

NAVIGATING ECONOMIC HEADWINDS

**Presented to the Association of Municipalities
of Ontario Elected Officials**

July 30, 2025

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Today's roadmap



Canada economic outlook - trade war & other key drivers



Ontario and municipal outlook



Tariff impact on municipality construction costs



Key takeaways



Questions?

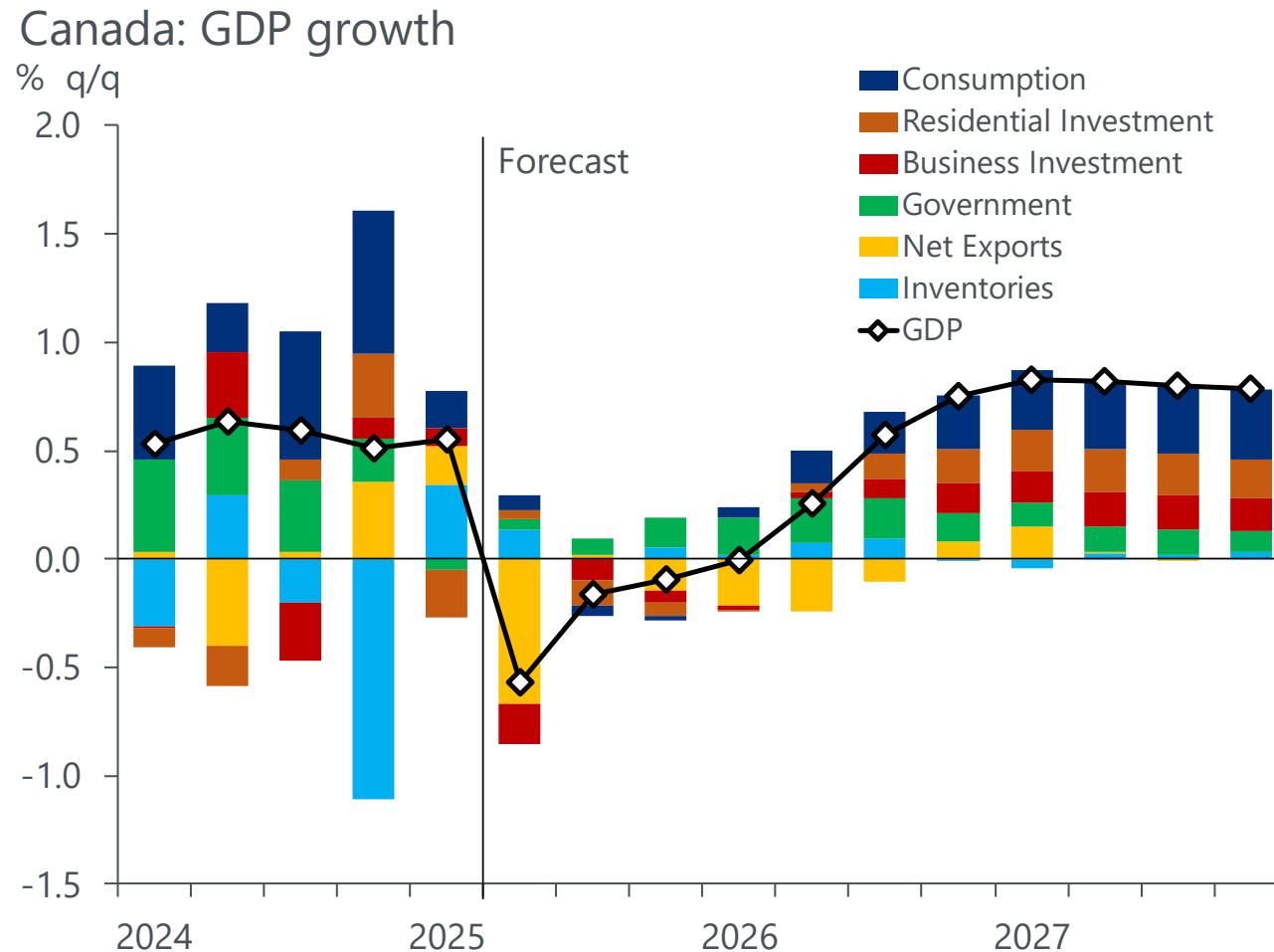
Canada economic outlook - trade war & other key drivers



The trade war has likely pushed Canada into a recession that will extend through 2025

Key takeaways

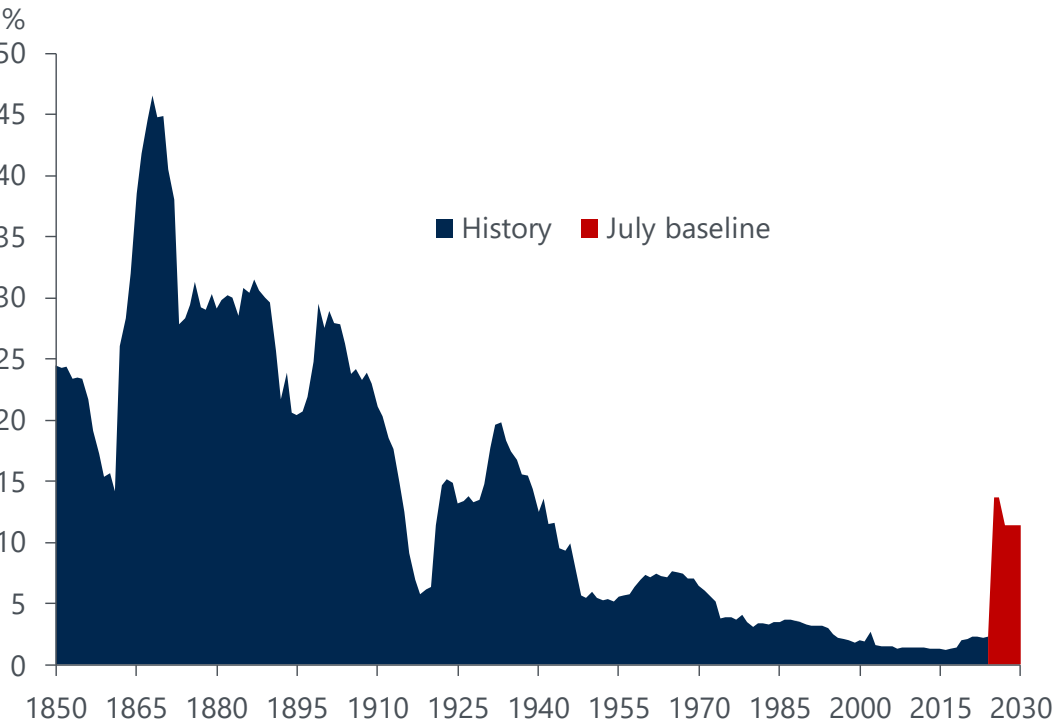
- Canada's economy has slipped into a trade war-induced recession that will likely last through the end of this year, but the trade war with the US is at a pivotal crossroads.
- New federal fiscal stimulus, including Canada's commitments to raise defence spending to 2% of GDP this fiscal year, and temporary counter-tariff relief, will soften the downturn, but won't prevent a recession.
- New tariffs will lead to fewer exports while uncertainty and a weaker labour market weigh on domestic demand. We forecast a 0.8% peak-to-trough decline in GDP from Q2 to Q4 2025.



Source: Oxford Economics

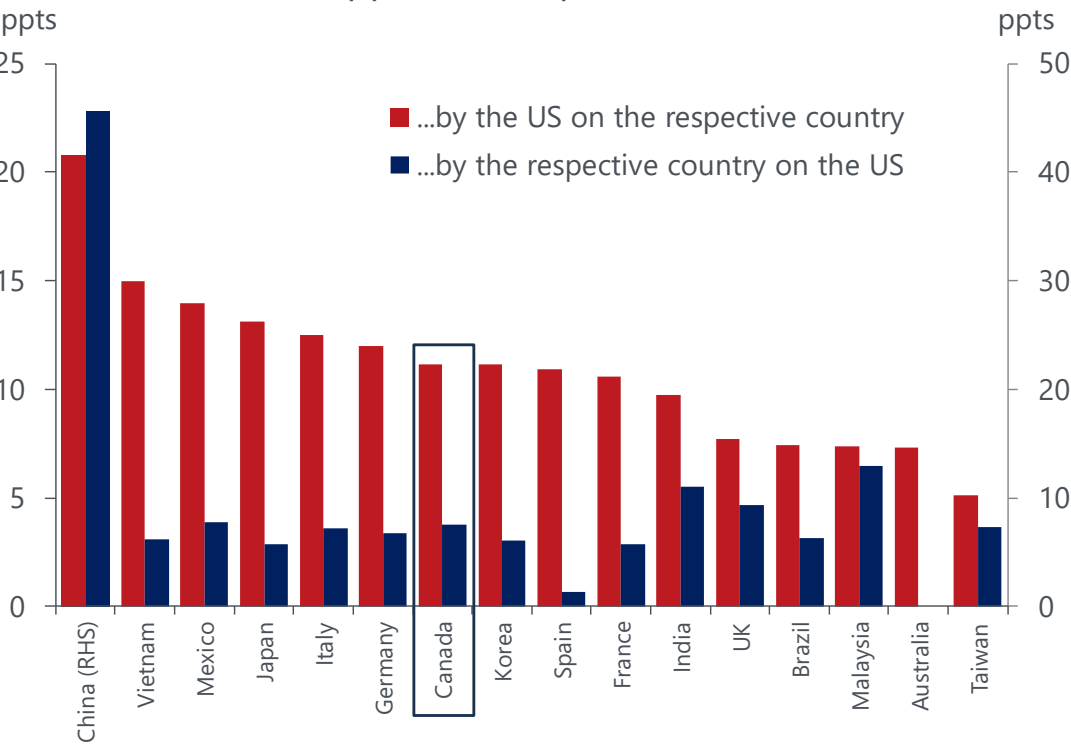
US tariffs soar to highest level since 1930s, prompting retaliation

US: Effective tariff rate



Source: Oxford Economics/Census Bureau

Effective tariff rate applied to imports in 2025...

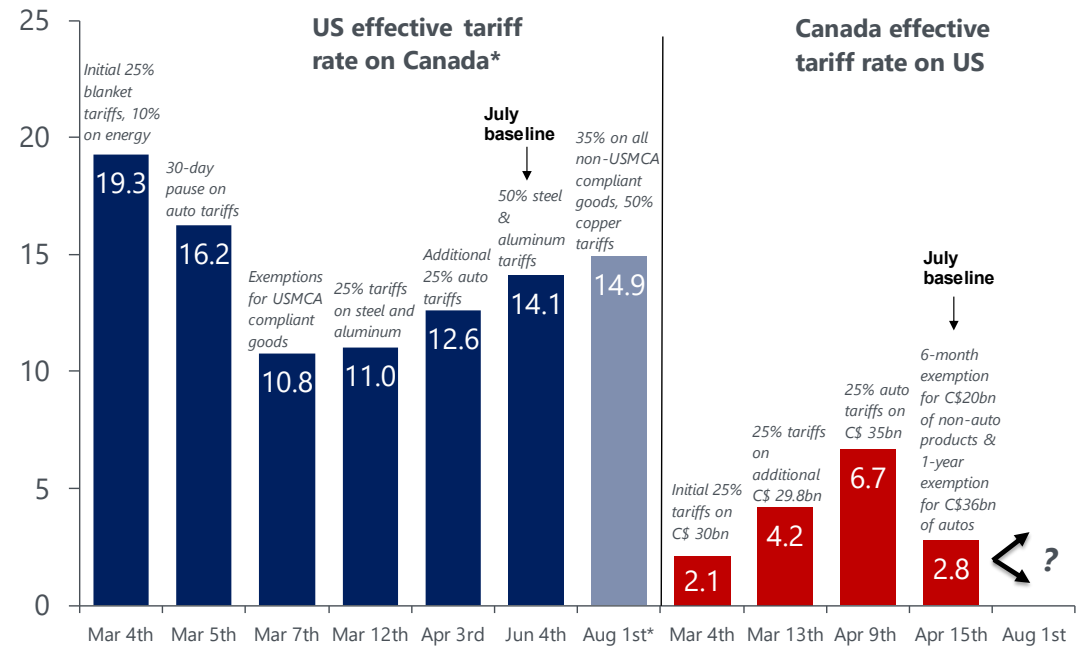


Source: Oxford Economics

US-Canada baseline tariffs assumed to last until USMCA is renegotiated in mid-2026, but the Aug 1st deadline is pivotal

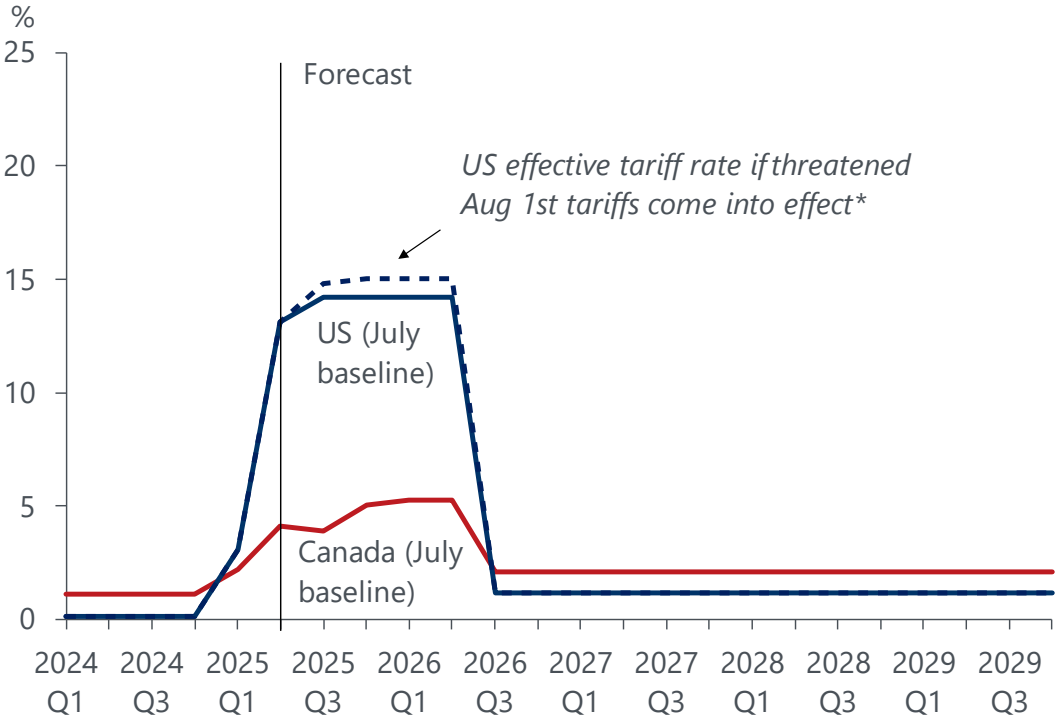
Canada & US: Effective tariff rate increases

Effective tariff rate increase (%)



Source: Oxford Economics/US Census Bureau *US effective tariff based on 2024 USMCA compliance. Aug 1 estimate is preliminary & based on higher May 2025 USMCA compliance.

