

THE INS AND OUTS OF CANADA-U.S.

TRADE AND THE POTENTIAL IMPACT

OF TRUMP'S (EVER-CHANGING) TARIFFS

CSLS Seminar April 15, 2025 Ottawa, ON





OUTLINE



- Context
- 2 Canada-U.S. integration
- Trump's tariff threats
- 4 Assessing tariff exposure
- Reasons for optimism
- **6** Data tools and resources



Canada-U.S. integration

HIGHLY INTEGRATED PRODUCTION



HAMBURGER EXAMPLE



- Manufacturing
- Energy markets
- Financial systems

Source: Agriculture and Agri-food Canada.

MOST CAN-U.S. TRADE IN MANUFACTURING AND ENERGY



Composition of Canada-U.S. goods trade

% of total, first half of 2024

Manufactured Goods

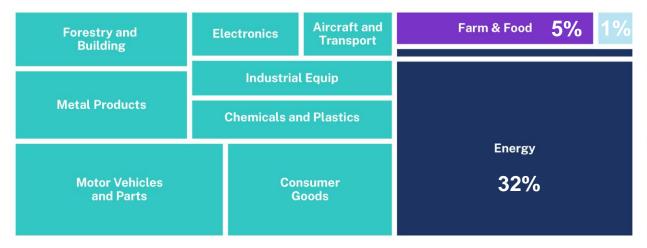
Natural Resources and Raw Materials

Agriculture and Intermediate Food

Miscellaneous and Other

Canadian goods exports to the U.S.

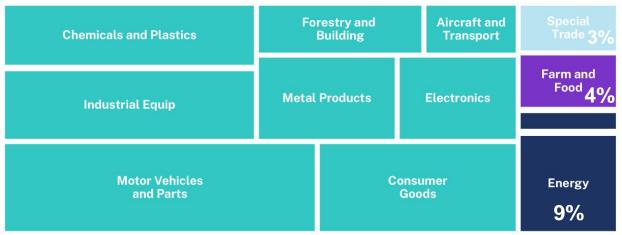
% of total, first half of 2024



All manufacturing, 61%

Canadian goods imports from the U.S.

% of total, first half of 2024



All manufacturing, 84%

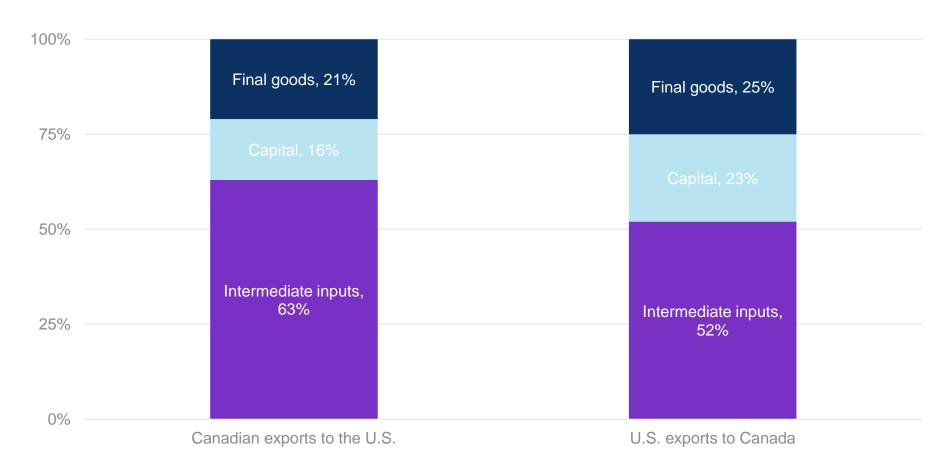
Source: BDL's Partners in Prosperity report.

MOST CAN-U.S. TRADE IS BUSINESS INPUTS



Broad economic categories of Canada-U.S. trade

% of total, 2023



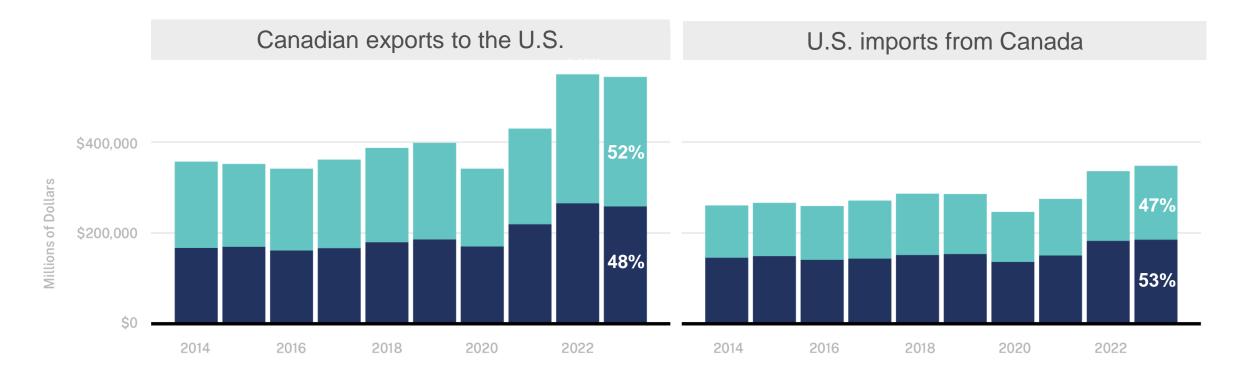
Source: BDL's Partners in Prosperity report.

HALF OF TRADE IS VIA "RELATED PARTIES"



Canada-U.S. related and unrelated party trade Millions of Canadian dollars, 2014-2023





Source: BDL's Partners in Prosperity report.

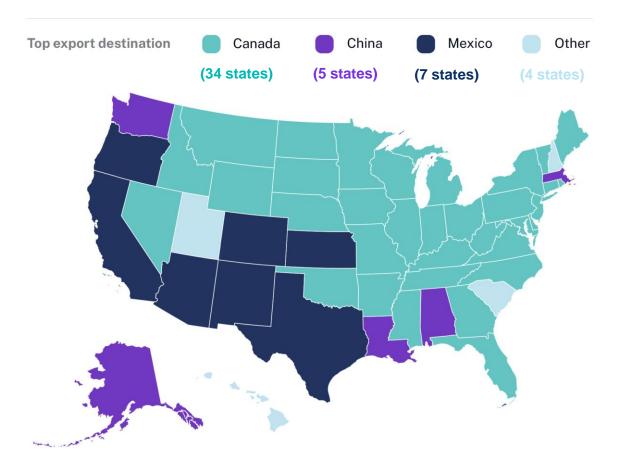
Note: A "related party" holds an ownership stake in the party it is buy from or selling to. BDL calculations using StatCan Tables 12-10-0158-01 and 12-10-0160-01.

CANADA IS A KEY EXPORT MARKET AND SUPPLIER THROUGHOUT THE U.S.

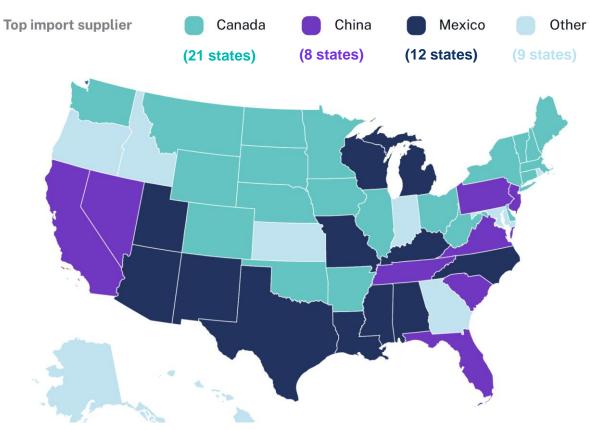


Top trade partners for U.S. states

U.S. Exports



U.S. Imports



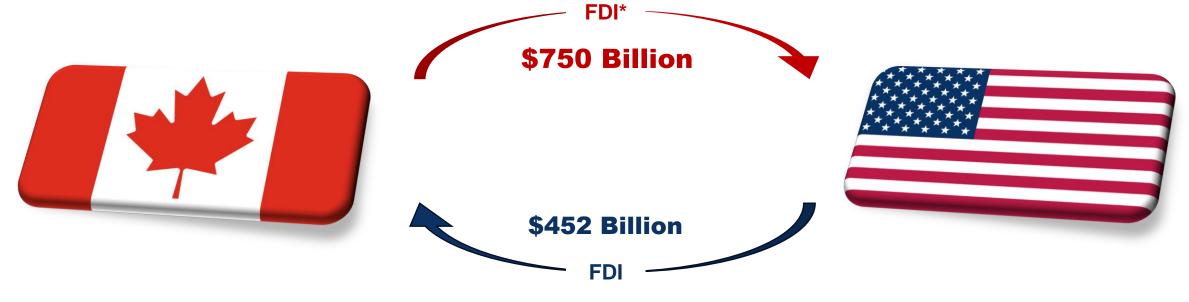
CANADA INVESTS MORE IN THE U.S. THAN THE U.S. INVESTS IN CANADA



Stock of foreign direct investment

2023, billions of US dollars

Canadian direct investment in the U.S.

