Measuring Ontario's Regional Prosperity Gap, 2026 Update

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ECONOMIC POLICY

Key Points

- By global standards, Ontario is a prosperous place. Ontarians enjoy living standards and access to opportunities that are the envy of much of the world.
- However, within its own economic region, Ontario is an economic laggard.
- This bulletin compares the overall prosperity in Ontario (measured as Gross Domestic Product [GDP] per person) to that of the eight American states in the Great Lakes region and its neighbouring province, Quebec. It also compares the economic growth rates of jurisdictions in the region in recent years.
- The bulletin shows that Ontario has the second lowest GDP per person in the region, ahead only of Quebec. As of 2024, the region's GDP per capita taken as a whole is 34.5 percent higher than Ontario's. In 2001, this "prosperity gap" was 23.7 percent.
- Over the past two decades, Ontario has fallen increasingly behind its regional neighbours. While inflation-adjusted GDP has increased by 22.5 percent in the entire region since 2001, Ontario's real per-person economy has grown by just 12.7 percent.
- The large and growing prosperity gap between Ontario and its neighbours should concern Ontarians generally and policymakers specifically. Strong GDP growth contributes to job creation, wage growth, and other indicators of well-being.

Introduction

By global standards, Ontario is a prosperous jurisdiction. Like residents of all other Canadian provinces, Ontarians enjoy a standard of living and access to economic opportunity that are the envy of most of the world.

Nevertheless, there are good reasons not to be sanguine about the performance of Ontario's economy. Specifically, if we narrow our analysis from the global scale to a regional one, it becomes apparent that Ontario is in fact an economic laggard compared to its neighbours—and has been for some time.

Throughout the 2000s and the first half of the 2010s, the government-funded Ontario Institute for Competitiveness and Prosperity (OICP) periodically published analyses comparing Ontario's overall economic well-being to various groups of jurisdictions in North America and around the world (OICP, 2002). These reports used the straightforward measure of per-capita Gross Domestic Product (GDP) and measured a "prosperity gap" between Ontario and various groups of comparator provinces. A subsequent section of this bulletin defines this metric and explains its use in this analysis.

In 2019, the OICP closed. However, the work of measuring the extent to which Ontario's economic performance lags its neighbours and economic competitors remains important. This bulletin provides an update on the prosperity gap, comparing Ontario's performance to a new group of peer jurisdictions and briefly discussing how this gap has grown over time.[1]

Identifying Ontario's peer group

There are many ways to select a group of jurisdictions against which to compare Ontario's economic performance. This bulletin takes the relatively straightforward option of using the province's immediate regional neighbours as the comparison group. More specifically, we compare Ontario to all of the American states in the Great Lakes region—that is, those that border one of the Great Lakes. We add to this list Quebec, which does not border a Great Lake but is Ontario's immediate neighbour and one of the province's most important trading partners and competitors for investment. In this bulletin, we refer to this entire group as the Great Lakes region.

In addition to simplicity, this selection process has several other advantages. Most jurisdictions in the region have significant manufacturing sectors and share similar geography and natural resource endowments. As such, they have many similarities that make them attractive for some types of business investment (and less attractive for others), and they therefore compete with each other to varying extents for investment. Further, partly due to the simple fact of proximity, the jurisdictions also share some sectoral similarities that link their supply chains, so there is extensive trade between the states and provinces in the Great Lakes region. Specifically, the jurisdictions with which Ontario is compared in this analysis are:

- Illinois
- Indiana
- Michigan
- Minnesota
- New York
- Ohio
- Pennsylvania
- Quebec
- Wisconsin

Of course, there are rationales for other sets of comparators. For instance, many studies document the productivity benefits of urban agglomeration (Ahrend, Lembcke, and Schumann, 2017). As such, there may be meaningful ways in which states found further away, but that also have large cities, such as California, may, at least in some respects, be a better comparator jurisdiction for Ontario than, for example, Minnesota, which does not have a metropolis comparable in size to the Greater Toronto Area. California, however,

1 Any errors in this update are the sole responsibility of its authors.

lacks some of the other advantages of the Great Lakes region described above. In short, while recognizing that no comparator group is perfect and that other choices would also be reasonable, using the Great Lakes states and Quebec as the comparator group is a straightforward method of selecting important neighbours, trading partners, and competitors for investment.

