



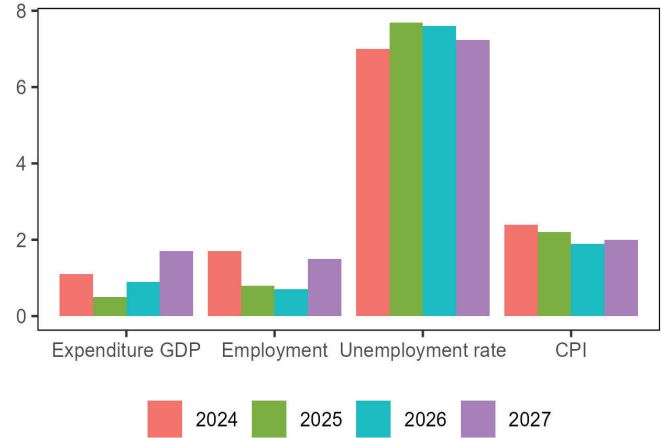
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Trade and economic uncertainty remain the key theme for Canada's and Ontario's economies for the near future. While many of the policies threatened and implemented (even temporarily) have been foolish and damaging for the U.S. and broader economy, it is also clear that even the most egregious policies are credible. The impact will be a trade and investment driven economic slowdown and risk of temporary stagflation.

Ontario's economy is forecast to slow sharply this year and flirt with an outright recession as a storm of trade weakness, a housing market downturn and stall in population growth curbs activity. The province is heavily exposed to the ebb and flow of U.S. trade policies given deep integration of sectors like autos and trade share. The most severe tariff actions from the U.S. on autos and steel are directly aimed at Ontario. While we remain cautiously optimistic that progress on a trade deal can be reached, exports and investment will be weak.

This forecast pegs GDP growth at 0.5 per cent this year, and 0.9 per cent next year before accelerating. Employment growth hovers near at 0.8 and 0.7 per cent, while the unemployment rate remains elevated, averaging 7.7 per cent and 7.6 per cent this year and next. If not for weaker population growth, the unemployment rate would be higher.

Economic Forecast, ON



The housing market is forecast to remain tempered but rebound over the next two years from 2025 lows but remain tepid. Improved affordability, from lower prices and interest rates, points to rising sales in 2026/27, while the currently oversupplied new home market increasingly becomes a constraint and driver of prices due to lack of construction.

### Key forecasts - Ontario

Indicator	2022	2023	2024	2025	2026	2027
Expenditure GDP	4.1	1.7	1.1	0.5	0.9	1.7
Employment	4.8	3.1	1.7	0.8	0.7	1.5
Unemployment rate	5.6	5.6	7	7.7	7.6	7.2
Population Growth	2	3.2	3.2	0.3	0.2	1.1
Unit sales, 000s	194.1	170	174.7	163.3	167.4	175.0
Average price, 000s	934.6	874.5	869	861.2	871.5	889.8
Unit sales, %ch	-32	-12.4	2.7	-6.5	2.5	4.5
Average price, %ch	6.7	-6.4	-0.6	-0.9	1.2	2.1
Housing Starts (000s)	96.1	89.3	74.6	57.8	60.0	65.0
CPI - All items, % ch	6.8	3.8	2.4	2.2	1.9	2.0

## Economic trends and outlook

Ontario's economy remains in a cloud of heavy uncertainty with its economy heavily influenced by the ebb and flow of U.S. trade policy and threats. The U.S. is by far Ontario's largest export destination, and while current tariff impacts on many sectors are cushioned by USMCA exemptions, specific measures including 25 per cent steel and aluminum tariffs, and on the non-U.S. component of finished vehicles, are cutting into production, exports, and investment.

