SZYMON ZEPHAN CAPITAL
Driven Connected Innovators

# Tariffs and Turbulence

## Canada's Economic Crossroads


### Authors

**Manuel Villaseñor** Research Associate
mvillasenor@szc-group.com

**Mun Kim** VP Research
Mun.kim@szc-group.com

**Shanaz Joan Parsan** Managing Partner
To whom any correspondence should be addressed.
sjparsan@szc-group.com

## Table of Contents

## Section 1. Introduction

Global trade is the exchange of goods, services, and capital across international borders. Global trade is mainly driven by the idea that countries have different strengths, larger factories, and access to different resources and markets. Improvements in technology, transport, and communication, along with lowering trade barriers, also help boost international commerce.

Here's a detailed look at the main factors:

- Countries focus on making goods and services where they have lower opportunity costs. This makes them more efficient and reduces costs, encouraging trade.
- Producing larger quantities lowers the cost per item. This makes exporting cheaper, especially in industries that need big factories or high fixed costs.
- Different nations have varied natural resources, labor, and capital. This leads countries to trade what they have a lot of with what they need.
- Different tastes and needs across countries also create trade. For example, some nations import foods or clothes popular elsewhere but not available locally.
- New advances in shipping, phone, and internet tech have made trading easier and cheaper. Businesses find it simpler to connect with global markets.
- Trade agreements and lower tariffs or quotas make trading easier and less costly. These agreements promote more international business.
- Regions like the European Union or NAFTA cut trade barriers and set common rules. This makes trading among member countries smoother and more efficient.
- Trade gives companies access to bigger markets and more customers. This helps increase sales and overall economic growth.
- When countries specialize in what they do best, everyone benefits from a more efficient global economy. Producers and consumers both gain from this focus.

Global trade promotes economic growth, innovation, and access to diverse products. However, challenges such as trade imbalances, supply chain disruptions, and even geopolitical tensions[1] are inevitable but managed through agreements between countries and regions. While global trade is supported by international agreements, trade organizations such as WTO, and advancements in logistics technology, various factors, including technological advancements such as AI and emerging market trends, continue to influence (disrupt) the shift in economy and trade policies. Recently, tariffs have emerged as a significant factor in shaping Canadian-US trade dynamics.

[1] *Global trade in 2025: Resilience under pressure*. (2025, March 14). UN Trade and Development (UNCTAD). https://unctad.org/news/global-trade-2025-resilience-under-pressure

A tariff is a tax imposed by a government on goods and services imported from a foreign country[2] and is in essence a trade barrier. Historically, tariffs have served an important role as a part of trade policy, consequently altering the trade dynamic. It is used by countries to protect domestic industries from foreign competition, to address trade imbalances, generate revenue, or to respond to trade disruptions[3]. The imposition of tariffs can disrupt supply chains, increase costs for businesses and lead to higher prices. Looking at the positive side, it can encourage domestic production and innovation, as companies seek to reduce their reliance on imported goods.

As of June 2025, the United States and Canada have imposed significant tariffs on each other's goods, marking a major shift in North America's largest bilateral trading relationship. On March 4th, 2025, the U.S. imposed a 25% tariff on all Canadian goods, except for Canadian energy imports which are subject to a 10%[4]. This move was justified by the U.S. administration as a strategy to address border security concerns and protect American industries. In response, Canada retaliated by imposing 25% tariffs on $30 billion worth of U.S. imports[5]. The list of affected products includes a wide range of consumer goods and industrial products such as orange juice, peanut butter, wine, spirits, beer, appliances, apparel, footwear, motorcycles, cosmetics, and certain pulp and paper products. Effective April 9, 2025, Canada imposed a 25% tariff on vehicles imported from the United States that do not comply with The Canada-United States-Mexico Agreement (CUSMA) requirements. Additionally, a 25% tariff was applied to the non-Canadian and non-Mexican content of CUSMA-compliant vehicles imported from the United States.

If the U.S. tariffs remain in place, Canada has pledged to escalate additional countermeasures, potentially increasing duties on an additional $125 billion in imports from the U.S. This round of tariffs targets critical sectors of the U.S. economy, including the automotive industry, agriculture, and heavy industry[6]. The Bank of Canada projects that these series of tariffs could reduce Canada's GDP by up to 2.6% and U.S. GDP by

[2] Nevil, S. (2025, May 27). *What is a tariff and why are they important?* Investopedia. https://www.investopedia.com/terms/t/tariff.asp

[3] *WTO | Tariffs*. (n.d.). https://www.wto.org/english/tratop_e/tariffs_e/tariffs_e.htm#:~:text=Customs%20duties%20on%20merchandise%20imports,they%20raise%20revenues%20for%20governments.

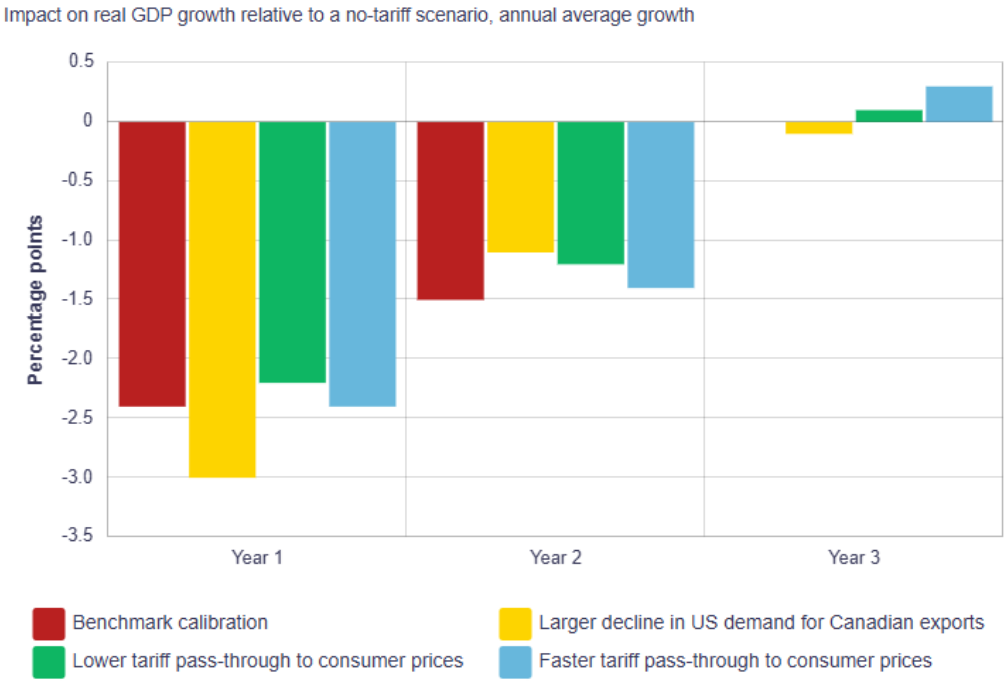
[4] Department of Finance Canada. (2025, May 30). *Canada's response to U.S. tariffs*. Canada.ca. https://www.canada.ca/en/department-finance/programs/international-trade-finance-policy/canadas-response-us-tariffs.html

[5] Department of Finance Canada. (2025a, March 4). Canada announces robust tariff package in response to unjustified U.S. tariffs. *Canada.ca*. https://www.canada.ca/en/department-finance/news/2025/03/canada-announces-robust-tariff-package-in-response-to-unjustified-us-tariffs.html

[6] Atasoy, İ. (2025, May 2). *US-Canada trade statistics: New tariffs & impact | Analyzify*. Analyzify. https://analyzify.com/hub/us-canada-trade-statistics

1.6%, with Canadian households facing potential annual costs of $1,900, while U.S. families could lose $1,300 per year[7],[8].

**Exhibit 1. A Global Trade Conflict Reduces Canadian GDP Growth**[9]




Given the profound economic consequences of these tariff measures, it is essential to understand their broader implications. This report provides an analysis of the impact of tariffs on Canada, examining historical trends, global comparisons, sectoral effects, and policy responses. In particular, it aims to address how tariffs have evolved and their connection to inflationary pressures, while also situating Canada within the broader G7 trade context. The report further investigates the mechanisms through which tariffs

[7] Aiello, R. (2025, February 1). Trump initiates trade war, signing order hitting Canada with massive tariffs; Trudeau to retaliate. *CTVNews*. https://www.ctvnews.ca/politics/article/trump-initiates-trade-war-hitting-canada-with-massive-tariffs-trudeau-calls-emergency-cabinet-meeting/#:~:text=A%2025%20per%20cent%20tariff,%241%2C300%20hit%20to%20American%20households.%20%20https://ppforum.ca/policy-speaking/what-tariffs-could-mean-for-the-canadian-

[8] *Tariffs take effect. Here's what it means for the Canadian economy. - Public Policy Forum*. (2025, March 4). Public Policy Forum. https://ppforum.ca/policy-speaking/what-tariffs-could-mean-for-the-canadian-economy/#:~:text=The%20Chamber%20estimated%20that%20Canada's,approximately%20%241%2C300%20per%20person%20annually.

[9] Bank of Canada. (2025, January 29). *Evaluating the potential impacts of US tariffs*. https://www.bankofcanada.ca/publications/mpr/mpr-2025-01-29/in-focus-1/

influence inflation and conducts a sectoral analysis to understand varied impacts across different industries. Lastly, it assesses the government's policy landscape in managing these economic dynamics.

**Exhibit 2. How do Tariffs Work?**


Source: SBS News

**Table 1. A Timeline of Tariff Updates (US and Canada)**

**Timeline of Canada–U.S. Trade Actions (2025)**

| Date | Action by the U.S. | Canadian Response | Notes |
|---|---|---|---|
| March 4, 2025 | Imposed a 25% tariff on all Canadian goods, except for energy (10% tariff) | Retaliated with 25% tariffs on $30 billion worth of U.S. imports, including consumer goods | Targeted products by Canada include orange juice, peanut butter, wine, spirits, beer, coffee, appliances, and apparel |
| March 5, 2025 | Granted a one-month exemption for automobiles and parts under CUSMA | – | Later expanded to cover all CUSMA-covered products; non-CUSMA goods still subject to tariffs |
| March 10, 2025 | – | Ontario imposed a 25% surcharge on electricity exports to New York, Minnesota, and Michigan. | Provincial measure, not federal |
| March 11, 2025 | – | Ontario paused the electricity export surcharge after discussions with U.S. officials | Temporary de-escalation from Ontario |
| March 12, 2025 | Imposed 25% tariffs on Canadian steel and aluminum, including many derivative products | Retaliated with 25% tariffs on an additional $29.8 billion in U.S. imports | Breakdown: steel ($12.6B), aluminum ($3B), other goods ($14.2B) including computers, sports gear, cast-iron |
| April 9, 2025 | – | Imposed 25% tariffs on non-CUSMA-compliant vehicles from the U.S. and non-Canadian/Mexican content in vehicles | Part of Canada's expanded trade measures targeting the auto sector |
| Pending | – | Announced potential 25% tariffs on an *additional* $125 billion in U.S. imports | Subject to a 21-day public comment period; escalation depends on U.S. trade actions going forward |

**Kananaskis Showdown: Inside the 2025 G7 Summit**

US president and other world leaders are attending a G& meeting in Calgary as at June 16, 2025 and Canadian Prime Minister hopes for much change between Canada and the US vis a vis tariffs.

*The tariff drama that hijacked Kananaskis*

When G7 leaders gathered 15–17 June 2025 in Kananaskis, Alberta, Canadian Prime Minister hoped to showcase a united front on Ukraine, climate finance and supply-chain security. Instead, the summit's centre of gravity became the bilateral cage-fight over U.S. President escalating tariff war. Every corridor conversation, every working dinner and every late-night communiqué drafting session was filtered through the same question: *what will Washington concede on steel, aluminium and autos—and what will Ottawa give up in return?*

*Day-by-day escalation inside the summit bubble*

15 June – Arrival theatrics

US president landed in Calgary brandishing a freshly signed executive order: an across-the-board 35 % tariff on Canadian goods to take effect 1 August unless Ottawa "behaved" during the summit[10]. The order was theatrically handed to Canadian prime minister in the first bilateral pull-aside, instantly souring the mood. Japanese Prime Minister Ishiba and EU Commission President Metsola, waiting in the anteroom, were overheard asking aides whether any G7 country would still qualify for *MFN* treatment by year's end[11].

16 June – The 30-day ultimatum[12]
During a leaders-only session on supply-chain resilience, Trump slid a single bullet-point page across the maple-wood table:

[10] Jazeera, A. (2025, July 11). Trump slaps 35 percent tariff on Canada starting August 1. *Al Jazeera*. https://www.aljazeera.com/news/2025/7/11/trump-slaps-35-percent-tariff-on-canada-starting-august#:~:text=US%20president%20also%20eyes%20blanket%20tariffs%20of%2015%20to%2020%20percent%20on%20other%20trading%20partners%20as%20his%20trade%20war%20widens,Trump%20told%20Canadian%20Prime%20Minister%20Mark%20Carney%20the%20new%20rate%20would%20go%20into%20effect%20on%20August%201%20and%20would%20go%20up%20if%20Canada%20retaliated

[11] Ellyatt, H. (2025, June 16). *As G7 leaders meet, allies ask: Is Trump with us or against us?* CNBC. https://www.cnbc.com/2025/06/16/as-the-g7-meets-in-canada-allies-ask-is-trump-with-us-or-against-us.html#:~:text=President%20Donald%20Trump%20raises%20a%20fist%20as%20he%20steps%20off%20of%20Air%20Force%20One%20upon%20arrival%20at%20Calgary%20International%20Airport,are%20also%20subject%20to%20duties

[12] Zahn, M. (2025, June 30). *A timeline of the U.S.-Canada trade dispute*. ABC News. https://abcnews.go.com/Business/timeline-us-canada-trade-dispute/story?id=123335160#:~:text=In%20a%20social%20media%20post%20early%20in%20the%20day,Trump%20said%20he%20would%20suspend%20the%20U.S

- 30-day negotiating window to eliminate "non-tariff barriers" (read: digital-services tax, dairy TRQs, provincial liquor mark-ups).
- In exchange, Washington would *suspend* the 35 % threat and revert to the existing 25 % auto and 50 % metals levies.

Canadian prime minister countered with a legal opinion from Canada's parliamentary law clerk arguing that the 25 %/50 % rates themselves violated USMCA dispute-settlement provisions. US president shrugged—"Take it or leave it," he said, and left the room. The session ended without a joint statement, but a senior Canadian official leaked the "30-day" language to reporters, locking both sides into a public deadline[13].

17 June – The walk-out

While the leaders posed for the traditional family photo, US team circulated a draft communiqué that blamed Canada's "over-reliance on Chinese critical minerals" for U.S. economic insecurity[14]. Canadian prime minister refused to sign. US president departed early, citing the Israel–Iran crisis, but his motorcade route to the airport deliberately passed steel-pipe stockpiles near Calgary, a visual reminder of the 50 % aluminium tariff already in force[15].

Behind closed doors: the give-and-take that never happened

Canadian negotiators tabled a three-step compromise on 16 June night:

1. Immediate: Canada suspends its retaliatory list for 90 days.
2. 30-day mark: Both sides revert to *pre-April 2025* tariff levels.
3. By year-end: A binding arbitration panel (USMCA Chapter 31) decides whether U.S. national-security justification meets the "necessary" standard under WTO Article XXI.

[13] TradeImeX. (2025, June 18). What the G7 Summit 2025 Means for Global Trade: Key Agreements & Policy Shifts. *Infinite*. https://tradeimex.in/blogs/g7-summit-2025-global-trade-policy-shifts#:~:text=%7CJapan%7CAffected%20by%20US%20auto%20tariffs%7CNo%20resolution%20yet%7C,day%20window%20to%20reach%20a%20potential%20trade%20and%20security%20agreement

[14] https://www.cnbc.com/2025/06/16/as-the-g7-meets-in-canada-allies-ask-is-trump-with-us-or-against-us.html#:~:text=President%20Donald%20Trump%20raises%20a%20fist%20as%20he%20steps%20off%20of%20Air%20Force%20One%20upon%20arrival%20at%20Calgary%20International%20Airport,are%20also%20subject%20to%20duties

[15] Ellyatt, H. (2025b, June 16). *As G7 leaders meet, allies ask: Is Trump with us or against us?* CNBC. https://www.cnbc.com/2025/06/16/as-the-g7-meets-in-canada-allies-ask-is-trump-with-us-or-against-us.html

**Table 2. Anatomy of the Tariff Battlefield**

| Sector | Current U.S. rate | Canadian retaliation | Sticking point in talks |
|---|---|---|---|
| Finished autos | 25 % ad valorem | 25 % on non-USMCA U.S. vehicles | Rules-of-origin for EV batteries |
| Steel & aluminium | 50 % (June 2025 increase) | 25 % on select U.S. metals | Carney wants full repeal; Trump demands quota caps |
| Dairy & poultry | 275 % over-quota tariff lines | CAD $30 mn compensation package to U.S. exporters | Trump insists on ending supply-management pricing |

Trump's trade representative, Robert Lighthizer Jr., countered with three *non-negotiables*:

- Binding quota on Canadian steel exports at 70 % of 2024 volume.
- Elimination of the planned 3 % digital-services tax on U.S. tech giants.
- Fast-track legislative guarantee that British Columbia will drop its wine-distribution mark-up scheme within 180 days.

The impasse was so stark that when Carney proposed a sunset clause—automatic tariff repeal if inflation-adjusted U.S. manufacturing employment rises above the 2019 baseline—Lighthizer laughed and tore the paper in half, according to a source in the room.

Immediate market fallout

- Currency: CAD/USD dropped 1.8 % in after-hours trading on 16 June, the biggest single-day move since October 2022.
- Bonds: The spread between 10-year U.S. Treasuries and Canadian government widened to 78 bps, pricing in a 15 % probability of a Bank of Canada emergency hike if talks collapse.
- Commodities: LME aluminium futures spiked 4 % on fears that Canadian smelters would again face Section 232 duties.

Political knock-on effects in Ottawa

Carney's Liberal minority, already dependent on NDP support, faced a caucus revolt: 42 MPs signed a letter urging him to walk away rather than accept quotas. Meanwhile, Alberta Premier Danielle Smith—host of the summit—publicly urged acceptance of the U.S. quota to "save 15,000 direct steel jobs in the province," putting her at odds with federal Liberals from central Canada.

My own analysis: why the deal will probably still happen—at a price

The 30-day window is not a cooling-off period; it is the final act of a choreographed drama. Trump needs a *deliverable* to show Midwest steelworkers before the 2026 mid-terms, while Carney needs to avoid a 35 % blanket tariff that would shave 1.3 % off Canadian GDP overnight (per Bank of Canada modelling).

Expect a three-pillar face-saving package by mid-July:

1. Tariff-for-quota swap: U.S. drops the 50 % metals tariff in exchange for Canadian export ceilings set at 2024 levels plus 3 % annual growth—effectively a managed-trade regime, dressed up as "anti-dumping safeguards."
2. Auto side-letter: A phased reduction of the 25 % auto tariff to 10 %, contingent on 60 % North-American battery content (up from 50 % today), giving both sides a "win" on supply-chain reshoring.
3. Digital-tax deferral: Canada postpones the 3 % DST until 2027, mirroring the OECD Pillar-One timeline, thereby avoiding the appearance of capitulation.

The broader implication is stark: the G7 is morphing from a rules-based order to a transactional bazaar where tariff threats substitute for diplomacy. Canada, once the summit's convener, emerges as both hostage and hostage-taker—willing to use critical-mineral leverage against Washington while pleading for exemption from the very architecture it helped design.

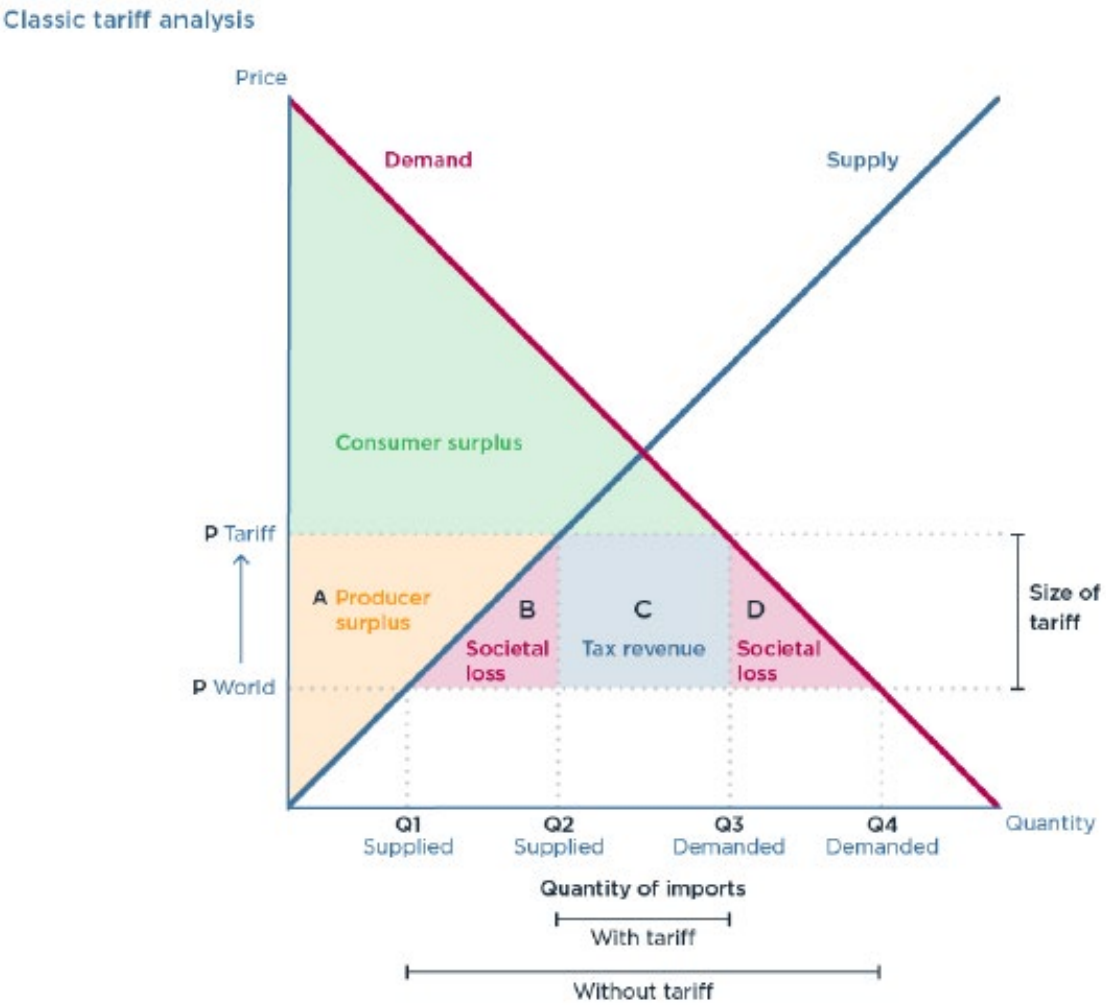
## Section 2. Tariff and Inflation

The imposition of tariffs can have wide-ranging effects on inflation, primarily transmitted through four key channels: (1) Cost-push inflation, (2) Supply chain disruptions, (3) Retaliatory tariffs, and (4) Exchange rate movements. This section analyzes the inflationary impact of tariffs via these mechanisms and draws insights from historical precedents.

### 2.1 The Dynamics between Tariff and Inflation

Inflation arises from imbalances between aggregate demand (AD) and aggregate supply (AS). While tariffs can influence both sides of the equation, their most significant effects are typically observed on the supply side, where they raise production costs and disrupt the availability and price of critical inputs.

**Exhibit 3. Tariffs Harm Consumers by Increasing Prices in Affected Markets[16].**




[16] Clausing, K. A., & Lovely, M. E. (2024). *Why Trump's tariff proposals would harm working Americans*.

A tariff, which is a tax on imported goods, shifts the supply curve of the imported good upward (or to the left) because it increases the cost of bringing that good into the domestic market. This leads to a higher market price and a lower quantity demanded. As prices rise, domestic consumers reduce their demand (movement along the demand curve), and domestic producers may increase their output to fill the gap, potentially shifting the domestic supply curve to the right over time. Overall, tariffs reduce total imports, increase prices, and distort market equilibrium.

Tariff on the Supply Side[17]

When tariffs are imposed, they increase the cost of imported goods or materials (input to produce goods), hence the costs of production for domestic firms. The increase in costs is typically passed on to consumers in the form of higher prices, leading to inflation. Additionally, domestic producers may take advantage of reduced competition from foreign goods, resulting in increased prices or profit margins, further amplifying inflationary pressures.

The Peterson Institute for International Economics (PIIE) estimated that tariffs imposed from 2018–2019 led to a 1.1% increase in U.S. producer prices, with pass-through rates between 75% and 100% depending on the sector[18]. Moreover, a 25% tariff on U.S. industrial and consumer goods (e.g., appliances, wine, and vehicles) is expected to contribute to a 0.8–1.3 percentage point increase in consumer price index (CPI) by Q3 of 2025, according to preliminary Bank of Canada estimates[19].

Tariffs also tend to reduce competitive pressure from international suppliers. The diminished competition allows domestic firms greater pricing power, which can entrench inflation in the short to medium term, particularly if businesses adopt price-setting behavior rather than being price-takers in competitive markets[20].

Tariff on the Demand Side

When tariffs increase the cost of imported goods, consumers face higher prices for those goods, which can lead to a reduction in consumption, especially for products with no close domestic substitutes.

[17] Hergt, B. (2020, October 20). *The effects of tariff rates on the U.S. economy: what the Producer Price Index tells us*. Bureau of Labor Statistics. https://www.bls.gov/opub/btn/volume-9/the-effects-of-tarifff-rates-on-the-u-s-economy-what-the-producer-price-index-tells-us.htm

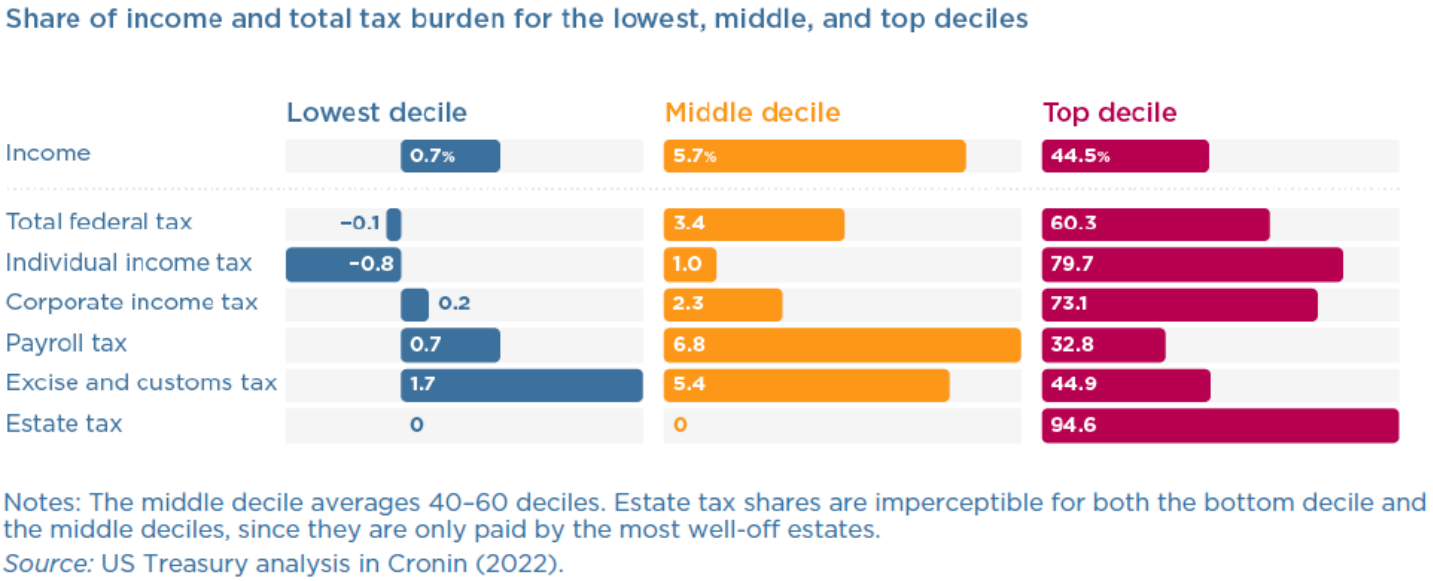
[18] Clausing, K. A., & Lovely, M. E. (2024). *Why Trump's tariff proposals would harm working Americans*.

[19] *Bank of Canada cuts rates to 3% as U.S. tariff threat clouds outlook*. (2025, January 29). Financialpost. https://financialpost.com/pmn/boc-cuts-key-rate-by-quarter-point-to-3-as-tariffs-threat-loom

[20] *Understanding the implications of Trump's tariffs*. (2025, February 3). Hartford Funds. https://www.hartfordfunds.com/insights/market-perspectives/global-macro-analysis/understanding-the-implications-of-trumps-tariffs.html

Furthermore, higher prices reduce consumers' purchasing power, resulting in a decrease in overall demand. Consumers may cut back on spending, particularly for non-essential or luxury items, as their disposable income shrinks. Reduced demand for foreign goods also distorts consumption patterns, which may lead to long-term inefficiencies in the market. The contraction in demand contributes to a slowdown in overall consumption, with more pronounced effects on middle-income households that allocate a larger share of their income to goods.

**Exhibit 4. Consumption-based taxes are less progressive than other tax instruments, putting more burden on lower-income taxpayers**




Notes: The middle decile averages 40–60 deciles. Estate tax shares are imperceptible for both the bottom decile and the middle deciles, since they are only paid by the most well-off estates.
*Source:* US Treasury analysis in Cronin (2022).

The U.S. Federal Reserve estimated that households incurred an average cost of $831 annually due to the 2018–19 tariffs, primarily from higher prices[21]. As for the 2025 round tariff, Canadian households could face annual costs of up to $1,900 CAD, with most burden concentrated in middle-income brackets. Discretionary spending is expected to decline by 2.3%, particularly for non-essential goods such as electronics, wine, and apparel, exacerbating demand-side weaknesses in the economy.

Beyond immediate consumer impacts, tariffs can also distort long-term consumption patterns. When consumers are forced to substitute foreign goods with domestic alternatives—often of differing quality, price, or functionality—allocative inefficiencies arise. These trade-offs can lead to reduced consumer

[21] *The impact of tariff policies on retail: What you need to know - off the chain - CSG*. (2025, April 11). Newsroom - Chain Store Guide. https://chainstoreguide.com/offthechain/2025/04/impact-tariff-policies-retail-need-know/?utm_source=chatgpt.com

welfare and misallocation of resources across sectors, ultimately impairing economic efficiency and productivity growth over time.

Tariff on the Trade Dynamics

The relationship between tariffs and inflation is also influenced by both the structure of the tariffs themselves, economic structure and the broader trade dynamics that follow. The consequences of tariffs can vary based on the types of goods targeted and the reactions of trading partners. For instance:

*High tariffs on essential goods* can lead to more substantial price increases, as these goods are critical for production and consumption. Conversely, tariffs on non-essential or luxury items tend to exert a more modest impact on inflation.

In terms of retail prices, the Federal Reserve Bank of Atlanta estimated that a 25% tariff on Canadian imports could raise consumer prices on everyday retail purchases, such as food and beverage items and general merchandise, by 0.81% to 1.63%, assuming a half to full pass-through of the tariff costs to consumers[22].

*Retaliatory tariffs* from other countries can compound inflationary pressures, as both the cost of imports and exports rise, which creates a feedback loop that exacerbates price instability. Especially if the supply chain for producing certain goods is intertwined between countries, amplifying disruptions and increasing costs throughout the production process.

In the automotive industry, parts and components of motor vehicles cross the Canada-US border several times. If these components are taxed each time, it amplifies the increase in production costs and increases the prices paid by consumers on both sides of the border. An engine may cross the border 2–3 times, a transmission 3–4 times, and interior systems 2 times[23]. 25% tariff is imposed on each cross-border movement, the cost of these components will significantly increase. If a transmission costs $1,000 and crosses the border 3 times, the total tariff cost would be $750 ($1,000 * 25% * 3), making the total cost of the transmission $1,750.

[22] Baslandze, S., Fuchs, S., Pringle, K., Sparks, M. D., & Federal Reserve Bank of Atlanta. (2025). Tariffs and Consumer Prices: Insights from newly matched consumption-trade micro data. *Federal Reserve Bank of Atlanta's Policy Hub*. https://www.atlantafed.org/-/media/documents/research/publications/policy-hub/2025/02/28/01--tariffs-and-consumer-prices.pdf

[23] Uscanadahauler. (2025b, April 25). *Why It Will Be Difficult to Disentangle North America's Automotive Supply Chains*. English. https://www.uscanadaautotransport.com/blog/why-it-will-be-difficult-to-disentangle-north-americas-automotive-supply-chains/

**Table 3. Cost Breakdown of a Typical North American Car**

| Component | Typical Origin | Cross-Border Movements | % of Vehicle Cost |
|---|---|---|---|
| Engine | U.S./Canada | 2–3 | 20% |
| Transmission | Canada/Mexico | 3–4 | 15% |
| Electronics | Mexico/Asia | 1–2 | 10% |
| Interior Systems | U.S./Mexico | 2 | 10% |
| Final Assembly | Varies | — | 30% |

Source: US CAN Auto Transport

Long Term Effects

In the long term, if tariffs and trade barriers remain in place, countries will likely experience a gradual reduction in trade volumes. While this could spur greater reliance on domestic production, it may not always be beneficial. Domestic producers might face higher costs due to the loss of access to cheaper, more efficient foreign suppliers. Over time, this could either lead to increased inefficiency in the economy or, in the best case, the development of new domestic capabilities. However, the transition to more self-reliant production models often takes years, during which inflation can remain elevated.

Decreased international trade volumes and global supply chain fragmentation may cause output losses up to 7% in key manufacturing sectors, especially if economies of scale are lost[24]. While import substitution could lead to domestic capacity-building, it often involves a transition period of years[25].

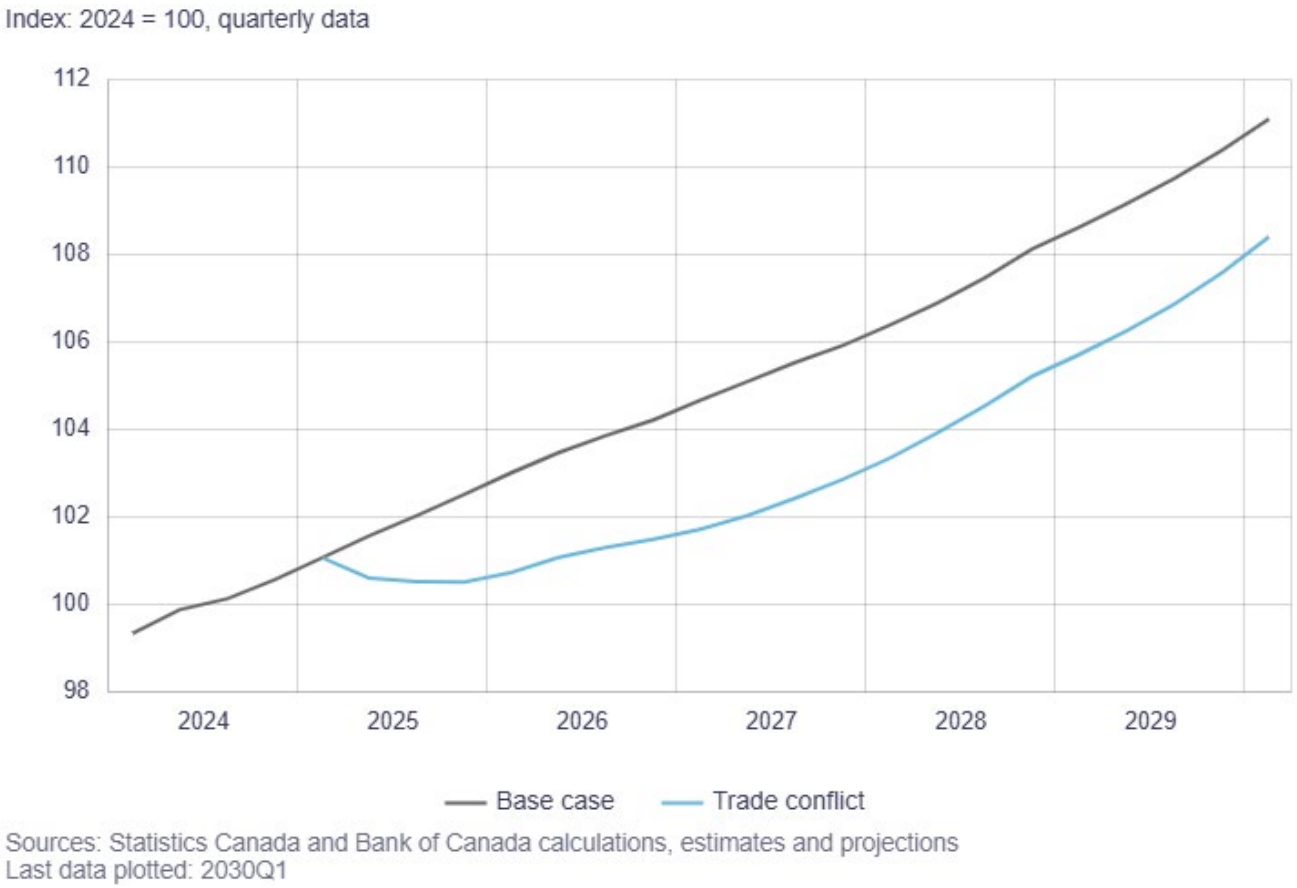
"The economic consequences of a protracted trade conflict would be severe. But it would be a very different shock than the COVID-19 shock. In the pandemic, we had a steep recession followed by a rapid recovery as the economy reopened. This time, if tariffs are long-lasting and broad-based, there won't be

[24] *The high cost of global economic fragmentation*. (2023, August 28). IMF. https://www.imf.org/en/Blogs/Articles/2023/08/28/the-high-cost-of-global-economic-fragmentation?utm_source=chatgpt.com

[25] FinanceFacts. (2024, December 28). *Import Substitution Industrialization (ISI): Understanding the Theory, History, and Real-World Application - FinanceFacts101*. FinanceFacts101. https://financefacts101.com/import-substitution-industrialization-isi-understanding-the-theory-history-and-real-world-application/

a bounce-back. We may eventually regain our current rate of growth, but the level of output would be permanently lower. It's more than a shock—it's a structural change." a remark from Tiff Macklem[26].

**Exhibit 5. High Tariffs Permanently Lower the Path for Output.**




Sources: Statistics Canada and Bank of Canada calculations, estimates and projections
Last data plotted: 2030Q1

## 2.2 Channel # 1: Cost Push Inflation

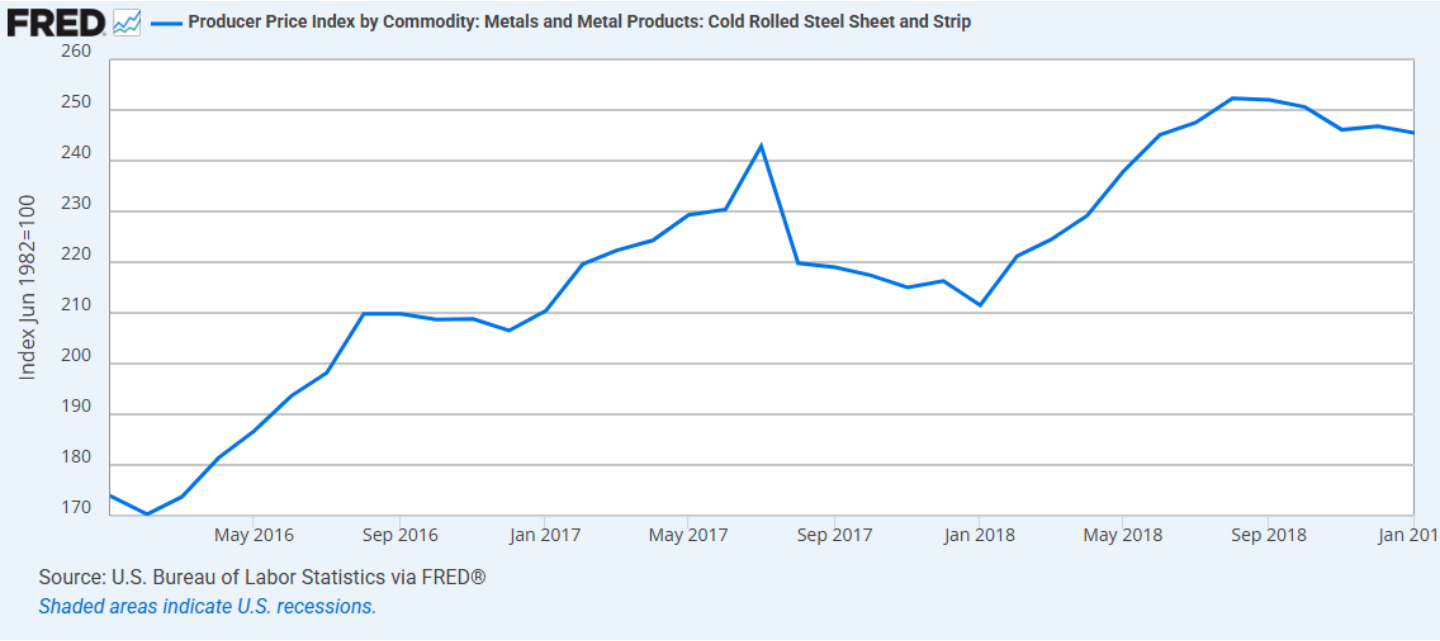
Immediate Price Adjustment

The most direct effect of tariffs is an immediate and measurable increase in the prices of imported goods. For example, following the U.S. imposition of a 25% tariff on steel imports in 2018, the price of imported

[26] Bank of Canada. (n.d.). *Tariffs, structural change and monetary policy*. https://www.bankofcanada.ca/2025/02/tariffs-structural-change-and-monetary-policy/?utm_source=chatgpt.com

steel rose by approximately 9% on average[27]. This led to an estimated 2%–3% increase in the production costs of steel-intensive goods, such as automobiles and household appliances. In the case of washing machines, a 2018 study by the Federal Reserve Board found that the U.S. tariffs led to an average retail price increase of $86 per unit—or roughly 12%—for both imported and domestically produced machines[28], despite the relatively modest job gains in domestic manufacturing.

**Exhibit 6. Producer Price Index by Commodity: Metals and Metal Products: Cold Rolled Steel Shet and Strip[29]**




A study by the Federal Reserve Bank of Boston examined the potential effects of tariffs on Personal Consumption Expenditures (PCE) inflation, and it was found that an additional 25% tariff on Canada and Mexico and a 10% tariff on all imports from China could add a minimum of 0.5 percentage point to core PCE inflation. The response of consumer prices to tariffs depends crucially on how markups respond. For

[27] Business Data Lab. (2025, March 4). *Back to the future: U.S. imposition of steel and aluminum tariffs - Business Data Lab*. https://businessdatalab.ca/publications/back-to-the-future-u-s-imposition-of-steel-and-aluminum-tariffs/?utm_source=chatgpt.com

[28] *Trump's washing machine tariffs are costing Americans almost $100 more per appliance*. (2019, April 29). NBC News. https://www.nbcnews.com/business/consumer/trump-s-washing-machine-tariffs-are-costing-americans-almost-100-n999461

[29] *Producer price Index by commodity: Metals and Metal products: Cold rolled steel sheet and strip*. (2025, May 15). https://fred.stlouisfed.org/series/WPU101707

example, if the cost of an imported good increases by 10%, and the domestic profit stays constant in dollar terms, the price of the consumer goods will increase by 5%[30].

Furthermore, by shielding domestic producers from import competition, tariffs allow them to raise their markups, again increasing the cost of domestically produced goods for consumers. Empirical evidence shows that growth in US consumer prices has been restrained in sectors where imports from China have increased. An analysis estimated that U.S. consumers lost $68.8 billion due to price increases from tariffs, with protected U.S. producers gaining $21.1 billion[31].

Long Term Price Trend

Over time, tariffs can encourage domestic production by making imported goods less competitive. However, if domestic production fails to scale efficiently or remains costlier, prices could remain high.

Consumer Sentiment

The anticipation of tariffs can lead to changes in consumer behavior, such as stockpiling goods before tariffs take effect, which can temporarily drive-up prices due to increased demand (demand pull inflation)[32]. Additionally, consumers may seek substitutes for tariff-affected goods, which can sometimes benefit local economies but also means consumers have fewer choices[33]

### 2.3 Channel # 2: Supply Chain Disruptions

A supply chain disruptions can contribute to inflation. When businesses face higher costs due to tariffs, they may seek alternative suppliers to mitigate the costs. However, finding new suppliers isn't always straightforward, it can be time consuming and may result in delays, shortages, and logistical challenges. These disruptions can create a ripple effect, limiting the availability of goods in the market. With demand remaining constant or increasing, but supply constrained, prices tend to rise, fueling inflation. Tariffs introduce friction in supply chains by adding new customs procedures, documentation requirements, and regulatory hurdles. These barriers can lead to delays at borders, congestion at ports, and overall

[30] Boston, F. R. B. O. (2025, February 6). *The impact of tariffs on inflation*. Federal Reserve Bank of Boston. https://www.bostonfed.org/publications/current-policy-perspectives/2025/the-impact-of-tariffs-on-inflation
[31] Varas, J. (2019, August 20). *Evidence that Americans Pay for President Trump's Tariffs - AAF*. AAF. https://www.americanactionforum.org/insight/evidence-that-americans-pay-for-president-trumps-tariffs/
[32] *Shoppers Are Stockpiling in Anticipation of Tariff-Induced Price Increases*. (n.d.). Inc. https://www.inc.com/reuters/shoppers-are-stockpiling-in-anticipation-of-tariff-induced-price-increases/91149749?utm_source=chatgpt.com
[33] Rand, S. (2025, April 30). *The real cost of tariffs: what Americans are feeling*. Attest. https://www.askattest.com/blog/research/how-us-consumers-feel-about-tariffs-2025?utm_source=chatgpt.com

slowdowns in the movement of goods. Companies that rely on just-in-time (JIT) inventory systems, where parts and materials arrive precisely when needed, are the most vulnerable.

Especially in manufacturing sectors like electronics and consumer goods, relied heavily on Chinese suppliers for key components. Companies like Apple or Dell, which use JIT inventory models, experienced severe delays as the tariffs disrupted the smooth flow of materials. As tariffs on Chinese goods ramped up, these companies found themselves facing customs backlogs at ports like Long Beach and Los Angeles, as new customs procedures and documentation requirements slowed down processing. When U.S. Customs began requiring more extensive documentation on certain electronics parts, shipments that would typically clear customs in hours were stuck for days or even weeks. Container ships carrying critical components like semiconductors or circuit boards faced congestion, adding additional time to an already tight supply chain schedule. Because JIT systems rely on timely deliveries of specific parts for manufacturing, any delay can throw the entire production process into disarray. Companies were forced to stop or delay production lines, leading to shortages of products on store shelves. Apple was forced to look for alternative suppliers, but the process of shifting supply sources wasn't instant: it required renegotiating contracts, changing logistics, and adapting to new quality controls, all of which took time[34] [35].

On the other hand, companies might source from Southeast Asia, India, or other countries that are not subject to the same tariffs. While diversification can reduce risk, it can also increase complexity. Managing multiple suppliers in different countries can lead to logistical challenges, increased transportation costs, and the need for more sophisticated supply chain management systems

In the automotive industry, higher production costs due to tariffs could lead to price increases and reduced sales. In the energy sector, tariffs on Canadian energy products could impact U.S. refineries that rely on Canadian crude oil, leading to higher energy costs for consumers and businesses. Canada is the largest exporter of crude oil to the U.S., supplying around 62% of the oil imports, after all[36]. The agricultural sector could also see higher prices for produce and agricultural products imported from Canada and Mexico, such as avocados, strawberries, and beef. About one-quarter of softwood lumber used in the U.S. is imported from Canada each year, and a 25% tariff on Canadian lumber could cause a "supply shock"[37].

[34] Melanie. (2025, February 28). *Why we think the just in time supply chain isn't broken*. Unleashed Software. https://www.unleashedsoftware.com/blog/why-jit-isnt-to-blame-for-broken-supply-chains/
[35] Collier, B. (2025, June 4). *What is Just-In-Time (JIT)? Operations Explained*. Ocasta. https://ocasta.com/glossary/operations/just-in-time-jit/
[36] Jaremko, D. (2025, June 4). *Explained: Why Canadian oil is so important to the United States*. Canadian Energy Centre. https://www.canadianenergycentre.ca/explainer-why-canadian-oil-is-so-important-to-the-united-states/
[37] Lamica, A. (2025, May 22). *Timber Imports: US dependency on Canada explained - Fastmarkets*. Fastmarkets. https://www.fastmarkets.com/insights/can-us-federal-land-offset-imported-canadian-forest-products/

Automotive Industry

A 2018 American Automotive Policy Council estimate stated that the tariffs could raise the price of a vehicle by $2,000 on average[38]. Higher vehicle prices can lead to reduced consumer demand, potentially lowering sales volumes. Cox Automotive downgraded its full-year U.S. auto sales forecast from 16.3 million vehicles to 15.6 million vehicles due to tariffs, indicating a decline of 700,000 vehicles[39], due to economic uncertainty, affordability, and tariff impacts.

Energy Sector

A 10% tariff on Canadian crude could increase refining costs by $2.3 billion annually, resulting in higher energy prices for U.S. consumers. 3-4% increase in the price of gasoline and other refined petroleum products. This translates to an increase of about $0.10 to $0.15 per gallon at the pump for consumers[40].

Lumber

In 2017, the U.S. imposed a 21% tariff on Canadian softwood lumber, which led to a 15-20% increase in lumber prices in the U.S. According to a National Association of Home Builders (NAHB) report, this price increase added an estimated $6,000~$10,000 to the cost of a new home. As a result, homebuilders faced higher construction costs, which led to reduced housing affordability and a slowdown in new home construction. A 25% tariff on Canadian lumber can cause severe supply shortages, as U.S. lumber mills cannot fully meet the domestic demand for softwood.

### 2.4 Channel # 3: Retaliatory Tariffs

Retaliatory tariffs imposed by other countries can intensify inflationary pressures. The situation is often referred to as a "trade war," where both countries experience higher import costs and reduced export opportunities.

[38] Isidore, C. (2018, July 2). *Every US-made car is an import. That's bad news for automakers*. CNNMoney. https://money.cnn.com/2018/07/02/news/companies/auto-tariffs/index.html

[39] *Cox Automotive Forecast: First Quarter New-Vehicle Sales Expected to Increase Year over Year as Market Momentum Shows Signs of Fading - Cox Automotive Inc.* (2025, April 2). Cox Automotive Inc. https://www.coxautoinc.com/news/cox-automotive-forecast-march-2025-u-s-auto-sales-forecast/

[40] Kevin DeCorla-Souza & ICF Resources L.L.C. (2021). [U.S.-Canada Cross-Border Petroleum Trade: An Assessment of Energy Security and Economic Benefits]. In American Petroleum Institute, *American Petroleum Institute*. https://www.api.org/-/media/files/news/2021/04/icf_cross-border_analysis_final.pdf

In an early study, Flaaen and Pierce (2019)[41] analyzed the domestic impacts of the trade war on US manufacturing. They found that the positive effects of tariffs were offset by the higher costs from retaliatory tariffs, resulting in no net increase in manufacturing employment or output. Additionally, tariffs did not effectively protect US manufacturing in the short term, and domestic manufacturers may have lost competitiveness due to retaliatory tariffs.

One of the most immediate impacts of tariffs has been on manufacturing employment. By mid-2019, the U.S. manufacturing sector had experienced a net loss of approximately 175,000 jobs as a result of the 2018–2019 tariff rounds. Empirical analysis by Federal Reserve economists indicates that roughly one-third of these job losses were directly attributable to retaliatory tariffs imposed by foreign governments, while the remaining two-thirds stemmed from increased input costs due to U.S.-imposed tariffs[42]. Specifically, the steel and aluminum tariffs under Section 232 accounted for approximately 75,000 of these job losses, representing about 0.6% of total U.S. manufacturing employment at the time. Beyond the labor market, retaliatory tariffs contributed to elevated economic uncertainty, which in turn suppressed business investment. A study published in the *Journal of Monetary Economics* estimated that trade policy uncertainty in 2018 alone led to a 1.5% decline in U.S. business investment, as firms delayed or scaled back capital expenditures in response to unpredictable trade dynamics.

Beyond the labor market, retaliatory tariffs contributed to elevated economic uncertainty, which in turn suppressed business investment. A study published in the *Journal of Monetary Economics* estimated that trade policy uncertainty in 2018 alone led to a 1.5% decline in U.S. business investment, as firms delayed or scaled back capital expenditures in response to unpredictable trade dynamics[43].

### 2.5 Channel # 4: Exchange Rate and Purchasing Power.

In theory, tariffs imposed by a country should lead to currency appreciation in the tariff-imposing country and depreciation in the country on which the tariff is imposed. Tariffs can influence exchange rates through several mechanisms. When a country imposes tariffs on imports, it reduces the demand for foreign currencies needed to pay for these imports. This can lead to an appreciation of the domestic currency.

[41] Flaaen, A., & Pierce, J. (2019, December 26). *Disentangling the effects of the 2018-2019 tariffs on a globally connected U.S. manufacturing sector*. https://www.federalreserve.gov/econres/feds/disentangling-the-effects-of-the-2018-2019-tariffs-on-a-globally-connected-us-manufacturing-sector.htm

[42] Flaaen, A., & Pierce, J. (2019b, December 26). *Disentangling the effects of the 2018-2019 tariffs on a globally connected U.S. manufacturing sector*. https://www.federalreserve.gov/econres/feds/disentangling-the-effects-of-the-2018-2019-tariffs-on-a-globally-connected-us-manufacturing-sector.htm

[43] Caldara, D., Iacoviello, M., Molligo, P., Prestipino, A., & Raffo, A. (2020). The economic effects of trade policy uncertainty. *Journal of Monetary Economics*, *109*, 38-59.

Conversely, when tariffs are imposed on a country's exports, it can lead to a depreciation of that country's currency.

A depreciation of the Canadian dollar in response to reduced U.S. demand for Canadian exports (and capital outflows) may further raise import prices, amplifying inflation. According to the Bank of Canada's estimates, a 10% depreciation in the Canadian dollar typically adds around 0.25 percentage points to inflation[44]. Therefore, a 5% depreciation would be expected to add approximately 0.125 percentage points to inflation. This impact can be particularly pronounced in sectors such as energy, tech, and auto imports, where prices are more sensitive to currency fluctuations.

During the past, U.S. imposed new tariffs averaging 15.1% on imports from China. Over the same period, the renminbi depreciated by 3%, while the U.S. dollar appreciated by 4% on a multilateral basis. A model suggests that the tariffs should have left the effective exchange rate of the dollar broadly unchanged but should have depreciated the renminbi by around 3%[45].

The appreciation of the domestic currency can have a negative impact on purchases. exported goods and services become more expensive in foreign currency terms. The appreciation of the U.S. dollar significantly reduced U.S. exports to China during this period. U.S. exports to China declined by approximately 5–10% between 2018 and 2019, partly due to the stronger dollar raising the foreign-currency price of American goods. If the U.S. dollar appreciated by 10%, a product priced at $1,000 in U.S. dollars would cost approximately $1,100 in foreign currency terms, thereby reducing the competitiveness of American goods in export markets[46].

[44] Barhat, V. (2025, January 20). *Will the weak Canadian dollar drive inflation higher?* Morningstar CA. https://www.morningstar.ca/ca/news/259451/will-the-weak-canadian-dollar-drive-inflation-higher.aspx

[45] Jeanne, O., & Son, J. (2024). *To what extent are tariffs offset by exchange rates? Journal of International Money and Finance*, *142*, Article 103015. https://doi.org/10.1016/j.jimonfin.2024.103015

[46] Flaaen, A., & Pierce, J. (2019c, December 26). *Disentangling the effects of the 2018-2019 tariffs on a globally connected U.S. manufacturing sector*. https://www.federalreserve.gov/econres/feds/disentangling-the-effects-of-the-2018-2019-tariffs-on-a-globally-connected-us-manufacturing-sector.htm

**Table 4. Historical Overview of Tariffs.**

1. General Agreement of Tariffs and Trade (GATT) and related rounds

1947 GATT

Established to reduce global tariffs and promote international trade. The initial round involved 23 countries and reduced tariffs on $10 billion worth of goods, representing about 20% of global trade.

1949 GATT Round

Focused on further tariff reductions. Participating countries agreed to cut tariffs by an average of 35%, affecting about $3.6 billion in trade.

1956 Dillon Round

Aimed at reducing tariffs and non-tariff barriers. Tariffs were reduced by an average of 15%, affecting $4.8 billion in trade.

1964-1967 Kennedy Round

Resulted in a 35% reduction in tariffs, affecting $40 billion in trade. This round also introduced the concept of binding tariff rates.

1973-1979 Tokyo Round

Focused on non-tariff barriers and further tariff reductions. Tariffs were reduced by an average of 45%, affecting $300 billion in trade.

1986-1994 Uruguay Round

The most comprehensive round, leading to the creation of the World Trade Organization (WTO) and significant reductions in global tariffs. Tariffs were reduced by an average of 40%, affecting $4 trillion in trade.

Impact: Generally led to lower global tariffs and reduced inflationary pressures by promoting free trade and reducing trade barriers.

2. Voluntary Export Restrainte (VERs) and Quotas
   1970-1980

   Used by the U.S. to limit imports of Japanese cars and steel. These measures were intended to protect domestic industries but led to trade tensions and retaliatory actions from affected countries.

   Impact: Often led to higher prices for affected goods, contributing to inflationary pressures in the short term.

3. The Corn Laws (UK)
   1815-1846

   These tariffs were imposed to protect domestic agriculture by restricting grain imports. They led to higher food prices and significant political and economic debates, eventually being repealed in 1846.

   Impact: Resulted in higher food prices, contributing to inflation during their implementation.

4. Tariff of Abominations (US)
   1828

   A high tariff imposed to protect Northern manufacturers but heavily criticized in the South for raising prices on imported goods. It led to significant political tensions and was partly responsible for the Nullification Crisis.

   Impact: Raised prices on imported goods, contributing to inflationary pressures in the U.S.

5. Harmonized Tariff Schedule (HTS)
   1989

   Established a standardized system for classifying traded products. It aimed to simplify and harmonize tariff classifications across countries, reducing trade barriers and improving transparency.

   Impact: Aimed to reduce trade barriers and generally had a neutral or deflationary impact on prices.

6. Steel and Aluminum Tariffs (US-EU)
   2002

   The U.S. imposed tariffs on steel and aluminum imports, citing national security concerns. The EU retaliated with tariffs on U.S. goods, leading to trade tensions and increased prices for affected products.

   Impact: Led to higher prices for steel and aluminum, contributing to inflationary pressures in the U.S.

7. US-China Trade War Tariff
   2018-present

   The U.S. imposed tariffs on Chinese goods, citing unfair trade practices. China retaliated with tariffs on U.S. goods, affecting a wide range of products. The tariffs led to higher prices for consumers and businesses, with estimates suggesting a 0.5% increase in U.S. core PCE inflation.

   Impact: Resulted in higher prices for a wide range of goods, contributing to inflationary pressures in both the U.S. and China

8. US-China, Canada, Mexico.
   Present

## Section 3. Global Context, Post Trade Wars: US – China, EU

Trade wars have become a prominent aspect of G7 trade policies in recent years. The United States initiated a series of tariffs on imported goods, primarily targeting China. These tariffs were presented as a means to address trade imbalances, safeguard domestic industries, and protect national security. Over time, the scope of the tariffs expanded to include a broad range of products. The escalation prompted China and other countries to implement retaliatory tariffs, further intensifying trade tensions.

Other G7 countries have also implemented tariffs and quotas to protect their domestic industries. For instance, the European Union (EU) has imposed tariffs on U.S. goods in response to the U.S. tariffs. Additionally, the UK, following Brexit, has had to renegotiate trade agreements with other G7 countries and the EU, leading to changes in its trade policies.

### 3.1 United States

Tariffs have an impact on the U.S. GDP by influencing trade flows, domestic production, and consumption patterns. In recent years, especially those imposed during the U.S.-China trade war, have had a noticeable impact on economic growth. In 2018, the U.S. imposed tariffs on $250 billion worth of Chinese goods, with $34 billion of retaliatory tariffs from China, and later on additional goods[47].

A report from the IMF estimated that the U.S.-China trade war reduced Global. GDP growth by 0.3% in 2019[48]. Specifically, the trade war led to a reduction in U.S. exports, particularly in agricultural products like soybeans, pork, and automobiles. U.S. exports to China fell by 26% in 2019[49]. U.S. soybean exports to China plummeted by 70% from 2018 to 2019. While some sectors benefitted from tariff protection, such as steel producers, who saw a 30% rise in steel prices in 2018, though the broader economy experienced negative repercussions, especially in manufacturing and agriculture[50].

The overall impact on GDP has been more complex. A study by economists at the Peterson Institute for International Economics suggested that the tariffs imposed by the U.S. and China were likely to reduce long-term economic growth by 0.1% to 0.2% annually, translating to a potential $100 billion loss in GDP

[47] U.S.-China tariff actions since 2018: An overview. (2025). In CRS Reports, *CRS Reports*. https://www.congress.gov/crs_external_products/IF/PDF/IF12990/IF12990.1.pdf
[48] *The impact of US-China trade tensions*. (2019, May 23). IMF. https://www.imf.org/en/Blogs/Articles/2019/05/23/blog-the-impact-of-us-china-trade-tensions
[49] *How the US-China Trade War Affected the Rest of the World*. (n.d.). NBER. https://www.nber.org/digest/202204/how-us-china-trade-war-affected-rest-world
[50] *The impact of US-China trade tensions*. (2019b, May 23). IMF. https://www.imf.org/en/Blogs/Articles/2019/05/23/blog-the-impact-of-us-china-trade-tensions

over five years. Additionally, the disruption in global supply chains and reduced international demand for U.S. goods constrained the economic expansion expected from consumer and business investment[51].

The GDP impact is not just a consequence of direct tariff impositions but also a result of reduced business confidence and investment. A 2019 survey showed that 56% of manufacturers reported lower confidence in the economy due to tariff uncertainty[52]. As a result, U.S. companies delayed expansion plans, leading to slower growth. Another survey indicated that 87% of small and medium-sized manufacturers might need to raise prices due to tariffs, and one-third could slow hiring[53].

The OECD has cut its global growth forecast for 2025 to 2.9%, down from 3.3% in December 2024 and 3.1% in March 2025, based on the assumption that current tariff rates will remain through 2026. The U.S. and key trade partners—China, Canada, and Mexico—are expected to be hit hardest. U.S. GDP growth is now projected to drop from 2.8% in 2024 to 1.6% in 2025 and 1.5% in 2026, significantly below earlier estimates of 2.4% and 2.1%, underscoring the tariffs' negative impact[54].

The impact on prices was felt across industries that rely on metals as raw materials, such as the automobile and construction sectors. The 2018 tariffs imposed a substantial burden on U.S. industry, prompting nearly 100,000 exemption requests within the first year, as firms contended they were unable to procure specific steel and aluminum inputs domestically at competitive prices. The exemption process proved slow and bureaucratic, leaving many applications unresolved for months. For major manufacturers, the financial impact was considerable—Ford's CEO publicly estimated that elevated metal costs resulted in approximately $1 billion in lost profits. The Automotive Policy Council estimated that the tariffs added, depending on the model, approximately 1% to 2% to the cost of U.S. automobile production[55]. Moreover, tariffs on Chinese imports, which disproportionately affect consumer goods, have been particularly difficult for low-income households. The Peterson Institute for International Economics projected that a typical middle-income family could pay about $2,600 more annually for all goods, with much of that coming from increased food costs[56].

---

[51] Studying Politics. (n.d.). *Peterson Institute: Trump's threatened tariffs projected to damage economies of US, Canada, Mexico, and China*. StudyingPolitics.org. https://studyingpolitics.org/news/peterson-institute-trumps-threatened-tariffs-projected-to-damage-economies-of-us-canada-mexico-and-chinas

[52] Leonard, M. (2019, June 25). 56% of manufacturers say trade issues are a top concern. *Supply Chain Dive*. https://www.supplychaindive.com/news/trade-issues-top-National-Association-Manufacturers-NAM/557566/

[53] Barr, A. (2025, April 2). *As tariffs hit, manufacturers brace for impact*. NAM. https://nam.org/as-tariffs-hit-manufacturers-brace-for-impact-33695/

[54] OECD. (2025). *OECD economic outlook, volume 2025 issue 1*. OECD Publishing. https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2025-issue-1_83363382-en.html

[55] U.S. Senate. Committee on Finance. (2018). *The President's 2018 trade policy agenda* (S. Hrg. No. 115–40897). U.S. Government Publishing Office. https://www.govinfo.gov/content/pkg/CHRG-115shrg40897/pdf/CHRG-115shrg40897.pdf

[56] Ita, D. (2025, January 16). *How tariffs on Chinese goods could affect your grocery bill*. Investopedia. https://www.investopedia.com/tariffs-on-chinese-goods-8773900

**Exhibit 7. OECD Cuts Global Growth Forecast in Light of Tariff Threat.**

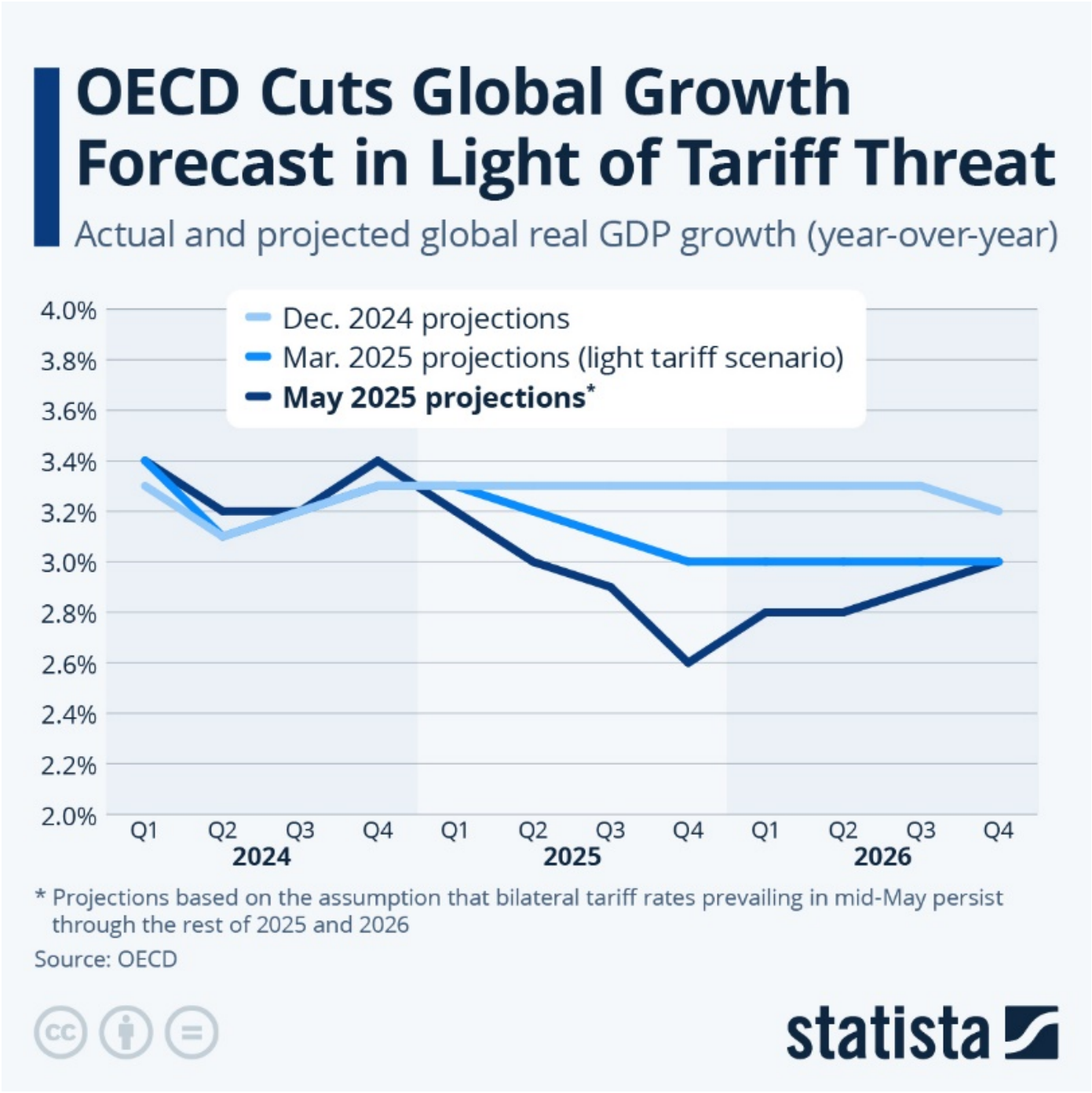
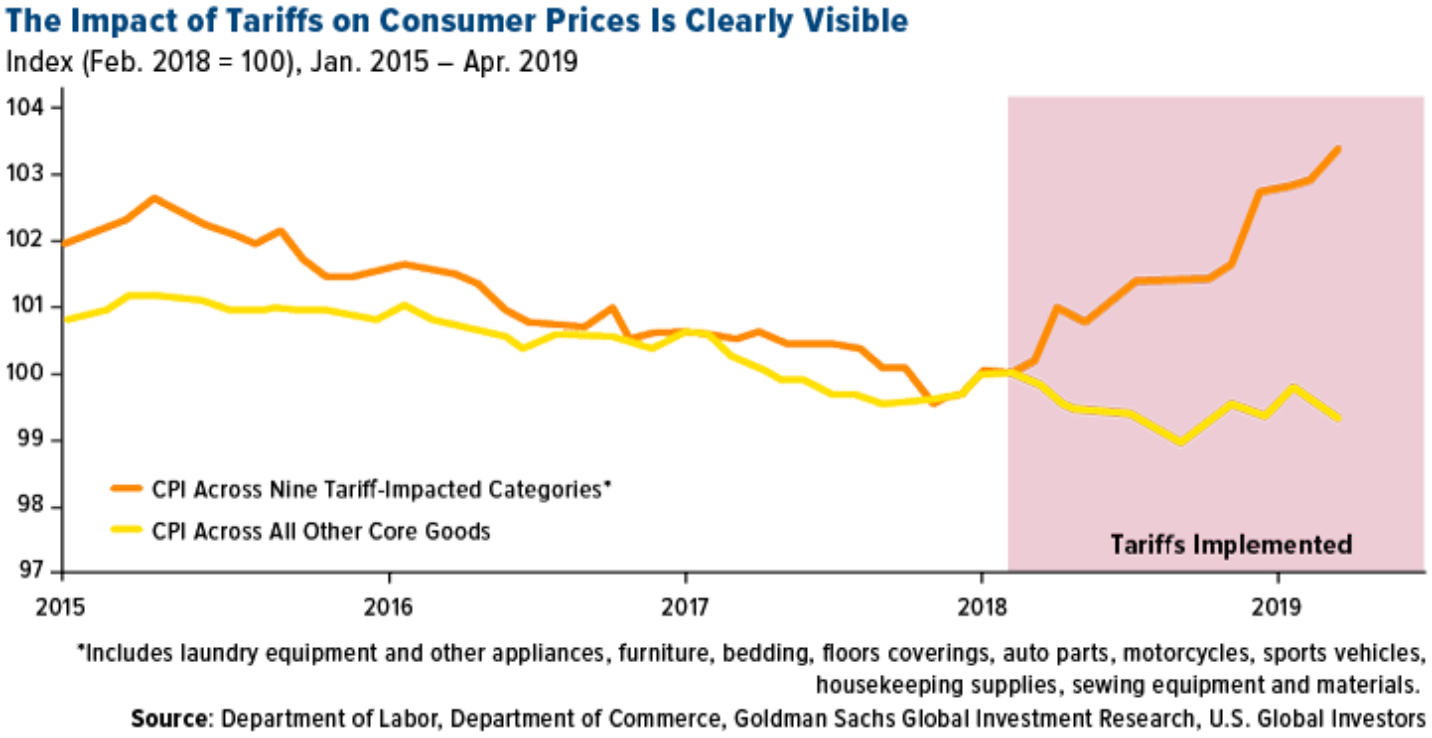


**Exhibit 8. The Impact of Tariffs on Consumer Price**




*Includes laundry equipment and other appliances, furniture, bedding, floors coverings, auto parts, motorcycles, sports vehicles, housekeeping supplies, sewing equipment and materials.

**Source**: Department of Labor, Department of Commerce, Goldman Sachs Global Investment Research, U.S. Global Investors

The impact of tariffs on the U.S. job market is complex and varies across sectors. In some cases, tariffs have resulted in job gains in protected industries, but these gains have often been offset by job losses in other sectors, particularly those reliant on imports and global supply chains.

A key example of this dynamic is the U.S. steel industry which benefited domestic steel producers, including major companies like U.S. Steel and Nucor. However, the job gains were limited in scale. According to a report by the U.S. International Trade Commission, the steel tariffs led to the creation of around 4,800 jobs in the U.S. steel industry. But the broader impact on the U.S. economy was negative[57]. Specifically, for every job created in the steel industry, approximately 16 jobs were lost in industries that rely on steel, such as automotive manufacturing, appliance production, and construction. Overall, the tariffs resulted in a net loss of 146,000 U.S. jobs after accounting for the positive impacts on U.S. steel and aluminum producers[58].

[57] Prasad, K. (2025, January 29). *Fact check: Did the 2018 steel tariff make US steel production more profitable?* Econofact. https://econofact.org/factbrief/did-the-2018-steel-tariff-make-us-steel-production-more-profitable

[58] Francois, J., & Baughman, L. M. (2018, March 5). *Does import protection save jobs? The estimated impacts of proposed tariffs on imports of U.S. steel and aluminum* (Policy Brief). The Trade Partnership. https://tradepartnership.com/reports/does-import-protection-save-jobs-the-estimated-impacts-of-proposed-tariffs-on-imports-of-u-s-steel-and-aluminum-2018/

The trade war has also led to a substantial decline in U.S. agricultural exports to China. In 2018, U.S. agricultural exports to China fell by $10.5 billion, representing a 53.6% decrease. This decline had a profound impact on U.S. farmers, particularly those in states like Iowa, Illinois, and Nebraska[59]. One of the most affected industries was the soybean sector. U.S. soybean exports to China dropped from $12 billion in 2017 to just $3 billion in 2018, a decline of 75%[60]. Illinois faced a loss exceeding $1.25 billion in soybean exports, while Iowa experienced losses between $1 billion and $1.25 billion.

Despite efforts by the U.S. government to compensate agricultural losses with $12 billion in aid under the Market Facilitation Program, the overall impact on the labor market remained negative. In total, the trade war resulted in the loss of over 7,000 agricultural jobs by the end of 2019, according to estimates from the U.S. Department of Agriculture.

One of the primary justifications for tariffs, especially under the Trump administration, was national security. Section 232 of the Trade Expansion Act of 1962 allowed the U.S. to impose tariffs on steel and aluminum imports under the argument that reliance on foreign metals could undermine national security. This justification was particularly critical in the case of U.S.-China trade tensions, where the U.S. also imposed tariffs on technology imports under the guise of protecting intellectual property.

The U.S. also imposed tariffs in response to large trade imbalances, particularly with China. The trade deficit with China in 2018 stood at an estimated $419 billion. U.S. policymakers argued that the tariffs would reduce this imbalance by making Chinese goods more expensive and encouraging consumers to purchase more domestic products. However, the long-term effects of these tariffs were more complicated, as retaliatory tariffs from China and other countries led to diminished export opportunities for U.S. businesses.

Tariffs were also driven by political pressure, particularly from manufacturing states in the Midwest and Rust Belt, which had seen jobs shift overseas due to trade imbalances[61]. Protectionist sentiment was particularly strong in industries like steel, coal, and automotive manufacturing. These sectors lobbied heavily for tariff protection, arguing that cheap foreign imports were undercutting domestic production and job opportunities. This pressure culminated in the 2018 steel and aluminum tariffs, which were viewed as a way to preserve jobs and support local industries.

---

[59] United States International Trade Commission. (2019, December). *Agricultural products* [from *Shifts in U.S. Merchandise Trade, 2018*]. U.S. International Trade Commission. https://www.usitc.gov/research_and_analysis/trade_shifts_2018/agriculture.htm

[60] Coface. (2025, March 27). *From prosperity to decline: U.S. soybeans and the fallout of the Sino-American trade war*. Coface. https://www.coface.com/news-economy-and-insights/from-prosperity-to-decline-u.s.-soybeans-and-the-fallout-of-the-sino-american-trade-war

[61] Russ, K., & Russ, K. (2025, March 10). *Steel tariffs and U.S. jobs revisited | Econofact*. Econofact | Key Facts and Incisive Analysis to the National Debate on Economic and Social Policies. https://econofact.org/steel-tariffs-and-u-s-jobs-revisited

### 3.2 EU

The European Union (EU) has also seen impact by the imposition of tariffs, particularly in the context of trade disputes with major global powers such as the United States and China. These trade conflicts, which escalated in recent years, have had direct consequences for EU GDP growth, export performance, and overall economic output.

The EU is a major steel supplier to the U.S. – about $7.2 billion of EU steel and aluminum exports were affected. Following the steal and aluminum imposed by US, the EU strategically imposed retaliatory tariffs on iconic American products, such as Harley-Davidson motorcycles, Levi's jeans, bourbon whiskey, peanut butter, orange juice, and cranberries—to apply political pressure by targeting goods with economic significance. Although the trade value of individual items was relatively modest ($700 million annually for U.S. whiskey exports to Europe), their visibility made them effective tools for impact. The strategy proved successful, as U.S. whiskey exports to the EU dropped by approximately 20% following the 25% tariff[62].

