



Business Data Lab Laboratoire de données sur les entreprises

Q1 2023

Canadian Survey on Business Conditions Report

Message from the Chief Economist

The global economy is normalizing, but the situation is still not normal. That's because we're adjusting to several major shocks, including the pandemic, Russia's war, and higher interest rates as central banks battle inflation.

In this context, the latest *Canadian Survey on Business Conditions (CSBC)* shows that costs and labour issues remain the biggest near-term obstacles for Canadian companies. The continuing evidence of broad-based cost pressures on firms raises the risks that high inflation proves more persistent than the Bank of Canada would like. This survey also finds that the higher interest rates designed to bring down inflation are starting to bite: they're causing firms to raise prices, reduce investment and delay hiring, and they're the most common reason why businesses can't take on more debt. Acute labour challenges are a key concern for most companies with more than five employees, and these issues are hindering production, especially in services.

Even as higher interest rates slow demand, there are a few bright spots. First, while long-standing supply-side bottlenecks for the workforce and supply chains remain elevated, they have eased in recent surveys. This might be because businesses are taking proactive steps to address these problems, such as raising wages, embracing flexible work options and working with suppliers. Second, while the near-term outlook for sales is clearly subdued, all things considered, most companies remain optimistic about the year ahead, especially larger firms and those in services.

There's plenty more analysis and insights in our report, including the slowdown in online sales, challenges to adopting new technologies and women's (under)representation in senior management positions. Check back next quarter for more BDL business survey insights.



Stephen Tapp (STapp@Chamber.ca)
Canadian Chamber of Commerce Chief Economist





Key findings

Business Outlook:

- With economic growth slowing, businesses expect subdued sales in the near term.
- The overall business outlook is slightly weaker than last quarter, but is holding up reasonably well, albeit with significant variations.
 - **By sector:** Services firms have been less affected by higher interest rates and are more optimistic than goods producers.
 - **By size:** Larger firms are much more optimistic than smaller firms.
 - **By ownership:** Indigenous and women-owned firms are more optimistic, while businesses owned by visible minorities and immigrants are less optimistic.
 - **By major cities:** Firms in Ottawa are the most optimistic, while those in Toronto are the least optimistic.

Key findings (continued)

Business Obstacles:

- Costs and labour issues continue to be the biggest business obstacles.
- Despite slowing inflation, cost pressures remain broad based, and the share of companies expecting to raise prices next quarter held steady at one-third.
- Price pressures are most acute in retail, accommodation and food services, wholesale trade, construction and manufacturing.

Interest Rates and Debt Constraints:

- Corporate debt increased during the pandemic, and constraints are worse for small firms and business owners in underrepresented groups, including women, racialized and Indigenous people.
- Higher interest rates are the most common reason businesses say they can't take on more debt; they're also causing firms to raise prices, reduce investment and delay hiring.

Key findings (continued)

Labour:

- Acute labour challenges are slowly easing, but remain a key concern for most companies with five or more employees.
- Among firms with recruiting and retention challenges, almost three-quarters report that staffing challenges will hinder their production — this issue is particularly problematic for young firms and those in the services sectors.
- Businesses plan to address labour challenges by offering higher wages, more flexible work arrangements and enhanced training opportunities.

Supply Chains:

- Supply-chain challenges have steadily eased since the start of 2022, although they remain elevated, and many firms expect them to persist.
- To address these issues, firms are partnering with new suppliers, substituting inputs and working with existing suppliers to speed up delivery times.

Key findings (continued)

Digitization and Technological Adoption:

- After a boom during the pandemic, the share of total sales conducted online fell in 2022 relative to 2021, with notable declines for firms in information and culture, professional services and finance.
- Hiring skilled employees and access to finance continue to be top challenges for firms adopting new technologies.

Women in Senior Management:

- Women are underrepresented in senior management roles: they hold only 37% of these positions, and are outnumbered by men in 14 of 16 sectors.



Q1 2023

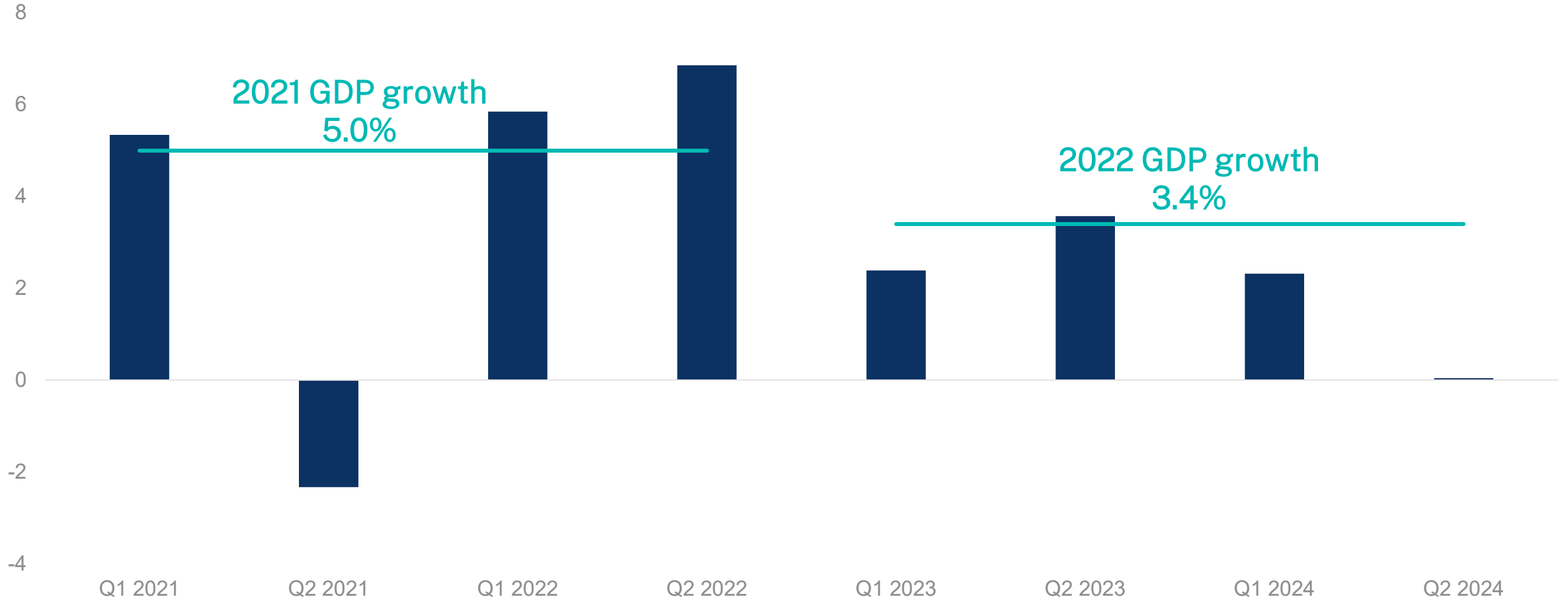
Outlook according to Canadian businesses



