CIBC PRIVATE WEALTH



JAMES DIXON, CIM®: MACRO THOUGHTS – OCT 14, 2026

CANADA: A CHANGE IN OUTLOOK

EXECUTIVE SUMMARY

For several years, my outlook on Canada has been decidedly pessimistic. Weak GDP growth per capita, declining productivity, elevated unemployment, insufficient business investment, and an uncompetitive corporate tax and regulatory environment have constrained economic growth. Perhaps most frustrating has been Canada's inability to fully capitalize on its extraordinary natural resource endowment, with political and regulatory obstacles preventing investment from translating into meaningful economic output.

I am now cautiously revising that view. While the structural challenges have not disappeared, I believe Canada may be approaching an important inflection point. A renewed focus on infrastructure, resource development, capital investment, and productivity offers the potential to transition the economy from a prolonged period of underperformance toward a more sustainable expansion.

Recent research from Morgan Stanley reinforces this improving outlook, suggesting Canada's potential growth could accelerate from approximately 1.5% today toward 1.75% over the next several years, with the possibility of approaching 2% entering the 2030s.

My new optimism is not predicated on a cyclical rebound alone. Rather, the early foundations of a structural shift in Canada's growth model, with potentially meaningful implications for domestic equities, capital flows, and long-term wealth creation are developing.

1. WHY I WAS PESSIMISTIC

My previous skepticism toward Canada was rooted in a fundamental concern: the economy was growing in size without generating corresponding improvements in prosperity.

Population growth supported aggregate GDP, but GDP per capita remained weak, reflecting an economy increasingly reliant on adding workers rather than improving the productivity of those already employed.

Several structural challenges reinforced this concern:

- **Weak productivity.** Chronic underinvestment in machinery, technology, and innovation limited output per worker, ultimately constraining real wage growth and living standards.
- **Elevated unemployment**. A softening labour market, particularly among younger workers, highlighted the economy's inability to generate sufficient high-quality employment opportunities.
- **Resource development constraints.** Despite possessing globally significant energy, mineral, and agricultural resources, Canada repeatedly struggled to advance major projects through regulatory and political processes.

- **An uncompetitive investment environment.** Corporate taxation, regulatory complexity, and policy uncertainty discouraged capital formation and contributed to Canada's longstanding business investment deficit.
- **Declining competitiveness.** Capital increasingly flowed toward jurisdictions offering stronger productivity, greater policy certainty, and more attractive investment returns.

The consequence was an economy with considerable underlying potential but limited ability to translate that potential into higher living standards.

Importantly, my concerns were structural rather than simply cyclical. Lower interest rates alone were never going to solve Canada's productivity problem.

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2. WHAT HAS CHANGED: A NEW GROWTH MODEL

The foundation of my revised outlook is the prospect of a meaningful shift in how Canada generates economic growth.

Historically, Canada's expansion has depended heavily on population growth, commodity exports, and residential investment. While these drivers remain relevant, they have not consistently produced the productivity gains necessary to sustain rising real incomes.

Morgan Stanley's recent research, Canada: The Next Acceleration, identifies an opportunity for the economy to transition toward a model emphasizing capital deepening, infrastructure development, and broader technology adoption.

Capital deepening refers to increasing the productive capital available to each worker, including machinery, equipment, technology, and infrastructure. Over time, this enables workers to generate more output, supporting higher wages, stronger corporate profitability, and improved living standards. In essence a reversal of the major headwind under the prior administration.

In the referenced Morgan Stanley research piece (Canada: The Next Acceleration), they argue an increase in current growth from 1.5% to 1.75% (mid-term) and over 2% in the 2030's.

While these improvements may appear modest, even a 25–50 basis-point increase in potential annual growth becomes meaningful when compounded over a decade.

More import that the numbers is the composition of growth. An economy expanding through higher productivity rather than population growth alone creates a more sustainable foundation for prosperity.

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3. INFRASTRUCTURE & RESOURCES: THE COMPETITIVE ADVANTAGE

Canada's natural resource endowment has always represented an extraordinary economic advantage. Energy, critical minerals, agriculture, and access to global markets provide the country with assets that many developed economies simply do not possess.

The problem has never been a lack of opportunity. It has been an inability to consistently convert those opportunities into productive investment.

Renewed policy emphasis on accelerating major projects, strengthening infrastructure, and improving the environment for private capital investment are however encouraging.

Morgan Stanley notes that utilities, oil and gas, and transportation account for more than half of announced major capital investment pipelines, despite representing only approximately 13–14% of the economy's gross value added.

This concentration highlights both the opportunity and the challenge.

Large infrastructure and resource projects can generate significant economic activity, improve transportation and energy capacity, and attract private investment. However, for Canada to achieve a durable improvement in potential growth, investment must ultimately extend beyond these capital-intensive industries.

The critical development will be whether renewed investment in resources and infrastructure encourages broader private-sector capital formation across the economy.

Policy announcements are encouraging, but execution remains essential. Permitting reform, competitive taxation, regulatory certainty, and the timely completion of projects will determine whether this optimism translates into higher economic output.

4. PRODUCTIVITY: THE MOST IMPORTANT VARIABLE

Productivity will ultimately determine whether Canada's economic renaissance proves sustainable.

Canada has historically underinvested in machinery, equipment, and technology relative to many developed-market peers. This has constrained business efficiency, limited wage growth, and weakened international competitiveness. This was particularly evident under the prior administration.

Encouragingly, the opportunity to reverse this trend is substantial.

Technological diffusion, particularly through artificial intelligence, automation, and digital infrastructure, offers the potential to improve productivity across a broad range of industries.