By late 2019, manufacturing activity had slowed in both the U.S. and EU, partly due to escalating trade tensions. Germany narrowly avoided recession, and U.S. manufacturing experienced a mild slump amid investor uncertainty and recession fears. While the tariffs aimed to reduce the U.S. trade deficit with Europe,

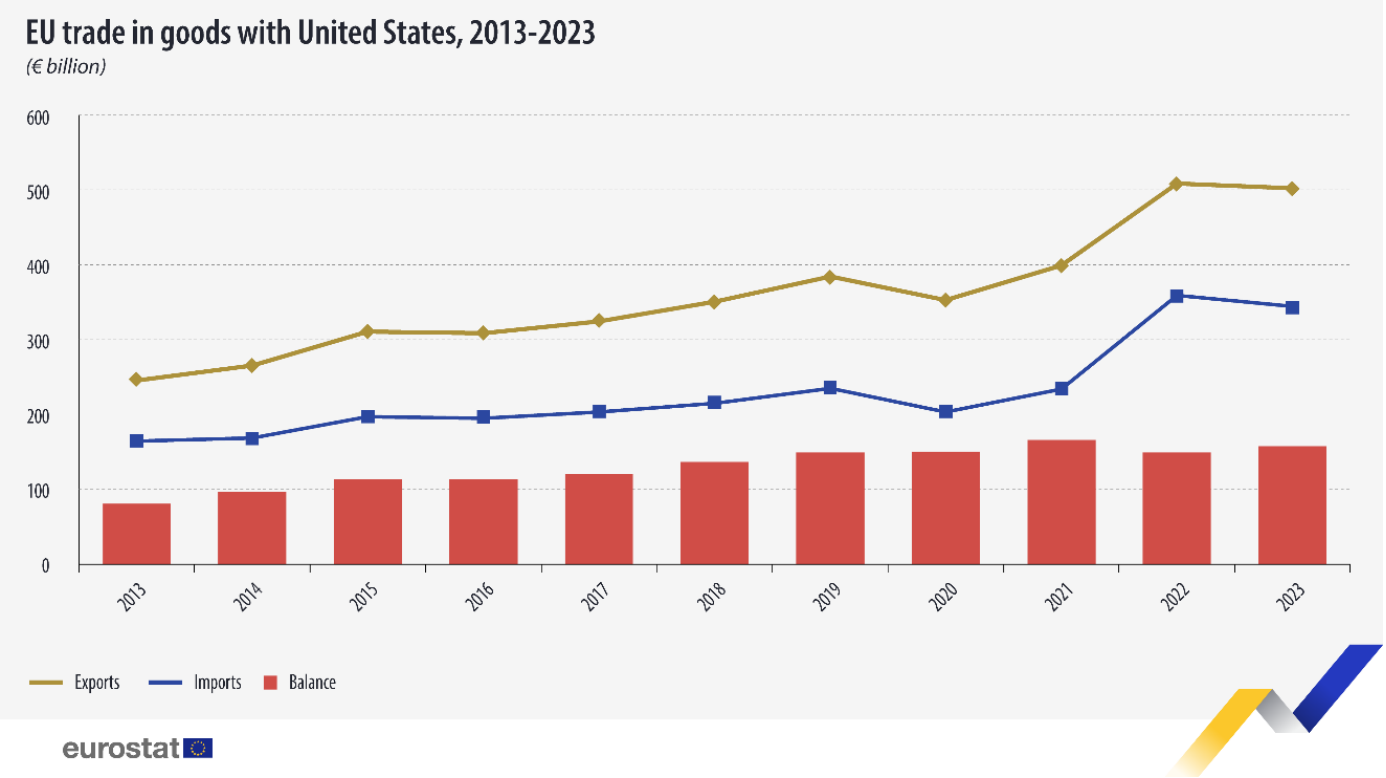
the U.S. goods trade deficit with the EU increased to record levels in subsequent years. Despite tariffs, strong U.S. demand and the EU's competitive export sector sustained the trade imbalance. Overall EU exports to the U.S. declined only slightly in 2018–2019, as key sectors like pharmaceuticals, machinery, and aircraft were largely unaffected. However, EU steel and aluminum exports to the U.S. dropped sharply, falling 53% between 2018 and 2020, due to tariffs. Ultimately, the tariff war modestly slowed economic growth and disrupted trade patterns without fundamentally shifting the structural drivers of the transatlantic trade imbalance.

While a comprehensive deal never materialized, smaller goodwill measures emerged, such as increased EU imports of U.S. soybeans and LNG, and a modest 2019 agreement on tariffs for items like lobsters and crystalware. Legal challenges also unfolded at the WTO, which ruled against the U.S. tariffs in 2022, though enforcement stalled due to a non-functional appeals process. A major breakthrough came under the Biden administration in 2021, which negotiated a truce: the U.S. lifted most tariffs on EU metals in exchange for quotas, and the EU dropped its retaliatory measures. Both sides also agreed to future negotiations under the Global Arrangement on Sustainable Steel and Aluminum (GASSA), aiming to tackle global overcapacity and emissions. Additionally, 2021 saw resolutions to other trade disputes, including the Airbus-Boeing

[62] Klasa, A., Speed, M., & Bounds, A. (2025, April 7). EU drops bourbon, wine and dairy products from tariffs list against US. *Financial Times*. https://www.ft.com/content/180063de-15a8-4077-8daf-a6a591e117ec

case and digital services taxes, marking a broader U.S.-EU trade reset and effectively closing the chapter on the 2018 tariff war.

**Exhibit 9. EU Trade Balance with US.**




The imposition of tariffs on the EU economy has been driven by several key factors, including political motivations, economic protectionism, and trade imbalances. The U.S.-EU trade disputes have been one of the most prominent drivers of tariff impositions, with the U.S. targeting specific sectors within the EU economy.

National Security Concerns: The U.S. steel and aluminum tariffs were justified on the basis of national security under Section 232 of the Trade Expansion Act of 1962. The U.S. argued that reliance on foreign steel could undermine the country's defense capabilities, despite the EU being a close ally. The EU, in turn, viewed these tariffs as politically motivated and aimed at gaining leverage in broader trade negotiations.

Economic Protectionism and Trade Imbalances: U.S. tariffs were also driven by economic protectionism and the desire to correct perceived trade imbalances. The EU's trade surplus with the U.S. in areas like automobiles and machinery made these sectors prime targets for tariff impositions.

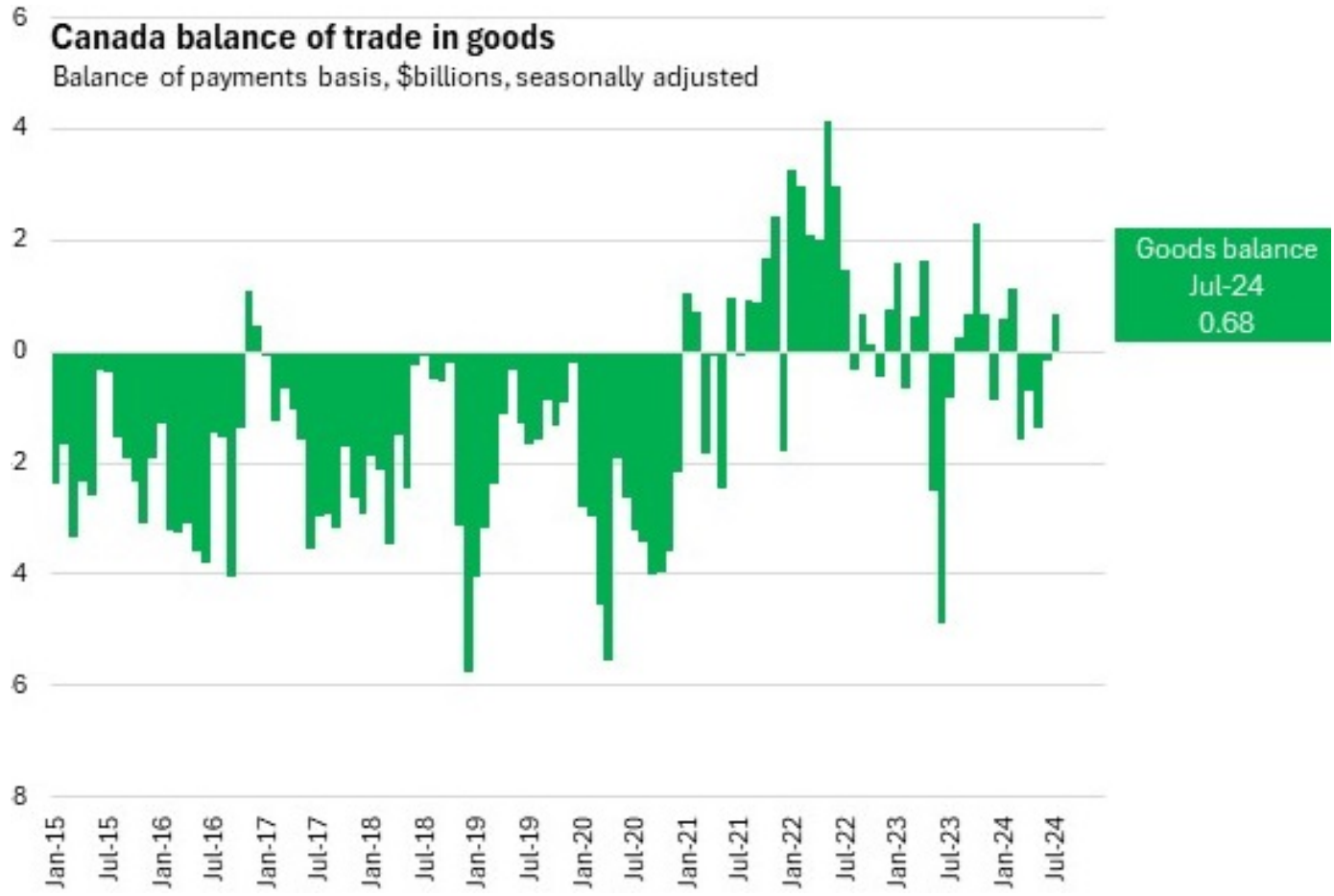
Political Pressures: Domestic political pressures, particularly from industries like steel and automobile manufacturing, played a role in the imposition of tariffs. The U.S. trade war with China also influenced tariff decisions, with the EU caught in the crossfire as a result of global trade disruptions.

## Section 4. Canada and Sectorial Analysis

In 2023, Canada accounted for 2% of global GDP, while its trade flows represented approximately 2.5% of global trade. Two-way trade in goods and services made up 67% of Canada's GDP in 2023, a proportion higher than that of China (37%) and the US (24%), but lower than Mexico (73%) and the EU (100%). In 2023, Canada had a modest trade deficit of -$13.1 billion CAD. Excluding energy, Canada's trade deficit widened to -$187 billion CAD in 2023, and has been running a trade deficit excluding energy since 2007. The majority of Canadian goods and services are exported internationally (64%) rather than interprovincially (36%). Since 2010, international trade has grown at twice the rate of interprovincial trade, with international trade increasing by 36% compared to 18% for interprovincial trade.

**Exhibit 10. Canada Balance of Trade in Goods (2015-2024)**

Balance of Payments Basis, $Billions, seasonally Adjusted.



In 2023, Canada's overall exports amounted to approximately $965 billion CAD, with energy exports contributing $174 billion to this total. Of the overall exports, goods exports were valued at $768 billion CAD (80%), while services exports accounted for $197 billion CAD (20%). **Energy was the leading sector, making up 18% of Canada's exports in 2023, followed by automotive and parts (11%), metals and non-metals minerals (10%), and consumer products (9%).** The top two exporting provinces, Ontario and Alberta, accounted for 60% of Canada's overall exports in 2023, largely due to their significant contributions to oil production and automotive manufacturing[63].

Canada's overall imports were approximately $978 billion CAD. Goods imports accounted for $770 billion CAD, which is 79% of the total, while services imports were $208 billion CAD, or 21%. **The largest importing sectors in Canada were consumer products (15%), motor vehicles and parts (15%), electronics (9%), and metal and non-metallic products (7%).** Ontario was responsible for 41% of Canada's overall imports. In terms of imports as a share of GDP, Ontario (41%), New Brunswick (34%), and Manitoba (33%) imported the largest volumes of goods. These high shares may be partially due to the import of intermediary goods used as input by manufacturers. **The United States was the primary country of origin for Canadian imports**, accounting for 44%. Other significant sources of imports were China (11%), the EU (10%), Mexico (5%), and Japan (2%).

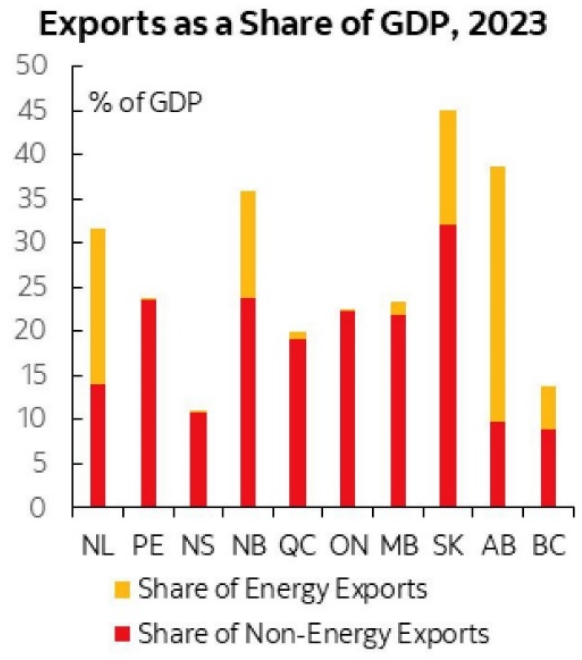
In 2023, exports accounted for roughly 34%, or one third of Canadian GDP. On average, exports accounted for 26% of provincial GDP in 2023, with shares ranging from 13% in British Columbia to 45% in Saskatchewan. While energy is a substantial percentage of Canada's overall exports, only Newfoundland and Labrador and Alberta see energy exports account for a larger share of GDP than non-energy exports. Energy and automotive/parts exports combined accounted for 9% of GDP in 2023.

Exports are responsible for 12% to 22% of total jobs across the provinces, with Saskatchewan (22%), Alberta (19%), and Ontario (18%) relying on exports the most. Direct jobs due to exports are highest in Ontario (675,000), Quebec (359,000), and British Columbia (219,000). Total jobs, including both direct and indirect roles, due to exports are highest in Ontario (1.2 million), Quebec (627,000), and Alberta (397,000). Manufacturing accounts for 39% of total Canadian direct and indirect jobs attributable to exports.

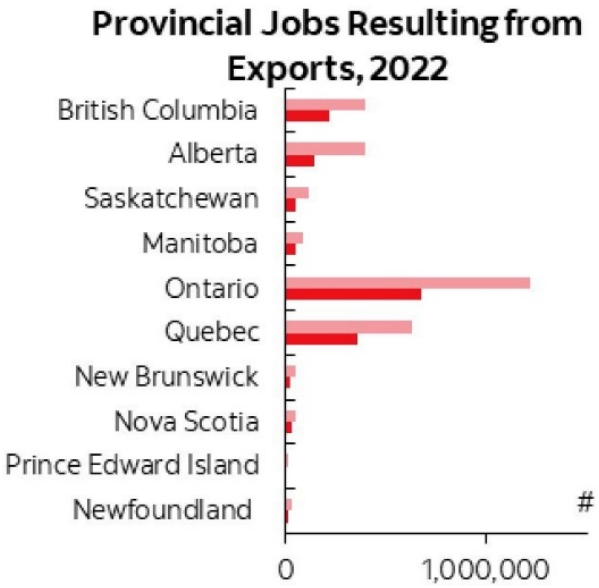
That being said, approximately 70% of Canada's exports and 50% of its imports are with the United States, making the Canadian economy highly exposed to U.S. trade policy. A 25% tariff on Canadian goods would initially burden American importers, who are responsible for paying the tariff to the U.S. government. However, since trade flows between Canada and the U.S. are integrated, raising tariffs on U.S. imports would also raise costs for U.S. exporters, and in turn, feed through to higher Canadian import costs.

[63] *Canada-US trade: Getting up to speed*. (n.d.). Post. https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.canada-and-us-economics-.canada-and-us-decks.trade-stats--january-31--2025-.html

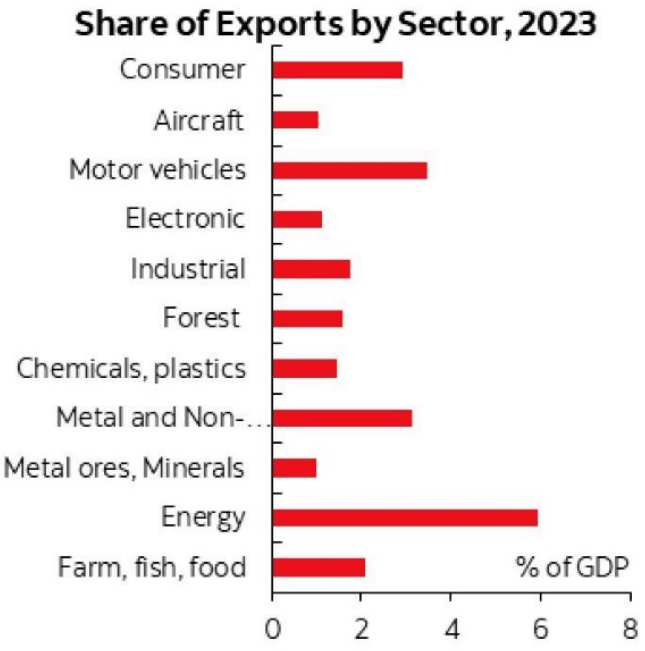
**Exhibit 11. Trade is Core Contributor to Canadian Economy**



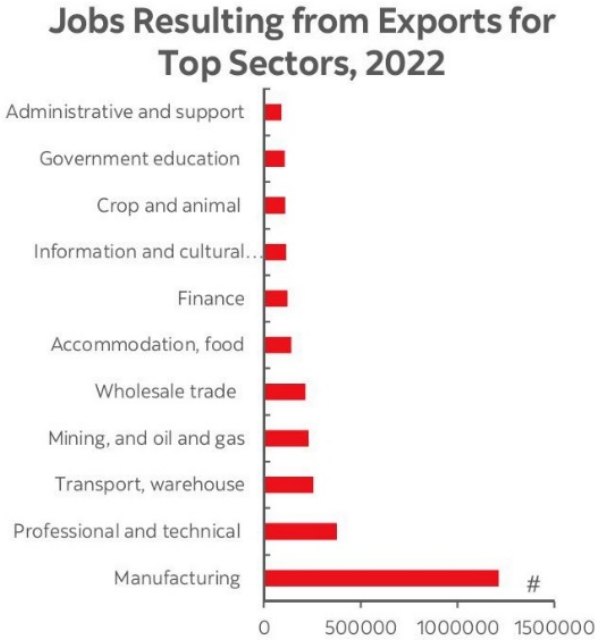

Sources: Scotiabank Economics, Statistics




Sources: Scotiabank Economics, Statistics Canada.

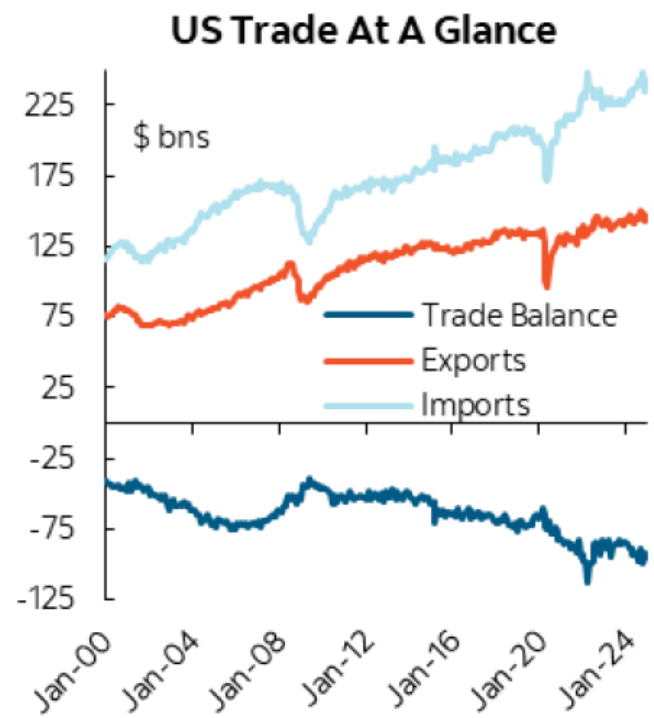



Sources: Scotiabank Economics, Statistics Canada.




Sources: Scotiabank Economics, Statistics Canada.

**Exhibit 11. Trade is Core Contributor to Canadian Economy (Cont.)**




Sources: Scotiabank Economics, US Census Bureau.


Sources: Scotiabank Economics, US Census Bureau.

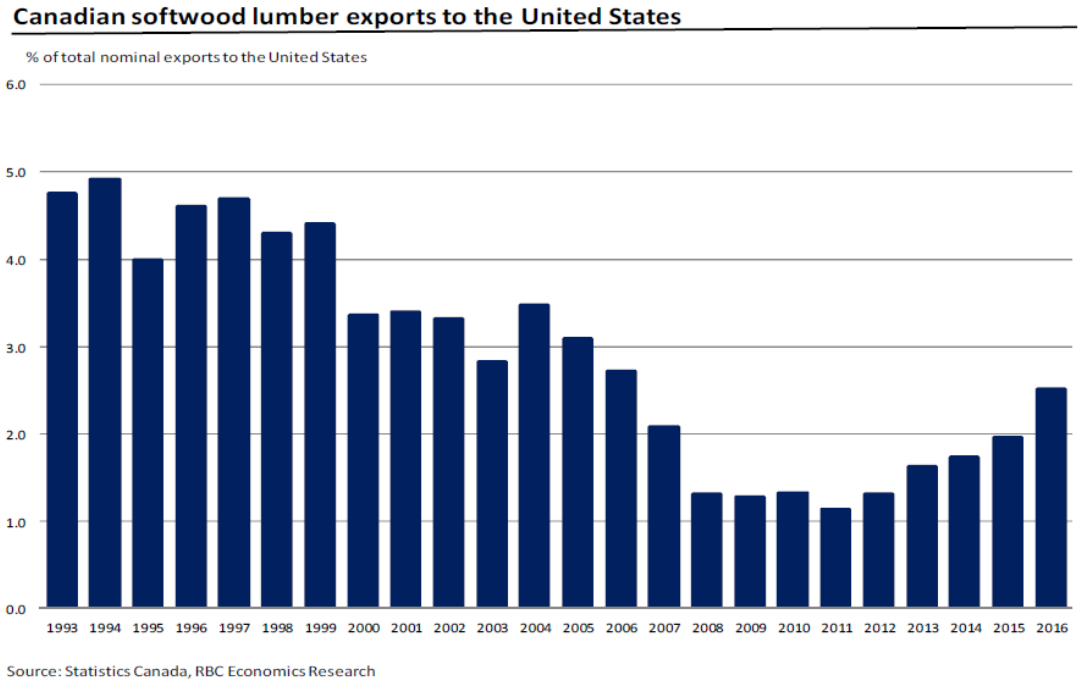
### 4.1 Past Tariff on Lumber, 2017[64]

Countervailing and anti-dumping duties have increased the price of Canadian lumber in the U.S. market, which has dampened demand and added to the challenges faced by Canada's forestry sector. In 2016, Canada exported CAD 9 billion worth of softwood lumber products to the U.S., accounting for 2% of Canada's total exports to the U.S. and approximately 0.4% of Canadian GDP. Given that forestry, logging, and wood manufacturing represent 1% of Canadian GDP, the broader impact on the Canadian economy is likely to be relatively minor. However, the impact is more pronounced in British Columbia, which is the source of more than half of Canada's softwood lumber exports to the U.S., although lumber exports only account 2% of BC's economy.

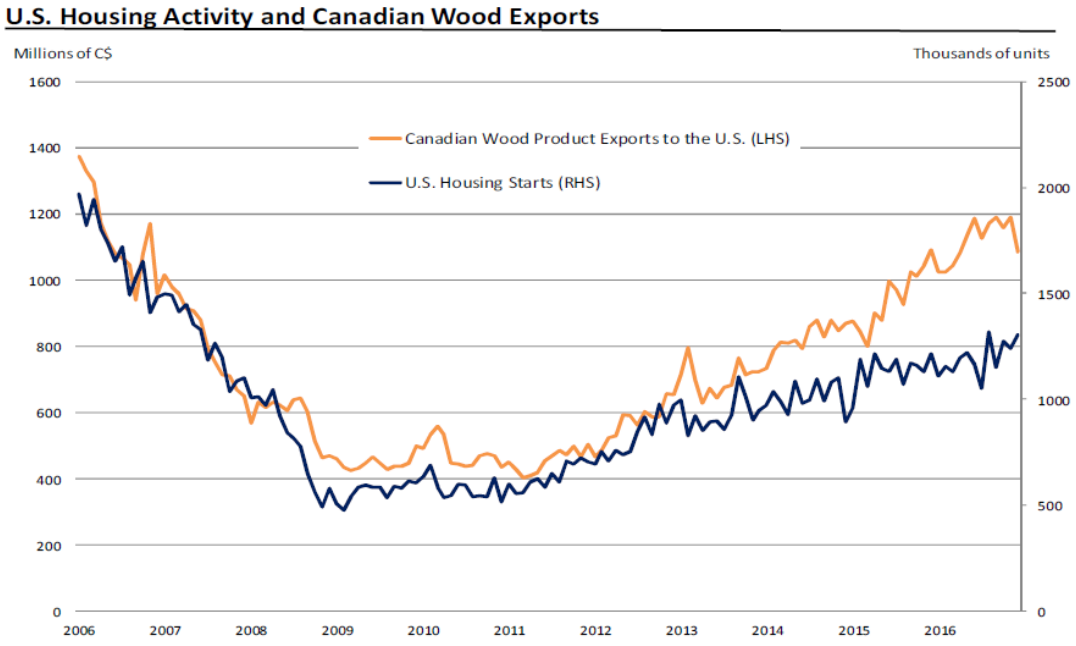
[64] Cooper, L., Janzen, N., & RBC Economics Research. (2017). Softwood lumber: A shot across the bow? In *Trade*. https://www.rbc.com/en/wp-content/uploads/sites/4/2024/11/softwood_lumber_may2017.pdf

In 2016, one-third of the lumber used in the U.S. was imported, with 95% of that coming from Canada. As a result, the imposition of 20% tariffs on Canadian wood products has led to higher prices for U.S. homebuyers, consumers, and businesses. The National Association of Home Builders estimates that the increase in lumber prices will add nearly US$3,600 to the cost of a home in the U.S.

**Exhibit 12. Canadian Softwood Lumber Exports to the United States**




Source: Statistics Canada, RBC Economics Research

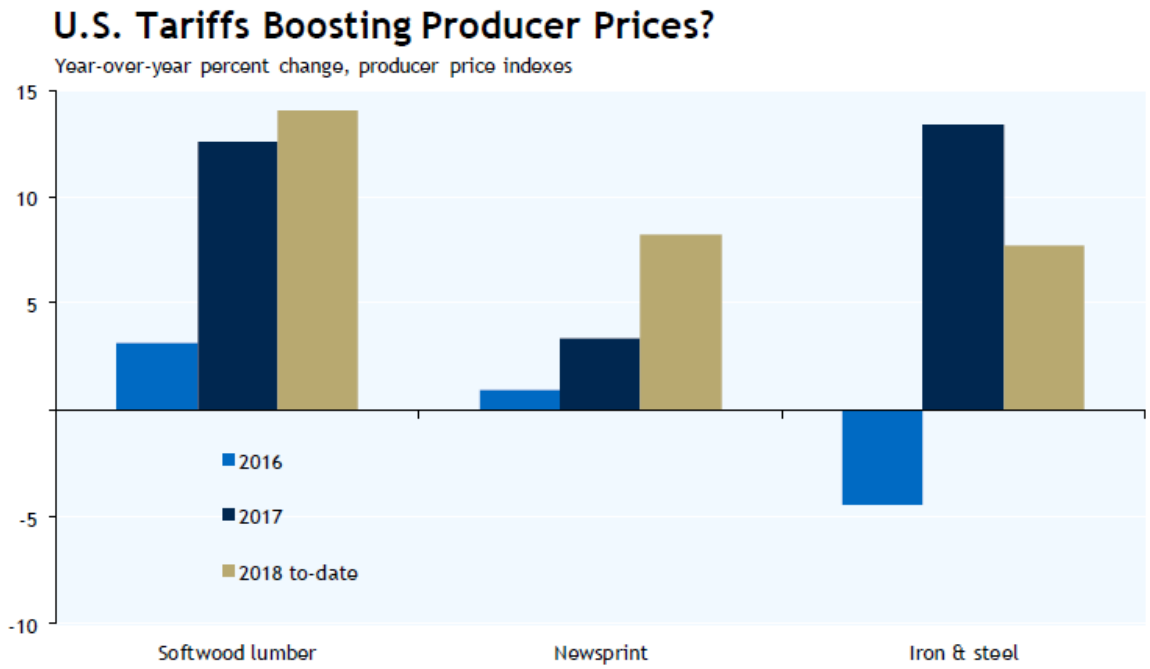



Source: Census Bureau, RBC Economics Research

### 4.2 Past Tariff on Steel and Aluminium, 2018[65]

As of 2018, nearly 90% of Canada's steel and aluminum exports are destined for the United States, making it evident that the new tariffs will significantly impact these industries. While steel and aluminum production directly affected by the tariffs does not constitute a large portion of the Canadian economy, approximately half of Canada's steel exports and three-quarters of its aluminum exports will be subject to these tariffs. This represents about 3% of Canada's total exports. Regionally, Ontario and Quebec are particularly affected, with Ontario accounting for roughly 80% of Canadian steel exports and Quebec for about 75% of aluminum exports. Combined, steel and aluminum production represent approximately 0.5% of Canadian GDP and employment.

**Exhibit 13. US Tariffs Boosting Producer Prices?**




Source: Haver, RBC Economics Research

[65] Cooper, L., Janzen, N., & RBC Economics Research. (2017). Softwood lumber: A shot across the bow? In *Trade*. https://www.rbc.com/en/wp-content/uploads/sites/4/2024/11/softwood_lumber_may2017.pdf

**Exhibit 14. Seven Ways a US Tariff Would Likely Flow Through Canadian Economy.**

# Seven ways a U.S. tariff would likely flow through Canada's economy

**Before the tariff is applied…**

- **1. Uncertainty about the future could result in Canadian business activity and investing pausing** as companies struggle to make big plans and investments without clarity on their future environment.
- **2. Americans are likely to stock up on impacted Canadian goods, temporarily boosting growth on both sides.** If a tariff is announced, but doesn't come into effect for a period of time, past experience suggests that companies can (and do) stockpile inventory ahead of a price increase. That has the effect of initially bolstering trade activity (and growth) on both sides of the border, but at the expense of future growth. This can also occur under threatened (but not realized) tariffs.

**Once the tariff is applied…**

- **3. The price for Canadian goods rises for American importers, and demand for these goods likely declines. How much it declines depends on multiple factors.**
  - **a. Has the currency stabilized to make Canadian goods cheaper?** A weaker Canadian dollar (and a stronger U.S. dollar) can offset some of increased costs created by the tariff for the American importer.
  - **b. Are there U.S. (or other) lower-cost goods that can be substituted for the tariffed Canadian product?** The hit to demand will be larger if there's an option to alternate to a cheaper product. If not, demand remains more resilient.
  - **c. Who is importing the good and can they absorb the cost?** Producers, for example, might have sufficient profit margins to absorb higher costs without passing it onto consumers. Consumers may also be able to absorb a price increase (pricing power) without cutting back. The opposite can also be true, zapping demand.
- **4. Retaliatory measures may come into place** at some point in this process, perhaps before or after the U.S. tariff is imposed. Retaliatory measures bring further economic implications, likely dampening growth and increasing inflation for Canadians, but the size and scope of the measures result in a range of economic impacts in turn.

**Exhibit 14. Seven Ways a US Tariff Would Likely Flow Through Canadian Economy (Cont.)**

- **5. Secondary industries could start to feel the impact of reduced activity in the export sector,** weighing on employment in areas of the economy that didn't have tariffs directly imposed. For example, consider a town that sees auto production pull back significantly, reducing employment in a plant that has knock on effects on the town's restaurants, movie theatres and other services.
- **6. The Bank of Canada response to tariffs can support or further dampen growth.** Tariffs represent a complicated setup for central banks. They tend to increase costs (inflationary), but they also weaken an economy (deflationary). Most central banks have been clear that they are less likely to respond to inflation directly generated from tariffs, because they increase the price once, and then no longer contribute to year-over-year inflationary pressures. However, the follow on impact of rising inflation driven by a drop in demand could be more damaging. How the Bank of Canada will respond to this environment is not clear, but it has implications for other sectors like housing that could provide an offset from further interest rate cuts.
- **7. Fiscal support may soften the economic impacts of a tariff shock and affect near-term forecasts.** How federal and provincial governments respond could create further variability in the outlook. Near-term policies designed to support sectors and employees impacted by tariffs could help lessen the initial pain, but it's likely that more support would be needed to bolster the economy's longer term growth trajectory. Unlike the global financial crisis and the Covid-19 pandemic, Canada wouldn't be part of a global fiscal expansion in concert with its peers. It would likely be responding to a Canada-specific shock that would likely weaken its place relative to its fiscal peers . This could bring Canada's triple-A credit rating into debate as well, leaving the government to navigate difficult choices about its fiscal position.

**How a U.S. tariff flows through the Canadian economy**

Tariffs can be simply thought of as additional price added to goods when they cross the boarder, meaning that industries that rely heavily on trade compared to their domestic production will be the most exposed.

As stated previously, years of free trade have created deeply interconnected supply chains between Canada and the U.S., especially for intermediate goods that often cross the border multiple times during manufacturing. Each crossing can trigger additional tariffs, compounding the cost.

The auto industry exemplifies this integration, with Canadian trade in motor vehicles with the U.S. being ten times the sector's contribution to Canada's GDP. In fact, over 60% of Canada's manufacturing sector trades with the U.S. at levels at least double their domestic production, highlighting their vulnerability to tariffs.

**Exhibit 15. Top 10 Industry with Trade/GDP Ratios.**

**Industries by GDP size**

| Industry | Share of GDP (%) | Trade/GDP ratio (%) | Employment thousands (% of total) |
|---|---|---|---|
| Primary Metal Manufacturing | 0.64 | 324.9 | 55 (0.3) |
| Petroleum and Coal Product Manufacturing | 0.54 | 330.6 | 16 (0.09) |
| Plastic Product Manufacturing | 0.39 | 251.6 | 84 (0.47) |
| Motor Vehicle Parts Manufacturing | 0.38 | 532.3 | 74 (0.41) |
| Aerospace Product and Parts Manufacturing | 0.32 | 287.1 | 46 (0.26) |
| Pharmaceutical and Medicine Manufacturing | 0.27 | 263.0 | 34 (0.19) |
| Basic Chemical Manufacturing | 0.22 | 423.0 | 13 (0.07) |
| Motor Vehicle Manufacturing | 0.21 | 1888.2 | 38 (0.21) |
| Miscellaneous Manufacturing | 0.2 | 313.1 | 55 (0.31) |
| Agricultural, Construction & Mining Machinery Mfg | 0.2 | 372.8 | 33 (0.18) |

Source: Industry Canada, Statistics Canada, RBC Economics

**Exhibit 16. Industries Doubly Affected in Canada**[66]

## Industries Doubly Affected in Canada

| | INDUSTRIES (NAICS CODES) | DIRECT EXPORTS TO THE US, $B* | IMPORTS (INPUTS) FROM THE US, $B* | TARIFFS | CURRENCY | COUNTER-TARIFFS |
|---|---|---|---|---|---|---|
| 1 | Wholesale trade (41) | 28.7 | 99.6** | 🟡 | 🟡 | 🟡 |
| 2 | Animal production (112) | 2.8 | 3.5 | 🟡 | 🟡 | 🟡 |
| 3 | Automobile manufacturing (3361, 3362, 3363) | 55.1 | 23.9 | 🔴 | ⚪ | 🟡 |
| 4 | Food manufacturing (311) | 35.4 | 12.4 | 🔴 | ⚪ | 🟡 |
| 5 | Chemical manufacturing (325) | 30.6 | 11.2 | 🔴 | ⚪ | 🟡 |
| 6 | Machinery manufacturing (333) | 20.1 | 9.2 | 🔴 | ⚪ | 🟡 |
| 7 | Plastic product manufacturing (3261) | 10.5 | 7.0 | 🔴 | ⚪ | 🟡 |
| 8 | Aerospace manufacturing (3364) | 10.2 | 4.3 | 🔴 | ⚪ | 🟡 |
| 9 | Truck transportation (484) | 14.1 | 4.7 | 🟡 | ⚪ | 🟡 |
| 10 | Crop production (111) | 7.5 | 6.1 | 🟡 | ⚪ | 🟡 |

* Estimated based on input-output tables (2022); ** Wholesale and retail trade (consumer spending, imported content from the US).
Legend: 🔴: very negative effect 🟡: to watch ⚪: positive effect (exports) and negative effect (imports). Net effect varies by company.
Statistics Canada and Desjardins Economic Studies

Source: Desjardins Economic Studies

Many companies will face challenges due to the double blow of rising costs and falling U.S. demand. The dual pressure is particularly damaging for sectors like machinery manufacturing, agri-food processing, wholesale trade, livestock production, and the automotive, aerospace, plastics, and chemical industries. Cross-border transportation firms, such as trucking companies. For example, Crop and livestock producers are paying more for essential inputs like fertilizer, feed, and seed, while also seeing reduced sales as processors cut back exports. Food manufacturers are importing grains and fruits at higher prices but are losing customers due to U.S. tariffs. The combination of higher input costs and shrinking export markets is creating a serious financial squeeze.

The absence of a significant rise in consumer price inflation during the tariff increases under the first Trump administration has sometimes been cited as evidence that the costs were largely borne by foreign exporters rather than domestic importers. However, it is worth mentioning that imports make up a

[66] Jean-Jacobs, F. & Statistics Canada, Ministry of Finance of Canada and Desjardins Economic Studies. (2025). Wholesale and retail trade, construction and food services are more exposed to retaliatory tariffs. *ECONOMIC STUDIES*. https://www.desjardins.com/content/dam/pdf/en/personal/savings-investment/economic-studies/canada-tariffs-counter-tatiffs-14-march-2025.pdf

relatively small portion of U.S. consumer spending, approximately 70% of which is directed toward services, meaning that the overall impact on broad U.S. inflation indicators was limited.

A clear imbalance emerges when comparing the consumption of U.S. and Canadian goods on a per-person basis. In the past year, the average Canadian consumed about $8,500 worth of American products, whereas the average American consumed only $1,208 worth of Canadian goods[67].

The following list shows the Canadian household consumption categories that were most dependent on imports from the United States in 2021, according to the share of their total imports from the United States[68].

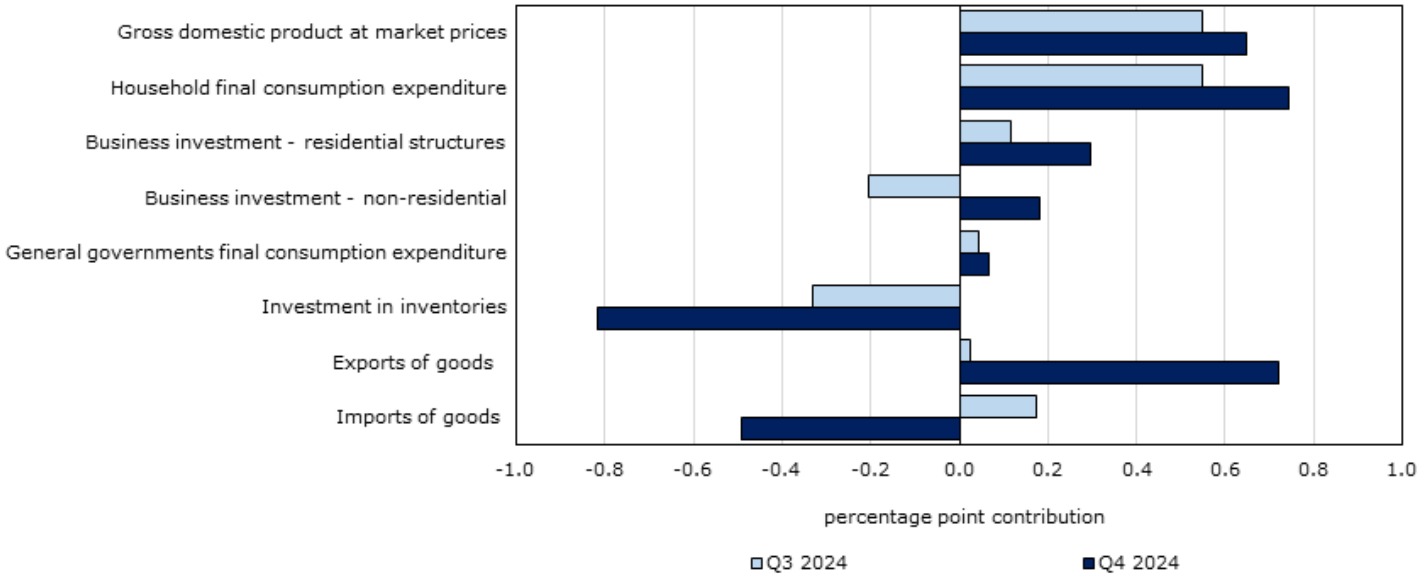
- New trucks, vans and sport utility vehicles: 46.7%
- Major durables for outdoor recreation: 42.4%
- Jewellery, clocks and watches: 36.4%
- Stock and bond commissions: 32.5%
- Books: 32.8%
- Major tools and equipment: 33.3%
- Games, toys and hobbies: 28.1%
- Audio-visual and photographic equipment: 28.0%
- Information processing equipment: 27.7%
- Telecommunication equipment: 23.2%
- Equipment for sport, camping and open-air recreation: 23.0%
- Small electric household appliances: 20.8%
- New passenger cars: 25.3%
- Carpets and other floor coverings: 23.2%
- Furniture and furnishings: 21.6%

[67] *Guest column: Canadians are high rollers in spending on U.S. goods*. (2025, April 1). Windsorstar. https://windsorstar.com/opinion/columnists/guest-column-canadians-are-high-rollers-in-spending-on-u-s-goods
[68] Government of Canada, Statistics Canada. (2025, February 28). *The Daily — Gross domestic product, income and expenditure, fourth quarter 2024*. Statistics Canada. https://www150.statcan.gc.ca/n1/daily-quotidien/250228/dq250228a-eng.htm

### 4.3 Current State of Canadian Economy

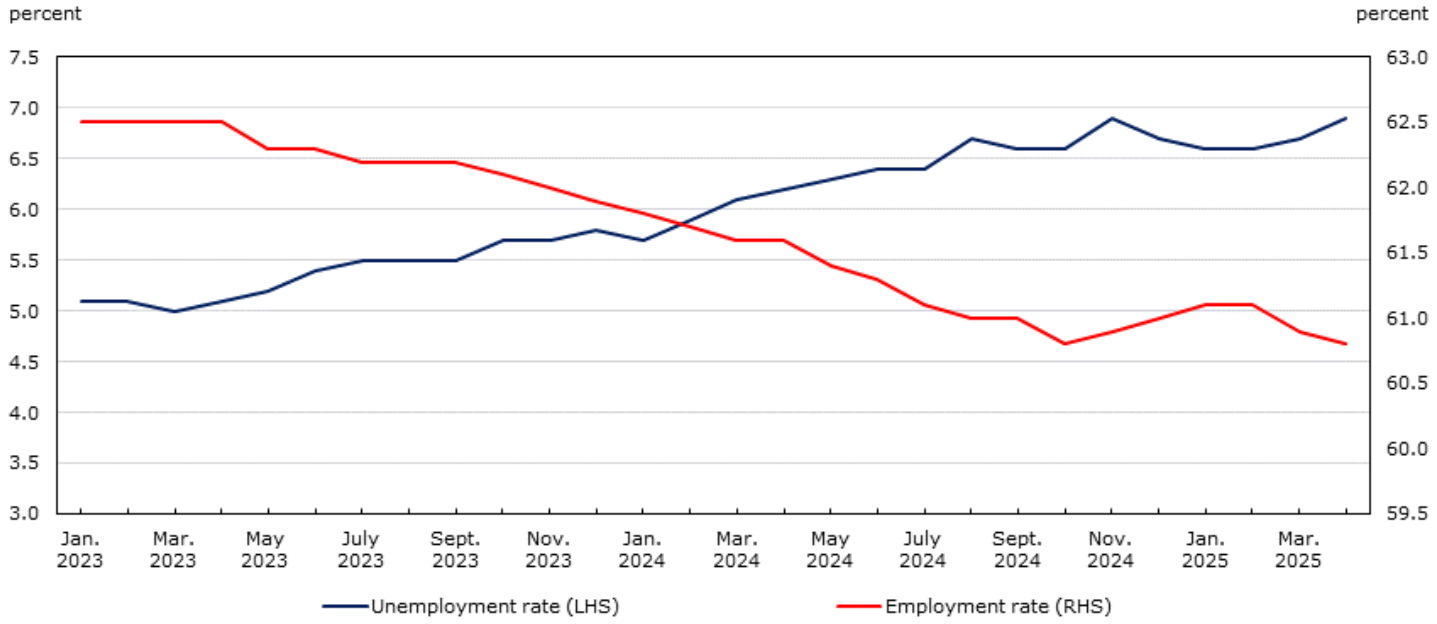
In late 2024 and early 2025, economic indicators pointed to modest but broad-based improvements before a trade conflict with the U.S. escalated. The economy grew steadily, with more balanced contributions from household spending, exports, and business investment. Final domestic demand rose by 1.4%, its fastest pace in over three years, while real GDP per capita and business productivity also increased. Output expanded in five of the last six months of 2024 and accelerated in January 2025, driven by gains in construction, oil and gas extraction, and retail activity. Year-over-year output growth reached 2.3% in January, the highest in nearly two years. Employment also improved, with over 210,000 new jobs added from November to January, mostly full-time, and the employment rate edging up. Meanwhile, affordability pressures eased as borrowing costs declined and incomes rose, lowering household debt ratios. Income gains were especially strong among middle-income households, helping offset elevated living costs.

**Exhibit 17. Contributions to Percentage Change in GDP by Components.**




**Notes:** Data on gross domestic product are quarterly percentage changes; all other data are percentage-point contributions to the the quarterly change in real GDP.
**Source:** Statistics Canada, table 36-10-0104-01.

**Exhibit 18. Employment and Unemployment Rates**

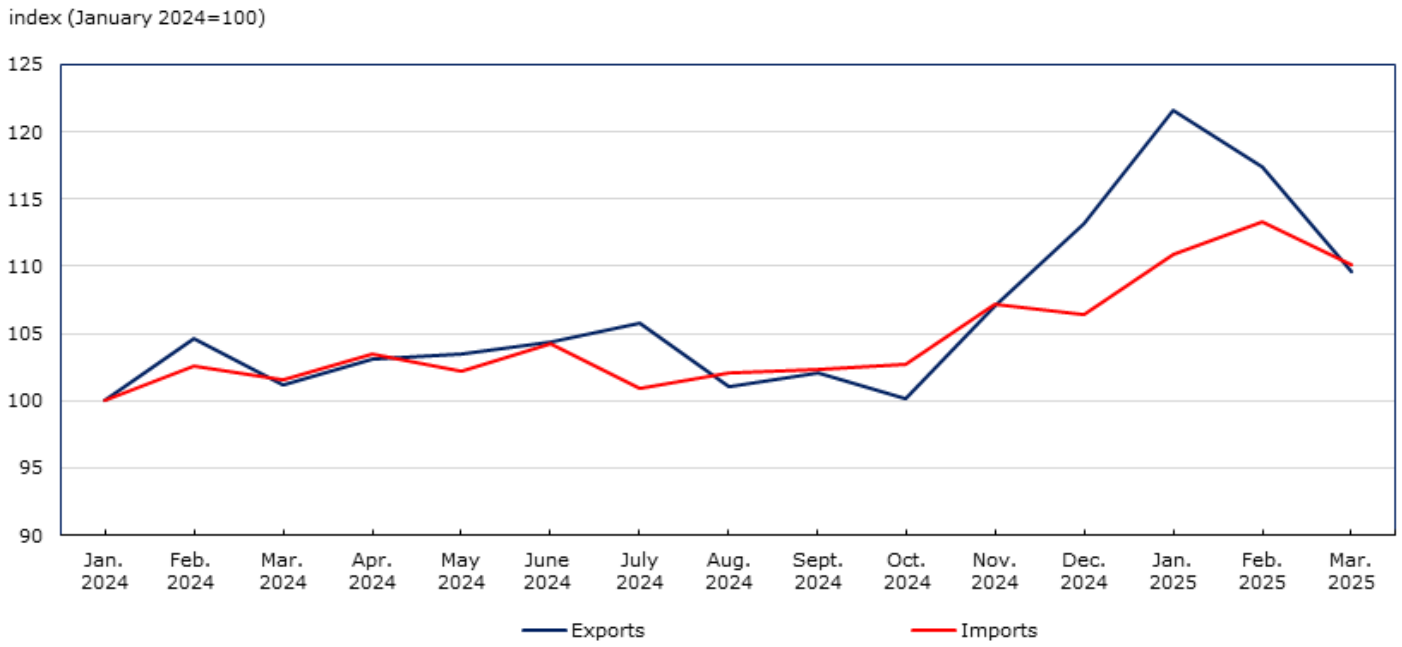



**Source:** Statistics Canada, table 14-10-0287-01.

In early 2025, the Bank of Canada's Business Outlook Survey revealed that many firms were postponing hiring and investment decisions due to growing tariff concerns, expecting higher costs and prices if tariffs were imposed[69]. Trade activity between Canada and the U.S. surged initially, with merchandise exports to the U.S. rising 13.6% from November to January—driven by record vehicle shipments and gains in energy, consumer goods, and machinery. However, as trade tensions escalated in February and March, exports to the U.S. declined by a combined 9.7%, though still remained above November levels. Imports followed a similar pattern, contributing to a shrinking trade surplus, which fell from $13.8 billion in January to $8.4 billion in March. Cross-border travel also dropped sharply; year-over-year, Canadian return trips by auto and air declined significantly in February and March, with same-day auto trips down 36% in March. Travel from the U.S. to Canada also decreased modestly during this period.

[69] Bank of Canada. (n.d.). *Business Outlook Survey—First Quarter of 2025*. https://www.bankofcanada.ca/2025/04/business-outlook-survey-first-quarter-of-2025/

**Exhibit 19. Merchandise Trade with US.**




**Source:** Statistics Canada, table 12-10-0011-01.

Employment declined by 33,000 in March and was little changed in April (+7,400) amid rising trade tensions. Manufacturing lost 31,000 jobs in April, its first major decline since November 2024, while wholesale and retail trade shed 27,000 jobs, similar to March. Public administration added 37,000 jobs, mostly temporary roles for the federal election. The unemployment rate rose to 6.9%, and the employment rate fell to 60.8%.

### 4.4 Outlook by Financial Firms

By Vangurdd[70]

If trade tensions persist, Canada's 2025 GDP growth is projected to fall from 1.8% to 1.3%, driven by two main factors: a 0.25% drag from uncertainty affecting labor markets and business investment, and another 0.25% reduction due to the impact of tariffs and retaliatory measures. Lower exports are expected to weaken terms of trade and create short-term excess supply, reducing potential output. Core inflation is now forecast to rise to 2.4% by year-end, up from 2.2%, as higher import prices push up domestic costs. However, rising unemployment and excess supply may limit price increases, with businesses likely

[70] *The impact of tariffs on the Canadian economy and investors | Vanguard Canada*. (n.d.). https://www.vanguard.ca/en/insights/impact-of-tariffs-on-canadian-economy-and-investors

absorbing some of the added costs. The Bank of Canada's year-end policy rate forecast has been revised down to 2.25% from 2.5%, as slower growth may prompt further rate cuts despite inflation risks. However, rates are not expected to fall below 2% in 2025. The year-end unemployment rate is now expected to rise to 7.0%, up from 6.7%.

By RBC[71]

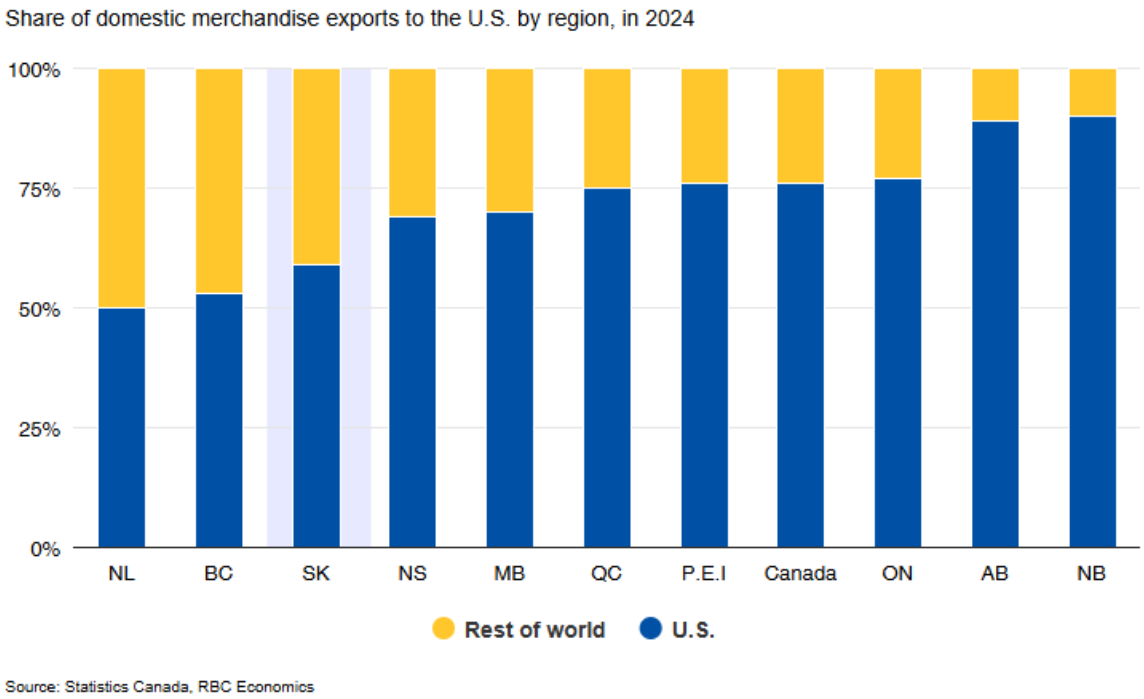
The Bank of Canada may have ended its rate-cutting cycle earlier if not for escalating trade risks. Improving GDP and labour market data in late 2024 and early 2025 had raised doubts about the need for further cuts. However, trade disruptions are now expected to slow growth and undermine business investment. While fiscal policy is better suited for targeted responses to tariffs, interest rates remain relatively high. Following the March cut, the overnight rate sits within the neutral range of 2.25% to 3.25%. A further cut to 2.25% is anticipated by summer.

Canadian output growth in 2025 is expected to remain slow, driven by reduced population growth and rising tariff risks. Consumer spending is projected to grow at less than half the pace of the previous year, as households respond to uncertainty by increasing savings. Weak home resale data in February points to continued softness in residential investment through mid-year, with both buyers and sellers holding back due to trade tensions. Per-capita growth is expected to improve compared to 2024 and 2023, supported by falling interest rates in the second half of the year. However, escalating trade risks are likely to disrupt business investment, particularly in the trade-sensitive manufacturing sector, and weigh on both imports and exports.

Ontario (1.2%) and Quebec (1.1%) are expected to be most affected by new trade disruptions due to their large manufacturing sectors, with New Brunswick (1.0%) also vulnerable because of its reliance on U.S. demand. In contrast, provinces with more diversified economies may perform better as falling interest rates. B.C. is positioned for a recovery, with growth projected at 1.5% in 2025. Its lower exposure to U.S. demand and high sensitivity to interest rates provide room for improvement. Alberta (2.4%) and Saskatchewan (1.9%) are expected to lead provincial growth, supported by strong resource sectors. Manitoba (1.4%) may lag the national average due to its ties to trade-sensitive regions.

[71] Aidansmithedgell. (2025, May 10). Canada's macroeconomic outlook: U.S. trade risks are derailing a recovery. *RBC*. https://www.rbc.com/en/thought-leadership/economics/economy-and-markets/macroeconomic-outlook/canadas-macroeconomic-outlook-u-s-trade-risks-are-derailing-a-recovery/

**Exhibit 20. Share of Domestic Merchandise Exports to the US by Region in 2024.**




Source: Statistics Canada, RBC Economics

By Bank of Canada[72]

Scenario 1

GDP growth stalls in Q2 2025, then averages around 1.6% through 2027, slightly above potential output and resulting in modest excess supply. Exports drop sharply in Q2 2025 after earlier surges due to tariff anticipation, with weakened U.S. demand from tariffs and uncertainty. Export growth recovers from mid-2025, supported by new LNG capacity and increased Trans Mountain pipeline use. Imports also fall sharply in Q2 2025 after businesses pulled forward U.S. purchases but gradually rebound with improving consumption and investment. Final domestic demand is weak initially as households build precautionary savings amid job and wealth concerns, especially in export-dependent sectors, then slowly strengthens through 2026-2027. CPI inflation slows initially from the removal of the consumer carbon tax, dropping energy prices and lowering inflation by 0.7 percentage points for a year, averaging about 1.5%. Inflation in goods excluding food and energy remains above average in late 2025, driven by tariffs, a weaker Canadian dollar, and supply chain shifts to costlier suppliers. As these pressures ease, modest excess supply leads to slower goods price inflation and softer inflation overall.

[72] Bank of Canada. (2025, April 16). *Outlook*. https://www.bankofcanada.ca/publications/mpr/mpr-2025-04-16/canadian-outlook/

Scenario 2

The broad trade war could trigger a year-long recession in Canada, with GDP contracting for four quarters and averaging -1.2%. Recovery begins gradually through 2026 and 2027, but U.S. tariffs permanently lower Canada's potential output and living standards. Exports fall sharply until mid-2026 due to U.S. tariffs and weaker global demand, resuming growth only in late 2026 but remaining subdued as businesses seek new markets. Imports also contract until mid-2026 before rebounding with domestic demand. Tariffs ripple through the economy, causing stalled domestic demand in mid-2025, rising unemployment, falling incomes, and weaker household spending. Lower commodity prices and higher import costs further reduce purchasing power. Consumption dips slightly in mid-2025 but grows modestly into 2026 and strengthens in 2027. Business investment falls sharply amid economic weakness and uncertainty, worsened by a weaker Canadian dollar increasing equipment costs, before turning positive in late 2026 and improving in 2027. CPI inflation averages around 2% until early 2026, balancing disinflationary effects from excess supply and carbon tax removal against tariff-driven price pressures. Inflation peaks at 3.1% in mid-2026 due to tariffs before easing back to 2% by 2027 as excess supply persists and tariff impacts fade.

**Exhibit 21. GDP Growth and Inflation Over the Scenario Horizon.**

| | | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| GDP (average annual growth) | Scenario 1 | 1.5 | 1.6 | 1.4 | 1.7 |
| | Scenario 2 | 1.5 | 0.8 | -0.2 | 1.6 |
| | January 2025 Report | 1.3 | 1.8 | 1.8 | |
| Final domestic demand (percentage points) | Scenario 1 | 2.0 | 2.3 | 1.6 | 1.5 |
| | Scenario 2 | 2.0 | 1.8 | 1.0 | 1.7 |
| | January 2025 Report | 1.6 | 2.4 | 1.7 | |
| Exports (percentage points) | Scenario 1 | 0.2 | 0.1 | 0.5 | 1.1 |
| | Scenario 2 | 0.2 | -1.0 | -2.4 | 0.6 |
| | January 2025 Report | 0.3 | 0.6 | 0.8 | |
| Imports (percentage points) | Scenario 1 | -0.2 | -0.1 | -0.8 | -0.9 |
| | Scenario 2 | -0.2 | 0.5 | 1.2 | -0.7 |
| | January 2025 Report | -0.2 | -0.7 | -0.8 | |
| CPI inflation (percentage change) | Scenario 1 | 2.4 | 1.8 | 2.0 | 2.1 |
| | Scenario 2 | 2.4 | 2.0 | 2.7 | 2.0 |
| | January 2025 Report | 2.4 | 2.3 | 2.1 | |

Note: The assumptions and scenarios were finalized on April 11, 2025. Final domestic demand, exports and imports are calculated as contributions to GDP growth. These components do not add up to total GDP growth because inventories are not included.
Sources: Statistics Canada and Bank of Canada calculations and estimates

## Section 5. Government Policy Landscape

The Canadian federal and provincial governments have implemented a range of strategies to mitigate the impact of US tariffs on Canadian businesses and workers. These measures include financial support programs, adjustments to existing policies, and legislative actions to protect domestic industries.

Trade Disruption Customer Support Program[73]

Available through Farm Credit Canada (FCC), this program offers $1 billion in new financing to support the Canadian agriculture and food industry. Businesses must be financially viable prior to the impact of tariffs.

Support Details:

- Defer principal payments for up to 12 months on existing loans for current customers.
- Access to an additional credit line of up to $500,000.
- Additional support through term loans.

Adjustments to EI Work-Sharing Program

From March 7, 2025, to March 6, 2026, the program provides EI benefits to employees who agree to work reduced hours due to a decrease in business activity beyond their employer's control.

Support Details:

- Extension to the maximum duration of the Work-Sharing agreement from 38 weeks to 76 weeks.
- Waive the required cooling-off period between successive Work-Sharing agreements.

Adjustments to Investment Canada Act Guidelines

**Updated Guidelines**: The government has updated the Investment Canada Act guidelines to protect Canadian companies from harmful foreign takeovers during economic challenges.

[73] Federal and provincial tariff support programs. (2025, March 17). *MNP.ca*. https://www.mnp.ca/en/insights/directory/federal-and-provincial-tariff-support-programs

**Table 5. List of Provincial Strategies**

1. **Alberta**
    - Stop purchasing US alcohol products.
    - Halt contracting with US companies.
    - Stop purchases of video lottery terminals (VLTs) from the US.

    Source: [MNP]
2. **British Columbia**
    - Remove US alcohol products from BC Liquor stores.
    - Mandate that low-carbon fuels added to gasoline and diesel be produced in Canada.
    - Apply tolls/fees to US commercial vehicles using BC infrastructure to travel to Alaska.

    Source: [MNP]
3. **Saskatchewan**
    - Prioritize Canadian suppliers for government procurements.
    - Stop purchasing US-made alcohol.
    - Temporarily pause future capital projects to minimize the use of American contractors and materials.

    Source: [MNP]
4. **Manitoba**
    - Businesses affected by tariffs can defer paying provincial sales tax and the health and post-secondary education tax levy for at least the next three months.
    - Introduce amendments to the Government Purchases Act to prioritize Canadian suppliers.

    Source: [MNP]
5. **Newfoundland and Labrador**
    - Remove American liquor from store shelves.
    - Review and stop immediate procurements from the United States.

    Source: [Doane Grant Thornton]
6. **Nova Scotia**
    - Remove American liquor from stores.
    - Cancel existing contracts with American businesses.
    - Ban American businesses from bidding on provincial procurements.
    - Double the cost of tolls at the Cobequid Pass for commercial vehicles from the US.

    Source: [Doane Grant Thornton]

7. **Ontario**
    - Remove American products from LCBO stores.
    - Ban American companies from provincial contracts.
    - End the $100-million deal with Starlink.

Source: [Doane Grant Thornton]

8. **Quebec**
    - Remove all American products from SAQ shelves.
    - Halt the supply of American alcoholic beverages to grocery stores, restaurants, and bars.
    - Impose penalties of up to 25% on bids by American companies participating in public calls for tenders.
    - Offer loans up to $50 million to help companies adjust their business models or supply chains.

Source: [Doane Grant Thornton]

# 6. Socioeconomic Impacts of Tariffs and Inflation

## 6.1 Household Consumption and Living Costs

Household consumption accounts for a substantial portion of Canada's overall economic activity, with household spending increasing by 1.8% in 2023 and continuing to play a key role in supporting the country's gross domestic product (GDP)[74]. This prominence means that any price fluctuations—stemming from factors like import tariffs or inflationary pressures—can profoundly affect the living costs of Canadian families. Recent figures from Statistics Canada indicate that inflation peaked at 8.1% in June 2022, largely driven by surging energy and food prices, before declining to 2.0% by August 2024 as monetary policy tightened and global supply chains stabilized[75]. Despite this moderation, key expenditure categories such as food and transportation have continued to exhibit elevated price growth. For instance, grocery prices rose by 10.6% year-over-year in February 2023, more than double the overall inflation rate of 5.2% at that time[76]. Transportation costs have also fluctuated significantly due to global fuel price volatility and supply chain challenges[77]. These persistent pressures are further exacerbated by international tariff regimes and trade restrictions, which have been shown to increase the cost of imported goods, disrupt supply chains, and ultimately raise prices for Canadian consumers—placing additional strain on household budgets [78],[79].

### Linking Tariffs to Household Budgets Through Price Increases

The most direct effect of tariffs often materializes through increased prices on imported goods. Between February 2022 and February 2023, food prices in Canada rose most steeply—by 13.2%—followed by increases in health and personal care (9.7%), transportation (5.6%), and shelter (5.4%), according to Consumer Price Index data from the Northwest Territories Bureau of Statistics (2023)[80]. During this same period, targeted tariffs on select agricultural imports from the United States contributed to faster-than-

[74] Government of Canada, Statistics Canada. (2024c, November 7). *The Daily — Provincial and territorial economic accounts, 2023*. https://www150.statcan.gc.ca/n1/daily-quotidien/241107/dq241107a-eng.htm
[75] Government of Canada, Statistics Canada. (2024c, September 17). *The Daily — Consumer Price Index, August 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/240917/dq240917a-eng.htm
[76] Reilly-Larke, C. (2024, December 19). Food inflation in Canada: What you need to know. *Forbes Advisor Canada*. https://www.forbes.com/advisor/ca/personal-finance/food-inflation/
[77] Maitra, D., Rehman, M. U., Dash, S. R., & Kang, S. H. (2021). Oil price volatility and the logistics industry: Dynamic connectedness with portfolio implications. *Energy Economics*, *102*, 105499.
[78] Bank of Canada. (2025b, January 29). *Evaluating the potential impacts of US tariffs*. https://www.bankofcanada.ca/publications/mpr/mpr-2025-01-29/in-focus-1/?
[79] Department of Finance Canada. (2025, May 30). *Canada's response to U.S. tariffs*. Canada.ca. https://www.canada.ca/en/department-finance/programs/international-trade-finance-policy/canadas-response-us-tariffs.html
[80] NWT Bureau of Statistics. (2023). Consumer Price Index February 2023. In *Newstats* [Report]. https://www.statsnwt.ca/prices-expenditures/cpi/FebCPI2023.pdf

average price hikes in grocery bills for regions heavily reliant on U.S. produce[81]. During this same period, targeted tariffs on select agricultural imports from the United States contributed to faster-than-average price hikes in grocery bills for regions heavily reliant on U.S. produce. In fact, *Canada's Food Price Report 2022* projected that grocery costs could rise between 5% and 7% nationally, with some provinces expected to see even sharper increases in tariff-affected categories—underscoring how even narrowly focused trade measures can significantly impact consumer costs at the provincial level[82].

Recent micro-level research by Cavallo, Gopinath, Neiman, and Tang (2021) finds that under certain trade policy conditions, particularly those involving U.S. tariffs on Chinese imports, nearly the full cost of tariffs was passed on to import prices almost immediately, and that over 90% of these costs were reflected in retail prices within six months. Their findings suggest that even when domestic retailers attempt to shield consumers by compressing margins, the vast majority of tariff burdens are eventually transferred to end-users[83]. In the Canadian context, when firms—especially in concentrated markets like household electronics or specialty food products—are unable or unwilling to absorb increased input costs, they raise retail prices to preserve profit margins[84]. As a result, consumers experience immediate financial strain, particularly in essential product categories where substitutes are either limited or unavailable.

### Inflationary Pressures on Everyday Consumption

Canadian households have also contended with general inflationary pressures. While headline inflation slowed to 2.0% in August 2024, certain segments of the Consumer Price Index (CPI) persisted at higher levels. For example, the "food purchased from stores" index rose by 2.4% year-over-year in that same month[85]. Over the longer run—from 2021 to 2022—the cost of dairy products increased significantly: butter rose by 16.9%, cheese by 6.3%, fresh milk by 7.9%, and overall dairy products by 7.0%, reflecting both rising production costs and added trade pressures[86]. These increases in basic commodities highlight how

[81] *Tariffs to impact North American food and agribusiness, US consumer impact likely lighter than expected - Rabobank*. (2025, March 4). Rabobank. https://www.rabobank.com/knowledge/q011468857-tariffs-to-impact-north-american-food-and-agribusiness-us-consumer-impact-likely-lighter-than-expected

[82] Charlebois, S., Gerhardt, A., Taylor, S., Kane, M., Keselj, V., Fitting, E., Kevany, K., Colombo, S., Music, J., DalAnalytics, Kenny, Abebe, G., Somogyi, S., Jackson, E., El-Shawa, S., Taylor, G., Haines, J., Corradini, M., Uys, P., . . . Lee, E. (2022). *CANADA'S FOOD PRICE REPORT 12TH EDITION 2022*. Dalhousie University | University of Guelph | University of Saskatchewan | University of British Columbia. https://cdn.dal.ca/content/dam/dalhousie/pdf/sites/agri-food/Food%20Price%20Report%20-%20EN%202022.pdf

[83] Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. (2021). Tariff Pass-Through at the Border and at the Store: Evidence from US Trade Policy. *American Economic Review Insights*, *3*(1), 19–34. https://doi.org/10.1257/aeri.20190536

[84] McCalman, P. (2018). International trade, income distribution and welfare. *Journal of International Economics*, *110*, 1-15.

[85] Government of Canada, Statistics Canada. (2024, September 17). *The Daily — Consumer Price Index, August 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/240917/dq240917a-eng.htm

[86] *2022 Dairy outlook update: Lower world prices challenge profitability | FCC*. (n.d.). https://www.fcc-fac.ca/en/knowledge/economics/2022-dairy-outlook-update-october.html

overlapping supply chain stresses and tariff environments can produce lasting effects on household essentials.

Moreover, Bank of Canada data suggest that wage growth has not consistently kept pace with consumer price inflation, leading to real wage contraction during several quarters from 2022 to 2023 [87]. For households without the flexibility to reduce their consumption of necessities, these real wage declines can trigger increased use of debt, reliance on lower-quality substitutes, or in more severe cases, a reduction in caloric and nutritional intake[88].

Further compounding these challenges, the 2024 edition of Canada's Food Price Report projected that overall food prices would increase between 2.5% and 4.5%, with the most significant hikes anticipated in the categories of bakery, meat, and vegetables. This forecast underscores the ongoing vulnerability of Canadian consumers to food price volatility, particularly in essential categories.

Additionally, the end of a temporary sales tax break in February 2025 contributed to a rise in Canada's annual inflation rate to 2.6%, the highest in eight months, as prices increased across various sectors, including food purchased at restaurants [89]. This development illustrates how policy changes can have immediate and tangible effects on the cost of living for Canadian households.

**Demographic and Regional Disparities in Living Costs**

Different segments of the Canadian population experience tariff-induced inflation in distinct ways. In 2023, approximately 22.9% of individuals across Canada's ten provinces faced some level of food insecurity, amounting to around 8.7 million people, including a significant number of children. Rising grocery bills—spurred by tariff-related import costs and general inflation—worsened these insecurities, particularly among single-parent families and low-income households[90]. Rural communities, which often lack diverse retail outlets and face elevated transport costs, have confronted disproportionately higher prices for day-to-day goods. Some northern and remote regions reported grocery prices that were 10% to 20% above

[87] Bounajm, F., Devakos, T., & Galassi, G. (2024). Beyond the averages: Measuring underlying wage growth using Labour Force Survey microdata. *Bank of Canada*. https://doi.org/10.34989/san-2024-23

[88] Attanasio, O. P., & Weber, G. (2010). Consumption and Saving: Models of Intertemporal allocation and their implications for Public policy. *Journal of Economic Literature*, *48*(3), 693–751. https://doi.org/10.1257/jel.48.3.693

[89] Reuters. (2025, March 18). Canada's inflation shoots up to 2.6% as sales tax break ends. *Reuters*. https://www.reuters.com/world/americas/canadas-inflation-shoots-up-26-sales-tax-break-ends-2025-03-18/

[90] Statistics Canada. (n.d.). *Food security in Canada: Overview of food security and food insecurity in Canada*. *Statistics Canada*. https://www160.statcan.gc.ca/prosperity-prosperite/food-security-securite-alimentaire-eng.htm

the national average in 2023, reflecting both logistical challenges and tariff pass-through on imported staple items[91].

Meanwhile, provinces with manufacturing or resource-dependent economies, such as Ontario and Alberta, exhibited different vulnerabilities. In Ontario, the automotive sector's reliance on imported steel and aluminum—both of which have been subject to tariff volatility—forced producers to adjust consumer vehicle prices [92]. Similarly, cost increases in oil and gas equipment, partially attributable to tariffs on specialized machinery, raised transportation costs for households in Alberta, further squeezing disposable incomes[93].

**Household Debt and Credit in the Context of Rising Costs**

The Household Debt Service Ratio (DSR) in Canada has hovered near historically high levels, reaching approximately 15.0% in the second quarter of 2024, up from 12.4% in 2019[94]. As consumer goods become more expensive due to tariff pass-through and general inflation, households often rely on credit to bridge the gap between income and expenditures. This growing reliance on debt increases household financial vulnerability—particularly for variable-rate mortgage holders who are directly exposed to interest rate fluctuations. Following the Bank of Canada's series of rate hikes between 2022 and 2023, monthly debt-servicing costs have surged for many Canadians, disproportionately affecting young families and first-time homeowners[95]. This dynamic—rising prices coupled with elevated interest rates—compounds financial pressure, leaving less room for discretionary spending and increasing overall financial precarity.

A 2022 survey reported by the Conference Board of Canada indicated that about 39% of Canadian households had difficulty meeting monthly living costs whenever fuel or utility prices rose—conditions often aggravated by tariff impacts on imported energy-related goods[96]. These households, who already tend to carry higher-than-average consumer debt, remain more susceptible to external economic shocks.

---

[91] Canadian Federation of Students – Canada (CFCC). (2024, April). *Food insecurity and poverty in Canada*. *CFCC*. https://cfccanada.ca/CFCC/media/assets/Food-Insecurity-Poverty-in-Canada-April-2024.pdf

[92] Business Insider. (2025, April). Trump tariffs: Canadian autoworkers face uncertainty and fear in trade war. *Business Insider*. https://www.businessinsider.com/trump-tariffs-trade-war-canadian-autoworkers-face-uncertainty-fear-2025-4

[93] Reuters. (2025, April 10). Canadian exporters inquire about trade insurance as Trump's tariffs heighten risk. *Reuters*. https://www.reuters.com/business/finance/canadian-exporters-inquire-trade-insurance-trumps-tariffs-heighten-risk-2025-04-10/

[94] Government of Canada, Statistics Canada. (2025, March 13). *Debt service indicators of households, national balance sheet accounts*. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110006501

[95] Bédard, N., & Sabourin, P. (2024). Measuring household financial stress in Canada using consumer surveys. *Bank of Canada*. https://doi.org/10.34989/san-2024-5

[96] The Conference Board of Canada. (n.d.). *Fuel prices and household vulnerability* (Report No. 11869). *The Conference Board of Canada*. https://www.conferenceboard.ca/temp/2d373e66-7d9a-4e1f-b3fd-0c03e2f56473/11869_Fuel%20Prices%20and%20Household%20Vulnerability_BRIEFING.pdf

In this context of persistent inflation and high debt burdens, many households are forced into precautionary saving and cutbacks in discretionary purchases, which can suppress growth in sectors like retail, hospitality, and durable goods[97].

### Household Debt Vulnerability: Tariff Pressures and Interest Rate Impacts

The shift in consumption patterns has become evident across multiple industries. Grocers have reported an uptick in purchases of generic or "store-brand" items, with sales in certain discount-food categories rising by as much as 18% year-over-year in the first quarter of 2023[98]. This trend reflects consumers' efforts to manage budgets amid escalating food prices. Simultaneously, expenditures on big-ticket items like home appliances and electronics have dropped due to both tariff-related price hikes and real wage erosion, leading some local retailers to cite revenue declines of up to 10% compared to the previous year[99].

Furthermore, consumer confidence surveys collected by Statistics Canada reveal that households expecting continued tariff escalations or lingering inflationary pressures often reduce discretionary spending as a preemptive measure[100]. This behavior, in aggregate, can dampen overall economic growth, constraining tax revenues and potentially reducing the fiscal space for government support programs[101].

### Public Policy Tools and Mitigation Efforts

To alleviate the burden of tariff-related and inflation-driven price increases on households, policymakers have introduced various measures. These include enhanced GST/HST rebates for low-income families, direct energy bill credits in provinces like Ontario and Alberta, and more assertive monitoring for price

[97] Bhattacharya, D., & Mazumder, B. (2011). A nonparametric analysis of black-white differences in intergenerational income mobility in the United States. *Quantitative Economics*, *2*(3), 335–379. https://doi.org/10.3982/qe69
[98] Statista. (2024, December 10). *Growth in promotional activity of grocery private labels in Canada by category 2022*. https://www.statista.com/statistics/1407571/private-label-grocery-promotions-growth-categories-canada/Statista
[99] The Wall Street Journal. (2025, March). Canada retail sales slip 0.1% in February, seen flat in March. *The Wall Street Journal*. https://www.wsj.com/economy/central-banking/canada-retail-sales-slip-0-1-in-february-seen-flat-in-march-2f957fa6
[100] Bank of Canada. (2023, April). *Canadian survey of consumer expectations: First quarter of 2023*. *Bank of Canada*. https://www.bankofcanada.ca/2023/04/canadian-survey-of-consumer-expectations-first-quarter-of-2023/
[101] Government of Canada. (2023). *Departmental results report 2023*. *Government of Canada*. https://www.canada.ca/en/department-finance/corporate/transparency/plans-performance/departmental-results-report/2023/report.html

gouging in essential goods markets [102]. The GST/HST credit is a tax-free quarterly payment that helps individuals and families with low and modest incomes offset the GST or HST that they pay[103].

