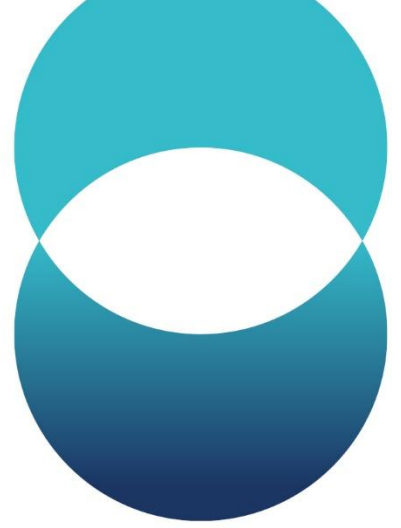




# Impact of Trump Tariffs on the Tourism Sector

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Prepared by  
The Conference Board of Canada



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# Key findings

- U.S. tariffs of 25 per cent on Canadian goods and Canada's retaliatory tariffs will sharply increase the costs of goods. Inflation is expected to be 0.7 per cent above the baseline in Q2 2025 and, if the tariffs persist, 1.9 per cent higher in Q1 2027, making it more expensive for tourism operators to run their business.
- Two scenarios are modelled – one in which the Trump tariffs and Canada's retaliatory tariffs last for three months (1 quarter), and one in which they last for two years (8 quarters).
  - The one-quarter tariff scenario will reduce tourism sector GDP cumulatively by \$740 million by Q4 2029, with job losses totalling 13,100, versus our baseline forecast.
  - Under the eight-quarter tariff scenario, cumulative tourism-related GDP is expected to decline by \$8.2 billion as employment falls by nearly 176,800 versus the baseline.
- Tariffs would likely deal a severe impact the Indigenous-tourism sector, which is already facing transportation challenges, workforce shortages, and inflationary pressures. However, the impacts on the Indigenous tourism sector itself have not been modelled.

# Tourism under pressure

Tariffs will hit Canada's tourism sector hard, especially with U.S. visitors making up over 75 per cent of international arrivals in 2023.<sup>1</sup> Higher costs will drive up input costs for Canadian tourism businesses – leading to higher prices for hotels, restaurants, and attractions, forcing them to either absorb the hit or pass it on to consumers. Fewer visitors and reduced spending will strain local businesses, putting jobs at risk and slowing growth in a key economic sector.

To estimate these impacts, The Conference Board examines the potential consequences of Trump's tariffs under two scenarios. The first scenario assumes tariffs last for one quarter (Q2 2025), while the second projects they will continue for two years (eight quarters) through 2027. We compare these scenarios to our baseline forecast for the Canadian economy, focusing on key tourism sector indicators. (See Appendix A for detailed methodology.)

## Economic impact of Trump's tariffs

If Trump's tariffs proceed as planned, they will significantly disrupt Canada's tourism sector. A tariff of this scale between two deeply connected economies is rare, making its effects difficult to predict. This uncertainty is why we modeled two scenarios. By examining both a short-term and a prolonged tariff scenario, we can better understand the range of potential impacts on Canada's tourism sector. A one-quarter tariff disruption may create temporary challenges, while a two-year tariff could lead to lasting economic consequences, reshaping travel patterns, business operations, and overall industry growth. In both scenarios, we assume that the United States imposes a 25 per cent tariff beginning in Q2 2025 and Canada imposes retaliatory tariffs on \$155 billion worth of U.S. goods.<sup>2</sup>

In the one-quarter scenario, GDP and employment, are expected to be 0.9 per cent and 0.6 per cent lower than CBoC's baseline forecast, with the most significant impact occurring in the second quarter of 2025. (See Table 1.) Over time, the sector is expected to stabilize, with most of the negative effects fading by the end of the forecast period as businesses and consumers gradually return to normal economic conditions. By then, any remaining declines in key economic indicators will be more modest.

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<sup>1</sup> Statistics Canada, "Tourism Activity, 2023."

<sup>2</sup> "List of products from the United States subject to 25 per cent tariffs effective February 4, 2025," The Government of Canada, last modified February 2, 2025.

