

## Donald Trump's Protectionism Strikes Early: Uncertainty Will Hurt Investment and Growth

February 13, 2025

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### Highlights

- The weeks since Donald Trump returned to the Oval Office have been a whirlwind of activity with repercussions on the US and global economies. We've had to adjust our economic and financial forecasts accordingly. The breakneck speed of the new administration's actions, especially regarding trade policy, is a major factor in the evolution of the global economy. We have therefore moved up our forecast for the implementation of 10% across-the-board tariffs (with some exemptions) on US imports from most countries, including Canada and Mexico. We don't believe the 25% tariff threat will be enacted, at least for now. The across-the-board tariffs would be on top of already increased levies on Chinese goods and the bump in duties on steel and aluminum. This early introduction of tariffs would be challenging for US and foreign companies, which won't have time to prepare. We expect the hit to economic activity and inflation to land earlier as well, but the extent of the impact remains much the same as in our previous forecasts. The slowdown in immigration and public spending could also curtail growth more than previously expected. That said, the US economy will probably keep expanding, though we expect the pace of that growth to slow as of this spring.
- While Canada received a 30-day reprieve from US import tariffs, that threat continues to hang over the Canadian economy. Regular but erratic tariff threats, such as those announced on steel and aluminum on February 10, create ongoing uncertainty. Even though we expect exports to pick up prior to tariffs being implemented, businesses are likely to sideline investment until they have more certainty on the future trade environment. Adding to the dourer outlook is the threat of retaliatory tariffs, first on \$30 billion of Canadian imports from the US—roughly equivalent to steel and aluminum exports to the US last year—then on an additional \$125 billion. Tariffs and counter-tariffs will boost inflation and the unemployment rate while stunting growth in Canada. And this is all against the backdrop of rapidly slowing population growth and rising mortgage service costs north of the border in 2025 and 2026.
- Quebec won't escape the impact of new tariffs. We estimate that 4% of the province's jobs are in highly exposed manufacturing sectors, especially those involved in manufacturing machinery, wood and paper products, aerospace

products and parts, and aluminum. We analyzed the impact on these sectors in more detail in [January External link](#). Support [measures External link](#) will likely be needed to limit the long-term repercussions on the province's economic potential. Aside from the additional economic pressure caused by current trade tensions, the province had until very recently intended to present a plan this spring aimed at balancing the budget by 2029–2030. This would involve decisions likely to affect economic activity. The currently intensifying headwinds could force the government to change its plans.

- The global economy is running at two speeds. Economic conditions have apparently improved in China, where solid fourth-quarter real GDP growth allowed the government to reach its 5.0% target in 2024. But China still faces challenges, especially with escalating US protectionism that's already started targeting the country. In contrast with China, European economic conditions have deteriorated. Non-annualized GDP growth in the eurozone came in at just 0.1% for the final quarter of 2024, with growth actually pulling back in France, Germany and Italy. Eurozone PMIs improved slightly in January, which is a more hopeful signal for early 2025. Obviously, the fate of the European and global economies mainly depends on the extent of protectionist US trade policy, as well as the already threatened retaliatory measures on US exports.

### **Risks Inherent in Our Scenarios**

Donald Trump's return to the White House has significantly heightened global uncertainty. Although the president has already announced new protectionist measures, a great deal of uncertainty remains, given the postponement of his previous tariff threats and the possibility of new ones. How severe will the trade barriers ultimately be? How long will they last? Who will they target and how far will the targeted countries go to retaliate? All of these variables could significantly shape the outlook for the US and its trading partners. The other policies implemented by the new Trump administration, especially regarding immigration and the federal government apparatus, could also send the economy into a tailspin. Even though we've already revised our forecasts, further adjustments will be needed as we get more clarity. As for inflation, although it is currently close to target in many countries, an escalating trade war could catapult it higher. Unemployment could also spike in many nations if a trade war erupts. There's also a lot of uncertainty over how much room central banks have to cut interest rates if their economies are hit by stagflation. The weakening of US regulatory authorities could lead to financial excesses and ultimately imbalances, to say nothing of the potential environmental and even public health issues that could result. Governments around the world have been hit by political crises, which could further undermine their ability to respond to economic downturns while keeping public finances on solid footing. Bond markets may react by sending yields soaring. Trends in the global economy, financial markets and commodity prices could become increasingly unstable if the geopolitical backdrop and economic environment deteriorate further.

