

Economics

PROVINCIAL FORECAST

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Provincial outlook: Changes in the pecking order

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As the impact of US trade policy has started to play out across the country, there have been some subtle changes in the provincial growth pecking order. While companies in Ontario and Quebec are, as expected, likely paying the highest price in terms of tariffs, so far the impact on export performance has been more limited in the former than the latter. In contrast, the sharp increase in anti-dumping lumber tariffs has brought BC closer to an unwanted podium in terms of provinces most impacted by US trade policy.

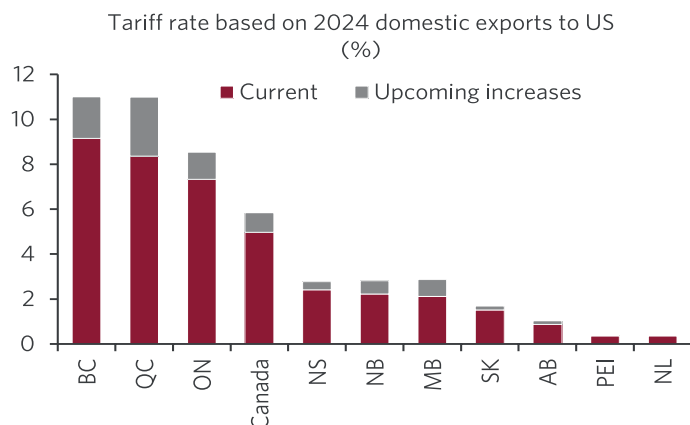
Atlantic Canada and Prairie provinces are generally coping better, and here divergences in growth are being driven by demographic trends as well as trade policy. A sharper slowdown in population growth in Nova Scotia, relative for example to Alberta, may mean that province is the first to run into labour market constraints on growth as the Canadian economy in general recovers over the next couple of years.

Trading places

Calculating the effective tariff rate that Canadian companies are facing in the US at present is difficult enough, given the on-again, off again nature of US trade policy and continued announcements of new sectoral tariff, offset by an increasing proportion of companies qualifying for CUSMA exemptions. However, for provinces it is even more difficult, requiring us to assign the tariffs paid in US customs data to different sectors based on the industrial breakdown of provincial exports.

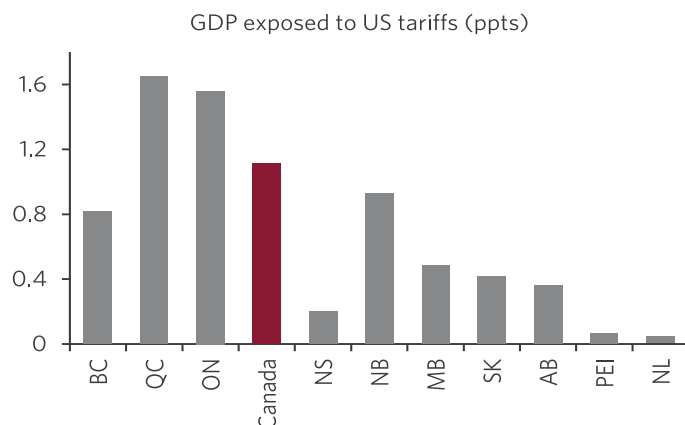
For Canada as a whole, the current effective tariff rate is estimated to be around 5%, and will rise to nearly 6% due to newly enacted or threatened sectoral tariffs. As expected, and particularly following the doubling of steel and aluminum tariffs, Ontario and Quebec appear to have been the hardest hit both as a percentage of exports (Chart 1) and GDP (Chart 2). Quebec also appears most at risk from new sectoral tariffs yet to come into effect, largely due to new levies on heavy trucks.

Chart 1: BC, Quebec and Ontario seeing the highest effective tariff rates



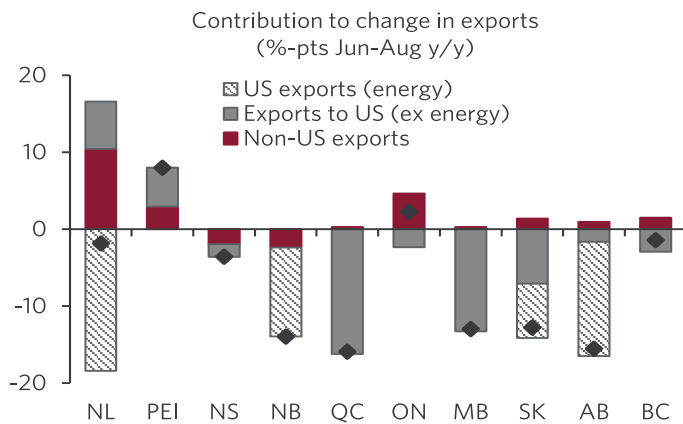
Source: US Customs, Statistics Canada, CIBC

Chart 2: Small share of US exports in GDP limits overall hit to BC economy



Source: US Customs, Statistics Canada, CIBC

Chart 3: Excluding impact of lower energy prices on Alberta trade, Quebec has seen the sharpest weakening in exports



Source: Statistics Canada, CIBC

However, the sharp increase in anti-dumping tariffs on lumber, and the further global 10% duty, sees BC climbing unhappily onto the leader board. While the province's trade in lumber isn't quite as reliant on the US as New Brunswick's is, leaving the GDP hit lower (Chart 2 again), it appears that the BC economy will be more negatively impacted by US trade policy than we expected earlier in the year.

