



# Canada Macro Brief

**Nation-building at a crossroads:**

Federal budget analysis & quarterly economic update

**Accenture Canada Macro Compass**

Part of Accenture's Global Macro Foresight Practice

November 2025





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## About Accenture Macro Compass

Turning uncertainty into opportunity for corporations, investors, and governments

Section 1

# Federal Budget Analysis

*Executive Summary, Fiscal Overview,  
Industry Impact, Investment Pillars*

# Budget 2025 marks a significant shift in fiscal strategy from broad-based stimulus spending to targeted capital investment, anchored in a growth-oriented national agenda

## Executive summary of Budget 2025: Canada Strong

Fiscal Overview of Budget 2025 <small>Government's fiscal policy agenda</small>	Deficit	New Spending	Cost Savings	Capital Investments	Investment Enablement Goal <small>Budget's fiscal and tax policies aim to enable \$1T in investment over 5 years</small>
	\$78.3B	\$141.4B	\$51.7B	\$280B	
<b>Capital Investment Pillars</b> <small>Canada's key pillars to accelerate growth</small>	<b>01   Productivity &amp; Competitiveness</b>  <b>\$110B</b> <small>Investment</small>  Aims to lower the after-tax cost of investing and accelerate commercialization to crowd in capital and lift long-run productivity	<b>02   Infrastructure &amp; Economic Growth</b>  <b>\$140B</b> <small>Investment</small>  Channels multi-year capital investments through government delivery vehicles (e.g., MPO) to modernize assets, enable trade across Canada	<b>03   Defence &amp; Security</b>  <b>\$30B</b> <small>Investment</small>  Rebuilds CAF capabilities and a sovereign industrial base via investments in infrastructure, secure supply chains, and defence modernization		
<b>6 Strategic Implications for Canadian Industry</b> <small>Key strategic actions for organizations</small>	<ol style="list-style-type: none"> <li>1. <b>Re-evaluate capital expenditure planning</b> to front-load investment to take advantage of the tax incentives provided by the Productivity Super-Deduction and modernized SR&amp;ED, combined with low interest rates, to lower after-tax capital costs before fiscal conditions tighten.</li> <li>2. <b>Redesign tech stack (data residency, compute) to be Canada-hosted and sovereign-compliant</b>, eligible for government co-investment under a sovereign AI agenda (\$925M) which burdenshares, de-risks capital-intensive investments.</li> <li>3. <b>Redesign bid processes to Build Communities Strong Fund and MPO mandates</b>, resulting in shorter procurement timelines and greater project win rates.</li> <li>4. <b>Evaluate the business case to geographically align your infrastructure, supply chain, and logistics investments with the Trade Diversification Strategy and Corridors Fund</b>, enabling expanded export capacity to priority markets in Asia and Europe as Canada targets doubling non-U.S. exports over the next decade.</li> <li>5. <b>Upgrade security capabilities (incl. physical and cyber) to become the partner of choice for public-private partnerships and be eligible for DIA and BOREALIS funding</b>, as defence agencies scale investment into the industrial base.</li> <li>6. <b>When assessing the business case for reshoring or friendshoring value chains, factor in the benefit</b> from dual-applications, the upside from defence and government co-investment, the premium placed on Made-in-Canada products and a de-risked demand from government contracts.</li> </ol>				

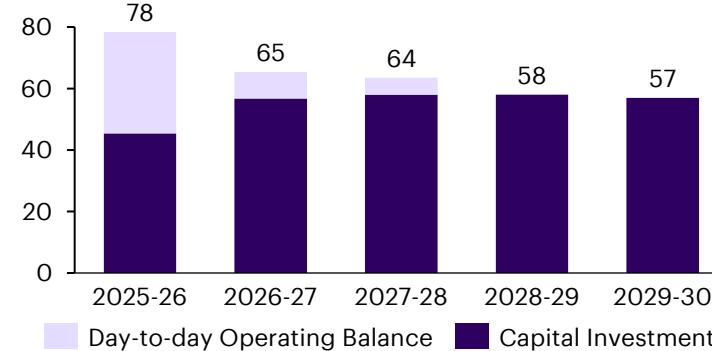


# The federal government's **Canada Strong Budget** refocuses fiscal policy on investments to mobilize capital, reinforce competitiveness, and build long-term productivity

**Budget 2025 marks a policy hand-off from monetary easing to fiscal investment to drive economic growth**

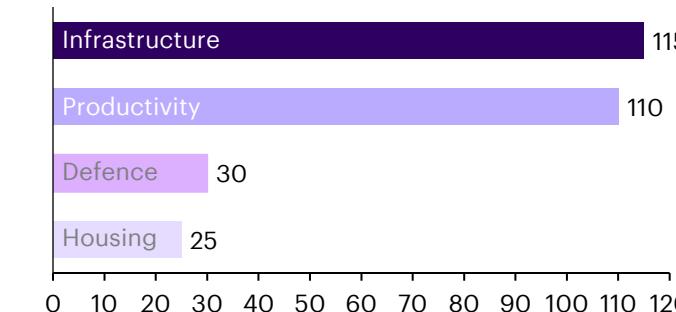
## Budget 2025 Projected Deficits

Billions of Canadian dollars, operational vs. capital<sup>1</sup>



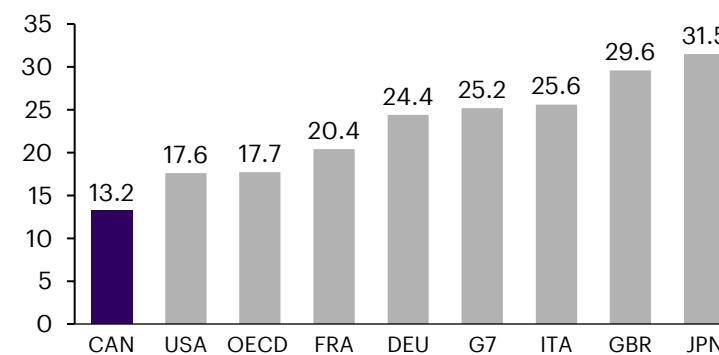
## Generational Capital Investments

5-year, billions of Canadian dollars, accrual basis<sup>1</sup>



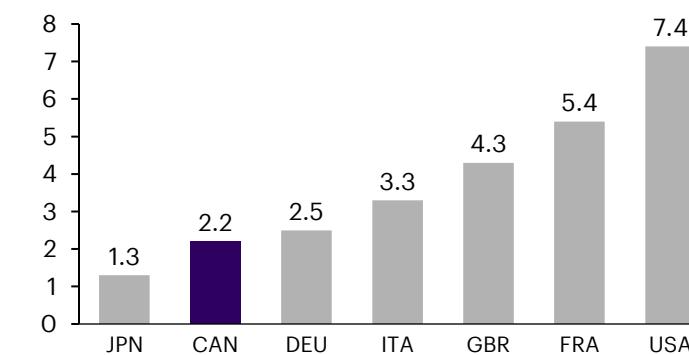
## G7 Tax Competitiveness for New Business

Marginal effective tax rate, %<sup>1</sup>



## Deficit-to-GDP Ratios Across the G7

All levels of government Deficit-to-GDP ratio, 2025<sup>1</sup>



## Commentary

- Budget 2025 is Industry-focused, prioritizing investment-led growth over consumer stimulus** and business incentives instead of household transfers.
- Plan sets a \$78.3B deficit (2.5% of GDP) for FY25**, falling to 1.5% by FY29, commits to balancing day-to-day operating spending with revenues by 2028-29.
- Introduces \$141B in new spending and \$60B in cost savings**, financing a \$280B nation-building agenda.
- Ottawa will reduce the federal workforce by about 40,000 positions by 2028-29**, aligning headcount with population growth, freeing fiscal room for investment.
- Budget's mix of major projects and pro-investment tax policy aims to enable more than \$1T in total investment over 5 years**, while cementing the lowest marginal effective tax rate in the G7 to crowd in private capital and reinforce Canada's competitiveness.
- Budget establishes delivery institutions**, the Major Projects Office to fast-track approvals, Build Canada Homes to double housing construction, and the Defence Investment Agency to coordinate industrial procurement and scale domestic production.
- Budget advances a trade diversification agenda to reduce reliance on U.S. demand and insulate Canada from tariff volatility**, through the \$5B Strategic Response Fund, Trade Infrastructure Strategy, and more.



# Budget 2025 redefines Canadian industry strategy, realigning fiscal incentives, sectoral priorities, competitiveness levers to mobilize private capital and drive economic growth

## Strategic implications of Budget 2025 across select Canadian industries

Industries	Strategic Implications
Financial Services	<p><b>Banking &amp; Capital Markets:</b> Consumer-first reforms and a stablecoin framework expand choice and access; competitive pressure shifts to product innovation and lower cost-to-serve through AI automation, and hyper-personalization; pro-SME measures open new growth in lending, payments, and opportunities to serve a growing market.</p> <p><b>Insurance:</b> Strengthen CAT readiness by evaluating and scenario planning on earthquake exposure and engaging in federal consultation on earthquake capacity and resiliency. Realign your investment strategy to capture the front-loaded capex pipeline unlocked by Budget programs. Pursue more attractive SME commercial segment.</p>
Resources	<p><b>Energy:</b> Align capital expenditure strategies with the goals of the Trade Diversification Strategy and Corridors Fund in order to de-risk capital while designing permitting applications to meet the MPO's 'One Project, One Review' process to accelerate time-to-build and time-to-market for investments.</p> <p><b>Utilities:</b> Modernize grids, storage, and intertie infrastructure through partnerships with provinces and Indigenous investors, as Budget 2025 expands the Canada Infrastructure Bank's mandate and channels capital toward resilience in support of national electrification amidst rising demand driven by sovereign AI infrastructure.</p> <p><b>Natural Resources:</b> Fast-track mine-to-market projects and co-develop Indigenous partnerships to capture expanded Critical Mineral Tax Credit eligibility, as the budget scales fiscal incentives for domestic refining, and supply chain sovereignty, and as G7/EU allies seek alternative supply to de-risk strategic supply chains from China.</p>
Products	<p><b>Consumer Goods &amp; Retail:</b> Reposition pricing, assortment, and loyalty strategies toward value, affordability, and "Buy Canadian," as elevated household debt tempers discretionary spending, and fuels consumer momentum toward national brands, local production, and value-driven spending resilience.</p> <p><b>Industrials:</b> Advance automation and AI-enabled manufacturing as tax incentives such as the Productivity Super-Deduction and Scientific Research &amp; Experimental Development modernization enable firms to modernize plants and digitize operations under low after-tax costs improving productivity and cost competitiveness.</p>
Public Service & Defence	<p><b>Public Service:</b> Pivot capabilities toward automation, AI, productivity, workforce-transition, and reskilling solutions to meet service-level obligations with smaller headcounts, as the Comprehensive Expenditure Review targets \$13B in annual savings and a 40k workforce reduction by 2028, resulting in reduced discretionary spend.</p> <p><b>Defence:</b> Align R&amp;D pipelines to defence-eligible technologies and co-investment programs, structure bids with domestic content compliance and dual-use applications to capture funding, as the new Defence Industrial Strategy and Defence Investment Agency channel capital into CAF modernization and a sovereign industrial base.</p>
Comms, Media & Technology	<p><b>CMT:</b> Position to design, build, and operate sovereign AI and quantum computing infrastructure, as Budget 2025's \$925.6M investment to build large-scale sovereign compute capacity creates opportunity for technology, telecom, and hyperscale players to anchor Canada's secure digital backbone and capture AI-driven demand.</p>