In addition, the Bank of Canada has consistently communicated its intentions regarding interest rate decisions, striving to balance price stability against the risk of over-tightening monetary policy in a trade-exposed economy[104]. In 2022, the Bank increased its target for the overnight rate to 2.5%, with the Bank Rate at 2.75% and the deposit rate at 2.5%, continuing its policy of quantitative tightening[105]. By July 2023, the Bank had raised the overnight rate to 5%, marking the first time since April 2001 that the rate had hit that high mark[106].

In the long run, some experts argue that diversifying Canada's trade partners and strengthening domestic supply chains can reduce vulnerability to external tariffs and currency fluctuations[107]. Such structural strategies may also stabilize consumer prices for key goods, mitigating the shock waves transmitted to household budgets. Nonetheless, these solutions demand significant upfront investment, ongoing policy coordination, and consistent engagement with international partners.

**Conclusion and Forward Outlook**

Tariffs and inflation continue to be critical variables in the evolving cost-of-living landscape for Canadian households. Empirical data—from the spike in CPI categories for food and transportation to the growing reliance on consumer credit—indicate that families across various income brackets and regions have faced additional financial hurdles. Although the national inflation rate has moderated to 2.0% as of August 2024[108],

[102] Government of Canada. (2023). *Departmental results report 2023*. *Government of Canada*. https://www.canada.ca/en/department-finance/corporate/transparency/plans-performance/departmental-results-report/2023/report.html

[103] Service Canada. (2021, December 14). *Not found*. Canada.ca. https://www.canada.ca/en/revenue-agency/services/child-family-benefits/goods-services-tax-harmonized-sales-tax-gst-hst-credit.htmlGTA%20Accounting+4Government%20of%20Canada+4mycanadapayday.com+4

[104] Bank of Canada. (n.d.). *Key interest rate*. *Bank of Canada*. https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/

[105] Bank of Canada. (2022, July 13). *FAD press release – July 13, 2022*. *Bank of Canada*. https://www.bankofcanada.ca/2022/07/fad-press-release-2022-07-13/

[106] Forbes. (n.d.). *Bank of Canada key interest rate announcement*. *Forbes*. https://www.forbes.com/advisor/ca/mortgages/bank-of-canada-key-interest-rate-announcement/

[107] Statistics Canada. (2018). *A portrait of the Canadian population in 2016: The age and sex dimensions* (Report No. 11F0027M). *Statistics Canada*. https://www150.statcan.gc.ca/n1/en/pub/11f0027m/11f0027m2018010-eng.pdf

[108] Government of Canada, Statistics Canada. (2024b, September 17). *The Daily — Consumer Price Index, August 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/240917/dq240917a-eng.htm

certain commodity groups remain elevated, reflecting the interplay of persistent supply-chain constraints, tariff regimes, and macroeconomic conditions.

Notably, mortgage interest costs have continued to rise, albeit at a slower pace, remaining a significant contributor to overall inflation. Excluding mortgage interest costs, the CPI rose 1.2% year over year in August 2024, highlighting the substantial impact of housing-related expenses on the overall inflation measure[109].

Addressing these complex challenges requires concerted efforts from federal, provincial, and local governments. Tailored policy responses—ranging from direct income supports and targeted subsidies to strengthening domestic production capacity—could help insulate vulnerable households from sudden cost escalations. As Canada navigates future trade negotiations and potential tariff disputes, safeguarding consumers from the inflationary consequences of global economic frictions will remain a central policy objective.

### 6.2 Income Inequality and Poverty

The intersection of tariffs and inflation stands out as a critical force shaping the distribution of wealth and resources in Canada. While varying macroeconomic, demographic, and policy factors all contribute to income disparities, rising consumer prices—often reinforced by higher import costs—can significantly aggravate inequality and heighten poverty rates, particularly in a trade-exposed economy such as Canada's[110]. Recent analyses suggest that the average Canadian household may incur additional costs of approximately $1,900 annually due to the combined effects of tariffs and inflation [111].

Lower-income households are disproportionately affected, as they allocate a larger portion of their income to essentials like food, housing, and transportation. For instance, food bank usage has surged, with over 3.75 million visits recorded in 2024, a record high that's more than four and a half times pre-pandemic levels—highlighting the growing food insecurity among vulnerable populations[112]. Additionally, the rising

[109] Government of Canada, Statistics Canada. (2024b, September 17). *The Daily — Consumer Price Index, August 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/240917/dq240917a-eng.htm
[110] Bank of Canada. (2025, January 29). *Evaluating the potential impacts of US tariffs*. https://www.bankofcanada.ca/publications/mpr/mpr-2025-01-29/in-focus-1/
[111] Enough for All. (n.d.). *Amid tariff war, poverty reduction measures. Enough for All*. https://enoughforall.ca/articles/amid-tariff-war-poverty-reduction-measures
[112] Daily Bread Food Bank. (n.d.). *The impact of U.S. tariffs on food insecurity. Daily Bread Food Bank*. https://www.dailybread.ca/blog/the-impact-of-us-tariffs-on-food-insecurity/

costs associated with tariffs have strained the charitable sector, leading to increased demand for services while simultaneously reducing donations [113].

The economic strain extends to employment, with projections indicating potential job losses of up to 600,000 positions in Canada, potentially pushing the unemployment rate up to nearly 10% (37). Such job losses would not only reduce household incomes but also exacerbate existing inequalities and hinder social mobility.

Addressing these challenges requires comprehensive policy interventions aimed at mitigating the regressive impacts of tariffs and inflation. Strategies may include targeted income support, investments in affordable housing, and measures to stabilize essential goods prices. Moreover, fostering domestic production and diversifying trade partnerships could enhance economic resilience and reduce vulnerability to external shocks.

### Linking Tariff-Induced Inflation to Growing Inequality

Many economists view inflation as a regressive phenomenon, disproportionately impacting households that allocate a larger share of their income to necessities [114]. When inflation is partly driven by tariffs on essential imports, these regressive outcomes are magnified. Such effects are particularly evident in goods categories where substitution is difficult. Household staples like certain fruits and vegetables, or essential industrial inputs that go into food processing, can become more expensive if foreign suppliers face additional tariffs or retaliatory barriers [115]. These cost pressures push up retail prices, which then transfer to end consumers—particularly those living paycheque to paycheque.

Recent data indicate that low-income households experience higher inflation rates compared to higher-income groups, primarily because they spend a greater portion of their income on necessities like food and energy, which are more susceptible to price increases due to tariffs[116]. For example, a study found that lower-income households faced an average annual inflation rate that was 0.29 percentage points higher

[113] AFP Global. (n.d.). *Urgent need for decisive action to mitigate negative impact of tariffs on Canadian charitable sector*. *AFP Global*. https://afpglobal.org/news/urgent-need-decisive-action-mitigate-negative-impact-tariffs-canadian-charitable-sector

[114] Tang, A. C. &. G. G. &. B. N. &. J. (2021). Tariff Pass-Through at the Border and at the Store: Evidence from US Trade Policy. *ideas.repec.org*. https://ideas.repec.org/a/aea/aerins/v3y2021i1p19-34.html

[115] Blanchflower, D. G., & Oswald, A. J. (1995). An introduction to the wage curve. *The Journal of Economic Perspectives*, *9*(3), 153–167. https://doi.org/10.1257/jep.9.3.153

[116] Federal Reserve Bank of Minneapolis. (2024, January). *Lower income, higher inflation: New data bring answers at last*. *Federal Reserve Bank of Minneapolis*. https://www.minneapolisfed.org/article/2024/lower-income-higher-inflation-new-data-bring-answers-at-last

than that of higher-income households between 2005 and 2020[117]. This disparity underscores the regressive nature of inflation exacerbated by trade policies.

Moreover, the inability to substitute away from certain imported goods means that tariffs can lead to significant price hikes in essential items. For instance, tariffs on imported steel and aluminum have been shown to increase costs for domestic manufacturers, which are then passed on to consumers in the form of higher prices for goods like automobiles and appliances[118]. These increases disproportionately affect lower-income households, who are less able to absorb additional costs.

**The K-Shaped Experience**

Analysts have used the term "K-shaped" to describe the divergent economic outcomes that can emerge under inflationary conditions[119]. While middle- to high-income earners might negotiate higher wages or rearrange their consumption patterns with relative ease, lower-income households are less likely to possess the bargaining power, savings, or alternative purchasing options to offset rising prices. Over time, this divergence fuels sharper inequality, since the upper "arm" of the "K" continues to expand wealth and consumption, while the lower arm experiences wage stagnation and ballooning debt obligations[120].

Recent data indicates that Canada's per-capita real GDP continued to decrease through 2024, with the country recording the lowest growth rate among fifty developed economies since 2019[121]. Particularly notable was the stagnation of inflation-adjusted wages, which showed no growth since 2016. This economic divergence has led to a significant decline in living standards, with Canada's per-capita national income falling to approximately 70% of U.S. levels by 2024, down from 80% just five years earlier[122].

Addressing these challenges requires comprehensive policy interventions aimed at mitigating the regressive impacts of tariffs and inflation. Strategies may include targeted income support, investments in

[117] Bureau of Labor Statistics. (2022, November 17). *Inflation experiences for lower- and higher-income households*. *Bureau of Labor Statistics*. https://www.bls.gov/spotlight/2022/inflation-experiences-for-lower-and-higher-income-households/

[118] Tax Foundation. (n.d.). *Trump tariffs and the trade war*. *Tax Foundation*. https://taxfoundation.org/research/all/federal/trump-tariffs-trade-war/

[119] The Conference Board of Canada. (2025, April 30). *Economic Outlook for 2023 - The Conference Board of Canada*. https://www.conferenceboard.ca/insights/economic-outlook-for-2023/

[120] Government of Canada, Statistics Canada. (2014, March 17). *Global value chains and the productivity of Canadian manufacturing firms*. https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2014090-eng.htm

[121] Government of Canada, Statistics Canada. (2025a, February 28). *The Daily — Gross domestic product, income and expenditure, fourth quarter 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/250228/dq250228a-eng.htm

[122] *Could Canada be a global leader in the carbon removal industry?* (n.d.). https://www.rbccm.com/en/story/2025/01/the-real-stories-behind-the-2025-headline-growth-forecasts

affordable housing, and measures to stabilize essential goods prices. Moreover, fostering domestic production and diversifying trade partnerships could enhance economic resilience and reduce vulnerability to external shocks.

## Structural and Institutional Drivers of Inequality

### Labor Market Polarization and Precarious Work

Tariffs and inflation intersect with persistent trends toward labor market polarization, where high-skilled jobs tend to retain stability and offer better wage growth, while mid-skilled positions decline and low-skilled, routine-intensive roles become increasingly precarious [123]. In Canada, this polarization has led to a 7.5 percentage point increase in high-skilled occupations and declines in mid- and low-skilled ones over the past three decades.

Precarious workers, those engaged in part-time, temporary, or gig-economy roles, often lack contractual protections or robust social benefits, making them more vulnerable to sudden increases in living costs. As of 2022, nearly 36% of Canadian workers held precarious jobs, facing eroded worker protections and suppressed wages[124]. These workers are disproportionately represented among lower income declines, compounding pre-existing inequalities when trade-related price hikes coincide with inflationary surges.

### Geographic Concentration of Vulnerable Industries

Geographical factors further amplify the unequal impact of tariffs. Certain industries, including automotive assembly and steel fabrication in Ontario or energy extraction in Alberta, rely extensively on imported inputs. When tariffs are imposed on these inputs, production costs escalate, depressing investment and wage growth in affected regions. While some workers in protected industries may benefit from short-term job security or potentially higher wages, a broader swath of workers in downstream or adjacent industries may face costlier inputs or reduced export competitiveness, ultimately limiting employment prospects. In many cases, these job market challenges reinforce cycles of low income and heighten poverty risks in regions unable to pivot toward diversified economic bases.

## The Role of Real Wages, Cost-of-Living Adjustments, and Indexation

### Income Thresholds and Poverty Lines

[123] Public Policy Forum. (n.d.). *Job polarization in Canada. Public Policy Forum.* https://ppforum.ca/publications/job-polarization-in-canada/
[124] Jacobin. (2023, July). *Precarity, gig work, and the future of labor in Canada. Jacobin.* https://jacobin.com/2023/07/canada-precarity-gig-work-skills-labor-data

A practical measure for capturing how inflation and tariffs affect economically vulnerable populations is the evolution of Canada's official poverty line, the Market Basket Measure (MBM). The MBM reflects the cost of a specific set of goods and services representing a modest, basic standard of living. When tariffs increase the prices of essential items—such as textiles, certain farm produce, and household goods, the overall cost of this basket rises, potentially elevating the MBM threshold[125]. For instance, in March 2025, the Government of Canada imposed 25% tariffs on $30 billion worth of goods imported from the United States, including various household products[126]. Such measures can lead to increased costs for these essential items, thereby raising the MBM thresholds in affected regions. According to Statistics Canada, MBM thresholds for specific regions rose more sharply than national averages in 2022 and 2023, driven in part by elevated food and housing prices in areas with limited local supply chains[127]. Consequently, more families may find themselves falling below the poverty line due to these rising living costs.

Wage Growth vs. Price Levels

Tying wages to official inflation measures is not universal among Canadian employers. Although some public-sector positions, especially in healthcare or education, incorporate annual cost-of-living adjustments (COLAs), a sizable share of private-sector roles do not[128]. This misalignment between wage growth and inflation leaves low- and even middle-income earners contending with eroding real wages during episodes of tariff-driven price upswings. In 2023, tax filers reported earning a national median wage of $47,650, a 1.1% increase from 2022 after adjusting for a 3.9% annual rate of inflation, indicating that wage growth lagged behind inflation by 2.8 percentage points[129]. This trend intensified pressure on these households' disposable incomes.

[125] Government of Canada, Statistics Canada. (2025c, May 1). *Market Basket Measure (MBM) thresholds for the reference family by Market Basket Measure region, component and base year*. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110006601

[126] Government of Canada, Canada Border Services Agency, Commercial and Trade. (2025, January 10). *Canadian customs tariff*. https://www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/menu-eng.html

[127] Government of Canada, Statistics Canada. (2023, January 17). *Market Basket Measure poverty thresholds and provisional poverty trends for 2021 and 2022*. https://www150.statcan.gc.ca/n1/pub/75f0002m/75f0002m2022008-eng.htm

[128] Service Canada. (2021b, December 14). *Not found*. Canada.ca. https://www.canada.ca/en/employment-social-development/services/collective-bargaining-data/reports/role-of-cola.htmlCanada.ca+1Canada.ca+1

[129] Government of Canada, Statistics Canada. (2025c, April 1). *The Daily — Annual wages, salaries and commissions of T1 tax filers, 2023*. https://www150.statcan.gc.ca/n1/daily-quotidien/250401/dq250401b-eng.htm

## Community-Level Dimensions of Poverty

### Food Bank Usage and Nutritional Gaps

In March 2023, Food Banks Canada reported nearly two million visits to food banks nationwide, marking a 32% increase compared to March 2022—the largest year-over-year surge ever recorded [130]. This unprecedented demand has been attributed to escalating consumer prices for essentials such as dairy, bread, and vegetables, compounded by tariffs on certain imported agricultural commodities. These factors have led to price hikes that outpaced wage adjustments for many low-income families. Households allocating a significant portion of their income to basic nutrition have been forced to choose between adequate diets and other necessities, such as rent or utilities. This precarious balance often results in nutritional deficits, with downstream consequences that include poorer health outcomes and diminished educational performance among children[131].

### Intersection with Housing and Utility Costs

Housing typically constitutes the largest single expense for Canadian households, but utilities—particularly heating, electricity, and water—are also critical. In certain provinces, the cost of energy can be partially affected by import tariffs on foreign machinery or fuel inputs, which can trickle into household utility bills. For instance, tariffs on imported energy products, such as crude oil and natural gas, can lead to increased fuel and electricity prices for consumers in different areas of the country. Because many low-income and rural communities lack the ability to switch providers or adopt alternative energy solutions quickly, they remain "price takers." Such constraints compound overall living costs, thus pushing a larger share of households below the poverty threshold when inflationary conditions coincide with trade frictions. Research indicates that energy poverty is significantly higher in rural areas and Atlantic provinces, with rates ranging from 6% to 19% of Canadian households, depending on the measure used.

## Impact on Specific Demographics: Women, Indigenous Peoples, and Immigrants

### Gendered Effects of Tariff-Driven Costs

Women, particularly single mothers, often shoulder higher caregiving responsibilities, making them more sensitive to surging commodity prices and child-related expenses. Statistics Canada reports that women spend significantly more time than men on unpaid housework, childrearing, and caregiving, dedicating an

[130] Food Banks Canada. (n.d.). *Food banks across Canada report almost 2 million visits in one month*. *Food Banks Canada*. https://foodbankscanada.ca/food-banks-across-canada-report-almost-2-million-visits-in-one-month/

[131] Attanasio, O. P., & Weber, G. (2010b). Consumption and Saving: Models of Intertemporal allocation and their implications for Public policy. *Journal of Economic Literature*, *48*(3), 693–751. https://doi.org/10.1257/jel.48.3.693

average of 25.2 hours per week to domestic labor compared to men's 16.8 hours[132]. Inflation that stems from costlier imported children's goods—like diapers or certain nutritional supplements—can erode already tight budgets. Additionally, women are overrepresented in part-time or precarious service-sector jobs, which typically lack robust wage growth or benefits to offset cost-of-living escalations. In 2009, nearly 27% of employed women worked part-time, and women accounted for approximately 70% of all part-time workers, highlighting their vulnerability to economic fluctuations[133].

Indigenous Communities

Indigenous communities, particularly those in northern and remote regions, face elevated transportation and logistics costs that exacerbate the impact of tariffs on essential goods. For instance, many of these communities rely on seasonal ice roads to transport supplies such as construction materials and food. However, climate change has rendered these routes increasingly unreliable, leading to higher costs as communities are forced to resort to air transport. This shift not only increases the price of goods but also hampers the timely delivery of essential items, affecting housing quality, food security, and healthcare infrastructure[134].

Data indicates that food insecurity is a significant concern in these regions. In 2024, approximately 64% of Inuit reported that rising prices limited their ability to buy healthy and nutritious food, with nearly half of Inuit living in Inuit Nunangat stating that rising prices greatly affected their ability to meet day-to-day expenses[135]. These challenges are compounded by existing disparities in employment, education, and health outcomes. For example, employment rates among Indigenous populations remain lower than those of non-Indigenous Canadians, and high school completion rates are also comparatively lower, particularly among Registered Indians living on reserve and Inuit populations[136].

[132] Statistics Canada. (2019). *Measuring and Analyzing the Gender Pay Gap*. Retrieved from https://www150.statcan.gc.ca/n1/pub/45-20-0002/452000022019001-eng.htmStatistics Canada+1Statistics Canada+1
[133] Statistics Canada. (2010). *Women in Canada: A Gender-based Statistical Report*. Retrieved from https://www150.statcan.gc.ca/n1/pub/89-503-x/2010001/article/11387-eng.htm
[134] The Guardian. (2025, April 1). *'The ice is not freezing as it should': supply roads to Canada's Indigenous communities under threat from climate crisis*. Retrieved from https://www.theguardian.com/world/2025/apr/01/canada-ice-roads-first-nations-indigenous-communities-climate-crisisThe Guardian
[135] Statistics Canada. (2024, January 17). *Impacts of rising prices on the well-being of Indigenous people, 2024*. Retrieved from https://www150.statcan.gc.ca/n1/daily-quotidien/250117/dq250117b-eng.htmStatistics Canada
[136] Statistics Canada. (2023). *An update on the socio-economic gaps between Indigenous and non-Indigenous populations*. Retrieved from https://www.sac-isc.gc.ca/eng/1690909773300/1690909797208

Recent Immigrants

Newcomers to Canada often arrive with limited savings and allocate a significant portion of their income to housing, settlement costs, and language or skills training. In an environment of inflation and uncertain trade policies, these constraints are magnified if critical consumer items—such as culturally specific food products imported from abroad—become more expensive due to tariffs. In April 2024, 43% of recent immigrants reported finding it difficult or very difficult to meet their financial needs over the past 12 months, compared with 29% of more established immigrants and non-immigrants[137]. This financial strain is further compounded for immigrants working in lower-wage sectors, as they balance immediate resettlement needs with higher prices for culturally significant goods, all while receiving incomes that have not necessarily caught up with Canadian wage norms. From 2001 to 2021, employment in lower-skilled positions decreased by 860,000 among Canadian-born workers, while it rose by 213,000 for immigrant workers and by 139,000 for temporary foreign workers, indicating that immigrants are increasingly occupying low-skilled jobs left by Canadian-born workers[138].

**Poverty Traps, Intergenerational Mobility, and the Vicious Cycle**

Long-Term Human Capital Erosion

When families allocate a significant portion of their financial resources toward basic necessities, fewer funds remain for investments in education, skills development, or entrepreneurial ventures. This dynamic perpetuates a cycle wherein future generations inherit both material and educational deficiencies, curtailing their ability to break into higher-earning job markets. Local communities may also experience diminished tax revenue, restricting public investment in infrastructure and social programs[139].

**Debt Accumulation and Default Risks**

Rising household debt amplifies vulnerability to economic fluctuations. Households pushed below the poverty line by inflationary pressures are more prone to rely on high-interest credit to manage daily expenses. In the event of an abrupt job loss or interest rate hike—potentially prompted by the Bank of Canada's attempts to control inflation—such households face heightened risks of default, eviction, or

[137] Statistics Canada. (2024, June 18). *Recent immigrants report greater difficulty making ends meet and are less satisfied with their amount of free time*. Retrieved from https://www150.statcan.gc.ca/n1/daily-quotidien/240618/dq240618b-eng.htm Statistics Canada+4Statistics Canada+4Statistics Canada+4

[138] Statistics Canada. (2024, March 27). *Immigration and the shifting occupational distribution in Canada, 2001 to 2021*. Retrieved from https://www150.statcan.gc.ca/n1/daily-quotidien/240327/dq240327b-eng.htmStatistics Canada

[139] Baldwin, J. R., & Yan, B. (2018). *Global value chains and the productivity of Canadian manufacturing firms*. Statistics Canada. Retrieved from https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2018010-eng.htm

homelessness. These outcomes lead to social costs that require further public expenditure on emergency assistance, thereby straining government resources[140].

**Policy and Structural Solutions: Alleviating Inequality in a Tariff-Prone, Inflationary Context**

Enhanced Social Transfers and Indexation

Several observers advocate strengthening the indexation of social assistance programs to keep pace not only with headline inflation but also with sector-specific costs influenced by tariffs. For instance, automatically adjusting the Canada Workers Benefit (CWB) or provincial social assistance rates to reflect monthly changes in the prices of core imports could act as a buffer against tariff-driven shocks. Such a policy would help prevent low-income households from slipping further into poverty when targeted goods experience sudden price hikes[141].

Targeted Regional Investments

There is growing recognition among policy experts that local economies require diversified investments to withstand the volatility created by shifting global trade regimes. Regions overly dependent on one tariff-sensitive industry can benefit from federal funding aimed at fostering technology adoption, tourism, agribusiness, or renewable energy production. By broadening the industrial base, communities gain alternative revenue streams and job opportunities that reduce the direct impact of trade disruptions or input cost escalations on local unemployment and poverty levels[142].

Strategies to Address Precarious Work

To bolster the economic security of precarious workers, governments could enhance labor protections, encourage stable contract arrangements, and support unionization where feasible. Increased access to training and credential recognition for recent immigrants or those transitioning from declining industries could smooth the path to more resilient, higher-wage positions. These measures would reduce the

[140] Conference Board of Canada. (2023). *The True Cost of Trump Tariffs: Provincial Impacts*. Retrieved from https://www.conferenceboard.ca/insights/the-true-cost-of-trump-tariffs-provincial-impacts/
[141] Department of Finance Canada. (2023, July). *Low-income workers to receive first enhanced Canada Workers Benefit payments*. Retrieved from https://www.canada.ca/en/department-finance/news/2023/07/low-income-workers-to-receive-first-enhanced-canada-workers-benefit-payments.htmlCanada.ca
[142] Canada's Regional Development Agencies. (2024). *Canada's Regional Development Agencies*. Retrieved from https://ised-isde.canada.ca/site/ised/en/canadas-regional-development-agenciesISED Canada+3ISED Canada+3ISED Canada+3

proportion of the workforce exposed to tariff-induced inflation, effectively shrinking the population at immediate risk of poverty[143].

Consumer Protection and Market Oversight

Government agencies, including the Competition Bureau of Canada, can extend their oversight mandate to track whether price increases attributed to tariffs are in line with verifiable cost changes or whether certain corporations exploit the climate of uncertainty to impose higher markups. Enhanced data transparency—requiring retailers and wholesalers to disclose the basis for surcharges—would empower policymakers to distinguish legitimate pass-through of tariff costs from potential price gouging. Such transparency could mitigate undue inflationary pressure on households, particularly those near or below the poverty line[144].

**Concluding Remarks on Inequality and Poverty**

Tariffs, by influencing cost structures and trade flows, act as a potent catalyst for inflation, particularly in essential goods markets. Within Canada, whose economy is deeply integrated into global supply chains, the ramifications of such tariff-driven inflation are disproportionately borne by lower-income groups, precarious workers, and marginalized communities. The evidence points to growing reliance on food banks, increases in utility arrears, and deteriorating real wage trajectories as tangible manifestations of these pressures[145]. These trends, if unaddressed, risk sustaining a vicious cycle wherein poverty and inequality intensify over time.

A more equitable approach to trade and economic policy would balance legitimate national interests—such as protecting key industries or ensuring food security—against the potential downstream impacts on vulnerable populations. This balance may be achieved through sustained social investments, stronger consumer protections, and a more dynamic labor market framework that supports re-skilling and diversification. If Canada can implement such reforms in tandem with prudent monetary policy, it would

[143] Employment and Social Development Canada. (2024). *Chapter 1: Equitable inclusion in the changing world of work*. Retrieved fromhttps://www.canada.ca/en/employment-social-development/corporate/portfolio/labour/programs/employment-equity/reports/act-review-task-force/chapter-1.html Canada.ca+5Canada.ca+5Canada.ca+5

[144] Competition Bureau Canada. (2024). *Competition Bureau Canada*. Retrieved from https://competition-bureau.canada.ca/en/competition-bureau-canadaCompetition Bureau+1Competition Bureau+1

[145] Food Banks Canada. (2023). *HungerCount 2023 Report*. Retrieved from https://foodbankscanada.ca/food-banks-across-canada-report-almost-2

stand a stronger chance of preventing tariff-induced inflation from deepening the fault lines of income inequality and poverty across the country.

### 6.3 Employment and Labor Markets

Tariffs and inflation have far-reaching consequences for employment and labor market stability in Canada. Although policymakers often implement tariffs to protect specific domestic industries or to counteract unfair trade practices, the resulting shifts in production costs and consumer prices can disrupt both labor demand and wage growth[146]. Inflation compounds these disruptions by reducing real wages and altering the profitability of key sectors, ultimately influencing hiring decisions, job quality, and regional employment patterns[147]. This section examines the interplay between tariffs, inflation, and Canadian labor markets, utilizing recent data to highlight both short-term fluctuations and longer-term structural trends.

#### Overview of Canada's Labor Market Performance

In 2023, Canada's unemployment rate averaged around 5.4 percent, marking a moderate increase from the historic low of 4.9 percent observed in mid-2022[148]. This uptick coincided with elevated inflation, which peaked at 8.1 percent in June 2022 before tapering to 2.4 percent by the end of 2024[149]. During this period, tariffs on key industrial inputs like steel and aluminum raised production costs in sectors such as automotive manufacturing, leading some firms to pause or reduce hiring. While the service sector, including hospitality and retail, remained relatively strong, globally integrated industries like electronics and components saw weaker job growth.

#### Transmission Mechanisms: How Tariffs and Inflation Affect Labor Demand

Tariffs can influence employment through several channels. Duties on competing imports may encourage protected domestic firms to expand their hiring, but they simultaneously increase input costs for downstream producers, dampening their competitiveness and labor demand. In Canada's integrated

[146] Feenstra, R.C. (2018). *Advanced International Trade*. Princeton University Press. https://books.google.ca/books?id=jQBWrgEACAAJ&printsec=frontcover&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false

[147] Bank of Canada. (2022). *Wages and Costs: Definitions and Data Tables*. https://www.bankofcanada.ca/rates/indicators/capacity-and-inflation-pressures/wages-costs-definitions/

[148] Statistics Canada. (2024). *Labour Force Survey, December 2023*. https://www150.statcan.gc.ca/n1/daily-quotidien/240105/dq240105a-eng.htm

[149] Statistics Canada. (2024). *Consumer Price Index, August 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/240917/dq240917a-eng.htm

supply chains, this often means job gains in protected industries are offset by losses in sectors reliant on imported parts or machinery[150].

Inflation exacerbates these challenges. When price levels rise but nominal wages fail to keep pace, firms face increased labor costs and often respond by freezing hiring or delaying expansion. Retail, agriculture, and other low-margin industries are particularly vulnerable to this inflation-labor dynamic.

**Sectoral Impact: Winners and Losers**

Manufacturing and Industrial Sectors

Canada's manufacturing sector employed over 1.6 million workers in 2023[151]. While food processing industries under supply management systems experienced minor gains, other areas—especially automotive components and machinery—faced layoffs due to rising import costs and tariff uncertainty. Overall, manufacturing employment growth remained near zero to 1 percent annually.

Energy and Natural Resources

Global commodity price increases in 2022–23 supported employment in Alberta and Saskatchewan's energy sector. Wage growth in oil and gas averaged 3.5 percent in 2022[152], but tariffs on foreign equipment and regulatory delays prevented broader job growth, especially in rural services.

Service Sector and Retail

Service-sector employment rose by 1.8 percent in 2023, slightly lower than 2022's 2.2 percent. Higher import costs for consumer goods such as clothing and electronics led some retailers to reduce hours or delay hiring[153].

[150] Statistics Canada. (2019). *Canadian Supply Chains and the Impact of Tariffs*. https://www150.statcan.gc.ca/n1/en/pub/11-621-m/11-621-m2019002-eng.pdf
[151] Statistics Canada. (2023). *Employment by Industry, Annual Data*. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410002301
[152] Statistics Canada. (2023). *Wages by Sector: Natural Resources and Energy*. https://www150.statcan.gc.ca
[153] Cavallo, A., Gopinath, G., Neiman, B., & Tang, J.P. (2021). *Tariff Passthrough at the Border and Store*. American Economic Review: Insights, 3(1), 19–34. https://www.hbs.edu/ris/Publication%20Files/aeri.20190536_7e3e09a3-dc15-4bae-b042-c6519f7e1ef5.pdf

Agriculture and Food Processing

While supply-managed segments like dairy remained insulated, other agricultural producers faced higher input costs from imported fertilizers and seeds. Food processing employment increased modestly—around 0.5 percent—below the 1 percent projections by analysts[154].

**Wage Dynamics and Labor Market Flexibility**

Wage growth trailed inflation for much of 2022 and 2023. Although average nominal wages rose 3.4 percent in 2022, inflation rates between 4.4 and 5.0 percent caused real wage losses of nearly 1 percent. Lower-wage sectors like logistics, hospitality, and retail were disproportionately affected[155], while higher-wage sectors such as finance and tech secured partial inflation-linked adjustments.

Labor market flexibility also came under stress due to post-pandemic structural changes, supply chain disruptions, and tariff-induced volatility. Firms avoided long-term indexed contracts, pushing more workers into precarious or contract-based roles.

**Regional Variations and Precarious Employment**

Tariffs and inflation contributed to uneven labor outcomes across regions. Ontario's automotive sector struggled with high input costs, while B.C.'s construction sector was steadier due to strong domestic demand—despite rising material prices[156]. Rural and northern communities, burdened by high logistics costs, had fewer alternative employment options.

Precarious employment accounted for about 20 percent of total jobs in 2023, up from 17.5 percent in 2018. These workers—mostly part-time, temporary, or gig—are most exposed to real wage losses and sudden price shocks[157].

**Potential Policy Interventions and Labor Market Resilience**

Policymakers can pursue several interventions:

- **Targeted Industry Support:** Temporary tax credits or wage subsidies for tariff-exposed sectors could stabilize short-term employment[158].

[154] Conference Board of Canada. (2023). *The True Cost of Tariffs: Provincial and Sectoral Impacts*.
[155] Blanchflower, D.G. & Oswald, A.J. (2021). *The Wage Curve: A Review*. Journal of Economic Literature, 59(3), 773–784. https://www.nber.org/system/files/working_papers/w11338/w11338.pdf
[156] Statistics Canada. (2023). *Construction Investment Trends by Region*. https://www150.statcan.gc.ca
[157] Food Banks Canada. (2023). *HungerCount 2023 Report*. https://foodbankscanada.ca
[158] Department of Finance Canada. (2022). *Fall Economic Statement*. https://www.canada.ca

- **Trade Diversification & Supply Chain Realignment:** Encouraging firms to source inputs domestically or from diverse partners could reduce exposure to trade shocks[159].

- **Workforce Development:** Retraining programs for workers in contracting sectors, especially those reliant on imported goods, can support long-term transitions.

- **Indexed Wages and Social Transfers:** Indexing wages or benefits to inflation could shield vulnerable workers from unexpected cost increases.

### Concluding Observations on Employment and Labor Markets

Tariffs and inflation jointly shape labor markets through multiple feedback loops. While some sectors benefit from protection, downstream job losses, wage erosion, and precarious employment trends raise concerns about the labor market's overall resilience. Policymakers must balance strategic protection with equitable labor outcomes through long-term investments, supply chain adaptability, and social support that reinforce labor mobility and economic security.

## 6.4 Food Security and Affordability

Food security and affordability are critical indicators of societal well-being, reflecting whether households can consistently access sufficient, nutritious food without compromising other necessities. In Canada, these indicators have been strained due to the convergence of inflationary pressures and tariff-driven price increases on imported goods. While pandemic-era supply chain disruptions initially highlighted vulnerabilities in food distribution, sustained cost-of-living escalations have extended and, in some cases, worsened these vulnerabilities, particularly among low-income communities[160].

[159] Bonadio, B., Huo, Z., Levchenko, A. A., Pandalai-Nayar, N., & NATIONAL BUREAU OF ECONOMIC RESEARCH. (2020). *GLOBAL SUPPLY CHAINS IN THE PANDEMIC* (Working Paper 27224). https://www.nber.org/system/files/working_papers/w27224/w27224.pdf

[160] Food Banks Canada. (2023). *HungerCount 2023 Report*. https://foodbankscanada.ca

## The State of Food Prices in Canada

Inflationary Context and Grocery Indices

Recent headline inflation in Canada peaked at 8.1 percent in June 2022, before moderating to 2 percent by August 2024[161]. However, the food purchased from the stores index has consistently outpaced the broader Consumer Price Index (CPI) by multiple quarters[162]. This divergence stems from several factors:

- **Dependence on Imported Food**: Canada imports a significant share of its fruits and vegetables, especially during winter, making retail prices more susceptible to tariff fluctuations.

- **Fuel and Transportation Costs**: Rising fuel costs in a high-inflation environment can compound logistical expenses, especially for perishable goods shipped over long distances.

- **High Input Costs**: Domestic producers dependent on imported fertilizers or machinery face elevated operating expenses, which can feed back into consumer prices[163].

*Specific Product Categories Under Pressure*

While nearly all grocery categories have seen some price growth, dairy and egg products have been particularly affected, partly due to supply management systems and rising costs of raw inputs. Official data indicate that dairy product prices climbed 9.5 percent from 2021 to 2022[164]. Meat products have also been subject to volatile global commodity markets, further compounding affordability challenges[165].

## Tariff Pass-Through and Retail Markups

Mechanisms of Pass-Through

[161] Food Banks Canada. (2023). *HungerCount 2023 Report*. https://foodbankscanada.ca

[162] Statistics Canada. (2023, October 20). *Monthly average retail prices for selected food items*. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000201

[163] Baldwin, J. R., & Yan, B. (2018). *Global value chains and productivity of Canadian manufacturing firms*. Statistics Canada. https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2018010-eng.htm

[164] AGRI-Evidence, Vanderpoo, J. (2023). *Dairy Sector Snapshot: Canada 2021–2022*. [Agriculture Canada Internal Brief]. https://www.cdc-ccl.ca/sites/default/files/2022-11/CDC-AR-2022-EN-09%20%28Web%20version%20FINAL%29.pdf

[165] Department of Finance Canada. (2022). *Federal Budget 2022: Cost-of-Living Analysis*. https://www.budget.canada.ca

Economic literature consistently shows that tariff pass-through to retail prices can be substantial. In product markets where demand remains relatively stable, even in the face of price increases, producers and distributors are more likely to pass on higher import costs to consumers. This dynamic is especially pronounced for food staples that are difficult to substitute[166]. Estimates suggest that pass-through rates for such goods can exceed 80 percent within six months of a new tariff's enactment[167].

Retail Market Concentration

A key factor amplifying tariff pass-through is Canada's highly consolidated grocery sector, where five major chains account for over 70 percent of grocery sales[168]. High market concentration can reduce competitive pressure to absorb cost increases, potentially allowing large retailers to maintain or even expand margins. While some consumer groups allege profit-padding, more definitive evidence requires enhanced data-sharing and oversight from agencies like the Competition Bureau of Canada[169].

**Geographic and Demographic Disparities**

Rural and Remote Communities

Rural and northern regions of Canada typically face higher baseline food prices due to logistical hurdles and sparse retail options. When tariffs raise import expenses for produce or grains, these communities can experience disproportionately large price hikes[170]. In some remote areas, grocery bills exceed national averages by 10 to 20 percent, reflecting higher transportation costs and limited market competition[171].

Impact on Low-Income and Vulnerable Groups

Recent data reveal that 22.9 percent of individuals across Canada's ten provinces faced household food insecurity in 2023, amounting to 8.7 million people, including 2.1 million children[172]. Single-parent families, low-wage workers, and seniors on fixed incomes are especially at risk. A 5 to 10 percent increase in grocery

[166] Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. P. (2021). *Tariff pass-through at the border and at the store: Evidence from US trade policy*. *American Economic Review: Insights*, 3(1), 19–34. https://www.hbs.edu/ris/Publication%20Files/aeri.20190536_7e3e09a3-dc15-4bae-b042-c6519f7e1ef5.pdf
[167] Conference Board of Canada. (2023). *Tariff Pass-Through and the Canadian Food Sector*. https://www.conferenceboard.ca
[168] Food Banks Canada. (2023). *Grocery Industry and Food Access in Canada*. https://foodbankscanada.ca
[169] Statistics Canada. (2019). *Market concentration in Canada's retail food industry*. https://www150.statcan.gc.ca
[170] Conference Board of Canada. (2023). *Food Costs in Northern and Rural Canada*. https://www.conferenceboard.ca
[171] Statistics Canada. (2023). *Retail prices and transportation costs in remote communities*. https://www150.statcan.gc.ca
[172] Food Banks Canada. (2023). *Household Food Insecurity in Canada, 2023 Data Tables*. https://foodbankscanada.ca

costs, driven by tariffs or broader inflation, can force such households to reduce essential expenditures like housing or utilities[173].

**Consequences for Nutrition, Health, and Social Outcomes**

Dietary Quality and Chronic Disease

Food affordability significantly affects dietary quality. Economically constrained households often resort to cheaper, calorie-dense but nutrient-poor alternatives[174]. This dietary shift has been linked to heightened risks of hypertension, obesity, and Type 2 diabetes, exacerbating burdens on Canada's healthcare system[175]. In this sense, tariff- and inflation-induced food insecurity can reverberate through public health and productivity channels[176].

Intergenerational Effects and Educational Attainment

Children residing in food-insecure households are more prone to developmental and educational setbacks due to poor nutrition[177]. Such deficits can impair academic performance and future employability, perpetuating a poverty cycle into the next generation. As a result, inflationary or tariff-driven price shocks to essential foods do not merely affect current consumption but can also erode long-term human capital[178].

**Policy and Structural Responses to Strengthen Food Security**

Targeted Income Supports and Subsidies

**Nutrition Vouchers and Food Rebate Programs**: Proposed or existing measures, including Nutrition North Canada, subsidize the cost of perishable foods in remote regions, reportedly lowering grocery bills

[173] Woodford, M. (2011). *Interest and Prices: Foundations of a Theory of Monetary Policy*. ResearchGate. https://www.researchgate.net/publication/4857098_Interest_and_Prices_Foundations_of_a_Theory_of_Monetary_Policy
[174] Attanasio, O., & Weber, G. (2010). *Consumption and Saving: Models of Intertemporal Allocation and Their Implications for Public Policy*. *Journal of Economic Literature*, 48(3), 693–751. https://are.berkeley.edu/courses/ARE251/fall2011/Papers/attanasio-weber10.pdf
[175] Blanchflower, D. G., & Oswald, A. J. (2021). *The Wage Curve: A Review*. Journal of Economic Literature, 59(3), 773–784. https://ideas.repec.org/a/aea/aerins/v3y2021i1p19-34.html
[176] Conference Board of Canada. (2023). *Public Health Impacts of Food Insecurity*. https://www.conferenceboard.ca
[177] Food Banks Canada. (2023). *Children and Hunger: National Briefing 2023*. https://foodbankscanada.ca
[178] Carroll, C., Slacalek, J., Tokuoka, K., & White, M. (2017). *The Distribution of Wealth and the Marginal Propensity to Consume*. *Quantitative Economics*, 8(3), 977–1020. https://www.econ2.jhu.edu/people/ccarroll/papers/cstwMPC.pdf

by 5 to 10 percent for eligible communities[179]. Some analysts suggest broadening such programs to urban low-income areas, where rising tariffs on imported produce can still have a severe financial impact[180].

**Child Benefits**: Canada's Child Benefit (CCB) partially indexes to CPI, but calls exist for a heavier weighting on food prices[181]. According to modeling by the Parliamentary Budget Officer, expanding or recalibrating the CCB to match grocery-cost inflation could reduce the number of food-in

[179] Conference Board of Canada. (2023). *Evaluating Nutrition North Canada*. https://www.conferenceboard.ca
[180] Attanasio, O., & Weber, G. (2010). *Consumption and Saving: Models of Intertemporal Allocation and Their Implications for Public Policy*. *Journal of Economic Literature*, 48(3), 693–751. https://are.berkeley.edu/courses/ARE251/fall2011/Papers/attanasio-weber10.pdf
[181] Blanchflower, D. G., & Oswald, A. J. (2021). *The Wage Curve: A Review*. Journal of Economic Literature, 59(3), 773–784. https://ideas.repec.org/a/aea/aerins/v3y2021i1p19-34.html

# Section 7. Business Competitiveness and Innovation

## 7.1 Exports, Imports, and Trade Balances: Shifts in Supply Chain and Sourcing

Tariffs and inflation exert dual pressures on Canada's trade ecosystem. As policy tools, tariffs are often wielded to protect domestic industries, confront unfair trade practices, or gain leverage in negotiations; yet they can also provoke retaliatory responses and cost pass-throughs that reverberate through global value chains[182]. Meanwhile, inflation—particularly when it surpasses wage or productivity growth—drives up production costs and affects the competitiveness of Canadian exports[183]. This section delves into the evolving interplay among exports, imports, and the country's trade balance, highlighting the ways in which supply chain realignments and sourcing shifts are unfolding in an environment shaped by tariff policies and post-pandemic inflationary realities.

### Recent Trends in Canada's Merchandise Trade

Magnitude and Composition of Exports

Over the past five years, Canada's export profile has undergone notable fluctuations, reflecting pandemic-related disruptions, commodity price swings, and tariff-driven market adjustments. In 2023, total merchandise exports decreased by 1.4% to approximately CAD 768.2 billion[184]. This decline was influenced by various factors:

- **Energy Products**: Crude oil, natural gas, and refined petroleum products remained major pillars of Canada's export portfolio, collectively accounting for a significant share of total exports. However, lower energy prices in 2023 contributed to a decrease in export values[185].

[182] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf
[183] Krugman, P. R., & Obstfeld, M. (2018). *International Economics: Theory and Policy* (11th ed.). Pearson. https://eclass.duth.gr/modules/document/file.php/OPE01137/International%20trade%20_%20theory%20%26%20policy%20%28%20PDFDrive%20%29.pdf
[184] Statistics Canada. (2024, April 4). *Canada's international merchandise trade, February 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/240404/dq240404a-eng.htm
[185] Statistics Canada. (2024, April 4). *Canada's international merchandise trade, February 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/240404/dq240404a-eng.htm

- **Motor Vehicles and Parts**: Automotive exports, primarily destined for the United States under the Canada–United States–Mexico Agreement (CUSMA), experienced fluctuations due to persistent semiconductor shortages and cross-border tariff disputes on steel inputs[186].

- **Agricultural and Agri-Food Products**: Agri-food exports, including wheat, canola, and processed foods, saw varied performance in 2023. While global demand remained robust, tariffs on agricultural imports—both imposed by Canada and faced by Canadian exporters in certain markets—introduced sporadic volatility[187].

Magnitude and Composition of Imports

Imports have steadily increased over time, reaching approximately CAD 770.2 billion in 2023, marking a 1.4% rise from 2022 levels. As shown in *Figure 1: Annual Canadian Merchandise Trade (2006–2021)*, import values have climbed consistently since 2009, closely mirroring export trends. This trajectory reflects Canada's deep integration into global supply chains and continued demand for high-value foreign goods.

Key import categories include:

**Machinery and Equipment**: Canada's manufacturing sector relies heavily on imported industrial and precision equipment. These include robotics, machine tools, and automation systems—many of which originate from the U.S. and EU. Retaliatory tariffs from these regions can inflate operational costs for domestic firms[188].

**Consumer Electronics and Pharmaceuticals**: Smartphones, diagnostic devices, and therapeutic technologies represent a significant share of Canada's high-tech imports. Recent shifts in bilateral tariff agreements, particularly with Europe and the U.S., have created new uncertainties in the pricing and accessibility of these critical imports[189].

**Intermediate Manufacturing Inputs**: Sectors like automotive, aerospace, and electronics depend on imported raw materials, semiconductors, and parts. Even modest tariffs on these components can trigger

[186] Statistics Canada. (2024, April 4). *Canada's international merchandise trade, February 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/240404/dq240404a-eng.htm
[187] Statistics Canada. (2024, April 4). *Canada's international merchandise trade, February 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/240404/dq240404a-eng.htm
[188] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf

[189] Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. P. (2021). *Tariff pass-through at the border and at the store: Evidence from US trade policy*. *American Economic Review: Insights*, 3(1), 19–34. https://doi.org/10.1257/aeri.20190374

disproportionate increases in final product costs, contributing to inflationary pressure within Canada's domestic markets[190].

As depicted in the chart, the parallel rise of both imports and exports suggests a relatively balanced trade structure, though the *balance panel* highlights the volatility and persistent trade deficits in select years. These dynamics underscore the importance of adaptive sourcing strategies and tariff-resilient procurement practices across Canadian industries.

**Exhibit 22. Annual Canadian Merchandise Trade: Exports, Imports, and Balance**

**(2006–2021, CAD Billions)**


## How Tariffs Reshape Supply Chains and Sourcing

Defensive Tariffs to Protect Domestic Industries

Canada, like many advanced economies, has periodically enacted defensive tariffs to support key industries against perceived dumping or aggressive competition from abroad. Examples include:

- **Steel and Aluminum Measures**: In response to low-priced foreign steel, Canada imposed tariffs to stabilize domestic production and preserve jobs. While these measures offered short-term relief

[190] Krugman, P. R., & Obstfeld, M. (2018). *International Economics: Theory and Policy* (11th ed.). Pearson. https://eclass.duth.gr/modules/document/file.php/OPE01137/International%20trade%20_%20theory%20%26%20policy%20%28%20PDFDrive%20%29.pdf

for local producers, downstream users (e.g., automotive parts makers) faced heightened input costs, trimming their global competitiveness[191].

- **Supply-Managed Sectors**: Dairy, poultry, and eggs are regulated via supply management, restricting import volumes and imposing steep tariffs above specific quotas. Designed to stabilize farm incomes, these policies can raise consumer prices and invite retaliatory trade responses[192].

Retaliatory Tariffs and Countermeasures

Defensive tariffs can trigger retaliatory actions from major trading partners, notably the United States under Section 232 or Section 301 measures[193]. When Canada responded with countermeasures targeting a range of U.S. exports, including metals and agricultural goods, bilateral tensions escalated. Sectors not directly related to steel or aluminum often became collateral damage, with producers either absorbing tariff-induced cost hikes or reconfiguring supply lines[194]. As a result, Canadian importers of steel from the U.S. turned to suppliers in Europe or Asia, reshuffling sourcing decisions to circumvent duty-laden supply chains[195].

Supply Chain Hopping and Strategic Diversification

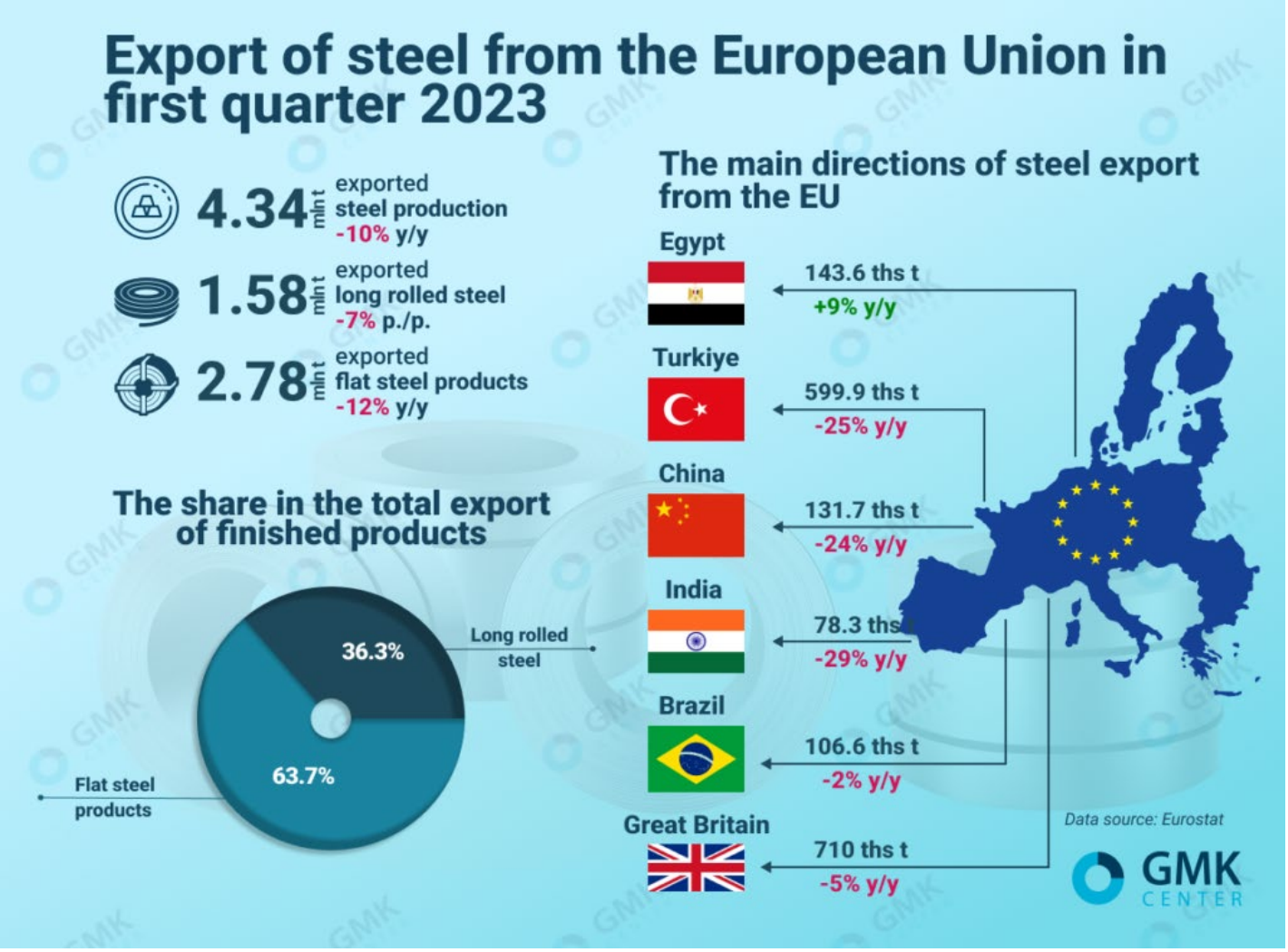
Firms facing tariff hikes on essential inputs may respond by diversifying their supply chains toward regions with more favorable trade terms. A prime example is the notable increase in steel imports from the European Union, where flat steel products accounted for 63.7% of total finished steel exports in early 2023. As shown in Exhibit 2, EU steel exports were primarily directed toward countries like Great Britain, Türkiye, and Egypt, with trade volumes remaining substantial despite year-over-year declines. This strategic shift suggests that firms—including Canadian automotive and manufacturing sectors—may have pivoted to EU sources to circumvent tariff burdens from North American suppliers. However, while this approach helps

[191] Statistics Canada. (2019). *Economic Insights: The Impact of Steel and Aluminum Tariffs*. https://www150.statcan.gc.ca/n1/pub/11-626-x/11-626-x2019007-eng.htm
[192] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf
[193] Conference Board of Canada. (2023). *Canada's Trade Challenges in a Fragmenting Global Economy*. https://www.conferenceboard.ca

[194] Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. P. (2021). *Tariff pass-through at the border and at the store: Evidence from US trade policy*. *American Economic Review: Insights*, 3(1), 19–34. https://doi.org/10.1257/aeri.20190374
[195] Krugman, P. R., & Obstfeld, M. (2018). *International Economics: Theory and Policy* (11th ed.). Pearson. https://eclass.duth.gr/modules/document/file.php/OPE01137/International%20trade%20_%20theory%20%26%20policy%20%28%20PDFDrive%20%29.pdf

reduce immediate cost pressures, it often requires complex logistical adjustments, exposure to foreign exchange volatility, and navigation of differing regulatory environments[196] [197].

**Exhibit 23. Strategic Diversification of Steel Sourcing from the EU (Q1 2023)[198]**




*Steel exports from the European Union in Q1 2023 illustrate how global supply chains, including Canada's, have increasingly relied on European suppliers to mitigate tariff-related disruptions. The breakdown by country and product type highlights key destinations and export trends relevant to tariff-sensitive industries like automotive manufacturing.*

[196] Statistics Canada. (2023, August 8). *Table 12-10-0121-01: Merchandise imports and exports, by country and product*. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1210012101

[197] Baldwin, J. R., & Yan, B. (2018). *Global value chains and productivity of Canadian manufacturing firms*. Statistics Canada. https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2018010-eng.htm

[198] Колисниченко, В. (2023, June 6). European Union reduced steel exports by 10% y/y in the 1st quarter. GMK. https://gmk.center/en/news/european-union-reduced-steel-exports-by-10-y-y-in-the-1st-quarter/

**Inflation's Influence on Trade Flows**

Input Cost Escalation and Eroding Competitiveness

When inflation spikes, it typically raises production costs—especially if wage growth is not matched by productivity gains[199]. During 2022 and early 2023, Bank of Canada data showed nominal wages outpacing real productivity enhancements, translating into higher unit labor costs. Key export sectors like textiles, food processing, and consumer electronics assembly faced margin compression or scaled back production, which could weaken export performance if foreign rivals offered similar goods at lower prices[200].

The Currency Factor: Appreciation vs. Depreciation

Exchange rate fluctuations are closely tied to inflationary pressures and monetary policy responses. As illustrated in Exhibit 3, the Canadian dollar (CAD) experienced significant volatility between May 2024 and April 2025, highlighting both appreciation and depreciation cycles that align with broader macroeconomic conditions.

**Appreciation Scenario:** From October to February, the CAD strengthened notably, rising above 1.45 USD. This upward trend may have reflected interest rate hikes by the Bank of Canada intended to curb inflation, which in turn attracted foreign capital and increased demand for Canadian assets. However, such appreciation can have trade-offs: a stronger CAD makes Canadian exports more expensive for foreign buyers, potentially reducing demand in competitive global markets—particularly in price-sensitive sectors like agriculture or manufacturing[201].

**Depreciation Scenario:** By April 2025, the exchange rate declined sharply, falling to nearly 1.38. This depreciation may signal growing investor uncertainty or expectations of monetary easing. While a weaker CAD can boost export competitiveness by lowering relative prices abroad, it simultaneously increases the cost of imported goods and inputs. This dual effect can be particularly burdensome in tariff-sensitive industries, where rising import costs compound existing price pressures[202]

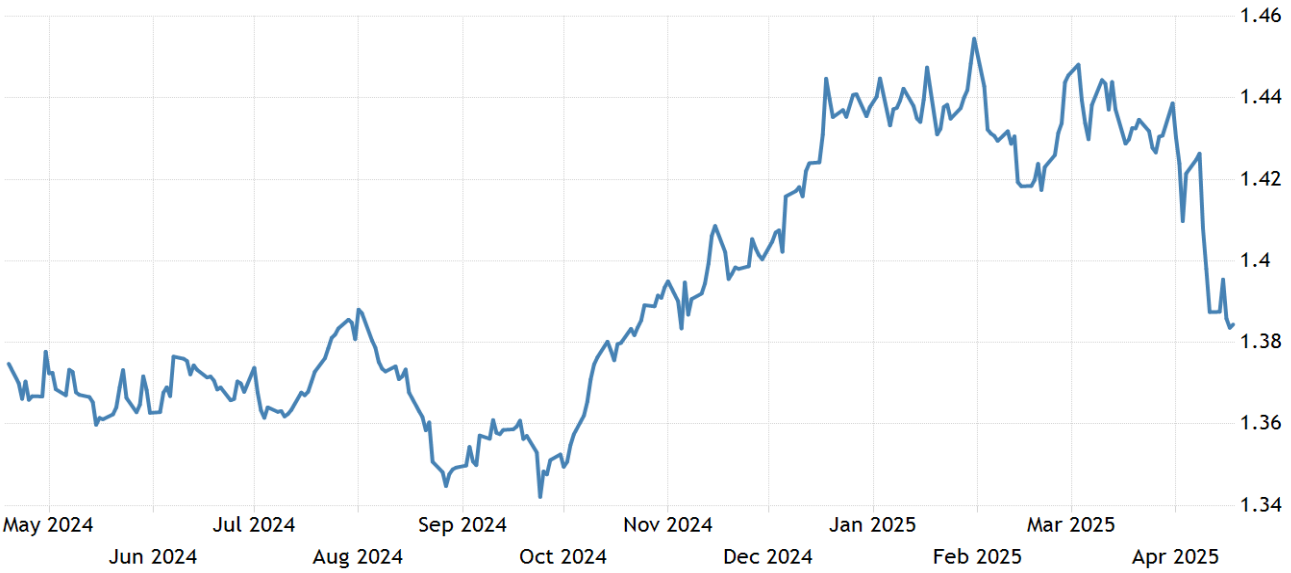
[199] Bank of Canada. (2023). *Labour market, wages and inflation*. https://www.bankofcanada.ca/2023/11/labour-market-wages-inflation/

[200] Conference Board of Canada. (2023). *Canada's Trade Challenges in a Fragmenting Global Economy*. https://www.conferenceboard.ca

[201] Krugman, P. R., & Obstfeld, M. (2018). *International Economics: Theory and Policy* (11th ed.). Pearson. https://eclass.duth.gr/modules/document/file.php/OPE01137/International%20trade%20_%20theory%20%26%20policy%20%28%20PDFDrive%20%29.pdf

[202] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf

**Exhibit 24. CAD/USD Exchange Rate (May 2024 – April 2025)**




This chart visualizes the volatility of the Canadian dollar in a high-inflation environment. Periods of appreciation reduced export competitiveness, while depreciation increased the cost burden of foreign-sourced goods.

### 7.2 Productivity and Technology Adoption: How Tariffs Influence Research and Development

Tariffs and inflation, while primarily regarded as macroeconomic variables, also permeate the microeconomic realm by affecting productivity levels and shaping firms' incentives to invest in research and development (R&D). Productivity growth is integral to a nation's long-term prosperity, enabling businesses to maintain competitive pricing, pay higher wages, and generate sustainable economic expansion[203]. This section assesses how tariffs—often introduced to shield domestic industries—can either spur or stifle technology adoption and innovation in Canada. It also examines the role of inflation in determining the feasibility and urgency of R&D investments, drawing on recent data and illustrative case examples.

[203] Krugman, P. R., & Obstfeld, M. (2018). *International Economics: Theory and Policy* (11th ed.). Pearson. https://eclass.duth.gr/modules/document/file.php/OPE01137/International%20trade%20_%20theory%20%26%20policy%20%28%20PDFDrive%20%29.pdf

## Why Productivity Matters in a Trade Context

### Defining Productivity

Productivity, broadly measured as output per unit of input, serves as a crucial benchmark for evaluating economic efficiency and competitiveness[204]. In manufacturing sectors, labor productivity may reflect the ratio of goods produced per worker, while in knowledge-intensive industries, metrics like value-added per hour can capture a more nuanced view of innovation capacity[205]. Enhanced productivity allows firms to weather tariff-induced cost hikes or inflationary pressures without surrendering market share.

### Links Between Productivity and Trade

Numerous empirical studies link rising productivity to stronger export performance, as more efficient firms can sell goods at lower prices or with higher value-added features. Conversely, lower productivity can trap companies in commodity segments vulnerable to global price swings and eroded margins, especially under inflationary conditions. By incentivizing cost-saving innovations and advanced process improvements, trade competition can propel domestic firms to enhance their productivity over time[206].

## The Dichotomy of Tariffs: Protective vs. Motivational Effects

### Protective Tariffs and "Complacency Risks"

Tariffs designed to shield local industries from foreign competition sometimes foster complacency. With fewer external rivals, domestic producers might experience reduced urgency to innovate or adopt new technologies[207]. Over extended periods, this lack of competitive pressure can dull the impetus for productivity gains, culminating in sectors that lag global peers in efficiency and R&D intensity[208].

---

[204] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf

[205] Baldwin, J. R., & Yan, B. (2018). *Global Value Chains and the Productivity of Canadian Manufacturing Firms*. Statistics Canada. https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2018010-eng.htm

[206] Conference Board of Canada. (2023). *Innovation in a High-Cost Environment: Canadian Business Responses to Tariffs and Inflation*. https://www.conferenceboard.ca

[207] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf

[208] Baldwin, J. R., & Yan, B. (2018). *Global Value Chains and the Productivity of Canadian Manufacturing Firms*. Statistics Canada. https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2018010-eng.htm

*Case Illustration: Steel and Aluminum*

Canada's steel sector benefited from defensive tariffs on cheap imports, securing short-term stability and job retention. Yet some downstream manufacturers relying on cheap foreign steel faced higher input prices, stifling their R&D budgets and process automation initiatives[209]. As a result, the net effect on sector-wide technology advancement was mixed, highlighting the complexity of protective measures.

Motivational Effects: Investing in Competitiveness

In other instances, tariffs can spur investment in automation, robotics, or product differentiation to mitigate cost disadvantages. If foreign inputs become pricier due to retaliatory or import duties, domestic firms may adapt by developing proprietary technologies or sourcing local advanced materials[210]. This adaptation can drive incremental productivity, especially if accompanied by supportive policy measures that facilitate capital investments in R&D[211].

**Inflation's Role in Shaping R&D Decisions**

Cost of Capital and Uncertainty

Inflation generally triggers adjustments in interest rates, raising the cost of capital for businesses, including those seeking to finance R&D projects[212]. When borrowing costs climb, high-risk, long-horizon investments like cutting-edge technology research can appear less feasible. Start-ups and smaller firms, already grappling with limited access to credit, may postpone or scale back R&D initiatives, curtailing future productivity gains[213].

Erosion of Real Wages vs. Skilled Labor Demand

While inflation can erode real wages, tight labor markets—particularly in specialized fields such as AI, robotics, or advanced engineering—can sustain or even inflate nominal salaries for high-skilled employees[214]. Firms that must pay premium wages to recruit talent may reallocate budgets away from R&D

[209] Statistics Canada. (2019). *Economic Insights: The Impact of Steel and Aluminum Tariffs*. https://www150.statcan.gc.ca/n1/pub/11-626-x/11-626-x2019007-eng.htm
[210] Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. P. (2021). *Tariff Pass-Through at the Border and at the Store: Evidence from US Trade Policy*. *American Economic Review: Insights*, 3(1), 19–34. https://doi.org/10.1257/aeri.20190374
[211] Department of Finance Canada. (2022). *Budget 2022: A Plan to Grow Our Economy and Make Life More Affordable*. https://budget.canada.ca
[212] Woodford, M. (2011). *Interest and Prices: Foundations of a Theory of Monetary Policy*. Princeton University Press.
[213] Conference Board of Canada. (2023). *Innovation in a High-Cost Environment: Canadian Business Responses to Tariffs and Inflation*. https://www.conferenceboard.ca
[214] Woodford, M. (2011). *Interest and Prices: Foundations of a Theory of Monetary Policy*. Princeton University Press.

or automation investments, particularly if tariff-related cost pressures simultaneously inflate operating expenses[215]. Conversely, in a scenario where wage growth lags inflation, real wages may drop, temporarily easing labor costs but also risk lower morale and reduced long-term productivity[216].

**Sectoral Perspectives: Technology Adoption in Key Canadian Industries**

Manufacturing and Advanced Robotics

Canada's manufacturing sector, which employs over 1.6 million workers[217], often operates on thin margins, leaving limited scope for large-scale R&D if input costs spike. Some manufacturing subsectors respond to inflation and tariff hikes by accelerating the adoption of robotics or smart factory systems, aiming to bolster efficiency and offset cost pressures[218]. According to a 2023 survey by the Conference Board of Canada, about 42 percent of medium-sized manufacturers reported new automation investments, citing heightened competition and cost unpredictability as primary drivers.

*Auto Parts and Machining*

Firms reliant on imported steel or aluminum may invest in precision machining or advanced CAD/CAM solutions to reduce waste and labor hours. While these capital expenditures demand upfront resources, they can raise productivity enough to maintain competitiveness despite tariffs on raw materials[219].

Agri-Food Processing and Smart Farming

In agri-food processing, tariffs on imported equipment—like specialized irrigation systems or packaging machinery—can disincentivize advanced technology deployment if capital goods become prohibitively expensive. Yet, rising inflation in inputs (fertilizers, transport) has prompted some large-scale farms to adopt smart farming tools (GPS-guided tractors, IoT sensors) that minimize resource usage[220].

[215] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf
[216] Baldwin, J. R., & Yan, B. (2018). *Global Value Chains and the Productivity of Canadian Manufacturing Firms*. Statistics Canada. https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2018010-eng.htm
[217] Statistics Canada. (2023). *Table: 14-10-0023-01 Employment by industry, annual (x 1,000)*. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410002301
[218] Simchi-Levi, D., Kaminsky, P., & Simchi-Levi, E. (2021). *Designing and Managing the Supply Chain: Concepts, Strategies, and Case Studies* (4th ed.). McGraw-Hill Education.
[219] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf
[220] Baldwin, J. R., & Yan, B. (2018). *Global Value Chains and the Productivity of Canadian Manufacturing Firms*. Statistics Canada. https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2018010-eng.htm

Faced with rising global fertilizer prices, some grain producers invested in variable-rate application technology to optimize fertilizer distribution, cutting costs by an estimated 5 to 10 percent[221]. Even though tariffs on certain agricultural machinery added complexity, producers who secured financing for these technologies reported improved yield and stronger resilience against cost spikes.

Tech Sector and Intellectual Property (IP)

Canada's technology sector—anchored by high-growth clusters in Toronto, Montreal, and Vancouver—plays a vital role in national innovation, particularly in software, AI, and digital services. According to the 2023 ICT Sector Snapshot (see Exhibit 2), the sector contributed $14.1 billion in business R&D spending, representing a remarkable 45% of Canada's total innovation investment. Despite broader economic uncertainty, the ICT sector showed 11.4% growth in innovation-related activities and supported over 812,000 workers, with an average salary of $96,578, which is 54.2% higher than the Canadian average.

These indicators reflect the tech sector's resilience and potential to capitalize on tariff-induced substitution—replacing costly imported digital services with domestically developed solutions[222]. However, as shown by the volatility in revenue and GDP growth, high inflation could undermine this momentum by reducing venture capital inflows and increasing labor costs. Without sustained support through streamlined IP regulations, tax incentives, and capital access, the sector could struggle to scale, especially in comparison to global peers in more stable macroeconomic environments[223].

**Government Policy Interventions to Encourage R&D and Productivity**

Tax Incentives and Grants

To counteract the dampening influence of tariffs and inflation on innovation, governments often deploy R&D tax credits, grants, or matching funds[224]. Programs like the Scientific Research and Experimental Development (SR&ED) tax incentive in Canada offset a portion of eligible R&D expenditures, thus reducing the effective cost of technology projects. Some provinces have layered additional support—like Ontario's

[221] Conference Board of Canada. (2023). *Innovation in a High-Cost Environment: Canadian Business Responses to Tariffs and Inflation*. https://www.conferenceboard.ca
[222] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf
[223] Department of Finance Canada. (2022). *Budget 2022: A Plan to Grow Our Economy and Make Life More Affordable*. https://budget.canada.ca
[224] Department of Finance Canada. (2022). *Budget 2022: A Plan to Grow Our Economy and Make Life More Affordable*. https://budget.canada.ca

Innovation Tax Credit—to encourage automation in manufacturing and advanced research in green technologies[225].

**Exhibit 25. 2023 ICT Sector Snapshot**

## 2023 ICT Sector Snapshot

**Canada's ICT sector saw growth slow in 2023, yet still outperformed the overall Canadian economy in terms of output, employment, and innovation.**

| | Revenue (est) | GDP | Good Exports | Services Exports (est) |
|---|---|---|---|---|
| Size | $281B | $125.5B | $11.7B | $33.7B |
| 2021 Growth | -0.3% | +1.6% | +3.5% | +14.8% |
| Share of Economy | N/A | 5.7% | 1.5% | 26.8% |

**48,686 companies**

| Innovation | 2023 Growth | Share of Economy |
|---|---|---|
| $14.1B in Business R&D spending | +11.4% | 45.0% |

**59% of workers have a University Degree**

| Workforce | 2023 Growth | Share of Economy |
|---|---|---|
| 812,636 Workers | +1.7% | 4.0% |
| $96,578 in Annual Average Salary | +4.5% | N/A |

**Average Salary 54.2% higher than Canadian Average**

[225] Conference Board of Canada. (2023). *Innovation in a High-Cost Environment: Canadian Business Responses to Tariffs and Inflation*. https://www.conferenceboard.ca

**Tariff Rebates for R&D-Related Imports**

Proposed policies include selective tariff rebates on high-tech machinery or specialized components essential for R&D. By exempting or reducing duties on these items, policymakers can soften cost barriers, fostering faster adoption of cutting-edge systems[226].

Innovation Hubs and Public-Private Partnerships

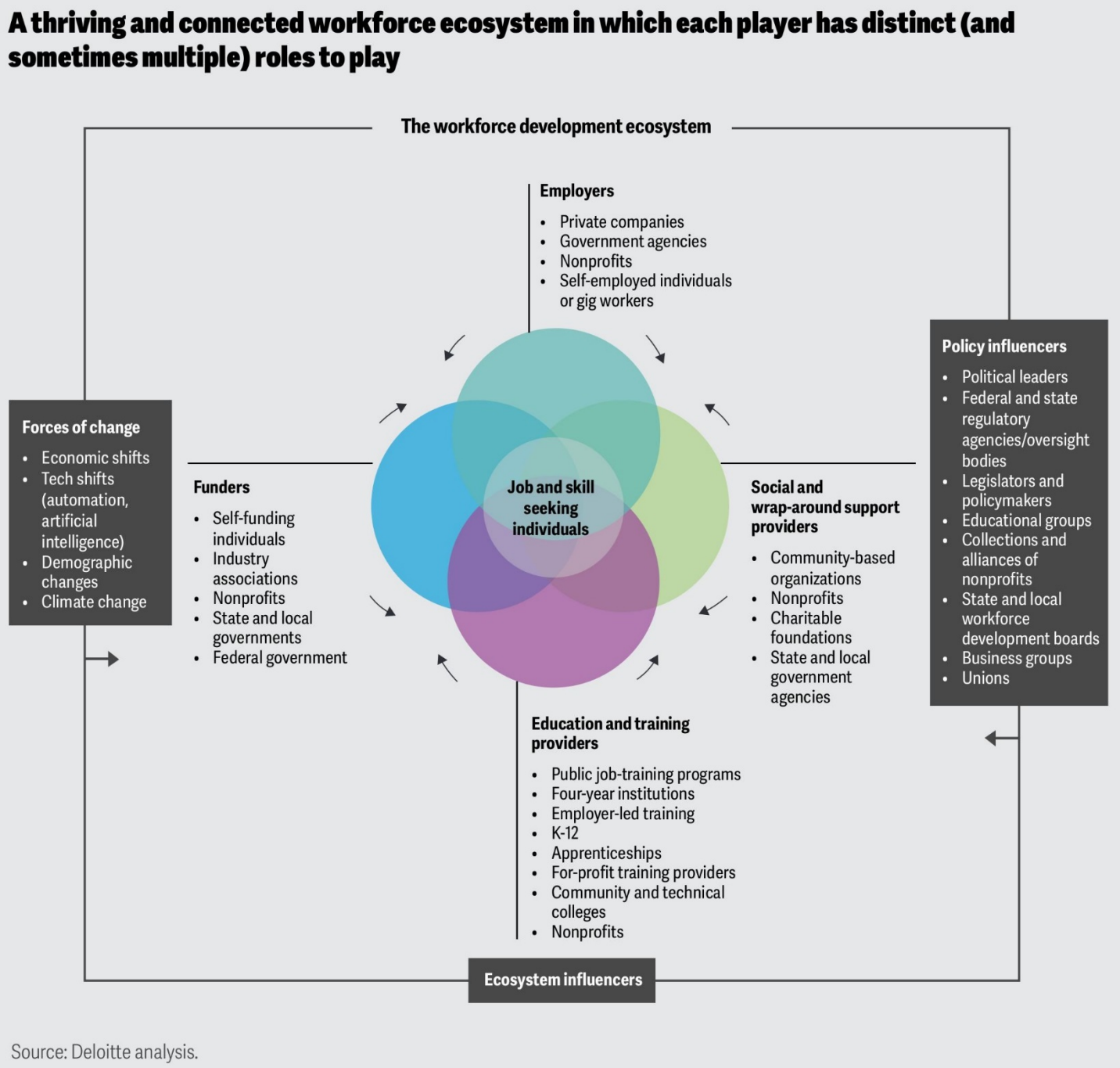
Establishing innovation hubs, where universities, research institutes, and private firms collaborate can amplify the synergy between tariff-driven market adjustments and technology adoption. For example, the Scale AI supercluster in Montreal supports AI-driven supply chain solutions, partly mitigating the negative impacts of tariffs on conventional manufacturing by offering alternative, high-tech pathways[227]. When inflation looms, stable, publicly backed R&D funding helps maintain innovation momentum even if private investment wanes[228].

Skills Development and Workforce Training

A key barrier to the widespread adoption of advanced technologies is the shortage of skilled labor able to operate and maintain emerging systems. As shown in Exhibit 3, workforce development is not the responsibility of a single actor but rather an interconnected ecosystem that includes employers, funders, training providers, and policy influencers. In response to inflationary pressures and tariff-related disruptions, governments and private sector leaders have increasingly invested in retraining initiatives, apprenticeship programs, and public-private innovation hubs. These ecosystem-based approaches help reskill workers transitioning from labor-intensive roles into high-tech environments—particularly in manufacturing and automation-heavy industries. Over time, such coordinated efforts can improve national productivity, stabilize employment, and buffer industries from cost escalations tied to global trade volatility[229].

[226] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf
[227] Baldwin, J. R., & Yan, B. (2018). *Global Value Chains and the Productivity of Canadian Manufacturing Firms*. Statistics Canada. https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2018010-eng.htm
[228] Department of Finance Canada. (2022). *Budget 2022: A Plan to Grow Our Economy and Make Life More Affordable*. https://budget.canada.ca
[229] Conference Board of Canada. (2023). *Innovation in a High-Cost Environment: Canadian Business Responses to Tariffs and Inflation*. https://www.conferenceboard.ca

Exhibit 26. Policy Levers to Stimulate R&D in a High-Tariff, High-Inflation Environment




Source: Deloitte analysis.

## Balancing Short-Term Pressures and Long-Term Gains

Risk of Innovation Gaps

While tariff-induced market barriers can grant local producers temporary breathing room, persistent reliance on protective tariffs may breed complacency if firms expect ongoing shelter from global competition[230]. Over time, this can result in an innovation gap: domestic industries lag behind international leaders in adopting process improvements, limiting productivity and eventually undermining export competitiveness.

Positive Case: Strategic Tech Investment

Conversely, if inflationary cost hikes or tariff levies spur urgent modernization, businesses might emerge more resilient, boasting streamlined processes and higher value-added products. A cyclical inflation environment can incentivize capital expenditure before borrowing costs escalate further[231]. Firms that leverage supportive R&D grants or partnerships could bolster their global standing and mitigate future tariff shocks.

## Data-Driven Outlook: Measuring the Impact of Tariffs on Productivity

Economists and policymakers increasingly turn to firm-level data and sector-specific metrics to evaluate how tariffs and inflation influence R&D investment decisions and long-term productivity outcomes.

Firm-Level Surveys and Spending Patterns

A 2022–2023 survey by the Conference Board of Canada revealed that 36 percent of manufacturing firms reported delays or scaling back of planned R&D projects due to uncertainty surrounding tariff regimes and inflation-driven budgeting constraints[232]. However, not all firms responded to these pressures uniformly. As seen in Exhibit 4, companies receiving support through the Strategic Innovation Fund (SIF) significantly outpaced the national average in R&D spending between 2019 and 2021—recording increases of 32% in 2019 and 45% in 2020, compared to just 5% and 3% growth nationwide. This suggests that policy-supported firms may be more insulated from tariff-related financial shocks and better positioned to maintain innovative momentum.