On the more favourable end of the spectrum, prairie provinces (exporting generally exempt energy and agricultural products) and Atlantic Canada (with the exception of NB) are still expected to see the smallest negative impact from US tariffs, although the prairies are in the line of fire for Chinese tariffs on Canadian agricultural products.

But what impact are US tariffs having on actual trade? While it is still too early to make a definitive judgement, export data so far paints a complex picture. In year-over-year terms, Quebec and New Brunswick are seeing two of the biggest declines, but Alberta, Saskatchewan and Manitoba are not far behind (Chart 3). For Alberta at least, this appears to simply reflect a decline

in nominal energy exports linked to lower prices. However, for Saskatchewan and Manitoba there also appears to have been some weakness in non-energy shipments headed south of the border, at the same time that Chinese tariffs on agricultural products are holding back non-US trade.

Surprising to the upside, and despite seeing the expected weakening in autos and steel, Ontario exports are marginally higher year-over-year, spurred by trade with countries outside of the US. Admittedly this is at least partly driven by recent demand for gold and the associated increase in price. However, some other sectors (for example electronics) are also up relative to a year ago. While exports from BC are little changed, the impact of the recent lumber tariff increase won't have been fully reflected yet.

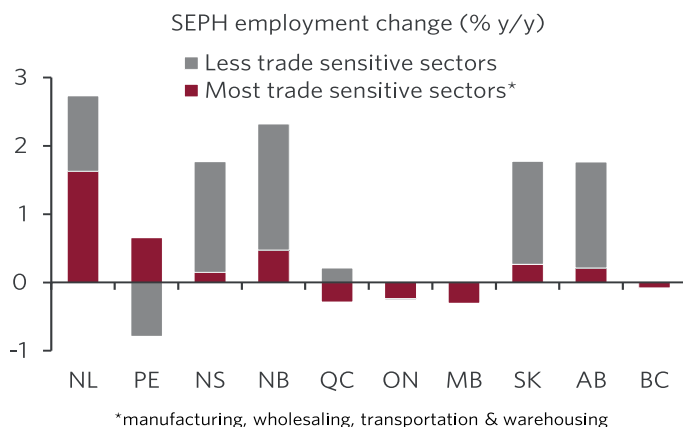
More going on

The surprising resilience of Ontario exports does not, however, mean that overall growth in that province will be quicker than we anticipated earlier in the year. There's a lot more going on, particularly continued weakness within the housing market, which is likely to keep overall GDP growth reasonably modest.

Looking at the labour market, generally speaking prairie and Atlantic provinces are seeing solid job growth, including small gains even in trade sensitive sectors (Chart 4). Hiring in BC and Ontario appears to have been in the weakest shape, with job losses in trade sensitive industries but also stagnant trends in other sectors. While Quebec has also, unsurprisingly, seen job losses in trade sensitive sectors, that has been broadly offset by modest gains in other industries.

One clear difference between Ontario and prairie/Atlantic provinces is activity and employment linked to homebuilding. While housing starts have accelerated in those other parts of the country, activity in Ontario has generally been weaker as the build-up of unsold condo units has delayed new construction (Chart 5).

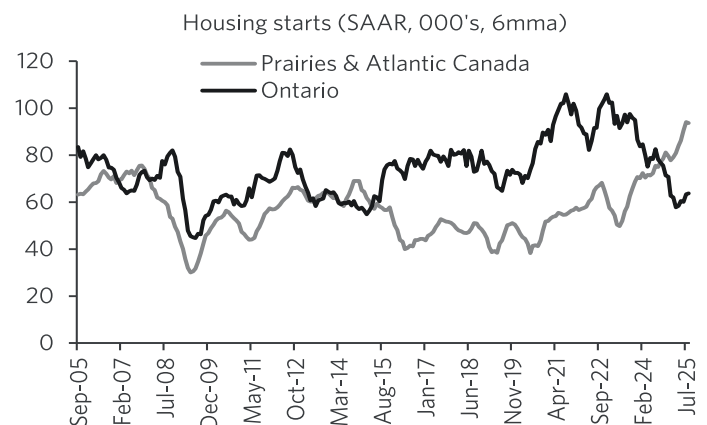
Chart 4: Employment growth has held up well in most Prairie and Atlantic Canada provinces



