Capital Insights

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NAVIGATING THE U.S. TRADE WAR:
STEEL AND ALUMINUM TARIFFS IN FOCUS

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Overview and Economic Implications for Canada

The United States is set to impose 25% tariffs on all steel and aluminum imports beginning March 12. This action follows an executive order signed by President Trump on Monday, citing the 2018 Commerce Department report under Section 232 of the Trade Expansion Act, which concluded that steel and aluminum imports pose a threat to U.S. national security.

The move rescinds all previous trade agreements, including the USMCA, and represent an escalation relative to the 2018 tariffs. Indeed, U.S. aluminum imports, which previously faced a 10% tariff, will be subject to a higher rate. Additionally, the U.S. Customs and Border Patrol will “dramatically increase its oversight” and tariffs will extend to imports of downstream products, such as fabricated structural steel and prestressed concrete strand.

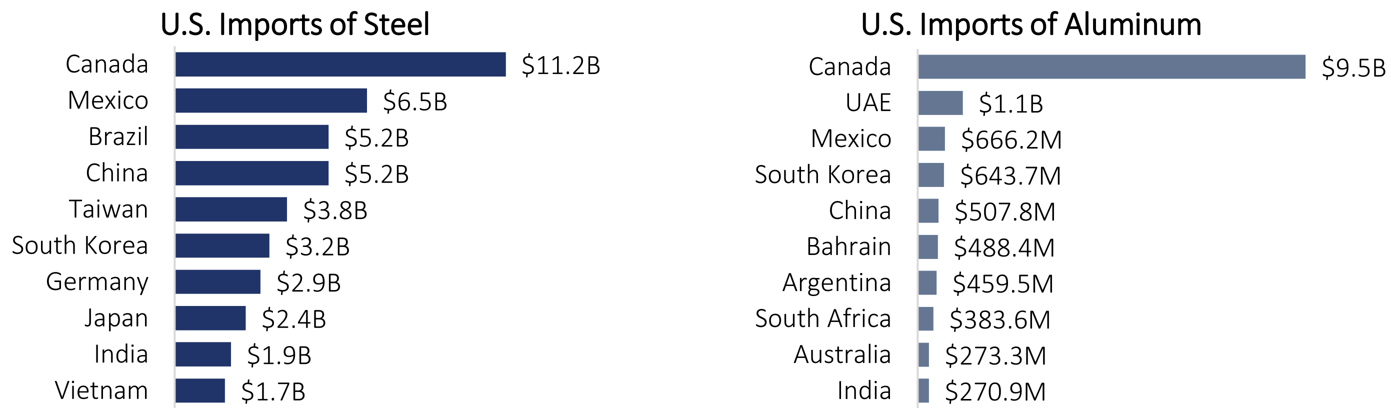
While these tariffs, if implemented, are expected to weigh on the Canadian economy, we estimate the direct effect will be limited, reducing GDP by no more than 0.2-0.3 percentage points. For one, Canadian steel and aluminum exports to the U.S. are modest as a share of GDP. The U.S. is also highly dependent on Canadian imports to meet domestic consumption requirements. This is particularly true for aluminum. A likely reduction in Canadian imports from the U.S. will also provide some offset.

There are also unresolved questions regarding implementation. Notably, the March 12 implementation date falls after the March 4 deadline, which Trump set for the 30-day delay of the 25% tariff on all Canadian and Mexican exports to the U.S. Additionally, it remains unclear whether the steel and aluminum tariffs will be applied on top of the 25% tariff on all Canadian exports.

What does Canada’s trade relationship with the U.S. look like?

Canada is the U.S.’s largest supplier of both steel and aluminum, accounting for one-fifth of total U.S. steel imports and more than half of its aluminum imports - far exceeding any other nation.

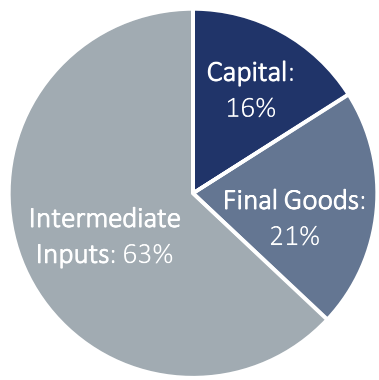
U.S. IMPORTS OF STEEL AND ALUMINUM BY COUNTRY



Source: U.S. Census Bureau, CI Global Asset Management. U.S. imports measured for the calendar year 2024.