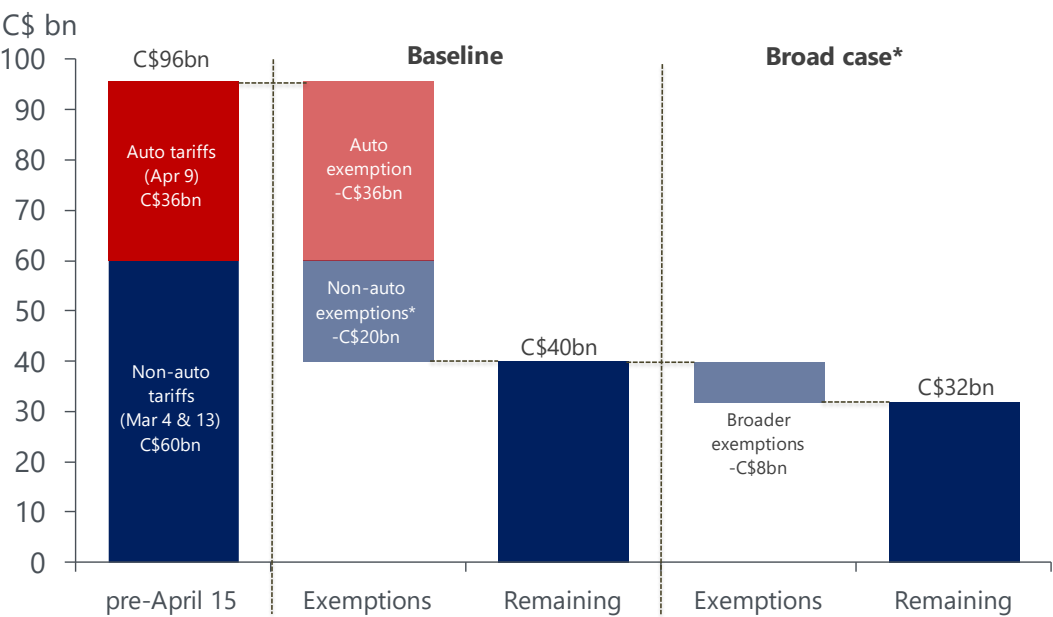
Canada & US: Effective tariff rates



Source: Oxford Economics *Preliminary estimate based on announcements to date and May 2025 USMCA compliance

Tariff relief temporarily exempts C\$56bn-C\$64bn of the C\$96bn in US imports facing Canadian counter tariffs

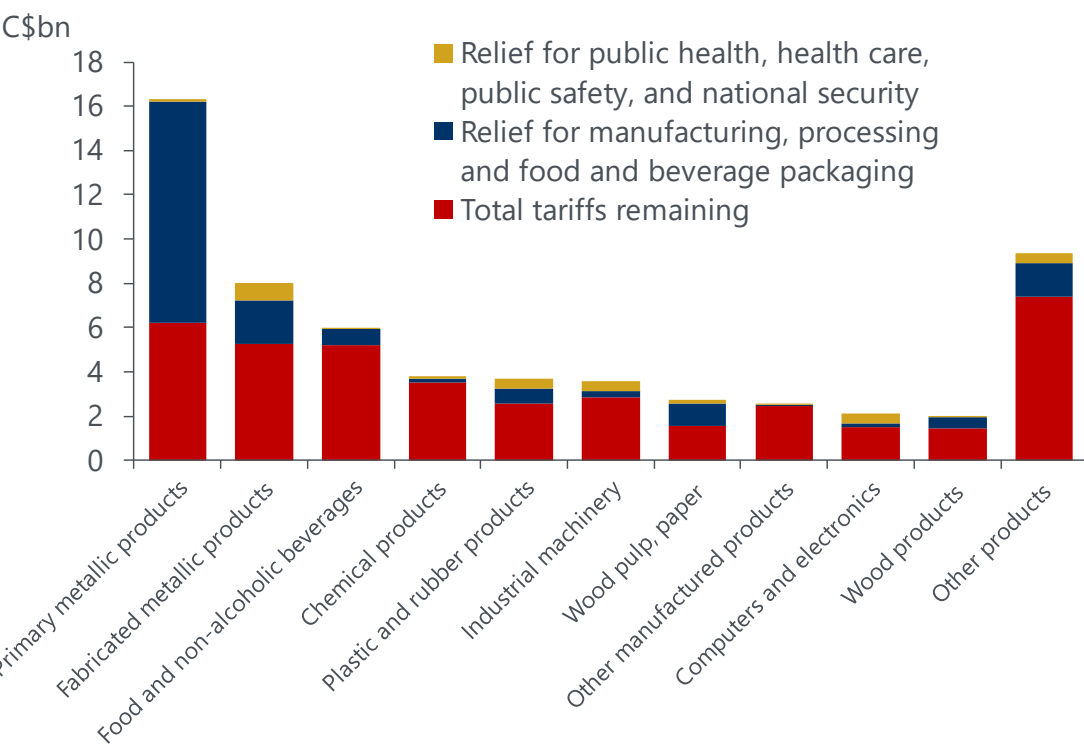
Canada: US imports subject to counter tariffs & exemptions



Source: Oxford Economics/Haver Analytics

* Assumes a broader interpretation of products used for manufacturing, processing, food and beverage packaging, healthcare, public health, public safety, and national security, and cases with severe adverse impacts and lack of non-US suppliers

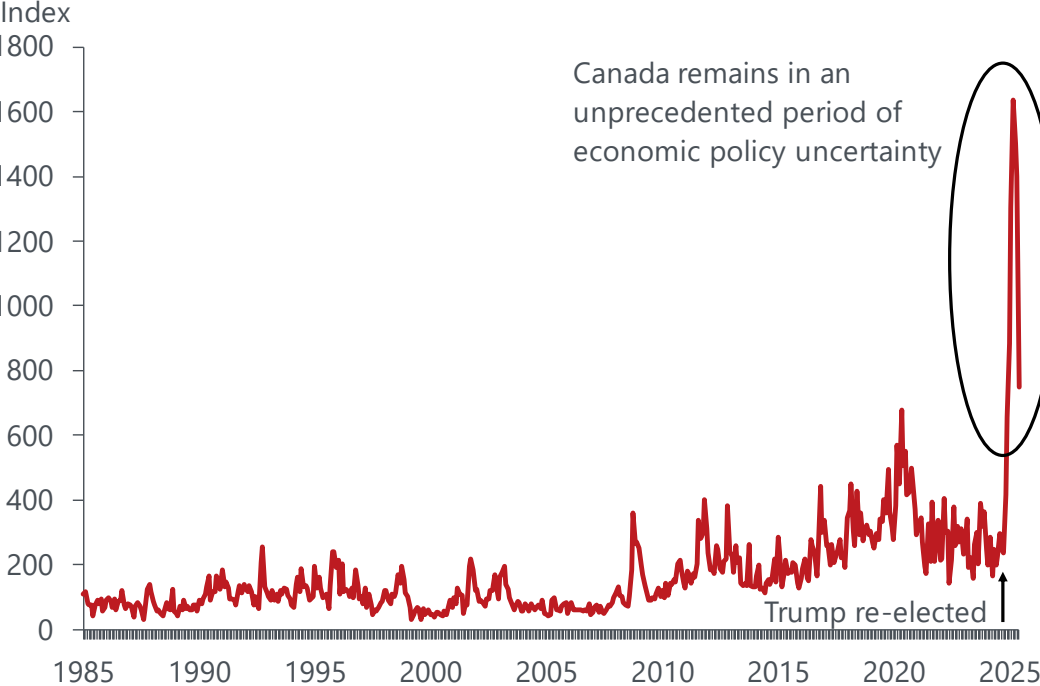
Canada: US Counter tariffs by product



Source: Oxford Economics/Haver Analytics

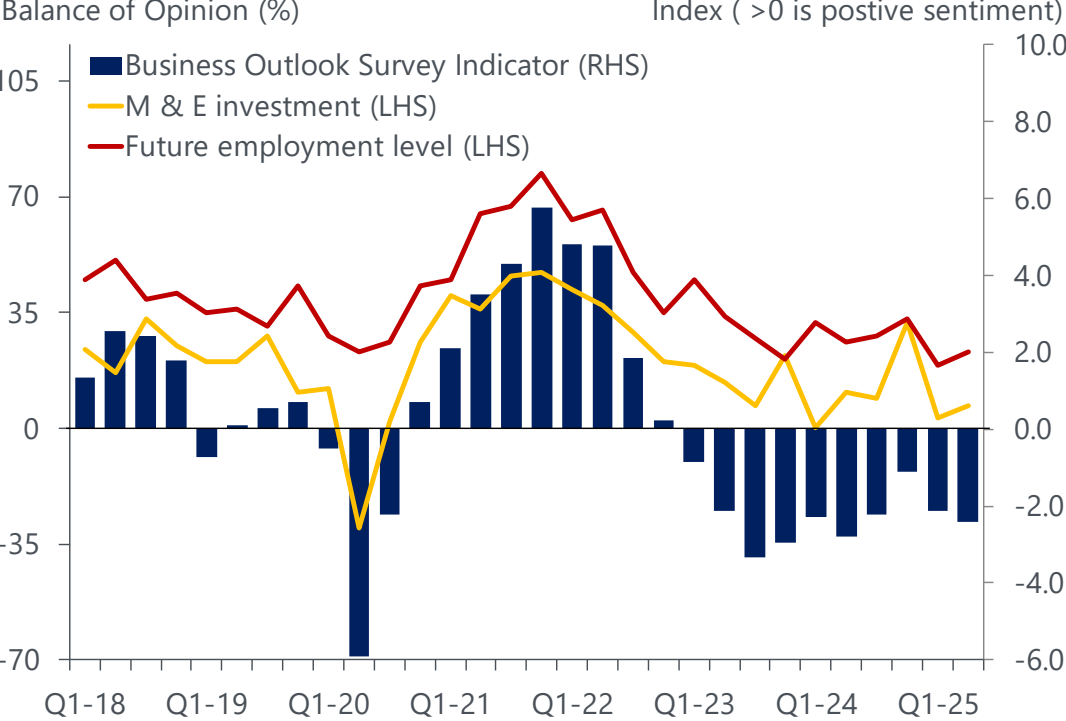
Uncertainty is weighing on business sentiment, investment, and hiring plans

Canada: Economic policy uncertainty index



Source: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com.

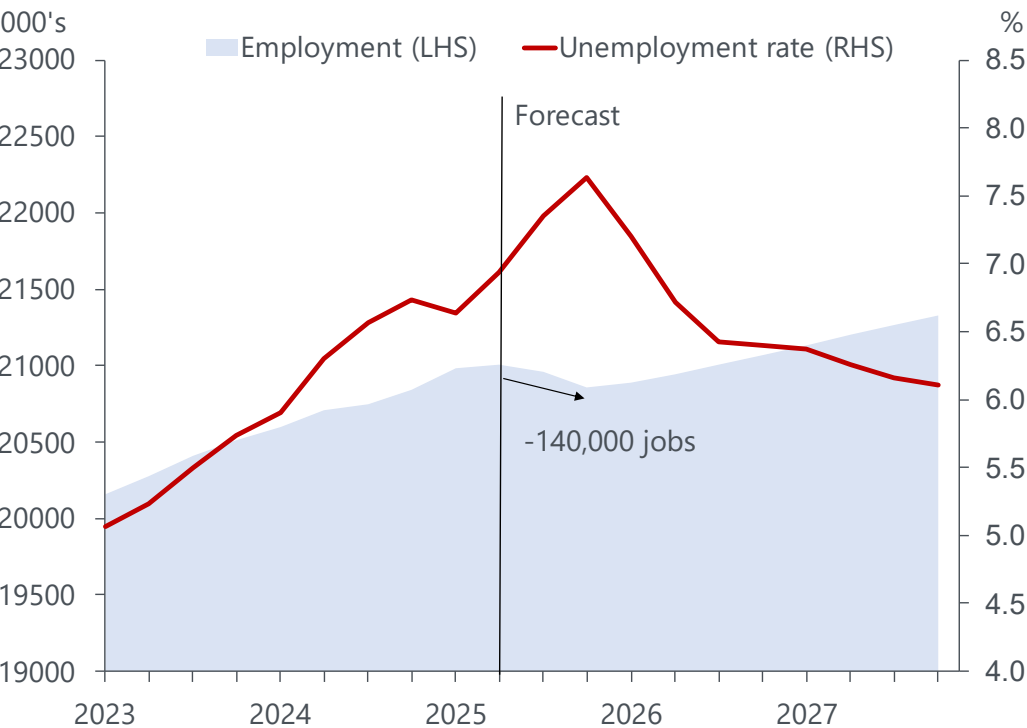
Canada: Business Outlook Survey



Source: Oxford Economics/Haver Analytics/ Bank of Canada

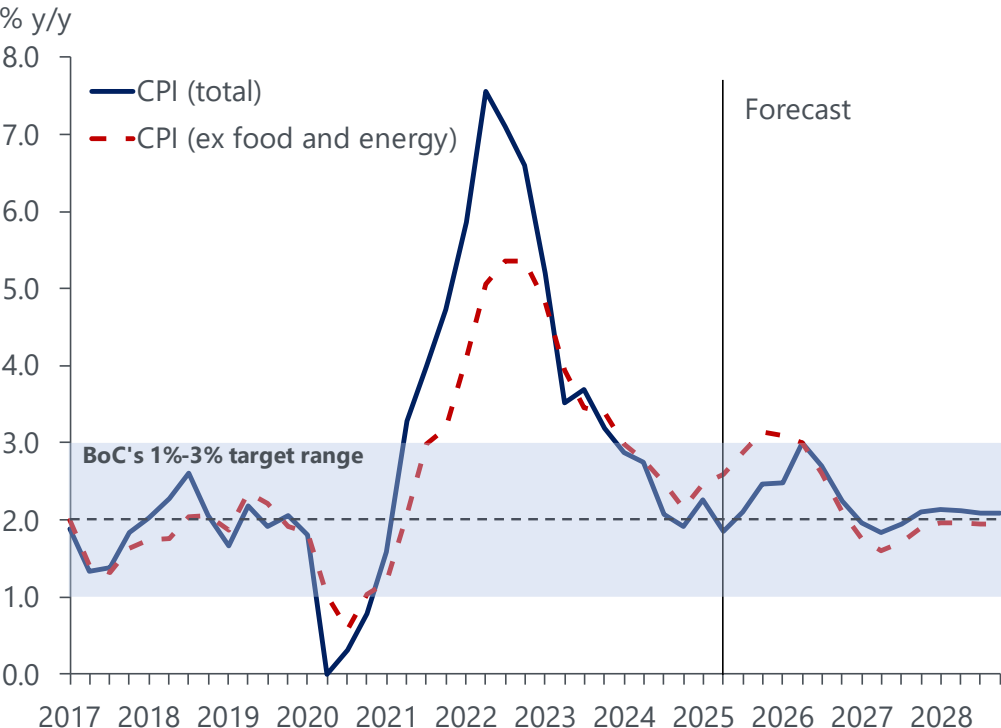
Layoffs will lift unemployment rate while tariffs raise prices

