Economic Update

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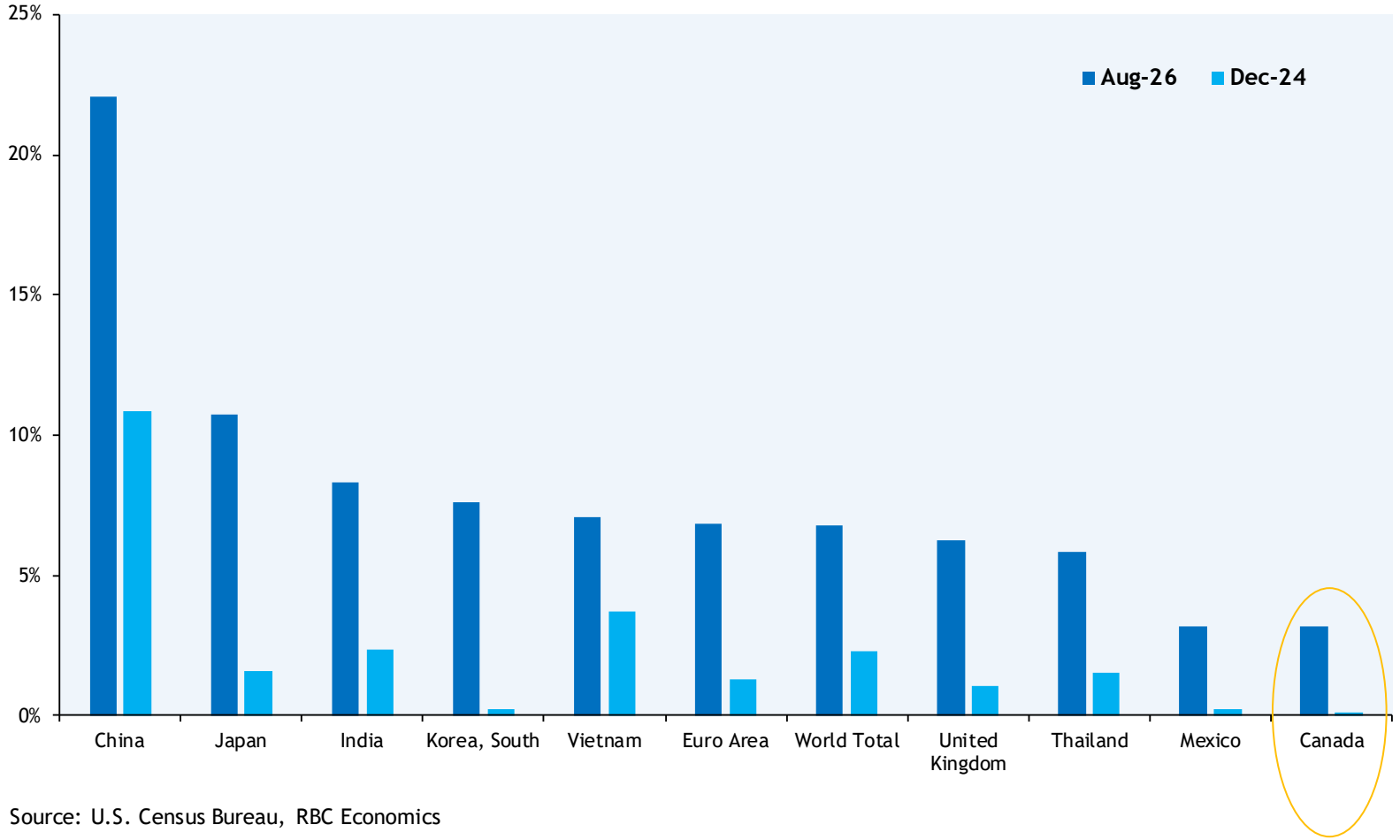
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Trade headwinds continue

U.S. tariffs weigh on Canadian exports

Average effective U.S. tariff rates by country

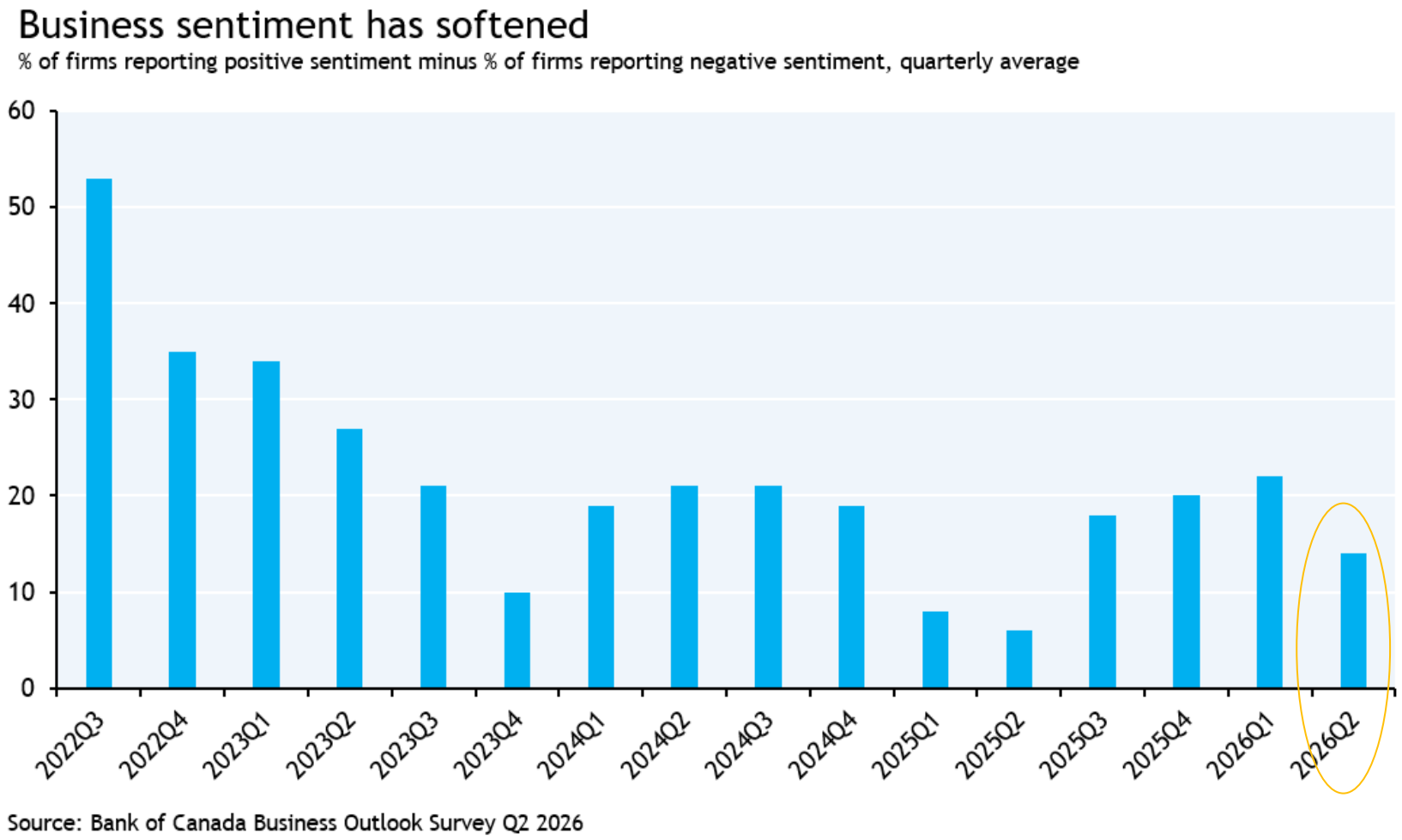
Calculated duties as a % of U.S. goods imports



Source: U.S. Census Bureau, RBC Economics

Tariffs drive Canada's average effective tariff rate higher, but still comparatively lower than other major U.S. trading partners

