

WEEKLY COMMENTARY

Trade War: From Wait-and-See to Difficult Decisions

By Jimmy Jean, Vice-President, Chief Economist and Strategist

Since the start of the trade war, Canadian businesses have been trying to navigate an environment where the goalposts can move with little warning. From spring 2025 to early 2026, many adopted a wait-and-see approach. Why overhaul supply chains or shift to other markets if negotiations with the US administration could still produce an agreement? That approach seemed entirely rational, especially since a similar scenario had played out during Trump's first term.

By early 2026, however, the mood appeared to be shifting. The prospects for an agreement remained uncertain, but businesses seemed to be growing more accustomed to the uncertainty. Some gradually resumed projects they had previously put on hold. The Bank of Canada's Business Outlook Survey showed that in the first quarter of 2026, sales outlooks improved for a third consecutive quarter, while investment intentions reached their highest level since the trade turmoil began. The picture remained uneven, particularly between businesses directly exposed to tariffs and those that were not. Sentiment also deteriorated somewhat starting in the second quarter, this time because of higher energy costs associated with the war in Iran. Still, by the first half of the year, many businesses appeared to be finding their footing.

Then came August. The suspension of trade negotiations between Ottawa and Washington, followed by new US tariffs of 50% on approximately \$27.6B of Canadian products on August 22, dealt another major blow to hopes for a relatively favourable resolution to the trade dispute. Unlike several earlier measures, the new tariffs did not include a carveout for products compliant with the

Canada–United States–Mexico Agreement (CUSMA), catching affected exporters by surprise. Canadian counter-tariffs that took effect on September 8 then added further cost pressures for some importers. The latest tariffs affect products representing only about 5% of Canadian exports, but their significance extends beyond the goods directly targeted. If businesses increasingly view the deterioration in Canada–US trade relations as lasting rather than temporary, some may finally make decisions they had previously been willing to postpone.

Initial Signs That Businesses Are Adjusting

It's still too early to assess the full impact of this latest chapter, but the initial signals aren't especially encouraging. In September, the Canadian Federation of Independent Business's Business Barometer® long-term index fell 10 points to 47.9. Its short-term optimism index posted a similar decline. Pessimism was particularly pronounced among exporters, whose index stood at just 38.6. It would be premature to attribute all of this deterioration to the trade war, especially given the current high energy costs. Still, the gap between internationally active businesses and those focused on the domestic market points to the particular challenges facing exporters.

The employment data also bear watching. After shedding 42,000 jobs in August, the Canadian economy lost another 68,000 positions in September. Although the latest monthly decline was largely concentrated in utilities, manufacturing shed 13,000 jobs and has lost more than 40,000 positions since January 2025. We'll need to keep a close eye on hours worked in the industries most exposed to US trade (graph 1 on page 2).

CONTENTS

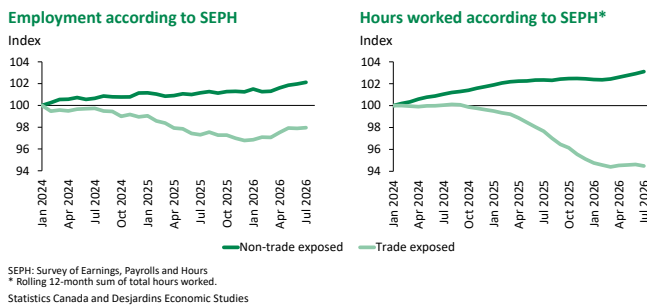
Musing of the Week.....	1	What to Watch For.....	4	Economic Indicators.....	6
-------------------------	---	------------------------	---	--------------------------	---

Jimmy Jean, Vice-President, Chief Economist and Strategist • Randall Bartlett, Deputy Chief Economist
 Benoit P. Durocher, Director and Principal Economist • Royce Mendes, Managing Director and Head of Macro Strategy
 Mirza Shaheryar Baig, Foreign Exchange Strategist • Marc-Antoine Dumont, Senior Economist • Tiago Figueiredo, Macro Strategist
 Francis Généreux, Lead Economist • Florence Jean-Jacobs, Principal Economist • Kari Norman, Senior Economist • Sonny Scarfone, Principal Economist
 Oskar Stone, Macro Strategy Associate • LJ Valencia, Economist

Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively. **IMPORTANT:** This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. Data on prices and margins is provided for information purposes and may be modified at any time based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. Unless otherwise indicated, the opinions and forecasts contained herein are those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2026, Desjardins Group. All rights reserved.

