

# THE TOLL OF TRUMP'S TARIFF TAUNTS

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Business Economics**

January 9, 2025

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# Trump's tariffs could be a disruptive catalyst

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## Today's roadmap:



Our baseline view on tariffs



Global trade war scenarios



How would Trump's blanket 25% tariffs impact Canada?

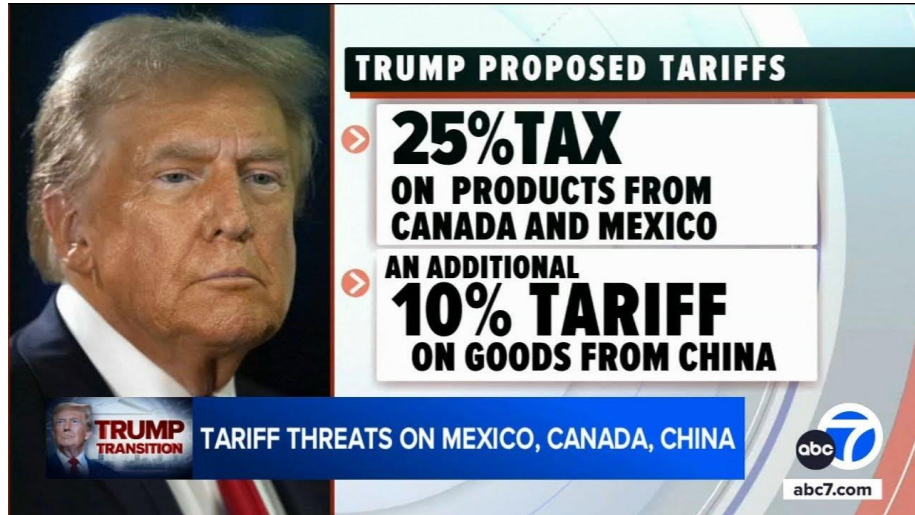


What if Trump's sweeping 25% tariffs on Canada are permanent?

Our baseline view on tariffs



# Trump's tariff threats...tactics or real, we're in for a wild ride



**TRUMP PROPOSED TARIFFS**

- 25% TAX ON PRODUCTS FROM CANADA AND MEXICO
- AN ADDITIONAL 10% TARIFF ON GOODS FROM CHINA

TRUMP TRANSITION TARIFF THREATS ON MEXICO, CANADA, CHINA

abc7.com



Reuters

World Business Markets Sustainability Legal Breakingviews

## Trump threatens a 200% tariff on vehicles imported from Mexico

By James Oliphant and David Shepardson

October 7, 2024 5:21 AM EDT · Updated 3 months ago



CNN Business Markets Tech Media Calculators Videos Watch

## Trump is considering a national economic emergency declaration to allow for new tariff program, sources say

By Kayla Tausche, CNN

3 minute read · Published 6:30 AM EST, Wed January 8, 2025



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## Trump Calls Tariffs the 'Most Beautiful Word'

AP

WORLD U.S. POLITICS SPORTS ENTERTAINMENT BUSINESS SCIENCE FACT CHECK ODDITIES BEWELL

Golden Globes Winter blast Jeff Baena dies at 47 Iona Maher Social Security payments

## Trump threatens 100% tariff on the BRIC bloc of nations if they act to undermine US dollar



The Washington Post

Democracy Dies in Darkness

EXCLUSIVE

## Trump aides ready 'universal' tariff plans – with one key change

President-elect's aides look at universal import duties, but only on certain sectors, among first big moves of presidency.

Today at 6:00 a.m. EST



The Logic CANADA'S BUSINESS AND TECH NEWSROOM Search

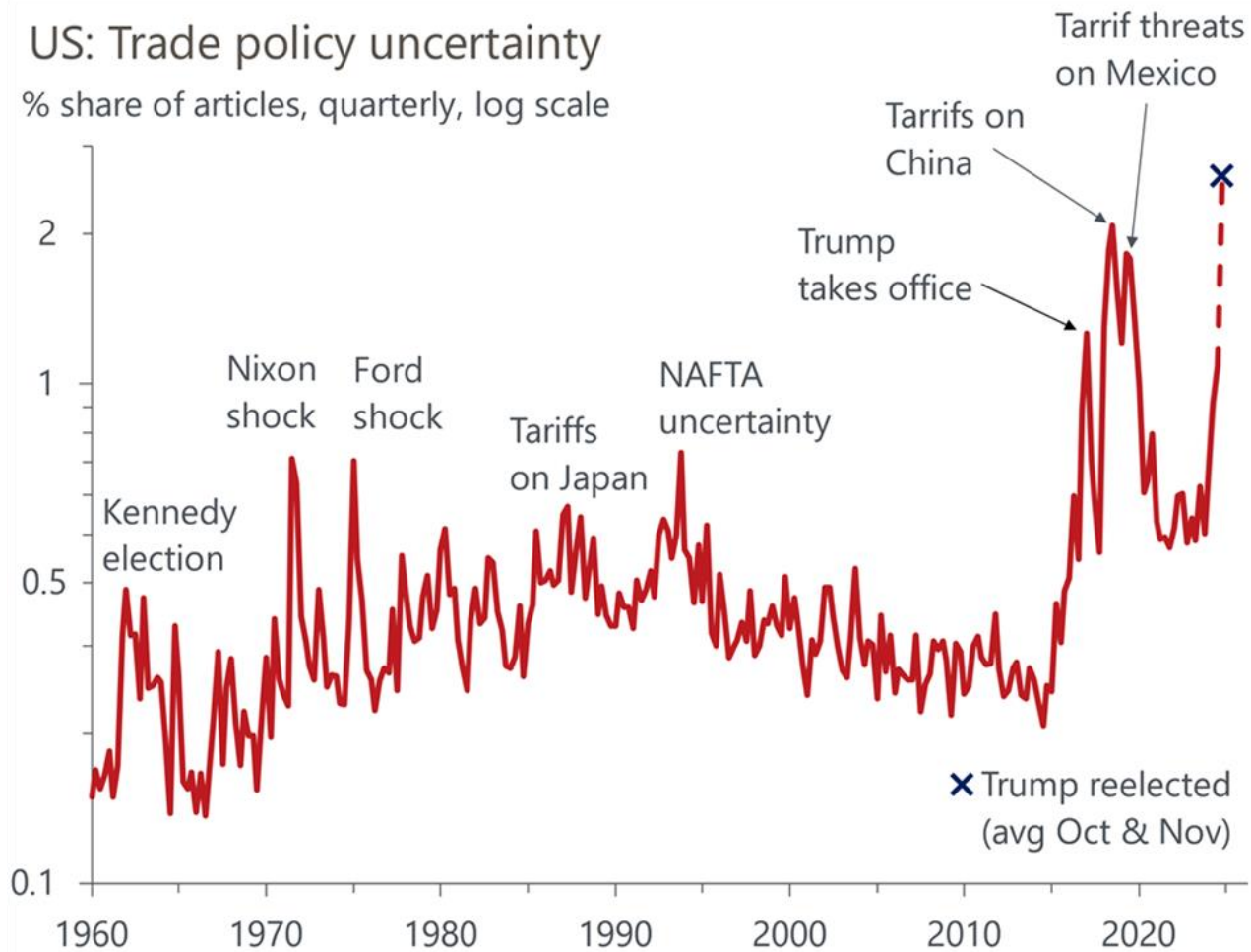
News

## Trump says he could use 'economic force' to annex Canada

U.S. doesn't need Canadian cars, lumber or dairy, president-elect says

By David Reevly

# Trade policy uncertainty hits record high



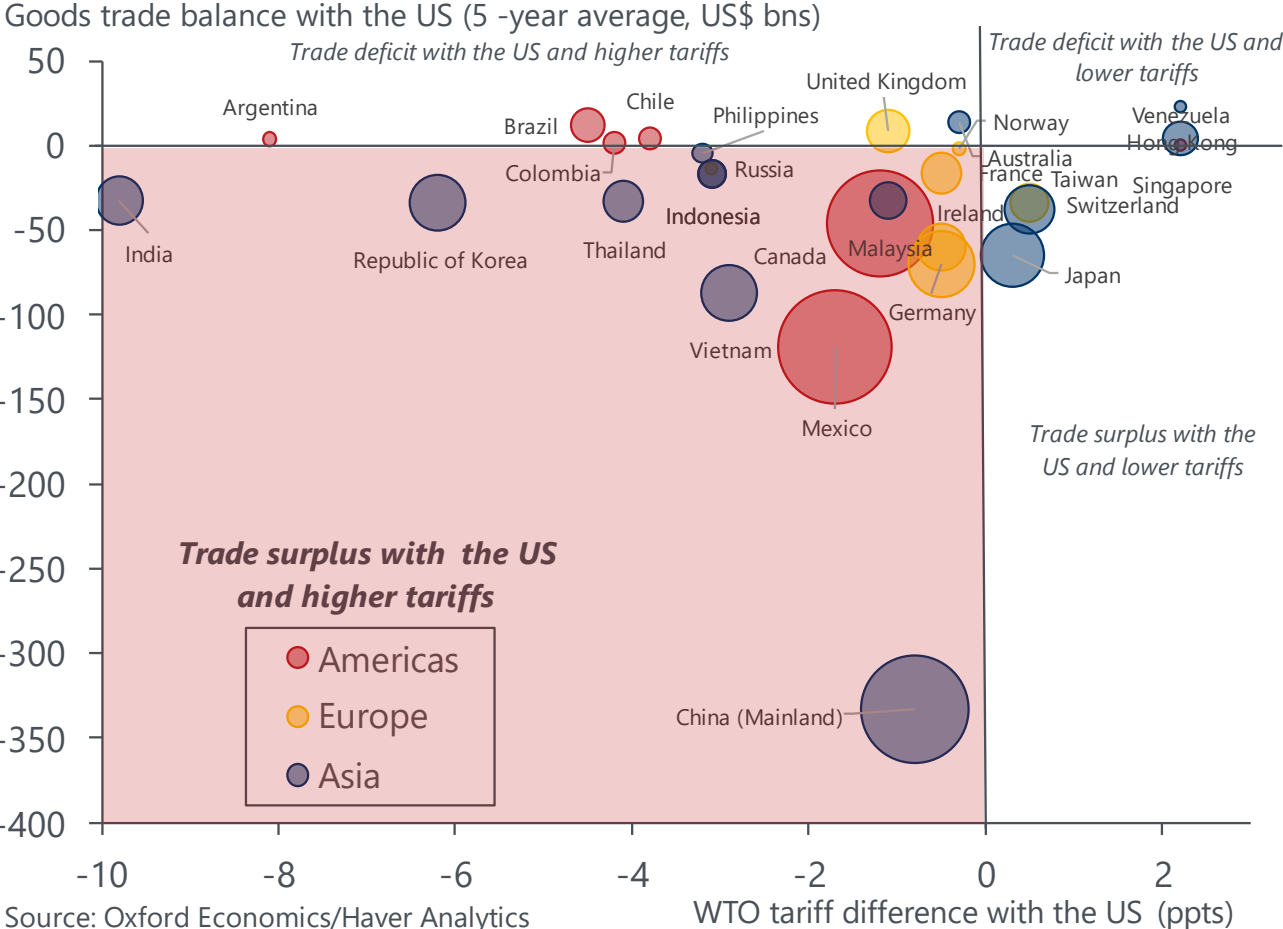
## Key takeaways

- Trade policy uncertainty hits record high, surpassing previous Trump peak. This uncertainty may already be affecting business investment decisions.
- We estimate that the surge in trade policy uncertainty could depress US fixed investment by nearly 2% by mid-2025, and US GDP by 0.6%
- By contrast, our modelling suggests the rise in trade policy uncertainty will leave lasting scars in China and the rest of the non-advanced economy world. While fixed investment and GDP initially fall less than in the US, the losses are never made up.

# Geography of the US trade deficit

## Key takeaways

### US: Goods trade balance and tariff differences



- China is Trump's top priority for new tariffs with aims to cut the US trade deficit and reshore jobs to the US. The latter means the US will be less tolerant of trade diversion and de-risking from China by localizing production in markets outside the US. However, it's unclear how this can be enforced.
- Trump's team uses two key factors to assess which countries to target: the size of the US trade deficit and the tariff difference with countries.
- Tariffs threats are also being used to extract non-trade concessions, such as Mexico and Canada with illegal immigration and drugs trafficking.

# Trump has a range of options to impose tariffs

- President-elect Trump promises to implement tariffs on day one, but it is unclear if he will. The timing also depends on the legal authority under which he implements tariffs.
- Trump may seek to push legislation via the **US Reciprocal Trade Act** that gives him a broad mandate to negotiate tariffs with other countries.
- Among existing legislation that does not require Congressional approval, Trump has the option to declare a national emergency under the **International Emergency Economic Powers Act**, or he can use other tools (next page).

