



## B.C. economic update and forecast: 2025-2027

Economic uncertainty remains the key theme for the near future with prospects fluctuating with the latest in President Trump's ever changing trade policies. While many of the policies threatened and implemented (even temporarily) have been foolish and damaging for the U.S. and broader economy, it is also clear that even the most egregious policies can be considered credible. The impact will be a trade and investment driven economic slowdown and risk of temporary stagflation.

B.C.'s economy slows with the broader economy even as it remains more insulated due to a more diversified customer base for its exports, and large service sector. GDP growth is forecast at 1.3 per cent this year, and 1.6 per cent next year before it accelerates. Employment growth hovers near one per cent. Liquefied natural gas shipments will support exports, while tourism is boosted by Canadians and international tourists avoiding the U.S. At the same time, principal drivers of its nation-leading growth over the past half decade are unlikely to repeat as major projects complete construction, large deficits temper government growth, and the trade war dampens business and consumer spending. Housing remains subdued.

## *Economy trends modest, trade impacts slowly passing into hard data*

There remains limited hard data in assessing current B.C. economic conditions with the trade war still early and U.S. tariff policy in a state of constant and unpredictable flux. We remain of the view that B.C. is more sheltered from U.S. trade policy reflecting greater geographic export diversification of goods.

The handoff to 2025 for B.C.'s economy has been soft. GDP growth by industry production slowed from 2.4 per cent in 2023 to 1.2 per cent in 2024. This was among the lowest in the country. However, this comes off a period of outperformance with B.C. also second fastest growing among all provinces over the five-year period extending back to 2019 (aside from Prince Edward Island). Expenditure estimates will be available later this year, which we peg at 1.5 per cent.

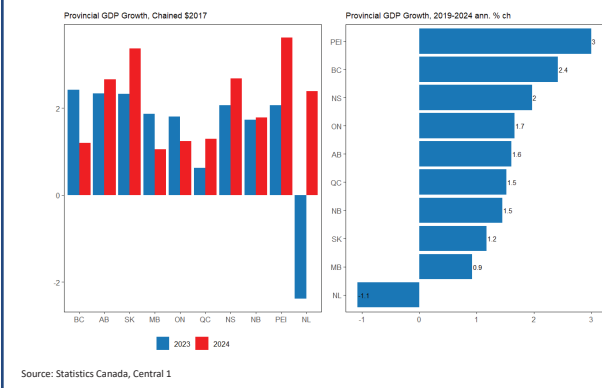
Last year's deceleration reflected pullbacks in the province's good producing sectors. Manufacturing plunged 6.2 per cent, with sharp retreats in segments like wood products and metals. Construction also fell sharply due to contraction in the residential market and the conclusion of major projects, although resource-related output rose. The larger service-producing sector provided an offset, driven by population-growth, public-sector expansion and lift from TMX pipeline-related flowthrough.

### BC Economic Forecast, % change (unless noted)

Indicator	2023	2024	2025	2026	2027
Nominal GDP	3.6	3.5	3.8	4.0	4.7
Real GDP	2.4	1.5	1.3	1.6	2.5
Employment	2.6	2.4	1.1	1.1	1.5
Unemployment Rate (%)	5.2	5.6	6.4	6.2	5.9
Population Growth	2.3	2.4	0.8	0.5	1.2
CPI	4.0	2.6	2.3	2.2	2.0
Retail Sales	-0.1	0.6	2.0	3.0	3.5
Housing Starts	50,490	45,828	39,979	40,300	41,900
CREA MLS Sales (units)	72935	74488	73,000	81,100	85,900
% ch	-9.2	2.1	-2.0	11.1	5.9
CREA Average Price (\$)	971780	981936	975,000	1,000,000	1,080,000
% ch	-2.6	1.1	-0.7	2.6	8.0

