Vancity Economics

Q2 2026 Economic Outlook

Growing, with growing pains.

Foreword by Judith Bosire, Chief Economist

If you only followed the economic headlines this quarter, you might think the story was about whether Canada was entering a recession.

For many households and small businesses, the focus was different. Was life becoming more affordable? Did businesses feel confident enough to invest? Did families have a little more room in the monthly budget? Could young people find work and begin building financial stability?

Revised Q2 data told a different story than many expected. Canada's economy grew by 3.3% on an annualized basis, driven by stronger exports, rising household spending, a rebound in residential investment, and increased business capital investment. Earlier concerns about a recession largely faded as economic growth proved more resilient than anticipated. Yet affordability pressures remained elevated, housing continued to challenge many households, and business confidence remained constrained by ongoing trade uncertainty.

As we enter the second half of 2026, Canada appears positioned for modest growth rather than recession. Interest rates are expected to remain on hold, but trade uncertainty, uneven business investment, and persistent affordability pressures suggest that the path forward will come with growing pains. British Columbia’s outlook remains uneven, with natural resources and export activity providing support while population decline, housing affordability challenges, and trade exposure weigh on other parts of the economy.

The headlines improved this quarter. What we are still waiting to see is whether this modest growth can translate into greater affordability, stronger financial security, and more opportunity for households, businesses, and communities.

Publication note: This report assesses economic conditions and developments during the second quarter of 2026. Since July, trade negotiations between Canada and the United States have deteriorated further, reinforcing the downside risks identified in this outlook. These developments are not incorporated into the Q2 data or base case forecast and will be assessed more fully in the next outlook update.

Growth Remains Fragile. Pressure Remains Real.

Canada entered Q2 with two uncomfortable questions. Was the economy slipping toward recession? And would rising energy prices add to inflationary pressures just as households and businesses were running out of room?

The concern was understandable. Trade uncertainty was weighing on business confidence, the labour market had softened, and many households were still managing high housing, food, transportation, and debt servicing costs. At the same time, geopolitical tensions in the Middle East raised concerns that energy prices could move higher, adding further pressure to already stretched budgets.

By the end of the quarter, the economy proved more resilient than many expected. Revised GDP data showed growth rebounded to an annualized rate of 3.3%, supported by stronger exports, higher household spending, and gains in residential and business investment. Earlier recession concerns largely faded as the weakness seen at the start of the year did not broaden across the economy.

That said, affordability pressures remain elevated, business confidence continues to be constrained by trade uncertainty, and labour market conditions have stabilized rather than strengthened. As Canada moves through the second half of 2026, the outlook points to modest growth, but not yet the broad-based improvement many households and businesses are waiting to see.

Looking ahead.

Canada entered the second half of 2026 in better shape than the recession headlines suggested. The economy is showing resilience, interest rates are expected to remain on hold, and modest growth is expected to continue.

However, with real GDP projected to grow by only about 0.6 percent to 0.7 percent in 2026. The recovery is expected to remain too slow and uneven as trade uncertainty, tariffs and energy costs persist.

The interest rate outlook has also become clearer. The consensus view among major forecasters is that the Bank of Canada will likely maintain its policy rate at 2.25 percent through the remainder of 2026, provided inflation pressures remain concentrated in energy and do not become more broadly embedded across the economy.

For households and small businesses, the second half of the year will still be defined by caution. The economy appears capable of absorbing the immediate shocks, but its resilience will continue to be tested by trade uncertainty, volatile energy costs, weak business investment, and a labour market that is holding steady rather than gaining momentum.

Key Insights.

