WEEKLY COMMENTARY

Friday Night Trade Fights?

By Randall Bartlett, Deputy Chief Economist

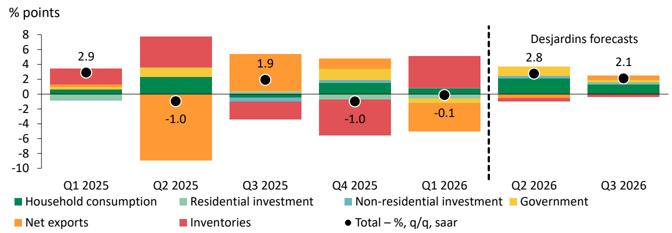
As we expected, late Tuesday night President Trump decided to postpone applying 50% tariffs on about 5% of Canadian exports to the US, citing progress on trade negotiations with Canada. But this reprieve in trade tensions was for a mere three days. As such, similar brinkmanship could play out tonight, as duties are set to be applied at 12:01 a.m. Eastern Time on August 22, 2026.

However, since Tuesday's tariff postponement, details of the potential deal have started to trickle out, even if unofficially. For instance, provincial premiers have been quite open about the ask to return American alcohol to store shelves. Whether they do it is another question, as it will certainly depend on what they get in return. Rumoured reductions in steel and aluminum duties from 50% to 25% have been bandied about. Similarly, lower levies on autos, from 25% to 15%, could also be on the table. One sticking point will no doubt remain dairy quotas and tariffs. While President Trump has declared victory on this front as well, the federal government continues to vigorously defend Canada's supply management system. With this in mind, it's reasonable to ask: Did Canadian negotiators put enough concessions on the table to satisfy the president and avoid the latest duties? Will the concessions be worth it? And will they be enough to stave off future tariff threats? As of the time of writing, these questions remain unanswered (although they were explored in greater depth in last week's commentary).

What we do know is that sustained trade uncertainty is weighing on the Canadian economy. Volatile trade and inventory numbers have largely been driving the recent swings in headline real GDP growth (graph 1). At the same time, final domestic demand growth has been surprisingly resilient in the face of recent economic uncertainty stemming from US actions at home

Graph 1
Final Domestic Demand Is Solid Despite Swings in Trade and Inventories

Contributions to the change in annualized quarterly real GDP growth



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and abroad. But this is being heavily supported by significant federal income transfers boosting consumption and heighted public spending on health care and defence propping up the government contribution to real GDP. As such, it's not clear whether the recent strength in the Canadian economy is truly the result of underlying resilience or if it's because of debt-financed public spending instead. If the latter, it may be the economic equivalent of a sugar high that isn't likely to last, although the resulting debt incurred could stay on the books indefinitely.

Business investment is the component of final domestic demand that is least adulterated by expanding government spending. Of course, various levels of government are doing their best to support industries most directly impacted by tariffs, such as steel, aluminum, autos and lumber. But these measures have tended to be quite targeted to date. And broader supply-side measures, such as those introduced in Budget 2025, are no doubt also helping to support investment in a variety of

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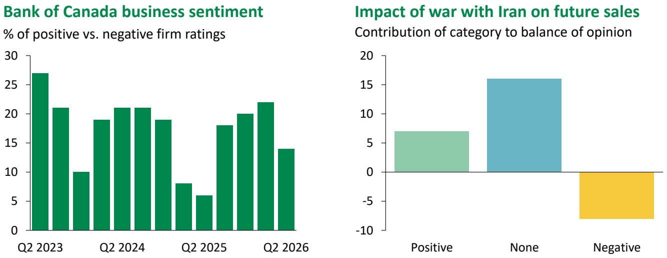
productivity-enhancing structures, equipment and software. The frenetic pace of investment announcements and strategies at the federal level is also attracting looks from global investors, many of whom will be coming to Toronto in September to kick the tires on possible opportunities. This is broadly a good news story for private investment in Canada.

However, despite all the support and activity underway by governments in Canada, business investment has remained on the sidelines for much of the last year and a half. And that isn't likely to change any time soon. (See our latest Economic and Financial Outlook.) According to the Bank of Canada's most recent Business Outlook Survey, the trade fears that caused business sentiment to crater in the first six months of 2025 have now been supplanted by concerns over rising costs (graph 2). This is in large part thanks to higher energy prices and predates the latest trade tumult, which risks pushing business sentiment even lower in Q3 2026.

Graph 2
The War with Iran Has Contributed to a Deterioration in Business Sentiment



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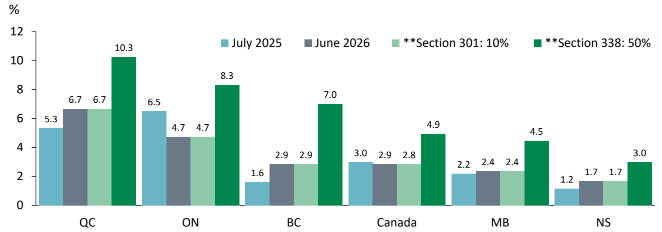
Of course, as we have regularly pointed out in the past, not all provinces have been equally impacted by recent trade and energy shocks. Alberta and Saskatchewan have benefitted from preferential tariff rates on US imports of energy and potash, while the recent increase in commodity prices has boosted their corporate and government revenues. And these exemptions look set to persist under the latest set of proposed tariffs as well. In contrast, Quebec, Ontario and British Columbia have felt the fuller impact of US tariffs, and this risks getting worse if the latest threats are realized (graph 3). As such, we expect two-speed business investment in Canada for the foreseeable future: respectable investment in non-residential structures linked to mining and oil and gas versus sluggish investment in machinery and equipment.