The data continues to lag the fast-evolving real economy, but cracks have become more evident. While early-year front running of tariffs boosted manufacturing sales and goods exports, the latter fell sharply by 13 per cent from January, albeit higher than a year ago. Export sales to the U.S. led the decline and in May, cutting the U.S. share of Ontario goods exports fell to a record low of 65 per cent (compared to a 77 per cent average in 2024) suggesting a move to diversify trade. Nevertheless, the size and proximity of the U.S. means trade policy will dictate export and investment trends. There remain elevated levels of uncertainty. While the federal government looks to reach a trade deal by July 21, this seems highly unlikely, and other measures such as a threatened tariff on copper could deepen trade

pain for Ontario. In the absence of a deal, investment spending is likely to remain sluggish. After showing modest upward momentum in the latter stages of 2024, Ontario investment has slowed. Canadian business investment contracted in Q1, and business sentiment measures remains low. The CFIB Business Barometer remains in negative territory. Long-term tariffs could lead to disinvestment in Canada and Ontario if exports become too costly.

Other key measures have weakened similarly. Ontario's labour market has stalled, with declining employment in trade-aligned sectors such as manufacturing (see page 4), while the housing market is in recession. Consumer demand has managed to hold up well with retail still growing through April, and up significantly year-over-year by 4.7 per cent. At the same time, spending growth is likely to be weighed down by weak employment and tepid population growth.

Ontario is sensitive to the federal government's migration cap and policy to reduce the share of temporary residents to 5 per cent nationwide from 7.3 per cent. Ontario's share was above 8 per cent and second only to B.C. These measures contributed to negative population growth in the first quarter in Ontario, while affordability challenges in the housing market and

Ontario: 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)	May-25	8,198.6	0.0	-0.4	0.7	0.9	1.6
Full-time	May-25	6,711.8	0.4	-0.5	0.2	-0.3	0.8
Part-time	May-25	1,486.9	-1.4	0.0	2.9	7.1	4.9
Unemployment Rate	May-25	7.9	0.1	0.3	1.1	1.0	1.0
Average wage (\$)	May-25	37.4	0.2	0.2	5.0	4.3	4.1
Consumer Price Index	May-25	165.9	0.7	-0.2	1.7	1.6	2.0
Retail Sales (\$mil)	Apr-25	26,210.2	0.2	0.8	6.1	5.1	4.8
Manufacturing (\$mil)	Apr-25	31,012.5	-2.4	-1.0	-0.7	3.1	0.7
Exports (\$mil)	May-25	22,643.6	12.8	-17.4	8.9	-6.7	7.3
MLS Sales (000s)	May-25	12.7	9.6	3.2	-2.4	-15.8	-15.6
MLS Average Price (\$000)	May-25	830.6	1.0	-0.1	-3.8	-5.1	-3.3
Housing Starts saar (000s)	May-25	66.2	2.8	67.2	-21.1	-9.9	-27.6
Building Permits (\$mil)	Mar-25	4,635.8	-6.0	-0.7	-2.9	-6.7	1.0
Residential Permits (\$mil)	Mar-25	2,969.2	-9.8	2.7	18.0	18.2	21.3
Non-Residential Permits (\$mil)	Mar-25	1,666.6	1.8	-6.7	-26.2	-34.5	-23.0
Consumer Insolvencies	May-25	4,561.0	6.3	0.2	0.0	-5.3	-1.9
Business Insolvencies	May-25	103.0	-28.0	15.3	-21.4	-1.4	-34.3

Source: Statistics Canada, CREA, CMHC, Central 1

note: Unemployment rate change reflect percentage change

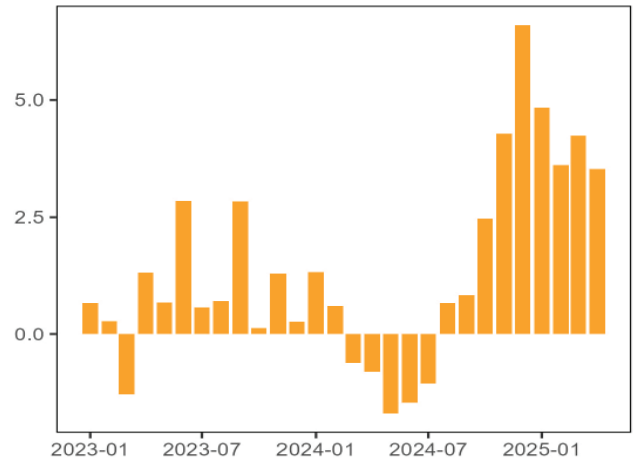
YTD Starts is average of monthly saar data

