Market View
Economics and Strategy

NATIONAL BANK OF CANADA FINANCIAL MARKETS

July 11, 2025 - (Vol. IX, No. 66)

The Levy Lowdown: Liberated again?

By Ethan Currie

"We're gonna win so much, you may even get tired of winning. And you'll say, 'Please, please. It's too much winning. We can't take it anymore." – *Donald Trump, May 26th, 2016*

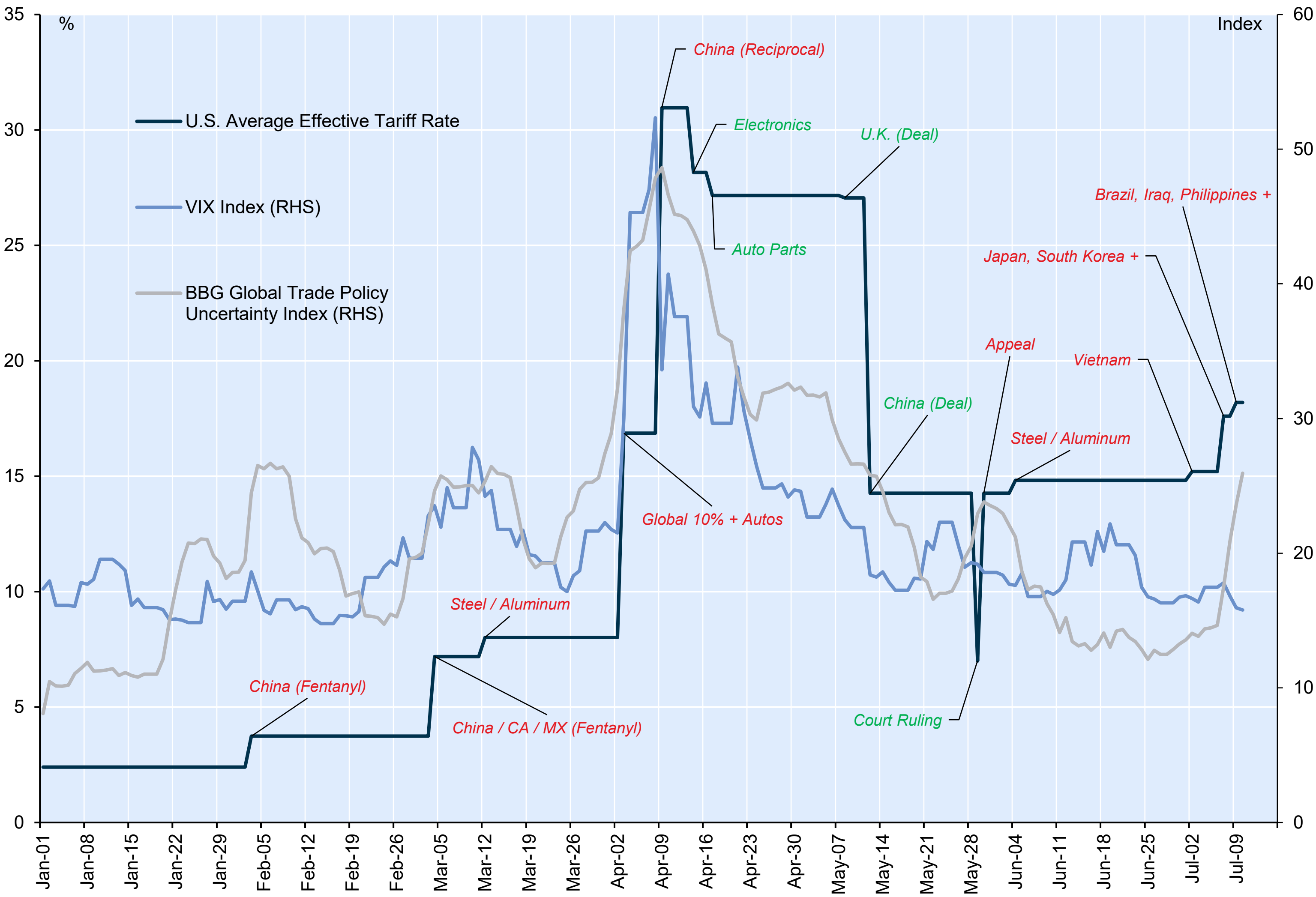
Well, we're tired alright. But there should be plenty more 'winning' left to do, considering we are only 12% through Trump 2.0. From tariffs to tax bills, Truth Social to Tesla, TikTok to trade treaties, it's been an eventful first half to 2025 as the White House has pushed an agenda that has spiked economic uncertainty and put geopolitics back in vogue. In this *Market View*, we present 13 charts which aim to contextualize and quantify the impacts of this year's U.S. trade policy renovations.