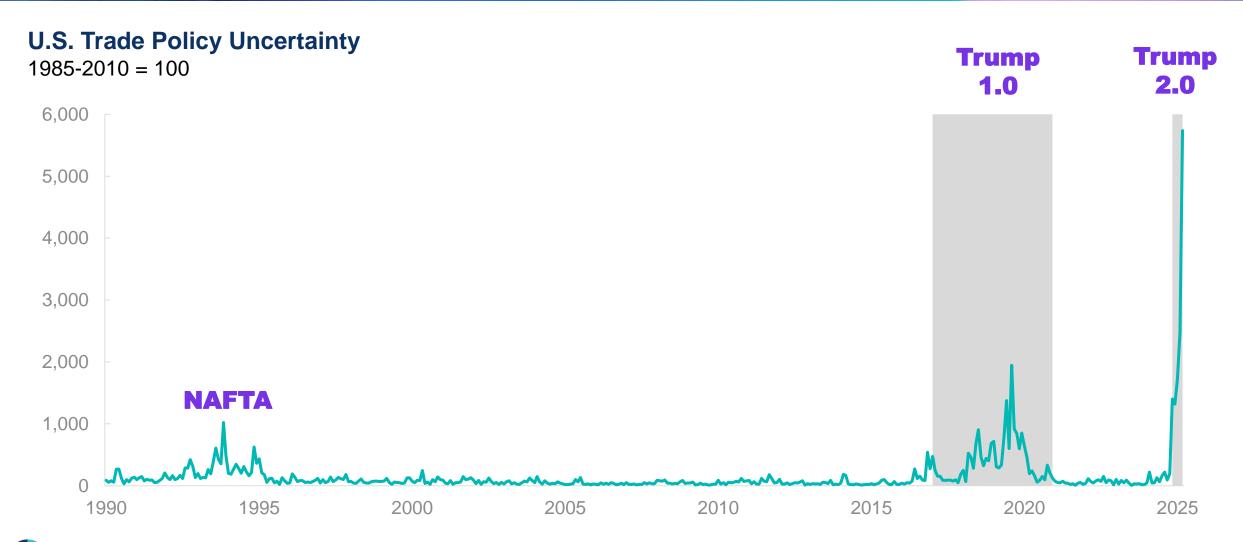


U.S. direct investment in Canada



Tariff-ied

U.S. TRADE POLICY UNCERTAINTY...

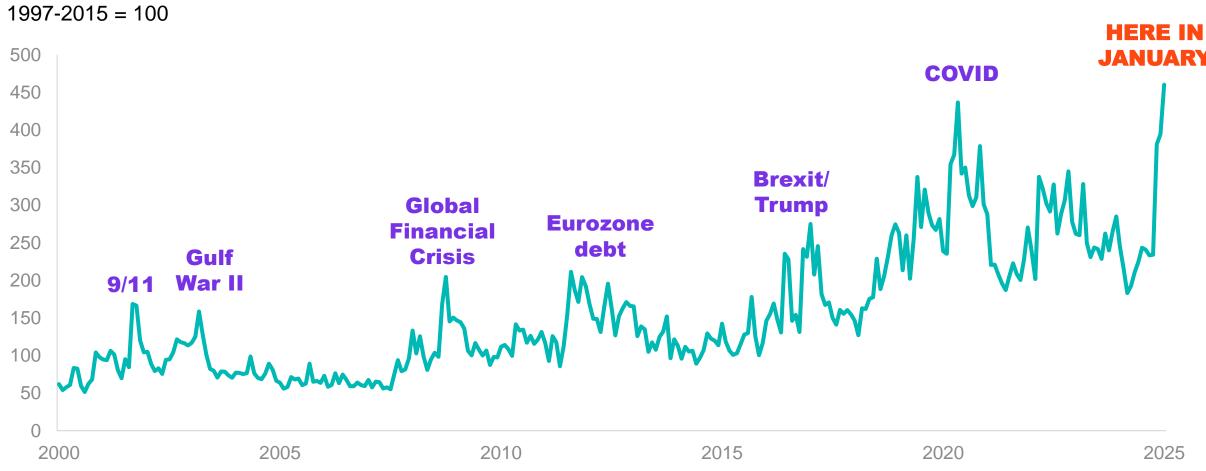




Source: Baker, Bloom and Davis via Haver.

...EXTREME UNCERTAINTY GLOBALLY...

Global Economic Policy Uncertainty Index



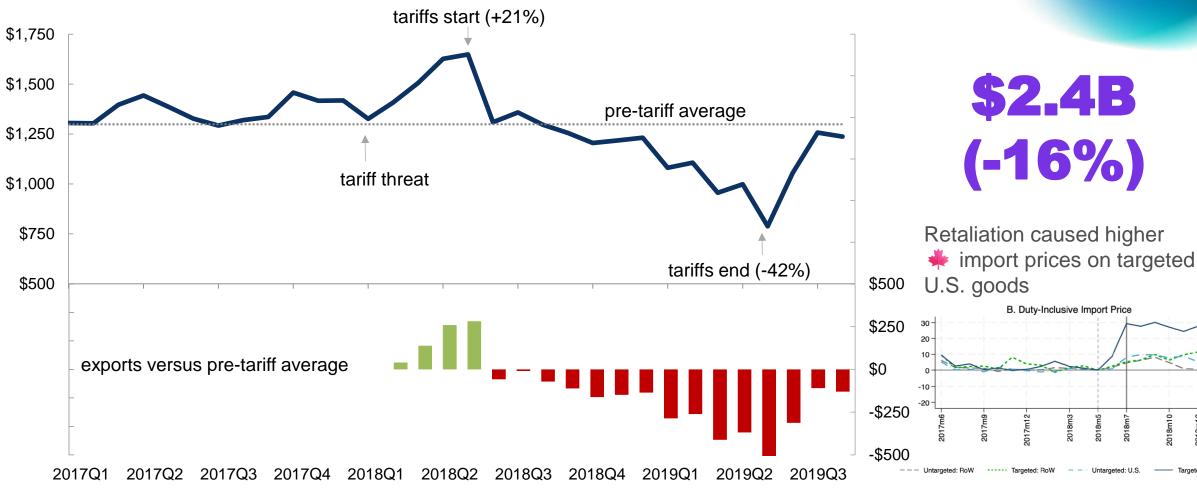


PAST TARIFFS TOOK A TOLL



Canadian exports of tariffed steel and aluminum products to the U.S.

