What will the election of "tariff man" Trump mean for Canada's economy?

With the recent election of Donald Trump in the United States, we're likely to hear a lot about one of his favourite economic policies — import tariffs. At the end of November, Trump announced that he planned to implement a 25% tariff on all imports from Canada, something that would significantly impact the Canadian economy.

Import tariffs are taxes that a government charges on goods brought into the country. Tariffs can serve several purposes, including protecting domestic industries, and are often used as leverage in trade negotiations. When a product crosses the border, the government of the importing country collects (and keeps) the tariff from the importing company, usually as a percentage of the total cost of the product. For instance, if a country has a 25% tariff on grain, a $10,000 load of barley would have a $2,500 tariff added to it, making the total cost to the importer $12,500. The impact of tariffs is felt by companies who have to pay higher costs for goods from outside the country. But tariffs also affect consumers, since those higher costs are passed on in the price of the final product.

This type of tax can be useful in protecting domestic industries when the imported goods are cheaper because of some unfair or undesirable advantage. For example, a foreign company may receive large government subsidies or operate under much lower labour and environmental standards, allowing it to set lower prices which then makes domestic producers and manufacturers uncompetitive.

When properly calibrated, a tax on imported goods (tariff) can create a more level playing field by making the cost of imports relatively more expensive, so that an importer may decide to source their goods domestically instead.

However, in 2018, Trump used tariffs to tilt the playing field in the US's favour by implementing significant tariffs on steel and aluminum imports from all other countries, regardless of their government subsidies or labour and environmental standards. The tariffs were set at 25% for steel and 10% for aluminum. He argued that these measures were necessary to protect American manufacturing jobs and reduce dependency on foreign metals. The Canadian and US steel and aluminum industries are closely

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integrated, and these tariffs caused huge disruptions for them and other US manufacturers that use Canadian steel and aluminum products. Canada was eventually able to negotiate an exemption from these tariffs, thanks to a co-ordinated effort from Canadian and US politicians and industry representatives.

Industries that were impacted by Trump's tariffs last time, like the steel and auto sectors, are gearing up to make the case for a Canadian exemption again. But this time new industries are worrying about the impact of a 25% tariff on all Canadian exports to the US. Canada exports about $50 billion worth of goods to the United States each month, with the largest component being around $15 billion in energy products.

This issue is made more urgent because the trade agreement that replaced NAFTA, the Canada-US-Mexico Trade Agreement (CUSMA), is coming up for review in 2026.

Trump is likely to use the threat of tariffs on Canadian and Mexican goods as leverage to push for concessions — on dairy quotas or softwood lumber, for example — that align with his broader political and economic agenda.

It's time to close the black hole for seasonal workers

When seasonal industries like tourism or fisheries form the economic backbone of a region, there often aren't many jobs available for workers in the off-season. Seasonal jobs are a reality across the country, but some regions have a disproportionately high number of jobs that are seasonal in nature. This is the economic reality in those regions and not the fault of workers themselves. Employment Insurance is currently falling short for many of those workers, and it desperately needs to be updated.

