2025 Canadian Economic Outlook: GDP, Jobs & Montreal Focus

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Executive Summary

Canada's economy at the end of 2025 shows **moderate growth but weak momentum**, tempered by external shocks and policy measures. Real GDP growth slowed sharply in mid-2025 (Q2 GDP fell 0.4% quarter-on-quarter (Source: www150.statcan.gc.ca), the first contraction in seven quarters), reflecting plunging exports and business investment under U.S. tariffs (export volumes have fallen about 7.5% year-to-date (Source: www.lemonde.fr). Nationally, output picked up in Q3 (+0.3% q/q (Source: www150.statcan.gc.ca) and projected +0.5% in Q4 (Source: www.reuters.com), but annual growth for 2025 is forecast at roughly **1.2%** (Source: www.reuters.com) (Source: www.reuters.com) (down from earlier ~1.8% projections). After spiking through 2021–22, inflation has largely returned to target range (~2–2.5%), allowing the Bank of Canada to ease policy: the overnight rate was cut twice (to 2.25% by Oct 2025 (Source: www.reuters.com) and is expected to be held or reduced only modestly further as risks persist.

Labour-market indicators are mixed. National employment held roughly flat in 2025, and Canada added some jobs in late 2025, but unemployment has crept higher to around 6.9% (Oct. 2025) (Source: www.reuters.com). Wage growth has decelerated, and slack is increasing in some sectors. In **Quebec and Montréal**, labour markets show both strengths and strains. Greater Montréal added roughly **71,100 jobs** year-over-year in Q2 2025 (Source: www.economie.gouv.qc.ca), rebounding after earlier declines; however, its unemployment rate rose from 7.5% in mid-2024 to **8.6% in mid-2025** (Source: www.economie.gouv.qc.ca) – high by Canadian standards. Job vacancies in Montréal also fell sharply (down ~22% year-over-year by Q1 2025 (Source: www.economie.gouv.qc.ca), signaling cooling demand for workers. These trends suggest **slowing labour-market conditions** in the Montréal area, even as overall employment in Canada remains historically high.

Key domestic drivers show it is largely **household spending and housing investment that have supported growth**, while net trade and business investment have been drags. Business and consumer confidence are fragile due to trade uncertainty. Public finances have shifted into deficit: Québec ran unprecedented deficits (~C$11 billion in 2024–25 (Source: www.reuters.com) and the federal government projects a 2025/26 deficit near C$78 billion (double prior estimates) (Source: www.reuters.com), driven by tariffs and increased spending. The new government (under Prime Minister Mark

Carney) has announced major "generational" infrastructure and defense investments (e.g. a new Contrecoeur port terminal to boost economic resilience (Source: www.lemonde.fr) (Source: www.reuters.com). Household balance sheets remain under pressure from high debt ratios, but slower inflation and lower rates may ease burdens.

The Montréal economy itself remains **broadly diversified and services-oriented**. Montréal accounts for roughly half of Québec's GDP and employment. As of 2024, 86.2% of jobs in the Montréal region were in services sectors (Source: www.economie.gouv.qc.ca). Manufacturing still employs about 10% of Montréal's workforce (Source: www.economie.gouv.qc.ca) (over 108,000 jobs) but has declined, while construction (~3.5%) and agriculture (~0.4%) are very small. Key clusters in Montréal include aerospace and advanced manufacturing, information technology and AI research, financial and professional services, and creative industries. Recent announcements illustrate ongoing local dynamism: for example, Quebec-based aerospace firm **Bombardier** reported robust 2024 deliveries with full-year revenue up 8% (Source: www.reuters.com) despite delaying some forecasts under trade uncertainty, and plans to hire over 600 workers after Ottawa removed a luxury aircraft tax (Source: www.reuters.com). The tech and life-sciences startup scene is also active (Montreal incubator TandemLaunch raised a new $37 million fund for deep-tech companies (Source: www.researchmoney.ca); biomedical startups Avitia and Paperplane secured seed funding of $5 million and $1.5 million (Source: www.researchmoney.ca) (Source: www.researchmoney.ca). At the same time, Montréal faces challenges in housing affordability and cost-of-living, with rent inflation (~9.2% in 2025 (Source: www.desjardins.com) well above national CPI.

Overall, **Canada's economy is treading water**: growth is positive but fragile, inflation is near target, and policy is accommodative. External risks (trade war, global slowdown) dominate the outlook, while domestic consumption and government stimulus provide support. For Montréal specifically, the picture is similar: continued growth in services and innovation, tempered by higher local unemployment and housing pressures. The coming months will depend on how trade disputes evolve, how monetary policy adjusts, and how the economy balances these forces. This report analyzes these issues in depth, using the latest data and literature to provide a comprehensive picture and outlook for Canada's economy – with particular attention to Montréal – as of late 2025.

Introduction and Background

Historical context (Post-pandemic recovery). Canada's economy rebounded strongly from the COVID-19 slump of 2020–21, with GDP growth peaking in 2021. By early 2023, growth had slowed but remained positive, and inflation surged due to supply constraints, energy prices, and pent-up demand. The Bank of Canada responded by raising its policy rate from nearly zero in mid-2020 up to 5% by mid-2022. During 2023–24, inflation gradually cooled toward the 1–3% target range, and the economy essentially avoided a deep recession.As one observer noted in mid-2024, Canada had (so far) achieved a "soft landing" with moderate growth and 2–3% inflation (Source: www.reuters.com). By late 2024, inflation was around 2%, opening the door to monetary easing (Source: www.reuters.com). However, structural challenges – notably slow population growth and rising trade protectionism – began to emerge.

Global and U.S. influences. Canada's economy is intertwined with the larger global economy, especially the United States. In late 2024 and early 2025, the U.S. adopted a sharply protectionist stance under the presidency of Donald Trump. In March 2025, President Trump announced steep tariffs on a wide range of Canadian imports (25% on many goods, 10% on petroleum) (Source: www.lemonde.fr); Canada promptly retaliated with tariffs on selected U.S. products (25% on ~1,200 U.S. items) (Source: www.lemonde.fr). This U.S.–Canada trade conflict escalated rapidly, with commentators warning it could trigger recessions, disrupt auto supply chains, and chill investment (Source: www.lemonde.fr). These developments constitute the biggest external shock since the 2008–09 crisis, reigniting concerns about Canada's heavy dependence on the U.S. market (Canada receives roughly 75% of its exports). The sudden tariffs, intended as negotiating tactics by the U.S., have significantly involved Canadian industries like steel, aluminum, autos, and agriculture.

Current geopolitical context. The end of 2025 sees Canada navigating this tumultuous environment. Domestically, there was a federal election in 2025, resulting in Mark Carney (former Bank of Canada governor and global central banker) becoming Prime Minister. His first budget (in Fall 2025) signaled a shift toward "economic independence": major infrastructure spending to diversify trade, tax policy changes, and support for industries and workers hit by tariffs (Source: www.reuters.com) (Source: www.lemonde.fr). Québec's government, facing its own slowdowns and deficits, also shifted fiscal plans: it delayed a return to balanced budget from 2027/28 to 2029/30, and projected a record C$11 billion deficit in 2024/25 (Source: www.reuters.com). Meanwhile, global interest rate cuts (e.g. by the U.S. Fed and others in 2024–25) have also influenced Canada's policy stance.

Montréal in context. Montréal (Canada's second-largest metro area) is Québec's economic engine – contributing roughly half of Québec's GDP and jobs (Source: talentmontreal.com). Its economy is heavily service-based, with finance, technology, education, tourism, and life sciences prominent. The city has a **bilingual, immigrant-friendly population** (over 50% bilingual according to local data (Source: talentmontreal.com) and a diverse labor force. Montréal also has major aerospace and manufacturing sectors, anchored by firms like Bombardier, Pratt & Whitney, and others. Historically, Montréal's economy often grows in line with Québec but has its own cyclical dynamics: it may benefit from national trends (like strong domestic consumption), but also suffers from local challenges (housing, provincial regulations, etc.).

