

ECONOMIC VIEWPOINT

Provincial Economic Outlook

Green Shoots and Hard Truths

By Randall Bartlett, Deputy Chief Economist, and Sonny Scarfone, Principal Economist

HIGHLIGHTS

- ▶ Despite significant headwinds in 2025, provincial economies proved more resilient than anticipated even a few months ago. Some of this resulted from historical economic data that were revised materially higher, thereby supporting a stronger starting point for the outlook. Employment gained ground in most provinces last year in spite of the US trade war and a now shrinking population, supporting only a modest uptick in unemployment rates across the board. And while Canadian inflation remained close to the Bank of Canada's 2% target for the year, provincial outcomes varied widely, in part due to meaningful differences in rent inflation.
- ▶ Looking to 2026, Canada's provinces continue to face similar headwinds that popped up in 2025, but also new obstacles that weren't anticipated when we published our prior projection. US trade and tariff policy continues to hurt exporters, particularly in the most exposed provinces (Ontario, Quebec and British Columbia) and sectors (steel, aluminum, auto manufacturing and wood products). The joint review of the Canada–United States–Mexico Agreement (CUSMA) is almost certain to compound this uncertainty. The regime shift in Venezuela has increased concern around the heavy oil price paid to Canadian producers, with risks weighing on output and profits. Canada's declining population is also likely to hold back growth, albeit modestly and with the benefit of improving productivity and housing affordability.
- ▶ For provincial government finances, oil producers are likely to see the biggest change in fortunes relative to the fall fiscal update season. That said, Alberta and Saskatchewan were already best in class in terms of debt metrics, and so should be able to weather the storm better than others. Indeed, most provinces downgraded their deficit outlook as the 2025–26 fiscal year progressed. One clear exception was Ontario, which has outperformed expectations economically and fiscally. Quebec also saw an improvement in its public finances over the year, albeit a much more modest one.

It seems that every time we update our provincial economic outlook, the ground has shifted once again. Since we published [our last provincial forecast](#) in October 2025, Statistics Canada has revised old numbers and published new ones, governments have released more information on their plans, and the chaos machine south of the border keeps wreaking havoc around the world. These considerations have led us to revise our economic outlook for all ten provinces and reevaluate the fiscal implications as we head into the 2026 budget season. (See table 1 on page 16 for the details of our latest economic forecast.)

The Economic Ground Has Shifted

GDP data published by Statistics Canada for the provinces are only available on an annual basis. So, when the data are updated

every November, economists take notice. The last revisions were particularly noteworthy, as the real GDP data for 2022 and 2023 were revised up considerably at the national level and across the provinces (graph 1 on page 2). Saskatchewan's output was revised especially higher, followed by Nova Scotia, Manitoba and Prince Edward Island (PEI). Consequently, the level of 2024 real GDP also came in higher than we were anticipating back in the fall. It should be noted that these revisions not only impacted real economic activity, but also nominal variables like compensation of employees and corporate profits, which have a disproportionate impact on government revenues.

While annual GDP data are available for all provinces from Statistics Canada, Canada's statistical agency publishes national-level data at a quarterly frequency. The Governments of Quebec

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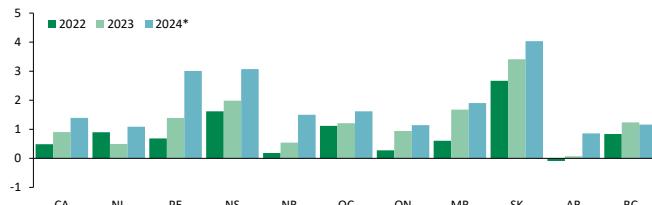
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Graph 1

Real GDP Was Revised Universally Higher Across Canadian Provinces

Change in real GDP level

% change from pre-revision estimates and forecasts



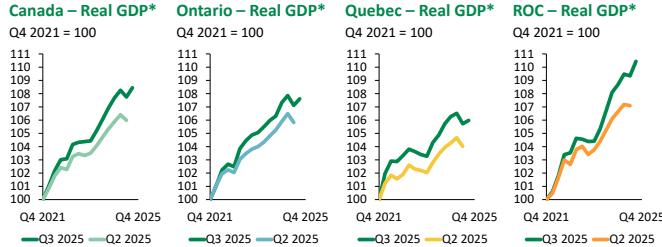
* The 2024 change is relative to the forecast in our October 2025 Provincial Economic Outlook.

Statistics Canada and Desjardins Economic Studies

and Ontario also publish their own quarterly economic accounts data, which they later revise to bring in line with Statistics Canada's annual estimates. And since we published our last provincial outlook, these quarterly numbers have all been revised higher as well (graph 2). This has helped to boost our outlook for 2025 real GDP growth in these jurisdictions too. Growth in nominal GDP—the broadest measure of the tax base—has also been revised higher.

Graph 2

Quarterly Real GDP Was Revised Higher in 2025 Along with Past Years



ROC: Rest of Canada

* Data were revised for 2022 through 2025 with the release of the Q3 2025 Economic Accounts.

Statistics Canada, Ontario Ministry of Finance, Institut de la statistique du Québec

and Desjardins Economic Studies

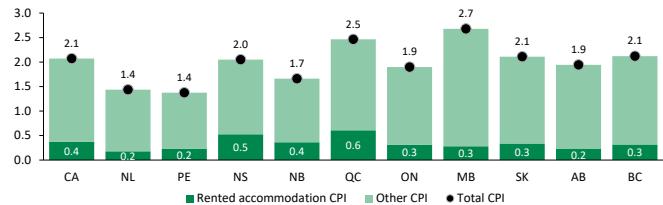
But GDP isn't the only data we pay attention to. At 2.1%, national Consumer Price Index (CPI) inflation came in very close to the Bank of Canada's 2% target in 2025. This was thanks in large part to the elimination of the consumer carbon tax. However, CPI differed considerably across the provinces last year (graph 3). Manitoba had the highest inflation (2.7%), followed by Quebec (2.5%). A key factor behind Quebec's relatively high price growth was rent inflation, which remained unusually elevated just as it cooled elsewhere in the country. That said, [our research](#) suggests rent inflation should slow along with broader shelter inflation and the decline in asking rents across the country. Quebec's separate consumer carbon pricing system also contributed to a temporary wedge with broader Canadian inflation, although this policy's effect will fall out of year-over-year calculations starting in April 2026.

Graph 3

2025 Inflation Was Highly Varied in Its Level and Composition Across Provinces

Total CPI inflation and its decomposition

y/y % change



CPI: Consumer Price Index

Statistics Canada and Desjardins Economic Studies

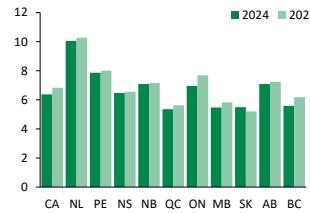
At the same time, the [labour market showed surprising resilience](#) in 2025 despite the headwinds from the trade dispute and Canada's contracting population (graph 4). But again, the differences across provinces were substantial last year, with tariff-exposed sectors (e.g., manufacturing) and provinces (e.g., Ontario) bearing the brunt of the impact. That said, even the hardest-hit jurisdictions showed surprising resilience.

Graph 4

Provincial Labour Markets Held Up Well in 2025, All Things Considered

Unemployment rate

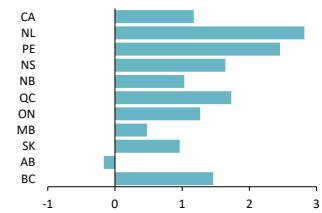
%



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Change in employment, 2025

y/y % change



The Outlook Has Changed, for Better and for Worse

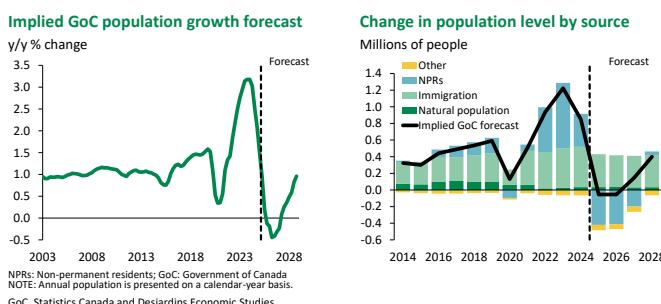
Building on adjustments in the starting point for the forecast, there have been a lot of changes to the outlook that weren't anticipated back in October. From falling population growth and oil prices to US trade policy volatility, the forces buttressing the Canadian economy are many and varied.

