OXFORD ECONOMICS

U.S. & CANADA ECONOMIC OUTLOOK

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No one wins a trade war

Today's roadmap:

Our baseline tariff assumptions and the global outlook

US growth to weaken but avoid a recession

The trade war will push Canada into a recession

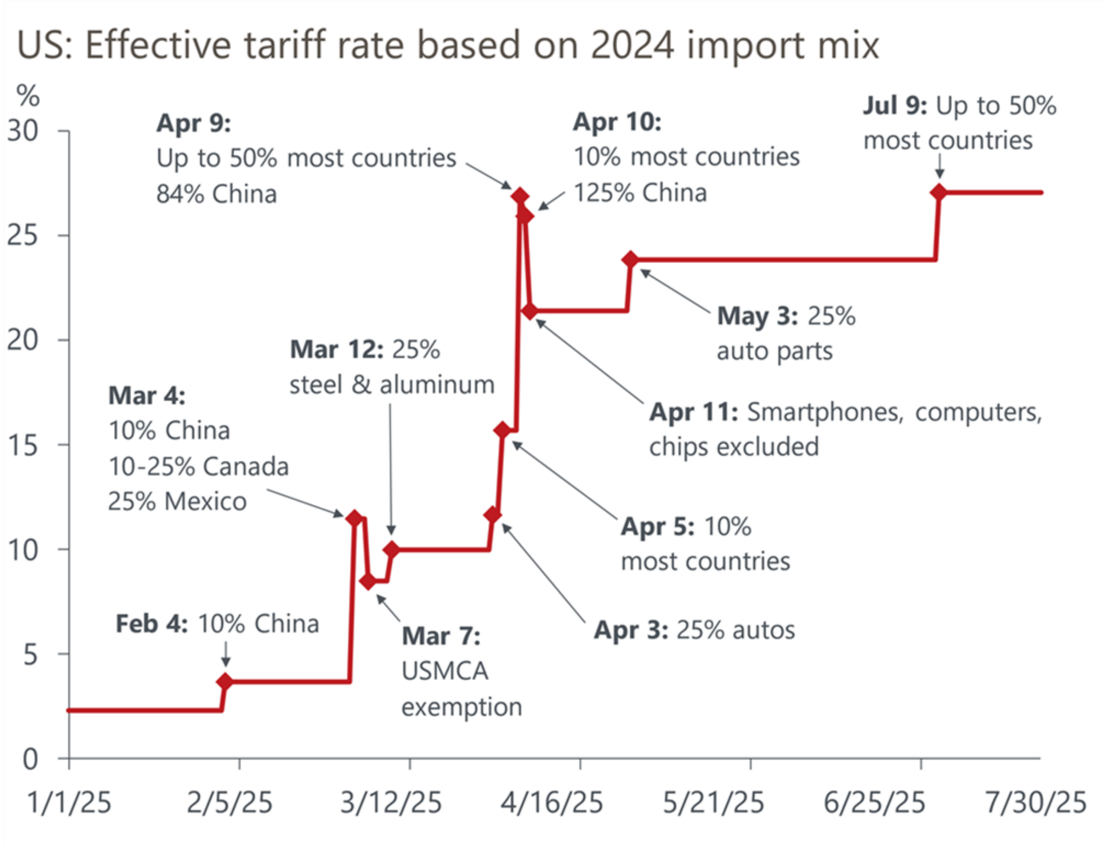
The impact of US tariffs on Canadian steel, aluminum & autos

Trade war scenarios

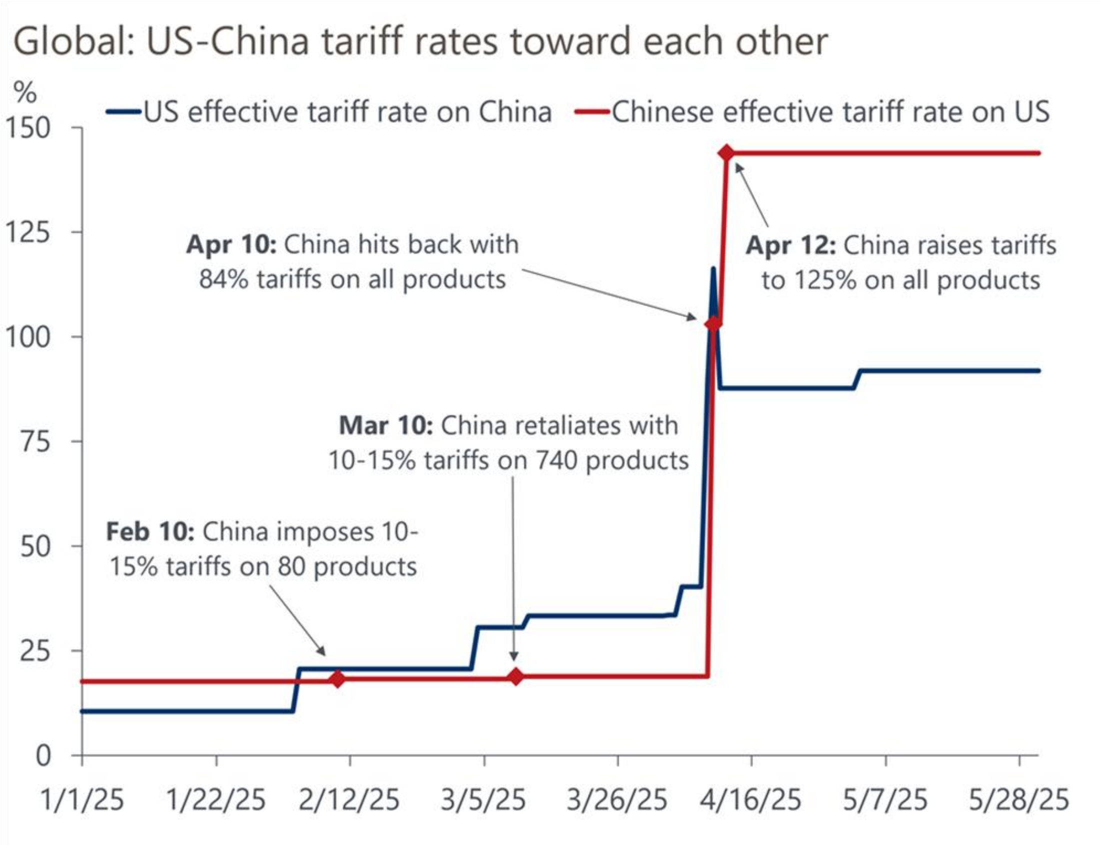
Questions?

Our baseline tariff assumptions and the global outlook

The tariff roller coaster ride continues

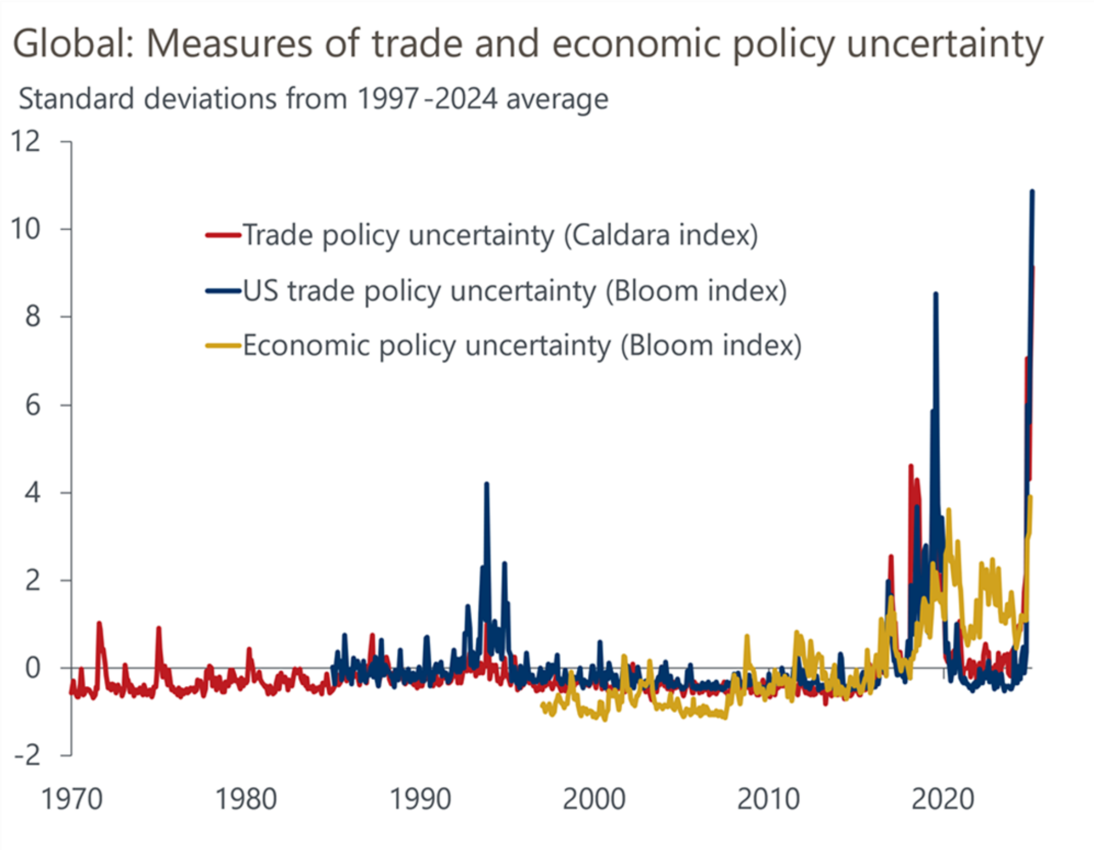


Source: Oxford Economics

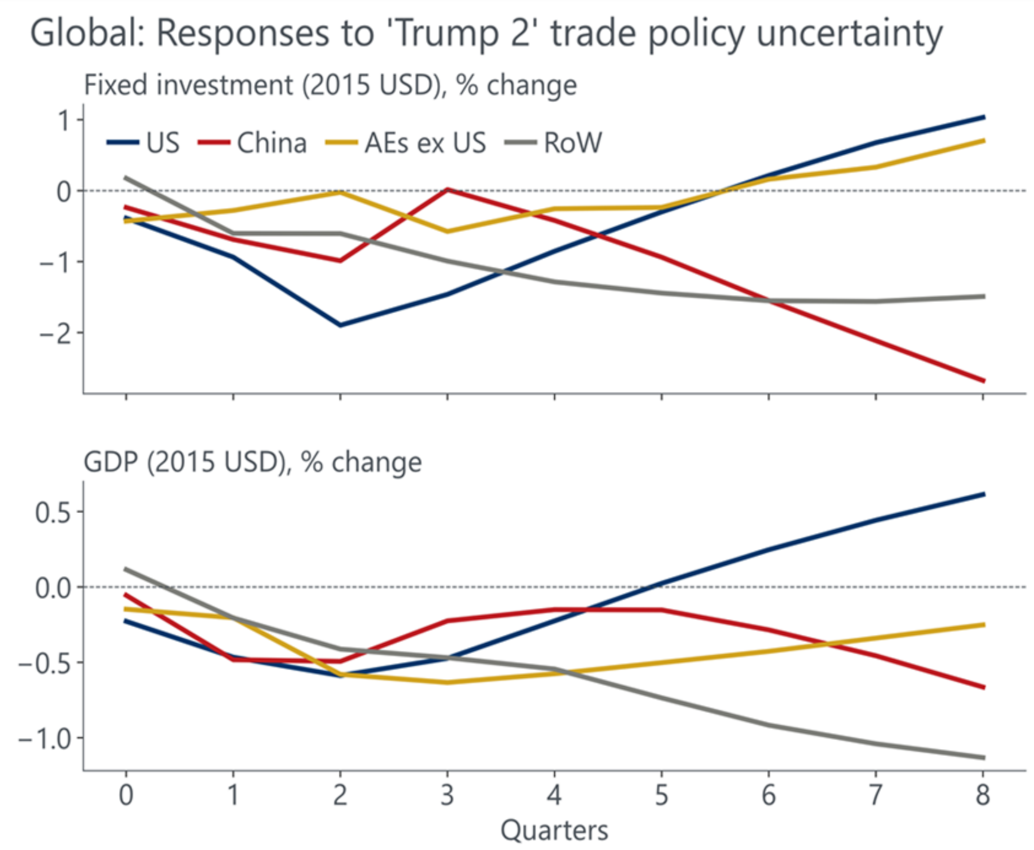


Source: Oxford Economics

Record trade policy uncertainty impacts business investment

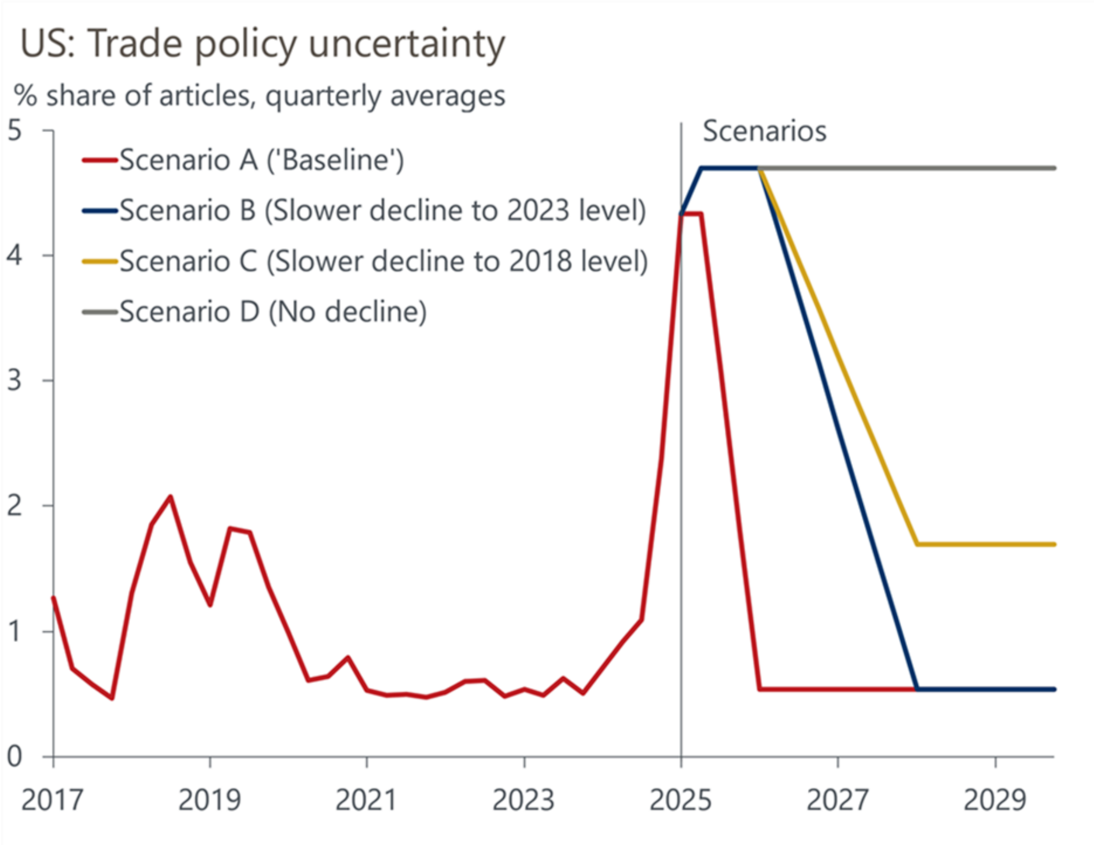


Source: Oxford Economics

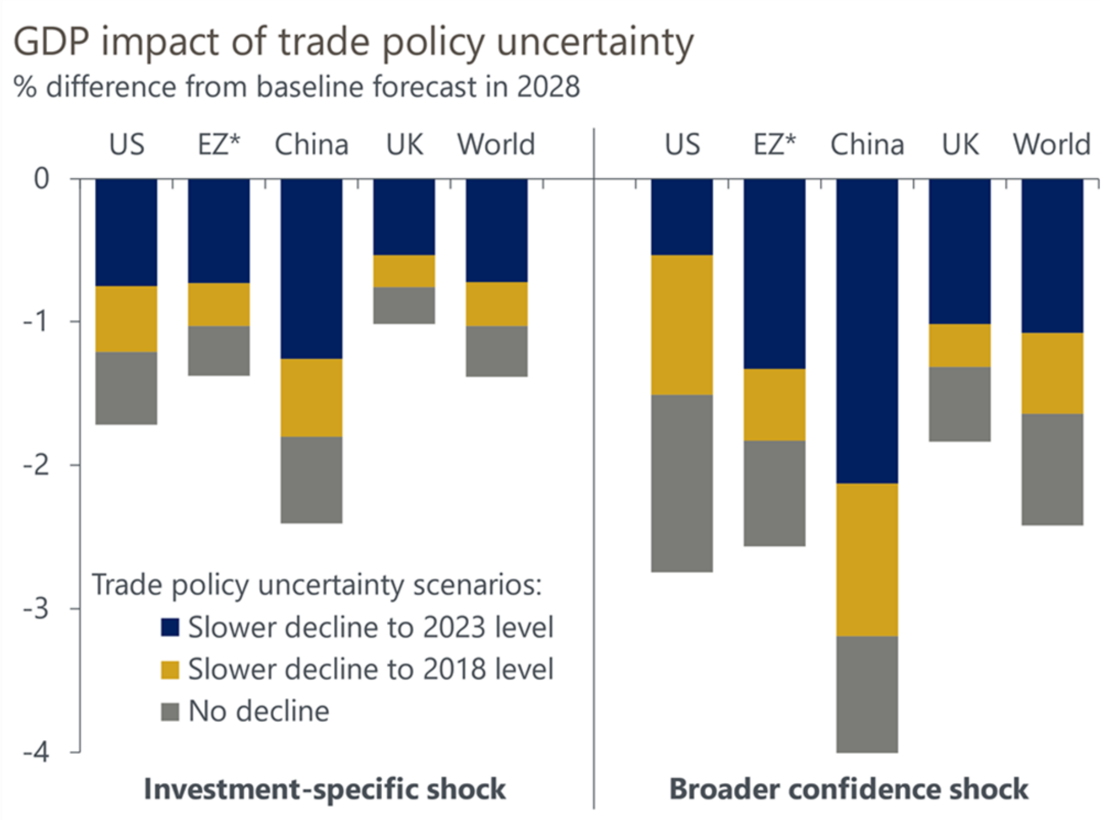


Source: Oxford Economics

Prolonged uncertainty will drag down the global economy



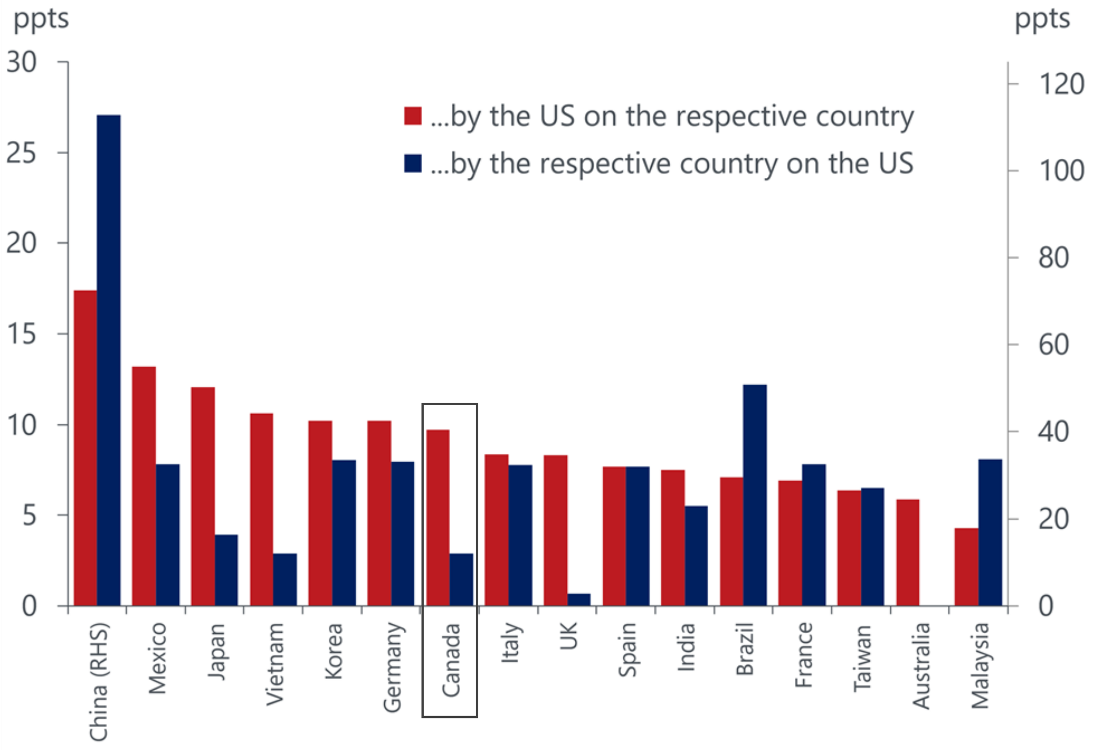
Source: Oxford Economics



Source: Oxford Economics

US tariff hikes prompt retaliation by most countries

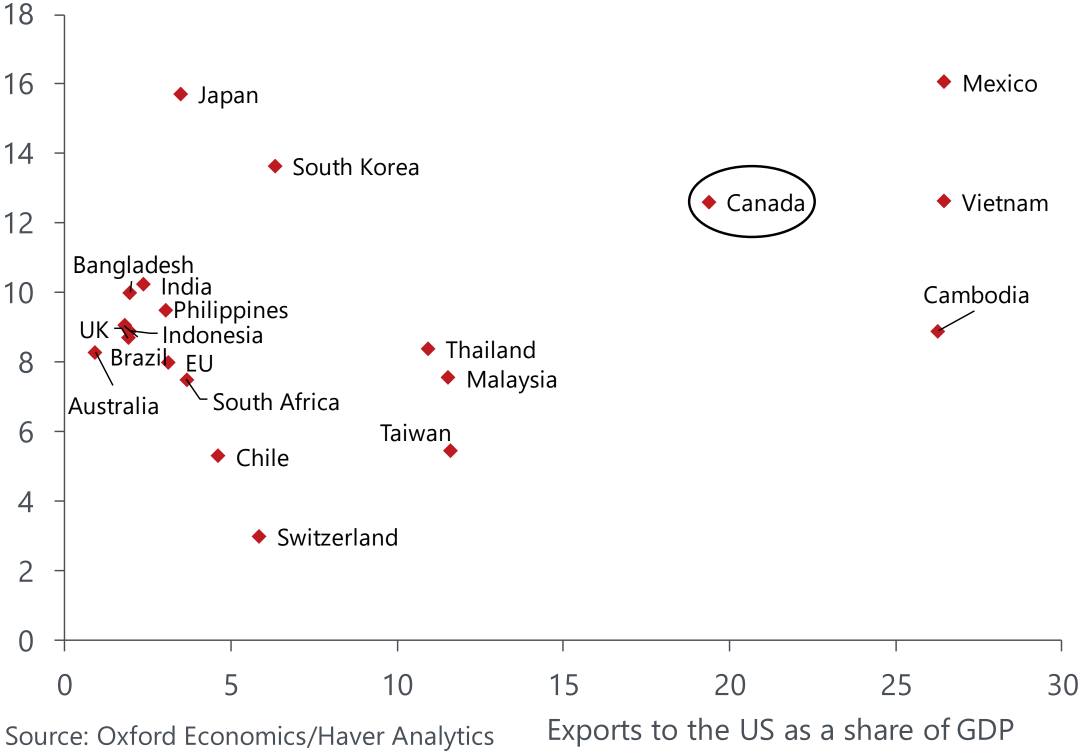
Effective tariff rate applied to imports in 2025...



