TD Economics

Provincial Economic Forecast

Tariffs Taxing the Provincial Outlook

March 19, 2025

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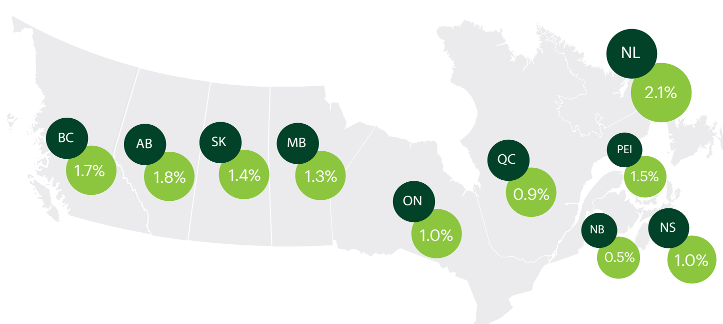
- We've slashed our real GDP growth forecasts for this year from coast-to-coast, reflecting the impact of the Canada-U.S. trade war. Solid Q1 activity across regions will buffer annual averages, but we foresee a mild recession unfolding for Canada in the middle-part of this year.
- Our forecast assumes that Canada's exports to the U.S. will face a 12.5% effective tariff rate for six months, lowered to 5% in Q4-2025 and held there through the projection horizon. We expect Canada to retaliate with their $155 billion package over the next two quarters before paring back to $30 billion.
- Across provinces, Quebec and Ontario are especially exposed to tariff risks given their outsized manufacturing sectors. However, Quebec's public sector is also quite large, and is less directly exposed. New Brunswick, meanwhile, is heavily reliant on the U.S. as an export destination. On the flipside, U.S.-bound shipments make up only a small share of GDP in Nova Scotia and B.C., while a lower 10% tariff on energy exports will likely soften the blow in Alberta's case.
- The commodities backdrop, especially crude oil, is softening due to the prospect of slowing global demand growth. WTI prices have been revised lower, impacting profitability and investment in key resource-producing provinces.
- Our forecast builds in assumed support from government stimulus. So far, we've received budgets from Nova Scotia, B.C., and Alberta. For the most part, growth-supporting efforts have focused on infrastructure spending and allocating funds for trade-war related contingencies. Alberta, however, will roll out a sizeable tax cut for households this year. Provinces are also retaliating to through various measures, including the elimination of U.S. alcohol purchases.
- We've downgraded our annual average housing forecasts for nearly every province this year (Newfoundland and Labrador gets a reprieve given solid momentum heading into 2025). Q1-25 performances were weak across most provinces. Part of this can be traced to severe winter storms in February, although tariff-related economic uncertainty is probably weighing. A subdued performance is likely in the cards for the bulk of 2025, before an improving jobs market, pent-up demand and waning uncertainty drives a better outcome in 2026.

Provincial Real GDP Growth Forecast (2025)



Source: TD Economics. Forecast as of March 2025.

For more details on our national forecast see our Quarterly Economic Forecast

British Columbia

B.C.'s economic expansion is set to accelerate slightly in 2025 on the heels of last year's tepid growth performance. Our projection for 1.7% real GDP growth this year is still below the province's historical average track record, but we do see it as one of the better performing jurisdictions in the year ahead.

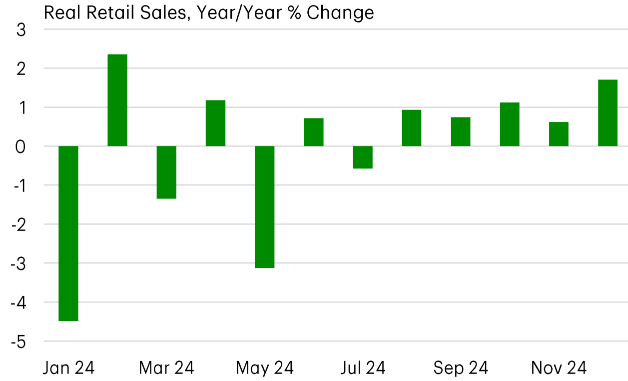
Within the household sector, the combination of rising incomes, spending restraint, and falling interest rates has helped to ease some of the pressure from lofty debt levels. Consumers have responded by ramping up retail outlays (Chart 1), a trend we expect to continue as interest rates fall further. Spending on food and beverages has also turned sharply higher. Although domestic consumers have likely led the charge, tourism activity has also picked up, as evidenced in recent international visitor growth. The tourism sector in B.C. accounts for over 3% of GDP, more than any other province, and remains a near-term bright spot with continued support from a weaker loonie as well as more Canadians that are likely to opt to spend their tourist dollars at home.

While not immune to tariffs, B.C.'s economy appears better positioned to absorb the impact of the trade war. For one, U.S shipments account for a relatively small 8% of nominal GDP. The province also benefits from greater trade partner diversity, with 45% of exports heading to non-U.S. trading partners, compared to the roughly 25% national average (Chart 2). We do expect some localized weakness, especially in the lumber industry, which could face devastating new tariffs on top of the current 15% anti-dumping and countervailing duties. In contrast, the natural gas sector is a relative bright spot amid a healthy pricing environment as well as the anticipated start-up of LNG Canada.

Escalating tariff risks may hamper an already dim outlook for non-residential investment, especially as many large-scale projects wind down. On the residential side, a subdued outlook for housing demand will weigh on construction investment in 2025. However, 2026 prospects are more promising given the combination of pent-up demand and dissipating uncertainty.

