

# TRUMP'S TARIFFS PORTEND A NO-WINNER TRADE WAR

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**Presented to the Ontario Small Urban  
Municipalities Conference**

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# No one wins a trade war

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## Today's roadmap:



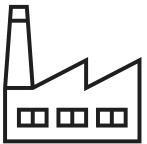
Our baseline view on tariffs



Global trade war scenarios



How will Trump's tariffs impact Canada, its key sectors, provinces & cities?



What's the impact of US tariffs on steel, aluminum & autos?



What's next in the trade war for Canada?

## Our baseline view on tariffs

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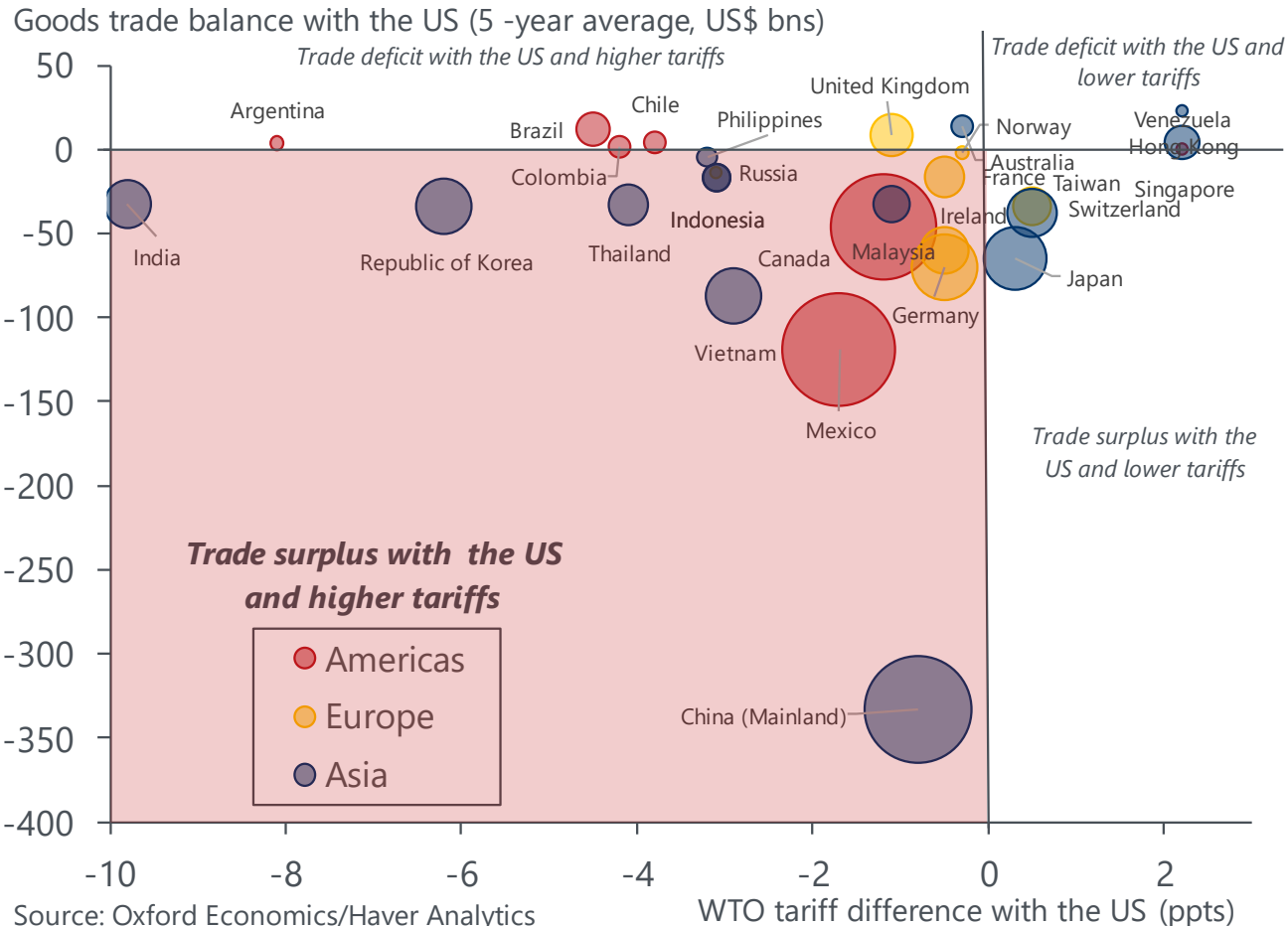
# Trump executive actions declared a “national emergency” under IEEPA to impose tariffs and bypass Congressional approval

## International Emergency Economic Powers Act (IEEPA)

- Existing legislation, active since the 1970s
  - Empowers the President to declare a national emergency and take steps in response, in many cases used for sanctions.
  - There is no specific definition of “national emergency”
  - It has not been used previously to impose tariffs
  - It allows immediate action, e.g. tariffs could be implemented without an investigation
  - Prior Presidents have invoked IEEPA in 69 declarations of emergency; most are still active; average length is nine+ years
  - However, requires significant Congressional oversight and reporting
  - Congress can terminate the emergency against the President’s will, but only with 2/3 majority; this has never happened before
  - Trump threatened to use it against Mexico in 2019, but did not
- The US president has other options to impose tariffs without Congressional approval, but most require months for a Department of Commerce investigation.
  - **Section 232:** President finds a threat to national security; Department of Commerce must conduct an investigation
  - **Section 201:** USITC does an investigation and must submit a finding
  - **Section 301:** USTR investigates unfair foreign practices; can cover a wide range of products
  - **Section 338 (of Tariff Act):** President can impose new tariffs up to 50% on countries that have discriminated against US products; can also be applied to third countries that benefit from the conduct. Can be done quickly.
  - **Section 122 (Trade Act, 1974):** President has right to address large and serious balance of payments deficits via temporary import surcharges of up to 15% and import quotas. Can be done quickly, but only for a maximum of 150 days.

# Geography of the US trade deficit

## US: Goods trade balance and tariff differences

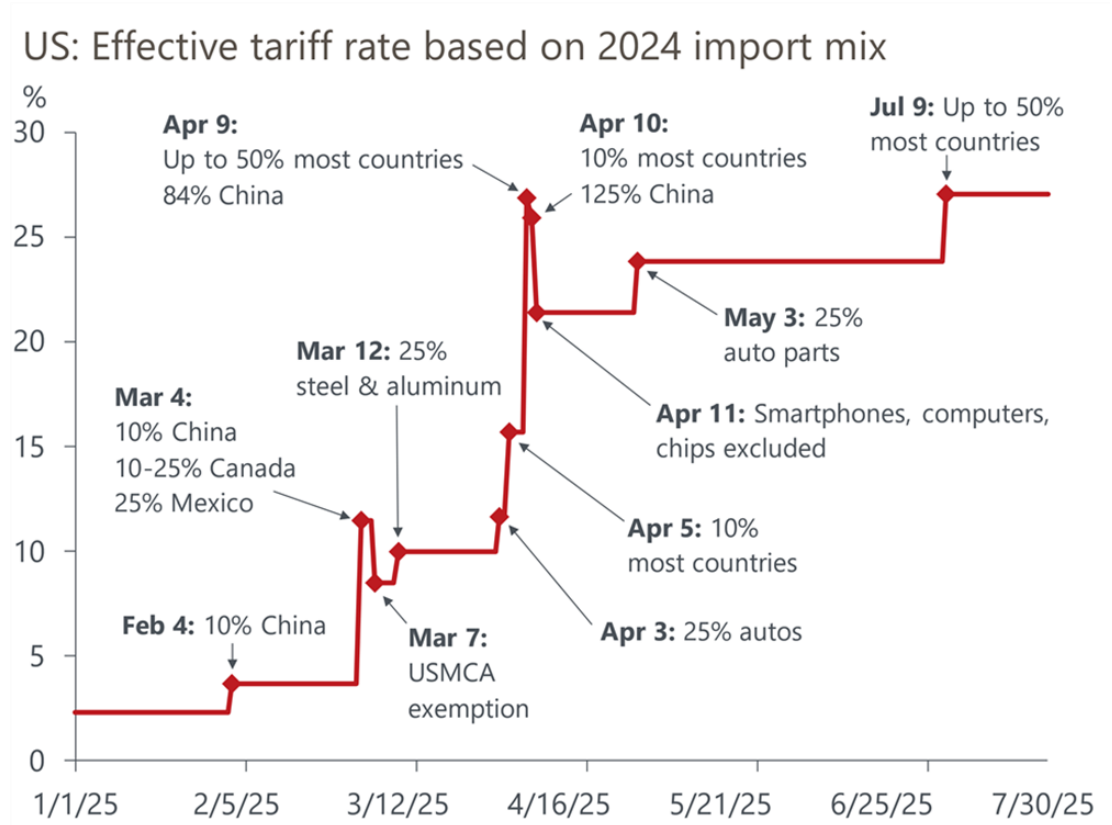


## Key takeaways

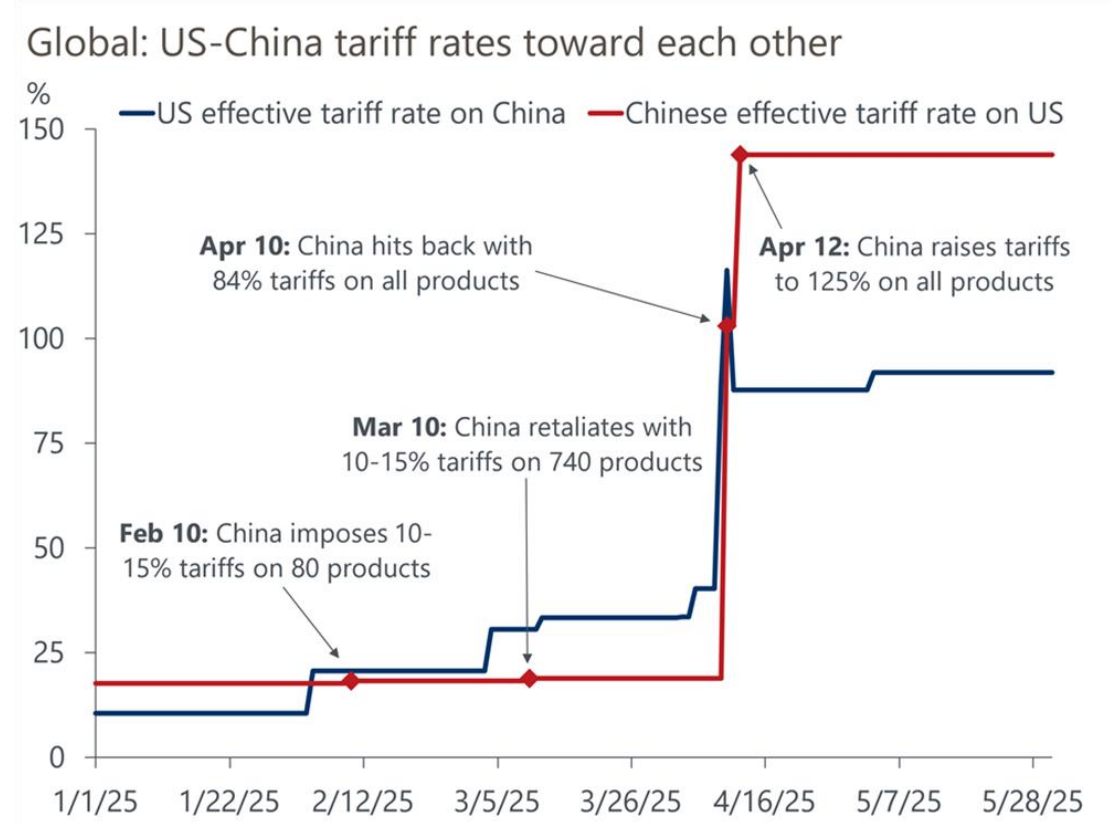
- China is Trump's top priority for new tariffs with aims to cut the US trade deficit and reshore jobs. The latter means the US will be less tolerant of trade diversion from China by moving production to markets outside the US. However, it's unclear how this can be enforced.
- Trump's team uses two key factors to assess which countries to target: the size of the US trade deficit and the tariff difference with countries.
- Tariffs threats are also being used to extract non-trade concessions, such as Mexico and Canada with illegal immigration and drugs trafficking.



# The tariff roller coaster ride continues



Source: Oxford Economics

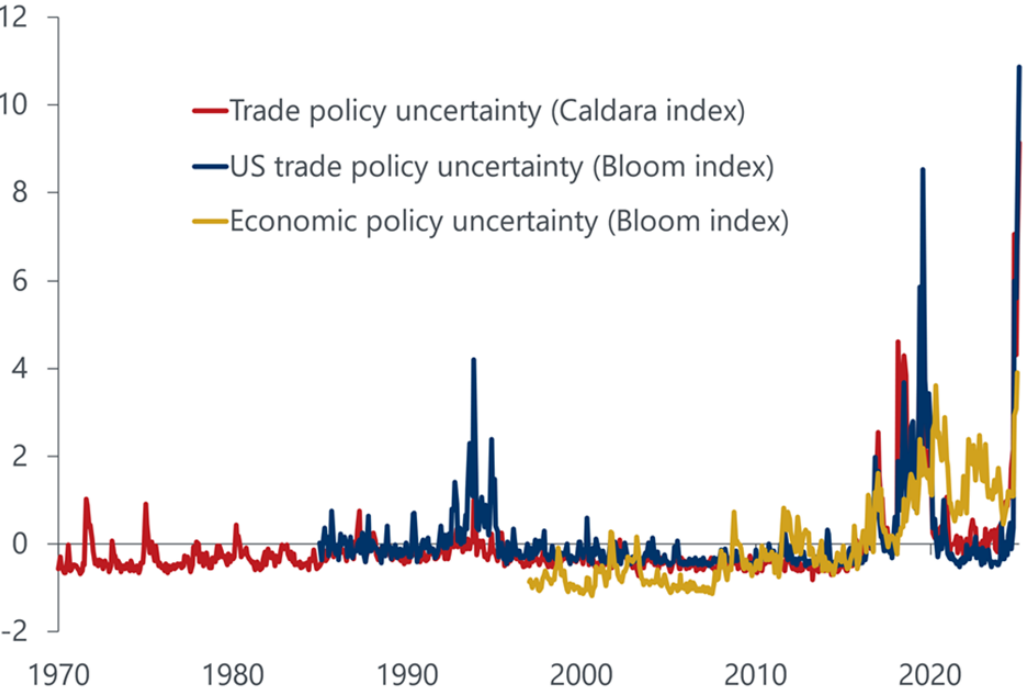


Source: Oxford Economics

# Record trade policy uncertainty is damaging the global economy

Global: Measures of trade and economic policy uncertainty

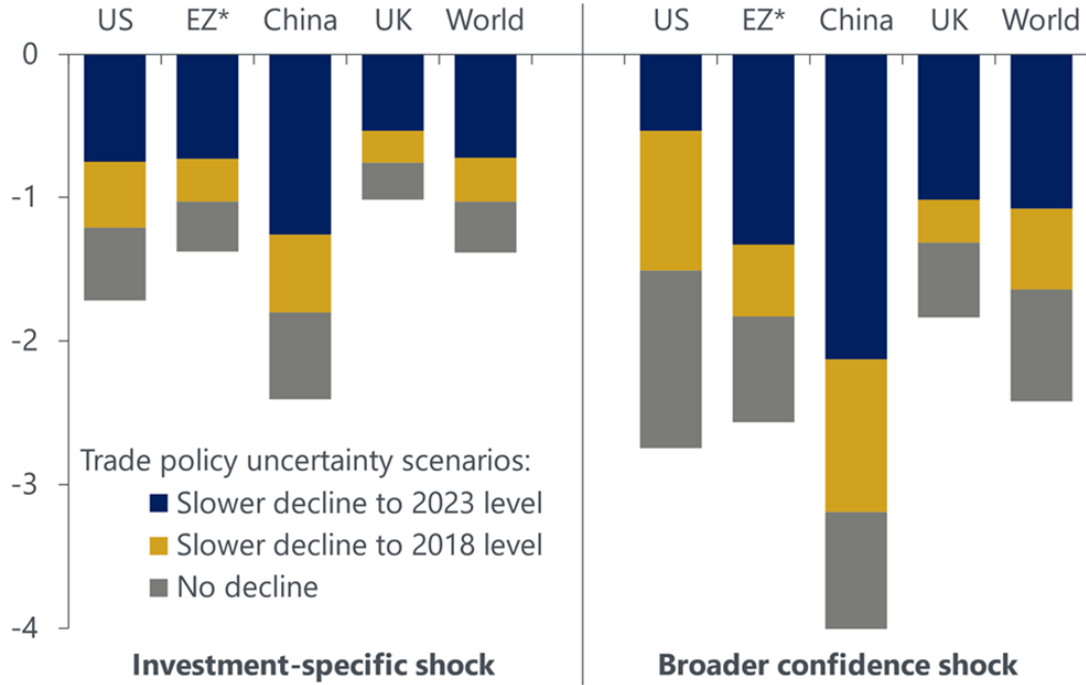
Standard deviations from 1997-2024 average