Source: Oxford Economics

World: Effective tariff increase and reliance on US trade

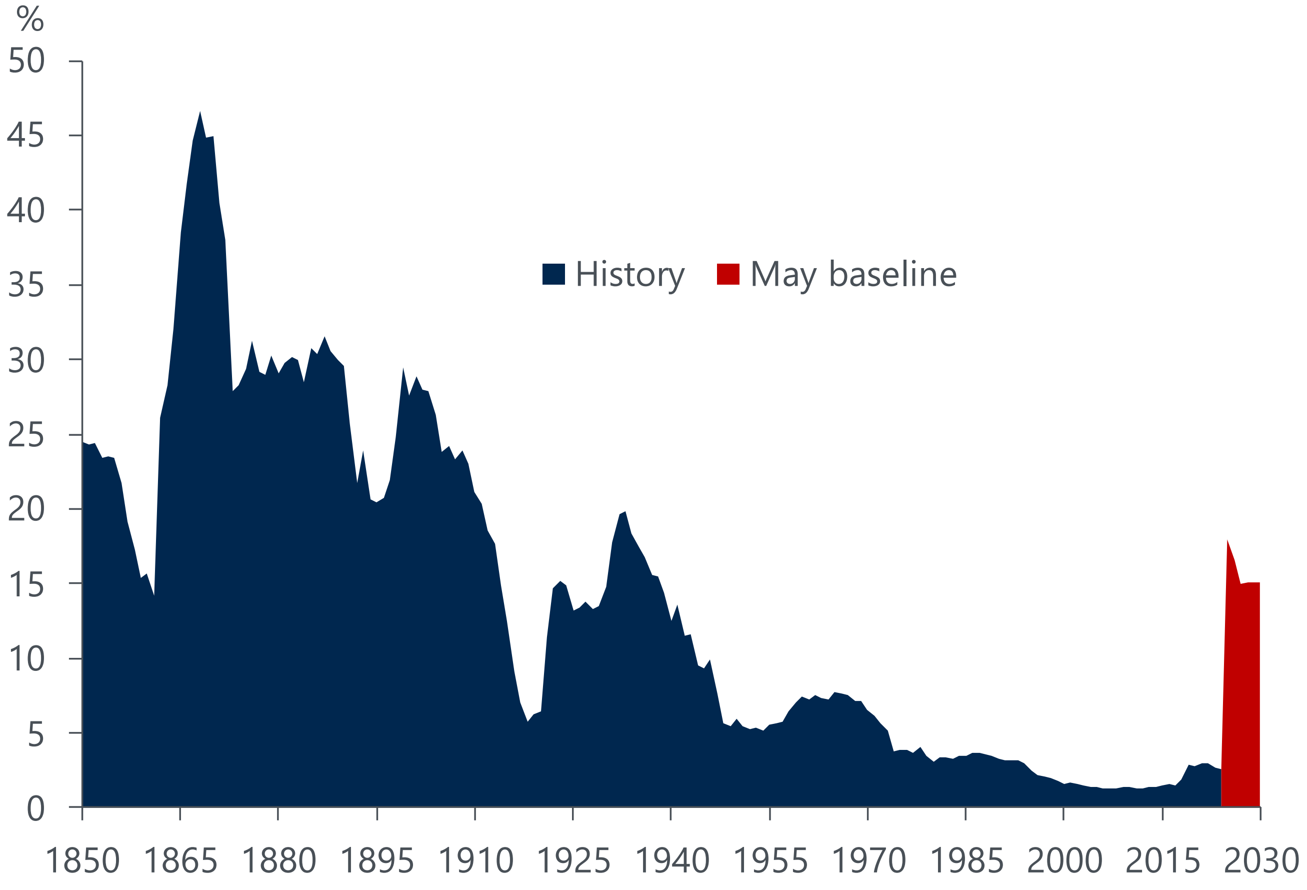
Ppt change in the effectiveaverage tariff rate on exports to the US



Source: Oxford Economics/Haver Analytics

US tariffs rise to highest level since 1930s

US: Effective tariff rate

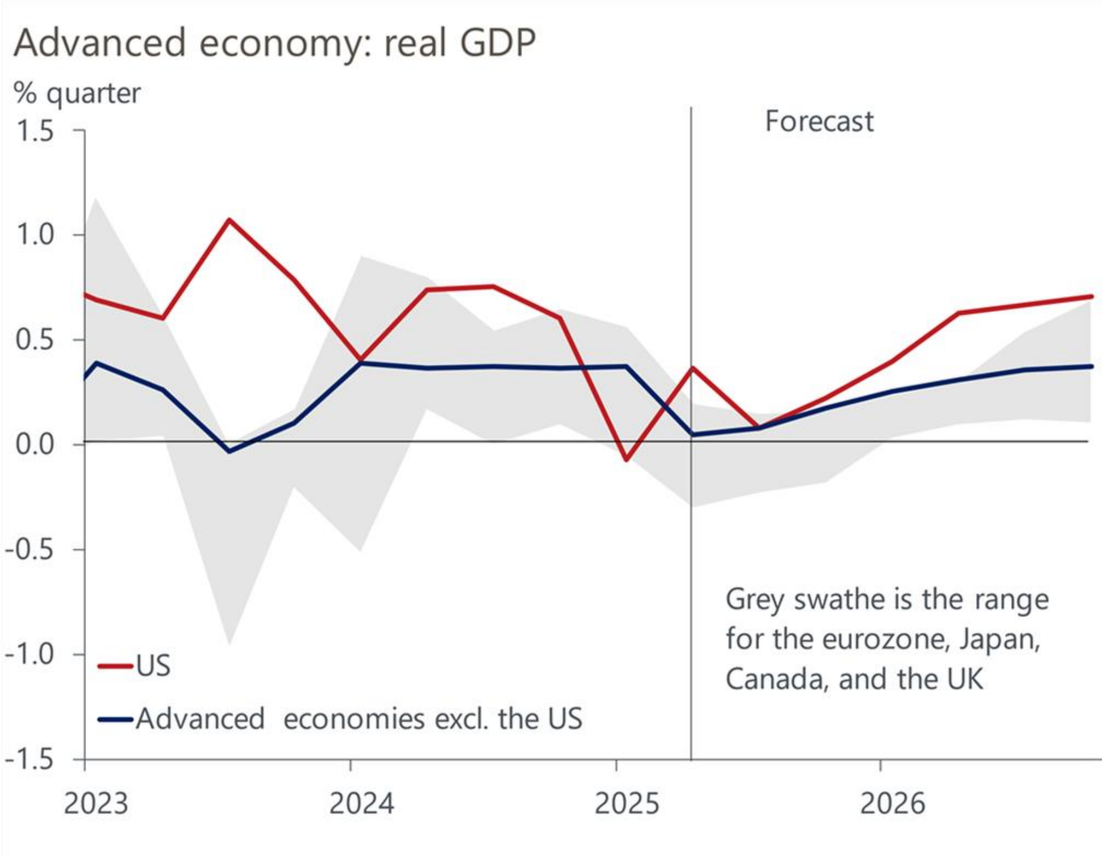


Source: Oxford Economics/Census Bureau

Key takeaways

- Our May baseline incorporates the US unveiling of reciprocal tariffs on April 2, updated for most, not all, recent developments as the trade war remains highly fluid.
- The baseline assumes 10% 'reciprocal' tariffs on all countries outside of North America are permanent, along with a 90% tariff on China that slowly eases to 60%.
- The overall effective US tariff rate will average 18% in 2025 before settling at 15% with renegotiation of the USMCA. Trade diversion could lower it to about 9%.
- The 90-day pause on most tariffs between the US and China was announced on May 12, after the forecast was finalized and is not part of the current baseline.

Trade war to weaken global economic growth



Source: Oxford Economics

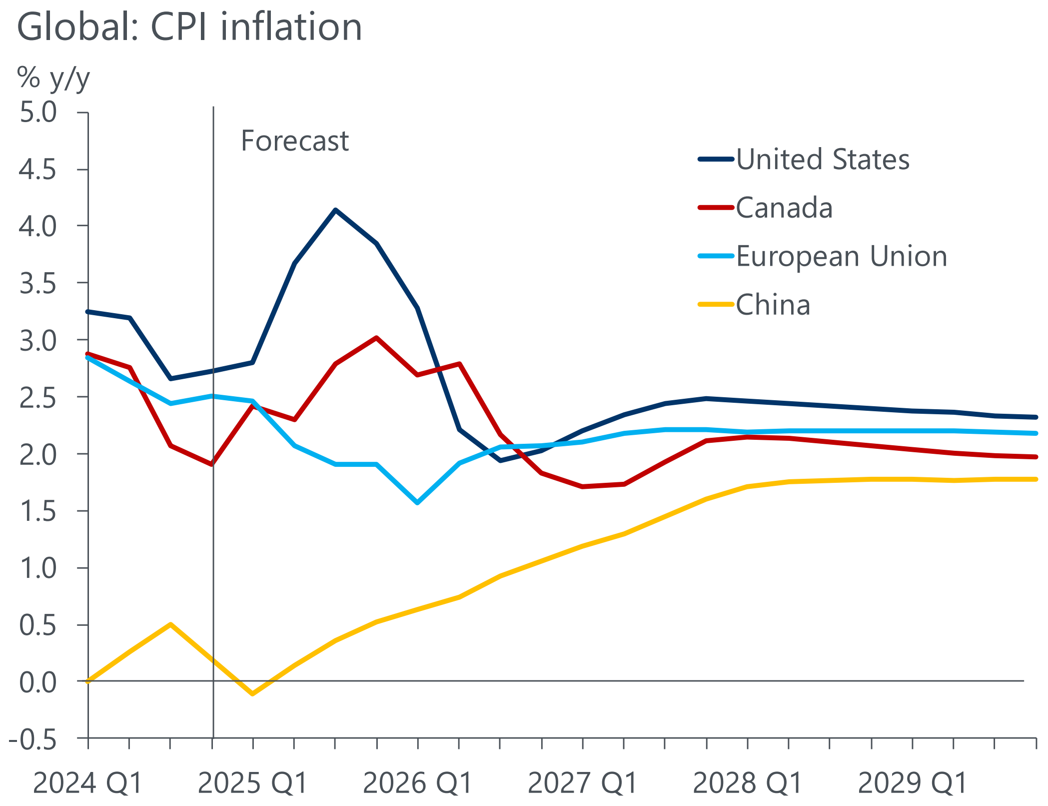
Summary of International Forecasts

(Annual percentage changes unless specified)

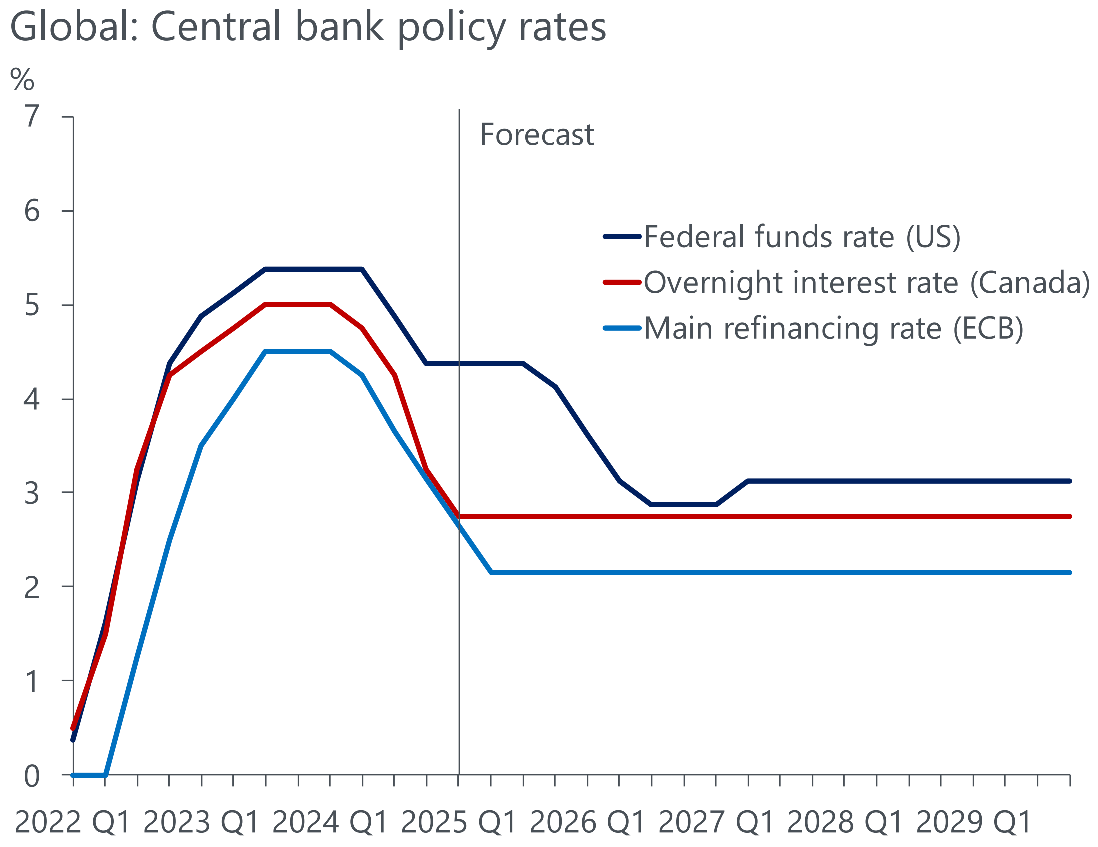
	2023	2024	2025	2026	2027
Real GDP					
North America					
United States	2.9	2.8	1.3	1.7	2.8
Canada	1.5	1.5	0.9	0.3	2.7
Europe					
Eurozone	0.5	0.8	0.9	0.9	1.6
Germany	-0.1	-0.2	0.0	0.9	2.2
France	1.1	1.1	0.5	0.7	1.3
Italy	0.8	0.5	0.5	0.5	0.8
Spain	2.7	3.1	2.5	1.7	1.5
UK	0.4	1.1	1.0	0.9	1.3
Asia					
Japan	1.5	0.1	0.8	0.2	0.4
China	5.4	5.0	4.1	3.9	3.9
India	8.8	6.6	6.4	6.4	6.6
World	2.9	2.8	2.3	2.3	2.9

Source: Oxford Economics/Haver Analytics

Our baseline inflation and policy rate outlook



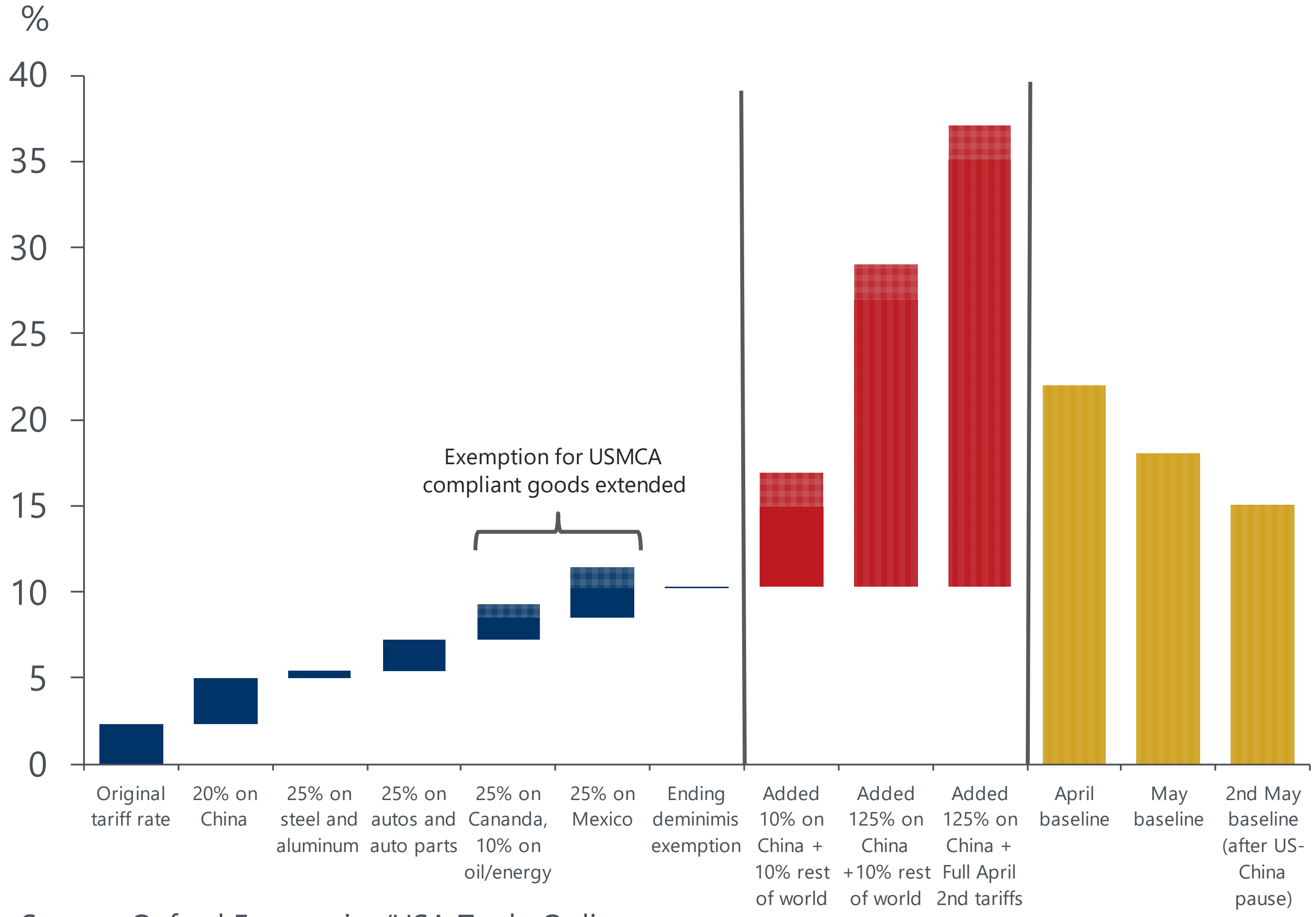
Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics

US-China pause is a big step forward, but still many tariffs to face

US: Impact of tariff hikes on overall effective tariff rate, 2025

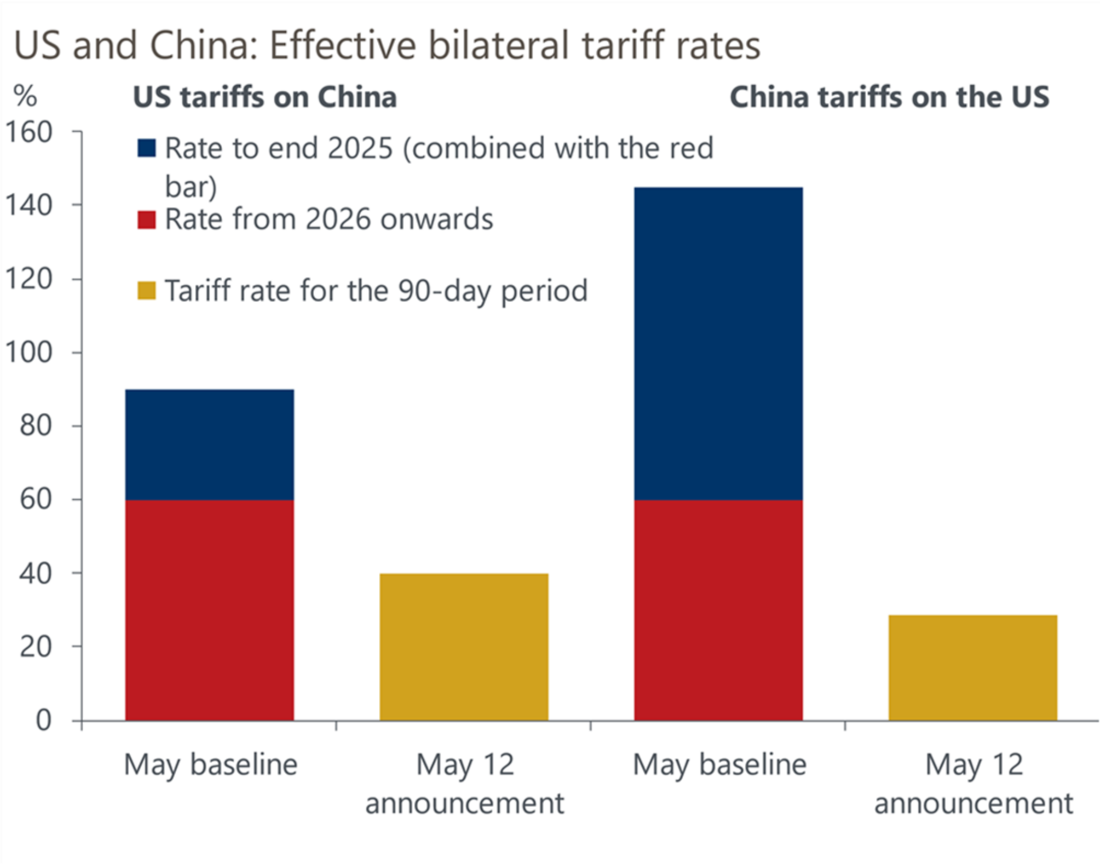


Source: Oxford Economics/USA Trade Online

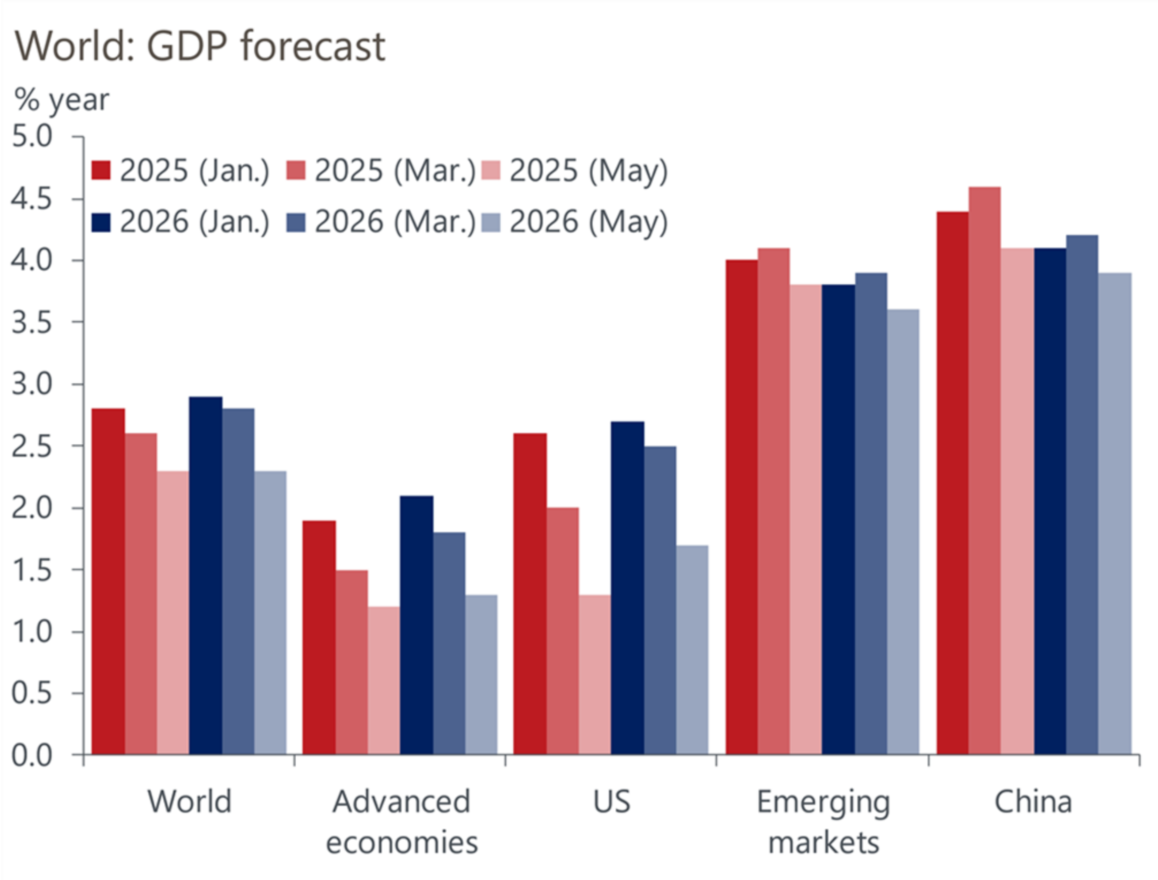
Key takeaways

- The US-China agreement notably reduces tariffs for the next 90 days. It suggests less of a drag on the US economy through the rest of this year, reducing odds of a recession to 35% from even odds previously.
- If the pause is sustained, the overall effective US tariff rate falls from an average of 18% to 15% in 2025.
- However, as we learned during the first trade war, we don’t want to read too much into a single agreement.
- Tariff-related risks for the outlook remain weighted to the downside.