This report proceeds as follows. Section **"Economic Growth and Output"** examines the latest data on GDP and production, both nationally and for Québec/Montréal, and analyzes what is driving the current trend in growth. Section **"Labour Market Conditions"** reviews employment, unemployment, and wages, again with an emphasis on Montréal. Section **"Inflation and Monetary Policy"** discusses recent price trends (CPI) and the Bank of Canada's responses. Section **"Trade, Exports, and External Sector"** covers international trade performance and the impacts of tariffs. Section **"Fiscal Policy and Government Budgets"** looks at federal and Québec finances. Section **"Québec and Montréal Regional Perspective"** dives into regional breakdowns and unique factors (sector structure, demographics, etc.). Section **"Key Industries and Case Studies"** highlights major sectors and notable business developments (e.g. aerospace, tech startups). Section **"Housing Market and Cost of Living"** covers real estate and inflation differences, and **"Social and Demographic Factors"** touches on workforce growth, migration, and inequality concerns. Finally, **"Discussion and Outlook"** assesses the implications of current trends and possible future scenarios, and **"Conclusion"** summarizes the findings. Throughout, we cite up-to-date statistics, expert commentary, and case examples, including data from Statistics Canada, central bank reports, academic studies, and major news outlets.

Economic Growth and Output

Canada's real GDP growth in 2025 has been **subdued and volatile**. The first quarter of 2025 saw a healthy 2.2% annualized increase in GDP (Source: www.rbc.com) (about +0.5% q/q, relatively robust by Canadian standards) as consumer spending and housing partly offset export weakness. However, in Q2 2025 the economy **contracted by 0.4%** quarter-on-quarter (about −1.6% at an annual rate) (Source: www150.statcan.gc.ca) (Source: www.rbc.com) – the first decline in seven quarters and the largest drop (ex-pandemic) in nine years (Source: www150.statcan.gc.ca). This Q2 slump was driven by steep declines in exports and business investment: goods exports fell sharply (roughly 7–8% in Q2), as U.S. tariffs hit steel, aluminum, and automotive shipments (Source: www150.statcan.gc.ca) (Source: www.lemonde.fr). Business outlays on equipment also fell in Q2 2025 (Source: www150.statcan.gc.ca), partly because firms had front-loaded investment before anticipated tariff increases, and then pulled back. In contrast, **household spending remained firm** (+0.6% contribution to GDP in Q2 (Source: www150.statcan.gc.ca), led by growing services outlays and higher housing investment (residential fixed investment grew after a Q1 dip (Source: www150.statcan.gc.ca). Canadian authorities noted that bloated inventories also buoyed Q2 output (stockbuilding added to GDP despite weak trade) (Source: www150.statcan.gc.ca).

Chart – GDP Growth by Quarter (Canada)

Caption: Canadian real GDP growth (calendar-year quarter-on-quarter) showing a moderate expansion in Q1 2025 (+0.5%) followed by a contraction in Q2 (−0.4%) (Source: www150.statcan.gc.ca). Data from Statistics Canada.

After Q2, growth partially rebounded. Preliminary figures (StatsCan) show GDP up +0.3% q/q in Q3 2025 (Source: www150.statcan.gc.ca), and the Bank of Canada projects about +0.5% in Q4 (and +1.0% in Q4 2025) (Source: www.reuters.com). Overall, this implies roughly flat or very slow growth through late 2025. For the full year 2025, growth is now forecast at only around **1.2%** (Source: www.reuters.com) (Source: www.reuters.com). By comparison, growth was about +2.4% in 2024 (revised) (Source: www.reuters.com) and averaged 1–3% in prior years (the IMF had forecast 1.3% for 2024 and 2.4% for 2025 (Source: www.reuters.com), though the trade war has lowered those). Despite the mid-year setback, the economy has avoided a recession largely thanks to (1) strong consumer demand and (2) continued government spending and accommodation from monetary policy.

Contributions by Sector: In the first half of 2025, **domestic demand** was the main engine of growth. Household consumption (especially services like travel, entertainment, health care, and housing-related spending) contributed positively in each quarter. The RBC Economics January report notes that in Q2 2025 "household consumption held up well, expanding 4.5% annualized" (contrasting with a more sluggish prior quarter) (Source: www.rbc.com). Housing investment (residential construction and renovation) has also revived modestly after a Covid-era slump, as mortgage rates eased slightly and resale activity increased (Source: www150.statcan.gc.ca). However, **business investment** has weakened: Q2 saw a double-digit drop in machinery and equipment spending (Source: www.rbc.com), and non-residential construction stalled overall. The **trade sector** swung sharply negative: exports fell by the most in years, while imports also declined, narrowing the trade surplus. Overall, the net trade component subtracted from GDP in Q2.

Regional/Quebec Perspective: Provincial breakdowns (through summer 2025) indicate that growth is broadly similar across Canada, with Québec roughly tracking the national pattern. Québec's real GDP is weaker than British Columbia's but near the national average. Montréal, as part of Québec, saw its own economy soften with the rest of the province – in Q2 2025 the Montréal CMA's GDP likely dipped or stagnated (no standalone figure is released quarterly for Montréal, but Québec's income-side GDP was flat in Q2). Québec's Minister of Finance has noted that entire provincial GDP growth is in the **low single digits** (under 2%) for 2025, marginally below historic norms. Montréal's importance (about half of Québec's economy (Source: talentmontreal.com) means these province-wide trends largely reflect Montréal's performance as well.

Demand vs. Supply Side: On the supply side, output in most sectors has been modest. StatsCan reports that 11 of 20 industries were up in September 2025 (Source: www150.statcan.gc.ca). Services industries (retail, wholesale, transportation, finance, housing services, etc.) continued to expand in late 2025 (Source: www150.statcan.gc.ca) (Source: www150.statcan.gc.ca). In contrast, goods production was nearly flat: manufacturing output has been choppy (some auto plants idled due to supply issues), resource extraction dipped (oil and gas were down due to price volatility) (Source: www150.statcan.gc.ca), and construction is only gradually recovering (its output was still ~22% below spring-2021 levels as of Sept 2025 (Source: www150.statcan.gc.ca). Overall, the industrial production data suggest **weak net supply** growth, consistent with modest GDP.

Summary: In sum, **Canada's economic growth is positive but anemic** at end-2025. Consumer and government spending are the main props of GDP, while external demand and business spending have weakened under trade-policy uncertainty. No recession has occurred, but growth is well below pre-pandemic norms. Projections assume a gradual pickup in 2026–27 (BoC expects ~1.6% growth by 2027 (Source: www.reuters.com), but the immediate state is sluggish. We now turn to detail on the labour market and prices, which highlight the economy's underlying slack.

Labour Market Conditions

National labour market. Canada's jobs market in 2025 has softened after turnover in early 2024. Employment growth stalled in summer 2025: from January through August 2025, there was essentially **no net change in total employment** (Source: www150.statcan.gc.ca). In fact, Statistics Canada reported declines of 40,800 jobs in July and 65,500 in August 2025 (Source: www.reuters.com), with gains of 66,600 in October 2025 (Source: www.reuters.com) partially reversing those losses. Adjusted unemployment rose to about **7.1% in August 2025** (Source: www150.statcan.gc.ca), the highest (non-pandemic) in nearly a decade, and ticked temporarily to 6.9% in October (Source: www.reuters.com). Full-time positions have been cut while part-time jobs grew in late 2025 (October's 66,600 job surge was all in part-time roles (Source: www.reuters.com), indicating firms relying more on part-time work.

Wages are still rising but at a cooling pace: Canada's average hourly earnings growth slowed in mid-2025 compared to 2021-22. Key risk factors emerged: job vacancy rates have been falling (suggesting reduced labour demand) and aggregate hours worked have declined. RBC economists note that the labour market "lost over 100,000 jobs in two months [July–Aug 2025], pushing unemployment to a nine-year high" (Source: www.reuters.com), and this was a key impetus for rate cuts. By late 2025, signs of easing inflation pressures and rising unemployment suggest a gradual alignment toward full employment (above the Bank's rough NAIRU of ~6.0–6.5%).

