Global Economic Outlook

Global economy at a crossroads: Resilience amid policy shifts and trade tensions

Insights on the world's key economies, GDP growth, commodity prices, interest rates and exchange rates.

EDC Economics
January 2026

Canada

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Global economy at a crossroads: Resilience amid policy shifts and trade tensions

Stuart Bergman
Vice-president and chief economist

It's been roughly a year since the U.S. administration took office, and foundational elements of global economic, political and security policy have been altered or replaced. Despite the uncertainty, the global economy has endured, sidestepping the dire predictions that marked the start of last year. Growth has stabilized and trade continues—albeit distorted by new policy measures. While encouraging, these shifts are reshaping the global economic landscape in real time.

In our latest forecast, we've revised growth prospects slightly upward: Global gross domestic product (GDP) is projected to grow by 3.1% in 2026 and 3.2% in 2027, following expected growth of 3% in 2025. This is an improvement from our previous outlook, but still below potential and underperforming the 45-year average.

Trade barriers and policy volatility shape outlook

Tariffs and persistent trade uncertainty have become entrenched challenges for businesses and the global economy. With policy positions hardening amid geopolitical insecurities and supply chains adapting, barriers to trade are expected to persist throughout our forecast horizon.

For the U.S., tariff revenues are increasingly viewed as a partial offset to ongoing fiscal pressures. With the Congressional Budget Office projecting a federal budget deficit averaging 5.6% over the next five years, any administration will find it difficult to abandon this policy tool. We expect the average effective U.S. tariff rate to exceed 10% for most countries through the forecast period—well above the 2% rate at the start of 2025.

Since our first quarter *Global Economic Outlook* (GEO) incorporates developments up to Dec. 5, 2025, data gaps from the extended government shutdown have obscured the outlook for the U.S. economy, but EDC Economics believes momentum persists despite a softening labour market. Layoffs aren't signalling a turning of the economic cycle and unemployment remains contained. Business investment—concentrated in infrastructure and data centre technology—has provided a lift. Additionally, tax and spending provisions will fully kick in this year, with retroactive tax breaks and rebates. Together with a more accommodative monetary policy, these factors should help support demand.

Uncertainty remains around non-tech capital spending and whether inflationary pressures continue to erode real earnings. The disconnect between benign economic data and historically weak consumer sentiment is notable ahead of midterm congressional elections. With consumers driving nearly 70% of the U.S. economy, confidence matters. **We forecast U.S. growth of 2% in 2026 and 2.1% in 2027.**

Sustained growth alongside above-target inflation, even as the labour market slows, poses a challenge for the U.S. Federal Reserve. For the first time in more than three decades, multiple Federal Open Market Committee (FOMC) members have opposed policy decisions, creating uncertainty. Following December's cut, we anticipate two additional quarter-point rate cuts in the second half of 2026.

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Canada, Europe and China: Diverging paths
Canada weathered the tariff shocks better than expected. After job losses pushed the unemployment rate to 7.1% through September, the labour market rebounded, and consumer spending held firm. Business investment remains weak but shows early signs of improvement, aided by policy and tax adjustments. Despite lingering uncertainty, and ongoing pressures on the trade side, **we forecast Canadian growth of 1.2% in 2026 and 2.5% in 2027.**

Inflation in Canada will fluctuate due to policy changes—such as the 2025 GST/HST holiday and carbon tax removal—rather than underlying price pressures. The Bank of Canada is expected to hold rates steady in 2026 before gradually normalizing in 2027. With Fed easing expected to continue, this should support the Canadian dollar, though volatility is expected ahead of the Canada-United States-Mexico Agreement (CUSMA) review. We forecast the loonie to average US$0.72 in 2026 and US$0.74 in 2027.

The Euro Area continues to face significant uncertainty, despite an August 2025 agreement to stabilize U.S. tariff rates. Some of this uncertainty reflects the volatile trade environment, including a surge in Chinese imports. In France, failure to secure approval for the government's fiscal and reform policies continue to undermine the business environment. Germany, which passed an historic financing plan last Spring, also faces questions around implementation. While we expect these issues to be resolved, the current environment will result in growth of just 1% in 2026 and 1.4% in 2027 for the bloc.

China's economic outlook reflects a strong export sector and weak domestic demand. Despite U.S. trade barriers, China posted a record US$1.1 trillion trade surplus through November 2025, reorienting exports to Europe, Africa and Southeast Asia. While highlighting the competitiveness of Chinese exports, that net exports accounted for nearly one-third of economic growth last year underscores the country's vulnerability to trade actions from other partners. Domestic demand remains sluggish amid oversupply and deflationary pressures. We forecast Chinese growth of 4.3% in 2026 and 4.6% in 2027.

The bottom line: Global growth risks and strategic imperatives
The global economy has entered its weakest three-year stretch in decades, as U.S. policy shifts reverberate worldwide, trade tensions persist and political uncertainty clouds once-stable markets. While resilience remains, growth is slowing, inflation challenges linger and volatility is here to stay. Businesses and policymakers must brace for a period defined by fragility, adaptation and strategic recalibration.

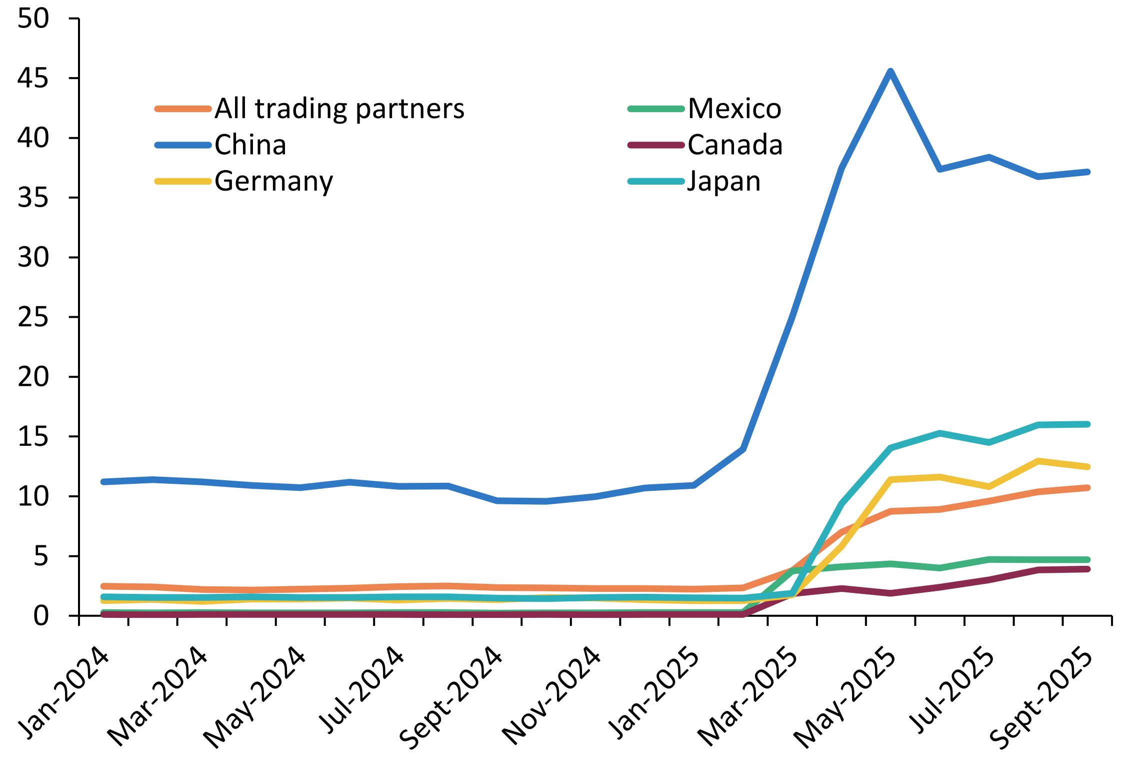
MACROECONOMIC CONTEXT

U.S. tariffs reshape global trade foundations

Changes in U.S. trade policy and tariff rates upended global trade in 2025. By year-end, average effective tariff rates on goods imported into the U.S. reached their highest levels in nearly 90 years. On the surface, Canada and Mexico avoided steep effective rates thanks to exemptions under the Canada-United States-Mexico Agreement (CUSMA). However, this masks the significant impact of sector-specific tariffs on steel, aluminum, lumber, automotive and other industries—disrupting supply chains and weighing heavily on those sectors.

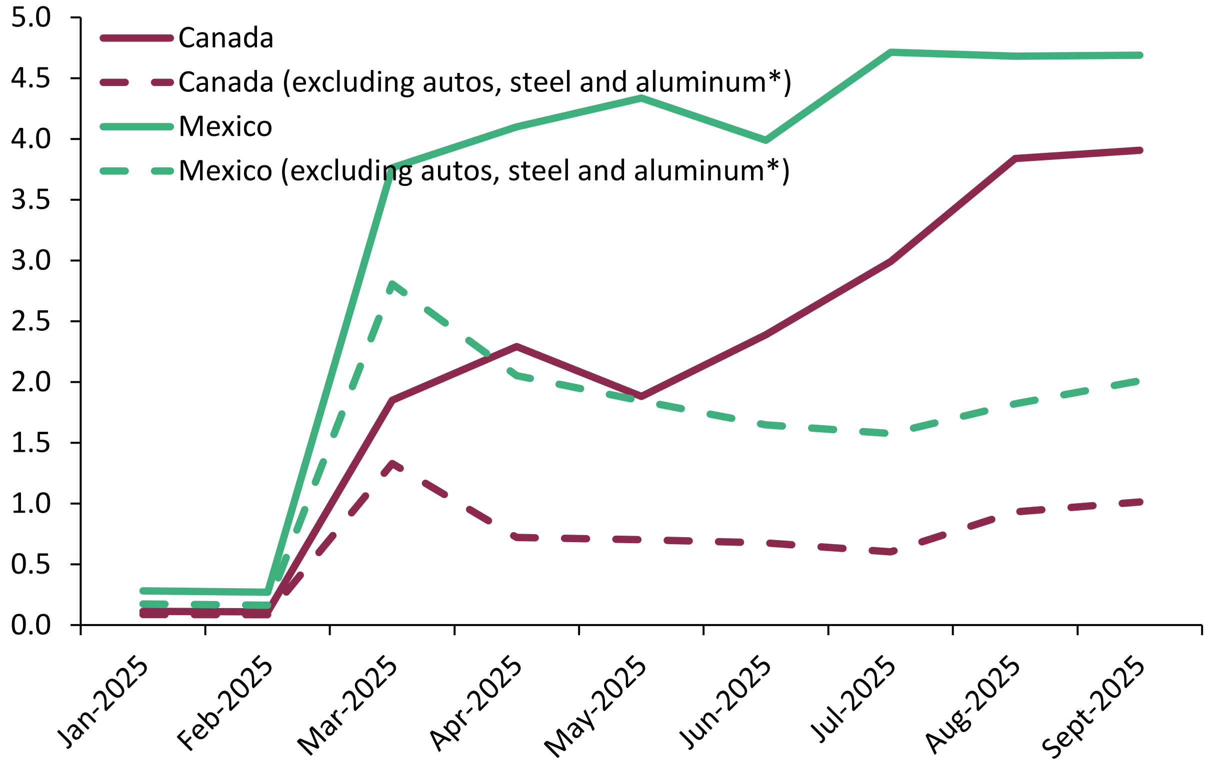
Tariff costs are rising on goods imports from key partners

U.S. effective tariff rate (ETR) on top five import markets, percentage (%)



Excluding sector tariffs lowers headline rates for Canada/Mexico

U.S. effective tariff rate (ETR), percentage (%)



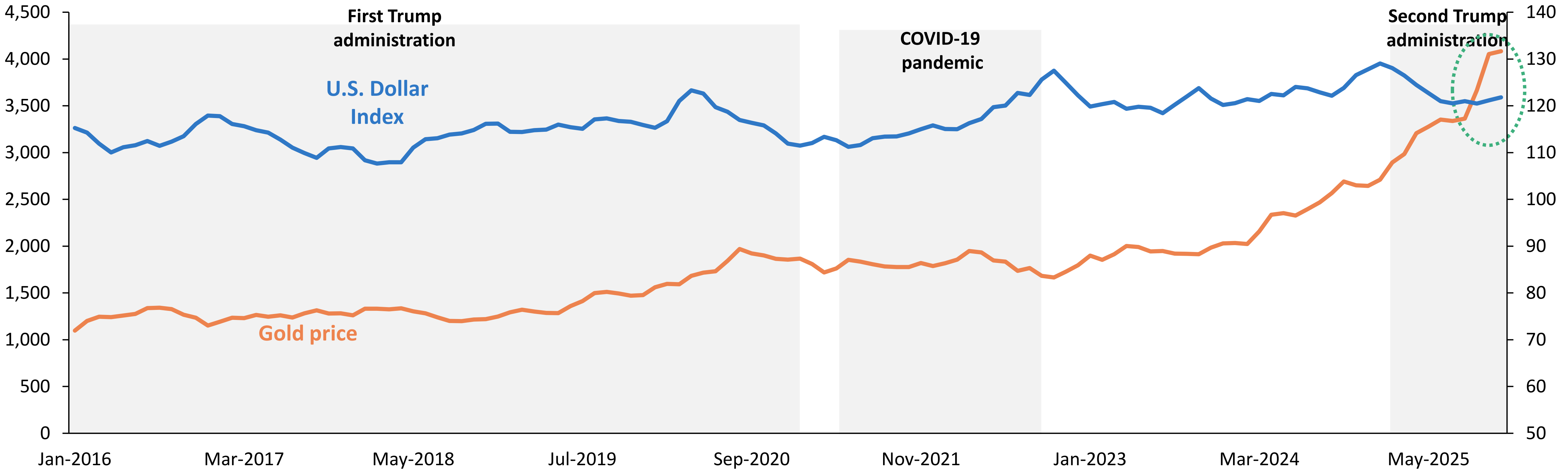
Sources: U.S. Census Bureau, EDC Economics. Effective tariff rate = estimated duties paid on U.S. goods imports from Country X as a share of total U.S. goods imports from Country X.
EX autos, steel and aluminum = excluding estimated duties paid on automotive, steel and aluminum product imports.
Note: The Top 5 markets highlighted on the left chart are based on share of U.S. goods imports in 2024. On the right chart, due to varying U.S. tariff implementation timelines on automotive, steel and aluminum products; HS product additions/exclusions; and complexity in capturing full HS code coverage, the following HS codes were used for this illustrative analysis: HS 8703 Motor cars & vehicles for transporting persons, HS 8704 Motor vehicles for transport of goods, HS 8708 Parts and accessories for motor vehicles (8701-8705), HS 72 Iron and steel, HS 73 Articles of iron or steel, and HS 76 Aluminum and articles thereof.

Year of volatility: Gold climbs as dollar slides

For decades, gold has been viewed as a safe, steady asset. Yet for much of the 21st century, its value lagged as investors and central banks turned to U.S. dollars and treasuries in times of uncertainty. In 2025, shifts in U.S. policy and expectations of interest rate cuts began to erode the dollar's dominance. Gold surged, while the trade-weighted U.S. dollar index weakened. Investors have pivoted toward gold and other safe havens—underscoring how geopolitical shocks can ripple through global markets.