Graph 3
Quebec, Ontario and BC Could See the Sharpest Increase in Tariffs Faced

Average effective US tariff rates on imports from Canada, by province (not seasonally adjusted)*



* Average effective tariff rate based on duties calculated at the HS6 level and weighted by provincial exports to the United States. These data include broad-based tariffs (IEEPA, Section 122) and sectoral tariffs (Section 232) but exclude countervailing and anti-dumping duties on softwood lumber.** Desjardins estimate based on customs data as of June 1, 2026. Section 301 reflects the new broad-based tariff, while Section 338 reflects the proposed 50% tariff threat, combined with the new broad-based tariff.
Statistics Canada, U.S. International Trade Commission and Desjardins Economic Studies

Keep in mind, this dismal outlook for Canadian business investment assumes little in the way of tangible and tractable progress on trade talks between Canada and the US. If a deal is reached that meaningfully improves the North American trade environment, that would be the best outcome for both countries. Hope springs eternal that this Friday night trade fight ends in a draw and blossoms into a durable friendship.

What to Watch For

UNITED STATES

TUESDAY August 25 - 9:00	
June	**y/y**
Consensus	1.70%
Desjardins	1.90%
May	**1.63%**

S&P/Case-Shiller home price index (June) – Existing home prices edged lower for three straight months from February to April. The 0.15% increase in May was the first monthly gain since January. We expect a similar uptick in June. The rebound in existing home sales in May and June suggests a strengthening of demand, which may have helped keep prices rising. The expected monthly gain would bump the year-over-year change in the S&P/Case-Shiller index up from 1.6% to 1.9%.

TUESDAY August 25 - 10:00	
August	
Consensus	90.2
Desjardins	89.8
July	**90.8**

Conference Board Consumer Confidence Index (August) – In July, the Conference Board Consumer Confidence Index fell 1.4 points, giving back nearly all of the 1.6-point gain posted in June. Household sentiment therefore remains fragile, and the outlook for August is uncertain. The University of Michigan and TIPP indexes have both declined this month. A modest decrease in the Conference Board index is also expected: higher gasoline prices, rising interest rates and a softer labour market (despite low unemployment insurance claims) could also weigh on consumer sentiment. However, the stock market has rallied somewhat since mid-July, which could provide some support. We therefore expect a 1-point drop in the Conference Board index.

TUESDAY August 25 - 10:00	
July	**ann. rate**
Consensus	620,000
Desjardins	650,000
June	**628,000**

New home sales (July) – After declining in April and May, sales of new single-family homes rose 1.6% in June. Another increase is expected for July. That month's pickup in building permit approvals, along with recent trends in online searches for new homes, point in that direction. However, rising mortgage rates are making conditions more challenging, and builder confidence is still trending downward. Despite the expected uptick in July, a strong or sustained uptrend is unlikely.

WEDNESDAY August 26 - 8:30	
July	**m/m**
Consensus	0.1%
Desjardins	0.1%
June	**0.3%**

Personal consumption expenditures (July) – Real consumer spending was robust in May and June, posting two consecutive gains of 0.4%. In June, auto sales ramped up, as did spending on other durable goods, non-durable goods and services excluding energy and food services. Consumption is expected to have been more subdued in July. New vehicle sales declined for the first time since April. Retail sales recorded their steepest monthly drop since May 2025, suggesting that real spending on durable and non-durable goods fell. But services should offset this weakness, leaving overall real spending essentially unchanged in July. A 0.1% increase in the Personal Consumption Expenditures price index should cause nominal spending to go up by the same amount. The year-over-year change in the PCE deflator likely fell from 3.7% to 3.6%, with the core deflator holding at 3.3%.

CANADA

THURSDAY August 27 - 8:30	
Q2 2026	**$B**
Consensus	8.60
Desjardins	-0.80
Q1 2026	**-7.18**

Current account balance (Q2) – We anticipate that the current account deficit narrowed to -$0.8B in Q2 2026 from -$7.2B in Q1. Despite a modest uptick in seasonally adjusted oil prices, quarterly trade numbers were a drag in the quarter. That said, this was probably offset by some tailwind from Canadian equities during the 3-month period.

