ECONOMIC VIEWPOINT

Ontario Economic Outlook

Is the Heartland Province Still a Place to Grow?

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HIGHLIGHTS

- Ontario's economy is expected to grow by 1.4% in 2026, up from 1.1% in 2025, supported by scaled-back trade barriers, lower interest rates and federal spending. But this will play out differently across the province. Our analysis suggests that mining and private services are likely to be tailwinds to growth, while manufacturing and public services could face material headwinds.
- Ontario's auto sector is facing steep US tariffs and uncertainty around the upcoming Canada–United States–Mexico Agreement (CUSMA) review. This has impacted cities such as Windsor, where the unemployment rate has hovered around 10% for most of the year. The province's remaining manufacturing industries are more insulated from tariffs but have not been immune from ongoing trade disruptions. This headwind is expected to persist into next year.
- Ontario's steel industry has also been hard hit by US tariffs, with Hamilton bearing the brunt, as it accounted for 60% of Canada's steel output last year. Sault Ste. Marie in Northern Ontario, home of Algoma steel, has also been impacted.
- Mining has been a standout performer among Ontario industries, with gold prices at record highs and critical mineral projects advancing. This strength has translated into hiring, elevated job vacancies and higher wages, particularly in the North.
- Toronto's diversified economy has cushioned it from trade shocks, with financial and professional services leading activity. However, given the city's reliance on global talent, tighter national immigration targets pose headwinds by constraining labour supply and dampening consumer spending, even as they ease pressure on housing.
- Ottawa has another set of problems. Federal payrolls have already been trending lower, and recent announcements of public service cuts should accelerate job losses. Job creation in its thriving tech sector won't likely be enough to offset the losses.

Ontario heads into 2026 in a slow and steady but highly uncertain economic landscape, with conditions varying significantly across the province. Moderate growth, persistent trade uncertainty, rapidly slowing population growth, housing market adjustments and federal public sector job cuts dominate the story. But there are bright spots too, particularly for precious metals and critical minerals as well as private services. In this note, we dive deep into key industries in the Heartland Province to give our members and clients a sense of where these sectors may be headed in 2026. (For information on how Ontario's economy may perform next year compared to other Canadian provinces, see our latest Provincial Economic Outlook.)

Trade and Manufacturing Growth Hinges on CUSMA Stability

The US remains a dominant trading partner for Ontario, accounting for more than 75% of the province's international exports (graph 1 on page 2). Efforts to diversify markets overseas and reduce interprovincial trade barriers are important steps forward. However, Ontario's neighbour to the south will always be a significant buyer of goods and services.

Ontario's manufacturing sector has been on the front line of the trade war with the US, with manufacturing-intensive cities most exposed to trade disruptions. These

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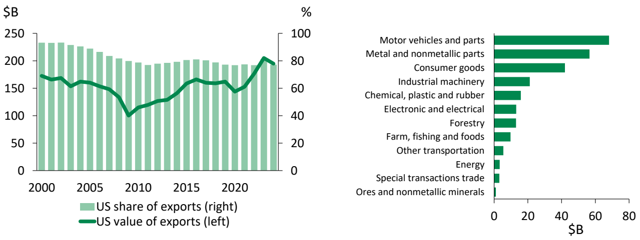
Graph 1
The US Dominates Ontario's Export Market

Ontario: exports to the US, 2024 | Ontario: total exports, 2024



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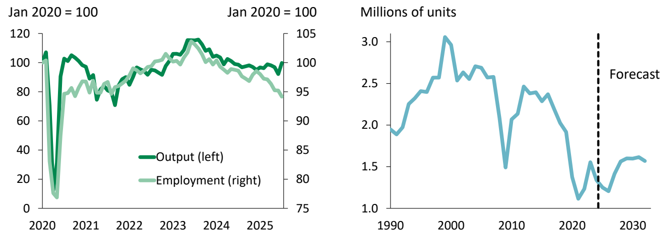
Graph 3
Auto Output Has Waned Since 2023 and Could Remain Well Below Pre-Pandemic Levels

