

Q3 2026 Economic Outlook

Trade pressure rises. Growth holds, but relief remains limited.



Foreword by Judith Bosire, Chief Economist

The economy looked stronger entering the third quarter, but the risks became harder to ignore.

Economic growth returned, but it did not translate into more breathing room for many households or greater confidence among local businesses. Jobs declined toward the end of the quarter, fixed borrowing costs remained elevated, and essential expenses continued to absorb a large share of household budgets. This is the difference between an economy that is growing and one that feels as though it is recovering.

Canada entered the summer with recession concerns easing. Second quarter growth was stronger than expected, household spending remained positive, and business investment and exports rebounded. By the end of Q3, however, the operating environment had become more difficult. New U.S. tariffs and Canadian countermeasures raised costs and uncertainty. Headline inflation increased to 3.1 percent in September, while employment declined for a second consecutive month. Long term bond yields moved higher, tightening borrowing conditions even as the Bank of Canada held its policy rate at 2.25 percent.

The result is an economy that is growing, but with less room to absorb another shock. Canada lost 68,000 jobs in September after losing 42,000 in August, and the unemployment rate increased to 6.5 percent. British Columbia remained exposed to tariffs, housing weakness, population decline, and elevated financing costs, while major projects, energy investment, transportation, and exports provided support.

As Canada moves toward the end of 2026, modest growth remains the most likely outcome. The central question is whether the recovery can continue while tariffs, energy costs, bond yields, and political transition hold back investment and delay financial relief for households and businesses.

Publication note: This report assesses economic activity during the third quarter of 2026.



An economy moving forward with less room for error.

Canada entered Q3 from a stronger position than the recession headlines at the beginning of the year suggested. Real GDP increased 0.8 percent in Q2, or 3.3 percent at an annualized rate, supported by consumer spending, business investment and exports.

Despite the Q2 rebound, the stronger starting point did not translate into broad labour-market momentum. Employment fell in both August and September, for a combined decline of 110,000 jobs, and the unemployment rate increased to 6.5 percent by quarter end. Inflation also moved higher in September, but the increase remained concentrated in gasoline. Excluding gasoline, inflation eased to 2.2 percent.

Looking ahead.

Canada is expected to continue growing, but slowly. Current forecasts point to real GDP growth of approximately 1.0 percent for Canada and 0.8 percent for British Columbia in 2026. The Bank of Canada has room to hold its policy rate because underlying inflation is not widespread and excess capacity remains. The risk of a rate increase is nevertheless higher than the fundamentals alone would imply. Headline inflation above 3 percent, elevated fuel prices, tariff concerns, rising bond yields, and public sensitivity to renewed price pressures can harden inflation expectations and market sentiment. Even without a policy-rate increase, higher bond yields can keep fixed mortgage and business borrowing costs elevated.

Key Insights.

Theme	What Q3 showed	So what for members and local businesses
Growth	Real GDP increased 0.8 percent in Q2, or 3.3 percent annualized. Growth came from consumption, investment, government spending, and exports, while lower inventories reduced the gain.	The economy entered Q3 with momentum, but employment losses and trade pressure showed that the recovery remained fragile. Members continued to face a softer job market and elevated borrowing costs, while businesses faced cautious consumer spending and greater uncertainty around hiring and investment.
Trade and tariffs	The U.S. imposed a 50 percent tariff on selected Canadian goods valued at about C\$27.6 billion. Canada responded with tariffs of 15, 25, or 50 percent on C\$27.6 billion of selected U.S. imports.	The exposure is concentrated, but the effects extend through orders, cash flow, supply chains, pricing, hiring, and investment.
Inflation and rates	CPI inflation was 3.1 percent in September, while inflation excluding gasoline eased to 2.2 percent. The Bank of Canada held its policy rate at 2.25 percent.	Underlying inflation supports a hold, but sentiment, energy prices, tariffs, and bond yields leave the risk of renewed rate pressure elevated.
Labour market	Employment declined by 68,000 in September after falling by 42,000 in August. The unemployment rate increased to 6.5 percent.	Two consecutive monthly losses point to fewer opportunities for younger workers, new entrants, and people seeking to change jobs.
British Columbia	B.C. growth remained modest and uneven. Investment and energy-related activity provided support, while population decline, housing weakness, and tariff exposure constrained the outlook.	The provincial economy can grow without producing broad relief across household budgets or local business revenues.
Political transition	Municipal elections produced leadership changes in several major B.C. communities, followed by a change in provincial government in October.	The economic risk is less the election result itself than uncertainty over policy timing, fiscal choices, permitting, housing rules, infrastructure, climate policy, and Indigenous relations during transition.