Canada: Employment and unemployment rate



Source : Oxford Economics/Haver Analytics

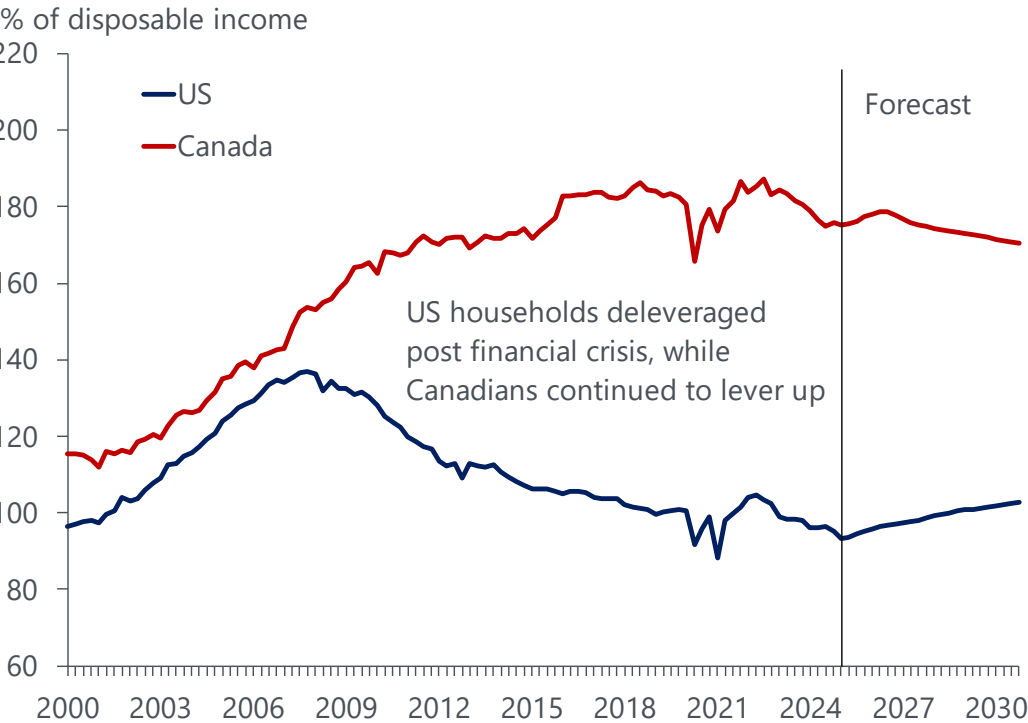
Canada: Headline and core inflation



Source: Oxford Economics/ Haver Analytics

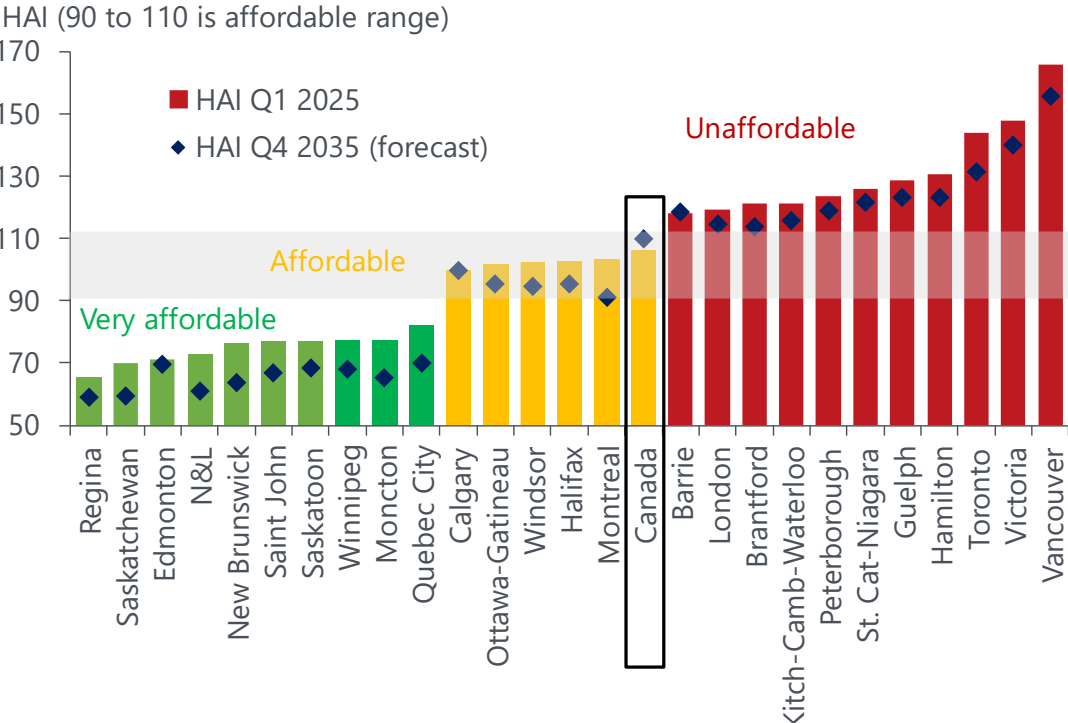
Elevated household debt and overvalued housing make Canadian households acutely vulnerable to a shock to incomes or interest rates

Canada: Household debt to disposable income



Source: Oxford Economics/Haver Analytics

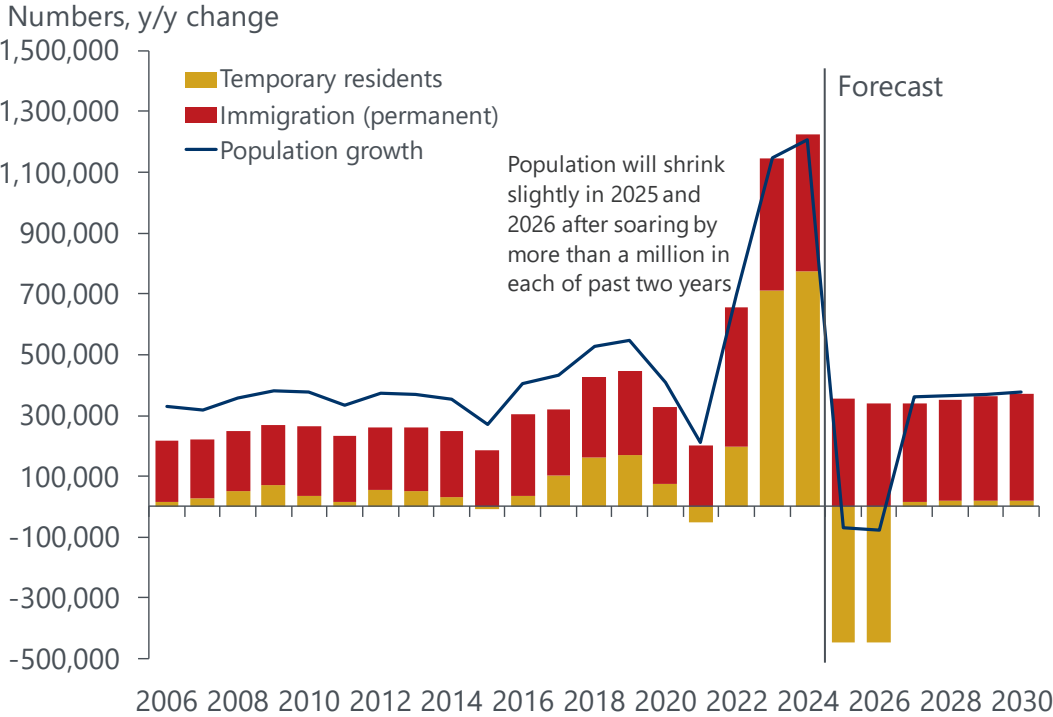
Canada: Housing affordability index (HAI), Q1 2025



Source: Oxford Economics/Haver Analytics

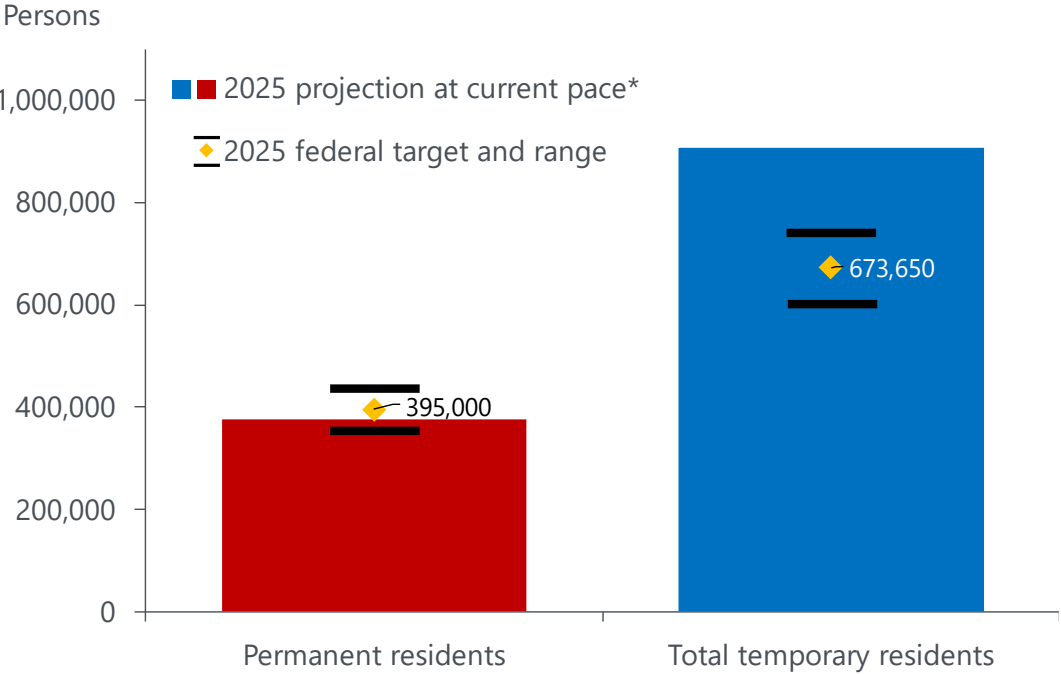
Population is likely to begin shrinking later this year, but the government is at risk of missing its temporary resident target

Canada: Population annual growth sources*



Source: Oxford Economics/Haver Analytics *Figures are as of July 1st each year.

Canada: Permanent & temporary resident arrivals

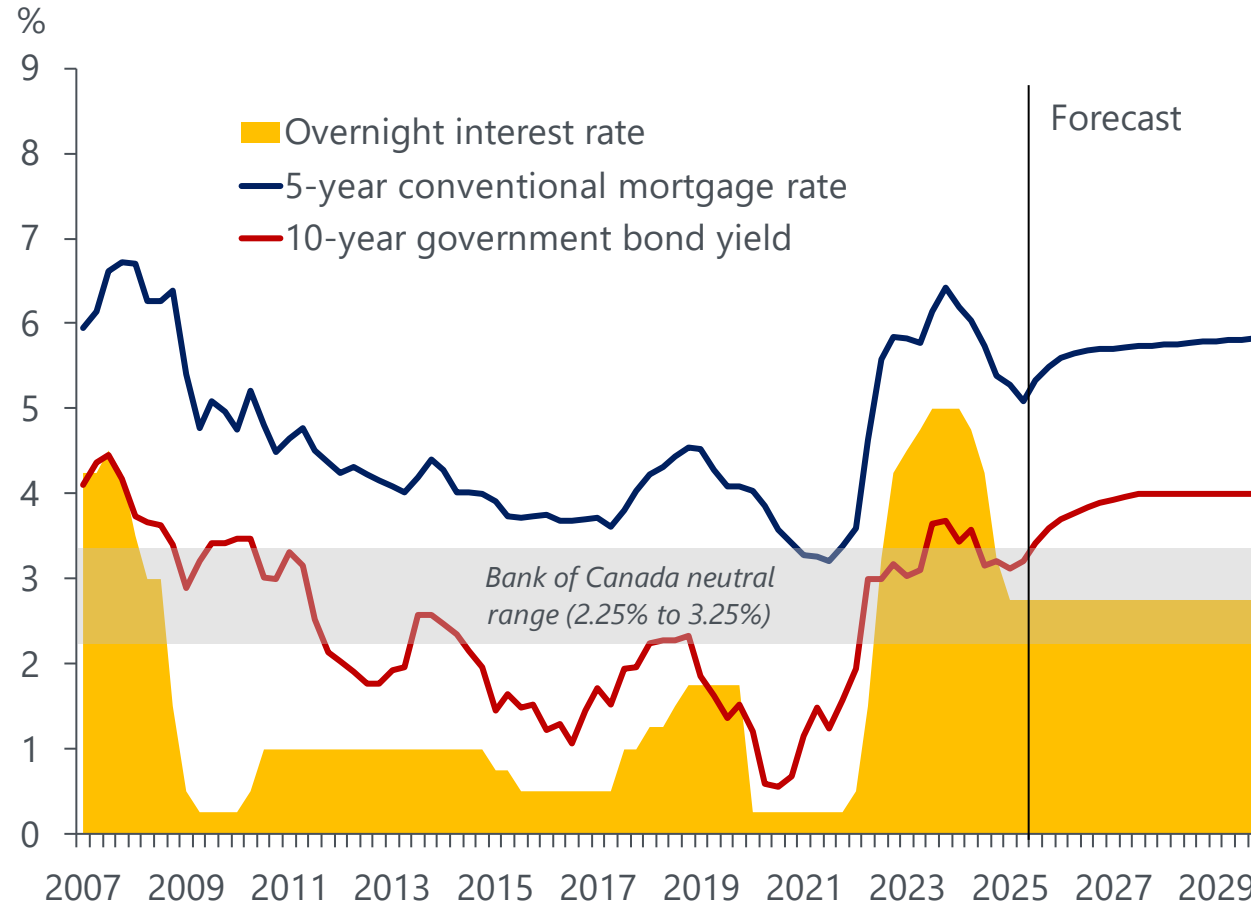


Source: Oxford Economics/Haver Analytics *Projections assume arrivals grow at the average y/y growth since the 2025 -2027 Immigration Levels Plan was introduced