Context: Canada's economic growth slowed in 2022.

Canadian real gross domestic product (GDP) growth

Chained 2012 dollars, annualized quarterly percent change

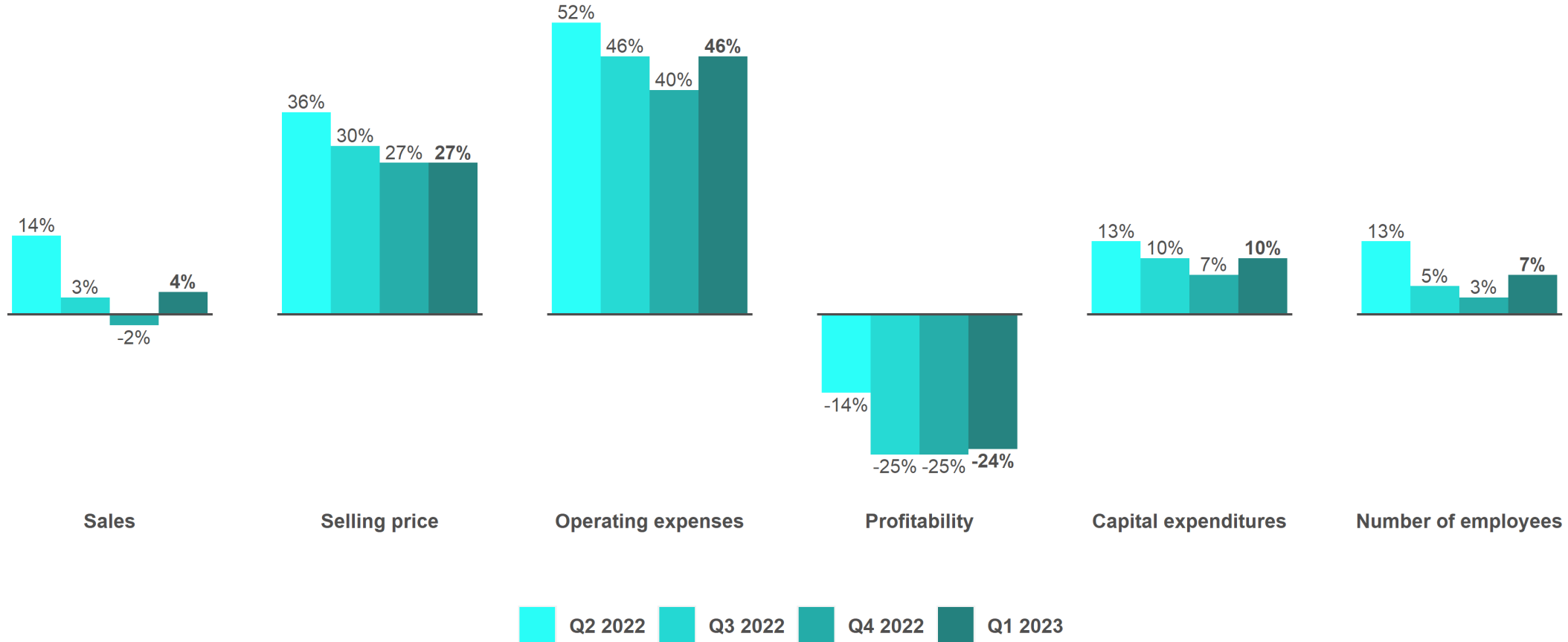




Next quarter: Businesses expect sales to remain subdued, while rising costs may squeeze profit margins.

