ECONOMIC VIEWPOINT

Tariffs and Counter-Tariffs: Industries Caught Between a Rock and a Hard Place

By Florence Jean-Jacobs, Principal Economist

With the US administration blowing hot and cold since President Trump was sworn in, Canadian businesses are dealing with a high level of uncertainty. Tariffs are implemented and then put on hold (the list of tariffs is changing by the day) while adjusting to Canadian responses. In this Economic Viewpoint, we explore the anticipated sectoral impacts of announced Canadian counter-tariffs, which come on top of the impact of US tariffs. While the US tariff shock will have the biggest impact on the Canadian economy, we shouldn't overlook the negative repercussions that counter-tariffs and a weaker Canadian dollar will have on businesses sourcing from the United States. Some industries are caught between a rock and a hard place, risking a drop in US demand for their products and an increase in their supply costs if substitutes are not easily found. This is the case for food manufacturing, machinery, plastics, chemicals, automotives, aerospace, wholesale trade, and animal and crop production (summary table[1]).

Summary Table
Industries Doubly Affected in Canada

	INDUSTRIES (NAICS CODES)	DIRECT EXPORTS TO THE US, $B*	IMPORTS (INPUTS) FROM THE US, $B*	TARIFFS	CURRENCY	COUNTER-TARIFFS
1	Wholesale trade (41)	28.7	99.6**	🟡	🟡	🟡
2	Animal production (112)	2.8	3.5	🟡	🟡	🟡
3	Automobile manufacturing (3361, 3362, 3363)	55.1	23.9	🔴	⚪	🟡
4	Food manufacturing (311)	35.4	12.4	🔴	⚪	🟡
5	Chemical manufacturing (325)	30.6	11.2	🔴	⚪	🟡
6	Machinery manufacturing (333)	20.1	9.2	🔴	⚪	🟡
7	Plastic product manufacturing (3261)	10.5	7.0	🔴	⚪	🟡
8	Aerospace manufacturing (3364)	10.2	4.3	🔴	⚪	🟡
9	Truck transportation (484)	14.1	4.7	🟡	⚪	🟡
10	Crop production (111)	7.5	6.1	🟡	⚪	🟡

* Estimated based on input-output tables (2022); ** Wholesale and retail trade (consumer spending, imported content from the US).
Legend: 🔴 : very negative effect 🟡 : to watch ⚪ : positive effect (exports) and negative effect (imports). Net effect varies by company.
Statistics Canada and Desjardins Economic Studies

[1] For the purposes of the sector analysis, we have assumed that the tariffs announced on March 4, which already apply to 62% of Canadian exports to the United States, will be expanded to all goods in April. This will include motor vehicles and other products that are compliant with the Canada–United States–Mexico Agreement (CUSMA) (for which tariffs are currently postponed).

Wholesale and Retail Trade, Construction and Food Services Are More Exposed to Retaliatory Tariffs

As discussed in our previous analysis, the manufacturing sector is the most vulnerable to the US administration's tariffs, in contrast to other industries with less exposure. However, some sectors that are considered "resilient" to US tariffs may face higher costs as a result of Canada's retaliatory tariffs. This is the case for construction, retail and food services. Table 1 illustrates which industries are most exposed to the first list of counter-tariffs, which will affect $30 billion of imported goods. A second list, on goods worth $125 billion, could come into effect in early April

Table 1
Counter-Tariff Exposure – $30B List

	MAJOR INDUSTRIES EXPOSED, $30B LIST	EXAMPLES OF TARIFFED PRODUCTS
1	**Wholesalers and Retailers** (NAICS 41, 44, 45) *– indirect exposure*	• Clothing, fabrics, accessories, and shoes • Food products and alcoholic beverages • Personal care items • Furniture and furnishings • Large household appliances • Non-durable household products • Sports and outdoor items
2	**Construction** (NAICS 23)	• Ventilation/heating appliances • Furniture, wood, plastics, metal
3	**Food services and drinking places** (NAICS 722)	• Food and beverages, plastics and papers (packaging)
4	**Machinery manufacturing** (NAICS 333)	• Various machines and machine tools
5	**Animal production** (NAICS 112)	• Grains, milling, feed
6	**Building and dwelling services** (NAICS 5617)	• Soaps, cleaning products, toiletries • Tools, machinery, electrical components
7	**Oil and gas extraction** (NAICS 211)	• Machinery
8	**Motor vehicle manufacturing** (NAICS 3361)	• Seats and interior trims, hardware items • Heating, ventilation and AC devices, plastics, tires
9	**Plastic product manufacturing** (NAICS 3261)	• Chemical and plastic products
10	**Converted paper product manufacturing** (NAICS 3222)	• Pulp, paper, cardboard

