

US-Canada trade: Discerning rhetoric from reality

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Paola Moquillaza-Bello, Senior Analyst, Multi-Asset and Currency Management



Key takeaways

1. Selective tariffs: Approximately 60% of Canadian exports to the US are likely to be exempt from tariffs due to their critical importance to the US economy and potential political repercussions.
2. Economic impact: Tariffs on up to 40% of Canadian exports could still adversely affect the Canadian economy, leading to lower growth and potential retaliatory tariffs from Canada.
3. Sector-specific analysis: Certain sectors, such as energy and machinery, are less likely to face tariffs due to their significant impact on key US states and the integrated nature of the US-Canada supply chain.

Introduction

The trade relationship between the United States and Canada is one of the most significant and complex in the world. With the potential for new tariffs on the horizon, it is crucial to distinguish between rhetoric and reality. This analysis examines the likely scenarios and their implications for both economies, providing a nuanced perspective on the potential impact of US tariffs on Canadian exports.

Analysis

Approximately 60% of Canadian exports to the US are likely to be exempt from tariffs as they are critical to the US economy and could negatively impact the 2026 mid-term elections. The remaining 40% would require an item-by-item approach, which is likely to take time. This suggests that in the coming weeks, while US President Trump may announce an initial batch of tariffs, it is less likely that these tariffs would broadly affect Canadian exports. However, given sufficient time to evaluate the effects, tariffs may still eventually be imposed on some Canadian exports.

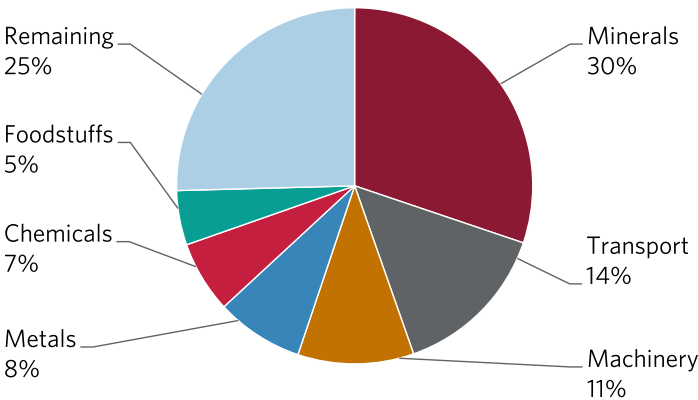
While this is good news relative to a sweeping 25% tariff across the board, tariffs on close to 40% of Canadian exports at some point in 2025 will still be detrimental to the Canadian economy, leading to lower growth than anticipated. In addition, if Canada retaliates, which looks likely, Canadians may see higher prices on US goods. However, the current Canadian government could direct tariffs to US imports that could easily be substituted for domestically-produced goods. Overall, the outlook for the CAD/USD remains negative, but less dramatic than under a 25% across-the-board scenario.

This analysis assumes the new US administration will act rationally, both economically and politically.

Sectors with the largest exposure to the US

Sectors such as minerals (mainly crude oil), transportation equipment (including motor vehicles), machinery, metals, chemical manufactured products, and foodstuffs (Chart 1) are critical to the US economy. Tariffs applied to these sectors would invoke the most damage to the Canadian economy. However, these exports are critical to the US economy, and higher prices could negatively impact Republican chances during the 2026 mid-term elections. It's possible those sectors are spared.

Chart 1: Share of Canadian exports to the US



Source: The information was prepared by CIBC Asset Management Inc. using data from the following third-party service provider: Statistics Canada. Data as at November 2024, released January 7, 2025.

Canadian energy exports

Canadian energy is a significant export to the US. There are three reasons why the energy (minerals) sector would very likely be spared:

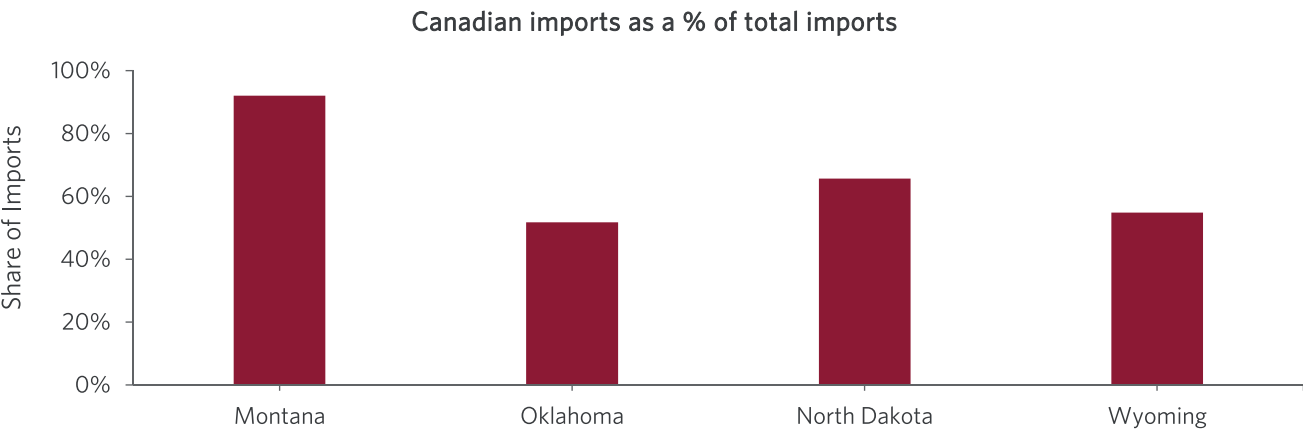
- 1. Five of the top 10 importers are red states (chart 2).
- 2. Two of the top 10 importers are high-stakes (10 or more electoral votes) potential swing states (states with lower than 5 pps differential in the 2024 elections).
- 3. The share of Canadian imports as a proportion of total imports in red states such as Montana, Oklahoma, North Dakota, and Wyoming is above 50% (chart 3), driven in large part by crude oil. The potential inflationary impact of tariffs on energy for those states could be significant.

Chart 2: State dependence on mineral imports from Canada

Rank	State	Share	Import \$M	Revenue \$M	Cumulative Revenue	Political Stance ¹
1	Illinois	38.1	67,851	16,963	16,963	Deep blue high stakes
2	Minnesota	7.6	13,487	20,335	20,335	Potential swing blue high stakes
3	Washington, State	7.4	13,258	23,649	23,649	Deep blue high stakes
4	Texas	6.5	11,638	26,559	26,559	Deep red high stakes
5	Oklahoma	5.9	10,572	29,201	29,201	Deep red medium stakes
6	Michigan	4.2	7,434	31,060	31,060	Potential swing red high stakes
7	Montana	4.1	7,322	32,891	32,891	Deep red low stakes
8	Ohio	3.2	5,736	34,325	34,325	Deep red high stakes
9	Colorado	2.7	4,852	35,538	35,538	Deep blue high stakes
10	Massachusetts	2.7	4,834	36,746	36,746	Deep blue high stakes

Source: The information was prepared by CIBC Asset Management Inc. using data from the following third-party service provider: Statistics Canada. Data as at November 2024, released January 7, 2025.

Chart 3: State dependence on overall Canadian imports



Source: The information was prepared by CIBC Asset Management Inc. using data from the following third-party service provider: Statistics Canada, US Census Bureau via Macrobond. Data as at November 2024, released January 7, 2025.

Machinery and equipment exports

Canadian exports of machinery and equipment are also likely to be spared as seven of the top ten importers are red states (chart 4), and three of them are high-stakes swing states. These three states combined represent 50 electoral college votes and 44 congressional seats.

Chart 4: State dependence on machinery imports from Canada

Rank	State	Share	Import \$M	Revenue \$M	Cumulative Revenue	Political Stance ¹
1	Michigan	11.9	7,375	1,844	1,844	Potential swing red high stakes
2	Texas	10.3	6,421	1,605	3,449	Deep red high stakes
3	Ohio	5.5	3,401	850	4,299	Deep red high stakes
4	New York	4.7	2,937	734	5,033	Deep blue high stakes
5	California	4.6	2,852	713	5,746	Deep blue high stakes
6	Illinois	3.7	2,321	580	6,326	Deep blue high stakes
7	Indiana	3.6	2,213	553	6,880	Deep red high stakes
8	Pennsylvania	3.4	2,141	535	7,415	Potential swing red high stakes
9	Florida	3.2	2,006	501	7,916	Deep red high stakes
10	Georgia	2.9	1,772	443	8,359	Potential swing red high stakes

Source: The information was prepared by CIBC Asset Management Inc. using data from the following third-party service provider: Statistics Canada. Data as at November 2024, released January 7, 2025.

Transportation equipment

This sector is more complicated to assess. Michigan, a high-stakes swing state, has a large exposure to Canadian imports (26%) driven by the motor vehicle manufacturing industry (chart 5, chart 6). Imports of motor vehicles and parts makes Michigan the second-largest US importer of Canadian goods. In addition, this industry represents close to 5% of US GDP.

Michigan has 15 electoral votes, with 7 of the 13 congress representatives being from the Republican Party. If Republicans want to keep or win more seats in 2026, they might not apply tariffs to this sector to avoid harming the Michigan economy.

