The Di Rocco Keenan Wealth Advisory Group

DECEMBER 2024

Until last week, we here at the Di Rocco Keenan Wealth Advisory Group had no idea that the U.S. purchased a significant number of French fries from Canada each year. In fact, French fries were the 7th largest import from Canada to the U.S. in 2023*. Higher on the list are the obvious: oil, autos, natural gas, and lumber. The risk of a 25% tariff is quite daunting. In a recent "Talking Points", Chief Economist Doug Porter spoke about the "tariffying" thought of the 25% tariff on Canada's exports to U.S. and the trickling effects on the loonie, fiscal policy, and future interest rate directions. We couldn't have summed it up better ourselves. Take a read of Doug's comments below. BMO Private Wealth recently hosted a presentation titled "The Trump Tariff Threat". To view the playback, please click here.

Douglas Porter: BMO Economic Talking Points: Tariffying

Not to make light of an incredibly serious situation, but it was almost as if the markets went through six stages of grief in less than six days:

- **Denial and shock:** *"25%? He must mean China, not Canada! This can't be true."*
- **Pain:** *"What have we done to deserve this? Sell the Canadian dollar, sell export-dependent stocks, sell the automakers."*
- **Anger:** *"What kind of friend does this? What about the USMCA; didn't he sign that? We won't stand for this, we'll retaliate. U.S. consumers are going to pay the price."*
- **Bargaining:** *"What is it that he wants? Border security… sure, that's good for us too. A crackdown on drugs… sure all for that too. Surely, we can come to some agreement. Look even Mexico's President Sheinbaum had a 'wonderful conversation' with him. We can work this out."*
- **Depression:** *"Gosh, even if we can avoid this 25% tariff, we could face something similar on any other perceived misstep. Under this 'tariffist' we may never have unfettered access to the U.S. market. This is going to depress business investment for years."*
- **Acceptance:** *"We're just going to have to learn to live with this persistent noise and uncertainty and focus on what we can control for the next four years."*

What if? A 25% across-the-board tariff would be extremely damaging for the Canadian economy; on that, there is no debate. One well-respected academic economist has estimated that it could cut the level of Canadian real GDP by around 2% in 2025 with no retaliation. For perspective, our baseline call is for 2.0% growth, which would be erased by the trade hit. However, there are other policy levers and market responses that could somewhat mitigate the blow.

- First, **the Canadian dollar** would act as a partial shock-absorber, and its initial drop was a taste of what could come. In a full-25% world, with limited retaliation, a 5-10% further depreciation in the currency is entirely fathomable. At around $1.50/US$ (or 66.7 cents), the exchange rate could lessen the revenue blow for domestic producers.
- Second, the **Bank of Canada** would likely lean to even lower interest rates, essentially to support the parts of the economy it can support—i.e., domestic spending. We had been expecting the Bank to take its overnight rate down to 2.5% (from 3.75% now), but a 1.5% terminal rate, or even lower, would be more likely in a tariff scenario. Clearly, this is not an ideal situation for the Bank, as it risks inflating the housing market again, and firing up consumer borrowing. But desperate time…
- Third, **fiscal policy** would almost certainly loosen up further to provide support for the economy, if not to also meet demands on the defence spending front. Ottawa's anchor of $40 billion budget deficits, and moving to less than 1% of GDP, already looked to have been cut free. And, a 25% tariff world would justify a change in stance… "desperate times" again. Roughly speaking, a fiscal loosening of around 0.5% of GDP (or about $15 billion) would not be out of the range of possibilities.
- Fourth, and perhaps a bit more on the dreamy side, individual **Canadians may choose to spend more at home** and aim for domestic producers, egged on by a much weaker currency.

Lianne and Jamie

Source:
*Trade Partnership Worldwide analysis of U.S. Census Bureau Data
*BMO Economics Focus Report – December 6, 2024

Thank you!

The Di Rocco Keenan Wealth Advisory Group would like to send a **heartfelt thank you** to everyone that attended our Sip and Savour last month. With your help and generosity, we were able to meet our goal and donate $5,500 to the Daily Bread Food Bank.

Happy Holidays! Wishing everyone a wonderful holiday season.

Lianne, Jamie, Bailey, Teresa, and Joti

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