Bennett Jones

ECONOMIC OUTLOOK 2026

Adapting to a New World: From Ambition to Investment

The firm that businesses trust with their most complex legal matters.

Foreword from Our Executive Chair and Chair of the Board

2025 was a reminder of a simple truth in economics: markets adjust.

Confronted in the first half of the year with abrupt hikes in U.S. import tariffs disrupting global trade and unnerving capital markets, the global economy, while slowing down, proved resilient.

The reality has set in that U.S. tariffs, while still uncertain, are likely to stay at elevated levels and that investors have to plan and allocate capital in a world less predictable than it was only a few years ago.

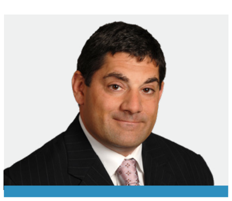
Trade flows are adjusting, and investors worldwide are placing bets on drivers of future earnings, from valuable resources in the ground, to infrastructure that delivers long-term cash flows, to AI and technology that can unlock productivity gains and reward innovators. Capital is not idle.

To secure the investment needed for the transformation of our economy, governments and businesses in Canada have to embrace risk and execute bold investment strategies and plans. Incremental change will not do. Government must partner with business by providing more certainty and expedition to regulatory decision-making.

As a leading Canadian business law firm, we wish to be with our clients at the frontier of markets where the greatest value is realized. This is how we can turn ambition into investment and investment into prosperity—together.

This 2026 Bennett Jones *Economic Outlook* produced by our Public Policy group tells the story of this period of structural adjustment for the Canadian economy.

We hope that it may assist our clients in their business planning and contribute to the national conversation about the path to a more secure and prosperous economy.



John Mercury

Executive Chair & Chair of the Board

403.298.4493

mercuryj@bennettjones.com

Table of Contents

Except where otherwise noted, the analysis in this Economic Outlook is based on published data available December 5, 2025.

Executive Summary

2025: DISRUPTIVE U.S. POLICY AND ECONOMIC RESILIENCE

The U.S. and global economies proved resilient in 2025.

There were reasons, particularly around U.S. President Donald Trump's April 1 "Liberation Day", to fear a global trade war or corrections in financial markets that would cause a recession in the United States and a sharp slowing of the global economy.

In fact, while growth in the United States and most major economies slowed in 2025, other policy and market factors offset at least in part the early effect of disruptive policies by the U.S. administration.

The United States's trading partners chose to avoid an all-out trade war, and most negotiated some form of accommodation with President Trump.

In North America, an exemption under the *International Emergency Economic Powers Act* (i.e., border security and stopping fentanyl), tariffs for goods that qualify for preferential treatment under the Canada–United States–Mexico Agreement (CUSMA) thus far have contained damage to trade.

In the United States, an extraordinary surge in AI-related investment by big tech firms mitigated the effect of the slower growth of consumer spending while bolstering equity markets and wealth accumulation.

Financial conditions were broadly accommodative globally: major central banks lowered their policy rates, and, aside from some bouts of nervousness, equity markets were buoyant and debt markets generally stable.

LOOKING AHEAD: SLOW GROWTH, RISKS AND STRUCTURAL CHANGE

In looking to 2026 and beyond, governments, businesses and financial markets face a new set of realities.

- There is reluctant acceptance globally that high U.S. import tariffs are likely to stay in place for the foreseeable future. Markets are adjusting by redirecting trade and investment flows. While this may help build new relationships for trade over the medium term, it comes with efficiency losses and costly adjustment that diminish prospects for near-term growth.
- AI is emerging as a powerful source of innovation with a potential to accelerate productivity growth through applications across the economy. The technology is nascent, and it is currently requiring massive investment in underlying infrastructure. Market exuberance over prospects of future profits has boosted equity valuations to dot-com territory. A bursting of the bubble could cause large losses of wealth and set back the real economy.
- The new commitment made by NATO members to allocate 5% of their respective GDPs to defence-related spending by 2035 entails a significant reallocation of resources. It also exacerbates fiscal challenges for governments already confronting high deficits and debt.

These new realities impose themselves while an already complex set of factors is requiring attention across all economies: the nexus between national and economic security; structural rigidities that are impeding productivity growth; demographics and immigration; energy security and climate change; affordability and the trade-off between consumption today and investment for tomorrow.

This constellation of forces constrains prospects for growth in the short term in advanced as well as in emerging economies. In the medium to long term, it will affect economies differentially, depending on how well and how fast they adjust and seize new opportunities for growth.

THE SHORT-TERM PROSPECTS IN THE UNITED STATES AND CANADA

Both the U.S. and Canadian economies slowed down in 2025.

In the United States, there was a marked slowdown of household consumption and a fall in government consumption, which was partially offset by the exceptional growth of business investment driven by AI. Imports surged in the first quarter (Q1) to avoid tariffs and then plunged in Q2.

In Canada, household consumption and government consumption also decelerated in 2025, but the dominant source of the slowdown of the economy was a sharp drop in exports of goods that occurred in Q2. Investment in Canada *fell* because of tariffs and uncertainty.

The two economies are poised to regain some strength in 2026.

In our baseline scenario, on a fourth-quarter-over-fourth-quarter (Q4/Q4) basis, U.S. real GDP growth accelerates from 1.7% in 2025, to 1.9% in 2026 and 2.1% in 2027. U.S. core inflation moderates to just above 2% by the end of 2027.

Under the assumption that the Federal Reserve remains data-driven and attentive to both parts of its dual mandate after the replacement of Jerome Powell in May, it would cut its policy rate (upper limit) by 50 basis points in the second half of 2026 to 3.25% (upper limit) and keep it there through 2027.

In Canada, after growing only 0.6% on a Q4/Q4 basis in 2025, real GDP expands by 1.6% in 2026 and 1.5% in 2027. Household consumption makes modest, albeit slightly rising, contributions to growth. Business investment remains weak in 2026 but revives in 2027. Exports rebound modestly in 2026 as industries adapt slowly to tariffs; they gain more strength in 2027.

Canadian CPI inflation is at or near the 2% target over the planning horizon. Given modest growth and contained price pressures, we see scope for a cut in the policy interest rate in 2026, from 2.25% to 2%. The governor of the Bank of Canada has been clear that monetary policy cannot solve the structural challenges of the economy, but a small dose of stimulus would aid adjustment.

We judge that upside and downside risks to our outlook are roughly balanced.

Importantly, even with an acceleration of growth in 2026 as suggested in our baseline scenario, as in most other forecasts, real output in Canada remains on a lower trajectory than prior to the shock of U.S. tariffs and uncertainty.

Both the Bank of Canada in its *Monetary Policy Report* (1.5%) and Finance Canada in Budget 2025 (1.8%) identified a one-time loss of real GDP that may not be recovered even over the medium term.

THE MEDIUM TERM: AN ENTERPRISE OF STRUCTURAL ADAPTATION …

Looking to 2026 and beyond, governments and businesses in Canada have to develop and execute strategies to grow and succeed in a world radically different than the one that has underpinned our economic and national security for the past decades. Failure to respond to change with a sense of urgency risks a slow but certain erosion of competitiveness and living standards.

The diversification of our trade and investment, the realization of our potential as a responsible supplier of energy and critical minerals, the harnessing of AI for economic advantage and the bolstering of our defence capabilities together amount to a vast enterprise of structural change.

… STARTING WITH SOUND FUNDAMENTALS …

A priority is securing, to the greatest extent possible and on reasonable terms, some predictability to U.S. tariffs and to the future of CUSMA. Our economic diplomacy is correctly pursuing stronger linkages with other major economies, including China, India, and other emerging and developing economies.

At home, the structural adaptation of the Canadian economy will be a function of our success in attracting domestic and foreign capital and growing the tangible and intangible assets that will realize Canadian advantage.

The starting point is no different than in the prior decades: a sound macroeconomic environment, competitive taxation, sensible regulation, a stable and efficient financial system and other factors that enable capital to flow and to be allocated productively.

The principal force for structural adjustment in the economy is the market-driven process of “creative destruction” whereby capital and labour are reallocated over time to innovative firms at the expense of firms that fail to innovate and to adjust.

Canadian Peter Howitt earned the 2025 Nobel Prize in Economic Sciences for his work on the theory of sustained growth through creative destruction. Policy must aid, and not impede, this competitive process.

… WITH ALSO ALIGNMENT ON SMART INDUSTRIAL STRATEGIES

At the same time, because of distinct policy and market factors globally and in Canada, governments and the private sector have to align on strategies for key industries and technologies.

We cite four priorities:

- Realizing the value of our energy and natural resources and building the infrastructure to get our products to new markets.
- Facilitating and accelerating the adjustment of our manufacturing sector.
- Seizing opportunities from AI and technology to accelerate productivity growth and create distinct Canadian advantage.
- Building a competitive defence-industrial base to capitalize on rising defence spending by Canada and its allies.

All of these priorities will be well served by sound market fundamentals, but they also require policy leadership from governments and strong engagement from the private sector to position Canada advantageously in global competition.

In a period of structural change, smart policy may comprise public investment that is well targeted, ring-fenced and fiscally sound, with a view to catalyzing private investment. There is also a solid case for *temporary* measures by governments to enable an industry and its workers to adjust to an external shock. Support for workers should enhance skills, mobility and employment.

Still, lessons must be learned from past experiences of industrial policy in Canada and internationally. Where intervention is not successful, governments should quickly draw conclusions, cut their losses and move on.

SOME POSITIVE EARLY STEPS BY THE GOVERNMENT OF CANADA

The government of Prime Minister Mark Carney began early in its mandate to focus with the provinces and territories on the first of the above four priorities under the theme of advancing nation-building projects.

The Government of Canada passed the *Building Canada Act* to streamline project approval and permitting and to coordinate financing, where necessary. It created the Major Projects Office (MPO) to act as a single window for proponents, and announced the first series of projects for review.

On November 27, in a moment marking a departure from the last 10 years of tension between Canada and Alberta on resource development, Prime Minister Carney and Premier Danielle Smith signed a Memorandum of Understanding (MOU) to advance major private sector energy investments.

These steps have been well received by the private sector. Yet, there will be critical factors of success for projects to get built:

- the economic case for the projects and the commitment of project proponents;
- policy clarity, including as regards the regulation and pricing of carbon;
- strategic and operational collaboration among governments at every step;
- the alignment of public and private decision-making processes and timelines;
- the fair and efficient management and sharing of risks;
- the consent and participation of Indigenous Peoples; and
- culture change and delivery capacity throughout the regulatory system.

There will be similar complexity, and urgency, in advancing the other three industrial strategy priorities. The government has promised forthcoming strategies on AI and a defence-industrial base. Manufacturing, in particular the auto industry, will be deserving of equal attention.

A WELCOME NARRATIVE IN BUDGET 2025, BUT THE HARD WORK AWAITS

Federal Budget 2025 posed the right diagnostic for Canada's economy, and it signals a welcome shift of policy in favour of public and private investment to overcome the country's structural challenges.

The narrative to *spend less to invest more* is persuasive, but we note that the fiscal bottom line was more discretionary spending, higher deficits and a higher debt-to-GDP ratio. The proposed fiscal anchors are unlikely to force the necessary, hard policy choices for prudence and sustainability.

In working toward the next budget, by keeping the priority objective of promoting investment, there is a strong case for the government to focus on *structural* policies, to review and simplify the tax and transfer system, to rationalize spending programs and to exert stronger fiscal discipline.

During this period of structural change and adaptation, growth in incomes and consumption is likely to be modest at best, and all governments have to resist the political urge to borrow in order to supplement them through broad-based tax cuts or transfers.

THE NEXT STEPS

Rightfully, there has been much attention over the past year paid to federal policy leadership in positioning Canada in its relationships with the United States and global partners, and in creating the conditions for a resurgence of investment.

There has been less attention paid to the responsibility of the provinces and territories to participate in a shift of policy priorities towards a stronger, integrated and more resilient Canadian economy.

Yet, the critical role for the adjustment of the economy to new global conditions resides with businesses, with the corporate boards and the management teams that will identify the strategic opportunities, take risks, innovate and invest in new projects, assets and markets.

In a period of shock to our economy, close collaboration and shared leadership among governments and businesses will provide the best opportunity to build momentum and to effect, over time, the structural change needed for future prosperity and resilience.

CHAPTER 1

A Resilient Global Economy with Structural Vulnerabilities: A Difficult Backdrop for Canada

The U.S. and global economies proved resilient in 2025.

There were reasons, particularly around April 1, "Liberation Day", to fear a global trade war or corrections in financial markets that would cause a recession in the United States and a sharp slowing of the global economy.

In fact, while growth in the United States and most major economies slowed in 2025, other policy and market factors offset at least in part the effect of questionable policies by the U.S. administration.

The United States's trading partners chose to avoid an all-out trade war, and most negotiated some form of accommodation with President Trump. In the United States, an extraordinary surge in AI-related investment by big tech firms largely offset a reduction in the growth of consumer spending.

There is now reluctant acceptance globally that high U.S. import tariffs are likely to stay in place for some time and that a return to the pre-Trump world of trade is unlikely in the foreseeable future. Economies are adjusting to this new reality.

Yet, looking to 2026 and beyond, there remain serious imbalances and structural deficiencies for the U.S. and global economies.

- U.S. tariffs still constitute bad policy that causes efficiency losses and costly adjustment worldwide.
- Exuberance over the potential of AI to transform our economies has boosted equity valuations to dot-com territory. The bursting of the bubble could cause massive losses of wealth in the United States and globally.
- Meanwhile, large fiscal deficits and rising public debt in the U.S. and major economies exacerbate vulnerability to shocks. The commitment of NATO members to allocate 5% of their GDP to defence-related spending by 2035 adds materially to fiscal pressures.

Despite adverse U.S. policy, Canada's economy also held its own in 2025 as growth in household consumption and government expenditure partially offset sharp drops in net exports and business investment that were caused by tariffs and uncertainty.

Nonetheless, for Canada U.S. trade actions constitute a shock that is causing a material economic loss that may be permanent. There is heightened awareness of our vulnerability as a small, open economy that is highly integrated with the U.S. economy.

Canada's economic challenges did not start with U.S. tariffs. Weak investment and productivity growth compared with the U.S. and many advanced economies have persisted over the past 15 years. Since the recovery from COVID, the gaps with the United States have widened considerably.

At this moment in history, Canada must undertake bold structural change. Our response to a new trade environment must also be shaped by opportunities and risks posed by the emergence of AI and by heightened attention to national and economic security.

A surge in innovation and investment is imperative for Canada to adapt to a new world, compete globally and re-establish a growth trendline that will not only contain damage from U.S. trade actions, but correct for years of underperformance.

U.S. AND GLOBAL ECONOMIES HOLDING UP IN 2025 AMID POLICY DISRUPTIONS

In the first half of 2025, the global economy confronted exceptional uncertainty created by policy disruption in the United States amid an already tense geopolitical environment. Governments, businesses and financial markets worldwide were kept off balance as the Trump administration moved quickly and sometimes unpredictably to implement a new foreign, trade and economic policy agenda.

There were, and remain, reasons to expect serious downside effects from tariffs in the United States and globally. New tariffs on U.S. imports of goods from major trading partners as well as on imports of specific goods (e.g., steel, aluminum, vehicles, wood products, other) have raised the average effective U.S. import tariff to close to 20%, a level not seen since the 1930s. This represents the most significant shift in trade policy since the signing of the General Agreement on Tariffs and Trade in 1947, and it weakens severely the foundations of the rules-based world trading order. By raising the cost of imports, tariffs impose adjustments on exporters, importers or final users depending on where market forces provide that the burden of the tariff will be borne over time. The tariffs have created added pressure on U.S. prices, and, amid other cost pressures and uncertainty, they have complicated the task of the Federal Reserve in balancing its dual mandate of price stability and maximum employment.

Other policies of the Trump administration also continue to pose grave risks to economic and financial stability. The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, is estimated to represent a net fiscal cost (including added interest) of US$4.1 trillion over ten years.[1] While this amount of added cumulative debt may be offset by tariff revenue, estimated to represent US$4 trillion over the period (if tariff rates are sustained at current levels despite court challenges and economic forces),[2] there remains unaddressed a fiscal deficit of about 6% of GDP (US$1.8 trillion in 2025), which will push the U.S. debt held by the public to some 120% of GDP by 2034.[3] This serious and persistent fiscal imbalance is putting upward pressure on U.S. and global long-term interest rates. Meanwhile, threats and actions by the president against major U.S. institutions from universities, to law firms, to media outlets are unsettling the U.S. innovation and business ecosystem. Even more critically, the repeated criticism of the president directed at the policies of the Federal Reserve and the risk of a loss of independence are cause to unnerve capital markets only months before the departure of Jerome Powell at the end of his term as governor in May 2026.

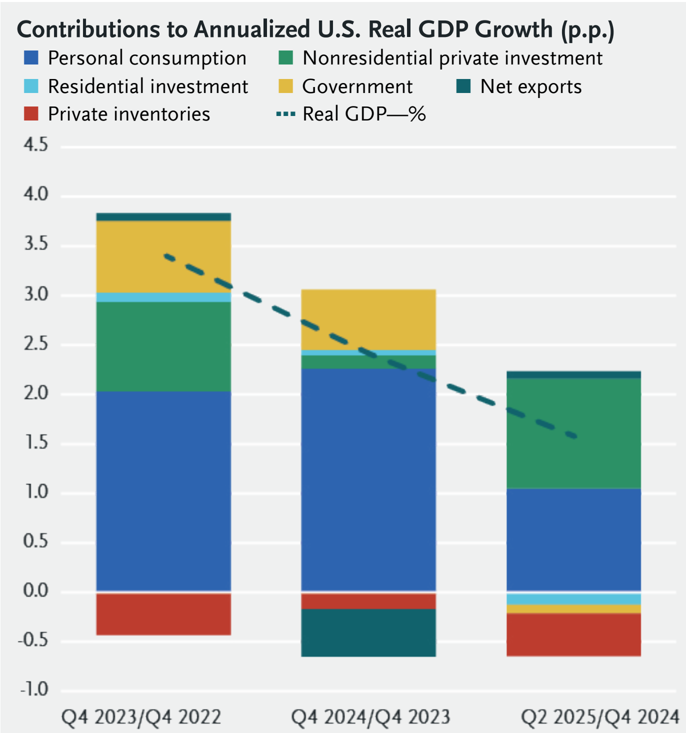
Yet, in the short term, other policy and market factors have mitigated the economic impacts of questionable U.S. policies.

Globally, trading partners have chosen to de-escalate the trade conflict and to avert a global trade war. The U.S. president threatened that if trading partners retaliated against his tariffs, he would double down. On the understanding that an all-out trade war would be a worst-case scenario, and despite a real cost from U.S. tariffs for export industries, most trading partners chose to appease the president and seek some predictability by signing "deals." Among major trading partners, the United Kingdom was the first to agree on the terms of a "Prosperity Deal" with the administration, which was confirmed in June.[4] The European Union (EU), Japan and the Republic of Korea followed in July, before a Trump-imposed deadline of August 1 when tariffs first announced on "Liberation Day" would otherwise have been reintroduced. The deals reduced but did not eliminate tariffs; nor do they provide assurances that the president will not later impose new restrictions. They are a truce, not a peace treaty. In the case of the EU, Japan and Korea, they comprise undertakings, or prospects, for multi-billion-dollar private investments in the United States. For its part, China used its leverage, notably its control over rare earth and other critical minerals, to moderate U.S. tariffs and to create space for a negotiation towards a more stable trade relationship.

The impact of tariffs on the U.S. economy to date have been muted, while other factors have supported activity. Imports of goods in the United States represent about 11% of GDP[5] (compared with close to one-third for Canada), such that the effects of tariffs are diluted. Moreover, estimates by the Federal Reserve Bank of St. Louis suggest that by August 2025 only about 35% of tariff-related cost increases that would have been expected under a hypothesis of full passthrough were in fact reflected in final consumer prices.[6] Some exporters, but mostly U.S. importers or intermediaries, decided, at least for some time, to absorb the tariffs rather than pass them on to final users.[7] Thus, over the period from June to August 2025 tariffs explained roughly 0.5 percentage points (pp) of U.S. headline Personal Consumption Expenditure (PCE) annualized inflation of 2.85%—a material effect, but not one large enough to derail the economy. Meanwhile, the deregulatory thrust of the administration's policies as well as the stimulative impact of tax cuts in the OBBBA may have provided some support to business activity. In aggregate, amid these and other policy changes, including immigration, average annualized growth in U.S. real GDP during the first half of 2025 was 1.6%—much lower than 3.4% and 2.4%, respectively, during 2023 and 2024 (on a fourth-quarter-over-fourth-quarter [Q4/Q4] basis) but nothing like a recession (Chart 1.1).

In fact, arguably the main economic story in the United States in 2025 was not tariffs but AI and the contribution to growth of investments by big tech to dominate this field. Closer inspection of the U.S. national accounts reveals a drop in the contributions to growth of both household consumption and government in 2025, which were offset by more than one half by a higher contribution of business non-residential investment. In turn, *all* of the net contribution to growth from business non-residential investment, more than 1 pp of GDP, is attributable to growth in largely AI-related software and

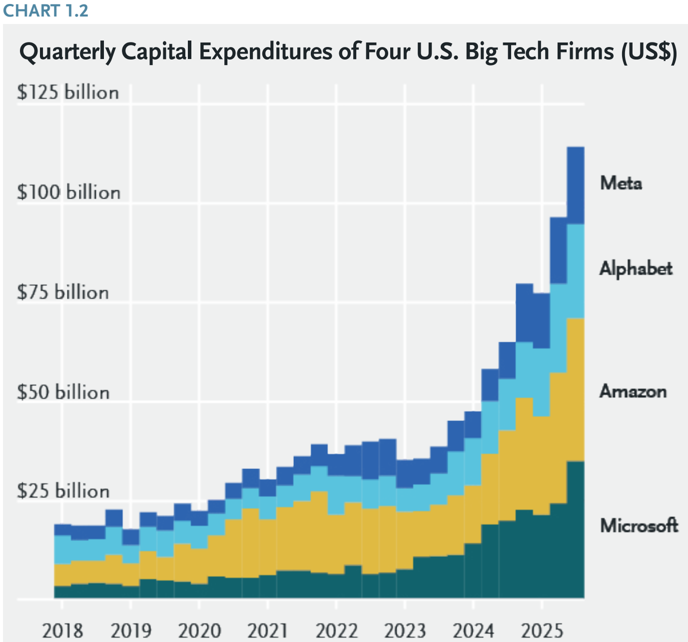
CHART 1.1



Source: U.S. Bureau of Economic Analysis.

processing-equipment investment. The absolute amounts of investment in AI development, chip technology and data centers defy imagination. In Q3 of 2025, the planned capital expenditures of only four groups—Meta, Alphabet, Amazon and Microsoft—exceeded US$100 billion (Chart 1.2). This compares with investment in machinery and equipment and intellectual property products in Canada, which in each quarter amounted to approximately US$30 billion.

