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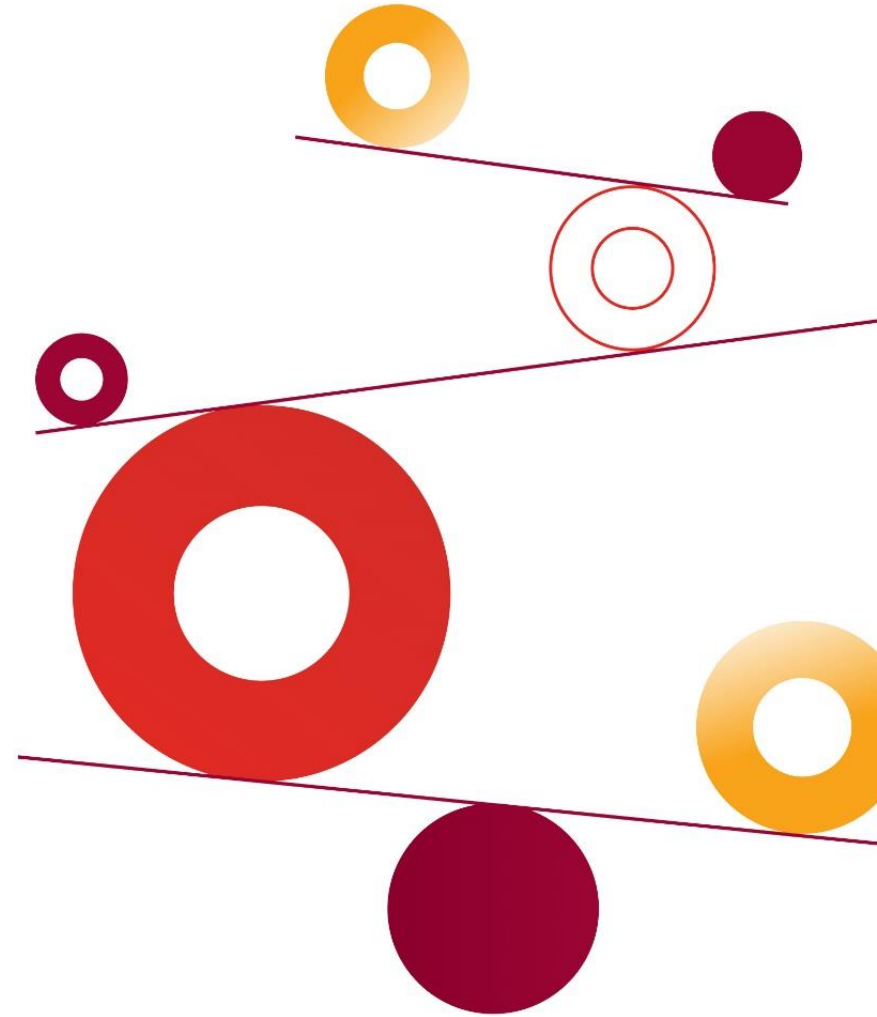


A New Era for Canada's Economy?

Trevor Tombe

Professor and Director of Fiscal and Economic Policy

The School of Public Policy, University of Calgary





Short-Term Challenges: Trade Disruptions and Rising Uncertainty

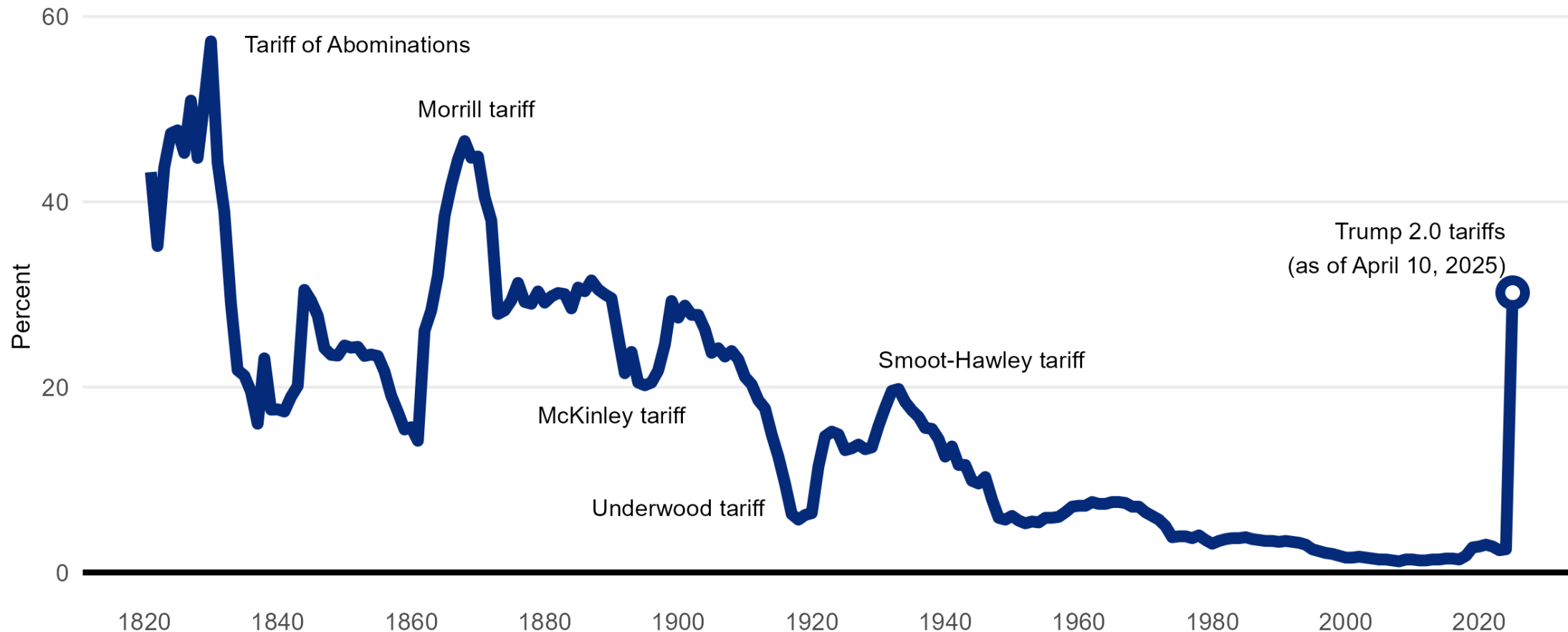
... it's not great, but could be worse



Largest U.S. Tariff Increase in Generations

Average tariff rate on total U.S. imports

Source: Erika York and Alex Durante, Tax Foundation, and Michael Waugh (2025), Trade War Tracker



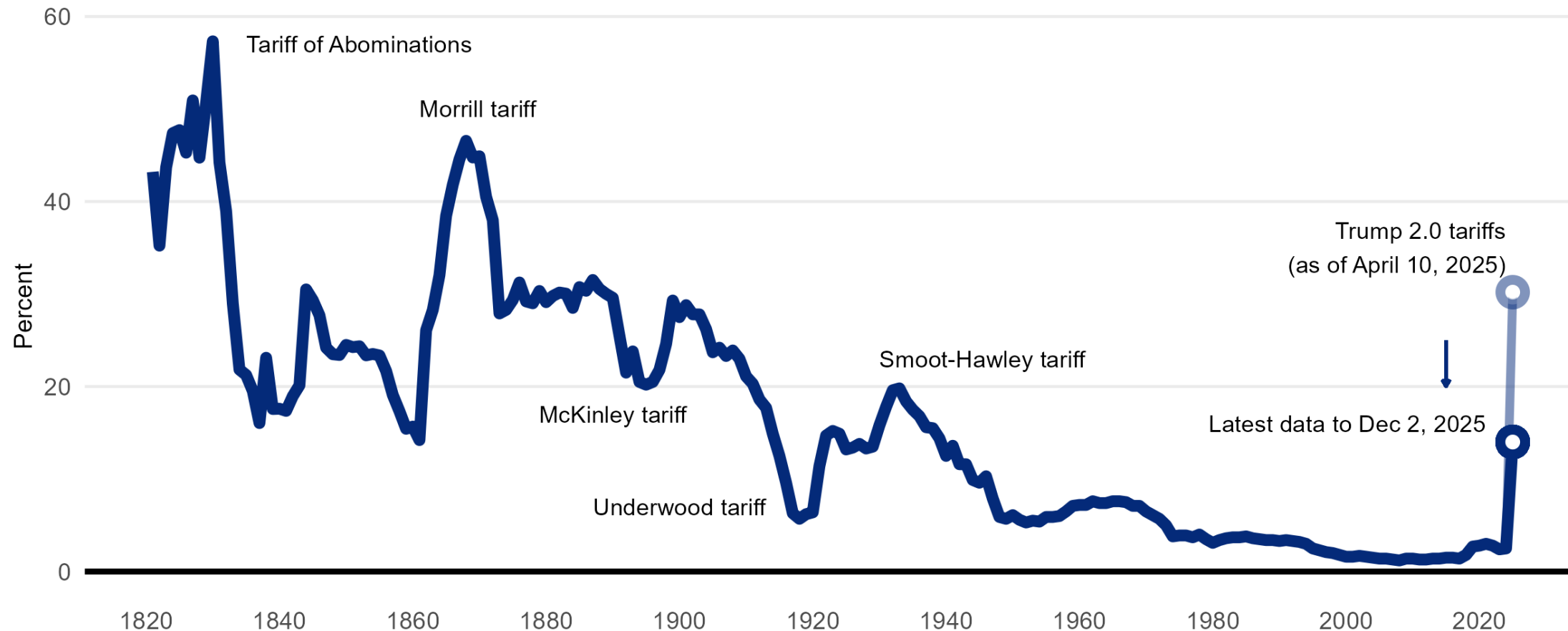
Graph by @trevortombe



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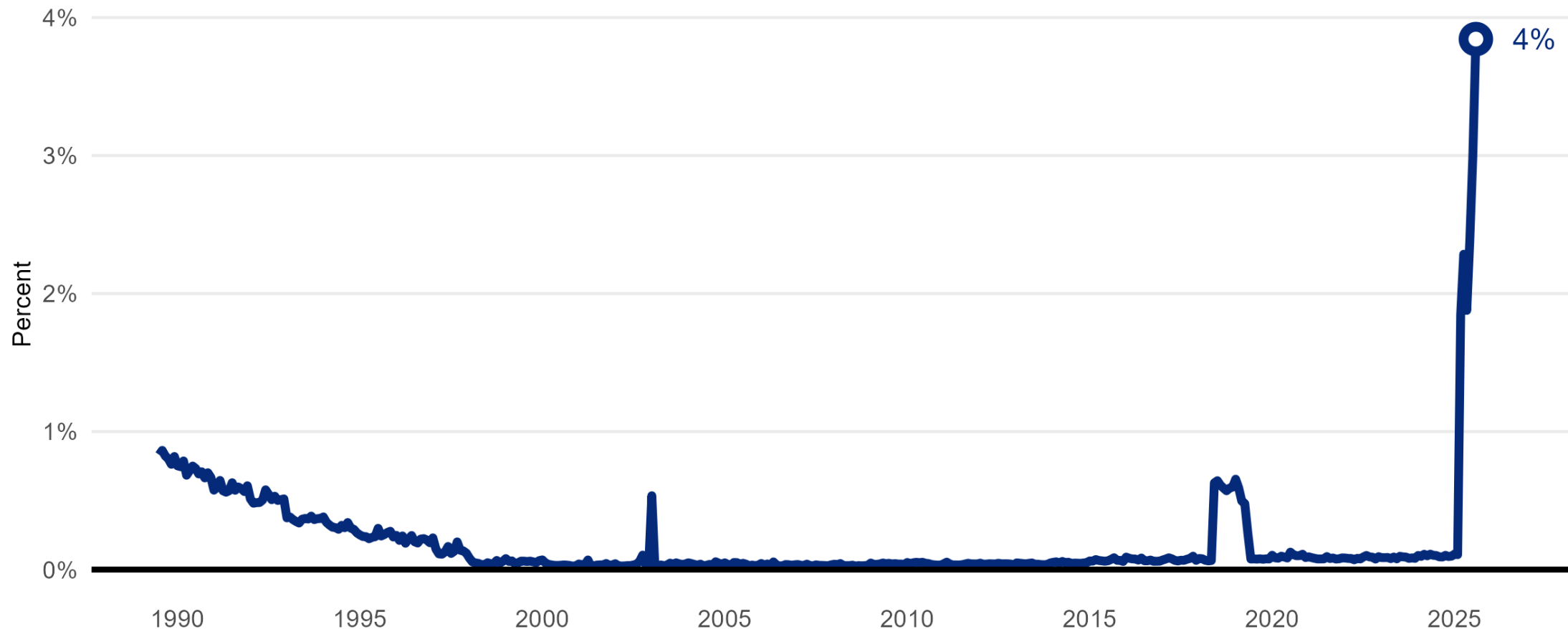