## US Reciprocal Trade Act

- This has not been legislated yet
- It was proposed to Congress in 2019, but didn't go anywhere; unclear if even a Republican-led Congress would support it
- Gives the president a broad mandate to bring any countries whose average tariffs are higher than those the US imposes on them to the negotiating table
- If the partner country doesn't lower the average tariff to the US level, the US can raise its average tariff to the level of the targeted country; some measures are also possible for non-tariff barriers
- Open mandate for large-scale trade negotiations; doesn't require an investigation
- Can apply to any number of countries simultaneously
- Would constitute a violation of WTO's most-favoured-nation principles

## International Emergency Economic Powers Act (IEEPA)

- Existing legislation, active since the 1970s
- Empowers the President to declare a national emergency and take steps in response, in many cases used for sanctions. There is no specific definition of "national emergency" in the law
- While it has not been used to impose tariffs, it likely could be
- It allows immediate action, e.g. tariffs could be implemented without an investigation
- Presidents have so far invoked IEEPA in 69 declarations of emergency; most are still active; average length is nine+ years
- However, requires significant Congressional oversight and reporting
- Congress can terminate the emergency against the President's will, but only with 2/3 majority; this has never happened before
- Trump threatened to use it against Mexico in 2019, but did not

# US tariff tools that can be used without Congress

## Tools the US president can use to impose tariffs without Congressional approval

Tool	Requirements	Timeline before tariffs can be imposed	Comments
<b>Section 232</b>	President finds a threat to national security; Department of Commerce has to conduct an investigation	270 days to issue the finding; President then has 90 days to determine the import adjustment	Commerce department investigates whether a product is being imported in the US that threatens to impair national security
<b>Section 201</b>	USITC does an investigation and must submit a finding	120 to 150 days to submit a finding before tariffs can be implemented	
<b>Section 301</b>	USTR investigates unfair foreign practices; can cover a wide range of products	Likely months; Remediation actions reviewed every 4 years	
<b>Section 338 (of Tariff Act)</b>	Allows the president to impose new or additional tariffs of up to 50% from countries that have discriminated against US products; can also be applied to third countries that benefit from the conduct	Quick – via executive order	Can be challenged via the WTO, though this is unlikely to be a strong deterrent to using it
<b>Section 122 (Trade Act, 1974)</b>	President has right to address large and serious balance of payments deficits via import surcharges of up to 15% and import quotas	Can be done quickly but for maximum of 150 days, so it's a temporary measure; Congress can extend it	Actions taken must apply evenly to every country



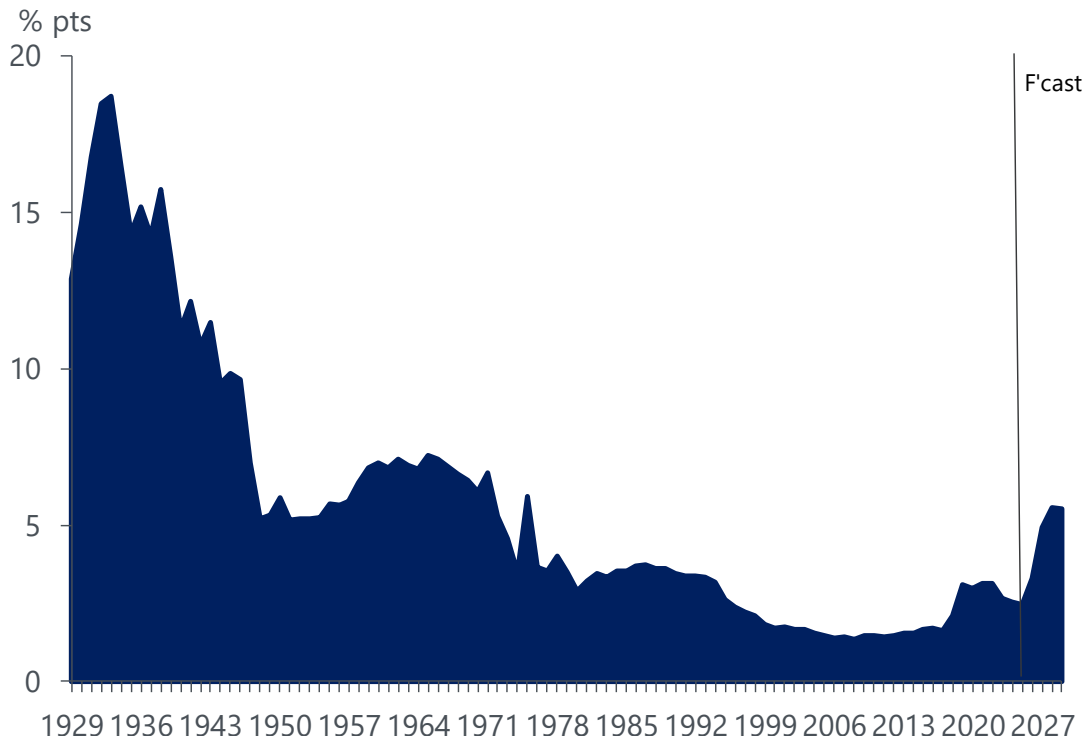
# Our baseline forecast assumptions on tariffs

While tariffs may be announced or threatened earlier in the year, we are assuming most are implemented over the course of late 2025 and 2026

Country	US tariff change	Retaliation?	Comments
<b>China</b>	From 19% → to 30% average across the board	Yes, 15.4% → 21.8% on average 25% tariffs on most exports to the US, excluding electronics	We assume significant trade diversion to other markets
<b>EU</b>	25% tariffs on steel, aluminium, and cars	Proportional retaliation	Opportunity for a deal, especially on defence purchases and LNG
<b>Mexico</b>	10% tariffs on steel, aluminium, Chinese cars	Proportional retaliation on steel, pork, cheese, and apples	We assume USMCA will be renegotiated
<b>Canada</b>	10% tariffs on steel, aluminium, base metals, and dairy products	Proportional retaliation	
<b>Japan</b>	10% on metals and autos	Proportional retaliation	May be short-term
<b>Korea</b>	10% on metals and autos	No retaliation expected	
<b>Vietnam</b>	10% on metals, autos, solar panels	Retaliation on some foodstuffs from the US	Vietnam would be incentivized to do a deal with the US

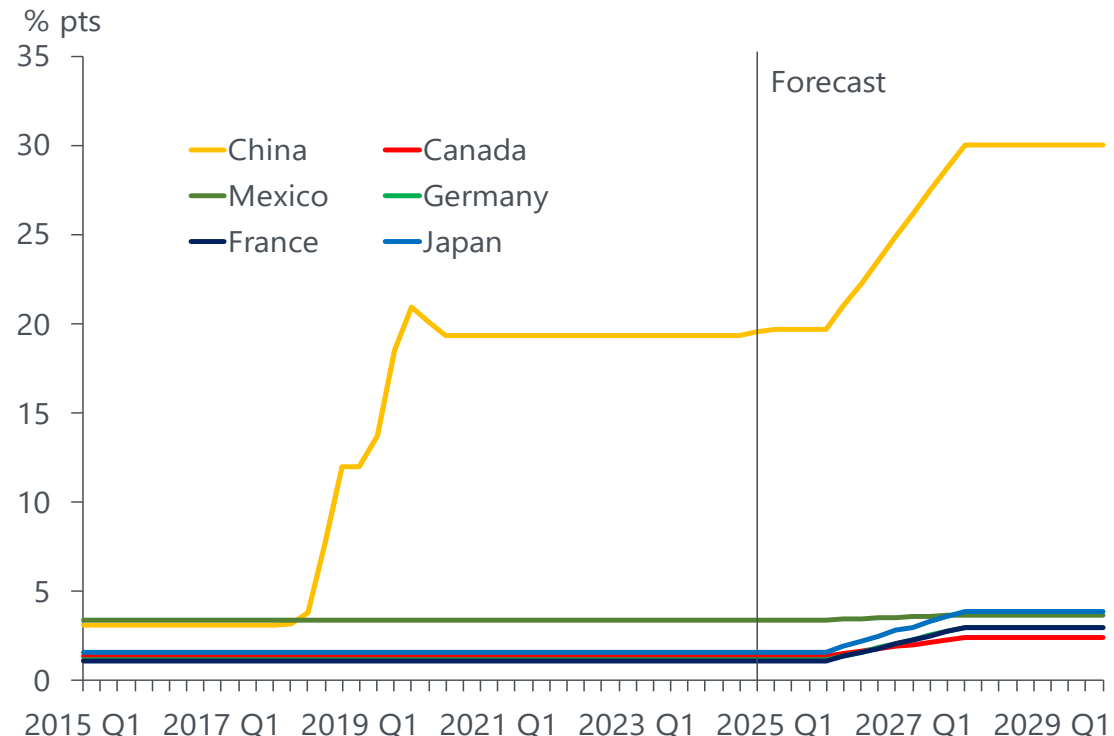
# Our baseline view on US tariffs

US: Effective tariff rate baseline forecast



Source: Oxford Economics/Haver Analytics

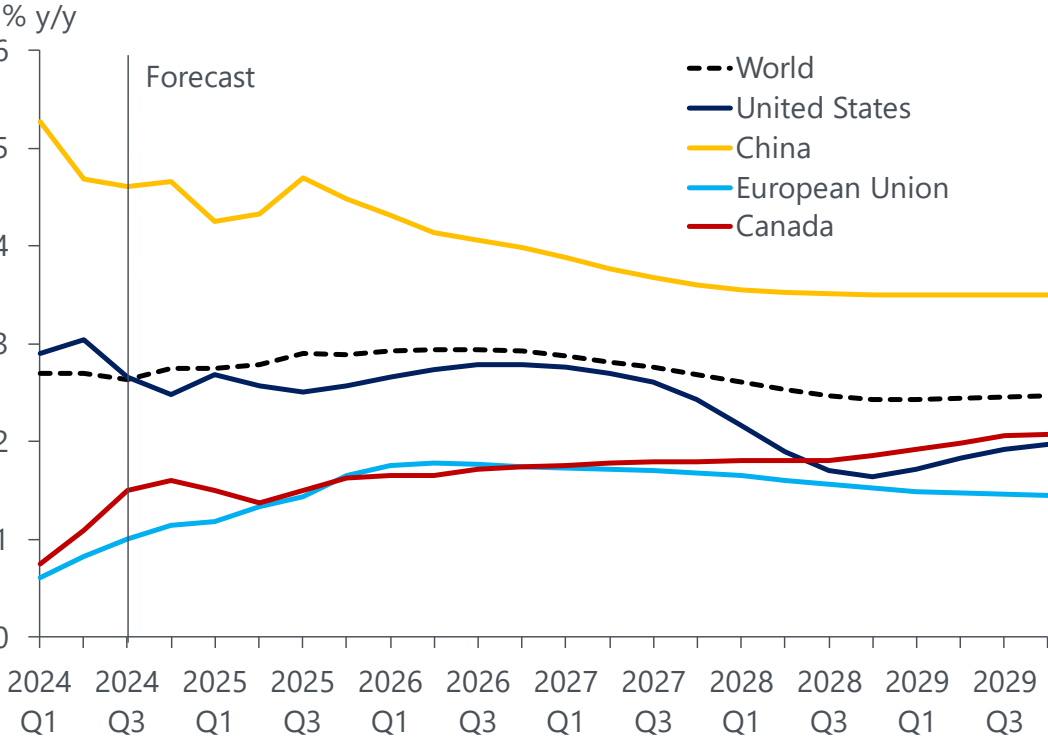
US: Effective tariff rates by country, baseline forecast



Source: Oxford Economics/Haver Analytics

# Our baseline view on the GDP and trade outlook

Global: Real GDP growth



Source: Oxford Economics/Haver Analytics

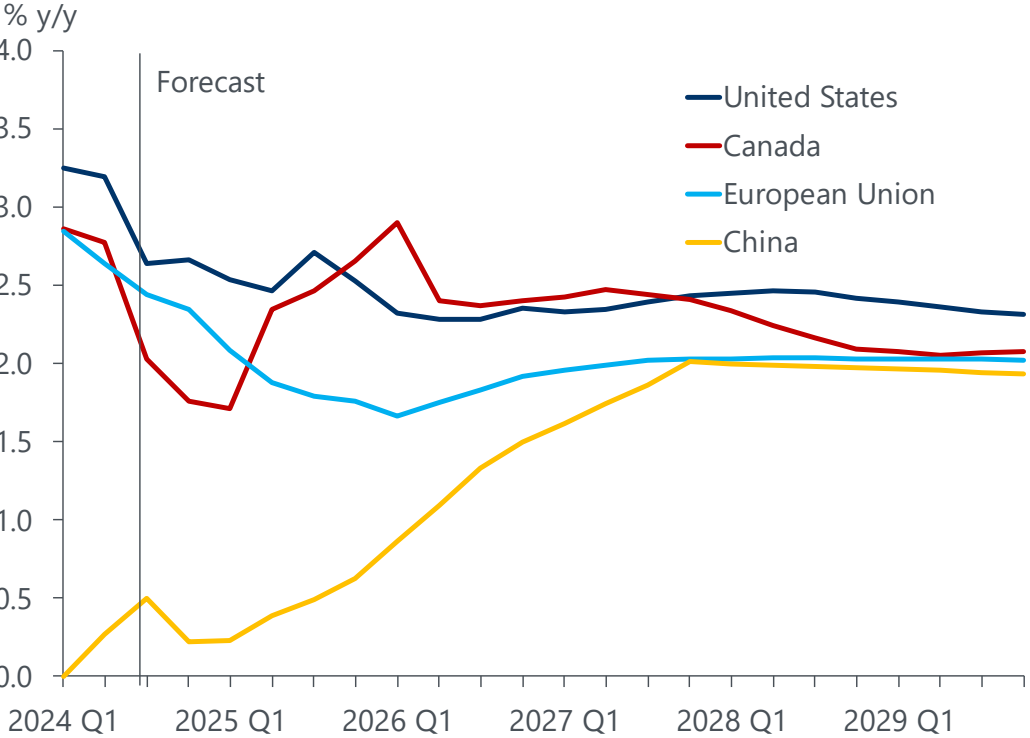
World trade volume as a share of GDP



Source: Oxford Economics/Haver Analytics

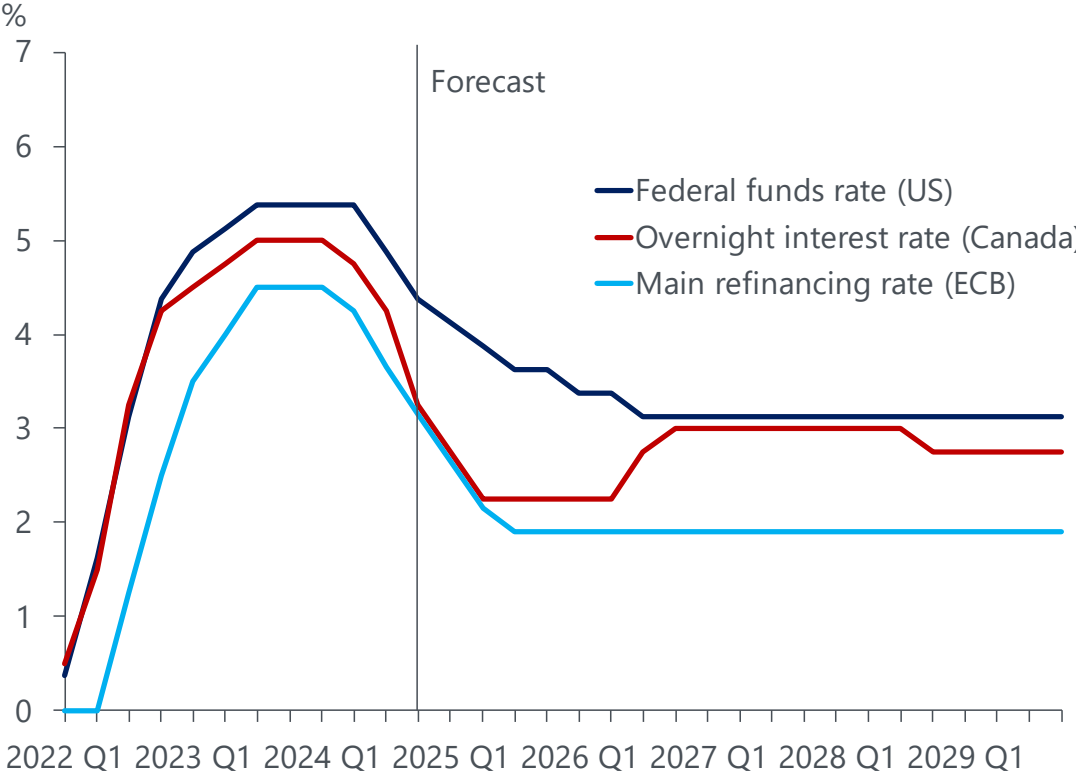
# Our baseline view on the inflation and policy rate outlook

