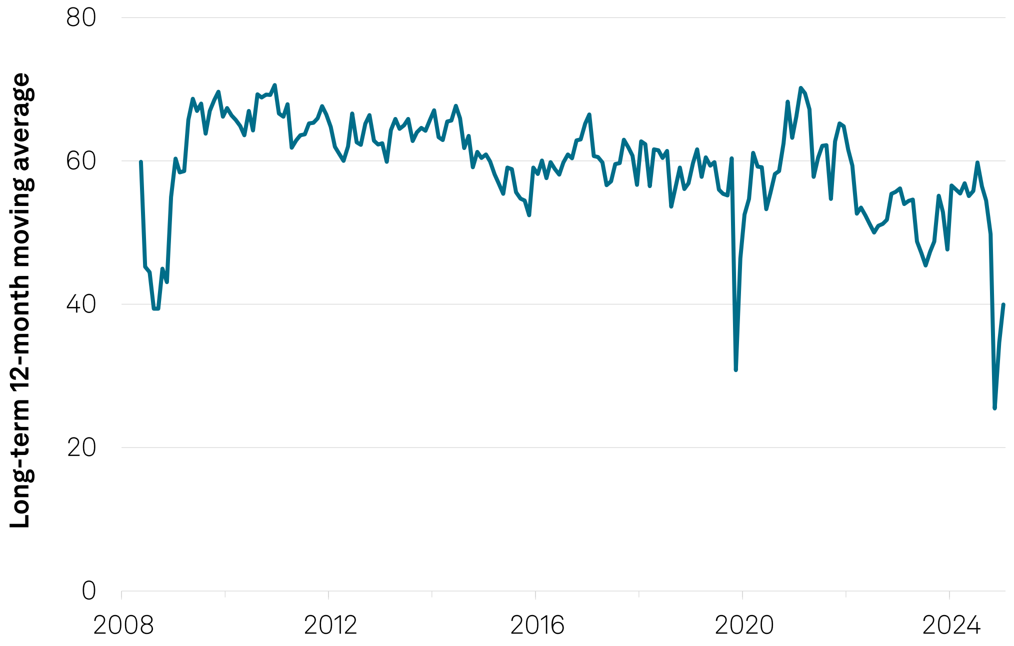
Sources: Statistics Canada and S&P Global Ratings Economics.

- Activity in Canada's goods-producing industries continues to be sluggish. But oil and gas extraction remains a bright spot.
- The services industries have been contributing the lion's share of growth--particularly the finance and insurance industries. Thirteen percent of the GDP growth, on average, since January of last year can be attributed to the finance and insurance industries.

Soft data | Indications of rising pessimism amid growing uncertainty

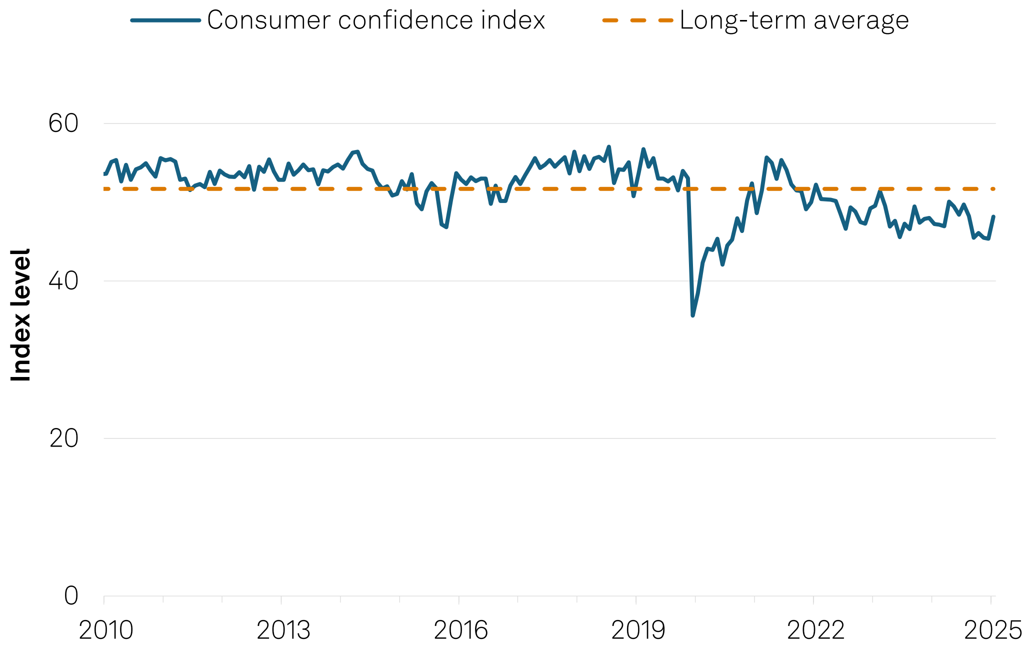
- Business sentiment continues to be weak, mainly because of trade-related uncertainty.
- The CFIB Business Barometer index plunged in March to a record low before improving in April and May. It remains well below its long-term average.
- Consumer confidence also signals potential weakness ahead amid growing concerns about jobs and economic growth.

CFIB's Business Barometer index



Data through May 2025. Sources: Canadian Federation of Independent Business (CFIB).

Consumer confidence index

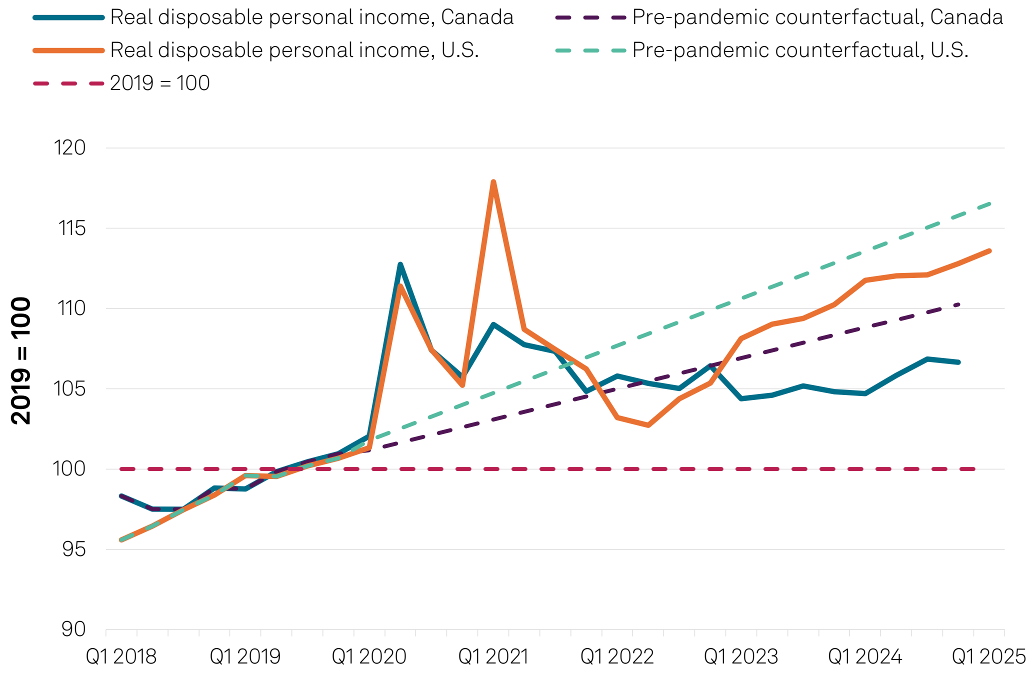


Data through May 2025. Source: The Refinitiv/Ipsos Consumer Sentiment Index.

