ECONOMIC VIEWPOINT

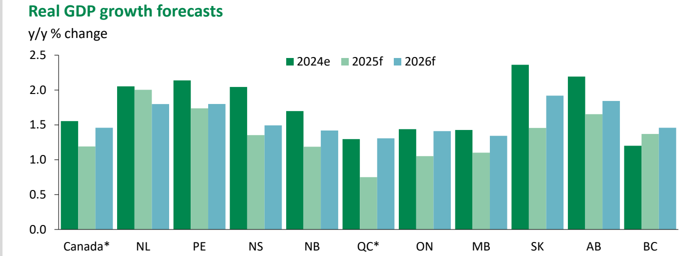
Provincial Economic Outlook: The Good, the Bad and the Ugly

By Randall Bartlett, Deputy Chief Economist, Sonny Scarfone, Principal Economist, and Samuel Turcotte, Analyst

- It's been a tough year for Canada and its provinces. But despite the economic volatility and uncertainty, we've raised our 2025 and 2026 outlooks for real GDP growth nationally and in central Canada, specifically Ontario and Manitoba. And while we've lowered our 2025 growth projection for energy-producing provinces—namely Alberta and Saskatchewan—compared to our June forecast, we now expect all but one province to experience higher real GDP growth next year (graph 1).
- A better growth forecast is just part of the good news. It stems from the lower effective tariff rate on US imports from Canada than previously projected, paired with an improved US economic outlook. The elimination of countertariffs on many imports from the US will also help support growth by bringing down prices and providing relief to households and businesses. A broad reduction in internal trade barriers won't hurt either. The resulting lower interest rates will be a tailwind to economic activity too.

Graph 1
After a Sluggish 2025, Real GDP Growth Should Rebound in 2026

Real GDP growth forecasts



e: estimated; f: forecast
*Latest forecast for Canada and Quebec based on our September 2025 Economic and Financial Outlook
Statistics Canada and Desjardins Economic Studies

- Now for the bad news. Despite falling import tariffs and interest rates, the Canadian housing market is on life support, particularly in the most unaffordable provinces—Ontario and British Columbia. In these regions, mortgage arrears are rising rapidly and condo presales are in the dumps. At the same time, market rents are falling fast while rental supply is accelerating. This can in part be linked back to the abrupt reversal in non-permanent resident admissions, a phenomenon which is expected to continue—and possibly accelerate—into 2026.
- That just leaves the ugly, which speaks more to the risks around the outlook than to the immediate reality. Going into the 2026 renewal of CUSMA, there remains a material downside risk that the US administration could ratchet up tariffs on Canadian exports again, in a repeat of 2025. The administration has taken this approach recently with cabinets and furniture. However, provincial governments took precautions for this possibility by being prudent in their budget planning and preparing measures to contend with trade shocks, making them well positioned to weather the storm.

When we published our last provincial outlook in June, Canada's economic circumstances were looking dire. April data had just started to trickle in, and it was clear that the Canadian economy had taken a sharp turn for the worse. And indeed, when Q2 real GDP was released at the end of August, it had contracted sharply. The drag from trade was the largest of any single quarter on record going back to 1961, barring the depths of the pandemic.

Despite the drop in Q2 real GDP growth being in line with our June outlook, we've since revised our national forecast for 2025 and 2026 higher. And not only the projection for Canada, but most notably for the central Canadian provinces of Ontario and Manitoba (graph 2 on page 2). As two of the provinces most exposed to tariffs on both sides of the Canada–US border, they have reasons to be cautiously optimistic about the outlook. But it's not all good news across Canadian provinces. We've marked

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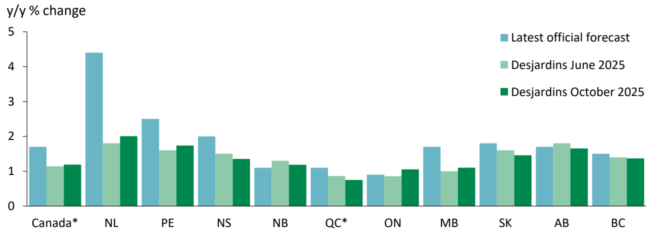
down the real GDP growth forecast for the energy-producing provinces of Alberta and Saskatchewan since June. Meanwhile, the outlook for the remaining provinces is more mixed.

Graph 2
2025 Growth Outlook Has Improved for Central Canada but Weakened in the West
Real GDP growth forecasts for 2025



*Latest forecast for Canada and Quebec based on our September 2025 Economic and Financial Outlook
Statistics Canada and Desjardins Economic Studies

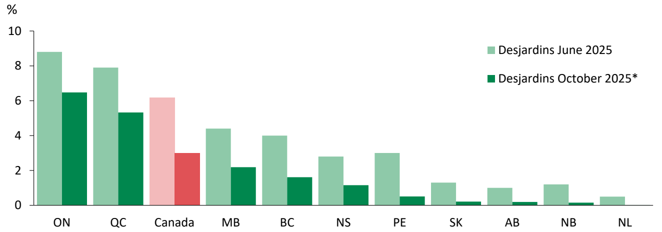
So, what's driving the increased optimism for central Canada and the greater pessimism for resource-rich provinces? And if those are the good and the bad of the forecast, then what's the ugly of the outlook?