Auto manufacturing output and employment | Canadian auto production and forecast



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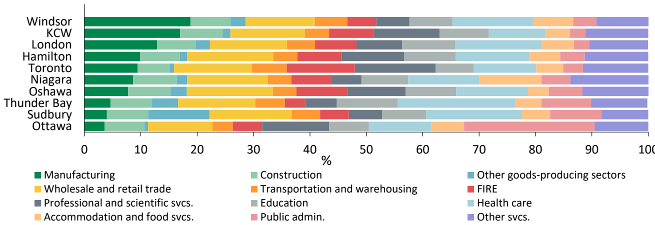
Graph 2
Windsor, KCW and London Are Highly Dependent on the Manufacturing Sector

Employment by industry



KCW: Kitchener–Cambridge–Waterloo; FIRE: Finance, insurance, real estate, rental and leasing
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include Windsor, Kitchener–Cambridge–Waterloo (KCW) and London, where manufacturing accounts for 10%–20% of employment (graph 2).

Mid- and small-sized cities along the Oshawa-to-Windsor corridor are particularly reliant on the automotive sector. Motor vehicles and parts are Ontario's largest export category at about $68B last year, of which almost $65B went to the US. Despite a 25% tariff on US imports of non-American motor vehicle content, output in auto manufacturing has held up better than expected. However, job losses—already headed in the wrong direction—have accelerated since the start of the year (graph 3, left).

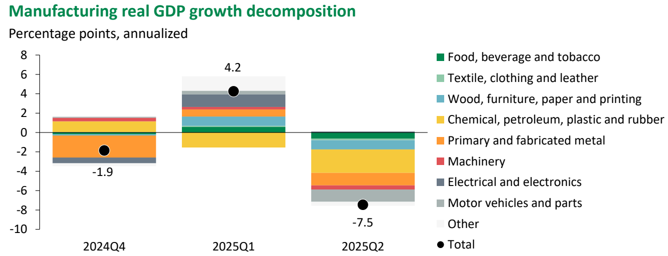
Looking ahead, recent announcements have not inspired much confidence in a meaningful recovery in the sector. Whether investment has been redirected to the US or models have been discontinued, prospects for the sector could be better. Media also reported during the recent APEC summit that Canada's Prime Minister and China's President discussed the potential reduction of tariffs on Chinese electric vehicles—a move that could further threaten Ontario's automotive sector. And while the auto production outlook for Canada based on announced plans is expected to improve, the rebound is anticipated to leave output well short of pre pandemic levels (graph 3, right).

While city-level data is sparse in Canada, what we have reinforces that Ontario's auto manufacturing centres have clearly been hardest hit. (See table 1 on page 6 for local data trends.) Windsor has the highest unemployment rate in the province at about 10% for most of the year. This is hardly surprising as our recent report found that about 65,000 auto sector jobs are at risk in Ontario. Meanwhile, job seekers will have a tough time finding new positions, as the vacancy rate in Windsor–Sarnia is at a record low of 2.1%.

But Ontario manufacturing is more than just autos. The province is home to a diverse industrial base that includes primary and fabricated metals, machinery, chemicals, food processing and wood products (graph 4). US tariffs still apply to Ontario-made products containing steel, aluminum, copper and softwood lumber—materials that underpin sectors like construction materials and heavy equipment. More recent US tariffs include 25% duties on upholstered wood furniture, bathroom vanities and kitchen cabinetry, sectors that will face even higher duties as of January 1, 2026.

Graph 4
Manufacturing Led Ontario's Real GDP Decline, but It Was More than Just Autos

Manufacturing real GDP growth decomposition



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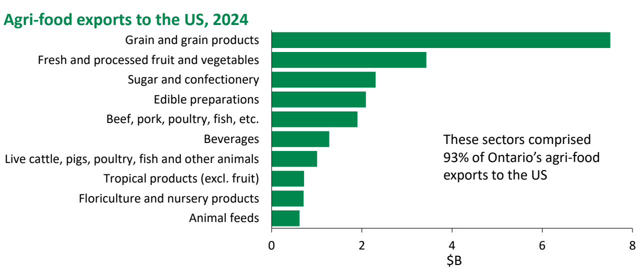
The upcoming 2026 CUSMA joint review introduces considerable uncertainty for manufacturers and exporters across Ontario. A tariff exemption for CUSMA-compliant goods in many of President Trump's executive orders has led businesses to rapidly file the necessary paperwork. This increased the share of CUSMA-compliant goods entering the US from Canada from 33% in February to about 85% in July. While a smooth renegotiation of CUSMA would support output in Ontario, and its manufacturing centres in particular, the risk of stalled investment and delayed hiring is substantial. And if the CUSMA review goes off the rails and there is a re-escalation of tariffs, the headwinds to investment and growth will be considerable.

