



Research to Insights: Canada's Economy During Recent Canada-U.S. Trade Developments

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About Research to Insights

The *Research to Insights* series of presentations features a broad range of findings on selected research topics. Each presentation draws from and integrates evidence from various studies that use innovative and high-quality data and methods to better understand relevant and complex policy issues.

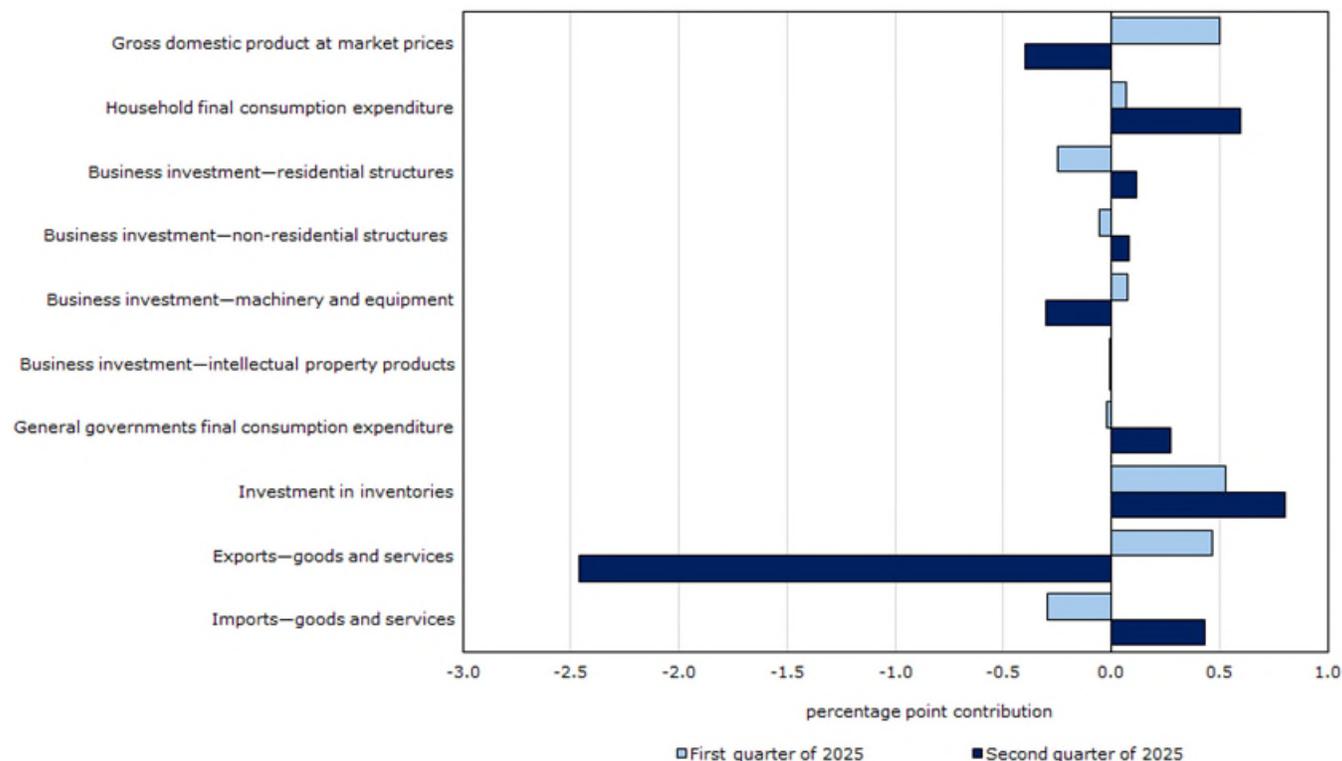
Based on applied research of valuable data, the series is intended to provide decision makers, and Canadians more broadly, a comprehensive and horizontal view of the current economic, social and health issues we face in a changing world.

Context

- This presentation provides an integrated summary of recent economic developments, highlighting key movements in the economic data during the current trade conflict. It focuses on how economic conditions have changed as trade tensions between Canada and the United States continue to unfold.
- The slowdown in Canada–U.S. trade has acutely affected Canadian manufacturers that rely heavily on U.S. demand. Manufacturing output contracted in the spring as export volumes and investment in machinery and equipment scaled back. Some businesses have begun to pass on increased costs from tariffs to their customers, while many have undertaken mitigation strategies to lessen the impact of tariff disruptions. The overall impact of the trade conflict on consumer prices remains difficult to gauge.
- Canada’s labour market has cooled as businesses adjust to heightened uncertainty. While layoff rates have remained comparable to rates observed before the trade conflict, hiring intentions have weakened as many unemployed workers struggle to find work. Young workers and students have experienced a particularly difficult labour market.
- Political tensions between Canada and the United States continue to affect the travel plans of Canadians as discretionary automobile trips to the United States remain down by more than one-third.

Trade and business investment contract, while households continue to spend

Chart 1
Contributions to percentage change in real gross domestic product, selected components, first and second quarters of 2025



Notes: Data on gross domestic product are quarterly percentage changes. All other data are percentage-point contributions to the quarterly change in real gross domestic product.
Source: Statistics Canada, table 36-10-0104-01.