The Good, …

Tit for Tat! You Tariff Me, I'll Tariff You Back

What a difference a few months can make. In the run-up to "Liberation Day" in April, there had been an escalation in tariffs and retaliatory tariffs between the US and Canada. Tariffs also became more aggressively enforced. We had previously assumed an effective tariff rate on Canadian goods exports destined for south of the border of around 6% over our forecast. However, in part due to the rapid pace of CUSMA compliance by Canadian businesses, the vast majority of US imports from Canada are now entering duty free. As a result, the effective tariff on Canadian goods entering the US was closer to 3% by July (graph 3). And while the central Canadian provinces continue to be subject to the highest tariffs on their exports stateside, these duties have

Graph 3
Greater CUSMA Compliance Has Meant Lower Tariffs on Canadian Exports
US average effective tariff rate on Canadian imports by province



e: estimated; f: forecast
* Average effective tariff rate based on calculated duties at the HS6 level, scaled by provincial exports to the US in July 2025
Statistics Canada, US International Trade Commission and Desjardins Economic Studies

come down substantially from where they were before the summer. That said, tariffs on US imports of steel, aluminum, copper and autos remain high.

On the flip side, the federal government's decision to remove retaliatory tariffs on a substantial share of goods coming from the US has provided a boost to the outlook for the Canadian economy. Our research found that national real GDP growth should be 0.1–0.2 percentage points (ppts) higher in 2026 because of lower inflation and, consequently, interest rates. The provinces most likely to benefit from this are again those in central Canada, with their diverse economies and prevalent manufacturing sectors that are highly integrated with those in the US (graph 4). Notably, our analysis from earlier in the year found that the sector most exposed to retaliatory tariffs is construction. As such, their removal should disproportionately benefit those provinces where residential construction comprises the largest share of economic activity, especially Ontario and British Columbia.

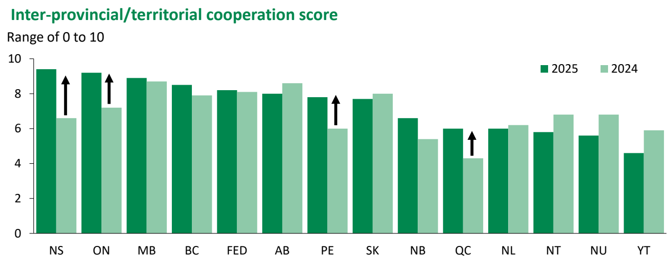
Graph 4
Effective September 1, Tariffs on Many Imports from the US Were Removed
National and provincial effective import tariff rates, August 2025

* August 2025 estimate may be revised when the US government shutdown ends
** The pre-September 2025 tariff rate reflects Ottawa's regime in effect until August 31, 2025
*** The post-September 2025 tariff rate reflects the current regime following Ottawa's September 1, 2025, tariff reduction on US imports
Statistics Canada, Department of Finance Canada and Desjardins Economic Studies

Internal Trade: It's a Mutual Thing

Progress on interprovincial trade has accelerated markedly in 2025. According to the Canadian Federation of Independent Business (CFIB, 2025), more positive developments have been made this year than in the entire previous decade (graph 5 on page 3). Leading the way is Nova Scotia, which has committed to mutual recognition of goods (including food), services and investments with other jurisdictions that have enacted similar legislation. This move has spurred action in other provinces, though none have matched Nova Scotia's level of commitment. At the federal level, the Government of Canada has also stepped up with the *Free Trade and Labour Mobility in Canada Act*, which eliminates federal barriers to internal trade and enhances worker mobility. While these developments are encouraging, greater investment in east–west transportation and trade infrastructure, much of which has historically been oriented towards north–south trade with the United States, will be critical to fully seize the opportunity presented by internal trade.

Graph 5
Internal Trade Barriers Fell in Most Canadian Provinces in Early 2025

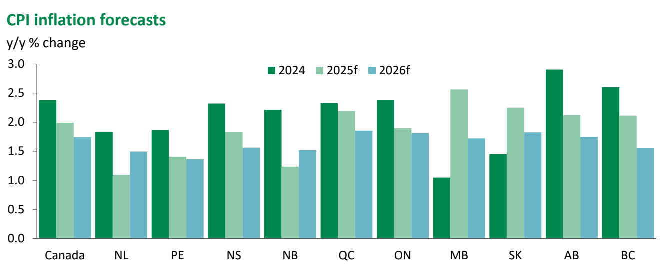


FED: Federal government
Canadian Federation of Independent Business and Desjardins Economic Studies

The Price Outlook Is Right for Lower Rates

Thanks in large part to the removal of countertariffs on many US imports, we have revised our national outlook for CPI inflation materially lower. We now expect inflation in 2026 to be 1.7% y/y, down from 2.1% as recently as our August Economic and Financial Outlook. Most Canadian provinces are likely to experience a similar slowing in the pace of price growth next year, although our inflation projections continue to vary considerably across regions (graph 6).