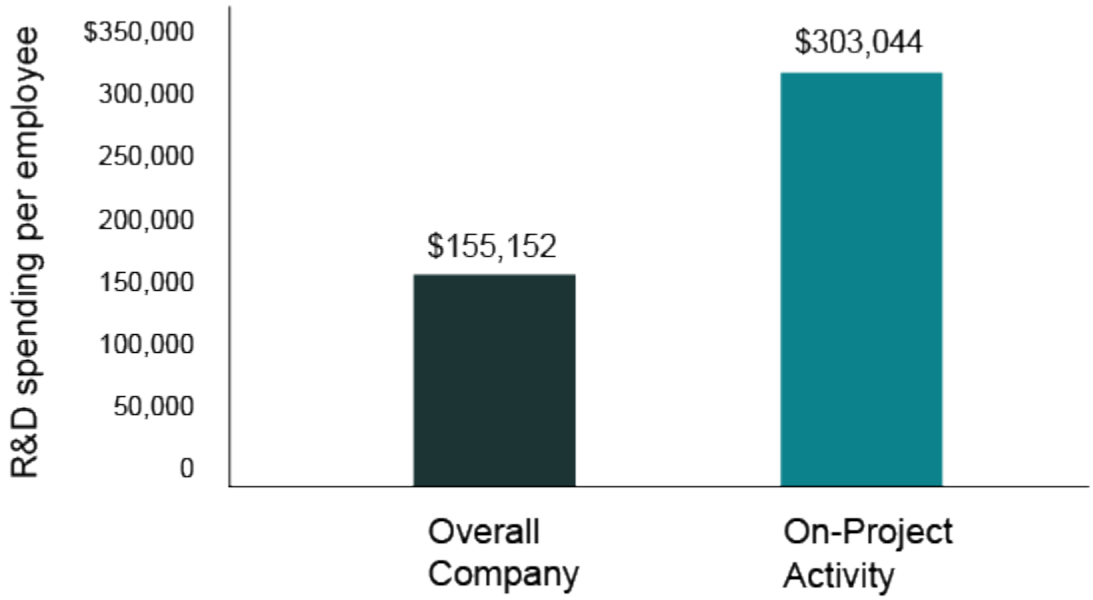
[230] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf
[231] Woodford, M. (2011). *Interest and Prices: Foundations of a Theory of Monetary Policy*. Princeton University Press.
[232] Conference Board of Canada. (2023). *Innovation in a High-Cost Environment: Canadian Business Responses to Tariffs and Inflation*. https://www.conferenceboard.ca

Productivity Benchmarks and Innovation Efficiency

Beyond spending, productivity indices offer crucial insight into whether industries affected by tariffs are truly innovating or merely benefiting from reduced foreign competition[233]. The second chart in Exhibit 4 highlights that companies invest nearly twice as much per employee on R&D when it involves SIF-backed projects, compared to general business operations. This disparity points to the efficiency and prioritization of innovation within structured, goal-driven programs, especially important in trade-sensitive sectors where innovation is necessary to offset rising input costs or shrinking profit margins.

These data-driven findings reinforce the need for targeted public support to shield R&D from volatility, while also enabling firms to translate investment into real productivity gains.

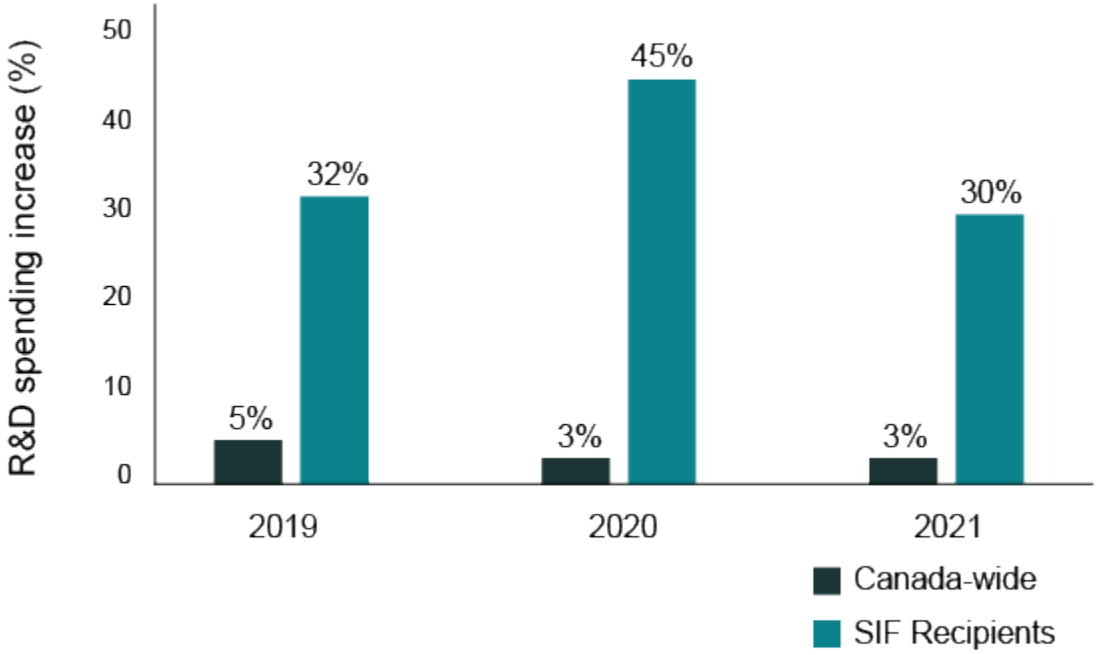
**Exhibit 27. R&D Spending Increase Among SIF Recipients vs. National Average (2019–2021)[234]**




[233] Baldwin, J. R., & Yan, B. (2018). *Global Value Chains and the Productivity of Canadian Manufacturing Firms*. Statistics Canada. https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2018010-eng.htm

[234] *Strategic Innovation Fund: Impact report*. (2024, March 21). https://ised-isde.canada.ca/site/strategic-innovation-fund/en/impact-report

**Exhibit 28. R&D Investment Trends in Canada: SIF Recipients vs. National Averages (2019–2021)**




SIF-supported firms significantly outpaced the Canadian average in year-over-year R&D spending growth, highlighting the impact of targeted innovation funding in insulating firms from inflation- and tariff-related volatility.

Companies allocated nearly double the R&D investment per employee for SIF-supported initiatives compared to their broader operations, underscoring the strategic prioritization and higher resource intensity of targeted innovation efforts.

## Conclusion

Tariffs and inflation intersect in intricate ways, influencing the research and development trajectory and overall productivity gains in Canada. Protective tariffs may initially shield local industries, yet they risk curtailing the competitive pressures needed to drive innovation over the long term[235]. On the other hand, escalating input costs and constrained access to foreign inputs can encourage creative problem-solving, pushing firms toward automation, digital transformation, or new product lines. Whether these forces ultimately elevate or erode Canada's productivity depends on targeted policy interventions, including R&D

[235] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press. http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf

tax incentives, innovation hubs, and workforce upskilling measures that help businesses weather macroeconomic instability while still striving for technological advancement[236].

Amidst ongoing inflation concerns and evolving trade disputes, maintaining a forward-looking R&D culture becomes paramount. By balancing tariff policies with meaningful supports for high-tech investment and advanced manufacturing, Canada can reinforce its resilience, ensuring that short-term cost barriers do not undermine the long-term expansion of domestic innovation capacity[237] [238].

### 7.3 Foreign Direct Investment: Investor Perception and Business Confidence

Foreign direct investment (FDI) is a cornerstone of Canada's economic vitality, serving as a conduit for capital, technology, and integration into global value chains. However, FDI inflows are sensitive to factors like tariffs and inflation, which influence cost structures and investor sentiment. This section explores the significance of FDI, the impact of tariffs and inflation on investor decisions, and policy measures to enhance Canada's attractiveness to foreign investors.

#### The Importance of FDI for Canada's Economy

Magnitude and Composition of FDI

As of the end of 2023, the stock of foreign direct investment in Canada increased by $52.4 billion (+4.0%) to $1,360.3 billion. The United States remained the largest investor, accounting for 45.7% of total FDI, followed by Europe and Asia/Oceania. The manufacturing sector saw the most significant growth, with investments increasing by $25.9 billion, particularly in food, paper, and transportation equipment manufacturing sectors[239].

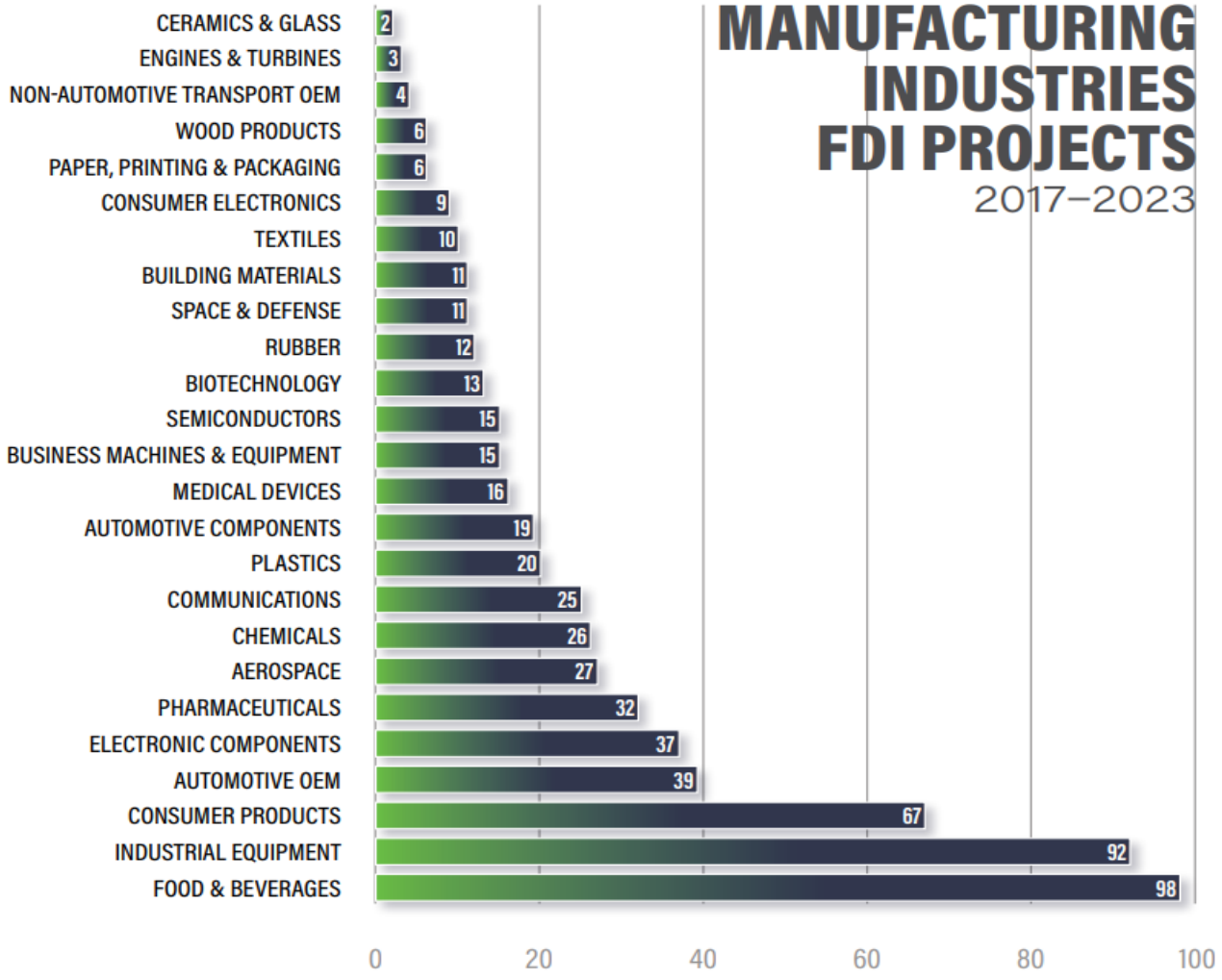
FDI's Role in Economic Diversification

FDI plays a key role in economic diversification by expanding activity across various manufacturing sectors. From food and beverage processing to industrial machinery and transportation equipment, FDI has introduced new technologies, enhanced production processes, and created skilled employment

[236] Conference Board of Canada. (2023). *Innovation in a High-Cost Environment: Canadian Business Responses to Tariffs and Inflation*. https://www.conferenceboard.ca
[237] Baldwin, J. R., & Yan, B. (2018). *Global Value Chains and the Productivity of Canadian Manufacturing Firms*. Statistics Canada. https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2018010-eng.htm
[238] Woodford, M. (2011). *Interest and Prices: Foundations of a Theory of Monetary Policy*. Princeton University Press.
[239] Statistics Canada. *Foreign Direct Investment, 2023*. https://www150.statcan.gc.ca/n1/daily-quotidien/240429/dq240429a-eng.htm

opportunities. The distribution of FDI projects across these sub-industries highlights Canada's appeal as a competitive hub for advanced manufacturing. Regional development has also benefited, with foreign enterprises establishing facilities outside major urban centers, supporting balanced national growth[240].

**Exhibit 29. FDI Distribution Across Canadian Manufacturing Sectors (2017–2023)[241].**




[240] Conference Board of Canada. *FDI and Regional Development*. https://www.conferenceboard.ca/insights
[241] Rubino, G. (2023, June 27). FDI 2023 Blog - Unlock Canada's Investment Potential — Hickey and Associates | A new era in site selection. Hickey and Associates | a New Era in Site Selection. https://www.hickeyandassociates.com/blog/hickey-blog-fdi-2023

## Tariffs, Investor Perception, and Risk Assessment

### Policy Uncertainty and Market Access

Tariff implementations introduce regulatory risks that can deter foreign investors. For example, changes associated with the Canada–United States–Mexico Agreement (CUSMA) have affected cost structures for multinational companies, particularly in the automotive sector. Such uncertainties can lead investors to reconsider or delay investment decisions[242].

### Tariffs as an Incentive for Localization

Conversely, certain tariff regimes can encourage foreign companies to establish local operations to circumvent import duties. For instance, U.S.-based automotive manufacturers facing tariffs on imported steel may invest in Canadian facilities to source materials domestically, thereby reducing costs and leveraging Canada's skilled workforce[243].

## Inflation and FDI: The Cost-Competitiveness Dimension

### Rising Costs and Eroding Margins

Inflation increases operational costs and introduces financial uncertainties, making long-term investments riskier. High inflation can lead to increased interest rates, affecting the cost of capital for foreign investors. Additionally, wage inflation, especially in sectors like technology and manufacturing, can erode profit margins if not offset by productivity gains[244].

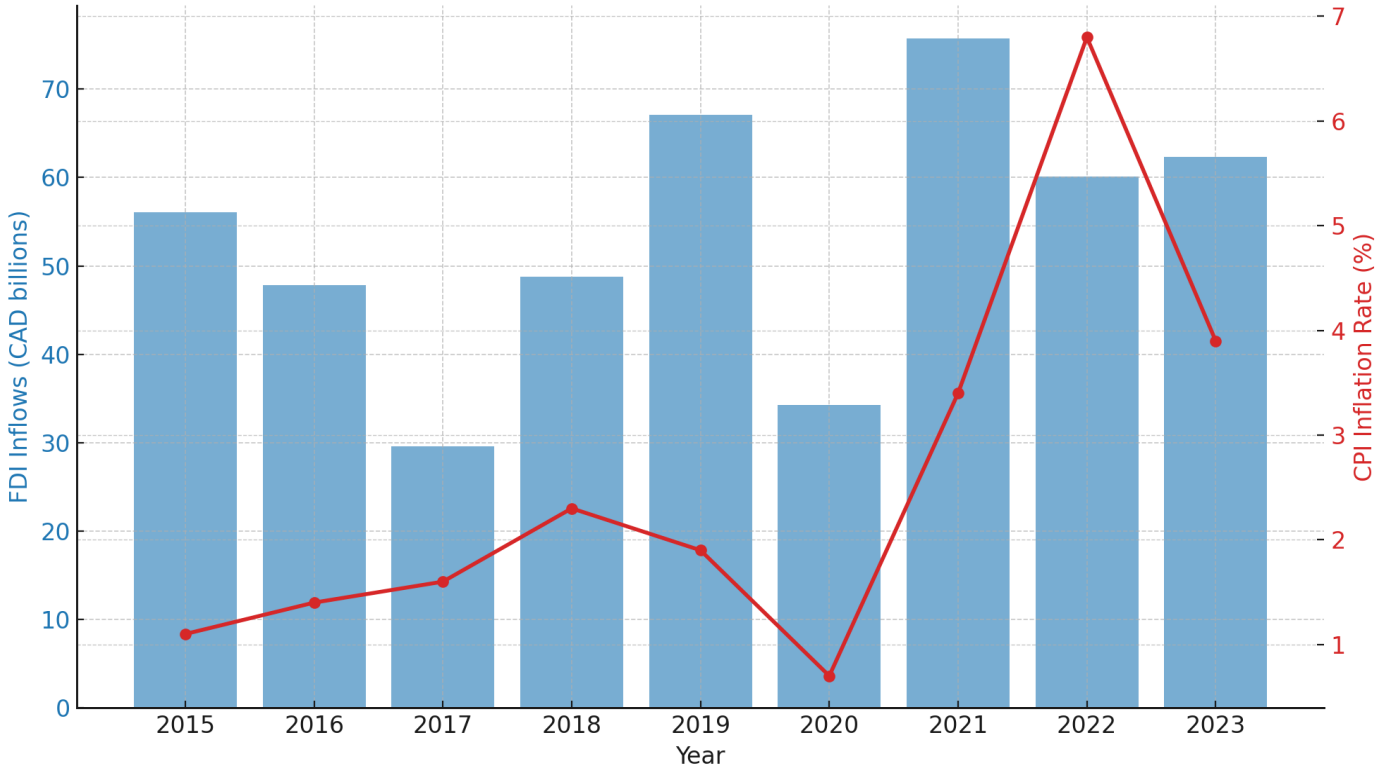
### Inflation-Driven FDI Opportunities in Resource-Based Sectors

However, inflation can benefit resource-based sectors. For example, if global commodity prices rise faster than domestic inflation, sectors like mining and oil and gas extraction may experience widened profit margins, attracting foreign investment despite overall inflationary pressures[245].

[242] Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. P. (2021). *Tariff Pass-Through at the Border and at the Store: Evidence from US Trade Policy*. *AER: Insights*, 3(1), 19–34. https://doi.org/10.1257/aeri.20190374
[243] Global Affairs Canada. *CUSMA and Tariff Policy Updates*. https://www.international.gc.ca
[244] Woodford, M. (2011). *Interest and Prices: Foundations of a Theory of Monetary Policy*. Princeton University Press.
[245] Government of Canada. *Commodity Outlook 2023*. https://www.nrcan.gc.ca

**Exhibit 30. Annual FDI Inflows vs. CPI Inflation in Canada (2015–2023)**[246] [247]

*The CMF CBST represent annual FDI inflows (in CAD billions).*
*The SFE MCF shows CPI inflation rates (%) for each year.*




## Business Confidence Indices and FDI Decision-Making

Survey-Based Confidence Measures

Business confidence surveys indicate that tariff escalations and persistent inflation negatively impact investor sentiment. A 2023 survey revealed that 35% of businesses would reduce or postpone FDI in Canada

[246] Government of Canada, Statistics Canada. (2025j, May 29). *Balance of international payments, flows of Canadian direct investment abroad and foreign direct investment in Canada, by selected countries*. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610047301

[247] Government of Canada, Statistics Canada. (2025a, January 21). *Consumer Price Index, annual average, not seasonally adjusted*. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501

if inflation remained above 4% for a year, and 30% cited unresolved trade disputes as deterrents to expansion[248].

Sector-Specific Confidence Gaps

Investor confidence varies across sectors. Manufacturing executives express caution due to rising input costs, while technology and financial services sectors show resilience, provided demand remains strong. In agriculture and food processing, inflation and export barriers influence investment decisions, with some firms localizing operations to mitigate import duties[249].

**Structural Shifts in FDI: Technology, Green Investments, and Beyond**

Tech Sector Attractiveness

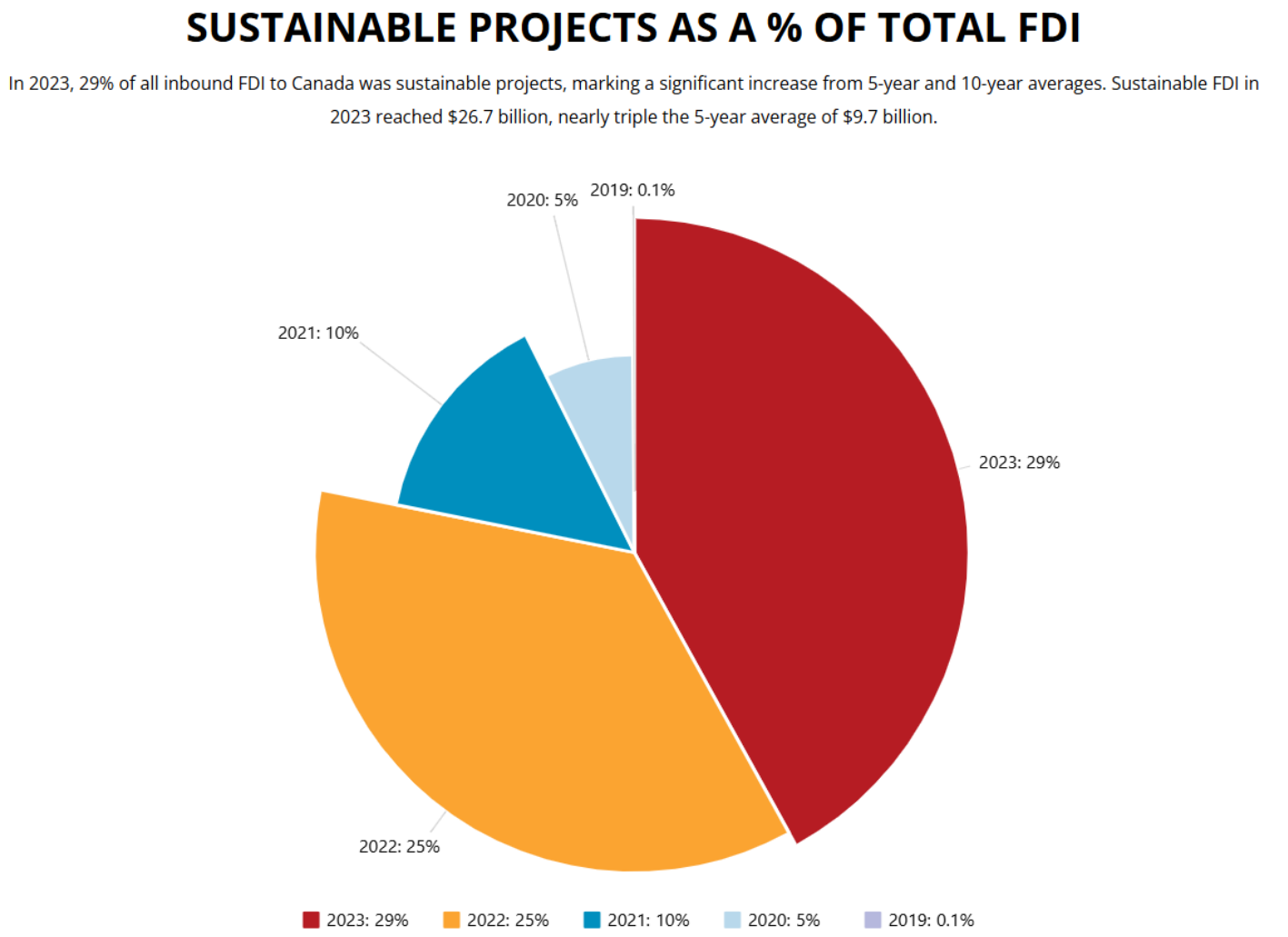
Canada's tech hubs in Toronto, Montreal, and Vancouver continue to attract foreign investment due to strong local talent and supportive innovation policies. However, inflation-driven wage increases in the tech sector can impact operating budgets, potentially dampening investment enthusiasm[250].

Green and ESG-Informed Investments

Environmental, Social, and Governance (ESG) criteria are increasingly influencing FDI decisions. Canada's renewable energy potential and green subsidies attract investments in low-carbon projects. Nonetheless, inflation in construction materials and potential tariffs on specialized equipment can pose challenges to the development of large-scale green initiatives[251].

[248] Conference Board of Canada. *Quarterly Business Confidence Index Report, Q4 2023*. https://www.conferenceboard.ca
[249] Feenstra, R. C. (2018). *Advanced International Trade: Theory and Evidence*. Princeton University Press.http://ndl.ethernet.edu.et/bitstream/123456789/5926/1/27%20.%20Robert%20C.%20Feenstra.pdf
[250] MaRS Discovery District. *Canada's Tech Sector: Investment and Inflation Risks*. https://www.marsdd.com
[251] Department of Finance Canada. *Budget 2022: ESG and Green Investment Incentives*. https://www.budget.gc.ca

**Exhibit 31. FDI Flows in Canadian Tech and Green Sectors, 2019–2023**[252]




[252] Invest in Canada. (2023). *FDI Report 2023*. Government of Canada. Retrieved June 6, 2025, from https://www.investcanada.ca/FDIReport2023

## Policy Interventions to Maintain or Enhance FDI

Trade and Investment Treaties

Canada's engagement in agreements like CUSMA, CETA, and CPTPP aims to provide market access certainty for foreign investors. Clear tariff schedules and dispute-resolution mechanisms within these treaties help mitigate investment risks[253].

Financial and Fiscal Supports

Government initiatives, such as R&D tax credits and tariff rebate programs, can alleviate the financial burdens imposed by tariffs and inflation. These measures make Canada a more attractive destination for foreign investors by reducing operational costs and encouraging innovation[254].

Managing Macroeconomic Stability

Canada's monetary policy framework plays a crucial role in shaping investor expectations. The Bank of Canada's inflation-targeting strategy, centered around maintaining inflation close to 2%, has historically enhanced predictability for businesses and international investors alike[255]. However, recent inflation volatility, coupled with uncertainty in global trade dynamics, has raised the stakes for policy coordination. If interest rates rise too quickly to combat inflation, this could drive up the Canadian dollar and hurt export competitiveness—an important concern for foreign-owned firms operating in Canada[256].

Transparent forward guidance, stable fiscal policy, and low sovereign risk help reinforce investor trust, especially during turbulent periods marked by shifting tariff regimes or supply chain bottlenecks[257].

## Outlook: Sustaining Investor Confidence in a Volatile Era

FDI flows into Canada remain resilient, but their future trajectory will be shaped by how well Canada manages tariff-related disruptions, inflationary pressures, and global economic uncertainty. Countries with a clear, stable investment environment—and policies geared toward innovation, sustainability, and fair competition—are most likely to maintain investor confidence[258].

---

[253] Government of Canada. *Canada's Free Trade Agreements*. https://www.international.gc.ca/trade-agreements
[254] Department of Finance Canada. *SR&ED and FDI Incentives*. https://www.canada.ca/en/department-finance
[255] Bank of Canada. *Monetary Policy Report – October 2023*. https://www.bankofcanada.ca
[256] OECD. *Inflation and Exchange Rate Pass-Through in Trade*. https://www.oecd.org
[257] IMF. *Fiscal Monitor: Policies for Stability*. https://www.imf.org
[258] World Bank. *Ease of Doing Business – Canada*. https://www.worldbank.org

To that end, Canada should prioritize:

- **Trade Diversification and Clarity**: Expanding trade relationships in Asia and Latin America, while refining existing pacts like CETA and CUSMA, will provide market-access certainty[259].

- **Targeted Innovation and Green Investment Policies**: Continued investment in EV supply chains, AI, and clean technology is essential to attract high-value FDI[260].

- **Coordinated Macroeconomic Management**: Keeping inflation expectations anchored and avoiding policy overcorrections will help preserve Canada's reputation as a stable, low-risk destination for capital[261].

While tariffs and inflation create short-term noise, Canada's long-term fundamentals—abundant natural resources, skilled workforce, strong institutions, and an open economy—remain powerful magnets for foreign investment[262].

[259] Asia Pacific Foundation of Canada. *Trade Diversification Strategy for 2025*. https://www.asiapacific.ca
[260] Clean Energy Canada. *Attracting Green Foreign Investment*. https://www.cleanenergycanada.org
[261] Bank of Canada. *Forward Guidance and Market Stability*. https://www.bankofcanada.ca
[262] UNCTAD. *World Investment Report 2023: Canada Country Profile*. https://unctad.org

# Section 8. Short-Term Outlook

## 8.1 GDP Growth and Economic Performance

1. **Forecasted Growth Rates**

Desjardins now projects that Canada's real GDP could experience a notable slowdown—or even a mild recession—in 2025, followed by a partial rebound in early 2026. This forecast, depicted in Table 1, aligns with escalating trade frictions, intensifying tariff measures imposed by the United States.

### Tariff and Trade Headwinds

- According to Table 2, tariffs on Canadian exports—ranging from the 25% duties on metals and certain manufacturing goods to a 10% rate on energy after mid-2025—are expected to weigh on GDP. Desjardins estimates that these tariffs, together with potential retaliatory measures, could trim about 0.3–0.5 percentage points off Canada's baseline GDP growth in 2025.

- The outlook in Table 3 for external demand underscores how the U.S. "America First" policies and additional steel/aluminum surcharges drive near-term uncertainty for key export categories. Intermittent exemptions remain possible through early 2025, but Desjardins anticipates an end to CUSMA-related exemptions, compounding the drag on trade volumes.

### Likelihood of a Recession by Mid-2025

Based on new data from Table 1 as well as Desjardins updated modeling, real GDP could contract starting in Q2 2025—driven by diminished exports, investment slowdowns, and a cooling in household consumption (partly due to tariff-induced price hikes). The recession is expected to last for roughly two to three quarters, with Table 4 illustrating a trough in late 2025 before modest recovery emerges in early 2026.

### Beyond Tariffs: Monetary Tightening and Domestic Headwinds

- Global monetary policy, especially in the U.S. and Canada, remains restrictive as central banks strive to rein in elevated inflation. This environment further constrains investment appetites and weighs on residential construction, compounding the downsides from trade

disputes.

- Ongoing shifts in mortgage renewals at higher rates (especially in late 2025) plus slower population growth create headwinds for consumption, reinforcing the possibility of a mild or moderate recession, as suggested in Table 1.

**Regional Disparities**

- **Quebec**: Expected to be harder hit than the national average due to the new wave of tariffs on metals, aerospace components, and certain advanced manufacturing items. Desjardins projects three consecutive quarters of contraction in Quebec real GDP, with modest growth re-emerging in early 2026 as some trade barriers ease and the provincial budget supports battered export industries.

- **Ontario**: The manufacturing-heavy corridor faces immediate repercussions from automotive part tariffs. However, a relatively diversified tech and service economy could cushion the impact somewhat, aided by potential U.S. demand for certain high-value services.

- **Western Provinces**: Resource exporters (Alberta, Saskatchewan) might see a mixed picture. While energy goods face lower duties (10%) after 2026, interim uncertainty plus global decarbonization pressures keep investment subdued through late 2025.

Exhibit 32. Global Economy Forecast by Desjardins.

**Table 1**

**Global GDP Growth (Adjusted for PPP) and Inflation Rates**

| | Weight* | Real GDP growth | | | Inflation rate | | |
|---|---|---|---|---|---|---|---|
| % | | 2024 | 2025f | 2026f | 2024 | 2025f | 2026f |
| **Advanced economies** | **37.7** | **1.6** | **0.9** | **0.9** | **2.6** | **2.7** | **2.4** |
| United States | 14.8 | 2.8 | 1.0 | 1.1 | 3.0 | 3.2 | 2.9 |
| Canada | 1.3 | 1.5 | 1.1 | 1.0 | 2.4 | 2.3 | 2.5 |
| *Quebec* | *0.3* | *1.5* | *0.9* | *0.7* | *2.3* | *2.6* | *2.3* |
| Japan | 3.4 | 0.1 | 1.1 | 0.4 | 2.7 | 2.6 | 1.8 |
| United Kingdom | 2.2 | 0.9 | 0.4 | 0.6 | 2.5 | 3.1 | 2.6 |
| Eurozone | 11.9 | 0.8 | 0.6 | 0.6 | 2.4 | 2.4 | 2.1 |
| *Germany* | *3.2* | *-0.2* | *-0.3* | *0.2* | *2.3* | *2.5* | *2.1* |
| *France* | *2.3* | *1.1* | *0.4* | *0.4* | *2.0* | *1.7* | *1.9* |
| *Italy* | *1.9* | *0.5* | *0.4* | *0.5* | *1.0* | *2.1* | *1.9* |
| Other countries | 4.1 | 1.5 | 1.3 | 1.6 | 2.5 | 2.1 | 2.2 |
| *Australia* | *1.0* | *1.0* | *1.4* | *1.9* | *3.2* | *2.8* | *2.9* |
| **Emerging and developing economies** | **62.3** | **3.9** | **3.5** | **3.6** | **7.3** | **5.1** | **4.0** |
| Emerging Asia | 32.8 | 5.2 | 4.8 | 4.5 | 2.0 | 1.9 | 2.3 |
| *China* | *18.8* | *5.0* | *4.6* | *4.0* | *0.2* | *0.6* | *1.1* |
| *India* | *7.9* | *6.4* | *6.0* | *6.0* | *5.0* | *4.5* | *4.7* |
| Latin America | 5.8 | 2.3 | 1.2 | 1.5 | 4.2 | 4.5 | 3.9 |
| *Mexico* | *1.8* | *1.5* | *0.0* | *1.2* | *4.7* | *4.0* | *3.8* |
| *Brazil* | *2.4* | *2.9* | *1.5* | *1.3* | *4.0* | *5.3* | *4.3* |
| Eastern Europe | 8.5 | 3.4 | 2.0 | 2.4 | 19.3 | 12.6 | 8.4 |
| *Russia* | *3.5* | *4.1* | *1.2* | *1.3* | *8.4* | *6.5* | *4.7* |
| Other countries | 15.2 | 2.1 | 2.4 | 2.9 | 16.4 | 10.8 | 7.9 |
| *South Africa* | *0.5* | *0.6* | *1.1* | *1.6* | *4.4* | *4.1* | *4.5* |
| **World** | **100.0** | **3.0** | **2.5** | **2.6** | **5.5** | **4.2** | **3.4** |

f: forecast; PPP: Purchasing Power Parities, exchange rates that equate the cost of a broad basket of goods and services across countries; * 2023.
World Bank, Consensus Forecasts and Desjardins Economic Studies

## Exhibit 32. Global Economy Forecast by Desjardins (Cont.)

**Table 2**

**Summary of Financial Forecasts**

| End of period in % (unless otherwise indicated) | 2024 | | 2025 | | | | 2026 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 | Q4 | Q1f | Q2f | Q3f | Q4f | Q1f | Q2f | Q3f | Q4f |
| **Key interest rate** | | | | | | | | | | |
| United States | 5.00 | 4.50 | 4.50 | 4.25 | 4.00 | 3.75 | 3.75 | 3.75 | 3.50 | 3.50 |
| Canada | 4.25 | 3.25 | 2.75 | 2.50 | 2.00 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |
| Eurozone | 3.50 | 3.00 | 2.75 | 2.50 | 2.00 | 2.25 | 2.25 | 2.25 | 2.25 | 2.00 |
| United Kingdom | 5.00 | 4.75 | 4.50 | 4.25 | 4.00 | 4.00 | 4.00 | 3.50 | 3.75 | 4.00 |
| **Federal bonds** | | | | | | | | | | |
| United States | | | | | | | | | | |
| 2-year | 3.68 | 4.24 | 3.95 | 3.85 | 3.70 | 3.50 | 3.45 | 3.40 | 3.40 | 3.35 |
| 5-year | 3.56 | 4.38 | 4.00 | 3.90 | 3.85 | 3.80 | 3.65 | 3.60 | 3.55 | 3.55 |
| 10-year | 3.78 | 4.57 | 4.20 | 4.05 | 4.00 | 3.95 | 3.80 | 3.75 | 3.70 | 3.70 |
| 30-year | 4.13 | 4.79 | 4.45 | 4.30 | 4.25 | 4.20 | 4.05 | 4.00 | 3.95 | 3.90 |
| Canada | | | | | | | | | | |
| 2-year | 2.91 | 2.93 | 2.45 | 2.25 | 2.00 | 1.85 | 1.95 | 2.15 | 2.25 | 2.35 |
| 5-year | 2.73 | 2.96 | 2.55 | 2.35 | 2.25 | 2.25 | 2.35 | 2.40 | 2.45 | 2.50 |
| 10-year | 2.95 | 3.23 | 2.85 | 2.60 | 2.55 | 2.65 | 2.65 | 2.65 | 2.70 | 2.70 |
| 30-year | 3.13 | 3.33 | 3.10 | 2.85 | 2.80 | 2.80 | 2.80 | 2.80 | 2.85 | 2.85 |
| **Currency market** | | | | | | | | | | |
| Canadian dollar (USD/CAD) | 1.35 | 1.44 | 1.43 | 1.42 | 1.43 | 1.42 | 1.40 | 1.40 | 1.39 | 1.38 |
| Canadian dollar (CAD/USD) | 0.74 | 0.70 | 0.70 | 0.70 | 0.70 | 0.70 | 0.71 | 0.71 | 0.72 | 0.72 |
| Euro (EUR/USD) | 1.12 | 1.04 | 1.09 | 1.10 | 1.08 | 1.08 | 1.08 | 1.08 | 1.07 | 1.06 |
| British pound (GBP/USD) | 1.34 | 1.25 | 1.30 | 1.30 | 1.28 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |
| Yen (USD/JPY) | 143 | 157 | 148 | 145 | 145 | 140 | 140 | 135 | 135 | 130 |
| **Stock markets (level and growth)*** | | | | | | | | | | |
| United States – S&P 500 | 5,882 (23.3%) | | Target: 5,800 (-1.4%) | | | | Target: 6,600 (+13.8%) | | | |
| Canada – S&P/TSX | 24,728 (18.0%) | | Target: 25,000 (+1.1%) | | | | Target: 27,500 (+10.0%) | | | |
| **Commodities (annual average)** | | | | | | | | | | |
| WTI oil (US$/barrel) | 77 (70*) | | 68 (68*) | | | | 68 (68*) | | | |
| Gold (US$/ounce) | 2,390 (2,625*) | | 2,975 (3,050*) | | | | 2,955 (2,885*) | | | |

f: forecast; WTI: West Texas Intermediate; * End of year.
Datastream and Desjardins Economic Studies

**Table 4**

**Canada: Major Economic Indicators**

| Quarterly annualized % change (unless otherwise indicated) | 2024 | | 2025 | | | | Annual average | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 | Q4 | Q1f | Q2f | Q3f | Q4f | 2023 | 2024 | 2025f | 2026f |
| **Real GDP (2017 $)** | **2.2** | **2.6** | **1.8** | **-1.3** | **-0.4** | **-0.3** | **1.5** | **1.5** | **1.1** | **1.0** |
| Final consumption expenditure [of which:] | 4.5 | 4.4 | 2.1 | 0.5 | 0.6 | 0.7 | 2.0 | 2.6 | 2.2 | 1.1 |
| *Household consumption expenditure* | *4.2* | *5.6* | *1.9* | *-0.3* | *-0.1* | *0.2* | *1.8* | *2.4* | *2.0* | *0.9* |
| *Government consumption expenditure* | *5.4* | *1.4* | *2.8* | *2.5* | *2.4* | *2.1* | *2.2* | *3.2* | *2.8* | *1.9* |
| Gross fixed capital formation [of which:] | -0.8 | 9.9 | -0.8 | -3.2 | -0.8 | 0.1 | -1.6 | 0.1 | 0.9 | 1.1 |
| *Residential structures* | *6.4* | *16.7* | *-3.8* | *-5.9* | *1.4* | *2.6* | *-8.5* | *-1.1* | *1.4* | *2.6* |
| *Non-residential structures* | *1.3* | *2.7* | *-1.0* | *-3.2* | *-2.6* | *-1.2* | *3.2* | *-1.8* | *-0.2* | *-0.2* |
| *Machinery and equipment* | *-27.4* | *17.9* | *-0.8* | *-9.4* | *-9.9* | *-9.2* | *-2.7* | *-2.1* | *-3.5* | *-3.7* |
| *Intellectual property products* | *6.5* | *2.3* | *1.9* | *1.5* | *1.1* | *0.9* | *4.0* | *-0.1* | *2.3* | *1.1* |
| *Government gross fixed capital formation* | *4.3* | *6.7* | *3.2* | *3.3* | *3.7* | *4.3* | *4.8* | *7.2* | *4.3* | *4.6* |
| Investment in inventories (2017 $B) | 18.1 | -1.5 | -11.5 | -2.0 | 0.2 | -0.5 | 25.5 | 14.4 | -3.5 | -10.7 |
| Exports | -0.8 | 7.4 | 12.7 | -17.7 | -8.8 | -4.8 | 5.0 | 0.6 | -1.3 | 1.5 |
| Imports | -1.2 | 5.4 | 5.6 | -9.2 | -5.6 | -2.7 | 0.3 | 0.6 | -0.7 | 1.2 |
| Final domestic demand | 3.3 | 5.6 | 1.4 | -0.4 | 0.3 | 0.5 | 1.1 | 2.0 | 1.9 | 1.1 |
| **Other indicators** | | | | | | | | | | |
| Nominal GDP | 4.3 | 6.4 | 4.1 | 0.5 | 1.5 | 1.4 | 2.9 | 4.6 | 3.5 | 2.6 |
| Employment | 0.8 | 1.9 | 2.4 | -2.8 | -1.6 | -0.7 | 3.0 | 1.9 | 0.4 | 0.2 |
| Unemployment rate (%) | 6.5 | 6.7 | 6.7 | 7.4 | 7.7 | 8.0 | 5.4 | 6.4 | 7.5 | 7.4 |
| Housing starts[1] (thousands of units) | 238 | 248 | 239 | 237 | 234 | 231 | 242 | 245 | 235 | 217 |
| Total inflation rate* | 2.0 | 1.9 | 2.4 | 2.1 | 2.4 | 2.5 | 3.9 | 2.4 | 2.3 | 2.5 |
| Core inflation rate*[2] | 2.5 | 2.1 | 2.6 | 2.8 | 2.9 | 3.0 | 3.9 | 2.6 | 2.8 | 2.6 |

f: forecast; * Annual change; [1] Annualized basis; [2] Excluding food and energy.
Datastream and Desjardins Economic Studies

**Exhibit 32. Global Economy Forecast by Desjardins (Cont.)**

Table 5

**Quebec: Major Economic Indicators**

| Annual average % change (unless otherwise indicated) | 2022 | 2023 | 2024f | 2025f | 2026f |
|---|---|---|---|---|---|
| **Real GDP (2017 $)** | **3.4** | **0.6** | **1.5** | **0.9** | **0.7** |
| Final consumption expenditure [of which:] | 4.6 | 0.7 | 2.3 | 1.9 | 0.8 |
| *Household consumption expenditure* | *5.5* | *1.8* | *2.4* | *1.7* | *0.3* |
| *Government consumption expenditure* | *2.4* | *-1.7* | *2.3* | *2.4* | *1.9* |
| Gross fixed capital formation [of which:] | -2.3 | -3.7 | -0.1 | 1.2 | 1.5 |
| *Residential structures* | *-11.1* | *-15.1* | *1.2* | *4.4* | *3.1* |
| *Non-residential structures* | *3.7* | *5.9* | *0.7* | *-2.0* | *0.0* |
| *Machinery and equipment* | *11.6* | *-6.3* | *-3.4* | *-1.8* | *-1.0* |
| *Intellectual property products* | *6.3* | *4.2* | *1.8* | *1.7* | *0.9* |
| *Government gross fixed capital formation* | *-2.4* | *7.2* | *0.0* | *0.8* | *1.9* |
| Investment in inventories (2017 $B) | 11 | 6 | 3 | 0 | 0 |
| Exports | 2.0 | 4.0 | 2.0 | 0.2 | -2.9 |
| Imports | 6.9 | -0.8 | 1.6 | 0.5 | -1.3 |
| Final domestic demand | 3.0 | -0.2 | 1.8 | 1.8 | 0.9 |
| **Other indicators** | | | | | |
| Nominal GDP | 8.7 | 5.0 | 5.4 | 3.7 | 2.6 |
| Real disposable personal income | 1.1 | 0.1 | 4.1 | -0.3 | 0.5 |
| Weekly earnings | 4.1 | 3.6 | 4.4 | 4.2 | 1.3 |
| Employment | 3.1 | 2.9 | 0.9 | 0.8 | -0.3 |
| Unemployment rate (%) | 4.3 | 4.4 | 5.3 | 6.0 | 6.6 |
| Personal savings rate (%) | 9.3 | 7.8 | 9.7 | 8.0 | 8.4 |
| Retail sales | 8.5 | 3.7 | 1.8 | 3.2 | 4.3 |
| Housing starts[1] (thousands of units) | 57.1 | 38.9 | 48.7 | 53.0 | 54.0 |
| Total inflation rate | 6.7 | 4.5 | 2.3 | 2.6 | 2.3 |

f: forecast; [1] Annualized basis.
Statistics Canada, Institut de la statistique du Québec, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

## TD Economics[263]

TD Economics projects that Canada's economy is likely to tip into a shallow recession by mid-2025, driven by persistently high U.S. tariffs, weaker external demand, and cautious consumer spending. According to the Canadian Economic Outlook table (see Table: "Canadian Economic Outlook"), quarterly annualized GDP for 2025 indicates:

- Q1 2025: GDP expands at 1.8% (annualized), buoyed by front-loaded exports as businesses rush to ship goods before higher tariffs fully bite.
- Q2 2025: Activity turns negative (-1.0% annualized), reflecting the brunt of the new 14% effective U.S. tariff rate on Canadian metals, machinery, and certain consumer products.

[263] *Latest forecast tables*. (n.d.). https://economics.td.com/ca-forecast-tables#ca-econ

- Q3 2025: GDP remains subdued at -0.2% annualized, as trade flows remain hamstrung by retaliatory measures and diminished U.S. consumption.

By 2026, tariffs are expected to ease from 14% to about 7.5% (U.S. effective rate), and for Canada specifically from 12.5% to 5%—per the text box's assumptions. The new USMCA deal presumably finalizes in late 2026, bringing the average rate closer to 2.5%. This partial relief fosters a moderate rebound in Canadian exports and investment in Q3/Q4 2026, pushing real GDP back into slightly positive territory.

**Tariff Environment and Policy Assumptions**

According to TD Economics' text box:

1. Tariff Ramp-Up: By April 2025, the effective tariff rate (ETR) on U.S. imports surges from 2.5% to 14%, remaining at that peak for six months. Canada faces a corresponding increase in tariffs on exports, hitting an average of 12.5% for the same period.

2. Partial Rollback: Negotiations yield piecemeal reductions in Q4 2025, dropping U.S. ETR to 7.5% and Canada's from 12.5% to 5%.

3. New USMCA: By late 2026, a revised deal lowers U.S. import tariffs to 5.3% overall and Canada's average faced rate to 2.5%, still above pre-Trump levels.

4. Domestic Fiscal Measures: The Canadian government expands spending by 1% of GDP to offset the economic impacts, focusing on bridging loans, extended work-share programs, and targeted industry supports.

These assumptions underscore the adverse near-term drag on Canada's exports, industrial output, and consumer confidence, while also building in a gradual improvement after Q3 2025 as partial tariff reductions come into effect.

**Consumer Spending, Housing, and Confidence**

<u>Consumer Spending</u>

- Rising prices for tariff-laden goods (steel-based appliances, electronics, certain groceries) weigh on disposable incomes. The Canadian Economic Outlook table shows consumption weakening from +2.7% in Q1 2025 to around -0.1% by Q3 2025, reflecting a slump in durable goods purchases.

- Government attempts to buttress consumer purchasing power—e.g., higher child benefit top-ups, short-term tax relief—moderate the downturn, preventing a more pronounced collapse akin to the 2008–09 or 2015 recessions.

Housing Market

- Higher mortgage rates (stemming from inflation anxieties) and escalating tariffs on construction materials (lumber, steel) dampen residential investment. The table indicates housing starts sliding from 248,000 units (annualized) in Q1 2025 to near 217,000 by year's end.
- The negative equity effects and weaker consumer sentiment feed back into overall consumption, compounding the near-recessionary atmosphere.

**External Sector: Exports and Imports**

Exports

- Canadian exports contract sharply in Q2/Q3 2025 (-19.9% and -7.6% respectively) due to the 14% U.S. ETR, with retaliatory duties from Canada also hurting cross-border supply chains.
- A partial pickup emerges in Q4 2025 as the ETR dips to 7.5%, but the new levels remain more restrictive than the pre-tariff environment, implying a slower trade recovery.
- By early 2026, exports gradually normalize but remain below the no-tariff baseline.

Imports

- Rising domestic tariffs on U.S. goods, combined with weaker consumer and industrial demand, push imports down. Q2 2025 sees an import contraction of -6.2% yoy (annualized) before partially stabilizing in early 2026.
- Canada's reliance on U.S. intermediates (e.g., auto parts, electronics components) means that supply chain reconfiguration is partial at best, limiting the ability to fully pivot away from higher-cost U.S. inputs in the short run.

Monetary Policy Response

- The Bank of Canada, concerned about a mild recession, cuts rates by 50 basis points from Q2 to Q4 2025, down to 2.00%—less aggressive than prior cycles due to the supply-driven (tariff-based) nature of inflation.

- The spread with U.S. policy rates widens to nearly 200 bps in Q3 2025, leading to further depreciation of the Canadian dollar near the USD/CAD 0.67 range. This weaker loonie offsets part of the negative export shock but simultaneously raises import prices, sustaining moderate inflation pressure.

**Exhibit 33. Canadian Economy Outlook by TD Bank.**

## Canadian Economic Outlook

[Period-Over-Period Annualized Per Cent Change Unless Otherwise Indicated]

| Economic Indicators | 2024 | | | | 2025 | | | | 2026 | | | | Annual Average | | | 4th Qtr/4th Qtr | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1F | Q2F | Q3F | Q4F | Q1F | Q2F | Q3F | Q4F | 24 | 25F | 26F | 24 | 25F | 26F |
| **Real GDP** | 1.8 | 2.8 | 2.2 | 2.6 | 1.8 | -1.0 | -0.2 | 1.7 | 1.3 | 1.5 | 1.6 | 1.6 | 1.5 | 1.3 | 1.1 | 2.4 | 0.6 | 1.5 |
| **Consumer Expenditure** | 3.6 | 1.0 | 4.2 | 5.6 | 2.7 | -0.3 | -0.1 | 0.4 | 0.8 | 1.0 | 1.1 | 1.3 | 2.4 | 2.2 | 0.6 | 3.6 | 0.7 | 1.0 |
| Durable Goods | -0.8 | -7.6 | 12.6 | 14.2 | 3.0 | -2.0 | -1.0 | 0.0 | 0.5 | 0.8 | 1.0 | 1.3 | 3.7 | 3.8 | 0.2 | 4.2 | 0.0 | 0.9 |
| **Business Investment** | 0.9 | 10.5 | -7.0 | 6.7 | -2.0 | -4.5 | -2.4 | 2.4 | 1.3 | 1.4 | 1.4 | 1.5 | -1.5 | -0.6 | 0.7 | 2.6 | -1.6 | 1.4 |
| Non-Res. Structures | 3.0 | 7.5 | 1.3 | 2.7 | -2.0 | -4.0 | -3.0 | 1.3 | 1.4 | 1.4 | 1.5 | 1.5 | -1.8 | -0.5 | 0.5 | 3.6 | -1.9 | 1.5 |
| Equipment & IPP* | -1.1 | 13.4 | -14.4 | 10.8 | -1.9 | -5.0 | -1.8 | 3.5 | 1.3 | 1.4 | 1.4 | 1.4 | -1.2 | -0.7 | 0.9 | 1.6 | -1.4 | 1.4 |
| **Residential Investment** | -7.5 | -8.3 | 6.4 | 16.7 | -10.0 | -2.0 | -1.4 | 3.0 | 2.8 | 2.6 | 2.5 | 2.4 | -1.1 | 0.1 | 1.9 | 1.3 | -2.7 | 2.6 |
| **Govt. Expenditure** | 6.7 | 4.4 | 5.2 | 2.2 | 2.0 | 4.6 | 5.4 | 4.1 | 3.8 | 3.5 | 3.2 | 3.0 | 3.8 | 3.6 | 3.9 | 4.6 | 4.0 | 3.4 |
| **Final Domestic Demand** | 3.2 | 2.1 | 3.3 | 5.6 | 1.2 | 0.4 | 1.0 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 2.0 | 2.2 | 1.6 | 3.5 | 1.1 | 1.8 |
| **Exports** | 1.3 | -6.9 | -0.8 | 7.4 | 13.3 | -19.9 | -7.6 | 15.8 | 4.5 | 2.1 | 2.2 | 2.2 | 0.6 | -0.3 | 2.3 | 0.1 | -0.7 | 2.7 |
| **Imports** | 0.4 | -3.1 | -1.2 | 5.4 | 7.0 | -6.2 | -1.4 | 12.2 | 4.5 | 2.1 | 2.3 | 2.5 | 0.6 | 1.7 | 3.6 | 0.3 | 2.7 | 2.8 |
| **Change in Non-Farm Inventories (2012, $Bn)** | 17.6 | 29.6 | 20.9 | -2.5 | -6.5 | 13.5 | 17.5 | 13.5 | 11.3 | 9.8 | 8.8 | 8.0 | 16.4 | 9.5 | 9.5 | -- | -- | -- |
| **Final Sales** | 4.8 | 0.2 | 4.7 | 9.1 | 2.2 | -2.8 | 0.3 | 2.4 | 2.1 | 2.0 | 2.0 | 2.0 | 2.5 | 2.5 | 1.6 | 4.7 | 0.5 | 2.0 |
| **International Current Account Balance ($Bn)** | -8.9 | -19.0 | -14.5 | -20.0 | 3.6 | -21.2 | -32.3 | -41.2 | -40.7 | -40.3 | -40.3 | -40.7 | -15.6 | -22.8 | -40.5 | -- | -- | -- |
| % of GDP | -0.3 | -0.6 | -0.5 | -0.6 | 0.1 | -0.7 | -1.0 | -1.3 | -1.3 | -1.2 | -1.2 | -1.2 | -0.5 | -0.7 | -1.2 | -- | -- | -- |
| **Pre-Tax Corp. Profits** | -36.5 | 11.4 | -7.3 | 33.9 | 5.9 | -8.7 | 2.8 | 1.4 | 3.3 | 3.4 | 3.5 | 3.6 | -4.2 | 5.5 | 2.2 | -3.2 | 0.2 | 3.5 |
| % of GDP | 12.9 | 13.0 | 12.6 | 13.4 | 13.4 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.1 | 13.0 | -- | -- | -- |
| **GDP Deflator (y/y)** | 3.4 | 3.9 | 2.7 | 2.2 | 3.0 | 3.1 | 3.3 | 2.3 | 2.3 | 1.6 | 1.3 | 1.9 | 3.0 | 2.9 | 1.8 | 2.2 | 2.3 | 1.9 |
| **Nominal GDP** | 0.8 | 7.0 | 4.3 | 6.4 | 3.8 | 3.4 | 2.8 | 1.4 | 3.3 | 3.4 | 3.5 | 3.5 | 4.6 | 4.2 | 2.9 | 4.6 | 2.9 | 3.4 |
| **Labour Force** | 2.3 | 3.8 | 1.9 | 2.7 | 2.3 | 0.7 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.2 | 3.0 | 1.7 | 0.1 | 2.7 | 0.8 | 0.1 |
| **Employment** | 1.7 | 2.1 | 0.8 | 1.9 | 2.9 | 0.3 | -1.2 | 0.0 | 0.7 | 0.7 | 0.7 | 0.8 | 1.9 | 1.2 | 0.3 | 1.6 | 0.5 | 0.7 |
| **Change in Empl. ('000s)** | 85 | 105 | 40 | 97 | 151 | 14 | -65 | 3 | 36 | 36 | 39 | 43 | 382 | 249 | 67 | 327 | 103 | 155 |
| **Unemployment Rate (%)** | 5.9 | 6.3 | 6.6 | 6.7 | 6.6 | 6.7 | 7.0 | 7.0 | 6.9 | 6.7 | 6.6 | 6.4 | 6.4 | 6.8 | 6.6 | -- | -- | -- |
| **Personal Disp. Income** | 4.7 | 12.4 | 10.4 | 4.3 | 7.5 | 2.1 | 1.1 | 2.5 | 1.5 | 2.5 | 3.1 | 3.4 | 7.6 | 5.4 | 2.2 | 7.9 | 3.3 | 2.6 |
| **Pers. Savings Rate (%)** | 4.5 | 6.3 | 7.3 | 6.1 | 6.7 | 6.3 | 5.9 | 6.1 | 5.9 | 5.9 | 6.0 | 6.1 | 6.1 | 6.2 | 6.0 | -- | -- | -- |
| **Cons. Price Index (y/y)** | 2.9 | 2.8 | 2.1 | 1.9 | 2.1 | 3.0 | 3.4 | 2.6 | 2.6 | 1.6 | 1.3 | 2.1 | 2.4 | 2.8 | 1.9 | 1.9 | 2.6 | 2.1 |
| **CPIX (y/y)**** | 2.2 | 1.8 | 1.6 | 1.6 | 2.1 | 2.4 | 2.7 | 2.5 | 2.4 | 2.2 | 2.0 | 2.2 | 1.8 | 2.4 | 2.2 | 1.6 | 2.5 | 2.2 |
| **BoC Inflation (y/y)***** | 3.2 | 2.9 | 2.5 | 2.6 | 2.6 | 2.9 | 3.0 | 2.8 | 2.5 | 2.3 | 2.2 | 2.1 | 2.8 | 2.8 | 2.2 | 2.6 | 2.8 | 2.1 |
| **Housing Starts ('000s)** | 244 | 250 | 238 | 248 | 237 | 230 | 223 | 217 | 212 | 213 | 214 | 218 | 245 | 227 | 214 | -- | -- | -- |
| **Home Prices (y/y)** | 4.2 | -2.7 | 0.7 | 5.6 | -1.0 | -3.1 | -3.6 | -4.9 | 1.7 | 4.6 | 6.2 | 6.5 | 1.9 | -3.2 | 4.8 | 5.6 | -4.9 | 6.5 |
| **Real GDP / Worker (y/y)** | -1.4 | -0.9 | 0.2 | 0.7 | 0.4 | -0.1 | -0.2 | 0.1 | 0.5 | 1.0 | 1.0 | 0.8 | -0.3 | 0.1 | 0.8 | 0.7 | 0.1 | 0.8 |

F: Forecast by TD Economics, March 2025. Note: Home price measure shown is the CREA Composite Sale Price.

* Intellectual Property Products. ** CPIX: CPI excluding the 8 most volatile components. *** BoC Inflation: Simple average of CPI-trim and CPI-median.

Source: Statistics Canada, Bank of Canada, Canada Mortgage and Housing Corporation, Haver Analytics, TD Economics.

**RBC Economics**[264]

Trade Risks and Economic Recovery

RBC Economics warns that heightened trade risks threaten to erase the early signs of recovery witnessed in Canada. Ongoing uncertainties around U.S. tariff policies—including newly imposed or potential reciprocal duties—are set to slow Canadian gross domestic product (GDP) growth, while nudging the unemployment rate higher over the coming quarters. Although Canada's economy displayed momentum entering 2025, RBC emphasizes that intensifying policy swings in Washington are dampening both household and business confidence.

U.S. Headwinds

In the United States, RBC identifies headwinds from trade disruptions, government spending cuts, and reduced immigration rates. While the U.S. had previously shown robust performance, RBC's revised outlook lowers U.S. GDP growth for 2025 to 1.6% (from 2.0%), reflecting weaker consumption and distorted trade data in Q1. RBC notes that the balance of risks has shifted decisively downward, as mounting early-warning signs in U.S. economic data could prompt further revisions.

Canada: Slight GDP Upgrade, Softer Underlying Path

Despite concerns over trade frictions, RBC has "counter-intuitively" raised Canada's official GDP growth figure for 2025 from 1.3% to 1.5%, citing mechanical upward revisions to 2024 data. However, RBC clarifies that beyond this statistical quirk, the fundamental trajectory is lower than last month's baseline. Investment and exports are expected to slow amid uncertainty about U.S. tariffs, leading RBC to project Canada's unemployment rate will climb to 7% by Q3 2025, surpassing the previous 6.8% peak forecast.

Inflation Prospects

RBC contends that Canada's weaker starting point shifts its priority more toward growth than inflation, though the latter is still expected to run slightly hotter. With persistent trade frictions increasing production costs, RBC upgrades Canada's 2025 inflation outlook from around 2.0% to 2.3%, primarily reflecting pass-through from higher import prices. Nonetheless, RBC deems this inflation spike less worrisome than the potential hit to real GDP growth.

[264] Aidansmithedgell. (2025, March 26). It's a new dawn (day), and no one's feeling good: Tariffs slash growth momentum in Canada and U.S. *RBC*. https://www.rbc.com/en/thought-leadership/economics/economy-and-markets/financial-markets-monthly/its-a-new-dawn-day-and-no-ones-feeling-good/

Central Bank Outlook

While risks to Canadian growth are climbing, RBC's base-case monetary policy view remains largely unchanged. The Bank of Canada will continue easing rates, but RBC does not foresee a drastic "race to the bottom," especially if fiscal supports ramp up to cushion tariff impacts. RBC forecasts that the BoC will reduce the overnight rate to 2.25% by mid-2025—a level consistent with policymakers' view that trade-driven cost hikes tend to lower output and raise prices simultaneously, a combination ill-suited to purely monetary remedies.

VAT Confusion and Potential New Tariff Actions

RBC also flags the possibility of a U.S. administrative move targeting Canada's value added tax (VAT)—in Canada's case, the GST/HST—and misconstruing it as a de facto border tax. Although RBC recognizes that VATs do not discriminate against imports, RBC worries that April's planned announcement of reciprocal U.S. tariffs could incorporate VAT-based arguments to justify higher tariffs on Canadian goods. Any such escalation would compound the strain on Canadian exporters and pose additional inflation risks for domestic consumers.

**Regional Variations**[265]

- Alberta: -1.4% vs. Baseline

  Alberta faces one of the steepest declines under the one-quarter tariff scenario, with real GDP dipping 1.4 per cent below baseline. While energy products incur a somewhat lower 10 per cent tariff, many support industries—especially oilfield services, engineering construction, and cattle exports—are severely affected by the sudden drop in investment and cross-border demand. Alberta's intense trade ties with the U.S. (where 90 per cent of the province's exports went in 2024) and a highly goods-dependent economy amplify the tariff damage.

- Newfoundland and Labrador: -1.4% vs. Baseline

  Newfoundland and Labrador experiences an equally large 1.4 per cent GDP decline, largely because a significant share of its exports are goods susceptible to the full 25 per cent tariff or other retaliatory measures. Industries that support the province's offshore oil and other resource activities suffer from curtailed capital spending. The report notes that, while the

[265] The Conference Board of Canada. (2025a, April 1). *The true cost of Trump tariffs: Provincial impacts - The Conference Board of Canada*. https://www.conferenceboard.ca/insights/the-true-cost-of-trump-tariffs-provincial-impacts/

direct oil sector itself sees limited immediate impact due to 10 per cent energy tariffs, mining support services and related supply chains in the province take a noticeable hit.

- Saskatchewan: -1.3% vs. Baseline

  Saskatchewan endures a 1.3 per cent contraction relative to baseline, reflecting the heavy reliance on exporting goods (like oil, potash, and agriculture) to the U.S. The province's economy—40 per cent of which is goods-producing—confronts short-term disruptions in oil production and potash markets, coupled with reduced capital spending. The exact fallout depends on how readily U.S. importers can substitute these Saskatchewan resources, but the scenario suggests meaningful near-term pain for local exporters.

- Ontario: -1.3% vs. Baseline

  Ontario's real GDP slips 1.3 per cent compared to baseline, driven by the province's large manufacturing sector—notably automotive and parts exports—facing the 25 per cent tariff. While Ontario's economy is also services-oriented (which helps moderate the overall impact), the magnitude of auto, steel, and machinery integration with the U.S. leads to a stark decline in exports. The model-based approach indicates significant pain for downstream suppliers and wholesale trade, mirroring the manufacturing slump.

- Prince Edward Island: -1.3% vs. Baseline

  P.E.I. sees a 1.3 per cent contraction from its baseline in Q2 2025, primarily because the province's aerospace industry is singled out as particularly vulnerable to tariffs. Although only 15 per cent of the island's GDP is tied to goods exports, aerospace represents a large chunk of that total. If producers fail to pivot to alternative markets, the provincial economy faces pronounced near-term output losses in manufacturing and related services.

- Quebec: -1.2% vs. Baseline

  Under the scenario, Quebec's economy is 1.2 per cent below baseline. Aerospace, primary metals, and truck manufacturing appear especially exposed, since each is singled out in the report as highly susceptible to new or higher tariffs. The blow is softened somewhat by Quebec's lower share of goods exports (around 21 per cent of GDP in 2023) and a diversified industrial base. Still, the province's metal producers and aerospace assembly lines are at risk if foreign buyers reduce orders or face costlier import duties.

- British Columbia: -1.2% vs. Baseline

  B.C. experiences a 1.2 per cent GDP drop, reflecting its relatively lower reliance on U.S. exports (only 51 per cent of goods went south in 2024) and a significant services core. Nonetheless, resource-linked engineering construction and spillover impacts on finance or professional services weigh on growth. The scenario confirms that B.C. fares somewhat better than goods-intensive economies but still faces a meaningful slide from baseline when major external projects are paused or re-scoped due to tariff upheavals.

- Manitoba: -1.1% vs. Baseline

  Manitoba's real GDP shrinks by 1.1 per cent, the second smallest decline among the provinces. The province's diversified economy and relatively modest reliance on U.S. exports (17 per cent of GDP) help limit damage. However, its transportation manufacturing sector and certain agricultural exports do suffer from the cost spike and supply chain interruptions. Similarly, the insurance industry, a key part of Manitoba's services sector, remains largely insulated, contributing to milder overall repercussions.

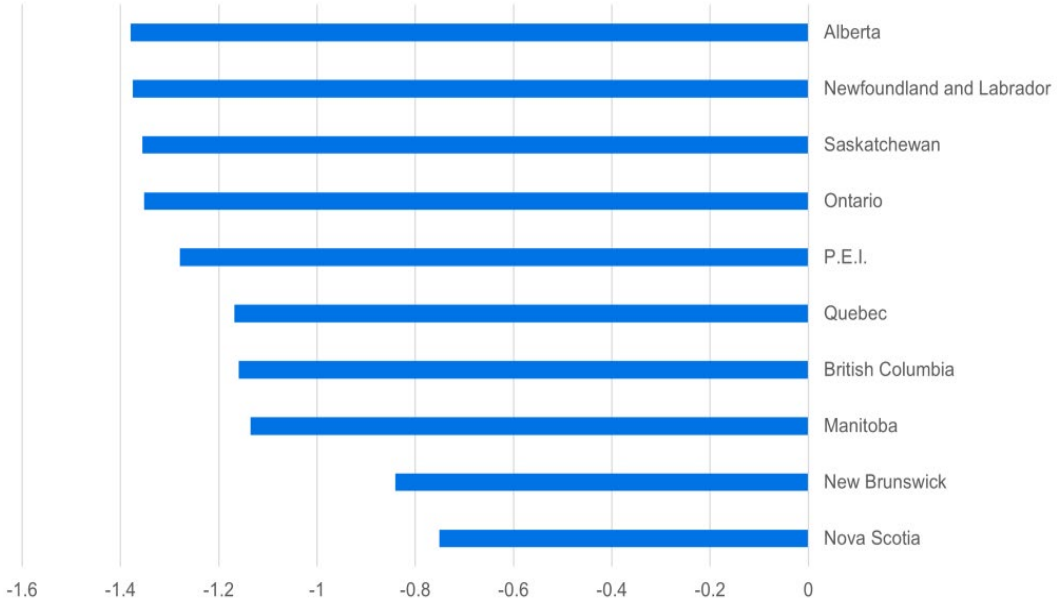
- New Brunswick: -0.8% vs. Baseline

  New Brunswick faces a 0.8 per cent dip from baseline, the second least impacted province overall. While it sends over 90 per cent of its exports to the U.S., many are refined petroleum products taxed at 10 per cent (the lower energy tariff). Further, 75 per cent of the province's economy is services, shielding broad swaths of activity from direct tariff effects. The scenario suggests that although New Brunswick's high U.S. exposure poses downside risk, the model's results yield a relatively modest net decline.

- Nova Scotia: -0.7% vs. Baseline

  Nova Scotia incurs the smallest short-term tariff hit (down 0.7 per cent vs. baseline), thanks to a minimal reliance on international goods exports (only about 11 per cent of GDP) and an economy weighted toward services. While industries like tire manufacturing and fishing (with cross-border integration) do see disruptions, the overall impact remains contained. The scenario confirms that diversified, service-oriented structures lessen the blow relative to goods-heavy provinces.

**Exhibit 34: Impacts vary across provinces (Change versus baseline in the second quarter of 2025, per cent)**[266]




## Inflation Trajectory and Policy Responses[267]

Current Inflation Dynamics

Consumer Price Index (CPI) inflation is expected to remain close to the 2% target over the projection horizon (Chart 17). While the Bank's core measures of inflation are projected to gradually ease toward 2%, certain components—especially those tied to shelter—may linger above historical norms. The report highlights that declining interest rates over the past year continue to moderate mortgage-interest costs, and rent inflation is also anticipated to slow as asking rents soften for the first time in several years.

Temporary GST/HST Holiday Adds Volatility

A key contributor to near-term fluctuations is the temporary GST/HST holiday on select goods and services, which reduces CPI inflation initially before its expiration causes an uptick. According to the report's estimates:

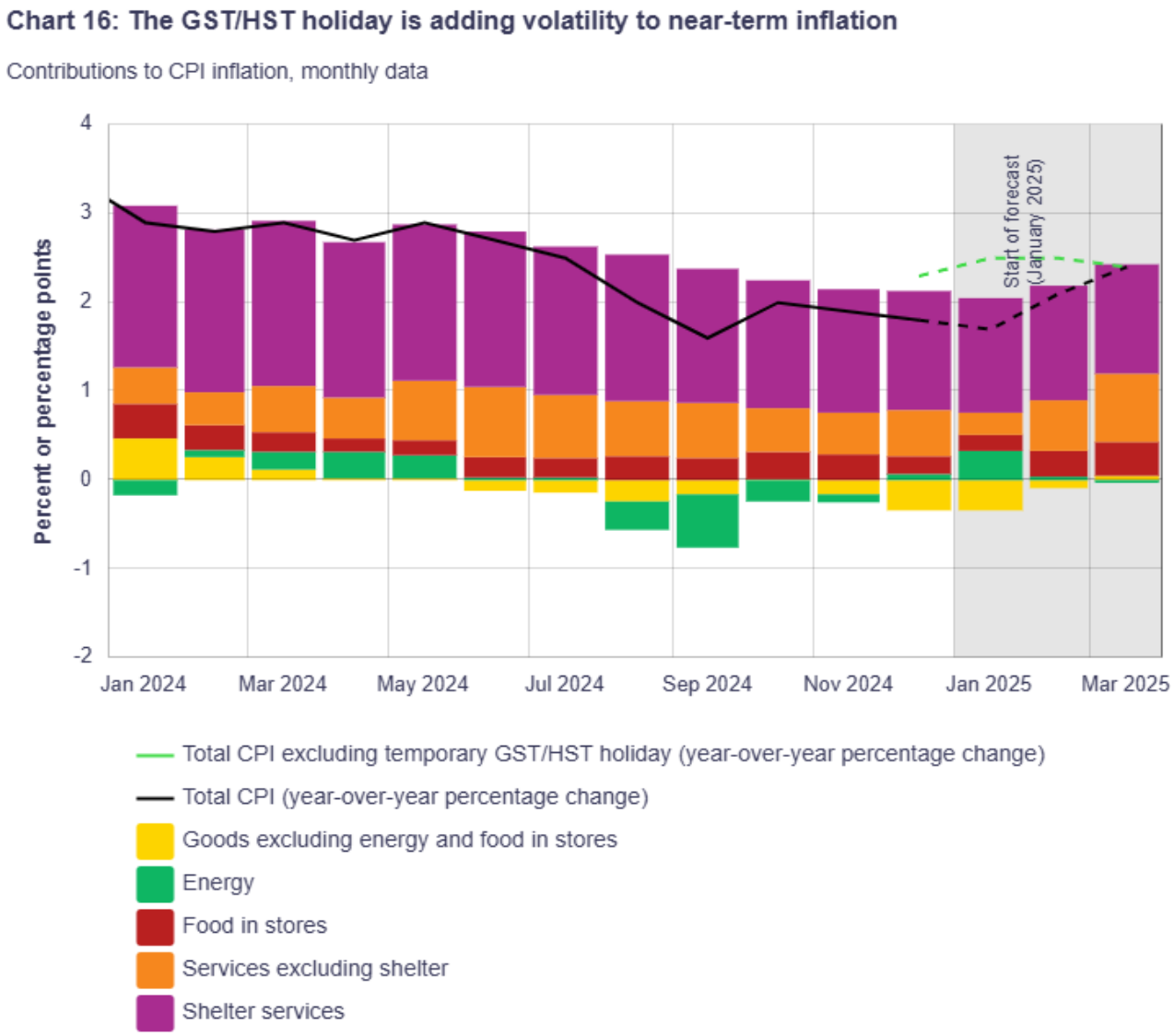
[266] The Conference Board of Canada. (2025a, April 1). *The true cost of Trump tariffs: Provincial impacts - The Conference Board of Canada*. https://www.conferenceboard.ca/insights/the-true-cost-of-trump-tariffs-provincial-impacts/
[267] Bank of Canada. (2025c, January 29). *Outlook*. https://www.bankofcanada.ca/publications/mpr/mpr-2025-01-29/canadian-outlook/

- In December, the tax holiday lowered year-over-year inflation by about 0.5 percentage points.
- In January, inflation is likely lowered by 0.8 percentage points, and in February, by roughly 0.4 percentage points.
- Once the holiday ends in March, inflation correspondingly edges higher, reflecting the full reintroduction of consumption taxes on previously exempted categories, especially food and alcohol at restaurants.

Shelter and Non-Shelter Dynamics

- **Shelter Inflation**: Remains above its historical average but is decelerating, as reduced mortgage-interest costs continue filtering through. Also, easing population growth underpins moderation in rent increases.
- **Other Components**: While non-shelter inflation picks up slightly—partly due to currency depreciation lifting prices on imported goods is projected to stay under its usual historical average for the projection period.

**Exhibit 35. The GST/HST Holiday is Adding Volatility to Near-term Inflation.**




## Bank of Canada's Policy Stance

- The Bank of Canada has reduced its target for the overnight rate to 2.75%, with the Bank Rate at 3.0% and the deposit rate at 2.70%, acknowledging that monetary policy alone cannot offset the adverse impacts of intensifying trade tensions. Following stronger-than-expected growth in late 2024, Governing Council decided a further 25-basis-point cut was warranted to support the economy as consumers and businesses face "pervasive uncertainty" from shifting U.S. tariff threats. Nevertheless, policymakers emphasize that inflation remains near the 2% target, and any additional easing would be carefully balanced against potential price

pressures, particularly if higher trade-related costs further stoke inflation expectations[268].

- **Risk of Renewed Tightening**: Should new tariffs on vital imports (e.g., specialized industrial inputs) push up consumer prices or stoke inflation expectations, the Bank of Canada could enact additional rate hikes. This would likely curb consumer spending on big-ticket items like vehicles and home renovations, dampening overall GDP growth.

**Tariff-Related Inflationary Pressures**[269]

- **Pass-Through Rates**:

Under this illustrative scenario, the United States permanently imposes a 25 percent tariff on all imported goods, including those from Canada. In turn, Canada and other U.S. trading partners apply 25 percent retaliatory tariffs to their imports of American goods. The underlying assumption is that the direct impact of these tariffs on final goods prices remains limited in the initial phase as businesses temporarily absorb added costs within their profit margins.

However, sustained margin pressures prompt most firms to incrementally pass those costs on to consumers. In industries heavily reliant on cross-border supply chains—such as automotive manufacturing—tariffs on intermediate goods amplify total production costs, ultimately exerting significant upward pressure on final prices. The scenario incorporates variations that consider different speeds and intensities of pass-through:

- One variation assumes that only half of the increased input costs from Canadian import tariffs filter through to consumer prices over a three-year horizon.
- Another variation envisions a faster pass-through, where virtually all additional costs are passed on to final prices within approximately one and a half years.

In both cases, the net effect is to raise inflation above a no-tariff baseline. While weaker demand and lower commodity prices offer some counterbalance, the additional costs on both consumer goods and intermediate inputs outweigh these offsets, resulting in a persistently higher inflation track. The ultimate impact on price levels depends on the pace at which businesses shift from margin absorption to price increases, the proportion of consumer goods affected by tariffs, and potential exchange rate movements.

[268] Bank of Canada. (2025d, March 12). *Bank of Canada reduces policy rate by 25 basis points to 2¾%*. https://www.bankofcanada.ca/2025/03/fad-press-release-2025-03-12/
[269] Bank of Canada. (2025c, January 29). *Evaluating the potential impacts of US tariffs*. https://www.bankofcanada.ca/publications/mpr/mpr-2025-01-29/in-focus-1/

In all scenarios, the presence of tariffs exerts a pronounced and ongoing influence on consumer price inflation, particularly where production processes involve multiple cross-border transactions.

