

Economic and Fiscal Outlook Assessment

Note – Economic Impact of Recent Canada-U.S. Trade Measures

Key Findings

Since early 2025, successive rounds of tariffs, retaliatory measures and product-specific restrictions have increased barriers to Canada-U.S. trade.

PBO estimates that trade actions introduced since June 2026 have increased the trade-weighted average effective U.S. tariff rate on imports from Canada from 5.3 per cent to 7.7 per cent. Canada's response to the new U.S. tariffs has increased the equivalent Canadian rate on imports from the United States from 1.6 per cent to 3.0 per cent.

PBO estimates that the combined Canada-U.S. trade measures introduced since early 2025 will reduce the level of Canada's real GDP by 1.4 per cent after five years, relative to a pre-tariff baseline in which the bilateral trading relationship remains at 2024 levels. This tariff impact has been factored into PBO's wider [Economic and Fiscal Outlook, October 2026](#) released today.

Actual trade outcomes reflect a range of factors beyond tariff policies, including commodity prices, global growth and adjustments by exporters. Recent data indicate stronger export performance as of Q2 2026 relative to what might be expected from a bilateral tariff analysis alone.

Since early 2025, the Canada-U.S. trading relationship has undergone a shift from one characterized by largely tariff-free access under the Canada-United States-Mexico Agreement (CUSMA) to one increasingly defined by tariffs and sector-specific trade restrictions. Initial U.S. actions included broad-based tariffs on Canadian imports, with exemptions for most CUSMA-compliant goods. Over the course of 2025, however, trade

measures became increasingly targeted, expanding to key sectors such as steel, aluminum, automobiles, softwood lumber, and other forestry products.

U.S. tariff pressure eased somewhat in early 2026 following a Supreme Court ruling that invalidated certain measures. By the spring, however, additional restrictions had been introduced on copper-related goods, while existing measures continued to affect a meaningful share of bilateral trade. Trade tensions escalated further following the breakdown of negotiations on a new broad-based trade deal in the summer of 2026. In August, the United States announced a new round of measures affecting approximately C\$27.6 billion of Canadian exports, extending tariffs to a broad range of industrial, consumer, and agricultural products. Subsequent actions expanded the list of affected goods, and more recently approximately US\$1 billion of Canadian products became subject to import bans in the U.S. market. Canada responded with a new package of retaliatory tariffs covering approximately C\$27.6 billion of imports from the United States.

Taken together, these developments have increased the share of bilateral trade subject to tariffs or other restrictions, raising trade costs and reducing the degree of market integration that has historically characterized the Canada-U.S. economic relationship. The effects are expected to vary across sectors and regions, reflecting differences in export dependence, supply-chain integration, and exposure to the products covered by recent measures.

This note provides PBO's assessment of the potential medium-term economic impacts of trade actions introduced since the spring of 2025. The recent measures affect a broader range of products and increase the effective tariff burden facing firms on both sides of the border.

In June 2026, PBO assessed that the average effective U.S. tariff rate on imports from Canada had declined from 5.9 per cent in September 2025 to 5.3 per cent, largely reflecting the removal of certain measures following a Supreme Court ruling. PBO estimates that the trade-weighted average effective U.S. tariff rate on imports from Canada increases from 5.3 per cent to 7.7 per cent, compared to June 2026. The equivalent Canadian rate on imports from the United States increases from 1.6 per cent to 3.0 per cent.

Table 1

Estimated Trade-Weighted Average Effective Tariff Rates (per cent)

	September 2025	June 2026	October 2026
U.S. tariffs on imports from Canada	5.9	5.3	7.7
Canadian tariffs on imports from the United States	1.1	1.6	3.0

Source:

Parliamentary Budget Office.

Note:

Effective tariff rates are trade-weighted averages based on 2024 trade levels and reflect assumptions regarding exemptions and remission programs.

PBO estimates that the trade measures introduced since early 2025 reduce the level of Canadian real GDP by 1.4 per cent after five years, relative to a pre-tariff baseline in which the Canada-U.S. trading relationship remains at 2024 levels. If the tariffs remain permanent, employment is estimated to decline by as much as 185,000 jobs (0.9 per cent), with the impact peaking six quarters after the tariff shock.¹

As shown in Table 2, current trade measures are expected to reduce exports, business investment, employment and real GDP while increasing consumer prices. The largest impacts are on exports and business investment, which are directly exposed to higher trade costs and reduced market access. On the income side, corporate profits are estimated to decline sharply in the first year as firms initially absorb tariff-related costs. Over time, firms reduce labour inputs and a larger share of the burden shifts to workers, which, together with weaker wealth effects, weighs on household consumption.

Table 2

Estimated Economic Impact of Trade Measures in place as of October 1, 2026 – Per cent change relative to the pre-tariff baseline in which the Canada-U.S. trading relationship remains at 2024 levels

Indicator	Year 1	Year 2	Year 3	Year 4	Year 5
Real GDP	-1.4	-1.7	-1.5	-1.5	-1.4
Household consumption	-0.1	-0.6	-1.0	-1.3	-1.5
Business investment	-3.4	-4.9	-2.3	-2.2	-2.0
Government	0.0	0.0	0.0	0.0	0.0
Exports	-6.0	-7.7	-7.7	-7.6	-7.6
Imports	-3.4	-5.7	-6.2	-6.6	-6.9
Consumer price index	0.4	0.8	0.7	0.7	0.6
Terms of trade	-1.0	-2.9	-3.1	-3.1	-3.1
Employment	-0.4	-0.8	-0.7	-0.4	-0.3
Compensation of employees	-0.3	-1.0	-1.3	-1.3	-1.5
Before-tax corporate profits	-11.2	-11.7	-7.8	-7.5	-6.0

Source:

Parliamentary Budget Office.

