US Election and Potential Impacts on Canadian Trade

EDC Economics
November 3, 2016

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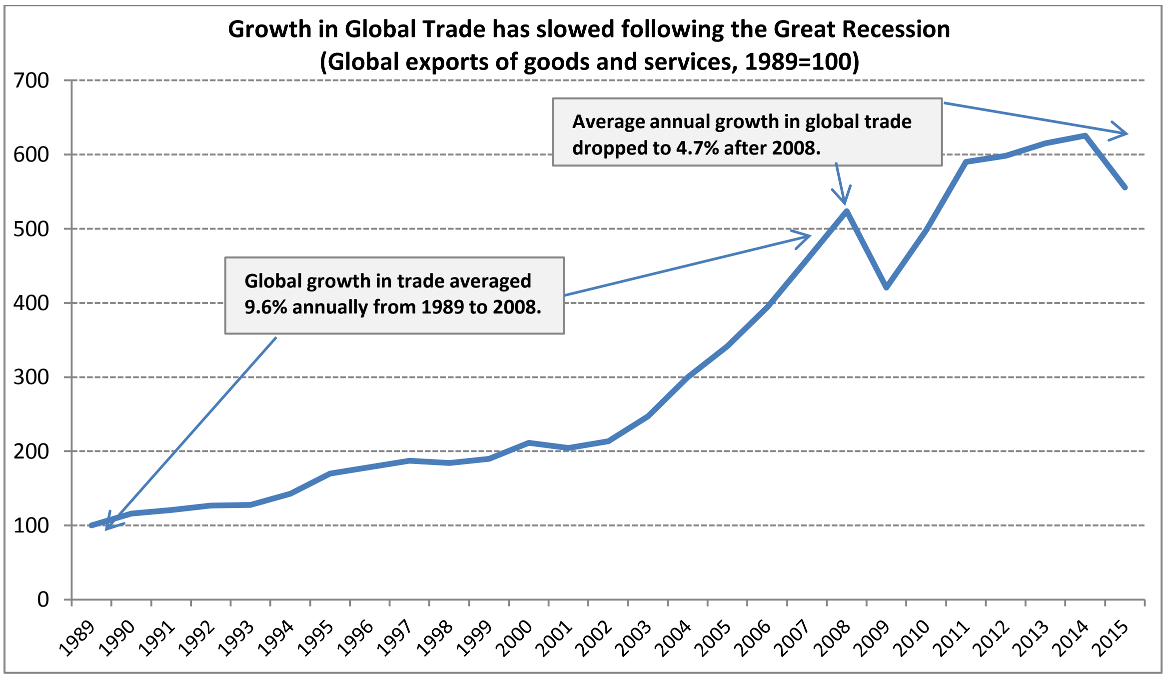
1.0 Introduction

The rise of global anti-trade sentiment is becoming more than just rhetoric. Recent global developments such as Brexit and the stalling of CETA are perhaps the most prominent examples of anti-globalization. A recent report by the European Commission identified more than 1000 new restrictive trade and investment measures since the 2008 Financial Crisis, with some 200 of these implemented in the past 18 months.[1] Developed and emerging markets are equally to blame, including many G20 nations. These restrictions come at a time when growth in global trade has moved onto a significantly slower growth track (Chart 1).

Chart 1: Growth in Global Trade in Goods and Services: 1989-2015.



Source: EDC Economics (based on EIU data from Haver).

The fractious US election campaign has amplified these concerns, and threatens to bring protectionist policies to a new level. To be sure, pronouncements by both US presidential candidates suggest a period of increased US trade and border protectionism is in store. Declarations by Donald Trump have been the most radical with promises to repeal NAFTA and to impose punitive tariffs of 45% on imports from China and 35% on Mexico. Clinton has not gone this far, but she has noted that a review of NAFTA is needed and her focus on high profile sectors such as pharmaceuticals, energy and financial services suggest new regulations that have the potential to frustrate trade in these sectors. Both candidates have made their opposition to the Trans-Pacific Partnership (TPP) well known.

