Scotiabank

GLOBAL ECONOMICS

INSIGHTS & VIEWS

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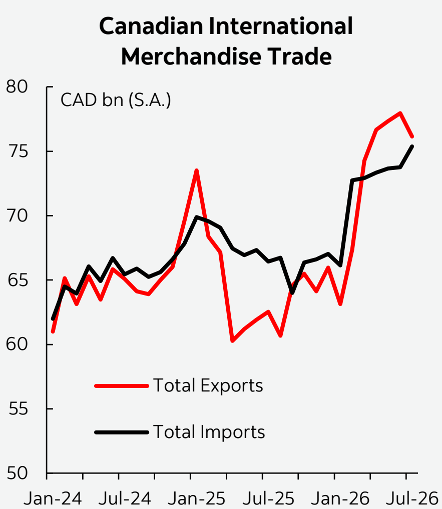
Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Duty Calls: Canada & US Trade Report, July 2026

- **Exports dip after five consecutive monthly increases (chart 1).** The value of Canadian exports fell by 2.3% in July, with declines in seven of the 11 exports categories. However, the volatile gold and oil categories drove the monthly decline, in part reflecting softer prices in July—which have since rebounded. Other categories in aggregate increased 0.6% on the month. Total imports rose 2.2%, led by an 11% increase in motor vehicles and parts. Imports of industrial machinery and equipment (a key indicator for capital investment) continued its trend higher with a 2.2% monthly increase. Export volumes (which adjust for prices) fell 1.5% and imports rose 2.2% (chart 2). After a very strong contribution to growth in Q2, this report suggests weaker momentum into Q3—with further headwinds ahead given new U.S. tariffs in August.

- **Volatility in gold and energy exports continues to mask declines in some sectors.** Exports are lower in most goods categories targeted by the U.S. sectoral tariffs (chart 3) including: steel (-40% vs Dec 2024), aluminum (-1%), forestry (-17%), and autos (-6%).

- **The share of Canadian exports bound for the U.S. is gradually trending lower**, averaging 76% in 2024 and 72% in 2025, and coming in at 66% in July 2026. This has been driven by faster growth in exports to non-U.S. markets—especially Europe (chart 4). In July, exports to the U.S. fell 6.6% m/m but were up 11% y/y (aided by the increase in oil prices since last year). Exports to other countries increased 7.7% m/m, and were up 64% from 2024—though much of this increase has been driven by gold. On the import side (chart 5), the share of Canadian imports from the U.S. has gradually fallen to 59% in July from an average of 62% in 2024.

- **Canada continues to benefit from a (relatively) low effective tariff rate (ETR) on total exports, though this advantage has narrowed.** We estimate that Canada's ETR increased from around 3% to 4.3% with the imposition of new U.S. tariffs late last month. This could increase further if Canada's retaliatory tariffs kick in next week, and the U.S. follows through on threats to retaliate back. The reported average actual duties paid on U.S. goods imports from Canada held at 2.8%—down from close to 4% last Fall (chart 6). The proportion of Canadian goods imported into the U.S. facing tariffs ticked down to 22% (chart 7).

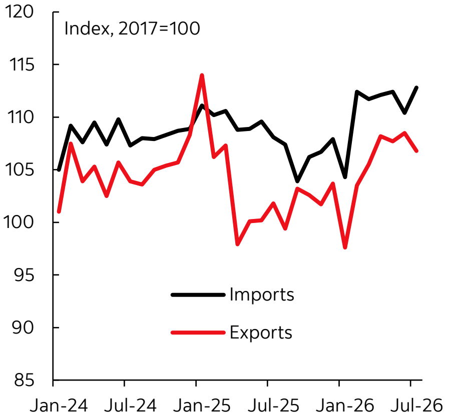
- **The U.S. trade deficit increased (chart 8).** In July, U.S. exports fell 2.1% and imports rose 2.8%, resulting in an increase of the U.S. trade deficit to US$89 bn—slightly larger than its average 2024 level. The increase in imports was led by computers and computer accessories, reflecting the ongoing U.S. investment in AI and data centres.

- **The U.S. import tariffs continue to create inflationary pressures in that country**, with the latest estimate of the cumulative impact of the tariffs on U.S. core PCE at around 0.7% (chart 9)—clouding the outlook for further U.S. interest rate cuts, especially given the increase in oil prices since the start of the year.

- **Tariffs and uncertainty (chart 10) continue to be elevated and dynamic.** Canada continues to benefit from tariff-free access to the U.S. on the vast majority of our trade, but the trade war has heated up following the latest breakdown in negotiations. Our baseline remains that Canada will emerge from the CUSMA negotiations with a competitive ETR and tariff-free access to the U.S. economy from the vast majority of our exports—but also that the path to this outcome will be volatile. There could be further tit-for-tat tariff escalations in the coming months. However, given that a deal was so close last month, and the U.S. has delayed the implementation of its latest announced tariff increase on Canada until next year, there remains the potential for a deal in the coming months.