Theme	What Q2 showed	So what for members and local businesses
Growth	The economy grew but remained below the normal recovery pace.	The headline story is that growth is too slow to create much breathing room.
Trade and confidence	CUSMA uncertainty, Section 301 measures, and sector tariffs remained live Q2 risks, delaying investment decisions.	Businesses were asking whether the rules of trade would hold long enough to justify hiring, expansion, or equipment purchases.
Inflation and rates	Energy was the main inflation risk in Q2. The Bank of Canada held the overnight rate at 2.25 percent in June. The bank is expected to tolerate a temporary rise in inflation caused by energy prices, unless higher costs begin spreading across the economy.	A rate hold stabilizes planning. It does not automatically lower grocery bills, transportation costs, insurance, or debt servicing pressure.
Labour market	The labour market was better described as low hire and low fire. Job growth was uneven, unemployment remained elevated, and youth workers faced a tougher entry point.	A flat labour market changes behaviour. Households delay decisions, young workers struggle to launch, and businesses remain cautious.
British Columbia	B.C. was more exposed to weaker population growth, housing, and trade channels than the national average.	B.C. needs a different read from the national headline. Shrinking population may ease some pressures, but it also weakens consumer demand, labour force growth, and local business revenues. Economic growth is increasingly concentrated in a narrow group of export-oriented and resource-based sectors.

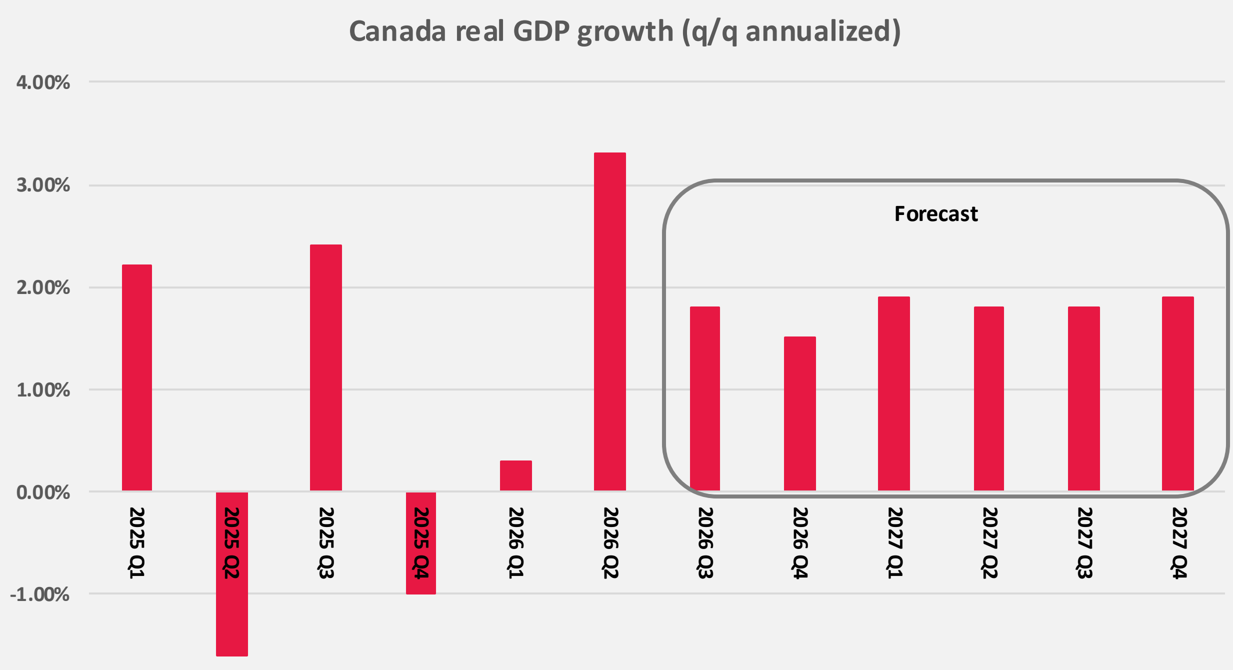
An economy moving forward, slowly.

The better read is that Canada moved away from the sharpest recession fears that dominated the start of the year, but it did so without generating a broad sense of relief. The consensus is that Canada is expected to grow in 2026 by about 0.6 percent to 0.7 percent, a pace that remains below what many households or small businesses would experience as a real recovery.