How Low Can Population Growth Go?

Starting with population growth, the Q3 2025 data came in much weaker than we expected, largely because of a rapid acceleration in outflows of non-permanent residents (NPRs). 2025 could end up close to the federal government's ambitious targets for newcomer reductions and a mild contraction in overall population. If that pace continues, 2026 may see Canada's

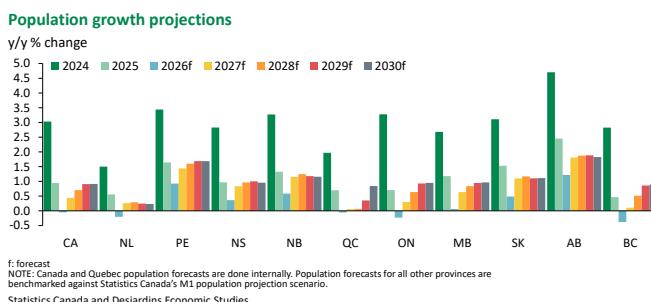
headcount decline for two consecutive years—an unprecedented outcome (graph 5). And even if the Government of Canada's policy adjustments don't lead to a reduction in population, which [our research](#) suggests is likely, population gains should still be slim to nil before rebounding in 2027 and 2028.

Graph 5 Population Growth May Contract Further Before Rebounding in 2027



The provinces most impacted so far by reversing population flows are Ontario and British Columbia. And this weakness is set to continue (graph 6). Historically, Toronto and Vancouver were the cities that roughly half of newcomers to Canada called home. As numbers of new permanent residents (PRs) have slowed and NPRs have gone into reverse, this has only exacerbated slumping property markets in these cities. At the same time, asking rents in Toronto and Vancouver—the landing point for many newcomers—have plunged, down more than 10% from two years ago. Although Quebec's immigration parameters are broadly aligned with Ottawa's for NPRs (the province is also targeting a 5% share of the total population), the province plans to reduce permanent immigration from an estimated 60,000 to 45,000 over the next three years. This shift should help ease pressures in housing and rental markets. Even so, housing market activity is likely to remain close to historical highs, since valuations are not as stretched as in several of the other populous provinces.

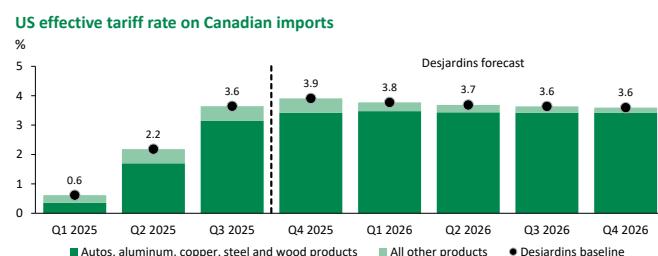
Graph 6 Population Growth Should Hit the Brakes in Ontario, Quebec and BC



CUSMA Come, CUSMA Go?

The moment many have long feared is now here. The review of CUSMA has begun, along with the expected bluster and bafflegab. Unironically intended to be wrapped up by Canada Day 2026, the CUSMA joint review could go any one of a few ways. The best outcome could be a renewal of the agreement for another 16 years to 2042, although even that may not guarantee predictability. CUSMA could also move to annual reviews, which risks entrenching uncertainty, thereby keeping more business investment in Canada on the sidelines for longer. Finally, the US may just withdraw from CUSMA altogether, which would be complete as early as January 1, 2027. That could result in a bilateral trade agreement and "reciprocal tariffs," possibly in the order of an additional 10% or higher on all US imports from Canada. At this point, any of these outcomes is as likely as the others, so we assumed the [status quo](#) will persist going forward in our most recent [Economic and Financial Outlook](#) (graph 7). That said, the risks are largely tilted to the downside of that assumption.

Graph 7 Tariffs on US Imports of Canadian Goods Should Rise but Then Stabilize

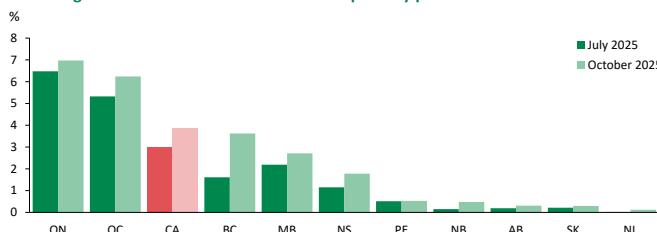


Much like in our October 2025 Provincial Economic Outlook, the average effective tariff rate facing individual provinces remains highest in Ontario and Quebec—two of Canada's most economically diversified provinces (graph 8 on page 4). That's because of the heavily tariffed export-oriented industries that call these provinces home, including steel, aluminum, autos and cabinet manufacturing. If sector-specific tariffs are more broadly, or even universally, applied to Canadian goods exports (e.g., recently threatened tariffs on airplane imports), other provinces will become much more exposed to US tariff risks. Excluding energy, that would include British Columbia, Nova Scotia and PEI. And if energy exports were to get hit with US tariffs, Alberta would be particularly vulnerable, and to a lesser extent Saskatchewan and Newfoundland and Labrador.

Graph 8

Some Provinces Are Much More Exposed to US Tariffs than Others

US average effective tariff rate on Canadian imports by province*



* Average effective tariff rate based on calculated duties at the HS6 level, scaled by provincial exports to the US. Statistics Canada, United States International Trade Commission and Desjardins Economic Studies

Oil, Oil Trouble and Toil

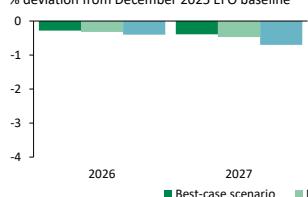
But the risk of possible tariffs on US energy imports isn't the only potential headwind facing the Canadian oil industry. The [recent regime shift in Venezuela](#) has raised concerns that renewed imports of heavy crude to the US Gulf Coast could displace Canadian crude oil. Given the dilapidated state of Venezuelan oil and gas infrastructure, we think this is more of a medium-term concern, e.g., after 2027. Over the next couple of years, the bigger concern from an economic perspective is that companies delay planned investment, further exacerbating the uncertainty caused by US trade policy. The price paid for Canadian heavy crude—known as Western Canadian Select (WCS)—may also be lower than previously expected. This could weigh on overall economic activity in Canada, but particularly in Alberta (graph 9).

Graph 9

Lower WCS Prices Will Disproportionately Impact Alberta's Economy

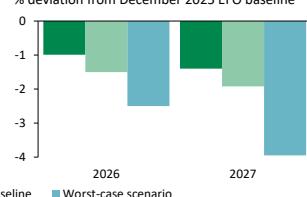
Canada – Nominal GDP impact*

% deviation from December 2025 EFO baseline



Alberta – Nominal GDP impact*

% deviation from December 2025 EFO baseline**



WCS: Western Canadian Select; EFO: Economic and Financial Outlook; * Impact estimates don't include judgment on exchange rate movements, but sensitivity analysis suggests that the offset would be small; ** The Alberta nominal GDP forecast based on the December 2025 EFO has not yet been published.

Desjardins Economic Studies

The Ups and Downs of Government Finances

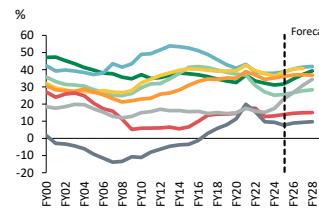
Keeping with the theme of Alberta oil, [our recent research](#) found that government finances in the Wild Rose Province are particularly vulnerable to a decline in the price of heavy crude. This risks putting Alberta's fiscal outlook on a more tenuous track than it was at the time of its [2025 budget](#). But putting

this in context, Alberta's fiscal outlook was already best in class among Canadian provinces at the end of the 2025 budget season (graph 10). With the lowest net debt and debt service costs among the provinces, any shift in trajectory will probably not change Alberta's relative financial standing.

