WEEKLY COMMENTARY

What Would a Tariff Truce Be Worth?

By Jimmy Jean, Vice-President, Chief Economist and Strategist

All eyes will be on Washington next week as the August 19 deadline approaches for new tariffs on Canadian goods to take effect. Since the July 21 announcement of tariffs of up to 50% under Section 338 of the *Tariff Act of 1930*, Ottawa and Washington have been negotiating an arrangement whose contours have gradually come into focus. Canada would agree to remove its retaliatory tariffs on automobiles, return US alcohol to store shelves, revise the allocation of dairy quotas and ease restrictions on government procurement. In return, negotiators have revived a proposal that would establish quotas on steel and aluminum in exchange for lower tariffs than the current 50% rate imposed under Section 232.

Several sources of tension bear watching. First, Canadian negotiators, already facing criticism over recent concessions, would give up additional bargaining leverage immediately in exchange for only partial and managed relief on metals. Meanwhile, one of the most consequential files, autos, would be deferred to the next CUSMA review without a firm commitment from Washington. Discussions on the sector also appear considerably less advanced, with the US administration so far putting forward only broad demands. That sequencing sits uneasily with Ottawa's objective of securing tariff relief for autos as well as steel and aluminum. The US proposal would effectively remove part of Canada's negotiating leverage without guaranteeing relief for one of the sectors most exposed to the trade dispute.

Canada's federal structure adds another layer of complexity. Alcohol policy falls under provincial jurisdiction. Ontario, British Columbia and Quebec have indicated that US products will remain off store shelves until an agreement they consider satisfactory is reached. Dairy, meanwhile, remains particularly politically sensitive in Quebec. The fragmentation of authority within the Canadian federation could arguably provide Ottawa with some negotiating leverage in the Schelling sense: credibly tied hands can force the other side to adjust when the federal government can plausibly argue that some of the concessions being sought are simply not under its control. But those constraints also come with coordination costs. When concessions depend on provincial cooperation, Ottawa cannot readily guarantee their delivery. The lack of a common provincial position on US alcohol already illustrates the problem: Alberta and Saskatchewan have lifted their restrictions, while Quebec, Ontario and British Columbia continue to maintain theirs.

Whatever the difficulty of reaching an agreement, any deal would at best amount to a truce of uncertain duration. Canada already faces one of the lowest effective tariff rates among major US trading partners, even before any additional relief. The more consequential drag increasingly comes from uncertainty. And the predictability Canadian businesses are looking for is unlikely to emerge from next week's outcome. Tariff relief granted under Section 232 or Section 338 can subsequently be reversed through the same executive channels. There is no durable floor protecting whatever market access Canada manages to preserve. Legal challenges add another source of uncertainty. The Supreme Court's February 2026 decision invalidating the IEEPA tariffs pushed the administration toward Section 232 and Section 338, with the latter having little precedent in modern use and its legal durability still untested. Even the negotiating channel has proved fragile: talks were suspended in the fall of 2025 following an Ontario advertising campaign. Any agreement reached in this environment therefore needs to be

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discounted for a meaningful probability that tariffs could return, whether for political or legal reasons. For Canadian businesses, that probability translates directly into a higher risk premium on investment.

The concern is amplified by the fact that these measures increasingly erode the protection that CUSMA is supposed to provide. Unlike the initial rounds of tariffs, which largely spared CUSMA-compliant goods, the latest measures bypass that exemption. This extends a trend that first emerged as sectoral tariffs on metals were broadened to cover downstream manufactured products. The implication is increasingly clear: CUSMA compliance provides considerably less certainty over market access than it did a year ago.

The framework intended to anchor that access has itself become less stable. With the United States declining to extend the agreement, CUSMA has entered a cycle of annual reviews. A provision originally intended to provide periodic opportunities for adjustment now creates a recurring opportunity for renegotiation. Each review therefore opens another window for political volatility. The distinction between flexible stability and managed instability is becoming increasingly narrow. If these reviews remain largely technical, their economic cost should be limited. If instead they become an annual venue for renewed tariff threats and demands for concessions, they will embed a higher risk premium into the cost of capital for trade-exposed sectors. Over time, that uncertainty premium could matter more for investment than tariffs that are imposed or reduced for a matter of months.

