Fall 2026 economic outlook

A gradual and bumpy recovery

Key calls

November 11, 2026

Canada faces a gradual and bumpy recovery. We forecast growth of 1.0% in 2026, 1.8% in 2027 and 2.0% in 2028 (Table 1), supported by a resilient consumer, rising investment, adaptation to tariffs and modestly stronger population growth. The risks to growth are roughly balanced but output is expected to remain about 1% below its pre-2025 trend.

Our highest conviction call is an upturn in investment. Technology spending, energy infrastructure and major project investment should help offset slow immigration and provincial spending. Data centres offer additional upside: our forecast includes $30 billion over two years, against prospective plans worth at least five times that amount. We expect per capita GDP growth to rise from 0.5% in 2026 to about 1.0% in both 2027 and 2028.

The latest Federal Budget provides some modest stimulus and implicitly sets a path for modestly higher immigration. Federal fiscal policy will turn slightly looser, adding an extra 0.2 percentage points in 2027 from the *Productivity Mega Deduction* and the expansion of household transfers. We expect population growth to rise from 0.4% in 2026 to 0.8% in both 2027 and 2028.

The Prairies should continue to lead regional growth. Alberta and Saskatchewan benefit from high commodity prices, major projects and the data centre buildout (Table 2). Ontario should rebound in 2027, while growth in Quebec should remain subdued amid soft population growth, and fiscal consolidation will weigh on growth in B.C.

Is it even possible to forecast inflation right now given the state of the energy market? Our projection assumes WTI easing gradually toward $80 per barrel by the end of 2027, which would put our headline inflation forecast at an average of 2.8% in 2026, 2.1% in 2027 and 1.6% in 2028. We expect measures of core inflation to roughly stay around 2% in that scenario. But risks to inflation are skewed to the upside as refined product prices remain high and oil inventory demand remains strong.

That's the reason the Bank of Canada will hike again. Long-term yields to stay elevated. We expect the Bank to raise its policy rate once more to 2.75% as early as December if oil prices remain elevated, while strong demand for capital will keep U.S. and Canadian 10-year yields near 4.8% and 3.8%, respectively, by the end of 2027 (Table 3).

If no trade deal, the Loonie will remain under pressure in the short run before strengthening in 2027. We expect C$1.40-C$1.42 per U.S. dollar on average in the near term as markets scale back expectations of extra Bank of Canada rate hikes, followed by appreciation toward C$1.38-C$1.39 in the second half of 2027 as growth improves.

The WTI-WCS oil spread has widened close to $30 per barrel, but we expect it to gradually normalize. Near-term headwinds contributing to the wider spread should fade next year as refinery capacity improves. Increased Venezuelan shipments are hurting Canadian heavy crude, but structural production constraints should limit further Venezuelan growth.

Our biggest upside risk to growth? A U.S.–Canada trade deal. A thaw in trade tensions looks likely, particularly after the midterms, but we have not baked it in given past head fakes. A broader deal could lift Canadian growth to 2% or higher over the next two years, benefiting Ontario and Quebec and potentially strengthening the dollar towards C$1.35.

Our biggest downside risk to growth? A major meltdown in markets. We view this as a tail risk, but potential triggers include disappointing AI earnings, stress around AI debt issuance, another energy price surge or a euro area debt crisis. The interaction between some or all is the most worrisome.

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Table 1 - Economic forecasts

	Q/Q SAAR, unless otherwise noted			Annual growth, unless otherwise noted		
	2026 Q2	2026 Q3F	2026 Q4F	2026	2027	2028
GDP	3.3	1.5	1.0	1.0	1.8	2.0
Consumption	3.3	2.1	1.6	2.3	1.9	2.0
Government	1.3	0.8	1.2	0.9	1.0	0.9
Housing	10.4	-1.3	-1.6	-2.6	0.6	1.7
Business investment	9.1	2.3	2.8	1.2	3.3	3.8
Exports	15.1	-1.3	-4.9	2.5	0.2	2.5
Imports	1.1	1.1	-4.5	2.1	-0.1	2.5
Inventories*	-1.0	0.1	0	-0.5	-0.1	0.1
Potential output	1.1	1.2	1.2	1.1	1.4	1.8
Population**	0.2	0.1	0.1	0.4	0.8	0.8
Output gap (%)	-0.7	-0.6	-0.6	-0.8	-0.6	-0.3
Unemployment rate (%)	6.6	6.5	6.7	6.6	6.5	6.3
GDP per capita	2.5	1.1	1.0	0.5	1.1	1.0
Nominal GDP	14	3.2	6.0	5.9	4.3	3.3
Total inflation (y/y)	3.0	3.1	3.0	2.8	2.1	1.6
Core inflation (y/y)***	2.0	1.9	1.9	2.0	2.2	2.0

* Contribution to growth
** Non-annualized growth
*** We define “core inflation” as the average of CPI-Trim and Median.

