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Analysis in Brief

Impact of tariffs on businesses in Canada: Expectations and strategic responses, second quarter of 2025

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by **Shivani Sood**

Sharing the longest land border in the world, Canada and the United States have long been allies with deeply integrated economies. Together, the two countries have maintained one of the world's most significant trade partnerships, with bilateral trade in goods surpassing $1 trillion for the third consecutive year in 2024. The United States was the destination for 75.9% of Canada's total goods exports and the source of 62.3% of its total goods imports in 2024.[1] Meanwhile, the United States remained Canada's largest services trading partner in 2024, accounting for 50.2% of total exports of services and 55.7% of total imports of services.[2]

The supply chains of businesses in both countries are deeply integrated, with businesses across several industries relying on cross-border trade for essential components, raw materials and finished goods. This bilateral relationship reinforces economic interdependence, supporting employment on both sides of the border. In 2023, over 2.6 million jobs in Canada and nearly 17% of total value added depended on U.S. demand for Canadian exports. The manufacturing sector, one of the industrial sectors with the highest exposure to the U.S. market, relied on demand from the United States for 42% of its value added. Moreover, nearly 688,000 jobs in manufacturing relied on demand from the United States, accounting for 41% of the sector's total workforce.[3]

The recent shift in the U.S. administration has brought significant changes to economic policies, particularly in the realm of international trade. In early 2025, the United States imposed 25% tariffs on all goods entering the United States from Canada that are not compliant with the Canada–United States–Mexico Agreement and 10% tariffs on energy product exports from Canada. Following this, the United States also levied a 25% tariff on Canadian steel and aluminum. In response, the Canadian government introduced a series of targeted countermeasures. Notably, Canada imposed a 25% counter tariff on $30 billion of imports from the United States and reciprocal tariffs on certain steel and aluminum products.[4]

1. International merchandise trade for all countries and by Principal Trading Partners, Balance of Payments basis, monthly.
2. Balance of international payments, current account, trade in services by principal trading partners, quarterly.
3. Value added in exports, by industry, provincial and territorial.
4. Canada's response to U.S. tariffs on Canadian goods.

Tariff-related developments between Canada and the United States, February to early April 2025

February 1, 2025	The U.S. administration announces its intention to implement a 25% tariff on imports from Canada, with a 10% levy on energy products. The Canadian government announces $155 billion in countermeasures.
February 2, 2025	Both countries agree to delay imposing tariffs, and the U.S. government announces a one-month reprieve.
February 10, 2025	The U.S. administration announces its intention to restore a 25% tariff on imports of steel products and raise tariffs on imports of aluminum products to 25%, effective March 12, 2025.
February 13, 2025	The U.S. administration announces its intention to impose the Fair and Reciprocal Plan to address non-reciprocal trade arrangements.
March 4, 2025	The U.S. administration imposes a blanket 25% tariff on imports from Canada and 10% tariffs on energy products, critical minerals and potash. Canada proceeds with 25% tariffs on $30 billion of U.S. imports, with tariffs on an additional $125 billion of imports to be phased in later in the month.
March 6, 2025	The U.S. administration announces a one-month reprieve for imports compliant with the Canada–United States–Mexico Agreement. Canadian tariffs on $30 billion in U.S. imports remain in effect.
March 12, 2025	The 25% tariffs on U.S. imports of Canadian steel and aluminum come into effect. Canada imposes tariffs on an additional $29.8 billion of U.S. imports effective March 13, 2025.
March 26, 2025	The U.S. administration announces 25% tariffs on auto imports from Canada, effective April 3, 2025.
April 2, 2025	The U.S. administration announces reciprocal, country-specific tariff rates on many U.S. trading partners; Canada is excluded from the list of countries facing a blanket, reciprocal tariff rate.
April 3, 2025	The U.S. administration imposes a 25% tariff on Canadian automobiles.
April 9, 2025	Canada imposes 25% tariffs on non- Canada–United States–Mexico Agreement compliant vehicles imported into Canada from the United States, and 25% tariffs on non-Canadian and non-Mexican content of Canada–United States–Mexico Agreement compliant vehicles imported into Canada from the United States.

Note: Detailed information on tariff announcements is available at Canadian Economic News.