[1] European Commission. ***Report from the Commission to the Council and the European Parliament on Trade and Investment Barriers and Protectionist Trends***. June 20, 2016.

Fortunately, the US political system has a well-developed system of checks and balances which serves to limit radical policy actions from any single branch of government. The probability of highly punitive protectionist trade and border policies being implemented is therefore low. But the threat remains that the Executive and both Legislative branches of government (Congress and the Senate) come to a rare agreement on trade policy. Even with the likelihood of a Trump loss, his campaign will have a lasting impact on many issues, including trade policy. Regardless of the election outcome, Canadian companies should be prepared for a more protectionist America going forward.

This report presents a comprehensive assessment of the impact that restrictive US policies including termination of TPP, could have on Canadian exports under alternative Clinton and Trump administrations. The estimates are meant to provide a sense of what is at risk for Canadian trade over the medium term. We also discuss the implications of a "hung" election on near-term financial volatility.

2.0 Canada-US Trade: Canada is the Largest Global Customer for US Goods and Services

The US and Canadian economies are highly integrated. Canada is the largest market for US exports of goods and services, accounting for 15% of total US export sales in 2015. Some 35 US states counts Canada as their number one export market. Likewise, the US is Canada's top export market with 72% of our total exports of goods and services heading there in 2015. The US share in Canada's exports is down from 83% more than a decade ago as Canadian companies have been successful in diversifying into non-US markets. But the US remains our top customer by an overwhelming margin.

The large Canada-US trading relationship brings significant benefits to both economies in the form of income and employment to their workers. For the US, exports to Canada supported 1.7 million American jobs and $US290 billion in GDP during 2015. The numbers are big for Canada too: $C325 billion in Canadian GDP was tied to exports to the United States in 2015, which supported 2.5 million jobs in Canada (16.4% of Canada's total GDP and 14% of all jobs).

Being the United States' largest foreign customer may temper any trade action against Canada as the US will very quickly realize that punitive tariffs against Canada would harm their own economy. The high degree of industrial integration and specialization of production across the two countries (and Mexico too for that matter) means US companies have a heavy reliance on Canadian parts, components and other inputs. Nearly two-thirds (64%) of all trade in goods and services between Canada and the US is comprised of intermediate inputs. These inputs represent the critical parts, components, raw materials and support services required by companies on both sides of the border to run an effective and cost-efficient supply chain.

And the linkages spread outside North America. For example, US exporters incorporate significant amounts of Canadian supply into their own US export production process – about $C60 billion per year. Another way to interpret this is that $60 billion means 13% of Canadian exports to the US are incorporated into US production for export to third markets. Unwinding supply chain arrangements and associated investments that took years to establish would be very problematic for companies in all three NAFTA countries. This would be costly to US and Canadian companies and also costly to all three NAFTA economies – lost production, parts shortages, lower investment, and higher prices for consumers would have a significant negative impact.

The large number of foreign affiliates (FA) operating across the Canada-US border further underscores the high degree of economic and financial risk that would stem from tighter border, trade and investment regulations. Canadian foreign affiliates operating in the US generated sales of $C275 billion in 2013 (54% of total Canadian FA sales), and directly employed 593,400 Americans.[2] Add this employment number to the export jobs above, and there are 2.3 million American jobs depending on commercial relations with Canada.

On our side of the border, US affiliates' Canadian operations generated sales of $C565 billion and employed 1.2 million Canadians during 2013 – mostly in manufacturing, wholesale trade, energy, mining, finance and technology-related services.

NAFTA Overview

The North American Free Trade Agreement (NAFTA) entered into force on 1 January 1994, removing most tariff and non-tariff barriers to trade and investment between Canada, the United States, and Mexico. NAFTA boasts a market of 478 million people and a combined GDP of almost USD21 billion. Since NAFTA came into force, the combined GDP (in USD terms) of member countries has more than tripled in size, the Canadian economy has grown by roughly 70%, Canadian exports to NAFTA partners have more than doubled in size, and intra-NAFTA investment opportunities have skyrocketed, with Canadian Direct Investment Abroad (CDIA) and Foreign Direct Investment (FDI) in Canada growing by multiples of 6 and 4, respectively.