CHART 1.2

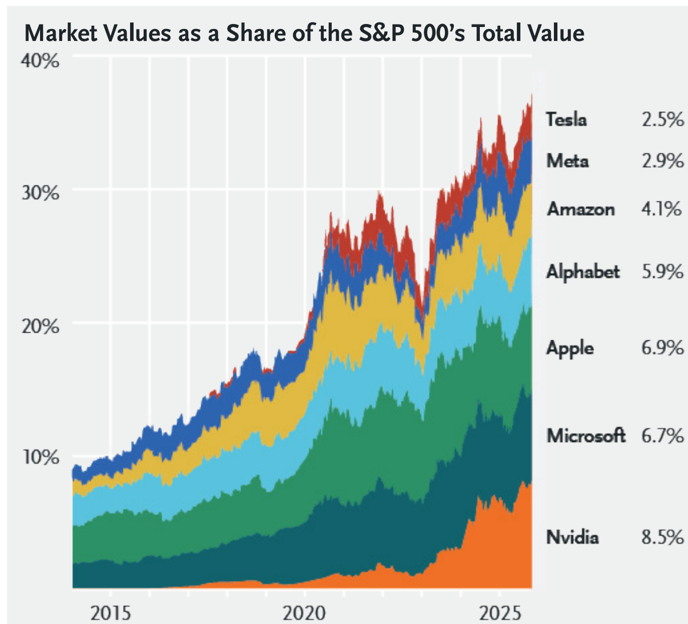


Note: Data are for the calendar quarters and include finance leases.

Source: Wall Street Journal, "Big Tech Is Spending More Than Ever on AI and It's Still Not Enough," October 30, 2025.

Despite bouts of market volatility, notably around April 1, "Liberation Day", financial conditions in the United States and globally in 2025 have been generally accommodative. After holding the policy rate steady after December 2024 because of elevated uncertainty, the Federal Reserve cut its policy rate by 25 basis points (bp) at each of its meetings of September, October and December. While noting that inflation had gone up and that it remained elevated, the Federal Reserve observed moderate growth in activity and jobs in the first half of the year and it judged that the downside risks to employment had risen. With inflation near target in their economies, the European Central Bank, the Bank of England and the Bank of Canada continued a lowering of policy interest rates begun in 2024 to bring them at, or closer to, neutral rates (policy rates estimated to be neither stimulative nor restrictive for economic activity). While under pressure because of rising levels of public and private debt, bond markets have been generally stable and risk spreads have stayed tight. Meanwhile, global equity markets have been buoyant, moving largely in step with the U.S. market, bolstered by big tech firms that now represent over 35% of the S&P 500's total value (Chart 1.3).

CHART 1.3



Note: Weekly data. Tesla joined S&P 500 in December 2020.

Source: Wall Street Journal, "Big Tech Is Spending More Than Ever on AI and It's Still Not Enough," October 30, 2025.

Correspondingly, the global economy in 2025 was remarkably resilient amid the U.S. policy storm. In its latest *World Economic Outlook* (October 2025), the International Monetary Fund (IMF) adjusted slightly upward its projection for growth in 2025 from three months and six months earlier for the U.S. and other major economies (with the notable exception of Canada). The IMF projected real global output growth of 3.2% in 2025 and 3.1% in 2026, not spectacular by any definition, but only marginally down from 3.3% in 2024. It also projected a lowering of consumer price inflation in advanced economies, from 2.6% in 2024 to 2.5% in 2025 and 2.2% in 2026.

There is now reluctant acceptance globally that high U.S. import tariffs are likely to stay in place for some time and that a return to the pre-Trump world of trade is unlikely in the foreseeable future. Economies are adjusting to this new reality.

As U.S. tariff policy recedes as a factor of immediate uncertainty, there remain, however, serious imbalances and structural deficiencies for the U.S. and global economies that pose risks and that may inhibit growth in the short and medium term.

IMBALANCES, STRUCTURAL DEFICIENCIES, AND POLICY TENSIONS WEIGHING ON MEDIUM-TERM PROSPECTS

First, U.S. import tariffs still constitute bad policy that causes efficiency losses and costly adjustment worldwide. As stated by the IMF: "The tactics that keep activity seemingly resilient in the short term, such as trade diversion and rerouting, are costly. Suboptimal reallocation of productive resources, technological decoupling, and limitations on knowledge diffusion are bound to restrain growth over the longer term."[8] While other major economies have not retaliated in kind to U.S. tariffs, other forms of trade restrictions or preferences, buy-national policies and various other forms of industrial policy typically come at the cost of some losses of efficiency. To the extent that such policies are locked in, the losses of efficiency and welfare will be permanent.

Second, while AI likely represents the greatest source of potential productivity gains in the future, the exuberance of investors over prospects of future profit is pushing up valuations to levels that are reminiscent of the dot-com bubble of the late 1990s. AI holds enormous promise, as well as risks, for our economies and societies over the medium term. However, general-purpose technologies such as the Internet or AI do not deliver their full benefits early in the development cycle. That is because the realization of the benefits requires the development of new ways of doing business, the restructuring of legacy systems and workforce adjustment that in the short term can lessen rather than grow productivity. Economists speak of a "J-curve" effect on productivity. During the early phase, the innovators, in this case the developers of generative AI like OpenAI and Anthropic, as well as a universe of start-ups, are raising and expending enormous amounts of capital, but they do not yet generate profits and are cash negative. Suppliers of chips like Nvidia or data services like Meta or Alphabet, which are profitable, are building up their capacity to meet the insatiable demand from these firms and to capitalize on market opportunities. Valuations rise as a steady stream of global equity and debt capital is pulled into the enterprises. An economic commentator noted that "America is now become one big bet on AI."[9] Meanwhile, the enormous demand placed by the industry on data centers and the related physical infrastructure are testing the capacity of the U.S. grid and putting upward pressure on electricity prices.

A bursting of the bubble could have serious consequences for the U.S. and global economies. The IMF notes: "The risk is also that lofty profit expectations will ultimately be unmet—as often happens when new general-purpose technologies are introduced. A significant market repricing … could impact aggregate wealth and consumption and spill over to broader financial markets."[10] Some movement of capital away from risky assets has been observed between early October and early December 2025; the prices of the S&P Bitcoin and CD20X cryptocurrency indexes, which both had advanced robustly through the spring and summer, fell from their peaks of October 6 by 28% and 34%, respectively, while the price of gold continued its slower but more regular ascent. Former IMF First Deputy Managing Director Gita Gopinath writes that the consequences of a generalized market correction could be far greater than in the dot-com crash because of the much higher exposure of U.S. and global investors to U.S. equity markets, which are now dominated by tech firms.[11] She estimates that a correction of the same magnitude as the dot-com crash could wipe out over US$20 trillion of household wealth in the United States and US$15 trillion in the rest of the world. The hit to U.S. GDP would be 2 pp, even before accounting for the drop in investment that would arise as firms reassess prospective returns and adjust their plans in respect of the physical capital accumulation in support of AI development.

Third, major economies continue to confront deeply rooted structural challenges that impair medium-term growth. Growth in the Chinese economy is slowing down, from 5% in 2024 to a projection by the IMF of 4.8% in 2025 and 4.2% in 2026. Lower rates of economic growth would be predictable in the best of cases for a maturing economy such as China. However, growth is also being held back by a slow adjustment in the overbuilt property sector and by the unwillingness, or failure, of policy authorities to effect a meaningful pivot away from investment and exports to domestic consumption. Reduced savings and higher consumption would not only create new growth opportunities in China, they would also help reduce global imbalances and ease some of the trade tensions. In Europe, growth remains tepid. For the Euro area, the IMF is projecting growth of 1.2% and 1.1% in 2025 and 2026, respectively, after 0.9% in 2024. Two years ago, Mario Draghi presented a report to the European Commission outlining a wide-scoping agenda on EU competitiveness, sharing a concern that absent bold steps "we will inexorably become less prosperous, less equal, less secure and, as a result, less free to choose our destiny."[12] It is fair to say that to date, amid geopolitical tension and internal divisions, progress on implementing the Draghi agenda has been slow. In the United Kingdom, productivity growth over the past years has been dismal, fiscal pressures are mounting and it is plainly evident that Brexit was not a solution.

Fourth, large fiscal deficits and rising public debt exacerbate vulnerability to shocks. Markets currently are tolerant of large fiscal deficits and rising debt as a proportion of GDP in the major economies. Long-term bond yields are higher than they were pre-COVID, and the yield curve is steeper, consistent with a higher perceived credit risk, but there is no immediate issue of access to stable funding. The United

States is taking full advantage of its "exorbitant privilege" as the issuer of the world's reserve currency to avoid any serious attempt at deficit reduction. U.S. net debt as a proportion of GDP is projected to rise well beyond 100% between 2025 and 2030 (Table 1.1). The net debt-to-GDP ratio is also projected to rise in the Euro area and in the United Kingdom while staying roughly constant, at a high level, in Japan. The debt loads create vulnerability to market disruptions, and they limit the fiscal firepower of governments to mitigate the impacts of future crises.

TABLE 1.1

Projected Net-Public-Debt-to-GDP Ratios in Major Advanced Economies, 2025 to 2030

	2025	2030
United States	99.6	116.8
Euro area	75.0	81.0
Japan	130.1	129.9
United Kingdom	94.6	96.4

Source: IMF, World Economic Outlook, October 2025.

Finally, global and domestic policy tensions complicate the task of governments in implementing agendas to improve medium-term growth prospects. Four policy drivers may be cited.

- **Security and Defence:** The peace dividend of the years that followed the fall of the Berlin Wall has evaporated, and economies are required to bolster their defence capabilities. For the members of the NATO alliance, the agreement reached in June 2025 to raise defence spending to 5% of GDP by 2035, including 3.5% towards core defence requirements and 1.5% towards defence- and security-related spending, represents an enormous fiscal commitment. In a period of slow economic growth, defence expenditures by European members of NATO and Canada already grew by 9.3% in 2023 and 18.6% in 2024, to reach an average of 2% of GDP. Projected defence expenditure growth in 2025 is 15.9%.[13] While the added spending will generate economic activity and potentially stimulate innovation and industrial development, governments will have to lift borrowing, raise new taxes or crowd out other spending to fund this effort. By way of example, for Canada an increment of 1.5% of GDP for core defence spending would cost the equivalent of close to 5 points of GST.

- **Affordability:** Coming off a period of high inflation post-COVID, and amid wider economic adjustment, large segments of the population are facing difficulty paying their day-to-day bills, including shelter, food, transportation and other necessities. This places political pressure on governments to support income and consumption through tax cuts or transfers that do not necessarily contribute to long-term economic potential. Meanwhile, structural policies to raise market incomes through productivity gains or to lower costs through more efficient supply, for example by stimulating the construction of homes, encounter their own political resistance and take time to enact and to yield results.

- **Immigration:** Major advanced economies, each with their own circumstances, all confront the delicate task of balancing security, economic and social considerations in setting their immigration policies, including deciding on the level and mix of permanent and temporary immigration. Given demographic trends, employers advocate for a steady stream of migrants to occupy low- and middle-, as well as high-skilled jobs. Governments have to address the capacity of communities to absorb migrants and the long-term impact on the economy.

- **Climate:** While the effects of climate change are ever more manifest, including in the form of costly natural disasters like wildfires, there is diminishing global policy convergence on climate. Ten years after the Paris Agreement of 2015, the U.S. administration is renouncing any policy effort to reduce emissions. It is treating support for the coal industry as a "national priority." It has encouraged the elimination of tax credits for solar and wind energy in the OBBBA, and it has acted deliberately to stop the development of offshore wind energy. The EU is pressing forward with its emissions trading system and a carbon border adjustment mechanism to apply initially to steel, cement and fertilizers, but it is facing strong resistance internally and from trading partners. Globally, the fight against climate change has moderated in the face of competing pressures such as security and affordability. The global demand for oil and gas is still rising, and a peak in the foreseeable future is uncertain to unlikely.[14] At the same time, clean electrification is facilitated by the sharply reduced cost of renewable energy technologies, including solar, wind and battery. Moreover, the formidable progress of China in developing advantage in clean technologies such as electric vehicles and supply chains such as critical minerals is requiring industrial policy responses from other major economies. Overall, governments and businesses have to make strategic decisions on energy systems, technologies and supply chains for the long term against very uncertain supply and demand scenarios.

THE NEW GLOBAL LANDSCAPE IMPOSES STRUCTURAL CHANGE FOR CANADA'S ECONOMY

In aggregate, and on average over the first three quarters of 2025, the Canadian economy also held its ground, with positive contributions to growth from consumption and government expenditure partly offsetting a fall in next exports and business investment.

However, tariffs and other shifts in the global landscape are disrupting the assumptions that underpin our economic and national security and are exposing our vulnerabilities as a small, open economy highly integrated with the United States.

For Canada, U.S. trade actions constitute a shock that is causing a material economic loss that may be permanent. No economy is more exposed proportionately to U.S. tariff actions and threats than Canada. At present, an estimated 90% of our exports to the United States are tariff-free, and the estimated average effective U.S. import tariff for Canada is 5.9%—lower than for any other major U.S. trading partner.[15] However, the tariffs on steel and aluminum, automotive vehicles and parts, copper, certain wood products and medium- and heavy-duty vehicles or MHDVs (Box 1.1), are sharply disrupting our trade (Charts 1.4 and 1.5) and imposing heavy costs on affected sectors and regions. Even if tariffs are partly lifted or reduced in the future, the loss of security of access to the U.S. market for the Canadian economy is a new reality imposing structural adjustment that will be costly and that will extend over years: a rewiring of large parts of the economy. Federal Budget 2025 cites "a persistent 1.8% decline in GDP ... mainly driven by U.S trade policy and uncertainty."

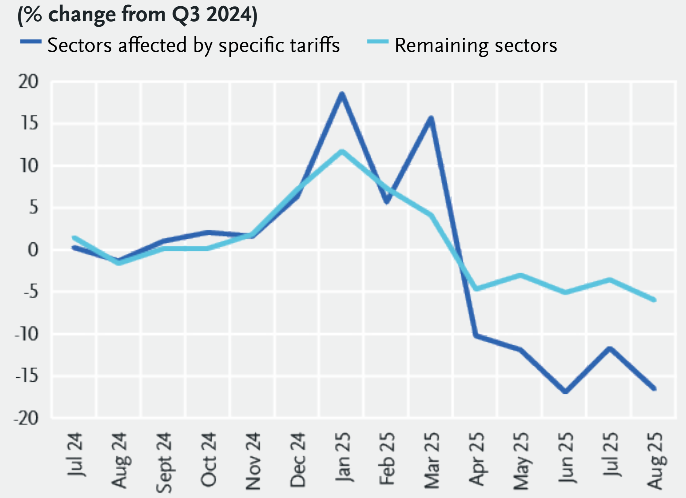
CHART 1.4

Canadian Merchandise Trade Values
(Customs data, seasonally adjusted, $ millions)

Source: Statistics Canada table 12-10-0163-01.

CHART 1.5

Canadian Merchandise Export Values
(% change from Q3 2024)



Source: Statistics Canada table 12-10-0163-01.

BOX 1.1

U.S. TARIFFS ON IMPORTS FROM CANADA
(REPRODUCED FROM TRADE COMMISSIONER SERVICES WEBSITE, DECEMBER 2, 2025)[16]

International Emergency Economic Powers Act (IEEPA) tariffs on Canadian goods: On March 4, 2025, the United States imposed tariffs of 25% on goods imported from Canada and 10% on energy products since amended to include potash. As of March 7, 2025, an exemption applies for CUSMA-compliant goods (i.e., goods that qualify for preferential duty-free treatment under the agreement) subject to these tariffs. On August 1, 2025, this 25% tariff increased to 35%. The tariff rate on energy products and potash remains 10%.

Section 232 tariffs on steel and aluminum: On March 12, 2025, the United States imposed a global 25% tariff on steel and aluminum imports, including from Canada. On June 4, 2025, the United States increased its tariffs on steel and aluminum imports to 50% and expanded the scope to include additional derivative products. On August 18, the United States further expanded the scope of its tariffs on steel and aluminum imports to include additional derivative products. For steel and aluminum derivative products, the 50% tariff applies only to the value of the steel and aluminum content.

Section 232 tariffs on automobiles and parts: On April 3, 2025, the United States imposed a global 25% tariff on imports of automobiles and light trucks, including from Canada. The value of U.S. content in CUSMA-compliant vehicles is exempt from Section 232 tariffs (subject to the approval of the Secretary of Commerce on a model-by-model basis). On May 3, 2025, the United States imposed tariffs of 25% on non-CUSMA-compliant auto parts.

Section 232 tariffs on copper: On August 1, 2025, the United States imposed a global tariff of 50% on imports of semi-finished copper products and derivatives, including from Canada. The 50% tariff applies only to the value of the copper content in these products.

Section 232 tariffs on certain wood products: On October 14, 2025, the United States imposed a global tariff of 10% on softwood timber (logs) and lumber, a global tariff of 25% on certain upholstered furniture and a global tariff of 25% on kitchen cabinets and vanities. On January 1, 2026, the tariff on certain upholstered furniture will increase to 30% and the tariff on kitchen cabinets and vanities will increase to 50%.

Section 232 tariffs on MHDVs (trucks), parts and buses: On November 1, 2025, the United States imposed global tariffs under Section 232 of 25% on imports of MHDVss and their parts, and a global tariff of 10% on buses. The value of U.S. content in CUSMA-compliant MHDVs is exempt from Section 232 tariffs (subject to the approval of the Secretary of Commerce on a model-by-model basis). CUSMA-

The outcome of a renegotiation of CUSMA could add further to long-term adjustment costs for our economy. Current baseline scenarios such as those set out by the BoC in its last *Monetary Policy Report* (MPR) and by the Government of Canada in the last budget (based on a consensus of private sector forecasters) work off the existing structure of tariffs, and they incorporate the impact of uncertainty over future tariffs. While there is an upside risk to such scenarios from a reduction of some of the existing tariffs (for example, through some form of tariff rate quotas for Canadian exports), there is also a material downside risk from the renegotiation or even abandonment by the United States of CUSMA. Our analysis of near-term economic prospects and risks is detailed in Chapter 2.

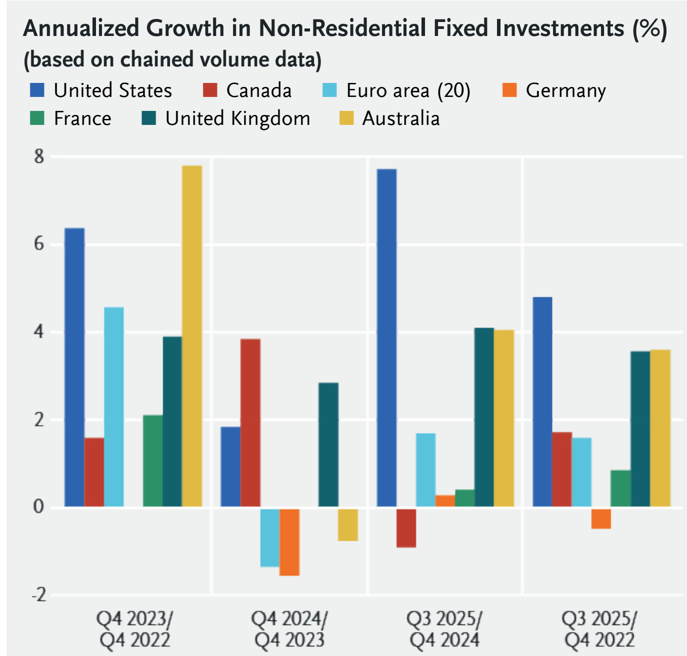
Canada's response to a new trade environment must also be shaped by opportunities and risks posed by other global developments, including the emergence of AI, the heightened attention to national and economic security, and the uncertain path of the energy transition. AI will redefine work across a wide range of occupations, and it will disrupt markets. Governments and businesses have to develop and implement strategies to adapt, make best use of the technology, and build distinct Canadian advantage. Increases in security-related spending from 2% to 5% of GDP by 2035 represent a structural change requiring a rapid expansion of our defence-industrial base. Our choices as an energy and critical mineral producer and exporter as well as the building of the infrastructure to power our economy will also have lasting structural ramifications.

At this moment in history, Canada must undertake structural change to safeguard its economic and national security and to establish a stronger foundation for growth and prosperity. The critical ingredient is investment in productive capacity and productivity-enhancing capital.

The Government of Canada has set a goal to build the strongest economy in the G7. Progress on this course requires reversing past trends. Canada's economic challenges did not start with U.S. tariffs. Weak investment and productivity growth compared with the United States and other advanced economies over the past 15 or more years are well documented. The gaps with the United States and some other peer economies have persisted or worsened since the recovery from COVID.

- Given an abrupt retreat in 2025, annualized growth of non-residential fixed investment in Canada during the period of 2023 to 2025 is only 1.7%, compared with 4.8% in the United States. On this score, Canada performed better than Germany and France, about equal to the average of the Euro area, but worse than the United Kingdom and Australia (Chart 1.6).