A Sharp Change for Canadian Exporters

Calculated U.S. Duties as a Share of Imports from Canada

Source: Own calculations using USITC DataWeb

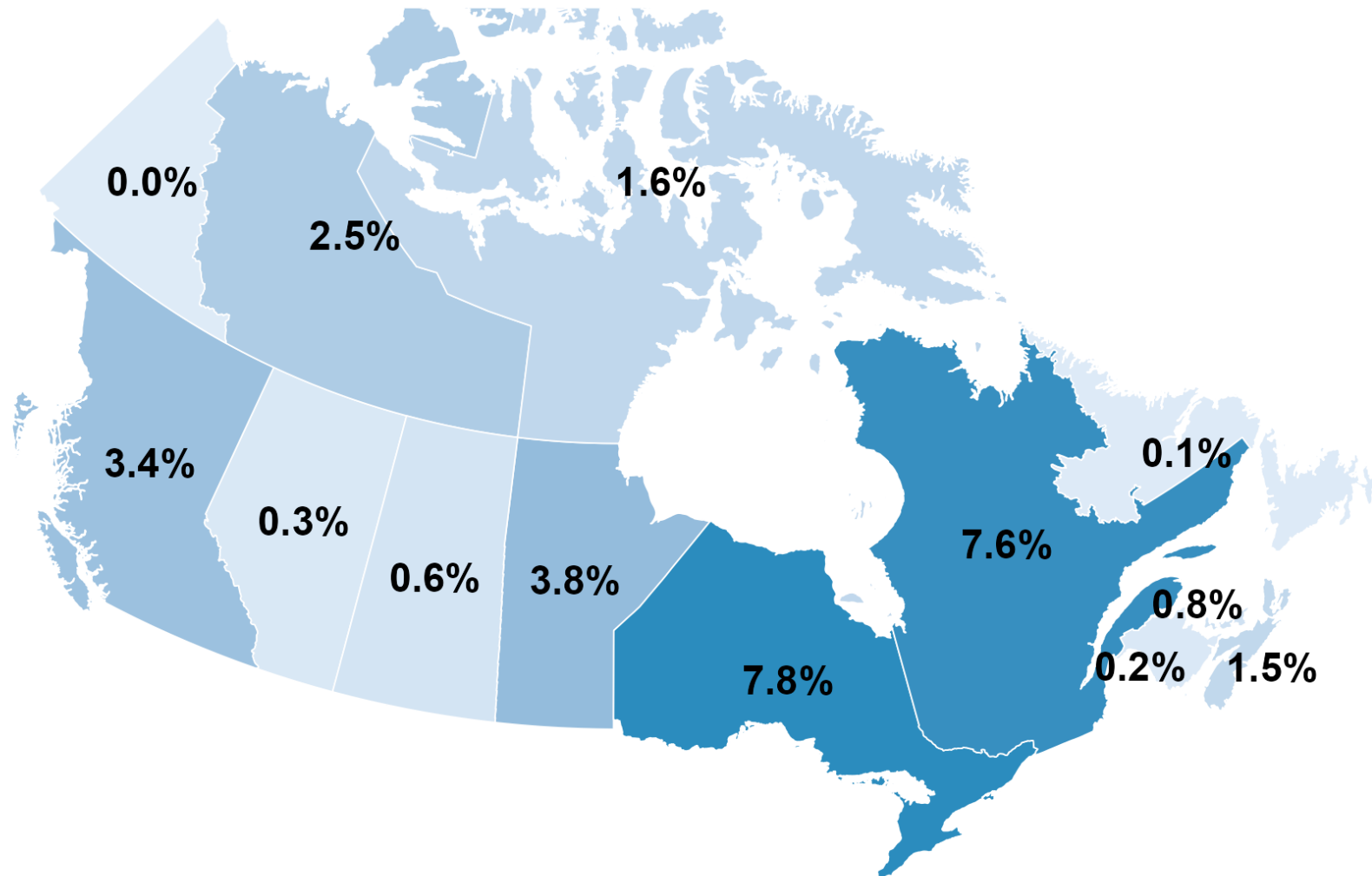


Graph by @trevortombe



Average U.S. Tariff on Canadian Exports

Source: Own calculations using USITC DataWeb and the CIMT

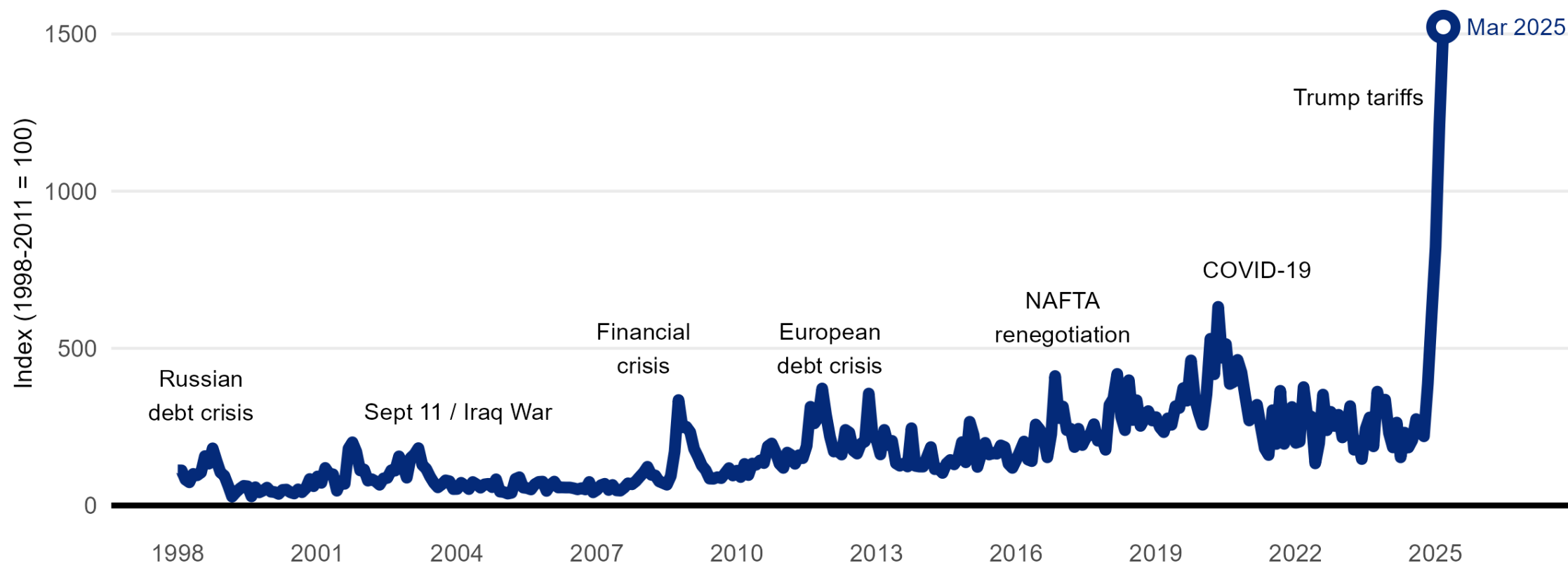




Context: Unprecedented Uncertainty

An Index of Economic Policy Uncertainty in Canada

Source: own calculations from the Baker, Bloom, and Davis (2016) index, normalized for 100 = 1998-2011.
Detailed data and methodology available at www.policyuncertainty.com.



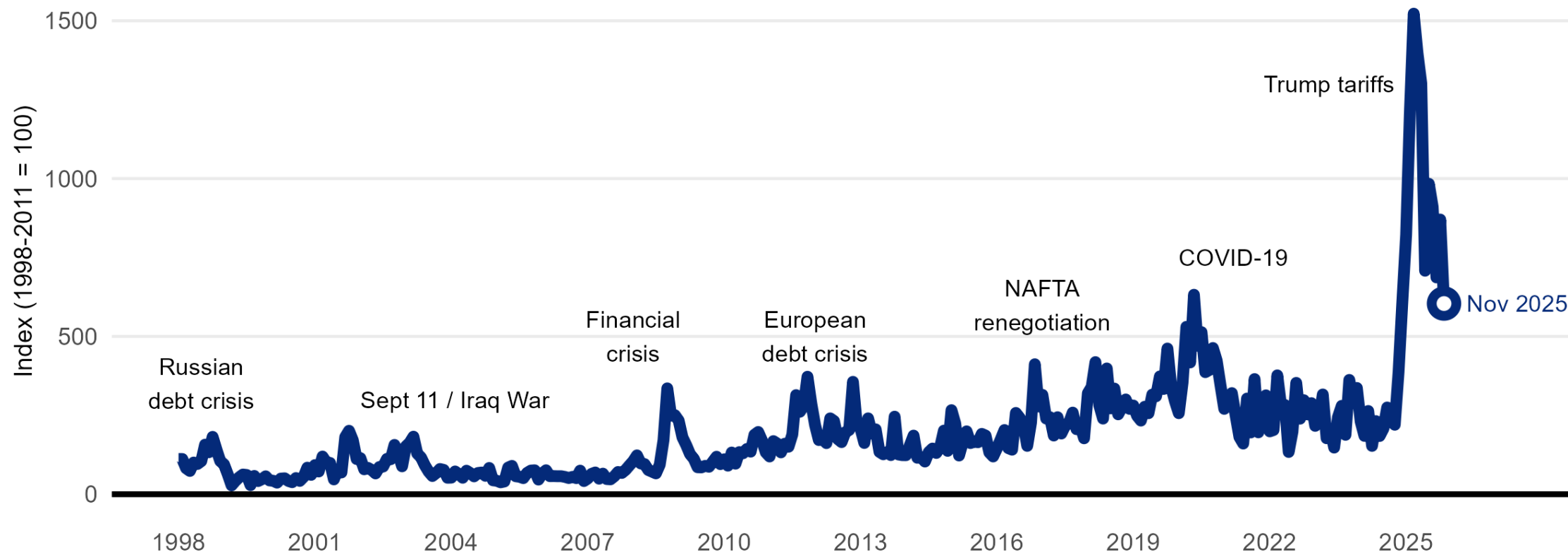
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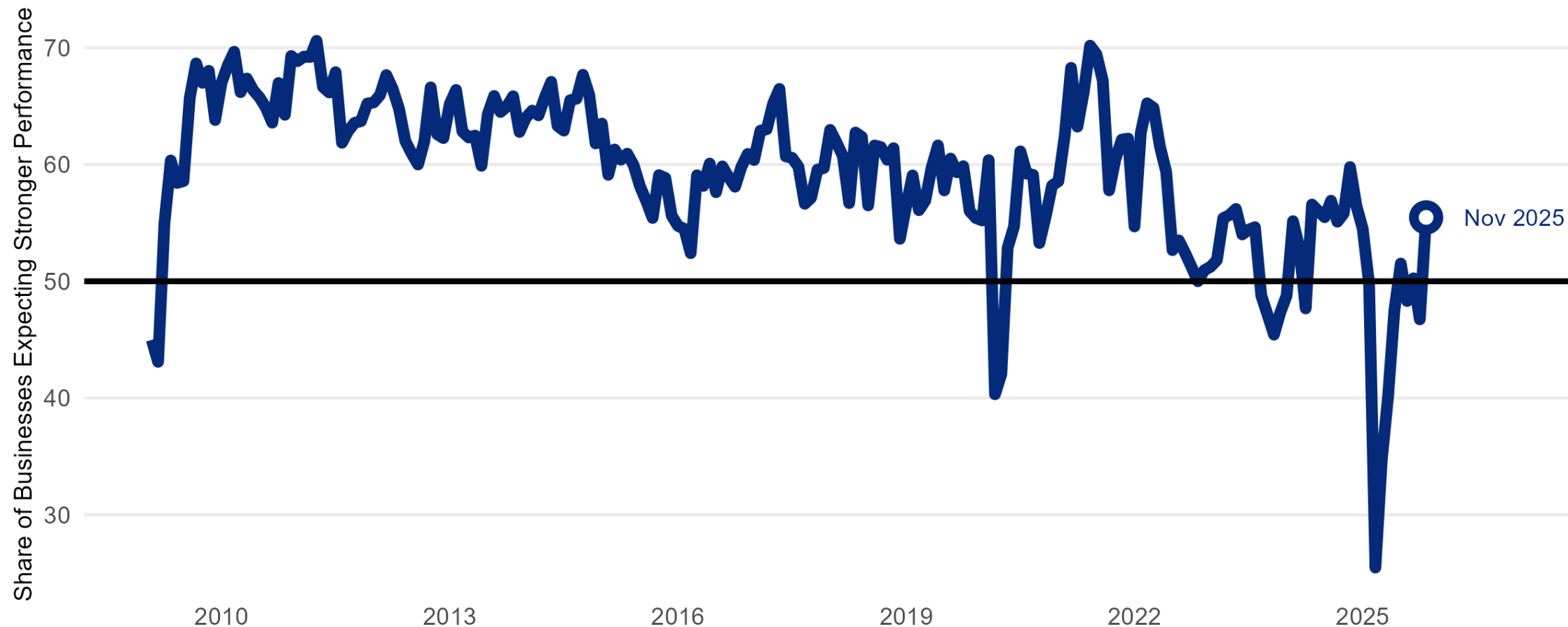
Graph by @trevortombe



Context: Unprecedented Pessimism

CFIB Business Barometer for Canada

Source: own calculations from CFIB, <https://www.cfib-fcei.ca/en/research-economic-analysis/business-barometer>



Graph by @trevortombe



Short-Term Challenge: The Current State of the Economy

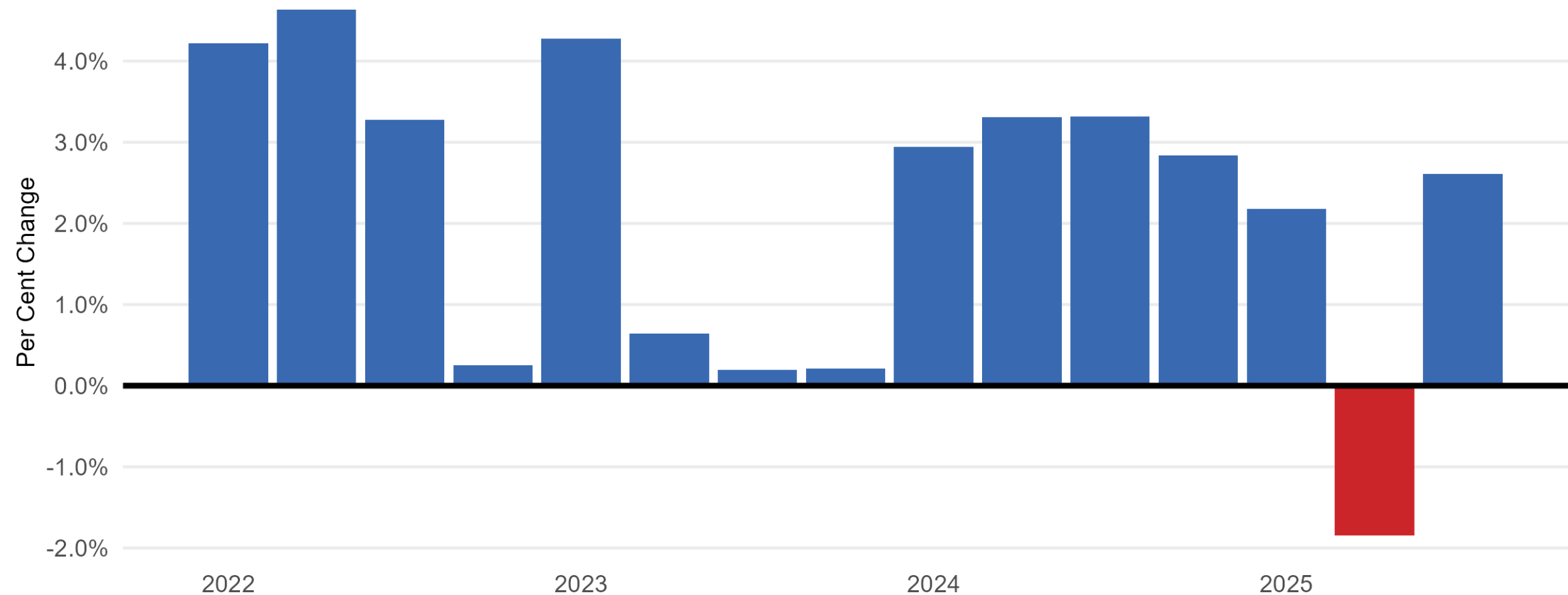
But the worst may be over



GDP Growth: Q2 Negative, But Q3 Positive

Canada's Quarterly GDP Growth (Annualized)

Source: Statistics Canada data table 36-10-0104. Percentage change from previous quarter. Annualized.



