

Canadian economic forecast – GDP expected to rebound in 2026 Q1 and 2026 Q2

CFIB/AppEco economic forecasts based on the most recent monthly Business Barometer® data indicate that **GDP** declined by 0.6% in 2025 Q4 (annualized rate). Despite this challenging end to the year, the forecasts show a good recovery for the first half of 2026, with increases of 1.6% in both Q1 and Q2. This strength stems from strong oil and gas production amid geopolitical tensions, as well as sustained construction activity.


Retail sales growth continued to slow in 2025 Q4, reaching only 0.2%. However, forecasts point toward a strong rebound in early 2026, with projected increases of 6.8% in Q1 and 2.0% in Q2. Year-over-year, this puts sales growth just in line with inflation.

CPI inflation rose to 2.2% in 2025 Q4 and remained at a similar level for 2026 Q1. Excluding food and energy, inflation remained at 2.5% at year-end before decreasing to 2.1% in 2026 Q1. The uptick forecast in total CPI inflation for 2026 Q2 (2.9%) is consistent with geopolitical tensions in Iran, maintaining medium-term pressure on prices.

Private investment continued to decline with a 0.2% drop in 2025 Q4, closing the year with an overall contraction of 1.7%. However, forecasts indicate a trend reversal for 2026, with a recovery in investment of 3.1% in Q1 and 2.9% in Q2.

Payroll employment grew by 0.2% in 2025 Q4, bringing year-over-year growth to 0.2%. This pace is expected to strengthen at the start of 2026, with projected growth of 1.4% for Q1. This acceleration in hiring is consistent with GDP growth forecasts for the same period, signalling a certain recovery in economic activity.

Table 1 - Key macroeconomic variables, historical and forecasted data, Canada, 2025-2026

	History				Estimate	Forecast	YTD**	
	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1*	2026 Q2	2025	2026 ^p
GDP by expenditure								
Level, chained \$B (2017)	2,497	2,491	2,506	2,502	2,512	2,522	2,494	2,517
Q/Q annualized growth	2.1%	-0.9%	2.4%	-0.6%	1.6%	1.6%		
Y/Y growth	2.9%	1.8%	1.6%	0.7%	0.6%	1.2%	2.3%	0.9%
GDP by industry, business sector								
Level, chained \$B (2017)	1,887	1,882	1,899	1,898	1,906	1,914	1,885	1,910
Q/Q annualized growth	2.3%	-1.1%	3.6%	-0.2%	1.6%	1.6%		
Y/Y growth	2.3%	1.4%	1.9%	1.2%	1.0%	1.7%	1.9%	1.3%
Retail sales								
Level, \$M	69,546	69,771	69,836	69,880	71,041	71,390	69,658	71,215
Q/Q annualized growth	4.5%	1.3%	0.4%	0.2%	6.8%	2.0%		
Y/Y growth	5.1%	5.4%	4.0%	1.6%	2.1%	2.3%	5.2%	2.2%
CPI, total								
Level, index (2002 = 100)	163	164	164	166	167	168	163	167
Q/Q annualized growth	2.9%	0.8%	2.3%	3.0%	2.5%	3.7%		
Y/Y growth	2.3%	1.8%	2.0%	2.2%	2.1%	2.9%	2.0%	2.5%
CPI, excluding food and energy								
Level, index (2002 = 100)	154	155	155	156	157	158	154	157
Q/Q annualized growth	3.0%	2.8%	1.8%	2.3%	1.4%	2.5%		
Y/Y growth	2.5%	2.6%	2.5%	2.5%	2.1%	2.0%	2.6%	2.0%
Private investment								
Level, chained \$B (2017)	427	426	425	425	428	431	426	430
Q/Q annualized growth	-5.0%	-0.5%	-0.9%	-0.2%	3.1%	2.9%		
Y/Y growth	1.7%	0.3%	0.9%	-1.7%	0.4%	1.2%	1.0%	0.8%
Payroll Employment								
Level, k persons	18,281	18,266	18,295	18,304	18,367	18,379	18,273	18,373
Q/Q annualized growth	0.3%	-0.3%	0.6%	0.2%	1.4%	0.3%		
Y/Y growth	0.6%	0.2%	0.2%	0.2%	0.5%	0.6%	0.4%	0.5%

Source: Modelling and forecasts by AppEco using CFIB's monthly Business Barometer® data.

* Q1 2026 CPI estimate reflects its actual value as of April 20, 2026.

** YTD represents the average of all quarters since the start of each year.

^p Preliminary based on estimate and forecast.

Notes: Forecasts are based on weighted CFIB data. The interpretation of recent dynamics can differ from that of unweighted data. All series are seasonally adjusted.

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