Source: Statistics Canada, KPMG Calculations

Table 2 - Provincial forecasts

	2025	2026	2027	2028
Canada	1.9	1.0	1.8	2.0
Alberta	3.3	2.6	2.3	2.2
British Columbia	2.4	1.1	1.5	2.1
Saskatchewan	3.1	3.6	2.2	2.2
Manitoba	1.8	2.2	1.8	1.8
Ontario	1.8	0.8	1.8	1.9
Quebec	1.0	0.3	1.3	1.8
New Brunswick	2.4	0.4	1.3	1.4
Nova Scotia	3.0	2.0	2.3	2.3
Prince Edward Island	3.5	2.7	2.3	2.4
Newfoundland	4.3	3.0	2.1	2.2

Note: We forecast expenditure-based GDP at market prices for Canada, Ontario and Quebec. For all other provinces we forecast industry-based GDP at basic prices. Accordingly provincial GDP growth forecasts may not reconcile nationally. For 2026 industry-based GDP is currently tracking higher than expenditure-based at the national level.

Source: Statistics Canada, KPMG Calculations

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Table 3 - Market and commodity price assumptions

	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4
USD/CAD $	1.40	1.41	1.41	1.40	1.39
BoC policy rate (%)	2.75	2.75	2.75	2.75	2.75
Canada 2Y (%)	3.20	3.15	3.15	3.20	3.30
Canada 10Y (%) Fed	3.80	3.75	3.75	3.75	3.80
funds rate (%) U.S.	4.13	4.38	4.38	4.38	4.38
2Y (%)	4.70	4.60	4.50	4.40	4.40
U.S. 10Y (%)	4.90	4.85	4.80	4.75	4.70
WTI ($/bbl)	95	91	87	83	80
WCS ($/bbl)	70	68	67	66	65

Note: BoC overnight rate and the fed funds rate are projected rates at the end of the indicated quarter. All other projections are averages over the indicated quarter.

Source: KPMG Calculations

The forecast and assumptions in this outlook are based on data and information up to November 6, 2026.

A gradual and bumpy recovery

It's nerve-wracking putting out an economic view these days. Who knows how the next headline is going to ripple through markets? What will happen next in the Middle East, or what big policy announcement is right around the corner? We know the state of the world can and will change and have gotten used to writing our forecasts in pencil with an eraser in hand.

But we've been in uncertain and challenging times for a while now, and the main lesson we've learnt is that businesses have adapted. That is one of the key principles guiding our outlook, a view supported by the data, forward-looking surveys, markets and our own conversations. Yes, there are material downside risks and potential mispricing in markets. Yes, geopolitical risk is a problem that isn't going away and inflation is high. But even with that, we continue to see solid-to-strong earnings growth. Firms are adjusting to tariffs and leaning into areas where demand is emerging, such as AI and AI-related infrastructure. Crucially, consumers continue to spend.

That is why the global economy is expected to grow at a trend-like pace of 3.1% in 2026, according to the IMF, defying worries of a marked slowdown since the spring. In fact, the IMF has revised its most recent global projections higher, with global growth expected to accelerate to 3.4% next year. Our colleagues at KPMG U.S. expect U.S. growth to come in at 2.4% and 2.6% in 2026 and 2027, respectively.

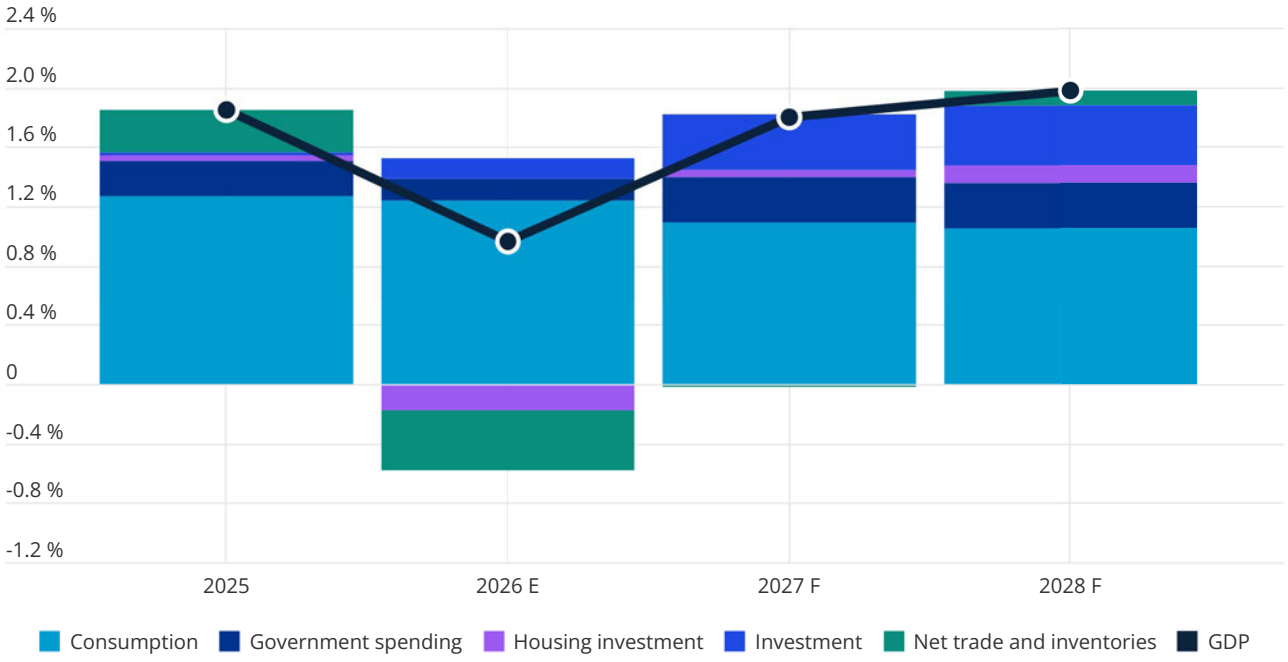
How about Canada? Business is not as good as in the U.S., but our view is that the Canadian economy will see a gradual and bumpy recovery. Of course, the starting point is not the best. Trade tensions and a sharp decline in immigration have caused economic growth to slow substantially over the past year, and the latest data have been soft. The economy will grow at a tepid annual average pace of 1% in 2026, and we anticipate growth will be sub-par in the back half of the year as U.S. tariffs and retaliatory measures weigh on trade-exposed sectors.

