BANK OF CANADA
BANQUE DU CANADA

How Canadian businesses and households are reacting to the trade conflict

To better understand how the trade conflict initiated by the US administration is affecting the economic decisions of Canadians, the Bank of Canada has enhanced its consultations with businesses and households.[1]

> This update presents preliminary results from the Bank of Canada's surveys of businesses and consumers and its consultations with businesses and industry organizations, conducted from January 29, 2025, to February 28, 2025.

Businesses and households see the economic climate as unpredictable. The scope and magnitude of planned US tariffs, along with the timing of their implementation, continue to change. This uncertainty is making it difficult for businesses to make investment and hiring decisions and to set prices.

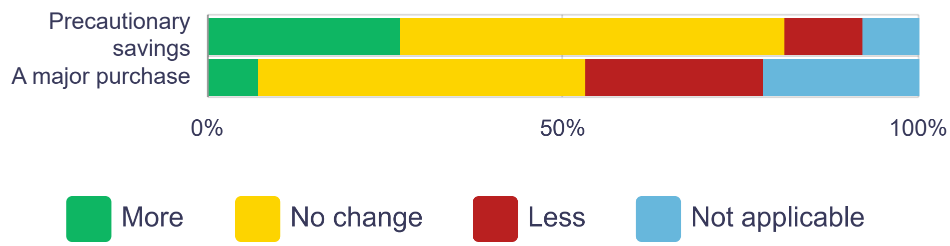
The results of surveys and consultations reflect the prevailing conditions in late January and throughout February, specifically the threat of a 25% broad-based US tariff and Canadian retaliatory measures. The situation is constantly changing. The Bank will continue to consult with Canadian households and businesses regularly.

Household spending

Trade tensions have led households to worry more about their job security and financial health, and they now intend to spend less (**Chart 1**). Concern about job security is particularly evident among people working in sectors that are highly dependent on trade (**Chart 2**).

Chart 1: Households plan to spend more cautiously due to trade tensions

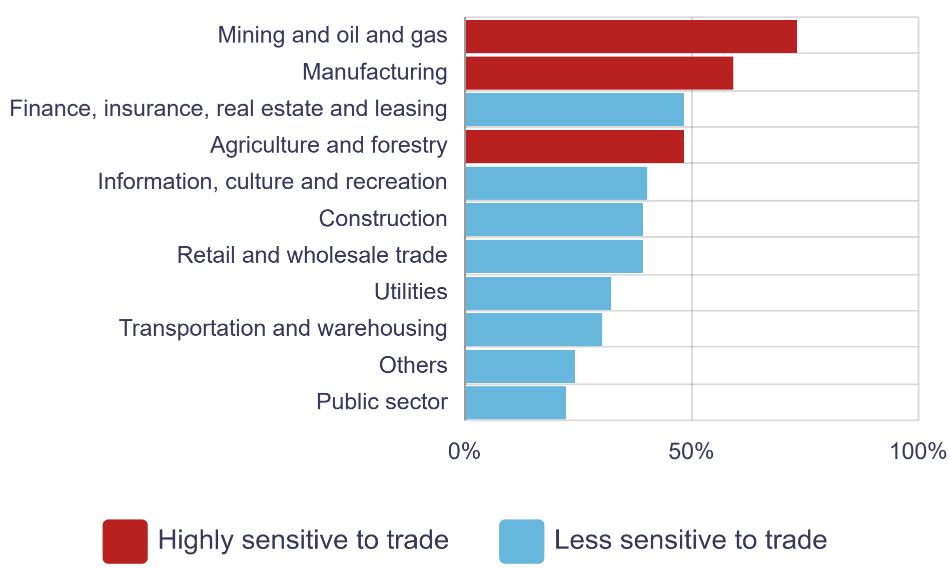
Share of respondents, Canadian Survey of Consumer Expectations



Note: Respondents were asked how they are changing their current spending or savings plans in response to the deterioration in trade relations between Canada and the United States. See Appendix for the precise question.
Source: Bank of Canada
Last observation: 2025Q1

Chart 2: Job security concerns are prevalent among those working in industries that rely on exports to the United States

