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The Regional Municipality of Durham
Information Report

From:	Commissioner of Finance
Report:	#2025-INFO-16
Date:	March 21, 2025

Subject:

Economic Update –Trade War and Uncertainty are Significant Economic Threats

Recommendation:

Receive for information.

Report:

1. Purpose

1.1 This report updates Regional Council on the economic environment, as monitored by the Finance Department, including key economic indicators and their impacts on the local economy and Durham Region programs.

2. Tariffs, Impacts and Uncertainties

2.1 Geopolitical events and uncertainties can result from war, political tension, and protectionism/isolationism, each of which can negatively affect economic stability and growth, supply chain efficiencies, trading and political relationships, consumer spending and global investments. In 2025, several external risk factors are currently in play simultaneously. Top of mind for Canada, the United States (US) Trump administration's constantly changing tariff actions, rhetoric and continuing threats have elevated impacts and uncertainties for Canada but also for governments, businesses and households on a global scale. Resulting retaliations against the US further heighten inflation, recession and other economic risks and compound uncertainty.

2.2 During US President Trump’s first term, President Trump also imposed tariffs on Canada and Mexico, including on solar panels (30 per cent), washing machines (20 to 50 per cent), steel (25 per cent) and aluminum (10 per cent), as well as ordering investigation of automotive trade, with threats to impose tariffs of up to 25 per cent. It then took over a year before, in May of 2019, both US tariffs and retaliatory measures were lifted as part of the Canada-United States-Mexico Agreement (CUSMA) negotiations. The agreement came into effect July 1, 2020, replacing the 1994-2020 North American Free Trade Agreement (NAFTA).

CUSMA is up for official review again commencing July 1, 2026.

2.3 President Trump's second term is proving to be even more turbulent. In President Trump's first months in office, he has announced plans for 25 per cent tariffs on steel and 10 per cent tariffs on aluminum, energy and potash imports, citing unfairness and national security concerns. On March 5, 2025, President Trump announced an exemption for automakers from the 25 per cent tariffs on imports from Canada and Mexico, but this is set to expire in April 2025. On March 7, 2025, President Trump announced reciprocal tariffs would come April 2nd and threatened related impacts to Canadian dairy and lumber just days later.

2.4 On March 12th, US 25 per cent tariffs on steel and aluminum went into effect, with Canada maintaining its previously announced retaliatory tariffs of 25 per cent on close to $30 billion (US $20.7 billion) worth of goods (e.g. orange juice, peanut butter, alcohol, appliances, pulp and paper and targeted consumer goods) and also adding surtax provisions of 25 per cent on steel products worth $12.6 billion, aluminum products worth $3 billion and another $14.2 billion of other US imported goods.

2.5 Trump had previously given the US federal agencies until April 1st to make their trade recommendations to him in a comprehensive report. Meanwhile Canada continues to work with stakeholders regarding additional retaliatory measures, that could be ready by late March (e.g. vehicles, boats, aerospace products, agricultural products etc.).

2.6 In addition to the federal action, Ontario and British Columbia pulled liquor produced in the US from provincial stores and prioritized Canadian businesses for provincial procurements. Ontario on March 10th imposed a 25 per cent tax on electricity exports to the US, prompting the Trump threat of 50 per cent tariffs on Canadian steel and aluminum, with subsequent negotiations leading Ontario to drop the retaliation on March 11th and with Premier Ford vowing to retain the measure as a future option should trade talks break down.

2.7 As previously reported, the current trade war is anticipated to reduce Canada's growth, increase costs, risks and unemployment, and cause supply chain disruptions on both sides of the border. A recession is predicted with the consensus view that this trade war and related economic uncertainties could persist for months or even years.