Consumer spending | Picking up, with support from rising income

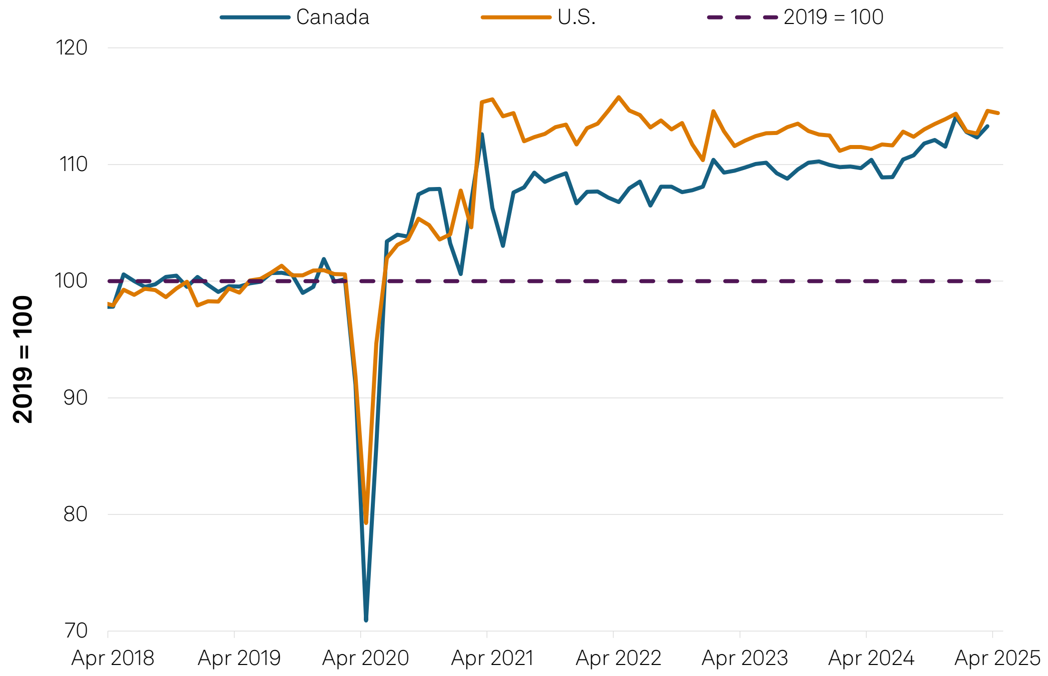
- In Canada, disposable income has been picking up since the start of last year, with support from solid wage growth.
- Growth in retail sales volume also picked up in the fourth quarter of 2024 (to 2.2% year over year). And it continued into the first quarter of 2025 (2.8% year-over-year growth, on average), despite a slowdown in employment growth.

Real disposable personal income



Note: Pre-pandemic counterfactual refers to the 2018-2019 period. Sources: U.S. Bureau of Economic Analysis, Federal Reserve Bank of Dallas, and S&P Global Ratings Economics.

Retail sales volume



Canada data through March 2025; U.S. data through April 2025. Sources: Statistics Canada, U.S. Bureau of Economic Analysis, and S&P Global Ratings Economics.

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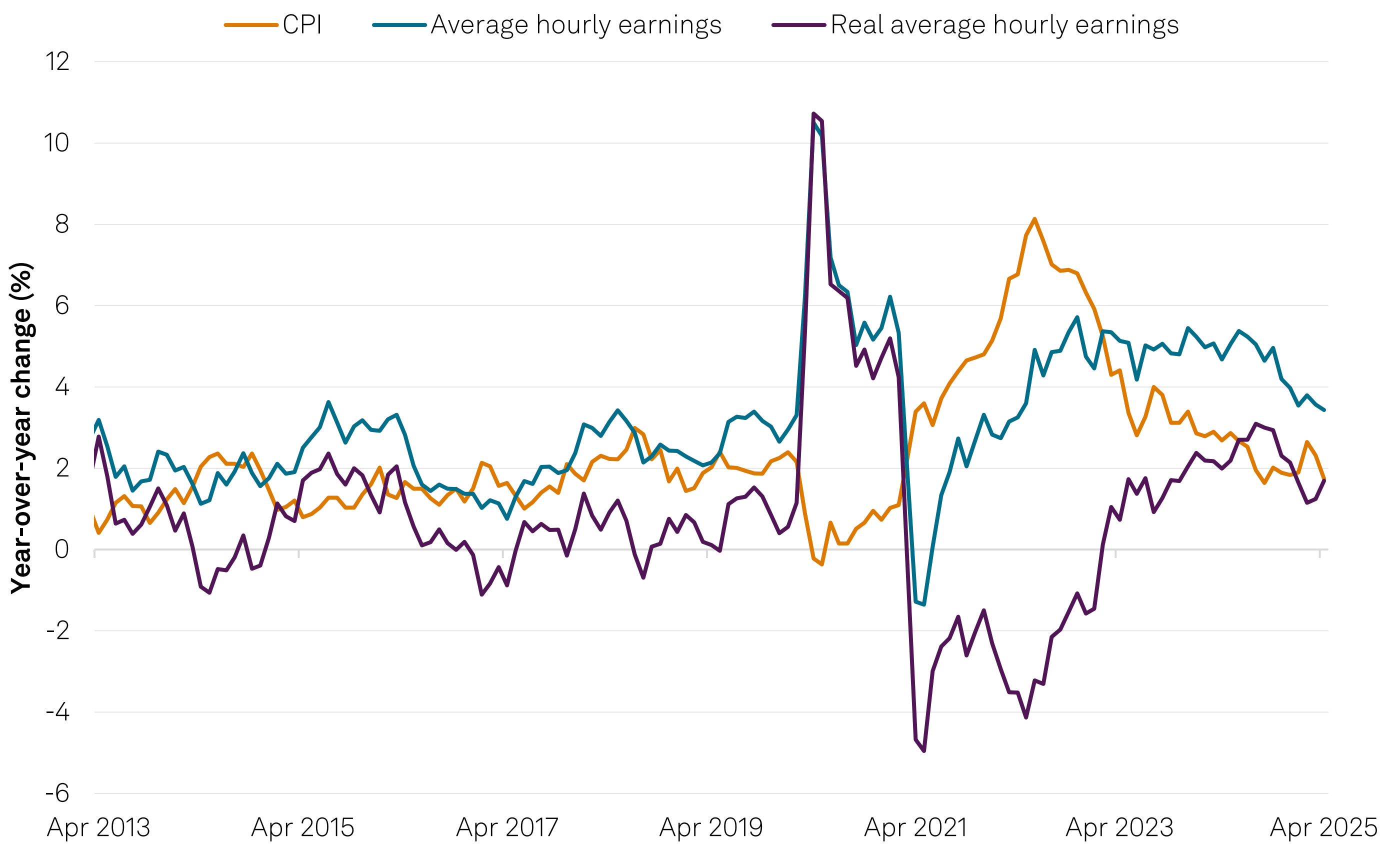
Wage growth | Still solid despite a slowdown in job growth

Real wage growth remained solid as inflation moderated



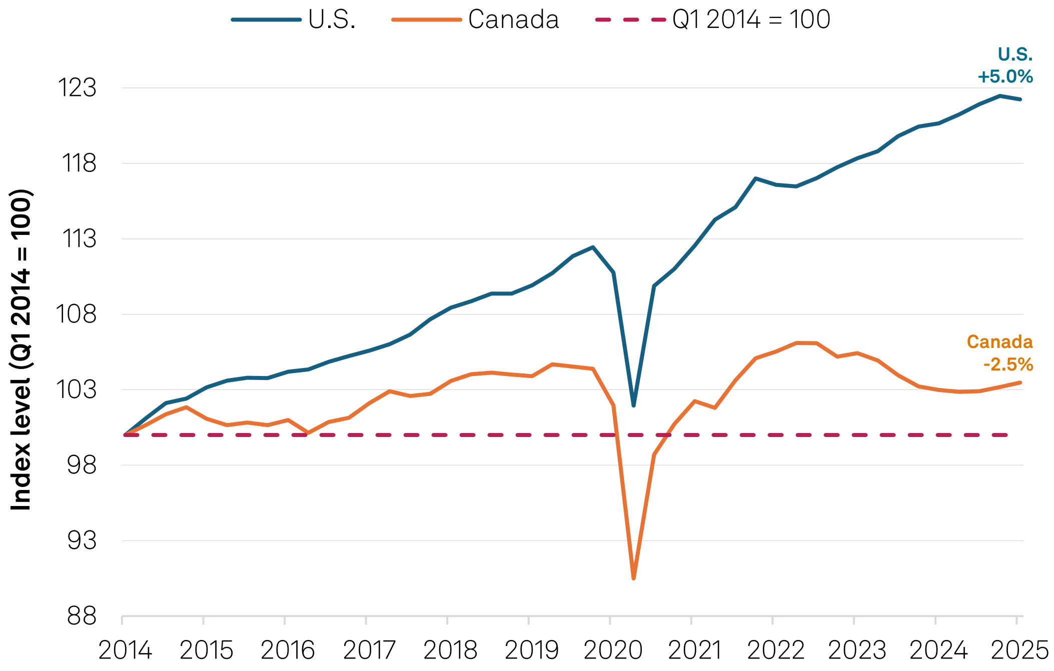
Data through April 2025. Sources: Statistics Canada and S&P Global Ratings Economics.

