

Judith Bosire, Chief Economist

Spring Economic Update (SEU) 2026

At a time when affordability is stretched and insolvencies are rising, the Spring Economic Update tells us where government is stepping in, and where it is stepping back.

Economic Snapshot

- Canada's economy grew 1.7% in 2025, and growth is expected to moderate in 2026 (~1.1%). Despite this, Canada is expected to have the 2nd-fastest G7 growth over 2026–27.
- Deficit outlook is improving with the 2025–26 deficit projected at \$66.9B (~2.1% of GDP), an \$11.4B improvement versus Budget 2025.
- 15 nation-building projects worth over \$125B in capital investment are expected to support over 60,000 jobs during construction.
- The labour market is holding, but conditions are still fragile, unemployment remains high (6.7%) enough to keep household risk in play.
- Trade is stabilizing with non-U.S. goods exports up ~36% since 2024, but are tariffs still a drag; while productivity incentives are expected to lift output by roughly ~\$10B/year.
- Energy and food prices remain key near-term inflation risks, with volatility likely to persist.

Key Takeaways for Vancity members – Households

The SEU frames household supports around a simple near-term objective: reduce everyday cost pressures now, while using targeted program and tax changes to improve cash flow and make key systems easier to navigate.

Affordability measures for families

For low- and modest-income households, the SEU centres on the Canada Groceries and Essentials Benefit (CGEB) designed to deliver an immediate top-up to low- and modest-income families in spring 2026 and then a multi-year increase from July 2026.

Alongside this, the SEU includes a temporary suspension of the federal fuel excise tax on gasoline and diesel that presents as a direct way to reduce household transportation costs while energy prices remain volatile. Specific measures include:

- CGEB provides \$11.7B in additional support over six years; a family of four could receive up to \$1,890 in 2026–27.
- The fuel excise tax suspension is expected to provide temporary relief, reducing bills by about 10¢/L on regular gasoline and 4¢/L on diesel until Labour Day.

Work and take-home pay: small but broad-based relief

The SEU includes a change aimed at increasing take-home pay through lower payroll contributions beginning in 2027. While the per-person amount is modest, the design is straightforward and automatic for contributors, meaning households see it through smaller CPP deductions rather than an application-based program.

Specifically:

- The base CPP contribution rate is set to fall from 9.9% to 9.5% effective January 1, 2027, saving about \$133/year for a worker earning \$70,000 (with similar savings for employers).

- Up to ~\$1,900 in groceries/essentials support for families (2026–27).
- +\$133/year for a \$70K worker from the CPP rate cut.
- Seasonal EI extended: up to +5 weeks through 2028.
- Relocation deduction for tradespeople claim up to \$4,000/year.
- Easier Disability Tax Credit access and longer Home Buyers' Plan repayment timelines.

Income stability for seasonal workers and mobility supports for trades

For households in seasonal industries, the SEU extends a long-running EI adjustment intended to reduce income gaps between seasons in specific regions. The rationale is explicitly regional and labour-market practical: keeping experienced workers attached to their communities and industries by smoothing off-season income interruptions.

For tradespeople, the SEU strengthens the Labour Mobility Deduction to reduce the cost of taking temporary work away from home.

- Seasonal EI rules providing up to five additional weeks of EI regular benefits (up to a maximum of 45 weeks) in 13 targeted regions are extended to October 2028.
- The Labour Mobility Deduction for Tradespeople is proposed to rise from \$4,000 to \$10,000, and the distance rule is adjusted so temporary lodging must be at least 120 km closer to the work site.

Housing cash-flow flexibility: more time before Home Buyers repayments start

For first-time buyers using RRSP withdrawals to fund a down payment, the SEU extends the window before repayments must begin under the Home Buyers' Plan (HBP). This matters for household budgeting because it delays the point at which buyers must begin annual repayments (or face inclusion as taxable income), effectively easing early-ownership cash flow.

- The SEU proposes extending the five-year grace period (before HBP repayments begin) to apply to first withdrawals made up to the end of 2028, after which the standard 15-year repayment period applies.