NAFTA's terms were implemented gradually through January 2008 and eliminated most trade tariffs, with trade liberalization in certain industries, particularly agriculture, textiles, and automobile manufacturing being a major focus. NAFTA also introduced intellectual property protection, established dispute-resolution mechanisms, and implemented labor and environmental safeguards. The creation of NAFTA fundamentally reshaped North American economic and commercial relations, spurring an unprecedented drive toward integration between Canada and the United States' developed economies and Mexico, an emerging economy.

[2] Foreign affiliate sales and employment data are from, Statistics Canada. 2013 is the latest available data.

3.0 US Election Scenarios

Using EDC Economics' Structural Analytical Techniques (SAT) model, which estimates the probability of economic and political events occurring, we have calculated the probability of several possible election outcomes (Table 1). The policy implications associated with the different electoral results are also presented in Table 1. The policy outcomes and corresponding probabilities in Table 1 are used to guide the alternative Canadian export scenarios in section 4.0.

Table 1: Summary of US Election Outcomes and Associated Probabilities

	Election Outcome	Policy Implications	Probability
1	Clinton Wins Presidency Congress Divided (House is Republican, Senate is Democrat)	**-NOT a new normal of lower trade growth** -Clinton secures just enough support on both sides of Congress to ratify TPP with no to minor changes -More aggressive action against perceived trade imbalances -Policy measures advocated by Clinton are scaled down significantly	37%
2	Clinton Wins Presidency Congress Majority Republican (House and Senate are Republican)	**-NOT a new normal of lower trade growth** -TPP status highly uncertain with risk of TPP ratification deadline being exceeded -Political gridlock leads to only a few economic policies implemented	24%
3	Clinton Wins Presidency Congress Majority Democrat (House and Senate are Democrat)	-**NOT a new normal of lower trade growth** -TPP ratification uncertain given anti-trade sentiment amongst Democrat factions. -somewhat more protectionist policies adopted on trade (e.g.: enforcement, safeguards, etc.)	10%
4	Trump Wins Presidency Congress Divided (House is Republican, Senate is Democrat)	**-this scenario is most like our "new normal" of lower trade growth** -Trump likely to propose renegotiation of TPP to other signatories who will likely reject re-opening of TPP; -ratification of TPP delayed as long as Trump remains in office due to White House inaction and/or lack of support within Congress -NAFTA very unlikely to be renegotiated beyond minor updates or safeguard additions notwithstanding Trump's statements -Economic growth stagnates/flat-lines, impacting import demand	15%
5	Trump Wins Presidency Congress Majority Republican (House and Senate are Republican)	**-Somewhat close to the "new normal" scenario** -No lame duck ratification of TPP -Congress to favor trade deals - Key Trump pledges likely to be scaled back given Republican core policy stance. -Minimal US tariffs on Chinese and Mexican imports -Low growth, high inflation (higher cost labour force and higher tariffs) leads to stagflation	11%

Source: EDC Economics.

4.0 Potential Impacts of Clinton and Trump Policies on Canadian Exports

There are several transmission mechanisms through which protectionist US economic and trade policy will affect Canadian exports and business investment. These include:

1. Restrictive trade and investment policies (e.g. tariffs, import quotas and non-tariff barriers such as "Buy America.")
2. Slower US economic growth – reduces demand for Canadian goods and services.
3. Changes in the Canadian dollar due to impact of disruptive trade actions and slower US growth.
4. Near-term financial market volatility caused by uncertainty – impacts consumer and business confidence, equity markets, lower commodity prices, volatility in the C$, and increased credit market risk (e.g. higher yield spreads on emerging market debt and sub-investment grade debt).