Source: Oxford Economics

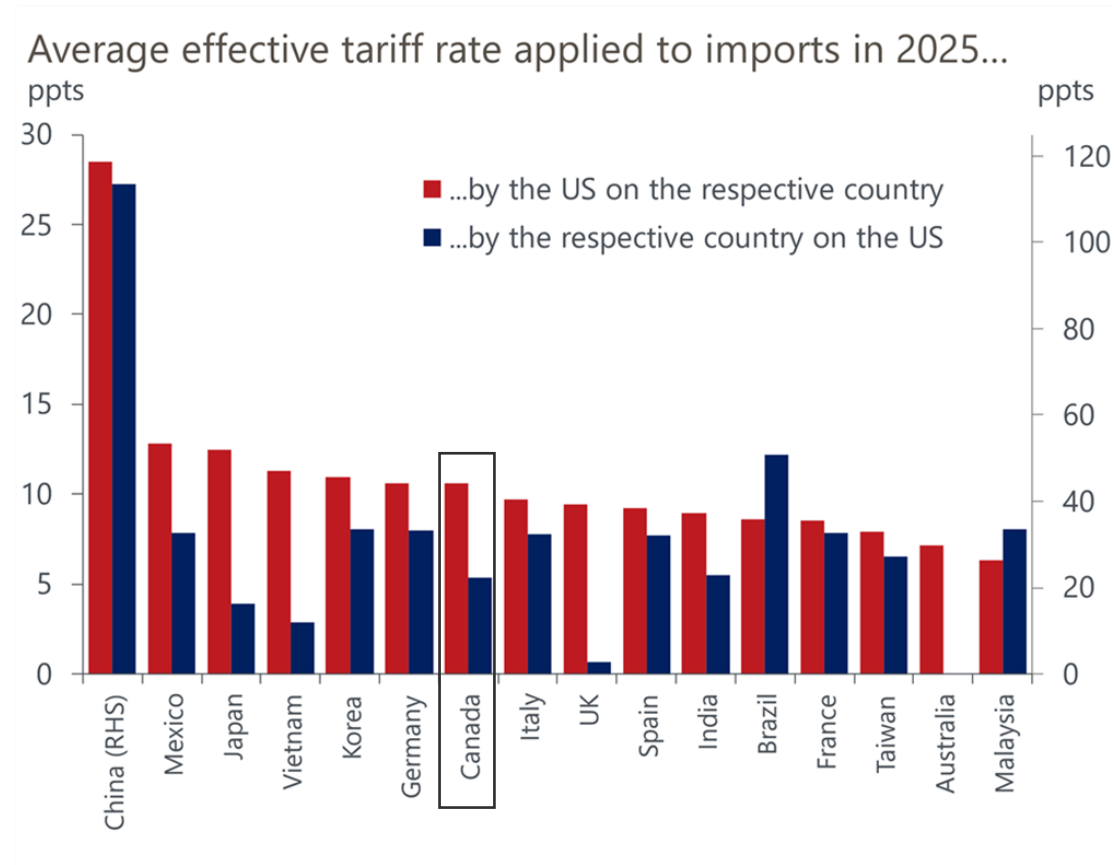
GDP impact of trade policy uncertainty

% difference from baseline forecast in 2028

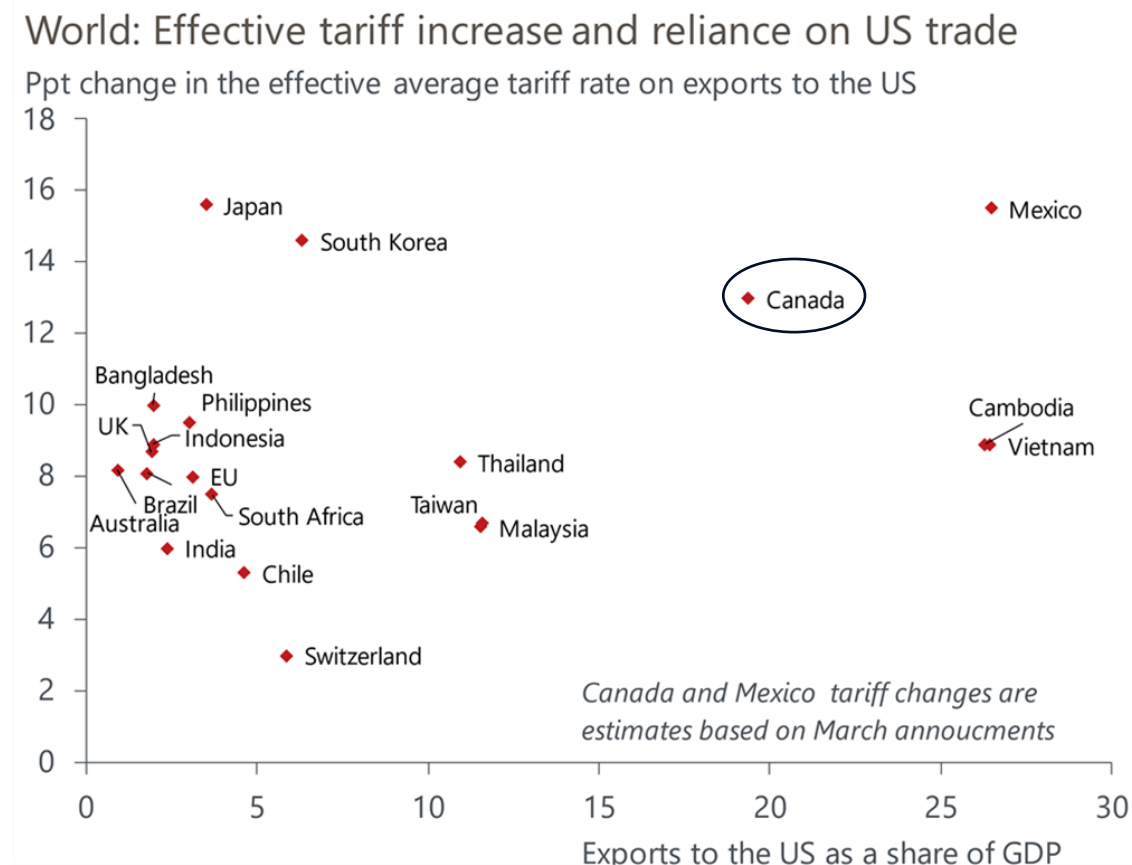


Source: Oxford Economics

# Our baseline forecast assumption on US tariffs & retaliation



Source: Oxford Economics

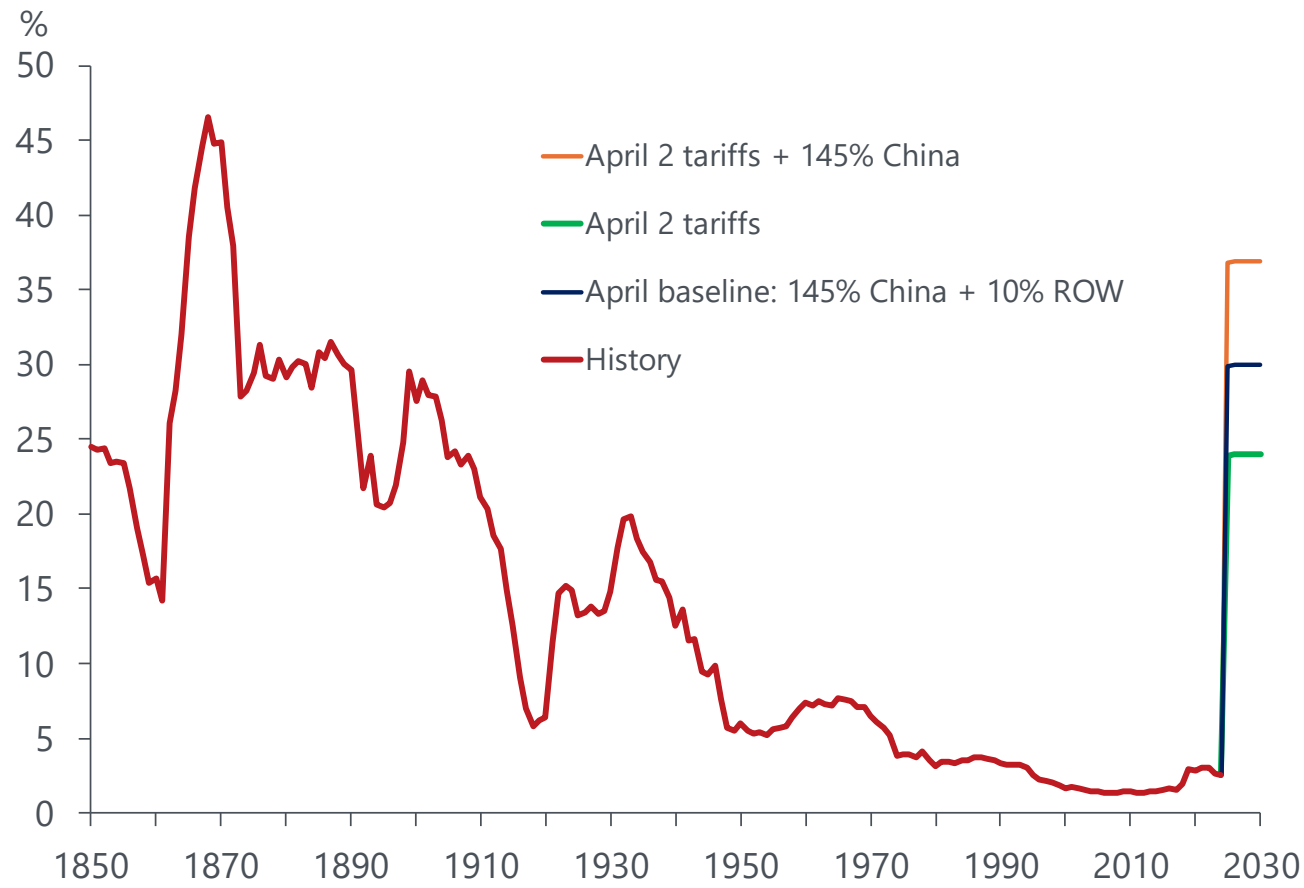


Source: Oxford Economics



# Our baseline view on US tariffs

US: Effective tariff rate



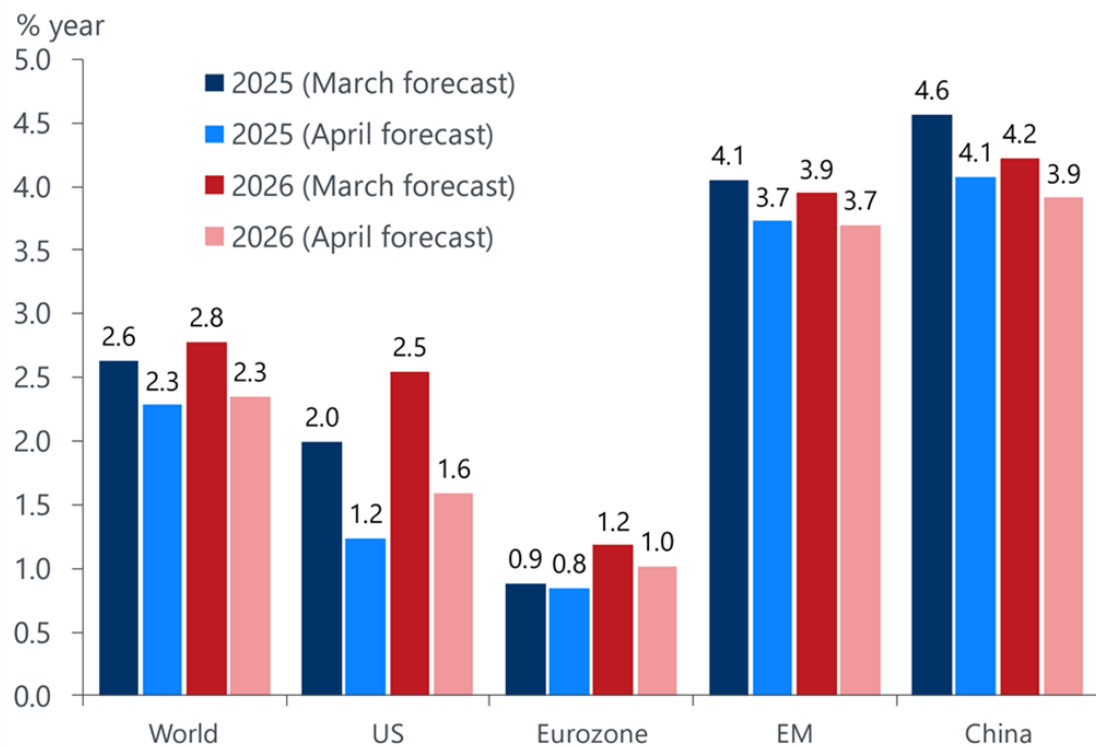
Source: Oxford Economics/Haver Analytics

## Key takeaways

- Our April baseline incorporates the US unveiling of reciprocal tariffs on April 2 and some recent developments.
- The 10% baseline 'reciprocal' tariff on all countries outside of North America is permanent, along with the 145% tariff increase on China.
- The April 11 exemption for smartphones, computers, and chips was announced after the forecast was finalized and is not part of the baseline. We assume the 25% auto parts tariff will take effect on May 3.
- The overall effective US tariff rate is 28% over the next few quarters, before falling to 24% by Q3 2026 with renegotiation of the USMCA.

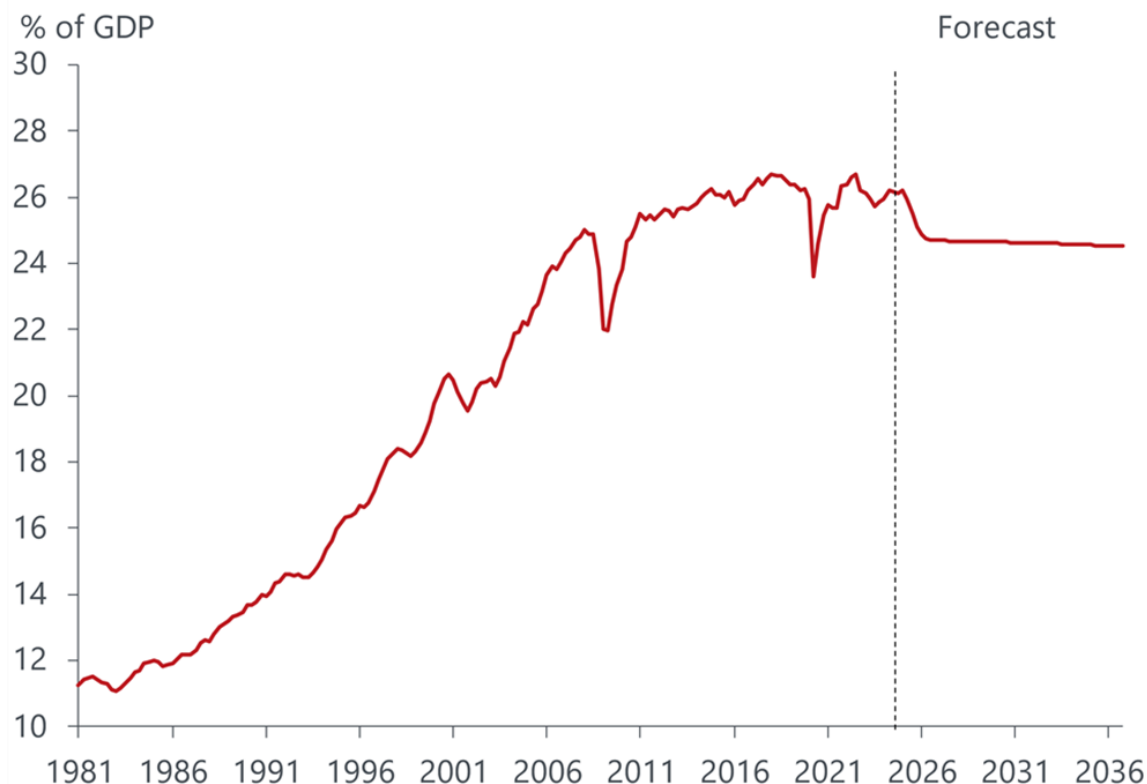
# GDP growth has been pushed lower and the trade outlook is bleak

