ECONOMIC UPDATE

USW RESEARCH DEPARTMENT

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MACRO CORNER

The Canadian economy outperformed expectations in Q2 2026, exhibiting strong demand and expanding by 3.3%.[1] Strong net foreign demand and core household demand (+4.4 percentage points (*pp*) and +2.5 *pp*, respectively) were the leading contributors to growth. Following two consecutive quarters of significant declines in household spending on housing, households increased residential spending by 10% on an annualized basis in Q2 2026—the largest quarterly increase since Q4 2024.

The quarter also recorded the strongest contribution from core business investment since Q2 2024, contributing 1.0 *pp* to GDP growth. This was driven by notable quarter-over-quarter increases in spending on structures and machinery and equipment (+1.6% and +5%, respectively). The increase in business investment in structures is particularly notable, as it reverses three consecutive quarters of declining spending. Business spending on machinery and equipment, by contrast, has now increased for three consecutive quarters.

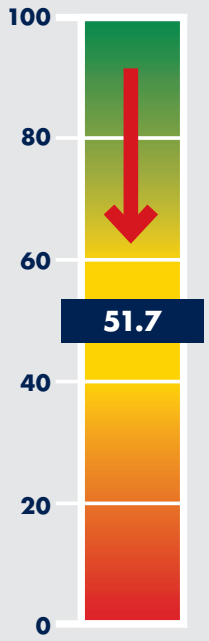
Government spending also made a positive contribution to growth (+0.36 *pp*), although this was entirely attributable to government consumption spending (+0.8 *pp*). For the second consecutive quarter, however, reductions in government investment spending were a significant drag on the economy (-0.5 *pp*), with government investment falling by around 10% or more, on an annualized basis, for the second consecutive quarter.

Meanwhile, declining inventories contributed to a decline of 4.9 *pp* from GDP growth, which is consistent with other indicators that point to stronger than expected demand conditions.

[1] Unless otherwise indicated, GDP growth and contributions to growth are reported at annualized rates; contributions are expressed in percentage points (pp)

LABOUR MARKET MOMENTUM INDEX (LMMI)*

Q2 2026 was characterized by stronger economic growth, and a steadily improving labour market. Despite a marginal slowing of wage growth, the stronger economic data helped push up the LMMI to 51.7.



THOUGHTS: Q1 2026 GDP REVISION

As expected in the May 2026 update, Statistics Canada revised its Q1 2026 GDP figures, indicating that the Canadian economy did not contract by 0.14%, but instead expanded by 0.3%.

Upward revisions were made to consumption and export spending, while downward revisions were made to residential and non-residential investment spending. From a sectoral expenditure perspective, the largest contributors to growth in the quarter were inventory investment (+4.2 *pp*) and core household demand (+0.49 *pp*). These gains were offset by declines in net foreign demand (-3.6 *pp*), government spending (-0.47 *pp*), and core business investment (-0.13 *pp*), which acted as significant drags on the economy.

49% The labour share of GDP-income declined to 49% from 50% in Q2 2026, while the profit share (gross private operating surplus) increased to 26% from 24.5%

74% Profits captured 74% of the increase in GDP-income in Q2 2026 while labour captured 22%

MACROECONOMIC DASHBOARD

GDP
3.3% Q2 2026 ↑

UNEMPLOYMENT
6.4% JULY 2026 ↓

CONSUMER INFLATION
3% *y/y* (JULY 2026) ↑

PRODUCER INFLATION**
12.4% *y/y* (JULY 2026) —

WAGE GROWTH
2.8% *y/y* (JULY 2026) ↓

LABOUR UNDERUTILIZATION RATE***
9.3% JULY 2026 ↑

**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.*

***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.*