Gold and the dollar: Diverging paths signal risk aversion

LHS: US$/troy ounce. RHS: Trade-Weighted Dollar Index, Jan. 6=100



Sources: Wall Street Journal/Haver Analytics

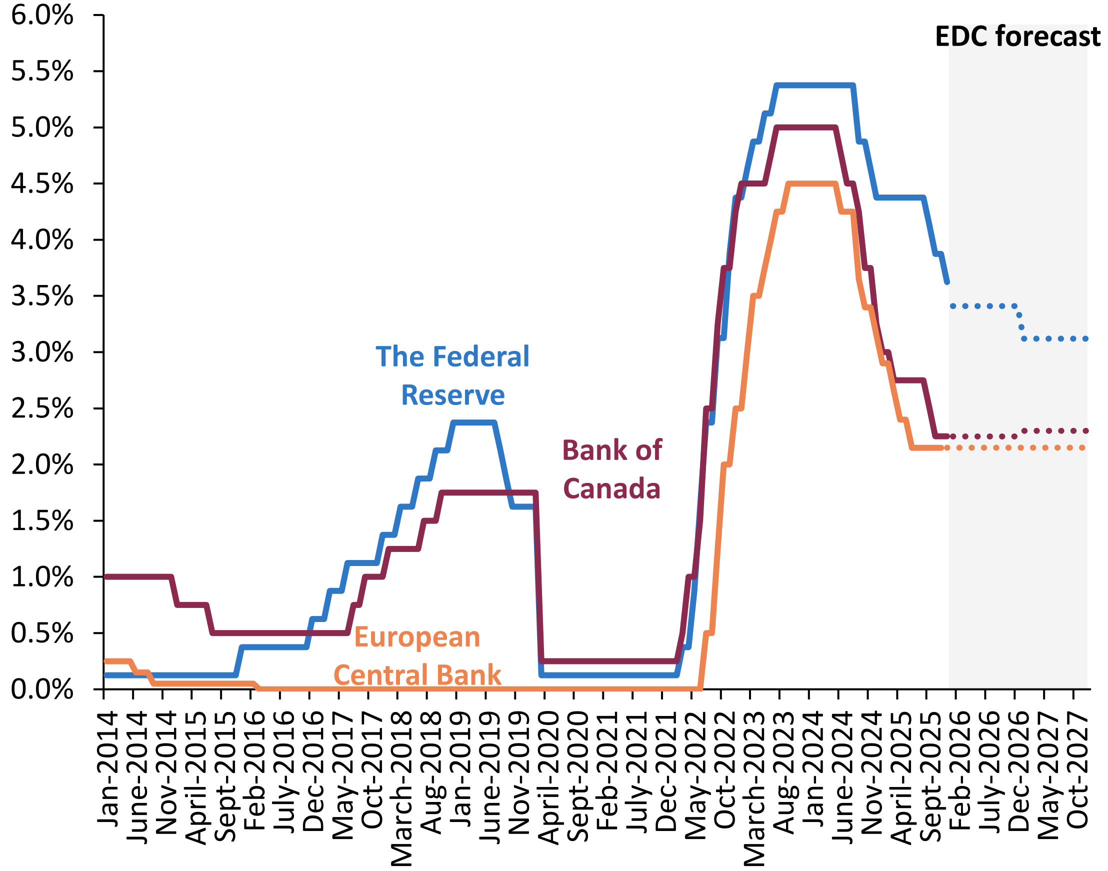
Jan. 6 = 100 refers to indexed to 100 in Jan-6

Central banks juggle inflation and jobs amid tariff pressures

Aggressive rate hikes helped tame post-pandemic inflation surges, but price pressures remain sticky. Labour markets, once buoyed by pandemic-era rallies, have cooled as aging demographics collide with weak demand. Now, central banks face the added uncertainty of tariffs. In 2025, Canada saw unemployment tick higher from the start of the year, while the U.S posted only a mild increase—keeping its headline rate near historic lows.

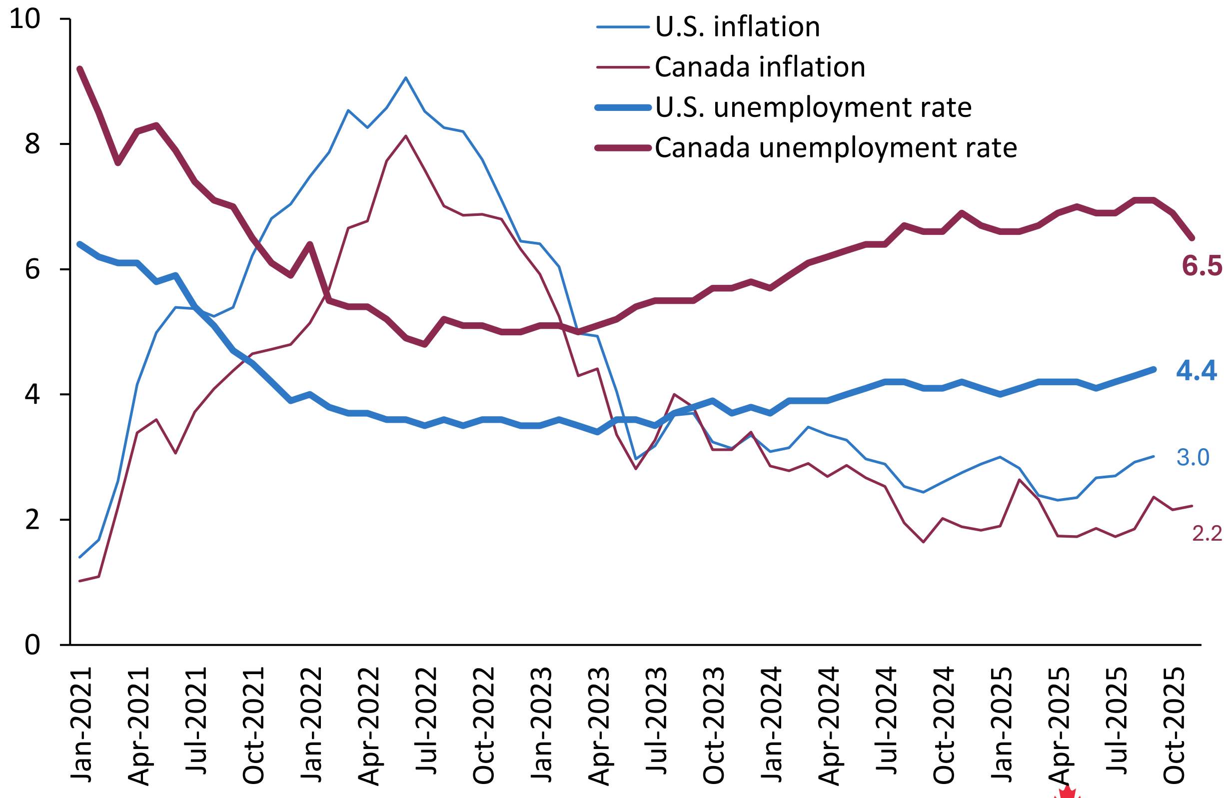
Central banks cutting rates, but balancing pressures

Percentage



Tariffs add uncertainty to unemployment and inflation

Inflation, not seasonally adjusted. Unemployment rate, seasonally adjusted



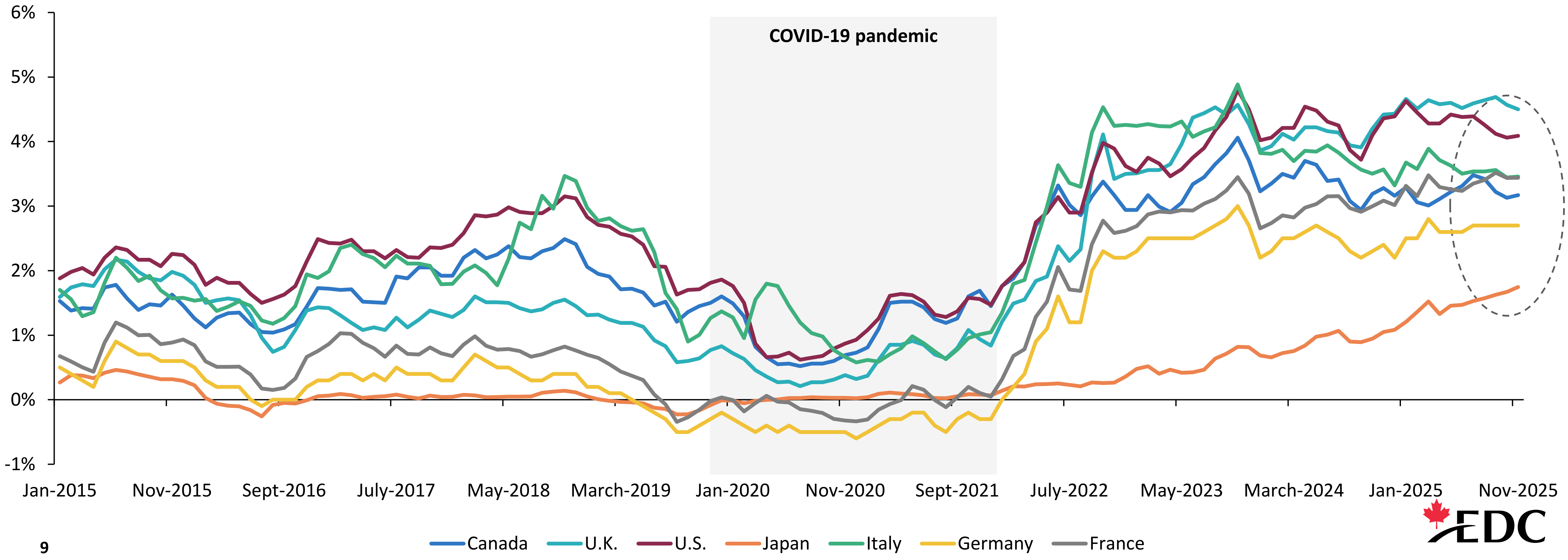
Source: Haver Analytics, EDC Economics

Benchmark bond yields hit decade high, driving up costs and risks

Government 10-year bond yields have climbed to their highest levels in a decade. Elevated yields often signal rising inflation expectations, prompting investors to demand higher returns. Since government bond are typically considered among the safest assets, higher yields for governments can translate into increased borrowing costs for businesses and households. This, in turn, creates a drag on investment and weighs on economic growth.

10-year bond yields hold multi-year highs

Average benchmark bond yield



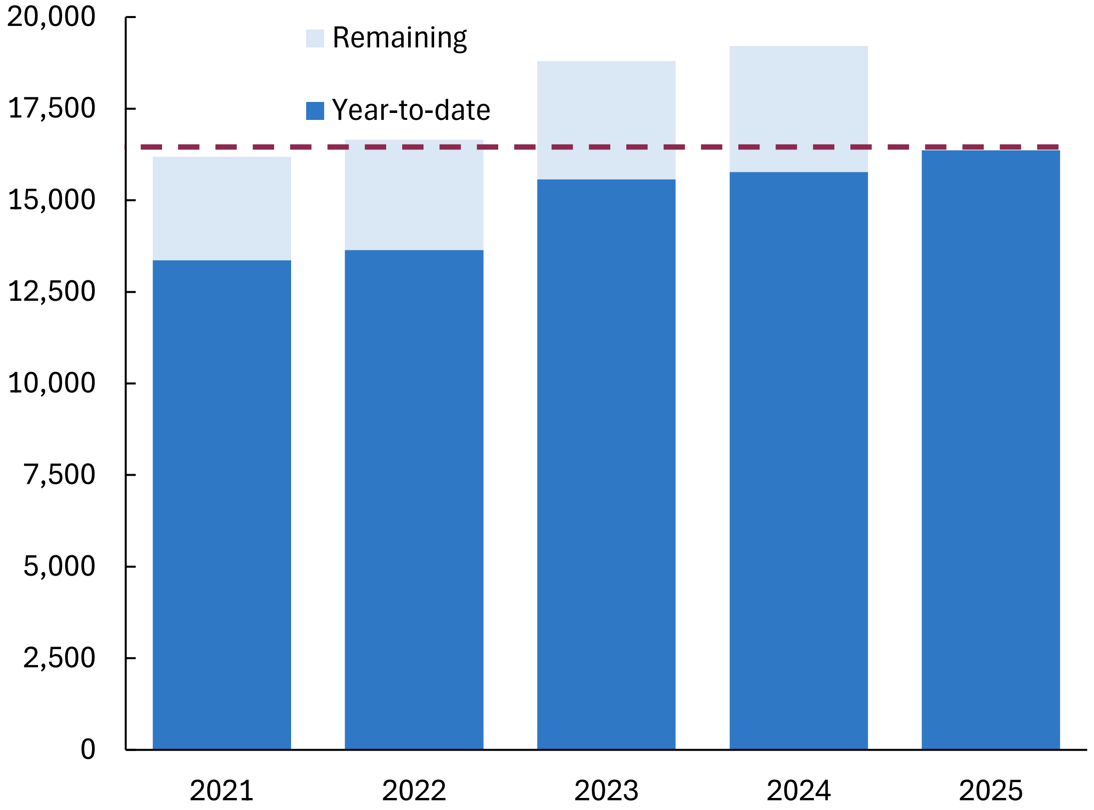
Source: Haver Analytics

U.S. labour market resilience holds—for now

Consumers account for roughly 70% of the U.S. economy, so a steady job market has supported growth despite policy uncertainty. But cracks are emerging in the "low hire, low fire" trend that has persisted for two years. Hiring remains sluggish, average hourly earnings growth has slowed, and layoffs and unemployment are ticking up—even if still low by historical standards. If these trends continue, consumption and overall demand are likely to weaken.

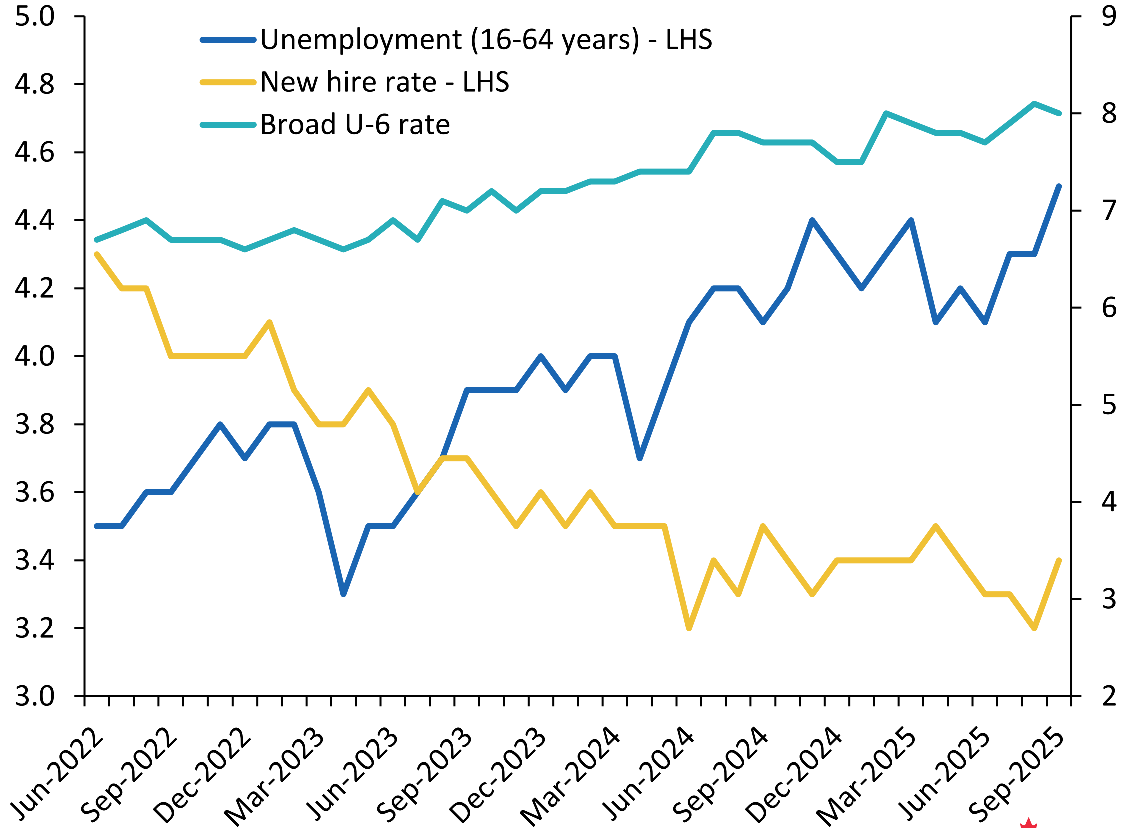
U.S. year-to-date layoffs slowly ticking up

Thousands of layoffs with year-to-date up to October inclusive



Rate of hiring slows while unemployment ticks up

Labour force rates, percentage, seasonally adjusted



Source: EDC Economics, Haver, Bureau of Labour Statistics, Bureau of Economic Analysis, U.S. Federal Reserve