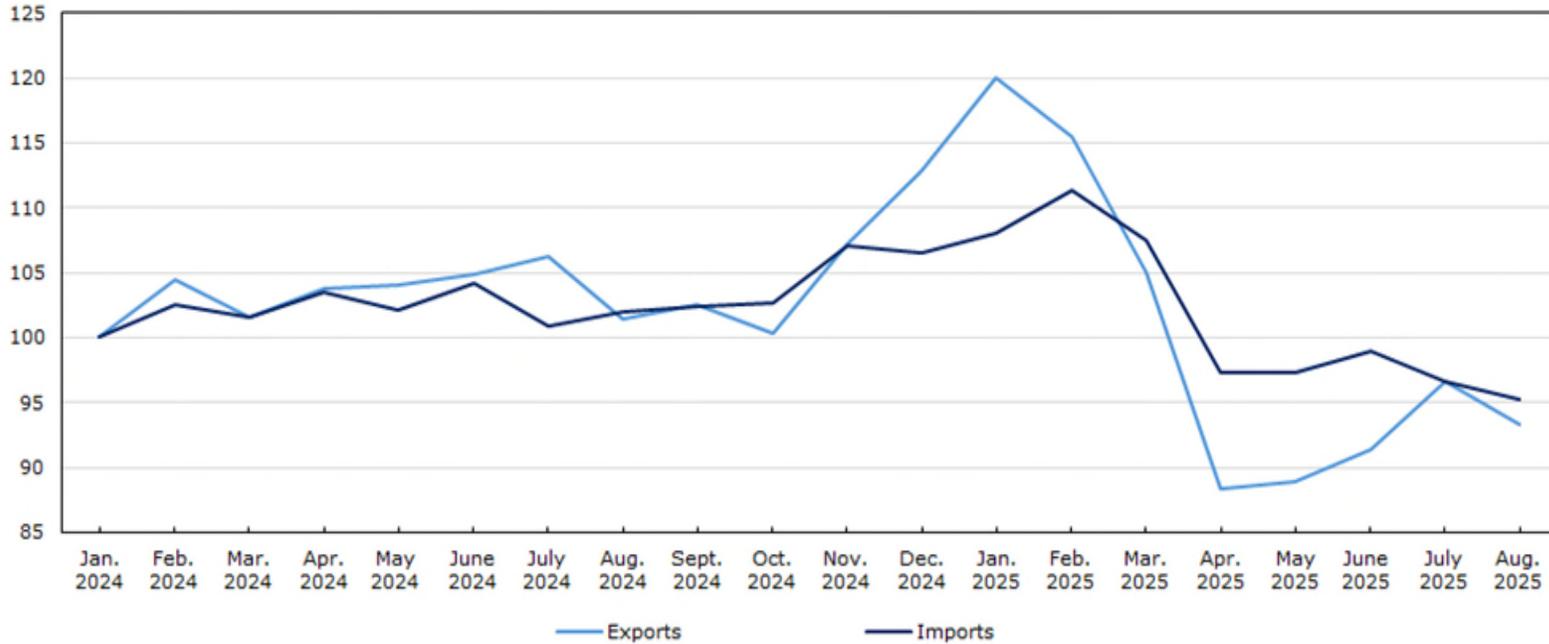
- Export volumes expanded as tariff threats intensified in early 2025, supporting economic growth in the first quarter.
- Export volumes plunged 7.5% in the second quarter, the largest decline since 2009, excluding the COVID-19 pandemic period.
 - Real gross domestic product contracted 0.4% after six quarters of growth.
 - Business labour productivity fell 1.0%.
- Import volumes fell in the second quarter as businesses scaled back investment in machinery and equipment (-9.4%).
 - Almost half of capital spending on machinery and equipment depends on imports from the United States.
 - In the third quarter, about one in six exporters planned to delay investment or expansion.
- Increases in household spending—led by higher outlays on new vehicles—partly mitigated the declines in trade and business investment.

Slower wage growth: Aggregate wage growth slowed (+0.2%) in the second quarter—the slowest pace since 2016, excluding the pandemic period. The Bank of Canada’s second-quarter Business Outlook Survey found that many businesses anticipated slower wage growth because of weak demand and slower inflation, while cost pressures linked to the trade conflict persisted.

Larger merchandise trade deficits as Canada and U.S. shipments scaled back

Chart 2
Merchandise trade with the United States

index (January 2024=100)



Source: Statistics Canada, table 12-10-0011-01.

- Canada’s exports to the United States fell almost 16% in April 2025 and were 26% lower than levels at the start of the year when U.S.-bound shipments surged in anticipation of tariffs.
 - April’s decline was broad-based, reflecting lower shipments of motor vehicles and parts, consumer goods, energy products, and industrial machinery and equipment.
- Exports to the United States partly rebounded in the following months. However, shipments to the U.S. fell in August they remained 10% below levels reported in late 2024 before exports ramped up because of impending tariffs.
 - Exports of unwrought aluminum and aluminum alloys in August were down 26% from levels reported last November, while shipments of basic and semi-finished iron or steel products fell 40%.

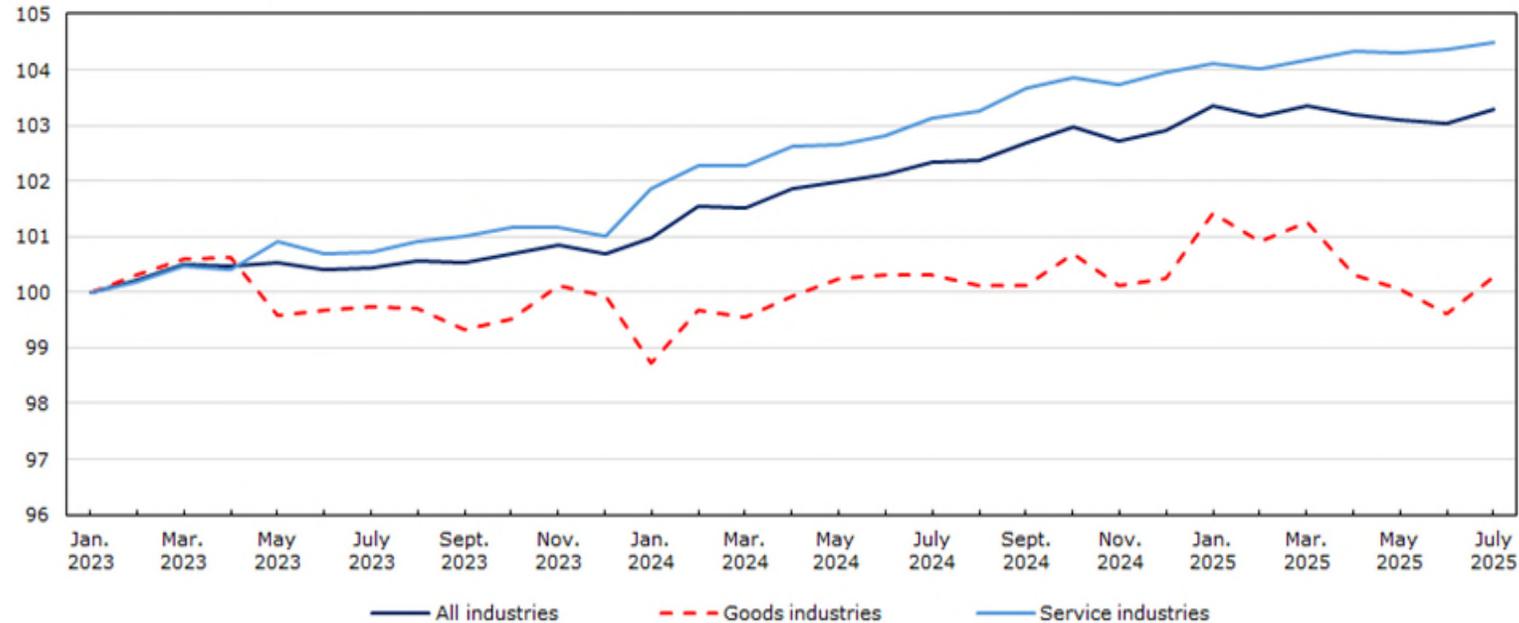
Earnings from trade: Canada’s merchandise trade surplus with the United States narrowed from \$31.7 billion in the first quarter to \$10.9 billion in the second. Meanwhile, Canada’s merchandise trade deficit with the world rose from \$0.3 billion to \$18.7 billion.

