SEARCHING FOR THE PRIVATE SECTOR'S LOST MOJO

B.C. ECONOMIC REVIEW AND OUTLOOK

December 2025

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Business Council *of* British Columbia
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Shaping B.C.'s Future Together

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HIGHLIGHTS

- Global GDP growth is expected to moderate to around 3% per annum over 2026-27. The outlook is uncertain, however, as countries adjust to the highest average U.S. tariff rate since the 1930s. Risks to the global outlook are balanced.
- Canadian GDP growth is expected to slow to a little over 1% in 2026, before tepidly improving in 2027. Private sector activity is broadly weak. Most troublingly, business investment per capita is tracking about 20% lower than a decade ago.
- Canada's economic troubles did not begin with President Trump's inauguration on January 20, 2025. A trifecta of booms in government spending, housing finance, and population have barely lifted Canadian output per person over the past decade. Output per person was less than 2% higher in 2024 than in 2014 – whereas in the U.S. it was 20% higher and 15% higher across OECD countries on average.
- B.C. GDP growth is expected to remain subdued across 2026-27, with growth below 2% compared to a long-term average of around 2.5% per annum. Risks to the outlook are balanced.
- B.C.'s economy is weighed down by broad-based sluggishness in private sector activity and weaker external demand. Although public sector spending is stimulatory – B.C. is running the largest provincial deficit in Canada as a share of its economy – it is not sustainable. Also, the precedent-setting *Cowichan* decision in August may dampen investment as it introduces uncertainty about the legal status of fee simple title (private property) in B.C. where and if Aboriginal title is declared.
- Federal and provincial governments are betting on specific resource projects to kickstart economic growth and are committing to "concierge" or "fast track" them through their own permitting processes. Even so, most of the large-scale projects await final investment decisions, and construction would still be some years away.
- In the interim, federal and provincial policymakers should continue to rethink the tax and regulatory settings facing the broad private sector. The recent Canada Mutual Recognition Agreement (CMRA) to reduce impediments to cross-Canada trade in goods is a step in the right direction.

GLOBAL ECONOMY ADJUSTS TO U.S. TARIFF POLICIES

Global GDP growth is expected to cool to around 3% per annum over 2026-27, from a little over 3% over 2024-25 (**Table 1**).[1] The outlook is uncertain, however, as countries adjust to swings in U.S. trade policy. From around 2% in January, the average tariff on imports to the U.S. has surged to around 17% – the highest since the Smoot-Hawley Tariff Act of 1930 (**Figure 1**). The good news is that the worst-case scenarios for tariffs and global growth envisaged earlier this year have not eventuated. Risks to the outlook are balanced.

U.S. GDP growth is expected to slow to a little over 2% across 2026-27, largely due to the lagged impact of sharp interest rate increases over 2022-24, and higher tariffs. Employment growth slowed markedly in mid-2025. Still, the economy is supported by strong business investment in artificial intelligence (AI), and a massive federal deficit averaging around 5-6% of GDP. Consumer price index (CPI) inflation is elevated, tracking around 3%, in part due to fiscal stimulus and tariffs. The Federal Reserve has modestly lowered its policy rate since late-2024 as it balances concerns about inflation with a slowing economy. Complicating matters is the recent 43-day shutdown of the federal government, the longest in U.S. history, during which time there was a dearth of economic data releases. A fuller picture will emerge as government employees return to work and start to release data again.

[1] All GDP growth figures are in real (inflation adjusted) terms unless otherwise specified.

CANADA'S HOME-GROWN ECONOMIC TROUBLES

Overview

Canadian GDP growth is expected to slow to a little over 1% in 2025-26, before tepidly improving to around 1.6% in 2027. This is well below the long-term average growth rate of 2.3% per annum (1981-2024) and pre-pandemic rate of 1.8% per annum (2008-2019). The near-term outlook is challenging. Private sector activity is already very weak, and the country now confronts an unpredictable and unfavourable external backdrop. The unemployment rate is elevated at 6.9%. Headline CPI inflation is 2.2%, temporarily lower due to the abandonment of the consumer carbon tax in April, while measures of core (i.e., underlying) inflation are stubbornly staying around 3%.

The good news is that the economy has avoided the worst-case growth scenarios for 2025 envisaged earlier this year, as over 90% of our U.S. merchandise exports are compliant with the U.S.-Mexico-Canada Agreement (USMCA) (see RBC Economics, 2025). The agreement is up for review in July 2026. Overall, risks to the Canadian outlook are balanced.

A trifecta of unsustainable booms

Canada's economic troubles did not begin with President Trump's inauguration on January 20, 2025. Adjusted for population, Canada's economy has barely grown in the past decade. Growth in real *per capita* GDP was the second weakest among the 38 OECD countries over 2014-24 (**Figure 2**). **In total, Canada's output per person was less than 2% higher in 2024 than in 2014 – whereas in the U.S. it was 20% higher and 15% higher across OECD countries on average**.

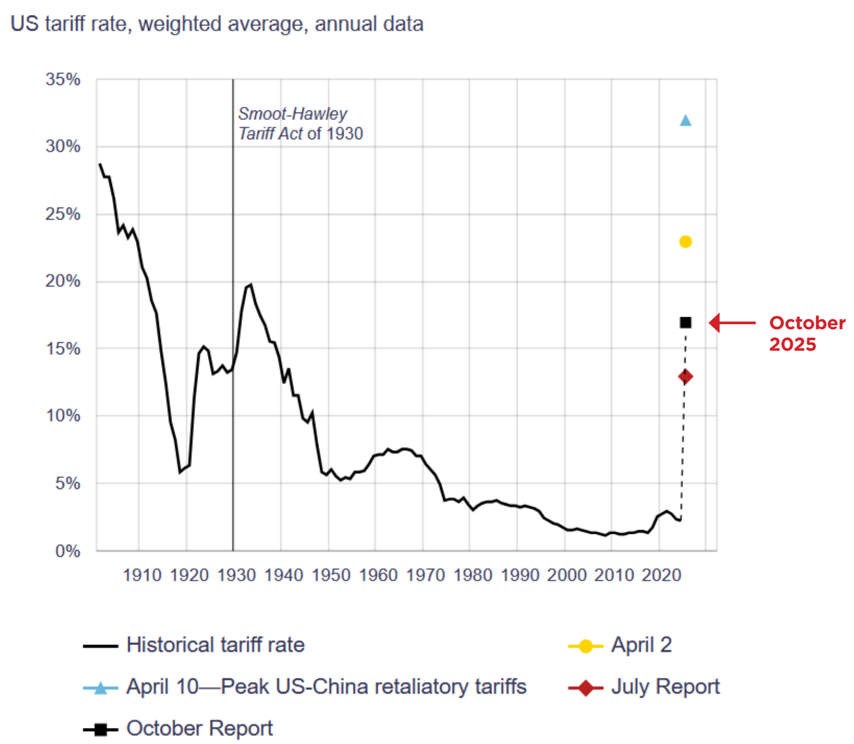
TABLE 1: **GLOBAL AND CANADA ECONOMIC FORECASTS (ANNUAL GROWTH, %)**

Region	2024	2025F	2026f	2027f
International GDP				
World	3.2	3.2	2.9	3.0
United States	2.8	2.1	2.2	2.2
Euro area	0.8	1.2	1.0	1.5
Japan	0.1	1.1	0.8	0.8
China	5.0	4.9	4.4	4.1
Canada				
GDP	1.6	1.2	1.1	1.6
Population	3.0	0.9	0.1	0.2
GDP per person	-1.4	0.3	1.0	1.4

f - forecast

Source: BCBC (Canada and U.S. GDP); RBC Economics (Canada population); Scotiabank Economics (Japan); Bank of Canada (other forecasts).

FIGURE 1: **HIGHEST AVERAGE U.S. TARIFF SINCE 1930**



Source: Bank of Canada Monetary Policy Report, October 2025.

A trifecta of booms in government spending, housing finance, and population barely lifted Canadian output per person over the past decade.

The federal government's economic growth strategy over the past decade largely centred on promoting three booms, in: government spending; mortgage borrowing; and population. Demonstrably, all three failed to achieve rising output per person.

On the first, real government sector spending per capita has boomed by around 11-12% since 2014 – almost double the growth in private consumption spending per capita (7%, **Figure 3**). The rest of the private sector is even weaker. Exports per capita are down by 6% since 2014. Even before the tariff dispute they had recorded no growth since 2014. Per capita investment in residential structures is down 10% relative to 2014.

