

# Industry Update Canada Truck Transportation



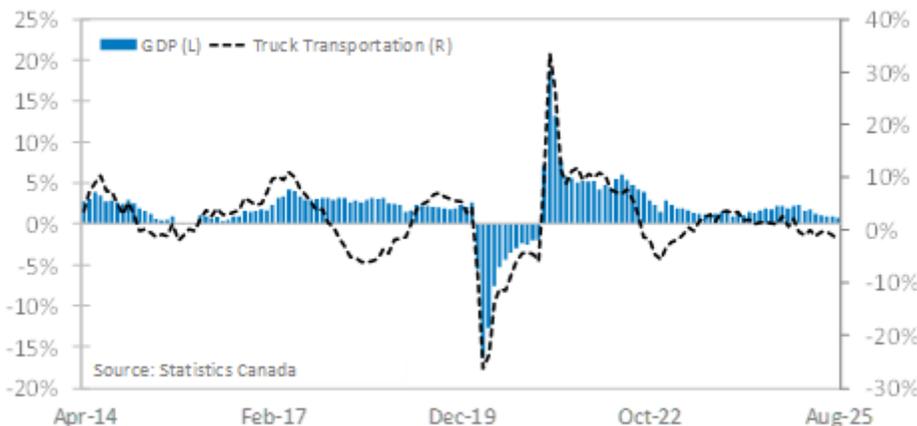
## Key Developments

- As of November 1, 2025, the U.S. imposed **25% tariffs** on medium and heavy-duty trucks and 10% on buses, significantly affecting Canadian manufacturers and cross-border trade. The tariffs apply to non-American parts in vehicles traded under the Canada-U.S.-Mexico Agreement (CUSMA).
- The Canadian government has launched a significant initiative to address the widespread misclassification of truck drivers under the **“Driver Inc.” model**, where drivers are incorrectly labeled as independent contractors to avoid taxes and labor obligations. Specifically, Budget 2025 allocates \$77 million over four years, plus \$19.2 million annually, to the Canada Revenue Agency (CRA) for enforcement. Additionally, the moratorium on T4A penalties is being lifted, enabling stricter compliance checks. Amendments to the Income Tax Act and Excise Tax Act will also allow the CRA to share data with Employment and Social Development Canada, improving oversight.
- The **Ontario Trucking Association (OTA)** is calling for more vigorous enforcement of compliance and safety standards in the trucking industry. This includes tightening oversight of immigration, revamping licensing and audit processes, and changes to how truck inspection stations operate.
- Be sure to check out the latest perspectives from BMO economists on the implications of the recent tariff turmoil for the Canadian macro-outlook (page 6).

## Industry Fundamentals

Canadian economic growth, while better than the worst fears, remains weak. Prospects for 2026 look better, however, with fiscal stimulus and lower interest rates providing support. The BMO Economics group forecasts 1.2% real GDP growth in 2025, followed by 1.4% in 2026. That said, the still contentious tariff situation remains a dark cloud, making it difficult for firms to make significant investment decisions in the absence of a firm trade deal. On the positive side, the Bank of Canada's previous rate cuts are providing a tailwind across the economy. Further, a significant wave of federal fiscal stimulus has already begun to roll out, including income tax cuts and ramped-up spending on the military and infrastructure. In the short run, however, the Canadian trucking industry will remain in a fragile state, with trade barriers and general uncertainty prolonging subdued domestic and cross-border freight volumes and rates, while keeping fleet fundamentals under pressure.

Canada Monthly GDP Y/Y Growth (Seasonally Adjusted)

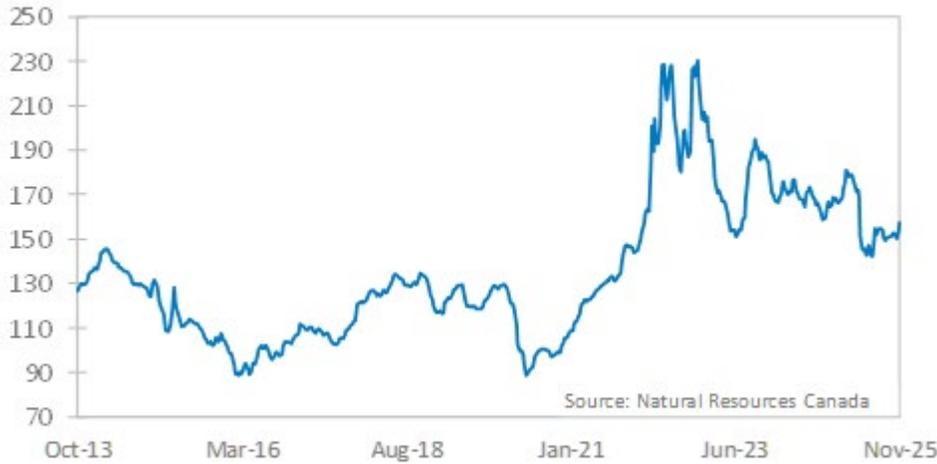


The Canadian economy had a rough August, with **Real GDP** contracting by 0.3% from July. A couple of special factors weighed on growth, with the Air Canada strike hammering air transportation, and drought hitting hydroelectric generation. While those two sectors will rebound, they account for only a modest share of the softness, with 12 of 20 industries reporting declines in activity. Wholesale was a weak spot, while goods sectors were also broadly lower. Notably, all transportation sub-sectors were down, as the trade war continues to ripple through the economy.

Unsurprisingly, **activity in the trucking sector** has steadily decelerated, with year-over-year growth progressively more negative throughout the year.

## Trucking Business Influencers

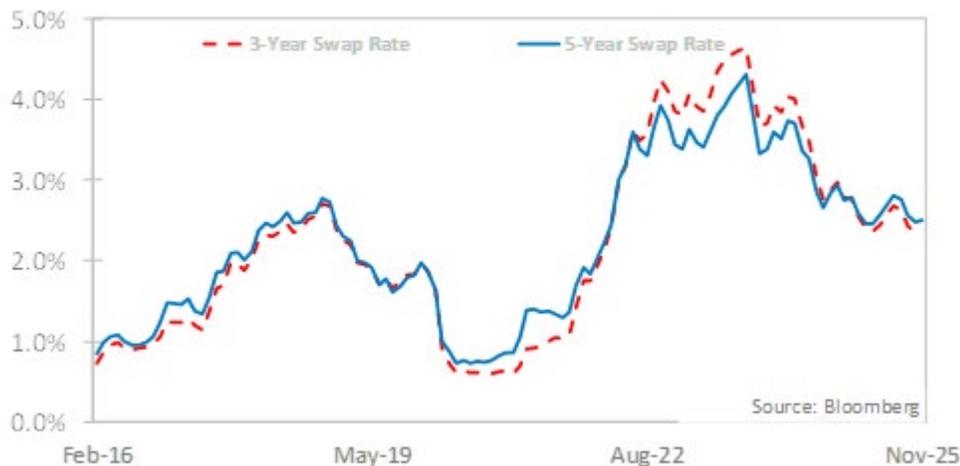
Canada Weekly Diesel Fuel Retail Price (Cents/Litre)



Canada Crude Oil Production Y/Y % Change



Interest Rates: 3 & 5 Year Interest Rate Swap Pricing



While bouncing from a nearly 4-year low in mid-June, the **national average Diesel price** of \$1.61/litre in early November was still down 5% year-to-date.

Crude oil prices remain among the most volatile commodities in the world. Benchmark West Texas Intermediate (WTI) has been struggling of late to stay above US\$60/bbl over concerns of rising OPEC+ supply, which stands in contrast to when prices surged above \$75 in mid-June during Israel-Iran's two-week war. Thus, BMO economists have revised down the 2025Q4 WTI forecast by \$5 to \$62, which has lowered the full-year 2025 projection to \$65.50 (previously \$67). The 2026 forecast remains unchanged at \$65. Nonetheless, the balance of risks, at least in the short term, lies more on the downside as fear of excessive supply is likely to remain a dominant overhang.