Export dependence on the United States: In 2024, 76% of Canada’s merchandise exports were destined for the United States. The share of exports going to the United States fell below 70% in April and May 2025 as the trade conflict escalated, before rebounding to 73% by July. After reaching a record high in May, non-U.S. exports declined in recent months. As of August, they were 0.5% below levels at the end of 2024.

Economy-wide output edges lower as tariffs weigh on manufacturers and wholesalers

Chart 3
Real gross domestic product, goods and service industries

index (January 2023=100)



Source: Statistics Canada, table 36-10-0434-01.

- Economy-wide output edged steadily lower from April to June, the first three-month span of consecutive declines since late 2022.
- After advancing in the first quarter, manufacturing output and wholesaling activity contracted in the second quarter as tariffs weighed on cross-border trade. Over half of manufacturers and one-third of wholesalers expect rising input costs for labour, raw materials or energy to be an obstacle in the coming months.
 - Impacts were widespread: in April, 54% of manufacturers reported being impacted by tariffs, along with 44% of wholesalers. The share of businesses affected by tariffs edged lower in May and June.
- Lower oil and gas extraction also impacted economic activity in the second quarter as production was affected by wildfires and maintenance activity. Declines in electric power generation, transmission and distribution were also a factor.

Retail spending strengthens: While about one-third of retailers reported being impacted by tariffs in the second quarter, retail volumes rose on broad-based gains across store types. Retail volumes have steadily expanded for five consecutive quarters.



Statistics
Canada

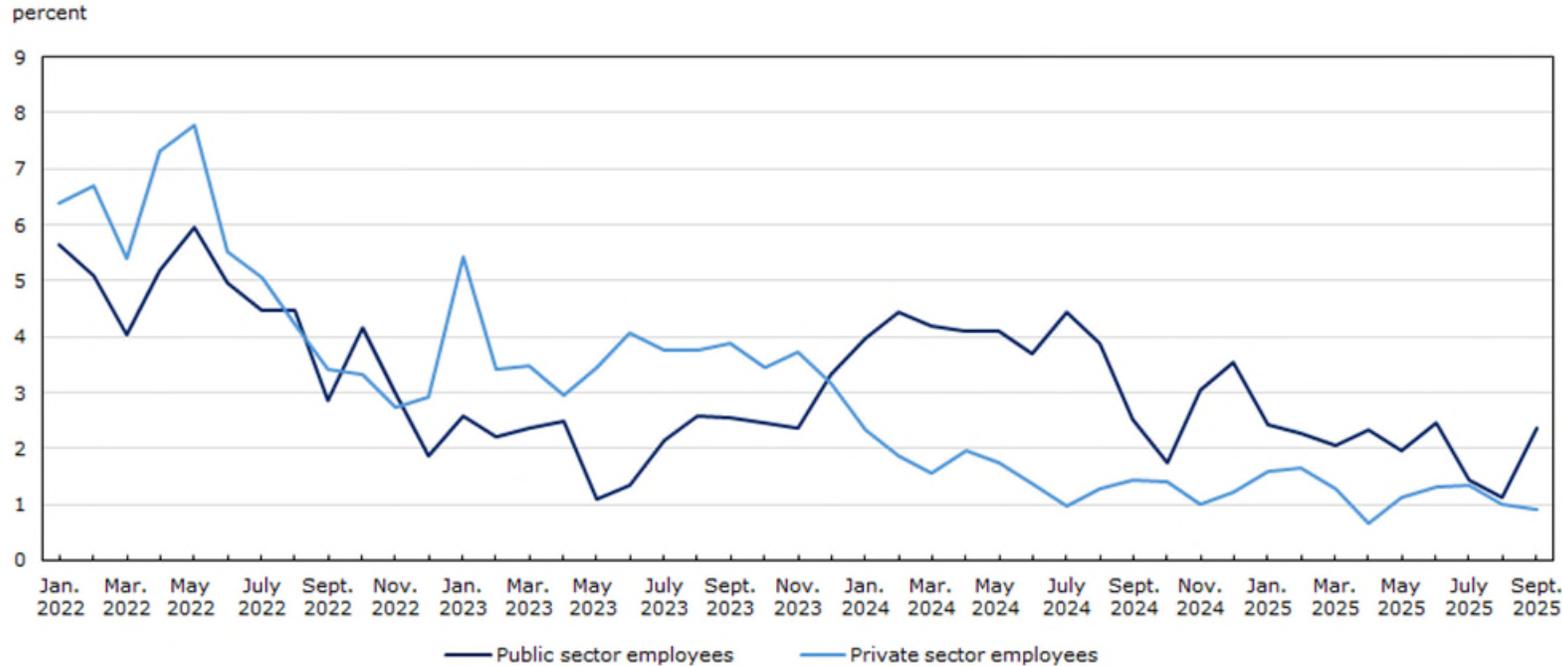
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Employment growth stalls as uncertainty weighs on hiring intentions

Chart 4
Employment, private and public sector employees, year-over-year change



Source: Statistics Canada, table 14-10-0288-01.

- Employment edged up 22,000 (+0.1%) during the first nine months of 2025, following a net increase of 217,000 (+1.0%) during the last nine months of 2024.
- Since the end of 2024, employment has declined in business, building and other support services (-59,000) and information, culture and recreation (-22,000), while employment has increased in finance, insurance, real estate, rental and leasing (+57,000).
- There has been no net employment growth from February to August 2025. Similarly, the number of payroll jobs in June 2025 was below levels reported at the start of the year.
- Statistics Canada’s Canadian Survey on Business Conditions for the third quarter found that just over half of Canadian businesses anticipate being able to maintain their current level of staffing over the next year or longer if the current tariff environment continues.