Chart 2

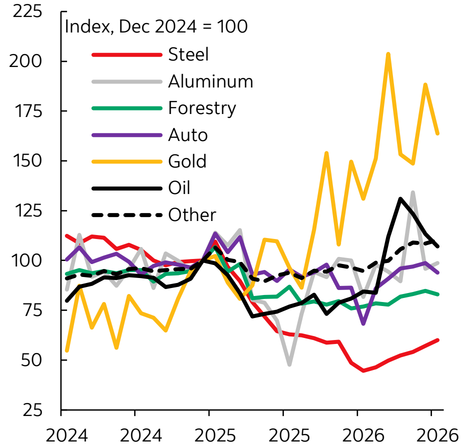
Canada Export and Import Volumes



Sources: Scotiabank Economics, Statistics Canada.

Chart 3

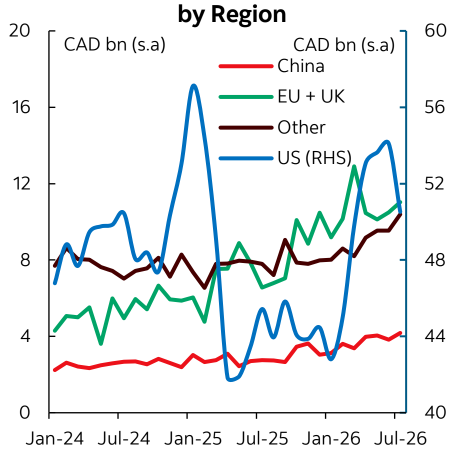
Canada Exports by Sector



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

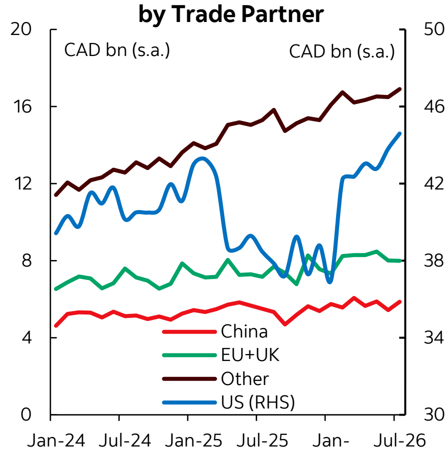
Canadian Merchandise Exports, by Region



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

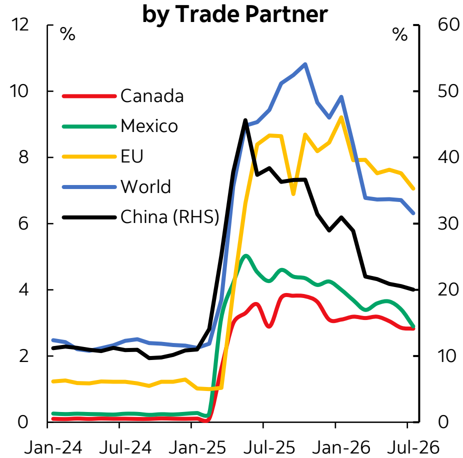
Canadian Merchandise Imports, by Trade Partner



Sources: Scotiabank Economics, Statistics Canada.

Chart 6

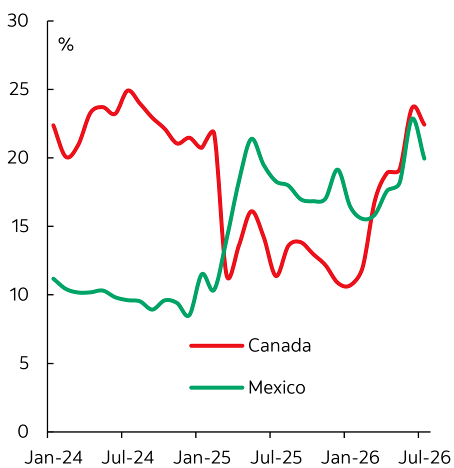
Average Calculated US Import Duties, by Trade Partner



Sources: Scotiabank Economics, US Census Bureau.

Chart 7

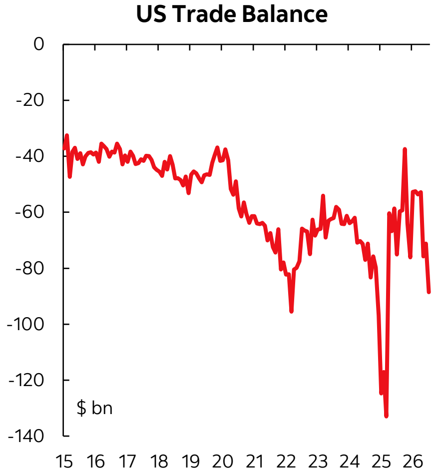
Share of US Imports Paying Duties



Sources: Scotiabank Economics, US Census Bureau.

