



Navigating instability:

How tariffs and
economic uncertainty
shaped SMEs in the first
10 months of 2025

2025 – A year of disruption for SMEs

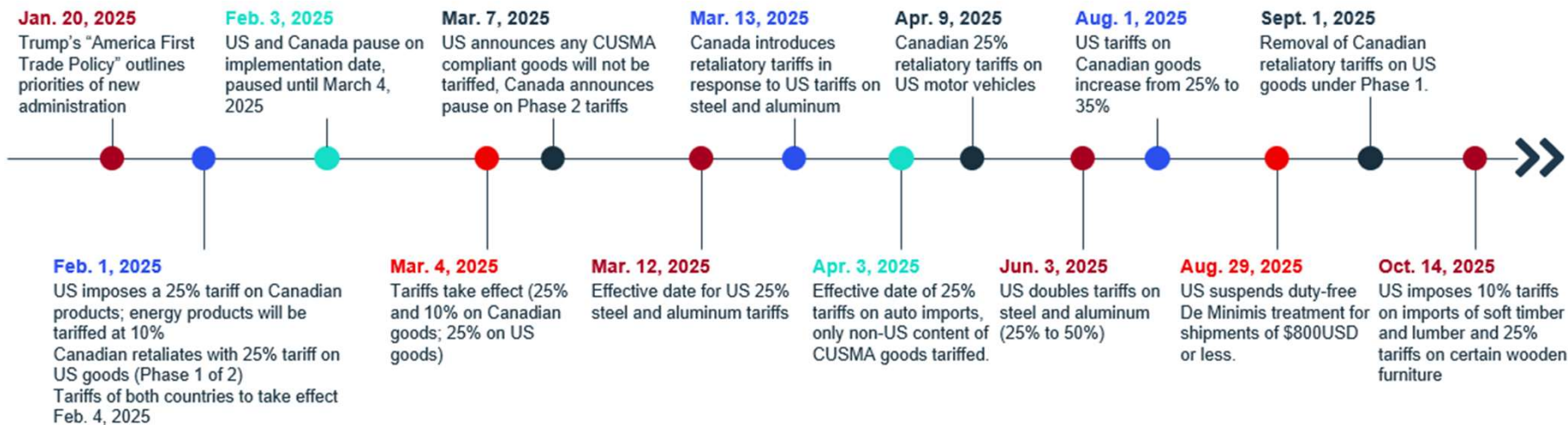


Over the past ten months, Canadian small and medium-sized enterprises (SMEs) have faced a rapidly shifting business landscape. It was shaped by a series of disruptive tariff announcements that all began in January 2025, when signals from the newly elected U.S. administration sparked uncertainty, followed quickly by retaliatory measures from Canada.

These developments sent ripples through the entrepreneurial community, prompting concern, strategic pivots, and a wave of adaptation. But what has this meant, in practice, for SMEs? How have they navigated the mounting pressures and unpredictability?

This report aims to shed light on the evolving journey of Canadian businesses over the past ten months, highlighting their challenges, responses, and resilience in the face of economic turbulence.

Key U.S. and Canadian tariff-related events in 2025



January 2025 – New year, new concerns



In January 2025, the newly elected U.S. administration introduced a set of economic priorities that signaled the possible implementation of tariffs on key trading partners, including Canada. In response, BDC launched its first survey assessing the potential impact on small and medium-sized enterprises (SMEs).

The results revealed high concern among Canadian entrepreneurs, particularly those in manufacturing and construction, who were more likely to anticipate negative consequences from escalating trade tensions.

At the time, SMEs identified rising input costs as the primary challenge, with many fearing that increased production expenses would erode their competitiveness.

To counter these pressures, three-quarters of surveyed businesses indicated plans to act. Most intended to pass cost increases on to customers through higher prices, while others looked inward for cost-saving opportunities.

Tariffs imposed by the U.S. would affect our marketplaces, with the potential for reducing the economy, employment and demand [...]. Tariffs [imposed by Canada] would also affect the costs of raw materials we purchase from the U.S.
- January survey respondent

Of the SMEs surveyed in January 2025:

61% reported that their business would be somewhat or very negatively impacted by U.S. tariffs. SMEs in construction and manufacturing were more likely to report this.

43% said that the primary impact would be a rise in the costs of goods sold, due to increases in the cost of inputs.

75% told us they were planning to take action to mitigate the impacts of tariffs.

33% said they would pass on some of the increased costs due to tariffs to customers in the form of higher prices.

27% told us they would implement cost-cutting measures across their business to mitigate the impact of tariffs.

