

Canada's Economic Outlook: Fragile Growth, Rising Risks, and Structural Weaknesses

Canada's economy is set to close out **2024** on a weak footing, marked by slowing growth, rising unemployment, and structural inefficiencies. Looking ahead into **2025**, a **modest recovery** is expected, supported by lower interest rates and fiscal measures. However, persistent challenges in **per capita output**, **immigration execution**, and external trade risks will test Canada's resilience.

2024 RECAP: A YEAR OF TRANSITION AND FRACTURED MOMENTUM

Canada's **real GDP** is projected to grow **1.1% in 2024**, reflecting a year of uneven momentum:

- **Q2 2024** provided temporary strength at **2.2% annualized growth**, fueled by increased government spending and a modest consumer rebound.
- Growth sharply slowed in **Q3** to **1.0%**, highlighting structural challenges in productivity and labor markets.
- **Q4 is expected to end at 1.8%**, as fiscal measures like the GST holiday offer late-stage boosts.

Despite headline growth, **per capita measures** continue to deteriorate:

- **Real GDP per capita** is expected to contract **-1.0% in 2024**, and working population output to fall **-2.0%** as population growth outstrips economic gains (Chart 1).

Chart 1A: Growth Without Progress - Real GDP Rises While Per Capita Output Falls

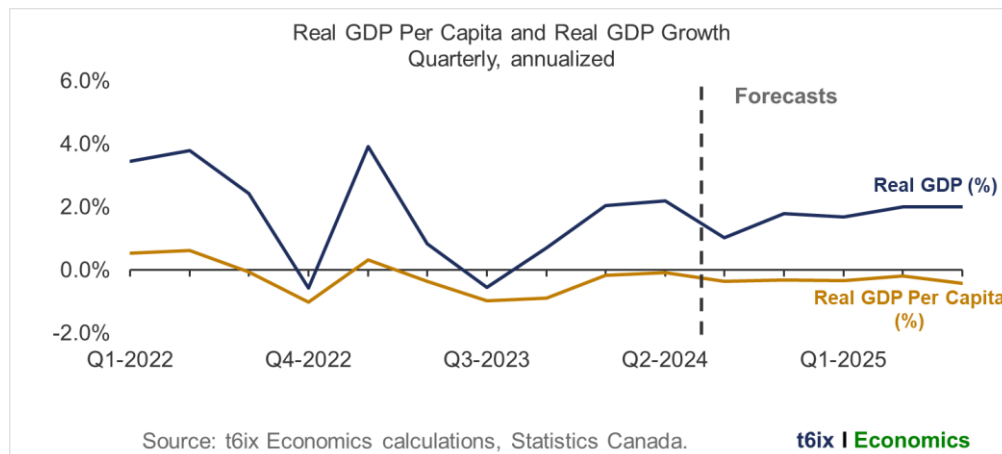
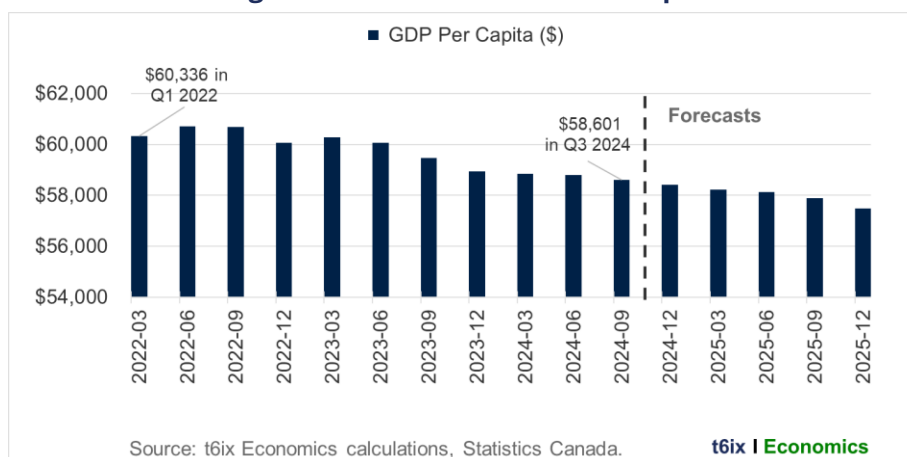


Chart 1B: Stagnant Wealth - Real GDP Per Capita in Decline



Population Challenges and GDP Per Capita

Declining Canada's **Real GDP Per Capita**, projected at **-1.0% in 2024** and **-1.5% in 2025**, underscores a growing disconnect between economic growth and population trends. The federal government's plan to reduce Canada's population through visa expirations and outflows faces considerable skepticism:

- **Unrealistic Departures:** Achieving the projected exodus would require a scale of departures unprecedented in Canadian history, despite increasing visa overstays and a surge in asylum claims.
- **Immigration Backlash:** Current policies risk creating a bottleneck of undocumented migrants and overstayers, exacerbating strains on public systems rather than alleviating pressures.

