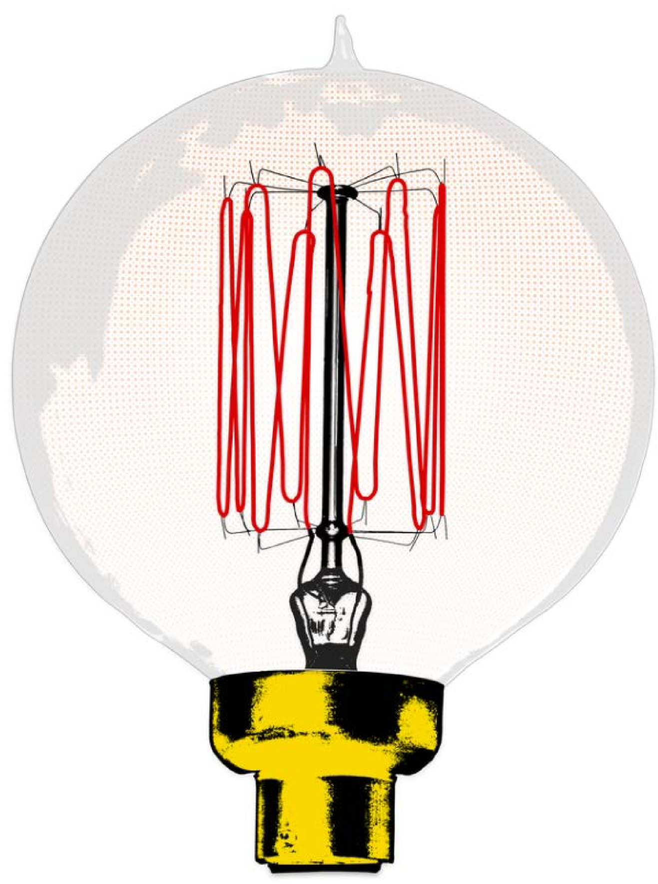


Canada's GDP Dilemma: The Illusion of Growth

Canada's economy has grown in size, but not in strength. GDP per capita has barely advanced over the past decade and trails well behind the US. Growth has leaned on household consumption and government spending, while business investment and exports have stagnated. Capital has flowed disproportionately into housing rather than productive, export-generating infrastructure. Canada's GDP challenge is structural — rooted in insufficient investment in high-value, export-enabling infrastructure.

Summary

- Canada's GDP per capita has underperformed for over a decade, falling well behind the US and losing its historical advantage over the OECD average.
- More concerning, GDP growth has leaned heavily on household consumption, building homes, and government spending, while private business investment and exports have stagnated.
- Canada's GDP problem is structural. In a world of economic coercion, long-term economic strength for national security will demand greater investment into productive capacity and expanding diversified export infrastructure.

Bigger, But Not Stronger

In our opening issue of this series, *Canada's Economy Under Siege*, we argued that Canada has entered a more coercive global economic environment, one where economic strength is not abstract, but strategic.[1] A country's GDP and its underlying metrics are not just statistics, but measures of national resilience.

In our second issue of this series, *What is GDP, Really?* we broke down GDP into its components: Consumption (C); Investment (I); Government Spending (G); Exports (X) and Imports (M).[2]

GDP = C + I + G + (X − M)

We explored how investment into resource infrastructure builds capacity for exports, how exports convert the capacity into long-term income, and how government policy can either enable or constrain both.

