Market View
Economics and Strategy

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

March 27, 2025 - (Vol. IX, No. 23)

Automobile upheaval

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'Liberation Day' apparently came early as Wednesday saw new 25% tariffs announced on U.S. auto imports beginning April 3rd. This, of course, is in addition to tariffs already in place (steel, aluminum, non-USMCA compliant goods, etc.) and those still to come (reciprocal tariffs due on April 2nd, among others). For automakers, the impact is clearly reflected in stock prices, American or otherwise, which are firmly in the red. For the broader economy, the impacts will likewise be felt as we explore here, taking a distinctly Canadian perspective.

First, the details on new trade levies are still somewhat hazy. Trump's **executive order** makes clear that tariffs will apply to finished autos next week while auto parts are to be hit in May. Parts qualifying under USMCA will be temporarily exempt until a process can be established to apply duties to only non-US components. It's not clear what this timeline will be. As always, the permanence of tariffs is also unclear. **There's already been reporting** that suggests Canada's hit will be at least somewhat mitigated. The coming days may provide some clarity.

Based on the executive order as published/as we understand it, who's most exposed? Mexico represents, by far, the largest source of U.S. vehicle and parts imports. Canada, Japan and South Korea are in the next tier with Germany and China following. Note that if it were only finished vehicles at risk, Canada's exposure would lessen as parts represent a third of U.S. auto imports from its northern neighbour (and an even larger share of total Canadian auto manufacturing).

Trade in autos is an important part of the Canadian economy, comprising ~2% of GDP in 2024 (and 11.3% of U.S.-bound exports) Looking on the bright side of a grim situation, Canada's exposure to the auto sector has moderated over recent decades as exports diversified. In other words, the fallout might not be as bad as it would've been twenty years ago. Regionally, Ontario's economy is the most at risk. Auto exports to the U.S. represent 6.5% of GDP versus just 0.5% for the rest of Canada. For the previously healing labour market, these tariffs leave ~125 thousand jobs directly exposed (again, most of which reside in Ontario). There are also many more jobs at stake from a sustained trade war, as BoC, StatCan and our own analysis has shown.

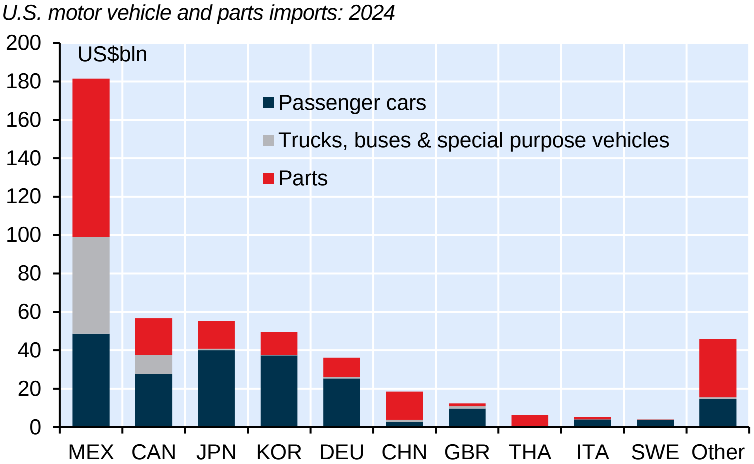
When it comes to retaliation, Canada does have some leverage. You'd never know it listening to Trump on Canada-US trade inequities, but Canada imports as many autos (and components) from the U.S. as vice versa. While Canadian demand is only a fraction of U.S. production, Ottawa could go dollar-for-dollar here, inflicting at least *some* pain.

Big picture, if tariffs were contained *just* to the auto sector, the impact—while painful—might be manageable. Of course, this is not the reality of the situation as these levies are just the latest chapter in a barrage of protectionist U.S. trade action, which touch nearly every corner of Canada's economy (directly or indirectly). Even before these were announced, uncertainty stemming from the White House was already having tangible effects, most evident in **consumer** and **business** sentiment. While a lot of *hard* data has yet to be materially impacted, housing market activity (particularly in Ontario) has collapsed, and prospective home buyers are likely to remain paralyzed. Canadian GDP growth expectations have already been marked down and its safe to expect that process to continue. That's certainly what we'll be doing.

When it comes to addressing the potential fallout, fiscal policy will be at the forefront. Fittingly, just yesterday, PM Mark Carney pledged a $2 billion "strategic response fund" to protect the auto industry. While helpful, this is unlikely to be sufficient to fully cushion the blow if tariffs go through as advertised. Tariff-related supports mean more spending and more debt for a country with no shortage of other budgetary pressure points. Add on the costly tax relief being offered on the campaign trail and you have yourself the perfect conditions for a growing budget deficit in 2025-26.