World GDP revisions



Source: Oxford Economics

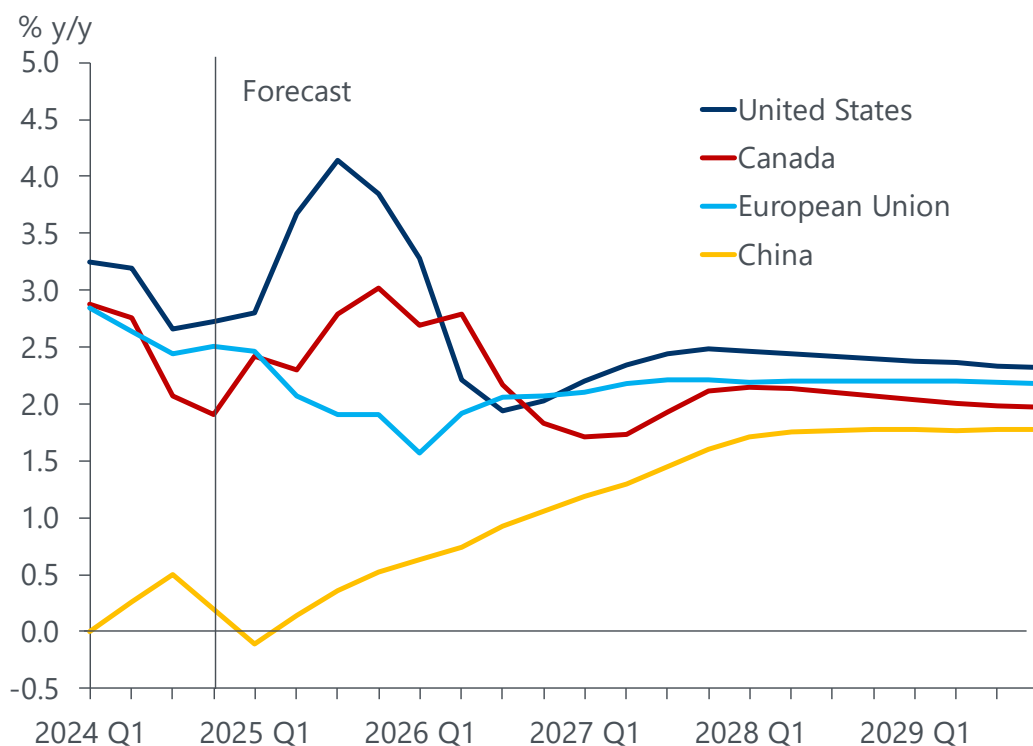
World trade volumes



Source: Oxford Economics/Haver Analytics

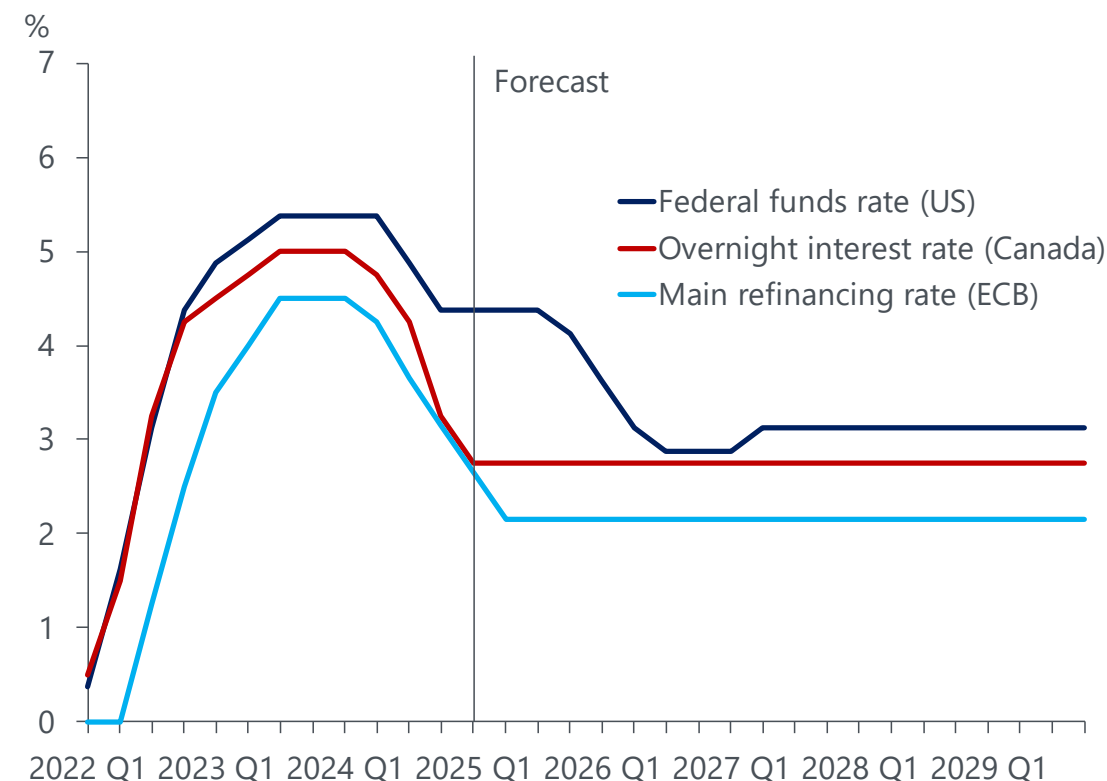
# Our baseline inflation and policy rate outlook

Global: CPI inflation



Source: Oxford Economics/Haver Analytics

Global: Central bank policy rates



Source: Oxford Economics/Haver Analytics

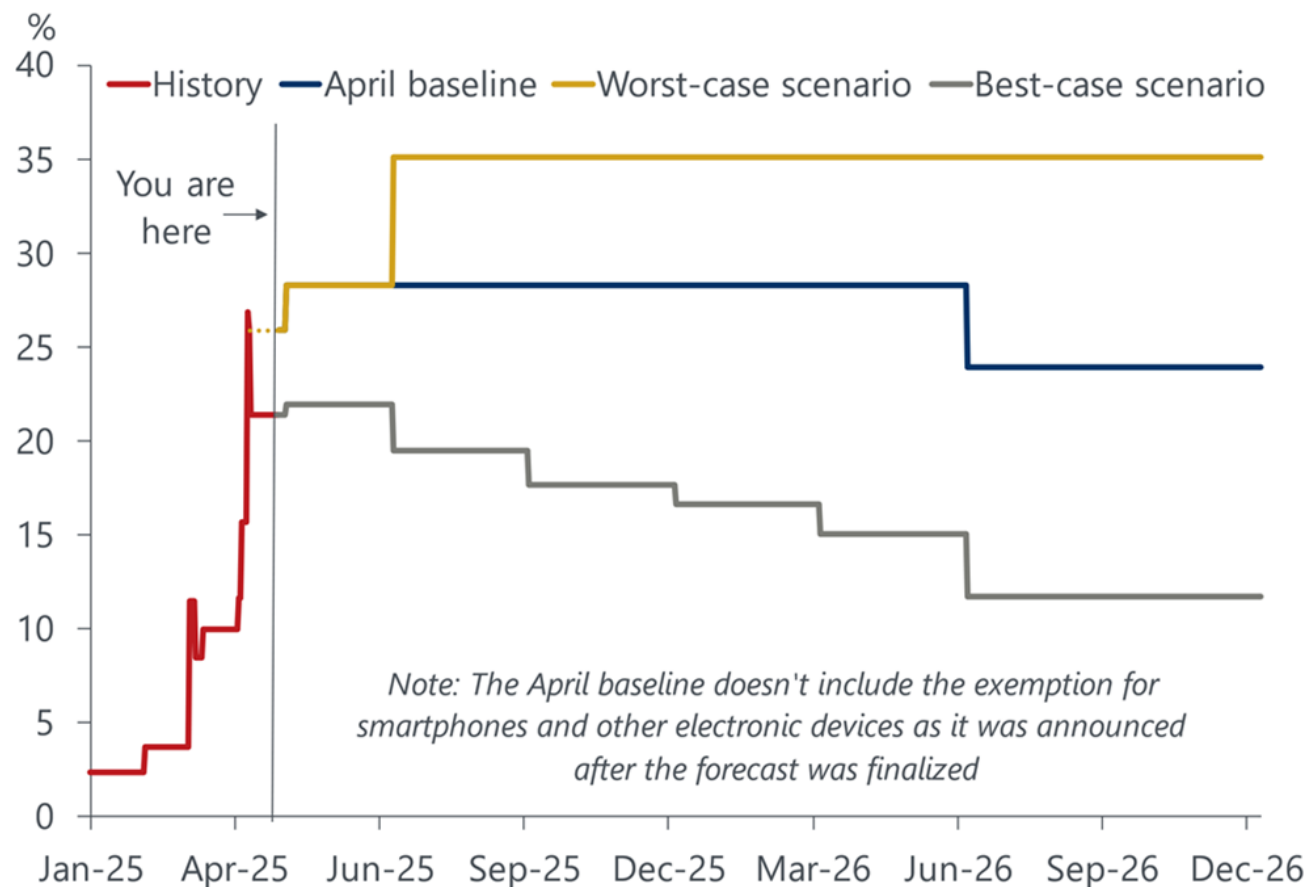
# Global trade war scenarios

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# Fork in the trade road augurs divergent tariff scenarios

US: Effective tariff rate based on 2024 import mix



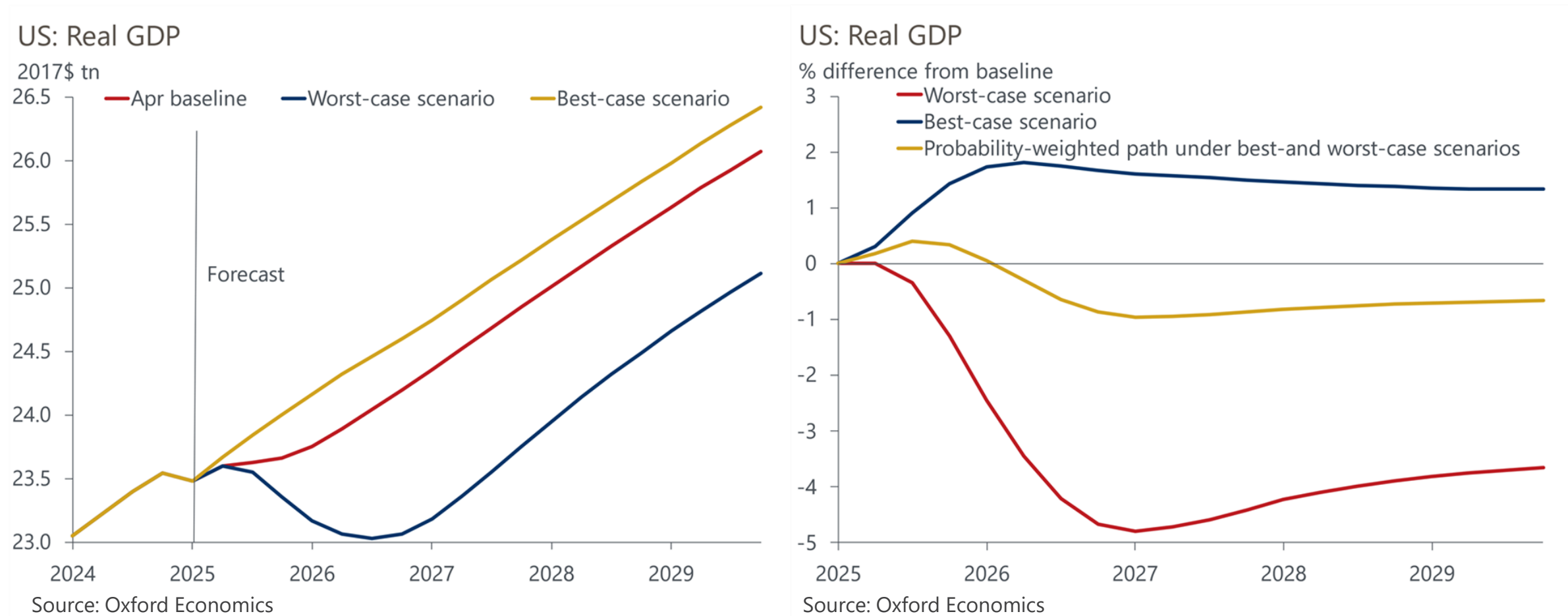
Source: Oxford Economics

## Key takeaways

- April baseline (50% odds)  
Assumes Rose Garden unveiling of reciprocal tariffs on April 2 and most developments since.
- Scenario 1 worst case (20% odds)  
Effective US tariff rate surges to 35% in Q3 2025. Little scope for trade deals and tariff de-escalation as US remains fixated on reducing bilateral trade deficits.
- Scenario 2 best case (30% odds)  
10% baseline reciprocal tariffs remain, but they are so defanged by exemptions that the removal of sector-specific tariffs, plus the USMCA renegotiation prompts North America, Europe, and Asia to lower their retaliatory tariffs that are assumed in the baseline.