Now some new headwinds are emerging: markets are jittery about the funding of AI capex in the U.S.; the Bank of Canada has raised rates and will likely hike again in December; higher global and Canadian bond yields will pressure Canada's already soft housing market; and persistently high energy prices and a weak Canadian dollar are eroding households' and businesses' purchasing power.

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Growth should gradually pick up

Chart 1: Annual GDP growth projections



Source: Statistics Canada, KPMG Calculations

While those challenges will dent growth, we're cautiously optimistic that more will go right in the economy than will go wrong over the next couple of years. We expect that growth will rise to 1.8% in 2027 and then to 2.0% in 2028 on an annual average basis (Chart 1). Our cautious optimism about an upturn in growth is based on four key forces:

1. Continued strength in consumer spending
2. Rising investment spurred on by high commodity prices, major projects getting off the ground and demand for AI and AI-related infrastructure
3. Continued adaptation to tariffs and an eventual stabilization of exports to the U.S.
4. A modest increase in population growth

While that may not be eye-popping growth, our expectation is that the quality of Canada's growth will improve. In per capita terms, growth is projected to be 0.5% in 2026 and then rise to about 1.0% in both 2027 and 2028. That would mark a material upturn in productivity after years of weakness and raise the prospect of a gradual increase in non-inflationary wage growth.

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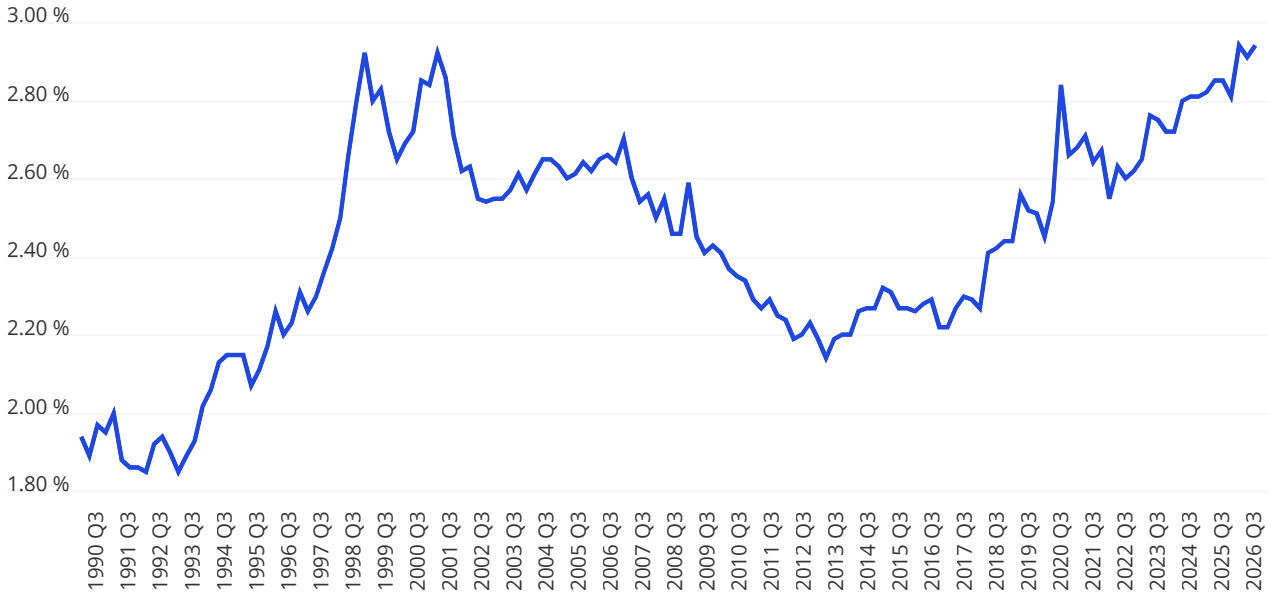
Our highest conviction call is an upturn in investment

Of those forces, we are most closely watching private investment. Canada has had anemic private investment for years, but there are signs of a shift underway. Canadian companies have been increasing their investment in technology. Business technology spending is at its highest levels since the early 2000s as Canadian companies invest heavily in AI to improve efficiency and manage cybersecurity risks (Chart 2).

The Bank of Canada's business surveys show that investment intentions are firming. Commercial and industrial construction activity has gradually picked up. Part of that increase likely reflects the gradual ramp-up in investment in energy structures, including the expansion of natural gas pipeline infrastructure. Our forecast incorporates a slow but steady rise in structures investment over our projection horizon.