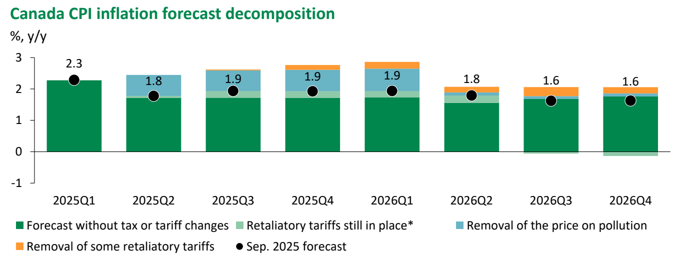
Graph 6
CPI Inflation Should Come Down This Year and Next in Most Provinces



f: forecast
Statistics Canada and Desjardins Economic Studies

The reduction in countertariffs followed the even more disinflationary impact of the elimination of the price on pollution on April 1 (graph 7). We forecast that this should reduce headline Canadian inflation by 0.6 to 0.7 ppts in the first year, and 0.1 ppts every year thereafter than would otherwise be the case. British Columbia also eliminated its consumer carbon tax in 2025, putting further downward pressure on prices in the province, whereas Quebec maintained its cap-and-trade system to reduce carbon emissions. With a weaker forecast for oil and natural gas prices than back in June, we now see lower energy prices easing overall inflationary pressures in Canada beyond 2025. Of course, while this is a win for most Canadian households, lower oil and gas prices likely mean reduced economic activity, profits, incomes and resource revenues than would otherwise be the case in energy-producing provinces.

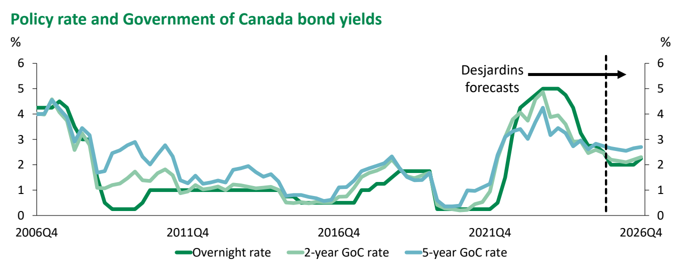
Graph 7
We've Reduced Our Inflation Forecast Due to Tax and Tariff Cuts



*Tariffs announced as of September 16, 2025
Government of Canada, Statistics Canada and Desjardins Economic Studies

As inflationary pressures continue to ease, we expect the Bank of Canada to cut rates again in October, then one more time after that before it takes a break to survey the impacts (graph 8). As a result of lower interest rates and inflation, as well as an improved external outlook, we think the Bank is also likely to revise its baseline forecast higher when it makes its October rate announcement.

Graph 8
Lower Inflation Has Allowed the BoC to Respond to a Weaker Economy



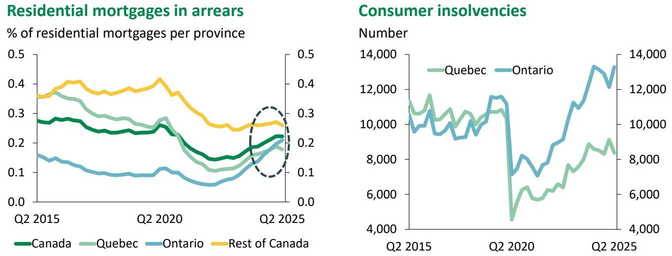
BoC: Bank of Canada; GoC: Government of Canada
Bank of Canada and Desjardins Economic Studies

… The Bad, …

If You Build It, Will They Come?

Rate cuts mean greater support for Canadian households looking to buy a home or just hoping to balance their monthly budget as mortgages renew at well above pandemic-era rates. It comes as no surprise then that the provinces most likely to benefit from lower interest rates are also the most unaffordable, notably Ontario and BC. However, that doesn't imply that these housing markets are likely to come roaring back. Toronto and Vancouver remain in buyer's market territory, with new listings continuing to outpace sales. Condo presales are in the tank as many investors remain on the sidelines. Residential mortgage arrears in Ontario are also high and rising, recently topping Quebec as a share of outstanding residential mortgages for the first time since 2010 (graph 9 on page 4). To put this in context, mortgage arrears

Graph 9
Mortgage Arrears and Consumer Insolvencies Are Moving Higher

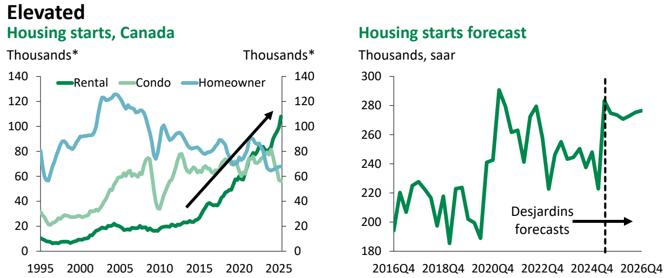


Canadian Bankers Association, Innovation, Science and Economic Development Canada and Desjardins Economic Studies

in Ontario hit nearly 5,000 in July, the highest number since early 2012. Consumer insolvencies are similarly on the rise in Canada's most populated province.