Millions of Canadian dollars

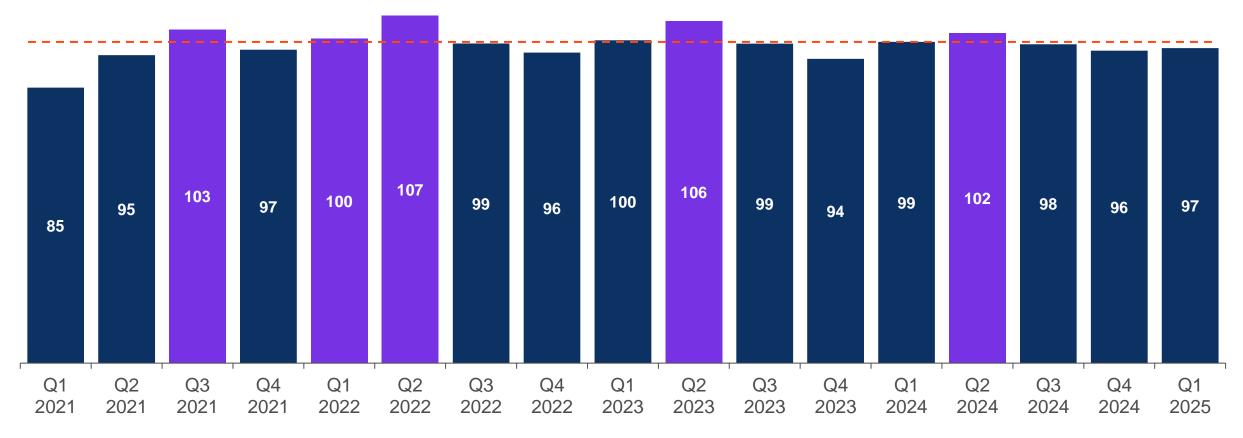


WEAKENING BUSINESS SENTIMENT LAST 3 QUARTERS

Business Expectations Index, Canada

Next three months, < 100 = business expecting weaker performance





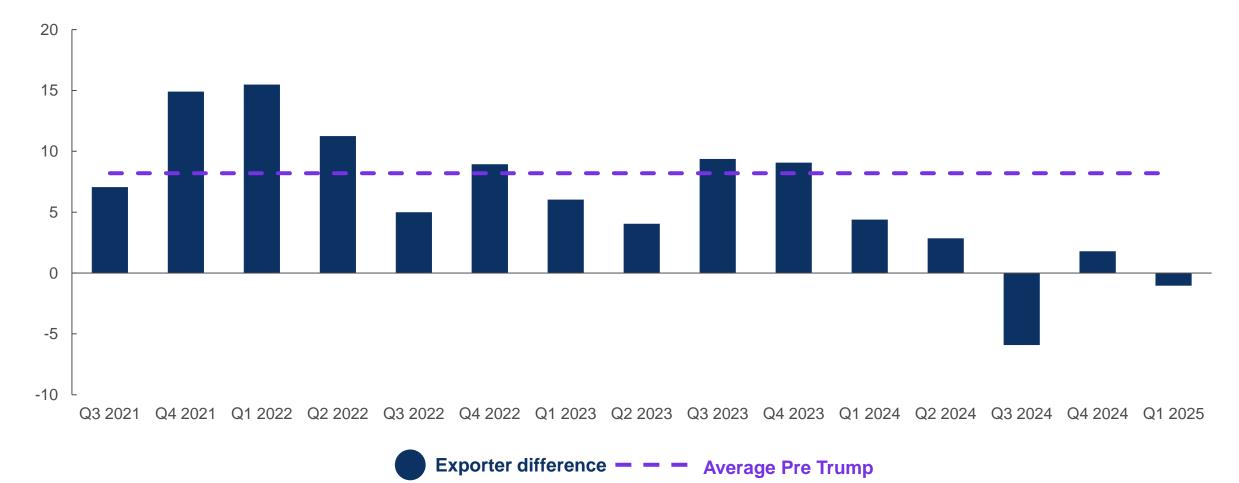




EXPORTERS HAVE LOST THEIR OPTIMISTIC ADVANTAGE

Business Expectations Index, difference between goods exporters and all businesses

Difference in sentiment between exporters and all businesses. Positive values mean exporters are more optimistic; negative values mean they are less optimistic.

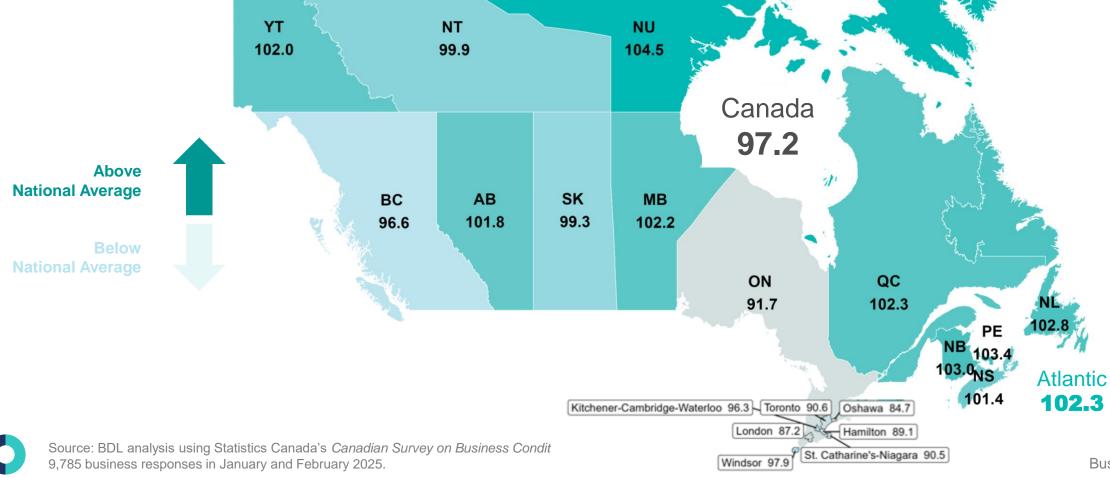


Source: BDL analysis using Statistics Canada's Canadian Survey on Business Conditions.

WEAKNESS CONCENTRATED IN SW ONTARIO

Business Expectations Index, regional

Next three months, < 100 = business expecting weaker performance

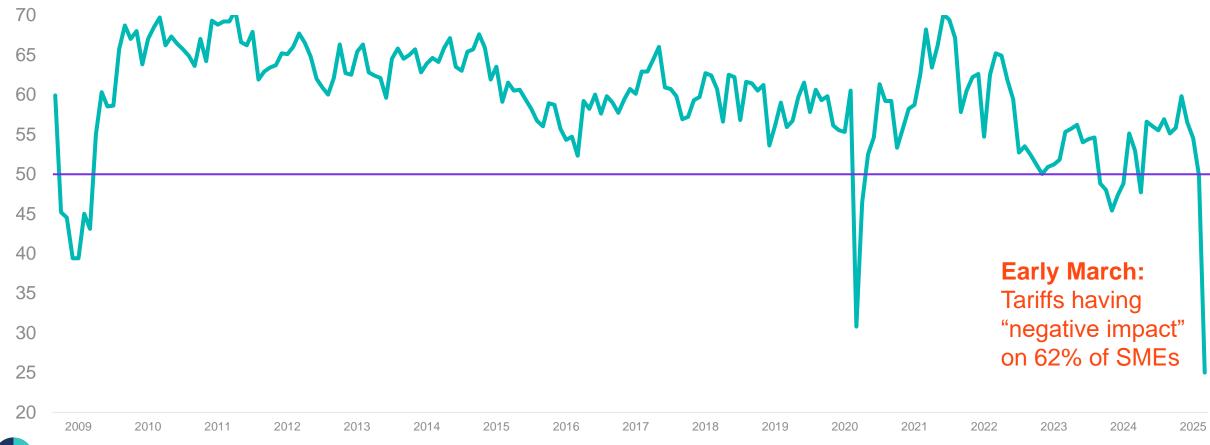




SMALL BUSINESS CONFIDENCE COLLAPSE

Canadian SME business confidence index

Next 12-months, < 50 = business expecting weaker performance





Source: CFIB Business Barometer, as of March 2025.

BUSINESSES NOW EXPECT HIGHER INFLATION

SME inflation expectations vs. core inflation

Avg. selling price expectations, next year, CPI inflation excluding food and energy

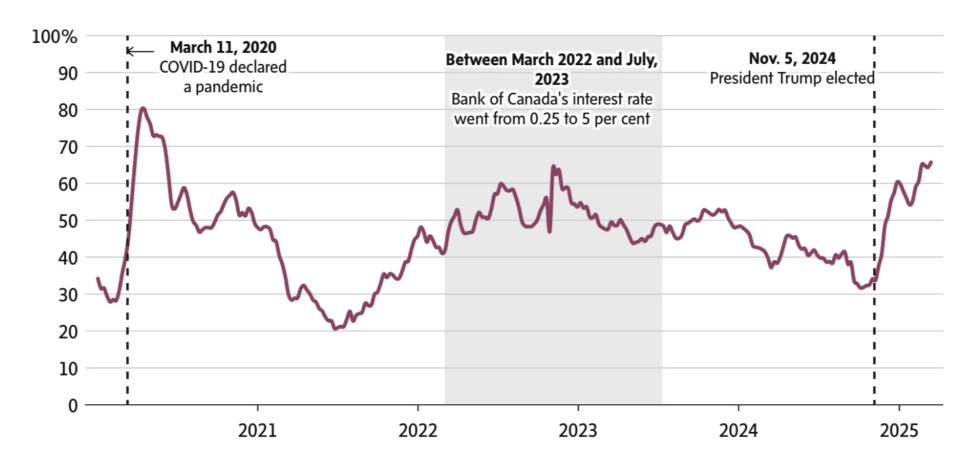




CONSUMER CONFIDENCE CONCERNS

Canadian consumer confidence

Share of respondents who believe the economy will weaken, next six months

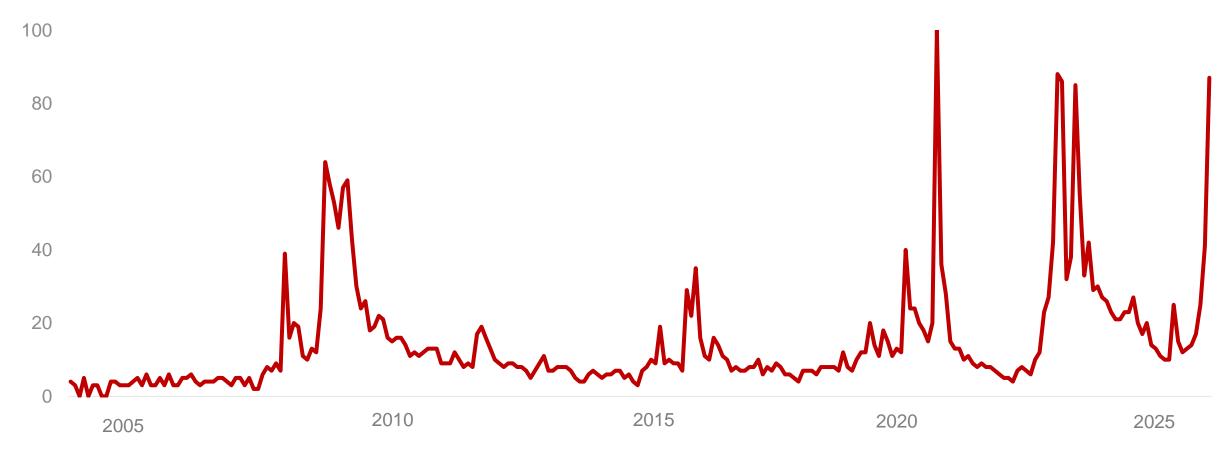




"RECESSION" WORRIES

Search activity in Canada for "Recession"

Index, max = 100







Assessing tariff exposure

TRUMP TARIFFS WILL HURT CANADA AND U.S.