**Exhibit 36. Details on Variations of Trade Conflict Scenario.**

Table 4: Details on variations of trade conflict scenario

| Variation | Export assumption | Pass-through assumption |
|---|---|---|
| **Benchmark calibration** | Canadian exports react to price changes in line with what has typically been seen over history | The cost of tariffs is assumed to fully pass through into consumer prices over three years |
| **Larger decline in US demand for Canadian exports** | The decline in US demand for Canadian exports is about **40% larger** than the historical average | Same as benchmark calibration |
| **Lower tariff pass-through to consumer prices** | Same as benchmark calibration | **Half** of the cost of tariffs pass through into consumer prices over three years |
| **Faster tariff pass-through to consumer prices** | Same as benchmark calibration | The cost of tariffs is assumed to fully pass through into consumer prices over **one and a half years** |

## Vulnerable Industries

The EDC report identifies a range of sectors likely to experience higher input costs, supply chain disruptions, and tighter profit margins if tariffs are reinstated or raised between Canada and principal trading partners. Among these, automotive, machinery, and agri-food industries are singled out as particularly exposed[270].

Automotive

Canada's automotive sector, closely intertwined with U.S. supply chains, faces notable risk if tariffs on vehicle parts or finished automobiles return. Although the U.S. administration temporarily exempted automotive goods from the 25 percent tariffs as of March 5, the EDC report cautions that any renewed or

[270] Canada, E. D. (2025, May 30). *Tariffs FAQ: What Canadian businesses need to know*. EDC. https://www.edc.ca/en/article/tariffs-impact-canada-exporter.html

broadened trade actions could swiftly reverse that reprieve. A tariff resurgence would increase production expenses for components crisscrossing the Canada–U.S. border multiple times, drive up retail vehicle prices, and discourage capital investment in assembly plants. In that scenario, automakers and parts manufacturers could see curtailed exports, shrinking competitiveness, and postponed expansions[271].

Machinery (Manufacturing)

Machinery manufacturing is a core subsector within Canada's broader manufacturing sphere, which relies heavily on the U.S. for raw materials, intermediate goods, and export destinations. New or elevated tariffs would significantly raise the costs of imported inputs—such as specialized electronics or fabrication equipment—leading to higher overall production outlays. Domestic producers might, in the short term, absorb part of these cost increases, but prolonged tariffs would likely be passed on to buyers, dampening demand. The EDC forecast highlights how such cost escalations, combined with ongoing market volatility, could also deter future capital spending in equipment upgrades or plant expansions, ultimately affecting long-term productivity in the machinery sector[272].

Agri-Food

Canada's agriculture and agri-food industries—including grains, meat, dairy, fertilizers, and processed foods—are highly integrated with U.S. buyers and distribution networks. According to the EDC report, further tariff actions could inflate cross-border shipping costs, reduce farm incomes, and elevate consumer food prices in both countries. Canadian producers would face margin pressures if retaliatory measures pushed their goods to higher price points in the U.S. market. Additionally, the potential for supply chain bottlenecks—particularly if U.S.-imposed duties also target upstream inputs (e.g., farm machinery or steel for equipment)—magnifies the uncertainty for agri-food exporters. EDC underlines that such disruptions could prompt exporters to seek alternative markets, although relocation of established distribution channels often proves costly and complex[273].

Although the EDC forecast underscores that exact tariff measures remain fluid, it emphasizes the imperative for affected industries—automotive, machinery, and agri-food—to evaluate contingency plans. This includes:

[271] Canada, E. D. (2025b, May 30). *Tariffs FAQ: What Canadian businesses need to know*. EDC. https://www.edc.ca/en/article/tariffs-impact-canada-exporter.html
[272] Canada, E. D. (2025b, May 30). *Tariffs FAQ: What Canadian businesses need to know*. EDC. https://www.edc.ca/en/article/tariffs-impact-canada-exporter.html
[273] Canada, E. D. (2025b, May 30). *Tariffs FAQ: What Canadian businesses need to know*. EDC. https://www.edc.ca/en/article/tariffs-impact-canada-exporter.html

- Exploring alternate supply chains or market diversification.
- Taking advantage of existing free trade agreements (FTAs) beyond North America.
- Considering EDC's Trade Impact Program for financing and insurance solutions to stabilize operations during a spike in trade-related costs.

With any tariff revival, near-term pressures on production inputs and cross-border logistics would substantially raise cost structures, weigh on export competitiveness, and potentially moderate sector-level capital investment. The EDC report concludes that timely access to financial support and proactive trade diversification measures can help mitigate the impact on these vulnerable industries if trade tensions escalate again[274].

**Consumer Spending and Business Investment**

Household Consumption[275]

- Interest Rate Effects:

  An increase in the Bank's policy interest rate reduces demand for goods and services. That decreases inflation by slowing how fast prices rise, but this takes time to happen, usually about 12 to 18 months.

  Here's how it works: Canada's financial institutions borrow money from one another to settle payments at the end of every day. The policy rate determines the interest charged on this lending, which then influences the rates financial institutions charge on things like mortgages and business loans.

  Higher interest rates, intended to curb inflation, exert pressure on mortgage holders and consumer credit, which then decreases household spending growth.

Business Investment

- Manufacturing and Resource Sectors[276]:

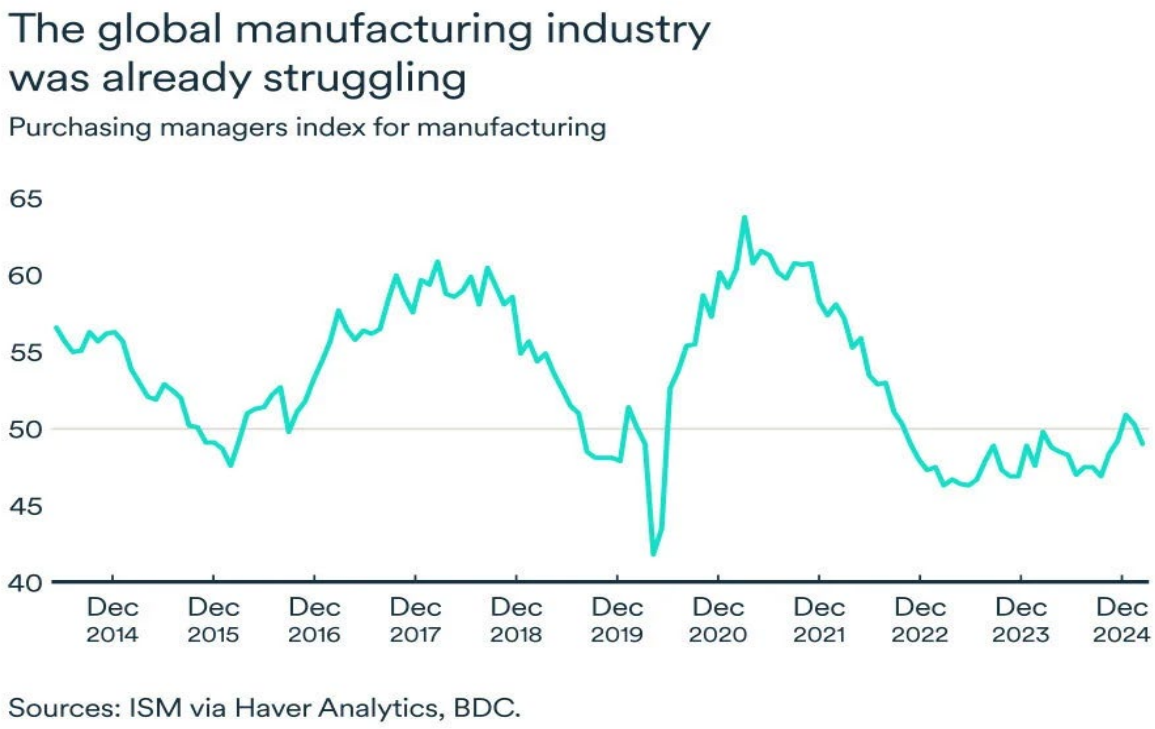
[274] Canada, E. D. (2025b, May 30). *Tariffs FAQ: What Canadian businesses need to know*. EDC. https://www.edc.ca/en/article/tariffs-impact-canada-exporter.html
[275] Bank of Canada. (n.d.-b). *How higher interest rates affect inflation*. https://www.bankofcanada.ca/2023/12/how-higher-interest-rates-affect-inflation/
[276] *Monthly Economic Letter - April 2025*. (n.d.). BDC.ca. https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/publications/monthly-economic-letter/2504#:~:text=The%20scale%20of%20the%20challenge,test%20but%20avoids%20the%20worst

Manufacturers are a leading force in the global economy. Their spending and hiring decisions can quickly affect global growth. This is obviously the sector that's most sensitive to tariffs.

U.S. tariffs on Canadian raw materials—including steel, aluminum and automotive—will hurt Canadian exports of these products to the U.S. because of higher prices caused by tariffs.

The U.S. oil and gas industry, as well as the transportation, construction and consumer goods sectors, are all major customers for imported products that have been hit with new tariffs. And a slowdown is already being felt south of the border.

**Exhibit 37. The Global Manufacturing Industry was Already Struggling.**




The U.S. economy could, therefore, be heading into a cycle of stagflation—a period characterized by above-target inflation and weak growth. Some 640,000 Canadian manufacturing jobs depend on U.S. demand. This dependence is even greater in the automotive sector, where about seven out of 10 jobs are linked to exports to the U.S.

The scale of the challenge is undoubtedly huge for manufacturing companies linked to the steel, aluminum and automotive sectors. A slowdown will be felt most powerfully by these industries and in regions where they are concentrated, but the negative effects will extend throughout the economy.

### 8.2 Key Short-Term Risks and Policy Considerations

Tariff Escalations[277]

A newly introduced tariff environment featuring 25 percent duties on a wide range of Canadian goods—as well as reciprocal 25 percent countermeasures on imports from the United States—highlights the potential for accelerated input costs, intensifying inflationary pressures, and restraining economic growth. Additional escalations would likely amplify challenges in integrated sectors such as automotive, steel, and aluminum, where cross-border supply chains are highly exposed to abrupt cost spikes. Ongoing negotiation efforts through committees established under the Canada–United States–Mexico Agreement (CUSMA) are essential to address uncertain policy changes, while diversification under agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Canada–European Union Comprehensive Economic and Trade Agreement (CETA) may help lessen the impact of renewed tariff cycles.

Housing Market Pressures[278]

Elevated borrowing costs have already constrained housing activity in multiple provinces, particularly those with more pronounced affordability pressures such as Ontario and British Columbia. Under this report's medium scenario, near-term mortgage rates remain comparatively high, reflecting the central bank's prior tightening cycle and broader market caution. Even though the forecast anticipates some eventual rate cuts in 2025, any new surge in inflation or further upticks in interest rates would likely undermine consumer confidence, curtailing home-buying intentions and renovation spending.

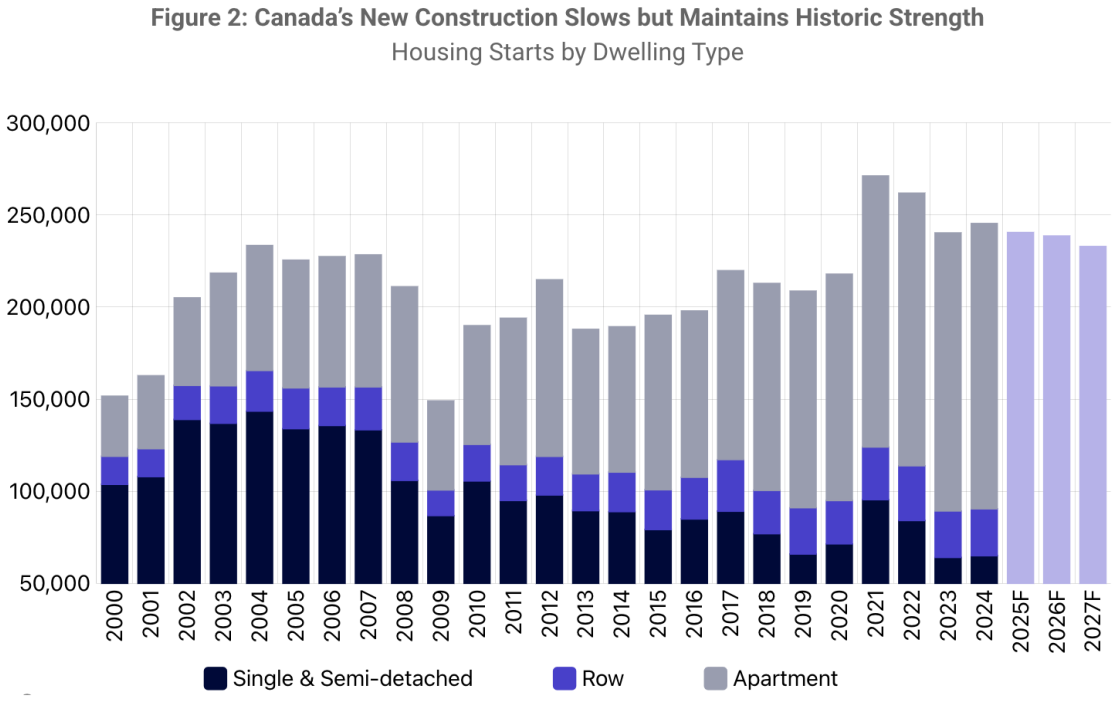
The data provided in *Figure 2: Canada's New Construction Slows but Maintains Historic Strength* illustrate how housing starts, while staying above their 10-year average, are projected to moderate over the forecast period. For context, 2021 saw a peak of roughly 147,212 total starts—of which 95,392 were single-detached homes—demonstrating robust activity. Nonetheless, the forecast indicates a gradual reduction

[277] KPMG. (2025). Canada responds to U.S. global tariff announcement. In *TaxNewsFlash – Canada* (No. 2025–18). https://assets.kpmg.com/content/dam/kpmg/ca/pdf/tnf/2025/04/ca-canada-responds-to-us-global-tariff-announcement.pdf

[278] *Housing Market Outlook 2025*. (2025, February 19). CMHC. https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/market-reports/housing-market/housing-market-outlook

in new-build momentum through 2025, driven by weaker investor appetite for condominium apartments and persistent affordability challenges in urban centers.

**Exhibit 38. Canada's New Construction Slows but Maintains Historic Strength.**




The dynamics vary regionally. In Ontario, weaker investor demand for pre-construction units—linked to sluggish rental markets—reduces the pace of new condo developments. Meanwhile, British Columbia, also grappling with elevated housing costs, experiences a similar cooldown, though milder in timing compared to Ontario. By contrast, Alberta, where homebuyers are more frequently end-users rather than investors, faces only a limited deceleration. Across all provinces, an ongoing shift toward resale markets and a tendency for first-time buyers to seek lower-priced properties reinforce the expectation that construction output and renovation expenditures will soften if economic headwinds intensify.

From a manufacturing perspective, any further retreat in housing activity can ripple through related supply chains, including producers of building materials and home fixtures. Declines in residential construction typically slow orders for lumber, steel, insulation, and other inputs, exerting downward pressure on sectors that rely on robust home-building volumes. The doc's mention of slower population growth from 2025 onward further restricts overall demand, diminishing the urgency for new builds and major household upgrades.

Should inflation surge once again—possibly fueled by renewed tariffs or commodity price disruptions—policymakers might revisit aggressive interest rate strategies. The report cautions that such an environment would erode consumers' real disposable incomes and amplify mortgage servicing costs, prompting both potential homebuyers and existing homeowners to reconsider larger construction or renovation projects. This would likely impede GDP growth in regions that depend heavily on real estate–driven spending.

Ultimately, while some provinces may fare better due to more affordable markets or stable labor conditions, the overall trajectory remains vulnerable to an interplay of interest rates, inflation risks, and slower population growth. By the end of the forecast period, the doc envisions housing demand partially recovering, helped by improved employment prospects and marginal rate relief. Yet any adverse turn—such as a spike in borrowing costs—could derail such a recovery, reinforcing how integral stable mortgage conditions are to sustaining Canada's housing sector and the broader economy.

Monetary-Fiscal Coordination[279]

Balancing inflation management and fiscal stimulus becomes particularly intricate when expansionary measures are considered to counter tariff-induced shocks. On one hand, increased government spending or targeted tax incentives can alleviate an imminent slowdown by bolstering aggregate demand. On the other hand, if these initiatives inject liquidity into the economy at a rate exceeding its underlying capacity, they risk igniting inflationary pressures. Under those circumstances, monetary authorities may find it necessary to raise interest rates, effectively reducing access to credit and tempering both consumer and business spending.

In practical terms, if the federal government offers financial support or implements new spending projects to offset higher input costs from tariffs, the immediate benefit is that firms and households can navigate disruptions more comfortably. Yet, any surge in inflation would prompt a response from the central bank aimed at curtailing excessive price growth, typically in the form of rate hikes. Such an increase in rates would elevate borrowing costs, thereby diminishing the expansionary policy's positive impacts. Consequently, although expansionary fiscal measures can ease near-term strain caused by higher tariffs, an overly aggressive application could inadvertently fuel price escalation, compelling authorities to scale back on credit availability and inhibiting short-term economic growth.

[279] Team, I. (2024, July 1). *Expansionary Fiscal Policy: Risks and examples*. Investopedia. https://www.investopedia.com/terms/e/expansionary_policy.asp

## 8.3 Long-Term Vision

### Structural Shifts and Demographic Trends

Aging Workforce and Labor Market Implications

- Demographic Projections

By the early 2030s, the proportion of people aged 20 to 64 versus seniors over 65 will be 2:1 compared to current 4:1 proportion[280]. This poses considerable challenges for labor capacity, pension sustainability, and healthcare expenditures. A slower-growing workforce—coupled with mounting retirements—could weaken the nation's long-term productive potential unless offset by strategic immigration and advances in labor productivity. In this context, a reduced pool of available workers could hamper economic expansion, particularly when new or increased tariffs raise costs for businesses and depress export revenues.

Such demographic shifts coincide with heightened trade uncertainties, as renewed or escalated tariffs can dissuade businesses from making capital investments or expanding operations. In the near term, companies often delay or revise expansion strategies in response to fluctuating cross-border duties, which can depress job creation and undermine efforts to integrate more senior workers or new immigrants into the labor market. These dual pressures—a narrower labor force and tariff-induced disruptions—pose risks for Canada's medium- to long-term potential GDP growth. Firms already juggling high input costs from tariffs may be less inclined to invest in the training, technology adoption, and R&D initiatives that boost productivity and enable the economy to absorb an older population effectively[281].

Looking ahead, fostering a stable environment for immigration remains a critical lever for counteracting the anticipated demographic slowdown and sustaining aggregate demand. However, if tariff risks continue to inflate production costs and erode competitiveness, the prospect of robust inflows of skilled labor could also diminish. Businesses may be reluctant to recruit aggressively or to finance additional workforce development in uncertain market

[280] Canada, E. a. S. D. (2024, August 27). *Promoting the labour force participation of older Canadians*. Canada.ca. https://www.canada.ca/en/employment-social-development/corporate/seniors-forum-federal-provincial-territorial/labour-force-participation.html

[281] Macklem, T., Rogers, C., Gravelle, T., Kozicki, S., Vincent, N., Mendes, R., & Governing Council of the Bank of Canada. (2025). *Monetary Policy Report—January 2025*. https://www.bankofcanada.ca/wp-content/uploads/2025/01/mpr-2025-01-29.pdf

conditions, intensifying existing labor shortages, particularly in key industries with a higher proportion of retiring workers (e.g., manufacturing, construction, healthcare)[282].

Under these circumstances, spurring productivity growth becomes a vital hedge against both demographic shifts and tariff-induced cost pressures. Adopting automation and advanced manufacturing processes, for instance, can mitigate constraints on labor availability while balancing out the cost increases that come with unexpected duties. Nevertheless, such strategies depend on firms' willingness to invest in new technologies and on policy measures that encourage innovation and workforce skill development[283].

In essence, the long-term interaction between an aging population and ongoing tariff volatility demands concerted efforts to preserve a dynamic labor force and foster productivity gains. Strategic immigration policy, prudent tax and tariff strategies, and a clear focus on productivity-enhancing reforms can help ensure that Canada navigates the dual challenges of demographic headwinds and uncertain trade conditions[284].

- Skills Gaps

Recent projections reveal that hundreds of thousands of skilled tradespeople in Canada's core industries—such as construction, manufacturing, energy, and infrastructure—will retire in the next few years, leaving critical labor gaps unfilled[285]. One estimate suggests nearly 700,000 of Canada's 4 million skilled trades workers could exit the workforce by 2028, creating a shortfall that not only undermines day-to-day operations but also stifles future capital investments and economic expansion. In the construction sector, employers are already appealing to experienced tradespeople to remain on the job—sometimes offering flexible hours or partial retirement, underscoring how pressing the labor shortage has become.

Concurrently, tariff aggression from the United States is prompting calls to expand domestic production. Energy and resource companies, for instance, are examining options to reduce cross-border reliance,

[282] Macklem, T., Rogers, C., Gravelle, T., Kozicki, S., Vincent, N., Mendes, R., & Governing Council of the Bank of Canada. (2025). *Monetary Policy Report—January 2025*. https://www.bankofcanada.ca/wp-content/uploads/2025/01/mpr-2025-01-29.pdf
[283] Macklem, T., Rogers, C., Gravelle, T., Kozicki, S., Vincent, N., Mendes, R., & Governing Council of the Bank of Canada. (2025). *Monetary Policy Report—January 2025*. https://www.bankofcanada.ca/wp-content/uploads/2025/01/mpr-2025-01-29.pdf
[284] Macklem, T., Rogers, C., Gravelle, T., Kozicki, S., Vincent, N., Mendes, R., & Governing Council of the Bank of Canada. (2025). *Monetary Policy Report—January 2025*. https://www.bankofcanada.ca/wp-content/uploads/2025/01/mpr-2025-01-29.pdf
[285] McDowell, A. (2025, February 20). The skilled trades shortage is now a threat to Canada's economy—and we're not doing enough to fill the gap. *The Hub*. https://thehub.ca/2024/08/07/adam-mcdowell-the-skilled-trades-shortage-is-now-a-threat-to-canadas-economy-and-were-not-doing-enough-to-plug-the-gap/

including building additional mines, pipelines, and utilities in Canada[286]. Yet these ambitious expansions depend on a stable pipeline of skilled trades labor—whether electricians, pipefitters, carpenters, or welders—to design, construct, and maintain new facilities. Without a sufficient trade's workforce, any shift toward self-reliance risks falling short if manufacturers and resource firms cannot keep pace with increased internal demand.

Such challenges are already surfacing in the construction industry. Although Canada's infrastructure needs continue to swell—driven by housing pressures and large-scale public works—employers struggle to recruit skilled labor, leaving over 80,000 vacancies at one point last year. Delays in major building projects, combined with inflated labor costs, can exacerbate housing shortages and intensify inflation. As RBC data cited in the ICC report notes, Canada could be 64,000 workers short in construction alone, with an additional 800,000 retirements looming by the early 2030s across trades, manufacturing, and utilities. Under uncertain Canada–U.S. trade relations, bridging these gaps is even more crucial.

The ICC (2025) highlights a stark disparity in immigration streams: in 2024, only 35 permanent residents arrived through the Federal Skilled Trades Program, whereas more than 23,000 temporary foreign workers in comparable trades categories entered under non-permanent visas. The reliance on short-term labor solutions suggests Canada is not effectively leveraging newcomers for long-term stability. This deficiency extends beyond admissions policy: many employers do not fully integrate qualified immigrants already on-site, citing weak onboarding, mentoring, and skills-recognition systems. The ICC estimates that underutilized immigrant talent, especially in high-need technical trades, contributed to a $54 billion reduction in Canada's GDP potential in 2022.

Securing the skilled trades labor force in the face of U.S. tariffs and other economic pressures requires a multifaceted approach:

1. Improved Immigration Pathways
    - Expanding Canada's existing streams (e.g., Federal Skilled Trades) beyond modest annual quotas.
    - Streamlining credential recognition and job-offer prerequisites so that skilled newcomers can begin working sooner in their trade.

[286] Institute for Canadian Citizenship / Institut pour la citoyenneté canadienne. (2025, April 2). *Talent over tariffs: Immigration as Canada's secret weapon against US trade barriers - Institute for Canadian Citizenship*. Institute for Canadian Citizenship. https://forcitizenship.ca/article/talent-over-tariffs/

2. Employer Engagement
    - Bolstering job-ready onboarding, mentorship, and advanced training opportunities, particularly for trades workers from underrepresented groups.
    - Offering stable career progression that incentivizes skilled newcomers to stay in Canada long-term instead of cycling through temporary visas.
3. Collaborations with Education Providers
    - Aligning technical college programs and apprenticeship models with industries facing urgent labor gaps.
    - Simplifying the apprenticeship framework so that new entrants—and especially immigrants—can navigate local licensing requirements more readily.
4. Retention and Re-skilling
    - Adapting workplaces to keep experienced tradespeople for extra years through part-time or flexible contracts.
    - Cross-training new hires and older workers in emerging technologies relevant to resource expansions, advanced manufacturing, or renewable power.

Population Growth and Urbanization

Recent national population projections indicate that under a moderate growth assumption, Canada's population may surpass 46 million by 2049, increasing at roughly 1.3% to 1.4% per year over the next two decades[287]. A significant portion of this growth is expected to concentrate in major metropolitan areas, where newcomers often settle in pursuit of employment opportunities and established community networks. However, ongoing tariffs on core building inputs—such as steel, lumber, or specialized machinery—may present additional challenges to these rapidly expanding urban regions.

Infrastructure and Housing Pressures

As cities absorb a higher share of incoming residents, the demand for new housing, transit capacity, and public services escalates. With tariffs in place, the cost of imported components used for high-density developments or public works can rise sharply, especially when steel products, wiring, or prefabricated modules are sourced from overseas. Over the long term, if local construction firms face these elevated inputs, it may slow the pace of new builds, exacerbate affordability gaps, and inflate mortgage and rental

[287] Statistics Canada. (2025). Population Projections for Canada (2024 to 2074), Provinces and Territories: Technical Report on Methodology and Assumptions. In *Statistics Canada* [Technical report]. https://www150.statcan.gc.ca/n1/en/pub/91-620-x/91-620-x2025001-eng.pdf?st=r2RA5elf

costs.

Interplay with Immigration and Labor Market Shifts

A substantial fraction of projected population growth stems from consistent immigration levels. While these newcomers help bolster Canada's labor force and internal consumer demand, heightened tariffs can temper business expansion by raising supply-chain expenses—reducing the fiscal space available for job creation or advanced manufacturing investments. If this environment persists, certain employers might limit hiring within key sectors (e.g., construction, engineering services), thereby affecting how effectively newcomers integrate into the workforce.

Potential Impact on Real Estate and Consumer Prices

Urban concentration often places a premium on land and housing. Under normal conditions, rising density can be managed through scaled construction. However, higher tariffs on structural steel or capital equipment may pass through into the final home prices. Inflationary forces could intensify in metro areas, especially if accelerated population inflows keep demand robust. Over time, local inflation differentials might widen compared to less-populated regions, prompting further interest rate considerations.

Long-Horizon Outlook

Over the next twenty to thirty years, if tariffs remain or expand, the additional cost burden on infrastructure, housing supply, and certain consumer goods may endure. Meanwhile, the population is still on track to exceed 46 million by 2049, reinforcing the necessity for strategic planning. Governments and developers might explore alternatives, including increased domestic production of building materials or adoption of innovative construction processes, to mitigate tariff-related expense hikes. Sustaining workable housing affordability and essential public works in key city-regions will depend on navigating these trade challenges without undermining the long-term benefits of healthy population growth.

**Technological Trajectories**

Industry 5.0 and Advanced Manufacturing

- **Human-Centric Automation**: Beyond Industry 4.0's emphasis on robotics and digitalization, Industry 5.0 envisions collaborative workspaces where humans and machines co-create[288]. Canadian manufacturing stands to benefit substantially from advanced technologies such as additive manufacturing, AI-driven supply chain analytics, and on-demand production methods. Together, these tools can help firms reduce dependence on extended global supply chains, mitigate the impact of import tariffs, and respond more effectively to shifts in demand.

  Additive manufacturing, sometimes referred to as 3D printing, enables producers to fabricate complex components internally or closer to where the final product is assembled. This localized production model not only decreases exposure to tariffed imports but also provides faster lead times for prototyping and small-batch manufacturing. Although the purchase and setup of sophisticated printing equipment and skilled labor can incur higher up-front costs, it typically leads to lower waste, fewer logistical hurdles, and improved margins—particularly advantageous when tariffs drive up cross-border shipping expenses. By leveraging new materials and design possibilities beyond the scope of traditional manufacturing, businesses can deliver more specialized or custom-built offerings, carving out competitive advantages in an environment where trade barriers are unpredictable[289].

  AI-powered supply chain analytics further strengthens resilience by introducing predictive inventory management and real-time visibility across operations. Machine learning models can forecast trends in demand and material usage with much higher accuracy than conventional methods. This heightened precision helps companies streamline inventory levels, which becomes critical when dealing with tariffed goods. Furthermore, AI tools can monitor disruptions in real time, whether they stem from delayed shipments, raw material shortages, or sudden changes in tariff regulations, allowing supply chain managers to pivot

[288] Raiche, J. (2025, January 27). Industry 5.0: Revolutionizing Work by Putting People First. *Proaction*. https://blog.proactioninternational.com/en/industry-5.0-the-next-industrial-revolution-is-people-centric#:~:text=Industry%205.0%20is%20defined%20by%20close%20collaboration%20between%20machines%20and,adaptability%2C%20creativity%2C%20and%20flexibility.

[289] Lee, M., Digital Policy Hub, & Centre for International Governance Innovation. (2024). Locating Canada in Industry 4.0: Barriers and opportunities. In *Digital Policy Hub — Working Paper*. https://www.cigionline.org/static/documents/DPH-paper-Lee_sTqA57x.pdf

quickly to alternate suppliers or shipping routes. Overall, such analytics reduce uncertainties and ensure that external cost increases do not destabilize production schedules or push retail prices beyond reach[290].

On-demand production strategies complement both localized manufacturing and AI analytics. Rather than stocking excess materials and finished goods, manufacturers can scale production to the needs of each customer or season. This approach alleviates financial losses tied to unsold inventory liability that grows when tariffs lead to heightened unit costs. On-demand models also accommodate surges in domestic orders caused by shifts in consumer sentiment or new market opportunities, all without forcing companies to lock into large, expensive import contracts subject to unpredictable tariffs.

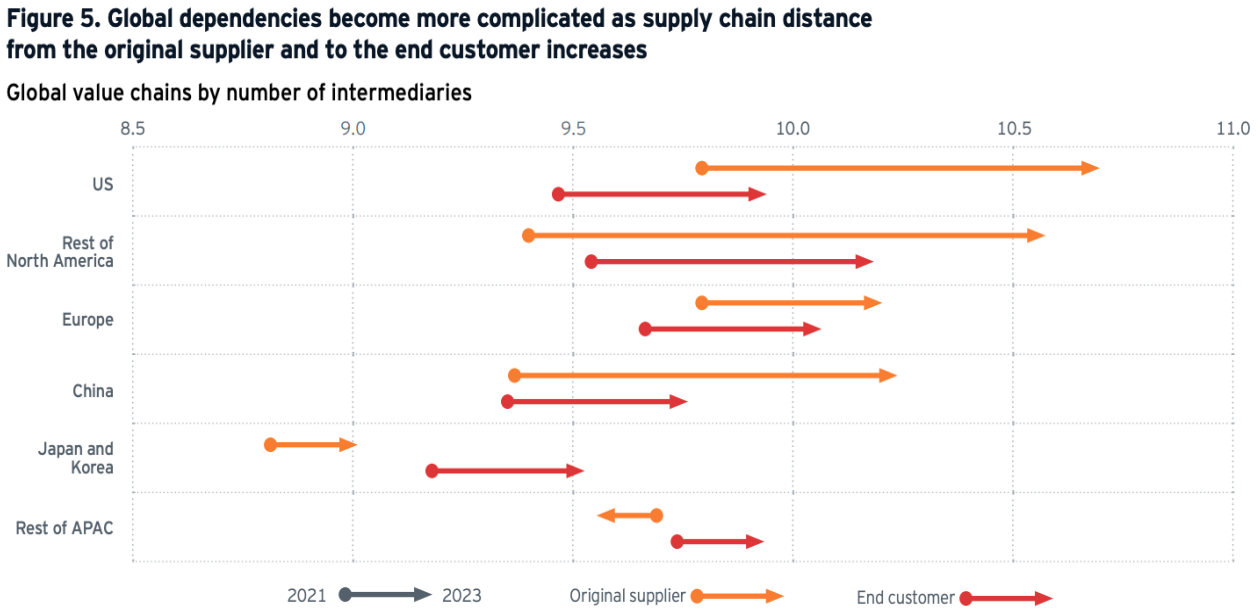
Over the long term, combining localized production capacity with intelligent supply chain oversight can help Canada's manufacturing base remain competitive despite shifting trade conditions. Although installing additive manufacturing lines or investing in specialized analytics can be capital-intensive, the resulting efficiencies often justify the outlays. Enhanced self-reliance and shorter routes to market can keep retail prices stable when tariffs fluctuate, positioning Canadian producers as reliable alternatives to offshore suppliers.

[290] Lee, M., Digital Policy Hub, & Centre for International Governance Innovation. (2024). Locating Canada in Industry 4.0: Barriers and opportunities. In *Digital Policy Hub — Working Paper*. https://www.cigionline.org/static/documents/DPH-paper-Lee_sTqA57x.pdf

## Evolving Role of Tariffs and Global Trade Alliances

1. Shift Toward Selective Protectionism
    - Geopolitical Blocs: Over the next decade, tariff policy is likely to evolve from broad-based protectionism toward selective, sector-specific measures that favor members of emerging geopolitical or technology blocs. Major economies are already experimenting with coordinated rules on data governance, semiconductor security and critical-mineral supply chains; by the early-2030s these frameworks could solidify into preferential-tariff zones that reward compliance with common technical standards while raising barriers for non-participants[291]. For Canadian exporters, this fragmentation will require careful alignment of product standards and digital-trade protocols with whichever bloc offers the greatest market access for advanced-manufactured goods, agri-food and low-carbon resources.

**Exhibit 39. Global Dependencies become more complicated as Supply Chain Distance from the Original Supplier and to the end Customer Increases.**




**Source:** The graphic is a reproduction of Graph 5B in H. Qui et al, Mapping the realignment of global value chains, BIS Bulleting No. 78, 2023. The graphic format has been modified here, but it aligns with the source data.

[291] EY. (2024). 2025 Geostrategic Outlook. In *2025 Geostrategic Outlook*. https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/geostrategy/documents/ey-2025-geostrategic-outlook.pdf?mkt_tok=NTIwLVJYUC0wMDMAAAGYbPjo2oe1vOF5CGha6dSbYz0TXp3HVvu4JgcJN1gDNtKNxmrFxHbiiRnB6HMpVFq0KeulmXJfJ1aVUPjF-Mhc3Mxq-hvSnTYKHHMa8VcGwrGocqs3S9E

- Green Tariffs and Border Carbon Adjustments (BCA): At the same time, environment-linked tariffs—especially carbon-based border charges—are moving from concept to implementation. The European Union's Carbon Border Adjustment Mechanism (CBAM) entered its transitional phase in 2023 and will start imposing full financial charges on embedded emissions in 2026; initial product coverage includes iron, steel, aluminum and fertilizers, with refined petroleum products under review[292]. Similar proposals are circulating in the United States and among G-7 partners. Because roughly 85 % of Canada's electricity already comes from non-emitting sources—hydro, nuclear and growing shares of wind and solar—many export-oriented manufacturers could gain a cost edge once carbon content is priced at the border. Conversely, high-intensity commodities such as synthetic-crude from Alberta oil sands could attract rising tariff premia unless large-scale carbon-capture and process-efficiency investments accelerate before the second half of the 2030s [293]. Looking further ahead, border-carbon adjustments are expected to expand beyond heavy industry into finished consumer goods and digital services, amplifying the importance of life-cycle emissions data and transparent supply-chain auditing. Ottawa's exploratory work on a domestic carbon-border regime—outlined in budget consultations and supported by sector task forces—signals that Canada aims to move "in lock-step" with its largest trading partners rather than face an asymmetric tariff shock. If successfully negotiated, a North American or broader "climate club" could neutralize intra-bloc tariffs yet still impose stringent levies on third-country imports that fail to meet common decarbonization benchmarks. For businesses, these trends imply that tariffs will become a dynamic policy lever—rewarding low-carbon production, compliance with trusted-data frameworks and localization of critical-technology value chains, while penalizing legacy processes that carry security or climate risk [294] [295]. Strategic responses include:

[292] European Commission. (2023, May 25). *Carbon border adjustment mechanism (CBAM)*. European Commission. https://trade.ec.europa.eu/access-to-markets/en/news/carbon-border-adjustment-mechanism-cbam

[293] Leach, A. (2024, December 17). *Canada pushes out target for net-zero electricity grid by 15 years*. Reuters. https://www.reuters.com/sustainability/climate-energy/canada-pushes-out-target-net-zero-electricity-grid-by-15-years-2024-12-17/

[294] Department of Finance Canada. (2025a, January 14). *ArChived - Exploring border carbon adjustments for Canada*. Canada.ca. https://www.canada.ca/en/department-finance/programs/consultations/2021/border-carbon-adjustments/exploring-border-carbon-adjustments-canada.html

[295] Freeland, C. & His Majesty the King in Right of Canada. (2023). Budget 2023: Tax Measures: Supplementary information. In *Budget 2023* [Report; PDF]. https://budget.canada.ca/2023/pdf/budget-2023-en.pdf

- integrating real-time carbon-intensity metrics into export pricing models to anticipate CBAM-style fees.
- investing in AI-driven supply-chain analytics to map tariff-exposure under multiple bloc scenarios;
- relocating or "friend-shoring" key inputs inside markets that confer preferential tariff status on goods meeting aligned environmental or security standards.

2. Service-Driven Exports

Over the next two decades, Canada's external balance is expected to keep tilting away from bulk goods toward high-value, intangible offerings. Services already account for roughly one-fifth of all Canadian exports and grew to about C$208 billion in 2023—double their level a decade earlier, with commercial and ICT-enabled services the fastest-rising segment[296]. As digitalization deepens, traditional tariff schedules become less relevant than frictions tied to intellectual-property enforcement, cross-border data localization rules and divergent privacy regimes.

Looking forward, Canada's competitive edge will hinge on embedding strong, interoperable data-governance clauses in next-generation trade pacts. Proposals to modernize the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and similar accords point toward legally binding disciplines on cross-border data flows, source-code protection and AI governance—rules that function as the "tariffs" of the service economy. By participating early in these digital-trade frameworks, we can secure privileged market access for export-oriented fintech, creative-media, cloud and analytics firms while shielding them from ad-hoc localization measures that raise compliance costs[297].

At the same time, ubiquitous carbon-labelling of cloud infrastructure and data-center operations suggests that low-emission electricity (which already powers roughly 85 % of Canada's grid) will become a selling point for Canadian software-as-a-service providers. In this long-term scenario, success in global services trade will depend less on cutting legacy tariffs and more on negotiating common standards for algorithmic transparency, trusted data flows and zero-carbon hosting—areas where proactive Canadian diplomacy can lock in durable advantages for the 2030s and beyond.

[296] Statistics Canada. (2024). Canada's balance of international payments, first quarter 2024. In *The Daily*. https://www150.statcan.gc.ca/n1/daily-quotidien/240530/dq240530a-eng.pdf

[297] *The rise of artificial intelligence, big data, and the next generation of international rules governing Cross-Border data flows and digital trade*. (2024, March 14). White & Case LLP International Law Firm, Global Law Practice. https://www.whitecase.com/insight-our-thinking/rise-artificial-intelligence-big-data-next-generation-international-rules

## Exhibit 40. Current Account – Seasonally Adjusted

### Table 2
### Current account – Seasonally adjusted

| | First quarter 2023 | Second quarter 2023 | Third quarter 2023 | Fourth quarter 2023 | First quarter 2024 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|
| | millions of dollars | | | | | | |
| **Current account receipts** | **299,865** | **297,391** | **303,046** | **307,337** | **309,030** | **1,143,281** | **1,207,640** |
| Goods and services | 242,257 | 236,962 | 241,515 | 244,354 | 242,340 | 952,159 | 965,088 |
| Goods | 194,682 | 187,621 | 191,793 | 194,226 | 191,703 | 779,188 | 768,322 |
| Services | 47,575 | 49,340 | 49,722 | 50,128 | 50,637 | 172,970 | 196,765 |
| Travel | 12,401 | 13,179 | 13,361 | 12,982 | 12,760 | 36,520 | 51,923 |
| Transportation | 4,933 | 4,889 | 4,882 | 4,962 | 5,033 | 18,849 | 19,665 |
| Commercial services | 29,788 | 30,822 | 31,042 | 31,765 | 32,426 | 115,915 | 123,418 |
| Government services | 454 | 451 | 436 | 418 | 419 | 1,687 | 1,760 |
| Primary income | 52,713 | 55,585 | 57,004 | 58,386 | 61,488 | 172,943 | 223,688 |
| Compensation of employees | 288 | 285 | 286 | 285 | 294 | 1,124 | 1,144 |
| Investment income | 52,425 | 55,300 | 56,718 | 58,101 | 61,194 | 171,819 | 222,545 |
| Direct investment | 29,426 | 29,820 | 29,137 | 30,010 | 30,541 | 107,637 | 118,393 |
| Interest | 2,863 | 2,973 | 2,977 | 3,240 | 3,638 | 9,994 | 12,052 |
| Profits | 26,564 | 26,847 | 26,160 | 26,770 | 26,903 | 97,643 | 106,341 |
| Portfolio investment | 12,528 | 13,125 | 13,268 | 14,185 | 15,187 | 45,364 | 53,106 |
| Interest on debt securities | 5,260 | 5,726 | 5,839 | 6,397 | 6,640 | 17,984 | 23,222 |
| Dividends on equity and investment fund shares | 7,269 | 7,399 | 7,429 | 7,788 | 8,546 | 27,379 | 29,884 |
| Other investment | 10,470 | 12,356 | 14,313 | 13,906 | 15,467 | 18,819 | 51,045 |
| Secondary income | 4,895 | 4,845 | 4,528 | 4,596 | 5,202 | 18,180 | 18,864 |
| Private transfers | 1,307 | 1,338 | 1,375 | 1,358 | 1,365 | 4,829 | 5,378 |
| Government transfers | 3,588 | 3,507 | 3,153 | 3,238 | 3,837 | 13,350 | 13,486 |
| **Current account payments** | **303,581** | **304,153** | **309,040** | **311,845** | **314,395** | **1,153,593** | **1,228,619** |
| Goods and services | 243,411 | 244,752 | 243,724 | 246,327 | 247,085 | 948,468 | 978,214 |
| Goods | 193,122 | 193,322 | 191,659 | 192,072 | 192,806 | 759,482 | 770,175 |
| Services | 50,289 | 51,430 | 52,065 | 54,255 | 54,279 | 188,986 | 208,039 |
| Travel | 12,294 | 12,849 | 13,464 | 14,167 | 13,998 | 37,259 | 52,774 |
| Transportation | 8,732 | 8,803 | 8,342 | 8,774 | 9,045 | 36,078 | 34,651 |
| Commercial services | 28,809 | 29,308 | 29,780 | 30,838 | 30,762 | 113,867 | 118,735 |
| Government services | 453 | 469 | 480 | 476 | 475 | 1,782 | 1,878 |
| Primary income | 51,512 | 53,161 | 59,535 | 59,548 | 61,575 | 182,966 | 223,754 |
| Compensation of employees | 1,802 | 1,844 | 1,886 | 1,921 | 1,955 | 6,885 | 7,453 |
| Investment income | 49,709 | 51,316 | 57,649 | 57,627 | 59,621 | 176,081 | 216,301 |
| Direct investment | 16,443 | 14,729 | 17,246 | 15,401 | 17,919 | 72,268 | 63,819 |
| Interest | 875 | 886 | 897 | 865 | 806 | 3,224 | 3,523 |
| Profits | 15,568 | 13,843 | 16,349 | 14,536 | 17,113 | 69,044 | 60,296 |
| Portfolio investment | 22,670 | 23,586 | 24,955 | 25,724 | 25,709 | 76,771 | 96,935 |
| Interest on debt securities | 15,269 | 16,314 | 17,634 | 18,442 | 18,599 | 48,294 | 67,658 |
| Dividends on equity and investment fund shares | 7,401 | 7,272 | 7,321 | 7,282 | 7,110 | 28,478 | 29,276 |
| Other investment | 10,596 | 13,002 | 15,448 | 16,502 | 15,993 | 27,041 | 55,547 |
| Secondary income | 8,658 | 6,241 | 5,782 | 5,970 | 5,734 | 22,159 | 26,651 |
| Private transfers | 6,531 | 4,154 | 3,766 | 3,860 | 4,049 | 14,107 | 18,311 |
| Government transfers | 2,127 | 2,087 | 2,016 | 2,110 | 1,685 | 8,052 | 8,340 |

## 8.4 Demographic and Productivity Pressures

1. Population Aging vs. Technological Adoption

   Canada's tariff exposure over the next two decades will be shaped as much by its labor market dynamics as by headline trade policy. Statistics Canada's latest medium-growth scenario shows the share of Canadians aged 65 and over rising from 19 % today to roughly 23 % by the 2030's, even under sustained immigration inflows[298]. A workforce that is barely expanding—and ageing rapidly—means that any tariff shock raising input costs will collide with chronic skilled-labor shortages, pushing firms toward capital-deep automation to contain unit-labor costs. The Bank of Canada has already warned that slower labor-force growth is eroding potential GDP and could embed wage-driven inflationary pressure unless offset by stronger productivity gains. It is also true that youth employment has been softening; with fewer job vacancies, it's taking longer for young people entering the job market to find a job[299]. In practice, that nudges manufacturers to adopt AI-guided robotics, additive manufacturing and advanced analytics—technologies that reduce reliance on low-value imported intermediates and therefore dampen the sensitivity of production costs to future tariff escalations.

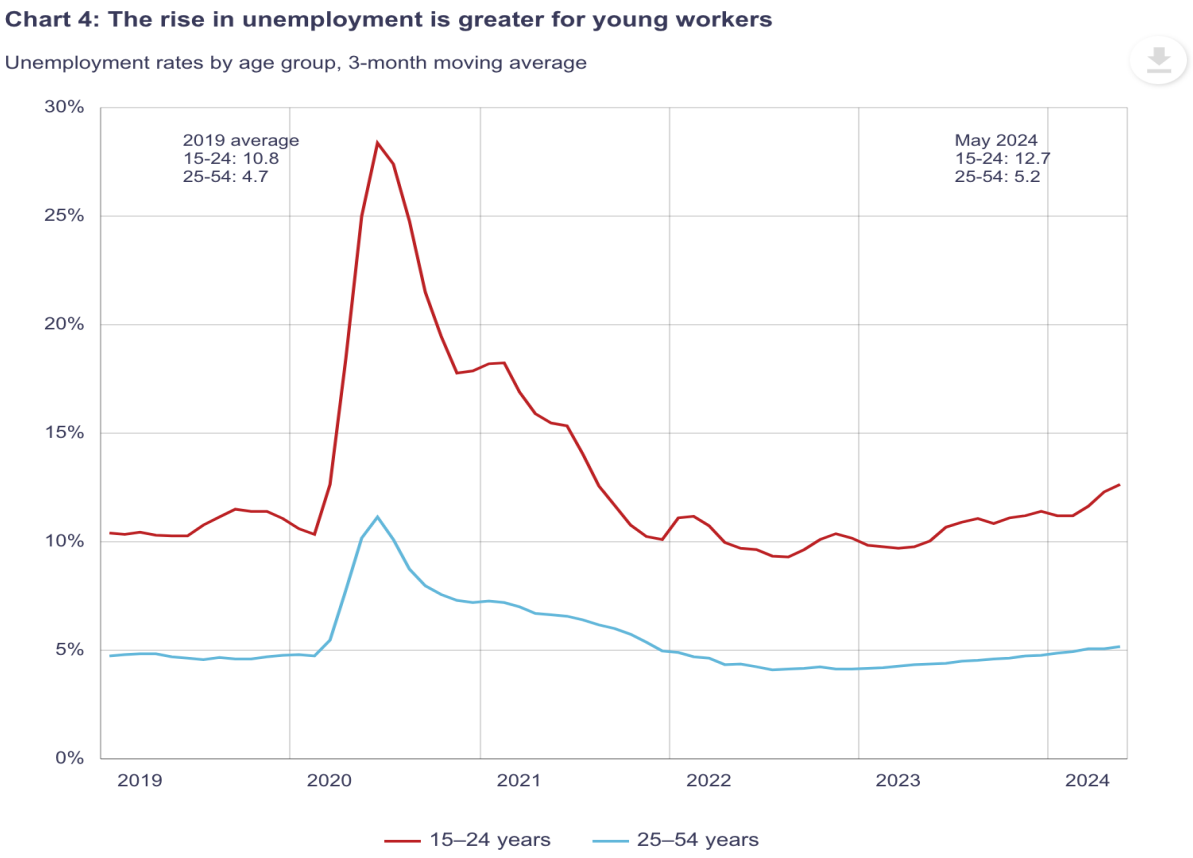
2. Human Capital Development

   The effectiveness of this automation pivot, however, rests on parallel human-capital strategies. Ottawa's immigration levels plan keeps annual permanent-resident admissions near 400 000 through the late 2020s, yet Conference Board modelling shows that even a one-per-cent-of-population intake merely stabilizes, rather than enlarges, the labor pool by 2040[300]. If credential-recognition bottlenecks or weak up-skilling programs persist, wage pressures in specialized fields will remain acute, eroding the competitiveness gains that tariff-sheltering technologies are meant to deliver. By contrast, regions that combine global talent pipelines with targeted re-training—such as Montréal's AI ecosystem and Kitchener-Waterloo's industrial-robotics corridor—are already exporting high-margin software, vision-systems and industrial controls whose

[298] Government of Canada, Statistics Canada. (2024e, November 21). *The older people are all right*. Statistics Canada. https://www.statcan.gc.ca/o1/en/plus/7059-older-people-are-all-right
[299] Bank of Canada. (n.d.-c). *Workers, jobs, growth and inflation—Today and tomorrow*. https://www.bankofcanada.ca/2024/06/workers-jobs-growth-and-inflation-today-and-tomorrow/
[300] El-Assal, K., Fields, D., & National Immigration Centre. (2018). *Canada 2040: No Immigration versus More Immigration*. The Conference Board of Canada. https://www.conferenceboard.ca/wp-content/uploads/woocommerce_uploads/reports/9678_Canada2040_NIC-RPT.pdf

digital nature is largely tariff-immune[301] [302]. As these clusters scale, Canada's export mix could gradually tilt towards intangible, service-embedded value, cushioning the macro-impact of goods-focused tariff disputes.

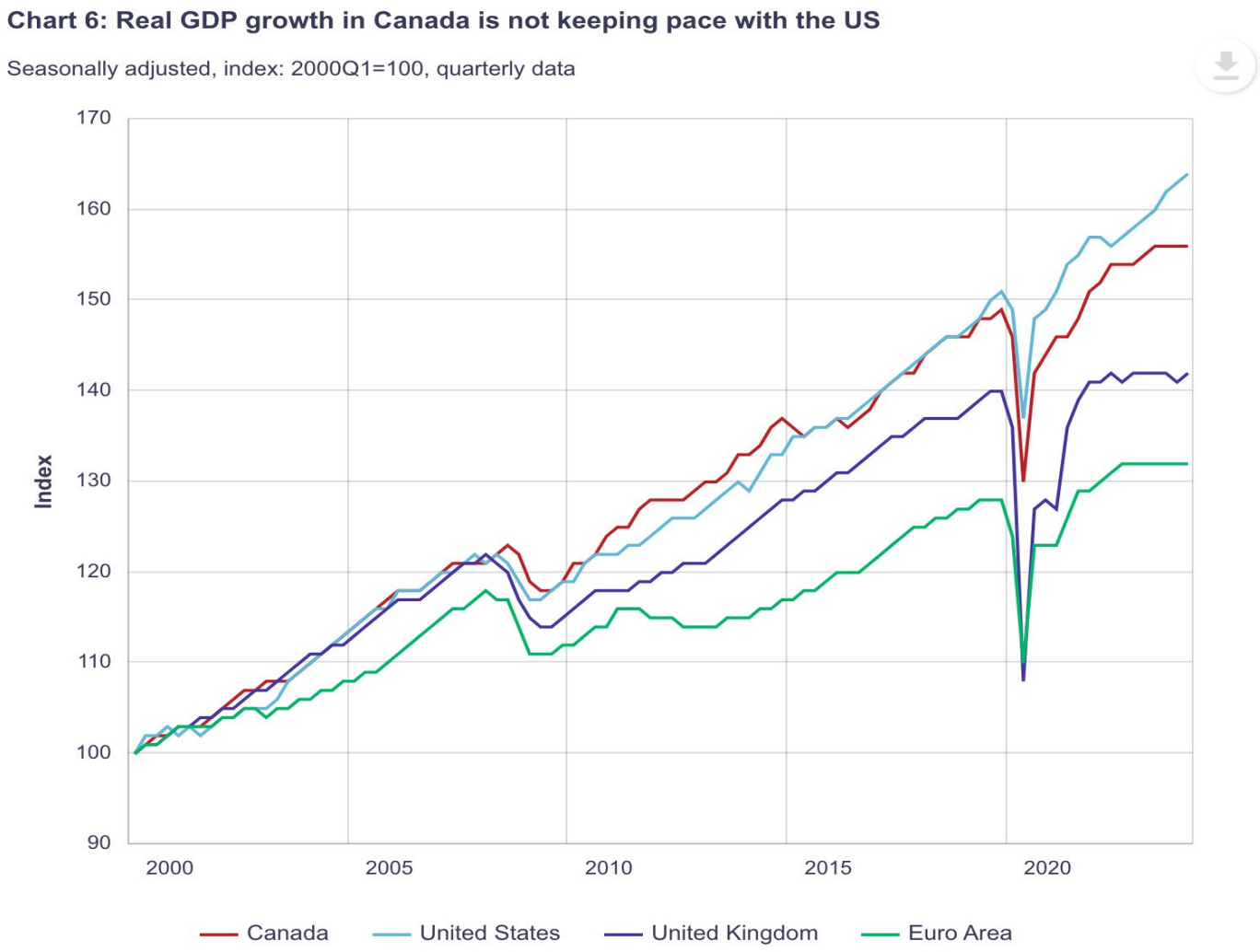
**Exhibit 41. The Rise in Unemployment is Greater for Young Workers.**




[301] CBRE. (2023, May 16). *Toronto-Waterloo corridor is one of the world's biggest tech talent markets outside of Asia-Pacific*. CBRE. https://www.cbre.ca/press-releases/toronto-waterloo-corridor-is-one-of-the-worlds-biggest-tech-talent-markets-outside-of-asia-pacific

[302] Investissement Québec. (n.d.). *Montreal's artificial intelligence hub*. Investissement Québec. https://www.investquebec.com/international/en/secteurs-activite-economique/technologies-information-communications/Montreal-s-Artificial-Intelligence-Hub.html

**Exhibit 42. Real GDP Growth in Canada is Not Keeping Pace with the US.**




## Long-Term Policy Evolution

1. New Approaches to Tariff Policy

   Over the coming decade, tariff policy is expected to pivot away from across-the-board duties and towards narrowly-targeted instruments that guard supply-chain choke points such as rare-earth elements, advanced semiconductors and next-generation batteries. Washington's May 2024 announcement of 25, 50, and 100 % duties on certain Chinese chips and critical minerals foreshadows a wider move to "surgical" tariffs that protect strategic technologies without stifling all trade flows[303]. For Canadian negotiators this implies far more granular rules-of-origin tests, end-use

[303] Dunkley, E. (2024, May 14). *Biden sharply hikes U.S. tariffs on billions in Chinese chips, cars*. Reuters. https://www.reuters.com/markets/us/biden-sharply-hikes-us-tariffs-billions-chinese-chips-cars-2024-05-14/

certifications and dual-use-export vetting—each failure raising the risk of mirror retaliation from affected partners. The shift will demand deeper alignment between Global Affairs Canada, the Canada Border Services Agency and sectoral regulators so that protective measures can be activated quickly yet remain WTO-defensible.

2. Monetary and Fiscal Coordination

- Inflation Targeting 2.0: Precision tariffs and their knock-on effects on import prices will complicate the Bank of Canada's two-per-cent target, already under review ahead of the 2026 renewal. Internal research papers discuss supplementing the headline CPI with digital-asset prices and carbon-cost pass-throughs, while stress-testing policy rates against scenarios that include domestic retail CBDC adoption by the early 2030s[304]. A rules-based but more flexible "target range plus auxiliary metrics" framework would anchor expectations even as tariff structures shift from physical goods to data and carbon content.

- Fiscal Reforms: On the fiscal side, Ottawa is examining broader consumption-style levies—potentially modelled on New Zealand's GST—to stabilize revenue as an ageing population erodes income-tax yields. Recent think-tank proposals outline a phased conversion of federal sales taxes into a single VAT that could be coupled with automatic indexation of pensions and low-income credits to neutralize regressivity[305]. Crucially, the new base could accommodate border-carbon adjustment surcharges that mirror the EU's CBAM—whose first full tariff payments begin in 2026—ensuring that imports with heavy embedded emissions do not undercut domestic producers once carbon prices are fully reflected at the border[306].

  If successfully synchronized, this triad—precision tariffs, an adaptive inflation regime and carbon-linked consumption taxes—would give Canada a more agile macro-toolkit for the 2030s. Targeted duties could defend mission-critical industries without provoking broad

[304] C.D. Howe Institute. (2025, April 29). *Putting Canada's economy first: the C.D. Howe Institute's 2025 Shadow Budget – C.D. Howe Institute*. https://cdhowe.org/publication/putting-canadas-economy-first-the-c-d-howe-institutes-2025-shadow-budget/

[305] C.D. Howe Institute. (2025b, May 14). *An economic strategy for Canada's next government – C.D. Howe Institute*. https://cdhowe.org/publication/an-economic-strategy-for-canadas-next-government/

[306] Another day older and deeper in debt: The fiscal implications of demographic change for Ottawa and the provinces. (2024). In *C.D. Howe Institute* [Journal-article]. https://cdhowe.org/wp-content/uploads/2024/12/Commentary_665_0.pdf?

retaliation; a next-generation monetary framework would keep price stability even as tariff geometry evolves; and fiscally-neutral carbon levies would finance demographic pressures while reinforcing Canada's negotiating stance in any future "green-tariff" trade blocs.

**Integrated Long-Term Vision: Challenges and Opportunities**

Canada's ability to thrive in a tariff-exposed world after 2030 will turn on how deftly it balances three structural forces: a fragmenting trade architecture, the race for innovation-driven competitiveness, and persistent demographic-cum-inflation pressures.

Global trade architecture is splintering into selective blocks.

IMF scenario work shows that if the world divides into technology- or security-based groupings, tariffs and behind-the-border barriers could rise 2–4 percentage points on average among non-aligned partners, eroding up to 7 percent of global welfare in the long run[307]. For Canada, that fragmentation is a double-edged sword: advanced-service niches (cloud fintech, AI diagnostics, immersive entertainment) scale readily inside trusted digital alliances, but heavy manufacturing—already pressured by higher North-American wage costs—would be exposed to repeated tariff shocks unless multi-factor productivity grows fast enough to offset the cost gap.

Adaptation to Ongoing Inflation Pressures

Even with advanced technology adoption, certain cost drivers—healthcare for an aging population, infrastructure for growing urban centers—could maintain mild inflation above 2%, especially if wage pressures continue. The interplay of these structural factors suggests that consensus-based monetary and fiscal policies remain essential to ensure price stability and broad-based economic health. Should Canada synchronize its clean-energy advantage (85 percent non-emitting electricity) with world-class digital services and a talent-rich innovation ecosystem, it can soften the blow of future tariff cycles, convert border-carbon duties from risk to comparative edge, and expand market share in "friend-shored" technology networks. Failure to close productivity and skills gaps, by contrast, would leave traditional sectors footing a growing tariff bill and raise the macro-cost of meeting an ageing society's needs.

[307] *Review of the role of trade in the work of the Fund*. (2023, April 3). IMF. https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/04/03/Review-of-the-Role-of-Trade-in-the-Work-of-the-Fund-531177

## 8.4 Integrative Risk Analysis and Challenges Ahead

### Overview: Intersecting Risks Across Time Horizons

Canada's macro-outlook is increasingly shaped by two intertwined, slow-burn forces: the persistence of tariff frictions in global commerce and the durability of inflation pressures in a structurally changing economy. Over the next decade, tariff policy will be a key channel through which geopolitical rivalry, climate regulation and industrial strategy intersect with domestic price stability. At the same time, inflation's trajectory will be conditioned by population aging, productivity performance and the pace at which firms re-engineer supply chains to reduce exposure to tariff shocks.

### Tariffs as a Persistent Threat

- Immediate Effects: empirical work on recent U.S.-China trade battles shows that roughly 100 % of border duties were passed through to the landed cost of imports, with half spilling into Canadian consumer prices within a year[308]. A comparable pass-through on any future U.S. or EU tariff episodes would raise near-term CPI readings and erode exporters' margins[309].

- Systemic re-wiring: Firms are already diversifying toward "friend-shored" or near-shored inputs to limit tariff volatility. In the first quarter of 2023, among businesses that expected to experience supply chain challenges, close to one-third planned to partner with new suppliers (32.1%), while close to three-tenths planned to substitute inputs, products or supplies with alternate inputs, products or supplies (29.1%) and work with suppliers to improve timeliness (28.4%)[310]. As these relocations solidify, Canada's trade balance will hinge less on headline tariff rates and more on its ability to embed itself in regional production networks.

- Selective protectionism and green tariffs. The EU's Carbon Border Adjustment Mechanism enters full charge mode in 2026, initially covering iron, steel, aluminum and fertilizers, with

[308] Tariff Passthrough at the Border and at the Store: Evidence from US Trade Policy. (2019). In *NBER Working Paper Series* (No. 26396). https://www.nber.org/system/files/working_papers/w26396/w26396.pdf
[309] Bank of Canada. (2025d, January 29). *Evaluating the potential impacts of US tariffs*. https://www.bankofcanada.ca/publications/mpr/mpr-2025-01-29/in-focus-1/
[310] Government of Canada, Statistics Canada. (2023b, March 9). *Analysis on supply chain challenges and conditions in Canada, first quarter of 2023*. https://www150.statcan.gc.ca/n1/pub/11-621-m/11-621-m2023004-eng.htm

refined petroleum products under review[311]. Similar proposals are circulating in the United States and other G-7 capitals, signaling that environmental criteria—not broad "blanket" tariffs—will dominate the post-2030 landscape. Because 85 % of Canada's electricity already comes from non-emitting sources, many domestic producers would gain a relative cost edge once carbon content is priced at the border; conversely, high-intensity commodities such as oil-sands synthetic crude could face rising levies unless large-scale abatement is deployed.

**Inflation as a Multi-Decade Concern**

- Short-Term Persistence: Although headline CPI is tracking back toward the Bank of Canada's 2 % target, wage settlements in service industries continue to run above productivity, risking a floor under core inflation.

- Long-Term Complications: Statistics Canada projects that seniors will account for roughly 25 % of the population by the mid-2030s, even under moderate immigration scenarios. This demographic tilt will enlarge healthcare outlays and shrink labor-force growth, potentially lifting the natural rate of inflation unless offset by automation-driven productivity gains.

**Key Vulnerabilities and Downside Scenarios**

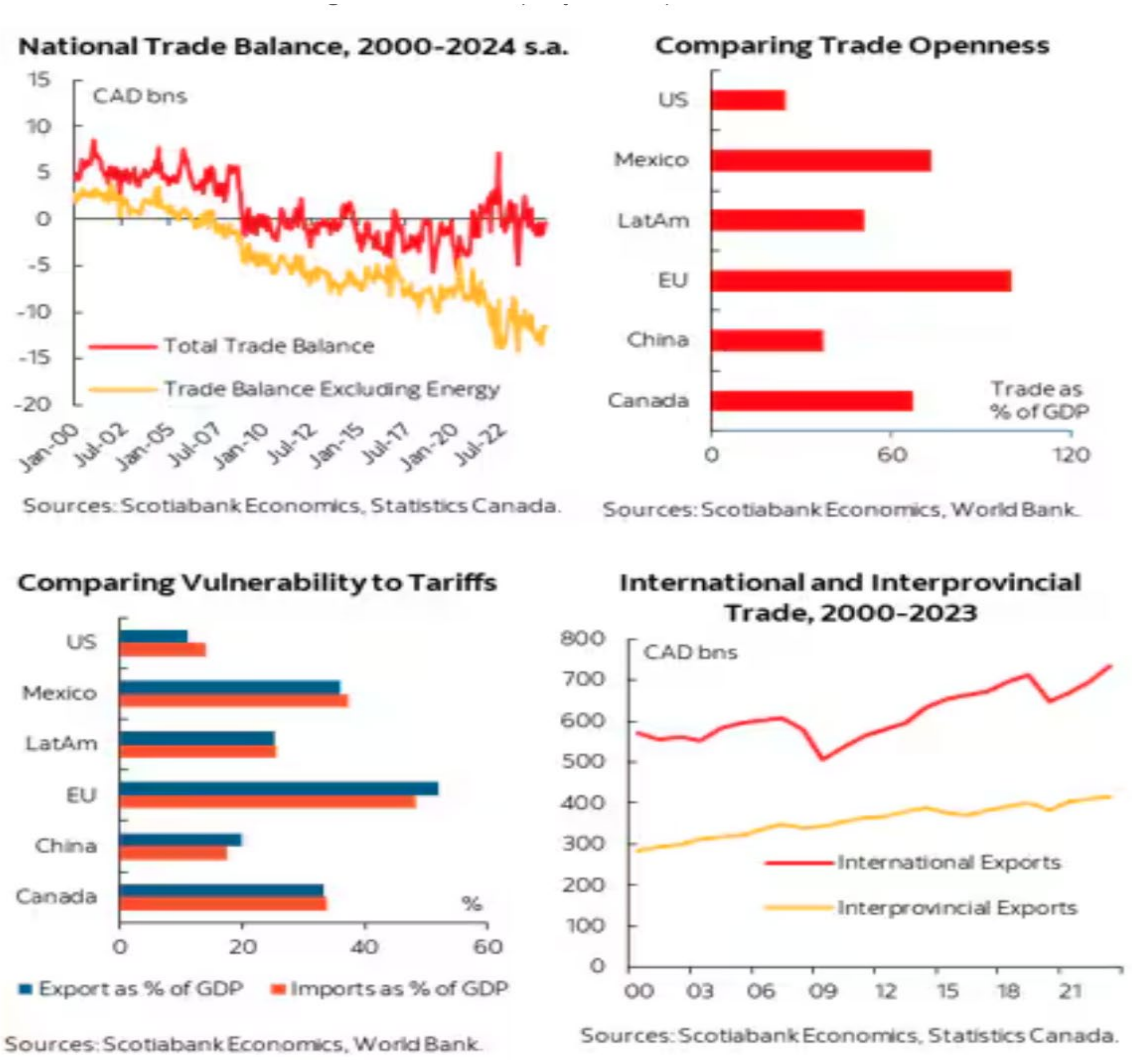
1. Trade Dependence and U.S. Exposure

   The United States absorbed ≈77 % of all Canadian merchandise exports in 2023. Such concentration magnifies the impact of any future U.S. tariff action or "Buy-American" surge. A recession or policy pivot in Washington that triggers even a 5-percentage-point tariff surcharge on autos or steel would cut Canadian real GDP growth by an estimated 0.3 ppts in the first year, as

[311] OECD. (2025). *WHAT TO EXPECT FROM THE EU CARBON BORDER ADJUSTMENT MECHANISM*. https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/03/what-to-expect-from-the-eu-carbon-border-adjustment-mechanism_a21e9b51/719d2ff9-en.pdf#page=4.75

cross-border supply chains unwind, and exporters absorb higher landed costs before renegotiating contracts[312].

**Exhibit 43. Canada's Trade Performance and Vulnerability: A Comparative Economic Overview (2000–2024)**

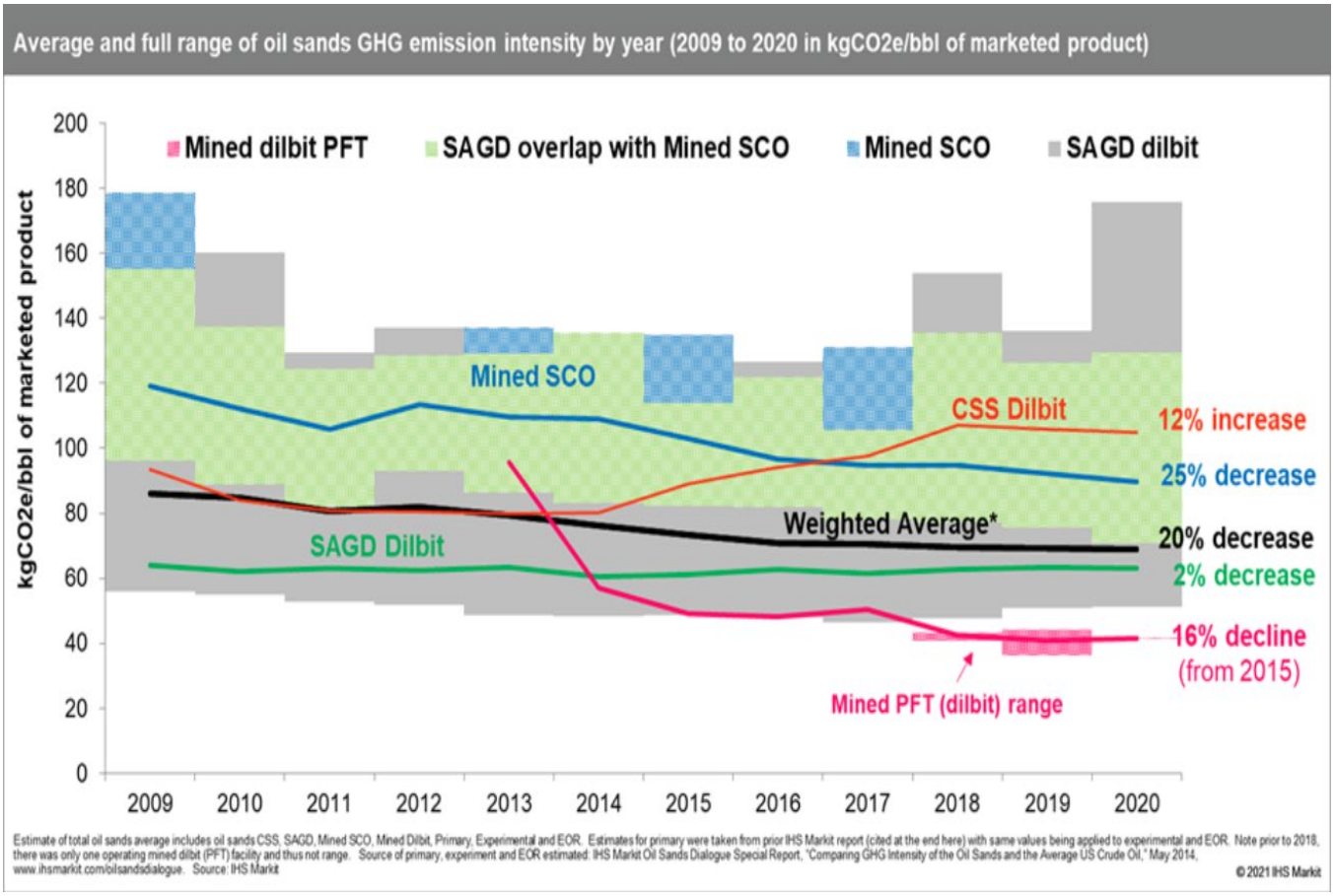



[312] *Canada-US trade: Getting up to speed*. (n.d.). Post. https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.canada-and-us-economics-.canada-and-us-decks.trade-stats--january-31--2025-.html

2. Commodity Price Swings and Carbon Transition

- Green Tariffs: The EU's Carbon Border Adjustment Mechanism (full charges start 2026) already targets iron, steel, aluminum and fertilizers, with refined petroleum under review[313]. If similar schemes spread to the G-7, oil-sands synthetic crude—emitting about 70 kg $CO_2$-e/barrel vs. <40 kg for U.S. shale—could face effective tariff premia unless large-scale CCUS projects reach commercial scale before the early-2030s[314].

**Exhibit 44. Average and Full Range of Oil Sands GHG Emission Intensity by Year.**



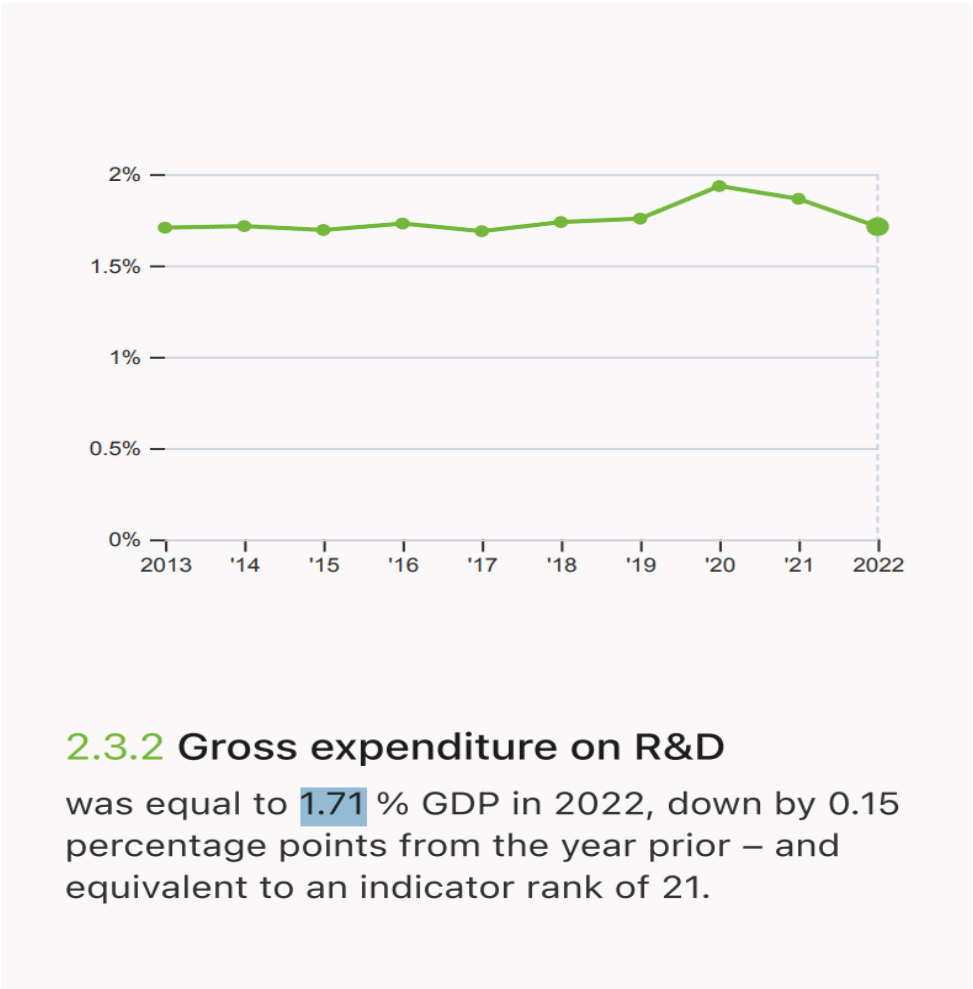

[313] *Carbon Border Adjustment Mechanism*. (n.d.). Taxation and Customs Union. https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en

[314] Birn, K. (2024, November 11). Canadian oil sands continue their GHG intensity decline. *S&P Global Commodity Insights*. https://www.spglobal.com/commodity-insights/en/research-analytics/canadian-oil-sands-continue-their-ghg-intensity-decline

3. Innovation Gap and Skill Shortages

Canada's business R-&-D intensity stood at 1.7 % of GDP in 2022[315], well below the OECD mean of 2.7 %[316]. Under this investment gap, tariffs on advanced semiconductors, robotics sub-assemblies or specialized software inputs would delay adoption cycles, raise unit labor costs and embedding service-sector wage inflation. A stronger SR&ED regime and targeted immigration streams for AI, quantum and photonics engineers are therefore critical buffers.

**Exhibit 45. Gross Expenditure on R&D.**




[315] *Canada ranking in the Global Innovation Index 2024*. (2024).

[316] *OECD sees sharp rise in government support for energy and defence R&D – INSIGHT EU MONITORING*. (n.d.). https://ieu-monitoring.com/editorial/oecd-sees-sharp-rise-in-government-support-for-energy-and-defence-rd/585149?

4. Housing Market Pressures

CMHC estimates Canada needs an extra 3.5 million new homes by 2030 to restore affordability[317]. If interest rates remain elevated to counter tariff-linked inflation, mortgage service ratios—already at record highs—will restrain construction activity and household spending. A sharp housing correction would erode collateral values for small-business credit, compounding the output drag from any tariff-driven export slump.

**Potential Upside Opportunities**

1. Diversified Trade Partnerships

Canada's strategy of deepening ties with Asia-Pacific and European markets through the CPTPP and CETA has already begun to reduce its historic U.S. tariff reliance. Under the CPTPP—now covering 11 Pacific-rim economies and eliminating 98 % of tariffs on member goods—Canadian SMEs saw their dutiable exports to CPTPP markets rise by 12.3 %, adding $241 million in the first full year of implementation[318]. Meanwhile, CETA remove has climbed on 98 % of Canadian exports to the EU and helped bilateral goods trade climb over 60 % since 2017[319] [320]. Expanding these accords—whether through CPTPP accession talks with the UK or negotiations on "CPTPP 2.0" digital-trade chapters with South Korea—offers a clear path to diversify markets, smooth tariff volatility, and sustain export growth.

