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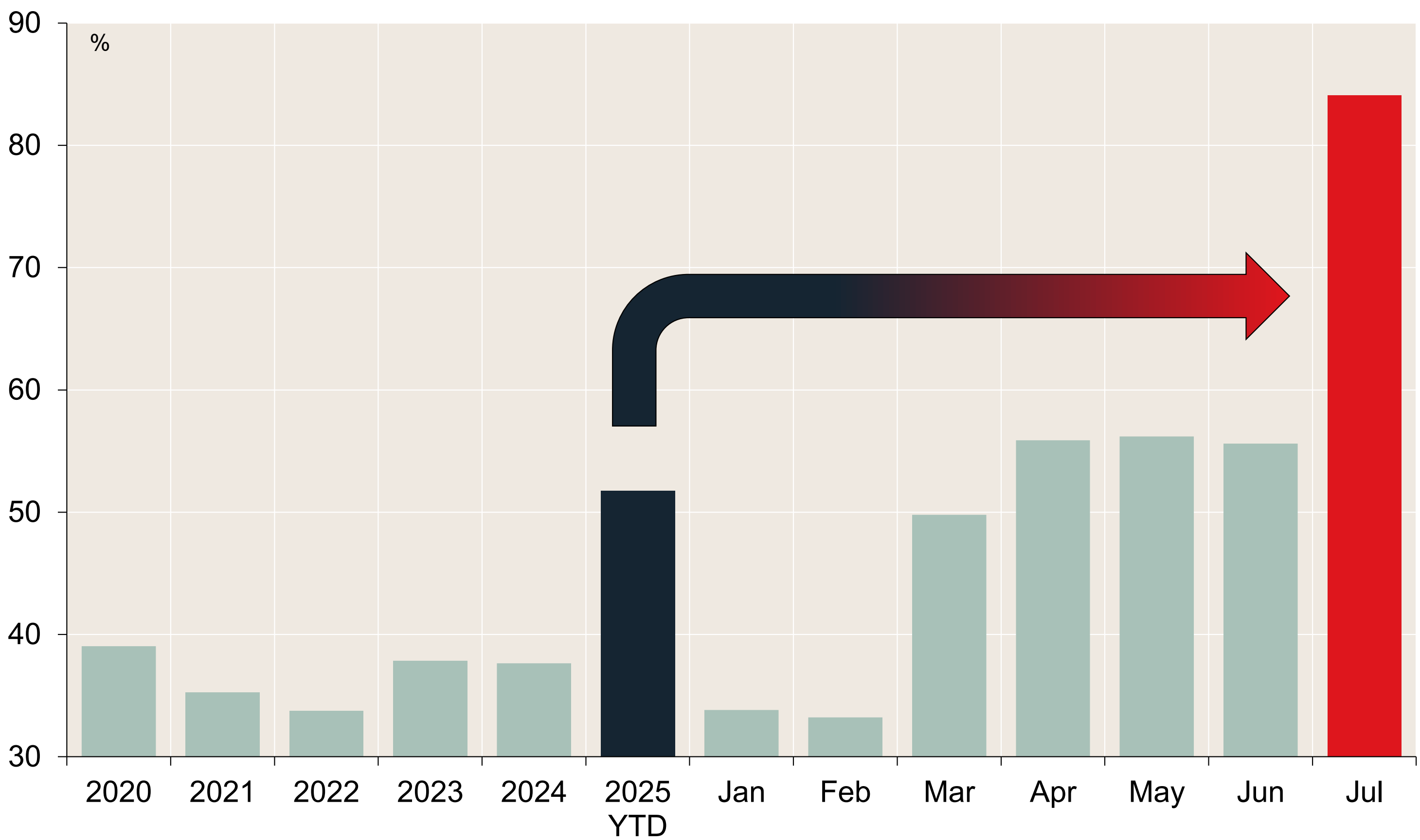
Canada Watch

By Ethan Currie

From the get-go of this year's ~~liberation~~ trade war, it was clear that for Canada, USMCA was the **name of the tariff game**. Carveouts awarded to traded goods registered under the agreement have proven to be the largest source of Canada's *relatively* favourable tariff outlook. Without such shelter, the effective duty rate on U.S.-bound Canadian exports would reflect more egregious 'headline' figures imposed via the IEEPA (that is, for example, the 35% levy justified by border security concerns). Instead, Canada is currently exposed to an average tariff rate of ~5% by our estimates – a figure that is predominantly propped up by sector-specific levies (which has key **regional implications** that shouldn't be neglected). Globally, the USMCA advantage is clear – recently released U.S. customs data for July suggest that the effective tariff rate paid on imports from Canada was 3.0% (Mexico 4.7%), both well below the all-partner, trade-weighted average of ~10%. As today's *Hot Chart* shows, USMCA compliance in Canada-U.S. trade reached a record high in July. At 84%, this registration rate also saw the largest monthly (and yearly) jump on record – even after an initial surge in March. Now consistent with the relatively muted tariff rate implied by customs data, a near-potential compliance rate continues to flag the importance of trade negotiations. To us, it is imperative that more clarity on the USMCA renewal be soon provided to maximize the efficiency of fiscal deployment (to be previewed in the fall budget).

Canada: USMCA registrations soar to record high

Share of U.S. goods imports from Canada registered under USMCA as a share of total, by year / 2025 month



NBC Economics and Strategy (data via U.S. Census Bureau) | Note: 2020 data begins in July

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