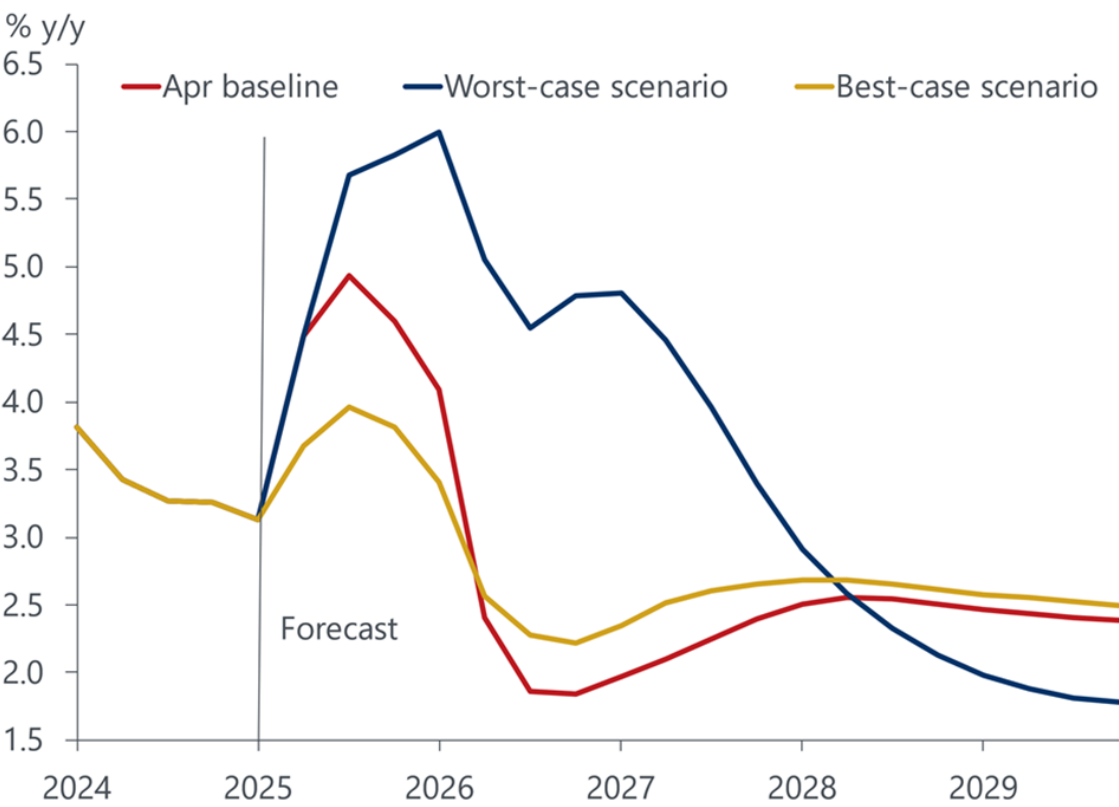


# Risks are tariffs hurt the US more than currently expected



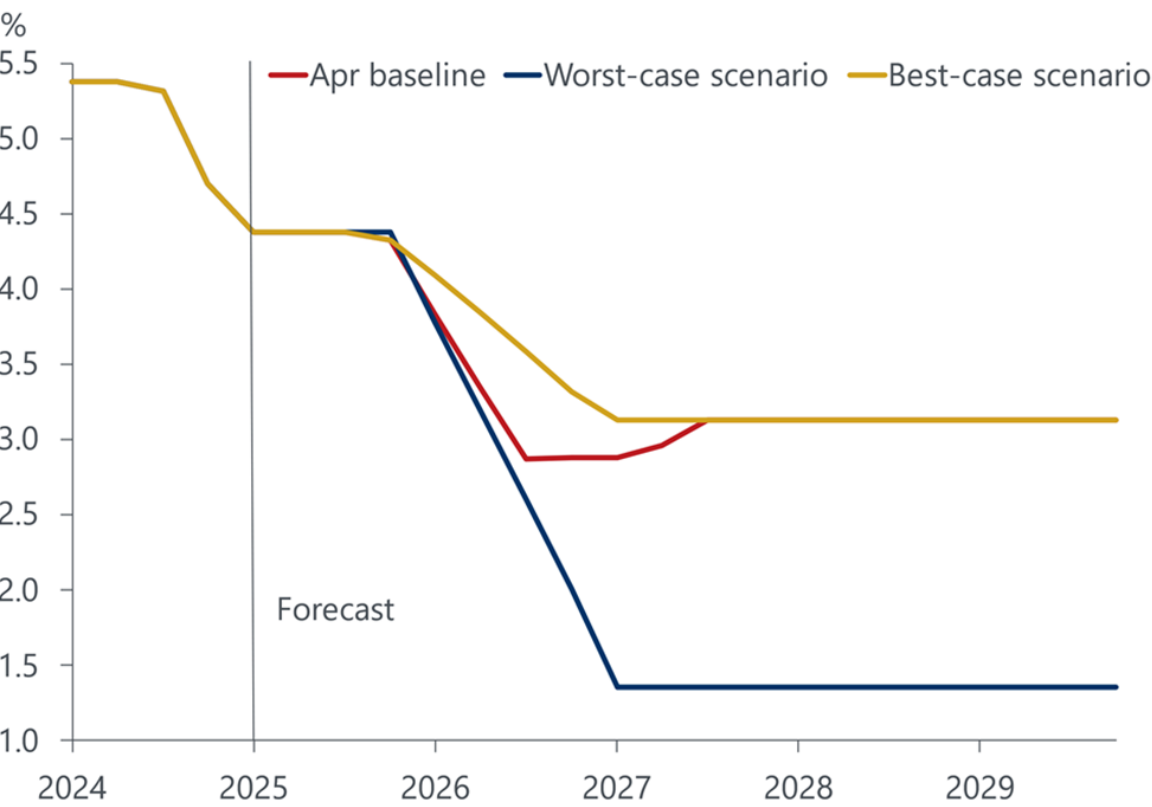
# Tariffs are a headache for the Fed

US: Core consumer price index



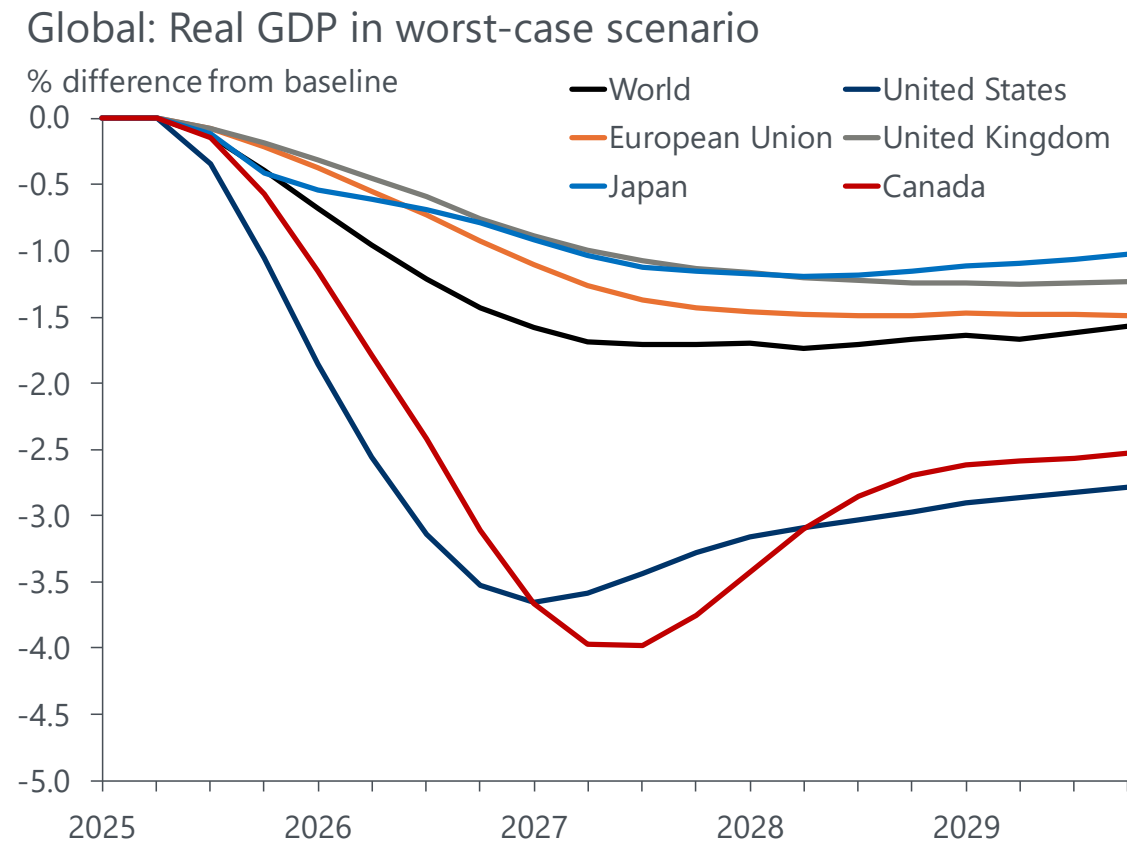
Source: Oxford Economics

US: Fed funds rate

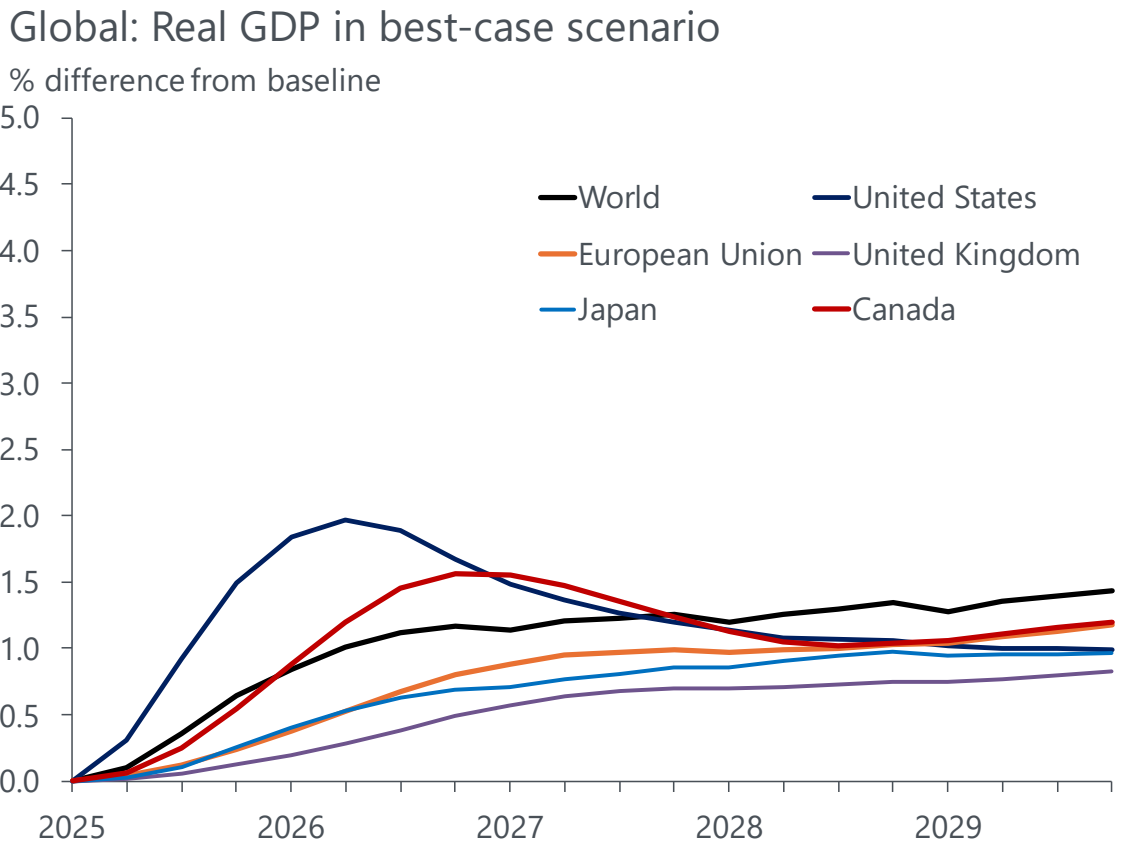


Source: Oxford Economics

# Everyone loses in a global trade war



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics

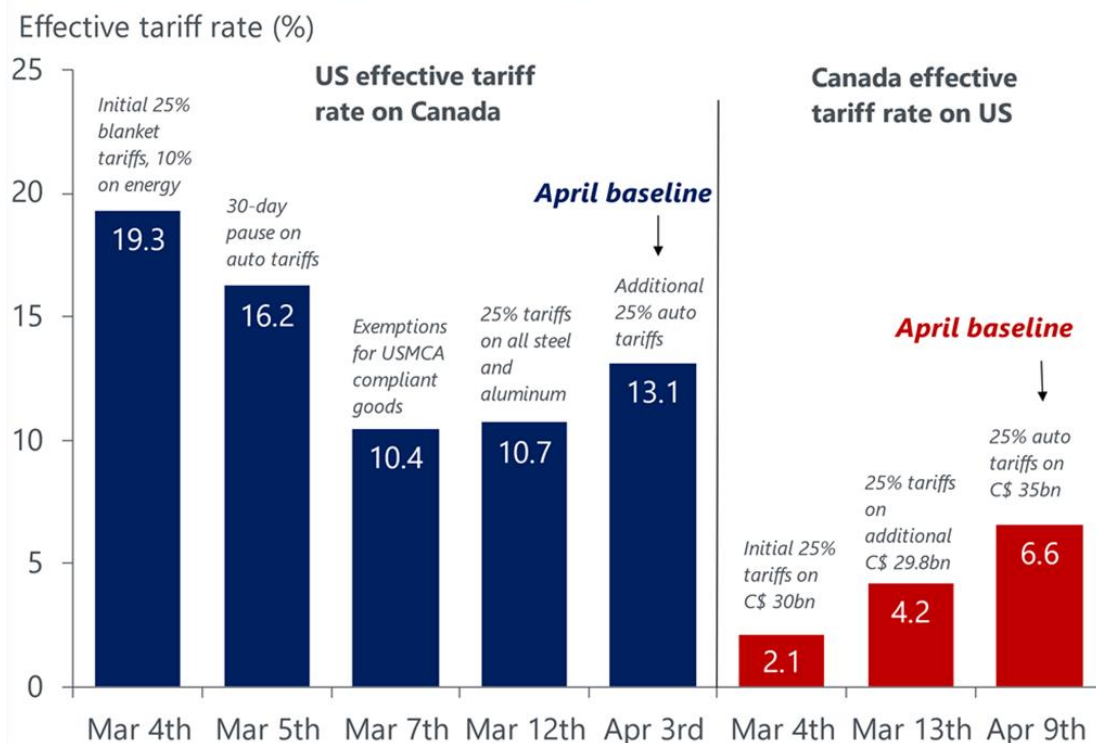


How would Trump's tariffs impact  
Canada?

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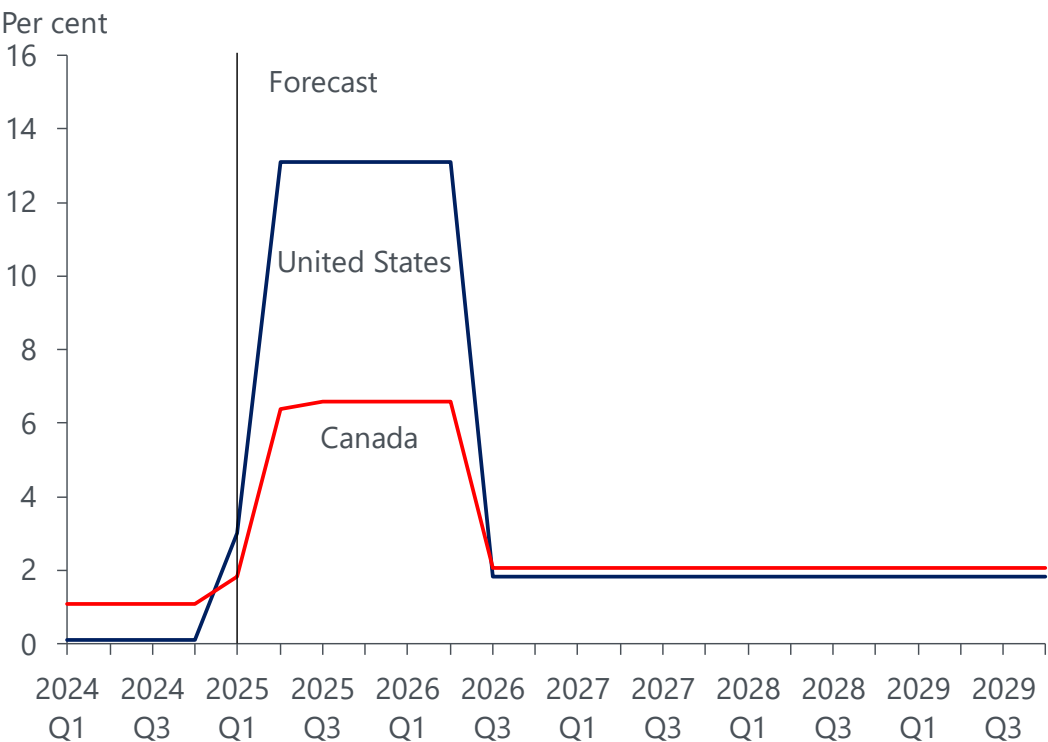
# US-Canada baseline tariffs assumed to last until USMCA renegotiation in mid-2026