Expected changes for your business, next three months

Balance of opinion*

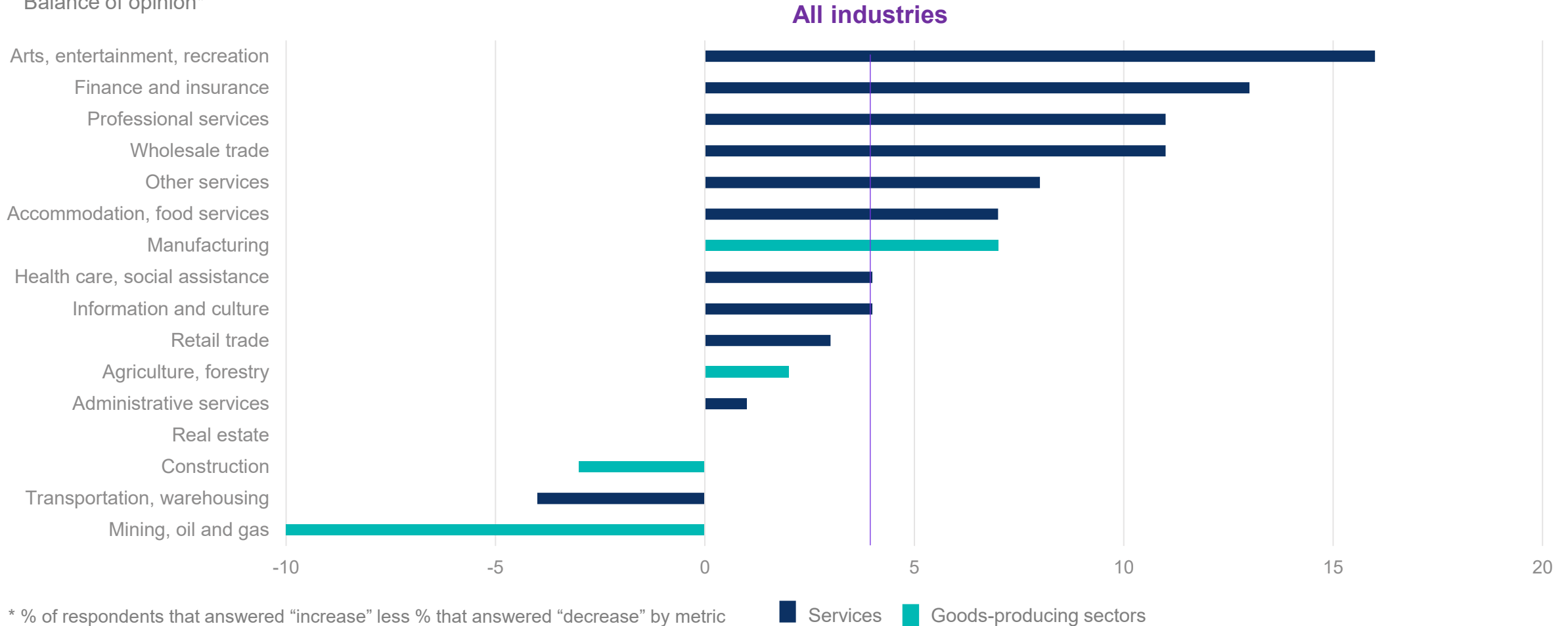


* % of respondents that answered "increase" less % that answered "decrease" by metric



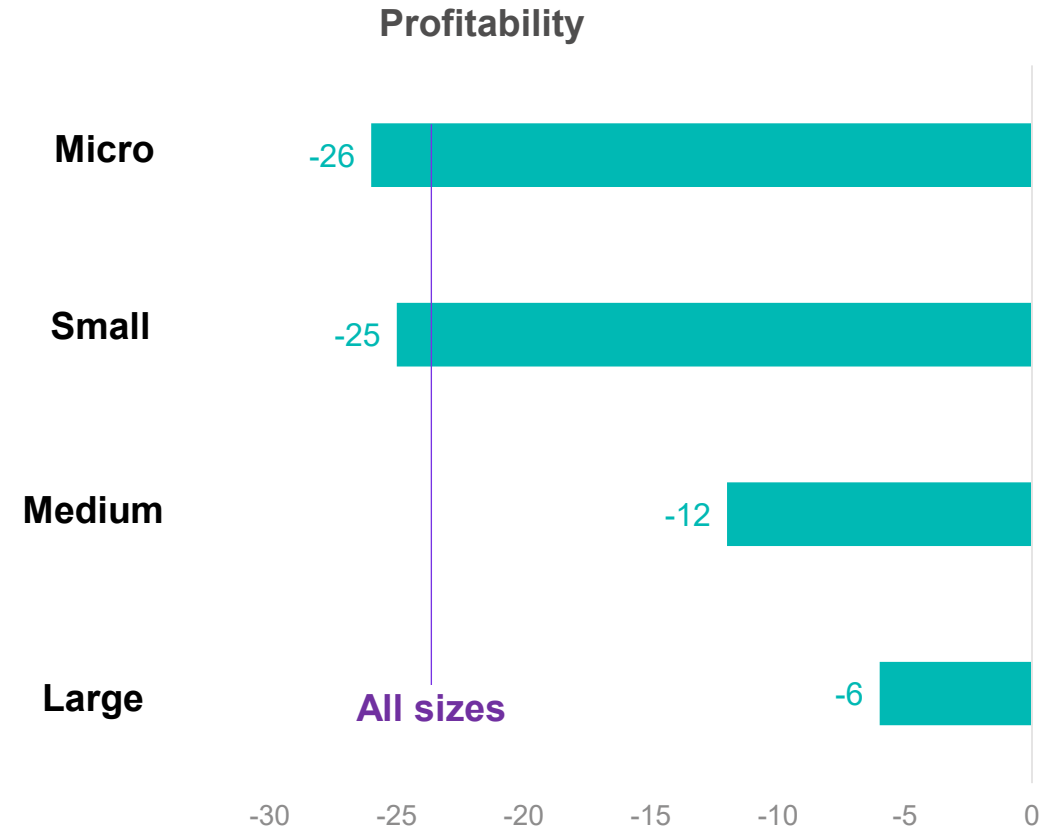
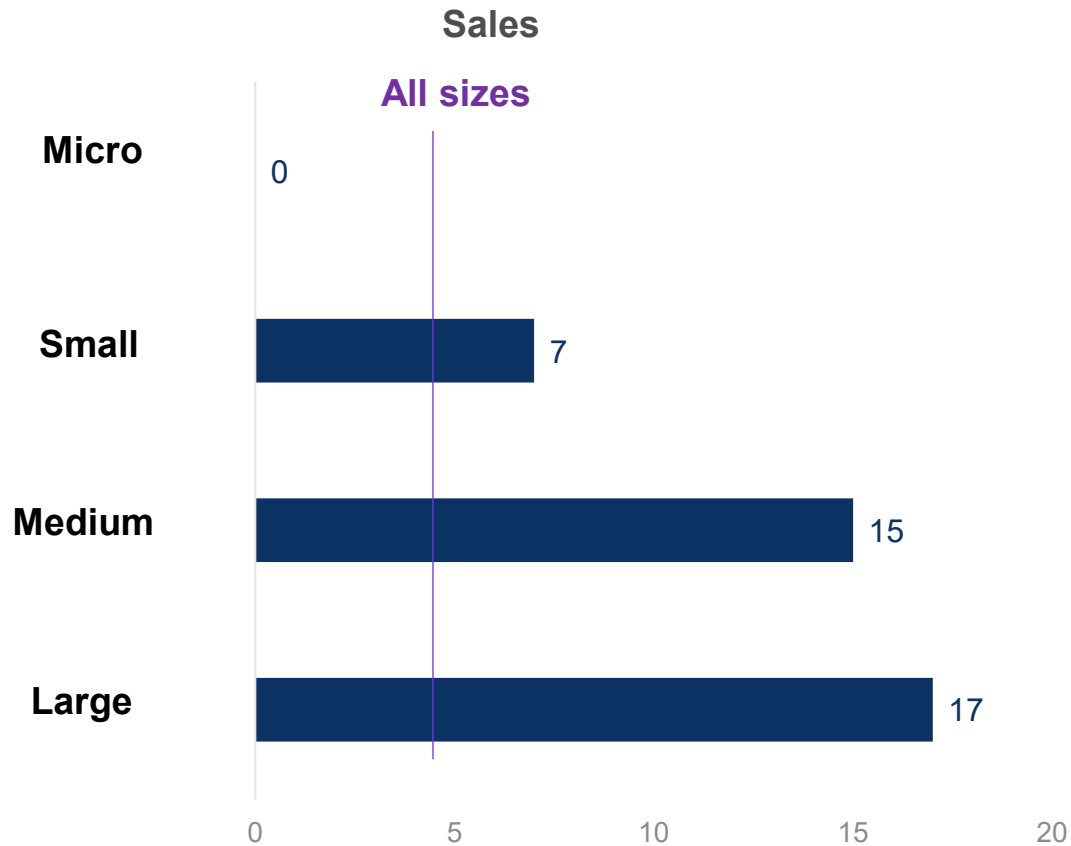
Next quarter: Sales expectations are stronger for firms in services than in goods-producing sectors.