# Budget 2025's productivity and competitiveness pillar transforms Canada's investment landscape to lower cost of capital, spur innovation, and drive economic growth

\$110B plan aims to drive large-scale industrial renewal, crowding in private capital, and anchoring Canada's next decade productivity gains

**Productivity & Competitiveness** pillar of Budget 2025's generational capital investments  
Billions of Canadian dollars

## 5. Emerging Tech Support (\$12B)

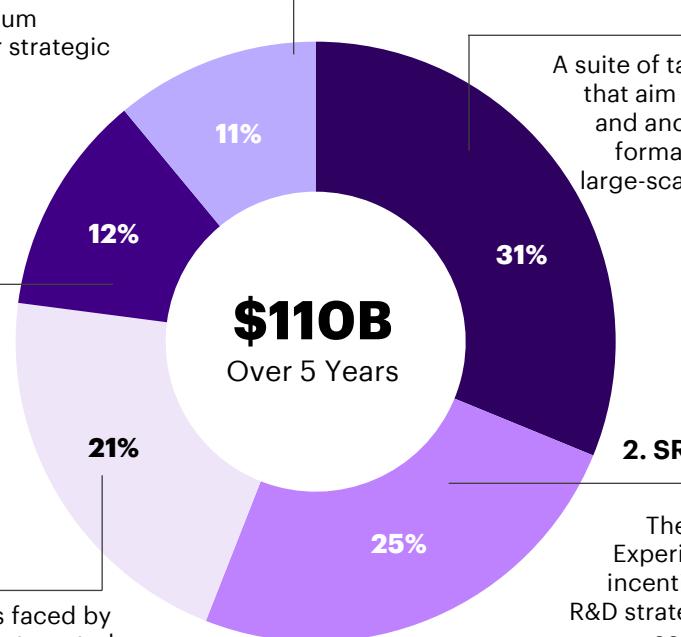
Funds sovereign AI infrastructure, quantum computing capabilities, along with other strategic sectors, to secure leadership in frontier technologies.

## 4. Productivity Super-Deduction (\$13B)

Accelerated depreciation and immediate-expensing measures designed to cut Canada's marginal effective tax rate, making it the lowest in the G7 and stimulating private-sector investment to lift productivity and economic growth.

## 3. Innovation Support (\$23B)

Addresses financing and scaling barriers faced by the Canadian private-sector by providing targeted support to industry to accelerate commercialization of innovations and retain IP domestically.



## 1. Tax Credits (\$34B)

A suite of tax credits and incentives that aim to de-risk private capital and anchor the budget's capital formation strategy to mobilize large-scale industrial investment.

## 2. SR&ED Incentive (\$27B)

The Scientific Research and Experimental Development tax incentive modernizes Canada's R&D strategy to lower the after-tax cost of innovation and spur incremental private-sector research and commercialization.

## Commentary

1. **Tax credits and incentives cut Canada's cost of investment, aiming to drive \$1T in total capital formation**, anchored by clean-economy, productivity, and R&D credits that establish Canada as the G7's most competitive investment environment.

2. **SR&ED modernizations deepen Canada's R&D incentive**, raising the enhanced credit limit to \$6M, extending eligibility to public firms, and restoring capital-spending deductibility, to spur innovation, strengthen competitiveness, and boost productivity.

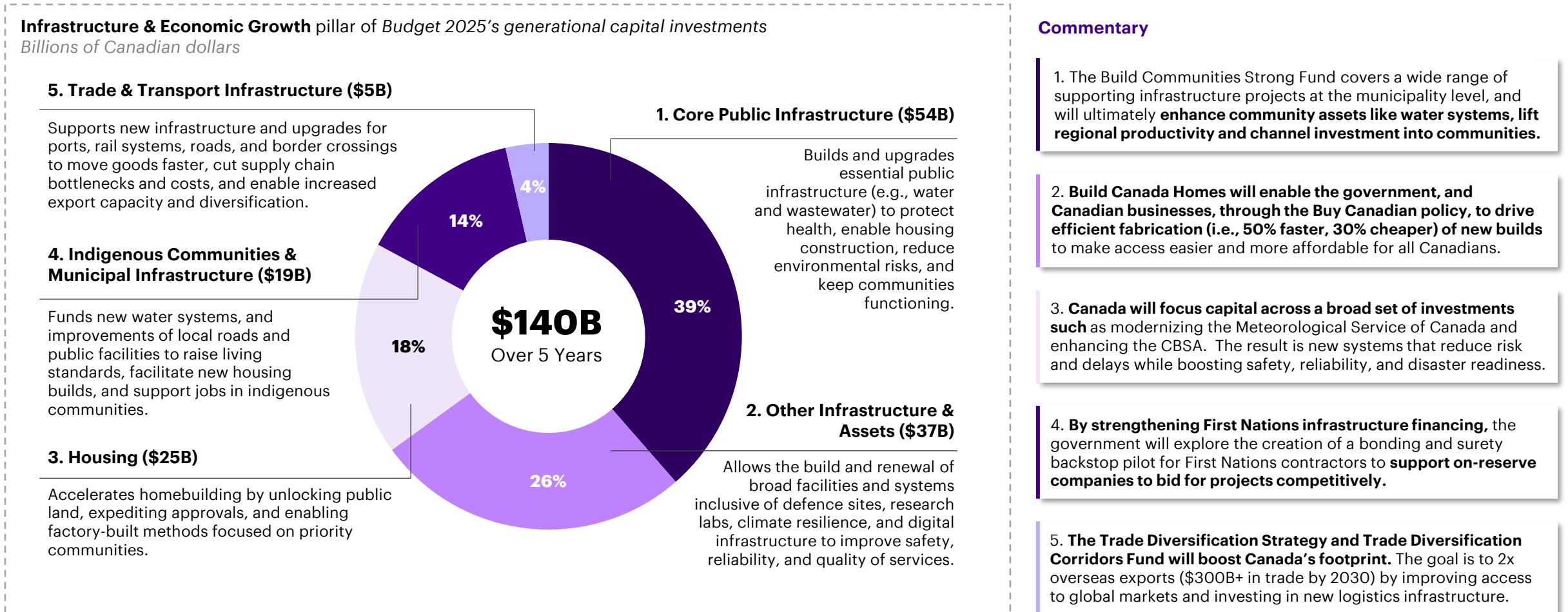
3. **Innovation Support Programs mobilize capital expanding venture capital financing**, through BDC's Venture & Growth Capital Catalyst Initiative, and the Strategic Response Fund, to commercialize innovation, scale firms, and anchor IP in Canada.

4. **PSD lowers the cost of capital and sharpens tax competitiveness to boost productivity and attract investment**, cutting Canada's METR by >2 p.p., providing \$2.7B in annual support, generating ~\$9B in annual output over the next decade.

5. **Emerging tech investments commit investment capital to build sovereign AI and quantum capacity (\$925M)**, through the expansion of CIB's mandate and launching TechStat, with the objective of driving innovation and productivity.

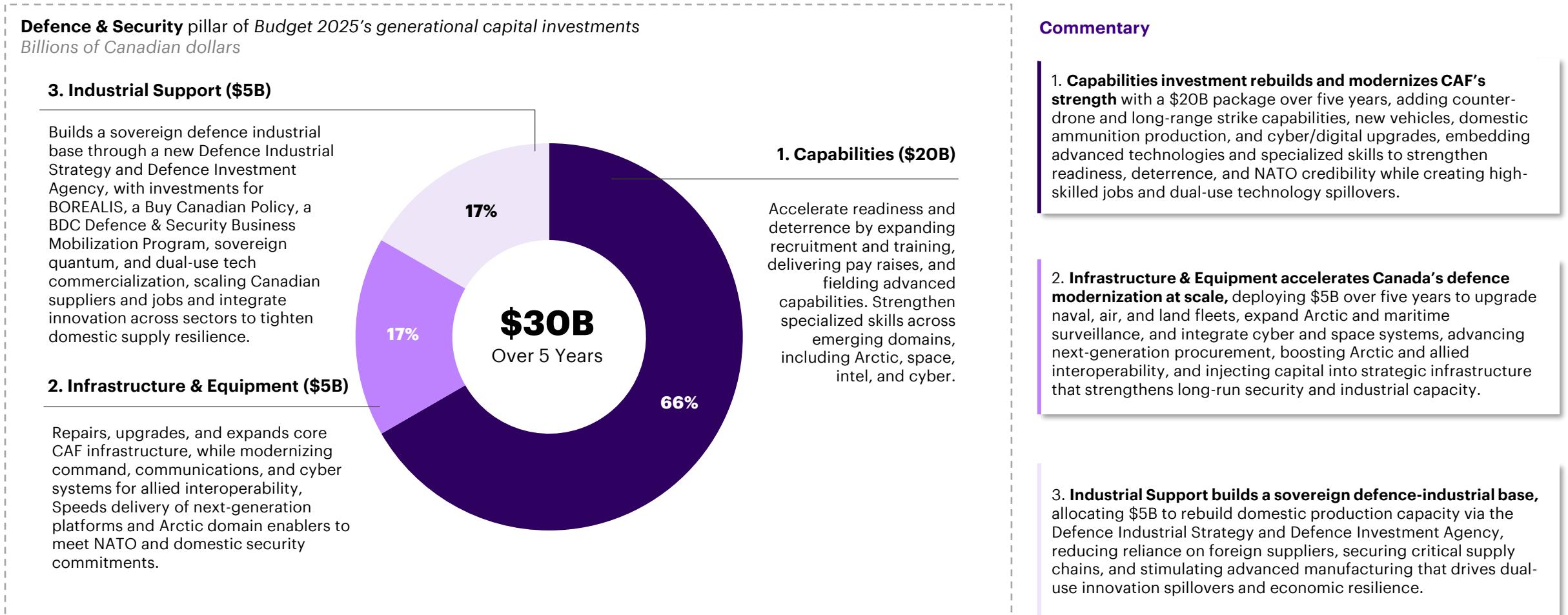
# Budget 2025's infrastructure and growth pillar strengthens the backbone of Canada's economy by modernizing core assets, unlocking regional productivity, and enabling trade