Lower US-China tariffs suggest stronger growth, but it will remain weaker than assumed prior to Liberation Day

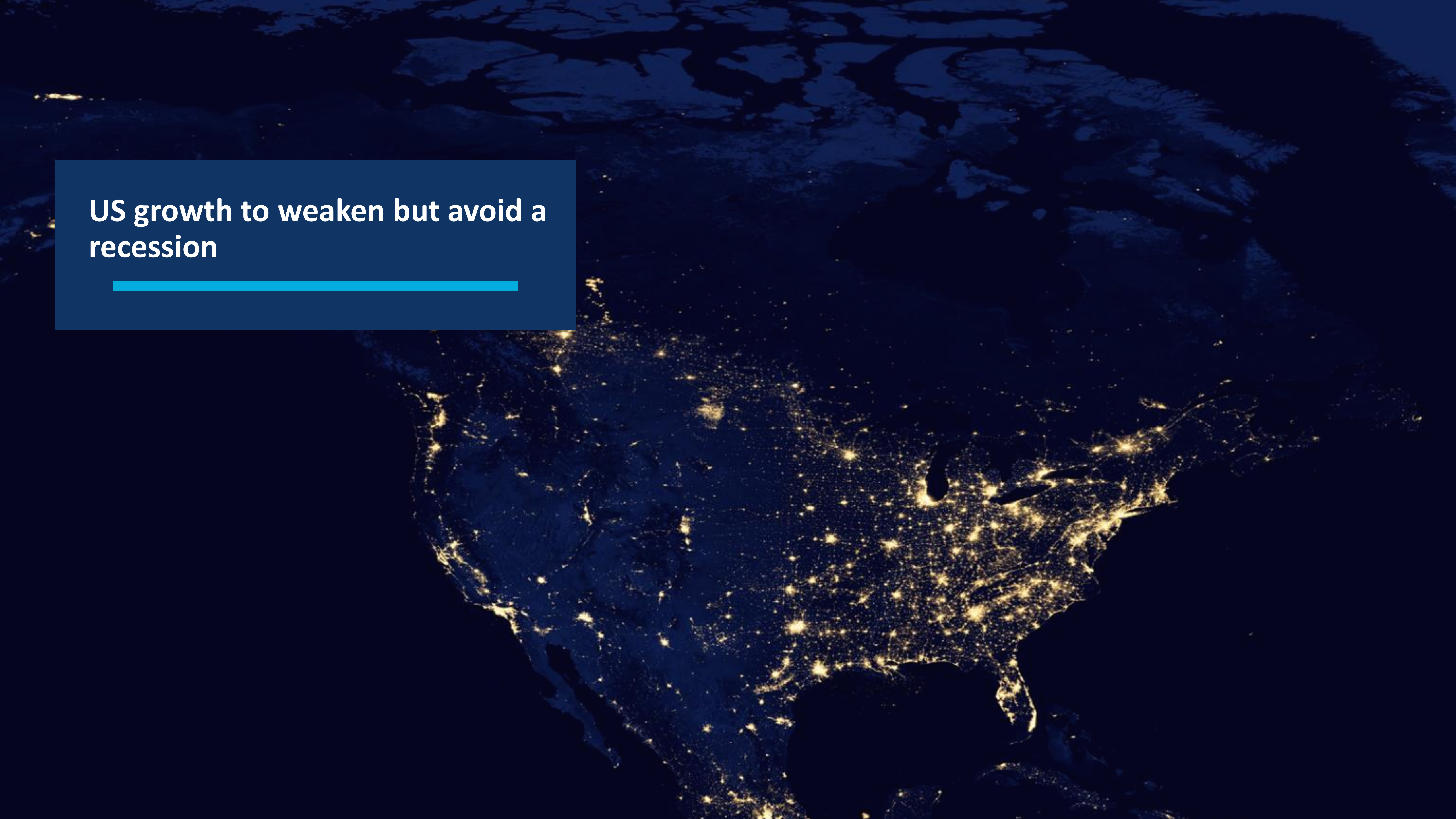


Source: Oxford Economics



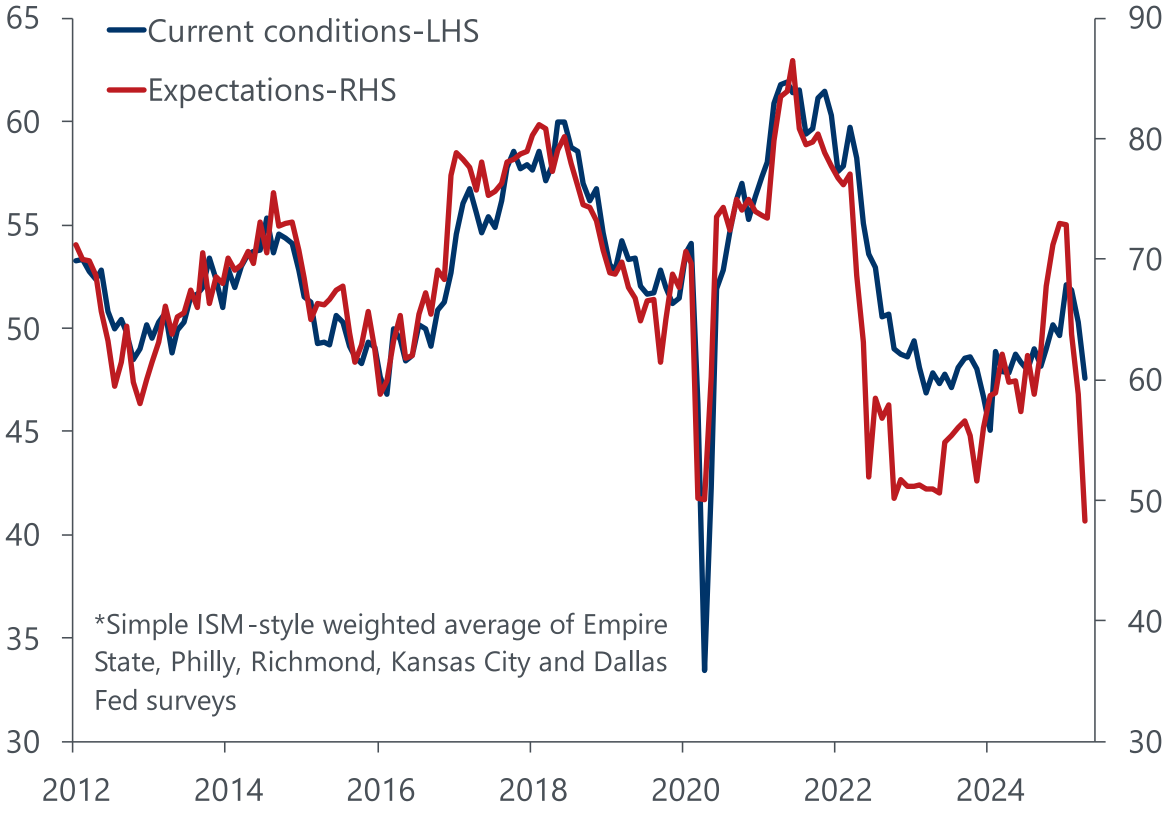
Source: Oxford Economics

US growth to weaken but avoid a recession



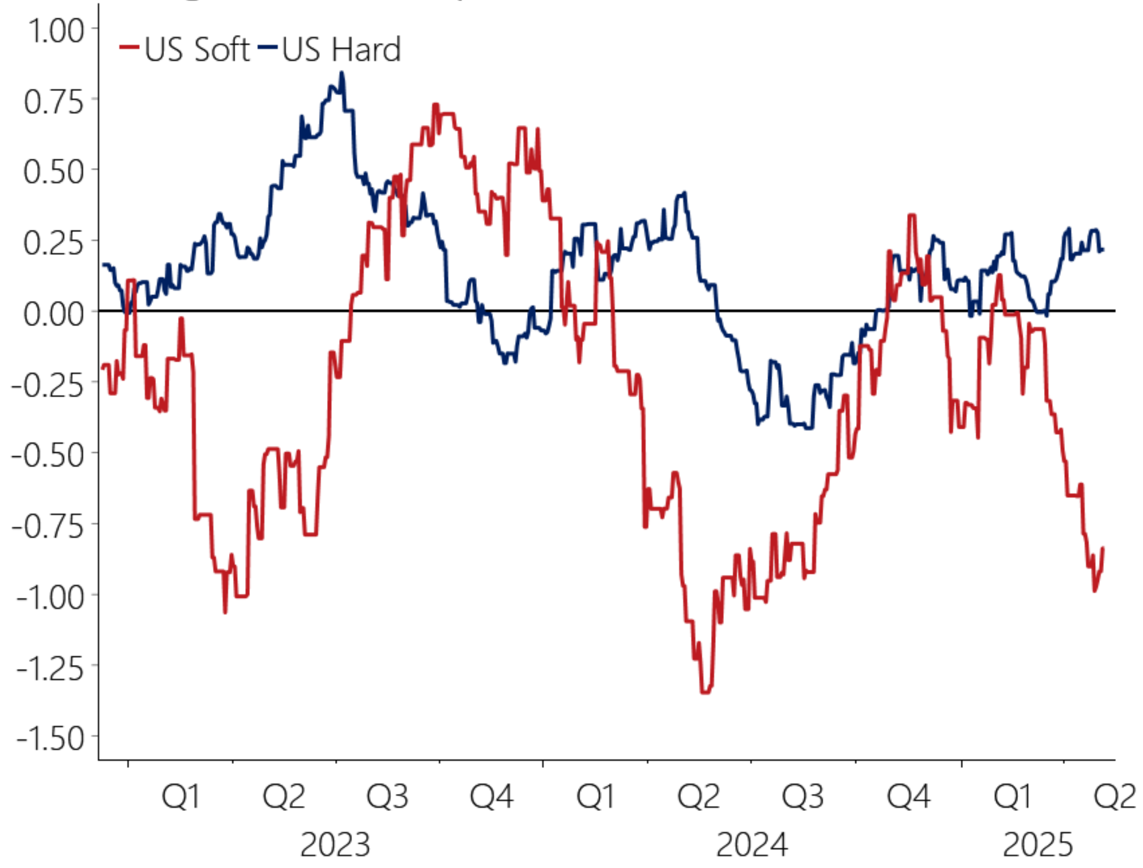
The forward-looking soft data looks terrible

US: Regional Fed manufacturing surveys



Source: Oxford Economics/Haver Analytics

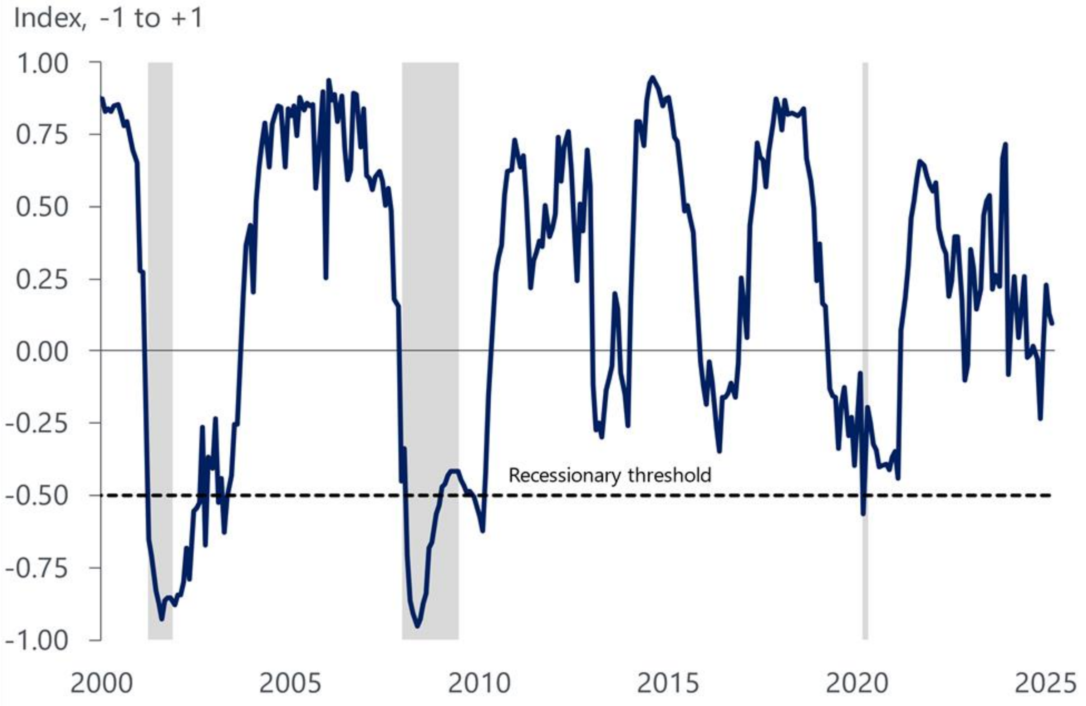
Bloomberg economic surprise indices



Source: Oxford Economics/Haver Analytics

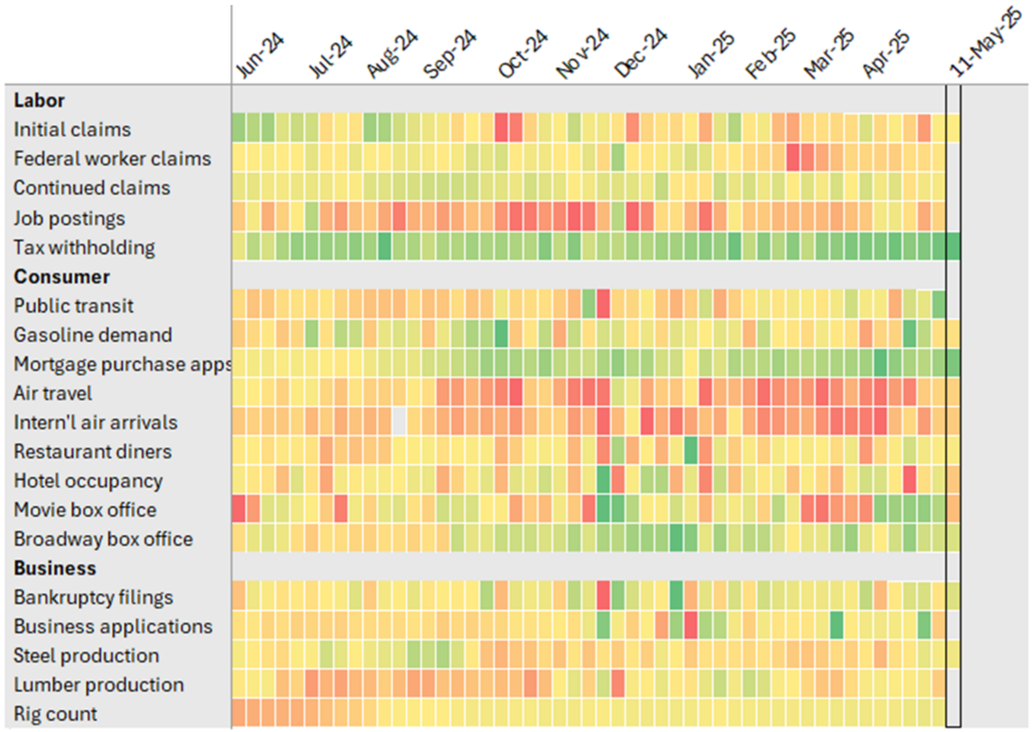
Only a few high frequency indicators are flashing orange so far

US: Oxford Economics' US Business Cycle Indicator



Note: Latest month is estimated due to lagging datapoints and is subject to revisions
Source: Oxford Economics

US: High frequency indicators



Source: Oxford Economics/Haver Analytics

Growth to slow sharply this year but a recession will likely be avoided

US: GDP Forecast
% annualized

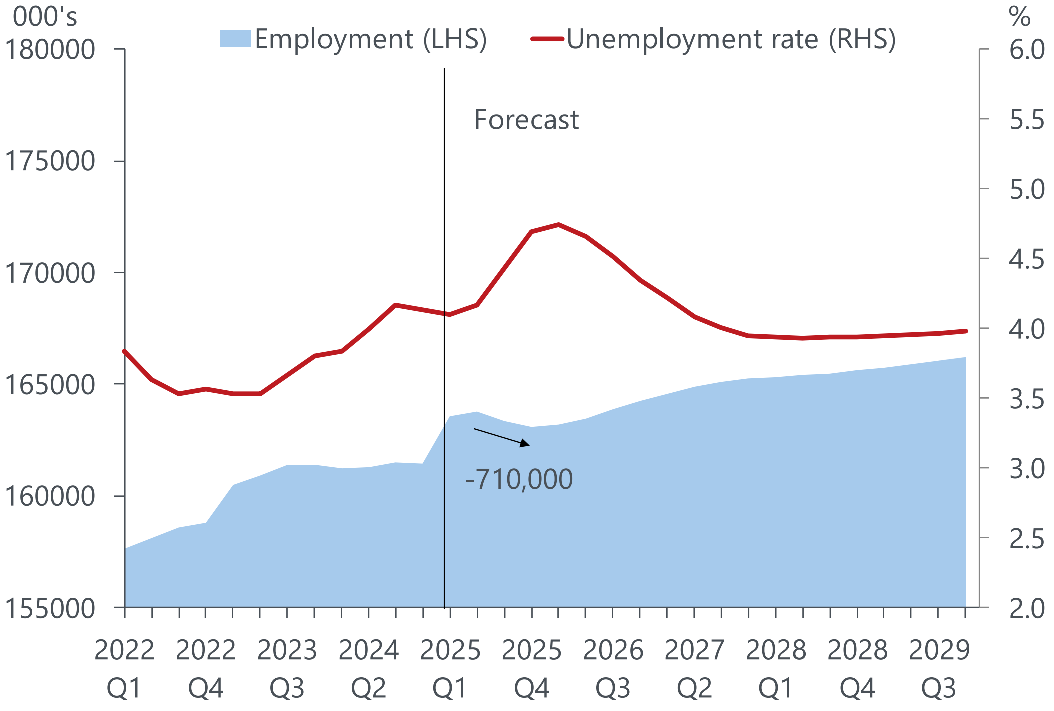
Source: Oxford Economics/Haver Analytics

Key takeaways

- We expect GDP growth will slow from 2.8% in 2024 to 1.3% in 2025 and 1.7% in 2026.
- The economy will avoid recession, but it will be hit by multiple shocks that dampen growth.
- Households will contend with higher prices, tighter financial conditions, and a weaker labor market.
- Businesses will be overwhelmed by policy uncertainty, upturned supply chains, and weaker demand domestically and abroad.
- Recession risks are elevated. But, good things are in the pipeline for the economy next year from deregulation, fiscal stimulus, and (hopefully) less policy uncertainty.

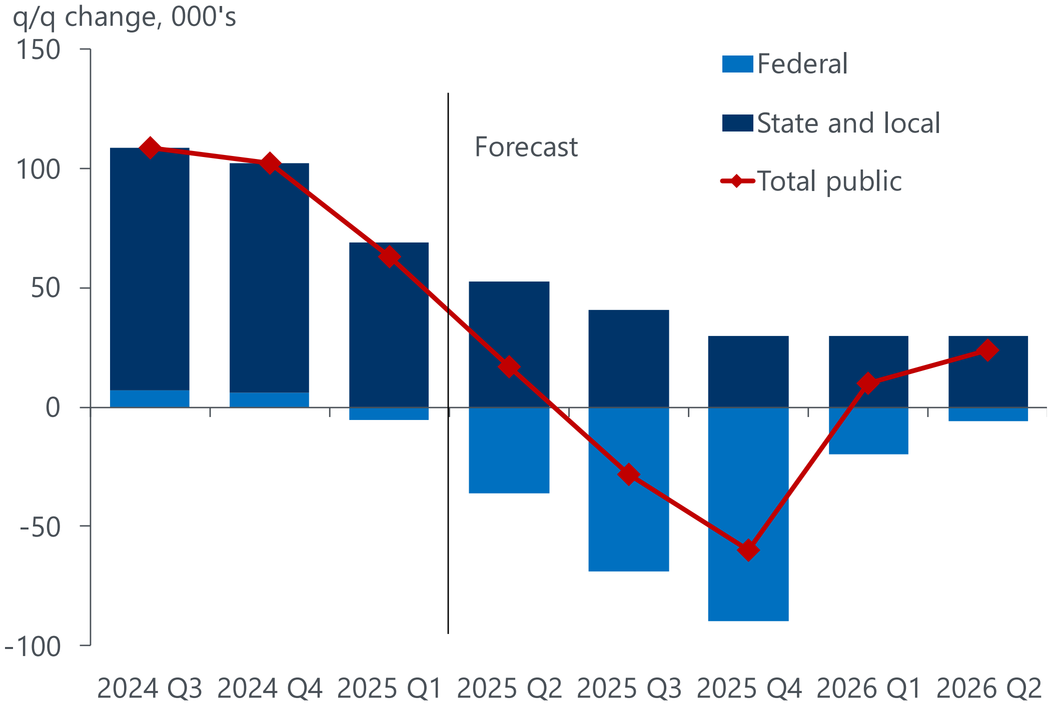
Job growth is likely to falter and push up the unemployment rate