Global and trade backdrop.

The global economic environment shifted significantly during Q3. The key developments were the escalation in Canada-U.S. trade tensions, persistently high oil prices linked to conflict in the Middle East, higher global bond yields, and an investment cycle increasingly shaped by artificial intelligence (AI).

- **Tariffs moved from a planning risk to an active cost.** On August 22, the United States imposed a 50 percent tariff on selected Canadian goods valued at approximately C\$27.6 billion. Canada responded on September 8 with tariffs of 15, 25, or 50 percent on C\$27.6 billion of selected U.S. imports, matching the U.S. measures dollar for dollar and rate for rate.
- **Small businesses are particularly vulnerable to the tariff shock.** CFIB found that 43 percent of small exporters were directly affected by the new U.S. tariffs, while 42 percent of businesses expected to absorb most of the additional costs rather than pass them on.

For businesses

Tariffs directly affect orders and input costs. Those pressures affect cash flow and margins, which then influence hiring, inventory, borrowing, and investment.

- **Energy remained both a support and a cost.** High oil prices supported incomes and investment in energy-producing regions but raised transportation, logistics, travel, and operating costs elsewhere. In September, gasoline price growth was the main reason headline inflation increased.
- **AI investment supported growth elsewhere in the global economy.** Private forecasts continued to identify AI-related capital spending as a source of U.S. and Asian growth, although it did not remove the effects of higher energy costs and tighter financial conditions.

Canada: stronger output, weaker hiring, cautious investment.

- **Economic growth continued, but momentum slowed entering the third quarter.** Real GDP increased 0.8 percent in Q2, before stalling in July. Statistics Canada's advance estimate points to a 0.2 percent increase in August, suggesting growth continued in Q3 but at a more moderate pace.
- **The labour market weakened by the quarter end.** Employment declined by 68,000 in September after a decline of 42,000 in August. September losses were concentrated among youth, women aged 25 to 54, and workers in educational services, health care and social assistance, and manufacturing.
- **Trade diversification improved at the margin.** In July, exports to countries other than the United States increased 7.4 percent to a record \$25.6 billion and represented 33.7 percent of Canadian merchandise exports.

- **Business sentiment improved before the latest escalation.** The Q3 Canadian Survey on Business Conditions found that 59.8 percent of businesses expected at least one cost-related obstacle, down from 64.3 percent in Q2. The responses preceded the full effect of the late-quarter tariff escalation.
- **Population growth became a larger constraint.** Slower population growth reduced support for labour-force expansion, consumer demand, and housing activity.

Monetary and fiscal policy.

The Bank of Canada held the overnight rate at 2.25 percent in September. Inflation excluding gasoline eased to 2.2 percent in September, core inflation remained close to 2 percent, and excess capacity persisted. These fundamentals do not point to widespread inflation or an immediate need for higher rates.

The risk around interest rates is nevertheless elevated. Headline inflation was 3.1 percent in September, gasoline prices remained high, tariffs created additional cost pressure, and long-term bond yields had risen. These developments can change market pricing and public expectations before they appear broadly in core inflation.

A steady policy rate did not mean steady conditions in bond markets. Government of Canada yields rose substantially during September. The three-year benchmark yield ended the month at 3.47 percent, up from 3.10 percent in August, while the five-year yield reached 3.69 percent by month end.

Higher energy prices, tariff related cost pressures and changing expectations for interest rates added to upward pressure on market yields.