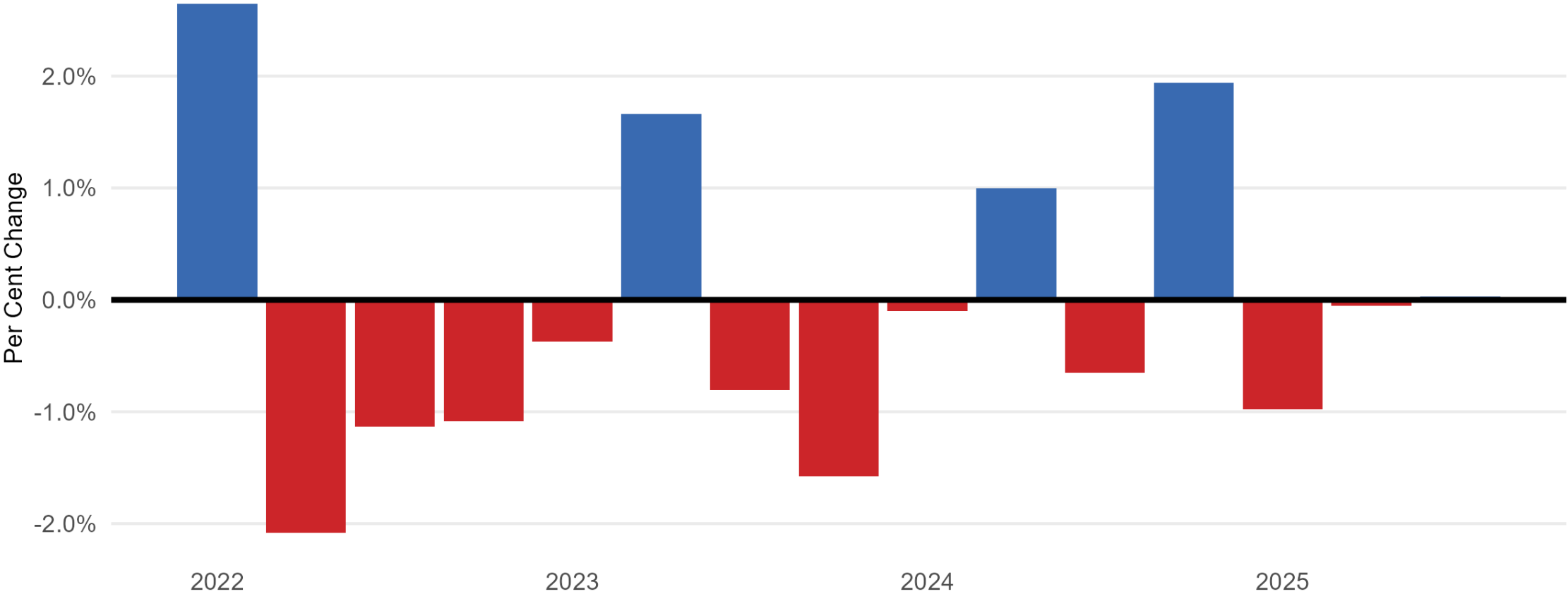
Graph by @trevortombe



Business Investment Persistently Weak

Canada's Quarterly Growth in Business Investment (Annualized)

Source: Statistics Canada data table 36-10-0104



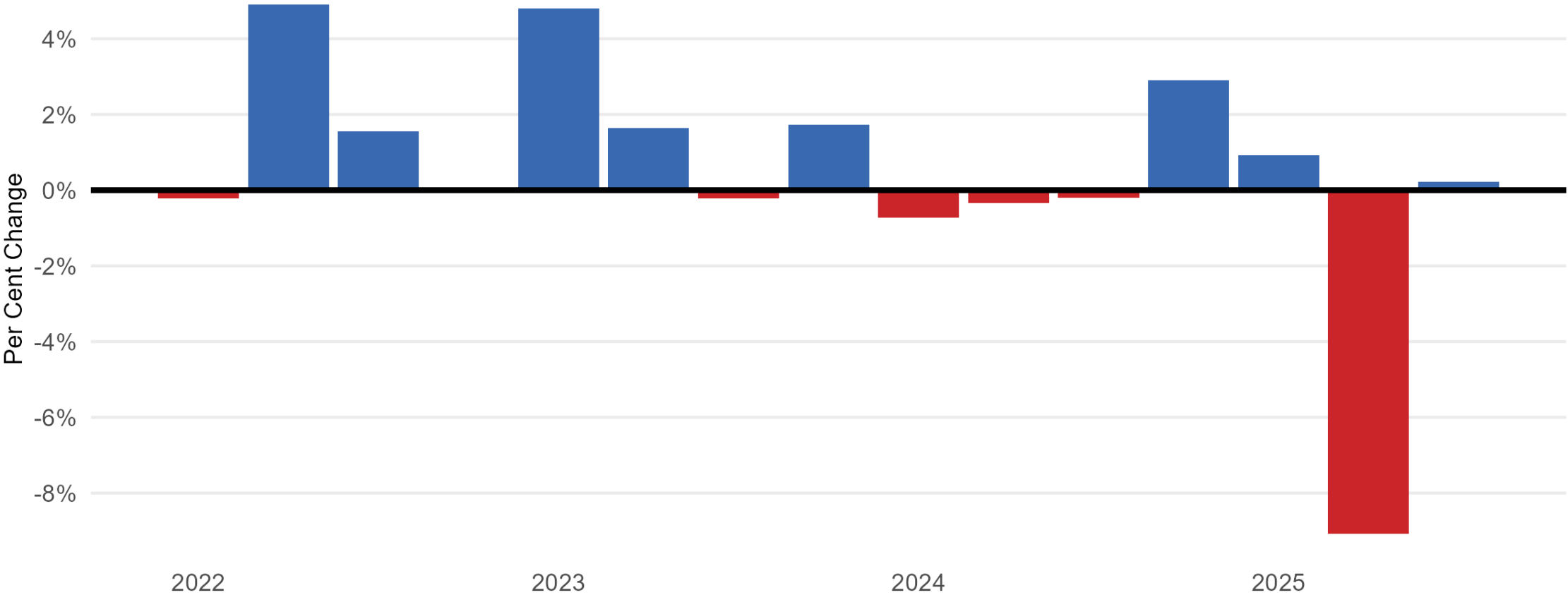
Graph by @trevortombe



Business Investment Persistently Weak

Canada's Quarterly Growth in Exports (Annualized)

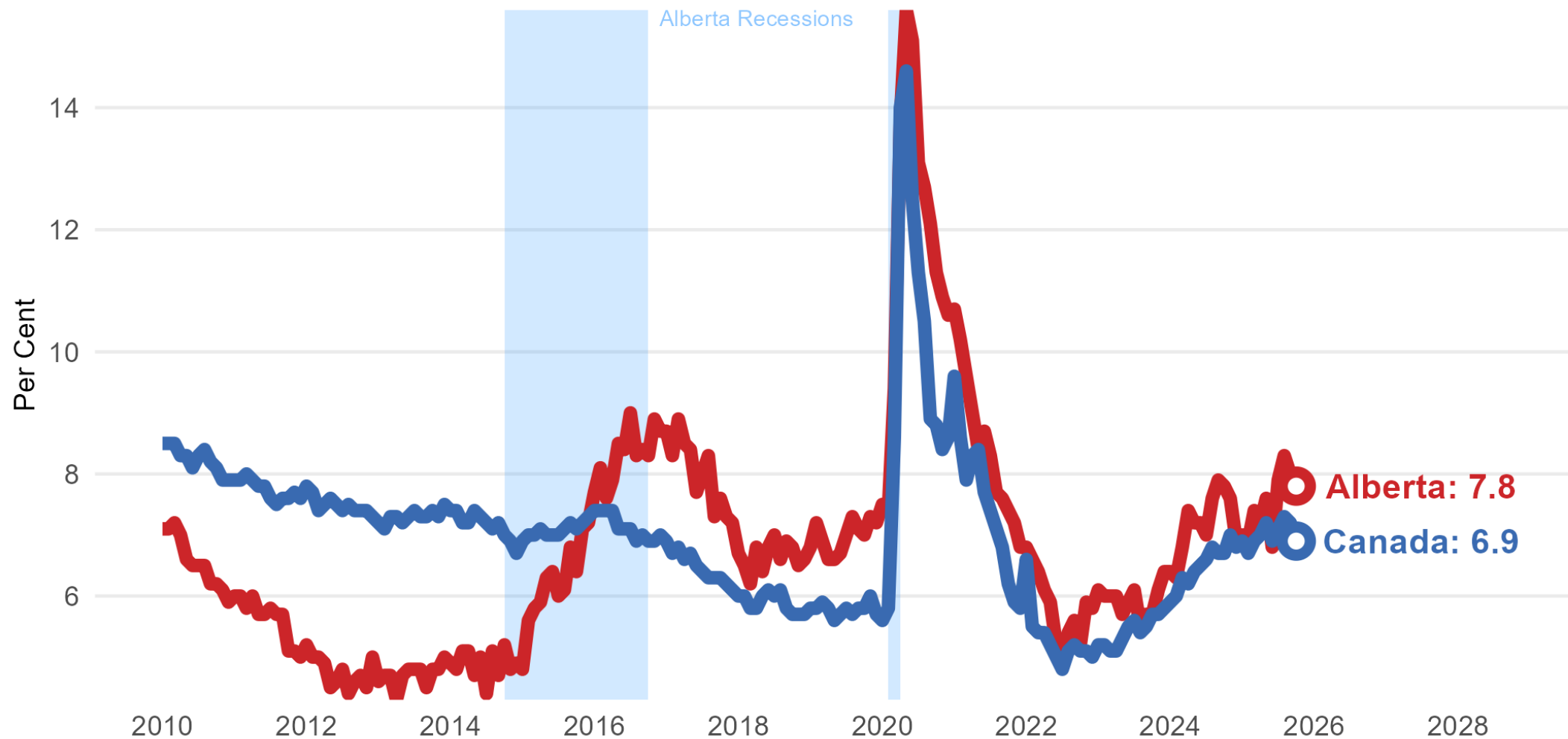
Source: Statistics Canada data table 36-10-0104



Graph by @trevortombe

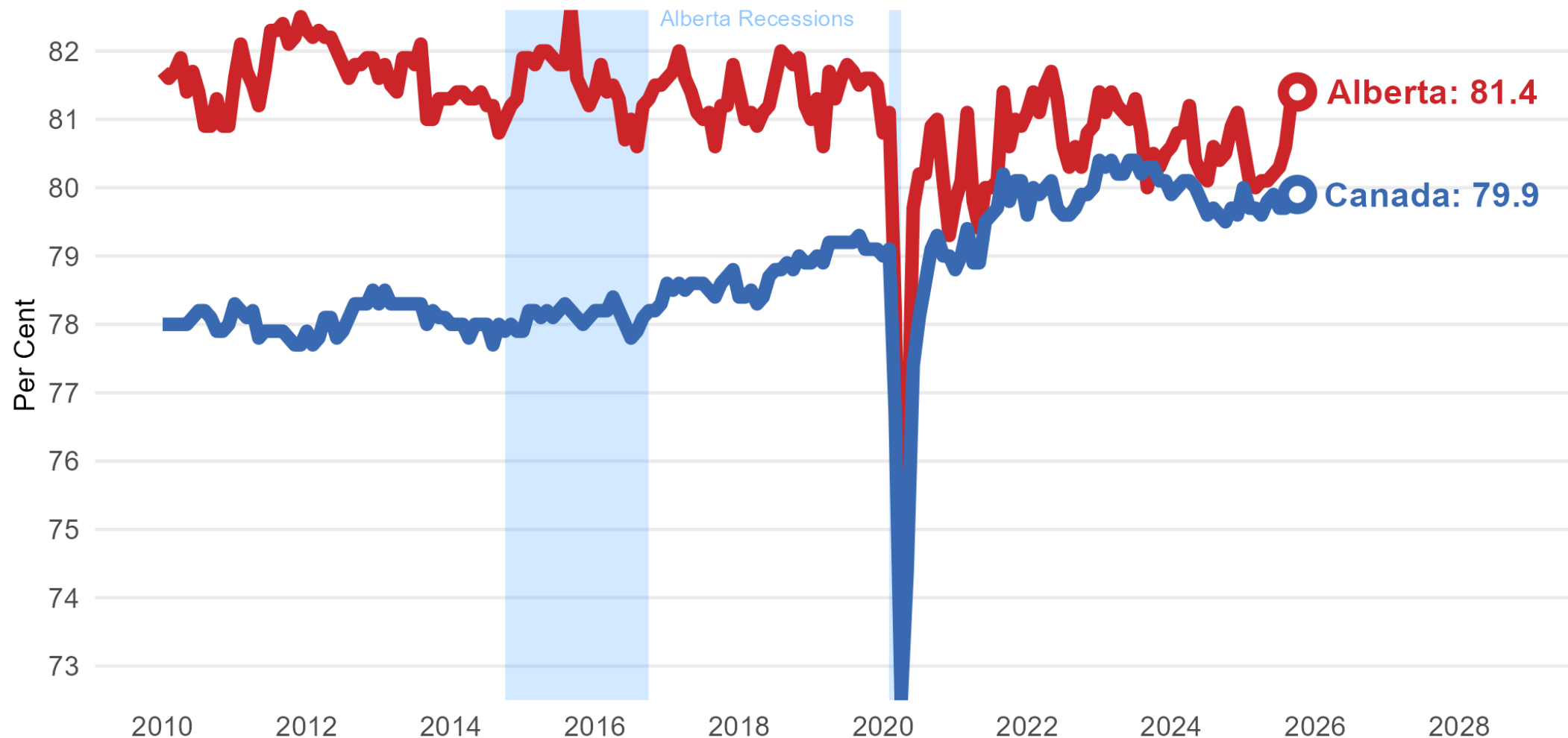


Working-Age Unemployment Rate (to Oct '25)





Working-Age Participation Rate (to Oct '25)

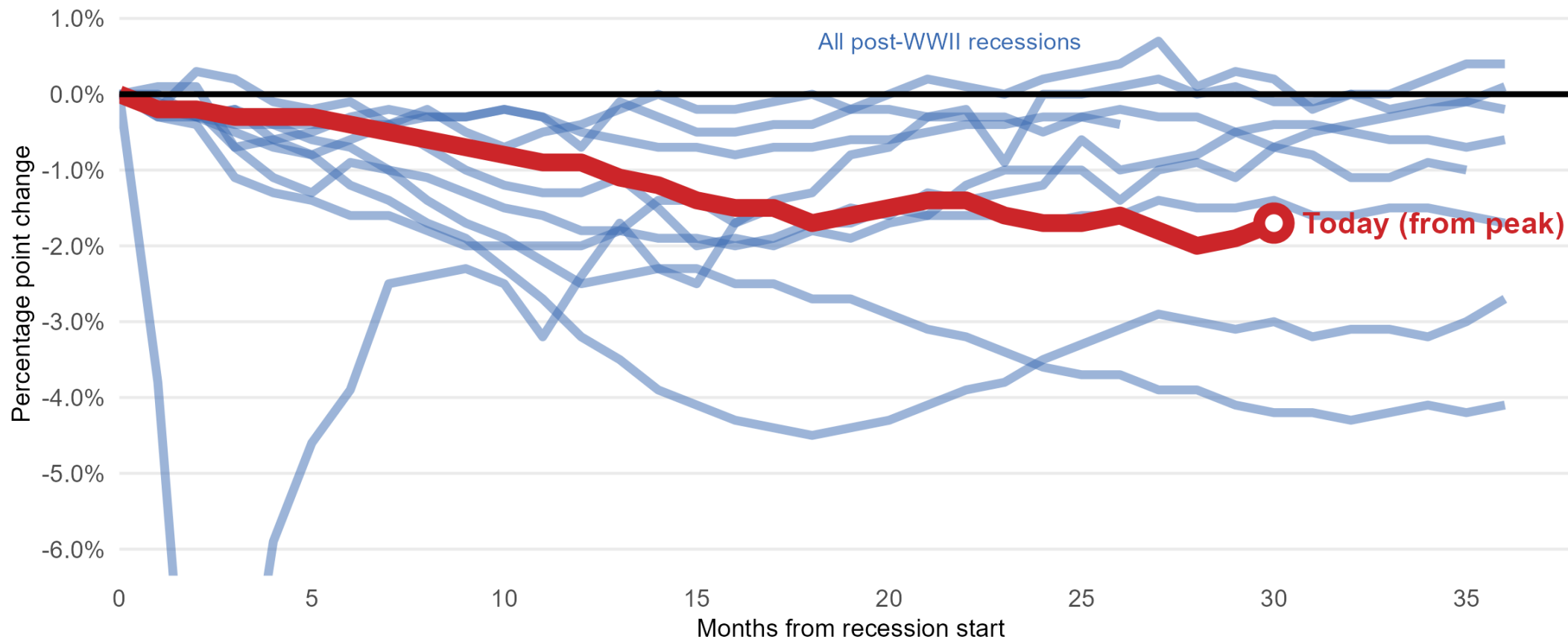




Employment Decline is Historically Large

Periods of employment rate declines in Canada, 1945-2025

Source: Own calculations from Statistics Canada data table 14-10-0287 and Stephen Gordon's Project Link.



