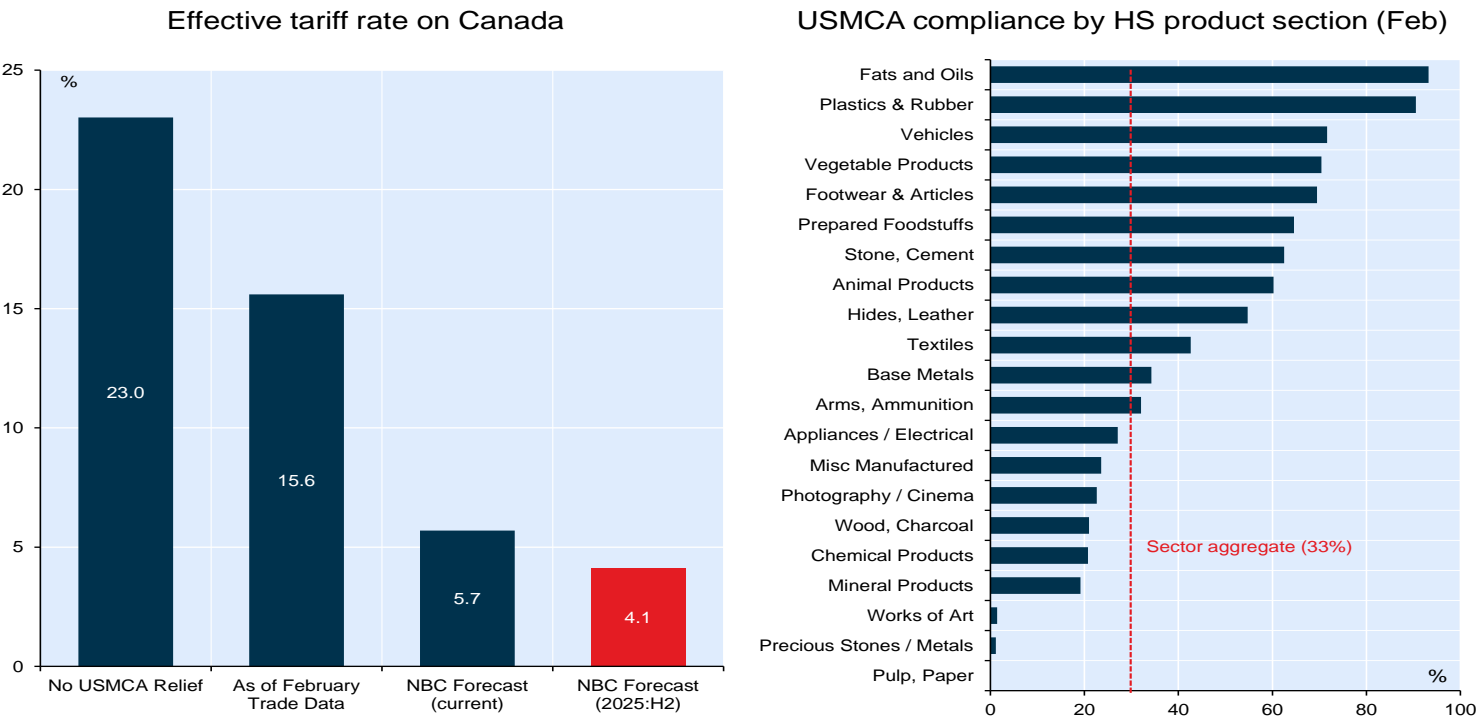


Canada Watch

By Stéfane Marion and Ethan Currie

Washington’s recent reciprocal tariff announcement has sent shockwaves through the global economy, financial market performance reflecting the deteriorating sentiment amidst an escalating trade war. The announcement has also caused significant confusion as it relates to the methodologies driving the assigned tariff rates, particularly with a view to de-escalation potential. As USMCA trading partners, Canada and Mexico were largely spared from the tariff list, having experienced the bulk of trade focus to that point. Sifting through the chaos, it’s clear that USMCA compliance is the name of the tariff game for two of the U.S.’s largest trading partners. Without any carveouts via the trade agreement, Canada would be subject to an effective tariff rate of 23%, considering border-related, and sector-specific levies. As per fresh U.S. trade data (February dated), USMCA compliant imports from Canada were a mere 33% of total. At these levels and trade weights, the effective tariff would be 15.6%. However, we believe that there has been a Canadian producer ‘rush to compliance’ since February, to be reflected in future trade data, which would bring our current sector aggregate exposure to 5.7%. As today’s Hot Chart shows, this figure may still decline below 5%, given broadening compliance, shifts in trade composition, and the potential removal of special tariffs imposed due to border-related grievances under IEEPA orders. As shown, sector-specific USMCA compliance registrations remain well below potential as of the February data. Therefore, with rule of trade origin and self-compliance dynamics at play, we expect certain products—such as energy—to become effectively tariff-free, if they aren't already. This will further reduce the effective tariff rate faced by Canada.

Canada: USMCA compliance is the name of the tariff game



NBC Economics and Strategy (data via U.S. Census Bureau) ) | Note: Tariff rates applied according to current U.S. policy to comprehensive list of HS2 product codes. Right chart aggregates product code chapters into 21 commonly-cited sections. Current forecast assumes ~80% compliance with sector specific adjustments (i.e., energy, which is assumed to be 100% compliant). May forecast assumes same compliance breakdown with IEEPA adjustment (12% tariff on noncompliant goods ex. energy, potash).



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