3. Consumer Price Index

3.1 Statistics Canada released its February 2025 Consumer Price Index (CPI) data on March 18, 2025. All-items Canadian CPI rose by 2.6 per cent year-over-year in February, a significant jump from the 1.9 per cent year-over-year in January 2025. As taxes paid by consumers are included in the CPI, a contributor to the monthly increase compared to January was the end of the federal government exemption on the harmonized sales and general sales taxes (HST/GST) on February 15th. Month over-month impacts for restaurant and alcohol purchases were especially significant, but overall, approximately 10 per cent of the CPI basket was impacted by the exemption according to Statistics Canada. With travel season upon us, Canadians also paid more for travel in February (+18.8 per cent year-over-year, compared to +8.3 per cent in January). Overall prices for food were up +1.3 per cent in February after falling -0.6 per cent year-over-year in January, the first year-over year decline since May 2017 (but January's figure also being partly related to the sales tax exemption).

3.2 In February, rising shelter (+4.2 per cent), gasoline (+5.1 per cent) and recreation prices (+3.7 per cent) also pushed the overall Canadian CPI index higher.

3.3 The province of Ontario's CPI increased in February 2025 also, from 1.7 per cent to 2.7 per cent year-over-year, largely driven by services sector spending. Recreation and education spending was up year-over-year (+4.4 per cent), however year-over-year Ontario shelter cost escalation declined slightly from an increase of 4.2 per cent in January to 4.0 per cent in February year-over-year.

3.4 It should be noted that broadly applied US tariffs and retaliatory Canadian measures will continue to directly impact imported and exported goods' pricing for both Canadians and Americans, with flow-through to general consumer prices and inflation, including the Canadian CPI inflation indicator. The international Organization for Economic Cooperation and Development (OECD) released a report on March 17, 2025, noting that with persistent wage pressures and the current trade war, headline inflation in Canada is projected to rise to 3.1 per cent in 2025 before moderating to 2.9 per cent in 2026.

4. Bank of Canada Interest Rate Decrease Amid Trade Uncertainties

4.1 On March 12, 2025, the Bank of Canada (BOC) again lowered its overnight interest rate by 25 basis points to 2.75 per cent. This followed a 25-basis point drop on January 29th, 2025, and continues the BOC's path of easing monetary policy. At each of the previous six interest rate meetings the BOC has implemented rate cuts, four at 0.25 per cent and two at 0.5 per cent.

4.2 The BOC noted with the March announcement that, "…while economic growth has come in stronger than expected, the pervasive uncertainty created by continuously changing US tariff threats is restraining consumers' spending intentions and businesses' plans to hire and invest. Against this background, and with inflation close to the 2 per cent target, Governing Council decided to reduce the policy rate by a further 25 basis points." The BOC Governing Council will continue to carefully assess the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs.

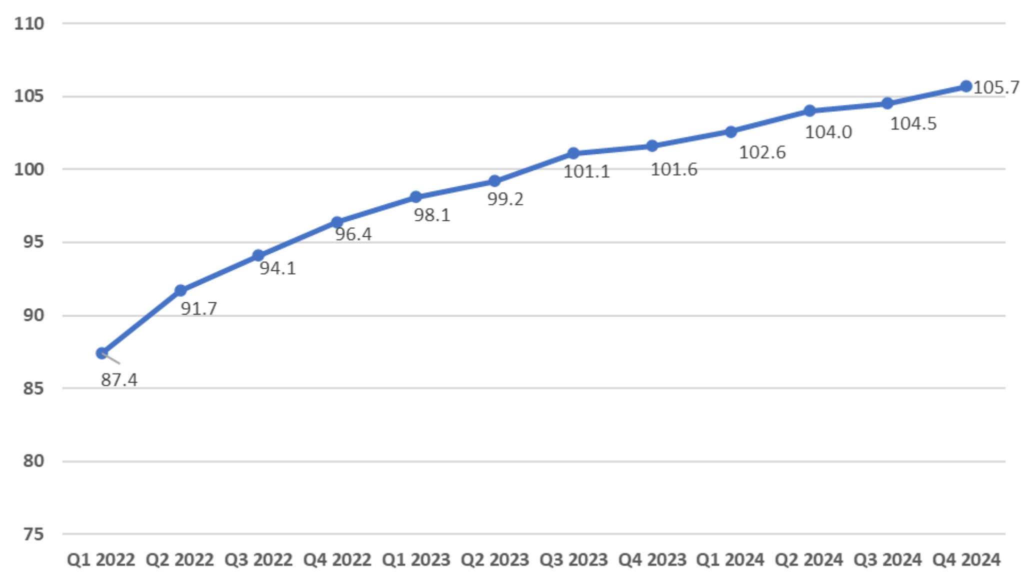
4.3 On March 19, 2025, the US Federal Reserve is anticipated to announce it will maintain the current interest rate after making three interest rate cuts during 2024 and reducing the benchmark rate floor to 4.25 per cent from 4.5 per cent. A slower pace of cuts is anticipated by the Federal Reserve over 2025, given the US inflation rate is still hovering between 2.5 per cent and 3.0 per cent (it was at 2.8 per cent for the 12 months ending February 2025) and given uncertainty due to

