

Fiscal tailwinds (& tariff headwinds)

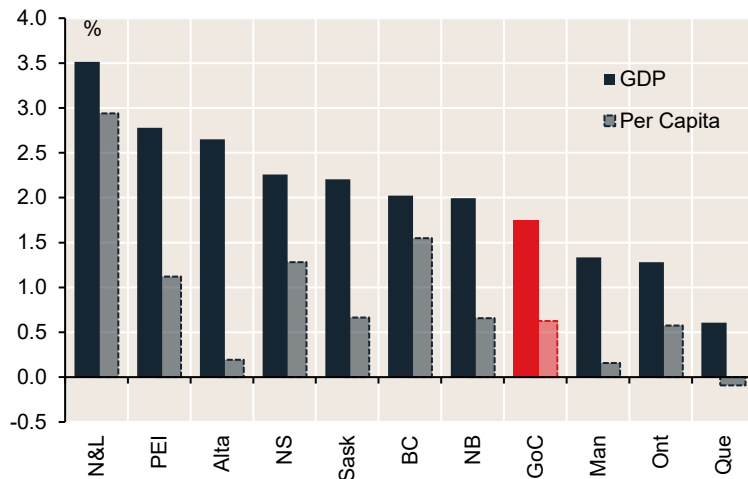
By Ethan Curriem, Warren Lovely & Daren King

The annual release of StatCan's provincial GDP by industry data arrives at a time when geopolitical developments are having outsized effects on select industries—and in Canada's case, select geographies. Last year at this time, we broke down provincial economic diversification ([here](#)) with a view to assess tariff-related resilience. Today, tariffs remain topical—especially with the upcoming USMCA review—but regional outlooks have also been sharply recast since the onset of the Middle East war. Combined with acute / targeted damage stemming from U.S. trade protectionism, the oil price shock threatens (promises?) to exacerbate

regional differences in economic and **fiscal performance**. Economic concentration—often represented by the HHI—has proven itself a reliable indicator of the volatility in provincial growth and finances. Today, traditionally 'diverse' economies may not benefit from budgetary tailwinds to the same degree as resource / oil-levered provinces, and are also likely to continue facing tariff-related headwinds. Others—with less exposure to the manufacturing sector—will remain relatively shielded, assuming USMCA remains intact. To this end, we stress the importance of looking at Canada's tariff exposure through a regional / sectoral lens.

Chart 1: Despite tariffs and pop'l slowdown, growth held up

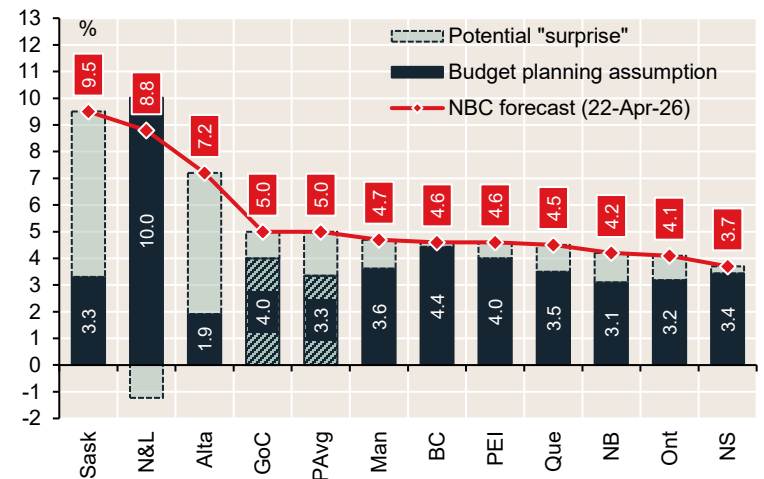
Real GDP & per capita GDP growth by province, 2025