Canadian drilling is largely seasonal as rigs are prevented from moving to new drilling sites in the Spring, partly because the ground is thawing, making access by heavy equipment difficult. In an average year, the active rig count will fall 85-90% from its peak in the winter to its minimum in April and May. As such, comparisons other than month-over-month typically provide more meaningful trend insights.

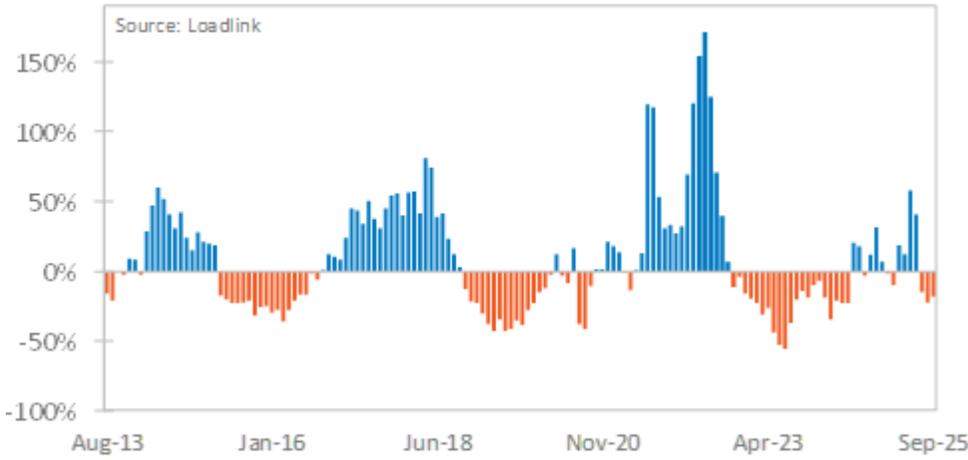
Starting at the outset of 2021 and into this year, month-to-month **crude oil production** has been choppy, albeit showing positive year-over-year growth for the great majority of the time. More recently, despite generally weak oil prices, total output over the trailing 12 months through August increased by 3.0% and was the highest in any 12 months.

**Interest rate swaps** are derivative instruments commonly used by financial institutions to mitigate interest rate risk on a loan portfolio. The pricing of interest rate swaps (swap rates) mirrors expectations of interest rates' future direction.

Although the Bank of Canada has already cut rates by 275 basis points since last June, volatile labour-market data has kept the Bank's attention. With rates now "at about the right level to keep inflation close to 2 per cent while helping the economy", the Bank could take a pass in December. That said, given the possibility that recent employment strength may be fleeting, coupled with a still sluggish housing market, BMO economists continue to eye a final rate cut in January.

## Freight Indicators

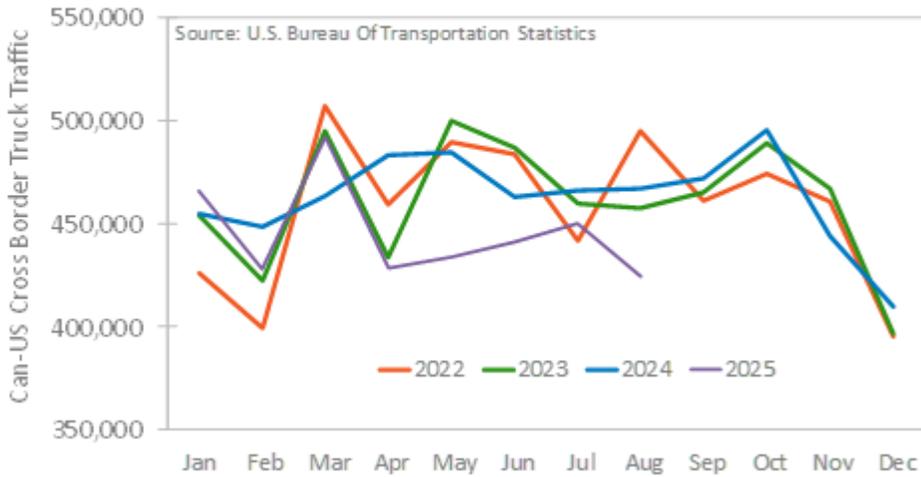
Canadian Truckload Spot Freight Volume Index Y/Y % Change



September marked the first uptick for **Canadian spot freight** activity since May, with overall load postings increasing 23% from August, albeit still 13% lower than a year earlier. Both cross-border and domestic activity drove the lift. Outbound loads (Canada to U.S.) saw a substantial month-over-month increase of 39%, though volumes were down 21% year-over-year. Inbound loads (U.S. to Canada) also saw a notable rebound, climbing 28% from August. Load postings within Canada increased 8% month-over-month, while year-over-year volumes mainly remained steady, rising just 1%.

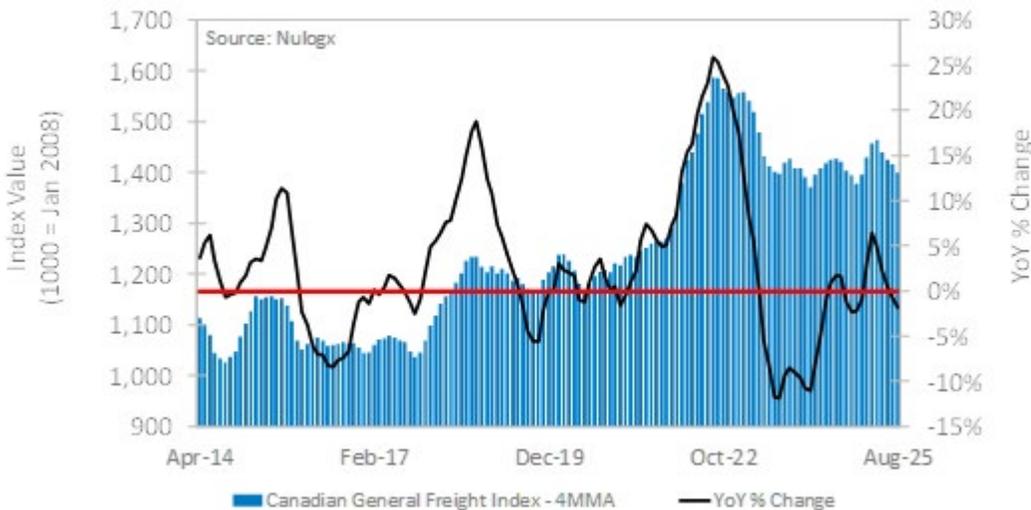
The recent stabilization in spot freight volume has led to the truck-to-load ratio decreasing (tightening) from 4.2 in August to 3.44 in September, yet still 4% higher (looser) year-over-year.

Ontario Cross Border Truck Traffic



Following a positive, less volatile-than-usual year in 2024, **truck border crossings** from Canada to the U.S. during the first eight months of this year experienced predictably large swings before and after the implementation of tariffs. While absolute crossings may not deteriorate much further, high single- to low double-digit year-over-year declines are likely to persist until the tariff situation passes an anniversary or is resolved favorably.