Bank of Canada will likely remain on hold

Key takeaways

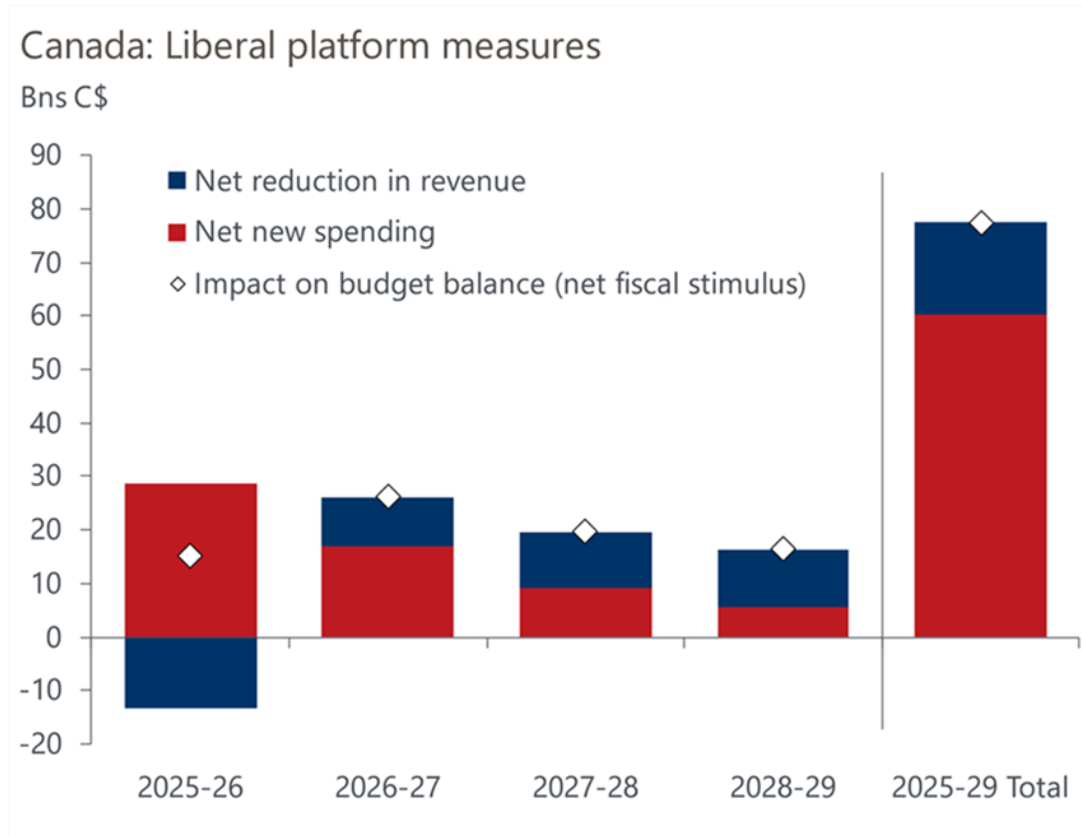
Canada: Overnight rate, mortgage rate & 10-year bond yield



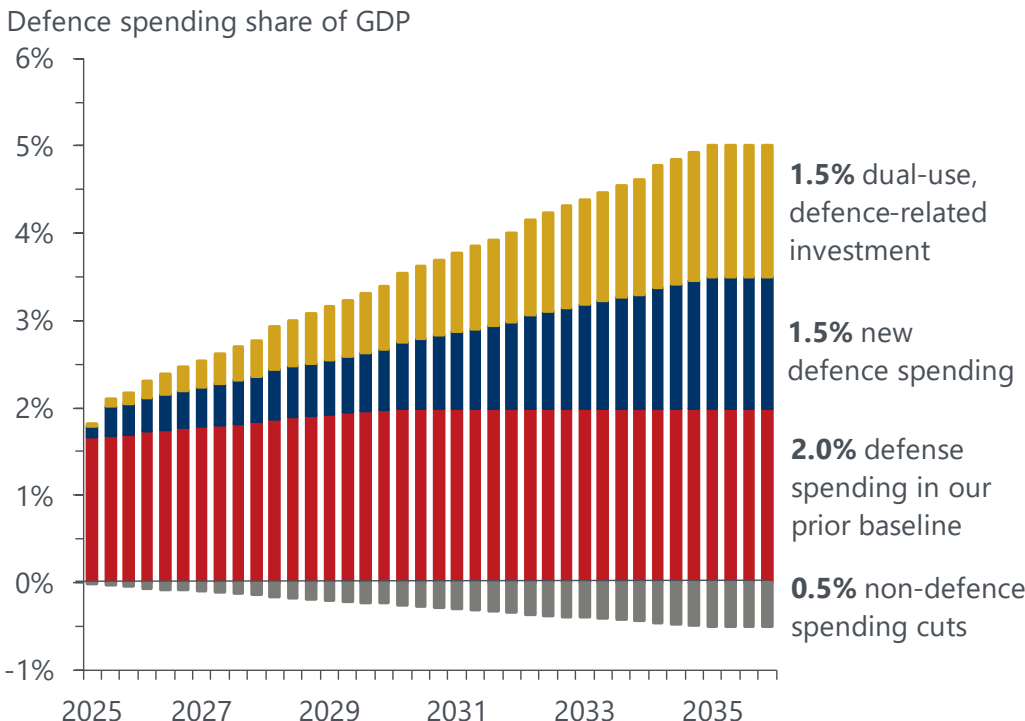
Source: Oxford Economics/Haver Analytics

- The stagflationary tariff shock means the BoC needs to balance concerns over higher prices with a downturn in the economy.
- Uncertainty about tariffs and their impact led the BoC to keep the policy rate at 2.75% in June and we expect it will stay there.
- While we can't rule out a couple of 25bp rate cuts, the BoC will not reduce rates into stimulative territory unless it's convinced inflation is under control and more stimulus is required, especially with major fiscal expansion coming.
- Higher inflation, public debt concerns and rising term premia will push up long bond yields.

Liberal platform and higher defence spending won't prevent a trade-war induced recession in Canada



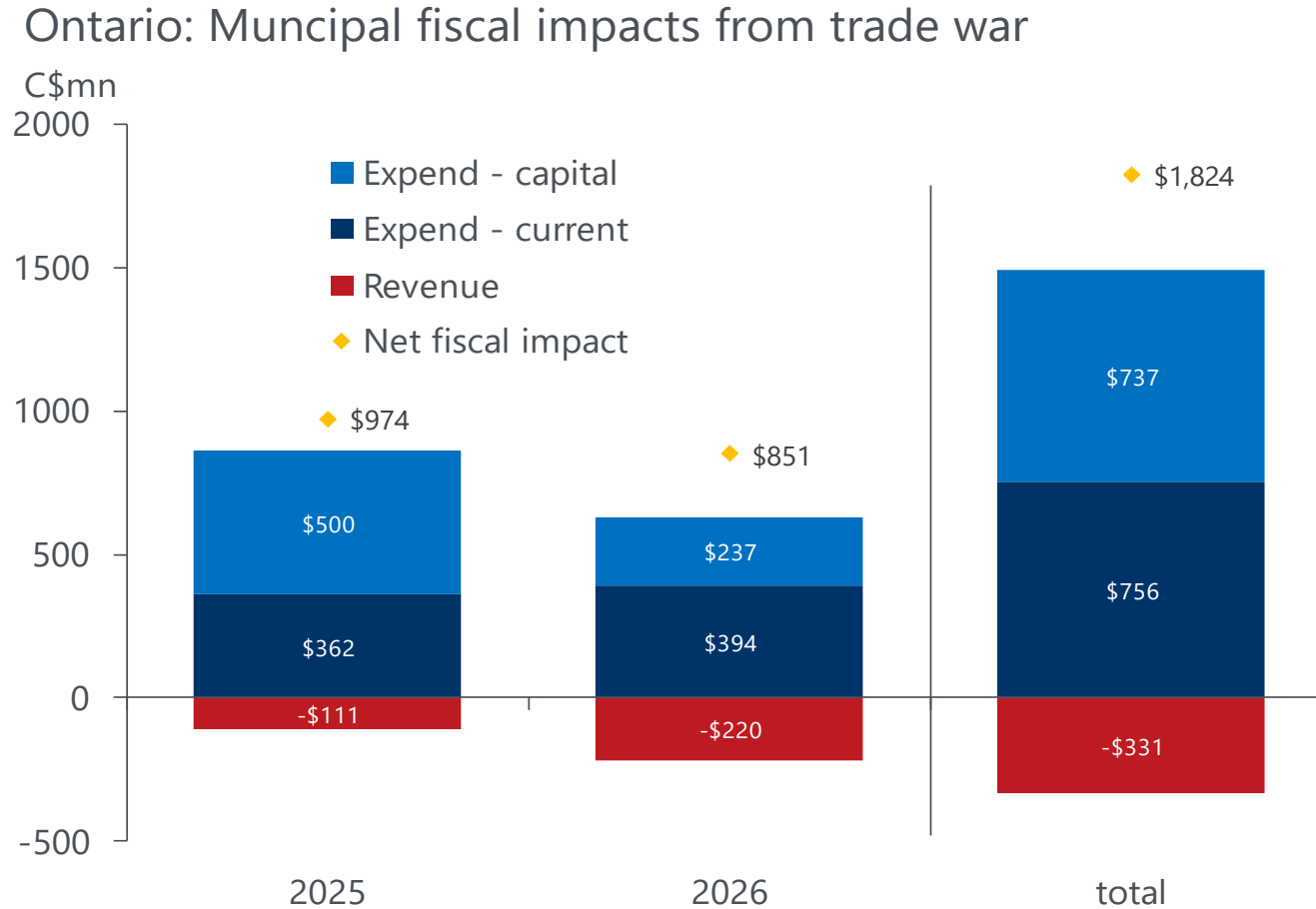
Canada: Government defence spending



Source: Oxford Economics/Haver Analytics

Trade war will worsen Ontario municipal finances

Key takeaways



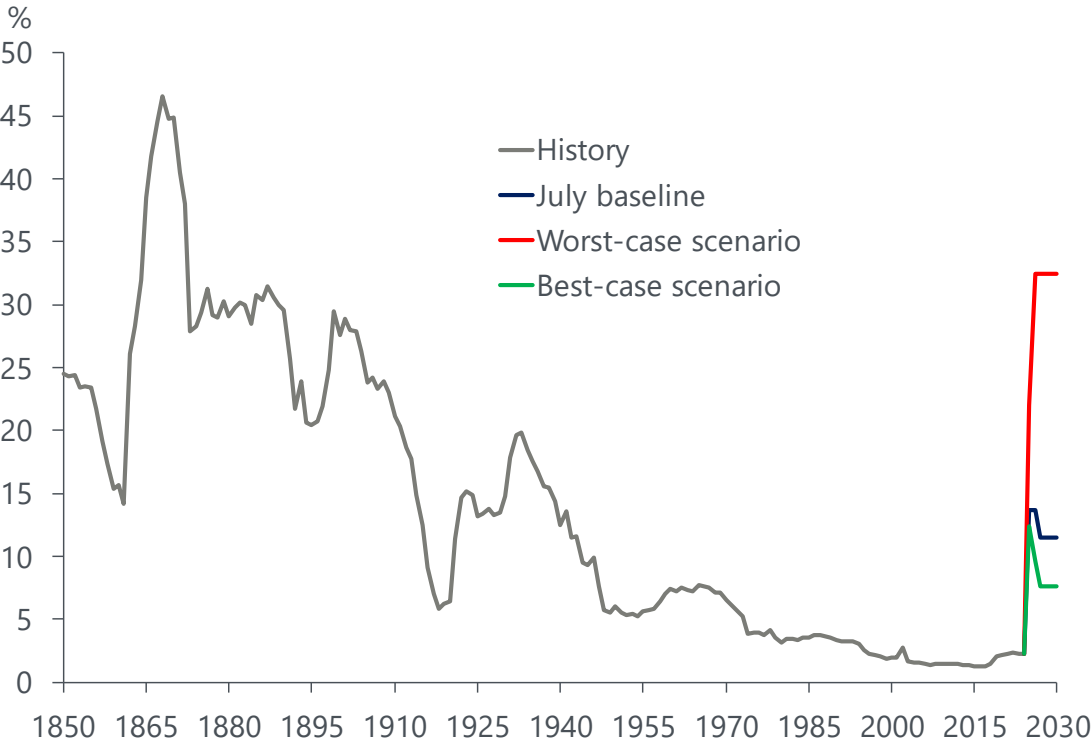
- Trade war will worsen Ontario's municipal finances without additional support for senior levels of government.
- Wages are expected to increase due to higher inflation. Operating expenditures will also rise, as will transfers to households (rent supplements & top-ups to Social Assistance).
- Capital costs will rise due to the impacts of retaliatory tariffs on imports from the US, which will boost the costs of key inputs like steel and cement.
- Lower revenue mainly reflects reduced development charges, licensing, and permit fees driven by dampened business activity and consumer spending.

Source: Oxford Economics/Haver Analytics

* Fiscal impacts above reflect a tariff scenario with US tariffs of 25% on most Canadian imports, 10% on energy and a transportation equipment exemption, and with Canada's counter tariffs of 25% on C\$155bn of US imports.