**\$140B plan channels capital into public infrastructure, housing, and trade corridors to expand productivity and economic resilience**



# Budget 2025's defence & security pillar modernizes Canada's capabilities and builds an integrated, sovereign industrial base to sustain long-term sovereignty and innovation

\$30B plan expands military infrastructure, establishes defence-industrial institutions to reinforce Canada's sovereignty



Section 2

# Quarterly Economic Update

Q2 2025

Section 2.1

# Canada Macro Overview

*Key economic indicators shaping the  
C-Suite agenda*

# A trade-driven economic slowdown reinforces Canada's pivot to a nation-building industrial strategy domestically, and a diversification of trade and geopolitical partnerships abroad

## Build Canada Strong agenda is at a crossroads as economic-transformation ambition collides with trade and geopolitical headwinds

Macro signals shaping Canada	<ul style="list-style-type: none"> <li><b>Canada is in a trade-led economic slowdown driven by U.S. tariff policy.</b> Exports to the U.S. fell by 25% in Q2, driving a 0.4% q/q GDP contraction, and a softened labour market, with the unemployment rate rising to 7.1%, despite CUSMA compliance and eligibility covering ~88% of Canadian exports to the U.S.</li> <li><b>The central bank's monetary policy response has been cautious.</b> The Bank of Canada cut its policy rate by 25 bps. The rate was cut to 2.25% in response to deteriorating economic and labour conditions, but with core inflation running above 2% target at 2.4%, policy rate likely to remain constant in the near term.</li> <li><b>The rate divergence with the U.S. Federal Reserve is contributing to a weakening of the Canadian dollar.</b> With the Fed holding rates above 3.75%, the widening gap has pushed the CAD lower. A weaker CAD lifts reported revenues for exporters paid in USD, but it also raises costs for import-heavy sectors.</li> </ul>		
Developments shaping the business landscape	Trade Diversification Strategy	Future of CUSMA	Nation-Building Agenda
Macro trends shaping the C-Suite Agenda	<ul style="list-style-type: none"> <li><b>Canada signed Indonesia CEPA and is engaged in trade negotiations with MERCOSUR and ASEAN,</b> building on a 15+ FTA network, spanning 50+ countries, over 1.5 billion consumers, and 60%+ of global GDP.</li> <li><b>For Canadian corporates, new potential agreements expand addressable markets and revenue optionality,</b> especially in high-growth emerging economies in the Indo-Pacific and South America.</li> </ul>	<ul style="list-style-type: none"> <li><b>CUSMA compliance and eligibility has risen to ~88%, but the 2026 joint review is a key inflection point.</b> A renegotiated FTA could tighten rules-of-origin and economic-security provisions, reshaping market access.</li> <li><b>Corporate strategies are increasingly tied to regulatory outcomes,</b> requiring strategic foresight, scenario planning, and resilience to be adequately prepared in an increasingly uncertain macroeconomic and geopolitical environment.</li> </ul>	<ul style="list-style-type: none"> <li><b>Budget 2025 introduces \$141.4B in new spending, \$51.7B in cost savings, a \$78.3B deficit,</b> financing a \$280B nation-building agenda in infrastructure &amp; housing, productivity &amp; competitiveness, and defence &amp; security.</li> <li><b>For Canadian corporates, this agenda expands public-private partnership opportunities</b> in reindustrialization, critical infrastructure, energy, defence industrial base, sovereign AI, and other strategic sectors.</li> </ul>



# Canada's economy is entering a new era as structural shifts from tariffs to trade realignment recast its strategic fundamentals, with implications on corporate competitiveness

## Canada's macro signals point to softening momentum amid trade-led disruption

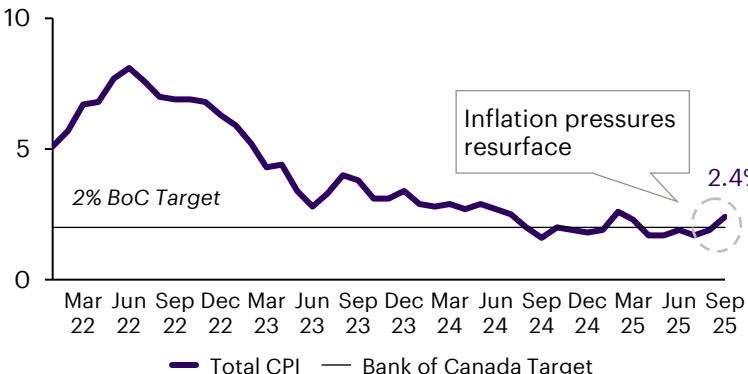
### Canada's Quarterly GDP Growth

Nominal GDP, annualized rate, quarterly data, %<sup>1</sup>



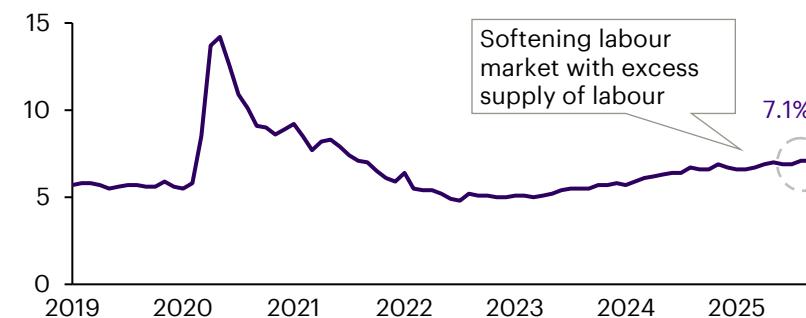
### Canada's Consumer Price Index (CPI)

Inflation rate, total CPI, %<sup>3</sup>



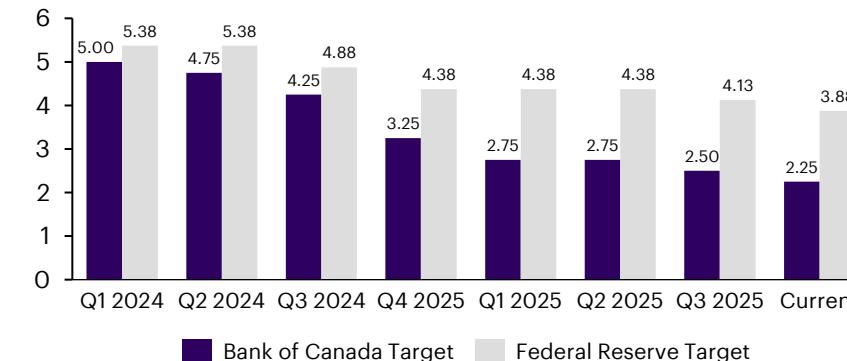
### Canada's Unemployment Rate

Unemployment rate, %<sup>2</sup>



### Policy Interest Rate, Bank of Canada vs. Federal Reserve

Target rates at the quarter end, average of target range, %<sup>4,5</sup>



## Commentary

- Canada is in a trade-led slowdown.** Q2 GDP fell 0.4% as U.S. tariffs curtailed demand and the unwind of pre-tariff stockpiling removed a temporary support for exports.
- Labour market slack is now material.** The unemployment rate has risen to 7.1%, with losses concentrated in trade-sensitive industries, signaling that tariff uncertainty is feeding through to hiring.
- Central bank stance indicates monetary-to-fiscal policy handoff.** Bank of Canada's consecutive 25 bps cuts reflect deteriorating economic conditions.
- Policy rate is likely to remain constant in the near-term,** as CPI inflation rises above 2% target to 2.4%, fiscal policy is expected to become the main stimulus lever via Budget 2025.

## Implications for Canadian Corporates

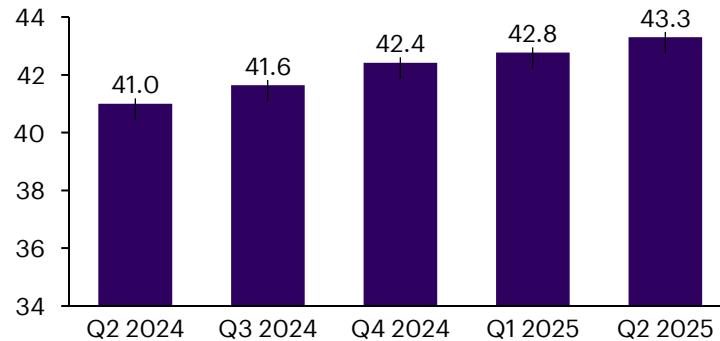
- Revenue and margins are under pressure,** as slower growth and softer U.S. demand cut visibility and compress profitability.
- Trade policy dominates risk.** CUSMA review and tariff volatility put compliance, rules-of-origin, and localization as core determinants of competitiveness and strategic planning.