Global: CPI inflation



Source: Oxford Economics/Haver Analytics

Global: Central bank policy rates



Source: Oxford Economics/Haver Analytics

# Global trade war scenarios

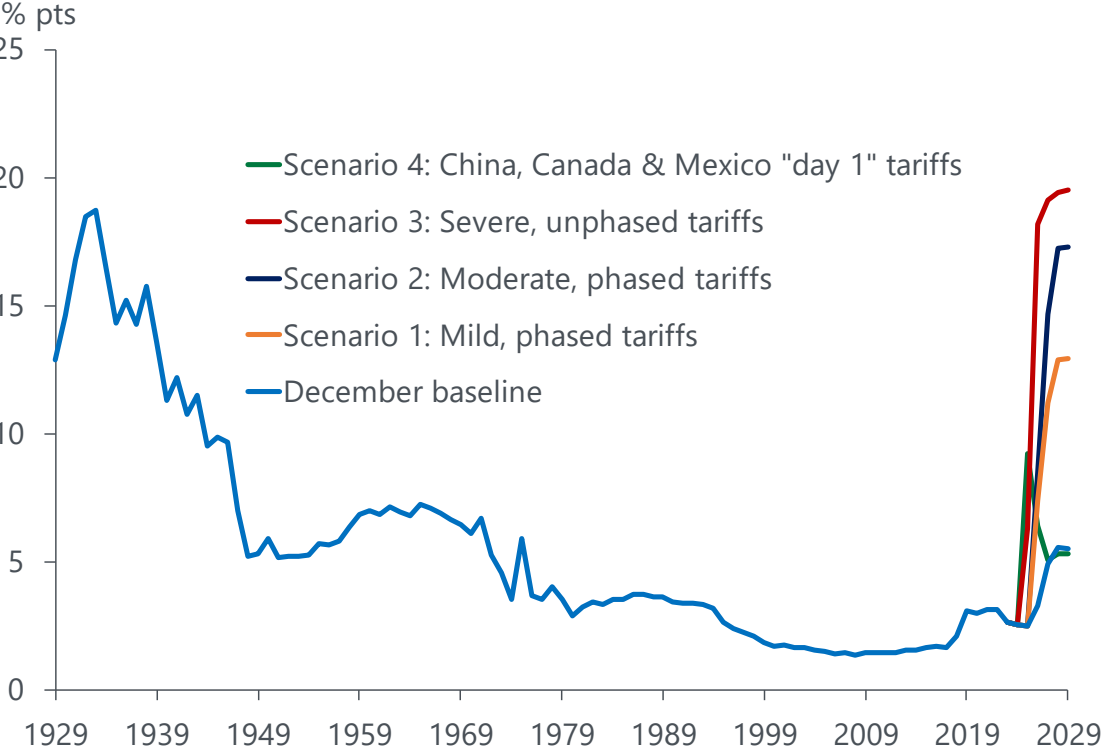


# A number of global trade war scenarios are possible

Scenario	Probability	Tariffs on China	Tariffs on other markets	When are tariffs implemented
<b>1: Mild and phased blanket tariffs</b>	25%	30% tariffs on China (blanket); China retaliates with 25% tariffs on all US exports	10% on all other imports from the rest of the world; in-kind retaliation	2026
<b>2: Moderate and phased blanket tariffs</b>	15%	60% tariffs on China (blanket); China imposes 40% tariffs on US exports	10% on rest of the world; in-kind retaliation	2026-2027
<b>3: Severe and unphased blanket tariffs</b>	5%	45% tariffs on China (blanket); China retaliates with 30% tariffs on US exports	15% on rest of the world; in-kind retaliation	All implemented in Q4 2025
<b>4: Immediate targeted tariffs</b>	10%	10% tariffs on China; China retaliates with additional 5% tariffs on US imports	25% tariffs on Canada and Mexico; in-kind retaliation, but tariffs are lifted by mid-2026	On day one of the new administration, e.g. early 2025

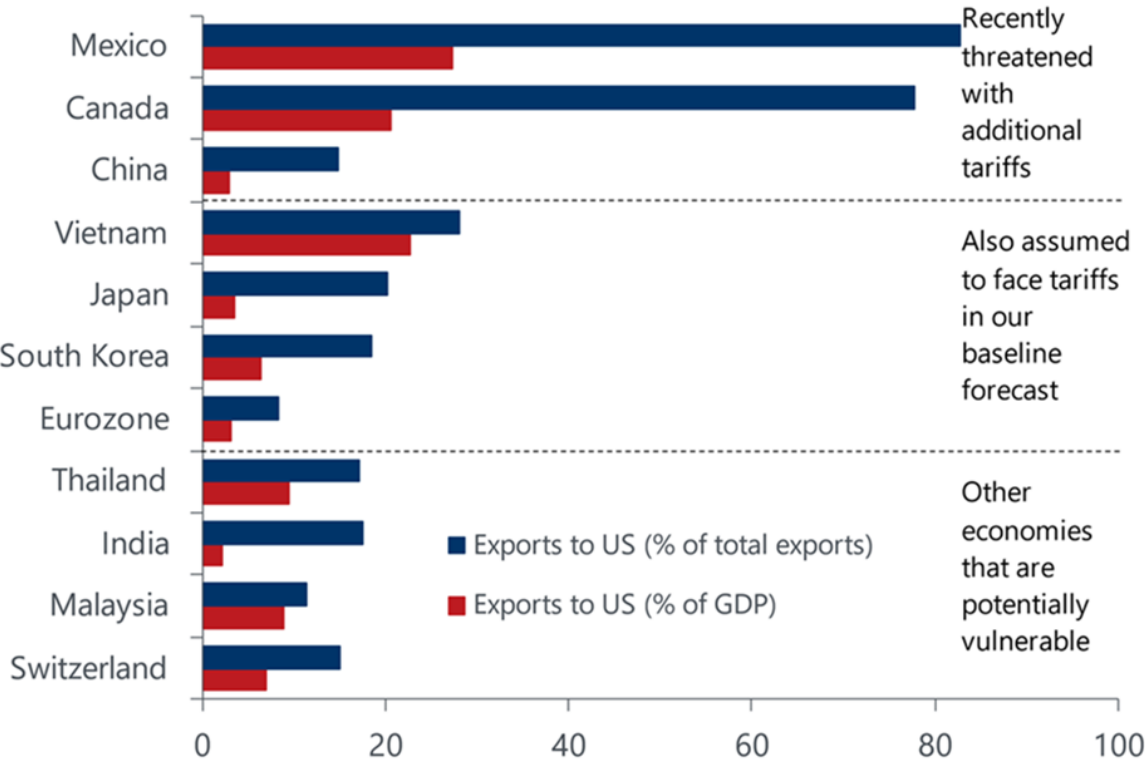
# This creates a broad range of possible outcomes

US: Effective tariff rate



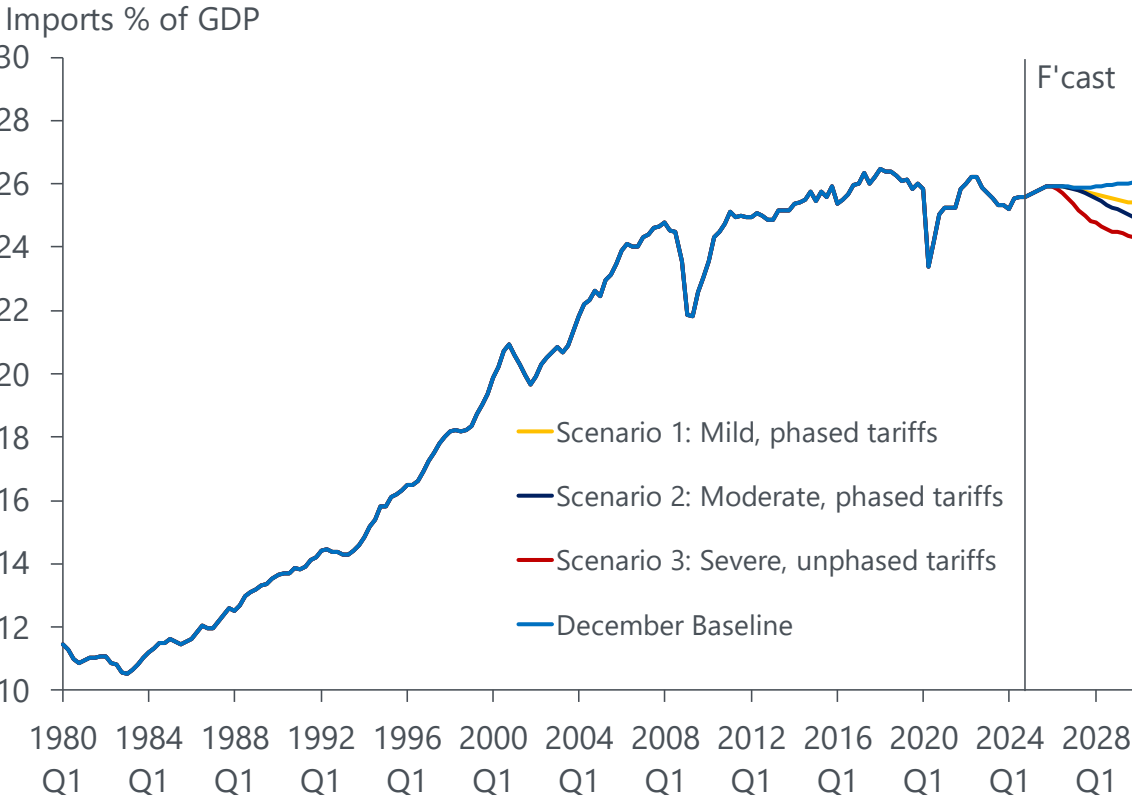
Source: Oxford Economics/Haver Analytics

World: Exports to the US in 2023



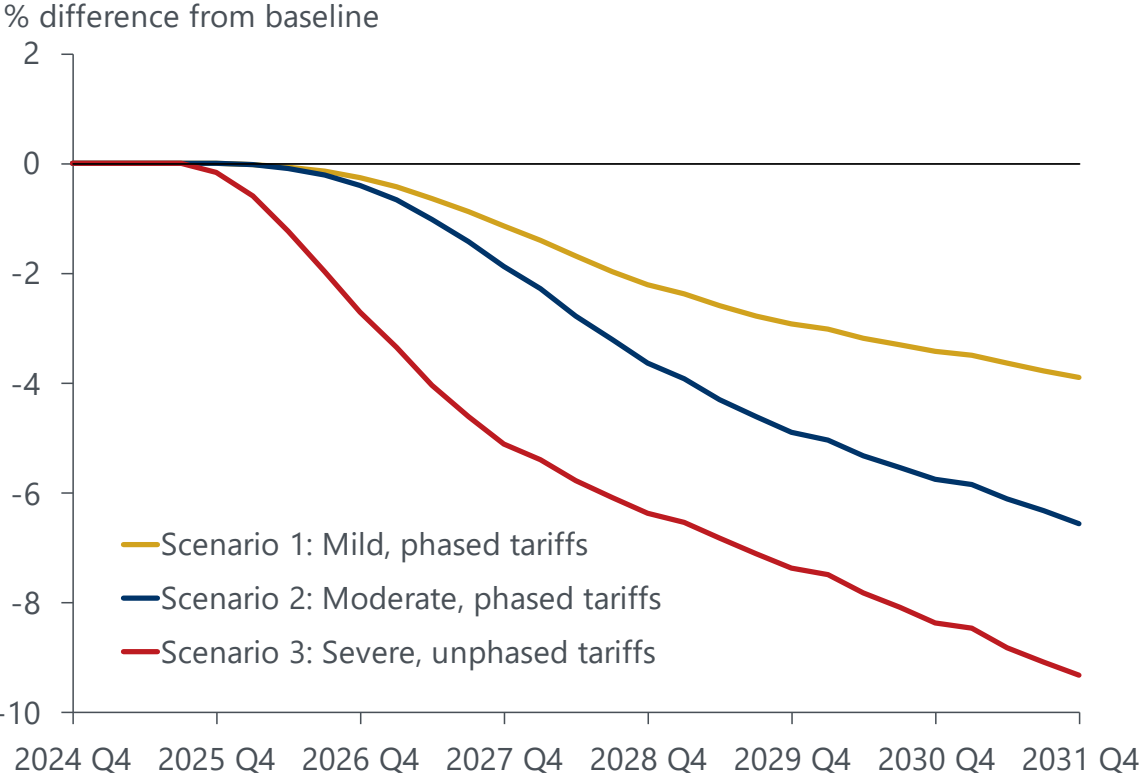
# All tariff scenarios would depress global trade