Business confidence has softened

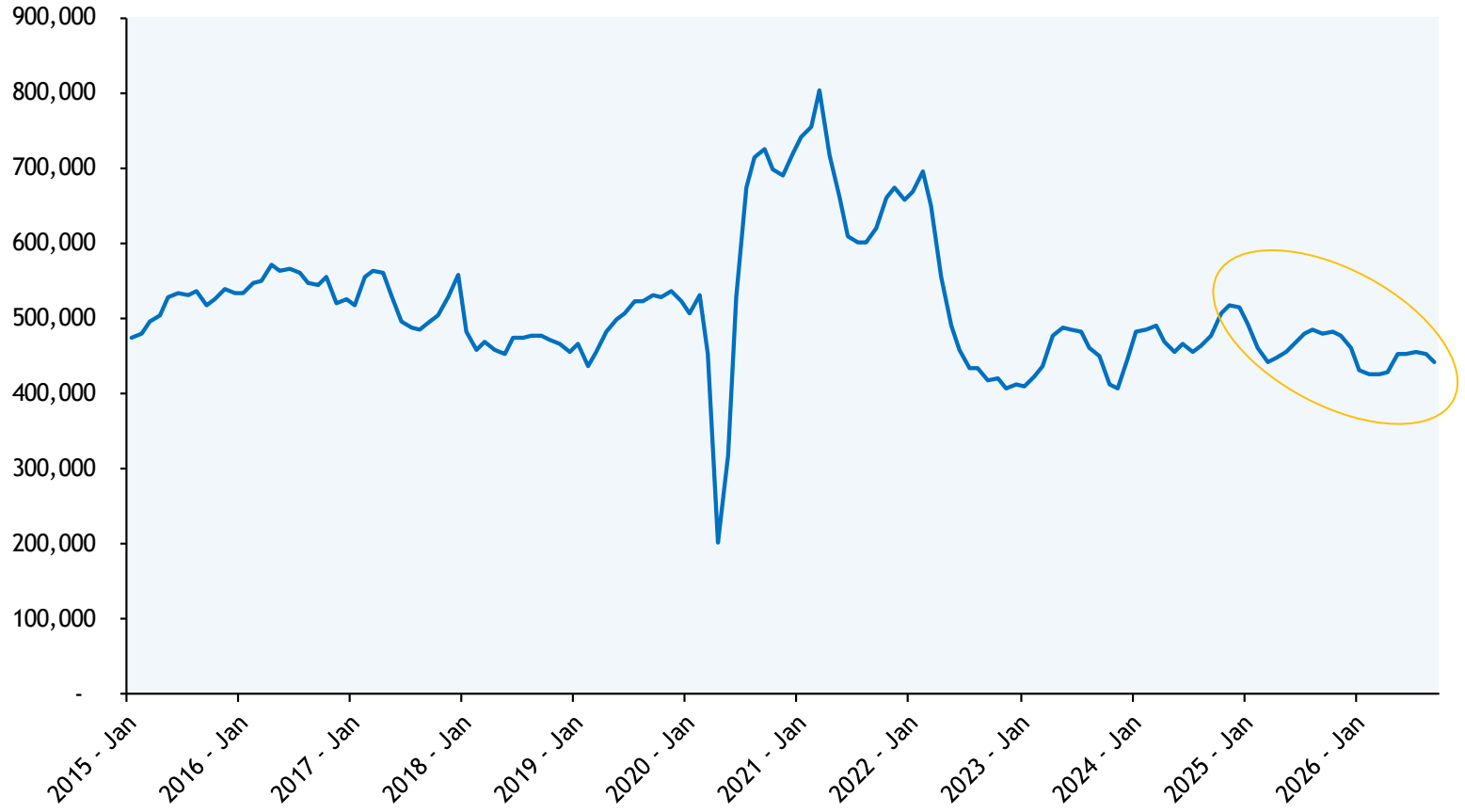


Uncertainty disrupts business decisions and planning

Buyers step to the sidelines

Home resales: Canada

Thousand units, seasonally adjusted and annualized

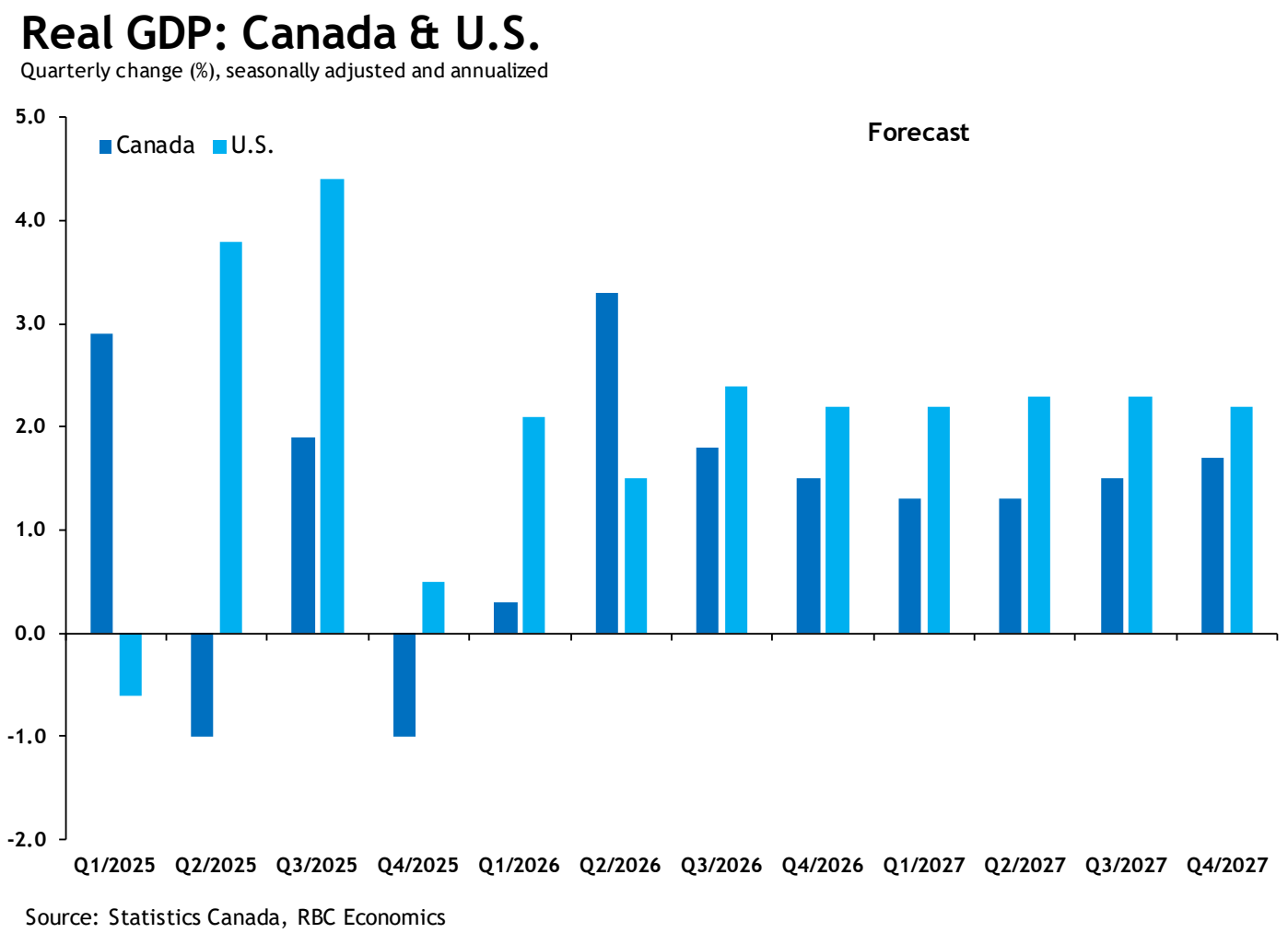


Source: Canadian Real Estate Association, RBC Economics

Homebuying activity slows amid uncertainty, more significant in ON and BC

RBC economic growth outlook – cautious optimism

Canada's economy has been resilient despite headwinds



Source: Statistics Canada, RBC Economics

Canadian economy in early-stage recovery, U.S. supported by resilient consumer spending, Gov spending, and AI tailwind

Factors that contribute to Canada's economic resilience



The trade shock has been deep but narrow.

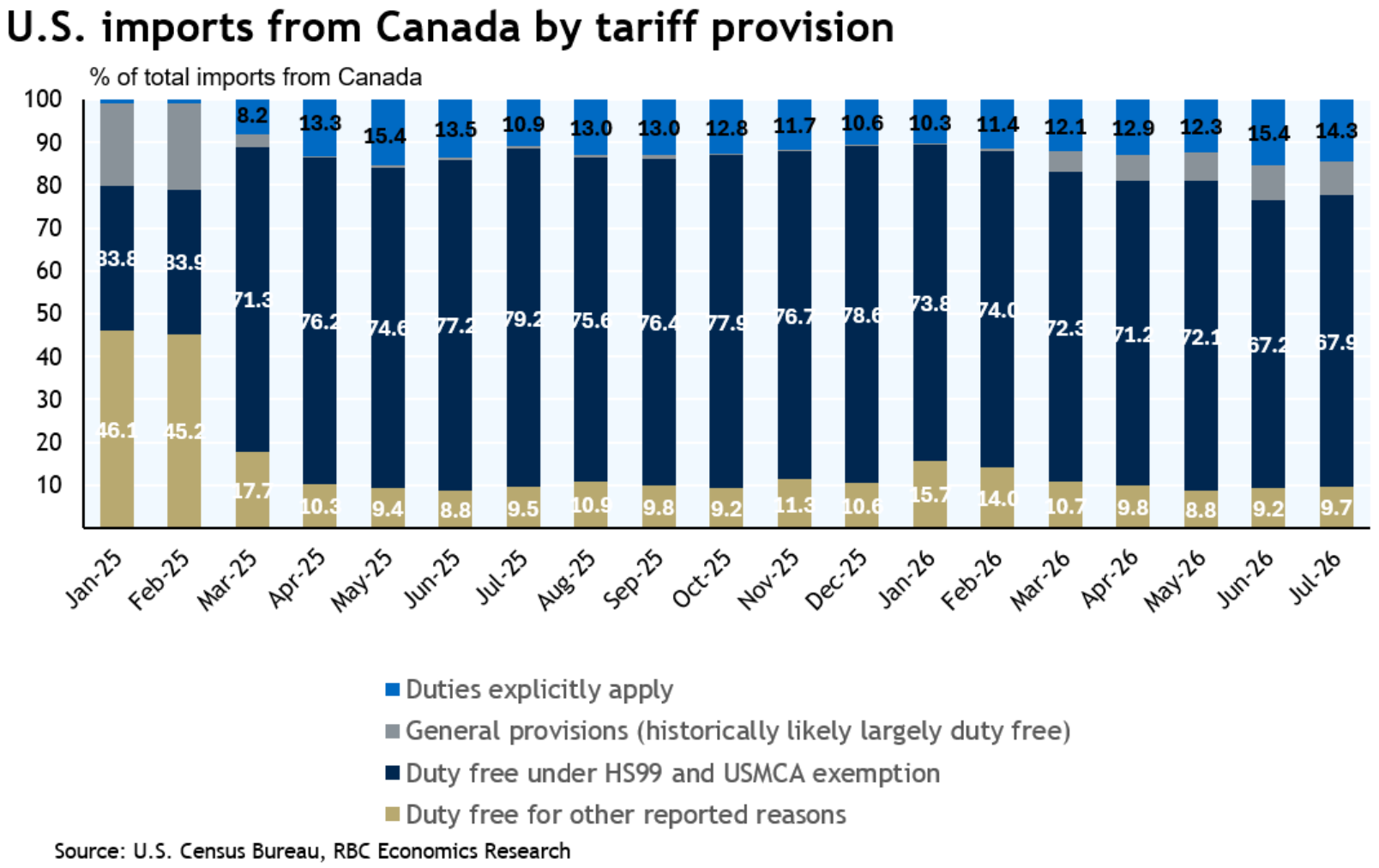
Some early fiscal support (federal & provincial) in play.

Labour market weakness has reflected slow hiring more than layoffs. Job loss concentrated in trade-exposed sectors

Consumer spending remains resilient.

BoC rate cuts have reduced debt servicing costs.