The Impact on GDP Per Capita

Forecasting population trends is inherently uncertain, and the announced measures appear overly optimistic in their execution. Even if population targets are met, Canada's persistent productivity gaps and structural challenges in housing and labor markets will likely limit per capita output gains:

- High affordability challenges and labor mismatches continue to weigh on productivity.
- Persistent structural issues mean GDP per capita will remain under pressure, leaving questions about the long-term sustainability of Canada's growth model.

The proposed immigration cuts are ambitious but face significant execution risks. **Without substantial improvements in productivity and structural reforms, GDP Per Capita will continue to erode**, raising critical concerns about Canada's ability to achieve sustainable economic growth.

2025 OUTLOOK: A MODEST RECOVERY AMID STRUCTURAL HEADWINDS

1. Economic Growth: Recovery, but Without Velocity

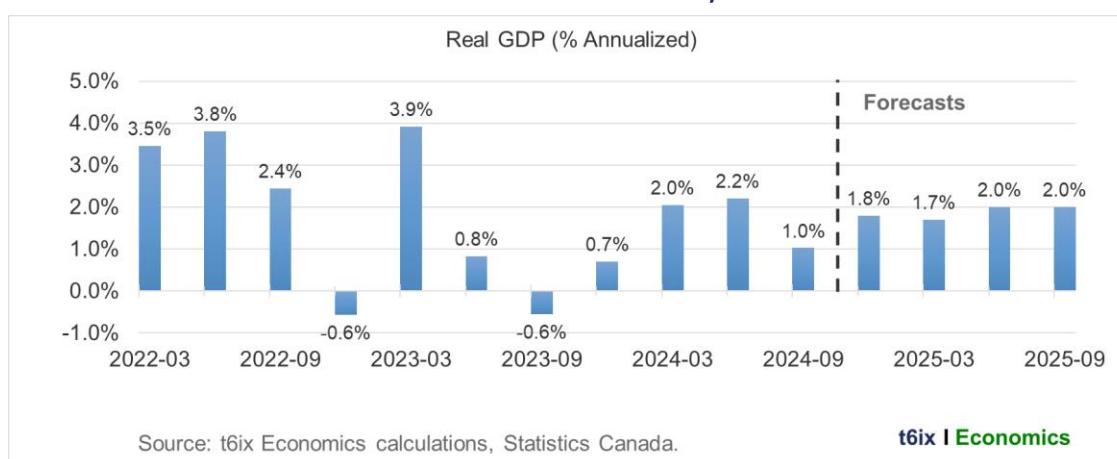
Canada's economy is forecast to grow **1.8% in 2025**, signaling a modest improvement from **1.1% in 2024**:

- Quarterly growth accelerates through 2025, with **2.0%** in each of **Q2** and **Q3**, underpinned by easing financial conditions and improved global trade dynamics.
- Government spending and modest investment recovery will act as key growth drivers.

However, **challenges** persist:

- Productivity remains a drag on growth, limiting gains in per capita output.
- Skepticism over the federal government's immigration execution raises concerns about labor market mismatches and housing stability.

Chart 2: A Modest Climb: Real GDP Recovers, but Growth is Uneven



Key Takeaway: While GDP growth improves in 2025, structural weaknesses in productivity and demographics will limit upside potential.

2. Labor Market: Rising Unemployment Before Stabilization

The **unemployment rate** will rise to **6.8% by early 2025**, up from **6.3% in 2024**, as businesses remain cautious about hiring:

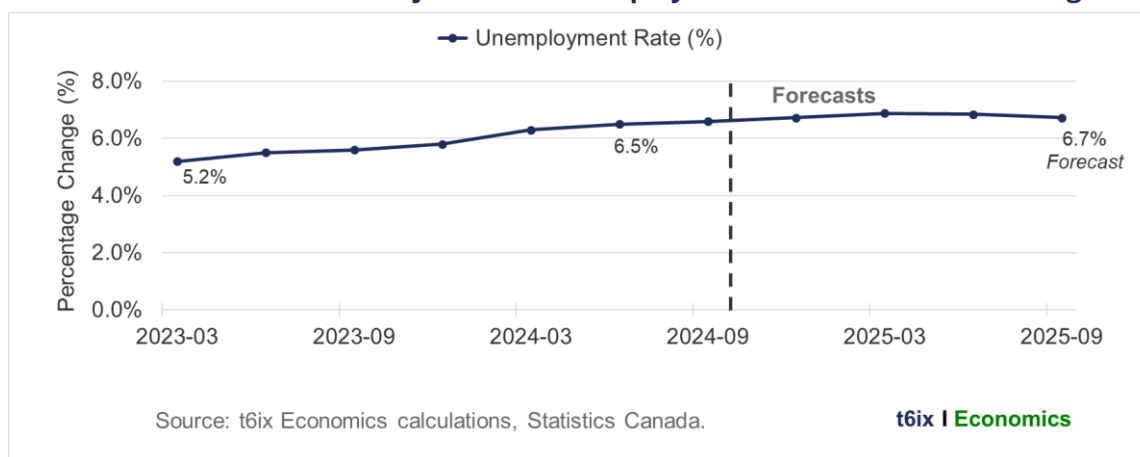
- Hiring intentions are below historical averages, signaling limited appetite for expansion.
- The labor market will stabilize later in 2025, as lower interest rates support demand and sectors like construction benefit from housing policy adjustments.