President Trump's tariff actions and threats on several global economies including China, Canada and Mexico. Investors and economists alike expect the Federal Reserve to reduce interest rates later in 2025, but policymakers may exercise caution until they are more certain inflation will fall to the central bank's two per cent goal and when details of US tariffs, tax and spending plans are more defined.

5. Construction, Commodity and Fuel Prices

5.1 Statistics Canada noted in its February 4, 2025, release that non-residential building construction costs (Toronto CMA) increased 1.1 per cent in the fourth quarter of 2024, compared to a 0.8 per cent increase in the previous quarter. This is very close to the average quarterly increase of 1.2 per cent since the first quarter of 2023.

Chart 1: Statistics Canada, Non-residential Building Construction Price Index
Toronto, Ontario CMA
(Quarterly Increases Q1 2022 to Q4 2024)



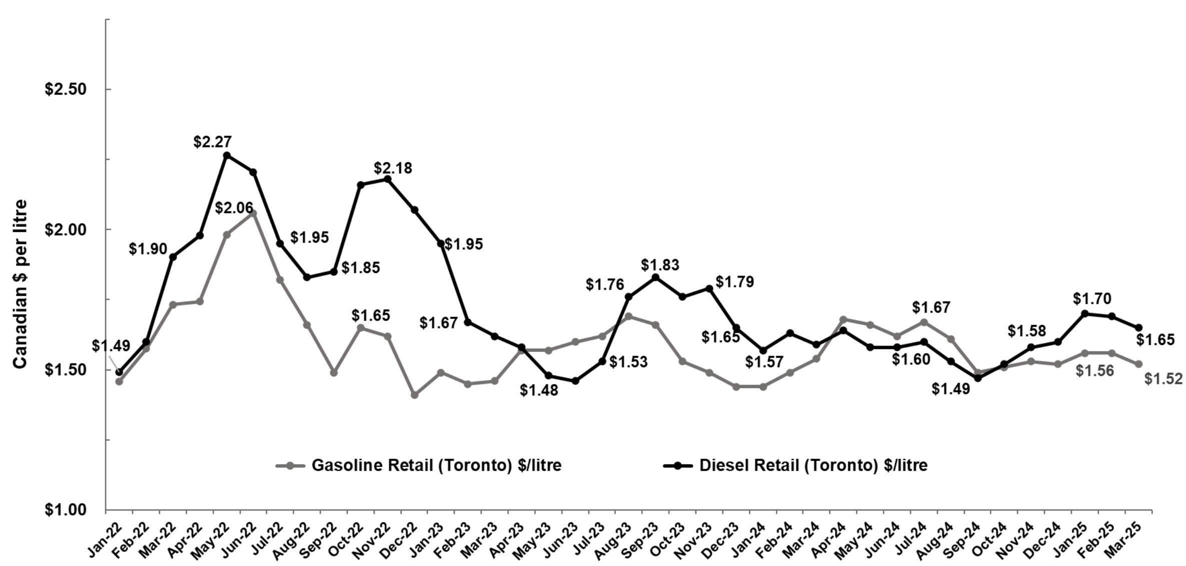
Source: Statistics Canada, table 18-10-0289-02, February 4, 2025.