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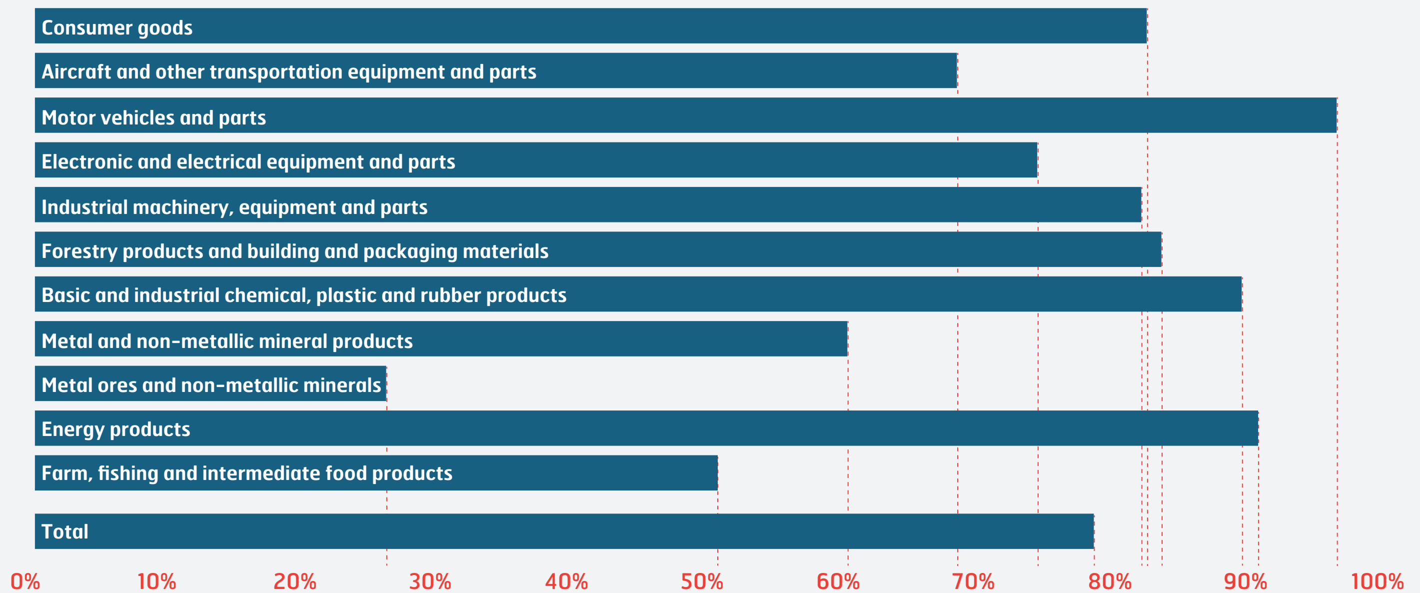
Share of Canadian exports that are headed for the United States



Source: Statistics Canada table 14-10-0175-10

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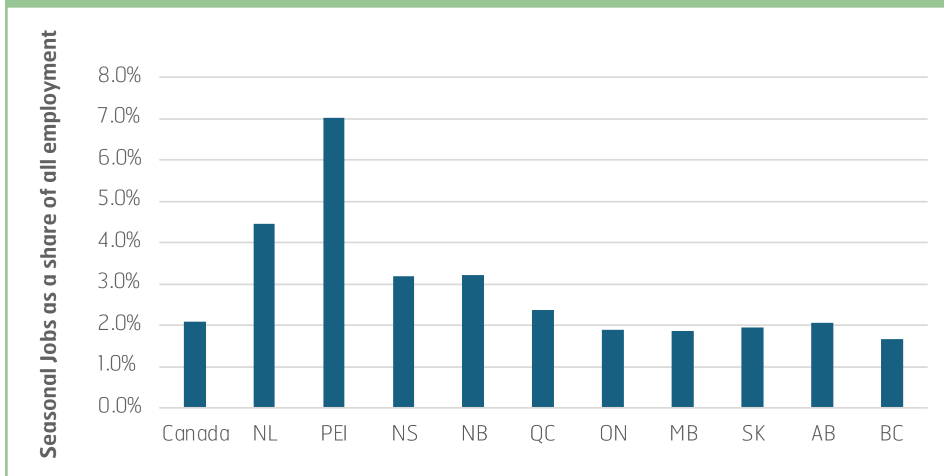
Employment Insurance paid to workers in seasonal industries provides a stabilizing effect for these regions, buffering the ups and downs of seasonality for the whole local economy. It also ensures that highly skilled workers are available to return to work when the season reopens, keeping the industry viable.

An increasing number of workers in seasonal jobs are encountering something called the “black hole,” where they can’t piece together enough weeks of work and weeks of EI benefits to make it through the whole year. There are a number of reasons for this – for example, an increase in bad weather could disrupt the period when seasonal work would normally be available. However, the main reason is that the number of hours needed to qualify for benefits, and the number of weeks a worker can get in EI benefits depends directly on the unemployment rate in their EI region. The official unemployment rate across Canada has been trending down for years. This overall falling unemployment rate is not due to an increase in available jobs, especially not in the traditional off-season. The drop is largely because fewer people are looking for work, with students working less and a larger portion of the population retiring.