To estimate the impact of these various economic factors on Canadian trade, EDC Economics has developed a Trade Impact Model (TIM). Using established empirical trade relationships, the model is designed to capture the impact of changes in foreign demand, export prices, tariffs and exchange rates on Canadian exports and business investment. The associated impact of changes in Canadian exports on GDP and employment is also computed.

The estimated impacts on Canada represent the possible downside risks associated with competing Trump and Clinton policy actions. We present a range of scenarios so as to better understand the magnitude of what is at risk for Canadian exporters and the Canadian economy. The impact estimates for the alternative Trump and Clinton administrations (Tables 1 and 2) would take 2-3 years to be fully realized as companies take time to respond and adjust their trade and investment decisions. In the case of a Trump White House, the scenarios cannot be viewed as temporary cyclical impacts, but rather would have more permanent and long-lasting impacts on Canadian exports, investment and supply chains.

4.1. How will a Trump Administration affect Canadian Exports?

In addition to the likely implementation of restrictive trade policies, Trumps broader economic and fiscal plans to reduce taxes and run larger deficits will result in higher US interest rates and increased economic uncertainty. The consequence is likely to be a stronger US dollar (i.e. safe-haven effect), slower GDP growth in the medium term and a weaker Canadian dollar. Reduced long-term export prospects and increased trade uncertainty would also impact business investment.

A key assumption underlying the analysis of Trump trade policy is the application of tariffs to represent the impact of increased trade restrictions against Canada. We present three different scenarios to capture the expected range of impacts on Canada. The results are summarized in Table 2.

1. Scenario 1. Scrapping of NAFTA, followed by the US imposing a 3.5% tariff on goods and services from Canada. The 3.5% tariff represents the MFN tariff applied by the US under the WTO.
2. Scenario 2. US applies a 4% tariff on imports from Canada. The 4% tariff represents a return to the 1988 pre-FTA average US tariff on imports from Canada.
3. Scenario 3. Radical Trump. US applies a 10% average tariff on imports from Canada. This third scenario assumes a more assertive Trump. Given that he has publicly stated that he will impose a 45% tariff on China and 35% on Mexico, it is not unreasonable to assume a "friendlier" but still significant tariff against Canada.

Trump Scenarios 1 and 2 should be interpreted as the lower end of the risk spectrum, while Scenario 3 can be viewed as the upper end (Table 2). To put the estimated export declines in Table 2 into perspective, consider that Canadian exports of goods and services to the world declined 21% during the Great Recession year 2009 – a drop of $C120 billion from the previous year. Canada's exports to the US dropped 24% in that year which was $100 billion below 2008 levels.

Table 2: Estimated impact of Trump Policy on Canadian exports and investment

Economic variables impacted by US trade actions and resulting effect on Canadian exports.	**Scenario 1: Repeal of NAFTA** **3.5% tariff on all goods and services**	**Scenario 2: Repeal of NAFTA** **4% tariff on all goods and services**	**Scenario3: Radical Trade Action** **10% tariff on all goods and services**
1**. Impact of US tariff** (raises price of Canadian exports and reduces competitiveness)	-S12.6 bn	-$14.4 bn	-$35.9 bn
2. **Reduction in US GDP growth** (reduces demand for Canadian exports)	-$6.0 bn	-$6.0 bn	-$6.0 bn
3. Impact of **lower Canadian dollar** (partial offset to tariff competitiveness loss and lower US growth)	+$9.7 bn	+$9.7 bn	+$9.7 bn
4. Combined Impact on Canadian exports: sum of lines 1, 2 and 3 above (bn C$)	**-$8.8 bn**	**-$10.6 bn**	**-$32.1 bn**
■ ***Share of total Canadian exports***	***-1.2***	***-1.5%***	***-4.5%***
5. Reduction in Canadian Investment (billions C$)	-$40.8 bn	-$43.2 bn	-$72.0 bn
6. Drop in Canadian GDP from lower exports and investment (% share of Canadian GDP)	-$38.3 bn (1.9%)	-$41.4 bn (2.0%)	-$79.5 bn (3.9%)
7. Employment impact, # of person-years (% share of CDN employment)	-362,000 (2.0%)	-391,000 (2.1%)	-737,000 (4.0%)

Source: EDC Economics. All values in Canadian dollars. The GDP and employment impacts are the sum of the direct and indirect (i.e. spin-off) impacts and are estimated using impact multipliers from Statistics Canada (the same methodology used in EDC's Canadian benefits framework).