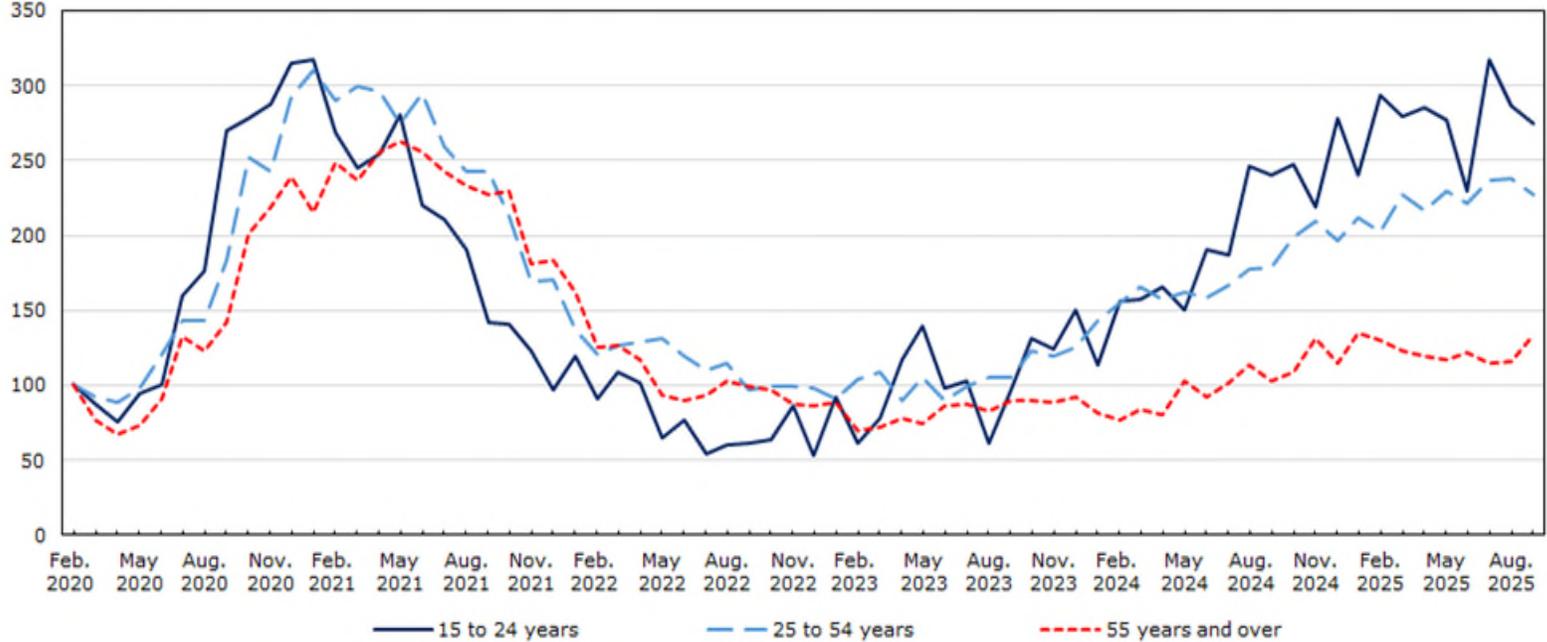
- The pace of employment growth in the private sector, measured year over year, slowed before the trade conflict and has been below 2% for the past 17 months. Employment growth among public sector employees has eased considerably in 2025.



Unemployment trends higher as unemployed workers struggle to find jobs

Chart 5
Index of unemployed persons who have been searching for work or on temporary layoff for 27 weeks or more

index (February 2020=100)



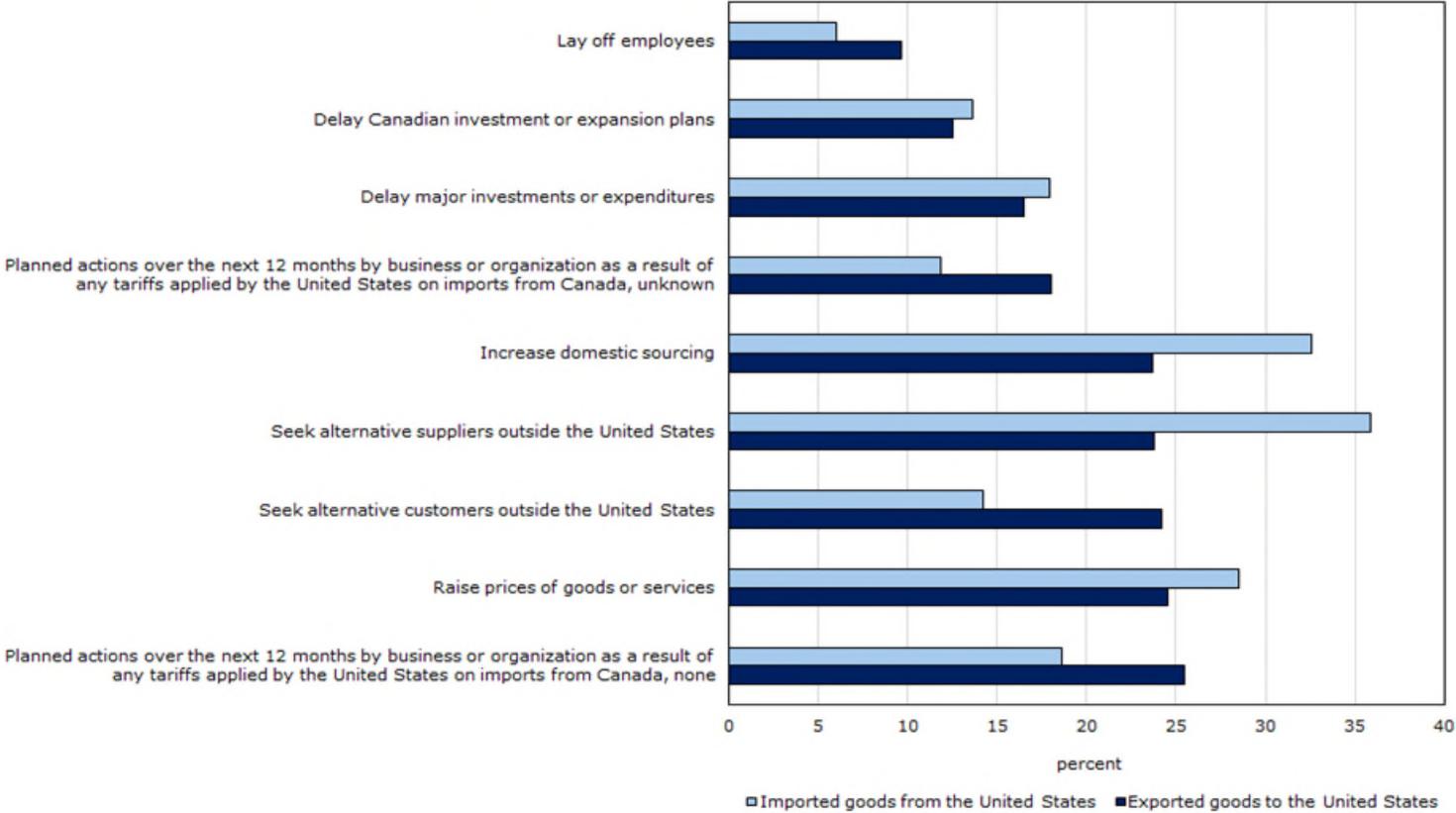
Source: Statistics Canada, table 14-10-0342-01.