The labour market was holding but not hiring with conviction. Inflation was less broad based, but the costs people cannot avoid remained sensitive to fuel, food, transportation, insurance, and debt servicing.

Growth below 1 percent means less cushion for households, slower revenue growth for local businesses, and a more fragile labour market.

For Vancity, the member-facing message is practical: this is an economy where the aggregate numbers look calmer than the household budget feels. That gap is where financial resilience, advice, patient capital, and community investment matter most.



Sources: Statistics Canada, Vancity synthesis

Global and trade backdrop.

The external backdrop in Q2 was defined by three forces: energy volatility from the Middle East conflict, tariff and CUSMA uncertainty, and a global investment cycle increasingly shaped by artificial intelligence. These forces did not hit every province or sector equally.

Energy shock: Higher oil prices were a global growth headwind and an inflation risk. For Canada, the impact was mixed because the country is a net energy exporter. For households and many small businesses, the effects of these higher costs were immediate.

Trade uncertainty: CUSMA and U.S. tariff policy were ongoing risks rather than settled outcomes and planning for uncertainty remains crucial.

Investment delay: Weak investment was a main constraint. Firms were watching tariffs, input costs, financing conditions and policy signals before committing capital.

AI tailwind: AI related investment were a partial offset to weaker global growth. This does not solve Canada's productivity challenge, but it does show where investment momentum exists.

For businesses, uncertainty is a cost. It delays hiring, capital spending, inventory decisions and expansion plans. Even when sales hold up, hesitation can become its own drag on growth.

Canada: weak growth, cautious households, hesitant firms.

Canada's economy entered Q2 under the shadow of recession concerns, but the quarter ultimately revealed an economy that was slowing rather than broadly contracting. Growth remained weak, business confidence was cautious, and uncertainty around trade and energy continued to influence investment decisions. At the same time, household spending, exports, and a stabilizing labour market helped the economy prove more resilient than many forecasters had anticipated.

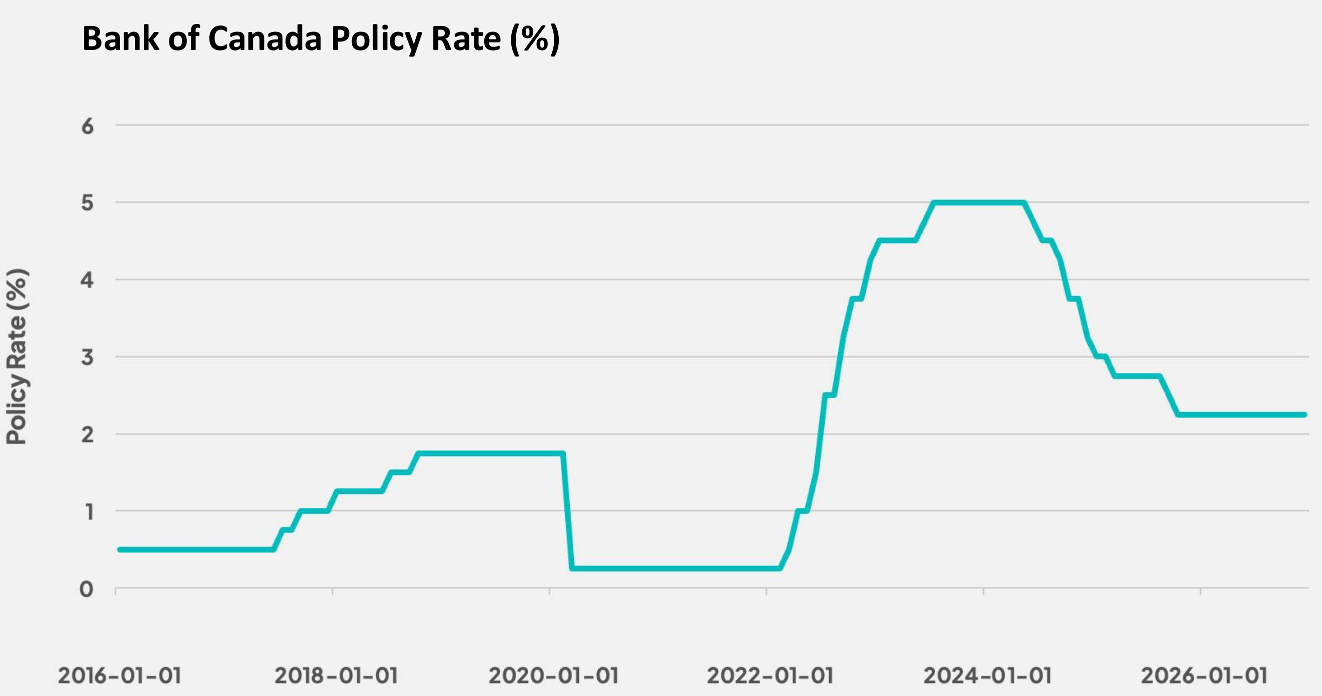
- **Consumers continue to support growth**, **but financial buffers are thinning**. Household spending remained an important source of economic activity during Q2, helping offset weakness elsewhere in the economy. However, elevated housing, food, transportation, and debt servicing costs continue to limit discretionary spending and leave many households financially stretched.
- **The labour market is stabilizing, but not yet strengthening**. Recession concerns eased during the quarter, yet hiring activity remained subdued. The labour market increasingly resembles a "low hire, low fire" environment, where job losses are limited but opportunities for new entrants, younger workers, and job changers remain constrained.
- **Population growth has shifted from a tailwind to a complicated force**. Slower population growth is reducing pressure on housing and some public services, but it is also limiting labour force growth, consumer demand, and the pace of economic expansion. This dynamic is expected to weigh on growth through the second half of the year.

