ECONOMIC VIEWPOINT

Which Sectors of the Canadian Economy Are Most Vulnerable to Trump's Tariffs? A 10-Month Status Update

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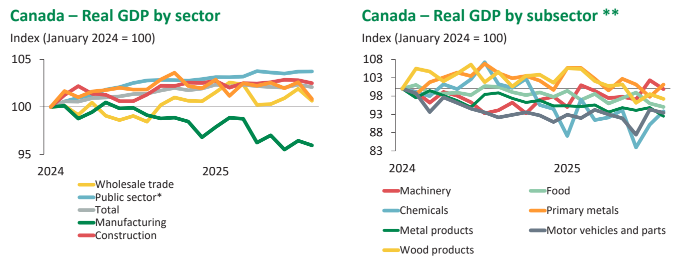
Introduction

When Donald Trump was sworn in as US president in January, we analyzed the potential risks his tariff threats posed to various Canadian industries. Our analysis looked at how reliant each sector was on exports to the United States, and evaluated the likelihood of sector-specific tariffs based on the US's capacity to produce those goods domestically or to find substitutes. Nearly 10 months later, many of those risks have materialized, while a few have intensified. Luckily, some industries have managed to avoid the worst of the tariffs. In this update, we look at how Canadian industries are faring today compared to our expectations in the first quarter of 2025. A comparative summary is provided in table 1 on page 4.

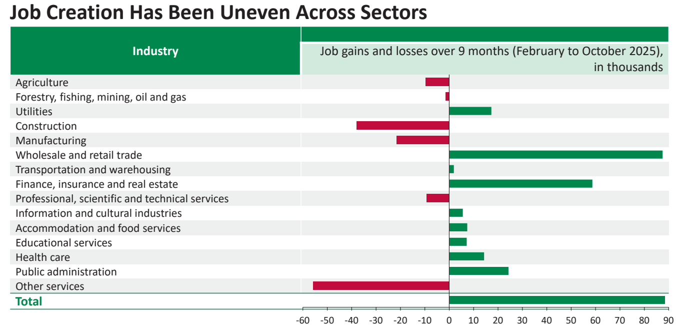
As feared, manufacturers of primary metals, such as steel and aluminum, and wood products are highly vulnerable to tariffs, and the transportation and wholesale sectors are feeling the effects of the reduction in international trade (graphs 1 and 2). Even though we were warned that tariffs were coming, the tariff rates were nevertheless higher than initially expected (e.g., 50% on steel and aluminum). In the case of aluminum, the US lacks the capacity to become self-sufficient and has limited options for substitution. This suggests that, despite the tariffs, Quebec aluminum plants will eventually regain a significant share of their lost exports to the United States, especially once inventories stockpiled in the first quarter—before the tariffs took effect—run out. Aluminum smelters have also started diversifying their exports to Europe, strengthening their resilience. However, Canadian steel and derivative product manufacturers have greater cause for concern. The abundance of affordable supply from global and US sources makes it easier for competitors to replace them. Similarly, fabricated metal product companies remain highly vulnerable. US tariffs have reduced demand for their goods, while Canadian countertariffs on steel and aluminum have indirectly driven up their costs.

Graph 1
Manufacturing Is Under More Pressure than Other Sectors



* Health, education and public administration. **Major manufacturing subsectors by size.
Statistics Canada and Desjardins Economic Studies

Graph 2
Job Creation Has Been Uneven Across Sectors



Statistics Canada and Desjardins Economic Studies

Fortunately, tariffs on copper have had a relatively limited impact on Canada. But softwood lumber has been hit much harder. In August, countervailing and antidumping duties doubled to 35%, in continuation of the longstanding dispute between Canada and the United States. To make matters worse, the US administration introduced an additional 10% tariff on softwood lumber from all countries on October 14. As a result, Canadian softwood lumber exporters now face a combined duty of 45%—even when fully CUSMA[1] compliant. This effectively eliminates the competitive edge they once had due to their proximity to the US market.