Montréal region labour market. The Montréal metropolitan area's labour market has also slowed, though with some divergent trends. According to Québec government data (based on StatCan), Montréal's **total employment increased by 71,100** in Q2 2025 versus Q2 2024 (Source: www.economie.gouv.qc.ca) – a strong year-over-year gain (about +6.5% in absolute terms) and larger than Québec's overall (+3.9%) and Canada's (about +2%) gains. This was the continuation of a recovery after four consecutive quarterly declines in 2024. In absolute terms, Montréal's jobs numbered about **1.159 million in Q2 2025**, up from 1.088 million a year earlier (Source: www.economie.gouv.qc.ca). The majority of these gains were in full-time positions (Table: employment by province).

However, this job growth has been outpaced by the **rising labour force**. The unemployment rate in Montréal climbed from 7.5% in Q2 2024 to **8.6% in Q2 2025** (Source: www.economie.gouv.qc.ca). This seven-quarter upswing (Montréal's unemployment has risen gradually each quarter, per the data) means Montréal's jobless rate is now well above the national average (around 7%). The increase was about +1.1 percentage points year-over-year in Q2 (Source: www.economie.gouv.qc.ca). By contrast, Québec's unemployment rate (for the whole province) has been lower and more stable (about 4–6%). Part of Montréal's high unemployment is structural – the city historically runs higher unemployment than Québec's regions – but the recent surge also suggests cyclical weakness in sectors concentrated in the city.

Vacancies and labour tightness. Montréal's **job vacancy rate** (vacancies as a percent of total jobs) has fallen significantly. In Q1 2025 there were 32,730 vacancies in Montréal, down 21.8% from the same quarter in 2024 (Source: www.economie.gouv.qc.ca). This drop contrasts with a 19% fall in vacancies for all Québec (Source: www.economie.gouv.qc.ca). The current vacancy rate in Montréal is about 2.5%, below the provincial average of 2.9% (Source: www.economie.gouv.qc.ca). Lower vacancies, combined with rising unemployment, indicate weakening labour demand. (By comparison, vacancy rates were well above 3–4% earlier in the decade.)

Sectoral labour pressures. Employment gains in Montréal in 2025 have been scattered. Service sectors (retail, restaurants, education, health, finance) remain the biggest employers, reflecting the city's service-driven economy. Anecdotally, some hot areas (e.g. tech, life sciences) still recruit actively, while others (construction, aerospace manufacturing) have seen layoffs or slow hiring after pandemic-driven booms/busts. The Québec government notes that Québec City and outer regions saw faster employment growth recently than Montréal, highlighting that the Montréal labour force is more sensitive to national economic swings. Wages in Montréal have continued rising moderately, but with slower real gains as rent/inflation climb.

Montreal vs Canada – Unemployment (Table). To summarize, the Montréal region's labour market remains relatively soft compared to the national average. Recent data show unemployment ~8–9% in Montréal vs roughly 7% nationally (Chart/Table below). (Notably, since we compiled the official sources, October 2025 job gains have lifted national employment again (Source: www.reuters.com), slightly lowering Canada's rate to ~6.9%, but Montréal is not yet showing significant improvement.) Montreal's historically high vacancy-to-job ratio has narrowed, hinting that the exceptionally tight pre-2024 market is relaxing. Still, many employers in Montréal report **difficulty filling specialized roles** (IT, advanced manufacturing, health), so the city's job market may soon stabilize if the economy recovers.

INDICATOR	Q2 2024	Q2 2025	COMMENTS
Canada unemployment rate	**6.4%** (Source: www.reuters.com)	**6.9%** (Source: www.reuters.com)	Canada's jobless rate (increase from 6.4% to 6.9%)
Québec unemployment rate	~5.5% (est.)	~5.8% (measured May)	Québec's unemployment (approx. 5.x% → 5.8% (Source: www.economie.gouv.qc.ca)
Montréal (CMA) unemployment rate	**7.5%** (Source: www.economie.gouv.qc.ca)	**8.6%** (Source: www.economie.gouv.qc.ca)	Montréal's rate (sharp rise)
Canada employment level (millions)	20.9M	20.98M (Source: www150.statcan.gc.ca)	Very little change (July 2025)
Montréal employment (thousands)	1,088.1k (Source: www.economie.gouv.qc.ca)	1,159.2k (Source: www.economie.gouv.qc.ca)	Montreal added ~71k jobs (Q2 '24→'25)

Table: Labour market indicators (unemployment and employment) for Canada and Montréal. Montréal's unemployment in Q2 2025 (8.6%) is now substantially above the ~7% national rate (Source: www.economie.gouv.qc.ca) (Source: www.reuters.com). Canada's total employment hovered near 21 million (seasonally adjusted) by mid-2025 (Source: www150.statcan.gc.ca).

Inflation and Monetary Policy

Inflation trends. By late 2025, Canada's inflation has essentially returned to target levels, albeit with some volatility. The annual CPI rate was **2.4% in September 2025**, up from 1.9% in August (Source: www.reuters.com). This rebound was driven mainly by food and energy: food prices jumped 3.8% (notably groceries +4.0%) (Source: www.reuters.com) and gasoline prices showed a smaller year-on-year drop than before (due in part to base effects from a sharp fall a year earlier) (Source: www.reuters.com). Core inflation (excluding volatile items) remains around 3%: median CPI ~3.2%, trimmed CPI ~3.1% (Source: www.reuters.com). Shelter costs have contributed: rents across Canada rose about 4.8% (pushing the shelter component to +2.6%) (Source: www.reuters.com), reflecting earlier tightness in rental markets.

In **Québec (Montréal)**, inflation has been somewhat higher than the national average. Desjardins economists report Québec's CPI up 3.3% in September 2025 (vs 2.4% nationally) (Source: www.desjardins.com). Key factors for this "inflation gap" include Québec's continued carbon tax (other provinces cut their levies, Quebec did not) and much stronger rent inflation. Québec rents rose on average 9.3% year-over-year in Sept. 2025 (Montréal specifically ~9.2%) (Source: www.desjardins.com), compared to a national rental inflation of 4.7%. This surge is partly due to lease-renewal dynamic lags (large rent hikes after the temporary Covid rent freezes expired). Energy costs contributed about half of the Québec-national gap, with housing making up most of the rest (Source: www.desjardins.com). Going forward, these drivers are expected to ease: new housing supply, tenant protections, and still-high vacancy rates should slow rent growth, while the base effect from carbon tax removal elsewhere will narrow the difference (Source: www.desjardins.com) (Source: www.desjardins.com).

Monetary policy. Reflecting moderating inflation, the Bank of Canada has paused and then reversed its tightening cycle. After raising its policy rate to 5.0% by June 2022, the BoC left rates steady through 2023. In 2024 it began to ease: by January 2025 the overnight rate was lowered to 4.75%. Throughout 2025, the BoC has signaled further cuts to support the economy. At its September 17, 2025 meeting, the Bank cut the rate by 25 bps to **2.50%** (Source: www.reuters.com) (its lowest level since 2022) and indicated readiness for further easing if needed. Governor Macklem cited a soft labour market and inflation pressures abating under 3% (Source: www.reuters.com). Then on October 29, 2025, the Bank delivered a second consecutive cut, bringing the policy rate to **2.25%** (Source: www.reuters.com). This decision was explicitly aimed at offsetting the economic drag from

U.S. tariffs while keeping inflation near target (Source: www.reuters.com). Press reports note that BoC forecasts now call for Q3 and Q4 2025 growth of +0.5% and +1.0%, with full-year 2025 inflation averaging 2.0% (Source: www.reuters.com). Markets currently expect no further cuts until early 2026 (Source: www.reuters.com).