**Table 1: Prolonged tariffs will have large impacts on the tourism sector.**

(Scenarios versus baseline, percentage change, Q2 2025—Q4 2029)

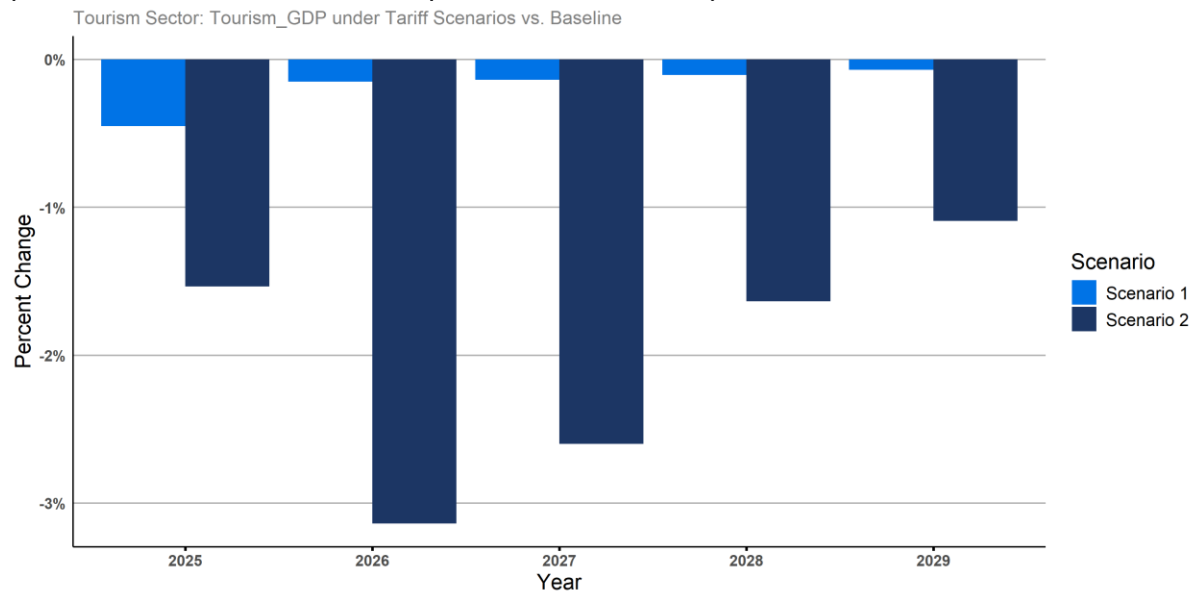
| <b>Scenario 1</b>        | <b>Q2 2025</b> | <b>Q1 2027</b> | <b>Cumulative impacts<br/>Q2 2025 – Q4 2029</b> |
|--------------------------|----------------|----------------|-------------------------------------------------|
| Consumption expenditures | 0.7            | 0.0            | 0.2                                             |
| Employment               | -0.6           | -0.1           | -0.6                                            |
| GDP                      | -1.6           | -0.1           | -0.9                                            |
| Consumer prices          | 0.7            | 0.1            | 0.6                                             |
| <b>Scenario 2</b>        | <b>Q2 2025</b> | <b>Q1 2027</b> | <b>Cumulative impacts<br/>Q2 2025 – Q4 2029</b> |
| Consumption expenditures | 0.7            | 0.3            | -0.6                                            |
| Employment               | -0.5           | -3.1           | -7.8                                            |
| GDP                      | -1.6           | -3.7           | -10.0                                           |
| Consumer prices          | 0.7            | 1.9            | 4.7                                             |

Source: The Conference Board of Canada.

In the eight-quarter scenario, the impact on Canada's tourism sector is more severe. The prolonged strain leads to deeper declines in GDP, employment, and tourism-related spending, with businesses facing sustained revenue losses and reduced visitor demand. Specifically, GDP and employment are expected to be 7.8 per cent and 10.0 per cent lower than CBoC's baseline forecast with the most significant impact occurring in the first quarter of 2027. (See Table 1.) Unlike the one-quarter scenario, where the sector begins to stabilize, a two-year tariff prolongs uncertainty, weakens investment, and forces some tourism operators to downsize or close altogether. The longer disruption means recovery takes significantly more time, with lasting effects on employment and economic growth even after the tariffs are lifted.