With turbulence picking up once again (as more ~~love~~ tariff assignment letters are sent), we provide an assessment of how policy has evolved and how trade regimes are shifting as a result. While moving targets, tariff exposures should be considered in the context of uninterrupted trade compositions. To assess the true potential impact of these levies, data on customs revenues, changes in trade behaviour, and headline tariff rate figures must all be considered simultaneously. Tariffs – longed for by the president, lamented by most, and liberating (for whom exactly?). Read on to see how we're tracking it all.

"Thank you for your attention to this matter!" – NBC Econ & Strategy

Chart 1: Volatility and uncertainty have been two-stepping to the tariff tempo in Trump 2.0

U.S. average effective tariff rate (AETR), Bloomberg Global Trade Policy Uncertainty Index, CBOE Volatility Index (VIX), year-to-date



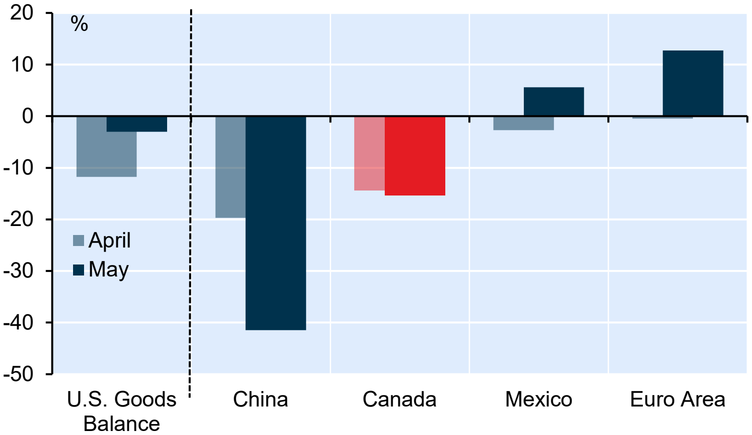
Source: NBC, Bloomberg, U.S. Census Bureau | Note: AETR calculated using 2024 trade weights; Red = escalation, green = de-escalation; BBG Uncertainty scaled by 3 for visualization purposes

Markets have whipsawed on tariff threats, implementations, and deferrals this year. Early April's 'Liberation Day' announcements were quickly paused after financial conditions derailed, allowing time for U.S. trading partners to negotiate deals with the White House. Those deals were few and far between, however, and tariff rates are back on the rise as the July 9th deadline just passed. After a series of front-loaded trading ahead of Trump's 'reciprocal' levy assignments, trade with the U.S. is starting to shift. The drop in imports from top trading partners is not seasonal, but structural, as businesses contemplate how to best adapt. That adaptation may come in the form of further-rearranged trade – Canada and China thought leaders in this regard, so far.

"BE COOL! Everything is going to work out well. The USA will be bigger and better than ever before!" – ***Donald Trump, April 9th, 2025, 9:33am ET***

Chart 2: Trade is beginning to retreat from the U.S.…

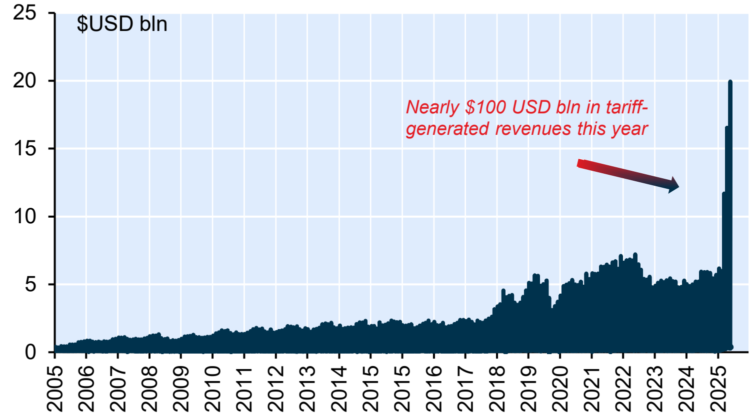
Y/Y chg in U.S. nominal imports vs. total U.S. goods balance