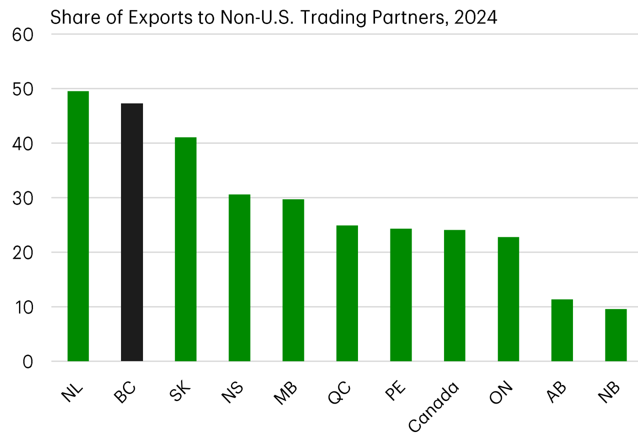
In its recently released 2025 Budget, the government pressed ahead with some modest new spending initiatives as well as infrastructure investments. The outlook for further sharp increases in the government's debt-to-GDP ratio is creating some vulnerability to negative shocks, contingencies imbedded in the Budget should help mitigate the risk of even larger fiscal deterioration.

Chart 1: B.C. Inflation-Adjusted Retail Spending Gaining Momentum



Source: Statistics Canada, TD Economics. Last Observation: Dec 2024.

Chart 2: B.C. Benefits From a More Diverse Trade Portfolio



Source: Statistics Canada, TD Economics.

British Columbia Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024	2025F	2026F
Real GDP	1.4	1.7	1.5
Nominal GDP	4.6	5.2	3.5
Employment	2.4	0.8	0.4
Unemployment Rate (%)	5.6	6.2	6.0
Housing Starts (000's)	45.8	42.1	42.5
Existing Home Prices	1.7	-4.1	2.7
Home Sales	2.1	-0.8	14.7

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Alberta

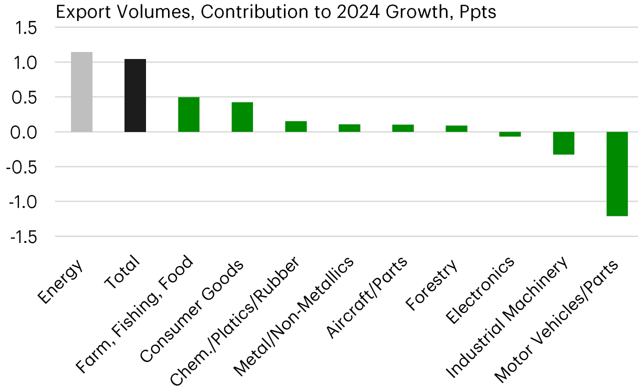
We expect Alberta's economy to fare better than most other regions this year, partly reflecting the benefit of a decent growth hand-off from 2024. As expected, the Transmountain Pipeline Expansion (TMX) has been a boon for the oil sector, with production rising by almost 5% last year to a record level of 4 million/bpd. This momentum bodes well for the sector, especially as producers signal plans to continue increasing output – despite tariff threats – while also seeking to expand market access beyond the U.S. More broadly, Canadian energy products, led by Alberta, were the biggest contributors to total export volumes in 2024 (Chart 1).

Our forecast assumption of a 10% tariff on energy exports for 6 months will likely weigh on activity and jobs in the oilpatch, but only moderately. In the absence of readily available substitutes for Canadian oil, we don't expect the U.S. to materially scale back its imports of Alberta oil, while U.S. refiners and a lower Canadian dollar absorb some of the tariff impacts. Perhaps the greater near-term risk is on the global oil price outlook, where two major events – the unwinding of OPEC supply cuts beginning in April and the escalating global trade war — are pressuring oil prices lower. As a result, we have downgraded our WTI oil price forecast to $67/bbl in 2025.

Like all provinces, Alberta's unemployment rate is set to rise, though we expect the increase to be less pronounced than other provinces (Chart 2). Population growth is still expected to clock in at a robust +2% in 2025, which will continue to support hiring and spending. Given economic uncertainties, consumers will likely remain cautious, especially as inflation in the province runs hotter than other jurisdictions (averaging 2.6% y/y in Alberta over the last six months). However, lower interest rates and a slimmer debt burden for households should be a net positive for consumption growth this year.

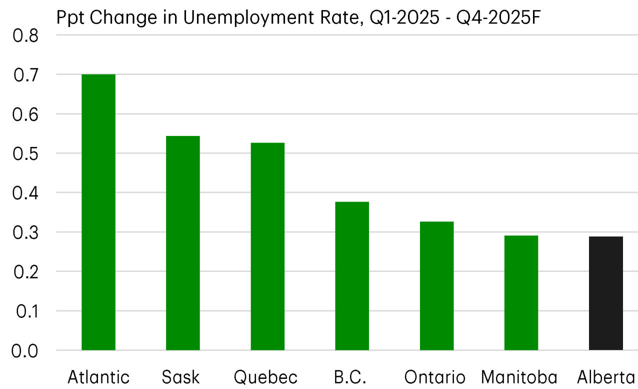
In its recently released 2025 Budget, the government prudently incorporated trade shocks into its base-case scenario while building in $4 billion annual contingencies for the next three years. A material hit to projected near-term revenues puts the province on track to record a string of deficits after successive years in black ink. Despite their negative impact on the deficit, Alberta's fiscal position remains the most favourable among provinces and the newly implemented income tax cut should provide offsetting stimulus if U.S. trade policy actions (or other downside risks) materialize.

Chart 1: Alberta's Crude Shipments Have Lifted Total Canadian Exports



Source: Statistics Canada, TD Economics.

Chart 2: Alberta's Unemployment Rate Will Rise, But Only Modestly



Source: Statistics Canada, TD Economics.

Alberta Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2024	2025F	2026F
Real GDP	2.4	1.8	1.4
Nominal GDP	5.7	4.8	3.2
Employment	2.9	2.0	0.6
Unemployment Rate (%)	7.1	6.9	6.6
Housing Starts (000's)	47.8	43.9	36.8
Existing Home Prices	10.0	4.4	5.3
Home Sales	9.2	-2.2	7.9

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Saskatchewan

Over the last three years, Saskatchewan's economy has been a provincial outperformer. But this year could see an end to that streak, as real GDP growth likely slows to a pace in line with the national-average. Most domestic markers of activity are showing solid momentum to start the year, but the province's greater-than-average external orientation faces heightened risks.