CUSMA has helped shield most manufacturing industries from tariffs. But that protection vanished in October for manufacturers of wood furniture and related products, which were hit with a 25% tariff that is set to increase even more in January (table 2). Given the new tariff and the subsector's heavy reliance on exports to the United States, we're continuing to categorize it as highly vulnerable.

Table 2
Sector-Specific Tariffs Have Become the Norm

Sector-specific tariff*	Targeted goods	Applied tariff	Tariff %
Automobiles and heavy vehicles	Finished automobiles and heavy vehicles	If CUSMA-compliant: On non-US content (otherwise on total value)	25
	Finished buses	On the total value	10
	Automobile and heavy vehicle parts	Only if not CUSMA-compliant**	25
Steel and aluminum	Primary metals (input)	On the total value	50
	Derivative products (finished or semi-finished)	Only on metal content	50
Copper	Derivative products (finished or semi-finished)	Only on metal content***	50
Wood	Softwood lumber	On the total value	10
	Upholstered wood products and wood kitchen cabinets	On the total value	25****

*Presented in order of application and priority. Aside from certain exceptions, sector-specific and IEEPA (border/fentanyl) tariffs cannot be stacked.
** Not applicable (0%) if CUSMA-compliant. Steel and aluminum tariffs may still apply.
*** Exception: The IEEPA tariff may apply to non-metal content.
**** Effective January 1, 2026, the tariff will be 30% for upholstered products and 50% for cabinets.
The White House and Desjardins Economic Studies

Finally, our assessment of the energy, critical minerals and potash sectors remains unchanged, as they've been largely unaffected by tariffs. One reason is that the tariff imposed on these sectors under the International Emergency Economic Powers Act (IEEPA)[2] was lower (10% instead of 35%). Another is that they're mostly CUSMA compliant. This is also why we've assigned a green rating to refined petroleum products and mining.

Some industries now appear more vulnerable than initially expected. These include motor vehicle manufacturing, canola production and forestry and logging.

Despite highly integrated supply chains and the collateral damage to US manufacturers—factors that initially led us to expect exemptions for the automotive sector—the US administration imposed a 25% tariff on the non-US content of imported motor vehicles effective April 3. While Canadian auto parts manufacturers aren't directly targeted,[3] the uncertainty surrounding the automotive sector—combined with the sector-specific tariffs on steel and aluminum—is having a substantial impact. Ontario has been hit particularly hard, as shown by Stellantis's recent decision to shift some of its production to the United States. In addition, US tariffs were expanded to include heavy vehicles, such as trucks and buses, which are primarily manufactured in Quebec.

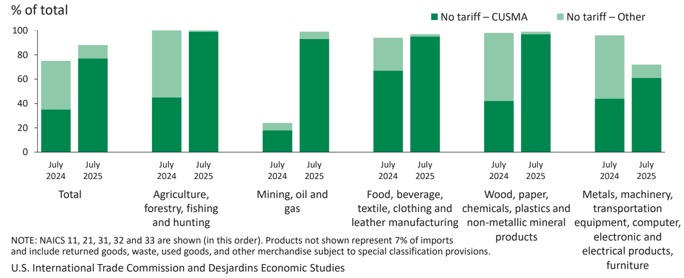
Forestry—which involves harvesting timber for sawmills—is heavily reliant on the wood manufacturing sector. Although we flagged forestry as one of the industries to watch in January, the 45% tariff on lumber manufacturers is prohibitively high. Consequently, we now categorize forestry as highly vulnerable.

Agriculture, which includes both crop and animal production, has fared somewhat better than expected. A notable exception is canola, which has been affected by a trade dispute with China. Canadian tariffs on Chinese motor vehicles and steel and aluminum took effect in October 2024, and China has implemented an increasingly targeted response over the year. While the initial retaliatory tariffs in March had a fairly limited impact, the August introduction of a 75.8% tariff on canola seed—an industry highly dependent on Chinese demand—was far more damaging. As a result, we've categorized canola as highly vulnerable.