Policy outlook. Thus, monetary policy has flipped from tightening to easing, but remains **data-dependent**. With core inflation measures still above 2%, the Bank has cautioned that further cuts will await clearer evidence of disinflation. In parliamentary testimony and communiqués, the BoC has emphasized the uncertainty from trade barriers. In effect, stimulus is coming to the economy via lower rates (which eventually boosts consumer spending and housing), but the Bank is wary of overshooting. Fitch Ratings has noted that Canada's fiscal stimulus (budget deficits) and central bank easing create fiscal and monetary tailwinds but warned of medium-term debt burdens (Source: www.reuters.com).

Short-term price outlook. In the next 6–12 months, inflation is expected to drift around 2–3%. The tariff shock adds an upside risk: the BoC's own projections indicate inflation could rise above 3% if tariff costs get passed through more fully (Source: www.statcan.gc.ca). (Desjardins analysts similarly caution that Québec will see higher inflation partly through base effects and rent pressures continuing into 2026 (Source: www.desjardins.com).) Nevertheless, broad easing in global commodity prices and the modest demand outlook suggest inflation should gradually ease. As few economists put it, the risk of **overshooting 2%** is balanced against the risk of slipping back if growth falters.

Trade, Exports, and External Sector

Canada's external sector dynamics have been dominated in 2025 by the **U.S.–Canada trade conflict** and its broad fallout. In mid-2025, both exports and imports of goods contracted under the new tariffs. By August, StatCan reported Canadian merchandise exports **down 3.4% in August 2025** (on top of earlier declines) (Source: www150.statcan.gc.ca), meaning exports in August were 22% below a January 2025 peak. U.S. tariffs on steel, aluminum and autos remained in place through August, pressuring sectors traditionally strong in Québec/Montréal (aerospace parts, auto parts, aluminum fabrication). Imports likewise fell (−1.4% in Aug) (Source: www150.statcan.gc.ca). As a result, Canada's trade surplus with the U.S. shrank to C$6.4B in August (seasonally adjusted) (Source: www150.statcan.gc.ca), from around $8.5B earlier in the year.

By Q2 2025 (the period after most tariffs were imposed), Canada's **net exports subtracted heavily** from GDP. Exports of goods and services plunged, as noted above (Statistics Canada: "steep declines in merchandise exports" (Source: www150.statcan.gc.ca). Le Monde reported a 7.5% drop in exports and a 0.4% GDP drag in Q2 due to tariffs (Source: www.lemonde.fr). The main industries affected include automotive assembly (many U.S.-sourced parts), metals, and advanced manufacturing. Some exporters (e.g. farm products) have been partly offsetting through alternative markets, but not enough to offset the overall decline.

Montreal's trade exposure: The Montréal region is heavily integrated into North American supply chains, particularly in aerospace and automotive sectors. For instance, Montréal has large aerospace component manufacturing and jet-assembly facilities. Tariffs on aircraft imports (and uncertainty about trade rules) dampened orders and investment from these firms in 2025. Similarly, Montréal's paper and specialty metals exports (important in Québec) faced higher U.S. duties. On the positive side, Montréal's services exports (education, tourism) are less affected by tariffs, and there have been some modest inflows from the tourism rebound. The Quebec government's data cited job losses of "up to 160,000" in Québec if tariffs lasted (Source: www.lemonde.fr), underscoring how deeply interwoven Montréal's industries are with U.S. demand.

Global trade and commodity context. Outside the U.S., global demand has been sluggish but not catastrophic. The IMF projected worldwide growth of ~3% in 2025 (down from ~3.3% prior) (Source: international.canada.ca). Canada's key trading partners (Europe, Asia) are growing slowly, so export opportunities there have been limited. Commodity prices (oil, minerals) turned slightly downward in late 2025; for example, oil prices fell from mid-2024 highs, which softens energy sector revenue but also reduces domestic inflation. The Canadian dollar depreciated modestly (hovering around 72–75 U.S. cents in late 2025 (Source: www.reuters.com), partly reflecting looser policy and the trade war. This would normally help exporters, but the impact has been offset by actual tariff barriers and lower physical trade flows.

Policy responses and trade diversification. In response to the crisis, the federal government and industries have accelerated efforts to diversify exports. The November 2025 budget includes elements to "shift Canada's economic dependence away from the United States," such as major infrastructure projects (e.g. a new deep-water port terminal at Contrecoeur, near Montréal) aimed at expanding access to Atlantic shipping lanes (Source: www.lemonde.fr). Canada is also negotiating additional free trade agreements with non-U.S. partners (e.g. the Comprehensive and Progressive Trans-Pacific Partnership, expanded CETA with Europe). Business commentators observe that this represents a **strategic pivot**: scaling back U.S. reliance in favor of Latin American, European, and Asian markets. Still, trade volume adjustments will take time. In the near term, we nearly see a contraction: in August 2025 Canada ran an overall trade deficit of C$6.3B (wider than normal) (Source: www150.statcan.gc.ca).

Impact on GDP and future outlook. The trade-driven contraction in H1 2025 means Canada is effectively borrowing growth from future quarters. If tariffs are removed (or if alternative markets take up the slack), exports could rebound in 2026–27. But if the trade conflict persists or escalates, exports could remain depressed. The Bank of Canada has explicitly warned that "continued uncertainty in U.S. trade policy" may blunt growth forecasts (Source: www.reuters.com). For now, economists note that net exports are dragging GDP by late 2025, and forecasts for upcoming quarters remain below 1% (quarterly) (Source: www.reuters.com).

In sum, the **external sector is a drag on Canada** at present. Montréal, as part of the trade-dependent Québec economy, feels this acutely in its manufacturing and export services. However, Montréal's diversified economy (with significant finance, IT, education, health services) provides some cushion from pure trade cycles. The overall picture is one of trade headwinds suppressing growth, even as domestic demand carries the bulk of expansion.

Fiscal Policy and Public Finances

Federal government. Canada's fiscal position has deteriorated sharply amid slower growth and tariff-related costs. The federal deficit for fiscal 2025/26 is now expected by official projections to be on the order of **C$78 billion** (about 3% of GDP) (Source: www.reuters.com) – nearly double what was forecast only months earlier. The widened deficit is blamed largely on the trade war (lost tariff revenues and increased spending on affected sectors) (Source: www.reuters.com). This comes after an actual deficit of ~$42B in 2024/25 (as planned) which itself was well above pre-pandemic levels. In absolute terms, the budget gap is the largest peacetime shortfall on record (aside from Covid). The new government's first budget (2025–26) confirmed significant "investments" spending in housing, infrastructure, and defense (Source: www.reuters.com). For instance, defense spending is committed to rise to 2% of GDP (meeting NATO guidelines) by end-2025 (Source: www.reuters.com), a large increase from past levels. Major infrastructure projects include transit upgrades, climate initiatives, and the Contrecoeur terminal, all intended to stimulate economic activity in coming years.

Fiscal analysts have mixed views. Fitch Ratings, while acknowledging the fiscal strain, has maintained Canada's AAA (AA+) credit rating, citing the country's wealthy economy and monetary policy support (Source: www.reuters.com). However, they caution that debt-to-GDP will rise if deficits remain high. The Business Council of Canada and Canadian Chamber of Commerce have generally supported the government's stimulus, but stressed that this must be coupled with measures to improve long-term competitiveness (Source: www.reuters.com). For example, they emphasize cutting red tape, investing in skills and R&D, and finding new export markets. The budget's package is seen as a short-term shock absorber (e.g. targeted assistance to auto parts and steel firms) (Source: www.lemonde.fr), rather than a permanent shift in tax rates.

Québec provincial government. Québec's outlook is similar but with its own constraints. As noted, Québec's 2024/25 deficit widened to **C$11 billion** (Source: www.reuters.com) (about 2.5% of Québec's GDP), far above earlier targets. This was driven by weak revenues (reflecting slow growth) and continuing pandemic-era spending on health and families. The province has pushed its balanced-budget goal out to 2029/30. For 2025/26, Québec expects another large deficit (~C$8.5B (Source: www.reuters.com). Québec's government (and opposition) have not indicated major tax hikes; rather, the strategy is to promote growth (reducing financial pressure in the medium term). Inflation and unemployment trends mean certain social programs (especially support for low-income households) are under strain, so the province faces difficult budget choices.

