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In business for your business.

Canadian economic forecast: GDP expected to rebound in 2026 Q2 and 2026 Q3

GDP contracted by 0.1% in the first quarter of 2026 on an annualized basis. Despite this early-year weakness, CFIB/AppEco economic forecasts based on the latest (June) data from CFIB's monthly Business Barometer® point to a recovery in the second and third quarters of 2026, with respective GDP increases of 2.7% and 1.6%. This resilience is expected to be driven primarily by strong oil and gas production, as well as sustained activity in the construction sector.

Retail sales growth increased sharply in the first quarter of 2026, reaching 8.9%. Forecasts indicate that this growth should continue, albeit at a more moderate pace, with expected increases of 6.5% in the second quarter and 3.6% in the third quarter.

CPI inflation was relatively stable at 2.1% in Q1 2026. It rose to 3.1% year over year in Q2 2026 and is expected to edge up to 3.4% in Q3 2026. Core inflation, excluding food and energy, dropped slightly at 1.7% in the second quarter, but is expected to rise back up to 2.0% in Q3 2026. This rebound in inflation is occurring in a context of geopolitical tensions in Iran, which are maintaining medium-term pressure on prices.

Private investment continued to decline in the first quarter of 2026. Forecasts point to a much sharper contraction in the second and third quarters, with decreases of 6.3% and 4.7%, respectively. This weakness occurs amid ongoing uncertainty as CUSMA enters an annual review process.

Payroll employment remained stable in the first quarter of 2026. Forecasts point to a slight increase in the second and third quarters, with respective gains of 0.4% and 0.3%, suggesting moderate labour market growth, in line with recent quarters.

AppEco (Analyse stratégique • Analytics)	History				Estimate	Forecast	YTD*	
	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2025	2026p
GDP by expenditure								
Level, chained $B (2017)	2,496	2,508	2,502	2,501	2,517	2,527	2,502	2,515
Q/Q annualized growth	-1.0%	1.9%	-1.0%	-0.1%	2.7%	1.6%		
Y/Y growth	2.0%	1.7%	0.7%	-0.1%	0.8%	0.8%	2.2%	0.5%
GDP by industry, business sector								
Level, chained $B (2017)	1,884	1,900	1,899	1,901	1,913	1,919	1,891	1,911
Q/Q annualized growth	-0.9%	3.5%	-0.2%	0.3%	2.6%	1.2%		
Y/Y growth	1.5%	1.9%	1.2%	0.7%	1.5%	1.0%	1.9%	1.1%
Retail sales								
Level, $M	70,202	70,325	70,602	72,118	73,269	73,914	70,203	73,100
Q/Q annualized growth	0.7%	0.7%	1.6%	8.9%	6.5%	3.6%		
Y/Y growth	5.0%	3.6%	1.3%	2.9%	4.4%	5.1%	4.4%	4.1%
CPI, total								
Level, index (2002 = 100)	164	164	166	167	169	170	164	168
Q/Q annualized growth	0.8%	2.3%	3.0%	2.5%	4.6%	3.6%		
Y/Y growth	1.8%	2.0%	2.2%	2.1%	3.1%	3.4%	2.0%	2.9%
CPI, excluding food and energy								
Level, index (2002 = 100)	155	155	156	157	157	158	155	157
Q/Q annualized growth	2.8%	1.8%	2.3%	1.3%	1.3%	3.2%		
Y/Y growth	2.6%	2.5%	2.5%	2.0%	1.7%	2.0%	2.5%	1.9%
Private investment								
Level, chained $B (2017)	427	426	424	421	414	409	427	414
Q/Q annualized growth	-0.5%	-1.3%	-1.7%	-3.0%	-6.3%	-4.7%		
Y/Y growth	0.5%	1.0%	-2.0%	-1.6%	-3.1%	-3.9%	1.1%	-2.9%
Payroll Employment								
Level, k persons	18,266	18,295	18,304	18,319	18,335	18,348	18,280	18,334
Q/Q annualized growth	-0.3%	0.6%	0.2%	0.3%	0.4%	0.3%		
Y/Y growth	0.2%	0.2%	0.2%	0.2%	0.4%	0.3%	0.4%	0.3%

* YTD stands for "Year-to-Date" and represents the average of quarters since the start of each year.
p Preliminary based on estimate and forecast.
Source: Modelling and forecasts by AppEco using CFIB's monthly Business Barometer® data.
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.