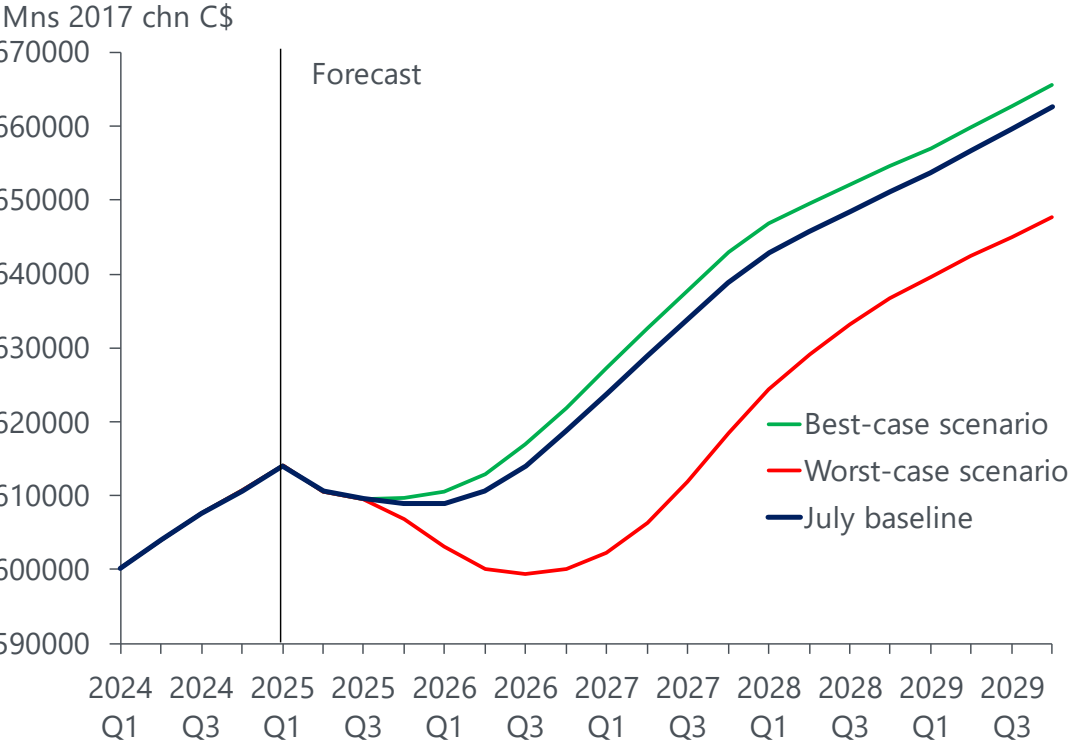
US-Canada trade war scenarios...might be better but could be much worse

US: Effective tariff rate



Source: Oxford Economics/Census Bureau

Canada: Real GDP best- and worst-case trade war scenarios



Source: Oxford Economics/Haver Analytics

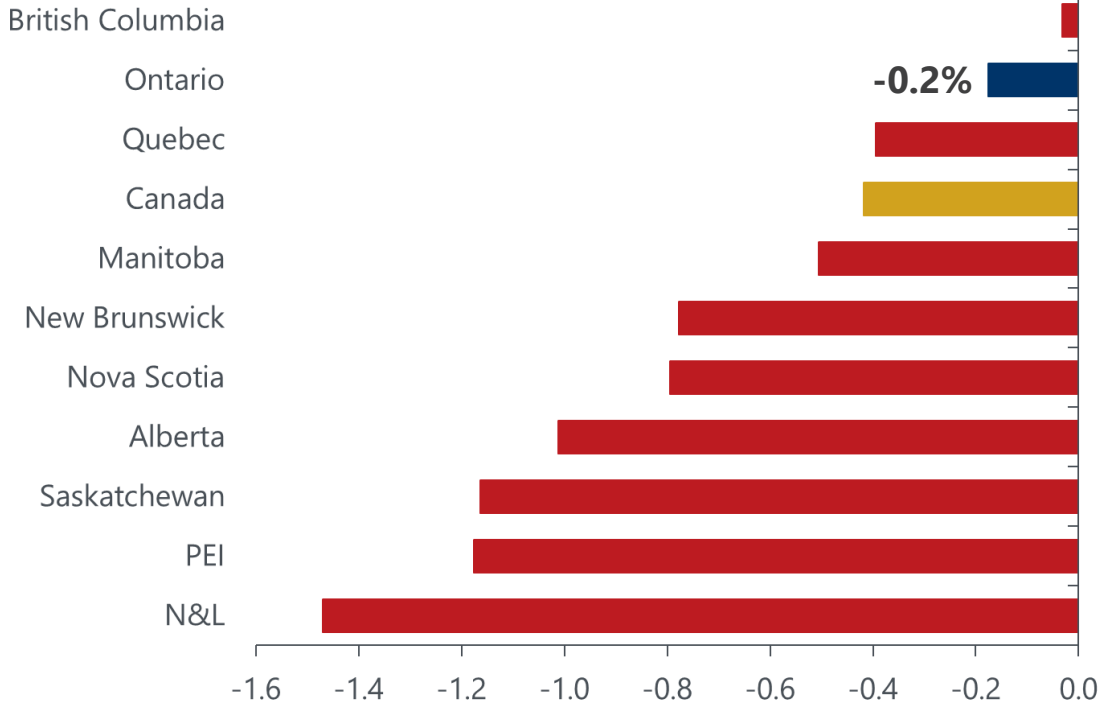
Ontario and municipal outlook



Manufacturing declines to cause small GDP contraction in 2025 H2 in Ontario

Province GDP change, 2025 Q2-2025 Q4

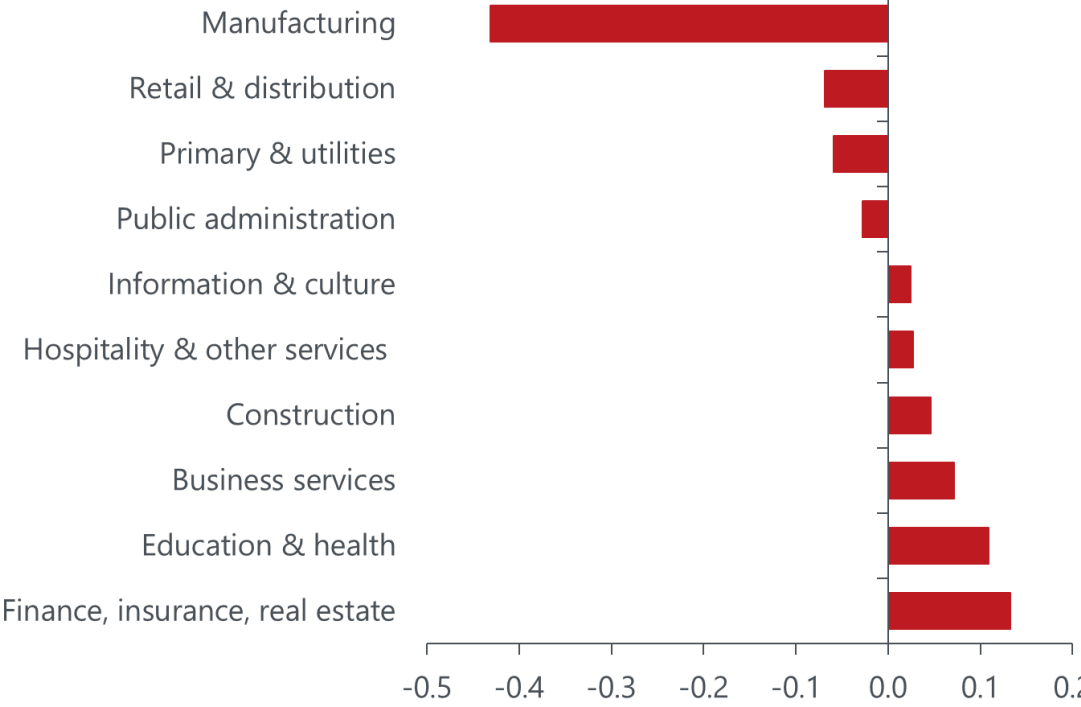
% change



Source: Oxford Economics, Statistics Canada

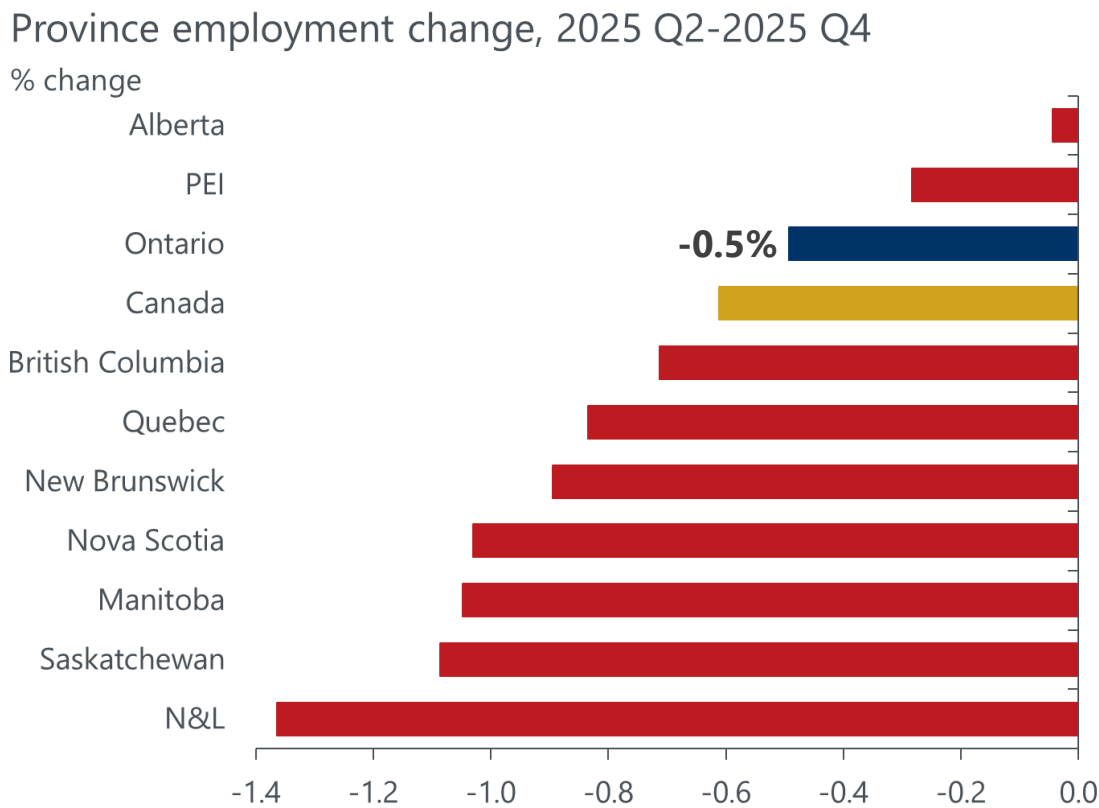
Ontario sector contribution to GDP change, 2025 Q2-2025 Q4

Percentage point

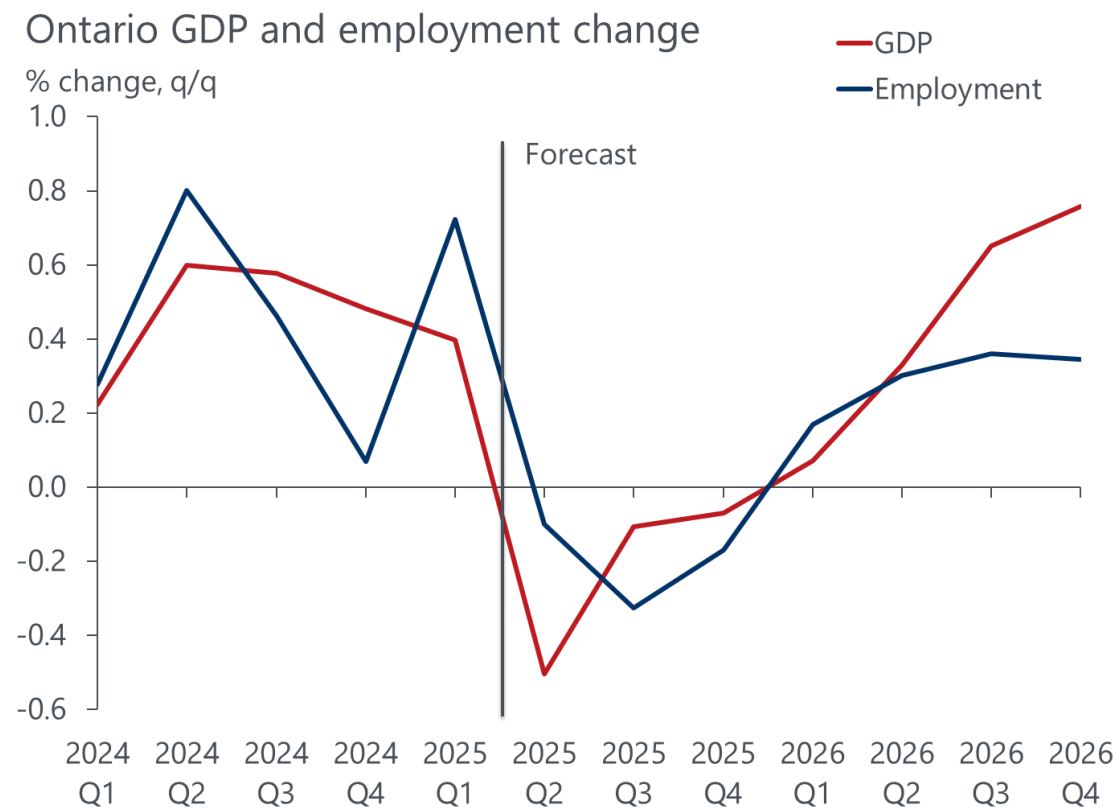


Source: Oxford Economics, Statistics Canada

Job losses expected in all provinces through the end of 2025



Source: Oxford Economics, Statistics Canada

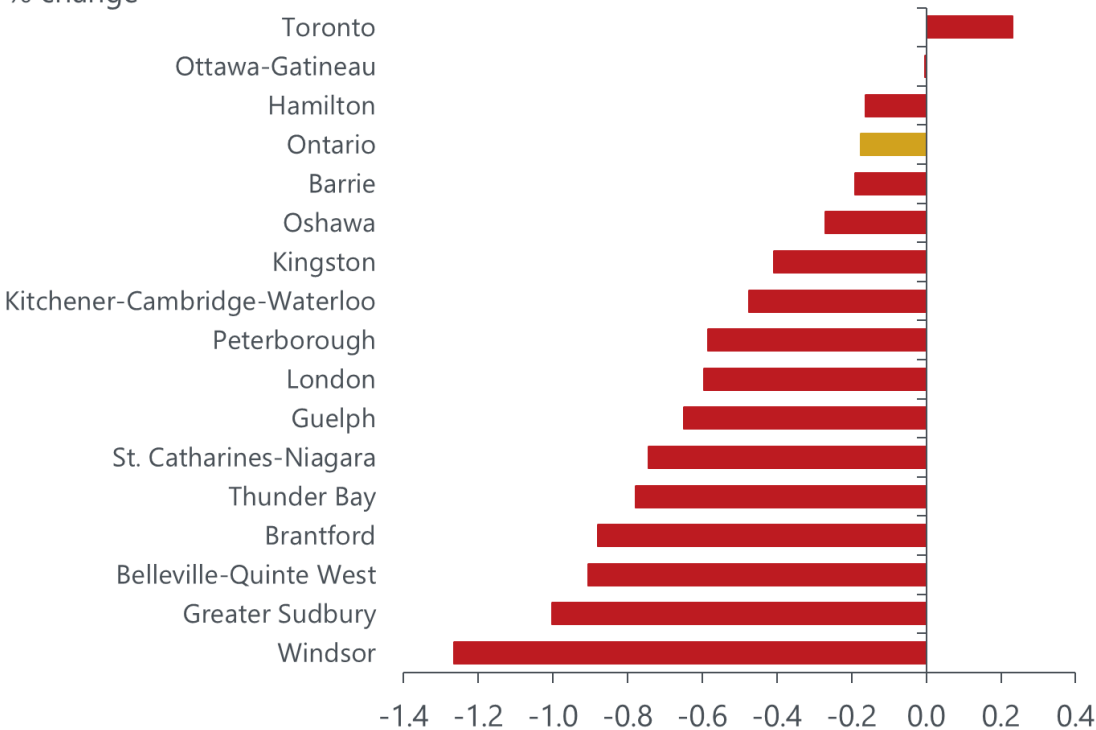


Source: Oxford Economics, Statistics Canada

Largest GDP contractions to occur in Ontario metros with larger manufacturing sectors