Montréal municipal finance. Montréal itself (the city government) has relatively limited fiscal autonomy. Recent municipal budgets have generally been balanced or slight surpluses, with modest property tax increases (municipal tax rates in Montréal are among the lowest in Canada for comparable services). The new mayor (elected Nov 2025) has prioritized housing and poverty, which may push some spending higher, but substantial new revenue (e.g. a local tax) seems politically unlikely. Montréal will benefit indirectly from federal and provincial transfers: for example, the $400 million federal investment in zero-emission transit (announced in early 2025) includes roughly $113M for Montréal-area projects (Source: www.researchmoney.ca) (bus electrification, etc.). In sum, Montréal's own budgets are relatively stable, but the city is sensitive to higher-level fiscal policy (grants to cities are tied to provincial revenues, which are under strain).

Implications for growth. Large deficits and government spending can be stimulative in the short run. The combination of fiscal expansion and lower interest rates is intended to boost demand and offset weak exports. However, persistent deficits mean rising public debt: Canada's debt-to-GDP is projected to climb in 2025–26 (after stabilizing around 60% in past few years). Policymakers will need to balance continued stimulus against long-term fiscal sustainability. The general view among economists is that some stimulus is appropriate under current conditions, but that measures should ideally be temporary or targeted, and accompanied by reforms to eventually enhance productivity. So far, the federal budget hints at both (short-term aid and long-term infrastructure). For Montréal, increased government spending (e.g. on infrastructure or transfers) can help local firms and construction, but the city's private economy will ultimately depend on overall growth.

Québec and Montréal Regional Perspective

While Canada is analyzed above in aggregate, it's useful to **focus on Québec and Montréal** specifically. Québec's economy has been underperforming a bit relative to the national average. In 2024, real GDP growth in Québec was about +1.0% (well below Canada's ~2.0%). Québec's forecast for 2025 was only around +1.6% (Source: www.reuters.com), and Montréal (over half the provincial economy) is key to that. The reasons for

Québec's lag include slower population growth, restrictive labor markets, and energy policy differences (e.g., Québec's carbon tax kept inflation higher and possibly dampened consumption).

Montréal's economic structure. Montréal's economy is dominated by services: as of 2024, roughly **86% of jobs in Montréal were in tertiary/svc sectors** (Source: www.economie.gouv.qc.ca). The breakdown (as reported by the Québec Ministry (Source: www.economie.gouv.qc.ca) is:

- Primary (agriculture, extraction, etc.): **0.4%** of jobs (very small) (Source: www.economie.gouv.qc.ca).
- Manufacturing: **9.9%** of jobs (Source: www.economie.gouv.qc.ca) (versus 11.0% provincially). Montréal still has significant manufacturing clusters (aerospace parts, food processing, pharmaceuticals, tech manufacturing), but these employ under 110,000 people (Source: www.economie.gouv.qc.ca). Montréal ranks second in Québec in manufacturing employment (after Québec City) (Source: www.economie.gouv.qc.ca).
- Construction: **3.5%** of jobs (Source: www.economie.gouv.qc.ca) (a cyclical sector – it rose through 2021–22 but has slowed in 2024–25).
- "Household services" (commerce, hospitality, etc.): **24.5%** (Source: www.economie.gouv.qc.ca). This includes retail, restaurants, personal services, and is the largest single employment category.
- Public services (government, education, health, utilities): **26.6%** (Source: www.economie.gouv.qc.ca). Montréal is a center for public sector jobs in Québec (hub of universities, hospitals, provincial admin).
- "Leading business services" (finance, IT, real estate, professional services, etc.): **35.2%** (Source: www.economie.gouv.qc.ca) of jobs. This broad category includes many fast-growing and high-wage sectors: banking, insurance, telecom, software development, business consulting, scientific R&D, etc. Over one-third of Montréal's workforce is in these knowledge-intensive industries.

Overall, Montréal holds **24.1% of all Québec jobs** (2024) (Source: www.economie.gouv.qc.ca). This underscores Montréal's outsized role (the next largest regional share is Québec City at ~9%). Consequently, the health of the Montréal economy strongly drives provincial performance.

Regional GDP. While quarterly GDP data for Montréal specifically are not published, we have annual estimates. The Montréal region's GDP (in nominal dollars) is roughly C$155 billion (2023), making it the second-largest metro economy in Canada after Toronto. Per-capita GDP in Montréal is somewhat lower than the national average, reflecting Québec's generally lower productivity per worker. Yet growth rates there have been in line with Québec. Montréal's economy has lost some steam relative to a few years earlier; for example, Montreal's job growth (+6.5% in Q2 2025) was stronger than Québec overall (+3.3% (Source: www.economie.gouv.qc.ca), but because the labour force grew even faster, unemployment still rose.

Labour and demographics. Montréal's population is highly diverse and comparatively young. The city continues to attract immigrants and international students – elements that bolster labour supply. Professors and municipal sources note about half of Montréal's residents were born outside Canada (Source: talentmontreal.com), and the city is broadly bilingual (roughly 55% can speak both French and English) (Source: talentmontreal.com). These features give Montréal a **competitive advantage in knowledge industries**: for example, AI research labs (e.g. at MILA and Université de Montréal) benefit from global talent. However, this also means Montréal faces significant infrastructure demands (housing, transit, universities) to accommodate growth.

Montréal has historically had a **lower unemployment rate than the national average** during most of the 2000s/2010s; however, in 2024–25 this reversed. Figure/Table above shows Montréal's unemployment exceeded Canada's by ~2 points in mid-2025 (Source: www.economie.gouv.qc.ca) (Source: www.reuters.com) – a notable shift. The city's labour force shrank slightly in 2024 (as some workers moved away) but is now recovering. Long-term unemployment rates are somewhat elevated (a cohort still underemployed from earlier downturns). In sum, Montréal's labour market appears more sensitive to economic slowdowns than smaller Québec regions, likely because Montréal has more cyclical industries (like tech and manufacturing).

Sectoral highlights in Montréal:

- **Aerospace and Advanced Manufacturing:** Greater Montréal is an aerospace hub (Bombardier, CAE flight simulators, Pratt & Whitney, Héroux-Devtek jet parts, etc.). Aerospace employment is in the tens of thousands. The sector took a hit from tariffs (Canadian-made planes now cost more in the U.S.) and from earlier supply-chain disruptions, although domestic orders remained robust. The recent budget's elimination of the luxury jet tax is expected to help Bombardier and its suppliers (Bombardier itself announced ~600 new jobs tied to that change (Source: www.reuters.com). Overall, 2025 saw modest growth in aerospace output in Montral (some delays in orders, but a long backlog).
- **Technology and Innovation:** Montréal has a thriving tech scene (AI, gaming, fintech). Several global players (Google AI lab, Microsoft Research Montreal, Ubisoft in gaming) have major facilities. Venture funding is growing, as noted by local startup fundraises (Source: www.researchmoney.ca) (Source: www.researchmoney.ca). During 2024–25, the tech sector continued expanding headcount, though competition for talent (especially in AI/ML and engineering) is fierce. Montréal's relatively low cost of living (compared to Vancouver or Toronto) still attracts tech entrepreneurship.

- **Finance and Business Services:** National Bank of Canada (headquartered in Montréal) and other financial firms are expanding cautiously. The fintech and contact-center industries remain strong employers. Real estate services (brokers, lawyers) recovered a bit on home resale rebounds in 2025.
- **Biotechnology and Life Sciences:** Montréal has a growing life-sciences cluster (e.g. Medtronic, pharmas, research hospitals). Small biotechs raised capital (Paperplane, Avitia) as noted (Source: www.researchmoney.ca) (Source: www.researchmoney.ca), indicating investor interest.
- **Manufacturing:** Traditional manufacturing (e.g. food processing, chemicals, printing, consumer goods) remains 10% of employment (Source: www.economie.gouv.qc.ca). This segment has not regained all the post-2015 losses, but it stabilized in 2024–25. Many manufacturers complain about high input costs (tariffs on steel/imports raise spraying costs) and stiff competition.

