Yukon

Fiscal and Economic Outlook

Supplementary risk analysis of U.S. tariffs

The forecast presented in the *Fiscal and Economic Outlook* does not incorporate any impact of higher tariffs on trade between the U.S. and Canada. This "wait-and-see" strategy has been employed by many other macro forecasters, including the Bank of Canada, and was warranted given the high degree of uncertainty over tariffs. The challenge for the *Fiscal and Economic Outlook* is that the Government of Yukon would have needed to wait until March 4 to see if the delay on implementation of the 25 per cent tariff was extended, just two days before the outlook was to be released. This was too late to incorporate the impact into the forecast, or to include detailed analysis in the printed version of the *Fiscal and Economic Outlook*.

To provide the most up-to-date information, this risk analysis has been prepared to explore how Yukoners could be affected by what could be the most significant deterioration in bilateral trade relations between the U.S. and Canada in decades.

The Government of Yukon will continue to monitor the situation and update forecasts, as necessary, in the fall *Interim Fiscal and Economic Update*.

Summary of major trade announcements to date in 2025

Since taking office on January 20, U.S. President Donald Trump has taken a flurry of executive actions aimed at reorganizing U.S. trade policy. From Canada's perspective, the most significant of these is a 25 per cent tariff on all goods entering the U.S. from Canada and Mexico, except for Canadian energy imports, which are assessed a 10 per cent tariff.[1] Implementation was initially set for February 4, but was postponed until March 4 based on plans from Canada to address several reported areas of concern from the United States.[2] These tariffs were entered into the U.S. Federal Register on March 3, 2025, with an effective date of 12:01 am on March 4, 2025.

The 25 per cent tariff has garnered the most attention, as it poses the largest danger to the Canadian economy; however, there are several other executive actions that have the potential to materially alter the trading relationship between Canada and the U.S. The White House has tasked various agencies with conducting a review of the Canada-United States-Mexico Agreement (CUSMA) in anticipation of renewal negotiations in July 2026. The steel and aluminum tariffs from 2018 will be brought back on March 12, with the tariff on aluminum raised to 25 per cent and a broader list of goods with steel and aluminum components subject to tariffs. In April, several U.S. agencies will begin a review of "non-reciprocal trading arrangements" including tariffs, and tax and regulatory regimes of U.S. trading partners. The report is expected to recommend reciprocal tariffs in response to these perceived unfair trade practices. This would

[1] *Imposing Duties to Address the Flow of Illicit Drugs Across Our Northern Border*, U.S. Executive Order. (February 1, 2025).
[2] *Progress on the Situation at Our Northern Border*, U.S. Executive Order. (February 3, 2025).

have significant negative implications for the modern rules-based international trading order that run contrary to the core principles the U.S. is committed to as a member of the World Trade Organization that prohibit the application of partner-based tariffs.

In response to U.S. tariffs on March 4, Canada announced 25 per cent tariffs on $155 billion of goods, beginning immediately with a list of $30 billion worth of U.S. products. The remainder of the $155 billion will be decided following a 21-day public comment period. The initial $30 billion includes a variety of mostly consumer products, including food and beverages, consumer apparel and motorcycles.

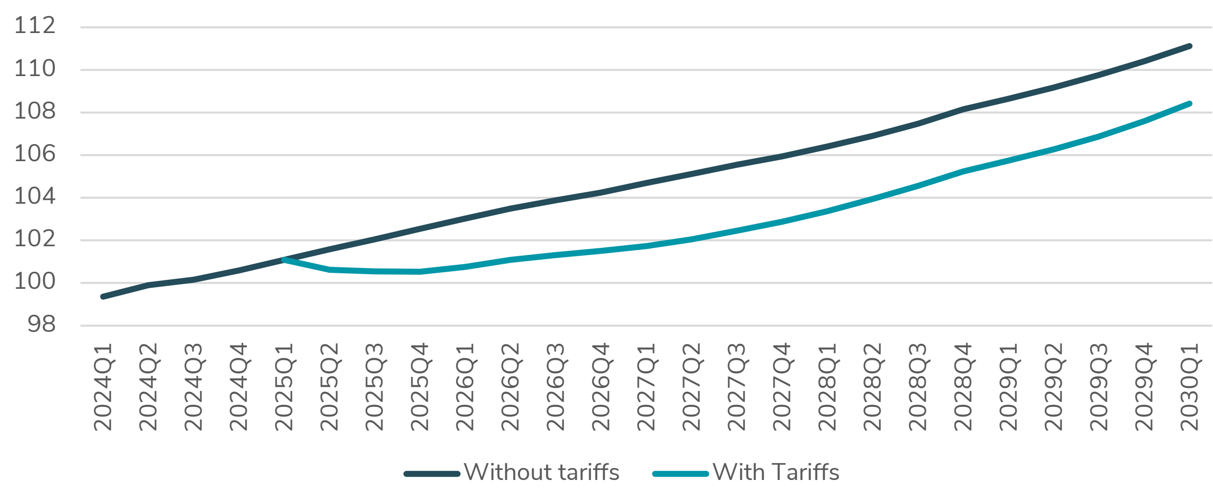
These and various other trade policies relevant to Canada are summarized in the timeline at the end of this report.