Canadian businesses have been leaning into technology

Chart 2: Business investment in technology (% of GDP)



Note: Technology is defined as investment in software, R&D, electrical machinery and equipment, computers and computer equipment

Source: Statistics Canada, KPMG Calculations

An important part of our investment call is data centre development. The announcements are starting to pile up and that is no surprise because Canada has many of the key ingredients for a data centre build out. We have low-cost energy (particularly natural gas), a healthy power and utilities market, cold weather, available land and water resources and a maturing regulatory framework at a time when there are growing constraints on data centre construction in the U.S, especially post-midterms.

Though some projects are underway, fully realizing this opportunity is not a given, and our forecasts assume about $30 billion in data centre capex over the next two years. However, prospective plans currently total more than five times that amount, presenting some upside to our non-residential investment forecast.

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Budget 2026 to push GDP and population growth slightly higher

Budget 2026 showed a slightly improved fiscal picture. The 2025-2026 deficit was 40% lower than expected and projected deficits were slightly below what was projected in the *Spring Economic Update*, at just under 2% of GDP before improving to under 1.5% by the end of the projection horizon. Debt as a share of GDP, while roughly steady, was projected to be lower than in the Spring Update, around 40%.

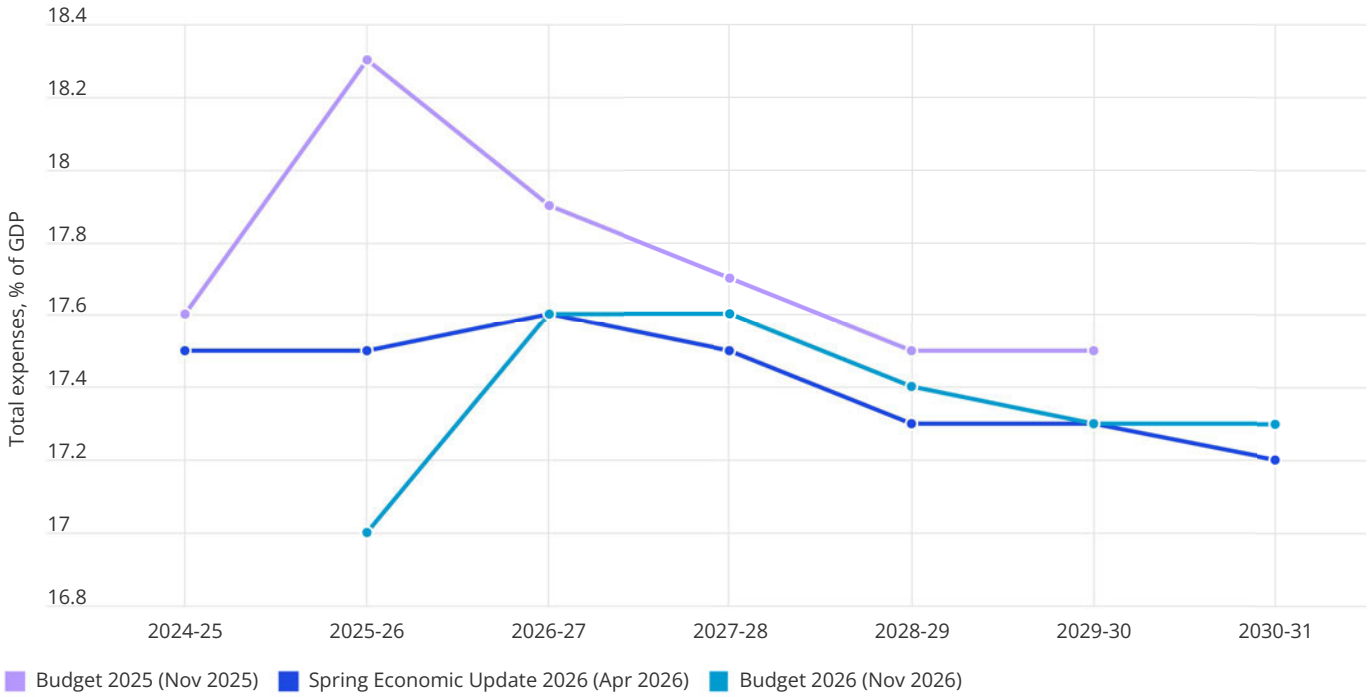
The signature policy was the *Productivity Mega Deduction*, which was announced in September. There were some notable other measures, including more funding for Indigenous infrastructure, an expansion of household transfers and also a new *Canada Growth Incentive* – a capital gains exemption for select businesses and founders. But the sticker prices on these measures were relatively small.

Tallying up the impact of these measures, our estimate of the fiscal impulse is a 0.3% boost to GDP by 2028. Fairly modest but enough to push growth in 2027 higher by 0.2 percentage points and slightly higher in 2028. That reflects a surprise shift in the stance of federal fiscal policy. Focusing on the expenditure side, where much of the growth impact from federal fiscal policy comes from, spending was about 0.5% of GDP below what was projected in the Spring Economic Update last year and where it normally sits (Chart 3) implying the federal fiscal policy became more restrictive last year.