Most troublingly, business investment per capita is today 21% lower than in 2014. Business investment has not even kept pace with depreciation: as assets wear out, the capital stock per worker is shrinking. In other words, over time, the average Canadian worker has fewer and less modern tools, machinery, technologies, buildings, intellectual property products, and so forth to use.

The second boom, in housing finance, began in about 2000. It continued in several waves, broadly coinciding with central bank responses to the 2000-02 dot-com crash, 2008-09 global financial crisis, 2015-16 oil price shock, and 2020-22 pandemic (**Figure 4**).[2] During the latter, central banks relied on near-zero policy interest rates, forward guidance (promising that rates would remain low), and quantitative easing (creating money that can be used to buy financial assets).[3] Consequently, residential mortgage credit in Canada soared by around $450 billion over 2020-22 (inclusive). That is a staggering *one-quarter increase* in the nominal stock of mortgage debt outstanding in just three years, or a 13% increase after inflation. The credit boom drove spectacular growth in resale home prices, which in Greater Vancouver nominally increased by more than one-third over 2020-22.

Like many developed countries, Canada is now in a deleveraging cycle. Over 2022-24, mortgage interest rates in Canada jumped to levels unseen since 2006-07, though they have eased slightly since late-2024. The "big reset" in interest rates has cut the three-year nominal mortgage credit growth rate in half and reduced after-inflation credit growth to its slowest pace since the 1990s. As of 2025Q1, Canadian households are the world's third most indebted, owing 99% of nominal GDP. Most of Canada's household debt is mortgage debt.

The third boom is population growth. From 1946-2015, annual net international immigration averaged around 0.5% of the existing Canadian population (**Figure 5**). After 2015, the ratio reached *three-times* its historical average in 2019 (mostly through higher permanent immigration) and *six-times* its historical average after the pandemic (mostly through higher temporary immigration, **Figure 6**). If sustained, adding 1.2 million newcomers annually is like adding another B.C. to Canada about every 4.5 years. Strains on housing, infrastructure, and public services became obvious. Per capita GDP growth was minimal and then negative. Federal policy ran contrary to academic evidence arguing that immigration should be focused on raising *per capita* GDP, not simply GDP, and primarily focused on newcomers likely to earn incomes above the Canadian-born average (see Doyle, et. al 2023).

The federal government's recent move to realign immigration with the economy's absorptive capacity and prosperity is welcome. The new targets stabilise permanent immigration at 380,000 per year (2026-2028) and reduce annual temporary resident admissions to 370,000 by 2027 (from a peak of 851,000 per annum in 2024Q1). The changes will see population growth slow markedly across the outlook.

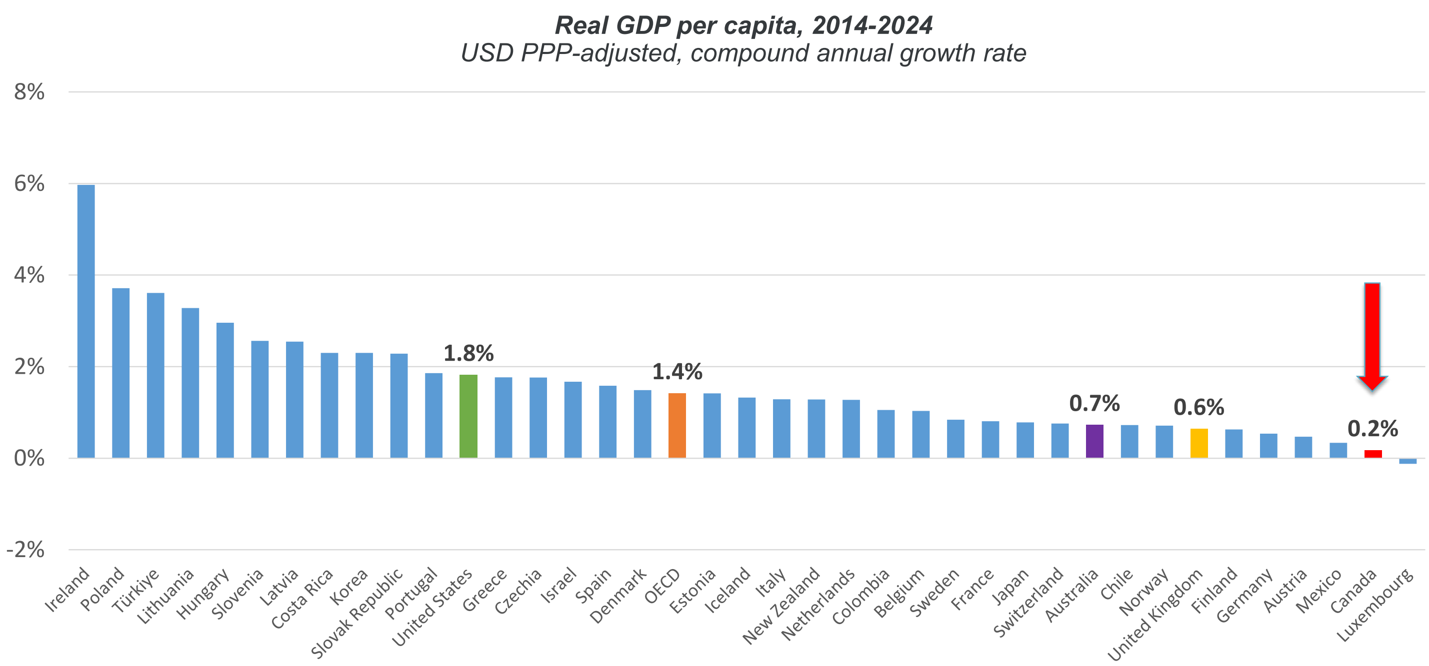
Overall, a trifecta of booms in government spending, housing finance, and population barely lifted Canadian output per person over the past decade. Arguably, they may have depressed private sector activity by diverting capital and labour from their best use.

The good news is that as population growth slows, labour productivity

[2] The 2000s also saw substantial credit liberalisation in Canada: the federal government's Canada Mortgage and Housing Corporation (CMHC) introduced the Canada Mortgage Bond (CMB) securitisation programme, and taxpayer-backed default insurance for zero-deposit mortgages and 40-year amortisation mortgages; and home equity lines of credit (HELOCs) became popular (see Muellbauer, et al. 2015).

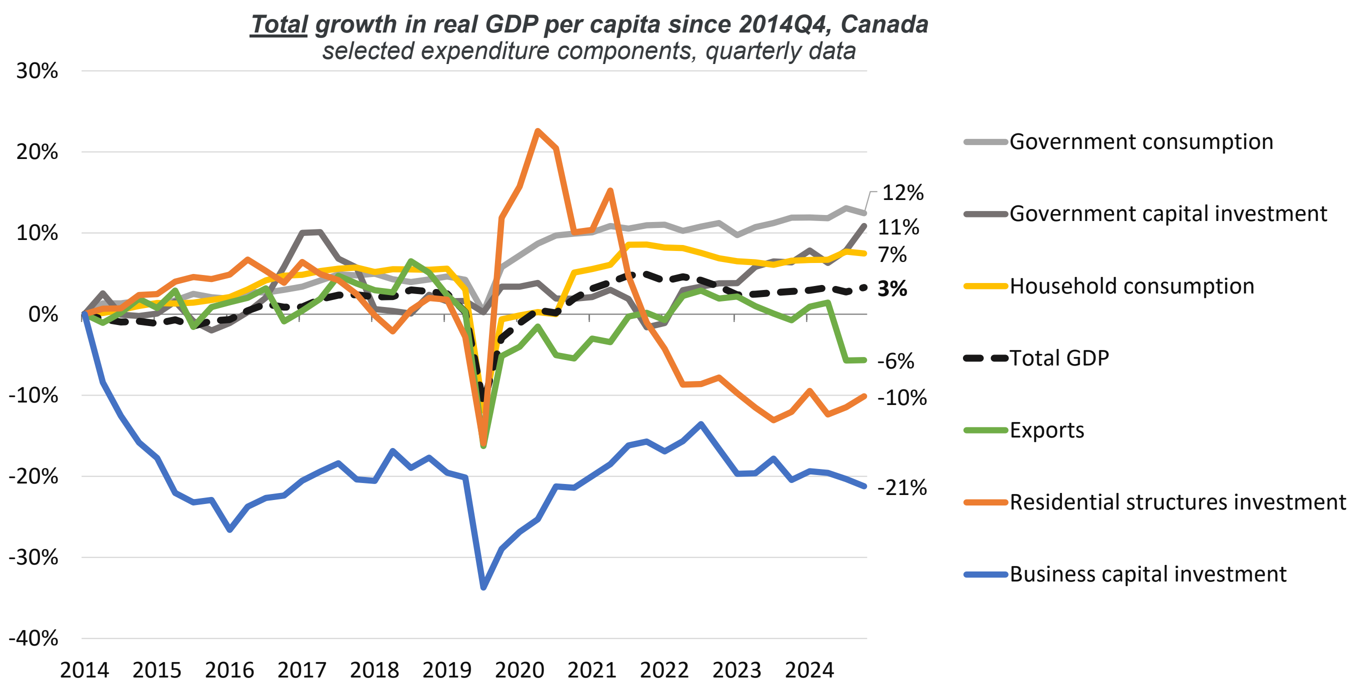
[3] In July 2020, Bank of Canada Governor Tiff Macklem issued forward guidance that interest rates would remain low for a long time: "If you've got a mortgage or if you're considering making a major purchase, or you're a business and you're considering making an investment, you can be confident rates will be low for a long time."

