ECONOMIC UPDATE

USW RESEARCH DEPARTMENT

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MACRO CORNER

Real GDP declined by 0.6% (annualized) in Q4 2025, driven primarily by a sharp contraction in private sector investment (-3.78%). The decline was largely attributable to a drawdown in inventories following substantial accumulation in previous quarters.

Encouragingly, business investment in machinery and equipment posted a modest rebound from the previous quarter. However, spending in this category remains well below pre–trade-war levels.

Exports and government spending, particularly government investment, were the main positive contributors to growth, adding 1.73% and 1.45% respectively. Household consumption also rebounded, rising by 1% in the quarter.

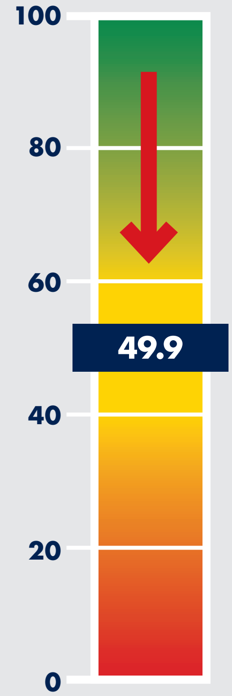
The increase in consumer spending appears to have been financed in part by reduced savings, as the household saving rate fell to 4.4% from 5.2% in the previous quarter.

Stronger household and government expenditures lifted final domestic demand by 2.34%, reversing the decline recorded in Q3 2025 (July to September).

For 2025 as a whole, GDP growth slowed to 1.7%, the weakest annual performance since the pandemic. Nevertheless, despite ongoing trade tensions with the U.S., the Canadian economy has remained surprisingly resilient.

LABOUR MARKET MOMENTUM INDEX (LMMI)***

As a result of contracting GDP growth in Q4 2025, a declining job vacancy rate and slowing wage growth, the LMMI declined to 49.9 for the quarter compared to 53.3 in Q3 2025. Labour market conditions have deteriorated throughout 2025 as a result of the trade war, hence the downward direction of the LMMI.



LABOUR MARKET IN 2025

2025 was a difficult year for Canadian workers as U.S. tariffs and a sluggish domestic economy weighed on labour-market activity.

Here is what it looked like:

- Labour force growth slowed to 1.2% (from 2.8% in 2024), partly as a result of the government reversing its immigration policy.
- Employment growth fell to 1.1% (from 1.86%). Full-time employment rose only 0.7% (versus 1.75% in 2024) while part-time work increased 2.7% (from 2.4%).
- The unemployment rate peaked at 7.1% in late summer but finished 2025 at 6.8%, essentially unchanged from December 2024's 6.7%. Meanwhile, unionized manufacturing workers – at the front line of the U.S. trade war – saw employment decline by 12,500 and the unionization rate in the sector edged down to 21.7% from 22.2%.

127 thousand Full-time employment increased by 127,000 workers in 2025 compared to just under 300,000 in 2024. Meanwhile part-time employment increased by 99,000 in 2025 compared to 87,000 in 2024.

30.6% union coverage The unionization rate remained steady in 2025 at 30.6% compared to 31% in 2024.

MACROECONOMIC DASHBOARD

GDP	-0.6%	Q4 2025	↓
UNEMPLOYMENT	6.5%	JAN. 2026	↓
CONSUMER INFLATION	2.3%	JAN. 2026	↓
PRODUCER INFLATION*	5.4%	JAN. 2026	↑
WAGE GROWTH	3.28%	JAN. 2026	↓
LABOUR UNDERUTILIZATION RATE**	9.1%	JAN. 2026	↑

**Producer inflation is measured by the Industrial Product Price Index (IPPI).*

***Labour underutilization refers to Statistics Canada's R8 measure, which includes unemployed workers, discouraged job seekers, those waiting for recall or future starts and the underutilized portion of involuntary part-time employment.*

****The Labour Market Momentum Index (LMMI) is a quarterly average metric based upon an equal weights index of monthly economic data, combining unemployment and employment rates, GDP growth, job vacancies and average wage growth in order to track changes in labour market bargaining conditions.*