Source: NBC, StatCan

Chart 2: Provincial outlooks set for boost on oil shock

Nominal GDP growth planning assumptions vs. latest NBC forecast: 2026

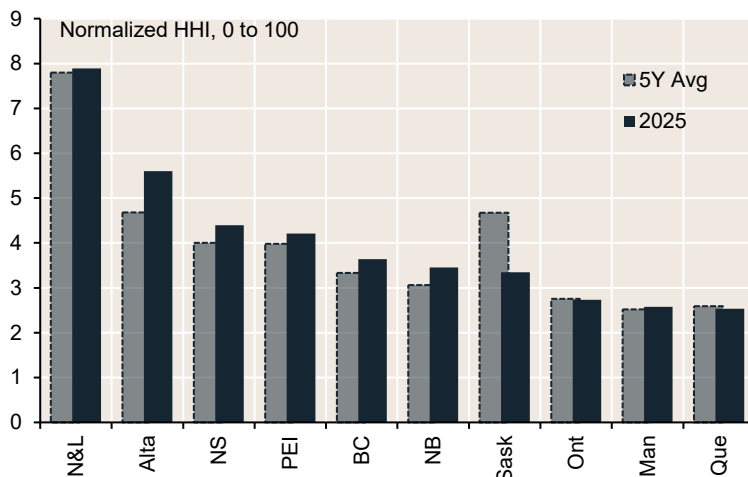


Source: NBC, fed-prov gov'ts | Note: PAvg is weighted; GoC refers to Cda growth

All ten provinces recorded *real* GDP gains for a second consecutive year in 2025. With immigration slowing, economic resilience (and gov't intervention) allowed most provinces to return to positive per capita growth. *Nominal* GDP remains the best proxy for own-source revenue. Here, budget planning for the coming year appears conservative, setting the stage for positive fiscal surprises.

Chart 3: Man & Que remain most diversified (per HHI)

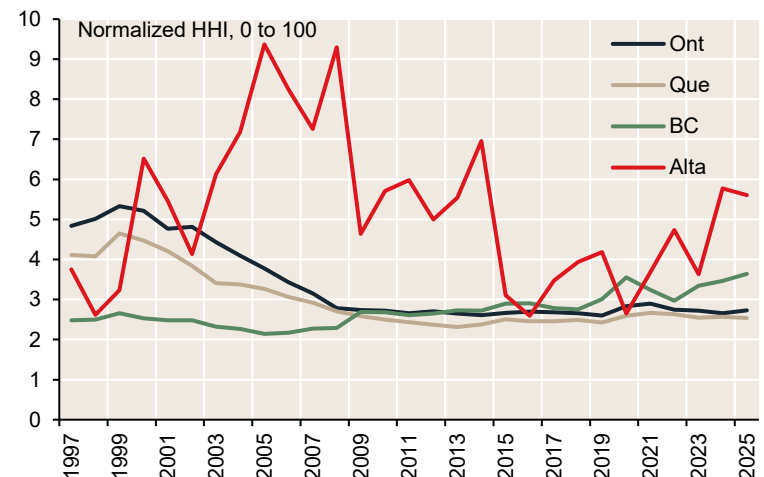
Economic concentration (proxied by HHI): 2025 and 5Y average



Source: NBC, StatCan | Note: Greater HHI values indicate greater industry concentration

Chart 4: Measuring economic diversification over time

Economic concentration (proxied by HHI), four largest provinces



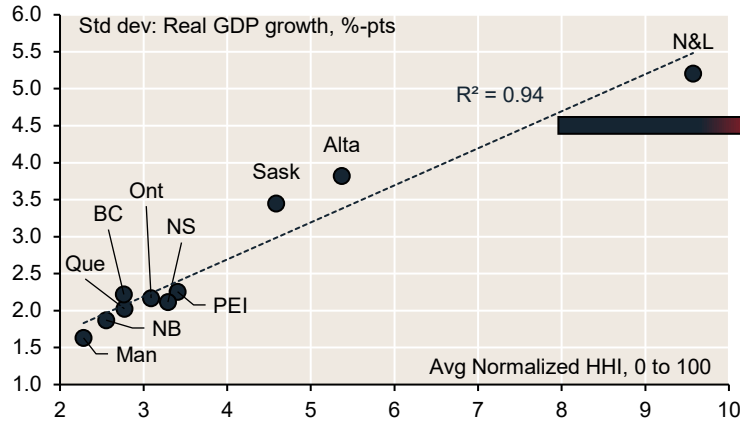
Source: NBC, StatCan | Note: Greater HHI values indicate greater industry concentration

When it comes to economic diversification (or concentration), HHI values still suggest that Quebec, Manitoba, and Ontario remain the most diversified economies in Canada. Output is distinctly more concentrated in oil-levered provinces (like N&L and Alberta), though outsized exposures to select industries / commodities may be welcomed in today's climate. Read on...