FIGURE 2: **CANADA SECOND-WEAKEST AMONG 38 OECD ECONOMIES: A"LOST DECADE"**



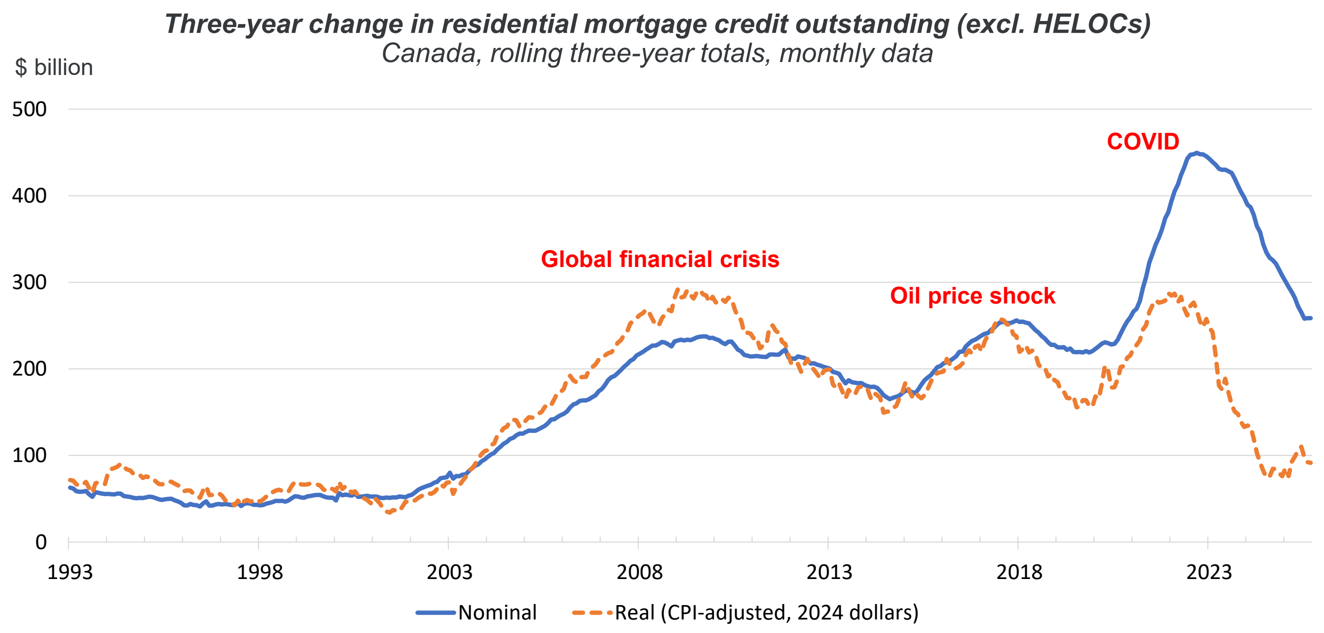
Source: OECD Statistics; BCBC.

FIGURE 3: **CANADA'S PRIVATE SECTOR IS WEAK**



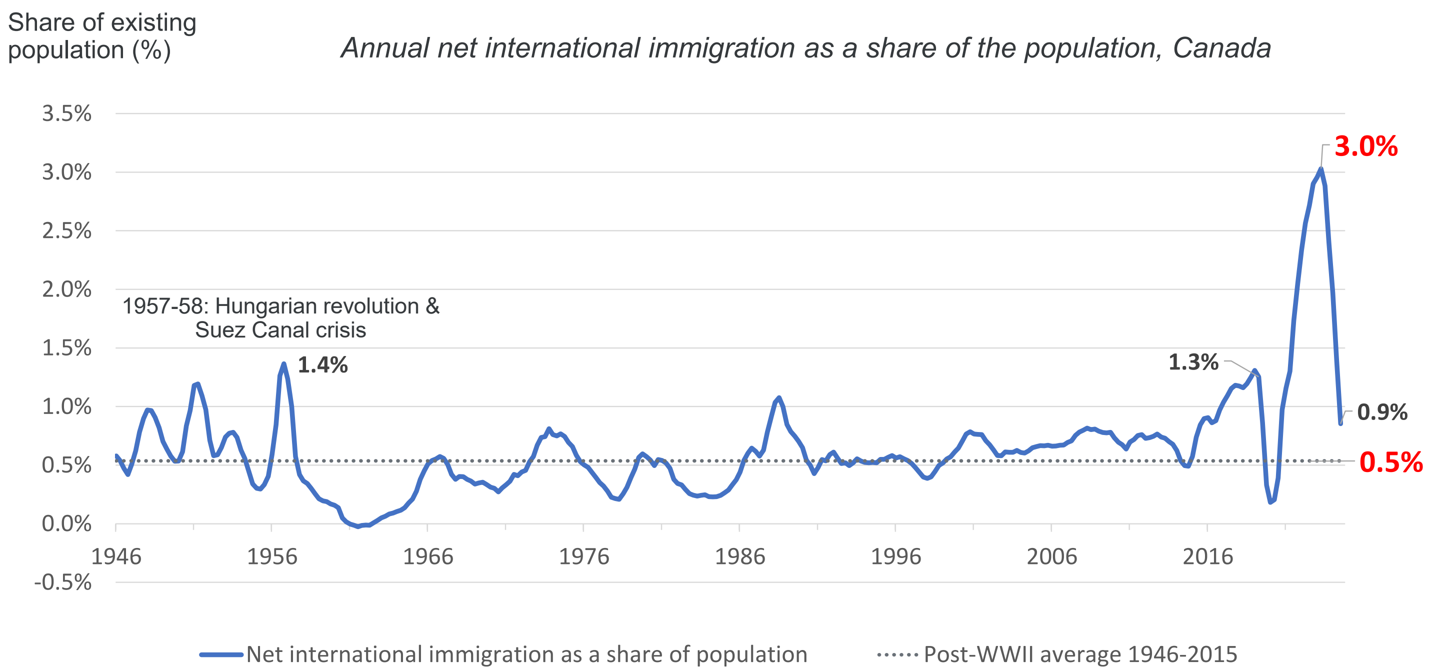
Source: Statistics Canada, BCBC.

