Economics | Current Economic Trends

Ontario Economic Outlook

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central 1 Economics

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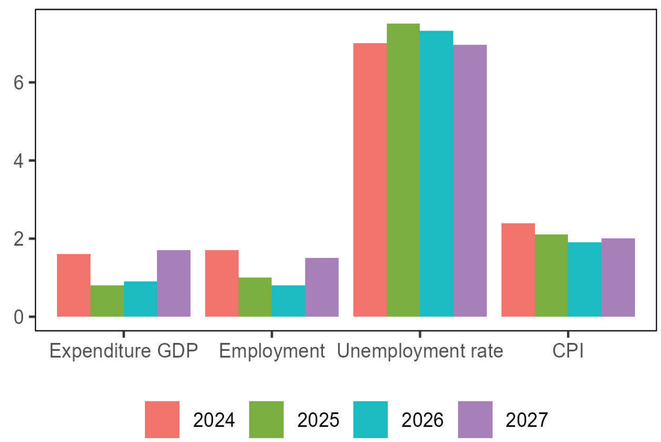
Ontario economic stagnation to continue

The Ontario and the broader Canadian economy remain under strain from U.S. tariffs and a restructuring of global trade. Economic output has been reduced, business sentiment is weak, and ongoing uncertainty is curbing investment and future prospects. This structural economic damage has set Canada on a weaker long-term path of lower economic output and employment. As the highly integrated North American supply frays, Canada's focus has shifted to deepening trade diversification with other trading partners, incentivizing productive investment, and increasing resource development.

Ontario is at the frontline of this adjustment given the dominant role the U.S. plays as an export market and integration of its industrial sector. While the vast majority of Canadian exports are currently sheltered by CUSMA exemptions, Ontario remains vulnerable due to sector-specific tariffs targeting auto production and steel, with downstream impacts on investment. These challenges persist through 2026, with renegotiation of the trade pact to add to business concerns. A slowdown in global growth is also expected to temper provincial gains.

Ontario economic growth is forecast to remain below that of the national average for both 2025 and 2026 due greater industrial exposure to the U.S. economy than other provinces with business uncertainty limiting hiring and investment. Housing slowly turns around after a sharp downturn since 2022, however the recovery is expected to remain tame. Strengthening resale housing market conditions will be offset by lagged effects of the downturn on the new home market. On the fiscal front, federal budget measures to drive investment will support growth, but gains are likely to be greater in other regions of the country. Fiscal tightening in the federal public service will also be a drag on Ontario's economy. A slow economy and weak population growth broadly contribute to tempered consumption.

Economic Forecast, ON



Real GDP is forecast to expand 0.8 per cent this year and 0.9 per cent in 2026, before rebounding to 1.7 per cent in 2027. Employment increases by 1.0 per cent this year, with similar growth in 2026, limited in part by low population growth. The unemployment rate slowly declines to 7 per cent in 2027.

Monetary policy is expected to be moderately stimulative, but unlikely to be a key driver of growth given upside risk to inflation in the current environment.
In line with our November rate outlook, this forecast reflects a terminal Bank of Canada policy rate of 2.25 per cent, with the next move being a hike in latter 2026.

Key forecasts - Ontario

Indicator	2022	2023	2024	2025	2026	2027
Expenditure GDP	4.4	2.4	1.6	0.8	0.9	1.7
Employment	4.8	3.1	1.7	1.0	0.8	1.5
Unemployment rate	5.6	5.6	7	7.5	7.3	7.0
Population Growth	2.1	3.1	3.3	0.7	0.2	1.1
Unit sales, 000s	183.9	161.8	169.4	159.2	173.6	184.0
Average price, 000s	936	876.3	868.2	842.2	850.6	884.6
Unit sales, %ch	-32.6	-12	4.7	-6.0	9.0	6.0
Average price, %ch	6.8	-6.4	-0.9	-3.0	1.0	4.0
Housing Starts (000s)	96.1	89.3	74.6	61.0	62.0	70.0
CPI - All items, % ch	6.8	3.8	2.4	2.1	1.9	2.0