In the presence of a one-quarter tariff, the initial hit to real GDP in 2025 is estimated to be roughly \$350 million, a reduction of nearly 0.5 per cent below our baseline outlook. (See Chart 1.) In a prolonged tariff scenario, the impact intensifies, with the tourism sector contracting by approximately \$1.2 billion (2012 dollars) in 2025, a 1.5 per cent decline from CBoC's baseline forecast. (See Chart 1.) The duration of the tariff will also be a key factor in its impact. If it lasts only one quarter, the tourism sector will face a total loss of \$740 million by 2029. However, if the tariff remains in place for two years, GDP losses are expected to deepen by 2029, reaching \$8.2 billion, or 10.0 per cent lower when compared to our baseline estimates.

**Chart 1: Tourism sector GDP could fall by \$8.2 billion by 2029.**  
(shock minus control, real GDP, per cent, 2025—2029)



Source: The Conference Board of Canada.

## Implications for Indigenous tourism

Tariffs will have widespread consequences for the tourism sector, increasing costs for businesses and dampening demand. Indigenous tourism businesses could face additional challenges due to their reliance on rural infrastructure, higher transportation costs, and limited financial resources.<sup>3,4</sup> While we have not conducted a formal forecasting exercise for the Indigenous tourism sector, these factors suggest that Indigenous tourism businesses may experience even greater difficulty in absorbing cost increases and sustaining operations over the long term.

<sup>3</sup> First Nations Financial Management Board, “Addressing Gaps in Indigenous Access to Finance.”

<sup>4</sup> Chakrabarti, Garcia, and Pinkovskiy, “Rural Households Hit Hardest by Inflation in 2021-22.”

# Appendix A: Tourism Sector Variables

The specific variables to be used in the analysis are listed below in Table 1. We grouped the sectors available in the model (shown in Table 1) into proxies for the tourism sector for GDP, consumer expenditures and employment. Notably, not all tourism-related variables are exclusively part of the tourism sector. For example, only 32 per cent of consumption expenditures in 'Communication, Recreation, and Culture Services' are directly linked to tourism. To account for this, we apply the tourism-attributable percentage to each variable in Table 1, ensuring that only the relevant share is included in the analysis.

**Table A1: Tourism sector variables**

| Description                                                                                                                  | Unit of Measure  | Tourism sector share |
|------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
| <b>Expenditures</b>                                                                                                          |                  |                      |
| Consumption Expenditures, Services, Transport Services                                                                       | Millions \$ 2012 | 61%                  |
| Consumption Expenditures, Services, Communication, Recreation and culture services                                           | Millions \$ 2012 | 32%                  |
| Consumption Expenditures, Services, Accommodation, food and beverage services                                                | Millions \$ 2012 | 100%                 |
| <b>Imports</b>                                                                                                               |                  |                      |
| Non-Merchandise Imports, Travel                                                                                              | Millions \$ 2012 | 100%                 |
| <b>GDP</b>                                                                                                                   |                  |                      |
| Gross Domestic Product at Basic Prices, Services, Business Services, Transportation and Warehousing, Air transportation      | Millions \$ 2012 | 100%                 |
| Gross Domestic Product at Basic Prices, Manufacturing, Services, Non-Commercial Services, Arts, Entertainment and Recreation | Millions \$ 2012 | 100%                 |
| Gross Domestic Product at Basic Prices, Manufacturing, Services, Non-Commercial Services, Accommodation and Food Services    | Millions \$ 2012 | 100%                 |
| <b>Employment</b>                                                                                                            |                  |                      |
| Employment, Services, Commercial, Accommodation and Food Services                                                            | Number of people | 92%                  |
| Employment, Services, Commercial, Transportation and Warehousing                                                             | Number of people | 61%                  |
| Employment, Services, Commercial, Information, Culture and Recreation                                                        | Number of people | 58%                  |

Source: The Conference Board of Canada.

