ECONOMIC VIEWPOINT

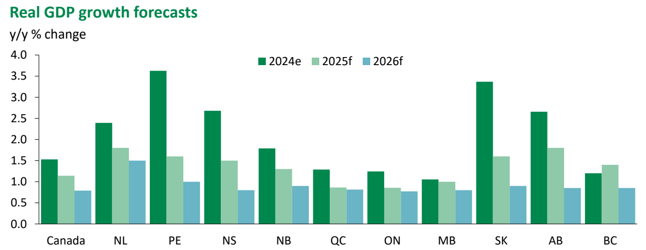
Provinces Stand on Uneven Ground amid Shifting Trade Winds

By Laura Gu, Senior Economist

Canada's economic outlook has improved modestly since "Liberation Day" as global trade tensions have de-escalated. However, the benefits are not evenly distributed across industries and regions. The manufacturing, agriculture and transportation sectors remain under pressure, weighing on central Canadian provinces (graph 1). In contrast, the resource sector—particularly energy—continues to buoy growth in western provinces, as well as Newfoundland and Labrador.

Housing market dynamics are contributing to regional imbalances. Ontario and British Columbia are grappling with significant oversupply, driven by slowing population growth and weaker sentiment. Meanwhile, housing markets in other provinces remain more balanced, though broader economic uncertainty is expected to keep activity subdued nationwide.

Graph 1
Growth Will Weaken Sooner in Central Canada



e: estimated; f: forecast
Statistics Canada and Desjardins Economic Studies

Provincial governments are leaning on expansionary fiscal policy to support growth. Budgets remain in deficit as spending on healthcare, infrastructure and targeted tax relief—particularly Alberta's income tax reform—continues. These measures should help offset some of the private sector weakness and support household demand.

Softer Landing in Sight, but Not All Runways Are Clear

Although recent months have seen a de-escalation in global trade tensions—contributing to a modest improvement in the overall economic outlook—Canadian provinces are only beginning to feel the economic repercussions from slowing demand and new US tariffs. The Canada–United States–Mexico Agreement (CUSMA) continues to provide a degree of insulation. Exports benefit from exemptions under the agreement, especially as producers enhance their compliance with CUSMA's rules of origin and content requirements. This shift toward higher compliance should reduce the effective tariff rates, offering some relief to exporters.

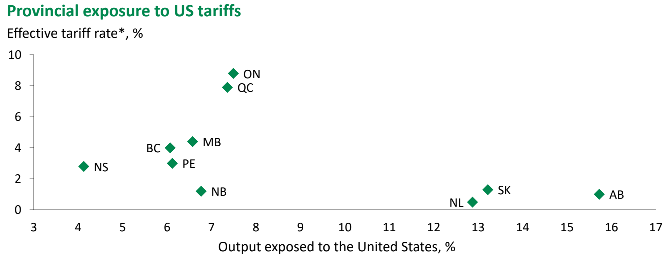
Provincial growth likely held up well across the board in Q1 2025. Exports received a temporary boost as US buyers front-loaded ahead of new tariffs, though this gain is expected to reverse. Retail sales were strong across most provinces, except Quebec. Non-residential investment remained solid in the Prairies and Atlantic Canada but contracted in Quebec. With exports set to decline and domestic demand softening, momentum is likely to slow in the coming quarters.

Ontario and Quebec remain particularly exposed to trade-related pressures. Even under full CUSMA compliance, effective tariff rates on strategic metals and the non-US content of auto exports are still elevated (graph 2 on page 2). As a result, while trade policy uncertainty has eased, the impact of these tariffs is beginning to manifest in provincial economic indicators. The coming quarters will likely reveal more pronounced regional disparities, with central provinces facing steeper headwinds compared to their western and Atlantic counterparts and potentially dipping into recessions.