Homebuilding in Ontario is also particularly soft, as seasonally adjusted housing starts hit their lowest level since the global financial crisis in March of this year. And while we expect the pace of home construction to pick up next year because of reduced trade tensions and lower interest rates, activity is likely to remain stronger in the purpose-built rental segment than in ownership markets (graph 10). As a result, we remain of the view that housing starts will pick up next year across the country. Federal policies like cutting the GST on new builds for first-time homebuyers and Build Canada Homes could boost home construction on the margins as well.

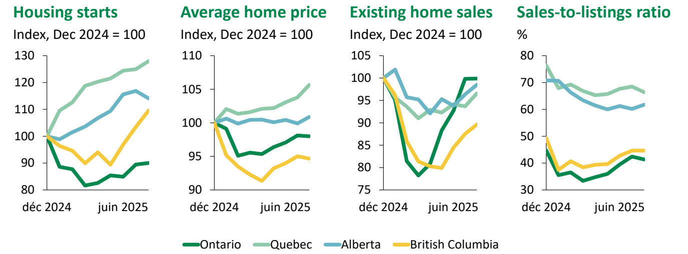
Graph 10
Purpose-Built Rentals Have Skyrocketed and Should Keep Starts Elevated



* Four-quarter moving sum; saar: seasonally adjusted at annual rates
Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Nevertheless, national averages tend to obscure very different local conditions, with housing market weakness in Ontario and BC this year standing in contrast to strong performances in Quebec and Alberta (graph 11). (See our latest housing market outlook for provincial forecasts.)

Graph 11
None of Canada's Provincial Housing Markets Is like the Others

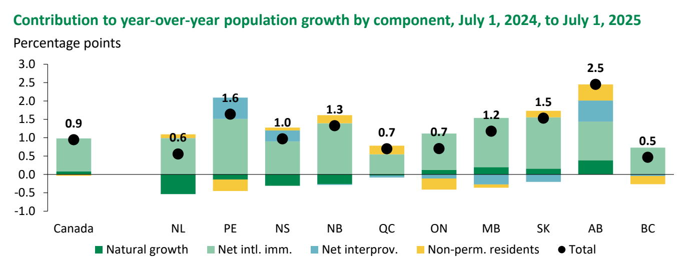


Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Desjardins Economic Studies

Population Destination Unknown

The weakness in some housing markets isn't just one of overstretched households facing higher borrowing costs. What was once an issue of demand well outstripping supply has reversed since 2024 in many markets. A key driver of that about-turn is the pace at which newcomers are entering Canada. That's particularly true for non-permanent residents (NPRs), notably international students. The surge in these temporary residents in 2022 and 2023 pushed demand for rented accommodation to new heights, driving up rents and values of smaller condo units generally owned by individual investors. But this has since reversed as NPR admissions have fallen (graph 12).

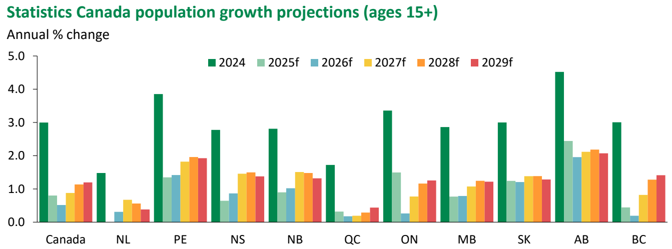
Graph 12
Non-Permanent Resident Admissions Have Gone into Reverse



Statistics Canada and Desjardins Economic Studies

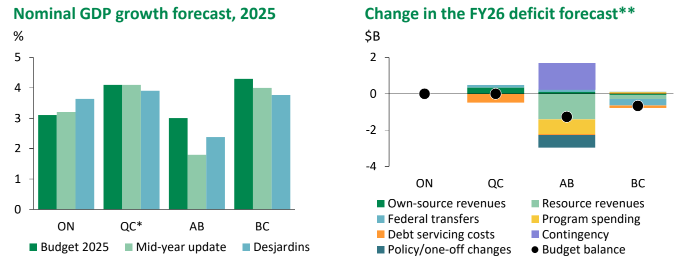
If the federal government maintains and achieves its population targets (which we consider unlikely for NPRs), Canada's population could fall even faster, possibly contracting for the first time since World War II. This would be a notable headwind to overall economic activity, and one Bank of Canada Governor Tiff Macklem cited during a recent press conference. Ontario and BC have been and will continue to be the most disproportionately impacted provinces, as they were the primary destinations for many newcomers to Canada (graph 13 on page 5).

Graph 13
Population Growth Is Expected to Hit the Brakes in Ontario, Quebec and BC



f: forecast
Statistics Canada and Desjardins Economic Studies

Graph 15
Larger-than-Expected Deficits Have Not Been Due to a Weaker Economy

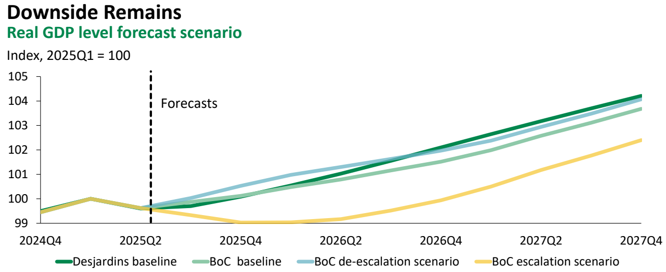


* Only the Budget 2025 forecast is provided
** Change in deficit from Budget 2025 to Q1 mid-year update; FY26: 2025–26 fiscal year
Official government documents and Desjardins Economic Studies

… and the Ugly of the Outlook

Overall, it's fair to say the good news has outweighed the bad since our June provincial outlook. But while we've revised our baseline economic forecast higher for Canada and the provinces most exposed to US import tariffs, trade policy uncertainty remains a persistent downside risk—especially as the CUSMA review moves ahead next year. As such, while our central scenario now looks to be somewhere between the Bank of Canada's current tariff and de-escalation scenarios, the escalation scenario remains a going concern (graph 14).