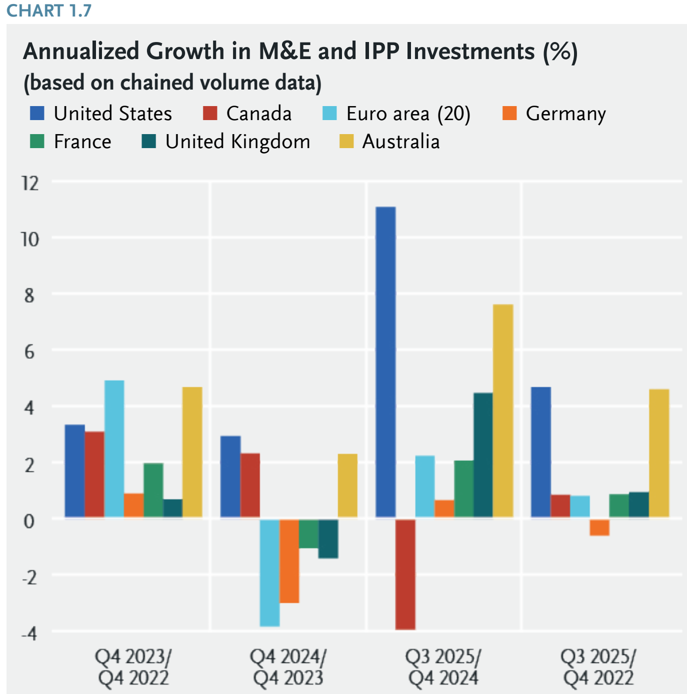
CHART 1.6



Note: Data for 2025 goes to Q2 for the United States and the Euro area, and to Q3 for Canada and other economies.
Source of data: OECD.

- The gap in investment growth relative to the United States was particularly striking in 2025 for machinery and equipment (M&E) and intellectual property products (IPP); it was largely driven in the United States by the build-up of AI (Chart 1.7). Canada is not alone in trailing the United States on this score, but on average through the period of 2023 to 2025, with the setback in 2025, it fares no better than peer economies, except Germany.

CHART 1.7

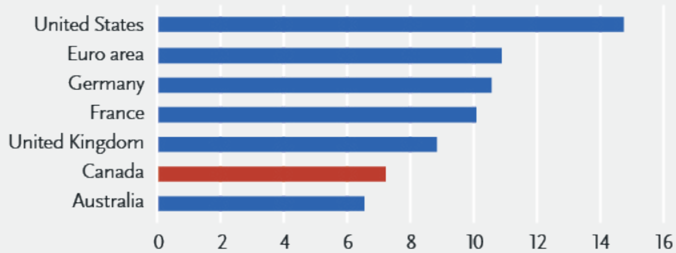


Note: Data for 2025 goes to Q2 for the United States and the Euro area, and to Q3 for Canada and other economies. These estimates by Bennett Jones are indicative but not strictly exact because chained-dollar numbers are usually not additive.
Source of data: OECD.

- As a share of GDP, the *level* of investment in M&E and IPP in the first three quarters of 2025 (7.2%) in Canada was less than one half the level in the United States (14.7%) and the lowest among large advanced economies, except Australia (Chart 1.8). To build an innovative economy and gain a competitive edge, Canada must not only narrow the gap with the United States, it must also grow investment in M&E and IPP faster than other peer economies.

CHART 1.8

Shares of Investment in M&E and IPP in GDP (%) Q1–Q3 2025
(based on chained volume data)

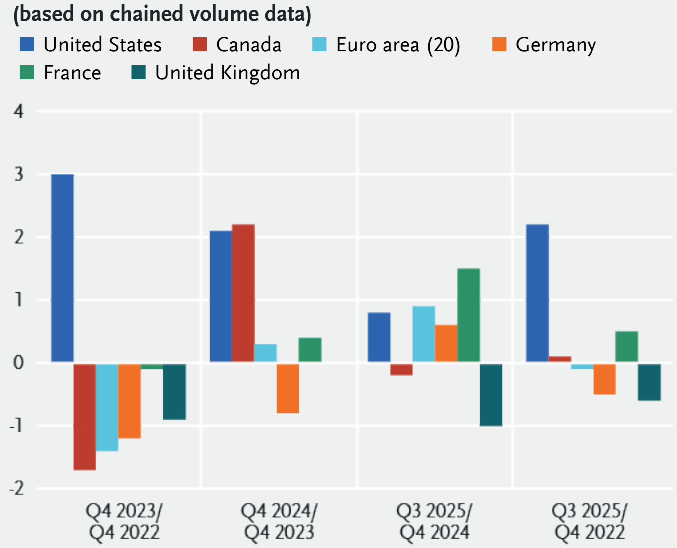


Note: Data for 2025 goes to Q2 for the United States and the Euro area, and to Q3 for Canada and other economies. These estimates by Bennett Jones are indicative but not strictly exact because chained-dollar numbers are usually not additive.
Source of data: OECD.

- With the impact of tariffs and the pull-back of investment, labour productivity growth that had improved in Canada in 2024 stalled in 2025 (Chart 1.9). By contrast, the United States sustained continuous, if declining, productivity growth through the period, affirming its exceptionalism relative to other advanced economies. A finer analysis would be required to assess the determinants of productivity growth in each of the economies, but it is safe to posit that Canada and European economies must not only grow investment, but also address long-standing structural challenges towards realizing stronger productivity growth.

CHART 1.9

Annualized Growth of Real GDP per Hour Worked (%)
(based on chained volume data)

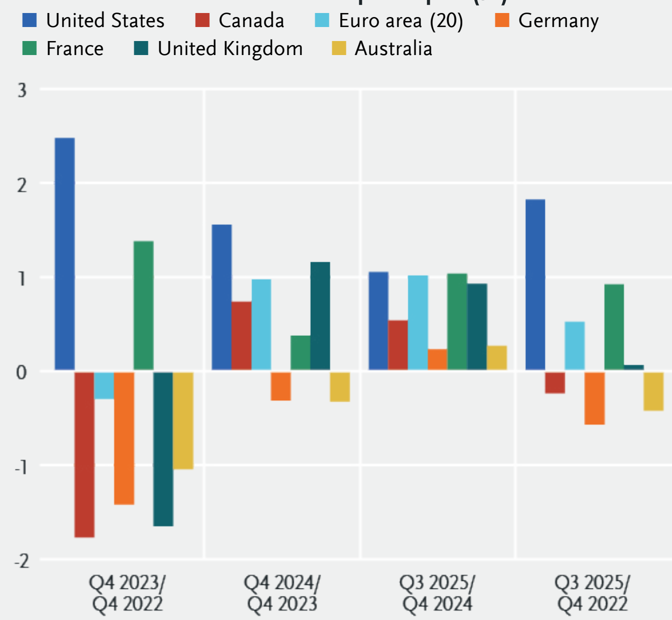


Note: Data for 2025 goes to Q2 for the United States and the United Kingdom, and to Q3 for Canada and other economies. For Canada and the United States, the data is for the business sector only.
Sources: Statistics Canada, U.S. Bureau of Labor Statistics, Eurostat and U.K. Office of National Statistics.

- The uneven and, on average, poor productivity growth in Canada over the period from 2023 to 2025, together with demographic and labour market factors, explains an erosion of GDP per capita, again contrasting with robust, if declining, growth in the United States (Chart 1.10). On this measure, Canada has also performed more poorly than the average of the Euro area.

CHART 1.10

Annualized Growth in Real GDP per Capita (%)



Note: Data on real GDP for 2025 goes to Q2 for the United States, and to Q3 for Canada and the other economies.
Source of data: OECD.

A NEED TO ACCELERATE INVESTMENT BY LEVERAGING OUR ASSETS IN A CHANGING WORLD

For the medium term, a surge in innovation and investment is imperative for Canada to adapt to a new world, compete globally and re-establish a growth trendline that will not only contain damage from U.S. trade actions, but also correct for years of underperformance.

As detailed in Chapter 2, our short-term growth prospects are modest and the turnaround that is needed in investment will not be realized, let alone yield full dividends, overnight.

During a period of structural change and adjustment, as discussed in Chapter 3, governments and businesses have to collaborate on strategies to attract and mobilize capital, leverage Canada's strengths, and respond to new drivers of growth.

This will include, but will not be limited to, advancing nation-building projects, which is discussed in Chapter 4.

CHAPTER 2

Prospects for the U.S. and Canadian Economies to the End of 2027

Both the U.S. and Canadian economies slowed down appreciably in 2025.

In the United States, national accounts data for 2025 is available for only two quarters because of the government shutdown. What we have observed is a marked slowdown of household consumption and a fall in government consumption, partially offset by exceptional growth of business investment, driven by AI. Imports surged in Q1 to avoid tariffs, and then plunged in Q2.

The Federal Reserve paused interest rate cuts in early 2025 to gain clarity on the effects of tariffs and uncertainty on inflation and the labour market. It then cut the policy rate (upper limit) by 25 basis points (bp) at its meetings of September, October, and December, bringing it to 3.75%.

In Canada, household consumption and government consumption also decelerated in 2025, but the dominant source of the slowdown in real GDP was a sharp drop in exports of goods, manifest in Q2. Investment in Canada *fell* because of tariffs and uncertainty. A build-up of inventories, due to the fact that production did not adjust quickly to slower domestic demand and falling exports, as well as a drop in imports, masked part of the reduction in demand growth.

The Bank of Canada cut its policy rate by 25 bp in January and March, and again in September and October, to 2.25%. This situates the policy rate at the end of 2025 in the bottom of the range for the "neutral rate" where monetary policy is neither expansionary nor restrictive.

With a lower policy rate, more slack in the labour market, weaker inflationary pressures and smaller fiscal deficits and debt, long-term interest rates (e.g., 10-year government bond yields) in Canada are about 100 bp lower than in the United States.

The two economies are poised to regain some strength during 2026 and 2027.

In our baseline scenario, on a Q4/Q4 basis, U.S. real GDP growth accelerates, from 1.7% in 2025, to 1.9% in 2026, and 2.1% in 2027. Consumer spending is initially held back by a weaker job market, high consumer prices and reduced immigration; it accelerates as interest rates fall and confidence improves. Business investment continues to grow over the two years, but not at the same torrid pace as in 2025.

U.S. core inflation moderates to just above 2% by the end of 2027. Under the assumption that the Federal Reserve is data-driven and attentive to both parts of its dual mandate, after the replacement of Jerome Powell in May, it will cut its policy rate by 50 bp in the second half of 2026, to 3.25%, roughly the long-term equilibrium rate, and keep it there through 2027.

After growing only 0.6% on a Q4/Q4 basis in 2025, the Canadian economy expands 1.6% in 2026 and 1.5% in 2027. Household consumption makes modest, albeit slightly rising, contributions to growth. Business investment remains weak in 2026, but it revives in 2027. Exports rebound modestly in 2026 as industries adapt slowly to tariffs; they gain more strength in 2027 as foreign demand accelerates and markets expand for Canadian goods and services.

Both the goods (trending up) and services (trending down) components of Canadian CPI inflation converge to the 2% target over the planning horizon. Given modest growth and contained inflationary pressures, we see scope for a further cut in the policy interest rate to 2% in 2026. The governor of the Bank of Canada has been clear that monetary policy cannot solve the structural challenges of the economy, but a small dose of stimulus could aid the process of adjustment.

We see a slight firming up of Canadian long-term bond yields given the amount of government debt issued in markets globally and in Canada. The Canadian dollar may appreciate modestly as U.S.–Canada differentials for both economic growth and interest rates become somewhat narrower.

We judge that upside and downside risks to our outlook are roughly balanced. Three key risks may prove positive, or negative, for Canada: U.S. trade policy and the outcome of Canada–U.S. negotiations; the evolution of investment in AI in the United States and the fallout for asset prices, U.S. demand and Canadian exports; and the response of Canadian businesses to tariffs, uncertainty and the policy efforts of Canadian governments to improve the investment climate.

I. Recent Developments

GROWTH IN THE UNITED STATES AND CANADA

The profile of economic growth in the United States in the first half of 2025 was shaped by the onset of import tariffs, a surge in AI-related investment and a reduction of government expenditure. After a contraction of 0.6% at an annualized rate in Q1 of 2025, U.S. real GDP rebounded 3.8% in Q2, mostly on a collapse of imports following their surge ahead of tariffs in Q1 (Table 2.1). A collateral drop in private inventory investment offset part, but not all, of the positive effect of the import retrenchment. There was also a significant contribution to real GDP growth in Q2 from a partial recovery in the growth of household consumption following near stagnation in Q1; this recovery was only partial because of slower growth in employment and a loss of consumer confidence after Q4 of 2024. Besides tariffs, two other major developments impacted growth in 2025: a retrenchment of government consumption, which cut annualized real GDP growth by over 0.3 percentage points (pp) in both Q1 and Q2, and exceptional growth of investment in information-processing equipment and software, which directly boosted real GDP growth by a full pp on average in Q1 and Q2. This burst of investment was largely related to AI.

The release of the Q3 GDP estimate for the United States has been delayed until December 23. Fragmentary information, however, suggests annualized real GDP growth of perhaps 3%. Consumer spending, net exports and non-residential fixed investment, notably the AI-related components, are likely to have made the largest contributions to growth.

TABLE 2.1

Annualized Contributions to U.S. Real GDP Growth

	Q4 2024/ Q4 2023	Q2 2025/ Q4 2024	Q1 2025	Q2 2025
	%			
U.S. real GDP	2.4	1.6	-0.6	3.8
Final domestic demand	3.0	1.9	1.4	2.4
Contributions From:	**Percentage Points**			
Household consumption	2.3	1.1	0.42	1.7
IPE* + software	0.2	1.1	1.3	0.8
Government consumption	0.2	-0.4	-0.4	-0.3
Imports of goods	-0.6	0.1	-4.9	5.0
Change in inventories	-0.2	-0.4	2.6	-3.4

* IPE: Information Processing Equipment
Source: U.S. Bureau of Economic Analysis.

Real GDP growth in Canada slowed markedly in the first three quarters of 2025 in response to U.S. tariffs and trade uncertainty. The trade disruptions led to a drop in net exports and a fall in non-residential business investment, but also to an accelerated build-up of inventories that contributed positively to growth (Table 2.2). The contribution of household consumption and government spending, while positive, was markedly less than in 2024.

Quarter to quarter, there were wide fluctuations. Real Canadian GDP grew a solid 2.2% in Q1, due to a faster build-up of inventories as the pace of production did not adjust quickly to slower domestic demand and falling exports. In Q2, real GDP fell 1.8%. In reaction to U.S. tariffs, exports of goods collapsed, and non-residential business investment also dropped, cutting annualized real GDP growth by 8.8 pp and 0.4 pp, respectively. At the same time, final domestic demand rebounded, growing 3.5%, with positive contributions from household consumption, residential investment and government consumption and investment. A fall in the import of goods, as well as the continued, rapid accumulation of inventories, also contributed to growth. A different picture again emerged in Q3. While final domestic demand was flat, real GDP grew 2.6% because of falling goods imports. Among the components of domestic demand, housing and government investment contributed to growth, while household and government consumption, as well as non-residential business investment, decreased it.

TABLE 2.2

Annualized Contributions to Canadian Real GDP Growth

	Q4 2024/ Q4 2023	Q3 2025/ Q4 2024	Q1 2025	Q2 2025	Q3 2025
	%				
Real GDP	3.1	1.0	2.2	-1.8	2.6
Final domestic demand	3.3	0.9	-0.6	3.5	-0.1
Contributions to GDP growth:	**Percentage Points**				
Household consumption	1.5	0.8	0.5	2.2	-0.2
Residential investment	0.2	0.0	-0.9	0.3	0.5
Government consumption	1.0	0.2	0.1	1.0	-0.4
Government investment	0.2	0.2	-0.2	0.2	0.5
Non-residential business investment	0.3	-0.3	0.0	-0.4	-0.5
Export of goods	0.4	-2.4	1.6	-8.8	0.2
Imports of goods	-0.1	0.8	-1.6	1.1	2.8
Next exports of services	0.3	-0.3	0.0	-1.1	0.2
Change in inventories	-0.7	1.9	2.7	3.7	-0.6

Source: Statistics Canada, table 36-10-0104-01.

The deceleration of household consumption in Canada in 2025 is explained by a sharp drop in population growth, which was partly compensated by a fall in the household saving rate (Table 2.3). On a per capita basis, consumption grew 1% despite flat real disposable income.

TABLE 2.3

Determinants of Growth in Real Household Consumption: Canada		
Average Annualized Growth (%):	**Q4 2024/ Q4 2023**	**Q3 2025/ Q4 2024**
Real household consumption	2.7	1.5
Population	2.5	0.5
Real household consumption per capita	0.1	1.0
Real household disposable income per capita	2.2	0.0
Level (%) of:	**Q4 2024**	**Q3 2025**
Household saving rate	5.5	4.7

Source: Statistics Canada, tables 36-30-0104-01, 36-10-0112-01, 36-10-0106-01 and 17-10-0009-01.

The Labour Market

The U.S. labour market remained tight in 2025: the unemployment rate edged up slowly, and job vacancies per unemployed reciprocally tended to edge down (Table 2.4). Uncertainty over trade and broader economic developments prompted employers to postpone hiring and firing, and employees to be cautious about switching jobs. Federal Reserve Chair Powell in September spoke of a "low-hire, low-fire economy." Yearly gains in average hourly earnings have been trending downward, again mildly. They have remained higher than CPI inflation, although by a narrowing margin since May as tariffs pushed up CPI inflation.

TABLE 2.4

Labour Market Tightness and Wage Inflation: 2025				
	2024	**2025**		
United States	**Jan to Dec**	**Jan to Apr**	**May to Aug**	**Sep**
Employment—m/m% s.a.a.r.	1.3	0.9	0.1	0.9
Unemployment rate—s.a.	4.0	4.1	4.2	4.4
Job vacancies per unemployed	1.2	1.1	1.0	1.0
Average hourly earnings—y/y% s.a.	4.0	3.9	3.8	3.8
Canada	**Jan to Dec**	**Jan to Apr**	**May to Aug**	**Sep to Nov**
Population 15+—m/m% s.a.a.r.	3.4	1.8	1.3	0.8
Employment—m/m% s.a.a.r.	1.9	0.7	-0.2	3.5
Total hours worked—m/m% s.a.a.r.	1.8	0.8	1.0	-0.2
Unemployment rate—s.a.	6.4	6.7	7.0	6.8
Job vacancies per unemployed*	0.41	0.35	0.31	0.30
LFS average hourly earnings—y/y% not s.a.	4.0	3.6	3.3	3.5

* Data available up to September only.
Sources: U.S. Bureau of Labor Statistics and Statistics Canada tables 14-10-0406-01, 14-10-0287 and 14-10-0426-01.

In Canada, slack in the labour market increased in the first eight months of 2025 as the unemployment rate rose to 7% and as job vacancies per unemployed trended down; developments since September have been mixed, with employment up, the unemployment rate down, but total hours worked roughly constant. In the period from January to August, weakening economic activity and uncertainty restrained labour demand while still rapid (albeit falling) growth in the working-age population supported labour supply. As a result, unemployment trended upward and job vacancies per unemployed trended downward. By contrast, in the period from September to November, employment rose robustly; together with a further slowdown in working-age population, this brought the unemployment rate back down to 6.8% on average over these three months (in fact, to 6.5% in November). However, the gains in employment in the period from September to November were concentrated in part-time work, so that total hours worked actually edged down. Meanwhile, consistent with developments above, growth in average hourly earnings trended down in the period from January to August, but they have edged up modestly since September. Throughout the year, gains in average hourly earnings have outpaced CPI inflation. A more complete analysis of the labour market for the year would require a sectoral breakdown as well as the review of different sources of data. For example, in the manufacturing sector, most directly affected by U.S. import tariffs, payroll data (Survey of Employment, Payrolls and Hours) shows seasonally adjusted employment falling by 2.3% between December 2024 and September 2025.

INFLATION

In the United States, both headline and core inflation in 2025 trended down until April (Table 2.5). They subsequently rose as a result of tariffs—in the case of headline inflation, from 2.3% in April to 3% in September. While the effect of tariffs was noticeable, the passthrough to consumer prices was still modest as U.S. sellers drew on pre-tariff inventories for sales, and as both U.S. sellers and foreign exporters absorbed part of the tariffs through lower margins.

In Canada, headline inflation was bumpy in 2025, dropping to a low of 1.7% in April, peaking at 2.4% in September and declining in October to 2.2%. The price of gasoline explains much of this variation: excluding gasoline, the all-items inflation rate would have been steady at about 2.5% from February to October. Changes in indirect taxes (i.e., the carbon tax) also lowered headline inflation, by about 0.5 percentage points, starting in April.

Core inflation in Canada has been stable. Twelve-month core inflation based on the average of CPI-median and CPI-trim (CPI-M&T) hovered around 3% from February to October, while on a three-month annualized basis, it was about 2.6% from July to October. The "underlying inflation", that the Bank of Canada infers from indicators that track how widespread inflationary pressures are, was in the vicinity of 2.5% in 2025,[1] somewhat higher than recent 12-month headline inflation but about equivalent to the recent 3-month core inflation.

TABLE 2.5

Consumer Price Inflation: United States and Canada, 2025

12-month	Jan	Apr	Jul	Aug	Sep	Oct
United States						
CPI—all items	3.0	2.3	2.7	2.9	3.0	
Core inflation: PCExFE	2.8	2.6	2.9	2.9	2.8	
Canada						
CPI—all items	1.9	1.7	1.7	1.9	2.4	2.2
CPI—all items ex. gasoline	1.7	2.6	2.5	2.4	2.6	2.6
Core inflation: CPI-M&T	2.6	3.1	3.1	3.0	3.1	3.0
3-Month s.a.a.r.	**Jan**	**Apr**	**Jul**	**Aug**	**Sep**	**Oct**
United States						
Core inflation: PCExFE	2.5	3.0	3.0	2.9	2.7	
Canada						
Core inflation: CPI-M&T	3.2	3.5	2.5	2.6	2.7	2.6

PCExFE: Chain-type price index for personal consumption expenditures excluding food and energy.
CPI-M&T: average of the CPI-median and CPI-trim measures designed by the Bank of Canada.