economic factors contributed to a net outflow of residents to other provinces, specifically Alberta. Considering federal government measures will continue through the forecast period, population growth is forecast to fall to 0.2 per cent this year and 0.3 per cent next year, with a risk of outright declines. However, we expect the government to relax some of these measures. Net interprovincial outflow is expected to temper with more affordable housing. Broadly, low population growth, a weak labour market hold back consumption.

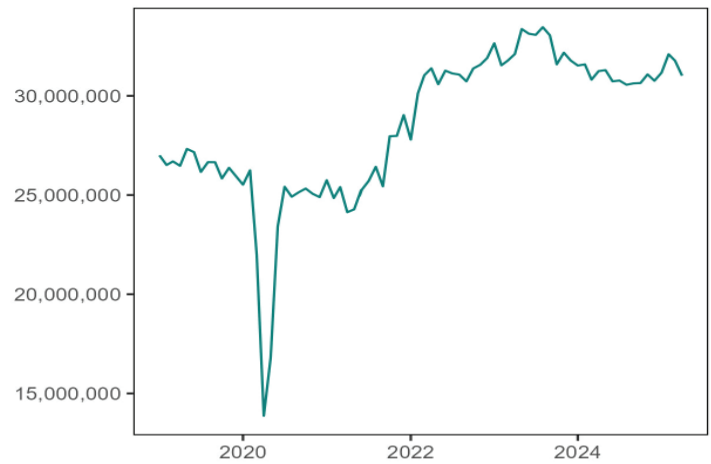
In other segments, moderate growth in public spending in 2024 of about 2.8 per cent is expected to slow amidst speculation that the federal government will roll back program spending, although defense spending rises which could provide a lift to the economy. An already weak housing cycle will rebound over the next couple of years as affordability improves, but the drag of price declines since 2022, a period of low pre-sales, and excessive inventory will hold back the construction cycle both this year and next given the lagged impact on housing starts (see page 5).

There are some pockets of optimism but little that will provide an offset to trade driven weakness. Estimate suggests an aggregate long-term impact of 4 per cent. Reduction of interprovincial trade barriers will be helpful in boosting trade, allowing businesses to operate in more areas at lower regulatory cost. This will help more productive businesses to expand, at the same time this will not be immediate, and some sectors in Ontario could lose ground if less productive than in other provinces. Major resource projects could also get a lift as Canada looks to fortify its economy for the long term, supporting segments like the Ring of Fire.

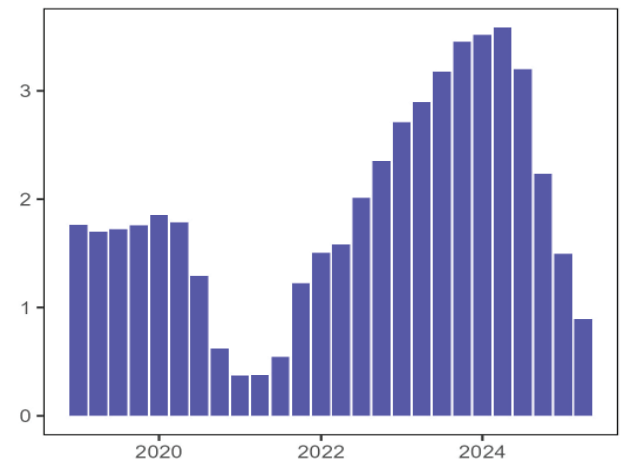
Retail sales y/y %ch, ON  
Last data point: 2025-04-01



Manufacturing sales \$000, ON  
Last data point: 2025-04-01



Population Growth, y/y %ch, ON  
Last data point: 2025-04-01



## Labour market outlook

Ontario's labour market stands among Canada's weakest with an unemployment rate fast approaching 8 per cent and far above the national reading of 7 per cent. The gap has widened since mid-2023 to a level unseen since the early 2010s notwithstanding the pandemic. The unemployment rate was the highest among large provinces in May and below only Newfoundland and Labrador and Prince Edward Island.