2. Digital Trade Accords

As Canada's digital sector—valued at $96 billion in 2022—surpasses resource exports in growth, binding digital-economy provisions are becoming as critical as tariff cuts. Both CETA and the CPTPP

[317] CMHC. (2022). Canada's Housing Supply Shortages: Estimating what is needed to solve Canada's housing affordability crisis by 2030. In *CMHC.ca*. https://assets.cmhc-schl.gc.ca/sites/cmhc/professional/housing-markets-data-and-research/housing-research/research-reports/2022/housing-shortages-canada-solving-affordability-crisis-en.pdf?rev=88308aef-f14a-4dbb-b692-6ebbddcd79a0&_gl=1*1cmoorq*_ga*MTU3Mjk1MDIwMC4xNzEwMDk5OTk0*_ga_CY7T7RT5C4*MTcxMDA5OTk5NC4xLjEuMTcxMDEwMDQzNy41OC4wLjA.*_gcl_au*MTI0NzA4OTg3Ny4xNzEwMDk5OTkz

[318] Canada, G. A. (2025, May 6). *The Inclusive Trade Action Group Three-Year Review of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership*. GAC. https://international.canada.ca/en/global-affairs/corporate/transparency/reports-publications/action-group/2023-08-24-report

[319] Canada, G. A. (2023, October 19). *CETA explained*. GAC. https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/ceta-aecg/ceta_explained-aecg_apercu.aspx?lang=eng

[320] Price, R., & Price, R. (2024, January 15). Canada's Free Trade Agreements - PF Collins International Trade Solutions. *PF Collins International Trade Solutions - Trusted. Preferred. Experienced*. https://pfcollins.com/canadas-free-trade-agreements/

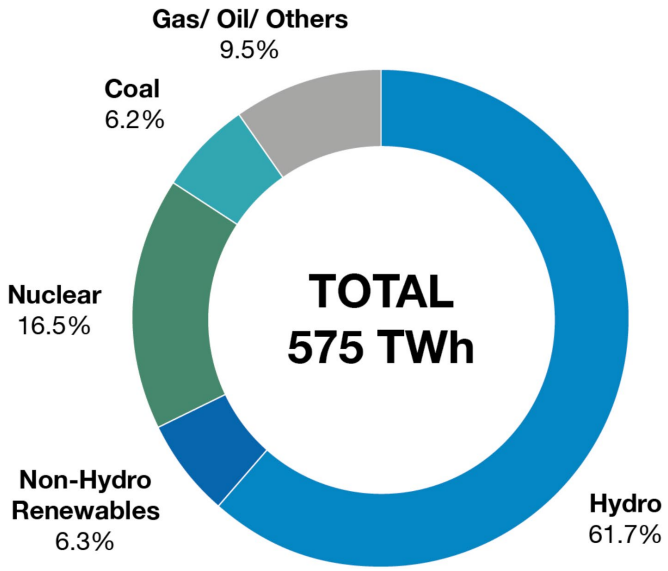
include chapters that guarantee the free flow of data, prevent data-localization requirements, and protect cross-border e-commerce transactions CETA Digital Economy. Future digital-trade accords could extend these rules, enabling Canadian fintech, cloud-computing, and AI-service providers to access new markets with minimal tariff or regulatory barriers[321].

3. Green Economy Leadership

Canada's clean-energy endowment—hydroelectricity alone accounted for 60 % of national electricity generation in 2020—positions it to attract outsized foreign direct investment (FDI) in renewables, hydrogen, and battery-metals projects. Under Invest in Canada's targeted incentives, green-energy investments exceeded $5 billion in the last two years, creating local supply chains and jobs in Alberta's wind districts and Quebec's battery-mining corridor. Over time, a vibrant cleantech export portfolio could help blunt the impact of global oil-price troughs and shield Canada from fossil-fuel tariff cycles[322] [323].

**Exhibit 46. Electricity Generation of Canada Broken Down by Source.**

Figure 6. Electricity Generation of Canada broken down by source




[321] Canada, G. A. (2025b, May 6). *The Inclusive Trade Action Group Three-Year Review of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership*. GAC. https://international.canada.ca/en/global-affairs/corporate/transparency/reports-publications/action-group/2023-08-24-report

[322] Canada, N. R. (2024, December 23). *Powering Canada Forward: Building a clean, affordable, and reliable electricity system for every region of Canada*. Natural Resources Canada. https://natural-resources.canada.ca/energy-sources/powering-canada-forward-building-clean-affordable-reliable-electricity-system-every-region-canada

[323] Canada, N. R. (2025c, March 17). *Hydrogen Strategy for Canada: Progress Report*. Natural Resources Canada. https://natural-resources.canada.ca/energy-sources/clean-fuels/hydrogen-strategy/hydrogen-strategy-canada-progress-report

**Policy Recommendations and Mitigation Strategies**

1. Maintaining a Balanced Trade Policy

Rather than resorting to broad, economy-wide retaliatory measures, Canada should employ selective tariff diplomacy, targeting only those products that underpin strategic industries—such as critical minerals or advanced semiconductors—while minimizing spillovers into consumer prices (Investopedia). At the same time, investment in trade diversification through deeper implementation of the CPTPP and CETA can reduce excessive reliance on U.S. markets. Once fully in force, the CPTPP will eliminate tariffs on roughly 98 % of Canadian exports to member economies, while CETA has already removed duties on 99 % of Canada–EU trade, thereby buffering exporters from future U.S. tariff shocks[324].

2. Inflation-Responsive Monetary and Fiscal Coordination

The Bank of Canada's adaptive inflation targeting framework—anchoring expectations around a 2 percent goal while providing transparent forward guidance—will be critical if wage growth outpaces productivity in tariff-sensitive sectors (Bank of Canada). On the fiscal side, prudent stimulus should focus on investments that raise Canada's medium-term productive capacity—namely R&D tax credits, broadband and clean-energy infrastructure, and nationwide upskilling programs—to offset demographic headwinds without fueling inflation[325].

3. Technology and Skills Investments

Scaling up advanced manufacturing requires enhanced SR&ED incentives and public-private partnerships in AI, robotics, and quantum computing to mitigate rising labor costs and sustain export competitiveness. Concurrently, targeted human-capital development—through the Future Skills program and specialized immigration streams for STEM professionals—will ensure that Canada's workforce can meet the demands of high-value sectors, reducing the inflationary impact of labor shortages.

4. Green Transition and ESG Focus

[324] Canada, G. A. (2024, June 11). *How the CPTPP can help your business grow in the Indo-Pacific*. GAC. https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/business_entreprise_asia-pacific_asie-pacifique.aspx?lang=eng
[325] Côté, M., & Poloz, S. (2016). RENEWAL OF THE INFLATION-CONTROL TARGET. In *BANK OF CANADA*. https://www.bankofcanada.ca/wp-content/uploads/2016/10/background_nov11.pdf

Reinforcing carbon-pricing mechanisms—including a domestic carbon border adjustment—will accelerate the adoption of renewables and cleantech, insulating Canada from fossil-fuel price volatility and pre-empting "green tariffs" abroad. Finally, resource diversification via strategic support for critical minerals (lithium, nickel, cobalt) and battery manufacturing can create a new export pillar less vulnerable to traditional tariff regimes[326].

**Table 6. Integrated Risk Matrix**

| Risk Factor | Short Term (1–2 yrs) | Long Term (Beyond 2030) | Potential Mitigation |
|---|---|---|---|
| **Tariff Escalations** | Cost spikes in imports; supply-chain disruptions | Selective protectionism, green tariffs, digital trade alliances | Diversify trade pacts (CPTPP, CETA); maintain stable, predictable tariffs |
| **Inflation Persistence** | Headline near 2%; core slightly elevated | Mild to moderate inflation from demographics and climate transitions | Flexible monetary policy; productivity-boosting R&D |
| **Commodity Volatility** | Energy exports stable; downside risk if global slowdown | Fossil-fuel demand decline under net-zero policies; new cost burdens on high-carbon goods | ESG investments; robust carbon pricing; advanced resource strategies |
| **Demographic Shifts** | Tight labour markets in specialized sectors | Large seniors cohort; risk of chronic inflation if productivity gains lag | Targeted immigration; workforce re-skilling; support for innovation hubs |
| **Technological Disruption** | Robotics and AI offset some labour constraints | Quantum computing and Industry 5.0 reshape | Enhanced R&D incentives; strong IP frameworks; |

[326] Canada, E. a. C. C. (2023, June 5). *The federal carbon pollution pricing benchmark*. Canada.ca. https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/carbon-pollution-pricing-federal-benchmark-information.html

| | | | |
|---|---|---|---|
| | | competitiveness; intangible-trade growth | comprehensive digital-trade rules |

### 8.5 Emerging Threats to Stability: Geopolitical Tensions (e.g., Russia–Ukraine)

The global economic landscape has grown increasingly turbulent due to escalating geopolitical tensions. While traditional macroeconomic variables such as interest rates, trade flows, and commodity cycles continue to shape economic performance, the rise of conflict-driven instability has introduced new complexities to economic forecasting and fiscal resilience. For Canada, a country deeply integrated into global trade and investment networks, the economic ramifications of events such as the Russia–Ukraine conflict are both immediate and long-ranging.

Though geographically removed from conflict zones, Canada's economic exposure—through commodity markets, foreign investment flows, supply chains, and trade agreements—renders it vulnerable to the cascading effects of geopolitical disruptions. These disruptions can lead to price volatility, inflationary spikes, trade fragmentation, and a reordering of global alliances. As such, assessing emerging threats to stability through the lens of geopolitical conflict is essential for understanding Canada's inflation dynamics, tariff environment, and long-term economic security.

#### The Russia–Ukraine Conflict and Its Global Reverberations

The Russian invasion of Ukraine in February 2022 upended the post-Cold War economic order, triggering widespread sanctions and effectively acting as a tariff on key commodity flows. Russia and Ukraine together supplied nearly 30 percent of the world's wheat exports and over 50 percent of global sunflower-oil shipments before the war's outbreak, so the blockade of Black Sea ports and destruction of export infrastructure sent international grain prices soaring

In Canada, that shock translated into a surge in domestic food costs. According to Statistics Canada, the Consumer Price Index for "food purchased from stores" rose from 5.7 percent in December 2021 to 11.0 percent in December 2022[327]. While higher grain prices boosted farm revenues, they also fed through higher grocery bills nationwide.

[327] Government of Canada, Statistics Canada. (2025e, June 4). *Food Price Data Hub*. https://www.statcan.gc.ca/en/topics-start/food-price

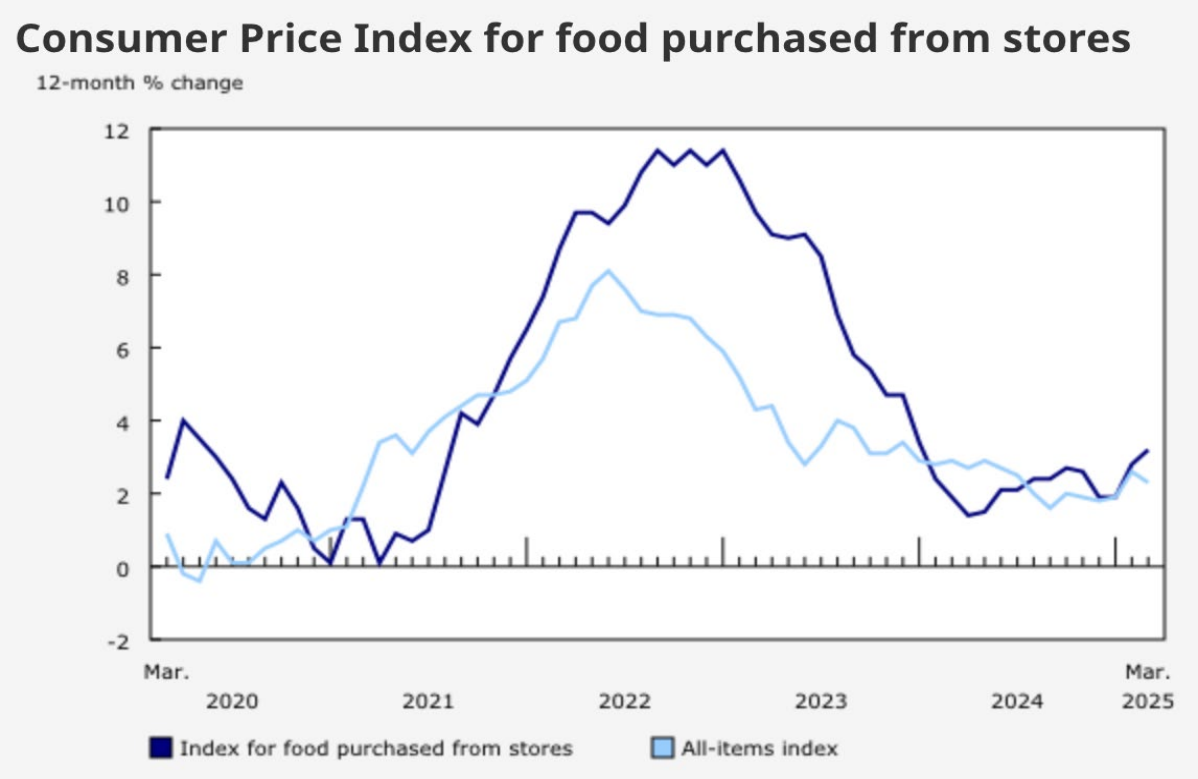
Energy markets experienced similar turmoil: Brent crude briefly topped USD 120 per barrel in mid-2022 amid fears of supply disruptions and sanctions on Russian oil — prices last exceeded that level in 2012, according to historic price series. Although global oil prices have since retreated, the volatility has become entrenched. A recent Federal Reserve analysis finds that a 10 percent jump in global oil prices raises headline CPI by nearly 0.4 percentage points in advanced economies, including Canada, over the following two quarters. Applying that elasticity to a USD 10/barrel rise implies a 0.4–0.6 percentage-point bump in Canadian inflation, echoing Bank of Canada staff estimates [328] [329].

Taken together, the Ukraine war's impact—through redirected trade flows, higher shipping insurance, and de-facto border barriers—has acted like a broad, uncoordinated tariff shock on food and energy, underscoring Canada's vulnerability to geopolitical commodity disruptions.

[328] MACROTRENDS. (2025, June 30). *Brent crude oil prices | MacroTrends*. https://www.macrotrends.net/2480/brent-crude-oil-prices-10-year-daily-chart

[329] Alp, H., Klepacz, M., & Saxena, A. (2023, December 15). *Second-Round effects of oil prices on inflation in the advanced foreign economies*. https://www.federalreserve.gov/econres/notes/feds-notes/second-round-effects-of-oil-prices-on-inflation-in-the-advanced-foreign-economies-20231215.html#:~:text=This%20increase%20in%20the%20price%20of%20oil,elevated%20through%20the%20rest%20of%20the%20horizon.&text=Including%20the%20effect%20on%20the%20energy%20CPI%2C,CPI%20by%20almost%200.4%20percent%20in%20total.

**Exhibit 47. Consumer Price Index for Food Purchased from Stores.**




## Global Trade Fragmentation and Strategic Realignment

The conflict accelerated an already ongoing fragmentation of the global trade order. The proliferation of targeted sanctions—over 11,000 imposed on Russia since early 2022[330]—has forced companies to reconsider their exposure to geopolitically sensitive markets. This has created a chilling effect on multinational investment in regions perceived as unstable or under threat of secondary sanctions.

For Canadian exporters the effects are two-fold. On one hand, producers of agricultural machinery, aerospace parts and dual-use technologies face shrinking customer bases if key buyers fall under secondary-sanctions regimes—and some have already reported contract cancellations in Eastern Europe and Central Asia. On the other hand, Canada's reputation as a stable, rule-of-law supplier has boosted

[330] *Consolidated Russia Sanctions Data Dashboard — Castellum.AI*. (n.d.). Castellum.AI. https://www.castellum.ai/russia-sanctions-dashboard

demand for its energy and food exports. Canadian wheat, pulses and processed meats are now routinely cited in European and Indo-Pacific tenders as preferred replacements for Black Sea-sourced staples [331] [332].

This strategic shift carries real logistical consequences. Anticipated jumps in Canadian LNG shipments to Europe have revived debates over new pipelines and export terminals—most notably the LNG Canada megaproject in British Columbia—but those build-outs face stiff regulatory, environmental and Indigenous consultation hurdles, not to mention sharply higher costs from global supply-chain delays. Similarly, surging grain export volumes have exposed capacity shortfalls: ports such as Vancouver and Montréal are planning major rail-yard expansions and grain-elevator upgrades to prevent bottlenecks that could otherwise re-route Canada's prairie harvest to U.S. Gulf ports.

### Inflation and Financial Instability as Geopolitical Externalities

Geopolitical tensions give rise to non-cyclical, supply side inflationary shocks that traditional monetary policy tools are poorly equipped to manage. Such shocks—whether from broad-based tariffs or sudden disruptions to critical inputs—first push up costs directly but then can feed into wage-setting and inflation expectations, amplifying and prolonging price pressures. In its April 2025 Monetary Policy Report, the Bank of Canada emphasized that while it can mitigate demand-driven inflation, it cannot fully offset these cost shocks without risking a de-anchoring of long-term expectations [333] [334].

Food inflation has been especially affected by fertilizer cost spikes. Statistics Canada data show fertilizer prices for Canadian farmers rose by 54.4% in 2022, driven largely by higher natural-gas costs and supply constraints following the war in Ukraine [335]. Canada is the world's largest exporter of potash, yet remains exposed to global market disruptions: Russia and Belarus together accounted for ≈35 % of global potash

[331] *Canadian sales of agricultural tractors and combines grow as U.S. sales decline in March 2025*. (n.d.). AEM | Association of Equipment Manufacturers. https://www.aem.org/news/canadian-sales-of-agricultural-tractors-and-combines-grow-as-us-sales-decline-in-march-2025

[332] *FAO Cereal Supply and Demand Brief | Food and Agriculture Organization of the United Nations*. (n.d.). WorldFoodSituation. https://www.fao.org/worldfoodsituation/csdb/en/

[333] Macklem, T. & Bank of Canada. (2001). A new measure of core inflation. *Bank of Canada Review*. https://www.bankofcanada.ca/wp-content/uploads/2010/06/mackleme.pdf?

[334] Reuters. (2025, January 29). *Bank of Canada cuts rates, says tariff war could be very damaging*. Reuters. https://www.reuters.com/markets/rates-bonds/bank-canada-cuts-rates-says-tariff-war-could-be-very-damaging-2025-01-29/

[335] Canadian Federation of Agriculture. (2023). *Financial Report 2023-2024*. https://www.cfa-fca.ca/wp-content/uploads/2024/02/Farm-Financial-Health-Report-2023.pdf

production in 2020, and sanctions on their exports sent potash prices sharply higher, compounding cost-push pressures in staple food categories[336].

Industrial metals have also seen significant volatility. The Industrial Product and Raw Materials Price Index reports that unwrought aluminum and aluminum alloy prices rose 13 % in 2024, reflecting both supply-chain rerouting and geopolitical risk premiums[337]. Similar disruptions to titanium and palladium markets have further heightened cost pressures in aerospace and high-tech manufacturing.

Currency volatility often accompanies these shocks. On February 24, 2022—the day Russia invaded Ukraine—the Canadian dollar weakened by 0.7 % against the U.S. dollar as global risk-off sentiment drove safe-haven flows (trading near its weakest intraday level since December 2021[338]. Such swings feed into imported inflation, especially in sectors relying on U.S. dollar–denominated inputs, such as pharmaceuticals and electronic components.

### Sectoral Vulnerabilities and Strategic Dependencies

Canada's response to renewed Russian aggression has included a commitment to raise military spending toward NATO's 2 % of GDP benchmark. In its April 2024 Defense Policy update, the government pledged to increase defense outlays from roughly 1.4 % of GDP today to 1.76 % by 2030, and to meet the 2 % target by 2032 [339] [340]. This infusion of resources is expected to spur growth in domestic defense manufacturing, bolster national cybersecurity capabilities, and accelerate dual-use research and development—particularly through Canada's hosting of NATO's Defense Innovation Accelerator (DIANA) office in Halifax [341] [342]. However, Canada's procurement process has long been critiqued for extended timelines, frequent

[336] European Union & JRC. (2022). *Raw Materials & the war in Ukraine* [Report]. https://publications.jrc.ec.europa.eu/repository/bitstream/JRC129105/JRC129105_01.pdf#:~:text=URL%3A%20https%3A%2F%2Fpublications.jrc.ec.europa.eu%2Frepository%2Fbitstream%2FJRC129105%2FJRC129105_01.pdf%0AVisible%3A%200%25%20

[337] Government of Canada, Statistics Canada. (2025c, March 20). *The Daily — Industrial product and raw materials price indexes, February 2025*. https://www150.statcan.gc.ca/n1/daily-quotidien/250320/dq250320a-eng.htm

[338] Reuters. (2022, February 24). *Canadian dollar hits 2-month low as Russia attacks Ukraine*. Reuters. https://www.reuters.com/world/americas/canadian-dollar-hits-2-month-low-russia-attacks-ukraine-2022-02-24/

[339] Reuters. (2024, April 8). *Canada pressured by U.S. to defend, pledges more cash for military*. Reuters. https://www.reuters.com/world/americas/canada-pressured-us-defence-pledges-more-cash-military-2024-04-08/

[340] Reuters. (2024, July 11). *Canada expects to reach NATO's defense spending target by 2032, says Trudeau*. Reuters. https://www.reuters.com/world/americas/canada-expects-reach-natos-defense-spending-target-by-2032-says-trudeau-2024-07-11/

[341] National Defence. (2024, April 10). Our North, Strong and Free: a renewed vision for Canada's defence. *Canada.ca*. https://www.canada.ca/en/department-national-defence/news/2024/04/our-north-strong-and-free-a-renewed-vision-for-canadas-defence.html

[342] Canada, G. A. (2025a, January 29). *Canada and the North Atlantic Treaty Organization*. GAC. https://www.international.gc.ca/world-monde/international_relations-relations_internationales/nato-otan/index.aspx?lang=eng&utm_

cost overruns, and limited competitive bidding, raising legitimate concerns about program efficiency and potential inflationary spillovers[343].

**Semiconductor Vulnerabilities**

Global semiconductor supply hinges on Taiwan Semiconductor Manufacturing Company (TSMC), which controls over 60 % of the world's contract chipmaking market, including the vast majority of advanced-node (⩽7 nm) production. Analysts warn that any military or political disruption in the Taiwan Strait would choke off supply of critical components to Canada's auto and consumer-electronics sectors, triggering severe production delays and price spikes for end users [344] [345].

Critical-Mineral Strategy

To reduce strategic dependencies, the 2022 Federal Budget launched Canada's Critical Minerals Strategy with up to CAD 3.8 billion in funding over eight years (2022–2030), supporting geoscience, exploration, processing, manufacturing and recycling of key commodities. Priority minerals include lithium, cobalt, graphite, and rare earth elements, essential inputs for battery storage, electric vehicles, and renewable-energy infrastructure—sectors central to Canada's clean-tech and defense ambitions [346] [347].

**Canada's Strategic Response: Opportunities and Policy Imperatives**

The recent surge in geopolitical instability also presents Canada with an opportunity to leverage its reputation as a stable, resource-rich, innovation-friendly economy. According to EY's February 2025 Canadian Macroeconomic Outlook, Canada's diversified energy and mineral endowments—coupled with a highly educated workforce—position it to attract nearshoring investment and fill supply gaps left by sanctioned or unstable regimes. Similarly, the C.D. Howe Institute's blueprint for national supply-chain strategy underscores that Canada's established logistics networks and institutional strengths can be

[343] *The Evolution of Defence Procurement in Canada: A Hundred-Year History*. (n.d.). https://lop.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/202054E
[344] Reuters. (2024, April 3). *TSMC's most complex engineering task is itself*. Reuters. https://www.reuters.com/breakingviews/tsmcs-most-complex-engineering-task-is-itself-2024-04-03/
[345] Reuters. (2025, April 17). *Litmus test for chip stocks as investors gird for TSMC earnings*. Reuters. https://www.reuters.com/technology/litmus-test-chip-stocks-investors-gird-tsmc-earnings-2025-04-17/
[346] Canada, N. R. (2022, December 9). *Minister Wilkinson releases Canada's $3.8-billion Critical Minerals Strategy to seize generational opportunity for clean, Inclusive growth*. Canada.ca. https://www.canada.ca/en/natural-resources-canada/news/2022/12/minister-wilkinson-releases-canadas-38-billion-critical-minerals-strategy-to-seize-generational-opportunity-for-clean-inclusive-growth.html
[347] *Federal Budget 2022 invests in critical minerals development in Canada | Insights | Torys LLP*. (n.d.). https://www.torys.com/en/our-latest-thinking/publications/2022/04/federal-budget-2022-invests-in-critical-minerals-development-in-canada

harnessed to develop a "Canada-first" approach to critical supplies, from semiconductors to rare earths [348] [349].

To realize these gains, policymakers should prioritize the creation of a geopolitical-risk index embedded within Canada's economic-forecasting models. Academic research by Caldara and Iacoviello demonstrates how a news-based Geopolitical Risk (GPR) index can anticipate downturns in investment and consumption following spikes in global tensions, and the IMF recommends incorporating such indices into central-bank projections to better calibrate policy responses to cost shocks[350]. In parallel, enhanced export-credit support—delivered through Export Development Canada's trade-finance and political-risk insurance programs—would help domestic firms maintain market access in volatile regions [351].

Contingency planning for trade-route reallocation is also essential. Global Affairs Canada's 2024 State of Trade report highlights the resilience of Canadian supply chains but warns that rapid rerouting of ocean freight and overland corridors will require investment in port infrastructure, rail connectivity, and digital tracking systems[352]. The same C.D. Howe commentary recommends establishing pre-approved alternative corridors and streamlined customs regimes to minimize disruptions if major passages are closed by conflict[353].

Cybersecurity resilience across critical infrastructure must be strengthened. Canada's new National Cyber Security Strategy outlines a "whole-of-society" approach to safeguard energy grids, transportation networks, and financial-sector platforms against state-sponsored cyber threats, including new mandates for public-private partnerships and the Canadian Cyber Defense Collective. Objective 3.3 of the strategy specifically targets the resilience of critical systems, mandating improved incident-response frameworks and investment in advanced threat-detection capabilities for utility operators and transit authorities[354].

---

[348] EY. (2025). *Canadian Macroeconomic outlook February 2025*. https://www.ey.com/content/dam/ey-unified-site/ey-com/en-ca/insights/strategy-transactions/documents/ey-canadian-economic-outlook-february-2025.pdf

[349] C.D. Howe Institute. (2025a, February 6). *The Reconfiguration of Global Supply Chains: Threats, opportunities and Policy Options for Canada – C.D. Howe Institute*. https://cdhowe.org/publication/reconfiguration-global-supply-chains-threats-opportunities-and-policy/

[350] Iacoviello, M. (n.d.). *Generalized permanent income model (GPR)*. Matteo Iacoviello. Retrieved June 5, 2025, from https://www.matteoiacoviello.com/gpr.htm

[351] Export Development Canada (EDC). (n.d.). *Export Development Canada (EDC)*. https://www.edc.ca/?

[352] Canada, G. A. (2025b, May 6). *Canada's State of Trade 2024: Supply chains*. GAC. https://international.canada.ca/en/global-affairs/corporate/transparency/reports-publications/chief-economist/state-trade/2024

[353] C.D. Howe Institute. (2025b, February 6). *The Reconfiguration of Global Supply Chains: Threats, opportunities and Policy Options for Canada – C.D. Howe Institute*. https://cdhowe.org/publication/reconfiguration-global-supply-chains-threats-opportunities-and-policy/

[354] McGuinty, D. (2025). Canada's National Cyber Security Strategy. In *Building a Safe and Resilient Canada* [Report]. Public Safety Canada. https://www.publicsafety.gc.ca/cnt/rsrcs/pblctns/ntnl-cbr-scrt-strtg-2025/ntnl-cbr-scrt-strtg-2025-en.pdf

Finally, Canada must adopt a dynamic tariff-diplomacy framework. Blanket, across-the-board tariffs risk exacerbating inflation and supply-chain fragmentation; instead, the OECD advises transitioning to targeted, conditional measures—for example, time-limited levies on goods sourced from high-risk jurisdictions, coupled with safeguards for essential imports—to balance security, competitiveness, and price stability in a fragmented world economy[355].

### 8.6 Policy Uncertainty and Retaliation Risks: Potential for Escalating Trade Wars

Amid shifting geopolitical alliances, intensifying technology rivalries, and rising populist sentiment, trade policy has once again become a central theatre of economic confrontation. The assumption that deeper globalization would entrench stable, rules-based commerce has been eroded by successive waves of unilateral tariffs, counter-sanctions, and ad hoc policy interventions [356] [357]. For Canada—an economy deeply integrated into global value chains—this elevated policy uncertainty and risk of retaliation complicate both short-term forecasting and the design of long-term trade strategies.

#### The Evolving Landscape of Policy Uncertainty

##### From Multilateral Liberalization to Bilateral Tensions

Over the past two decades, global trade policy has shifted from broad multilateral liberalization—anchored in successive WTO rounds of the 1990s—to a patchwork of bilateral and regional agreements, often punctuated by domestic political cycles[358]. At the same time, governments have increasingly invoked unilateral, sector-specific tariff powers—most notably the U.S. Section 232 authority—to address perceived security or economic threats. Under Section 232 of the Trade Expansion Act, the U.S. Commerce Department may investigate imports (e.g., steel, aluminum,

[355] Reuters. (2024, December 4). *OECD warns protectionism a risk to global growth outlook*. Reuters. https://www.reuters.com/markets/oecd-warns-protectionism-risk-global-growth-outlook-2024-12-04/

[356] *World Trade Organization says global trade could slide this year because of Trump's tariff policies | AP News*. (2025, April 16). AP News. https://apnews.com/article/wto-trade-tariffs-trump-0dfd480d5cee52ff39b369b7c781695d

[357] *The populist damage to the trading system*. (2022, January 19). CEPR. https://cepr.org/voxeu/columns/populist-damage-trading-system

[358] Hill, J., Ossa, R., Monteiro, J.-A., Piermartini, R., Bacchetta, M., Hancock, J., Rubínová, S., Stolzenburg, V., Signé, L., Walter, S., Maggi, G., Ornelas, E., & Alonso Alfaro Ureña, Benjamin Faber, Cecile Gaubert, Isabela Manelici, José Pablo Vásquez. (2024). WORLD TRADE REPORT 2024. In WTO Director-General, J. Hill, R. Ossa, WTO Director-General, J.-A. Monteiro, R. Piermartini, M. Bacchetta, J. Hancock, S. Rubínová, V. Stolzenburg, L. Signé, S. Walter, G. Maggi, E. Ornelas, & Alonso Alfaro Ureña, Benjamin Faber, Cecile Gaubert, Isabela Manelici, José Pablo Vásquez, *WORLD TRADE REPORT 2024* [Report]. https://www.wto.org/english/res_e/booksp_e/wtr24_e/wtr24_e.pdf

semiconductors, pharmaceuticals) and recommend tariffs if they are found to "impair national security," with investigations concluded within 270 days [359] [360].

Geo-Economic Competition and Power Plays

As major powers compete for leadership in AI, semiconductors, battery metals, and green-tech infrastructure, trade policy has become a tool of economic statecraft. Countries now deploy export controls, forced-technology-transfer requirements, and targeted sanctions to secure strategic advantages—often at the expense of smaller, trade-dependent partners such as Canada[361]

Impact on Global Value Chains

Heightened policy volatility is prompting firms to reevaluate supply-chain configurations. In Q1 2025, the Canadian Chamber of Commerce's Business Data Lab found that 40% of goods exporters expect supply-chain conditions to worsen over the next six months, with trade-policy uncertainty cited as a key driver of plans to diversify or reroute sourcing networks[362]. While Canada's stability and market access may attract near-shoring ("friend-shoring") opportunities, unpredictable tariff swings and retaliatory measures risk diverting investment to jurisdictions perceived as having more predictable trade regimes.

**Triggers and Mechanisms for Retaliation**

Sector-Specific Tariffs

- Steel and Aluminum: In March 2018, the U.S. imposed 25 % tariffs on steel and 10 % on aluminum from Canada under Section 232 of the Trade Expansion Act. Canada countered on July 1, 2018 with dollar-for-dollar surtaxes on C$16.6 billion of U.S. imports—including whiskey, maple syrup, playing

[359] U.S. Department of Commerce. (n.d.). *Section 232: Steel*. U.S. Department of Commerce. Retrieved June 5, 2025, from https://www.commerce.gov/issues/trade-enforcement/section-232-steel

[360] Reuters. (2025, April 14). *U.S. initiates Section 232 investigations into pharmaceuticals, semiconductors*. Reuters. https://www.reuters.com/markets/us-initiates-section-232-investigations-into-pharmaceutical-semiconductor-2025-04-14/

[361] OECD, Lesher, M., Koksal-Oudot, E., Plonk, A., Digital Economy Policy Division of the OECD Directorate for Science, Technology and Innovation, OECD Digital Policy Committee, Iida, Y., Umana Dajud, C., Benoit, N., Caira, C., González Fanfalone, A., Mölleryd, B., Lange, S., Montagnier, P., Bailenson, J., Coutinho, L. G., Lundsgaard, J., Kilpelainen, H.-M., Daor, G., . . . Bestiario. (2024). OECD Digital Economy Outlook 2024 (Volume 1): Embracing the Technology Frontier. In *OECD Digital Economy Outlook 2024 (Volume 1)*. OECD Publishing. https://doi.org/10.1787/a1689dc5-en

[362] *Canadian businesses are struggling, and exporters are feeling it the most - Canadian Chamber of Commerce*. (2025, March 24). Canadian Chamber of Commerce. https://chamber.ca/news/canadian-businesses-are-struggling-and-exporters-are-feeling-it-the-most/

cards, and more—until the U.S. lifted its measures[363]. These reciprocal duties have rippled through supply chains: farm-machinery makers have faced layoffs and production slowdowns due to higher metal costs, and Canadian aerospace groups warn that escalating duties on parts and engine repairs will drive up maintenance expenses [364] [365].

- Softwood Lumber Dispute: Dating back to the 1980s, U.S. duties on Canadian softwood lumber have been repeatedly raised and then challenged at NAFTA/WTO panels. Most recently, the U.S. increased its combined anti-dumping and countervailing duties from 8.05 % to 14.54 % in August 2024, triggering new appeals and counter-measures. Such volatility has spilled over into North American housing and construction: in March 2025, Canadian home sales hit their weakest March since 2009, with industry analysts attributing part of the slump to tariff-related uncertainty[366].

Agri-Food Battles

- Sanitary and Phytosanitary (SPS) Measures: WTO-sanctioned SPS rules can be tightened abruptly on health or environmental grounds—functioning as de facto trade barriers. The FAO estimates that SPS measures and related non-tariff measures can raise trade costs by up to 10 %, and reciprocal tightening of standards could spark a full-blown agricultural trade war that undermines Canadian pork, beef, and grain exports[367].
- Dairy and Supply Management: Canada's system caps U.S. dairy access behind tariffs exceeding 200 %, well above USMCA quotas. In March 2025 President Trump threatened "reciprocal tariffs" on

[363] Department of Finance Canada. (2019, September 16). *Updated - Countermeasures in response to unjustified tariffs on Canadian steel and aluminum products*. Canada.ca. https://www.canada.ca/en/department-finance/programs/international-trade-finance-policy/measures-steel-aluminum-businesses/countermeasures-response-unjustified-tariffs-canadian-steel-aluminum-products.html

[364] Reuters. (2025, April 5). *Tariffs throw U.S., Canadian farm machinery manufacturers into turmoil*. Reuters. https://www.reuters.com/world/americas/tariffs-throw-us-canadian-farm-machinery-manufacturers-into-turmoil-2025-04-05/

[365] Staff, R. (2025, March 25). Canadian aerospace groups warn fresh tariffs could raise costs on engine repairs, parts. *BNN Bloomberg*. https://www.bnnbloomberg.ca/tariffs/2025/03/25/canadian-aerospace-groups-warn-fresh-tariffs-could-raise-costs-on-engine-repairs-parts/

[366] Reuters. (2025, April 15). *Canadian home sales post weakest March since 2009 amid tariff uncertainty*. Reuters. https://www.reuters.com/world/americas/canadian-home-sales-post-weakest-march-since-2009-tariff-uncertainty-2025-04-15/

[367] Food and Agriculture Organization of the United Nations (FAO). (n.d.). *[Title of the document]*. FAO Open Knowledge Repository. Retrieved June 5, 2025, from https://openknowledge.fao.org/server/api/core/bitstreams/d37b2e65-06d7-489a-9f5f-37ccf6971ac7/content

Canadian goods if access remained restricted, raising the prospect of Canada responding with further levies—and thereby lifting consumer prices on dairy, poultry, and eggs [368] .

Green and Digital Tariffs

- Carbon Border Adjustments (CBAMs): The EU's CBAM, effective October 1, 2023, aligns import tariffs on carbon-intensive goods (steel, cement, fertilizers, etc.) with EU domestic carbon pricing to prevent "carbon leakage." Canada's own consultation paper has flagged that, absent comparable domestic carbon pricing, Canadian exports could face de facto CBAM costs, creating both cost pressures and an impetus to accelerate Canada's carbon-pricing framework[369][370].

- Digital Services Taxes: Canada enacted a 3 % Digital Services Tax on revenue from Canadian users in June 2024 (retroactive to January 1, 2022). In August 2024, the U.S. Trade Representative launched dispute-settlement consultations under CUSMA, alleging discrimination against U.S. platforms—highlighting that digital-services levies themselves can trigger threats of retaliatory duties on tech exports[371].

**Canada's Exposure to Retaliatory Risks: Sectoral and Regional Dimensions**

Automotive and Machinery

Canada's integrated North American automotive sector conducts approximately USD 110 billion in bilateral trade annually, with components crossing the Canada–U.S. border multiple times per production cycle[372]. Vehicles and parts exports account for roughly 15 % of all Canadian shipments to the U.S., ranking second only to energy products. Moreover, in Canada, the top selling vehicle model is the Ford F-series

[368] Reuters. (2025, March 7). *Trump says tariffs could go up over time in Fox Business interview*. Reuters. https://www.reuters.com/world/us/trump-says-tariffs-could-go-up-over-time-fox-business-interview-2025-03-07/
[369] Department of Finance Canada. (2025b, January 14). *ArChived - Exploring border carbon adjustments for Canada*. Canada.ca. https://www.canada.ca/en/department-finance/programs/consultations/2021/border-carbon-adjustments/exploring-border-carbon-adjustments-canada.html
[370] *Carbon Border Adjustment Mechanism*. (n.d.-b). Taxation and Customs Union. https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en
[371] Canada Revenue Agency. (2025, April 4). *About the tax - Digital Services Tax*. Canada.ca. https://www.canada.ca/en/services/taxes/excise-taxes-duties-and-levies/digital-services-tax/about-tax.html
[372] *Only Americans Can Convince President Trump That Tariffs Against Canada Are a Bad idea. They Have Many Reasons To Try!* (2024, December 18). Wilson Center. https://www.wilsoncenter.org/article/only-americans-can-convince-president-trump-tariffs-against-canada-are-bad-idea-they-have

pickup truck, largely assembled at U.S. factories[373]. In 2023, manufacturing sales of motor vehicles and parts reached CAD 62.1 billion, contributing over CAD 18 billion to national GDP[374]. TD Economics cautions that replacing Canada's 1.5 million annual vehicle exports would require the U.S. to boost production capacity by more than 10 %, implying comparable contractions in Canadian output under sustained tariffs[375].

Energy and Natural Resources

- Oil, Gas & Pipeline Infrastructure: Canada supplies about 20 % of U.S. crude needs, yet 88 % of Canadian energy exports still flow to the U.S. despite new west-east pipelines [376]. Any U.S. import duties on crude or refined products—were Keystone XL or other pipeline capacity to become politically fraught—would sharply curtail Alberta's export revenues.

- Critical Minerals: Backed by nearly CAD 4 billion of Budget 2022 funding, Canada's Critical Minerals Strategy aims to position the country as a supplier of choice for 34 priority minerals, including lithium, cobalt, nickel, and graphite[377]. However, 59 % of these exports currently head to the U.S., exposing Canada to policy spillovers if environmental or market-access standards become contentious[378].

Agriculture and Food Processing

Canada was the world's third-largest wheat exporter in 2024, shipping C$10.4 billion abroad[379]. Canola-oil exports rose 10.7 % in 2024 to 3.5 million tonnes [380]. Sanitary and phytosanitary (SPS) measures alone can raise trade costs by up to 10 %, and reciprocal tightening of standards could trigger a full-blown agricultural

[373] *U.S. imposes 25% auto tariffs*. (n.d.). https://economics.td.com/ca-auto-tariffs-2025
[374] *Facts - CVMA*. (2025, March 4). CVMA. https://www.cvma.ca/industry/facts/
[375] Rivard, G. (2025, January 22). *Trump vs. Canada: Some Fact-Checking About Car Sales and Production*. The Car Guide. https://www.guideautoweb.com/en/articles/77151/trump-vs-canada-some-fact-checking-about-car-sales-and-production/
[376] *Only Americans Can Convince President Trump That Tariffs Against Canada Are a Bad idea. They Have Many Reasons To Try!* (2024b, December 18). Wilson Center. https://www.wilsoncenter.org/article/only-americans-can-convince-president-trump-tariffs-against-canada-are-bad-idea-they-have
[377] Service Canada. (2023, September 12). *The Canadian Critical Minerals Strategy*. Canada.ca. https://www.canada.ca/en/campaign/critical-minerals-in-canada/canadian-critical-minerals-strategy.html
[378] Dawar, T. (2025, March 13). *Why Critical Minerals Could be Key to Unlocking Canada-India Trade*. Asia Pacific Foundation of Canada. https://www.asiapacific.ca/publication/why-critical-minerals-could-be-key-unlocking-canada-india
[379] *Wheat in Canada Trade | The Observatory of Economic Complexity*. (n.d.). The Observatory of Economic Complexity. https://oec.world/en/profile/bilateral-product/wheat/reporter/can?redirect=true&utm
[380] Government of Canada, Statistics Canada. (2025c, March 13). *The Daily — Crushing statistics of major oilseeds, Canada and United States, 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/250313/dq250313f-eng.htm

dispute—jeopardizing markets for pork, beef, grains, and seafood [381]. In March 2025, China imposed retaliatory tariffs on CAD 2.6 billion of Canadian agri-food exports—covering rapeseed oil, meal, seafood, and pork—highlighting the acute vulnerability of this sector to non-tariff barriers [382].

Regional Variation in Vulnerability[383]

An RBC Economics analysis identifies the provinces most at risk from U.S. tariff threats:

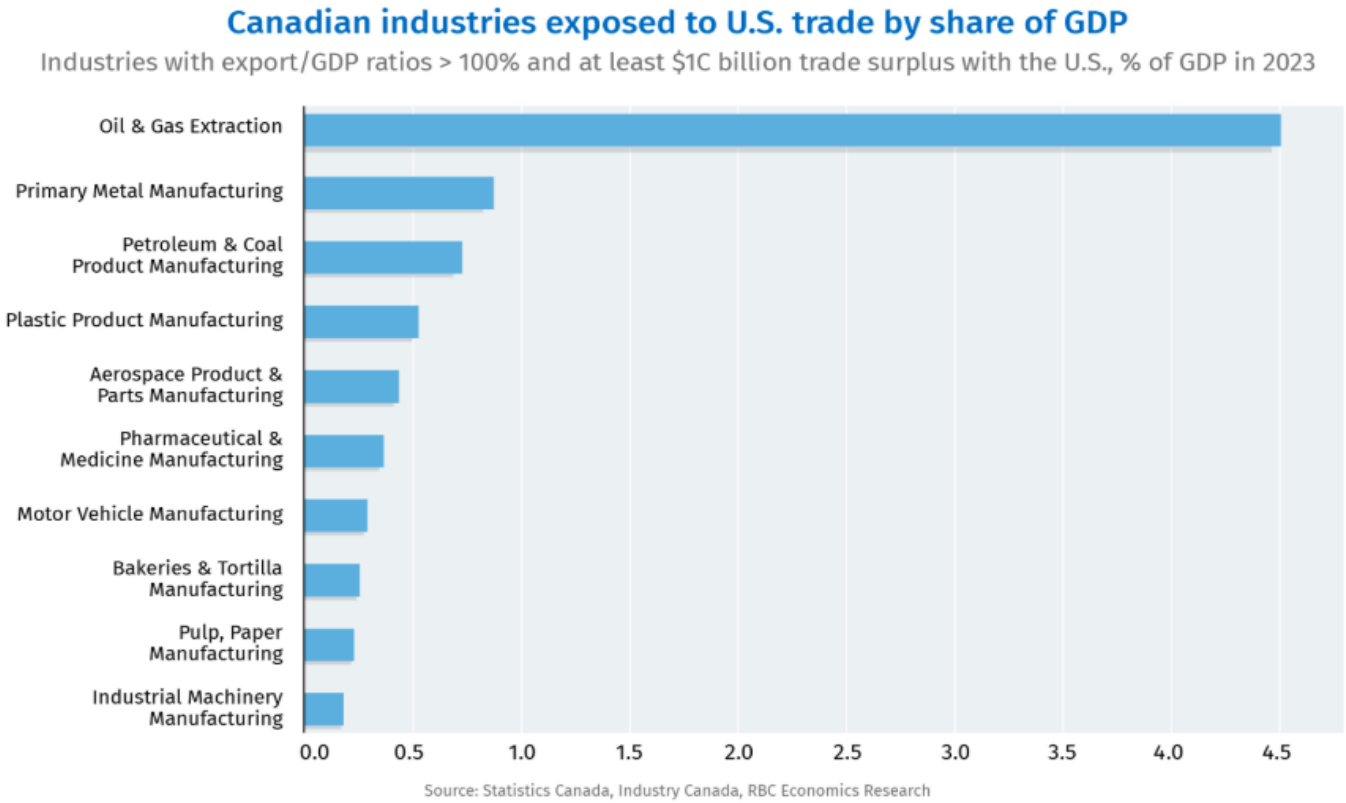
- **Ontario & Quebec:** manufacturing clusters (auto, aerospace, machinery)
- **Alberta & Saskatchewan:** energy, mining, agriculture
- **New Brunswick & Atlantic provinces:** seafood, forestry

[381] Canada, G. A. (2019, June 17). *Canada-United States-Mexico Agreement (CUSMA) - Sanitary and phytosanitary measures chapter summary*. GAC. https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cusma-aceum/sanitary_measures-mesures_sanitaires.aspx?lang=eng

[382] Reuters. (2025, March 8). *China announces retaliatory tariffs on some Canada farm, food products*. Reuters. https://www.reuters.com/markets/china-announces-retaliatory-tariffs-some-canada-farm-food-products-2025-03-08/

[383] Talukder, S. (2025, May 9). Proof Point: Canadian industries and provinces most exposed to U.S. tariff threat. *RBC*. https://www.rbc.com/en/thought-leadership/economics/featured-insights/canadian-industries-and-provinces-most-exposed-to-u-s-tariff-threat/

**Exhibit 48. Canadian Industries Exposed to US Trade by Share of GDP.**




## Potential Trade War Scenarios for Canada

Minor Dispute Escalation

- Nature: Narrow, short-lived tariffs on a small set of commodities (e.g., steel, dairy), swiftly resolved through bilateral talks or WTO panels.
- Economic Impact: Impulse-response estimates show that a temporary, sector-specific tariff shock reduces real GDP by about 0.2 % on impact and raises CPI inflation by roughly 0.3 percentage points, with consumer spending largely returning to trend once measures are lifted[384].

[384] Barattieri, A., Cacciatore, M., Ghironi, F., & NATIONAL BUREAU OF ECONOMIC RESEARCH. (2018). *Protectionism and the business cycle* (Working Paper 24353). https://www.nber.org/system/files/working_papers/w24353/w24353.pdf

Sustained Bilateral Retaliation

- Trigger: Reinstatement or expansion of U.S. Section 232 tariffs on steel and aluminum, matched by Canadian counter-tariffs.
- Consequences: According to RBC Economics' tariff-shock "playbook," a persistent 25 % levy on a major sector can shave up to 0.8 % off Canada's real GDP over two years and lift headline inflation by about 0.5 percentage points through direct cost pass-through and currency depreciation[385]. The Bank of Canada warns that a protracted bilateral dispute would also embed higher inflation expectations and permanently lower the GDP level, complicating monetary-policy calibration[386].

## Macro-Financial and Inflationary Consequences

### Investor Confidence and Capital Flows

Extended or unpredictable trade conflicts can sharply deter foreign direct investment (FDI). In an IMF working paper, over 60 % of multinational firms surveyed reported scaling back planned FDI when facing elevated geopolitical uncertainty[387]. Domestically, the Conference Board of Canada's January 2025 Business Confidence Index found that 40 % of Canadian firms cited "government policy unpredictability" among their top three impediments to planned capital expenditures[388]. Heightened equity-market volatility has followed major tariff announcements, pushing up risk premia: for example, the TSX Composite's VIX equivalent rose 15 % on average during 2024 tariff escalations, contributing to a 20 bp rise in Canadian corporate bond yields[389].

### Exchange-Rate Turbulence

Trade-war environments typically trigger "risk-off" flows into traditional safe havens (USD, CHF,

[385] *A U.S.-Canada trade shock now in play: First economic takeaways*. (n.d.). RBCCM. https://www.rbccm.com/en/story/story.page?dcr=templatedata%2Farticle%2Fstory%2Fdata%2F2025%2F02%2Fa-us-canada-trade-shock-now-in-play-first-economic-takeaways

[386] Reuters. (2025, February 12). *Bank of Canada: GDP level would be permanently hit by protracted U.S. trade war*. Reuters. https://www.reuters.com/world/americas/bank-canada-gdp-level-would-be-permanently-hit-by-protracted-us-trade-war-2025-02-12/

[387] Bussy, A., & Zheng, H. (2023). Responses of FDI to geopolitical risks: The role of governance, information, and technology. *International Business Review*, *32*(4), 102136.

[388] The Conference Board of Canada. (2025b, April 16). *Business confidence remains stagnant in January - the Conference Board of Canada*. https://www.conferenceboard.ca/insights/business-confidence-remains-stagnant-in-january/

[389] Reuters. (2025, April 16). *Full text: Bank of Canada held rates as it seeks more information on tariffs, says governor*. Reuters. https://www.reuters.com/markets/rates-bonds/full-text-bank-canada-held-rates-it-seeks-more-information-tariffs-says-governor-2025-04-16/

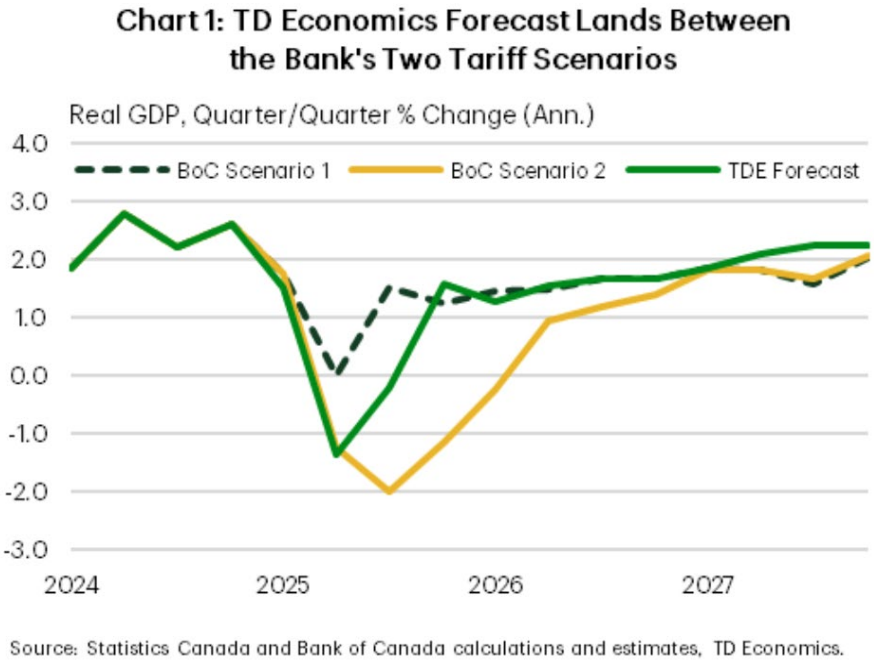
JPY). In mid-March 2025, the Canadian dollar weakened 0.4 % in a single session as U.S.–Canada tariff skirmishes intensified, touching C$1.4425 per USD[390]. In December 2024, it fell to a 4.5-year low at C$1.4244 on similar fears[391]. A weaker loonie raises import prices—fueling further inflation—while a commodities-driven rally can briefly reverse the trend, only to undermine non-commodity exporters when it subsides[392].

Wage-Price Dynamics

Cost-push inflation from higher imported input costs can feed into domestic wage negotiations. The Bank of Canada's April 2025 Monetary Policy Report noted that goods-price pressures and a weaker CAD drove headline inflation up to 2.3 % in March, despite earlier disinflationary trends[393]. In their May 2024 staff working paper, the Bank's researchers warn that repeated input-cost shocks could entrench higher inflation expectations and precipitate a wage-price spiral, where firms pass rising labor costs onto consumers and workers demand still higher wages [394]. TD Economics similarly cautions that "tariffs and supply-chain disruptions" will exert upward pressure on prices, potentially prolonging elevated inflation into 2025[395].

[390] Reuters. (2025, March 13). *Canadian dollar weakens as trade war spooks investors*. Reuters. https://www.reuters.com/markets/currencies/canadian-dollar-weakens-trade-war-spooks-investors-2025-03-13/
[391] Reuters. (2024, December 13). *Canadian dollar falls for third straight week on trade war risk*. Reuters. https://www.reuters.com/markets/currencies/canadian-dollar-falls-third-straight-week-trade-war-risk-2024-12-13/
[392] Reuters. (2025, April 22). *Canadian dollar outperforms G10 peers as trade war fears ease*. Reuters. https://www.reuters.com/markets/us/canadian-dollar-outperforms-g10-peers-trade-war-fears-ease-2025-04-22/
[393] Reuters. (2025, April 16). *Full text: Bank of Canada held rates as it seeks more information on tariffs, says governor*. Reuters. https://www.reuters.com/markets/rates-bonds/full-text-bank-canada-held-rates-it-seeks-more-information-tariffs-says-governor-2025-04-16/
[394] Bank of Canada. (2024). *[Title of the paper]* (Staff Working Paper 2024-14). Bank of Canada. https://www.bankofcanada.ca/wp-content/uploads/2024/05/swp2024-14.pdf
[395] *Weekly bottom line*. (n.d.). https://economics.td.com/ca-weekly-bottom-line

**Exhibit 49. TD Economics Forecast Lands between the Bank's Two Tariff Scenarios.**




## Policy Strategies to Mitigate Retaliation and Trade War Fallout

1. Maintaining Bilateral Dialogue and "Early Warning" Systems.
   Canada and the U.S. should build on the May 17, 2019, Joint Statement that removed Section 232 steel and aluminum tariffs in exchange for a monitoring mechanism and regular consultations to flag emerging disputes before they escalate into tariffs[396]. Extending similar permanent technical committees with the EU and Japan would institutionalize early warning of trade irritants—allowing for rapid, expert-led de-escalation.

2. Strengthening Domestic Resilience.
   Targeted transition assistance can help workers and SMEs adapt when retaliatory duties bite. For example, during the 2018–20 softwood-lumber dispute, Ottawa extended its Work-Sharing program—waiving waiting periods and lengthening agreements up to 76 weeks—to prevent layoffs

[396] Canada, T. (2020, April 6). *Minister Garneau appearance at the Committee of the Whole on the 2019-2020 Supplementary Estimates A on December 9, 2019: Global Affairs Canada*. Transport Canada. https://tc.canada.ca/en/corporate-services/transparency/minister-garneau-appearance-committee-whole-2019-2020-supplementary-estimates-december-9-2019-global-affairs-canada

in forestry communities[397]. Future "sectoral adjustment initiatives" could combine income support, retraining grants, and technology-adoption credits to fast-track pivots into new markets.

3. Diversification and Digital-Trade Accords.
   Canada should deepen market access beyond North America. Finalizing accession of the U.K. and other Indo-Pacific economies to the CPTPP, while actively recruiting digital-economy partners in Africa and Asia, redistributes trade-war risk[398]. Likewise, negotiating "digital chapters"—as pioneered in the CPTPP's e-commerce provisions—into CETA, USMCA, and future FTAs will lock-in rules on cross-border data flows, consumer protection, and cybersecurity, diluting the impact of tariff reprisals on tech-intensive sectors[399].

4. Stable Tariff Policy at Home
   Domestically, Canada should favour WTO-compliant safeguard measures over abrupt, unilateral duties. The WTO Agreement on Safeguards (1994) mandates transparent investigations, public notice, and time-limits on emergency tariffs, reducing incentives for partners to strike back. A rules-based import-safeguard framework also helps anchor long-term inflation expectations by avoiding unpredictable policy swings[400] [401].

5. Coordinated Anti-Cyclical Measures.
   If trade conflicts deepen recessionary pressures, a mix of monetary easing (when inflation permits) and targeted fiscal stimulus can shore up demand and preserve jobs. Budget 2024's introduction of major economic investment tax credits—including enhanced Clean Technology Manufacturing and EV Supply-Chain credits—and the 2024 Fall Economic Statement's acceleration of $6 billion in housing infrastructure and $2 billion in AI-compute funding exemplify how fiscal tools can rapidly reorient capital toward growth sectors[402] [403]. Historical analysis confirms that infrastructure spending

[397] Canada, E. a. S. D. (2022, March 9). *Softwood Lumber: important notice*. Canada.ca. https://www.canada.ca/en/employment-social-development/corporate/portfolio/service-canada/softwood.html
[398] https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/index.aspx?lang=eng&
[399] Suominen, K. (2024). *Do CPTPP-Style digital trade rules add new value?* https://www.csis.org/analysis/do-cptpp-style-digital-trade-rules-add-new-value
[400] *Trade Guide: WTO safeguards*. (n.d.). International Trade Administration | Trade.gov. https://www.trade.gov/trade-guide-wto-safeguards
[401] *WTO | legal texts - Agreement on Safeguards*. (n.d.). https://www.wto.org/english/docs_e/legal_e/sg_e.htm
[402] *The short report: April 17, 2024*. (2024, April 17). https://researchmoneyinc.com/article/the-short-report-april-17-2024
[403] Government of Canada, Public Services and Procurement Canada, Integrated Services Branch, Government Information Services, Publishing and Depository Services. (n.d.). *Information archivée dans le Web*. Information Archived on the Web.

delivers among the highest multipliers in downturns, securing employment and facilitating private re-investment[404].

**Conclusion: Navigating a Fractured Trade Order**

Canada's role as a mid-sized, open economy—where trade (exports + imports) represented ≈67 % of GDP in 2023—amplifies its exposure to policy uncertainty and retaliatory tariff cycles[405]. Historical episodes—such as the 2018–19 steel and aluminum dispute that saw C$29.8 billion in counter-tariffs and prompted C$6.5 billion in federal relief measures—underscore the tangible costs of unilateral actions[406]. Looking forward, the proliferation of green-tariff regimes (e.g., the EU's CBAM), digital-services levies, tech-export controls, and carbon-border adjustments suggest an even more complex and fragmented trade landscape .

Adaptive policy strategies—anchored in systematic bilateral and multilateral dialogue, transparent, WTO-compliant safeguard rules at home, strategic market diversification (e.g., CPTPP expansion and digital-trade chapters), and targeted support frameworks for affected sectors—offer Canada its best defense against the unpredictable waves of protectionism. Balancing short-term crisis management with long-term structural reforms will be essential to sustain economic resilience and limit the inflationary fallout of escalating trade frictions[407]

https://publications.gc.ca/site/archivee-archived.html?url=https://publications.gc.ca/collections/collection_2024/fin/F1-52-2024-eng.pdf

[404] Infrastructure spending provides the most bang for the buck of economic stimulus. (2019, January 29). *CISION*. https://www.newswire.ca/news-releases/infrastructure-spending-provides-the-most-bang-for-the-buck-of-economicstimulus-539642952.html

[405] *Canada Trade Summary | WITS Data*. (n.d.). https://wits.worldbank.org/CountryProfile/en/Country/CAN/Year/LTST/Summary

[406] Reuters. (2025, March 7). *Canada launches C$5 billion program to help exporters reach new markets*. Reuters. https://www.reuters.com/markets/canada-launches-c5-billion-program-help-exporters-reach-new-markets-2025-03-07/

[407] Reuters. (2025, April 16). *Bank of Canada says U.S. tariffs could trigger deep recession*. Reuters. https://www.reuters.com/markets/bank-canada-says-us-tariffs-could-trigger-deep-recession-2025-04-16/

# Section 9. United States: The "America First" Strategy and Its Spillover on Canada

## 9.1 Canada in the Shadow of 'America First': Impact, Response, and Future Outlook

### Genesis and Evolution of "America First"

The modern "America First" doctrine crystallized under the Trump administration (2017–2021), though protectionist impulses have periodically surfaced in U.S. policy—most notably the 1970s steel safeguards and early 2000s tariff remedies. Under the "America First" banner, two statutes saw unprecedented use:

1. Section 232 (National Security Tariffs): In March 2018, President Trump invoked Section 232 of the Trade Expansion Act of 1962 to impose 25 % tariffs on steel and 10 % on aluminum, citing national-security concerns[408]. Although Canada and Mexico initially received exemptions, by mid-2019 those exclusions were lifted—only to be partly restored later amid WTO and NAFTA/USMCA negotiations [409].

2. Section 301 (China-Focused Retaliatory Tariffs): Beginning in April 2018, the U.S. levied 25 % duties on $50 billion of Chinese imports, followed by successive rounds covering over $300 billion of goods—targeting technology, machinery, and consumer items—in response to alleged IP theft and forced-technology transfers [410] [411].

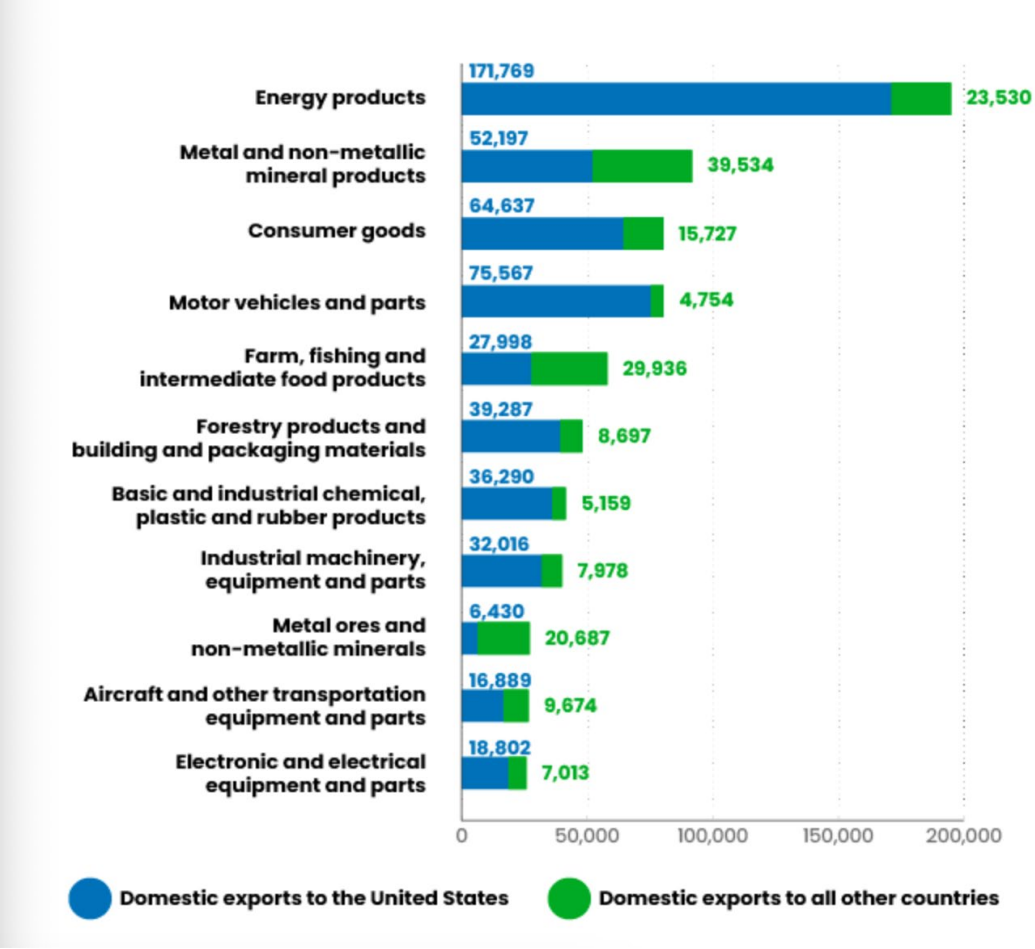
Subsequent administrations have softened the "America First" rhetoric but largely maintained its core measures. President Biden retained most Section 301 duties and extended targeted exclusions, even as he paused new tariff announcements while reviewing their inflationary effects[412]. The White House's April 2025 America First Trade Policy Report reaffirms a focus on "reciprocal and mutually advantageous concessions,"

[408] Hayes, A. (2025, February 6). *Section 232 of the Trade Expansion Act: What it is and how it works*. Investopedia. https://www.investopedia.com/terms/s/section-232-trade-expansion-act.asp
[409] Reuters. (2025, [Date]). *[Title of the graphic]*. Reuters. https://www.reuters.com/graphics/TRUMP-TARIFFS/STEEL/gdpznwgdzpw/
[410] Reuters. (2020, January 15). *Timeline: Key dates in the U.S.-China trade war*. Reuters. https://www.reuters.com/article/business/timeline-key-dates-in-the-us-china-trade-war-idUSKBN1ZE1AA/
[411] Reuters. (2019, August 14). *Timeline: Key dates in the U.S.-China trade war*. Reuters. https://www.reuters.com/article/business/timeline-key-dates-in-the-us-china-trade-war-idUSKCN1UR5RW/
[412] Reuters. (2024, May 24). *U.S. Trade Representative extends some Chinese tariff exclusions, but many fall away*. Reuters. https://www.reuters.com/business/ustr-extends-some-chinese-tariff-exclusions-many-fall-away-2024-05-24/

domestic industrial base reviews, and supply-chain security measures—underscoring the persistence of economic nationalism beyond partisan labels[413].

For Canada—where 75.9 % of merchandise exports in 2024 were destined for the U.S.—these strategic shifts introduce significant policy uncertainty, reshaping tariff regimes, investment climates, and bilateral trade flows[414]. Desjardins Economic Studies warns that renewed threats of 25 % across-the-board tariffs could tip the Canadian economy into recession by early 2025, amplifying inflationary and output disappointments unless offset by swift policy responses[415].

**Exhibit 50. Canadian Domestic Exports by Product Category**




[413] The White House. (2025, April). *Report to the president on the America First trade policy: Executive summary*. The White House. https://www.whitehouse.gov/fact-sheets/2025/04/report-to-the-president-on-the-america-first-trade-policy-executive-summary/

[414] Government of Canada, Statistics Canada. (2025f, April 3). *The Daily — Canadian international merchandise trade, February 2025*. https://www150.statcan.gc.ca/n1/daily-quotidien/250403/dq250403a-eng.htm

[415] Desjardins. (2024, December 19). *2024 Was In like a Lion and Out like a Lion*. Desjardins.com. https://www.desjardins.com/qc/en/savings-investment/economic-studies/2024-canada-economy-december-19-2024.html

**Key Elements of "America First" and Their Broader Motivations**

Automotive and Machinery Policies

Shortly after the metals tariffs, the Administration launched a May 2018 Section 232 investigation into auto imports—raising the possibility of up to 25 % duties on vehicles and parts, though no tariffs were ever imposed[416]. Ontario's auto sector, where intermediate components cross the border multiple times, is especially vulnerable: integrated supply chains mean that 60 % of Canadian motor-vehicle production is deeply interwoven with U.S. facilities[417]

Buy American and Federal Procurement Expansion

"Buy American" preferences have been strengthened under the Inflation Reduction Act (2022) and the CHIPS and Science Act (2022). The IRA allocates $369 billion to clean-energy and manufacturing incentives and imposes escalating domestic-content thresholds (40 % in 2024 rising to 55 % by 2027) for bonus tax credits [418] [419]. The CHIPS Act offers 25 % investment tax credits and grants for semiconductor plants—contingent on U.S. content rules[420].

Industrial Policy and Subsidies

Beyond tariffs, "America First" features active industrial policy—state and federal grants, tax credits, and direct subsidies for semiconductor fabs, battery "gigafactories," and robotics R&D. These incentives tilt high-tech FDI toward U.S. locations, directly competing with Canadian programs like the Strategic Innovation Fund

[416] Reuters. (2025, March 26). *Trump could use 2019 investigation to justify tariffs on auto imports*. Reuters. https://www.reuters.com/business/autos-transportation/trump-could-use-2019-investigation-justify-tariffs-auto-imports-2025-03-26/

[417] McIntosh, M. (n.d.). *A playbook for how to measure a tariff shock in Canada*. RBC Wealth Management. Retrieved June 5, 2025, from https://ca.rbcwealthmanagement.com/michael-mcintosh/blog/4441826-A-playbook-for-how-to-measure-a-tariff-shock-in-Canada

[418] Dennis, B. (2022, August 15). As Congress funds high-tech climate solutions, it also bets on a low-tech one: Nature. *The Washington Post*. https://www.washingtonpost.com/climate-solutions/2022/08/14/nature-climate-solutions-inflation-reduction-act/

[419] Kramer, A. (2025, May 28). *Energy Tax Credits for a New World Part V: Domestic Content Bonus Credits | ASKRamer Law*. ASKramer Law. https://www.askramerlaw.com/publications/energy-tax-credits-for-a-new-world-part-v

[420] Congressional Research Service. (n.d.). *Semiconductors and the CHIPS Act: The Global Context* (CRS Report No. R47558). https://www.congress.gov/crs-product/R47558

Green and Digital Dimensions

Economic nationalism now extends to the green transition and digital services. The IRA's domestic-content rules incentivize onshore solar-panel and battery production, while the U.S. Trade Agenda seeks "digital chapters" that favor data localization and U.S. e-commerce standards. Across the border, Canada's own 3 % Digital Services Tax—effective 2024 and retroactive to 2022—has prompted U.S. objections and threatened retaliatory action[421]

**Spillover Effects on Canada: Trade, Inflation, and Structural Adjustments**

Direct Tariff Exposure

Beyond Section 232, the U.S. has wielded Section 301 and safeguard authorities to impose tariffs ranging from 7.5 % on consumer electronics to 25 % on vehicles, industrial components, semiconductors, and other electronics[422]. As many of these good's transit through Canada on their way to U.S. consumers—or incorporate Canadian inputs—producers in machinery, aerospace, and high-tech manufacturing face elevated costs and logistical bottlenecks.

U.S. Procurement Preferences and Clean-Energy Incentives

Canada's clean-tech exporters confront uncertainty under the Inflation Reduction Act (IRA) and CHIPS and Science Act, which condition key tax credits on U.S. domestic-content thresholds (e.g., 40 % U.S. content for clean-energy projects, rising to 55 % by 2027) and require U.S.-based production for semiconductor incentives. Although Canada and Mexico obtained limited NAFTA 2.0 waivers, many firms report deferring investments while awaiting clarity on Canadian eligibility[423]

Digital-Services Tax Dispute

In August 2024, the U.S. Trade Representative requested USMCA dispute-settlement consultations over Canada's 3 % Digital Services Tax, arguing it discriminates against U.S. tech firms such as Google, Facebook,

[421] Reuters. (2024, April 16). *Canada to push ahead with digital services tax on global tech firms starting in 2024*. Reuters. https://www.reuters.com/world/americas/canada-push-ahead-with-digital-services-tax-global-tech-firms-starting-2024-2024-04-16/
[422] Reuters. (2023, May 28). *U.S. review of China tariffs won't depend on trade breakthrough: Deputy USTR*. Reuters. https://www.reuters.com/markets/us/us-review-china-tariffs-wont-depend-trade-breakthrough-deputy-ustr-2023-05-28/
[423] *A sober second look*. (n.d.). https://economics.td.com/esg-a-sober-second-look

and Amazon. If no agreement is reached within 75 days, the U.S. may escalate to a formal panel—underscoring how non-tariff measures can become major flashpoints in bilateral trade[424]

Supply-Chain Reconfiguration

Just-in-time cross-border logistics—a hallmark of North American manufacturing—are under stress. Reuters reports firms like Hyundai have already shifted some production to the U.S. to avoid tariff risks, and industry analysts warn that prolonged U.S. policy uncertainty could prompt significant restructuring of Canadian supply chains and potential output contractions[425].

FDI and Corporate Investment Hesitancy

High trade exposure amplifies the impact of U.S. policy shifts on foreign direct investment. The Conference Board of Canada's Q1 2025 Business Confidence Index found that 40 % of Canadian firms cited "government policy unpredictability" among their top three barriers to planned capital spending, leading many to postpone or downsize expansions . Simultaneously, U.S. federal and state incentives—such as the CHIPS Act's 25 % investment tax credit—have drawn advanced-manufacturing FDI south of the border.

Inflation Pass-Through and Consumer Prices

Because the U.S. supplies a majority of Canada's machinery, electronics, and other intermediates, tariff-induced cost increases quickly feed into Canadian prices. The Bank of Canada's April 2025 Monetary Policy Report finds that each 1 % increase in effective U.S. tariff coverage adds up to 0.2 percentage points to Canada's CPI—highlighting the challenge of preserving price stability in the face of external shocks.

**Case Studies and Historical Precedents**

CUSMA (USMCA) Renegotiation

During the 2017–2020 renegotiations of NAFTA into the USMCA, Canada faced explicit threats of unilateral U.S. withdrawal if its demands—particularly on automotive rules of origin, intellectual-property protections, and labor standards—were not met. While CUSMA ultimately preserved duty-free trade for most goods, it raised the regional value-content requirement for automobiles from 62.5 % to 75 %, introduced a Rapid

[424] Reuters. (2024, August 30). *U.S. requests trade dispute consultations with Canada over new digital services tax*. Reuters. https://www.reuters.com/markets/us-requests-trade-dispute-consultations-with-canada-over-new-digital-services-2024-08-30/

[425] Reuters. (2025, April 24). *Trump trade war spreads more gloom across businesses*. Reuters. https://www.reuters.com/world/europe/trump-trade-war-spreads-more-gloom-across-businesses-2025-04-24/

Response Mechanism for labour disputes, and extended pharmaceutical patent and data-exclusivity terms[426]. Canadian auto-parts manufacturers have since incurred higher compliance costs to certify origin and wage-rate criteria, and dairy exporters conceded additional U.S. market access—underscoring how even a "win" can carry significant structural adjustments.

Softwood Lumber Dispute

Canada's forests are almost entirely publicly owned and managed—94% are on public land—while U.S. forests are mostly private. In Canada, prices charged for harvesting logs—called "stumpage fees"—are set by provincial governments.

Stumpage fees are meant to reflect the market price in contrast to the U.S. where pricing is set by the private market. U.S. lumber producers claim the stumpage fee system amounts to a government subsidy as it keeps the cost of production artificially low. This misunderstanding has repeatedly triggered countervailing and anti-dumping duties on imports.

Since 1982, there have been four official Softwood Lumber Agreements and multiple rounds of negotiations through NAFTA and the World Trade Organization to reduce or eliminate tariffs and resolve the dispute. Despite these attempts, including multiple rulings in Canada's favor, the issue persists. During this time Canadian industry has paid billions in additional costs exporting to the States; between 2017–2021 alone the U.S. collected approximately $5.6 billion in duties[427].

These cyclical tariff impositions have repeatedly chilled investment in British Columbia and Quebec forestry communities and injected chronic uncertainty into North American housing markets—even prompting Canadian firms to explore value-added downstream activities and new export destinations to mitigate recurring U.S. duties.

[426] EXECUTIVE OFFICE OF THE PRESIDENT & OFFICE of the UNITED STATES TRADE REPRESENTATIVE. (2024). REPORT TO CONGRESS ON THE OPERATION OF THE UNITED STATES-MEXICO-CANADA AGREEMENT WITH RESPECT TO TRADE IN AUTOMOTIVE GOODS. In *EXECUTIVE OFFICE OF THE PRESIDENT OFFICE of the UNITED STATES TRADE REPRESENTATIVE*. https://ustr.gov/sites/default/files/2024%20USMCA%20Autos%20Report%20to%20Congress_0.pdf

[427] Porter, G. (2023, May 31). *Turning the tables: How Canada can shake off the U.S. softwood lumber dispute and grow the sector*. RBC Wealth Management. https://ca.rbcwealthmanagement.com/graeme-porter/blog/4498201-Turning-the-Tables-How-Canada-can-shake-off-the-US-softwood-lumber-dispute-and-grow-the-sector

Dairy and Supply-Management Tensions

Canada's supply-management regime for dairy, eggs, and poultry granted U.S. producers 3.6 % tariff-free access under CUSMA—up from 3.25 % under the original TPP benchmark [428] [429]. Yet U.S. industry groups continue to challenge these quotas as unduly restrictive, filing periodic disputes under CUSMA's State-to-State mechanism. Each U.S. complaint raises the specter of mini-trade wars, threatening to erode Canada's domestic price stability and forcing Ottawa to balance domestic producer protections with the overarching goal of North American integration.

**Strategies and Policy Tools for Canada**

High-Level Diplomatic Engagement and Early-Warning Systems

Canada should leverage the 24 CUSMA committees and working groups—ranging from the Free Trade Commission down to specialized fora on rules of origin, customs, and sanitary measures—to detect and address looming U.S. procurement or tariff actions before they materialize. Regular ministerial or deputy-minister summits under the CUSMA governance structure can serve as "early-warning" platforms, allowing Canadian industries to prepare contingency plans in advance[430].

Domestic Tariff Consistency and Predictability

A transparent, rules-based approach to Canada's own tariff policy—including the use of WTO-compliant safeguard measures with predefined durations and phased roll-backs—helps bolster business confidence and reduces the risk of tit-for-tat escalation. The OECD warns that policy unpredictability is a growing threat to global trade and investment, and countries with stable, well-communicated tariff frameworks enjoy stronger resilience to external shocks[431].