Limited reliance on U.S. exports limits the Yukon's exposure to the tariff threat

The Bank of Canada estimates that a permanent 25 per cent tariff on non-energy exports, 10 per cent tariff on energy exports and Canadian retaliation would cause a loss of 3 per cent of Canadian real GDP with basically no growth in both 2025 and 2026.[3] The Bank does not expect a sharp downturn as in a typical recession; however, there is also no recovery, with economic activity permanently 3 per cent lower than it otherwise would be (Chart 1).

Chart 1. High tariffs permanently lower the path for output

(real GDP index, 100 = 2024)



Source: Bank of Canada

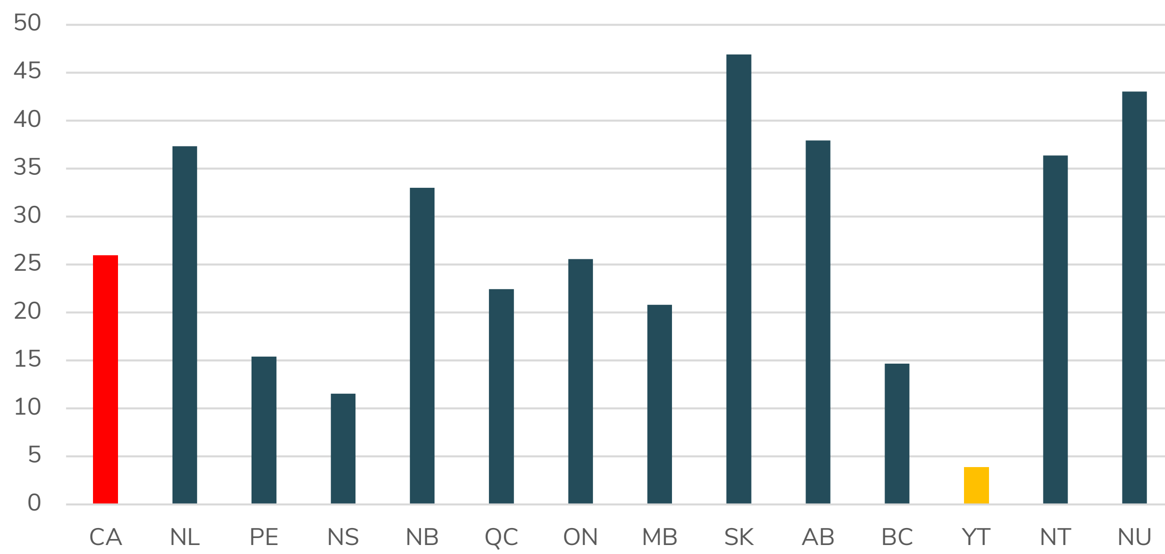
[3] *Tariffs, structural change and monetary policy*, Bank of Canada. (February 21, 2025).

The estimated impact on the Canadian economy in the Bank of Canada's analysis is driven by a marked decline in exports as Canadian goods become more expensive for U.S. importers. As a result, exports fall by around 8.5 per cent in the year after tariffs take effect. In addition to falling exports, investment in exporting industries also declines, with business investment falling by more than 10 per cent.

Because the Yukon is not nearly as dependent on international goods exports, the shock will be much less severe to the territorial economy. International goods exports accounted for just 4 per cent of the Yukon's GDP in 2023 (2023 is the latest data available for GDP). This is a far smaller share than anywhere else in Canada (Chart 2). Nova Scotia is the next least exposed province, and it is three times as dependent on international goods exports as the Yukon. The direct impact on Yukon industries would be limited to the mining sector and the Keno Hill silver mine in particular.

Chart 2. International goods exports are a small part of the Yukon's economy

International goods exports as a share of GDP in 2023 (per cent)



Source: Statistics Canada

In 2024, almost all of the $145 million that the Yukon exported to the U.S. came from the Keno Hill mine. According to Hecla's technical report, silver-lead concentrate is transferred from Keno Hill to Skagway, Alaska where it is barged to Tacoma, Washington and then travels on to smelters in Asia. Zinc concentrate is shipped to Greens Creek, Alaska near Juneau, to be blended with output from Hecla's Greens Creek mine and then sent to markets in Asia and elsewhere in Canada.[4]

[4] *S-K 1300 Technical Report Summary on the Keno Hill Mine, Yukon, Canada*, Hecla Mining Company. (February 15, 2024).