Simulated Effects of a 25% U.S. Import Tariff With Retaliation

Real GDP shock, %

Economic cost, per person

Exploring the Significance of Canada-U.S. Trade

Canada-U.S. Trade

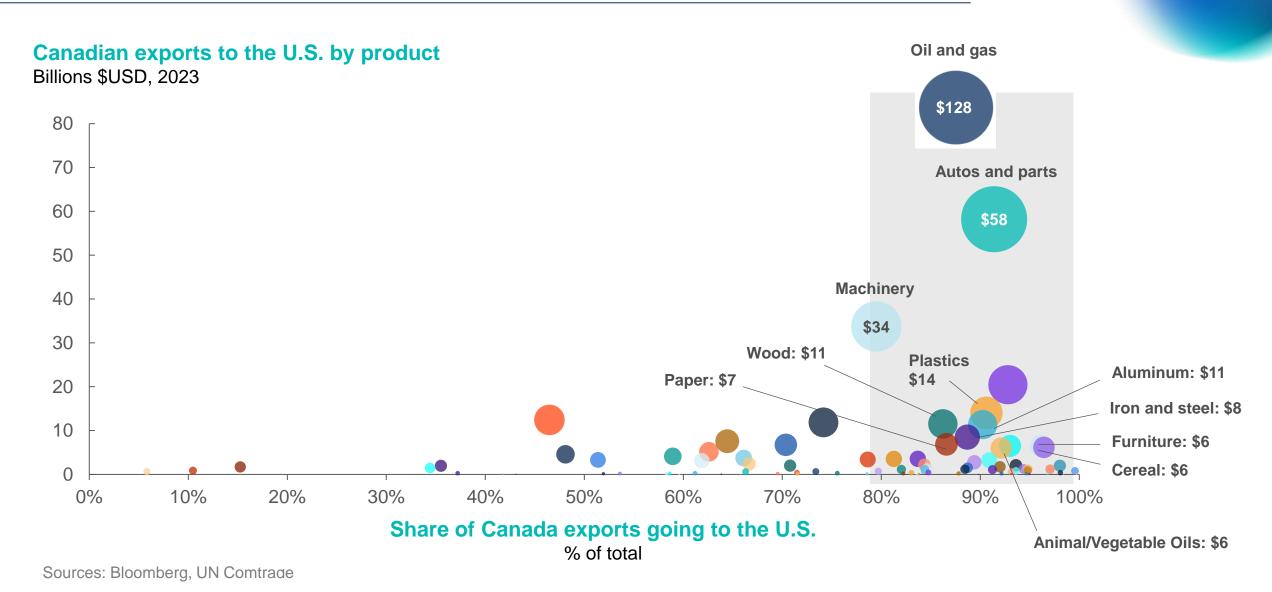
October 2024

Canada -2.6% \$1,900 CAD

United States -1.6% \$1,300 USD

MOST CANADIAN EXPORT SECTORS ARE OVER 80% DEPENDENT ON THE U.S. MARKET



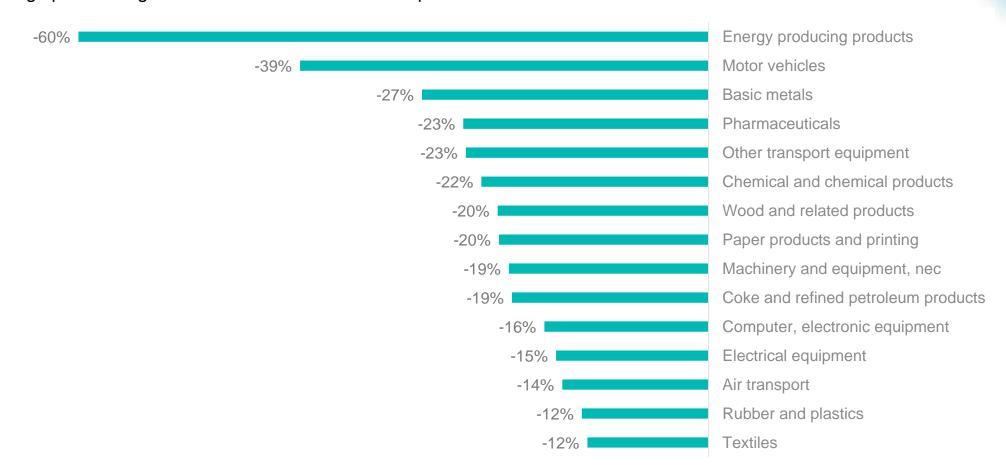


HIT TO ENERGY, AUTO, METALS EXPORTS



Canadian exports to the U.S. by sector

Percentage point change as a share of each sector's output under a 25% U.S. across-the-board tariff with retaliation

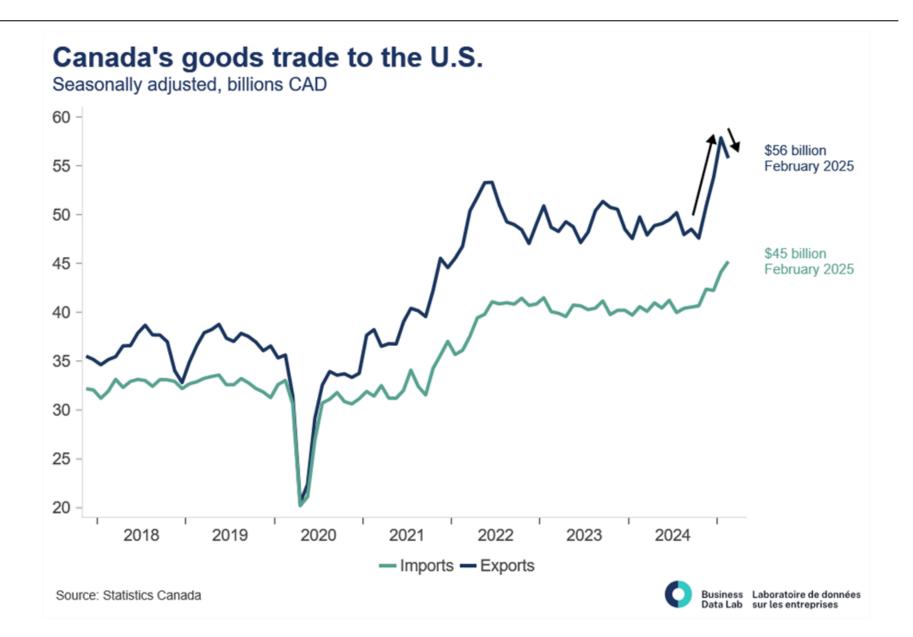


Source: Update of the BDL's Partners in Prosperity report.

Note: BDL calculations using a general equilibrium model of the global economy.