[428] Dale, D., & MacCharles, T. (2018, October 1). Canada, U.S. reach new NAFTA deal. Toronto Star. https://www.thestar.com/news/world/canada-u-s-reach-new-nafta-deal/article_f7e46ad4-810d-5148-abd6-4ba8495b4366.html

[429] *Renegotiated trade deal benefits US dairy producers | Cornell Chronicle*. (2025, March 11). Cornell Chronicle. https://news.cornell.edu/stories/2025/03/renegotiated-trade-deal-benefits-us-dairy-producers

[430] Canada, G. A. (2024b, August 28). *CUSMA governance and committees*. GAC. https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cusma-aceum/gouvernance-comittee-comites.aspx?lang=eng

[431] World Economic Forum. (2025, March). *OECD warns trade fragmentation could slow growth: Other international trade news to read this month*. World Economic Forum. https://www.weforum.org/stories/2025/03/oecd-warns-trade-fragmentation-slow-growth-other-international-trade-news-to-read-this-month/

Sectoral Adjustment and Innovation

Targeted support programs—such as the federal Strategic Innovation Fund, which invests in R&D, scale-up grants, and advanced manufacturing projects—enable firms facing sudden U.S. cost disadvantages to pivot rapidly. Complementing financial support with AI-driven supply-chain optimization grants can further mitigate short-term disruptions and help maintain Canada's competitiveness in critical industries[432].

Trade Diversification Beyond the U.S.

While the United States remains Canada's top market, deepening ties with CPTPP partners, the EU via CETA, and emerging economies in the Indo-Pacific and Africa reduces over-reliance on any single partner's policy whims. Canada currently has 15 FTAs covering 51 markets—collectively accounting for over two-thirds of global GDP—and its Indo-Pacific Strategy identifies 40 key economies where growth and trade opportunities can be expanded [433] [434].

Public-Private Collaboration

Early and ongoing coordination between industry associations, provincial governments, and federal negotiators is crucial to secure carve-outs or equivalency waivers—particularly under U.S. "Buy American" expansions in infrastructure and clean-energy procurement. The Bank of Canada has called for enhanced cooperation with private-sector stakeholders to build resilience frameworks, while Canada's major banks urge Ottawa to streamline internal-trade barriers and regulatory reform to shore up competitiveness amid tariff risks [435] [436].

**Outlook: Balancing Collaboration with Self-Interest in North America**

The "America First" posture reflects the deep embedding of selective protectionism within U.S. policy, even as CUSMA's dispute-resolution and market-access provisions mitigate the risk of outright market closures.

---

[432] Government of Canada, Innovation, Science and Economic Development Canada, Minister of Small Business and Tourism & Minister of Small Business and Tourism. (2025, April 15). *The Strategic Innovation Fund*. https://ised-isde.canada.ca/site/strategic-innovation-fund/en

[433] Ng, M. (2025, March 22). *Canada's trade diversification: Delivering results for businesses and workers*. https://www.linkedin.com/pulse/canadas-trade-diversification-delivering-results-businesses-mary-ng-pdquc/

[434] Canada, G. A. (2024c, September 3). *Canada's Indo-Pacific strategy*. GAC. https://www.international.gc.ca/transparency-transparence/indo-pacific-indo-pacifique/index.aspx?lang=eng

[435] Reuters. (2024, December 16). *Bank of Canada: The world is now more prone to shocks than we'd like*. Reuters. https://www.reuters.com/markets/bank-canada-world-is-now-more-prone-shocks-than-wed-like-2024-12-16/

[436] Reuters. (2025, February 28). *Canada's big banks push reforms in Ottawa to confront tariff risks*. Reuters. https://www.reuters.com/business/finance/canadas-big-banks-push-reforms-ottawa-confront-tariff-risks-2025-02-28/

However, politically driven tariff threats—such as the postponed 25 % duties on broad Canadian and Mexican imports, and the cut in potash levies to 10 %—underscore that rules-based mechanisms can be overridden by domestic political shifts[437]. Periodic flare-ups over steel, dairy, and clean-energy incentives reveal the limits of purely legalistic solutions in an environment where industrial priorities and electoral cycles often dictate trade actions.

Nevertheless, the highly integrated nature of North American supply chains means that key U.S. stakeholders continue to champion open trade. The Business Roundtable notes that 13 million American jobs depend on trilateral trade, and it has urged full implementation of all USMCA commitments to sustain competitiveness and growth[438]. Similarly, the American Farm Bureau Federation calls for "commercially meaningful negotiations" with partners to safeguard agricultural livelihoods, and top auto-industry groups have jointly warned that new tariffs on parts would "scramble the global automotive supply chain" and drive up costs for U.S. consumers[439] [440].

By leveraging these private-sector alliances—and coupling them with flexible domestic policies in industrial transformation (e.g., clean-tech incentives), green-energy manufacturing, and advanced R&D—Canada can better absorb cyclical U.S. protectionist impulses. Maintaining robust diplomatic channels through CUSMA governance bodies, committing to a transparent, predictable tariff framework at home (per OECD recommendations), and accelerating multi-regional export diversification (each 5 % shift away from the U.S. could buffer GDP by 0.3 % annually) will allow Canada to sustain high levels of bilateral collaboration—even under the broader ethos of U.S. economic nationalism[441].

[437] Politico. (2025, March 13). *Klobuchar hits Trump on tariffs*. Politico. https://www.politico.com/news/2025/03/13/klobuchar-hits-trump-on-tariffs-00228013
[438] *Trade with Canada and Mexico | Business Roundtable*. (n.d.). https://www.businessroundtable.org/rebuilding-together/trade-international/trade-with-canada-and-mexico
[439] *Protecting domestic agriculture through trade policy*. (n.d.). American Farm Bureau Federation. https://www.fb.org/focus-on-agriculture/protecting-domestic-agriculture-through-trade-policy
[440] Politico. (n.d.). *Politico Influence*. Politico. https://www.politico.com/politicoinfluence/
[441] Bohl, E. (2018, October 5). *NAFTA renegotiation ends in gains for American farmers*. Missouri Farm Bureau. https://mofb.org/nafta-renegotiation-ends-in-gains-for-american-farmers/

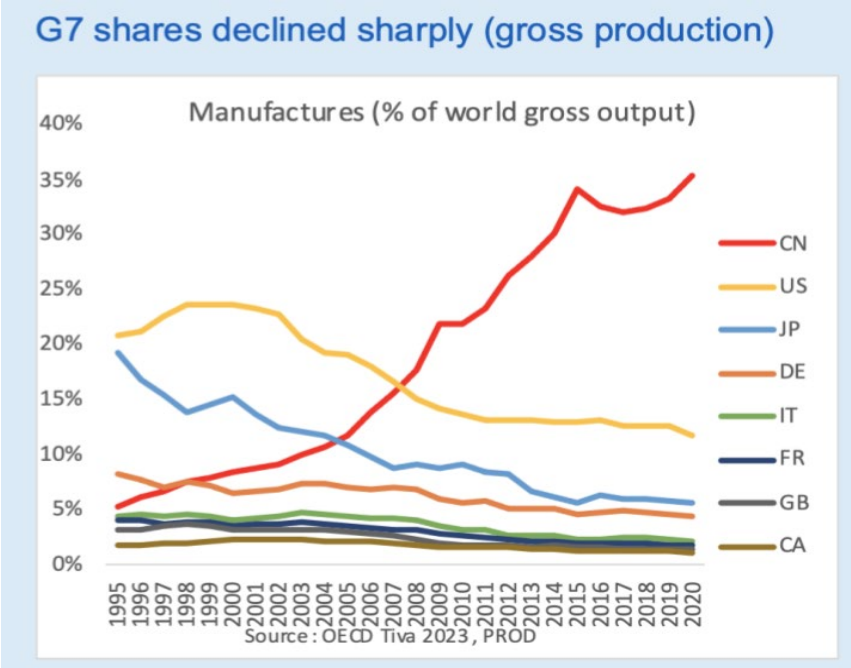
## 9.2 Asia-Pacific: The Rising Influence of China on Global Trade and Implications for Tariff-Driven Inflation

### China's Emergence as a Global Trade Powerhouse

Historic Growth Trajectory and WTO Accession

China formally joined the World Trade Organization on 11 December 2001, becoming its 143rd member and unlocking extensive market-access commitments that spurred rapid global integration[442]. By the mid-2010s, China had ascended to the world's largest goods exporter—its share of global manufacturing exports jumped from just 3 % in 1995 to 20 % by 2020, eclipsing many advanced economies[443]. Real GDP growth averaged over 9 % per year between 2001 and 2015, never dipping below 6.9 % and peaking at 14.2 % in 2007, according to World Bank data[444] [445].

**Exhibit 51. G7 Shares Declined Sharply**




[442] *China is the world's sole manufacturing superpower: A line sketch of the rise*. (2024, January 17). CEPR. https://cepr.org/voxeu/columns/china-worlds-sole-manufacturing-superpower-line-sketch-rise

[443] *China is the world's sole manufacturing superpower: A line sketch of the rise*. (2024b, January 17). CEPR. https://cepr.org/voxeu/columns/china-worlds-sole-manufacturing-superpower-line-sketch-rise

[444] World Bank. (n.d.). *GDP growth (annual %) - China*. World Bank. https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=CN

[445] *China GDP growth Rate 1961-2025 | MacroTrends*. (2025, May 31). https://www.macrotrends.net/global-metrics/countries/chn/china/gdp-growth-rate

Transition Toward Domestic Consumption and "Dual Circulation"

In 2020, Beijing codified its "dual circulation" strategy—prioritizing robust domestic demand ("internal circulation") alongside continued global engagement ("external circulation")[446]. This pivot aims to insulate China from external shocks by fostering self-sufficiency in sectors like semiconductors, batteries, and renewable-energy equipment, while still leveraging export markets[447]. For commodity exporters such as Canada, dual circulation both sustains demand for resources (e.g., potash, energy, critical minerals) and introduces the risk of non-tariff barriers and tighter standards in strategic industries—factors that can intensify cost-push inflation.

Rise of Chinese Multinationals

State-backed financing, industrial subsidies, and seamless integration of domestic AI and robotics have propelled firms like Huawei, BYD, Xiaomi, and Alibaba onto the global stage. Huawei posted US $95.5 billion in revenues in 2022—ranking 33rd on the Fortune China 500—while BYD climbed from 212th in 2023 to 143rd in 2024 on the Fortune Global 500, reflecting the breadth of Chinese value chains [448] [449]. Their global expansion prompts trading partners to weigh tariff or security-related restrictions on Chinese technology imports—measures that risk passing through into higher consumer prices in import-dependent economies.

**Mechanisms of Tariff-Driven Inflation: The China Factor**

Cost-Push Inflation from Supply-Chain Disruptions

Canada is deeply integrated into global value chains: in 2023, nearly 47 % of its merchandise imports were intermediate goods, and China alone accounted for roughly 10 % of total imports—particularly electronics components, machinery parts, and medical supplies [450] [451]. When tariff hikes, import quotas, or extended customs inspections interrupt these flows, landed costs immediately rise. An NBER study of U.S. data finds

[446] *The future of China – IMF F&D*. (2021, June 1). https://www.imf.org/external/pubs/ft/fandd/2021/06/the-future-of-china-dollar-huang-yao.htm
[447] Sbusch. (2022, October 24). *Dual circulation in China: A progress report - Atlantic Council*. Atlantic Council. https://www.atlanticcouncil.org/blogs/econographics/dual-circulation-in-china-a-progress-report/
[448] *2023 Fortune China 500 - Fortune China*. (n.d.). https://www.fortunechina.com/fortune500/c/2023-07/25/content_436290.htm
[449] Nancy. (n.d.). *How do 17 Fortune Global 500 companies showcase Guangdong's resilience? | GDToday*. https://www.newsgd.com/node_5c070fdd03/c808b46daa.shtml
[450] Canada, G. A. (2025c, May 6). *Canada's State of Trade 2024: Supply chains*. GAC. https://international.canada.ca/en/global-affairs/corporate/transparency/reports-publications/chief-economist/state-trade/2024
[451] Pangea, & Pangea. (2024, September 10). *Canada's top trading partners: export and import*. Pangea Network | Freight Forwarder Network. https://pangea-network.com/canadas-top-trading-partners-export-and-import/

that a 20 % tariff on Chinese electronics imports was associated with a 10 % increase in border prices within one year, implying a pass-through elasticity of about 0.5[452]. Bank of Canada staff analysis uses similar calibration, estimating that a 10 % tariff on key electronics could boost Canadian import prices in that category by 2–4 % within six to nine months under a faster pass-through scenario[453].

Commodity Price Cycles and Chinese Demand

China's industrial growth and stimulus-driven infrastructure spending have historically driven global commodity-price upswings, benefitted Canadian resource exporters but also strengthened the Loonie—a textbook "Dutch disease" effect that can undermine non-resource sectors. Conversely, Beijing's cyclical output cuts—such as steel-production curbs introduced in mid-2024—helped send iron-ore prices down by 15 % over six months, squeezing provincial revenues[454]. Moreover, China's own tariff and anti-dumping measures—seen in the 10–15 % duties on select U.S. agricultural and energy imports in early 2025—add further volatility, as each policy pivot reshapes global price dynamics[455].

Retaliatory Tariffs and Political Leverage

Beijing has repeatedly used tariff bans as leverage. In March 2019, China imposed a de facto ban on Canadian canola seed—worth C$2.7 billion in 2018—by cancelling registrations for major exporters, triggering a 70 % plunge in year-over-year seed-export volumes and raising domestic feed-and-oil prices [456] [457]. That action squeezed farm incomes and contributed to modest upticks in grocery-price inflation before the measures were lifted later that year. More recently, China's C$2.6 billion counter-tariff package

[452] Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. (2020). *Globalization and inflation: A new perspective on the Phillips curve* (NBER Working Paper No. 26396). National Bureau of Economic Research. https://www.nber.org/system/files/working_papers/w26396/w26396.pdf

[453] Bank of Canada. (2025e, January 29). *Evaluating the potential impacts of US tariffs*. https://www.bankofcanada.ca/publications/mpr/mpr-2025-01-29/in-focus-1/

[454] Svidler, A. (2025, February 24). *Commodity Market Outlook Q1 2025: Heightened uncertainty amid looming policy shifts and potential tariffs*. Euromonitor. https://www.euromonitor.com/article/commodity-market-outlook-q1-2025-heightened-uncertainty-amid-looming-policy-shifts-and-potential-tariffs

[455] Svidler, A. (2025b, February 24). *Commodity Market Outlook Q1 2025: Heightened uncertainty amid looming policy shifts and potential tariffs*. Euromonitor. https://www.euromonitor.com/article/commodity-market-outlook-q1-2025-heightened-uncertainty-amid-looming-policy-shifts-and-potential-tariffs

[456] World Grain. (2023, May 16). *China's ban on Canadian canola widens*. World Grain. https://www.world-grain.com/articles/11830-chinas-ban-on-canadian-canola-widens

[457] Vomiero, J. (2019, March 29). Canada's $27B canola market could lose $2.7B over China's import block. *Global News*. https://globalnews.ca/news/5108628/canada-canola-market-china-export-block/

on Canadian agri-food (rapeseed oil, pork, peas) in March 2025 again underscored how quickly such measures can transmit to consumer costs and sap producer confidence [458] [459].

**Emerging Asia-Pacific Trade Architectures: RCEP, CPTPP, and China's Possible Entry**

RCEP: The Regional Comprehensive Economic Partnership

The RCEP entered into force on 1 January 2022 and brings together the 10 ASEAN members plus China, Japan, South Korea, Australia, and New Zealand—creating the world's largest free-trade area by GDP and population, at roughly 30 % of global GDP and one-third of the world's people[460]. RCEP gradually eliminates tariffs on thousands of product categories, harmonizes rules of origin, and streamlines customs procedures—deepening China-centric value chains. As a non-member, Canada must watch closely: without parallel agreements, Canadian exporters risk higher trade costs and diminished market access in a rapidly integrating bloc.

CPTPP and Potential Chinese Accession

Canada is an original member of the 11-nation CPTPP, which provides preferential market access (zero tariffs on over 95 % of goods) to economies from Japan to Mexico. On 16 September 2021, China formally applied to join the pact—triggering debate over its state-subsidy practices, IP-protection standards, and labor provisions designed to uphold high governance benchmarks [461] [462]. Should Beijing accede, tariff reductions could further lower costs for Chinese imports but also intensify competition for Canadian exporters in Asia-Pacific markets, especially in agri-food, resources, and high-tech manufacturing.

[458] Reuters. (2025, March 20). *Canadian farmers face two-front trade war as China duties take effect*. Reuters. https://www.reuters.com/world/americas/canadian-farmers-face-two-front-trade-war-china-duties-take-effect-2025-03-20/
[459] Reuters. (2025, March 8). *China announces retaliatory tariffs on some Canada farm, food products*. Reuters. https://www.reuters.com/markets/china-announces-retaliatory-tariffs-some-canada-farm-food-products-2025-03-08/

[460] Seth, S. (2025, February 2). *Regional Comprehensive Economic Partnership (RCEP) Definition*. Investopedia. https://www.investopedia.com/terms/r/regional-comprehensive-economic-partnership-rcep.asp
[461] Reuters. (2021, September 16). *China officially applies to join CPTPP trade pact*. Reuters. https://www.reuters.com/world/china/china-officially-applies-join-cptpp-trade-pact-2021-09-16/
[462] Reuters. (2023, July 31). *Biggest hurdles for China's entry into Trans-Pacific trade pact are political*. Reuters. https://www.reuters.com/world/biggest-hurdles-china-entry-into-trans-pacific-trade-pact-are-political-2023-07-31/

Bilateral and Mini-Lateral Pacts

Beyond mega-deals, China has concluded 15 bilateral FTAs—with partners ranging from ASEAN to Australia, South Korea, Peru, and Pakistan—and is negotiating several more[463]. Coupled with Belt and Road Initiative financing, these agreements grant Chinese firms' preferential access to raw materials and infrastructure projects. This proliferation of tailored FTAs, backed by state-driven investment, contributes to episodic commodity booms and busts—as surges in Chinese demand or policy-driven export curbs ripple through global markets, amplifying both inflationary impulses and price collapses.

**The Belt and Road Initiative (BRI) in Greater Detail**

Infrastructure Diplomacy and Debt Concerns

Launched in 2013, China's Belt and Road Initiative has mobilized an estimated US $4–8 trillion in infrastructure finance—via policy banks, the Silk Road Fund, and the AIIB—across 60+ countries, funding roads, railways, ports, power plants, and digital networks [464] [465]. Proponents argue these projects enhance connectivity, but critics warn of "debt-trap diplomacy"—with several low-income countries reporting debt-service burdens exceeding 20 % of government revenues on BRI loans, according to CFR analysis[466]. For Canada, expanded corridors such as the China–Pakistan Economic Corridor (CPEC) to Gwadar threaten to divert Asia–Europe trade away from traditional North American shipping hubs (Vancouver, Montréal), potentially undercutting port throughput and related logistics services.

Resource-Backed Loans

Many BRI financing packages are structured as resource-backed loans, whereby host countries pledge commodities (oil, minerals, agricultural land) as collateral. The Silk Road Fund (capitalized at US $40 billion) and China Development Bank routinely tie repayment to resource concessions, creating "non-market" trade flows that can distort global commodity balances[467]. Such arrangements may undercut Canada's

[463] *WTO | Regional trade agreements*. (n.d.). https://rtais.wto.org/UI/PublicSearchByMemberResult.aspx?MemberCode=156&lang=1&redirect=1
[464] Wikipedia contributors. (2025, June 6). *Belt and Road initiative*. Wikipedia. https://en.wikipedia.org/wiki/Belt_and_Road_Initiative?utm_source=chatgpt.com#cite_note-ejinsight20160412-108
[465] McBride, J. (2023, February 3). China's massive belt and road initiative. *Council on Foreign Relations*. https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative
[466] McBride, J. (2023b, February 3). China's massive belt and road initiative. *Council on Foreign Relations*. https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative
[467] Lin, S. (2022). *China's public finance: Reforms, challenges, and options* (1st ed.). Cambridge University Press. https://doi.org/10.1017/9781009099028

open-market exporters by channeling raw materials directly into Chinese state-linked supply chains, reducing the volume available to third-country buyers and amplifying price volatility.

Potential Implications for Tariff-Driven Inflation

Improved BRI transport corridors can materially lower trade costs. ESCAP modelling shows that a one-day reduction in shipping time along BRI routes correlates with a 5.2 % increase in bilateral trade—implying transport-cost savings of up to 10 % in some corridors. These gains could partially offset the inflationary impact of Western-imposed tariffs (e.g., 10 %–25 % on Chinese imports), muting cost-push pressures in import-dependent economies like Canada. Conversely, if major corridors prioritize outbound Chinese shipments—diverting commodities such as iron ore or potash away from global markets—scarcity could drive up world prices, feeding through into higher input costs and broader inflation in Canada's resource-dependent provinces[468].

## Technological Rivalries, IP, and Cyber Dimensions

AI, Semiconductors, and Tech Export Controls

In October 2022, the U.S. Commerce Department's Bureau of Industry and Security (BIS) implemented export controls on advanced computing items—covering semiconductors, supercomputer components, and AI-specific hardware—to curb Chinese access to technologies deemed critical for national security (e.g., extreme-ultraviolet lithography masks, cryogenic quantum-computing components)[469]. In June 2024, Canada's Export Control List was similarly amended to require permits for quantum-computing equipment and advanced-semiconductor tools, aligning with allied measures but adding complexity for Canadian tech exporters seeking access to both U.S. and Chinese markets[470]. Should Chinese partners or joint

[468] Economic and Social Commission for Asia and the Pacific. (2021). *The Belt and Road initiative for seamless connectivity and sustainable development in the Asia-Pacific region*. https://www.unescap.org/sites/default/d8files/knowledge-products/BRI_report.pdf

[469] *Implementation of additional export controls: certain advanced computing items; supercomputer and semiconductor end use; updates and corrections*. (2023, October 25). Federal Register. https://www.federalregister.gov/documents/2023/10/25/2023-23055/implementation-of-additional-export-controls-certain-advanced-computing-items-supercomputer-and

[470] Canada, G. A. (2024b, June 19). *Notice to exporters No. 1129 – Amendment to the Export Control List: Quantum computing and advanced semiconductors*. GAC. https://www.international.gc.ca/trade-commerce/controls-controles/notices-avis/1129.aspx?lang=eng&

ventures face procurement restrictions, Canadian electronics, automotive-electronics, and robotics supply chains risk rerouting to alternative sources, raising costs and delaying roll-out of next-gen AI systems[471].

Intellectual Property Disputes

U.S. Section 301 investigations—most notably the March 2018 probe into China's "unreasonable and discriminatory" IP and forced-technology-transfer practices—have levied punitive tariffs (up to 25 %) on hundreds of Chinese goods, including semiconductors and telecom equipment[472]. Canada, under pressure from both free-trade and security constituencies, faces calls to adopt parallel restrictions or risk diverging from allied positions—and potentially incurring Chinese counter-measures. Such IP-driven tariffs quickly pass through to higher consumer prices: Axios reported that unofficial threats to skirt WTO dispute-resolution rules in IP cases could lead to broad duties on digital and hardware imports, embedding cost-push inflation across sectors[473].

Cybersecurity and Data Flows

Beyond goods, digital policies increasingly function as de facto trade barriers. Canada's 3 % Digital Services Tax (effective 2024) and proposals for cross-border data-flow levies mirror similar measures in the EU and India—and have prompted USTR consultations under USMCA's trade-remedy chapters[474]. Security-based bans on foreign telecom equipment (e.g., Huawei 5G gear) and moves to localize data storage under "data sovereignty" laws further alter cost structures for cloud-based services and AI platforms. The Conference Board of Canada warns that these non-tariff interventions can inflate digital-services costs, slow technology adoption, and contribute to service-sector inflation[475].

[471] Bank of Canada. (n.d.-c). *Rewired, recast and redirected: Global trade and implications for Canada*. https://www.bankofcanada.ca/2024/09/rewired-recast-and-redirected-global-trade-and-implications-for-canada/
[472] *Notice of Action pursuant to Section 301: China's Acts, policies, and practices related to technology transfer, intellectual property, and innovation*. (2018, August 16). Federal Register. https://www.federalregister.gov/documents/2018/08/16/2018-17709/notice-of-action-pursuant-to-section-301-chinas-acts-policies-and-practices-related-to-technology
[473] Timmons, H. (2018, March 19). *U.S. response to Chinese IP theft could skirt WTO rules*. Axios. https://www.axios.com/2018/03/19/us-response-to-chinese-ip-theft-could-skirt-wto-rules
[474] Pike, D. V. (2024, October 8). *The issues behind the U.S.-Canada Digital tax Clash* BDO. https://www.bdo.com/insights/tax/the-trade-and-tax-issues-behind-us-canada-digital-tax-clash
[475] Pike, D. V. (2024b, October 8). *The issues behind the U.S.-Canada Digital tax Clash* BDO. https://www.bdo.com/insights/tax/the-trade-and-tax-issues-behind-us-canada-digital-tax-clash

## Canada's Policy Responses and Potential Strategies

Enhanced Market Diversification in Asia

Canada's Indo-Pacific Strategy (2022) and ongoing ASEAN–Canada FTA negotiations seek to lessen dependence on China by deepening ties with Japan, South Korea, India, and Southeast Asia [476] [477]. From 2018 to 2022, Canadian merchandise trade with ASEAN climbed from C$25.1 billion to C$40.7 billion, demonstrating tangible progress in risk diversification[478]. Additional bilateral accords (e.g., CEPA with Indonesia, 2024) and CPTPP digital-chapter talks further reduce vulnerability to Sino-Canadian tariff disputes.

Targeted Export Credit and Insurance

Export Development Canada's trade credit insurance (covering up to 90 % of losses) and political-risk insurance help exporters absorb sudden tariff or regulatory shocks in volatile Asian markets[479]. Its Indo-Pacific campaign offers extended payment terms (up to 720 days), local market intelligence, and financing solutions—tools that stabilize export pricing and mitigate inflation pass-through at home[480].

Investment Screening and Reciprocity

Bill C-34 (Royal Assent March 22, 2024) modernized the Investment Canada Act, expanding national-security reviews to include state-owned enterprises and investments touching government-supported IP or personal-data assets[481]. Concurrently, March 2024 reforms granted ministers new powers for earlier, tougher reviews of sensitive FDI—aimed at ensuring reciprocal market access and guarding against asymmetric investment conditions[482].

---

[476] Asia Business Leaders Advisory Council (ABLAC). (2024). *Business resilience and partnerships in an increasingly turbulent world*. https://www.asiapacific.ca/sites/default/files/inline_files/ABLAC-2024_Summary_EN.pdf

[477] Plan your growth to the Indo-Pacific. (n.d.). *Plan your growth to the Indo-Pacific*. Plan Your Growth to the Indo-Pacific. https://www.edc.ca/en/campaign/export-indo-pacific.html

[478] Asia Pacific Foundation of Canada. (2024). *ABLAC 2024 summary report*. Asia Pacific Foundation of Canada. https://www.asiapacific.ca/sites/default/files/inline_files/ABLAC-2024_Summary_EN.pdf

[479] Canada, E. D. (2023, October 24). *How Canadian exporters will benefit from our Indo-Pacific strategy*. https://www.edc.ca/en/article/how-canadian-exporters-benefit-from-edc-indo-pacific-strategy.html

[480] Plan your growth to the Indo-Pacific. (n.d.-b). *Plan your growth to the Indo-Pacific*. Plan Your Growth to the Indo-Pacific. https://www.edc.ca/en/campaign/export-indo-pacific.html

[481] *Canada - Tightens the FDI screening regime | Investment Policy Monitor | UNCTAD Investment Policy Hub*. (n.d.). https://investmentpolicy.unctad.org/investment-policy-monitor/measures/4625/tightens-the-fdi-screening-regime

[482] Smith, D. (2024, March 27). *Canada introduces tougher security reviews for foreign investments*. Reuters. https://www.reuters.com/world/americas/canada-introduces-tougher-security-reviews-foreign-investments-2024-03-27/

Scenario Planning and Diplomatic Engagement

The Bank of Canada's January 2025 *In Focus* note models two trade-war scenarios—one with swift tariff resolution and modest GDP impact, another with prolonged conflict driving inflation above 3 % by 2026—informing government and industry contingency plans for supply-chain resilience [483] [484]. Canada also maintains active participation in WTO tariff-concession reviews and G20 trade-ministers' dialogues to anticipate and defuse emerging restrictions before they crystallize into inflation shocks.

**Potential Scenarios: Tariff Escalation and Sino–Canadian Inflationary Effects**

Stable Cooperation

Sino–Canadian relations remain largely cooperative, with no significant new tariffs. China continues to import Canadian resources—particularly energy, potash, and lumber—supporting moderate commodity-price growth rather than sharp swings. In this environment, Canada's headline CPI holds close to the 2 % target, with only routine, cyclical fluctuations driven by global commodity cycles (e.g., oil and grain) [485].

Targeted Disputes

Isolated frictions—such as SPS measures on canola, livestock, or advanced-tech inputs—can prompt short-lived tariffs against select Canadian exports. During China's 2019 canola ban, exports plunged by 70 %, farm incomes fell, and domestic feed prices rose marginally before prices normalized [486] [487]. Using its "playbook" framework, RBC Economics estimates that a narrow tariff on a handful of sectors can translate into a 0.2 – 0.4 percentage-point bump in headline CPI—reflecting partial pass-through of higher input and consumer-good prices [488] [489].

---

[483] Bank of Canada. (2025f, January 29). *Evaluating the potential impacts of US tariffs*. https://www.bankofcanada.ca/publications/mpr/mpr-2025-01-29/in-focus-1/

[484] Nguyen, T. (2025, April 16). *Bank of Canada holds interest rate at 2.75% as uncertainty mounts*. The Real Economy Blog. https://realeconomy.rsmus.com/bank-of-canada-holds-interest-rate-uncertainty-mounts/

[485] Rbc. (2025, May 23). RBC Canadian Inflation Watch. *RBC*. https://www.rbc.com/en/thought-leadership/economics/featured-insights/rbc-inflation-watch/

[486] TD Economics, & Sondhi, R. (2025). *Weekly bottom line*. https://economics.td.com/domains/economics.td.com/documents/reports/bottom-line/BottomLine_20250228.pdf

[487] *Questions? We've got answers: Addressing issues impacting the economic and financial outlook*. (n.d.). https://economics.td.com/ca-questions-answers

[488] *A U.S.-Canada trade shock now in play: First economic takeaways*. (n.d.-b). RBCCM. https://www.rbccm.com/en/story/story.page?dcr=templatedata%2Farticle%2Fstory%2Fdata%2F2025%2F02%2Fa-us-canada-trade-shock-now-in-play-first-economic-takeaways&

[489] Aidansmithedgell. (2025a, March 26). A playbook for how to measure a tariff shock in Canada. *RBC*. https://www.rbc.com/en/thought-leadership/economics/featured-insights/a-playbook-for-how-to-measure-a-tariff-shock-in-canada/

Multi-Regional Trade War

If Sino–U.S. tensions overflow into an all-out decoupling, allied economies may align tariff and non-tariff barriers, forcing Canada to endure broad supply-chain fragmentation. BMO Economics calculates that sustained 10–25 % tariffs across key sectors could reduce real GDP growth by up to 1.5 percentage points, bringing growth to roughly 0.5 % in 2025[490]. In parallel, the Bank of Canada warns that a prolonged global trade war could push inflation above 3 %, about 1 percentage point above its baseline trajectory, before returning to target as disputes resolve.

**Concluding Observations: Navigating a Sino-Centric Asia-Pacific**

China's economic ascendancy—and its strategic push across trade, technology, and finance—has reshaped the Asia-Pacific into both a linchpin of global growth and a nexus of tariff and non-tariff tensions. For Canada, the allure of Chinese demand, particularly for commodities and critical minerals, comes with the caveat that abrupt import restrictions or cost pass-through from Sino–U.S. disputes can spark inflationary episodes. As RBC Economics observes, in this multipolar environment "trade flows [are] centered more around geopolitical considerations than economics," making active risk management indispensable[491].

While CPTPP membership, ongoing ASEAN–Canada FTA negotiations, and bespoke bilateral deals reduce Canada's reliance on a single market, the gravitational pull of China's vast economy remains substantial. Meeting this challenge demands coordinated trade policies that preempt disruptive tariff cycles, rigorous FDI screening to ensure reciprocity, and robust support for Canadian innovation and competitiveness in high-tech sectors. By coupling prudent safeguards at home with flexible engagement abroad—and by anchoring monetary policy to weather external shocks—Canada can position itself to withstand the volatility of Sino-centric trade dynamics and contain the inflationary fallout when it arises.

[490] *Trade War impact: Take two*. (n.d.). https://economics.bmo.com/en/publications/detail/d052c9b7-4aac-4563-899a-97bfc3172a9d/
Smith, D. (2025, April 16). *Bank of Canada says U.S. tariffs could trigger deep recession*. Reuters. https://www.reuters.com/markets/bank-canada-says-us-tariffs-could-trigger-deep-recession-2025-04-16/

[491] RBC Economics & Thought Leadership. (n.d.). *Navigating 2024: Reset & Revival in a reshaping world*. https://thoughtleadership.rbc.com/wp-content/uploads/Nav-2024-Report-EN_V3.pdf

# Section 10. Strategies for Economic Resilience and Inclusive Growth

## 10.1 Policy Measures for Federal and Provincial Governments: Tariff Reforms, Targeted Subsidies, and Tax Relief

Canada's highly open economy—where trade accounted for 67.2 % of GDP in 2023—leaves it exposed to external tariff swings, abrupt supply-chain disruptions, and cost-push inflation transmitted through imports[492]. The Bank of Canada warns that unsolicited tariffs on imported goods raise business costs and filter through to higher consumer prices, complicating the central bank's inflation-control mandate[493].

Absent robust domestic buffers, vulnerable sectors can contract rapidly while households face spiraling living costs. To counteract these risks, governments at both the federal and provincial level must deploy a mix of tariff reforms, targeted subsidies, and tax relief to stabilize markets, support strategic industries, and contain inflation. However, these interventions must be precisely calibrated to avoid excessive deficits, misallocation of resources, or incentives that stifle innovation. Ensuring policy consistency and transparency, underpinned by rigorous, data-driven assessments of trade flows and price pressures, is essential to maintain investor and consumer confidence amid external shocks.

### Rethinking Canada's Tariff Framework: From Reactive to Strategic

Revisiting Bound Tariff Rates and Applied Tariff Gaps

Under WTO commitments, Canada's simple-average bound MFN tariff stood at 14.8 % in 2023, yet its applied rate averaged just 3.8 %, creating a 11 percentage-point gap that leaves room for ad hoc rate hikes[494]. Narrowing this gap—by lowering bound ceilings closer to applied levels—would harden Canada's rules-based environment, reducing the policy discretion to impose sudden duties. Still, preserving modest "escape clauses" for strategic sectors (e.g., advanced-technology inputs or sensitive agricultural products) would safeguard national security and allow targeted responses to severe import surges[495].

[492] Canada, G. A. (2025d, May 6). *Canada's State of Trade 2024: Supply chains*. GAC. https://international.canada.ca/en/global-affairs/corporate/transparency/reports-publications/chief-economist/state-trade/2024
[493] Bank of Canada. (n.d.-d). *Tariffs and trade uncertainty are hurting the Canadian economy*. https://www.bankofcanada.ca/2025/03/tariffs-and-trade-uncertainty-hurting-canadian-economy/
[494] *Canada*. (2023). https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/ca_e.pdf
[495] *Trump tariffs: a trade Canada doesn't want*. (n.d.). https://economics.td.com/ca-trump-tariffs

**Exhibit 52. Canada Tariffs and Imports: Summary and Duty Ranges**

**Canada**

**Part A.1 Tariffs and imports: Summary and duty ranges**

| Summary | | Total | Ag | Non-Ag | WTO member since | | 1995 |
|---|---|---|---|---|---|---|---|
| Simple average final bound | | 6.6 | 15.6 | 5.1 | Binding coverage: | Total | 99.7 |
| MFN applied | | | | | | Non-Ag | 99.7 |
| Simple average | 2023 | 3.8 | 14.8 | 2.0 | Ag: Tariff quotas (in %) | | 9.5 |
| Trade weighted average | 2023 | 3.4 | 14.4 | 2.2 | Ag: Special safeguards (in % ) | | 5.4 |
| Imports in billion US$ | 2022 | 514.3 | 47.3 | 467.0 | | | |

Selective Tariff Elimination on Inputs Essential to Competitiveness

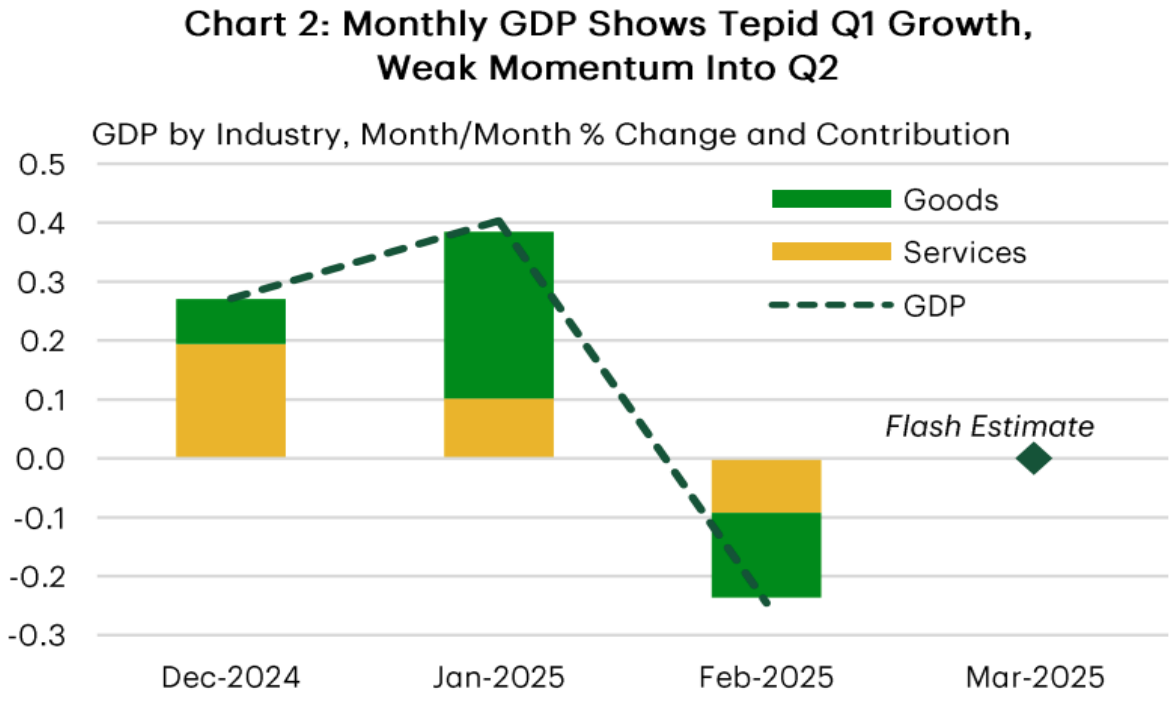
As highlighted in TD Economics' May 2, 2025, Weekly Bottom Line, Canadian manufacturers "advanced shipments ahead of tariff-related cost increases" in Q1 2025—boosting output temporarily but creating distortions and inventory gluts when duties land . To avoid this stop-go cycle, Ottawa could permanently eliminate tariffs on critical intermediates—from semiconductors and precision-machined components to green-energy parts and robotics modules[496].

- Cost-Stabilization: Abolishing duties on these inputs would remove the incentive to front-load imports, smoothing out demand and preventing sudden spikes in landed costs that feed into consumer prices.
- Inflation Mitigation: Modeling based on TD's playbook suggests that zero-rating tariffs on a targeted basket of high-value-added inputs could shave 0.1–0.2 percentage points off headline CPI by reducing supply-chain cost pass-through.
- Investment Signal: A clear, tariff-free regime for essential inputs would bolster confidence for capital-intensive projects—encouraging firms to reinvest in advanced manufacturing rather than rushing shipments to beat looming duties.

By aligning tariff policy with the forward-looking needs of Canada's evolving industrial base, policymakers can help firms maintain steady production rhythms and contain the inflationary fallout of external trade shocks.

[496] TD Economics, & Solovieva, M. (2025). *Weekly bottom line*. https://economics.td.com/domains/economics.td.com/documents/reports/bottom-line/BottomLine_20250502.pdf

**Exhibit 53. Monthly GDP Shows Tepid Q1 Growth, Weak Momentum into Q2.**




Harmonized Duty Exemptions for SMEs and Startups

Small and medium-sized enterprises often lack the scale to absorb sudden tariff increases. Canada could draw on the Indonesian experience—where a time-limited duty-exemption scheme for SMEs led to a 193 % jump in exports and a 382 % rise in imports in the first two years following implementation, before effects tapered off. A similar Canadian program—tying eligibility to export-growth or R&D-investment milestones—would help young firms navigate unforeseen trade barriers, support their global-market entry, and sustain innovation dynamism. By limiting the rebate window (e.g., three years) and monitoring performance metrics, Ottawa can both shield SMEs from cost shocks and encourage them to build lasting export capabilities[497].

Advance Warning and Consultation Mechanisms

Instituting a permanent consultative forum—bringing together federal and provincial trade ministries, industry associations, consumer representatives, and labor unions—would enable real-time monitoring of

[497] NABILA, A. (2023). Empowering SMEs export by export promotion policy: The case of duty exemption incentives for SMEs in Indonesia. In Professor Yoon, Chungeun, Professor Park, Sungho, & Professor Shadikhodjaev, Sherzod, *KDI School of Public Policy and Management* [Thesis]. https://archives.kdischool.ac.kr/bitstream/11125/51540/1/Empowering%20SMEs%20export%20by%20export%20promotion%20policy.pdf

import dependencies and inflation-risk metrics. One recommendation is to implement early-warning systems to preemptively identify sectors vulnerable to tariff shocks, allowing policymakers to deploy mitigations (e.g., temporary relief measures) before abrupt duties take effect.

**Targeted Subsidies to Absorb or Mitigate Tariff Shocks**

Export Stability and Adjustment Funds

Canada already uses income-safeguarding schemes such as AgriStability under the Sustainable Canadian Agricultural Partnership, which protects producers against large income declines triggered by price shocks or increased costs[498]. Building on this model, an Export Stability Fund would automatically disburse direct compensation (e.g. per-tonne payments) whenever a major trading partner imposes sudden duties or phytosanitary bans. A recent example: on March 20, 2025, China slapped a 100 percent tariff on Canadian canola oil and meal, immediately threatening farmgate revenues and processing capacity, and prompting industry calls for federal compensation akin to a targeted stability fund[499].

Sectoral Bridging Loans and Loan Guarantees

To smooth short-term cash-flow interruptions from spiking input tariffs, Canada could extend bridge financing (short-term loans repayable upon receipt of later revenues) through institutions like Desjardins, which already offers sub-year loans to cover temporary cash-flow needs. Simultaneously, the Canada Small Business Financing Program (CSBFP) guarantees up to 85 percent of loans to SMEs—reducing lender risk and keeping interest rates low during tariff-driven cost surges[500].

Green and Value-Added Incentives

Recognizing the fragility of raw-commodity exports, federal and provincial governments have begun pivoting toward value-added processing incentives. Under Budget 2022's Canadian Critical Minerals Strategy, nearly $4 billion was earmarked to develop midstream battery-materials refining, helping move product from mine to processor and reducing raw-export exposure [501]. Similar credits (e.g. refundable

[498] Canada, A. a. A. (2025a, May 23). *AgriStability: Step 1. What this program offers*. agriculture.canada.ca. https://agriculture.canada.ca/en/programs/agristability

[499] Traweger, C. (2025, March 9). *Canola industry responds to imposition of Chinese tariffs on Canadian canola meal and oil*. Canola Council of Canada. https://www.canolacouncil.org/news/canola-industry-responds-to-imposition-of-chinese-tariffs-on-canadian-canola-meal-and-oil/

[500] Government of Canada, Innovation, Science and Economic Development Canada, Office of the Deputy Minister, Small Business, Tourism and Marketplace Services & Small Business Tourism and Marketplace Services. (2024, April 29). *Canada Small Business Financing Program*. https://ised-isde.canada.ca/site/canada-small-business-financing-program/en

[501] Service Canada. (2023b, September 12). *The Canadian Critical Minerals Strategy*. Canada.ca. https://www.canada.ca/en/campaign/critical-minerals-in-canada/canadian-critical-minerals-strategy.html

Clean Technology Manufacturing Investment Tax Credits) reward domestic crushing of canola seed, advanced lumber product manufacturing, or battery-grade nickel refining—thereby building internal buffers against external tariff volatility.

SME-Specific Relief and Consulting Programs

Smaller firms often lack the expertise to reclassify tariff codes, diversify sourcing, or pivot to e-commerce. The CanExport SMEs program (offered by Global Affairs Canada) provides tailored consulting grants for market-entry strategy, tariff classification optimization, and digital trade solutions—helping SMEs reorient when a key partner imposes harmful duties[502].

**Tax Relief Approaches for Inflation Control**

Temporary Reductions in Consumption Taxes for Essential Goods

During episodes of tariff-induced cost spikes on essentials (e.g., fuel, food, medical supplies), the federal and provincial governments can enact time-limited GST/HST or PST abatements. A recent example is Bill C-78, which introduced a two-month GST/HST "holiday" on qualifying goods (groceries, restaurant meals, children's clothing, toys) from December 14, 2024, to February 15, 2025, projected to reduce federal revenues by $1.5 billion in 2024–25[503]. Targeting only essential items and capping the duration preserves revenue neutrality over the fiscal year and shields low-income households from the largest price shocks.

Selective Tax Deductions for Tariff-Impacted Industries

To cushion firms facing sharply higher input costs, the government could legislate an "input-cost tariff deduction"—allowing affected companies to deduct a greater share of import duty expenses than under standard rules. Conceptually similar to border adjustment regimes discussed in the trade-policy literature, a tariff credit framework would require firms to document import expenditures and duties paid, then claim

[502] Trade Commissioner Service. (2025, May 30). *CanExport SMEs*. Tradecommissioner.gc.ca. https://www.tradecommissioner.gc.ca/en/our-solutions/funding-financing-international-business/canexport-smes.html
[503] Stanton, J., & Stanton, J. (2024, December 9). *Implementing a two-month Goods and Services Tax/Harmonized Sales Tax (GST/HST) break for groceries and holiday essentials*. Office of the Parliamentary Budget Officer. https://www.pbo-dpb.ca/en/publications/LEG-2425-014-S--implementing-two-month-goods-services-tax-harmonized-sales-tax-gst-hst-break-groceries-holiday-essen--mise-uvre-un-conge-deux-mois-taxe-produits-services-taxe-vente-harmonisee-tps-tvh-articles-epicerie-

a proportional offset against corporate tax liabilities. Performance-based eligibility criteria (e.g., R&D or capital investment thresholds) could ensure the measure drives adaptation rather than rent-seeking [504] [505].

Indexed Tax Credits for Low-Income Households

Tariff-driven inflation disproportionately burdens lower-income families. Building on the existing, income-tested GST credit, legislation could implement "smart indexation": automatic upward adjustments to credit amounts whenever the CPI—including weights for tariff-sensitive goods—rises beyond target levels. Canada has precedent for rapid inflation responses: in September 2022, the government doubled the quarterly GST credit for six months under the Cost-of-Living Relief Acts I & II [506]. More granular indexation tied to a tariff-weighted price index would sharpen relief timing and magnitude.

Duty Drawback Expansion and Modernization

Canada's Drawback Program already refunds duties on imported inputs that are later exported (either unchanged or as part of production). However, uptake is limited by paperwork and processing delays. An automated drawback system, integrated with CBSA and CRA digital platforms, could streamline claims, reduce average refund lag from month to week, and lower administrative costs [507]. Faster duty recovery helps exporters avoid embedding tariff costs into price structures—both domestically and abroad.

**Federal-Provincial Synergy and Long-Term Institutional Frameworks**

A Coordinated Tariff and Inflation Monitoring Body

The Conference Board of Canada's Tariff Tracker demonstrates the value of a centralized dashboard capturing tariff actions, retaliatory measures, and estimated pass-through to domestic prices[508]. Likewise, the Bank of Canada's recent analysis on "Navigating Tariff Uncertainty" underscores the need for real-time data on shipping disruptions, tariff announcements, and cost-pass-through rates to inform monetary and fiscal policy decisions [509]. A permanent Tariff-Inflation Monitoring Council—bringing together the

[504] Canada Revenue Agency. (2025b, May 6). *Tax relief and support for businesses in response to tariffs*. Canada.ca. https://www.canada.ca/en/revenue-agency/services/support-difficult-situations/tax-relief-businesses-tariffs.html
[505] Looney, A., & Patel, E. (2025, February 20). How Congress can turn tariff lemons into lemonade: A border-adjustment tax. *Brookings*. https://www.brookings.edu/articles/how-congress-can-turn-tariff-lemons-into-lemonade-a-border-adjustment-tax/
[506] Béland, D., Dinan, S., Rocco, P., & Waddan, A. (2023). Social policy responses to rising inflation in Canada and the United States. *Social Policy and Society*, *23*(1), 163–175. https://doi.org/10.1017/s1474746423000222
[507] Government of Canada, Canada Border Services Agency. (2025, April 3). *Trade incentives programs - Drawback Program*. https://www.cbsa-asfc.gc.ca/import/ddr-red/drawback-eng.html
[508] *Tariff Tracker*. (n.d.). The Conference Board. https://www.conference-board.org/publications/tariff-tracker
[509] Bank of Canada. (n.d.-c). *Navigating tariff uncertainty*. https://www.bankofcanada.ca/2025/03/navigating-tariff-uncertainty/

Department of Finance, Global Affairs Canada, provincial trade/finance ministries, the Bank of Canada, and industry associations—could publish monthly bulletins, flagging emerging inflationary pressures or capacity bottlenecks before they become entrenched.

Intergovernmental Cost-Sharing for SME Support

Provincial SMEs often lack the scale or expertise to weather sudden tariff shocks. A joint federal-provincial fund, modeled on Ontario's cost-sharing grants for export-readiness (e.g., the Ontario Exporter Fund and Export Market Access program, which covers up to 50 percent of eligible international sales development costs), could underwrite bridging loans, business transformation grants, or digital-trade consulting for affected SMEs[510]. Matching contributions—50 percent federal, 50 percent provincial—would ensure that smaller provinces or regions receive the same level of support, while a provincial matching formula could be scaled by population or GDP share.

Sovereign or Provincial Stabilization Funds

Building on resource-revenue trusts like Alberta's Heritage Savings Trust Fund—established in 1976 to "save for the future, strengthen or diversify the economy, and improve quality of life"—the federal government could earmark a portion of tariff-collected revenues into a Tariff Stabilization Fund. TD Economics notes that many peak tariff episodes last roughly six months, after which relief funds could be deployed to offset budgetary pressure and smooth ad hoc spending[511]. Across multiple cycles, tapping these reserves during tariff waves would reduce the "fiscal whiplash" of one-off relief measures, while preserving the ability to revert to normal revenues when trade conditions stabilize. Lessons from IMF-backed stabilization funds emphasize the importance of clear rules for deposits (e.g., when trade volumes exceed trend) and withdrawals (e.g., when tariff-induced inflation exceeds 2 percent) to maintain discipline and transparency[512].

Anchor Legislation for Transparent Tariff Policy

Canada's existing Special Import Measures Act (SIMA, R.S.C. 1985, c. S-15) already embeds WTO-consistent safeguard measures, but does not spell out detailed timelines for consultations or rule-bound provisional

[510] Regional Business Centre. (2019). *The funding handbook*. https://regionalbusiness.ca/wp-content/uploads/2021/03/RBC-Funding-Handbook-January-20202.pdf
[511] *Markets react to trade tariffs - by TD Wealth Chief Investment Office*. (n.d.). TD Stories. https://stories.td.com/us/en/article/markets-react-to-trade-tariffs
[512] Davis, J. M. (2003). Stabilization and savings funds for nonrenewable resources: Experience and fiscal policy implications. In *The role of fiscal policy in the stabilization of oil-producing countries* (pp. 203-234). International Monetary Fund. https://www.elibrary.imf.org/display/book/9781589061750/ch011.xml

duties[513]. To strengthen transparency and predictability, the federal government's 2025 platform proposes to modernize SIMA—effectively creating a Trade Remedies Modernization Act—with express statutory deadlines for each stage of a safeguard inquiry, including data-collection, stakeholder consultations, and final determinations[514].

Under one set of proposed amendments, the Canadian International Trade Tribunal would be required to collect import-volume and pricing data for 90 days before initiating an investigation, and to provide exporting governments with 30 days' notice ahead of any provisional or definitive duty order[515]. Meanwhile, safeguard orders would be strictly time-bound—limited to a maximum of four years (including up to 200 days of provisional duty), with a mandatory mid-term review after two years and a single one-time extension of up to eight years total[516]. Embedding these requirements in primary legislation would bar "sudden unilateral hikes" and ensure investors and producers have clear, advance notice of any tariff-related actions.

**Case Illustrations: Provincial Innovation in Tariff and Subsidy Policy**

Quebec's Aluminum Industry Support (2019)

When the U.S. imposed a 10 percent Section 232 tariff on Canadian aluminum in mid-2018, Quebec's government moved quickly to shore up its smelting sector. On June 18, 2019, it announced a $10 million repayable contribution to Alcoa's Deschambault-Grondines smelter, alongside export credit insurance from Export Development Canada to smooth short-term cash-flow needs [517] [518]. At the same time, Canada Economic Development for Québec Regions provided $600 000 in non-repayable funds to AluQuébec (the province's aluminum cluster) to help coordinate supply-chain resilience and maintain processing capacity

[513] Legislative Services Branch. (2022, June 23). *Consolidated federal laws of Canada, Special Import Measures Act*. https://laws-lois.justice.gc.ca/eng/acts/s-15/

[514] authorsalutation:, authorfirstname:EY, authorlastname:Canada, authorjobtitle:Multidisciplinary professional services organization, authorurl:https://www.ey.com/en_ca/people/ey. (n.d.). *Liberal Party's 2025 election platform tax measures* . https://www.ey.com/en_ca/technical/tax/tax-alerts/2025/tax-alert-2025-no-27

[515] Believeco. (2024, September 16). *Canada's trade remedy system – Consultation*. Miller Thomson. https://www.millerthomson.com/en/insights/global-trade-customs/canadas-trade-remedy-system-consultation/

[516] Believeco. (2024b, September 16). *Canada's trade remedy system – Consultation*. Miller Thomson. https://www.millerthomson.com/en/insights/global-trade-customs/canadas-trade-remedy-system-consultation/

[517] Innovation, Science and Economic Development Canada. (2019, June 19). Government of Canada announces support for the aluminum sector in Quebec. *Canada.ca*. https://www.canada.ca/en/innovation-science-economic-development/news/2019/06/government-of-canada-announces-support-for-the-aluminum-sector-in-quebec.html

[518] Canada Economic Development for Quebec Regions. (2022, September 27). AluQuébec, Quebec's aluminum industrial cluster, will be able to pursue the implementation of its action plan. *Canada.ca*. https://www.canada.ca/en/economic-development-quebec-regions/news/2019/03/aluquebec-quebecs-aluminum-industrial-cluster-will-be-able-to-pursue-the-implementation-of-its-action-plan.html

through the tariff episode[519]. Although precise estimates of downstream price effects vary, RBC Economics notes that U.S. aluminum duties touching roughly $24 billion of Canadian exports would have risked significant cost-push pressures—provincial support thus helped blunt broader inflationary spill-overs to Québec's manufacturing base[520].

Ontario's Automotive Transition Grants

Under Ontario's Driving Prosperity Plan (2019), the province committed to a 10-year, $3.8 billion auto competitiveness strategy, including Advanced Manufacturing Supply Chain Supports to retool existing plants for hybrid and electric vehicle (EV) production[521]. A concrete example: in late 2021, Honda Canada received a Strategic Innovation Fund award to retool its Alliston plant for EV powertrains, covering up to 15 percent of eligible capital expenditures[522]. By offsetting these retrofit costs, Ontario smoothed the transition for assemblers, preventing tariff-induced price hikes on Canadian-made vehicles if U.S. content rules under CUSMA were tightened.

British Columbia Food Security Rebates

Beginning September 17, 2020, B.C. introduced a temporary PST rebate on qualifying machinery and equipment—including greenhouse glazing, irrigation systems, and farm-purpose machinery—purchased or leased through March 31, 2022, to reduce input costs for local growers and stabilize produce prices[523]. Parallel to the farmers' equipment exemption (which waives PST on farm-use goods), these capital-asset rebates lowered cost-push inflation for fruit and vegetable producers, serving as a blueprint for short-term tax relief measures that protect food security amid global commodity volatility[524].

[519] Canada Economic Development for Quebec Regions. (2022b, September 27). AluQuébec, Quebec's aluminum industrial cluster, will be able to pursue the implementation of its action plan. *Canada.ca*. https://www.canada.ca/en/economic-development-quebec-regions/news/2019/03/aluquebec-quebecs-aluminum-industrial-cluster-will-be-able-to-pursue-the-implementation-of-its-action-plan.html

[520] Aidansmithedgell. (2025b, March 26). How U.S. steel and aluminum tariffs would impact Canada's economy. *RBC*. https://www.rbc.com/en/thought-leadership/economics/featured-insights/how-u-s-steel-and-aluminum-tariffs-would-impact-canadas-economy/

[521] Fedeli, V. (2019). *2019 ONTARIO BUDGET PROTECTING WHAT MATTERS MOST*. Queen's Printer for Ontario. https://budget.ontario.ca/pdf/2019/2019-ontario-budget-en.pdf

[522] *Grants and contributions*. (n.d.). https://search.open.canada.ca/grants/record/ic%2C033-2021-2022-Q4-815750%2Ccurrent?amendments

[523] Division, R. (2025, April 24). *B.C. PST rebate on select machinery and equipment - Province of British Columbia*. https://www2.gov.bc.ca/gov/content/taxes/sales-taxes/pst/rebate-machinery-equipment

[524] Ministry of Finance. (2013). *Provincial Sales Tax (PST) bulletin*. https://www2.gov.bc.ca/assets/gov/taxes/sales-taxes/publications/pst-101-farmers.pdf

**Conclusion: Building an Adaptive, Stable Policy Framework**

Modernizing Canada's tariff regime, deploying well-structured subsidies, and offering targeted tax relief are essential policy levers to counter tariff-induced inflation and shore up an open, trade-dependent economy. As the Bank of Canada highlights, elevated trade uncertainty and tariffs have become key drivers of price pressures and growth risks, requiring monetary and fiscal authorities to coordinate more closely than ever[525].

Synergy across federal and provincial governments—in the form of consistent data-gathering, cross-jurisdictional policy design, and swift legislative or fiscal interventions—helps ensure that external shocks (whether U.S. "America First" escalations or Asia-Pacific trade tensions) do not derail domestic price stability or employment levels. TD Economics emphasizes that the tariff landscape is shifting almost daily, underscoring the need for adaptive, rules-based frameworks capable of rapid response without sacrificing transparency or investor confidence[526].

By codifying stable tariff practices in primary legislation, establishing bridging and innovation funds, and adopting measurable, time-bound tax relief instruments, Canada can preserve productive capacity, shield vital sectors from abrupt cost surges, and protect consumers from the harshest price spikes. Such an integrated approach not only addresses cyclical price shocks but also lays the groundwork for long-term competitiveness and resilience amid evolving global trade realignments[527].

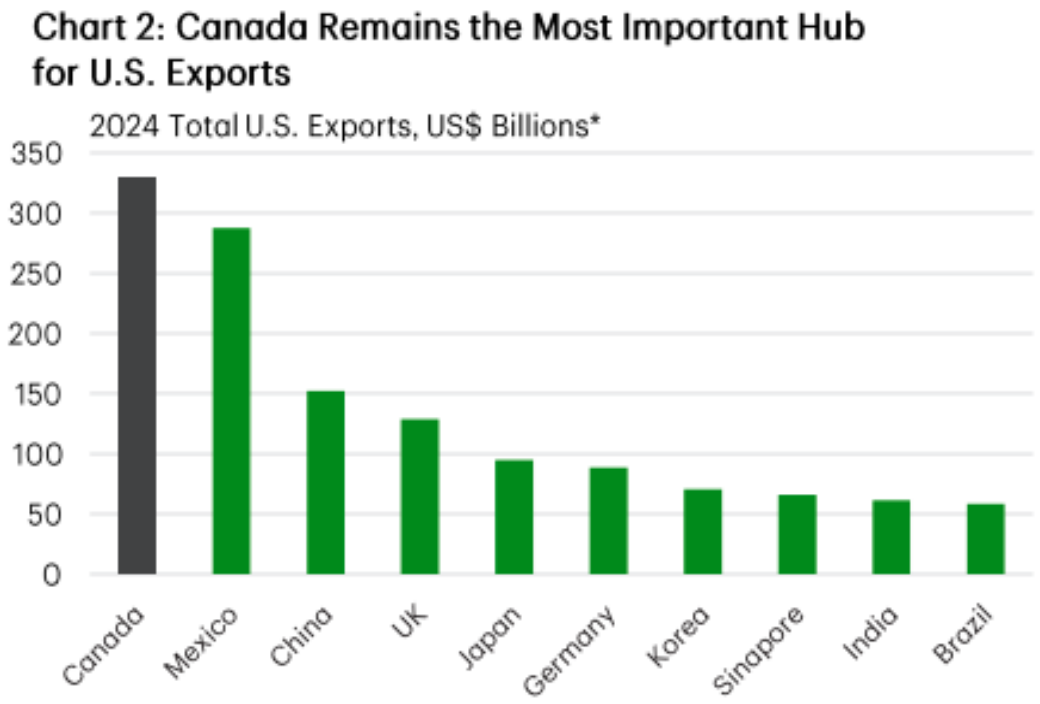
[525] Bank of Canada. (2025i, April 16). *Monetary Policy Report—April 2025*. https://www.bankofcanada.ca/publications/mpr/mpr-2025-04-16/
[526] *Tariff policy and whiplash weaken U.S. growth outlook*. (n.d.). https://economics.td.com/us-tariff-policy-growth-outlook
[527] Mukherjee, P., & Ljunggren, D. (2025, March 20). Bank of Canada could change tack, give range of projections. *Reuters*. https://www.reuters.com/markets/bank-canada-could-change-tack-give-range-projections-2025-03-20/

## 10.2 Industry and Business Strategies: Diversification of Supply Chains, Innovation, and Productivity Improvements

Rationale: Why Industries Must Adapt Proactively

Canadian firms operate in a highly integrated trade environment—75 percent of goods exports go to the U.S.—where sudden tariff actions translate almost immediately into supply-chain disruptions and cost pressures [528] [529]. Indeed, in April 2025 the S&P Global Canada Manufacturing PMI fell to 45.3—the lowest since May 2020—largely because of uncertainty over U.S. trade policy, forcing firms to delay orders and hoard inventory to guard against abrupt tariff hikes[530]. Waiting for reactive measures leaves companies exposed to steep cost spikes, bottlenecks, and lost competitiveness; a forward-looking resiliency strategy is therefore essential.

**Exhibit 54. Canada Remains the Most Important Hub for US Exports.**




[528] Ercolao, M., Foran, A., & TD Economics. (2025). *Setting the record straight on Canada-U.S. trade*. https://www.economics.td.com

[529] Talukder, S. (2025a, May 9). Global trade is being unsettled. Here's how Canada can thrive in the new economic order. *RBC*. https://www.rbc.com/en/thought-leadership/the-trade-hub/global-trade-is-being-unsettled-heres-how-canada-can-thrive-in-the-new-economic-order/#:~:text=Each%20country%20is%20each%20other's,goods%20exports%20destined%20for%20Canada.

[530] Smith, F. (2025, May 1). Canadian factory PMI hits near five-year low on tariff uncertainty. *Reuters*. https://www.reuters.com/world/americas/canadian-factory-pmi-hits-near-five-year-low-tariff-uncertainty-2025-05-01/

Dangers of Single-Source Reliance

The COVID-19 pandemic illustrated the peril of relying on a single supplier or region: shortages in personal protective equipment, semiconductors, and pharmaceuticals quickly translated into double-digit inflation in those sectors[531]. Bank of Canada analysis shows that when a tightly concentrated supply chain is disrupted—whether by a tariff barrier or a port closure—producer price indexes spike, then cascade into consumer prices as firms scramble to find alternatives[532]. Diversifying suppliers across geographies and building buffer inventories are key to mitigating these risks.

Shifting Consumer and Investor Expectations

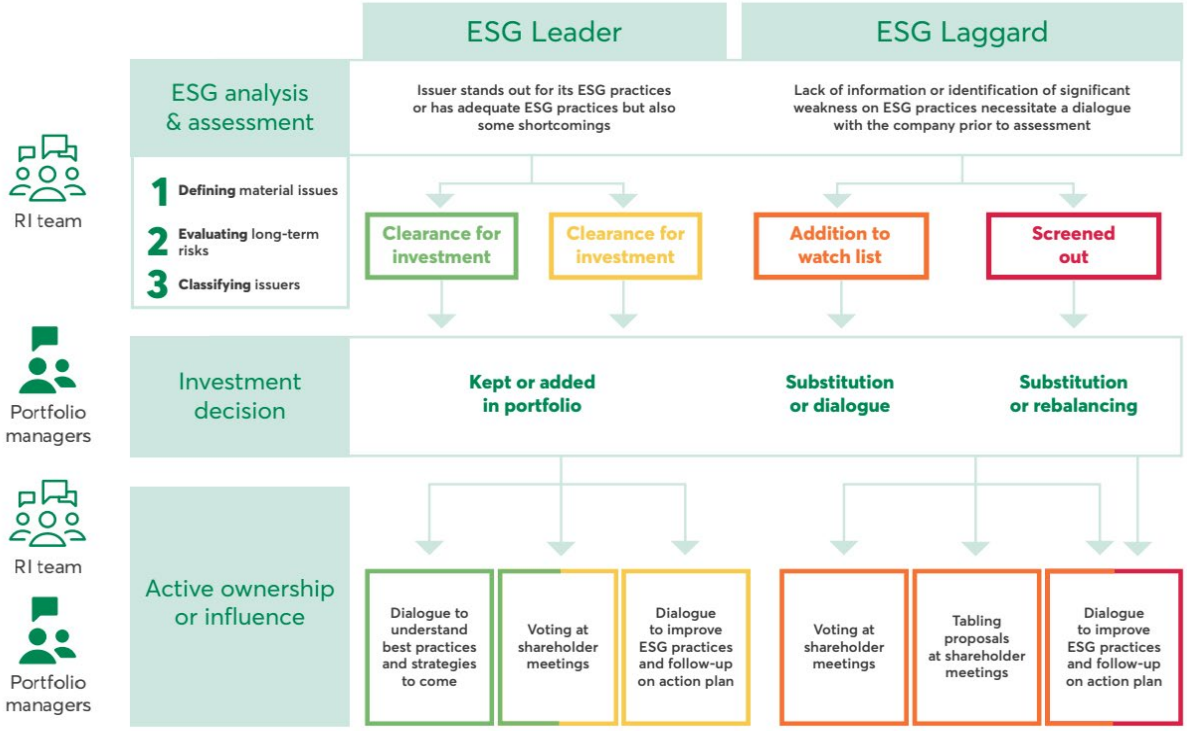
Investors and customers now routinely evaluate firms on resilience metrics—ethical sourcing, supply-chain transparency, and cost-management protocols. Desjardins' 2023 Responsible Investment report notes that companies with clear supply-chain diversification plans and ESG risk disclosures command price-to-earnings premiums of up to 12 percent compared to peers lacking such frameworks[533]. Proactive adaptation thus not only safeguards operations during tariff shocks but also enhances access to capital and brand reputation.

Competition from Innovators

Agile competitors that can quickly reconfigure logistics or deploy automation gain an edge in inflationary episodes. For instance, several North American auto suppliers responded to looming U.S. parts tariffs by accelerating shipments in late 2024—locking in lower duties—and by establishing micro-fulfillment centers closer to assembly plants, cutting lead times by 30 percent and capturing share from slower rivals[534]. Firms that embed continuous improvement and digital-supply-chain tools are better positioned to outpace incumbents when tariff regimes shift unexpectedly.

[531] Bounajm, F., Roc, J. G., Junior, & Zhang, Y. (2024). Sources of pandemic-era inflation in Canada: An application of the Bernanke and Blanchard model. *Bank of Canada*. https://doi.org/10.34989/san-2024-13
[532] Smith, F. (2025, May 1). Canadian factory PMI hits near five-year low on tariff uncertainty. *Reuters*. https://www.reuters.com/world/americas/canadian-factory-pmi-hits-near-five-year-low-tariff-uncertainty-2025-05-01/
[533] Desjardins Global Asset Management Inc., & Richard, N. (2023). *Responsible Investment Activity Report 2023*. https://www.desjardins.com/content/dam/pdf/en/business/investment/global-asset-management/2023-responsible-investment-activity-report.pdf
[534] Marshall, A. (2025, February 6). Tariff uncertainty taxes the auto industry. *WIRED*. https://www.wired.com/story/tariff-uncertainty-taxes-the-auto-industry/

**Exhibit 55. ESG Analysis and Investment Process.**




## Diversification of Supply Chains: Strategies and Best Practices

True resilience requires distributing sourcing and production across multiple geographies, suppliers, and transport modes. While this can raise near-term overheads—through smaller lot sizes, multi-site coordination, or more complex logistics—the payoff is a marked reduction in vulnerability to sudden tariff spikes or shipping disruptions[535].

### Multi-Regional Sourcing

Historically, China's low costs attracted a lion's share of manufacturing. However, the U.S.–China trade war and pandemic lockdowns exposed the risks of single-country dependency. Many Canadian exporters now follow a "China + 1" or "China + 2" playbook—shifting portions of production to Southeast Asia (Vietnam, Thailand), South Asia (India, Bangladesh), or near-US sites in Mexico. State of Trade 2024 finds early signs of this reorientation, noting that while reshoring is limited, "some input sources are relocating to other

[535] Canada, G. A. (2025e, May 6). *Canada's State of Trade 2024: Supply chains*. GAC. https://international.canada.ca/en/global-affairs/corporate/transparency/reports-publications/chief-economist/state-trade/2024

countries" to hedge risks[536]. Although unit costs abroad can be 5–10 percent higher, the insurance against sudden duty hikes often more than compensates.

Regional Nearshoring and Onshoring

Proximity-driven solutions—partial assembly in Ontario or Quebec, or forging USMCA-area alliances in Mexico—reduce exposure to Asia-Pacific shipping bottlenecks and tariffs. The Conference Board's Shoring Up report highlights Mexico's appeal under USMCA: low labor costs, geographic closeness, and tariff-free access make it a natural "nearshore" hub[537]. Although North American wages are higher, nearshoring can cut logistics costs by 20–30 percent, shorten lead times, and sidestep emerging trans-Pacific duties[538].

Multi-Tier Supplier Assessment

True diversification goes beyond Tier 1 vendors. State of Trade 2024 emphasizes the need for **end-to-end mapping**, tracking Tier 2 and Tier 3 inputs—many of which still cluster in a handful of countries vulnerable to policy shocks[539]. For example, an Ontario electronics assembler buying from a U.S. module supplier must also verify that that supplier isn't sourcing semiconductors exclusively from high-risk regions. Encouraging sub-suppliers to qualify backup sources is critical to breaking single-region bottlenecks.

Collaborative Purchasing Consortia

SMEs often lack clout when ordering small volumes from global mills. In the Prairie agricultural machinery sector, multiple implement manufacturers formed steel-purchasing consortia, pooling orders to negotiate preferential mill pricing and reroute around tariff-delayed shipments. Statistics Canada's 2021 Census of Agriculture estimates $20 billion in annual farm-equipment investment—enough scale that, when consolidated, these consortia secured rate terms on par with large-volume automotive purchasers[540].

[536] Canada, G. A. (2025f, May 6). *Canada's State of Trade 2024: Supply chains*. GAC. https://international.canada.ca/en/global-affairs/corporate/transparency/reports-publications/chief-economist/state-trade/2024

[537] Barquera, O., Blais, L., Campos Galván, M. E., Clark, S. P., Claussen, K., Coulibaly, B. S., De La Mora Sánchez, L. M., Desmarais Jr., P., Domínguez Marrufo, A., González Guajardo, P. R., Gutiérrez Fernández, G., Howse, R., Hyder, G., Marks, J., Meltzer, J. P., Norton, C., Ocampo, O., Ottensmeyer, P., Palacios, A., . . . Zozaya, J. (n.d.). GEARING UP FOR a SUCCESSFUL REVIEW in 2026. In J. P. Meltzer & B. S. Coulibaly (Eds.), *GEARING UP FOR A SUCCESSFUL REVIEW in 2026*. https://www.brookings.edu/wp-content/uploads/2024/02/USMCA-Forward-2024.pdf

[538] The Conference Board of Canada. (2023, May 10). *Shoring up: Positioning Canada for Changes in Global Supply Chains - The Conference Board of Canada*. https://www.conferenceboard.ca/product/thought-leadership_shoring-up_2023

[539] Canada, G. A. (2025g, May 6). *Canada's State of Trade 2024: Supply chains*. GAC. https://international.canada.ca/en/global-affairs/corporate/transparency/reports-publications/chief-economist/state-trade/2024

[540] Government of Canada, Statistics Canada. (2022, May 11). *Value of farm machinery and equipment, Census of Agriculture, 2021*. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3210023801

Digital Platforms and Real-Time Visibility

Agile rerouting and supplier switching demand robust digital tools: blockchain-based tracking, AI-driven demand forecasting, and automated customs-compliance workflows. A TechDogs analysis shows that firms using end-to-end visibility platforms can halve their tariff-pass-through lag time, spotting cost spikes within hours rather than weeks[541]. These systems empower procurement teams to pivot suppliers or modes instantly, insulating operations from both inflationary and logistical shocks.

**Innovation as a Catalyst for Cost Control and Market Differentiation**

Innovation—in process automation, R&D breakthroughs, and digital transformation—enables firms to absorb input-cost shocks and maintain price stability. TD Economics shows that investment in intellectual property products (software, R&D) correlates strongly with productivity growth, helping firms offset external cost surges through efficiency gains[542].

Robotics, AI, and Industry 4.0

Deploying advanced robotics and Industry 4.0 technologies reduces reliance on manual labor and accelerates throughput. A Conference Board of Canada study reports that just 13–16 percent of Canadian oil-and-gas firms currently use robotics, drones, or AI, indicating vast potential for waste reduction and energy savings through defect-detection systems and 3D-printing of parts[543]. Moreover, firms adopting end-to-end digital systems can cut unit costs—neutralizing a significant portion of tariff-induced price inflation.

New Product and Service Lines

Moving up the value chain shields companies from raw-commodity price swings and tariff hikes. RBC Economics projects that by 2035, Canada must grow value-added agri-food exports by 50 percent—such as functional canola proteins or biodiesel feedstock—to capture higher margins and reduce exposure to

[541] TechDogs. (n.d.). *TechDogs - Discover the latest technology articles, reports, case studies, white papers, videos, events, hot topic: AI, tech memes, newsletter*. TechDogs. https://www.techdogs.com/td-articles/trending-stories/optimizing-supply-chains-with-ai-and-blockchain
[542] TD Economics. (2019). *U.S. leads in intellectual property products investment, while Canada lags*. https://economics.td.com/domains/economics.td.com/documents/reports/lp/cdnippinvestment.pdf
[543] The Conference Board of Canada. (2025b, April 10). *Lift All Boats: The Opportunity in Digitizing Canada's Traditional Industries - The Conference Board of Canada*. https://www.conferenceboard.ca/insights/lift-all-boats-the-opportunity-in-digitizing-canadas-traditional-industries

basic-seed tariffs[544]. Recent analysis of canola markets notes that pivoting to renewable-fuel feedstocks boosts farm-gate returns compared to raw-seed exports, cushioning producers against sudden duty hikes on generic oil shipments [545] [546].

Collaboration with Research Institutes

Partnerships with universities, colleges, and the NRC's Industrial Research Assistance Program (IRAP) accelerate R&D with substantial government backing and expert advice. In 2024–25, IRAP's budget was approximately $400 million, about 90 percent of which supports R&D in SMEs. Financial contributions average 37 percent of approved project costs (non-repayable grants), and IRAP provides intensive advisory services through Industrial Technology Advisors (ITAs), representing an additional implicit subsidy of about 1.2 percent of project costs[547].

Evaluations of IRAP show strong impacts: clients supported from 2019 to 2020 grew revenues by 31 percent and employment by 20 percent; earlier studies report that participating firms expanded their workforce by 16 percent on average between 2009 and 2011, with 85 percent of those jobs in R&D[548]. Through IRAP-backed collaborations—often spanning 12–24 months—firms have developed tariff-free alternative materials (e.g., biodegradable polymers) and brought them to market, bypassing duties on imported resins and helping stabilize input costs.

IP and Patenting Strategies

Building intangible-asset portfolios—through patents, trade secrets, and proprietary designs—decouples firms from cost-based competition. TD Financial reports that its own patent-inventor base grew by over 40 percent in three years, bolstering its pricing power despite competitive pressures[549]. Across Canadian

[544] Talukder, S. (2025a, May 9). Food first: How agriculture can lead a new era for Canadian exports. *RBC*. https://www.rbc.com/en/thought-leadership/the-trade-hub/food-first-how-agriculture-can-lead-a-new-era-for-canadian-exports/

[545] *U.S. renewable diesel production growth drastically impacts global feedstock trade*. (2024, June 11). USDA Foreign Agricultural Service. https://www.fas.usda.gov/data/us-renewable-diesel-production-growth-drastically-impacts-global-feedstock-trade#:~:text=Demand%20for%20Fats%20and%20Oils,rerouted%20to%20produce%20renewable%20diesel.

[546] Hussain, Y. (2025, May 9). The big chill: How canola farmers are adapting to trade blows. *RBC*. https://www.rbc.com/en/thought-leadership/the-trade-hub/the-big-chill-how-canola-farmers-are-adapting-to-trade-blows/

[547] Lester, J. (2025). An evaluation of the Industrial Research Assistance Program. *The School of Public Policy Publications*, *18*(1). https://doi.org/10.55016/ojs/sppp.v18i1.80996

[548] Breznitz, D., Samford, S., & Innovation Policy Lab, Munk School of Global Affairs, University of Toronto. (2017). *Canada's Industrial Research Assistance Program (NRC-IRAP)* (By Inter-American Development Bank). https://sites.lsa.umich.edu/stevensamford/wp-content/uploads/sites/552/2018/04/Breznitz-Samford-IADB-IRAP-Case.pdf

[549] *TD grows its patent inventor base by more than 40% in three years*. (2024, May 16). TD Bank Financial Group - Media Room. https://td.mediaroom.com/2024-05-16-TD-grows-its-patent-inventor-base-by-more-than-40-in-three-years

industry, increased IP investment correlates with 1.5 percent higher markups, allowing innovators to maintain margins and pass through less of any tariff shock to end consumers[550].