Our estimates assume a faster but still modest rollout of federal spending along with multipliers consistent with what is used to estimate U.S. fiscal impact measures developed by Belz et al. (2022). But essentially, we are anticipating a more expansive fiscal stance, especially with the *Productivity Mega Deduction* on the tax side.

Projected federal total expenses as a share of GDP, by fiscal plan

Chart 3: Percent of GDP, fiscal years 2024-25 to 2030-31



Source: Department of Finance Canada, Budget 2024, Budget 2025, Spring Economic Update 2026, Budget 2026 (Annex 1 in each)

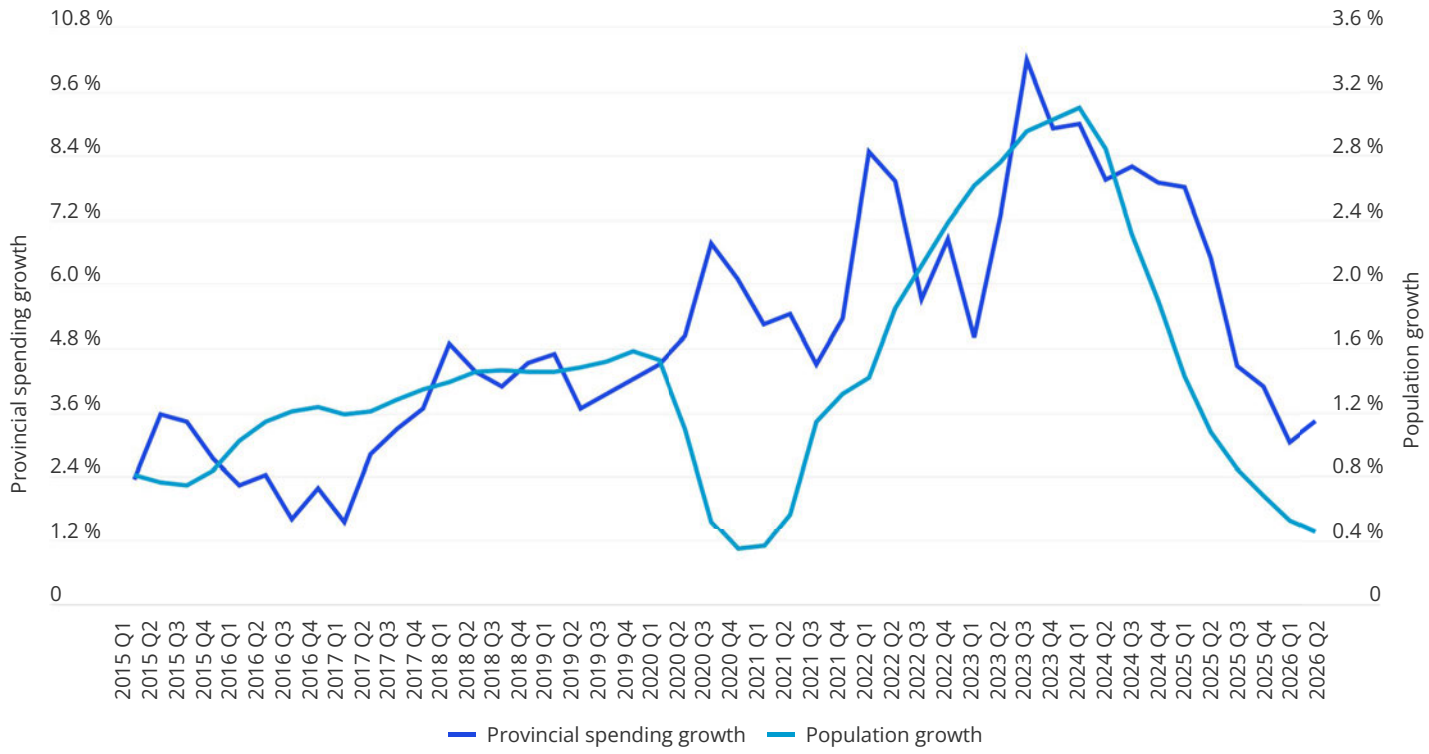
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In terms of immigration, the update of the plan in the Budget suggests that population growth will bottom out in 2026 and gradually rise thereafter. We expect population growth to average about 0.8% per year in 2027 and 2028, double the pace in 2026. While the plan doesn't boost the number of permanent resident admissions, the budget adds a one-time temporary measure to convert 200K non-permanent residents into permanent residents.

A more modest pace of immigration will also keep provincial spending in check, which is larger than federal outlays. Provincial belt tightening after years of high immigration (Chart 4) is partly offsetting the impulse from more stimulative federal policy. Provinces have more challenging fiscal situations and our expectation is they will make good on their commitments to engage in more prudent fiscal policy, with less margin for error with an unforgiving bond market, keeping overall general government spending more restrained over our forecast horizon.