TARIFFS PULLED FORWARD U.S. IMPORTS, LIKELY TO FALL FURTHER





SO MUCH FOR REDUCING THE U.S. TRADE DEFICIT



U.S. merchandise trade balance





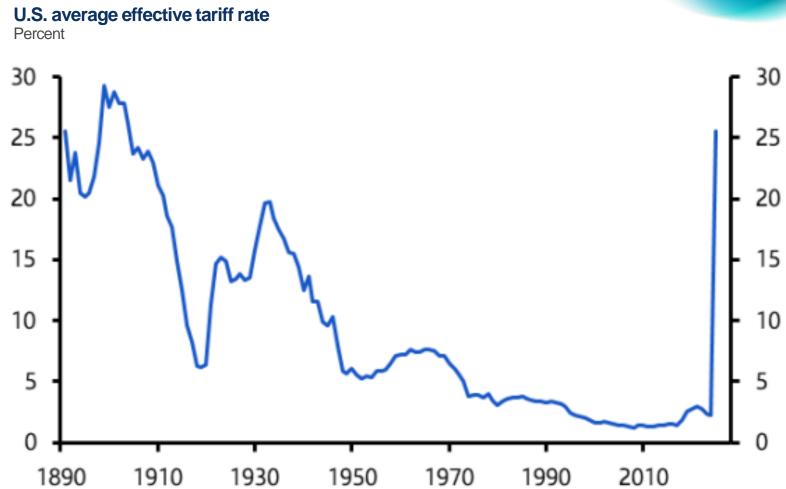
Source: Haver

...ALL BEFORE U.S. TARIFF RATE RISES TO HIGHEST LEVEL IN OVER 100 YEARS!



A farcical announcement and a tragic day for the rules-based global trading system.



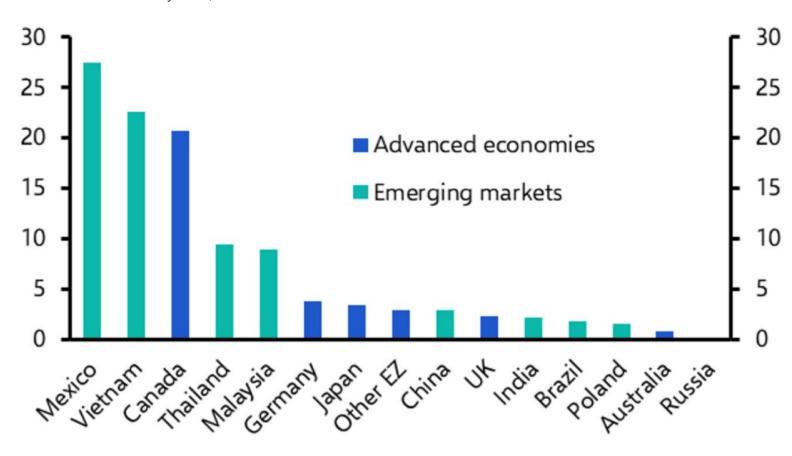


U.S. EXPORT EXPOSURE ACROSS THE WORLD



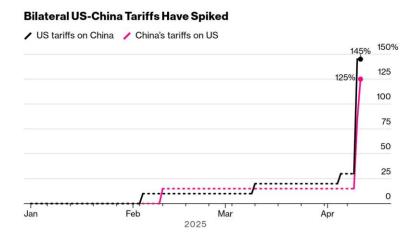


Percent of home country GDP, 2023



Massive U.S. (145%) – China (125%) tariff escalation

→ trade diversion concerns



Bloomberg

(EVER-CHANGING) U.S. TARIFF TIMELINE FOR CANADA



U.S. action	Canadian response
25% initially all goods,* then full exemptions for USMCA compliant 10% on energy and potash	25% on U.S. goods such as: tires, tool, motorcycles (Duty drawback for reexports, remission applications)
25% revives and broadens scope from 2018 S&A tariff	25% on U.S. goods such as: S&A, metals
0% for USMCA compliant goods 25% for non-USMCA compliant autos and auto parts (may stack on fentanyl tariff to 50%)	25% on U.S. vehicle imports that do not originate in Canada or Mexico
12%** on non-USMCA compliant goods, if fentanyl tariff is lifted	
	25% initially all goods,* then full exemptions for USMCA compliant 10% on energy and potash 25% revives and broadens scope from 2018 S&A tariff 0% for USMCA compliant goods 25% for non-USMCA compliant autos and auto parts (may stack on fentanyl tariff to 50%) 12%** on non-USMCA compliant

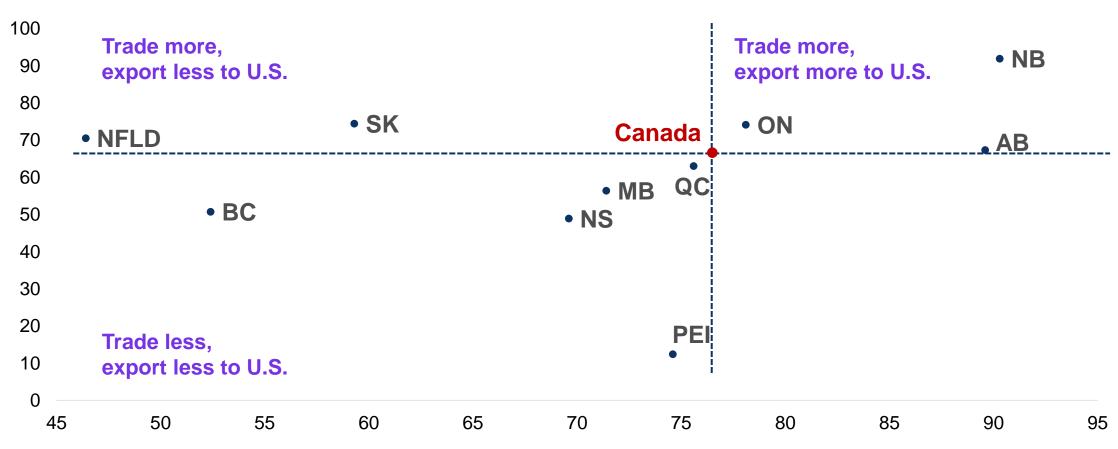
Potential for more sector-specific tariffs (e.g., lumber, semiconductors, pharmaceuticals, agriculture, copper)

VULNERABLE * PROVINCES: NB, AB, ON



Trade intensity

Goods exports plus imports, relative to GDP in 2023



Goods exports to the U.S.