Graph 14
We're in Line with the BoC's More Optimistic Scenarios, but the Downside Remains



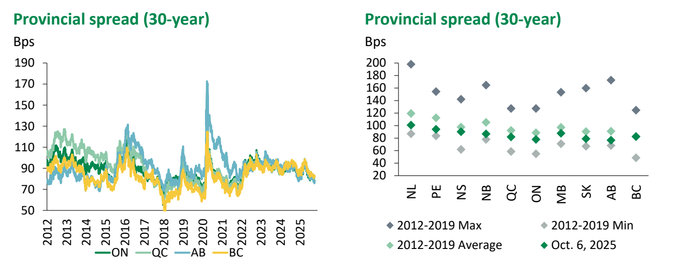
BoC: Bank of Canada
Bank of Canada, Statistics Canada and Desjardins Economic Studies

Provincial Governments Prepared for the Worst

Fortunately, many provincial governments prepared for the worst in their spring budgets. This is important, as first-quarter results from the current fiscal year have seen generally unchanged or downwardly revised outlooks for nominal GDP—the broadest measure of their tax base. Despite this, downward adjustments to expected own-source, non-resource revenues have been modest when specific policy changes since budget season are accounted for (graph 15).

Looking beyond the current fiscal year, our upwardly revised outlooks for real and nominal GDP growth in central Canada point to smaller provincial deficits over the medium term than would otherwise be the case. In contrast, lower energy prices are expected to widen the deficits of resource-rich provinces relative to the forecasts in their spring 2025 fiscal plans. However, substantial contingencies set aside for such events suggest many provincial governments should be able to weather the storm. The 30-year bond yields of Canada's largest provinces—Ontario, Quebec, Alberta and British Columbia—reflect this positive perception among investors. Indeed, these yields remain historically tight relative to each other and Government of Canada bond yields (graph 16), thanks in part to increased international appetite for provincial bonds.

Graph 16
Provincial Spreads Remain Below Their Historical Averages



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Conclusion

While 2025 has been a tough, volatile year for the Canadian economy, recent data and policy changes suggest the worst-case scenarios may be avoided. As such, outlooks for the economies of central Canadian provinces have been revised higher, even as lower energy prices are likely to be a headwind to growth in resource-rich provinces. But while our overall baseline scenario for the Canadian economy is a little rosier than before, the downside scenario remains alive and well, as the US administration could reverse course on trade policies at any time. This remains a material risk—and it's the ugly to the good and bad of our latest provincial economic outlook.

British Columbia

While we've lowered our outlook for BC's real GDP growth in 2025, it's still expected to be among the better-performing Canadian provinces this year. Trade plays a big part in this relative outperformance, as Canada's most western province has more limited export exposure to the US than others. Nearly half of BC's exports are destined for non-US markets, well above the sub-25% national average. Its consumer demand also leads the country, driven by broad-based strength possibly supported more recently by the elimination of BC's consumer carbon tax.

However, growth remains subdued by historical standards. The wood product sector—accounting for one-third of provincial manufacturing—faces new duties that rise to as much as nearly 50% on certain exports to the US (most are subject to a 35% tariff). And while less than 40% of its output is US-bound, that's cold comfort given the importance of the industry to BC's economy. Natural gas prices have also declined substantially this year, adding to the drag from lower natural resource revenues in BC's latest fiscal update relative to its 2025 budget. However, the launch of LNG Canada is expected to accelerate natural gas exports and expand trade with Asia.

Residential investment remains soft but has rebounded modestly from the weakness in the first half of the year. As of August, sales had recovered about half the ground lost from January to May, and the average existing home price was higher than it ended last year. And while housing starts have been volatile from month to month, they've been trending higher since February. 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 the provinces.

Alberta

Alberta's energy sector continued to expand in 2025, with oil production hitting new highs driven by increased oilsands output and greater access to diverse international markets via the Trans Mountain Expansion (TMX). While capital investment remains below historical highs, maintenance spending and healthy cash flows persist. And the near-total CUSMA-compliance of Canada's energy exports in July pushed the effective tariff rate on US imports of Canadian crude to essentially zero. US refiners have also absorbed some of the tariff cost, keeping demand steady and gasoline prices from rising more quickly. This, paired with the TMX, has helped narrow the spread between the prices of West Texas Intermediate (WTI)—North America's light crude oil benchmark—and Western Canada Select (WCS)—Canada's heavy crude oil benchmark, keeping it relatively low since March. However, with crude prices well below where they started the year and possibly on track to move lower into 2026, profitability in the sector could come under pressure.

