ECONOMIC VIEWPOINT

Tariffs and Counter-Tariffs: A Double Whammy for Some Canadian Industries

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HIGHLIGHTS

- The manufacturing sector remains the hardest hit by the trade war.
- Some industries will face slowing demand and rising costs at the same time.
- The ability to quickly find alternative suppliers will be critical to mitigating the impact of Canadian counter-tariffs.

Introduction

Today, Canadian retaliatory tariffs come into effect on nearly C$28B of imports from the United States. As [we highlighted recently](), these tariffs will put pressure on our economy by reducing consumer purchasing power, fuelling inflation and squeezing some corporate profit margins. But which companies are most exposed to cost increases resulting from these retaliatory tariffs? And will some have to contend with the combined effects of US tariffs and Canadian counter-tariffs?

Our analysis confirms that several manufacturing sectors will face a double shock (table 1). The most vulnerable include manufacturers of motor vehicles, chemicals, machinery, and electrical, computer and electronic products, as well as textile products and other miscellaneous manufacturing. However, the availability of Canadian substitutes will mitigate the effect of counter-tariffs in several cases. Even so, the fallout will vary across sectors depending on the substitutes available and other supply chain constraints.

Table 1
Manufacturing Industries in Canada Could Be Hit on Two Fronts

	MANUFACTURING INDUSTRIES	EXPORTS TO THE US IN 2025 ($M)	CUMUL. TARIFFS	SECTION 338 TARIFFS	COUNTER TARIFFS
1	Motor vehicles and parts	67,791	🔴	🟢	🔴
2	Chemicals	36,862	🟡	🟡	🔴
3	Machinery	34,275	🔴	🟡	🔴
4	Primary metal manufacturing	31,089	🔴	🟡	🟡
5	Plastics and rubber products	18,119	🔴	🔴	🟡
6	Electrical equipment, appliances and components	12,757	🔴	🔴	🔴
7	Computer and electronic products	11,491	🔴	🔴	🔴
8	Fabricated metal products	9,710	🔴	🟢	🟡
9	Miscellaneous manufacturing	7,001	🔴	🔴	🟡
10	Furniture and related products	4,791	🔴	🔴	🟡
11	Textiles, clothing and related products	3,295	🔴	🔴	🔴
12	Non-metallic mineral products	3,178	🟡	🟡	🟡
13	Transportation equipment (excl. motor vehicles and aerospace)	1,380	🟡	🟡	🟡
14	Alcoholic beverages	1,305	🔴	🔴	🟡 **

* Colour index based on Canada's input-output tables (2024). ** Due to the glass and metal containers used.
Legend: 🔴 Negative impact 🟡 To be monitored 🟢 Limited or no impact
White House, Department of Finance Canada, Statistics Canada, USITC and Desjardins Economic Studies

Section 338 Tariffs: The Manufacturing Sector Remains the Most Affected

US tariffs primarily affect the revenues of exporting companies, while Canadian counter-tariffs mainly impact their production costs. Let's start with the US tariffs imposed under Section 338 that came into effect on August 22.[1] Their main impact is to reduce demand for manufacturing companies that produce goods targeted by this latest round of tariffs. Newly affected sectors include chemicals, plastic and rubber products, pulp and paper, alcoholic beverages, electrical equipment, computer and electronic products, textiles, as well as miscellaneous manufacturing (table 2 on page 2). Other sectors were already impacted but now face tariffs on a broader range of products. Plywood was added to wood products, the machinery list was expanded, and jewellery and sporting goods were added to miscellaneous manufacturing.

[1] Section 338 of the *Tariff Act of 1930*. A detailed list of affected products is available on the White House website in Annex I-1, Annex I-2 and Annex I-3.

