

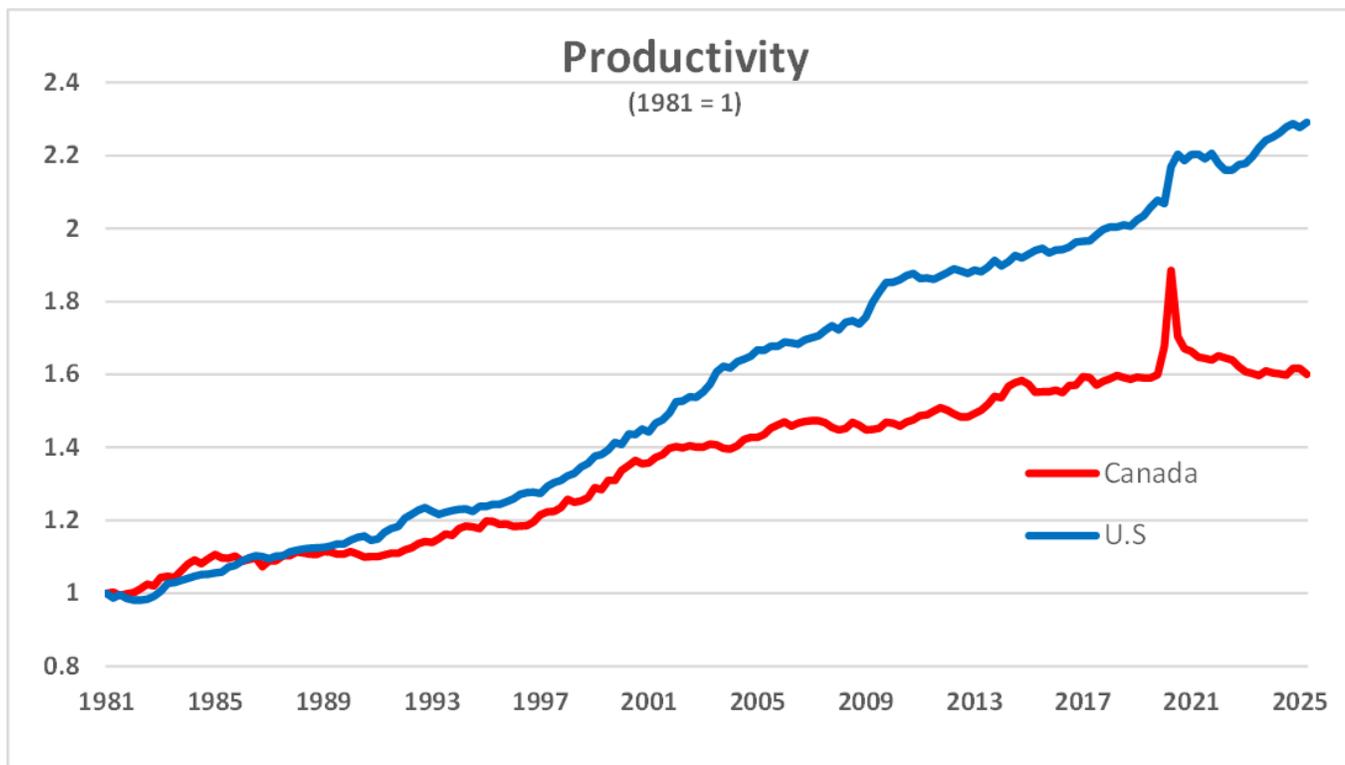
MONTHLY COMMENTARY

October 2025

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Canada falls further behind the U.S.



Source: Statistics Canada; U.S. Bureau of Labor Statistics

MARKET FOCUS

Productivity gap continues to widen.

Updated data from Statistics Canada showed that labour productivity of Canadian businesses plummeted 1.0% (-3.8% annualized) in the second quarter of 2025. Business output fell at the same time that hours worked increased. This is now the largest quarterly decline since Q4/22 (-1.1% or -4.5% annualized). The Q2/25 weakening comes on the heels of a downwardly



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revised 0.1% drop in productivity during the first quarter of 2025 (previously reported as +0.2%). Canadian productivity has weakened in 17 of the last 20 quarters. During the second quarter of 2025, unit labour costs rose 0.5% to stand with an annual 1.6% gain. This is broadly in line with the pace of overall inflation (1.9% in August) but below the Bank of Canada's 3.1% CPI-median core measure. Canada's productivity growth is important for longer-term economic stability, as it reflects the country's competitiveness. Rising productivity provides the basis for an improving standard of living with both higher wages and faster economic growth, but without inflationary pressures. As can be seen in the accompanying graph, the new figures compare very poorly with the United States where productivity gains have been more consistent. By Q2 2025, the U.S. had recorded a 16.7% advance in productivity when compared to the end of 2016. Meanwhile, Canada has posted a negligible 1.9% gain over the same period. Despite Canada's still-growing population, the drop in productivity during the quarter was accompanied by declines in both business investment and per capita GDP output. This combination is suggestive of a looming economic recession.

U.S. Fed cuts rates.

Following its two-day monetary policy meeting on September 17, the U.S. Federal Reserve (Fed) cut interest rates by 25 basis points (a basis point is 1/100th of one percent), moving the target for the federal funds rate to the range of 4.00% to 4.25%. This was the first interest rate cut since December 18, 2024, and suggests that concerns over a moderation in the U.S. economy are now outweighing worries over inflation and international trade relations. Coincidentally, the Bank of Canada lowered administered interest rates by the same amount, on the same day. Economists suggest that the clearly faltering Canadian economy will likely encourage additional near-term cuts, but the picture in the U.S. appears less clear. While it is uncertain what interest rate the Fed currently believes is 'neutral' (where monetary policy neither stimulates nor restricts economic growth), the market will begin to weigh the likelihood of another move lower at the upcoming October 28 and 29 meeting.

LONGER VIEW

Investor attention has been focused on global tariffs initiated by President Donald Trump. While this is a significant development, it is unlikely to have the same long-term impact as innovation on our lifestyle, economy, and stock market performance over the next decade. Artificial intelligence will not only strengthen existing ecosystems but also has the potential to create entirely new ones. In a rapidly changing world, the most dangerous investment strategy is one based on a "rear-view mirror" mindset.

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