Expected change in sales for your business, next three months
Balance of opinion*



Next quarter: Larger firms have a stronger outlook than smaller firms.

Expected changes for your business, next three months
Balance of opinion, by employment size*



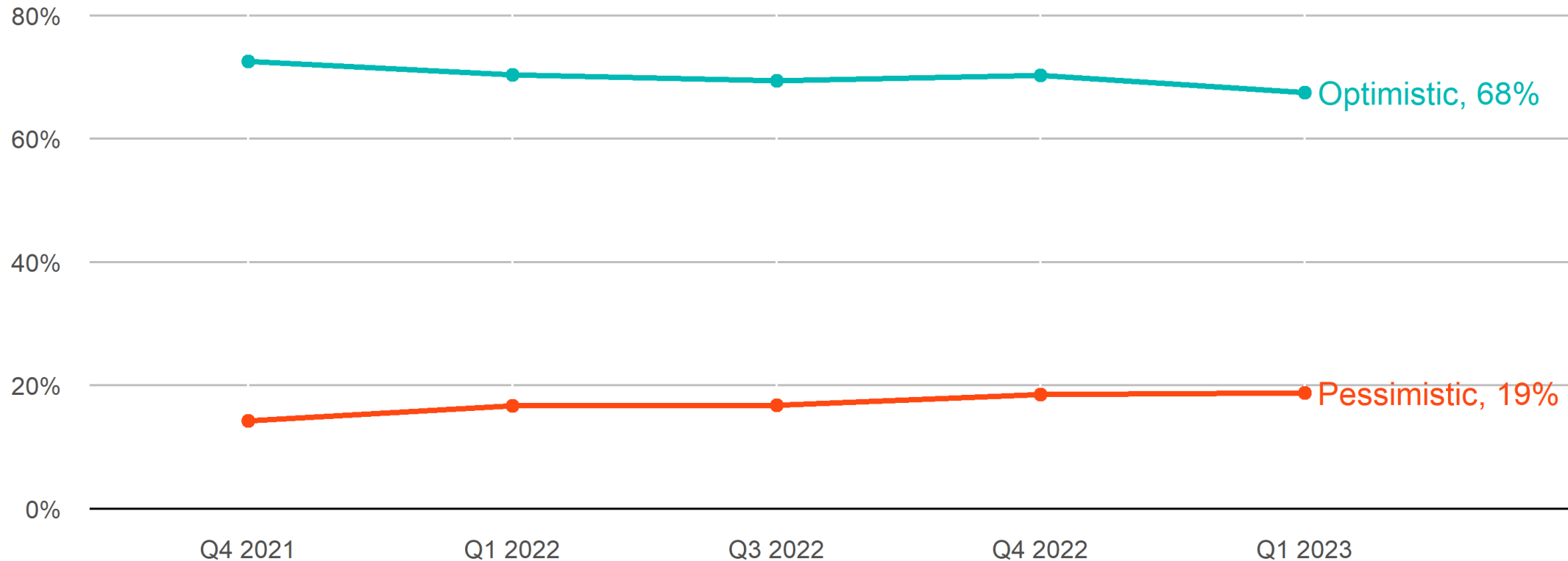
* % of respondents that answered “increase” less % that answered “decrease” by metric. Micro = 1–4 employees; small = 5–19 employees; medium = 20–99 employees; large = 100+ employees



Year-ahead: The business outlook weakened slightly from last quarter, but is holding up well, all things considered.