World trade as a share of GDP under different tariff scenarios



Source: Oxford Economics/Haver Analytics

World: Trade under the different blanket tariff scenarios

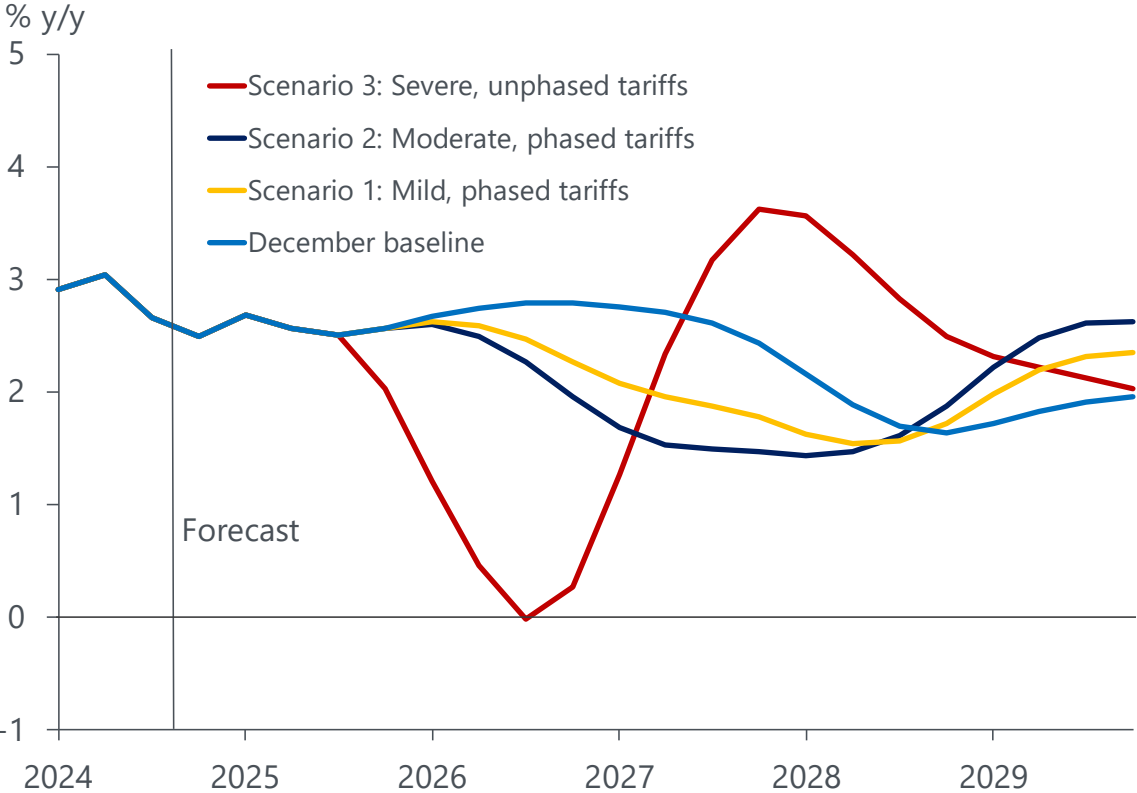


Source: Oxford Economics/Haver Analytics



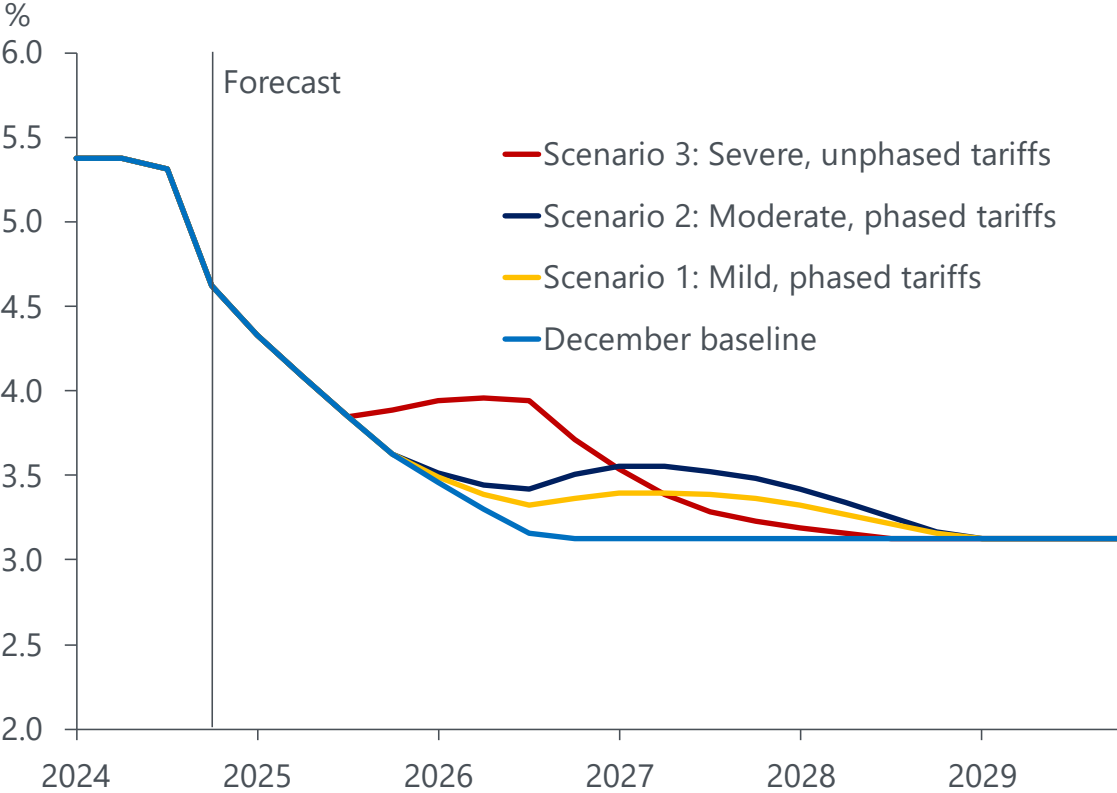
# All tariff scenarios would hurt US growth, keep rates higher

US: Real GDP



Source: Oxford Economics/Haver Analytics

US: Fed funds rate

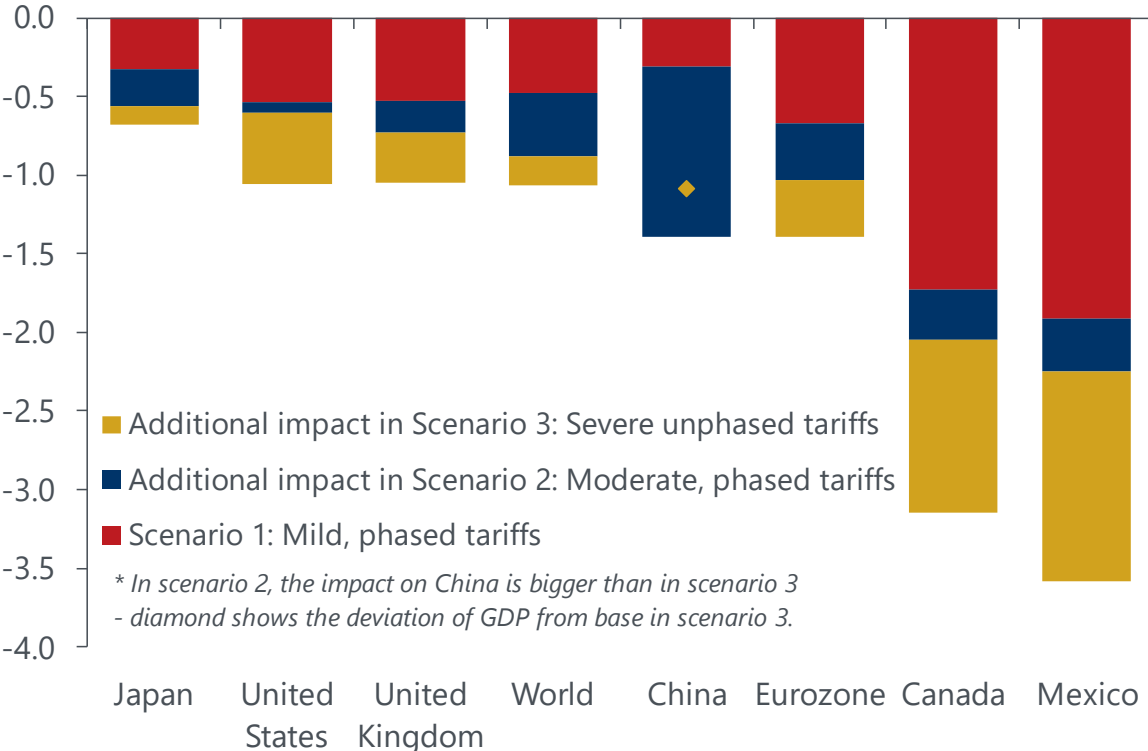


Source: Oxford Economics/Haver Analytics

# Everyone loses in the long run from US blanket tariffs

World: Cumulative GDP impacts of blanket tariffs

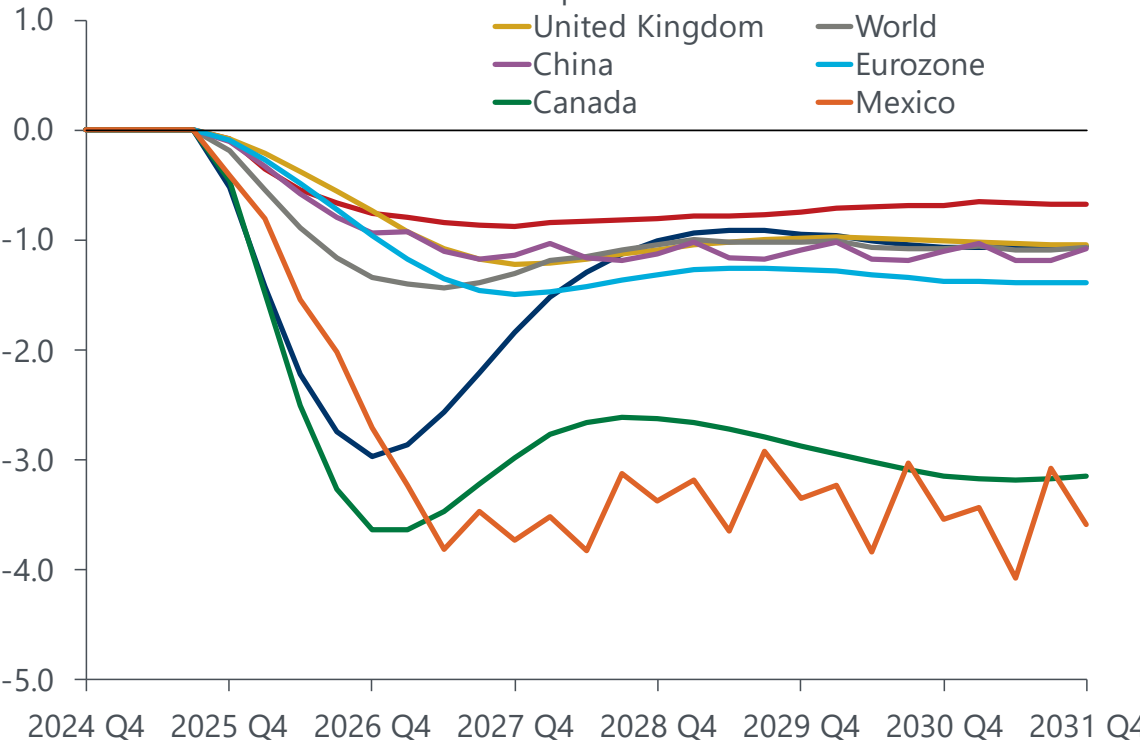
Deviation of GDP from base in Q4 2031



Source: Oxford Economics/Haver Analytics

World: GDP impacts with severe unphased tariffs (scenario 3)

% difference from baseline



Source: Oxford Economics/Haver Analytics

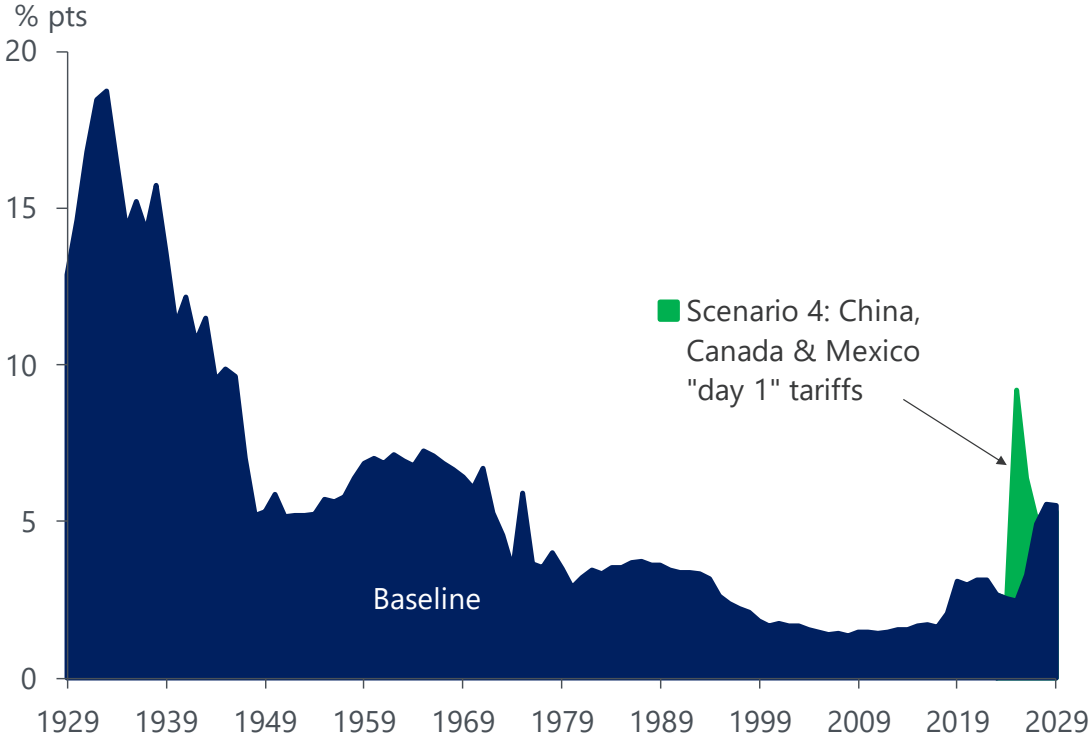
A satellite night view of North America, showing the United States and parts of Canada and Mexico. The landmasses are dark, but the cities and towns are illuminated with bright yellow and white lights, creating a dense pattern of light points across the continent. The surrounding oceans are dark blue.