Most provinces are expected to post weaker growth this year compared to 2024. British Columbia may see a modest

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

Graph 2
Ontario and Quebec Are Particularly Exposed to US Tariffs



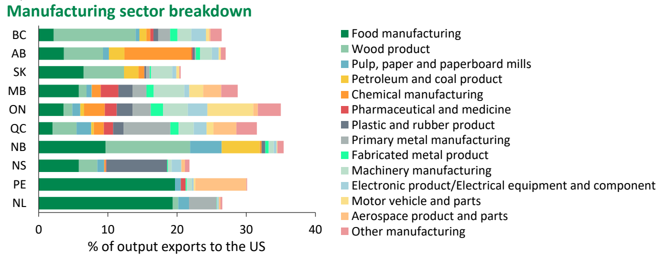
* Assuming full Canada–United States–Mexico Agreement (CUSMA) compliance.
United States International Trade Commission, Statistics Canada and Desjardins Economic Studies

improvement over last year's subdued performance, supported by the commencement of LNG Canada operations and its limited exposure to US trade, which offers a buffer against tariff-related downside risks. A broad-based recovery should start in 2026 when trade barriers are expected to be largely negotiated away. But the damage to Canada's export sector, combined with weakened consumer sentiment and investment prospects, will make it a slow and gradual recovery. As central Canada begins to regain lost ground, growth in other provinces is likely to remain subdued.

Tariff Trouble on the Assembly Line

The manufacturing sector stands to be the most affected by US trade measures, with over 30% of its output destined for American markets—though this exposure varies widely by province (graph 3). New Brunswick appears most reliant on US exports; however, when petroleum and coal products—which are less impacted by tariffs—are excluded, its vulnerability drops to more contained levels. Ontario faces significant risk due to its heavy dependence on auto exports, while Quebec's diverse manufacturing base—including mineral products, aircraft and forestry goods—also leaves it highly exposed. Manitoba, with its broad mix of manufactured exports, is also highly vulnerable to weakening US demand.

Graph 3
Manufacturing Exposure: Auto in Ontario, Aerospace and Metal in Quebec



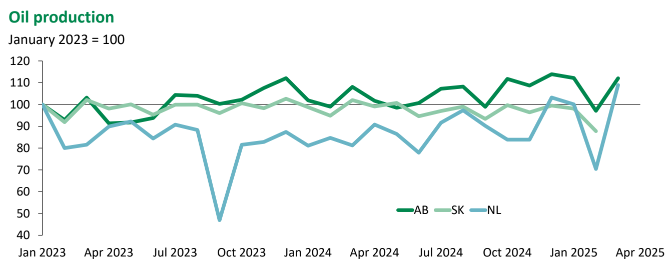
Statistics Canada and Desjardins Economic Studies

Resilience in the Rigs

The impact of US tariffs on Canadian energy exports appears relatively contained, boosting growth rankings for western provinces. US refiners appear to have absorbed much of the 10% tariff on non-CUSMA-compliant energy, keeping the WTI–WCS spread near US$10 per barrel since March. The Trans Mountain Expansion Project (TMX)—having now been in operation for one year—has also helped to diversify export markets for Canadian crude oil. However, while tariffs have had limited near-term impact, weaker global crude prices are expected to weigh on profitability and investment in the sector through late 2025 and into 2026. WTI is forecast to ease as the global oil market shifts into modest surplus, driven by slower demand growth and a gradual unwinding of OPEC+ production cuts.

Despite price pressures, there remains plenty of upside for oil production growth (graph 4). Alberta continues to lead in production and investment, supported by strong balance sheets, resilient demand for heavy crude and expanded export capacity. Output has reached record levels since late 2024. Saskatchewan's post-pandemic stagnation in the sector should ease, with the government's newly announced Low Productivity and Reactivation Oil Well Program (LPRP) expected to add over 5% more production over four years. In Newfoundland and Labrador, offshore production is back to growth following the reopening of the Terra Nova field last year, with further gains expected in 2025 as activity resumes at White Rose.

