Economic Development Regina Inc.
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Potential Economic Impact of U.S. and Canadian Tariffs: The Greater Regina Area (GRA) Perspective

ISSUE

United States President, Donald Trump has imposed a 25% import tax on goods from Canada and Mexico and a 20% tax on goods from China. The Government of Canada has also announced a 25% retaliatory tariff on goods from the United States.

KEY MESSAGES

- **The situation is fluid:** While we don't yet understand the full scope and duration of the U.S. Tariffs, and the resulting Canadian countermeasures, it's fair to say the impact will be significant on both sides of the border.
- **Regina has a stake:** Collectively, 199 businesses in the GRA export over $1B worth of goods to the United States. This makes up 4.8% of the GRA's GDP and 49.8% of the GRA's total exports.
- **The potential combined impact if ALL trade actions is significant:** Prior to these trade actions, Regina's GDP growth for 2025 was projected to be 2.5%. A prolonged trade war could reduce that growth to 0.5%, with a GDP loss of $329M and 730 jobs by the end of 2025.
    - While almost every sector would be impacted, Regina's manufacturing sector, which has experienced declines in sales, could see a further impact.
    - Consumer prices on items like food, clothing, and fuel will also be impacted.
- **Beyond an end to the tariffs, there is no quick fix:** As we've heard from business and political leaders alike, it's going to take collaboration at all levels to mount an appropriate, measured response. Potential actions include:
    - Diversifying Trade Partners
    - Strategic Engagement
    - Innovation and Competitiveness
    - Government Support

CURRENT STATUS:

- The U.S. has imposed a 25% tax on Canadian and Mexican imports while limiting the levy to 10% on Canadian energy starting March 4, 2025. He also doubled the tariff he put on Chinese products last month to 20%.
- The U.S. has also announced a 25% tariff on all steel and aluminium imports from Canada, starting in April and coming on top of these current taxes. The U.S. has further threatened a reciprocal tariff, all on top of the current one.
- The Government of Canada has also imposed a retaliatory 25% tariff on $30B worth of American imports, promising to expand to cover another $125B worth of goods if the U.S. tariffs are still in place after three weeks. Provincial governments are also rolling out a couple of retaliatory measures in response to the American taxes.

- The GRA and Saskatchewan benefit significantly from trade under the Canada-United States-Mexico Agreement (CUSMA), with Saskatchewan's exports totalling $49.3B in 2023. Key sectors like agri-food, which exported over $20.2B, and agricultural equipment, with exports nearing $835M, are pivotal.
- 199 businesses in the GRA export over $1B worth of goods to the United States, translating into $3,977 per resident. This makes up 49.8% of the GRA's total exports.

ANALYSIS

- Canada and the U.S. have forged an integrated and mutually beneficial economic relationship over a very long time, and cross-border trade has played a critical role in strengthening economies on both sides of the border.
- The impacts of the trade war will be felt in different ways by different families and businesses around Canada, U.S. trade reliance varies across the country.
- The manufacturing sector appears to be the sector that will take the most hit in terms of declining sales and job losses compared to sectors like agriculture and energy. Canada's manufacturing sales are already on the decline and these tariffs could take a further hit to the already struggling sector.
- The tariffs will drive up costs for families and businesses, driving inflation and slowing economic recovery from recent challenges. Prices of food, clothes, gas at pumps and other necessities will rise. This will bring complexity to the Bank of Canada's work and may keep interest rates elevated for a longer period, causing further strains on household budgets.
- Countermeasures from the federal government and the provinces will hurt Americans, but will also be detrimental to the Canadian economy in a very noticeable way.

Macro-economic Impacts

- **Greater Regina Area (GRA):** GDP growth for 2025 is projected at 2.5%, reaching **$18B**. The trade war could cause a 2% contraction, reducing growth to 0.5%, with an economic loss of **$329M** and **$1,134** per resident by the end of 2025.
- **Saskatchewan:** GDP growth for 2025 is forecasted at 2.7%, reaching **$81B**. The tariffs and retaliation may cause a 2.4% contraction, lowering growth to 0.8%, translating to a **$2B** loss and **$1,543** per resident by the end of 2025.
- **Employment and Income Loss:** The GRA could face the loss of at least **730 full-time jobs** by the end of 2025, primarily in the transport, warehousing, manufacturing, and retail sectors. This would exacerbate unemployment challenges and reduce household incomes.
- **Inflation and Cost of Living:** The tariff is projected to increase inflation in the GRA to **4-5%** by late 2025, intensifying cost-of-living pressures.
- **Competitiveness and Cross-Border Trade:** The tariff would raise production costs for both Canadian and U.S. businesses, reducing their competitiveness in international markets. Both economies would face negative consequences.

STRATEGIC RECOMMENDATIONS

Given the substantial economic stakes, the GRA should consider:

1. Diversifying Trade Partners
    - **Existing Partners:** Strengthen relationships within existing trade agreements outside the USA, such as with Pacific Alliance countries, to enhance trade volumes in agri-food and manufactured goods.
    - **New Markets:** Explore trade opportunities in emerging markets in Africa and Southeast Asia, which show increasing demand for high-quality agricultural and manufactured products.
    - **Breaking Interprovincial Trade Barriers:** By enhancing the free flow of goods and services between provinces, businesses can expand customer bases and reduce reliance on exports.
2. Strategic Engagement
    - **Prioritize negotiations for tariff exemptions** in critical sectors such as agri-food and energy, leveraging Canada's position in environmental sustainability and food security.
    - **Implement aggressive marketing strategies** to position GRA's products as premium offerings in alternative markets, thus offsetting potential losses in the U.S. market.
    - Retaliatory tariffs could potentially double the economic effects on both sides of the border. **Urgent collaboration** is needed to assess and implement mitigation strategies and emphasize the broader economic risks to all governments.
3. Innovation and Competitiveness
    - **Invest in technology and innovation** to reduce production costs and increase the competitiveness of exports. Foster opportunities to advance key sectors.
4. Government Support for Canadian Businesses
    - The federal, provincial and territorial governments must present a united front to counter the proposed tariffs on Canadian imports. Government could implement measures to strengthen domestic supply chains that support businesses. A fair and balanced response is crucial.
    - A balanced response to U.S. tariffs demands substantial investment from provincial and federal governments. Without funding and strategies to handle inflation, paused rate cuts, and higher taxes, Canada risks unequal impacts on businesses and people across provinces. Revenue from retaliatory tariffs could be channelled to supporting businesses and families affected.

CONCLUSION

The 25% tariff on Canadian exports to the USA and the associated counter-tariffs from Canada presents a significant challenge to the GRA's economic landscape. This analysis uses recent data to project the impacts on key economic indicators in 2025 for the GRA.

The damage this trade war will bring to Canadians underlines the necessity for strategic planning and proactive engagement with alternative trade partners, both within and outside Canada.

The GRA must prepare for all eventualities to safeguard and potentially enhance its economic future. This proactive approach will enable the GRA to mitigate risks and capitalize on new opportunities in the changing global trade environment.