Chart 5: Using HHIs as a proxy for economic volatility...

Economic concentration (proxied by HHI) vs. real GDP growth volatility

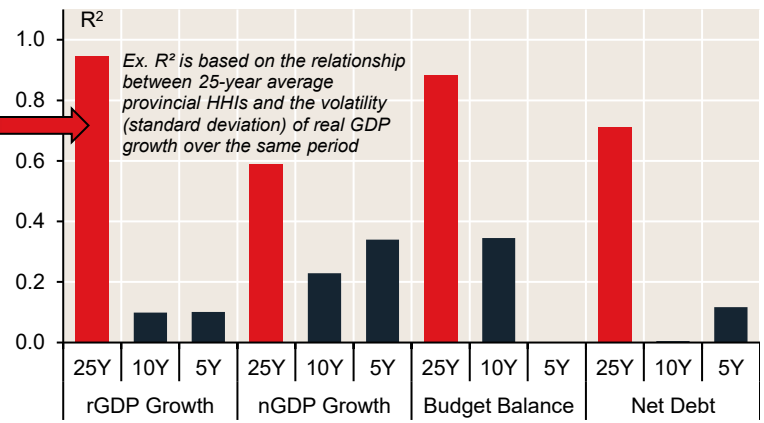


Source: NBC, StatCan, fed-prov gov'ts | Note: Based on 25Y period from 2001-2025

All else equal, a more concentrated provincial economy tends to exhibit greater economic (growth) volatility. Similarly, higher concentration can generate greater fiscal volatility. These relationships are strongest over the long(er) run (and for larger provinces), and while energy-levered regions may be most 'exposed' per the HHI, that should lead to the largest fiscal tailwinds in today's climate.

Chart 6: ... works on a fiscal basis too (in a larger sample)

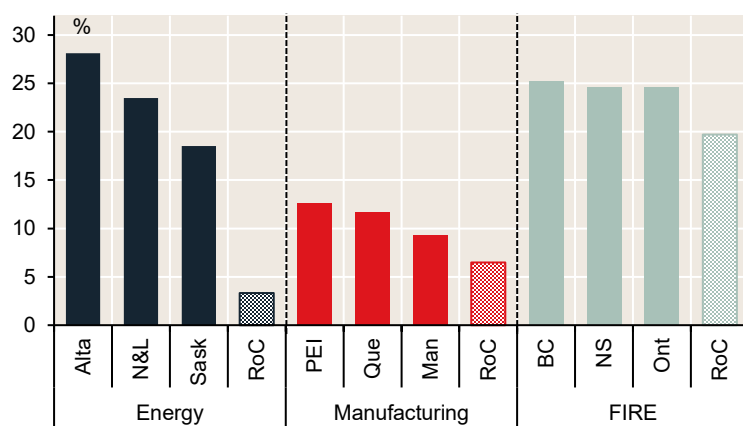
Coefficient of determination (R²) of average HHI vs. economic / fiscal variability



Source: NBC, NBC, StatCan, fed-prov gov'ts | Note: Based on 25Y period from 2001-2025

Chart 7: Industry exposures top-of-mind (for tariffs and war)