Share of workers citing weaker job security, Canadian Survey of Consumer Expectations



Note: Respondents were asked how they think their own job security would be affected if trade relations between Canada and the United States were to deteriorate relative to before the US election or if US tariffs on Canadian goods and retaliatory tariffs on US good were imposed. *Highly sensitive to trade* refers to sectors where more than 30% of jobs depend on exports to the United States. *Less sensitive to trade* refers to sectors where 30% or fewer jobs depend on exports to the United States. See Appendix for the precise questions.
Source: Bank of Canada

Last observation: 2025Q1

Businesses’ sales outlooks, investment and hiring

Businesses have revised down their sales outlooks. Indicators of future sales—such as order books and sales enquiries—have declined. This decline is particularly prominent in manufacturing. In addition, sectors that depend on households’ discretionary spending continue to report weak demand. However, some businesses note a strong “Buy Canadian” sentiment, which is likely mitigating some of the negative impact of trade tensions.

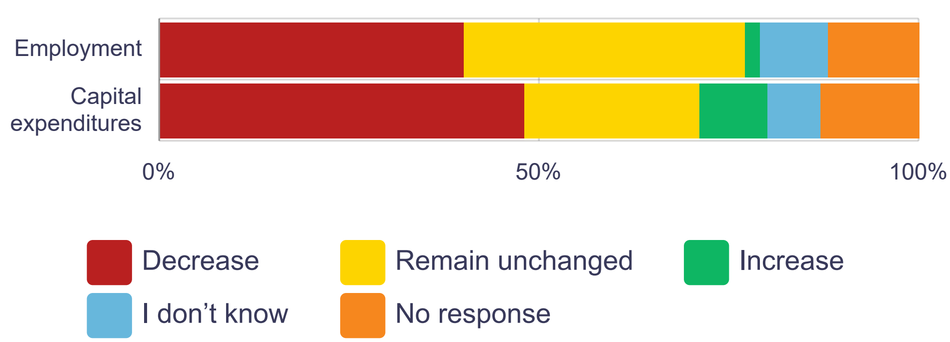
Heightened trade uncertainty has also led many businesses to scale back their hiring and investment plans (**Chart 3**). New investment is being further restrained because:

- Credit has become more difficult for some businesses to access.
- The cost of imported capital goods, such as equipment and machinery, has risen.

However, most businesses say they are continuing with existing investment projects, particularly projects aimed at maintaining capacity and improving productivity. In the oil and gas sector, many businesses expect only a modest impact on their near-term investment and production decisions. But a tariff would make projects less attractive to investors over the medium term.

Chart 3: Heightened trade uncertainty has led businesses to reduce their hiring and investment plans

Share of respondents, Business Leaders’ Pulse



Note: Respondents were asked what changes, if any, they anticipate in their employment and capital expenditures due to uncertainty arising from the threat of US tariffs on Canadian goods and retaliatory tariffs on US goods. See Appendix for the precise question.
Source: Bank of Canada

Last observation: February 2025

Pricing intentions and inflation expectations

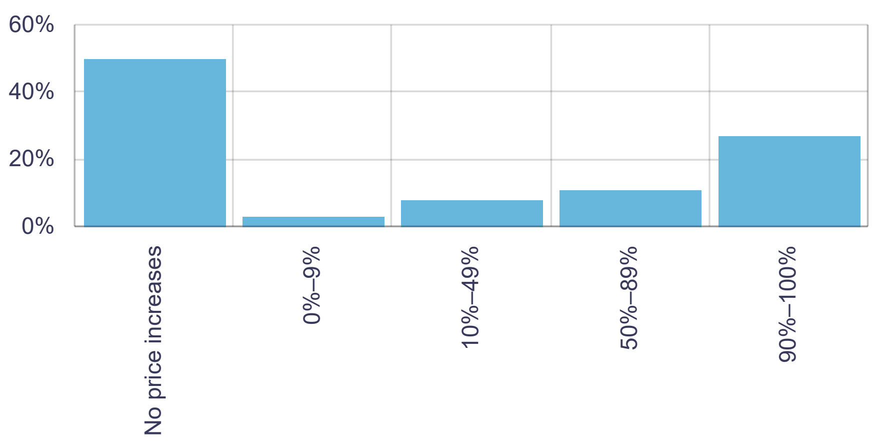
In consultations, businesses are beginning to report that the trade conflict is leading to an increase in their costs. This increase is happening through several channels:

- The Canadian dollar has depreciated since October 2024, making imported goods more expensive.
- Increased tariffs and trade restrictions affecting other countries like China are working through supply chains, affecting a variety of input costs.
- Businesses are developing plans to diversify product sources to avoid tariffs and mitigate trade disruptions, with new suppliers often being costlier than their existing suppliers.
- The lack of clarity around trade policy is making it difficult to negotiate price contracts, with some businesses raising their prices in anticipation of future tariffs.

Around half of businesses surveyed plan to increase their prices if tariffs are imposed on their inputs or products. Of those planning price increases, around three-quarters expect to pass on more than half of the tariff-related cost increases to their customers (**Chart 4**).

Chart 4: About half of businesses plan to raise prices if tariffs are in place

Share of respondents, Business Leaders' Pulse



Note: Respondents were asked if they intend to raise prices because of tariffs and, if so, what percentage of the expected tariff costs they plan to pass along to Canadian customers. See Appendix for the precise question.
Source: Bank of Canada
Last observation: February 2025

Many retailers expect that they would be able to rapidly pass on cost increases linked to tariffs if they were transparent with consumers about the reasons for the increase. But the scale and timing of price increases may be held back by competition, weak demand, and the scope and size of tariffs.

The other half of businesses surveyed are not planning to increase their prices. This includes:

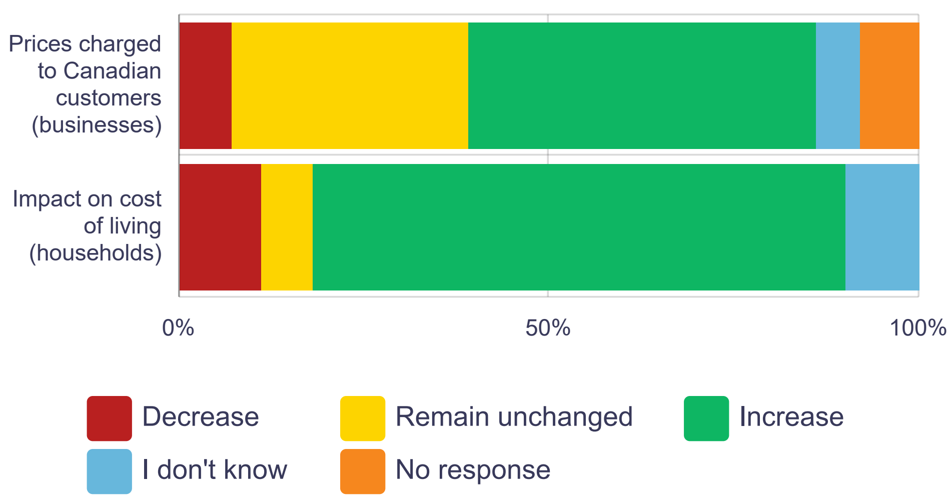
- Businesses that do not expect any increase in their costs from tariffs
- A smaller number of businesses expecting cost increases related to tariffs but not expecting to pass those increases on to their customers

Trade tensions are pushing up inflation expectations

Both households and businesses expect trade tensions to lead to higher prices (**Chart 5**). This is reflected in a recent rise in their short-term inflation expectations (**Chart 6**).