The employment impact is measured in terms of person-years, and does not translate directly into a 1:1 impact on the actual number of jobs. Based on the person-year employment impacts presented in Table 2 (Trump) and Table 3 (Clinton), the impact on the absolute number of affected jobs in Canada would be significant.

The impact of Trump's policies on US GDP growth is based on several independent studies and complemented with EDC Economics' analysis. In all three scenarios, the trade and investment impacts will not be realized immediately but likely to be spread over 2 to 3 years as it will take time for Canadian and US companies to unwind investments and reposition their North American and global supply chain operations.

4.2 What about a Clinton Administration's Impact on Canadian Exports?

In contrast to a Trump presidency, the balance of studies expect little to no effect of Clinton on overall US economic growth. In fact, the infrastructure spending plan proposed by the Clinton campaign could lead to a boost in US growth during the first 2-3 years of her term.

We expect NAFTA will remain in place, but various aspects of the agreement would be re-opened, along with the introduction of new side-agreements to address perceived imbalances – and to appease the Democratic base. We assume this introduces a layer of stickiness and friction around Canada-US trade. We capture the impact of these "trade restrictions" by introducing a 1% US tariff on imports from Canada into our trade impact model. This is complemented with an analysis of Canadian sectors at risk from expected Clinton policies (see Table 3).

Table 3: Estimated impact of Clinton Policy on Canadian exports and investment

Economic variables impacted by US trade actions and resulting effect on Canadian exports.	Estimated Impact on Canadian exports
1**. Impact of 1% US tariff** (raises price of Canadian exports and reduces competitiveness)	-\$3.6 bn
2. **Boost in US GDP growth** from US infrastructure spending and fiscal stimulus	+\$1.6 bn
3. Impact of **targeted US sector regulations** (e.g. pharmaceuticals, energy, financial services)	-\$2.2 bn
4. Canadian sectors benefitting from US infrastructure program	+\$0.7 bn
5. Combined Impact on Canadian exports: sum of lines 1, 2 and 3 above (bn C\$) ■ ***Share of total Canadian exports***	**-\$3.5 bn** ***-0.5%***
5. Impact on Canadian Investment (billions C\$)	-\$7.2 bn
6. Drop in Canadian GDP from lower exports and investment (% share of Canadian GDP)	-\$8.3 bn (0.4%)
7. Employment impact, # of person-years (% share of CDN employment)	-65,600 (0.4%)

Source: EDC Economics. All values in Canadian dollars. The GDP and employment impacts are the sum of the direct and indirect (i.e. spin-off) impacts and are estimated using impact multipliers from Statistics Canada (the same methodology used in EDC's Canadian benefits framework).

Perhaps the biggest source of trade friction under Clinton is likely to come through specific industry regulations around pharmaceuticals, energy and financial services. Much of her pronouncements in this area are in response to populist pressure and also to secure votes from Sanders' base – the likelihood of a Clinton White House following through on new regulations and tighter rules in these sectors is therefore high.

Banking. Canadian exports of banking services to the US were $C5.2 billion in 2014, about 10% of total Canadian service exports to the US. Clinton has proposed tightening regulations around banking such as increased capital requirements, anti-trust regulations and lending practices. Clinton has suggested an expansion in Dodd-Frank, an updating of Glass-Steagall and a "risk fee" on large financial institutions – all of which could restrict trading in some types of financial instruments (e.g. certain types of derivatives) considered to be higher risk. **The potential downside impact on Canadian exports of banking services is estimated at $C262 million**.