Economic trends

Statistics Canada publishes provincial GDP estimates at an annual frequency. The most recent expenditure data pegged Ontario growth in 2024 at 1.6 per cent, which was lifted by solid consumer spending, and government outlays. Housing and trade had already faltered, and business investment slowed after strong 2023 gains. Quarterly GDP estimates are published by Ontario's provincial government and lag Statistics Canada's quarterly national estimates. Q1 GDP growth was estimated at 2.3 per cent, followed by a contraction of 2.6 per cent in the second quarter, which was more severe than the national picture as a whole. Indications point to an underwhelming recovery in the third quarter, even as GDP likely rebounded.

Ontario, and by extension, Canada's economies remain under stress from ongoing U.S. tariffs and related uncertainties which have weighed on business sentiment and investment. Ontario is at the forefront of these risks, and coupled with a weak housing market will continue to experience low GDP growth and tempered labour market conditions through 2026.

While most sectors remain sheltered from the direct effects due to CUSMA exemptions with the effective rate on Canadian goods at about five per cent, sector-specific steel and auto tariffs remain particularly damaging. While nominal dollar goods exports rose 5.6 per cent through August, and manufacturing sales were level through three quarters this masks sectoral divergence. Growth in masks declines in auto production and sales and industrial sectors which have been offset in part by higher commodity and metal prices. As a result, firms have cut machinery and equipment investments driving a notable pullback in investment plans, consistent with still weak business confidence readings. Non-residential building permits fell 7 per cent through the first eight months of the year.

Business conditions will continue to be subdued through 2026. Export risk continues with uncertainties related to renegotiation of the CUSMA/USMCA, with a high likelihood that tariffs will remain part of the environment, if not more severe. Diversification towards alternative markets will take time, while slower growth in the U.S. economy is a further headwind, adding to the ongoing tariff challenges. Some multinational firms have already adjusted their supply chains to de-risk against U.S. tariffs by shifting investment intentions back to the U.S. (i.e. Stellantis). We expect Ontario's manufacturing heartland to remain under strain over the next year, impacting areas like Windsor-Sarnia, Toronto, and Hamilton.