A 25 per cent tariff would certainly reduce the profitability of the Keno Hill mine; however, its ability to absorb this shock has been strengthened by the nearly 50 per cent increase in silver prices since last year. As a result, production at Keno Hill should still be viable, even if it had to absorb the full burden of the tariff increase. Though the mine is unlikely to be shut down due to a loss of long-term profitability due to tariffs, a reduction in profitability could slow the pace of development as Hecla reprioritizes capital spending between Keno Hill and its U.S. properties. Hecla spent $44 million USD in capital development at Keno Hill in 2024 and plans for around the same in 2025.[5] This works out to just under $60 million CAD, or about 1.2 per cent of the Yukon's GDP.

The direct impact of U.S. tariffs on the rest of the Yukon's mining industry should be limited. Gold has such a high value-to-weight ratio that transportation costs to non-U.S. markets is trivial. Future mine development could certainly be affected. The mine furthest along in the licensing process is Kudz Ze Kayah (KZK). It is not anticipated to begin producing within the forecast window, but even if it began earlier than expected, the existing plan for KZK already bypasses the U.S. with output destined for Asia via Stewart, BC. Exploration should also be largely immune from any impact, as spending is based on expected production dates far into the future and can therefore continue as usual until better information is available on the depth, breadth and permanence of U.S. tariff changes. The more pressing concern for the mining industry with respect to tariffs is the cost of machinery and equipment discussed later.

Mixed outlook for tourism sector impacts

The effect on the tourism sector is mixed, as U.S. visitation could be bolstered by a lower dollar, but Canadian visitation would suffer in the event of a recession. A weaker Canadian dollar makes it cheaper for U.S. visitors to vacation in the Yukon. According to estimates for Canada as a whole, a 10 per cent depreciation of the Canadian dollar increases overnight U.S. border crossings by just under 5 per cent.[6,7] According to the Canadian Data Collective from Destination Canada, U.S. visitors to Yukon spent $148 million in 2024. Approximately one-quarter of U.S. visitation spending in the Yukon is from U.S. residents transiting Canada on their way to and from Alaska. The remainder largely consists of cruise ship visitation via Skagway and high-value guests visiting lodges and hunting outfitters. The packages for these travellers are priced in U.S. dollars and may be less sensitive to changes in the exchange rate.

[5] *Hecla Fourth Quarter and Full Year 2024 Results*. Hecla Mining Company. (February 13, 2025).
[6] "Overnight" is a shorthand to refer to trips spanning two or more days.
[7] *The Economics of Cross Border Travel*, Chandra et al. (2014) The Review of Economics and Statistics (Table 3).

Even with a boost to U.S. visitation, the total effect on Yukon tourism is ambiguous because of the impact to Canadian visitation. A weaker Canadian dollar and increased “buy local” sentiment may increase Canadian visitation, but this could easily be offset by a downturn in the Canadian economy.

The Yukon is not insulated from higher prices

Both the U.S. tariffs and the retaliatory tariffs will raise prices for Canadians, and the impact to Yukoners will be largely the same as in the rest of Canada. U.S. imports will become more expensive because of Canadian retaliatory tariffs, a lower Canadian dollar and the passthrough of U.S. tariffs on intermediate inputs into U.S. manufactured goods that are then exported to Canada. The impact on any particular sale item will depend on the degree to which businesses and households can find non-tariffed substitutes.

Another important factor will be the degree to which people believe the tariffs are a permanent change, especially as it relates to purchases of durable goods, such as vehicles and household appliances, for example. If consumers view the tariffs as temporary, they may hold off on purchasing big ticket items, which will reduce demand for these goods, reducing their price and partially offsetting some of the passthrough.