Sources: Statistics Canada, tables 18-10-0004-01, 18-10-0006-01 and 18-10-0256-01, U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis.

INTEREST RATES AND EXCHANGE RATES

The Federal Reserve interrupted its lowering of the U.S. policy interest rate last December, and resumed it only after the summer with cuts of 25 bp in September, October and December, which brought the policy rate to 3.75% (upper limit). The pause up to September was to gain clarity about the effects of tariffs and uncertainty on inflation and the labour market. In its decision statement of September 17, the Federal Reserve Open Market Committee (FOMC) cited a “shift in the balance of risk” in the pursuit of its dual mandate of maximum employment and low inflation, as “the downside risks to employment have risen.”[2] Policy tension was manifest in recent FOMC meetings, as opinion diverged about whether and by how much the policy rate should be cut further. The balance of opinion on the Committee will be watched closely over the next months. Meanwhile, 10-year Treasury yields have been stable at 4.1% since August as investors’ concerns about the growth of public debt and rising inflation risks have been balanced by improved prospects for policy rate cuts in the near term, given the weakening labour market (Table 2.6).

The Bank of Canada, which held the policy rate at 2.75% from March to August, also proceeded with cuts of 25 bp in September and October, bringing the rate down to 2.25%, at the lower bound of the estimated range of the neutral interest rate. At its October meeting, the Governing Council of the Bank signaled an end, or at least a pause, to the lowering of the policy rate: “If inflation and economic activity evolve broadly in line with the October projection, Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment.”[3] The last cuts were justified by slack in the labour market, the removal of most reciprocal tariffs on U.S. imports and weak growth prospects in the near term. At 2.25%, the policy rate is now judged to be at the lower bound of the estimated range of the neutral rate at which monetary policy is neither contractionary nor expansionary. 10-year Canada bond yields have firmed up since October, to an average of 3.3% in early December, somewhat narrowing the differential relative to 10-year Treasury yields. Still, the differential of some 80 bp confers a significant advantage to the Government of Canada, and, since other long-term debt is priced off this benchmark, to other Canadian borrowers.

TABLE 2.6

Key Financial Rates: United States and Canada, 2025

	Aug	Sep	Oct	Nov	Dec*
Fed Funds Rate (Upper Limit)—%	4.50	4.25	4.00	4.00	3.75
Bank of Canada policy rate—%	2.75	2.5	2.25	2.25	2.25
U.S. 10-year Treasury yield—%	4.3	4.1	4.1	4.1	4.1
10-year Canada bond yield—%	3.4	3.2	3.1	3.2	3.3
U.S. dollar per Canadian dollar	0.72	0.72	0.71	0.71	0.72
Nom. advanced econ. U.S. dollar index	0.4	-0.4	1.1	0.9	-0.6

* Information up to December 10

The Canadian dollar has trended down slowly between July and October, from US$0.73 to US$0.71. During this period, the value of the U.S. dollar appreciated on a multilateral basis.

II. Baseline Scenarios for the United States and Canada

UNITED STATES

Outlook for Growth

To an unusual extent, the outlook for growth in the United States in 2026 and 2027 is shaped by judgment about the aggregate effect of recent and prospective U.S. policy actions.

- **Import tariffs,** if sustained and/or heightened further, will be felt increasingly as they are passed through to U.S. prices, reducing real incomes and depressing domestic demand. While some U.S. producers may benefit from import substitution, most U.S. businesses will suffer from higher costs and weaker domestic and global demand. At the same time, the administration claims that its tariff policy and the "deals" negotiated with global partners will result in a massive inflow of foreign investment and a substantial relocation of manufacturing activity in the United States. There is no precedent to come to a solidly informed view on the sum total of these factors.

- **Fiscal policy** will affect domestic demand directly through the changes in the fiscal deficit (the fiscal impulse) and indirectly through the response of businesses, consumers and capital markets to changes of policy (e.g., taxation) and to the deficit track. The administration insists that tax cuts in the OBBBA will incentivize spending and investment and stimulate growth, and that tariffs will offset the revenue loss. However, the fiscal deficit remains high at about 6% of GDP. Debt accumulation risks pushing up U.S. Treasury bond yields and interest rates for all borrowers, depressing growth. The president has recently floated the idea of issuing large tariff-rebate cheques to middle-class and lower-income households to address affordability pressures. If followed through by Congress and enacted, such an action would boost personal consumption in the short term, but at the expense of larger fiscal deficits and heightened risks of adverse reactions in capital markets.

- **Monetary policy** will be decided on the basis of judgment in balancing the goals of maximum employment and low inflation. This task is delicate under circumstances when the economy is slowing, but with persistent inflationary pressures. An independent Federal Reserve bases its judgment on the data, and it proceeds cautiously, providing a measure of stability and comfort to financial markets. However, President Trump has been clear that he favours more substantial cuts in the policy rate even if inflation remains above target. His views no doubt will influence his selection of the replacement of Jerome Powell as Federal Reserve chair when his term expires in May 2026. The reality or perception of a loss of independence of the Federal Reserve, and/or greater policy tolerance for inflation, would push up market interest rates, depress asset values and destabilize markets. All of these factors would cause potentially serious damage to the real economy.

- The **deportation of undocumented immigrants** as well as a decrease in legal immigration will affect the supply of labour in some industries and, in some measure, constrain output and reduce household consumption.

- A significant **compression of the federal civil service** may result in higher unemployment and affect consumer confidence and spending.

- A bold agenda of **regulatory easing**, especially in energy and finance, may stimulate entrepreneurship, investment and innovation, albeit with potentially higher systemic risks (e.g., impacts of cryptocurrencies on financial stability). These effects may be felt more strongly in 2026 and 2027 as uncertainty over other factors of policy (e.g., tariffs) dissipates.

The outlook will also be significantly affected by the trajectory and effects of AI investment. If AI continues to generate investor excitement and over time fulfills its promises of wide adoption and substantial productivity gains, rewarding investors with flows of profits, the technology will help the U.S. economy reaffirm its exceptionalism. Growth could be strong and steady despite other factors that would otherwise pull it down. However, there is a material risk that the benefits of the technology in the workplace turn out to be slower to materialize and that the returns on investment prove short of what is currently priced into the market value of the assets. A generalized re-evaluation of the benefits and risks of AI investments could cause an important correction in equity markets, a repricing of risks and a rethinking of future AI-related investment plans (see the section on risks below).

In our baseline scenario for the United States, which is roughly aligned with the latest projections from the IMF and the Organisation for Economic Co-operation and Development (OECD) , real GDP growth stabilizes in 2026 after a marked slowdown in 2025; it then accelerates slightly in 2027 (Table 2.7). On a Q4/Q4 basis, real GDP growth falls from 2.4% during 2024, to about 1.7% during 2025 and 1.9% during 2026, before accelerating to 2.1% during 2027. On an annualized, quarterly basis, growth bottoms out at 0.5% in Q4 2025 because of the government shutdown. The output lost to the shutdown is recouped by Q1 2026. On a year-over-year basis, growth averages 1.9% in 2025 and 2026, and 2.1% in 2027. Along with the slowdown of population growth to 0.4% in both 2026 and 2027, as projected by the U.S. Congressional Budget Office, this translates into GDP growth per capita of 1.2% in 2025, 1.5% in 2026, and 1.7% in 2027, compared with 1.8% per year on average from 2012 to 2024.

TABLE 2.7

U.S. Real GDP Growth (%)

	2024	2025	2026	2027
Q4/Q4	2.4	1.7	1.9	2.1
Year-Over-Year	2.8	1.9	1.9	2.1
Year-Over-Year Per Capita	1.8	1.2	1.5	1.7

Much of the slower U.S. growth in 2025 and 2026 reflects a slowdown in personal consumption: a weaker job market, high consumer prices and restrictive immigration policies counteract the positive impact of lower interest rates and tax cuts. Personal consumption firms up in 2027 with a strengthening job market, some improvement in confidence and further support from lower interest rates. AI-related investment in equipment and software will slow markedly over 2026 and 2027 from a torrid pace during 2025. On the other hand, both residential investment and federal government spending are expected to pick up in 2026 and 2027, following declines in 2025.

OUTLOOK FOR CORE INFLATION AND INTEREST RATES

Core U.S. personal consumption expenditure (PCE) inflation is expected to fall from about 3% at the end of 2025 to about 2.5% at the end of 2026 and just slightly above 2% at the end of 2027 (Table 2.8).

TABLE 2.8

U.S. Core Inflation and Interest Rates: Baseline Scenario (%)

December	2024	2025	2026	2027
Core Inflation: PCExFE 12-month	3.0	3.0	2.5	2.2
Fed Funds Rate (Upper Limit)	4.5	3.75	3.25	3.25
U.S. 10-year Treasury Yield (%)	4.4	4.1	4.1	4.1

Under the inflation and growth profile contemplated in this scenario, and under an assumption of the continuation of current, data-driven monetary policy, after a cut of 25 bp in December 2025, the Federal Reserve would cut the policy rate by another 50 bp in the second half of 2026 to 3.25%. The policy rate would then be in the middle of the range of estimates for the long-term equilibrium rate. Pulled down by lower expected short-term rates and inflation, but at the same time pushed up by large government deficits and rising debt, the 10-year Treasury yield would remain slightly above 4% through 2026 and 2027.

CANADA

Outlook for Growth

The outlook for growth in Canada in 2026 and 2027 is shaped by judgment about the direction of U.S. policy, the U.S. outlook and the Canadian policy and business responses to evolving U.S. and global developments.

U.S. tariffs and trade policy uncertainty continue to weigh heavily on short-term prospects for Canada.

- The trade disruptions depress both exports and business fixed investment. They weigh on household consumption through impacts on the labour market, and they diminish our productive potential by forcing a reallocation of capital and labour, with some losses of efficiency.

- The Bank of Canada expects the U.S. import tariffs and related trade uncertainty to lower real GDP relative to its pre-tariff path by about 1.5% by Q4 of 2026.[4] Even if tariffs were later reduced, this would be a permanent, or near-permanent, output loss. About one half of this loss would be explained by weaker demand, mostly associated with lower exports, while the other half would be caused by a reduction in potential output. In Budget 2025, the Government of Canada similarly estimated "a persistent 1.8% decline in GDP mainly driven by U.S. trade policy and uncertainty."[5]

- The outcome of trade negotiations between Canada and the United States, including the review of the CUSMA in 2026, remains highly uncertain. Our baseline scenario assumes that the current U.S. tariffs on Canada remain in place over the projection horizon.

The demand for our exports in the United States is affected not only by U.S. tariffs, and by how they diminish the competitiveness of our industries, but also by broader U.S. policy and business developments and by how they affect U.S. aggregate demand. In the current period of slowing of the U.S. economy, our exports are suffering from both effects, and this is pulling down real GDP growth in Canada. When U.S. growth picks up in the second half of 2026, there will be some positive spillovers for Canada, even if tariffs stay in place.

The U.S. agenda of low taxes and deregulation could induce the migration of Canadian production and investment to the United States and the diversion of foreign direct investment away from Canada if not followed by competing initiatives or forces in Canada. This effect could be significant over the medium term.

Early policy responses in Canada have supported domestic demand in the short term; the policy agenda now being advanced places a priority on promoting investment to build long-term economic capacity and resilience.

- **Fiscal policy:** Automatic stabilizers, including lower revenue intake because of depressed incomes and spending, and higher transfer payments and subsidies under statutory programs are mitigating some of the impacts of the economic slowdown in 2025 for households, businesses and the economy. The federal middle-income tax cut, which became effective July 1, and increased discretionary spending on such items as border security, national defence and public housing are also providing short-term offsets to the impact of U.S. tariffs. As seen further below, while a planned reduction of federal and provincial deficits in 2026–2027 and outer years may act as a drag on growth, some reallocation of spending together with structural initiatives may promote investment, support confidence, and enhance potential growth.

- **Monetary policy:** The Bank of Canada has already cut its policy rate to the bottom of the range for the neutral interest rate, reducing the costs of new borrowing for households and firms and easing the servicing costs of variable-interest debt.

- **Immigration policy:** Continuing restrictions appear set to reduce population growth to probably 0.5% in 2026 and 2027 compared with 1.3% in 2025, thereby holding back growth in both aggregate demand and labour supply, and hence potential output. However, the lower planned intake of foreign students or temporary workers (often in low-wage occupations) is likely to lift real GDP per capita.

In our baseline scenario, accounting for the above factors, on a Q4/Q4 basis, Canadian real GDP growth is 0.6% during 2025 and around 1.5% during both 2026 and 2027 (Table 2.9). The slowdown in 2025 is pronounced after growth of 3.1% during 2024. **On an annual basis, growth slows to 1.6% in 2025 and 1.1% in 2026, and returns to 1.6% in 2027.** Our projection of a 1.1% year-over-year growth for 2026 is low compared with the projection of many private sector forecasts, but we judge it prudent, indeed possibly still optimistic. As shown in Table 2.10, after what we expect to be slightly negative (or zero) growth in Q4 2025, and then a gradual pick-up in Q1 and Q2 of 2026, annualized quarterly growth will have to be close to 2% by the second half of 2026 to achieve year-over-year growth of 1.1%.

TABLE 2.9

Canadian Real GDP Growth (%)

	2024	2025	2026	2027
Q4/Q4	3.1	0.6	1.6	1.5
Year-Over-Year	2.0	1.6	1.1	1.6
Year-Over-Year Per Capita	-0.9	0.4	0.6	1.1

TABLE 2.10

Projected Annualized Real GDP Growth: Canada (%)

Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026
2.6	-0.3	1.2	1.4	2.0	1.8

Taking account of a slowdown in population growth, our projection implies improved growth in real GDP per capita, from 0.4% in 2025 to 0.6% in 2026 and 1.1% in 2027. While this represents a cumulative improvement of only 2.1% over three years, it follows a drop of 0.9% in 2024 and modest growth of only 0.8% annually over the period from 2012 to 2022.

The projected real GDP growth rates incorporate different dynamics across demand components. Held back by low population growth and elevated unemployment, household consumption makes modest, albeit slightly rising, contributions to growth from 2025 to 2027. Residential investment grows both in 2026 and (to a lesser extent) 2027 in response to pent-up demand, accommodating financial conditions and federal measures to boost new supply. Affordability challenges remain an obstacle to growth, however. Non-residential business investment remains weak in 2026 but comes back in 2027 in response to reduced trade uncertainty, improved growth prospects and new large projects. After dropping in 2025, exports rebound modestly in 2026 as industries adapt slowly to tariffs, and they gain more strength in 2027 as foreign demand accelerates and our markets expand.

Based on budgets and fiscal updates released in November, the federal, Ontario, Quebec and Alberta governments are planning substantial net borrowings to fund their current operations and net capital investments. This should result in a significant impulse to growth in the short run, account taken of the lag in the effect of fiscal policy (Table 2.11). Together, their fiscal plans call for a positive fiscal impulse equivalent to 2.2% of GDP in fiscal year (FY) 2025–2026, followed by small negative impulses of 0.6% in FY 2026–2027 and 0.4% FY 2027–2028 (not including Alberta, which did not update numbers for these two years). The federal

TABLE 2.11

Net Impulse to Growth from Federal and Provincial Budgets

	2024–2025	2025–2026	2026–2027	2027–2028
Federal Budget: November 4				
Deficit $b.	36.3	78.3	65.4	63.5
Net capital investment $b.	10.5	6.2	14.1	20.6
Total net borrowing $b.	46.8	84.5	79.5	84.1
Total net borrowing as % of GDP	1.5	2.7	2.4	2.5
Change in net borrowing as % of GDP		1.1	-0.2	0.0
Ontario Fiscal Update: November 6				
Deficit $b.	6.0	13.5	7.8	-0.2
Net capital investment $b.	8.6	14.0	14.5	10.1
Total net borrowing $b.	14.6	27.5	22.3	9.9
Total net borrowing as % of Canadian GDP	0.5	0.9	0.7	0.3
Change in net borrowing as % of Canadian GDP		0.4	-0.2	-0.4
Quebec Fiscal Update: November 25				
Deficit $b.	5.2	9.9	7.1	4.2
Net capital investment $b.	8.0	8.0	8.6	9.3
Total net borrowing $b.	13.2	17.9	15.8	13.5
Change in net borrowing $b.	0.0	4.7	-2.2	-2.3
Change in net borrowing as % of Canadian GDP	0.0	0.1	-0.1	-0.1
Total: Federal + Ontario + Quebec				
Change in deficit $b.		54.2	-21.3	-12.9
Change in net capital investment $b.		1.1	9.0	2.8
Change in net borrowing $b.		55.3	-12.4	-10.1
Change in net borrowing as % of Canadian GDP		1.7	-0.6	-0.4
Alberta				
Deficit $b.	-8.3	6.4		
Net capital investment $b.	1.3	2.2		
Net borrowing as % of Canadian GDP	-0.2	0.3		
Change in net borrowing as % of Canadian GDP		0.5		

Sources : Federal Budget 2025, November 4, Ontario Fiscal Update, November 6, Quebec Fiscal Update, November 25, Alberta Fiscal Update and Economic Statement, November 27.

budget alone entails a positive fiscal impulse of 1.1% of GDP in FY 2025–2026 due to a doubling of the deficit. The impulse to growth practically vanishes in the next two fiscal years as a contraction of the deficit offsets increases in net capital investment.

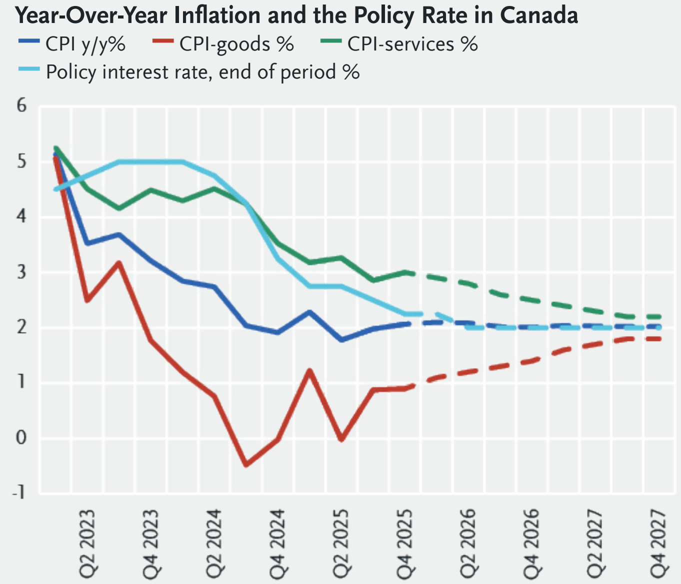
Outlook for Canadian CPI Inflation

We expect headline CPI inflation to be at or very close to the Bank of Canada's 2% target over the projection horizon (Chart 2.1). We see the following main factors acting on Canadian inflation.

- Weak growth in potential output limits the amount of slack and hence the strength of downward pressure on inflation over the projection period. Based on the projected profile of output growth, slack in the economy might shrink a little in 2026 and more significantly in 2027. However, the extent of excess supply is uncertain, particularly given the significant upward revisions to real GDP (demand) and labour productivity (supply) released with the Q3 national accounts.
- Longer-term inflation expectations remain anchored by the 2% target.
- The Canadian dollar will tend to rise slightly relative to the U.S. dollar.
- International oil prices are expected to remain depressed over 2025 and part of 2026 before firming up in 2027.

CHART 2.1

Year-Over-Year Inflation and the Policy Rate in Canada



The Outlook for Interest Rates in Canada

We expect that the Bank of Canada will keep its policy rate at 2.25% through early 2026 but that it may proceed with an additional rate cut of 25 bp later in 2026 if it judges that the downside risks to aggregate demand exceed the upside risks to inflation (Table 2.12). While the Bank of Canada does not face the same upside risks to inflation as the Federal Reserve, it has to be attentive to structural cost pressures that arise from both global and domestic factors, for example a realignment of supply chains. The Bank also has been clear that monetary policy cannot solve the structural challenges of the Canadian economy. However, if aggregate demand falters, the Bank may find it appropriate to inject modest stimulus and to facilitate at the same time the process of adjustment of the economy.

Despite modest economic growth, we expect the 10-year Canada bond yield to stay firm at a level of some 3.4% in 2026 and 2027 as capital markets absorb continued, heavy borrowings by governments in Canada and globally.

The Canadian dollar would tend to appreciate slowly over the projection period with narrower U.S.–Canada differentials for both interest rates and economic growth.

TABLE 2.12

Canadian Interest Rates in the Short Term

December	2024	2025	2026	2027
Bank of Canada Policy Rate (%)	3.25	2.25	2.0–2.25	2.0–2.25
10-year Canada Bond Yield (%)	3.16	3.3	3.4	3.4
U.S. Dollar per Canadian Dollar	0.70	0.71	0.72	0.73

III. Risks to Growth in Canada

In an economic environment with both a changing policy landscape and substantial technological upheaval, there are many risks. Our outlook aims at balancing these risks. Accordingly, we see both upside and downside risks.

We cite three key risks, noting both their potential upside and downside effects.

- **Trade policy risks.** Trade negotiations between Canada and the United States have stalled. Progress on this front will likely remain slow, and the eventual outcome is hard to predict. On the one hand, given the low level of consumer and business confidence in the United States, certain sectoral tariffs on Canadian exports could be reduced in order to reduce costs for producers and improve affordability. This would stimulate sectoral exports in Canada, support employment and improve investment prospects. If this were combined with an agreement to maintain the current treatment of most CUSMA-compliant goods, this would substantially reduce uncertainty, further improving the Canadian outlook. On the other hand, the Trump administration may want to expand tariffs through a renegotiation of CUSMA that would result in a rise in the average U.S. tariff on Canadian goods. This would have negative effects on growth in Canada and push up many prices in the United States. As long as CUSMA is not renewed in one form or another, uncertainty about the outcome of the renegotiation will continue to hold back business investment in many sectors and thereby restrain demand growth in Canada. The strategy of pursuing new markets for Canadian exports overseas will help mitigate the detrimental effects of U.S. tariffs and uncertainty, but the benefits of this strategy are most likely to become apparent only slowly.