- **Business investment remains the weakest part of the outlook.** While uncertainty surrounding trade, tariffs, and future demand persisted throughout Q2, many businesses continued to postpone major investment decisions. The strength of the recovery in 2027 will depend heavily on whether confidence improves enough to unlock private investment.
- **Inflation is becoming narrower, but affordability pressures remain**. Inflation is no longer being driven by broad-based price increases across the economy. However, many of the expenses households notice most such as food, energy, transportation, insurance, and travel continue to rise faster than incomes for some households. As a result, improving inflation data has not yet translated into broad financial relief.

Monetary and fiscal policy.

The Bank of Canada held the overnight rate at 2.25 percent at its June meeting. In Q2, that was less a victory lap and more an acknowledgement of a difficult balancing act. Growth was weak enough to argue against tightening, while energy prices and supply risks remained volatile enough to argue against declaring inflation solved. We expect rates to remain on hold through the rest of 2026, providing stability but not necessarily relief.

For Vancity members, stable rates are better than another increase, but stability is not the same as relief. Mortgage holders and small businesses continue to face higher financing costs, while renters and households are still managing elevated housing and essential expenses.



Sources: Statistics Canada, Vancity synthesis

Fiscal policy continued to support economic activity in Q2, particularly as business investment remained weak and trade uncertainty weighed on confidence. Government spending, infrastructure investment, defence-related activity, and major project development remained important sources of growth while the private sector adopted a more cautious stance.

Looking ahead, the fiscal policy focus appears to be shifting away from broad demand stimulus and toward measures that strengthen productivity, competitiveness, and economic resilience. Key areas include reducing interprovincial trade barriers, accelerating major project approvals, supporting critical mineral and infrastructure investments, and encouraging private sector investment. Governments are also likely to maintain targeted affordability supports where needed, particularly if energy prices remain elevated.

British Columbia: slower growth, sharper affordability questions.

B.C. entered Q2 facing weak growth, trade uncertainty, elevated household costs, and slowing population growth. Support from exports, major projects, construction, and service sectors helped sustain economic activity. However, affordability pressures, slower population growth, and trade uncertainty continued to weigh on households, businesses, and confidence.