March 2025 – From concern to urgency



By early March 2025, U.S. tariffs came into effect, prompting Canada to respond with retaliatory tariffs on \$31 billion worth of American goods. BDC’s second wave of research revealed a sharp escalation in SME concerns, and the tangible impact of trade tensions on their operations. The situation had reached a critical point, pushing many Canadian businesses to take swift action.

Nearly three-quarters of surveyed SMEs reported negative effects from U.S. tariffs, while three out of five said they were similarly impacted by Canada’s countermeasures. Manufacturing businesses were especially likely to feel the strain from both sides.

The number of reported impacts surged, clustering around three key themes: worsening economic conditions, rising costs, and declining performance. Alarming, one-third of businesses said they had either already laid off staff or were considering doing so.

In response, SMEs told us they had begun implementing strategies to soften the blow. Many turned to cost-cutting measures, sought alternative sources of raw materials not subject to tariffs, or explored new products and services that could help them sidestep the effects of trade restrictions.

Of the SMEs surveyed in Feb.- Mar. 2025:

↑71% stated that their business would be negatively impacted by U.S. tariffs. SMEs in manufacturing were more likely to report this.

59% said that their business would be negatively impacted by Canadian retaliatory tariffs. SMEs in the manufacturing industry were more likely to say this.

5 impacts from tariffs were reported, on average.* Goods producers, and those in wholesale and storage cited the highest average number.

32% stated that they had already laid off staff or were considering it.

↑86% told us they had taken or were planning to take action to mitigate the impacts of tariffs.

Source: BDC - SME perceptions of the impact of potential U.S. tariffs. March 2025. Business owners and decision-makers from BDC’s proprietary ViewPoints panel were surveyed from February 26 to March 9, 2025. A total of 603 responses were collected. Arrows indicate significant differences between research results in March and those in January. *The top 5 impacts reported by SMEs include: general economic slowdown, reduced sales, reduced consumer and business spending, increased cost of goods sold, decreased volumes, margins or profits.

September 2025 – Resilience and shifting challenges



Now, by late September, it appears that the pace of tariff announcements has slowed, and SME concerns about tariffs has begun to ease. However, a new challenge is emerging - economic uncertainty.

While fewer businesses report being severely affected by U.S. and Canadian tariffs, the proportion of SMEs citing negative impacts from economic uncertainty has risen sharply since March. Unlike tariffs, which hit the manufacturing sector the hardest, economic uncertainty appears to have broader reach, affecting SMEs across goods, services, retail, and leisure sectors.

Previous BDC qualitative research found that uncertainty tends to dampen SMEs’ willingness to invest in growth initiatives, often pushing them into a “survival” mindset. Yet, the current study offers a more hopeful perspective. It reveals a resilient and proactive attitude among entrepreneurs, whereby those affected by economic uncertainty are nearly twice as likely to take at least one action to mitigate its effects.

“It’s still a new reality that we’ve never faced before. [...] Cash flow is difficult; credit margins are increasing. So, you say to yourself, “Okay, where do I stop this?” Instead of putting more pressure on myself [...]”
- Qualitative research participant

Of the SMEs surveyed in September 2025:

↑84% say that economic uncertainty is impacting their business. This proportion has increased significantly in the past six months.

67% believe that their business will be negatively impacted by U.S. tariffs. This proportion has decreased slightly since March.

↓47% state that their business will be negatively impacted by Canadian retaliatory tariffs, a proportion which decreased significantly in the past 6 months.

2x SMEs that reported being affected by economic uncertainty are nearly twice as likely to take at least one action to mitigate its effects.

What we learned about SMEs from these surveys



After ten months of studying the perceptions and reactions of Canadian business leaders to tariffs and uncertainty, the good news is that BDC's data shows that when times get tough, Canadian SMEs get busy adapting!

Canadian SMEs rapidly shifted in posture to tackle tariffs head on. Survey data shows that SMEs that were affected by U.S. tariffs were:

- 7 times more likely to **expand** into markets less affected by tariffs
- 6 times more likely to implement **cost-cutting measures**
- 5 times more likely to **offer new** services or products not affected by tariffs

In addition, SMEs that were impacted by Canadian tariffs were:

- 4 times more likely to explore **alternative inputs** not subject to tariffs
- 3 times more likely to **diversify** their supply chains to include non-tariffed countries
- 3 times more likely to invest in **automation**

While it is often said that Canada suffers from a productivity gap, our data demonstrates that there is no gap in Canadian SMEs' courage and resilience when economic conditions become tenuous.



Is your business in need of support to successfully tackle tariffs and trade uncertainty?

Visit our website to learn more about what resources are available from BDC and our partners to help you adapt.

[BDC Trade uncertainty and tariff support](#)

Thank you

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