US: Total employment and the unemployment rate



Source: Oxford Economics/Haver Analytics

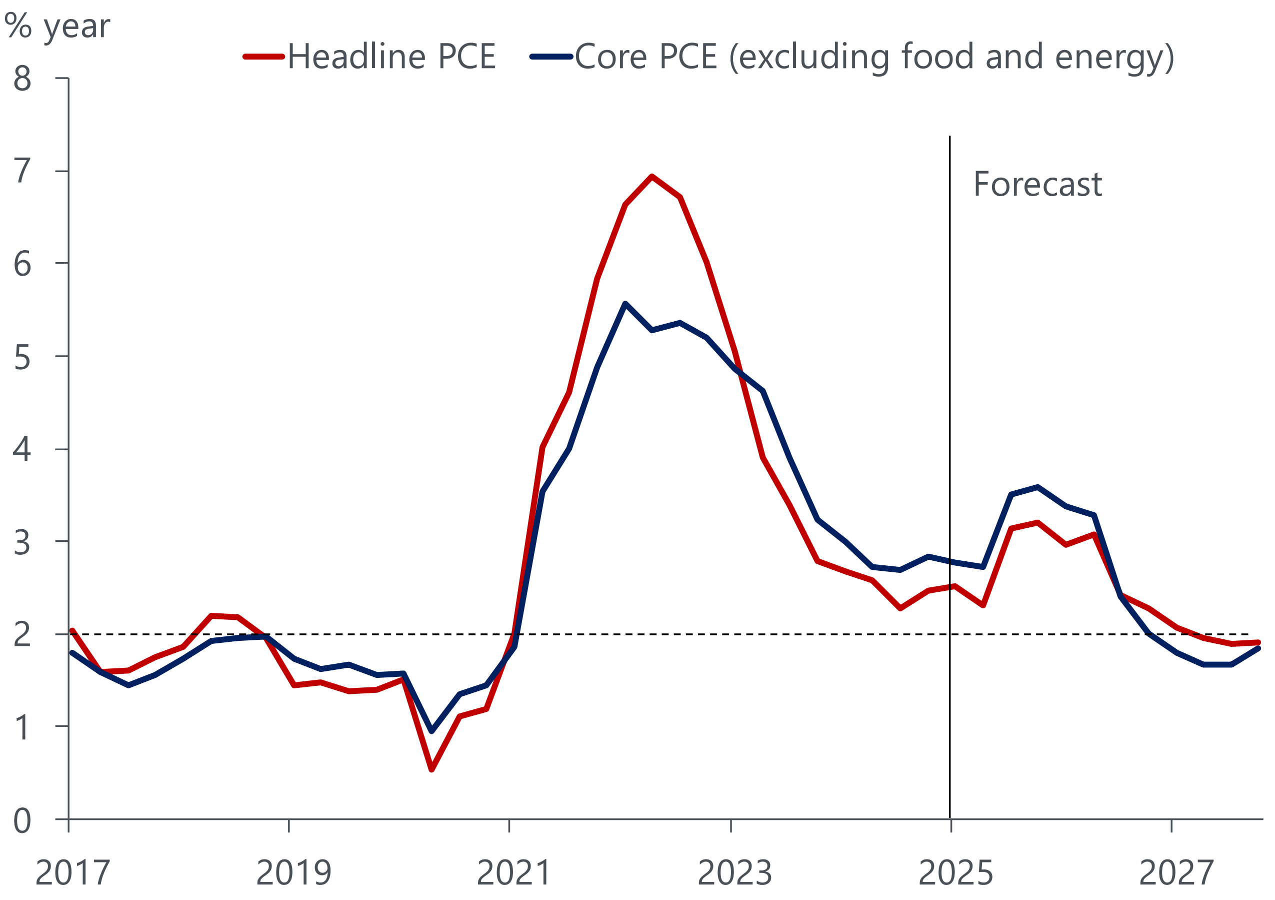
US: Public sector employment



Source: Oxford Economics/Haver Analytics

Tariffs will soon generate higher inflation

US: Headline and core PCE prices

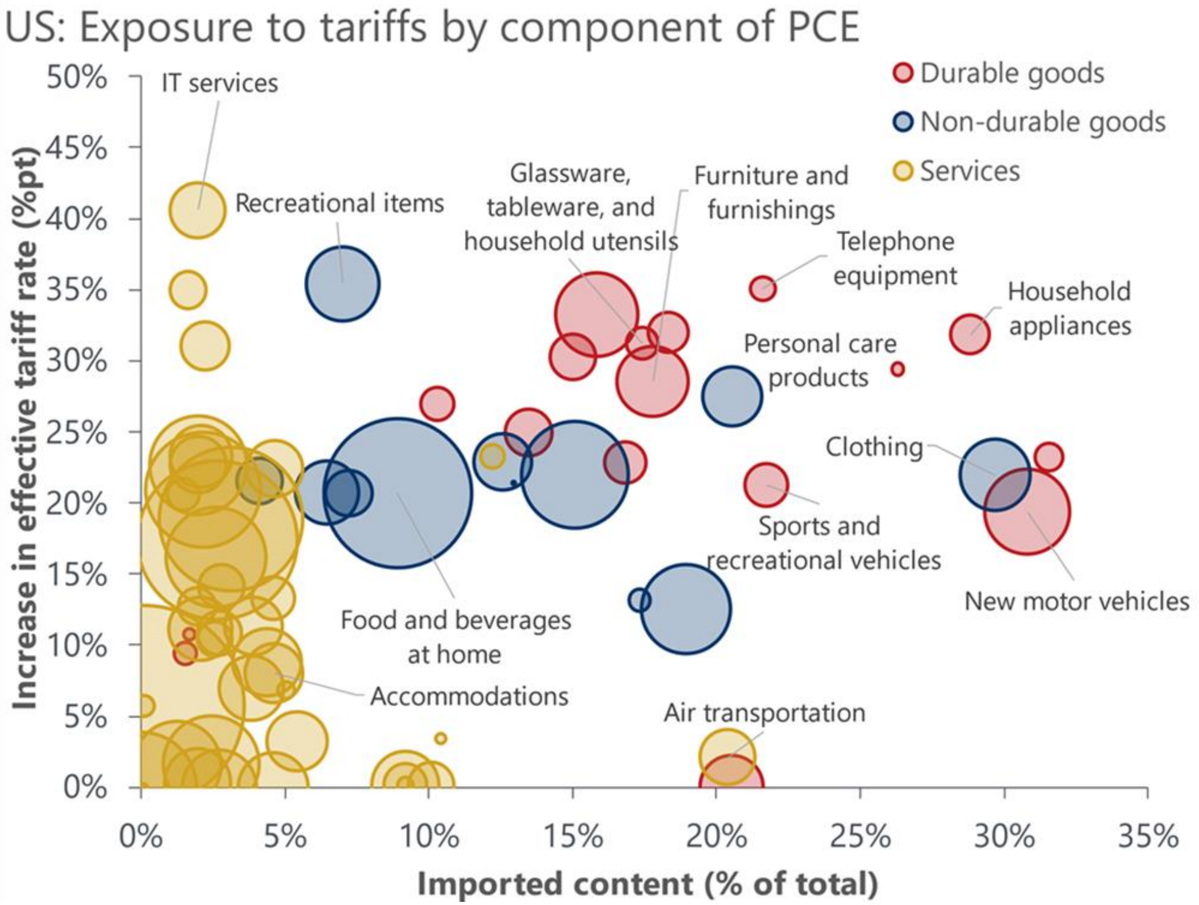


Source: Oxford Economics/Haver Analytics

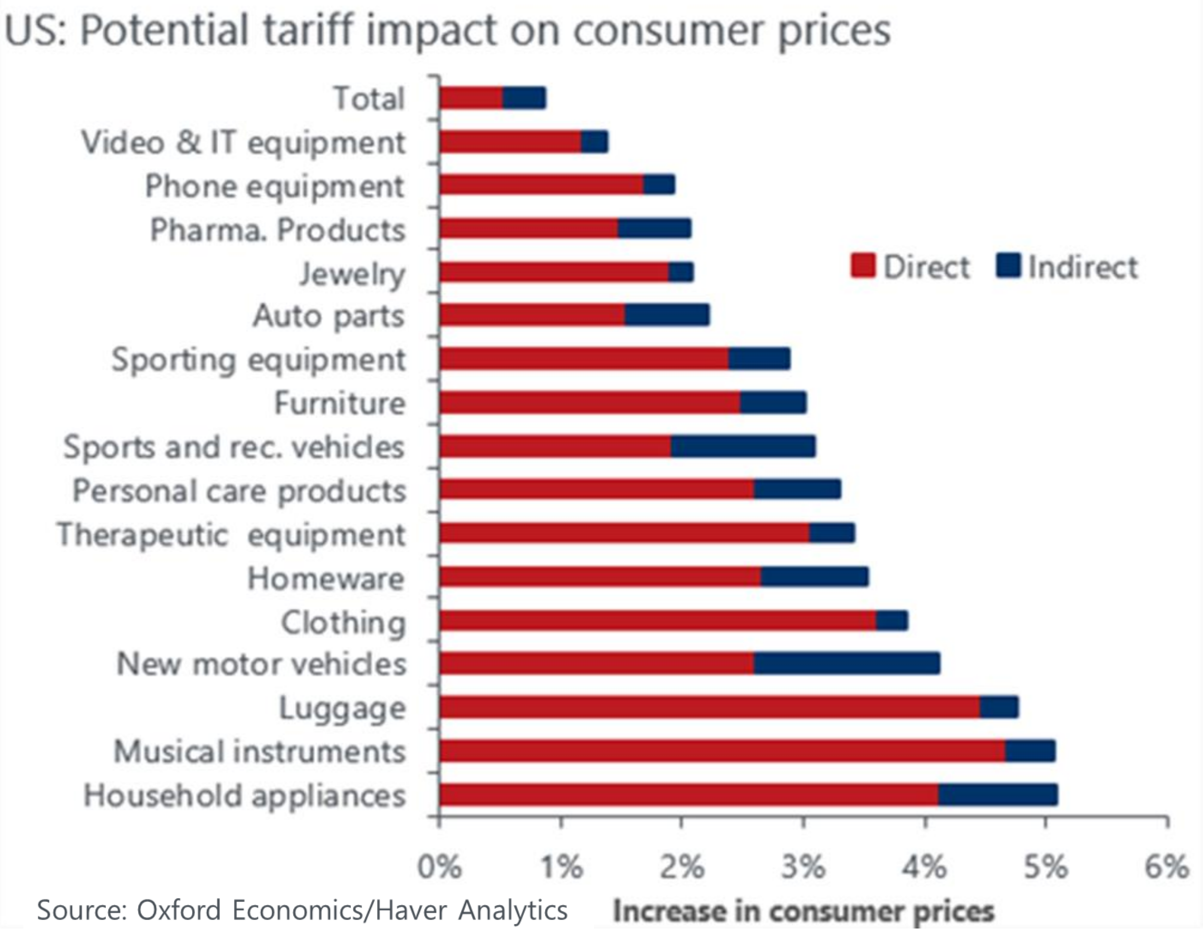
Key takeaways

- Lower global energy prices, demand destruction from the trade war, and idiosyncratic factors (like lower egg prices) are putting temporary downward pressure on inflation.
- But tariffs are still inflationary, and there are signs consumer goods prices have begun to adjust to the new tariff reality. This is evident in wholesale prices for used vehicles, which rose by nearly 2% in April, following months of declines.
- We expect headline PCE inflation to rise to 3.2% y/y in Q4 2025, while core PCE inflation will likely reach 3.6% by the end of this year.

Tariffs will raise costs for consumers and weigh on real disposable income

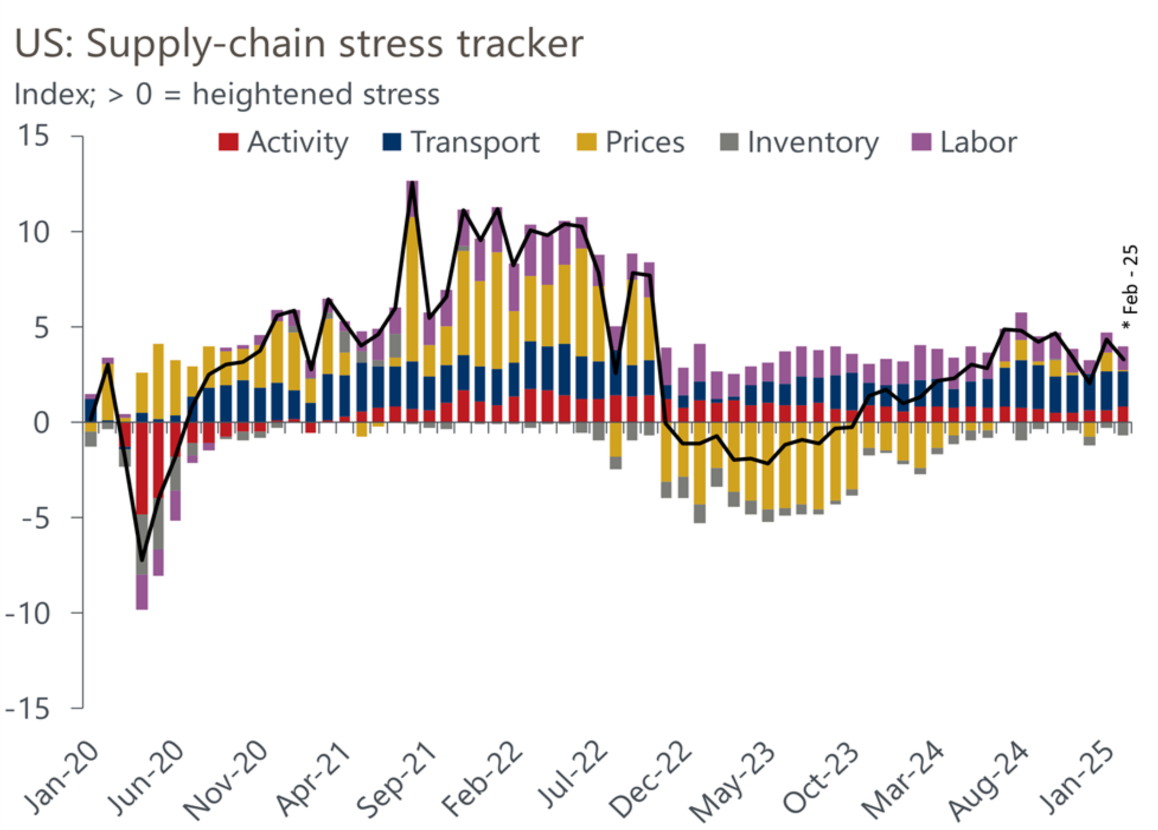


Source: Oxford Economics/Haver Analytics

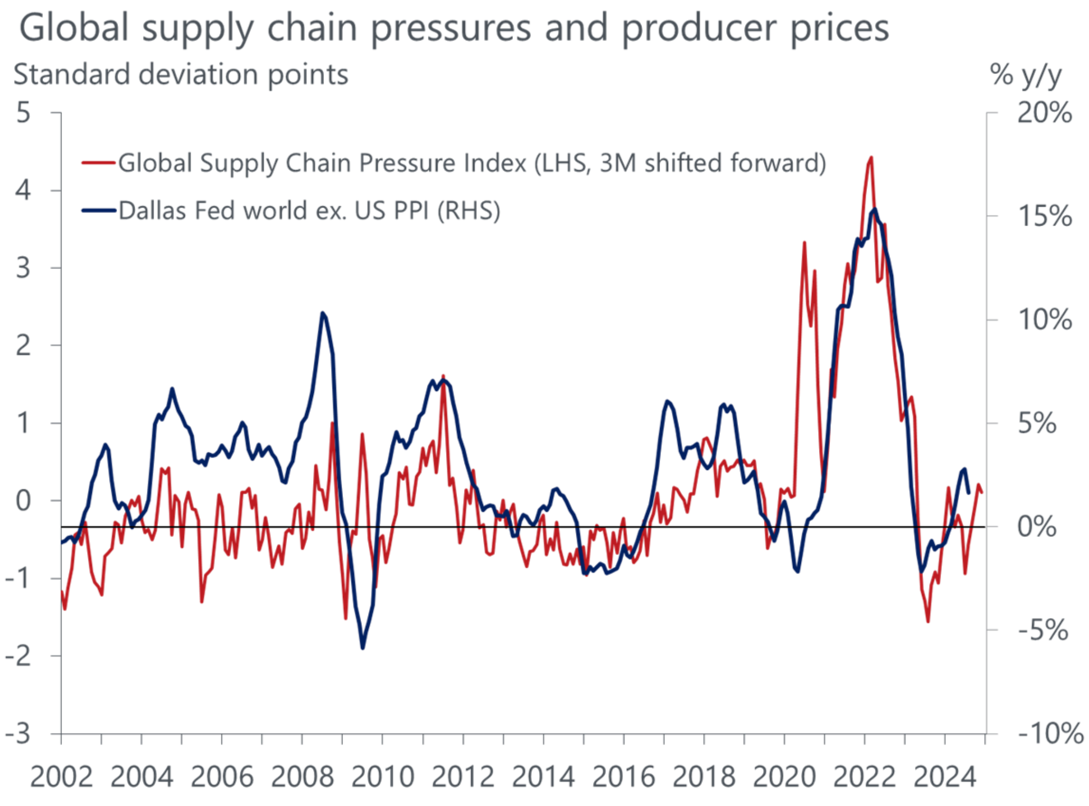


Source: Oxford Economics/Haver Analytics

Increased supply chain stress could cause stickier inflation

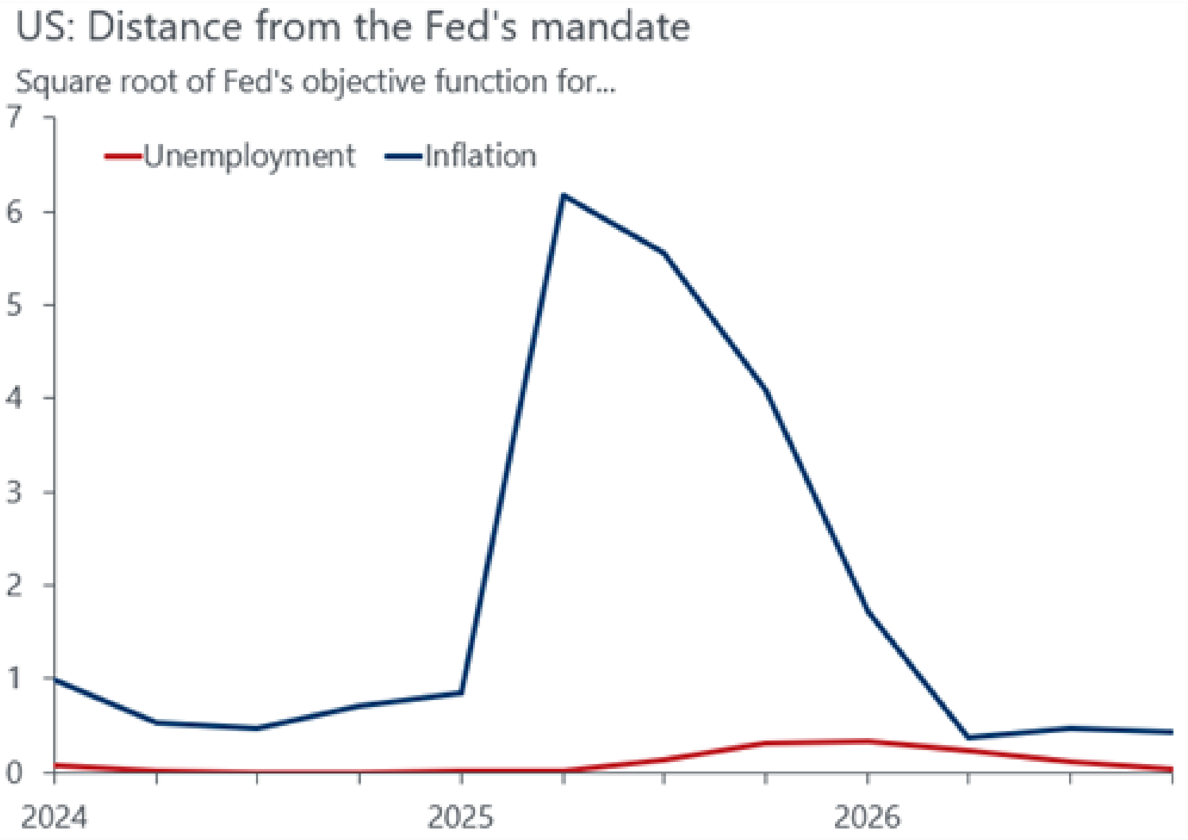


Source: Oxford Economics/Haver Analytics

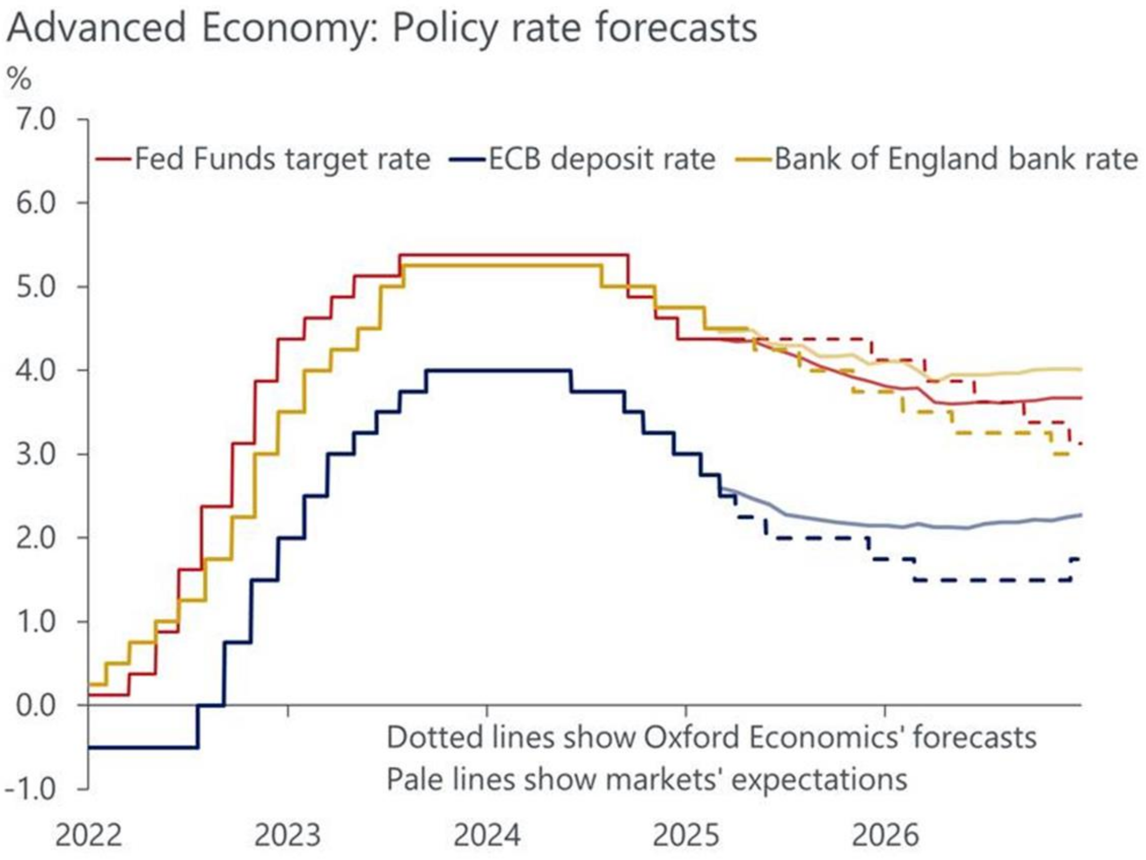


Source: Oxford Economics/Haver Analytics

Fed likely to prioritize inflation risks and remain on hold until December

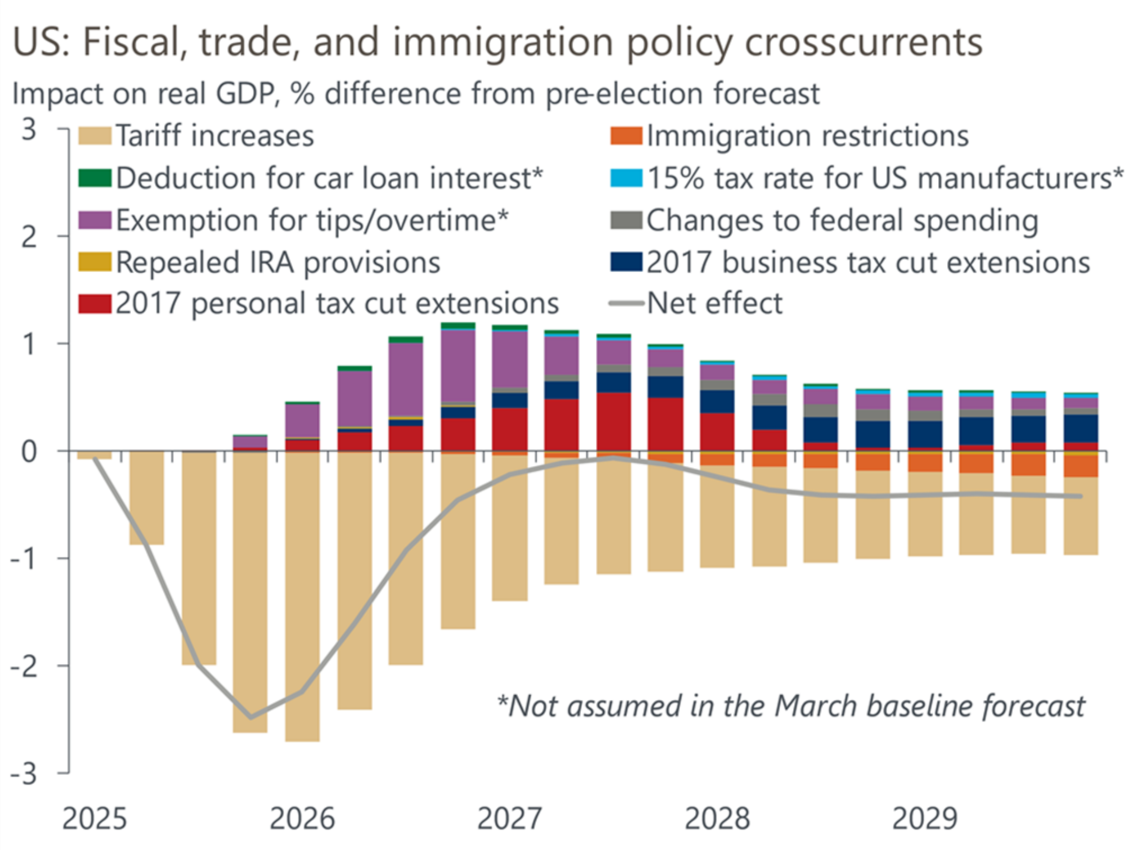


Source: Oxford Economics

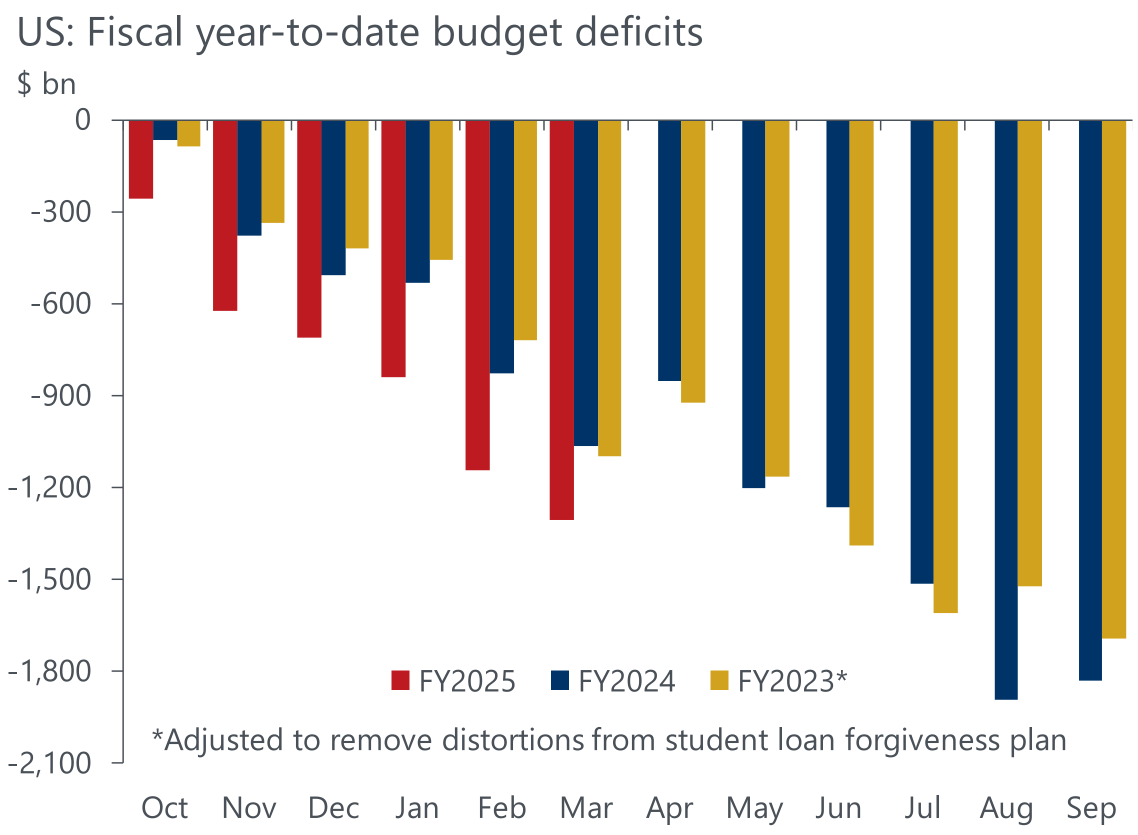


Source : Oxford Economics/Haver Analytics/LSEG

Fiscal upside won't offset economic hit from tariffs



Source: Oxford Economics

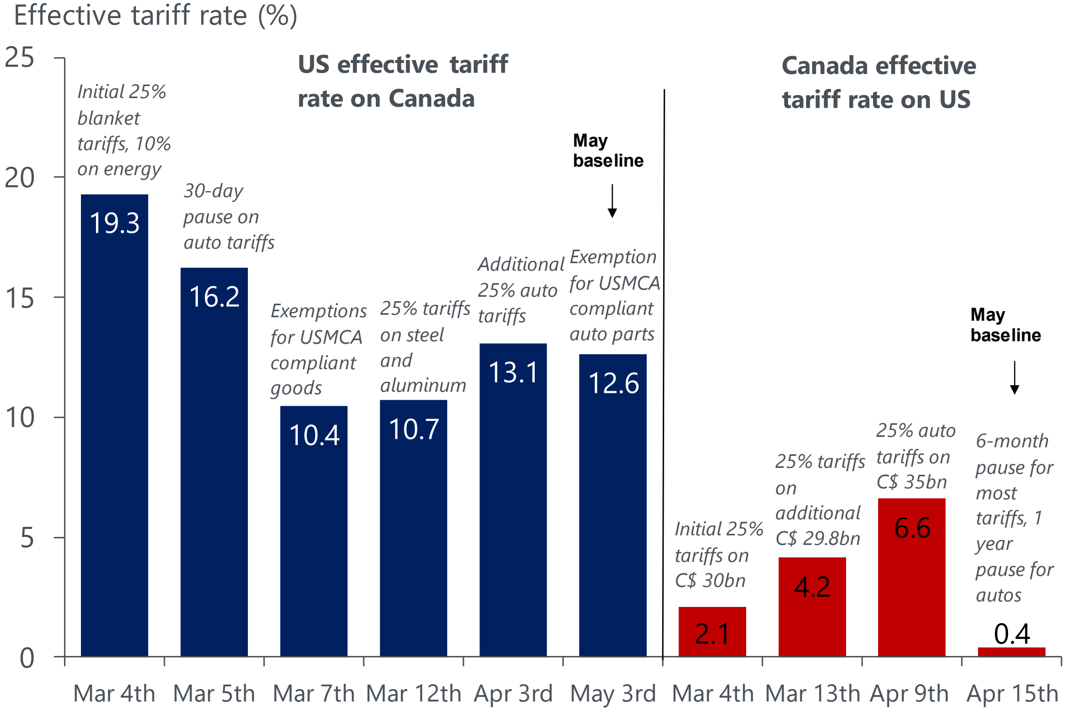


Source: Oxford Economics/Haver Analytics

The trade war will push Canada into a recession

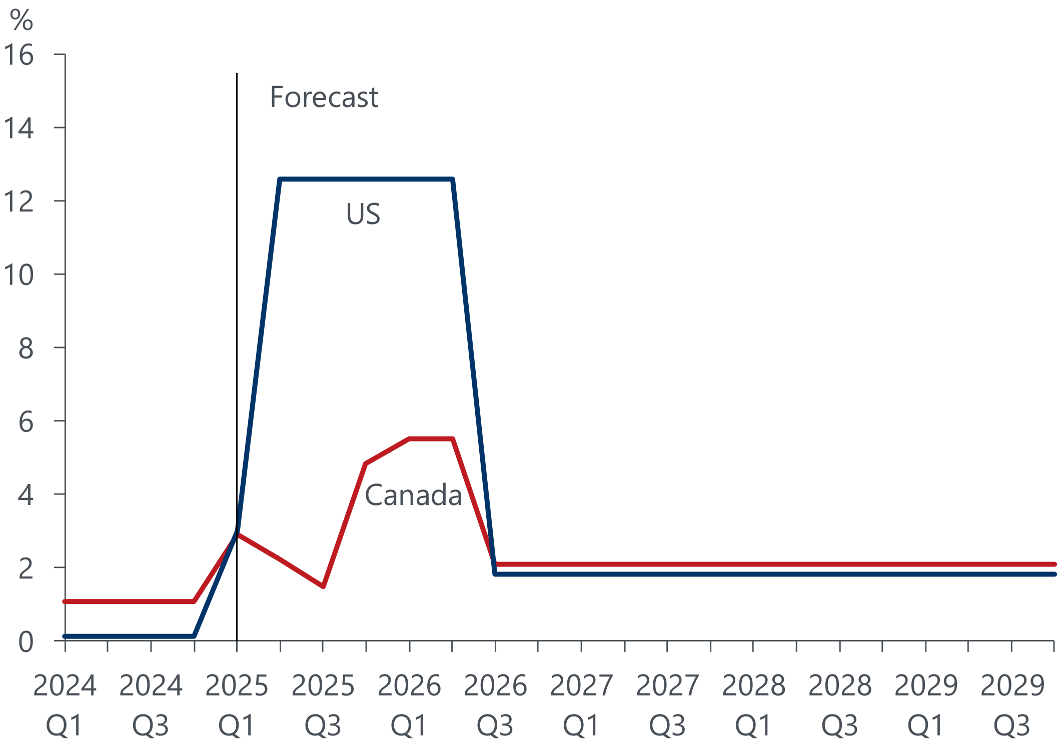
US-Canada baseline tariffs assumed to last until USMCA renegotiation in mid-2026