Source: NBC, Bloomberg, U.S. Census Bureau

Chart 3: … as tariff revenues begin to pile up

Daily U.S. customs revenue

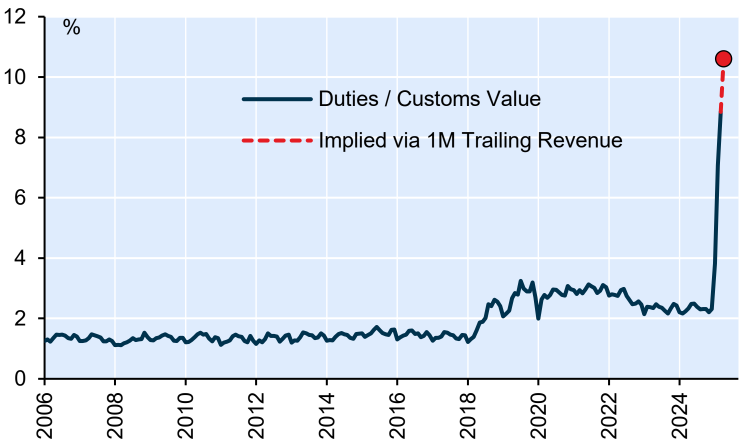


Source: NBC, Bloomberg, USITC

Tariffs have been imposed without much discrimination, as some of the U.S.'s largest trade partners have been assigned import tax rates. Indeed, levies on China, Canada, and Mexico can explain roughly half of the shock to the U.S. AETR this year. It's understandable then, why these countries are making up less of the U.S. import basket, as tariff revenues accumulate.

Chart 4: Customs duties are climbing to reflect policy…

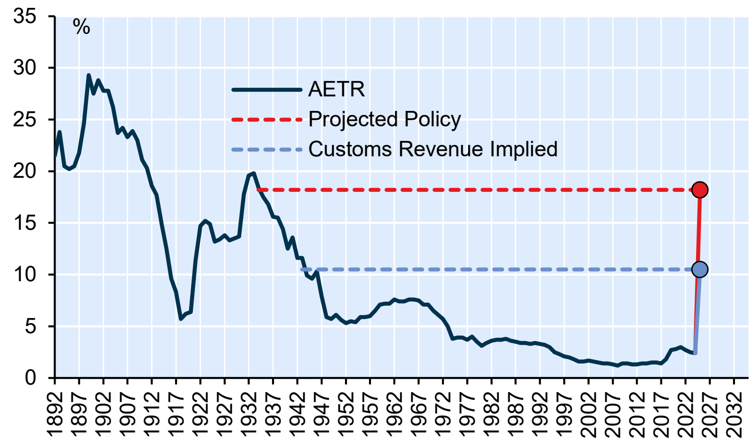
Duties collected as a share of customs value (monthly tariff rates)



Source: NBC, Bloomberg, USITC

Chart 5: … as tariffs the highest in a near century

U.S. AETR and implied tariff rates via policy announcements and customs revenue

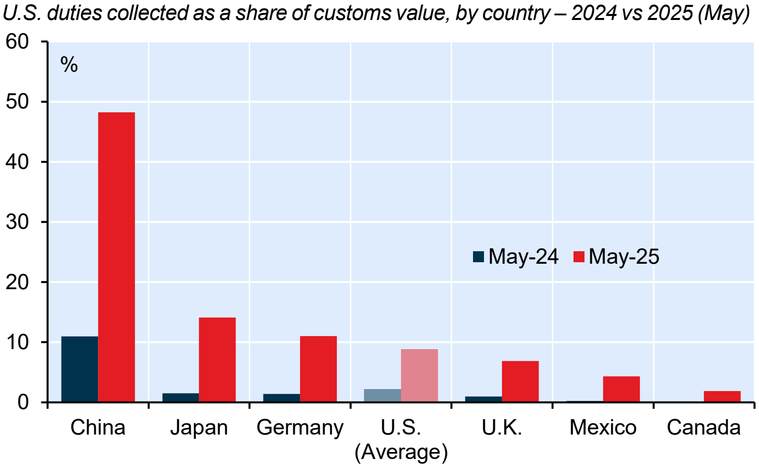


Source: NBC, U.S. Census Bureau, Bloomberg, USITC

Tariff revenues – while increasing rapidly and implying historically elevated tariff levels – are yet to reflect the full impact of White House policies. The lagged nature of collection and temporary shift in trade behaviour could minimize the 'headline' figures for now. If trade flows normalize, implied tariff rates will continue to rise (consistent also with fresh threats to Canada and a universal 'baseline'.

