



### Canadian economy gained early year traction in advance of war

The Canadian economy looks to have gained some traction in the early months of 2026, according to the latest industry-GDP data out of Statistics Canada. This is now old news as the ongoing Middle East war and shock to oil prices are factoring into current and future growth and inflation prospects. Nevertheless, the data allow us to assess the strength of the economy prior to the war.

Industry GDP expanded by 0.1 per cent m/m in January, which followed a 0.2 per cent increase in December. After a steep contraction in November, industry output has officially increased for three straight months, and if preliminary estimates of a 0.2 per cent gain for February hold, there were increasing signs of momentum even as the labour market faltered. While year-over-year growth was a mild 0.6 per cent, quarterly annualized GDP looks to be on track for a gain of about 1.5 per cent in Q1. LFS employment plunged in February by nearly 84k people, with a two-month loss of 109k. Higher GDP and lower employment could reflect a more productive labour force.

Back to January details, positive headline growth masked ongoing challenges facing tariff-sensitive sectors, where output was clearly weaker.

Good-sector GDP expanded by 0.2 per cent but led by the construction sector, which grew 1.1 per cent m/m and 2.8 per cent y/y. Upward growth has reflected both housing construction and engineering construction. Resource extraction increased 1.2 per cent m/m to reverse a December slide, as oil and gas extraction increased but was flat y/y. Offsetting the gain was a steep decline in manufacturing, which contracted 1.4 per cent after increasing in December. The motor vehicle and parts sector fell 11 per cent on lower vehicle output (23 per cent) as winter retooling extended into January. Year-over-year, manufacturing plunged 4.6 per cent. The auto sector continues to face steep tariffs on non-US made components.

Services-sector output was flat in January but up 1.1 per cent y/y. Dragging on growth was wholesale trade (-1.2 per cent m/m), and transportation/warehousing (-0.7 per cent), while there continued to be significant downward pressure on business and building services which never recovered after the pandemic. Positive drivers of services-sector growth included retail trade (+0.8 per cent), finance and insurance (+0.5 per cent), and education (+0.5 per cent).

While the economy showed momentum to start the year, the environment has rapidly shifted with the war in Iran that began in late February. Business confidence as measured by the Canadian Federation of Business rolled back sharply in March, gasoline prices have spiked, and we expect consumers to shift some of their spending in response. High oil prices will benefit provinces like Alberta and Saskatchewan through higher profits, incomes and government revenue, but be a tax on consumers in other provinces. A short-term oil price spike is unlikely to trigger significant investment spending gains, while feedback through a slower global economy, and higher product prices for some goods and services could drag on growth. With a tempered labour market, signs of early-year economic momentum, and upside inflation risk, we expect the Bank of Canada to stay on the sidelines this year even as markets are pricing rate hikes.