For members and businesses, this means a policy rate hold does not necessarily translate into lower borrowing costs. Rising three- and five-year bond yields are adding upward pressure to fixed mortgage and other term borrowing rates. That keeps debt servicing and refinancing costs elevated for households and raises the cost of financing new investment for businesses.

The forward risk is a change in the mix and timing of provincial and municipal spending following the October elections. Transition periods can delay decisions even when the eventual policy direction is more supportive of investment.

Why sentiment matters

Interest-rate decisions are based on observed inflation and economic slack, but financial conditions also respond to expectations. If households, businesses, and bond markets begin to expect tariffs and energy costs to keep inflation high, borrowing costs can rise before inflation becomes widespread. This is why the risk is higher than the current core data alone suggest.

British Columbia: Investment is providing support, but domestic momentum is weak.

British Columbia entered Q3 with modest growth and a narrower set of supports. Consensus estimates B.C. real GDP growth of 0.8 percent in 2026. Investments in major projects and export-oriented sectors are expected to provide support, while population decline and trade challenges will constrain growth. Political change at both the provincial and municipal levels added near-term uncertainty as businesses wait for greater clarity on fiscal priorities, regulation, infrastructure and investment decisions.

- **Population is no longer providing the same lift to domestic demand.** The shift from rapid population growth to population decline means less incremental demand for housing, consumer spending and services. This removes an important source of growth that helped propel B.C.'s economy in previous years and makes growth more dependent on productivity, investment and exports. BC Stats identifies population alongside GDP, labour markets, consumer spending and housing as key measures of B.C. economic activity.
- **Housing remained weak through Q3.** Residential sales were below year earlier levels in every month of the quarter, falling 6.7 percent in July, 4.7 percent in August and 8.9 percent in September. The lack of a stronger rebound despite earlier price declines points to continued pressure from affordability, financing costs and broader economic uncertainty.
- **The labour market lost momentum through Q3.** B.C. employment fell by roughly 7,900 over the quarter. A strong

17,800 job gain in July was followed by losses in August and September, leaving employment lower at quarter end. The unemployment rate ended September at 6.4 percent, while weakness was increasingly visible in trade exposed sectors, including manufacturing and forestry.

- **B.C.'s expanded energy export capacity provided an important buffer in Q3.** With the Trans Mountain Expansion operating and LNG Canada exporting, the province entered the quarter with greater capacity to sell energy outside the U.S. That diversification became more valuable as U.S. trade uncertainty intensified and other export sectors faced greater pressure.
- **Political transition adds uncertainty to an already soft environment.** Changes in political leadership at the provincial and municipal levels introduce uncertainty around the timing and direction of fiscal, regulatory, infrastructure and investment decisions.

Political transition and election risk.

Political uncertainty increased toward the end of Q3 as B.C. approached provincial and municipal elections in October. For the economy, the immediate issue was less about who would win and more about the potential for a change in policy direction and a pause in decision making while businesses, investors and governments waited for greater clarity.

The elections introduce uncertainty around fiscal priorities, housing and permitting, infrastructure, resource development,

climate policy and regulation. With both provincial and municipal governments potentially facing leadership or policy changes, some investment, procurement and project decisions could be deferred until mandates, budgets and implementation priorities become clearer.

- **Fiscal direction.** Watch for changes to operating spending, capital plans, taxes, deficits, and debt. A rapid fiscal shift could affect public-sector employment, procurement, construction, and bond-market perceptions.
- **Housing and permitting.** Municipalities control important parts of zoning, approvals, development charges, and infrastructure sequencing. Changes in local leadership can accelerate projects, but transition and policy redesign can also introduce delays.
- **Major projects and climate policy.** Changes to permitting, energy, transportation, building standards, and emissions policy could affect project economics, investment timing, and demand for transition finance.

What to watch

The first signals will come from cabinet mandates, the fiscal update, the next provincial budget, municipal budget processes, housing and permitting directives, and decisions on major projects. The risk is highest where programs depend on several orders of government or where investment is already sensitive to financing costs.