Ontario Columbia: Key Economic Indicators

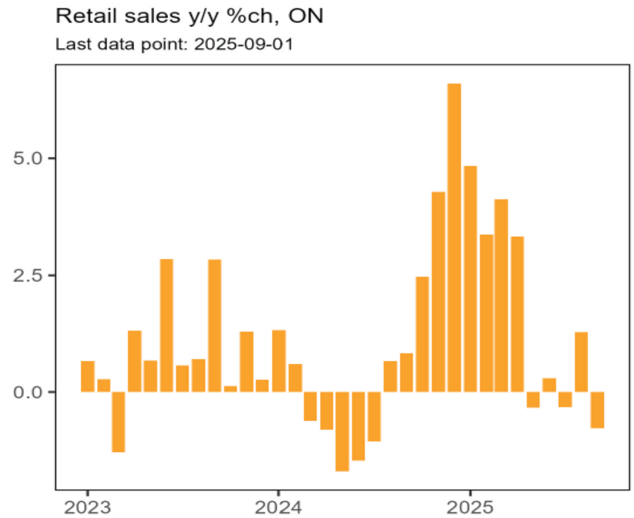
Indicator	Latest Data	Value	Change, % unless otherwise noted				
			m/m ch.	prior m/m ch.	y/y ch.	prior y/y ch.	YTD y/y ch.
LFS Employment (000)	Oct-25	8,254.3	0.7	0.1	0.9	0.0	1.0
Full-time	Oct-25	6,787.8	0.0	0.7	0.7	0.5	0.6
Part-time	Oct-25	1,466.5	4.0	-2.5	1.8	-2.3	3.3
Unemployment Rate	Oct-25	7.6	-0.3	0.2	0.5	0.8	0.9
Average wage ($)	Oct-25	38.7	1.3	1.5	3.2	2.9	3.7
Consumer Price Index	Oct-25	166.4	0.2	0.1	1.8	2.0	1.9
Retail Sales ($mil)	Sep-25	25,919.0	-1.2	1.1	3.3	4.7	4.7
Manufacturing ($mil)	Sep-25	31,542.5	3.4	-0.8	3.0	-0.2	-0.3
Exports ($mil)	Aug-25	19,434.9	-8.2	0.1	-4.9	11.3	5.6
MLS Sales (000s)	Oct-25	14.3	-0.7	-0.8	-5.1	3.7	-4.5
MLS Average Price ($000)	Oct-25	834.1	-0.8	-0.2	-5.5	-2.9	-3.6
Housing Starts saar (000s)	Oct-25	40.1	-53.5	58.5	-38.1	39.7	-19.2
Building Permits ($mil)	Sep-25	3,951.1	2.8	-18.3	-33.1	-17.9	-9.0
Residential Permits ($mil)	Sep-25	2,331.3	4.3	-18.0	-30.9	-11.7	-10.7
Non-Residential Permits ($mil)	Sep-25	1,619.8	0.9	-18.6	-36.0	-25.3	-6.7
Consumer Insolvencies	Sep-25	4,717.0	7.4	-8.1	7.6	0.7	1.5
Business Insolvencies	Sep-25	120.0	34.8	-21.9	0.0	-34.6	-27.7

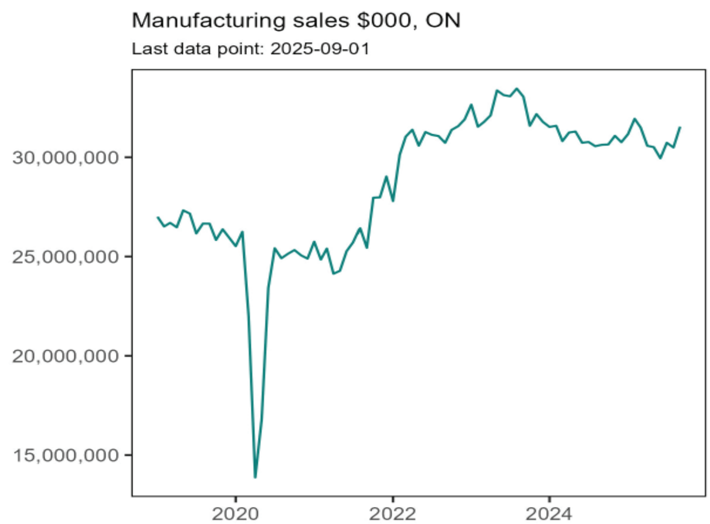
Source: Statistics Canada, CREA, CMHC, Central 1
note: Unemployment rate change reflect percentage change
YTD Starts is average of monthly saar data

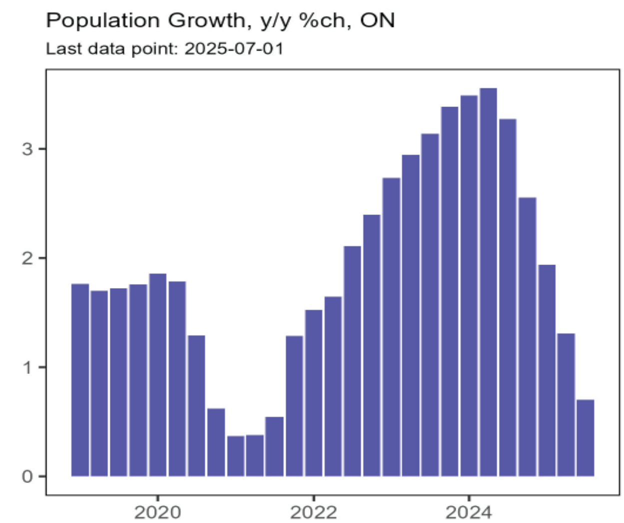
Federal government Budget measures meant to crowd-in investment and drive sectors like commodities and will increasingly support the economy. However, Ontario's exposure to the federal government's bid to fast-track projects is limited with only Canada Nickel's Crawford Project and Darlington Nuclear project and its fleet of small nuclear reactors currently on the MPO books. This isn't to say there aren't large investments in play. The provincial government approved a $26.8 billion refurbishment of the Pickering Nuclear Generating station to commence 2027. Budget measures to shrink the size of the federal public in terms of the economy and direct head count of 10 per cent from peak 2023-24 to 2028-29, also point to weaker growth contribution from the sector.