A pilot project was introduced in 2018 that provided a band-aid solution, offering five extra weeks of benefits to workers in targeted EI regions that were deemed dependent on seasonal industries. Since then, the unemployment rate in the 12 targeted regions in eastern Canada has dropped by nearly 3%. For the rest of Canada, the drop in unemployment over that same period was 1% on average.



Source: Statistics Canada Table 14-10-0072-01

Every percentage point drop in the regional unemployment rate means two fewer weeks of EI benefits for an unemployed worker and a longer period to qualify. If seasonal workers in targeted EI regions needed an additional five weeks of benefits in 2018 as per the pilot project, the 3% drop in unemployment since then means that, on average, they now need an additional six weeks on top of those 5 weeks to make up for the growing black hole.

Another factor is the design of the EI economic regions — some of the sub-regions where workers are most affected by the black hole are included in regions where the remainder of the region has a different economic profile. Advocates in these regions have been asking for review of EI boundaries for some time.

The federal government could solve these problems by reviewing the regional boundaries and increasing the number of extra weeks of EI benefits for seasonal workers from five to 15. The government could also change the rules for how EI treats workers when they change jobs. Currently, a worker that takes a risk on a new job could lose EI benefits if that job does not work out, if they are fired or they quit. Giving workers a grace period would allow them to try a new job to supplement their income with off-season work, or even take steps to transition out of seasonal work entirely, without the fear of losing their benefits. This would benefit workers, their local economies, and the EI system as a whole.

Saskatchewan Outside Municipal Workers
Photo: Tria Donaldson

ECONOMIC DIRECTIONS

Economic growth — Real gross domestic product (GDP) grew by about 2% in the first half of 2024, but slowed to 1.5% in the third quarter. Population growth has contributed to overall increases in GDP, but per-person GDP is declining. The same trend can be seen in consumption growth — overall consumption has increased, but per-person consumption has fallen. The Bank of Canada currently forecasts that Canadian economic growth will be slightly above 2% in 2025 and 2026.

Jobs — Canada's unemployment rate has increased from 5.3% in October 2023 to 5.9% in October 2024. The average unemployment rate for workers aged 15-24 increased from 11.4% in October 2023 to 12.8% in October 2024. For First Nations youth aged 15 to 24, the unemployment rate rose 5.6 percentage points compared to a year ago, and is now at 22%.

Canada's labour force participation rate continues to fall. In October it was at 64.8%, the lowest it's been since December 1997. This is the proportion of the population aged 15 and older who are employed or looking for work, and it's changing mostly because Canada's population is aging.

Wages — Statistics Canada uses two sources to estimate wages each month: the Labour Force Survey (LFS) and the Survey of Employment, Payroll and Hours (SEPH). The LFS information comes from individuals filling out a survey, with results available the following month. The SEPH gets its data from a census of business payrolls. The SEPH data takes longer to process, so the information lags by two months. The two surveys often differ slightly, but usually show the same long-term trends. In August 2024, the LFS found average wages increased by 5% and the SEPH found average wages increased by 4.7% compared to a year earlier.

Inflation — The consumer price index (CPI), which measures changes in the cost of goods and services, was 1.6% higher in September compared to the previous year. This increase is smaller than the 2% rise we saw in August, mostly because of falling gasoline prices. Prices for rent increased faster than overall inflation — on average rents were 8.2% higher than in September last year. The Bank of Canada expects the CPI increases to stabilize within its 1% to 3% target window.

Interest rates — The Bank of Canada has cut interest rates by 1.25 percentage points since June 2024, and their policy rate is now at 3.75%. With the unemployment rate increasing and CPI increases now below 2%, the Bank has indicated that further cuts are likely to come, but the timing is uncertain. The next interest rate announcements are scheduled for December 11, 2024 and January 29, 2025.