In April 2025, goods exports to the United States dropped 15.7%, a third consecutive monthly decline. After posting consecutive strong monthly increases, with a peak in January 2025, exports to the United States have since fallen 26.2%. Meanwhile, goods imports from the United States were down 10.8% in April. As a result, Canada's merchandise trade surplus with the United States narrowed to $3.6 billion, the smallest surplus since December 2020.[5]

Amid shifts in tariffs, trade regulations and the U.S. administration, the Canadian Survey on Business Conditions, conducted from April 1 to May 5, 2025, incorporated a series of targeted questions to gauge the sentiment, expectations and strategic responses of businesses across Canada. This paper provides an overview of the survey findings, examining the anticipated impacts on sales, business uncertainty and selling prices, as well as the array of mitigation strategies businesses have adopted to navigate the evolving economic landscape. To provide a comprehensive analysis of broader trends across the entire business sector, survey findings are examined not only for businesses that export to or import from the United States but also for all businesses in Canada.

Businesses that export to the United States

In 2024, 53,448 establishments in Canada exported goods, 86.6% of which exported goods to the United States.[6] According to results from the Canadian Survey on Business Conditions for the second quarter of 2025, businesses that exported goods or services to the United States over the last 12 months made an average of 27.0% of their total sales to that market.

Nearly one-third (32.2%) of exporters to the United States expect tariffs imposed by the United States on imports from Canada to have a high impact on their business, while one-fifth (19.8%) expect such tariffs to have a medium impact. Over the next three months,[7] 71.9% of businesses exporting to the United States expect to face cost-related obstacles, and over two-fifths (40.8%) anticipate challenges related to exporting or selling goods

5. The Daily — Canadian international merchandise trade, April 2025.
6. Trade in goods by exporter characteristics, by country of destination.
7. The most recent survey was conducted from April 1 to May 5, 2025, and respondents were asked about their expectations for the next three months. As a result, this three-month period could range from April 1 to August 5, 2025, depending on when the business responded.

and services outside Canada. Over two-fifths (42.9%) of businesses exporting to the United States expect their operating expenses to increase over the next three months, over one-third (35.4%) foresee a decline in their profitability, and 3 in 10 (30.4%) expect their overall exports to decrease.

As businesses anticipate these impacts, nearly three-fifths (56.8%) of those that export to the United States have already taken actions over the last three months to mitigate risks associated with any tariffs applied by the United States on imports from Canada. Nearly one-quarter (24.6%) have sought alternative customers outside the United States, and almost one in five (18.1%) have delayed major investments or expenditures.

In 2024, Canada had 17,274 establishments in the manufacturing sector that exported goods to the United States.[8] Among businesses in manufacturing that export to the United States, 82.5% took actions over the last three months to mitigate risks, with over two-fifths (43.8%) seeking alternative customers outside the United States.

Businesses were asked how they expect various business aspects—such as business uncertainty, sales, input costs and selling prices—to be affected over the next 12 months by the new U.S. administration. Among exporters to the United States, 6 in 10 (60.5%) expect greater uncertainty over the next 12 months, and over one-third (34.4%) anticipate a decline in their U.S. sales. At the same time, 11.0% expect their sales to other countries to increase, while nearly double that proportion (21.8%) foresee higher sales in Canada. In terms of cost of inputs, 52.1% of exporters to the United States expect material input costs to increase, and 31.5% expect service input costs to increase. Nearly half (46.7%) of exporters to the United States expect their selling prices to grow.

Nearly two in three (65.7%) exporters to the United States reported being either very optimistic or somewhat optimistic about their outlook over the next 12 months, while over one-fifth (21.7%) are somewhat pessimistic, 6.2% are very pessimistic and 6.3% are unsure.

Businesses that import from the United States

In 2023, Canada had 167,050 establishments that imported goods, 69.2% of which imported goods from the United States.[9] Among businesses that imported from the United States over the last 12 months, the average percentage of their total purchases from the United States was 28.8%.

Import tariffs increase the cost of imported products in the country that imposes the tariff. Businesses reliant on these products—whether for raw materials, equipment or inventory—face higher operational expenses, which can reduce profitability and may in turn lead to increased prices for consumers. This inflationary pressure, in turn, reduces consumer purchasing power and affects demand across industries. Among businesses that imported from the United States over the last 12 months, nearly one-third (32.7%) expect tariffs imposed by Canada on imports from the United States to have a high impact on their business, while 17.4% expect a medium impact. Nearly one-quarter (23.4%) of businesses that imported from the United States expect their overall imports to decrease over the next three months, and over two-fifths (42.9%) anticipate the selling prices of their goods or services to increase. Meanwhile, over half (53.8%) foresee increased operating expenses, and over one-third (35.4%) expect a decline in profitability.