Graph 4
Oil Production Stays Afloat Amid Softer Prices

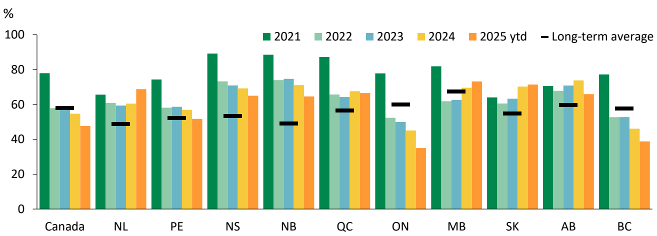


Alberta Energy Regulator, Saskatchewan Ministry of Energy and Resources, C-NLOPB and Desjardins Economic Studies

The Housing Divide

The housing market is contributing to an imbalanced regional outlook. In Ontario and British Columbia, weakening demand—largely driven by slower population growth and deteriorating sentiment related to trade uncertainty—has collided with a growing supply of new listings and completed but unsold units, tipping both markets into significant oversupply (graph 5). As a result, housing starts have fallen sharply, down 30.5% year to date in Ontario and 20.6% in British Columbia. While housing markets across the rest of the country remain relatively balanced, softening labour conditions and the broader economic drag from tariffs are expected to weigh on sentiment and keep activity subdued in the near term.

Graph 5
Ontario and British Columbia Are in Oversupply While Others Remain Balanced
Sales-to-new listings

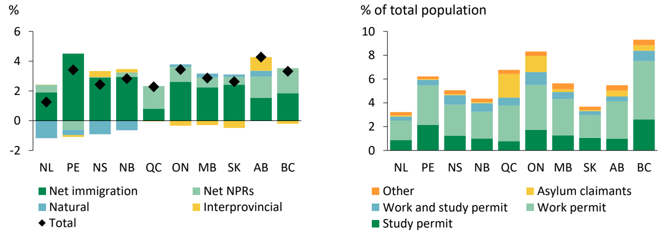


ytd: year to date
Canadian Real Estate Association and Desjardins Economic Studies

The Uneven Impact of Slowing Population Growth

Population growth is emerging as another key driver of uneven provincial performance. While national population growth is expected to slow in 2025 and 2026, the impact will vary significantly across regions. In 2024, non-permanent residents (NPRs) accounted for less than 40% of population growth—down sharply from over 60% in 2023—as record-high permanent resident admissions instead drove last year's surge (graph 6). The number of NPRs is now on a steadily declining trajectory, led by a notable outflow of study permit holders, particularly in Ontario, British Columbia and the Maritime provinces. Although work permit inflows remain relatively stable, further reductions in the overall number of NPRs will be necessary to meet federal population targets. This evolving demographic trend compounds existing economic pressures in Ontario and Quebec. In contrast, the Prairie and Atlantic provinces continue to benefit from robust population growth, reinforcing their relative growth edge.

Graph 6
Ontario, British Columbia and Quebec Will Face Further Population Headwinds from Falling NPR Numbers



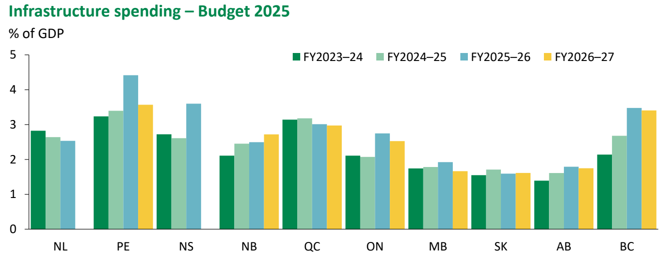
NPRs: Non-permanent residents
Statistics Canada and Desjardins Economic Studies

Fiscal Policy Remains Largely Expansionary

Expansionary fiscal policy remains a key source of support for provincial growth. The combined provincial budget deficit is projected to widen significantly—from $20.1B in FY2024–25 to $45.0B in FY2025–26—as governments maintain elevated spending levels. While the pace of expenditure growth is expected to moderate compared to last year, spending on core services such as healthcare continues to rise, driven by mounting pressure from public sector wage demands and rapid population growth. Alberta's flagship income tax reform—introducing a new lower bracket for incomes under $60,000, as pledged during the 2023 election—offers targeted relief to lower-income households, potentially boosting disposable income and supporting consumer demand. In addition, provinces have ramped up infrastructure investment to offset weakness in private capital spending (graph 7).