Measuring the prosperity gap: GDP per capita using purchasing power parity

There are many different ways to measure prosperity and numerous economic indicators that could be considered in any calculation. No single metric captures the whole picture. However, the most comprehensive measure of overall prosperity is real GDP per capita.

This measure tells us the overall per-person economic production in a jurisdiction over the course of a year. There is a strong positive correlation between a higher GDP per capita and better performance on the vast majority of economic indicators.

Per-capita GDP growth does not tell us everything about economic performance and living standards in various jurisdictions. For instance, it does not explain the distribution of income, which is why indicators such as median household income are sometimes used to assess living standards for a "typical" household. Nevertheless, GDP growth helps drive job creation and wage growth and is therefore frequently used as a straightforward, if imperfect, measure of prosperity. That is how the metric is employed in this bulletin.

For these reasons, we use GDP per capita as our measure of prosperity. We measure both GDP levels in the most recent year of complete data (2024), along with inflation-adjusted growth since 2001. Including a measure of growth over time is important not only because it shows whether the prosperity gap is growing or shrinking, but it also reduces the risk of the result being distorted by the fact that different jurisdictions are at different points in the business cycle at any specific time.

One complication that arises from comparing GDP per capita in Canadian and American jurisdictions is that the official agencies in each country use their own currencies to measure GDP. There are two main methods of comparing jurisdictions with different currencies—purchasing power parity (PPP) and market foreign exchange rates. PPP compares the value of GDP in each jurisdiction, making an adjustment to the value of the currency based on the price of a standardized basket of goods and services. Market foreign exchange rate is determined by the demand for, and supply of, international currencies.

One of the main advantages of using PPP exchange rates is that they are relatively stable over time. By contrast, market rates are more volatile, and using them could produce quite large swings in aggregate measures of growth even when growth rates in individual countries are stable. A disadvantage of using market-based rates is that they are relevant only for internationally traded goods and they exclude non-traded goods and services.

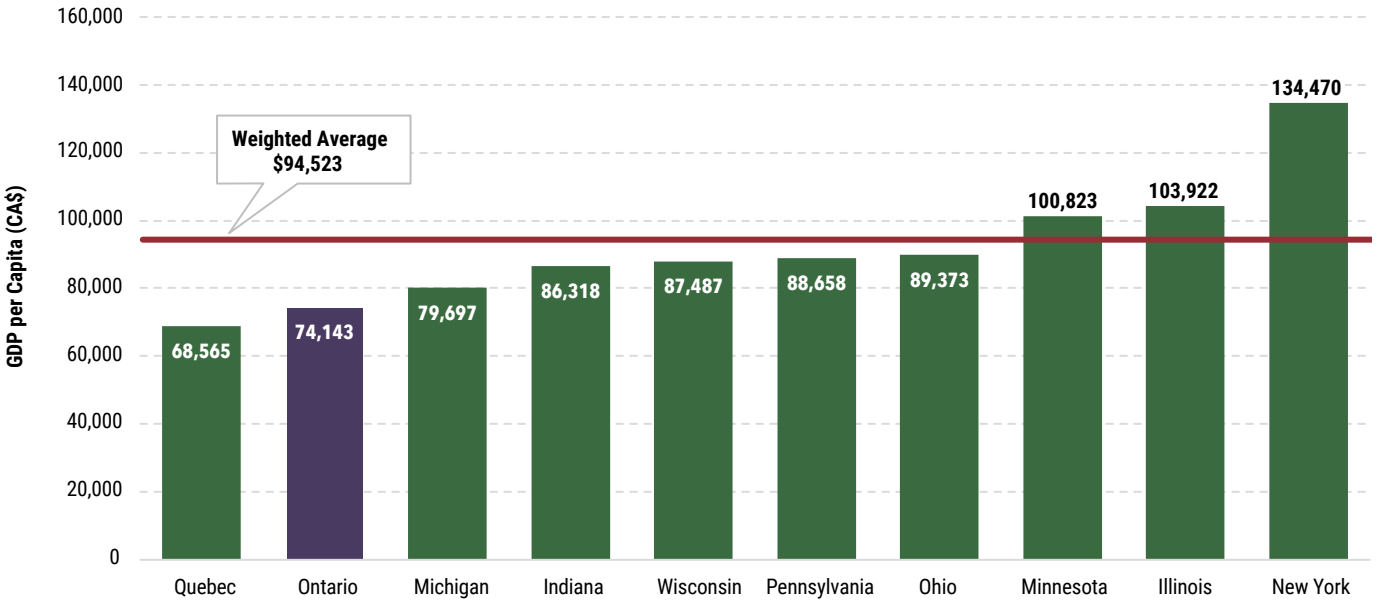
Theoretically, in the long run, PPP and market foreign exchange rates should eventually converge to yield the same result. In reality, there are obstacles to trade across borders and other factors that prevent perfect convergence and, in fact, leave significant gaps between the two measures. We use purchasing power parity in this bulletin for a number of reasons, an important one being that it tends to be more stable over time. Partly for this reason there is a general preference amongst economists for the PPP measure for comparing living standards (OICP, 2002: 18). However, the results of the analysis in this bulletin are generally robust to whichever currency adjustment method is used, particularly the finding that there is a prosperity gap with GDP per capita in the region being higher than Ontario's.