Alberta's housing market remains one of the most affordable in Canada, and it shows in sustained activity. While sales have cooled somewhat since the start of the year, prices remain elevated, bucking the national trend of staying below the pandemic peak since interest rates started rising in 2022. Housing starts have also hit record highs in 2025. Alberta has the highest population growth rate in the country, which helps to explain the sustained demand for housing, which is driven disproportionately by interprovincial migration from elsewhere in the country.

Labour market dynamics are more perplexing, particularly given Alberta's young population and relative economic outperformance. Our recent research on youth labour market outcomes found that since mid-2022, Alberta has had the largest increase in the youth unemployment rate and the largest population growth in this age cohort. This partly explains the province's 7.8% overall unemployment rate in September despite its relative economic outperformance.

Saskatchewan

Saskatchewan is expected to remain among the fastest-growing provinces in Canada in 2025. The province's exposure to US tariffs is among the lowest in Canada thanks to the near-total CUSMA compliance of oil and natural gas, potash and uranium. This, combined with Saskatchewan's diversified export base, helps buffer the economy from external shocks.

This said, Saskatchewan's economy remains heavily export-driven, with energy, agriculture and minerals comprising its top three export categories. The province benefits from a diversified set of export destinations, which helps cushion the impact of proposed tariffs—including those from China. That said, agriculture is a critical sector and is currently under considerable pressure following China's imposition of a 100% tariff on Canadian canola oil and meal exports in March 2025, followed by an additional 76% duty on canola seed in August. China accounts for roughly 24% of these exports, while the US represents another 14%. The remaining 60% is distributed across markets such as India, Japan, Algeria and Morocco. With the right support, there is potential for the sector to further diversify its export base. In recognition of these challenges, the federal government announced over $370M in early September to support producers of canola and other agricultural products.

Strong potash prices and record uranium production in early 2025 have helped offset the impact of trade disruptions and lower oil output compared to last year. Non-residential construction is also surging, driven by the $18B BHP Jansen potash project, which continues to fuel capital investment and support economic activity across the province.

Manitoba

Manitoba's economy is projected to underperform the national average in 2025, as tariffs and ongoing trade uncertainty weigh on confidence and activity in the highly trade-diversified province. 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 on exports destined for south of the border—trailing only Ontario and Quebec. That said, at 2.1%, it remains below the national average of 3%. With export gains from pre-tariff stockpiling stateside having faded, the manufacturing and transportation sectors are subject to material headwinds. The same is true for the pharmaceutical sector, as Manitoba is the province whose exports are most exposed to the latest round of US tariff threats.

Manitoba's agriculture sector is facing mounting pressure as key exports—particularly canola, peas and pork—are hit with steep tariffs. Unlike Saskatchewan, which benefits from a more diversified export base, Manitoba sends roughly 70% of its agricultural exports to the US and China. Despite these challenges, the sector is showing resilience. Producers are adapting with the help of targeted government support, in many cases planting alternative crops to avoid heavy tariffs. In its 2025 budget, the Manitoba government 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. But this rotation appears to be playing out slowly, with the increase in exports to non-US destinations in no way offsetting the drop in trade with the US since the end of 2024.

Manitoba continues to benefit from one of Canada's more resilient housing markets, supported by greater affordability and lower household indebtedness. Despite ongoing population gains and one of the lowest unemployment rates in Canada, homebuilding has underperformed the national pace this year. Wildfires have no doubt played a role in this underperformance, as this wildfire season is considered to be Manitoba's worst in 30 years.

Ontario

This year has been a tough slog for Ontario. Despite a solid finish to 2024 and a strong start to 2025 thanks to a surge in export activity as US companies stockpiled goods before tariffs were introduced, the data since has been dismal. The contraction in real GDP of 1.6% annualized at the national level in Q2 was even deeper in Ontario, dropping by 2.5% in the quarter. Nominal exports to the US took a nosedive in Q2, but have a stabilized since. Retail sales have also held up surprisingly well, supported by consumer confidence that lifted off a near-record low in March. The labour market has proven to be surprisingly resilient this year, with the unemployment rate remaining below 8% through September. Of course, the headline stability masks substantial industry volatility under the hood.

Accounting for the volatility of the first half of 2025 and the policy measures introduced this year, we've revised our outlook for Ontario's economy higher. The lower effective tariff rate on US imports from Ontario certainly plays a role. But so does the scrapping of tariffs on most of Canada's imports from the US. With the construction sector being most highly exposed to these countertariffs, Ontario homebuilders and homeowners are likely to disproportionately benefit. The same is true for manufacturers and wholesalers, who were getting it coming and going with tariffs on both sides of the border. We've seen tepid signs of improvement in these trade-exposed sectors recently, and think this tailwind could have some staying power barring any new major trade policy surprises from the White House.

Meanwhile, relief for the real estate sector in the form of lower tariffs and interest rates couldn't come at a better time. The Ontario housing market is in a deep rut, with housing starts reaching the lowest level in decades, condo presales scraping record lows, the existing home market in buyer's territory and still-high home prices keeping them unaffordable for most Ontarians. And while market rents have been coming down in the province's largest cities as inflows of temporary residents have gone into reverse, that may be cold comfort for people looking to buy. Federal measures should help to improve affordability on the margins, but they're no panacea.