Over 80% of Canada's exports continue to enter the U.S. duty-free

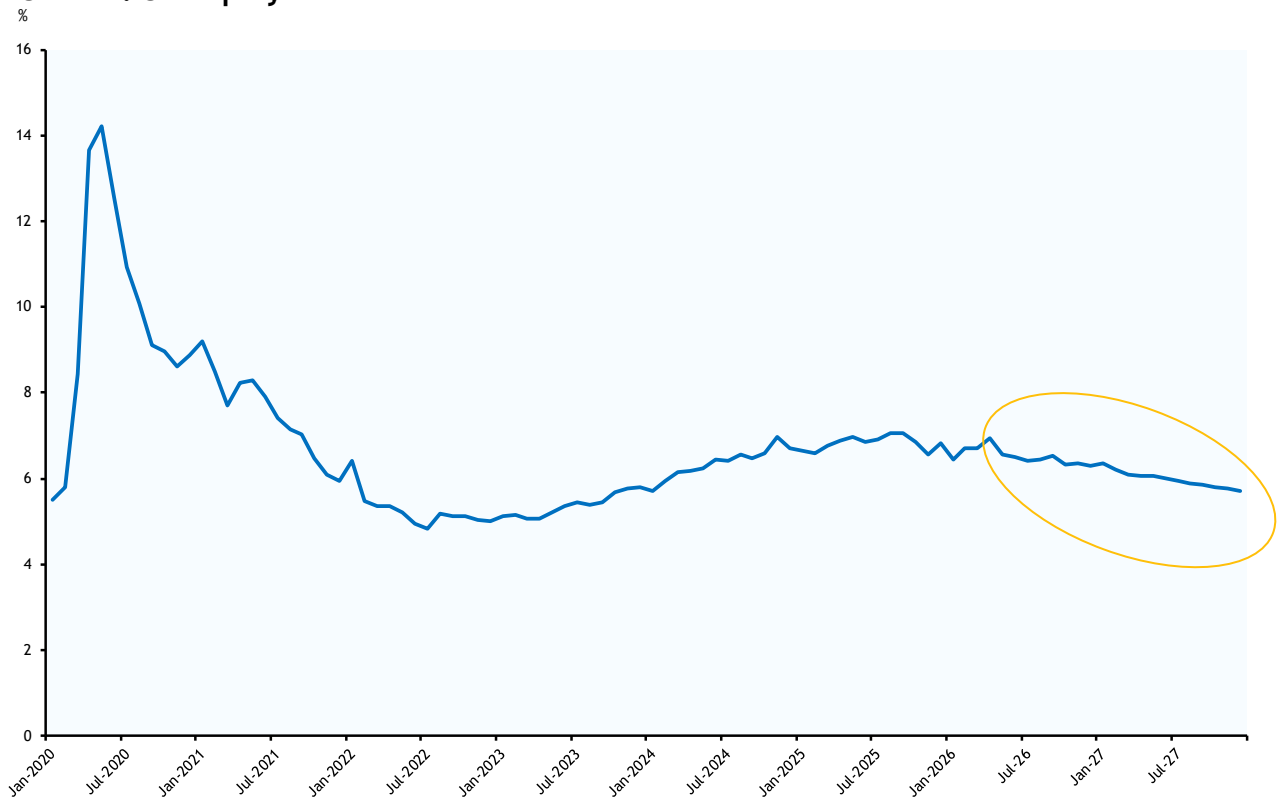


Source: U.S. Census Bureau, RBC Economics Research

New U.S. Section 338 measures are expected to affect close to 5% of Canadian exports, but should still leave more than 80% exports duty free

Labour market is on the mend, albeit gradually

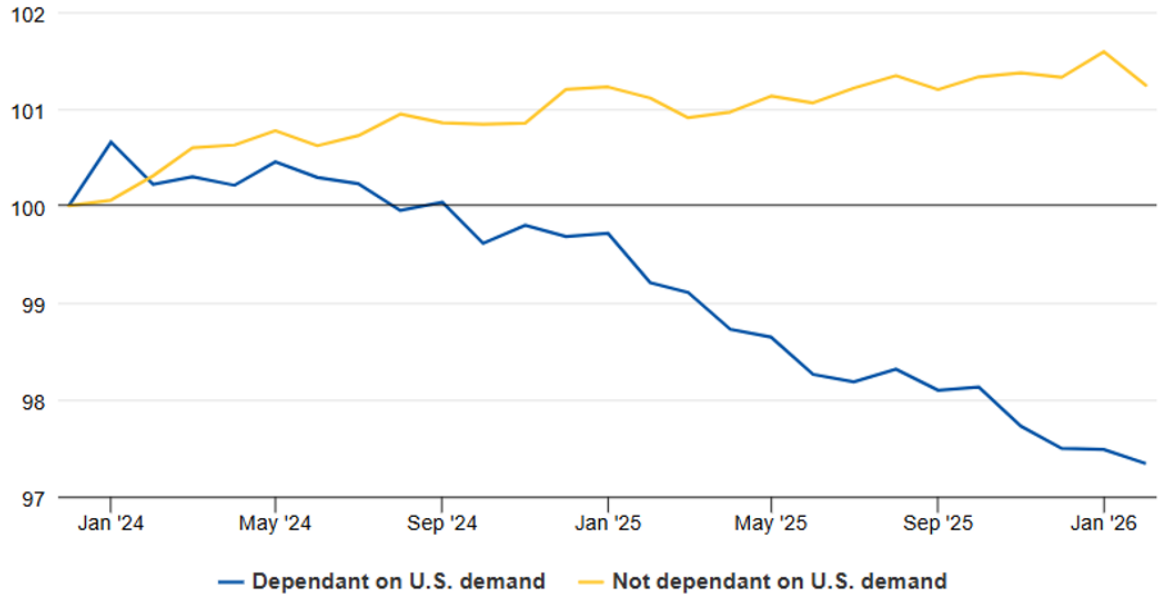
Canada: Unemployment rate



Source: Statistics Canada, RBC Economics

Canadian employment by U.S. trade dependency

Employment, seasonally adjusted index (Dec-2023 = 100)



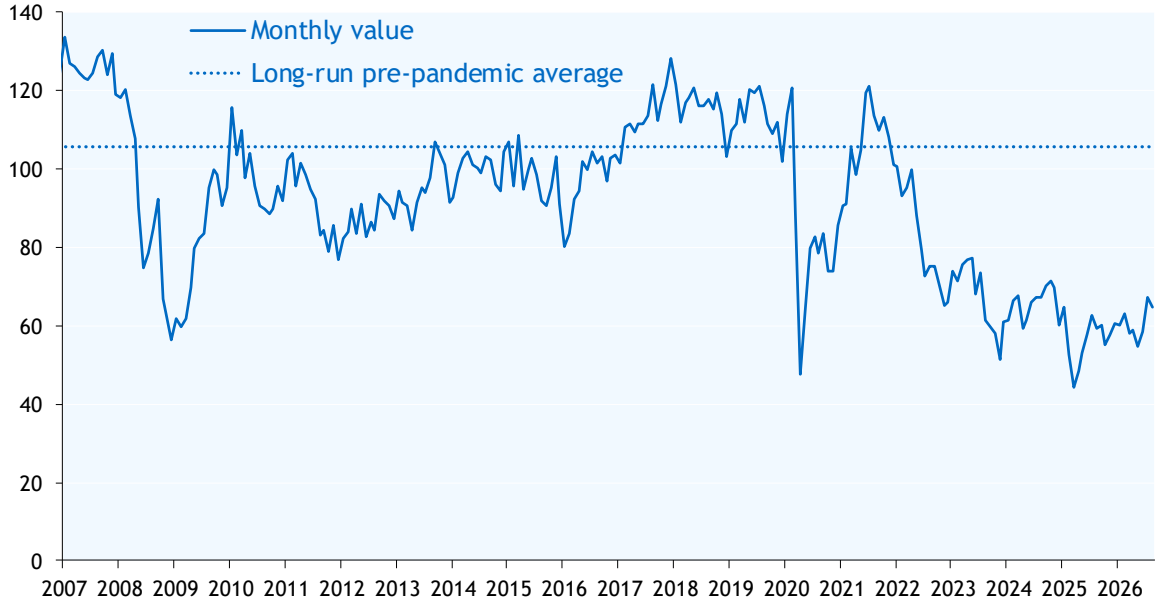
Source: Statistics Canada, RBC Economics

Jobless rate expected to stabilize; employment losses have been mainly in trade-exposed sectors