Graph 1
Tariffs Take a Toll on the Jobs Market



Businesses often reduce overtime or shifts before resorting to layoffs, so a sustained decline could point to further weakness ahead.

Price intentions among small and medium-sized businesses are another warning sign. According to the CFIB, planned price increases rose from 2.6% in August to 3.3% in September. Again, several factors are at play. But counter-tariffs are adding to the pressures facing some businesses, leaving them to absorb the higher costs through narrower margins or pass them on to their customers. The trade shock could therefore squeeze businesses from both sides, restricting access to some markets while raising the cost of doing business.

The Risk of Quietly Eroding Economic Potential

Beyond these initial data, a broader question is emerging: Are businesses moving from a wait-and-see approach to making more lasting adjustments? As long as a rapid normalization of trade relations remained plausible, maintaining existing capacity while waiting for conditions to improve was a reasonable strategy. But the longer trade tensions persist, the more businesses must consider the possibility that a less favourable trading environment is here to stay.

These adjustments can take very different forms. Some businesses will diversify their export markets or suppliers, or invest to refocus their operations. Others will cut production, postpone or cancel expansion projects, or consider closing facilities. In other words, moving from wait-and-see to adaptation doesn't necessarily signal better days ahead. In some cases, adapting may mean permanently scaling back operations.

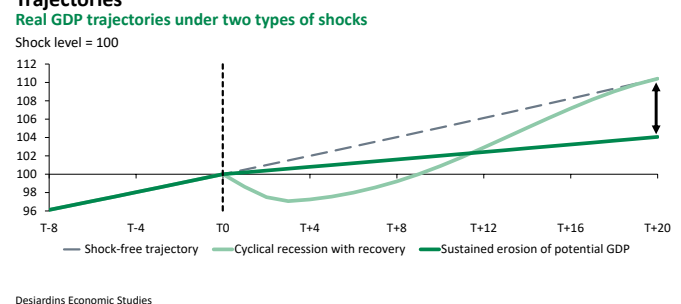
That's why it's important to focus on the structural effects of the trade shock rather than getting bogged down in the debate over whether Canada will enter a recession. Tariffs directly affect a relatively limited share of economic activity, while other forces, particularly strong energy-sector revenues, public spending and the resilience of several service industries, may continue

to support growth. But avoiding a recession doesn't mean the economy will emerge from the trade conflict unscathed.

In a typical cyclical recession, weaker demand causes economic activity to contract and unemployment to rise. If productive capacity remains largely intact, supportive fiscal and monetary policy can help the economy recover and move back toward its previous trajectory. The challenge is different when factories close permanently, equipment loses its economic utility or investments are abandoned. Workers and capital can be redeployed elsewhere, but that process takes time and can involve losses in efficiency. The result may be lasting damage to the economy's productive capacity, well beyond the just over 18 months that the average recession and subsequent recovery lasts.

The economic consequences could therefore be significant even if GDP never declines. Consider an economy that would otherwise grow by about 2% a year. If its growth rate were permanently reduced to 1%, the economy could suffer a substantial loss without ever contracting. After five years, its output would be nearly 5% below where it otherwise would have been (graph 2). Unlike a cyclical slowdown, that lost ground cannot simply be recovered by cutting interest rates.

Graph 2
Recession or Loss of Potential: Two Very Different Economic Trajectories



In its January projections, the Bank of Canada estimated that Canadian GDP at the end of 2026 would be approximately 1.5% lower than it had projected before the trade war in January 2025. About half of that shortfall was attributed to lower potential output rather than simply weaker demand. In other words, even before the latest tariff escalation, some of the damage was already expected to be structural.

That's why the decisions businesses make today may ultimately matter as much as the next set of GDP figures. As we highlighted in our [Economic Viewpoint](#) published yesterday, diversification and productivity-enhancing investments could help preserve,

or even strengthen, some of Canada's productive capacity. But these transformations take time, and their benefits won't necessarily offset losses elsewhere. Conversely, every investment that is abandoned and every production facility that closes permanently can make it harder for the economy to return to its previous trajectory.

August may therefore have marked a turning point in how Canadian businesses respond to the trade war. More data will be needed to determine whether the wait-and-see approach is truly giving way to more structural decisions, as well as how governments adapt their [support measures](#) for affected businesses. But one thing is clear: the ultimate economic cost of the trade war won't be measured simply by whether Canada enters a recession. Above all, it will depend on what Canadian businesses are still capable of producing years from now.