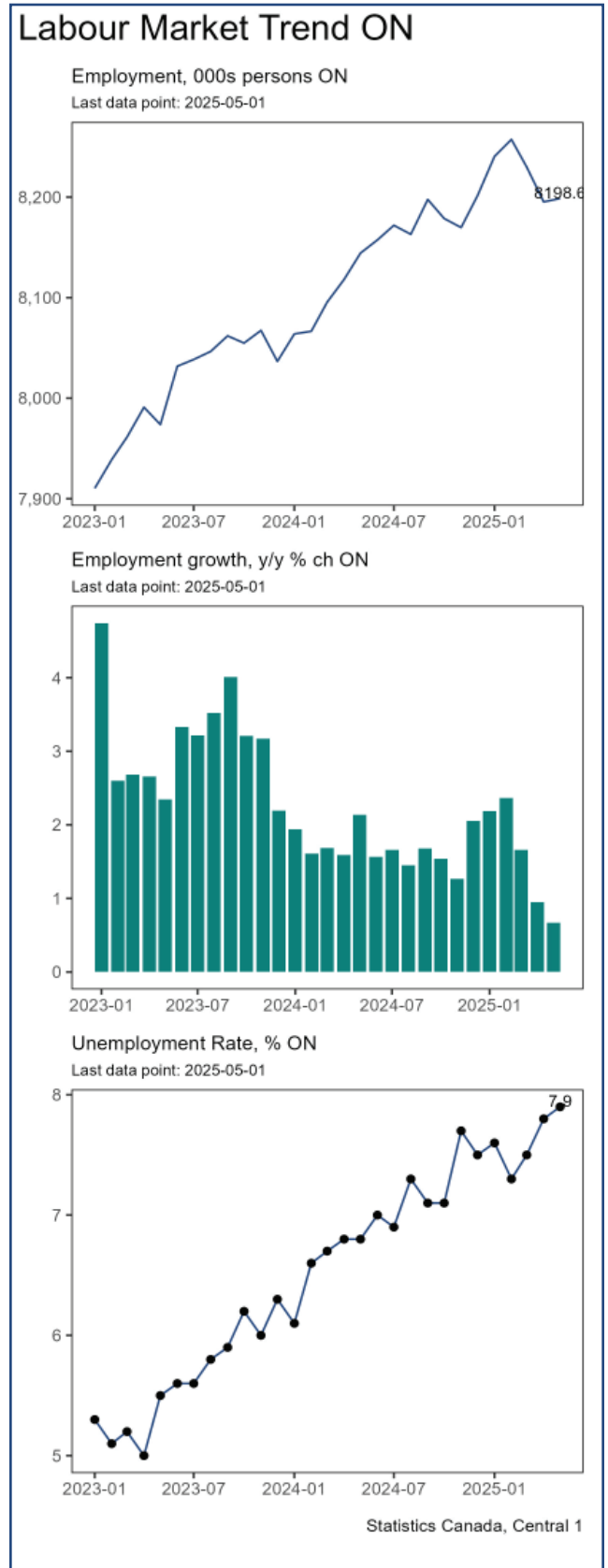
Labour market malaise has deepened this year after solid gains in the late stages of 2024 as tariff threats and realities materialized. LFS employment fell 60k since February led by trade-impacted sectors like manufacturing and agriculture, alongside rapid deterioration in the construction sector. U.S. tariffs have reduced exports and investment and are filtering through the labour market, while a housing market recession has led to construction-related job cuts. A similar pattern is observed in payroll counts which is a better indicator of paid roles in the economy. Payroll counts have fallen 0.6 per cent since January.