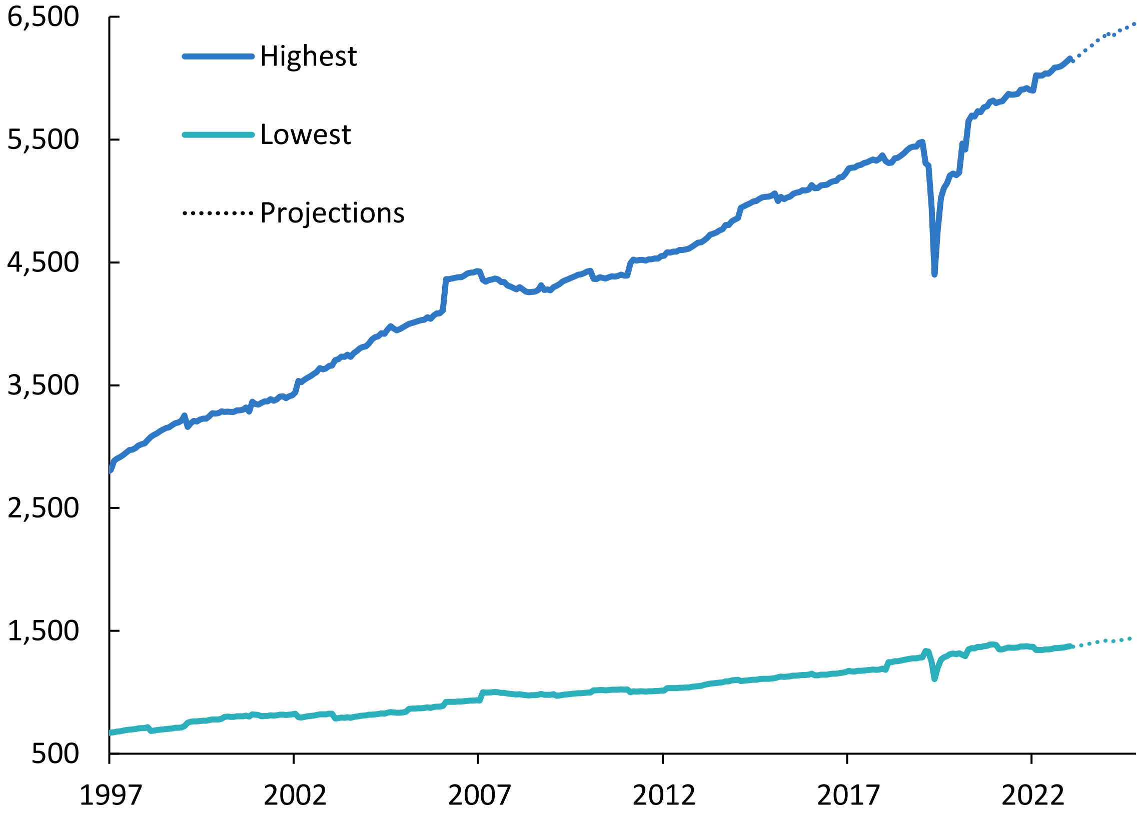
Note: Broad U-6 rate = total unemployed, plus all persons marginally attached to the labour force, plus all employed part time for economic reasons, as a percentage of the civilian labour force plus all persons marginally attached to the labour force.

Wealthiest U.S. consumers drive nearly half of spending

The top fifth of U.S. earners account for about 39% of consumer spending, underscoring how growth has become more concentrated. Stronger balance sheets—thanks to high asset prices and lower debt burdens—are allowing high-income households to keep demand robust, even as lower-income consumers struggle. Overall sentiment remains well below pre-pandemic norms, highlighting the disconnect between resilient spending and a cautious outlook.

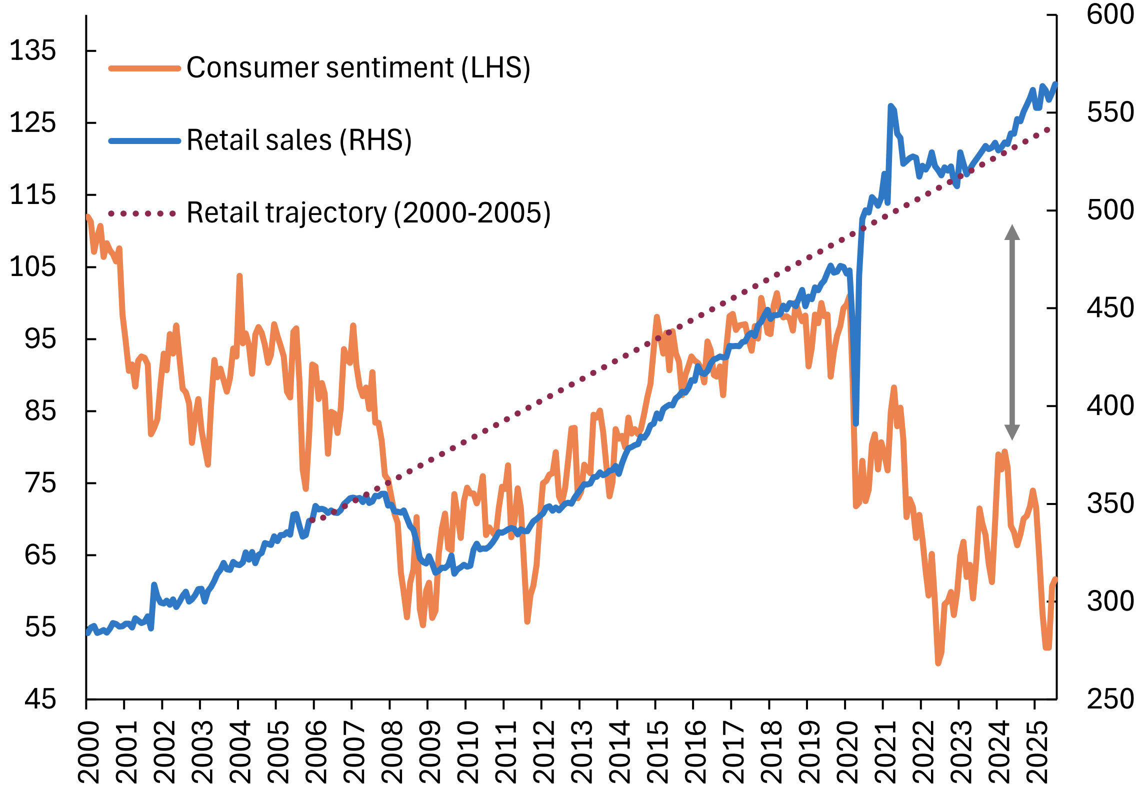
Top 20% by income account for ~40% of spending

LHS: Consumer expenditure by income (real U.S. dollars, in billions, seasonally adjusted at annual



Robust retail sales despite consumer sentiment declines

LHS: Sentiment Index (1966=100). RHS: Retail sales (seasonally adjusted, real 2017 U.S. dollars)



 Source: EDC Economics

Note: Consumer expenditure constructed with annual average quintile shares and national monthly aggregate, flatlined for 2024 and 2025.

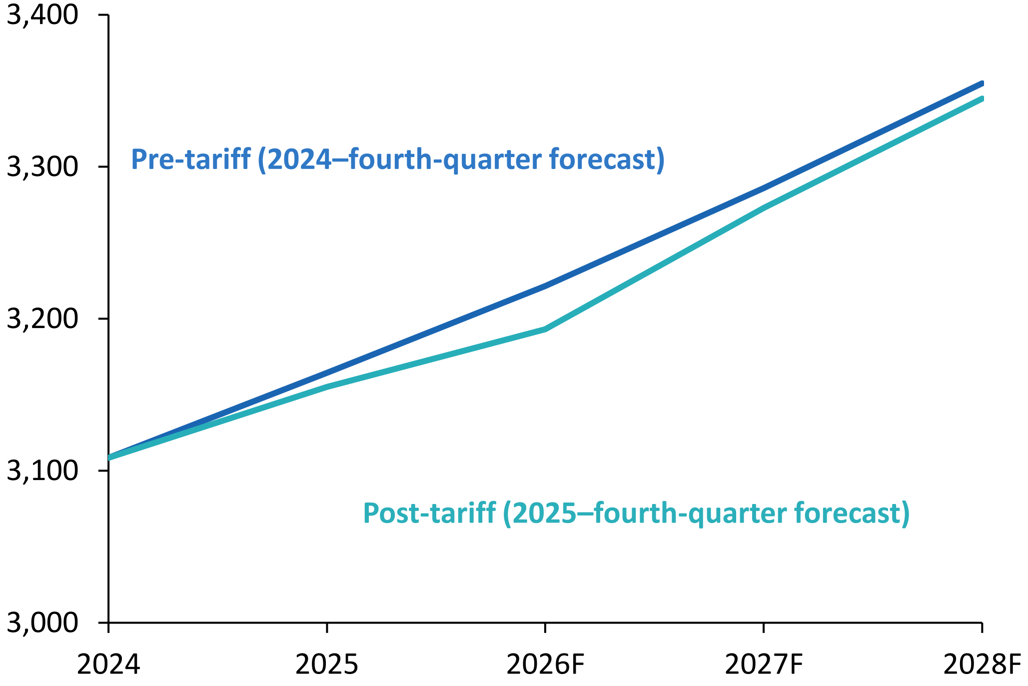
EDC

Ripple effects: U.S. tariffs weigh on Canada's economy

U.S. tariffs have reshaped Canada's economy over the past year. Growth forecasts weakened following tariff announcements, reflecting uncertainty, softer business investment and weaker consumer demand. Even as uncertainty fades and becomes part of the business environment, the impact has been lasting. The motor vehicle industry—Canada's largest manufacturing sector — has been hit hardest. Despite an early boost to get ahead of tariffs, motor vehicles and parts exports fell 4.3% year-over-year from September 2024 to September 2025, driven by declines in passenger cars and light trucks.

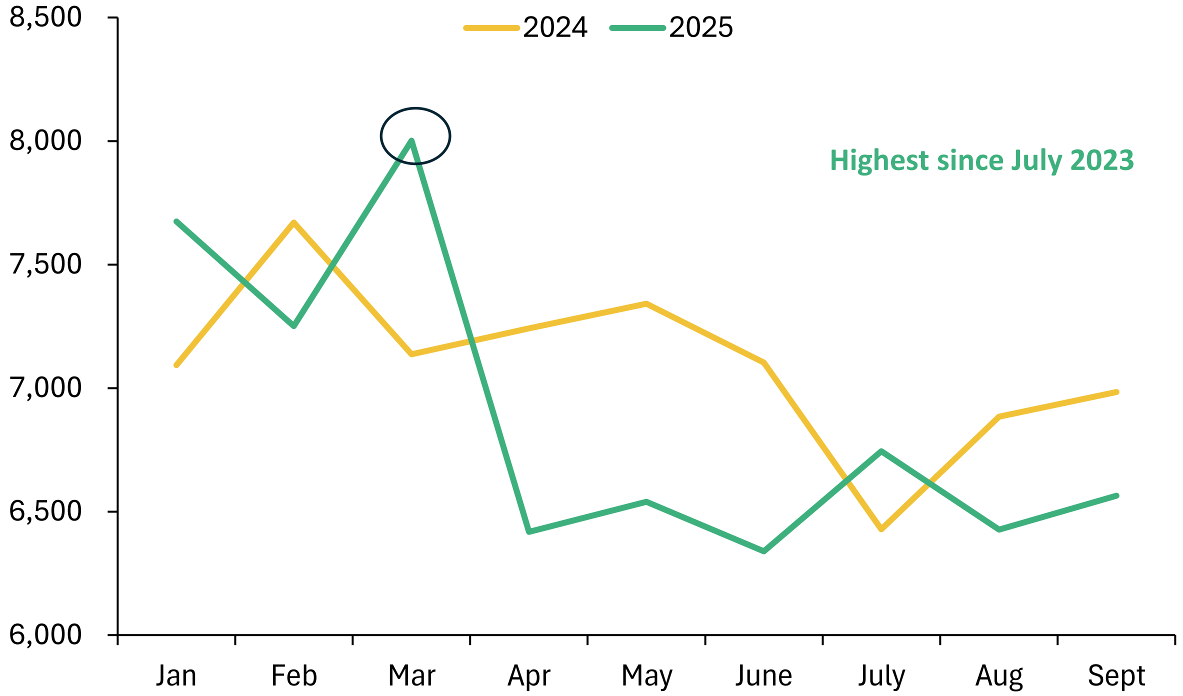
Canada real GDP before and after U.S. tariffs

Gross domestic product (GDP) at market prices, seasonally adjusted at annual rate, billions of Canadian dollars



Canadian motor vehicles and parts exports

Custom basis, millions of Canadian dollars, seasonally adjusted



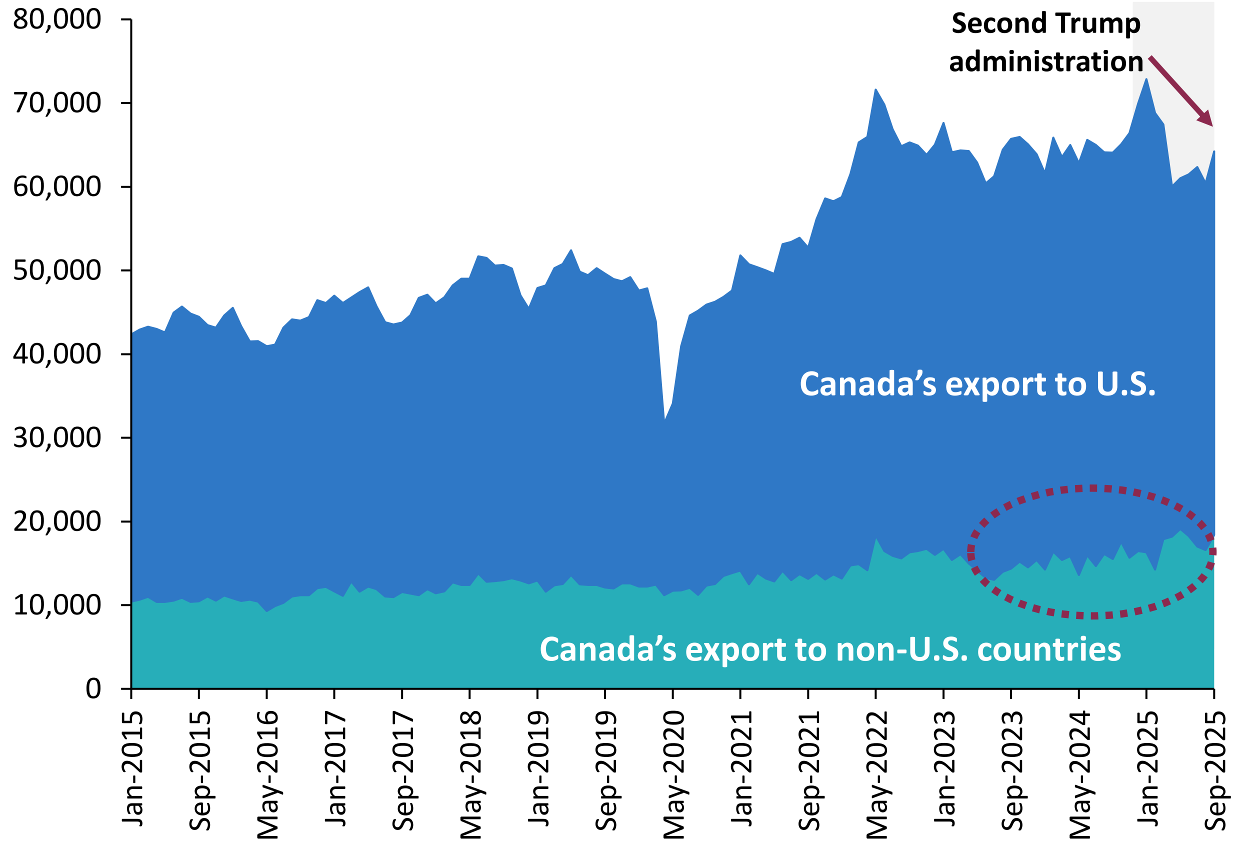
Sources: EDC Economics, Statistics Canada, Haver Analytics/Statistics Canada
Note: To calculate the impact of tariffs on Canadian GDP, 2024 GDP ($3.1 trillion) was multiplied by EDC's forecasted GDP growth rate pre and post tariffs.