Outlook for your business, next 12 months

% of respondents



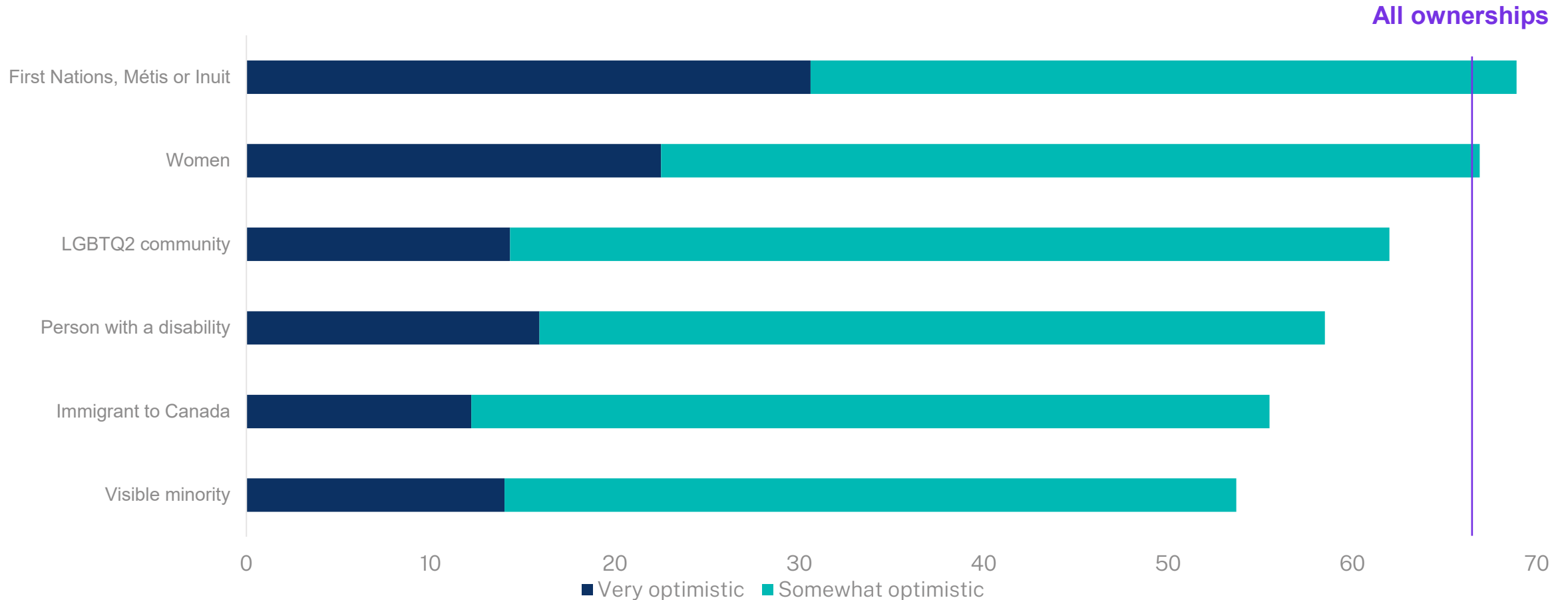
* Optimistic includes “somewhat” and “very optimistic”; pessimistic includes “somewhat” and very pessimistic. Responses do not sum to 100% because of “unknown” responses and rounding. This question was not included in the Q2 2022 survey



Variation by ownership: Indigenous and women-owned firms are more optimistic, while other minority-owned firms are less optimistic.

Business outlook, next 12 months

% of respondents, by ownership

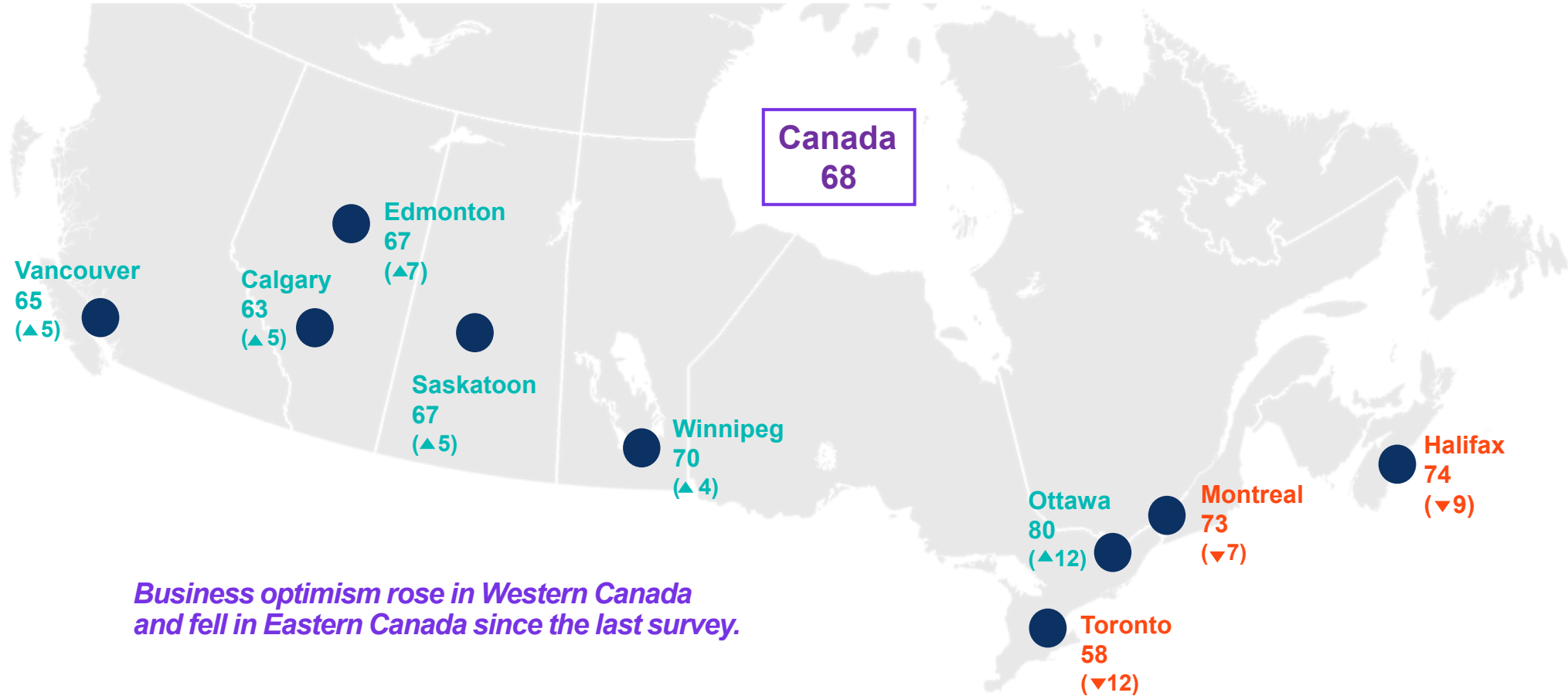




Major CMAs: Businesses in Ottawa are the most optimistic about the year ahead, while businesses in Toronto are the least optimistic.

Businesses with an optimistic outlook for the next 12 months

% of respondents, by major CMA*, change relative to last survey in parenthesis



Business optimism rose in Western Canada and fell in Eastern Canada since the last survey.

