

Surprise! (But not the fun kind, in Canada)

By Ethan Currie & Taylor Schleich

Economic data in Canada has stumbled out the gate so far in 2026, both in absolute terms (see, for example, the year-to-date employment decline) and relative terms (compared to consensus expectations). Indeed, last week, Canada's economic surprise index reached its lowest level since the fall of 2022. Back then, the Bank of Canada was bludgeoning the economy with rate hikes, after an oil supply shock that began earlier in the year contributed to an inflation surge. Sound familiar?

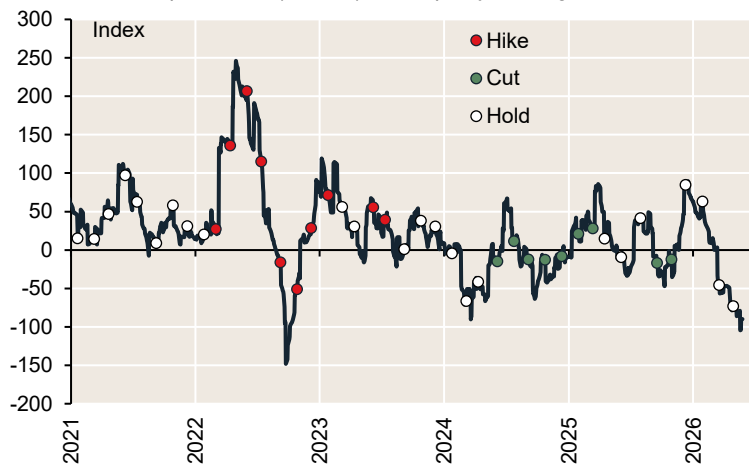
Four years later, the Canadian economy again finds itself contending with higher oil prices and upside inflation risks, but the backdrop couldn't be more different this time. As noted above, economic data were more disappointing later in 2022, but in the early stages of the shock (before rate hikes), momentum was building and economic and inflation surprises were largely positive. When it comes to the economic and inflation environment in 2026, this time is different, allowing the Bank of Canada to take a more patient policy approach. Important to note, disappointing economic data is not a global phenomenon right now. Canada stands out as an underperformer among major economies, particularly against the

United States. Here, some important corners of the economy appear to be powering up (namely, the labour market) and data has generally been stronger than expected of late.

Taken together, economic surprises are trending in different directions in the U.S. and Canada, and the gap between their respective surprise indices is the largest in four years. But just how much does this matter for evaluating the relative path for interest rates? Historically, it depends. There have been periods in recent memory when geopolitics have pushed economic data to the back seat. That was evident in early 2025 when markets shrugged off stronger-than-expected Canadian data, focusing instead on imminent tariff threats. Backward-looking economic data also became less important earlier this year when the Middle East conflict first began. But more recently, relative economic surprises are exerting more influence, evident in recent GoC rate outperformance. There may still be some sluggishness ahead in the Canadian economic pipeline (and the USMCA review still looms large as a downside risk), so there's scope for this to continue.

Chart 1: Most negative data surprises in nearly for years...

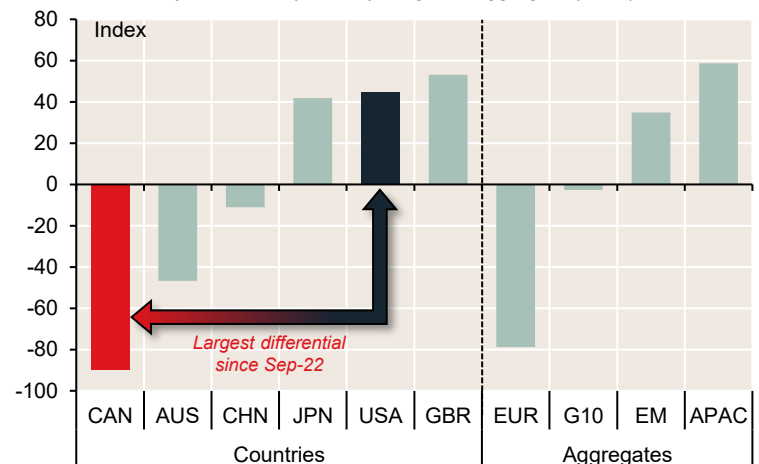
Citi Economic Surprise Index (Canada) & BoC policy meetings / actions



Source: NBC, Bloomberg

Chart 2: ...and pronounced on the world stage, too

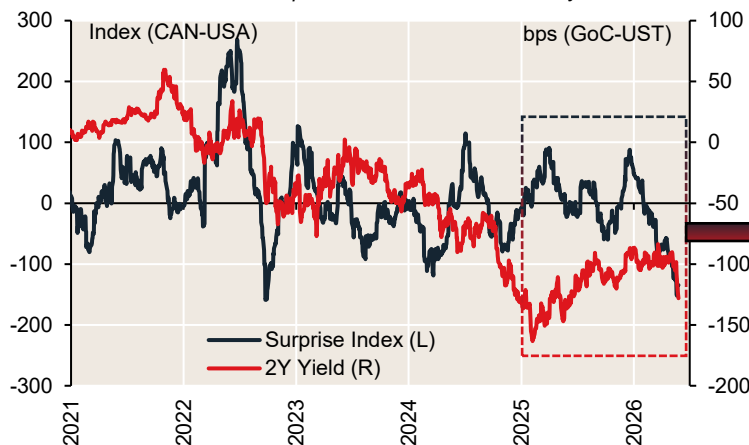
Citi Economic Surprise Index by country / regional aggregate (latest)



Source: NBC, Bloomberg | Note: EUR Eurozone, EM emerging markets, APAC Asia Pacific

Chart 3: Eco surprises can steer relative rates (sometimes)

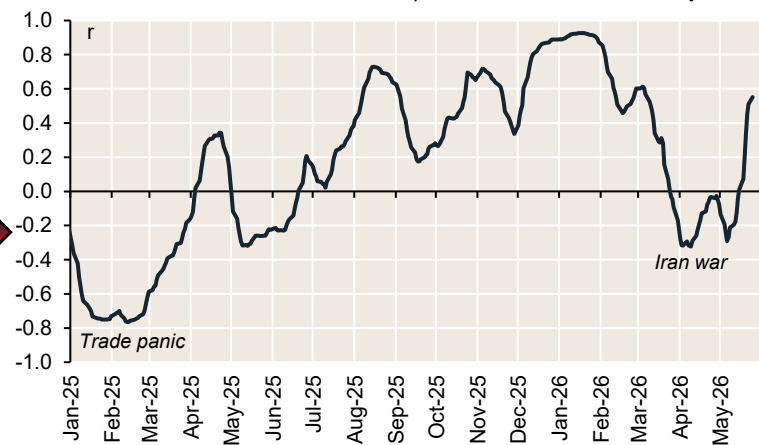
Canada-US Citi Economic Surprise Index vs. GoC-UST 2Y yield



Source: NBC, Bloomberg

Chart 4: Relative economic performance back in focus?

Correlation: Canada-US Citi Economic Surprise Index vs. GoC-UST 2Y yield



Source: NBC, Bloomberg | Note: Correlation based on rolling 3-month differentials



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