# Canada's consumer backdrop is weakening, as household spending and debt outpace income, and a softer Canadian dollar erodes purchasing power

## Canada's consumer signals point to fading resilience

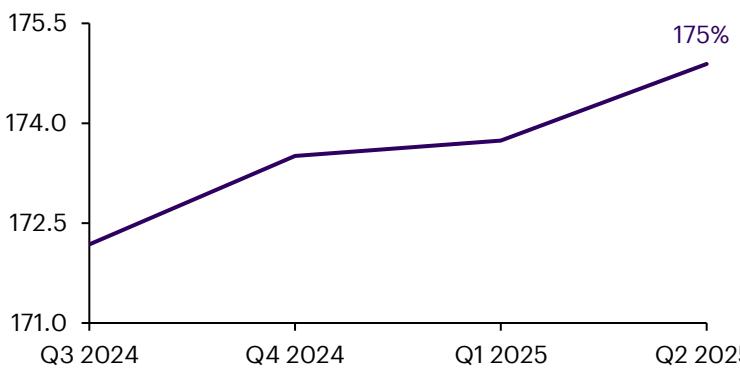
### Household Spending

Household final consumption expenditure, C\$B<sup>1</sup>



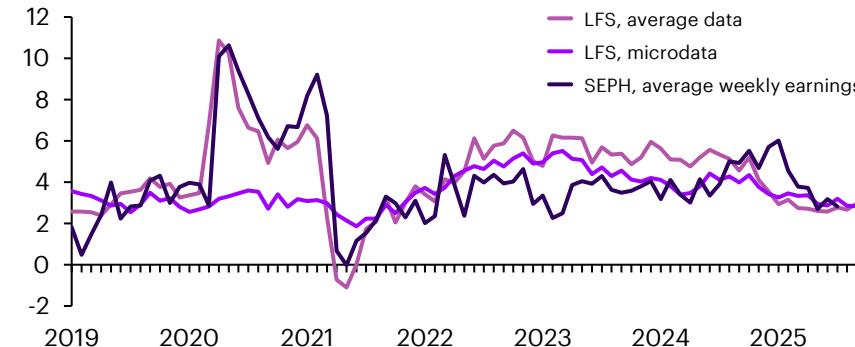
### Credit Market Debt to Disposable Income

Seasonally adjusted at quarterly rates, %<sup>3</sup>



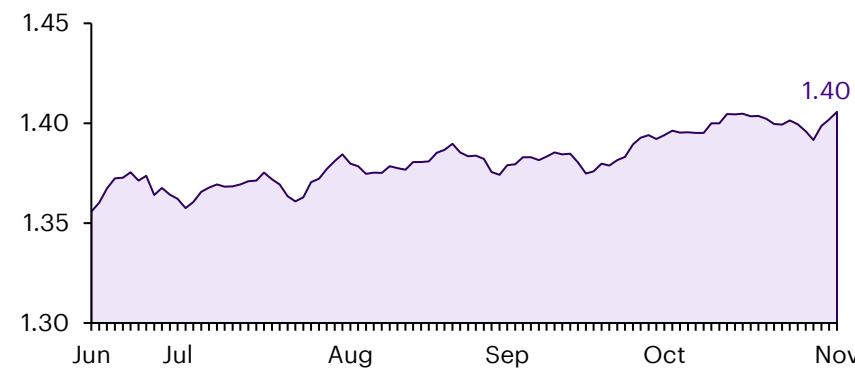
### Wage Growth

Year-over-year percentage change, monthly<sup>2</sup>



### Canadian Dollar

Value of 1.00 USD in CAD<sup>4</sup>



### Commentary

- Household spending is outpacing income.** Household outlays kept rising into Q2 even as private-sector wage growth slipped into the low single digits, signalling consumption that is increasingly financed by credit and savings rather than income gains.
- Credit-market debt relative to disposable income has climbed for four consecutive quarters,** leaving households more exposed to employment shocks and to the pass-through of borrowing costs.
- Purchasing power is eroding.** A weaker Canadian dollar is raising the cost of imports and travel. Given stagnant wage momentum, real purchasing power is under pressure, and consumer sentiment remains fragile.

### Implications for Canadian Corporates

- Demand skews toward affordability,** as spending outpaces income and real purchasing power erodes; discretionary, interest-sensitive, and big-ticket categories face softer growth, greater price elasticity.
- Margin risk rises with FX pass-through constrained.** A weaker CAD lifts landed costs while stagnant wage growth limits scope for broad price increases.





Section 2.2

# Economic & Geopolitical Intelligence

*Macro developments  
impacting Canada*

# Canada's nation-building agenda is shifting from monetary easing to fiscal activation, leveraging trade diversification and strategic investment to reignite economic growth

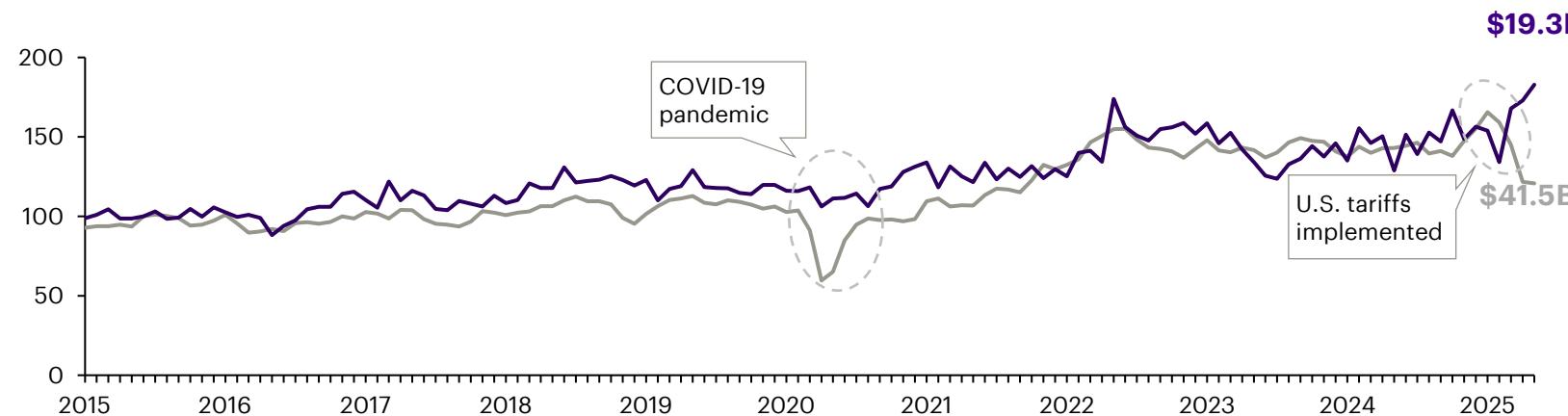
Fiscal pivot and trade realignment mark a coordinated strategy to reposition Canada in a reshaping global order

Select Developments	Situation	What to watch for
 <p><b>Canada—United States—Mexico Agreement (CUSMA) Joint Review</b> North American Trade at a Crossroads</p>	<ul style="list-style-type: none"> <li>The 2026 CUSMA joint review has shifted from an implementation assessment to a broad negotiation, <b>Washington likely to use the process to seek concessions on trade and security priorities</b>.</li> <li><b>Ottawa is signaling a trilateral posture</b>, Carney's visit to Mexico emphasized closer Canada-Mexico coordination ahead of review.</li> <li><b>A stand-alone Canada-U.S. deal on tariffs is unlikely in the near-term</b>; CUSMA review is the primary channel for adjustments.</li> </ul>	<ul style="list-style-type: none"> <li><b>Automotive rules of origin, digital trade commitments, and economic-security provisions to de-risk third-country inputs</b> are probable domains for tighter rules in the review.</li> <li>The review is a platform for <b>Canada to advocate for deeper integration in critical minerals and AI infrastructure stacks</b>.</li> <li><b>Business confidence is highly sensitive to renegotiation risk</b>, with firms potentially delaying investment and hiring decisions.</li> </ul>
 <p><b>Canada—China Trade Relations</b> Re-Engagement at a Strategic Inflection</p>	<ul style="list-style-type: none"> <li><b>Tariffs raised materially</b>, Canada imposed a 100% tariff on Chinese EVs, and a 25% surtax on steel and aluminum, <b>anchoring a de-risking stance on overcapacity and non-market practices</b>.</li> <li>China retaliated with measures <b>hitting Canadian agri-food, including anti-dumping duties on Canadian canola</b>.</li> <li><b>Carney-Xi meeting at the APEC summit in Gyeongju</b> resulted in both sides agreeing to accelerate the resolution of trade tensions.</li> </ul>	<ul style="list-style-type: none"> <li><b>De-escalation signals</b>, concrete moves on canola and related agri-food access, whether tariff relief or carve-outs are floated.</li> <li><b>Ottawa's stance on the 100% EV tariff and 25% steel/aluminum surtax</b> as part of negotiating leverage in bilateral trade talks.</li> <li><b>Balancing act with the U.S.</b>, as Canada re-engages China, corporate planning must account for potential U.S. pushback.</li> </ul>
 <p><b>Canada's Budget 2025 Implementation</b> Building Canada Strong</p>	<ul style="list-style-type: none"> <li><b>Policy hand-off is underway</b> as the Bank of Canada eased the policy rate to 2.25%, while Budget 2025 scales fiscal spending to crowd-in private sector investment, generate economic growth</li> <li>Budget 2025 projects a \$78B deficit with the <b>objective of generating \$1T in public-private investment over 5 years</b></li> <li><b>New delivery vehicles are being mobilized</b>, Major Projects Office, Defence Investment Agency, Build Canada Homes, and Trade Diversification Strategy created to fast-track implementation</li> </ul>	<ul style="list-style-type: none"> <li><b>Fiscal-monetary policy alignment</b>, if low rates and stimulus can lift productivity and exports without reigniting inflation</li> <li><b>Capital-flow activation</b>, the extent to which tax incentives and public-private partnerships unlock private capital in strategic sectors increasing national productivity and export capacity.</li> <li><b>Institutional readiness of new agencies such as the MPO, DIA, and BCH</b>, as their ability to achieve operational capability at speed and scale determines delivery speed, investor confidence</li> </ul>

