



## U.S Liberation Day: Tariffs for the Rest

As advertised, the Trump administration took a stick to the global economy on its so-named Liberation Day, announcing aggressive “reciprocal” tariffs on imports from all of its trading partners. The move shifts the U.S. from rhetoric to trade war reality, setting a minimum base tariff rate of 10 per cent on all imports (albeit with some exclusions) on April 5th. Countries with high deficits, such as China (34 per cent), Vietnam (46 per cent), Japan (24 per cent), South Korea (26 per cent), and Europe (20 per cent) will see tariffs rise to these levels on April 9. Trump also confirmed that a 25 per cent tariff on imported vehicles would take effect April 3rd. The executive order exempted some products including copper, lumber, pharmaceuticals, certain critical minerals, and energy products, a move to shelter its economy from products it may not produce.

While there is time to maneuver, the huge tariffs set the stage for a global flare up as more countries are likely to retaliate, while tariffs push the broader economy in an economic downturn. Average U.S. duties in 2024 came in at about 2.5 per cent and set to surge to 22.5 per cent, and the highest since 1909. Like many moves from this administration, we believe there will be a flurry of negotiation this week as countries push for exemptions, while retaliatory moves may also push the U.S. to also offer concessions.

The announcement itself was chaotic. The Administration promised to provide a careful accounting of tariff and non-tariff barriers to set the reciprocal rates. Rather, the Administration seemed to rely on a simple calculation: half the U.S. trade deficit in goods relative to imports, based on 2024 US data. It assumes that the entire of the deficit is due to trade barriers, rather than other factors, and scaling it down by half. It also omits services, which the U.S. typically runs surpluses. This is quite astounding to base a global trade policy and highlights just how fixated the administration is on the trade balance. It is also the basis in which we think these tariff rates will be used to obtain concessions related to investment and market access and lower the tariff temperature globally, although some tariffs will persist.

### ***Canada (relatively) unscathed from latest announcement***

Surprisingly, Canada (and Mexico) came out unscathed after enduring the bulk of Trump’s trade attacks during the first three months of his presidency. Both were exempt from the baseline reciprocal tariffs. However, pre-existing measures remain in effect including the 25 per cent on steel and aluminum, and products not covered under USMCA, and the 10 per cent on non-USMCA compliant energy and potash. Canada is also subject to the vehicle tariff (adjusted for US content). We should expect more Canadian goods exports to become USMCA compliant over time as firms complete necessary paperwork which could cover the bulk of goods. Broadly higher tariffs elsewhere improve Canada’s relative position as a source for U.S. imports.

The order also stated that if the fentanyl driven executive order is withdrawn, the tariff on Canada would fall to 12 per cent on non-USMCA compliant goods. Noteworthy is that under the U.S. tariff equation, Canada would have fallen to the 10 per cent base.

There are a couple of ways to view this omission. The U.S. has already piled on aggressive tariffs on Canada which was met with \$60 billion in retaliation. It is possible that the administration deemed current tariffs to be sufficient and did not want to stoke further retaliation from Canada, including export taxes. In a more optimistic light, the omission of Canada also follows a more respectful tone in media from the U.S. President toward PM Mark Carney, which could bode well for ongoing negotiation and offramp of trade actions. This could be a prelude to an early renegotiation of USMCA, although like most everything, there may just be more pain to come.

Broadly this was yet another step in an unending trade war by the U.S. While countries may allocate some investment to the U.S. for market access, at this point, tariffs and trade disruption will reduce economic growth and cause prices to rise across goods markets.

The Canadian economy is anticipated to slow from tariff measures and now a hit to broader global growth and commodity prices. Inflation marches toward three per cent before settling lower late this year. The Bank of Canada will trade off some inflation to support the economy, and we expect the policy rate to dip to 2 per cent by year end.

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