

Economics

PROVINCIAL FORECAST

May 27, 2026

Better growth to narrow provincial divergences in 2027

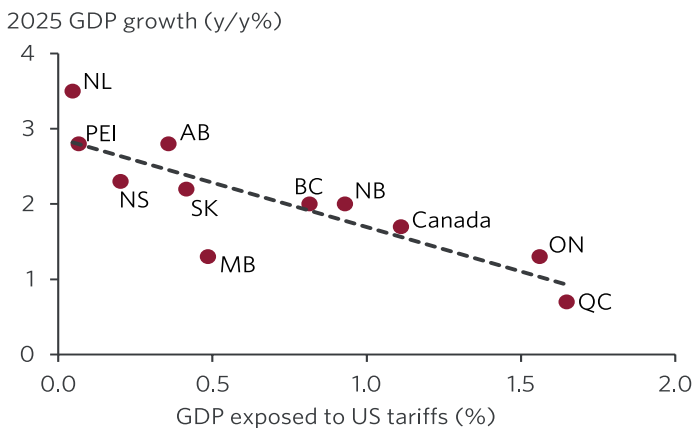
by Katherine Judge katherine.judge@cibc.com

Canada’s provinces have seen widely divergent fortunes over the past two years, but an improving picture in 2027 should also narrow some of those performance gaps. The balance of this year will see winners and losers from an oil price shock, and some provinces hit by more meaningful headwinds from trade frictions and housing market weakness. But conditional on an improvement in the trade backdrop and an end to the conflict in Iran, some of the laggards could see better times in 2027.

Weak 2025 performance extends into 2026

Recently available data for 2025 real GDP underscored how each province’s vulnerability to tariffs and trade uncertainties showed up in overall growth. The degree of reliance on the US as a source of export demand largely dictated which provinces fared better than others (Chart 1). Quebec and Ontario were amongst the hardest hit, while the Atlantic provinces were better shielded from US tariff impacts and posted some of the fastest growth rates. Manitoba posted the second weakest growth pace, with the manufacturing sector shrinking.

Chart 1: Dependence on US market determined growth performance in 2025



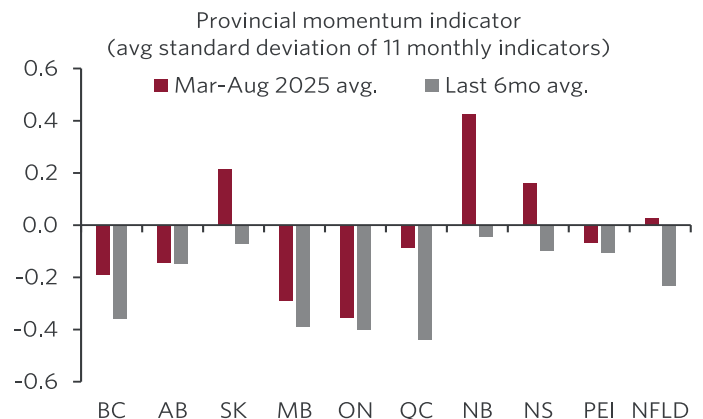
Source: Statistics Canada, CIBC

Some provinces showed resilience despite exposure to US demand. In BC, real estate services and the opening of a major LNG export facility boosted activity. In New Brunswick, a rebound in construction drove solid growth.

Activity in 2026 is still being hampered by trade uncertainty, as CIBC’s momentum indicator, which tracks changes in eleven monthly indicators relative to historical norms, is showing that all provinces are growing at a slower than normal pace over the past six months, with many deteriorating relative to the prior six-month period (Chart 2). Turning that tide will be dependent on the outcome of upcoming trade discussions with the US and Mexico.