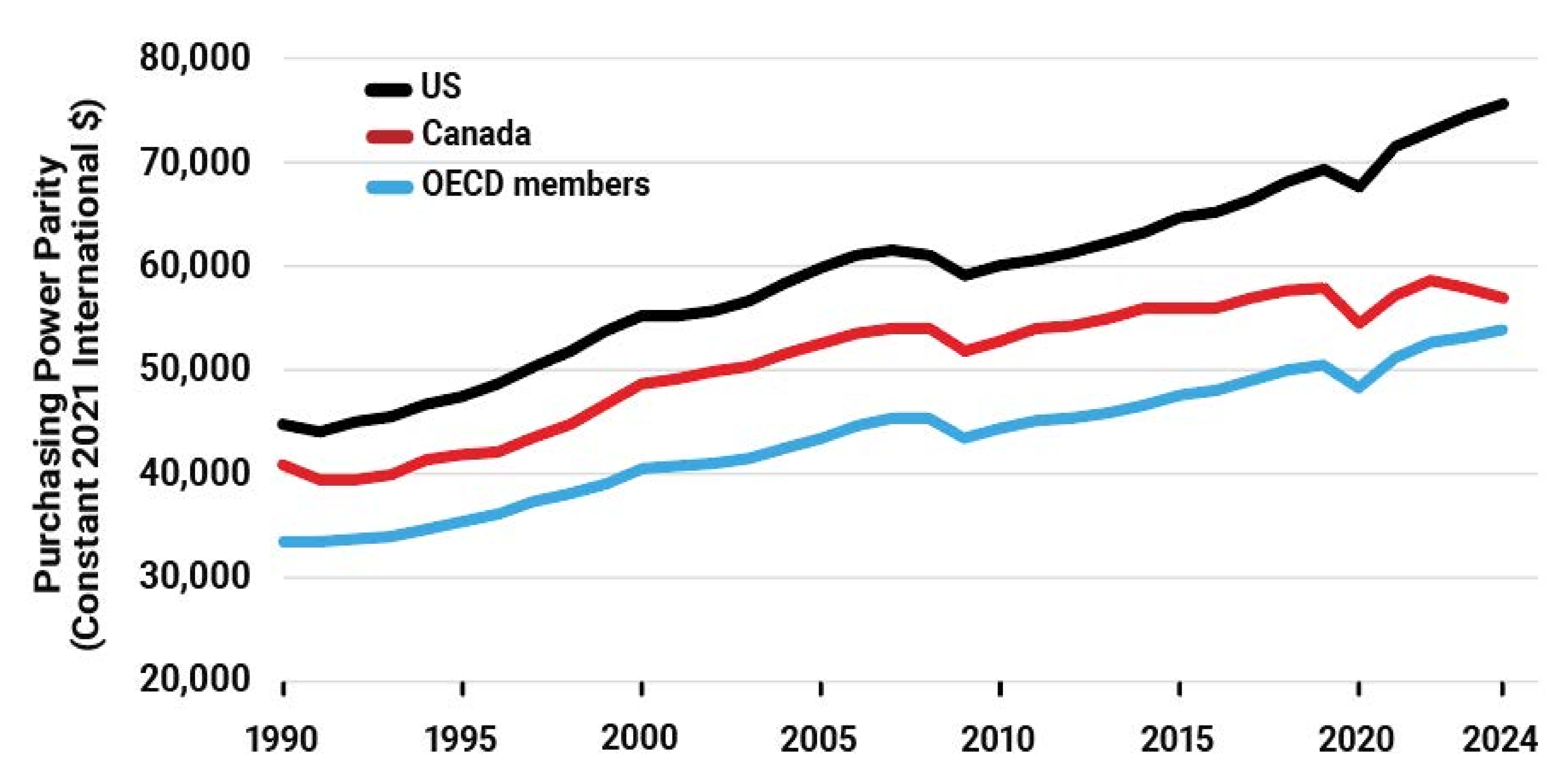
Now we turn to the hard question: What is Canada's GDP prognosis as the country seeks to grow economic strength amidst the new world realities?[3]

Falling Behind Peers

A key measure of economic strength is GDP per person — total output divided across Canada's roughly 41.6 million people.[4] But as the chart below illustrates, Canada's performance has been slipping relative to our closest peer. Adjusted for purchasing power, in 2024 Canada sat at roughly 25% below the US, our largest trading partner.[5]

Real GDP Per Capita

Purchasing Power Parity



Sources: World Bank and ATB Economics

The chart also shows that Canada's GDP per capita is now only marginally ahead of the average of all 38 OECD countries spanning North America, Europe, Asia-Pacific and Latin America. Historically, Canada enjoyed a comfortable lead over the OECD average, but that cushion in the past couple of years has nearly disappeared.

1 See *Now You're Thinking* Issue 016 – Canada's Economy Under Siege; Studio.Energy; January 30, 2026
2 See *Now You're Thinking* Issue 017 – What is GDP, Really?; Studio.Energy; February 5, 2026
3 See *Now You're Thinking* Issue 002 – Geoeconomics and State Capitalism; Studio.Energy; September 8, 2025
4 Key Indicators; Statistics Canada; October 1, 2025
5 World Bank, GDP per capita, PPP (current international $); World Development Indicators; March 2026

Canada's economic performance gap is not a blip. It reflects a longer-running trend. Over the past decade, the country's real GDP per capita has grown at roughly 0.46% per year — that can be considered a modest pace at best.

Yet the real problem is not that Canada's economy is barely growing. The biggest concern is how the economy has grown. When we get underneath the hood, in the GDP formula, Canada has made the car bigger, but hasn't increased the horsepower of the engine.

For a resource-based economy competing in a more mercantilist world, horsepower comes from sustained investment in productive capacity, especially export infrastructure.

Peering Under the Hood

Returning to the GDP formula, C + I + G + (X - M), if GDP per person is weak, the natural question is: which components of the formulaic engine are pulling their weight, and which are not?

In Canada's case, the answer is increasingly clear. Over the past decade, growth has leaned heavily on household consumption (C) and government spending (G), rather than on sustained investment (I) that expands productive business capacity and enables long-term export growth (X).

That distinction matters. Domestic consumption from building houses and public-sector expansion can keep an economy active. But only investment in productive infrastructure — the kind that supports durable export capacity — makes it structurally stronger and allows it to better defend against coercive geoeconomics.