Already challenging conditions for job seekers will continue. The job vacancy rate is below 3 per cent and the lowest since 2017. The structure of Ontario's economy leads to a relatively weaker labour market given high exposure to the auto sector and other manufactured products which will further contract in the absence of a trade deal, while a housing market pick up will take time. There is heightened labour market risk across the province, with tariffs most likely to hit Hamilton-Niagara, Windsor, Kitchener-Waterloo-Barrie, and parts of Toronto. The CFIB's Business Barometer for June pointed to negative net full-time staffing plans, although the gap between firms adding and reducing headcount has narrowed. Federal government plans to cut program spending also curbs growth.

We see little in the way of improvement this year and expect employment to outright decline in the second and third quarters as tariff impacts bite in Ontario. Average employment climbs 0.8 per cent this year followed by a 0.7 per cent increase in 2026 as economic growth rebounds. The unemployment rate peaks in coming quarters but upside is limited by federal immigration policy and stalling of population.

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Regional labour market information can be found at [economics.central1.com](http://economics.central1.com)



## Housing market outlook

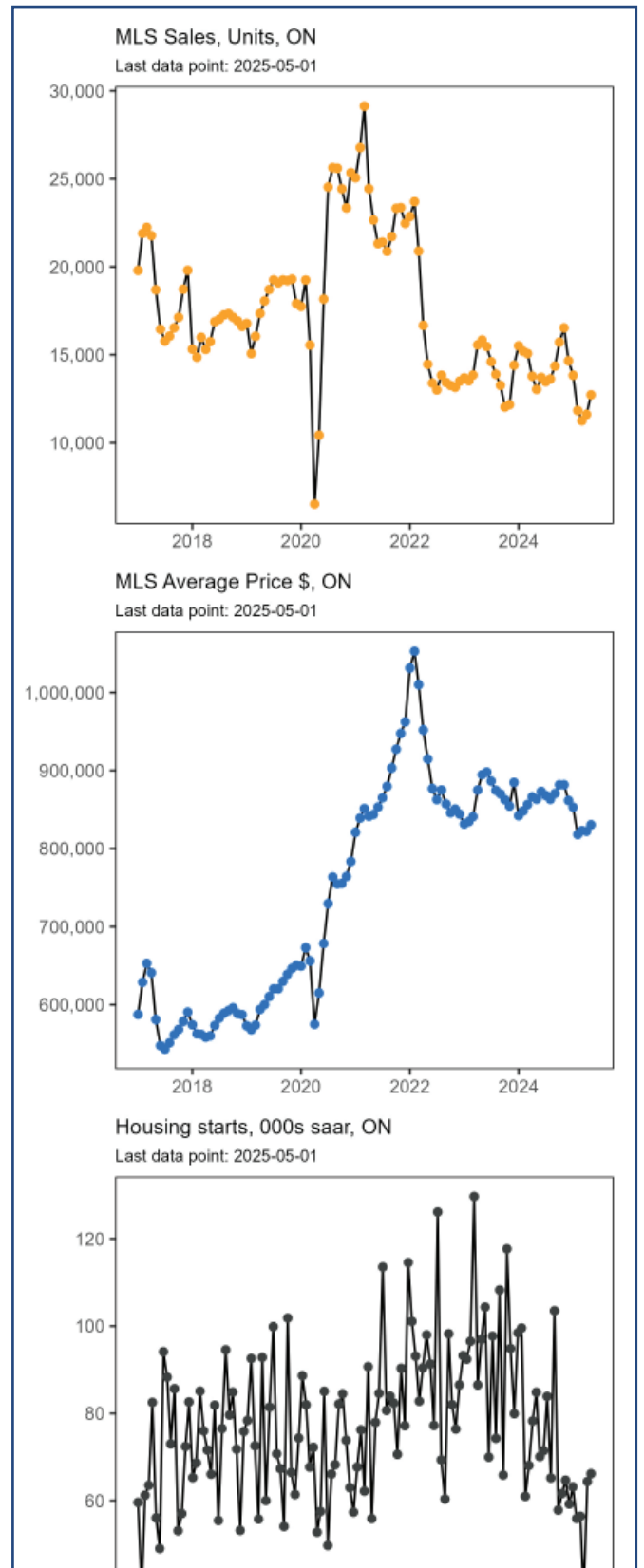
Housing market conditions in Ontario remain dismal near mid-year with economic uncertainty and affordability challenges holding back a recovery. Home sales fell 15 per cent year-to-date through May, with average prices 3.3 per cent lower. Since peaking in 2022, the average home price has declined 20 per cent as the market adjusted to inflation driven interest rate hikes in 2022 and reversed much of the pandemic gain. Leading the slide in sales and prices have been larger regions such as Toronto, Hamilton- Niagara and Kitchener-Waterloo-Barrie. Price levels are still 26 per cent higher than pre-pandemic levels, and 7 per cent higher on an inflation-adjusted basis. That said, this has been a rapid evaporation of wealth over a short time.