Metro GDP change, 2025 Q2-2025 Q4

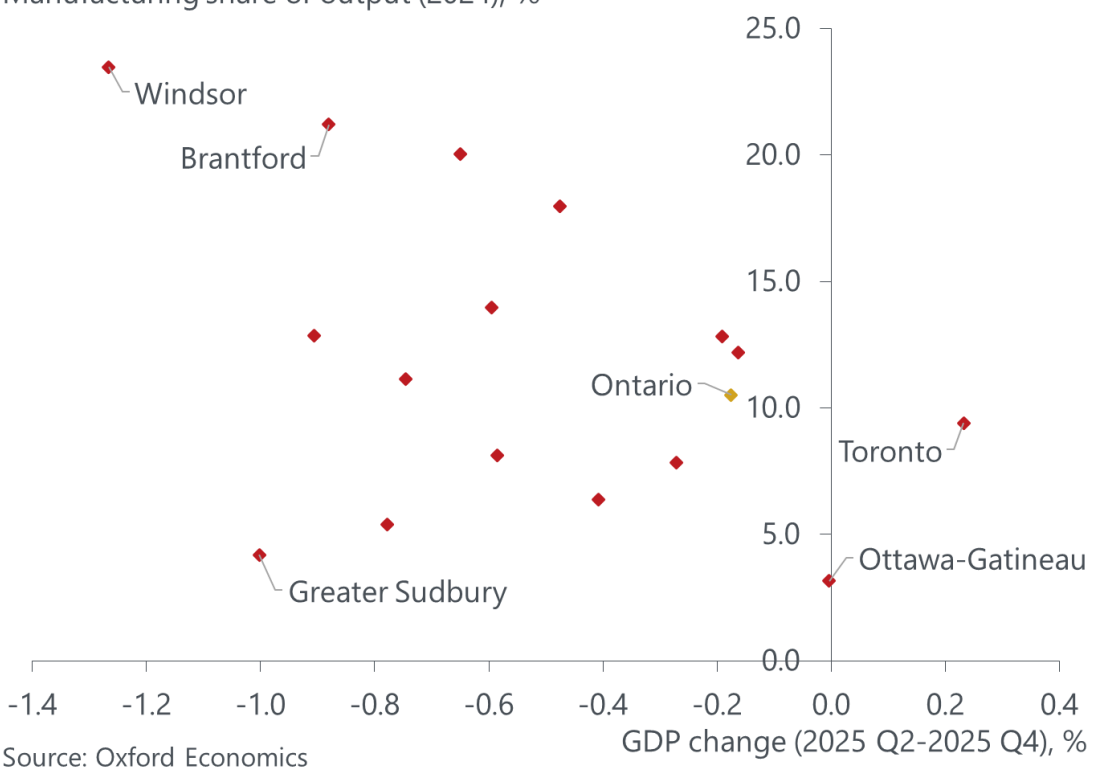
% change



Source: Oxford Economics

Metro GDP change and manufacturing share of output

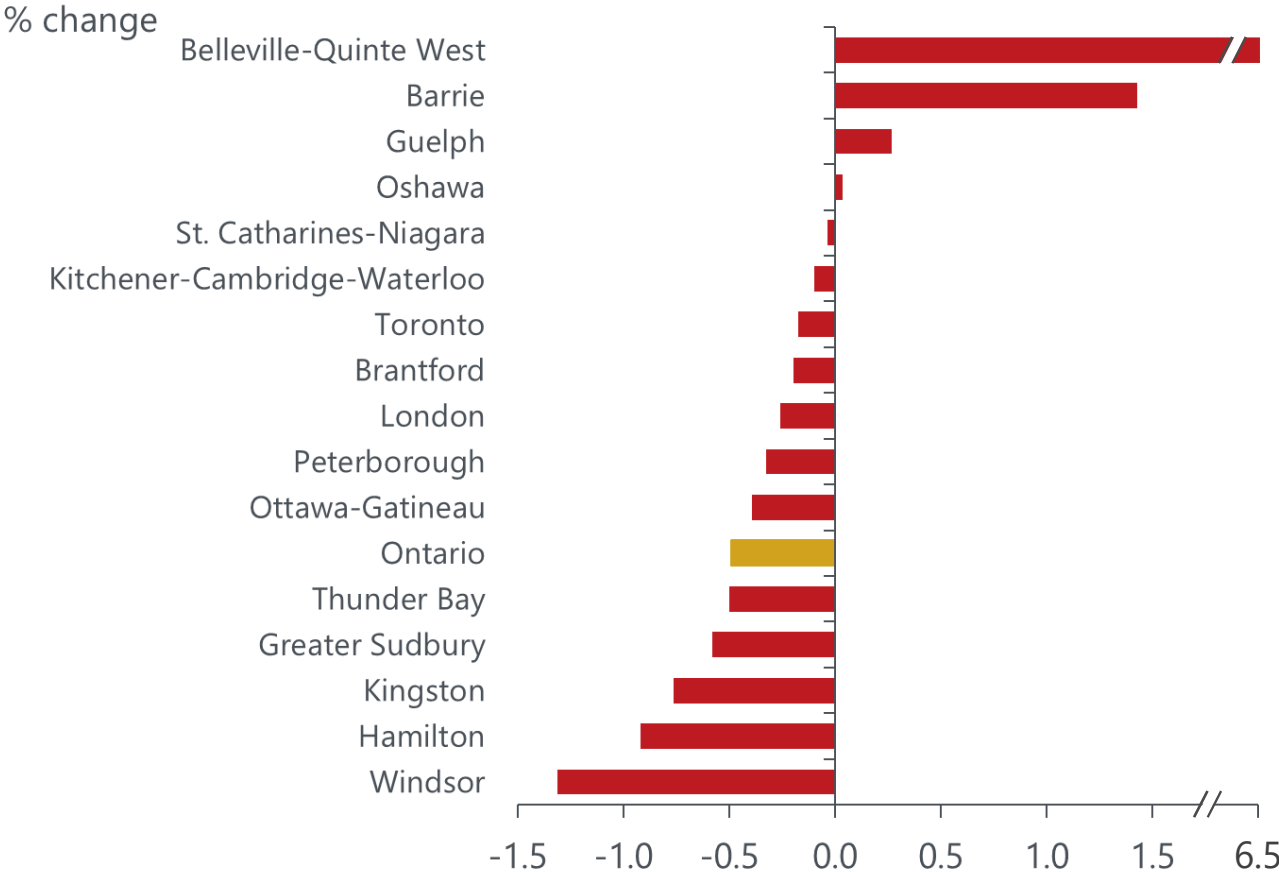
Manufacturing share of output (2024), %



Source: Oxford Economics

Most metros to see job losses over the rest of the year

Metro employment change, 2025 Q2-2025 Q4



Source: Oxford Economics, Statistics Canada

Key takeaways

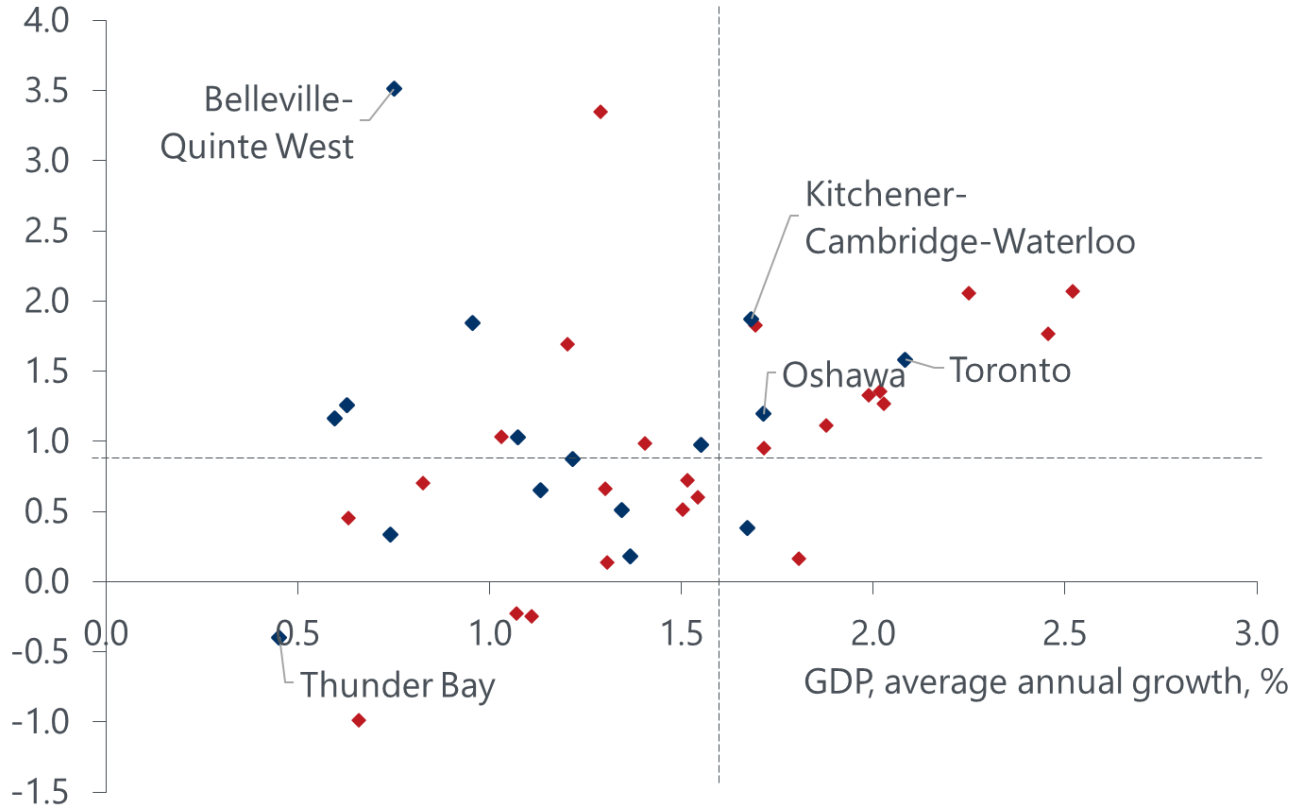
- Most metros will experience job losses between Q2 and Q4, especially in the manufacturing and transport sectors, due to tariffs and continuing uncertainty around trade policy.
- Declines are also expected in public administration and wholesale & retail trade.
- Belleville-Quinte West's strong employment growth is due to a rebound after significant declines in 2024.
- Barrie's and Guelph's growth is also due to a rebounding effect, although to a lesser extent.

The medium-term outlook remains positive for several Ontario metros

Key takeaways

Metro medium term outlook, 2025-29

Employment, average annual growth, %



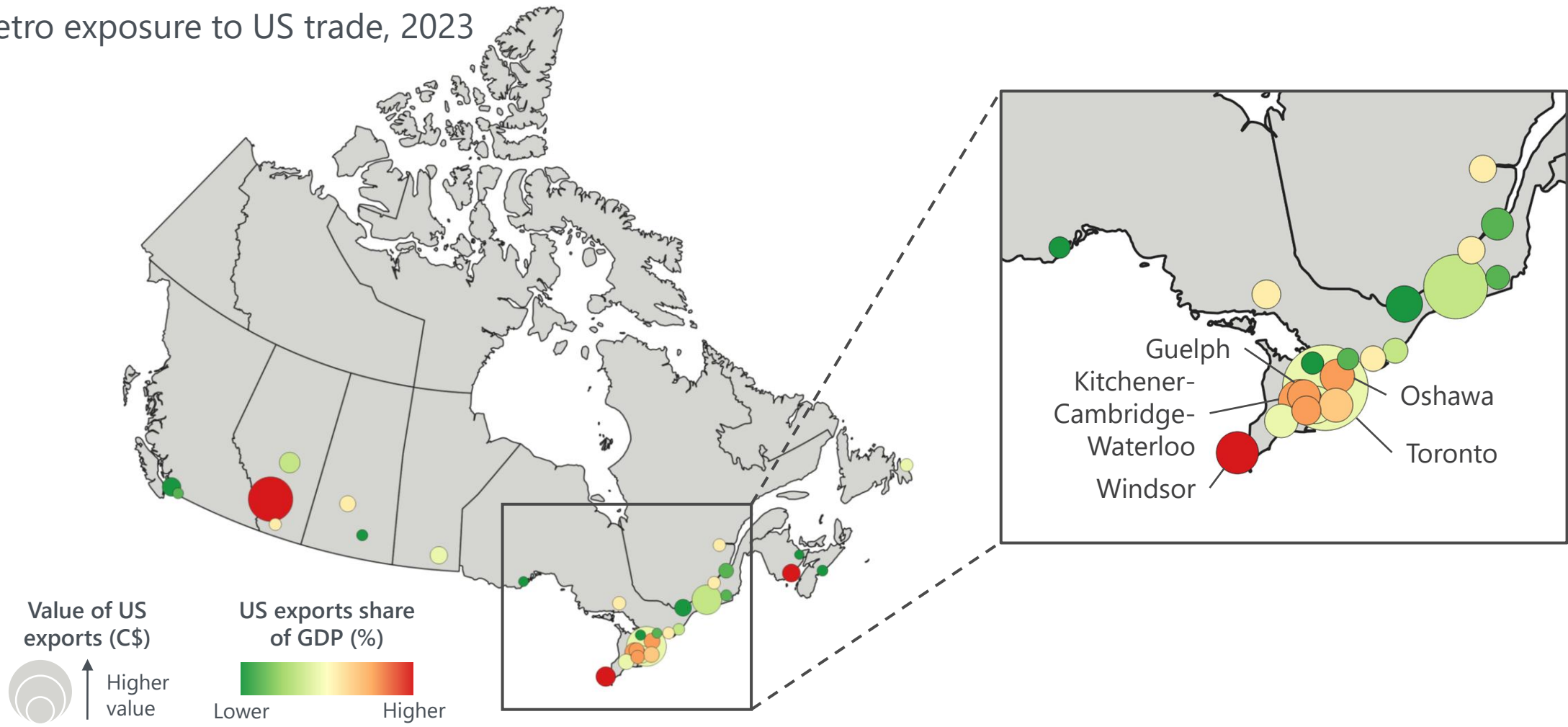
Source: Oxford Economics

Note: Dotted lines represent national average.