The true extent of this reliance is likely understated in trade statistics. A large portion of US-Canada trade consists of intermediate goods – 63% of Canadian exports to the US fall into this category – meaning Canadian steel and aluminum are integral to the production of many finished products across various U.S. industries.

CANADIAN EXPORTS TO THE U.S. BY CATEGORY



Source: Statistics Canada. Canadian exports measured for the calendar year 2023.

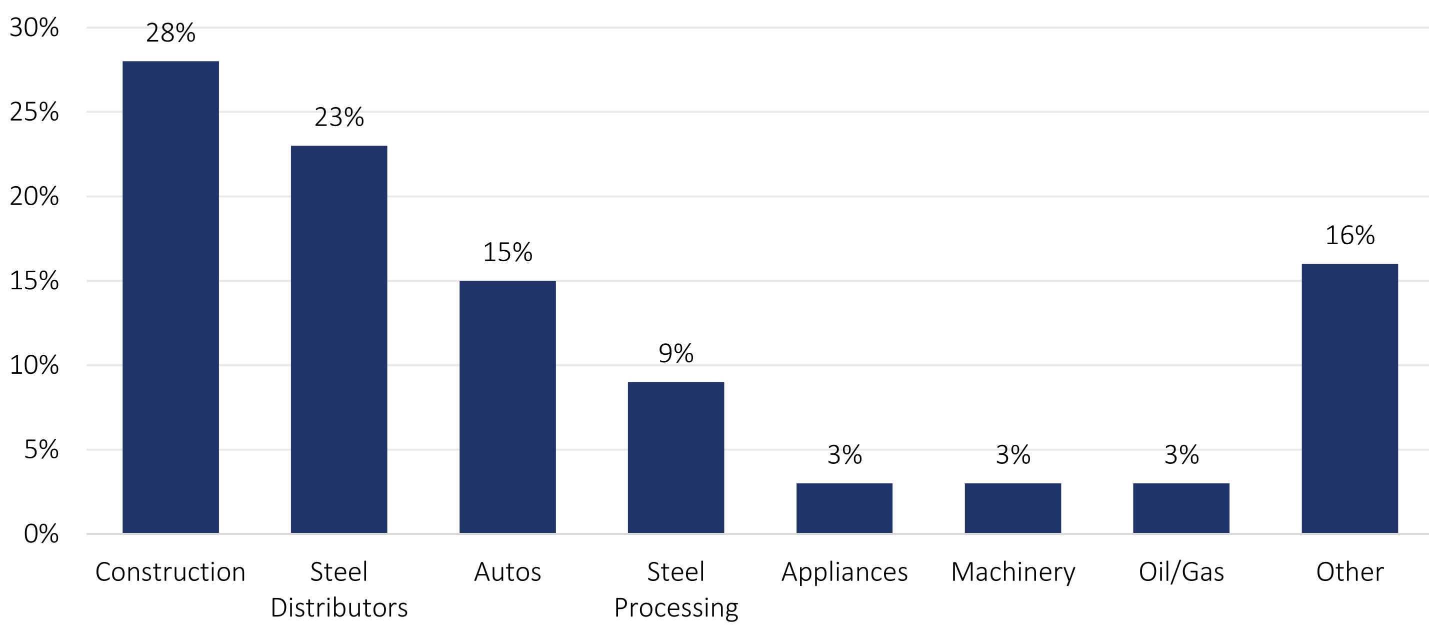
Are U.S. industries reliant on steel and aluminum imports?

The ripple effects of these tariffs will affect multiple key sectors in the US. Industries such as construction, automotive production, technology, and military equipment are all dependent on imported steel and aluminum.

According to the recently published 2024 U.S. Geological Survey's Mineral Commodity Summaries, the U.S. is highly dependent on steel and aluminum imports to meet the needs of these industries, making them vulnerable to disruptions caused by the tariffs.

In 2024, U.S. steel consumption reached approximately 93 million tons, with net imports fulfilling about 13% of this demand. The largest sectors consuming steel include construction (28%), steel service centers (23%), and automotive production (15%).