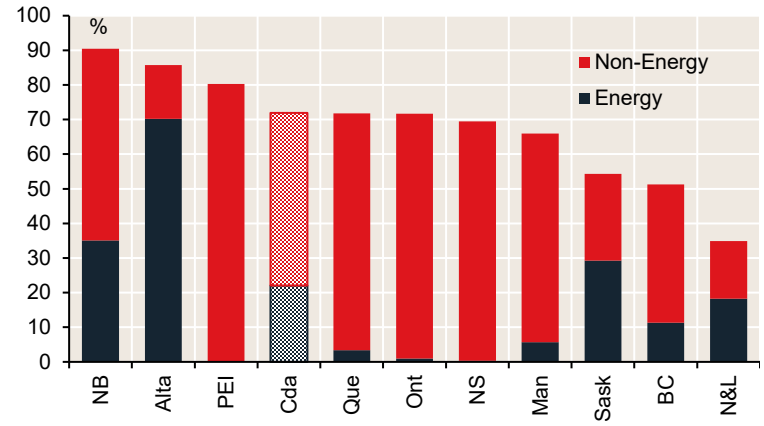
Industry share of provincial GDP (with top 3 largest exposures as of 2025 shown)



Source: NBC, StatCan | Note: FIRE refers to finance, insurance & real estate

Chart 8: Assessing provincial U.S. trade compositions

Share of total provincial exports to the U.S., decomposed by sector: 2025

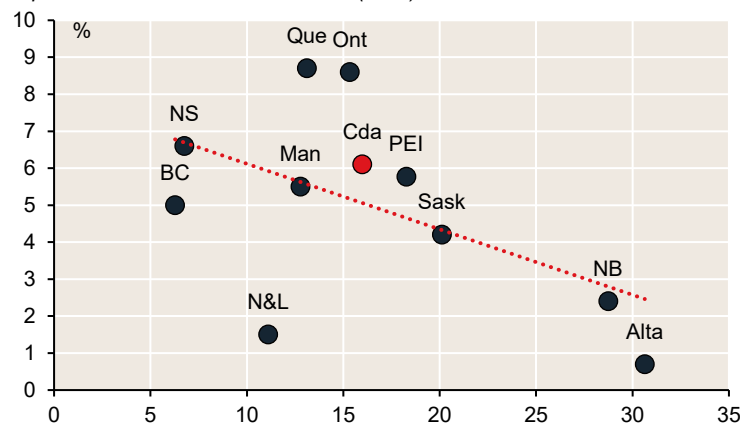


Source: NBC, StatCan | Note: Stacked bar height denotes % of total exports to the U.S.

Energy-oriented provinces are in the spotlight when it comes to the fiscal windfall made possible by this year's crude shock. Those products are also relatively less exposed to U.S. tariffs. Meantime, regions with a larger manufacturing base (particularly Canada's two largest provinces) direct more ex-energy trade south of the border, which has (and will continue to) weigh on growth / employment.

Chart 9: Tariff hit and U.S. trade reliance varies by province

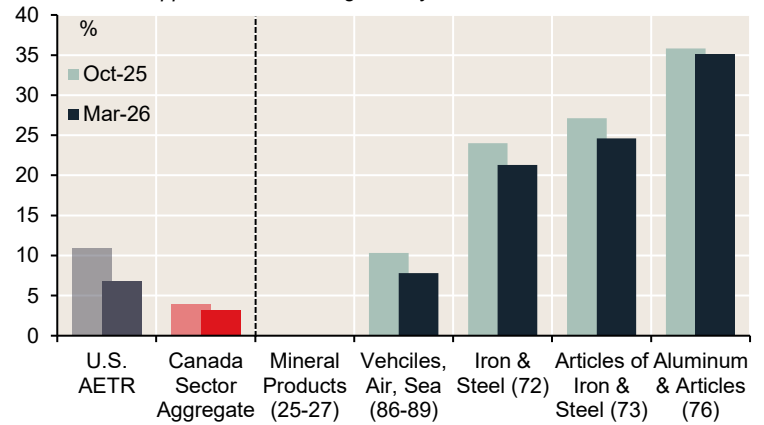
Exports to U.S. as % of nominal GDP (2025) vs. estimated effective tariff rate



Source: NBC, StatCan | Note: NBC estimates using 2024 trade weights & latest tariff policies

Chart 10: Don't be complacent with a 'low' tariff rate

U.S. tariff rate applied to Canadian goods by sector: Latest and Oct-25



Source: NBC, Bloomberg | Note: Select HS codes presented (HS2 grouping in parentheses)

Though energy-levered provinces tend to have a greater economic reliance on U.S. trade, they're in a relatively favourable spot when it comes to tariffs (thanks to USMCA carveouts). Relatedly, we caution against complacency in regard to Canada's national tariff hit. While customs data reveal a globally favourable tariff rate applied to Canada vs other nations, this gap has narrowed. These data also fail to capture trade that has been shifted (or omitted entirely) as damage sets in. Sectoral exposures—particularly in manufacturing—continuing to see outsized negative impacts.



