

New U.S. tariff retaliation: What it means for Canada's economy

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The U.S. administration's latest response to Canada's retaliatory tariffs following the breakdown of bilateral trade negotiations may sound alarming, but they represent a relatively minor escalation in the trade war.

Changes to the list of Canadian products targeted with 50% import tariffs in August, effective September 15. New products have been added to the previous Section 338 tariff list, but some products have also been removed—roughly balancing out the dollar value of imports.

A subset of products (alcoholic beverages, dairy products, and certain motorcycles) previously targeted with 50% tariffs will now be subject to an outright import ban as of Sept. 29.

President Trump also posted on social media that the U.S. will work to remove Canadian products from some government procurement contracts.

While the announcement sounds dramatic, this next layer of measures could have been worse compared to what's been imposed, according to our estimates.

Section 338 tariffs continue to affect a small share of trade (5% of U.S. imports from Canada), causing significant disruption in targeted sectors, but with limited broader impact on the economy.

The real risk remains further escalation into a tit-for-tat trade war covering a much larger share of trade—something that hasn't occurred with this latest development yet.

Here are our early thoughts/calculations on the potential impact of the new measures, and what they might mean for the future of the Canada/U.S. trade relationship.

Share of total Canadian trade impacted should be little changed under new rules

The 50% tariffs imposed as part of Section 338 tariffs in August now apply to another 110 U.S. imports from Canada, but about 10 product codes were also removed from the list.

The nuance is U.S. imports in 2025 of those 10 products removed from the tariff list were almost as large (about US\$1.73 billion) as the total value of imports of the 110 products added (about US\$1.85 billion).

Import bans on products that were already targeted with 50% tariffs

The import bans impact a total of 68 products that were already targeted with a 50% tariff in prior lists—a subset of alcohol products, dairy products, and motorcycles.

This marks an escalation, but with a 50% tariff on these products, many were already likely too expensive for U.S. importers to buy. Therefore, the marginal impact of the change on the Canadian economy is likely relatively small (again, notwithstanding the significant impact on specific exporters

targeted).

Reducing Canadian business access to the U.S. government procurement market

President Trump has promised to remove Canadian products from the GSA's Multiple Award Schedule (federal government procurement marketplace) in response to the "Buy Canada" preference introduced to Canadian federal government procurement rules, and some provincial measures that discourage purchases from the U.S.

It's unclear at the time of writing what this will look like. The Multiple Award Schedules accounts for about US\$50 billion in government procurement spending per year, which is a small share of the total U.S. government procurement market. The U.S. federal government committed almost US\$800 billion to new contracts in 2025, and about 80% of non-defense total government spending is done at the state and local government level.

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