U.S. Tariffs Go Ahead, Canada Plans Counter-Tariffs

TD Economics / TD Securities · 2026-08-24 · English original

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U.S. Tariffs Take Effect, Canada to Retaliate

U.S. tariffs of 50% on roughly 5% of Canadian exports took effect on Saturday (see commentary).

Canadian Prime Minister, Mark Carney, has stated new Canadian tariffs will match "dollar for dollar" and be implemented starting September 8th.

The Canadian tariffs will cover American steel, dairy, appliances, agricultural equipment, pulp and paper, electronics and other products.

The exact details of these counter-tariffs have yet to be provided on their rate and the specific products, as well as government supports.

Key Implications

Trade uncertainty never left the Canadian landscape when negotiations were unfolding last week, but now it's been taken up a notch. The new U.S. tariffs could shave 0.3-0.6 percentage points from GDP growth over the next year. However, this estimate doesn't include offsetting government policy measures for impacted businesses that are expected to be announced this week.

It also doesn't include Canada's counter-tariff response, which could subtract another 0.1 percentage points off growth (assuming a 50 percent counter-tariff). It can reasonably be expected to lift inflation this year, but this will depend on the composition of goods subject to tariffs.

The downside to the economy comes after a second quarter that was tracking growth above 3%. The momentum had been expected to fade in the second half of the year, but the new tariffs should drag this figure even lower. Looking ahead, growth is now likely to come in closer to the mid-1s (%) by the end of 2027 (Q4/Q4), rather than our earlier estimate of close to 2%, with risks to the downside should tariffs escalate from here.

On inflation, prior Bank of Canada (BoC) analysis found roughly a quarter of new tariffs showed up in consumer on prices, resulting in a 0.3 percentage point increase to CPI. However, those tariffs were applied to roughly $C60 billion of goods, whereas the current tranche would affect roughly $C28 billion if matched dollar for dollar. On the flip side, this round of tariffs may be set at a higher tariff threshold than the 25% rate previously applied.

Working in Canada's favour is a relatively lower starting point on core inflation. The Bank of Canada's core measures averaged 2.0% year-on-year (y/y) in July, while the classic measure excluding food and energy clocked in at 1.9% y/y, both still comfortably within the BoC's target range. In contrast, U.S. CPI excluding food and energy registered 2.5% y/y in July, while PCE excluding food and energy still hung at 3.3% y/y in June. A better starting point offers a modicum of relief for households ahead of what is expected to be a bumpy rise.

However, no matter how the numbers are sliced, there's no question that the back-and-forth volley of tariffs will be net negative for Canadian growth. This will be amplified if further tit-for-tat escalation occurs.

For the BoC these latest developments reinforce their stand-pat stance. Trade uncertainty remains elevated, with the downside risks to growth on the forefront. Two-year Canadian yields are down 10 basis points at the time of writing, while the loonie has sold off moderately against the USD.

Source: https://economics.td.com/ca-tariffs-united-states