Graph by @trevortombe



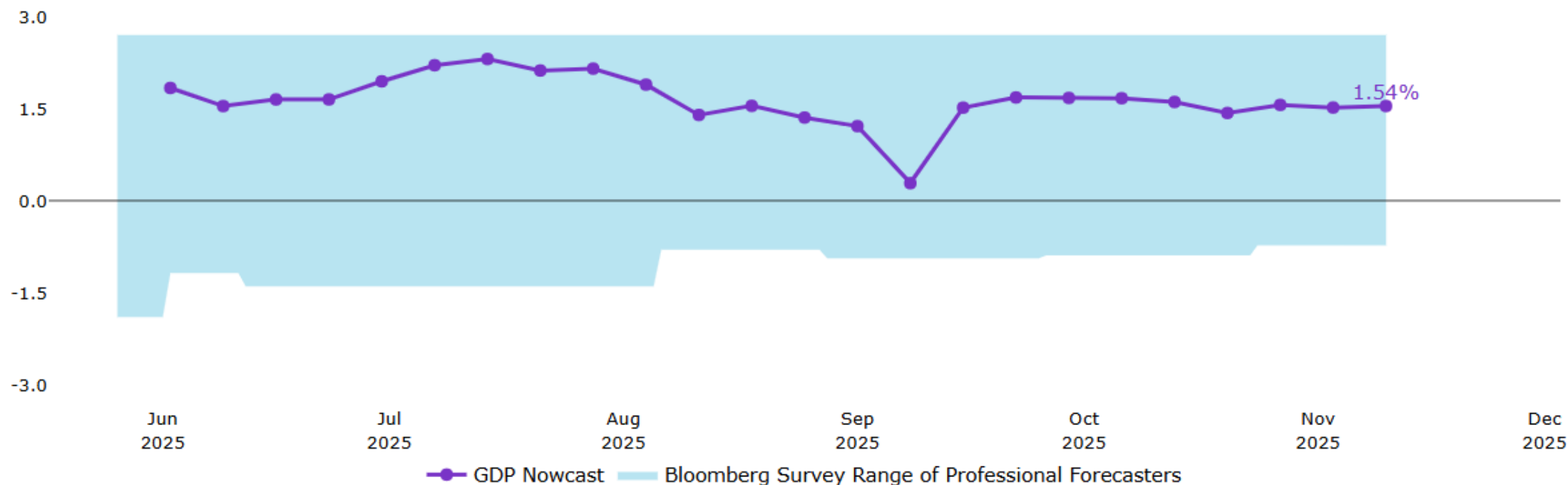
The New “BDLNow” Tool – Projection for Q3 Growth

<https://businessdatalab.ca/bdlnow/>

Weekly GDP Nowcast

Projection for data available up to November 10, 2025

Quarterly GDP growth (annualized)

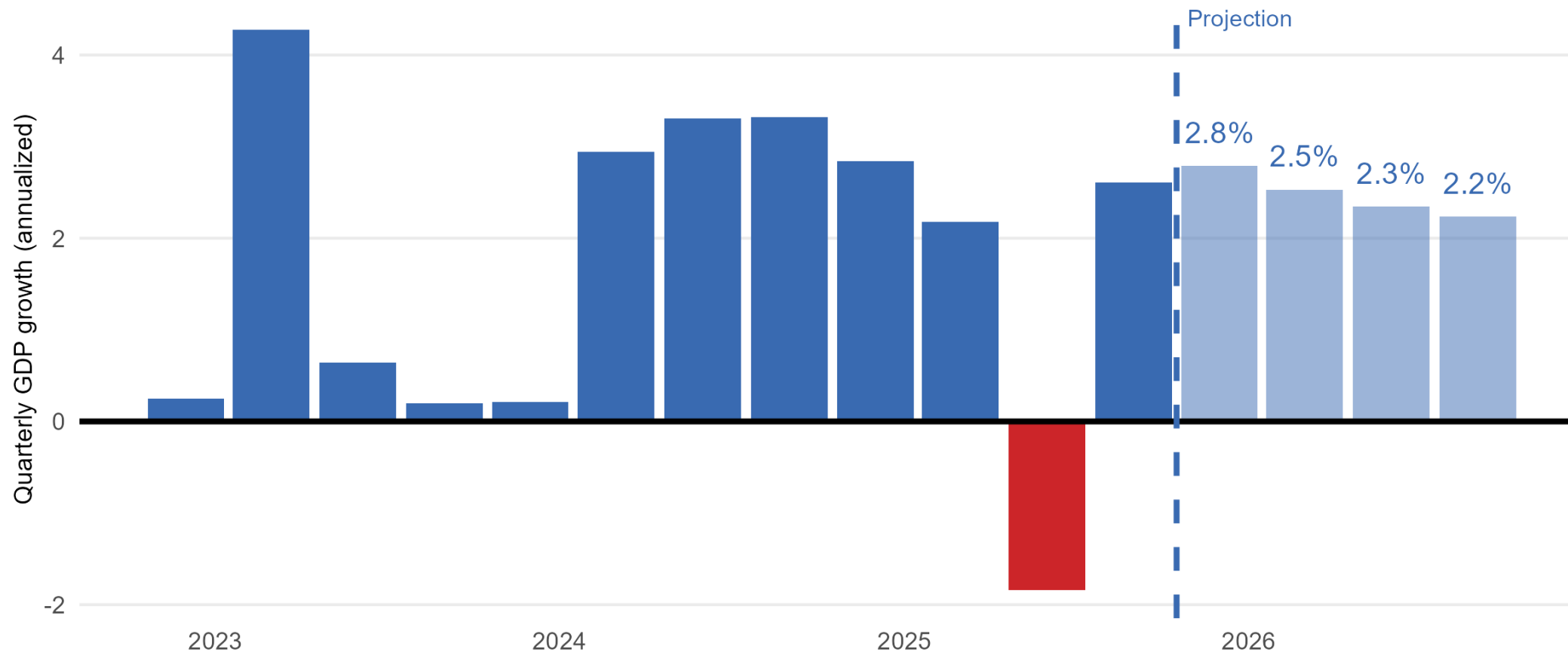




My Own Projection For Q4 and Beyond

Actual and nowcast quarterly GDP growth in Canada

Projection for data available up to December 02, 2025



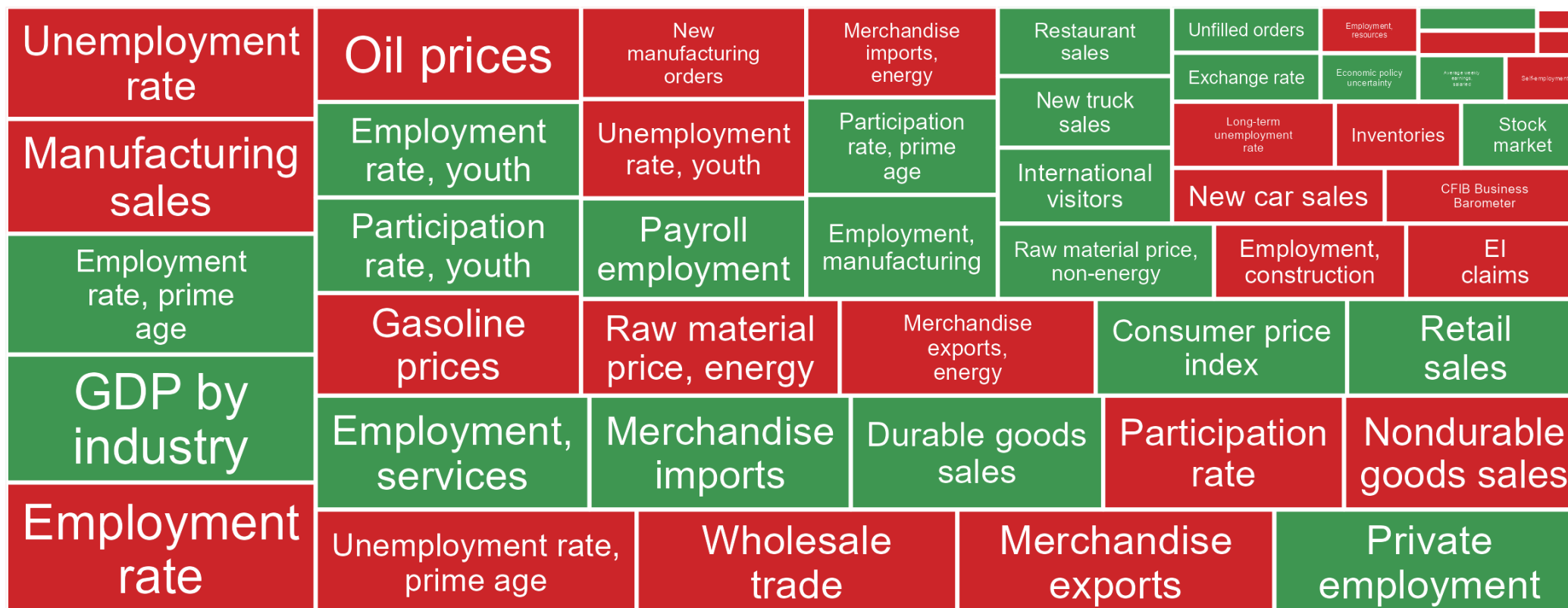


Components of the Projection

Trends in key economic data for Canada over the past year

The size of each area is proportional to the importance of the variable in predicting real GDP changes

■ Deteriorating ■ Improving

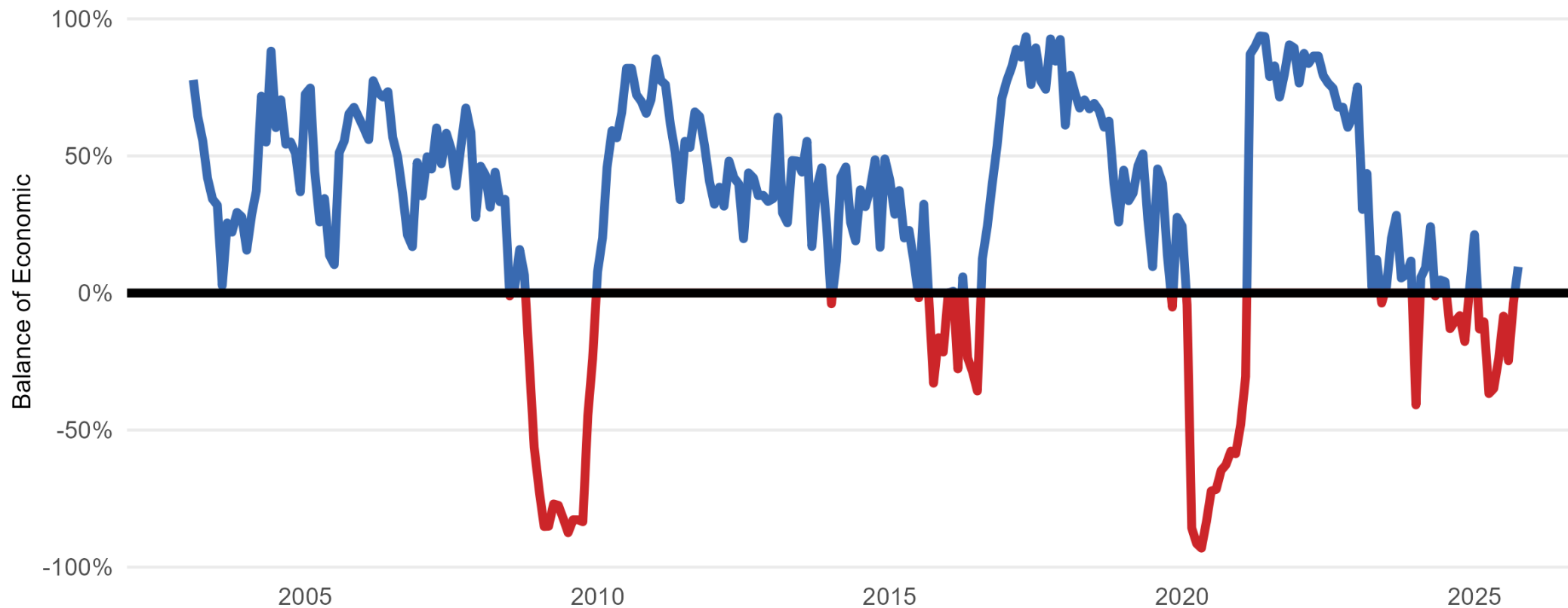




Components of the Projection

Balance of Economic Indicators in Canada

Note: Displays the loading-weighted share of monthly economic indicators that are improving (positive) versus deteriorating (negative) over the past year. Includes 53 monthly indicators.



Source: Own calculations from various sources. Graph by @trevortombe



Long-Term Challenges: Lagging Productivity

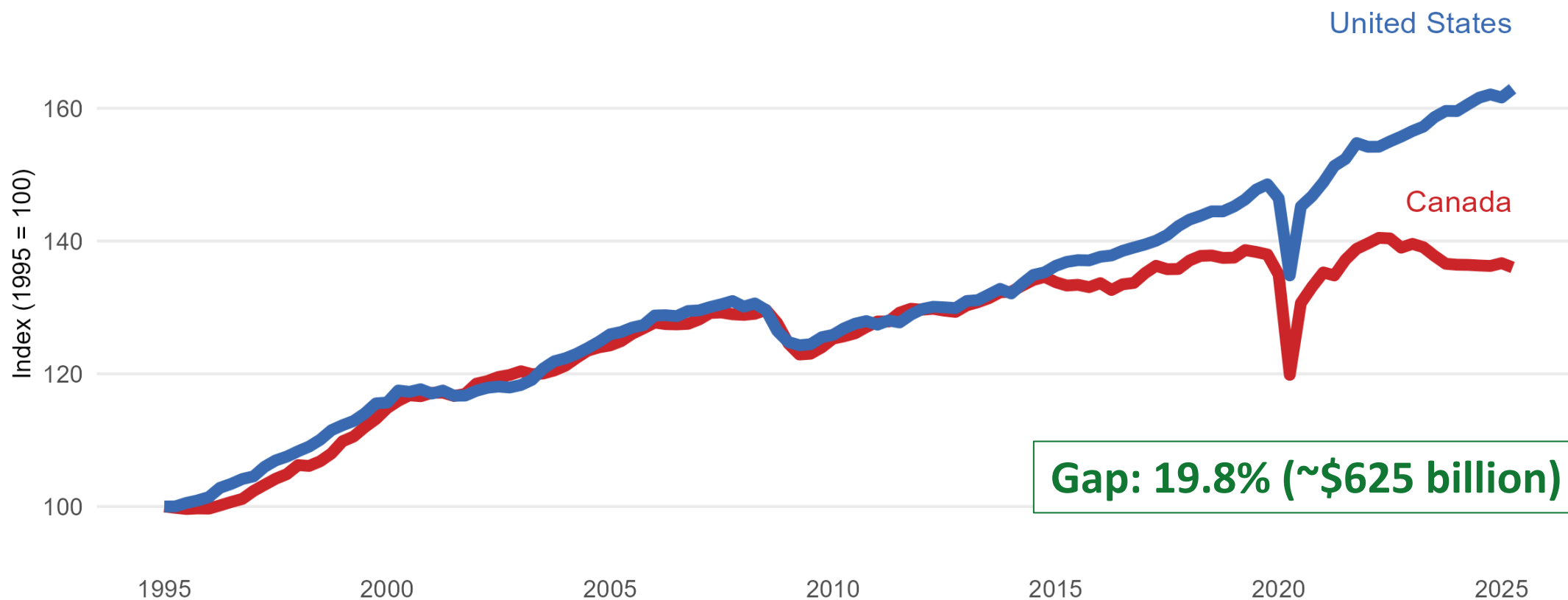
... it's not great, but we may have reached
the bottom



Context: Canada's Lagging Productivity

Real GDP per Capita, Q1 1995 to Q2 2025

Source: Own calculations from Statistics Canada data series v1000000675 and v1 and FRED VASPI