Canada & US: Effective tariff rates*



Source: Oxford Economics/Haver Analytics *Calculations based on 2024 USMCA compliance

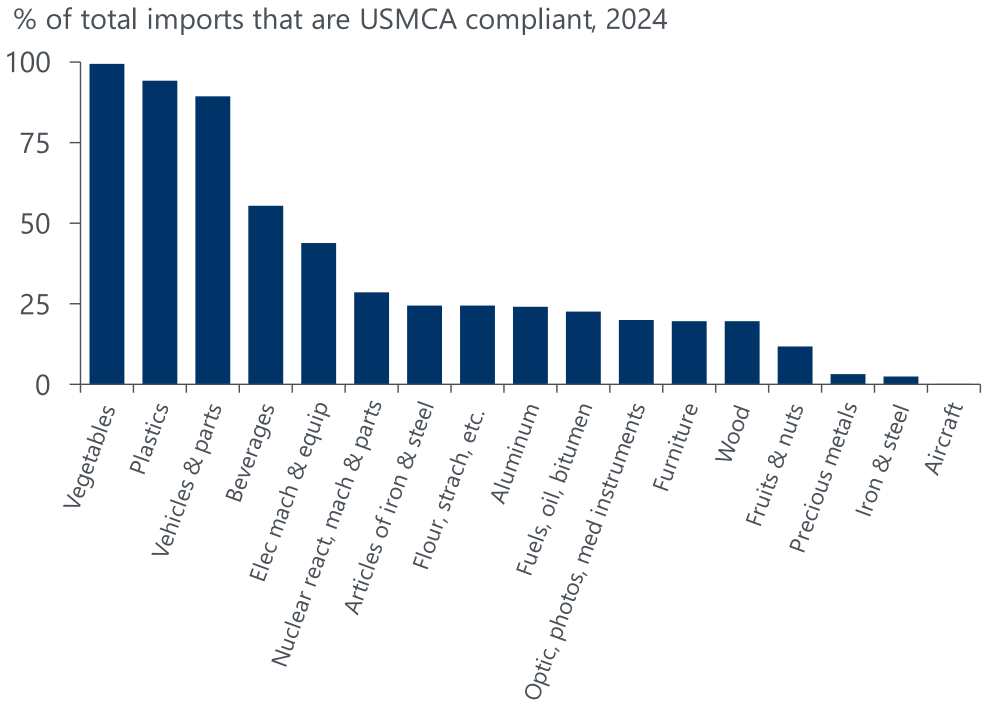
Canada & US: Effective tariff rates



Source: Oxford Economics/Haver Analytics

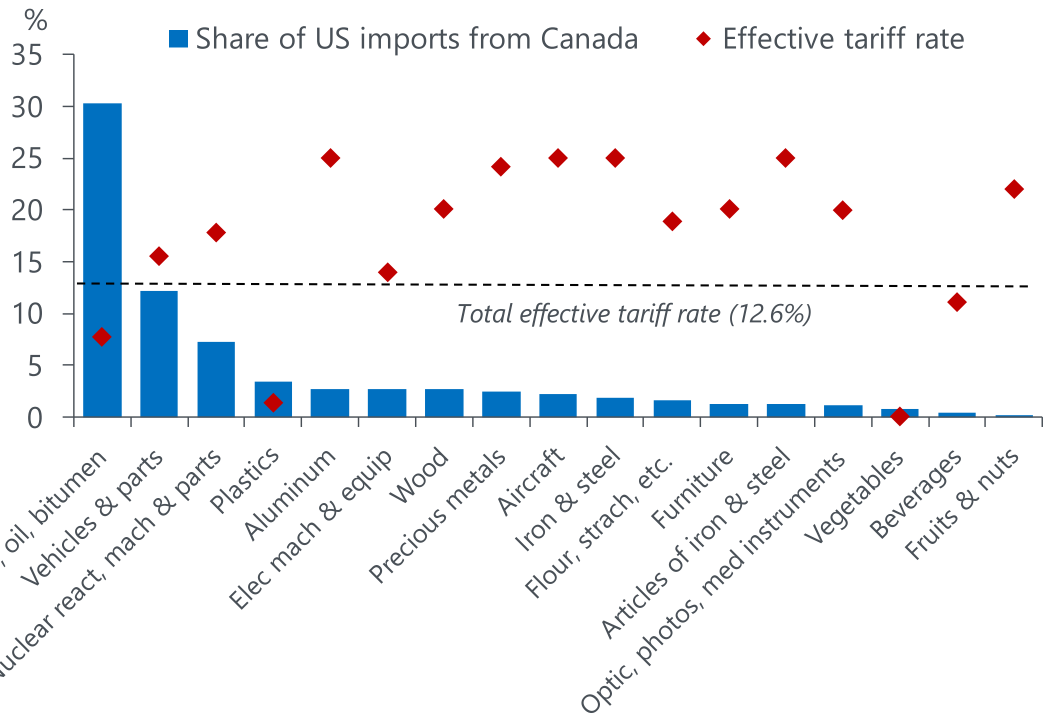
Based on 2024 USMCA compliance rates, the US effective tariff rate on Canada currently stands at 12.6%

North America: US imports from Canada & USMCA compliance



Source: Oxford Economics/US Census Bureau

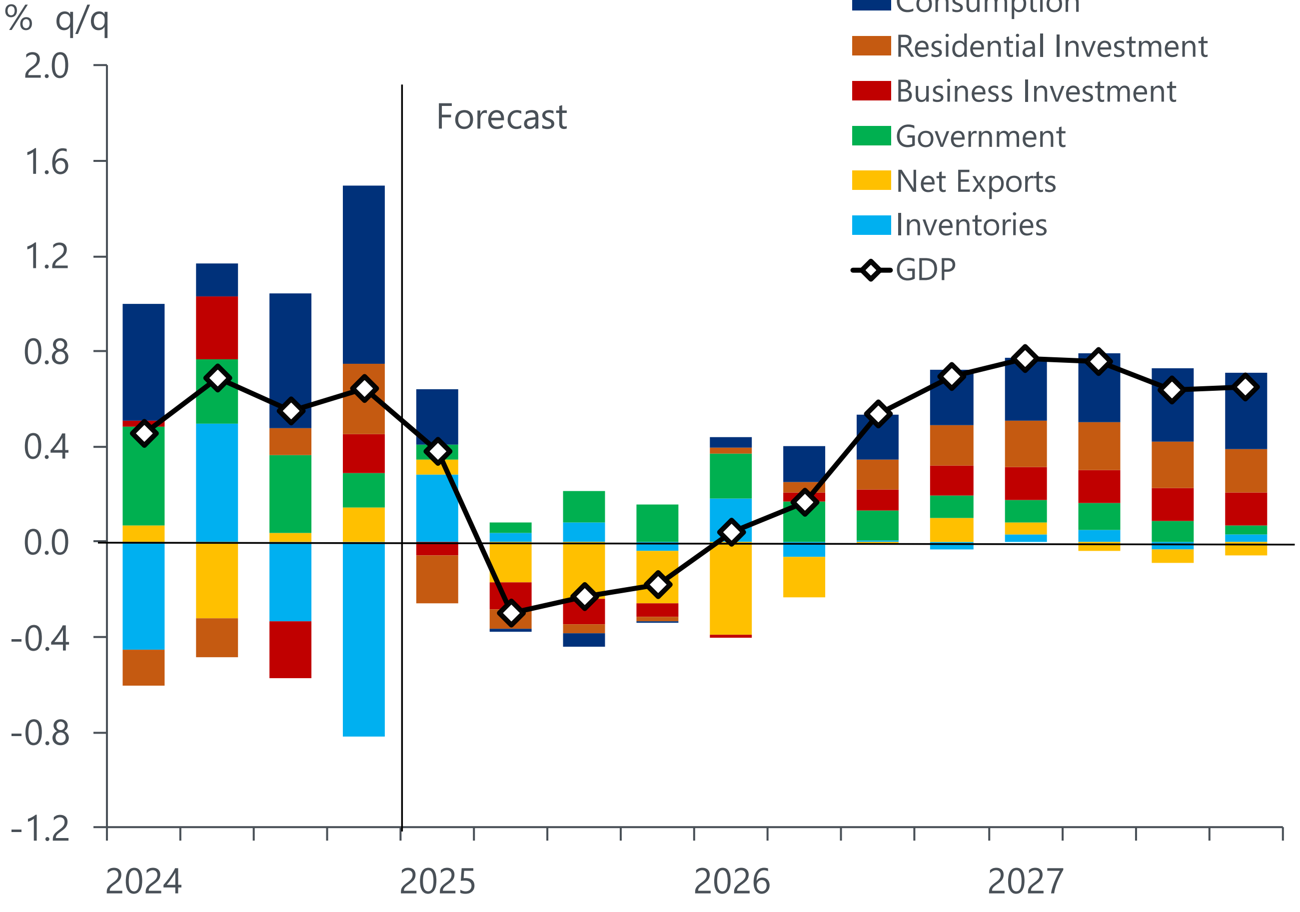
North America: US imports from Canada & effective tariff rates



Source: Oxford Economics/US Census Bureau* 2024 annual data, products represent 75% of total US imports from Canada

Trade war will push Canada into a recession

Canada: GDP growth

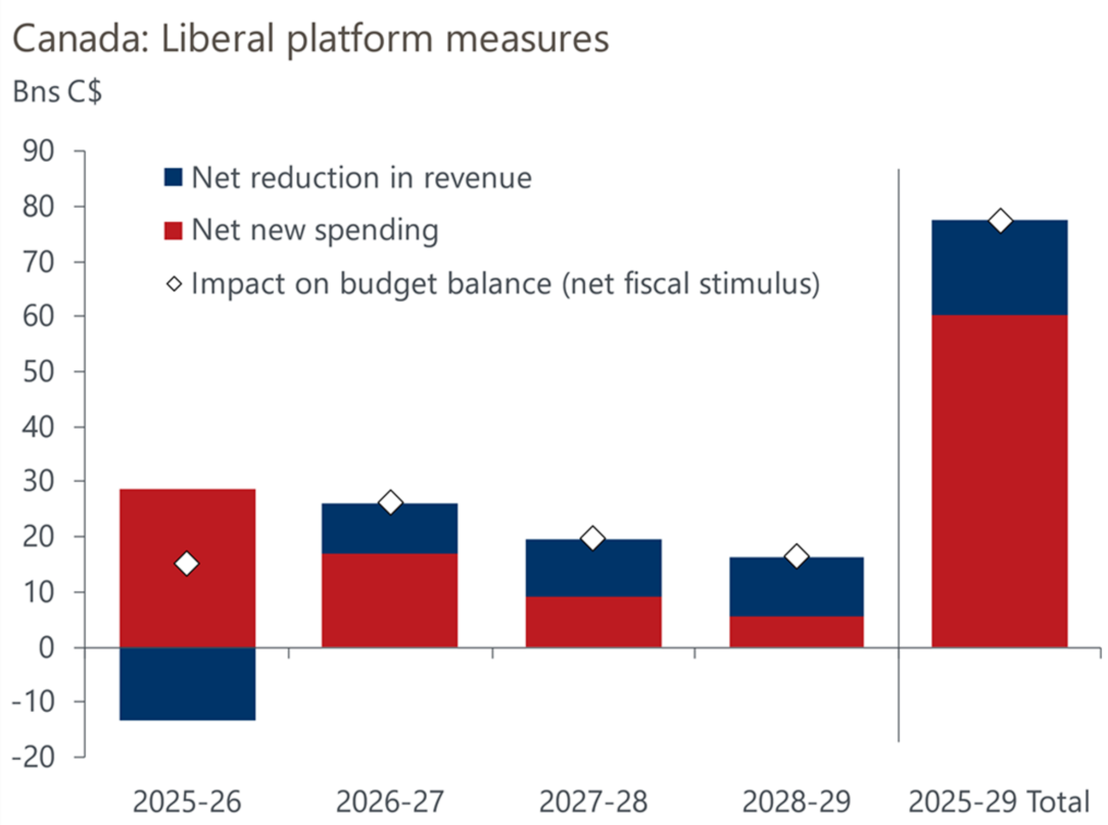


Source: Oxford Economics

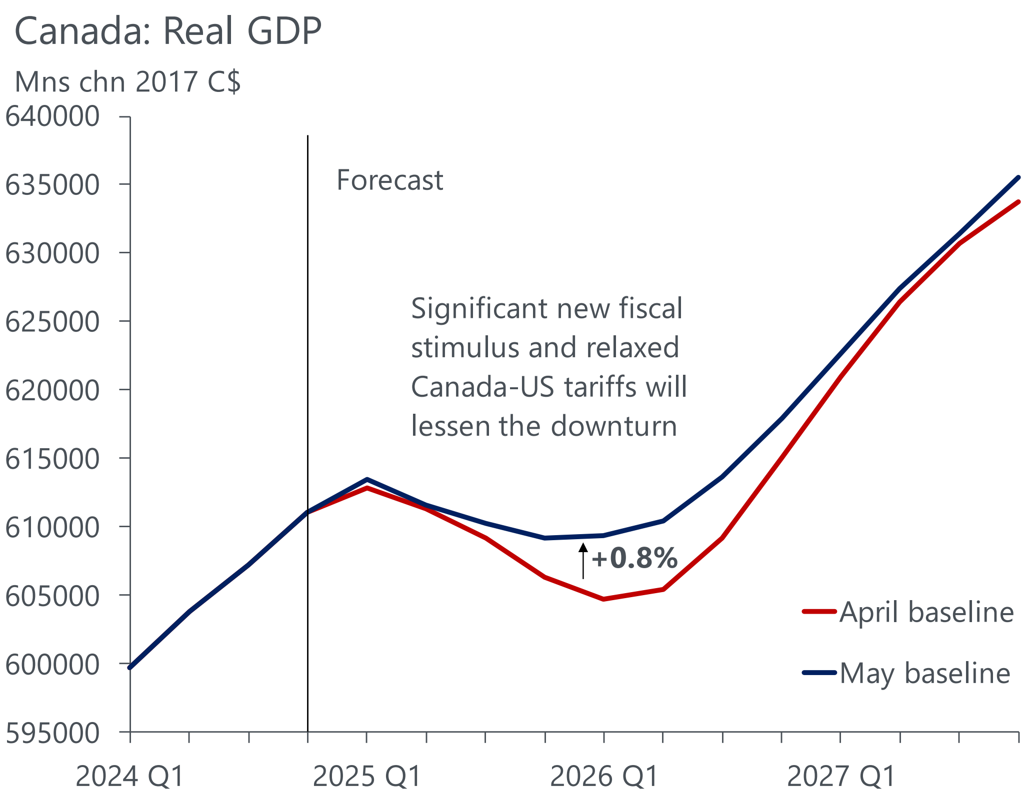
Key takeaways

- The effective pause in Canada's counter-tariffs, relaxed US tariffs on auto parts imports, and new fiscal stimulus will soften the downturn we expect from the trade war, but likely won't prevent a recession this year.
- Exports and investment will see the largest direct hit. But layoffs, higher costs from tariffs and supply issues, and the equity sell-off will also hurt consumption and housing.
- Imbalances such as highly indebted consumers, overvalued housing, weak private investment, and slow productivity growth will aggravate - and be aggravated by - the recession.

Major new fiscal stimulus and lower tariffs will soften the downturn

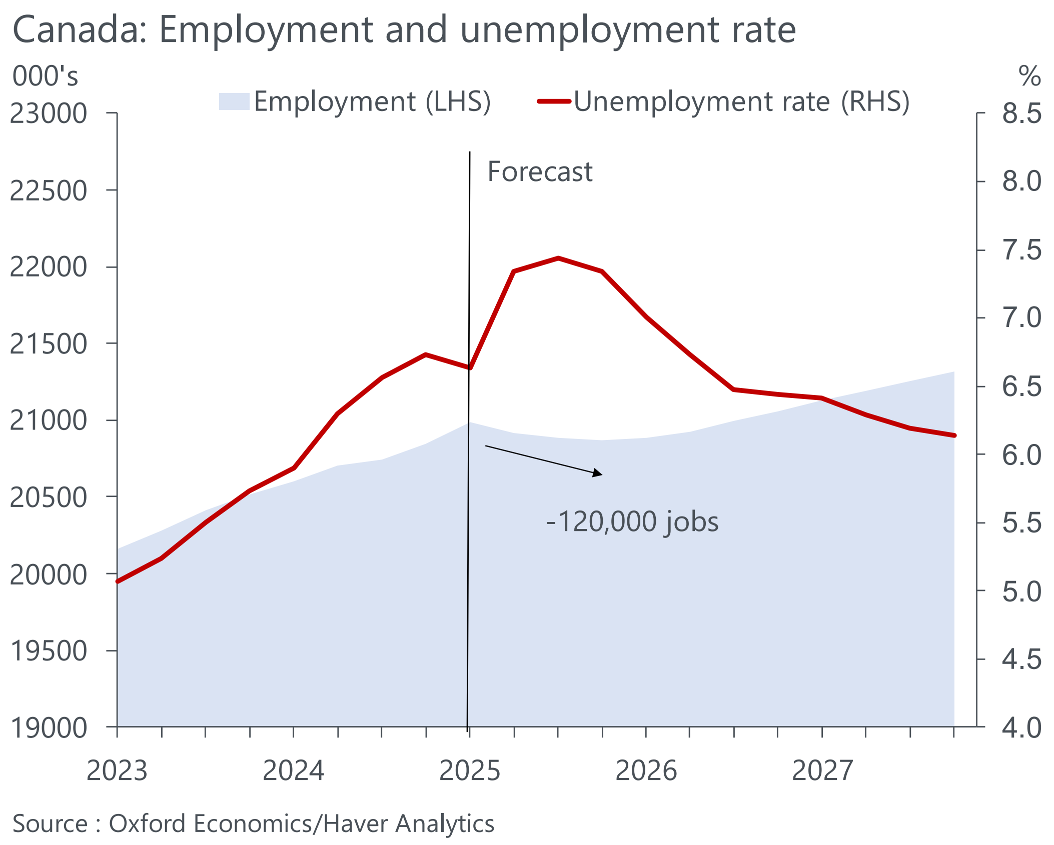


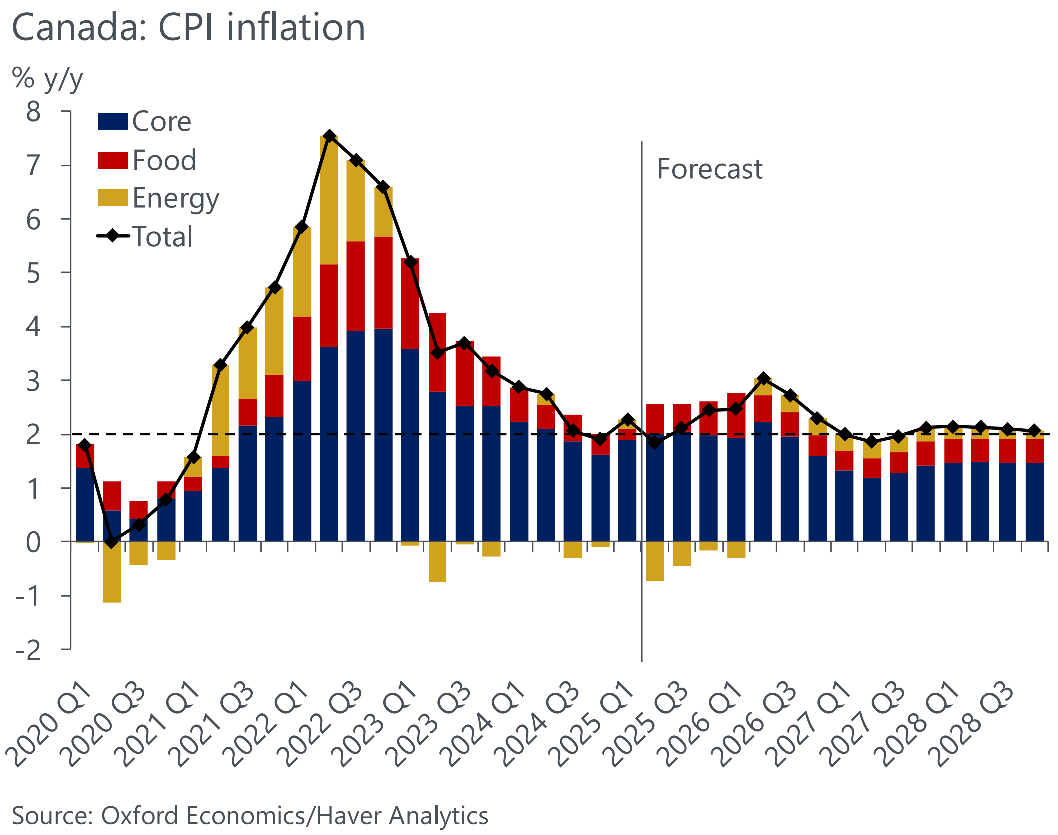
Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics

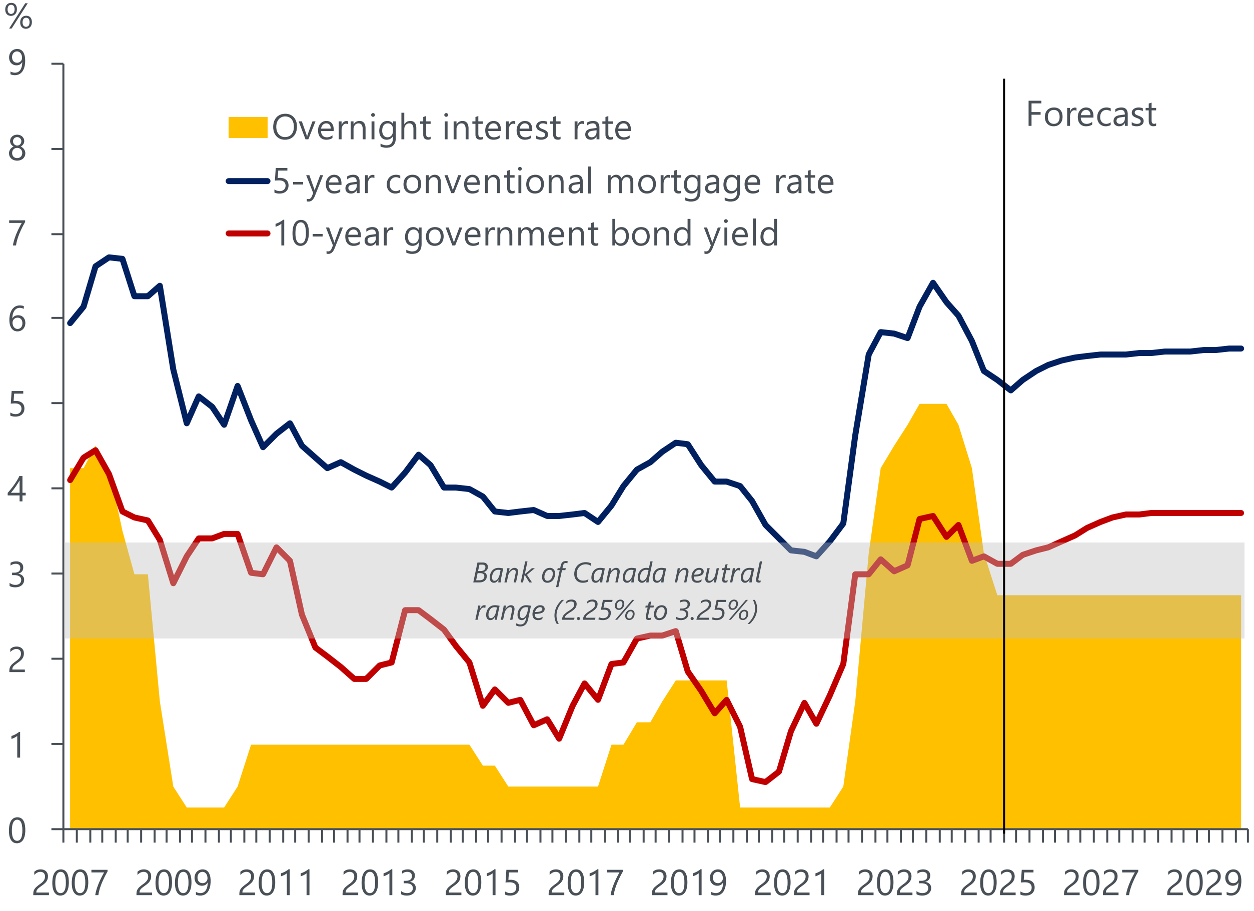
Loss of 120,000 jobs will lift Canada's unemployment rate to 7.4% while inflation rises to 3% by mid-2026