At the same time, the provincial government has introduced a suite of measures aimed at supporting growth amid trade-related headwinds. And to offset private sector weakness, the province has also significantly ramped up infrastructure spending. Major investments will continue to focus on highways, transit and healthcare infrastructure to address congestion and expand essential services. Of note, the province's latest financial update pointed to an unchanged deficit outlook for the current fiscal year. This comes against the backdrop of stronger projected nominal GDP growth in 2026—a potential sign of an improved fiscal outlook when the more fulsome fiscal update is released in the coming weeks.

Quebec

Quebec's economic slowdown was confirmed in the second quarter, with real GDP contracting by 2.4% on an annualized basis—0.8 percentage points below the national average. The decline was largely driven by weaker international exports (-28%) and a pullback in business investment (-4.8%). Sector-specific tariffs weigh more heavily on Quebec than on other provinces, particularly due to the 50% rate applied to steel and aluminum inputs, as well as the metallic content of related derivatives. This disproportionate exposure remains a drag on industrial activity and export performance, reflected by an 11.6% annualized decline in Q2 for manufacturing GDP. Low water flows in the spring also contributed to the province's underperformance. The resulting drop in hydroelectric output led to a sharp 20.7% annualized decline in the utilities sector, accounting for a significant portion of the gap between Quebec and the rest of the country.

Several indicators suggest that Quebec's economy is on track for a moderate recovery in the second half of 2025. In addition to an expected rebound in hydroelectric output, partial tourism data point to improved performance in service industries such as accommodation and food services. Incoming data on US imports of Canadian goods also hint at a stabilization in manufacturing activity. The labour market has remained resilient, with employment still in positive territory year to date, although gains have been concentrated in part-time positions. Meanwhile, the housing sector continues to outperform, maintaining its position as one of the most dynamic in the country.

Quebec's inflation has recently diverged from the national trend, reaching 2.7% in August compared to 1.9% for Canada overall. This gap reflects Quebec's continued application of consumer carbon pricing, but is primarily driven by housing, with rents rising 7.3% year over year versus 4.5% nationally, as most other provinces have enforced stricter rent caps. With persistent base effects in the rental market and the carbon tax remaining in place, Quebec's inflation is expected to stay above the national average until mid-2026.

Quebec's recovery is expected to gain momentum in 2026, supported by a mix of policy-driven and external tailwinds. Accelerated investment spending by the provincial government, along with federal initiatives that are gradually being rolled out, should provide a meaningful lift to economic activity and help mitigate labour market slack. On the external front, Quebec would stand to benefit more than the Canadian average in a scenario of easing trade tensions given its relatively higher exposure to the aforementioned sector-specific tariffs. Real GDP is projected to grow by 0.8% in 2025 and 1.3% in 2026, reflecting a gradual but uneven recovery.

Looking further, longer-term growth prospects remain more subdued. Structural challenges such as demographic stagnation and persistent hiring difficulties in less urbanized regions continue to weigh on the province's potential output. These constraints are further compounded by fiscal consolidation efforts across all levels of government, particularly with respect to operating expenditures.

That said, Quebec's relatively low level of household indebtedness, combined with a near double-digit household savings rate, will continue to provide a buffer for consumption and help soften the impact of a structurally slower growth environment.

Maritime provinces

Although the Maritime provinces led the country in economic growth last year, they are expected to experience a slowdown in 2025 as the momentum driven by population gains begins to taper. That said, growth is still projected to slightly outpace the national average.

Population growth—previously a key economic engine—has decelerated significantly across the region. While interprovincial migration, especially from Ontario, has slowed, it remains positive and continues to support demand. A significant rise in domestic tourism, coupled with at most modest declines in US visitors, appears to have also supported the region's services sector over the summer. The region's relatively low cost of living is helping to sustain housing markets, with urban centres like Halifax remaining among the tightest in Canada. However, this has come at the cost of affordability, which has deteriorated notably in Nova Scotia.

The impact of global trade tensions is expected to be relatively muted in the Maritimes. Nova Scotia, with the lowest exposure to US trade in the country, is somewhat shielded from the ongoing dispute. New Brunswick, on the other hand, is more vulnerable due to its reliance on US trade, but its key exports—refined petroleum and coal—are less sensitive to tariff shocks. In Prince Edward Island, manufacturing and agriculture face risks from softer US demand, though stronger compliance with CUSMA is expected to mitigate much of the tariff burden. Still, China's imposition of 25% tariffs on Canadian aquatic imports is weighing on fish and seafood exports—a vital industry for the region.

Newfoundland and Labrador

Newfoundland and Labrador is poised to be one of Canada's stronger economic performers in 2025. While growth may fall short of the 4.4% projected in the provincial budget, real GDP is still expected to lead the country—even amid softer oil prices. Oil production in the first seven months of the year is up roughly 14% from 2024, driven in part by the restart of the Terra Nova platform. A one-time investment in an offshore oil project in Q2 is also contributing significantly to this year's growth. The expected reopening of the White Rose oil field will add further momentum. Looking ahead, the province's long-term outlook remains closely tied to the timing of major capital projects. Continued investment in oil platforms, mining operations and wind energy developments is supporting medium-term growth, alongside increased government spending on hospitals and infrastructure.

