

ECONOMIC UPDATE

USW RESEARCH DEPARTMENT

MARCH 2026

MACRO CORNER

GDP growth slowed to 0.8% (annualized) in January 2026, down from 2.9% in December. Manufacturing output declined by 1.44%, marking its third contraction in four months, while capacity utilization fell to 75.3% from 76.8%.

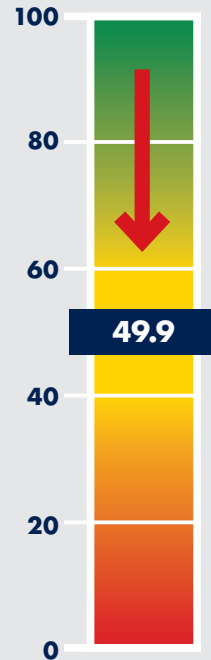
January was particularly difficult for steel and auto producers. Steel output dropped by 4.3%, a sharp reversal from the 8.4% growth recorded a year earlier, and the third decline in four months.

Motor vehicle and parts manufacturing fell by 10.7%, driven by a steep 23.5% drop in vehicle production and a 4.5% decline in parts. Although temporary production disruptions contributed to these losses, auto parts output has now declined for three consecutive months. Machinery manufacturing, a key indicator of business investment, also weakened, falling by 5.6%.

Amid slowing economic growth, a weakening labour market, and relatively subdued inflation – despite geopolitical risks – the Bank of Canada held its overnight policy rate at 2.25%. Fiscal policy remains supportive, with the federal government recording a year-to-date deficit of \$31.2 billion (April 2025 to January 2026).

LABOUR MARKET MOMENTUM INDEX (LMMI) ***

As a result of contracting GDP growth in Q4 2025 (October to December), 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 (July to September). Labour market conditions have deteriorated throughout 2025 as a result of the trade war, hence the downward direction of the LMMI.



THOUGHTS: LABOUR MARKET IN EARLY 2026

It has been a difficult start to 2026 for workers. Over the first two months of the year, 108,000 workers lost their jobs, nearly erasing most of the employment gains achieved since Q3 2025 (July to September).

While the unemployment rate has remained relatively stable, underlying indicators point to a clear deterioration in labour market conditions. The labour force participation rate declined to 64.9% in February from 65.4% in December, while the employment rate fell to 60.6% from 60.9%. At the same time, the labour underutilization rate rose to 9.5% from 8.5%. Workers are not only facing rising unemployment and underemployment, but are also increasingly exiting the labour force altogether.

Despite this weakening labour market, year-over-year wage growth remained relatively strong at 3.93%, with real wages increasing by 2.11% in February.

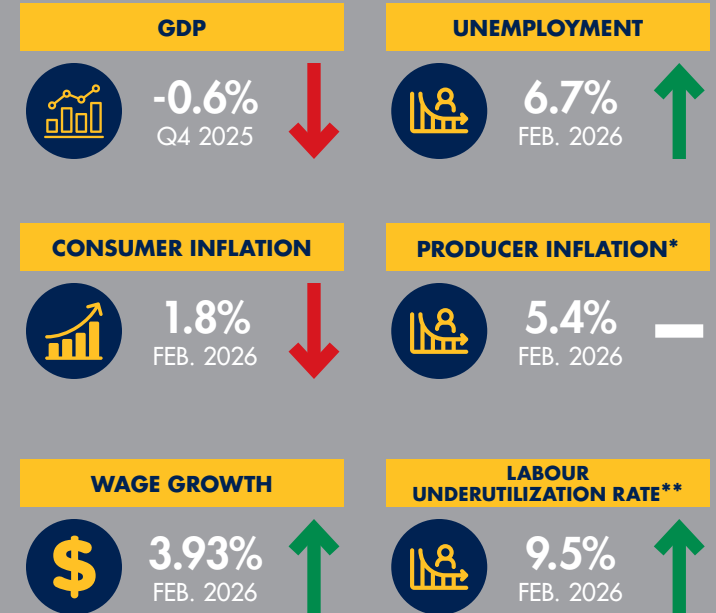
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The Union Wage Premium in 2025 averaged 1.095 times the non-union wage rate – \$38.74 compared to \$35.37. The premium has remained stable in early 2026.

15.1%

The private-sector unionization rate stands at 15.1%, compared to 78.4% for the public sector. In February 2026, two million private sector workers were covered by a union.

MACROECONOMIC DASHBOARD



*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.