Also featured

In Focus: Capital equipment and technology costs soar

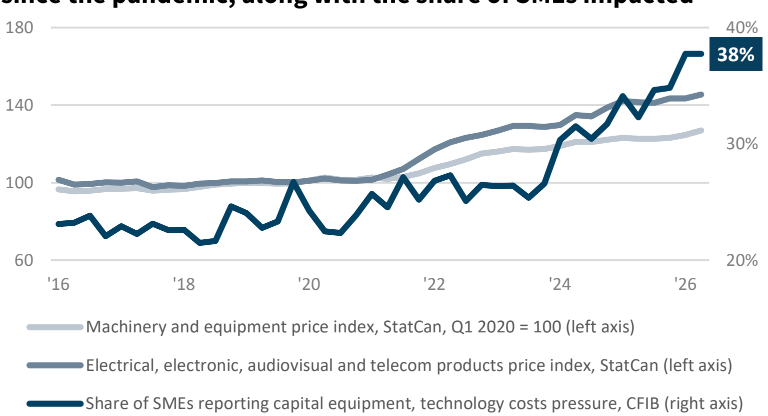
More SMEs facing capital equipment and technology costs

Replacing, upgrading and expanding productive assets has become more expensive since the pandemic. Statistics Canada data show steady price increases for machinery and equipment, as well as electrical, electronic and telecommunications products (Figure 1). CFIB data reflects these pressures, with 38% of SMEs reporting challenges related to capital equipment and technology costs in Q2 2026, on an upward trend.

Cost pressures are particularly acute in capital-intensive industries and among larger firms (Table 1). In Q2 2026, 60% of transportation and utilities businesses reported these costs as a challenge, and the share also rises with firm size. More broadly, reported cost pressures remain above historical averages across most sectors and business sizes, indicating that rising equipment, technology and financing costs are affecting more SMEs.

Despite rising costs, investment intentions remain strong, with many firms planning machinery and equipment investments in the next 12 months.[3] This suggests businesses still view capital spending as critical to productivity, operational efficiency and long-term competitiveness.

Figure 1 – Capital equipment and technology costs have soared since the pandemic, along with the share of SMEs impacted[1,2]

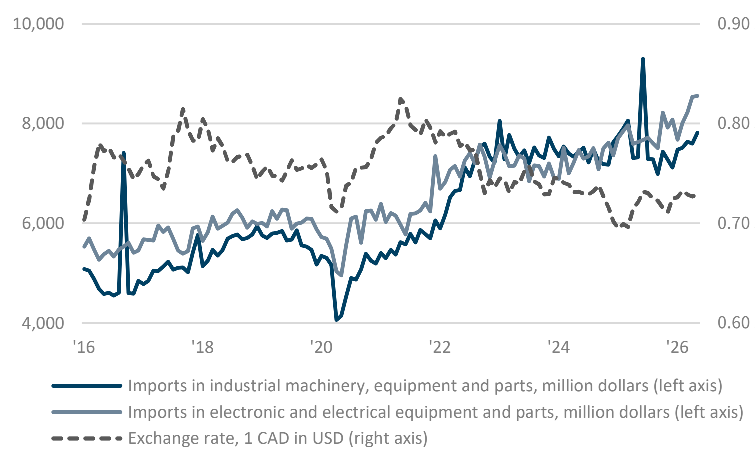


A more costly environment for capital investment

Between 2020 and 2023, inflationary pressures, elevated interest rates (through financing), global supply chain disruptions, shortages of key inputs such as semiconductors, and transportation bottlenecks raised the cost of acquiring equipment and technology. While many of these pressures have since eased, prices remain above their pre-pandemic levels. More recently, from 2024 to 2026, tariff measures, heightened economic uncertainty, geopolitical tensions and exchange rate fluctuations have continued to add pressure onto the costs.[4]

For example, the loonie was weakening as Canada was ramping up its imports of technology (Figure 2). Based on May 2026 import levels, a one-cent decline would increase annualized import costs for industrial machinery, equipment and parts and electronic and electrical equipment and parts by an estimated $2.7 billion, all else being equal. This underscores the need for greater cost-of-doing-business relief and measures to help SMEs manage exchange rate volatility.

Figure 2 – Capital equipment and technology are costing more with a weaker Canadian dollar[5,6]



Note: Data (imports) is on a balance-of-payments basis and are seasonally adjusted.