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Table 2
Main Industries Affected by US Section 338 Tariffs

NA CS	NDUSTR ES	VALUE OF AFFECTED EXPORTS ($M)	% OF NA CS CODE	EXAMPLES OF GOODS TAR FFED BY THE UNITED STATES
326	• Plastics and rubber products	3,932	22	Bags, packaging, bottles, containers, lids
3121	• Beverage manufacturing	1,282	77	Alcoholic products from distilleries (e.g., whiskies) and wineries
334	• Computer and electronic product manufacturing	2,748	24	Broadcasting, television and wireless communication equipment; navigation instruments, radars, audio and video equipment, optical instruments
333	• Machinery	2,346	7	General-purpose machinery, industrial fans and air purifiers, machinery for trade and service industries
322	• Paper manufacturing	2,182	17	Cardboard boxes, toilet paper, paper bags
335	• Electrical equipment, appliance and component manufacturing	1,999	16	Lighting fixtures, magnetic and optical supports, electrical appliances, copper electrical conductors
339	• Miscellaneous manufacturing	1,734	25	Jewellery and silverware, sporting goods
321	• Wood products	1,648	11	Veneers and plywood, wood windows and doors
325	• Chemicals	1,628	4	Toilet preparations, hair products, cosmetics, resins
337	• Furniture and related products	1,251	26	Institutional furniture, display cases, metal furniture
313 to 316	• Textile, apparel, leather and allied product manufacturing	1,081	33	Apparel
	TOTAL	**25,169***	**5**	

*2025 data. Items subject to Section 232 tariffs are excluded. Industries for which >$1B in exports are affected are illustrated.
Statistics Canada, White House, USITC and Desjardins Economic Studies

In the face of US tariffs, which in several cases have jumped to 50%, the best strategy remains diversification, whether internationally or within Canada. In some cases, however, making that shift will be more challenging given Canada's reliance on the US market and the fact that US companies may be able to turn to domestic suppliers. Interprovincial trade barriers may also complicate the transition.

Canadian Counter-Tariffs: A Will to Limit the Damage

The latest Canadian counter-tariffs primarily target imports of steel and aluminum, dairy products, household appliances, agricultural equipment, pulp and paper, plastics and electronics from the United States.[2]

Very few food products are subject to these retaliatory tariffs. Those that are targeted are not imported in large quantities and were selected as a direct response to products targeted by the US administration. They include whey, powdered and granulated milk and cream, honey and molasses, as well as mixes and doughs used in bakery production. These products are also manufactured in Canada, so food wholesalers should be able to find alternative sources without undue difficulty. In addition, US tariffs will largely prevent these same products from being sold south of the border, creating a certain amount of surplus in Canada. Counter-tariffs are therefore unlikely to put significant pressure on food inflation and should help grocery retailers and food service operators avoid squeezed profit margins.

Some Sectors Will Have to Deal with Rising Costs

For certain imports, the tariffs that take effect today will have more damaging consequences, because they apply to inputs that are widely used by Canadian businesses. Until alternatives can be found, where possible, companies will face an adjustment period during which they will need to identify new non-US suppliers and negotiate acceptable prices. In some cases, inputs may have to be modified to meet a company's requirements. In others, such as for appliance retailers, businesses may choose to switch to non-US suppliers rather than absorb a 50% increase in costs. In exceptional cases, however, importers will continue sourcing from US suppliers. This may be the case, for example, for dealerships specializing in new vehicles manufactured in the United States. However, consumers may shy away from these vehicles if the price gap with comparable models becomes too large, denting sales at retailers that exclusively sell US brands or products.

The sectors most exposed to cost increases resulting from counter-tariffs are concentrated in manufacturing, construction, and wholesale and retail trade.

Within manufacturing, the most exposed industries include motor vehicle manufacturing; machinery manufacturing; chemical manufacturing, particularly soaps, detergents and toiletries; textiles, clothing, leather and related products; computer and electronic products; and electrical equipment, appliances and components (table 3). Sugar and confectionery product manufacturers could also face higher costs if suitable local substitutes for imported honey and molasses are not readily available.