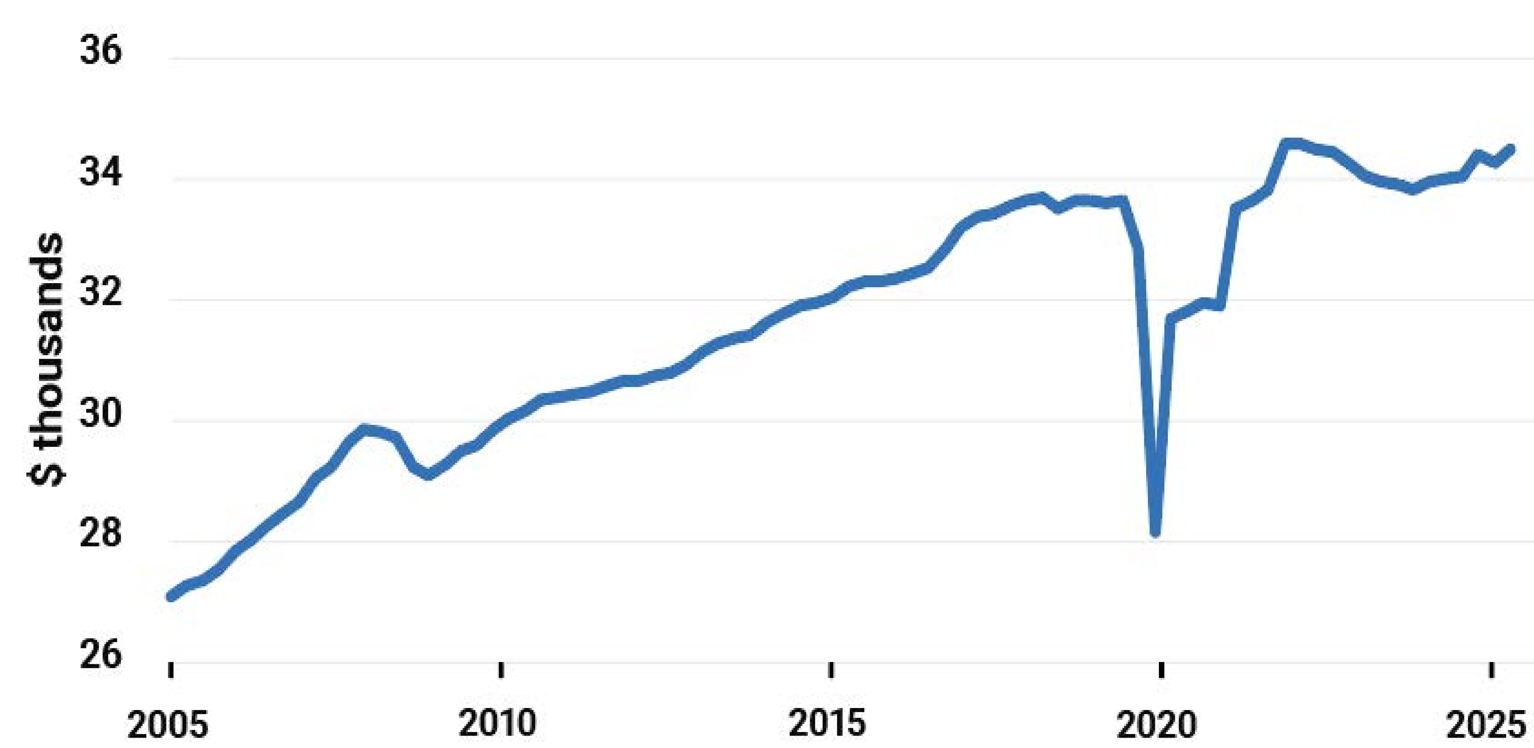
The Consumer Economy

The chart on the right shows that household spending has been the primary driver of Canada's GDP growth through 2022, aside from the sharp pandemic contraction between 2020 and 2021. Since then, consumption growth has largely flattened.

In the GDP identity, consumption (C) now accounts for roughly 55% of total output, but there are limits to how long households can carry an economy with structural weaknesses elsewhere. Canadian households remain among the most indebted in the G7. Many mortgages will continue resetting at current or higher interest rates. Population growth, which temporarily boosted spending through a surge in immigration, is slowing to a crawl. And, as in many OECD countries, the lingering effects of inflation continue to strain household balance sheets.

Consumption is essential. It keeps the flow of dollars circulating. But consumption alone does not expand an economy's productive capacity. It does not build new export corridors or raise productivity. Canada cannot spend its way to durable economic strength without first investing in assets that allow it to produce more and earn more from global markets.

Real Household Spending Per Capita



Canadian household final consumption expenditures in 2017 dollars. Quarterly Seasonally Adjusted Annual Rate data.

Source: Statistics Canada and ATB Economics

The Expanding Role of Government

Government spending (G) has risen significantly over the past decade, following a period of restraint in the years after the 2008–2009 financial crisis, as shown in the chart below.