Table 1 – Capital equipment and technology costs

	SMEs reporting capital equipment & technology cost pressures (% share)	
	Q2 2026	*2009-2026 average*
Canada	**38**	**24**
Manitoba	52	28
Newfoundland and Labrador	46	21
Alberta	42	26
New Brunswick	41	25
Ontario	38	22
Nova Scotia	38	21
Quebec	34	25
British Columbia	33	21
Saskatchewan	26	28
Prince Edward Island*	25	26
Transportation and Utilities	60	33
Arts, Recreation & Information	48	24
Enterprises & Admin. Mgmt.	46	23
Accom. and Food Services	46	23
Mining, Quarrying, etc.*	43	28
Agriculture	42	38
Insurance, Real Estate, Finance	41	23
Other services	41	28
Professional Services	39	23
Construction	39	22
Manufacturing	35	25
Health & Education	33	27
Wholesale	31	18
Retail	30	19
1-4 employees	34	22
5-19 employees	37	24
20-49 employees	44	26
50-99 employees	56	27
100+ employees	56	27

Less than 20 responses.

Sources

1) Statistics Canada. Table 18-10-0265-01, Industrial product price index, by major product group, monthly
2) CFIB, Your Business Outlook Survey, Monthly Business Barometer®.
3) Bank of Canada, Business Outlook Survey—Second Quarter of 2026.
4) BDC, Monthly Economic Letter, April 2026.
5) Board of Governors of the Federal Reserve System (US), Canadian Dollars to U.S. Dollar Spot Exchange Rate [EXCAUS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/EXCAUS, July 9, 2026.
6) Statistics Canada. Table 12-10-0163-01, International merchandise trade by commodity, monthly (x 1,000,000).

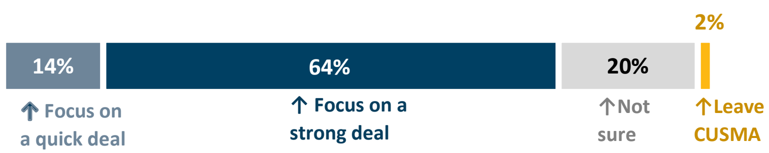
In Focus: Trade uncertainty is reshaping SME strategies

SMEs prioritize a strong CUSMA deal over a quick one

Eighteen months of uncertainty around tariffs and trade have taken a toll on Canadian business confidence: only 41% of them now view the United States as a reliable trading partner.[1] Against this backdrop, the U.S. administration chose not to renew the Canada-United States-Mexico free trade agreement (CUSMA) at the July 1, 2026 review deadline. While the agreement remains in force, it shifts to annual reviews until 2036, giving parties time to reach consensus. About 35% of Canadian SMEs report that it is too soon to determine the impact on their business plans, highlighting the uncertainty surrounding the review process.[2]

Faced with the prospect of continued uncertainty, Canadian SMEs are signalling a clear preference for a stronger agreement over a faster one. Most business owners (64%) believe the government should take the time needed to secure the best possible CUSMA agreement (Figure 3), suggesting they place greater value on long-term trade stability and predictability than on a quick, but potentially less advantageous, deal.

Figure 3 – SMEs think Canada should prioritize a stronger CUSMA agreement over a quicker outcome[3]



Sources

1) CFIB, Your Voice Survey – February 2026, February 5 - 25, 2026, final results.
2) CFIB, Your Business Outlook Survey, July 2026, n=370. Monthly Business Barometer.
3) CFIB, Your Voice Survey – June 2026, June 4 - 29, 2026, final results. Question: *Which of the following best describes your view on the CUSMA review? (Select one)*
4) Statistics Canada. Table 12-10-0175-01: International merchandise trade by province.
5) CFIB, April Your Voice Survey - April 9 - 27, 2026, final results. Question: *What obstacles or barriers has your business encountered when pivoting to new markets outside of Canada? (Select all that apply)*
6) CFIB, The State of Internal Trade: Canada's Interprovincial Cooperation Report Card (2025).

