



## Tariffs back on the table? Steel and Aluminum in sight

*"...what you do have is my word. And it's stronger than oak."*

*Ben Cushman (Jerry Maguire)*

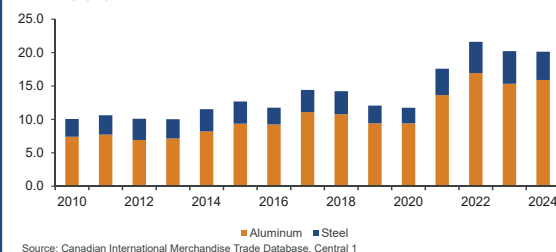
It did not take long, but tariff threats on Canadian products are back on the table with President Trump stating that all steel and aluminum imported into the U.S. will face tariffs of 25 per cent. While not naming Canada directly, the country is by extension in the crosshairs of the announcement as it is the largest exporter of these products to the U.S. This potentially puts a premature end to the agreement to delay tariffs for at least a month.

This harkens back to Trump 1.0 when tariffs of 25 per cent per cent were placed on Canadian steel and 10 per cent on aluminum on June 1, 2018, under Section 232 of the Trade Expansion Act. Canada had responded with countermeasures covering not only aluminum and steel imports but also of other consumer goods. The trade spat ended on May 17, 2019, when the U.S. agreed to lift Section 232 tariffs, and Canada lifted countermeasures.

While we await the new executive orders (assuming there is one forthcoming, and it ends up as policy), this will prove again to be a test of Canadian economic resilience. In 2018, the value of goods impacted by tariffs was about \$16 billion, and assuming the set of goods listed is similar, that figures is north of \$20 billion in exports now. This estimate is derived from the Canadian International Merchandise Database and mapping it to Harmonized System Codes noted in the Section 232 order from 2018.

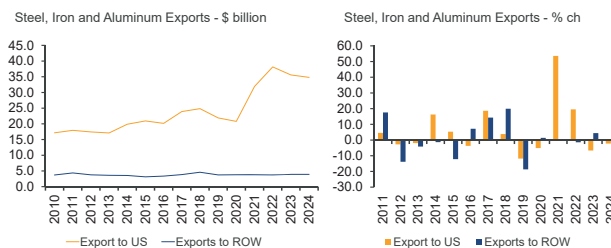
### Canadian exports of steel and aluminum goods impacted by 2018-19 tariffs

Steel and Aluminum exports of goods to U.S. (HS codes for products noted in Sec 232 tariffs effective 2018-19)



Tariffs led to a direct impact on steel and aluminum goods sales which fell 1 per cent in 2018 and 15 per cent in 2019 in part due to rapid decline in prices. It is noteworthy that re-allocation of exports to other trading partners was limited, in fact, in 2019 dollar-volume shipment declines to other global markets fell more than to the U.S.

### Previous tariff shock did not drive re-allocation to other markets



If the U.S. goes ahead with the tariffs, Canadian producers face weaker demand and sales for steel and aluminum and trigger weaker investment north of the border. Investment will flow south over time, although U.S. firms will also face higher costs in the short-term. Canada will retaliate (as will other countries impacted by tariffs). This could look like 2018/19, which focused on retaliatory steel and aluminum products, in part to support domestic re-allocation, and tariffs on consumer goods match the dollar-volume impact, which could nudge up prices north of the border. That said, Canada's retaliatory plans for universal tariffs were not on a one-for-one dollar and the response may also be more modest to limit impact on Canadian businesses and households.

Details are unknown at this time, and again it remains to be seen if this will be policy or just for entertainment, but the announcement highlights a key theme for coming years. Volatility will be the norm, and agreements (even a simple one-month delay of tariffs) may have little value under the sitting president. Firms and households will need to manage risk, and Canada will need to improve resilience through higher productivity and diversification of trade. This will require efforts to lower interprovincial trade barriers, increase resource investment and transportation infrastructure, and invest in research and development.

**Bryan Yu**

Chief Economist

Central 1 Credit Union

byu@central1.com