Share of total, as of September 2024

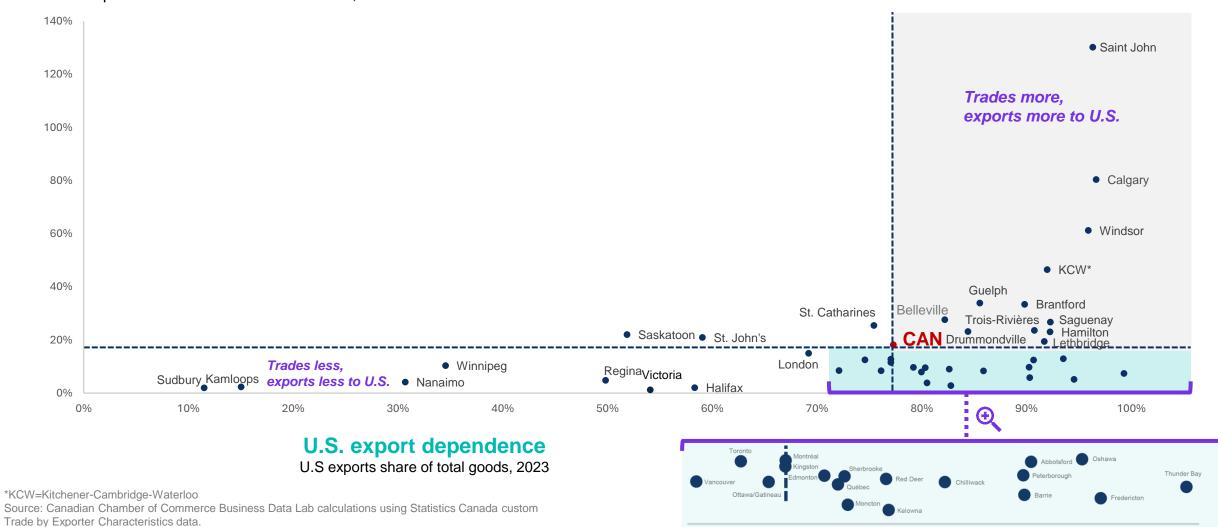


CITIES' U.S. TARIFF VULNERABILTY



U.S. export intensity

Goods exports to the U.S. as a share of GDP, 2021



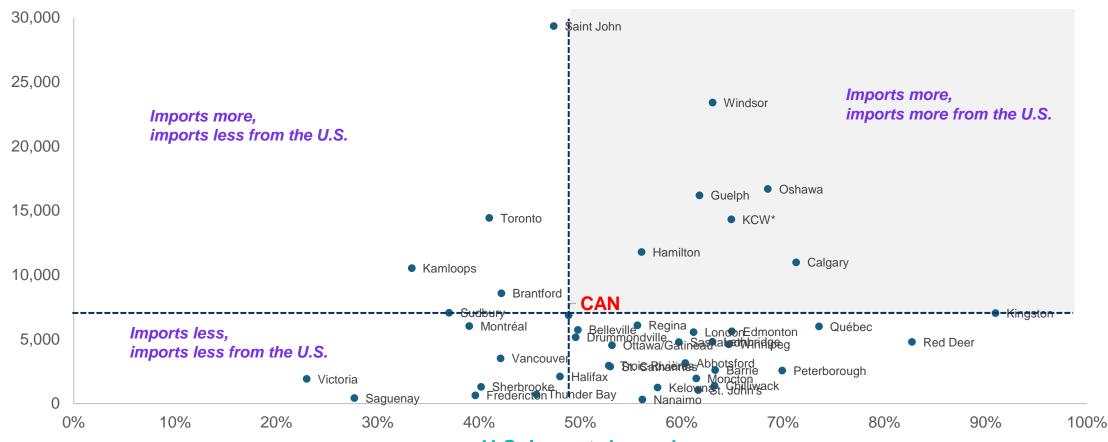


CITIES' U.S. IMPORT DEPENDENCE



U.S. import intensity

Value of goods imported from the U.S. per capita, 2023



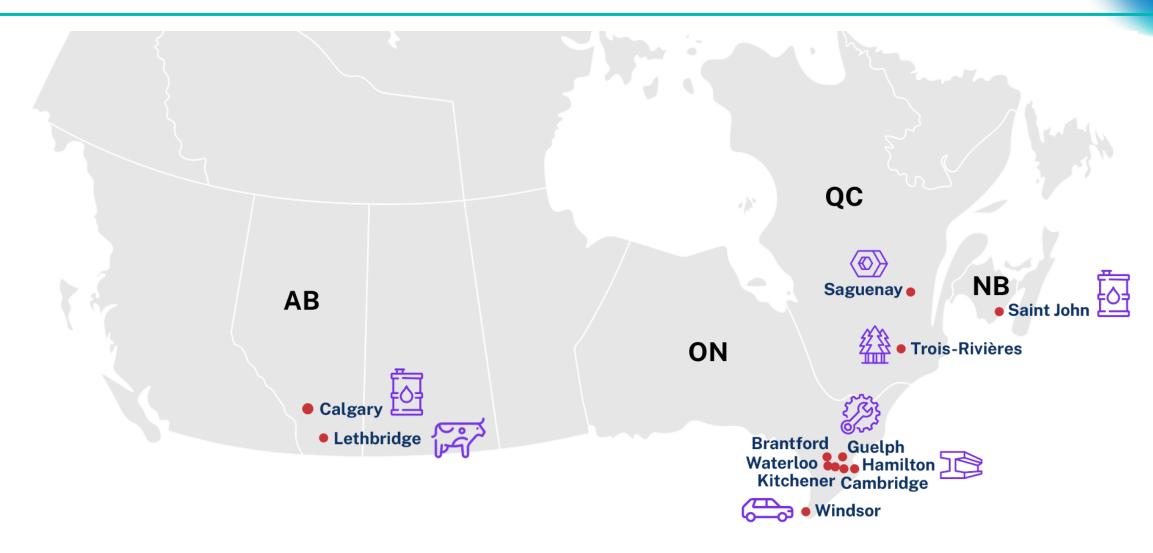
U.S. import dependence

U.S goods import share of total, 2023



"HOTSPOTS" MOST VULNERABLE TO U.S. TARIFFS





Source: BDL calculations using custom Statistics Canada trade data by exporter characteristics. Based on goods export intensity to U.S. (relative to local GDP), and export dependence on U.S. market (relative to total exports).



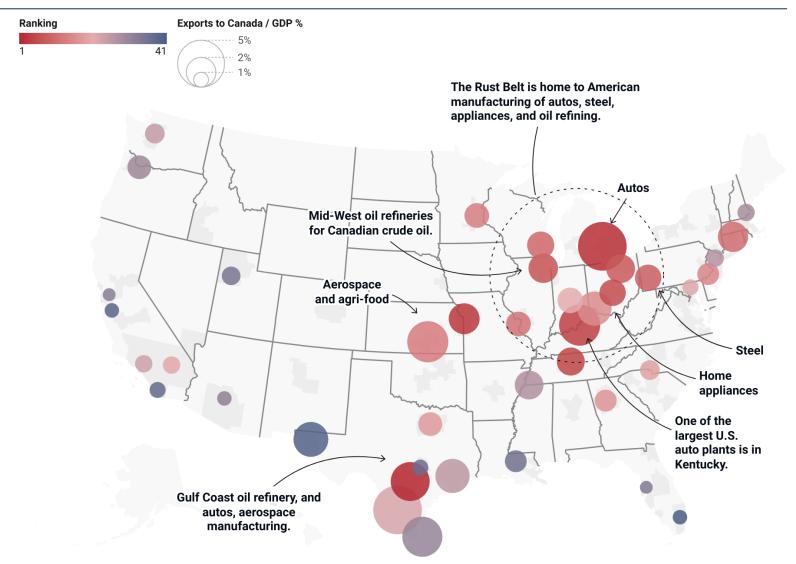
EXPORT-DEPENDENCE FOR U.S. CITIES



	Metropolitan area	Canada exports / GDP	Canada share of exports	Relative Canada- dependence measure ▼
1	San Antonio-New Braunfels, TX	3.4%	48%	32
2	Detroit-Warren-Dearborn, MI	5.4%	39%	26
3	Kansas City, MO-KS	2.1%	37%	20
4	Louisville/Jefferson County, KY-IN	3.8%	34%	19
5	Nashville-DavidsonMurfreesboroFranklin, TN	1.7%	33%	16
6	Columbus, OH	1.5%	33%	15
7	Chicago-Naperville-Elgin, IL-IN	1.9%	31%	14
8	Cleveland, OH	1.8%	30%	13
9	Pittsburgh, PA	1.5%	25%	7
10	Milwaukee-Waukesha, WI	1.6%	23%	6
11	Hartford-West Hartford-East Hartford, CT	2.0%	22%	5
12	St. Louis, MO-IL	1.3%	21%	4
13	Wichita, KS	3.8%	19%	4
14	Minneapolis-St. Paul-Bloomington, MN-WI	1.3%	20%	2
15	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	1.0%	19%	1
42	United States	1.3%	18%	

U.S. CITIES: * EXPORT EXPOSURE

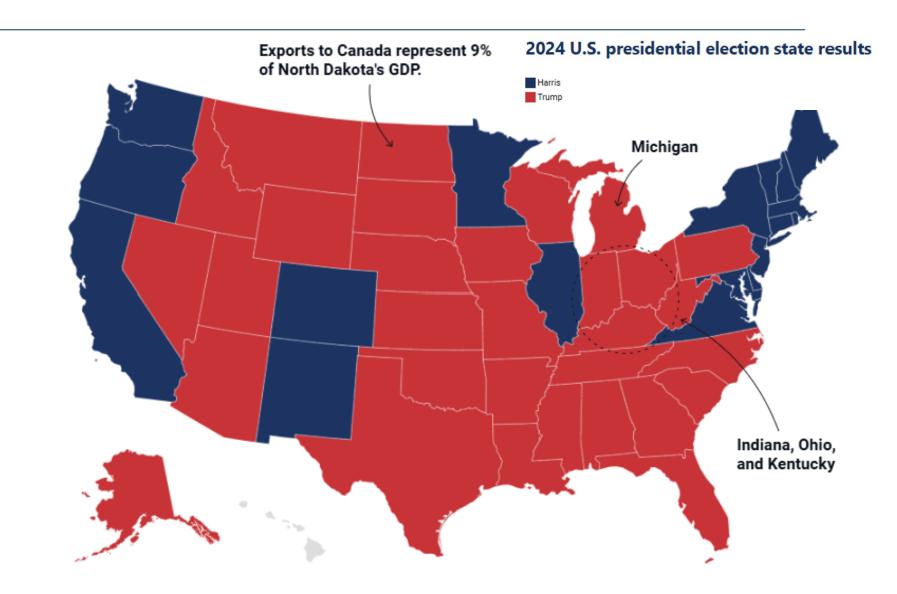




Sources: Canadian Chamber of Commerce Data Lab calculations using U.S. Census Bureau and U.S. ITA trade data. Note: Cities in red have a higher export-dependence on Canada.