- **Indigenous rights and reconciliation.** Changes affecting consultation, title, revenue sharing, procurement, or the Declaration on the Rights of Indigenous Peoples Act could create legal, project, and relationship risk. The main watchpoint is policy clarity and the durability of government-to-government processes.
- **Intergovernmental coordination.** Housing, transit, infrastructure, emergency preparedness, and affordability programs depend on alignment across federal, provincial, municipal, and Indigenous governments. Simultaneous political transitions can slow coordination.

What this means for people and communities.

Housing affordability

Higher long-term bond yields were the most important new Q3 development for housing affordability. The policy rate remained stable, but fixed mortgage pricing faced upward pressure. For borrowers approaching renewal, the risk is that financing relief arrives more slowly than expected. Municipal and provincial political transitions add uncertainty around zoning, approvals, infrastructure, development costs, and housing-program continuity.

Climate action

Persistently high oil prices increased transportation and operating costs, strengthening the financial case for energy efficiency, electrification, renewable generation, and local energy resilience. Policy transition creates additional uncertainty around building standards, emissions policy, project approvals, and public incentives.

Equity

Higher fuel and transportation costs take a larger share of lower household incomes. A weakening labour market creates additional barriers for younger workers, newcomers, and people seeking more hours or better-paid work. Changes to provincial or municipal affordability programs, transit, housing, and public services will be important distributional watchpoints.

Reconciliation

Higher construction, transportation, and financing costs continue to matter more in rural, remote, and northern communities. Major projects create opportunities for Indigenous ownership, procurement, employment, and revenue participation. Political transition adds uncertainty where projects depend on consultation, permitting, revenue sharing, or Indigenous rights frameworks.

Co-operatives and local economies

Nearly 60 percent of businesses expected at least one cost-related obstacle in Q3. Tariffs and higher yields affect both operating margins and the cost of financing adaptation. Co-operative and employee-ownership models remain relevant to succession and local ownership, but transactions require stable cash flow and accessible financing. Municipal procurement, commercial property taxes, permitting, and local infrastructure decisions will also influence small-business conditions.

Key risks and watchpoints.

- **Tariffs could raise some costs, but they may also accelerate supplier diversification.** Tariffs can affect the price of imported goods, equipment and business inputs. The impact will depend on which products are covered, how long the measures remain in place and how much of the cost businesses can absorb. For some businesses, the adjustment may create opportunities to source more inputs within Canada, develop new suppliers or pursue markets outside the United States.
- **Greater rate stability can support planning.** A steady Bank of Canada policy rate does not necessarily mean cheaper mortgages or business loans because higher bond yields can keep fixed and other term borrowing rates elevated. However, a more stable policy-rate environment gives households and businesses greater certainty when budgeting, refinancing or evaluating investments.
- **A softer job market could restrain spending, while easing some hiring pressures.** Employment weakened through the end of Q3. Greater job insecurity could make households more cautious about major purchases, affecting consumer-facing businesses. At the same time, employers that have struggled to recruit may find it easier to fill vacancies, although this will vary considerably by sector, occupation and region.

- **Businesses may delay major decisions, but the need to adapt is becoming clearer.** Expensive financing, uncertain demand and trade risks may lead some businesses to postpone hiring, equipment purchases or expansion. Others may use this period to improve productivity, reduce costs, diversify suppliers or invest in technology that strengthens their ability to compete.
- **Slower population growth could weaken demand while easing pressure on housing and services.** Fewer new residents mean slower growth in the workforce and customer base, particularly for businesses that benefited from rapid population growth. However, slower growth could reduce some pressure on housing, infrastructure and public services, giving communities more time to expand capacity.

The economy has shown that it can withstand difficult conditions. The next test is whether that resilience can become a recovery that people can see and feel. That means secure employment, greater room in household budgets, manageable borrowing costs and enough confidence for businesses to hire and invest. Canada and British Columbia have important sources of strength, but the benefits of growth will depend on how effectively businesses, governments and communities respond to the risks ahead.

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