Economics

THE WEEK AHEAD

March 31 - April 4, 2025

How Canada should respond to US auto tariffs

by **Avery Shenfeld** avery.shenfeld@cibc.com

Another week, another set of tariff headlines. In this on-again, off-again saga, it marked the end of a brief reprieve for automotive products that did not end up being a signal of a change of heart. The only thing the one-month delay accomplished was that it avoided having a few weeks go by in which Canadian vehicles with heavy US content, or even US vehicles with Canadian and Mexican content, would have been disadvantaged relative to cars from Europe, Korea or Japan.

America's trading partners can't help but respond in some fashion with counter tariffs or negotiations, particularly those with a lot at stake in terms of the slice of GDP tied up in auto and parts exports to the US. Mexico would top that chart, but Canada, and particularly Ontario, has more than 100,000 jobs that are in the direct line of fire. But there are choices to be made in how to respond, and Canada's policy makers need to think about what will be most effective, not just what will feel good in the moment. Taking some time to do that also has the advantage of allowing pressure from US carmakers and others to make a last ditch effort to, once again, cause the Trump team to at least partially back off.

One item on the "not to do" list would be to apply our own 25% tariff on those US vehicle parts for which there is no immediate capacity for a made-in-Canada substitute. That would be essentially self-defeating, as it would magnify the cost disadvantage of a Canadian-assembled vehicle that then faced tariffs in the US.

What about a 25% tariff on fully assembled vehicles shipped from the US? That didn't show up on the list of proposed measures offered by the current government, and with good reason. That would significantly add to inflation in Canada, and would favour vehicles from overseas suppliers with no Canadian content over US-built vehicles that will still have some made-in-Canada components for now. Moreover, a tariff on US cars and trucks would pose a risk that Trump would just add to the tariff on those assembled in Canada.

Canada could offer incentives, perhaps in tax policies, aimed at encouraging manufacturers to continue to operate their vehicle or plants on this side of the border. That might make sense while we retain the hope that these US tariffs won't be permanent. Such incentives needn't cover the full hit such vehicles will bear from tariffs, given that car companies are already going to be reluctant to spend billions of dollars to reshore all of their production as long as the long term future of tariff policy is still in doubt. But there will need to be some care to fashion such incentives in a way that doesn't lead the US to call them a subsidy and respond with even higher tariffs.

More broadly, Canada will also be thinking about its response to next week's announced US "reciprocal tariff", which if calculated fairly, might replace the previously-threatened 25% tariff on all products (10% on energy and potash) with something milder. Here again, counter-tariffs might be effective, but also risk a retaliation to our retaliation, as we saw with the threatened surcharge on Ontario's electricity exports.

An alternative, or at least a complementary measure, would be to let Canadians apply their own penalty on US exports, through the choices they are making at the supermarket, in the shopping mall, at their car dealer, and at the travel agency. While it's too soon for that to show up in the data, we're getting anecdotal evidence from a broad range of clients that Canadians are taking action in their purchases and vacations, not always to buy-Canadian, but to avoid the US. So far, that's only a grassroots movement without a leader and a bullhorn. But it could be ramped up through publicly-funded marketing campaigns, or even better, targeted ads by Canadian goods suppliers, retailers and tourist agencies.

That's not something that the Trump administration can point at finger at our government and retaliate against. Choosing not to buy something is the right of every citizen in a free society, and if joined by Mexican, European and Asian countries, could apply more pressure on the US economy, and its political leaders, than tariffs alone. Plan B for Canada entails a long and costly re-orientation of our economy to reduce its reliance on goods exports to the US. But Plan A, getting those tariffs removed or sharply reduced at the negotiating table, by creating enough hardship in US output and inflation, is still our best bet.