Graph 7
Provinces Are Ramping Up Capital Spending to Support Growth

Infrastructure spending – Budget 2025



Provincial budget documents and Desjardins Economic Studies

British Columbia

British Columbia is expected to be among the better-performing provinces in 2025, largely due to its limited exposure to US trade. Nearly half of its exports are directed to non-US markets, offering some insulation from tariff-related risks. However, growth remains subdued by historical standards. The wood product sector—accounting for one-third of provincial manufacturing—faces the threat of new duties, though less than 40% of its output is US-bound. In contrast, the natural gas sector is a bright spot, with the launch of LNG Canada expected to support growth and diversify export markets toward Asia.

Residential investment remains soft, with sluggish sales and slowing construction activity expected to continue throughout the year. Meanwhile, the wind-down of major resource projects is weighing on non-residential investment. To offset private sector weakness, the provincial government is ramping up infrastructure spending—particularly in healthcare—resulting in the highest per capita capital investment among provinces.

Alberta

Despite softer oil prices and global trade uncertainty, Alberta's strong oil production, resilient consumer demand and robust population growth position it for another year of outperformance.

Alberta's energy sector is set to support growth in 2025, with oil production persisting at record highs, driven by oilsands gains and improved market access via the TMX, which has helped narrow the WTI–WCS differential. While capital investment remains below historical highs, maintenance spending and healthy cash flows persist. The 10% US tariff on Canadian energy exports is expected to exert only a moderate drag on the sector. US refiners—particularly those in the Midwest, which are heavily reliant on Canadian heavy crude—are likely to absorb much of the cost, keeping demand steady. As a result, the WTI–WCS spread has held below US$10 per barrel since March. However, if crude prices weaken further into 2026, growth momentum in the sector could soften, tempering its contribution to the broader provincial economy.

Housing markets in Calgary and Edmonton remain firm compared to the rest of the country. In Calgary, home sales are down 15% year to date, yet prices are still rising. Edmonton has seen a more modest 1.9% decline in sales—much better than the national average drop of 6%. Though signs of cooling are emerging, housing markets still look less imbalanced in Alberta than the rest of the country. Interprovincial migration continues to support demand, offsetting slower international inflows.

Labour market dynamics are more mixed. While job growth remains solid, it hasn't kept pace with rapid population gains. As a result, the unemployment rate has risen above 7% and could exceed 8% by the end of this year.

Saskatchewan

Saskatchewan's economic outlook for 2025, while more modest than last year's robust 3.4% growth, remains relatively resilient amid rising global trade tensions. The province's exposure to US tariffs is the lowest among the provinces thanks to the mining, quarrying and oil and gas sectors—exports from which face a lower 10% tariff rate. This, combined with Saskatchewan's diversified export base, helps buffer the economy from external shocks.

Saskatchewan's economy is highly export-oriented, with energy, agriculture and minerals being the top three export categories. The province benefits from a diversified range of export destinations, which helps mitigate the impact of proposed tariffs, including those from China. Granted, the agriculture industry is indeed crucial to Saskatchewan and is facing significant stress due to China's 100% tariff on Canadian canola oil exports. Over 95% of crop and animal products are exported to a diverse set of destinations. China accounts for approximately 24% of these exports, the United States for another 14% and the remaining 60% is distributed among countries such as India, Japan, Algeria and Morocco. With appropriate support, the sector has room to further diversify.