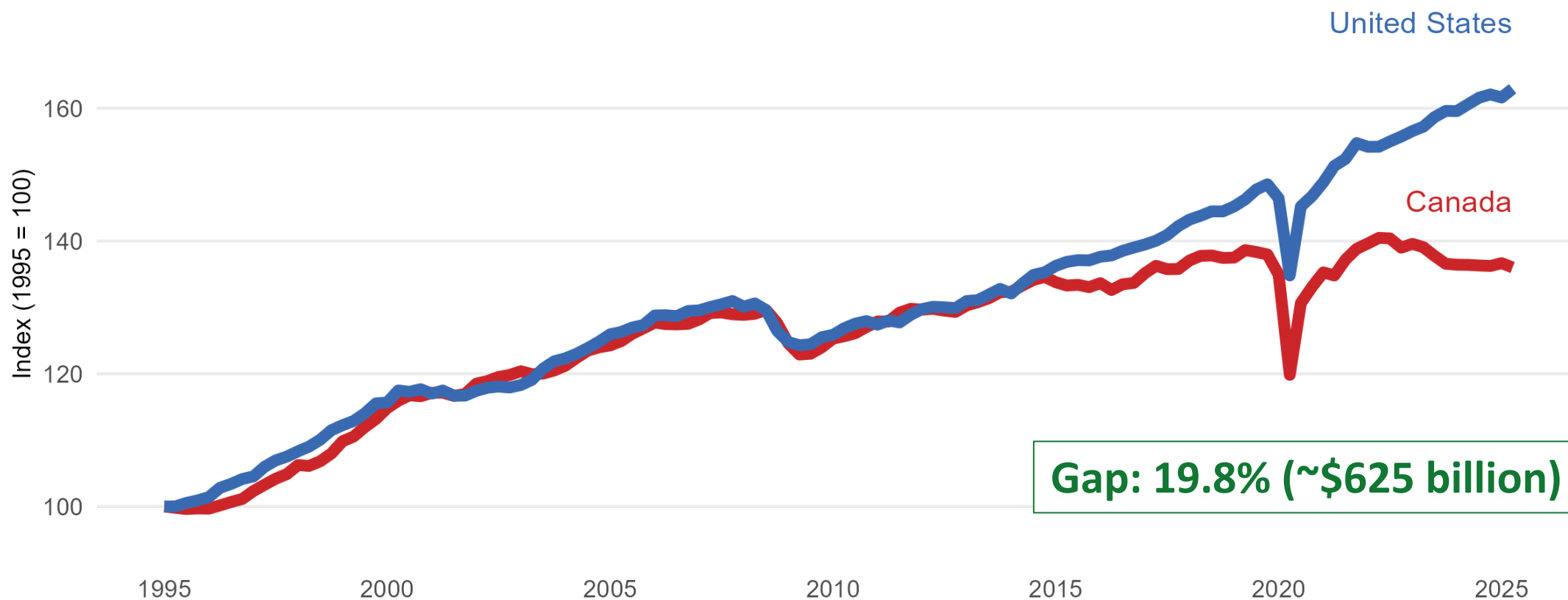
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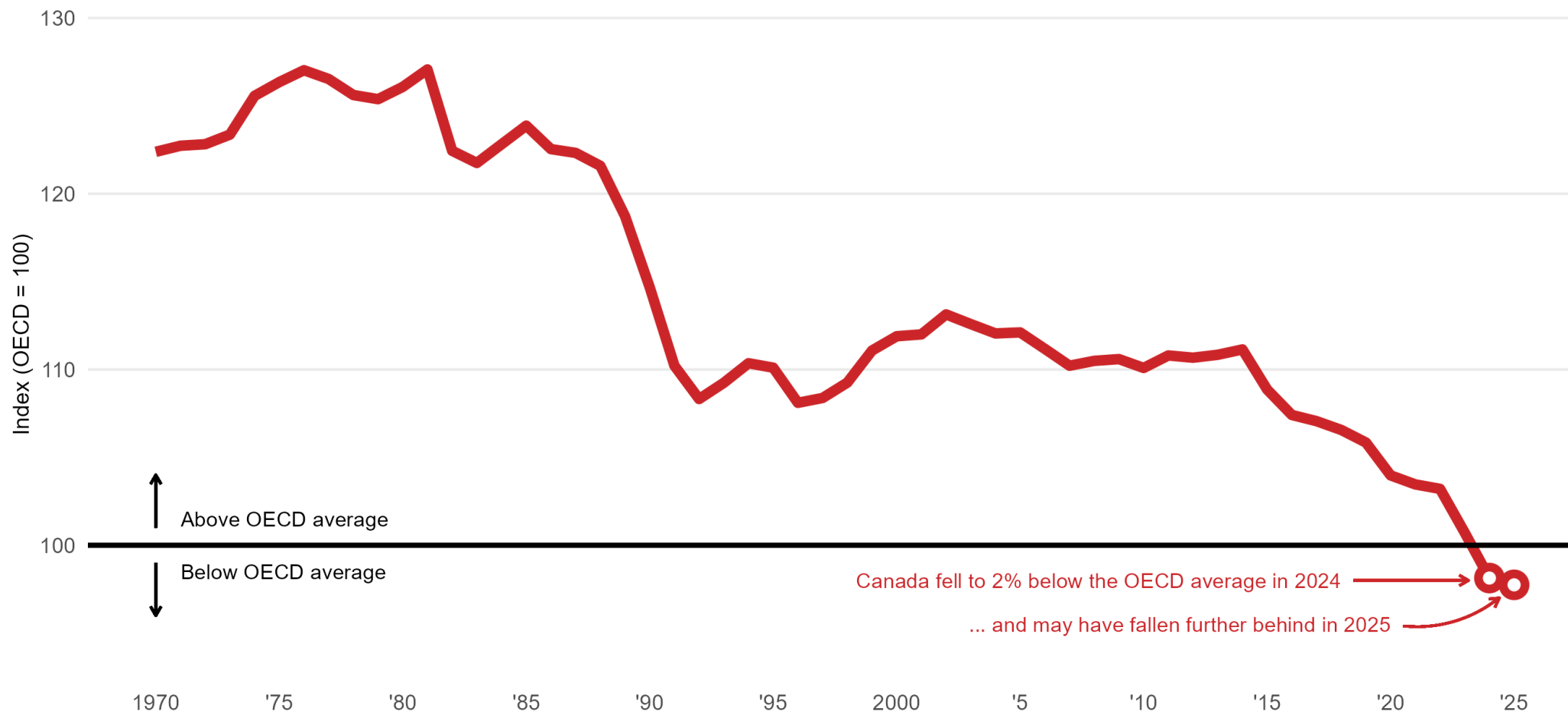
Graph by @trevortombe



Canada's Real GDP per Capita Relative to OECD

Real GDP per Capita in Canada vs OECD Average

Source: Own calculations using OECD Data Explorer, with latest IMF projections for 2025

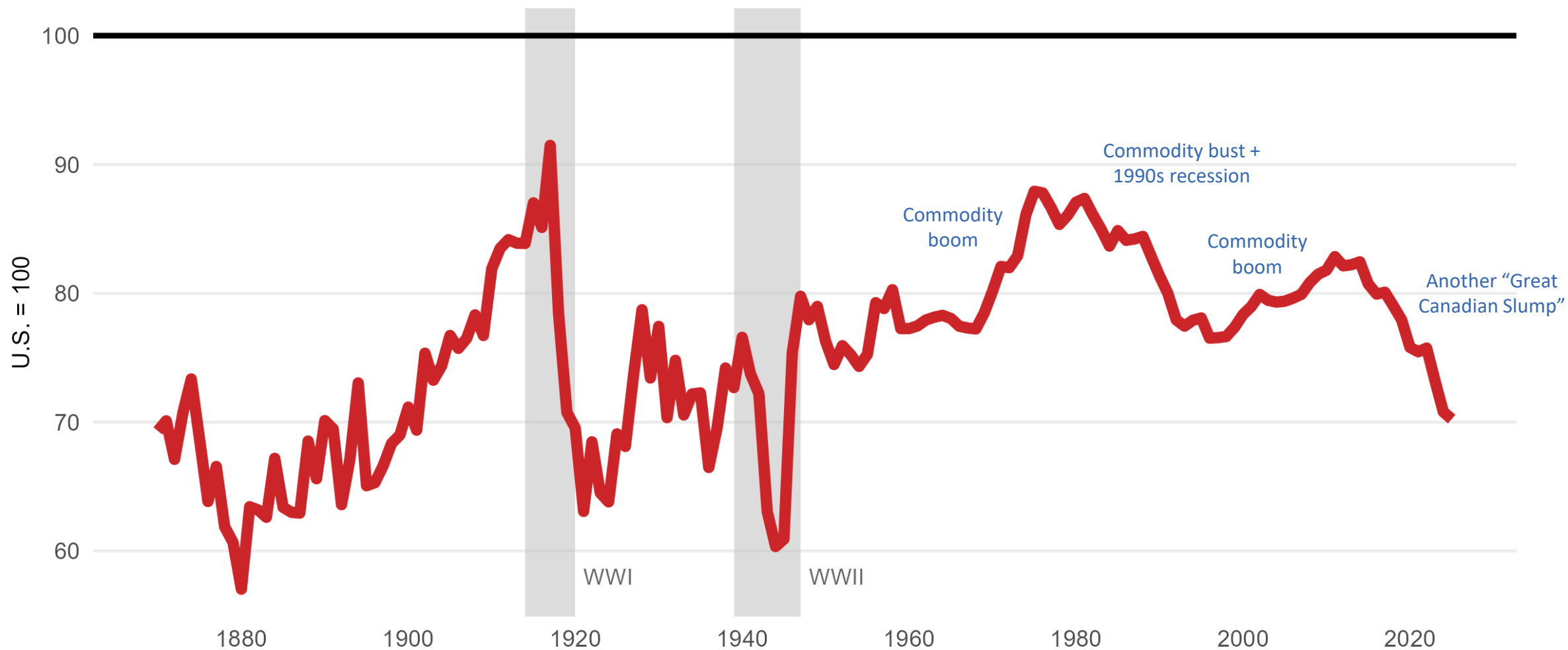


Graph by @trevortombe



Canada's Real GDP per Capita Relative to the U.S.

Source: Own calculations from OECD (NAAG CH1) and the Jorde-Schularick-Taylor Macrohistory Database. Projection for 2025.



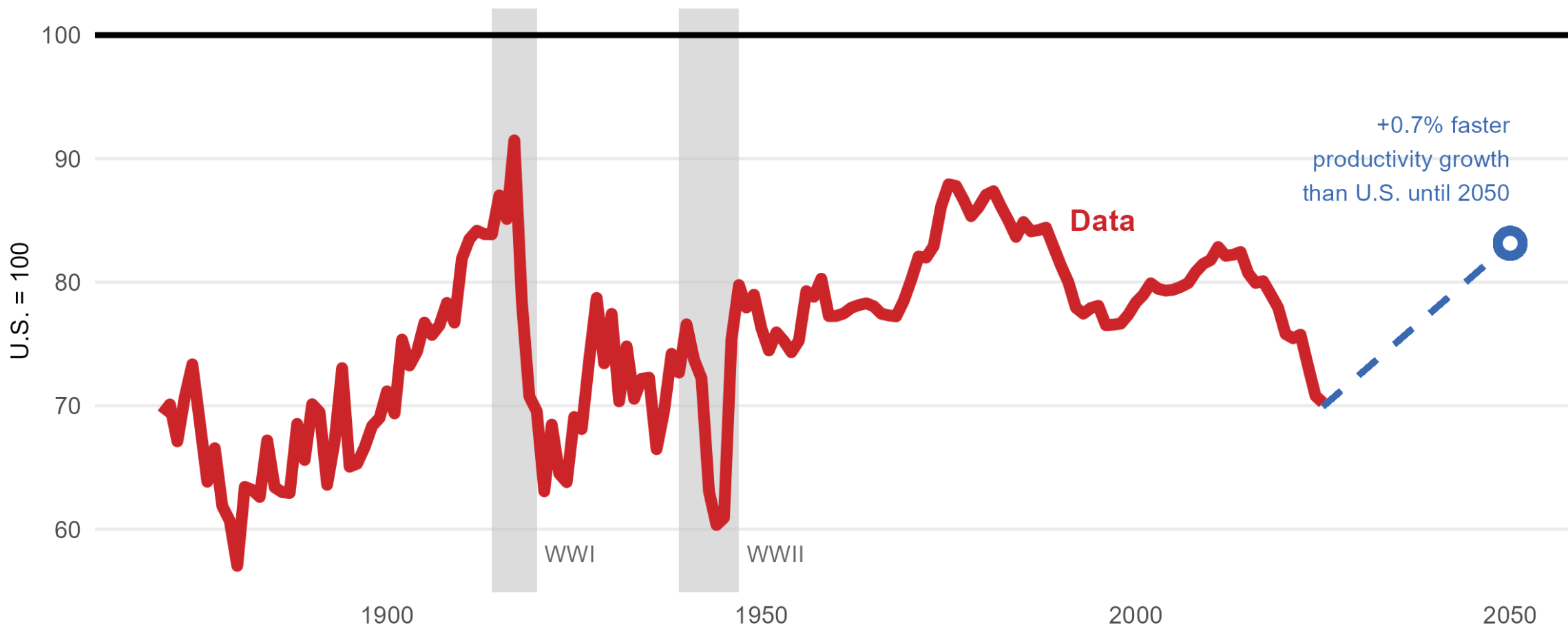
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Source: Own calculations from OECD (NAAG CH1) and the Jorde-Schularick-Taylor Macrohistory Database. Projection for 2025.



Graph by @trevortombe



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A New Era for Public Policy?