* CMA = Census Metropolitan Area

Source: Statistics Canada, Canadian Survey on Business Conditions, 15,963 businesses surveyed in January and February 2023.



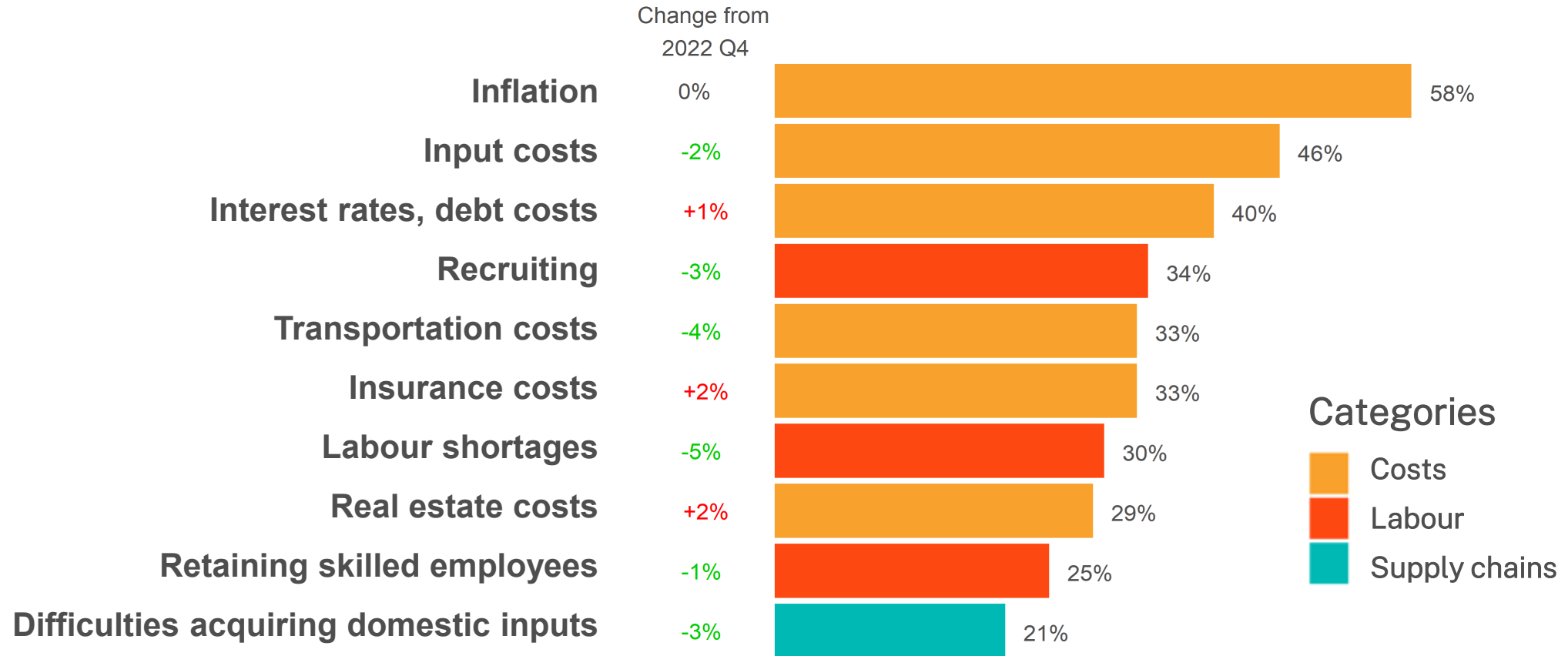
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Business obstacles



Inflation expected to remain the **top business obstacle** next quarter.

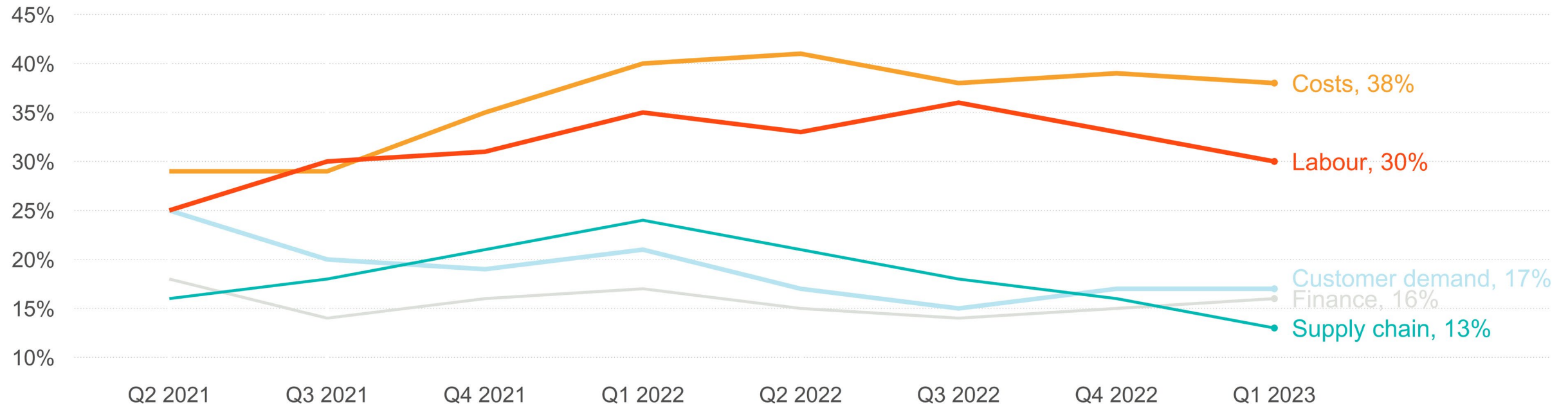
Top 10 business obstacles expected, next three months
% of respondents





Costs and labour challenges remain the biggest business concerns.

