March 31, 2026

Vancity Quarterly Economic Outlook

Steady Ground, Small Wins.

The economy in 2026 is moving forward, even if progress feels gradual. Growth is steady, inflation is under control. While conditions remain uneven, and external shocks like energy price swings may at times make progress feel like a step back, the foundation is in place for those setbacks to be temporary as small gains continue to build over 2026.

Key Takeaways

- Canada is expected to post **modest growth in 2026** with inflation near target; however, the path will be uneven and highly sensitive to trade and energy shocks.
- Consensus average real GDP growth is about **1.1% in 2026 and 1.9% in 2027**.[i]
- In British Columbia, near-term growth is expected to be slow to moderate, with **housing, population dynamics, and trade exposure shaping the outlook**.
- What could change the outlook quickly: a material escalation (or easing) in **trade restrictions**; a prolonged **energy shock**; or a sharper-than-expected deterioration in **housing and household affordability**.

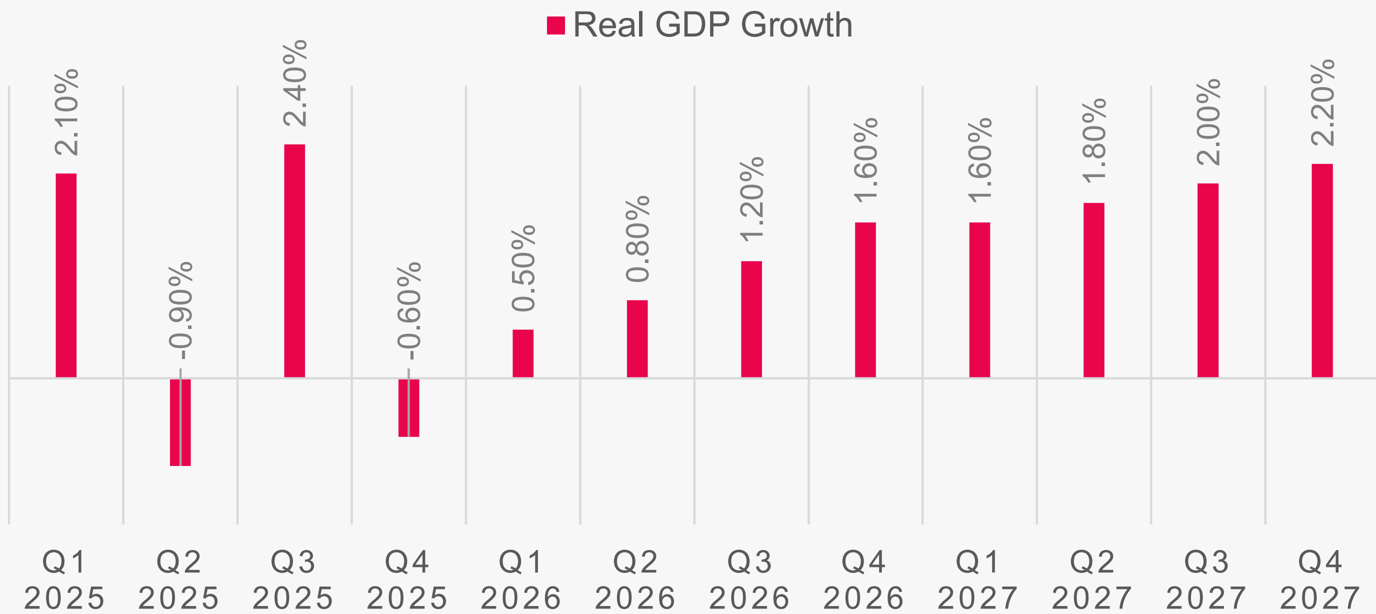
Where the Economy is Headed

The global backdrop remains defined by policy-driven uncertainty. Canada closed 2025 with real GDP growth of about 1.7 per cent for the year. However, momentum weakened late in the year, with real GDP contracting modestly in the fourth quarter as inventory drawdowns offset continued strength in household spending, exports, and government investment. The year ended with an economy that remained resilient in domestic demand but increasingly vulnerable to trade and external shocks. However, economic conditions remain sensitive to external shocks, especially changes in trade policy and energy prices.

In British Columbia, growth is expected to be slow to moderate. Provincial government estimates place real GDP growth at roughly 1.4 per cent in 2025, reflecting tariff uncertainty, a cooling housing market, and softer business investment.

Entering 2026, provincial growth is expected to grow by about 1.3 per cent, a level that is relatively below its long-run potential. For British Columbians, housing costs, population changes, and exposure to trade-sensitive industries will continue to shape how the economy feels on the ground for members across the province.

Canada real GDP growth (q/q annualized): 2025 estimated actual and 2026–27 forecast



Global and Trade Backdrop: What is Happening Outside Canada

Much of the uncertainty facing Canada's economy is coming from outside the country. Global trade rules and geopolitical tensions remain unsettled, making it harder for businesses to plan ahead with confidence. Because Canada relies heavily on trade, this uncertainty can affect jobs, investment, and incomes at home.

A new complication in Q1 2026 has been the re-emergence of energy-market volatility. When oil prices rise suddenly, the impact is often felt quickly through higher transportation, heating, and food costs. While some regions benefit, many households and small businesses face added pressure on their budgets.

Canadian Economic Momentum: What is Driving the Outlook

Several key forces are shaping Canada's economic outlook in 2026:

- Higher energy prices are raising everyday costs and adding pressure to household and business budgets.
- Population growth has slowed, reducing overall economic growth and changes labour-market dynamics.
- Trade uncertainty, including tariffs and upcoming North American trade discussions, continues to weigh on business confidence.
- Housing affordability remains a major constraint, limiting household spending and construction activity.

