WEEKLY COMMENTARY

US Tariffs Will Hit Lighter and Later, but They'll Still Sting

By Francis Généreux, Principal Economist

We recently upgraded our US, global and Canadian growth outlooks based on the economic data released over the summer. One of the biggest factors behind these revisions was the smaller-than-expected hit from the tariffs introduced since the beginning of President Trump's second term.

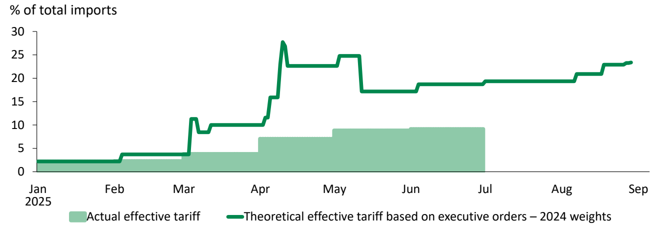
Why Have Tariffs Had a More Modest Effect than Anticipated?

1. Effective Tariffs Have Been Lower than the Announcements Suggested

While President Trump loves making eye-watering tariff announcements, the duties actually collected to date have been significantly lower than we expected based on his many executive orders. If we include all the tariffs related to fentanyl, border security, trade reciprocity, the auto sector, steel, aluminum, copper, Brazil, India and China, as well as the elimination of the "de minimis" exemption for small-value imports, the effective tariff rate should be around 20%. But in June, it was actually 9.1% (graph 1). So if tariff rates are half the theoretical rate we expected based on the administration's many announcements, it makes sense that tariffs have had a much more modest effect than anticipated so far.

There are a number of factors behind this disconnect between our estimates and reality. While we did take the various executive order exemptions into account when calculating the theoretical effective tariff rate, some were more difficult to estimate than others. Take for example the fentanyl tariff exemption for Canadian and Mexican goods that are compliant with the Canada–United States–Mexico Agreement (CUSMA).

Graph 1
Actual Tariffs Have Been Much Lower than Expected Based on the Various Executive Orders
United States – Effective tariffs



U.S. International Trade Commission and Desjardins Economic Studies

The compliance rate for Canadian goods exported to the United States jumped from 33.3% in February to 56.9% in June. And the myriad exemptions and carveouts to the many tariffs have had a bigger impact than expected. For example, it appears that in June, over 80% of non-CUSMA-compliant Canadian exports to the United States were still entering the country tariff-free under various programs and provisions established in US law, including Trump executive orders.

Compositional and seasonal effects are also likely dragging down the effective tariff rate. To estimate the theoretical effective rate, we used the level of US imports for all of 2024. But goods flows into the United States aren't necessarily steady throughout the year, which can lead to discrepancies. And tariffs vary by good type and country, so compositional effects may also be at work, with importers ordering more goods with lower tariff rates or ordering more goods from countries with lower tariff rates.

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Then there's government bureaucracy, which is probably struggling with the complex, ever-changing tariffs announced by the White House. Border officials are likely well behind schedule implementing tariffs and not exactly sure how to apply them given how often they're changed. So it's possible that as time goes on, the tariffs collected at the border inch closer to our executive order-based estimates.

2. US Importers Moved Quickly to Get Ahead of Tariffs

Importers mitigated the effects of tariffs by frontloading some of their orders. This can be seen in the surge of imports and business inventories in the first quarter of the year. And while inventories fell in the second quarter, they remained well above 2024 levels.

3. It'll Take Time to See the Full Economic Impacts of Tariffs

While effective tariff rates haven't been as high as expected, they're still up sharply. The 9.1% rate recorded in June was the highest since 1946. It's also four times what it was before Donald Trump returned to the Oval Office. As we've seen, US businesses have largely been able to insulate their operations and customers from the effects of tariffs. But this won't last. According to the latest Texas Business Outlook Surveys conducted by the Federal Reserve Bank of Dallas, 48.5% of respondents said their costs were up, but only 26.8% reported raising their prices. 40.0% of businesses reported lower profit margins.