FRIDAY August 28 - 8:30	
June	**m/m**
Consensus	0.2%
Desjardins	0.2%
May	**0.3%**

Real GDP by industry (June) – We anticipate that real GDP increased in June 2026 by 0.2% m/m, in line with Statistics Canada's flash estimate. Growth likely came primarily from retail and wholesale trade. In contrast, weak performance in utilities, agriculture, forestry, fishing and hunting and resource extraction is expected to have provided some headwind to growth. That said, our latest research suggests that the Q2 picture may be more uncertain than current published numbers suggest because of persistent and substantial revisions to monthly GDP data. Looking ahead to July, our tracking is pointing to real GDP remaining broadly unchanged.

FRIDAY August 28 - 8:30	
Q2 2026	**ann. rate**
Consensus	3.3%
Desjardins	2.8%
Q1 2026	**-0.1%**

Real GDP (Q2) – Turning to real GDP by expenditure, we anticipate a rebound in Q2 2026 to 2.8% annualized. This is slightly higher than the Bank of Canada's forecast in the July 2026 Monetary Policy Report. Household consumption likely drove much of the strength on the quarter. We also anticipate modest growth in government expenditures. Some tailwind from business and residential investment is expected as well. In contrast, despite four consecutive months of surpluses, net exports were likely a drag on growth given stronger import gains in the quarter.

Economic Indicators

Week of August 24 to 28, 2026

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 24	---	---				
TUESDAY 25	9:00	S&P/Case-Shiller home price index (y/y)	June	1.70%	1.90%	1.63%
	10:00	Consumer confidence	Aug.	90.2	89.8	90.8
	10:00	New home sales (ann. rate)	July	620,000	650,000	628,000
WEDNESDAY 26	8:30	Real GDP (ann. rate)	Q2s	1.5%	1.5%	1.5%
	8:30	Durable goods orders (m/m)	July	0.5%	0.7%	0.5%
	8:30	Personal income (m/m)	July	0.2%	0.3%	0.2%
	8:30	Personal consumption expenditures (m/m)	July	0.1%	0.1%	0.3%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	July	0.1%	0.1%	-0.1%
		Excluding food and energy (m/m)	July	0.2%	0.2%	0.1%
		Total (y/y)	July	3.6%	3.6%	3.7%
		Excluding food and energy (y/y)	July	3.3%	3.3%	3.3%
THURSDAY 27	8:30	Initial unemployment claims	Aug. 17–21	209,000	212,000	206,000
	8:30	Goods trade balance – preliminary (US$B)	July	-100.0	-106.5	-101.5
	8:30	Retail inventories (m/m)	July	n/a	n/a	0.0%
	8:30	Wholesale inventories – preliminary (m/m)	July	n/a	n/a	0.2%
FRIDAY 28	9:45	Chicago PMI	Aug.	59.0	53.0	57.6
	10:00	University of Michigan consumer sentiment index – final	Aug.	50.6	51.0	51.0
	10:00	Speech by Federal Reserve Chair K. Warsh				

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
CANADA						
MONDAY 24	---	---				
TUESDAY 25	---	---				
WEDNESDAY 26	---	---				
THURSDAY 27	8:30	Current account balance ($B)	Q2	8.60	-0.80	-7.18
FRIDAY 28	8:30	Real GDP by industry (m/m)	June	0.2%	0.2%	0.3%
	8:30	Real GDP (ann. rate)	Q2	3.3%	2.8%	-0.1%

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 24 to 28, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 24							
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TUESDAY 25							
Japan	1:00	Leading index – final	June	n/a		116.4	
Japan	1:00	Coincident index – final	June	n/a		118.2	
Germany	2:00	Real GDP – final	Q2	0.2%	0.9%	0.2%	0.9%
France	2:45	Consumer confidence	Aug.	87		86	
Germany	4:00	ifo Business Climate Index	Aug.	87.2		86.6	
Germany	4:00	ifo Current Assessment Index	Aug.	87.0		86.5	
Germany	4:00	ifo Expectations Index	Aug.	87.4		86.7	
WEDNESDAY 26							
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THURSDAY 27							
South Korea	---	Bank of Korea meeting	Aug.	3.00%		2.75%	
Germany	2:00	Consumer confidence	Sep.	-29.3		-29.6	
Eurozone	4:00	M3 money supply	July		3.5%		3.3%
Japan	19:30	Tokyo Consumer Price Index	Aug.		1.9%		2.0%
Japan	19:30	Unemployment rate	July	2.5%		2.5%	
FRIDAY 28							
France	2:45	Personal consumption expenditures	July	-0.1%	n/a	0.4%	0.1%
France	2:45	Consumer price index – preliminary	Aug.	0.7%	2.4%	0.6%	2.1%
France	2:45	Real GDP – final	Q2	0.2%	0.7%	0.2%	0.7%
Eurozone	5:00	Consumer confidence – final	Aug.	n/a		-15.5	
Eurozone	5:00	Industrial confidence	Aug.	-5.4		-6.1	
Eurozone	5:00	Services confidence	Aug.	4.9		4.7	
Eurozone	5:00	Economic confidence	Aug.	97.6		96.9	
Italy	5:00	Consumer confidence	Aug.	98.0		94.2	
Italy	5:00	Economic confidence	Aug.	n/a		95.6	

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).