CANADIAN AMERICAN BUSINESS COUNCIL

ECONOMIC IMPACTS OF US-CANADA TARIFF ESCALATION UNDER THE USMCA

Prepared for the Canadian American Business Council • August 2026

OXFORD ECONOMICS

FOREWORD

The United States and Canada have built one of the world's most successful and embedded economic partnerships in the world. For generations, businesses, workers, and communities on both sides of the border have prospered through our deeply connected supply chains and a predictable environment for cross-border investment.

Yet today we face a period of turbulence. Tariffs and counter-tariffs have disrupted longstanding commercial ties, and the uncertainty surrounding the future of the United States-Mexico-Canada Agreement (USMCA) has added complexity for long-term investment decisions.

At the same time, the opportunity before us has never been greater if we work together. The United States and Canada possess the resources, capabilities, and workforces to ensure our economic security and prosperity.

The Canadian American Business Council (CABC) has long sustained that the US-Canada relationship is more than a trading partnership. It represents a strategic economic alliance built on a history of cooperation that supports millions of jobs, drives innovation, and maintains the security of both our nations. The strength of our partnership has been rooted in collaboration, shared interests, and a recognition that our economies are stronger when we work together.

This report, undertaken by Oxford Economics, provides an independent quantitative assessment of the US-Canada commercial relationship and outlines the likely economic consequences of potential USMCA negotiation outcomes.

The findings of this report demonstrate how the USMCA promotes stronger economies for the US and Canada. With the USMCA, both nations realize the benefits of stronger GDP, lower inflation, increased jobs, and higher household savings. By contrast, tariffs and a USMCA breakdown adversely impact affordability on both sides of the border.

As governments consider the future of North American trade and economic cooperation, it is imperative that policy decisions bolster, not undermine, our economic resilience.

This is not a moment for uncertainty to define our future. It is a moment to reaffirm the principles that have made North America one of the world's strongest economic regions and to build a more resilient partnership for the decades ahead.

The path forward will require constructive dialogue and sustained engagement between governments and the private sector. The Canadian American Business Council remains committed to serving as a trusted forum for that collaboration, bringing together leaders from both countries to advance solutions that promote economic security and ensure the long-term success of the US-Canada partnership.

Beth Burke
Chief Executive Officer, Canadian American Business Council

EXECUTIVE SUMMARY

The United States and Canada share one of the most economically integrated bilateral relationships in the world, built over four decades of free trade. This relationship is now under significant stress as the July 1, 2026, deadline to extend the United States-Mexico-Canada Agreement (USMCA) has passed without renewal, triggering a period of annual reviews and sustained uncertainty for businesses and investors on both sides of the border.

Against this background, the Canadian American Business Council (CABC) commissioned Oxford Economics to undertake a study which takes stock of the US-Canada commercial relationship and assesses the likely economic consequences of three distinct potential outcomes of USMCA negotiations: a) a Status Quo scenario, in which permanently higher tariffs remain between the US and Canada on steel, aluminum, autos and certain non-USMCA compliant goods; b) a Successful Renegotiation scenario, in which USMCA is formally extended, and most tariffs return to near-zero pre-2025 levels; and c) a USMCA Breakdown scenario, in which the agreement is terminated, triggering a broad-based escalation of tariffs across most goods. The Status Quo scenario is anchored to the bilateral tariff regime in effect in mid-2026. Although the modelling was calibrated to tariffs in place as of April 2026, the effective bilateral tariff rates were broadly unchanged through July 2026, and the US decision not to renew USMCA places the North American economies squarely on this Status Quo path.

KEY FINDINGS OF THIS REPORT:

	UNITED STATES		CANADA	
Indicator	**Successful Renegotiation**	**USMCA Breakdown**	**Successful Renegotiation**	**USMCA Breakdown**
	Impacts relative to Status Quo		*Impacts relative to Status Quo*	
GDP (cumulative over 10 years)	+US$432bn (0.2%)	-US$1.0tn (-0.4%)	+C$253bn (0.9%)	-C$271bn (-1.0%)
Jobs (in 2027)	+137,000 (0.1%)	-214,000 (-0.1%)	+98,000 (0.5%)	-102,000 (-0.5%)
Exports (in 2035)	+US$103bn (3.1%)	-US$150bn (-4.5%)	+C$51bn (6.4%)	-C$49bn (-6.2%)
Average household income (cumulative over 10 years)	+US$1,385	-US$4,809	+C$4,166	-C$5,987
States and provinces most impacted	Michigan, Indiana, Washington, Arizona, Texas, Iowa, Kansas, Utah, Alabama		Ontario, Quebec, Manitoba, New Brunswick	
Industries most impacted	Metals, machinery, autos, transportation equipment, wood products		Autos, metals, machinery, electronics, chemicals, wood products, paper products	