What to Watch For

TUESDAY October 20 - 8:30

September	ann. rate
Consensus	1,300,000
Desjardins	1,335,000
August	1,275,000

MONDAY October 19 - 8:30

September	m/m
Consensus	0.2%
Desjardins	0.0%
August	-0.1%

FRIDAY October 23 - 8:30

August	m/m
Consensus	1.2%
Desjardins	1.3%
July	-0.7%

SUNDAY October 18 - 22:00

Q3 2026	y/y
Consensus	4.4%
Q2 2026	4.3%

UNITED STATES

Housing starts (September) – In August, housing starts fell for the second straight month. At 1,275,000 units on an annualized basis, new builds remain relatively low, down 7.9% from the start of the year. However, housing starts likely increased in September. The strongest positive signal is the number of building permits issued, which remains well above the number of housing starts. Employment and hours worked in residential construction have also risen in recent months, including in September. Another promising sign is that in August, new single-family home sales reached their year-to-date peak. That said, the large number of properties for sale, rising mortgage rates, weak builder confidence and the decline in mortgage applications for home purchases don't exactly bode well. Any rebound in September would likely be fleeting.

CANADA

Consumer price index (September) – Headline inflation is expected to have held at an elevated 3.0% despite the potential for a flat month-over-month reading. Gasoline prices rose to their highest level since May, and persistently elevated energy costs could increasingly feed through to other inflation categories in the months ahead. The Bank of Canada's preferred core measures are expected to have remained near 2.0%, suggesting underlying inflation pressures remain contained. With energy continuing to drive much of the headline strength, its persistence will be key to the Bank's assessment of the inflation outlook and to market expectations for near-term rate hikes.

Retail sales (August) – Retail sales probably increased by 1.3% m/m in August, in line with Statistics Canada's preliminary flash figure. After falling in July, sales of gasoline likely recovered in August, driven by volumes as seasonally adjusted prices edged down. Motor vehicle and parts dealerships probably registered an increase in sales, with both volumes and prices likely perking up on a seasonally adjusted basis. Meanwhile, core sales—which exclude automotive and gasoline receipts—are expected to have advanced. Continued strength in domestic and international tourism may have supported retail spending during the month. For September's flash, we expect a further increase in retail sales, albeit a more modest one than in August. The sharp rise in gasoline prices likely boosted nominal sales at gasoline stations. Auto receipts possibly moved sideways, while core sales may have declined as higher fuel costs eroded households' purchasing power. Slower population growth and job losses in August and September may also have weighed on spending. Looking ahead, household consumption should continue to support Canadian economic growth, although performance is likely to vary considerably across provinces and regions. Moreover, any new spike in petroleum product prices due to the Middle East conflict would weaken consumer confidence and constrain spending on other retail categories.

OVERSEAS

China: Real GDP (Q3) – Chinese real GDP growth may have picked up slightly during the third quarter, following a 0.9% quarterly increase in the spring. Strong exports, especially in the tech sectors, and a fresh round of fiscal stimulus likely helped partly offset persistently weak domestic demand. That said, consumer spending remains subdued, investment is still sluggish and the correction in the property market continues to weigh on activity and undermine business and consumer confidence. The quarter was also marked by a rebound in energy prices and weak Chinese demand for oil. China's economy has proven fairly resilient to the energy shock so far, but there may yet be a downside surprise when real GDP data are released.

FRIDAY October 23 - 4:00

October

Consensus

52.6

September**53.1**

Eurozone: Composite PMI (October – preliminary) – The eurozone’s composite PMI is expected to remain in expansion territory in October, after advancing from 52.0 in August to a three-and-a-half-year high of 53.1 in September. Gains in new orders and exports, coupled with expansion in both manufacturing and services, should continue to support activity. However, growth may cool slightly as business confidence remains muted and rising energy costs intensify price pressures.