Canadian General Freight Pricing Index

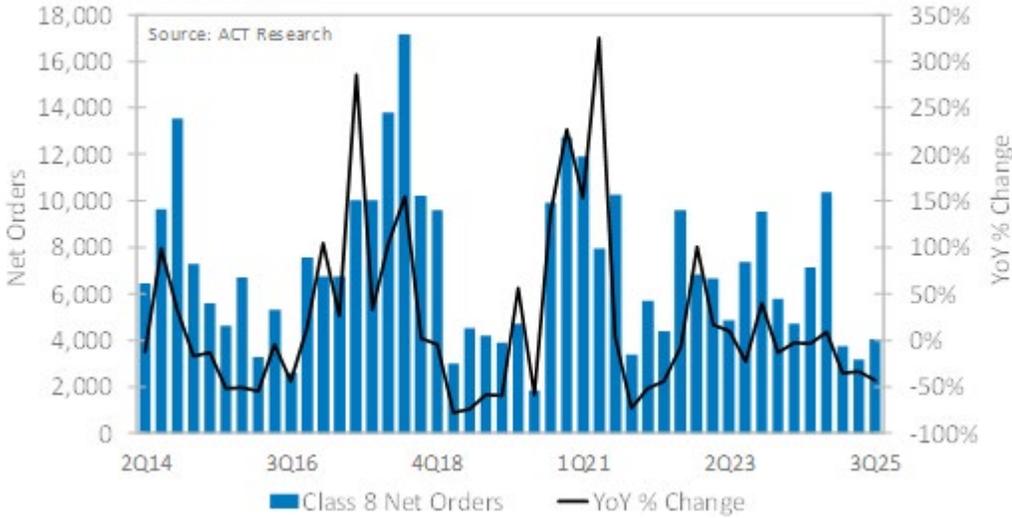


An index representing the **total cost** (fuel surcharges + base rates) of over-the-road freight transportation for Canadian shippers has been in a downtrend since peaking at a pre-tariff multi-year high in April. Further, the year-over-year percentage change in the overall index has turned increasingly negative following a five-month run of positive growth.

Beneath the surface, the Domestic TL segment remains above the same period last year, while Cross-Border LTL and TL remain below. The Domestic LTL Index also fell below the same period in the previous year for the first time in many months.

## Truck Orders

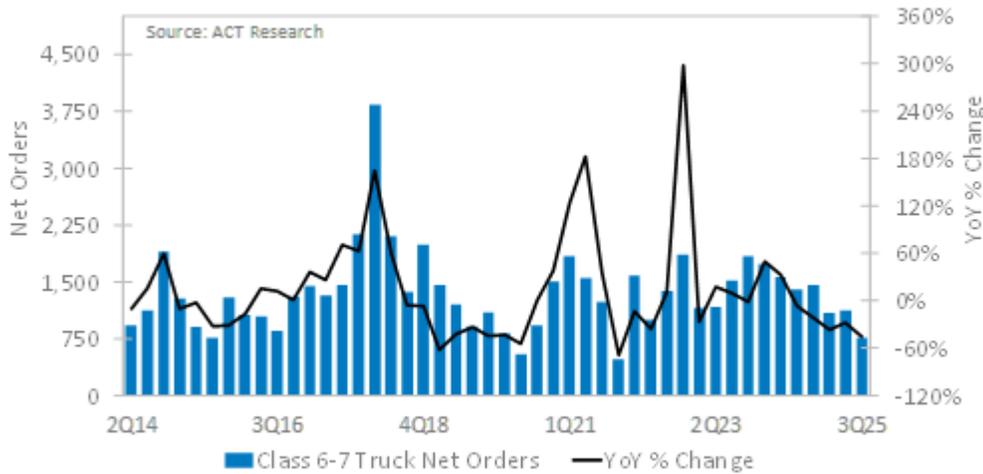
### Canada Class 8 Net Orders



Class 8 net truck orders have predictably dropped sharply throughout 2025, with 3rd quarter orders the lowest for any 3rd quarter since 2016. Given the negative impact of the trade war on both cross-border and domestic freight, continued pressure on heavy-duty orders will likely be the base case for at least a few more quarters.

Altogether, orders during the 3rd quarter increased 16% from the exceptionally weak 2nd quarter but were 43% lower than the year-earlier quarter. More positively, the quarter ended on a high note, with September orders (~1,400) nearly double the multi-year low in June.

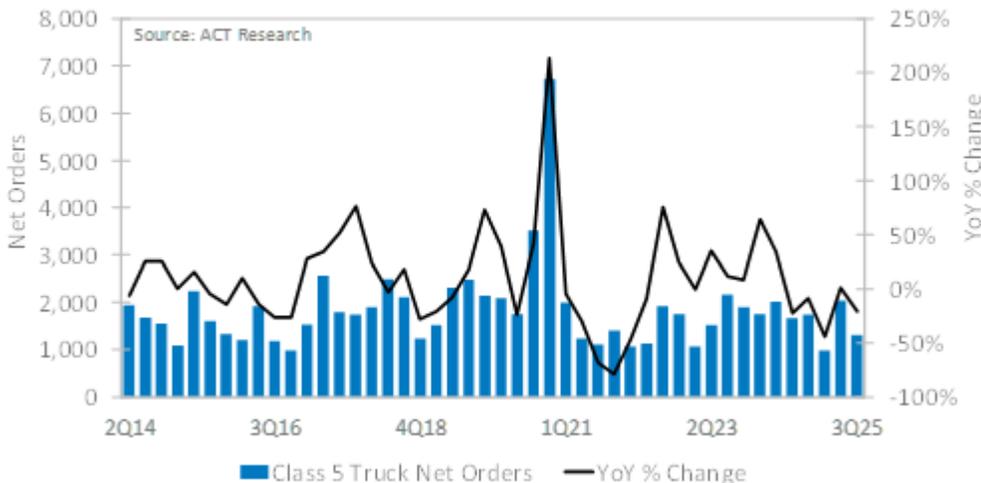
### Canada Class 6-7 Truck Net Orders



Unsurprisingly, and similar to the heavy-duty market, **Class 6-7 net truck orders** are mired in an extended period of severely weakened demand. Net orders during the 3rd quarter, the worst in nearly 4 years, were down 32% from the 2nd quarter and 46% from the year-earlier quarter.

As always, the severe-duty segment of this class will continue to reflect fundamental momentum (or lack thereof) in the energy, infrastructure and construction sectors, all of which are high priorities for the government's plan to reinvigorate growth.

### Canada Class 5 Truck Net Orders

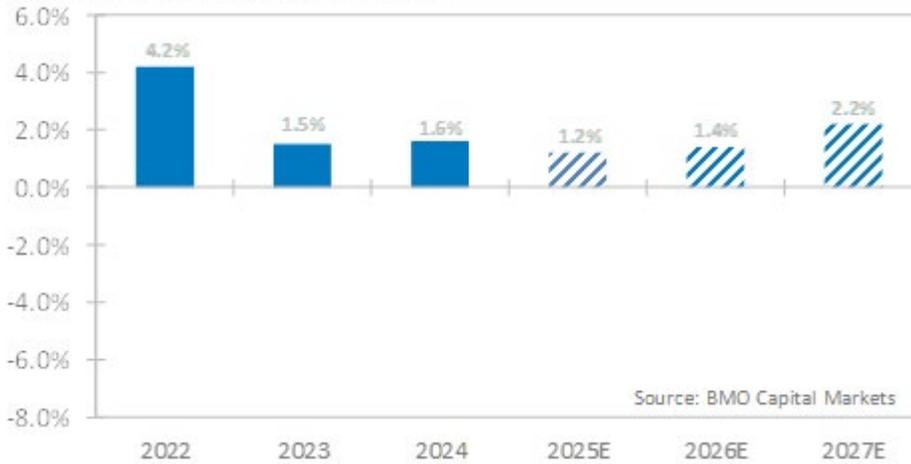


Following surprising resilience during the 2nd quarter, the lighter segment of medium-duty followed the other classes lower during the most recent quarter. Net orders during the 3rd quarter declined 35% from the 2nd quarter and 21% from a year earlier.