Chart 5: Both consumers and businesses expect prices to increase due to uncertainty about trade tensions

Share of respondents, Business Leaders' Pulse (BLP) and Canadian Survey of Consumer Expectations (CSCE)

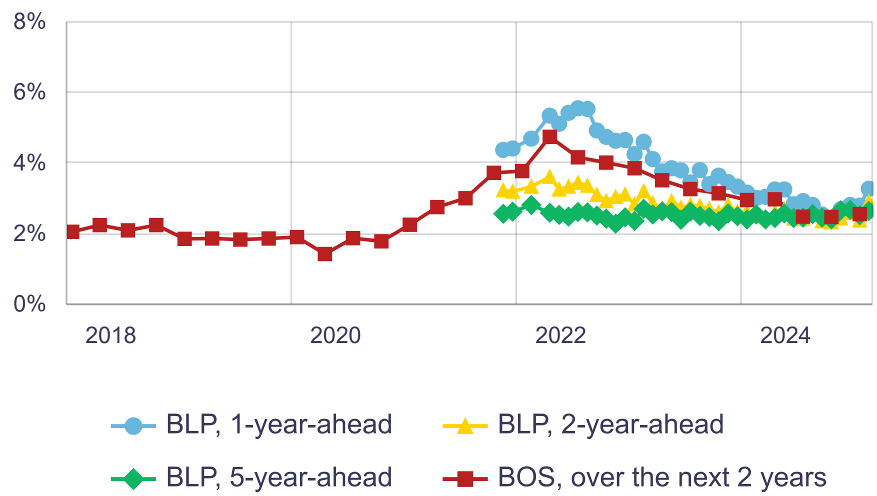


Note: BLP respondents were asked what changes they expect in their prices due to uncertainty arising from the threat of US tariffs on Canadian goods and retaliatory tariffs on US goods. CSCE respondents were asked how they think their cost of living would be affected if trade relations between Canada and the United States were to change relative to before the US election. See Appendix for the precise questions.
Source: Bank of Canada
Last observations: BLP, February 2025; CSCE, 2025Q1

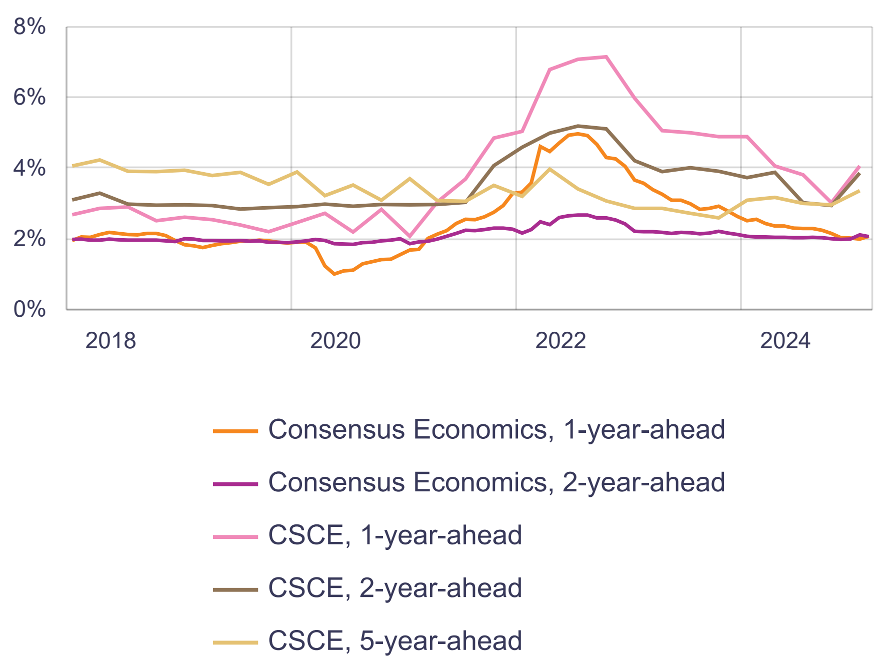
Chart 6: Short-term inflation expectations have risen

Quarterly and monthly data

a. Businesses



b. Consumers and professional forecasters



Note: CSCE is the Canadian Survey of Consumer Expectations; BOS is the Business Outlook Survey; BLP is the Business Leaders' Pulse. Consensus Economics' forecasts for the next year (based on monthly data) and the next two years (based on a combination of monthly and quarterly data releases) are transformed into fixed-horizon forecasts by the weighted average of fixed-date forecasts. *1-year-ahead* refers to inflation expectations for the next 12 months. *2-year-ahead* refers to inflation expectations for the period 12 to 24 months from now. *5-year-ahead* refers to inflation expectations for the period 48 to 60 months from now. This question was not asked in the January or March 2022 BLP. See **Appendix** for the precise questions.
Sources: Consensus Economics, Bank of Canada and Bank of Canada calculations
Last observations: Consensus Economics and BLP, February 2025; CSCE and BOS, 2025Q1