- Over the next five years, we expect several Ontario metros to see relatively strong GDP and employment growth, albeit slower than in years past.
- Toronto will be one of the fastest-growing metros in terms of GDP due to the continued strength of its finance sector.
- Oshawa and Kitchener-Cambridge-Waterloo will also experience faster growth than the national average.
- Belleville-Quinte West's strong employment growth is due to a rebound after declines in 2024.
- Thunder Bay's employment will fall as the manufacturing sector continues to struggle.

Windsor is one of the metros most vulnerable to US tariffs

Metro exposure to US trade, 2023

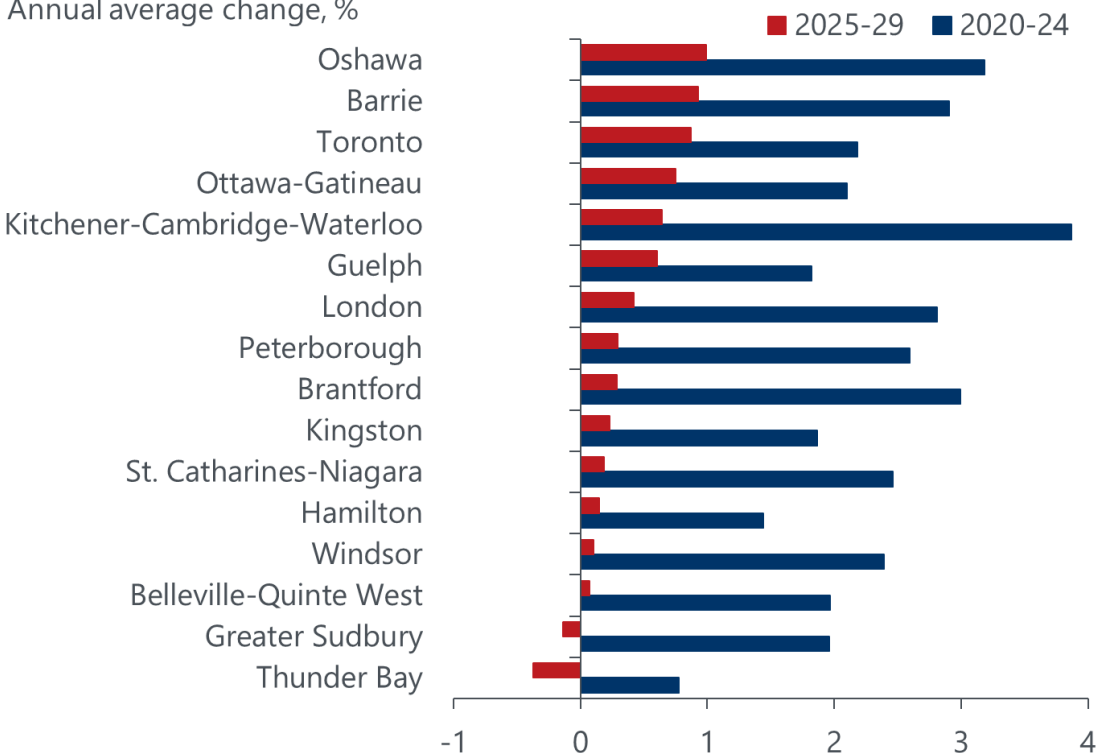


Source: Oxford Economics, Statistics Canada

Population declines expected in all Ontario metros in short term

Metro population growth, 2020-24 and 2025-29

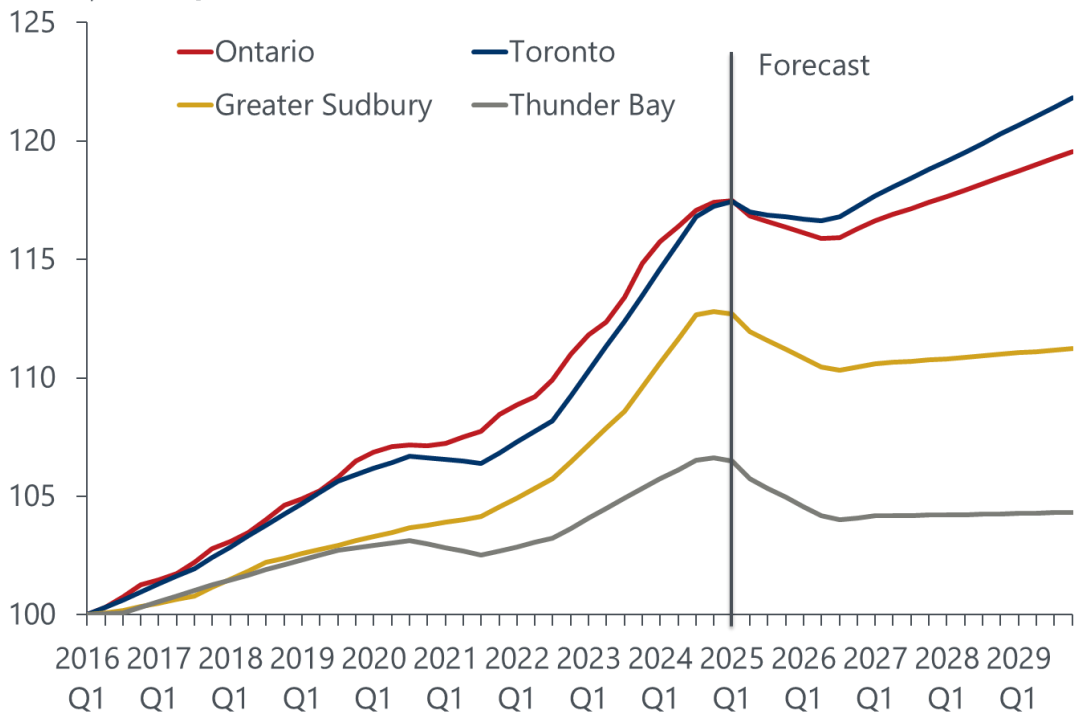
Annual average change, %



Source: Oxford Economics, Statistics Canada

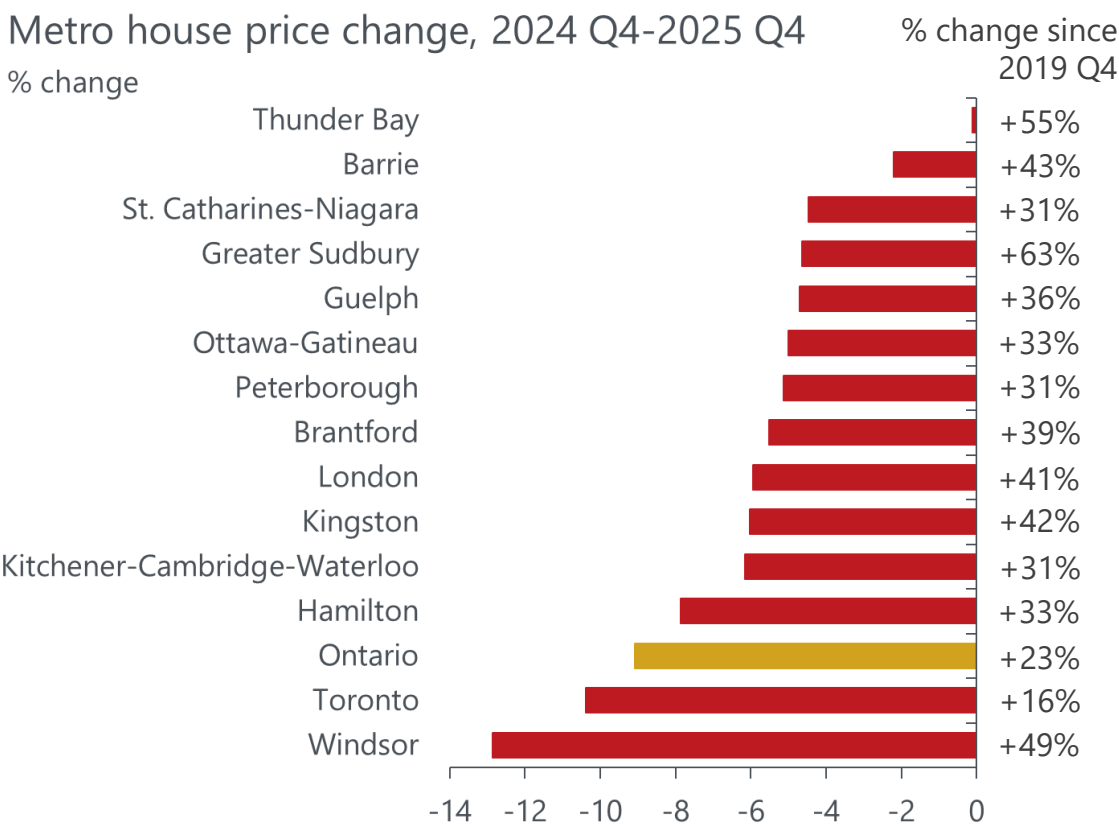
Ontario and selected metro population, 2016 Q1-2029 Q1

Index, 2016 Q1=100



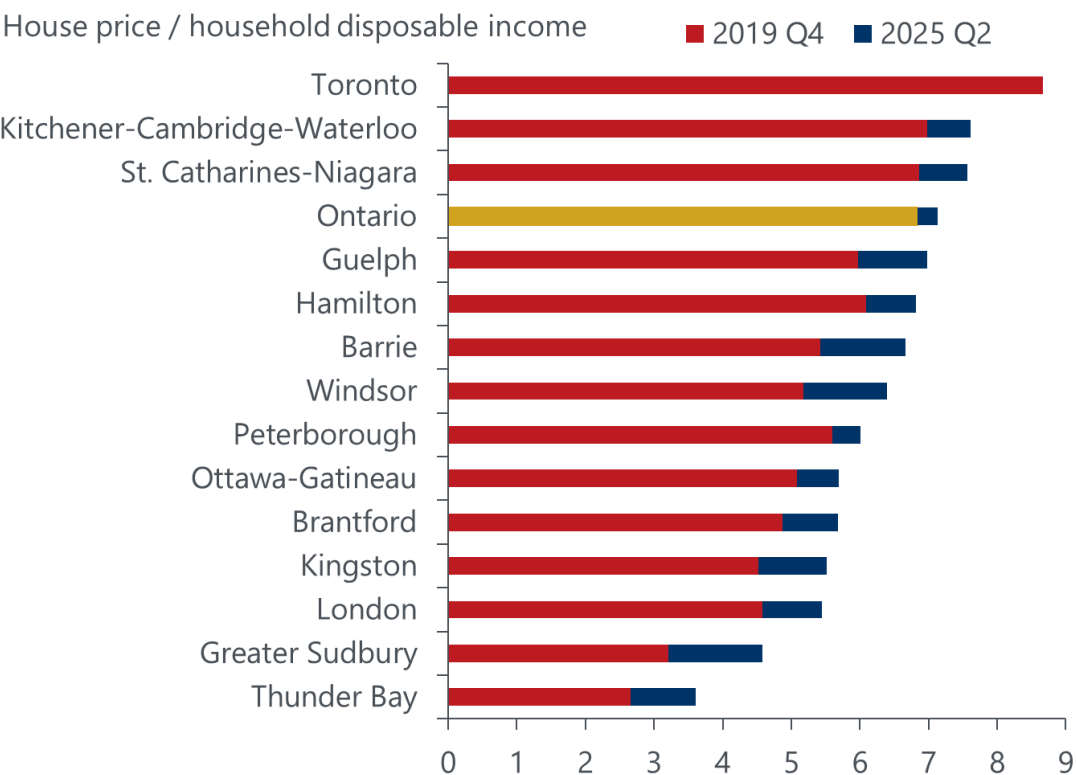
Source: Oxford Economics, Statistics Canada

House prices to fall through 2025 as unaffordability remains high



Source: Oxford Economics, CREA

Metro house price to household disposable income ratio



Source: Oxford Economics, Statistics Canada, CREA



Tariff impact on municipality construction costs

Project objectives and deliverables



OBJECTIVES

Estimate the expected cost increase on Ontario municipality construction budgets from tariff induced price escalation on building materials.

The purpose of the work is to help municipalities plan and budget for expected cost increases.

Project deliverables available for you

The factsheet, report, model and user guide is available on AMO's website here:

<https://www.amo.on.ca/policy-category/finance-infrastructure-and-economy/tariffs-and-trade>

The collage displays four key deliverables:

- TARIFF IMPACTS ON ONTARIO MUNICIPALITIES**
Association of Municipalities of Ontario
28/02/2025
- TARIFF IMPACTS ON ONTARIO MUNICIPALITY CONSTRUCTION**
REPORT FOR ASSOCIATION OF MUNICIPALITIES OF ONTARIO
DRAFT REPORT
APRIL 2025
- AMO Estimating Tariff Impact on Municipality Modelling Tool**
A user-friendly tool to help individual municipalities construction budget for FY26 and FY27.
Please navigate this workbook using the links below:

Section	Tab
Inputs >>>	Core Inputs Interface Optional Project-Level Inputs
Outputs >>>	Summary Detailed Breakdown Downloadable Outputs

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End of Home Page
- TARIFF-INDUCED CONSTRUCTION COST ESCALATION ANALYSIS MUNICIPALITY MODELLING TOOL**
AMO
Model guide and overview
24 April 2025

The background of the collage features a scenic view of the Toronto skyline, including the CN Tower, under a blue sky with clouds, with a green park in the foreground.