5.2 Fluctuating commodity and fuel prices have direct implications for Regional costs. Driven by North American and global markets, commodity and fuel prices are beyond the control of the Region and can be volatile, especially within the current climate of heightened geopolitical tension and risk. The following provides trends and context for fuel and other commodity pricing deemed relevant to Regional operational and capital planning. US tariffs, whether already imposed or threatened will result in direct and indirect impacts to operational and capital programs, including escalated costs, price risk premiums and supply chain disruptions. As previously reported, the Region and local stakeholders are taking proactive and collaborative steps to address potential implications for procurement, business plans and budgets, service delivery and broader economic impacts.

5.3 The Toronto Benchmark average monthly pricing for regular gasoline and diesel peaked during the Covid pandemic at $2.06 per litre and $2.27 per litre, respectively in May/June 2022. In March 2025, average monthly prices were at 1.52 per litre (26.2 per cent below the peak) for regular gasoline and $1.65 per litre (27.3 per cent off the peak) for diesel. On a year-over-year basis compared to March 2024, Toronto benchmark regular gasoline was one per cent (two cents per litre) lower, and diesel was four per cent (six cents per litre) higher.

5.4 While retail fuel prices were expected to continue to weaken with slowing global growth, the US 10 per cent tariff on oil, and continuing geopolitical tensions and risks could have off-setting inflationary impacts in 2025 and possibly into 2026.

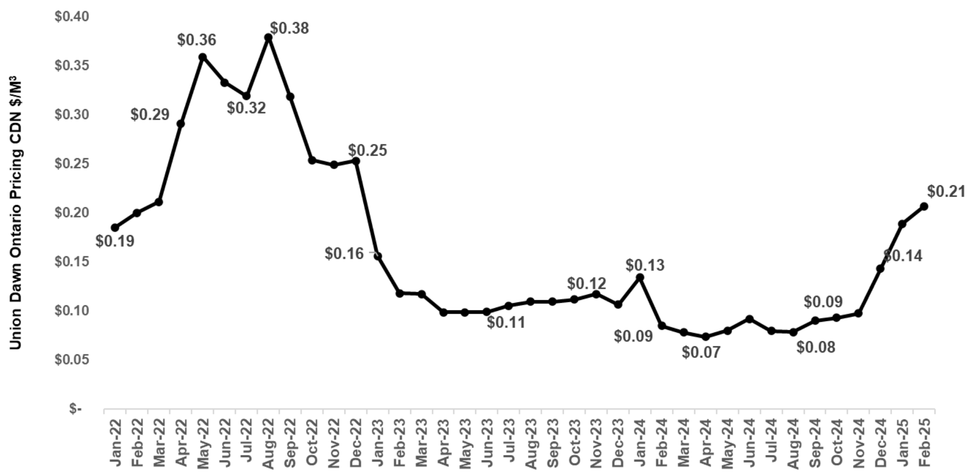
Chart 2: Diesel and Regular Gasoline
Toronto Benchmark Monthly Averages
CDN $/litre from January 2022 – March 2025)



Source: Natural Resources Canada

5.5 Based on historical data compiled by Sproule Holdings Limited, Union Dawn hub (Ontario) natural gas prices have increased 9.5 per cent in February 2025 compared to January 2025 (19 cents to 21 cents per cubic metre), and 143.2 per cent since February 2024 (nine cents to 21 cents per cubic metre). The significant increases in the prices for Ontario bound natural gas include demand-side conditions like the relatively colder winter, a surge in demand for North American liquified natural gas (LNG) for export to Europe and increased domestic natural gas demand due to higher Ontario electricity generation requirements.