From an economic outlook perspective, the key question is therefore how much value to assign to partial tariff relief on metals, with autos deferred, when that relief comes without an enforcement mechanism or a credible guarantee against future reimposition and sits within a trade framework now subject to recurring renegotiation. An agreement in the coming days would reduce near-term downside risk and provide meaningful relief to some sectors. Its value in restoring medium-term predictability would be considerably smaller. For the broader Canadian outlook, that distinction matters: lower tariffs can improve near-term sectoral conditions, but investment decisions depend on firms' confidence that those conditions will persist.

The outcome would therefore look much more like a tariff truce than the restoration of a stable trade regime. And ultimately, the economic value of a truce may depend less on the concessions it contains than on how long businesses expect it to last.

What to Watch For

UNITED STATES

TUESDAY August 18 - 8:30	
July	**ann. rate**
Consensus	1,350,000
Desjardins	1,350,000
June	**1,427,000**

Housing starts (July) – Housing starts surged 19% in June following two sharp monthly declines in April and May. We expect another pullback in July. Housing starts outpaced building permits in June, which usually suggests a slowdown in new construction. Residential construction payrolls also fell in July for the fourth straight month, and sales of new single-family homes have recently been below trend. We expect housing starts to have dropped to 1,350,000 units.

TUESDAY August 18 - 9:15	
July	**m/m**
Consensus	0.3%
Desjardins	0.5%
June	**0.1%**

Industrial production (July) – After posting strong growth of 0.8% in April, industrial production slowed in May and June with two successive gains of just 0.1%. We expect a slight improvement for July, however. After two months of decline, manufacturing output excluding the auto sector was likely up. That's the signal we're getting from the sharp increase in the production component of the ISM Manufacturing index, which hit its highest level since 2021 in July. But hours worked were down in the auto sector, which should offset some of the gains in the rest of the manufacturing sector. The other components of industrial production should come in strong. Hours worked were up sharply in the mining sector, while high temperatures likely drove up demand for air conditioning and therefore energy production as well. Look for industrial production to have jumped 0.5% and manufacturing output to have risen 0.1%.

CANADA

MONDAY August 17 - 8:30	
July	**m/m**
Consensus	0.5%
Desjardins	0.4%
June	**-0.4%**

Consumer price index (July) – After four months of extreme volatility, energy prices were much less of a factor in July. Headline CPI is expected to have risen by 0.4% m/m not seasonally adjusted, with most of the increase likely reflecting typical July seasonality. That would push the 12-month pace up one tick to 2.9%. The annual rates of the Bank of Canada's preferred core inflation measures probably remained largely stable, with underlying inflation looking like it stayed around the 2% target. That said, the 3-month annualized rates of those core metrics are somewhat more vulnerable to an upside surprise, but should still remain within a range that policymakers would view as comfortably consistent with their inflation objective.

TUESDAY August 18 - 5:00	
July	**m/m**
Consensus	n/a
Desjardins	-1.0%
June	**0.5%**

Existing home sales (July) – National seasonally adjusted home sales likely fell by about 1% in July. Preliminary year-over-year data from some local real estate boards suggest significant weakness compared to July 2025. However, Toronto continued to gain momentum, with seasonally adjusted sales rising 3.2% from June, for a fifth consecutive monthly increase.

TUESDAY August 18 - 8:15	
July	**ann. rate**
Consensus	245,000
Desjardins	255,000
June	**239,000**

Housing starts (July) – We estimate that housing starts averaged roughly 255k (saar) in July, broadly consistent with recent homebuilding trends. The composition of activity is expected to have continued shifting towards purpose-built rental construction, supported by government programs, while condo starts likely remained near levels last seen in the aftermath of the Global Financial Crisis.