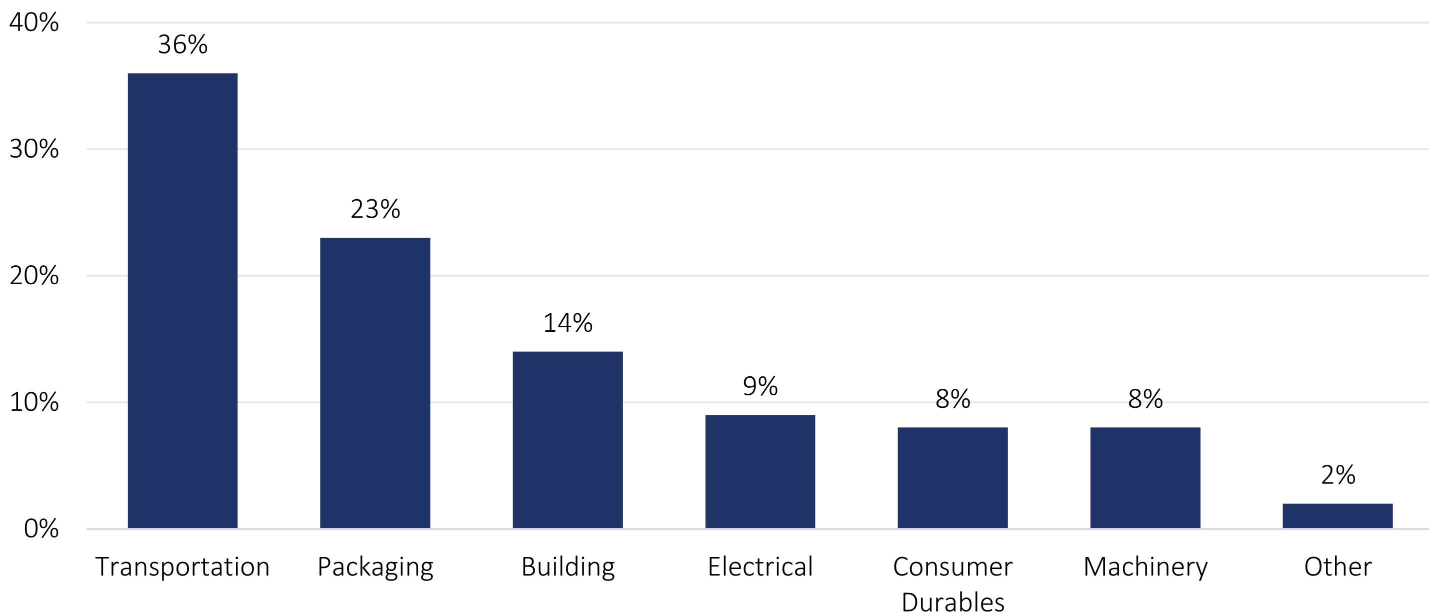
U.S. STEEL CONSUMPTION BY INDUSTRY (% OF NET SHIPMENTS)



Source: U.S. Geopolitical Survey, CI Global Asset Management. Consumption measured for the calendar year 2024.

The U.S. has an even higher import dependency for aluminum. Domestic consumption of aluminum totaled 4.3 million tons, with net imports meeting 47% of this demand. The transportation sector alone accounts for 36% of U.S. aluminum use, with significant portions also going to packaging, building, and electrical applications.

U.S. ALUMINUM CONSUMPTION BY INDUSTRY (% OF NET SHIPMENTS)



Source: U.S. Geopolitical Survey, CI Global Asset Management. Consumption measured for the calendar year 2024.

Other Economic Implications

With such a heavy reliance on imports, the tariffs are expected to increase domestic prices of steel and aluminum in the U.S., which will have a cascading effect on the cost of many products.

For context, when the U.S. imposed a 25% tariff on steel in 2018, the producer price index for iron and steel rose sharply. Given this precedent, similar price hikes are expected to follow the implementation of tariffs, driving up costs for manufacturers and consumers across a wide range of industries. In a 2019 study, the New York Federal Reserve found that aggregate CPI inflation was 0.3 percent higher than it would have been without the tariffs.

The Tax foundation performed a further review of the 2018 tariffs on steel and aluminum. In it, they concluded that tariffs on imports of steel and aluminum raised the cost of production for manufactures, reduced employment in those industries, raised prices for consumers, and weighed on exports. Estimates suggest US job losses stemming from the tariffs reached up to 75,000.

The Road Ahead

While tariffs on U.S. steel and aluminum imports will disrupt Canadian activity, they are also likely to have significant negative effects on the U.S. economy, especially for industries dependent on Canadian steel and aluminum. As such, we anticipate the U.S. will aim to strike an eventual deal with Canada, though the exact outcome may differ from what was seen in 2019.

Trade uncertainty and market volatility remain elevated, reinforcing the need for disciplined risk management and a long-term perspective. While risks persist, economic shifts will also present opportunities as businesses adapt. Our priority is maintaining stability while identifying areas of resilience, ensuring portfolios are well-positioned for a changing trade environment.

For more information, please visit ci.com.

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