FIGURE 4: **CANADA'S LONG & SPECTACULAR CREDIT BOOM ENDS**



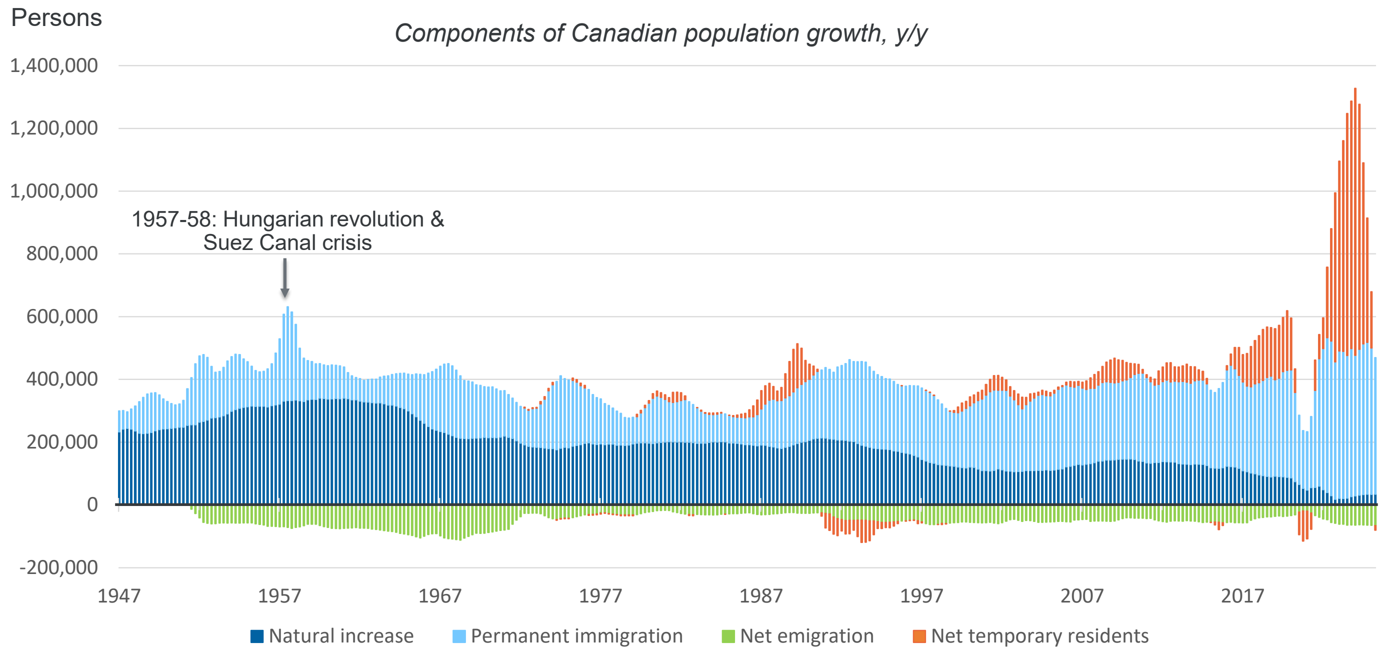
Source: Statistics Canada, BCBC.

FIGURE 5: **IMMIGRATION REACHED SIX TIMES POST-WWII AVERAGE**



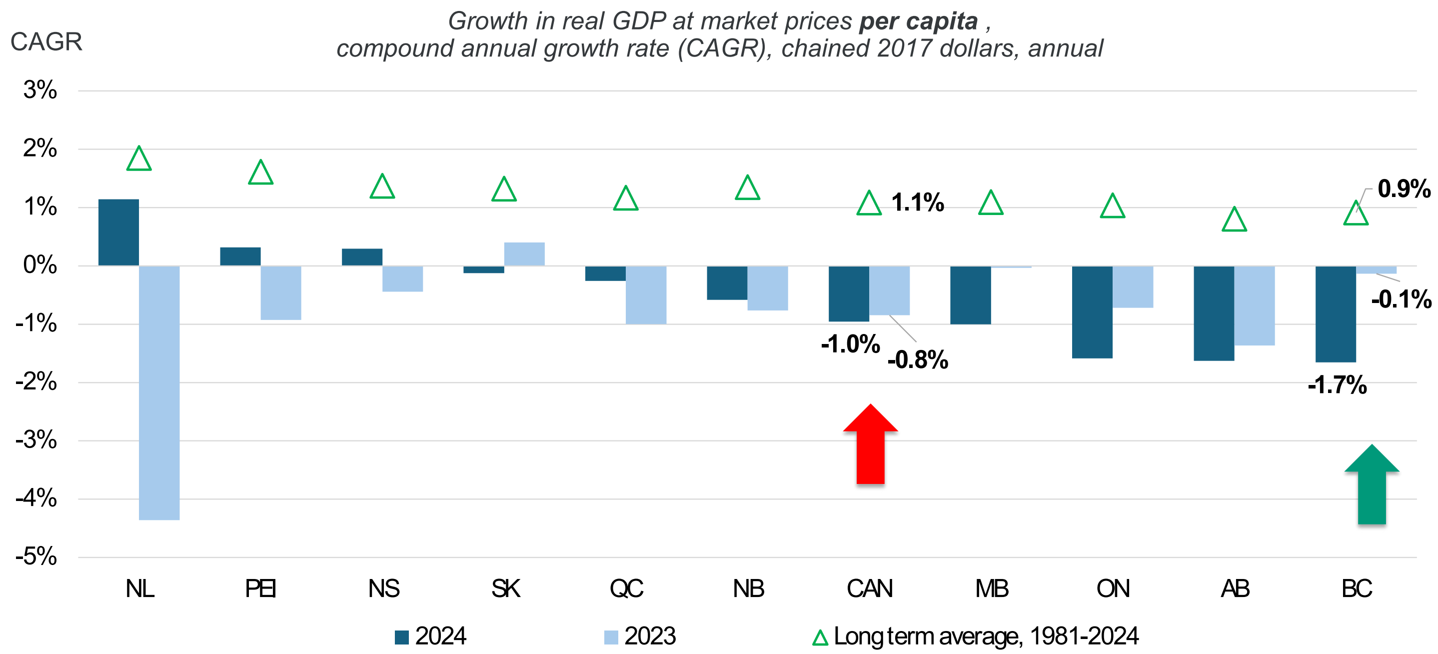
Source: Statistics Canada, BCBC.

FIGURE 6: **RECORD POPULATION GROWTH THROUGH UNPRECEDENTED TEMPORARY IMMIGRATION**



Source: Statistics Canada, BCBC.

FIGURE 7: **ADJUSTED FOR POPULATION, B.C.'S ECONOMY SHRANK IN 2023-24**



Source: Statistics Canada; BCBC.

and per capita GDP growth should start to recover and ameliorate affordability pressures. Also, the recent Canadian Mutual Recognition Agreement (CMRA) on the Sale of Goods will over time encourage greater internal trade across Canada.[4] Although a laudable step, working against that goal is the corporate income tax (CIT) system which discourages companies scaling their operations above net income of $0.5 million (at which point, in B.C., the combined federal-provincial CIT rate jumps from 11% to 27%).

SUBDUED OUTLOOK FOR B.C.

Overview

B.C. GDP growth is expected to remain subdued (**Table 2**), with growth below 2% across 2026-27 compared to a long-term average of around 2.5% per annum (1981-2024). The economy is weighed down by broad-based weakness in private sector activity, compounded by soft external demand. Although public sector spending is highly stimulatory – at 2.5% of GDP, B.C. is running the largest provincial fiscal deficit in Canada – it is not sustainable. The unemployment rate is elevated at 6.6%. Headline CPI inflation is 2.0%, in part reflecting the abandonment of the provincial carbon tax in April. Overall, risks to the growth outlook are balanced.

PRIVATE AND PUBLIC SECTOR ECONOMIC ACTIVITY: "A TALE OF TWO CITIES"

Adjusted for population, B.C. was Canada's weakest provincial economy in 2024 (**Figure 7**). Real GDP per capita shrank by 1.7% following a 0.1% contraction in 2023. This compares to a long-term average growth rate in real GDP per capita of +0.9% per annum (1981-2024). The weakness follows the completion of four once-in-a-generation "mega" construction projects in about 2022: Trans Mountain, Site C, LNG Canada and Coastal Gas Link (worth around $100 billion together).

B.C.'s public and private sectors are, respectively, seeing "the best of times" and "the worst of times" (from Charles Dickens' 1859 classic, *A Tale of Two Cities*). The dichotomy is evident in both industry GDP data and employment data. **Figure 8** shows real GDP growth by industry in 2024. With population growth of around 3% (red dotted line), as a first approximation, one would expect the economy to grow by around 3% since there are 3% more consumers, residents, workers, and so forth. However, most parts of the economy grew *slower* than the population.

The three mostly public sector industries – public administration, health care, and education – all grew faster than the population. Among private sector industries, only three grew faster: transportation and warehousing; energy and mining; and utilities. This reflects the four "mega" capital projects shifting from construction to operations. All other private sector industries grew slower than the population, while construction and manufacturing contracted outright.