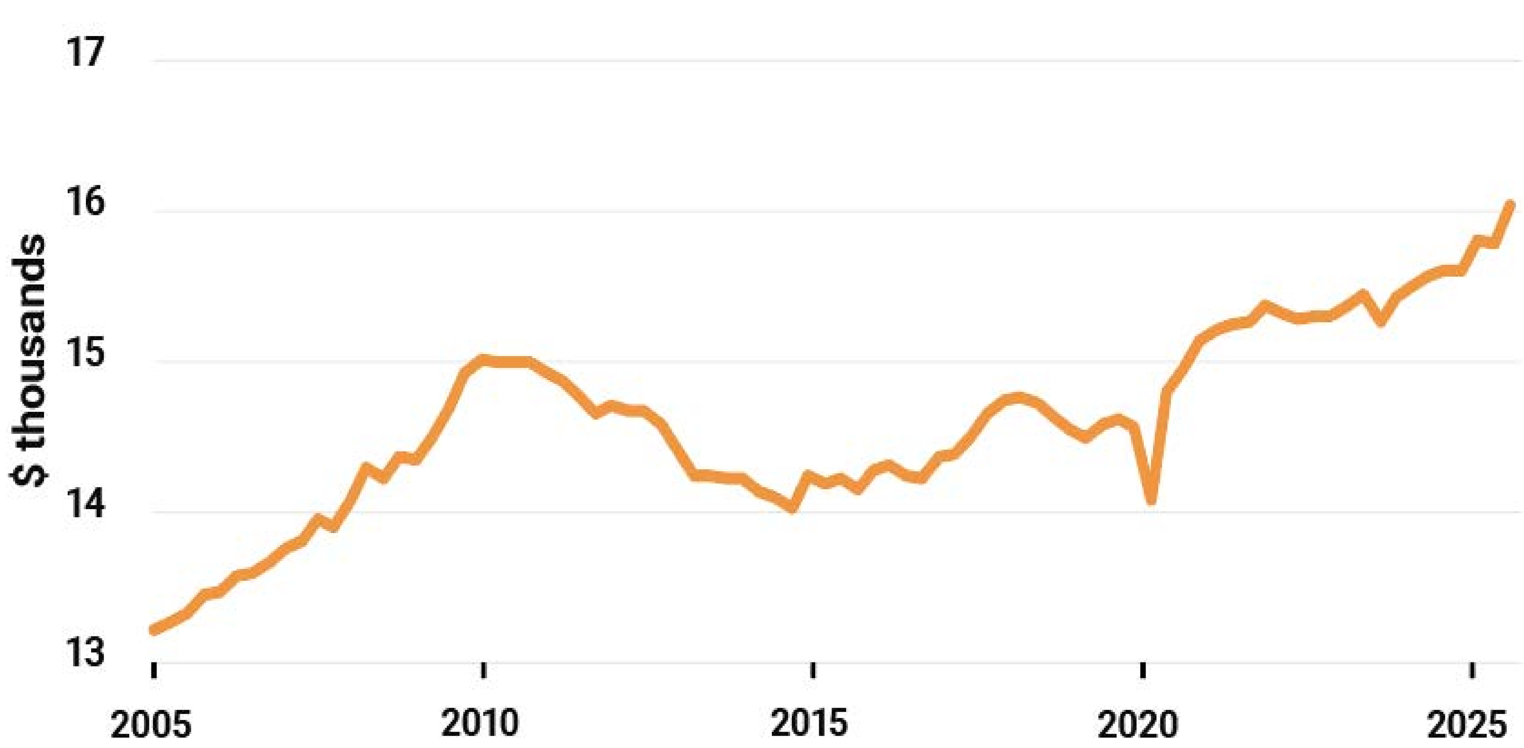
Public spending should grow alongside population and economic activity. It should enable growth, not substitute for it. Yet the data suggest that government outlays have become one of the primary contributors to expanding the size of Canada's GDP — without necessarily strengthening its underlying productive capacity.

Governments cannot indefinitely replace private investment. Rising debt levels, higher taxes, and fiscal constraints eventually narrow the room for manoeuvre. Public spending that expands operating budgets may lift GDP arithmetically, but it does little to raise productivity or export capacity. Taxpayers cannot sustainably finance long-term growth without a parallel expansion of private capital formation.

Recognizing these limits, the federal government's most recent budget commits to reducing the size of the civil service by roughly 10% — approximately 40,000 positions from a peak workforce of about 368,000 — as part of a broader effort to curb operating expenditures.[6]

Fiscal restraint, however, is not in itself a growth strategy. Reducing "G" in the GDP formula lowers output unless it is offset by stronger investment and export growth. The objective is not simply to shrink government, but to rebalance the composition of growth toward the component that builds economic strength: sustained private investment.

Real Government Spending Per Capita



Canadian government spending on consumption and capital in 2017 dollars.
Quarterly Seasonally Adjusted Annual Rate data.