Meanwhile, strength in oil production, elevated potash prices and record-high uranium output in early 2025 are helping to cushion the impact of trade disruptions. Non-residential construction is also booming, led by the $18B BHP Jansen potash project, which continues to drive capital investment and support economic activity.

Manitoba

Manitoba's economy is projected to underperform the national average in 2025, as trade uncertainty weighs on confidence and activity. While early-year momentum—driven by strong consumer spending and a rebound in housing resales—provided a temporary lift, heavy exposure to US tariffs is dampening the outlook. Manitoba ranks third in terms of output exposure to the US market outside of oil-producing provinces, and our estimates suggest it faces the third-highest effective tariff rate even under full CUSMA compliance—trailing only Ontario and Quebec. Hence, export gains from pre-tariff stockpiling are expected to fade quickly, while the manufacturing and transportation sectors face mounting headwinds.

Manitoba's agriculture sector is facing mounting pressure as key exports—particularly canola, pork and peas—are hit with steep tariffs. Unlike Saskatchewan, which benefits from a more diversified export base, roughly 70% of Manitoba's agricultural exports are directed to the United States and China. Despite these challenges, the sector is showing resilience. Seeding progress has been strong, and producers are adapting with the help of targeted government support. The Manitoba government has introduced a $500M tariff response contingency, including direct assistance for canola and pork producers, along with broader measures to help businesses diversify into new markets.

Closer to home, Manitoba continues to benefit from one of Canada's most resilient housing markets, supported by greater affordability and lower household indebtedness. Steady residential investment should help offset some of the drag from weaker exports and manufacturing activity.

Ontario

Despite some late-2024 strength in consumer spending and non-residential construction, Ontario's economic outlook has deteriorated sharply, as significant exposure to US trade and a sluggish housing market weigh heavily on momentum. The province's auto sector is facing a double whammy of escalating US tariffs and a slower-than-expected transition to electric vehicles. This has led to plant shutdowns, shift reductions and delays in major EV and battery investments.

Labour market conditions are softening, with the unemployment rate nearing 8%—driven largely by job losses in construction. Employment is expected to decline further, with the unemployment rate projected to reach just under 9% by year-end.

Housing activity remains subdued, with Toronto's condo market among the weakest in Canada. Affordability challenges, elevated supply and waning investor demand—exacerbated by federal caps on non-permanent residents—are keeping the market in buyer's territory.

Exports received a temporary boost in Q1 2025 as US firms front-loaded purchases ahead of new tariffs, particularly in steel and auto parts. However, this lift is expected to reverse. With exports set to decline, consumption weakening and business investment under pressure, Ontario is likely to enter a technical recession as early as Q2 2025.

The provincial government has introduced a suite of measures aimed at supporting growth amid trade-related headwinds. Key initiatives include targeted support for tariff-impacted businesses, expanded skills training and new tax relief—such as a permanent cut to gas and fuel taxes and enhancements to the Ontario Made Manufacturing Investment Tax Credit—to stimulate demand and investment. To offset private sector weakness, the province is significantly ramping up infrastructure spending, with $33.3B in capital outlays planned for FY2025–26—a 37% increase over last year and one of the largest jumps among provinces. Major investments will continue to focus on highways, transit and healthcare infrastructure to address congestion and expand essential services.

Quebec

Quebec is expected to underperform the national average in 2025 as growth continues to decelerate, likely entering a technical recession starting in Q2 as declining export volumes and weak business investment weigh on momentum. The province is among the most exposed to US tariffs due to its large manufacturing base—particularly aluminum, which now faces a 25% tariff that is set to double in the coming days.

Quebec's diversified economy and relatively low household debt offer some resilience, but the near-term outlook remains subdued. Domestic demand remains relatively stable, supported by lower household indebtedness, elevated savings and a robust housing market. Residential investment is holding strong and is expected to partly offset the softness in business spending. Quebec's housing market has remained one of the most resilient among the provinces, with tight supply and steady demand supporting prices and construction, though economic headwinds coupled with affordability pressures may temper further gains.