Harvesting Opportunity Amid Headwinds

Ontario's agriculture and agri-food sector is a smaller but still critical pillar of the economy. Windsor–Essex accounts for 80% of Ontario's greenhouse acreage, with more than 70% of produce exported to the US. The Niagara Region, well known for its 100 wineries as well as its vineyards and tender fruit orchards, boasts nearly $140M in agricultural exports. While most of Ontario's $23B in agri-food exports to the US (graph 5) are CUSMA-compliant, they can still face tariffs on packaging materials. Canned produce and beverages, for example, may incur duties on steel or aluminum components even if the contents qualify for tariff exemptions. Mid-November's tariff rollback by the US on certain agricultural products not produced domestically is likely to have little impact here at home, as Ontario's crop and livestock production would already be exempt via CUSMA compliance. Beyond US trade frictions, China's retaliatory tariffs have added pressure, imposing 100% duties on peas as well as canola oil—an important cash crop in Northern Ontario—and a 25% duty on pork and seafood. Pork, in particular, is a key industry in Southwestern Ontario. These combined headwinds underscore the sector's vulnerability to global trade tensions.

Graph 5
Americans Buy Billions in Ontario Agri-Food Products



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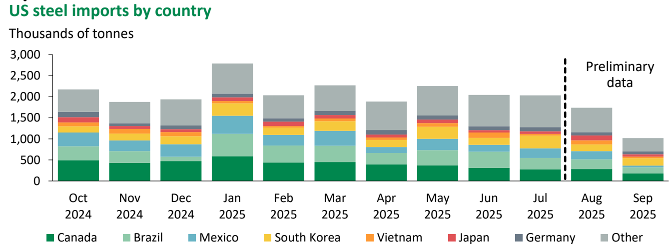
Staying Steely-Eyed in the Face of Tariffs

Ontario is home to much of Canada's steel production, whose exports to the US are facing a 50% tariff at the border. By July, US imports of steel from Canada had sunk to half the level they were at in January, and preliminary estimates suggest August and September were even worse (graph 6). Hamilton, also known as "Steeltown," accounted for 60% of Canada's steel output last year and has been severely affected by any rise in cross-border friction. Sault Ste. Marie, a northern border town that is home to Algoma Steel, has also been adversely affected. This major steelmaker has received substantial loans from both the federal ($400M) and Ontario ($100M) governments to help reorient steel production toward meeting domestic needs. And unlike aluminum, for which the US has little in the way of domestic production to substitute for Canadian imports, US producers are filling much of the gap left by lower steel imports.

Graph 6
Data Suggest That US Imports of Canadian Steel Started Dropping in April



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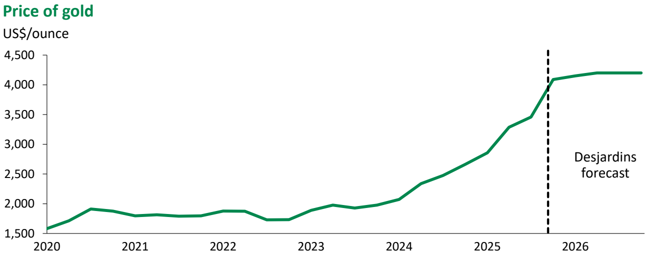
Ontario's North Has a Heart of Gold

While Canada's steel and aluminum sectors have been hit hard by US tariffs, mining and metals production has otherwise fared relatively well. This is particularly true in Ontario's North, where extensive gold deposits have given it the Midas touch during the current period of economic uncertainty. Gold prices hit record levels recently, while the TSX Materials sector has returned around 80% so far this year (as of October 31, 2025). And we expect this to continue as sustained demand from investors and central banks helps to maintain price pressures (graph 7 on page 4).