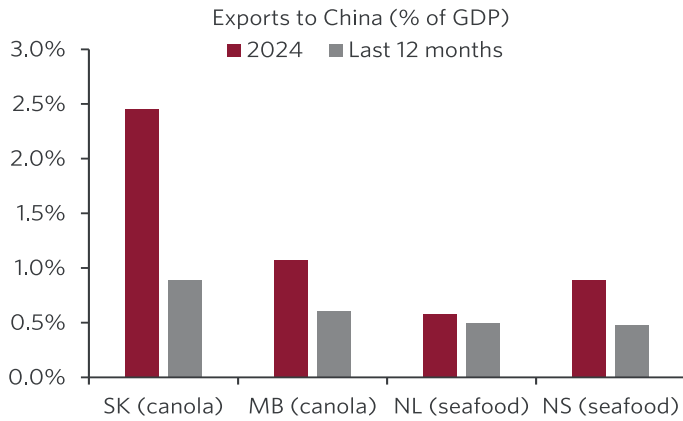
Our forecast assumes that Canada is able to retain tariff-free access to the US market for those CUSMA-compliant goods that still have that access, which could either be part of a formal agreement, or if, as the treaty allows, the review process gets pushed off into 2027. For industries currently subject to elevated US sectoral tariffs, we see scope for lower tariffs on aluminum, given the lack of capacity in the US to replace

Chart 2: Economic momentum has fallen further below trend in last six months



Source: Statistics Canada, CIBC

Chart 3: Exports to China have room to rebound, particularly for canola products



Source: Statistics Canada, CIBC

Canada as a source for that metal, and perhaps some modest relief for the steel sector. That should lighten the economic drag for provinces levered to manufacturing, as any deal that reduces uncertainties over future tariffs should be supportive for business capital spending. Several provinces could see the first dose of momentum from major projects that Ottawa and the provinces are attempting to advance through accelerated approvals and financing initiatives. That lies behind our call for a return to more healthy national growth in 2027 (Table 1).

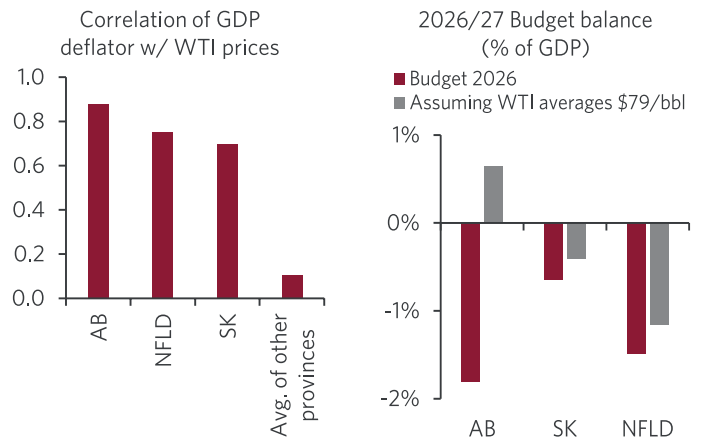
Trade frictions with the US haven't been the only source of export weakness, with many provinces exposed to Chinese tariffs on agricultural/food products in 2025. China's recent

move to lower canola tariffs and temporarily remove seafood product tariffs as of March 2026 will be a positive, particularly for Saskatchewan and Manitoba, where export levels to China have ample room to rebound, and more modestly for Nova Scotia and Newfoundland and Labrador (Chart 3).

Oil price shock: winners and losers

The oil price shock is working to squeeze consumers across the country, but for oil-producing provinces there will be an offset in higher revenue tied to energy exports. Alberta, Newfoundland and Labrador, and Saskatchewan are all set to see sizeable improvements in budget balances this year as a result of higher oil revenue (Chart 4). In Alberta's case, if it largely sticks to its

Chart 4: Oil-producing provinces stand to see improvement in budget balances relative to budget projections