Table: Providing a more detailed look at provincial industry exposure / economic concentration

Share of provincial GDP by industry, ranking industries from most to least important & highlighting relative concentration / noted exposures: 2025 (%)

Province >	BC	Alta	Sask	Man	Ont	Que	NB	NS	PEI	N&L
Special agg.										
Goods	21.8	41.7	43.0	25.1	20.2	24.8	22.4	18.3	28.0	42.4
Service	78.2	58.3	57.0	74.9	79.8	75.2	77.6	81.7	72.0	57.6
Ind prod	11.7	32.5	26.0	14.5	12.9	17.0	12.6	9.3	14.2	34.5
ICT	5.3	2.8	2.4	3.2	7.0	5.5	3.7	4.2	3.0	2.5
Energy	5.8	28.1	18.5	4.8	2.5	3.1	4.3	1.7	1.1	23.5
Industry rank, ordered by each province (based on NAICS codes 11-91)										
#1	Real est 19.8	Mng,O&G 24.1	Mng,O&G 17.2	Real est 14.1	Real est 14.2	Real est 12.4	Real est 15.2	Real est 18.9	Real est 16.1	Mng,O&G 28.7
#2	Const 8.9	Real est 11.7	Real est 10.1	Health 10.6	Fin,ins 10.5	Mfg 11.6	Pub admin 11.9	Pub admin 12.2	Mfg 12.6	Real est 10.0
#3	Health 8.4	Const 8.0	Ag,for,fish 9.2	Mfg 9.3	Mfg 9.0	Health 9.8	Health 11.5	Health 11.1	Pub admin 11.3	Health 9.8
#4	Prof,sci,tch 8.0	Mfg 6.7	Const 8.0	Pub admin 8.9	Prof,sci,tch 8.3	Pub admin 7.9	Mfg 8.8	Const 7.5	Health 10.9	Pub admin 8.2
#5	Pub admin 6.0	Health 6.5	Health 8.0	Trans,ware 6.9	Pub admin 7.6	Prof,sci,tch 7.4	Const 7.4	Mfg 6.8	Const 8.5	Const 6.2
#6	Trans,ware 5.9	Trans,ware 5.5	Pub admin 6.4	Const 6.5	Health 7.3	Const 7.0	Edu 6.2	Edu 6.3	Edu 6.1	Retail 5.3
#7	Fin,ins 5.5	Prof,sci,tch 5.1	Mfg 6.0	Edu 5.8	Const 6.8	Fin,ins 6.3	Retail 6.2	Retail 6.3	Retail 5.8	Edu 5.1
#8	Retail 5.2	Pub admin 4.8	Trans,ware 5.0	Fin,ins 5.8	Whole 5.8	Edu 6.2	Fin,ins 5.9	Fin,ins 5.8	Ag,for,fish 5.5	Prof,sci,tch 3.8
#9	Mfg 5.1	Whole 4.6	Whole 4.8	Retail 5.5	Edu 5.5	Retail 5.4	Trans,ware 4.6	Prof,sci,tch 4.9	Fin,ins 4.1	Trans,ware 3.5
#10	Edu 4.9	Retail 4.1	Edu 4.6	Ag,for,fish 4.4	Retail 4.5	Whole 5.0	Prof,sci,tch 3.8	Trans,ware 3.4	Prof,sci,tch 3.5	Mfg 3.0
#11	Mng,O&G 4.4	Fin,ins 4.0	Retail 4.6	Whole 4.3	Trans,ware 4.3	Trans,ware 4.6	Utilities 3.0	Whole 2.9	Accom,food 3.3	Fin,ins 2.9
#12	Whole 3.1	Edu 3.5	Fin,ins 4.2	Prof,sci,tch 3.5	Info,cult 4.0	Info,cult 2.8	Ag,for,fish 2.8	Info,cult 2.9	Trans,ware 2.7	Utilities 2.6
#13	Info,cult 3.1	Admin 2.4	Prof,sci,tch 2.7	Utilities 2.8	Admin 3.2	Utilities 2.8	Whole 2.8	Accom,food 2.5	Info,cult 2.0	Whole 2.2
#14	Accom,food 3.0	Accom,food 2.0	Utilities 2.6	Info,cult 2.5	Accom,food 2.2	Admin 2.5	Info,cult 2.7	Admin 2.0	Oth serv 2.0	Info,cult 2.0