Graph 10

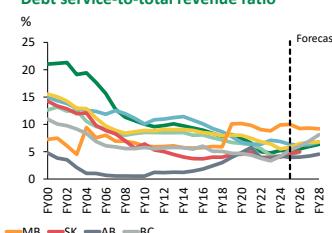
Alberta Started the 2025–26 Fiscal Year with the Best Finances in Canada

Debt-to-GDP ratio



Provincial 2025 budget documents and Desjardins Economic Studies

Debt service-to-total revenue ratio



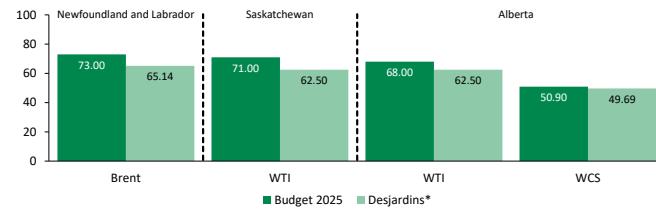
Other energy-rich provinces may not be immune from lower oil prices either, even if they aren't producers of heavy crude. The price of West Texas Intermediate (WTI) and Brent have fallen considerably since the spring of 2025, leaving Saskatchewan and Newfoundland and Labrador vulnerable to swings in global energy markets as well (graph 11). Given the drop in the value of WTI this year, revenues are likely to come in weaker than anticipated.

Graph 11

Oil Prices Have Come in Below All Provincial Government Expectations

Budget 2025 and Desjardins oil price forecasts for the 2025–26 fiscal year

US\$



WTI: West Texas Intermediate; WCS: Western Canadian Select

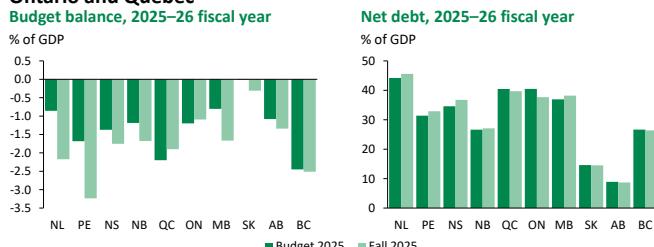
* From Desjardins's January 2026 Economic and Financial Outlook.

Provincial budget documents and Desjardins Economic Studies

But even if spared the drag from lower oil prices, most provincial fiscal outlooks for the 2025–26 fiscal year have been revised downward (graph 12 on page 5). This is broadly a combination of lower revenues and higher spending than previously anticipated. Ontario is a clear exception, thanks in large part to the province's economy outperforming the prudent economic forecasts in its [Budget 2025](#). This supported higher revenues

Graph 12

There Has Been a Broad-Based Provincial Fiscal Deterioration, Except in Ontario and Quebec



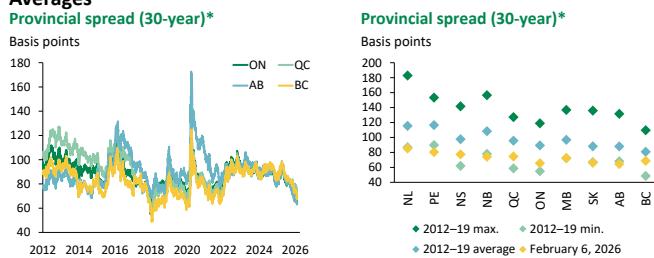
Provincial budget documents and Desjardins Economic Studies

and lower expenses than anticipated last year. And the good news continued in Ontario's recent Q3 Update. Quebec also saw a modest improvement over the year, with revenues coming in higher as the labour market proved more resilient than expected in March 2025.

So where does this leave the market's view of the provinces? Well, interest rates on provincial bonds continued to trade at spreads to yields on Government of Canada bonds, which are below the pre-COVID average, particularly at the long end of the yield curve where provinces issue most (graph 13). Ontario is looked on particularly favourably as a large issuer, closely tracking movements in investment grade credit. Resurgent inflows from abroad have benefitted provinces that are higher rated and seen as being on a positive fiscal trajectory.

Graph 13

Provincial Bond Spreads to GoCs Remain Below Their Historical Averages



GoCs: Government of Canada bonds; * Historical data as of February 6, 2026.

Bloomberg and Desjardins Economic Studies

Conclusion

All told, 2025 was a tough year, but Canada and its provinces look to have fared better than expected at the time of our October provincial outlook. And while the real GDP growth outlook for 2026 has been revised lower almost across the board, every province is expected to see output gains this year. Employment growth and unemployment rates are also anticipated to come in better than projected back in the fall as labour markets have proven resilient. If all goes well, 2027 could see a further improvement on greater certainty around US policy.

BRITISH COLUMBIA

Despite a year of significant headwinds, British Columbia's economy has fared surprisingly well. Consumers have been particularly healthy in 2025, with retail sales near the head of the provincial pack. And of the major [projects identified by the federal government](#) and referred to the Major Projects Office (MPO) for an accelerated approval process, 6 of 13 are in BC (graph 14). These include LNG Canada Phase 2; Ksi Lisims LNG; Phases 1, 2 and 3 of the North Coast Transmission Line; and the Red Chris Mine Expansion. The benefits of the Trans Mountain Expansion (TMX) pipeline are continuing to be realized as well, with used capacity increasing and efforts taken by the provincial government to develop greater shipping capacity. The recent trade deal with China also has the potential to increase exports through BC's ports.

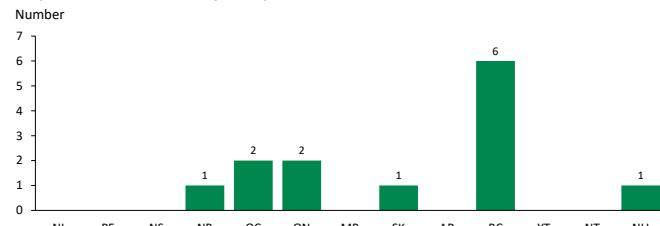
However, the forestry sector has been particularly hard hit by the application of countervailing and anti-dumping duties on softwood lumber exports to the US (graph 15). And given the process was initiated in 2023 under a different US administration, it's difficult to see a reversal of this policy even if there is a change in federal leadership stateside in the coming years. This is further compounded by the moribund housing market south of the border. BC's housing market also remains a headwind to growth, as slowing immigration and a reversal of NPR admissions hit the province particularly hard, leaving the residential construction sector in a tough spot. And while this should help to improve affordability, the gains are likely to be modest.

When these economic headwinds are combined, it sets up a relatively challenging scenario for the province's public finances. The Government of British Columbia finished last year's budget season with the debt-to-GDP ratio rising at an especially notable pace relative to other provinces. However, it should be noted that BC had a very low net debt-to-GDP ratio compared with other non-energy-producing provinces to start with. It has a history of baking province-leading prudence into its fiscal forecasts as well. In its [Q2 Update](#), the provincial government also reported a slightly improved budget balance projection for FY26 relative to [Q1](#), pointing to some possible upside to the in-year outlook (graph 16). More recently, government leaders have committed to a new era of cost control, which lifts expectations for further prudence in the upcoming budget.

Graph 14

Nearly Half of the Federal Government's Major Projects Are in BC

Projects referred to the Major Projects Office for review

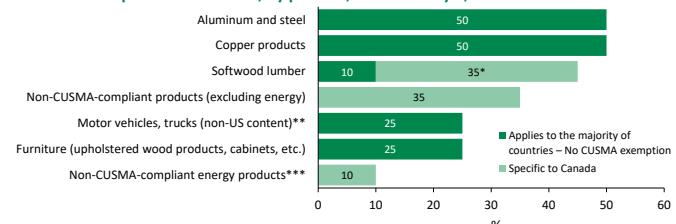


Major Projects Office and Desjardins Economic Studies

Graph 15

Forestry Is Among the Sectors Hardest Hit by US Trade Policy

US tariff on imports from Canada, by product, as of January 1, 2026



* Corresponds to countervailing and anti-dumping duties (paid by Canadian exporters);

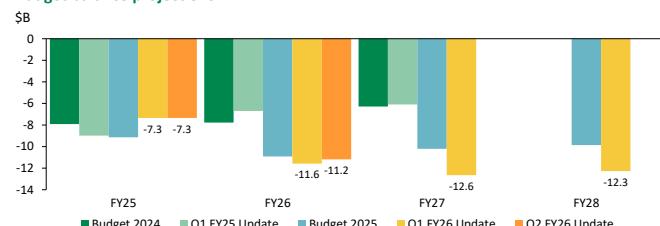
** Except buses (10%); *** including potash and critical minerals.