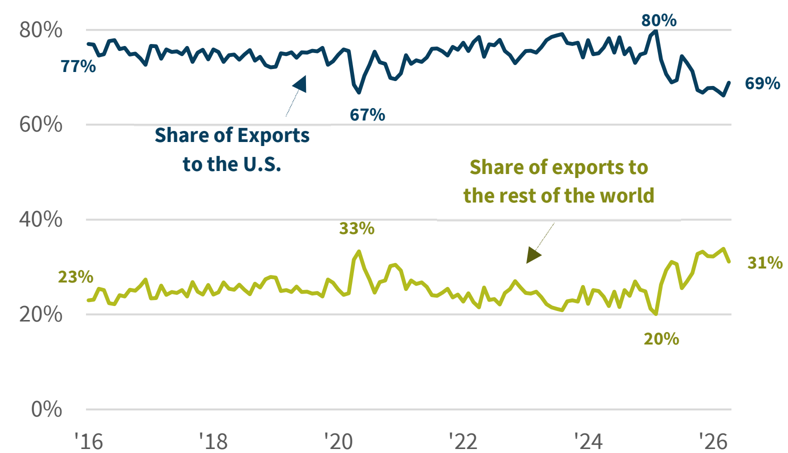
Canada is expanding beyond the U.S. market

The desire for greater trade certainty is also evident in Canada's evolving trade patterns. Although the U.S. remains Canada's largest trading partner, recent trade data point to a broadening of Canada's export markets (see Figure 4). From 2016 to 2024, roughly 75% of Canadian exports went to the U.S. and 25% to the rest of the world. Since the introduction of tariffs in 2025, that mix has shifted to approximately 69% and 31%, respectively.

Importantly, this shift is not being driven by a collapse in exports to the United States. In April 2026, Canadian exports to the U.S. totaled about $46 billion, above the average monthly level recorded between 2022 and 2024. The real story is the strength of exports elsewhere. Exports to the rest of the world rose from an average of roughly $14 billion per month between 2022 and 2024 to $21 billion in April 2026.

Canada's trade diversification is being driven by stronger growth in non-U.S. markets, not by a complete retreat from the U.S. market.

Figure 4 – Canada's trade diversification is gaining momentum[4]



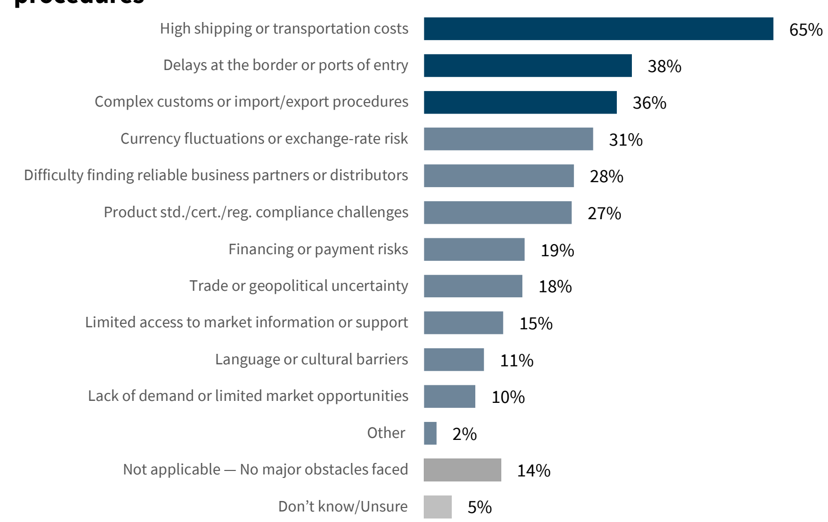
New markets, new opportunities, new challenges

CFIB data from April 2026 shows that nearly half (49%) of businesses trading with the U.S. have shifted toward non-U.S. suppliers or customers over the past year.[5] The most common destinations are Canada (74%), Asia (40%), and the European Union (39%).

However, these opportunities are not without challenges. For firms redirecting activity within Canada, interprovincial trade barriers remain a major hurdle, even as efforts to reduce them continue; notably, 58% of businesses believe removing these barriers would create new opportunities.[6] Beyond Canada and the U.S., the main barriers to expansion are high shipping costs (65%), border delays (38%), and complex customs and trade procedures (38%) (Figure 5).

As more SMEs diversify beyond the U.S., reducing internal trade barriers at home, and expanding access to international markets will be critical to turning diversification efforts into long-term growth opportunities.