Trade

Federal and provincial finances

Alberta's big fiscal bet



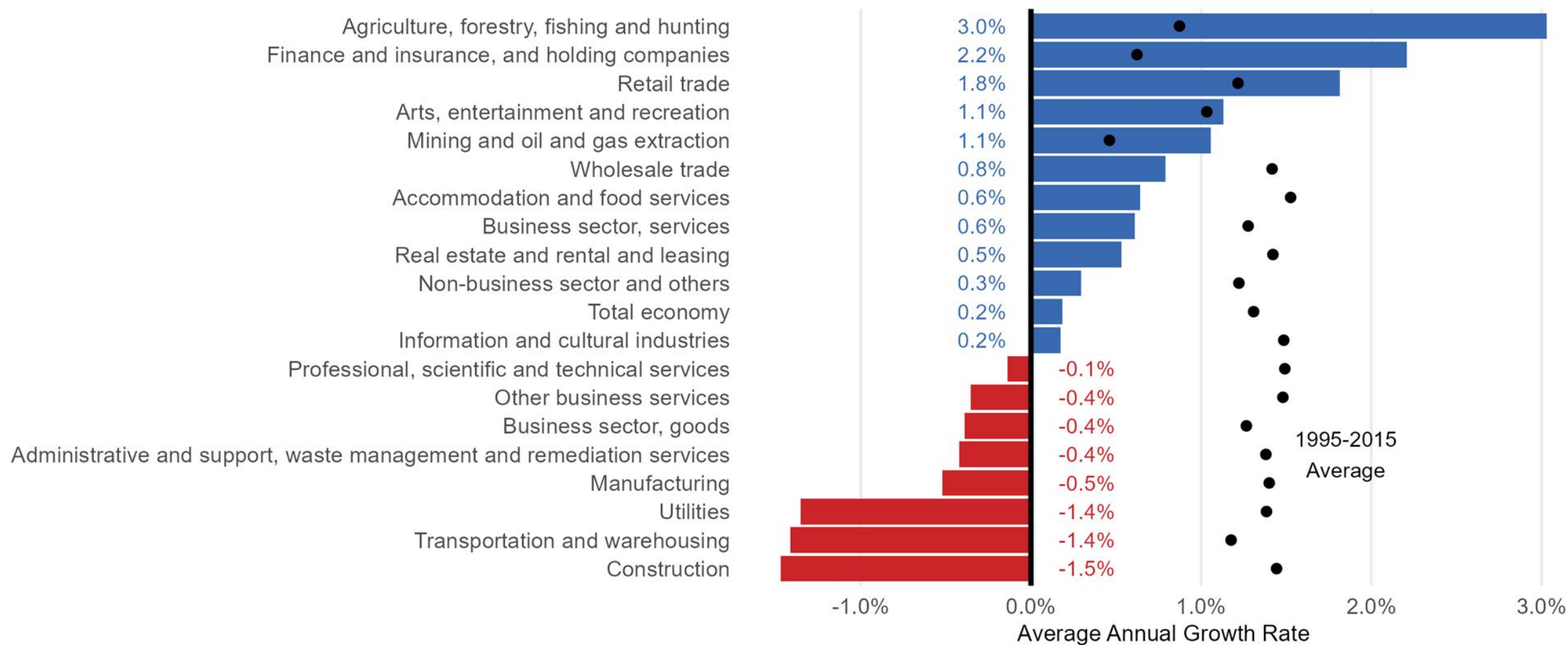
“We believe in cooperative federalism” – PM Carney





Productivity Growth by Sector

Source: Own calculations from Statistics Canada data table 36-10-0207-01



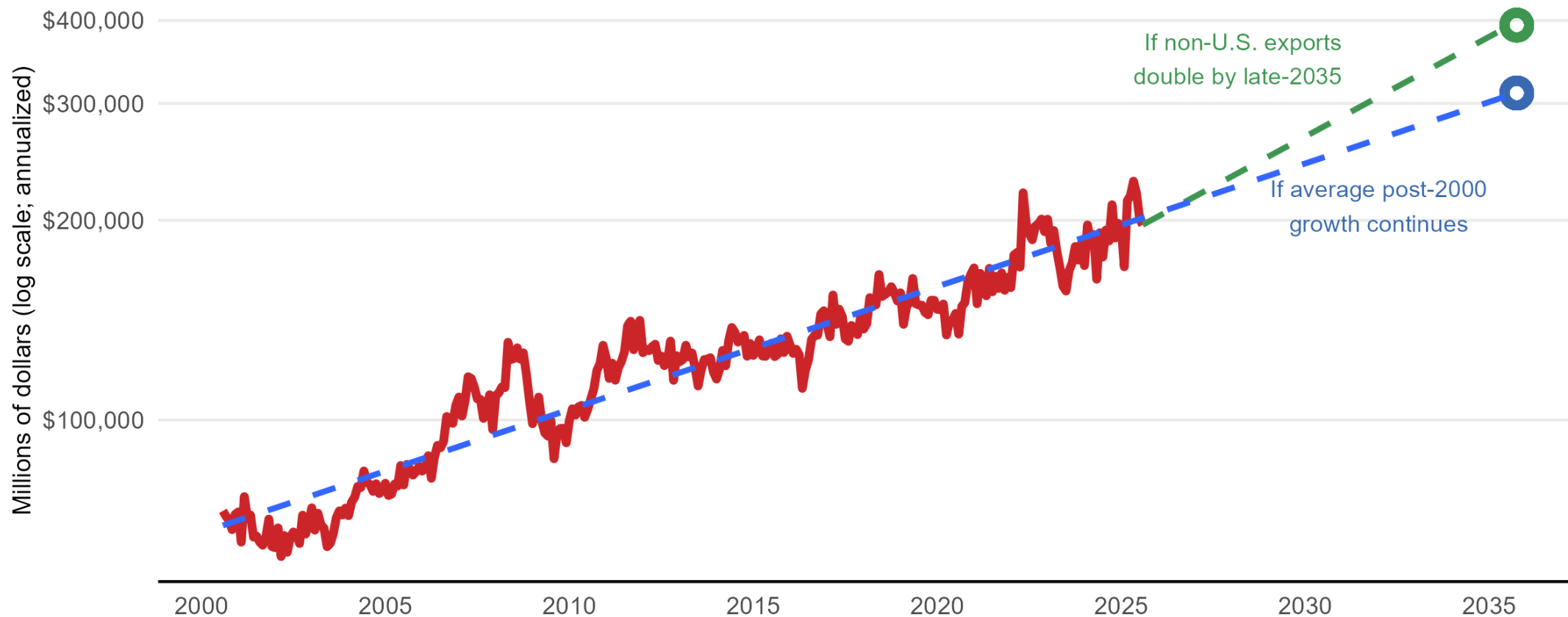
Graph by @trevortombe



Transport Infrastructure (Esp. Rail + Ports) Critical for Trade Diversification Efforts

Canadian Merchandise Exports (i.e. Goods) to Non-U.S. Destinations

Source: Own calculations using Statistics Canada data table 12-10-0011-01



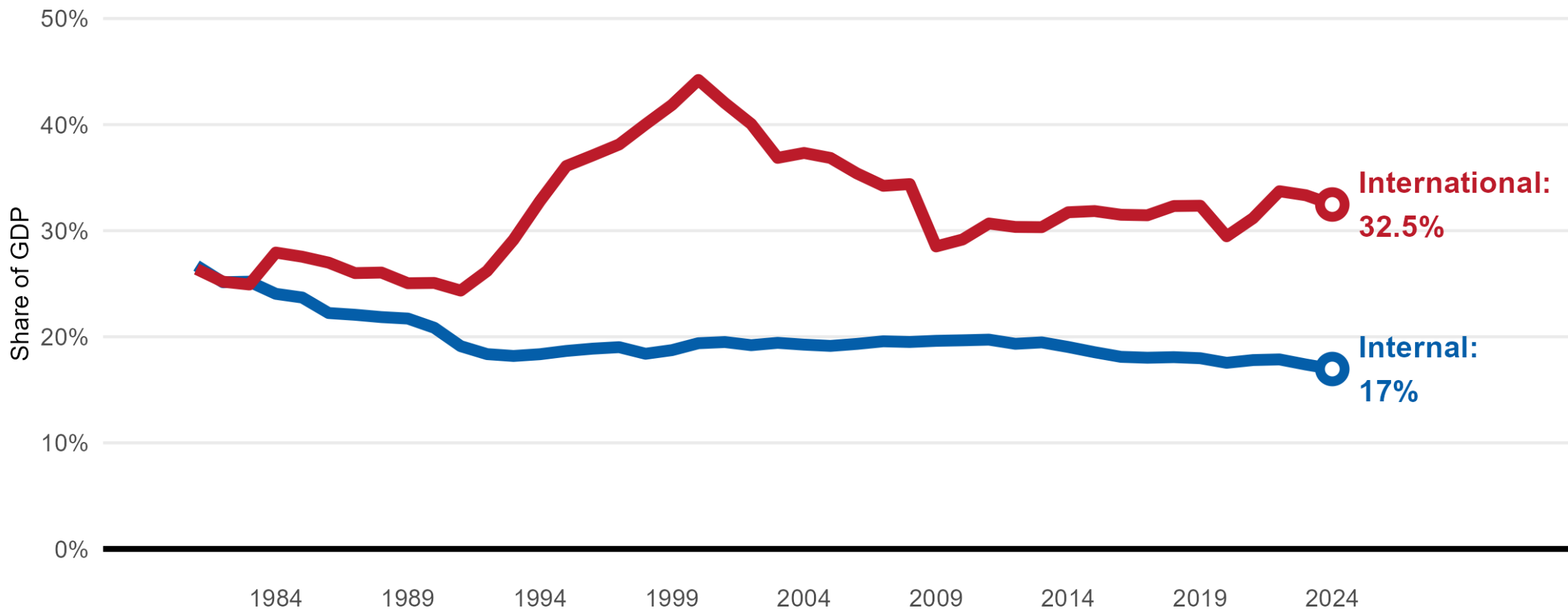
Graph by @trevortombe



Internal vs International Trade Volumes

Internal and International Exports as Share of GDP, 1981-2024

Source: Own calculations from Statistics Canada data table 36-10-0222.



Graph by @trevortombe



Canadian Mutual Recognition Agreement



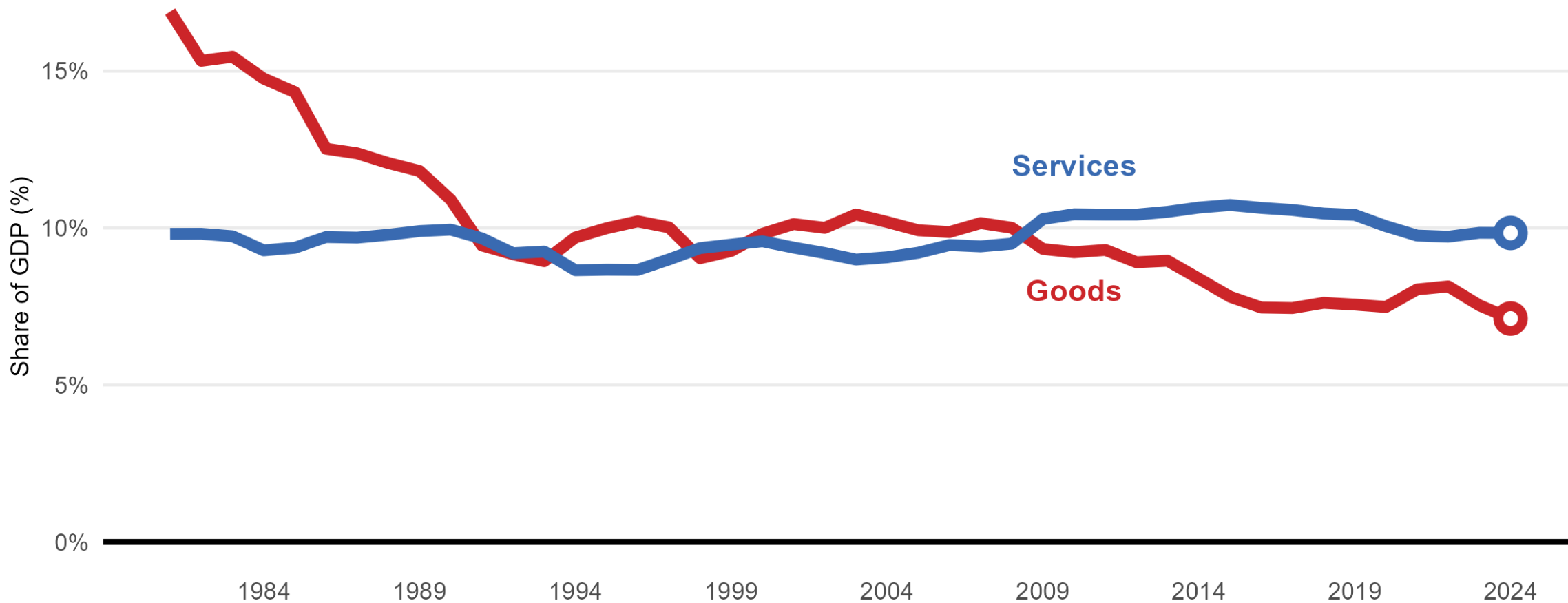
Photo credit: Fedeli's insta



Internal vs International Trade Volumes

Internal trade in goods and services, as a share of Canada's GDP

Source: Own calculations using Statistics Canada data table 36-10-0222-01



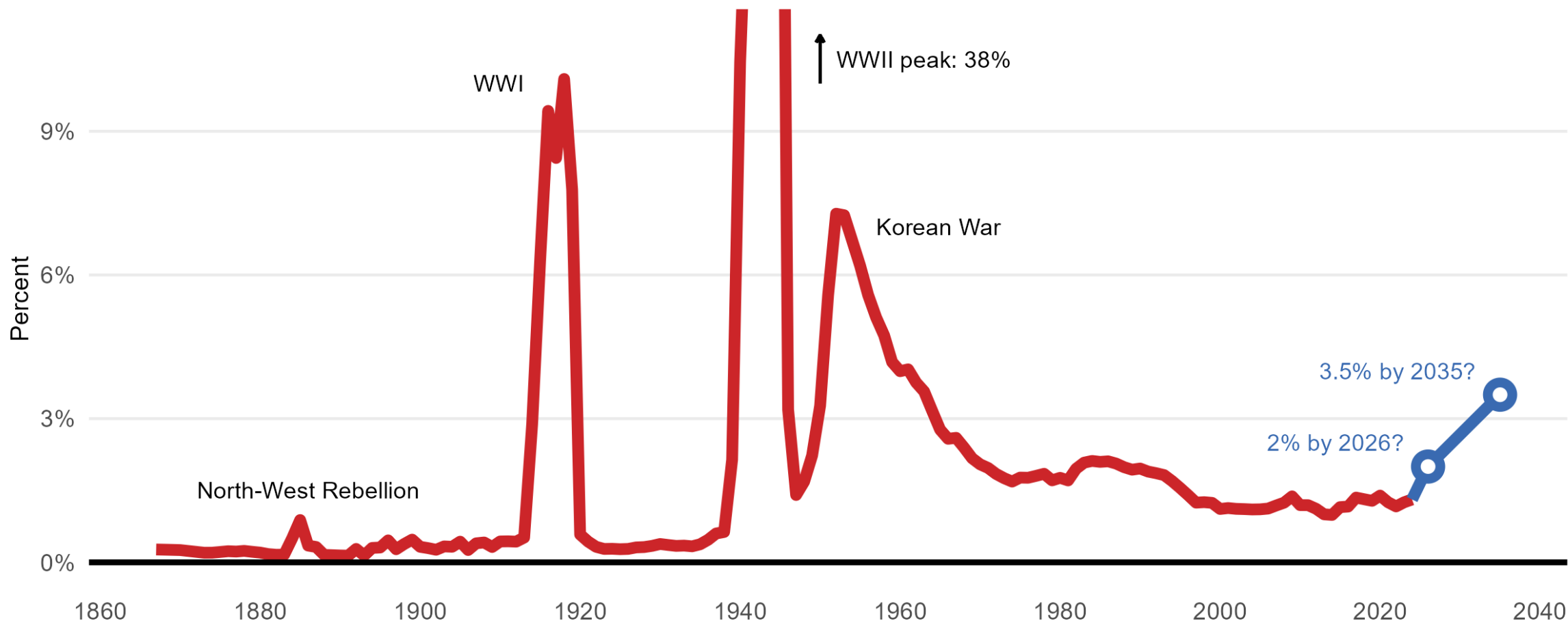
Graph by @trevortombe



Tightening Fiscal Constraints

Canadian military spending as a share of GDP, 1867-2035

Source: Own calculations from the Historical Statistics of Canada (H19-34) and the SIPRI Military Expenditures Database.