Canada & US: Effective tariff rates\*



Source: Oxford Economics

Canada & US: Effective tariff rates

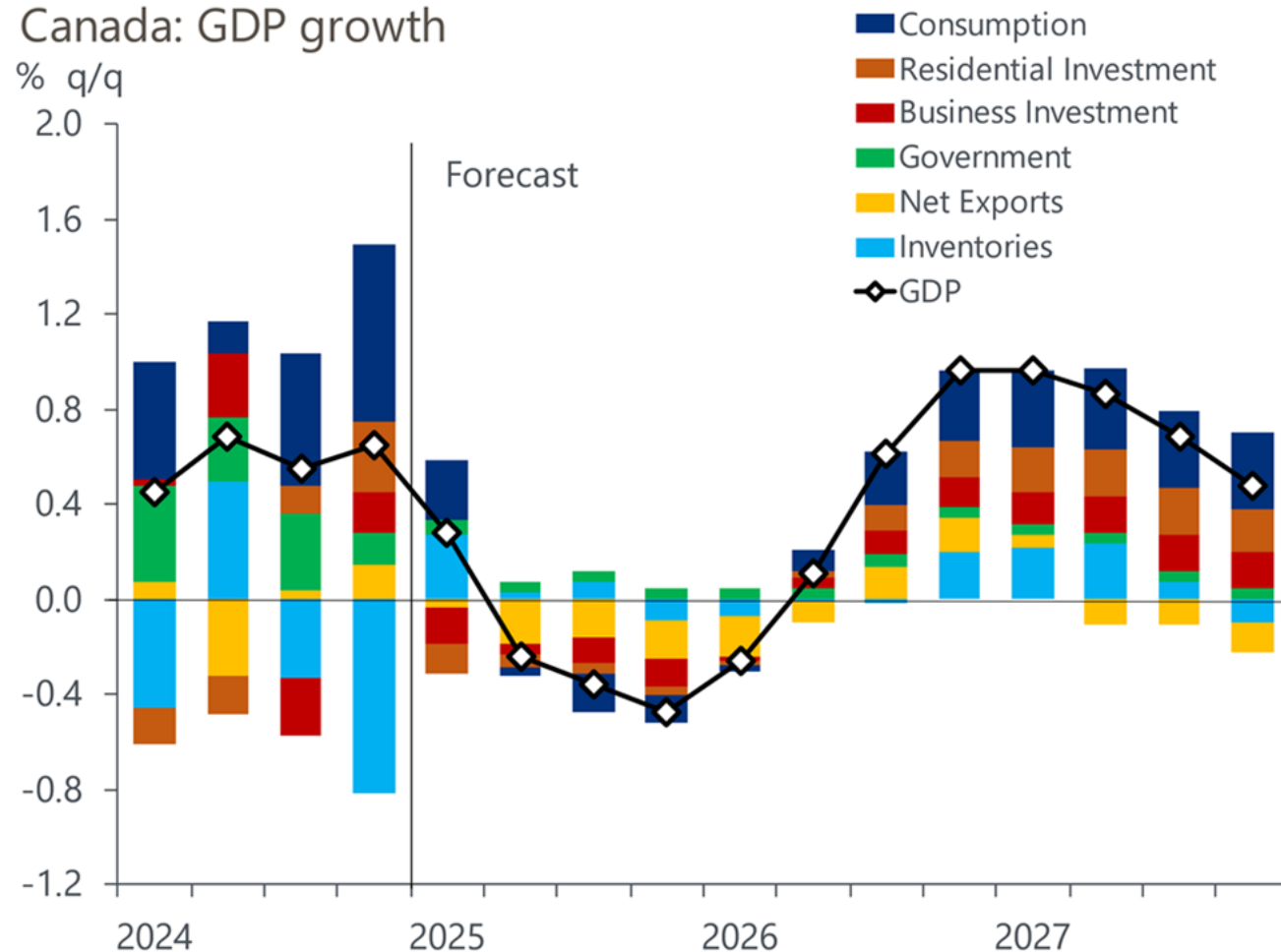


Source: Oxford Economics/Haver Analytics



# Trade war will plunge Canada into recession

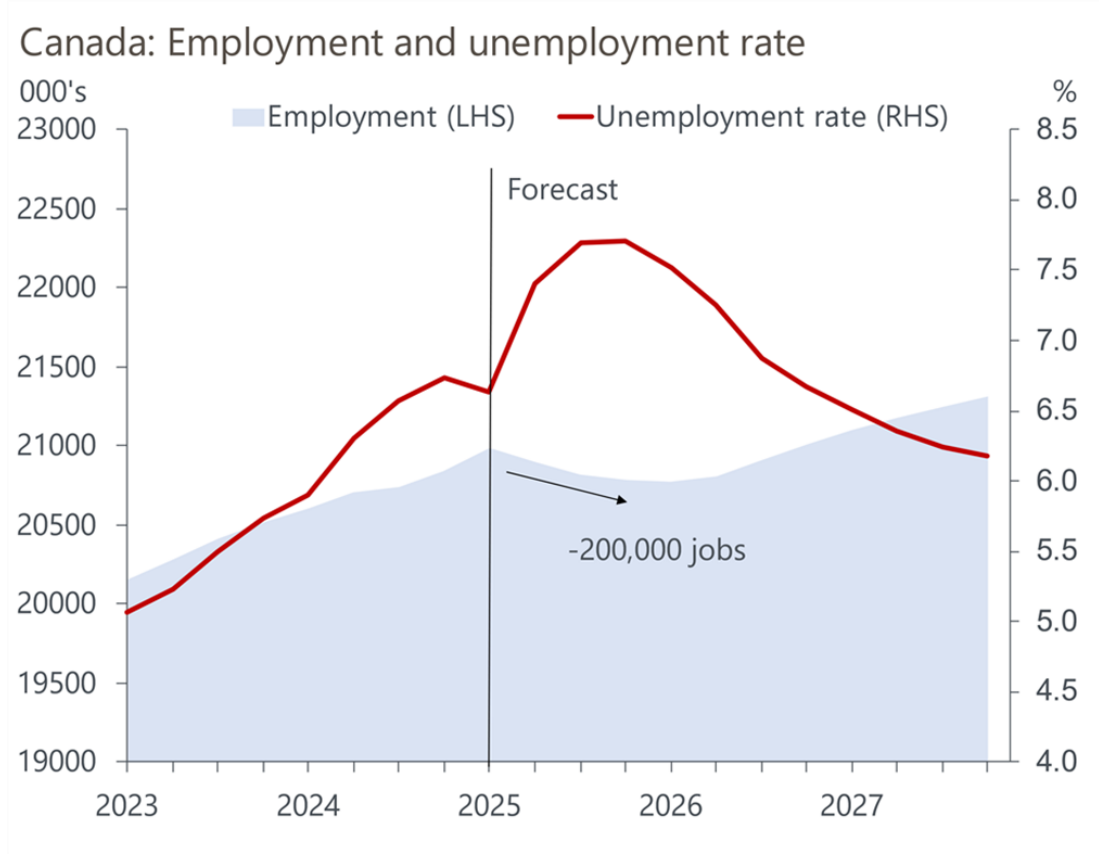
## Key takeaways



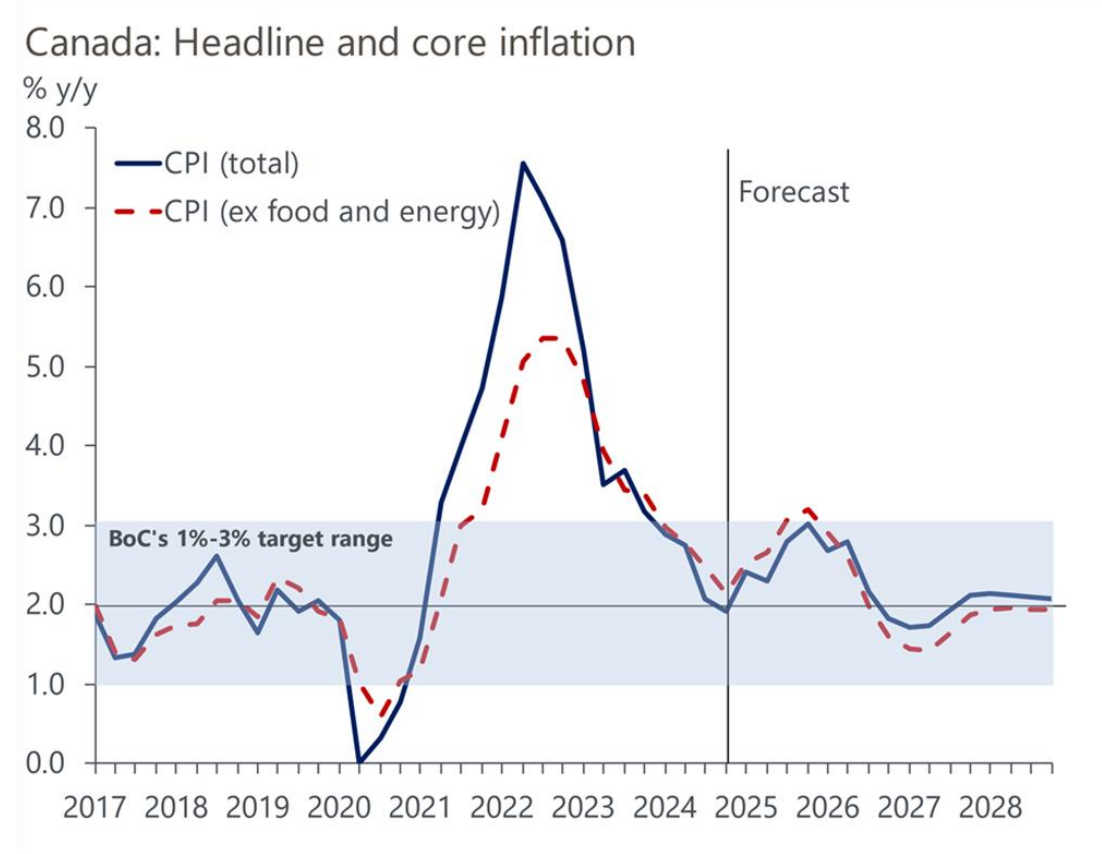
Source: Oxford Economics

- US-Canada tariffs and weaker global demand from the trade war will likely push Canada's economy into a recession that will spill over into early 2026.
- Exports and investment will see the largest direct hit. But layoffs, higher costs from tariffs and supply issues, and the equity sell-off will also hurt consumption and housing.
- The recession will aggravate imbalances in the economy, particularly highly indebted consumers, overvalued housing, weak private investment, and slow productivity growth.

# Loss of 200,000 jobs will lift Canada's unemployment rate close to 8% while tariffs raise inflation to 3% by year-end



Source: Oxford Economics

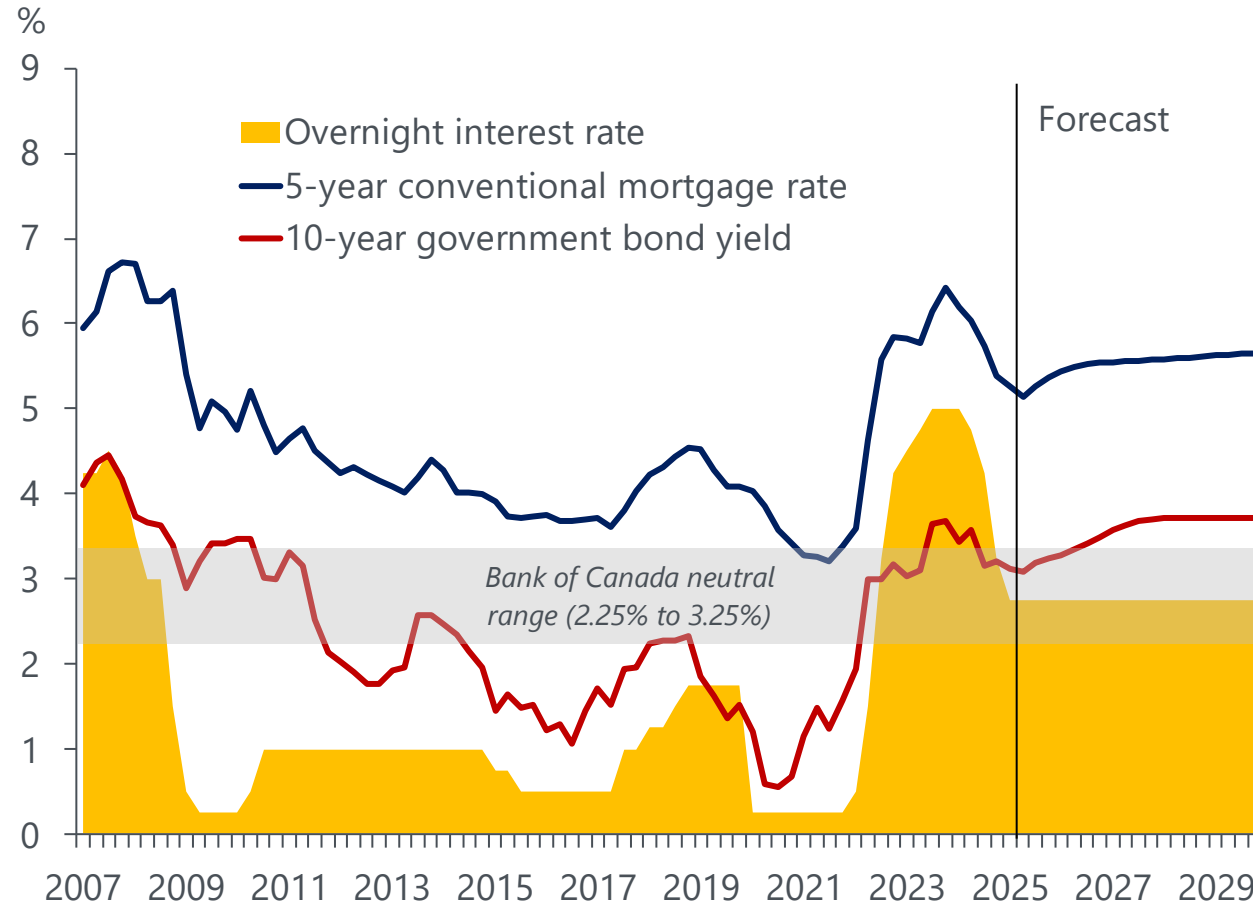


Source: Oxford Economics

# Bank of Canada will likely remain on hold

## Key takeaways

Canada: Overnight rate, mortgage rate & 10-year bond yield

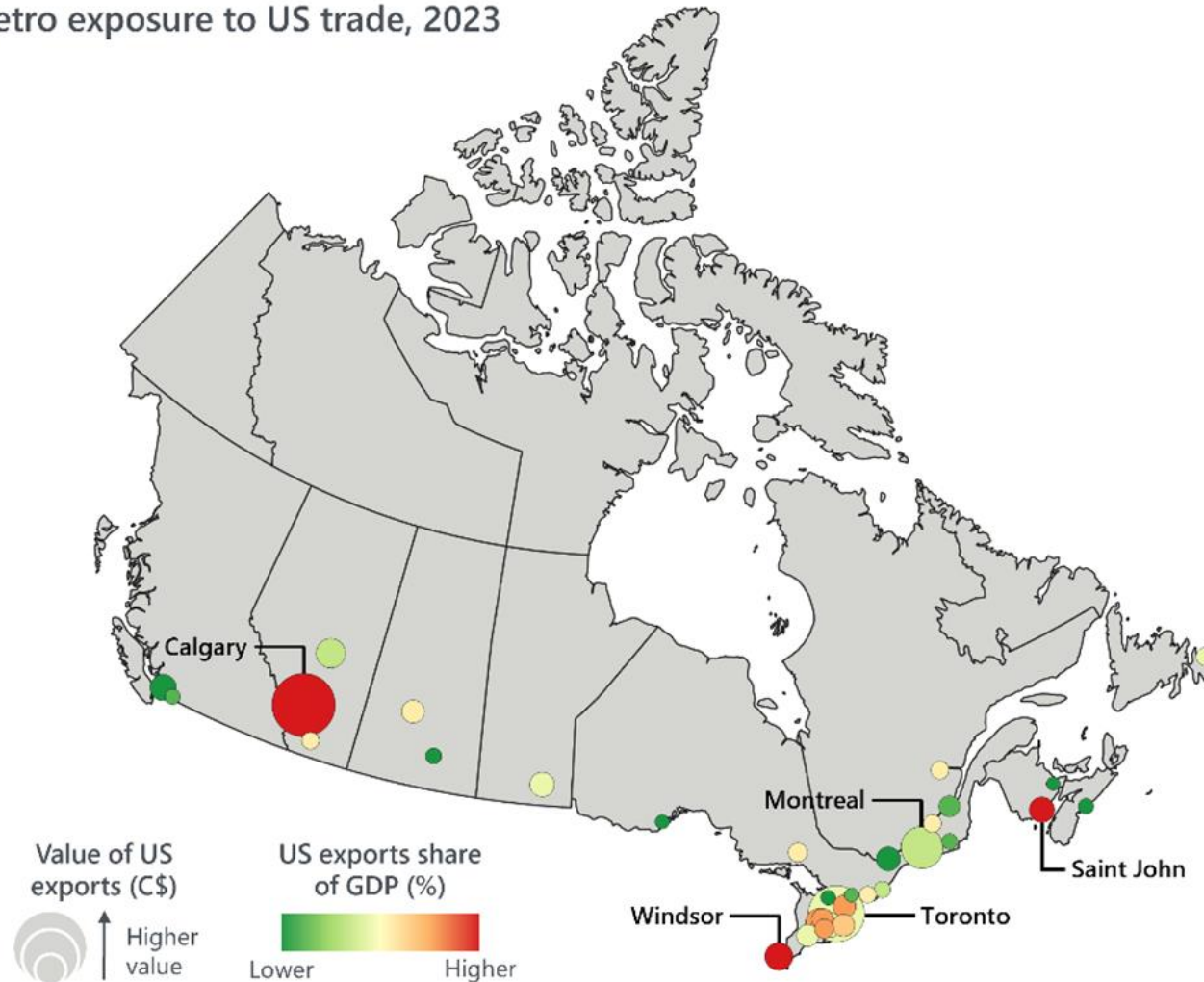


Source: Oxford Economics/Haver Analytics

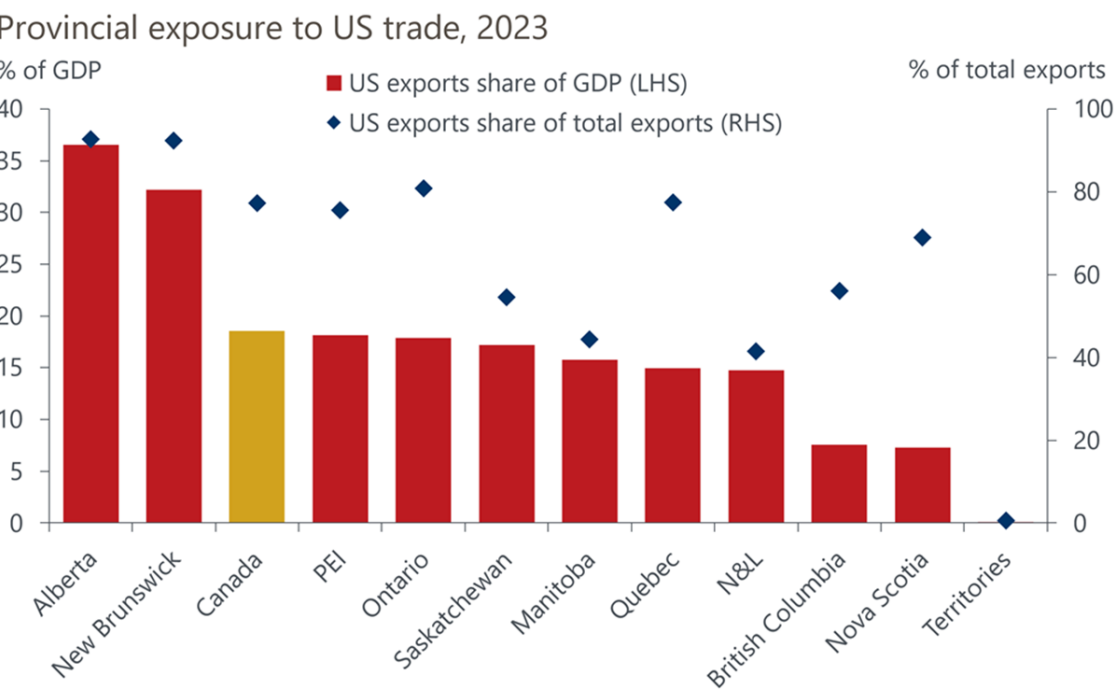
- The stagflationary tariff shock means the BoC needs to balance concerns over higher prices with a downturn in the economy.
- Uncertainty about tariffs and their economic impact led the BoC to keep the policy rate at 2.75% in April.
- The BoC will likely continue to hold, but we can't rule out a couple of 25bp rate cuts. Still, we don't believe it will reduce rates into stimulative territory unless it's convinced inflation is under control and additional stimulus is required.
- Higher inflation and rising risk premia will push up long bond yields.