Despite immigration curbs, skepticism remains high:

- New arrivals still face disproportionate job losses, with participation rates showing discouragement among workers.
- Per capita employment will remain under pressure, exacerbating structural inefficiencies.

Key Data: Employment growth is expected to stabilize at **1.7% in 2025**, but gains will be uneven across regions and sectors.

Chart 3: Labor Market Adjustment: Unemployment Peaks Before Stabilizing



Key Takeaway: Rising unemployment reflects short-term adjustments, but **structural mismatches** will limit long-term gains.

3. Consumers: Relief from Rates, But Spending Cautious

Consumer spending growth will slow to **1.7% in 2025**, reflecting restrained optimism despite lower interest rates:

- **Mortgage renewals** at higher rates will continue to weigh on household disposable income, particularly in early 2025.
- Government fiscal transfers (e.g., GST relief, Ontario cheques) will provide **temporary boosts** to consumption, particularly in Q1.

However, consumers remain cautious:

- Spending on discretionary goods will remain muted, reflecting weak wage growth and elevated job insecurity.
- Core inflation, expected to decline to **2.0% in 2025**, will provide some price stability, supporting essentials-based spending.

Key Takeaway: Consumers will **tighten their belts**, prioritizing essentials, as income pressures and labor market uncertainties weigh on confidence.

4. Housing Market: Stabilization with Lingering Risks

Canada's housing market will show modest recovery in 2025, supported by lower borrowing costs:

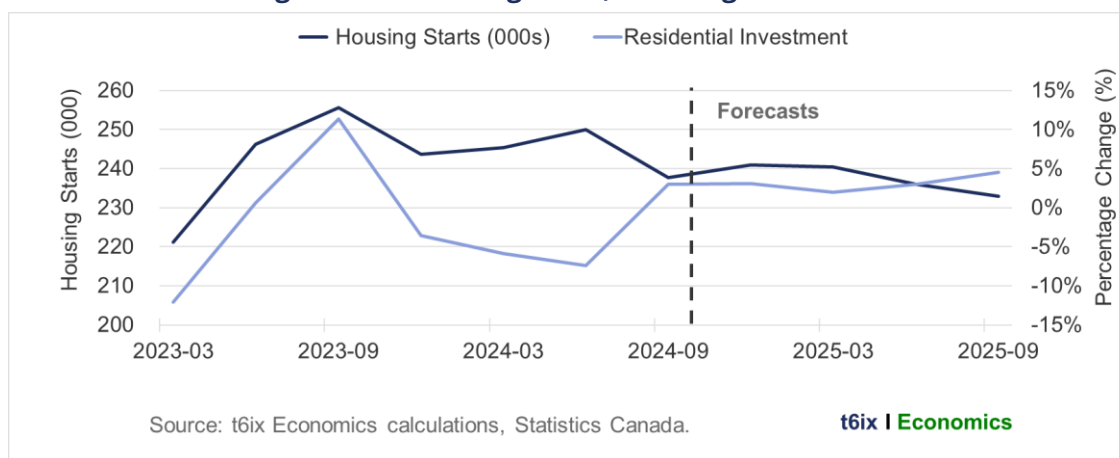
- **Residential investment** will grow **2.1% in 2025**, up from **-1.4% in 2024**, reflecting increased activity in affordable markets like **Calgary** and **Moncton**.
- **Housing starts** are expected to stabilize at **245,000 units**, slightly above 2024 but below pre-pandemic averages.

Affordability challenges and immigration curbs will shape housing demand:

- **Toronto** and **Vancouver** will remain constrained by limited affordability and high condo inventories.

- Rent inflation will ease slightly as vacancy rates rise, particularly in urban centers.

Chart 4: Housing Stabilizes: Easing Rates, But Long-Term Imbalances Persist



Key Takeaway: Housing will recover modestly in 2025, but affordability and supply-demand imbalances remain unresolved.