#15	Admin 2.4	Info,cult 1.8	Info,cult 1.7	Admin 2.1	Utilities 2.1	Mng,O&G 2.2	Accom,food 2.2	Oth serv 1.9	Whole 1.6	Accom,food 1.9
#16	Oth serv 2.0	Oth serv 1.8	Oth serv 1.7	Mng,O&G 2.1	Oth serv 1.7	Accom,food 2.2	Admin 2.2	Ag,for,fish 1.9	Admin 1.5	Ag,for,fish 1.8
#17	Utilities 1.9	Ag,for,fish 1.6	Accom,food 1.6	Oth serv 2.0	Mng,O&G 1.3	Oth serv 2.0	Oth serv 1.8	Utilities 1.8	Utilities 1.4	Oth serv 1.6
#18	Ag,for,fish 1.4	Utilities 1.3	Admin 1.1	Accom,food 2.0	Arts,rec 1.0	Ag,for,fish 1.2	Arts,rec 0.6	Arts,rec 0.5	Arts,rec 1.1	Admin 1.4
#19	Arts,rec 1.0	Arts,rec 0.7	Arts,rec 0.7	Arts,rec 1.0	Ag,for,fish 1.0	Arts,rec 0.8	Mng,O&G 0.5	Mng,O&G 0.4	Mng,O&G 0.0	Arts,rec 0.3
#20	Mgmt 0.0	Mgmt 0.0	Mgmt 0.0	Mgmt 0.0	Mgmt 0.0	Mgmt 0.0	Mgmt 0.0	Mgmt 0.0	Mgmt 0.0	Mgmt 0.0
Concentration										
Top 3	37.0	43.8	36.5	34.0	33.7	33.8	38.6	42.2	40.0	48.5
Top 5	51.1	56.9	52.5	49.7	49.5	49.1	54.7	56.5	59.4	62.9
Top 10	77.6	80.9	79.3	77.7	79.3	79.0	81.4	83.1	84.4	83.5
HHI	3.6	5.6	3.4	2.6	2.7	2.5	3.5	4.4	4.2	7.9
Select exposures (Top 3)										
Ag,for,fish			✓							✓
Mng,O&G		✓	✓							
Const	✓	✓								
Mfg				✓	✓	✓			✓	
Fin,ins					✓	✓				
Real est	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Prof,sci,tch										
Health	✓			✓		✓	✓	✓		✓
Pub admin							✓	✓	✓	

Source: NBC, StatCan | Note: For spacing purposes, we have used shortforms for 20 two-digit NAICS industry classifications; refer to StatCan for complete NAICS industry details; regarding 'concentration', top 3 to top 10 figures refer to the combined weight of the largest industries in each province; HHI refers to Herfindahl-Hirschman Index value for 2025 (normalized / 0-100), where lower scores imply less economic concentration (i.e., greater diversification across industries) & larger scores imply more economic concentration; regarding 'select exposures', checkmarks are meant to identify specific industries comprising a top 3 share of provincial GDP in 2025.

If you want to study economic diversification (or concentration) in greater detail, the above table details each province's relative economic composition (as at 2025), ranking each of the twenty main industry groups by GDP share. HHI values and some additional visual guides are used to highlight relative diversification and key industry exposures.



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