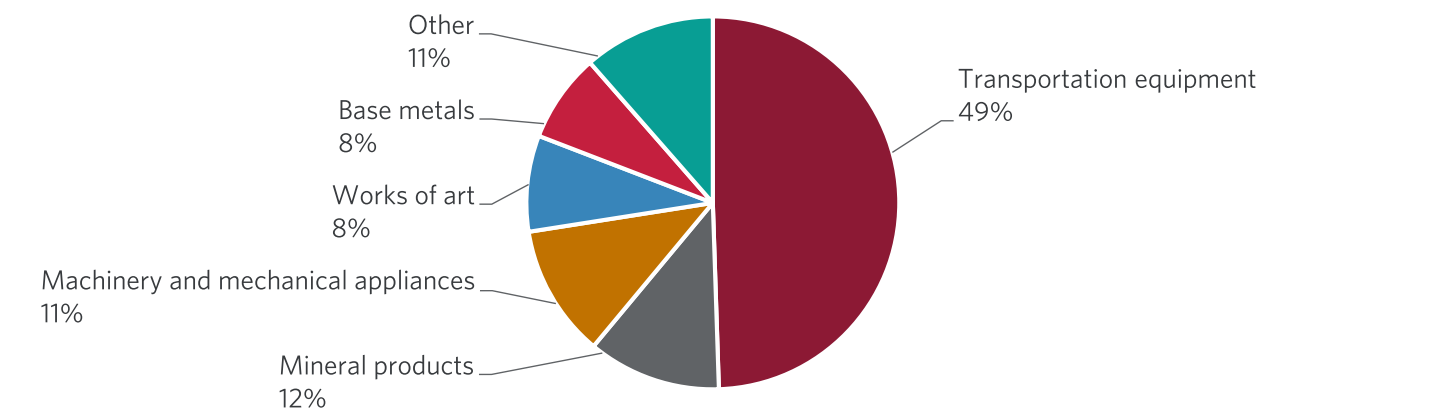
Additionally, two of the top five automakers in Canada are US-based manufacturers (Ford and GM). The motor vehicle manufacturing process in the US and Canada is highly integrated, and any tariffs on this industry could negatively affect the entire production chain, impacting both the US and Canadian economies.

Chart 5: State dependence on transportation equipment imports from Canada

Rank	State	Share	Import \$M	Revenue \$M	Cumulative Revenue	Political Stance ¹
1	Michigan	37.3	31,806	7,952	7,952	Potential swing red high stakes
2	Texas	25.8	21,971	5,493	13,444	Deep red high stakes
3	Connecticut	5.2	4,405	1,101	14,546	Deep blue medium stakes
4	Ohio	4.5	3,800	950	15,495	Deep red high stakes
5	New York	4.3	3,683	921	16,416	Deep blue high stakes
6	Indiana	1.8	1,514	378	16,795	Deep red high stakes
7	Illinois	1.5	1,293	323	17,118	Deep blue high stakes
8	Alabama	1.5	1,255	314	17,432	Deep red medium stakes
9	Kentucky	1.5	1,255	314	17,745	Deep red medium stakes
10	California	1.4	1,216	304	18,049	Deep blue high stakes

Source: The information was prepared by CIBC Asset Management Inc. using data from the following third-party service provider: Statistics Canada. Data as at November 2024, released January 7, 2025.

Chart 6: Michigan’s top five imports from Canada



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A similar analysis also puts exports of Canadian plastics, textile products, among others, potentially outside the scope of tariffs. If these sectors are taxed, it could be at a more granular level. This takes time to execute, but eventually, tariffs could be applied to pockets of these industries. That leaves the following sectors as likely targets for tariffs:

Export	% of Canadian exports to the US
Wood	2.7
Base metals	8.0
Products of chemical and allied Industries	6.5
Prepared foodstuffs	4.9
Live animals and animal products	2.4
Works of art	4.6
Pearls, precious stones and precious metals	2.0
Optical, photographic, medical and other instruments	1.2
Animal and vegetable fats and oils	1.2
Total	34.0

Source: The information was prepared by CIBC Asset Management Inc. using data from the following third-party service provider: Statistics Canada. Data as at November 2024, released January 7, 2025.

While there is no dispute that tariffs are harmful to both importers and exporters, it’s important to discern the rhetoric from the reality. The US and Canada have a deep and tightly integrated economic relationship. For this reason, tariffs on Canadian exports to the US may be more measured and nuanced than what’s in the headlines.



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¹ High stakes	10 or more electoral votes
Medium stakes	between 6 and 9 electoral votes
Low stakes	less than 6 electoral votes

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