# Which Canadian cities are most exposed to US tariffs?

Metro exposure to US trade, 2023



# Which Canadian provinces and cities are most exposed to US tariffs?



Source: Oxford Economics

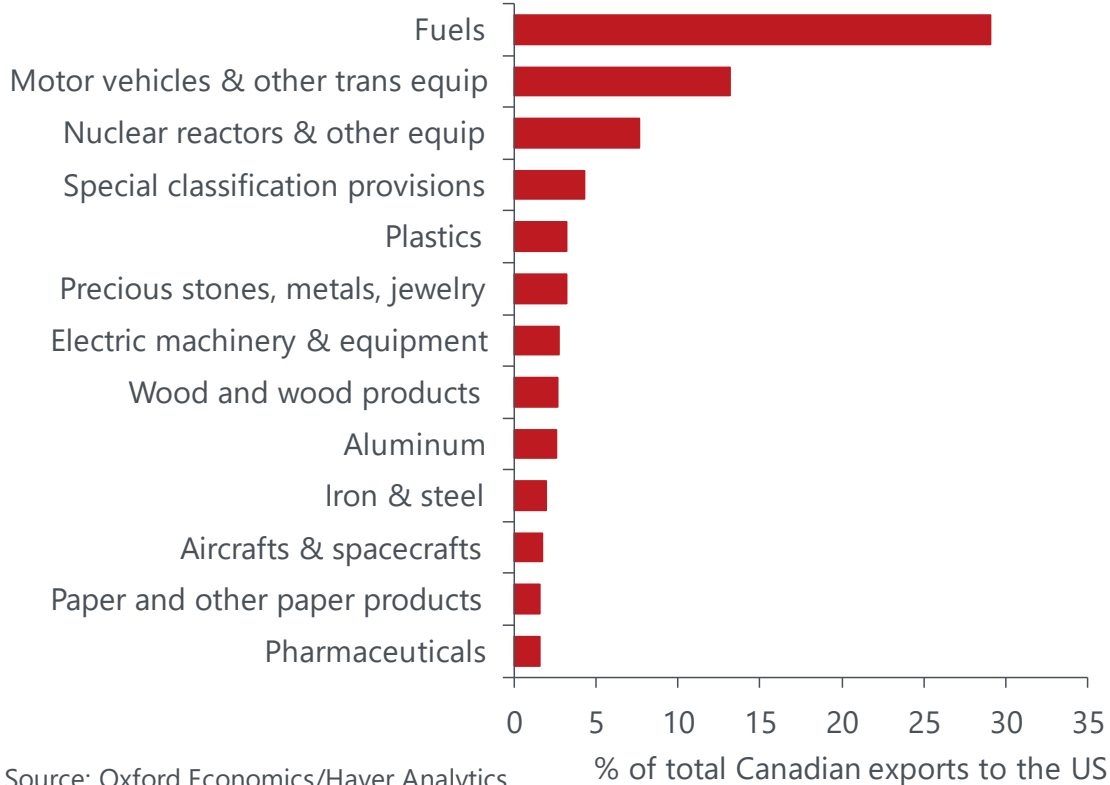


Source: Oxford Economics

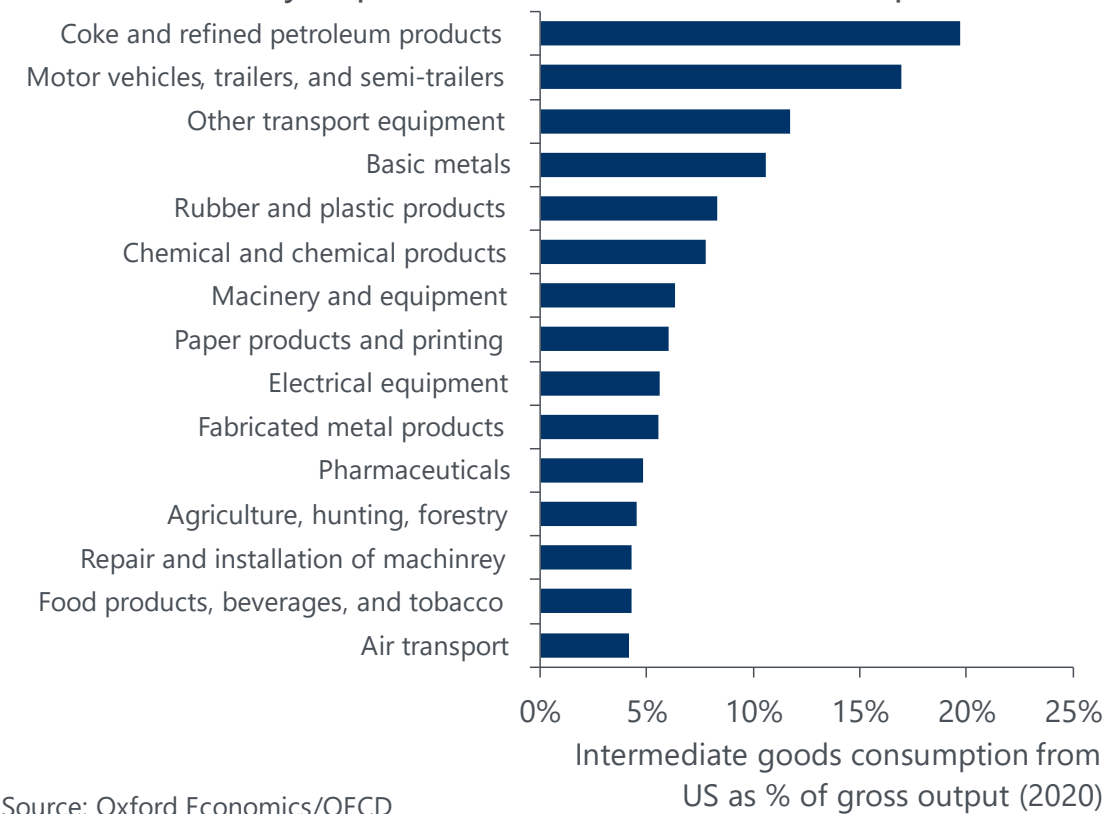


# Which industries in Canada are most exposed to US tariffs?

Canada: Exports to the US by commodity (% of total)

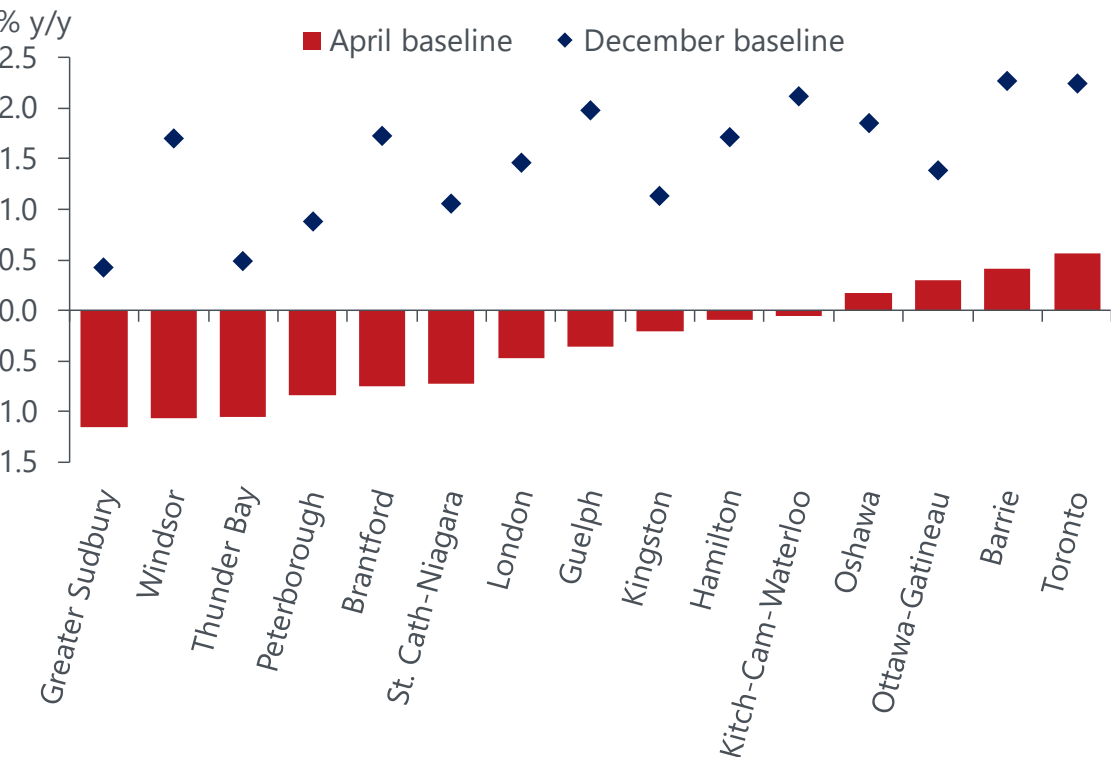


Canada: Industry exposure to US intermediate imports



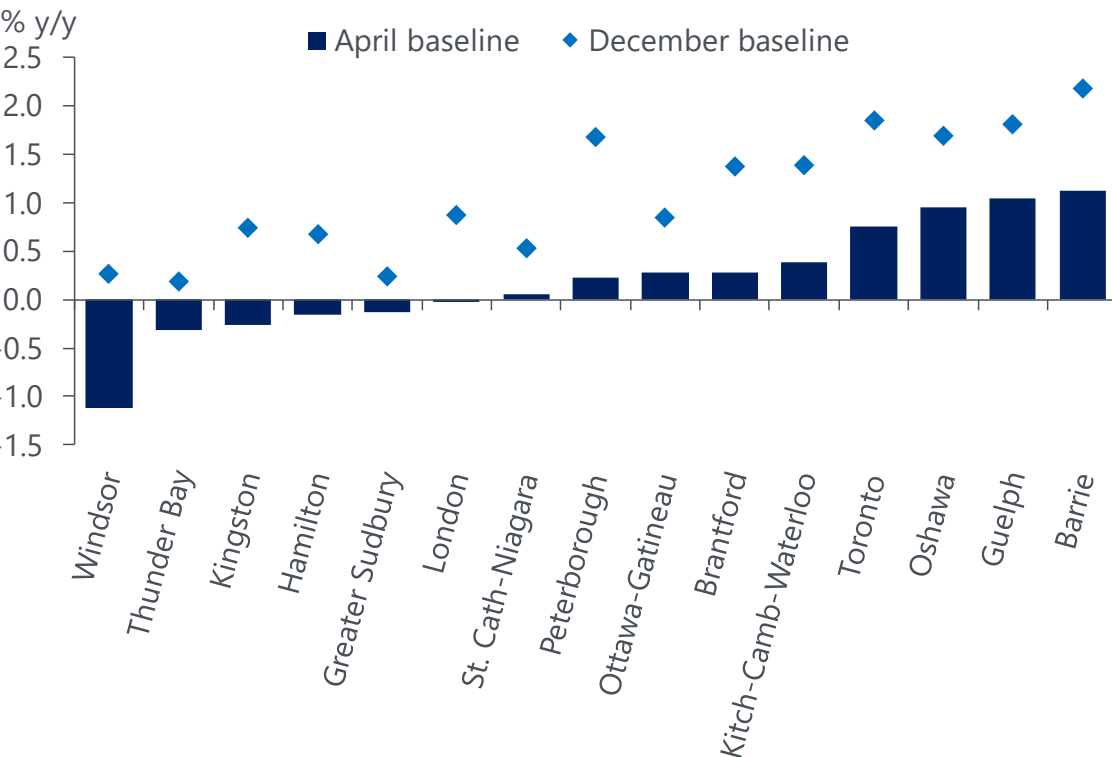
# Which Ontario cities will be most impacted by the trade war?

Ontario: GDP by metro, 2026



Source: Oxford Economics/Haver Analytics

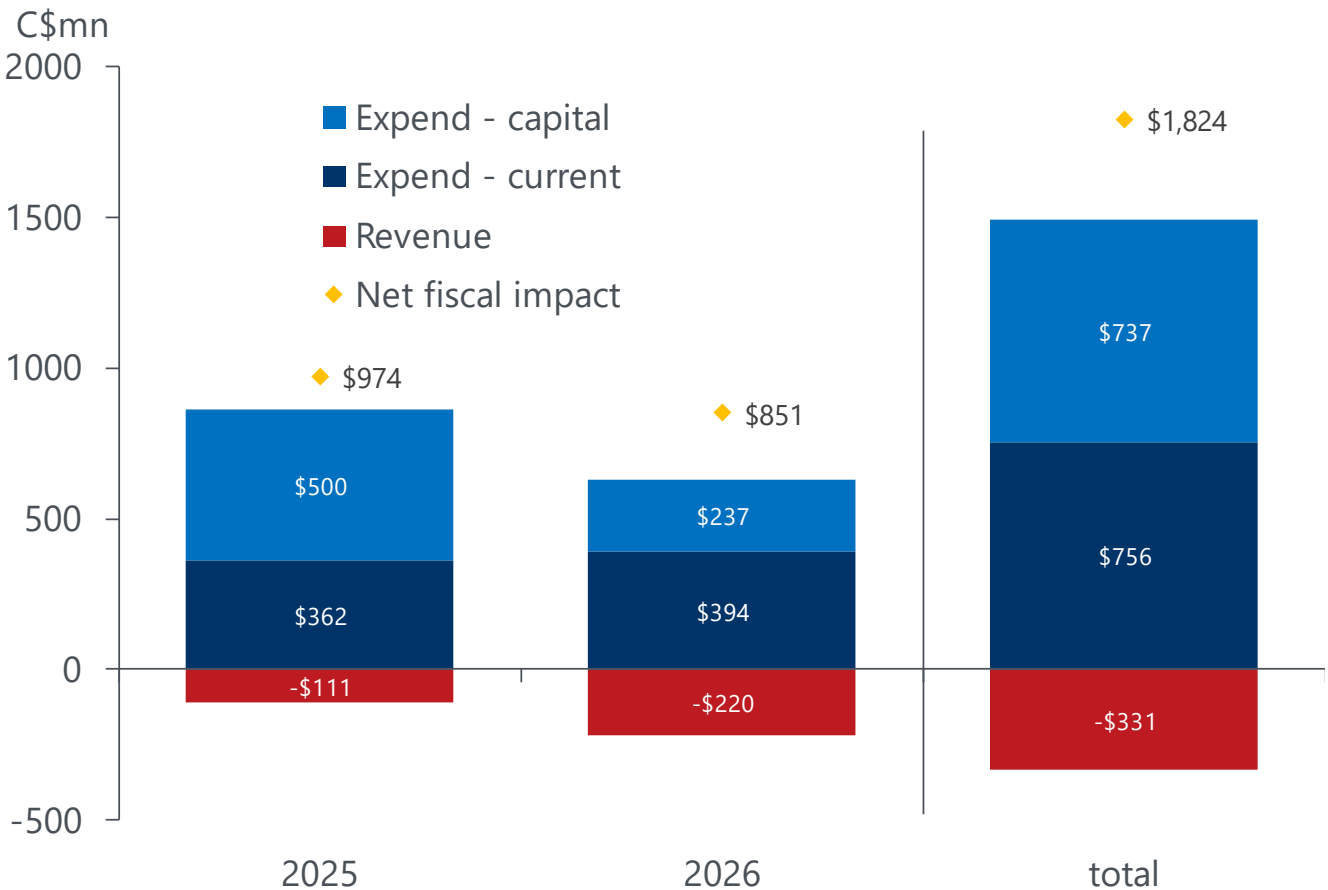
Ontario: Employment by metro, 2026



Source: Oxford Economics/Haver Analytics

# Trade war will worsen Ontario municipal finances

Ontario: Muncipal fiscal impacts from trade war



Source: Oxford Economics/Haver Analytics

## Key takeaways

- Ontario's municipal finances will worsen by \$1.8bn over 2025 and 2026 due to the trade war.
- Wages are expected to increase due to higher inflation. Operating expenditures will also rise, as will transfers to households (rent supplements & top-ups to Social Assistance).
- Capital costs will rise due to the impacts of retaliatory tariffs on imports from the US, which will boost the costs of key inputs like steel and cement.
- Lower revenue mainly reflects reduced development charges, licensing, and permit fees driven by dampened business activity and consumer spending.