- **Risks associated with AI.** Investments associated with AI have been a major driver of both recent economic growth in the United States and the rapid increase in equity market valuations. The latter has encouraged consumption growth among high-income households in both the United States and Canada. This AI boom has increased U.S. aggregate demand and thereby supported demand for many Canadian exports. However, there is now considerable debate regarding whether the AI boom is based on realistic forecasts. While AI is likely to influence—and possibly deeply transform—the organization of work in many sectors, it is unclear whether the private gains will be sufficient to provide the high returns expected by investors. Accordingly, there could be a substantial re-evaluation of the private returns on recent AI investment. Such a re-evaluation could cause an important correction in stock prices, a repricing of risks and a rethinking of future AI investment plans. If the correction is major, it could substantially reduce household consumption in both Canada and the United States, as it would have substantial wealth effects, potentially much greater than the ones seen during the dot-com bust, while not necessarily reducing the employment pessimism that many associate with AI. Such a readjustment could arise soon, posing a downside risk to the outlook. However, it could instead arise later, after a more prolonged growth period, or not at all. There are at least two reasons why a readjustment may not be imminent even if it eventually comes about. First, many equity investors have adopted a strategy of aggressively buying in response to any market dips, which tends to postpone market corrections. Second, some comments by Federal Reserve officials have signalled likely support through interest rate cuts in the case of a major market correction. While both of these behaviours are unlikely to prevent an adjustment if it is warranted, it could mitigate or postpone it.

- **Canadian private sector investment risks.** One of the major drags on the Canadian economy has been the low level of non-residential investment. This reflects a set of factors, with tariff increases and uncertainty playing a huge role over the last year. The federal government has set out plans aimed at increasing both private and public investment in Canada. The speed and extent to which these policy initiatives will boost private investment remains to be seen. Persistently high sectoral tariffs, in addition to uncertainty associated with the renegotiation of CUSMA, could keep investment depressed and incite firms to relocate to the United States. This would depress aggregate demand in the short run and hinder growth in the productive capacity of the Canadian economy in the long run. Such forces create substantial downside risk to Canadian growth prospects over our projection horizon and beyond. In contrast, the policy effort led by the federal government to improve the investment climate, notably with regard to major resource and infrastructure projects, could substantially decrease the perception of risks associated with investing in Canada. This would favour investments by both domestic and foreign firms, with positive spillovers across the economy.

IV. Planning Parameters

We consider the parameters in Table 2.13 to be a reasonable basis for business planning, but, even more than usual in this period of policy and technological change, businesses should assess the sensitivity of their prospects to key economic variables and consider alternative scenarios.

TABLE 2.13

Key Economic Variables: United States and Canada

		Canada	United States
GDP Growth (Q4/Q4 % Change)	2024	3.1	2.4
	2025	0.6	1.7
	2026	1.6	1.9
	2027	1.5	2.1
Headline CPI (Q4/Q4 % Change)	2024	1.9	2.7
	2025	2.1	3.0
	2026	2.0	2.5
	2027	2.0	2.2
Policy Rate	Dec-24	3.25	4.5
	Dec-25	2.25	3.75
	Dec-26	2.0-2.25	3.25
	Dec-27	2.0-2.25	3.25
10-Year Treasury Yield	Q4 2024	3.2	4.4
	Q4 2025	3.2	4.1
	Q4 2026	3.4	4.1
	Q4 2027	3.4	4.1
Canadian Dollar (U.S. Cents)	Dec-24	0.70	
	Dec-25	0.71	
	Dec-26	0.72	
	Dec-27	0.73	

CHAPTER 3

Structural Change: Adapting to a New World

Looking to 2026 and beyond, our governments and businesses have to develop and execute strategies to grow and succeed in a world radically different from the one that, for the past decades, has underpinned our economic and national security.

The diversification of our trade, the realization of our potential as a responsible supplier of energy and critical minerals, the bolstering of our defence capabilities and the harnessing of AI for economic advantage together amount to a vast enterprise of structural change.

The prime minister has set out targets to unleash public and private investment of C$1 trillion over five years and to double our non-U.S. exports of goods and services over a decade to C$600 billion.

The new NATO target of defence-related spending equivalent to 5% of GDP by 2035 represents an equally significant shift for our economy.

The pursuit of these concurrent goals in a period of modest global growth and diminished relationship with our greatest economic partner and ally is an ambitious undertaking requiring policy clarity, the alignment of governments and a strong response from the private sector.

A priority is securing, to the greatest extent possible and on reasonable terms, some predictability to U.S. tariffs and to the future of CUSMA. Our economic diplomacy is rightly pursuing stronger trade linkages with other major economies, including China and India, and other emerging and developing economies. Our diversification efforts should encompass not only trade, but also investment flows.

At home, unlocking investment starts with a sound regulatory and taxation framework that will enable capital to flow to the best opportunities to earn competitive returns across both the goods and services economies.

Because of distinct policy and market factors, governments and the private sector also have to align on strategies for key industries and technologies, notably energy and infrastructure, manufacturing, AI and defence. Smart policy may comprise public investment that is well targeted, ring-fenced and fiscally sound. However, lessons must be learned from past experiences in Canada and abroad about the limits of industrial policy.

Reversing past trends of underinvestment and low productivity growth will not happen overnight. It will take time for the right conditions to materialize, the final investment decisions to be made, the capital to be deployed and the dividends to be realized.

Through change, some businesses will fail and some workers will be dislocated. Canadian Peter Howitt earned the 2025 Nobel Memorial Prize in Economic Sciences for his work on the theory of sustained growth through "creative destruction."[1] Policy must aid—and not impede—this process.

The Government of Canada has taken early steps, including in Budget 2025, to shift policy in favour of public and private investment. In working towards the next budget, by keeping the priority objective of promoting investment, there is a strong case for the government to focus on structural policies, review and simplify taxation, rationalize programs and exert stronger fiscal discipline.

During this period of structural change and adaptation, growth in incomes and consumption is likely to be modest at best, and governments have to resist the political urge to borrow in order to supplement them through broad-based tax cuts or transfers.

Canadians will be better disposed to making the necessary sacrifices in the short term if governments and businesses can demonstrate momentum in planning and executing investments that will create hope for a more prosperous and secure future.

The decisions of businesses to innovate, take risks, invest and expand their markets will largely determine the extent to which our economy may realize the structural change necessary to adapt to a new world.

A SHIFTING ECONOMIC SPACE

Disruptive and uncertain U.S. trade policy is imposing a heavy toll on our economy; the best that may be achieved in the foreseeable future is some accommodation around existing tariffs along with the continuity of the CUSMA framework for the wider bilateral relationship. Negotiations were halted by President Trump in October over an Ontario advertisement. At this time, there is no apparent initiative that Canada could undertake to reignite trade discussions, let alone to arrive at a satisfactory outcome, before engaging on the review of CUSMA in 2026. Canada's best card over time may still be the cost that tariffs are imposing on U.S. importers, including on industries reliant on Canadian aluminum, steel, auto parts, copper or wood products. If zero tariffs are now widely acknowledged to be non-starters for President Trump, some accommodation, for example in the form of tariff rate quotas, could be a second-best option for Canada. If, in addition, 90% of our exports continue to be tariff-free under some continuation of CUSMA or equivalent rules under a bilateral arrangement, the damage would be contained.

Under any scenario, trade diversification is a priority for our economic diplomacy. Access to the North American space is no longer a guarantor of our prosperity. The single positive outcome from tariffs and other economic threats from President Trump is the demonstration of the economic and strategic value of trade diversification. In 2024, the United States accounted for 76% of our exports of goods and 50% of our exports of services.[2] In turn, our total exports of goods and services are equivalent to close to one-third of our GDP. While our geography and access to the U.S. market continue to be assets, it is now evident that our dependency creates economic vulnerability and that it poses risks to our sovereignty. For our economy and for our industries, trade diversification is no longer a nice-to-have; it is a strategic necessity.

Market forces will dictate, industry by industry and business by business, where the greatest opportunities for trade reside, but the economies of the Indo-Pacific, which represent close to one half of the global economy and that are the fastest-growing ones, merit our highest attention.

Steps to repair and expand our relationships with China and India and to advance a free trade agreement with the Association of Southeast Asian Nations (ASEAN) would support business confidence and trade diversification (Box 3.1).

There is an equally strong interest in diversifying our sources of foreign capital and the destinations of our foreign investment abroad. For example, our direct investment flows are strongly dominated by investments from, and to, the United States (Chart 3.1). The surge in investment required to place our economy on a stronger growth path requires that we attract capital from diverse sources internationally, including from large sovereign wealth funds in Europe, Asia and the Middle East.

BOX 3.1

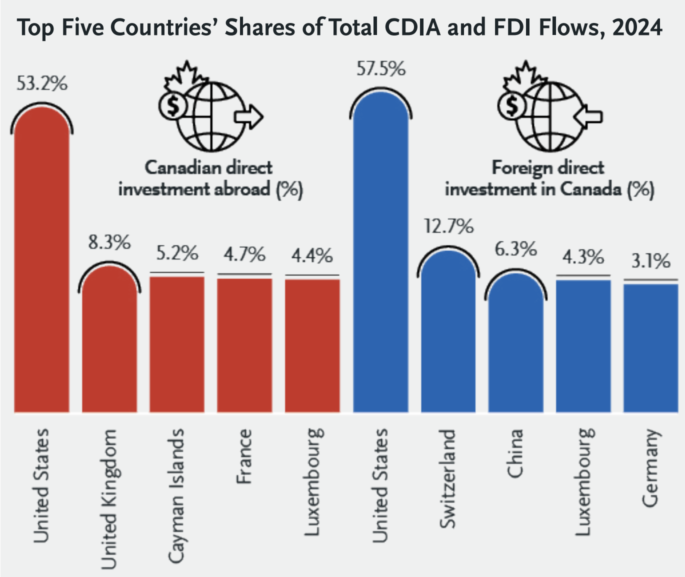
TRADE PRIORITIES FOR CANADA IN THE INDO-PACIFIC

Our relationship with **China** is complex, and it deteriorated severely after 2018. The relationship was strained further in 2024 by Canada's decision, following the U.S. lead under President Biden, to impose 100% tariffs on Chinese electrical vehicles (EVs) effective October 1, 2024. Our government expressed the concern that "non-market support [by China] for its EV sector could lead to an exponential surge of imports that could adversely affect the transformation and planned investments in Canada's vehicle sector."[13] In apparent retaliation, China imposed a preliminary anti-dumping duty on imports of canola seed from Canada of 75.8% effective August 14, 2025.[14] There are competing interests for Canada: we must manage the relationship with the United States, enable our auto industry to adapt and to build EV capacity, and yet defend the interests of Canadian farmers and those of consumers who could benefit from access to quality, lower-priced EVs from China, and manage our relationship with China. Prime Minister Carney and President Xi met in Korea on October 31 on the margins of the Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting. The readout from the Prime Minister's Office states that "both leaders directed their officials to move quickly to resolve outstanding trade issues and irritants. They discussed solutions to respective sensitivities regarding issues including agriculture and agri-food products, such as canola, as well as seafood and electric vehicles."[15] Progress towards a more stable and productive relationship with China would send a positive signal to businesses.

Our relationship with **India** also suffered severe setbacks following a political assassination on Canadian soil in 2023 and ensuing concerns raised by our security agencies of foreign interference in the Canadian political process. Prime Minister Carney met with Prime Minister Modi of India on the margins of the G20 in South Africa. The two leaders agreed to launch negotiations towards a Comprehensive Economic Partnership Agreement.[16] This is unlikely to be concluded rapidly, but the reopening of a constructive bilateral dialogue should encourage stronger private sector engagement.

The official relationship between Canada and **ASEAN** countries is progressing, with the announcement by the prime minister on October 27 that negotiations on a new Canada–ASEAN free trade agreement targeted for conclusion in 2026 were accelerating.[17] The ASEAN countries together represent nearly 700 million consumers and a C$5 trillion market.

CHART 3.1



Source: Government of Canada, State of Canada's Trade, June 2025.

The diversification of our trade and investment can also serve our strategic interests by contributing to stronger relationships with non-U.S. allies, for example through cooperation on defence procurement and critical supply chains. While our national security will continue to be inextricably tied to strategic and operational cooperation with the United States, the defence of our sovereignty and the promotion of our economic interests can be advanced by furthering our linkages with other allies. The prime minister has observed that "We should no longer send three quarters of our defence capital spending to America."[3] The acquisition of a fleet of submarines from Germany or South Korea should help expand two-way trade and investment as well as strategic collaboration with the successful partner. Canadian participation in the Security Action for Europe (SAFE) instrument, as per an agreement announced on December 1 by Prime Minister Carney and President of the European Commission Ursula von der Leyen,[4] could also serve both our economic and strategic interests. Likewise, engagement with global partners on critical minerals supply chains, such as under the Critical Minerals Production Alliance in the G7, can help mobilize investment to realize Canada's potential as a reliable supplier for both the United States and our non-U.S. allies.

Beyond the negotiation of trade and investment agreements and the conclusion of military procurement transactions, the pursuit of trade diversification will depend on private sector leadership. Markets ultimately will decide the volume and composition of our trade. However, growing our non-U.S. exports will not be accomplished without strong collaboration between governments and the private sector to help identify and pursue the best opportunities. Strategies and plans, industry by industry, will help ground the ambition and align the efforts of the public and private sectors.

COMPETITIVE MARKETPLACE FRAMEWORKS

The structural adaptation of the Canadian economy will be a function of our success in attracting domestic and foreign capital and growing the tangible and intangible assets that will realize Canadian advantage. As discussed in Chapter 1, this entails a sharp acceleration of investment and productivity growth after years of lagging behind other advanced economies.

The starting point is no different than in the prior decades: a sound macroeconomic environment, competitive taxation, sensible regulation, a stable and efficient financial system, and other factors that will enable capital to flow and be allocated productively. These factors can never be understated, and while Canada compares favourably with many other jurisdictions on some of them, there are notable gaps, and certainly no room for complacency.

Inefficient regulation is consistently cited by business groups as the greatest impediment to competition, innovation and investment.[5] The dismantling of interprovincial trade barriers through harmonization or mutual recognition of provincial rules remains low-hanging fruit. The *Free Trade and Labour Mobility in Canada Act* passed by Parliament in June addressed only federal barriers to interprovincial trade; it does not advance materially the goal of "One Canadian Economy" cited in short title of the Act, which was also passed along with the *Building Canada Act* (Bill C-5). There were many pronouncements and some unilateral and bilateral initiatives by provinces in the Spring of 2025. Then, on November 19, federal, provincial and territorial ministers responsible for internal trade announced the Canadian Mutual Recognition Agreement (CMRA) on the sale of goods, which, together with other joint work (e.g., on trucking), represents progress. However, negotiations are proceeding slowly, and even in areas covered to date, the fine print of the agreements falls far short of establishing a single Canadian market.[6] The provinces and territories have to step up, decisively.

Public investment in the educational system, basic science and research, and public infrastructure require equal attention to create the conditions for entrepreneurship and investment economy wide. Governments have an enormous responsibility, against fiscal constraints, to ensure that their investments make the best contribution to our economic potential.

To the greatest extent possible, governments must enable competition and market forces to drive innovation and investment in the private sector in both the goods and services economies. They may then focus their interventions on improving productivity in the public sector, including health care and education, which represents close to 40% of the economy.

DIFFERENTIATED, CALIBRATED INDUSTRIAL STRATEGIES

Yet, disruption in the trade environment, threats to our economic and national security, and the potential transformative impacts of technology provide that Canada, like other major economies, also has to pursue industry- or technology-specific strategies to unlock investment. Governments and businesses have to be responsive to a dynamic competitive landscape, capitalize on their strengths and address gaps under strategies adapted to specific industries and technologies.

We cite four priorities that governments and the private sector must address collaboratively under differentiated industrial strategies.

- **Realizing the value of our energy and natural resources and building the infrastructure to get our products to new markets.**
- **Facilitating and accelerating the adjustment of our manufacturing sector.**
- **Seizing opportunities from AI and technology to accelerate productivity growth and create distinct Canadian advantage.**
- **Building a competitive defence industrial base to capitalize on rising defence spending by Canada and its allies.**

The first priority is the one that is most widely recognized by Canadians, as well as by domestic and foreign investors, as being firmly within our grasp. The outcomes pursued by the Government of Canada in advancing nation-building projects with provinces, territories and Indigenous Peoples include realizing Canada's full potential as an energy superpower, creating new trade and economic corridors to diversify the economy, and building leadership in critical minerals. The principal condition needed to unleash investment and to develop projects is a predictable and efficient regulatory environment.

The creation of a federal Major Projects Office to drive regulatory streamlining and to coordinate financing, where necessary, recognizes that large, individual projects will have specific requirements and timelines to get to final investment decisions. Projects should be led by private sector proponents with the capital and the capability to build projects that, if policy and regulatory conditions are right, can generate risk-adjusted returns that meet their investment hurdle rates. In many cases, Indigenous participation, including in the form of equity ownership enabled as necessary by public financing, will be key to project development and execution while advancing economic reconciliation. In more selected circumstances, projects determined to be in the national interest because of their long-term contribution to economic and national security may not immediately offer adequate risk-adjusted returns for private investors. The MPO may then coordinate with Crown agencies financial arrangements that, with appropriate due diligence, represent a sound public investment. For example, critical mineral projects confronting uncertain markets because of the dominant position of existing global suppliers may require a kind of price guarantee (e.g., through a contract for difference) or offtake commitment to justify the private investment. Under such arrangements, the Crown as investor should also share in the upside risk of projects. The success factors to advance nation-building projects and more broadly to realize the value of our natural resources and to build the supporting infrastructure are discussed in Chapter 4.

The second priority—facilitating the adjustment of our manufacturing sector—is made necessary by the profound demand shock caused by a loss of secure access to the U.S. market, notably in the steel, aluminum, automotive and wood products sectors. It is evident that even if there is some agreement with the United States to lower effective tariff rates on these industries, their business strategies and growth plans cannot be founded on access to this market on the same terms as in the past. Other manufacturing industries may be similarly exposed under the review of CUSMA.

Manufacturers exposed to trade disruption have to determine, facility by facility, how to adjust. The paths will comprise steps to:

- **Retool:** Businesses intent on overcoming tariffs or other competitive threats in their target markets have no choice but to innovate and to invest in productivity-enhancing equipment and business processes, including digital technology and robotics.
- **Redirect:** Exporters can invest in new commercial relationships and adapt as necessary to sell more of their goods to non-U.S. markets, taking advantage of access under our trade agreements, where market dynamics and logistics enable a competitive offering.
- **Repurpose:** Through investment, some facilities and workers can be repurposed to meet rising demand in sectors of the domestic or global economies that require the capacity and skills, for example energy infrastructure (including nuclear) or defence equipment.

  and/or

- **Restructure:** Some assets are likely to be stranded, some owners or creditors will have to recognize permanent losses, and workers will be displaced as the manufacturing sector adjusts to a new world under U.S. tariffs.

The intervention of governments, through concessional financing or targeted programs, should be to facilitate and not defer the adjustment. There is a solid case for *temporary* measures by governments to enable an industry and its workers to adjust to an external shock. Governments can collaborate with the industry in identifying the best paths for adjustment and in fostering a coherence of plans. Yet, the intervention must be conducted with economic and fiscal rigour and with a goal not to buy time but to enable the *earliest* possible transition to a *revitalized, competitive* industry. Support for workers should enhance skills, mobility and employability.

The third priority—seizing opportunities from AI—may be the most consequential and difficult for governments and businesses because of the unprecedented pace of development and the potential transformative impacts of this general-purpose technology. Michael Spence of the Hoover Institution and Stanford Graduate School of Business explains:

> *AI will drive large-scale structural change and disruption for decades. ... It will be a disruptive process requiring different skills and a lot of organizational change. Both the private and public sectors have important roles in smoothing the transitions.*[7]

The technology has the potential to drive productivity gains at the firm level and economy wide over the medium to long term. The realization of benefits in Canada will depend on policy and business strategies supporting risk-taking, innovation and adjustment.

The Government of Canada is consulting on an AI strategy to be launched before the end of 2025. The pursuit of an advantage for Canada in an AI-enabled economy will have to address physical infrastructure, innovation and commercialization, adoption, human capital, and security, democracy and sovereignty (Box 3.2). Any strategy adopted will necessarily be iterative over time.

A key goal should be to ensure that, as the economy and the labour market adjust to AI, Canadian workers move into higher-paying jobs and that the benefits of the technology are widely shared.

BOX 3.2

KEY CONSIDERATIONS IN THE DEVELOPMENT OF AN AI STRATEGY

The physical infrastructure: The development and deployment of AI and digital innovation are reliant on a rapidly expanding physical infrastructure comprising large data centers and the facilities to meet their enormous demands for power. An AI strategy should promote as a priority investment in data centers and computer capacity to serve Canadian users and, in particular, Canadian AI innovators and researchers. The capacity may then support a competitive AI-enabled Canadian economy and the emergence and development of innovative Canadian firms. By contrast, there will be limited Canadian advantage to building and powering data centers simply to equip hyperscalers for their global pursuits.