Results: Ontario's large prosperity gap is growing

Our comparison of states and provinces in the Great Lakes region shows that Ontario has the second lowest GDP per capita of the 10 jurisdictions. All eight American states have a higher GDP per capita than Ontario, which is higher only than Quebec on this metric. Figure 1 presents the results for 2024, in nominal terms, in Canadian dollars.

Figure 1 shows that Ontario's GDP per capita in 2024 was CA$74,143, ahead of only Quebec. The jurisdiction with the next lowest GDP per capita is Michigan, at CA$79,697.

Figure 1: GDP per Capita for Selected States and Provinces, 2024 (in CA$)



Note: US data are converted to Canadian dollars using the PPP conversion rate.
Sources: OECD Data Explorer, 2025; Statistics Canada, 2025a, 2025b; US Bureau of Economic Analysis, 2025; calculations by authors.

This means that the US state with the least advantage over Ontario still had a per-capita GDP that was 7.5 percent higher than Ontario's.

A comparison of Ontario to the regional average is also illustrative. The population-weighted average of GDP per capita of all of the jurisdictions in the region taken as a whole is CA$94,523. This means that, in nominal terms, the average per-capita GDP in the Great Lakes region is higher than Ontario's by CA$20,381, or 27.5 percent.

Finally, consider the regional leader, New York State. Its per-capita GDP is CA$134,470—81.4 percent higher than Ontario's.

While the above nominal figures are useful for presenting GDP per capita in terms of current prices, real (inflation-adjusted) GDP per capita provides the clearest illustration of Ontario's widening prosperity gap to its Great Lakes region peers. Figure 2 illustrates GDP per capita in 2017 Canadian dollars from 2001 to 2024.[2]

In 2001, a prosperity gap did exist between Ontario and the regional Great Lakes average, but it was smaller than it is today. Specifically, the regional average per-capita GDP was 23.7 percent higher than Ontario's in 2001. In 2024, the regional average was 34.5 percent higher than Ontario's. This represents a 10.8 percentage point increase in Ontario's prosperity gap over 23 years.