Montréal's **median household income** and business investment are both lower than the places like Toronto, reflecting Québec's overall tax and wage structure. However, the city also benefits from lower taxes on wealth (there is no provincial sales tax on investment funds, etc.). Business conditions surveys (e.g. by CMHC or local chambers) indicate Montréal firms face moderate constraints from labour and capital but are more concerned about regulatory uncertainty and U.S. tariffs than the national average.

In summary, as Québec's principal metro economy, Montréal experienced similar woes in late 2025: higher unemployment, slowing investment and hiring, and rising costs in housing. But it also has a diversified base and growth niches (tech, pharma) that should support resilience. The table and chart highlight the employment composition and labour trends that underpin this assessment.

**Table – ** *Employment by sector in Montréal* (2024)

SECTOR	SHARE OF MONTRÉAL EMPLOYMENT (2024)
Primary (agriculture, resources)	0.4% (Source: www.economie.gouv.qc.ca)
Manufacturing	9.9% (Source: www.economie.gouv.qc.ca)
Construction	3.5% (Source: www.economie.gouv.qc.ca)
Trade & personal services	24.5% (Source: www.economie.gouv.qc.ca)
Public & institutional services	26.6% (Source: www.economie.gouv.qc.ca)
Business & technical services	35.2% (Source: www.economie.gouv.qc.ca)

Notes: Montréal's economy is highly **service-heavy**, with only ~10% of jobs in manufacturing (Source: www.economie.gouv.qc.ca). This reflects its urbanized, post-industrial structure. *("Business & technical services" above includes finance, insurance, real estate, professional services, IT, etc.; "public services" includes education, health, government.)*

Key Industries and Case Examples

To further illustrate the economy's workings, we highlight several **important Montreal-region industries and companies** as case studies. These examples bring market data to life and reveal how current macro factors are affecting real businesses.

1. Aerospace and Transportation (Bombardier and others). Montréal is North America's aerospace capital. In mid-2025, the industry had a mixed year. Bombardier – the most visible local company – reported solid financials for FY2024: revenue +8% to $8.67 billion, with deliveries of 146 business jets versus 138 in 2023 (Source: www.reuters.com). The services side of the business (maintenance) even met its target revenue a year early. However, management postponed issuing a 2025 guidance because of uncertainty from the U.S. tariffs on Canadian aircraft imported into the U.S. (Source: www.reuters.com). In effect, Bombardier's business is doing well (strong deliveries, a healthy backlog ~$14.4B (Source: www.reuters.com) but 2025 projections are held back by policy risk. Bombardier also benefited from federal budget policy changes: a luxury tax on private jets (and boats) was removed in late 2025, and Bombardier immediately announced plans to hire about **600 new workers** over the next few years due to the tax cut (Source: www.reuters.com). These jobs will be in manufacturing and assembly in Québec. Thus, the company's trajectory illustrates how Ottawa's policy can directly influence Montréal's industry.

Similarly, Pratt & Whitney and other engine-makers around Montréal have lagged or flatlined their hiring, due to airlines delaying orders under tariff uncertainty. On the transportation side, Bombardier's railway division (now Alstom Canada) is building trains for Toronto and Vancouver, a bright spot in public transit orders. The federal government's infrastructure spending (e.g. on urban rail) is expected to benefit Montréal (which is adding to its metro system).

2. Technology and Innovation (TandemLaunch, Avitia, Paperplane). Montréal has nurtured a startup ecosystem, especially in AI, video games and fintech. We see evidence of its momentum in private funding rounds. For example, *TandemLaunch* (a Montréal "venture studio" that spins outacademia-based startups) closed a **$37-million fund** (its 4th fund) in early 2025 (Source: www.researchmoney.ca). This fund was backed by the government (through the VC Catalyst Initiative) and by institutional and angel investors (Source: www.researchmoney.ca), targeting deep-tech and cleantech companies. The strength of this round underscores investor confidence in Montréal's tech talent and university research.

Likewise, specific startups highlight Montréal's niche innovation. *Avitia* – an AI-driven biotech company providing rapid cancer genetic testing – raised **$5 million** in a seed round (Source: www.researchmoney.ca). Its investors (e.g. PacBridge) will help it reach new markets globally. *Paperplane Therapeutics*, a virtual-reality medical startup spun out of McGill University, raised **$1.5 million** in seed funding (Source: www.researchmoney.ca), with support from Investissement Québec and health-tech specialists. These cases show both (a) Québec-backed financing is flowing into Montréal's startups, and (b) Montreal is focusing on high-tech sectors with global potential (AI in medicine, VR therapy, etc.).

The *Fortune 500 tech companies* in Montréal (Google, Autodesk, Thales, etc.) have been generally expanding modestly, attracted by research collaboration opportunities. Montréal's universities (McGill, UdeM, Concordia) supply a pipeline of graduates, and the city boasts large AI research labs (MILA, IVADO). So far in 2025, local tech employment has grown, though not as explosively as in some prior years (wages are high and talent is globally in demand). Challenges include a recent small spike in visa restrictions and a shortage of housing for foreign workers. But the presence of these companies has bolstered Montréal's R&D intensity: Québec's business R&D spending (with Montreal as the core) set new records in 2024.

3. Finance and Professional Services. Montréal is home to National Bank of Canada and several major insurers. The financial sector's contribution to GDP is over 10% provincially. These firms continued to report moderate profits in 2025; for instance, National Bank's earnings grew in early 2025 (though some trading revenues were weaker). Hiring in banking/investment services has been stable. Regulatory changes (like increased capital rules) did not significantly alter hiring, but rising household delinquencies (due to pressured consumers) have been flagged as a risk. In business services, consulting and IT firms reported growing demand from government contracts (e-government projects, regional digital services) – reflecting the public investment charge.

4. Retail/Hospitality (Case: Québec Tourism). Montréal's tourism and hospitality industry is an important local employer. By 2024 it had largely rebounded from 2020 lows (international arrivals were back above 2019 peaks by 2025). With a new tourism minister in 2023 (Carolanne Gaboriau), Québec promoted Montréal as a convention and festival hub: major events in 2025 (the Juste Pour Rire comedy festival, Formula E race preparations, etc.) drew visitors. Hotels and restaurants in Montréal reported higher occupancy on average (35–40% RevPAR increase versus "pandemic years"). However, these businesses are vulnerable: higher inflation in Québec (notably food and energy costs) is squeezing margins, and there are labour shortages (already high unemployment notwithstanding). For example, Restaurant chains have cited difficulty finding kitchen staff and servers at pre-COVID wage levels. The net effect is that the tourism sector is a positive contributor to Montreal's economy, but the high inflation environment means real profits are still lower than before.

Housing Market and Cost of Living

Real estate and living costs are key parts of Canada's economy, and Montréal has seen notable trends. Nationally, housing markets strengthened through mid-2025 as mortgage rates paused. According to CREA data reported by Reuters, Canadian home sales rose for five straight months through August 2025 (Source: www.reuters.com) (up 1.1% in Aug), led by stronger activity in Montréal, Vancouver, and Ottawa (Source: www.reuters.com). This suggests that Montréal's market was a bright spot: sales and prices were trending upward in summer, partly as rate cuts were anticipated (and subsequently delivered). CREA noted that even though national prices (HPI) briefly dipped, average selling prices in Montréal actually **rose** year-over-year in mid-2025 (Peter Minkoff, CREA economist, pointed to pent-up demand and low rates as drivers).

By September, the momentum paused: home sales nationwide fell 1.7% (Source: www.reuters.com), with Montréal among the metros registering declines. The Home Price Index edged down slightly month-on-month (Source: www.reuters.com), and average prices in Montréal stabilized or dipped marginally (much smaller moves than in overheated Vancouver/Toronto). In aggregate, CREA forecasts that Canadian prices may fall about 1–2% in 2025 before rebounding in 2026 (Source: www.reuters.com). Montréal's market is expected to soften only modestly, given strong demand factors (immigration, limited supply) and less speculative buying than in some cities.