**How would Trump's blanket 25% tariffs impact Canada?**

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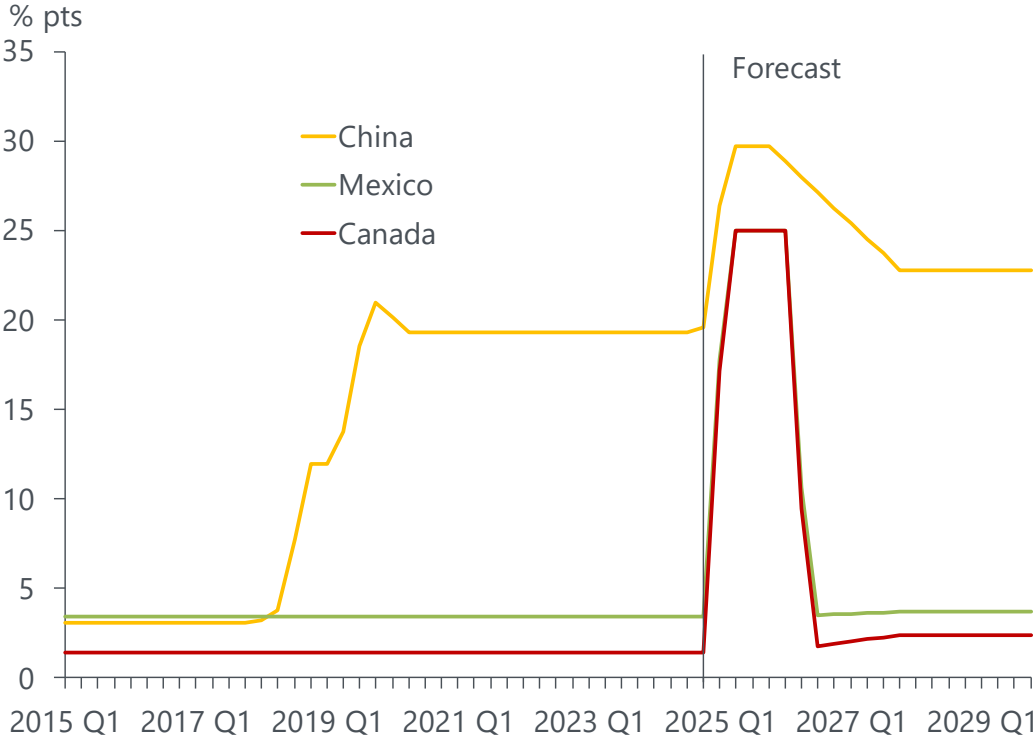
# Trump's 25% US blanket tariff scenario

US: Effective tariff rate, baseline vs. 25% tariffs (scenario 4)



Source: Oxford Economics/Haver Analytics

US: Effective tariff rates by country, 25% tariffs (scenario 4)

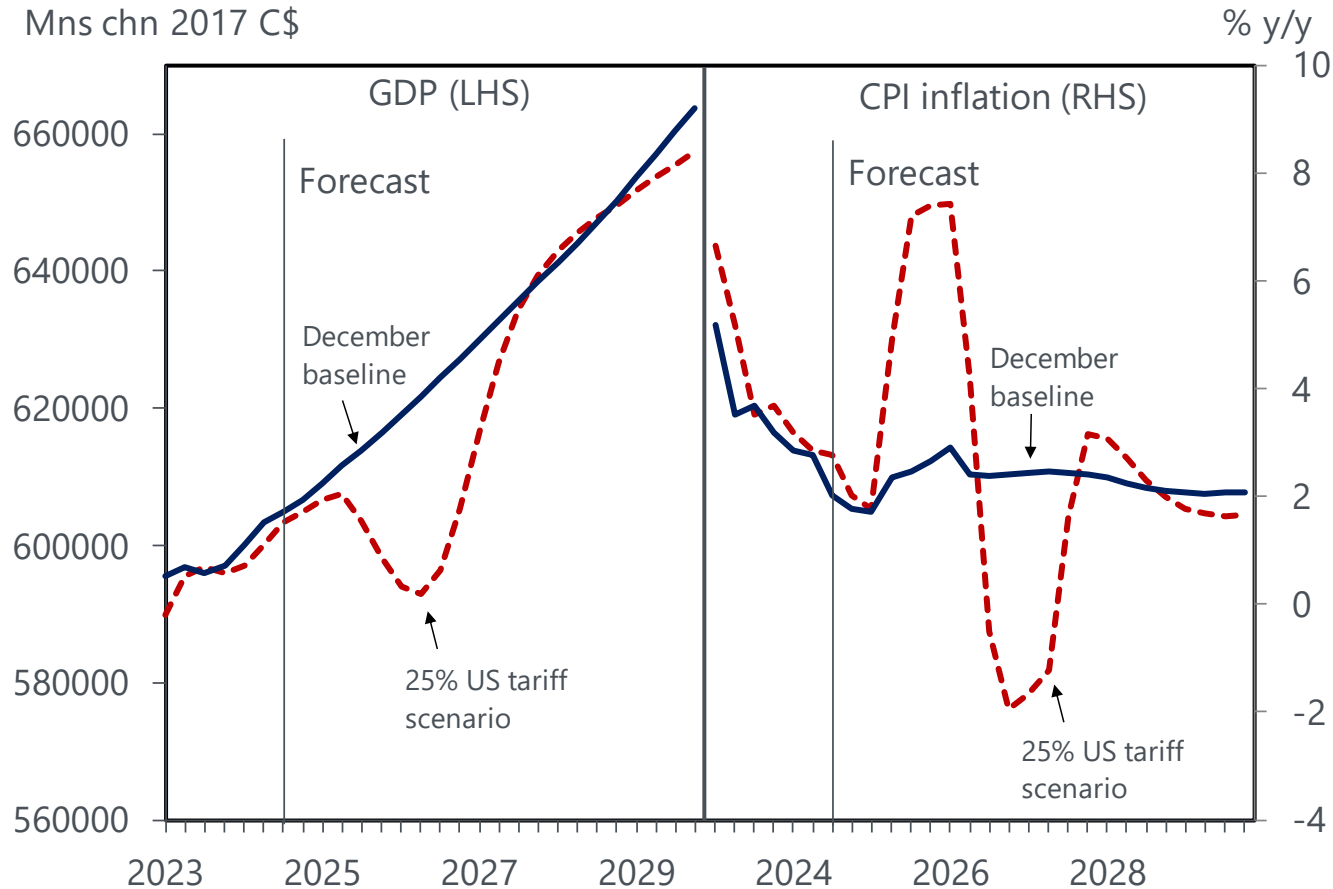


Source: Oxford Economics/Haver Analytics

# Trump's 25% tariffs would plunge Canada into recession and cause prices to spike

## Key takeaways

### Canada: 25% US tariff scenario impacts



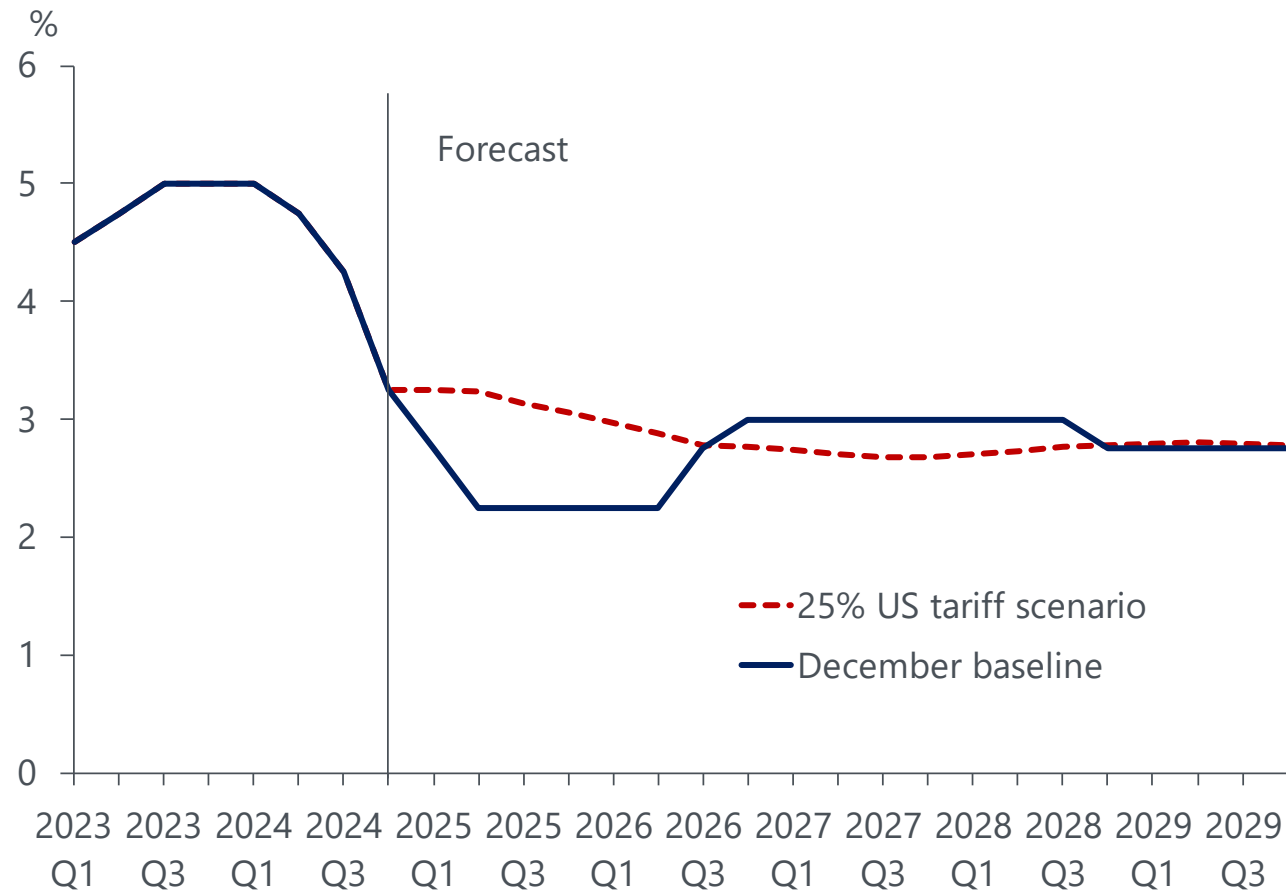
- Blanket 25% tariffs on Canada would push Canada into a recession in 2025, cause a sharp spike in inflation, and force the Bank of Canada to hold rates higher next year.
- Using our global economic model, we estimate that 25% US tariffs across the board, along with proportional retaliatory tariffs, would cause GDP to fall 2.5% peak-to-trough by early 2026.
- Inflation would surge to 7.2% by mid-2025, and 150,000 layoffs would lift the unemployment rate to 7.9% by year-end.

Source: Oxford Economics/Haver Analytics

# Bank of Canada would likely pause rate cuts in early 2025

## Key takeaways

Canada: Target for the overnight interest rate

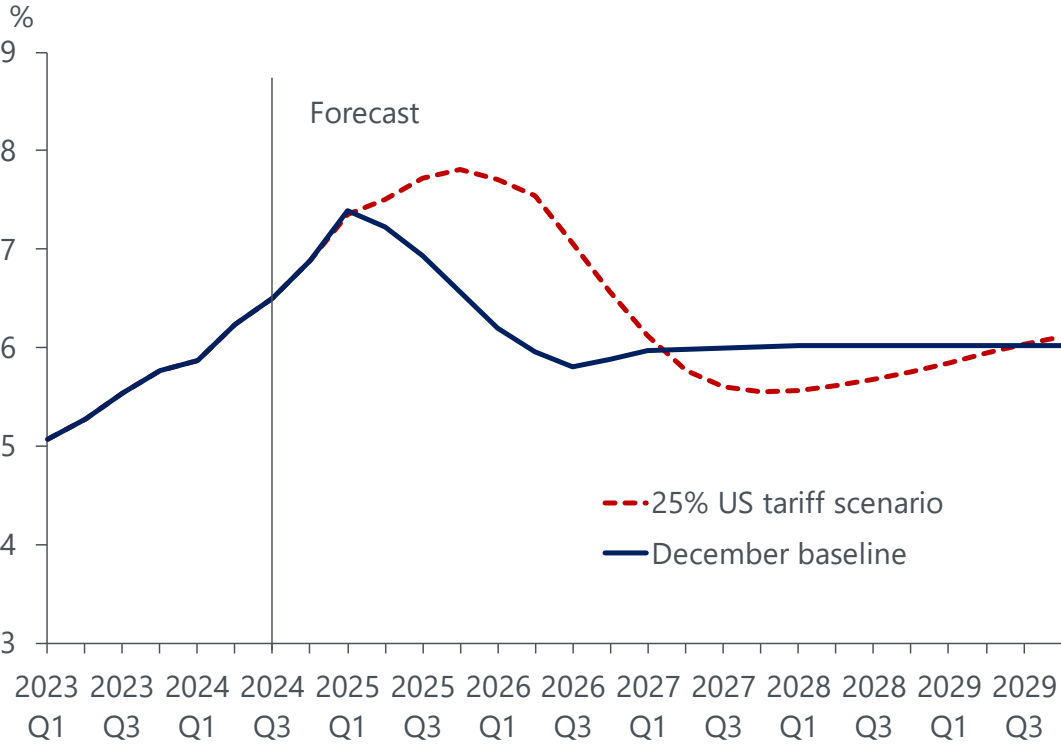


Source: Oxford Economics/Haver Analytics

- The stagflationary tariff shock means the BoC would need to balance concerns over an immediate spike in inflation with a downturn in the economy.
- We think it's most likely that the BoC, like the US Fed, would pause rate cuts in H1 and resume a gradual normalization of monetary policy in H2 2025.
- The BoC policy rate would still slowly ease but average about 50bps higher than our current baseline forecast in 2025 and 2026, compounding the hit to Canada's economy from higher tariffs.

