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Beyond the Headlines: Is Canada's Economy Really in Trouble?

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Is Canada in a Recession?

The short answer is no—Canada is not currently in a recession. At the aggregate level, Canada's gross domestic product (GDP) has shown signs of contraction in recent periods. Traditionally, two consecutive quarters of declining GDP would signal a technical recession. However, in this case, much of the weakness can be explained by population dynamics rather than a broad-based deterioration in economic activity. Policies that have moderated population growth have had the effect of lowering total output growth; on a per capita basis, Canada's economic output has in fact continued to grow, albeit modestly. This distinction is important: it suggests that the average Canadian is not experiencing the type of income compression or economic stress typically associated with a true recessionary environment. Instead, the current slowdown reflects an adjustment phase rather than a systemic downturn.

Trade and External Factors

The trade relationship with the United States remains a critical pillar of economic stability for Canada. Despite ongoing political rhetoric and trade tensions, the practical impact has been limited. The majority of Canadian exports continue to benefit from exemptions under the Canada–United States–Mexico Agreement (CUSMA). While CUSMA is scheduled for review this year, it is important to note its structure: a 16-year agreement with formal reviews every six years. Unless all parties actively pursue amendments, the agreement remains intact.

That said, structural shifts are underway. Canada's share of U.S. imports has gradually declined to roughly 11%, reflecting both diversification by the United States and changing demand patterns, including the rapid growth in demand for AI hardware sourced from Taiwan and South Korea. Several cyclical factors are also at play. A softer U.S. housing market has reduced demand for Canadian lumber exports, while increased domestic energy production in the U.S. has lowered its reliance on Canadian energy imports.

One of the most affected sectors has been automotive manufacturing. Industrial policy in the United States—particularly under the Trump administration and its emphasis on domestic production—has created headwinds for Canada's auto sector. Supply chain realignment and incentives for "Made in America" production are gradually reshaping the competitive landscape.

Need for Economic Restructuring

There is little doubt that Canada is entering a period of economic transition. A degree of restructuring is not only inevitable but necessary. This includes diversifying both industrial capacity and trade relationships to reduce reliance on any single market.

Recent developments signal an openness in this direction. Canada has taken steps to relax restrictions on electric vehicle (EV) imports from China. While the absolute size of this trade flow remains relatively small and unlikely to materially strain relations with the United States, the strategic implication is significant. It demonstrates a willingness to broaden economic engagement with China, the world's second-largest economy, and to position Canada within evolving global supply chains—particularly in the commodity sector.

Financial markets have largely anticipated the current economic softness to persist. The Bank of Canada has cut interest rates meaningfully by 275 basis points since July 2023. The Canadian dollar has weakened, thereby improving export competitiveness.

Against this backdrop of domestic consolidation, we are focused on helping Canadian investors diversify both their portfolios and income streams through strategic allocations abroad. Relying predominantly on the Canadian market introduces a well-documented structural vulnerability—"home-country bias"—particularly given the concentration of the domestic index in cyclical sectors such as financials, energy and a cooling real estate market.

To build resilient, long-term wealth, Canadian investors should look beyond domestic borders and gain exposure to the secular growth engines shaping the global economy. Chief among these are innovation-driven sectors such as artificial intelligence and healthcare. These areas have attracted significant capital investment, with the potential to fundamentally transform productivity, enhance quality of life and extend longevity over the coming decades.

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