Figure 5– Diversification is constrained by cost, delays, and procedures[5]



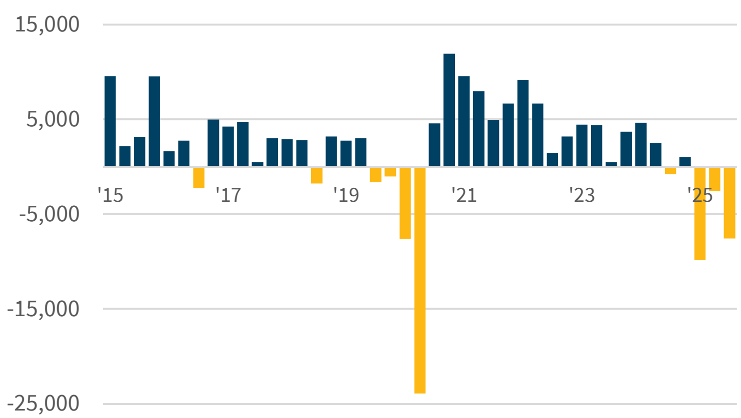
Business entry and exit trends

Business exits outpacing entries as of Q3 2025

Recent revisions to Statistics Canada's data show that Canada's business formation is currently characterised by three consecutive quarters in which exits have surpassed new business entries. Revisions have been an important part of this data set and, at times, have affected the historical trend. Business exits are only confirmed after up to 24 months of data are available. As a result, the most recent exit estimates rely on modelled projections and are subject to revision as more data become available. Exit data also lag entry data by six months.

The most recent quarter for which both entries and exits data is available, Q3 2025, shows that net business creation (entries minus exits) remained negative at 7,561 net exits. This follows two previous quarters of a similar pattern with 2,547 net exits in Q2 2025, and 9,844 net exits in Q1 2025. This marks the first sustained period of net business losses since the pandemic. Prior to 2025, quarterly net gains had generally been positive after the strong post-pandemic rebound in 2020–2022.

Figure 6 – As of Q3 2025, Canada had three consecutive quarters of net business exits [1]



Sources

1) Statistics Canada. [Table 33-10-0270-01 Experimental estimates for business openings and closures for Canada, provinces and territories, census metropolitan areas, seasonally adjusted], Data extracted on June 29, 2026.

The provincial picture of business formation

In Atlantic Canada:

- Newfoundland and Labrador mirrors Canada's weak momentum, with three consecutive quarters of negative net business formation.
- PEI, NB and NS rebounded from an initial negative quarter to modest growth before returning to negative territory in the latest quarter.

In Central Canada**:**

- Ontario continued to show weak business creation momentum, recording three consecutive quarters of negative net business formation.
- Quebec alternated between negative and positive quarters, suggesting that business creation remains uneven but with signs of resilience.

In Western Canada:

- BC stood out as the weakest performer, with five consecutive quarters of negative net business formation.
- Alberta also experienced sustained weakness with three consecutive negative quarters.
- Saskatchewan and Manitoba alternated between positive and negative quarters, showing some resilience but no clear upward momentum in business creation.

Table 2 – Business entry and exit counts, by province, Q3 2025

	Entry counts	*Exit counts*	*Net entries (Net exits)*	*Negative quarters in the last year**
Canada	45,489	53,050	**-7,561**	**3**
Newfoundland and Labrador	590	782	-192	3
Price Edward Island	242	274	-32	2*
Nova Scotia	1,047	1,080	-33	2
New Brunswick	828	901	-73	2*
Quebec	7,642	7,645	-3	1*
Ontario	16,423	23,252	-6,829	3
Manitoba	1,399	1,492	-93	2
Saskatchewan	1,266	1,234	32	1*
Alberta	7,205	8,340	-1,135	3
British Columbia	8,118	9,422	-1,304	4

Notes: * denotes a quarter that may be negative mathematically but it's too close to zero, e.g. -3. Enterprises operating in multiple industries or provinces are counted more than once, so detailed totals may exceed the Canada total.

The sectoral picture of business formation

Sectoral trends show mixed momentum in business formation.

- Wholesale, transportation, agriculture, oil and gas, finance and insurance, and business services continue to face significant weakness, with many consecutive quarters of negative net business entries.
- Construction, personal services, and information, arts and recreation, have shown some recent improvement but continue to experience negative momentum.
- Manufacturing, retail, and hospitality have posted a timid rebound, with positive net business formation in the latest two quarters.
- Health care and education remain the only clear bright spots, with sustained and strong business creation momentum.