Household demand is also set to slow. The subdued hiring environment (see page ***5***), a weak housing market, and low population growth will contribute to slower real consumption in the economy. Growth in household consumption remained strong in Q2 and retail sales have remained solidly higher than a year, but the trend has decelerated, pointing to slowing demand. Migration caps are set to hold population growth to near zero in 2026 before showing some signs of turnaround in late-2027 as the share of temporary residents drops.

Residential investment has contracted for three consecutive years and while likely to steady as resale transactions increase with relatively lower mortgage rates and prices, but investment will remain weak (see page 6). A sharp downturn in housing starts this year, and modest gains in 2026 and 2027 will be an offset to improved resale market conditions.







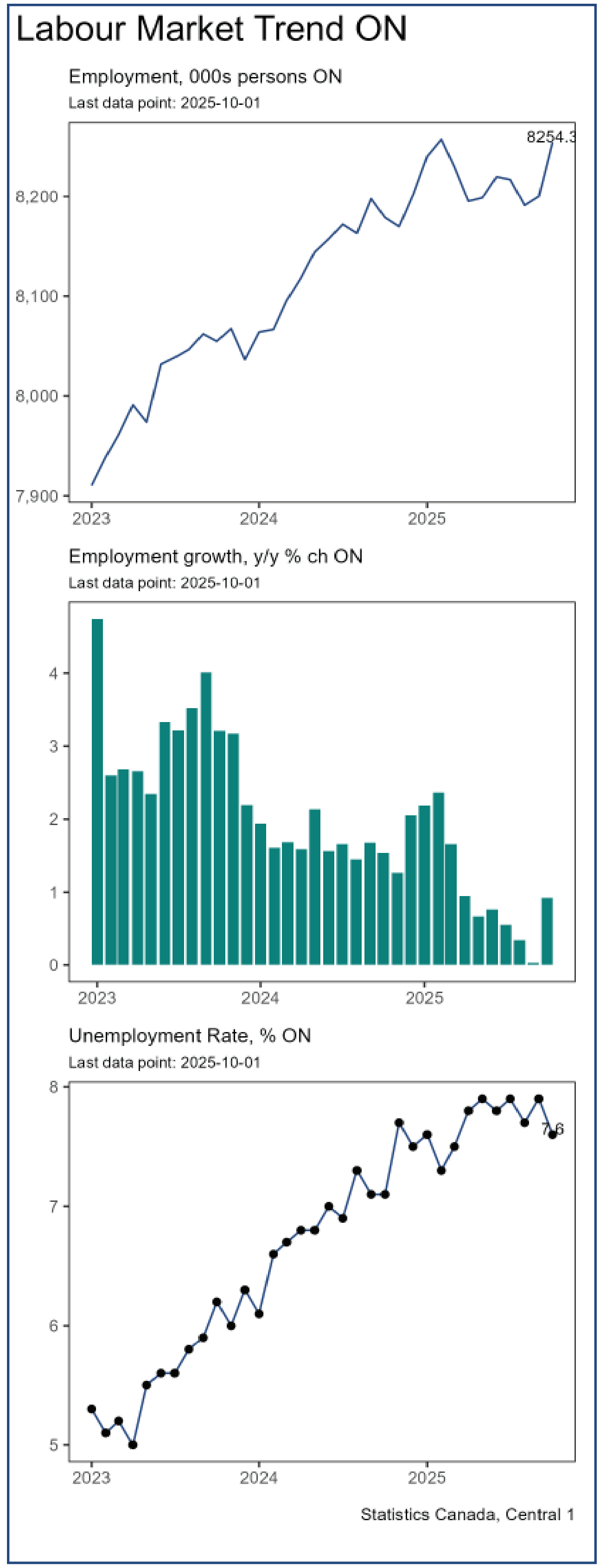
Labour market outlook

Ontario's labour market has underperformed against other large provinces with slower employment growth and an unemployment rate among the highest in the country at 7.6 per cent. While there has been an upturn in hiring in recent months, a soft economy has lifted Labour Force Survey (LFS) estimates of employment by only 50k over the past year as of October data. With Ontario at the forefront of the U.S. tariff shock and impacts on exports and investment, job losses have been observed in the goods sector. Services have offset these sectors, but hiring has been led by low-productive tourism, and retail trade. The sister jobs report from the Survey of Employment, Payroll and Hours (SEPH) shows a similar trajectory, but y/y growth in payroll counts were down slightly and negative for a sixth straight month in August. The province's job vacancy rate of 2.3 per cent is the lowest level in a decade.