Quebec's population growth is projected to slow more sharply than the national average, putting a cap on growth. Labour market conditions are also expected to soften, with weaker overall growth weighing on hiring. The unemployment rate is forecast to rise to north of 6.5% by year-end.

To comply with the Balanced Budget Act, the Quebec government has pledged to rein in spending amid modest revenue growth—signalling a more restrained fiscal stance than that of other provinces. While this points to reduced broad-based stimulus, public investment remains a key lever of support. The government is prioritizing infrastructure spending and targeted liquidity measures to support sectors most affected by trade tensions, helping to cushion the impact of the tariff-induced slowdown.

Maritime provinces

The Maritime provinces, which led the country in growth last year, are poised for a slowdown in 2025 as population-driven momentum begins to ease. While growth is cooling, it is still expected to remain slightly above the national average.

Population growth—a key economic driver in recent years—has moderated sharply across the region. Interprovincial in-migration, particularly from Ontario, has slowed but remains favourable, continuing to support demand. The region's relatively low cost of living is helping sustain housing markets, with urban centres like Halifax remaining among the tightest in the country.

The impact of global trade tensions is expected to be relatively contained in the Maritimes. Nova Scotia's limited exposure to US trade—the lowest in Canada—offers some insulation from the ongoing trade dispute. New Brunswick, while among the most exposed due to its reliance on US trade, may avoid the worst effects, as refined petroleum and coal products—two of its primary exports—are less sensitive to tariff shocks. In PEI, the manufacturing and agriculture sectors are vulnerable to weaker US demand, but increased CUSMA compliance is expected to largely reduce the province's effective tariff burden.

Newfoundland and Labrador

Newfoundland and Labrador is expected to be one of Canada's stronger economic performers in 2025. This follows a 2.4% expansion in 2024, driven by a rebound in oil production. Offshore oil production has returned to late-2022 levels thanks to the resumption of the Terra Nova platform, and the anticipated reopening of the White Rose oilfield will provide further momentum. While oil prices have softened, the province remains relatively shielded from trade tensions due to a lower US tariff rate on energy exports and a diversified export base—only 50% of exports go to the United States, with 40% heading to Europe. The province's key mineral exports—iron ore and nickel—are facing price pressures in 2025, which may limit their contribution to overall growth. However, production levels are expected to rise steadily, helping to sustain overall export volumes.

The province's long-term outlook remains closely tied to timelines of large capital projects. Continued investments in oil platforms, mining projects and wind-energy projects are providing some lift over the medium term, alongside increased government capital spending on hospitals and infrastructure.

The recent Quebec–Newfoundland and Labrador hydro agreement marks a major fiscal boost for the province, significantly improving its long-term financial outlook. Key developments, including the Gull Island hydroelectric project, are expected to drive over $33B in construction activity and support thousands of jobs over the coming decades. This will provide a substantial boost to non-residential investment and regional economic growth.