Canada's consumers remain remarkably resilient

Consumer confidence: Canada

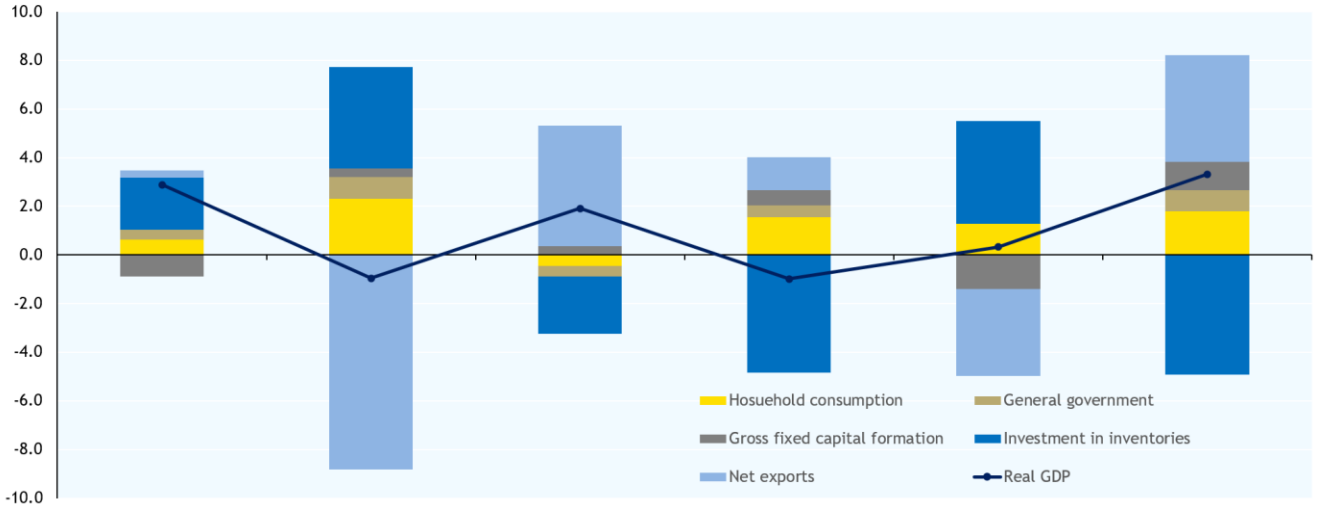
2014 = 100



Source: Conference Board of Canada, RBC Economics

Contribution to real GDP growth

Contribution to q/q change in real GDP, ppt



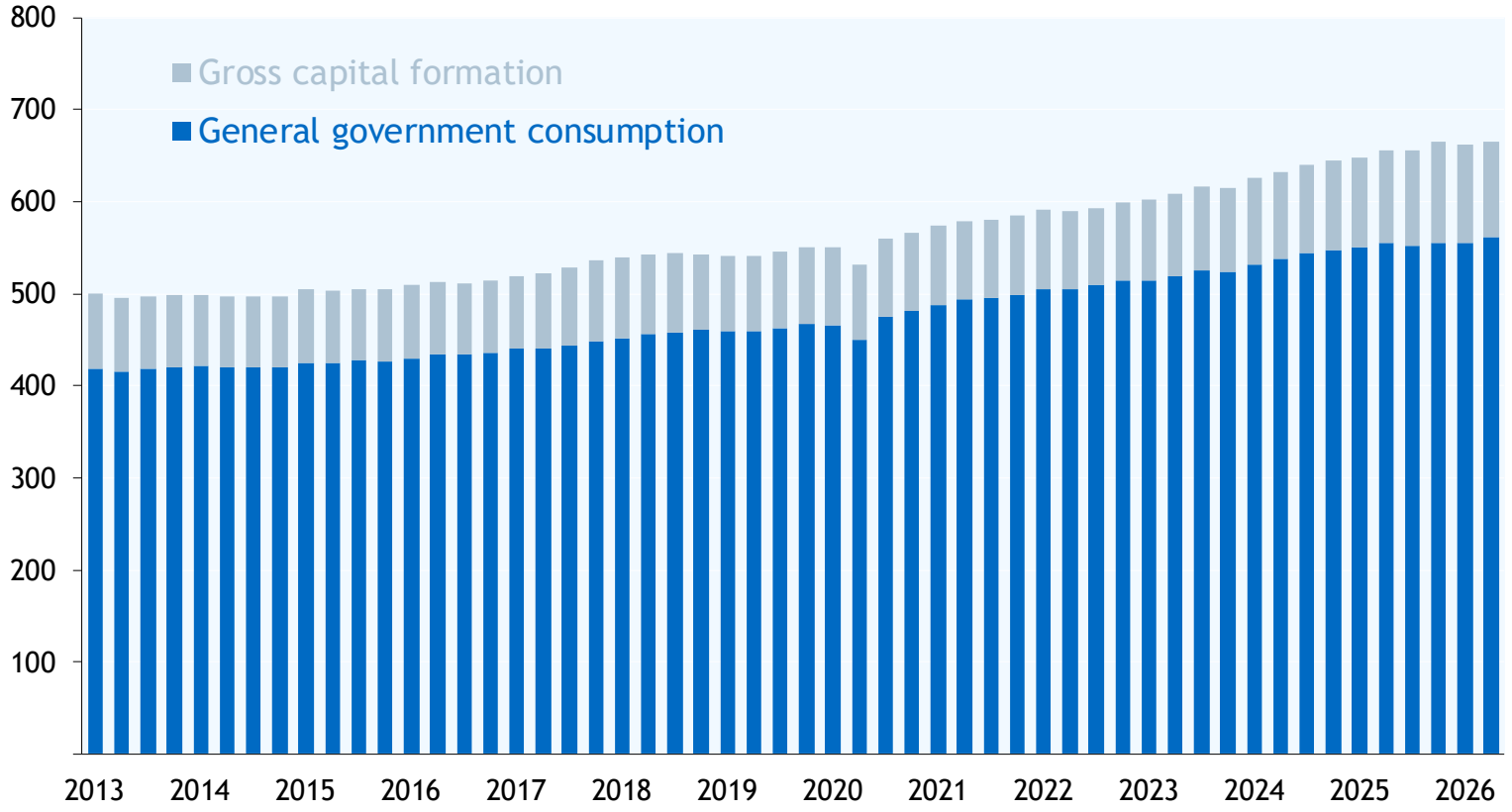
Source: Statistics Canada, RBC Economics

Consumers continue spending despite higher cost of living and trade uncertainty

Governments (federal & provincial) pursue expansionary fiscal policies

Government spending and investment: Canada

Billions of chained 2012 $, seasonally adjusted and annualized



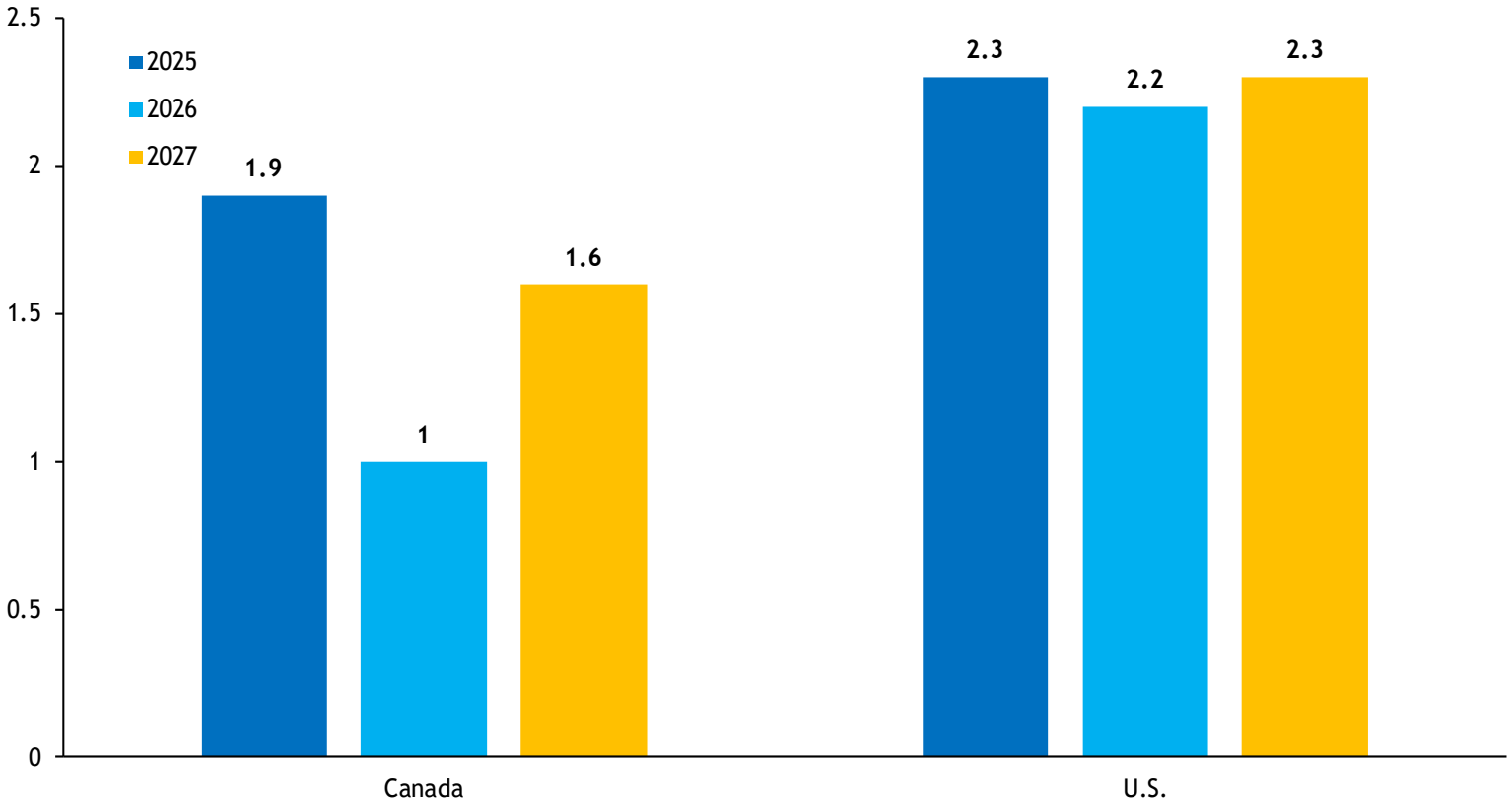
Source: Statistics Canada, RBC Economics

Investment in major projects and support for disrupted industries

Canadian growth expected to be slow but positive

Real GDP forecast: Canada & U.S.

Annual real GDP growth, %



Source: RBC Economics

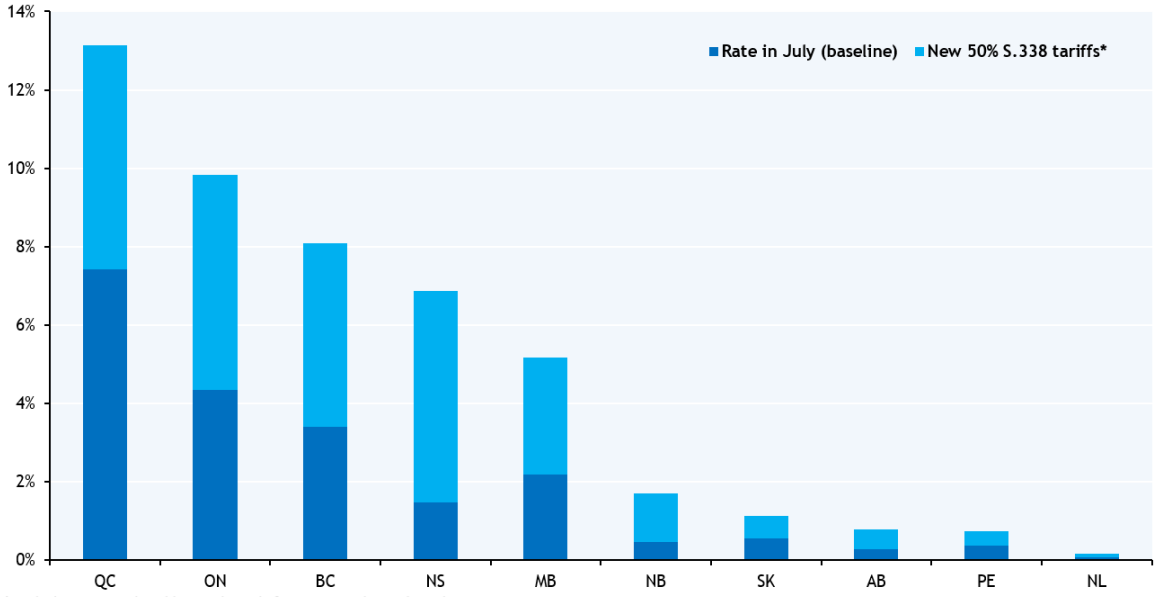
Canadian growth likely to remain constrained, U.S. economy to outperform