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## GDP by Industry, \$2017

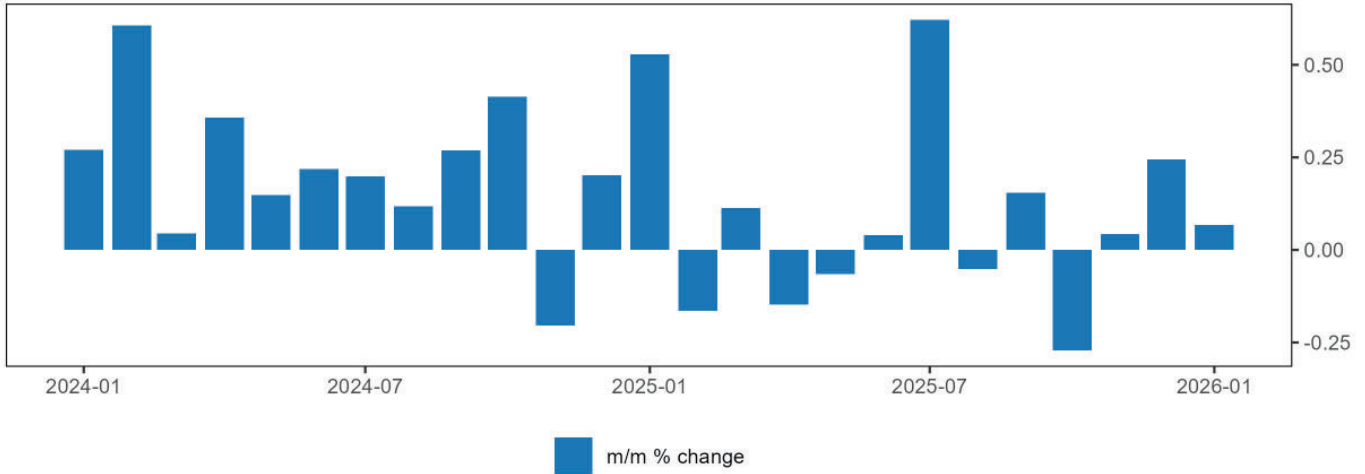
Jan/2026	\$mil	m/m %ch	y/y %ch	ann. m/m %ch	ann. 3m %ch	YTD %ch	Month-to-month per cent change		
							Nov/2025	Dec/2025	Jan/2026
<b>All industries</b>	<b>2,342,804</b>	<b>0.1</b>	<b>0.6</b>	<b>0.8</b>	<b>1.4</b>	<b>0.6</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>
<b>Goods-producing industries</b>	<b>592,285</b>	<b>0.2</b>	<b>-0.5</b>	<b>2.3</b>	<b>0.3</b>	<b>-0.5</b>	<b>-0.3</b>	<b>0.2</b>	<b>0.2</b>
Agriculture, forestry, fishing and hunting	46,509	-1.4	5.4	-15.2	-13.0	5.4	-1.1	-1.0	-1.4
Mining, quarrying, and oil and gas extraction	121,121	1.2	-0.1	15.2	1.8	-0.1	0.2	-1.0	1.2
Utilities	47,857	0.6	-1.7	7.3	15.1	-1.7	0.9	2.0	0.6
Construction	173,201	1.1	2.8	14.4	8.0	2.8	0.6	0.2	1.1
Manufacturing	195,265	-1.4	-4.6	-15.9	-7.1	-4.6	-1.7	1.3	-1.4
<b>Services-producing industries</b>	<b>1,757,581</b>	<b>0.0</b>	<b>1.1</b>	<b>0.2</b>	<b>1.9</b>	<b>1.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.0</b>
Wholesale trade	124,361	-1.2	-1.7	-13.3	-6.5	-1.7	-1.9	1.5	-1.2
Retail trade	126,306	0.8	2.7	10.1	8.4	2.7	1.2	0.0	0.8
Transportation and warehousing	104,712	-0.7	1.6	-7.8	4.6	1.6	0.8	1.0	-0.7
Finance and insurance	180,271	0.5	3.2	5.7	1.2	3.2	-0.2	0.0	0.5
Real estate and rental and leasing	309,335	-0.2	1.2	-2.5	-0.5	1.2	0.1	0.0	-0.2
Professional, scientific and technical services	168,563	-0.1	-0.4	-0.7	-0.1	-0.4	0.2	-0.1	-0.1
Management of companies and enterprises	614	-4.1	-21.9	-39.2	-27.3	-21.9	-1.8	-2.0	-4.1
Administrative and support, waste management and remediation services	61,064	-0.1	-0.2	-0.7	1.6	-0.2	0.3	0.2	-0.1
Educational services	124,271	0.5	-1.9	5.7	8.0	-1.9	1.1	0.4	0.5
Health care and social assistance	191,408	0.0	2.1	0.3	1.2	2.1	0.2	0.0	0.0
Arts, entertainment and recreation	19,618	-0.1	2.2	-0.9	5.4	2.2	-0.3	1.7	-0.1
Other services (except public administration)	44,835	0.2	0.3	2.9	2.8	0.3	0.2	0.2	0.2