Statistics Canada, Ministry of Finance of Canada and Desjardins Economic Studies after a 21-day consultation period (table 2).[2] In the meantime, companies will be able to voice their concern if tariffs on certain items cause them harm. Several consumer products are included in the preliminary $125 billion list, including motor vehicles, everyday consumer products (sanitary products, clothing and tools), and a variety of foods such as beef, pork, some fruits and vegetables (fresh and canned), and dairy products. It also includes production inputs, such as steel and aluminum products, aerospace products, and mechanical parts used in automobile assembly (engines, chassis and transmissions). We can therefore expect consumers to pay higher prices for cars and parts imported from the United States and for food purchases that are hard to replace with Canadian or overseas products at equivalent cost.

Table 2
Counter-Tariff Exposure – $125B List

	MAJOR INDUSTRIES EXPOSED, $125B LIST*	EXAMPLES OF TARIFFED PRODUCTS*
1	**Wholesalers and Retailers** (NAICS 41, 44, 45) *– indirect exposure*	• Cars, SUVs, pickup trucks, trucks, and auto parts • Products listed in Table 1
2	**Construction** (NAICS 23)	• Ventilation/heating appliances • Furniture, wood, plastics, metal
3	**Motor vehicle manufacturing** (NAICS 3361)	• Parts and components for automobile manufacturing (chassis, engines, transmission, etc.), metal stamping of parts
4	**Production and processing of non-ferrous metals (except aluminum)** (NAICS 3314)	• Non-ferrous ores and metals (copper, nickel, lead, zinc)
5	**Crop production** (NAICS 111)	• Fertilizers, agricultural chemicals, seeds, tractors, agricultural machinery
6	**Plastic product manufacturing** (NAICS 3261)	• Resins, synthetic fibres and filaments, chemicals, plastics
7	**Food services and drinking places** (NAICS 722)	• Food and beverages, plastics and papers (packaging)
8	**Aerospace manufacturing** (NAICS 3364)	• Parts for aerospace products
9	**Animal production** (NAICS 112)	• Animal feed, grains, milling of grains and oilseeds, agricultural machinery
10	**Architectural and structural metal products manufacturing** (NAICS 3323)	• Iron and steel mills and ferro-alloy manufacturing

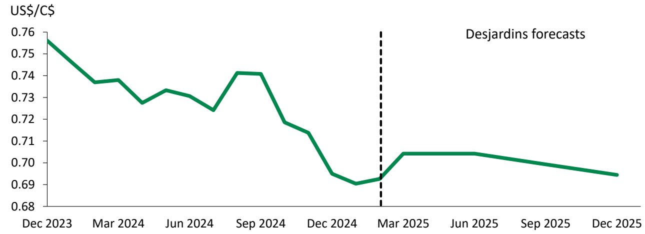
* The new elements (vs. $30 billion list) are highlighted in yellow.
Statistics Canada, Ministry of Finance of Canada and Desjardins Economic Studies

For companies sourcing products from the United States that are targeted by the counter-tariffs, the impact on operating costs could be significant. This will depend on their ability to easily find non-American substitutes at similar prices. While companies may be able to avoid the full cost of the tariffs, we can still expect to see lower profit margins, higher prices for consumers, or both. Whether profit margins or consumer prices are most affected will depend on the nature of the product and the companies' ability to set prices (pricing power).

Currency Effect: Inputs Will Be More Expensive Unless Substitutes Are Found

In addition to the effect of counter-tariffs, the depreciation of the Canadian dollar (graph 1) will raise procurement costs for businesses that import large volumes of US goods.

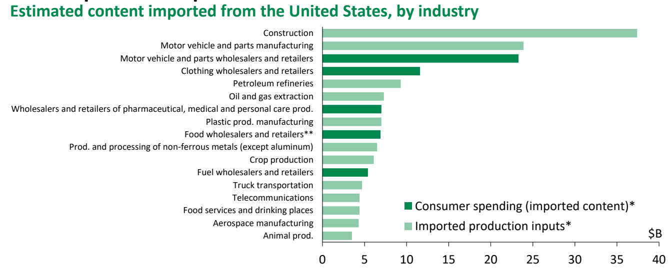
Graph 1
The Weaker Canadian Dollar Hurts Importers, but Softens the Tariff Shock for Exporters
Canada–US exchange rate



Estimates and forecasts: End-of-period values.
Bank of Canada and Desjardins Economic Studies

Graph 2 lists the sectors that are likely to be most affected by the weakness of the loonie, at least until substitutes are found for supplies from the United States. By estimating the value of goods imported from the United States by various Canadian industries, we see that construction, followed by automotive manufacturing, is most exposed to inputs from the United States. For the construction industry, some of the top imports from the United States include heating, ventilation and air conditioning (HVAC) devices, plastic products, furniture and cabinets, electrical components, and plumbing fixtures. Automobile merchant wholesalers and dealers are also indirectly exposed: Because imported cars will be more expensive, these businesses will have to front more cash and choose how much of the cost increase they'll absorb or pass on to end consumers. The same dilemma will also be faced by wholesalers and retailers of clothing, food and beverages, and pharmaceutical, medical and personal care products.