MORE EXPOSURE IN RED STATES

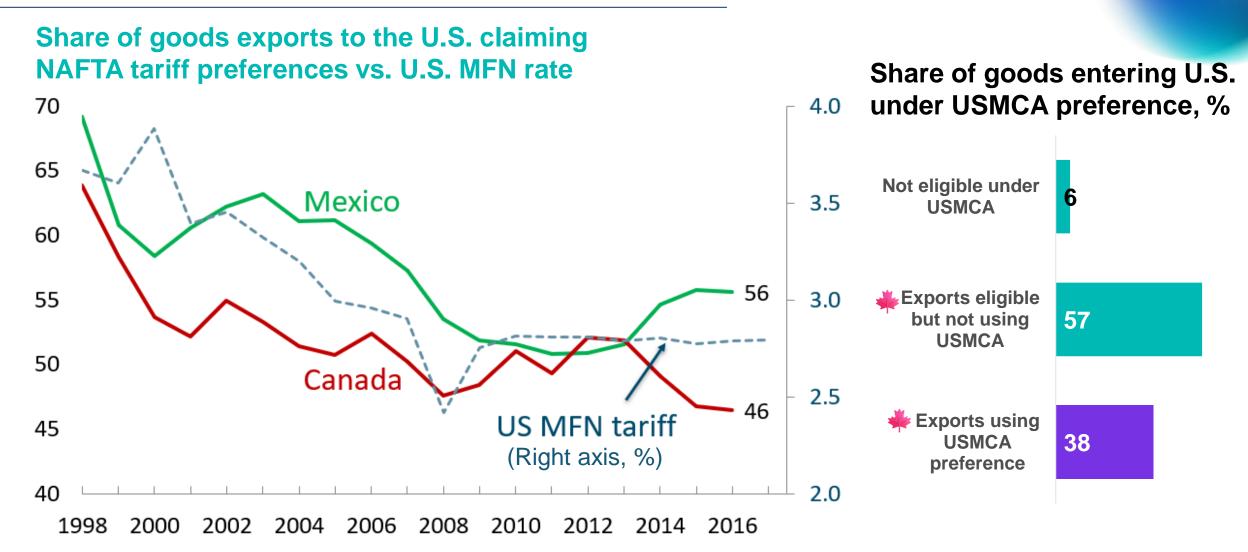




Sources: Canadian Chamb Note: Cities in red have a h

EXEMPTIONS FOR USMCA-COMPLIANCE TO INCREASE TARIFF PREFERENCE USE





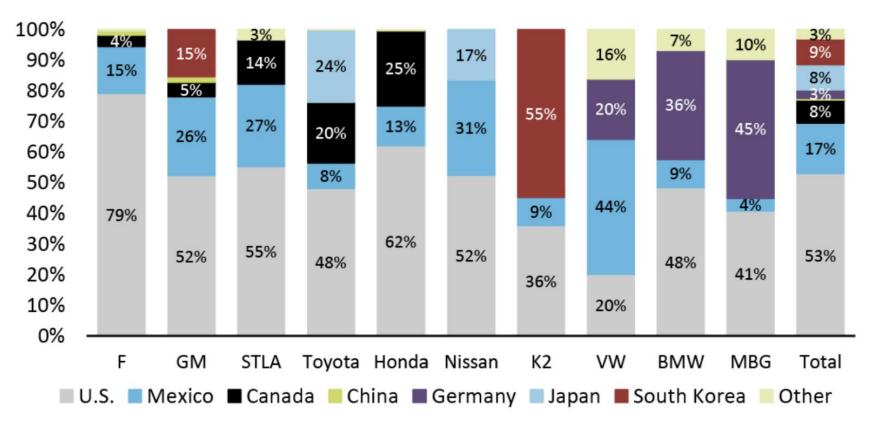
Sources: EDC Economics (left chart); Estimates from RBC Economics (right chart)

Tariffs on U.S. autos and parts imports could hurt 🌞



2024 U.S. autos sales by product country of origin

Share of total





Ford: Oakville

GM: Oshawa, Ingersoll

Stellantis: Windsor, Brampton

Toyota: Cambridge, Woodstock

Honda: Alliston



BIG CHALLENGES RESHORING U.S. PRODUCTION



	Auto parts and assembly	Crude oil	Aluminum
supplies to the U.S.	1.5 million vehicles per year plus key components (engines, gearboxes, suspension)	\$97B worth of Cdn crude oil imports in 2023; 60% of U.S. imports 70% of U.S. refining capacity is not equipped for U.S. light crude	\$7.6B of raw Cdn aluminum in 2023; 64% of U.S. aluminum imports
Replacing ** supplies domestically would require	Building 6 factories, costs \$2B+ per factory, 1.5-3 years to build, cancel supplier contracts (\$500M termination costs per facility). Need land 1.6M square feet per plant, more for EVs. Would incur higher U.S. labour cost (+~20-30%) ongoing Avg. vehicle costs could increase by ~\$3k-\$9k	Developing 60+ new oil fields, \$50B-\$240B in refinery upgrades, major new pipeline infrastructure, a 7-10 year undertaking. Int'l oil alternatives such as Venezuela and Russia are high risk due to political instability and sanctions, costly transportation costs	U.S. production would need to increase by ~1.2M tons/year Electricity ~40% of production costs, ~32% higher in US than Cda, labour costs 9% higher Int'l alternatives China, UAE raise geopolitical risks

SUMMARY

- 2025 a difficult year for most Canadian businesses
- Extreme uncertainty
- Tariffs and trade disruptions and diversion coming
- Confidence plummeting
- Investment on pause
- Potential inflection point; significant recession risk
- Big push on USMCA compliance for * exports



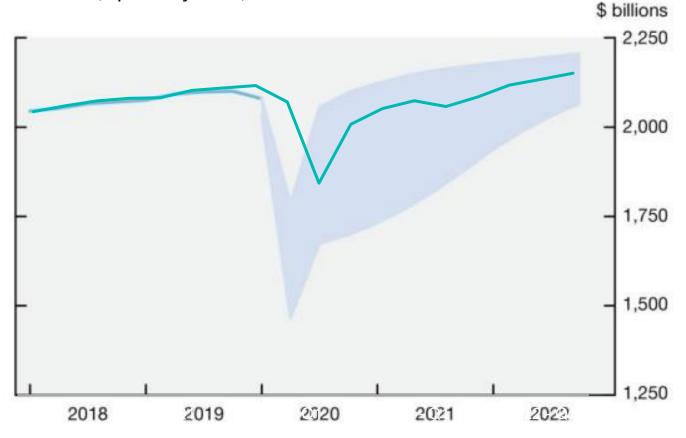


Reasons for optimism

WE'VE BEEN HERE BEFORE (SORT OF)... AND TURNED OUT BETTER THAN FEARED

Bank of Canada initial forecast scenarios

Real GDP, quarterly data, chained 2012 dollars

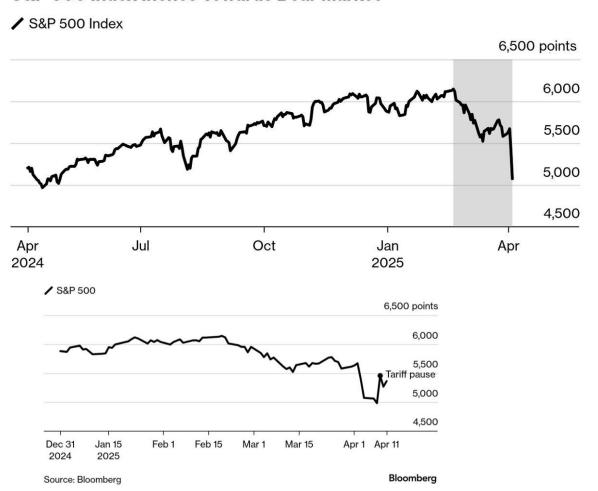




FINANCIAL MARKETS MAY DISCIPLINE TRUMP



S&P 500 Index Inches Towards Bear Market



Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
4/9/25 8:11 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				5	%		%
S&P 500	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	4983	-1.6	-12	-14	-4	-15
Eurostoxx 50	m	4590	-3.8	-13	-16	-8	-6
Nikkei 225	mount	31714	-3.9	-11	-14	-20	-21
MSCI EM	mm	39	-1.4	-12	-13	-8	-8
Yields and Spreads			bps				
US 10y Yield	~~~~~	4.44	15.2	31	14	8	-12
Germany 10y Yield	m	2.61	-2.3	-11	-23	24	24
EMBIG Sovereign Spread		386	-7	39	59	55	61
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation	·~~~	43.4	-0.1	-3	-3	-8	1
Dollar index, (+) = \$ appreciation		102.3	-0.7	-1	-2	-2	-6
Brent Crude Oil (\$/barrel)	manny	58.8	-6.5	-22	-17	-34	-21
VIX Index (%, change in pp)	لسيست	56.3	4.0	35	33	41	39

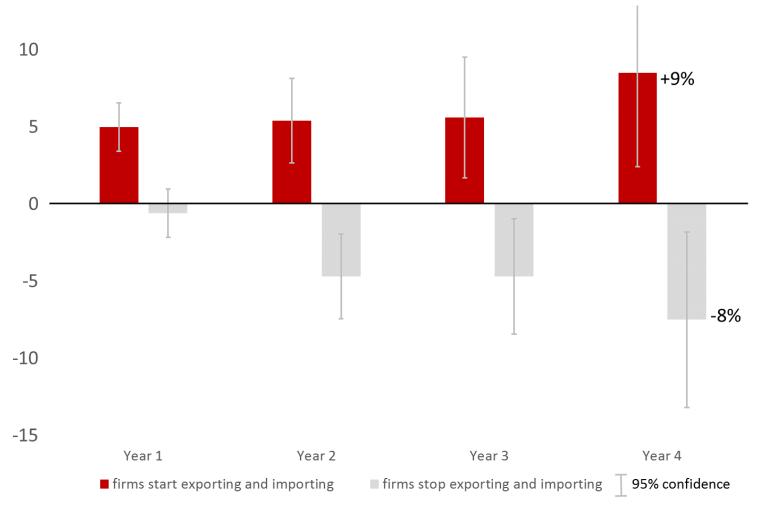
Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

TRADE IMPROVES PRODUCTIVITY



Change in trade status and productivity gaps among Canadian manufacturing firms





Source: Baldwin and Yan (2014).