Tariffs push Canada to pivot toward new export markets

Trade uncertainty is reshaping Canada's export landscape. Through the first nine months of 2025, exports to the United States fell 5.6% compared with the same period in 2024. Over the same period, shipments to non-U.S. markets rose 18.7%, reflecting a renewed push to diversify trade. Since 2015, exports to Germany, the U.K. and China have grown steadily—highlighting opportunities to continue to expanding and diversifying Canadian exports to these markets.

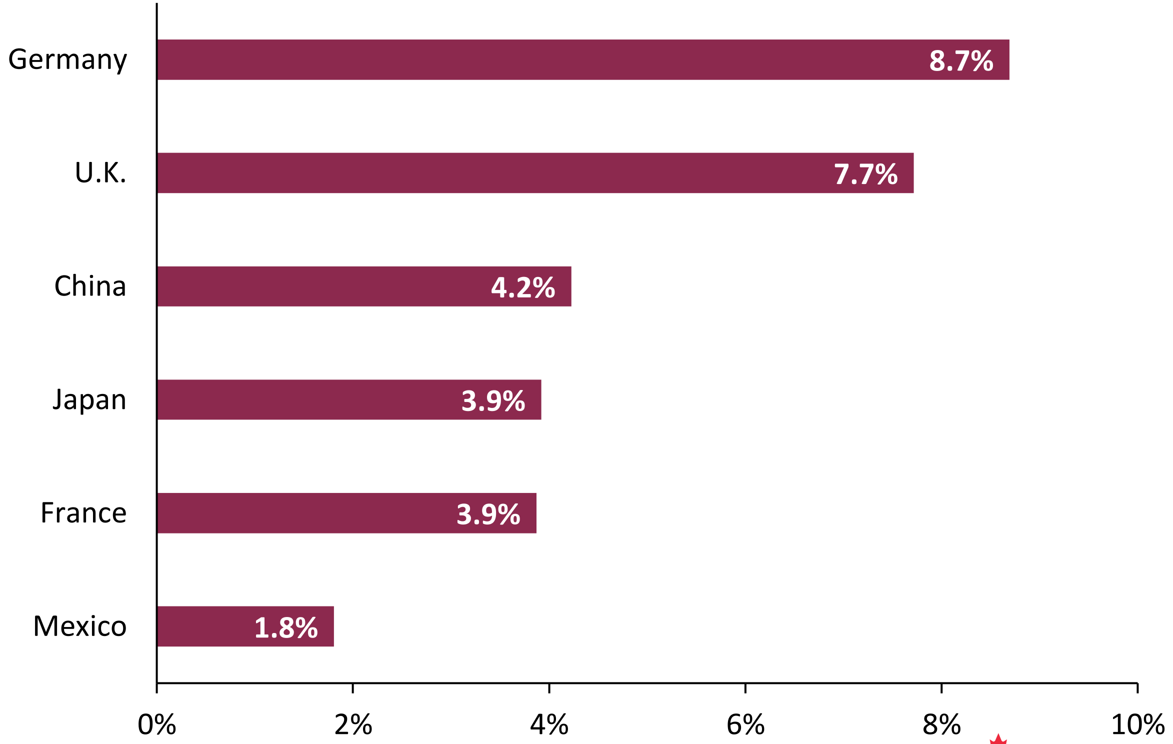
Canada's export growth plunges after tariffs

Seasonally adjusted, in millions of Canadian dollars



Canada's merchandise export growth to non-U.S. markets (2015-2025)

Jan-Sept 2015 to Jan-Sept 2025, compound annual growth rate



Source: Haver Analytics, EDC Economics

Note: For the compound annual growth calculation in the right-hand chart, January–September data was used for each year to ensure comparability with 2025.

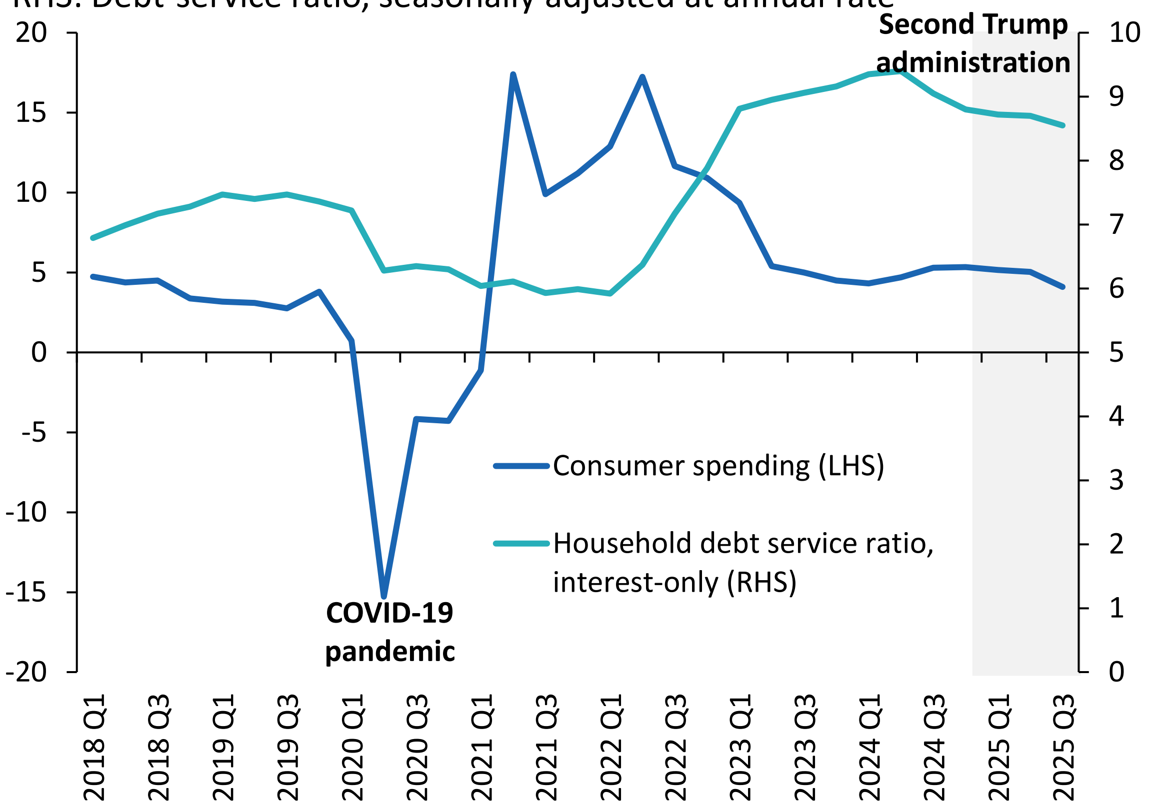
Canadian consumer and business sentiment remains weak

Consumer spending remains restrained as households face higher debt-servicing costs. Although interest rates have come down, the earlier spike in borrowing costs has left consumers cautious. Adding to this, a weakening labour market—with slower job growth and softening wage prospects—has tightened household budgets. Since consumer spending is a key driver of overall growth, this caution weighs on the economic outlook.

Interest payments, labour market pressures curb spending

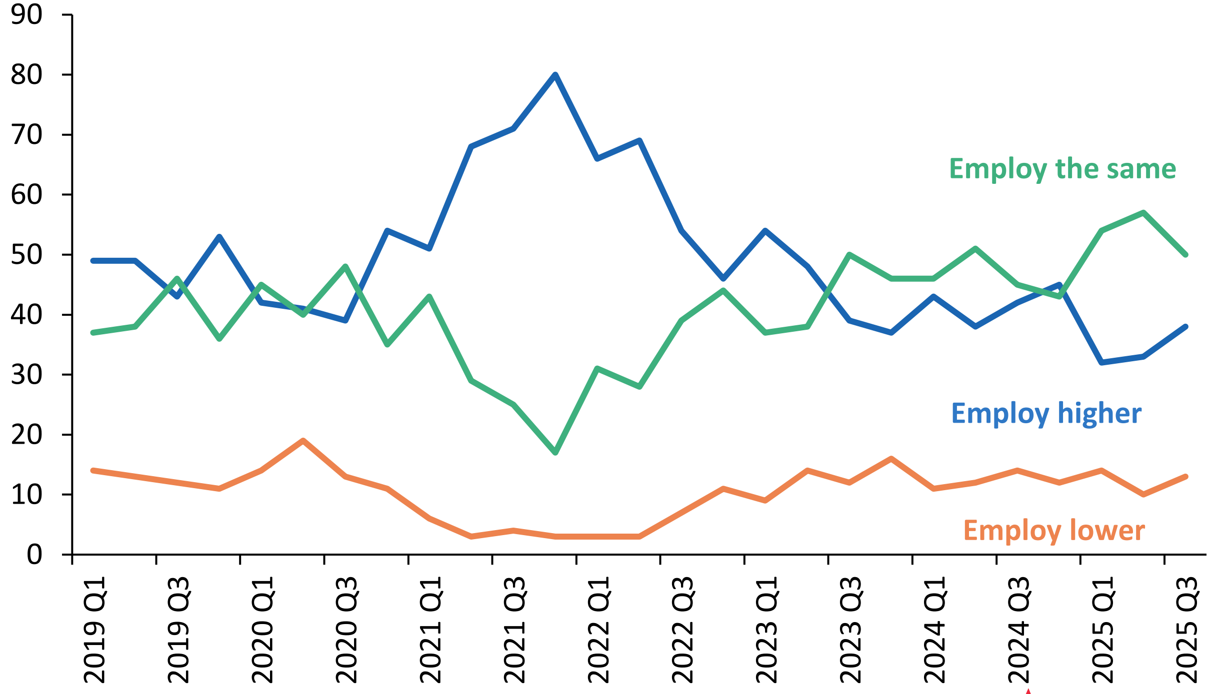
LHS: Consumer spending, seasonally adjusted, Canadian dollars

RHS: Debt-service ratio, seasonally adjusted at annual rate



Most businesses don't plan to hire, Bank of Canada survey shows

Over the next 12 months, will the number of employees (full-time equivalent) at your organization in Canada be higher, lower or the same?

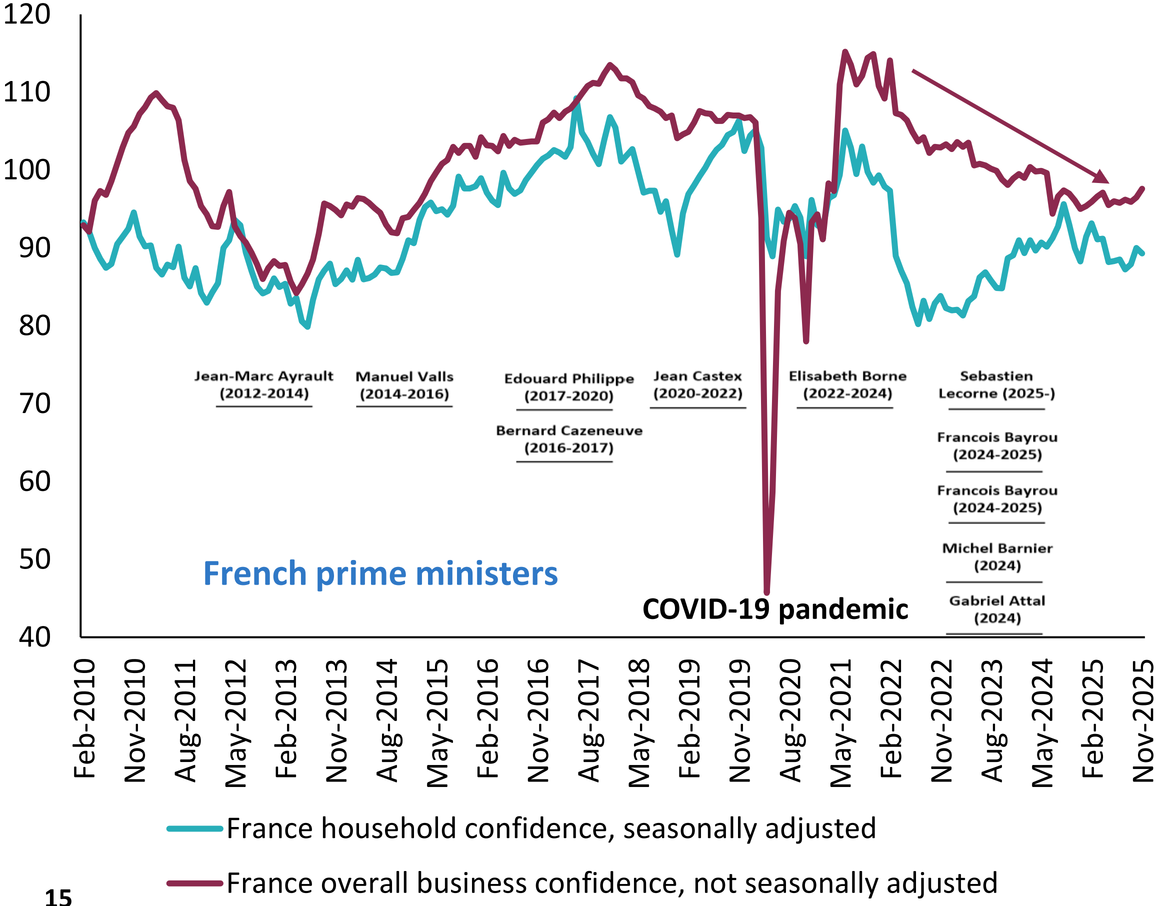


Source: EDC Economics, Haver Analytics

Europe's major economies struggle with persistent challenges

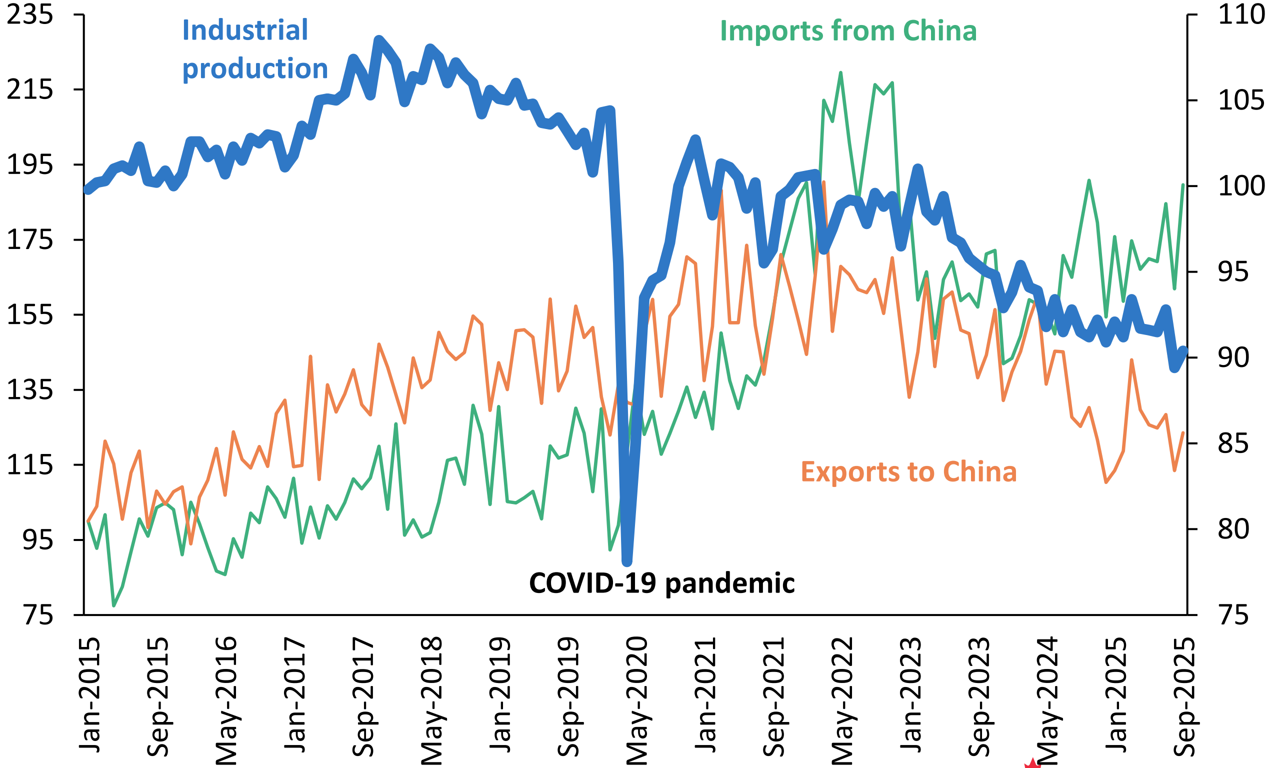
Europe's outlook remains strained. In France, political instability is weighing on confidence, leaving consumer and business sentiment fragile despite a modest improvement in November 2025. Germany faces a steep drop in industrial production, rising imports from China and collapsing exports—adding further pressure. With France and Germany accounting for about 50% of Euro-area GDP, the region's overall outlook remains subdued.