Canada ended 2025 with weaker momentum than earlier in the year. While exports and household spending provided some support, inventory reductions and caution among businesses weighed on growth. As a result, 2026 is expected to be a year of modest, uneven expansion rather than a strong rebound.

Inflation and Interest Rates: Why Relief Feels Slow

Inflation is expected to remain close to target, which supports long-term stability. Reflecting this progress, the Bank of Canada held its policy rate steady in March, signaling confidence that inflation is on a manageable path.

However, rising energy prices have increased the risk that inflation pressures could linger longer than expected.

Interest rates are already well below their peak in 2024, providing some relief compared to last year. That said, the outlook for rates is now more conditional on whether energy-driven inflation proves temporary or persistent.

Regional Focus: British Columbia

British Columbia's economic outlook reflects a period of adjustment rather than acceleration. Growth is being shaped by a mix of easing demand pressures and lingering structural challenges:

- Housing affordability remains a key challenge, even as resale activity has softened.
- Slower population growth is easing some demand pressures but also reducing overall growth.
- Trade-sensitive sectors such as forestry remain vulnerable to global demand and policy shifts.
- Public investment plans are being adjusted, which may slow construction activity in the near term.
- Together, these forces point to a steadier but more constrained growth environment for the province.

How These Conditions Affect Vancity's Impact Areas

Housing affordability

Housing is still the biggest financial pressure for many of our members. Prices in major B.C. markets, including Metro Vancouver, continue to adjust downward from their peak, supported by higher inventory levels and weaker sales activity. This may offer some short-term relief, but housing is still unaffordable for most people. Prices and rents remain high, and low-cost options are still very hard to find.

New cost pressures are adding to the strain. Higher gas, energy, and utility bills are stretching household budgets and raising the cost of building and maintaining homes. These energy costs also keep inflation risks elevated, making the Bank of Canada more cautious about cutting interest rates, which limits near-term relief for borrowers.

Climate action

In early 2026, climate action is increasingly shaped by macroeconomic and industrial conditions rather than new policy commitments. At both the federal and provincial levels, the emphasis is on implementation, capital deployment, and embedding emissions reduction within broader economic and infrastructure strategies. With slower economic growth and tighter budgets, climate investments need to deliver everyday benefits like lower costs, greater resilience, and stronger productivity.

Rising fossil fuel prices complicate the near-term picture by increasing inflation and financing costs, which can delay capital-intensive clean investments. Over the medium term, however, higher energy prices strengthen the economic case for electrification, efficiency, and renewable energy by raising the avoided cost of fossil fuel dependence.

Equity and reconciliation

Equity and reconciliation outcomes in 2026 are being driven primarily by macroeconomic fundamentals. A softening labour market, persistently high housing costs, and volatile living expenses disproportionately affect lower-income households, Indigenous communities, and those with limited financial buffers. While headline inflation eased entering 2026, renewed energy price pressures risk eroding recent gains in affordability. Higher energy prices also create an additional equity challenge, functioning as a regressive cost shock for households with limited capacity to adjust transportation or heating usage.

Co-operatives and local economies

Businesses are navigating a low-growth, high-uncertainty environment in 2026. While business confidence has improved modestly from late-2025 lows, demand remains subdued and cost pressures, especially labour, insurance, and now most recently energy, continue to compress margins. Trade uncertainty and supply-chain adjustment weigh disproportionately on small- and mid-sized enterprises.

Energy price volatility is especially consequential for local economies reliant on transportation, logistics, tourism, and service provision across dispersed communities. Although interest rates are lower than in prior years, the outlook for further easing has become more conditional, increasing the value of stable financing, patient capital, and cost-reduction strategies.

6) Key Risks and Watchpoints for our Members

Housing-market weakness and household debt pressures:
Slower housing activity can cool construction and related services, while high debt levels mean many households remain sensitive to interest rates. Further, falling rents can weaken the financial viability of new rental construction and reduce rental investments. This combination can weigh on consumer spending, which matters for local businesses that rely on steady foot traffic and discretionary spending.

Changes to trad rules or tariffs that affect exports and supply chains:
Trade shifts can raise input costs, delay deliveries, or weaking demand for export-oriented businesses. Even firms that don't export directly can feel the effects through higher prices or reduced activity in local supply chains. For members, this can mean more uncertainty around revenues and costs, reinforcing the value of flexibility and cautious planning.

Prolonged energy-price volatility that keeps costs elevated and implication on inflation and rates:
Fluctuating energy prices affect fuel, transportation, heating, and many everyday business expenses. When energy prices stay elevated, they can keep inflation higher for longer. For households and small businesses, this can slow relief on interest rates and make budgeting harder, even if overall inflation is improving.

Shifts in population growth and labour-force dynamics:
Slower population growth eases pressure on housing and services but also means slower overall economic growth and potentially tighter labour markets in specific skills. For employers, this may affect hiring and wage costs; for households, it influences job opportunities and income growth over time.

7) Bottom line

The Q1 2026 outlook is best described as steady but uncertain. The economy is growing and inflation is largely under control, but households and small businesses continue to face higher costs and financial pressure.

For British Columbia, affordability challenges, population trends, and exposure to trade-sensitive industries will remain central themes. The focus in 2026 is less about rapid growth and more about resilience by helping members and communities adapt through a slower and more uncertain expansion.

Footnote

[i] Consensus GDP refers to calendar-year average real GDP growth, based on published outlooks from major Canadian banks, the Bank of Canada, and BDC, rounded for communication purposes.

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