August 4, 2026 (Vol. XXVI, No.32)

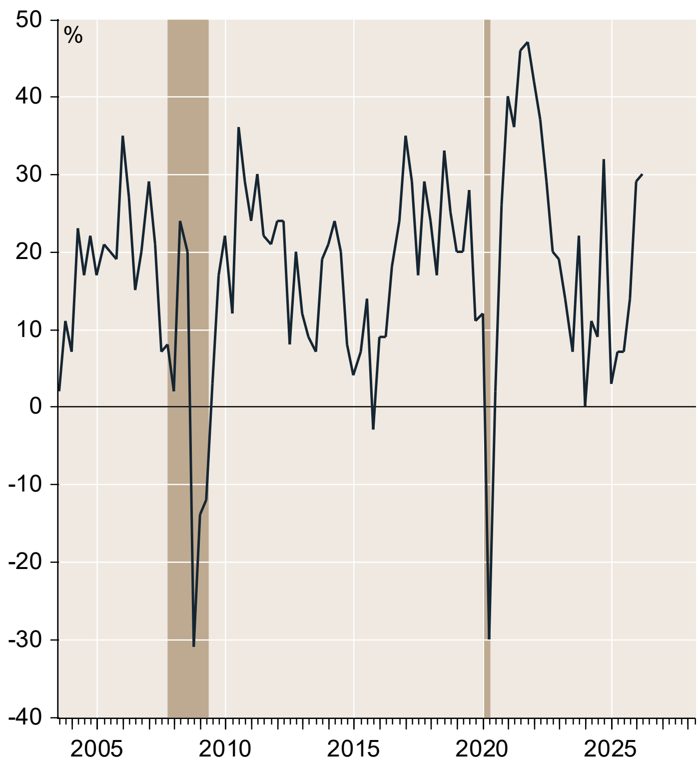
Canada Watch

By Jocelyn Paquet

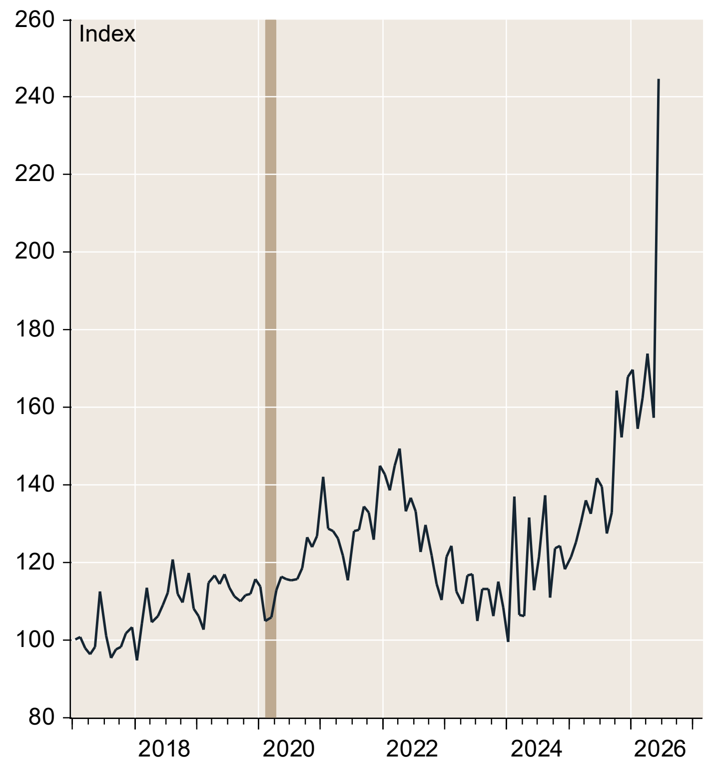
One of the most encouraging aspects of the otherwise lacklustre second-quarter edition of the Bank of Canada's Business Outlook Survey, published a month ago, was the improvement in investment intentions. The net percentage of firms surveyed by the central bank that planned to increase their spending on machinery and equipment over the next 12 months indeed rose to 30% during the quarter, comfortably above the long-term average for this indicator (15.7%) and the highest level since Donald Trump's election. To the extent that this improvement reflected an easing of trade tensions in the weeks leading up to the survey, the uptick could prove short-lived, given that the U.S. administration has since threatened to impose additional tariffs on goods imported from Canada. A resurgence in sentiment driven by rising energy prices amid tensions in the Middle East could prove just as fleeting if the Strait of Hormuz were to be reopened within a reasonable timeframe, thereby limiting the need to increase production capacity in oil-producing provinces. However, we believe that the rebound in investment intentions was not solely attributable to these potentially transient commercial and geopolitical developments. It is also possible that businesses are beginning to feel the effects of the federal government's investment-stimulating efforts, particularly through accelerated depreciation and infrastructure and defence spending aimed at favouring local production. We also suspect that companies' investment plans are currently being driven by spending on artificial intelligence. At least, that's what the international trade data released this morning suggested. As today's Hot chart shows, import volumes in the computers and peripherals subsector—closely linked to data center construction—soared by 55.6% in the month of June alone. This capped a quarter in which imports in this segment rose by no less than 96.8% on an annualized basis. After a slow start, AI investment finally seems to be taking off in Canada.

Canada: Is AI behind the recent improvement in investment intentions?

Investment intentions*, Bank of Canada Business Outlook Survey



Real imports of computers and peripherals



*Net percentage of respondents planning to increase investment spending on machinery and equipment over the next 12 months

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