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Town of Aurora

Memorandum

Finance

Re: **Financial Risk Assessment – Possible US Tariffs**

To: Finance Advisory Committee

From: **Jason Gaertner, Manager, Financial Management Services**

Date: April 15, 2025

Recommendation

1. **That the memorandum regarding the Financial Risk Assessment of Possible US Tariffs be received; and**
2. **That the Finance Advisory Committee comments regarding the Financial Risk Assessment of Possible US Tariffs be received and referred to staff for consideration and further action as appropriate.**

Background

On January 20, 2025, a new United States of America (US) administration was sworn in. The new government immediately adopted an aggressive stance toward its trading partners, including Canada, threatening to deploy punishing tariffs on goods entering its country.

Firstly, a reciprocal tariff and a retaliatory tariff are essentially the same. A reciprocal tariff already exists; in this instance, the negatively impacted trading partner decides to introduce its own tariff that matches the tariff currently levied on its exports. A retaliatory tariff is a brand-new tariff that a trading partner levies on another's goods coming into its country. The economic effects of both these tariff types are exactly the same.

After two previous false starts, on March 4 the US proceeded with its implementation of a retaliatory tariff of 25 percent across the board on all Canadian and Mexican goods, with the exception of Canadian energy and critical minerals (oil, gas, and potash) to which a 10 percent tariff was applied. In response, Canada imposed its own 25 percent tariff on a specified list of US goods totaling $30 billion which would be expanded to a larger group of products totalling $155 billion in 21 days time should the trade war with the US continue. Further, the US increased its previously implemented across the board retaliatory tariff on all Chinese good entering its country from 10 to 20 percent. In response, China has implemented its own tariffs of up to 15 percent on select US good imports. Trump exempted all Canada-United States-Mexico Agreement (CUSMA) eligible goods from these tariffs, representing approximately 40 percent of Canadian goods that are imported to the US.

On March 12, 2025, President Trump implemented a further retaliatory tariff of 25 percent on all imported steel and aluminium. In response, multiple impacted countries such as China, the EU and Canada implemented further tariffs on select US good imports. In particular, Canada extended its 25 percent tariff to $29.8 billion of additional US good imports.

On April 3, 2025, the United States implemented reciprocal tariffs on all of its trading partners. The degree of tariff impact was determined by the US' perception of each trading partner's barriers to the import of US goods. Firstly, a baseline reciprocal tariff of 10 percent will be applied to all US trading partners with the exception of any countries that are part of the CUSMA free trade agreement being Canada and Mexico. These baseline tariffs were escalated for select trade partners who the US believes are taking the greatest advantage of the United States. Any escalated reciprocal tariffs took effect on April 9, 2025. It was noted that these reciprocal taxes would not 'stack' on top of the 25 percent retaliatory tariffs on steel & aluminium and automobiles.

It was also reaffirmed that the previously implemented retaliatory tariffs on non-CUSMA eligible goods for Canada, Mexico and China would continue. Should these tariffs be lifted for Canada and Mexico, these same goods would instead be subject to a 12 percent reciprocal tariff. However, China's reciprocal tariff would stack on top of the previously implemented retaliatory tariff of 20 percent bringing its total general good impact to 54 percent.

In addition, the US implemented a retaliatory tariff of 25 percent on all automobiles imported into the country on April 3, 2025. These tariffs are applicable only to the portion of an automobile that is not US made; for example, if a Canadian assembled automobile contains 40 percent US made parts, then only 60 percent of the vehicle's value would be subject to this tariff. The US has also announced that it intends to implement a retaliatory tariff of 25 percent on all non-US made automobile part imports on May 3, 2025. In response to this tariff, Canada has implemented a reciprocal tariff of an equivalent value on all non-CUSMA compliant US automobile imports.

President Trump also signaled to US trading partners his intent to implement retaliatory tariffs on copper, pharmaceuticals, semi-conductors and lumber.

On February 25 Town of Aurora Council adopted a bylaw to amend the Town's Procurement By-law to protect the Town from trade treaty partners who are not acting in good faith, while also supporting Canadian sourced procurements and suppliers.

The Finance Advisory Committee requested that staff undertake a Financial Risk Assessment of the financial impacts to the Town of a trade war with the United States.

Analysis

US imposed tariffs on its trading partner goods that it imports will result in an indirect financial impact to the Town, while Canadian imposed tariffs on US good imports will have a direct financial impact.

US imposed tariffs will only impact the Town should it purchase a US good which itself or its inputs have previously been subject to a US tariff. Further, any tariffs arising from the consumption of Canadian energy in the construction or transport of a US good will also have an indirect financial impact on the cost of US sourced goods to the Town. It is assumed that any incremental costs due to tariffs will be passed onto the end purchaser of a US good through its sticker price. Should an imported US good be subject to a Canadian tariff, this cost would be added to that good's sticker price.

Potential Town good purchases that may be impacted by tariffs

Table 1 presents a summary of applicable categories of goods that may be impacted by retaliatory or reciprocal tariffs should the Town purchase them from the US directly through a US vendor, or indirectly through a 3rd party Canadian vendor.

This table also estimates the possible degree of 'tariff stacking' that may occur further inflating the cost of these goods to the Town. Potential tariff stacking is indicated by more than one tariff type with a 'yes' for a possibly impacted good category. For example, the inputs into the creation of US building materials may come from Canada and the production/shipment of these products may use Canadian energy whose import would be subject to US tariffs; in addition, the import of these finished US goods into Canada would be subject to a Canadian tariff. It is assumed that all of these incremental tariff costs will be passed onto the Town as the potential end purchaser of these goods.

