

# U.S. Tariffs on Canada: Scenario-based Impacts

As of April 3, 2025, the Canadian car market is receiving tariffs imposed on vehicles entering Canada from the United States. With many variables still unclear, the fact of the matter is that tariffs imposed on our market will create value instability through a sizeable hole in vehicle demand and supply, touching both the Canadian economy and overall car market.

## **25% Tariff applied to all non-USMCA Compliant New and Used vehicles crossing into Canada from the United States**

### Scenarios in the Canadian Macroeconomic environment:

So far in 2025, just the threat of a US tariff on Canadian exports has decreased GDP growth, reduced consumer confidence, and weakened our exchange rate. Now that tariffs have been imposed, not just on Canada but on much of the world, our economy anticipates a likely recession. Let's then go over the key variables that will affect the car market from these economic outlooks through the imposition of tariffs on vehicles destined for Canada from the U.S.

We expect that with the onset of tariffs, our Unemployment Rate will rise due to the increased cost of business and the reduction in staffing costs necessitated to maintain profitability. With this measurable change, the 2025 forecast from Fitch Ratings, is a peak of 7.7% in Q4 this year, and an average of 7.2% over the course of 2025. This is up from our current level of 6.7% that averaged 6.3% in 2024. The effect of which will suppress market demand and inhibit our sales volume forecast for 2025, possibly creeping into 2026.

Looking at population growth in Canada, StatsCan anticipates a slight decrease in 2025 and 2026, entirely changing course from the run up of population growth seen from 2022-2024 of almost 3 million people. This is not necessarily correlated to tariffs as the Government plan was originally to reduce growth in population over the next few years to cool post-COVID pace. We highlight this metric as when paired with rising unemployment identifies the increased severity of this impact to the consumer body.

As affordability concerns are heightened further, the Bank of Canada (BoC) anticipates pausing action on rates after a decision to decrease 25bp in March. With the tariff impacts increasing the inflation rate, the fight to sustain consumer confidence will not be able to rely on interest rate reductions, as BoC Governor Tiff Macklem stated, "monetary policy cannot offset the impacts of a trade war". Therefore, it is forecasted that the overnight rate currently sitting at 2.75% could receive smaller mid-year reductions to the effect of 2.25%. Though this is not anticipated to overcome the rate of new car price increases effecting the current drive of demand for new cars in Q1 this year.

The threat of tariffs has weakened the Canadian dollar, pushing it below 70 cents US for much of Q1 2025. However, last week, the imposition of US "reciprocal" tariffs weakened the US dollar and drove the Canadian dollar up to above 71 cents US. Should the US dollar continue to weaken, the BoC might have room to lower rates further, especially if the US Federal Reserve begins to cut rates to help stave off a recession.

## Scenarios in the New Car Market:

With the car market stockpiling inventory of pre-tariff priced vehicles, the net effect of increased car prices is forecasted to be delayed 30-60 days, with consumer demand diminishing more slowly in response. Those models with low Days' Supply, such as crossover hybrid and plug-in hybrids from Japanese, Korean, and European makes will notice the earliest market impacts on price. Whereas other market examples like Battery-electric Vehicles and some Domestic brands where Days' Supply is higher will postpone immediate effects for longer, giving these models the opportunity to hold lower MSRP's. This could result in improving Days' Supply as consumers search for lower new car prices.

Areas of opportunity like this will be scarce, but in the scenarios built around expected tariff price absorption by vehicle and brand, we can make some assumptions that are likely to decrease the impact in the retail market.

- Premium/Luxury makes generate higher profit margins per vehicle, allowing a tariff absorption rate higher than that of mainstream brands
- Larger vehicles, regardless of segment, also hold higher profit margins per vehicle, reducing the impact on price that allows adjustments to increase at a lesser rate than 25%
- Breaking down vehicle's country of origin by VIN will allow visibility into those brands that produce more Canadian-market vehicles outside of the U.S., highlighting a brands' ability to absorb greater share of tariffs across the full model line-up
- Vehicles abiding by the USMCA will benefit from the absence of associated tariffs (at least for now) – some examples of these models are those assembled in Canadian assembly plants

Associating these market opportunities to offset tariff impacts allow Canadian Black Book to see the market in greater clarity. While we do not yet know the level of overall material/parts cost increases also factoring into new car prices soon, we can generate market intelligence on the impact to fully assembled units. With global automotive brands there are global production shifts that can occur. Manufacturers with multiple plants producing the same vehicle are undoubtedly looking over where they can uncover forecasted cost advantages once fully entrenched in President Donald Trump's trade war. With the average new vehicle 'equipped retail' price of \$77,265 we can assume on the low end, a 10% price impact that will translate to an estimated \$85,000 per vehicle. For vehicles susceptible to full exposure of a 25% tariff, that jumps to \$96,581.