Similarly, over the past five years, all three mostly public sector industries grew faster than population growth (2.1% per annum, **Figure 9**). In contrast, only four private sector industries managed this: professional services (including consulting, accounting, engineering, scientific, public relations, and legal services, and film and TV), finance and insurance, real estate and leasing, and construction. All other private sector industries grew slower than the population or contracted outright.

TABLE 2: **B.C. ECONOMIC OUTLOOK (ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)**

	2024	2025f	2026f	2027f
Real GDP	**1.1**	**1.5**	**1.2**	**1.8**
Population	2.8	0.4	-0.2	0.8
Real GDP per capita	-1.7	1.1	1.4	1.0
Employment	2.4	1.2	0.5	1.0
Unemployment rate (average)	5.6	6.2	6.4	6.1
Housing Starts (average)	43,571	42,000	29,000	35,000
B.C. CPI	2.6	2.2	2.2	2.1

f - forecast

Source: Statistics Canada; BC Stats (population); BCBC.

[4] Signed on November 19, 2025, the CMRA allows a good that meets regulatory requirements in one province to be sold in another. Governments can still choose to apply a specific requirement by listing it in an annex, known as a "negative list". Not requiring businesses to potentially meet 14 different jurisdictions' regulatory requirements across Canada should save companies time and costs, and benefit consumers through greater product choice and lower prices. The CMRA applies to all goods other than food, alcohol, live animals, plants, tobacco, and cannabis.

Employment data tells the same story. Since January 2019, public sector hiring in B.C. has exploded by 39%. In contrast, private sector hiring has grown meekly – by only 6% in almost seven years. **Figure 10** extrapolates employment growth using the pre-pandemic trend over 2015-19. Private sector employment is running around 300,000 jobs below its pre-pandemic trend, while public sector employment is running 115,000 above. This means total employment in the province is "missing" around 190,000 jobs relative to its pre-pandemic trend (noting that the 2015-19 trend included the lift from four "mega" capital projects cited above).

Sluggish private sector activity has translated into record out-migration. The number of residents leaving B.C. for other provinces (especially Alberta) recently jumped to around 60,000 to 70,000, levels unseen since the mid-1970s and late-1990s (**Figure 11**). This is concerning as interprovincial migrants leaving B.C. tend to be young (aged 15-39 years), skilled, and net contributors to the tax base (see [Williams and Yunis, 2025]).

EXPORT VALUES FLAT BUT HIGH

B.C.'s merchandise exports values have flattened over the past year but remain well above pre-pandemic levels (**Figure 12**). Note, values incorporate volumes *and* prices. By product, energy and forestry export values have slipped, offset by steady growth among other goods exports. The forestry sector's outlook is especially challenging given hikes in U.S. softwood lumber tariffs, difficulties accessing fibre supply, and high operating costs relative to other jurisdictions. The weak outlook is concerning as forestry was previously B.C.'s largest export sector, and it plays a crucial distributive role by creating well-paid employment in regional towns.

The U.S. accounted for around 53% of goods export values over the past year, on par with the average over the past decade. B.C. has the second-lowest exposure to the U.S. among the Canadian provinces ([Yunis, 2025]). The province benefits from having Canada's largest and third-largest marine ports (Vancouver and Prince Rupert). This allows easy access to non-U.S. markets unlike Canada's land-locked provinces. Still, talk of further "diversifying" B.C.'s trade away from the U.S. may prove elusive in practice. The U.S. market is large, high-income, and close. The only time the U.S. share of B.C. merchandise exports has been materially below 50% was following the severe U.S. recession of 2008-09.

Although public sector spending is highly stimulatory – at 2.5% of GDP, B.C. is running the largest provincial fiscal deficit in Canada – it is not sustainable.

AN INVESTMENT LULL

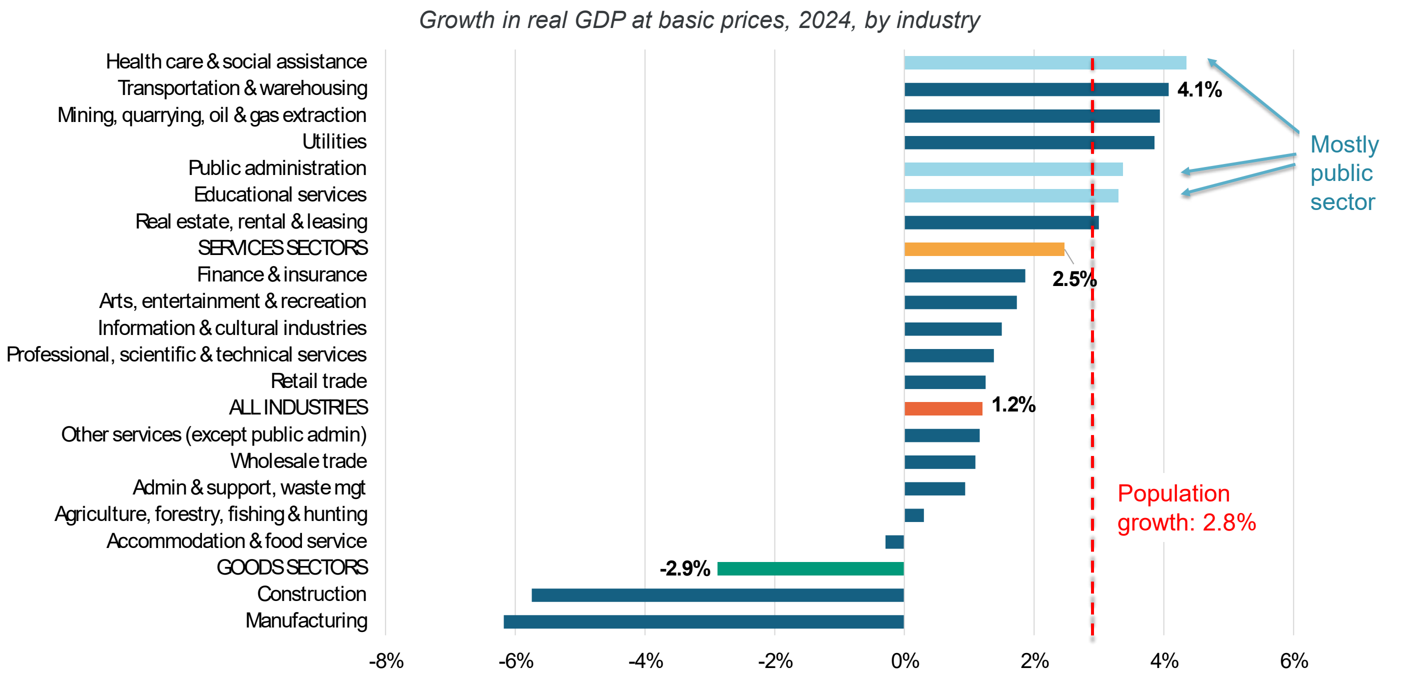
Other than publicly funded projects, capital investment in B.C. is subdued. Commercial and industrial building permits are at moderate and low levels, respectively (**Figure 13**). New construction projects in the near term, including BC Hydro's North Coast Transmission Line (around $6 billion), due to begin construction in mid-2026, Teck's Highland Valley Copper Mine life-extension (around $2 billion), and Eskay Creek ($0.7 billion) are modest compared to the four completed "mega" projects (around $100 billion). Large-scale projects such as LNG Phase 2, Ksi Lisims LNG, the Red Chris Mine expansion, and the Seabridge Gold KSM mine await final investment decision. While these large-scale projects are will eventually provide a lift to GDP, they would not begin construction until near the end of the decade.

HOUSING OUTLOOK CLOUDED BY UNCERTAINTY

During the pandemic, the twin booms in demand from borrowers and newcomers (discussed earlier) encouraged a boom in residential building construction (**Figure 14**). The lagged impact of sharp interest rate increases over 2022-24 is driving a deleveraging cycle across many developed countries. In B.C., residential building construction fell to 2.9% of real GDP at basic prices in 2024, from a peak of 3.6% in 2021 (**Figure 15**). The sector's long-term average over 1997-2024 is 2.6% of GDP. Based on industry reports on pre-sales and projects, the outlook for housing starts appears very weak, at least outside of publicly funded construction (mostly rental).