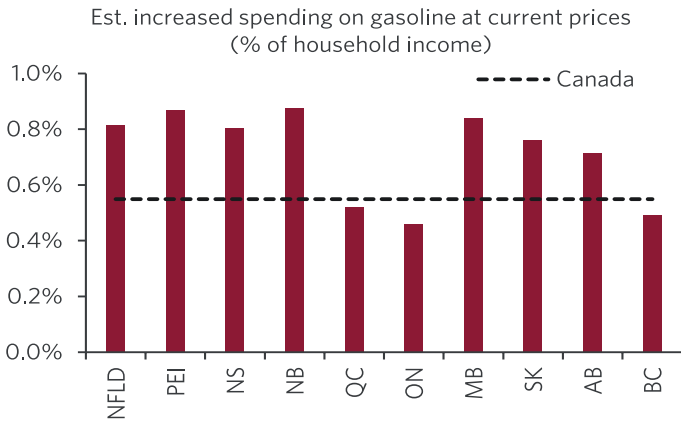
Source: Provincial budgets, Statistics Canada, CIBC

Table 1: Provincial economic forecast

Province	Real GDP (Y/Y % chg)				Nominal GDP growth (Y/Y % change)				Unemployment rate (%)			
	2024A	2025E	2026F	2027F	2024A	2025F	2026F	2027F	2024A	2025A	2026F	2027F
British Columbia	1.1	2.0	1.1	2.0	3.5	4.5	3.2	4.1	5.6	6.2	6.6	6.0
Alberta	3.0	2.8	2.1	2.4	5.1	5.0	10.2	2.8	7.1	7.2	6.4	6.0
Saskatchewan	3.0	2.2	1.9	1.8	0.0	4.5	9.3	2.5	5.5	5.2	5.5	5.1
Manitoba	1.7	1.3	1.4	1.7	3.3	3.8	3.5	3.9	5.5	5.8	5.5	5.3
Ontario	1.6	1.3	1.0	2.1	5.1	4.1	3.0	4.2	7.0	7.7	7.6	6.8
Québec	1.7	0.7	1.2	1.9	5.9	3.5	3.3	4.0	5.4	5.6	5.9	5.3
New Brunswick	2.7	2.0	1.1	1.7	4.0	4.5	3.1	3.9	7.1	7.1	7.0	6.7
Nova Scotia	3.1	2.3	1.2	1.8	8.0	4.9	3.3	4.0	6.5	6.6	6.7	6.6
Prince Edward Island	3.8	2.8	1.7	2.2	7.5	5.6	3.8	4.6	7.8	8.0	7.7	7.5
Newfoundland and Labrador	2.7	3.5	2.7	1.7	6.4	5.7	10.3	2.4	10.0	10.3	9.7	9.8
Canada	2.0	1.7	1.2	2.0	4.8	4.3	4.5	3.8	6.4	6.8	6.8	6.2

Source: Statistics Canada, CIBC Forecasts

Chart 5: Higher spending on gasoline is squeezing consumers



Source: Statistics Canada, CIBC

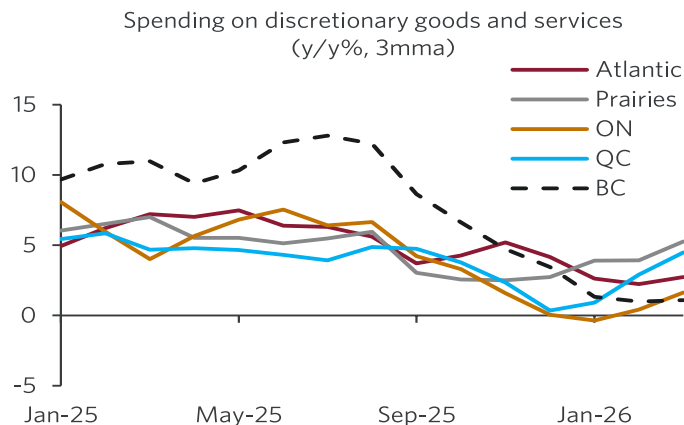
spending plan, the province will fully eliminate its deficit, and there is further upside for Saskatchewan tied to the climb in potash prices.