- The unemployment rate rose to 7.1% August, 0.5 percentage points higher than in January 2025. The unemployment rate held steady in September. This was the highest rate since May 2016, excluding the pandemic period.
- Returning students faced another difficult labour market this summer, with the unemployment rate averaging 17.9% from May to August. Excluding the pandemic period, this was the highest unemployment rate for returning students since the summer of 2009 (18.0%).
- While aggregate layoff rates have remained similar to those observed before the trade conflict, hiring intentions have softened. Of those unemployed in July, 15.2% found employment in August, which is lower than the proportion (23.3%) reported for the same months from 2017 to 2019.

Longer-duration unemployment on the rise: The share of young workers who are experiencing long-term unemployment (those unemployed for 27 weeks or more) rose from 14.5% at the start of 2025 to 16.3% in August. The share among core-aged workers rose by one percentage point over the same period.

Businesses pursue mitigation strategies to deal with the disruptive effects of tariffs

Chart 6
Planned actions over the next 12 months by businesses or organizations as a result of any tariffs applied by the United States on imports from Canada, third quarter of 2025



Source: Statistics Canada, Canadian Survey on Business Conditions. For additional information, see Sood (2025).

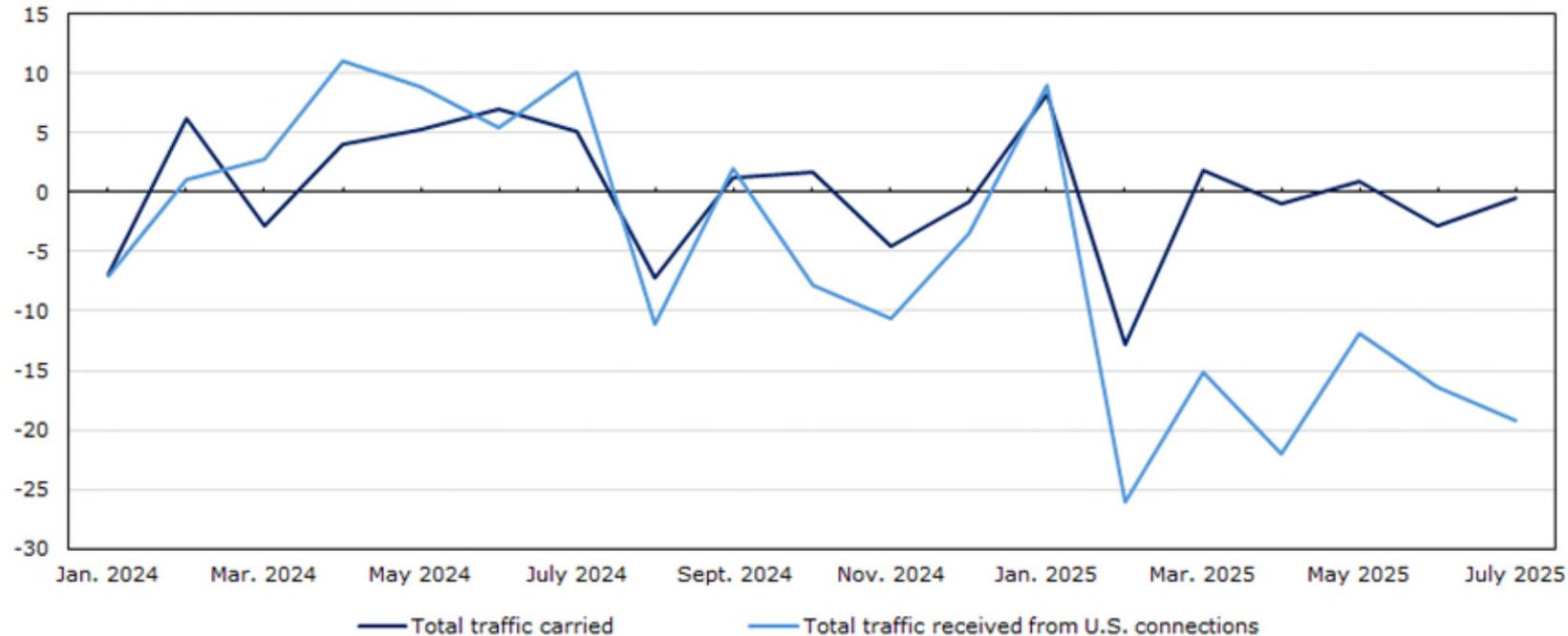
- One-third of businesses that sold goods or services to the United States reported that their specific products had tariffs applied, with slightly over half indicating that tariffs had a negative impact on their business.
- Nine in 10 manufacturers that export to the United States plan to take actions over the next 12 months, with 1 in 3 seeking alternative customers outside the United States.
- About four in five businesses that import from the United States plan to take actions over the next 12 months.
- Half of manufacturers that import from the United States plan to seek alternative suppliers outside the United States, while nearly half plan to increase domestic sourcing.

The ongoing tariff environment between the United States and Canada presents a significant challenge for many Canadian businesses. In 2024, about 46,000 establishments exported goods to the United States, while about 115,600 imported products from the United States.