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, March 31	-	-	-	-	-	-	-
Tuesday, April 1	-	-	-	-	-	-	-
Wednesday, April 2	-	-	-	-	-	-	-
Thursday, April 3	-	AUCTION: 10-YR CANADAS $5.3B	-	-	-	-	-
Thursday, April 3	8:30 AM	MERCHANDISE TRADE BALANCE	(Feb)	(H)	$2.2B	$3.5B	$4.0B
Friday, April 4	8:30 AM	EMPLOYMENT CHANGE	(Mar)	(H)	0K	15.6K	1.1K
Friday, April 4	8:30 AM	UNEMPLOYMENT RATE	(Mar)	(H)	6.7%	6.7%	6.6%

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, March 31	9:45 AM	CHICAGO PMI	(Mar)	(M)	-	45.5	45.5
Tuesday, April 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Mar)	(L)	-	-	49.8
Tuesday, April 1	10:00 AM	ISM - MANUFACTURING	(Mar)	(H)	49.0	49.8	50.3
Tuesday, April 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Feb)	(M)	-	0.2%	-0.2%
Tuesday, April 1	10:00 AM	JOLTS Job Openings	(Feb)	-	7600K	7690K	7740K
Tuesday, April 1	9:00 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Wednesday, April 2	7:00 AM	MBA-APPLICATIONS	(Mar 28)	(L)	-	-	-2.0%
Wednesday, April 2	8:15 AM	ADP EMPLOYMENT CHANGE	(Mar)	(M)	-	119K	77K
Wednesday, April 2	10:00 AM	FACTORY ORDERS M/M	(Feb)	(M)	0.4%	0.4%	1.7%
Wednesday, April 2	10:00 AM	DURABLE GOODS ORDERS M/M	(Feb)	(H)	-	-	0.9%
Wednesday, April 2	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Feb)	(H)	-	-	0.7%
Wednesday, April 2	4:30 PM	Speaker: Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-
Thursday, April 3	8:30 AM	INITIAL CLAIMS	(Mar 29)	(M)	-	-	224K
Thursday, April 3	8:30 AM	CONTINUING CLAIMS	(Mar 22)	(L)	-	-	1856K
Thursday, April 3	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Feb)	(H)	-$120.0B	-$110.0B	-$131.4B
Thursday, April 3	9:45 AM	S&P GLOBAL US SERVICES PMI	(Mar)	(L)	-	-	54.3
Thursday, April 3	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Mar)	(L)	-	-	53.5
Thursday, April 3	10:00 AM	ISM - SERVICES	(Mar)	(M)	52.5	53.1	53.5
Thursday, April 3	12:30 PM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-
Thursday, April 3	2:30 PM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Friday, April 4	8:30 AM	NON-FARM PAYROLLS	(Mar)	(H)	150K	135K	151K
Friday, April 4	8:30 AM	UNEMPLOYMENT RATE	(Mar)	(H)	4.2%	4.1%	4.1%
Friday, April 4	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Mar)	(H)	0.3%	0.3%	0.3%
Friday, April 4	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Mar)	(H)	-	34.2	34.1
Friday, April 4	8:30 AM	MANUFACTURING PAYROLLS	(Mar)	(H)	-	-	10K
Friday, April 4	11:25 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Friday, April 4	12:00 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, jobless claims haven't been climbing, and government layoffs may have initially hit self-employed contractors who don't show up in the payrolls count, with a drop in federal government payrolls coming a bit later in the year, So we see a reasonably healthy climb in March payrolls, perhaps a bit firmer than consensus. The factory ISM is partly tied to real data, but also typically captures a bit of the respondents' sentiment of what lies ahead, and some concerns about growth prospects could see it dip below 50. Topping the data will be the April 2 announcement of reciprocal tariffs on a host of US trading partners.

In **Canada**, the trade data could still be supported by shipping ahead of threatened tariffs, although we expect a bit of narrowing in Canada's trade surplus in February. As always, we don't have much to go on in estimating the jobs figures, but a rebound from any downside in February due to weather could be offset by the first haircuts to staffing on the goods side and transportation services, if we were winding down activity tied to beating tariff deadlines. That might add up to a flat month for headcounts. The market's focus will be on the April 2nd US tariff announcement, and on what Canada says about a retaliatory response.

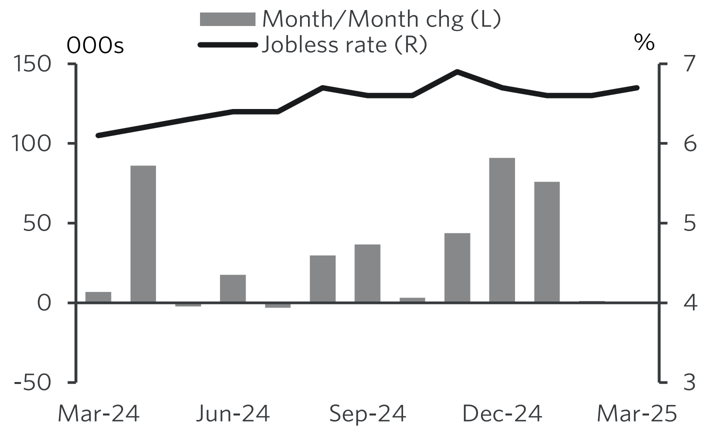
Week Ahead's key Canadian number: Employment—March