Chart 8

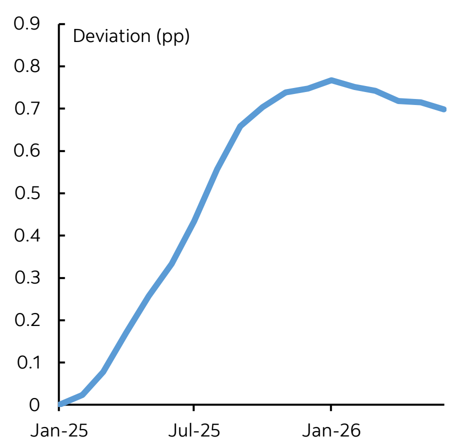
US Trade Balance



Sources: Scotiabank Economics, US BEA.

Chart 9

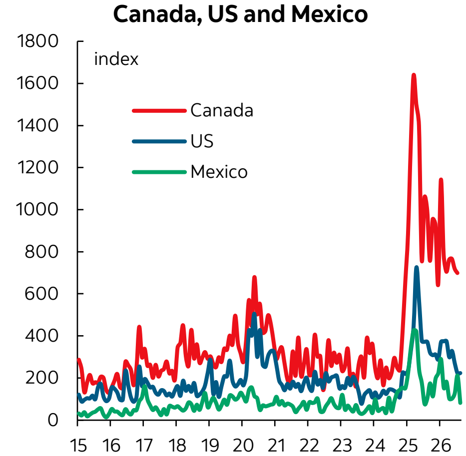
Cumulative Impact on US Core PCE



Sources: Scotiabank Economics, Federal Reserve.

Chart 10

Economic Policy Uncertainty in Canada, US and Mexico



Sources: Scotiabank Economics, Policyuncertainty.com.

Table 1: Canada, U.S. Mexico - Goods Exports and Imports (s.a.)			
Country and Flow	**m/m%**	**y/y%**	**vs Jul 2024%**
Canada Total Exports	-2.3	21.8	17.0
Canada Total Imports	2.2	13.4	15.2
U.S. Goods Exports	-2.1	9.3	14.5
U.S. Goods Imports	2.8	11.2	14.6
Mexico Total Exports	9.7	43.2	47.1
Mexico Total Imports	15.2	43.7	45.6

Sources: Scotiabank Economics, US Census Bureau, Statistics Canada, Banco de México.

Table 2: Canada - Merchandise Exports by Region (s.a.)			
Country	**m/m%**	**y/y%**	**vs Jul 2024%**
US	-6.6	11.2	0.1
China	9.2	51.7	56.5
Mexico	6.6	40.5	17.7
EU	31.3	29.4	43.3
UK	-6.7	109.0	247.4
Rest of the World	9.3	32.6	52.5

Sources: Scotiabank Economics, Statistics Canada.

Table 3: Canada - Exports by Select Sectors (s.a.)			
Sector	**m/m%**	**y/y%**	**vs Jul 2024%**
Steel	5.0	-4.4	-43.0
Aluminum	3.1	107.0	-6.7
Forestry	-2.1	-4.3	-12.9
Autos	-4.9	-1.7	1.2
Gold	-13.1	70.0	122.6
Oil	-5.6	39.1	16.1

Sources: Scotiabank Economics, Statistics Canada.

Table 4: U.S. - Merchandise Imports by Region (s.a.)			
Country	**m/m%**	**y/y%**	**vs Jul 2024%**
Canada	-9.2	4.2	-6.9
China	0.8	4.3	-33.4
EU	-4.2	1.7	-10.1
Mexico	13.2	34.2	45.1
Rest of the World	6.9	15.2	39.3

Sources: Scotiabank Economics, US Census Bureau.