Evidence from the earlier trade dispute with the U.S. over aluminum and steel tariffs indicates that U.S. tariffs in 2018 were nearly fully passed on to U.S. consumers and Canada’s retaliatory tariffs were passed on to Canadian consumers.[8]

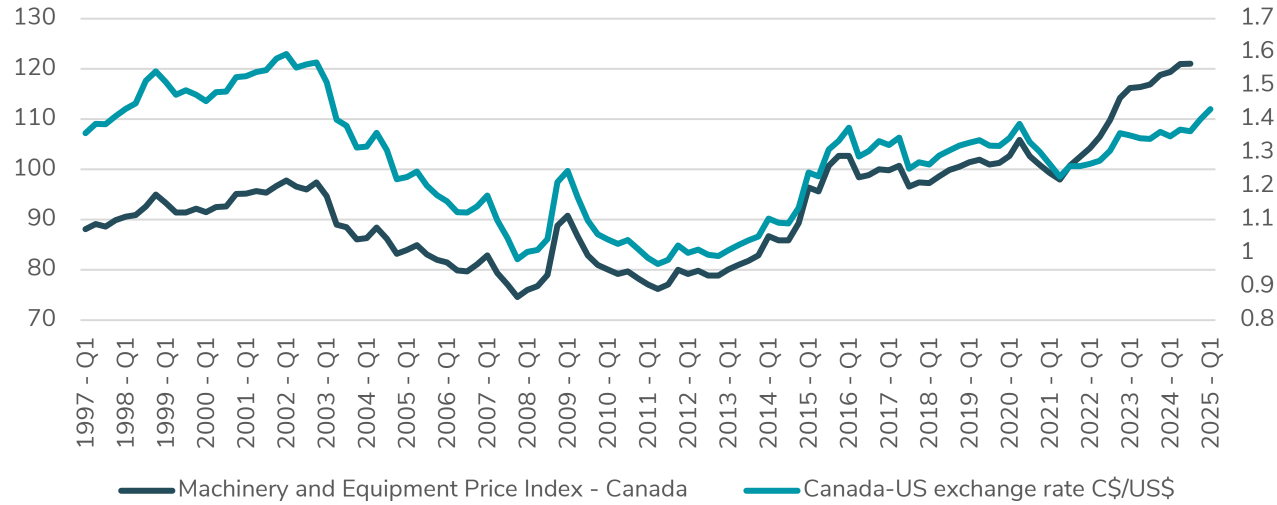
The Bank of Canada estimates that depending on how quickly tariffs are passed on, a 25 per cent tariff with retaliation could add upwards of 0.8 percentage points to overall Canadian inflation in 2025 and 1.3 percentage points in 2026.[9] Since over half the CPI basket is composed of services, the impact on overall inflation understates the impact on goods prices, and especially those goods that are imported to a large extent from the U.S.

This is especially relevant for machinery and equipment, which is an important component of business investment. Roughly half of the machinery and equipment used in Canada is imported from the U.S.[10] Machinery and equipment accounts for half of the Yukon’s non-residential business investment.

[8] *The Impact of the 2018 Trade War on U.S. Prices and Welfare,* Amiti et al. (2019), National Bureau of Economic Research.
[9] Monetary Policy Report – January 2025, Bank of Canada.
[10] *Ibid.*

Chart 3. Machinery and equipment prices in Canada are dependent on U.S. imports

Canada M&E price index (2016 = 100), Canada-US exchange rate (C$/US$; higher values represent weaker Canadian dollar)



Source: Statistics Canada, Bank of Canada

Uncertainty and the exchange rate

The importance of U.S. imports to the market for machinery and equipment can be seen in the tight relationship between machinery and equipment prices and the U.S.-Canadian dollar exchange rate (Chart 3). Because of this, just the threat of tariffs is already impacting machinery and equipment prices through the depreciation in the Canadian dollar since October. After the executive order on February 1 implementing the 25 per cent tariff, the Canadian dollar fell to a 22-year low, briefly dipping below 0.68 USD/CAD. It rebounded above the 70-cent mark following the implementation delay, but fell back below now that the delay has expired.

The upheaval of U.S. trade policy has created massive uncertainty and caused a large correction in financial markets on both sides of the border. The application of universal 25 per cent tariffs on Canadian goods and 10 per cent on energy is an unprecedented breach of U.S. trade obligations to Canada, and suggest further protectionist measures are likely including in response to Canadian retaliatory tariffs. It could be a long time before a settlement is reached, and in the interim, the unprecedented uncertainty will deter investment.

The Yukon is insulated but not immune from tariff impacts

The Yukon's economy is largely insulated from the direct effects of U.S. tariffs due to its limited reliance on international goods exports, but the broader economic implications cannot be ignored. The unprecedented uncertainty could begin to penetrate beyond export-oriented sectors and affect investment decisions for businesses not directly exposed to U.S. trade, for example, due to concerns about the impact on the Canadian economy. The Government of Yukon will continue to monitor trade policy developments and provide an update in the fall *Interim Fiscal and Economic Update*.