Bank of Canada will likely remain on hold

Canada: Overnight rate, mortgage rate & 10-year bond yield



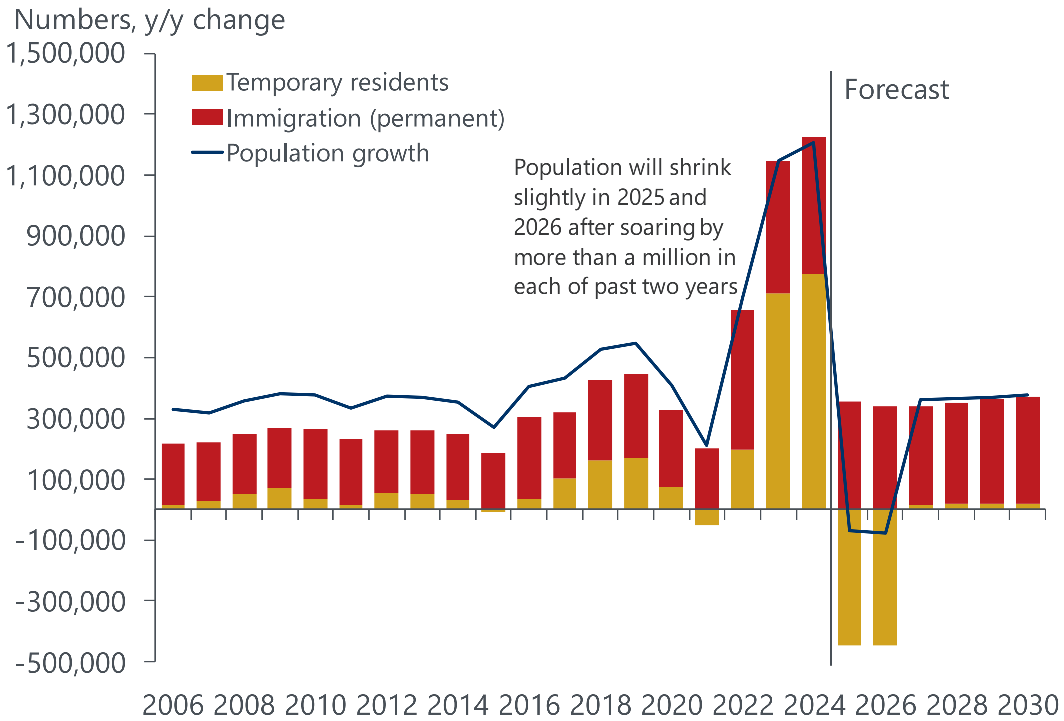
Source: Oxford Economics/Haver Analytics

Key takeaways

- The stagflationary tariff shock means the BoC needs to balance concerns over higher prices with a downturn in the economy.
- Uncertainty about tariffs and their economic impact led the BoC to keep the policy rate at 2.75% in April.
- The BoC will likely continue to hold, but we can't rule out a couple of 25bp rate cuts. Still, we don't believe the BoC will reduce rates into stimulative territory unless it's convinced inflation is under control and additional stimulus is required.
- Higher inflation and rising risk premia will push up long bond yields.

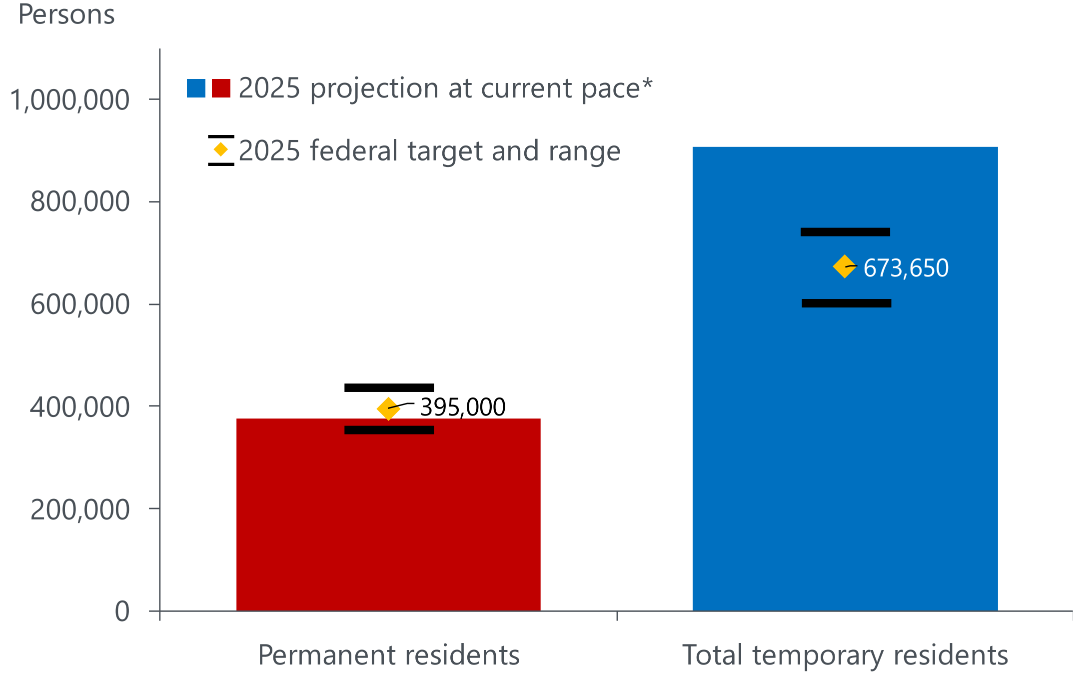
Population is still likely to shrink this year, but the government is at risk of undershooting its temporary resident target

Canada: Population annual growth sources*



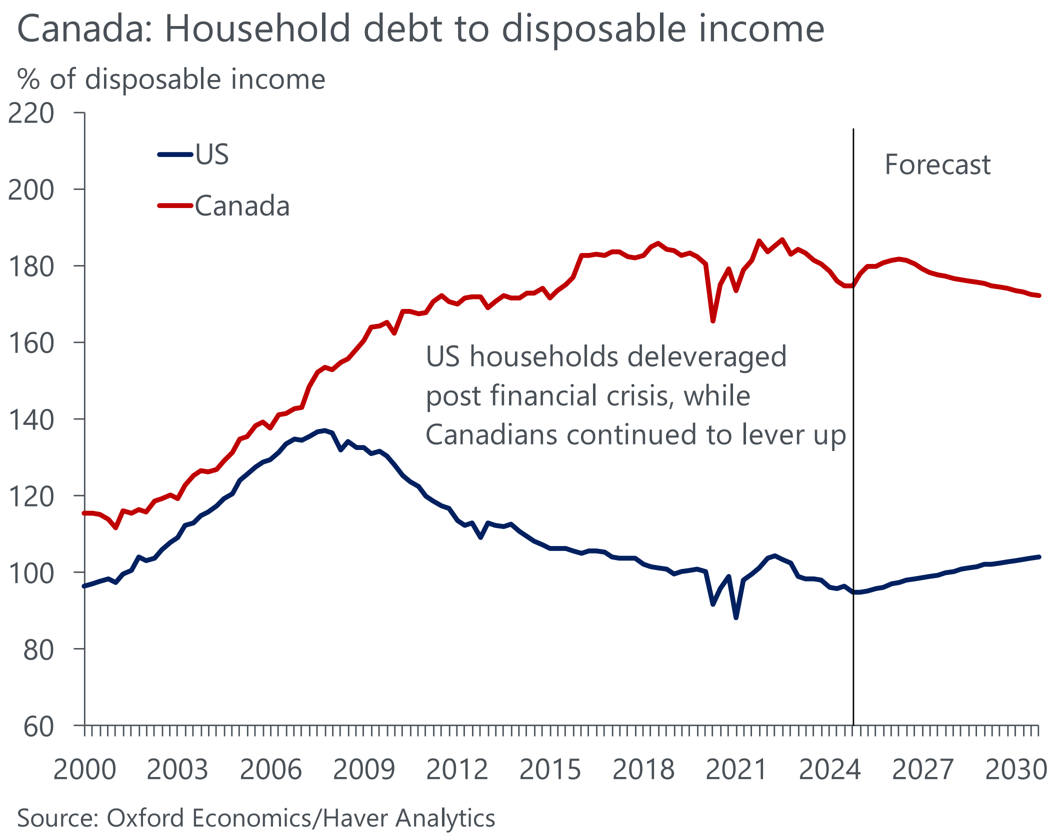
Source: Oxford Economics/Haver Analytics *Figures are as of July 1st each year.

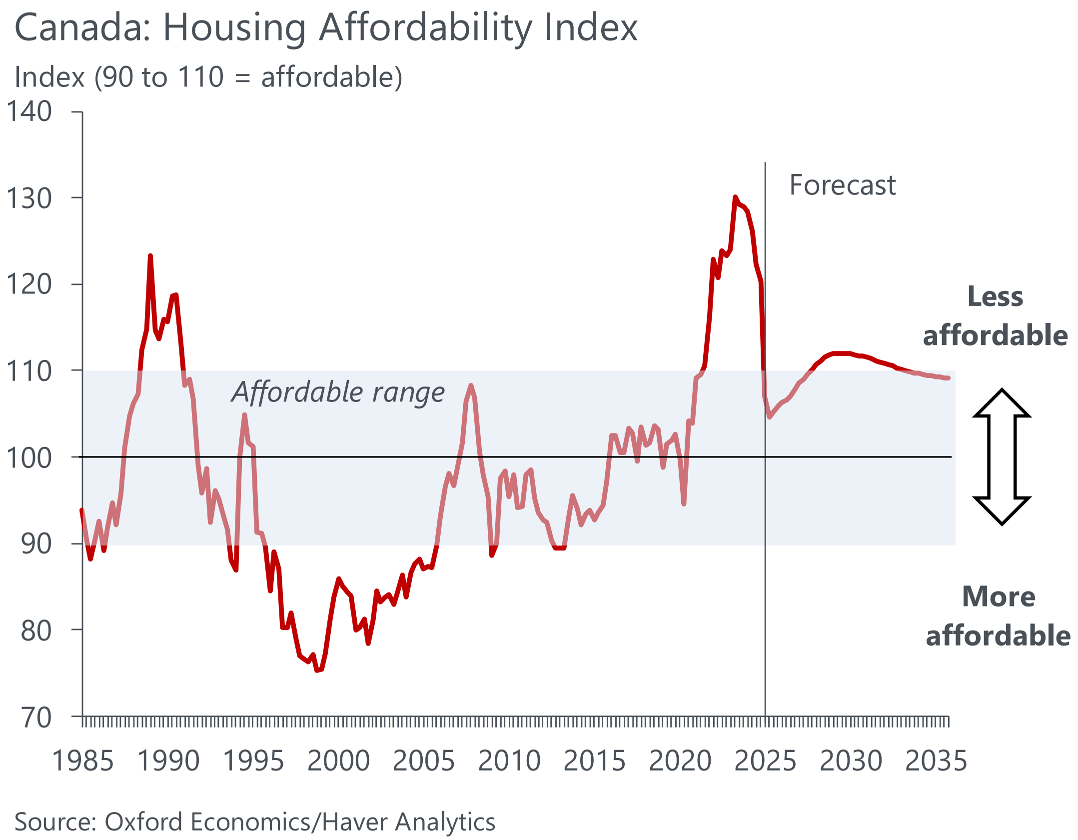
Canada: Permanent & temporary resident arrivals



Source: Oxford Economics/Haver Analytics *Projections assume arrivals grow at the average y/y growth since the 2025 -2027 Immigration Levels Plan was introduced

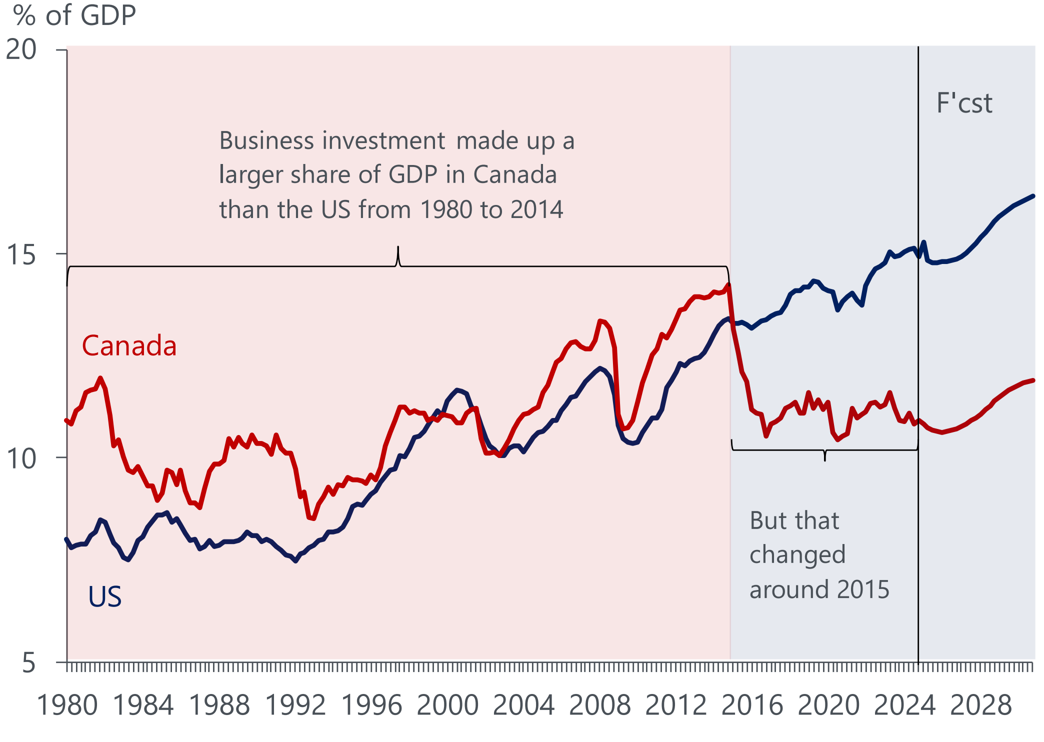
Elevated household debt and overvalued housing make Canadian households acutely vulnerable to a shock to income or interest rates





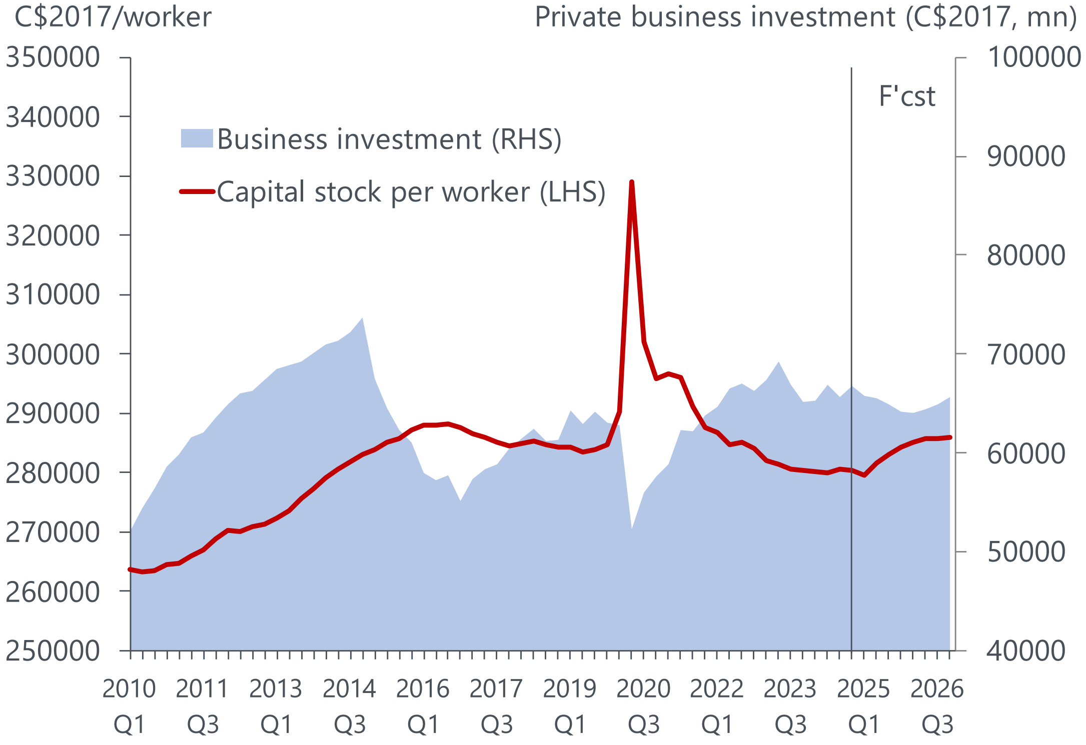
Persistent underinvestment in Canada will likely continue amid trade war

North America: Real business investment, share of GDP



Source: Oxford Economics/Haver Analytics

Canada: Capital stock per worker & business investment

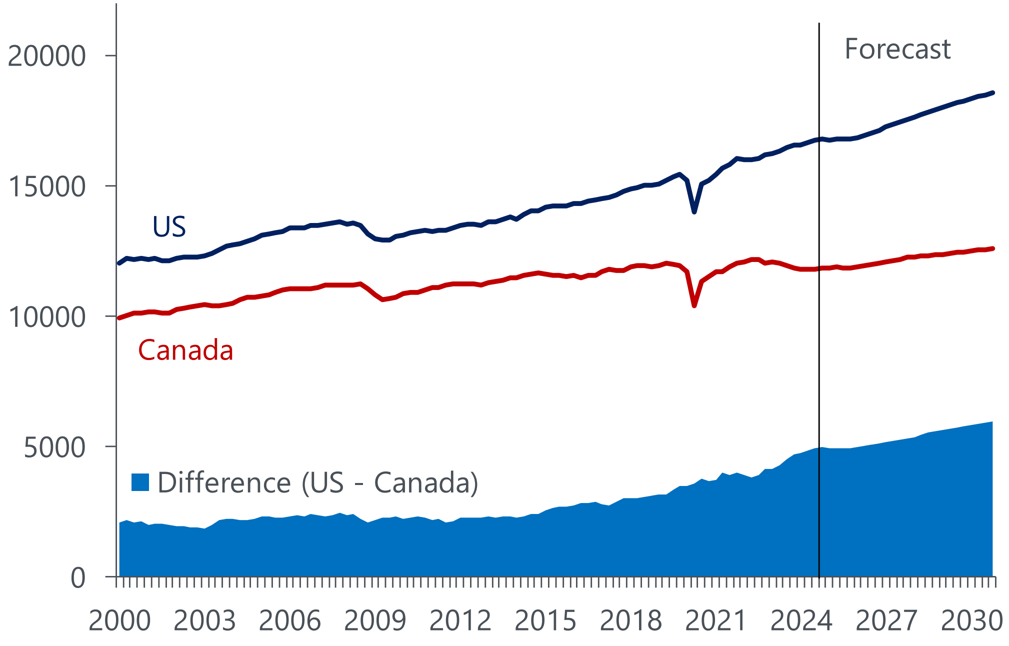


Source: Oxford Economics/Haver Analytics *Capital stock data for 2024 is an estimate

Growing gap between US and Canadian GDP per capita will continue to widen

North America: Real GDP per capita, PPP exchange rate

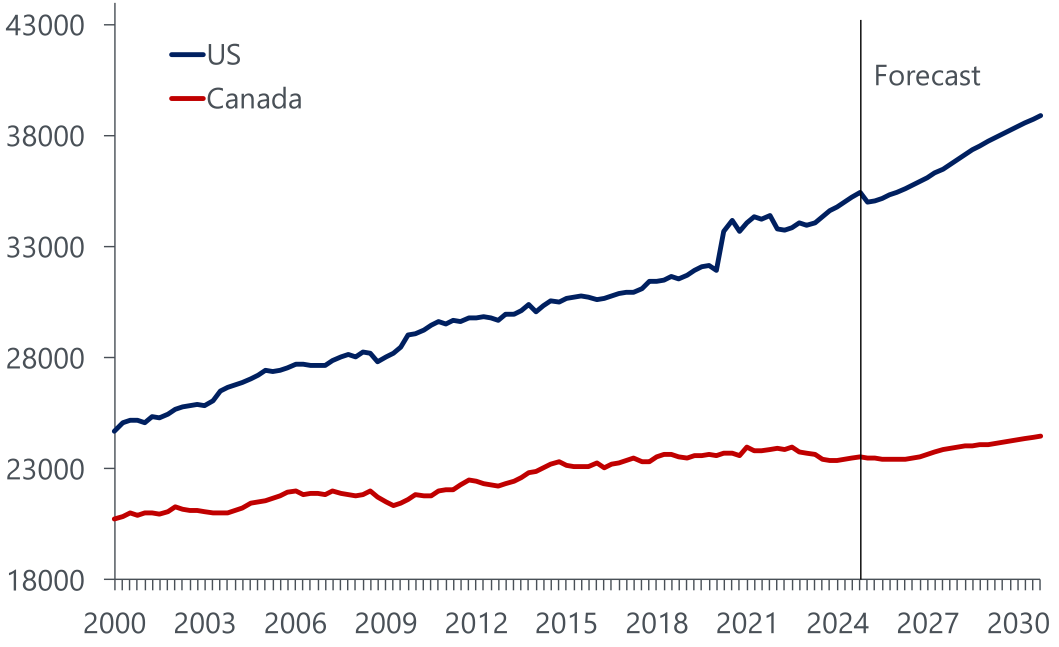
2015 US$



Source: Oxford Economics/Haver Analytics

North America: Output per worker (productivity)

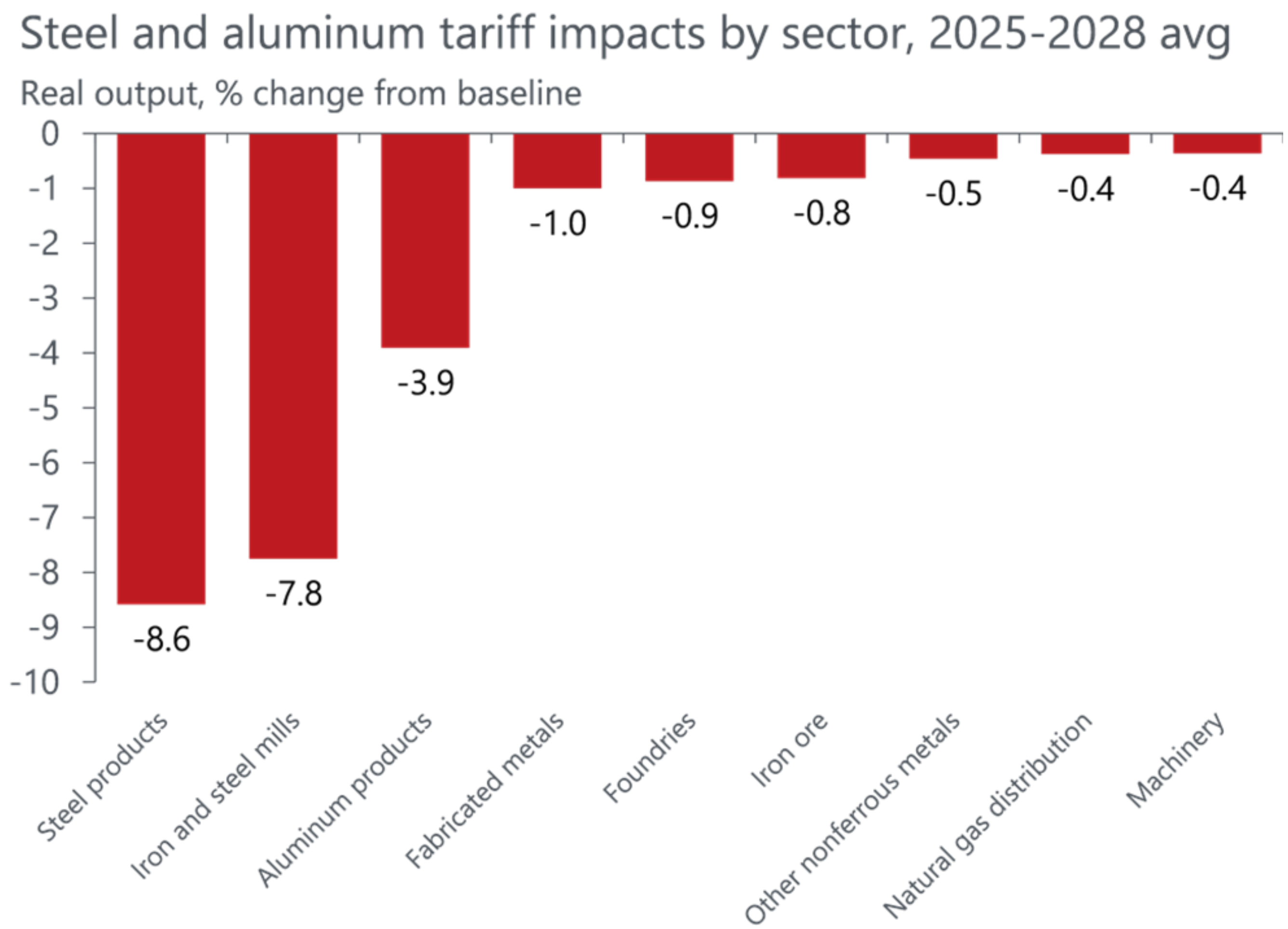
Real GDP, 2015 US$, PPP exchange rate, per worker