Table 1
Potential Town Goods Impacted by Tariffs

Possible Impacted Good	US Tariffs					CDN Tariffs
	CDN Goods	CDN Energy	Mexican Goods	Chinese Goods	Reciprocal Tariffs (All Countries)	
Building materials	No	Yes	No	No	No	Yes
Appliances	No	Yes	No	No	No	Yes
Manual / power hand tools	No	Yes	No	Yes	Yes	Yes
Oil and gasoline	No	Yes	No	No	No	No
Machinery & Equipment	No	Yes	No	No	Yes	Yes
Vehicles (all sizes)	Yes	Yes	Yes	No	Yes	Yes
IT equipment	No	Yes	No	Yes	No	No
Water Infrastructure	No	Yes	No	No	No	No
Clothing	No	Yes	No	Yes	Yes	Yes
Steel & Aluminum	Yes	Yes	No	No	No	Yes
Sports Equipment	No	Yes	Yes	Yes	No	Yes
Cast-iron products	Yes	Yes	No	Yes	No	Yes
Other Electronics	No	Yes	No	Yes	Yes	Yes
Electric Vehicles	Yes	Yes	Yes	No	No	Yes
Trucks	Yes	Yes	Yes	No	No	Yes

The financial impact of tariffs on the cost of US goods will depend upon the extent of foreign inputs into each good's production and the degree to which these foreign inputs are subject to tariffs. The larger the number of foreign inputs subject to US tariffs, the greater the effect of tariff stacking will be on the good's sticker price. US good costs may be further inflated by any retaliatory or reciprocal Canadian tariffs that the imported US good is subject to. The far-right column reflects the currently imposed Canadian tariffs upon each applicable good category; the bottom two rows of US goods may become subject to Canadian tariffs within 21 days should the US tariffs still be in place at this time.

The general applicable categories of goods to the Town for which a Canadian tariff of 25 percent has been applied to date include:

- All building materials (lumber, all bathroom fixtures)
- All lighting fixtures
- All appliances (stoves, refrigerators, washing machines, water heaters)
- Manual / power hand tools (drills, saws, sanders)
- All furniture
- All clothing
- Some equipment (HVAC, riding lawn mowers, chain saws, snow blowers)
- Tires
- Envelopes / printed material
- Other Electronics
- Steel
- Aluminium

Should the US tariffs remain after 21 days, this list may grow to include the following additional applicable US goods that will be subject to a 25 percent tariff:

- Electric vehicles
- Trucks

This list may be expanded further should Canada decide to respond to the US' recently announced automobile tariffs.

Early staff assessments have identified that the greatest potential financial impact to the Town as a result of the trade war will be to its purchase of vehicles and vehicle parts (all sizes and types), oil & gasoline and machinery & equipment. Further, in consideration that approximately 25 percent of all municipal building supplies are supplied from the US, it is anticipated that the Town's building material costs will be subject to inflationary pressures as a result of the trade war as well.

Further, the recently implemented 25 percent US retaliatory tariff and Canadian reciprocal tariff on automobiles, steel and aluminium are expected to have a material financial impact on the cost of vehicles and building supplies to the Town. Also, US reciprocal tariffs on assembled electronics and their components will very likely raise the town's costs for its IT equipment in particular.

An extended trade war will negatively impact the country's overall economy

An extended trade war will negatively impact the country's overall economy. Stagflation is likely to result, upon which the usual Bank of Canada monetary levers will be ineffective. Stagflation is defined as a period over which the economy experiences slow to negative growth, high unemployment, and rising prices. It is anticipated that job losses will occur across multiple sectors of the economy. The Bank of Canada predicts that any extended trade war will result in a structural recession; meaning the economy will not bounce back like it did after the pandemic. It will take time for the economy to restructure itself to its new reality.

The Canadian and US stock markets have lost trillions in dollars of value to date in the early days of this trade war. The S&P 500 has dropped by 10 percent. This market decline is a further indicator that a recession is looming.

Any resultant economic contraction and increasing prices may result in Aurora citizens experiencing challenges in paying their bills. The degree of impact will be heavily dependent upon the US and Canadian tariffs imposed and the duration that they remain effect.

It is anticipated that a trade war with the US will negatively affect the Canadian dollar's exchange rate

The Canadian dollar fell by close to 10 percent versus the US dollar commencing on the date of the President's announcement of US tariffs on Canadian goods. This event offered an early indication of the impact that tariffs may have on the Canadian exchange rate should the trade war continue over an extended period.

A reduced Canadian dollar exchange rate will result in savings for US producers for who import Canadian components in the creation of their products which will help to mitigate some of their tariff costs that may be passed onto its consumers via the US good's sticker price but is unlikely.

Further, a deteriorated exchange rate will effectively erode the Canadian dollar's purchasing power of imported goods and services resulting in further imported good price inflation in addition to tariff driven inflation.

Possible financial risk mitigation strategies

As tariffs and a weak exchange rate are expected to result in significant price inflation of imported goods, the Town must strive to mitigate this risk. The best strategy that the Town can deploy is to avoid this risk all together through minimizing its need to purchase imported goods wherever possible. Some risk avoidance strategies might include:

- Explore the purchase of comparable alternatives that are available domestically, or perhaps from a tariff friendly country
- Delay the purchase of goods or any major Town facility construction project until such time tariffs are lifted, if possible
- Strive to collaborate with all applicable stakeholders such as York Region and other municipalities, Aurora Economic Development Corporation, and the Aurora Chamber of Commerce, to leverage local expertise and resources.
- Legal Services and Procurement review existing contracts and add protective measures to new agreements to help safeguard against tariff-related price surges (***underway***)
- Amend the Town's procurement bylaw to support Canadian procurement and provide greater flexibility to respond to tariff-related expenses (***completed on February 25***)

With regard to the anticipated overall economic impacts of an extended trade war, both the federal and provincial governments have announced multiple supporting mitigating financial strategies.

Attachments

None