We're moving away from the model of high provincial spending and immigration

Chart 4: Population and provincial spending growth (%)



Source: Statistics Canada, KPMG Calculations

Prairies to lead the way

Regionally, Alberta and Saskatchewan will continue to be the fastest-growing provinces in our forecast, benefiting from solid commodity tailwinds as well as investment in major projects and data centres. The Ontario economy should also rebound in 2027 after a moribund year, as the drags from weak manufacturing and slow population growth fade and the service sector powers ahead given its diversity and global exposure. Growth in Quebec and B.C. will remain subdued as population growth remains soft. In B.C., higher bond yields will also limit fiscal capacity, resulting in either a retrenchment in spending or higher taxes, although the launch of some major projects and faster permitting should benefit the province.

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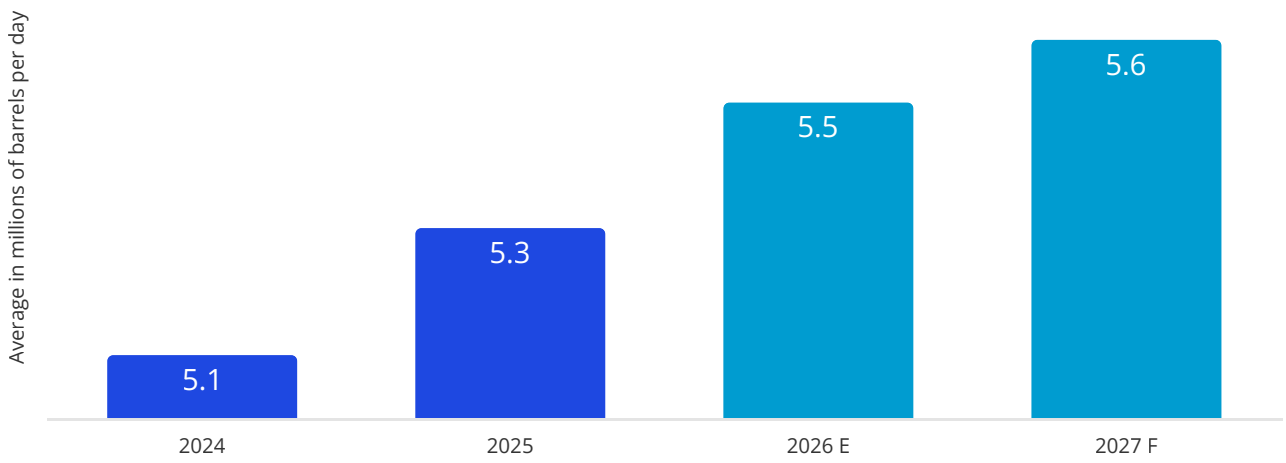
Canadian oil production to steadily increase

Supporting growth in Alberta is an expected modest increase in Canadian oil supply, of roughly 0.15 million barrels per day (mb/d) in both 2026 and 2027 driven by committed brownfield projects and enhancement to existing pipeline capacity (Chart 5). Trans Mountain's pipeline drag-reducing agent work should add roughly 90 kb/d of export capacity in early 2027 and the Enbridge pipeline optimization should add extra capacity by late 2027. But ultimately, oil production in Canada will remain constrained by the physical capacity to deliver barrels.

One emerging headwind to the industry is the discount on Canadian heavy oil or Western Canadian Select (WCS) benchmark, relative to the U.S. benchmark, West Texas Intermediate (WTI). The WTI-WCS spread has widened to around $30 per barrel compared to a historical average around $15. Refinery outages and aggressive pricing for heavy barrels out of the Middle East is a near-term headwind but the spread should narrow as U.S. and Canadian refinery turnarounds conclude and if tensions in the Middle East gradually ease. Although a surge in Venezuelan shipments to the U.S. Gulf Coast has intensified competition for heavy crude, years of underinvestment, ageing infrastructure and skilled labour shortages should constrain further Venezuelan production growth over the medium term.

Canadian oil production to rise in tandem with egress capacity

Chart 5: Average total annual production of crude oil and equivalent, mb/d



Source: Canada Energy Regulator, KPMG Canada

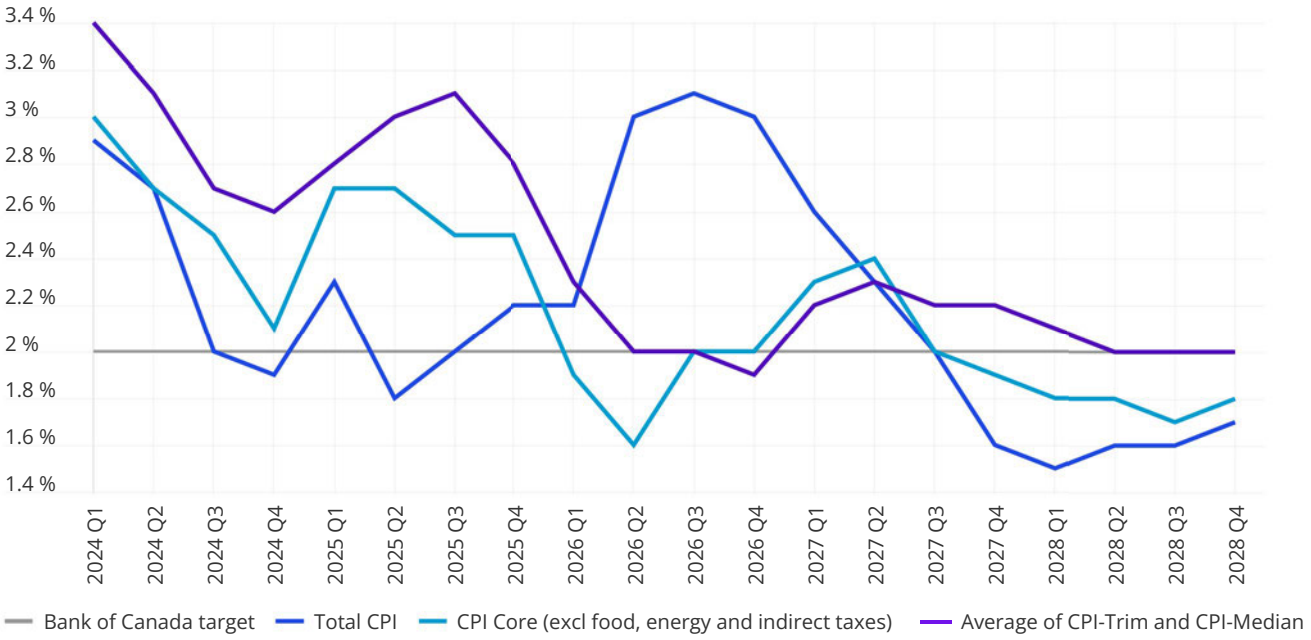
Is it even possible to forecast inflation given the state of the energy market?