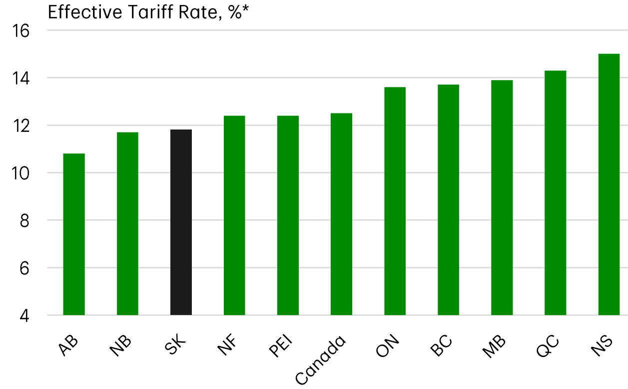
The comparative good news is that key energy and potash exports will face a lower 10% U.S. tariff rate that should dampen the export blow somewhat. On the latter, the U.S. imports around 75% of its total potash needs from Saskatchewan, with few reliable substitutes. Indeed, when adjusted for the relative export mixes, Saskatchewan's overall effective tariff rate is expected to be at the low end among the provinces (Chart 1). On the flipside, crop exporters are battling another front in the trade war, with China recently announcing the imposition of a 100% tariff on Canadian canola oil exports starting March 20th. In 2019, when China imposed an export ban on two of Saskatchewan's major canola producers, exports of the commodity tumbled by about 50%, which subtracted as much as 0.5 ppts to real GDP growth that year.

Elsewhere on the goods side, uranium production is expected to scale up this year, partially offsetting the drag from the oil sector, where total production in 2025 is likely to remain flat for a third straight year.

Saskatchewan's labour market has continued to churn out decent job gains to start the year, especially within public services. Employment growth will likely slow from last year's 2.6% gain, but we still expect Saskatchewan to boast the lowest unemployment rate across provinces (at 5.7%) in 2025 on average. A combination of falling interest rates and a healthy near-term labour market outlook supported a pickup in consumer demand to cap off 2024, with continued expansion expected over the near term.

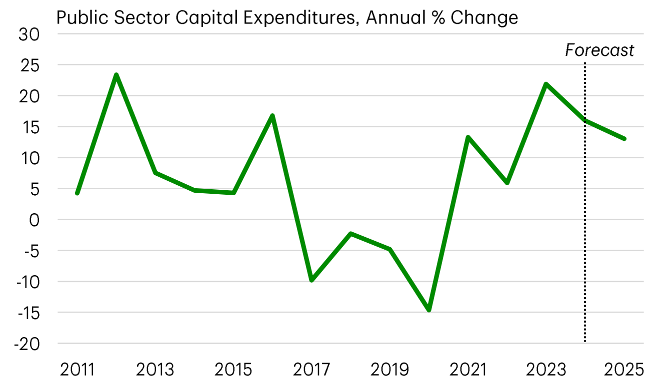
Saskatchewan will table their 2025 Budget this week. The provincial government has the second-lowest net debt burden across jurisdictions, which means more room to provide support in the event that downside growth risks materialize. In that vein, 2025 data on capital spending intentions pointed to a third consecutive year of double-digit growth in public sector outlays (Chart 2), keeping a tailwind in the sails of the recently-thriving construction sector.

Chart 1: Saskatchewan's Effective Tariff Rate on Exports is Lower Than Most Provinces



*Based on TD Economics' assumptions. Source: TD Economics.

Chart 2: Saskatchewan's Robust Public Sector Investment Intentions



Source: Statistics Canada, TD Economics.

Saskatchewan Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2024	2025F	2026F
Real GDP	2.0	1.4	1.1
Nominal GDP	4.9	4.4	2.8
Employment	2.6	0.7	0.4
Unemployment Rate (%)	5.5	5.7	5.7
Housing Starts (000's)	4.3	4.1	4.7
Existing Home Prices	6.4	9.8	5.9
Home Sales	8.9	3.5	6.2

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Manitoba

2025 is shaping up to be yet another year of modest growth for Manitoba, which has been plagued by mediocre outturns since 2021. The forecast could have been even weaker had the economy not been carrying decent momentum heading into the trade war. For instance, retail spending growth was accelerating into 2025 (Chart 1), lifted by falling interest rates, government stimulus measures and low inflation. The latter has turned around more recently however, as Manitoba's previously suspended fuel tax was re-instated (albeit at a lower rate), supporting the 1.6 ppt jump in inflation in January. Note that Manitoba also counts on the U.S. for a relatively large share of its international imports, exposing households to inflation risk from retaliatory tariffs.

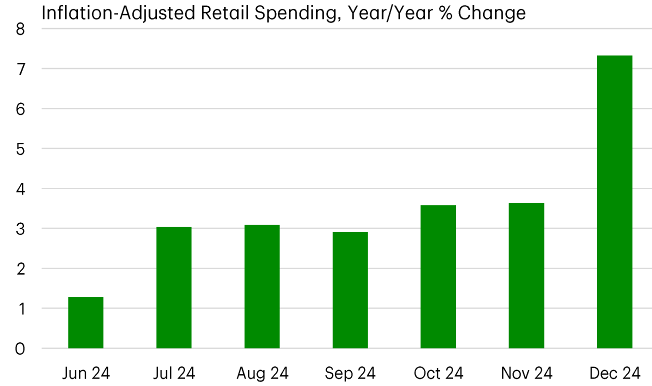
Exports surged in January, as companies stockpiled inventories ahead of tariffs. And, this factor could continue lifting exports in the very near-term. However, this boost will likely reverse itself in the second quarter and Manitoba's large and diversified manufacturing industry is facing steep headwinds from the Canada-U.S. trade war. Indeed, some 75% of Manitoba's international shipments are destined for the U.S. (Chart 2) and cover products such as canola, oil, transportation equipment, and medicine.

The on-going revitalization of the Port of Churchill offers some hope in terms of export diversification towards Europe, and plans call for a doubling of the critical minerals shipped through the port this year. Still, exports to the European Union only accounted for 3% of total international shipments in 2024.