Other metals have not experienced the same price tailwind and are, in some cases, oversupplied globally. But the lower US tariff rate on non-CUSMA-compliant critical minerals, the federal and Ontario governments' respective critical minerals strategies and the support for accelerating mine approvals as part of the list of "nation-building projects" should all help to boost output for non-precious metals in Ontario's North as well. The critical mineral—rich Ring of Fire, long held up as an aspirational goal for development, is quickly moving closer to becoming a reality.

Graph 7
We Expect Gold Prices to Remain Elevated for the Foreseeable Future



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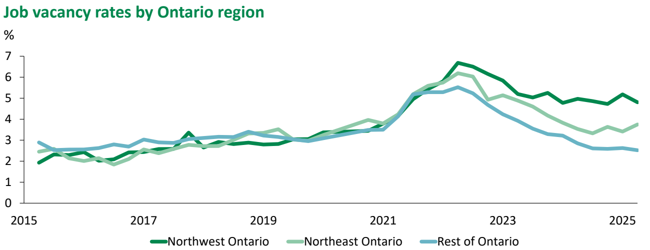
Graph 8
Job Vacancy Rates Remain Elevated in Ontario's North



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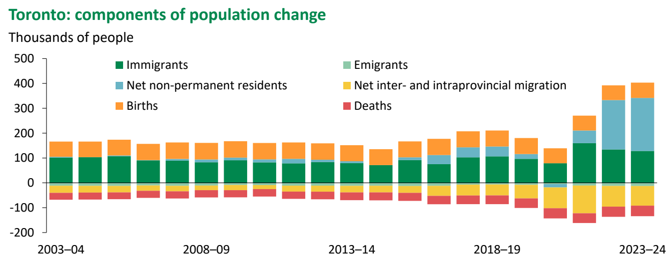
These developments are not only reshaping Northern Ontario's resource economy—they're also driving strong labour market conditions across the region. Robust mining activity has translated into job growth and rising incomes. The job vacancy rate is also much higher in Ontario's North than in other parts of the province (graph 8), supporting solid wage growth.

Ontario Regions That Are at Your Service

In contrast to Ontario's manufacturing and steel-producing centres, cities with more service-oriented economies are less sensitive to trade shocks. Toronto's economic base is highly diversified, with multiple tailwinds heading into 2026. As Canada's financial capital, the city hosts the headquarters of major banks, pension funds and insurance companies, as well as the Toronto Stock Exchange—the largest in the country and a key driver of capital market activity. Real estate continues to shape the urban landscape. Despite a weak and largely unaffordable housing market, demand for office space in the downtown core appears to be on the upswing. Beyond finance and real estate, Toronto benefits from a growing technology sector, world-class post-secondary institutions and a large healthcare industry. As the provincial capital, Toronto also maintains a significant public services presence, with no indication of major staffing changes ahead according to the 2025 Fall Economic Statement. Its vibrant film and television industry, often dubbed "Hollywood North," adds to the city's cultural and economic strength—though recent US threats to impose steep tariffs on productions filmed outside the country could pose a risk to this sector. And much like the recent World Series run by the Blue Jays, the six World Cup games set to be played in Toronto in 2026 will likely give the region an additional tourism boost next summer.

However, given Toronto's role as the nation's primary landing point for newcomers, changes to Canada's immigration policy could hamper the city's growth prospects. This steady inflow has long supported population growth, labour force expansion and demand for housing, services and other amenities (graph 9). Immigration has also been a key driver of Toronto's economic dynamism, thanks to the skilled talent arriving from abroad. Post-secondary institutions depend on international students, whose higher fees help offset domestic tuition freezes. However, the federal government's recent decision to tighten immigration targets has tempered this growth trajectory. Fewer newcomer arrivals will likely ease pressure on housing demand and help to keep a lid on rent growth but could also constrain labour supply and reduce consumer spending momentum.