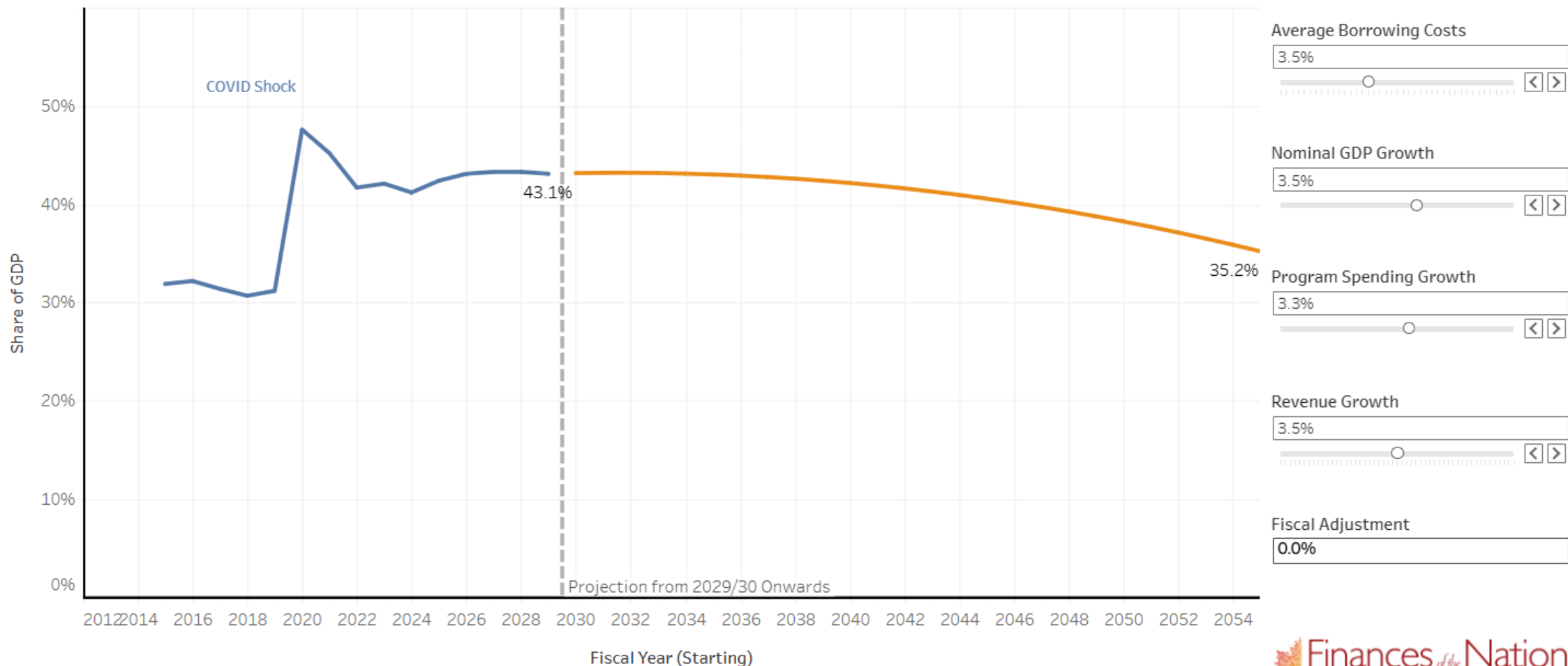
Graph by @trevortombe



Tightening Fiscal Constraints

Federal Debt as a Share of GDP

Budget 2025 and User-Defined Projections Beyond 2029/30



Note: fiscal adjustments are level changes in annual revenue/(spending) as a share of GDP from 2029/30 onwards.



Provinces Will Be On Their Own

Long-Run Fiscal Gaps

Time Horizon (Years)

50

Interest Rates (Provincial)

4%

Provincial Revenue Growth

Baseline Projection

Labour Productivity Growth

1.0%

Health Inflation

1.00%

Additional CHT Growth

0%

Mortality Improvement

As in CPP (31st)

Immigration

Baseline (2002-2020 Avg)

Fertility

Medium (2016)

 Finances of the Nation

CC-BY

Government (or Aggregate)

British Columbia

Alberta

Saskatchewan

Manitoba

Ontario

Quebec

New Brunswick

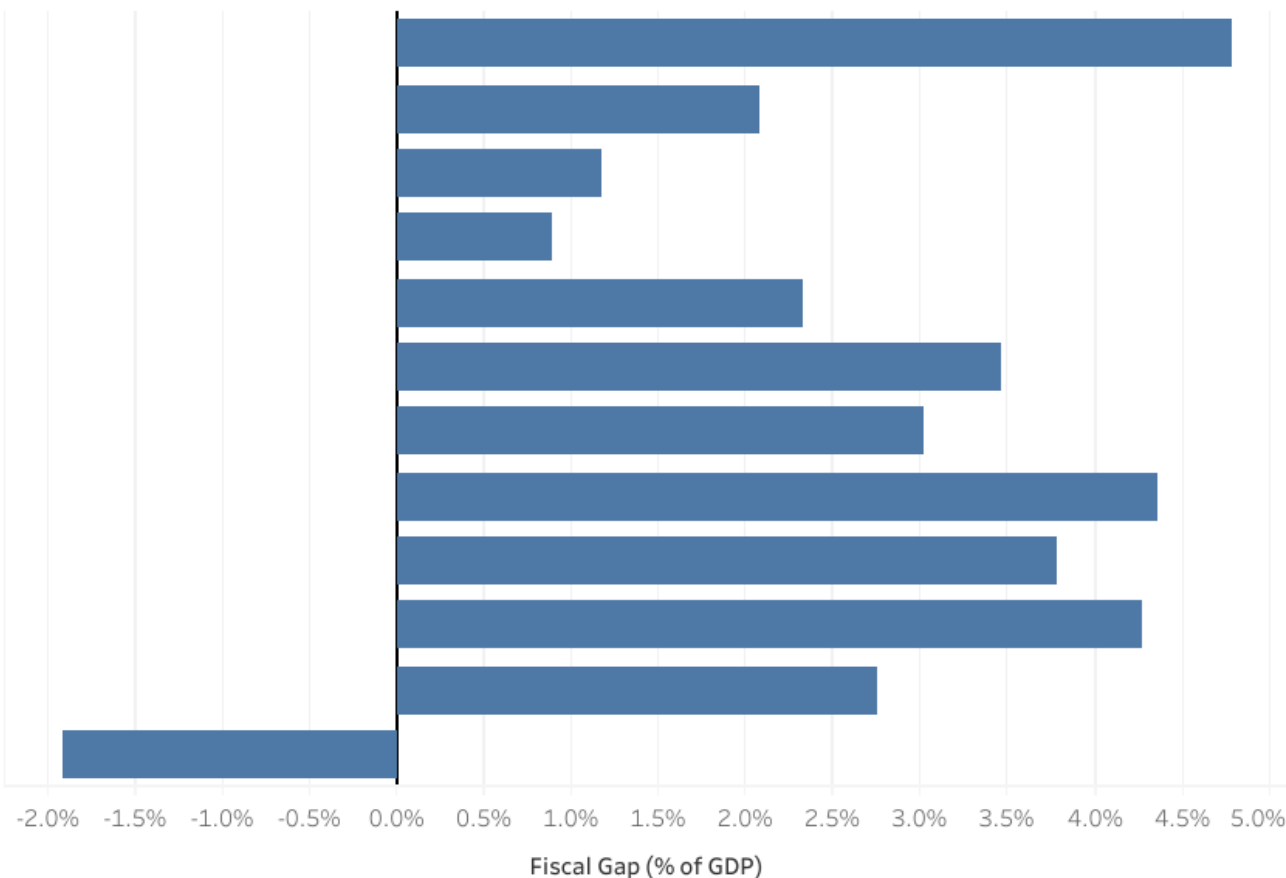
Nova Scotia

Prince Edward Island

Newfoundland and Labrador

Provincial Governments

Federal Government



Fiscal gaps displayed here reflect the immediate and permanent change in revenue or expenditures to achieve the same net debt to GDP ratio by the end of the time horizon as prevailed at the beginning of it. Positive numbers reflect required revenue increases or expenditure reductions.



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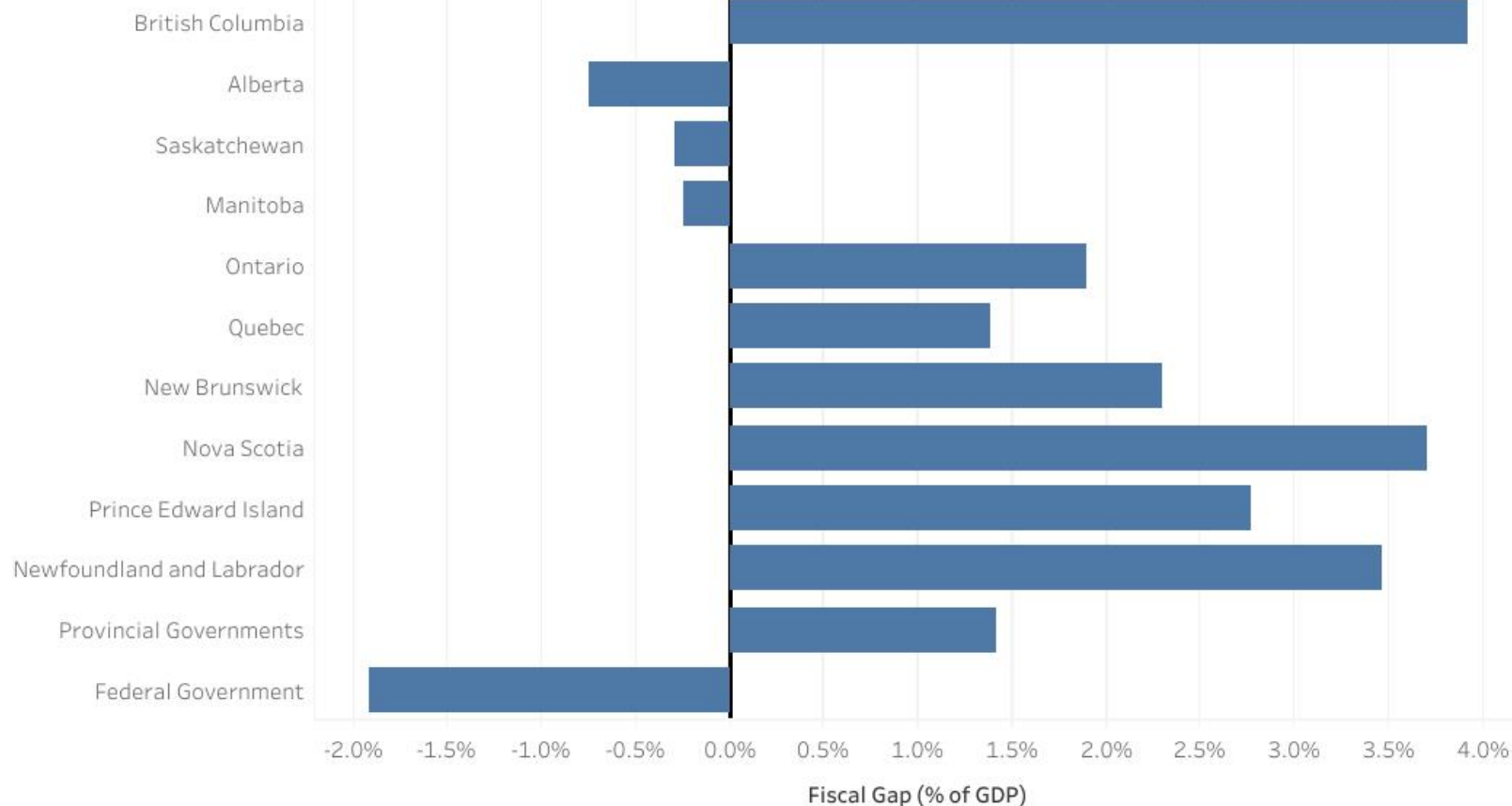
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 Finances of the Nation

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Provinces Will Be On Their Own

Long-Run Fiscal Gaps

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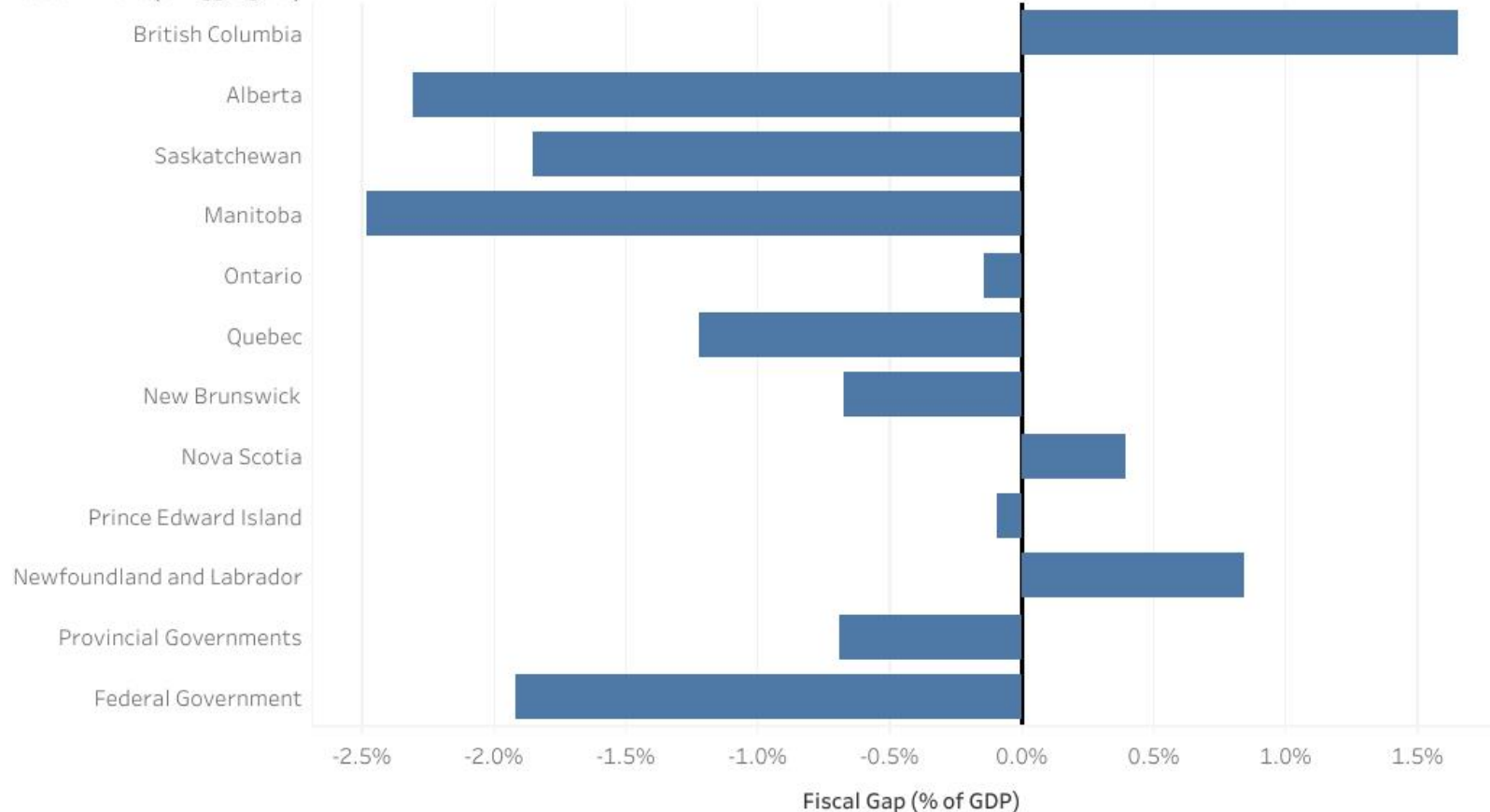
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 Finances of the Nation

