ECONOMIC VIEWPOINT

New Tariffs: Still Many Unknowns

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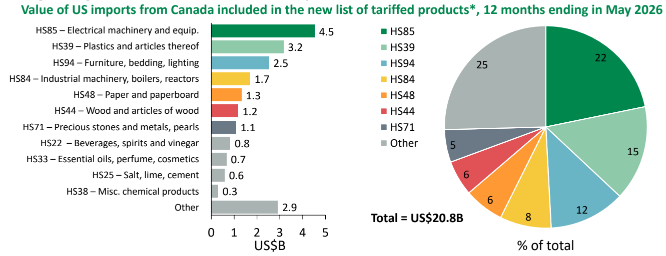
Amid ongoing North American trade negotiations, the US president is ratcheting up pressure by threatening to impose new tariffs on Canada under Section 338 of the *Tariff Act* of 1930. The US administration is alleging that Canada has discriminated against US exports of autos, alcohol and dairy. This is a response to Canada's retaliation against President Trump's prior trade barbs. Importantly, while oil, gas, potash, fish and critical minerals will be specifically exempt, there will be no carve-out for CUSMA-compliant goods. At 50%, these new tariffs would be prohibitively expensive for American importers, but would also deeply impact export sales for targeted Canadian suppliers, with Ontario, Quebec and BC bearing the brunt of the shock.

New Tariffs with a Limited Reach

The value of goods that would be subject to a 50% tariff rate (with no exemption for CUSMA-compliant goods) totals US$20.8B annually (approximately CA$29B), based on trade flows over the past 12 months. This represents slightly more than 5% of Canadian exports to the United States. Newly targeted sectors include manufacturers of industrial and electrical machinery and equipment, plastic products (including packaging), certain furniture and accessories such as lighting fixtures, and various paper and wood products that had previously been spared sector-specific tariffs (graph 1). Ontario, Quebec and BC are Canada's leading exporting provinces for several of the newly targeted products (graph 2).

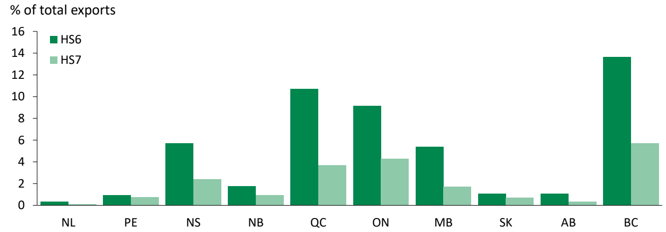
Therefore, the direct impact of these new measures would likely be similar in these three provinces. Beyond the direct trade effects, heightened uncertainty could dampen business confidence and curb investment plans. In this context, if these new tariffs were implemented as proposed, we would lower our forecast for Quebec's real GDP growth from 0.5% to 0.3% in 2026.

Graph 1
The New Potential Tariffs Target Machinery, Plastics, Furniture and Lighting Fixtures, Wood and Paper Products
Value of US imports from Canada included in the new list of tariffed products*, 12 months ending in May 2026



* Tariffs of 50% by August 19.
US International Trade Commission, White House and Desjardins Economic Studies

Graph 2
Provincial Exposure to New US Tariffs Is Highest in BC, Quebec and Ontario
Share of exports to the US subjected to Section 338 tariff*

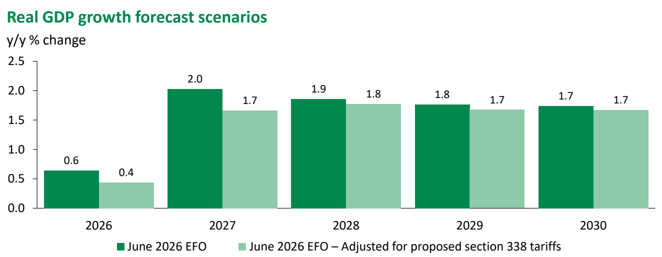


* Based on HS6- and HS7-level matching due to limitations in the reliability of province-level HS8 data. The actual affected export share is expected to fall between the two estimates.
Statistics Canada and Desjardins Economic Studies

Impact on the Canadian Outlook

If the Section 338 tariffs go ahead as planned on August 19, 2026, the Canadian economy could slow considerably in the second half of 2026. Net exports would be a drag on headline real GDP growth. A softer labour market would weigh on household consumption and residential investment, while business investment could be expected to advance at a slower pace or even contract. Government spending should increase to support impacted households and businesses while the Bank of Canada could cut interest rates twice before the end of Q1 2027, together providing policy support to the Canadian economy. In this scenario, real GDP growth would advance by 0.4% in 2026 and 1.7% in 2027, as compared to 0.6% and 2.0% in our June 2026 Economic and Financial Outlook (EFO), respectively (graph 3). And if these tariffs are kept in place permanently, real GDP growth could be about 0.1 percentage point lower in the long run, possibly keeping the Bank of Canada's policy rate from rising above 2.5%. The unemployment rate would also be permanently higher than forecast in our June 2026 EFO, rising to nearly 7% by the end of this year (versus 6.7% previously), and gradually falling to about 6.3% in 2030 (versus 6.2% previously).

Graph 3
Real GDP Is Expected to be Lower if New Section 338 Tariffs are Enacted



EFO: Economic and Financial Outlook
Desjardins Economic Studies

Conclusion

As designed, the latest round of tariffs targeting Canada are likely to have a noticeable impact on the Canadian economy, particularly through trade and capital formation channels. Targeted sectors could struggle to remain profitable if tariff rates suddenly rose from 0% to 50%, as is the case for many products. For many discretionary products with ample domestic or foreign substitutes (e.g., alcohol, furniture, consumer goods, etc.), American importers may find it straightforward to source from alternative suppliers.

However, we still view this as a risk rather than a shock requiring an immediate change to our baseline. The Trump administration's recent tariff salvo should likely be seen as a pressure tactic aimed at accelerating a compromise or broader agreement over the summer. There have been numerous instances of such deadlines being extended to allow for further progress in negotiations. In other instances, tariffs have ultimately been implemented but at a lower rate than initially advertised.

There also remains considerable uncertainty as to how long tariffs enacted under Section 338 would last, and the scope for them being ruled unlawful given the lack of recent precedents for tariffs under this specific provision. With the latest headlines suggesting both President Trump and Prime Minister Carney are committed to intensifying talks over the next 30 days, it is prudent to await the conclusion of those talks before drawing firm conclusions.