Tariff threats can be expected to influence trading patterns, providing importers with an incentive to increase shipments before the implementation of tariffs to avoid higher costs. As the Government of Canada announced countermeasures in the form of tariffs on imports from the United States, nearly three-fifths (57.5%) of businesses that import from the United States took actions over the last three months[10] to mitigate risks. One-third (33.4%) of importers from the United States sought alternative suppliers outside the United States, nearly one-quarter (24.6%) increased domestic sourcing, and just under one-fifth (19.2%) increased their inventory or stockpiled goods. Three-quarters (75.5%) of businesses in manufacturing that import from the United States took actions to mitigate risks over the last three months, with over two-fifths (44.5%) seeking alternative suppliers outside the United States and one-third (33.9%) increasing domestic sourcing.

8. Surveys and statistical programs - Trade by Exporter Characteristics - Goods (TEC), custom tabulation.
9. Trade in goods by importer characteristics, by country of origin.
10. The most recent survey was conducted from April 1 to May 5, 2025, and respondents were asked about the previous three months. As a result, this three-month period could range from January 1 to May 5, 2025, depending on when the business responded.

Businesses were asked how they expect various business aspects—such as business uncertainty, input costs and selling prices—to be affected over the next 12 months by the new U.S. administration. Among businesses that import from the United States, over half (52.6%) expect greater business uncertainty, and a similar proportion (53.7%) anticipate higher selling prices for their goods or services over the next 12 months. In terms of input costs, 60.3% of importers from the United States expect higher material input costs, and 32.6% foresee increased service input costs.

Among businesses that import from the United States, 71.5% reported being either very optimistic or somewhat optimistic about their outlook over the next 12 months, while 17.4% are somewhat pessimistic, 4.6% are very pessimistic and 6.5% are unsure.

All businesses

Tariffs imposed on imports have broad economic implications for businesses in both countries that extend beyond those engaged in cross-border trade. All businesses, regardless of whether they are engaged in international trade, may be affected by disrupted supply chains, increased costs for equipment or parts, and decreased market stability. Domestic service providers, such as restaurants and construction businesses, can see shifts in costs, wages and consumer spending because of tariff-driven economic fluctuations. Essentially, tariffs shape the economic landscape far beyond trade, influencing employment, investment and overall business strategy in both countries.

Nearly one-fifth (18.1%) of all businesses expect tariffs imposed by the United States on imports from Canada to have a high impact on their business. Similarly, nearly one-fifth (18.5%) of all businesses expect countermeasures in the form of tariffs imposed by Canada on imports from the United States to have a high impact on their business. Over one-quarter (26.4%) of all businesses took actions over the last three months to mitigate risks associated with tariffs applied by the United States on imports from Canada. Over 1 in 10 businesses either sought alternative suppliers outside the United States (12.2%) or increased domestic sourcing (12.0%), while 7.5% delayed major investments or expenditures, and 6.7% increased inventory or stockpiled goods. Over half (54.3%) of businesses in manufacturing took actions to mitigate risks over the last three months. Nearly one-third (32.2%) of businesses in manufacturing sought alternative suppliers outside the United States, over one-quarter (26.4%) increased domestic sourcing, and over one-fifth (21.0%) increased inventory or stockpiled goods.

Businesses were asked how they expect various business aspects—such as business uncertainty, input costs and selling prices—to be affected over the next 12 months by the new U.S. administration. Among all businesses, over two-fifths (43.1%) expect greater business uncertainty, and over one-third (34.3%) anticipate the selling prices of their goods or services to rise. Furthermore, two-fifths (40.4%) of businesses expect higher material input costs, and over one-quarter (26.4%) foresee increased service input costs.

Among all businesses, 7 in 10 (70.0%) reported being either very optimistic or somewhat optimistic about their outlook over the next 12 months, while 15.2% are somewhat pessimistic, 3.2% are very pessimistic and 11.7% are unsure.