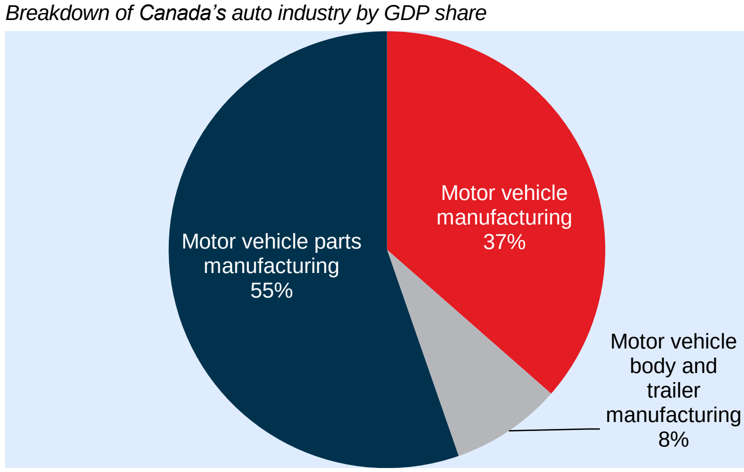
Monetary policy *can* play a role too, but an inflation-targeting central bank can't only worry about demand when tariffs are accompanied by inflation risks. Governor Macklem has said that given pervasive uncertainty, they can't be forward looking until the outlook becomes clearer. Thus, hotter CPI in February and elevated inflation risks may keep the Bank sidelined at their April decision. But as softening sentiment turns into real, tangible economic pain, it will be harder for the BoC to sit on its hands. Assuming inflation stays *reasonably* well behaved, the Bank could come off the sidelines as soon as June.

Chart 1: Mexico is the biggest foreign supplier of autos, parts
U.S. motor vehicle and parts imports: 2024



Source: NBC, Bloomberg, U.S. Census Bureau

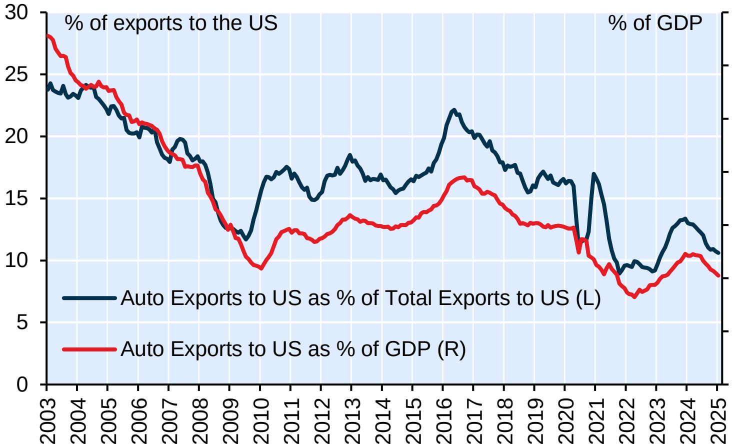
Chart 2: A closer look at the Canadian auto industry
Breakdown of Canada's auto industry by GDP share



Source: NBC, StatCan

Chart 3: Canada's auto exposure significant, but shrunken

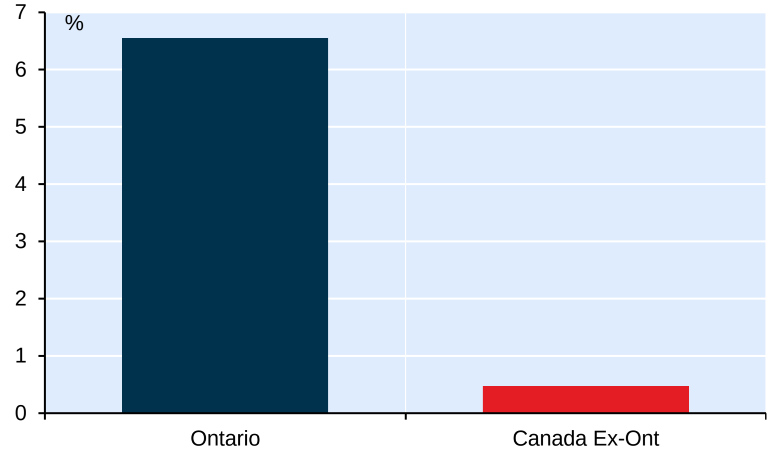
U.S.-bound auto exports as a share of GDP and total U.S.-bound exports



Source: NBC, Bloomberg, StatCan | Note: 'Autos' is sum of vehicle and parts manufacturing. Auto export share is based on a 6M smoothed figure, while GDP share is 12M trailing sum.

Chart 4: Ontario is disproportionately exposed to auto trade

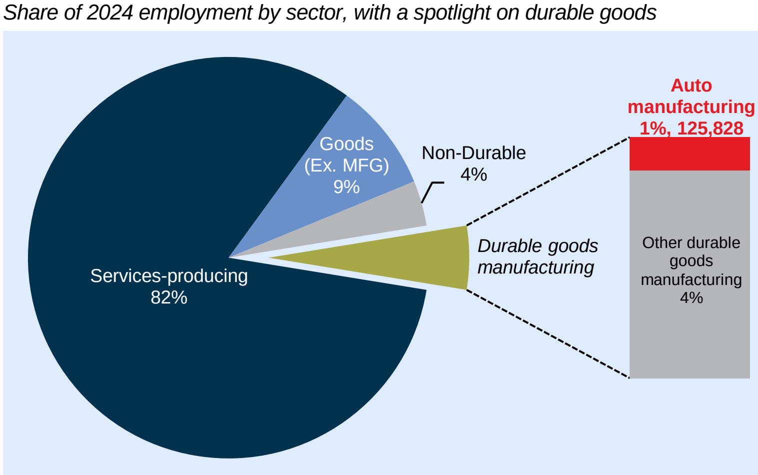
Motor vehicles & parts exports as a share of provincial GDP