An already elevated unemployment rate is flattering the state of the jobs market. Population growth has declined as migration caps have kicked in limiting labour force growth, while the employment and participation rate are tracking some of the lowest levels in four years. Youth unemployment is particularly high at 16 per cent.

Regionally, deeper y/y employment losses have emerged in the Ottawa – Kingston corridor but has surprisingly held up better in the Hamilton-Niagara Peninsula despite exposure to steel tariffs and in London. The highest unemployment rates are in Toronto and Windsor-Sarnia regions at 8.9 per cent, and Kitchener-Waterloo-Barrie at 7.4 per cent.

Labour market improvements will be limited as businesses continue to adjust to the current trade environment and uncertainties about the future of U.S. trade restrictions, consumption growth slows with sluggish population growth, and the federal public sector enters a period of restraint. Declines in Ottawa area employment suggests the latter has already occurred through reductions in contract work, or attrition. Construction work will also run dry as the housing market downturn stalls the pipeline of new work as existing projects complete. The CFIB Business Barometer is consistent with weak hiring with 20 per cent of firms looking to reduce, compared to 10 per cent of firms that plan to expand full-time work. Federal Budget efforts to drive investment through tax measures, and other policies should lift private investment, but magnitude remains uncertain, and timing is likely to be slower than the government hopes.



For Central 1 Economics Centre Clients:

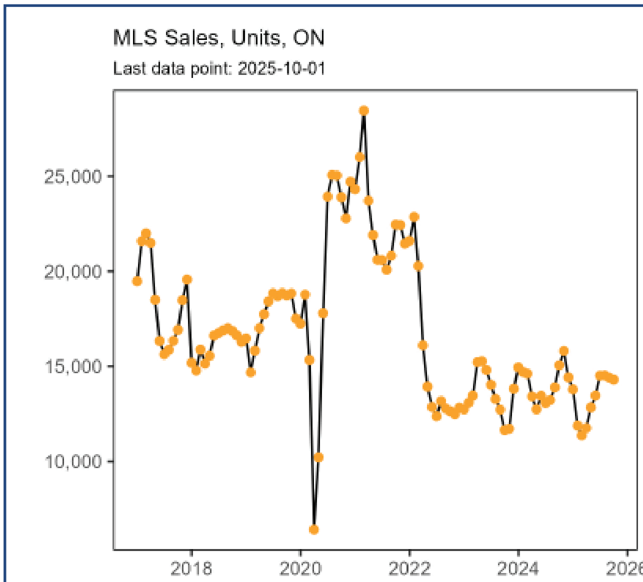
Regional labour market information can be found at economics.central1.com