Access and administration: making disability tax supports easier to obtain

The SEU also focuses on reducing administrative burden for disability-related tax support by streamlining aspects of the Disability Tax Credit (DTC) certification process for certain long-lasting medical conditions. Specifically:

- The DTC is a non-refundable credit; for 2026 the credit amount cited in the SEU tax annex is \$10,341, providing a federal tax reduction of up to \$1,448 (for eligible claimants).
- The SEU proposes streamlined DTC certification for certain long-lasting medical conditions, shifting paperwork toward confirming the condition rather than repeatedly proving functional impacts (while eligibility criteria remain).

Key Takeaways for Vancity members – Small Businesses

The SEU positions small businesses within a broader “build and invest” economic strategy, where government is trying to attract private capital, accelerate major projects, and lift productivity through targeted tax and investment tools. For SMEs, the measures most directly relevant cluster into four themes: succession and ownership transitions, access to new pools of investment capital, incentives designed to raise business investment and productivity, and a continued tilt toward funding low-carbon industrial upgrades.

Employee ownership and succession: a clearer pathway to sell and transition

A core SME-relevant measure is the decision to make the Employee Ownership Trust (EOT) tax exemption permanent, which strengthens employee ownership as a viable succession route, mainly for owners looking to retire or exit without immediately selling to a competitor or external buyer. In practical terms, the exemption reduces tax friction on qualifying sales to an EOT, which can help preserve sale value and support a smoother transition where employees ultimately hold an ownership stake through the trust structure.

- Permanent EOT exemption applies to up to \$10 million in capital gains on qualifying dispositions, estimated at \$205M over six years.

- **Employee Ownership Trust (EOT) capital-gains exemption is made permanent (up to \$10M).**
- **Canada Strong Fund launched with \$25B over 3 years to invest in strategic projects and companies.**
- **Targeted tax measures signal capital-intensive low-carbon activity.**
- **Productivity Super-Deduction” and SR&ED improvements are positioned to lift output.**

New access to investment capital: Canada Strong Fund as a potential financing channel

The SEU introduces the Canada Strong Fund, described as Canada’s first sovereign wealth fund, seeded with \$25 billion over three years, with a mandate to invest in strategic Canadian projects and companies alongside other investors.

For SMEs, this vehicle could expand the pool of “patient” capital available for project development and growth, either directly for qualifying companies/projects or indirectly through procurement, supply chains, and partnership opportunities, tied to funded projects.

- \$25B initial government funding over 3 years to seed the Canada Strong Fund.

Incentives aimed at productivity and investment: policy designed to spur private capex and innovation

The SEU reinforces the policy direction that Canada’s growth strategy will rely on higher business investment and productivity, supported by tax measures intended to stimulate capital spending. It specifically highlights a Productivity Super-Deduction and changes to the Scientific Research and Experimental Development (SR&ED) tax incentive framework.

For SMEs, the practical implication is that firms undertaking productivity-enhancing investment or eligible R&D may see improved after-tax economics, supporting modernization, scaling, and competitiveness.

- Productivity Super-Deduction expected to generate up to \$9B in annual economic output (over the next ten years).
- SR&ED enhancements expected to generate about \$1.2B in annual economic output.

Climate-smart / low-carbon upgrades: targeted tax measures signal direction

The SEU includes tax measures that support certain low-carbon investments, notably implementation details for accelerated capital cost allowance (CCA) rates for eligible low-carbon LNG facilities, and continuation/adjustment of investment tax credit support for carbon capture. For small businesses, these measures signal where federal incentives are being concentrated, potentially affecting supply-chain demand, contracting opportunities, and the economics of decarbonization-linked investment in specific sectors and regions.

- Accelerated CCA implementation details for low-carbon LNG facilities are set out in the SEU tax annex
- The SEU tax annex quantifies multi-year fiscal impacts for certain measures (e.g., low-carbon LNG accelerated CCA), illustrating the scale and time horizon of targeted incentives.

Conclusion

The SEU headline, “an improved fiscal starting point”, is not a signal to relax. The deficit is lower than previously projected, but outside the near-term optics, the SEU does not materially change the medium-term fiscal story, and external analysts caution that part of the improvement reflects factors that may not repeat, alongside lapsed spending and measures that largely re-allocate available room. In a context still shaped by tariff drag and energy-price volatility, the SEU should be viewed as a stabilization bridge rather than a turning-point plan.

Disclaimer

This publication contains general information only and Vancity is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business or household. Before making any decision or taking action that may affect you or your business, you should consult a qualified professional advisor. Vancity shall not be responsible for any loss sustained by any person who relies on this publication alone.