Despite concerns about near-term macro growth, the long-term demand outlook for medium-duty remains positive, supported by diverse end markets, consistency in vocational sectors, and the durable tailwinds of e-commerce and last-mile delivery.

## Macroeconomic Indicators

Canada Annual GDP Estimated Y/Y % Change



The economy should strengthen gradually through 2027, supported by easing monetary policy, increased federal spending on infrastructure, housing, and the military, and government financial support for tariff-affected industries. Initiatives to fast-track energy and mining projects, diversify trade, and eliminate provincial trade barriers will provide additional support, as will a trim to personal income taxes.

Canadian Annual Housing Starts and Auto Sales Estimated Y/Y % Change

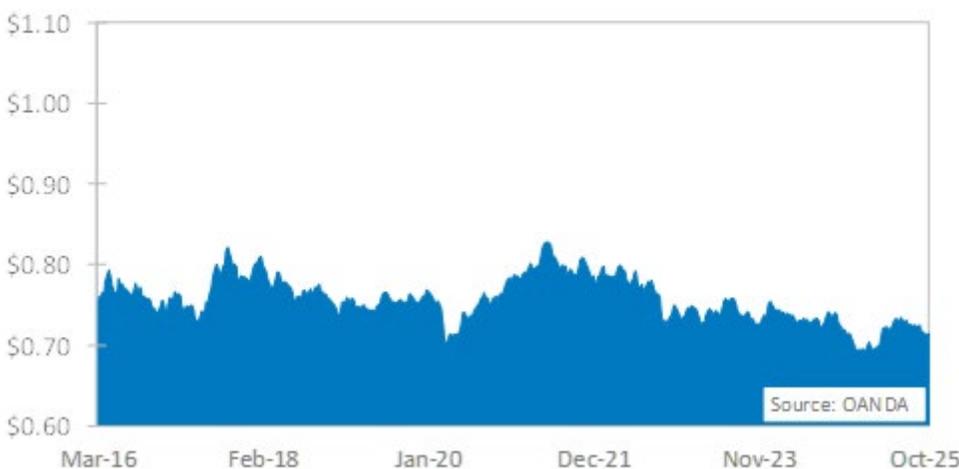


While a modest improvement in the macro landscape is expected in 2026 and 2027, **housing starts** are likely to lag, as developers remain cautious and financing conditions stay tight.

That said, there is no “Canadian housing market”; conditions vary significantly by region. For example, the Prairies and Atlantic Canada are still very tight with strong prices near record highs. However, Southern Ontario remains deep in correction territory. Even within the GTA, there are gaps between small, previously investor-dominated condos (weak) and single-detached homes in quality areas (stronger).

Unlike homebuilding, **auto sales** are expected to grow modestly as lower interest rates and real income gains help to offset increasing prices.

U.S. Dollar per 1 Canadian Dollar



Following a short-lived mid-year rally, downward pressure on the **Canadian Dollar** has resumed with persistent Canada-U.S. trade tensions compounded by new ‘Section 232’ tariffs hitting (or soon to hit) lumber and derivative products, medium- and heavy-duty trucks, and select pharmaceutical products. That said, as Fed rate cuts outpace those of the BoC, BMO Economists expect the Canadian Dollar to regain some strength, albeit restrained by uncertainty surrounding the upcoming renegotiation of the USMCA. As such, the outlook calls for the Canadian dollar to average C\$1.375 (US\$0.727) by December and appreciate further to \$1.333 (US\$0.752) by the end of next year.

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## “Voice of the BMO Economics Team”

### Both Sides Now

*Douglas Porter, Chief Economist and Managing Director Economics – November 7th, 2025*

We’ve seen both sides now of **Canada’s famously flighty job market**. After a pair of very weak results in the middle of summer, which likely helped prod the Bank of Canada back into easing mode, employment roared back with even larger gains in the past two months. Against expectations of a pullback in October, the economy instead **added a frothy 66,600 net new jobs** last month, carving the **unemployment rate** two ticks to 6.9%. Suffice it to say that we were handling a variety of questions over the validity of the data, but the details made some sense. All the gains were in **part-time positions**, with almost all the strength in **Ontario** and in the sectors related to **spectator entertainment**. It doesn’t require much sleuthing to recognize that the **Blue Jays’** long playoff run juiced hiring activity, with upwards of 50,000 jobs possibly driven by October baseball. So, despite a series of unfortunate events in left field last weekend, these figures don’t come out of left field.

The solid jobs report **nearly doused any flickering embers around the chances of a follow-up rate cut by the Bank of Canada in December**. In fact, if the job strength proves persistent, our call of a trim in early 2026 looks to be in danger. However, we **suspect that the strength will be short-lived**, and still look for the jobless rate to push back above 7% in coming months. The fact that the housing market refuses to respond to the deep 275 bps of rate cuts since last June implies that the BoC has not overdone it on the easing cycle. The early read on **October home sales** is that **buyers are turning cautious again**, given the tough trade backdrop and layoffs in manufacturing. (Side note: the biggest surprise in the jobs data may have been that factory payrolls rose 8,700 in October and are now up slightly from year-ago levels; we can’t thank the Jays for that one.)

**Housing** was an area of focus in this week’s hotly anticipated federal budget, but there was actually precious little new news for the sector. That could have been a theme, overall, as many of the budget’s measures were flagged well ahead of time, or re-packaged earlier announcements. This is not to downplay the import of the many measures that have been unveiled this year, largely aimed at spurring investment, and heavily supporting infrastructure and defence. One key takeaway is that **this year’s \$78 billion deficit will weigh in at 2.5% of GDP**, up from 1.2% in the prior fiscal year. Combined with an **expected like-sized deterioration at the provincial level** (from 0.2% of GDP last year to 1.5% this year), that is a **total widening of 2½% of GDP in a single year**. That **heavy-duty fiscal support** is a key reason that the Canadian economy has managed to keep its head just above the waterline this year even amid the deep uncertainty in trade and drop in exports.

### A Vladdy Good Month For Ye-Service Jobs

*Douglas Porter, Chief Economist and Managing Director Economics – November 7th, 2025*

Canadian employment rose by 66,600 in October—a wickedly appropriate figure for that month—following a solid 60,400 advance in September and thus fully reversing the nasty two-month decline in mid-summer. The details of the report were much more nuanced than the rollicking headline would suggest, but even with some caveats this is a welcome result. On **the more cautious side**, all the net new jobs were part-time (+85.1k) while full-time was weaker (-18.5k). The gains were also concentrated in a select few sectors (more on that in a moment), with 11 of 16 sectors reporting job losses, and in just a few provinces. Meantime, total hours worked fell 0.2% m/m after a similar fall the prior month, but that one comes with a big asterisk; the Alberta teachers strike weighed heavily here, and there was also a reported 11,600 job loss in education jobs in that province in October.

On **the firmer side**, the unemployment rate fell two ticks to 6.9%, with one of the largest declines in the number of unemployed (-49k) on record, aside from the pandemic. Even the youth jobless rate tumbled 6 ticks to 14.1%. The headline figure has held near 7% since the spring, and is still up half a point from a year ago, suggesting the Canadian economy continues to tread water amid the trade uncertainty. And, wage growth perked up a touch to 3.5% y/y (all workers).

“Voice of the BMO Economics Team”

**A Vladdy Good Month For Ye-Service Jobs (cont.)**

Digging into the sectors and regions, there were **lots of signs that the Blue Jays run made a mark**. First, Ontario accounted for most of the job gains (+54,500), while fully five other provinces reported job drops last month. Second, those **Ontario** gains were led by **info, culture & recreation** (+21,400), **accommodation & food** (+11,300) and **retail & wholesale trade** (+16,600), the very sectors one would expect to get a bounce from all the activity around the playoffs.