Graph 9
Toronto's Growth Relies Heavily on Newcomers



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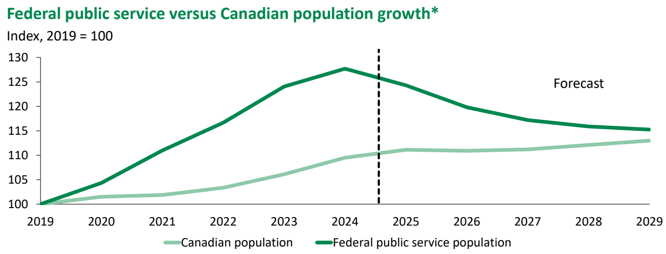
Ottawa's large public service workforce makes upcoming federal program expenditure cuts especially painful. Federal payrolls have already been trending lower, and recent announcements of public service cuts are going to accelerate job losses in Eastern Ontario. In Budget 2025, the Government of Canada laid out its plan to reduce the number of public service positions by 40,000, or 10% below the peak of almost 368,000 in the 2023–24 fiscal year (graph 10 on page 5). This is in addition to consultants and other outside contractors whose livelihoods depend on federal government contracts. While the impacts of these staff reductions will be felt across the country, they will disproportionately weigh on the labour market and economy of the National Capital Region. And despite

Graph 10
The Federal Public Service Is Expected to Shrink by 10% over Five Years



* Based on assumptions provided in Budget 2025, but forecasts may differ somewhat.
Government of Canada, Statistics Canada, Office of the Parliamentary Budget Officer and Desjardins Economic Studies

Ottawa's still-healthy tech sector, it likely won't be enough to counteract the economic headwinds created by downsizing Canada's largest employer.

Long-Term Opportunities from Federal Infrastructure Initiatives

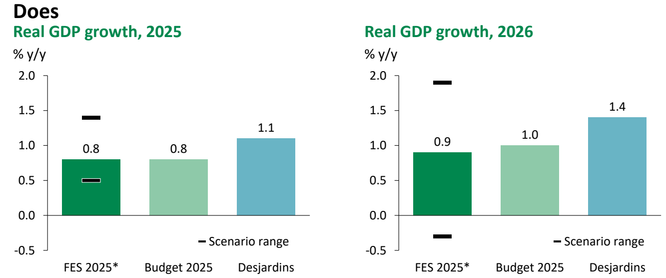
Recent federal announcements on major infrastructure projects and other investments should shape Ontario's economic landscape over the longer term. The Ring of Fire development—supported by both federal and Ontario government investments—positions Northern Ontario as a key source of critical minerals that are essential for consumer electronics, medical devices and electric vehicle (EV) battery production. This could strengthen Ontario's role in the EV supply chain, supporting automotive manufacturing in the Oshawa-to-Windsor corridor. The proposed high-speed rail line connecting Toronto, Peterborough and Ottawa with service extending as far as Quebec City is expected to create an estimated 51k jobs during the construction phase and deliver lasting gains in GDP and productivity upon completion. While these initiatives are unlikely to materially affect growth in 2026, they signal a mid- to long-term strategy that could reshape regional economies and sectoral performance over the coming decades.

Defence spending could reinforce Ontario's industrial and military footprint. Defence commitments outlined in Budget 2025 amount to nearly $63B over the next five years, with the bulk of the spending earmarked for rebuilding, rearming and reinvesting in the Canadian Armed Forces. Ontario—home to five of Canada's 24 Canadian Forces bases and a significant share of the country's manufacturing capacity—stands to benefit from procurement and infrastructure upgrades tied to these commitments.

Putting All of the Trends Together

While there are a lot of headwinds to Ontario's economy in 2026, our growth forecast suggests that it will pick up relative to 2025. The reasons for this include a relatively low effective tariff rate on exports to the US (assuming it remains unchanged); the scrapping of most federal import counter tariffs except on autos, steel and aluminum; recent interest rate cuts; and the planned ramp-up in federal spending announced since the 2025 election. When combined with incoming data so far this year, this has caused us to land on a forecast of 1.1% and 1.4% real GDP growth by expenditure in Ontario in 2025 and 2026, respectively, and if the baseline from our October 2025 Economic and Financial Outlook continues to hold. This is well above the economic forecast used for planning purposes in the Government of Ontario's recent fall fiscal update (graph 11).