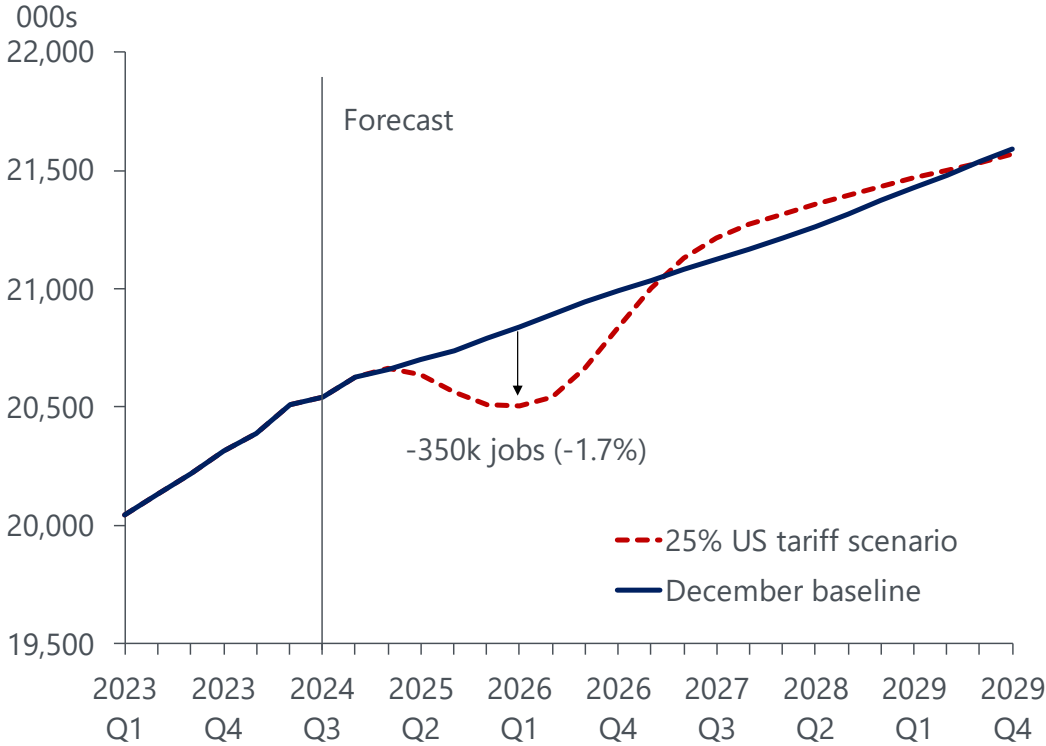
# Unemployment rate would rise to almost 8% by late 2025

Canada: Unemployment rate



Source: Oxford Economics/Haver Analytics

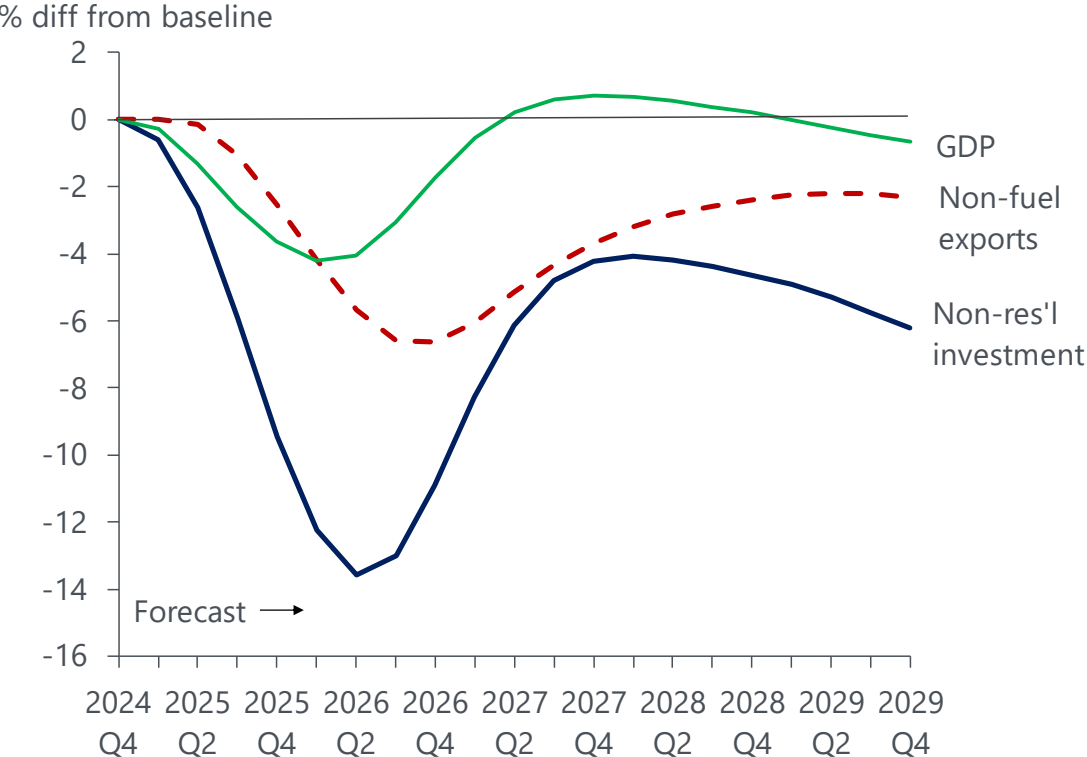
Canada: Employment



Source: Oxford Economics/Haver Analytics

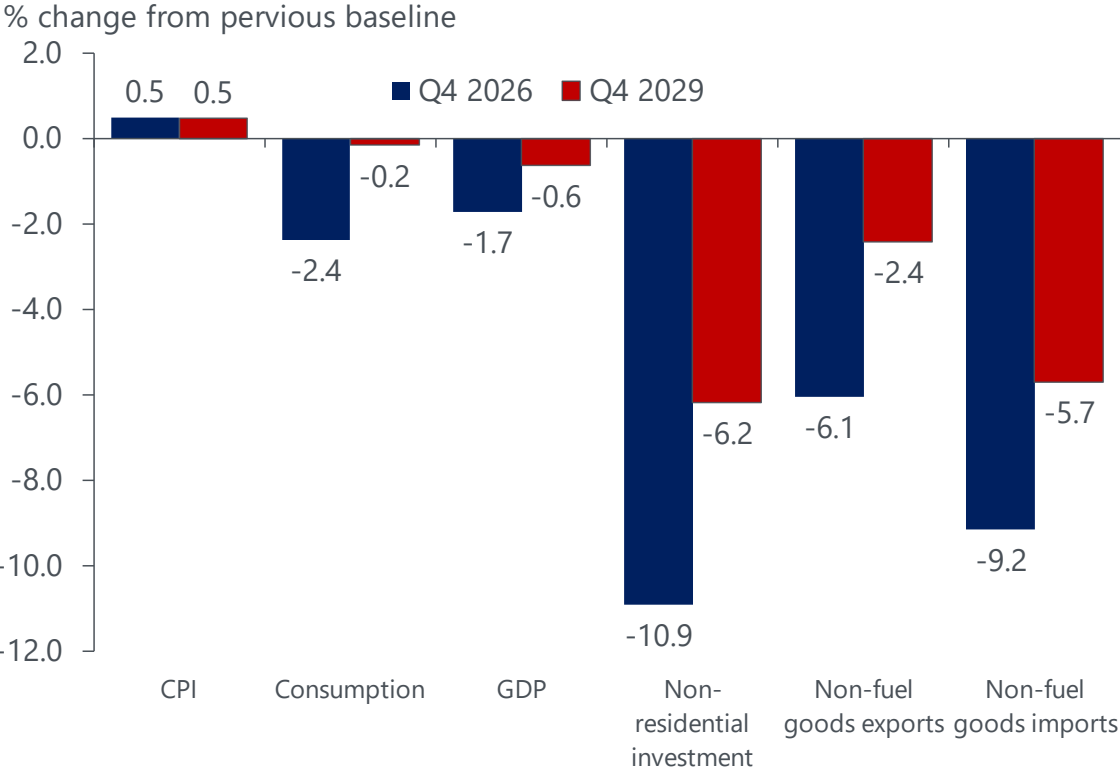
# Stagflationary fallout of blanket 25% tariffs would persist

Canada: GDP, non-fuel exports and business investment



Source: Oxford Economics/Haver Analytics

Canada: Economic impacts of 25% blanket tariffs

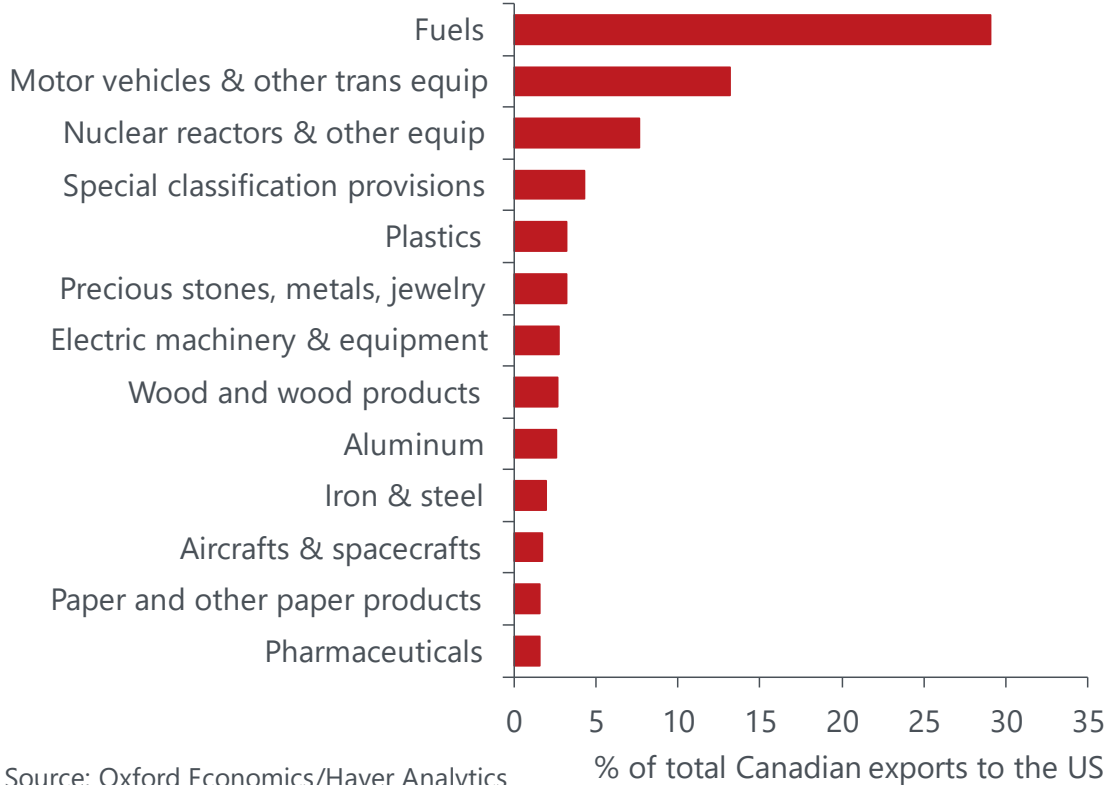


Source: Oxford Economics/Haver Analytics

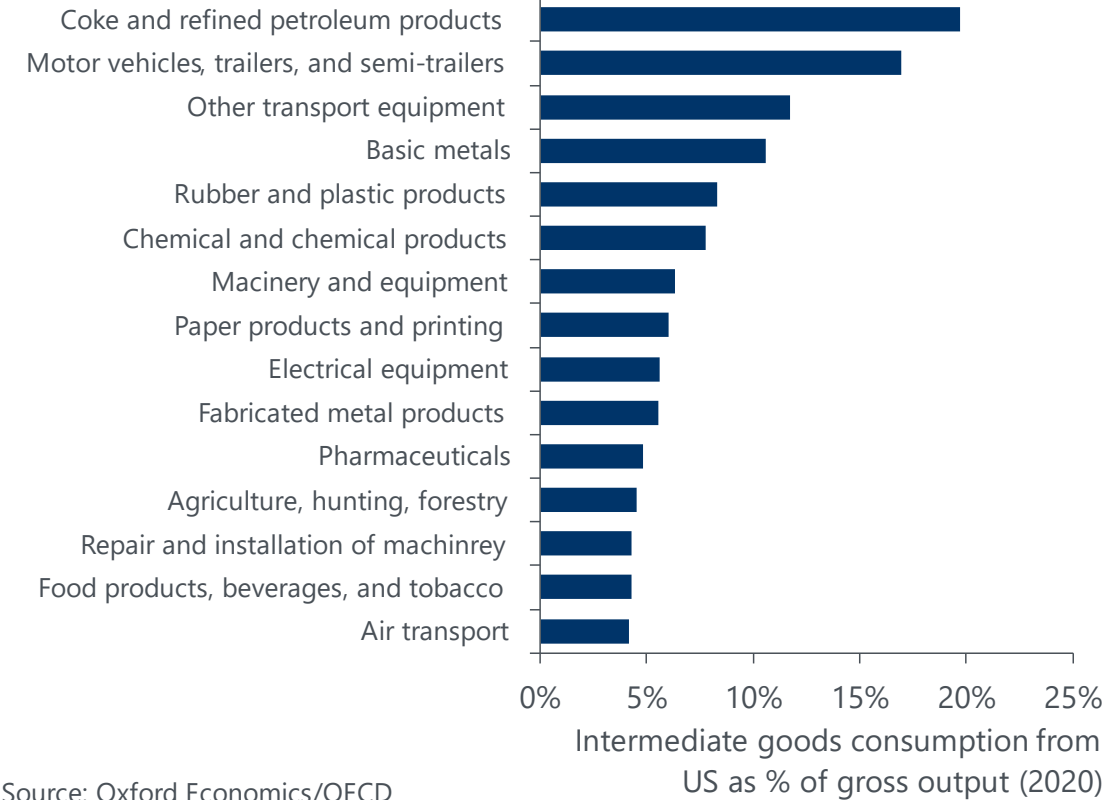


# Which sectors in Canada are most exposed to US tariffs?

Canada: Exports to the US by commodity (% of total)