Table 3 – Business entry and exit counts, by sector, Q3 2025

	Entry counts	*Exit counts*	*Net entries*	*Negative quarters in the last year*
Canada	45,489	53,050	**-7,561**	**3**
Professional Services	7,692	10,035	-2,343	4
Transportation and Utilities	2,723	4,711	-1,988	4
Insurance, Real Estate, Finance	3,250	4,065	-815	4
Arts, Recreation & Information	1,061	1,370	-309	3
Wholesale	732	990	-258	4
Other Services	2,397	2,591	-194	4
Construction	5,034	5,210	-176	2
Mining, Quarrying, Oil, etc.	167	220	-53	4
Agriculture	160	196	-36	4
Manufacturing	1,361	1,330	31	2
Retail	3,033	2,953	80	2
Accom. and Food Services	7,192	6,812	380	1
Health & Education	4,714	3,583	1,131	0

Private sector job vacancies | 2026 Q2

Job vacancies stabilized at 2.8%

The private sector job vacancy rate in Canada remained virtually unchanged, at 2.8% in 2026 Q2 (Figure 7). Vacancy rates showed little to no change quarter-over-quarter across most provinces and sectors. Year-over-year variations were minimal—under 0.8% for all provinces, sectors, and business sizes.

Small changes in vacancy rates across provinces

Prince Edward Island (-0.7) and Nova Scotia (-0.2) experienced the largest year-over-year decreases in vacancy rates. Saskatchewan (+0.2) and New Brunswick (+0.2) were the only provinces recording a yearly increase (Figure 7 and Table 4).

Highest vacancy rates in other services and construction

On a yearly basis, health and education (-0.5) and wholesale businesses (-0.4) saw the biggest drops in their vacancy rates. Information, arts and recreation (+0.8), professional services (+0.2) and retail (+0.2) were the only sectors posting yearly increases in vacancy rates (Figure 8 and Table 4).

Smaller businesses record the biggest yearly declines

On a yearly basis, businesses with fewer than 20 employees have shown the biggest decreases in vacancy rates, while mid-size businesses with fewer than 100 employees were recording slight increases (Figure 9 and Table 4).

Sources

(1) CFIB, Your Business Outlook Survey, January 2004-June 2026. Trended. For more details, please visit our interactive webpage.
(2) Statistics Canada. Table 14-10-0398-01, adjusted for seasonality.
(3) Q/Q (3-month) and Y/Y (12-month) changes are in percentage points.

Figure 7 – Job vacancy rates by province, Canada[1,2]

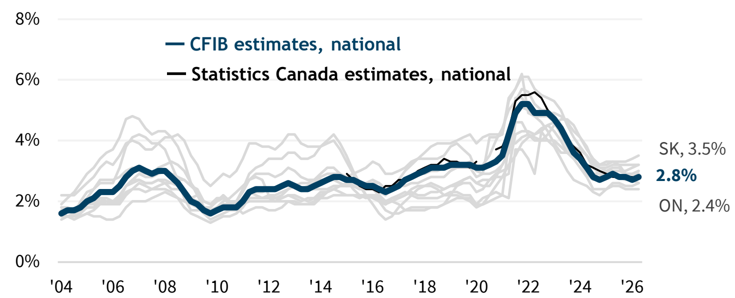


Figure 8 – Job vacancy rates by sector, Canada[1]

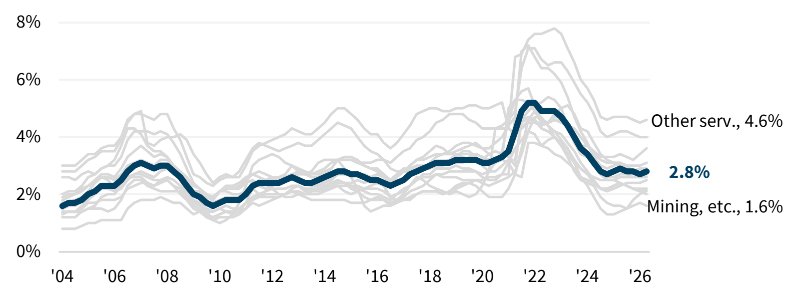


Figure 9 – Total vacancies, Canada (in thousands)[1]