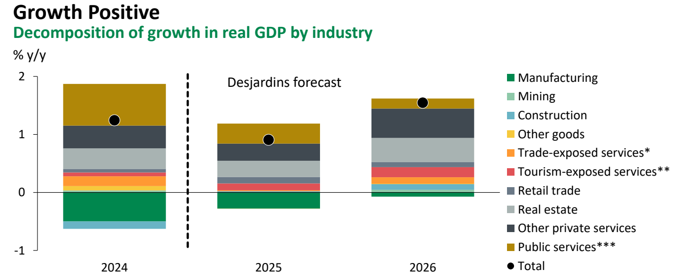
Graph 11
We Expect Higher Real GDP Growth than the Government of Ontario Does



* Fall Economic Statement.
Government of Ontario and Desjardins Economic Studies

But what matters most across different parts of the province is how this forecast plays out across sectors. As previously discussed, the economies of various parts of the province are driven by disparate industries: manufacturing and agriculture in Southwestern Ontario; mining in Northern Ontario; private services in Toronto; and public services in Eastern Ontario. While this is only a very generalized summary, it can be used to provide some additional insights into the outlook. Our analysis suggests that mining and private services are likely to be tailwinds to growth, while manufacturing and public services could face material headwinds (graph 12).

Graph 12
Private, Domestically Oriented Services Should Keep Ontario Real GDP Growth Positive



* Includes wholesale trade and transportation and warehousing; ** Includes accommodation and food services and arts, entertainment and recreation; *** Includes education, health care and social services, and public administration
Government of Ontario, Statistics Canada and Desjardins Economic Studies

Table 1
Ontario: Major Economic Indicators by CMA

	2021	2022	2023	2024	2025 YTD
Population growth – Ontario (% y/y)	**1.9**	**3.4**	**3.7**	**3.7**	**1.3**
Toronto	1.7	3.9	4.4	4.4	1.5
Ottawa	2.2	3.2	3.4	3.4	2.2
Hamilton	1.1	1.9	2.1	2.1	1.1
Kitchener–Cambridge–Waterloo	4.1	6.5	6.1	6.1	1.6
London	2.8	4.3	4.5	4.5	1.1
St. Catharines–Niagara	2.2	3.5	3.5	3.5	1.3
Windsor	2.3	3.8	3.9	3.9	0.1
Oshawa	3.2	3.7	3.5	3.5	2.9
Sudbury	1.8	3.0	2.7	2.7	1.6
Thunder Bay	0.5	1.6	1.7	1.7	-0.3
Sault Ste. Marie	-	-	-	-	-
Employment growth – Ontario (% y/y)	**2.2**	**2.9**	**1.6**	**1.6**	**0.5**
Toronto	-0.7	3.5	2.0	2.0	0.7
Ottawa	5.5	6.3	1.9	1.9	-5.7
Hamilton	1.9	-0.5	-0.4	-0.4	6.0
Kitchener–Cambridge–Waterloo	3.7	4.4	8.1	8.1	-1.1
London	2.1	7.2	-0.4	-0.4	3.8
St. Catharines–Niagara	6.5	4.9	0.1	0.1	-1.3
Windsor	2.1	2.0	6.2	6.2	0.0
Oshawa	3.5	1.1	0.0	0.0	9.0
Sudbury	2.5	3.5	-2.2	-2.2	6.7
Thunder Bay	-3.0	4.0	1.9	1.9	4.4
Sault Ste. Marie	-	-	-	-	-
Unemployment rate – Ontario (%)	**8.4**	**5.7**	**5.6**	**6.8**	**7.7**
Toronto	9.6	6.5	6.3	7.8	8.8
Ottawa	6.1	4.1	4.5	5.7	6.2
Hamilton	7.0	4.9	5.3	6.7	7.0
Kitchener–Cambridge–Waterloo	6.6	5.7	6.0	6.9	7.6
London	8.2	5.8	5.1	6.5	6.5
St. Catharines–Niagara	10.8	5.5	5.7	7.5	6.8
Windsor	9.5	7.3	6.4	8.1	10.2
Oshawa	7.9	5.4	5.5	6.7	8.8
Sudbury	7.8	4.2	4.6	5.6	5.9
Thunder Bay	7.5	5.2	4.4	4.0	4.8
Sault Ste. Marie	-	-	-	-	-

2025 YTD: annualized, based on January to October data
Statistics Canada and Desjardins Economic Studies