Railway carloadings from U.S. connections pull back following the implementation of tariffs

Chart 7
Railway carloadings, tonnes

year-over-year percentage change



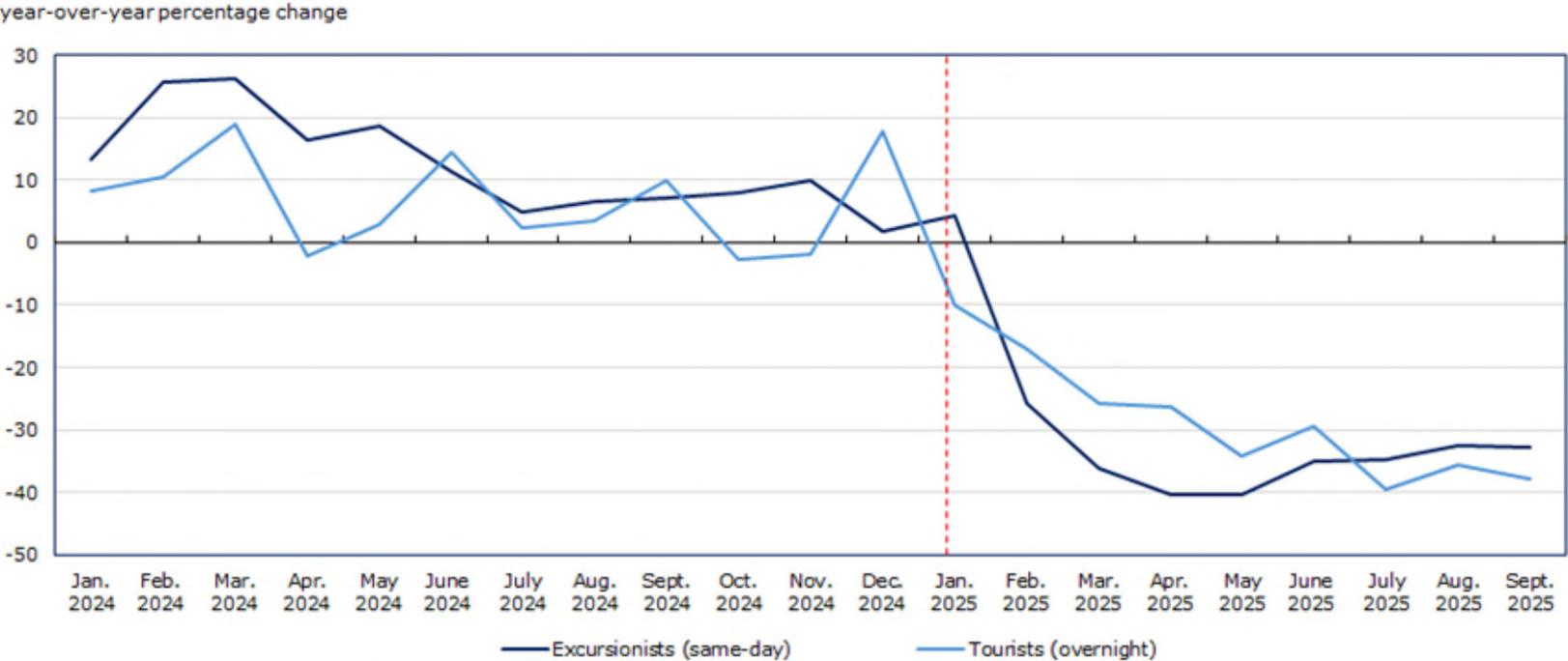
Source: Statistics Canada, table 23-10-0216-01.

In 2023 and 2024, rail freight traffic from U.S. connections represented an average of 12.0% of total rail tonnage each month. During the first half of 2025, freight volumes from U.S. connections accounted for 10.6% of total rail tonnage.

- In July 2025, freight from U.S. connections, measured year over year, was down 19.2% (-793 600 tonnes) to 3.3 million tonnes, the sixth straight month of double-digit declines.
- Merchandise trade exports by rail to the United States were down 27% year over year in July 2025, reflecting declines in motor vehicle and parts shipments (-29%) and in shipments of metal and non-metallic mineral products (-40%).
- Merchandise trade imports by rail from the United States were down 16.7% year over year in July 2025. The decrease in imports again reflected lower shipments of motor vehicles and parts (-16.2%) and basic and industrial chemical, plastic and rubber products (-17.2%).

Canadian automobile travel to the United States pulls back by over one-third as domestic travel rises

Chart 8
Returning Canadian residents by automobile



Note: The red line indicates the beginning of the new U.S. administration.
Source: Statistics Canada, table 24-10-0057-01.

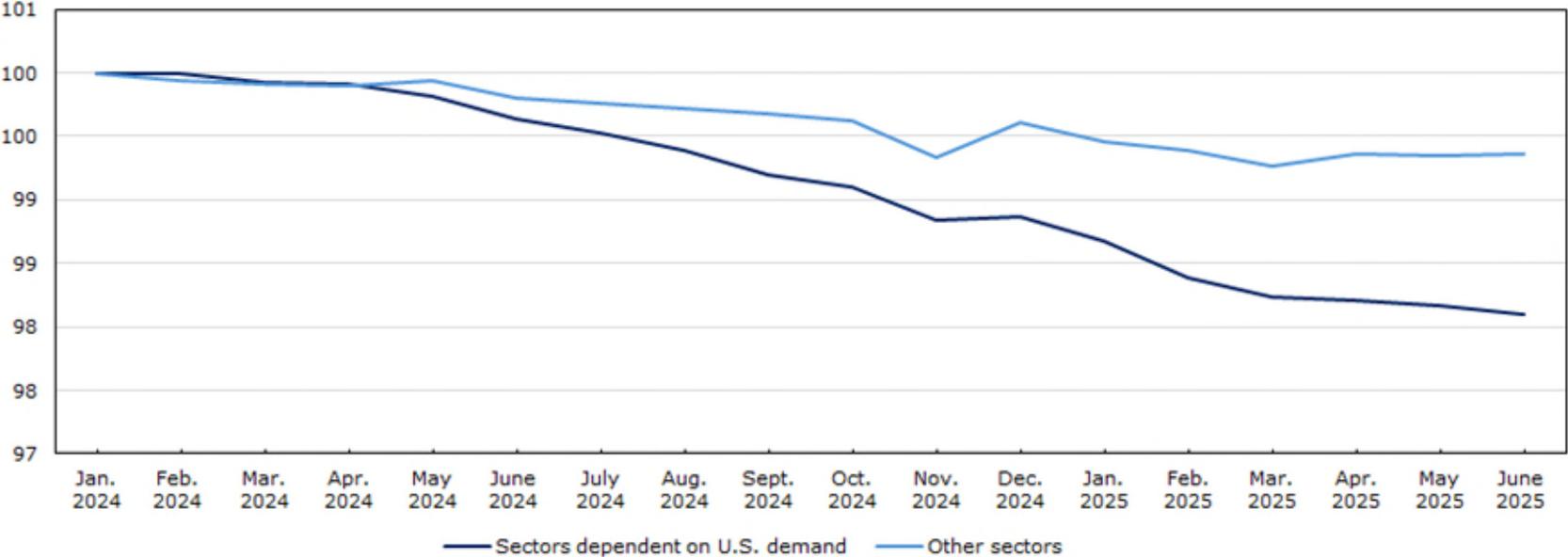
- July 2025 marked the seventh straight month that travel abroad by Canadian residents declined on a year-over-year basis. By July, the number of Canadian-resident return trips from the United States by air or automobile was down 32.4%, while the number of trips to Canada by U.S. residents had fallen by 3.0%.
 - For the second time since June 2006 (excluding the pandemic), more U.S. residents made trips to Canada than Canadian residents travelled to the United States.
- Preliminary data shows that by September, Canadian resident travel to the United States by automobile, measured year over year, had fallen for nine consecutive months. Overall, the total number of Canadian-resident return trips by automobile through the first nine months of 2025 was down 31.1% from levels reported in the first nine months of 2024.