Chart 3: Union Dawn (Ontario) Natural Gas Prices
(January 2022 to February 2025)



Source: Sproule Holdings Limited

5.6 The Statistics Canada Industrial Product Price Index (IPPI) measures price changes for products manufactured in Canada. It reflects 22 industrial product price categories. Table 1 below demonstrates year-over-year changes in industrial product pricing in manufacturing, industrial processes, and construction between January 2024 and January 2025. Industrial product prices affect Regional material processing and construction costs.

5.7 The total IPPI index reached a high of 132.7 in May of 2022, amid the Ukraine war, and supply shortages and disruptions (IPPI base year January 2020 = 100). While each commodity reflects its own market supply and demand characteristics, the January 2025 overall IPPI is now only 1.7 per cent off this peak. Year-over-year the IPPI index is 5.8 per cent higher than January 2024 and has gained 1.6 per cent in the month since December 2024.

5.8 While primary ferrous metal product prices (e.g. steel) fell -2.7 per cent year-over-year in January 2025, product price increases are rising in January 2025 for other products acquired by the Region, including significant price increases year-over-year for non-ferrous metal products (e.g. aluminum), lumber and wood products, electric, electronic, audio-visual and communications products, chemicals and chemical products, machinery and equipment.

Table 1: Statistics Canada Industrial Product Price Index Price Levels by IPPI Product Category (January 2024 to January 2025)

Product Category	IPPI Price Index Jan-24	Jan-25	Yr over Yr %
Primary Ferrous Metal Products	141.4	137.6	-2.7%
Primary Non-ferrous Metal Products	135.5	169.0	24.7%
Lumber & Wood Products	125.1	136.7	9.3%
Energy and Petroleum Products	127.6	133.7	4.8%
Fabricated Metal Products & Construction Materials	139.4	142.3	2.1%
Cement/glass/non-metallic minerals	130.6	137.7	5.4%
Electric/electronic/audiovisual/telecommunication Products	130.1	141.3	8.6%
Machinery & Equipment	118.0	123.6	4.7%
Chemicals and Chemical Products	120.1	126.3	5.2%
Packaging Materials and Containers	128.6	135.3	5.2%
Total Industrial Product Price Index	**123.3**	**130.5**	**5.8%**

Note: January 2020 = 100
Data Source: Statistics Canada, Table 18-10-0268-01, February 20, 2025

6. Economic Growth - GDP

6.1 Canada’s economy grew by 2.6 per cent in the fourth quarter of 2024, a level stronger than was expected by many financial institutions, including the BOC. Past cuts to interest rates have boosted economic activity, particularly consumption and housing. However, economic growth in the first quarter of 2025 will likely slow as the intensifying trade conflict weighs on sentiment and investment activity. Recent surveys suggested a sharp drop in consumer confidence and a slowdown in business spending, as companies postpone or cancel investments. The negative impact of slowing domestic demand has been partially offset by a surge in exports in advance of tariffs being imposed.

6.2 According to the OECD, tariff hikes will drag down growth in Canada, Mexico and the United States while driving up inflation, cutting its global economic outlook. They warn that a broader trade war would sap growth further. In the case of a generalized trade shock, not only will US households pay a high direct price, but the likely economic slowdown will cost the United States more than the extra income the tariffs are supposed to generate, the OECD estimated in its interim outlook.

6.3 Global growth is on course to slow slightly from 3.2 per cent in 2024 to 3.1 per cent in 2025 and 3.0 per cent in 2026, the OECD said, cutting its projections from 3.3 per cent for both this year and next in its previous economic outlook, issued in December. The proliferation of tariff hikes would weigh on global business investment and boost inflation, leaving central banks little choice but to keep interest rates higher for longer than was previously expected.