Table 1

Canada: Major Economic Indicators by Province

% change	2021	2022	2023	2024	2025f	2026f
Real GDP growth – Canada	**6.0**	**4.2**	**1.5**	**1.5**	**1.1**	**0.8**
Newfoundland and Labrador	1.0	-1.9	-2.6	2.4	1.8	1.5
Prince Edward Island	7.8	4.4	2.2	3.6	1.6	1.0
Nova Scotia	6.4	3.5	2.0	2.7	1.5	0.8
New Brunswick	5.3	2.0	1.6	1.8	1.3	0.9
Quebec	7.3	3.4	0.6	1.3	0.9	0.8
Ontario	6.1	4.1	1.7	1.2	0.9	0.8
Manitoba	1.4	4.2	1.7	1.1	1.0	0.8
Saskatchewan	-2.6	7.2	2.3	3.4	1.6	0.9
Alberta	5.2	6.0	2.3	2.7	1.8	0.9
British Columbia	7.7	4.0	2.4	1.2	1.4	0.9
Nominal GDP growth – Canada	**14.2**	**12.4**	**2.9**	**4.6**	**3.2**	**2.5**
Newfoundland and Labrador	20.2	6.5	-5.5	3.4	2.2	2.6
Prince Edward Island	14.8	10.4	4.9	7.5	4.3	3.1
Nova Scotia	11.3	7.4	8.0	6.3	4.1	2.8
New Brunswick	10.5	10.4	3.2	5.0	3.8	2.9
Quebec	12.4	8.7	5.0	5.5	3.6	2.8
Ontario	11.0	9.4	5.4	4.9	3.5	2.8
Manitoba	8.7	10.8	4.5	4.3	3.5	2.7
Saskatchewan	13.6	30.4	-4.8	4.5	2.4	2.1
Alberta	26.1	24.4	-4.3	4.0	1.8	1.4
British Columbia	16.1	10.8	3.6	3.2	3.5	2.7
Total inflation rate – Canada	**3.4**	**6.8**	**3.9**	**2.4**	**2.1**	**2.1**
Newfoundland and Labrador	3.7	6.4	3.3	1.8	1.6	1.9
Prince Edward Island	5.1	8.9	2.9	1.9	1.9	1.8
Nova Scotia	4.1	7.5	4.0	2.3	2.0	2.0
New Brunswick	3.8	7.3	3.5	2.2	2.0	1.9
Quebec	3.8	6.7	4.5	2.3	2.2	2.0
Ontario	3.5	6.8	3.8	2.4	2.1	2.2
Manitoba	3.2	7.9	3.6	1.0	2.5	2.1
Saskatchewan	2.6	6.6	3.9	1.4	2.2	2.2
Alberta	3.2	6.5	3.3	2.9	2.2	2.2
British Columbia	2.8	6.9	4.0	2.6	2.1	2.0
Employment growth – Canada	**5.0**	**4.1**	**3.0**	**1.9**	**0.6**	**-0.3**
Newfoundland and Labrador	3.9	4.0	1.7	2.7	0.4	0.3
Prince Edward Island	5.0	5.0	6.2	3.6	2.0	0.8
Nova Scotia	6.4	3.5	2.7	3.1	1.0	0.3
New Brunswick	3.8	2.9	3.4	2.8	1.1	0.4
Quebec	4.3	3.1	2.9	0.9	0.7	-0.4
Ontario	5.1	4.8	3.1	1.7	0.1	-0.6
Manitoba	4.4	3.6	2.7	2.6	1.0	0.2
Saskatchewan	2.4	3.5	1.6	2.6	1.6	0.2
Alberta	5.1	4.9	3.7	2.9	1.9	0.7
British Columbia	6.2	3.4	2.6	2.4	0.5	-0.4
Unemployment rate – Canada	**7.5**	**5.3**	**5.4**	**6.4**	**7.3**	**7.5**
Newfoundland and Labrador	13.0	11.1	9.8	10.0	10.6	10.6
Prince Edward Island	10.0	7.7	7.3	7.8	8.0	8.3
Nova Scotia	8.6	6.6	6.4	6.5	7.1	7.4
New Brunswick	9.2	7.2	6.6	7.1	7.6	7.9
Quebec	6.1	4.3	4.4	5.4	6.2	6.3
Ontario	8.1	5.6	5.6	7.0	8.1	8.4
Manitoba	6.4	4.5	4.9	5.5	6.2	6.5
Saskatchewan	6.5	4.6	4.7	5.5	5.9	6.3
Alberta	8.5	5.8	5.9	7.1	7.6	8.1
British Columbia	6.5	4.6	5.2	5.6	6.3	6.4

f: forecast
Statistics Canada, Institut de la statistique du Québec, Ontario Ministry of Finance and Desjardins Economic Studies