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July trade, August jobs and September BoC meeting in focus for Canada

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A re-escalation of the Canada-U.S. trade war hasn't prompted a significant downgrade to our economic outlook. We explained why that is here, and answered more pressing questions here.

Data releases in the coming week offer important clues about the early economic impact of new U.S. tariffs in Canada, even before they take effect.

In the July trade data released on Thursday, we expect to see signs of another round of tariff front-loading that could have given a temporary boost to Canada's exports.

The United States announced new tariffs on July 20 that didn't take effect until August 22. During that window, U.S. importers were likely incentivized to build inventory—a pattern similar to what we saw in spring 2025 ahead of IEEPA tariffs coming into effect.

We look for Canada's trade surplus to widen to $4.2 billion in July from $3.9 billion in June.

Consecutive large job gains in Canada over the summer, combined with increasingly constrained labour supply from worker retirements and reduced immigration pushed Canada's unemployment rate down to 6.4% in July. While it has declined, the rate remains higher than historical norms, suggesting there's more room for hiring to recover.

Next Friday, we expect employment to post a smaller 5,000 increase in August, while the unemployment rate holds steady. Job postings from Indeed.com were little changed that month, and broader growth indicators have looked substantially better since activities stalled over the winter.

Recent resurgence in trade uncertainty pose risks to economic growth, but we remain cautiously optimistic that per-worker labour markets in Canada will continue to gradually improve, with the unemployment rate edging lower into 2027.

Heightened growth risks from new U.S. tariffs and inflation risks from high oil prices likely created more discomfort for the Bank of Canada since their last meeting in July, but not enough to push them off the sidelines.

The silver lining is that backward-looking economic data have also strengthened considerably, including solid 3.3% (annualized) GDP growth in Q2 and on-target core inflation prints since April.

In Wednesday's meeting, we expect the BoC to acknowledge both this strength and forward-looking risks-a balance that should leave interest rates unchanged.

Current U.S. tariffs and counter Canadian tariffs are not yet large enough to derail the Canadian economy's recovery, but further escalation in tariffs is a real threat that could prompt a delay of BoC rate hikes we had expected in 2027, or worst, push the central bank to cut rates. But, we're not there yet.

Nominal Canadian exports should edge up about 0.1% in July, supported by an increase in vehicle shipments. We anticipate a 0.3% contraction for imports, driving a surplus expansion. Oil prices were down slightly in July but still elevated, persisting the energy trade surplus.

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Canadian growth rebounded in Q2 with domestic demand also strengthening

Trade deadline looms after Canada's inflation data for July

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