ECONOMIC UPDATE

USW RESEARCH DEPARTMENT

OCTOBER 2026

MACRO CORNER

Economic growth stalled for a second consecutive month in August 2026, after a strong Q2 2026 (April-June), with goods-producing industries posting a marginal increase in growth (0.1%), and the service sector marginally contracting (-0.05%).

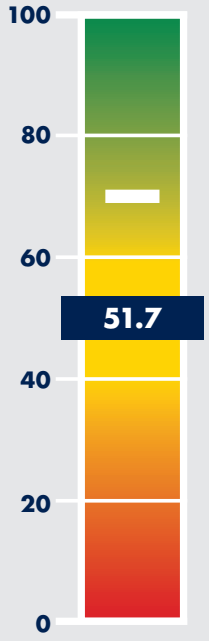
Manufacturing output slightly rebounded in August by 0.3%, while U.S. tariff-targeted sectors continue to be negatively affected. Canadian iron and steel mills posted their third consecutive month of contracting output, falling by 5%, while motor vehicles and parts manufacturers' activity declined by 6%.

It was a positive month, however, for wood products manufacturers with output expanding by 3%, the strongest monthly reading in 2026. The aluminum sector also continues its strong output record, posting a third consecutive monthly increase in output by 2.1%.

In late October, the Bank of Canada increased its policy rate – the overnight rate on deposits at the bank – to 2.5% from 2.25%. Despite the existence of excess supply, the bank justified its decision by citing persistently higher oil prices and growing cost pressures faced by businesses.

LABOUR MARKET MOMENTUM INDEX (LMMI)*

Q2 2026 (April-June) was characterized by stronger economic growth, and a steadily improving labour market. Despite decelerating and marginally declining wage growth, the stronger economic data, helped push the LMMI to 51.7.



THOUGHTS: MONETARY POLICY REPORT OCTOBER 2026

In addition to its overnight policy announcement, the Bank of Canada released its October 2026 Monetary Policy Report. It expects inflation to remain above its 2% target, at 2.9% for 2026 and 3.1% for 2027. Citing the continued conflict in Iran and continued high oil prices, the bank's concern is that the increased cost pressures faced by businesses will translate into higher prices and thus threaten price stability. While the increase to the overnight rate remains within the bank's estimate of the neutral interest rate range (the range of interest rates that neither stimulates nor restricts the economy), the increase does indicate a change in path, indicating that future increases are likely.

1% The Bank of Canada expects that the Canadian economy will grow by 1% in 2026. Its estimate for Q3 2026 growth (July-Sept.) is 2%.

2% The Bank of Canada upwardly revised its projected growth for 2027 and 2028 to 2% from 1.8%, citing an anticipated increase in business investment.

MACROECONOMIC DASHBOARD

GDP
3.3% (Q2 2026) (April-June) ↑

UNEMPLOYMENT
6.5% SEPT 2026 ↑

CONSUMER INFLATION
3.1% SEPT 2026 ↑

PRODUCER INFLATION**
14.5% SEPT 2026 ↑

WAGE GROWTH
2.34% SEPT 2026 ↑

LABOUR UNDERUTILIZATION RATE***
8.1% SEPT 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.*