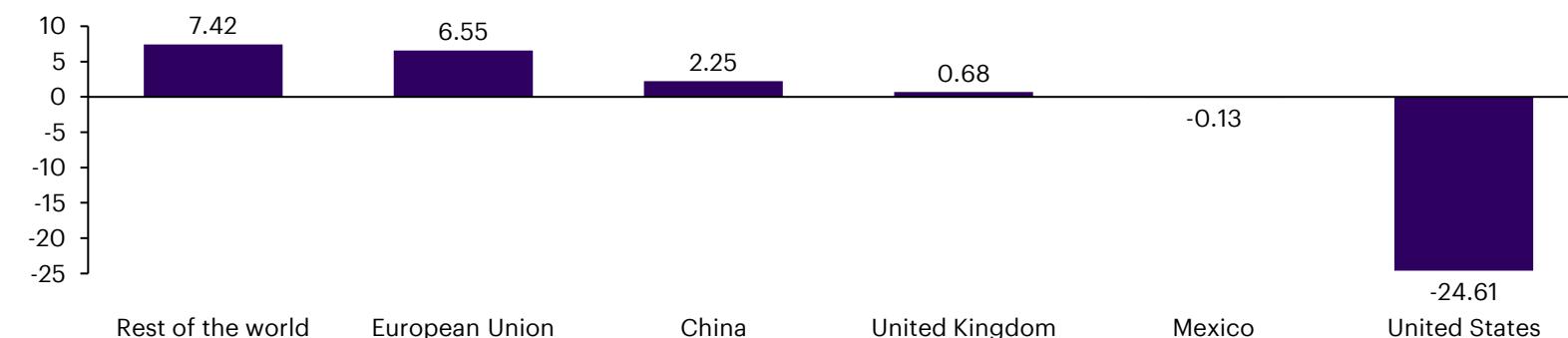
# U.S. tariffs drove Canada's sharpest GDP pullback since the pandemic; reducing reliance on the U.S. will be a long-term effort given the depth of cross-border economic integration

## Canada's U.S. export dependence presents a diversification challenge

Exports to the U.S. have fallen sharply (upper panel) and exports to markets outside the U.S. have increased (lower panel)  
 Nominal exports, index: June 2015 = 100, seasonally adjusted, monthly data<sup>1</sup>



Change in Canada's export of goods since 2024, by destination, annualized, C\$B<sup>2</sup>



### Commentary

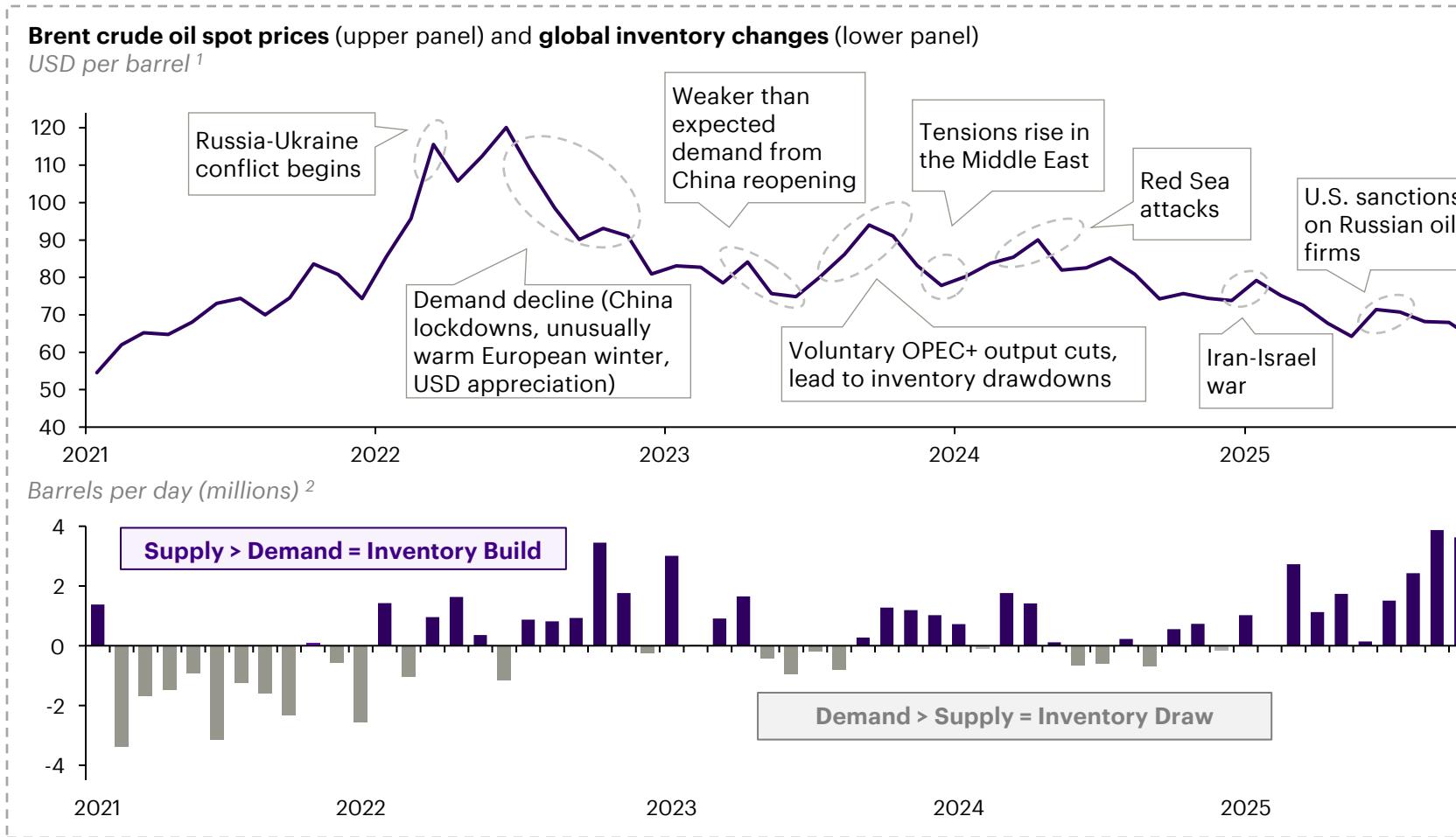
- **U.S. tariffs created an export shock.** Shipments to the U.S. fell sharply as pre-tariff stockpiles unwound, while non-U.S. exports remain far smaller than U.S.-bound flows.
- **Diversification is structural, not immediate.** Efforts in Europe, Asia, and Latin America provide only partial relief; deep North American supply chain integration keeps near-term growth tied to U.S. demand and policy.
- **Underlying momentum softened,** as counter-tariffs, reduced cross-border activity, and slower investment point to weaker volume growth, with trade frictions now the principal macro transmission channel for Canada.

### Implications for Canadian Corporates

- **Earnings sensitivity to the U.S. remains high,** with revenue more responsive to U.S. trade policy shifts than to non-U.S. demand in the near term.
- **Diversification payoffs are longer-dated.** Canada's FTA network, covering over 50 countries, 1.5B+ consumers, and 60% of global GDP creates future optionality, but near-term performance remains anchored to U.S. demand and policy decisions.

# Supply disruptions from Russia sanctions and tariffs could renew global oil price pressures and domestic fuel costs, with implications for Canadian oil producers and consumers

Geopolitical events are re-emerging global supply risks, impacting oil prices and trade flows



Notes: Monthly average of Brent crude oil price (USD per barrel)

Source(s): 1. Bloomberg; 2. U.S. Energy Information Administration (EIA); 3. International Energy Administration (IEA); 4. JPMorgan Commodities Research; 5. Accenture analysis

## Commentary

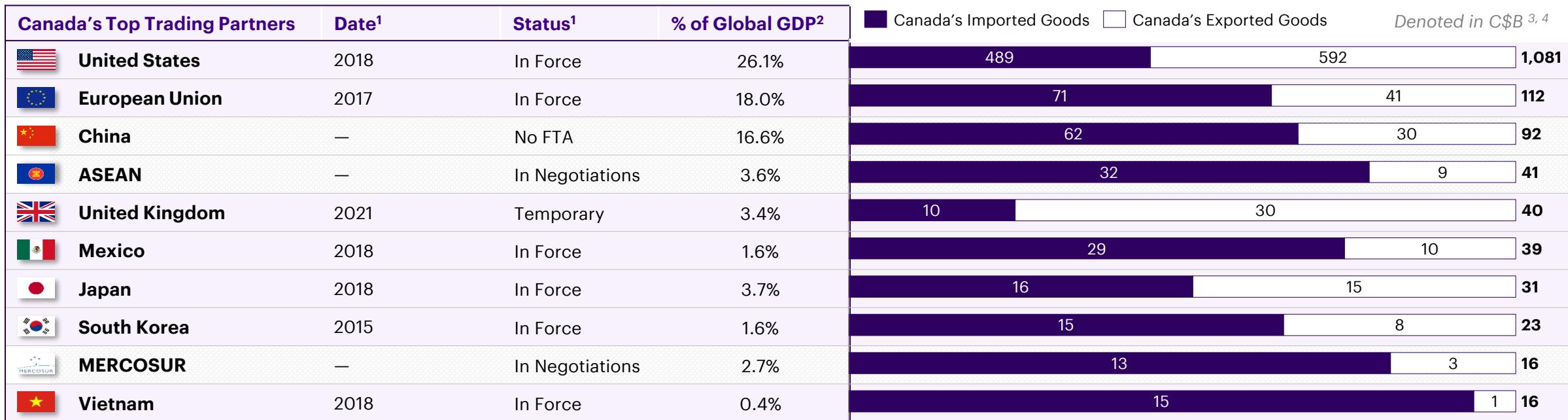
- U.S. Treasury sanctions on major Russian oil companies, and the U.S. push for EU/G7 secondary tariffs on buyers of Russian crude, keeps sanction risk elevated, yet Brent priced at ~\$65/bbl suggests the market read the action as negotiating leverage.
- Full, coordinated enforcement could displace roughly 5.3 mb/d of Russian exports, and drive Brent toward \$120/bbl, partial disruption would likely cap prices at ~\$80/bbl.
- OPEC's 4-5 mb/d headline spare capacity is a buffer, but voluntary cuts and political calculus may curb deployment, raising pass-through risk to Canadian pump prices.