PLENTY OF TRADE POTENTIAL TO UNLOCK

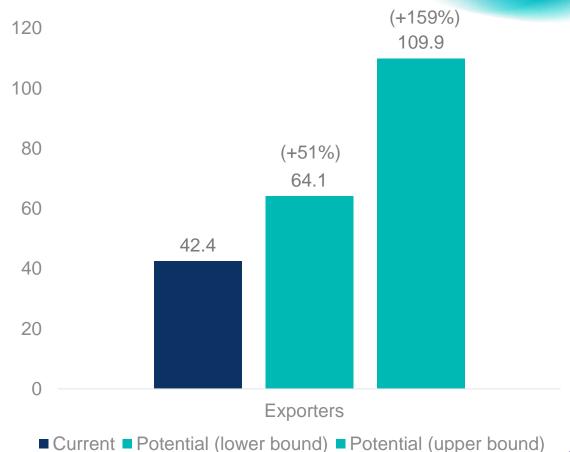


Universe of firms operating in Canada



Current and potential exporters

Thousands of firms, annual average 2010-2015



FOCUS TO MAKE 🌞 MORE DYNAMIC, RESILIENT





Only a crisis - actual or perceived - produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.

— Mitton Friedman —

AZ QUOTES

CANADIAN TRADE POLICY STRATEGY

- Canada/North America is best situated to support U.S. economic security
- Appear ready, but don't rush into talks with the U.S., near-term demands high, pressure on U.S. will grow
- Cooperate internationally with like-minded allies (Mexico, EU, CPTPP)
- Use the WTO to support and modernize the rules-based global trading system
- Get ready to deal with significant trade diversion with temporary, rules-based safeguards





Chambre de



Business Laboratoire de données Data Lab sur les entreprises

Stephen Tapp

Chief Economist, Canadian Chamber of Commerce

in Stephen-Tapp





Explore real-time data on Canadian business conditions











DISCOVER HOW THE BDL CAN HELP YOU



EXPLORE INTERACTIVE TOOLS



ACCESS DATA-DRIVEN INSIGHTS

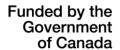


STAY UP TO DATE





The BDL is made possible through our collaboration with Statistics Canada and financial support from Innovation, Science and Economic Development Canada.











Tools

TOOLS











Canadian and U.S. cities' dependence

Blogs:

- Monthly Canadian trade data commentaries
- Let's keep trade moving
- Return of the "tariff man"
- Back to the future: steel and aluminum tariffs

BusinessDataLab.ca





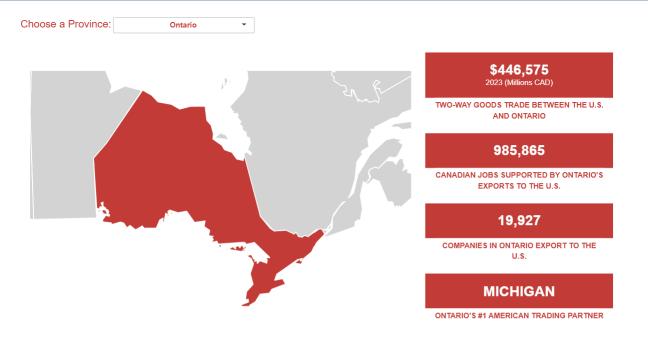






CANADA-U.S. TRADE TRACKER: EXPLORE TRADE PATTERNS

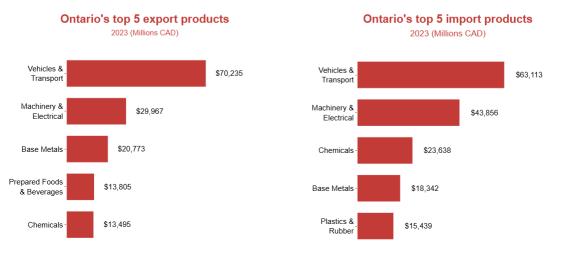






Michigan







Choose a U.S. State:



ILLUSTRATIVE LOCAL TRADE STATISTICS



U.S. Tariff Exposure Index ranking for St. Catharine's-Niagara

(Ranks 16 of 41 cities)

CMA map for St. Catharine's-Niagara, as highlighted in red



Goods exports from St. Catharine's-Niagara to the U.S.

\$6,164.6 Million

(Ranks 14 of 41 cities)

(Ranks 9 of 41 cities)

25.4% of GDP

St. Catharine's-Niagara's population

478,261

(Ranks 13 of 41 cities)

St. Catharine's-Niagara's GDP

\$18.7 Billion

(Ranks 16 of 41 cities)

\$12,890 per capita

(Ranks 14 of 41 cities)

75.4% of total exports

(Ranks 29 of 41 cities)

Number of exporters from St. Catharine's-Niagara to the U.S.

552

(Ranks 13 of 41 cities)

St. Catharine's-Niagara's GDP per capita

\$41,506

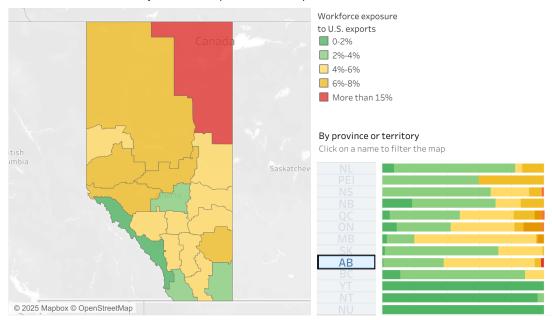
(Ranks 37 of 41 cities)



293 CENSUS DIVISIONS WORKFORCE EXPOSURE



Canadian census divisions by workforce exposure to U.S. exports

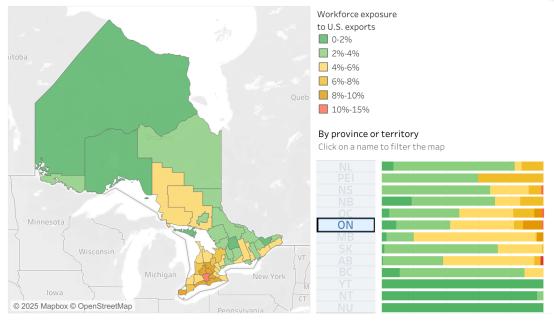


By census division

Click on a census division on the map to learn more

CDUID	Census division name	Largest census subdivision	Industry	Number of workers in all industries	Number of workers in goods exporting industries	Share of local workforce	Average industry exposure	Workforce exposure
4816	Division No	Wood Buffalo	Total	39,480	14,565	36.9%	46%	17.1%
4814	Division No	Yellowhead C	Total	13,535	4,095	30.3%	26%	7.8%
4818	Division No	Greenview No	Total	5,910	1,825	30.9%	21%	6.6%
4804	Division No	Hanna	Total	4,285	1,965	45.9%	14%	6.6%
4813	Division No	Lac Ste. Anne	Total	31,060	9,445	30.4%	21%	6.3%
4047	D		T . 1					

Canadian census divisions by workforce exposure to U.S. exports



By census division

Click on a census division on the map to learn more

CDUID	Census division name	Largest census subdivision	Industry	Number of workers in all industries	Number of workers in goods exporting industries	Share of local workforce	Average industry exposure	Workforce exposure
3532	Oxford, Ont.	Woodstock	Total	56,445	22,605	40.0%	28%	11.4%
3537	Essex, Ont.	Windsor	Total	171,705	53,530	31.2%	32%	9.8%
3531	Perth, Ont.	Stratford	Total	40,140	15,725	39.2%	25%	9.8%
3523	Wellington,	Guelph	Total	120,020	38,765	32.3%	29%	9.4%
3534	Elgin, Ont.	St. Thomas	Total	42,160	13,780	32.7%	28%	9.3%
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OTHER RELEVANT SOURCES OF TRADE DATA



Measuring community exposure to U.S. exports (IRPP)

International Trade Tracker (Statistics Canada)

Trade Data Online (ISED)