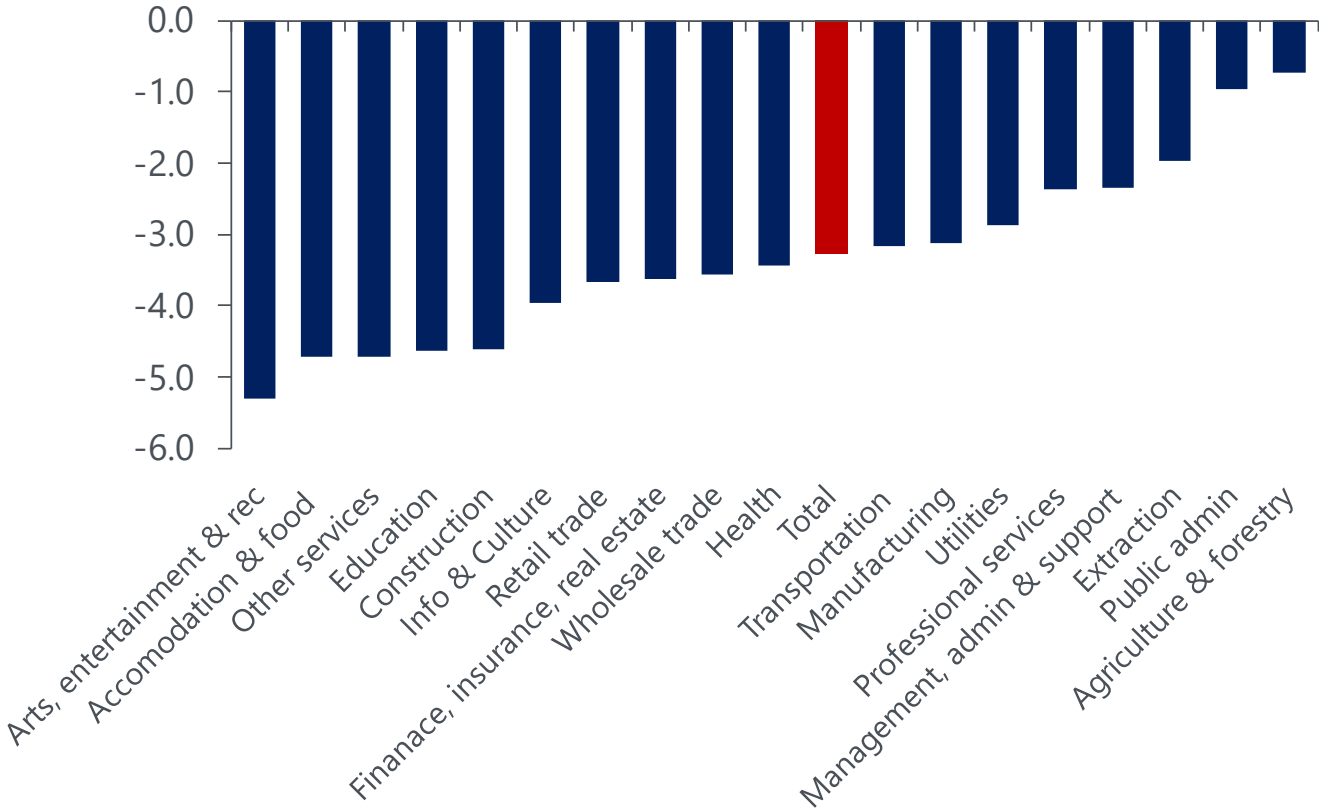
Canada: Industry exposure to US intermediate imports



# Services sectors would also be hit hard amid higher interest rates and inflation

Canada: 25% US tariff scenario GVA impacts

GVA % change from baseline, 2026



Source: Oxford Economics/Haver Analytics

## Key takeaways

- Canada's manufacturing and energy sectors would be most directly exposed to 25% tariffs.
- But a much larger hit to output would likely come via weaker aggregate demand due to higher inflation, tighter monetary policy, elevated global uncertainty, and lower business and consumer confidence.
- Services sectors such as arts, entertainment and recreation, and accommodation and food would experience large negative impacts as household budgets are squeezed and consumer confidence deteriorates.

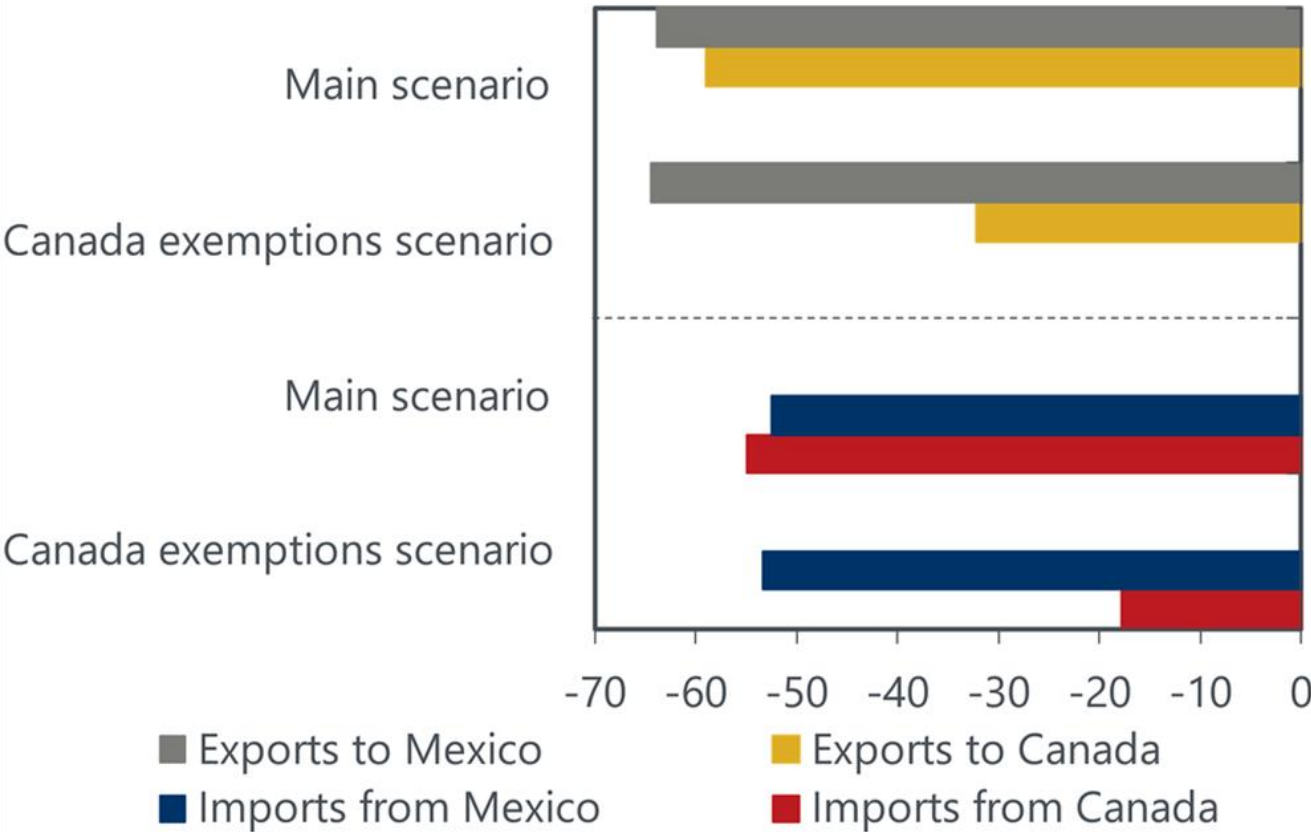
**What if Trump's sweeping 25% tariffs on Canada are permanent?**

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# Trump's 25% blanket tariffs, if permanent, would unravel intra-USMCA trade

US: Exports and imports from Canada and Mexico  
% change in scenarios

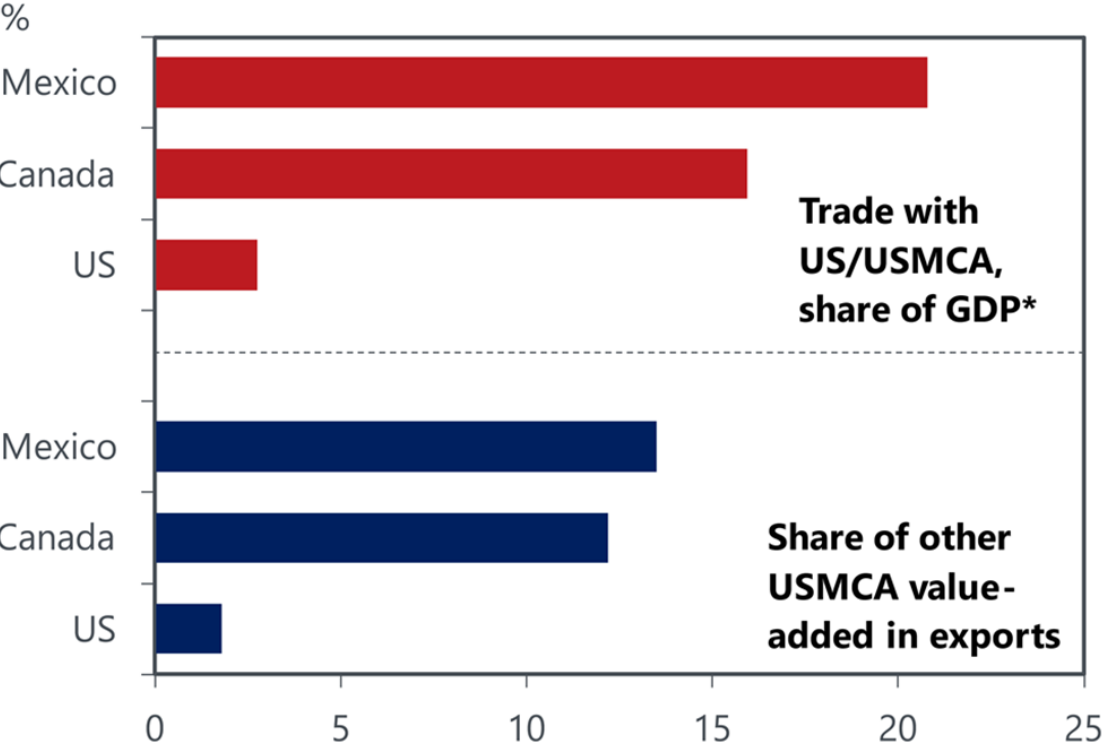


## Key takeaways

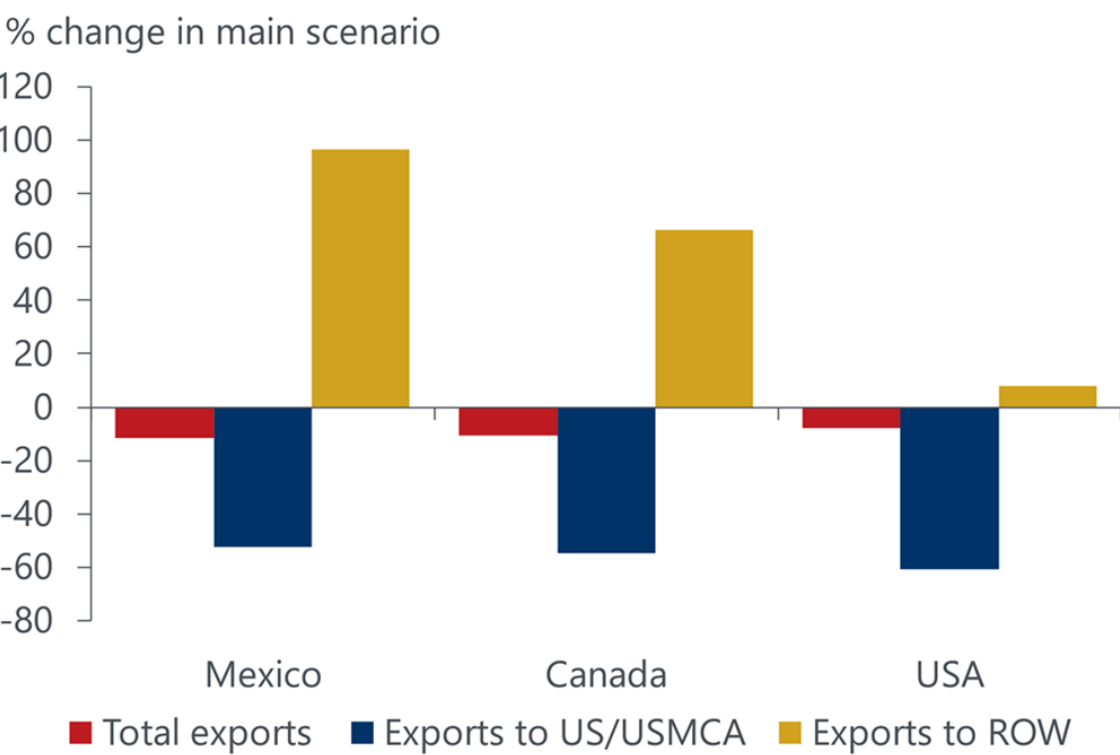
- Trump's 25% blanket tariffs on imports from Canada and Mexico could cut intra-USMCA trade in half from current levels in the long term, if the tariffs proved permanent.
- Over time, tariffs would lead to reshoring to the US and hundreds of billions of dollars of trade would be redistributed globally. This implies large-scale disruption, particularly for North America's integrated auto sector.
- The impact on Canada could be substantially reduced if key industries such as extraction, chemicals and autos were excluded from tariffs.