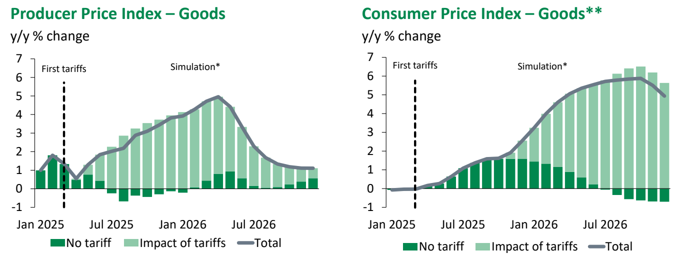
And it can take months or even quarters for economic agents to adjust their behaviour in response to changes such as economic shocks.

On-again, off-again tariffs have fuelled uncertainty, but also expectations that President Trump will chicken out. We saw this with the initial "reciprocal tariffs" in April, the huge tariffs on China and the subsequent reversals and carveouts. Not knowing whether tariffs were coming or going, businesses have taken a wait-and-see approach.

Is a Bigger Tariff Hit Coming?

So far, tariffs have had a limited impact on consumer prices. But sooner or later, we expect tariffs on goods imports to show up in inflation, though it could take a while. Our analysis suggests that sizeable tariffs affect producer prices relatively quickly, but can take over six months to affect consumer prices (graph 2). That's partly why the Consumer Price Index (CPI) hasn't yet risen much in response to tariffs—something Donald Trump has seized on to pressure Fed officials to cut interest rates. But it may be only a matter of time.

Graph 2
US Consumer Prices Are Responding Slower to Tariffs



* Simulated impact of announced tariffs, not a Desjardins forecast; ** Excluding food and energy.
Bureau of Labor Statistics, Datastream and Desjardins Economic Studies

We too expected tariffs to have a more immediate impact on inflation, especially over the summer. This was based on the assumption that businesses would largely be able to pass higher costs on to consumers as they have since the pandemic. However, their ability to do so may have been overstated, which could explain their reluctance to raise prices and possibly alienate their customers. According to the aforementioned Federal Reserve Bank of Dallas surveys, 33% of firms are having a harder time passing on higher costs to their customers, while only 14% are having an easier time. But anecdotally, we're starting to hear about more and more businesses raising their prices, especially retailers.

This means we shouldn't rule out a fall increase in the price of CPI goods (and food). Nor should we assume we've seen the worst of the macroeconomic impacts of tariffs, which have been modest so far. US consumer confidence indexes continue to show that inflation expectations are elevated, albeit slightly lower than they were at the height of US–China tensions. And according to the University of Michigan consumer sentiment index, 58% of consumers plan to cut their spending on items that have seen particularly large price increases and 13% plan to stop buying them altogether. If inflation becomes more widespread, real consumer spending could therefore be affected. So while we've raised our real GDP growth forecasts somewhat since spring (and lowered our inflation forecasts), risks remain. The uncertainty created by the Trump administration's protectionist policies continues to weigh on the economic outlook. And that leaves the door open for more surprises.

What to Watch For

UNITED STATES

TUESDAY September 2 - 10:00

August	
Consensus	48.9
Desjardins	49.0
July	**48.0**

ISM Manufacturing index (August) – The ISM index fell in July on the back of a fairly sharp decline in the employment component. However, it likely rebounded in August, based on regional manufacturing index prints so far this month. That said, uncertainty remains high, and the latest reciprocal tariffs and other measures implemented during the month could prove to be a headwind for some manufacturers.

THURSDAY September 4 - 10:00

August	
Consensus	50.8
Desjardins	50.4
July	**50.1**

ISM Services index (August) – The ISM Services index continues to flirt with the 50-point threshold. After dipping slightly below (49.9) in May, it rose to 50.8 in June before edging back down to 50.1 in July. We don't expect August's figure to dip below the 50-point boundary between economic contraction and expansion. Based on the regional indexes published during the month and the recent consumer confidence levels, look for the ISM Services index to have gained a few tenths of a point. However, the situation remains fragile.

