Hot Charts
Economics and Strategy

August 6, 2025 (Vol. XXV, No.30)

Canada Watch

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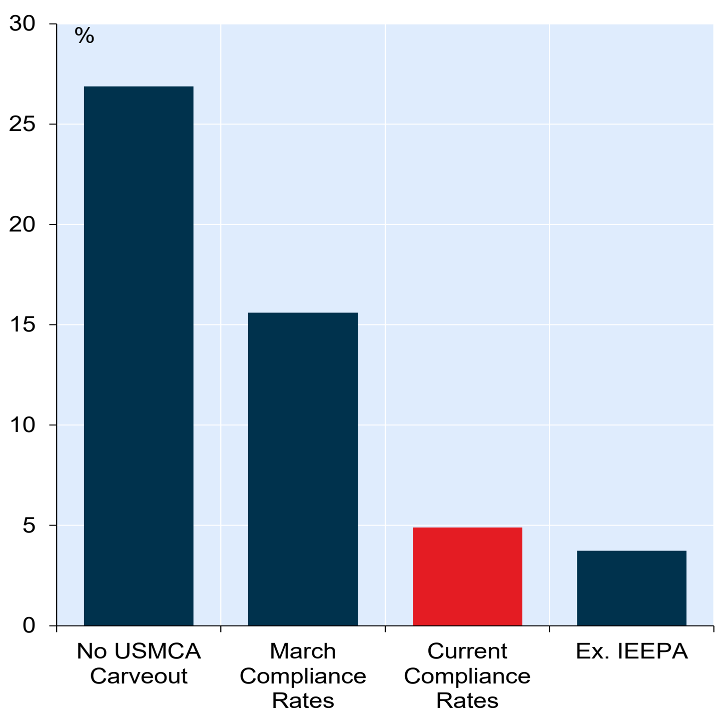
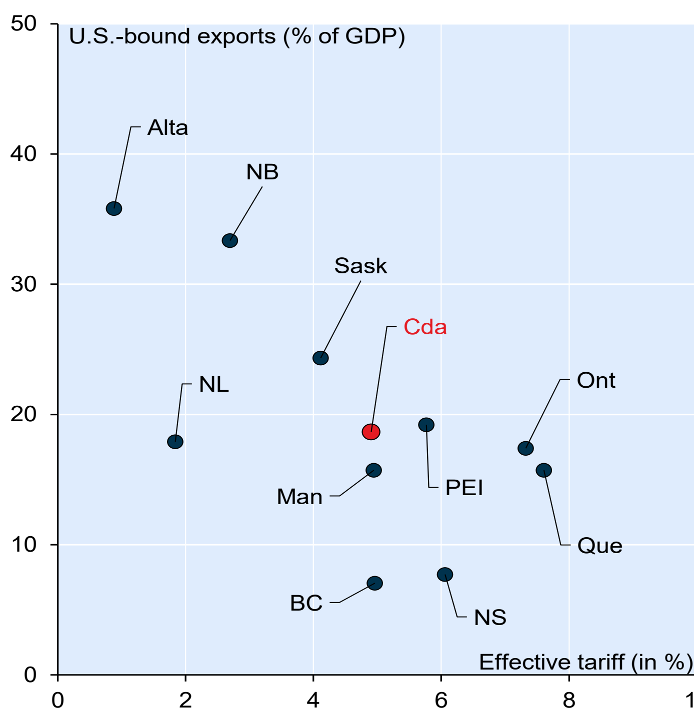
Recently published trade data from June suggests that the U.S.-imposed effective tariff rate on Canada is well below that suggested by 'headline' announcements. As today's *Hot Chart* shows, USMCA compliance remains **the name of the tariff game** in Canada. In April, we estimated that Canada's tariff exposure would remain muted as compliance rates rose to their potential suggested by rules of trade origin. Were it not for this trade agreement, Canada would be exposed to one of the highest levy rates in the world (in excess of 25%). As compliance has stepped up rapidly since tariffs were introduced this year, the effective tariff on U.S.-bound exports has dropped significantly. With the majority of goods now exempt from IEEPA-imposed levies (i.e., those associated with border security), the bulk of exposure is driven by sectoral tariffs – namely, those applied to metal products and autos. As of this writing, our national effective tariff estimate resides at 5% - in line with a recent estimate from the Bank of Canada. However, this aggregate figure masks significant regional disparities due to the sector-specific exposures at hand. As shown, Quebec and Ontario - with outsized contributions to the country's steel, aluminum, and auto trade - face the highest effective tariffs, in excess of 7%. They've also been quick to feel the impact, as their provincial unemployment rates have ticked up 1.0% and 0.5%, respectively, since February. So, while the USMCA offers Canada significant tariff carveouts, we'd caution against completely discounting the impact of this year's trade war. Sector, and thus provincial-specific damage, combined with a massive economic reliance on trade with the U.S. means that Canada isn't completely spared – that's already evident in PMI, labour market, and sentiment data.

Canada: Don't discount the tariff impact (& provincial exposures)

Development of the U.S.-imposed tariff rate on Canada under varying USMCA scenarios



Provincial exposures by effective tariff rate and relative economic importance of U.S. trade



NBC Economics and Strategy (data via Statistics Canada, U.S. Census Bureau, Bloomberg, USITC)

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