National resilience masks regional divergences

Provinces are not feeling the trade shock equally

Estimates of average effective tariff rate by province

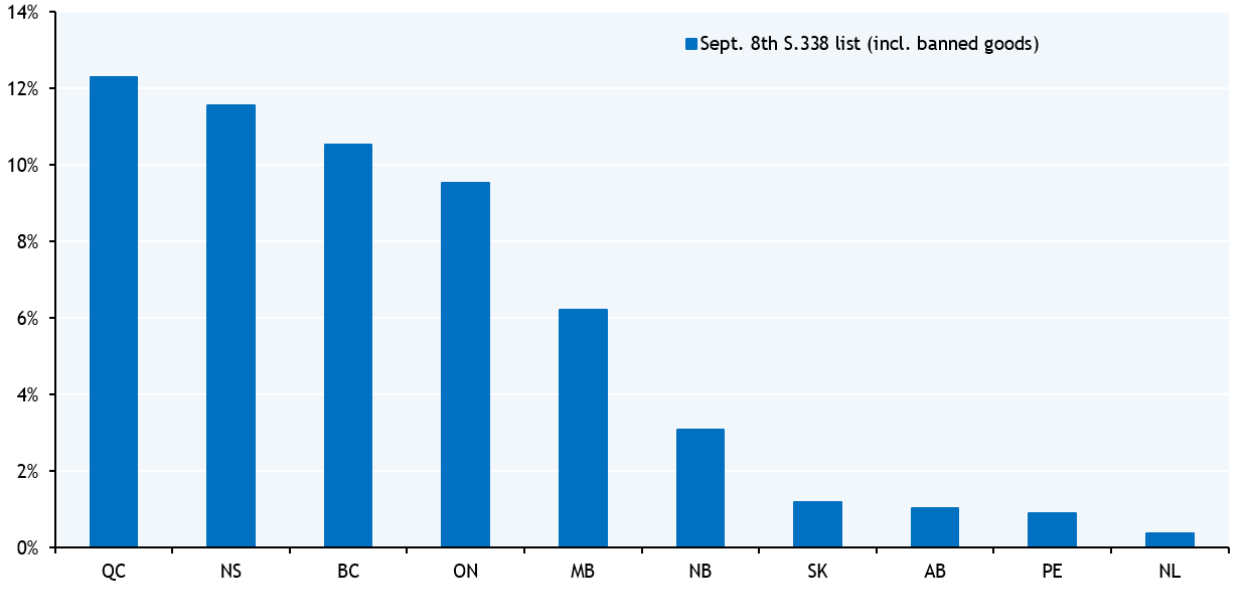
Average effective tariff rate based on calculated duties at the HS6 level, scaled by provincial domestic exports in July 2026



*Excludes removed and banned goods from September 8th update
Source: Statistics Canada, U.S. Census Bureau, RBC Economics

Targeted goods represent a larger share of exports for QC, NS, BC & ON

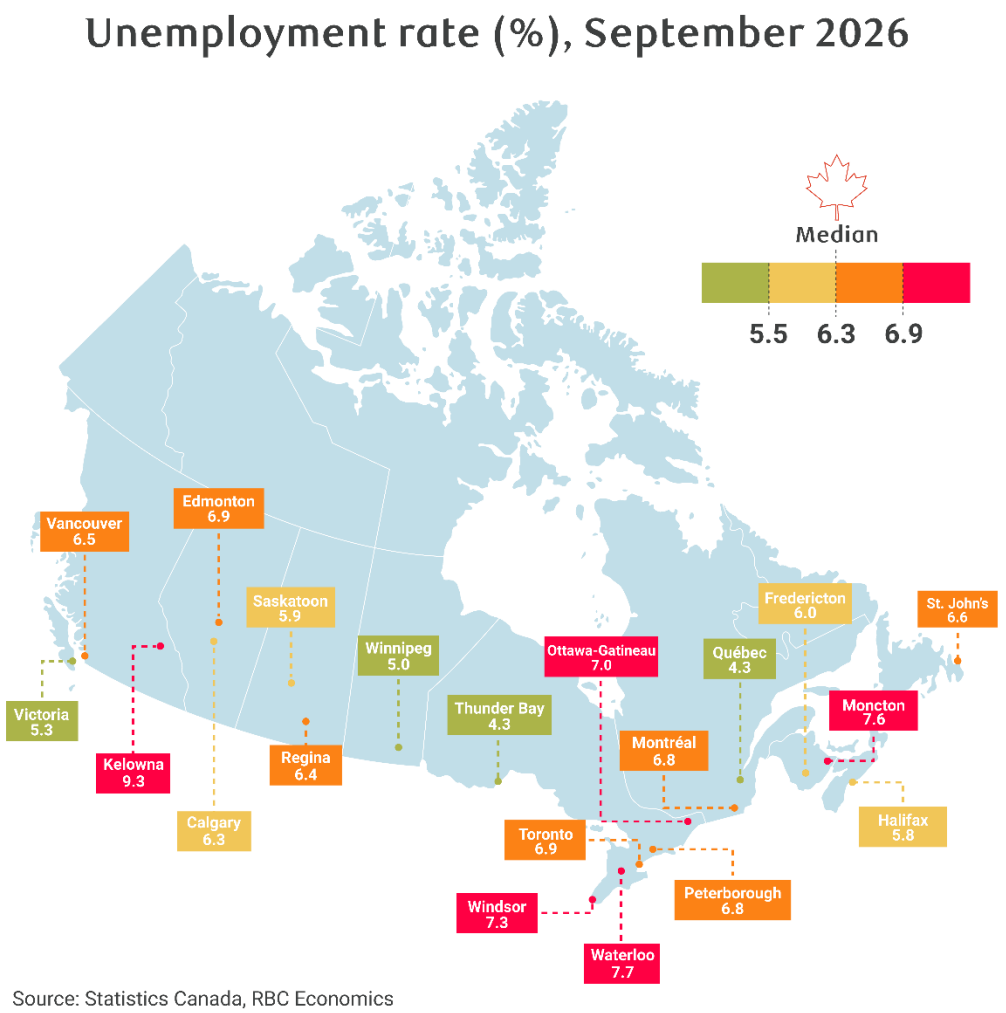
% share of total domestic exports to the U.S. facing new trade measures, at the HS6 level, 2025



Source: Statistics Canada, RBC Economics

New U.S. S.338 tariffs and import bans compound pressures in Quebec, Ontario and British Columbia

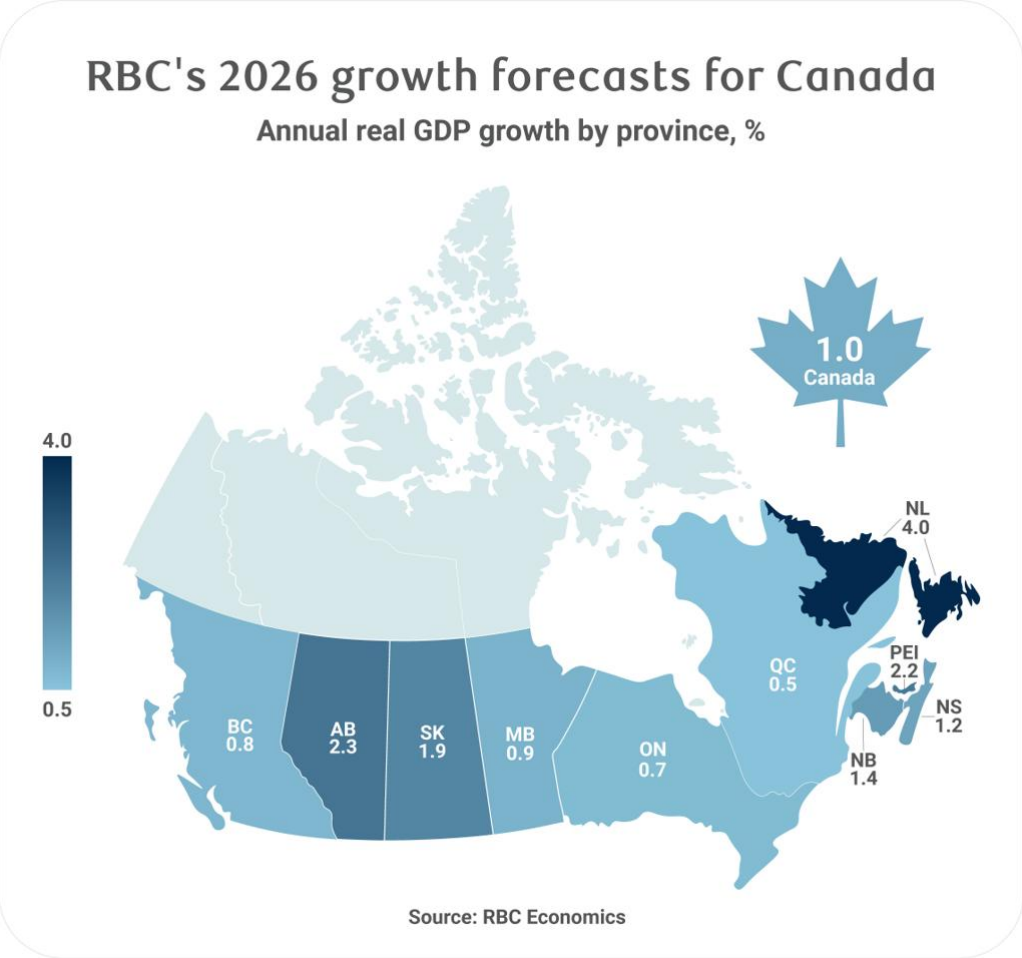
Some job markets are under more pressure than others