The province ships some 55% of its exports to other provinces - the largest share in the country. Probable growth slowdowns within Canada's borders going forward will also hamper Manitoba's export demand this year. Industries reliant on the manufacturing sector, such as Manitoba's outsized transportation sector, will also likely see diminished activity this year.

Manitoba has a relatively large public sector. Last year's budget pointed to significantly slower program spending growth this fiscal year. However, a stronger spending profile in the upcoming budget on March 20th could support the economy while these trade headwinds are blowing. Government investment is also proceeding at a hefty pace, lifted by healthcare projects, with capital spending intentions pointing to an elevated level being maintained this year.

Chart 1: Manitoba's Consumers Were Showing Strength Heading into 2025



Source: Statistics Canada, TD Economics

Chart 2: Manitoba's Large Manufacturing Base Vulnerable

Source: Statistics Canada, TD Economics.

Manitoba Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024	2025F	2026F
Real GDP	1.3	1.3	1.2
Nominal GDP	4.0	3.8	2.9
Employment	2.6	1.5	0.6
Unemployment Rate (%)	5.5	5.7	5.5
Housing Starts (000's)	7.2	6.3	6.1
Existing Home Prices	6.2	4.8	5.4
Home Sales	11.3	6.9	2.4

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Ontario

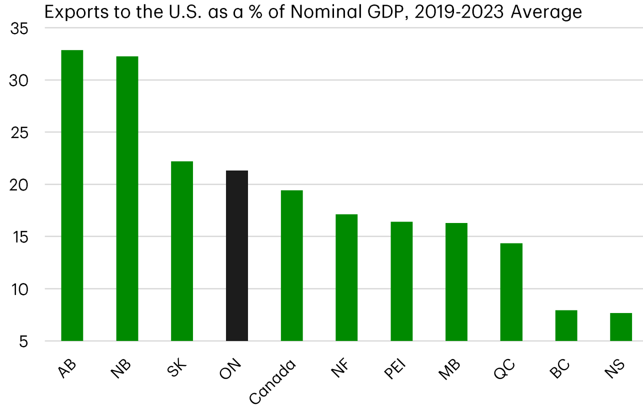
Ontario's economy is one of the most vulnerable to the U.S.-Canada trade war (Chart 1) because of its large manufacturing sector. For this reason, 2025 Ontario real GDP growth forecast has been downgraded by more than nation-wide. We would have reduced our forecast even further had it not been for the momentum Ontario's economy was carrying heading into these trade tensions. For instance, tariff front-running gave Ontario's exports a solid boost in January, supporting first quarter growth. This dynamic should also help moderate the impacts of tariffs for a few months.

Ontario's steel industry has been slapped with a 25% tariff on it's U.S.-bound shipments. Its output should contract in response, as it did during the last time the industry faced tariffs in 2018/19. Because of the steel sector's small share of GDP (less than 1%), these levies won't be enough to blow the entire economy off course. More severe would be the imposition of steep tariffs on automotive products, which are by far the largest Ontario export to the U.S. Indeed, sizeable tariffs on autos (and other manufactured products) could come in April. On the other side, Canadian retaliatory tariffs on steel and aluminum will likely raise costs in the manufacturing and construction industries.

The Ontario government has been active in response to U.S. tariffs by (for example) banning U.S. firms from Ontario public sector procurement and eliminating alcohol purchases. They've also released a plan which targets (according to the government) some $40 billion in new investments, loans, and other financial supports. However, it's unclear how much of that is net new spending as the plan is not fully costed. Elements of the plan include a $5 billion Protect Ontario Account (financial support programs for large-scale industrial sectors) and $10 billion through a 6-month deferral of provincial business taxes.

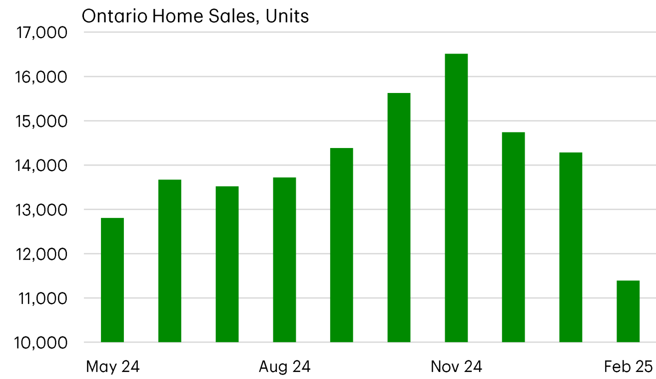
Ontario's housing market has been exceedingly weak in recent months (Chart 2) as economic uncertainty, abetted by winter storms, chilled activity. We look for a subdued performance for much of the year as uncertainty weighs. In particular, supply/demand balances indicate that there is too little demand chasing too much supply, with downside price pressure likely over the next several months. However, 2026 prospects are brighter given the combination of pent-up demand, dissipating uncertainty, and a quarterly firming in hiring.

Chart 1: Ontario's Economy Highly Exposed to the U.S.



Source: Statistics Canada, TD Economics

Chart 2: Ontario's Housing Market on the Back Foot to Begin 2025



Source: CREA, TD Economics

Ontario Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2024	2025F	2026F
Real GDP	1.3	1.0	0.9
Nominal GDP	4.2	3.8	2.6
Employment	1.7	1.4	0.3
Unemployment Rate (%)	7.0	7.5	7.2
Housing Starts (000's)	74.6	65.9	64.4
Existing Home Prices	0.3	-6.4	2.2
Home Sales	3.1	-7.6	16.9

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Québec

Quebec's outsized manufacturing industry is exposed to the U.S.-Canada trade war through industries such as aerospace, metal, and aluminum. The latter product is Quebec's largest shipment south of the border. Although it's considered a critical mineral in the U.S. (where a lesser, 10% U.S. tariff should apply on non-USCMA compliant goods), President Trump has hit these shipments with a 25% tariff rate. If sustained, this will likely cause a massive contraction in aluminum export volumes to the U.S., given that they plunged 15% in 2018 when a 10% tariff was applied. If there's a saving grace, it's that aluminum is a small share of overall GDP (Chart 1).