To put this into context from a typical buyer's perspective we take vehicles in three classes as a litmus test:

- **2025MY Nissan Sentra S Plus, current equipped retail price \$26,523**
  - 10% price impact = \$29,175 (+\$2,652)
  - 25% price impact = \$33,153 (+\$6,630)
- **2025MY Toyota Rav4 XLE Premium, current equipped retail price \$41,367**
  - 10% price impact = \$45,504 (+\$4,137)
  - 25% price impact = \$51,709 (+\$10,342)

- **2025MY Ford F-150 XLT SuperCab 4WD, current equipped retail price \$72,930**
  - 10% price impact = \$80,223 (+\$7,293)
  - 25% price impact = \$91,163 (+\$18,233)

Breaking down new vehicle assembly regarding automaker plants in the United States, there are multiple brands that are susceptible to higher impacts, pending their USMCA compliance. **The mix of models built in these plants, are some of the highest volume models selling in Canada.**

- General Motors – **11** U.S. plants
- Ford – **8** U.S. plants
- Stellantis – **6** U.S. plants
- Toyota – **5** U.S. plants (including 1 that builds units for Mazda)
- Honda – **4** U.S. plants
- Tesla – **3** U.S. plants
- Hyundai & Nissan – **2** U.S. plants each
- Subaru, Kia & Volkswagen – **1** U.S. plant each
- BMW, Mercedes-Benz & Volvo – **1** U.S. plant each
- Rivian & Lucid build solely out of the U.S. – **1** U.S. plant each


As price shock is currently concerning many new car buyers returning to dealer showrooms today, the forthcoming price changes look to diminish the average buyers' interest in a new car tomorrow. Although supply and demand identify the general high-level issues of the car market, drilling down to the variables beneath the surface justifies the long-term market volatility that we forecast. Namely factors around the breakdown and level of incentives, how many leases are contracted during this time and the duration of them, along with changes in volume projections by brand and vehicle.

### **Scenarios in the Used Car Market:**

Digesting the incoming issues on the new car front sheds light on what can occur for used cars in the near term. While we unfortunately cannot draw upon a formal communication whether these tariffs apply to used vehicles, we will assume that they do for our scenario-based insight.

Principally, as new car prices increase, they open the opportunity for used car prices to follow. We have seen this over the last decade, resulting in record level retention rates in the wholesale market. With tariff impacts yet to be measured by market data, our scenario for used cars is generated by a weak economic outlook, a less financially capable public body, and an uncertain demand profile from the United States. With these variables building out the overall used market pricing impact, we must incorporate a level of negative sentiment from consumers around U.S. branded product as well. With General Motors, Ford, and Stellantis in the crosshairs from an origin of assembly perspective, these brands are easy targets for Prime Minister Carney's reciprocal tariffs to impact pricing on models built within U.S. borders. Canadian consumers will also shy away from consideration of these brands additionally for their own personal/patriotic reasons.

What this all drills down to is that the used market pricing impact will vary by brand and model. But the average impact to the industry should alternatively see values decrease while new values increase. This is a stark difference from the typical used market response. While consumers

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recognize the new car price increases, they will look for affordable alternatives within the used market, already vulnerable from reductions in post-pandemic supply. Seeing the recent rush of interest for used vehicles in the wholesale market from U.S. based buyers using tariff delays to their advantage, we expect this to drop-off in the short-term. Consumers will support used retail through their inaction for new cars, but with vehicle auctions expecting to see Canadian buyers duking it out now with other Canadian buyers, used values have an opportunity to continue price correcting.

Canadian exported used inventory typically amounts from 10-20% of our roughly 1.6 million vehicle used supply shipping down to the U.S. But with our export inventory taps shut-off, this will keep our inventory in-market. Don't forget the larger price impact that U.S. consumers will be suffering from. This may be cause in returning some U.S. interest in our used vehicles, once market repercussions start to impact that market.

Canada's new vehicle inventory has not communicated sizable volume declines. Therefore, with residual value forecasting at the forefront, major variables considered suggest that there is no positive adjustment factoring into the marketplace. With consistent volume and diminishing new car demand, the market will need to move product through tools that reduce valuation strength. While the longer-term 36–60-month forecasts will see incremental impact, 12-24-month terms will prove much more volatile. Without noticeable wholesale value increases, residual values will continue their current course – returning to market normalcy.