Table 3
Exposure to Canadian Counter-Tariffs: Manufacturing

NAICS	EXPOSED INDUSTRIES*	TARIFFED INPUTS
334	• Computer and electronic product manufacturing	• Computer and electronic equipment
335	• Electrical equipment manufacturing	• Electrical equipment and components; electric lighting equipment and household appliances
333	• Machinery manufacturing	• Machinery, computer hardware and electronic equipment; heating and ventilation appliances
313 to 316	• Textile, apparel and leather product manufacturing	• Textile products
3361 to 3363	• Motor vehicle and parts manufacturing	• Computer hardware and other electronic products; steel products
325	• Chemical manufacturing	• Base chemicals used in soap, stain remover, synthetic resin and filament manufacturing
332	• Fabricated metal product manufacturing	• Steelmaking, forging, stamping
3312	• Steel product manufacturing from purchased steel	• Steel products
3399	• Miscellaneous manufacturing	• Non-ferrous metals (for jewellery); computer and electronic equipment (e.g., for medical device manufacturing); textiles
3313	• Aluminum production and processing	• Alumina and aluminum (bars, wires, pipes, sheets)
3113	• Sugar and confectionery product manufacturing	• Honey, molasses

* Most exposed industries (tables 3-4): Analysis based on Canada's input-output tables (2024).
Statistics Canada, Department of Finance Canada and Desjardins Economic Studies

Beyond manufacturing, several wholesale and retail industries are also affected, although generally in a more indirect way (table 4 on page 3). Consumers will avoid products that become significantly more expensive on the shelves (25% to 50%), which will encourage wholesalers and retailers to reduce the range of tariffed American products they carry. Highly exposed sectors include wholesalers and retailers of personal and household goods, machinery and equipment, and various consumer goods such as fabrics, clothing, jewellery, sporting goods and beauty products.

The construction sector also warrants close attention. Many of the products subject to counter-tariffs are key inputs for construction activity, including heating, ventilation and air

[2] The complete list is available on the Department of Finance Canada website.

Table 4
Exposure to Canadian Counter-Tariffs: Wholesalers, Retailers, Construction

NAICS	EXPOSED INDUSTRIES*	TARIFFED INPUTS
41, 44, 45	**Wholesalers and retailers of the products opposite**	• Telecommunications hardware • Audiovisual and photographic equipment • Information processing equipment • Small household appliances • Jewellery and watches • Clothing fabrics, clothing and clothing accessories • Shoes • Apparel • Large household appliances • Games, toys and hobbies • Cleaning products • Other personal care products and equipment • Cars, trucks, minivans, SUVs • Furniture and home furnishings
237	• **Engineering construction****	• Communication equipment; electrical equipment; computer and electronic equipment
236	• **Construction of residential and non-residential buildings**	• Heating, ventilation and air conditioning (HVAC) equipment; metal products, electrical equipment and components; lighting and household equipment, communication equipment, computer and electronic equipment, power transmission equipment

* Most exposed industries (tables 3-4): Analysis based on Canada's input-output tables (2024). **Especially related to communications and to oil and gas.
Statistics Canada, Department of Finance Canada and Desjardins Economic Studies

conditioning (HVAC) equipment; metal products (forging, stamping and others), electrical equipment and components; lighting and household equipment, communication equipment, computer equipment and other electronic products; motors, turbines and power transmission equipment. In some cases, these materials and equipment are sourced from highly specialized manufacturers, making substitutes difficult to find. Resulting disruptions could delay projects and increase costs. Communications-related engineering projects, which rely heavily on imported electrical and electronic equipment subject to tariffs, are particularly exposed. The same is true for oil and gas engineering projects, which often depend on imported equipment and could therefore face higher operating costs.

The Availability of Canadian Substitutes Will Help Mitigate the Shock

Take aluminum as an example. Canadian counter-tariffs will force companies that previously sourced aluminum parts from the United States to turn to Canadian suppliers. This adjustment should be relatively straightforward, since Canada and Quebec are net exporters of aluminum. Of course, companies that need to change suppliers may face additional costs, delays and a period of adjustment. However, Canada's well-developed aluminum industry should help cushion the impact of counter-tariffs.

Similarly, companies seeking alternatives to US suppliers could create new opportunities for Canadian manufacturers of electrical, electronic and computer products, as well as chemical products and construction materials and equipment.