Table 1
Business or organization obstacles over the next three months, second quarter of 2025

	All businesses	Businesses that export to the United States	Businesses that import from the United States
	percent		
Shortage of labour force	16.8	10.4	16.9
Recruiting skilled employees	24.9	26.5	29.5
Retaining skilled employees	19.2	21.9	20.3
Shortage of space or equipment	6.2	13.8	10.5
Cost of inputs	27.7	48.5	50.5
Costs in real estate, leasing or property taxes	20.1	21.0	23.0
Inflation	49.3	54.4	64.4
Interest rates and debt costs	26.4	29.6	29.8
Difficulty acquiring inputs, products or supplies from within Canada	12.3	16.4	24.7
Difficulty acquiring inputs, products or supplies from abroad	10.9	28.0	33.2
Maintaining inventory levels	7.0	7.9	12.1

Table 1
Business or organization obstacles over the next three months, second quarter of 2025

	All businesses	Businesses that export to the United States	Businesses that import from the United States
		percent	
Insufficient demand for goods or services offered	16.2	26.8	24.0
Fluctuations in consumer demand	25.6	42.3	39.3
Attracting new or returning customers	21.6	32.9	29.8
Lack of financial resources	15.2	16.0	22.1
Technological limitations	4.4	6.1	5.7
Regulatory constraints	10.2	13.7	16.9
Cost of insurance	26.2	20.6	30.2
Transportation costs	18.7	25.1	28.2
Obtaining financing	9.4	11.2	11.8
Increasing competition	19.4	29.2	25.2
Challenges related to exporting or selling goods and services to customers in other provinces or territories	3.4	11.4	9.4
Challenges related to exporting or selling goods and services outside of Canada	5.6	40.8	20.8
Maintaining sufficient cash flow or managing debt	17.3	21.4	25.3
Other obstacle	1.9	2.1	3.1
None	19.5	8.6	7.6
Labour-related obstacles	35.0	36.8	39.7
Cost-related obstacles	65.4	71.9	80.5
Supply chain-related obstacles	19.8	37.1	44.5

1. The results in this table are based on the survey that was in collection from April 1 to May 5, 2025, and respondents were asked what their expectations would be over the next three-month period. As a result, those three months could range from April 1 to August 5, 2025, depending on when the business responded.
2. Businesses that expect labour-related obstacles include businesses that expect at least one of the following: shortage of labour force, difficulty recruiting skilled employees, or difficulty retaining skilled employees.
3. Businesses that expect cost-related obstacles include businesses that expect at least one of the following: cost of inputs; costs in real estate, leasing or property taxes; inflation; interest rates and debt costs; cost of insurance; or transportation costs.
4. Businesses that expect supply chain-related obstacles include businesses that expect at least one of the following: difficulty acquiring inputs, products or supplies from within Canada, difficulty acquiring inputs, products or supplies from abroad, or maintaining inventory levels.
Source: Statistics Canada, Canadian Survey on Business Conditions, second quarter of 2025 (Table 33-10-0981-01).

Table 2
Actions taken over the last three months by business or organization to mitigate risks associated with any tariffs applied by the United States on imports from Canada, second quarter of 2025

	All businesses	Businesses that export to the United States	Businesses that import from the United States
		percent	
Sought alternative customers outside the United States	3.7	24.6	11.6
Sought alternative suppliers outside the United States	12.2	29.3	33.4
Increased domestic sourcing	12.0	24.1	24.6
Delayed major investments or expenditures	7.5	18.1	13.6
Delayed Canadian investment or expansion plans	4.3	12.8	7.1
Acquired or partnered with United States-based businesses as a beachhead strategy	0.8	7.3	2.2
Explored trade-related financial tools	0.9	5.9	3.3
Established operations in the United States	0.4	4.1	2.0
Increased inventory or stockpiled goods	6.7	16.9	19.2
Invested in technology improvements	2.4	6.2	6.0
Other actions	0.6	1.9	1.5
No actions have been taken	73.6	43.2	42.5

1. The results in this table are based on the survey that was in collection from April 1 to May 5, 2025 and respondents were asked what the business or organization experienced in the last three-month period. As a result, those three months could range from January 1 to May 5, 2025, depending on when the business responded.
Source: Statistics Canada, Canadian Survey on Business Conditions, second quarter of 2025 (Table 33-10-0993-01).

Methodology

From April 1 to May 5, 2025, representatives from businesses across Canada were invited to complete an online questionnaire about business conditions and business expectations moving forward. The Canadian Survey on Business Conditions uses a stratified random sample of business establishments with employees, categorized by geography, industry sector and size. Proportions are estimated using calibrated weights to calculate the population totals in the areas of interest. The total sample size for this iteration of the survey was 21,357, and results are based on responses from 9,103 businesses or organizations.

References

Statistics Canada. 2025. Canadian Survey on Business Conditions, second quarter of 2025.