Source: Oxford Economics/Haver Analytics

The impact of US tariffs on Canadian steel, aluminum & autos

Steel & aluminum tariffs deal a significant blow to Canadian metal manufacturing

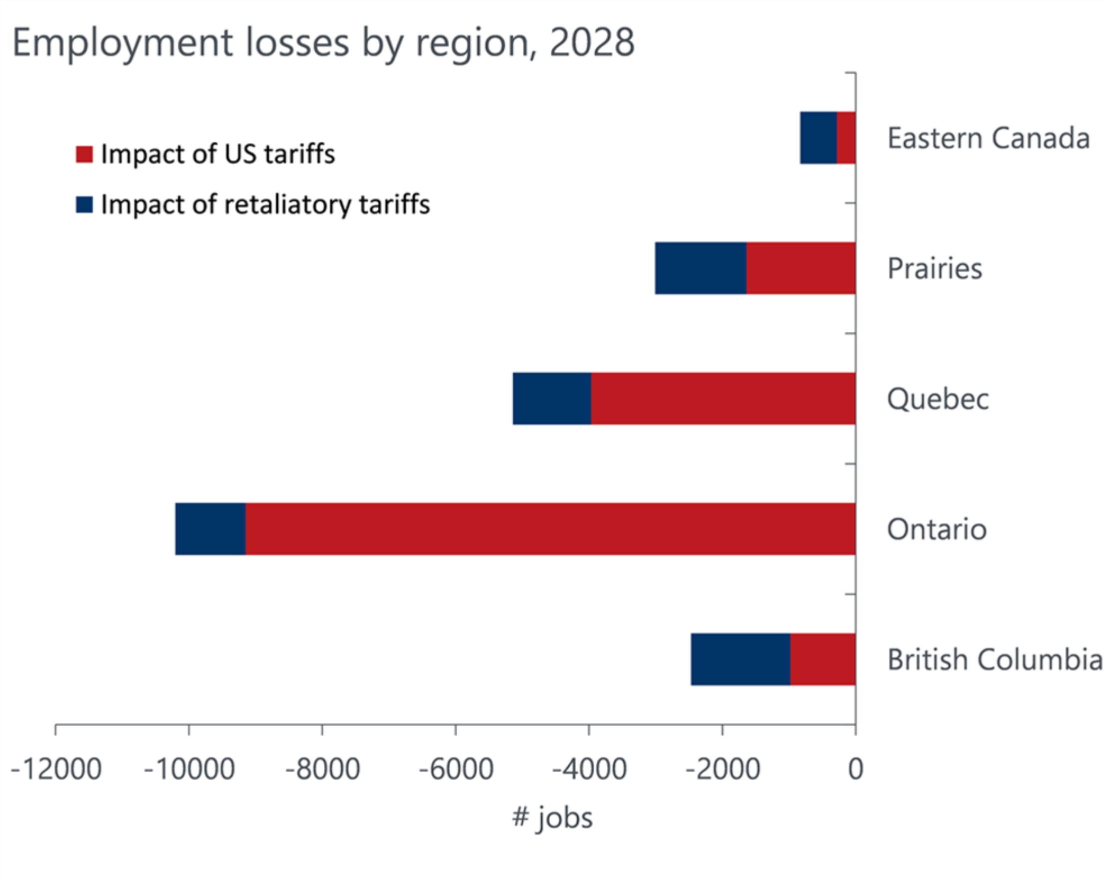


Source: Oxford Economics/Haver Analytics

Key takeaways

- Permanent 25% US tariffs on steel and aluminum would significantly harm Canada's metal manufacturing industries.
- Analysis using our Canada Provincial-Territorial Model shows production falls by an average of 9% in Canada’s steel industry and by 4% in the aluminum industry over the 2025-2028 period.
- Related industries like fabricated metal manufacturing would also see lower output.
- Canada's retaliatory tariffs would raise producer costs, especially for industries heavily reliant on steel and aluminum, like autos and construction.

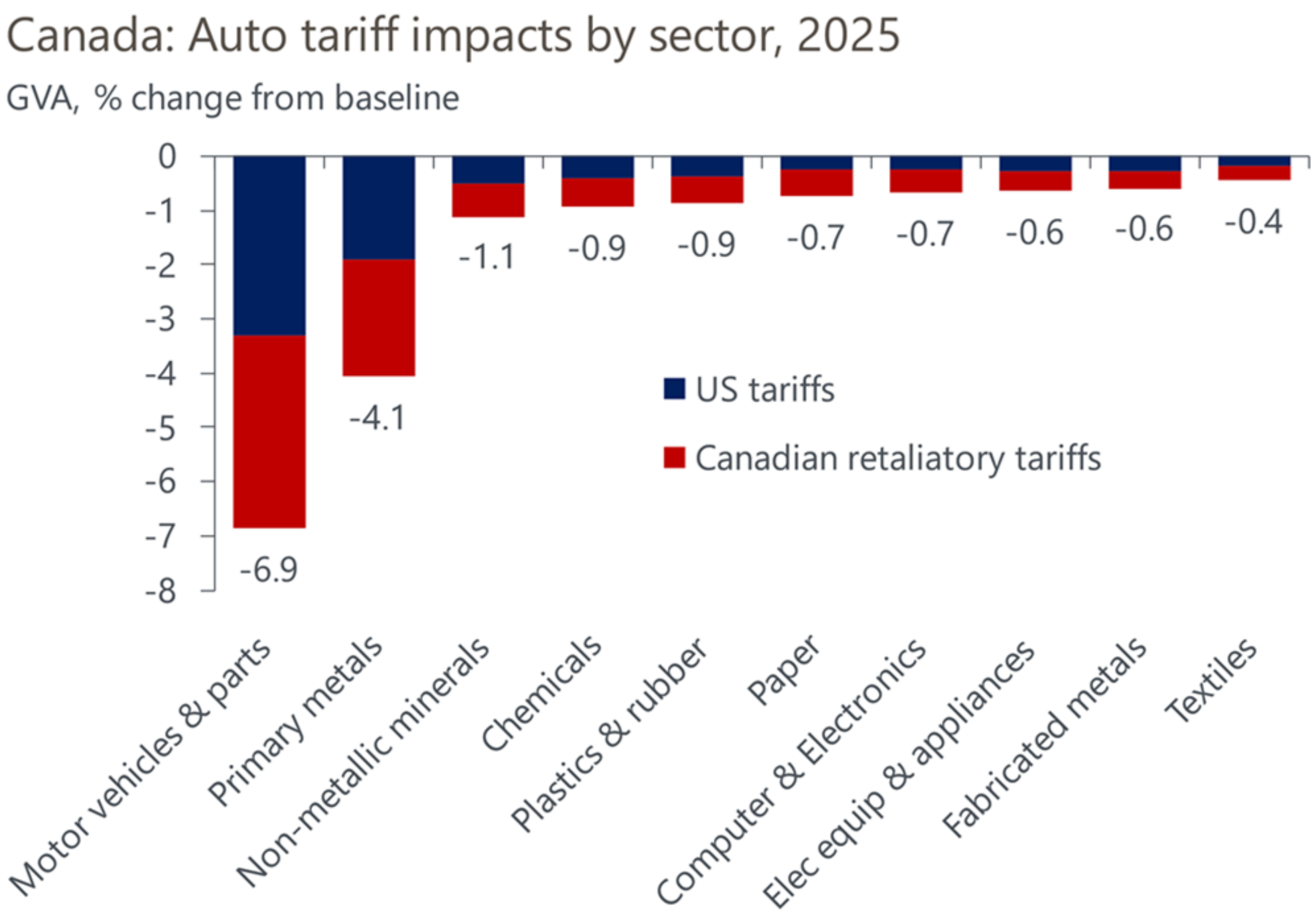
Steel & aluminum tariffs hit Ontario & Quebec most, and impacts will persist, unless the tariffs are temporary as in 2018-19



Source: Oxford Economics/Haver Analytics

Source: Oxford Economics/Haver Analytics

US auto tariffs would slam Canada's motor vehicle & metal industries

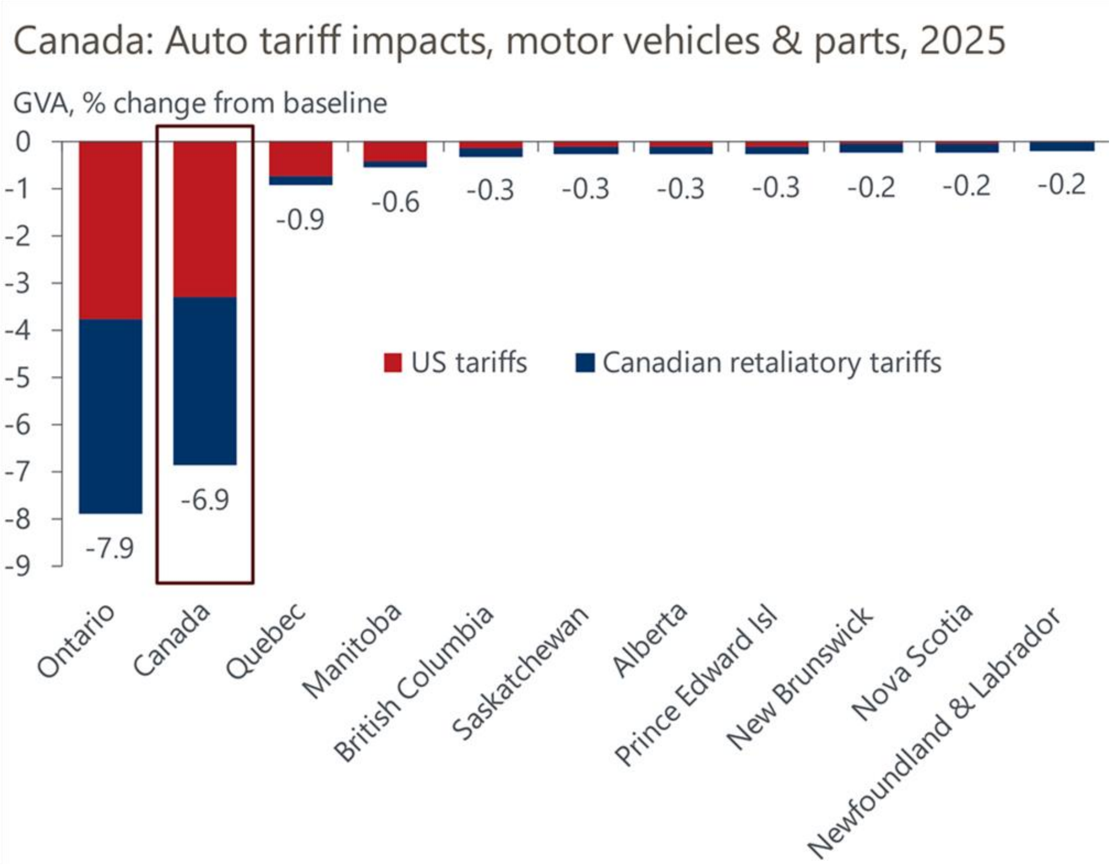


Source: Oxford Economics/Haver Analytics

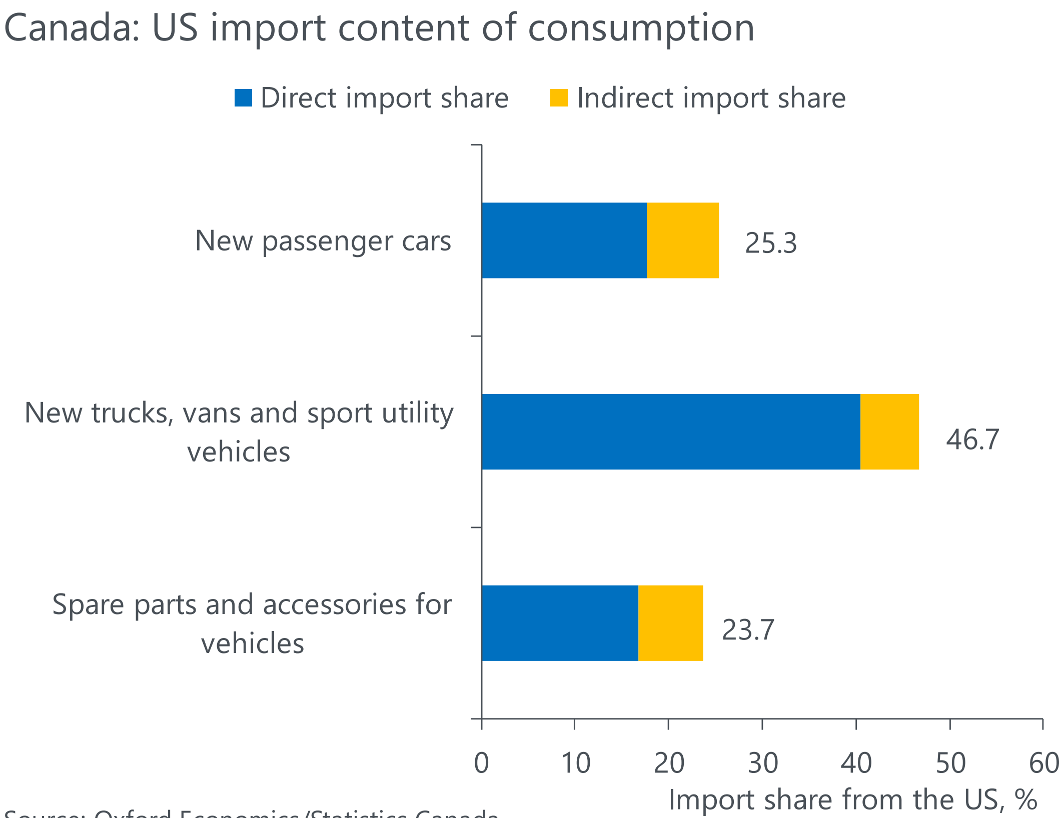
Key takeaways

- 25% tariffs on the non-US content in auto & parts imports reduce Canada's motor vehicle production by 3.3% this year. The impact doubles if Canada retaliates in kind. This raises new car prices in Canada by 5%-10%.
- For each week tariffs shut down North America's motor vehicle production, Canada's auto & parts industry would lose C$330mn, or 2%, in production.
- Latest: Automakers that continue manufacturing in Canada will now be allowed to import USMCA-compliant vehicles free of tariffs. The US will also now exempt auto parts from tariffs on auto imports.

Ontario is hardest hit by US auto tariffs, but the broader economy also suffers…new motor vehicle prices would rise 5%-10%



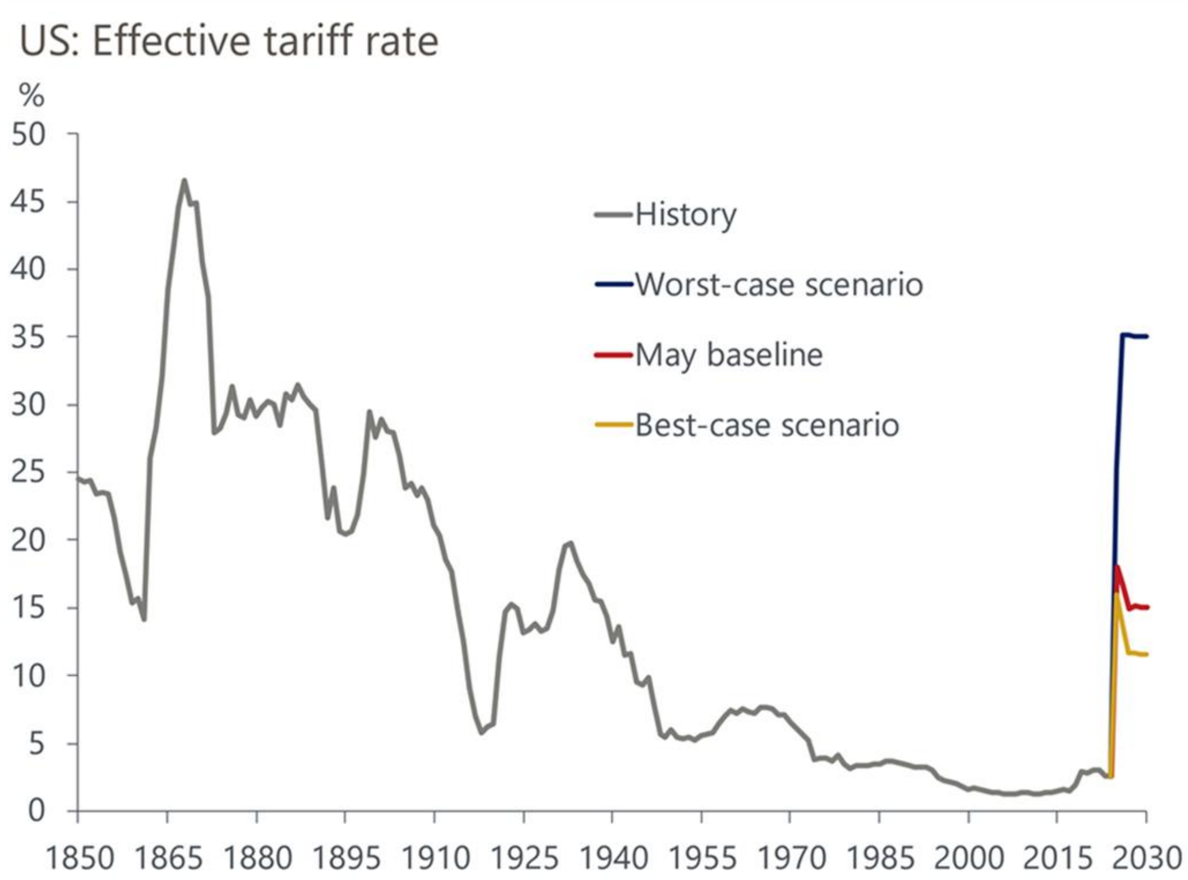
Source: Oxford Economics/Haver Analytics



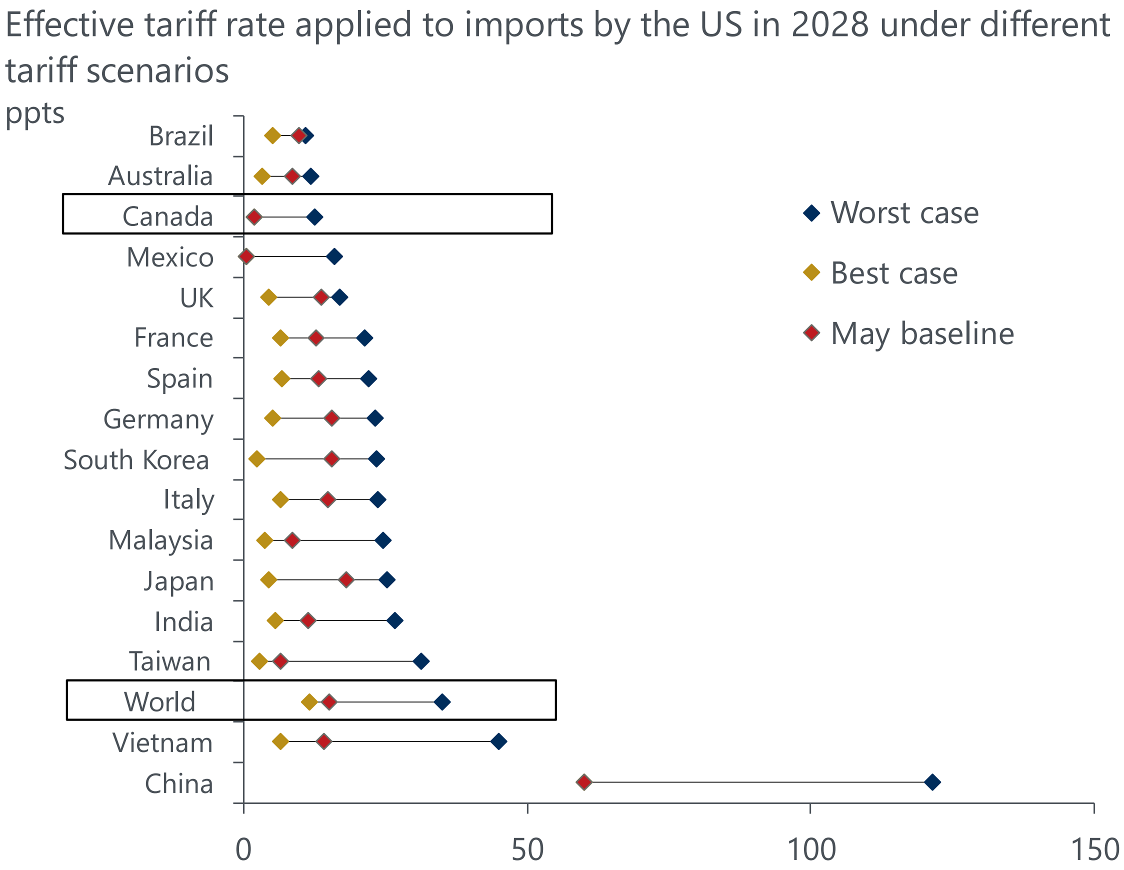
Source: Oxford Economics/Statistics Canada

Trade war scenarios

Asian economies risk larger potential US tariff hikes



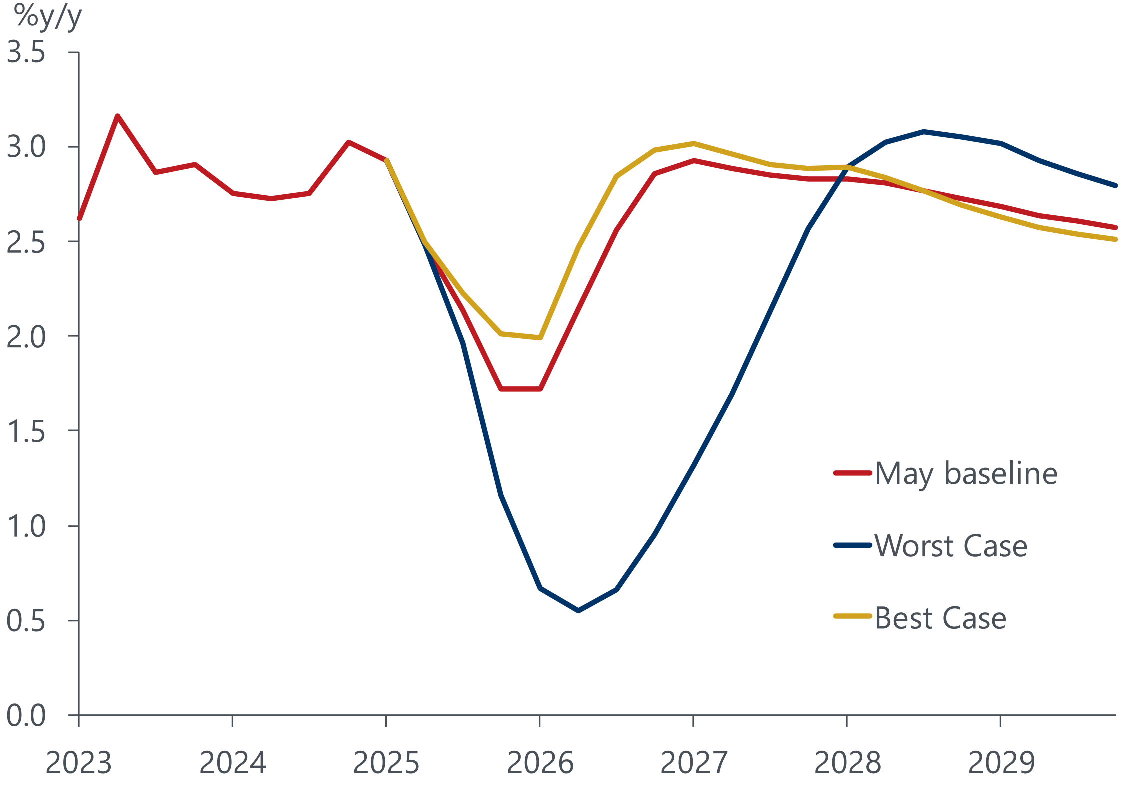
Source: Oxford Economics



Source: Oxford Economics

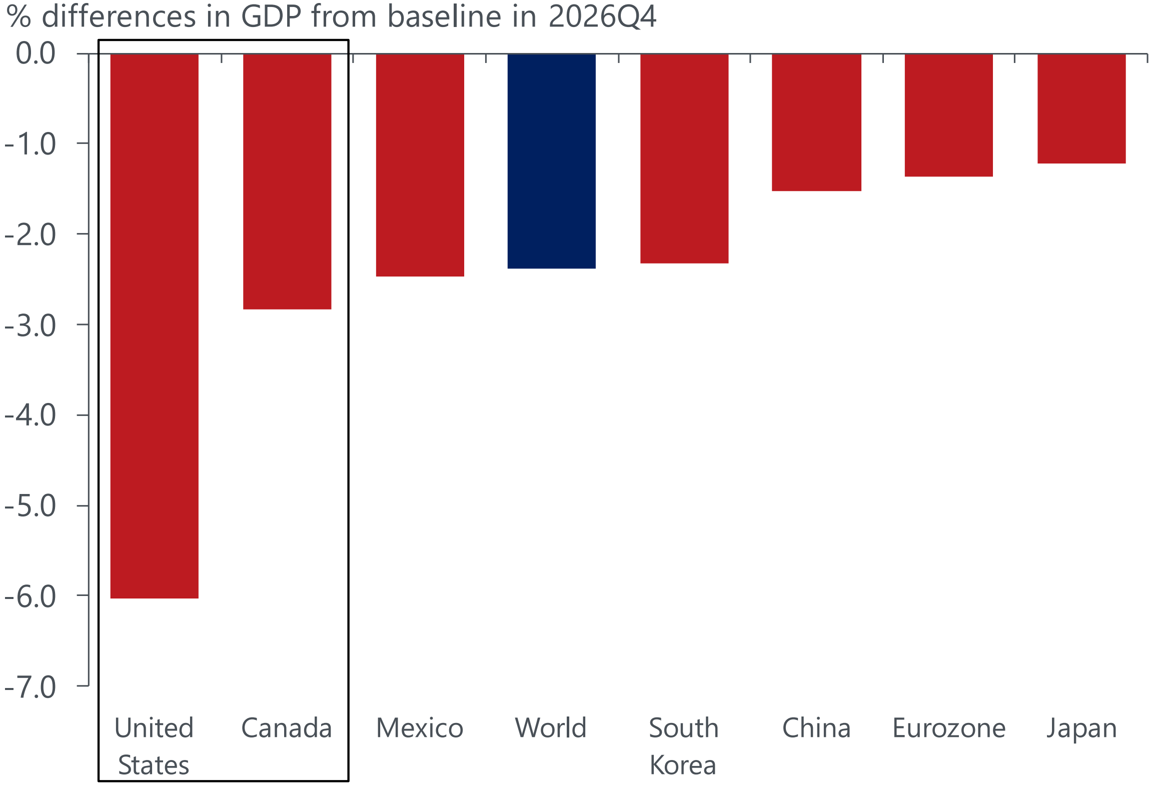
Worst-case scenario would push world economy close to recession