## Implications for Canadian Corporates

- Macro headwinds skew higher, as a crude shock would lift headline inflation and could slow Bank of Canada easing, while a firmer CAD tightens financial conditions and complicates U.S.-dollar revenue translation.
- Earnings dispersion may widen, upstream producers and oilfield services may see higher revenues, while fuel-intensive transport, retail, and manufacturing may face margin pressure from higher energy and freight costs.

# Canada's diversification capacity is anchored in a 15+ FTA network spanning 50+ countries and 60%+ of global GDP, with ASEAN and MERCOSUR talks opening new growth corridors

Canada's extensive network of FTAs provides MNCs with privileged access to strategic foreign markets



## Commentary

- Canada and ASEAN are actively negotiating a new free trade agreement (i.e., ACAFTA). The agreement will expand Canada's preferential market access to growing ASEAN economies allowing Canada to further diversify its exports, insulate itself from trade disruptions, and support Canada's deeper integration in the Indo-Pacific region.
- Canada and MERCOSUR set to re-launch free trade agreement negotiations, representing an emerging market where Canada can diversify its over-dependence on the U.S.
- For Canadian MNCs, international market expansion supported by Canada's FTAs result in larger addressable markets and revenue optionality as well as greater operating complexity (e.g., overlapping rules of origin, content thresholds, and standards) and a broader risk profile (e.g., more FX/credit dispersion) that if managed well, can reduce single-market concentration risk and expand non-U.S. demand channels.



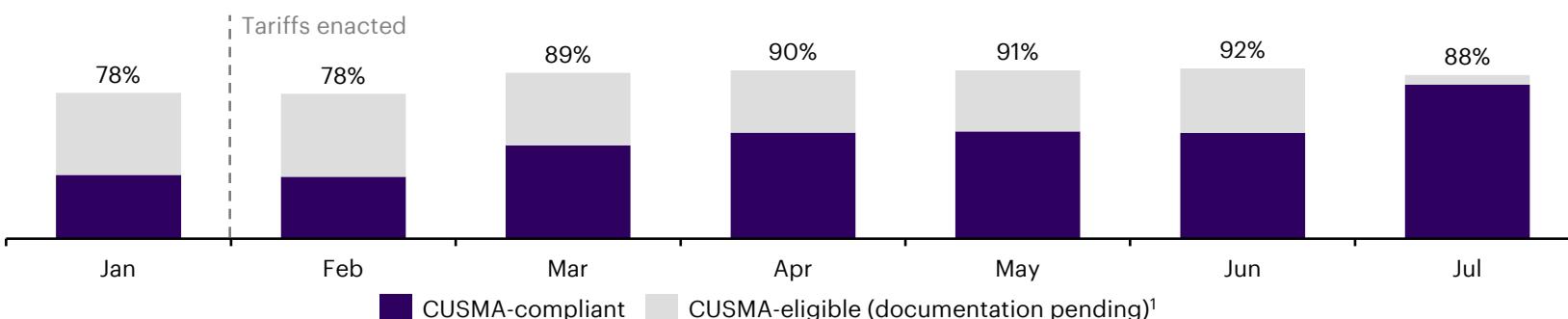
# CUSMA compliance is cushioning U.S. tariff shocks for Canadian exports, but product-specific duties keep pressure on key sectors, raising the importance of the 2026 review

## Impact of CUSMA compliance on tariff exposure

Tariff	Scope <sup>1</sup>	Value of Exports (2024) <sup>2</sup>
“Fentanyl” Tariff	35% on non-CUSMA compliant products	\$254B <sup>3</sup>
Potash & Energy Products	10% on non-CUSMA compliant potash and energy products	\$130B <sup>4,5</sup>
Aluminum & Steel Products	50% on aluminium and steel	\$20B
Cars & Trucks	25% on all cars and trucks not built in the U.S.	\$50B
Copper	50% on copper	\$4B
Softwood Timber & Lumber	10% on softwood timber and lumber	\$10B
Upholstered wooden products, kitchen cabinets and vanities	25% on upholstered wooden products, kitchen/bathroom cabinets and vanities	\$1B

## CUSMA compliance and eligibility of Canadian exports to the United States (2025)

Percent of Total<sup>6</sup>



## Commentary

- Compliance surged post-tariffs.** The share of Canadian exports entering the U.S. as CUSMA-compliant or eligible rose from ~78% to ~88%, materially dampening headline duty exposure.
- Disruption is concentrated but enforceable.** Strategic sectors face steep duties (e.g., steel/aluminum, autos, potash/energy).
- The buffer is policy-contingent.** The 2026 CUSMA review could tighten market access, and rules of origin, potentially eroding today's compliance shield and re-exposing significant volumes of exports.

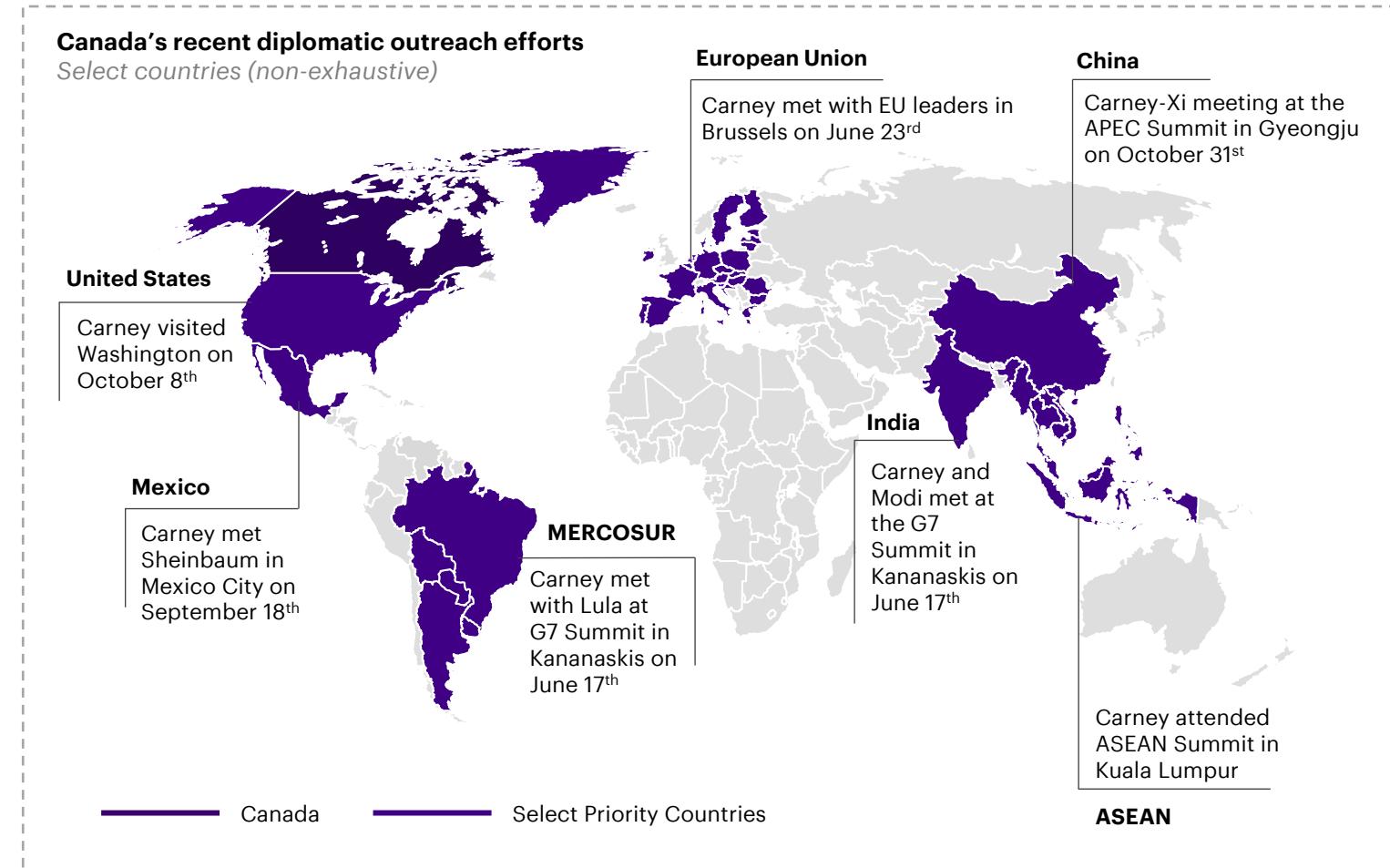
## Implications for Canadian Corporates

- Investment and sourcing economics tilt toward North American goods,** as maintaining high compliance rates becomes a determinant of capacity placement, and vendor selection.
- Corporate strategies and planning increasingly tied to trade policy.** 2026 CUSMA joint review outcomes, and a potential bilateral trade agreement have significant economic implications.