Political turmoil continues to hurt France's business and consumer confidence



Germany's industrial production has been in a decline

LHS: Not seasonally adjusted, Jan=2015. RHS: Industrial production including construction, seasonally and working day adjusted, 2021=100



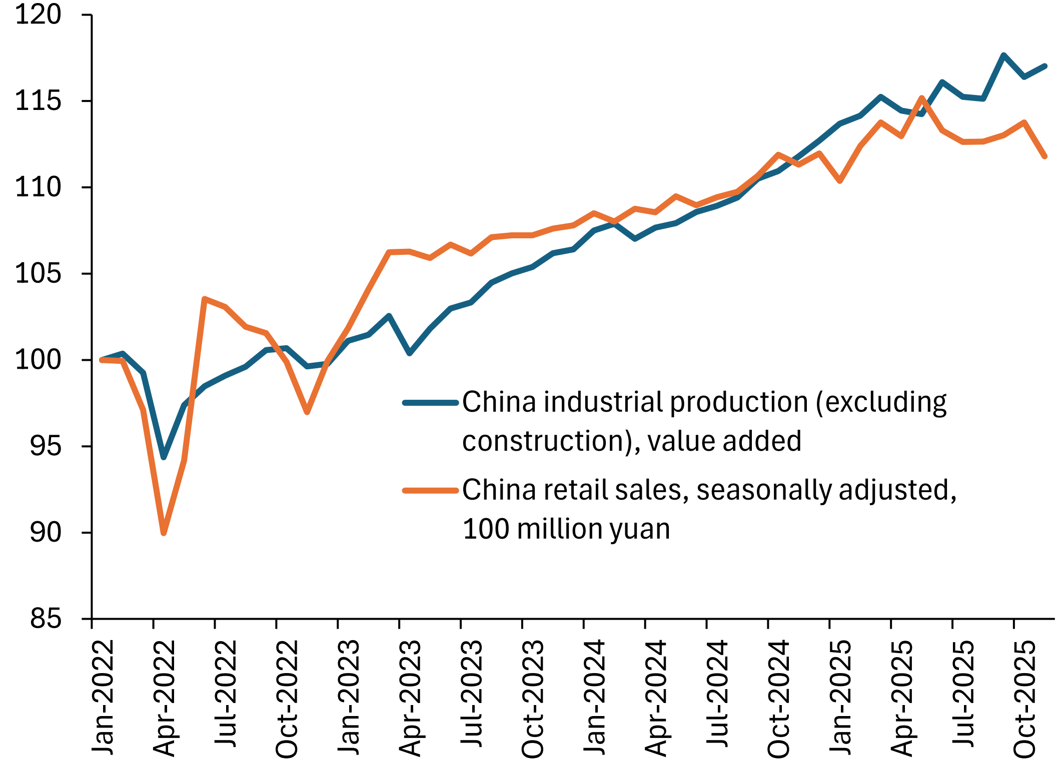
Source: Haver Analytics, EDC Economics
2021 = 100 refers to indexed to 100 in 2021

Overcapacity plagues China as exports shift from U.S.

China continues to struggle with weak domestic demand following the 2021 property market downturn. Retail sales growth has lagged behind industrial output, fuelling periods of deflation and underscoring overcapacity. To absorb excess production, China has leaned on exports—but U.S. tariff policy has eroded shipments to the U.S. The effective tariff rate on Chinese goods was volatile in 2025, climbing above 37% in September. Exports to non-U.S. markets have helped offset the decline, with total exports from January to November 2025 up more than 5% compared with the same period a year earlier.

Domestic demand growth trails industrial production

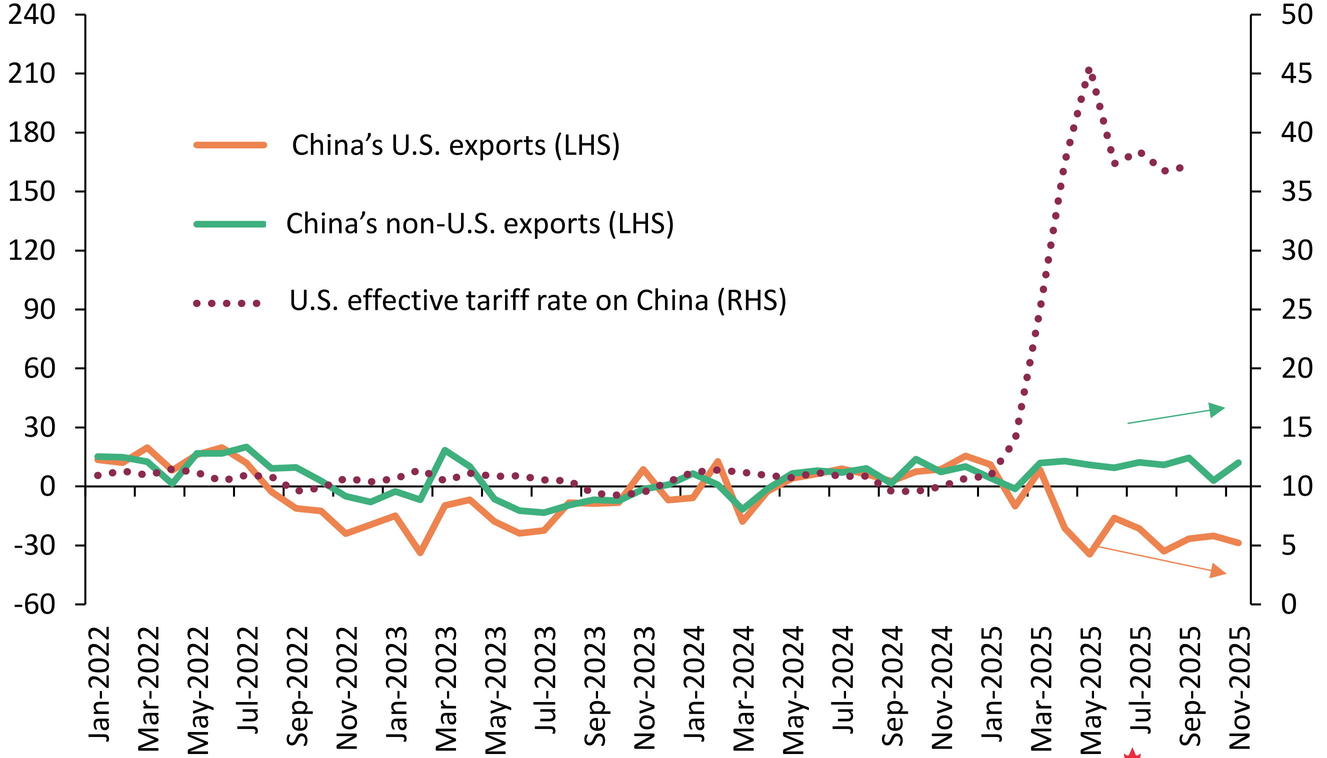
Seasonally adjusted, Jan-2022=100



China's non-U.S. exports rise, offsetting U.S. decline

LHS: Goods exports, year-over-year change (%)

RHS: U.S. effective tariff rate (%) on Chinese goods



Sources: China National Bureau of Statistics, General Administration of Customs China, Haver Analytics, U.S. Census Bureau, EDC Economics.

Note: On the left chart, industrial production refers to industrial value added—reflecting the real increase in output by China's industrial enterprises excluding intermediate goods. Retail sales (yuan) refers to retail sales of consumer goods. On the right chart, Chinese goods exports are seasonally adjusted. U.S. effective tariff rate on China = calculated duties as a share of U.S. imports from China

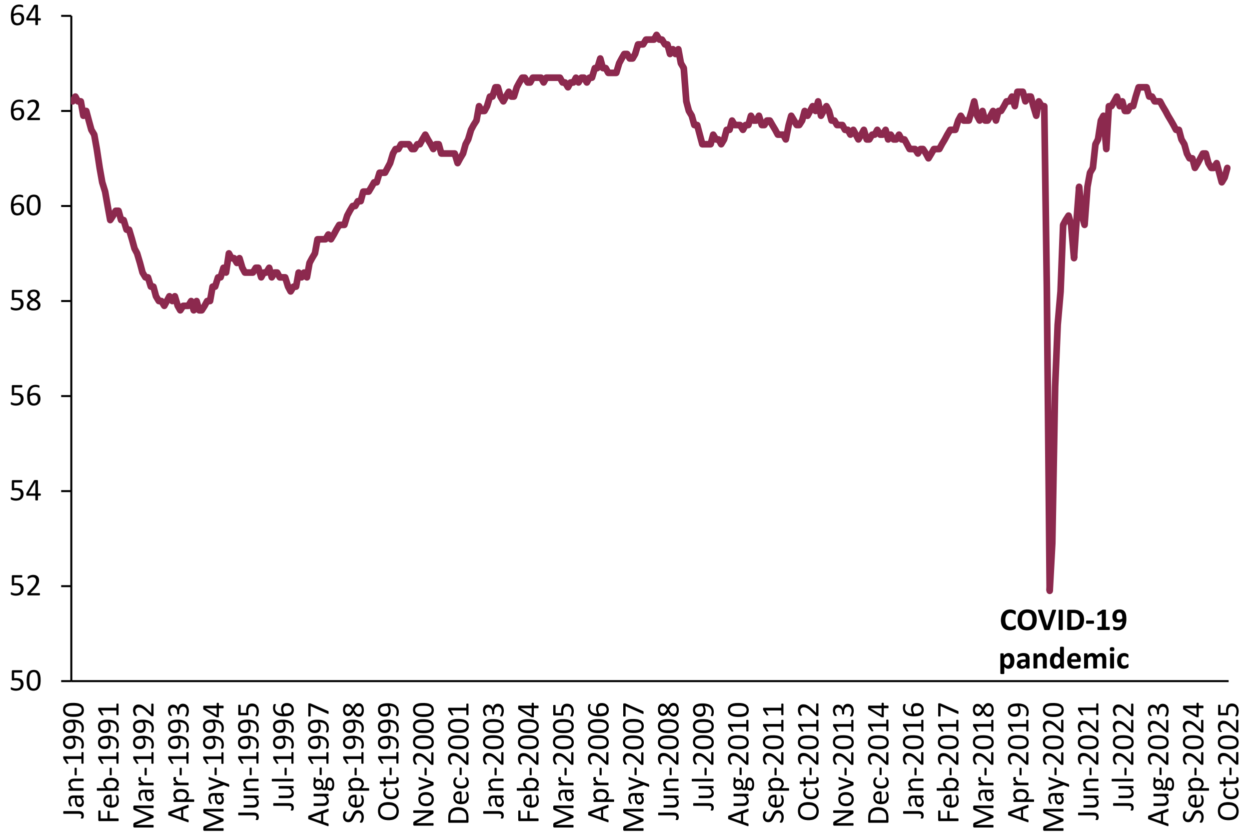
COUNTRY OUTLOOKS

Canada

Prince Owusu, senior economist

Employment rate hits non-recession 26-year low

Percentage (%)



Source: Haver Analytics, EDC Economics

Canada's economy narrowly avoided recession in 2025 but continues to feel the strain of trade policy headwinds. Despite a period of strong performance in the summer, underlying weaknesses persist in the Canadian economy. U.S. tariffs on Canadian exports have dented consumer and business confidence, weighing on spending plans.

In the third quarter of 2025, personal consumption expenditures posted their first contraction outside a recession, underscoring household concerns. Businesses, facing weak demand, have slowed hiring and cut headcount. The employment rate has fallen to its lowest level in 26 years, excluding the pandemic period, reflecting the economy's struggles.

Significant U.S. tariffs—including sector-specific measures—have hurt Canadian exports. China has also imposed punitive anti-dumping duties and tariffs:

- 75.8% on canola seed
- 100% on canola oil, meal and pea
- 25% on seafood and pork

These actions have driven steep declines in merchandise exports, with goods shipments down by double digits in September compared with January.

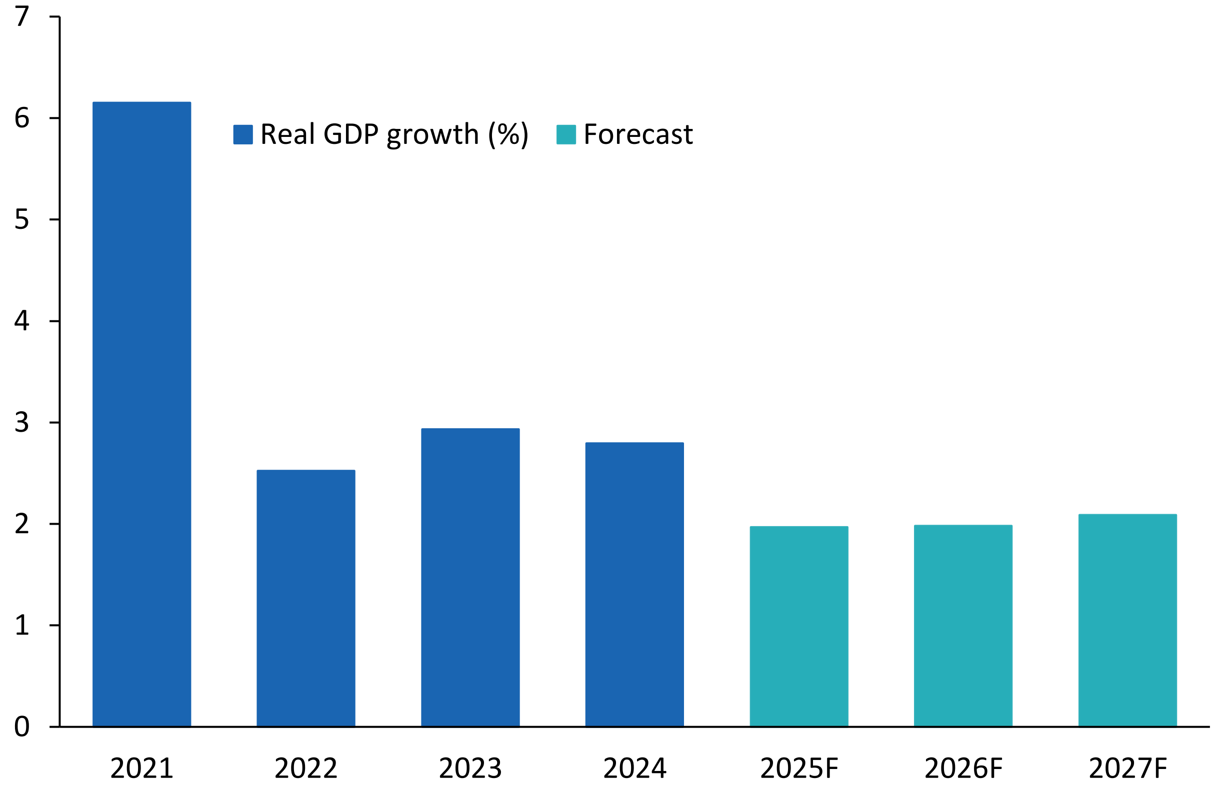
Structural issues—modest population growth due to slower immigration, low productivity tied to weak investment and elevated consumer debt—are expected to keep Canada's economic performance constrained in the near term. Real GDP is projected to grow by 1.5% in 2025 and 1.2% in 2026.