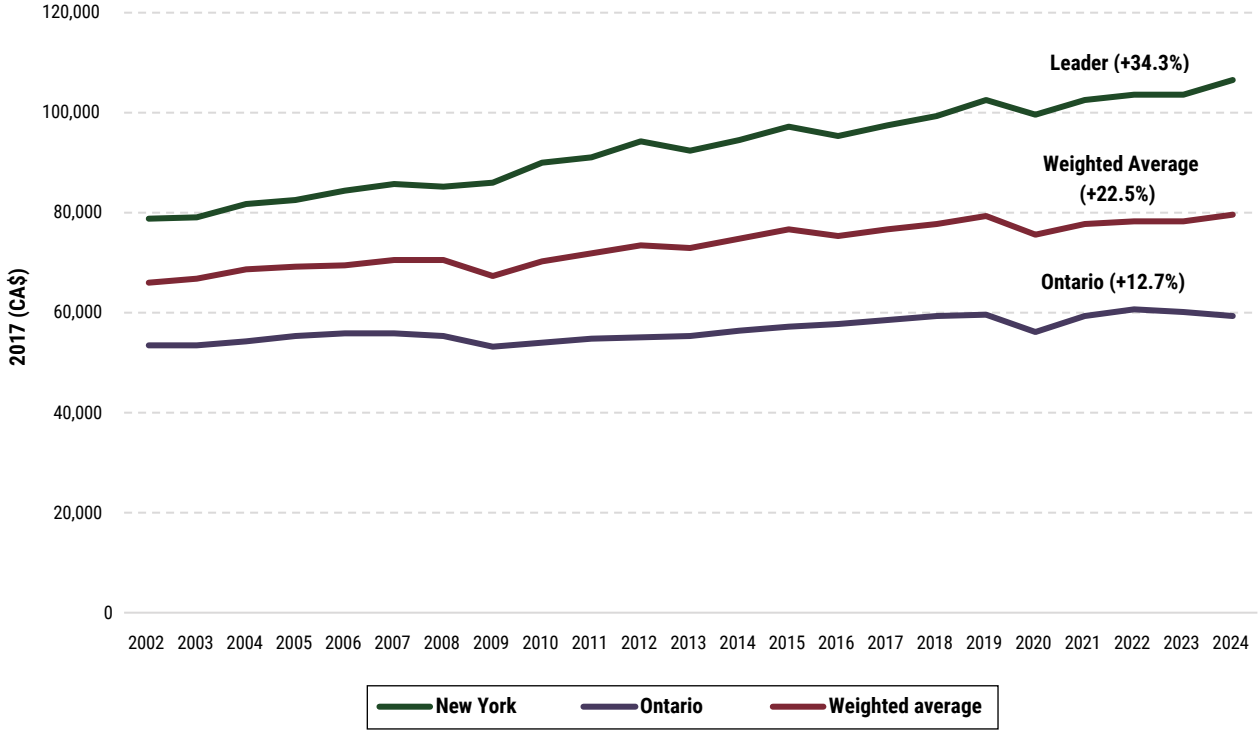
Of course the widening prosperity gap means that per-capita GDP has grown faster in the rest of the region as a whole than in Ontario. As figure 2 shows, inflation-adjusted GDP per capita in the Great Lakes region grew by 22.5 percent during this period, compared to just 12.7 percent in Ontario.

Figure 3 further illustrates Ontario's poor growth performance since 2001. It shows the annual average growth of inflation-adjusted per-capita GDP between 2001 and 2024.

Figure 3 shows that real per-capita GDP in Ontario increased on average 0.54 percent annually over the period. The past two decades have not been a time of dynamic growth for the

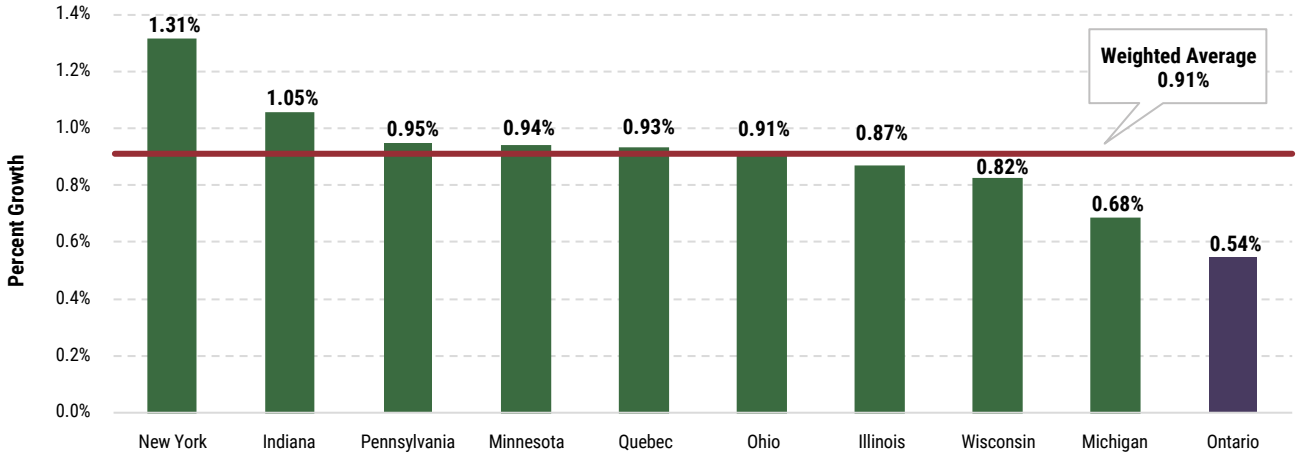
2 Statistics Canada and the US Bureau of Economic Analysis present real GDP in 2017 dollars. US data were converted to Canadian dollars using the PPP conversion rate (OECD Data Explorer, 2025).