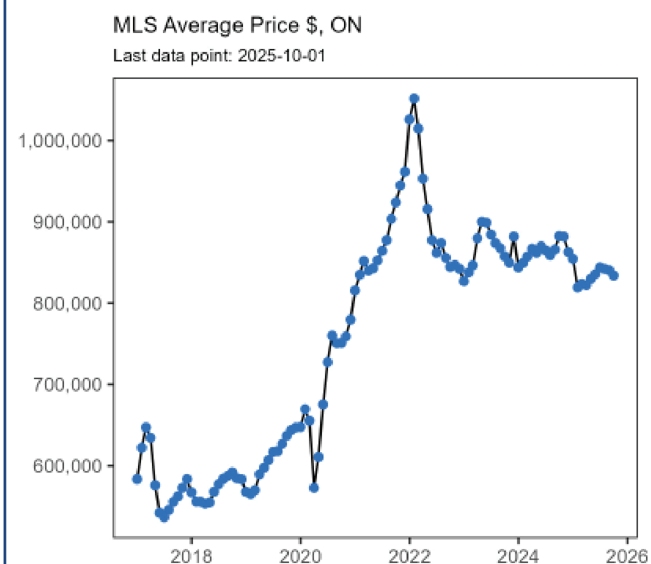
Housing market outlook

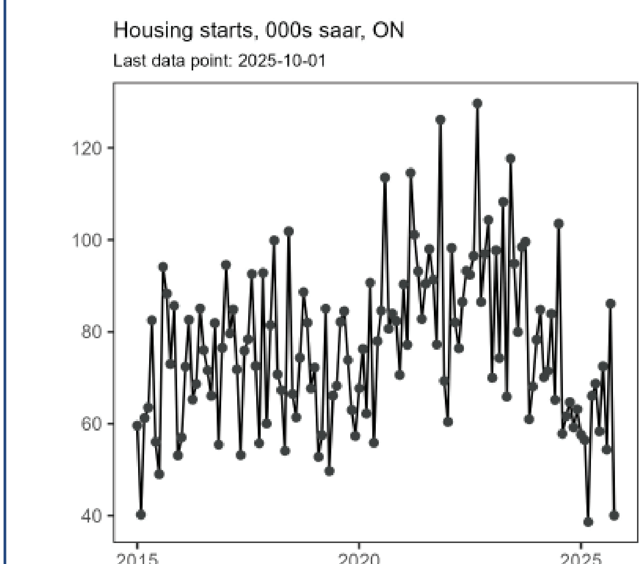
Housing market conditions in Ontario failed to gain much traction in the back half of the year, even as trends rebounded from the trade uncertainty driven downturn in the Spring. Sales trends remain roughly in line with a year ago and at a weak range-bound pace seen since interest rates spiked in 2022. Weak affordability, amplified by tariff uncertainty, continues to weigh on demand in Ontario, with sales and prices that underperform the rest of the country. The provincial average price has declined three per cent from a year ago and is still 20 per cent below the 2022 peak. Composite price indicators point to deeper y/y declines across large markets, including a 9 per cent drop in Hamilton, and a 5 per cent decline in Greater Toronto. While prices are still well above pre-pandemic levels, real estate wealth in the province has evaporated over the last several years.

Lower interest rates and prices and improved affordability point to a normalization trend in MLS® home sales which we expect to rise 9 and 6 per cent in 2026 and 2027 after a 6 per cent decline in 2025. Younger households are expected to re-engage with the market, having accumulated more savings amidst delayed homeownership. That said, market conditions remain tepid with excess supply of both resale and newly completed units in markets across the province which is weighing on negotiation power of sellers. The average price is forecast to decline 3 per cent this year, before a muted recovery in 2026. Higher prices will require excess inventory to be drawn down and stronger demand formation.

