In Focus: Impacts of U.S. tariffs on Canadian SMEs' prices

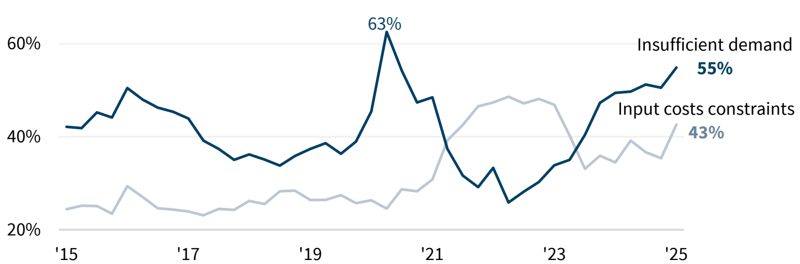
SMEs face demand and cost pressures due to tariffs

Demand for Canadian SMEs' products and services has steadily weakened since mid-2022.[1] By early 2025, over half of SMEs (55%) cited weak demand as their top growth obstacle (Figure 4). The situation worsened with the tariff dispute. Our special surveys on tariffs revealed that between February and March 2025, businesses reporting a drop in demand rose from 26% to 35%, with exporting firms hit hardest (44% to 57%), followed by importing firms (26% to 42%).[2]

At the same time, input costs are climbing rapidly. In Q1 2025, 43% of SMEs flagged rising costs as a major growth barrier (Figure 4). The tariff dispute exacerbated this, with businesses reporting higher input costs surging from 35% to 43% in one quarter.

With demand dropping and costs rising, more than half of SMEs now struggle to set fair yet profitable prices in an increasingly uncertain market.[2]

Figure 4 – More Canadian businesses are grappling with weak demand and rising costs, Q1 2015–Q1 2025, Canada[1]



Sources

(1) CFIB, Your Business Outlook Survey, Q1 2015- Q1 2025.
(2) CFIB, Special survey on the U.S.-Canada tariffs, February 6-13, 2025, n=2,510, and Special survey on the Impact of the U.S.-Canada- trade war, March 13-31, 2025, n=3,937.

Importing firms to pass on costs to consumers

Canadian SMEs face a difficult choice: raise prices and risk losing customers or absorb the additional costs and survive on thinning margins.

Importing SMEs have more flexibility than exporters when adjusting prices. While 25% of exporters say they cannot pass higher costs onto consumers, only 15% of importers face the same constraint. At the other end of the spectrum, 23% of importers can fully transfer cost increases, compared to just 9% of exporters.

For exporters, this challenge is a direct hit to competitiveness. If they absorb the costs, profitability suffers; if they raise prices, they risk being undercut by foreign competitors. Importers, on the other hand, may find it easier to adjust prices, but this also means Canadian consumers bear the weight of rising costs, fuelling inflation.

Figure 5 – Exporting firms are more likely to avoid passing on tariff-related costs

HOW MUCH OF THE ADDITIONAL TARIFF-RELATED COSTS WILL YOUR BUSINESS BE ABLE TO PASS ON TO CUSTOMERS/CLIENTS? (SELECT ONE) (% responses)[2]

Notes: Exporting firms are exporting products only to the U.S. Importing firms are importing products only from the U.S.

SMEs are adjusting prices, with more to follow

With tariffs in place, most SMEs had no choice but to raise prices. Among various response strategies listed when we surveyed our members, price increases ranked fourth, with 21% of SMEs already implementing them. However, a striking 55% plan to raise their prices, making it one of the top business responses to tariffs in the coming weeks and months.

Many firms must first assess their cost absorption capacity and ability to pass on increases to consumers. So far, 30% of importers and 20% of exporters have raised prices, while 54% of importers and 51% of exporters plan to follow suit.

These adjustments will add further inflationary pressure, particularly in Canada, as exporters must tread carefully to remain competitive in global markets.

Figure 6 – More importers (30%) have already adjusted their prices compared to exporters (20%), and further increases are expected from both

HAS YOUR BUSINESS TAKEN THE FOLLOWING ACTIONS BECAUSE OF THE U.S.- CANADA TRADE WAR? RAISING PRODUCT/SERVICE PRICES (% responses)[2]

Notes: Not taken/not considering it and don't know/not applicable are not displayed. Responses do not add up to 100.