Business obstacles expected, next three months
% of respondents, grouped by category





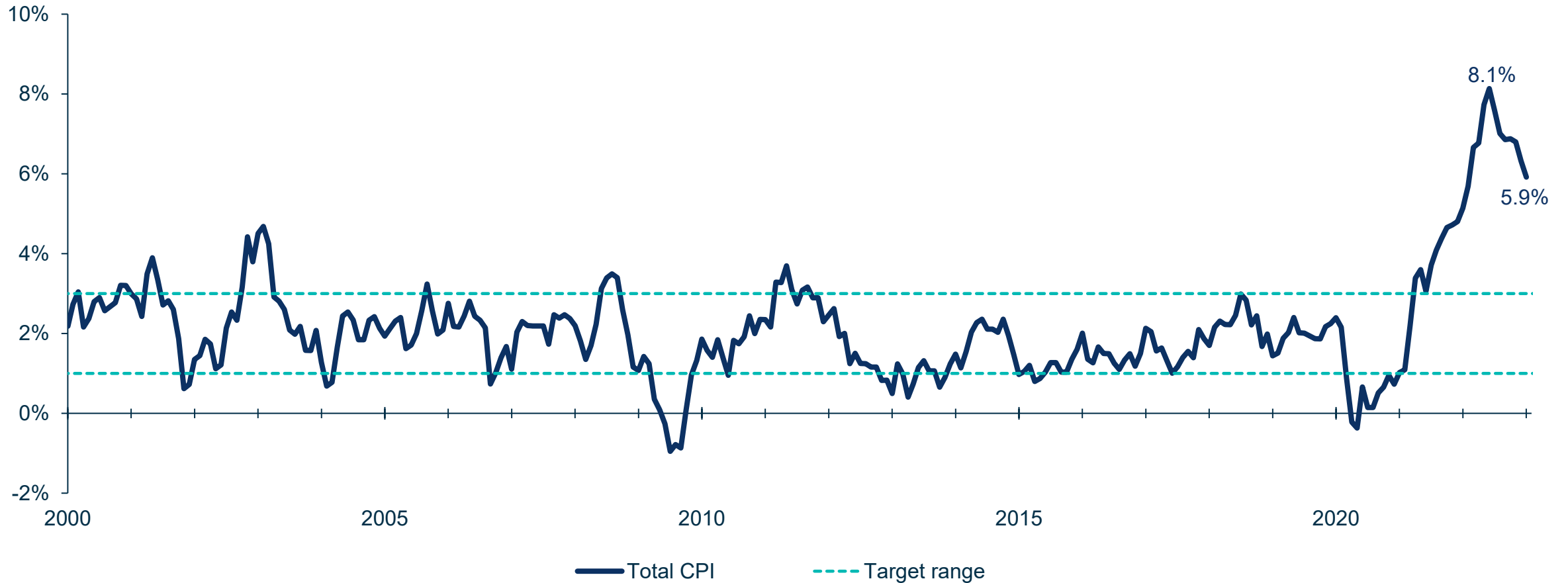
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Inflation pressures



Context: Inflation peaked at 8.1% last June and is slowing, but remains well above the Bank of Canada's 2% target.

Canadian consumer price index (CPI)
% change, year-over-year

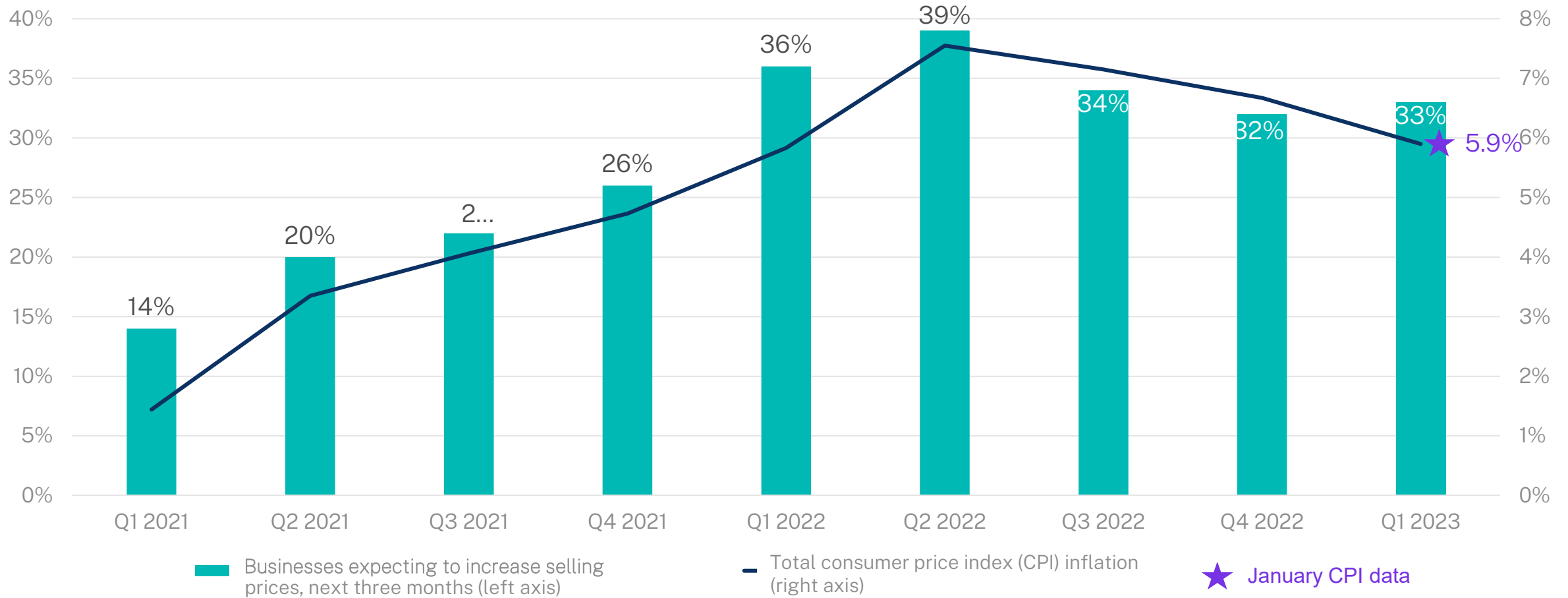




Despite slowing inflation, the share of companies expecting to raise prices next quarter held steady at around one-third.