6.4 The organization updated its forecasts assuming tariffs between the United States and its neighbours are raised an extra 25 percentage points on almost all goods imported from April. As a result, US economic growth was seen slowing this year to 2.2 per cent before losing more steam next year to only 1.6 per cent, the OECD said, cutting its forecasts from 2.4 per cent and 2.1 per cent previously. But the Mexican economy would be hit hardest by the tariff hikes, contracting 1.3 per cent this year and a further 0.6 per cent next year instead of growing 1.2 per cent and 1.6 per cent as previously expected. Canada's growth rate would slow to 0.7 per cent this year and next, well below the 2 per cent previously forecast for both years.

6.5 These unfortunate impacts expected from a 2025 trade war with the US will follow higher employee compensation levels, household savings rates, investments and disposable incomes in Canada in 2024. Canadian household spending increased 1.4 per cent in the fourth quarter of 2024, the strongest growth since the second quarter of 2022 and for the year was up 2.4 per cent compared to 2023. The largest contributors to the rise in household spending in 2024 were vehicle purchases, rent, telecommunication and financial services.

6.6 Residential construction was little changed for full-year 2024 (+0.1 per cent), after falling in the two previous years, but grew 3.9 per cent in the fourth quarter of 2024 compared to the third, the largest quarterly increase since the first quarter of 2021. Investment in non-residential structures for 2024 was down 1.8 per cent, with declines in construction, machinery and equipment.

6.7 In 2024, exports of goods and services rose 0.6 per cent, led by higher energy, travel and pharmaceutical and medicinal products, with total imports also rising 0.6 per cent led by travel, clothing, footwear and textiles.

7. The Labour Market

7.1 The labour market showed early signs that the intensification of uncertainty from US tariff threats, and pull back in measures of business confidence, had an impact on hiring on the more trade-sensitive goods-producing side of the economy, with offsetting growth in more domestically focused services jobs.

7.2 On its own, the improvement in Canadian economic data (upside surprise in Q4 GDP growth, unemployment rate still below its peak late last year, and upside inflation surprises in recent months) would probably have been enough to warrant a pause in the BOC's rate cutting cycle, but those positive developments continue to be overshadowed by the trade war started by the US.

7.3 According to Statistics Canada, Canadian employment held steady in February (+1,100; +0.0 per cent), following three consecutive monthly increases totaling 211,000 (+1.0 per cent) from November 2024 to January 2025. On a year-over-year basis, employment was up by 387,000 (+1.9 per cent) in February 2025.

7.4 The employment rate - the proportion of the population aged 15 and older who are employed - was unchanged at 61.1 per cent in February. This follows three consecutive months of increases. The employment rate had previously fallen 1.7 percentage points from April 2023 to October 2024, as employment growth was outpaced by population growth.

7.5 Growth in the population aged 15 and older in the Labour Force Survey (LFS) has slowed in recent months. Growth in February 2025 (+47,000; +0.1 per cent) was less than half that recorded 12 months earlier (+97,000; +0.3 per cent), and the slowest since April 2022. According to the most recent official population estimates, the third quarter of 2024 saw the slowest quarterly population growth since the first quarter of 2022.