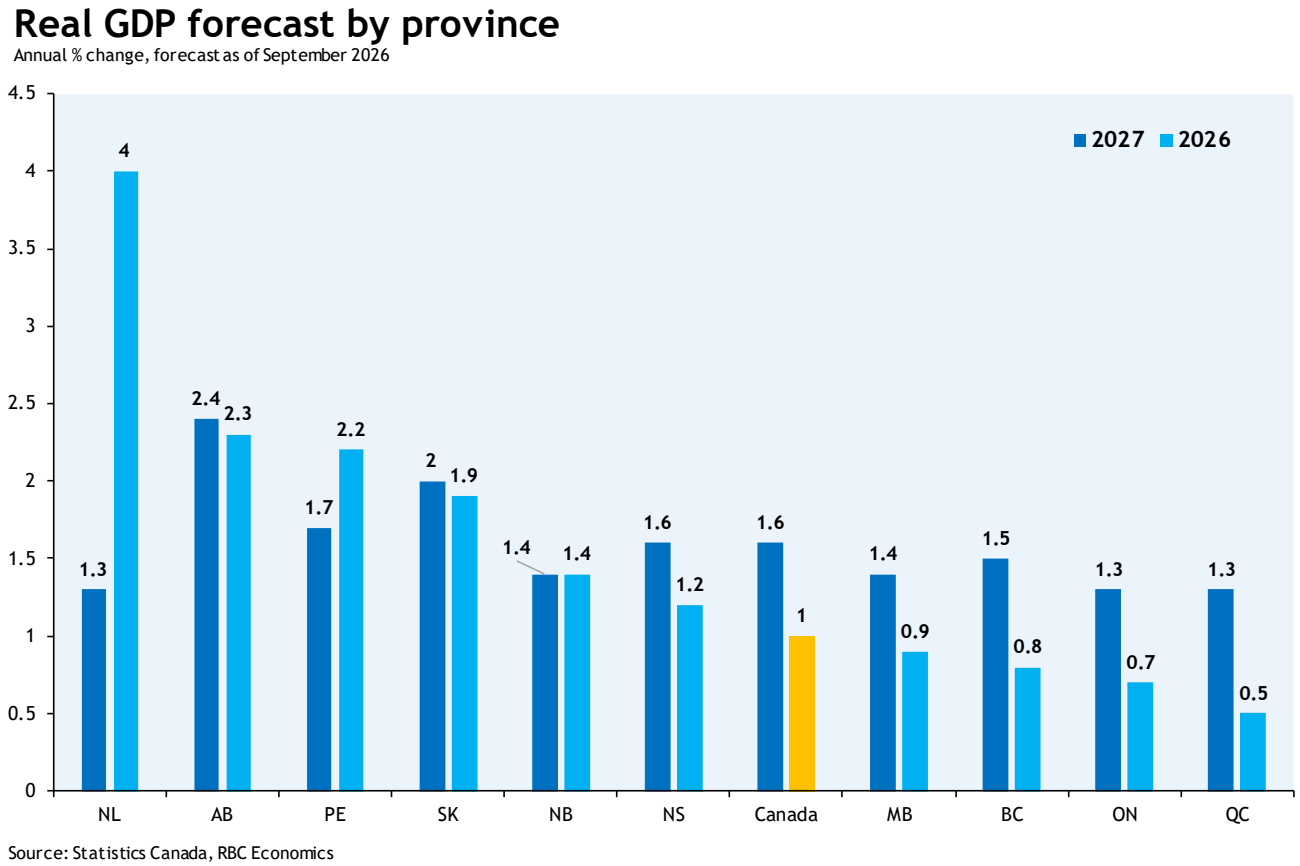


Source: Statistics Canada, RBC Economics

Employment losses to date have been concentrated in trade-dependent sectors and regions

Ontario, Quebec and British Columbia feel the brunt





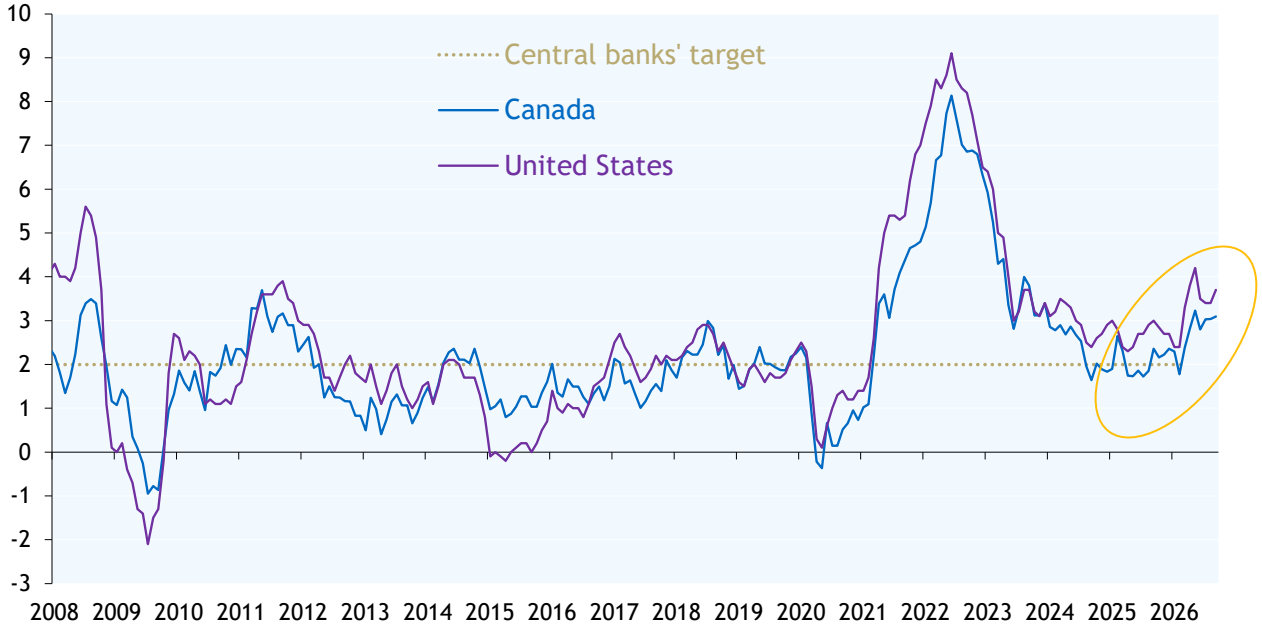
ON, QC, and BC expected to be at the low end of provincial stack, commodity exporters well-positioned

Rate outlooks

Elevated energy prices drive inflation higher, but breadth remains contained (so far)