- **Affordability remains the central challenge**. While housing markets have cooled and population growth has slowed, affordability has improved only gradually.

High rents, elevated home prices, financing costs, insurance, utilities, and other housing related expenses continue to limit financial flexibility for many households.

- **Population growth is no longer providing the same economic tailwind**. Slower population growth may reduce some pressure on housing and public services, but it also lowers demand growth, labour force growth, and customer growth for many local businesses. This dynamic is expected to continue through the remainder of 2026.

- **Trade uncertainty remains unresolved**. Forestry, manufacturing, transportation, ports, and other export-oriented sectors entered the second half of the year facing continued uncertainty around tariffs and North American trade relations. While the worst-case scenarios feared earlier in the year have not materialized, uncertainty continues to weigh on investment and hiring decisions.

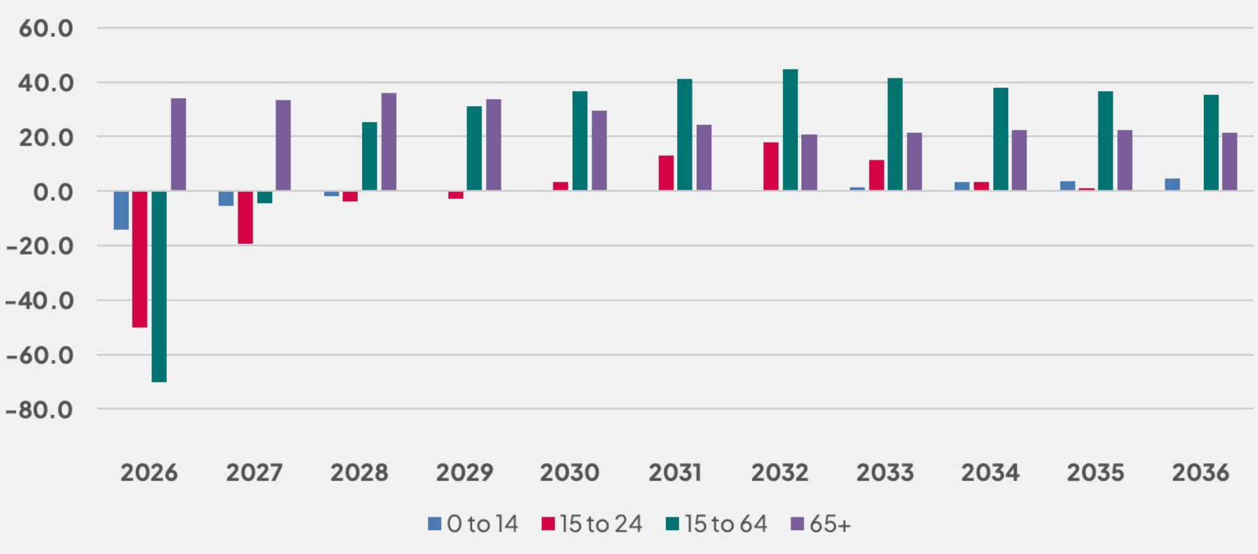
- **Growth continued to be supported by a narrow group of sectors.** Export activity, major projects, construction, transportation, and parts of the service economy helped offset weakness in housing and consumer-facing sectors during Q2. This uneven pattern is expected to continue through the remainder of the year.

- **Business confidence is improving, but cautiously.** Lower interest rates and signs of economic stabilization have reduced recession concerns. However, many businesses remain focused on preserving cash flow, managing costs, and delaying major investment decisions until there is greater clarity on trade, demand, and growth prospects.

British Columbia appears positioned for continued, but modest, growth in the second half of 2026. The key question is whether B.C.'s growth translates into improved financial conditions for households and greater confidence for businesses.

B.C.'s changing population structure is emerging as an important economic challenge. While growth among working-age residents is expected to continue, the province's population is aging rapidly, with the number of residents aged 65 and over growing significantly faster than younger age groups. Over time, this will place greater pressure on labour supply, increase demand for healthcare and support services, and require additional investment in housing, infrastructure, and community services.