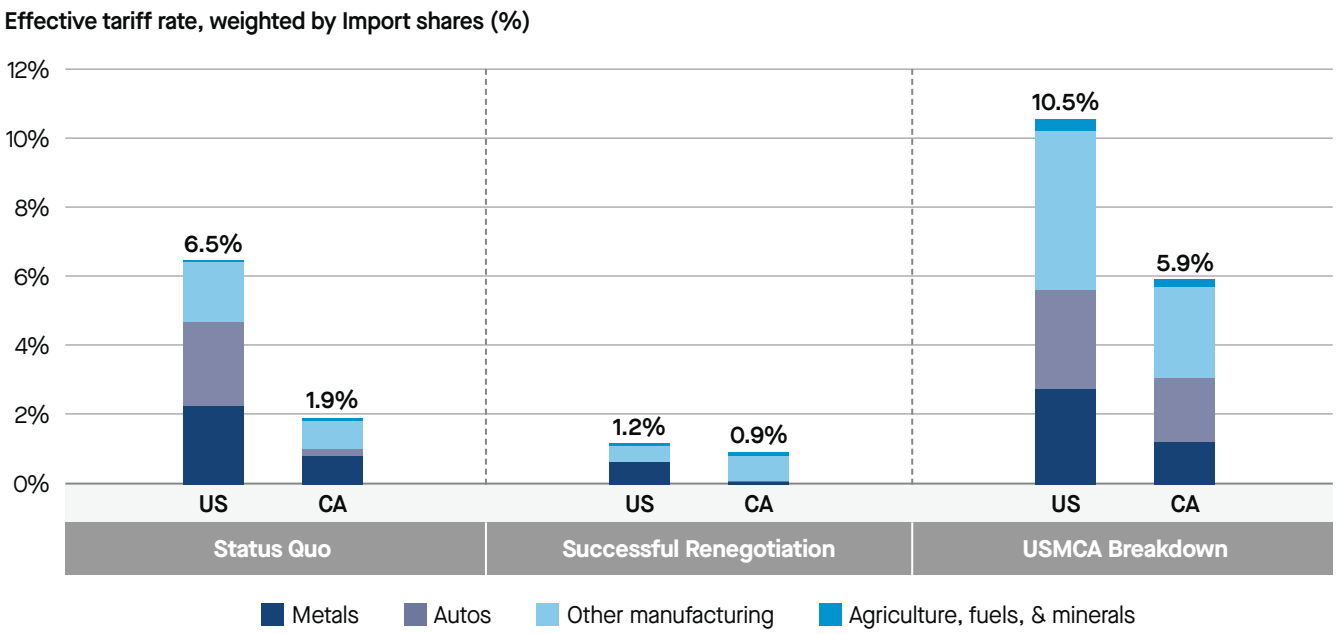
Notes: GDP, exports, and household income represent real values measured in 2017 constant prices.

Four decades of economic integration have overwhelmingly generated economic benefits for American and Canadian businesses, workers and consumers, and those benefits would be placed at risk under all elevated-tariff scenarios. Total bilateral trade stood at US$917.3 billion in 2024, before the current episode of tariff escalation, making the US and Canada each other's most important trading partners. This trade represents a complex exchange of both finished and intermediate goods that has lowered prices, raised productivity and supported higher wages on both sides of the border. An estimated 1.4 million American jobs and 2.5 million Canadian jobs depend on the bilateral trade relationship. Reversing this integration would not merely remove its direct benefits but would also impose substantial transition costs on businesses forced to rebuild intricate supply chains created over decades and incur long-run efficiency losses.

Status quo tariffs represent a significant departure from the regime that prevailed under USMCA before 2025, with the US effective tariff rate on Canada rising to 6.5%. Canada's prevailing counter tariffs are more contained, sitting at an effective rate of 1.9% under the Status Quo scenario. However, the termination of USMCA would result in large increases in both countries' tariffs, with the US effective tariff rate on Canada jumping to 10.5% and Canada's rate on the US rising to 5.9%. A successful renegotiation of USMCA would cause bilateral tariffs to fall close to their pre-2025 levels of around 1%, as in this scenario only limited additional tariffs are assumed to remain on steel, aluminum and Canadian dairy.