Source: Statistics Canada, Central 1

# Canada Industry GDP, \$2017 dollars

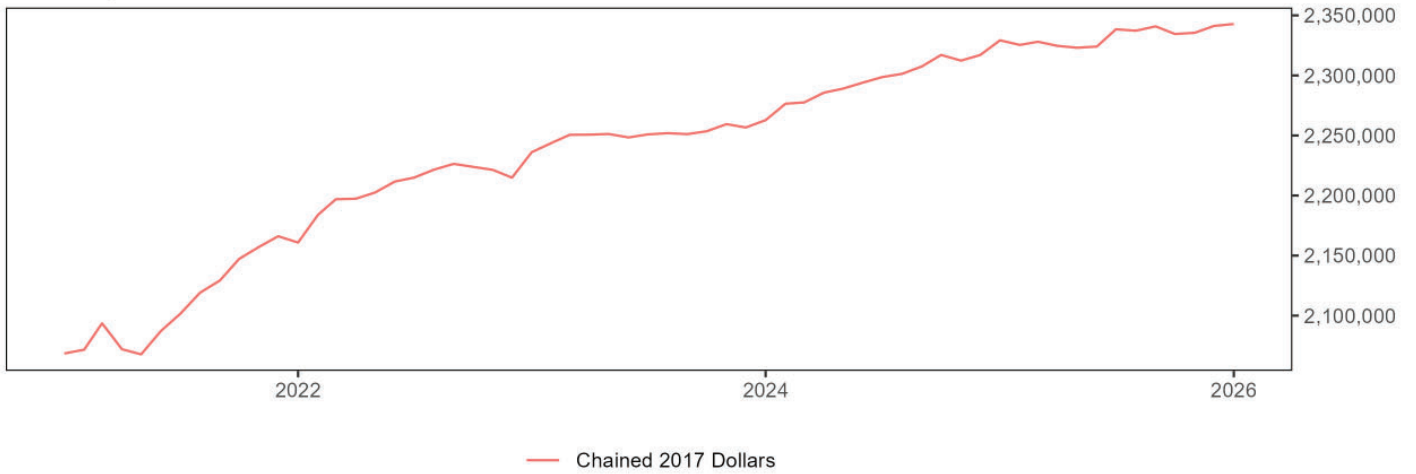
Industry GDP: Monthly Per Cent Change

Last data point: 2026-01-01



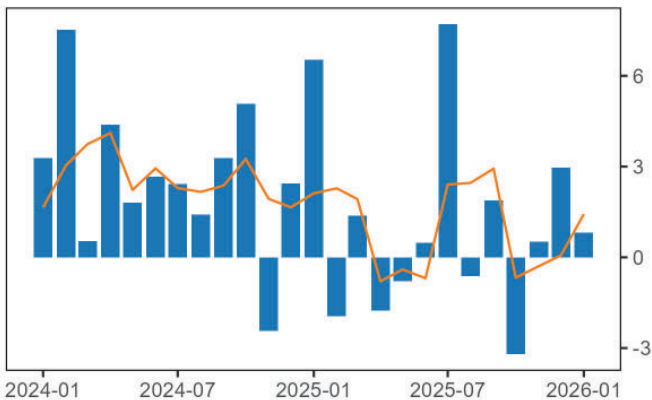
Industry GDP: \$ millions

Last data point: 2026-01-01



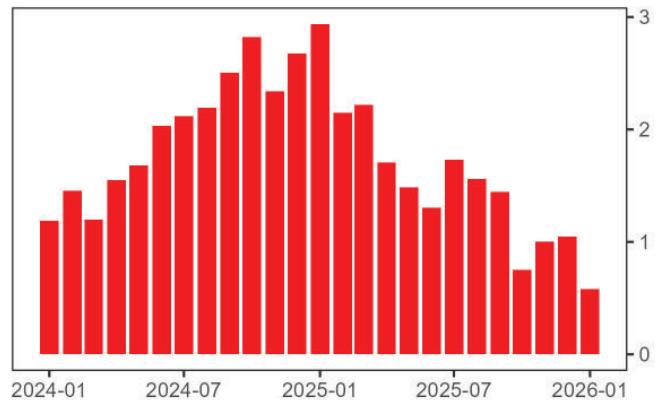
Industry GDP: Annualized Per Cent Change

Last data point: 2026-01-01



Industry GDP: 12- Month Per Cent Change

Last data point: 2026-01-01



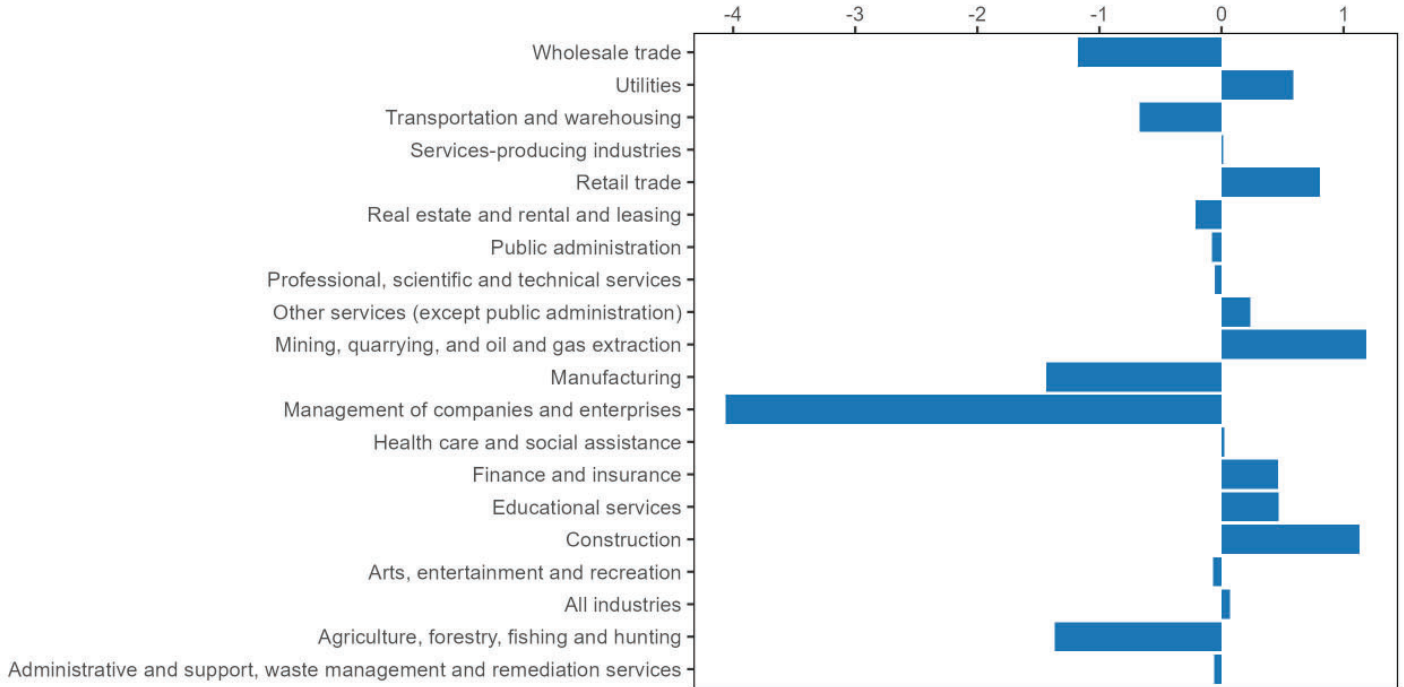
— 3m % change, annualized    ■ m/m % change, annualized