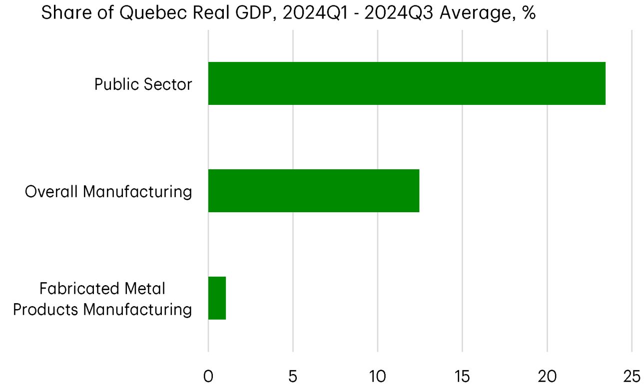
Notably, front running of U.S. purchases could also temporarily delay potential impacts on the manufacturing sector. That said, we see broad manufacturing activity weakening as the year progresses, weighed on by duller domestic conditions and softer U.S. growth prospects. Other trade-exposed industries, such as transportation and wholesale trade, are likely to be impacted this year as well.

In response to tariffs, the provincial government has signaled that the March 25th budget will have a focus on infrastructure investment and offer loan programs for industries affected by the tariffs. The former would complement homebuilding, which is seeing healthy growth and is likely to contribute positively to the economy this year. Quebec will also ban the purchase of American alcohol and penalize American companies that bid on public contracts, while also mulling other measures.

2024 marked a solid year for household spending, buffered by lower interest rates and supportive federal government measures. However, cooler economic growth this year should weigh on hiring (sapping the decent momentum seen so far), thereby dampening consumer's moods. Fortunately, households in Quebec are one of the least indebted in the country, and household savings rates are highly elevated, offering some cushion against a tepid economy (Chart 2).

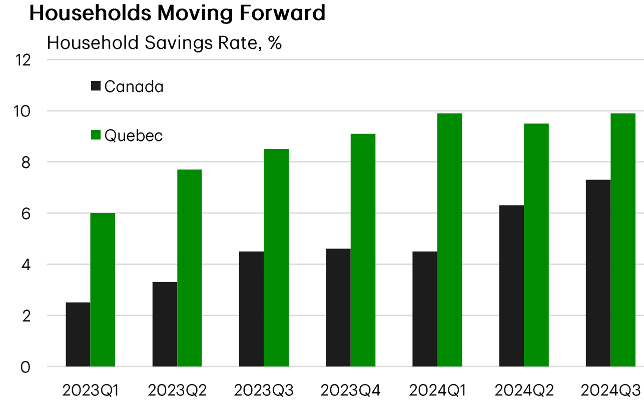
Quebec's housing demand has shown some resilience, with per capita sales 17% above their long-run average in January. Although economic uncertainty will restrain sales growth this year, we think that home sales and average home price growth will be positive in 2025, with the latter supported by reasonably tight supply/demand conditions.

Chart 1: Aluminum Tariff Impact Blunted by the Sector's Small Size



Source: Quebec Government, TD Economics.

Chart 2: Elevated Savings Could Buffer Quebec's Households Moving Forward



Source: Statistics Canada, Quebec Government, TD Economics.

Québec Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024	2025F	2026F
Real GDP	1.3	0.9	0.8
Nominal GDP	4.3	4.0	2.7
Employment	0.9	1.0	0.2
Unemployment Rate (%)	5.4	6.0	5.9
Housing Starts (000's)	48.8	50.9	47.6
Existing Home Prices	7.4	7.4	4.9
Home Sales	18.9	8.6	1.3

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

New Brunswick

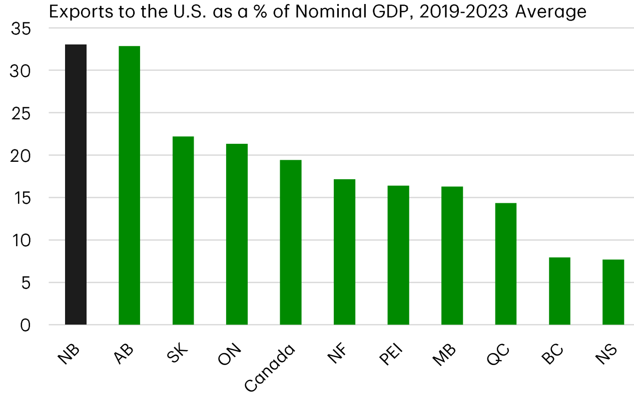
The economy of New Brunswick (N.B) is arguably the most vulnerable to the U.S.-Canada trade war. The province ships over 90% of its goods to the U.S., or the equivalent of one-third of its GDP, ranking first across provinces (Chart 1). Mineral fuels and forestry –the province's first and third largest export industries – are facing particular threats from the imposition of U.S. tariffs. Seafood, the province's second largest export, is in the crosshairs of a recently-implemented 25% tariff from China. For these reasons, we've lowered our 2025 and 2026 real GDP growth forecasts to a mere annual average rate of 0.5%. That represents a hefty markdown of 0.9 ppts per year from our December view.

In response, the N.B. government has outlined a four-pillar plan to support households and businesses through the period of tariff adjustment, while conducting internal reviews to reduce interprovincial trade barriers. On the latter, the government has already removed nine exceptions that were previously allowed under the Canadian Free Trade Agreement (CFTA), and more are currently under review. Removing these barriers works in the province's favour especially given their outsized reliance on interprovincial trade relative to other jurisdictions. The government is also planning its 2025 Budget armed with a relatively solid fiscal standing. N.B. carries the third lowest net-debt burden among the provinces, pointing to some fiscal wiggle room to offset the external growth headwinds.

Last year, consumer spending had buoyed economic growth, benefitting from comparatively low average debt levels, robust population growth, and healthy labour demand. Very recently, however, there have been some early signs of spending fatigue, which could partly reflect a sharp downturn in population gains since late last year (Chart 2). Further consumption gains will depend on the near-term labour market outlook, where we do expect employment growth to slow, especially in tariff-exposed sectors. That said, our forecast for a peak unemployment rate of around 7.5% by the end of the year would still be below pre-pandemic levels.

