Country Risk Analysis: Canada

**Brief highlights of developments across Dun & Bradstreet's country risk indicators – written as of 12th February 2025*

Short-Term Economic Outlook

- Canada's GDP increased by 0.6% in Q4 2024, following a 0.5% rise in Q3 2024. This is a low rate of growth, and it is necessary to consider that there have been recent developments that will adversely impact the economy but have not yet been reflected in the data.
- The imposition of 25% US tariffs on steel and aluminium will have a notable impact on the Canadian economy, especially considering that in 2024, Canada exported ~3m tonnes of aluminium to the US, worth ~$15.9b.
- Inflation has remained stable over the past few months but increased slightly from 1.8% in December 2024 to 1.9% in January 2025. Price pressures in Canada have broadly remained muted due to factors such as rising unemployment.

Long-Term Economic Potential

- US tariffs will have far-reaching implications for Canada in the long-term, as they will compound several structural issues, such as low labour productivity and supply chain vulnerabilities.
- A pressing demographic concern is Canada's ageing population, which will increasingly strain the economy by reducing the workforce and putting pressure on the healthcare system.
- Possibilities of positive long-term developments remain, such as strengthened political and economic ties with China. At present, this represents a unique opportunity, as the potential decoupling of Canada and the US would mean that Canada will face fewer constraints from the US in its foreign policy approach towards China.

Market Potential

- The Canadian market will require a reconfiguration of trading patterns and an updated trading strategy, following the disruption to trade flows caused by US tariffs.
- The escalation of potential retaliatory tariffs from Canada on the US would then disrupt Canadian market activity further, with additional challenges for its export prospects.
- Trudeau has also discussed non-tariff retaliatory measures relating to energy procurement and critical minerals, which would pose further complications for Canada's traditional trade flows.

FX Risk

- Following the tariff news, the Canadian dollar is under further pressure. It closed at 1.44 CAD/USD on 31st January 2025, down from 1.40 CAD/USD on 30th November 2024.
- The Bank of Canada cut interest rates by 25bps to 3% in its January 2025 decision, and the prospects of a slowing Canadian economy point to an increased likelihood of further falls in interest rates. This would cause a further depreciation in the Canadian dollar.
- FX reserves fell back further (continuing the previous trend) from $122.6b in December 2024 to $117.9b in January 2025, putting additional downward pressure on the currency.

Transfer Risk

- There is an increased threat of US dominance over Canada, driven by the economic leverage that can be exerted through US tariffs. Businessman Kevin O'Leary publicly expressed his support for an economic union between Canada and the US, which would involve a single currency (this was discussed amidst Trump's threats of annexation). From the perspective of currency conversion between the Canadian dollar and the US dollar, this shared currency scenario would lead to reduced transfer risk.

- It is important to note that any reduced Canadian independence (particularly related to currency adoption) would restrict Canada in charting its own direction in key economic aspects such as monetary policy. Canada would therefore be more susceptible to shocks (such as dollar-related shocks). From the monetary policy perspective, transfer risk would rise.
- Canada's broader backdrop of political uncertainty will likely translate into other aspects, including transfer risk due to potential disruptions to capital flows.

Business Regulatory Environment

- US tariffs represent a key regulatory burden that, from an administrative standpoint, will involve increased documentation and legal review.
- Reforms have been announced from several Canadian federal agencies, including Health Canada and the Financial Consumer Agency of Canada. Various regulatory plans were outlined for 2024-2026, which will result in new legal obligations for businesses.
- The Canadian fiscal policy landscape is likely to adjust going forward, but the specific direction will depend on the outcome of the federal election. For example, if Conservative Leader Poilievre were to win (he is the current favourite according to opinion polls), then capital gains tax would likely be rolled back.

Business Continuity Risk

- As identified by the Financial Consumer Agency of Canada (FCAC), Canada faces intensified cybersecurity threats. For instance, rapid technological advancements have further exposed businesses to cyber-attacks that pose a threat to operations.
- Canadian strike action has acquired momentum, which poses a risk to supply chains. Notably, a strike by Canada employees in late 2024 significantly disrupted mail services. While the strike is over, the impacts continued to be felt in the past weeks.
- US tariffs will disrupt established Canada-US supply chains, forcing Canadian businesses to find new suppliers and shipping routes.

Political Insecurity Risk

- Canada is in a state of political paralysis following the resignation of Prime Minister Trudeau in December 2024. This occurred following growing criticism regarding Trudeau's leadership.
- The political direction for Canada will be shaped by the outcome of the upcoming election. The shock of US tariffs has complicated the situation further, and each candidate's popularity will depend on their proposed strategies to alleviate the impacts of these tariffs.
- Immigration will continue to be a political focus point for Canada (as it was under Trudeau). This is particularly the case following Trump's executive orders on immigration, which could prompt a rise in asylum claims in Canada.

Expropriation/Nationalisation Risk

- A recent example of a land expropriation dispute involves Park Place Seniors Living launching a lawsuit against the District of Central Saanich this January, with the accusation that the compensation offered by the district was insufficient. This dispute is reflective of potential broader issues related to government power and private sector interests in Canada.
- In the near-term, the legal and policy landscape related to expropriation/nationalisation will depend on the country's political environment following the federal election. For example, if

Poilievre were to be elected, then his government may seek to protect property rights more strongly.

- In the long-term, the trend of expropriation/nationalisation in Canada could intensify, especially as the importance of Canadian sovereignty and power grows. This is particularly the case if economic pressures from the US escalate.

I have rated the overall outlook for Canada as deteriorating because its economy is facing heightened pressures from US tariffs, set against a backdrop of an already fragile political environment.

Canada is in a state of political paralysis, particularly following Trudeau’s resignation. The lack of decisive strategic direction instils a sense of uncertainty in the country, increasing its vulnerability to shocks. The 25% tariffs on steel and aluminium are a major shock that will permeate various layers of the economy. In fact, it is difficult to pinpoint an economic area that would not be impacted by these tariffs in some way (even if indirectly), given the firmly entrenched economic interdependence between Canada and the US. As a counterbalance to its reliance on the US market, Canada can now aim to diversify its trading relationships with other countries, including China. However, this scenario could also pose several challenges. For example, a focus on China could risk compromising relations with other important allies that have strained relations with China (such as the European Union and Australia).