Chart 6: Tariff revenue rates are ticking up quick…

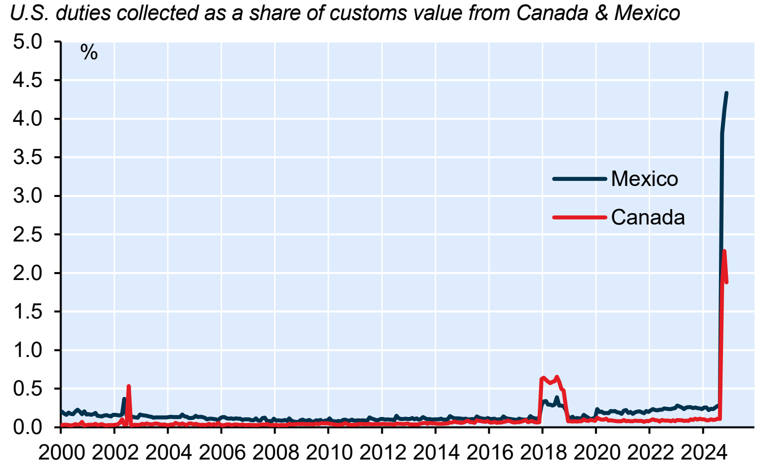
U.S. duties collected as a share of customs value, by country – 2024 vs 2025 (May)



Source: NBC, Bloomberg, USITC | Note: U.S. shows all country / weighted average

Chart 7: … in what is usually low-vol. data for the USMCA

U.S. duties collected as a share of customs value from Canada & Mexico



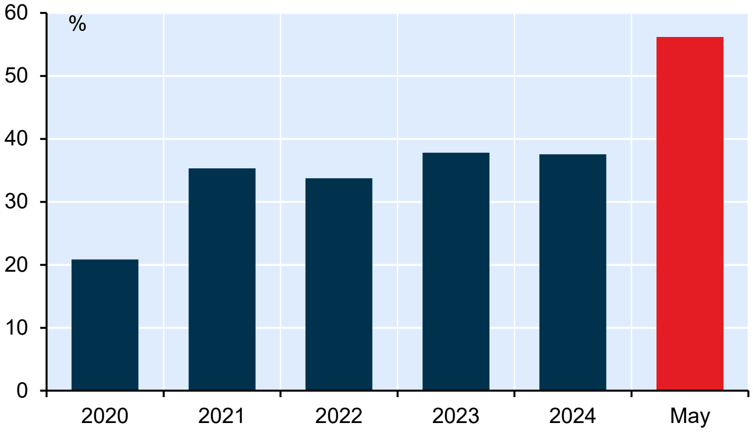
Source: NBC, Bloomberg, USITC

Canada has enjoyed some apparent niceties in the trade war so far. Tariff rates on U.S.-bound exports, based on customs revenue, suggest a relatively favorable position—thanks in part to USMCA. Still, there's room for effective rates to rise as the effects of front-loading wear off. And while the overall level is low, the recent spike in typically stable data shouldn't be overlooked.

"THIS IS A GREAT TIME TO BUY!!! DJT" – ***Donald Trump, April 9th, 2025, 9:37am ET***

Chart 8: USMCA compliance shares are ticking up…

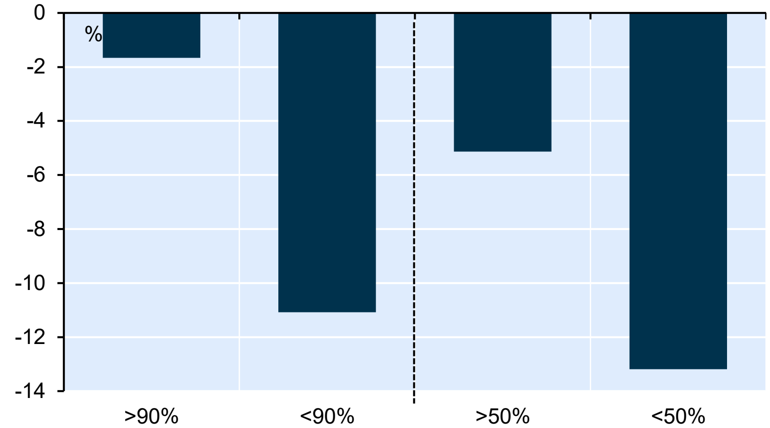
U.S. imports from Canada under USMCA as a share of total imports from Canada