Tariff timeline

- **November 25, 2024** – U.S. President-elect Donald Trump announced he intends to impose a 25 per cent tariff on all imports from Canada and Mexico unless these countries do more to stop the flow of illegal drugs, especially fentanyl, and illegal immigrants.
- **December 17, 2024** – The Canadian government announced a $1.3 billion investment to bolster border security, strengthen the immigration system and put more resources into fentanyl enforcement.[11]
- **January 21, 2025** – President Trump requested U.S. federal agencies to conduct a review of the Canada-United States-Mexico Agreement to be completed by April 1.[12]
- **February 1** – Executive order issued implementing a 25 per cent tariff on imports from Canada effective February 4.[13] The order allowed for a lower 10 per cent rate on Canadian energy exports. Imports from Mexico were covered by a separate order on the same day.
- **February 1** – Canada announced a 25 per cent tariff on $155 billion worth of imports of U.S. goods. Tariffs were to be phased with the first $30 billion coming into effect on February 4, and the remainder to come into effect after a 21-day public comment period.[14]
- **February 3** – The U.S. delayed implementation of the 25 per cent tariff until March 4 on the basis that previous actions taken by Canada to improve border security along with further actions, including appointment of a "Fentanyl Czar", met the demands for increased actions on fentanyl and illegal migration.[15]
- **February 10 and 11** – President Trump issues presidential proclamation instituting 25 per cent tariffs on steel and aluminum, effective March 12, 2025. Unlike in 2018, aluminum would face 25 per cent rather than 10 per cent tariffs, and the range of goods subject to tariffs was much broader extending to products that had steel and aluminum components. Exemptions for various countries, including Canada, were removed.[16,17]
- **February 13** – President Trump asks the Department of Commerce to develop "a comprehensive plan for reciprocal tariffs to restore fairness in U.S. trade relationships and counter non-reciprocal trading arrangements". In addition to reciprocal tariff rates, the plan will also assess "unfair trade practices" including value-added and other taxes, potentially implicating the GST and the digital services tax.[18]

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[11] *Government of Canada announces its plan to strengthen border security and our immigration system*. Public Safety Canada. (December 17, 2024).

[12] *America First Trade Policy*, Presidential Memorandum. (January 21, 2025).

[13] *Imposing Duties to Address the Flow of Illicit Drugs Across Our Northern Border*, U.S. Executive Order. (February 1, 2025).

[14] *Canada announces $155B tariff package in response to unjustified U.S. tariffs*. Department of Finance Canada. (February 1, 2025).

[15] Progress on the Situation at Our Northern Border, U.S. Executive Order. (February 3, 2025).

[16] *Adjusting Imports of Steel into the United States*, U.S. Executive Proclamation. (February 10, 2025).

[17] *Adjusting Imports of Aluminum into the United States*, U.S. Executive Proclamation. (February 11, 2025).

[18] *Reciprocal Trade and Tariffs*, U.S. Presidential Memorandum. (February 13, 2025).

- **February 21** – Executive order to investigate “unfair practices” against American technology companies. In particular, the U.S. trade representative is directed to investigate Canada’s digital services tax.[19]
- **February 25** – President Trump asked for a national security review of copper imports as a prelude to imposing tariffs on national security grounds. Relevant for the Yukon with respect to restarting the Minto mine, the order extends to imports of copper ores and concentrates.[20] This review must be concluded within 270 days.
- **March 1** – President Trump asked for a national security review of timber and lumber imports as a prelude to imposing tariffs.
- **March 2** – U.S. amended the executive order from February 1 so that it no longer eliminates the de minimis exemption to duties. These created a major logistical roadblock to implementation.
- **March 4** – U.S. tariffs on Canadian imports were included in the Federal Register on March 3, and entered effect on March 4. These include an additional 25 per cent tariffs on imports from Canada, with 10 per cent tariffs for Canadian energy resources. Imports under $800 USD to the U.S. that qualify for a de minimis exception will remain exempt from duties until systems are in place to collect tariff revenue from those imports.
- **March 4** – Canada releases a list of goods subject to a 25 per cent retaliatory tariff representing $30 billion worth of U.S. exports. A further $125 billion in U.S. goods will be determined following a 21-day comment period.
- **March 12** - Steel and aluminum tariffs set to take effect.
- **April 1** - Due date of various reports requested in the America First Trade Policy executive memorandum from January 21.
- **July 1, 2026** – Scheduled date for CUSMA to be reviewed by Canada, U.S. and Mexico.

[19] *Defending American Companies and Innovators from Overseas Extortion and Unfair Fines and Penalties*, U.S. Presidential Memorandum. (February 21, 2025).
[20] *Addressing the Threat to National Security from Imports of Copper*, U.S. Executive Order. (February 25, 2025).