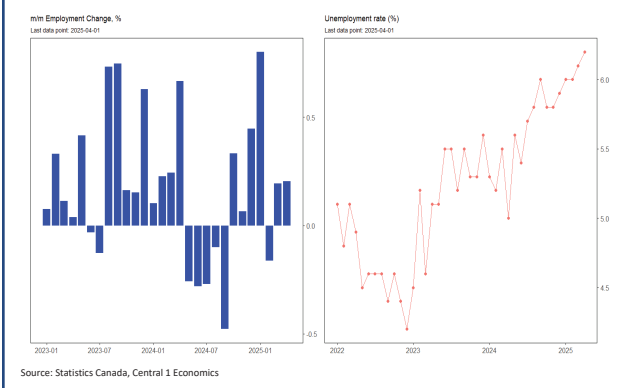
Source, Statistics Canada, CREA, Central 1

## B.C.'s economy slowed in 2024 but led growth in recent years



Impacts on economic data from the current trade war are only beginning to surface. This is expected as U.S. tariffs on Canada and its other global trading partners, and retaliatory tariffs, have only been ladder higher since March. Early 2025 data have proven mixed. B.C.'s labour market has shown positive momentum in recent months with an increase in April of 0.2 per cent, and a comparatively lower unemployment rate of 6.2 per cent (compared to 6.9 per cent, nationally) although the trend has increased like other provinces. Current employment growth is however tracking a mere 1.0 per cent with part-time work driving the bounce. There have been few clear trends in recent labour market data with industry patterns bouncing around, although construction and manufacturing seemed to perk up after weak economic patterns in 2024. Job vacancies in the province remain low. Manufacturing sales and retail spending are tracking well above year ago levels as per early- year data but reflect some front-loading of spending in advance of potential tariffs and is expected to decline. Tourism is also reportedly stronger with Canadians are staying north of the parallel in protest of U.S. actions is boosting domestic consumption.

## Labour market gradually pinched, but hiring still positive



However, uncertainty is elevated and dragging on the broad economy due to unknown trade war outcomes and the frequent parade of negative news. Forward-looking indicators of confidence remain weak. The Canadian Federation of Independent Business' 12-month confidence indicator remained deeply in contractionary territory in April despite rebounding after a March plunge. While reflecting expectations, there are very real economic repercussions. Pessimism works to reduce business investment and temper hiring plans, with downstream effects on households. Similarly, weaker consumer confidence put a quick end to the positive housing market momentum seen in late-2024, despite steady provincial and local economic conditions. Fears of recession, and a Sluggish and declining home sales and prices point to recessionary housing market conditions in the province, particularly in Metro Vancouver, although this downturn is anticipated to be temporary. Housing starts are exceptionally low even as levels bounced higher in April.

### British Columbia: Key Economic Indicators

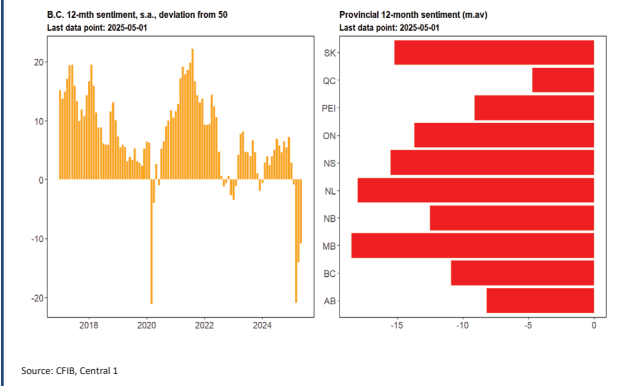
Indicator	Latest Data	Value	Change, % unless otherwise noted				
			m/m ch.	prior m/m ch.	y/y ch.	prior y/y ch.	YTD y/y ch.
LFS Employment (000)	Apr-25	2,950.9	0.2	0.2	0.5	0.9	1.0
Full-time	Apr-25	2,373.0	0.7	0.4	0.9	0.1	0.5
Part-time	Apr-25	578.0	-1.7	-0.7	-1.2	4.7	2.6
Unemployment Rate	Apr-25	6.2	0.1	0.1	1.2	0.6	0.8
Average wage (\$)	Apr-25	38.2	1.6	-0.7	4.8	3.1	3.7
Consumer Price Index	Apr-25	157.8	0.0	0.1	2.0	2.6	2.5
Retail Sales (\$mil)	Feb-25	9,371.9	-0.6	0.8	4.4	9.6	6.9
Manufacturing (\$mil)	Mar-25	5,370.6	-1.0	-3.5	2.4	1.6	3.8
Exports (\$mil)	Mar-25	5,223.4	22.4	-13.4	0.7	-1.6	3.9
MLS Sales (000s)	Apr-25	5.3	-2.3	-5.9	-12.4	-13.2	-6.5
MLS Average Price (\$000)	Apr-25	922.2	-0.9	-1.1	-5.5	-5.0	-3.6
Housing Starts saar (000s)	Apr-25	51.1	75.4	5.7	-3.1	-50.3	-21.8