FRIDAY August 21 - 8:30	
June	**m/m**
Consensus	0.4%
Desjardins	0.4%
May	**1.0%**

Retail sales (June) – Retail sales are expected to have risen by 0.4% in June, matching Statistics Canada's preliminary flash figure. Receipts at gasoline stations likely posted a nominal decline due to sharply lower fuel prices, as volumes were probably flat to slightly higher than in May. Sales at motor vehicle and parts dealers likely edged down, driven mostly by weaker volumes. Excluding autos and gasoline, core retail sales are expected to have posted respectable growth. The month was marked by the first quarterly payment of the Groceries and Essentials Benefit for eligible Canadians and the expectation of an enhanced quarterly payout starting in July. Job creation also improved in May and June, likely helping spur higher consumer sentiment in June and July despite the headwind of still elevated gas prices compared to last year. Moreover, the FIFA World Cup in June and July probably gave another boost to retail sales. Looking ahead to July's flash estimate, we expect another positive print, likely driven by autos and core retail sales.

OVERSEAS

SUNDAY August 16 - 19:50	
Q2 2026	**q/q**
Consensus	0.5%
Q1 2026	**0.5%**

Japan: Real GDP (Q2 – preliminary) – Second-quarter real GDP growth likely mirrored the 0.5% (non-annualized) increase recorded in the first quarter. Industrial production and real exports look to have slowed, but this should be offset by higher consumer spending and construction and lower real imports.

SUNDAY August 16 - 22:00	
July	**m/m**

China: Industrial production and retail sales (July) – Growth in industrial production and retail sales may have weakened in July following stronger-than-expected year-over-year gains of 5.3% and 1%, respectively, in June. Manufacturing activity was likely supported by sustained foreign demand, especially for AI-related tech assets. That said, the PMI flatlined in July, signalling a slowdown in production. Meanwhile, retail sales growth could remain constrained by ongoing weakness in the property market and fragile consumer confidence despite government efforts to boost domestic demand.

FRIDAY August 21 - 4:00	
August	
Consensus	51.8
July	**52.0**

Eurozone: Composite PMI (August – preliminary) – The eurozone's composite PMI is expected to remain in expansion territory in August, after advancing from 50 in June to an eight-month high of 52 in July. The recent increase in new orders and the return to growth in services should support overall activity, while manufacturing output will likely maintain its upward trajectory. However, trade uncertainty, still-high energy costs and persistently weak domestic demand will probably limit the scope of expansion.

Economic Indicators

Week of August 17 to 21, 2026

Date	Time	Indicator	Period	Consensus	Desjardins forecast	Previous reading
UNITED STATES						
MONDAY 17	8:30	Empire State Manufacturing Index	Aug.	11.0	12.0	15.6
	10:00	NAHB Housing Market Index	Aug.	33	n/a	34
	16:00	Net foreign securities purchases (US$B)	June	n/a	n/a	232.7
TUESDAY 18	8:30	Housing starts (ann. rate)	July	1,350,000	1,350,000	1,427,000
	8:30	Building permits (ann. rate)	July	1,372,000	1,380,000	1,374,000
	8:30	Export prices (m/m)	July	0.0%	0.0%	-0.6%
	8:30	Import prices (m/m)	July	0.1%	0.3%	0.3%
	9:15	Industrial production (m/m)	July	0.3%	0.5%	0.1%
	9:15	Production capacity utilization rate	July	76.3%	76.4%	76.1%
	10:00	Pending home sales (m/m)	July	0.1%	n/a	-5.4%
WEDNESDAY 19	14:00	Release of the Federal Reserve's meeting minutes				
THURSDAY 20	8:30	Initial unemployment claims	Aug. 10–14	210,000	212,000	209,000
	8:30	Philadelphia Fed index	Aug.	25.0	12.0	41.4
	10:00	Leading indicator (m/m)	July	0.1%	0.2%	-0.2%
FRIDAY 21	---	---				
CANADA						
MONDAY 17	8:30	Consumer price index				
		Total (m/m)	July	0.5%	0.4%	-0.4%
		Total (y/y)	July	3.0%	2.9%	2.8%
	8:30	International securities transactions ($B)	June	n/a	n/a	7.90
TUESDAY 18	5:00	Existing home sales (m/m)	July	n/a	-1.0%	0.5%
	8:15	Housing starts (ann. rate)	July	245,000	255,000	239,000
WEDNESDAY 19	---	---				
THURSDAY 20	8:30	Industrial product price index (m/m)	July	n/a	-0.5%	-1.4%
	8:30	Raw materials price index (m/m)	July	n/a	-2.0%	-6.9%
FRIDAY 21	8:30	Retail sales				
		Total (m/m)	June	0.4%	0.4%	1.0%
		Excluding automobiles (m/m)	June	0.0%	0.7%	1.2%