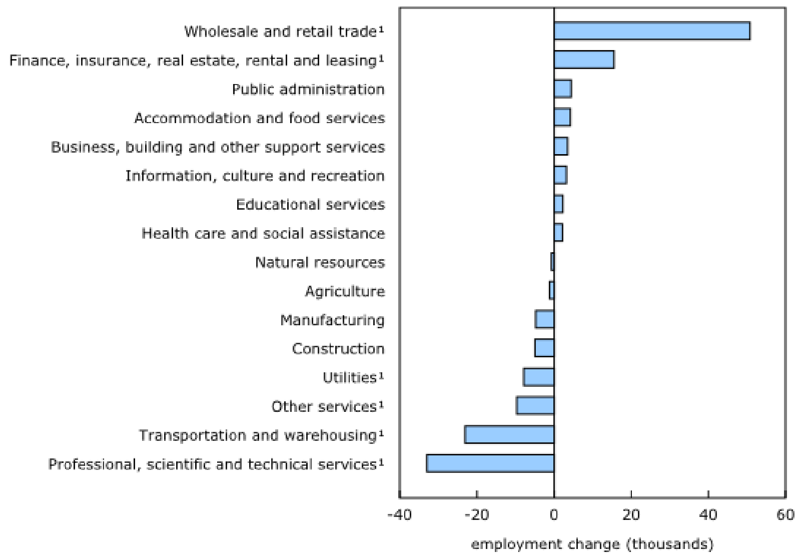
7.6 Employment increased by 27,000 (+0.4 per cent) among women in the core-age group (25 to 54 years old) in February 2025, building on an increase in January (+36,000; +0.5 per cent). The employment rate of core-aged women held steady at 80.5 per cent in February and was up 0.4 percentage points from a recent low in December 2024.

7.7 The unemployment rate was unchanged at 6.6 per cent in February, following decreases in December (-0.2 percentage points) and January (-0.1 percentage points) after previously trending up (rising from 5.0 per cent in March 2023 to reach a recent high of 6.9 per cent in November 2024).

7.8 Among youth, the unemployment rate fell 0.7 percentage points to 12.9 per cent in February, following a similar-sized decline in January (-0.6 percentage points). Over this two-month period, the number of young unemployed job searchers fell by 41,000 (-9.3 per cent), while youth employment rose by 22,000 (+0.8 per cent). The youth unemployment rate had previously touched a 12-year high (excluding the years 2020 and 2021, during the COVID-19 pandemic) of 14.2 per cent in August and December 2024, following a strong upward trend throughout most of 2023 and 2024.

7.9 As shown in the following chart, in February, employment increased most significantly in wholesale and retail trade (+51,000; +1.7 per cent), and finance, insurance, real estate, rental and leasing (+16,000; +1.1 per cent), but employment fell most significantly in professional, scientific and technical services (-33,000; -1.6 per cent) and transportation and warehousing (-23,000; -2.1 per cent) during the same month.

Chart 4: Employment Change By Industry



8. Housing Trends

8.1 The Greater Toronto Area (GTA)'s housing market continued to struggle in February 2025, with home sales plunging more than 25 per cent year-over-year. This decline is particularly stark given that 2024 was already a sluggish year for real estate. The key factor weighing on the market is economic uncertainty fueled by the impact of US tariffs on Canada. With volatile and unpredictable trade policies creating instability, many prospective homebuyers have opted to wait for a clearer economic outlook before making a major financial commitment, like buying a home.

8.2 At the same time, the number of homes and condominiums available for sale has surged by 50 per cent compared to last year. New listings are far outpacing sales activity, leading to a growing supply of homes on the market. However, this has not translated into major price corrections in the current market.

8.3 One area of the market that continues to lag is the condo sector, particularly small condos that are typically dominated by investors. Demand for these units has been considerably weaker compared to low-rise homes, as higher borrowing costs and shifting investor sentiment have led to a slowdown in activity. With a growing supply of available condos and fewer buyers in the market, this segment remains one of the softest in the GTA's real estate landscape.

8.4 Despite the broader slowdown, not all segments of the market are struggling. The demand for well-priced, low-rise homes in the City of Toronto and the Region of Durham remains relatively strong. In fact, roughly 50 per cent of sales in these areas are still selling for more than the list price, indicating that buyers remain willing to compete for desirable properties.

8.5 Mortgage rates continue to drop in Canada and may continue to trend lower before the year is out. The Bank of Canada's decision to trim its benchmark rate to 2.75 per cent on March 12, 2025 seems unlikely to be its last rate reduction of the year, with Governor Tiff Macklem describing the ongoing trade war as a "crisis" and major banks predicting further cuts in the coming months. Although there appears little chance of a housing market meltdown this year, the ongoing trade conflict with the US looks set to heavily influence its performance in the coming months.