Figure 2: GDP per Capita, 2001–2024 (in 2017 CA$)



Note: Real GDP in Canada and the US is presented in 2017 Canadian dollars. US data is converted to Canadian dollars using the PPP conversion rate.
Sources: OECD Data Explorer, 2025; Statistics Canada, 2025a, 2025b; US Bureau of Economic Analysis, 2025; calculations by authors.

Figure 3: Average Annual Real GDP per Capita Growth, 2001 to 2024



Sources: OECD Data Explorer, 2025; Statistics Canada, 2025a, 2025b; US Bureau of Economic Analysis, 2025; calculations by authors.

entire region, but the regional average real per-capita GDP growth rate was still meaningfully higher than Ontario's at 0.91 percent. The diverging growth rates and their compounding effect led to the widening per-capita GDP gap illustrated in figure 2.

Figure 3 shows that Ontario actually registered the lowest annual average growth rate in the region over this time period. The second lowest average annual rate of growth was in Michigan, at 0.7 percent. Like Ontario, Michigan's manufacturing sector, particularly its automobile industry, contracted significantly in the mid-2000s. The state entered a lengthy period of stagnation and decline that was worsened by the 2008/09 recession. However, in the 2010s, Michigan's economy finally began to recover (Murphy, Emes, and Eisen, 2016).

To be clear, Ontario's poor growth performance has not been limited to specific years in the period from 2001 to 2024. From 2001 to 2008 (the financial crisis), Ontario's annual average growth rate was 0.7 percent, lower than every jurisdiction in the Great Lakes region apart from Michigan. From 2008 to 2024, Ontario's annual average growth rate (0.5 percent) was the lowest in the region. Most recently, between 2019 and 2024, Ontario's real GDP per capita actually declined by 0.1 percent on average each year, with only Wisconsin and Pennsylvania experiencing larger rates of decline. In short, Ontario has consistently had poor growth performance for more than 20 years.

It is important to note that Ontario's economic performance has varied substantially from one region to another within the province. In particular, several population centres in manufacturing-heavy Southwestern Ontario experienced an extended period of economic stagnation after the turn of the century. By contrast, Ottawa and the Greater Toronto Area saw stronger economic growth over this period, albeit still below the national average (Eisen, Li, and Lafleur, 2023).

Conclusion

By global standards, Ontario is prosperous. The province's residents have living standards, access to opportunity, and economic freedoms that are the envy of the vast majority of the world. Nevertheless, it would be misguided for the province to be complacent about its economic performance.

This bulletin has shown that overall, Ontario's per-person economic production lags far behind the average of its regional peers. It is just as worrying that this gap has grown by 10.8 percentage points since 2001. Ontario's lower overall level of economic production and its weak growth have translated into less job creation, slower wage growth, and more pressure on public finances than would be the case in the presence of more robust growth.

Within North America's prosperous Great Lakes region, Ontario is clearly an economic laggard. This bulletin has sought to measure the extent of the prosperity gap between Ontario and its neighbours in an effort to help Ontarians generally, and policymakers specifically, recognize the scale and enduring nature of this challenge—along with the fact that the gap has grown over the past 20-plus years.

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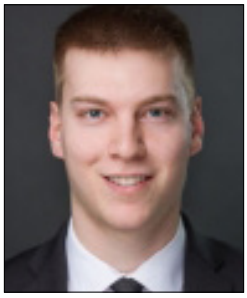

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