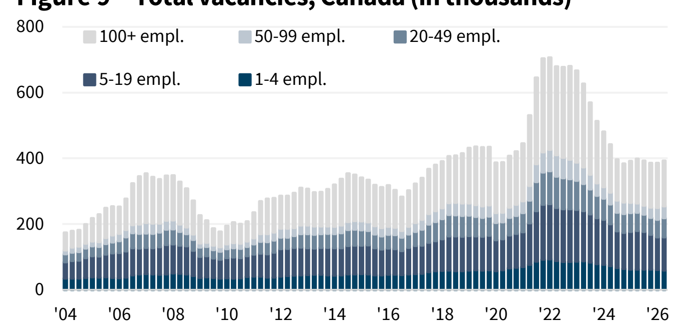


Table 4 – Private sector job vacancies, 2026 Q2

	Vacancy rate (%)	Q/Q change[3]	Y/Y change[3]	Total vacancies (n)
Canada	**2.8**	**0.1**	**-0.1**	**393,000**
Saskatchewan	3.5	0.1	0.2	12,700
New Brunswick	3.2	0.1	0.2	8,400
Quebec	3.2	0.0	0.0	97,700
Manitoba	3.0	0.1	-0.1	14,000
Alberta	2.9	0.1	-0.1	50,700
British Columbia	2.9	0.1	0.0	57,400
Nova Scotia	2.8	0.1	-0.2	9,300
Newfoundland and Labrador	2.6	0.1	0.0	4,000
Prince Edward Island	2.6	-0.1	-0.7	1,300
Ontario	2.4	0.0	-0.1	137,500
Other Services	4.6	0.1	-0.1	28,200
Construction	4.0	0.0	-0.2	49,700
Professional Services	3.6	0.2	0.2	46,500
Accom. and Food Services	3.1	0.1	0.0	40,800
Agriculture	2.9	0.0	-0.1	4,900
Transportation and Warehousing	2.7	0.0	0.0	20,200
Insurance, Real Estate, Finance	2.6	0.0	0.0	29,800
Health and Education	2.6	-0.1	-0.5	34,500
Retail	2.5	0.1	0.2	51,300
Info, Arts, Recreation	2.2	0.2	0.8	12,400
Enterprise Management	2.2	0.0	-0.2	21,000
Manufacturing	2.1	0.0	-0.3	33,300
Wholesale	2.0	-0.1	-0.4	16,600
Mining, Quarrying, and Oil and Gas Extraction	1.6	-0.1	0.0	3,800
1-4 employees	5.4	-0.1	-0.3	59,200
5-19 employees	4.4	0.1	-0.7	100,700
20-49 employees	3.2	0.2	0.1	58,500
50-99 employees	2.5	0.0	0.5	36,000
100+ employees	1.9	0.1	0.1	138,600

Methodology

CFIB's research is based on members' views, which are collected through various controlled-access member surveys using a one-member one-vote system. CFIB produces clear, credible, and compelling analysis that supports the success of independent business in Canada.

CFIB membership has good representation across regions, sectors, and business sizes; hence the survey data offers a reasonable estimate of the distribution of economic activity across Canada.

Your Business Outlook is a monthly CFIB tracking survey that covers small business confidence, expectations, and operating conditions. Findings are typically based on several hundred responses from a stratified random sample of CFIB members. Every third Thursday of the month, results are released in our Business Barometer® reports (Canada, provinces and industries), at cfib.ca/barometer.

Your Voice is CFIB's omnibus survey that covers a wide range of current topics. Results are based on several thousand responses each time and are available at cfib.ca/yourvoice.

Forecasts are based on CFIB data collected via the Your Business Outlook survey, a data set that is available the same month it is collected. By contrast, most other publicly available economic indicators have a delay, sometimes longer than two months.

Job vacancies estimates are also based on the Your Business Outlook survey. The analysis uses data from the CFIB survey, Statistics Canada's Survey of Employment, Payrolls and Hours as well as custom tabulations from Statistics Canada's Labour Force Survey. For more details, please visit our interactive webpage.

For more information on the methodologies used, visit cfib.ca/methodology.

About CFIB

The Canadian Federation of Independent Business (CFIB) is Canada's largest association of small and medium-sized businesses with 103,000 members across every industry and region. CFIB is dedicated to increasing business owners' chances of success by driving policy change at all levels of government, providing expert advice and tools, and negotiating exclusive savings. Learn more at cfib.ca.

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AppEco is a consulting firm specializing in economic and strategic analysis. It possesses in-depth technical expertise and delivers first-class services in applied economics: economic impact studies, surveys and polls, cost-benefit analyses, modelling, econometrics, pricing, etc. Its mission is to provide useful services that contribute to economic growth and the success of clients' projects. AppEco works with firms of all sizes, from small to multinationals, as well as governments and non-profit organizations. Learn more at appeco.ca/en/.

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