Endnotes

1. This update presents preliminary results from the Canadian Survey of Consumer Expectations (conducted from January 29 to February 19, 2025), the Business Outlook Survey (conducted from February 6 to 26, 2025) and the Business Leaders' Pulse (conducted from February 10 to 28, 2025). It also draws on results from consultations conducted in February with businesses and industry organizations that are sensitive to trade. Additional results from these surveys and consultations will be published on April 7, 2025.[←]

Appendix: Survey questions

This Appendix presents the text of selected questions asked as part of surveys that the Bank of Canada conducted during the first quarter of 2025, including the Business Leaders' Pulse, the Business Outlook Survey and the Canadian Survey of Consumer Expectations.

Chart 1

Right now, are you changing your spending or savings plans in response to the potential state of trade relations between Canada and the United States?

	More	No change	Less	Not applicable [default]
Making a major purchase (e.g., a house or trip)				
Saving for precautionary reasons				

Chart 2

Respondents were randomly assigned one of the following two questions:

1. How do you think your own job security (such as hours worked or availability of jobs) would be affected by US tariffs on Canadian goods and Canadian retaliatory tariffs?
    a. My job security would be stronger
    b. My job security would be weaker
    c. My job security would not change
    d. I don't know

Or

2. How do you think your own job security (such as hours worked or availability of jobs) would be affected if trade relations between Canada and the United States were to change relative to prior to the US election?
    a. My job security would be stronger
    b. My job security would be weaker
    c. My job security would not change
    d. I don't know

Follow-up to questions 1 and 2: In which of the following industries is your job?

a. Agriculture and forestry
b. Mining and oil and gas
c. Utilities
d. Construction
e. Manufacturing
f. Retail and wholesale trade
g. Transportation and warehousing
h. Finance, insurance, real estate, rental and leasing
i. Public sector: Education, health and public administration
j. Information, culture and recreation
k. Others, please specify

Chart 3

What changes, if any, do you see in your business operations due to the uncertainty arising from the threat of US tariffs on Canadian goods and retaliatory tariffs on US goods?

	Decrease	**Remain unchanged**	**Increase**	**I don't know**
Employment				
Capital expenditures				

Chart 4

If the business said it would increase prices charged to Canadian customers due to tariffs:

What portion of the tariff cost will you pass on to Canadian customers?

Chart 5

Consumers: How do you think your cost of living would be affected if trade relations between Canada and the United States were to change relative to prior to the US election?

Businesses: What changes, if any, do you see in your business operations due to the uncertainty arising from the threat of US tariffs on Canadian goods and retaliatory tariffs on US goods?

	Decrease	Remain unchanged	Increase	I don’t know
Prices charged to Canadian customers				

Chart 6

Business Leaders’ Pulse

- What do you expect the rate of inflation to be over the next 12 months?
- What do you expect the rate of annual inflation to be in about 2 years from now?
- What do you expect the rate of annual inflation to be in about 5 years from now?

a. There will be a deflation (decrease in consumer prices)
b. The rate of inflation will be between 0% and 1%
c. The rate of inflation will be between 1% and 2%
d. The rate of inflation will be between 2% and 3%
e. The rate of inflation will be between 3% and 4%
f. The rate of inflation will be between 4% and 5%
g. The rate of inflation will be between 5% and 8%
h. The rate of inflation will be 8% or higher

Business Outlook Survey

Over the next two years, what do you expect the annual rate of inflation to be based on the Canadian consumer price index?

Canadian Survey of Consumer Expectations

- What do you expect the rate of [inflation/deflation] to be over the next 12 months? Please give your best guess.
- What do you expect the rate of [inflation/deflation] to be over the 12-month period between February 2026 and February 2027? Please give your best guess.
- What do you expect the rate of [inflation/deflation] to be over the 12-month period between February 2029 and February 2030? Please give your best guess.