# Appendix B: Tariff Assumptions

- In Q2 2025, U.S. tariffs of 25 per cent on all non-energy exports and 10 per cent on all energy exports are imposed on Canada.
- In the same quarter (Q2 2025), Canada responds with retaliatory tariffs on goods worth \$155 billion. This includes both the Phase 1 and Phase 2 tariffs specified by the Government of Canada.<sup>5</sup>
- Both the U.S. tariffs and Canada's retaliatory tariffs remain in full effect for eight quarters through to Q1 2027, after which both sets of tariffs are fully removed.
- Aside from automotive manufacturing, sector-specific impacts are endogenously determined through the price, investment and consumption patterns as well as through supply effects incorporated via the input/output component of the forecast model.
- Due to the deep integration of production supply chains between the Canadian and American automotive manufacturing sectors, special treatment is applied. We assume that production in the Canadian sector completely collapses in response to the U.S. tariffs, due to lowered U.S. demand for intermediate goods and manufacturing shifts to the U.S. Over the initial 4 quarters, the Canadian automotive manufacturing declines by 97 per cent and remains at or below this level until tariffs are lifted.
- The growth in U.S. GDP is expected to slow down over this period, driven by lowered consumption. The U.S. economy is also impacted by counter tariffs from Mexico and China. Net exports in the US were not affected drastically, as the net effect of the initial tariffs and retaliatory tariffs will result in less trade in both directions.
- Canada's fiscal response is limited to the estimated tariff revenue, with approximately 40 per cent of the tariff revenue going to households and 60 per cent to businesses.
- There is no response from the Bank of Canada to the tariffs.
- The forecast model endogenously solves for price and consumer behaviour, so no exogenous assumptions on import substitution is assumed in the model except for motor vehicles and parts. Imports for motor vehicles and parts are assumed to increase to meet local demand as Canadian automotive manufacturing slows to a halt.

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<sup>5</sup> "List of products from the United States subject to 25 per cent tariffs effective February 4, 2025,"  
The Government of Canada, last modified February 2, 2025.

# Appendix C: Overview of CBoC's Forecasting Models

## National Macroeconomic Model

The national forecasting model— known as the Medium-Term Forecasting Model (MTFM)— is a quarterly model of the Canadian economy. It consists of about 1,700 endogenous variables, of which 500 have stochastic equations and all series forecast with a quarterly frequency in the medium-term (5 years) and annual frequency in the long-term (20 years). The medium-term outlook is updated each quarter, corresponding with each release of the national accounts data, while the long-term outlook is updated semi-annually.

The MTFM is based on the neoclassical synthesis and thus possesses many of the properties associated with such models. It is a multi-sector model with wages and prices driven by sector-specific production functions. Investment expenditure is based on the capital stock solved as a factor in a constant elasticity of substitution (CES) production function. An effort is made to ensure that the rate of capital-labour substitution implicit in the investment equations is also reflected in the employment equations. Output is largely expenditure-determined in the model, but there are supply-side feedbacks through sector capacity measures that influence prices, imports and exports and output.

## U.S. National Model

The Conference Board also maintains a quarterly model of the U.S. economy. This model allows for the production of alternate scenarios or shock analyses based on changes to global factors that could directly affect the U.S. economy and Canada's economy both directly and indirectly, as changes to the U.S. economy will invariably have implications for Canada.

The Conference Board's U.S. model is a key input into both the national and provincial forecasting models. The U.S. model is constructed using a similar expenditure framework as the Canadian model but at a simplified level of detail. It incorporates about 150 endogenous variables (about one third of which are behavioural) and 50 exogenous variables (including detailed demographic and labour market participation data). While the U.S. model is smaller than our Canadian national model, it has excellent shock properties. It includes a trade-weighted exchange rate equation, a Taylor rule equation that endogenously sets Federal Reserve monetary policy, and price effects determined by inflationary pressures stemming from the U.S. output gap. Moreover, longer-term forecasts are aligned with a full potential output block that is incorporated into the U.S. model.

# Trade Forecast Models

As part of our Canadian national model, The Conference Board of Canada maintains a variety of trade forecasts covering import and export volumes, prices and values to and from Canada. The foreign trade sector plays an important role in shaping the properties of our models. Imports and exports are each divided into merchandise trade and service sector services. Within the merchandise trade sector, constant dollar trade volumes and prices are modelled in considerable detail. In the service sector, the imports and exports of various categories are modelled in current dollars. It is generally assumed that Canada is a 'price taker' for its imports, whereas Canada's exports do have some influence on many global prices.

The structure of the merchandise trade import model components is linked to the corresponding real domestic demand for each commodity or product. Import volumes are therefore a function of the variables that influence demand and supply of that commodity, including relative prices, capacity utilization rates and industry-specific indicators.

Export functions are influenced by market structure and of the factors affecting the share of various exporters. Exports are largely driven by relative prices, U.S. demand as well as real economic activity in newly industrialized Asian economies, Latin America and the Caribbean, emerging and developing economies and the rest of the World.

# Appendix D: Bibliography

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