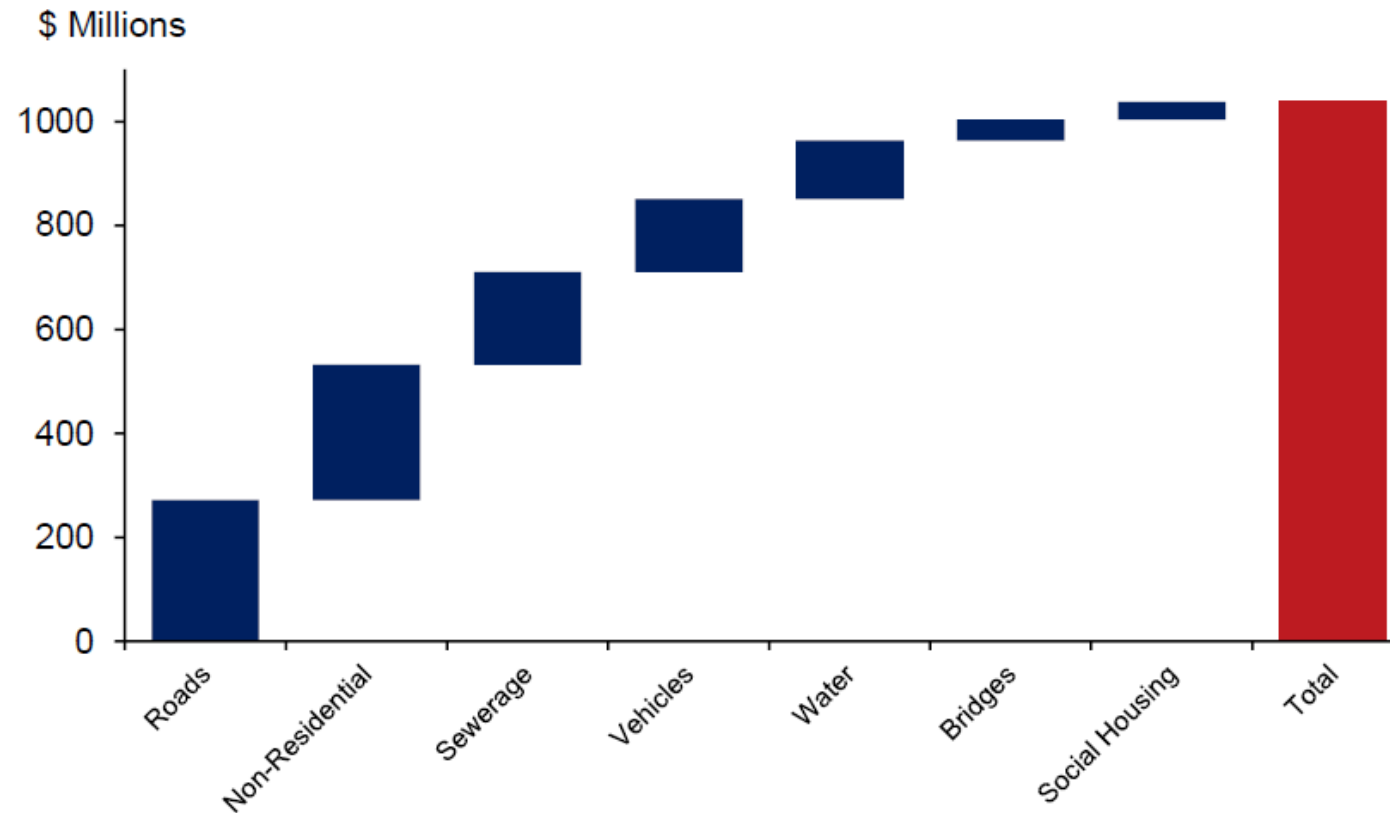


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THE BIG PICTURE

Tariffs are estimated to add \$1bn to municipal capital costs

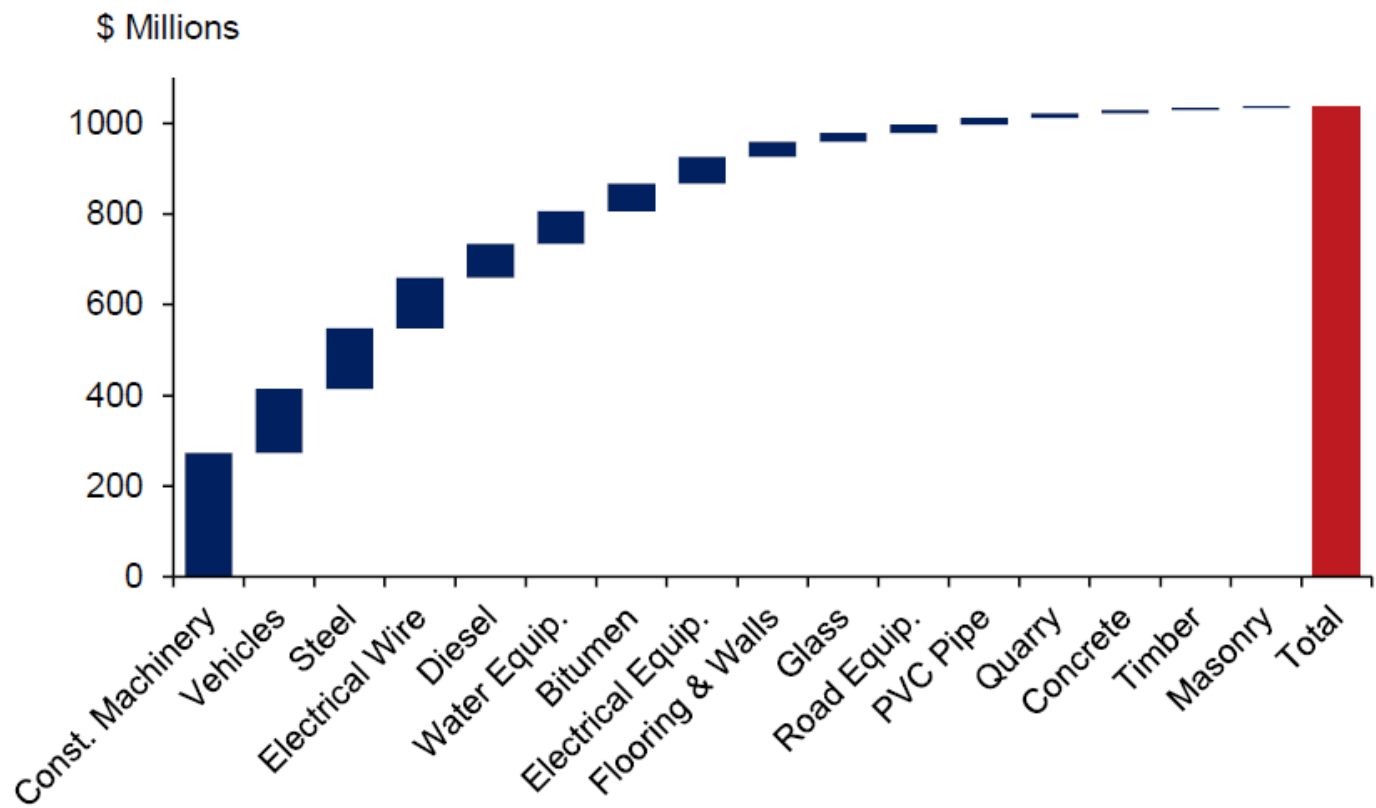
Figure 1: Estimated tariff impact by asset type



Source: Oxford Economics

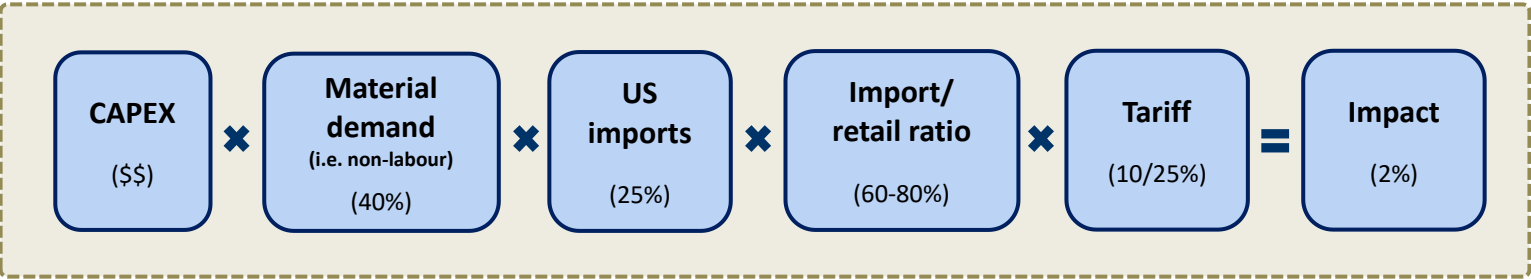
Construction machinery is expected to carry the biggest burden

Figure 2: Estimated tariff impact by material type



Source: Oxford Economics

How did we calculate the tariff impact?



Non-Residential Building Projects

Capex (\$m)	Inputs		Share of Capex		Reliance on US Imports		Retail : Import Price		Tariff		Impact (\$m)
11,280	Structural steel	x	3%	x	53%	x	60%	x	25%	=	26.6

We're operating in a rapidly changing and uncertain world

...So we've made a number of simplifying assumptions

- Duration of tariffs – significant uncertainty surrounding duration
 - Tariffs remain in play over the next two years
- Final list of tariffed goods – retaliatory tariffs yet to be finalised on remaining 70% of potential goods
 - All potential goods tariffed
- Exposure to US imports – municipalities may have varying exposure depending on their local supply chain configuration or proximity to the border
 - Provincial average applied

The economy has many complex and interlinking relationships

This analysis looked at the 'direct' impact of tariffs, but there could be additional flow-on effects

Readers should consider the following topics as opportunities for further research:

- Changes to general price levels in the Ontario economy and construction sector
- Import substitution and global price changes
- Changes to inventory levels of construction materials

Key takeaways

economic
forecast

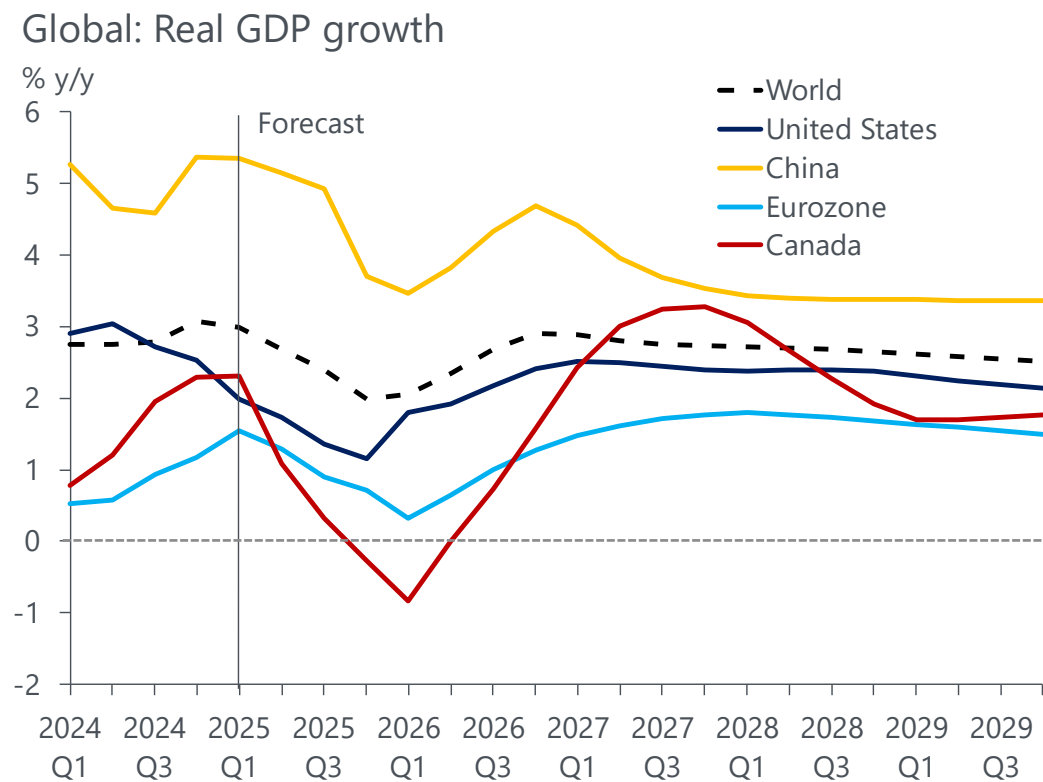
Key takeaways

1. US trade policy uncertainty is already causing harm
2. Trade war-induced recession likely underway in Canada
3. Ontario and metro growth outlook damaged mainly due to declines in manufacturing
4. Trade war is at a crossroads – might be better with an early deal but could be much worse
5. Tariffs will worsen local finances, raising infrastructure and other costs
6. Contingency planning is essential
7. Municipalities are eligible for federal counter-tariff relief at this link...
<https://www.cbsa-asfc.gc.ca/publications/cn-ad/cn25-19-eng.html>

Appendix



Trade war to weaken growth across global economy



Source: Oxford Economics/Haver Analytics

Summary of International Forecasts						
(Annual percentage changes unless specified)						
	2022	2023	2024	2025	2026	2027
Real GDP						
North America						
United States	2.5	2.9	2.8	1.6	2.1	2.5
Canada	4.2	1.5	1.6	0.9	0.4	3.0
Europe						
Eurozone	3.6	0.6	0.8	1.1	0.8	1.6
Germany	1.4	-0.1	-0.2	0.2	1.0	2.2
France	2.8	1.6	1.1	0.5	0.7	1.4
Italy	5.0	0.8	0.5	0.7	0.5	0.7
Spain	6.2	2.7	3.2	2.5	1.7	1.5
UK	4.8	0.4	1.1	1.1	0.9	1.3
Asia						
Japan	0.9	1.4	0.2	0.8	0.4	0.4
Emerging Asia, excl Japan	3.8	5.1	4.8	4.5	4.2	4.1
China	3.1	5.4	5.0	4.7	4.1	3.9
India	7.0	8.8	6.7	6.6	6.7	6.5
World	3.4	2.9	2.8	2.5	2.5	2.8

Source: Oxford Economics/Haver Analytics

Questions?





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