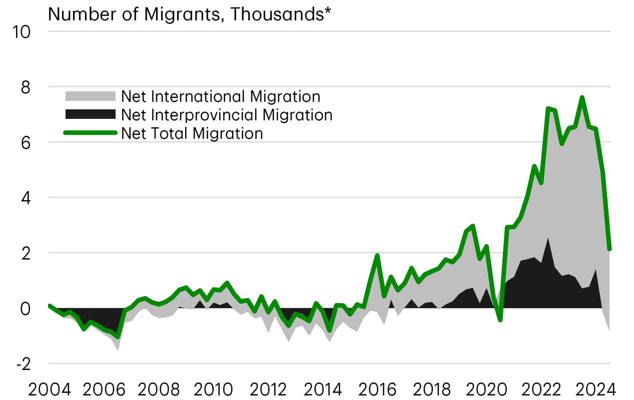
Elsewhere, tariff-related economic uncertainty is likely weighing on N.B.'s housing market. This year should see weaker growth in home sales and average home prices. Relative to 2019 levels, prices are still over 80% higher (as of February), while home sales have retreated back in line. Looking ahead, tariffs are dampening the outlook for near-term business investment, but robust capital spending in both the residential and non-residential space over the past few quarters is providing a strong handoff for 2025.

Chart 1: N.B. Has the Highest Export Exposure to the U.S.



Source: Statistics Canada, TD Economics.

Chart 2: N.B.'s Immigration Growth Is Rapidly Moderating



*Seasonally adjusted. Source: Statistics Canada, TD Economics.

New Brunswick Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2024	2025F	2026F
Real GDP	1.5	0.5	0.6
Nominal GDP	3.7	3.3	2.2
Employment	2.8	0.7	0.0
Unemployment Rate (%)	7.1	7.2	7.6
Housing Starts (000's)	6.2	4.5	3.6
Existing Home Prices	10.5	10.7	4.9
Home Sales	4.4	3.4	4.5

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Nova Scotia

In 2025, Nova Scotia's economic growth is set to decelerate to a pace below the robust rates seen in recent years. The province's jobs market is already softening, with job growth cooling to a 0.6% year-on-year rate over the first two months of the year (Chart 1), well shy of the near 3% pace averaged in 2024.

U.S.-bound shipments in Nova Scotia account for the smallest share of GDP among the provinces, pointing to somewhat lower near-term economic vulnerability to the U.S.-Canada trade war. In retaliation to the U.S. tariffs on Canadian imports, the provincial government has banned American firms from bidding on government projects, doubled highway tolls for U.S. commercial vehicles at the Cobequid Pass, and removed U.S. liquor from store shelves. The latest budget also added a contingency fund worth about 0.3% of GDP in response to tariffs. Promisingly, Nova Scotia has introduced legislation to break down barriers to interprovincial trade.

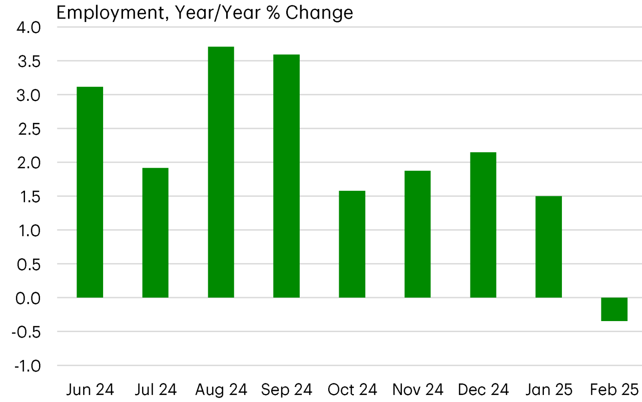
While a lesser trade dependence on the U.S. is a plus for Nova Scotia in this environment, China's decision to levy 25% tariffs on Canadian seafood exports will significantly impact growth in the province this year. China is province's 2nd largest export market and an important buyer of Nova Scotia's seafood products.

Household spending growth had been robust in Nova Scotia heading into 2025, although our internal credit and debit card spending data points to some moderation to begin the year. Although some lift to spending should come from income tax cuts and a 1 ppt reduction in the HST, consumption is likely to ease through 2025, as Nova Scotia's jobs market suffers trade-related weakness.

The outlook is brighter in other parts of the economy. The province just introduced a robust $2.4 billion capital spending program which will boost construction activity this year (Chart 2). Nova Scotia's government sector is large, accounting for 30% of its economy. And, although Budget 2025 called for slower provincial government spending growth this upcoming fiscal year, it's still pegged at nearly 4%, and follows an 8% gain in FY 2024/25.

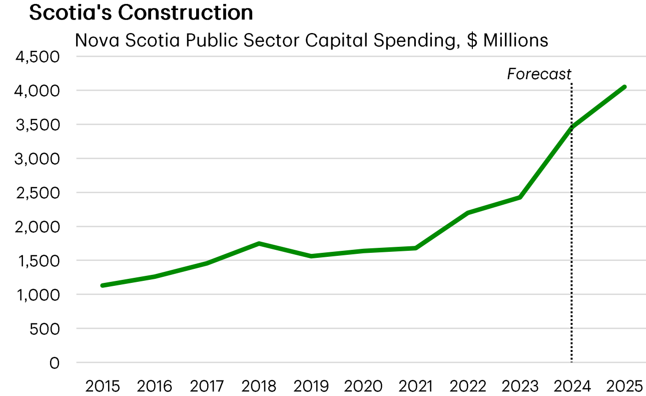
Tariff-related economic uncertainty is likely weighing on Nova Scotia's housing market. This year should see weaker growth in home sales and average home prices. However, prices were still some 80% above their pre-pandemic level in February.

Chart 1: Job Growth Cooling Markedly in Nova Scotia



Source: Statistics Canada, TD Economics.

Chart 2: Public Sector Investment to Underpin Nova Scotia's Construction



Note: 2025 data captures investment intentions. Source: Statistics Canada, TD Economics.