Beyond that big special factor, a notable feature was that manufacturing (+8,700) and transportation & warehousing (+29,500) were both solid on a national level. Those two sectors would be among the most affected by U.S. tariffs, and the strength there is encouraging. Note that factory jobs have managed to nudge up 0.2% y/y, a surprise to say the least. On the flip side, construction jobs fell 14,800, with the softness spread across most of the country, and they are now down slightly from a year ago.

**Bottom Line:** Even if the solid headline jobs tally received a temporary fillip from the Jays, it's an encouraging result overall, especially in light of the weight from the Alberta teachers strike. With the jobless rate dipping back below 7% and wages staying firm, it appears that the BoC will indeed pause in December.

Table 1 – Canada – Employment  
(change in thousands)

|                                       | Oct   | Sep   | Aug   | (avg. chng)      |                  |
|---------------------------------------|-------|-------|-------|------------------|------------------|
|                                       |       |       |       | 3-mo.            | 12-mo.           |
| <b>Total</b>                          | 66.6  | 60.4  | -65.5 | 20.5             | 24.9             |
| (month/month % change)                | 0.3   | 0.3   | -0.3  | 1.2 <sup>1</sup> | 1.4 <sup>2</sup> |
| Full-Time                             | -18.5 | 106.1 | -6.0  | 27.2             | 16.6             |
| Part-Time                             | 85.1  | -45.6 | -59.7 | -6.7             | 8.4              |
| <b>Goods Producing</b>                | -1.1  | 42.0  | 1.7   | 14.2             | 0.6              |
| Manufacturing                         | 8.7   | 27.8  | -19.2 | 5.8              | 0.3              |
| Construction                          | -14.8 | -8.2  | 17.1  | -2.0             | 0.0              |
| <b>Service Producing</b>              | 67.6  | 18.4  | -67.2 | 6.3              | 24.4             |
| Trade                                 | 40.7  | -20.8 | -1.8  | 6.0              | 9.0              |
| <b>Unemployment Rate (%)</b>          | 6.9   | 7.1   | 7.1   | 6.9 <sup>3</sup> | 6.6 <sup>4</sup> |
| <b>Avg. Hourly Wages (y/y % chng)</b> | 3.5   | 3.3   | 3.2   | 3.3 <sup>3</sup> | 5.0 <sup>4</sup> |

<sup>1</sup> (3-mo. % change : a.r.); <sup>2</sup> (y/y % change); <sup>3</sup> (3 mo. ago); <sup>4</sup> (12 mo. ago)

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## “Voice of the BMO Economics Team”

### Resilience and Recovery

*Sal Guartieri, Senior Economist and Director Economics – November 5th, 2025*

Unfortunately, trade relations between the U.S. and Canada have taken a wrong turn. Taking exception to a provincial advertisement, the White House **suspended trade talks with Canada** (which were aimed at reducing some sector-specific duties) and threatened to lift the posted tariff rate by 10 ppts to 45%. This follows recent new tariffs on softwood lumber, furniture, pharmaceuticals (brand name only) and heavy trucks. Still, thanks to the compliance exemption on USMCA goods, the U.S. average effective tariff rate on Canada is only around 7%, with the pain concentrated in three industries (autos, steel, and aluminum).

Due to this exemption, the **economy should avoid a technical recession**. After contracting in the second quarter due to pandemic-like declines in goods exports to the U.S. and in machinery investment, monthly data suggest real GDP is **on track to meet our current estimate of 0.5% annualized growth in Q3**. Barring an escalation of the trade war, both exports and investment spending should stabilize.

**Households are doing their utmost to defend the economy from tariffs**. After nearly stalling early this year due to trade-war concerns, consumer spending rebounded almost 5% annualized in Q2. Moreover, retail sales have advanced further this summer. With Canadian southbound visits down 30% y/y in August, billions of dollars have been redirected toward domestic tourism, which accounts for over 1% of GDP. A rising TSX is also greasing the spending wheels.

As in the U.S., **Canada's housing and labour markets are two weak links in the economic chain**. While national existing home sales are trending higher, **demand remains weak in Ontario**, the province at the epicentre of the correction. However, improving affordability amid falling prices should lead to some near-term stability in Ontario's sales and a modest recovery next year. Meanwhile, only 22,000 jobs have been created nationwide, on net, in the first eight months of the trade war—about what the economy would typically create in a single month. The unemployment rate has edged above 7% and will likely rise slightly further before retreating next year.

With substantial fiscal stimulus in the pipeline, the **economy is expected to gain some momentum in the quarters ahead**. The recent **federal budget tabled numerous measures to support growth**, including billions of dollars allocated to infrastructure, defense, and industries affected by tariffs. The reinstatement of the accelerated capital cost allowance for a broad range of business assets will help revive private-sector investment after a decade-long slump. Despite efforts to improve government efficiency, the new spending initiatives and tax relief measures will nearly double the budget deficit to \$78 billion in the current fiscal year, or 2.5% of GDP. This could add roughly half a percentage point to annual economic growth. However, **many of the measures were previously announced and factored into our forecast of 1.4% growth in 2026**, up from an estimated 1.2% in 2025.

Labour market weakness caught the Bank of Canada's attention. Despite underlying inflation still hovering above the 2.0% target, the Bank resumed policy easing in September and trimmed rates again, to 2.25%, in October. With rates now *"at about the right level to keep inflation close to 2 per cent while helping the economy"*, the Bank could take a pass in December. Still, assuming further softness in employment, **we continue to eye a final rate cut in January**.

The **main risk facing Canada is if the U.S. withdraws from the USMCA and exporters lose the compliance exemption**. In this event, the economy would likely face a recession. Consultations between the U.S. government and businesses have begun and hopefully will underscore that re-signing the free trade agreement, even with modifications, is in the best interests of all three countries.