■ y/y % change

# Canada Industry GDP by Industry

Industry GDP: Monthly Per Cent Change

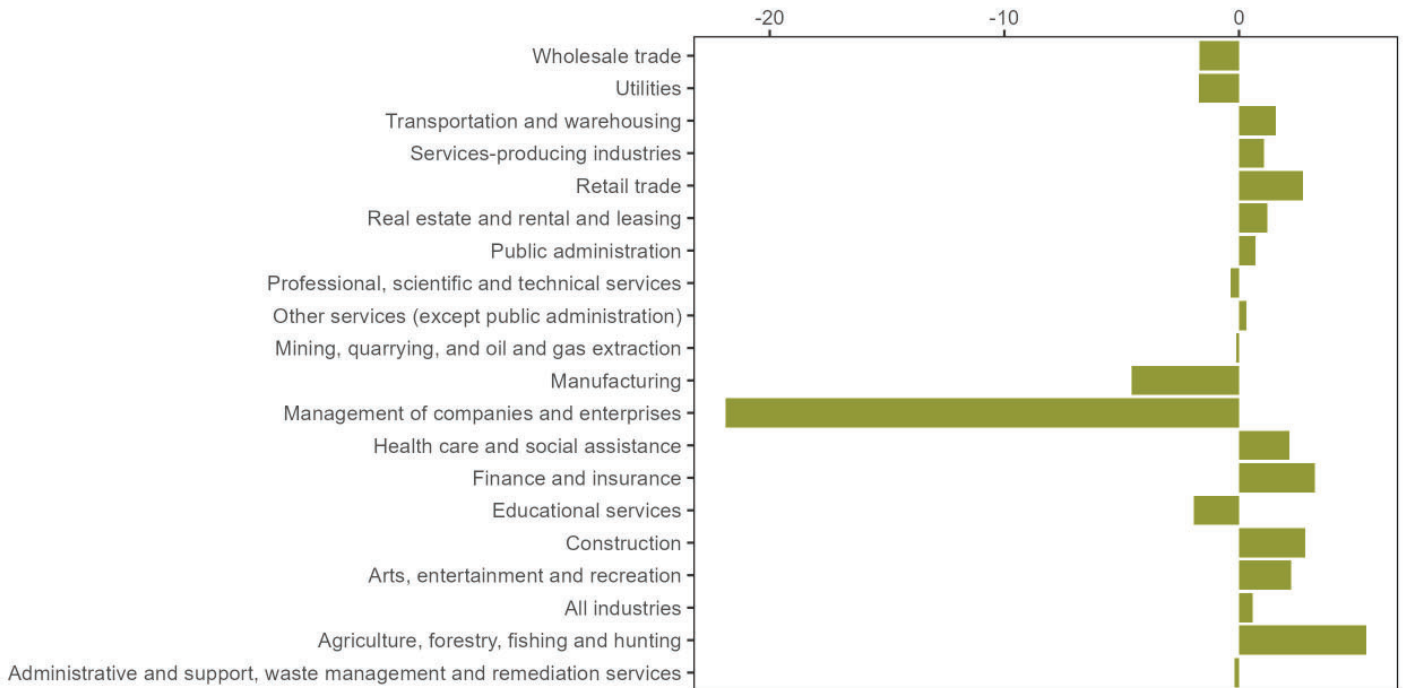
Last data point: 2026-01-01



■ m/m % change

Industry GDP: 12m Per Cent Change

Last data point: 2026-01-01



■ y/y % change