BC Population Growth by Age Groups ('000)



Macroeconomic implications for Vancity's focus areas.

The economic outlook intersects with Vancity's impact priorities in several important ways.

Housing affordability

Housing affordability improved modestly at the National level during Q2 , but largely because home prices softened in some markets rather than because incomes improved meaningfully. National affordability measures have improved for ten consecutive quarters, with Vancouver and Toronto recording some of the largest Q2 gains as prices declined. However, affordability remains worse than historical norms across all major markets measured. The regional picture was also uneven, with affordability deteriorating in Quebec City, Winnipeg, Montreal, and Edmonton during the quarter.

- Looking ahead, slower population growth, softer resale prices, and additional rental supply should provide some relief. However, high home prices, rents, mortgage payments, utilities, insurance, and strata fees mean that improved market conditions will translate only gradually into improved affordability for households. CMHC expects sales to remain below historical averages in 2026, with housing activity in Ontario and B.C. remaining weaker than their respective ten-year averages, while activity in the Prairies and Quebec is expected to remain comparatively stronger.

Every oil shock makes the business case for green energy stronger.

One of the paradoxes of Q2 is that the very thing pushing inflation higher may ultimately accelerate the transition away from it.

Oil supply disruptions and energy market volatility once again exposed how vulnerable households, businesses, and economies remain to global fossil fuel markets. Higher fuel prices affected transportation, logistics, food production, travel, and operating costs across the economy.

For businesses, the lesson is increasingly practical rather than ideological. Every spike in fuel prices improves the economics of electrification. Every jump in operating costs strengthens the case for energy efficiency. Every period of supply uncertainty highlights the value of locally generated and more predictable energy sources.

The result is that climate investments are increasingly being justified not only by environmental objectives, but by their ability to lower costs, reduce risk, and improve competitiveness.

Climate action

Energy volatility increased economic pressure across Canada in Q2. Higher oil prices raised fuel, transportation, construction, and operating costs, while supporting investment and production in oil-producing regions. The impact was therefore uneven, with energy producers benefiting from higher commodity prices while households and businesses outside the Prairies faced greater cost pressure.

- Looking ahead, energy markets remain vulnerable to geopolitical disruptions. This strengthens the economic case for energy efficiency, electrification, renewable energy, and climate adaptation as ways to reduce exposure to volatile costs. Physical climate risk is also adding to affordability pressures. Between December 2019 and December 2025, homeowners' home and mortgage insurance premiums increased 45 percent, compared with a 21 percent increase in overall consumer prices. These pressures are particularly relevant in B.C., where wildfire, flood, and infrastructure risks affect households, businesses, municipalities, and insurers.

Equity

The economic pressures evident in Q2 were not distributed evenly across Canadian households. High prices and economic uncertainty continued to constrain consumer spending, particularly among households concerned about the inflationary impact of the Middle East conflict. These households were more likely to substitute cheaper essentials, reduce discretionary spending, and drive less.

- Looking ahead, lower-income households, renters, younger workers, newcomers, and households with limited savings remain more exposed to elevated housing, food, transportation, and debt-servicing costs. A labour market characterized by limited hiring also creates additional challenges for people seeking their first job, more hours, or better-paying employment. Modest economic growth may therefore improve the headline indicators before it creates meaningful financial room for households with the least capacity to absorb another cost or income shock.

Reconciliation

Indigenous communities continue to face distinct economic pressures related to housing shortages, infrastructure gaps, access to capital, and the higher cost of delivering goods and services in rural, remote, and northern regions. In Q2, the federal government clarified the allocation of its $4 billion Urban, Rural and Northern Indigenous Housing Strategy, signaling continued public investment in Indigenous housing and community infrastructure.