**Table 1****Global GDP Growth (Adjusted for PPP) and Inflation Rates**

%	Weight*	Real GDP growth			Inflation rate		
		2024f	2025f	2026f	2024f	2025f	2026f
<b>Advanced economies</b>	<b>37.7</b>	<b>1.5</b>	<b>1.5</b>	<b>1.2</b>	<b>2.6</b>	<b>2.3</b>	<b>2.3</b>
United States	14.8	2.8	2.3	1.5	3.0	2.6	2.7
Canada	1.3	1.3	1.4	1.3	2.4	2.4	2.1
<i>Quebec</i>	0.3	1.3	1.2	1.2	2.3	2.0	2.0
Japan	3.4	-0.2	0.9	0.6	2.7	2.3	1.8
United Kingdom	2.2	0.7	0.6	0.9	2.5	2.7	2.6
Eurozone	11.9	0.7	0.7	0.8	2.4	2.1	2.2
<i>Germany</i>	3.2	-0.2	-0.1	0.3	2.3	2.1	2.2
<i>France</i>	2.3	1.1	0.7	0.9	2.0	1.5	1.9
<i>Italy</i>	1.9	0.5	0.4	0.6	1.0	1.8	2.0
Other countries	4.1	1.5	1.6	1.6	2.5	2.0	2.3
<i>Australia</i>	1.0	1.1	2.0	1.9	3.2	2.8	3.0
<b>Emerging and developing economies</b>	<b>62.3</b>	<b>3.9</b>	<b>3.7</b>	<b>3.7</b>	<b>7.3</b>	<b>5.1</b>	<b>4.0</b>
Emerging Asia	32.8	5.2	4.7	4.5	2.0	2.0	2.5
<i>China</i>	18.8	5.0	4.3	4.1	0.2	0.8	1.4
<i>India</i>	7.9	6.4	6.3	6.0	5.0	4.4	4.8
Latin America	5.8	2.5	1.8	1.8	4.2	4.2	3.9
<i>Mexico</i>	1.8	1.5	1.0	1.5	4.7	3.9	3.9
<i>Brazil</i>	2.4	3.3	2.0	1.6	4.0	4.9	4.3
Eastern Europe	8.5	3.1	2.0	2.5	19.3	12.1	8.3
<i>Russia</i>	3.5	3.7	1.2	1.3	8.4	6.2	4.8
Other countries	15.2	2.3	2.9	3.1	16.4	10.7	7.8
<i>South Africa</i>	0.5	0.8	1.4	1.6	4.4	4.1	4.7
<b>World</b>	<b>100.0</b>	<b>3.0</b>	<b>2.9</b>	<b>2.8</b>	<b>5.5</b>	<b>4.0</b>	<b>3.4</b>

f: forecast; PPP: Purchasing Power Parities, exchange rates that equate the cost of a broad basket of goods and services across countries; \* 2023.  
World Bank, Consensus Forecasts and Desjardins Economic Studies

**Financial Forecast**

Central banks are now facing the added challenge of weighing the potential negative impacts on growth against the inflationary impact that US tariffs could induce. Our Canadian base-case rates forecast sees the Bank of Canada cutting to a terminal rate of 2.00% in late 2025. With inflation now tracking the BoC's 2% target, Canadian central bankers will likely lower rates in response to any growth shocks that will come from the implementation of tariffs. The market has correctly interpreted the Bank of Canada's reaction function, which has resulted in Government of Canada bonds outperforming and yield curves getting steeper relative to other developed markets.

The Fed is in a different position than the Bank of Canada. Inflation in the US is still above target and economic growth, particularly on the consumer spending side, remains resilient. As a result, the Fed doesn't need to react with as much urgency to any potential growth shocks that may come from a trade war, particularly given the potential upward pressures on inflation from tariffs.

Given our base case scenario, which sees tariffs placed on Canadian exports, the expanding rate differentials between US and Canadian interest rates will likely have a negative impact on the Canadian dollar (CAD). Additionally, CAD has fared poorly in times of increased volatility. Should the tariff increase be larger or occur sooner, it would present

an upside risk to our USDCAD forecast. Our analysis indicates that the Canadian dollar would depreciate by 5% against the US dollar (USD) for every 10% permanent increase in the effective tariff rate.

**Table 2**  
**Summary of Financial Forecasts**

End of period in % (unless otherwise indicated)	2024		2025				2026			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>Key interest rate</b>										
United States	5.00	4.50	4.50	4.50	4.25	4.00	3.75	3.75	3.50	3.50
Canada	4.25	3.25	3.00	2.50	2.00	2.00	2.00	2.00	2.00	2.00
Eurozone	3.50	3.00	2.75	2.50	2.00	2.00	1.75	1.75	1.75	2.00
United Kingdom	5.00	4.75	4.50	4.25	4.00	4.00	4.00	3.50	3.75	4.00
<b>Federal bonds</b>										
<u>United States</u>										
2-year	3.68	4.24	4.30	4.10	3.90	3.70	3.60	3.50	3.40	3.35
5-year	3.56	4.38	4.40	4.25	4.10	3.95	3.85	3.80	3.75	3.70
10-year	3.78	4.57	4.55	4.45	4.35	4.25	4.15	4.05	3.90	3.80
30-year	4.13	4.79	4.80	4.65	4.50	4.45	4.35	4.25	4.10	4.00
<u>Canada</u>										
2-year	2.91	2.93	2.60	2.35	2.15	2.20	2.25	2.35	2.40	2.50
5-year	2.73	2.96	2.60	2.40	2.35	2.45	2.45	2.50	2.55	2.55
10-year	2.95	3.23	2.90	2.70	2.65	2.70	2.70	2.70	2.75	2.75
30-year	3.13	3.33	3.05	2.90	2.85	2.90	2.85	2.85	2.85	2.85
<b>Currency market</b>										
Canadian dollar (USD/CAD)	1.12	1.44	1.42	1.48	1.48	1.48	1.47	1.46	1.45	1.45
Canadian dollar (CAD/USD)	0.90	0.70	0.70	0.68	0.68	0.68	0.68	0.68	0.69	0.69
Euro (EUR/USD)	1.12	1.04	1.04	1.02	0.98	1.00	0.98	0.99	1.00	1.00
British pound (GBP/USD)	1.34	1.25	1.25	1.22	1.20	1.20	1.20	1.22	1.24	1.25
Yen (USD/JPY)	143	157	155	150	145	140	140	135	135	130
<b>Stock markets (level and growth)*</b>										
United States – S&P 500	Target: 5,882 (23.3%)		Target: 6,300 (+7.1%)				Target: 6,550 (+4.0%)			
Canada – S&P/TSX	Target: 24,728 (18.0%)		Target: 25,720 (+4.0%)				Target: 26,640 (+3.6%)			
<b>Commodities (annual average)</b>										
WTI oil (US\$/barrel)	77 (70*)		70 (68*)				68 (68*)			
Gold (US\$/ounce)	2,380 (2,600*)		2,725 (2,800*)				2,785 (2,760*)			

f: forecast; WTI: West Texas Intermediate; \* End of year.

Datastream and Desjardins Economic Studies



## Forecast Tables

**Table 3**

### United States: Major Economic Indicators

Quarterly annualized % change (unless otherwise indicated)	2024		2025				Annual average			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2023	2024	2025f	2026f
<b>Real GDP (2017 US\$)</b>	3.1	2.3	3.0	1.3	1.4	2.3	2.9	2.8	2.3	1.5
Personal consumption expenditures	3.7	4.2	3.1	1.4	1.4	2.1	2.5	2.8	2.8	1.6
Residential construction	-4.3	5.3	6.9	1.9	-2.1	-2.1	-8.3	4.2	1.9	-2.0
Business fixed investment	4.0	-2.2	3.6	1.4	0.5	4.8	6.0	3.7	1.8	1.6
Inventory change (2017 US\$B)	57.9	4.4	35.0	-15.0	-20.0	-20.0	33.1	37.9	-5.0	-8.8
Public expenditures	5.1	2.5	1.6	2.1	1.8	1.3	3.9	3.4	2.4	1.5
Exports	9.6	-0.8	1.2	-1.0	-2.5	-2.5	2.8	3.2	0.7	-2.0
Imports	10.7	-0.8	6.0	-5.0	-4.0	-2.5	-1.2	5.4	1.4	-2.0
Final domestic demand	3.7	3.1	3.1	1.5	1.2	2.2	2.7	3.0	2.5	1.5
<b>Other indicators</b>										
Nominal GDP	5.0	4.5	6.0	3.9	2.9	5.1	6.6	5.3	4.7	4.1
Employment <sup>1</sup>	0.9	1.3	1.4	0.9	0.5	0.3	2.2	1.3	1.1	0.3
Unemployment rate (%)	4.2	4.1	4.0	3.9	3.9	3.9	3.6	4.0	3.9	4.1
Housing starts <sup>2</sup> (thousands of units)	1,332	1,379	1,422	1,373	1,355	1,340	1,421	1,365	1,373	1,280
Total inflation rate*	2.6	2.7	2.8	2.5	2.6	2.5	4.1	3.0	2.6	2.7
Core inflation rate <sup>3</sup>	3.2	3.3	3.2	3.1	3.1	2.9	4.8	3.4	3.1	3.1

f: forecast; \* Annual change; <sup>1</sup> According to the establishment survey; <sup>2</sup> Annualized basis; <sup>3</sup> Excluding food and energy.  
Datastream and Desjardins Economic Studies

**Table 4**

### Canada: Major Economic Indicators

Quarterly annualized % change (unless otherwise indicated)	2024		2025				Annual average			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2023	2024f	2025f	2026f
<b>Real GDP (2017 \$)</b>	1.0	2.0	1.8	1.1	0.7	1.0	1.5	1.3	1.4	1.3
Final consumption expenditure [of which:]	3.7	2.9	2.7	1.7	1.1	1.5	2.0	2.2	2.3	1.6
Household consumption expenditure	3.5	3.7	2.6	0.8	0.4	1.0	1.8	2.0	2.1	1.2
Government consumption expenditure	4.5	1.0	3.1	4.1	3.1	3.0	2.2	2.6	3.1	2.9
Gross fixed capital formation [of which:]	-1.9	5.8	1.1	0.7	1.0	1.4	-1.6	-0.2	1.7	1.5
Residential structures	3.0	8.6	1.2	0.5	0.6	1.4	-8.5	-1.3	2.0	1.6
Non-residential structures	0.2	5.8	0.8	0.4	0.4	0.9	3.2	-1.2	2.0	0.9
Machinery and equipment	-27.7	6.0	0.5	0.0	0.7	1.2	-2.7	-2.5	-1.4	1.3
Intellectual property products	5.9	4.0	1.6	0.4	0.7	0.9	4.0	1.1	2.2	1.2
Government gross fixed capital formation	6.5	2.8	1.7	2.3	2.9	3.1	4.8	4.4	3.3	3.1
Investment in inventories (2017 \$B)	17.3	5.8	-3.1	3.4	9.2	11.7	25.5	15.8	5.3	10.3
Exports	-1.1	7.9	6.5	-6.9	-10.2	-6.7	5.0	1.0	-0.6	-4.2
Imports	-0.4	6.2	2.9	-2.0	-5.6	-3.9	0.3	0.7	0.4	-2.5
Final domestic demand	2.4	3.6	2.3	1.4	1.1	1.5	1.1	1.6	2.2	1.6
<b>Other indicators</b>										
Nominal GDP	3.4	3.1	4.0	1.7	1.6	2.0	2.9	4.3	3.0	2.3
Employment	0.8	1.9	1.9	-1.2	-1.2	-0.3	3.0	1.9	0.7	0.2
Unemployment rate (%)	6.5	6.7	6.7	6.8	6.9	7.0	5.4	6.4	6.9	7.0
Housing starts <sup>1</sup> (thousands of units)	238	248	237	234	235	236	242	245	236	240
Total inflation rate*	2.0	1.9	2.5	2.4	2.4	2.4	3.9	2.4	2.4	2.1
Core inflation rate <sup>2</sup>	2.5	2.1	2.7	2.6	2.5	2.4	3.9	2.6	2.5	2.2

f: forecast; \* Annual change; <sup>1</sup> Annualized basis; <sup>2</sup> Excluding food and energy.  
Datastream and Desjardins Economic Studies

**Table 5****Quebec: Major Economic Indicators**

Annual average % change (unless otherwise indicated)	2022	2023	2024f	2025f	2026f
<b>Real GDP (2017 \$)</b>	3.4	0.6	1.3	1.2	1.2
Final consumption expenditure [of which:]	4.6	0.7	2.3	1.9	1.0
<i>Household consumption expenditure</i>	5.5	1.8	2.4	1.8	0.9
<i>Government consumption expenditure</i>	2.4	-1.7	2.4	2.2	1.3
Gross fixed capital formation [of which:]	-2.3	-3.7	-0.2	0.9	1.8
<i>Residential structures</i>	-11.1	-15.1	0.8	1.9	2.4
<i>Non-residential structures</i>	3.7	5.9	0.7	0.3	1.3
<i>Machinery and equipment</i>	11.6	-6.3	-3.5	-1.1	0.9
<i>Intellectual property products</i>	6.3	4.2	1.8	1.7	1.4
<i>Government gross fixed capital formation</i>	-2.4	7.2	0.0	0.7	1.8
Investment in inventories (2017 \$B)	11	6	2	-1	-1
Exports	2.0	4.0	1.9	0.7	-0.9
Imports	6.9	-0.8	1.6	0.5	-1.7
Final domestic demand	3.0	-0.2	1.8	1.7	1.2
<b>Other indicators</b>					
Nominal GDP	8.7	5.0	5.1	3.0	2.7
Real disposable personal income	1.1	0.1	4.1	1.3	0.7
Weekly earnings	4.1	3.6	4.3	3.2	3.1
Employment	3.1	2.9	0.9	0.7	0.2
Unemployment rate (%)	4.3	4.4	5.3	5.8	5.5
Personal savings rate (%)	9.3	7.8	9.7	9.5	9.4
Retail sales	8.5	3.7	1.5	3.0	1.9
Housing starts <sup>1</sup> (thousands of units)	57.1	38.9	48.7	51.9	52.8
Total inflation rate	6.7	4.5	2.3	2.0	2.0

f: forecast; <sup>1</sup> Annualized basis

Statistics Canada, Institut de la statistique du Québec, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