FRIDAY September 5 - 8:30

August	
Consensus	75,000
Desjardins	75,000
July	**73,000**

Change in nonfarm payrolls (August) – July's labour market report, particularly the substantially lower revised figures for the previous two months, made headlines. It even cost the Bureau of Labor Statistics commissioner her job, when President Trump accused her of manipulating the data. It'll be interesting to see if this Friday's release is less dramatic. Putting aside the doubts over employment data integrity, the slower pace of hiring probably continued in August. We're expecting a similar print to July's based on unemployment claims and the job availability component of consumer confidence indexes. The unemployment rate likely remained unchanged at 4.2%.

CANADA

WEDNESDAY September 3 - 8:30

Q2 2025	**q/q**
Consensus	-0.2%
Desjardins	-0.2%
Q1 2025	**0.2%**

Labour productivity (Q2) – We anticipate that labour productivity was down in Q2 2025 following no change in the prior quarter. Falling economic activity due to trade tensions likely drove this decline. Business sector real GDP probably didn't move in the quarter. In addition, business sector total hours worked likely rose by 0.2%, compounding the weakness in productivity.

THURSDAY September 4 - 8:30

July	**$B**
Consensus	-5.50
Desjardins	-5.70
June	**-5.86**

International trade (July) – Canada likely maintained a trade deficit in July that didn't change much from the prior month. We expect a modest boost in exports, with stable oil prices and increased transport capacity from the TMX supporting this growth. On the other hand, motor vehicles and other imports from the United States were up in the month.

FRIDAY September 5 - 8:30

August	
Consensus	10,000
Desjardins	10,000
July	**-40,800**

Net change in employment (August) – The lacklustre trend in the Canadian labour market likely continued in August as businesses remained wary about bringing on new staff. As a result, the Canadian economy probably only added 10K new jobs over the month. In July, much of the weakness was concentrated in sectors less exposed to trade. A continuation of this in August could signal that the weakness in the labour market is becoming more broad-based. The relatively benign pace of hiring will likely push the unemployment rate one tick higher to 7.0%. Slowing population growth should continue to put downward pressure on the unemployment rate. Expect wage growth to have normalized further in August.

TUESDAY September 2 - 5:00	
August	**y/y**
Consensus	2.0%
July	**2.0%**

OVERSEAS

Eurozone: Consumer price index (August – preliminary) – Headline inflation has stabilized in the eurozone and was right in line with the European Central Bank's (ECB) 2% target in July. Core inflation is a bit higher but still stable at around 2.3%. It remains to be seen how prices will evolve over the coming months and quarters. Some forecasts are pointing to slightly lower inflation, as the European Union has refrained from imposing retaliatory tariffs and escalating the trade war with the United States. This could encourage the ECB to cut rates a little more, but the central bank won't be in any hurry.

Economic Indicators

Week of September 1 to 5, 2025

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 1	---	Markets closed (Labour Day)				
TUESDAY 2	10:00	Construction spending (m/m)	July	-0.2%	0.2%	-0.4%
	10:00	ISM Manufacturing index	Aug.	48.9	49.0	48.0
WEDNESDAY 3	9:00	Speech by Federal Reserve Bank of St. Louis President A. Musalem				
	10:00	Factory orders (m/m)	July	-1.4%	-1.3%	-4.8%
	14:00	Release of the Beige Book				
	---	Total vehicle sales (ann. rate)	Aug.	16,050,000	16,100,000	16,410,000
THURSDAY 4	8:30	Initial unemployment claims	Aug. 25–29	228,000	234,000	229,000
	8:30	Trade balance – goods and services (US$B)	July	-61.5	-79.1	-60.2
	8:30	Nonfarm productivity – final (ann. rate)	Q2	3.0%	3.0%	2.4%
	8:30	Unit labor costs – final (ann. rate)	Q2	n/a	0.9%	1.6%
	10:00	ISM Services index	Aug.	50.8	50.4	50.1
	11:30	Speech by Federal Reserve Bank of New York President J. Williams				
	19:00	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
FRIDAY 5	8:30	Change in nonfarm payrolls	Aug.	75,000	75,000	73,000
	8:30	Unemployment rate	Aug.	4.3%	4.2%	4.2%
	8:30	Average weekly hours	Aug.	34.3	34.3	34.3
	8:30	Average hourly earnings (m/m)	Aug.	0.3%	0.3%	0.3%