*manufacturing, wholesaling, transportation & warehousing

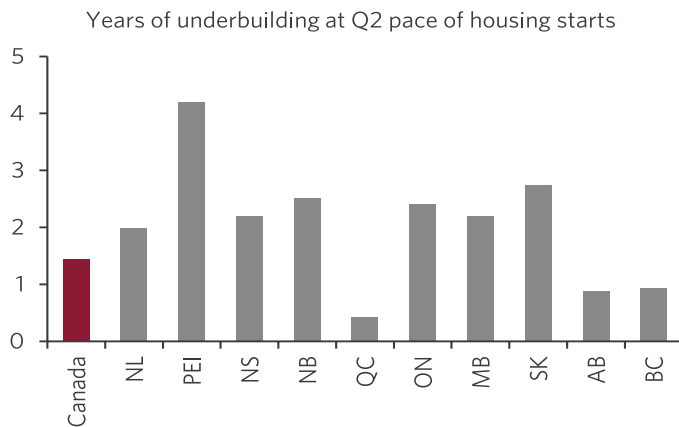
Source: Statistics Canada, CIBC

Chart 5: Weakness in Ontario homebuilding in contrast to most of the rest of the country



Source: Statistics Canada, CIBC

Chart 6: Even provinces where starts have accelerated face a long road to undo prior underbuilding



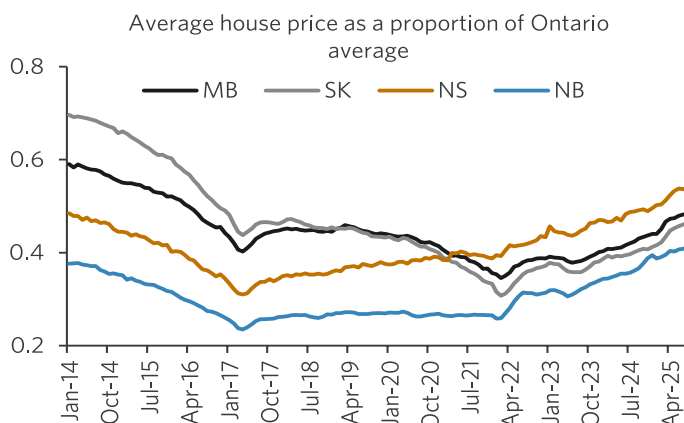
Source: CMHC, Statistics Canada, CIBC

However, this doesn't mean that there isn't scope for further acceleration in homebuilding in those other regions. While the current stronger level of construction is making inroads into the prior underbuilding relative in population growth in Alberta, that isn't yet the case in provinces such as Manitoba and Saskatchewan, or those in Atlantic Canada (Chart 6). The current weakness of starts relative to prior population growth in Ontario will limit further reductions in home prices, albeit at the same time preventing any real improvement in affordability. It also means that there's plenty of scope for homebuilding to accelerate and contribute to a pick up in overall GDP growth, although we expect that to be a late 2026 and 2027 story.

Where constraints lie

Housing affordability, or lack of it, has also been a key driver of interprovincial migration flows in recent years, which by extension can impact worker availability and overall economic growth. However, there's been a shift in relative affordability in recent years with, for example, Nova Scotia now enjoying less of

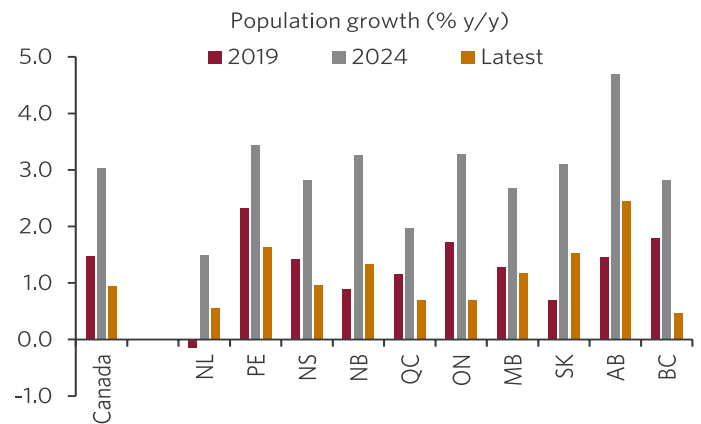
Chart 7: There have been shifts in affordability post-pandemic



Source: CREA, CIBC

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Chart 8: Population growth has eased more in Atlantic Canada than Saskatchewan and Alberta