## Forecasts

|  | 2025  |       |       |       | 2026  |       |       |       | Annual |       |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|
|  | Q1    | Q2    | Q3    | Q4    | Q1    | Q2    | Q3    | Q4    | 2024   | 2025  | 2026  |
| <b>CANADA</b>  |       |       |       |       |       |       |       |       |        |       |       |
| Real GDP (q/q % chng : a.r.)   | 2.0   | -1.6  | 0.5   | 1.5   | 1.9   | 1.8   | 1.8   | 2.1   | 1.6    | 1.2   | 1.4   |
| Consumer Spending  | 0.5   | 4.5   | 0.7   | 2.1   | 1.5   | 1.8   | 1.8   | 2.4   | 2.4    | 2.7   | 1.8   |
| Business Investment (non-res.)   | 1.1   | -10.1 | -7.3  | -1.6  | -1.0  | 0.3   | 1.7   | 1.7   | -2.4   | -2.6  | -1.8  |
| Consumer Price Index (y/y % chng)  | 2.3   | 1.8   | 2.0   | 2.1   | 1.9   | 2.2   | 2.1   | 2.0   | 2.4    | 2.0   | 2.0   |
| Unemployment Rate (percent)  | 6.6   | 6.9   | 7.0   | 7.2   | 7.2   | 7.1   | 6.9   | 6.7   | 6.4    | 7.0   | 7.0   |
| Housing Starts (000s : a.r.)   | 223   | 282   | 272   | 262   | 248   | 243   | 238   | 232   | 245    | 260   | 240   |
| Current Account Balance (\$blns : a.r.)                                  | -5.3  | -84.6 | -73.6 | -72.5 | -69.6 | -66.5 | -63.6 | -60.5 | -14.1  | -59.0 | -65.0 |
| <b>Interest Rates</b> (average for the quarter : %)                      |       |       |       |       |       |       |       |       |        |       |       |
| Overnight Rate   | 2.92  | 2.75  | 2.67  | 2.25  | 2.00  | 2.00  | 2.00  | 2.00  | 4.48   | 2.65  | 2.00  |
| 3-month Treasury Bill  | 2.85  | 2.63  | 2.60  | 2.25  | 1.95  | 1.95  | 1.95  | 1.95  | 4.37   | 2.60  | 1.95  |
| 10-year Bond   | 3.12  | 3.21  | 3.38  | 3.10  | 3.10  | 3.10  | 3.10  | 3.10  | 3.34   | 3.20  | 3.10  |
| <b>Canada-U.S. Interest Rate Spreads</b> (average for the quarter : bps) |       |       |       |       |       |       |       |       |        |       |       |
| 90-day   | -149  | -173  | -166  | -153  | -151  | -130  | -107  | -87   | -53    | -160  | -119  |
| 10-year  | -134  | -115  | -88   | -92   | -92   | -92   | -92   | -92   | -87    | -107  | -92   |
| <b>UNITED STATES</b>   |       |       |       |       |       |       |       |       |        |       |       |
| Real GDP (q/q % chng : a.r.)   | -0.6  | 3.8   | 2.8   | 1.0   | 1.6   | 1.6   | 1.8   | 1.7   | 2.8    | 1.9   | 1.8   |
| Consumer Spending  | 0.6   | 2.5   | 3.1   | 1.4   | 1.4   | 1.6   | 1.9   | 1.9   | 2.9    | 2.5   | 1.8   |
| Business Investment (non-res.)   | 9.5   | 7.3   | 1.8   | -0.6  | 1.7   | 1.9   | 1.9   | 1.9   | 2.9    | 3.7   | 1.7   |
| Consumer Price Index (y/y % chng)  | 2.7   | 2.5   | 2.9   | 3.0   | 2.7   | 2.9   | 2.7   | 2.4   | 3.0    | 2.8   | 2.6   |
| Unemployment Rate (percent)  | 4.1   | 4.2   | 4.3   | 4.5   | 4.6   | 4.6   | 4.6   | 4.6   | 4.0    | 4.3   | 4.6   |
| Housing Starts (mlns : a.r.)   | 1.40  | 1.35  | 1.35  | 1.35  | 1.40  | 1.41  | 1.41  | 1.42  | 1.37   | 1.36  | 1.41  |
| Current Account Balance (\$trlns : a.r.)                                 | -1.76 | -1.01 | -1.09 | -1.09 | -1.10 | -1.10 | -1.11 | -1.12 | -1.19  | -1.23 | -1.11 |
| <b>Interest Rates</b> (average for the quarter : %)                      |       |       |       |       |       |       |       |       |        |       |       |
| Fed Funds Target Rate  | 4.38  | 4.38  | 4.29  | 3.79  | 3.54  | 3.29  | 3.04  | 2.88  | 5.15   | 4.21  | 3.19  |
| 3-month Treasury Bill  | 4.34  | 4.37  | 4.26  | 3.75  | 3.45  | 3.25  | 3.00  | 2.80  | 5.18   | 4.20  | 3.15  |
| 10-year Note   | 4.45  | 4.36  | 4.26  | 4.05  | 4.00  | 4.00  | 4.00  | 4.00  | 4.21   | 4.30  | 4.00  |
| <b>EXCHANGE RATES</b> (average for the quarter)                          |       |       |       |       |       |       |       |       |        |       |       |
| US\$/C\$   | 69.7  | 72.3  | 72.6  | 72.1  | 73.1  | 73.7  | 74.2  | 74.8  | 73.0   | 71.7  | 74.0  |
| C\$/US\$   | 1.43  | 1.38  | 1.38  | 1.39  | 1.37  | 1.36  | 1.35  | 1.34  | 1.37   | 1.40  | 1.35  |
| ¥/US\$   | 152   | 144   | 148   | 149   | 146   | 145   | 144   | 143   | 151    | 148   | 145   |
| US\$/Euro  | 1.05  | 1.13  | 1.17  | 1.17  | 1.18  | 1.19  | 1.19  | 1.20  | 1.08   | 1.13  | 1.19  |
| US\$/£   | 1.26  | 1.34  | 1.35  | 1.35  | 1.36  | 1.37  | 1.37  | 1.38  | 1.28   | 1.32  | 1.37  |

Blocked areas mark BMO Capital Markets forecasts

“Voice of the BMO Economics Team”

| Economic and Fiscal Fundamentals |                          |       |                     |       |                             |         |        |        |                        |        |
|----------------------------------|--------------------------|-------|---------------------|-------|-----------------------------|---------|--------|--------|------------------------|--------|
| Province                         | Real GDP<br>(y/y % chng) |       | Jobless Rate<br>(%) |       | Budget Balance<br>(\$ mlns) |         |        |        | Net Debt<br>(% of GDP) |        |
|                                  | 2024e                    | 2025f | 2024                | 2025f | 24/25e                      | 25/26f  | 24/25e | 25/26f | 24/25e                 | 25/26f |
| British Columbia                 | 1.2                      | 1.5   | 5.6                 | 6.2   | -7,347                      | -11,577 | -1.7   | -2.6   | 20.5                   | 24.4   |
| Alberta                          | 2.7                      | 2.1   | 7.1                 | 7.5   | 8,320                       | -6,477  | 1.7    | -1.3   | 7.2                    | 8.7    |
| Saskatchewan                     | 3.4                      | 1.8   | 5.5                 | 5.1   | -249                        | -349    | -0.2   | -0.3   | 13.6                   | 14.5   |
| Manitoba                         | 1.1                      | 1.1   | 5.5                 | 5.9   | -1,149                      | -890    | -1.2   | -0.9   | 37.2                   | 38.0   |
| Ontario                          | 1.2                      | 0.9   | 7.0                 | 7.8   | -1,090                      | -13,500 | -0.1   | -1.1   | 35.7                   | 37.7   |
| Quebec                           | 1.3                      | 0.6   | 5.4                 | 5.8   | -5,175                      | -11,430 | -0.9   | -1.8   | 38.9                   | 40.7   |
| New Brunswick                    | 1.8                      | 0.9   | 7.1                 | 7.4   | -104                        | -669    | -0.2   | -1.3   | 25.2                   | 27.1   |
| Nova Scotia                      | 2.7                      | 1.2   | 6.5                 | 6.5   | 265                         | -1,425  | 0.4    | -2.2   | 33.4                   | 34.9   |
| Prince Edward Island             | 3.6                      | 1.8   | 7.9                 | 8.3   | -164                        | -184    | -1.6   | -1.6   | 28.6                   | 31.8   |
| Newfoundland & Labrador          | 2.4                      | 1.6   | 10.1                | 10.4  | -297                        | -626    | -0.7   | -1.4   | 44.3                   | 45.4   |
| Canada*                          | 1.6                      | 1.2   | 6.4                 | 7.0   | -6,991                      | -48,235 | -0.2   | -1.5   | 29.1                   | 30.9   |

Sources: BMO Capital Markets, Fiscal Updates.

\* Budget balance and net debt are provincial totals.