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of August 17 to 21, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
SUNDAY 16							
Japan	19:50	Real GDP – preliminary	Q2	0.5%		0.5%	
China	22:00	Industrial production	July		5.0%		5.3%
China	22:00	Retail sales	July		1.5%		1.0%
MONDAY 17							
Japan	0:30	Tertiary Industry Activity Index	June	-1.0%		1.1%	
TUESDAY 18							
United Kingdom	2:00	ILO unemployment rate	June	4.8%		4.9%	
Germany	5:00	ZEW Current Conditions Survey	Aug.	-69.3		-77.6	
Germany	5:00	ZEW Expectations Survey	Aug.	30.0		26.3	
WEDNESDAY 19							
United Kingdom	2:00	Consumer price index	July	0.3%	2.9%	0.1%	2.6%
United Kingdom	2:00	Producer price index	July	0.3%	3.3%	0.0%	3.5%
Eurozone	4:00	Current account (€B)	June	n/a		25.1	
Eurozone	5:00	Consumer price index – final	July	0.2%	2.9%	0.2%	2.9%
Japan	19:50	Trade balance (¥B)	July	-417.9		-881.9	
THURSDAY 20							
Sweden	3:30	Bank of Sweden meeting	Aug.	1.75%		1.75%	
Eurozone	5:00	Construction	June	n/a	n/a	0.4%	1.2%
United Kingdom	19:01	Consumer confidence	Aug.	-17		-17	
Japan	19:30	Consumer price index	July		1.9%		1.6%
Japan	20:30	Composite PMI – preliminary	Aug.	n/a		52.7	
Japan	20:30	Manufacturing PMI – preliminary	Aug.	n/a		54.5	
Japan	20:30	Services PMI – preliminary	Aug.	n/a		51.2	
FRIDAY 21							
United Kingdom	2:00	Retail sales	July	-0.4%	2.2%	1.0%	4.2%
France	2:45	Business confidence	Aug.	98		97	
France	3:15	Composite PMI – preliminary	Aug.	49.6		49.4	
France	3:15	Manufacturing PMI – preliminary	Aug.	50.0		49.8	
France	3:15	Services PMI – preliminary	Aug.	49.4		49.6	
Germany	3:30	Composite PMI – preliminary	Aug.	51.4		51.3	
Germany	3:30	Manufacturing PMI – preliminary	Aug.	52.0		52.2	
Germany	3:30	Services PMI – preliminary	Aug.	50.1		49.8	
Eurozone	4:00	Composite PMI – preliminary	Aug.	51.8		52.0	
Eurozone	4:00	Manufacturing PMI – preliminary	Aug.	51.9		51.9	
Eurozone	4:00	Services PMI – preliminary	Aug.	51.6		51.7	
United Kingdom	4:30	Composite PMI – preliminary	Aug.	51.5		52.2	
United Kingdom	4:30	Manufacturing PMI – preliminary	Aug.	51.5		51.9	
United Kingdom	4:30	Services PMI – preliminary	Aug.	51.9		52.1	
Eurozone	10:00	Consumer confidence – preliminary	Aug.	-16.3		-15.9	

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).