Inflation

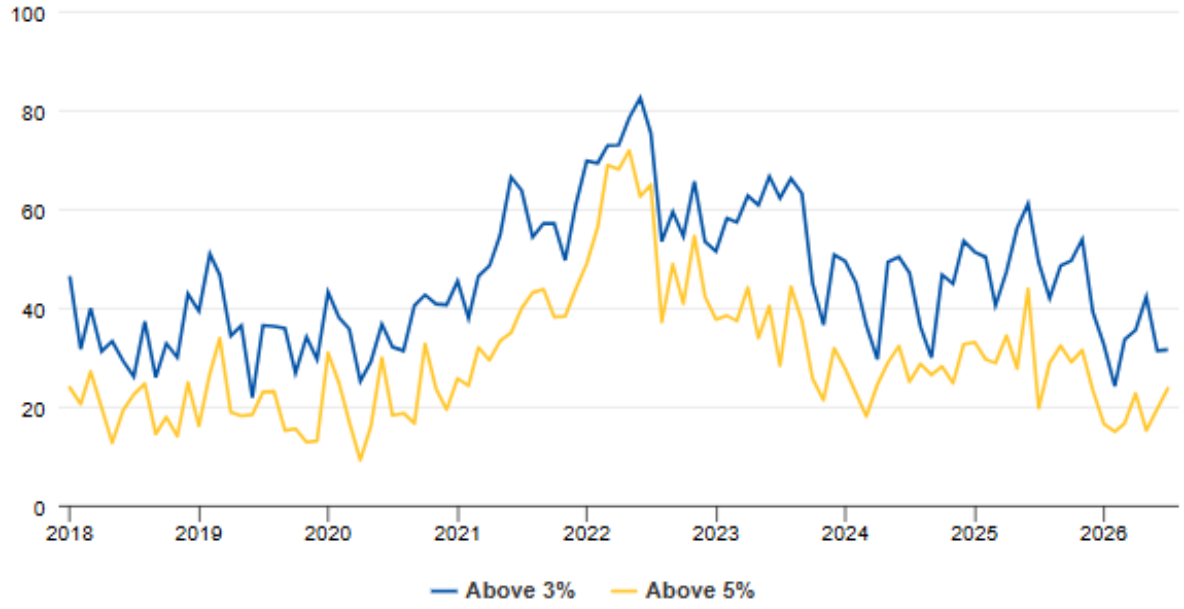
Consumer price index, annual % change



Source: Statistics Canada, Bureau of Labor Statistics, RBC Economics

Breadth of inflationary pressures in Canada remain contained

% of CPI basket, by three-month annualized growth rate

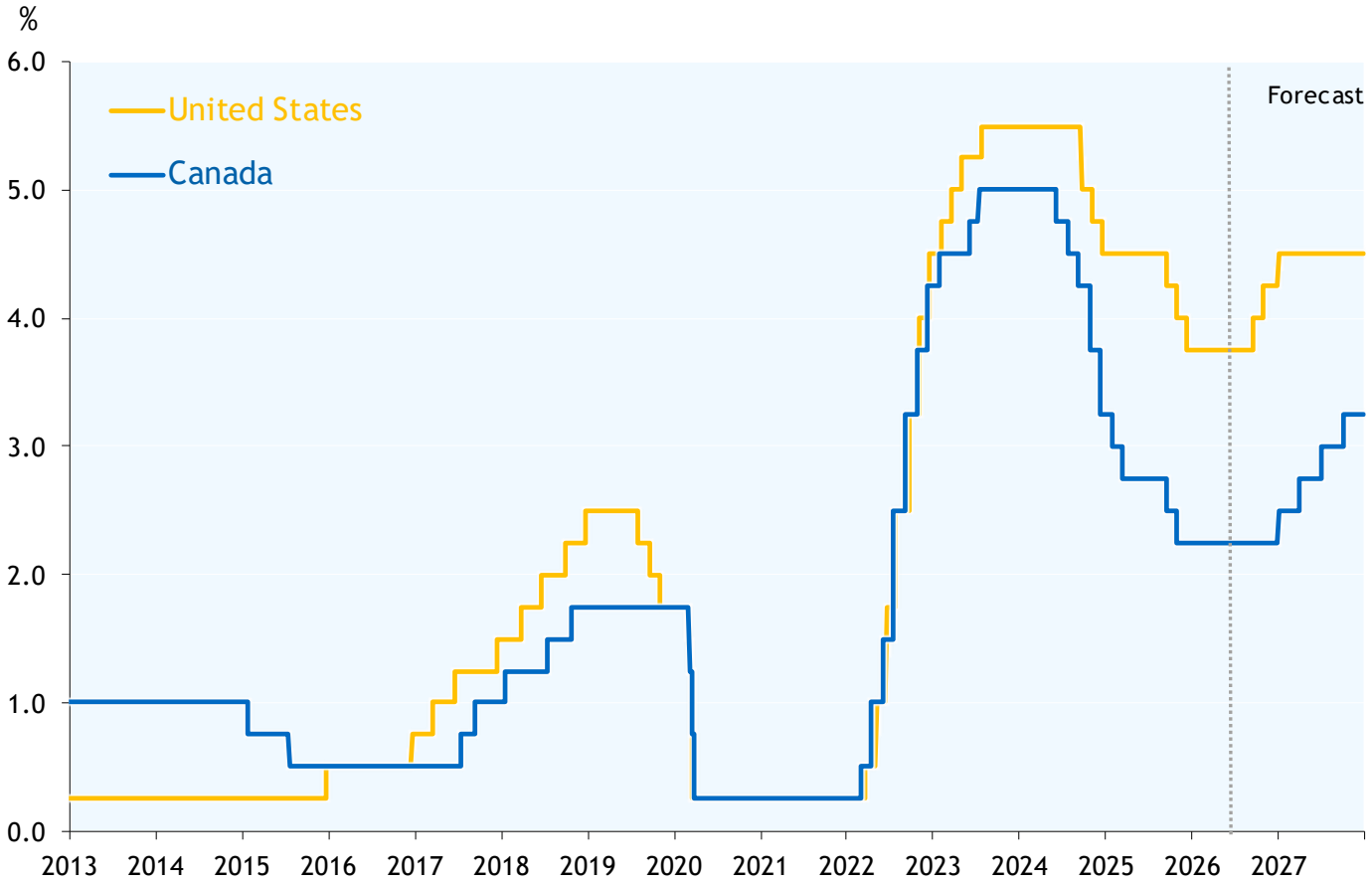


Source: Statistics Canada, RBC Economics

Higher sustained energy prices could eventually drive prices higher more broadly

Bank of Canada could pivot soon

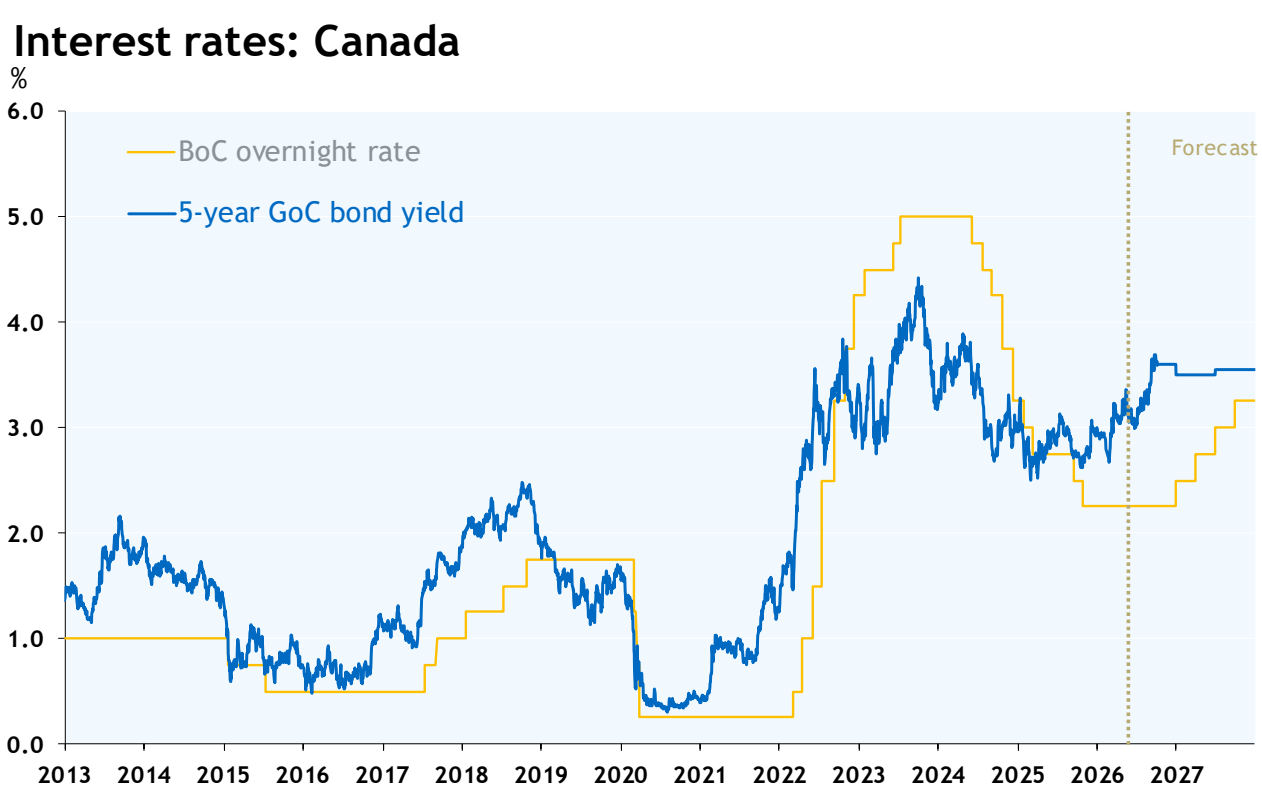
Policy interest rates



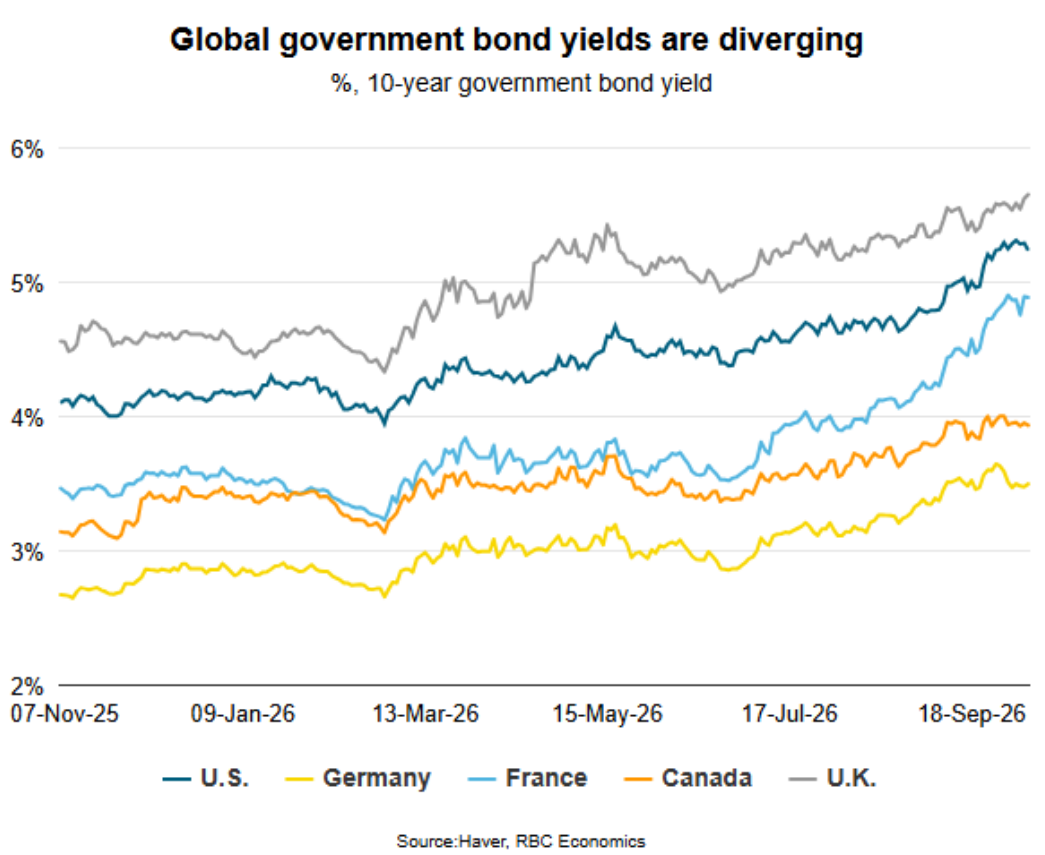
Source: Bank of Canada, Federal Reserve, RBC Economics

BoC could begin to raise rates as early as next week; Inflationary pressures lead U.S. Fed to raise rates

Longer-term yields have drifted higher



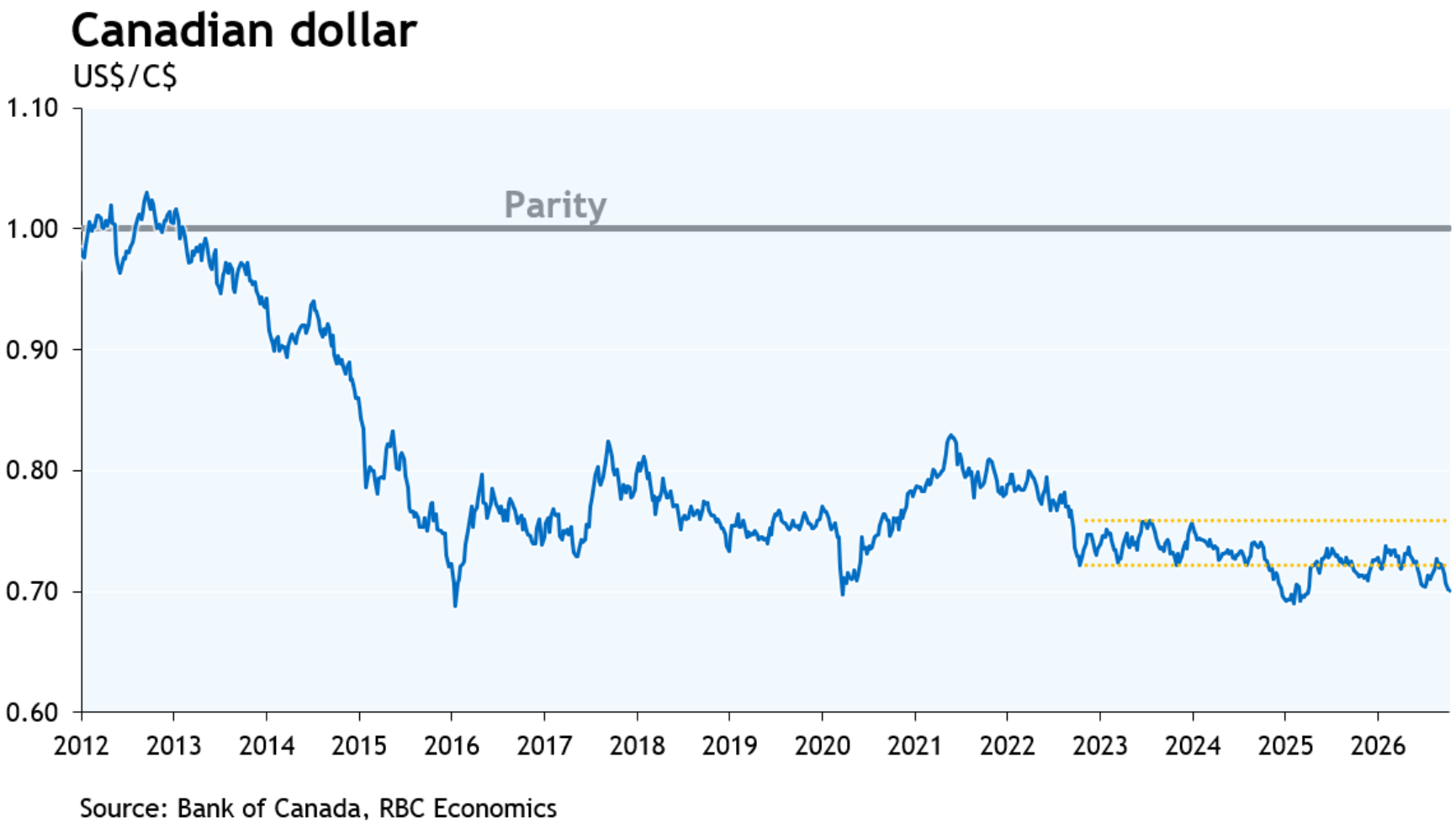
Source: Bank of Canada, RBC Economics



Source:Haver, RBC Economics

U.S. yields to set the tone; higher long-term yields tighten financial conditions