Innovation and commercialization: Canada has world-leading AI research capability in university institutes, as well as a vibrant ecosystem of start-ups. Yet, in this domain, as in many others, it has proven notoriously difficult for our firms to secure intellectual property, mobilize capital and acquire global reach and scale in Canada. Too much of our innovative capacity is lost to global competitors who reap the rewards. There is a panoply of programs, tax measures and financing vehicles to support innovation, particularly for small and medium enterprises. An AI strategy, developed together with Canadian innovators and financial investors, should focus on the core policy and market conditions to enable the scale-up of firms, and then on the delivery of a streamlined suite of programs. As per a recent report by the Council of Canadian Academies (CCA):

> *Without a coordinated and wide-ranging overhaul of innovation-related policies by all of Canada's governments, Canada's highly fragmented system will likely continue to underperform.*[18]

Adoption of the technology: The full benefits of AI will be realized by its productive application across the economy, often in conjunction with other technologies such as robotics or blockchain. Adoption will be a function of the responsiveness of organizations to the opportunity to improve business processes as well as products and services to users. Sound regulation and business practices together will enable early adoption by building market confidence and trust through transparency, security, and privacy. Again, as per the CCA:

> *Low rates of technology adoption among businesses in Canada are an area of concern, and increased adoption, first and foremost AI adoption, could transform Canada's Science, Technology and Innovation (STI) ecosystem.*

Human capital: AI will displace some workers, and it will change the work of others. A human capital strategy to leverage the technology includes educating and attracting the highly qualified personnel who will drive the development of AI systems and applications, and training the workers who will use and interact with those systems and applications. Workers will require enhanced digital and analytical skills, but also improved soft skills. As per the OECD:

> *First, the automation of simple versions of tasks often gives workers greater shares of complex tasks, requiring higher analytical skills such as specialized knowledge, comprehension and application of new ideas. Second, task automation often leads workers to take on greater shares of tasks requiring soft skills and interpersonal skills.*[19]

Educational institutions, governments and employers each have critical roles in ensuring that workers have access to the learning and training opportunities to succeed in a new workplace. Immigration policy can also support the attraction of highly-qualified personnel.

Security and sovereignty: The exceptional concentration worldwide of large language model developers, cloud service providers and advanced chip manufacturers poses heightened economic and national security risks in a highly interconnected digital space. Our communications, our critical infrastructure (e.g., energy, transportation, telecommunications), our data and the daily activities of businesses and households are increasingly dependent on equipment, facilities and services designed, owned and controlled by U.S. big tech. For example, Amazon, Microsoft and Google hold an estimated two-thirds share of the global market for cloud services.[20] The activities of these firms are subject to the jurisdiction of their home market, which can be applied extraterritorially. Moreover, even Canadian firms operating in foreign jurisdictions are subject to the laws in these jurisdictions (e.g., the United States) in ways that may expose Canadian users.

Our digital infrastructure, our legal framework, including competition and privacy and data management; our procurement; and our cybersecurity capability have to be adapted to address evolving risks in the digital space and to safeguard our economic interests and sovereignty. The Government of Canada has underscored this priority while noting the limits of its actions as regards the management of its own digital operations:

> *For the GC, digital sovereignty is defined as the ability of the GC to exercise autonomy over its digital infrastructure, data and intellectual property. It is the capacity to operate effectively and make independent decisions about digital assets, regardless of where technologies are developed, hosted, or supported. ... It is impossible for the GC to obtain a state of complete digital sovereignty, known as digital autonomy, due to the absolute interconnected nature of the digital world.*[21]

The fourth priority, building a stronger defence industrial base, has its own set of distinct drivers and objectives, yet it will best be carried out by making the appropriate linkages with industrial strategies for energy and infrastructure, manufacturing and AI. As the government proposes to raise defence-related spending from 2% of GDP to as high as 5% of GDP by 2035 to meet its NATO commitments, there is an opportunity and a responsibility to ensure that the added spending makes the best contribution to both our economic and national security. Canada must take a page from the United States, which for decades has used defence spending as a powerful instrument to support infrastructure development, manufacturing, and technological innovation.

Budget 2025 referenced the release in 2026 of a Defence Industrial Strategy and announced initial investments. The early investments of C$4.6 billion over five years aim to improve access to capital, drive research and innovation, bolster domestic supply chains and grow critical resource stockpiles. The Budget also allocated funding to a new Defence Investment Agency that will aim to accelerate and improve a defence procurement process, including by targeting procurement to strategic sectors in Canada and promoting innovation in aerospace, shipbuilding and advanced manufacturing. A stated goal is to build industrial capacity at speed and scale.

SOME CAVEATS: RECOGNIZING THE LIMITS OF INDUSTRIAL POLICY

Industrial policy measures targeting specific sectors or technologies must be properly designed, scaled, and executed while recognizing both the dynamics of structural change and the costs and risks of government intervention.

First, while the shared efforts of governments and businesses must be inspired by a sense of urgency, the process of structural change and the realization of the dividends of an industrial strategy will take time. Even with streamlined regulation, large energy and infrastructure projects will take five, seven, or perhaps up to ten years to be designed, planned, constructed and placed into service. The engineering and construction activity can make an early contribution to the economy, but it is the operation of the assets that will grow productive potential. The adjustment of the manufacturing sector, including automotive vehicles and parts, to tariffs and evolving markets will be gradual. Similarly, the build-up of a Canadian defence industrial base will take years. AI innovation is advancing at a dizzying pace, and asset values are rising exponentially, but the productivity gains through innovation, commercialization and the adoption of AI technology will not materialize immediately. Research on AI adoption at U.S. manufacturing firms indicates that in the short term firms may experience a drop in productivity because of a misalignment between new digital tools and legacy processes; it is only after a period of adjustment that early adopters will outperform their peers in both productivity and market share.[8] In sum, the full economic dividends of a successful industrial strategy will be realized only over the medium term.

Second, the principal force for structural adjustment in the economy is not industrial policy but the above-mentioned market-driven process of *creative destruction* whereby capital and labour are reallocated over time to innovative firms at the expense of firms that fail to innovate and to adjust. Canadian Peter Howitt earned the 2025 Nobel Memorial Prize in Economic Sciences for his work on the theory of sustained growth through creative destruction. Policy must aid—and not impede—this competitive process, nor must it allow policy to be captured by market incumbents or interest groups on the losing side of innovation. Thus, governments must accept activity and job losses, including bankruptcies, in firms that fail to adjust to tariffs, new technologies or other changes in the market.

Likewise, *policy* innovation has its own risks, and there will be failures. Where intervention is not successful,

governments should quickly learn the right lessons, cut their losses and move on.

Third, industrial policy interventions must factor in not only impacts in the targeted sectors, but also side effects in the rest of the economy. In its last *World Economic Outlook*, the IMF cautions that "vertical" policies should be used "with keen awareness of their opportunity costs and tradeoffs, balancing goals to expand production in certain sectors against fiscal costs, higher consumer prices, and resource misallocation."[9] For example, the import tariffs and the *Buy Canadian* policy introduced to help our beleaguered steel industry will require careful review and calibration over time to ensure that they facilitate adjustment and that they do not simply shift costs to users.

FEDERAL BUDGET 2025: IT IS A SHIFT, BUT MORE STRUCTURAL INITIATIVES AND FISCAL DISCIPLINE ARE NEEDED

Budget 2025 poses the right diagnostic for Canada's economy, and, together with other policy pronouncements and collaborative work with provinces, it marks a welcome shift in the priorities of the Government of Canada toward investment and economic growth:

> *Budget 2025 capitalises on a generational opportunity—not seen since the economic transformation engendered by C.D. Howe in the wake of the Second World War—to transform our economy, our energy, our trade relations, and our collective defence. To help drive this transformation, the government is focused on catalysing private sector investment in Canada—investment in machinery, equipment, and innovation that enhances long-term growth potential and will help jumpstart and sustain productivity growth.*[10]

Under a new capital budgeting framework intended to support a policy to "spend less to invest more," the government plans to allocate a rising proportion of its new spending to what it defines as capital investment, broadly speaking "any government expense or tax expenditure that contributes to public or private sector capital formation, held directly on the government's balance sheet or on that of a private sector entity, Indigenous community or another level of government."[11] This includes not only capital investments by the federal government, but also transfers or tax incentives intended to support investments made by the private sector or by other levels of government in infrastructure, capital assets, research and development, or housing. Under this definition, the government affirms that its capital investment will nearly double over the period of 2024–2025 to 2029–2030 to close to C$60 billion on an accrual basis, and that from 2028–2029 onwards the entire deficit will be used to fund capital investment. This supports the affirmation that the government will balance its *operating* budget by 2028–2029.

The stated goal is to enable over C$1 trillion in total investments over the next five years—a target best seen at this time as aspirational. The government estimates that over the period of 2025–2026 to 2029–2030 its cumulative capital investment will amount to C$279.2 billion on an accrual basis or C$450.6 billion on a cash basis. It is betting that, through a multiplier effect, this "high impact" spending will result in C$1.08 trillion in total public and private investments, including infrastructure (C$315 billion), industrial development (C$270 billion), research and development (C$210 billion), housing (C$130 billion) and other investments supported by accelerated depreciation and other tax incentives (C$155 billion). Underscoring that the plan reflects both existing and new policy efforts and spending, Rebekah Young of Scotiabank observes that

> *... meeting the aspirational trillion-dollar target effectively suggests a doubling of private investment over the horizon with a sustained annual uptick potentially exceeding 20% in outer years.*[12]

The narrative of a reallocation of spending to capital investment is persuasive, but the bottom line is a budget that still overwhelmingly supports consumption, with projected fiscal deficits and levels of public debt materially higher than in the 2024 Fall Economic Statement (FES) (Table 3.1).

- Between 2025–2026 and 2029–2030, capital investment will grow faster (8.5% per year) than the government's other direct program spending, but there will also be sustained growth in major transfers to persons (4.4%) and in transfers to other levels of government (3.4%), which both represent much larger spending envelopes than capital spending under any definition.

TABLE 3.1

Budget 2025: Fiscal Developments since the Fall Economic Statement of 2024

	2025–2026	2026–2027	2027–2028	2028–2029	2029–2030
Billion C$					
Fiscal Balance – FES 2024	**-42.2**	**-31.0**	**-30.4**	**-27.8**	**-23.0**
Economic and Fiscal Developments since FES 2024	-7.1	-3.6	-7.5	-11.1	-12.6
Policy Actions since FES 2024	-9.0	-9.1	-6.8	-5.1	-5.9
Budget 2025 Measures	-20.1	-21.8	-18.8	-14.0	-15.0
Fiscal Balance – Budget 2025	**-78.3**	**-65.4**	**-63.5**	**-57.9**	**-56.6**
% of GDP					
Fiscal Balance – FES 2024	-1.3	-0.9	-0.9	-0.8	-0.6
Federal Debt – FES 2024	41.7	41.0	40.2	39.5	38.6
Fiscal Balance – Budget 2025	-2.5	-2.0	-1.9	-1.6	-1.5
Federal Debt – Budget 2025	42.4	43.1	43.3	43.3	43.1

Source: Federal Budget 2025.

- Net of projected savings, the budget measures will add C$89.7 billion to the cumulative deficit over the period of 2025–2026 to 2029–2030. With other economic and fiscal developments and discretionary actions since the FES of 2024, the projected debt-to-GDP ratio in 2029–2030 is 43.1% compared with 38.6% in the FES. The Budget adopts two fiscal "anchors," but none appear to be immediately binding. The first anchor is to balance the operating budget by 2028–2029, but this does not constrain capital spending, which as we have observed is broadly defined. The second anchor is to maintain a declining deficit-to-GDP ratio, which normally can be achieved readily if there is no other economic shock and which, under current projections, leaves considerable room to spend.

Thus, in working towards the next budget, by keeping the priority objective of promoting investment, there is a strong case for the government to focus on structural policies, review and simplify taxation, rationalize programs and exert stronger fiscal discipline. The next budgets cannot simply add new programs or replenish existing ones, because there will be rapidly diminishing returns to the spending and elevated risks to fiscal sustainability in an uncertain global environment. The task ahead is to improve the investment environment principally through structural measures and to pursue a more ambitious review of government spending than in Budget 2025.

- The focus should be on **market framework policy**—namely, the laws and regulations that define the space for competition, innovation and investment. While much attention is paid to the goods economy, more effort must be placed on the services economy. For example, Budget 2025 proposed early steps to increase competition and support innovation in the financial sector.

- There is a strong case for a **comprehensive review and simplification of the tax and personal transfer system** and for a shift in the relative burden of taxation from saving and investment to consumption. Budget 2025 announced some tax measures, including a "productivity super-deduction." It also confirmed and completed the suite of clean energy tax credits introduced by the former government. However, there is yet no stated intent to review more broadly the tax system in favour of simplicity, neutrality, competitiveness and productivity growth, for example with a wider and more uniform application of investment tax credits. On the personal side, the rapid growth of elderly benefits, from C$83.1 billion in 2025–2026 to C$104.3 billion in 2029–2030, motivates a review of the structure of the benefits.

- Businesses as well as taxpayers would be well served by a **rationalization of programs** delivered by departments and Crown corporations, as well as by provinces, to support and finance investment, exports, innovation and worker training. Successive budgets over the past years have added myriad new programs and funds on top of existing ones. Savings could be realized by delivering efficiently a streamlined suite of services to businesses.

- Stronger fiscal discipline, including **a firm commitment to lower the debt-to-GDP ratio** over the medium term, would ensure that Canada will be able to maintain what is currently an advantage relative to many of its global peers. The projected savings from a "Comprehensive Expenditure Review" conducted for Budget 2025 represent only 5% of direct federal program spending by 2029–2030 (excluding transfers to persons and transfers to other levels of government, which were excluded from the review). A restructuring of government operations through a rationalization of programs, together with a review of the wider envelope of spending, including transfers to persons and transfers to other levels of government, could deliver needed, meaningful savings.

THE CRITICAL RESPONSE OF BUSINESSES

Rightfully, there has been much attention over the past year to federal policy leadership in positioning Canada in its relationships with the United States and global partners and in creating the conditions for a resurgence of investment to strengthen our economic and national security.

There has been less attention, including in this report, to the responsibility of provinces and territories, individually and collectively, to participate in a shift of policy priorities towards a stronger, integrated and more resilient Canadian economy.

Yet, the critical role for the adjustment of the economy to new global conditions ultimately resides with businesses, with the corporate boards and the management teams that will identify strategic opportunities, take risks, innovate and invest in new projects, assets and markets. U.S. policy and the global landscape are still uncertain, new policy directions taken by governments are still largely untested and investments are inherently risky, but time is not on the side of businesses that must adjust to a new competitive landscape. Both offensive and defensive strategies are likely to justify bold investment and business decisions. In turn, this may entail lower distributions to shareholders in the short term, as well as a tolerance for higher risk, in order to pursue projects and assets with the right prospects of generating high long-term returns. Businesses should engage with governments, and expect responsiveness, where the investments that they consider in Canada do not offer returns commensurate with what they may earn in the United States or in other jurisdictions.

In a period of shock to our economy, close collaboration and shared leadership among governments and businesses will provide the best opportunity to build momentum and to effect, over time, the structural change to build future prosperity and resilience.

CHAPTER 4

Nation-Building Projects: Back to Our Roots

Some nations are born in wars or revolutions. Canada and its regions have been shaped largely by large projects: the Canadian National Railway, the St. Lawrence Seaway, the TransCanada Highway, the TransCanada Pipeline, the James Bay hydroelectric project, the oil sands, offshore oil and gas in Atlantic Canada and large mining projects across northern and remote regions.

For some time, it has proven harder in this country to build large projects. Today, against the stagnation of our standard of living, dramatic shifts in U.S. trade policy and threats to our economic and national security in a more dangerous world, Canadians are inspired to once again think boldly. We want to go back to our roots, to what we know best: large resource and infrastructure projects.

Nation-building projects are not an end; they are a means to greater well-being. What matters is not so much the activity and jobs that they may generate through construction, but rather the returns that they may deliver over the longer term by unlocking new sources of prosperity and security, for example, by

- realizing the value (the economic rent) of our resources in the ground;
- better connecting our domestic economy and expanding and diversifying our trade;
- developing the potential of the north for national and economic security; and
- powering our economy through new electricity generation and transmission assets.

Our history tells us that large projects can transform our economy. Our recent history reminds us that getting projects built requires focus and discipline. There is a strong national consensus to move forward in a manner that is environmentally responsible and that respects the rights and interests of Indigenous Peoples. Yet, the *execution* of projects will be a test for the country.

In June, the Government of Canada passed the *Building Canada Act* to streamline project approval and permitting and to centralize accountability for large projects. It created a Major Projects Office to act as a single window for proponents in order to provide guidance and clarity into the federal regulatory process and to help with structuring and coordinating financing as needed.

Some of the provinces have also brought in legislative and regulatory change to drive priority projects.

In September and November, the government announced two tranches of major projects—representing investments of more than C$116 billion—that have been referred to the MPO to facilitate their review, financing, and realization.

On November 24, Canada issued for consultation draft cooperation agreements on environmental and impact assessments with Ontario and Manitoba to implement a principle of “one project, one review.”

On November 27, in a moment marking a departure from the last 10 years of tension between Canada and Alberta on resource development, Prime Minister Carney and Premier Danielle Smith signed a Memorandum of Understanding to advance major private sector energy investments.

These legal and institutional changes alone will not get projects built. There will be seven critical success factors:

- the economic case for the projects and the commitment of project proponents;
- policy clarity, including as regards the regulation and pricing of carbon;
- strategic and operational collaboration among the federal and provincial governments at every step of project development;
- the alignment of public and private decision-making processes and timelines;
- the fair and efficient management and sharing of risk;
- the consent and participation of Indigenous Peoples; and
- culture change and delivery capacity throughout the regulatory system with rigour and discipline.

The BCA should be a first step towards regulatory streamlining for the wider universe of energy and infrastructure projects that can contribute to a stronger, more resilient economy.

This chapter reviews recent project and policy history as well as the success factors needed to realize a new, national ambition in favour of nation-building and other large energy and infrastructure projects.

MAJOR PROJECTS: THE RECENT CASE STUDIES

The history of major energy, natural resource and infrastructure projects in Canada over the last 10 to 15 years is one of some accomplishments, but to a great extent one of policy and regulatory uncertainty, protracted delays, cost escalation and lost opportunities.

- Major oil pipeline projects were opposed and/or abandoned: **Keystone XL** (U.S. rejection of the project), **Northern Gateway** and **Energy East**.
- Teck Resources abandoned the **Frontier** oil sands project in 2020, days before an expected federal government decision, citing an unresolved debate in Canada over climate policy and resource development.
- The **Trans Mountain Expansion** (TMX) project was saved by nationalization and by steps to overcome a federal Court of Appeal decision that quashed the original project approval; the final cost of the project, some C$34 billion, was multiples of the original estimate. The project began service in May 2024, and oil is now flowing to new markets, generating significant added export revenue and economic benefits for Canadians.
- **LNG Canada**—the largest private investment in the country's history—loaded its first cargo in June 2025, with natural gas delivered to the LNG facility through the **Coastal GasLink** pipeline. Both projects commenced operations after 10 years of development, regulatory review and permitting, Indigenous engagement and consultations, and construction. Through this period, many other LNG projects off the west coast were abandoned or delayed because of uncertain prospects.
- Large hydroelectric generation projects in British Columbia (**Site C**), Manitoba (**Keeyask**) and Labrador (**Muskrat Falls**) were plagued by years of political controversy, delays and large cost overruns. The three projects are now fully operational.
- Despite receiving strong federal endorsement, the **Atlantic Loop** transmission project to bring clean power from Quebec to New Brunswick and Nova Scotia failed because of shifting market conditions and a lack of political consensus in Atlantic Canada.
- Despite its much-touted promises, critical mineral development in the **Ring of Fire** in Ontario to date has failed to materialize because of the absence of political and social conditions to build the enabling transportation infrastructure.

Importantly, the story of the last years does not reveal the many projects that were never proposed because of an environment considered uncertain, unhospitable, or uncompetitive for private investment.

MAJOR PROJECTS: RECENT POLICY HISTORY[1]

The recent history of policy affecting major projects in Canada through this period comprises many twists and turns, reflecting shifting government priorities and responses to global and domestic opportunities, risks, and pressures.

A review of this history is helpful to place the current policy attention on nation-building projects in context and to draw some lessons.

The Responsible Resource Development Initiative: 2012 to 2015

In 2012, the Conservative government of Prime Minister Stephen Harper launched the Responsible Resource Development Initiative as part of the Economic Action Plan 2012. It comprised four key themes: making the review of major projects more predictable and timely; reducing duplication in the review process; strengthening environmental protection; and enhancing consultations with Indigenous Peoples. The government had earlier created the Major Projects Management Office (MPMO), housed in Natural Resources Canada, to improve the coordination and performance of the federal regulatory system. With Budget 2012, the government amended the *Canadian Environmental Assessment Act* (CEAA, 2012). The CEAA, 2012 gave the government new powers, including the ability to establish in regulations a "Project List" to identify the categories of projects requiring a federal review, and the discretion to approve or reject these projects. The government aimed to streamline federal project reviews, notably by establishing legislated timelines and promoting cooperation with provinces and territories to achieve a goal of "one project, one review."

The 2012 reforms met with opposition from some groups, which alleged that the government was tilting the regulatory process in favour of project development at the expense of environmental protection and community interests. The legislation was implemented, but many projects, large and small, continued to meet resistance from groups and communities that often were successful in using available recourses in the regulatory process, the courts, and the court of public opinion to delay or stop projects. The "social licence" to develop was ever more elusive.

In parallel, Indigenous Peoples were affirming with rising confidence their rights and interests on the strength of a growing body of jurisprudence giving expression to the duty to consult flowing from Section 35 of the Constitution. There were early examples of successful partnerships with Indigenous Peoples on projects. But there were also instances where Indigenous engagement by proponents and consultations by the Crown proved late, insufficient or unsuccessful, and where the opposition of Indigenous communities or litigation risk discouraged proponents. It took some time for the Crown and for proponents to take the full measure of a changing legal and business reality for projects potentially affecting Indigenous rights and interests.

A global development—an oil price crash in mid-2014—took further wind out of the sails of hydrocarbon and wider resource development. Investment in Canada—as a proportion of our GDP—never fully recovered.