CANADA

Date	Time	Indicator	Period	Consensus		Previous reading
MONDAY 1	---	Markets closed (Labour Day)				
TUESDAY 2	---	---				
WEDNESDAY 3	8:30	Labour productivity (q/q)	Q2	-0.2%	-0.2%	0.2%
THURSDAY 4	8:30	International trade ($B)	July	-5.50	-5.70	-5.86
FRIDAY 5	8:30	Net change in employment	Aug.	10,000	10,000	-40,800
	8:30	Unemployment rate	Aug.	7,0 %	7.0%	6.9%

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 September 1 to 5, 2025

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
SUNDAY 31							
Japan	20:30	Manufacturing PMI – final	Aug.	n/a		49.9	
MONDAY 1							
United Kingdom	2:00	Nationwide house prices	Aug.	0.1%	2.7%	0.6%	2.4%
Italy	3:45	Manufacturing PMI	Aug.	49.8		49.8	
France	3:50	Manufacturing PMI – final	Aug.	49.9		49.9	
Germany	3:55	Manufacturing PMI – final	Aug.	49.9		49.9	
Eurozone	4:00	Manufacturing PMI – final	Aug.	50.5		50.5	
Italy	4:00	Unemployment rate	July	n/a		6.3%	
United Kingdom	4:30	Manufacturing PMI – final	Aug.	47.3		47.3	
Eurozone	5:00	Unemployment rate	July	6.2%		6.2%	
TUESDAY 2							
Eurozone	5:00	Consumer price index – preliminary	Aug.	0.1%	2.0%	0.0%	2.0%
Japan	20:30	Composite PMI – final	Aug.	n/a		51.9	
Japan	20:30	Services PMI – final	Aug.	n/a		52.7	
WEDNESDAY 3							
Italy	3:45	Composite PMI	Aug.	51.7		51.5	
Italy	3:45	Services PMI	Aug.	52.1		52.3	
France	3:50	Composite PMI – final	Aug.	49.8		49.8	
France	3:50	Services PMI – final	Aug.	49.7		49.7	
Germany	3:55	Composite PMI – final	Aug.	50.9		50.9	
Germany	3:55	Services PMI – final	Aug.	50.1		50.1	
Eurozone	4:00	Composite PMI – final	Aug.	51.1		51.1	
Eurozone	4:00	Services PMI – final	Aug.	50.7		50.7	
United Kingdom	4:30	Composite PMI – final	Aug.	53.0		53.0	
United Kingdom	4:30	Services PMI – final	Aug.	53.6		53.6	
Eurozone	5:00	Producer price index	July	0.1%	-0.1%	0.8%	0.6%
THURSDAY 4							
Eurozone	5:00	Retail sales	July	-0.2%	2.4%	0.3%	3.1%
FRIDAY 5							
Japan	1:00	Leading index – preliminary	July	105.8		105.6	
Japan	1:00	Coincident index – preliminary	July	114.1		116.7	
United Kingdom	2:00	Retail sales	July	0.4%	1.3%	0.9%	1.7%
Germany	2:00	Factory orders	July	0.5%	-0.5%	-1.0%	0.8%
France	2:45	Trade balance (€M)	July	n/a		-7,623	
France	2:45	Current account (€B)	July	n/a		-3.4	
Italy	4:00	Retail sales	July	n/a	n/a	0.6%	1.0%
Eurozone	5:00	Net change in employment – final	Q2	n/a	n/a	0.1%	0.7%
Eurozone	5:00	Real GDP	Q2t	0.1%	1.4%	0.1%	1.4%

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).