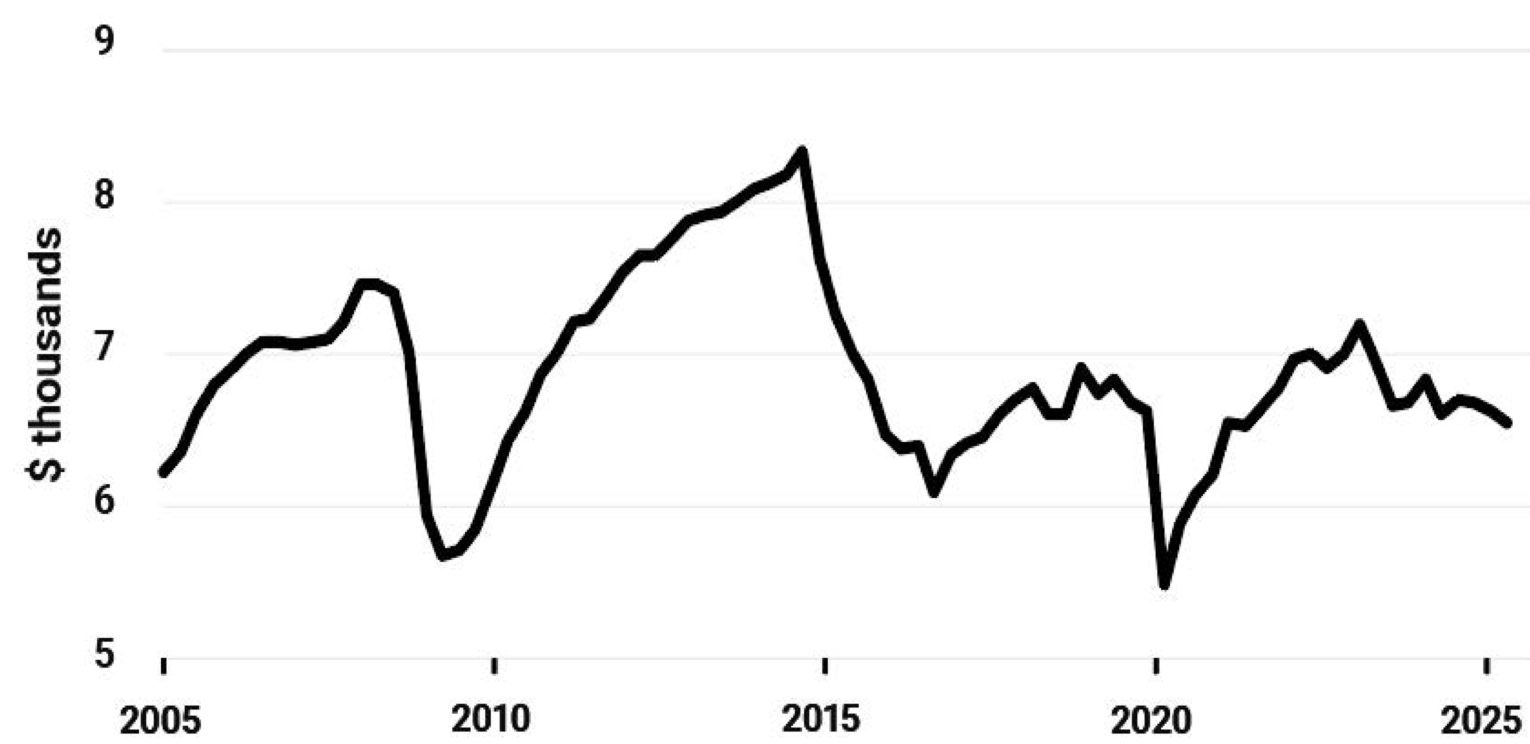
Source: Statistics Canada and ATB Economics

The Structural Weakness: Investment

The largest structural fault line in Canada's GDP story is the stagnation of private business investment.

The next chart shows that, on a per-person basis, real business investment has failed to grow in the last two decades. Setting aside the volatility of the 2008–2009 financial crisis and the 2020 pandemic, per-capita investment in non-residential structures, machinery, and equipment has effectively flatlined.

Real Business Investment Per Capita



Private investment in Canadian non-residential structures, machinery and equipment, and intellectual property in 2017 dollars.
Quarterly Seasonally Adjusted Annual Rate data.

Source: Statistics Canada and ATB Economics

Statistics Canada has described this weakness as "pervasive across industries."[7] In other words, this is not a single-sector problem. Across much of the business economy, investment has struggled to outpace population growth. The investment engine is idling at best.

Oil and gas, one of Canada's largest capital-intensive industries, illustrates part of the story. Upstream capital expenditures peaked at roughly C$80 billion in 2014 before falling sharply amid lower commodity prices, the Saudi-led price war, the pandemic shock, and rising regulatory and policy uncertainty. In 2026, upstream investment is estimated at roughly half its 2014 level — only C$40 billion.[8]

But the weakness runs deeper than energy alone. Across multiple sectors, firms have been slower to deploy capital into productivity-enhancing assets. Manufacturing investment remains below levels seen two decades ago. Machinery and equipment spending has lagged.

Some argue that a shift toward a service and technology-based economy explains the slowdown in bricks-and-mortar, infrastructure investment. Yet Canada also trails in intangible capital formation. Investment in intellectual property has fallen further