The improvement in deficits may be tempered by provinces choosing to funnel some of the extra revenue back into the economy to help offset the squeeze to consumers from higher gasoline prices. Households will be devoting an increasing share of income towards gasoline (Chart 5), particularly in the Prairie and Atlantic provinces where the population is more dispersed and less reliant on public transportation and therefore consumes higher volumes of gasoline per household.

Consumption headwinds remain

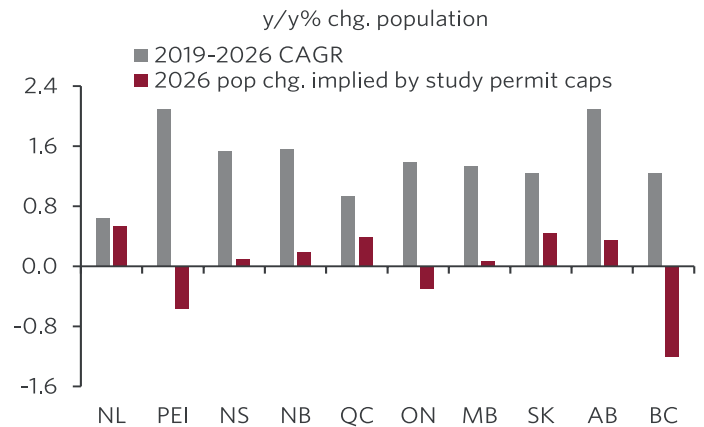
Although nominal retail sales perked up in the first quarter, retail sales volumes were up only modestly relative to a year ago. Spending on discretionary goods and services has waned over the past year, particularly in BC, Ontario, and the Atlantic provinces (Chart 6). The deceleration in BC and Ontario

Chart 6: Discretionary spending was already under pressure before oil price shock



Source: Statistics Canada, CIBC

Chart 7: Further decline in population likely in BC and ON this year

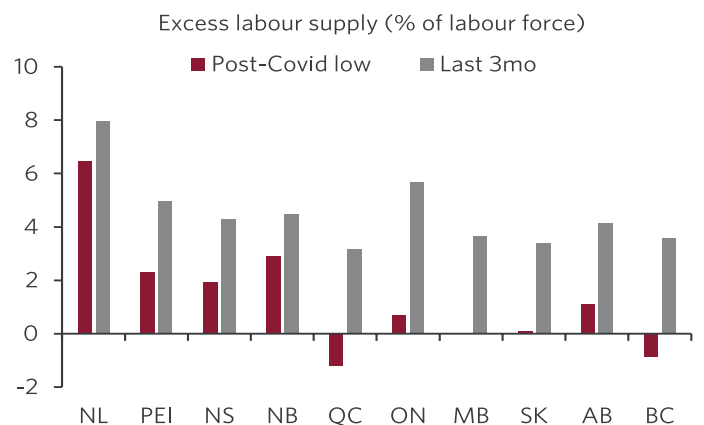


Source: Statistics Canada, CIBC

coincided with 5-year mortgage renewals at higher interest rates, weakness in housing prices that might be restraining spending financed by home equity loans, and slower home sales that impact related spending on furniture and appliances.