Source: Statistics Canada, CIBC

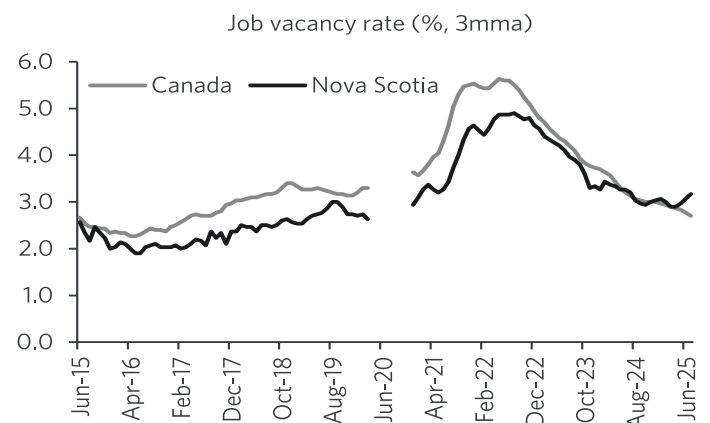
an advantage over Ontario than Manitoba and Saskatchewan (Chart 7).

That, alongside recent restrictions on student numbers, may be impacting population growth in Nova Scotia. Atlantic Canada has generally been a shining example for how immigration can positively impact economic growth in recent years, as older populations with more people retiring meant that it was easier for labour markets in the region to absorb the influx of new workers. Indeed even as populations surged, unemployment rates generally remained in line with or even below pre-pandemic norms.

However, population growth, has eased dramatically over the past year (Chart 8), and could result in labour shortages sooner rather than later. While job vacancy rates remain much lower across the country than they were coming out of the pandemic, they appear to be edging up in Nova Scotia (Chart 9).

In contrast, the Alberta labour market is struggling to find positions to match what is a still swift pace to that province's

Chart 9: Job vacancy rate has ticked up slightly in Nova Scotia recently



Source: Statistics Canada, CIBC

population growth, seeing unemployment rates climb even with reasonably solid employment growth over the past year.

Changes in the pecking order

There have been a few changes in the pecking order of provincial growth since the start of the year. Ontario and Quebec still appear most at risk from US trade policy, even if actual export performance of the former has held up surprisingly well so far. However, under the assumption that some easing in aluminum tariffs is achieved, and with housing continuing to weigh on growth in Ontario, the Quebec economy may grow modestly quicker next year with Ontario overtaking in 2027 (Table).

British Columbia and New Brunswick now appear more at risk, due to the sharp escalation of lumber tariffs, and are no longer expected to outperform the national average next year. Provinces in the rest of Atlantic Canada and the prairies have been more insulated from US trade policy, although Chinese tariffs have been impacting agricultural exports from central Canada.

Even though growth hasn't been disrupted as much as in other areas this year, there still appears room for the Alberta economy to accelerate in 2026 and 2027 due to still-strong population growth and the plentiful supply of labour. That isn't the case in some Atlantic provinces, notably Nova Scotia where the speed limit of potential growth may be reached sooner, seeing growth in that province start to lag the national average by 2027.

Provincial forecast tables

Table 1: Real GDP (Y/Y % chg)

Province	2024E	2025F	2026F	2027F
British Columbia	1.2	1.2	1.4	2.0
Alberta	2.7	1.9	1.8	2.4
Saskatchewan	3.4	1.4	1.5	1.8
Manitoba	1.1	1.2	1.4	1.7
Ontario	1.2	1.0	1.3	2.1
Québec	1.3	1.2	1.5	1.9
New Brunswick	1.8	1.5	1.4	1.7
Nova Scotia	2.7	1.8	1.5	1.8
Prince Edward Island	3.6	2.2	1.7	2.2
Newfoundland and Labrador	2.4	2.4	1.9	1.7
Canada	1.6	1.2	1.4	2.0

Table 2: Nominal GDP growth (Y/Y % change)

2024F	2025F	2026F	2027F
4.0	3.5	3.2	4.1
6.2	3.4	4.8	6.2
6.9	3.1	4.5	5.4
3.8	3.5	3.2	3.9
4.2	3.3	2.9	4.5
4.3	3.6	3.2	4.2
4.5	3.8	3.1	4.0
5.3	4.1	3.3	4.0
6.3	4.6	3.5	4.6
6.4	4.0	4.4	5.2
4.6	3.4	3.4	4.7

Table 3: Unemployment rate (%)

2024A	2025F	2026F	2027F
5.6	6.1	6.1	5.7
7.1	7.1	7.0	6.4
5.5	5.3	5.2	4.7
5.5	5.9	5.7	5.5
7.0	7.7	7.5	6.8
5.4	5.8	5.6	5.1
7.1	7.1	6.9	6.6
6.5	6.6	6.4	6.2
7.8	8.0	7.6	7.5
10.0	10.0	9.9	9.8
6.4	6.9	6.7	6.1

Source: Statistics Canada, CMHC, CIBC

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