CAD caught in the trade war whirlwind



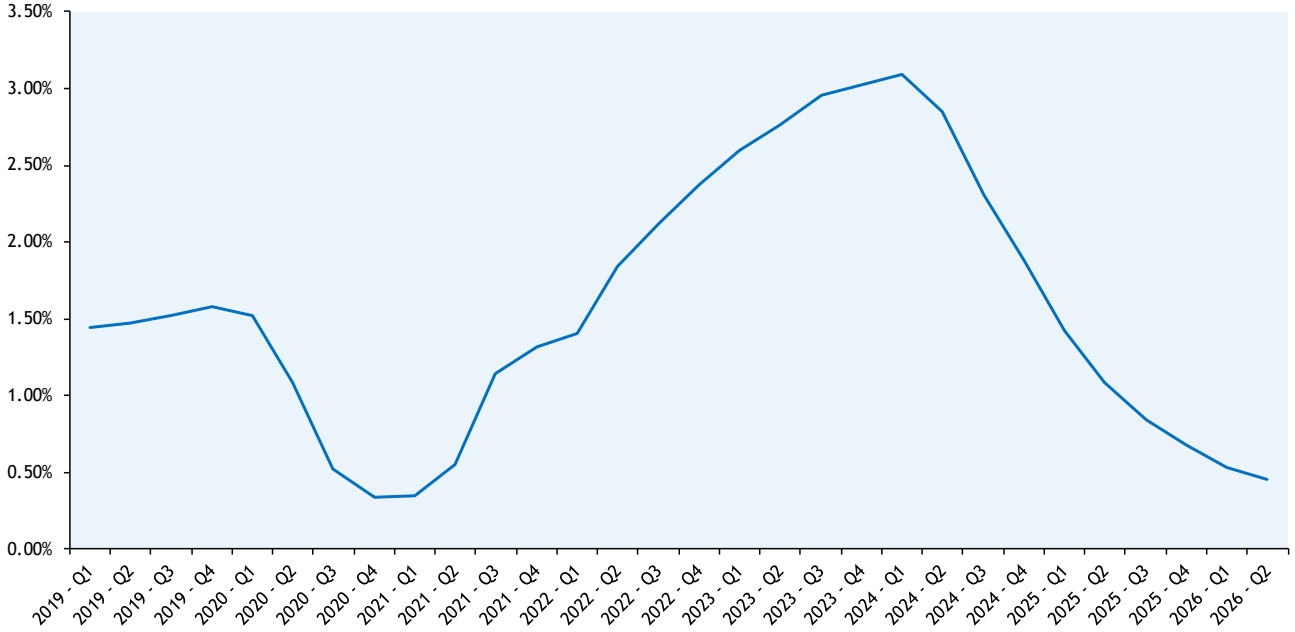
Projected to end 2026 near 70 cents US and could see some support in 2027

Demographic shifts reshaping Canada's economic landscape

New immigration targets slow Canada's population growth

Canada's population growth slows

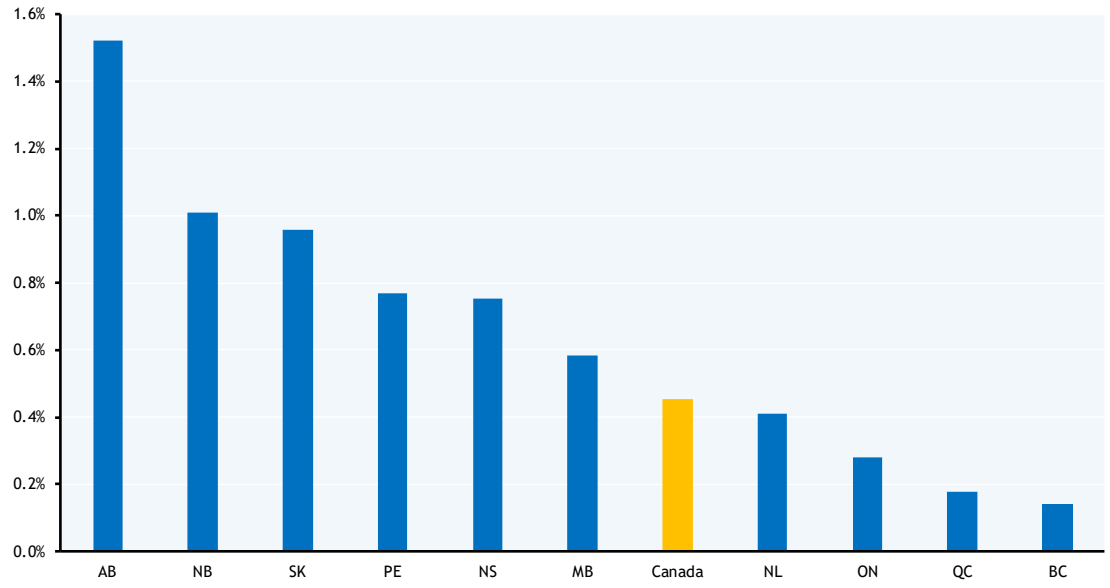
Annual change in population growth



Source: Statistics Canada, RBC Economics

Population growth slows more sharply in Ontario, Quebec and B.C.

Annual change in population at Q3 2026

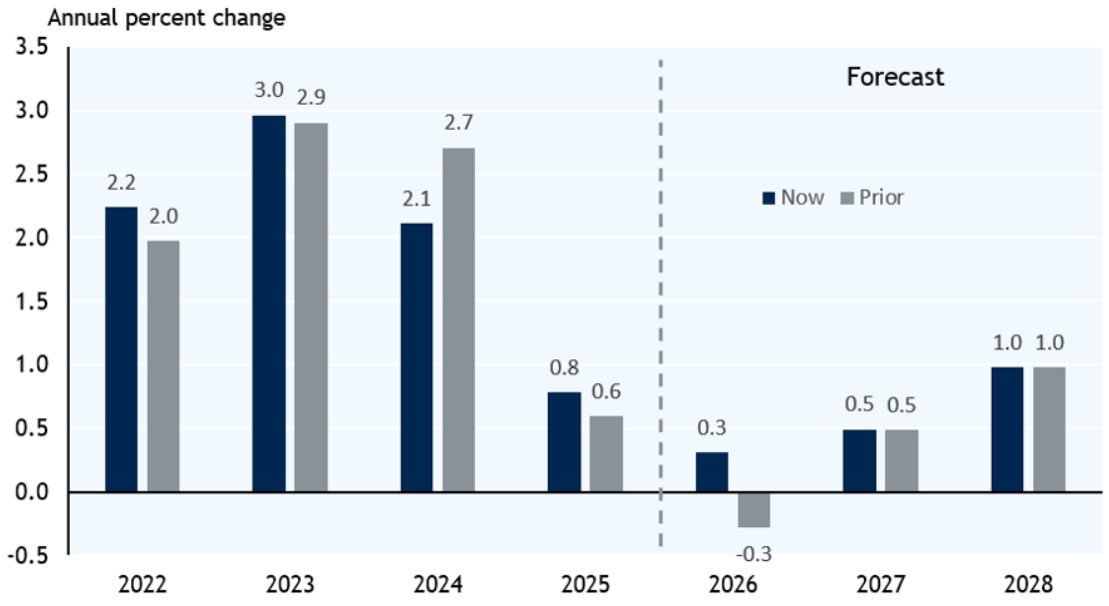


Source: Statistics Canada, RBC Economics

Ontario & British Columbia see large outflow of non-permanent residents

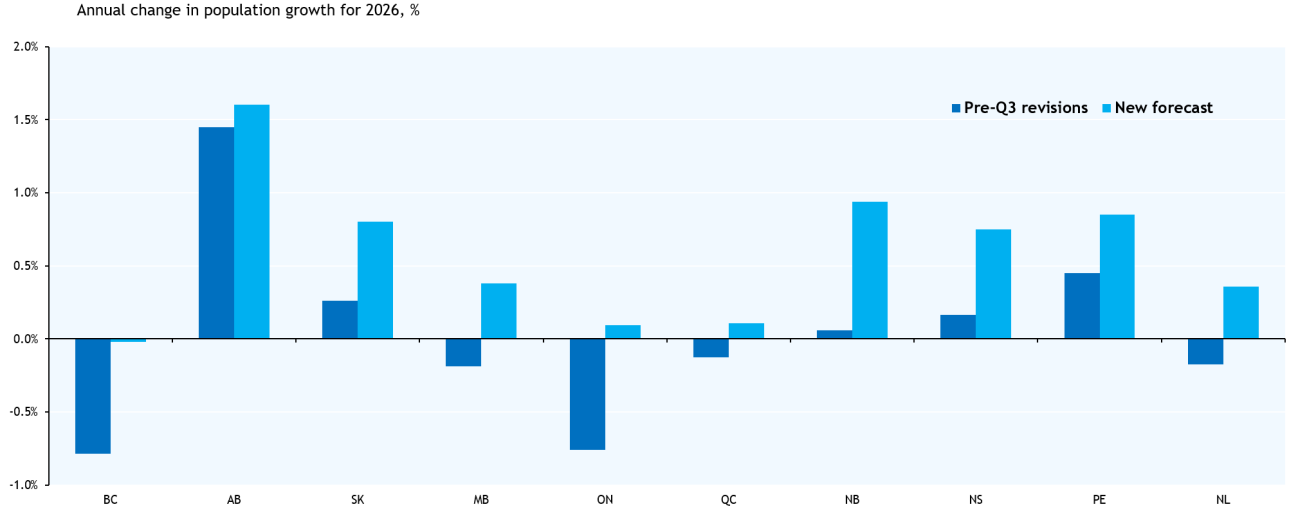
Population growth could stall over the next two years

Canada population growth assumptions



Source: Statistics Canada, RBC Economics Research

Provincial population projections 2026



Source: Statistics Canada, RBC Economics

Ontario, Quebec and British Columbia to feel sharpest slowdown

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