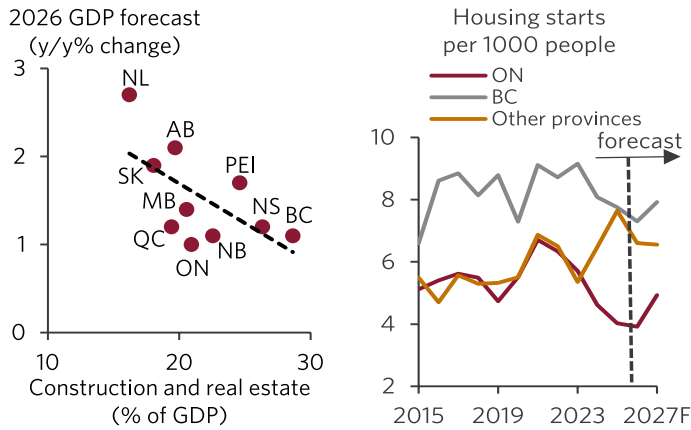
Restrictions on arrivals of new non-permanent residents are also restraining consumer spending, and will continue to be a barrier to growth in the latter half of 2026, particularly in BC and Ontario. Indeed, those provinces each saw their population decline by 0.7% y/y as of Q1 2026, with scope for a further slowdown this year as NPR work/study permit holders still account for an outsized 7% and 6% of the population, respectively, well above the 4% average of the other provinces. Assuming the distribution of 2026 study permits aligns with provincial shares of the total population, BC could face a particularly sharp drop in its population ahead, although that would just bring the average growth pace since 2019 back to a sustainable rate (Chart 7).

Chart 8: Substantial labour market slack will allow for stronger growth in 2027



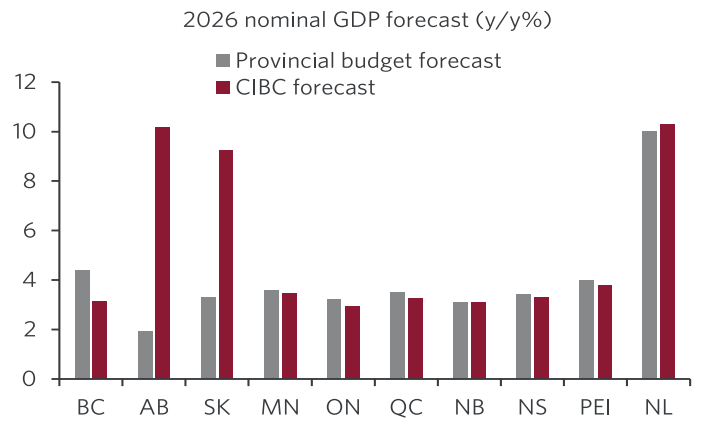
Source: Statistics Canada, CIBC

Chart 9: Subdued real estate activity weighs on 2026 growth (l), but a return to stronger building in store for ON and BC in 2027 (r)



Source: Statistics Canada, CIBC

Chart 10: CIBC forecasts vs. provinces



Source: Provincial budgets, CIBC

Better luck next year?

Looking ahead to better times in 2027, provinces have varying degrees of labour market slack that leaves ample room for growth without threatening an acceleration in inflation. Looking at total labour demand (employment plus job vacancies) relative to labour supply, Newfoundland and Labrador, and Ontario, have the most labour market slack to absorb (Chart 8).

Housing market activity will continue to be a major source of growth differentiation for provinces, with building still expected to remain weak this year as supply excesses in the condo space and economic uncertainty weigh on activity (Chart 9, left). 2027 could see a return to faster rates of building, with per-capita housing starts expected to rise sharply in Ontario after falling for several years, and to a lesser extent in BC, where building was already robust relative to the population (Chart 9, right).

In the near-term, there is scope for some upside and downside surprises versus what provincial budgets assumed for growth this year (Chart 10). There is material fiscal upside for oil-producing provinces even if crude prices begin to descend in the next few months, while BC budget assumptions may have been a touch optimistic. A challenging 2026 will see some other provinces lagging behind forecasts made at budget time, due to the oil price shock, trade frictions, and housing market weakness. But by 2027, at least some tariff relief and lower uncertainty coming out of the trade talks, and an end to the Middle East conflict, could allow provinces that are now lagging to narrow those gaps.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Katherine Judge
katherine.judge@cibc.com

Helen Lao
helen.lao@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
[Bloomberg @ CIBC](#)

economics.cibccm.com

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