While my core optimism centers around finally accessing Canada’s rich resources, Morgan Stanley identifies: construction; manufacturing; agriculture; and wholesale trade as equally important sectors. These sectors have relatively low technology adoption and significant productivity gaps. Because technology investment has historically generated meaningful efficiency gains, investment (particularly in these underinvested sectors) suggests a notable propensity to meaningfully boost growth and returns.

This aligns closely with my broader investment thesis on artificial intelligence. As I have previously argued, the next phase of the AI opportunity will increasingly involve the diffusion of technology throughout the economy, rather than simply the construction of computing infrastructure.

For Canada, the implications could be particularly significant. An economy suffering from persistent productivity underperformance has considerable room to benefit from technologies that allow businesses to produce more with existing labor and capital.

Higher productivity ultimately supports higher real wages, stronger corporate margins, greater tax revenues, and improving living standards. This is the mechanism through which renewed investment can translate into genuine economic prosperity.

5. DEMOGRAPHICS & POPULATION GROWTH

Canada's recent slowdown in population growth has created near-term economic uncertainty, but its longer-term demographic position remains relatively attractive. According to Morgan Stanley, Canada's working-age population is projected to grow approximately:

- 3% by 2035
- 5% by 2040
- 6% by 2045

These estimates contrast with many developed economies facing outright declines in their working-age populations.

In traditional economic models this population growth suggests Canada as an important structural advantage. The reason is aging populations constrain labor supply and therefore potential growth.

The challenge with this thesis is population growth alone is insufficient. It needs to be accompanied by improved productivity which dually improves wages. My previous pessimism was partly rooted in the observation that rapid population expansion had failed to generate corresponding improvements in productivity and GDP per capita.

The opportunity now lies in combining a relatively favorable demographic outlook with stronger capital investment and improved productivity. More workers supported by more productive capital is fundamentally different from simply having more workers.

That distinction matters and sits at the center of my revised outlook.

Policy (particularly on immigration) matters immensely. Immigration of by highly skilled labor is an extremely positive tailwind. In contrast, an increase in unskilled labor weighs on productivity and broader wage growth. The narrative from the current administration suggests the prior which is why I'm cautiously positive.

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6. INVESTMENT IMPLICATIONS: RECONSIDERING CANADIAN ASSETS

A sustained improvement in Canada's growth outlook could have meaningful implications for domestic financial markets.

Years of disappointing productivity and investment performance have contributed to skepticism toward Canada's long-term economic prospects. A credible reversal could support stronger corporate earnings, renewed capital inflows, and a reassessment of Canadian asset valuations.

The potential beneficiaries incl:

- **Financials.** Improving business investment, credit demand, and economic activity could support Canadian banks and other financial institutions.
- **Industrials and infrastructure.** Increased spending on transportation, utilities, energy infrastructure, and major capital projects should benefit companies with exposure to domestic investment.
- **Energy and materials.** Greater regulatory certainty and improved market access could unlock resource development and strengthen long-term returns on invested capital.

- **Technology and productivity enablers.** Companies facilitating automation, digital adoption, and operational efficiency may benefit as Canadian businesses modernize.

My thesis within this outlook remains firmly aligned with my broader equity investment framework: quality businesses with strong balance sheets, sustainable free cash flow, disciplined capital allocation, and durable competitive advantages.

Importantly, investors should not interpret these macro thoughts as advocating indiscriminate exposure to Canadian equities. It rather argues, the improving macroeconomic outlook warrants a reassessment of businesses positioned to benefit from a sustained increase in domestic capital formation ie cautious optimism.

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7. RISKS TO THE OPTIMISTIC THESIS

While my outlook has improved, several risks warrant continued attention.

- **Regulation.** Canada's regulatory and political environment must translate policy ambitions into completed projects. Announced investment pipelines do not automatically generate economic growth.
- **Broader capital spending**. Capital spending must broaden beyond energy, utilities, and transportation. Without greater investment in machinery, technology, and equipment across the wider economy, productivity improvements may remain limited.
- **Corporate tax.** Corporate tax competitiveness and regulatory certainty remain essential. Canada competes globally for capital, and investors will continue to allocate resources toward jurisdictions offering attractive risk-adjusted returns.
- **Immigration policy**. Immigration policy must focus on skilled over unskilled labor.
- **Trade uncertainty.** Trade uncertainty, particularly involving the United States, remains a significant near-term risk. Given Canada's dependence on its largest trading partner, a deterioration in market access could undermine business confidence and delay investment decisions.

These risks are very real! Focus on tangible evidence is therefore critical prior to repositioning. This includes: rising business investment; improving productivity; stronger GDP per capita; and the successful execution of major infrastructure and resource projects.

These indicators, rather than policy announcements alone, will determine whether my revised thesis is being validated. For now I’m cautiously optimistic but politics is a tricky game.

CONCLUSION

For several years, I have maintained a cautious outlook on Canada, concerned that weak productivity, declining GDP per capita, elevated unemployment, and an uncompetitive investment environment were undermining the country's long-term economic potential.

I now believe the balance of risks and opportunities are shifting in a more constructive direction.

The Carney governments renewed emphasis on infrastructure, resource development, private investment, and technological adoption creates an opportunity to address many of the structural weaknesses that previously drove my pessimism.

The opportunity is substantial, but execution will be decisive. Canada must move beyond population-driven expansion, toward an economic model built on productivity, investment, and competitiveness.

My optimism is therefore measured, and data-dependent.

Canada has never lacked the resources, or the institutional foundations required to prosper. What has been missing is the ability to translate those advantages into sustained productivity and economic growth.

I am are increasingly optimistic that this may finally be changing.

CONTACT

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