Pharmaceuticals. Canadian pharmaceutical exports to the US amounted to $C7.5 billion in 2015, an increase of 44.4% on the year and capping off a decade of solid growth. Export prices for Canadian pharmaceuticals grew 16% in 2015 suggesting most of the export growth came through volume shipments (which has been the case for export growth in the past several years). Pharmaceuticals are not covered under the Affordable Care Act (i.e. ObamaCare), but Clinton is expected to bring in some sort of price control on drugs. Growth in the US medicine CPI has been about double that of the overall CPI in recent years, adding to pressure for price increases to be curbed. Clinton's focus on price increases for drugs and her statements around bringing prices under control suggest Canadian pharmaceutical exporters are likely to face downward price pressure going forward. Generic drugs account for a significant portion of Canada's pharmaceutical exports to the US, which could limit the downside. **The potential downside impact on the Canadian exports of pharmaceuticals is estimated at $C500 million**.

Energy (oil & gas, coal, petroleum products). We expect to see downward pressure on energy exports as new pipelines to the US are not likely to be approved. Other measures to curb consumption (e.g. increased taxes, focus on green energy) are expected to temper oil price increases and growth in new Canadian investment. **The potential downside impact on Canadian exports of oil & gas, coal and petroleum products is estimated at $C2.2 billion**.

Sectors expected to benefit from increased infrastructure spending. Clinton has put forward a five-year plan calling for $US250 billion in funding for new infrastructure and improvements to existing infrastructure. The plan includes a national infrastructure bank designed to leverage private sector participation. Canadian exports of infrastructure-related goods and services stand to benefit, including construction and engineering services, building materials and construction machinery. There is some risk that "buy America" policy would limit the upside for Canadian exporters. **We estimate the upside potential for Canadian exports of infra-structure related goods and services at an additional $C700 million over our baseline**.[3]

4.3 Comparing the Trump and Clinton Impact Estimates to Past Economic Downturns

The potential downside risk for Canadian employment and GDP presented in Tables 2 and 3 are significant, and comparable to the declines normally experienced during recessionary periods. Table 4 outlines GDP and employment losses for Canada during the past few recessions.

A key comparison in Table 4 is that past economic recessions were cyclical and therefore temporary in nature. Any prospective policies to be implemented by Clinton or Trump are likely to be much more permanent with long-lasting effects.

Table 4: Comparing Trump and Clinton Impact Scenarios to past Economic Downturns

Recessionary periods	Peak-trough drop in Canadian employment # of jobs (and % of peak)	Peak-trough drop in Canadian GDP (%)
1. 1981-1982 Recession	-611,500 (-5.4%)	-5.4%
2. The Jobless Recovery, 1990-1992	-447,600 (-3.4%)	-3.4%
3. Great Recession, 2008-2009	-426,500 (-2.5%)	-4.5%
Trump and Clinton Policy Scenarios	**Impact on Canadian Employment (person years)**	**Impact on Canadian GDP (%)**
4. Trump Scenario 1 (3.5% Tariff on Canada)	-362,000 (-2.0%)	-1.9%
5. Trump Scenario 2 (4% Tariff on Canada)	-391,000 (-2.1%)	-2.0%
6. Trump Scenario 3 (10% Tariff on Canada)	-737,000 (-4.0%)	-3.9%
7. Clinton Scenario (1% Tariff and targeted sector policies)	-65,600 (-0.4%)	-0.4%

Source: EDC Economics. Note that person-years impacted will not directly translate 1:1 into absolute number of job losses. Canadian employment data in lines 1-3 are derived from Statistics Canada's Labour Force Survey (CANSIM 282-0087). The GDP data in lines 1-3 are from CANSIM table 380-0064.