Note:

All bilateral trade measures in place through October 1, 2026, are assumed to come into force in the first quarter of year 1 of the simulation and are treated as permanent. Impacts are estimated relative to a pre-tariff baseline in which the Canada-U.S. trading relationship remains at 2024 levels. Government spending and investment are assumed to remain constant. We assume that the Bank of Canada reduces the overnight interest rate by 50 basis points in the second quarter of year 1.

Considerations and Limitations

The simulation results are used to inform the assessment of medium-term trade and economic impacts of the tariff measures. These in turn inform PBO's wider [Economic and Fiscal Outlook, October 2026](#). The estimates presented in Table 2 are scenario-based and should be interpreted relative to the pre-tariff baseline in which the Canada-

U.S. trading relationship remains at 2024 levels. Actual outcomes will differ as businesses and households adjust to a wider range of changing economic conditions over time.

The magnitude of the near-term impact will also depend in part on how businesses respond to ongoing trade uncertainty and whether current trade measures ultimately prove temporary or permanent. PBO's estimates in Table 2 reflect a scenario in which current trade measures are treated as permanent and firms gradually adjust investment, production and trade decisions to a less favourable Canada–U.S. trading relationship. However, recent trade and investment data suggest that firms are adapting to the new trade environment more quickly than suggested by the model simulations. Analysis by Statistics Canada and the Bank of Canada points to increased supplier and market diversification among Canadian firms.^{2 3}

In our analysis, factors such as population growth, trend labour force participation, and trend average hours worked are assumed to remain unchanged. As a result, most of the decline in GDP after five years reflects lower productivity rather than fewer people working. The impact on jobs and economic activity could be larger if trade policies also affect employment and labour force participation.

Canada's realized export performance will reflect a range of factors beyond tariff policies, including developments in commodity markets, global economic growth and other non-tariff factors. As of the second quarter of 2026, Canada's non-energy export volumes were 1.1 per cent below the level projected in PBO's pre-tariff baseline, a smaller decline than implied by the estimates in Table 2, even after accounting for differences in the timing of tariff measures.

Recent trade data also suggest that Canadian exporters have increased exports to non-U.S. markets while exports to the U.S. have resumed growth, particularly in the energy sector. As of August 2026, Canada's nominal merchandise exports to non-U.S. destinations were 51 per cent above their 2024 monthly average, compared with a 10.5 per cent increase in exports to the United States. These developments suggest that the impact of tariffs may be moderated by broader economic conditions and adjustments in exporter behaviour that are not fully captured in the bilateral simulation framework.

The economic impacts of U.S. tariffs vary across sectors and regions. The largest sectoral effects have been concentrated in steel, aluminum, forestry and softwood lumber, automotive manufacturing, plastics, electrical equipment, furniture, and wood products. These industries are particularly exposed to U.S. markets and, in many cases, are integrated into cross-border supply chains.

Differences in provincial industrial structures have resulted in considerable regional variation in outcomes. As of the second quarter of 2026, Quebec's domestic exports to the United States stood at 92 per cent of their 2024 level, compared with 99 per cent in British Columbia, 105 per cent in Ontario, and 111 per cent in Alberta.⁴ These differences reflect both the sectoral composition of provincial exports and variations in the products covered by recent trade measures. Quebec's weaker export performance is consistent with its greater exposure to aluminum and other targeted manufacturing industries, while Alberta's exports have been supported by the comparatively lower tariff exposure of energy products. Ontario's relative strength reflects, in part, a rebound in automotive exports to the United States in Q2 2026.

Methodology of PBO Analysis of Canada-U.S. Trade Measures

This assessment uses detailed 2024 merchandise trade data and published Canadian and U.S. tariff schedules to estimate trade-weighted effective tariff rates. The economic impact of tariffs is estimated using the GTAP 11 database and GTAP Model Version 7. Estimated impacts are measured relative to a pre-tariff baseline in which the Canada-U.S. trading relationship remains at 2024 levels. Effective tariff rates are calculated using 2024 bilateral trade data.

The GTAP simulation produces one-period, percentage changes in Canadian export and import volumes, prices, the terms of trade and investment in capital goods. The impact of Canadian tariffs on the consumer price index is estimated via bottom-up modelling of household consumption expenditures. Whereas GTAP provides a one-period impact on capital investment, we assume that the supply-side impact of tariffs on potential GDP is split between lower productivity and business investment over the medium-term.

Taken together, these impacts and assumptions are simulated through PBO's macroeconomic model to inform the five-year path of trade, business investment and prices under a tariff scenario. Government spending and investment are held constant, and the policy interest rate follows the assumption set out in the note to Table 2. The macroeconomic model then generates the economy-wide effects on output, employment and incomes reported in Table 2. Based on currently identified trade exposures, non-tariff measures are estimated to have a smaller macroeconomic effect than tariffs.⁵

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Notes

¹ This estimate is larger than some published estimates because it reflects the combined impact of all bilateral trade measures in place as of October 1, 2026, over the medium term. For example, [Trevor Tombe's analysis for The Hub](#) focused on employment associated with the U.S. 50 per cent tariff on approximately \$28 billion of Canadian exports, whereas PBO's analysis incorporates the broader set of bilateral trade measures currently in place.

² [How Canadian businesses are adapting to US tariffs.](#)

³ [Impact of tariffs on businesses in Canada: Expectations and strategic responses, second quarter of 2025.](#)

⁴ Statistics Canada International Merchandise Trade (Table 12-10-0175).

⁵ PBO estimates that the import ban would affect approximately US\$1 billion in goods, which is roughly 0.2 per cent of Canadian exports to the U.S.