United States

Prince Owusu, senior economist

Stable outlook amid lingering headwinds

Percentage



The U.S. economy proved resilient through September 2025, with businesses using margins to absorb most of the tariff impact, allowing consumer spending to hold up. Real gross domestic product (GDP) growth for 2025 is forecasted at 2.5%, surpassing initial estimates made when tariffs were announced.

While domestic spending has remained firm, companies have been cautious about expanding their workforces, resulting in slower hiring. As profit margins narrow, some businesses have begun passing tariff-related costs to consumers, pushing prices higher. Inflation has climbed back to the upper end of the Federal Reserve's comfort zone and is expected to stay slightly above that level through mid-2026.

The Fed has signalled greater concern over rising unemployment than a temporary overshoot of its inflation target. With signs of weakness in the labour market, it’s expected to continue easing policy in early 2026 to support employment and growth.

Labour market softness stems from uncertainty created by tariffs and other policy changes. Although efforts to resolve trade disputes with major partners have advanced, uncertainty continues to weigh on the economy’s potential.

After four years of robust growth fuelled by record investment and strong consumer activity, real GDP is forecast to ease from a post-pandemic average of 3.6% to 2% in 2026-2027.

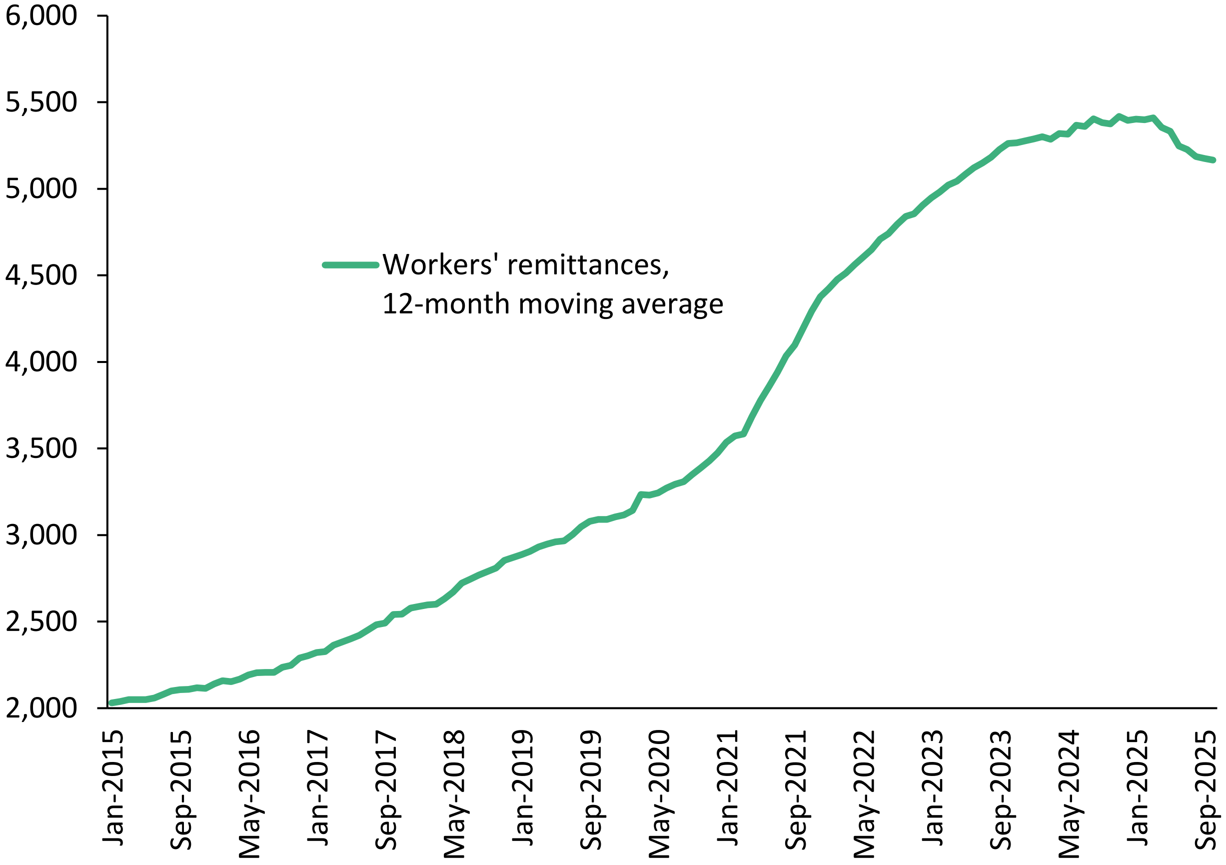
Source: Haver Analytics, EDC Economics

Mexico

Prince Owusu, senior economist

Modest growth expected for Mexico's economy in 2026

Mexico, workers' remittances, in millions of U.S. dollars, not seasonally adjusted



Source: Haver Analytics, EDC Economics

Mexico's economy continues to face challenges from U.S. tariffs, limiting growth prospects in 2026. After modest gains in the first half of 2025, the economy contracted in the third quarter.

A broad-based slowdown has taken hold: Business investment remains weak, consumer spending is subdued and export-dependent sectors face ongoing pressure. The government, constrained by limited fiscal flexibility, has cut spending at a time when additional support could help stabilize growth.

Investment has been restrained fortwo years amid concerns over governance and the rule of law, leading to delays and cancellations of planned projects. Domestic factors, combined with uncertainty surrounding tariffs and the upcoming Canada-United States-Mexico Agreement (CUSMA) review in summer 2026, have reinforced business caution. Reduced investment has translated into a weaker employment outlook.

Remittances—a key driver of household spending—have declined due to changes in U.S. migration enforcement. Legislated wage increases have provided some relief: In January, the minimum wage rose 12%, and another increase in January 2026 is likely to outpace inflation, supporting consumer purchasing power.

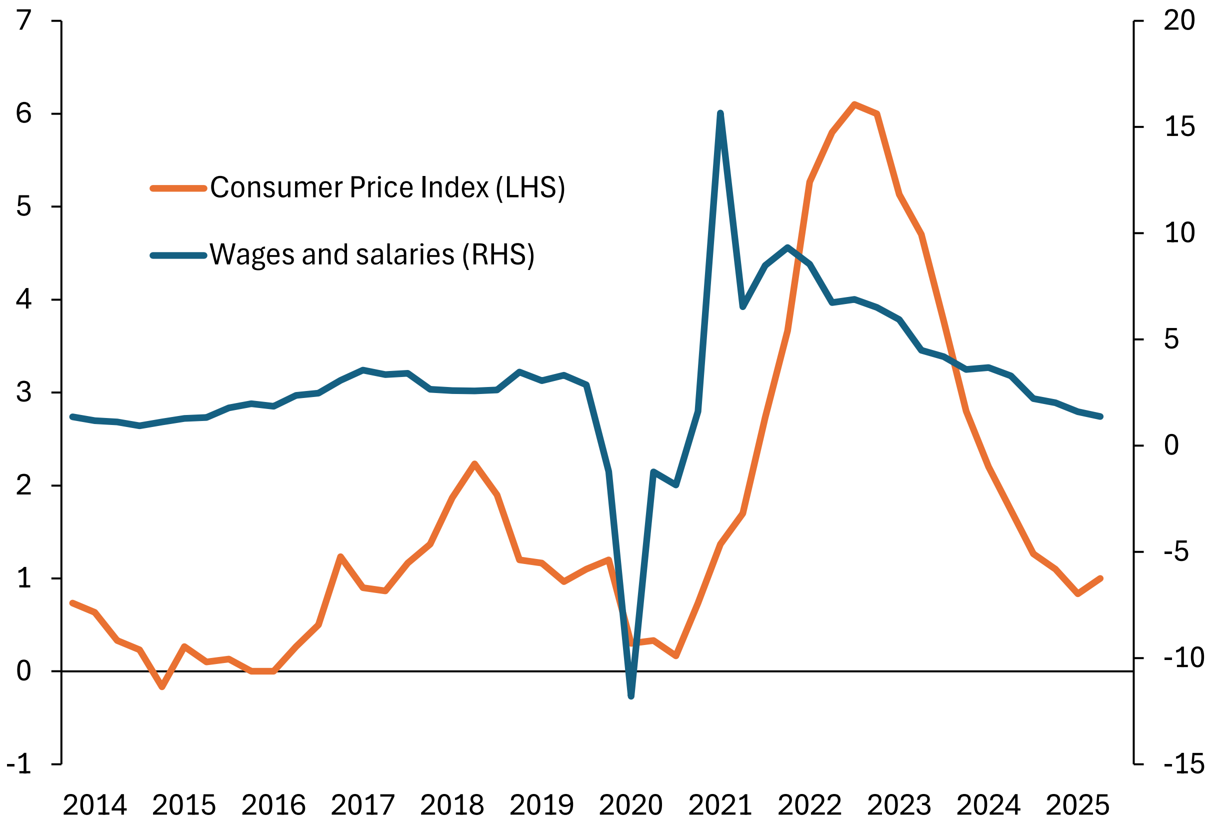
Inflation continues to trend lower and is projected to ease further in 2026. This, along with a softer labour market, should allow the Bank of Mexico to cut interest rates, offering relief to borrowers. However, further rate reductions could weigh on the peso, which is expected to weaken in 2026.

France

Sasan Fouladirad, country risk analyst

Households remain cautious despite better wages

Seasonally adjusted, year-over-year percentage change (%)



France's economy exceeded expectations in the third quarter of 2025, growing by 0.5% quarter over quarter. This growth was driven mainly by exports, with the aerospace sector making a notable contribution, while domestic demand continued to show weakness. Looking ahead, growth is forecast to remain subdued at 0.8% in 2025 and 0.9% in 2026, with a stronger pace of 1.1% expected in 2027.

Prime Minister Sébastien Lecornu is steering France through a contentious budget process in a divided parliament. The government's fiscal plan seeks more than €30 billion (C$44 billion) in savings, aiming to bring the deficit down to slightly less than 5% of gross domestic product (GDP) in 2026—a less ambitious target than the 4.6% deficit set by the former prime minister François. The lack of a clear majority has led to piecemeal votes on individual budget items, leaving the fiscal outlook uncertain.

Households remain cautious, with consumer confidence in November well below the long-term average. This persistent caution is reflected in weak major purchase intentions and historically high savings intentions, which will likely keep consumption subdued into 2026.

Business confidence edged up in November, driven by renewed optimism in the services sector, while manufacturing sentiment weakened further on soft order books. Private investment is expected to recover gradually as lower interest rates provide some support, but ongoing political uncertainty and fiscal tightening will remain drags.

A major boost to growth over the outlook will come from defence, as the government plans to raise the defence budget to €64 billion (C$94 billion) by 2027—three years ahead of schedule. This accelerated investment will create robust demand for the defence industry and is projected to contribute 0.2 percentage points to GDP growth in 2026.

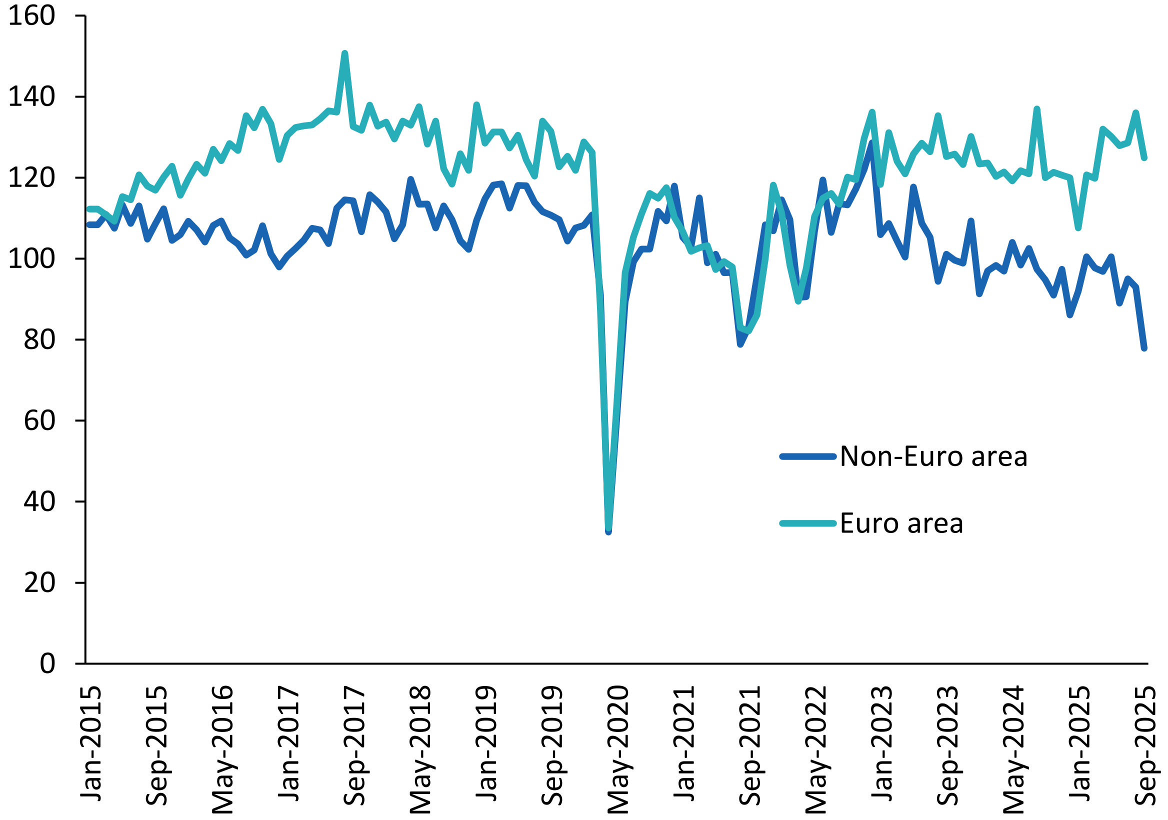
Sources: Institut National de la Statistique et des Etudes Economiques, Haver Analytics

Germany

Sasan Fouladirad, country risk analyst

Persistent economic weakness clouds Germany's outlook

Transport equipment sales volume, seasonally adjusted, 2021=100



Sources: Statistisches Bundesamt, Haver Analytics
2021=100 refers to indexed to 100 in 2021

Germany's economy recorded no growth in the third quarter of 2025 after a 0.2% contraction in the second. Persistent weakness in domestic demand and exports remains a key challenge. We forecast real GDP growth of 0.2% in 2025, rising gradually to 0.9% in 2026 and 1.6% in 2027.

The economic environment is mixed, but weakness dominates the outlook. Consumer sentiment shows only marginal improvement and remains deeply pessimistic. Households continue to prioritize savings over major purchases, limiting domestic demand and reinforcing a fragile outlook.

Business confidence reflects similar concerns. Manufacturers expect conditions to worsen over the next six months. Export sales continue to decline, underscoring the strain on Germany's trade-dependent economy.

External pressures are mounting for the manufacturing sector, which is highly exposed to global markets. The newly established European Union-U.S. trade framework has imposed 15% tariffs on a broad range of goods, directly hitting key export industries such as automobiles. At the same time, Chinese firms are expanding aggressively in advanced manufacturing segments like electric vehicles, batteries and clean technology machinery, adding competitive pressure for German producers.