[3] Trump has also promised an infrastructure stimulus package, but in our Trump trade scenarios, we assume it would be very difficult for Canadian companies to benefit from increased US infrastructure spending given the likelihood of "Buy America" type of initiatives.

5.0 Trans-Pacific Partnership (TPP) is not ratified by the New US Administration

The analysis here assumes TPP will not be passed under either a Clinton or Trump administration. Trump has said that TPP will not happen if he becomes president, while Clinton has come out publicly against TPP in its current form. But Clinton has a reputation of being a pragmatist and not an idealist, introducing the possibility of a re-negotiated but delayed TPP. The issue then becomes whether or not other TPP members would agree to opening up the agreement for re-negotiation. Notably, if all 12 countries do not ratify the agreement within two years, the agreement can come into effect if at least 6 countries comprising 85% of the GDP of the bloc ratify the agreement. Given the GDP threshold condition, the U.S. would have to be one of the 6 countries for ratification to go ahead.

To assess the impact of a non-ratification of TPP on Canada, we use a TPP impact study from the Peterson Institute for International Economics (PIIE).[4] The PIIE study estimates the economic impact on all TPP members, including Canada, and represents one of the most comprehensive studies on TPP. The estimated benefits of TPP for Canada are significant: by 2030, Canadian exports of goods and services would increase by 7%, or C$65 billion, over the non-TPP baseline; and GDP would be 1.4% higher than the baseline (Table 5). Cross-border investment would also post higher gains under TPP. Failure to ratify TPP means these gains for Canada would not be realized, representing lost exports and income for Canada (see Chart 2 for illustrative concept of unrealized gains).

Table 5: Estimated Gains for Canada under TPP (exports and national income at risk if US does not ratify TPP)

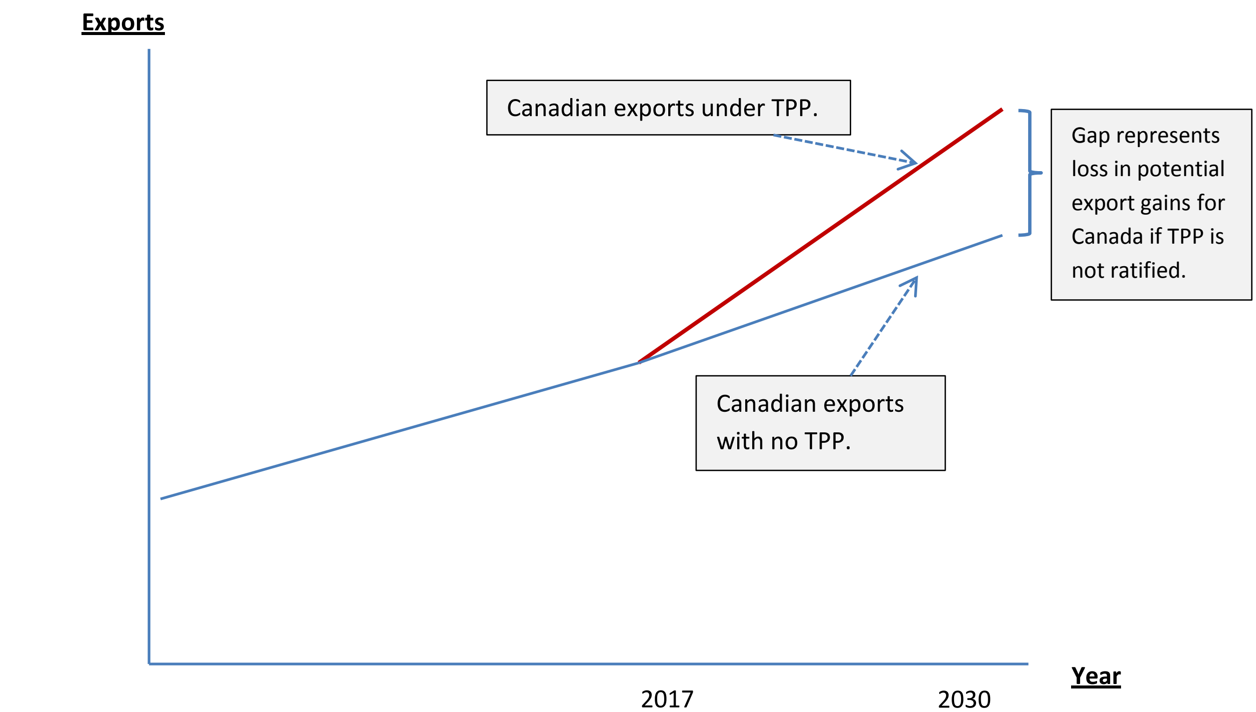
	2015 (bn C$)	2030 Baseline (bn C$)	2030 TPP Ratified (bn C$)	Impact of TPP In 2030 Over Baseline (bn 2015 C$)	Impact of TPP In 2030 Over Baseline (% increase over baseline)
Canadian exports (bn 2015 C$)	625.4	932.5	997.3	64.8	6.9%
Inward FDI Stock (bn 2015 C$)	1,099.0	1,749.6	1,875.5	125.9	7.2%
Outward FDI Stock (bn 2015 C$)	861.5	1,400.1	1,416.3	16.2	1.2%
Canadian GDP (bn 2015 C$)	1,983.3	2,720.1	2,757.2	37.0	1.4%

