Scotiabank.

GLOBAL ECONOMICS

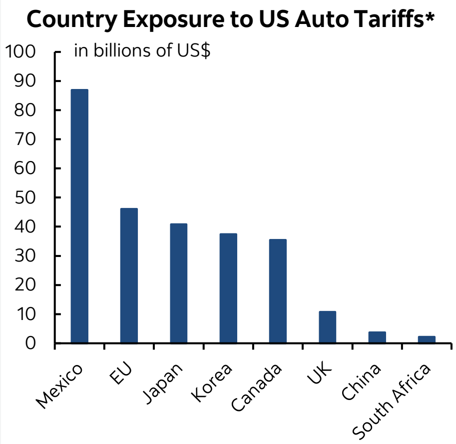
DAILY POINTS

March 27, 2025 @ *9:10 EST*

Contributors

Derek Holt
VP & Head of Capital Markets Economics
Scotiabank Economics
416.863.7707
derek.holt@scotiabank.com

Chart 1



*Imports of passenger vehicles & light trucks to US.
Sources: Scotiabank Economics, WTO.

On Deck for Thursday, March 27

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03-27	08:30	GDP (q/q a.r.)	4Q T	2.4	2.3	2.4
US	03-27	08:30	GDP Deflator (q/q a.r.)	4Q T	--	2.4	2.3
US	03-27	08:30	Wholesale Inventories (m/m)	Feb P	--	0.7	0.3
US	03-27	08:30	Initial Jobless Claims (000s)	Mar 15	225	225.0	224.0
US	03-27	08:30	Continuing Claims (000s)	Mar 08	1900	1886.0	1856.0
US	03-27	10:00	Pending Home Sales (m/m)	Feb	--	1.0	-4.6
US	03-27	16:30	Fed's Barkin Gives Speech, Q&A				
US	03-27	16:30	Fed's Collins Speaks in Fireside Chat on Economy				

KEY POINTS:

- **Markets on a knife's edge awaiting further tariff developments**
- **Global governments pledge retaliation …**
- **…and Trump pledges he'll escalate further if so**
- **Canadian PM Carney to convene cabinet meeting; retaliation is likely**
- **New and used vehicle prices could shock US CPI higher by 1%+**
- **The impact on Canada's effective tariff rate on exports to the US**
- **The US already heavily protected its auto sector even before massive tariffs**
- **America's high trade deficit will draw Trump's ire, but is driven by domestic policy**
- **US revises growth up, inflation down, claims steady**
- **Banxico expected to deliver another large rate cut**
- **Norges Bank held**

Soft risk appetite is on a knife's edge awaiting further developments in the trade wars that the US administration is causing with its allies. European equities are down by around ½% to 1% after US stocks fell 1–2% on the S&P and Nasdaq yesterday in response to Trump's auto tariffs. US equity futures are treading water with a slight negative bias so far this morning. EGBs are rallying by 3–5bps across curves. US Treasurys are volatile but presently little changed with the 10-year near 4.4%. Canada's curve is richer by 3–4bps out to 10s. The USD is mixed with losing crosses including CAD, MXN, the yen and real, while sterling leads outperformers.

The UK gilts curve is bear steepening with 10s up 4bps as markets reassess yesterday's Spring statement. There is a sense that the statement left little margin for error in terms of preserving a fiscal buffer without having to raise taxes by the fall Budget.

FURTHER TARIFF DEVELOPMENTS ARE PENDING

One day after taking steps to open up the market for Russian exports, US President Trump slammed allies with a 25% auto tariff. Amid swirling headlines on Signalgate, Trump employed the diversionary tactic of an about face on auto tariffs with no warning while saying they are permanent and there is nothing to negotiate. Chart 1 shows countries that export vehicles to the US.

Trump remarked in the middle of the night that efforts by Canada and the EU to coordinate retaliation would invite steeper US tariffs. This is his full social media post:

"If the European Union works with Canada in order to do economic harm to the USA, large scale Tariffs, far larger than currently planned, will be placed on them both in order to protect the best friend that each of those two countries has ever had!"

That's super rich. Retaliation is a risk they must take in my opinion and the tone of comments by governments across the world indicates a willingness to do so. Announcements could begin as soon as today. And it's not just the EU and Canada we're possibly talking about.

France's Finance Minister Eric Lombard said that while he hopes for negotiation "For now, the only possible solution for the European Union will be to raise tariffs on American products in response."

German Economy Minister Robert Habeck said it is "important the EU give a united response to tariffs…and be clear that we will not give into the U.S."

EC President von der Leyen was more measured as she seeks to establish a unified response and said "I deeply regret the US decision to impose tariffs on European automative exports. The EU will continue to seek negotiated solutions, while safeguarding its economic interests. As a major trading power and a strong community of 27 Member States, we will jointly protect our workers, businesses and consumers across our European Union."

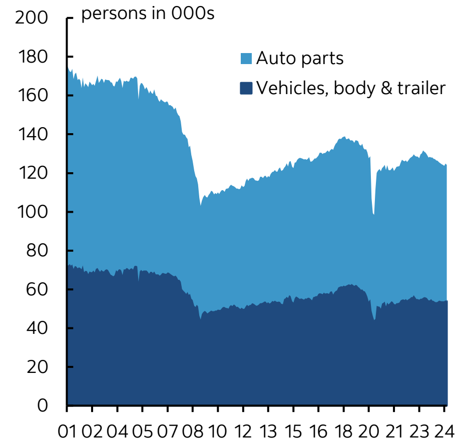
UK Chancellor of the Exchequer Reeves was an exception and said the UK has no plans to retaliate and does not "want to do anything to escalate these trade wars." Too late, but recall the reasons for UK restraint. At the top of the list is that the UK doesn't have a trade deal 9 years after Brexit and wishes to have one with the US some day. If you couldn't get one before, then good luck now. Further, the UK Chancellor is struggling to keep at bay the bond vigilantes and igniting inflation risk through strong retaliatory moves would further complicate her situation.

And yet David Pares, UK PM Starmer's official spokesperson, said this morning that all options are on the table and that while a trade war is undesirable, the UK will stand up for British industry.

Japan's Prime Minister Shigeru Ishiba said that "We need to think about the best option for Japan's national interest. We are considering every option in order to reach the most appropriate response" to US auto tariffs.

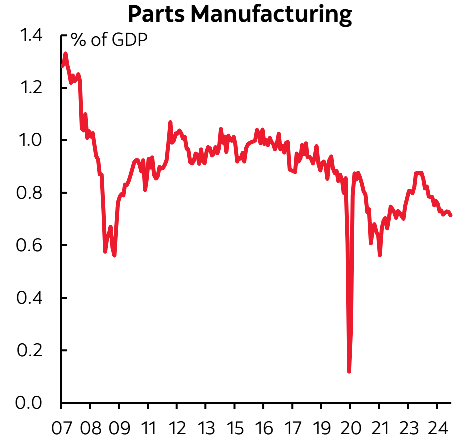
South Korea's industry minister said the government will consider financial assistance, investment supports and assistance with market diversification. That doesn't sound like direct retaliation. There is a limit to South Korea's tensions with the US given Trump's past behaviour surrounding the belligerent regime in North Korea and regional security interests.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Chart 3



Sources: Scotiabank Economics, Statistics Canada.

CANADA COULD RESPOND QUICKLY TODAY

Canadian PM Carney is convening a cabinet meeting this morning. Last evening, Carney said the tariffs are a "direct attack" on Canada and auto sector employees, that Canada-US ties are "in the process of being broken" and "we will defend our companies. We will defend our country." He responded to a question on whether Canada will retaliate by saying "Yes, it will happen soon." He went on to say "We have options. We can introduce retaliatory tariffs." Chart 2 shows employment in the sector and chart 3 shows the modest direct share of overall Canadian GDP in autos, though clearly it's almost all in the province of Ontario.

Among possible options the Canadian government could consider are to implement more of the remaining $95 billion of retaliatory tariffs on the original $155 billion list with $60 billion presently tariffed at 25%. Cancel the F-35 and don't spend one further dime on US military equipment in favour of European companies. Impose an import ban on Teslas and its parts. Tariff broader American autos. Ontario is likely to have more retaliatory announcements.

And there may be more appetite in Ottawa for broader measures that could raise internal tensions within Canada. Some might argue that when your country is under attack, the rest of the country shouldn't pledge to only send troops from Ontario. You can't win a trade war, but you can expedite its end by making the pain trade clearer in the other direction sooner and doing so can head off future trade wars. Standing up to intimidation makes the agitator think twice about picking on you the next time versus some weaker kid. These are perspectives that I find tariff pacifists are not considering—especially in an election campaign during which leaders cannot appear to be weak before irate voters.

THE US ALREADY HEAVILY PROTECTED AUTOS EVEN BEFORE TARIFFS

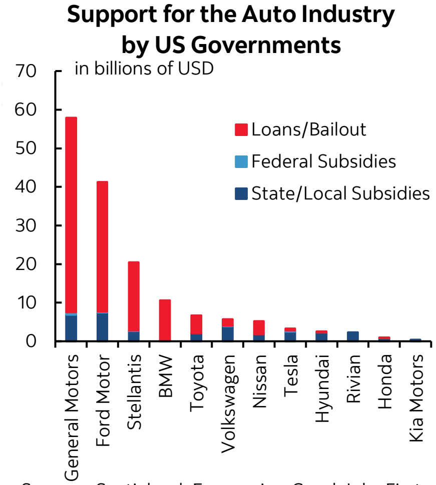
This is how a country's auto sector winds up turning out Ladas and Yugos. America already heavily advantaged its auto sector even before Trump's tariff assault. That makes it unlikely that governments elsewhere will accept US reasoning that tariffs are justified because only foreign governments play dirty pool with their auto sectors.

One example is that the US largely keeps out foreign light trucks. That's because of the so-called 'chicken tax' that traces its roots back to trade disputes with France decades ago. A 25% tariff has long applied against US imports of light trucks made abroad. This is why American auto companies generate so much of their profit from the lucrative light truck segment.

Further, America heavily subsidizes its auto sector. Enter chart 4. It does so through a combination of subsidies, favourable loans and bail outs. This chart uses data from a site that tracks these measures on an individual company basis.

Also recall that the US government bailed out the auto sector in the global financial crisis and the Federal Reserve's QE policies applied across multiple facilities lent great assistance to the auto and other sectors while heavily distorting capital markets.

Chart 4



Sources: Scotiabank Economics, Good Jobs First.

For decades, Canada has watched as US states offered rich subsidies to auto companies to locate plants in their states. Canadian taxpayers have had to foot the bill for keeping up with some of this, lest the whole auto sector gravitate toward subsidized southern markets.

Now, America's auto industry will sit behind a protectionist tariff wall and it's hard to see how that won't damage competitive forces behind innovation, cost management, and productivity with consumers the ultimate losers on all such counts.

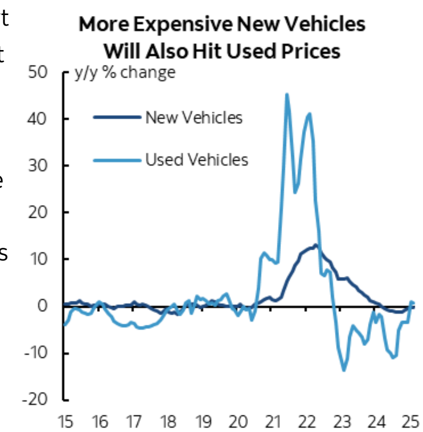
VEHICLE PRICES TO RETURN AS MAJOR DRIVER OF US INFLATION

On that latter note, both new and used vehicle prices are set to soar in the US in a way that revisits the kind of vehicle price inflation in the two connected markets that was seen not so long ago (chart 5). The direct impact of tariffs on imports of new vehicles is one thing, but also consider the indirect effects via production disruptions across supply chains and the spillover effects on used vehicle prices.

Estimates of the impact of tariffs on new vehicle prices in the US are all over the map, but if we take a \$5–10k range for the price effect off of what JD Power says is the roughly \$45k retail transaction price for new vehicles at present, then new vehicle prices could rise by between about 10–20%. This estimate is very uncertain because it also depends upon how margins and financing evolve.

Still, at a 4.4% CPI weight on new vehicles, we're talking about a 0.5–1.0% lift to US CPI just from that effect alone.

Chart 5



Sources: Scotiabank Economics, BLS.

Further complicating matters is that there will be spillover demand into used vehicles as buyers initially balk at paying higher new vehicle prices. Over time, that will drive used vehicle prices higher. Perhaps a lot higher. For every 10% rise in used vehicle prices at a 2.4% CPI weight, CPI would rise by a quarter of a percentage point.

It's therefore not difficult to imagine that vehicle prices will raise CPI by up to 1% and possibly more. Data and time will tell and again, I caution that there are wide intervals around the guesstimates.

If that's not enough to consider, then we enter the unknown via the ripple effects on supply chains stemming from tariffs. That would be especially true if the US ultimately applied tariffs on vehicle parts. In such a scenario, the risk quickly becomes one in which it is no longer economical to produce vehicles and parts at the margin. Such a supply shock akin to the pandemic cannot be ruled out.

The result of such a price shock would likely cause a decline in vehicle purchases—assuming they are available. It's hard to see how Trump's claim that more vehicle production would occur in the US after tariffs would unfold in reality. Industry guidance points to March sales running at about a 16.8 million SAAR pace as a continuation of the surge we've seen in recent months partly as an effort to front-run tariffs. These sales are being pulled forward from future months and when combined with the price shock that lies ahead we could well envisage a decline in new vehicle sales measured in the millions. It may be that less appetite for vehicle purchases will shift spending elsewhere.

March 27, 2025

THE WEIGHTED AVERAGE TARIFF SHOCK TO CANADA

John McNally in our group was hard at work last evening crunching the numbers and making critical assumptions to arrive at an estimate of the impact of these auto tariffs on Canada's overall tariff rate. Assuming that only the non-US value-added content of finished vehicle production is subject to the 25% tariff results in an average tariff rate on all Canadian exports rising to 3.2% and to 3.6% for just exports to the US. This weighted average tariff rate also includes steel and aluminum tariffs, an estimated 10% CUSMA/USMCA non-compliance factor for the previously announced 25% tariff on Canadian exports, and China's tariffs on exports of Canadian agricultural products.

BANXICO TO CUT AFTER NORGES HELD

Banco de Mexico is almost universally expected to cut by 50bps this afternoon (3pmET).

Norges Bank stayed on hold at 4.5% against minority expectations that they might have eased.

US REVISES GROWTH UP, INFLATION DOWN

US Q4 GDP was revised up a tick to 2.4% q/q SAAR (consensus 2.3%, Scotia 2.4%). Q4 core PCE inflation was revised down a tick to 2.6% q/q SAAR. Initial jobless claims were unchanged at 224k (225k prior revised up 2k). Continuing claims fell to 1.856 million from 1.881.

The US goods deficit was roughly stable at -$147.9B in Feb (-$153.3 prior). Trump will likely hit the rough on that release. But hey, most readers of a note like this would understand that it's a product of domestic US policies. Like lax fiscal policy, little domestic saving by consumers, and the strong dollar policies of this administration. Plus, it 's hard to see how damaging growth abroad through tariffs will lead to more of a pull effect on imports from the US!

Still ahead will be pending home sales for February (10amET).

CANADA'S LAGGING PAYROLLS

Canada's SEPH payrolls are irrelevant imo, but they were up 26.8k m/m in January. Meh. This measure excludes small businesses that lack formal payrolls and that are important in Canada. It's also very lagging, when we get LFS next Friday. And who cares about January now.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	4.29	4.31	4.29	4.38	4.39	4.35	4.53	4.53	4.50	4.74	4.74	4.69
CANADA	2.74	2.74	2.69	2.82	2.81	2.76	3.13	3.12	3.08	3.32	3.30	3.26
GERMANY	2.11	2.09	2.05	2.23	2.21	2.15	2.44	2.42	2.37	2.68	2.67	2.62
JAPAN	0.80	0.80	0.80	1.02	1.00	0.99	1.36	1.35	1.30	2.33	2.33	2.29
U.K.	4.22	4.18	4.17	4.23	4.20	4.17	4.53	4.49	4.48	5.11	5.08	5.06
	Spreads vs. U.S. (bps):											
CANADA	-156	-157	-160	-156	-158	-159	-140	-141	-142	-141	-143	-143
GERMANY	-218	-222	-224	-215	-218	-220	-209	-211	-212	-206	-207	-207
JAPAN	-349	-351	-349	-336	-339	-336	-317	-318	-319	-241	-241	-240
U.K.	-8	-13	-12	-15	-19	-18	-0	-4	-2	37	34	36

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	25699	135.4	0.5	0.6	4.5	23.0
Dow 30	44711	342.9	0.8	-0.1	5.2	16.4
S&P 500	6115	63.1	1.0	0.5	4.7	22.3
Nasdaq	19946	295.7	1.5	0.8	4.7	25.8
DAX	22514	-97.7	-0.4	3.3	11.1	32.9
FTSE	8747	-18.0	-0.2	0.5	6.6	15.6
Nikkei	39149	-312.0	-0.8	0.2	1.8	1.7
Hang Seng	22620	806.0	3.7	7.0	15.5	38.4
CAC	8186	21.6	0.3	2.7	10.3	6.6
Commodities	Level		% change:			
WTI Crude	71.86	0.57	0.8	1.2	-7.3	-6.2
Natural Gas	3.75	0.12	3.4	13.4	-5.4	133.2
Gold	2926.43	-1.78	-0.1	2.3	9.3	46.9
Silver	32.28	0.51	1.6	0.8	8.0	41.1
CRB Index	313.19	1.61	0.5	1.9	1.9	15.9
Currencies	Level		% change:			
USDCAD	1.4180	-0.0013	-0.1	-0.8	-1.2	4.7
EURUSD	1.0476	0.0011	0.1	1.4	1.6	-2.3
USDJPY	152.77	-0.0300	-0.0	0.9	-3.3	1.5
AUDUSD	0.6344	0.0027	0.4	1.1	2.4	-2.3
GBPUSD	1.2589	0.0023	0.2	1.5	3.1	0.2
USDCHF	0.9011	-0.0019	-0.2	-1.0	-1.2	1.7

Central Banks	
Current Rate	
Canada - BoC	3.00
US - Fed	4.50
England - BoE	4.50
Euro zone - ECB	2.90
Japan - BoJ	0.50
Mexico - Banxico	9.50
Australia - RBA	4.35
New Zealand - RBNZ	4.25
Next Meeting Date	
Canada - BoC	Mar 12, 2025
US - Fed	Mar 19, 2025
England - BoE	Mar 20, 2025
Euro zone - ECB	Mar 06, 2025
Japan - BoJ	Mar 19, 2025
Mexico - Banxico	Mar 27, 2025
Australia - RBA	Feb 17, 2025
New Zealand - RBNZ	Feb 18, 2025