White House, Global Affairs Canada and Desjardins Economic Studies

Graph 16

The Slight Improvement in BC's Bottom Line Is Welcome News

Budget balance projections



British Columbia Ministry of Finance and Desjardins Economic Studies

ALBERTA

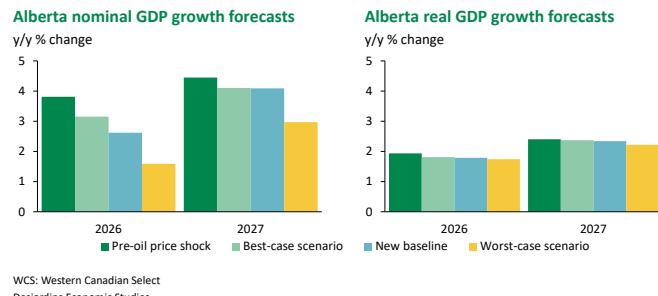
Alberta is expected to have returned to the top of the growth leader board in 2025. However, the threat of heavy crude oil from Venezuela landing on the Gulf Coast has raised the risk that the spread between WTI and WCS could widen, possibly considerably. That means oil sands producers may receive less for their product than in the recent past. By our analysis, this could materially lower both real and nominal GDP growth in 2026, with further drag in 2027 (graph 17).

The fiscal implications of a widening of the WTI–WCS spread could be material (graph 18). Alberta's budget deficits may approach \$12B in the worst-case scenario, up to \$10B larger than projected a year ago this time. The province's growing reliance on energy royalties to fund its commitments leaves it increasingly vulnerable to convulsions in the price of oil. That said, Alberta started FY26 in the strongest financial position among Canadian provinces, with the smallest expected deficits and unquestionably the lowest net debt as a share of GDP. The province's debt reduction strategy further helped to solidify this advantage. Alberta also has greater fiscal capacity than other jurisdictions, with lower personal and corporate income taxes and no sales tax.

There is also room for optimism around the Alberta economic outlook. First, most energy exports to the US have been entering tariff-free under CUSMA. And while there is likely to be some volatility going forward because of the joint review of the agreement, our base case is for the status quo to broadly continue. Second, we have seen a considerable increase in energy exports to Asia, notably China, after the TMX pipeline came online in May 2024 (graph 19). Data suggest this has been sufficient to fully offset the decline in crude oil exports to the US over the period, and the Memorandum of Understanding (MOU) between the Governments of Canada and Alberta means more pipeline capacity could be built to get more bitumen to tidewater. Finally, there is opportunity for Alberta to further diversify its economy, although this is more of a medium-term goal and one which has been reluctantly pursued in the past. But if successful, this would better shield the Wild Rose Province from future swings in global energy markets.

Graph 17

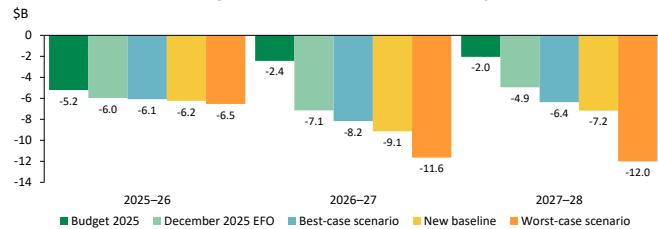
Lower WCS Prices Will Impact Nominal More than Real GDP Growth



Graph 18

Lower Prices for WCS Are Likely to Exacerbate an Already Weakened Fiscal Outlook for Alberta

Government of Alberta budget deficit forecast under various oil price scenarios*

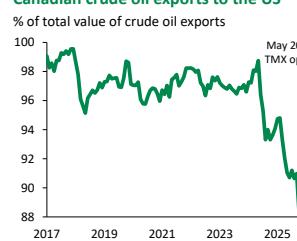


Government of Alberta and Desjardins Economic Studies

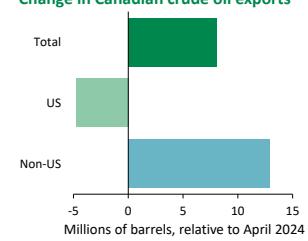
Graph 19

Canadian Crude Oil Exports Are Becoming More Diversified

Canadian crude oil exports to the US*



Change in Canadian crude oil exports



* 3-month moving average.

Statistics Canada and Desjardins Economic Studies

SASKATCHEWAN

Everything has been coming up Saskatchewan recently. Not only did the Land of the Living Skies benefit from the heftiest historical revisions to real GDP among its provincial peers, but Canada's breadbasket also started the new year off with lower expected tariffs on its exports to China. Chinese tariffs on canola seed imports from Canada should fall to 15% as of March 1, 2026—down from about 100% now—while canola meal, peas and other products should enter the Middle Kingdom duty free. Given Saskatchewan's historically lower share of trade with the US and greater exposure to China than most other provinces, the [Government of Canada's recent trade deal with China](#) should be of disproportionate benefit to Saskatchewan (graph 20). However, given that the reduction in import tariffs on a fixed number of imported Chinese electric vehicles drew the ire of the US administration, additional uncertainty has been introduced on the future of the recent détente.

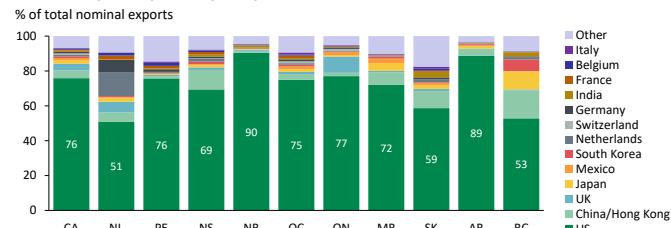
But Saskatchewan's success isn't just a trade story. The prairie province experienced the strongest percent increase in housing starts among its peers in 2025 (graph 21). It also saw the sharpest existing home price gains of any province last year, but remains the most affordable jurisdiction in the country. This healthy housing market was supported by the lowest unemployment rate in Canada—the first time that's happened since before the COVID-19 pandemic. Additionally, ongoing non-residential investment driven by the \$18B BHP Jansen potash project continues to fuel capital investment and support economic activity across the province. The McIvenna Bay Foran Copper Mine Project referred to the MPO for additional review has the potential to further boost investment and economic activity over the medium term.

From a fiscal perspective, Saskatchewan continues to be an outperformer. In the current fiscal year, the latest official forecast is for the smallest deficit as a share of GDP among Canada's provinces, and the second lowest level of net debt after Alberta (graph 22). When we look further ahead, the outlook for a lower WTI price than previously projected points to some potential future fiscal headwinds. That said, Saskatchewan's economy is more than just oil, with commodities like potash and agricultural goods supporting a relatively diverse tax base.

Graph 20

Saskatchewan Is One of the Provinces Least Exposed to US Trade

Share of exports by country and province, 2024



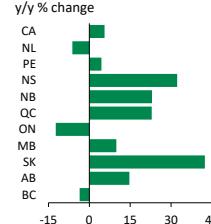
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Graph 21

Saskatchewan Led the Country in Housing Starts and Home Price Growth in 2025

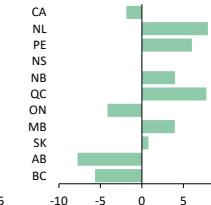
Housing starts growth*

y/y % change



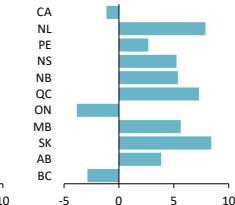
Existing home sales growth*

y/y % change



Average home price growth*

y/y % change



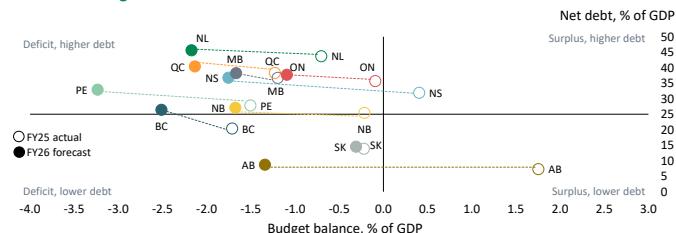
* All numbers are for 2025.