Domestic tourism ramps up: Domestic travel within Canada rose 2.2% year over year to 67.6 million trips in the first quarter of 2025. Spending on domestic tourism reached \$13.8 billion, up 4.4% from the first quarter of 2024. In the same quarter, U.S. residents took 3.4 million trips to Canada (+1.2% year over year) while spending totalled \$2.5 billion (+27.3%).

Business activity continues to trend lower in sectors heavily dependent on U.S. demand

Chart 9
Number of active firms in Canada

index (January 2024=100)



Source: Statistics Canada, table 33-10-0270-01.

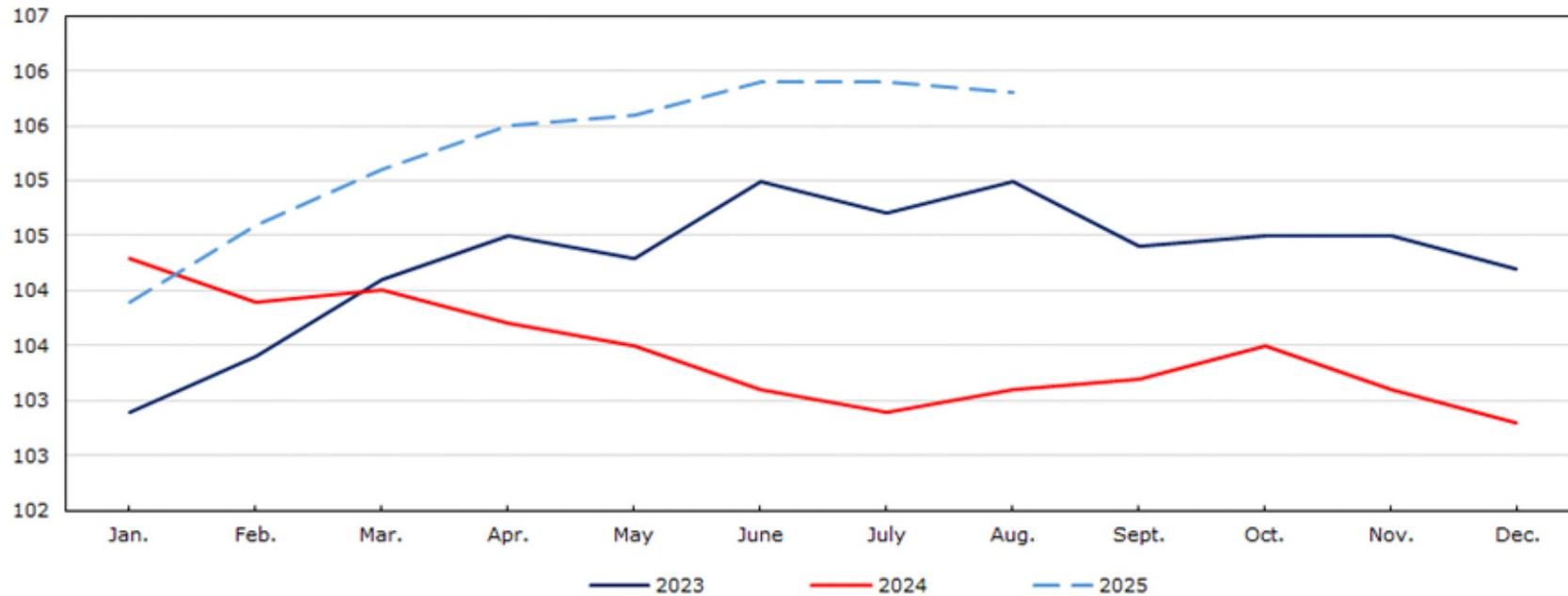
- While overall business activity in sectors less exposed to trade has remained relatively stable, businesses operating in sectors that are more dependent on U.S. demand, including manufacturing and mining, quarrying, and oil and gas extraction, have experienced declines.
- From January 2024 to June 2025, the number of active businesses in sectors highly dependent on U.S. demand fell 1.9%, compared with a decline of 0.6% in other sectors.
- Steady declines in sectors closely tied to U.S. demand were underway before the current trade conflict, suggesting that other factors, such as shifting global demand or domestic industry dynamics, could also be at play. Continued declines into 2025 may reflect added pressures from the evolving trade environment.

Sectors dependent on U.S. demand were defined as those where 35% or more of the value added comes from the U.S. demand for Canadian exports.

Overall impact of tariffs on consumer prices difficult to gauge as consumers and businesses navigate trade tensions

Chart 10
Prices of durable goods, January 2023 to present

index (2002=100)