- Canada's nominal wages continue to increase at a solid pace. The year-over-year nominal wage growth figures in the first four months of 2025 averaged 3.6%, down from the 4.9% average figure in 2024. But it remains well above the pre-pandemic average.
- Meanwhile, disinflation persists, largely because of falling energy prices. This, in fact, has kept real wage growth consistently positive.
- Wage growth in the wholesale and retail sector continues to moderate. The year-over-year wage growth figures so far this year have averaged 0.8%, compared with 4.4% last year. This clearly shows a divergence in wage growth between higher-skilled sectors and lower-skilled sectors.

Real GDP per capita | Canada and the U.S. diverge

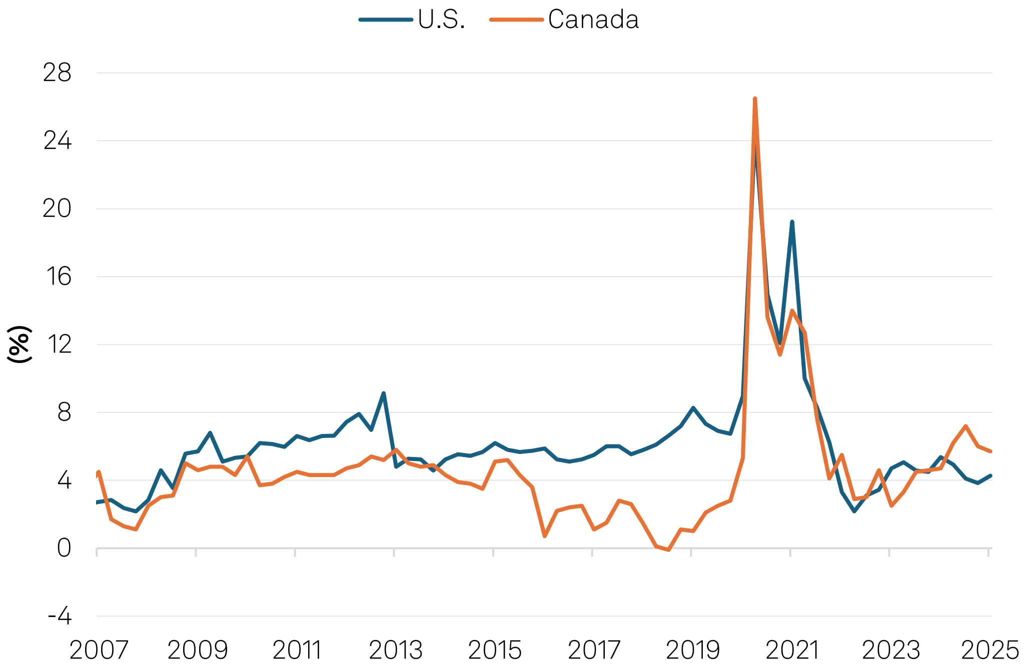
- Real GDP per capita in Canada had declined for seven straight quarters--from the second quarter of 2022 through the end of 2023--as population growth outpaced real economic expansion, and as productivity growth declined. The gap between Canada and the U.S. continues to widen.
- Meanwhile, Canada's household savings rate picked up in recent quarters, as concerns about uncertainty and a potential growth downturn led to higher savings (as a precaution).

Real GDP per capita, Canada and the U.S.



Data through the first quarter of 2025. Sources: U.S. Bureau of Economic Analysis, Statistics Canada, and S&P Global Ratings Economics.

Household savings rate

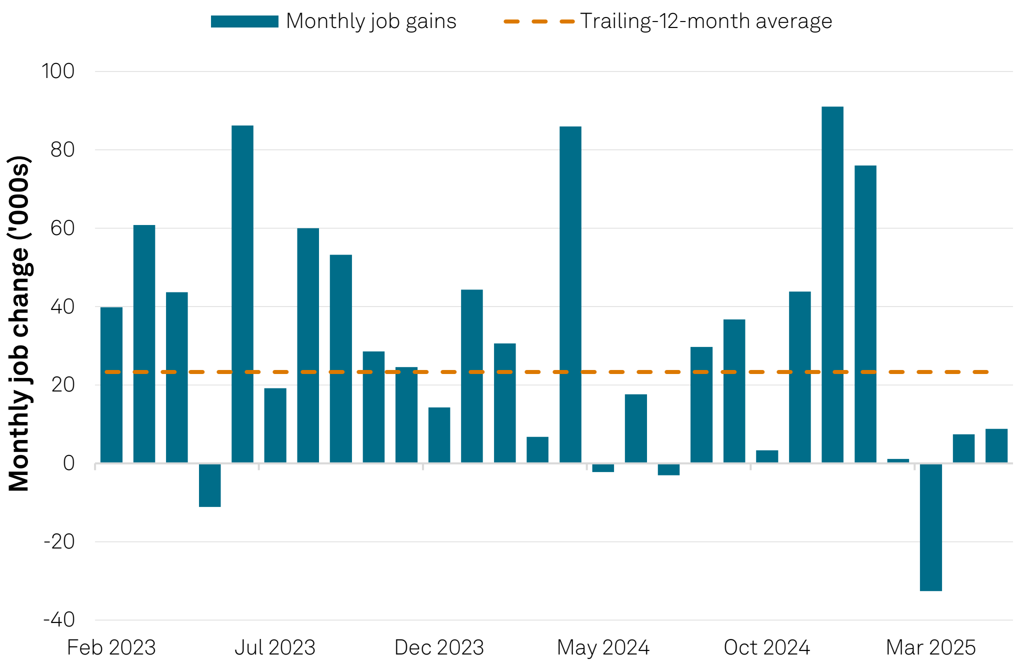


Data through the first quarter of 2025. Sources: U.S. Bureau of Economic Analysis, Statistics Canada, and S&P Global Ratings Economics.

Labor market | Softening materially, particularly in manufacturing

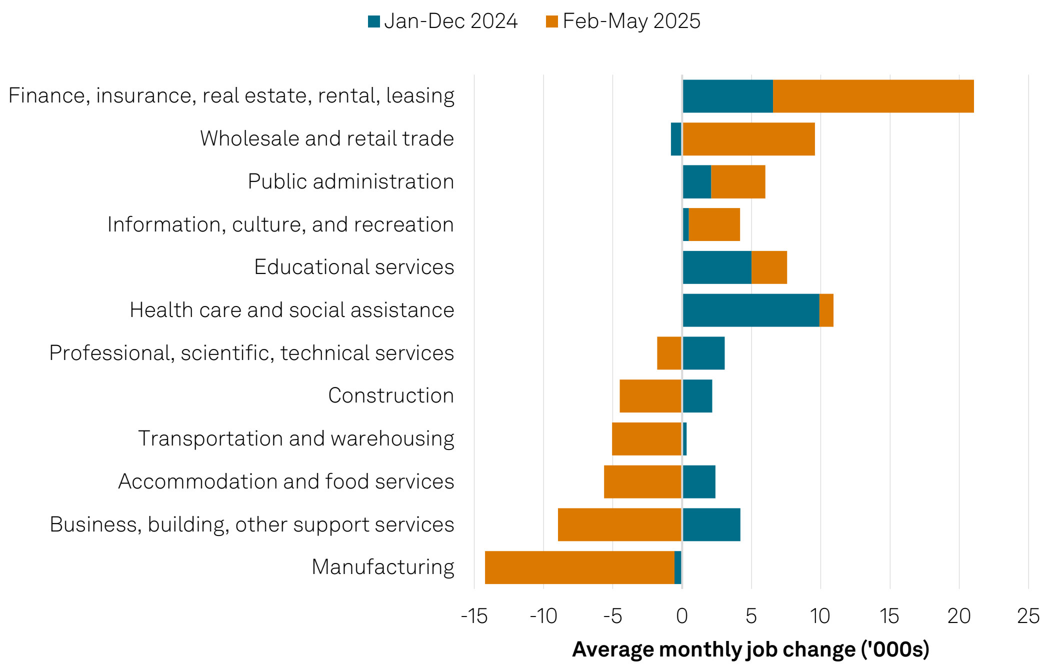
- Canada's labor market has cooled over the past four months as mounting trade and tariff concerns dragged employment lower, particularly manufacturing jobs. Businesses are showing restraint when it comes to hiring.
- The manufacturing sector has lost 54,700 jobs since February. The wholesale and retail trade sector added 42,800 jobs in May after losing 55,300 in March and April. Public administration lost 32,000 jobs in May after adding 48,000 jobs between February and April. The financial sector remained the main contributor to overall job gains, adding 58,000 jobs since February.

Employment figures in Canada are sliding



Data through May 2025. Sources: Statistics Canada and S&P Global Ratings Economics.