Source: NBC, U.S. Census Bureau

Chart 9: … export declines are led by non-compliant sectors

Y/Y chg in U.S. nominal imports from CA by sector USMCA compliance rate (May)

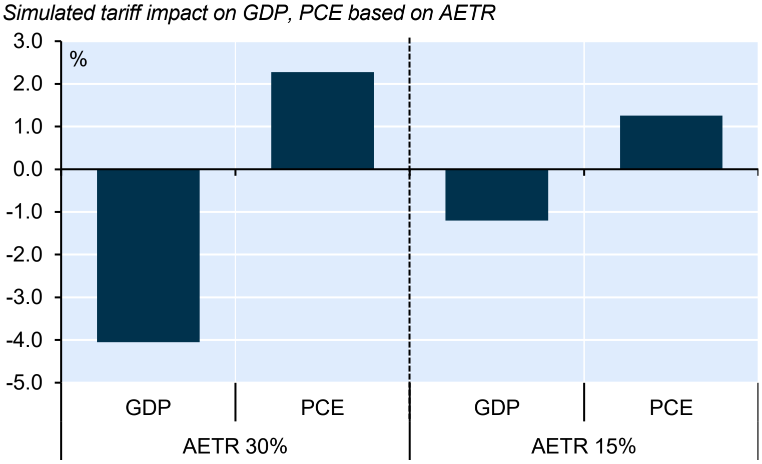


Source: NBC, U.S. Census Bureau | Note: Using HS2 codes, compliance scheme in C9

With rising threats, USMCA compliance is becoming vital for managing Canada's tariff exposure. Compliance has improved, reflected in lower duties collected. However, a shift away from trade in less compliant sectors may be temporarily easing pressure. If trade patterns revert, some tariffs (sector specific, or those on non-compliant goods) might be harder to avoid.

Chart 10: We await tariff impacts on economic data…

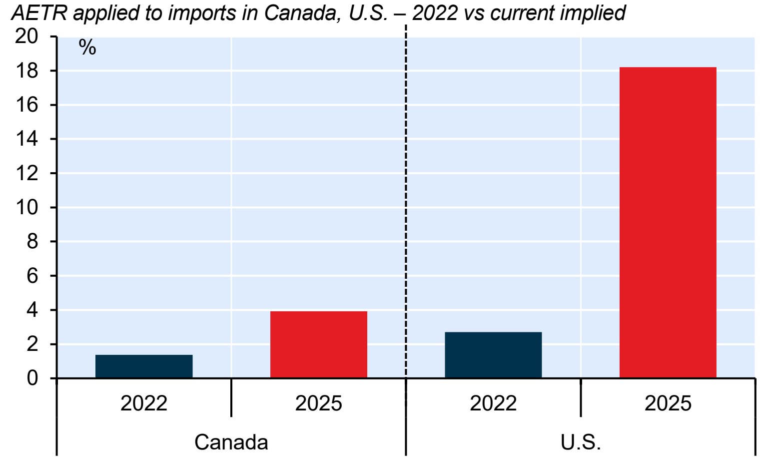
Simulated tariff impact on GDP, PCE based on AETR



Source: NBC, Bloomberg, Federal Reserve | Note: Scales shock factors by increase in AETR