### Borrowing (FY25/26). Based on latest official update.

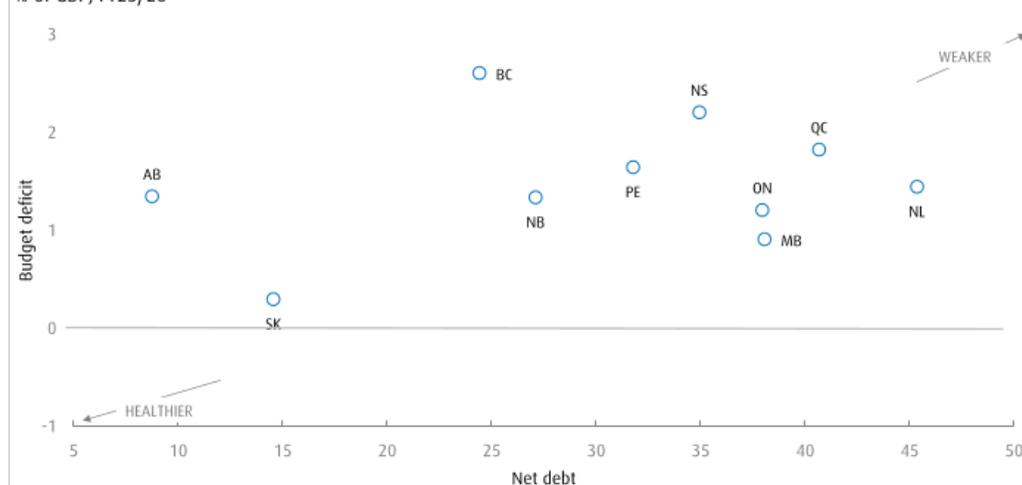
| Province                             | Funding Requirements (\$ mlns) |               |         |           |          | Credit Ratings |         |             |
|--------------------------------------|--------------------------------|---------------|---------|-----------|----------|----------------|---------|-------------|
|                                      | Re-financings                  | Net Borrowing | Total   | Remaining | % funded | S&P            | Moody's | DBRS        |
| British Columbia                     | 5,518                          | 29,561        | 35,079  | 11,694    | 67       | A+**           | Aa1**   | AA (high)** |
| Alberta                              | 12,700                         | -1,815        | 10,885  | 5,895     | 46       | AA-            | Aa2     | AA          |
| Saskatchewan                         | 1,375                          | 2,944         | 4,319   | 269       | 94       | AA             | Aa1     | AA (low)    |
| Manitoba                             | 3,965                          | 1,968         | 5,933   | 3,543     | 40       | A+             | Aa2     | A (high)    |
| Ontario                              | 31,808                         | 10,992        | 42,800  | 10,256    | 76       | AA-            | Aa3     | AA          |
| Quebec <sup>1</sup>                  | 17,199                         | 17,462        | 34,661  | 5,039     | 85       | A+             | Aa2     | AA (low)    |
| New Brunswick <sup>2</sup>           | 1,000                          | 2,485         | 3,485   | 1,085     | 69       | A+             | Aa1     | A (high)    |
| Nova Scotia <sup>3</sup>             | 835                            | 2,336         | 3,171   | 1,071     | 66       | AA-**          | Aa2     | A (high)    |
| Prince Edward Island                 | 125                            | 675           | 800     | 300       | 63       | A              | Aa2     | A           |
| Newfoundland & Labrador <sup>4</sup> | 1,300                          | 2,800         | 4,100   | 1,500     | 63       | A              | A1      | A           |
| All Provinces                        | 75,824                         | 69,408        | 145,233 | 40,651    | 72       |                |         |             |

Including: <sup>1</sup> Financement Quebec and Hydro Quebec (CY); <sup>2</sup> guaranteed NB Electric and NBMFC; <sup>3</sup> NSMFC; <sup>4</sup> NL Hydro

\* Pos. outlook; \*\* Neg. outlook

### Provincial Fiscal Landscape (as of latest fiscal update)

% of GDP, FY25/26



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## “Voice of the BMO Economics Team”

### One Big Belated Budget

*Robert Kavcic, Senior Economist and Director Economics – November 4th, 2025*

#### Overview: Short of Transformational

The highly anticipated 2025 budget lands in the middle of a trade dispute, and at a time when the economy is struggling to grow. Against that backdrop, the newly elected federal government has tabled a budget full of spending, tax relief, a push for private-sector investment, more efficient government operations, and significantly deeper deficits. Broadly, this is an economically favourable pivot from the deficit budgets run by the prior government, but also comes with what looks like a substantial structural deficit down the road. We'll stop short of calling it transformational; and we'll also stop short of pulling the fiscal alarm.

The FY25/26 budget deficit is estimated at \$78.3 billion (2.5% of GDP), about in-line with what was expected, before narrowing somewhat to \$65.4 billion (2.0% of GDP) for FY26/27. There is no path back to balance in the forecast from these levels, and deficits persist above \$50 billion by FY29/30, or around 1.5% of GDP, even when the economy returns to sturdy potential growth.

Net new stimulus runs at roughly \$20 billion (or about 0.6% of GDP) for FY25/26 and \$22 billion for FY26/27, including the many policy measures already announced in recent months (e.g., personal income tax reduction and increased defence spending). Relative to what was already announced ahead of Budget Day, we judge that there's roughly \$4 billion (0.1% of GDP) in incremental new announcements for FY25/26 and somewhat more for FY26/27. The important takeaway here is that there is indeed a large wave of stimulus hitting the economy, but we already knew about the vast majority of it, and therefore won't be scrambling to sharply revise up our growth forecast in the wake of this budget.

Looking out over the five-year projection horizon, there is almost \$90 billion of net new stimulus including recently-made announcements. Of that total, roughly \$36 billion is in the form of tax relief; \$63 billion is in defence; \$13 billion is in direct infrastructure; \$28 billion is in other government spending; all of which is offset by \$51 billion in government efficiency savings. Additionally, Ottawa is banking on an acceleration in private-sector investment with the aid of fast-tracked approvals across a range of projects/industries—that's certainly encouraging, but success there will depend highly on execution.

#### Steep fiscal toll

The budget deficit is estimated at \$78 billion in FY25/26 (2.5% of GDP), a sharp increase from \$36 billion now expected for FY24/25 (public accounts still pending). That's also a sharp deterioration from the \$42 billion expected in the 2024 Fall Economic Statement, which was the last official projection from Ottawa. The economy has performed relatively well since that point, leaving the vast majority of the shift on the back of some tax relief and much larger spending.

For FY26/27, the budget deficit is estimated at \$65 billion (2.0% of GDP). Revenues are projected to rise a solid 3.2% to \$523 billion in FY26/27, led by broad gains in tax receipts, following a dip in the current fiscal year. Meantime, program spending is projected to rise a tame 0.6% after surging 7.2% in FY25/26, reflecting the many government priorities. That said, a detailed department-level efficiency effort is commendable after years of outsized growth in government operations and, if hit, the savings will be enough to offset much of the increase in defence spending. The debt-to-GDP ratio will rise to 43.1% in the coming fiscal year, from 42.4% in FY25/26, before holding above 43% through FY28/29.

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## “Voice of the BMO Economics Team”

### One Big Belated Budget (cont.)

A new wrinkle is Ottawa’s presentation of separate **operating and capital budgets**. Note that the long-standing accounting remains in place and will be the focus for markets, so this is largely a cosmetic exercise. The operating deficit is pegged at \$33 billion in FY25/26, \$9 billion in FY26/27, and will be balanced by FY28/29. Two quick notes on this aspect of the budget: First, this appears to be the basis for fiscal targets, along with a declining deficit-to-GDP ratio. Also, it’s unclear how wide the net of ‘investment’ has been cast, but the sense is that a number of expenditures have been labeled as such to get pushed into the capital spending category, allowing operating targets to be achieved. The PBO has also noted as such, and it reinforces that this is mostly cosmetics.

### Reasonable Economic Assumptions

The budget projections are based on the private-sector consensus, but it’s a somewhat precarious one given the current unsettled state of tariffs and trade negotiations. Suffice it to say there is risk to this outlook, in both directions. The budget is based on real GDP growth of 1.1% this year (BMO Economics is at 1.2%), and 1.2% next year (1.4%). This marks a below-potential run rate into 2026 before past rate cuts and (presumably) some certainty on the trade front lend a hand. Ottawa expects nominal growth at 3.5% this year and 3.0% 2026 (we’re at 3.5% for both years). Medium term real GDP growth runs around the 2.0% mark, although potential growth could be challenged by slower population growth and ongoing productivity challenges—we’ll see if the latter can pick up the slack.