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

Graph 22

Saskatchewan Is Expected to Have the Smallest Deficit Among Canada's Provinces This Year

Provincial budget balances vs. net debt*



* Reflects the latest available information.

Provincial financial documents, Statistics Canada and Desjardins Economic Studies

MANITOBA

As one of Canada's most economically diverse provinces, Manitoba's economy rarely gets too hot or too cold. A strong agricultural base still provides the backbone to output, while a variety of manufacturing and other activities ensure the Keystone Province never gets overly exposed to external shocks (graph 23). Case in point: US sectoral tariffs on imports from Canada have impacted Manitoba less than the other central Canadian provinces of Ontario and Quebec. Even British Columbia is now subject to a greater average effective tariff rate, according to our latest calculation, although Manitoba isn't far behind. Further, the recently announced tariff relief on Chinese imports of Canadian agricultural products will be a modest tailwind to the province, but the lack of movement on pork duties continues to be a challenge. Looking even further ahead, Manitoba's openness to investment has led to the Port of Churchill being added to the MPO's list of transformative strategies in the hope of eventually turning the port into a major export terminal for energy, critical minerals and other goods.

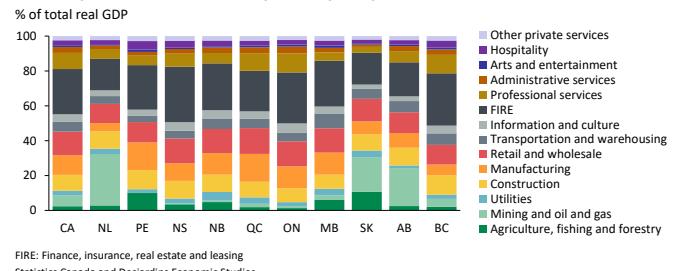
But Manitoba isn't without its challenges. Over the past decade, it has posted one of the slowest rates of average annual real GDP growth among non-energy-producing provinces. And in 2025, CPI inflation in Manitoba led the country and accelerated into the end of the year. Thankfully, price growth is expected to come back down toward the Bank of Canada's 2% target in 2026 and stay there in 2027 (graph 24). At the same time, growth is expected to be at or above our forecast for the national advance in 2026, the latter being held back by sluggish growth in Quebec and Ontario. The Keystone Province should experience similar labour market outperformance compared to its central Canadian cousins.

On the fiscal front, Manitoba is facing some headwinds. Its recent Q2 fiscal update pointed to a larger deficit this fiscal year than expected in the [2025 budget](#), which pushes its projected net debt-to-GDP ratio up to the third highest in the country, surpassing Ontario and just behind Quebec. The good news is that our forecast for real GDP growth in 2025 is much closer to the 1.7% forecast in the budget than the 1.1% in the latest quarterly update (graph 25). The outlook is even better for nominal GDP growth, suggesting there may be some upside risk to revenues this year relative to the latest fiscal forecasts.

Graph 23

Manitoba's Economy Is Among Canada's Most Diversified

Share of private sector real GDP by industry and province, 2024



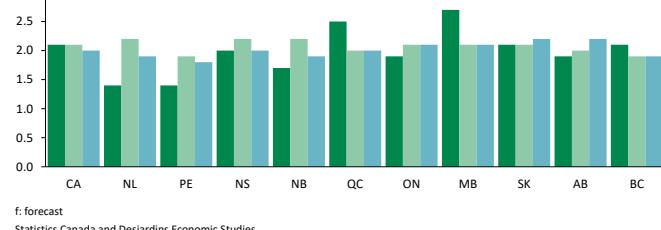
Graph 24

After Nation-Leading Inflation in 2025, Manitoba's Price Growth Should Slow

CPI inflation forecasts

y/y % change

2025 2026f 2027f



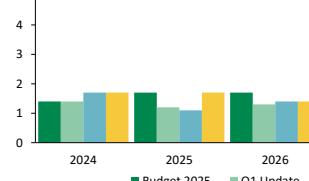
Graph 25

There Is Potential Upside to Manitoba's Latest Economic Forecast

Manitoba real GDP growth

y/y % change

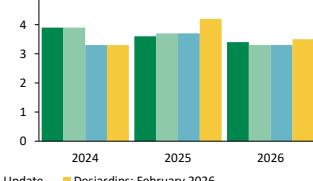
5 4 3 2 1 0



Manitoba nominal GDP growth

y/y % change

5 4 3 2 1 0



Government of Manitoba and Desjardins Economic Studies

ONTARIO

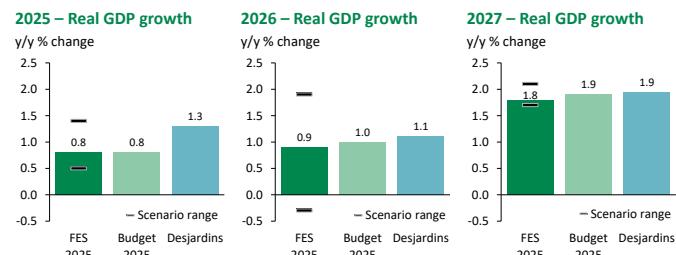
Ontario's economic outlook is one of cautious optimism. As a result of the CUSMA exemption from US import tariffs, Ontario's economy has outperformed our prior expectations and those of the Government of Ontario (graph 26). This despite still hefty US tariffs on exports of steel, motor vehicles and other specific sectors. However, this outperformance doesn't change the fact that the average effective tariff rate faced by Ontario is higher than for any other Canadian province. When combined with the uncertainty surrounding the upcoming CUSMA joint review, the tariff-related headwind to growth could be material. And that's on top of the weakness stemming from Ontario's rapidly declining population, rising mortgage costs at renewal and consequent arrears, and a sluggish but still unaffordable housing market.

Digging deeper into Ontario real GDP growth, [our updated sector outlook](#) points to a modest advance going forward (graph 27). This should be driven by private, domestically oriented services like real estate and financial services. The six World Cup games to be played in Toronto should also help. In contrast, public services should fade as a driver of growth given [federal job cuts](#). While manufacturing will probably be less of a drag this year than in 2025, the outlook for auto production looks particularly challenged. In contrast to the southern part of the province, Northern Ontario seems to be having a bit of a moment. The resurgence in the mining industry, particularly as it relates to gold, has supported labour and housing market outperformance compared to the rest of the province, with Sault Ste Marie—home of Algoma Steel—the notable exception.

As a result of these improved economic conditions, the outlook for Government of Ontario revenues is higher, and spending lower, than expected at the time of its [Fall Economic Statement 2025](#). And even if Ontario's provincial government deficits were as previously projected, the net debt-to-GDP ratio would be lower than published in November 2025 thanks to past revisions to nominal GDP alone (graph 28). This was corroborated by the Q3 Update to Ontario's finances published on February 10, 2026. That said, headwinds to Ontario's economic and fiscal outlook remain, and the provincial government would be wise to maintain the prudence that economists and investors have become accustomed to.

Graph 26

Our Real GDP Forecast Looks Better than the One in Ontario's FES 2025

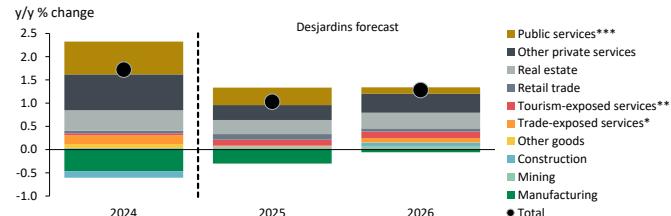


FES: Fall Economic Statement
Government of Ontario and Desjardins Economic Studies

Graph 27

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

Decomposition of growth in real GDP by industry



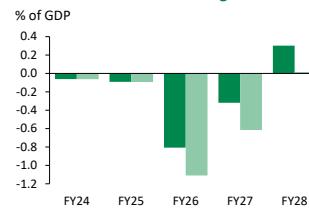
* Includes wholesale trade and transportation and warehousing; ** Includes accommodation and food services and arts, entertainment and recreation; *** Includes education, health care and social services, and public administration.