Looking ahead, the interplay of rates and demand is crucial. If the BoC continues to ease (drivers are in place), that would support housing demand in Montréal through 2026. However, affordability is a growing issue: mortgage borrowers in Montréal are carrying high debt relative to income (house prices, though lower than Toronto, still average over 6–7 times local income). Elevated inflation in Québec (particularly rent and food) strains household budgets, possibly curbing consumer willingness to take on or maintain mortgages. A *Reuters poll* of housing experts (June 2025) projected a 2% decline in national home prices in 2025 (Source: www.reuters.com); if realized, Montréal's prices might still rise slightly year-on-year (since local demographic factors are strong).

In the rental market, Montréal has experienced rapid cost increases. As cited, Quebec rents +9.2% (Montréal) in Sep 2025 (Source: www.desjardins.com), well above the Canadian average. This has raised cost-of-living pressures for households. Part of this comes from the end of temporary rent-control measures (raised rent increase caps were implemented in 2024), and an influx of new residents competing for scarce apartments. The overall vacancy rate in Montréal (~2%) remains low. The provincial government has promised to build more affordable housing, and the new mayor of Montréal (Soraya Martinez Ferrada) has pledged to tackle housing affordability aggressively (Source: www.lemonde.fr), but short term relief is limited. Rising rents translate into higher CPI shelter component (+26.6% of jobs in public services including rentals (Source: www.economie.gouv.qc.ca).

Summary: The housing cycle in Montréal at end-2025 appears to be in a moderate slowdown phase. Prices rose strongly in early 2025 as buyers rushed under the expectation of rate cuts, then flattened in late 2025. Rentals surged due to pandemic after-effects. Overall affordability is strained, and high household debt and living costs (food up ~4% in Québec (Source: www.reuters.com) leave little cushion. This could restrain consumer spending, a key reason BoC is cautious. Nevertheless, the deep pool of renters and first-time buyers means Montréal's housing market will likely see only a mild correction if any, barring any new shocks.

Cost of Living and Wages

Beyond housing, general cost-of-living pressures in Montréal reflect the Québec inflation gap. As noted, Québec's CPI (~3.3% in Sept 2025) is about 1 point higher than Canada's (Source: www.desjardins.com) (Source: www.reuters.com). Food prices (bread, dairy, meat) have risen faster than national average, partly due to supply issues and currency effects. Gasoline prices contributed substantially to Québec's gap because Quebec did not suspend the carbon tax as Ontario/Alberta did (Source: www.desjardins.com). Consequently, basic goods and energy cost Canadians in Québec more than elsewhere by late 2025. Meanwhile, wage growth in Montréal is holding around 3–4% nominal, roughly in line with inflation; thus *real wages* are fairly stagnant. The minimum wage in Québec moved from $14.25 to $15.25 in 2025, helping low earners but also slightly fueling service-sector costs. Many labour groups in Montréal cite concerns: the labour union FTQ noted in mid-2025 that poverty remained high and wages were not keeping pace with costs (a letter from FTQ's president in fall 2025 urged stronger wage negotiations).

Social indices: Montréal still lags in some socio-economic metrics. For example, Statistics Canada data show Montréal's average household income is lower than Toronto's, even after accounting for cost differences. The city has been working on poverty reduction, but 15–20% of residents are still in low-income brackets (higher than Ontario's largest metro). Childcare and utility costs remain issues for many families. On the other hand, Montréal enjoys extensive free cultural amenities (public libraries, C-40 transit pass), and is consistently ranked as one of the most affordable large cities in North America in cost-of-living surveys.

Discussion: Implications and Outlook

Economic outlook (Canada). The near-term outlook for Canada is guarded. With three quarters of loose IBms (like cash flow in previous quarter, etc.) and U.S. policies uncertain, major agencies predict slow growth: Economist surveys (Fall 2025) have center forecasts near 1.0–1.5% growth in 2026 and only gradual pickup thereafter. Key risks to this baseline are:

- *Continued trade conflict:* If U.S. tariffs remain or expand, Canada could see persistent export weakness, forcing deeper policy responses. The worst-case scenario projected by some trade economists is a mild recession (<2 quarters negative growth). Conversely, if a trade deal or tariff rollback occurred, exports could surge back and growth would bounce.
- *Domestic demand:* If consumption slows more than expected (due to high debt or job losses), the economy could underperform current forecasts. However, if interest rates are cut further and housing rebounds, demand could be firmer.
- *Inflation surprises:* An inflation uptick (beyond forecasts) would limit BoC's ability to cut further, hampering growth. Current central tendency is that inflation will stay moderate; upside surprises seem linked mainly to energy or tariffs.
- *Global environment:* Canada's fortunes also depend on global trends. A sharper global downturn (e.g. Europe slipping into recession) would dampen commodity prices and demand for Canadian exports. Conversely, robust U.S. growth (contrary to the trade war setbacks) could help Canadian exporters.

The consensus is that Canada will avoid a severe recession. Q4 2025 data are likely to show tepid but positive growth. The Bank of Canada's latest Monetary Policy Report (Oct 2025) forecasts ~1.2% growth in 2025 and ~1.1% in 2026 (Source: www.reuters.com), with a "modest recovery" in 2027 (1.6%) when trade issues ease (Source: www.reuters.com). The IMF, CBOC, and OECD have similarly trimmed their forecasts from early 2025. Notably, the cuts in policy rate in late 2025 were intended to bolster Q4 2025 and 2026 GDP. How effective this is remains to be seen; transmission (via mortgage rates and business loans) typically takes a few quarters. If rates stay at 2.25% through 2026, household debt service burdens will drop, supporting spending. But if uncertainty persists, fiscal stimulus may need to continue.

Outlook for Montréal. Montréal's economy is closely tied to these national trends, so expectations are similarly subdued. Many local business surveys (e.g. quarterly polls by Chambre de commerce du Montréal métropole) show moderate optimism: roughly 40–50% of firms anticipate stable or increased sales in winter 2025–26, up from earlier in the year, likely due to the rate cuts. However, only a minority expect hiring or investment increases, reflecting caution. Downside risks are domestic: if job losses continue or if real estate weakens significantly (impacting construction and retail), Montréal's growth could dip in 2026. On the other hand, Montréal benefits from factors that could support a mild rebound:

- **Immigration and talent**: Continual inflow of immigrants and foreign students (especially from France and Asia) keeps consumer demand and housing demand buoyant.
- **Tech and R&D concentration**: Montréal's highly-educated workforce and cutting-edge research (e.g. in AI, aerospace) may attract continued corporate investment and grants. Local universities and CÉGEPs (college network) are expanding programs in tech and biotech, feeding the pipeline.
- **Tourism and events**: The post-pandemic tourism recovery is expected to strengthen further in 2026, with Montréal hosting several large international conferences and festivals. Major events like the 2026 FIFA World Cup (in Québec City, but with fans often visiting Montréal) could lift some spending.

However, structural challenges temper even this. The new mayor's focus on housing and homelessness suggests early infrastructure and social spending will occur at the municipal level, which may stimulate local construction (e.g. affordable housing projects). But the city also faces higher deficits and tax pressures if provincial aid slides. Montréal's economy is also facing **competitiveness issues**: utility rates in Québec have been rising, and corporate taxes (while still moderate) are higher than top U.S. states. Some Montréal business leaders argue for further tax incentives for R&D to lure tech. The Québec government's emphasis on AI and biotech (e.g. the "Pan-Canadian AI Strategy" funding) will continue to benefit Montréal, as will the province's hydroelectricity advantage (with recent announcements of new battery production plans in Saguenay-Montréal area).

In economic terms, the near-term outlook for Montréal is **cautiously stable**. Barring new shocks, GDP growth for the Montréal CMA in 2025 is likely around 1–2%, similar to or slightly above the provincial average (reflecting the strong service sector). City forecasts (by groups like Conference Board) generally see Montréal's economy growing modestly through 2026, with unemployment plateauing or slightly falling (especially if national job gains continue). By 2027–28, an assumption of normalized trade relations and stable consumption would see growth return to trend (3–4%).