Source: EDC Economics, based on TPP Impact study by Peterson Institute of International Economics. FDI stocks are at book value.

[4] Peter A. Petri and Michael G. Plummer. ***The Economic Effects of the Trans-Pacific Partnership: New Estimates***. Peterson Institute for International Economics, January 2016.

The Peterson Institute analysis predicts Canadian exports would be 7% higher in 2030 with TPP, compared with an average 11% gain for all TPP members. Although Canada would see an increase in its absolute exports under TPP, it is expected to see some decline in market share relative to other TPP members. Much of the above average gains are Japan and the emerging TPP markets as they become more integrated with global trade. The trade pie gets bigger under TPP, and it is not entirely certain that Canada should expect to maintain its share of a significantly larger trade pie (and do we even have the capacity to do so?). The bottom line is Canada would still see sizable export, income and employment gains if TPP is ratified by all 12 members – benefits not likely to be realized without US ratification of TPP.

Chart 2: Illustration of Potential Gains for Canada from TPP



6.0 "Hung" Election Scenario: Expect Near-term Volatility in Financial Markets

A "hung" election scenario where Trump contests the election outcome after a Clinton win has the potential to introduce significant short-term volatility into financial markets. The experience of the 2000 US election suggests a clear, decisive Clinton victory would quickly calm markets. After the November 7, 2000 election, a presidential winner was not declared until December 14. Volatility in a number of financial and economic indicators noticeably increased during these 5 weeks but quickly settled down once Bush was declared winner on December 14, 2000.

The US was already showing signs of a slowdown in late 2000 and one could make the argument that the market uncertainty and volatility caused by the 2000 election is likely to have contributed to the contraction in US GDP during the first quarter of 2001, and also to the onset of slower growth in subsequent quarters.

Key indicators to watch for: Canadian dollar, emerging market bond yields, sub-investment grade bond yields, consumer and business sentiment, equity markets (VIX) and market sentiment indices. All of these indicators exhibited increased volatility during the weeks following the November 7, 2000 election. Emerging market bond yields (as measured by JP Morgan's EMBI index) jumped 150 basis points while the average yield on sub-investment grade debt jumped more than 200 basis points (CCC rated debt jumped almost 500 bps). Significant drops in the Conference Board's Consumer Confidence index (especially the expectations component) and the Michigan Consumer Sentiment suggest consumers were quite unsettled by the election debacle. The ISM manufacturing index also exhibited a large decline in December 2000, led in part by a drop in the new orders component – indicating business were also getting nervous. Short-term rates (e.g. 3-month LIBOR) remained relatively stable.

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