Graph 2
The Construction Industry, Followed by Auto Manufacturing, Is the Most Exposed to Imports from the United States
Estimated content imported from the United States, by industry



* Estimate (2022), inputs include capital goods; ** Excluding consumer spending on food services.
Statistics Canada and Desjardins Economic Studies

[2] On March 12, the federal government announced that counter-tariffs of 25% on goods worth $29.8 billion would come into effect at 12:01 a.m. on March 13. These goods were chosen from the second list of imports worth $125 billion and include steel products worth $12.6 billion, aluminum products worth $3.0 billion and other products worth $14.2 billion.

Businesses in other importing industries are vulnerable to cost increases due to currency depreciation, as key inputs for their products currently come from the United States:

- Oil refineries, especially in Eastern Canada, which import crude oil from the United States as an input (see Box).
- Oil and gas extracting companies, which require specialized machinery and equipment imported from the United States.
- Manufacturers of plastic products, which use imported resin, chemicals, and plastics.
- Non-ferrous metal processors (except aluminum), which import ores and primary metals.
- Farmers and ranchers, who import various inputs such as fertilizers, seeds, seedlings, animal feed and machinery.
- Trucking companies, which import heavy trucks and gasoline.
- Telecommunications companies, which import communications equipment.
- Aerospace manufacturers, which import parts for things like helicopters, drones, and turbojet and turboprop engines.

Companies could also face liquidity challenges, especially if they are also affected by both high costs and a decline in US demand. This is the case for machinery manufacturers, agri-food processors, wholesalers, livestock producers, and automotive, aerospace, plastic and chemical product manufacturers, to name a few. Cross-border transportation companies (e.g., trucking companies) and several other manufacturers face the same conditions. To give a few concrete examples, think of crop and livestock producers who pay more for their fertilizers, feed, and seeds while experiencing a decline in their sales to processors that export their products; food product manufacturers who import grains, fruits, and other raw commodities at higher costs but whose sales are falling due to American tariffs; plastic product manufacturers who import resin but export finished products to our neighbors to the south, etc. These industries are caught between a rock and a hard place (table 3).

Table 3
Industries Doubly Affected in Canada

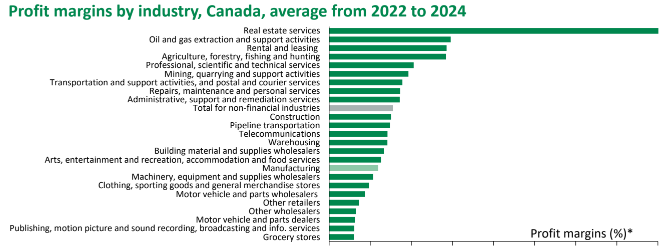
	INDUSTRIES (NAICS CODES)	DIRECT EXPORTS TO THE US, $B*	IMPORTS (INPUTS) FROM THE US, $B*	TARIFFS	CURRENCY	COUNTER-TARIFFS
1	Wholesale trade (41)	28.7	99.6**	● (yellow)	● (yellow)	● (yellow)
2	Animal production (112)	2.8	3.5	● (yellow)	● (yellow)	● (yellow)
3	Automobile manufacturing (3361, 3362, 3363)	55.1	23.9	● (red)	● (grey)	● (yellow)
4	Food manufacturing (311)	35.4	12.4	● (red)	● (grey)	● (yellow)
5	Chemical manufacturing (325)	30.6	11.2	● (red)	● (grey)	● (yellow)
6	Machinery manufacturing (333)	20.1	9.2	● (red)	● (grey)	● (yellow)
7	Plastic product manufacturing (3261)	10.5	7.0	● (red)	● (grey)	● (yellow)
8	Aerospace manufacturing (3364)	10.2	4.3	● (red)	● (grey)	● (yellow)
9	Truck transportation (484)	14.1	4.7	● (yellow)	● (grey)	● (yellow)
10	Crop production (111)	7.5	6.1	● (yellow)	● (grey)	● (yellow)

* Estimated based on input-output tables (2022); ** Wholesale and retail trade (consumer spending, imported content from the US).
Legend: ● (red): very negative effect ● (yellow): to watch ● (grey): positive effect (exports) and negative effect (imports). Net effect varies by company.
Statistics Canada and Desjardins Economic Studies

> **BOX**
> **Effect of Tariffs and Counter-Tariffs on the Price of Gasoline**
>
> The low loonie could raise pump prices in Canada, especially as North American fuel prices are likely to rise as an indirect result of the 10% tariffs on Canadian crude oil imported into the United States. Western Canadian supply (heavy oil) is not compatible with Eastern Canadian refineries, but the effect on gasoline prices could be mitigated if Canadian refineries switch their crude oil supply to other regions such as the Middle East.