Government of Ontario, Statistics Canada and Desjardins Economic Studies

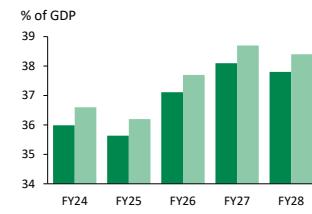
Graph 28

Prospects for Ontario's Fiscal Position Have Improved Along with GDP

Government of Ontario budget balance



Government of Ontario net debt



FES: Fall Economic Statement

Government of Ontario and Desjardins Economic Studies

QUEBEC

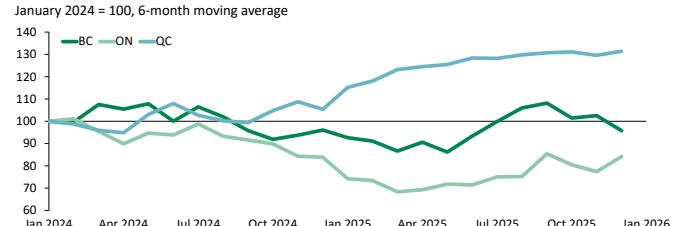
Quebec's economic growth is projected to remain moderate and among Canada's weakest in 2026, edging up from 0.8% in 2025 to 1.1% in 2026. Quebec faces a combination of domestic and external headwinds, with export-oriented industries bearing a disproportionate impact. The sectors targeted by US tariffs, notably aluminum, copper, forest products and truck manufacturing, will continue to encounter significant pressure. Because these sector-specific tariffs are not eligible for CUSMA exemptions, Quebec is more exposed to US tariffs than most provinces. Even with partial diversification in international markets, the expected weakness in exports will limit the contribution of these industries to GDP and employment. Quebec will nevertheless continue to benefit from a [housing market](#) that remains healthy, if slightly less affordable. Residential construction has held up well, with housing starts expected to maintain a solid pace into 2026 (graph 29). This relative strength is complemented by a consumer sector that has proven resilient. Households have maintained an elevated savings rate, averaging 8% over the first three quarters of 2025. This financial buffer supports a more constructive outlook for domestic demand, even as other parts of the economy contend with mounting challenges.

In contrast, labour force growth will be limited by immigration. The provincial government's latest population forecast in the fall economic statement shows [Quebec's demographic trajectory](#) returning to its pre-2022 trend by the end of the decade, largely reversing the recent surge in newcomers (graph 30). This slower population growth will be felt most in regions outside the major urban centres, where labour shortages are likely to keep the unemployment rate below 5% and maintain upward pressure on wages. These conditions may also weigh on investment plans, especially in sectors already grappling with recruitment challenges.

The 2026 election year could bring new fiscal commitments despite limited room to manoeuvre and already elevated per capita spending (graph 31). Meanwhile, [budget gaps](#) still need to be closed to comply with the *Balanced Budget Act* by 2029–30. Even so, major infrastructure projects will continue to support economic activity. Key initiatives, including Hydro-Québec's investment program and the Port of Montreal expansion, should help sustain construction demand and offset broader economic headwinds.

Graph 29

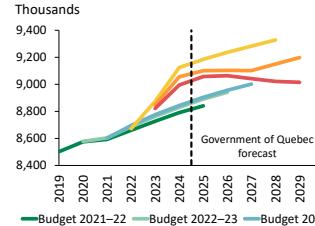
Since 2024, Residential Construction Has Grown Faster in Quebec than in Ontario and BC

Housing starts


Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Graph 30

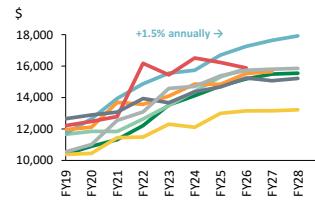
Population Growth Has Been Revised Lower and Potential GDP Reduced from 1.7% to 1.5%

Total population


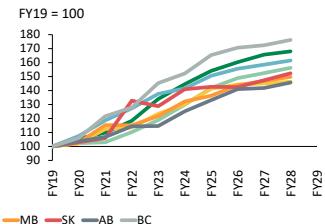
* Update on Quebec's Economic and Financial Situation (budget update).
Quebec government budget documents and Desjardins Economic Studies

Graph 31

Per Capita Spending Remains Higher in Quebec than in Other Provinces

Per capita program spending


Provincial budget documents and Desjardins Economic Studies

Total spending


NEW BRUNSWICK

New Brunswick entered 2025 on firmer footing than initially anticipated. Following an above-average 2.7% expansion in 2024, real GDP is estimated to have advanced by 1.6% in 2025.

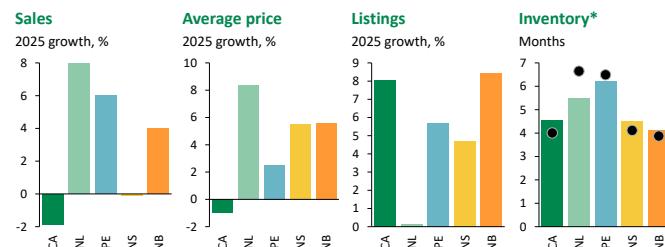
Domestically, labour market conditions remained resilient last year, with gains in full-time employment and unemployment back at pre-trade uncertainty levels by year-end. Housing starts held up in 2025, and real estate markets in New Brunswick and the other Atlantic provinces remained more robust than average (graph 32). That said, growth is expected to further moderate in 2026 to 1.2%, outpacing only Quebec.

So far, the province has benefited from a low effective tariff rate, estimated at 0.5% as of October 2025, with key exports such as refined petroleum continuing to receive CUSMA exemptions. However, sectoral tariffs of 45% targeting softwood lumber since October, which include countervailing and anti-dumping duties, will further strain an already challenged forestry sector. Some offset may come from the recent trade agreement with China, which could help sustain seafood exports. But despite the more favourable tariff environment, overall goods exports have been weaker so far in 2025. The upcoming CUSMA review represents a broader risk, particularly given that the United States absorbs over 90% of New Brunswick's merchandise exports. Over the longer term, eliminating interprovincial trade barriers could yield sizable productivity gains in the Maritimes. According to recent research from the International Monetary Fund ([IMF, 2026](#)), New Brunswick has the potential for the second largest increase in real GDP per worker after PEI from lower internal trade barriers (graph 33). However, as the IMF estimates that services account for about 90% of potential gains, further concessions will be required for these benefits to materialize. Mutual recognition, as Nova Scotia has done, is the gold standard for interprovincial trade liberalization.

After a small FY25 deficit of \$104M ended a seven-year run of surpluses, the shortfall for FY26 was revised up to \$835M, or 1.7% of GDP, reflecting weaker revenues and higher spending (graph 34). Nonetheless, years of fiscal restraint have reduced the net debt-to-GDP ratio from 41.7% in FY16 to 25.4% in FY25, positioning the province relatively well amid elevated economic uncertainty and mounting demographic pressures.

Graph 32

The Existing Home Market Outperformed in the Atlantic Provinces

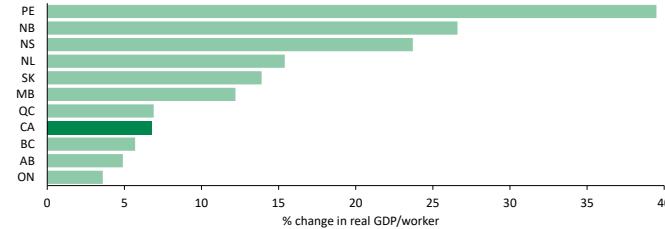


* Bars are 2025; dots are 2024.
Canadian Real Estate Association and Desjardins Economic Studies

Graph 33

The Maritimes Would Benefit the Most from Eliminating Internal Trade Barriers

Labour productivity gains from fully eliminating non-distance internal trade costs

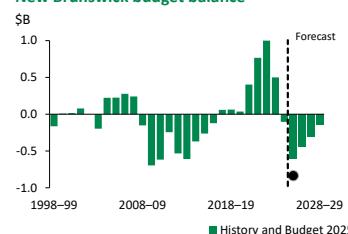


International Monetary Fund and Desjardins Economic Studies

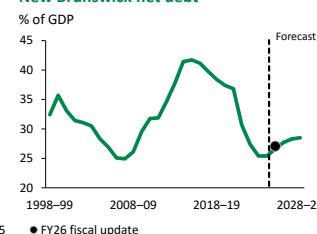
Graph 34

New Brunswick's Fiscal Outlook Has Deteriorated but Remains Solid

New Brunswick budget balance



New Brunswick net debt



Government of New Brunswick and Desjardins Economic Studies

NOVA SCOTIA

Nova Scotia has a lot going for it at the outset of 2026. Sustained population gains due to immigration and interprovincial migration have provided support for economic growth and home construction, even as the pace of newcomers entering the province has slowed. And population growth is expected to remain positive in Nova Scotia going forward even as it may contract nationally. The provincial government has committed to materially ramping up capital investment to support the needs of its growing population, with a focus on health infrastructure, public housing and other critical projects (graph 35).