We assume WTI prices will decline from roughly $95 per barrel in Q4 2026 to $80 by the end of 2027, roughly in line with the WTI futures curve. With this assumption, our inflation forecast would average 2.8% in 2026, fall to 2.1% in 2027 as oil prices slide and then dip modestly below the Bank of Canada's inflation target to 1.6% in 2028 (Chart 6). The logic behind a downward sloping futures curve is further easing of global oil supply constraints, while inventory rebuilding and a lingering conflict premium keep prices well above pre-war levels. In that scenario, we expect measures of core inflation – CPI-Trim and CPI-Median – to rise modestly above the Bank of Canada's inflation target of 2% as higher energy prices pass through to other components of the CPI basket.

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An inflation outlook based on the oil futures curve would see headline inflation fall materially in 2027

Chart 6: Total and Core CPI inflation (year-over-year)



Source: Statistics Canada, KPMG Calculations

That all sounds reasonable and is good enough for a forecast written in pencil, but the reality is that the price of oil right now is largely unpredictable as it depends on the course of the conflict in the Middle East. At the time of writing, headlines and market pricing have flipped towards favouring the possibility of de-escalation following the U.S. midterms, but there is still no clear path to the conflict's end. Hence, it's almost impossible to have high conviction on when and how the oil market might turn in the near-term and that has major implications for the path of inflation.

We broadly agree, though, that the medium-term trajectory of oil prices is likely downward, and the general shape of the inflation forecast based on the futures curve is probably the right one. But for central banks, like the Bank of Canada, it *probably* doesn't cut it, and they don't have the luxury of waiting for that trajectory to materialize, especially over eight months into an energy shock.

The longer energy prices remain high, or perhaps just unpredictable, the greater the chance of a more generalized inflation problem rather than just an energy-induced shock. Added to this is the acute pressure on refined product markets, particularly diesel. Refining capacity is scarce, stocks are low and the path of prices is also partly dependent on the Russia-Ukraine conflict. Diesel prices remain close to extreme highs and will likely stay there heading into winter, when demand is highest. It's the sharp and sustained rise in diesel costs that has made us a little more hawkish.

Even though we would have preferred the Bank to wait a little longer to raise rates given the current softness in the economy and the potential for more margin compression, we understand its rationale and see some merit in trying to get ahead of the challenge. There is clearly an inflation risk from high energy prices. A couple of rate hikes will not break the economy and would demonstrate that the Bank is committed to price stability at a time when markets are punishing a lack of policy credibility.

Short-term interest rates have risen in anticipation of hikes from the Bank since the U.S.-Iran war broke out, exposing Canadian households and businesses to tighter financial conditions for most of 2026. Not raising rates could have pushed up longer-term borrowing costs further.

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Loonie to limp along in the near term if no trade deal

We expect the Canadian dollar to average between C$1.40 and C$1.42 per U.S. dollar in the near term. Currently, markets are expecting the Bank to raise rates two more times over the course of the next year, the same as the Federal Reserve. We expect the market to gradually price out the Bank's expected hikes while retaining or adding hikes for the Fed. That would imply a wider interest rate differential and continued weakness in the Canadian dollar in the short term.

But as growth picks up, we expect the Loonie to pick up steam in the back half of 2027 and sustainably strengthen to C$1.38 to C$1.39. If the U.S. and Canada do reach a substantive trade deal, we would likely shift from neutral on the Canadian dollar to bullish, potentially targeting a level of around C$1.35. Growth would pick up materially, and the market would immediately resume pricing in a few more hikes in Canada.

What worries us most? A severe market meltdown

Our biggest worry is a meltdown in global financial markets spilling over into Canada. While this remains a tail risk in our view, several triggers are possible: disappointment over hyperscaler earnings or more jitters around AI debt issuance, a further surge in the prices of oil or refined products if the Middle East conflict intensifies, or a euro area debt crisis. The probability of each of these events occurring has risen in the past few months, and the potential interconnections between them are, frankly, worrying. But there remain ample cushions in the system against financial shocks and the strong demand for compute is unlikely to disappear. We just may end up with a longer timeline to build out compute capacity.