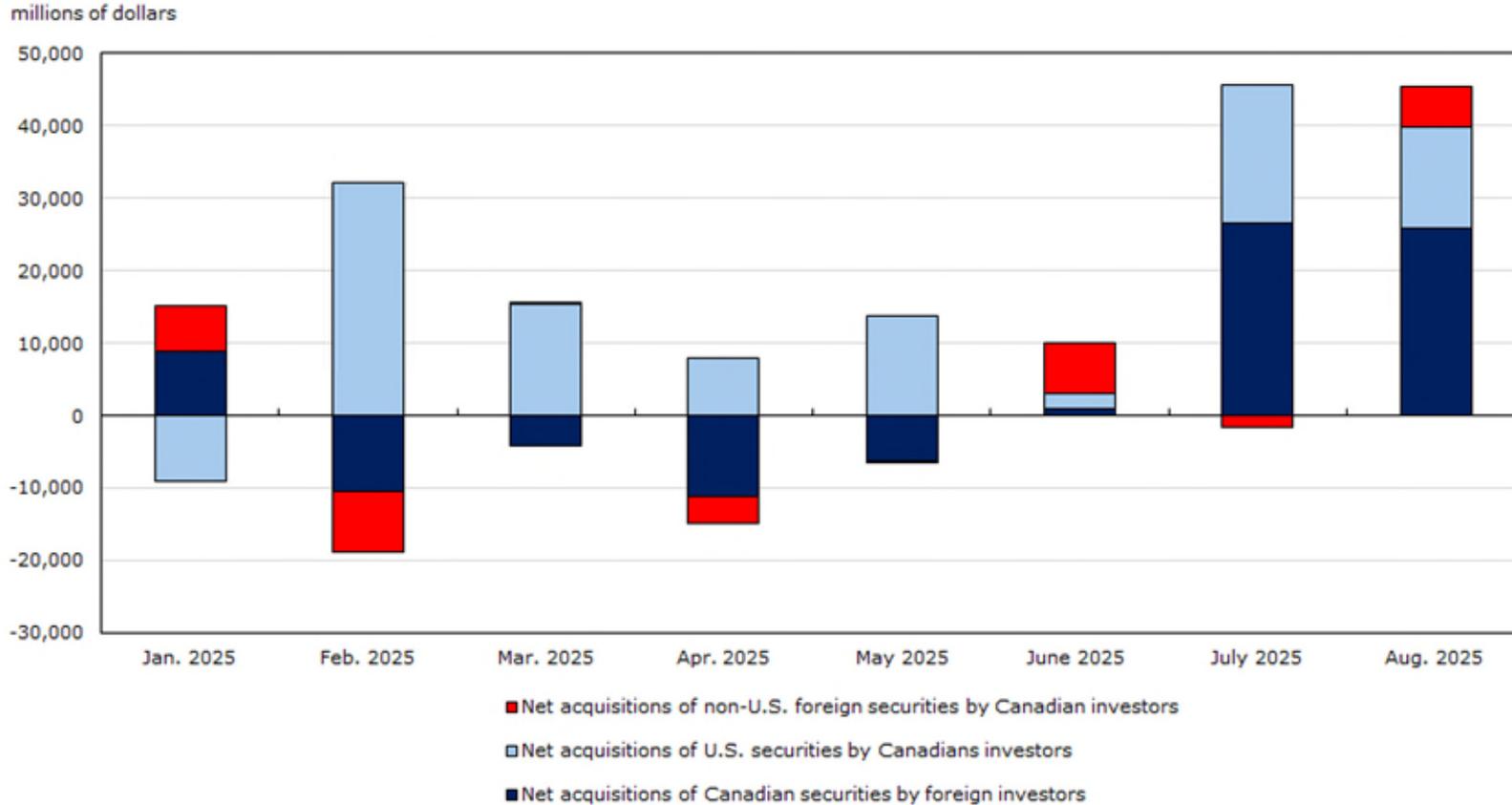
Source: Statistics Canada, table 18-10-0004-01.

- Headline inflation remained below 2% from April to August 2025 largely because of the elimination of the consumer carbon levy. Excluding energy prices, consumer price growth averaged 2.7% during this period.
- Prices for various consumer goods have been directly or indirectly affected by tariffs, including new cars, clothing and footwear, certain household appliances, a range of grocery items, and travel services.
- In the third quarter of 2025, one-quarter of businesses reported passing cost increases attributable to tariffs onto their customers over the past six months, while nearly two-fifths (39.4%) of businesses reported being very likely or somewhat likely to pass on costs to their customers over the next 12 months.

The Bank of Canada has noted that the extent to which U.S. tariffs and Canadian counter-tariffs pass through into consumer prices depends on demand and inflation expectations. The Bank's analysis of Canada's 2018 tariff conflict with the United States found that the "pass through from price increases to consumer goods was high but incomplete."

Canadian investors increase their exposure to U.S. securities as foreign investment in Canadian securities pulls back

Chart 11
Net acquisitions of Canadian and foreign securities, by region



Source: Statistics Canada, table 36-10-0028-01.

- Foreign investors steadily reduced their exposure to Canadian securities from February to May 2025, leading to a divestment of \$22.4 billion during the first half of 2025.
- Meanwhile, Canadian investors steadily increased their exposure to foreign securities from February to June, leading to an outward investment of \$63.3 billion during the first half of the year. This was driven by acquisitions of U.S. equities and fund shares and U.S. bonds.
- Taken together, these investment transactions generated a net outflow of funds of \$85.7 billion from the Canadian economy during the first half of 2025.
- In 2024, international investments in securities generated a net inflow of funds into the Canadian economy, totalling \$79.9 billion.
- Foreign investors acquired \$52.6 billion of Canadian securities during July and August, while Canadian investors added \$36.9 billion in foreign securities.



Takeaways

- Exports scaled back sharply following the implementation of U.S. tariffs on Canadian steel, aluminum, automobiles and goods not compliant with the Canada-United States-Mexico Agreement. Exports contracted 7.5% in the second quarter, the largest decline since 2009, excluding the pandemic period. Real gross domestic product contracted 0.4% after six quarters of growth.
- After advancing in the first quarter, manufacturing output and wholesaling activity contracted in the second quarter as tariffs weighed on cross-border trade. In April, 54% of manufacturers reported being impacted by tariffs, along with 44% of wholesalers. The share of businesses affected by tariffs edged steadily lower in May and June. Many businesses that engage in cross-border trade are pursuing mitigation strategies to deal with the disruptions from tariffs.
- There has been no net employment growth from February to August 2025. The pace of employment growth in the private sector, measured year over year, eased before the trade conflict and has been below 2% for the past 17 months. Employment growth among public sector employees has slowed considerably in 2025.
- In 2023 and 2024, rail freight traffic received from U.S. connections represented an average of 12.0% of total rail tonnage each month. During the first half of 2025, freight volumes from U.S. connections accounted for 10.6% of total rail tonnage.
- As buy Canadian sentiment rose in response to the tariffs, domestic travel within Canada rose 2.2% year over year to 67.6 million trips in the first quarter of 2025. Spending on domestic tourism reached \$13.8 billion, up 4.4% from the first quarter of 2024.
- Foreign investors steadily reduced their exposure to Canadian securities from February to May 2025, leading to a divestment of \$22.6 billion during the first half of 2025. This divestment in part reflected reduced holdings of Canadian shares by U.S. investors. Meanwhile, Canadian investors steadily increased their exposure to foreign securities from February to June, leading to an outward investment of \$63.3 billion during the first half of the year. This was driven by acquisitions of U.S. money market instruments, bonds and shares.



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