



Back into the fire: U.S. moves forward on tariffs

Hopes that the Trump administration would listen to sound economic reason against tariffs, and pivot with Canadian willingness to bulk up northern border security to placate misplaced fentanyl concerns, ultimately fell on deaf ears. The U.S. triggered its trade war. Indeed, it is possible that the Trump administration had no intention of changing course on tariff implementation despite the economic harm of tariffs to both countries, even as there were signals it would back off on maximum tariffs.

The Trump Administration moved forward with its tariffs on Canada (and Mexico) as of 12:01 AM today (March 4, 2025), consistent with its Executive Order from February 1, which ultimately was delayed by a month.[1] Specifically, the order is for 25 per cent on all goods from Canada, apart from a reduced tariff rate of 10 per cent for energy as well as critical minerals products.

Canada has already launched its retaliation of 25 per cent tariffs on goods valued at \$155 billion. This would affect \$30 billion worth of goods on day one of US tariffs, with tariffs on another \$125 billion worth of goods 21 days later. Initial tariffs are largely directed at consumer goods, including food products, beverages including alcohol, finished consumer products including tires, clothing, furniture, and other items. Provincial governments have also issued counter threats, including Ontario withholding energy exports, others banning U.S. alcohol on government liquor stores, and using government procurement as tools to induce change.

We re-iterate that Canada's retaliatory moves are economically counterproductive and limits monetary policy response, which hurts Canadian consumers, producers, and government finances. The nation is likely better off limiting retaliation, while at the same time increasing resilience by lowering internal trade barriers, increasing foreign investment from other countries, moving to diversify trade and other measures. That said, as a signal of national sovereignty, retaliation is appropriate.

There are no silver linings to the current trade war environment. However, small purchase imports, or those falling under "de minimis" exemption will continue to move tax free, albeit temporarily, according to the Customs and Border Protection implementation note (set to be officially published March 6).[2] This is not the U.S. offering an olive branch, but an inability to efficiently and effectively measure and apply duties to such a large volume of goods across the border. This could help support smaller Canadian businesses and retailers if it remains in place.

As we noted in our recent notes and forecasts, tariff impacts would hurt both countries but have a deeper impact on the Canadian economy given export exposure to the U.S. which could cut current year growth to half a per cent or lower, with a potential recession, and an extended period of tariffs would permanently reduce economic activity in the country.[3] While there are inflationary impacts of tariffs and likelihood of a lower Canadian dollar, a reduction in the policy rate to 1.5 per cent is likely. Canadian manufacturers would bear the brunt of the downturn, with central Canada and its automotive related manufacturers and regions in the Atlantic most impacted.[4]

Moreover, there could be more impacts to come. The Trump administration also has its focus set on increasing already high duties on Canadian lumber, which would layer on to today's tariffs. Aluminum and steel tariffs under Section 232 could also see additional tariff hit as Canada's exemption was revoked, coming in effect March 12.

At this point, there is no indication of the duration of the U.S. tariffs, and how the U.S. will respond to Canadian retaliation. U.S. consumer confidence is falling sharply, markets have swooned, and there are signs of an

economic downturn which could lead to a reversal in policy. The U.S. will likely grapple with higher inflation, and in some segments like eggs, faces a need to import more due to high prices and the avian flu. However, any about face will take time as pressures on the Administration build through pass-through of tariffs onto goods prices imported goods from Canada, Mexico, and China, as well as domestically produced goods, which will weigh on household budgets and businesses. For Canada exports and investment will be hammered over the next couple of quarters amidst a drop in demand and ongoing uncertainty, even as the country uses the current crisis as a generational opportunity to re-pivot the economy towards internal resilience and new trading arrangements.

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[1] <https://www.federalregister.gov/documents/2025/02/07/2025-02406/imposing-duties-to-address-the-flow-of-illicit-drugs-across-our-northern-border>

[2] Notice of Implementation of Additional Duties on Products of Canada Pursuant to the President's Executive Order 14193, Imposing Duties to Address the Flow of Illicit Drugs Across Our Northern Border. <https://public-inspection.federalregister.gov/2025-03664.pdf>

[3] Central 1 Economic Commentary, Trade War Games: U.S. tariffs, Canada responds https://www.central1.com/pdf_files/trade-war-games-u-s-tariffs-canada-responds/

[4] Central 1 Economic Analysis of Canada, Canadian Economic Outlook, Navigating Uncertainties and a new US Playbook https://www.central1.com/pdf_files/canada-economic-outlook-navigating-uncertainties-and-a-new-u-s-playbook/