World: GDP growth under different scenarios



Source: Oxford Economics/Haver Analytics

GDP impacts under the worst-case scenario

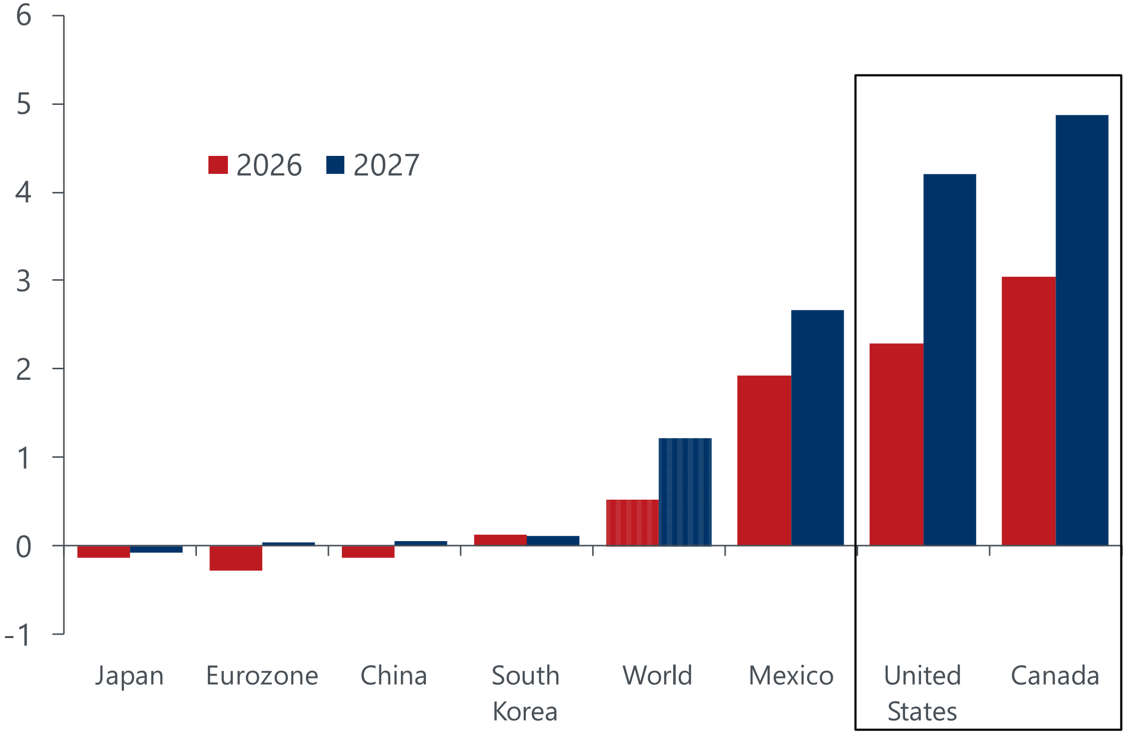


Source: Oxford Economics

Inflation impacts outside North America are small, but tariffs are a headache for USMCA countries' central banks

World: CPI

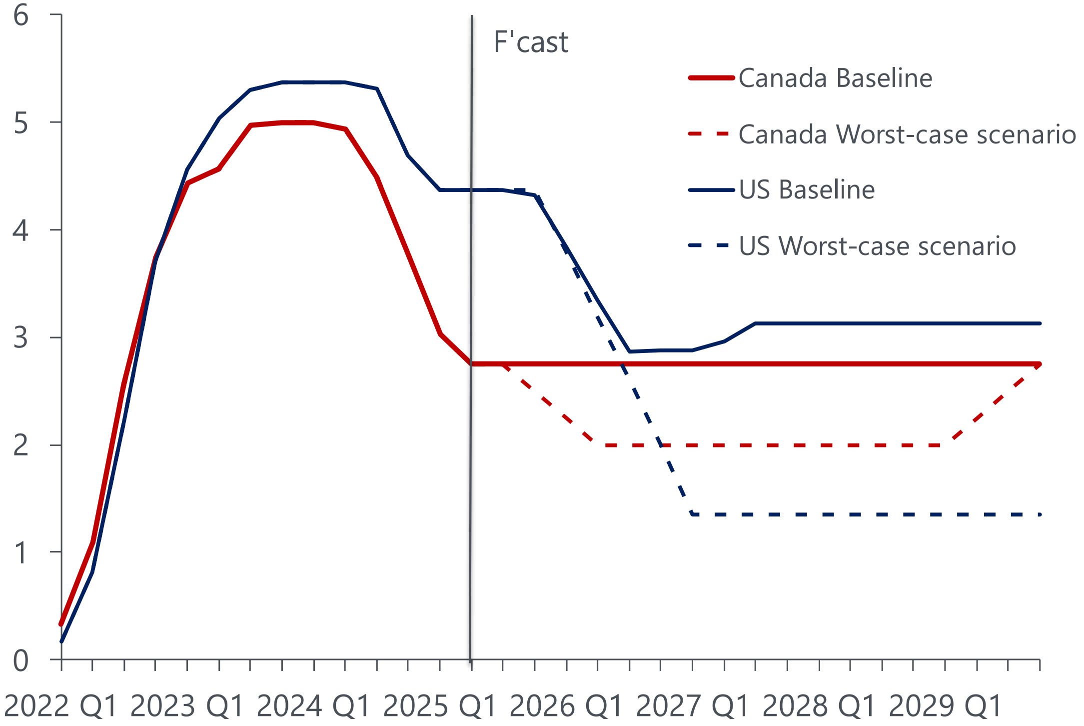
%y/y, ppt deviation from baseline, worst-case scenario



Source: Oxford Economics

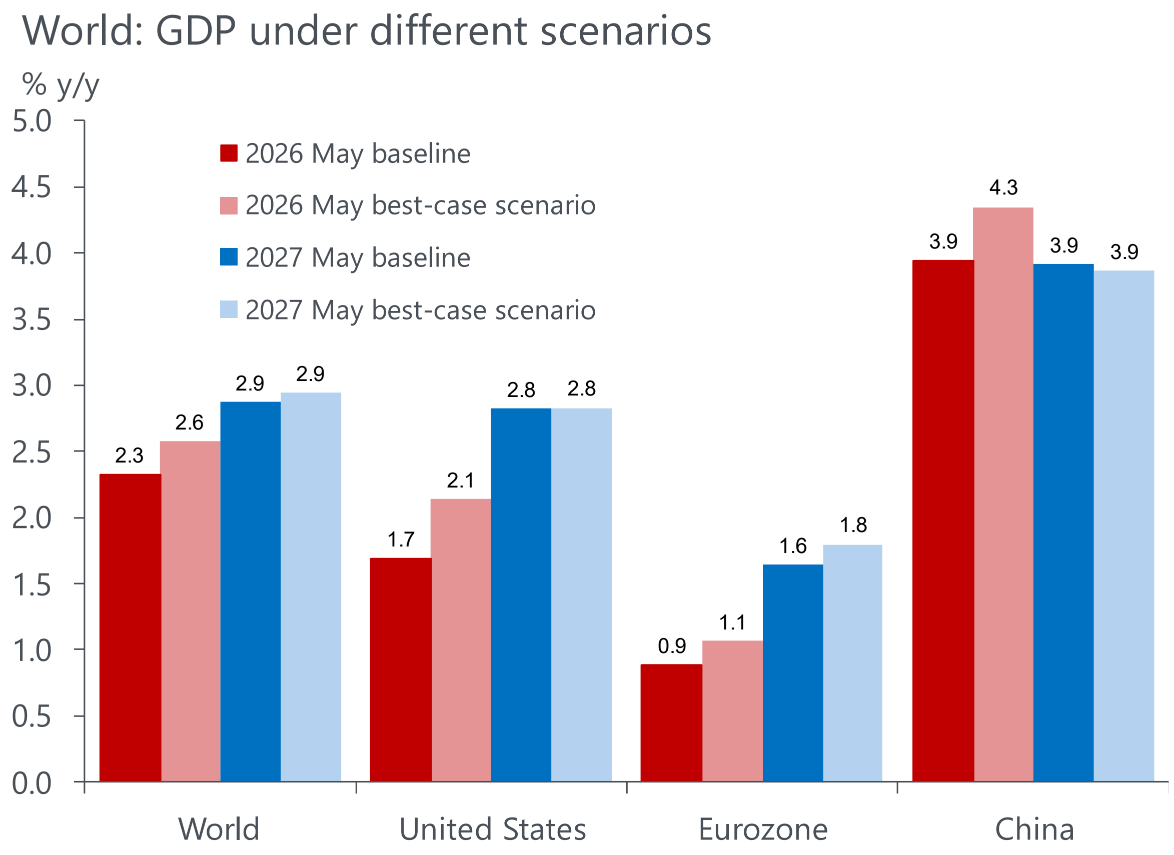
North America: Central bank policy rates

%

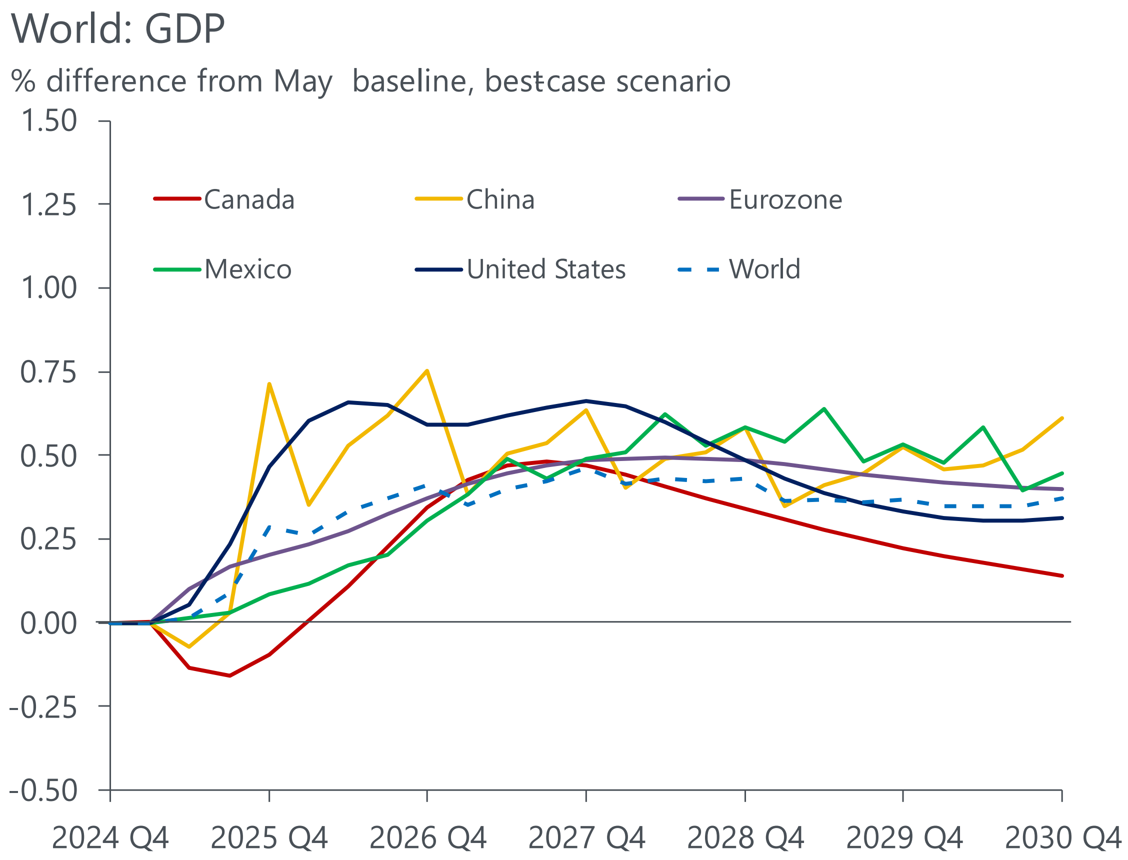


Source: Oxford Economics/Haver Analytics

The US and China benefit from a large short-term boost from easing its tariff policy in best-case scenario

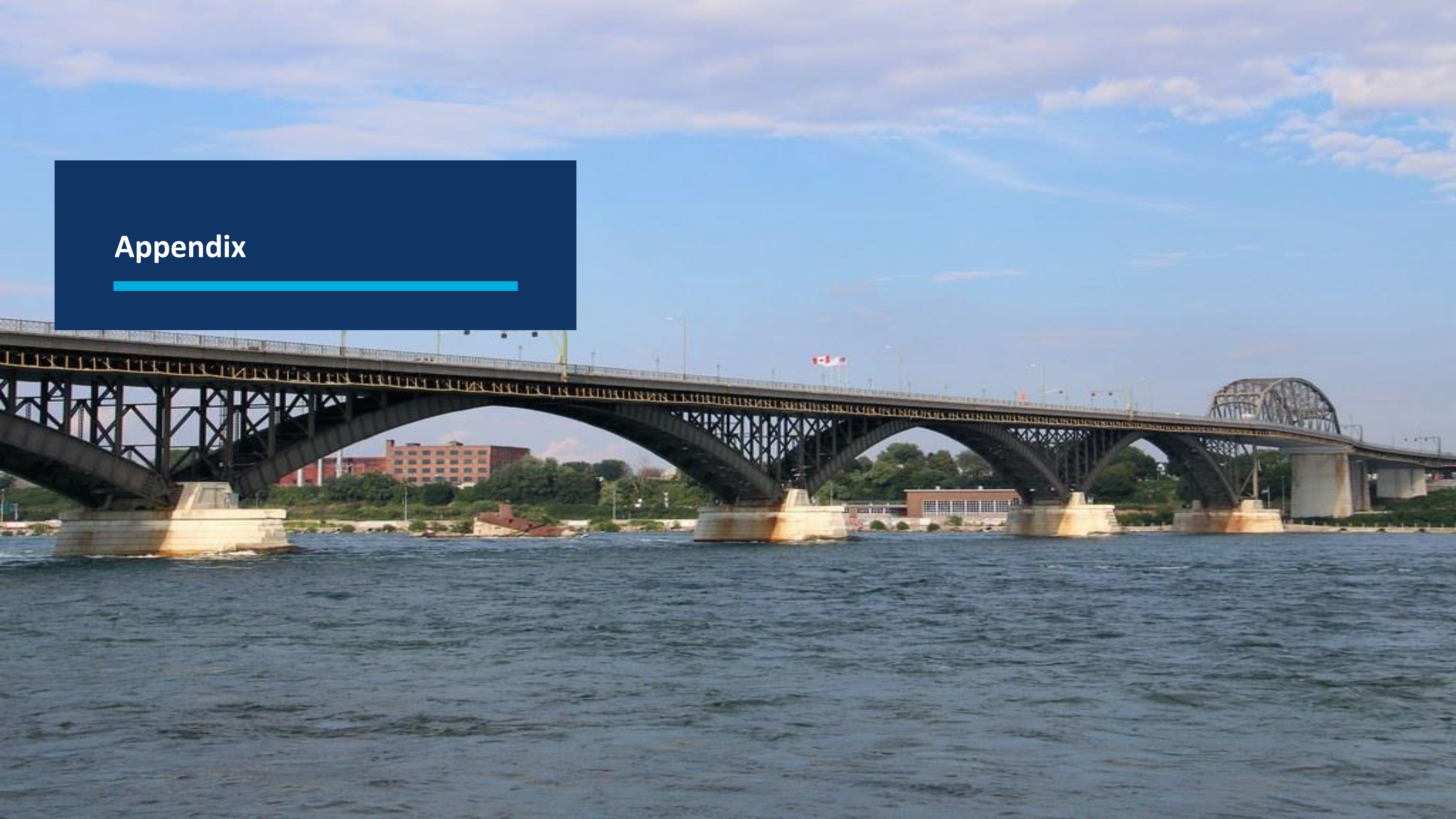


Source: Oxford Economics



Source: Oxford Economics

Appendix



United States baseline macro forecast – May 2025

Forecast for United States (Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
GDP	2.5	2.9	2.8	1.3	1.7	2.8
Private consumption	3.0	2.5	2.8	2.0	1.2	2.3
Fixed investment	2.0	3.2	4.3	0.9	1.7	4.2
Government consumption	-1.1	2.9	2.5	1.3	1.1	1.3
Exports of goods and services	7.5	2.8	3.3	-0.4	-1.7	2.8
Imports of goods and services	8.6	-1.2	5.3	2.3	-9.0	4.1
Industrial production	3.4	0.2	-0.3	-0.7	-1.5	2.2
Consumer price index	8.0	4.1	3.0	3.0	2.8	2.2
PCE deflator	6.6	3.8	2.5	2.8	2.7	2.0
Unemployment rate (%)	3.6	3.6	4.0	4.3	4.6	4.1
Current a/c balance (% of GDP)	-3.9	-3.3	-3.9	-4.0	-2.7	-2.7
Government balance (% of GDP)	-5.3	-6.1	-6.3	-6.2	-6.1	-6.5
Central bank policy rate (%, EOP)	4.38	5.38	4.38	4.12	2.88	3.13
10yr govt. bond yield (%, EOP)	3.88	3.88	4.58	4.12	4.00	4.07
Exchange rate (Yen per US$, EOP)	132.65	141.91	156.65	150.14	146.30	141.48
Exchange rate (US$ per euro, EOP)	1.07	1.11	1.04	1.13	1.13	1.13

Source: Oxford Economics/Haver Analytics

Canada baseline macro forecast – May 2025

Forecast for Canada (Annual percentage changes unless specified)						
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
GDP	4.2	1.5	1.5	0.9	0.3	2.7
Private consumption	5.5	1.9	2.4	1.9	0.5	1.8
Fixed investment	-1.2	-1.6	0.1	0.9	1.3	6.6
Government consumption	3.2	2.2	3.2	2.0	1.7	0.3
Exports of goods and services	4.2	5.0	0.6	-1.0	-3.8	3.8
Imports of goods and services	7.5	0.3	0.6	-0.4	-1.2	3.5
Industrial production	3.8	-0.1	-0.2	-0.9	-2.4	2.9
Consumer prices	6.8	3.9	2.4	2.2	2.6	2.0
Unemployment rate (%)	5.3	5.4	6.4	7.2	6.7	6.3
Current a/c balance (% of GDP)	-0.3	-0.6	-0.5	-1.1	-2.0	-1.7
Government balance (% of GDP)	0.9	0.5	-1.4	-2.3	-3.8	-3.7
Central bank policy rate (%, EOP)	4.25	5.00	3.25	2.75	2.75	2.75
10yr govt. bond yield (%, EOP)	3.30	3.10	3.23	3.29	3.57	3.71
Exchange Rate (Per US$)	1.35	1.32	1.44	1.40	1.38	1.36
Exchange Rate (Yen per Can $)	97.94	107.30	108.87	107.22	105.95	104.13

Source: Oxford Economics/Haver Analytics

Trump executive actions declared a "national emergency" under IEEPA to impose tariffs and bypass Congressional approval

International Emergency Economic Powers Act (IEEPA)

- Existing legislation, active since the 1970s
- Empowers the President to declare a national emergency and take steps in response, in many cases used for sanctions.
- There is no specific definition of "national emergency"
- It has not been used previously to impose tariffs
- It allows immediate action, e.g. tariffs could be implemented without an investigation
- Prior Presidents have invoked IEEPA in 69 declarations of emergency; most are still active; average length is nine+ years
- However, requires significant Congressional oversight and reporting
- Congress can terminate the emergency against the President's will, but only with 2/3 majority; this has never happened before
- Trump threatened to use it against Mexico in 2019, but did not

- The US president has other options to impose tariffs without Congressional approval, but most require months for a Department of Commerce investigation.
- **Section 232:** President finds a threat to national security; Department of Commerce must conduct an investigation
- **Section 201:** USITC does an investigation and must submit a finding
- **Section 301:** USTR investigates unfair foreign practices; can cover a wide range of products
- **Section 338 (of Tariff Act):** President can impose new tariffs up to 50% on countries that have discriminated against US products; can also be applied to third countries that benefit from the conduct. Can be done quickly.
- **Section 122 (Trade Act, 1974):** President has right to address large and serious balance of payments deficits via temporary import surcharges of up to 15% and import quotas. Can be done quickly, but only for a maximum of 150 days.

Our baseline tariff assumptions – May 2025

Tariff assumptions in our baseline		
Tariffed countries	**US tariffs**	**Retaliation measures**
US / China	In addition to the 20% blanket tariffs on products imported from China imposed during February (10%) and March (10%), additional reciprocal tariffs of 125% were imposed in April. In our May baseline, we have included all the exemptions on these reciprocal tariffs to date and estimate the effective tariff rate will be around 90% for the remainder of 2025. We assume the US will lower its tariff rate on China at the start of 2026 to 60%, which would be in line with Trump's presidential campaign pledge.	China has retaliated proportionately since the US began imposing reciprocal tariffs, raising tariffs on US goods by 125% in April. We estimate the effective tariff rate applied to imports from the US will be around 144% for the remainder of this year. In response to an anticipated lowering of US tariffs next year, we expect China will wind down its tariffs on the US too, bringing the effective rate down to around 60%.
US / Canada	Tariffs of 25% on steel and aluminium, 25% on the non-US content of USMCA-compliant autos, 10% on non-USMCA-compliant energy and potash, and 25% on all other non-USMCA-compliant products. Most tariffs are assumed to be removed by Q3 2026 as the USMCA is renegotiated, but smaller 10% targeted tariffs remain in place permanently for metals and select agricultural products.	As of March 4, 25% tariffs on C$30bn of US goods imports. As of March 13, 25% tariffs on an additional C$29.8bn of US goods imports (this includes steel, aluminium, and other products). As of April 17, 97% of the C$59.8bn in counter tariffs are paused for six months before being reinstated. Most tariffs are assumed to be removed by Q3 2026 as the USMCA is renegotiated, but smaller 10% targeted tariffs remain in place permanently for metals and select agricultural products.
US / Mexico	Mexico is assumed to face US tariffs of 25% on non-USMCA goods, steel and aluminium, and the non-US content of autos, bringing our estimate of the average tariff rate on Mexico to around 16%. Moreover, these tariff hikes are assumed to be largely reversed in mid-2026 when a new USMCA trade deal is agreed.	Mexico does not retaliate and instead concedes to US demands on border security, hoping to secure a reduction in the current 25% tariff on non-USMCA-compliant exports.
US / Rest of World	Tariffs of 10% have been imposed on the rest of the world; however, universal tariffs on certain products – such as 25% on autos, steel, and aluminium – as well as exemptions on others, mean that effective tariff rates have increased by varying amounts across individual economies. These tariffs are expected to remain in place for the duration of our forecast period.	We assume most countries will not retaliate. However, we expect the EU will respond with targeted tariffs for an equivalent amount of 10% if any negotiations with Trump during this 90-day pause are unsuccessful.

Source: Oxford Economics

Questions?

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