Source: Statistics Canada, CREA, CMHC, Central 1

note: Unemployment rate change reflect percentage change

YTD Starts is average of monthly saar data

## B.C. sentiment is low, but compares favourably to peers



## Canadian economic outlook weak, some downside to interest rates

Consistent with the rest of the country, B.C.'s outlook depends on broader trade and economic conditions which remain fluid. U.S. tariffs on Canadian goods currently remain in place to the tune of 25 per cent on all goods, excluding energy and potash at 10 per cent. However, as detailed elsewhere, there are caveats that dampen these headline tariffs. Trade in USMCA compliant goods are generally moving across the border tariff free, and low value products continue to receive de minimis treatment. There are, of course, exceptions. Steel and aluminum derivative products and finished automobiles (on non-US origin) face a 25 per cent tariff. Canada has also adjusted its retaliatory tariffs including exemptions to inputs to the auto sector, and a temporary reprieve for inputs to manufacturing, food products, healthcare, and public sectors. Further adjustments to tariffs are likely. We expect further de-escalation with USMCA renegotiations, firms shifting supply chains, and further compliance with USMCA on the part of firms.

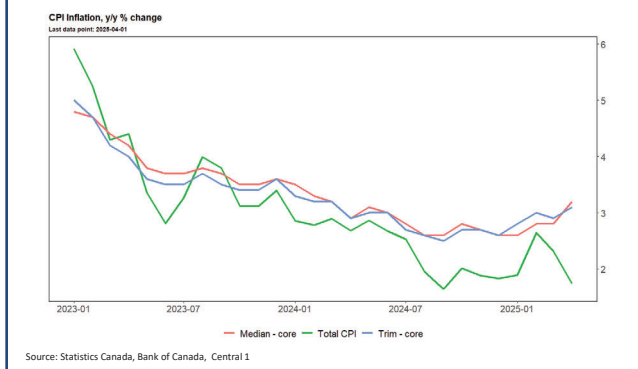
The U.S. has retreated (at least temporarily) from its most excessive tariff threats on Canada and from its massive "Liberation Day" global reciprocal measures as financial market volatility and recession fears triggered a 90-day pause for most countries. Intensification of the U.S. – China tit for tat trade war that culminated in U.S. tariffs more than 100 per cent tariffs back and forth over the past month between the nations were also reversed. The U.S. has applied a global tariff of 10 per cent, notwithstanding tariffs already in place prior to April 2 on some countries (like Canada and China). Evolution of the trade war is unknown, and it could re-ignite or further de-escalate, but it is also clear that it has not and is unlikely to normalize. Even

with the recent de-escalation, the effective U.S. tariff rate is 16-18 per cent dependent on degree of import substitution, which is the highest since the 1930s<sup>1</sup>. While a U.S. recession and sharper global downturn may now be avoided, a slowdown is inevitable given the direct impact of tariffs and sentiment on trade, investment, prices, and spending.