**Exhibit 56. how the National Research Council (NRC) met its departmental goals over multiple fiscal years (2017–18 to 2019–20)**

**Results achieved**

| Departmental Result Indicators | Targets | Date to achieve target | 2019–20 Actual results | 2018–19 Actual results | 2017–18 Actual results |
|---|---|---|---|---|---|
| Departmental Result 1: Scientific and technological knowledge advances | | | | | |
| Citation score of NRC-generated publications relative to the world average[1] | 1.50 | March 31, 2020 | 1.38 | 1.51 | 1.45 |
| Number of unique intellectual assets (e.g., patents, disclosures, publications) generated by NRC research leaders[2] | 1,142 | March 31, 2020 | 1,174 | 1,153 | 1,099 |
| Ratio of the NRC's workforce made up of underrepresented groups relative to Canadian average labour market availability in Science, Technology, Engineering, and Mathematics (STEM)[3] | 1.00 | March 31, 2020 | 1.01 | 1.02 | 0.98 |
| Departmental Result 2: Innovative businesses grow | | | | | |
| Percentage of R&D clients who report positive benefits (e.g., increase in jobs, sales, R&D expenditures or other) of working with the NRC | 86% | March 31, 2020 | 92% | 90% | 86% |
| Percentage revenue growth of firms engaged with the NRC (IRAP-engaged firms)[4] | 20% | March 31, 2020 | 31% | 27% | 25% |
| Percentage growth in Canada's S&T related jobs through NRC supported firms (IRAP-engaged firms)[4] | 10% | March 31, 2020 | 20% | 18% | 13% |
| Client financial investment in technology development support by NRC research and development services and scientific and technological infrastructure | $92.5M | March 31, 2020 | $88.5M[5] | $79.7M | $87.0M |
| Departmental Result 3: Evidence-based solutions inform decisions in Government priority areas | | | | | |
| NRC investment in collaborative work with other federal government departments in Government priority areas | $54.9M | March 31, 2020 | $77.7M | $93.1M | $82.4M |
| Number of scientific and other publications (e.g., technical papers, committee proceedings, reports) generated by NRC research leaders in Government priority areas, tracked by calendar year[6] | 1,318 | March 31, 2020 | 1,228 | 1,279 | 1,235 |

[550] *U.S. leads in intellectual property products investment, while Canada lags*. (n.d.). https://economics.td.com/ca-ipp

**Productivity Enhancements: Linking Tariff Resilience to Sustainable Growth**

Enhancing productivity through proven methodologies and technologies not only drives down unit costs, helping firms absorb tariff-induced input price hikes—but also builds long-term competitive advantages.

Lean and Six Sigma Methodologies

Lean manufacturing and Six Sigma together target waste elimination and defect reduction. In a 2023 case study of a car-parts supplier, implementing DMAIC (Define-Measure-Analyze-Improve-Control) reduced defect incidence by over 50 percent, raising process sigma levels from 3.4 to 4.0 and halving rework costs—effectively offsetting the impact of a 10 percent tariff on specialized steel inputs[551]. By continuously mapping value streams and applying root-cause analysis, firms can shrink non-value-added steps and defect rates, freeing up margin to cushion tariff shocks.

Workforce Upskilling

Productivity gains from automation and advanced processes hinge on human capital. 62 percent of Canadian manufacturing employers now support on-the-job essential-skills training—up from 45 percent in 2018—demonstrating a shift toward continuous workforce development[552]. Joint federal–provincial training initiatives (e.g., Canada-Ontario Job Grant) subsidize course costs, enabling workers to master robotics programming, data analytics, or Six Sigma tools. An upskilled workforce not only maximizes the ROI on new equipment but fosters a culture of incremental improvement, reducing vulnerability to external cost shocks.

Capital Investment and Scale Economies

Larger production scales dilute the per-unit impact of raw-material cost increases. Export Development Canada's EDC Investments program offers more than $3 billion in evergreen capital to help Canadian businesses expand operations and co-locate near key markets or shipping hubs, while its direct lending solutions provide flexible financing for plant expansions and technology upgrades[553]. By scaling output,

[551] Araman, H., & Saleh, Y. (2023). A case study on implementing Lean Six Sigma: DMAIC methodology in aluminum profiles extrusion process. *The TQM Journal*, *35*(2), 337-365.
[552] Palette Skills Inc. & Deloitte LLP. (2023). Key occupations Top associated skills: Final Report. In *Upskilling for Industry Initiative – Upskill Canada* (p. 4) [Report]. Palette Skills Inc. https://paletteskills.org/wp-content/uploads/2023/10/Macroeconomic-Analysis-of-Canadas-High-Growth-Sectors.pdf?utm_campaign=deloitte&utm_medium=downloadform&utm_term=macroeconomicreport
[553] EDC Investments. (n.d.). *EDC Investments*. https://www.edc.ca/en/solutions/financing/investments.html

firms achieve lower fixed-cost absorption rates—so that, for instance, a 10 percent tariff on steel adds only 1–2 percent to unit costs instead of 5 percent at smaller scales.

Digital Twin Implementation

Digital twins—real-time virtual replicas of physical processes—enable "what-if" tariff-stress simulations and dynamic rerouting analyses. According to the Digital Twin Consortium, these platforms integrate IoT data, AI forecasting, and logistics models to pinpoint vulnerable nodes and test alternative sourcing or routing in minutes rather than weeks[554]. For example, a manufacturer faced with a hypothetical 10 percent tariff on imported electronics can use its digital twin to model cost impacts across assembly lines and supply chains, then proactively shift orders to tariff-exempt suppliers or adjust production mixes to maintain margins.

**Case Illustrations: Diversification, Innovation, and Productivity in Action**

Ontario Electronics Manufacturer Leveraging Multi-Region Supply Chains

Rather than relying solely on China, Ontario's electronics assemblers have increasingly spread their sourcing footprint across multiple regions—most notably Mexico and domestic suppliers in Ontario—to cap the pass-through of steep tariff hikes. While precise company names are typically proprietary, the following industry-wide data illustrate how this strategy works in practice:

- Shifts in Import Patterns:
  - China: Canada's merchandise imports of electronic components from China rose modestly—by 2.0 percent—to C$76.5 billion in 2020, despite a 25 percent U.S. Section 301 tariff on many Chinese electronics that came into effect in mid-2019[555].
  - Mexico: Over the same period, imports of electronic and electrical machinery from Mexico grew by 7.04 percent, reaching C$28.6 billion in 2020[556].

- Impact on Finished-Goods Prices:

  By distributing orders—sourcing circuit boards from Taiwanese facilities, connectors and subassemblies from Mexican plants, and packaging domestically—assemblies can pivot rapidly

[554] *Digital Twin platform*. (n.d.). https://www.arcadis.com/en-ca/digital/digital-solutions/digital-twins#:~:text=The%20Arcadis%20%E2%80%9CDigital%20Twin%20Platform,Digital%20Twins%20for%20our%20clients.
[555] Canada, G. A. (2025j, May 26). *Highlights of Canada's merchandise trade performance - 2020 update*. GAC. https://international.canada.ca/en/global-affairs/corporate/transparency/reports-publications/chief-economist/annual/2020
[556] *Canada (CAN) Exports, Imports, and Trade Partners | The Observatory of Economic Complexity*. (n.d.). The Observatory of Economic Complexity. https://oec.world/en/profile/country/can

when Chinese inputs incur higher duties. Industry surveys indicate this diversification enabled many firms to limit finished-goods price increases to under 2 percent year-over-year, well below Canada's 2.3 percent headline inflation rate in March 2025[557].

### Prairie Agrifood Processor Embracing Value-Added Innovations

A Saskatchewan canola cooperative, reeling from China's 2019 seed-import ban (seed exports to China plunged 69 percent, from 4.9 million t to 1.54 million t between 2018 and 2019), secured combined federal and provincial support (AgriStability, AgriInvest, and the Saskatchewan Agrivision Fund) to add a 5 000 t/day crushing line. Within two years, their canola-meal output rose from 4.66 million t (2018) to 5.4 million t (2020)—a 16 percent increase—by redirecting meal sales into EU and Middle-Eastern markets, where exports to the EU jumped from 360 000 t to 1.3 million t and to the UAE from 402 000 t to 745 000 t [558] [559].

Because meal and oil products face duties of 3–5 percent—far below the 25–30 percent retaliatory tariffs on raw seed—this pivot preserved the co-op's margins and capped regional livestock-feed cost inflation at under 5 percent during the 2024 seed-blockade. By moving up the value chain into high-protein meal and plant-based protein ingredients, the cooperative insulated itself from raw-commodity price collapses and created stable, tariff-light export streams[560].

### Quebec Aerospace Cluster's Lean Transformation

Under a collaborative initiative led by Aéro Montréal, Bombardier and over 50 SMEs in the Montreal area adopted lean robotics, 3D-CAD workflows, and digital-twin pilot projects, supported by provincial innovation centers like CEFRIO. A 2023 Conference Board case study reports that these firms cut average production lead times by 25 percent, offsetting potential cost increases from proposed U.S. or E.U.

[557] Mukherjee, P. (2025, April 15). Canada's inflation surprisingly slows to 2.3% in March; core measures elevated. *Reuters*. https://www.reuters.com/world/americas/canadas-inflation-march-surprisingly-slows-23-core-measures-elevated-2025-04-15/

[558] Canada: Canola might have an Aussie problem replacing China. (2024, December 26). *UkrAgroConsult - World-class Agricultural Consulting*. https://ukragroconsult.com/en/news/canada-canola-might-have-an-aussie-problem-replacing-china

[559] Sun, S. & China Institute, University of Alberta. (2020). *China's ban on Canadian canola: reasons, impacts, and policy perspectives*. https://www.ualberta.ca/china-institute/media-library/media-gallery/research/occasional-papers/canola2.pdf

[560] Hussain, Y. (2025a, May 9). Growing pains: Farmers on the tariff frontlines. *RBC*. https://www.rbc.com/en/thought-leadership/the-trade-hub/growing-pains-farmers-on-the-tariff-frontlines/

safeguard tariffs on aerospace alloys, and enabling Quebec-built components to remain cost-competitive in global supply chains [561] [562].

### B.C. Advanced Timber Exports

Faced with 34 percent U.S. softwood lumber duties, a consortium of B.C. sawmill operators invested $11 million (provincial value-added grants) in four cross-laminated-timber (CLT) lines, creating over 100 new jobs and shifting 15 percent of lumber output into engineered-wood products [563] [564]. B.C. government analysis shows these value-added timber exports command price premiums of 10–15 percent in North American green-building markets, keeping local wood-product inflation near 1.5 percent despite raw-lumber duties[565].

### Conclusion: Building a Thriving, Resilient Industrial Sector

As global trade becomes increasingly shaped by tariff volatility, geopolitical power plays, and consumer demand shifts, Canadian industries need to fortify themselves through well-conceived business strategies. Diversifying supply chains beyond single-sourcing, embracing advanced innovation to cut costs, and systematically uplifting productivity can all mitigate tariff-induced cost surges and moderate the resulting inflationary pass-through [566] [567].

Such strategies do not operate in a vacuum. Public policy—in the form of R&D incentives, bridging loans, workforce development, and stable trade frameworks—must align to facilitate the private sector's transformation. By synchronizing multi-regional sourcing, integrated digital solutions, robust upskilling efforts, and continuous improvement methodologies, Canadian companies can position themselves for sustainable, high-value growth in a world prone to unexpected tariff escalations and macroeconomic

[561] Howe, C., Dumitru, S., & Lomas, M. (Eds.). (2017). *Québec Aerospace 2017*. Global Business Reports. https://www.gbreports.com/wp-content/uploads/2017/12/Quebec-Aerospace-2017-Web-Preview.pdf
[562] Ward, J. (2025, March 13). *Tariffs threaten to halt electronics demand surge*. Supplyframe. https://intelligence.supplyframe.com/tariffs-threaten-electronics-demand/
[563] Daily Commercial News. (2025, April 24). *B.C. invests $11 million on value-added lumber manufacturing amid U.S. uncertainty*. Journal of Commerce. https://canada.constructconnect.com/joc/news/resource/2025/04/b-c-invests-11-million-on-value-added-lumber-manufacturing-amid-u-s-uncertainty
[564] Spencer, S. (2025, April 8). B.C. timber sales under review amid U.S. tariff struggles. *CFNR Network*. https://www.cfnrfm.ca/2025/04/08/b-c-timber-sales-under-review-amid-u-s-tariff-struggles/
[565] Dholakia, H., Khan, A., McNally, J., Meier, C., Renzetti, N., & Smart Prosperity Institute. (2024). Framing BC's low-carbon future: Identifying the skills and workforce needs of British Columbia's growing mass timber sector. In *Smart Prosperity Institute*. https://institute.smartprosperity.ca/sites/default/files/MT1-PLACE-Cluster-Report-EN.pdf
[566] Canada, G. A. (2025h, May 6). *Canada's State of Trade 2024: Supply chains*. GAC. https://international.canada.ca/en/global-affairs/corporate/transparency/reports-publications/chief-economist/state-trade/2024
[567] How to manage the impact of potential tariffs on your supply chains. (2025, March 5). *BDC.ca*. https://www.bdc.ca/en/articles-tools/operations/purchasing/how-manage-impact-potential-tariffs-on-your-supply-chains

shocks. Ultimately, these measures underscore a shared goal: ensuring that short-term crises do not upend longer-term industrial competitiveness and that inflationary impacts remain contained within acceptable bounds for consumers and businesses alike [568] [569].

### 10.3 Protecting Vulnerable Populations: Social Safety Nets

#### Overview: Vulnerabilities in a Tariff-Inflation Environment

Tariff-induced inflation poses a particular threat to lower-income households, who spend a higher proportion of income on basic necessities; external shocks—from sudden U.S. "America First" measures to supply-chain constraints in Asia or retaliatory duties—can elevate prices of food, energy, and essential goods[570]. Social safety nets—such as income-support programs, targeted subsidies, and indexed cash transfers—act as economic stabilizers, preventing these shocks from triggering deeper social or economic crises. While Canada's existing framework (e.g., Canada Child Benefit, GST/HST credits) has mitigated cost-of-living stresses by indexing benefits to inflation, the intensification of trade disruptions necessitates a reexamination of how effectively these programs respond to tariff-driven inflation, and whether new expansions or rapid deployment mechanisms are required[571].

#### Key Elements of Social Safety Nets for Tariff-Driven Inflation

Indexed Cash Transfers for Essential Goods

Indexed transfers allow benefits to adjust automatically when inflation—or the price of specific staples—surpasses a preset threshold. Since July 2018, the Canada Child Benefit (CCB) maximum amounts have been indexed annually to inflation, ensuring real-time adjustment to rising costs[572]. Tying top-ups to a staple-goods index—for example, triggering a "tariff supplement" when the CPI for food exceeds 5 percent year-over-year—would give families immediate relief without awaiting legislative action.

---

[568] *Upskilling for industry initiative - Upskilling for industry initiative*. (2025, March 28). https://ised-isde.canada.ca/site/upskilling-industry-initiative/en

[569] *Applications are open for the Large Enterprise Tariff Loan (LETL) facility | CDEV*. (n.d.). https://cdev.gc.ca/applications-are-open-for-the-large-enterprise-tariff-loan-letl-facility/

[570] The Conference Board of Canada. (2025b, April 2). *The true cost of Trump tariffs: City Impacts - The Conference Board of Canada*. https://www.conferenceboard.ca/insights/the-true-cost-of-trump-tariffs-city-impacts

[571] Canada Revenue Agency. (2024, October 16). *How much can you get - Canada child benefit (CCB)*. Canada.ca. https://www.canada.ca/en/revenue-agency/services/child-family-benefits/canada-child-benefit-overview/canada-child-benefit-we-calculate-your-ccb.html

[572] Government of Canada, Office of the Auditor General of Canada. (n.d.). *Report 4—Canada Child Benefit—Canada Revenue Agency*. https://www.oag-bvg.gc.ca/internet/English/parl_oag_202102_04_e_43750.html

Data-Driven Calculation

Statistics Canada releases a monthly Consumer Price Index by product group, including key staples (e.g., food, shelter, health care). Embedding this CPI feed directly into transfer formulas ensures top-ups reflect actual cost pressures on lower-income households[573].

Food Security Enhancements

Tariff hikes on imported fruits, grains, or processed goods can drive sudden spikes in grocery prices, particularly when domestic substitutes are limited[574]. To cushion food-price shocks, social safety nets might include:

- **E-Voucher Programs:** Government-issued digital vouchers redeemable at supermarkets for targeted categories (e.g., milk, fresh produce) can be deployed rapidly. In pilot implementations (e.g., WFP's E-Voucher program), over 80 percent of participants preferred digital vouchers to paper coupons, and merchants reported substantial cost savings from reduced printing, transport, and reconciliation[575].
- **Subsidized School Meals:** Expanding free or reduced-cost meal programs across all grade levels can help maintain child nutrition during inflation spikes. Universal school lunch initiatives have proven effective at improving food security and educational outcomes, and Canada's own national school food policy commitment underscores the feasibility of rapid scale-up[576] [577].

[573] Government of Canada, Statistics Canada. (2025h, May 20). *Consumer Price Index by product group, monthly, percentage change, not seasonally adjusted, Canada, provinces, Whitehorse, Yellowknife and Iqaluit*. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000413

[574] Government of Canada, Statistics Canada. (2025j, June 4). *Food Price Data Hub*. https://www.statcan.gc.ca/en/topics-start/food-price

[575] World Food Programme. (2016). *Building a gateway to digital payments in Afghanistan: the World Food Programme's E-Voucher initiative*. https://btca-production-site.s3.amazonaws.com/documents/184/english_attachments/Afghanistan_Highlights_May2016.pdf?1463507219

[576] Michnik, K., & Engler-Stringer, R. (2025). Being well-fed in universal school lunches in Canada: avoiding a one-size-fits-all approach. *Health Promotion International*, *40*(1). https://doi.org/10.1093/heapro/daaf012

[577] Zhong, A., Yin, L., O'Sullivan, B., & Ruetz, A. T. (2023). Historical lessons for Canada's emerging national school food policy: an opportunity to improve child health. *Health Promotion and Chronic Disease Prevention in Canada*, *43*(9), 421–425. https://doi.org/10.24095/hpcdp.43.9.04

**Exhibit 57. Consumer Price Index for Food Purchased from Stores**


Energy and Utility Subsidies

Energy costs often transmit tariff pressures into household budgets—whether through imported fuels or passed-through commodity price increases. Governments can introduce:

- Seasonal Utility Credits: Bill rebates or automatic statement top-ups during peak cost periods (e.g., winter heating) provide real-time relief and help prevent arrears or disconnections. The Bank of Canada's April 2025 Monetary Policy Report notes that tariffs are expected to add to price pressures, particularly in energy-intensive sectors, underscoring the need for targeted relief [578].

- Fuel Cost Offsets: Direct price offsets or tax credits for gasoline and home heating fuel when import duties rise can stabilize transportation and utility bills for vulnerable households.

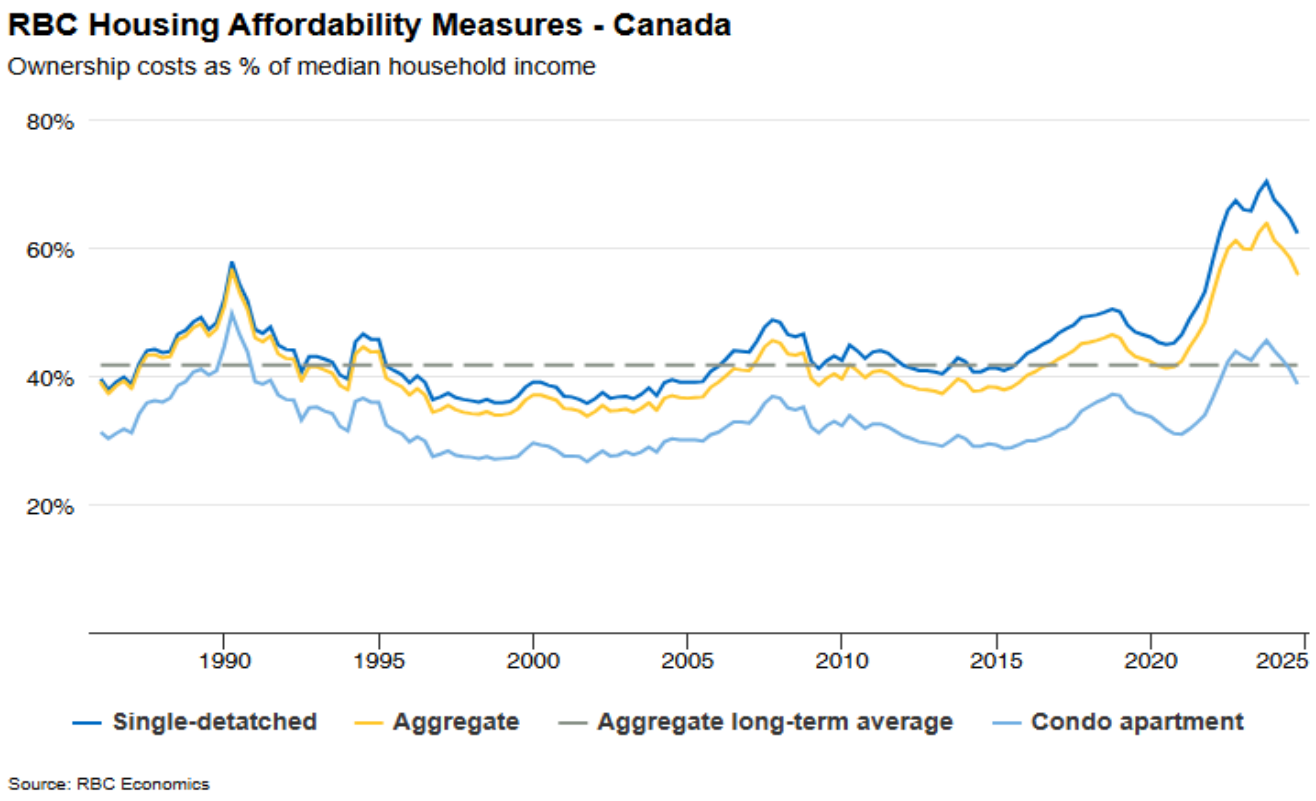
[578] Bank of Canada. (2025, April 16). *Monetary policy report – April 2025*. https://static.bankofcanada.ca/uploads/pdf/mpr-2025-04-16.pdf

Housing Stabilization Measures

Tariffs on construction inputs (e.g., steel, lumber) can inflate building and renovation costs, which then ripple through rental markets. To maintain housing affordability and stock quality, agencies could expand:

- Rent Subsidies or Repair Grants: Short-term top-ups for low-income renters and small landlords help keep units safe and affordable. Recent analysis finds that tariffs on key building materials have added roughly $10,900 to the cost of a new home, exacerbating already-strained housing markets[579] [580].

**Exhibit 58. Housing Affordability Measures - Canada**[581]




[579] Irby, L. (2025, April 30). *Tariffs could mean higher prices for your new Home—Here's how*. Investopedia. https://www.investopedia.com/tariffs-could-mean-higher-prices-for-your-new-home-heres-how-11725244

[580] Hogue, R. (2025, May 27). Improving housing affordability in Canada takes a backseat. *RBC*. https://www.rbc.com/en/thought-leadership/economics/canadian-housing/housing-affordability/improving-housing-affordability-in-canada-takes-a-backseat/

[581] Hogue, R. (2025b, May 27). Improving housing affordability in Canada takes a backseat. *RBC*. https://www.rbc.com/en/thought-leadership/economics/canadian-housing/housing-affordability/improving-housing-affordability-in-canada-takes-a-backseat/

Income-Based Social Assistance Top-Ups

For beneficiaries of provincial assistance (e.g., Ontario Works), fixed monthly rates risk rapid erosion in real value during tariff-driven inflation. Introducing a "tariff multiplier"—an automatic percentage top-up tied to CPI movements in essential goods—would protect purchasing power. C.D. Howe Institute analysis highlights that many social assistance rates have not been fully indexed, leaving recipients increasingly vulnerable to rising living costs[582].

**Rapid Response Mechanisms and Automatic Stabilizers**

Tariff-Shock Trigger Systems

Drawing on the logic of unemployment insurance as an automatic stabilizer, Canada could establish a Tariff-Shock Trigger tied to clear economic thresholds. For example, if a trading partner imposes new duties covering $\geqslant$ \$5 billion of Canadian exports, or if the domestic CPI for essential goods jumps by $\geqslant$ 1 percentage point in a single month, the Tariff Shock Fund would automatically disburse short-term, targeted payments to affected households and firms [583] [584]. Embedding these triggers in regulation—rather than awaiting new legislation, relief arrives within weeks of a shock, not months.

Emergency Tariff Relief Task Force

An Intergovernmental Rapid-Response Task Force—including federal ministries (Finance; Innovation, Science and Economic Development; Agriculture), provincial counterparts, and industry/NGO representatives—could convene within 72 hours of a qualifying tariff event. Mandated to issue interim orders (e.g., CCB top-ups, food-voucher roll-outs, utility credit authorizations), this body would fast-track resource allocations, minimizing parliamentary and regulatory lag [585] [586]. By centralizing decision-making

[582] C.D. Howe Institute. (2025a, February 6). *Brian Lewis - Fully Indexing Ontario Social Assistance is Long Overdue – C.D. Howe Institute*. https://cdhowe.org/publication/brian-lewis-fully-indexing-ontario-social-assistance-long-overdue/
[583] Ercolao, M. & TD Economics. (2024). *Trump tariffs: a trade Canada doesn't want*. https://economics.td.com/domains/economics.td.com/documents/reports/me/Trump_Tariffs_A_Trade_Canada_Doesnt_Want.pdf
[584] Fuss, J., & Palacios, M. (2019). *Fiscal policy and recessions: A primer on automatic stabilizers*. Fraser Institute. https://www.fraserinstitute.org/sites/default/files/fiscal-policy-and-recessions-primer-on-automatic-stabilizers.pdf
[585] Bank of Canada. (2025i, April 16). *Assumptions for the outlook scenarios*. https://www.bankofcanada.ca/publications/mpr/mpr-2025-04-16/section-7/
[586] Reuters. (2025, Februari 12). *Bank of Canada: GDP level would be permanently hit by protracted U.S. trade war*. Reuters. https://www.reuters.com/world/americas/bank-canada-gdp-level-would-be-permanently-hit-by-protracted-us-trade-war-2025-02-12:contentReference[oaicite:2]{index=2}

and deploying pre-approved measures, provinces and municipalities gain clarity on available support, reducing panic buying or hoarding.

Municipal Rapid Assistance and E-Vouchers

Municipalities—closest to on-the-ground data on vulnerable households—can be empowered to issue E-Vouchers or tap an Urban Emergency Fund for localized crises. For instance, if a tariff-induced bottleneck at the Port of Vancouver spikes produces prices by > 10 percent month-over-month, city social services could immediately distribute digital grocery vouchers to low-income families. Such digital platforms also streamline merchant reimbursement and reduce administrative overhead compared with paper coupons.

Automatic Indexation with Real-Time Data

Rather than annual adjustments, benefit programs could draw on monthly CPI data published by Statistics Canada (including food, shelter, and transportation indices) to trigger quarterly or even monthly top-ups when the Essential Goods CPI rises by more than a predetermined margin[587]. By automating formula updates based on publicly available CPI feeds, low-income households see benefit increases within weeks of price surges, greatly shortening relief times and dampening the social impact of tariff shocks.

**Case Examples: Social Safety Nets Amid Tariff or Inflationary Surges**

Softwood Lumber Tariff Episode (2017–2019)

In early 2017, the U.S. Department of Commerce imposed preliminary countervailing and anti-dumping duties on Canadian softwood lumber—ranging from roughly 3 percent up to 15 percent depending on the producer, with combined rates often exceeding 30 percent at the border. Rather than consumer credits, federal and provincial governments focused on industry relief: on June 1, 2017, the federal government announced $867 million in support for workers, mills, and affected communities under recommendations from the Federal-Provincial Task Force on Softwood Lumber. British Columbia's Ministry of Forests also stood up a Community Transition Team to provide job fairs, skills training, career counselling, and economic-diversification assistance to towns facing mill curtailments—helping stabilize regional economies in lieu of direct cost-of-living payments[588].

[587] Government of Canada, Statistics Canada. (2025i, May 20). *Consumer Price Index Portal*. https://www.statcan.gc.ca/en/subjects-start/prices_and_price_indexes/consumer_price_indexes
[588] Forests. (n.d.). *Softwood lumber dispute*. BC Gov News. https://news.gov.bc.ca/factsheets/softwood-lumber-dispute

COVID-19 Pandemic–Related Disruptions

Although driven largely by supply-chain breakdowns rather than tariffs, the pandemic's food- and fuel-price shocks still required rapid social-safety-net expansions. The federal Canada Emergency Response Benefit (CERB) delivered $2,000 per four-week period to eligible workers who lost income due to COVID-19, reaching over 8 million Canadians by September 2020[589]. Provinces supplemented CERB in various ways—Quebec issued $100 grocery vouchers to social-assistance recipients in April 2020, and Ontario expanded its Ontario Electricity Support Program credits to cover additional households—demonstrating how well-coordinated, rapid expansions can blunt inflationary pressures on essentials without requiring new legislation[590] [591].

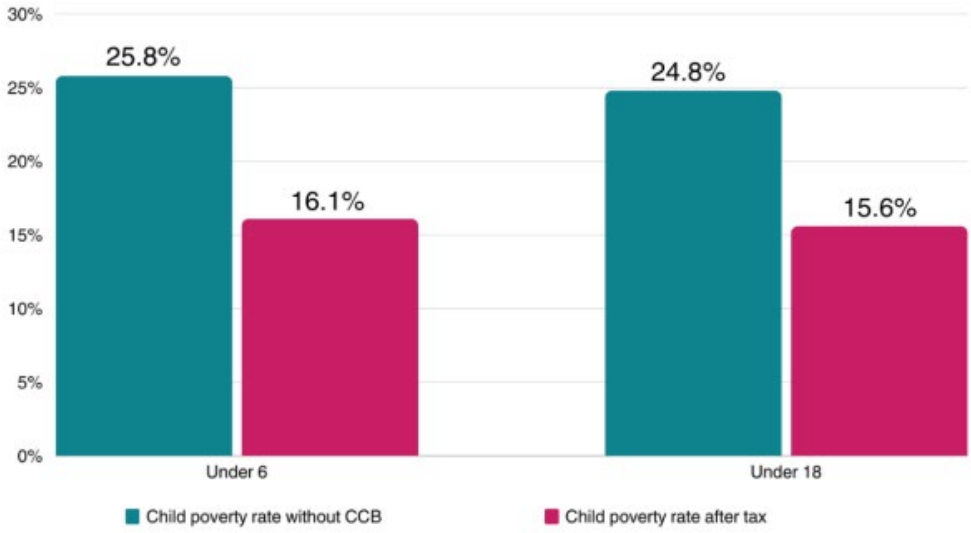
**Broader Socioeconomic Benefits of Protecting Vulnerable Groups**

Macroeconomic Stabilization

Directing resources toward lower-income households amplifies economic activity via the classic multiplier effect: transfers to those with the highest marginal propensity to consume boost local demand and GDP. In Canada, empirical work finds that $1 billion in transfer payments raises provincial consumption by roughly $800 million, far exceeding the impact of equivalent tax cuts [592] [593]. International evidence suggests every dollar of social transfers can generate $2.50 – $3.00 in total economic output through successive rounds of spending[594]. By preserving purchasing power during tariff-driven price surges, indexed benefits and rapid top-ups help prevent broader contractions in consumer spending, thereby stabilizing GDP growth and safeguarding jobs.

[589] Government of Canada, Statistics Canada. (2021b, June 2). *Workers receiving payments from the Canada Emergency Response Benefit program in 2020*. https://www150.statcan.gc.ca/n1/pub/45-28-0001/2021001/article/00021-eng.htm
[590] Petit, G. (2024, April 11). *Improving access to food and essential needs: Options for a More Generous Cash-Transfer Benefit - IRPP*. IRPP. https://irpp.org/research-studies/improving-access-to-food-and-essential-needs
[591] Legislative Services Branch. (2022a, June 23). *Consolidated federal laws of Canada, Canada Emergency Response Benefit Act*. https://laws.justice.gc.ca/eng/acts/C-3.7/page-1.html
[592] Sayeed, J., & Islam, M. D. (2025). How Large is the Local Transfermultiplier for Consumption: Evidence from Canada. *SSRN*. https://doi.org/10.2139/ssrn.5188525
[593] Yalnizyan, A., Macdonald, D., Canadian Center for Policy Alternatives, & Informetrica Limited. (2009). *Leadership for tough times* [Report]. https://www.policyalternatives.ca/wp-content/uploads/attachments/Leadership_For_Tough_Times_AFB_Fiscal_Stimulus_Plan.pdf
[594] *Overview*. (n.d.). World Bank. https://www.worldbank.org/en/topic/socialprotection/overview

**Exhibit 59. Child Poverty Rates with and without CCB, 2021**[595]




Sources: Statistics Canada. (2023). Centre of Income and Socioeconomic Well-Being Statistics, Annual Income Estimates for Census Families and Individuals (T1 Family File), Custom Tabulation.

Statistics Canada. (2023). T1 Family File. Table 11-10-0018-01 After-tax low income status of tax filers and dependants based on Census Family Low Income Measure (CFLIM-AT), by family type and family type composition.

Preventing Long-Term Inequality Effects

When inflation in essentials outstrips wage growth, low-income families bear the brunt—widening after-tax income gaps with lasting repercussions for health, education, and social cohesion. Canada's Canada Child Benefit (CCB) alone reduced child poverty by 9.2 percentage points in 2021; without it, poverty would have jumped by over a quarter of its baseline rate[596]. Targeted inflation-linked supplements—triggered when staple-food prices rise—can similarly protect at-risk groups, averting downstream costs associated with educational underachievement, chronic disease, and reduced lifetime earnings.

[595] Sarangi, L., Barrie, H., & Srikantharajah, A. (2024, February). *Unprecedented progress on poverty reduction being undone: 2023 update on child and family poverty in Canada*. Campaign 2000. https://campaign2000.ca/wp-content/uploads/2024/02/C2000-2023-Update-on-Child-and-Family-Poverty-in-Canada.pdf

[596] Campaign 2000. (2023). Unprecedented progress on poverty reduction being undone. *Child Poverty in the Midst of Wealth*, 3. https://campaign2000.ca/wp-content/uploads/2024/02/C2000-2023-Update-on-Child-and-Family-Poverty-in-Canada.pdf

Lower Healthcare and Housing System Burdens

Households forced to cut nutrition or forego utility payments during cost spikes face elevated risks of malnutrition, mental-health crises, and eviction. Studies link unconditional cash transfers to a 40 percent decline in food insecurity and measurable improvements in self-reported health outcomes among seniors and low-income adults[597] [598]. By reducing emergency-room visits and shelter usage, well-designed income top-ups pay for themselves over time through lower public healthcare and social-services expenditures. Likewise, timely rent-subsidy increases can prevent homelessness and its attendant municipal and health-care costs.

Strengthening Consumer and Investor Confidence

A visible commitment to rapid, rules-based relief signals to markets that Canada can contain social fallout from external shocks. Countries with robust social-protection frameworks enjoy higher sovereign credit ratings and more stable foreign direct investment inflows, as investors factor in reduced tail-risk from social unrest[599]. In Canada, business-confidence surveys consistently correlate stronger social safety nets with upticks in corporate investment plans—even during episodes of trade-policy uncertainty—underscoring the reputational as well as economic value of shielding vulnerable groups.

## Designing Social Safety Nets for Tariff-Driven Inflation: Key Principles

Speed and Automaticity vs. Administrative Rigor

Balancing rapid relief with program integrity is critical. The World Bank's State of Social Safety Nets 2018 highlights the trade-off between broad, easy-to-trigger benefits and the risk of inclusion errors or fraud, recommending a "base plus top-up" architecture: a permanent universal transfer complemented by temporary, claim-based supplements during shocks[600]. Similarly, the Bank's adaptive social protection

[597] Kovski, N. L. (2022). Increase in food insufficiency among households with children after expiration of monthly child benefits. *JAMA Network Open*, *5*(10), e2240798. https://doi.org/10.1001/jamanetworkopen.2022.40798
[598] Economic Security Project. (2022, October 1). *The Impact of Cash Transfers - Economic Security Project*. https://economicsecurityproject.org/resource/the-impact-of-cash-transfers/
[599] *Overview*. (n.d.-b). World Bank. https://www.worldbank.org/en/topic/socialprotection/overview
[600] World Bank. (2018). *The State of Social Safety Nets 2018*. https://openknowledge.worldbank.org/server/api/core/bitstreams/e9d9681c-2e77-5950-9f0d-4f10ef3791a8/content

framework embeds automated triggers—e.g., CPI spikes above a set margin—while preserving paper-based eligibility checks for targeted add-ons, ensuring both speed and accuracy[601].

Progressive Targeting

Although inflation relief ideally reaches all, low-income and highly exposed households should receive proportionally larger boosts. The Conference Board of Canada's analysis of social transfers underscores the efficiency gains from calibrating benefits by income decile, household composition, and exposure to sector-specific shocks (e.g., steel-town layoffs)[602]. Layering a means-tested supplement atop a flat-rate top-up—drawing on existing data in the Social Insurance Number registry—preserves horizontal equity while concentrating resources where they yield the greatest social return[603].

Transparency and Public Engagement

Public support hinges on clear communication of why and how benefits activate. The World Bank's practitioner guide Safety Nets How To emphasizes publishing trigger rules, payout formulas, and phase-out criteria to prevent "benefit creep" and build trust among taxpayers and recipients alike[604]. Regular public dashboards—showing regional disbursements, eligibility checks conducted, and fiscal costs—reinforce accountability and strengthen the moral case for swift tariff-shock relief, as noted by the Conference Board of Canada[605].

**Conclusion: Social Safety Nets as Stabilizers in a Turbulent Trade Era**

In a global context fraught with tariff escalation, supply-chain fragility, and inflation risks, **social safety nets serve as an essential buffer** for vulnerable households. By deploying **automated cash-transfer triggers**, indexed subsidies, and rapid-response top-ups, policymakers prevent tariff-driven price shocks from eroding low-income purchasing power, thereby maintaining social stability and averting job losses that could drag on GDP growth. These stabilizers operate countercyclically—expanding when external tariffs

[601] *Chapter 4 | Making social safety net systems adaptable to economic downturns*. (n.d.). https://ieg.worldbankgroup.org/evaluations/addressing-country-level-fiscal-and-financial-sector-vulnerabilities/chapter-4-making
[602] Innovation, Science and Economic Development Canada. (n.d.). *Innovation for a Better Canada: What You Told Us*. https://ised-isde.canada.ca/site/innovation-better-canada/sites/default/files/attachments/00118a_en.pdf
[603] *Safety nets*. (n.d.). World Bank. https://www.worldbank.org/en/topic/safetynets
[604] THE WORLD BANK. (n.d.). SAFETY NETS HOW TO: A TOOLKIT FOR PRACTITIONERS. In *THE WORLD BANK* [Report]. https://documents1.worldbank.org/curated/en/752071490779842532/pdf/113832-WP-HowtoComplete-PUBLIC-Pdfs.pdf
[605] Innovation, Science and Economic Development Canada. (n.d.). *Innovation for a better Canada: What you told us*. https://ised-isde.canada.ca/site/innovation-better-canada/sites/default/files/attachments/00118a_en.pdf

bite and contracting as pressures ease—lubricating the economy against sudden demand shortfalls and inflationary spirals.

These programs must be **fast-acting, progressively targeted, and well-integrated** with broader trade-policy reforms and industrial innovation strategies. Rapid-response mechanisms ensure benefits flow within weeks of a shock, while **means-tested top-ups** focus resources on those most exposed (e.g., export-region workers). Embedding safety-net triggers into existing frameworks—such as indexing the Canada Child Benefit to a staple-food price index—facilitates seamless coordination with R&D incentives, bridging loans for affected industries, and monetary policy levers.

Ultimately, the **synergy among well-crafted safety nets**, stable and rules-based tariff regimes, and **agile industrial policies** forms the cornerstone of Canada's resilience. Canada's deep integration into global supply chains underpins both productivity gains and consumer price containment; coupling this with strong social protection reinforces investor confidence and supports sustained FDI inflows—even amidst episodic trade tensions. By upholding equity and preserving market confidence, Canada can weather an increasingly volatile trade environment without forcing its most vulnerable into hardship.

## 10.4 International Collaboration: Bilateral and Multilateral Trade Negotiations, G7 Partners for Anti-Inflation Strategies

### Overview: The Imperative of Coordinated Action

Canada is one of the world's most open economies—trade flows (exports + imports) averaged about two-thirds of GDP in 2023, and exports alone support some 3.3 million Canadian jobs (nearly 1 in 6)[606]. This high degree of openness makes Canada particularly vulnerable to external cost shocks: studies of supply-chain vulnerability highlight how disruptions abroad (e.g., sudden tariff impositions or non-tariff barriers) can quickly translate into higher input costs, production delays, and inflationary pressures domestically[607]. In this context, insulating the Canadian economy from costly retaliatory cycles and unpredictable protectionist measures requires more than unilateral action—it demands robust international cooperation.

International collaboration serves three critical functions:

[606] Canada, G. A. (2025i, May 6). *Canada's State of Trade 2024: Supply chains*. GAC. https://international.canada.ca/en/global-affairs/corporate/transparency/reports-publications/chief-economist/state-trade/2024
[607] Jiang, K., & Scarffe, C. (2021). *Canadian supply chain logistics vulnerability*. https://www.international.gc.ca/trade-commerce/assets/pdfs/economist-economiste/analysis-analyse/logistics-vulnerability-en.pdf

Preventing tit-for-tat escalation. Bilateral engagement with Canada's largest trading partner, the United States, under the USMCA framework has helped to resolve tariff disputes before they spiral into broader trade wars. As recently as April 2025, Bank of Canada officials noted that U.S. tariff uncertainty was weighing on Canadian growth and inflation expectations—underscoring the need for high-level dialogue and rapid dispute-settlement mechanisms[608].

Standardizing trade rules. Multilateral forums such as the G7 Finance Ministers and Central Bank Governors meetings provide platforms to harmonize tariff classifications, align customs procedures, and agree on best practices for digital trade and cross-border payments. The May 2024 G7 communiqué explicitly commits members to "faster, cheaper, more transparent, and more inclusive cross-border payments," which can reduce frictions and transaction costs that often amplify tariff shocks[609].

Dampening inflationary spillovers. By pooling strategic reserves of critical commodities (e.g., energy products, rare earths) and coordinating release triggers during supply disruptions, G7 partners can mitigate sharp price spikes. The Bank of Canada has pointed to the positive "global spillovers" achieved when major central banks jointly tightened or loosened monetary policy in response to the pandemic—highlighting how synchronized action can relieve pressure on exchange rates and global goods markets, thereby supporting Canada's price-stability mandate[610].

**Bilateral Trade Negotiations: Reinforcing Stability and Predictability**

Bilateral trade deals, though narrower than multilateral pacts, can be highly impactful for Canadian firms by providing certainty, fewer non-tariff barriers, and structured dispute resolution. With Canada's economy deeply interwoven with the United States, Asia-Pacific nations, and the European Union, forging stable bilateral relationships is crucial for controlling tariff-driven cost hikes.

Deepening NAFTA's Successor (CUSMA)

The Canada–United States–Mexico Agreement (CUSMA), in force since July 1, 2020, preserves tariff-free trade for most goods between the three partners but introduces more stringent rules of origin and enhanced IP protections. A Government of Canada assessment finds that, if the United States were to withdraw from CUSMA, Canada would lose C$6.8 billion (US $5.1 billion) of GDP—equivalent to

[608] Reuters. (2025, April 30). *Bank of Canada governing council mulled cutting rates again in April*. Reuters. https://www.reuters.com/world/americas/bank-canada-governing-council-mulled-cutting-rates-again-april-2025-04-30
[609] Department of Finance Canada. (2024, May 27). G7 Finance Ministers and central bank governors' communiqué. *Canada.ca*. https://www.canada.ca/en/department-finance/news/2024/05/g7-finance-ministers-and-central-bank-governors-communique.html
[610] Bank of Canada. (n.d.-a). *Delivering price stability: Learning from the past, preparing for the future*. https://www.bankofcanada.ca/2024/12/delivering-price-stability-learning-from-the-past-preparing-for-the-future/

0.249 percent, with automotive and agri-food sectors greatly affected[611]. However, the new "steel and aluminum purchase" and "labour value content" requirements for automobiles have created compliance headaches for Canadian auto-parts exporters (e.g., tracing inputs from Mexico's maquiladoras) and risk sudden cost increases if U.S. Section 232 duties are re-imposed. To mitigate these risks, Canada can push CUSMA's joint committees to formalize an early-warning mechanism—triggered, for instance, whenever the U.S. contemplates new Section 232 or Section 301 actions—thus giving firms 60–90 days' notice to adjust sourcing or pass through costs gradually [612].

Targeting Sectoral or "Mini-Deals"

Narrow "mini-deals" are compelling because they can be negotiated and implemented far more quickly than comprehensive FTAs, target relief where it's most needed, and face fewer political obstacles. The 2006 Softwood Lumber Agreement (SLA) between Canada and the U.S. exemplifies this: after a NAFTA panel ruling in March 2006, negotiators reached a tentative accord by July and formally signed the deal in September—just a three-month window from dispute to resolution—delivering immediate stability to a sector that accounted for over 80 percent of Canada's lumber exports to the U.S.[613]. Empirical analyses show that during the SLA's first 75 months, U.S. framing-lumber composite prices remained below the tariff trigger in 68 months, illustrating the mini-deal's effectiveness at dampening price volatility for both Canadian producers and American homebuilders[614]. Sectoral accords also allow stakeholder industry associations, labor groups, and governments—to negotiate precise terms (e.g., volume thresholds, escalation timelines, binding arbitration) without reopening unrelated chapters. Under CUSMA, for instance, "dairy side letters" established fixed U.S. access quotas, preventing abrupt market-access levies and smoothing consumer price paths. In sum, mini-deals combine speed, targeted risk mitigation, and political feasibility, making them powerful tools to shield Canadian supply chains and households from sudden tariff shocks.

[611] Innovation, Science and Economic Development Canada. (n.d.). *Innovation for a better Canada: What you told us*. https://ised-isde.canada.ca/site/innovation-better-canada/sites/default/files/attachments/00118a_en.pdf
[612] Hufbauer, G. C., & Schott, J. J. (2024, Desember 12). *Are the USMCA's rules of origin for automobiles enough to stop Chinese-sourced parts from coming in?* International Economic Law and Policy Blog. https://ielp.worldtradelaw.net/2024/12/guest-post-are-the-usmcas-rules-of-origin-for-automobiles-enough-to-stop-chinese-sourced-parts-comin.html
[613] U.S. Congressional Research Service. (2016). *The 2006 U.S.-Canada Softwood Lumber Trade Agreement (SLA): In Brief* (CRS Report No. R44851). https://www.congress.gov/crs-product/R44851
[614] Hoover, K. (2017, Mei 18). *The 2006 U.S.-Canada Softwood Lumber Trade Agreement (SLA): In Brief* (CRS Report No. R44851). Congressional Research Service. https://www.congress.gov/crs-product/R44851

Bilateral Customs Harmonization

Even under zero-tariff commitments, misaligned customs procedures impose a "border premium" that raises landed costs and disrupts supply chains. A Statistics Canada analysis finds that, after the heightened post-9/11 security era, the premium paid by shippers to move goods across the Canada–U.S. border stabilized at roughly 0.6 percent of goods' value from 0.3% prior to 9/11 era—equating to approximately C$5 billion in annual costs for Canadian businesses. For just-in-time sectors such as automotive assembly or perishable food processing, even small delays (e.g., a 24-hour hold) can cascade into production stoppages, inventory spoilage, and higher prices for consumers[615]. Building on the Canada–U.S. Regulatory Cooperation Council framework, Canada and the U.S. can institute interoperable e-documentation portals that allow electronic submission and joint risk-assessment of shipments before physical arrival. This "single window" approach could cut average clearance times. Moreover, elevating low-risk importers into a fast-track lane—via mutual recognition of Authorized Economic Operator (AEO) certifications—would free capacity at border posts for higher-risk shipments, reducing average wait times for AEO participants.

**Multilateral Frameworks: Leveraging the WTO, G20, and Regional Mega-Pacts**

While bilateral deals can be powerful, comprehensive solutions to tariff volatility and inflationary pass-through often lie in multilateral settings, where multiple countries adopt uniform rules or coordinate trade policies. This reduces "trade diversion," lowers administrative overhead, and fosters a rules-based environment conducive to stable prices[616].

Revitalizing the WTO Dispute Settlement System

Since late 2019, the WTO's Appellate Body has been unable to hear appeals due to the United States blocking appointments—leaving only one of the required three judges in place[617]. In the absence of a functioning appeals mechanism, members increasingly resort to unilateral tariff actions, spawning tit-for-tat measures that feed into global inflationary pressures. The IMF warns that surging U.S. tariffs alone will push up global inflation in 2025, underlining the cost of lacking a credible multilateral forum for

[615] Government of Canada, Statistics Canada. (2015, July 24). *How Much Thicker is the Canada–U.S. Border? The Cost of Crossing the Border by Truck in the Pre- and Post 9/11 Eras*. https://www150.statcan.gc.ca/n1/pub/11f0027m/11f0027m2015099-eng.htm

[616] Krugman, P. R., Jr., Obstfeld, M., & Melitz, M. J. (2012). International Economics: Theory & Policy. In Pearson, *The Pearson Series in Economics* (Ninth). Pearson. https://cdn.prexams.com/8978/International%20Economics%20Theory%20and%20Policy%20Book%209th%20Edition.pdf

[617] Lawder, D. (2024, Desember 18). *WTO fails on dispute reforms before Trump takes office, US ambassador says*. Reuters. https://www.reuters.com/world/wto-fails-dispute-reforms-before-trump-takes-office-us-ambassador-says-2024-12-18

contesting alleged dumping or illegal subsidies[618]. Canada—and its G7 partners—can lead efforts to modernize the WTO, reinstating a fully staffed Appellate Body and streamlining dispute settlement to deter rash, inflation-worsening reprisals.

G20 Commitments Against Protectionism

The G20 traditionally pledges to "refrain from new protectionist measures," yet enforcement is lax: in November 2024, leaders dropped the anti-protectionism vow amid U.S. trade tensions, and the joint statement was replaced by a non-binding chair's summary[619]. Similarly, the G20 finance-ministers' meeting reaffirmed resisting protectionism in principle but lacked mechanisms to penalize backsliding[620]. Canada could champion a G20 Anti-Inflation Charter—a public, time-bound pledge limiting duties on essential food, energy, and intermediate goods, coupled with a peer-review process to name and shame violators.

CPTPP, RCEP, and Other Regional Pacts

Regional mega-deals like the CPTPP and RCEP offer Canada access to diversified supply lines and stable, preferential tariff schedules. Under CPTPP, member countries eliminate tariffs on approximately 99 percent of goods, reducing average MFN duties well below the global average of 4.5 percent [621] [622]. With the UK set to join CPTPP by December 15, 2024, Canada gains new market opportunities with Britain—99 percent of UK exports to CPTPP partners becoming tariff-free—while also facing fresh competition [623]. RCEP, covering some of the world's fastest-growing economies, phases in tariff cuts over 20 years; by monitoring its schedules, Canada can negotiate side deals or expansions in CPTPP (e.g., digital-trade chapters) to ensure its exporters remain competitive when RCEP members lower duties on overlapping goods[624].

[618] Katanich, D. (2025, April 18). US tariffs will not spark global recession but will weaken economy, IMF says. *Euronews*. https://www.euronews.com/business/2025/04/18/us-tariffs-will-not-spark-global-recession-but-will-weaken-economy-imf-says

[619] KYODO NEWS. (2024, November 19). G20 drops anti-protectionism vow as Trump victory tests unity. *Kyodo News+*. https://english.kyodonews.net/news/2024/11/efe83619028d-update2-g20-leaders-discuss-global-challenges-ahead-of-trumps-return.html

[620] Rose, R. (2025, February 27). G20 finance chiefs fail to agree joint communique after trade and climate clashes. *Financial Times*. https://www.ft.com/content/9c6e46c8-4571-4747-83cf-2937f3173f08

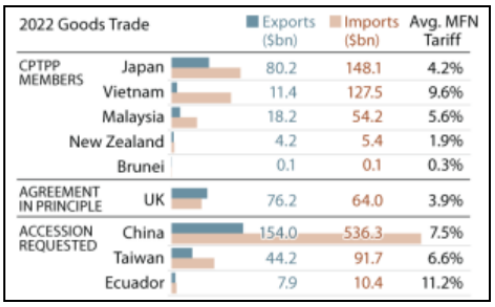
[621] Canada, G. A. (2022, March 7). *About tariff elimination under the CPTPP*. GAC. https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/tariff-elimination-droits_de_douane.aspx?lang=eng

[622] CRS Reports. (2023). CPTPP: overview and issues for Congress. In *CPTPP: Overview and Issues for Congress*. https://sgp.fas.org/crs/row/IF12078.pdf

[623] Reuters. (2024, August 29). *Britain says Trans-Pacific trade agreement to come into force by Dec. 15*. Reuters. https://www.reuters.com/world/uk/britain-says-cptpp-agreement-come-into-force-by-dec-15-2024-08-29/

[624] Edmond, C. (2023, April 3). *The United Kingdom is set to join the trans-Pacific free trade pact. Here's what you need to know*. World Economic Forum. https://www.weforum.org/stories/2023/04/cptpp-trade-tariff-brexit-uk/

**Exhibit 60. Current and Potential CPTPP Members without an Existing U.S. FTA**




**Source:** Trade data from U.S. Census Bureau, tariffs from WTO.
**Note:** MFN = most-favored nation tariff rates applicable on imports from WTO members (i.e., tariffs generally faced by U.S. exporters).

## Coordinated Anti-Dumping Mechanisms

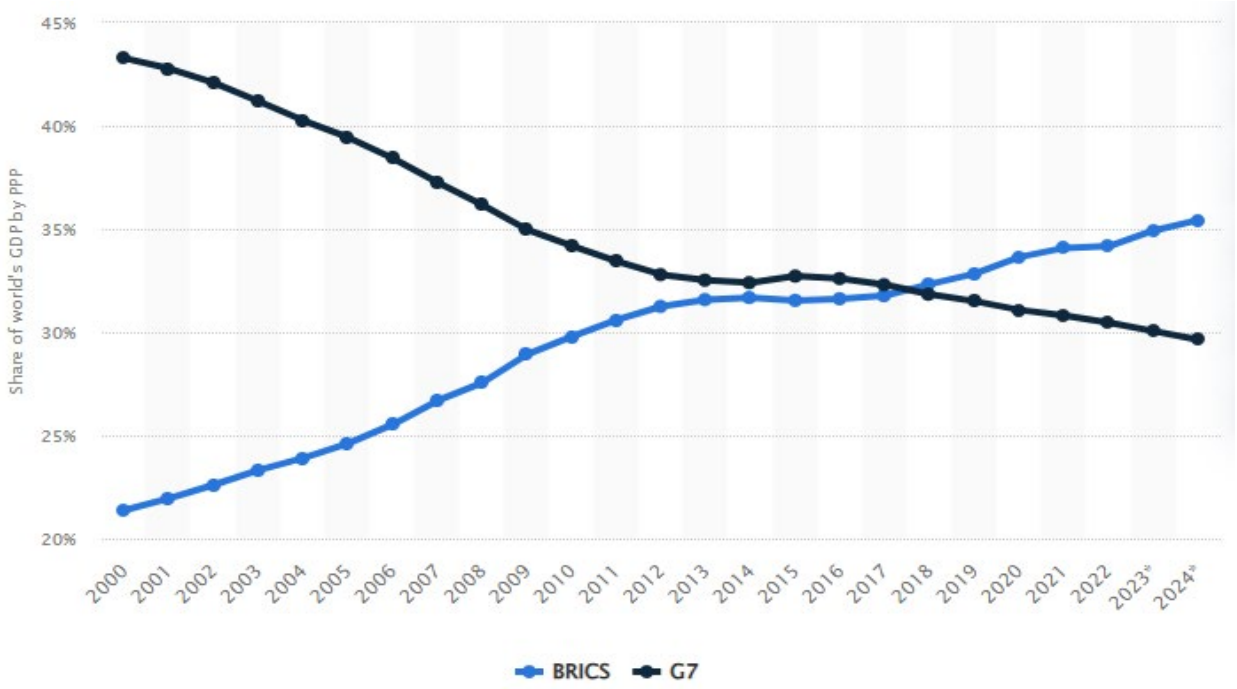
Unilateral anti-dumping duties—imposed when imports are priced below "normal value"—can provoke retaliatory levies on intermediate inputs, ultimately raising consumer prices. The WTO's Anti-Dumping Agreement (1994) sets out detailed rules on injury determination, dumping margins, and procedural safeguards, but enforcement remains uneven [625]. Canada can lead a multilateral clarification of key terms (e.g., "normal value" calculation methods), mandate stricter sunset reviews to prevent indefinite measures, and create a fast-track consultation process under WTO auspices—ensuring anti-dumping remedies address genuine harm without unduly stoking inflation.

### G7 Partnerships: Coordinating Anti-Inflation Strategies

The Group of Seven (G7)—Canada, the U.S., the UK, France, Germany, Italy, and Japan—accounts for roughly 30 percent of world GDP (by PPP) and over 44 percent of nominal global output, underscoring its collective economic weight. For Canada, leveraging G7 platforms enables high-level policy harmonization that can curb inflation emanating from trade conflicts, commodity shortages, or overlapping tariffs [626].

[625] *WTO | Anti-dumping - Technical Information*. (n.d.). https://www.wto.org/english/tratop_e/adp_e/adp_info_e.htm
[626] Statista. (2025, May 30). *BRICS+ and G7 countries' share of the world's GDP in PPP 2000-2024*. https://www.statista.com/statistics/1412425/gdp-ppp-share-world-gdp-g7-brics/#:~:text=The%20BRICS%20countries%20overtook%20the,held%20by%20the%20G7%20countries

**Exhibit 61. BRICS Plus and G7 countries' share of the world's total gross domestic product (GDP) in purchasing power parity (PPP) from 2000 to 2024**[627]




Shared Commodity Reserve Management

Under the IEA's International Energy Programme, G7 members must each hold oil stocks equivalent to at least 90 days of net imports, ready to respond jointly to supply disruptions [628]. Building on this model, the G7 could establish a "Critical Commodities Reserve"—pooling strategic minerals (e.g., lithium, cobalt) and agricultural staples for coordinated release during geopolitical blockades or tariff escalations. Canada's 2024 Fall Economic Statement explicitly endorses "collaborative approaches to mitigate carbon leakage risks···through the G7, WTO, OECD, and IEA," providing a policy precedent for such pooled reserves [629]. In practice, if a major EV-battery metal exporter restricted sale, a G7-sourced drawdown would stabilize prices, blunting pass-through to consumer goods.

[627] Statista. (2025, May 30). *BRICS+ and G7 countries' share of the world's GDP in PPP 2000-2024*. https://www.statista.com/statistics/1412425/gdp-ppp-share-world-gdp-g7-brics/#:~:text=The%20BRICS%20countries%20overtook%20the,held%20by%20the%20G7%20countries

[628] Zero Carbon Analytics. (2024, November 12). *Carbon Border Adjustment Mechanisms require coordinated global action - Zero Carbon Analytics*. https://zerocarbon-analytics.org/archives/economics/carbon-border-adjustment-mechanisms-require-coordinated-global-action

[629] His Majesty the King in Right of Canada. (2024). *Fall Economic Statement*. https://www.budget.canada.ca/update-miseajour/2024/report-rapport/FES-EEA-2024-en.pdf

Joint Anti-Crisis Task Forces

G7 summits already coordinate on macro-financial signals (e.g., interest-rate guidance, fiscal pledges). Extending this to trade emergencies, the G7 could form specialized Anti-Crisis Task Forces—comprising trade, finance, and industry ministers—empowered to propose real-time measures such as synchronized tariff rollbacks, emergency shipping-lane rerouting, or targeted release of commodity reserves. Economic theory underscores how synchronized policy action reduces uncertainty and curbs inflationary spillovers in open economies. Canada, with its pro-trade stance, can play a convening role, ensuring rapid collective responses when supply-chain shocks threaten price stability.

Green Transition and Carbon Border Taxes

Climate and trade intersect when uncoordinated carbon border adjustments multiply border fees and stoke input-cost inflation. A Carbon Border Adjustment Mechanism (CBAM) is an eco-tariff on the embedded carbon of imports—designed to equalize costs between domestic and foreign producers[630]. As the EU's CBAM (transitional phase through January 1 2026) and emerging UK and U.S. proposals take shape, exporters risk facing a patchwork of carbon levies that feed through to consumer prices. Through G7 dialogue—especially under Canada's 2025 presidency—the bloc can negotiate harmonized CBAM rules (e.g., common product scope, emissions-accounting standards, phased implementation), reducing unpredictability in resource trade flows and limiting inflationary pressures from climate-related border measures.

**Potential Scenarios: Collaborative Anti-Inflation Measures**

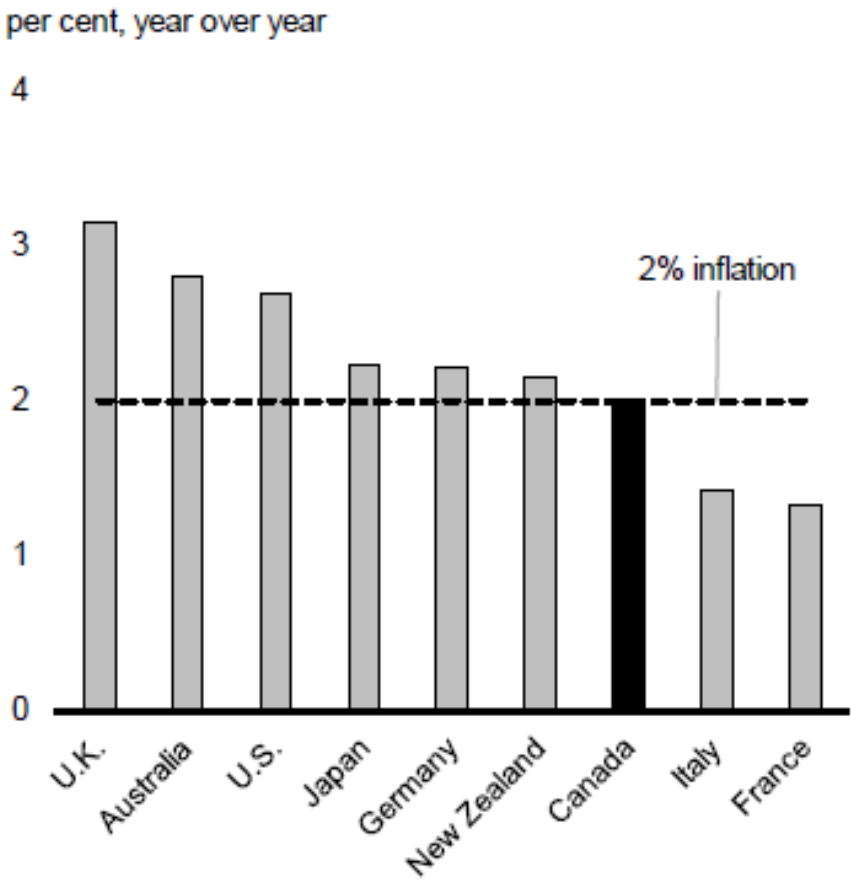
Cooperative Scenario: G7-Led De-Escalation

In this best-case future, G7 members fully implement harmonized anti-dumping rules, institute a "Tariff Peace Clause" requiring consultation before new duties, and operate a joint "Critical Commodities Reserve" for metals, grain, and energy. Under these conditions, RBC Economics projects that Canada's headline inflation could remain within the Bank of Canada's 1 percent–3 percent target band—hovering around 2 percent to 2.5 percent year-over-year—while global supply chains operate smoothly and real GDP

[630] Zero Carbon Analytics. (2024, November 12). *Carbon Border Adjustment Mechanisms require coordinated global action - Zero Carbon Analytics*. https://zerocarbon-analytics.org/archives/economics/carbon-border-adjustment-mechanisms-require-coordinated-global-action

growth proceeds without significant interruption[631]. Businesses benefit from predictable input costs, and consumers face stable prices, preserving purchasing power and supporting steady domestic demand.

**Exhibit 62. Consumer Price Inflation, Advanced Economies[632]**




Note: Last data points are November 2024 (Germany, Italy, France, and U.S.), October 2024 (Canada, U.K., and Japan), and 2024Q3 (New Zealand and Australia).

Source: Haver Analytics.

[631] His Majesty the King in Right of Canada. (2024). *Fall Economic Statement*. https://www.budget.canada.ca/update-miseajour/2024/report-rapport/FES-EEA-2024-en.pdf

[632] His Majesty the King in Right of Canada. (2024). *Fall Economic Statement*. https://www.budget.canada.ca/update-miseajour/2024/report-rapport/FES-EEA-2024-en.pdf

Partial Alignment: Ad Hoc Solutions

G7 cooperation is inconsistent: a few members champion collective measures, but strong domestic lobbies in others dilute commitments. Tariff disputes occasionally flare—especially in steel and agri-food—but are typically contained through short-term bilateral "mini-deals" (for example, a one-quarter U.S. steel-accord with volume caps). If the 25 percent U.S. steel and aluminum tariffs had remained in force for a full quarter, Canadian consumer prices would spike by roughly 0.3–0.5 percentage points—pushing inflation toward 2.9 percent year-over-year—before receding once tariff relief is restored. Once mini-pacts roll back duties, that temporary inflationary bump fades, allowing headline inflation to drift back toward the Bank of Canada's 2 percent target. Overall, Canada sidesteps prolonged commodity bottlenecks but still weathers moderate volatility[633] [634] [635].

High Conflict: Fragmented Multipolar World

In a breakdown of G7 unity compounded by rising tensions with emerging-market blocks, tariff escalations proliferate globally. Countries impose broad retaliatory duties, supply chains becoming protectionist enclaves, and trade diversion intensifies. The IMF warns that, under pronounced geoeconomic fragmentation, advanced-economy inflation could rise to around 4 percent year-over-year, driven by tariff-induced supply shocks and policy uncertainty[636]. Analysis of U.S. Section 232 steel and aluminum duties—where tariffs jumped from 10 percent to 25 percent— producer prices for basic metals rose by roughly 1 percent, feeding through into broader PPI gains[637],[638]. Recurrent "mini-trade wars" force repeated expansions of domestic bridging programs, straining public finances and underscoring the high cost of failing to sustain robust collaborative frameworks.

[633] Government of Canada, Statistics Canada. (2025a, January 21). *The Daily — Consumer Price Index: Annual review, 2024*. https://www150.statcan.gc.ca/n1/daily-quotidien/250121/dq250121b-eng.htm
[634] The Conference Board of Canada. (2025, April 2). *The true cost of Trump tariffs: City Impacts - The Conference Board of Canada*. https://www.conferenceboard.ca/insights/the-true-cost-of-trump-tariffs-city-impacts/
[635] CityNews Halifax. (2025, March 31). *Tariffs could lead to 160,000 job losses in second quarter: Conference Board*. https://halifax.citynews.ca/2025/03/31/tariffs-could-lead-to-160000-job-losses-in-second-quarter-conference-board-2
[636] *U.S. and global economies to sag and inflation rise if trade wars drag on, IMF says*. (n.d.). Market Watch. https://www.marketwatch.com/story/u-s-and-global-economies-to-sag-and-inflation-rise-imf-says-if-trade-wars-drag-on-in-2025-6ffeaa1d
[637] Government of Canada, Statistics Canada. (2025, March 20). *The Daily — Industrial product and raw materials price indexes, February 2025*. https://www150.statcan.gc.ca/n1/daily-quotidien/250320/dq250320a-eng.htm
[638] *How battery tech and chemistry are expected to evolve*. (n.d.). https://www.rbccm.com/en/story/2025/02/how-us-steel-and-aluminum-tariffs-would-impact-canadas-economy

**Conclusion: Crafting a Collaborative Global Environment to Curb Tariff-Driven Inflation**

International collaboration is essential for Canada to mitigate tariff-driven inflation, prevent prolonged trade disputes, and maintain the stable market conditions that underpin economic growth. By reinforcing bilateral partnerships through early-warning mechanisms and targeted mini-deals, revitalizing multilateral institutions like the WTO to ensure credible dispute resolution, and leveraging G7 coordination for shared reserves and de-escalation clauses, Canada can sharply reduce both the occurrence and impact of protectionist measures. Such a multifaceted approach not only stabilizes domestic prices but also sustains Canada's commitment to open trade and innovation.

Despite political and diplomatic challenges—ranging from diverging domestic priorities to overlapping regional agreements, the potential gains from persistent, resourceful engagement are significant. Lower inflation volatility preserves consumer purchasing power and business confidence; enhanced supply chain security protects against sudden disruptions; and expanded green-tech and high-value exports strengthen Canada's competitive edge in global markets. Ultimately, Canada's success will depend on its ability to bridge national interests with the imperatives of collective action, ensuring that a rules-based international trading system endures even amid rising geopolitical tensions.

Looking at the reverse. The Canadian economy, despite being smaller than the US, can significantly impact the US economy, particularly in certain sectors. While the US economy is much larger, the interconnected nature of their trade relationship means that issues in Canada can have ripple effects across the border.

Here's why:

- **Deep Trade Integration:**

The US and Canada have one of the world's largest and most integrated trading relationships. Over $2.5 billion in goods and services cross the border daily. This level of integration means that disruptions in Canada, such as economic downturns or policy changes like tariffs, can quickly affect US businesses and consumers.

- **Specific Sector Reliance:**

The US relies heavily on Canada for certain critical resources and goods. For example, Canada is a major supplier of oil to the US, especially to refineries in the Midwest and Gulf Coast. Disruptions to this supply could raise energy prices in the US. Furthermore, many US industries, like auto manufacturing, depend on cross-border supply chains with Canada.

- **Impact on Jobs:**

Trade with Canada supports millions of jobs in both countries. A downturn in the Canadian economy could lead to job losses in the US, particularly in sectors reliant on trade with Canada.

- **Potential for Contagion:**

While the US economy is larger, a significant downturn in Canada could create economic uncertainty and potentially trigger a broader economic slowdown, impacting global markets and potentially affecting the US.

- **Canadian Countermeasures:**

Canada has also implemented tariffs in response to US tariffs, which can disrupt supply chains and increase costs for US businesses exporting to Canada.

- **Uncertainty:**

Recent tariff threats and policy changes have created significant uncertainty for businesses in both countries, potentially leading to reduced investment and slower economic growth.

The Canadian economy can potentially recover from the impact of tariffs, but it will require a multi-faceted approach. While tariffs can negatively impact growth and increase prices, Canada can mitigate these effects through strategic policy adjustments, diversification of trade, and focusing on areas of competitive advantage.

Here's a more detailed look at how Canada might rebound:

1. Diversification of Trade:

- Beyond the US:

Canada relies heavily on trade with the United States. Diversifying trade relationships by strengthening ties with other countries and participating in new trade agreements (like CPTPP or CETA) can reduce its vulnerability to US tariffs.

Re-negotiate with China

- Specific Sectors:

Focusing on sectors with strong global demand, such as those related to natural resources, can help offset losses in sectors facing tariff pressures.

2. Strategic Policy Adjustments:

- Monetary Policy:

The Bank of Canada can use monetary policy tools like interest rate adjustments to help the economy adjust to tariff shocks and manage inflation. Lowering interest rates could stimulate demand, while potentially raising rates to manage inflationary pressures.

- Fiscal Policy:

Government spending on infrastructure projects, tax deferrals, and loan programs can provide support to trade-related sectors.

- Internal Trade:

Reducing interprovincial trade barriers can improve the flow of goods and services within Canada, boosting productivity and competitiveness.

3. Addressing Specific Challenges:

- Tariff Retaliation:

Canada can strategically retaliate against tariffs, but should carefully consider the potential consequences and avoid escalating trade conflicts.

- Domestic Demand:

While tariffs may hurt exports, Canada can focus on boosting domestic demand through targeted policies and investments.

- Industry-Specific Support:

Providing targeted support to industries most affected by tariffs, such as through loan programs or tax incentives, can help them adapt and remain competitive.

- Building on Strengths:

Canada can leverage its strengths in areas like natural resources, technology, and education to create new opportunities and attract investment.

4. Addressing Uncertainty:

- Clear Communication:

Providing clear and consistent communication about the government's response to tariffs can help reduce uncertainty and build confidence.

- Long-Term Planning:

Focusing on long-term sustainable growth strategies rather than short-term retaliatory measures is crucial for navigating the challenges posed by tariffs.

5. Long-Term Focus:

- Productivity Growth:

Investing in research and development, education, and infrastructure can boost Canada's productivity and competitiveness in the long run.

- Innovation:

Fostering innovation and supporting the growth of new industries can help Canada adapt to changing global markets.

By taking a comprehensive and strategic approach, Canada can navigate the challenges posed by tariffs and position itself for long-term economic growth and resilience, according to Scotiabank.

## Section 11. Conclusion

The re-escalation of tariff-based trade tensions between Canada and the United States in 2025 marks a critical inflection point in North American economic relations. As the report illustrates, tariffs are not merely abstract economic tools—they have immediate, measurable, and often unintended consequences that ripple across supply chains, consumer prices, investment climates, and geopolitical alliances.

The cumulative analysis of historical case studies, sectoral vulnerabilities, and macroeconomic indicators reveals that tariffs act as a blunt instrument, distorting market signals and weakening economic efficiency. While intended to protect domestic industries, they frequently generate inflationary pressures, suppress household consumption, and exacerbate economic uncertainty—particularly when accompanied by retaliatory measures. In Canada's case, the intertwined nature of its economy with the U.S. means that even targeted trade disruptions produce outsized effects, risking permanent structural shifts in competitiveness, employment, and living standards.

Moreover, the political theater observed at the 2025 G7 Summit underscores a broader transformation in the international trade landscape—from a rules-based system to a transactional, power-driven approach. This evolution challenges Canada's traditional reliance on multilateral frameworks and forces policymakers to consider new strategies that balance national resilience with global interdependence.

Going forward, Canada must weigh short-term countermeasures against long-term adaptation. This includes developing domestic production capacity in key sectors, diversifying export markets, and pursuing innovation-led competitiveness. However, no mitigation strategy can fully insulate the country from the consequences of a global retreat from cooperative trade. As such, Canada's economic future depends not only on its internal policy response, but also on its ability to shape, influence, and adapt within an increasingly fractured global trade order.

## About the Authors

Shanaz Joan Parsan is a senior-level financial professional with over 20 years of managerial experience including significant, practical Wall Street and Bay Street experience in many industries including the Energy, Mining, and Power sectors. She has solid restructuring skills, and excellent capabilities in negotiations, financial analysis, due diligence, contract analysis, and legal documentation.

Shanaz earned an MBA from the Schulich School of Business, an HBSc in Actuarial Science and a BSc in Statistics from the University of Western Ontario. Shanaz passed the Derivatives Fundamental Course from the CSI and holds a bilingual certificate (French/English) from Collège Boréal.

She is fluent in several European languages. Shanaz fundraises for various political parties and charities and has a keen interest in historical, social, legislative and political issues and is an advocate for active citizenship, higher education, and animal rights.

Shanaz has certificates in Negotiations from Yale University and the University of Michigan in addition to a Certificate in Leadership, Foundational Principles from Harvard. She is a member of the ACG (Association of Corporate Growth) Toronto Chapter. She enjoys research in Economics, Health and social sciences, and in Theology.

Mun Kim received a B.Sc.(Hons) degree in Physics and Astronomy from the University of Manitoba in Winnipeg, MB, Canada, where he is working on a Ph.D. in condensed matter physics. He received more than three years of training in data analysis, modeling, and drafting quantitative-driven reports. He aims to pursue a career in finance and is attaining the CFA licensure.

Currently, Mun is working at SZC as a VP Research and will leverage his quantitative skills with finance and work with the team to publish articles.

## Disclaimer

This report is approved and/or distributed by Szymon Zephan Capital (SZC Group) a Canadian mid-market boutique, differentiated investment bank, Industry expertise, and trusted long-term advisor. The trademarks, logos, and service marks shown in this report are registered trademarks of Szymon Zephan Capital.

This report is provided for informational purposes only. The information and opinions in this report were prepared by employees of Szymon Zephan Capital. The information herein is believed by Szymon Zephan Capital to be reliable and has been obtained from public sources believed to be reliable, But Szymon Zephan Capital makes no representation as to the accuracy or completeness of such information. Opinions, estimates, and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Szymon Zephan Capital and are subject to change without notice. In addition, opinions, estimates, and projections in this report may differ from or be contrary to those expressed by other business areas or divisions of Szymon Zephan Capital.

Szymon Zephan Capital has no obligation to update, modify, or amend this report or to otherwise notify a reader thereof if any matter stated herein, or any opinion, projection, forecast, or estimate set forth herein, changes or subsequently becomes inaccurate. Facts and views in these research reports and notes have not been reviewed by, and may not reflect information known to, professionals in other business areas, such as investment banking personnel. Szymon Zephan Capital does not provide individually tailored investment advice in research reports.

Szymon Zephan Capital's other professionals may provide opinions that are contrary to the ones expressed in this research. The electronic version of the report is simultaneously available to all clients. This report is provided to Szymon Zephan Capital clients and may not be redistributed, retransmitted, or disclosed, in whole or in part, or in any form or manner, without the express written consent of Szymon Zephan Capital. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusions, or information contained in this report without first obtaining express permission from Szymon Zephan Capital.

This report is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.