Potential economic losses from permanently higher tariffs are sizable, reaching US$1.4 trillion in the United States and C$523 billion in Canada in the event of a complete breakdown of USMCA. Tariffs cause significant trade disruption, leading to layoffs, lower investment, and slower productivity growth. As a result, GDP growth slows permanently following USMCA Breakdown and rises in the case of Successful Renegotiation. Relative to the Status Quo scenario, in which sizeable tariffs remain on steel, aluminum and autos, we estimate a successful renegotiation of USMCA would generate an additional US$432 billion in US GDP and C$253 billion in Canadian GDP over 2026–2035. By contrast, a complete breakdown of USMCA would cause cumulative losses of

US-Canada effective tariff rates by scenario



Source: Oxford Economics calculations, GTAP 2023 trade data

US$1.0 trillion and C$271 billion over the same 10-year period. Added together, these represent significant economic costs from higher tariffs to both the US and Canadian economies.

Successful renegotiation of USMCA would create an additional 137,000 American jobs and 98,000 Canadian jobs in 2027 relative to the status quo. By contrast, the breakdown of USMCA would be accompanied by 214,000 and 102,000 fewer jobs, respectively, in the US and Canada. Many of these jobs would be in manufacturing industries directly impacted by tariffs, but the service sector would also feel the impact as lower disposable income causes households to reduce consumer spending and lower trade, and investment reduces demand for transportation, construction and professional services. Translated to the level of an individual household, achieving a Successful Renegotiation over a USMCA Breakdown is worth approximately $516 per US household and C$846 per Canadian household per year.

Tariffs have large and permanent impacts on trade volumes, causing exports to drop 4.5% in the US and 6.2% in Canada by 2035 in the case of USMCA breakdown. The substantial tariffs that the US and Canada apply on each other in both the Status Quo and USMCA Breakdown scenario render imported goods significantly more expensive and thus uncompetitive. As a result, both countries see demand for their exports drop (and would see demand rise in the case of tariff reductions). As the US and Canada are each other's biggest trading partners, the resulting impact on trade volumes is significant.

Manufacturing industries are the most impacted across all scenarios. In both the Status Quo and USMCA Breakdown scenarios, US-Canada tariffs target autos and metals, while the removal of USMCA exemptions also increases tariffs on a broad range of manufactured and agricultural goods. Directly targeted industries generally see the biggest negative impacts from higher tariffs, followed by industries for whom tariffed products constitute a large share of intermediate inputs. Given greater dependence on bilateral trade among Canadian manufacturing industries, the sectoral impacts from tariffs are often four to six times as large for Canada.

The economic consequences of lower versus higher tariffs are geographically concentrated, hitting manufacturing hubs especially hard. In the United States, Indiana, Michigan, Texas, Arizona, Washington and Alabama top the list of states most impacted by tariff escalation, due to their large traditional manufacturing sectors. In Canada, both the gains from lower tariffs and losses from higher tariffs are concentrated in Ontario and Quebec, which account for the bulk of Canada's auto, metals, and other manufacturing output, while Manitoba and New Brunswick's relatively large manufacturing sectors also leave them disproportionately impacted.

Higher tariffs are ultimately paid by consumers via higher inflation. Tariffs raise the cost of both imported inputs and finished goods, and businesses pass much of this through to prices. Under USMCA Breakdown, 2027 inflation rises to 2.4% in the US and 2.6% in Canada (from 2.1% and 2.2% in the Status Quo), and the effect is durable: consumer prices remain around 0.7% (US) and 0.6% (Canada) above the Status Quo even by 2035.

Tariffs ultimately do not grow the American manufacturing sector, nor do they shrink the US trade deficit. Given the highly integrated and complementary nature of US-Canada trade, tariffs between the two countries prove highly disruptive. Costs for manufacturers on both sides of the border increase and render North American manufacturing industries less competitive, while lower household incomes and investment in both countries reduce Canada's demand for US goods and vice versa. As a result, higher tariffs cause the US manufacturing sector to shrink and the US trade balance to deteriorate, accomplishing the opposite of what US policy makers intended.