The unexpected exemption of CUSMA-compliant products from the blanket IEEPA tariff on Canadian goods has made many sectors far less vulnerable than we thought in January 2025. Canadian exporters responded quickly by bringing many of their products into compliance with CUSMA (graph 3). This trend is especially evident in food and beverage manufacturing and agriculture, where nearly all exports are now exempt from US tariffs. In addition, the 25% tariff on shellfish and pork imposed by Beijing on March 20 has had a limited impact. The industry successfully pivoted to meet growing demand for Canadian pork in Japan, Mexico, Korea and Taiwan, offsetting the decline in exports to the United States and China ([Agriculture and Agri-Food Canada, 2025]). Despite this resilience, we've maintained a yellow rating ("to watch") for the agriculture and agri-food sectors due to the ongoing dispute with China and the uncertainty surrounding the CUSMA review, scheduled for next year.

Graph 3
The Share of Goods with Tariff Exemptions Has Gone Up

Share of US imports from Canada that are exempt from tariffs (July 2024 vs. 2025)



NOTE: NAICS 11, 21, 31, 32 and 33 are shown (in this order). Products not shown represent 7% of imports and include returned goods, waste, used goods, and other merchandise subject to special classification provisions.
U.S. International Trade Commission and Desjardins Economic Studies

[1] Canada-US-Mexico Agreement (CUSMA).
[2] The US administration invoked the IEEPA, claiming that fentanyl smuggling and illegal immigration across the Canada–US border had reached crisis levels.
[3] Since CUSMA-compliant parts are exempt from the 25% tariff on automobiles.

Several manufacturing segments exempt from sector-specific tariffs—such as plastics and rubber products, chemicals, refined petroleum products and aerospace—have also proven more resilient than expected. Aerospace stands out due to its access to multiple exemption mechanisms, including the Agreement on Trade in Civil Aircraft and exemptions on products procured by the US government. This has resulted in an average effective tariff of 3%. However, certain manufacturers of parts and auxiliary equipment remain vulnerable. Limited CUSMA compliance and restricted access to other exemptions mean they may be subject to high tariffs of 11.6% (table 3). This stands in sharp contrast with aircraft and engine manufacturers, who face effective tariffs estimated at just 0.02% and 1%, respectively. This highlights the importance of monitoring the increase in CUSMA compliance and the preservation of exemptions for the aerospace industry.

Table 3
Main Industries Affected by US Tariffs

	Industries*	US imports from Canada (July 2025)		Tariff exposure	
		US$M	% of total	CUSMA compliance (%)	Effective tariff (%)
1	Refined alumina and primary aluminum	257	0.8	100	49.3
2	Iron, steel and ferro-alloy steel products	351	1.1	98	39.0
3	Automobile and light-duty motor vehicles	1,690	5.3	99	18.9
4	Aircraft parts and auxiliary equipment	192	0.6	49	11.6
5	Other motor vehicle parts	629	2.0	86	9.4
6	Motor vehicle steering and suspension parts	160	0.5	86	6.3
7	Radio and TV broadcasting and wireless communications equipment	123	0.4	74	5.3
8	Construction machinery	169	0.5	91	4.5
9	Farm machinery and equipment	106	0.3	87	2.8
10	General-purpose machinery	169	0.5	75	2.8
11	Switchgear and switchboard apparatus	184	0.6	91	2.4
12	Motor vehicle gasoline engines and engine parts	331	1.0	92	2.1
	Other	**27,742**	**86.4**	**83**	**0.1**
	Total	**32,103**	**100**	**85**	**3.0**

* 6-digit NAICS codes. This chart only shows products representing US$100 million or more, with an effective tariff of more than 2%.
U.S. International Trade Commission and Desjardins Economic Studies