Nova Scotia Economic Forecasts

[Annual average % change, unless otherwise noted]

Economic Indicators	2024	2025F	2026F
Real GDP	2.3	1.0	1.0
Nominal GDP	4.9	4.1	2.8
Employment	3.1	0.5	-0.1
Unemployment Rate (%)	6.5	6.7	6.9
Housing Starts (000's)	7.4	6.3	6.0
Existing Home Prices	6.6	4.3	4.3
Home Sales	7.9	6.8	6.0

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Prince Edward Island

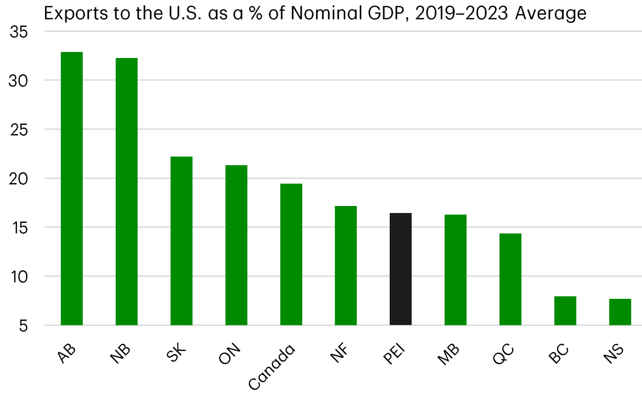
Real GDP growth is projected to slow this year in PEI, reflecting rapidly-cooling population growth and the confidence-sapping effects of Canada-U.S. trade uncertainty. Our analysis of trade data indicates that major PEI exports to the U.S. (like potatoes and lobsters) are generally USCMA compliant and therefore have a temporary reprieve from tariffs. However, if the U.S. does hit Canada with broad-based tariffs, Prince Edward Island won't be able to escape the impacts. After all, U.S.-bound shipments account for some 16% of it's GDP, a touch below Canada's share, but still sizeable (Chart 1). The Island also exports a large share to other provinces (nearly 50%). However, with other provinces facing downside growth risks, PEI can't bank on Canadian markets offering a buffer.

There are some factors that could cushion the blow for PEI's economy. For one, the Island recorded decent economic momentum heading into the trade shock. Real GDP likely expanded about 2.6% in 2024 (one of the best growth performances in Canada). And, although the Island's rapid population slowdown has translated into cooler job growth, it was still up about 2% year-on-year to begin 2025. What's more, retail spending data points to household consumption holding up well heading into 2025.

The construction industry is one sector where could bolster the overall economy in the near-term. We expect the U.S. trade war to put a chill in private sector investment. However, the public sector still has robust investment plans. Indeed, the latest capital spending survey pointed to yet another gain in public sector investment in 2025 (Chart 2). The tourism sector, meanwhile, could benefit from more Canadians staying home and a larger number of Americans coming to the Island given the low Canadian dollar.

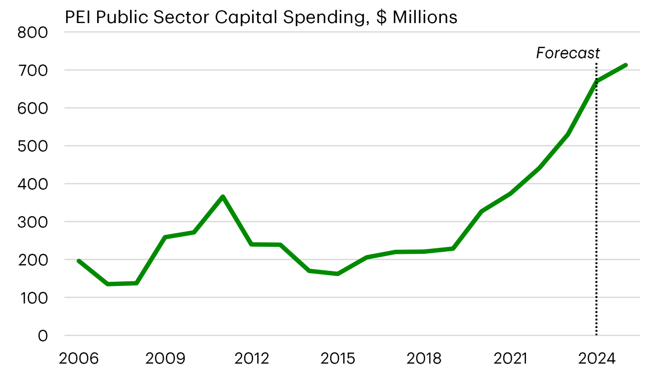
In response to the trade war, PEI's government has pledged to strengthen trading relationships with other countries and within Canada, invest in agriculture and provide financial assistance to affected industries (among other tactics). The province's relatively low debt burden does offer some fiscal room to roll out additional measures. PEI's comparatively large public sector could also shield overall growth through a lower direct exposure to tariff threats.

Chart 1: PEI Has a Slightly Lesser U.S. Export Exposure Compared to Canada



Source: Statistics Canada, TD Economics

Chart 2: PEI's Public Sector Investment Can Provide an Offset to Tariffs



Note: 2025 data captures spending intentions. Source: Statistics Canada, TD Economics.

P.E.I. Economic Forecasts			
[Annual average % change, unless otherwise noted]			
Economic Indicators	2024	2025F	2026F
Real GDP	2.6	1.5	1.3
Nominal GDP	5.3	4.7	3.2
Employment	3.6	1.2	0.4
Unemployment Rate (%)	7.9	8.2	8.3
Housing Starts (000's)	1.2	1.4	1.2
Existing Home Prices	2.4	-1.0	4.5
Home Sales	8.6	7.0	3.7

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Newfoundland & Labrador

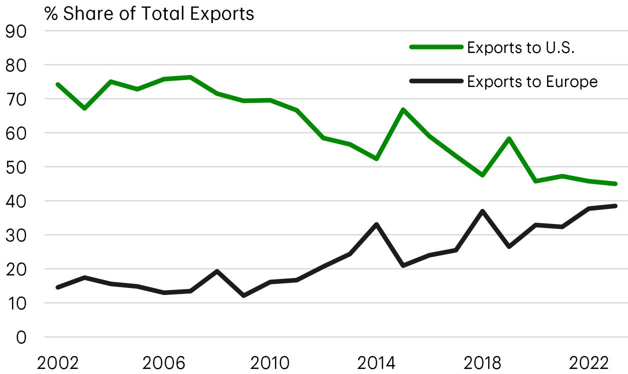
Last year, a rebound in Newfoundland and Labrador's (N.L) oil sector helped pull the province out of a multi-year growth slump. For the year ahead, we expect real GDP growth to top provincial growth charts, though the pace of growth will likely fall short of last year's reflecting the impact of the trade war. As of January 2025, offshore oil production reached levels last seen at the end of 2022, even as the White Rose oilfield remains offline for maintenance. Its expected resumption in the coming months will add production momentum for the year ahead and help to drive another strong GDP showing.