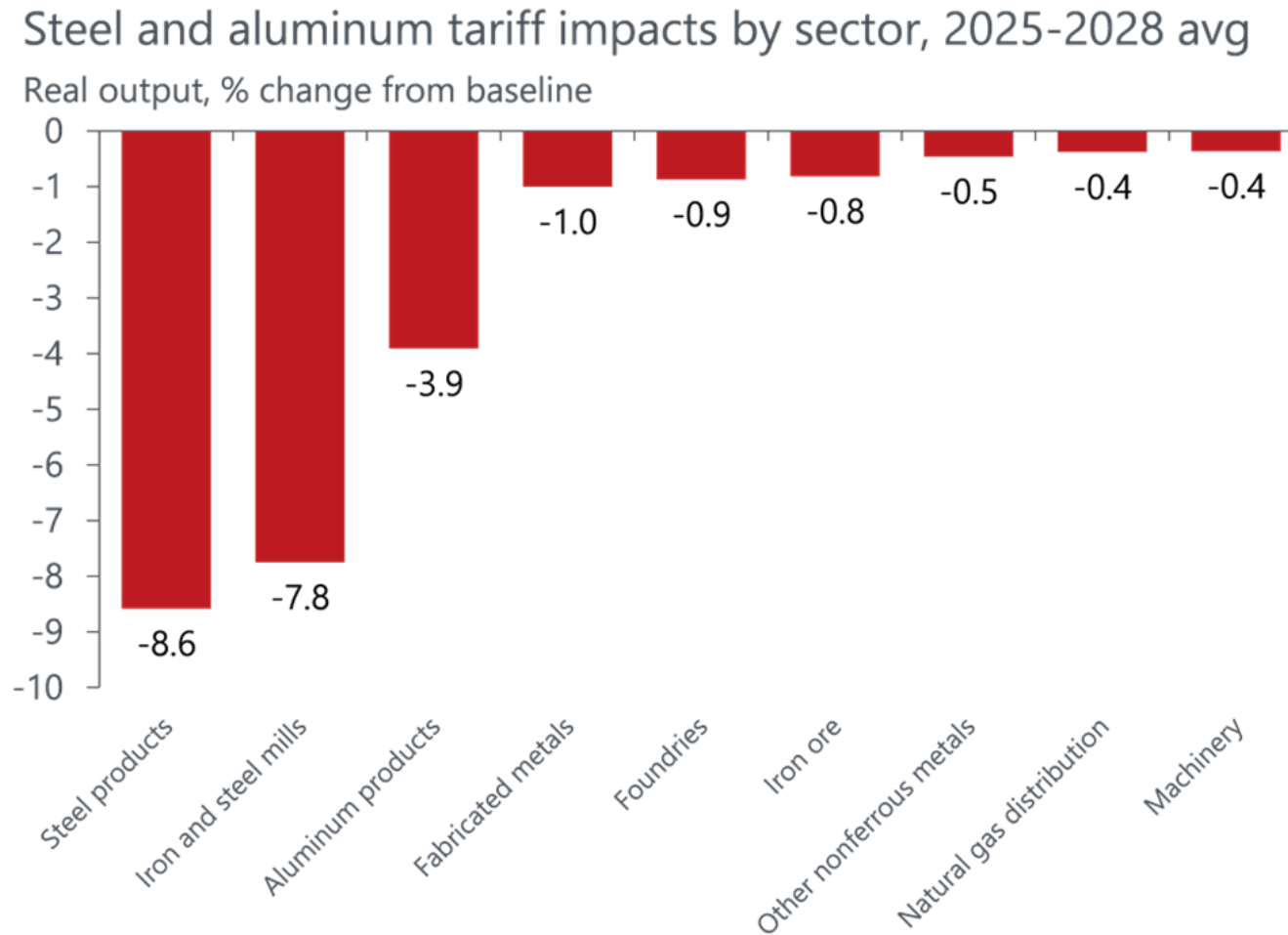
What's the impact of US tariffs on steel, aluminum & autos?

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# Steel & aluminum tariffs deal a significant blow to Canadian metal manufacturing

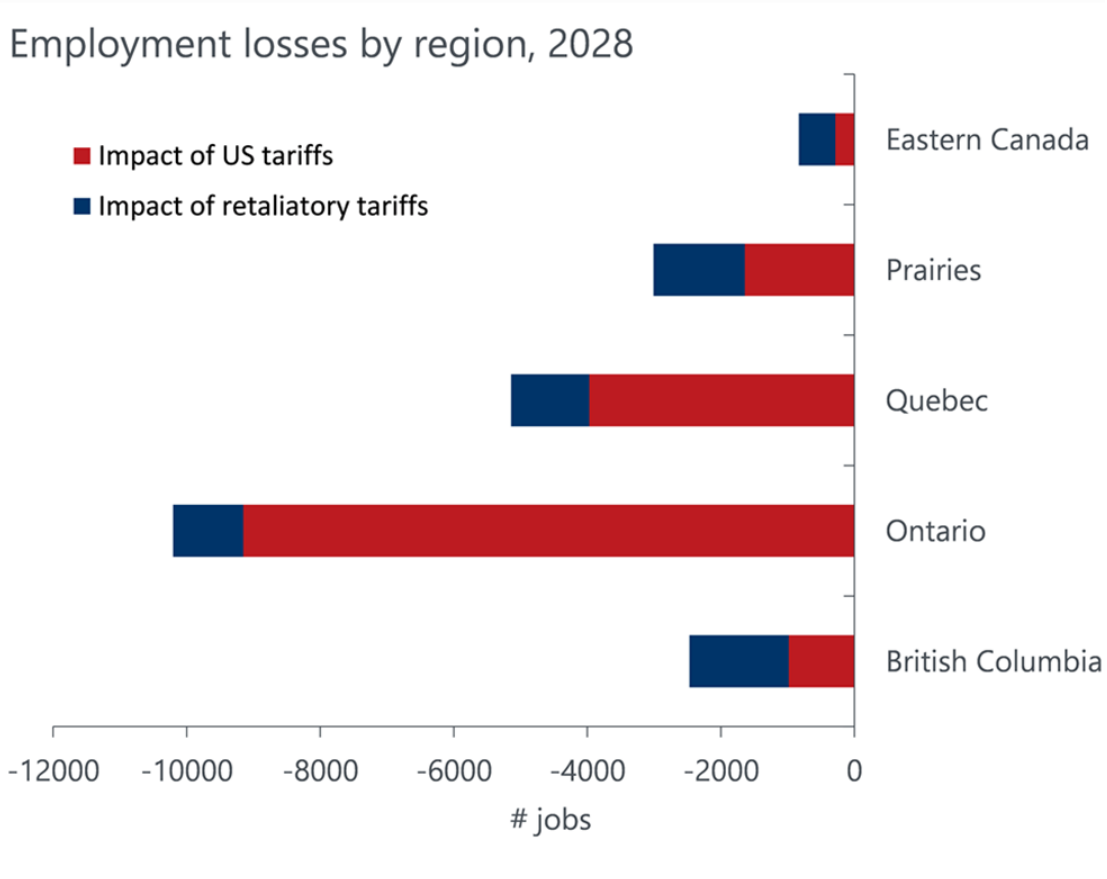


## Key takeaways

- Permanent 25% US tariffs on steel and aluminum would significantly harm Canada's metal manufacturing industries.
- Analysis using our Canada Provincial-Territorial Model shows production falls by an average of 9% in Canada's steel industry and by 4% in the aluminum industry over the 2025-2028 period.
- Related industries like fabricated metal manufacturing would also see lower output.
- Canada's retaliatory tariffs would raise producer costs, especially for industries heavily reliant on steel and aluminum, like autos and construction.



# Steel & aluminum tariffs hit Ontario & Quebec most, and impacts will persist, unless the tariffs are temporary as in 2018-19

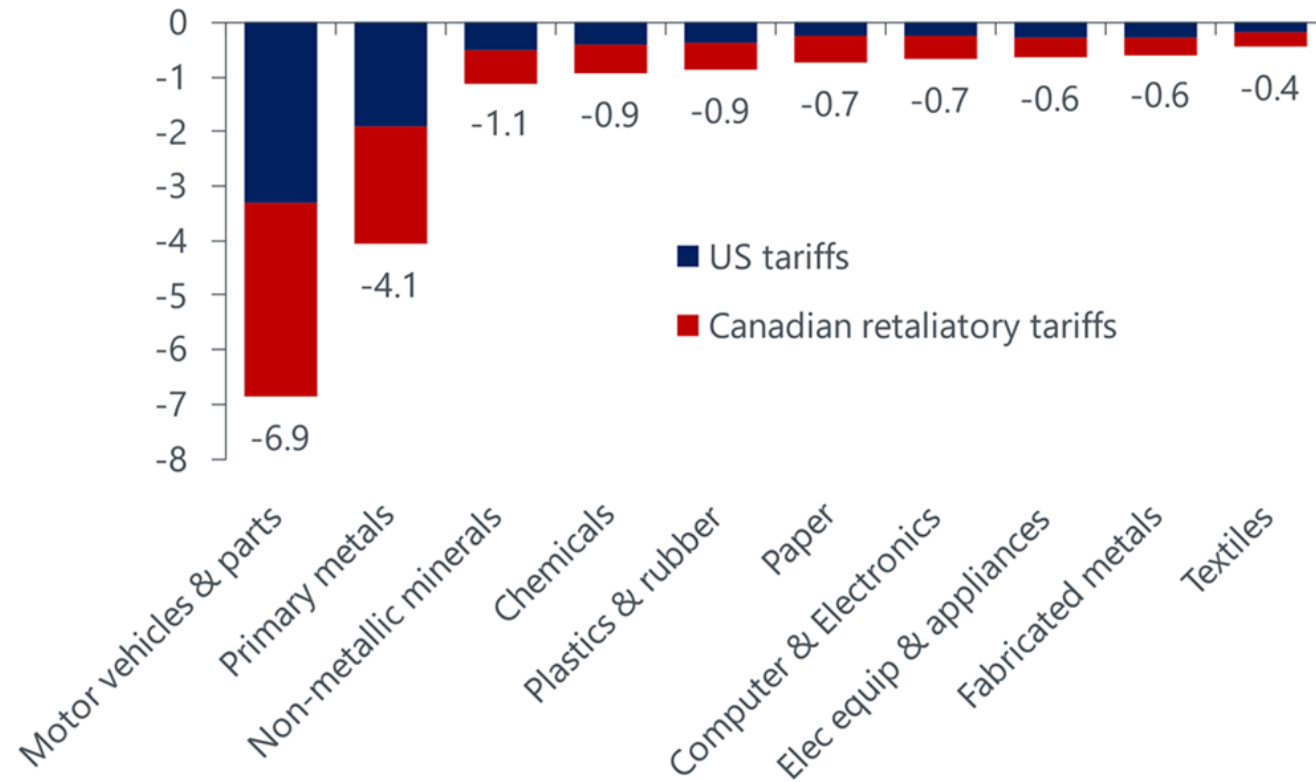


# US auto tariffs would slam Canada's motor vehicle & metal industries

## Key takeaways

Canada: Auto tariff impacts by sector, 2025

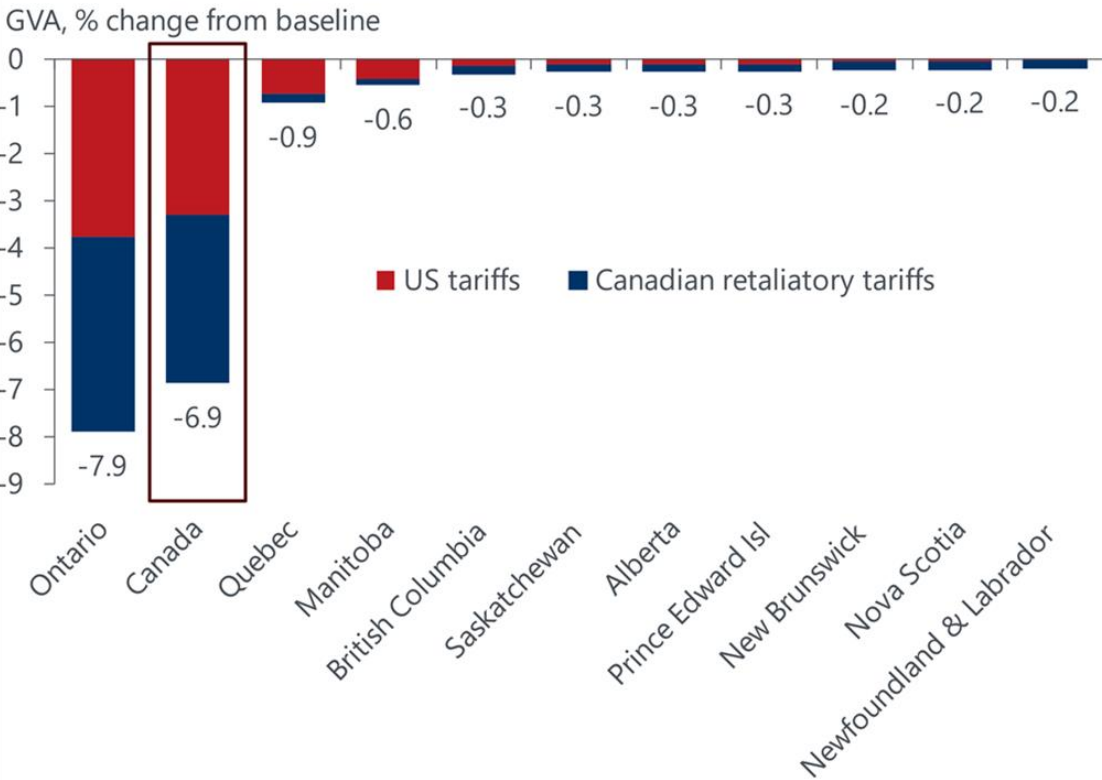
GVA, % change from baseline



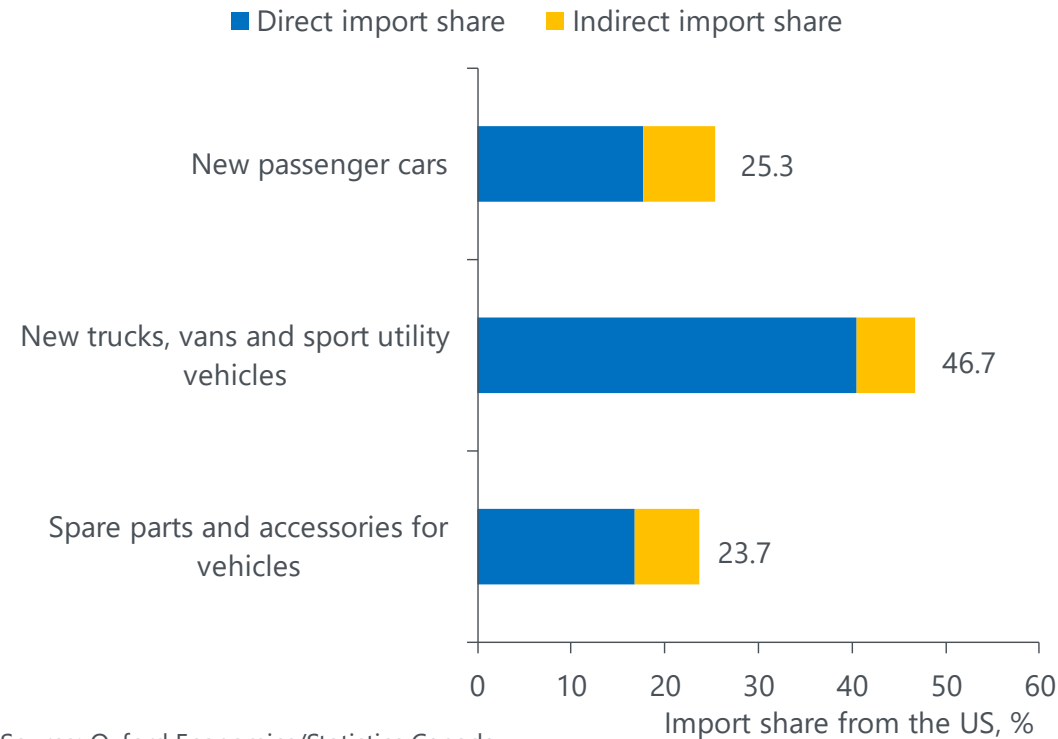
- 25% tariffs on the non-US content in auto & parts imports reduce Canada's motor vehicle production by 3.3% this year. The impact doubles if Canada retaliates in kind. This raises new car prices in Canada by 5%-10%.
- For each week tariffs shut down North America's motor vehicle production, Canada's auto & parts industry would lose C\$330mn, or 2%, in production.
- Developing: Automakers that continue manufacturing in Canada will be allowed to import USMCA-compliant vehicles free of tariffs. The US will also reportedly give a reprieve from steel and aluminum tariffs for autos, and a break on auto parts.