5. Inflation and Interest Rates: Easing, But Not Over

Inflation is projected to cool further, with **CPI averaging 1.9% in 2025**, aligning with the Bank of Canada's target:

- Core inflation will stabilize at **2.0%**, reflecting easing housing and energy pressures.

The Bank of Canada is expected to continue its easing cycle:

- The policy rate will fall to **2.5% by Q3 2025**, down from **4% in 2024**, marking a return to more stimulative levels.

However, rate relief will not be a panacea:

- Borrowing costs remain elevated in real terms, limiting the full benefit of rate cuts for households and businesses.

The Canadian dollar will average **73 cents USD**, reflecting continued competitiveness challenges.

6. External Risks: Trade and Tariff Uncertainty

Canada's reliance on trade poses significant risks, particularly under a more protectionist U.S. administration:

- **Tariff threats** on imports to the U.S. could disrupt Canadian exports, particularly in manufacturing and energy.
- Businesses will remain hesitant to invest amid uncertainty about the **USMCA review** and future trade relations.

While pre-tariff inventory stockpiling may provide a short-term boost in early 2025, the long-term impact includes:

- **Slower output**
- **Higher inflation**
- **Job losses in export-reliant sectors**

CONCLUSION: A FRAGILE PATH FORWARD

Canada's economic outlook for **2025** is marked by **modest recovery** and lingering structural challenges:

- Real GDP growth is projected at **1.8%**, with per capita measures remaining weak at **-1.5%** as productivity gains fail to keep pace.
- Unemployment will peak at **6.9%** in early 2025 before stabilizing later in the year.
- Consumer spending will remain restrained, and housing recovery will be slow and uneven.

Per capita economic outcomes remain a critical concern, highlighting the need for improved **productivity** and effective immigration policy execution. External risks, particularly trade disruptions, add uncertainty to the outlook.

Looking beyond 2025, achieving sustainable growth will require Canada to address **productivity gaps**, balance **immigration execution**, and manage its exposure to global trade risks.

January 2025

CANADA	Quarterly						Annual		
	2024			2025			2023	2024f	2025f
ECONOMIC FORECAST (q/q % annualized)	Q2	Q3	Q4f	Q1f	Q2f	Q3f			
Real GDP	2.2	1.0	1.8	1.7	2.0	2.0	1.4	1.1	1.8
Consumer Spending	0.8	3.5	2.7	1.9	1.3	0.8	1.8	2.0	1.7
Business investment	11.1	-2.1	1.2	2.1	1.8	2.0	-0.8	-1.9	1.5
Government Expenditure	6.0	4.5	1.7	2.4	1.3	1.7	2.2	2.5	2.2
Residential Investment	-7.4	3.0	3.1	2.0	3.0	4.5	-8.5	-1.4	2.1
Housing Starts (000)*	250.0	237.5	241.0	240.5	236.0	233.0	241.9	243.0	245.9
Employment (Growth %)	1.6	1.2	2.2	2.2	2.0	1.4	2.4	1.7	1.7
Unemployment (%)	6.3	6.5	6.7	6.9	6.9	6.7	5.4	6.3	6.8
Real GDP Per Capita (%)	-0.1	-0.4	-0.4	-0.3	-0.2	-0.3	-1.9	-1.0	-1.5
Real GDP Per Working Population (Y/Y %)**	-0.4	-0.7	-0.5	-0.4	-0.4	-0.5	-1.5	-2.0	-2.1
Inflation									
CPI (y/y % chg)	2.7	2.0	1.9	2.2	1.8	1.8	3.9	2.4	1.9
Core inflation rate (y/y % chg)	2.8	2.5	1.9	2.2	1.8	1.7	3.9	2.4	2.0
FINANCIAL FORECAST (end of period values)	2024			2025			2023	2024f	2025f
Interest Rates	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Average Values		
BoC Policy Rate (Overnight rate)***	4.92	4.14	3.39	2.97	2.56	2.33	4.84	4.10	2.45
Federal 3 month T-Bill	4.81	3.89	3.28	2.83	2.38	2.18	4.84	3.93	2.42
Federal 10-Year Bond	3.58	3.12	3.15	3.03	2.90	2.78	3.28	3.27	2.87
Exchange Rates									
CAD/USD	0.73	0.73	0.71	0.71	0.72	0.72	0.75	0.72	0.73
USD/CAD	1.37	1.37	1.40	1.41	1.39	1.39	1.34	1.39	1.38
*Period Average									
**The working-age population defined as 15 to 64 years									
*** Midpoint of 25 basis point range									
Source: Statistics Canada, CMHC, and t6ix Economics									

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