While affordability has recently improved with lower mortgage rates and prices, many buyers remain priced-out and others on the sidelines due to economic uncertainty. Higher home priced markets have been more acutely impacted by tariff uncertainty due to higher mortgage debt and more challenging financial risk in the event of job loss.

There are signs of a bottoming of the sales downturn. Provincial home sales have climbed in recent months, and Toronto sales surged in June. This is consistent with economic uncertainty peaking in March, and subsequent improvement in buyer sentiment. That said, sales are still trending at the subdued observed through 2024, and a recovery is likely to remain shallow. Ontario's economy and labour market will remain sensitive to trade policy and anticipated to struggle, while elevated short-term housing supply both in the existing and newly completed markets constrain sentiment. Households may also find renting more palatable given falling rents amidst migration caps which also limit investor demand for units. Buyers are wary of catching a falling knife even as long-term supply challenges persist. This forecast point to an annual sales decline of 6.5 per cent and a disappointing rebound in 2026 and 2027. Home prices decline is expected to narrow and end the year one per cent lower. Price levels firm demand nudges higher and deep reductions in housing starts beginning to support prices.

Housing starts have plunged this year in Ontario by 29 per cent, reflecting sharp declines in both the single-family and multi-family sectors, and are tracking the lowest levels since the financial crisis. Starts lag the existing home market, and by extension pre-sale activity which is needed to meet construction financing thresholds. The sharp downturn is expected to drive starts to historically low levels over the next couple of years.

Rental market is likely to temper that segment. However, insufficient housing construction sets the stage for higher home prices in 2026 and 2027.