The imposition of a 10% U.S. tariff on energy exports will pose a growth headwind this year, especially since the oil & gas sector accounts for over one-fifth of total GDP. While accounting for a much smaller share, the province's manufacturing sector – which turned in an impressive 25% gain in shipment volumes last year – will also be in the direct crosshairs of U.S. tariffs. But some of this exposure can be mitigated given the province's more diversified export markets. In fact, 50% of the province's exports are destined for the U.S., much lower than the ~75% share nationally. Around 40% of exports are sent to Europe – a share which has gained considerable traction (Chart 1).

The outlook for the construction sector is mixed. Residential investment is holding up well as N.L's housing market appears to be bucking the trend of a broader slowdown in Canada's housing market. Uncertainty may still weigh on homebuying activity, but relative affordability and ongoing demand should translate to nation-leading sales growth in 2025 (Chart 2). Prospects are souring on the non-residential investment side. Even before the most recent tariff flareup, 2025 public and private capital investment intentions in the province had pointed to a decline, led by decreased investments in energy and utilities

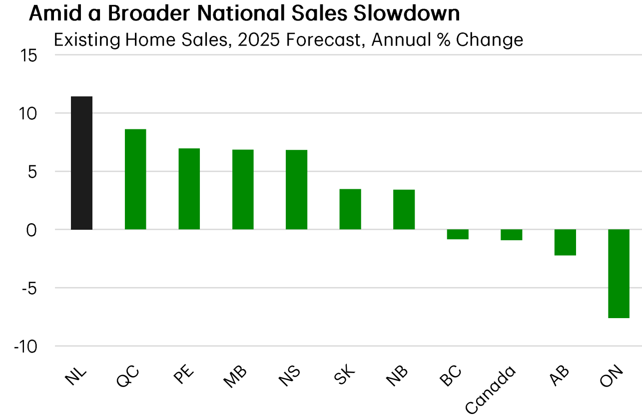
The performance of domestic-oriented industries should continue to be a relative bright spot. Based on recent retail sales as well as our internal data on debit and credit transactions, N.L. has been leading the provinces in terms of real consumer spending gains. Population growth is moderating at a faster rate than most provinces, which may weigh on aggregate spending going forward, but per-household outlays are expected to pick up in the coming quarters with the support of more Bank of Canada interest rate cuts.

Chart 1: N.L. Increasing Trade Reliance with Europe; Away From the U.S.



Source: Statistics Canada, TD Economics.

Chart 2: N.L.'s Housing Market Expected to Stay Afloat Amid a Broader National Sales Slowdown



Source: CREA, TD Economics.

NFLD & Labrador Economic Forecasts [Annual average % change, unless otherwise noted]			
Economic Indicators	2024	2025F	2026F
Real GDP	3.8	2.1	1.2
Nominal GDP	6.8	4.9	3.0
Employment	2.7	-1.0	-0.1
Unemployment Rate (%)	10.1	11.0	11.5
Housing Starts (000's)	1.7	1.5	1.4
Existing Home Prices	8.7	4.4	3.4
Home Sales	6.1	11.4	-0.5

Source: Statistics Canada, CMHC, CREA, Forecast by TD Economics.

Provincial Economic Forecasts

Provinces	Real GDP (% Chg.)			Nominal GDP (% Chg.)			Employment (% Chg.)			Unemployment Rate (Average, %)			Housing Starts (Thousands)			Home Prices (% Chg.)		
	2024	2025F	2026F	2024	2025F	2026F	2024	2025F	2026F	2024	2025F	2026F	2024	2025F	2026F	2024	2025F	2026F
National	**1.5**	**1.3**	**1.1**	**4.6**	**4.2**	**2.9**	**1.9**	**1.2**	**0.3**	**6.4**	**6.8**	**6.6**	**245.1**	**226.9**	**214.3**	**1.9**	**-3.2**	**4.8**
Newfoundland & Labrador	3.8	2.1	1.2	6.8	4.9	3.0	2.7	-1.0	-0.1	10.1	11.0	11.5	1.7	1.5	1.4	8.7	4.4	3.4
Prince Edward Island	2.6	1.5	1.3	5.3	4.7	3.2	3.6	1.2	0.4	7.9	8.2	8.3	1.2	1.4	1.2	2.4	-1.0	4.5
Nova Scotia	2.3	1.0	1.0	4.9	4.1	2.8	3.1	0.5	-0.1	6.5	6.7	6.9	7.4	6.3	6.0	6.6	4.3	4.3
New Brunswick	1.5	0.5	0.6	3.7	3.3	2.2	2.8	0.7	0.0	7.1	7.2	7.6	6.2	4.5	3.6	10.5	10.7	4.9
Québec	1.3	0.9	0.8	4.3	4.0	2.7	0.9	1.0	0.2	5.4	6.0	5.9	48.8	50.9	47.6	7.4	7.4	4.9
Ontario	1.3	1.0	0.9	4.2	3.8	2.6	1.7	1.4	0.3	7.0	7.5	7.2	74.6	65.9	64.4	0.3	-6.4	2.2
Manitoba	1.3	1.3	1.2	4.0	3.8	2.9	2.6	1.5	0.6	5.5	5.7	5.5	7.2	6.3	6.1	6.2	4.8	5.4
Saskatchewan	2.0	1.4	1.1	4.9	4.4	2.8	2.6	0.7	0.4	5.5	5.7	5.7	4.3	4.1	4.7	6.4	9.8	5.9
Alberta	2.4	1.8	1.4	5.7	4.8	3.2	2.9	2.0	0.6	7.1	6.9	6.6	47.8	43.9	36.8	10.0	4.4	5.3
British Columbia	1.4	1.7	1.5	4.6	5.2	3.5	2.4	0.8	0.4	5.6	6.2	6.0	45.8	42.1	42.5	1.7	-4.1	2.7

Provincial Economic Forecasts

F: Forecast by TD Economics, March 2025. Source: Canadian Real Estate Association, Canada Mortgage and Housing Corporation, Statistics Canada, TD Economics.

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