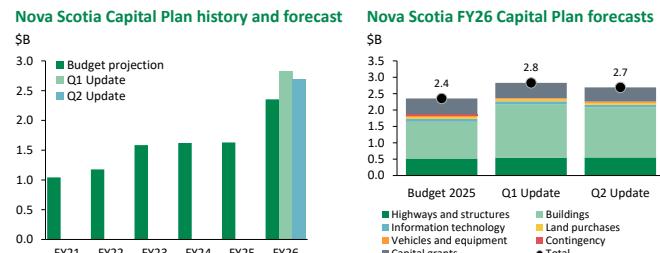
Nova Scotia's Wind West transmission megaproject has also had a good start with solid participation in the province's first call for bids for seabed licences to develop offshore wind projects. The first proposed wind farm could potentially generate three gigawatts, which represents about 60% of the initial phase of Wind West. Increased defence spending by the federal government should also provide a tailwind to the province's shipbuilding industry in the years ahead.

There has also been some good news lately on the trade front. Internationally, China's removal of import tariffs on lobsters, crabs and other products is expected to be a tailwind to the seafood industry in 2026. This should benefit a province hurting from tariffs on its exports to the US. In contrast to a tough year for international trade, Nova Scotia took the lead on internal trade among Canadian provinces in 2025. It has done this by committing to mutual recognition of goods (including food), services and investments with other jurisdictions that have enacted similar legislation. According to the Canadian Federation of Independent Business ([CFIB, 2025](#)), Nova Scotia was the province most open to internal trade in 2025, followed by Ontario and Manitoba (graph 36). That said, gains have been made in other provinces as well since the CFIB analysis was published.

From a fiscal perspective, the economic impacts of US tariffs are projected to cause the Government of Nova Scotia to run a larger deficit this fiscal year than in FY25. And the provincial government's December 2025 Forecast Update suggests this year's deficit will be larger and net debt-to-GDP ratio higher than projected back in [Budget 2025](#). That said, large historical upward revisions to GDP—second only to Saskatchewan's—and relatively prudent economic projections per its fall update suggest some potential upside to the latest fiscal forecast (graph 37).

Graph 35

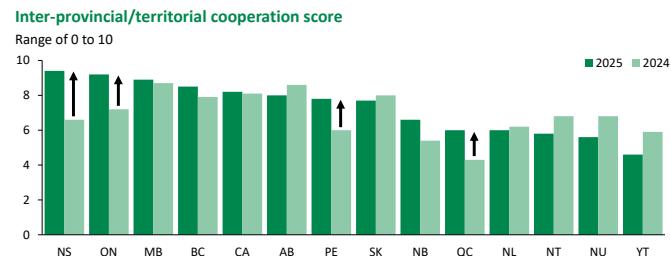
Nova Scotia's Capital Plan Has Increased Since Budget 2025



Government of Nova Scotia and Desjardins Economic Studies

Graph 36

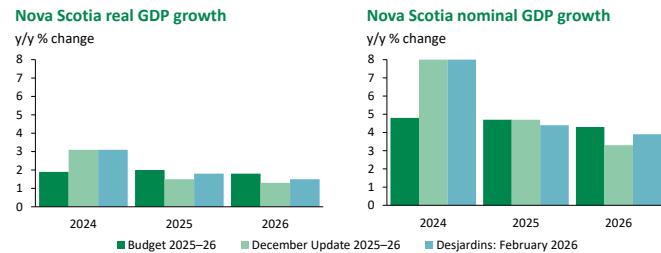
Internal Trade Barriers Fell in Most Canadian Provinces in Early 2025



Canadian Federation of Independent Business and Desjardins Economic Studies

Graph 37

The Latest Official Economic Outlook for Nova Scotia Is Prudent



Government of Nova Scotia and Desjardins Economic Studies

PRINCE EDWARD ISLAND

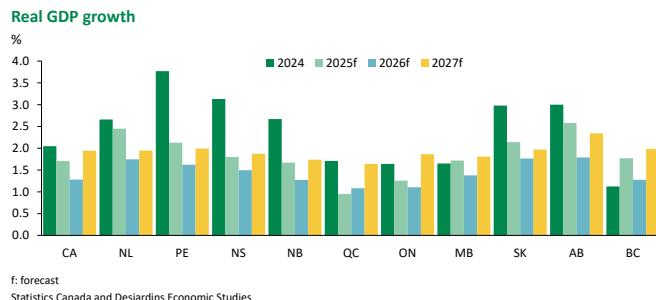
Prince Edward Island benefited from one of the strongest GDP revisions nationally, with its 2024 real output estimated to be 3% above our October forecast, confirming The Island led the country with 3.8% growth that year (graph 38). Looking to 2025, some moderation toward trend growth was expected, with GDP growth estimated at 2.0%. Population growth, while no longer accelerating at post-pandemic rates, has stabilized and is projected to remain positive through the end of the 2020s. An aging national population and persistent affordability challenges in major metropolitan areas should continue to sustain interprovincial inflows to PEI, helping place a floor under consumption. Tourism is expected to remain a key contributor. In 2025, many Canadians avoided travel to the US amid geopolitical tensions, contributing to a strong tourism season across the Maritimes. Overnight stays were up an estimated 8.7% year to date in PEI through September (graph 39). With the relationship strained and boycotts likely to persist in 2026, domestic and international tourism could continue to provide a boost. The renewal of the Canada Strong Pass should further support this trend.

Another advantage is the province's low tariff exposure. The effective tariff rate faced by PEI exporters remains near 0.5%, supported by CUSMA exemptions and The Island's below-average exposure to sectoral tariffs. This helped lift durable goods manufacturing, as overall shipments were up 10.7% year to date through November, the strongest increase among all provinces (graph 40). However, the upcoming CUSMA review presents a risk. Given the province's reliance on trade-exposed sectors, any change to continental trade rules could carry meaningful implications for the medium-term outlook. GDP growth should decelerate to 1.5% in 2026.

According to The Island's 2025 Fiscal and Economic Update, the projected deficit was revised to \$367M for FY26, about 3.2% of GDP. The revision largely reflects program spending increasing by \$125M, driven by higher health care utilization, insurance claims and stronger demand for social programs. Deficits and an ambitious capital plan have pushed up the net debt-to-GDP ratio from 25.7% in FY23 to an estimated 32.9% (\$3.7B) at the end of the current fiscal year.

Graph 38

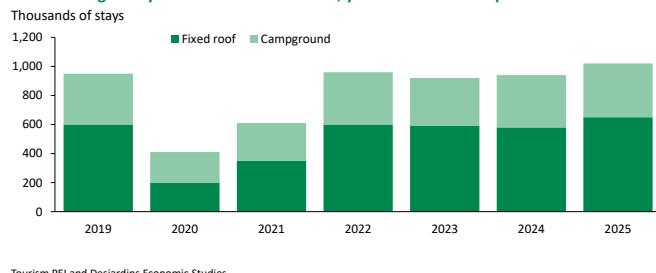
Prince Edward Island Led the Country in Real GDP Growth in 2024



Graph 39

Tourism Hit New Heights in 2025

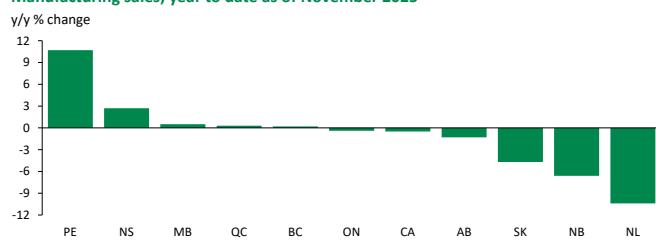
Total overnight stays in Prince Edward Island, year to date as of September 2025



Graph 40

Manufacturing Shipments Are up Significantly in Prince Edward Island

Manufacturing sales, year to date as of November 2025



NEWFOUNDLAND AND LABRADOR

After a solid advance in 2024, real GDP growth in Newfoundland and Labrador is expected to remain near the top of the leader board through 2027. The energy sector is a big part of that story, and The Rock is fortunate in that a smaller share of its energy exports are destined for the US than any other energy-producing province. Offshore production rose 19.4% in November 2025 from a year earlier (graph 41). The increase in production stems from higher output at each oil field, except for Hibernia. Production continues to ramp up at the White Rose oilfield after restarting in March 2025 following a shutdown that started in January 2024. 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. Meanwhile, increased public capital investment in hospitals and infrastructure should accelerate toward the end of the decade (graph 42).