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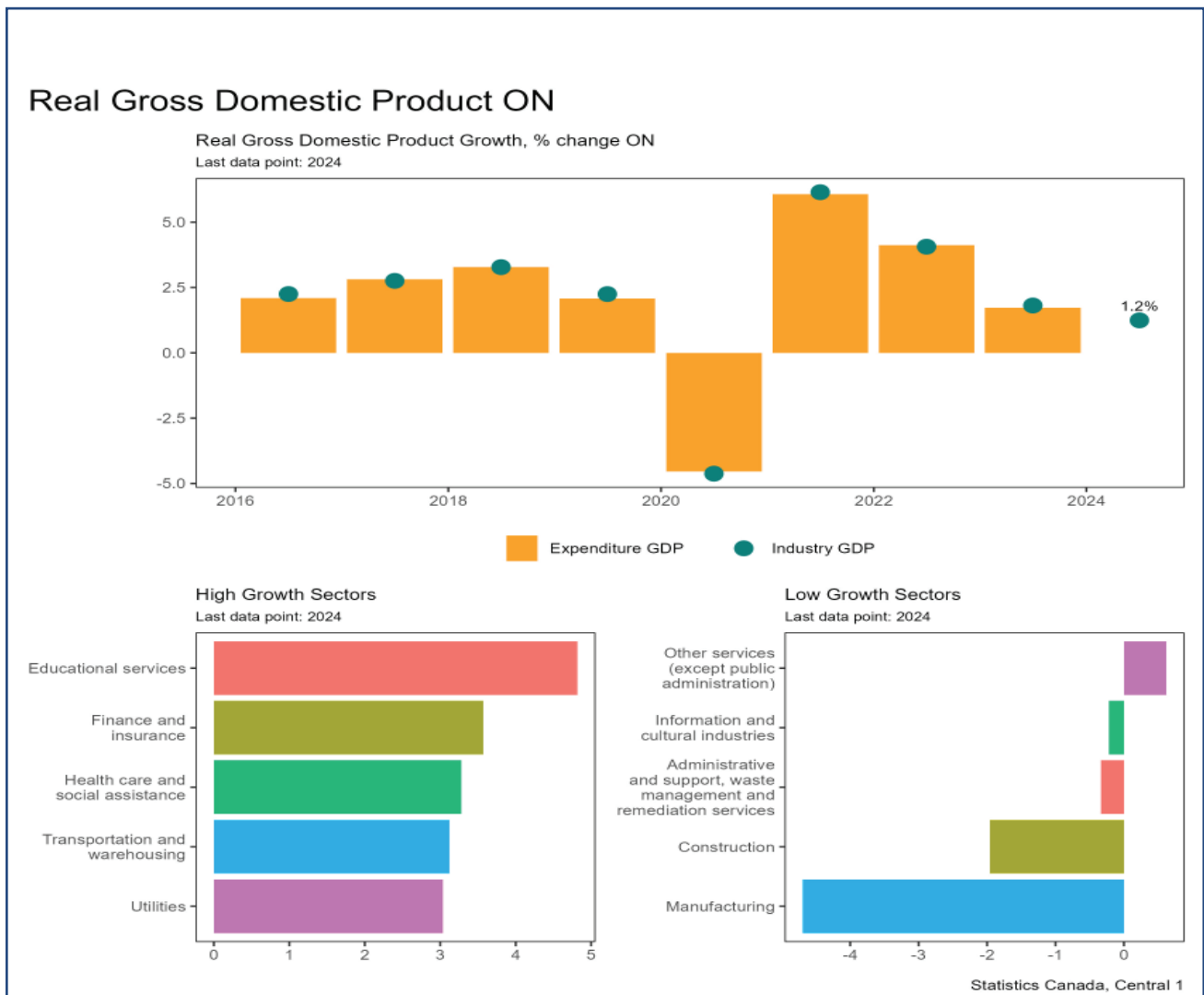
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## Gross Domestic Product

Ontario industry output rose 1.2 per cent in 2024, slowing from 1.8 per cent in 2023. A contraction of 2.3 per cent in the goods-producing industry was offset by an increase in services production. GDP growth was comparable but decelerated from 2023

Goods-sector weakness was driven by construction (-1.9 per cent) as residential construction fell, while manufacturing contracted by 4.7 per cent driven in large part by the automobile and parts sector (-11 per cent), as well as significant retracements in sectors like computers, electronics, and non-metallic mineral products. Resources extraction (up 3.9 per cent) on a surge in metal mining activity, and agriculture were offsets.

In contrast, services sector growth was lifted by finance and insurance (3.5 per cent) and transportation/warehousing (3.1 per cent). Government and public-sector tangent services expanded at a robust pace. Public administration grew 2.6 per cent, with education and health/social assistance up by 4.8 and 3.3 per cent. Hospitality slowed but expanded 1.6 per cent.



# Share of Real GDP, % ON

Industry share of GDP - ON



Statistics Canada, Central 1

## Terms

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