# Beyond ASEAN and MERCOSUR, Canada is pursuing a broader geostrategic alignment, reinforcing core partnerships while advancing new trade and security agreements

Canada's foreign policy engagement signals strategic diversification beyond traditional partners

Country	Key Developments
United States	PM Carney made two Washington visits in 5 months to keep channels open ahead of 2026 CUSMA review.
Mexico	PM Carney, President Sheinbaum signed pact to deepen economic and security ties ahead of 2026 CUSMA review.
European Union	"Strategic partnership of the future" launched, security and defence partnership signed.
China	Carney-Xi meeting at APEC, both sides committed to work through trade frictions (e.g., EV tariffs, canola, etc.).
India	G7 Carney-Modi diplomatic reset. New high commissioners appointed to stabilize ties and re-engage on trade.
ASEAN	PM Carney attended ASEAN Summit, announced \$25M in technical assistance toward FTA expected to be signed in 2026
MERCOSUR	Joint statement to resume FTA negotiations; chief negotiators reconvened in early October



Section 2.3

# Implications for Canadian Industry

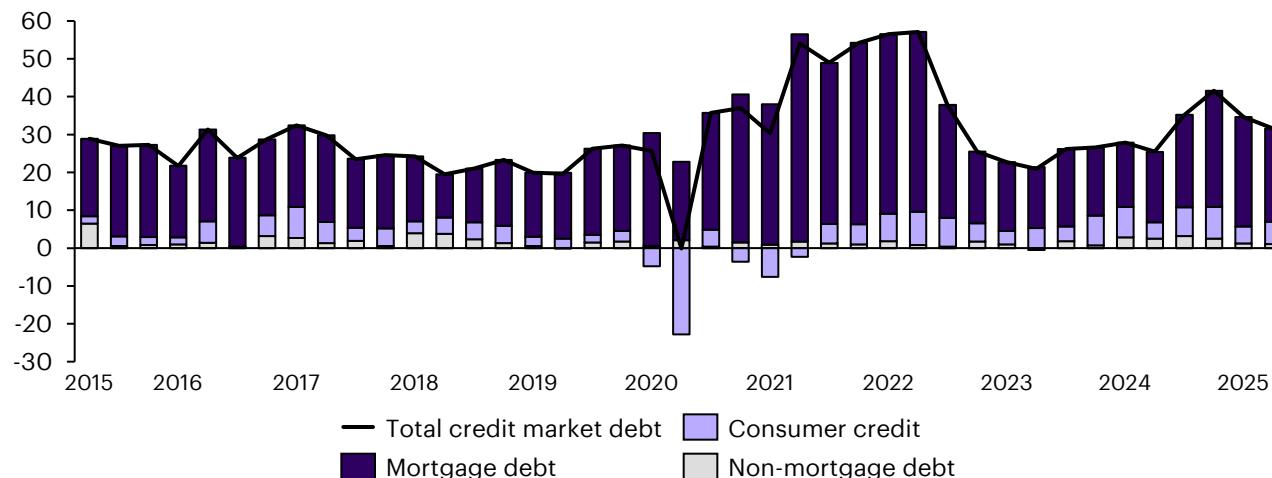
*Deep-dive into the financial services,  
resources, products, public sector,  
and CMT industries*

# Canada's financial services outlook is shifting as household debt outpaces income, and borrowing tilts toward consumer credit, tightening buffers while rebalancing profit pools

## Economic update for the financial services sector

### Household credit market debt

Seasonally adjusted flows, billions of Canadian dollars



### Industry Response Trends

- Retail credit is being re-tiered with early outreach on renewals**, tighter cut-offs for highly leveraged households, and deeper lapse and retention analytics to protect portfolio quality.
- Balance sheets are being repositioned toward resilience**, by increasing insured and secured retail exposures, repricing deposits and assets to protect net interest margins.
- Underwriting for commercial and unsecured lending is becoming more selective**, favouring counterparties linked to public-private partnerships and economic security-compliant supply chains.

### Headwinds & Tailwinds

- With household credit market debt above \$3.1T and the debt-to-income ratio rising for a third consecutive quarter to 174.9% as debt grows faster than income**, borrower cushions are narrowing, increasing the sensitivity of bank arrears and insurance lapses to economic and labour market shocks.
- Debt-service pressure is returning**. The debt-service ratio rose for the first time in six quarters to 14.41%, reflecting a 0.9% increase in mortgage interest costs at renewal; with roughly three-quarters of household credit in mortgages.
- Borrowing mix is shifting**. Mortgage flows slowed but remained sizeable at 24.6 billion dollars, while 7 billion dollars in non-mortgage credit lifted near-term interest and fee income yet shifted exposure toward higher-volatility, more capital-intensive products such as credit cards and lines of credit.
- Emerging offsets are present but fragile**. The BoC's recent 25bps cut should ease debt servicing and support net interest margins, while the MPO and Canada's CUSMA compliance help underpin employment. FX pass-through and policy uncertainty ahead of the 2026 FTA review continue to restrain confidence.

### Key Takeaways for Canadian Industry Leaders

- Retail outcomes (e.g., loan growth) will be in large part driven by the path of household debt service**, labour-market conditions, and the exchange rate.
- Profit pools are shifting away from mortgage-led growth** toward higher-yield but more volatile products (e.g., cards, lines of credit).
- Planning ranges will remain wider through 2026 awaiting results of CUSMA joint review**, and future of U.S.—Canada trade relations.

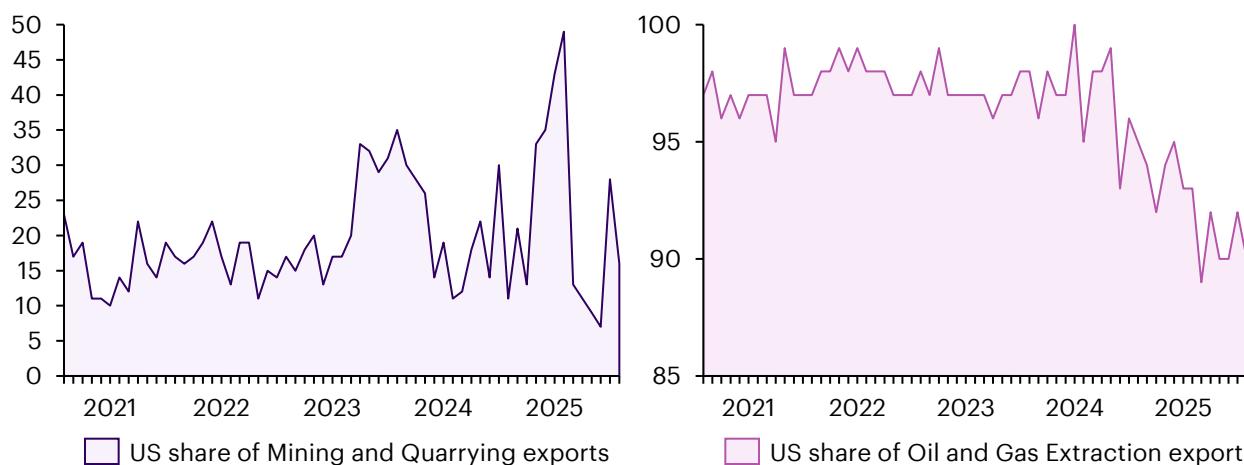


# Canada's resources sector continues to be volatile as global trade and security alliances adjust to U.S. tariff results, putting pressure on near-term prices and supply chain resilience

## Economic update for the resources sector

### Share of Canadian natural resources exports to the U.S. market

Canadian international merchandise trade by energy, minerals, monthly



## Industry Response Trends

- Major resource players are shifting focus to Asian markets** as price stability and rising demand from electrification and AI value chain needs promotes trade stability in the near-term; decline in U.S. share of exports is expected to continue.
- Marked redirection of capital toward fueling critical minerals supply chains** (i.e., discovery, refinement capacity) as prices tied to lithium, nickel, copper and other core "green metals" are seen as predictable; export demand by nation is volatile but expected to remain concentrated in U.S. and Asian partners.
- Energy producers are tilting new investment toward natural gas and LNG**, as 88% of exploration and production companies expect to grow production in 2025, with gas producers showing stronger growth, reflecting expectations for booming LNG exports and prices in new markets, particularly Asia.



Source(s): 1. Statistics Canada; 2. Wood Mackenzie; ATB Capital Markets; 4. DBRS; 5. S&P Global; 5. RFF; 6. Accenture analysis

## Headwinds & Tailwinds

- Tariff actions are paralyzing minerals and energy investment globally**, driving incremental costs and stifling supply reliability and demand resilience.
- Sluggish growth in the U.S., China, and Europe along with overproduction in base and battery metals** is leading to near-term price declines, challenging profitability outside core "green" metals.
- Record clean energy investments in renewables, transmission, and grid storage** stabilize long-term price resilience and growth trajectories for critical minerals and energy infrastructure.
- Global carbon reduction targets and mandatory renewal of Nationally Determined Contributions** (i.e., a nation's climate action targets) curbs long-term viability despite short term price rallies.
- Rapid growth in international natural gas/LNG demand** due to prioritization of energy security initiatives and rising electricity consumption are keeping prices buoyant and fueling optimism for providers and investors.

## Key Takeaways for Canadian Industry Leaders

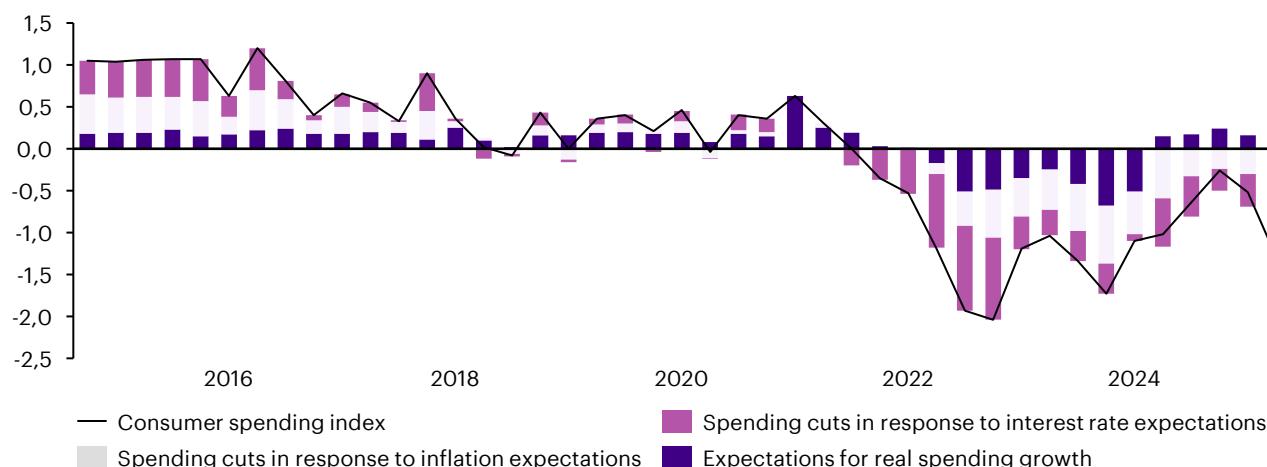
- Tariff uncertainty and shifting trade-security alignments make near-term prices and supply-chain resilience unstable. **Leaders should model multiple scenarios and high outcome volatility when evaluating capex spend.**
- Public and private investors are prioritizing clean-tech to boost energy security and expand compute capacity; **creating new revenue streams and partnership opportunities as a means of expanding market footprint.**

# Canada's **products sector** landscape is being redefined as currency pressures and trade friction collide with structural shifts in market access, challenging growth prospects

## Economic update for the products sector

### Spending intentions of Canadian consumers

Bank of Canada Survey of Consumer Expectations, CSCE



### Industry Response Trends

- As a result of U.S. tariff / trade policy and broader global supply chain pressures, retailers and product manufacturers have been raising prices, further challenging their competitiveness and more heavily impacting those less reliant on domestic products.
- Amid the accelerating global AI race, retailers are investing further into partnerships and internal capabilities to stay ahead of the curve and win in an increasingly AI-led shopping environment.
- Geopolitical uncertainty has forced major industry players to re-evaluate value chain exposure and operational risks, with many further diversifying upstream operational activities and downstream markets.