Economic Indicators

Week of October 19 to 23, 2026

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 19	10:00	NAHB Housing Market Index	Oct.	31	n/a	32
TUESDAY 20	8:30	Housing starts (ann. rate)	Sep.	1,300,000	1,335,000	1,275,000
	8:30	Building permits (ann. rate)	Sep.	1,385,000	1,380,000	1,403,000
	10:00	Pending home sales (m/m)	Sep.	0.0%	n/a	0.3%
WEDNESDAY 21	---	---				
THURSDAY 22	8:30	Initial unemployment claims	Oct. 12–16	200,000	199,000	199,000
	10:00	Leading indicator (m/m)	Sep.	-0.1%	0.0%	-0.1%
FRIDAY 23	10:00	University of Michigan consumer sentiment index – final	Oct.	46.3	46.3	46.3
CANADA						
MONDAY 19	8:30	Consumer price index				
		Total (m/m)	Sep.	0.2%	0.0%	-0.1%
		Total (y/y)	Sep.	3.2%	3.0%	3.0%
	11:30	Release of the Bank of Canada's Business Outlook Survey				
	---	Alberta referendum				
TUESDAY 20	---	---				
WEDNESDAY 21	---	---				
THURSDAY 22	8:30	Industrial product price index (m/m)	Sep.	n/a	0.8%	1.3%
	8:30	Raw materials price index (m/m)	Sep.	n/a	2.9%	3.1%
FRIDAY 23	8:30	Retail sales				
		Total (m/m)	Aug.	1.2%	1.3%	-0.7%
		Excluding automobiles (m/m)	Aug.	1.1%	1.0%	-0.7%
SATURDAY 24	---	British Columbia election				

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of October 19 to 23, 2026

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
SUNDAY 18							
China	22:00	Real GDP	Q3	0.9%	4.4%	0.9%	4.3%
China	22:00	Industrial production	Sep.		5.5%		5.2%
China	22:00	Retail sales	Sep.		0.5%		0.4%
MONDAY 19							
Japan	0:30	Tertiary Industry Activity Index	Aug.	-0.4%		0.4%	
TUESDAY 20							
United Kingdom	2:00	ILO unemployment rate	Aug.	4.9%		4.9%	
Germany	2:00	Producer price index	Sep.	1.6%	6.3%	1.1%	4.6%
Eurozone	4:00	Current account (€B)	Aug.	n/a		27.6	
Italy	4:00	Current account (€M)	Aug.	n/a		7,384	
Eurozone	5:00	Construction	Aug.	n/a	n/a	0.0%	-2.0%
Germany	5:00	ZEW Current Conditions Survey	Oct.	-44.5		-47.1	
Germany	5:00	ZEW Expectations Survey	Oct.	30.0		34.7	
Japan	19:50	Trade balance (¥B)	Sep.	-216.7		-840.6	
WEDNESDAY 21							
South Korea	---	Bank of Korea meeting	Oct.	3.00%		3.00%	
United Kingdom	2:00	Consumer price index	Sep.	0.3%	3.4%	0.5%	3.1%
United Kingdom	2:00	Producer price index	Sep.	0.6%	4.4%	0.7%	3.7%
THURSDAY 22							
France	2:45	Business confidence	Oct.	96		96	
France	2:45	Production outlook	Oct.	n/a		-9	
Eurozone	10:00	Consumer confidence – preliminary	Oct.	-17.0		-16.5	
United Kingdom	19:01	Consumer confidence	Oct.	-15		-13	
Japan	19:30	Consumer price index	Sep.		2.1%		1.9%
FRIDAY 23							
United Kingdom	2:00	Retail sales	Sep.	-0.1%	1.0%	0.5%	2.4%
France	3:15	Composite PMI – preliminary	Oct.	50.3		51.1	
France	3:15	Manufacturing PMI – preliminary	Oct.	50.5		50.6	
France	3:15	Services PMI – preliminary	Oct.	50.9		51.2	
Germany	3:30	Composite PMI – preliminary	Oct.	53.5		53.8	
Germany	3:30	Manufacturing PMI – preliminary	Oct.	53.5		53.9	
Germany	3:30	Services PMI – preliminary	Oct.	52.5		52.9	
Eurozone	4:00	Composite PMI – preliminary	Oct.	52.6		53.1	
Eurozone	4:00	Manufacturing PMI – preliminary	Oct.	52.7		52.9	
Eurozone	4:00	Services PMI – preliminary	Oct.	52.5		53.0	
United Kingdom	4:30	Composite PMI – preliminary	Oct.	51.8		52.0	
United Kingdom	4:30	Manufacturing PMI – preliminary	Oct.	51.8		51.9	
United Kingdom	4:30	Services PMI – preliminary	Oct.	51.8		52.1	
Russia	6:30	Bank of Russia meeting	Oct.	14.00%		14.00%	

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).