Finally, although the tariff on products derived from steel and aluminum applies to most machinery manufacturers, the sector has performed better than expected, with an estimated effective tariff of 2.4%. This is largely due to widespread CUSMA compliance and the limited impact of the 50% sector-specific tariff, which applies only to the value of metal content—typically low relative to the final value of products. This also explains the differences in tariffs applied to different subsectors: Construction machinery manufacturers face a tariff of 4.5%, while heating, ventilation, air-conditioning and refrigeration equipment manufacturers are subject to just 1.4%. But we still need to monitor developments closely, given the risk that duties collected could increase in the future.[4]

Conclusion

Over the past 10 months, sector-specific tariffs have gradually become the norm. In some cases, they are prohibitively high, leaving targeted Canadian industries vulnerable and threatening their financial strength and long-term survival. Fortunately, CUSMA allows most exported goods to be exempt from customs duties, giving Canada a relatively favourable position compared to other countries. Still, certain regions have been hard hit by the current trade turmoil, particularly southwestern Ontario (automotive and steel) and resource-based regions in Quebec (wood and aluminum). The US administration's unpredictable approach and threats of new tariffs on a growing list of sectors—from pharmaceuticals to semiconductors—have created a volatile environment. This is compounded by the many uncertainties surrounding the 2026 CUSMA review. Against this backdrop, exporters will need to continue diversifying, as noted in our report on SMEs, both internationally and through interprovincial trade. They'll also need to invest and innovate to become more competitive globally. The productivity super-deduction for manufacturers and the enhanced scientific research and experimental development tax incentive—two key measures targeting the manufacturing sector from the last federal budget—are specifically designed to support this repositioning.

[4] Implementation frictions could be temporarily leading to underreporting of tariff duties in customs records.

TABLE 1

Vulnerability to tariffs, by sector:	Vulnerability index: November		Vulnerability index: January	Average US tariff: % in July	Average US tariff: Trend*
Primary metals	🔴		🔴	10.08	↗
Wood products	🔴		🔴	0.02**	↗
Furniture and related products	🔴		🔴	2.12	↗
Motor vehicles and parts	🔴	←	🟢	11.64	↗
Metal products	🔴	←	🟡	13.22	↗
Forestry and logging	🔴	←	🟡	0.22	↗
Food and beverages	🟡	←	🔴	0.70	
Chemicals	🟡	←	🔴	0.65	
Machinery	🟡	←	🔴	2.37	
Aerospace products and parts	🟡	←	🔴	3.05	
Pulp and paper products	🟡	←	🔴	0.40	
Plastics and rubber products	🟡	←	🔴	0.54	
Computer and electronic products	🟡	←	🔴	4.78	
Electrical equipment, appliances and components	🟡	←	🔴	2.61	
Non-metallic mineral products	🟡	←	🔴	0.83	
Other transportation equipment	🟡	←	🔴	0.56	
Crop and animal production	🟡	***	🟡	0.01	
Fishing, hunting and trapping	🟡	***	🟡	0.02	
Transportation and warehousing	🟡		🟡	N/A	
Wholesale trade	🟡		🟡	N/A	
Mining and quarrying	🟢	←	🟡	0.08	
Petroleum and coal products	🟢	←	🟡	0.05	
Oil and gas extraction	🟢		🟢	0.01	
Professional, scientific and technical services	🟢		🟢	N/A	
Information and cultural industries	🟢		🟢	N/A	
Utilities (including electric power generation)	🟢		🟢	N/A	
Administrative services, office services and head offices	🟢		🟢	N/A	
Arts, entertainment and recreation	🟢		🟢	N/A	
Construction	🟢		🟢	N/A	
Accommodation and food services	🟢		🟢	N/A	
Finance and insurance, real estate and holding companies	🟢		🟢	N/A	
Retail trade	🟢		🟢	N/A	

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Legend:
🔴 Highly negative impact
🟡 To watch
🟢 Likely limited impact
N/A Not applicable
↗ **Tariffs** have gone up since July

* Direction of the tariff rate since July (latest data available).

** Estimated 45% duty on softwood lumber as of October 14 (including 35% countervailing and antidumping duties).

*** Crop and animal production and fishing are still yellow due to Chinese tariffs. Canola = red.