Change in employment by industry

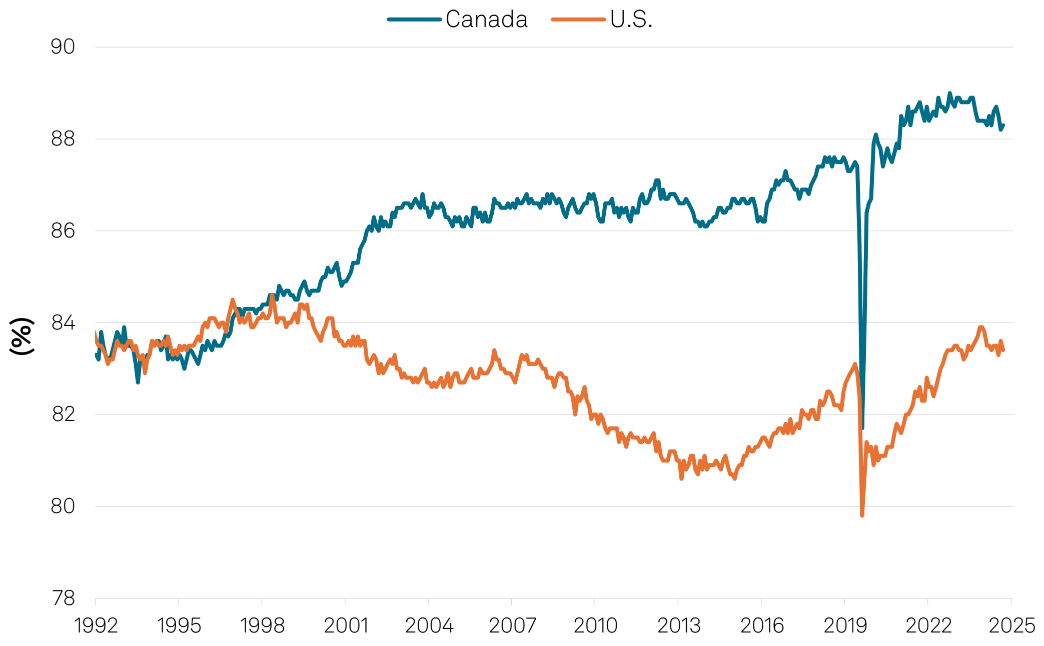


Data through May 2025. Sources: Statistics Canada and S&P Global Ratings Economics.

Prime-age employment rate | The decline continues

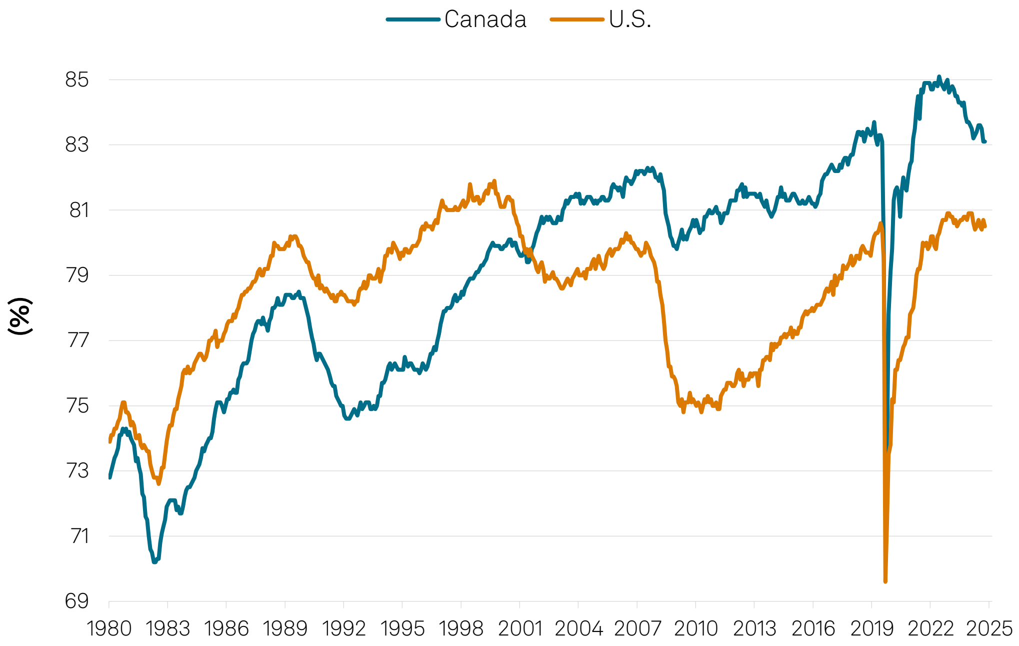
- Canada's prime-age employment rate has dipped 2 percentage points since January 2023.
- Since that time, the country's prime-age population has increased by close to 1.30 million, driven by a higher number of immigrants and permanent residents. Employment rose by 0.76 million. The drop in the employment rate signals softer labor market conditions.
- In the U.S. during the same period, the employment rate largely remained stable despite a surge in population growth, indicating resilient labor market conditions there.

Prime-age (25-54) labor force participation rate



Data through May 2025. Sources: Organisation for Economic Co-operation and Development (OECD) and S&P Global Ratings Economics.

Ratio of prime-age employment to population

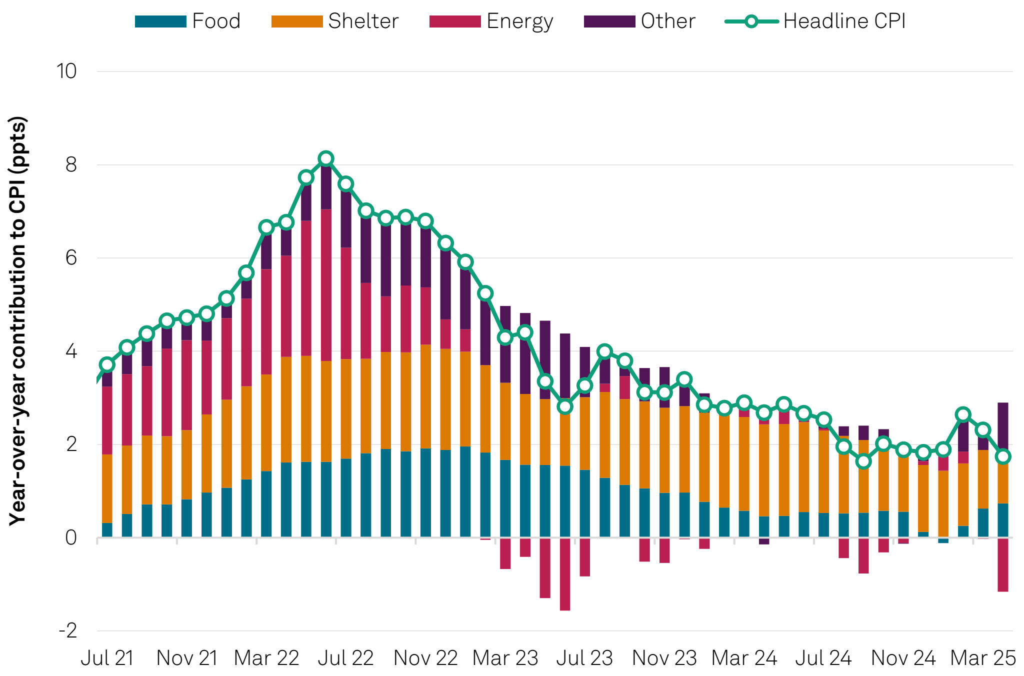


Data through May 2025. Sources: Organisation for Economic Co-operation and Development, Statistics Canada, and S&P Global Ratings Economics.