- Looking ahead, the funding should support additional Indigenous-led housing development and related economic activity. However, underlying demand remains substantially larger than available resources. More than $2 billion in project requests submitted through an earlier funding call highlights the scale of unmet housing needs and suggests that financing gaps, construction capacity, and project delivery constraints will continue to limit the pace of expansion. As a result, housing supply is expected to improve only gradually, leaving

- affordability and infrastructure challenges as ongoing economic pressures for many Indigenous communities.

Co-operatives and local economies

Canadian small businesses operated in a low-growth and high-cost environment during Q2. Statistics Canada found that 64.3 percent of businesses expected at least one cost-related obstacle over the following three months. Inflation was cited by 48.8 percent of businesses, input costs by 28.4 percent, transportation costs by 26.5 percent, and interest rates and debt costs by 23.5 percent. Only 9.9 percent of businesses with fewer than 20 employees expected to increase employment, compared with 24.6 percent of businesses with at least 100 employees.

- Q2 also brought greater certainty for employee ownership. In June, the federal government made permanent the exemption on the first $10 million of eligible capital gains from qualifying sales to Employee Ownership Trusts. The incentive also applies to qualifying transfers to worker co-operatives, creating an additional succession option for owners seeking to preserve local employment and ownership.
- Looking ahead, many small businesses are likely to remain focused on cash flow and cost control while trade uncertainty persists. The permanent employee-ownership incentive creates a stronger foundation for business succession, but adoption will depend on access to financing, transaction expertise, and sufficient business cash flow to support the transfer.

Taken together, these trends show where the economic environment may create additional pressure, demand, or investment needs across Vancity's impact priorities.

Key risks and watchpoints.

These watchpoints will help determine whether modest growth translates into greater stability for households, businesses, and communities through the remainder of 2026.

- **CUSMA and tariffs:** In Q2, trade uncertainty remained a significant source of caution for businesses. While tariff-free access under CUSMA continued to provide an important buffer, sector-specific tariffs and ongoing policy discussions created uncertainty around future costs, margins, and investment decisions. Businesses remained hesitant to commit capital in areas exposed to North American trade and regulatory changes. Uncertainty is likely to remain even if major disruptions are avoided. Ongoing reviews of trade arrangements, tariff disputes, and sector-specific measures could continue to influence investment decisions through the remainder of 2026.
- **Energy and inflation:** The conflict in the Middle East increased oil price volatility and pushed energy back into the inflation conversation. Businesses reported rising concerns about fuel-related costs, while consumers increasingly cited energy prices as a source of financial uncertainty. Even if oil prices stabilize, energy markets remain vulnerable to geopolitical shocks. Transportation, food production, travel, and operating costs remain sensitive to changes in fuel prices.

- **Weak investment and productivity:** Business investment remained one of the weaker parts of the economy. Many firms delayed expansion plans due to uncertainty around trade, demand, financing conditions, and future growth prospects. Investment activity is expected to remain cautious through much of the second half of 2026, particularly among smaller businesses and sectors exposed to trade uncertainty.

- **Labour market softness:** The labour market showed signs of stabilization, but not broad-based strengthening. Hiring intentions remained subdued, while many businesses adopted a wait-and-see approach to workforce expansion. A "low hire, low fire" labour market is likely to remain a defining feature of the second half of 2026. Employment may remain relatively stable, but opportunities for younger workers, newcomers, and career changers could remain limited.

- **Housing and debt capacity:** Housing affordability improved modestly as prices softened in several major markets, including Vancouver and Toronto. However, affordability remains significantly worse than historical norms, and many households continue to face elevated mortgage, rent, insurance, and utility costs. Affordability pressures are likely to ease only gradually. While lower prices and additional rental supply may help, high carrying costs and elevated household debt continue to limit financial flexibility.

Population decline or slower population growth: Slower population growth became a more visible economic factor. While it reduced some pressure on housing and public services, it also dampened labour force and consumer demand growth. Slower population growth is expected to remain a feature of the outlook through 2026 and could be particularly noticeable in regions and sectors that benefited from rapid population expansion in recent years.

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