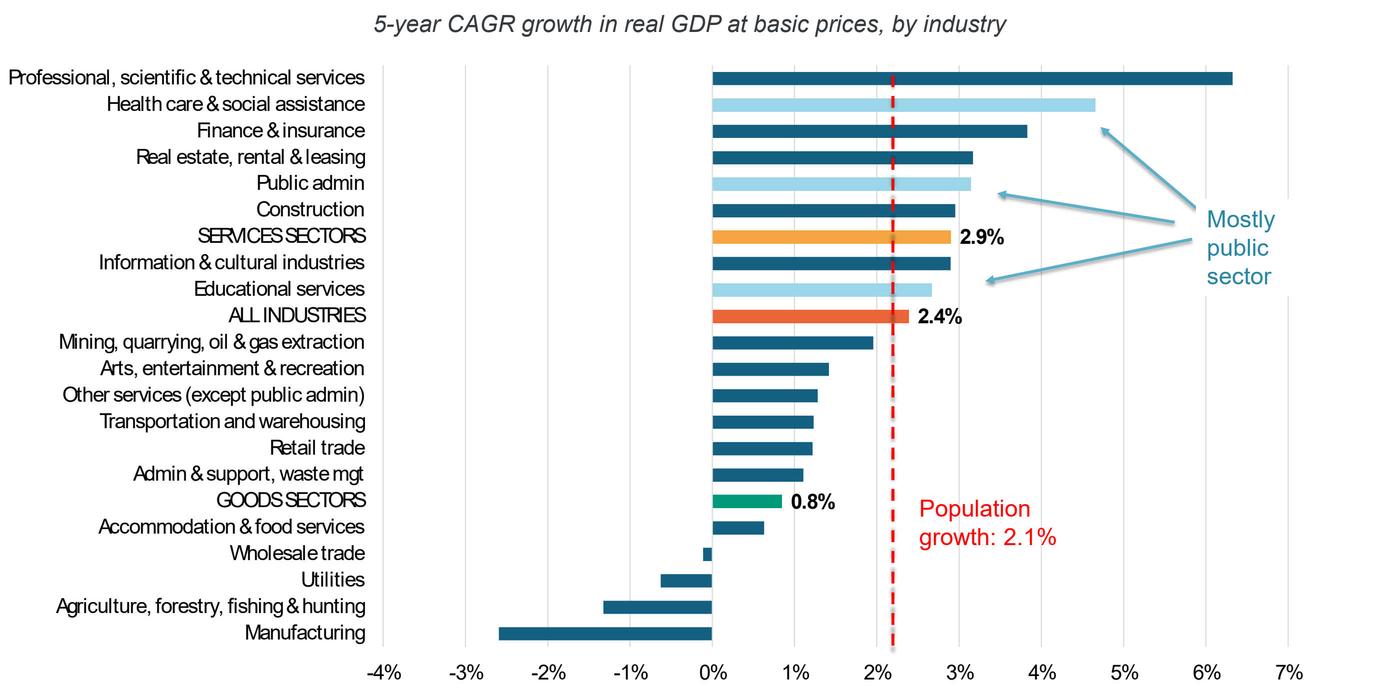
Mortgage interest rates have eased slightly since late-2024 and should start to provide some support for residential building construction, and realtor activity. However, one factor that may hold back a recovery is uncertainty about the legal status of fee simple title (private land) in B.C. where and if Aboriginal title is declared. This follows the *Cowichan* decision ([Cowichan Tribes v. Canada (Attorney General), 2025 BCSC 1490]).

FIGURE 8: **WHERE DID B.C.'S ECONOMY GROW/SHRINK IN 2024?**



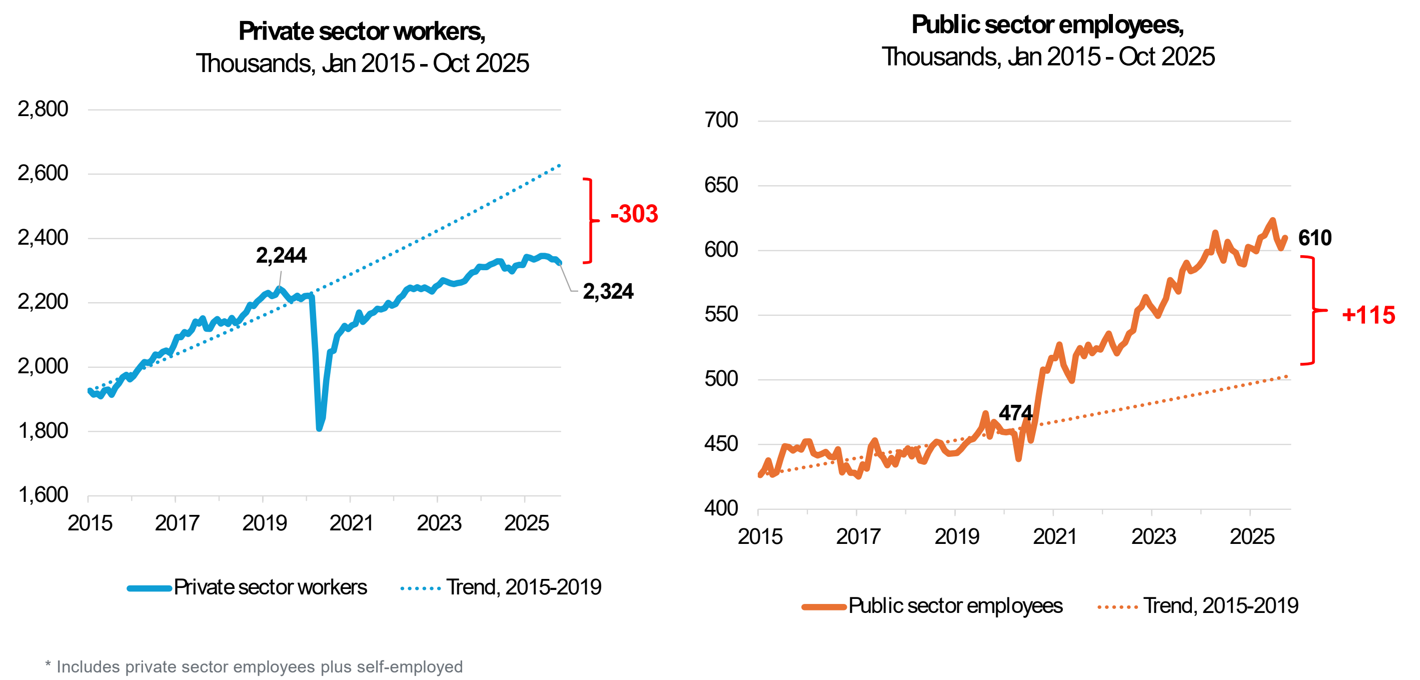
Source: Statistics Canada; BCBC.

FIGURE 9: **WHERE HAS B.C.'S ECONOMY GROWN/SHRUNK SINCE 2019?**



Source: Statistics Canada; BCBC.