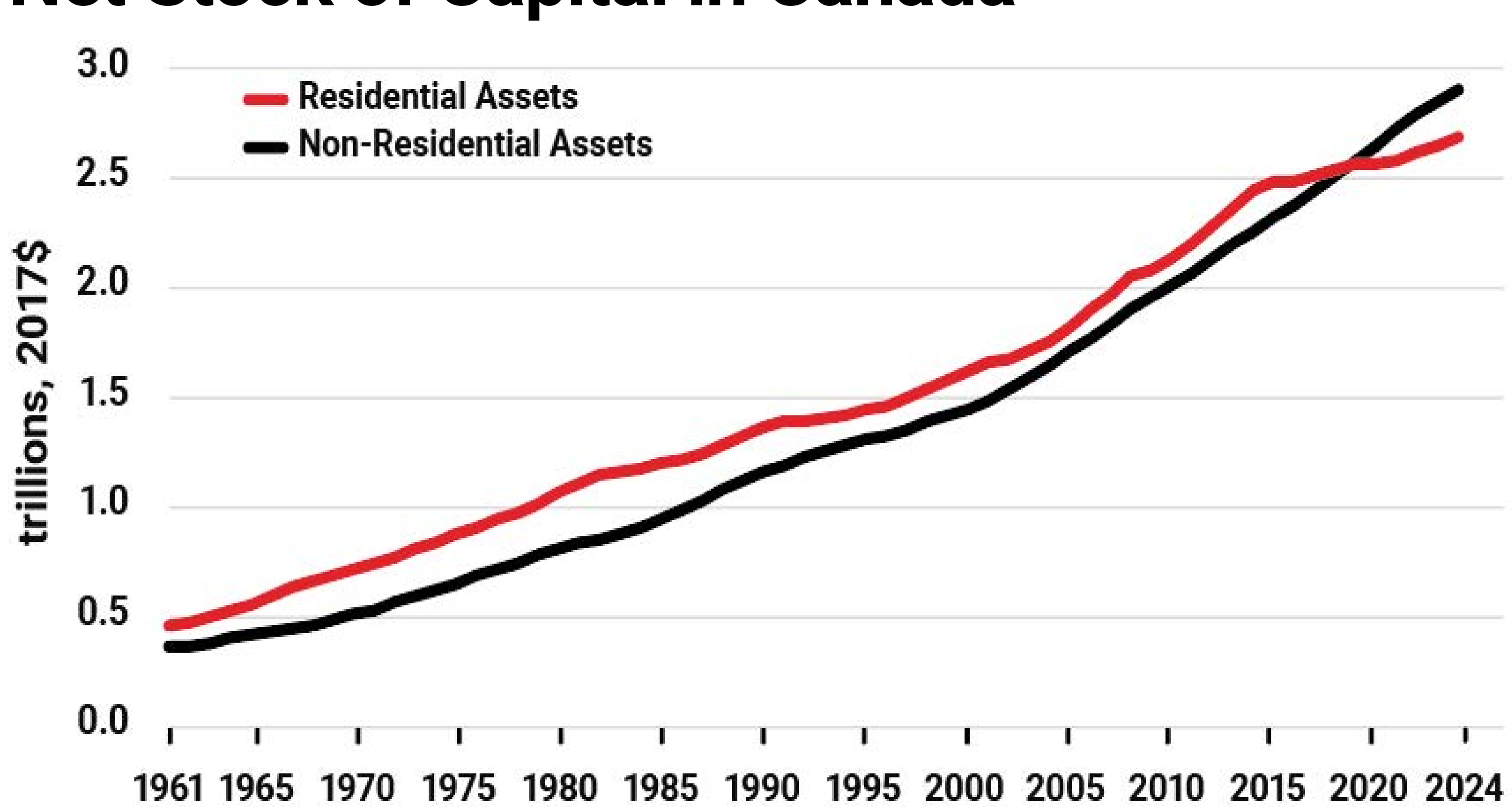
[6] Budget 2025 and the Public Service; Government of Canada; November 4, 2025
[7] Research to Insights: Challenges and Opportunities in Innovation, Technology Adoption and Productivity; Statistics Canada; July 24, 2024
[8] Studio.Energy CapFlow Model

behind the US. Research and development spending underperforms most OECD peers. Other innovation metrics, including our ability to commercialize research, tell a similar story.[9]

Meanwhile, residential construction has surged to accommodate rapid population growth. More housing has been, and will continue to be, necessary to address affordability and demographic expansion. But residential assets do not expand export capacity or raise productivity in the same way as new mines, manufacturing plants, data centres, petrochemical facilities, ports, railways, pipelines, or power infrastructure.

The next chart displays Net Stock of Capital and illustrates this shift clearly. Non-residential investment began slowing around 2014, while residential investment continued on a steepening trajectory that started in the early 2000s. Today, the stock of housing assets in Canada exceeds the stock of non-residential assets, as can been seen in the crossover of lines in the chart. And the gap is widening. In other words, capital is increasingly flowing disproportionately toward assets that support consumption (buying houses) rather than those that expand production.

Net Stock of Capital in Canada



Geometric year-end net stock.