Our current Canadian outlook is for a modest contraction in the second and third quarters of this year, with an average annual growth rate of one per cent, followed by 1.3 per cent expansion in 2026. Investment spending and exports will be a drag due to tariffs and weaker sentiment, while consumer demand also slows. As a structural shift in the economy due to trade friction, the economy does not fully rebound to a pre-trade war trend. Risks to the economy are to the downside given the uncertainty of future policies and new trade policy threats.

Interest rates are forecast to move gradually lower as the Bank of Canada adapts to the slowing economy and weaker labour market, but tariffs are inflationary, at least in the short term, and the Bank will need to balance the slowing economy with price stability. Core inflation soared in April, with momentum above 3 per cent, even as the labour market wilted, making the Bank's job especially difficult. Our current expectation is for the Bank to reduce the policy rate to 2 per cent by year-end, which is below the market consensus of 2.25 per cent. At the same time, bond yields have moved higher with markets imbedding inflation risks, which could limit reductions in administered rates such as those for mortgages.

## Rising core inflation limits Bank of Canada rate cuts, but reduction to near 2% expected



<sup>1</sup> Yale Budget Lab. State of U.S. Tariffs: May 12, 2025. <https://budgetlab.yale.edu/research/state-us-tariffs-may-12-2025>

**B.C. economy to remain soft as trade risks and domestic factors weigh**

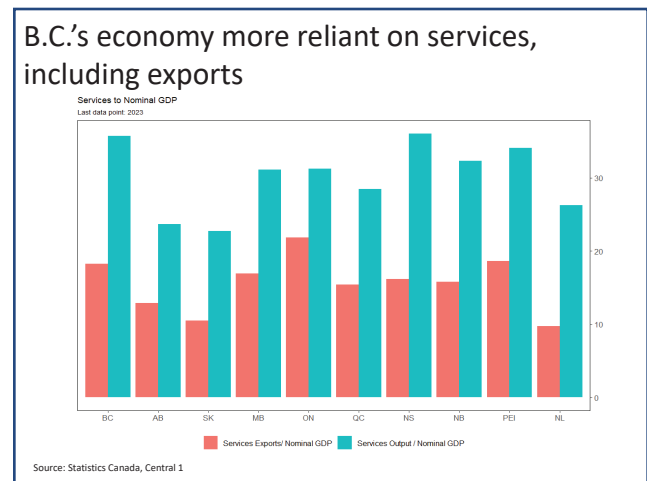
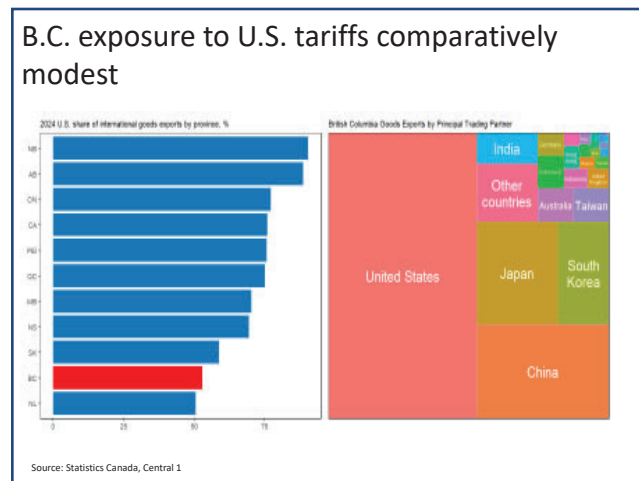
Like its peers, B.C.'s economy will remain soft this year, with forecast GDP growth of 1.3 per cent and 1.7 per cent in 2026 led by trade war-related challenges, completion of major projects, soft real estate market, and tempering of public-sector growth. This is offset in part by liquefied natural gas exports, tourism, and the push by other provinces to diversify exports to Asia through B.C. ports. Nevertheless, job growth is anticipated to be sluggish and unemployment rates higher.