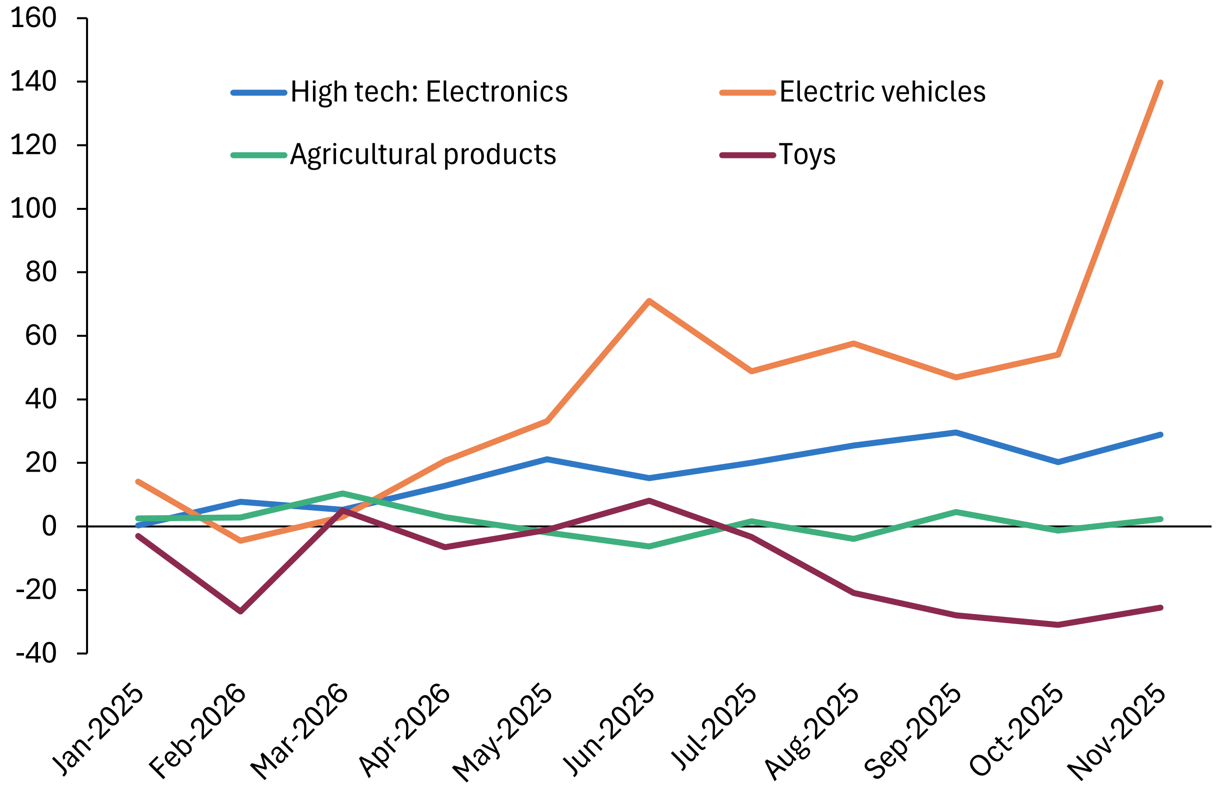
These headwinds are compounded by structural challenges at home: High energy costs, an aging population, labour shortages and chronic underinvestment in infrastructure, digital systems and public services. To counter these issues, the government announced a €500-billion investment program (about C$730 billion) to modernize infrastructure and accelerate climate-related projects, aiming to support growth from 2026 onward. However, the impact is expected to be weaker than projected because some funds has been redirected to operational and social spending, while bureaucratic delays have slowed implementation.

China

Susanna Campagna, principal country risk analyst

Exports hold firm as China faces deflation and tariff risks

Value of exports, flows, not seasonally adjusted, U.S. dollars
% change, year over year



Source: Haver Analytics

China is on track to meet its roughly 5% GDP growth target for 2025, supported by strong export resilience and ongoing diversification of export markets. While October data showed some cooling in exports, higher-value-added goods such as electronics and electric vehicles remained robust despite tariff uncertainty.

Customs data through November 2025 shows China achieved a record-setting goods trade surplus of $1.08 trillion, underscoring the strength of its exports and the country's shift toward advanced manufacturing and high-tech products. We forecast GDP growth at 4.8% for 2025, slowing to 4.3% in 2026.

Persistent deflation will remain a structural challenge in 2026. Despite targeted government efforts to support consumers, including childcare subsidies, weak domestic consumption continues to weigh on growth, hampered by a soft labour market and deepening property sector woes. The expanded "trade-in" subsidies program introduced in 2025 boosted retail sales and is expected to continue into 2026.

Looking ahead, China will keep investing heavily in advanced manufacturing and technology. The government's "anti-involution campaign" aims to curb overproduction and falling prices across industrial sectors that underpin the current deflationary trend, but meaningful progress will take time.

Upside risks to our previous forecast included the United States-China trade deal reached in November 2025, which helped ease tariff tensions. However, some tariffs were only suspended for one year. Concerns about semiconductors and advanced chips are likely to remain a source of friction well into 2026. Key downside risks include spillover from the property sector crisis into the financial system, an escalation of geopolitical tensions or new commodity-specific tariffs affecting Chinese exports.

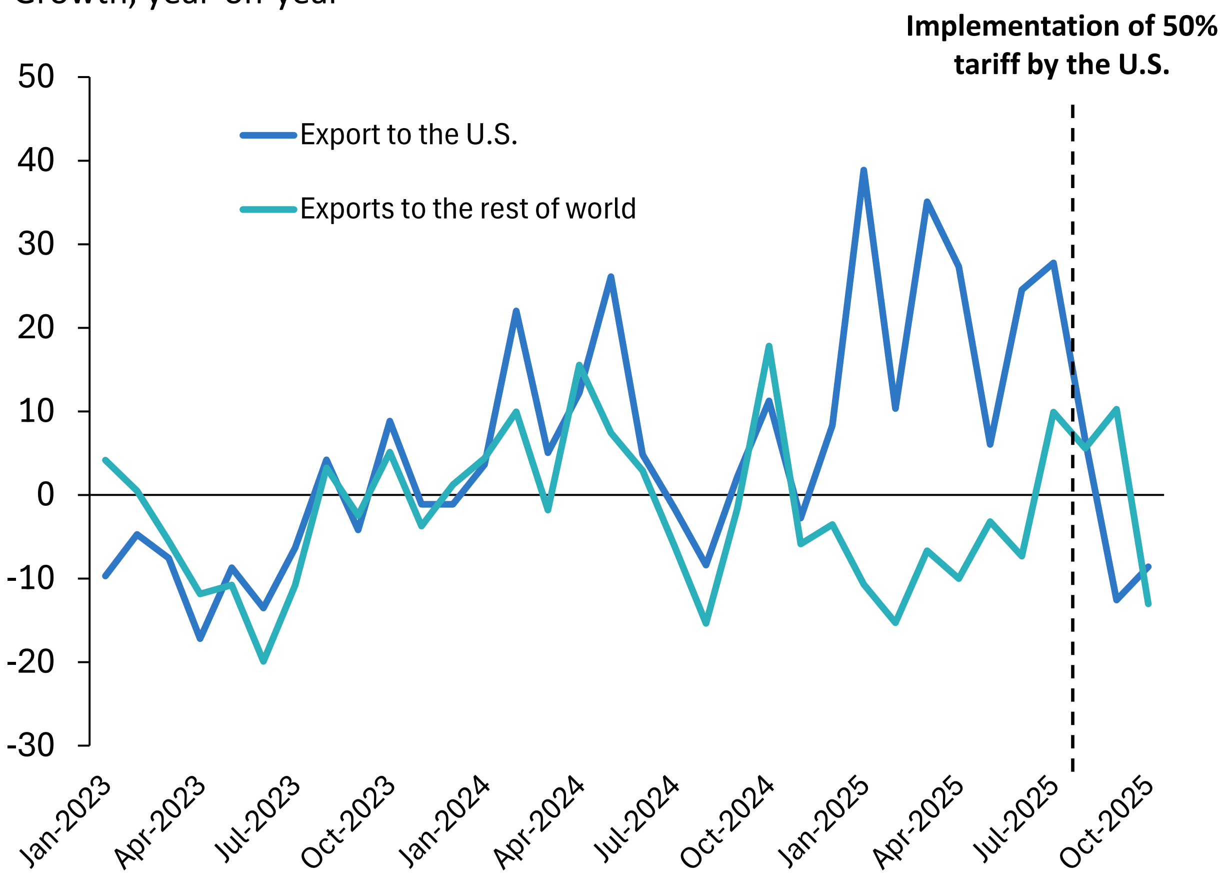
EDC

India

Nadeem Rizwan, senior economist

Merchandise exports at risk amid tariff uncertainty

Growth, year-on-year



Source: Ministry of Commerce and Industry, Reserve Bank of India, Haver Analytics

India's growth momentum remains resilient despite global trade uncertainty. EDC Economics has slightly revised our growth forecast upward to 6.6% for 2025 (fiscal 2026), reflecting strong performance in the second quarter. The forecast for 2026 (fiscal 2027) remains unchanged at 6.5%.

In the second quarter of 2025, corresponds to the first quarter of fiscal 2026, India's economy posted solid, broad-based gains. On a quarter-over-quarter, seasonally adjusted basis, private and government consumption led the way, supported by easing inflation and increased spending. Investment growth was moderate, while net trade dragged on growth as imports outpaced exports.

Growth momentum is expected to hold. Private consumption—the primary driver of growth—is likely to remain stable, supported by low inflation and simplification of the goods and services tax (GST). Public sector capital spending will continue to play a key role, while private investment is expected to stay subdued amid global economic uncertainty and weak external demand. Government consumption should remain steady.

Elevated U.S. tariffs on Indian goods are expected to dampen merchandise exports, but the impact will likely be contained given India's relatively low reliance on goods trade. Meanwhile, service exports—particularly to the U.S.—are expected to remain robust, providing continued support to overall export performance.

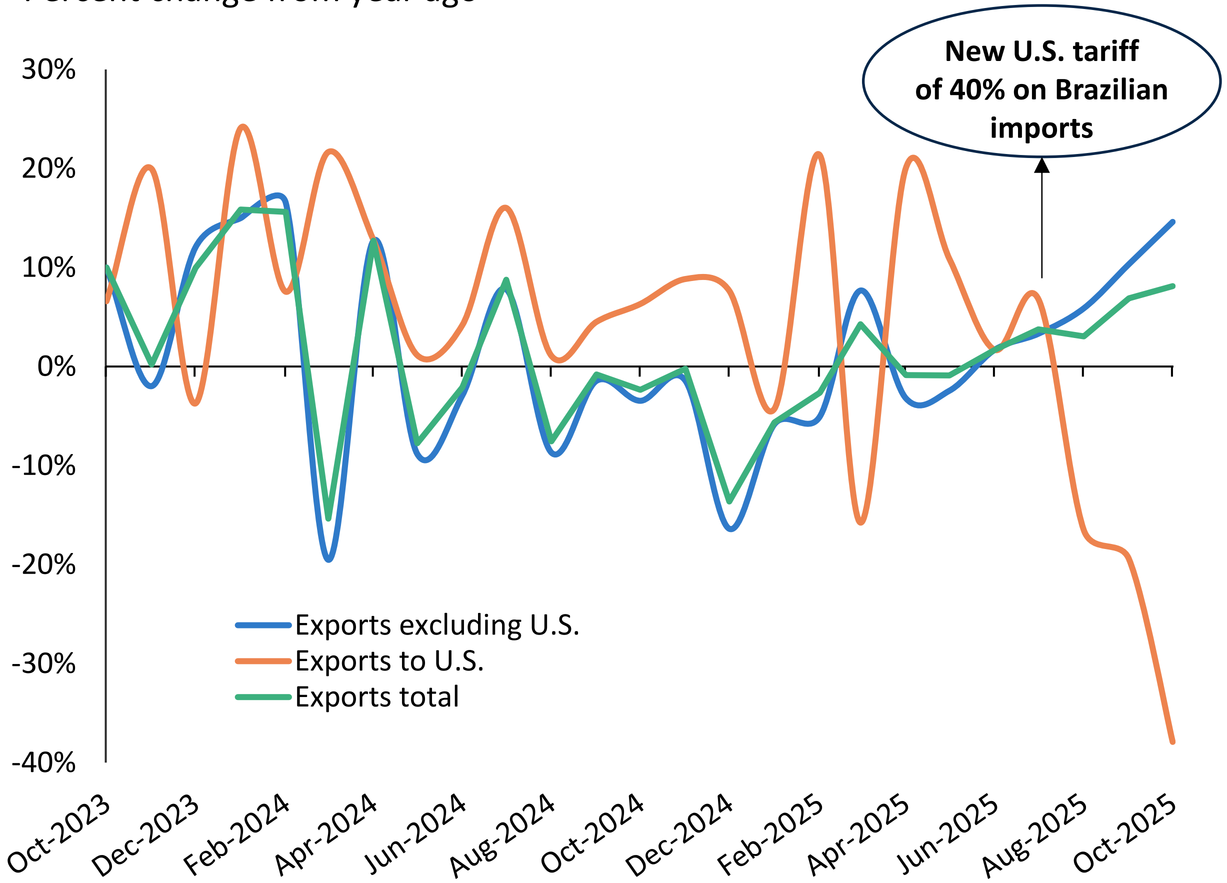
Renewed inflationary pressures from domestic or external factors pose a downside risk. Conversely, a swift resolution of tariff-related uncertainties could present an upside risk.

Brazil

Daniel Benatuil, senior country risk analyst

Brazilian exports weather tariff storm with resilience

Percent change from year ago



Sources: Brazilian Ministry of Industry, Foreign Trade and Services, Haver Analytics, EDC Economics
Data are nominal values for merchandise products

Brazil's economy is forecast to have grown by 2.5% in 2025 before moderating to 1.9% in 2026 and 2% in 2027. The slowdown will be cushioned by resilient domestic and external demand and a more supportive macroeconomic policy backdrop.

The central bank's restrictive monetary policy stance is slowing credit and dampening demand after years of above-potential growth. Activity remains uneven and driven mainly by income-sensitive services and export-oriented sectors, with softer momentum among interest-rate sensitive sectors such as capital-intensive industry and investment. As inflation moderates, the expected central bank pivot to interest rate cuts in early 2026 will bring a welcome respite to business investment.

Brazil's status as a global exporting powerhouse affords it resilience to external shocks. While the La Niña weather pattern will likely preclude a new record harvest, the 2025-2026 soybean crop is forecast to push new highs, boosting supply-chain services and exports given robust global demand. The hit to exports from the 40% U.S. tariff is being limited by the low bilateral exposure and broad product exemptions, while continued export growth reflects an effective diversification strategy.

Consumer spending resilience will be supported by a stellar labour market performance as the unemployment rate hits new record lows; in fact, the *Misery Index*, which combines the unemployment rate and inflation rate, has fallen below 10% for the first time in decades. However real wage growth is slowing and labour market data is softening from overheated levels. Several support measures, including the new income tax exemption for earnings up to five times the minimum wage as well as large court-ordered government debt repayments, will cushion private spending and help mitigate persistent households balance sheet weakness.

Polarized general elections in late-2026 add policy uncertainty amid ongoing concerns over rising public debt and fiscal sustainability risks.