8.6 As a mainly domestic industry in Canada, housing remains one of the sectors least directly affected by a trade war. However, the housing market is not completely immune because large employment disruptions, layoffs and job losses would likely have significant spillover effects on the homebuying front. While uncertainty due to global trade conflicts may somewhat dissipate in the months ahead, lower interest rates could start to play a bigger role in spurring housing market activity.

8.7 On March 5, 2025, the Toronto Regional Real Estate Board (TRREB) reported that total Greater Toronto Area (GTA) home sales decreased 27.4 per cent year-over-year for the month of February. New listings were up 5.4 per cent on a year-over-year basis which continues to benefit homebuyers with more negotiating power on price. The average selling price in February 2025 dipped by 2.2 per cent in comparison to February 2024 as a result, at an average GTA price of $1,084,547.

8.8 In February 2025, Durham Region had an average home resale price of $897,759 compared to $896,611 in January 2025 and $919,017 in February 2024.

8.9 Despite Durham's pricing trending lower year-over-year, Durham still maintains relative home resale affordability compared to peers. Durham's average home resale price in February 2025 was between 15.4 per cent and 38.7 per cent less expensive than other GTA Regions.

Table 2: Toronto Regional Real Estate Board: GTA Average Home Resale Selling Price (All Home Types)

	February 2025	Relative Affordability	Year-over-year Price Change
Durham	$897,759	-	-2.3%
York	$1,245,086	+38.7%	-6.0%
Peel	$1,035,784	+15.4%	-0.1%
Halton	$1,191,539	+32.7%	-6.0%
Toronto	$1,087,077	+21.1%	+3.5%

Source: Toronto Regional Real Estate Board, February Market Watch report

8.10 Going forward, uncertainty about the trade relationship between Canada and the US will likely prompt some households to take a wait and see attitude towards buying a home. However, according to TRREB Chief Market Analyst Jason Mercer, “If trade uncertainty is alleviated and borrowing costs continue to trend lower, we could see much stronger home sales activity in the second half of this year.”

8.11 Overall, the GTA housing market is facing a challenging start to 2025, with high inventory levels, falling sales, and economic uncertainty shaping buyer behavior. While sellers in certain geographic areas of the market are still seeing competitive offers, the broader trend points to a housing market that remains in flux, waiting for stability before a clearer direction emerges.

9. Risks, Uncertainties and Potential Volatility

9.1 Canada’s current economic environment is highlighted by higher inflation, slowed growth and business investment, risk and uncertainty, primarily driven by a trade war initiated by the US on its largest trading partners, and which President Trump announced he plans to escalate as soon as April 2nd.

9.2 Ongoing geopolitical tensions and protectionist, isolationist policies, including in the realm of trade and security, will impact global economies, leading to reduced growth and employment, worsened affordability, higher costs, heightened economic instability and potential for a 2025 recession. Considering the ten-fold US economy’s size relative to Canada’s, there is no doubt Canada and Canadians will be most impacted and most at risk entering a potentially prolonged trade war with the US.

9.3 The Bank of Canada's recent interest rate cut reflected the uncertainty created by US tariffs and threats, that are expected to offset the economic recovery increasingly seen over the second half of 2024. Likewise, the US Federal Reserve's cautious approach to US interest rate adjustments highlights the ongoing uncertainty and economic volatility caused by the new US administration’s trade policy and approach. Most recently, the OECD has warned that the proliferation of tariffs will weigh on global business investment and boost inflation, leaving central banks with little choice but to maintain higher interest rates for longer periods.

9.4 The Finance Department will continue to monitor the economic environment, US trade policy and Canadian responses as well as key indicators and will report on implications as required.

Respectfully submitted,

Original Signed By

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Commissioner of Finance and Treasurer