Source: NBC, StatCan

Chart 5: Quantifying *direct* auto employment exposure

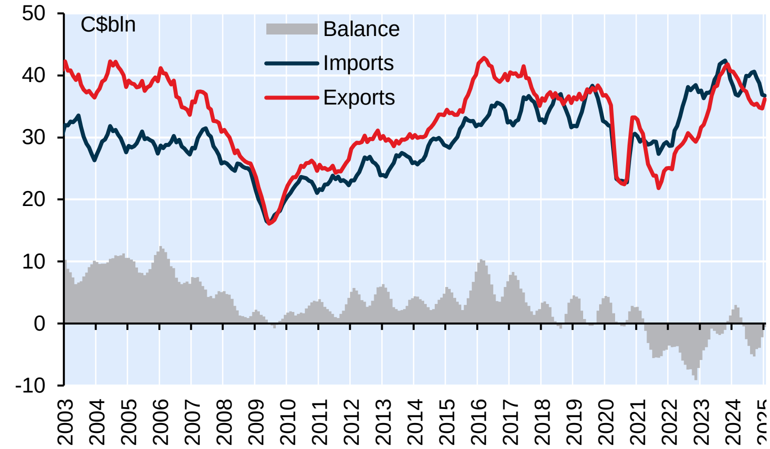
Share of 2024 employment by sector, with a spotlight on durable goods



Source: NBC, StatCan | Note: Breaks down industry aggregate ex. unclassified businesses

Chart 6: Canada-US auto trade is evenly balanced

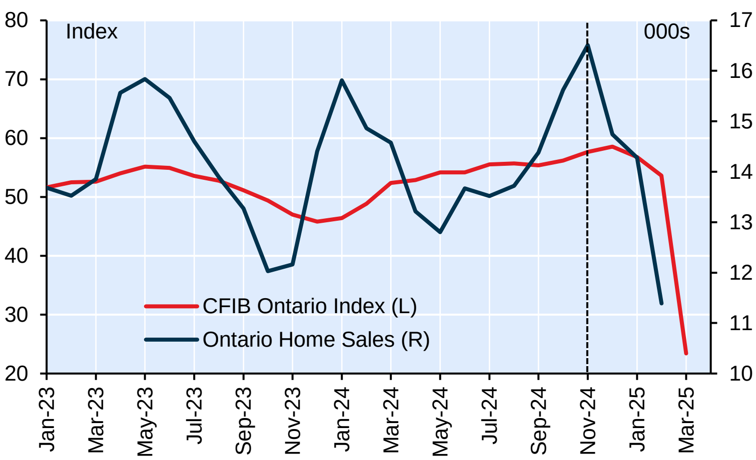
Canada motor vehicles & parts trade with the US (6M rolling sum)



Source: NBC, StatCan | Note: 'Motor vehicles and parts manufacturing [336Y]'

Chart 7: Ontario firms, households paralyzed by uncertainty

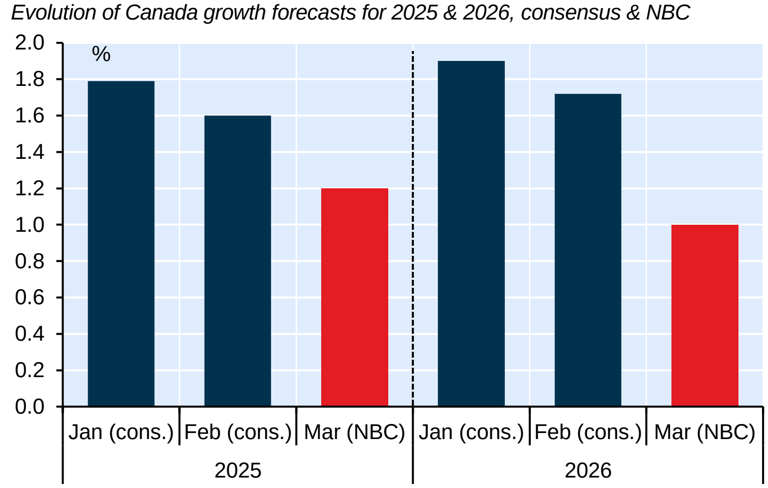
Ontario home sales and CFIB small business confidence indicator



Source: NBC, CFIB, CREA | Note: CFIB is longer-term (12M forward) index

Chart 8: Canada's growth outlook being cut (with more to come)

Evolution of Canada growth forecasts for 2025 & 2026, consensus & NBC



Source: NBC, Bloomberg | Note: "cons." refers to Bloomberg consensus forecast from monthly Canadian economic survey. NBC forecast as of 24-Mar-2025

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