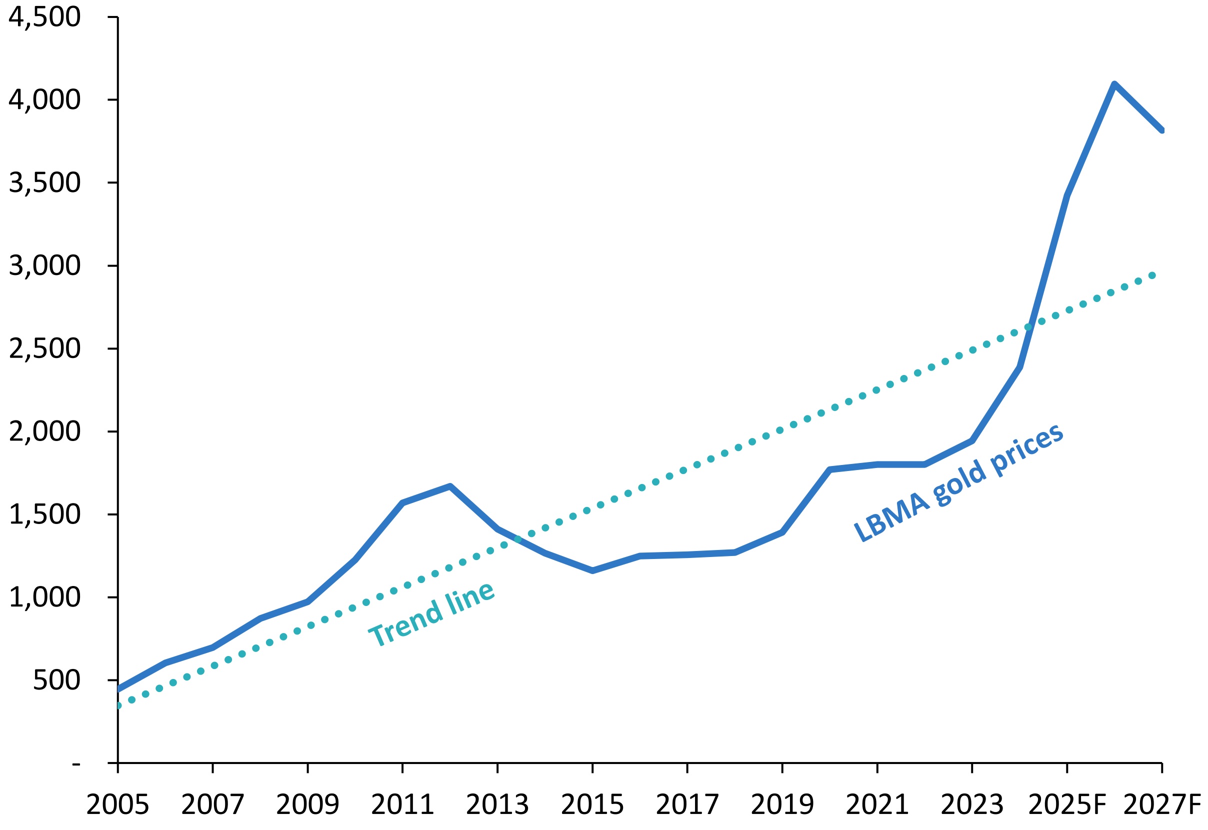
COMMODITY OUTLOOKS

Gold

Karicia Quiroz, economist

Gold prices hit record highs, new peak expected in 2026

Gold price (US$ per troy ounce)



Sources: Haver Analytics, World Gold Council. EDC Economics.
LBMA = London Bullion Market Association. F = forecast.

Gold prices have reached new heights, with monthly average prices in the last quarter of 2025 surpassing US$4,000 per troy ounce for the first time. We expect gold to average US$4,096 per troy ounce in 2026 and US$3,816 in 2027.

Several factors are driving this surge, particularly geopolitical and U.S. trade policy uncertainty. Investment demand—through exchange-traded funds, bars and coins—is now the largest contributor to overall gold demand, based on the latest quarterly data. Gold's role as an inflation hedge adds to its appeal amid ongoing inflation concerns.

Safe-haven demand will keep prices elevated in 2026, reaching a record US$4,096, supported by two expected Federal Reserve rate cuts. However, record prices have begun to weigh on other demand components, including jewelry (historically the leading contributor) and central bank gold purchases. Jewelry demand declined in 2025 through the first three quarters compared to the same period a year ago—a drop of 20% year-over-year. While central bank demand remains above historical levels, recent data also shows that central banks have been adding less gold to their portfolios in 2025. Easing U.S. trade policy uncertainty in 2026 is expected to reduce investment demand.

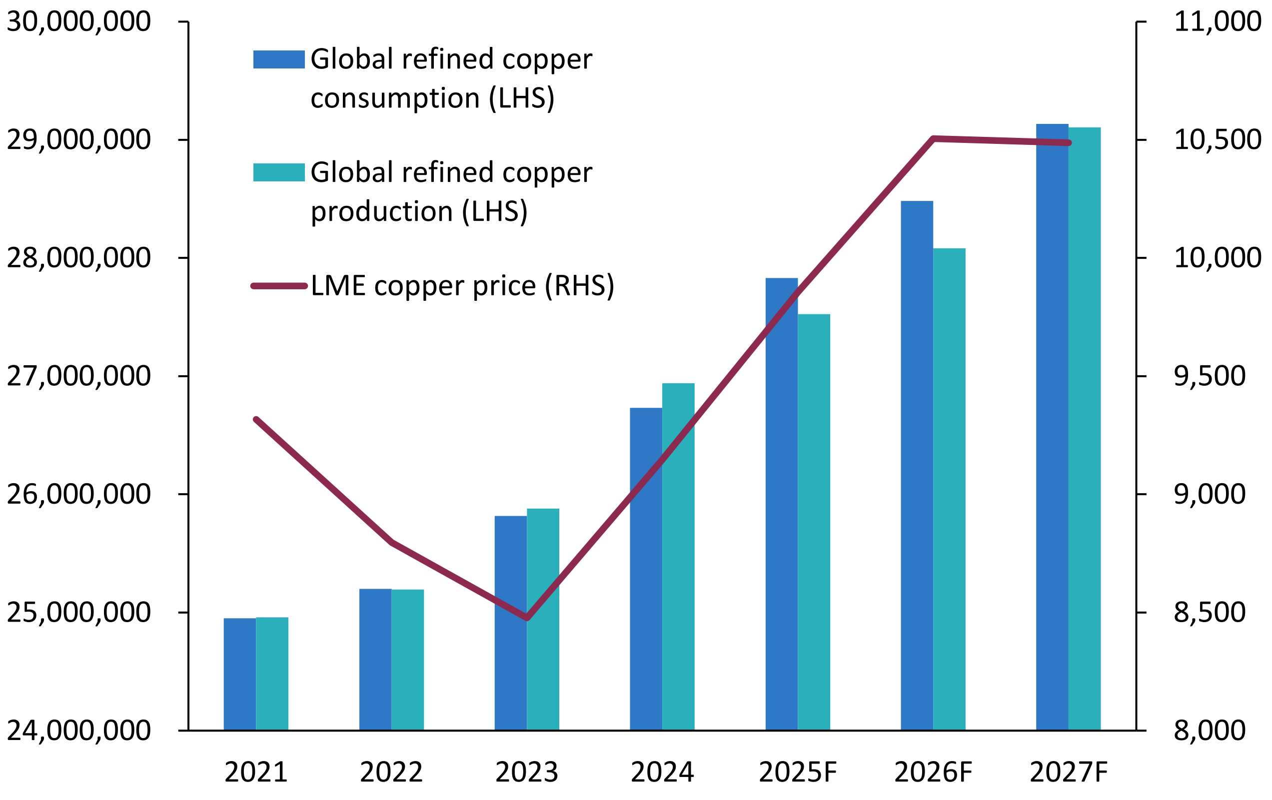
Gold begins its price correction by late 2026, and we expect the price to fall to US$3,816 by 2027. At that point, jewelry demand is likely to regain its position as the top contributor to overall gold demand.

Copper

Karicia Quiroz, economist

Supply shortages and global dynamics drive record prices

Tonnes; US$ per metric tonne



U.S. trade policy uncertainty and global supply shortages are driving up copper prices in 2025 and 2026. We expect copper to reach new annual price records of US$10,505 per tonne in 2026 and US$10,488 per tonne in 2027.

Last year was marked by major copper supply disruptions—including at PT Freeport's Grasberg mine in Indonesia, the world's second-largest copper mine. Amid supply shortages, uncertainty on the U.S. copper tariffs (before and after President Donald Trump's August announcement) has led to a surge in U.S. imports of refined copper from January-August 2025. This pushed the U.S.-based Commodity Exchange (COMEX) copper price to a higher-than-average premium over the London Metal Exchange (LME) benchmark.

With a growing share of global copper inventories, U.S. traders are likely to continue this trend into early 2026, straining global supplies. Some estimates suggest the U.S. could take 90% of global copper inventories by the first quarter of 2026. Record-low or negative copper processing fees, driven by ore shortages and China's smelting overcapacity, have prompted China's top smelters to plan a 10% production cut in 2026.

Shortage concerns heading into 2026, combined with uncertainty over the U.S. copper tariff review, will keep prices elevated. However, slower copper demand growth in China—due to a weaker property sector—will weigh on price gains, despite China's leadership in electric vehicles (EVs) and renewables. Copper prices are expected to fall in 2027 as new mined supply comes online.

Sources: Wood Mackenzie's November 2025 short-term outlook, Haver Analytics, EDC Economics

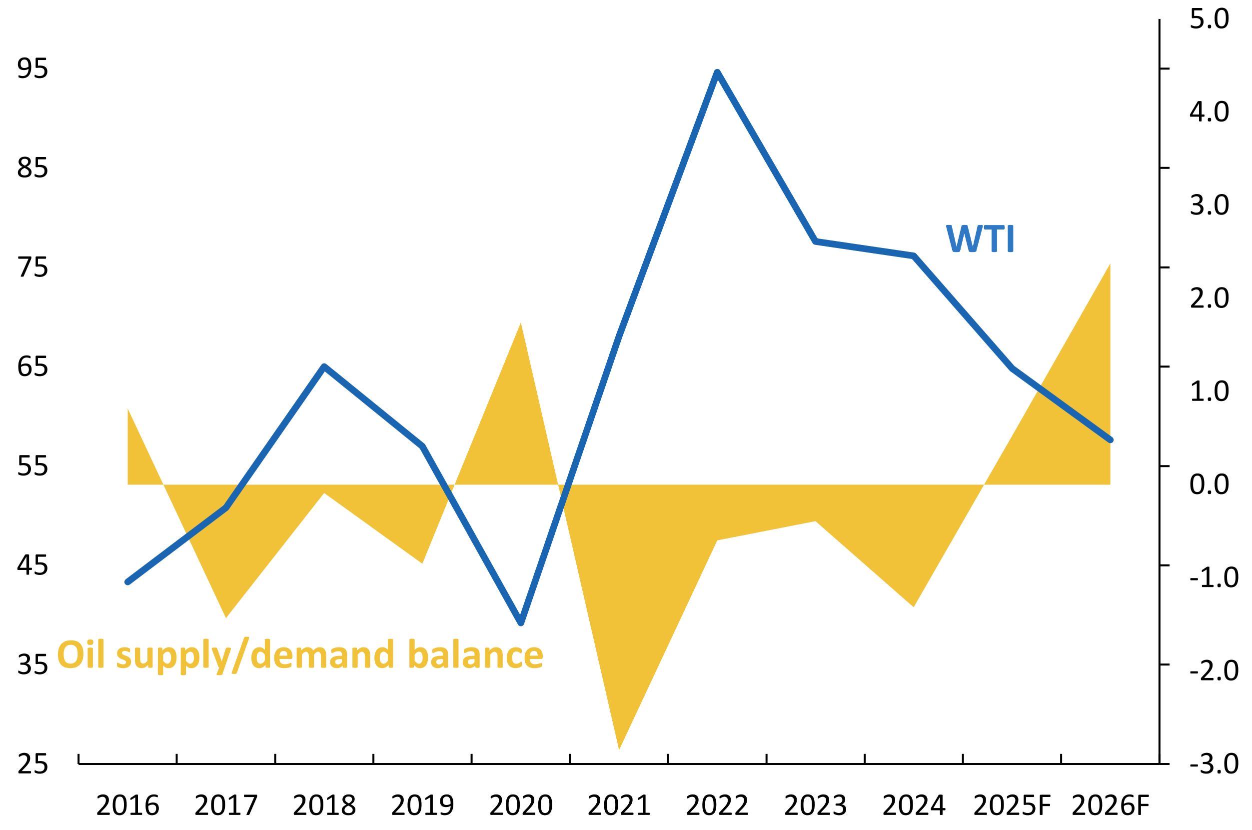
EDC

Oil

Zhenzhen Ye, economist

Oil prices slide amid oversupply and weak demand

LHS: US$ per barrel, RHS: million barrels per day



Source: Haver Analytics
Note: WTI = West Texas Intermediate. F=Forecast

Entering the fourth quarter of 2025, global demand remains sluggish and the market is oversupplied. Crude oil prices have fallen by about 18% year-to-date, averaging around US$65 per barrel.

On the demand side, both the Organisation for Economic Co-operation and Development (OECD) and non-OECD countries—including major consumers such as China, India and Brazil—have faced challenges from tariff wars and weakening macroeconomic conditions. On the supply side, while producing above production quota, OPEC+ (the Organization of the Petroleum Exporting Countries and its allies) has produced above quota and restored nearly three million barrels per day of capacity from previous cuts. Meanwhile, non-OPEC+ countries such as the U.S., Canada and Guyana have added to the supply surge, with almost 1.7 million barrels per day of new crude capacity coming online across 15 projects in seven countries since January 2025 (IEA, November 2025).

In 2026, the oil market is expected to move into a significant surplus, driven by further increases in OPEC+ output, continued production growth from non-OPEC+ countries and subdued global economic growth. This is likely to put additional downward pressure on prices.

A major uncertainty is the impact of recent European and U.S. sanctions on Russian crude oil. On Oct. 22, 2025, the U.S. imposed new sanctions on Rosneft and Lukoil, Russia's two largest oil producers, marking the most significant escalation in western sanctions since late 2022. The European Union's latest round of sanctions also set a Jan. 21, 2026, deadline prohibiting imports of refined products derived from Russian crude. While it's too early to assess the full impact of these measures, any potential upward pressure on oil prices is expected to be cushioned by OPEC+'s remaining spare capacity.

EDC FORECASTS

Annual real GDP growth

Global Economic Outlook (Annual % change)	**2024**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**
Developed countries	**1.8**	**1.6**	**1.6**	**1.8**	**1.9**	**1.9**
Canada	2	1.5	1.2	2.5	2.2	1.8
United States	2.8	2	2	2.1	2.3	2.5
Eurozone	0.8	1.4	1	1.4	1.4	1.4
Germany	-0.5	0.2	0.9	1.6	1.4	1.3
France	1.1	0.8	0.9	1.1	1.3	1.3
Developing countries	**4.3**	**4.1**	**4.2**	**4.3**	**4.1**	**3.9**
China	5	4.8	4.3	4.6	4.3	3.9
India	6.5	7.6	6.8	6.4	6.1	5.9
Brazil	3	2.5	1.9	2	2	2
Mexico	1.2	0.7	1.3	2	2	2
World	**3.3**	**3.0**	**3.1**	**3.2**	**3.2**	**3.1**

Note: F denotes the forecast period. India's forecast based on fiscal year (2024 FY = Q2 2023 – Q1 2024, 2025 FY = Q2 2024 – Q1 2025). Red indicates negative values.
Source: EDC Global Economic Outlook

Currencies and interest rates

Global Economic Outlook		2024	2025F	2026F	2027F	2028F	2029F
Currencies	**Exchange rate**						
U.S. dollar	US$ per C$	$0.73	$0.71	$0.72	$0.74	$0.75	$0.77
Euro	US$ per EUR	$1.08	$1.13	$1.18	$1.18	$1.18	$1.18
Euro	C$ per EUR	$1.48	$1.58	$1.64	$1.61	$1.57	$1.53
Interest rates, annual average							
Bank of Canada *(Overnight target rate)*		4.55	2.71	2.25	2.3	2.73	2.75
U.S. Federal Reserve *(Fed funds target rate–mid-point)*		5.19	4.25	3.41	3.12	3.13	3.12
European Central Bank *(Policy interest rate)*		4.14	2.41	2.15	2.15	1.75	1.75

Note: F denotes the forecast period.
Source: *EDC Global Economic Outlook*

Commodity prices

Global Economic Outlook	2024	2025[F]	2026[F]	2027[F]	2028[F]	2029[F]
Brent Crude Spot, *US$/barrel (bbl)*	$80.5	$69.0	$64.1	$66.3	$68.2	$69.9
West Texas Intermediate, *US$/bbl*	$76.1	$64.8	$57.6	$62.2	$64.7	$66.4
Western Canada Select, *US$/bbl*	$61.7	$54.5	$48.6	$50.8	$52.7	$54.4
Gold, *US$/troy ounce*	$2,387	$3,424	$4,096	$3,816	$3,544	$3,129
Copper, *US$/tonne*	$9,148	$9,856	$10,505	$10,488	$10,788	$10,681

Note: [F] denotes the forecast period.
Source: EDC Global Economic Outlook

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