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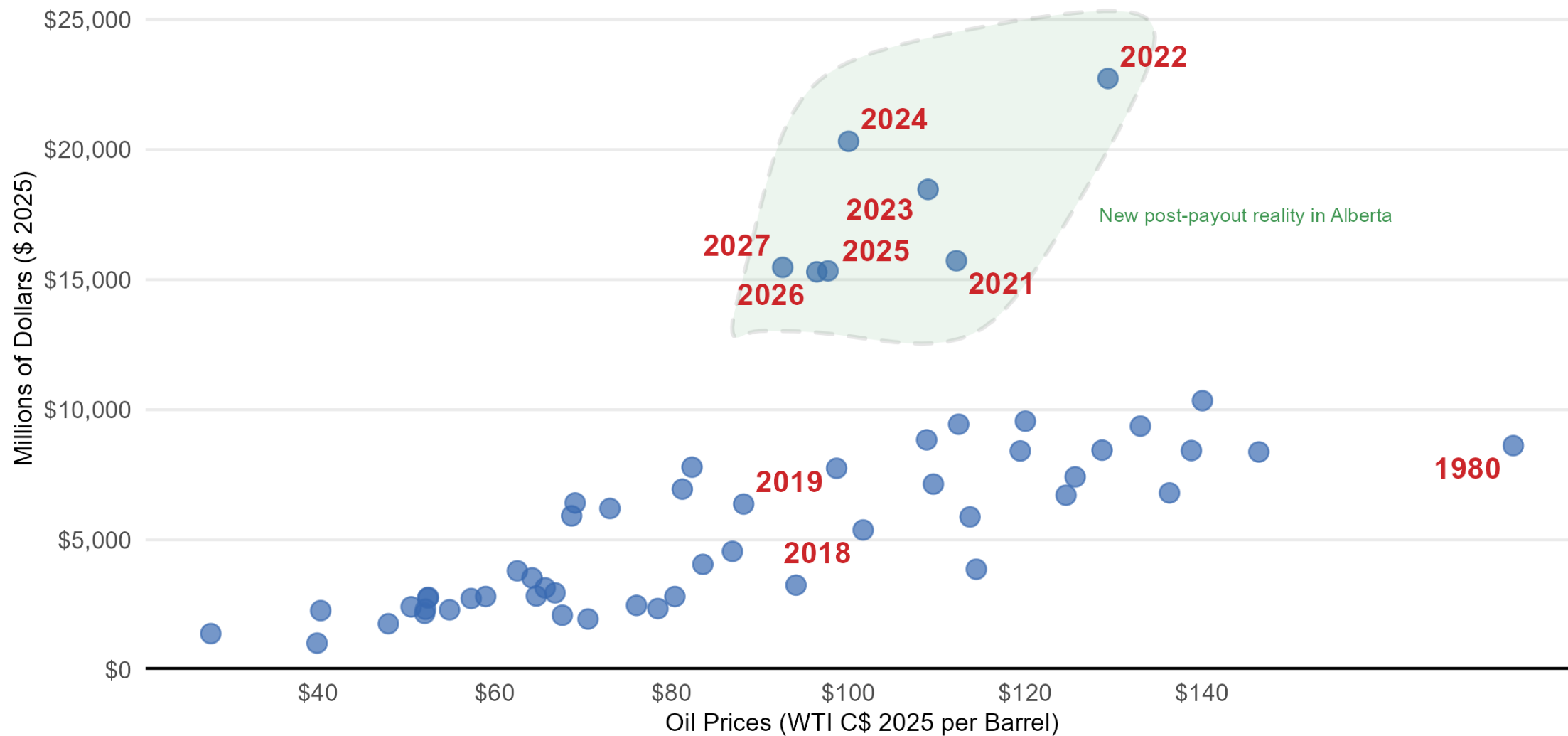
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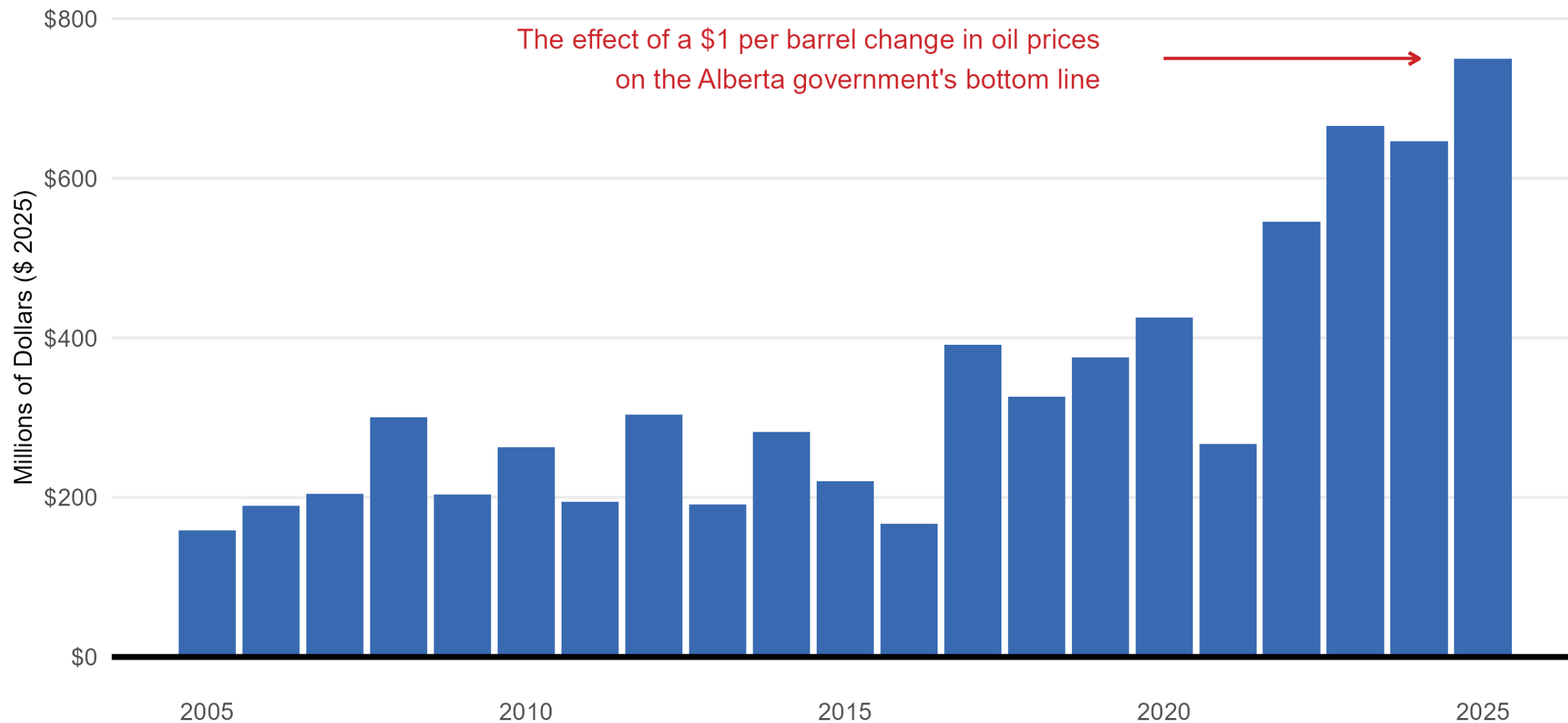


Alberta's New Fiscal Reality



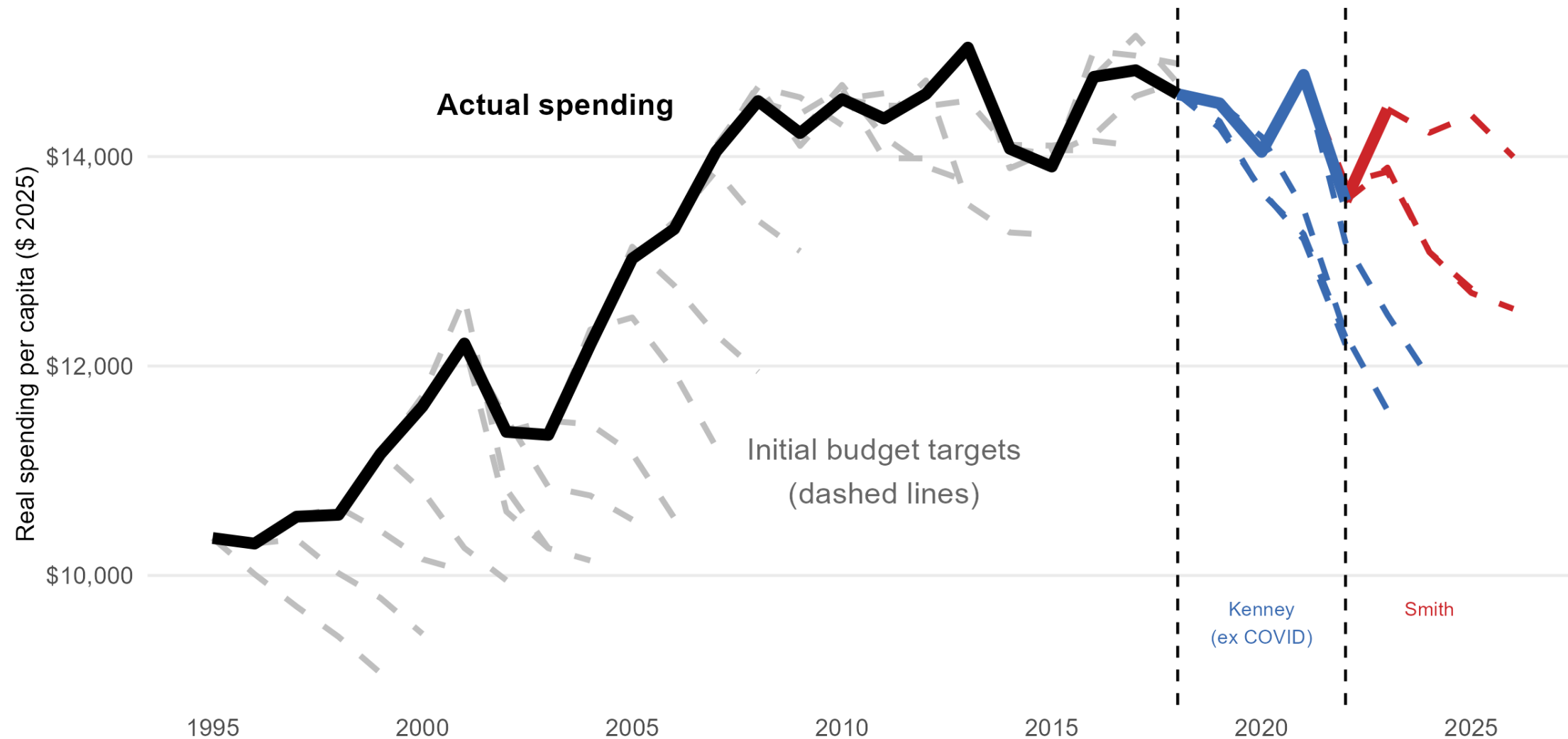


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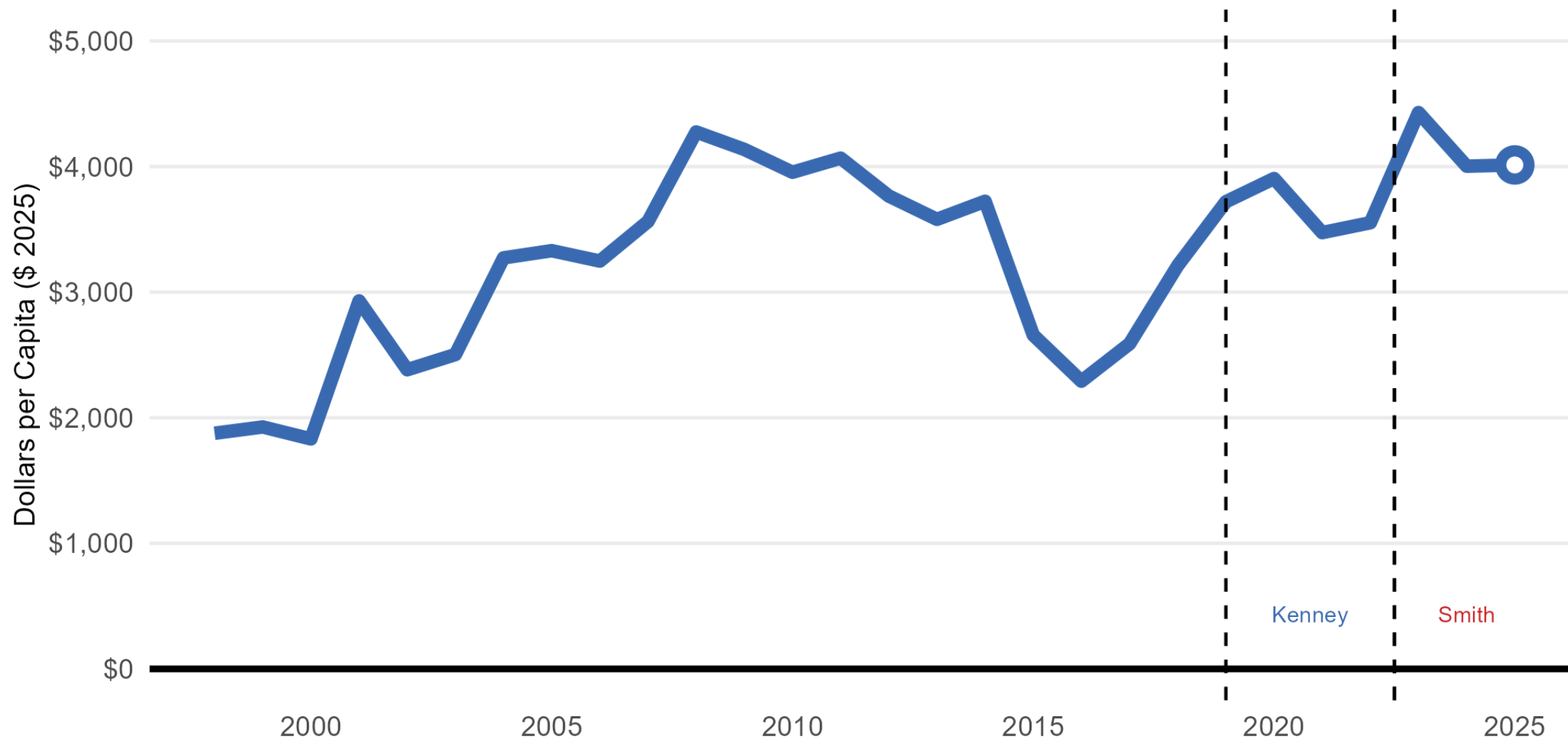


Smith's Fiscal Policy Pillar 1: Higher Spending





Smith's Fiscal Policy Pillar 2: Lower Taxes





Alberta's Fiscal Framework

- **Limit expenditure growth to inflation + population**
- Limit in-year expense growth
- Excess cash: debt repayment and an “Alberta Fund”
- **A balanced budget requirement after three years**



How the balance budget rule works

“While you’re running deficits, spending must be frozen”

- Hypothetical **Budget 2026**
 - \$60/bbl oil → deficit of ~\$6 billion
- What happens?
 - This deficit is “allowed” by the framework
 - If oil returns to low/mid 70s for 2026, no changes needed
 - If oil stays low, then \$400 million spending cut in 2026/27 required by the framework. Still in deficit.



How the balance budget rule works

“While you’re running deficits, spending must be frozen”

- Hypothetical **Budget 2027**
 - \$60/bbl oil → deficit of ~\$4.5 billion
- What happens?
 - This deficit is “allowed” by the framework
 - If oil returns to low/mid 70s for 2026, no changes needed
 - If oil stays low, then \$2.5 billion spending cut in 2027/28 required by the framework. Still in deficit.



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Budget 2028?

Large and abrupt changes in spending/taxes required

..... Or abandon the framework, if oil prices don't cooperate



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Concluding Thoughts



A New Era for Canada's Economy?

- **Productivity and investment challenges:** limit long-term growth
- **Economic uncertainty:** trade tensions, policy/labour disruptions limit short-term options
- **Public policy:** limited room to maneuver financially, but political constraints on policy choices may be easing



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Thank you!



ttombe@ucalgary.ca



@trevortombe