Source: Statistics Canada and ATB Economics

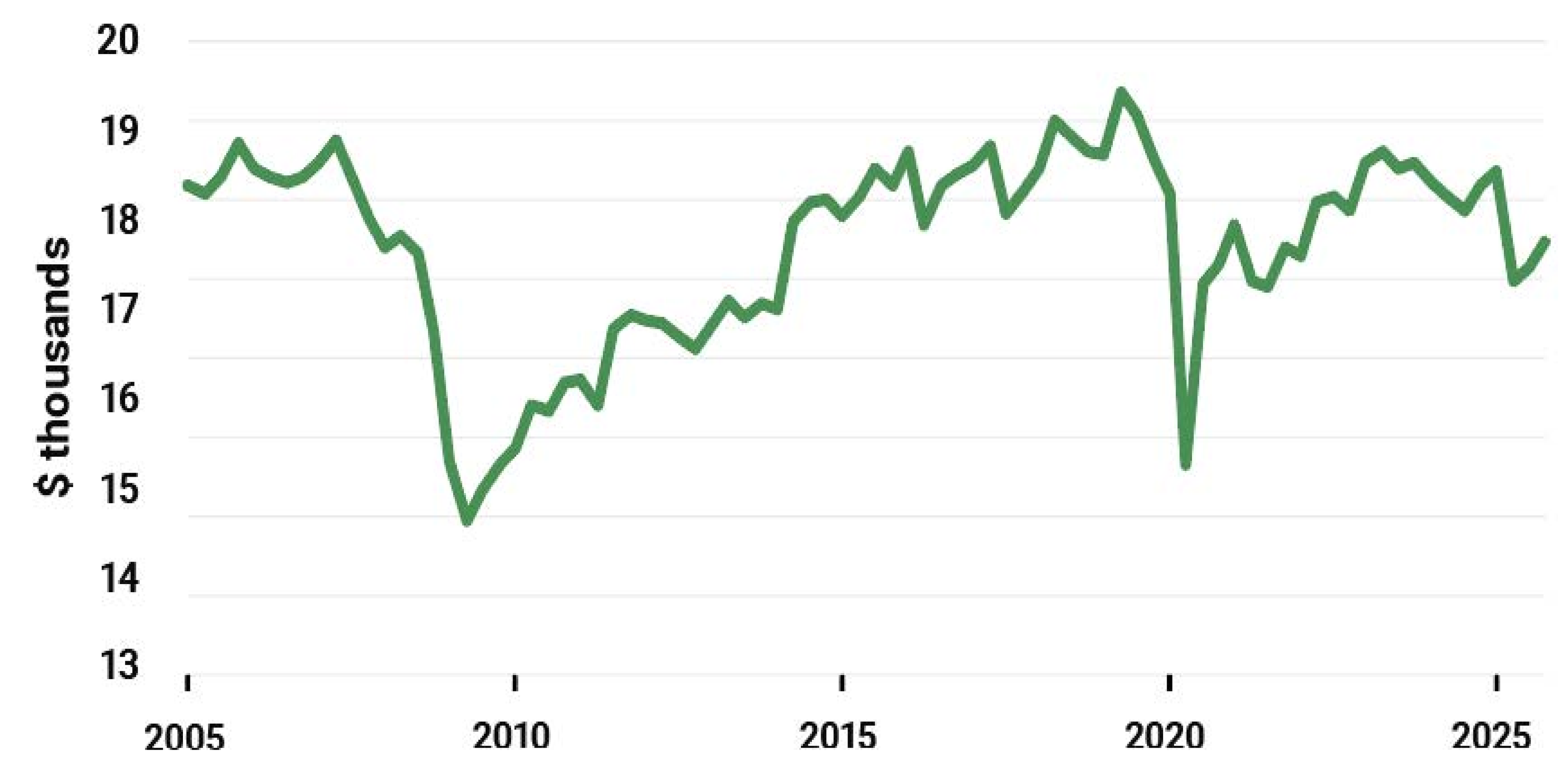
Houses are essential. But they do not generate export corridors to create long-term prosperity for the people who live in the houses. Infrastructure and productive assets do. And without sustained investment in those assets, the economy's long-term growth potential weakens.

Exports: The Missing Multiplier

Exports are where investment turns into durable GDP strength — particularly for a resource-rich country like Canada. Diversified export markets provide not just income, but insulation against economic coercion against a country that's been on the lower rungs of the *The Ladder of Ambition*.[10]

Yet on a per-capita basis, Canada's export volumes have shown little growth over the past two decades. The chart on real exports per capita illustrates this stagnation, with a troubling softening trend since the post-pandemic rebound in 2023.

Real Exports Per Capita



International exports of Canadian goods and services in 2017 dollars. Quarterly Seasonally Adjusted Annual Rate data.

Source: Statistics Canada and ATB Economics

The challenge is not global demand. Canadian oil, natural gas, critical minerals, agricultural products, and other commodities remain highly sought after worldwide. The constraint is capacity — the ability to move, process, and ship those resources efficiently to diversified markets beyond a heavily concentrated US customer base. In an environment where trade relationships are increasingly subject to tariff threats and political pressure, concentration risk carries strategic consequences.

Without sustained investment in export-enabling infrastructure, businesses will lack the capacity to scale into higher-value and more diversified markets. If domestic consumption slows and government spending moderates, GDP will have little underlying formulaic support unless exports (X) strengthen.

[9] "Back to Productivity" - Issue of the Seven; ATB Economics; May 2, 2025 and "Life in Fast Lane" - Issue of the Seven; ATB Economics: February 13, 2025
[10] See *Now You're Thinking* Issue 003 – Gauging Canada's Energy Ambition; September 8, 2025