Meantime, interest rates now sit very close to what we would deem neutral, and the assumptions underlying this budget don’t diverge much from our current outlook. The 10-year yield is pegged at 3.3% this year, while the Bank of Canada is presumed to be on hold at current levels for the foreseeable future, with 3-month yields averaging around 2.5% going forward.

### Debt Management Strategy

Ottawa’s borrowing requirements will take a step down in FY26/27. Gross bond issuance is expected to dip to \$298 billion, down \$18 billion from the current year. After accounting for maturities, that pegs net issuance at \$151 billion.

As previously announced, treasury bill issuance will run strong at \$291 billion in FY26/27, down slightly from \$293 billion in the current fiscal year. Government will continue to focus on 3-, 6- and 12-month bills. For bonds, most of the issuance will remain concentrated at the shorter end, with \$110 billion expected for the 2-year, \$80 billion for the 5- and 10-year, and \$24 billion for the 30-year. Aside from the steady 30-year, issuance levels are down slightly across the board in FY26/27. Benchmark sizes are mostly unchanged, with only the 30-year rising modestly.

Ottawa will also keep the Green Bond program at \$4 billion annually. And, the Canada Mortgage Bond annual issuance limit will be lifted from \$60 billion to \$80 billion, starting in 2026, with the increase tied to multi-unit housing. The current pace of government CMB purchases will be maintained at \$30 billion annually. Ottawa also notes that it will increase the maximum amount that can be borrowed from \$2.1 trillion to \$2.5 trillion.

### Summary and Market Impact

This is a big budget that opens up very large federal deficits for Canada, and leaves a meaningful structural deficit down the road. However, market expectations have already anticipated these shortfalls, and it could have been worse. Talk on the Street had been as high as into the \$90 billion-to-\$100 billion range for the budget deficit (although we estimated \$75 billion). At the same time, the policy underlying these deficits is more palatable than those of the past decade. That is, they are built less on social spending and bigger government, and more on pro-growth measures while squeezing out some government efficiency. For a country starving for productivity growth, tax relief and a major infrastructure push are hard to dislike, although execution on the latter will matter a lot.

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## “Voice of the BMO Economics Team”

### One Big Belated Budget (cont.)

The **bond market impact** should be muted given pre-budget expectations, with perhaps some relief that the numbers weren't worse. Bond issuance will be slightly lower in FY26/27, and not out of line with expectations. Most immediately, the stimulus announced in this budget will now get incorporated into the Bank of Canada's near-term outlook in the January MPR. However, that's probably already reflected in market pricing, and the vast majority of the dollars in this budget have already been known.

As such, the **Canadian dollar** likely doesn't move a lot on this. Canada's relative fiscal advantage has shrunk somewhat, but remains in place. And, strong execution on the investment side could actually help longer-term productivity growth. For the time being, near-term inflation trends and the evolution of the trade dispute will matter more for both yields and the loonie.

**The equity market** will zero in on the push to drive private-sector investment. Many industries will benefit from accelerated CCA rates, and we'll see government push in areas like critical minerals and nuclear. The climate plan also opens the door to eliminating the oil & gas emissions cap alongside development of carbon capture.

### Appendix: Highlights of Major Measures

Measures in this budget come with a \$20 billion price tag for FY25/26, although the vast majority had been announced before Budget Day. The total cost remains around that range in the following couple of years and roughly \$15 billion in the out years.

#### Here's a rundown of the notable measures:

A focus on accelerating **large-scale private-sector capital investment** through the **Building Canada Act**, which will seek to fast-track major infrastructure projects and speed up the approval process. In addition to the original list of projects recently published, focus areas will be in critical minerals, Atlantic wind energy, carbon capture (Pathways), Port of Churchill and high-speed rail in the Toronto-Quebec City corridor.

Affordability measures top \$33 billion in the next five years and include the previously announced **Middle Class Tax Cut** and automatic tax filing for low-income Canadians. The tax cut came into force on July 1, 2025 and lowered the marginal rate by 1 ppt to 14% for the lowest income tax bracket. Looking ahead, other cost-of-living measures include a review of fees for some banking services such as Interac e-Transfers and ATMs. The budget also proposes to raise the amount immediately available from cheque deposits by \$50 to \$150.

\$1.5 billion over five years in a **Productivity Super-Deduction**, including: reinstating accelerated capital cost allowances for low-carbon LNG facilities and the Accelerated Investment Incentive; and, immediate expensing for manufacturing and processing buildings that are used before 2030. The government says this super-deduction will reduce Canada's marginal effective tax rate by more than two percentage points.

Most **direct support for tariff-impacted workers and businesses** has already been announced and totals \$12 billion over five years. There are specific programs for agriculture, forestry, and steel industries, as well as enhanced EI benefits and skills training. Efforts to improve trade diversification will aim to double non-U.S. exports over ten years.

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## “Voice of the BMO Economics Team”

### One Big Belated Budget (cont.)

**Measures to boost the housing supply** top \$13 billion over the five-year period, including the previously announced Build Canada Homes and support for apprenticeship training for homebuilders. The government has already proposed removing the GST for first-time buyers of homes up to \$1 million and reducing the GST for first-time homebuyers between \$1 million to \$1.5 million.

More than \$50 billion in government savings are booked over the horizon, including \$44 billion from the review of operational department spending. The government also plans to cut the size of the public service by about 10% from the FY23/34 peak by FY28/29. Just over \$1 billion over five years will be recovered on net through tax changes, including some offset from removing the Underused Housing Tax and the luxury tax on aircraft and vessels.

A new 2026-2028 **Immigration Levels Plan** targets 380k permanent residents per year, down from 395k in 2025. Temporary resident targets will be cut from 674k this year to 385k in 2026 and 370k in the following two years. There are additional initiatives to recognize some work permit holders and Protected Persons as permanent residents in the next two years. The budget establishes a Foreign Credential Recognition Action Fund (starting in FY26/27) and an International Talent Attraction Strategy and Action Plan to attract skilled workers over the coming years.

**General infrastructure investments** average roughly \$2.5 billion per year in net new spending starting in FY26/27. The money will flow through the new Build Communities Strong Fund with a portion allocated to provincial and territorial governments (including a stream specifically for health care infrastructure).

A total of over \$60 billion over five years in **defence spending**: most of the funds (\$56 billion) are going to the Armed Forces including “generational” pay increases and support for health care, and investments in physical and digital infrastructure. The government is also creating a new Defence Investment Agency to streamline procurement. The budget reaffirms prior commitments for additional spending in federal law enforcement and border security, addressing a key ask by the White House in ongoing tariff negotiations.

A **Climate Competitiveness Strategy** costing a total of \$0.6 bln over five years, largely supporting critical minerals projects and expanding eligibility for the Critical Mineral Exploration Tax Credit. There are also some tweaks to the industrial carbon tax system, including a commitment to develop a plan post-2030 to achieve net-zero by 2050. While the budget doesn’t explicitly repeal the oil and gas emissions cap, it does open the door to do so given other emission-reducing initiatives.

There are some measures aimed at increasing competition in the telecom and financial sectors, the latter sporting a modest price tag of \$17 million over five years and including:

Replacing limits on borrowing and portfolio investments by financial institutions with flexible guidance from OSFI;

Drafting regulations by spring 2026 to prohibit transfer fees on investment and registered accounts;

Exploring options to improve transparency of cross-border transfer fees and simplify the process of switching primary chequing accounts among financial institutions;

Doubling the 35% public holding requirement threshold to \$4 billion;

Completing the Consumer-Driven Banking Act and delegating its oversight to the Bank of Canada; and,

Adding data-mobility rights to the Personal Information Protection and Electronic Documents Act.