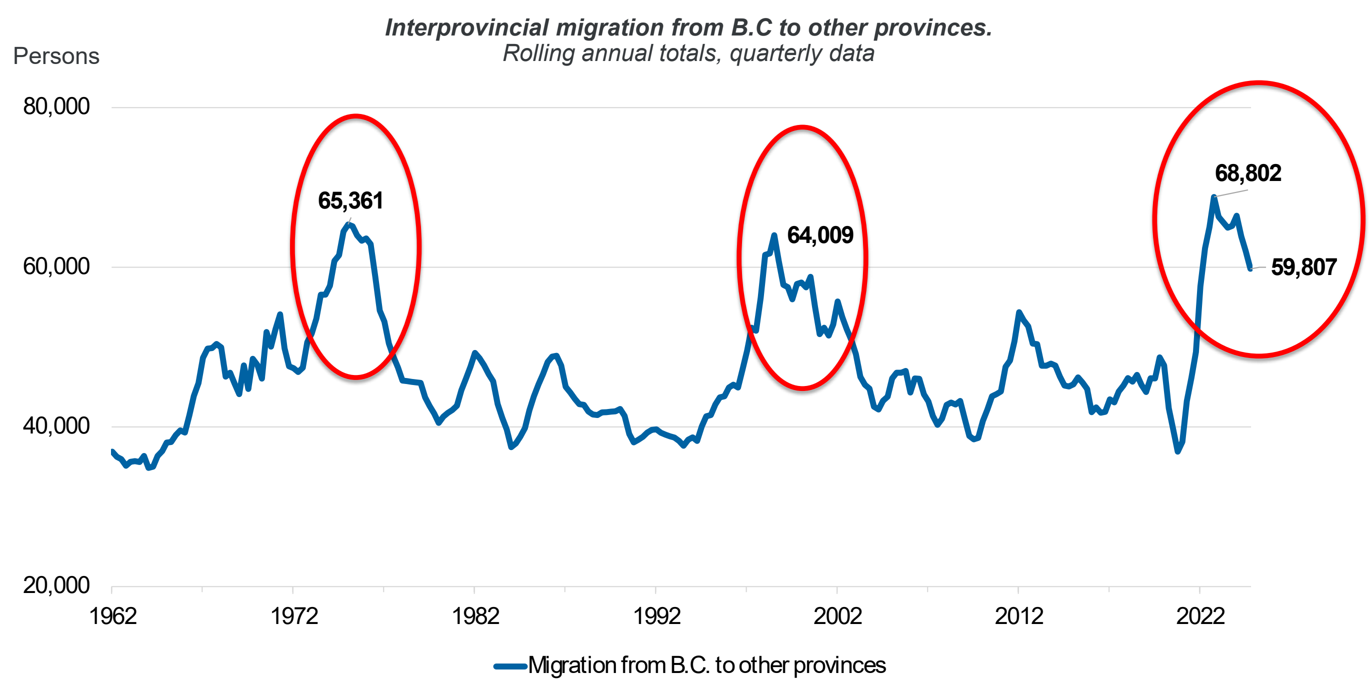
FIGURE 10: **B.C. PRIVATE VS PUBLIC SECTOR EMPLOYMENT: "A TALE OF TWO CITIES"**



Source: Statistics Canada; BCBC.

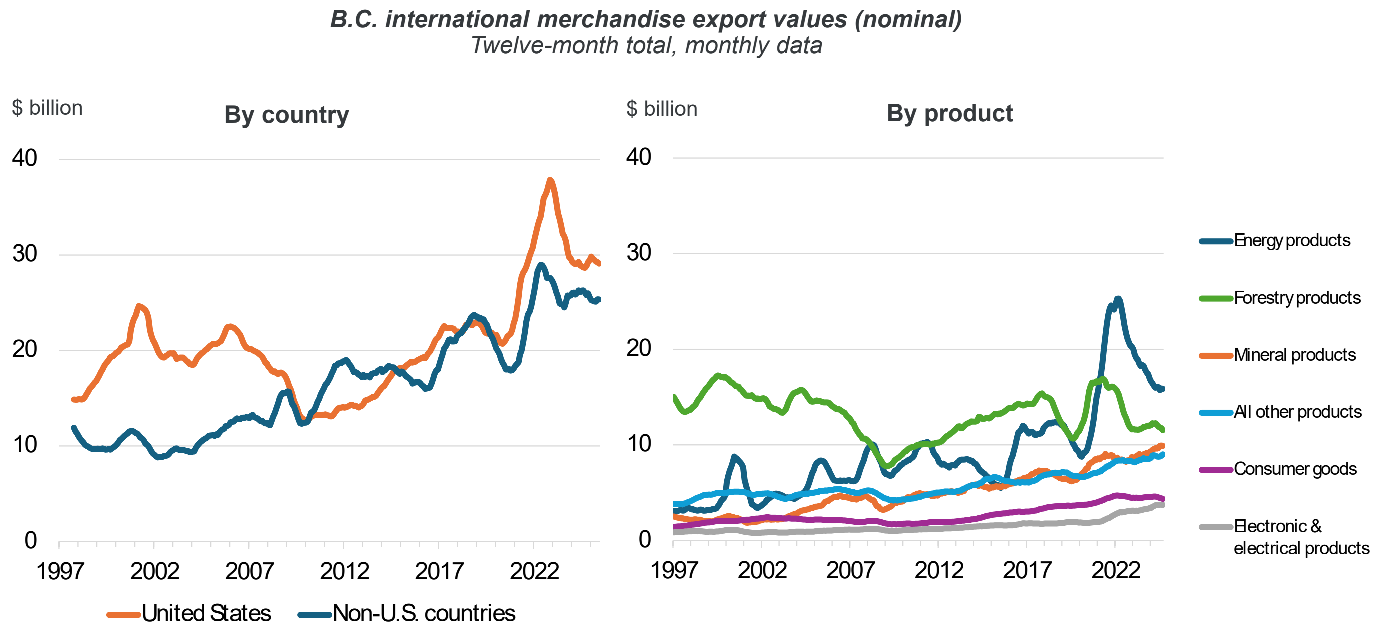
*Includes private sector employees plus self-employed.

FIGURE 11: **NEAR-RECORD HIGH OUT-MIGRATION FROM B.C.**



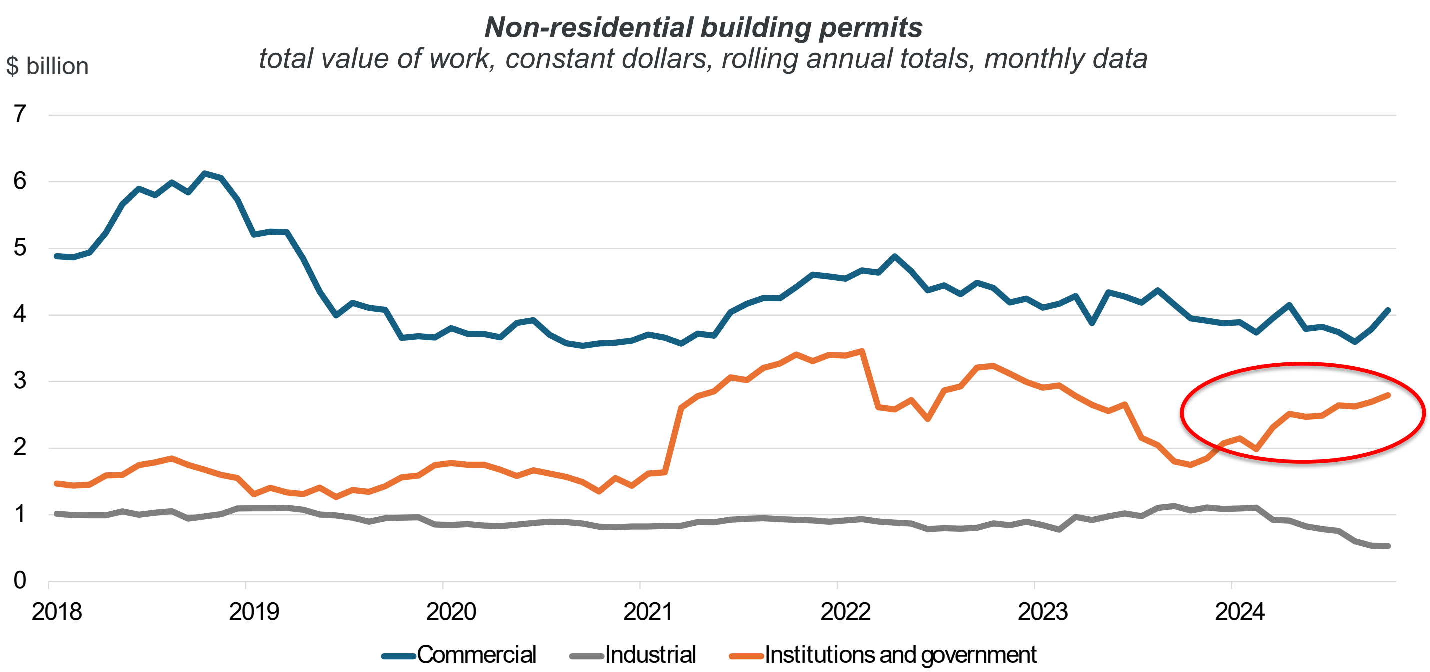
Source: Statistics Canada; BCBC.