Of course, we would be remiss not to mention the MOU signed between NL Hydro and Hydro-Québec regarding the Churchill River. The [2025 budget](#) put the additional annual revenue from this agreement at \$1B over the next 17 years. If that forecast was to prove correct, Newfoundland and Labrador could find itself in a materially improved fiscal position. The agreement is currently subject to an independent review, with the Independent Review Committee having four months starting on December 15, 2025, to answer the question: Is this MOU in the best long-term interest of the people of Newfoundland and Labrador? We look forward to the committee's findings.

From a fiscal perspective, the news could certainly be better for Newfoundland and Labrador. Due in part to the uncertainty created by the US administration, Canada's most eastern province is expected to run one of the largest deficits as a share of GDP among the provinces this year. That is expected to further cement its status as Canada's most indebted province, at least as a share of GDP. And its fall update suggests the province's fiscal predicament has gotten worse, not better, as the year has progressed, although this can be said about most provinces (graph 43). At the time of Budget 2025, the province anticipated running increasingly large surpluses starting in FY27, and we are hopeful The Rock can return to that fiscal path.

Graph 41

Oil Production Rose on The Rock as the White Rose Oilfield Ramped Up

Newfoundland and Labrador total oil production

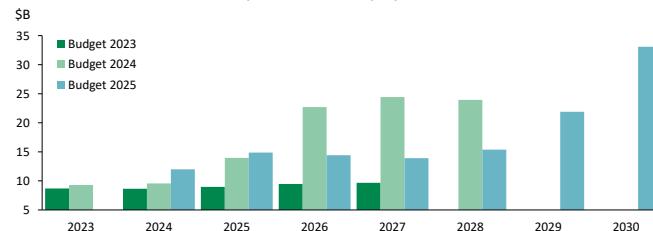


Canada—Newfoundland and Labrador Offshore Energy Regulator and Desjardins Economic Studies

Graph 42

Capital Investment Surges Have Been Delayed to the End of the Decade

Newfoundland and Labrador capital investment projections

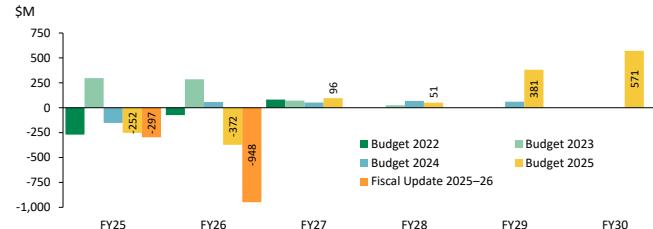


Newfoundland and Labrador Ministry of Finance and Desjardins Economic Studies

Graph 43

Newfoundland and Labrador's Planned Fiscal Turnaround Has Hit a Speed Bump

Budget balance projections



Newfoundland and Labrador Ministry of Finance and Desjardins Economic Studies

Table 1
Canada: Major Economic Indicators by Province

% change	2022	2023	2024	2025f	2026f	2027f
Real GDP growth – Canada	4.7	2.0	2.0	1.7	1.3	1.9
Newfoundland and Labrador	-1.1	-3.0	2.7	2.4	1.7	1.9
Prince Edward Island	5.1	2.9	3.8	2.1	1.6	2.0
Nova Scotia	5.1	2.4	3.1	1.8	1.5	1.9
New Brunswick	2.2	2.0	2.7	1.7	1.3	1.7
Quebec	4.5	0.7	1.7	0.9	1.1	1.6
Ontario	4.4	2.4	1.6	1.3	1.1	1.9
Manitoba	4.8	2.8	1.7	1.7	1.4	1.8
Saskatchewan	10.1	3.1	3.0	2.1	1.8	2.0
Alberta	5.9	2.5	3.0	2.6	1.8	2.3
British Columbia	4.8	2.8	1.1	1.8	1.3	2.0
Nominal GDP growth – Canada	12.9	3.5	4.8	4.3	3.6	4.0
Newfoundland and Labrador	8.7	-4.0	4.6	4.6	3.4	4.0
Prince Edward Island	10.9	6.7	7.5	4.7	4.4	4.0
Nova Scotia	9.4	7.6	8.0	4.4	3.9	4.0
New Brunswick	8.8	3.5	4.0	4.1	3.5	3.7
Quebec	9.6	4.7	5.9	3.9	3.4	3.9
Ontario	9.8	6.9	5.1	3.9	3.5	3.8
Manitoba	11.3	5.4	3.3	4.2	3.5	3.8
Saskatchewan	32.7	-3.7	0.0	4.4	3.7	4.3
Alberta	23.7	-4.0	5.1	4.3	2.6	4.1
British Columbia	12.1	3.6	3.5	4.4	3.6	4.1
Total inflation rate – Canada	6.8	3.9	2.4	2.1	2.1	2.0
Newfoundland and Labrador	6.4	3.3	1.8	1.4	2.2	1.9
Prince Edward Island	8.9	2.9	1.9	1.4	1.9	1.8
Nova Scotia	7.5	4.0	2.3	2.0	2.2	2.0
New Brunswick	7.3	3.5	2.2	1.7	2.2	1.9
Quebec	6.7	4.5	2.3	2.5	2.0	2.0
Ontario	6.8	3.8	2.4	1.9	2.1	2.1
Manitoba	7.9	3.6	1.0	2.7	2.1	2.1
Saskatchewan	6.6	3.9	1.4	2.1	2.1	2.2
Alberta	6.5	3.3	2.9	1.9	2.0	2.2
British Columbia	6.9	4.0	2.6	2.1	1.9	1.9
Employment growth – Canada	4.1	3.0	1.9	1.5	0.8	0.8
Newfoundland and Labrador	4.0	1.7	2.7	-0.2	-0.2	0.0
Prince Edward Island	5.0	6.2	3.6	1.0	0.9	0.8
Nova Scotia	3.5	2.7	3.1	0.5	0.3	0.5
New Brunswick	2.9	3.4	2.8	1.3	1.4	0.6
Quebec	3.1	2.9	0.9	1.7	0.6	0.6
Ontario	4.8	3.1	1.7	1.0	0.5	0.8
Manitoba	3.6	2.7	2.6	1.6	1.1	0.6
Saskatchewan	3.5	1.6	2.6	2.5	1.7	0.6
Alberta	4.9	3.7	2.9	2.8	2.0	1.0
British Columbia	3.4	2.6	2.4	1.2	0.4	0.9
Unemployment rate – Canada	5.3	5.4	6.4	6.8	6.7	6.5
Newfoundland and Labrador	11.1	9.8	10.0	10.3	10.3	9.8
Prince Edward Island	7.7	7.3	7.8	8.0	7.9	7.9
Nova Scotia	6.6	6.4	6.5	6.6	6.6	6.3
New Brunswick	7.2	6.6	7.1	7.1	7.4	7.2
Quebec	4.3	4.4	5.4	5.6	5.2	5.2
Ontario	5.6	5.6	7.0	7.7	7.5	7.2
Manitoba	4.5	4.9	5.5	5.8	5.9	5.8
Saskatchewan	4.6	4.7	5.5	5.2	5.5	5.2
Alberta	5.8	5.9	7.1	7.2	7.4	7.4
British Columbia	4.6	5.2	5.6	6.2	6.4	6.3

f: forecast

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