Counter-Tariffs Will Also Protect Certain Canadian Industries

Although the sectors discussed above will face higher input costs, at least temporarily, counter-tariffs will have a protective effect on other industries. This should help offset some of the negative impact of US protectionism. A good example is primary steel manufacturing. The 50% tariffs imposed by the United States several months ago have reduced demand for Canadian producers. Production has slowed, but capacity remains largely intact. As a result, substitutes should be relatively abundant and readily available. Canadian importers should therefore be able to switch quickly to equivalent or comparable products made in Canada. That said, substitution is not always straightforward for specialized products. Because North American value chains developed under decades of North-South free trade, some specialized components are produced on only one side of the border. This challenge is compounded by the vast distances involved in moving goods between Canada's East and West coasts.

In the pulp and paper industry, counter-tariffs are intended to limit the damage through a reciprocal response. As US tariffs reduce demand for Canadian paper and paperboard products, Canadian counter-tariffs help protect the domestic market from competing US products. The challenge, however, is that the US economy is more than ten times larger than Canada's, making Canada more vulnerable in a tariff escalation. The domestic market alone will not be sufficient to preserve current employment levels in the industry. Rapid access to other markets, such as Europe, is far from guaranteed and will require significant effort.

The Manufacturing Sector Remains the Most Vulnerable to the Double Tariff Shock

The industries most vulnerable to the latest escalation in the trade war are those already affected by US sector-specific tariffs, which have expanded steadily since March 2025,[3] including the most recent duties introduced on August 22.[4] These industries now face the added risk of higher costs stemming from Canadian counter-tariffs. All of the industries identified are in the manufacturing sector (see table 1 on page 1).

Consider breweries, wineries and distilleries. Their products now face prohibitive US tariffs of 50%, which are drastically curbing their sales. At the same time, metal cans and glass containers used for beverage packaging are now subject to a 50% tariff when imported from the United States. Producers that rely on these US-sourced inputs will need to quickly identify alternative suppliers or risk seeing their costs skyrocket.

That said, exposure to counter-tariffs does not automatically mean a company will face higher costs. Many of the affected products currently imported from the United States are also produced in Canada or by other international suppliers. Although businesses will likely need time to identify new non-US suppliers, those with access to perfect or partial substitutes should be able to mitigate much of the risk. Some increase in costs remains

[3] Mainly under Section 232 of the *Trade Expansion Act of 1962*.

[4] Under Section 338 of the *Tariff Act of 1930*.

possible, however, since there is no guarantee that alternative suppliers will offer prices comparable to those of existing suppliers. This could put pressure on profit margins. Other challenges may also arise, including supplier reliability, product quality, transportation costs, the time required to secure a suitable supplier, and the supplier's ability to fulfill large orders on short notice. For example, a supplier that is not accepting new orders for an extended period could lead to inventory shortages and downstream production disruptions.

Conclusion

Trade tensions between Canada and the United States have intensified rapidly in recent weeks. We've seen the US introduce tariffs on a wide range of products under Section 338, negotiations aimed at preventing those tariffs from taking effect fail, and, finally, Canada implement counter-tariffs on September 8. That said, we shouldn't lose sight of the fact that pressure on the manufacturing sector has been building for more than 18 months. It began in March 2025, when the US administration imposed its first 25% sector-specific tariffs under Section 232 on primary Canadian steel and aluminum. This was followed by a series of additional sector-specific tariffs that further weakened several manufacturing industries, including motor vehicles, metal products, furniture and lumber. Since August 22, new parts of the manufacturing sector have also come under significant pressure. The subsectors most vulnerable to the latest developments are those facing the combined effects of US tariffs and Canadian counter-tariffs. Companies in these subsectors will need to accelerate their diversification efforts, both internationally and within Canada, while also identifying suitable alternative suppliers at competitive prices. Improving access to centralized directories of Canadian suppliers that can replace products subject to counter-tariffs could be of great value to affected industries. In addition to raising the profile of lesser-known Canadian suppliers in product categories where demand is expected to increase, such tools could accelerate supplier substitution and reduce the impact on affected sectors. They could also support procurement efforts across all levels of government. Despite the turmoil, the current situation presents an opportunity to take further steps toward a less US-dependent economy and greater economic resilience.