Table 5: Tariffs in Place

Imposing	Impacted Country	Impacted Sector	Tariff Rate	Date of Latest Significant Change
USA	All ex. CA & MX	Steel, aluminum, copper, & derivatives	50%/25%/15%	June 1st, 2026
USA	Canada	All exports that do not comply with USMCA rules of origin requirements	10%	February 20th, 2026
USA	Canada	Alcohol, dairy, and various other goods	50%	August 19th, 2026
USA	China	All exports not subject to de minimis rule (replaced by all exports)	20%	March 3rd, 2025
USA	Mexico	All exports that do not comply with USMCA rules of origin requirements	10%	February 20th, 2026
USA	CA & MX	Non-US content in passenger vehicles (Auto parts exempt)	25%	April 3rd 2025
USA	All ex. CA & MX	Assembled passenger vehicles	25%	April 3rd, 2025
USA	CA & MX	Non-US content in medium-/heavy-duty trucks and buses	25% (medium-/heavy-duty trucks) 10% (buses)	October 17th, 2025
USA	All ex. CA & MX	Assembled medium-/heavy-duty trucks and buses	25% (medium-/heavy-duty trucks) 10% (buses)	October 17th, 2025
USA	All ex. CA & MX	Majority of exports ex. goods subject to sector specific tariffs, trade deals, or other exemptions	12.5%/10%	July 23rd, 2026
USA	Canada	Increase of countervailing duties/tariffs on Canadian softwood lumber	Avg combined rate now 45.16%	October 14th, 2025
USA	All ex. CA	Softwood timber & lumber	10%	October 14th, 2025
USA	All	Upholstered wooden products	25%	October 14th, 2025
USA	All	Kitchen cabinets and vanities, and their parts	25%	October 14th, 2025
USA	All ex. CA & MX	Automotive parts	25%	May 3rd, 2025
USA	All	Semiconductors	25%	January 15th, 2026
USA	All	Pharmaceuticals	100%/15% if signed a trade deal	April 2nd, 2026
Canada	USA	Steel and aluminum	25%	March 13th, 2025
Canada	USA	Non-CUSMA compl. passenger autos, & US-content in CUSMA-compl. passenger autos	25%	April 9th, 2025
Canada	USA	Steel, dairy, agricultural equipment, pulp and paper, electronics, and various other goods	50%/25%/15%	September 8th, 2026
China	Canada	Select agricultural exports (canola rapeseed)	7%	March 1st, 2026
China	USA	All exports	10%	May 11th, 2025

Sources: Scotiabank Economics, White House, Govt of Canada, Ministry of Commerce of the People's Republic of China.

Table 6: Canada - Effective Tariff Rate (ETR)

Measures Contributing to Effective Tariff Rate	
10% on non-CUSMA compliant goods to US	
10% on non-CUSMA compliant energy and potash to US	
50%/25%/15% on steel/aluminum/copper and select derivatives to US	
30% increase in countervailing duties/tariffs on softwood lumber exports to US	
7% tariffs on select agricultural exports to China	
25% on wooden products, kitchen cabinets, and vanities exports to US	
25% tariffs on non-US content in automotives and medium-/heavy-duty trucks	
10% tariffs on non-US content in buses and similar trucks	
25% tariffs on semiconductor exports to US	
100% tariffs on pharmaceuticals	
50% tariffs on alcohol, dairy, and various other goods to US	
Effective Tariff Rate	**%**
Change in ETR on Exports to World	4.3
Share of Exports Currently Impacted by Post-2024 Tariffs	14.4

Sources: Scotiabank Economics, WITS.

Table 7: Mexico - Effective Tariff Rate (ETR)	
Measures Contributing to Effective Tariff Rate	
10% on non-CUSMA compliant goods to US	
50%/25%/15% on steel/aluminum/copper and select derivatives to US	
25% on non-US content in automotives and medium-/heavy-duty trucks	
10% tariffs on non-US content in buses and similar trucks	
10-25% on softwood lumber and wooden products exports to US	
25% tariffs on semiconductor exports to US	
100% tariffs on pharmaceuticals	
Effective Tariff Rate	**%**
Change in ETR on Exports to World	6.9
Share of Exports Currently Impacted by Post-2024 Tariffs	28.7

Sources: Scotiabank Economics, WITS.

Table 8: United States - Effective Tariff Rate (ETR)	
Measures Contributing to Effective Tariff Rate	
10% on non-CUSMA compliant energy and potash from CA	
10% on non-CUSMA compliant other goods from CA	
10% on non-CUSMA compliant goods from MX	
50%/25%/15% on steel/aluminum/copper and select derivatives to US	
25% on passenger vehicle/auto parts from world (excl. CA & MX)	
25% on passenger vehicles and trucks (only non-US content from CA, MX)	
10% tariffs on buses and similar trucks (only non-US content from CA, MX)	
30% increase in countervailing duties/tariffs on softwood lumber from CA	
10-25% on softwood lumber and wooden products imports to US	
12.5%/10% baseline on imports from world	
30% on majority of imports from China	
25% tariffs on imports of semiconductors	
100% tariffs on pharmaceuticals	
50% tariffs on imports of alcohol, dairy, and various other goods from CA	
Effective Tariff Rate	**%**
Current ETR on Imports from World	11.4
Share of Imports Currently Impacted by Tariffs	33.8

Sources: Scotiabank Economics, WITS.

Table 9: United States - Duties Collected

Country/Region	Jul 2026 ($ bn)	m/m%	y/y%
Canada	0.9	-11	2
China	5.4	5	-47
EU	3.4	-9	-17
Mexico	1.8	-7	-9
Rest of World	9.5	0	-9

Sources: Scotiabank Economics, US Census Bureau.