Further weighing on ownership demand are declining asking rents and increased rental market vacancy. Buyers are wary of catching a falling knife. That said, adjustments in the new home market set the stage for higher prices going forward. Housing starts have plunged amidst the weak market. Pre-sales have been nearly non-existent in key urban markets, which has constrained financing for potential condominium projects. Weaker rents will also increasingly slow the pace of rental construction. This forecast is for provincial housing starts to reach just north of 60k units this year, marking the lowest level since 2013/14. A turnaround will take time given the lag between pre-sale activity and construction, while also setting the stage for stronger price dynamics as housing shortages become more acute in coming years.







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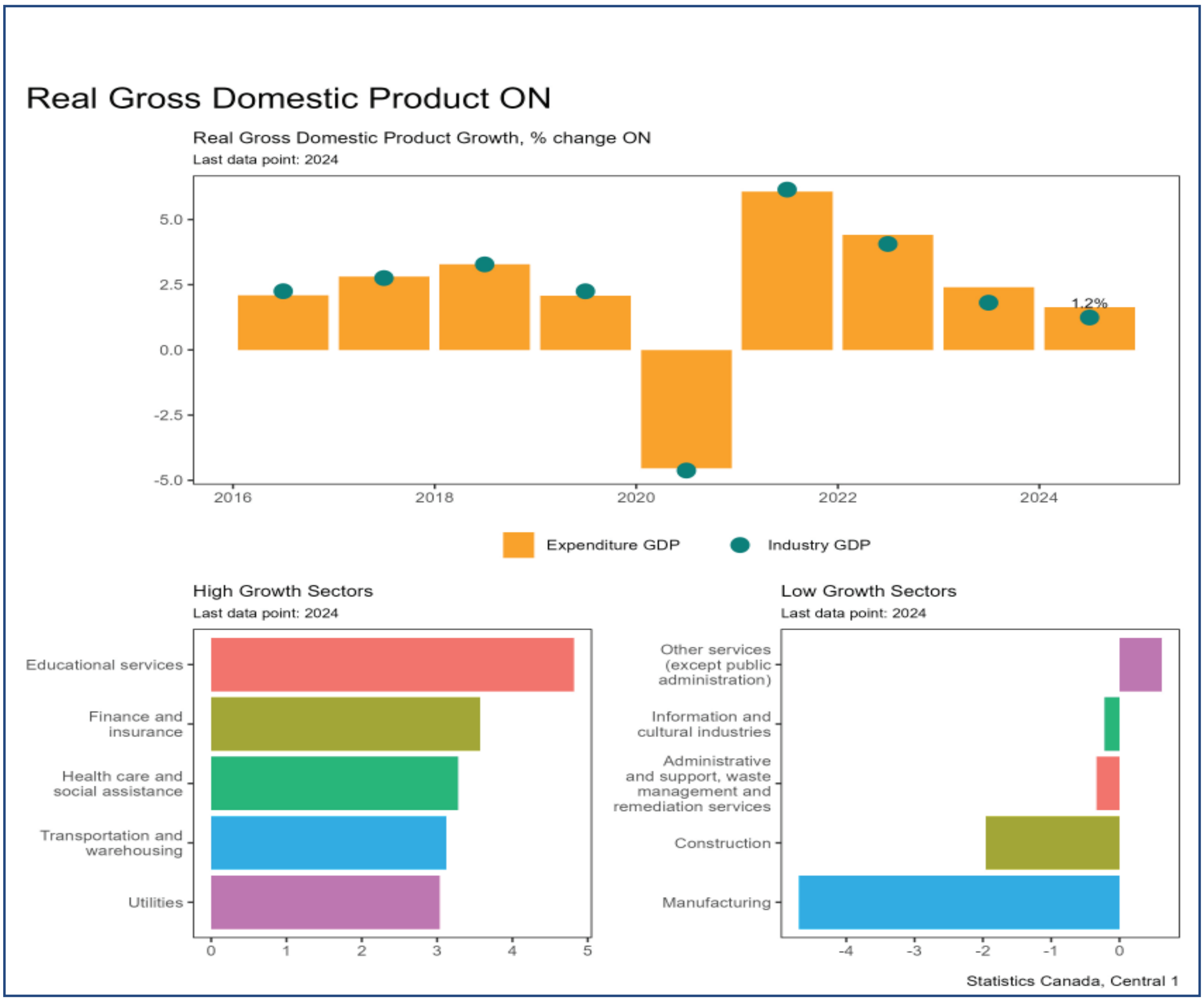
Gross Domestic Product