FIGURE 12: **B.C.'S EXPORT VALUES FLAT, BUT ABOVE PRE-PANDEMIC LEVELS**



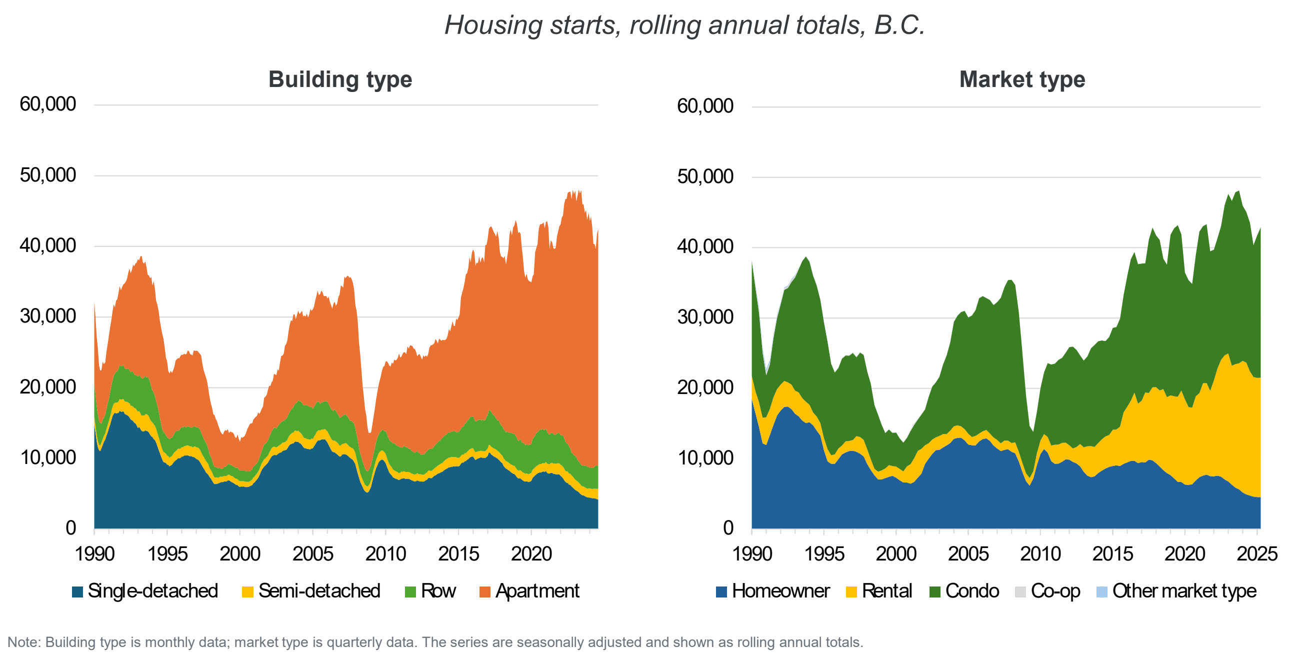
Source: Statistics Canada; BCBC.

FIGURE 13: **PUBLIC SECTOR CONSTRUCTION REMAINS STRONG**



Source: Statistics Canada; BCBC.

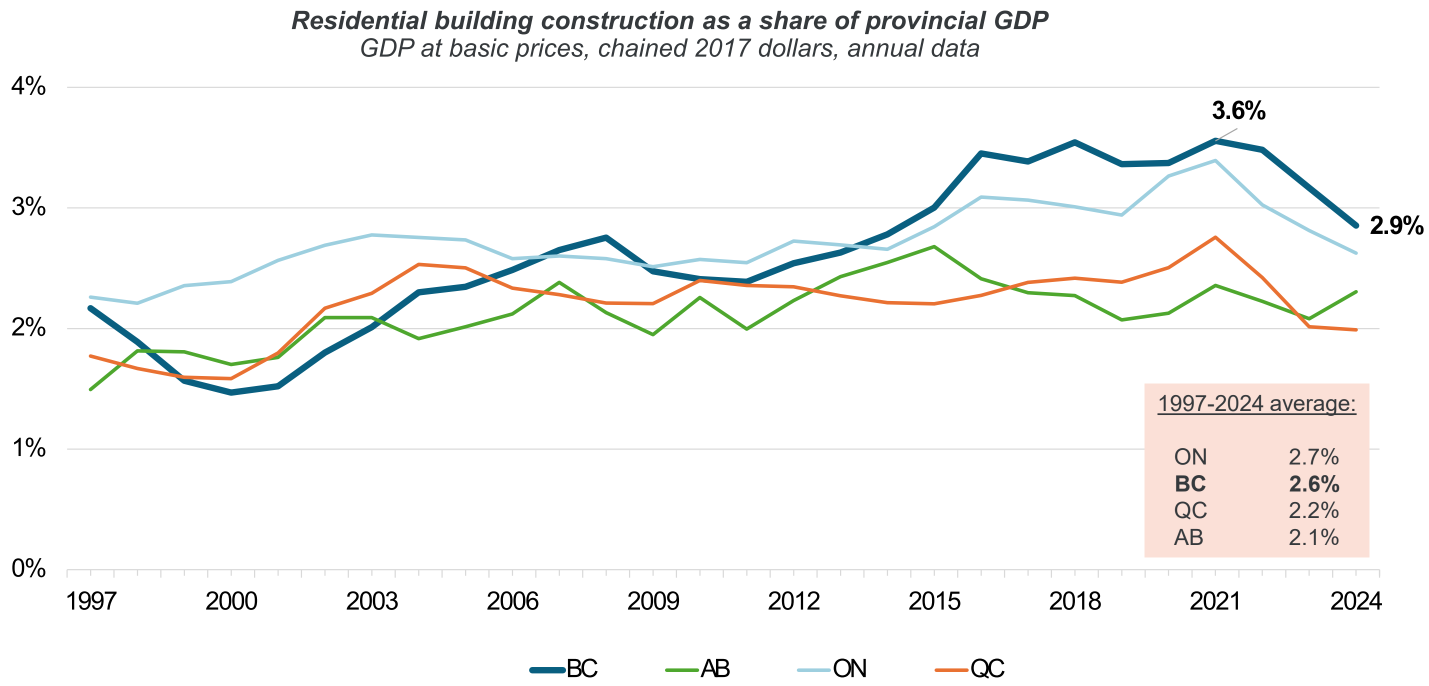
FIGURE 14: **HOUSING STARTS COOLING FROM HIGH LEVELS**



Source: Statistics Canada; CMHC; BCBC.

Note: Building type is monthly data, market type is quarterly data. The series are seasonally adjusted and shown as rolling annual totals.

FIGURE 15: **RESIDENTIAL CONSTRUCTION COOLING FROM HIGH LEVELS**



Source: Statistics Canada; BCBC.

As Justice Young states at paragraph [2193], "...The question of what remains of Aboriginal title after the granting of fee simple title to the same lands should be reversed. The proper question is: what remains of fee simple title after Aboriginal title is recognized in the same lands?"

At paragraph [3351], she states "...A precedent that will follow from this case is that provincial Crown grants of fee simple interest do not extinguish nor permanently displace Aboriginal title, and ss. 23 and 25 of the LTA [Land Title Act] do not apply to Aboriginal title."

Section 23 of the LTA provides the effect of *indefeasible title* for private property owners, meaning the conditions by which the title is "unable to be lost or taken away" (i.e., incapable of being annulled, defeated or voided). Section 25 provides the registered owner with general protections against legal actions for the recovery of land.

Property rights are the cornerstone of a market-based economy. They make certain who gains from investment, development and innovation, which directly incentivises owners to undertake those activities, and they enable transactions and borrowing. It may take several years before the question posed by Justice Young (at paragraph 2193 above) is resolved. In the meantime, uncertainty may dampen growth in investment activity as people and lenders adopt a "wait-and-see" approach in B.C. and turn their attention to opportunities in other markets.

CLOSING THOUGHTS

B.C.'s economy faces a challenging outlook. Private sector activity is broadly subdued. Public sector activity is booming but unsustainable. Access to U.S. markets is unpredictable given escalating softwood lumber tariffs and the looming review of the USMCA. Since the *Cowichan* decision, B.C. also faces uncertainty about the legal status (i.e., indefeasibility) of fee simple title where and if Aboriginal title is declared.

The federal and provincial governments are betting on selected large-scale resource projects to kickstart economic growth and are committing to "concierge" or "fast track" them through cumbersome government permitting processes. However, most await final investment decision, and construction would still be some years away. In the interim, policymakers in Ottawa and Victoria should continue to rethink the tax and regulatory settings facing the broad private sector. The recent CMRA to encourage cross-Canada trade in goods is a step in the right direction.

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