# Mexico & Canada need to sharply boost trade with other countries

USMCA: Mutual trade dependence



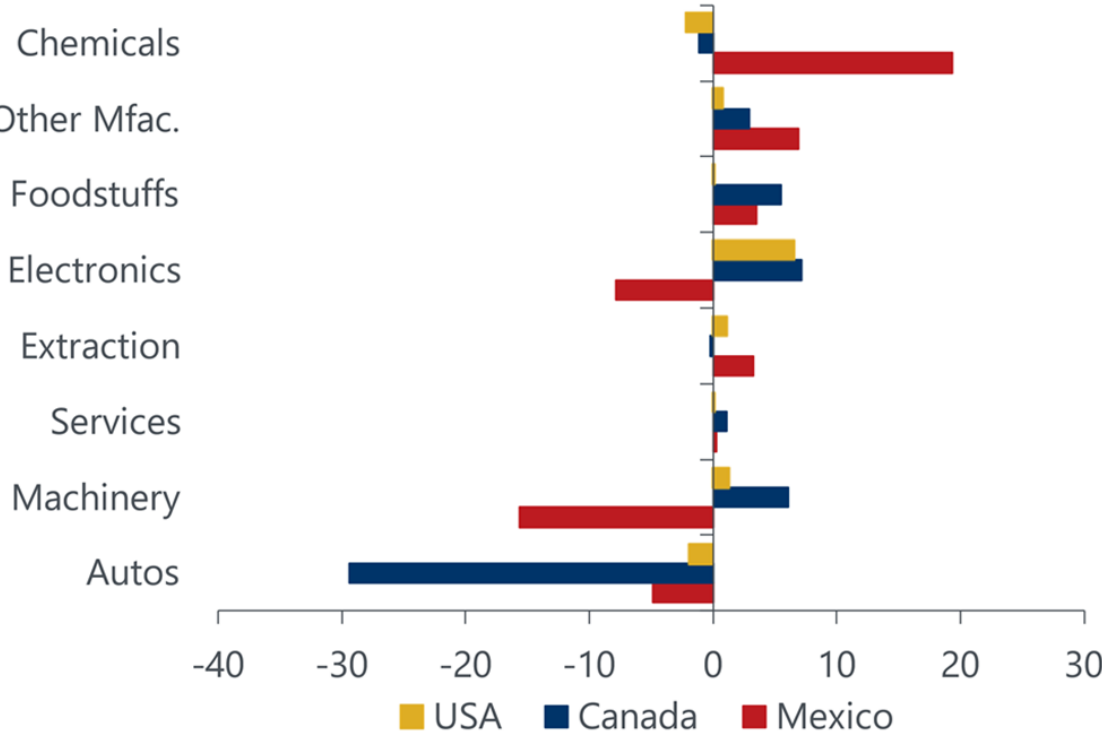
USMCA: Exports by direction in main scenario



# Huge trade reorientation would hit NA's auto industry hardest

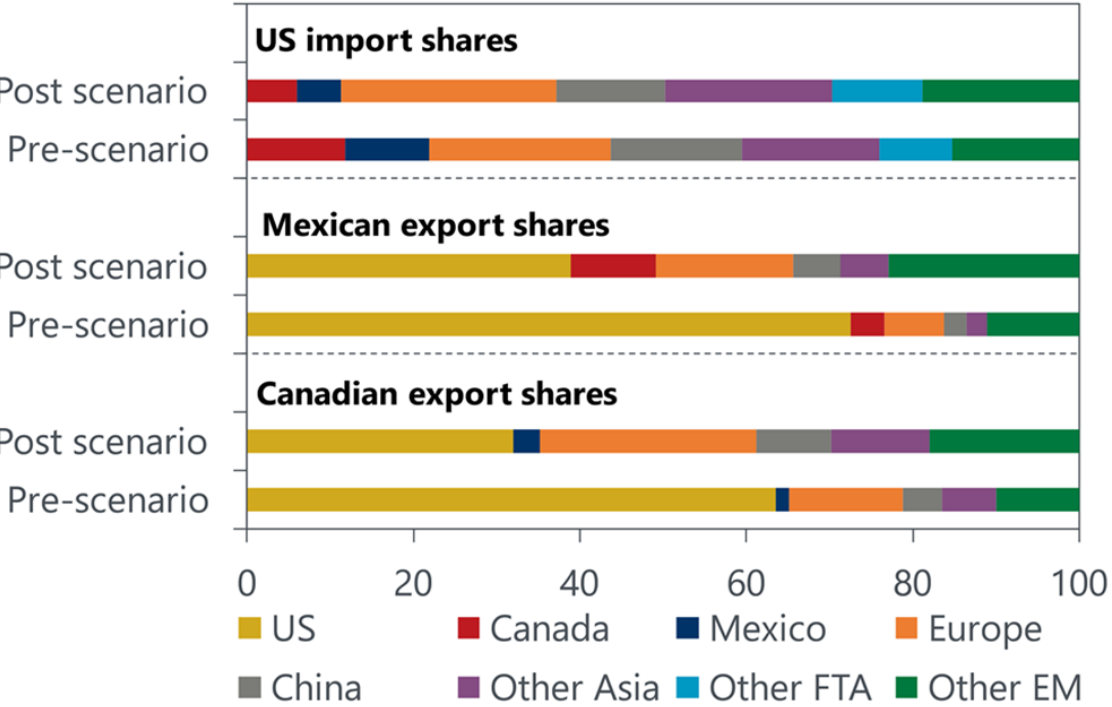
USMCA: Sectoral output in main scenario

% change in scenario



USMCA: Trade share changes in main scenario

% share of total

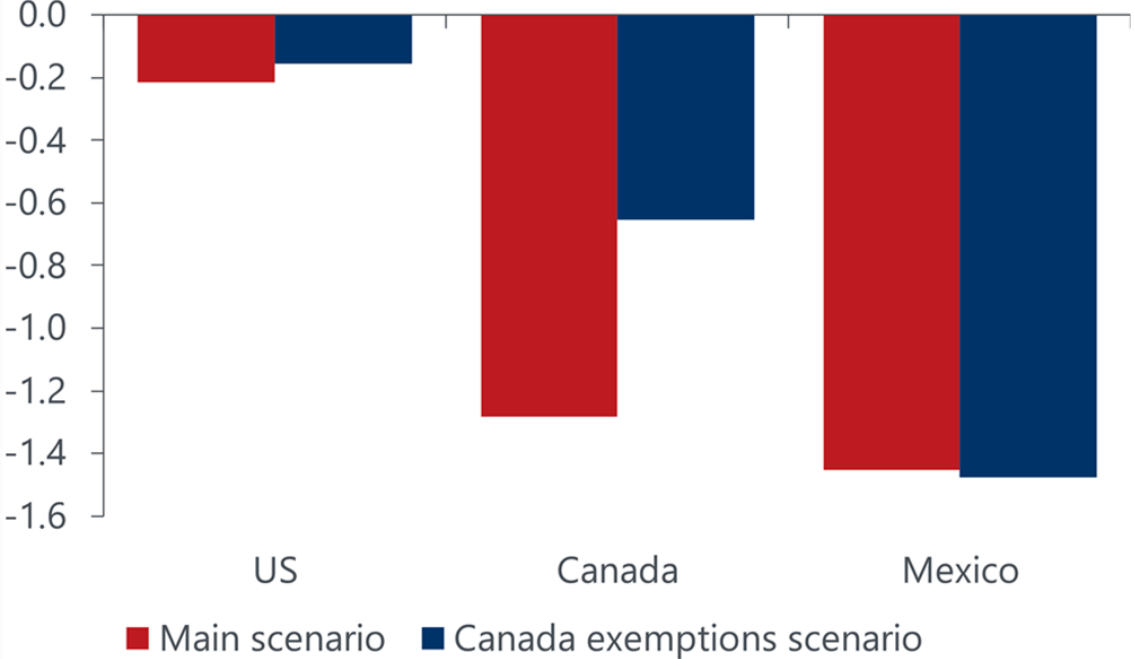


# Larger near-term output losses with 25% sweeping tariffs

## GTAP long-run GDP impact

USMCA countries: GDP in GTAP scenarios

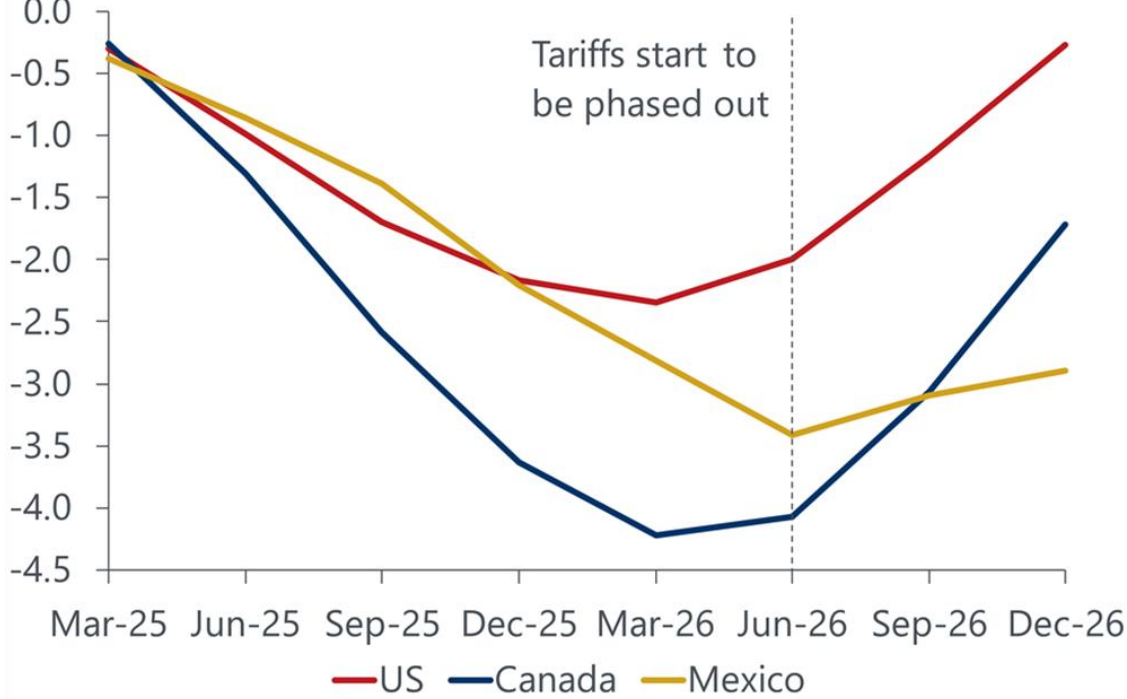
% change in (long-term) GDP volume



## OE GEM short-term GDP impact

USMCA: GDP paths in OE model scenario

% difference in GDP versus baseline



# Comparing GTAP and Oxford Economics' models

- GTAP can assess commodity-specific trade policy but only provide static, long-run impacts of permanent changes while Oxford's GEM can evaluate the dynamic, top-down impacts of changes in average effective tariff rates.

## Oxford's Global Economic Model (GEM)

- Oxford Economics' **Global Economic Model (GEM)** structure captures both the short-term macroeconomic output, aggregate trade flow and price dynamics, incorporating additional channels such as financial market effects, and long-term, supply-side economic effects.
- The GEM captures the dynamic impacts of aggregate trade policy changes and the adjustment costs to new trade patterns.
- GEM key limitation: GEM can only examine the top-down impacts of changes in average effective tariff rates. Insights from other tools like GTAP are used to inform GEM modelling of sector-specific tariffs and targeted trade policies.
- However, Oxford Economics' **Canada Provincial Territorial Model (CPTM)** is a bottom-up framework that allows for both aggregate and targeted trade policy analysis by detailed industry sector for Canada overall and its 13 sub-national geographies.

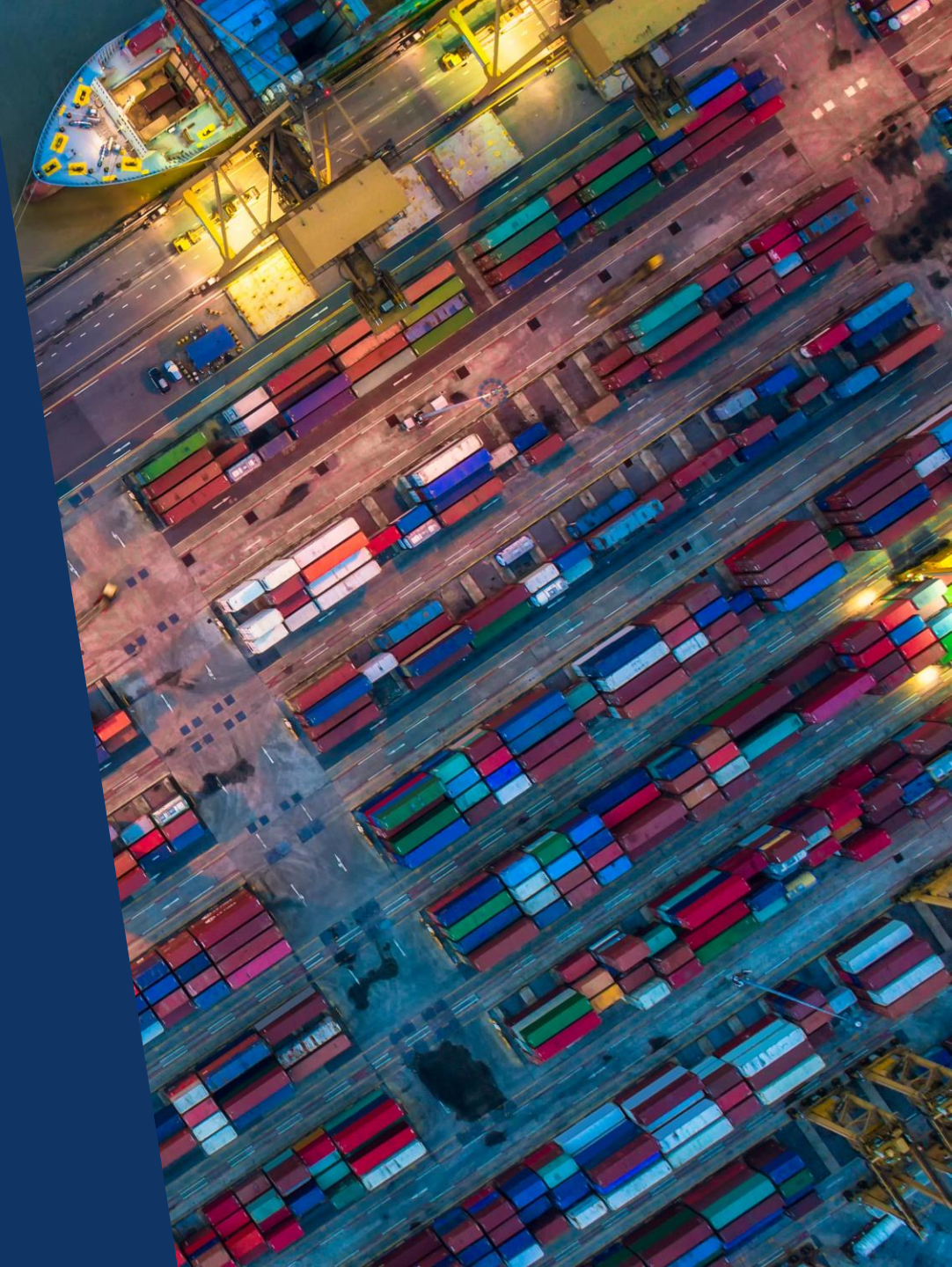
## Global Trade Analysis Project Model (GTAP)

- The GTAP model incorporate bilateral trade patterns, production, consumption, and intermediate uses of commodities and services in a multi-region, multi-sector computable general equilibrium model.
- GTAP can assess the effects of changes in trade policy such as commodity-specific tariffs, including shifts between domestic and foreign production, and the reorientation of trade to new markets/suppliers/products from changes in relative trade costs.
- *GTAP's key limitation*: GTAP can only provides 'before and after' static impacts of trade policies, rather than time series results.
- As such, the impacts shown by the GTAP should be seen as the long-run effects of a permanent change in tariffs.



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Questions?



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