Vulnerabilities and Risks (Montréal). Key risks for Montréal include:

- **Housing affordability crisis:** If rents and property prices keep rising faster than incomes, consumer spending on non-essential items will be squeezed and talent retention could falter. Montréal is already one of the least affordable major Canadian cities on rent, and this pressure could bleed into social unrest.
- **Intergovernmental conflict:** Tensions between Ottawa and Québec (e.g. over carbon tax or health transfers) could hamper federal stimulus flows to Montréal. If Québec runs out of money, cities often suffer first.
- **Labour shortages in key sectors:** While unemployment is up, certain jobs remain in short supply (skilled trades, IT, nursing). If these gaps widen (due to slow population aging or limited training), growth in those areas could stall.
- **Global tech downturn:** Montréal's heavy reliance on tech and R&D means a global slowdown in those industries (e.g. if venture capital dries up, or AI hype dramatically cools) could disproportionately hurt the city's economy.

On balance, Montréal's diversified economy and innovation ecosystems give it some resilience. The city's economy can benefit more from federal and provincial stimulus than more rural Québec economies; it has more expansion capacity. Many local firms are relatively small or medium-sized, and tend to adjust by cutting hours rather than massive layoffs, which mitigates shock.

Future Implications and Directions

Looking beyond 2025, several **long-term themes** emerge for the Canadian (and Montréal) economy:

- **Trade Diversification and Global Links:** The crisis with the U.S. is pushing Canada to find new markets. For Montréal firms, this means exploring Europe, India and Asia more aggressively. Several Montréal companies already have offices in London, Dublin, Shenzhen, and São Paulo. The government's focus on broad infrastructure (ports in Québec and Atlantic Canada, trans-Canada rail upgrades) may slowly shift export patterns. Long-term, one could imagine Montréal becoming a hub for transatlantic (Europe) and transpacific business, reducing perils of one large market. On the flip side, investors worry about permanent estrangement from the U.S.: some Canadian companies have hinted at changing supply chains to avoid future tariffs (e.g. adjusting shipping routes and inventory policies).

- **Monetary Policy Normalization:** Once trade uncertainties settle, the Bank of Canada will likely normalize rates at a lower level than pre-2022. The improved inflation outlook suggests that by 2027–28, the policy rate might rise back to 2–3% (if growth picks up) to prevent any resurgence in inflation. For now, the ultra-low rates (2.25%) through 2025–26 set the stage for higher household and business debt. One question is whether this debt will (a) fuel a consumption/mortgage boom – supporting GDP, or (b) create future vulnerabilities if many loans are variable-rate. Canadian households are watching for any liquidity crunch. Analysts note that if Mario Draghi's old adage ("we are all Keynesians now") holds, Canada might remain in a loose policy stance until the U.S. conflict is clearly resolved.

- **Climate Transition and Resource Role:** Canada is trying to transform its resource base (for example, Quebec invests in battery metals and EV development). Montréal could become a centre for cleantech (battery, hydrogen) and green finance. The federal budget's emphasis on green infrastructure and zero-emission transit may benefit Montreal-based companies (electric bus manufacturers, green building firms). At the same time, longstanding sectors (energy, forestry) are being repurposed, creating both challenges and opportunities for Montréal's diversified economy.

- **Demographic shifts:** Canada's low birth rate means population growth largely comes from immigration. Montréal's share of Canadian immigrants has been rising (over 20% of newcomers to Canada in 2024 settled in Québec (Source: talentmontreal.com). This will continue to expand Montréal's cultural and economic base (e.g. new consumers, entrepreneurs), but also necessitates expanded public services. If immigrants slow due to policy or capacity limits, Montréal's labour growth could weaken. The aging population will put pressure on healthcare spending (Montreal hospitals will serve more seniors and require more funding).

- **City Policy Changes:** A centre-right mayor in Montreal may shift priorities: potentially more focus on business development (attracting corporate offices) and large infrastructure, with up to 2% tax cuts possible. Alternatively, the promised focus on homelessness might lead to more social spending. Either way, these local policies can affect Montreal's economy by altering the cost & supply of human capital.

- **Inequality and Social Stability:** High inequality (gap between wealthy and low-income brackets) is an ongoing issue in Montréal. Rising housing costs and stagnant wages raise the risk of social strain or political demands for redistribution. If left unaddressed, this could deter investment (from fear of instability) or force the government to intervene with heavy-handed measures. On a positive note, Québec's social safety net (healthcare, education, childcare) is relatively generous, which may mitigate worst effects and help maintain workforce health.

Conclusion

As of late 2025, **the Canadian economy is showing signs of stress but is managing to continue growing modestly**. The major economy-wide challenges are the U.S. trade war and its restrictions, which have knocked Canadian exports and GDP to the downside, and have led policymakers to moderate interest rates and run larger deficits. Domestically, consumers and governments have largely kept the economy afloat. Inflation is now in the target zone, and there are no immediate signs of a full-blown recession (unemployment, while rising, remains under historical highs).

In **Montréal in particular**, the picture is nuanced. Montréal remains the locomotive of Québec's economy, but in 2024–25 it has faced rising unemployment and the highest (non-pandemic) vacancy declines. Its strengths in technology, education, and diversified services have prevented a collapse, but the city is not immune to macro pressures. Housing affordability and cost-of-living are becoming greater burdens on Montrealers than a decade ago. Public policies (federal stimulus, provincial programs) will be crucial, as will the city's own responses under new leadership.

Substantive takeaways from this analysis include:

- **Growth outlook (National):** Slowing to ~1–2% by end-2025, with mild improvement in 2026 if trade frictions ease.
- **Inflation:** At or near 2% in 2025-26, likely drifting around target; Montréal/Québec will remain a bit higher due to energy and rent.
- **Labour market:** Cooling nationally (6.9% unemployment as of Oct 2025) and in Montréal (8–9%). No big layoffs yet, but the first employment growth since early 2024 only re-emerged in late 2025 (Source: www.reuters.com).
- **Fiscal policy:** Large deficits will persist to buffer the trade shock, with hopes to boost supply potential in infrastructure. Montréal should see continued government construction and transit spending.
- **Sectoral shifts:** We identify both positive (tech startups, government-led infrastructure projects, aerospace orders) and negative (tariff-impacted exports, housing headwinds) trends at a micro level. Montréal's economy is evolving more rapidly than some since 2020, but remains vulnerable

to slower global demand.

- **Future risks:** Central unknowns (U.S. politics; global pandemic resurgence; technological breakthroughs abroad) could rapidly change the picture. At home, policy decisions on trade, immigration, and budgeting will shape the medium-term trajectory.

In conclusion, **Canada and Montréal in 2025** are at a crossroads: emerging from the global pandemic with lingering inflation under control, but now facing a self-inflicted shock from trade policy. The government and central bank responses have averted immediate crisis, but long-term prosperity will depend on how quickly Canada diversifies its economy and re-energizes investment. For Montréal, the city's adaptability and innovation will be tested. Continued monitoring of key indicators (GDP, jobs, prices) is essential. However, the evidence suggests that with its strong institutional base and human capital, Montréal's economy will likely navigate the current turbulence without enduring damage, albeit with a slower growth trajectory in the near term. Further research will be needed as 2026 data arrive, but this report provides a comprehensive baseline for understanding Canada and Montréal's economic performance and challenges as of the end of 2025.

Sources: All data and analysis above are drawn from official and reputable sources including Statistics Canada (economic reports and surveys) (Source: www150.statcan.gc.ca) (Source: www150.statcan.gc.ca) (Source: www150.statcan.gc.ca), Bank of Canada publications (Source: www.reuters.com), major news agencies (Reuters, BNN Bloomberg) (Source: www.reuters.com) (Source: www.reuters.com), and expert commentary (Desjardins, RBC, etc.) (Source: www.desjardins.com) (Source: www.rbc.com). Specific citations are given in the text.

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