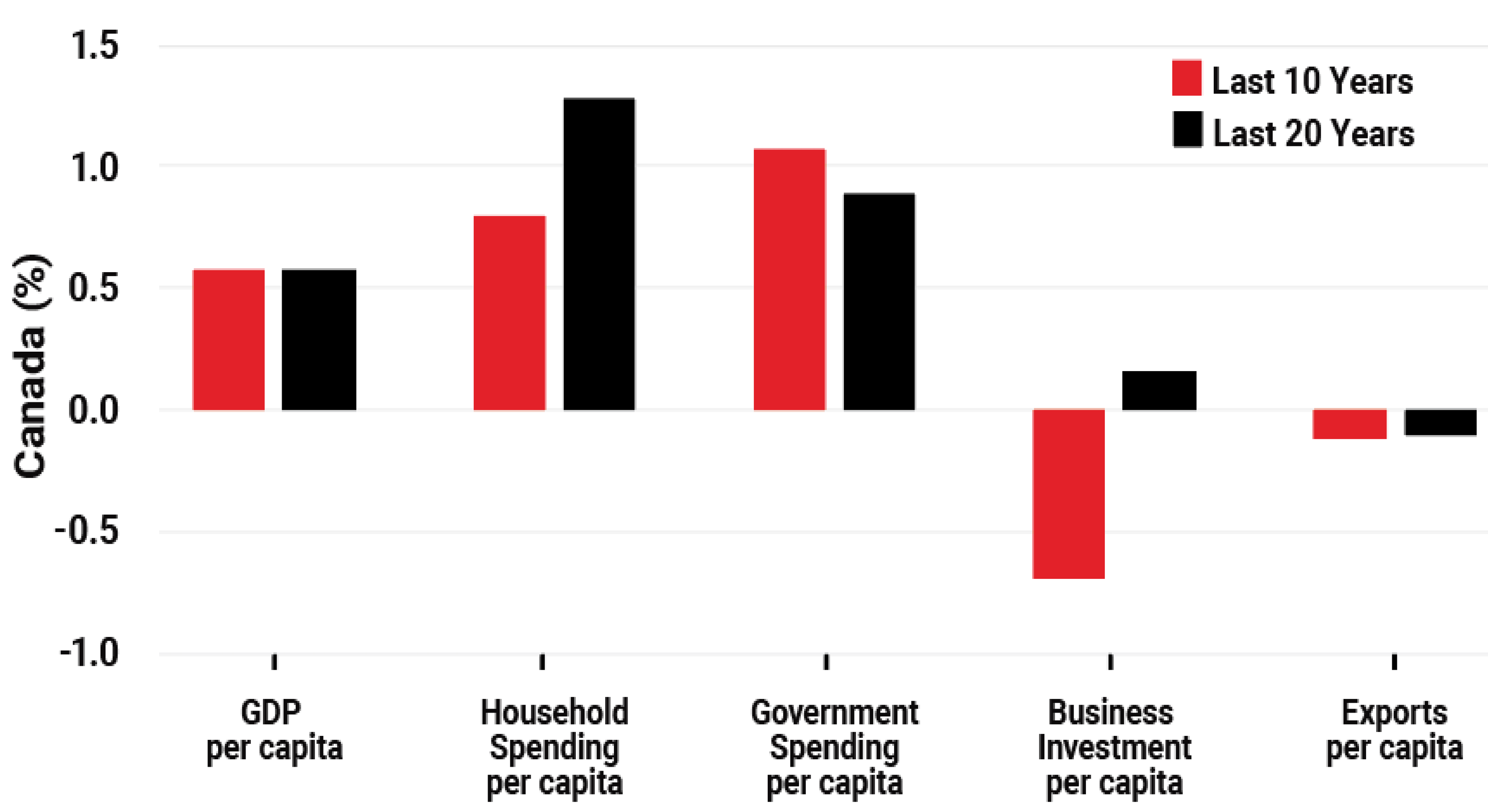
Recent infrastructure additions, such as the Trans Mountain Expansion and LNG Canada Phase 1, represent meaningful steps toward expanding export capacity. Proposed projects under Bill C-5, including port expansions and new energy corridors, aim to further improve interprovincial trade and access to global markets. The economic logic is straightforward: without investment, export growth stalls; without export growth, long-term GDP strength remains constrained. Or worse, it weakens.

The Heart of the Issue

In a world where economic leverage is exercised through trade, capital flows, and supply chains, building the conditions for infrastructure investment is not optional — it is imperative.

Canada's GDP has grown in absolute terms, but per-person output has barely moved. Beneath the headline numbers, growth has relied disproportionately on household spending and government expansion, while business investment and exports have underperformed.

Annual Growth in Real GDP per Capita by Component



Last 10 years is 2015 to 2025. Last 20 years in 2005 to 2025.

Source: Statistics Canada, ATB Economics.

In a more mercantilist and competitive global economy, that imbalance carries risk: economies driven mainly by domestic consumption are more vulnerable to shocks, and countries that underinvest in productive capacity resign themselves to being price takers.[11]

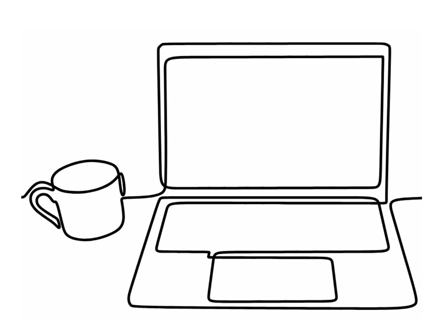
The Figures in the analysis show that Canada's GDP per capita problem is not cyclical. GDP growth is a structural problem in Canada and at its core, it is an investment problem.

The Path Forward

The federal government has acknowledged that future GDP growth must be anchored in investment, particularly in export-enabling infrastructure. Prime Minister Mark Carney and his cabinet have set ambitious targets to enable C$1 trillion in new investment and to diversify exports beyond the US.[12] Budget 2025 and Bill C-5 recognize that protracted approval timelines and regulatory uncertainty have constrained business investment and must be addressed. If Canada is serious about strengthening its economic position, policies that deter capital will need to be reviewed, streamlined, and, where necessary, removed.

Investment, however, cannot be abstract. Every sector — from autos to technology to natural resources — requires renewed capital formation. The more pressing question is where investment can generate the largest and fastest gains in GDP, given the urgency of Canada's strategic circumstances. Oil and natural gas extraction and export remains one of the country's most significant export earners and therefore GDP generators.

In the next part of this series, we examine what expanding oil export capacity could mean for Canada's GDP and for its economic resilience.



Co-Authored by:

Peter Tertzakian
Founder & CEO, Studio.Energy

Mark Parsons
Chief Economist, ATB Financial

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For more information contact think@studio.energy.

[11] See *Now You're Thinking* Issue 003 -- The Cost of Being a Market Hostage; Studio.Energy; September 8, 2025

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