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

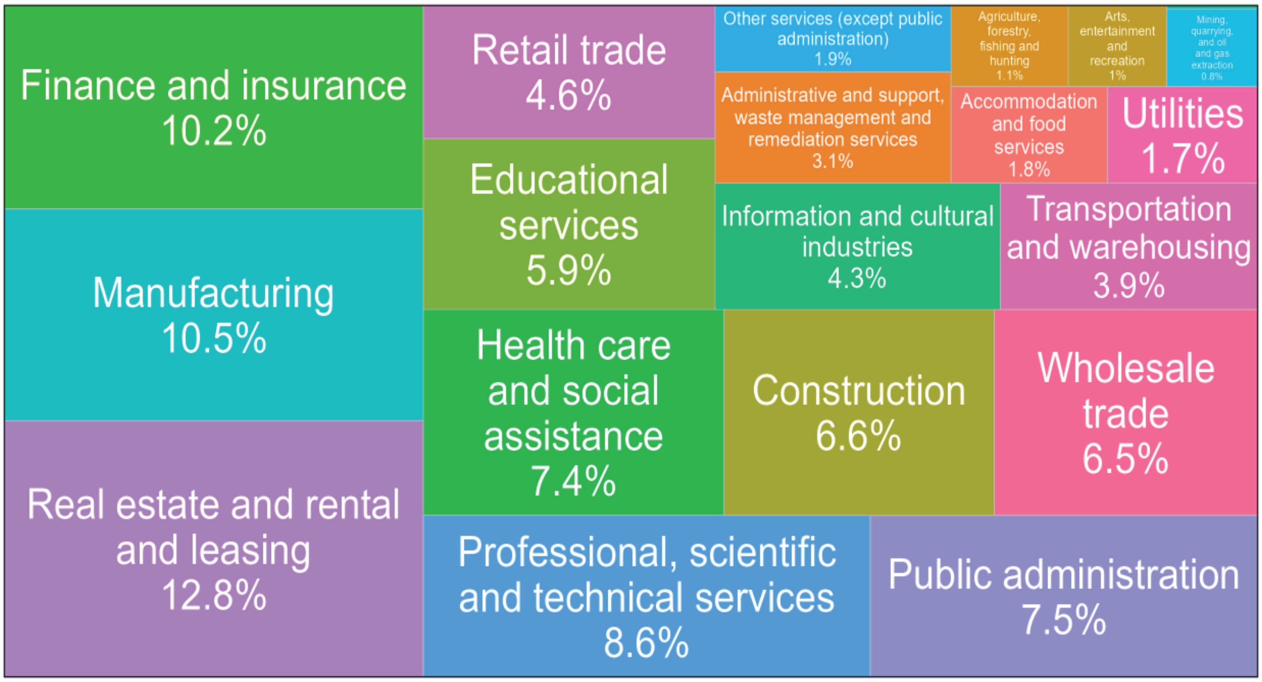
Goods-sector weakness was driven by construction (-1.9 per cent) as residential construction fell, while manufacturing contracted by 4.7 per cent driven in large part by the automobile and parts sector (-11 per cent), as well as significant retracements in sectors like computers, electronics, and non-metallic 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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