*Trade hit on B.C. sheltered in part by economic structure*

The province will undoubtedly be negatively impacted by U.S. tariffs, but we maintain our view that B.C.'s economy is more sheltered than its peers to U.S. trade due to more diversified trading partners and an economy more geared towards services. Specifically, the share of B.C. international exports shipped to the U.S. is significantly lower than most other provinces at 50 per cent, compared to a national average of 75 per cent, and was second lowest next to Newfoundland and Labrador in 2024. Moreover, the economy is more diversified than its peers and geared more towards services than its peers observed in a low U.S. goods-exports to nominal GDP ratio which offers a cushion to tariffs on goods.

lumber tariffs. This will pass in part to U.S. consumers, but also lower demand and producer margins in B.C., and strain operations. Forestry has already contracted in recent years and will at best be flat in our view. Regions most exposed to the trade war are those in the interior with higher concentration of resources and manufacturing employment.

B.C. is likely to see some sector-specific uplift in segments of the economy tied to the trade war. Diversification trends by other provinces to divert some exports to Asia-Pacific markets to support B.C. port activity. TMX oil shipments to China will also support the province's transportation/warehousing sector. "Elbow's up" Canadians avoiding the U.S. boosts domestic tourism and less leakage spending to the U.S., alongside re-allocation of global tourism away from the U.S. to other countries like Canada. B.C. will be a key destination for these dollars. Indeed, there is evidence of this already occurring. Cross-border vehicle travel to the U.S. is down sharply, while Destination BC suggests US to Canada air bookings have climbed, and summer hospitality bookings are steady if not higher. Events including Web Summit this year and FIFA World Cup next year should boost inflows. A weak Canadian dollar is also supporting both international inbound and domestic tourism. B.C. service exports, while not completely oriented towards tourism, play a larger role in the economy when compared to their peers.



That said, some goods-producing sectors will be harder hit. Aluminum exports originating in Kitimat are subject to a 25 per cent tariff. While forestry products were exempt from 25 per cent tariffs, countervailing and anti-dumping levies of 14.5 per cent are still in place, and a current administrative review could push this to 30 per cent or more. The risks of further section 232 national security measures could add to

**B.C. economy faces a mix of upward and downward domestic pressures**

The trade war and a global economic slowdown is negative for B.C. exporters, but the province will finally see dollars flow from the liquefied natural gas sector as LNG Canada begins liquefying and shipping B.C. natural gas to Asia beginning mid-year, which will be followed by the smaller Woodfibre, and Cedar LNG

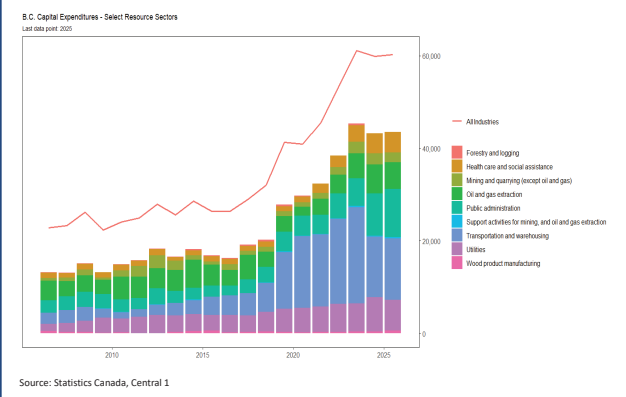
project completions over the next 2-3 years. LNG Canada is projected to boost natural gas production by about 20 per cent. Higher global prices and production will add to provincial revenues via royalties.

Nevertheless, the province will experience various headwinds which will contribute to slower economic growth even as the economy is in better shape to navigate the trade war.

Like its peers, B.C. has been reliant on population expansion as a driver of consumption, and other sectors of the economy including public-sector tangent sectors like healthcare. The Carney government has reiterated an intent to reduce the share of the population to 5 per cent. B.C. has the highest temporary resident share at over nine per cent. While the province will not need to meet this national average, population growth will grind lower, albeit averaging above half a per cent due to permanent migration inflows. Net interprovincial migration is forecast to remain negative due to lack of housing affordability over the coming two years. Population growth is forecast to rebound in 2027 above one per cent.