Chart 11: … in Canada, tariff-led inflation less of a worry

AETR applied to imports in Canada, U.S. – 2022 vs current implied

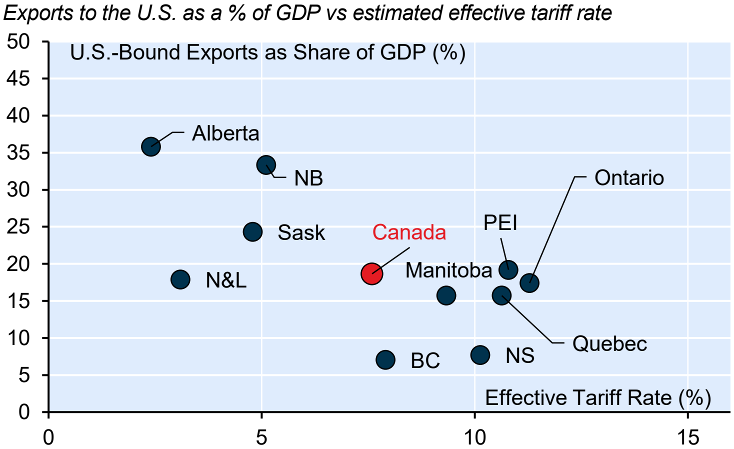


Source: NBC, U.S. Census Bureau, StatCan, WTO

The magnitude of tariff impacts is difficult to predict, however the directional impact is agreed upon by most. In the U.S., a higher AETR will be consistent with a larger hit to growth, and increased cost pressures. It's understandable, then, why the FOMC is keen to be patient as they await consumer price impacts. In Canada, relatively muted retaliation should mean less tariff-led inflation.

Chart 12: Effective tariff exposure varies across Canada…

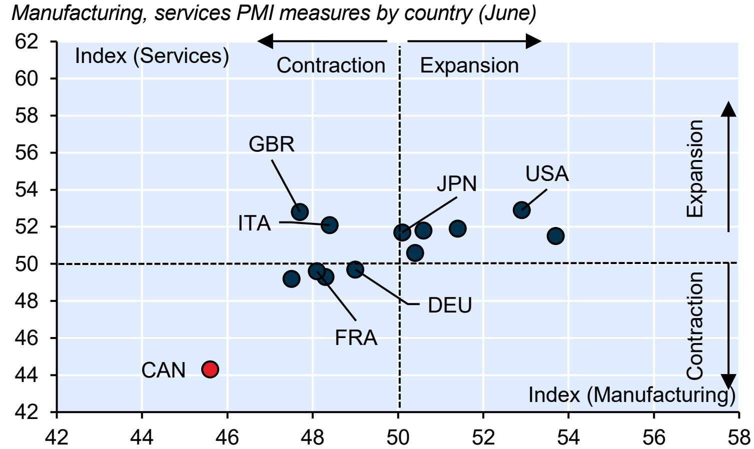
Exports to the U.S. as a % of GDP vs estimated effective tariff rate



Source: NBC, StatCan, U.S. Census Bureau

Chart 13: … lower duties not meaning lower pain so far

Manufacturing, services PMI measures by country (June)



Source: NBC, Bloomberg, S&P Global

The trade war is far from over, and Canada, despite some preferential treatment, is far from spared. Provincial pain points vary across the nation, and export-exposed sectors like manufacturing are buckling under new policies and associated uncertainty. An already weak industrial base in Canada is more exposed than ever, though an opportunity exists to Make Canada Investable Again, by reducing regulatory burdens, leveraging comparative advantages in energy, and rearming factories, all with a view to spur productivity and regain a meaningful role in global supply chains.

Subscribe to our publications: NBC.EconomicsStrategy@nbc.ca – To contact us: 514-879-2529

General

This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of CIRO), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

Canadian Residents

NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.

UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

EU Residents

With respect to the distribution of this report in the member states of the European Union ("EU") and the European Economic Area ("EEA") by NBC Paris, the contents of this report are for information purposes only and do not constitute investment advice, investment research, financial analysis or other forms of general recommendation relating to transactions in financial instruments within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MiFID 2"). This report is intended only for professional investors and eligible counterparties within the meaning of MiFID 2 and its contents have not been reviewed or approved by any EU/EEA authority. NBC Paris is an investment firm authorised by the French Prudential Control and Resolution Authority __ ("ACPR") to provide investment services in France and has passported its investment services throughout the EU/EEA under the freedom to provide services and has its registered office at 8 avenue Percier, 75008 Paris, France. "NBC Financial Markets, a subsidiary of National Bank of Canada" is a trade name used by NBC Paris S.A.

NBF is not authorised to provide investment services in the EU/EEA.

U.S. Residents

With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only. This report is not subject to U.S. independence and disclosure standards applicable to research reports.

HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright