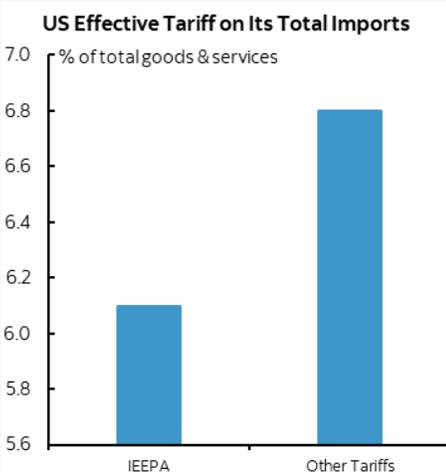


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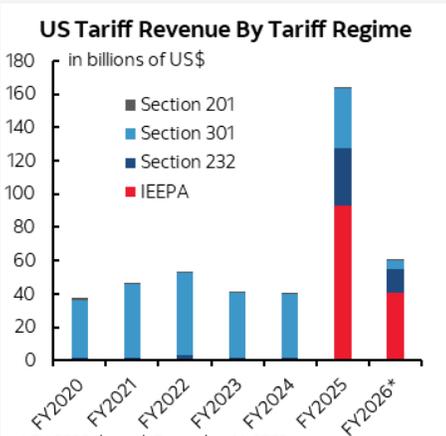
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Chart 1



Source: Scotiabank Economics.

Chart 2



\* FY 2026 through December 14, 2025.  
 Sources: Scotiabank Economics, CATO Institute, US Customs and Border Protection.

# Markets Unsure of Next Steps After SCOTUS Strikes Down IEEPA Tariffs Amid US-Canada Data Soup

- SCOTUS strikes down IEEPA tariffs
- What's next is highly uncertain for refunds and alternative measures
- US GDP disappointed and not just on shutdown effects...
- ...as income growth vapourizes and core PCE inflation spiked higher
- Canadian retail sales surged into 2026...
- ...as higher producer prices point to lagging upside risk to core CPI inflation
- Markets await next steps as uncertainty spikes higher

President Trump has had better days. The double blow of the tariff decision and disappointing GDP growth was a part of a deluge of new information that also included higher US inflation and weakening US consumer income growth. Also note that Canadian consumer spending was strong and inflation signals escalated.

Throughout it all markets were volatile but unsure of the correct direction to take. US 2s were little changed throughout it all. Ditto for stocks that fell at first and then rebounded. The dollar is broadly softer.

## SCOTUS STRIKES DOWN IEEPA TARIFFS

The Supreme Court struck down President Trump's signature IEEPA tariffs in a 6-3 [vote](#). I'm stunned by the timing given Trump's SOTU speech on Tuesday which will no doubt lash out at the justices as they sit before him in Congress. Perhaps the Court bravely wished to make a point of its independence from the executive branch.

Chief Justice Roberts explained the decision as follows:

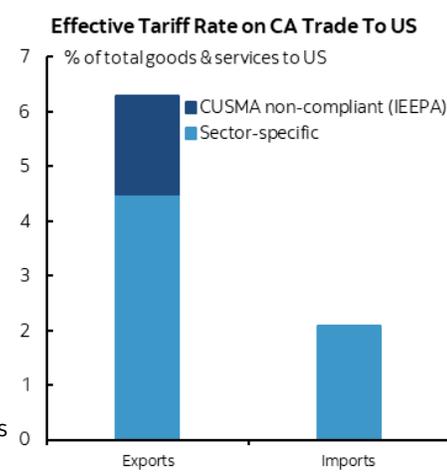
"The President asserts the extraordinary power to unilaterally impose tariffs of unlimited amount, duration, and scope. In light of the breadth, history, and constitutional context of that asserted authority, he must identify clear congressional authorization to exercise it."

The clear message is that Trump must go through Congress instead of bypassing it by executive orders.

Among the dissenters—Kavanaugh, Thomas and Alito—one concern was that the issue of refunds could be messy and complicated to handle. The decision threw what to do about this back to the lower courts and offered no guidance, though it may wind up back at SCOTUS one day. And yet while I'm no lawyer, using this as the rationale to dissent—as Kavanaugh did—strikes me as akin to excusing someone from a murder charge because the victim can't be brought back. Deal with the issue at hand first, the remedies after.

What impact will this carry? Chart 1 shows the average effective tariff rates on US imports imposed by the Trump administration broken down by IEEPA tariffs and the other tariffs. Just under half of the 12.9% effective tariff rate on all US imports is attributed to IEEPA tariffs. Chart 2 shows the yearly breakdown of US tariff revenues by tariff tool. Chart 3 shows the IEEPA share of

Chart 3



Source: Scotiabank Economics.

Chart 4 Review of Trump's Tariff Toolkit

Tools the US President can use to Impose Tariffs without Congress Approval				
Tool	Requirements	Timeline before tariffs can be imposed	Comments	Trump Tariffs 1.0 (2018 - 2019)
Section 232 (Trade Expansion Act of 1962)	President finds a threat to national security; Dept. of Commerce has to conduct an investigation	270 days to issue the finding; President then has 90 days to determine the import adjustment	Commerce department investigates whether a product is being imported in the US that threatens to impair national security	25% Tariff on imported steel & 10% Tariff on imported aluminum (March 2018)
Section 201 (Trades Act of 1974)	USITC does an investigation and must submit a finding	120 - 150 days to submit a finding before tariffs can be implemented		Tariffs on washing machine imports for 3 years & solar cell and module imports for 4 years as a result of Section 201 Investigation (January 2018)
Section 301 (Trades Act of 1974)	USTR investigates unfair foreign practices; can cover a wide range of products	Likely months; Remediation actions reviewed every 4 years		25% Tariffs on up to \$60B of imports from China (March 2018). 10% Tariffs on up to \$200B worth of good from China (September 2018). Later increased to 25%. 10% Tariffs on approx. \$300B worth of additional Chinese goods (August 2019)
Section 338 (Trade Act of 1930)	Allows the President to impose new or additional tariffs of up to 50% from countries that have discriminated against US products; can also be applied to third countries that benefit from the conduct	Quick - via executive order	Can be challenged via the WTO though this is unlikely to be a strong deterrent to using it	
Section 122 (Trades Act of 1974)	President has right to address large and serious balance of payments deficits via import surcharges of up to 15% and import quotas	Can be done quickly but for maximum of 150 days, so it's a temporary measure; Congress can extend it	Actions taken must apply evenly to every country	
International Emergency Economic Powers Act (IEEPA)	Grants the President the authority to regulate international commerce after declaring a national emergency in response to any unusual and extraordinary threat to the national security, foreign policy, or economy of the US.	Soon after an emergency is declared		

Sources: Scotiabank Economics, Oxford Economics, Tax Foundation.

the tariffs imposed on Canadian exports to the US (ie: the so-called 'fentanyl' tariffs).

Those charts lay out what is at stake, but chart 4 shows the alternative tariff methods that Trump can pivot toward and he has already repeated his intention to do so in the wake of the decision but without any details. They are less flexible, involve caps and more steps, but they have already been widely used particularly in the case of specific sectors.

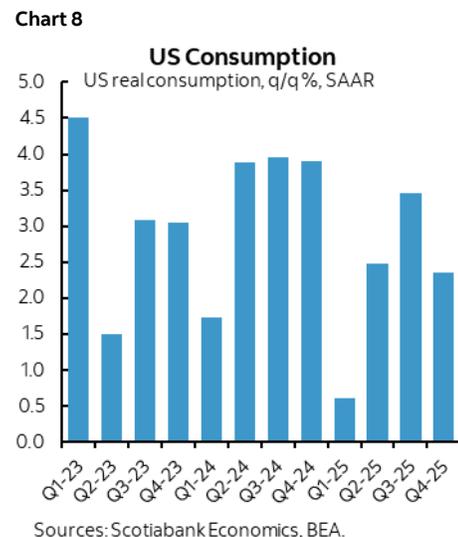
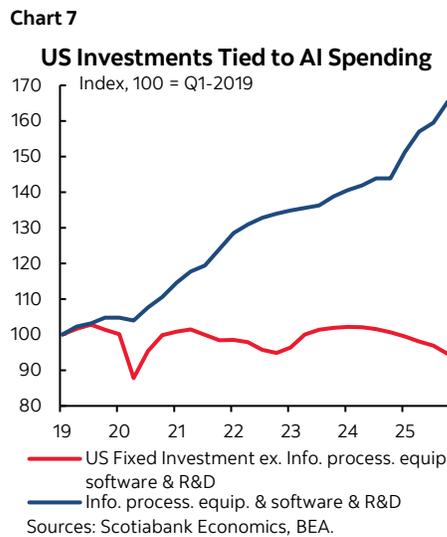
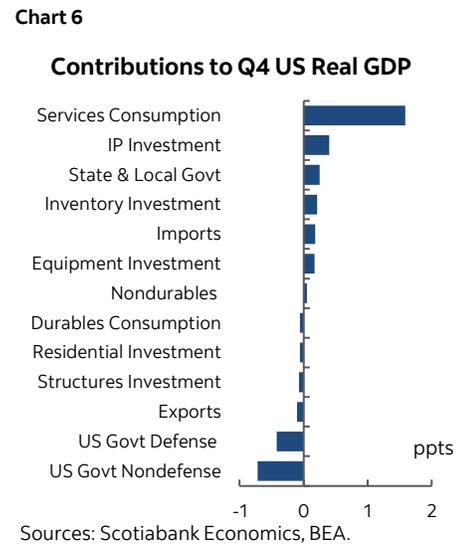
Regardless, we're now in a more uncertain phase in terms of what lies next. What happens to potential refunds of IEEPA tariffs. How will this impact the Treasury. What other measures will be announced and when. Multiple sectors could be faced with elevated announcement risk until we find out what the administration plans to do next.

Furthermore, there remains the other Trump v. V.O.S. Selections, Inc. case that SCOTUS has not decided upon yet. That could come Tuesday or Wednesday on the next scheduled opinion days for the court.

All of this uncertainty is probably why the broad reaction across stocks and bonds was de minimis thus far.

**US GDP DISAPPOINTMENTS**

US GDP growth disappointed almost everyone's expectations. Q4 grew by just 1.4% q/q SAAR which was half of consensus. It's the slowest growth since 2025Q1 (chart 5).



Why? Chart 6 shows the weighted contributions to growth. Government spending knocked a weighted 0.9 ppts off of Q4 GDP.

Investment contributed 0.45 ppts to Q4 GDP growth. All of that came through nonresidential investment as residential investment was a minor -0.1 drag with rounding up. Within nonresidential investment, equipment spending accounted for 0.2 ppts of GDP growth and the category labelled intellectual property products which includes software and R&D etc contributed 0.4 ppts. Further, all of the growth in investment was through AI-related investments; ex-AI, investment fell again which is quite unusual for an economy in excess aggregate demand and a positive output gap (chart 7).

Consumption added 1.6 ppts which was lower than the nearly 2% being tracked before we got this morning's consumer spending figures for December including negative revisions. All of that 1.6 ppt contribution from consumption came through services spending with no contribution to GDP growth from what consumers spent on goods. The latter point had high breadth to the weakness as neither consumer spending on big ticket durable goods (autos, appliances etc) nor spending on nondurables (food, clothing etc) contributed anything to GDP growth.

What is disconcerting on the consumption side is shown in charts 8-11. Consumption growth was slower than the prior two quarters but nevertheless solid in Q4 but the monthly changes show that it was front-loaded at the beginning of the quarter with early holiday sales. Momentum was lost as the quarter progressed.

The chart showing income growth have completely stalled out in Q3 and Q4 explains the erosion of the nominal personal saving rate that in inflation-adjusted terms is approaching around just 1%. As income growth and job growth ex-health hiring are getting vapourized while the wealth effect from housing remains negative, the durability of solid consumption growth remains in doubt into 2026. See my weekly from this past week that addresses the net effects of tariff tax hikes against income tax refunds [here](#).

Inventories added 0.2% to Q4 GDP growth.

Net exports added just 0.1% to Q4 GDP growth with rounding up. That was driven by lower imports (ie: less of a GDP leakage effect) that added 0.2 ppts to growth as exports were a non-factor by subtracting -0.1 ppts.

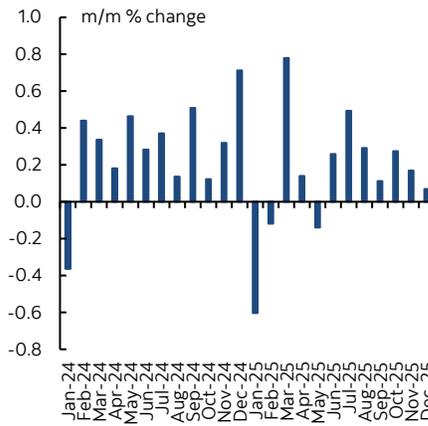
As for the effects of the government shutdown President Trump's claim that growth would have been two percentage points higher if not for the shutdown is a tough pill to swallow. Government spending dragged 0.9 ppts off Q4 GDP growth as federal spending knocked 1.15% off growth but state and local governments added 0.25%.

We also have this guidance on the shutdown effects from the BEA that basically says among the things they can measure they figure the shutdown cost about 1 ppt of GDP growth:

“Due to a lapse in appropriations, some federal government agencies were closed, and some employees were furloughed from October 1 through November 12. The full effects of the partial federal government shutdown on the fourth-quarter estimates cannot be quantified because they are embedded in the regular source data that underlie the estimates and cannot be separately

Chart 9

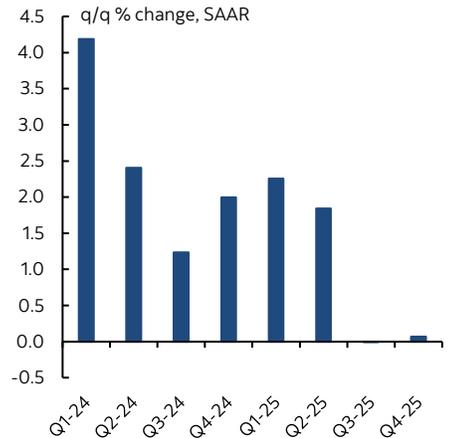
US Real Personal Consumption



Sources: Scotiabank Economics, US BEA.

Chart 10

US Real Personal Disposable Income



Sources: Scotiabank Economics, BEA.

Chart 11

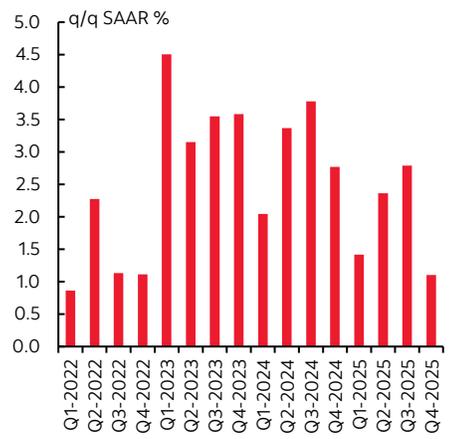
US Personal Savings Rate



Sources: Scotiabank Economics, US BEA.

Chart 12

US Final Domestic Demand



Sources: Scotiabank Economics, BLS.

identified. However, BEA did estimate the effects of a reduction in the labor services supplied by federal employees. BEA estimates that this reduction in services provided by the federal government subtracted about 1.0 percentage point from real GDP growth in the fourth quarter. Because furloughed federal employees received back pay, the shutdown had no impact on current-dollar federal compensation and was reflected as a temporary increase in the prices paid for federal employee compensation. For more information, an FAQ is available on BEA's website."

Final domestic demand—a barometer of the domestic economy that adds consumption, investment and government spending and excludes net trade and inventories—grew by 1.1% q/q SAAR in Q4 (chart 12). That's the weakest since 2022Q1. If we added back the drag from government spending in the shutdown then that would leave FDD up by about 2% which would be the weakest since 2025Q1.

**US INFLATION SPIKES HIGHER**

The FOMC's hawkish inflation stance was vindicated—at least for now—by the spike in core PCE inflation during December (chart 13). Core services ex-housing inflation helped to drive that increase but there was also a strong increase in goods inflation (chart 14).

**CANADIAN RETAIL SALES SURGED HIGHER INTO 2026**

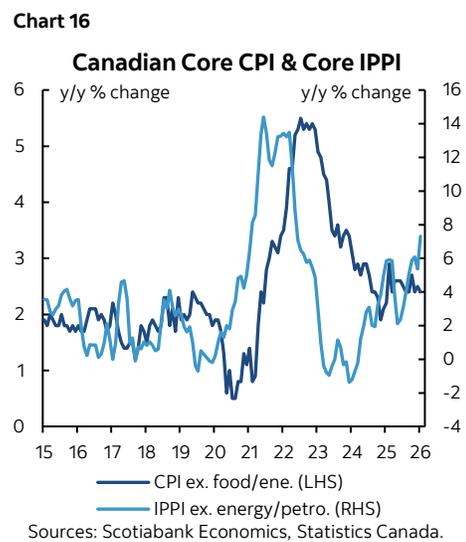
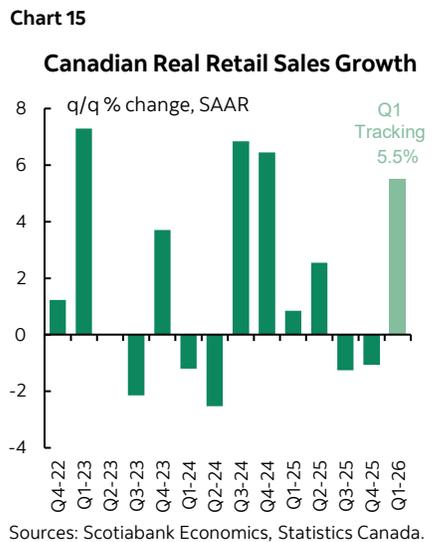
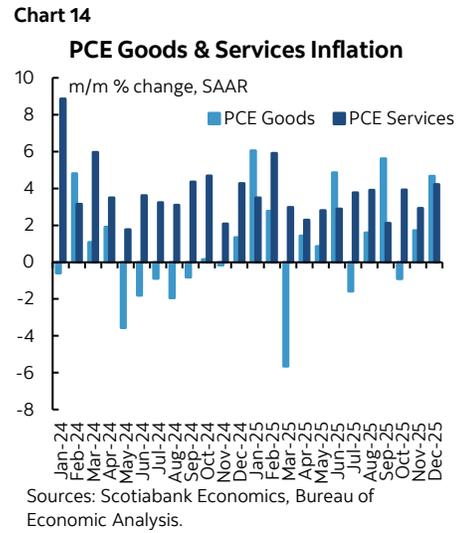
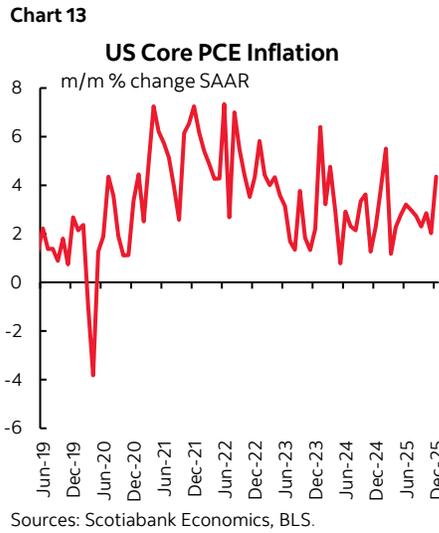
Retail sales surprised higher than expected. That's because flash guidance for January's reading was +1.5% m/m SA while the -0.4% m/m SA reading for December was little revised from previously known -0.5% guidance.

This leaves Q4 tracking a dip in sales volumes but a large gain somewhere in the 5–6% q/q SAAR range assuming not all of the 1.5% nominal jump in January was driven by higher volumes. It's early, but that could be the strongest quarterly growth in retail sales volumes since 2024Q4 (chart 15). Cautions include the fact much of that may have been driven by a jump in auto sales and we don't have details with the flash estimate. It could also be revised, but either higher or lower. We also don't know the split between volumes and prices.

**CANADIAN INFLATION FACES UPSIDE RISK FROM PRODUCER PRICES**

Finally, another warning shot on Canadian inflation came through producer prices. Industrial product prices were up by 2.7% m/m SA with raw materials prices up 7.7% m/m.

Chart 16 shows the connection between industrial product prices excluding energy prices and core CPI inflation. It's coming, in lagging fashion.



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