

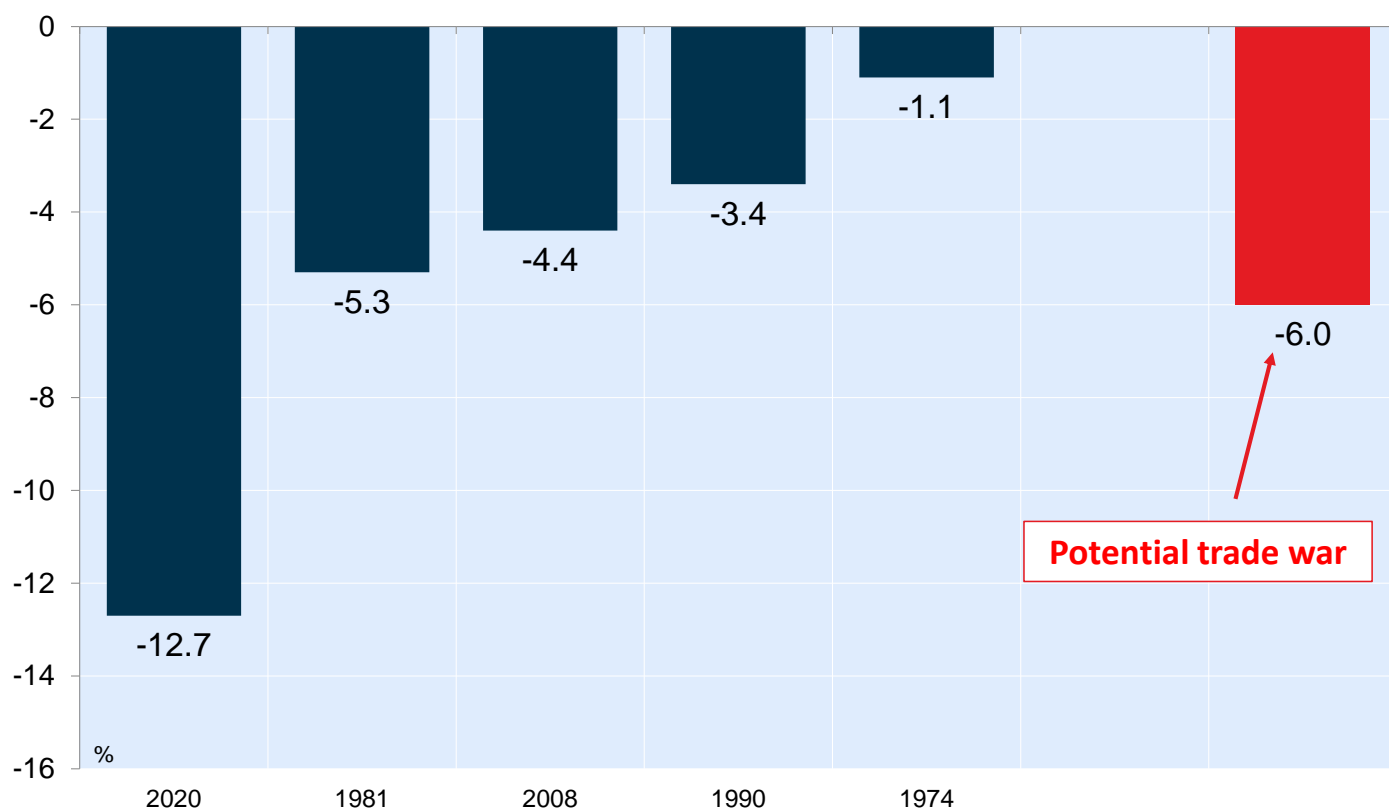
## Canada Watch

By **Matthieu Arseneau** and **Stéfane Marion**

At his most recent press conference regarding Canada's latest interest rate decision, Tiff Macklem was asked about the potential economic impact of tariffs on our country. He referred to the analysis conducted by the Bank of Canada in its July 2019 Monetary Policy Report ([MPR](#)). Notably, in that MPR, the BoC simulated the effects of a 25% tariff imposed by the U.S. on all trading partners, with reciprocal retaliation from those partners. This scenario closely aligns with the figures currently being used by President-elect Trump. The BoC's estimates paint a grim picture for Canada: exports and investment would take a significant hit, while consumption would weaken due to deteriorating labour market conditions and adverse terms of trade. As today's Hot Chart shows, the projected GDP hit, estimated at a staggering 6%, would exceed that of any previous recession, barring the temporary setback at the onset of the COVID-19 pandemic. The U.S. would also face challenges, contending with stagflationary pressures marked by sluggish economic growth paired with rising inflation. Given these dire projections, the recent surge in U.S. term premia—reflected in a 100 basis point rise in 10-year U.S. Treasury yields, which is already creating headwinds for equity markets—should serve as a cautionary signal. One can only hope it acts as a warning to Mr. Trump about the significant negative consequences his aggressive protectionist agenda could impose on corporate America and the broader economy.

### Canada: BoC warns of major GDP hit from trade war

GDP pullback during recessions and drop expected by the BoC if 25% generalized tariffs are imposed



NBC Economics and Strategy (data via Refinitiv and BoC estimate, [link](#))



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