Clean Growth, Climate Change and the Impact Assessment Act: 2015–2021

The Liberal government of Prime Minister Justin Trudeau came to power in 2015 with a clean growth agenda, and it negotiated with the provinces and territories in 2016 the Pan-Canadian Framework for Clean Growth and Climate Change. The framework included carbon pricing and a mix of regulatory and program initiatives to reduce emissions across economic sectors, support climate adaptation and promote clean technology and innovation. Province-by-province annexes to the Framework identified domains of collaboration. There were no references in the Framework to major energy or infrastructure projects, although federal approval of the TMX project was an unwritten condition of Alberta's support.

In 2018, after extended consultations, and despite resistance from business groups, the government introduced Bill C-69 by citing a need to "restore public trust in how the federal government makes decisions about major projects, like mines, pipelines, and hydro dams."[2] The bill replaced the CEAA, 2012 with the new *Impact Assessment Act* (IAA). It preserved legislated timelines for project reviews (with also the provisions to extend or override them), but it expanded factors to consider in project reviews far beyond effects in domains of federal jurisdiction. It further widened the scope for government discretion in the regulatory process and weakened the role of independent life-cycle regulators, notably the National Energy Board (restructured to become the Canadian Energy Regulator [CER]) and the Canadian Nuclear Safety Commission (CNSC). The Impact Assessment Agency of Canada (IAAC) succeeded the Canadian Environmental Assessment Agency to oversee the project review process, in particular to decide under the IAA whether an impact assessment of a "designated" project is required.[3]

The government assured that the bill provided "a predictable, time-bound process, from early planning through to the decision, to ensure that companies know what to expect and when, and that they are not held up in an impact assessment process."[4] Investors were skeptical at best. On the ground, the experience of many proponents navigating the IAA and the regulatory system, as administered, was difficult and frustrating. The perception was setting in that the federal government and its regulatory agencies were obstacles to development, not enablers.

The adoption by Parliament in June 2021 of the *United Nations Declaration on the Rights of Indigenous Peoples Act* (UNDRIPA) created added uncertainty for investors. The Act affirms that the Declaration, which includes the principle of free, prior and informed consent,[5] is an international human rights instrument that can help interpret and apply Canadian law. Prior jurisprudence, including in the case of TMX, established that the Crown's duty to consult does not confer a veto over development to Indigenous Peoples whose rights may be affected. However, the UNDRIPA reinforces for the Crown and proponents the importance of seeking Indigenous consent.

Amid COVID in 2020 and 2021, neither governments nor the private sector focused on nation-building projects. The policy response to the crisis comprised transfers to households and businesses to sustain incomes and activity. The job of rebuilding the economy would have to wait.

A Year-by-Year Shift in Favour of Large Projects: 2022–2024

I. BUDGET 2022

The tone of federal policy on large infrastructure projects started to shift in 2022, albeit slowly.

In Budget 2022, the government recognized a long-standing investment gap in Canada that could impede per-capita GDP growth and the transition to a cleaner economy. The Budget included a broadened role for the Canada Infrastructure Bank (CIB) to invest in private sector-led infrastructure projects (e.g., small modular reactors, hydrogen production and carbon capture, utilization and storage [CCUS]); the creation of the Canada Growth Fund (CGF) to catalyze private-led investment in clean economy projects, enterprises and technologies, including the critical mineral supply chain; and the advancement of a new, refundable tax credit for CCUS (first proposed in Budget 2021).

Two external factors in 2022 placed additional pressure on the federal government to reconsider the investment climate for energy and infrastructure projects.

- **The Russian invasion of Ukraine** brought to the fore the strategic opportunity and responsibility for Canada to supply energy and mineral resources to its allies and global partners in a more divided, more dangerous world. Canada was not in a position to move quickly to replace Russian supplies of energy to its European partners. However, **there was now a stronger link between economic and national security that would have to bear on future choices related to energy, critical minerals and trade infrastructure.**

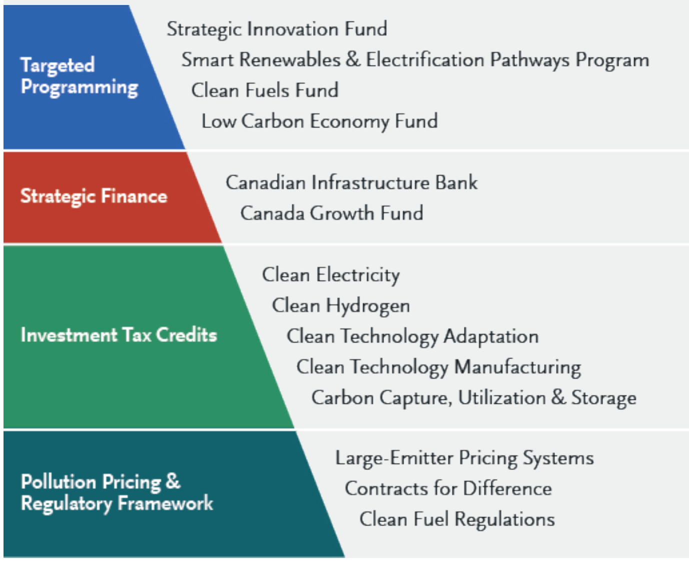
- **The U.S. Inflation Reduction Act** (IRA) shifted the competitive playing field through the deployment on a massive scale of investment tax credits and subsidies for clean energy projects and technologies. **From the perspective of the Liberal government, regulatory hurdles were now not only impeding oil and gas development, they were also posing a risk of a structural disadvantage relative to the United States on the transition to a clean economy.**

II. BUDGET 2023

Budget 2023 delivered the federal response to the IRA with an elaborate industrial policy architecture and new measures for a clean economy (Figure 1). The policy architecture included carbon pricing and regulation; a series of new or expanded investment tax credits (including for clean electricity generation and transmission); strategic financing; and targeted programming.

FIGURE 4.1

Policy and Program Architecture for a Clean Economy, Budget 2023



Source: Federal Budget 2023.

The Budget also committed to outline by the end of 2023 a concrete plan to improve the efficiency of the impact assessment and permitting processes for major projects. It stated: “Building Canada’s clean economy will require significant and sustained private sector investment in clean electricity, critical minerals, and other major projects. Ensuring the timely completion of these projects is essential—it should not take 12 years to open a critical mineral mine.”[6]

Before the government announced any details of its regulatory reform, a ruling by the Supreme Court of Canada (SCC) in October 2023 challenged the constitutional underpinnings of large portions of the IAA. The SCC ruled on questions originally referred by the Province of Alberta to the province’s Court of Appeal. The majority of the court ruled that the IAA was *ultra vires* Parliament and thus unconstitutional for two overarching reasons: “First, it is not directed at regulating ‘effects within federal jurisdiction’ as defined in the Act, because these effects do not drive the scheme’s decision-making functions. Second, the defined term ‘effects within federal jurisdiction’ does not align with federal legislative jurisdiction. The overbreadth of these effects exacerbates the constitutional frailties of the scheme’s decision-making functions.”[7]

There was an emerging willingness, opportunity and responsibility to build. Yet, the regulatory and permitting system was both legally and operationally deficient. Action was necessary.

III. BUDGET 2024

Budget 2024 announced amendments to the IAA; it set a target of five years or less to complete federal impact assessment and permitting processes for designated projects; and it created a Clean Growth Office (CGO) in the Privy Council Office. The amendments to the IAA were tabled in Parliament as part of the budget bill that was given royal assent in June 2024. The government chose to make surgical rather than more structural changes to better connect decisions under the IAA to effects of projects within federal jurisdiction. Views remain divided on whether the amendments were an adequate legal response to the SCC ruling. The Province of Alberta again referred the question of the constitutionality of the IAA as amended to the Court of Appeal of Alberta; the matter is still pending. The creation of the CGO was complemented by a Cabinet Directive to improve coordination and to drive culture change across the federal system. However, the modest budget of C$9 million over three years allocated to the CGO, as well as the less-than-ambitious target of five years for project review and permitting, provided that the changes to the regulatory system were incremental at best, not transformative.

Budget 2024 also introduced the Indigenous Loan Guarantee Program, which followed on initiatives by provinces and territories and the private sector to advance economic reconciliation by enabling direct Indigenous participation in resource and infrastructure projects. This initiative reflected a rising interest among many Indigenous groups, as well as among proponents and governments, to deepen the relationship, from one focused on consultation and Section 35 rights, to one embracing economic reconciliation and participation. The Canada Indigenous Loan Guarantee Corporation, a subsidiary of the Canada Development Investment Corporation, was tasked with delivering the program, with an initial C$5 billion loan guarantee authority.

The government was starting to put in place a new legislative, policy and institutional framework to facilitate new projects, but signals were mixed and the industry remained unconvinced. There was still policy resistance to new hydrocarbon projects, including LNG. For investors, a widely shared view was that Canada’s investment environment was not competitive.

A RENEWED FOCUS ON NATION-BUILDING IN 2025

The U.S. presidential elections of November 2024, trade threats and actions by President Trump and ensuing shifts in political debates in Canada brought into focus an opportunity, indeed an imperative, to advance nation-building projects in order to:

- stimulate internal trade and expand and diversify our export markets through investment in new trade corridors and infrastructure;

- realize our potential as a responsible global supplier of energy, critical minerals, and natural resources;
- power our economy for long-term competitiveness through new investments in electricity generation and transmission;
- lift our productivity and growth potential; and
- build a stronger, more secure, and more resilient Canadian economy.

The government elected in April 2025 earned a mandate to capitalize on a growing national consensus to deliver large energy and infrastructure projects across the country. In the Speech from the Throne of May 27, it committed to work with the provinces and territories and with Indigenous Peoples to identify and catalyze projects of national significance. It undertook to create an MPO, reduce the time to approve a project from five years to two, and to strike agreements with interested provinces and territories to realize "one project, one review."

At a meeting on June 2, the first ministers agreed to work together to accelerate major projects and to immediately begin to address project approval and permitting efficiency and timelines.[8]

On June 6, the government tabled Bill C-5, the *One Canadian Economy: An Act to Enact the Free Trade and Mobility in Canada Act and the Building Canada Act*; the bill received royal assent on June 26.

On August 29, the prime minister announced the creation of the MPO, to be headquartered in Calgary and to be led by Dawn Farrel, a private sector CEO with extensive experience in the energy sector.[9]

On September 11 and November 13, respectively, the government announced the first two tranches of projects referred to the MPO for consideration as a first step towards facilitating their review, financing, and realization.[10]

On November 24, Canada issued for consultation draft cooperation agreements on environmental and impact assessments with Ontario and Manitoba to implement the principle of "*one project, one review*". The agreements aim to eliminate duplication and streamline assessment and permitting processes. When a proposed project is primarily provincially regulated and subject to a provincial environmental assessment process, Canada will recognize the province as best placed to undertake an assessment and will rely on the provincial processes to address the adverse effects within federal jurisdiction of a proposed project. Reciprocally, where a proposed project includes a federal work or undertaking or is on federal land, Canada will integrate the provincial regulatory process requirements into the federal assessment, if desired by the province.[11]

On November 27, in a moment marking a departure from the last 10 years of tension between Canada and Alberta on resource development, Prime Minister Carney and Premier Danielle Smith signed an MOU to advance major private sector energy investments.[12] Projects contemplated in the MOU include "one or more private sector constructed and financed pipelines, with Indigenous Peoples co-ownership and economic benefits, with at least one million barrels a day of low emission Alberta bitumen with a route that increases export access to Asian markets as a priority." The new pipeline would be in addition to the expansion of the Trans Mountain pipeline for an additional 300,000 to 400,000 barrels per day destined for Asian markets. The MOU also proposes "construction and financing of the world's largest carbon capture, utilization, and storage (CCUS) project (Pathways) for the purpose of making Alberta oil among the lowest carbon intensity produced barrels of oil in the world."[13]

THE BUILDING CANADA ACT

The BCA, Part II of Bill C-5, addresses "national interest projects." It does three things.

- **First, it authorizes the Governor in Council (GIC), on the recommendation of the responsible minister,[14] to add a project to a schedule if the GIC is of the opinion that the project is in the national interest.**
  - Before making a recommendation, the minister must consult, as appropriate, with other federal ministers and provinces and territories, as well as with Indigenous Peoples whose rights may be affected.
  - In making its decision, the GIC may consider any factor that it considers relevant, including five factors cited explicitly in the Act, namely the extent to which the project can

    (a) strengthen Canada's autonomy, resilience and security;

    (b) provide economic or other benefits to Canada;

    (c) have a high likelihood of successful execution;

    (d) advance the interests of Indigenous Peoples; and

    (e) contribute to clean growth and to Canada's climate objectives.
- **Second, it provides that decisions to be made under Acts of Parliament and regulations for federal approval of a project are deemed to have been made in favour of permitting the project to be carried out.**
  - This creates a presumption of approval and permitting at the outset, constituting a paradigm shift from the construct in the IAA (or the prior CEAA, 2012), where the government pronounces on approvals and permits only downstream from what may be long, costly and uncertain regulatory processes.

- **Third, it establishes that the minister must issue to the proponent a document that is deemed to be each federal authorization that is required to carry out the project, with the conditions that apply with respect to each authorization.**
  - Before issuing the document, the minister must consult the minister who is responsible for the enactment under which each authorization is required and Indigenous Peoples whose rights may be adversely affected.
  - If the project is under the normal jurisdiction of the CER, CNSC or an offshore board, the minister must consult with that regulator in establishing the conditions for the project.

In sum, what the Act does is establish a list of national interest projects; deem that federal authorizations to carry out the projects are secured; and centralize authority and accountability to deliver project authorizations and permits, with conditions, in one minister.

An additional section of the bill allows the GIC, by regulation, to exempt a designated project from any provision of a federal act or to vary the application of any provision of a federal act. This GIC power could prove significant where there is otherwise a legal gridlock preventing a project to proceed. In this case, the recommendation to the GIC must originate with the minister who has the responsibility for the relevant act—for example, the Minister of Fisheries if what is required is an exemption from (or variance to) a provision of the *Fisheries Act*.

The Act does *not* specify the two-year review and approval timeline that is a matter of stated policy. It does not override, except by regulation as above, existing legislation whose requirements must still be met.

Importantly, the Act does not modify the regulatory framework for the larger universe of projects not on the schedule that require federal approval and/or permitting. The Act is a first legislative step in the streamlining of the federal regulatory framework. It applies to a small subset of energy and infrastructure projects. It is not a framework for wider regulatory reform.

THE MAJOR PROJECTS OFFICE AND THE EARLY LIST OF PROJECTS

The MPO is reminiscent of the MPMO under the Conservative government, but its profile, leadership and resources suggest a much more active role in guiding and supporting projects from development to construction. It addresses both regulation and project financing.

- The mandate of the MPO is to help identify projects that are in the national interest, act as a single point of contact for proponents, and help fast-track regulation under the BCA.
- The MPO is also tasked with helping to structure and coordinate financing for these projects where there may be participation by federal entities, including the CIB, the CGF, and the Canada Indigenous Loan Guarantee Corporation.
- The office will work with the provinces and territories to advance the principle of "one project, one review" and to help streamline approvals for all major projects, not just those listed in the schedule to the Act.
- The MPO will be assisted by an Indigenous Advisory Council comprising eleven representatives from First Nations, Inuit, Métis, and Modern Treaty and self-governing communities.[15]
- Budget 2025 allocated C$213.8 billion over five years to the MPO, enabling the organization to build a solid capacity to work with project proponents and to exert strong policy leadership.

On September 11, the prime minister announced the first tranche of projects to be referred to the MPO. The government stated that the selected projects had already achieved regulatory milestones and had been the subject of extensive consultations with Indigenous Peoples.

- The first five projects were the Canada LNG Phase 2 project, the SMR project at Darlington, the Contrecoeur Terminal Container project at the Port of Montreal, the McIlvenna Bay mine project in Saskatchewan (copper and zinc) and the Red Chris Mine expansion project in British Columbia (copper).

The same announcement identified other "strategies" that "could be truly transformative for this country, which are at an earlier stage and require further development."

- This included critical minerals (including in the Ring of Fire), Wind West Atlantic Energy in Nova Scotia and Atlantic Canada, the Pathways CCS project in Alberta's oil sands, the Arctic Economic and Security Corridor, the Port of Churchill in Manitoba and the Alto High-Speed Rail project from Toronto to Quebec City.

On November 13, the prime minister announced the second tranche of projects to be referred to the MPO.

- This second list of projects included the North Coast Transmission Line as part of the Northwest Critical Conservation Corridor in British Columbia, the Ksi Lisims LNG project, Canada Nickel's Crawford Project in Ontario, the Nouveau Monde Graphite Matawinie Mine in Quebec, the Northcliffe Resources Sisson Mine in New Brunswick and the Iqaluit Nukkiksautiit Hydro Project in Nunavut.

CONDITIONS FOR SUCCESS IN THE EXECUTION OF THE BUILDING CANADA ACT

The BCA is a bold and untested legal framework. The MPO has begun its operations, and there are a number of projects under consideration. Agreements with provinces and territories create added momentum for progress.

The legal and institutional changes alone will not get projects built. We cite seven critical success factors for the development and execution of projects in the national interest.

1. The Economic Case for the Projects and the Commitment of Project Proponents

A critical gauge for the identification of projects in the national interest must be their economic soundness, as measured by their prospects to deliver a competitive rate of return over the long term.

Projects should be evaluated principally not by the activity and jobs that they may generate during construction—although that may represent an important contribution to regional or local economies or to the supply chain over a period—but by the tangible benefits that they may yield over their useful lives. The goal is not to generate construction activity but to build a stronger, more secure economy. For example, the construction of LNG Canada or TMX stimulated output and employment over years in British Columbia and Alberta, but it is today that the projects deliver their true value to Canada: they enable the expansion and diversification to new markets of our exports, realize higher prices for our resources and lift GDP and incomes for the longer term.

If there is an underlying economic opportunity and if the regulatory framework is right, then there should be interest on the part of investors and proponents to develop, propose and finance projects that have a prospect of earning a competitive rate of return on the investment. The role of the government, under the BCA or another framework, is then one of facilitator.

For different reasons that economists call “externalities,” the proponents of projects may not capture all of the national (or regional) benefits of projects. For example, a project may unlock new trade or economic development opportunities that exceed the value priced into the project (e.g., in the form of project revenue). There may be national security benefits that are difficult to capture in economic terms. The financial analysis of projects will then reveal a “gap” that requires some form of public support for proponents to realize an adequate rate of return on their investment. In this case, there is a more discretionary role for the government and its agencies in the selection and funding of projects. However, it matters that there be discipline and consistency in how the value of projects is assessed and in how it is determined that they are in the national interest.

Budget 2025 announced the government’s intention to provide guidance to Crown corporations to foster a unified and coordinated approach to financing. Clear signals to project proponents will be helpful to support efficient project development.

In any scenario, the commitment of investors and proponents that are willing and able to mobilize and allocate capital will be an essential indicator of the viability and likelihood of execution of projects.

2. Policy Clarity, Including as Regards the Regulation and Pricing of Carbon

The five factors set out in the BCA for the designation of projects in the national interest are high-level, and they can involve some trade-offs. For example, a new oil pipeline may be judged to deliver economic benefits and to strengthen the nation’s resilience and security, but not to contribute to Canada’s climate objectives. By contrast, investment in CCS in the oil sands may be judged to advance climate objectives but, taken alone, not to yield positive economic returns.

To the greatest extent possible, there should be clarity upfront on how such trade-offs will be addressed to guide the development of projects by investors and proponents. In particular, the review of projects to determine whether they are in the national or public interest should *not* be the place where a policy on carbon is developed in an ad hoc fashion. There should be, *ex ante*, a clear framework for the regulation and pricing of carbon that facilitates an objective and consistent analysis of projects.

In this respect, the Canada–Alberta MOU establishes a positive foundation because it brings together the pursuit of major projects, including both a new pipeline for bitumen and the Pathways CCS project, with agreed-upon solutions to the problems related to the regulation and pricing of carbon in the province.

Budget 2025 set out the outline of a climate competitiveness strategy, including a long-term carbon-pricing trajectory, which will be critical parameters for the public and private analysis of energy projects. Both international and domestic experience demonstrate that the establishment and operation of a transparent, predictable and efficient credit market for carbon is a complex endeavour.

Similarly, to the greatest extent possible, the tax rules to apply to the construction and operation of major projects must be predictable. Helpfully, Budget 2025 confirmed and enhanced key tax credits for a clean economy introduced by the former government.

3. Strategic and Operational Collaboration among Governments

The BCA is a federal statute that governs federal authorities only. The federal government can also exert strong national leadership. Yet, the scale and complexity of nation-building projects require intergovernmental collaboration to move them forward. The first ministers endorsed the goal to accelerate nation-building projects. It will be important that this expression of unity be followed through by strategic and operational collaboration on individual projects.

Some large projects, for example critical mineral development or power generation projects (other than nuclear or offshore), are principally under provincial jurisdiction. If the provinces and territories take the lead with proponents, the federal government can facilitate the projects, including by recognizing the provincial project assessment and decision and by streamlining the delivery of federal permits.

Other projects, including interprovincial works and undertakings such as pipelines, railways, road transportation, transmission lines[16] and nuclear energy, are principally under federal jurisdiction, and the BCA can be instrumental in accelerating federal review and permitting. While ultimate authority over these projects resides with the federal government, for both political and business reasons, the agreement or concurrence of the provinces and territories will be a key ingredient of successful project development. For example, in the case of TMX, cooperation from British Columbia was secured, albeit imperfectly over time given changes in government, by the meeting of five provincial conditions.[17] The execution of the projects will also require provincial and local permitting that will be facilitated where there is provincial collaboration.

The draft agreements between Canada and Ontario and Canada and Manitoba issued for consultations precisely address the above issues in furtherance of the principle of "one project, one review."

With or without a formal bilateral agreement, project by project, governments may find it necessary to establish a senior-level, intergovernmental working group to coordinate their actions.

4. The Alignment of Public and Private Decision-making Processes and Timelines

The development and execution of large projects are determined by a series of decisions and actions by both the proponent and governments that even in the best of cases will extend over a number of years.