Our biggest upside risk to growth? A U.S.–Canada trade deal

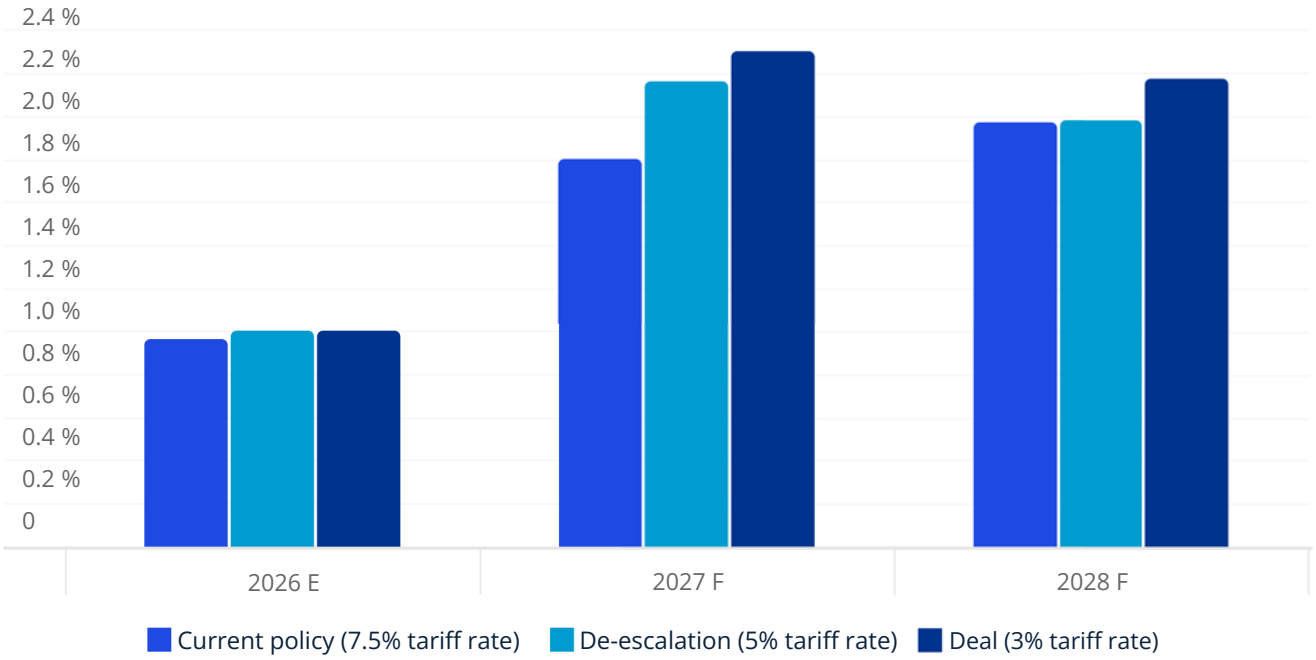
On the upside, a U.S.–Canada trade rapprochement would be a material tailwind, boosting the outlook for Ontario and Quebec in particular. This looks increasingly likely based on the headlines, but there have been so many false starts in the past that we can't pencil this into our forecast.

The economic benefit for Canada ultimately depends on what is agreed to. We've modelled two scenarios: a de-escalation scenario in which we essentially return to the *Section 232* tariffs, equivalent to an approximately 5% effective U.S. tariff on Canada, and a deal scenario broadly consistent with what was reported in the press when the talks broke down. Based on those reports, the effective U.S. tariff rate on Canada would fall to about 3%. In the de-escalation scenario, which would remove the latest *Section 338* tariffs, growth in 2027 would be boosted to 2.2%. In the deal scenario, growth would rise to slightly over 2% in both 2027 and 2028 (Chart 7). In level terms, GDP would be 0.4% higher in the de-escalation scenario and 0.7% in the deal scenario.

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A de-escalation or trade deal scenario would push growth up to 2% or higher

Chart 7: GDP growth is moderately higher under a tariff climbdown or more expansive deal



Source: Statistics Canada, KPMG Calculations

Bottom line: Go long on Canada, but be patient

Howard Marks, the American investor, quipped that "those who worry, survive" and "those who don't worry enough, may fail to survive". It's fair to say that we Canadians like to worry and hence are survivors. But in troubling times like these, when we worry a lot, the risk is that we may also fail to thrive. Trade tensions, shifts in immigration and high inflation have understandably heightened concerns over the last year or so. But we have the sense that we are becoming a little less worried, tuning out the noise and that businesses are increasingly eager to get on with it.

This is not to sugarcoat some important economic challenges Canada faces: a lack of major tax and regulatory reform and a small but consequential outflow of entrepreneurs, just to name a few. But at least economic concerns are back at the forefront of the policy agenda. There are efforts underway to stimulate major investments, and our macroeconomic policy environment is far more reliable and steady than elsewhere. That stability is reflected in the premium being placed on Canadian assets in financial markets. It will take time, and the upcoming data may not look pretty, but we see a turning point towards higher growth early next year. Go long on Canada, but be patient.

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