### Headwinds & Tailwinds

- Persistent Canada-U.S. trade tensions continue to weigh on consumer confidence**, contributing to a second consecutive quarterly decline in the Consumer Spending Index. As a result, Canadian households are increasingly signaling a more cautious approach to discretionary spend in Q2, with a notable shift to prioritizing domestically produced goods and lower-price tiers.
- Canadian consumers are facing mounting financial strain** as credit-market debt to disposable income continues to climb, increasing household exposure to employment shocks and pass-through costs. At the same time, a weaker CAD is driving up the cost of imports, while stagnant wage growth erodes real incomes likely to further strain spending capacity going forward.
- Trade diversification is emerging as a structural tailwind for Canada's consumer goods industries** with expanded FTA coverage and an existing compliance shield limiting tariff exposure and widening market access. While near-term protection exists, the 2026 CUSMA review could limit this protection in the future.

### Key Takeaways for Canadian Industry Leaders

- Persistent trade tensions and slowed consumer spending signal a more cautious consumer. Leaders should **anticipate weaker spend and focus on insulating from consumer spend shocks**.
- Eroding real purchasing power is likely to increase consumer sensitivity to price changes and interest rates, forcing leaders to **re-evaluate pricing to balance margin protection with competitiveness and affordability**.

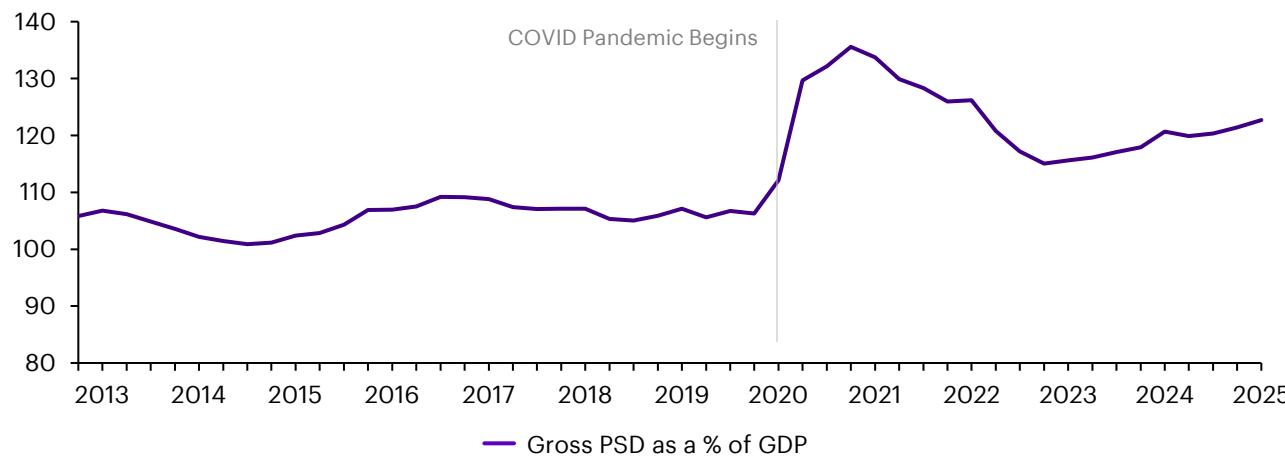


# Canada's **public sector** is beginning to feel the weight of debt servicing requirements; however, nation-building initiatives will drive deficit expansion in the medium to long-term

## Economic update for the public sector

### Sovereign Debt as a % of GDP

Gross PSD, general government, all maturities, all instruments, nominal value



### Industry Response Trends

- Crown corporations are being directed to trim budgets** in response to government efforts to address rising deficits and sovereign debt. Targets include finding savings of 7.5% in FY26, rising to 15% by FY28.
- Actions are targeted at reducing government spending, streamlining administrative activities, and reviewing staffing requirements.** Crown corporations are prioritizing core services and mandate commitments, while limiting expenditures that don't directly advance their mandates.
- As a result of debt pressures, there is a renewed interest among crowns to identify new and innovative revenue streams** that support core mandates without increasing fiscal pressures. Crowns leading strategic infrastructure are emphasizing private capital mobilization and public-private partnerships.

### Headwinds & Tailwinds

- Rising sovereign debt levels are increasingly constraining public fiscal capacity**, limiting the governments' ability to deploy countercyclical measures and fund long-term infrastructure projects. As debt-servicing costs rise, mounting pressures dampen public sector investment outlook.
- Budget 2025 sets a \$78.3B deficit (2.5% of GDP) for FY25**, falling to 1.5% by FY29, and commits to balancing day-to-day operating spending with revenues by 2028-29. **Ottawa will reduce the federal workforce by about 40,000 positions by 2028-29**, aligning headcount with population growth, freeing fiscal room for investment.
- The PMO has named the first files for review by the new Major Projects Office**, signaling a renewed push to strengthen Canada's long-term competitiveness and industrial capacity, with funding likely coming from higher deficits to back return-oriented programs.

### Key Takeaways for Canadian Industry Leaders

- Crown corporations should prepare for increased scrutiny on expenses as the government tries to adapt its spending allocation.** It will become increasingly important to show clear value derived from both investment and workforce.
- Spend reallocation results in greater need for private sector investment or public-private partnerships.** Leaders will find value in identifying key partnership targets and building value focused roadmaps to engage.

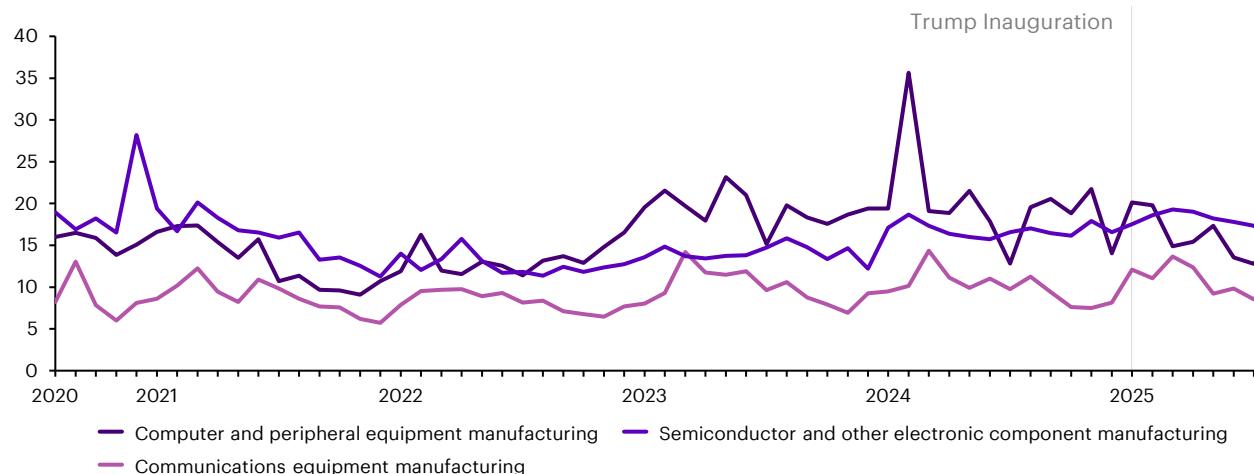


# The **CMT sector** is at a turning point, as sovereign digital infrastructure demand and brain drain reversal open new growth pathways for despite intensifying cost pressures

## Economic update for the communications, media, and technology sector

### Major electronics and technology product import reliance on the U.S.

Value of imports, U.S. percentage of imports



### Industry Response Trends

- Amid rising national demand for digital and tech sovereignty, Canadian tech and telecom firms are accelerating the buildup of domestic infrastructure, positioning themselves to lead in a global and Canadian macro environment where economic and security interests increasingly collide.
- As the global AI race intensifies, Canadian telecom firms are building partnerships with leading AI players to accelerate deployment of next-gen infrastructure and secure a role in the global AI economy.
- Traditional network operators are increasingly diversifying their offerings, shifting from pure operator models to full-scale technology enablers to offer integrated platforms in pursuit of diversified growth.

### Headwinds & Tailwinds

- The sector's heavy reliance on U.S.-sourced components and technologies is becoming increasingly costly as the Canadian dollar weakens. This currency pressure is likely to amplify import costs for key infrastructure inputs, tightening margins for firms already navigating cautious consumer demand.
- Mounting financial strain is weighing heavily on Canadian consumer sentiment, with rising debt burdens, stagnant wage growth, and a weakening Canadian dollar eroding real purchasing power. For media and tech firms, this may limit demand for digital services and subscriptions as households pull back on discretionary spend.
- Canada's tech sector may stand to benefit from shifting cross-border talent dynamics, as recent U.S. H-1B visa constraints may reduce brain drain. With wage stagnation previously fueling brain drain in STEM fields, the policy shift may help Canada retain high-skilled talent, easing talent shortages in the tech sector.

### Key Takeaways for Canadian Industry Leaders

- Sector leaders must constantly evaluate procurement strategies and explore domestic sourcing where feasible to insulate against further FX-driven cost pressures.
- As H-1B visa constraints may slow the outflow of Canadian STEM talent, a window may exist for the technology sector to strengthen its domestic talent pipeline, and position Canada as a hub for high-skilled tech innovation.



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