# Ontario is hardest hit by US auto tariffs, but the broader economy also suffers...new motor vehicle prices would rise 5%-10%

Canada: Auto tariff impacts, motor vehicles & parts, 2025



Canada: US import content of consumption



Source: Oxford Economics/Statistics Canada



# What's next in the trade war for Canada?

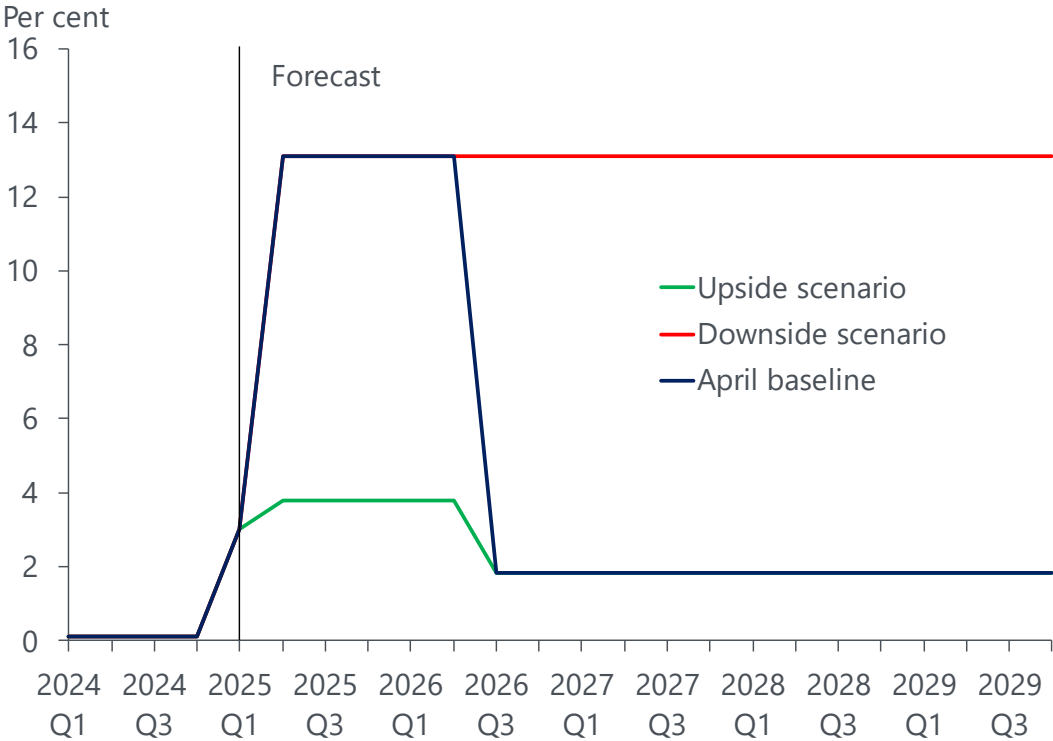
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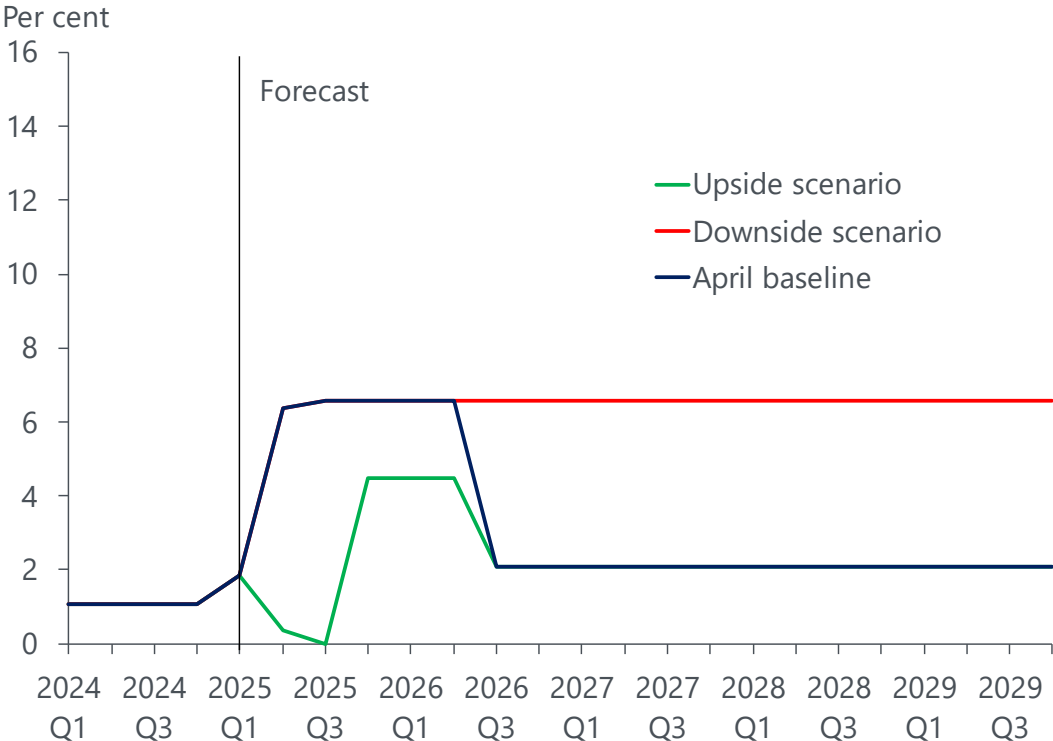
# US-Canada trade war scenarios...could be worse, might be better

United States: Effective tariff rate scenarios on Canada imports



Source: Oxford Economics/Haver Analytics

Canada: Effective tariff rate scenarios on US imports



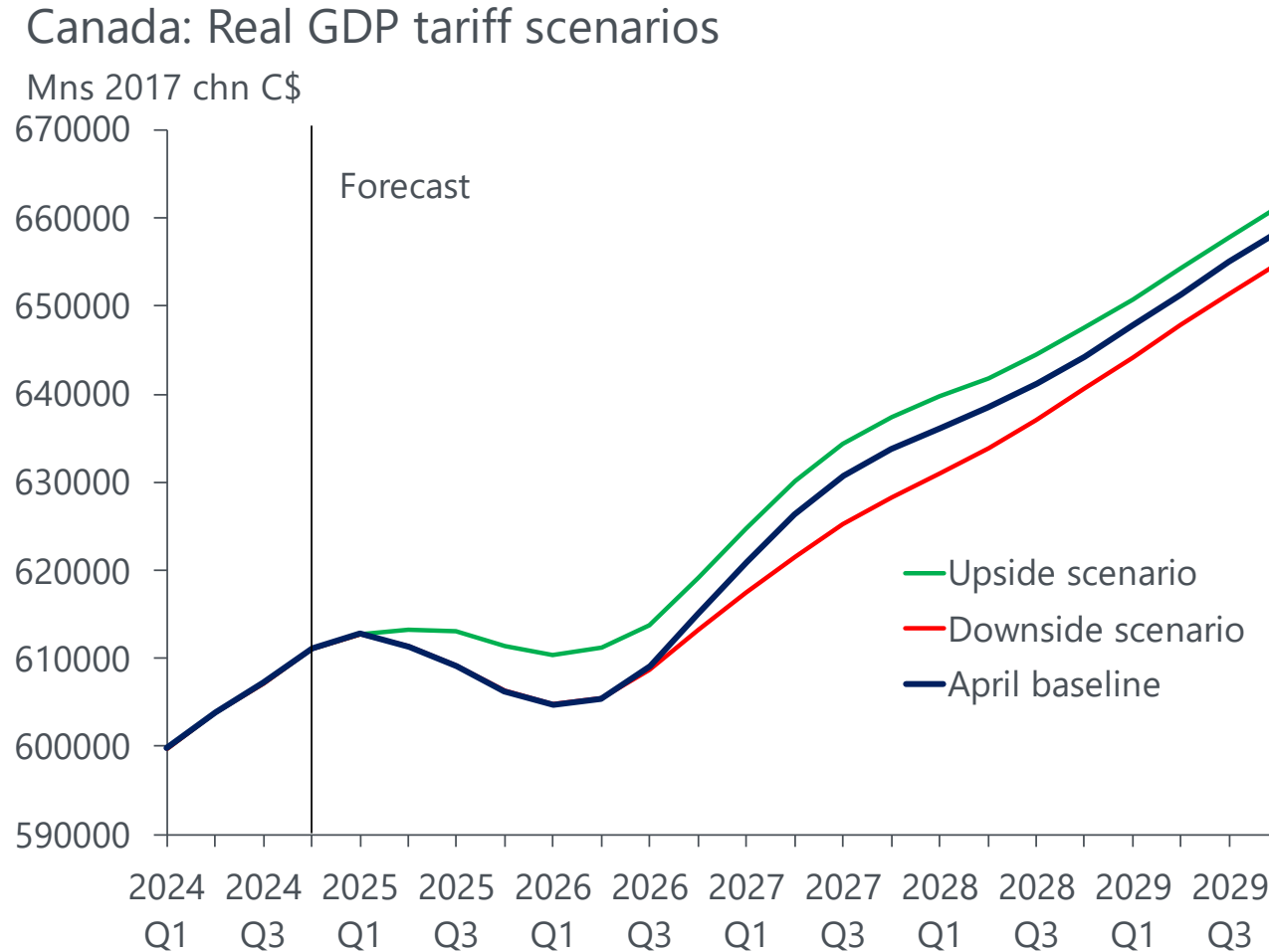
Source: Oxford Economics/Haver Analytics



# Canada's economy under downside and upside tariff scenarios with the US

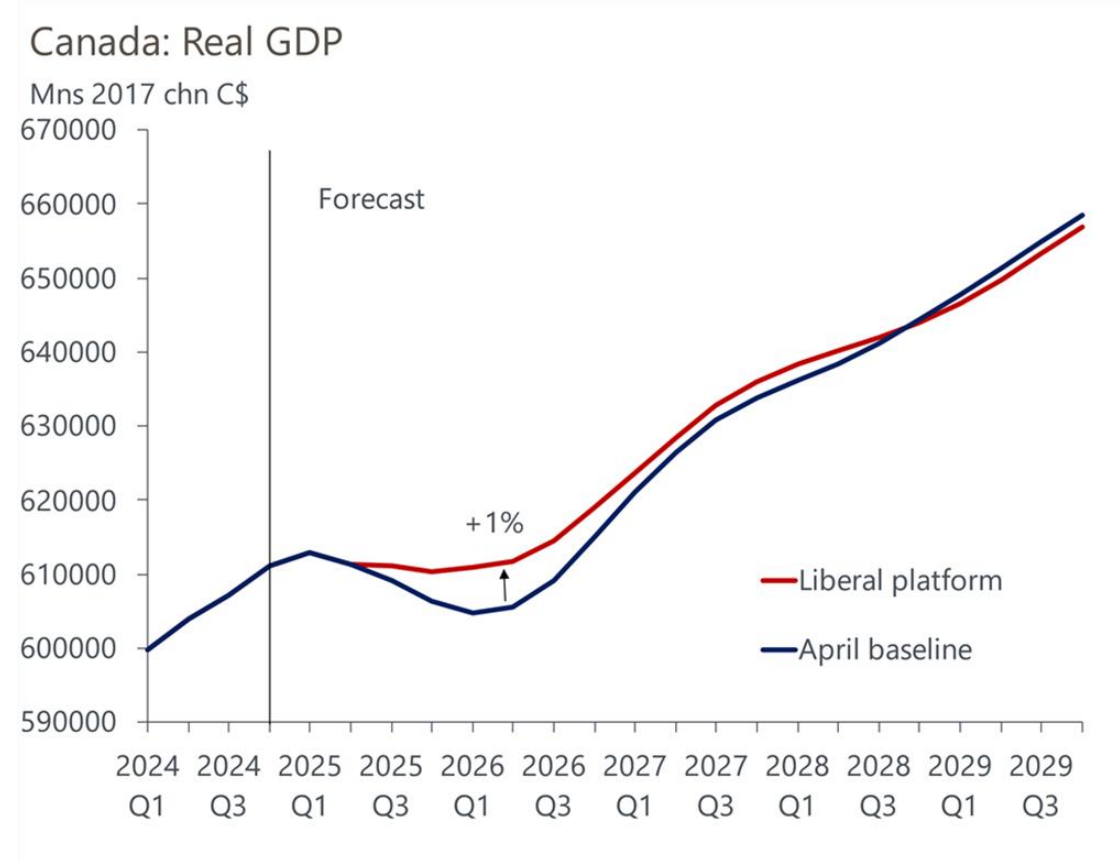
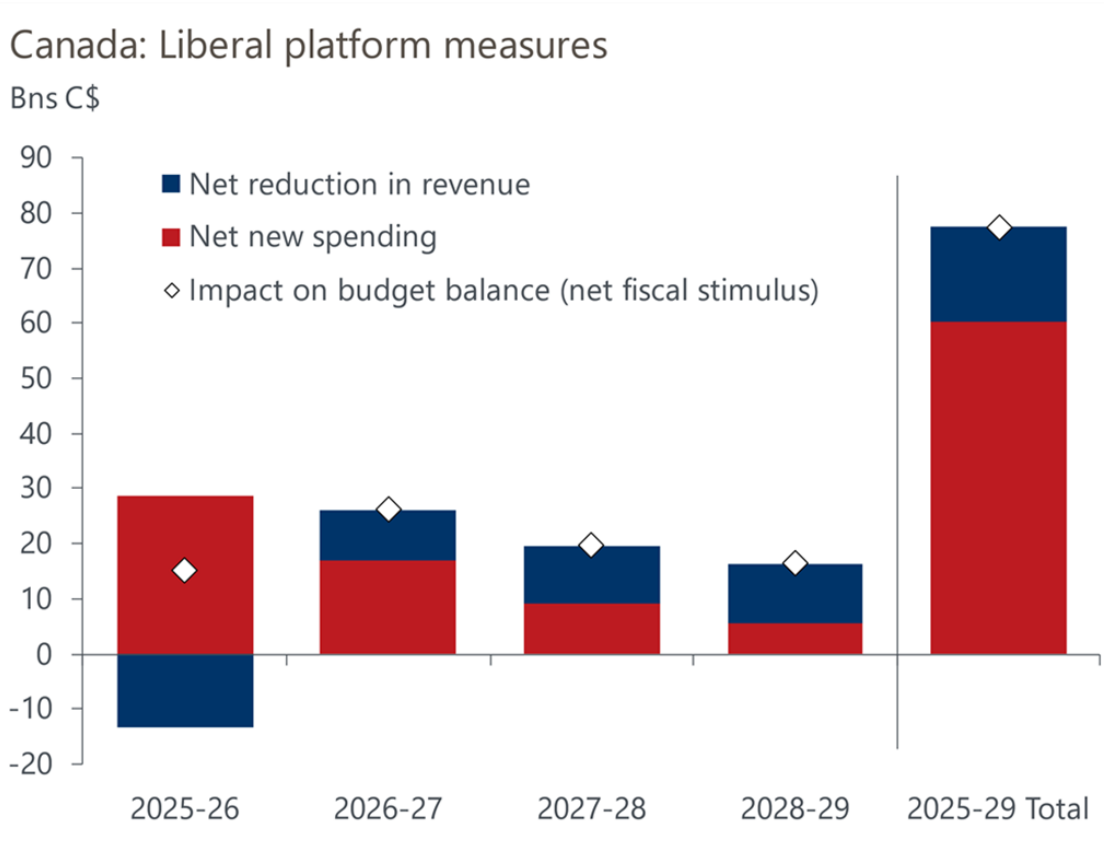
## Key takeaways

- Uncertain US trade policy presents downside and upside risks for the Canadian economy.
- Downside: Permanent US-Canada tariffs would cause long-lasting scars. Higher costs and lower private investment would permanently reduce Canada's economic potential.
- Upside: Canada would experience only a mild recession if all its goods exports to the US become USMCA-compliant, counter-tariffs are paused, and tariff revenues are reinvested to support the economy.



Source: Oxford Economics/Haver Analytics

# Liberal platform could lessen the hit from the trade war, but won't prevent a recession nor fully mitigate the impact on directly affected sectors



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Questions?







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