(Friday, 8:30 am)

Andrew Grantham andrew.grantham@cibc.com

Variable	CIBC	Mkt	Prior
Employment change	0K	15.6K	1.1K
Unemployment rate	6.7%	6.7%	6.6%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

We expect that February's stall in hiring likely continued into March. Hiring late last year and into the start of 2025 within the manufacturing and transportation & warehousing sectors, linked to tariff front-running, likely continued to unwind in March. However offsetting that, employment within some services may have risen, after bad weather likely held back hiring in February. With population growth continuing to slow, we suspect that the flat reading in employment will result in only a one tick increase in the jobless rate to 6.7%.

Forecast implications — With the US administration continuing to add tariffs on Canadian exports, employment within impacted areas is likely to fall further in the months ahead. While some impacted workers may choose to drop out of the labour force rather than look for alternative work (particularly given a higher average age of workers in the manufacturing sector), which will see the participation rate fall, the unemployment rate is likely to rise as well to over 7% by mid-year.

Other Canadian releases: Merchandise trade balance—February

(Thursday, 8:30 am)

Front-running of US tariffs brought a sharp jump in Canada's merchandise trade surplus in January. While that activity carried on into February, US import data suggests that it did so at a slightly slower pace. Add in a reduction in oil exports, both in term of price and volume, and we forecast a slimming in Canada's goods trade surplus to $2.2bn in February.

Week Ahead's key US number: Employment situation—March

(Friday, 8:30 am)

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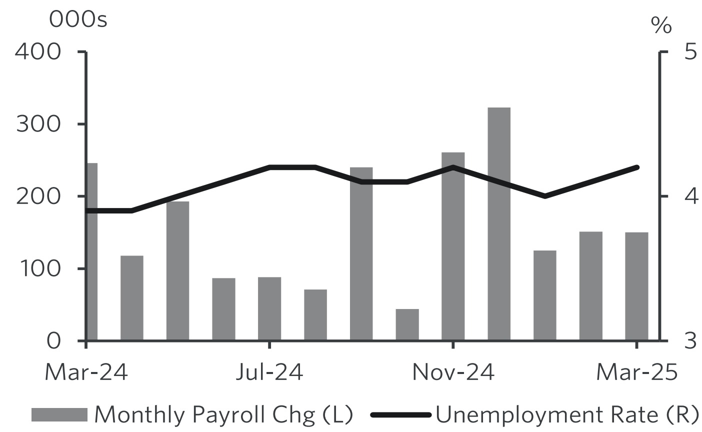
Variable	CIBC	Mkt	Prior
Employment (m/m)	150K	135K	151K
Unemployment rate	4.2%	4.1%	4.1%
Avg hourly earnings (m/m)	0.3%	0.3%	0.3%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

We expect payrolls to come in at 150K and the unemployment rate to edge up one tick to 4.2% in March. Wages should grow by 0.3% m/m or 3.9% on a year-over-year basis. Tariff uncertainty will modestly weigh on hiring in some manufacturing sectors and government employment will stay weak but we don't expect the bulk of the federal worker resignations to show up in the March data. What will keep payroll growth on decent footing is a strong service sector in March, as cyclical sectors like leisure and hospitality and retail employment bounce back after being weighed down by winter storms.

Forecast implications — The near-term data doesn't matter as much to the Fed with and with the job market still in a good place, they have luxury to wait. We don't expect the Fed to ease until the second half of this year.

Market impact — We are above consensus on payrolls, and a higher than expected print will provide some comfort to those who worry about a rapid deterioration of the US economy.

Other US Releases: ISM Manufacturing—March

(Tuesday, 10:00 am)

Regional manufacturing surveys point to weaker sentiment, and as a result, we expect the headline ISM index to dip into contractionary territory in the month at 49.

JOLTS Job Opening—February

(Tuesday, 10:00 am)

Private job tracking sites suggest job openings ticked down in February. We expect openings to come in at 7600 and the vacancy-to-unemployment ratio to stay at 1.1.

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