Some companies will be better able to absorb the shock of tariffs and counter-tariffs. Others, already weakened by the events of the past few years, could face an additional challenge. They will have to choose between reducing their profits or increasing their selling prices, which will weaken their power to retain and attract customers already burned by the record-high inflation that followed the pandemic. If non-US substitutes are hard to find, higher import costs could hit lower-margin sectors, such as retail and wholesale trade (graph 3). Car dealerships and grocery stores, in particular, have some of the lowest margins among non-financial industries in Canada. Since Canada's counter-tariffs particularly target food and automobiles, these businesses could face significant challenges. As for the manufacturing sector, it has already been dealing with below-average profits over the past three years, particularly in the automotive manufacturing,

Graph 3
Higher Import Costs Could Hit Lower-Margin Sectors Such as Retail and Wholesale Trade
Profit margins by industry, Canada, average from 2022 to 2024

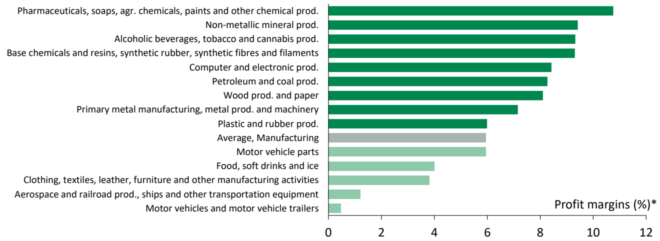


* Net profit or loss as a percentage of operating revenues.
Statistics Canada and Desjardins Economic Studies

Graph 4

The Agri-Food, Automotive and Aerospace Manufacturing Sectors Have Seen Below-Average Profitability

Profit margins, manufacturing sectors, Canada, average from 2022 to 2024



* Net profit or loss as a percentage of operating revenues.
Statistics Canada and Desjardins Economic Studies

aerospace and agri-food processing sectors (graph 4 on page 4). The US tariffs are likely to further weaken their balance sheets.

Some niche sectors are more vulnerable to retaliation and boycotts. To name a few:

- Carriers and travel agencies specializing in Canadian tourism to the United States.
- Import-export companies specializing in Canada–US trade.
- Trucking companies specializing in cross-border trade.
- Specialty retailers (such as some beauty stores) that source most of their products from the United States.

Other Industries Could Do Well

While the downside risks are pronounced, counter-tariffs could encourage Canadian businesses to increasingly turn to Canadian producers. For instance, sellers of residential construction supplies could look to Canadian manufacturers of building materials. Local food and beverage producers could also benefit if grocery stores follow suit and pivot to buying local and Canadian.

The weak loonie is likely to encourage many Canadians to favour local tourism at the expense of the United States this summer (in addition to those who shun our neighbours to the south to express their dissatisfaction with the Trump administration's policies). In contrast, the appreciation of the US dollar will give Americans greater purchasing power, making Canada more attractive as a vacation destination. However, this assumes the trade war will have a relatively limited impact on the US economy and labour market. Given the recent spike in recession fears, this situation will need to be monitored.

In addition, the logistics sector may benefit from customers looking to review their trade routes and global supply chains, although a certain decline in Canada–US trade will inevitably slow other aspects of their business. Maritime transportation of merchandise could also get a boost as companies diversify overseas.

Conclusion

Although the effects differ depending on the industry, if US tariffs of 25% are applied in April and remain in place for the next year, it will be hard for Canada to avoid a recession (see our recent analysis). Workers in the manufacturing industry would probably be the first to be affected. But a broader recession would eventually lead to lost revenue for other industries, including those sensitive to reduced household spending. Counter-tariffs and currency depreciation will likely drive up the cost of things like dining out or buying a new car. This could threaten the viability of many businesses, especially those that were already weakened by the pandemic. And the profit margins of several other companies are likely to be under pressure due to the double hit of lower demand and higher costs.

The various levels of government have announced measures to reduce interprovincial trade barriers, support the diversification of export markets and increase productivity. These are a step in the right direction. But companies will need to be proactive and invest to build their resilience against what's shaping up to be four years of uncertainty and volatility.