**Table 6**

**Major Medium-Term Economic and Financial Indicators**

% (unless otherwise indicated)	Annual average							Averages	
	2023	2024	2025f	2026f	2027f	2028f	2029f	2019–2023	2024–2029f
<b>United States</b>									
Real GDP (% change)	2.9	2.8	2.3	1.5	1.7	1.8	2.0	2.4	2.0
Total inflation rate (% change)	4.1	3.0	2.6	2.7	2.4	2.2	2.0	4.0	2.5
Unemployment rate	3.6	4.0	3.9	4.1	4.0	3.8	4.2	4.9	4.0
S&P 500 index (% change) <sup>1</sup>	24.2	23.3	7.1	4.0	4.4	4.8	6.1	15.4	8.3
Federal funds rate	5.20	5.31	4.10	3.30	3.20	3.00	3.00	2.03	3.65
Prime rate	8.20	8.31	7.10	6.30	6.20	6.00	6.00	5.03	6.65
Treasury bills – 3-month	5.28	5.18	3.90	3.25	3.00	3.00	3.00	1.98	3.56
Federal bonds – 10-year	3.96	4.21	4.05	3.60	3.35	3.30	3.30	2.28	3.63
– 30-year	4.09	4.41	4.20	3.75	3.60	3.60	3.60	2.68	3.86
WTI oil (US\$/barrel)	78	77	71	70	68	68	68	67	70
Gold (US\$/ounce)	1,943	2,373	2,575	2,713	2,775	2,738	2,665	1,742	2,640
<b>Canada</b>									
Real GDP (% change)	1.5	1.3	1.4	1.3	1.9	1.8	1.7	2.3	1.6
Total inflation rate (% change)	3.9	2.4	2.4	2.1	2.1	2.1	2.0	3.3	2.2
Employment (% change)	3.0	1.9	0.7	0.2	1.6	1.5	1.2	1.6	1.2
Employment (thousands)	593	382	135	34	337	315	259	290	244
Unemployment rate	5.4	6.4	6.9	7.0	6.6	6.4	6.3	6.7	6.6
Housing starts (thousands of units)	242	245	236	240	252	266	269	240	251
S&P/TSX index (% change) <sup>1</sup>	8.1	18.0	4.0	3.6	5.5	5.6	5.8	8.3	7.1
Exchange rate (US\$/C\$)	0.75	0.70	0.68	0.69	0.71	0.74	0.77	0.76	0.71
Overnight rate	4.74	4.59	2.00	2.00	2.50	2.75	2.75	2.42	2.77
Prime rate	6.94	6.75	4.20	4.20	4.70	4.95	4.95	4.61	4.96
Mortgage rate – 1-year	7.14	7.63	5.00	4.60	4.70	4.80	4.85	5.05	5.26
– 5-year	6.68	6.72	6.00	5.80	5.80	5.85	5.95	5.76	6.02
Treasury bills – 3-month	4.74	4.37	1.95	2.15	2.60	2.70	2.70	2.37	2.75
Federal bonds – 2-year	4.27	3.67	2.20	2.50	2.80	2.80	2.80	1.95	2.80
– 5-year	3.57	3.30	2.45	2.55	2.80	2.80	2.80	1.89	2.78
– 10-year	3.36	3.34	2.70	2.75	2.85	2.85	2.85	1.97	2.89
– 30-year	3.28	3.33	2.90	2.85	2.90	2.90	2.90	2.19	2.96
<b>Yield spreads (Canada–United States)</b>									
Treasury bills – 3-month	-0.54	-0.81	-1.95	-1.10	-0.40	-0.30	-0.30	-0.15	-0.81
Federal bonds – 10-year	-0.60	-0.87	-1.35	-0.85	-0.50	-0.45	-0.45	-0.31	-0.75
– 30-year	-0.81	-1.08	-1.30	-0.90	-0.70	-0.70	-0.70	-0.49	-0.90
<b>Quebec</b>									
Real GDP (% change)	0.6	1.3	1.2	1.2	1.6	1.5	1.6	1.9	1.4
Total inflation rate (% change)	4.5	2.3	2.0	2.0	1.9	1.9	1.9	3.6	2.0
Employment (% change)	2.9	0.9	0.7	0.2	1.1	1.1	1.0	1.3	0.8
Employment (thousands)	128	39	32	10	49	51	47	56	38
Unemployment rate	4.4	5.3	5.8	5.5	4.8	4.2	3.9	5.8	4.9
Retail sales (% change)	3.7	1.5	3.0	1.9	3.0	3.0	3.0	6.0	2.6
Housing starts (thousands of units)	39	49	52	53	55	56	57	53	54

f: forecast; WTI: West Texas Intermediate; <sup>1</sup> Changes are based on end-of-period data.

Datastream, Statistics Canada, Canada Mortgage and Housing Corporation, Institut de la statistique du Québec and Desjardins Economic Studies