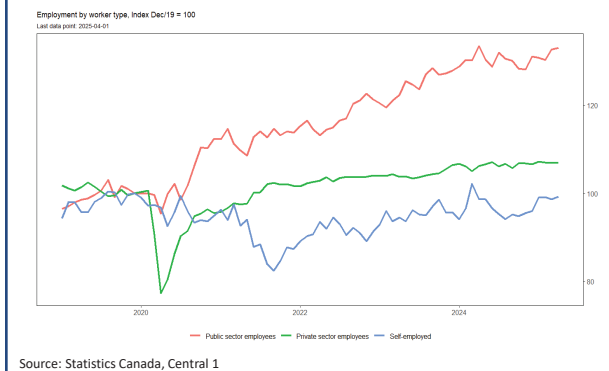
B.C. economic growth has been reliant on major project construction including LNG Canada's liquefaction plant and pipelines, TMX, and the Site C dam among other projects. These have all essentially completed. These projects are a source of long-term economic output, but the boost from project construction and capital investment ends and will be a drag-on activity. Construction continues public-sector rapid transit projects in the Lower Mainland and hospitals around the province, and smaller scale LNG projects, but there are no new mega projects that will start imminently to replace this construction work.

### Major projects as economic driver to wane



Public-sector growth is also anticipated to slow after several years of rapid growth. Far outpacing average annual 5-year provincial growth of 2.4 per cent included public administration (3.2 per cent), healthcare (4.5 per cent), and to a lesser extent, education (2.7 per cent). Similarly, public-sector employment growth has outpaced private sector gains by a wide margin. Public-sector employment has climbed 33 per cent (152k) since December 2019, compared to a 7 per cent (122k) increase in private-sector employment over the period. Provincial government has led these gains, but record and still rising provincial deficits will push government to slow expenditures. The BC government's budget and fiscal plan pointed to declining employment in the provincial public service. Government capital investment is expected to remain elevated but similarly stall.

### Public-sector led employment unsustainable, expect rebalancing going forward



Headwinds in the economy and weak business sentiment will contribute to a slow pace of hiring in the provincial economy. This forecast pegs employment growth near one per cent per year over the forecast period. The unemployment rate averages 6.5 per cent, before easing to 6.2 per cent in 2026, with levels holding below the Canadian average. Notwithstanding the pandemic spike, this is the highest rate since the mid-2010s. Lower population growth keeps the unemployment rate from rising faster, even as job vacancies remain tempered. Consumer spending slows with the drag on hiring, while higher prices for goods due to retaliatory tariffs and pass through of U.S. tariffs on input costs also temper some demand.

### *Housing market sluggish in 2025, housing construction to underwhelm*

The housing outlook has been revised lower due to economic uncertainty and slower than expected reductions in fixed mortgage rates, which is maintaining low affordability in the province. Home sales have underperformed this year and rolled back after late-2024 momentum. Even as B.C.'s largest urban markets are well positioned to weather tariff risks, we have maintained that even a small chance of recession and job loss in more expensive markets have a chilling effect on sales due to high mortgage payments and risk of delinquency/default. This is amplified in B.C. which is home to many of Canada's most expensive markets. Sales are expected to remain low this year with modest downward pressure on prices through the third quarter, reflecting excess inventory in both the existing and new home market, which will need improved sales flow to curb. This forecast shows sales down 2 per cent this year and prices down 0.7 per cent before increasing thereafter. That said, the recovery remains modest when compared to the longer-term average and when adjusted for population growth.

Weak housing market conditions and lagged impacts of poor pre-sale condominium sales in recent years are forecast to reduce the pace of housing starts, even as the province and country should be doubling construction levels. Multi-family projects dominate new construction but require sufficient financing and pre-sales to move forward to construction. A period of high interest rates and rising costs have delayed or pushed out timelines for many projects which will limit starts to about 40,000 units per year over the forecast horizon. Government efforts to drive housing could provide some additional lift but may not show up in housing starts given some focus on modular housing options. That said, we expect an undersupply of new housing to set the stage for another round of housing price appreciation in coming years.

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