- The proponent, once reasonably confident that there is a market opportunity and that the project could secure the approval of governments, must design the project, assemble teams of engineers, assess the commercial viability of the project, develop the relationships with prospective investors, suppliers, and clients, engage with governments, communities, and Indigenous groups, develop the submissions for environmental or impact assessment and secure approval. All of these steps precede a final investment decision that begins the process of project execution. Capital is deployed incrementally at every step.
- In parallel, governments must ensure that there is policy clarity for proponents on factors that may affect project viability (for example, carbon pricing, taxation, investment in enabling infrastructure). Depending on jurisdiction, public authorities must then enable the project review, Indigenous consultations and delivery of project approvals and permits with the necessary conditions. The processes involve decisions and actions by regulatory agencies, ministers, federal or provincial cabinets and, in some cases, even Parliament or provincial legislatures.
- If proponents seek government financing or assistance for any portion of the project, they must agree to additional analysis, decision-making and due diligence by the appropriate authorities, for example the CIB.

Proponents and governments must work together at the earliest stage of project development to map out their respective requirements and processes and to develop a critical path such that all of the parties advance together, predictably and that resources are deployed efficiently. The BCA and the MPO may be extremely helpful in achieving this success factor.

5. The Management and the Sharing of Risk

Large projects have long lead times, and they require investment upfront of billions of dollars, with payback and returns many years downstream. As demonstrated by experience, projects confront many risks that can affect their schedule, cost and ultimate viability:

- policy risks (e.g., as may arise from changes in government during project development)
- regulatory and Indigenous consultation risks
- litigation risks (e.g., actions taken by project opponents)
- market risks (e.g., shifts in supply, demand, or price)
- trade risks (e.g., export or import restrictions or tariffs)
- supply chain risks
- technology risks
- labour supply risks
- construction cost risks
- financial risks (e.g., cost of debt capital)

Absent a sound and predictable framework for the management and the sharing of these risks, private investors will hesitate to deploy the necessary capital. Yet, the government has its own fiscal constraints, and it cannot take open-ended risk on its balance sheet.

Thus, where large multi-billion-dollar projects are proposed that are determined to be in the national interest, there must be an understanding between the proponent and governments about an efficient management of risks. The federal government is well placed to help mitigate some risks, in particular the policy or regulatory risks. The proponent is best placed to manage the execution risks. The delineation and evaluation of risks can support a productive discussion about risk-sharing.

Where there is financial participation that exposes the Crown to a material risk of financial loss, it should share appropriately in the upside risk in the event of project success.

6. Indigenous Consent and Participation

While there is no veto in law, it is now widely recognized as a success factor that proponents and the Crown should secure the consent of Indigenous Peoples whose rights may be affected by the development and operation of large projects. In turn, this requires early and meaningful engagement and consultation, offers of reasonable accommodation where there may be impacts on rights, and increasingly mechanisms whereby Indigenous groups may participate in the project to have a voice in project governance and to realize economic benefits for their communities.

There is no legislative shortcut for this process. Nor is there a cookie-cutter approach. Indigenous rights and interests are site-specific, community-specific and project-specific. The BCA does not diminish the obligations of the Crown or the expectation for proponents to work productively with Indigenous groups at every stage of project development and execution.

There can be challenges, particularly for linear projects that involve many Indigenous communities along a corridor. The governance of Indigenous communities that hold the rights may be unclear (e.g., as between hereditary chiefs and elected band councils). Communities may be concerned not only with project-specific impacts but also with the cumulative impact of projects on their traditional territories. Some communities may raise historical grievances unrelated to the project but that will require some resolution to secure their support. Modern treaties can provide greater clarity, but they may also require that projects undergo a distinct process for review and consent.

The MPO, working with other federal entities, including the IAAC, will have an important role in providing guidance to proponents of major projects to help foster productive relationships with Indigenous groups.

As stated in Budget 2025, the CIB, through the Indigenous Equity Initiative and the Indigenous Loan Guarantee Program—which was doubled from $5 billion to $10 billion—can assist by enabling Indigenous communities to participate in the ownership of projects.

7. Culture Change and Delivery Capacity, with Professional Rigour and Discipline

To enable the efficient review and permitting of projects, the government and the MPO need to drive culture change and strengthen delivery capacity across federal regulatory organizations, from senior to operational levels. The focus must be on material effects within federal jurisdiction and, where there are such effects, responsiveness to solutions that may be offered by the proponent or by other participants in the process. The task is to streamline the process and to instill a sense of urgency while sustaining high standards of environmental performance and Indigenous engagement that must be the hallmark of responsible development in Canada. Leadership must inspire and equip, and not demobilize, the professional experts and scientists who will conduct the work on the ground, provide the advice and inform decision-making in the national interest.

The provinces and territories have the same responsibility to deliver, efficiently and professionally, matters under their jurisdiction. Working together, federal and provincial governments must be able to chart an integrated, predictable and efficient path for proponents and other participants in the regulatory process and Indigenous consultations.

THE END GAME

The BCA, the MPO and the pursuit of projects in the national interest together form an enterprise that aims to respond to a unique moment in the country's history.

There are two tests that will determine the success of the enterprise for Canada:

- whether the government and the MPO, working with federal agencies and Crown corporations, proponents, provinces and territories, and Indigenous Peoples, are able to effect **transformative change in how we review, approve, and fund major projects**; and
- even more importantly, whether the projects that are identified, moved forward and built through this collective enterprise are transformative and contribute to **a stronger, more diversified and more resilient economy for the long term.**

The earlier and stronger the signals to investors and proponents that the first test has passed, the greater the chance that projects coming forward and advancing through the process will materialize and pass the second test. It will take time to come to definitive conclusions.

Notes

CHAPTER 1

1. Effects on Deficits and the Debt of Public Law 119-21 and of Making Certain Tax Policies in the Act Permanent, [Internet], Congressional Budget Office, August 4, 2025.
2. An Update About CBO's Projections of the Budgetary Effects of Tariffs, [Internet], Congressional Budget Office, August 22, 2025.
3. An August 2025 Budget Baseline, [Internet], Committee for a Responsible Budget, August 20, 2025.
4. Implementing the General Terms of the United States of America–United Kingdom Economic Prosperity Deal, [Internet], White House June 16, 2025.
5. Shares of Gross Domestic Product: Imports of Goods (A255RE1Q156NBEA), [Internet], Federal Reserve Bank of St. Louis, September 25, 2025.
6. Maximiliano A. Dvorkin, Fernando Leibovici, and Ana Maria Santacreu, How Tariffs Are Affecting Prices in 2025, [Internet], Federal Reserve Bank of St. Louis, October 16, 2025.
7. The October 2025 IMF *World Economic Outlook* describes some of the price developments, notably by noting the relative stability of (pre-tariff) import prices and yet only the modest impacts of tariffs on aggregate consumer price movements.
8. *World Economic Outlook*, IMF, October 2025.
9. Ruchir Sharma, America Is Now One Big Bet on AI, *Financial Times*, October 6, 2025.
10. IMF; see note 8.
11. Gita Gopinath on the Crash That Could Torch $35 Trillion of Wealth, [Internet], *The Economist*, October 15, 2025.
12. Address by Mr. Draghi, Presentation of the Report on the Future of European Competitiveness [Internet], European Parliament, Strasbourg, September 17, 2024.
13. Defence Expenditures and NATO's 5% Commitment, [Internet], NATO, June 27, 2025.
14. See the latest *World Energy Outlook* from the International Energy Agency and the differences in supply and demand of energy commodities across the Current Policies Scenario (CPS) and the Stated Policies Scenario (SPS). For example, world demand for oil, representing 100 million barrels per day (mb/d) in 2024, is projected to rise to 105 mb/d under the CPS and to continue to rise to 2050; under the SPS, which incorporates policy commitments and intentions not yet implemented, world oil demand peaks in 2032, at 102 mb/d, returns to 100 mb/d by 2035, and then diminishes slowly to 2050. World demand for natural gas grows robustly through to 2050 under the CPS; it reaches a plateau in 2035 under the SPS.
15. As per the *Monetary Policy Report*, [Internet], BoC, October 2025.
16. Resources and Tools for Canadian Exporters Facing U.S. Tariffs, [Internet], Trade Commissioner Service, updated December 8, 2025.

CHAPTER 2

1. Rhys Mendes, Bank of Canada, Underlying Inflation: Separating the Signal from the Noise, [Internet], Remarks to the Ivey Business School, London, Ontario, October 2, 2025.
2. Federal Reserve Issues FOMC Statement, [Internet], Federal Reserve, Press Release, September 17, 2025.
3. Bank of Canada Lowers Policy Rate to 2¼%, [Internet], Bank of Canada, Press Release, October 29, 2025.
4. *Monetary Policy Report*, [Internet], Bank of Canada, October 2025.
5. Budget 2025, Chapter 2, Canadian Economic Context, [Internet], Government of Canada.

CHAPTER 3

1. Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2025, [Internet], The Royal Swedish Academy of Sciences, October 13, 2025.
2. Canada's State of Trade, [Internet], Government of Canada, June 2025.
3. Prime Minister Carney Announces the Government's Plan to Rebuild, Rearm, and Reinvest in the Canadian Armed Forces, [Internet], Prime Minister of Canada, June 9, 2025.
4. Joint Statement by Prime Minister of Canada Mark Carney and President of the European Commission Ursula von der Leyen, [Internet], Prime Minister of Canada, December 1, 2025.
5. "The Business Council of Canada regularly surveys its members—the leaders of Canada's largest companies, from every sector of the economy and every region of the country. Time after time, they place the regulatory burden at the very top of the list of factors that influence future investment decisions." See Stifled by Red Tape, [Internet], Business Council of Canada, September 5, 2025.
6. For example, the CMRA establishes that "each Party shall ensure that a good that may be lawfully sold in the territory of another Party, in compliance with the requirements contained in regulatory measures applicable in that other Party, may be sold in its territory without having to meet an applicable requirement." However, the agreement also specifies that, notwithstanding the general principle, "If a Party: (a) requires a good that may be lawfully sold in the territory of another Party to meet an applicable requirement; or (b) prohibits the sale of a good that may be lawfully sold in the territory of another Party, it shall identify that requirement or prohibition in its Schedule to Annex A." A party may amend its Schedule to Annex A at any time by providing written notice to all parties. There is no apparent constraint or cost for a party to add goods to its Schedule to Annex A. Moreover, a party may withdraw from the agreement by giving written notice to the other parties, with a minimum notification period of only 180 days. No international trade agreement would ever be entered into with such open-ended means of renouncing to the underlying principle. See Committee on Internal Trade Ministers Sign the Canadian Mutual Recognition Agreement on the Sale of Goods, [Internet], November 19, 2025.

7. Michael Spence, AI's Promise for the Global Economy, F&D Magazine, [Internet], IMF, September 2024.
8. Kristin Burnham, The "Productivity Paradox" of AI Adoption in Manufacturing Firms, [Internet], MIT Sloan School of Management, July 9, 2025.
9. See Chapter 2 of the IMF's *World Economic Outlook*, [Internet], October 2025.
10. Budget 2025, Chapter 1, Building a Stronger Canadian Economy, [Internet], Government of Canada.
11. Modernizing Canada's Budgeting Approach, [Internet], Department of Finance Canada, Backgrounder, October 6, 2025.
12. Rebekah Young, If I Had a Trillion Dollars: Unpacking Canada's Grand Growth Ambitions, [Internet], Scotiabank Fiscal Policy, November 18, 2025.
13. See Regulatory Impact Analysis Statement in Canada Gazette, Part II, Volume 158, Number 21, [Internet], China Surtax Order (2024): SOR/2024-187, September 20, 2024.
14. As per a backgrounder from the Government of Canada, China is the largest export market for Canadian canola seed, representing 67% of total canola seed exports and totaling 5.9 million tonnes in 2024, worth approximately C$4 billion. See Statement by Ministers Sidhu and MacDonald on China's Preliminary Anti-dumping Measures on Imports of Canola Seed from Canada, [Internet], August 12, 2025.
15. Prime Minister Carney Meets with President of the People's Republic of China Xi Jinping, [Internet], Prime Minister of Canada, October 31, 2025.
16. Prime Minister Carney Meets with Prime Minister of India Narendra Modi, [Internet], Prime Minister of Canada, November 23, 2025.
17. Prime Minister Carney Advances New Trade, Economic, and Security Partnerships with ASEAN Nations, [Internet], Prime Minister of Canada, October 27, 2025.
18. The State of Science, Technology, and Innovation in Canada 2025, [Internet], Council of Canadian Academies, November 18, 2025.
19. Artificial Intelligence and the Labour Market, [Internet], OECD Employment Outlook 2023, July 2023.
20. OECD, Measuring Domestic Public Cloud Compute Availability for Artificial Intelligence, [Internet], OECD Artificial Intelligence Papers October 2025, No. 49.
21. Digital Sovereignty: A Framework to Improve Digital Readiness of the Government of Canada, [Internet], Government of Canada. On this topic, see also Joe Castaldo, Complete Digital Sovereignty "Impossible" for Federal Government, Treasury Board Says, [Internet], *Globe and Mail*, November 3, 2025.

CHAPTER 4

1. Note: For the purposes of simplicity and brevity, this chapter does not address the distinct regulatory framework in the territories or the distinct factors that may come into play on lands covered by modern treaties with Indigenous Peoples.
2. Catherine McKenna, Presentation to the Standing Committee on Environment and Sustainable Development of the House of Commons, [Internet], Minister of the Environment and Climate Change Canada, May 3, 2018.
3. Under the IAA, a designated project is a project that is either designated by regulation (what is called the "project list" but which in fact is a set of characteristics and attributes that determine whether an energy or infrastructure project is designated); designated in an order made by the minister (under discretionary authority); or carried out on federal lands.
4. See note 1.
5. In particular, at Article 32.2 of the Declaration: "States shall consult and cooperate in good faith with the indigenous peoples concerned through their own representative institutions in order to obtain their free and informed consent prior to the approval of any project affecting their lands or territories and other resources, particularly in connection with the development, utilization or exploitation of mineral, water or other resources."
6. Budget 2023, [Internet], Government of Canada.
7. See Case in Brief, Reference re. Impact Assessment Act, [Internet], Supreme Court of Canada. The decision was issued October 13, 2023.
8. First Ministers' Statement on Building a Strong Canadian Economy and Advancing Major Projects, [Internet], Prime Minister of Canada, June 2, 2025.
9. Prime Minister Carney Launches New Major Projects Office to Fast-Track Nation-Building Projects, [Internet], Prime Minister of Canada, August 29, 2025.
10. See Prime Minister Carney Announces First Projects to Be Reviewed by the New Major Projects Office, [Internet], Prime Minister of Canada, September 11, 2025; and Prime Minister Carney Announces Second Tranche of Nation-Building Projects Referred to the Major Projects Office, [Internet], Prime Minister of Canada, November 13, 2025.
11. Authorities to negotiate cooperative arrangements were built into the CEAA and the IAA, but to date an agreement has only been concluded with British Columbia, facilitating the review of the Cedar LNG project, the approval of the project by the two governments in 2023, and a final investment decision in June 2024. The project has begun construction; the target in-service date is late 2028.
12. Co-operation Agreement between Ontario and Canada, [Internet], Government of Canada, November 24, 2025; and Co-operation Agreement between Manitoba and Canada, [Internet], Government of Canada, November 24, 2025.
13. The MOU also overhauls the regulation and pricing of carbon in Alberta: Canada renounces a cap on emissions on the oil and gas industry; it suspends the Clean Electricity Regulations in the province; the two governments commit to conclude an agreement on industrial carbon pricing on or before April 1, 2026, that will provide a minimum effective carbon credit price of C$130/tonne under the provincial TIER system; the governments further agree to enter into a methane equivalency agreement on or before April 1, 2026, with a 2035 target date and a 75% reduction target relative to 2014 emissions levels. See Canada–Alberta Memorandum of Understanding, [Internet], Prime Minister of Canada, November 27, 2025.
14. The responsible minister was designated by an order of July 16, 2025, as the president of the King's Privy Council, a position occupied by the Honorable Dominic Leblanc, who is also the minister responsible for Canada–U.S. trade, intergovernmental affairs, internal Trade and one Canadian economy.
15. Prime Minister Carney Announces Indigenous Advisory Council Membership for the New Major Projects Office, [Internet], Prime Minister of Canada, September 10, 2025.
16. Interprovincial transmission lines may be designated by the GIC under the *Canadian Energy Regulator Act* such as to be constructed and operated under a certificate issued by the Canadian Energy Regulator. While this provision has never been used, it allows the GIC to exercise federal jurisdiction over a project as an interprovincial work and undertaking.
17. The five conditions for oil pipelines established by the British Columbia government were (1) successful completion of the environmental review process; (2) world-leading marine oil spill response, prevention, and recovery systems; (3) world-leading practices for land oil spill prevention, response, and recovery systems; (4) legal requirements regarding Aboriginal and treaty rights addressed; and (5) a fair share of fiscal and economic benefits for the Province of British Columbia.

Contributors and the Bennett Jones Public Policy Group

Serge Dupont
613.683.2310
duponts@bennettjones.com

Serge is a Senior Advisor and Head of the Public Policy group. He advises clients in the private and public sectors on policy and regulation in the natural resources and financial services industries. Before joining Bennett Jones in 2018, Serge was Deputy Clerk of the Privy Council and Deputy Minister of Intergovernmental Affairs. Previously, he served as Executive Director for Canada in the International Monetary Fund; as Deputy Minister, Natural Resources Canada; and in senior positions in Finance Canada.

Paul Beaudry
604.822.8624
paul.beaudry@ubc.ca

Paul is an Economics Professor at the University of British Columbia and a Senior Economic Advisor. From 2019 to 2023, he served as Deputy Governor of the Bank of Canada, overseeing key departments including Financial Stability, International Affairs and Research. He also represented the Bank of Canada at G7 and G20 meetings. Paul has held faculty positions at Oxford University, Boston University and the Université de Montréal. He has been a Visiting Professor at MIT, Sorbonne Université, the European University Institute and the Université de Toulouse.

Richard Dion
613.683.2312
dionr@bennettjones.com

Richard is a Senior Business Advisor specializing in economic analysis and forecasting for Canadian and international businesses. Prior to joining the firm, Richard worked as an economist for the Bank of Canada (for over 30 years in various departments), the Department of Foreign Affairs and International Trade, and Energy, Mines and Resources Canada.

Cheryl Woodin
416.777.6550
woodinc@bennettjones.com

Cheryl is a Partner and Co-Head of the Litigation and Dispute Resolution department. As one of Canada's leading litigation lawyers, Cheryl has represented some of Canada's largest companies in their most significant legal disputes at all levels of court. She is at the forefront of class action claims and multi-jurisdictional disputes in Canada and is known for her precedent-setting work in consumer claims and product liability. She is a member of The Advocates' Society board of directors, the Ontario Bar Association and is vice-chair for North America with the International Association of Defence Counsel.

Hon. John R. Baird PC

416.777.5767
bairdj@bennettjones.com

John is a Senior Business Advisor known for his work in bilateral trade and investment relationships, particularly with China and ASEAN countries. As a former Senior Cabinet Minister in the Government of Canada and a holder of other key positions, John has enhanced security and economic partnerships with the United States and Middle Eastern nations. John serves on the advisory board of Barrick Gold Corp. and the corporate boards of Canadian Pacific Kansas City Limited, Canfor Corporation, FWD Group and PineBridge Investments.

Hon. Jason Kenney PC, ECA

403.298.3027
kenneyj@bennettjones.com

Jason is a Senior Advisor and served as the 18th Premier of Alberta. With over 25 years of experience in federal and provincial offices, he has demonstrated exceptional leadership and public policy expertise. As Premier, he launched initiatives like Alberta's Recovery Plan and the Alberta Indigenous Opportunities Corporation, creating opportunities for economic development and investment. Jason has also held key federal roles, including Minister of National Defence and Minister of Employment and Social Development. He serves on the boards of ATCO, Fairfax India, People's Trust Group and Coril Holdings.

Hon. Christy Clark

604.891.5160
clarkc@bennettjones.com

Christy is a Senior Advisor and a former Premier of British Columbia, where she achieved exceptional economic growth, fiscal management and job creation. Under her leadership, British Columbia became Canada's economic leader for three consecutive years. With a remarkable track record of balancing budgets and reducing public debt, Christy's legacy is one of long-term planning and sustainable prosperity for future generations.

Hon. John P. Manley, PC, OC

613.683.2320
manleyj@bennettjones.com

John is a Senior Business Advisor with over a decade of experience in the federal government, including as Canada's Deputy Prime Minister, Minister of Foreign Affairs, Finance Minister and Industry Minister. John advises clients on strategic business opportunities and is currently Chair of the Board of Directors of TELUS Corporation, as well as Chair of the Advisory Council of the Canadian Global Affairs Institute. He was previously President and Chief Executive Officer of the Business Council of Canada.

Monique Mercier

514.985.4511
mercierm@bennettjones.com

Monique is a Senior Advisor. Leveraging over 20 years of experience as general counsel and a senior executive, she provides strategic corporate governance and business advice regarding the Bennett Jones expansion in Quebec. Previously, Monique was Executive Vice-President, Corporate Affairs, Chief Legal and Governance Officer at TELUS Corporation. She currently serves on the boards of TMX Group, Alamos Gold, Innergex Renewable Energy and Industrial Alliance Financial Group.

Jane Bird

604.891.5156
birdja@bennettjones.com

Jane is a Senior Business Advisor specializing in infrastructure project development and execution for private and public sector clients. With a remarkable career spanning 20 years, she has led major projects in the transportation, power, building and wastewater industries, including the Canada Line and the Waneta Expansion Project. Jane has received prestigious awards for her leadership and chairs the board of Nieuport Aviation, an investment of the Infrastructure Investment Fund.

Bennett Jones

The firm that businesses trust
with their most complex legal matters.

BennettJones.com

Calgary Edmonton Montréal Ottawa Toronto Vancouver New York