Despite weaker oil prices, the province is relatively insulated from global trade tensions thanks to lower US tariffs on energy exports, a high rate of CUSMA compliance and a diversified trade portfolio. Only half of its exports go to the US, with 40% destined for Europe. Key mineral exports—iron ore and nickel—are facing price headwinds in 2025, which may dampen their contribution to growth. However, rising production volumes are expected to sustain overall export performance.

The energy agreement currently being negotiated between Quebec and Newfoundland and Labrador could significantly strengthen the province's long-term fiscal outlook. Major projects like the Gull Island hydroelectric development are expected to generate over $33B in construction activity and support thousands of jobs over the coming decades—providing 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**	**1.6**	**1.2**	**1.5**
Newfoundland and Labrador	1.0	-1.9	-2.6	2.1	2.0	1.8
Prince Edward Island	7.8	4.4	2.2	2.1	1.7	1.8
Nova Scotia	6.4	3.5	2.0	2.0	1.4	1.5
New Brunswick	5.3	2.0	1.6	1.7	1.2	1.4
Quebec	7.3	3.4	0.6	1.3	0.8	1.3
Ontario	6.1	4.1	1.7	1.4	1.1	1.4
Manitoba	1.4	4.2	1.7	1.4	1.1	1.3
Saskatchewan	-2.6	7.2	2.3	2.4	1.5	1.9
Alberta	5.2	6.0	2.3	2.2	1.7	1.8
British Columbia	7.7	4.0	2.4	1.2	1.4	1.5
Nominal GDP growth – Canada	**14.2**	**12.4**	**2.9**	**4.7**	**3.5**	**3.1**
Newfoundland and Labrador	20.2	6.5	-5.5	4.9	3.2	2.5
Prince Edward Island	14.8	10.4	4.9	5.0	4.2	4.0
Nova Scotia	11.3	7.4	8.0	4.5	3.7	3.4
New Brunswick	10.5	10.4	3.2	4.4	3.7	3.3
Quebec	12.4	8.7	5.0	5.4	3.9	3.6
Ontario	11.0	9.4	5.4	4.6	3.6	3.3
Manitoba	8.7	10.8	4.5	3.9	3.5	3.0
Saskatchewan	13.6	30.4	-4.8	5.5	3.0	2.9
Alberta	26.1	24.4	-4.3	5.1	2.4	2.0
British Columbia	16.1	10.8	3.6	3.5	3.8	3.2
Total inflation rate – Canada	**3.4**	**6.8**	**3.9**	**2.4**	**2.0**	**1.7**
Newfoundland and Labrador	3.7	6.4	3.3	1.8	1.1	1.5
Prince Edward Island	5.1	8.9	2.9	1.9	1.4	1.4
Nova Scotia	4.1	7.5	4.0	2.3	1.8	1.6
New Brunswick	3.8	7.3	3.5	2.2	1.2	1.5
Quebec	3.8	6.7	4.5	2.3	2.2	1.9
Ontario	3.5	6.8	3.8	2.4	1.9	1.8
Manitoba	3.2	7.9	3.6	1.0	2.6	1.7
Saskatchewan	2.6	6.6	3.9	1.4	2.3	1.8
Alberta	3.2	6.5	3.3	2.9	2.1	1.7
British Columbia	2.8	6.9	4.0	2.6	2.1	1.6
Employment growth – Canada	**5.0**	**4.1**	**3.0**	**1.9**	**1.3**	**0.7**
Newfoundland and Labrador	3.9	4.0	1.7	2.7	-0.3	0.1
Prince Edward Island	5.0	5.0	6.2	3.6	0.7	0.6
Nova Scotia	6.4	3.5	2.7	3.1	0.7	1.0
New Brunswick	3.8	2.9	3.4	2.8	1.2	1.0
Quebec	4.3	3.1	2.9	0.9	1.7	0.9
Ontario	5.1	4.8	3.1	1.7	0.8	0.4
Manitoba	4.4	3.6	2.7	2.6	1.6	0.9
Saskatchewan	2.4	3.5	1.6	2.6	2.3	0.9
Alberta	5.1	4.9	3.7	2.9	2.5	1.1
British Columbia	6.2	3.4	2.6	2.4	1.2	0.4
Unemployment rate – Canada	**7.5**	**5.3**	**5.4**	**6.4**	**6.9**	**6.8**
Newfoundland and Labrador	13.0	11.1	9.8	10.0	10.6	11.8
Prince Edward Island	10.0	7.7	7.3	7.8	8.4	9.8
Nova Scotia	8.6	6.6	6.4	6.5	7.1	7.7
New Brunswick	9.2	7.2	6.6	7.1	7.5	7.9
Quebec	6.1	4.3	4.4	5.4	5.8	5.3
Ontario	8.1	5.6	5.6	7.0	7.7	7.6
Manitoba	6.4	4.5	4.9	5.5	5.9	5.8
Saskatchewan	6.5	4.6	4.7	5.5	5.3	5.6
Alberta	8.5	5.8	5.9	7.1	7.4	7.5
British Columbia	6.5	4.6	5.2	5.6	6.0	5.7

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