Market View

Economics and Strategy

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The U.S. beats Canada *again*

By Taylor Schleich

It's been a difficult stretch for Canada in its rivalry with the United States. A pair of devastating Olympic hockey defeats still weighs on the national psyche, but losses have recently extended off the ice. The national accounts published last Friday confirm that the U.S. economy outpaced Canada's in 2025. This was the third straight year of U.S. outperformance and the seventh in the last eight. It wasn't always this way, though. In the decade following the GFC, the two economies moved roughly in tandem.

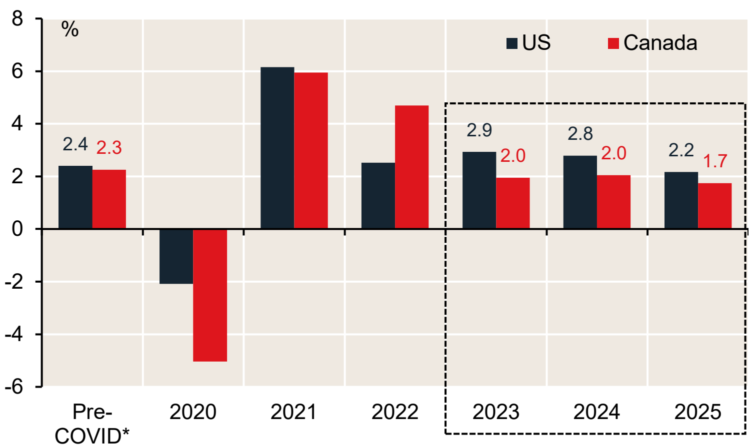
To make matters worse, comparisons of topline GDP growth likely *understate* Canada's economic underperformance as they fail to control for population dynamics. Consider that per capita GDP is up 6% in the U.S. since 2022. In Canada, output per person has shrunk over this time.

What's driven lagging Canadian GDP growth over the last few years? The more appropriate question may be: what hasn't? Canadian household consumption has trailed by ~3% cumulatively, and export growth has lagged by a similar margin. The most pronounced gap, however, is on business investment. This grew more than 10% in the U.S. since 2022 but didn't budge in Canada. Even here, *relatively* comparable residential investment performance obscures more alarming softness: Non-housing, private sector business investment in Canada has lagged the U.S. by more than 13%. And with persistent trade uncertainty looming over Canadian businesses, it's hard to envision this gap narrowing much.

The one 'bright' spot comes in the form of direct government expenditures (which we'll discuss more in a coming *Market View)*. These grew roughly 4%-pts faster in Canada since 2022. Looked at more cynically, the GDP gap would be closer to 5% were it not for the outsized support from fiscal policymakers. Canadian government spending is set to grow further in 2026, but that won't be nearly sufficient to give Canada the overall GDP edge. Instead, with an engaged private sector and a stronger public sector impulse (via the OBBB), the U.S. growth advantage is seen *widening* this year. Alas, here's hoping 2027 will be Canada's year.

Chart 1: Three straight years of Canadian underperformance

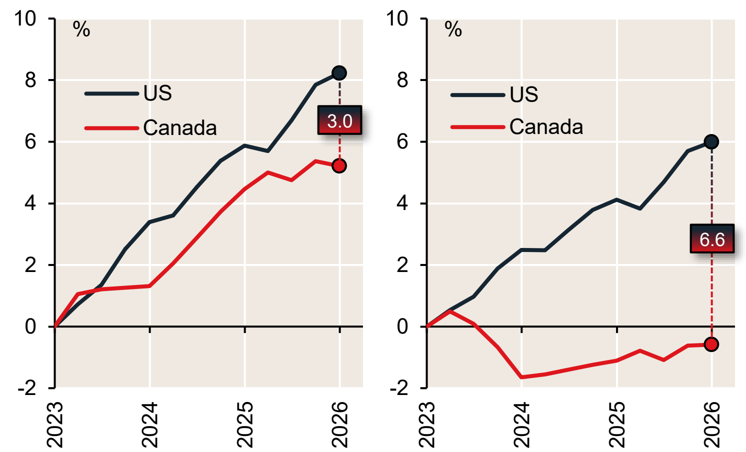
Annual real GDP growth: U.S. vs. Canada



*Source: NBC, BBG, BEA, StatCan | Note: *Pre-COVID refers to 2010-19 average*

Chart 2-3: U.S. outperformed even more in per capita terms

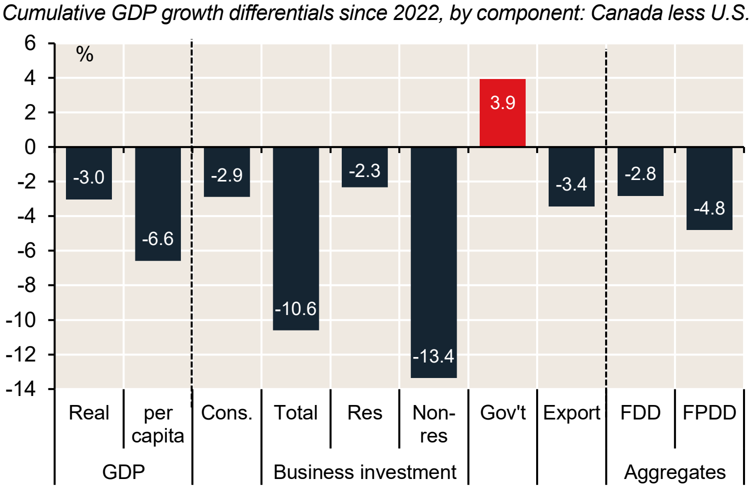
Cumulative real GDP growth (L) and real per capita GDP growth (R) since Q4:2022



Source: NBC, BEA, StatCan, BBG | Note: 2022:Q4 = 0

Chart 4: Government spending the only area Canada 'wins'

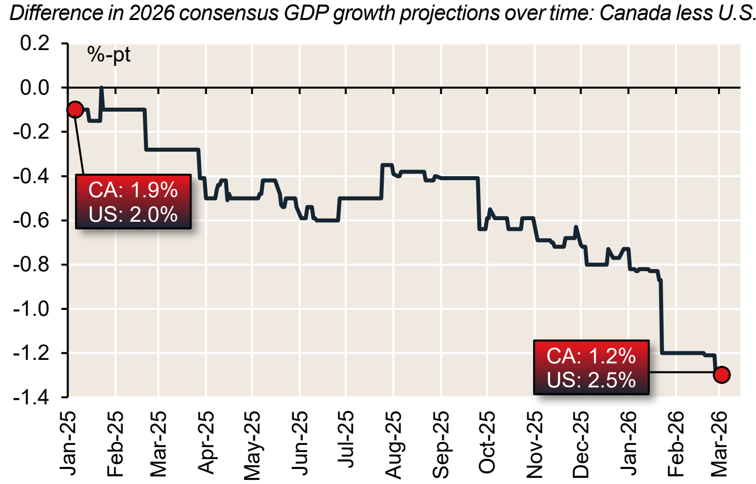
Cumulative GDP growth differentials since 2022, by component: Canada less U.S.



Source: NBC, BEA, StatCan, BBG | Note: In some cases, we combine GDP components (e.g., gov't). Chain-weighted data are not additive but 'errors' are small (+/- a few tenths of a %-pt). FDD = Final domestic demand. FPDD = Final private domestic demand.

Chart 5: Canada's losing streak will continue in 2026

Difference in 2026 consensus GDP growth projections over time: Canada less U.S.



Source: NBC, BBG | Note: X-axis date refers to forecast date

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NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.Schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca

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