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# Drop and give me 50

By Taylor Schleich & Ethan Currie

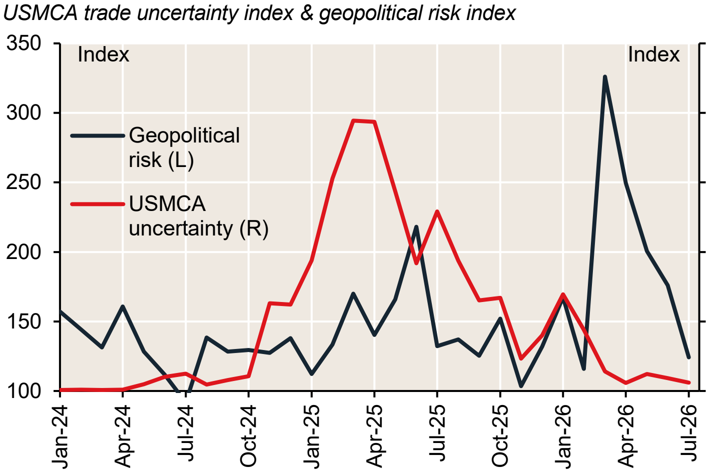
Here we go again. Tariff policy *had* taken a back seat as the Middle East war captured the U.S. administration's attention. But the President has proven an adept multitasker and, amid ongoing strikes in Iran, threatened to impose a fresh round of 50% tariffs on Canada, taking effect in 30 days. Invoking Section 338 of the Tariff Act of 1930, which allows tariffs in response to foreign "discrimination" against U.S. commerce, the White House is targeting wine, hockey sticks and cement, among other goods. Unlike other tariffs on Canada, the 'USMCA exemption' won't apply.

While a 50% tariff is severe, it would apply to only ~5% of U.S. imports from Canada. With 85% of Canada-U.S. trade registered under the USMCA over the last year, most imports would remain tariff-free even if these Section 338 levies are implemented. So, despite the jarring 50% figure, Canada's overall tariff rate would rise modestly, from ~5% to just over ~7.5%. Note also that the current duty rate *actually paid* on Canadian goods is even lower (~3% in May), as tariffs discourage imports of heavily taxed goods. Needless to say, the proposed 50% tariffs would make select imports uneconomical, limiting the increase in the effective rate. By either estimate, Canada's tariff burden would rise, but remain below the global average.

It's not a foregone conclusion that these tariffs will enter into force and USTR Greer has already indicated they're a negotiating tactic. But even if the levies are imposed, they're unlikely to materially alter the BoC's rate path. The Bank had previously said that "significant new trade restrictions on Canada" could warrant rate cuts to support growth. Without minimizing the impact on affected firms, the scope of the levies does not appear sufficient to meet that easing threshold.

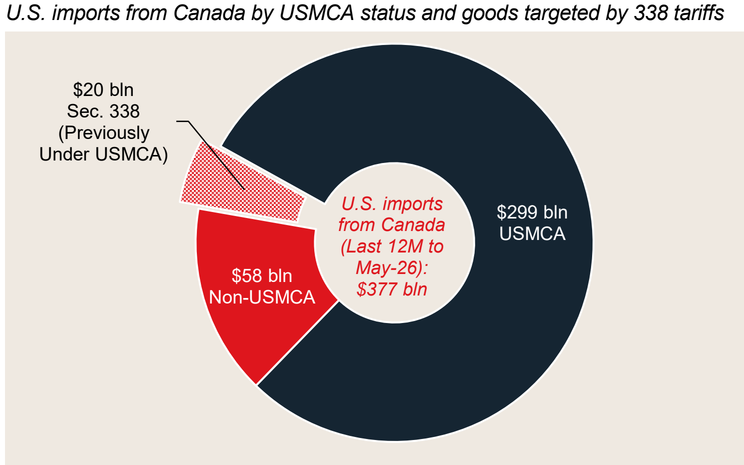
Still, these tariffs are not without some economic or policy consequence. At a minimum, they give the Bank more reason to remain patient and refrain from near-term rate hikes despite above-target inflation. The renewed uncertainty could also dent business confidence, which had recently been recovering (in part because of easing trade uncertainty). And while this should not jeopardize Canada's recent return to growth, it could slow that momentum and make the ongoing recovery more uneven.

**Chart 1: Trade uncertainty *had* faded to the background**
*USMCA trade uncertainty index & geopolitical risk index*



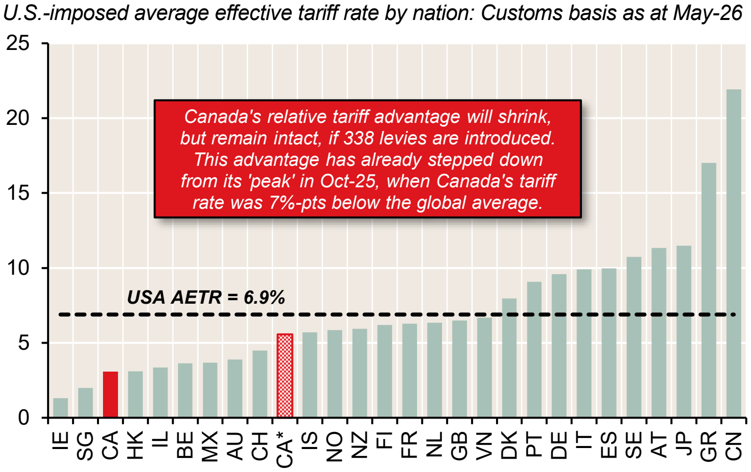

*Source: NBC, Bloomberg, Caldara & Iacoviello*

**Chart 2: Fresh tariffs impact a relatively small share of trade**
*U.S. imports from Canada by USMCA status and goods targeted by 338 tariffs*



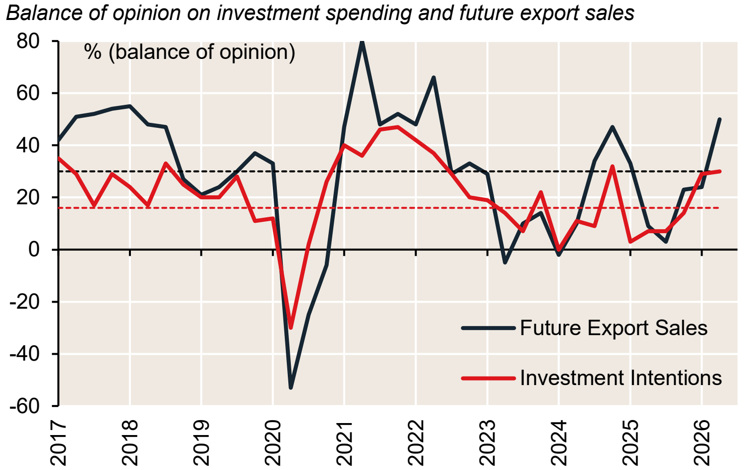

*Source: NBC, US Census Bureau | Note: Assumes all 338 tariffs were covered under USMCA*

**Chart 3: Is Canada's global tariff advantage slipping?**
*U.S.-imposed average effective tariff rate by nation: Customs basis as at May-26*




*Source: NBC, BBG | Note: CA* includes impact of new tariffs and assumes trade composition is unaffected. AETR is on customs basis (collected/dutiable value) as at May-26 trade*

**Chart 4: Exporters *were* growing more optimistic**
*Balance of opinion on investment spending and future export sales*




*Source: NBC, BoC | Note: Dotted line refers to series' average since 2017*

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