Core CPI | Staying at elevated levels

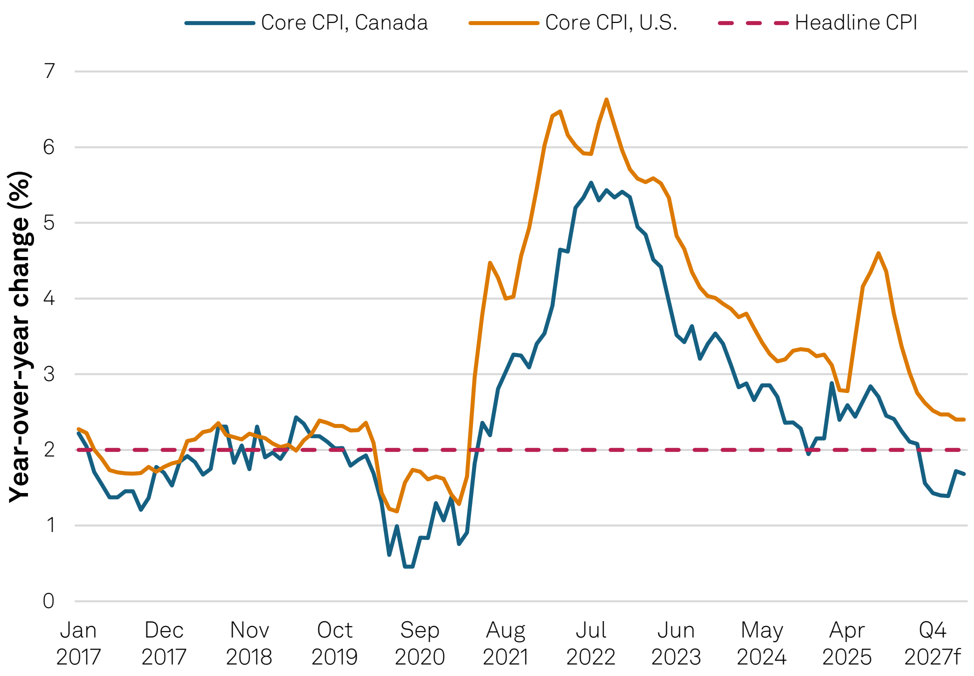
- Headline inflation in Canada slowed to 1.7% year over year in April, down from 2.3% in March. It was the lowest inflation reading since last September. A decline in energy prices continues to drag headline inflation lower, offsetting rising food inflation.
- Shelter prices have also moderated, to their lowest level in four years. The drop in mortgage rates was a factor.
- But core CPI (that is, CPI excluding food and energy) ticked up to 2.6% year over year in April, from 2.4% in March.

Declining energy prices softened headline CPI inflation



ppts--Percentage points. Sources: Statistics Canada and S&P Global Ratings Economics.

Core CPI inflation likely to reach 2% in 2027



f--Forecast. Sources: U.S. Bureau of Labor Statistics, Statistics Canada, S&P Global Market Intelligence, and S&P Global Ratings Economics.

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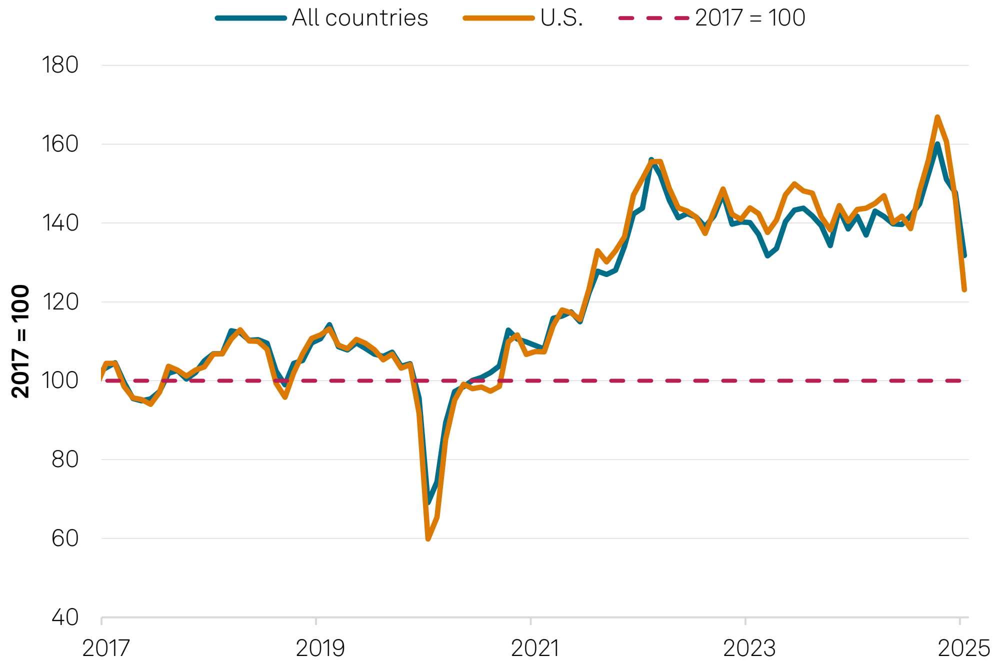
Trade | An April tumble amid tariffs and uncertainty

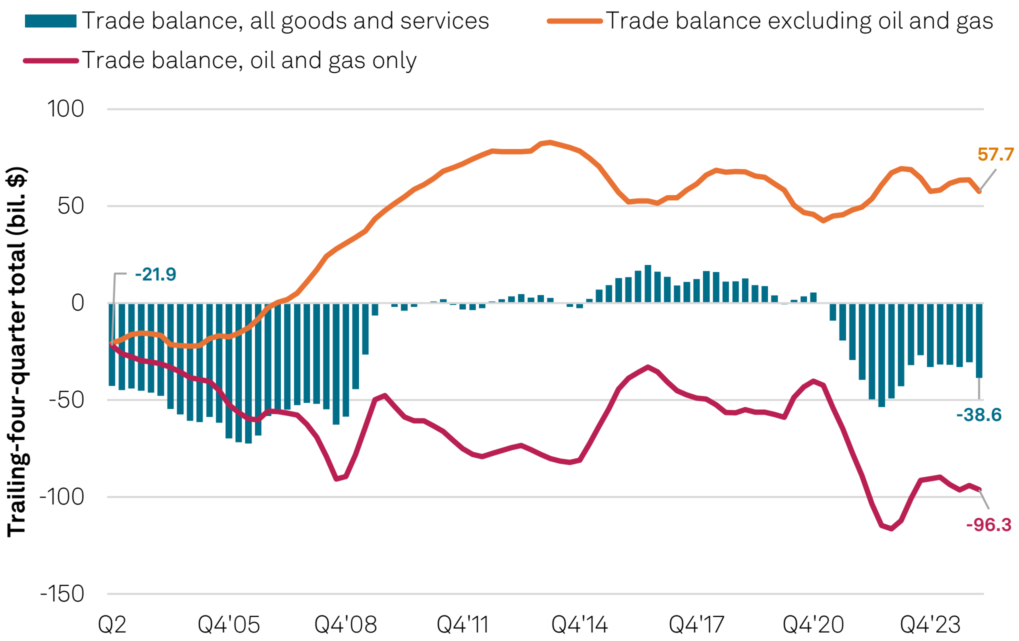
- Canada's merchandise exports sank 10.8% month over month in April after falling 2.2% in March. The monthly decline in April was the steepest in the past five years. Exports to the U.S. plunged 15.7% in April after a 9.1% drop in March, while exports to countries other than the U.S. in April rose 2.9%.
- April headwinds for Canadian exports included a reversal of efforts to front-run exports to the U.S. ahead of tariffs, general tariff uncertainty, and the Canadian dollar's appreciation. Outside of oil and gas, the U.S. continues to run a trade surplus with Canada.

Canadian exports plunged in April amid tariffs



Data through April 2025. Sources: Statistics Canada and S&P Global Ratings Economics.

Outside oil and gas, the U.S. has a trade surplus with Canada



Data through the first quarter of 2025. Sources: U.S. Census Bureau and S&P Global Ratings Economics.

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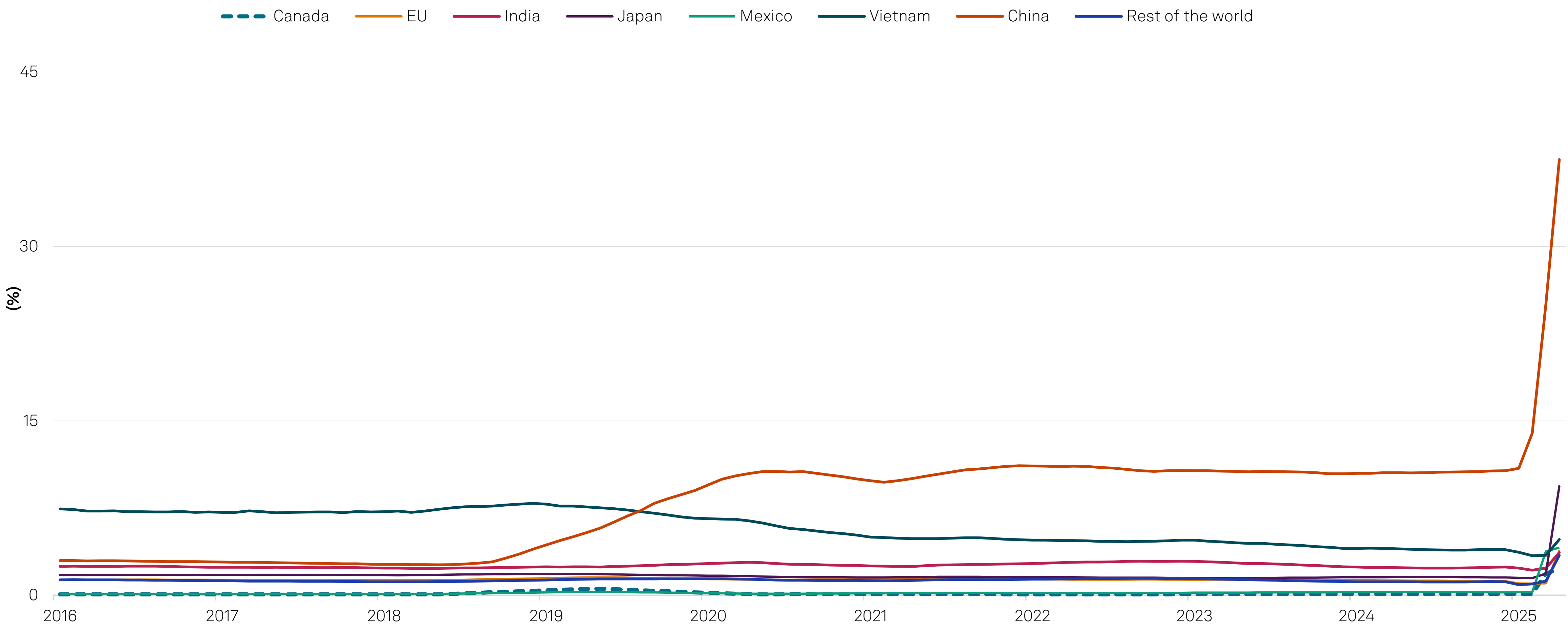
Tariffs | Effective U.S. tariff rates on various countries' goods are rising



The effective tariff rate is total tariff revenue collected as a percentage of goods imports. Sources: U.S. Census Bureau and S&P Global Ratings Economics.

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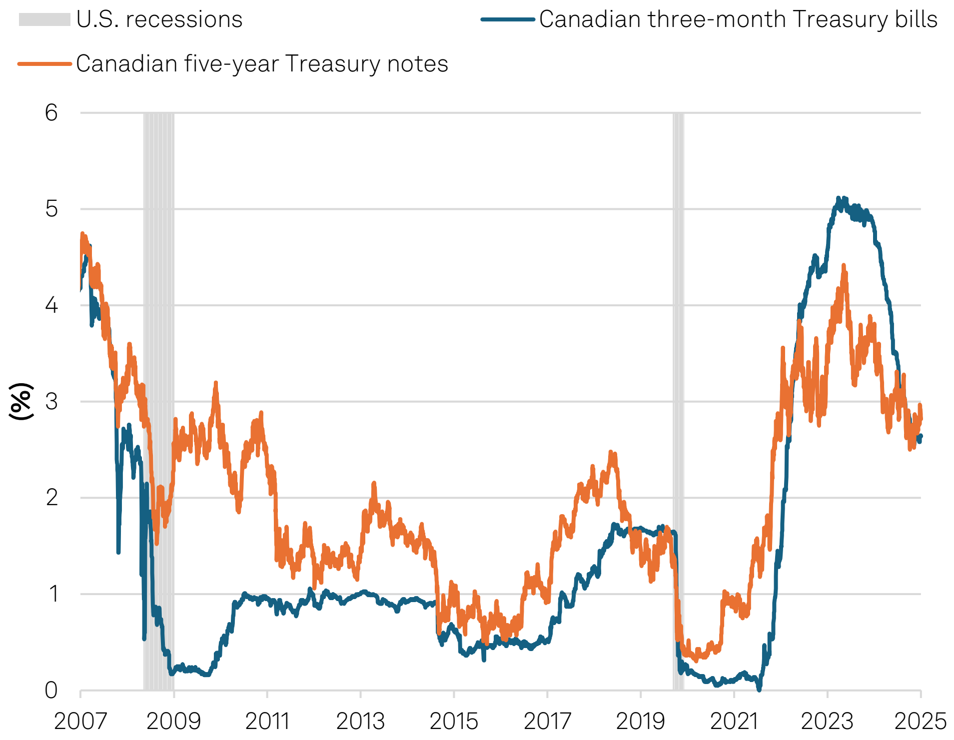
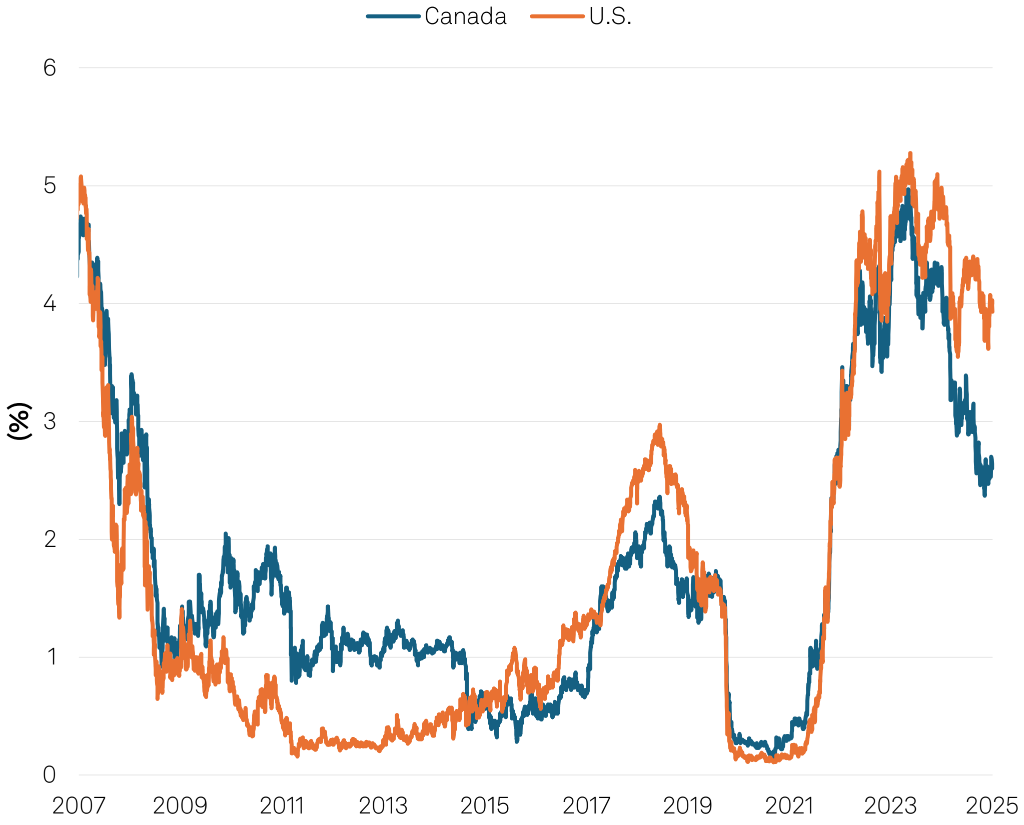
Interest rates | Despite a substantial drop, still well above the previous cycle

Yields on Canadian three-month Treasury bills versus five-year Treasury notes



Data through May 29, 2025. Sources: Refinitiv and S&P Global Ratings Economics.

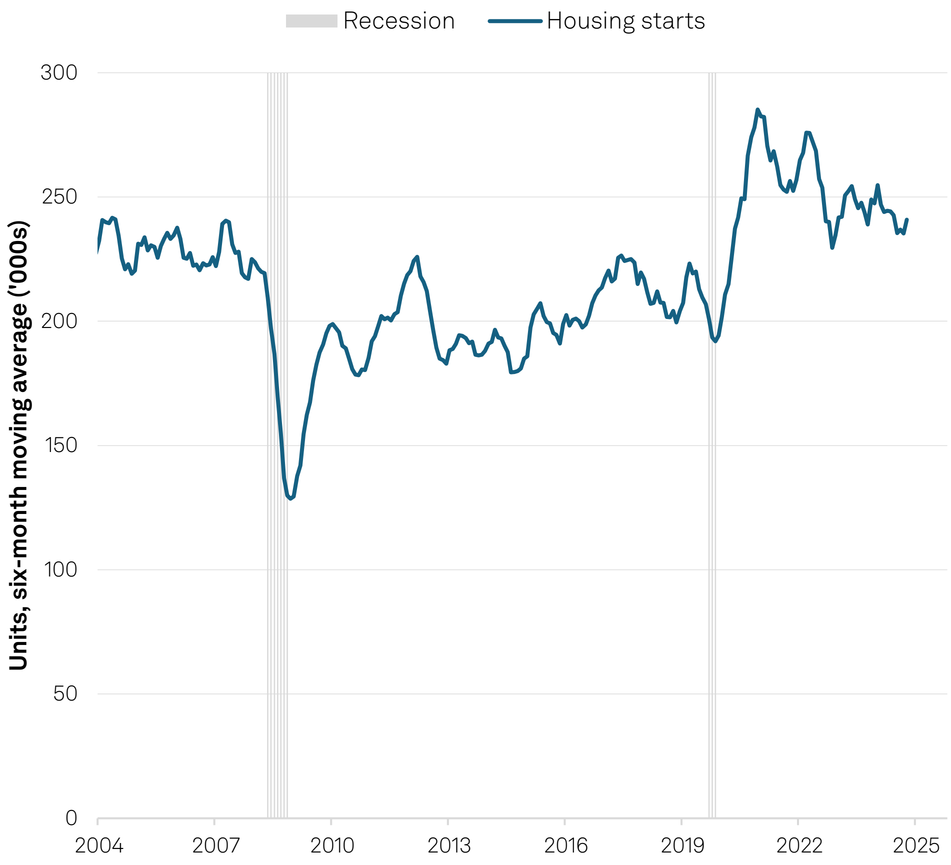
Canadian two-year Treasury bond yield



Data through May 30, 2025. Sources: Bank of Canada, U.S. Treasury, and S&P Global Ratings Economics.

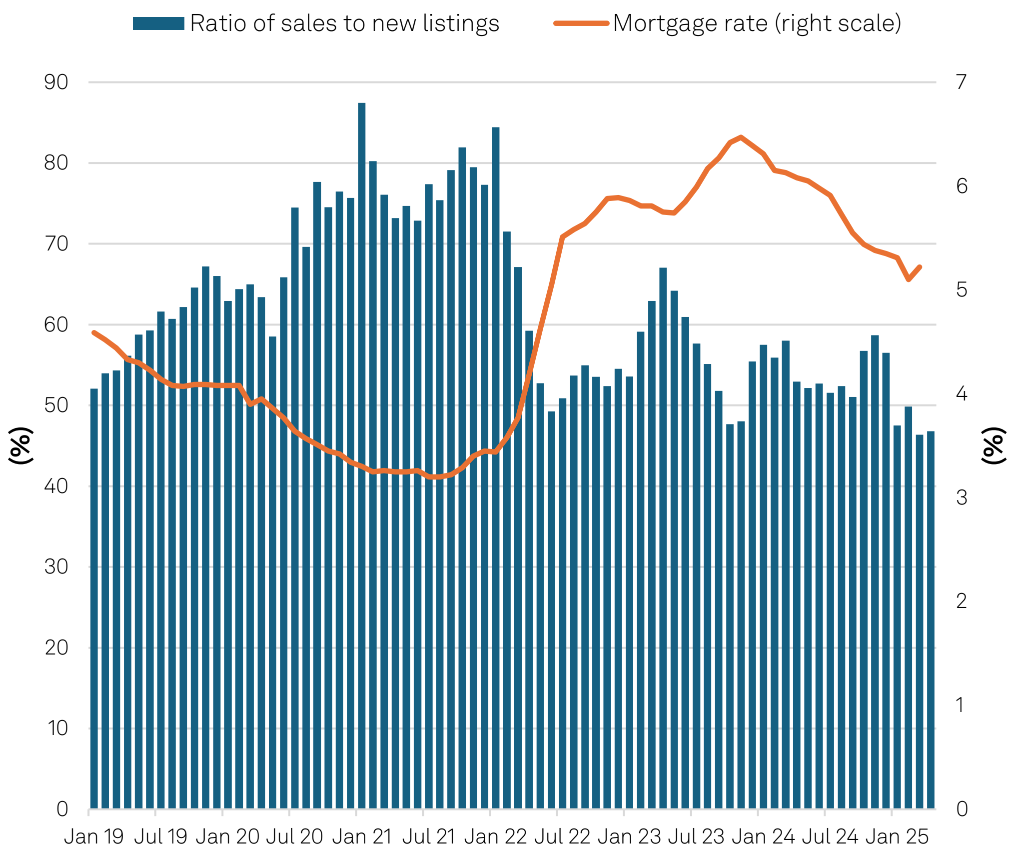
Housing activity | A slowdown in housing starts and sales

Housing starts in Canada



Data through April 2025. Sources: Statistics Canada and S&P Global Ratings Economics.

Home sales to new listings, and mortgage rates



Data through April 2025. Sources: Canadian Real Estate Assn., Canada Mortgage and Housing Corp., and S&P Global Ratings Economics.

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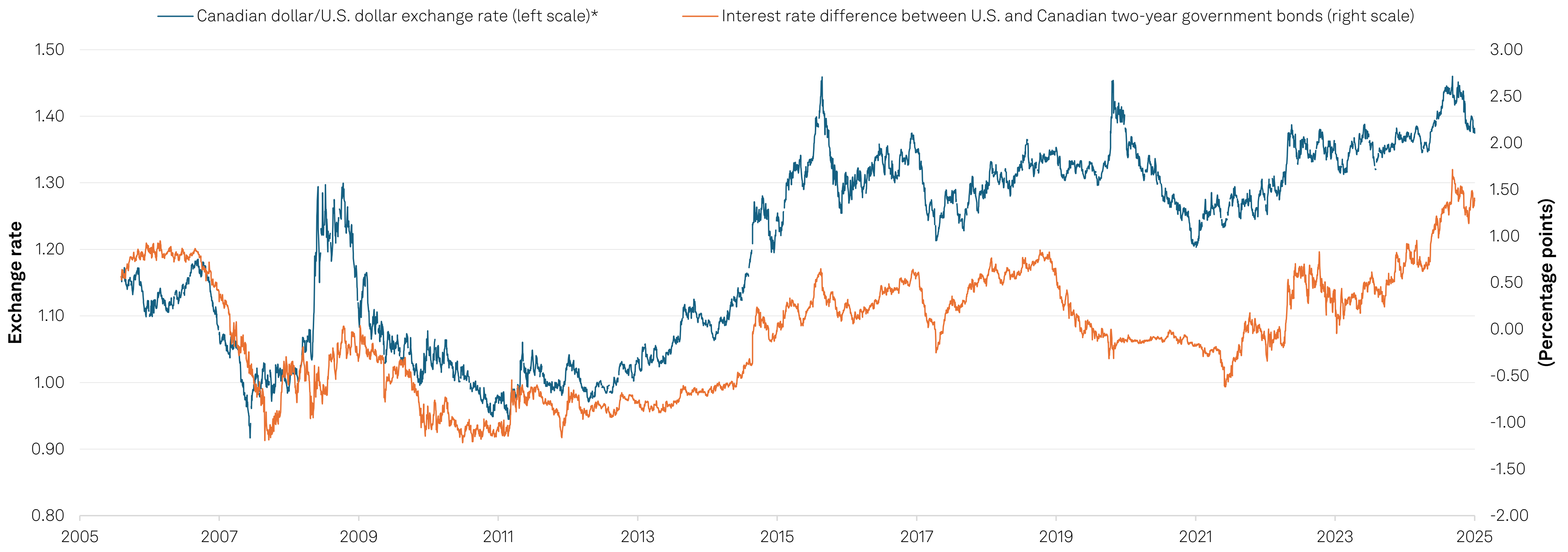
Exchange rates | The Canadian dollar has rebounded after the April 2 U.S. tariff announcement spurred a decline against the U.S. dollar

The Canadian dollar has reversed its loss from April



Data through May 30, 2025. *A higher value for this exchange rate signals a weaker Canadian dollar relative to the U.S. dollar. Sources: Federal Reserve Economic Data and S&P Global Ratings Economics.

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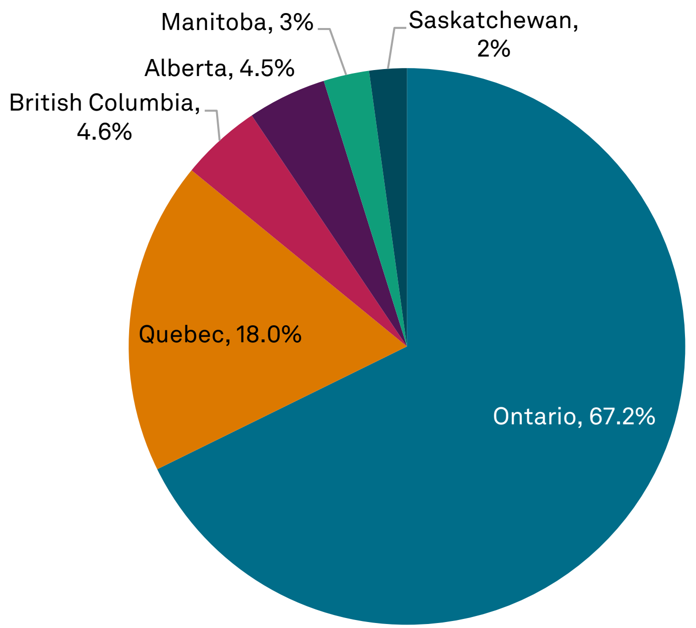
Ontario and Quebec | Headwinds from the steel and aluminum tariff

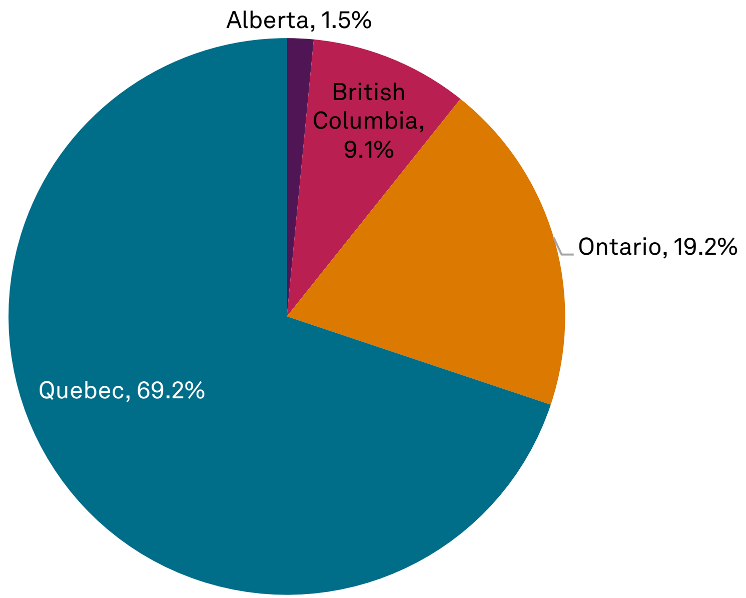
- Ontario remains the biggest exporter among Canada's provinces because of its iron and steel exports to the U.S. Ontario's share of the country's iron and steel exports rose to 67.2% in 2024 from 65.3% back in 2018. The steep tariff will likely impact its overall exports.
- Quebec is a major exporting hub of aluminum to the U.S. The province's share of exports has also climbed, to above 69% from 65.8% back in 2018. Ontario's share of Canada's aluminum exports to the U.S. dipped to 19% from 25% during the same period.

Iron and steel exports to the U.S. in 2024 by province



Sources: Statistics Canada and S&P Global Ratings Economics.

Aluminum exports to the U.S. in 2024 by province

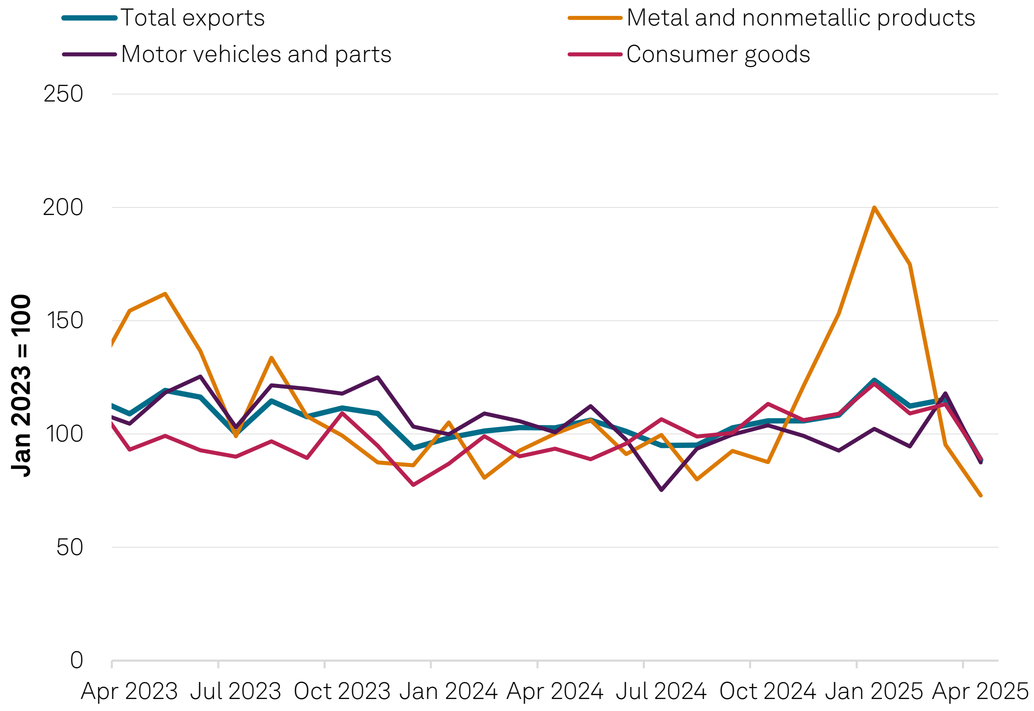


Sources: Statistics Canada and S&P Global Ratings Economics.

Ontario and Quebec | Headwinds from the steel and aluminum tariff

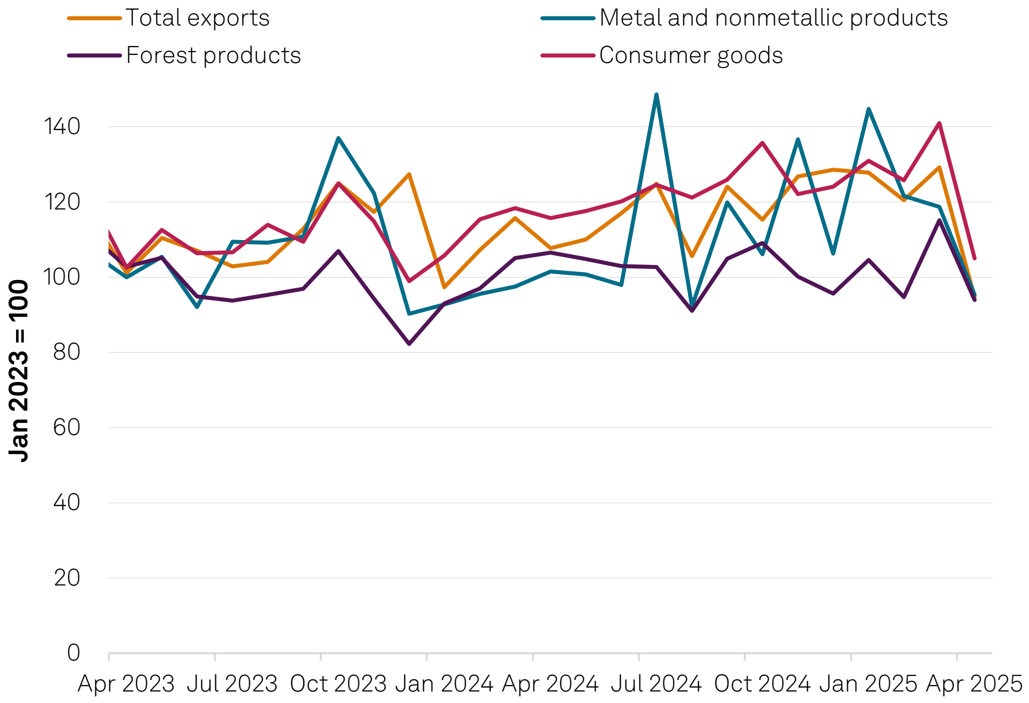
- Steel and aluminum are major exports for both Ontario and Quebec. Steep tariffs on both products have heavily impacted total exports from these provinces, since the U.S. remained a major market for both.
- Exports of metals and nonmetallic products from Ontario shrank 23.6% month over month in April, following a 45.4% decline in March.

Ontario's exports to the U.S. continued to plummet



Data through April 2025. Sources: Statistics Canada and S&P Global Ratings Economics.

Shipments from Quebec to the U.S. also plunged



Data through April 2025. Sources: Statistics Canada and S&P Global Ratings Economics.

Contacts

Satyam Panday

Chief Economist, U.S. and Canada

satyam.panday@spglobal.com

1 (718) 578-1636

Gurleen Miglani

Economist, U.S. and Canada

gurleen.miglani@spglobal.com

Debabrata Das

Research Contributor

CRISIL Global Analytical Centre, an S&P Global Ratings affiliate, Mumbai

Amrita Bhattacharya

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