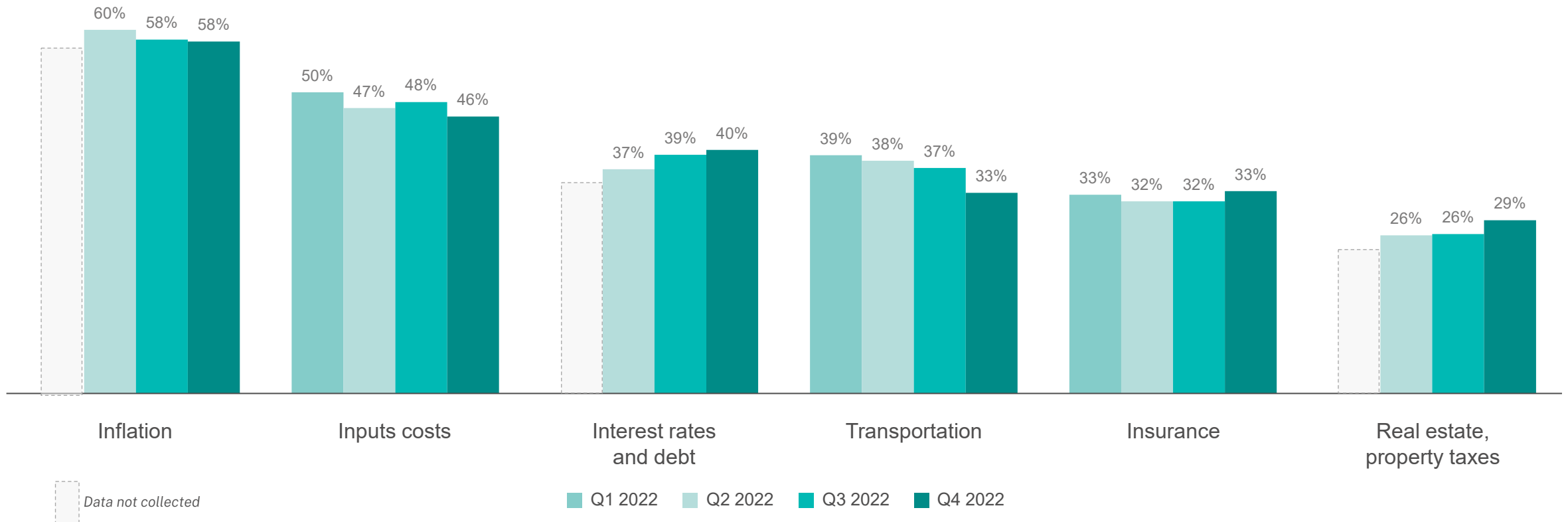
Businesses expecting to raise the selling price of their goods and services, next three months and CPI inflation

Left axis % of respondents; right axis year-over-year % change



Cost pressures are broad based across several categories.

Businesses expecting cost-related obstacles, next three months
% of respondents

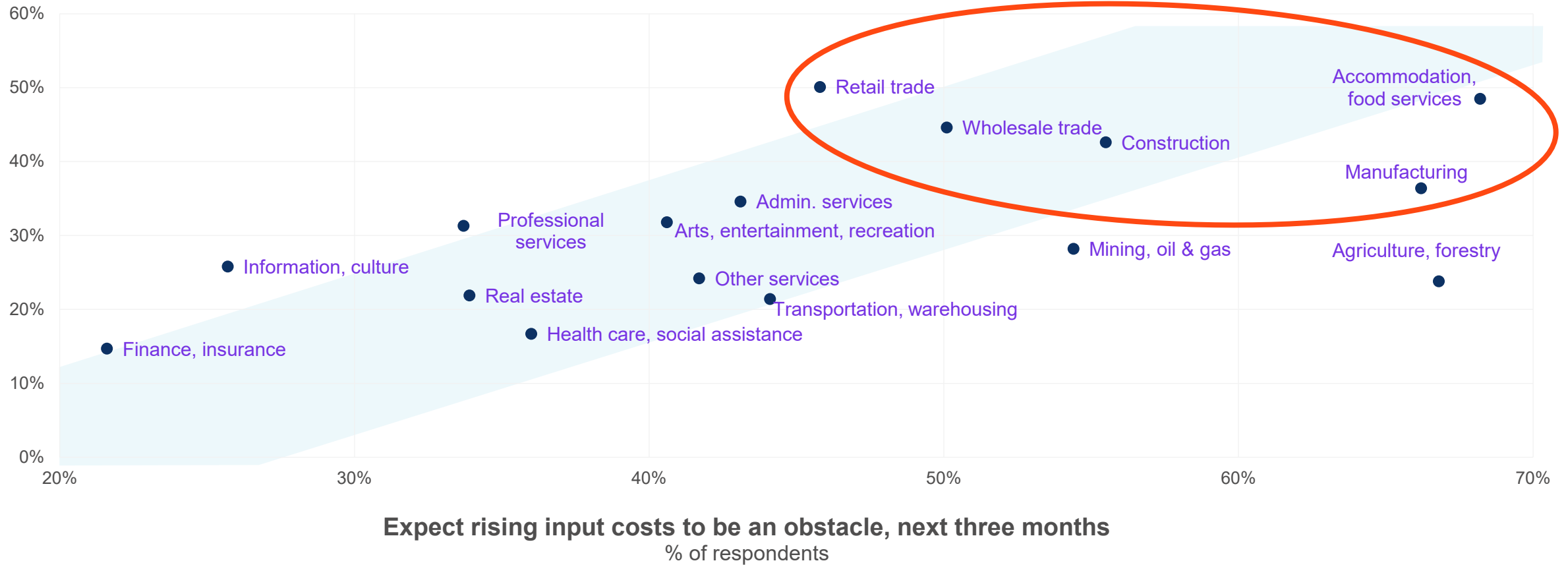




Industries facing stronger cost pressures are more likely to raise prices.

Expect to raise prices, next three months
% of respondents

Pressures are concentrated in retail, accommodation and food services, wholesale trade, construction and manufacturing.





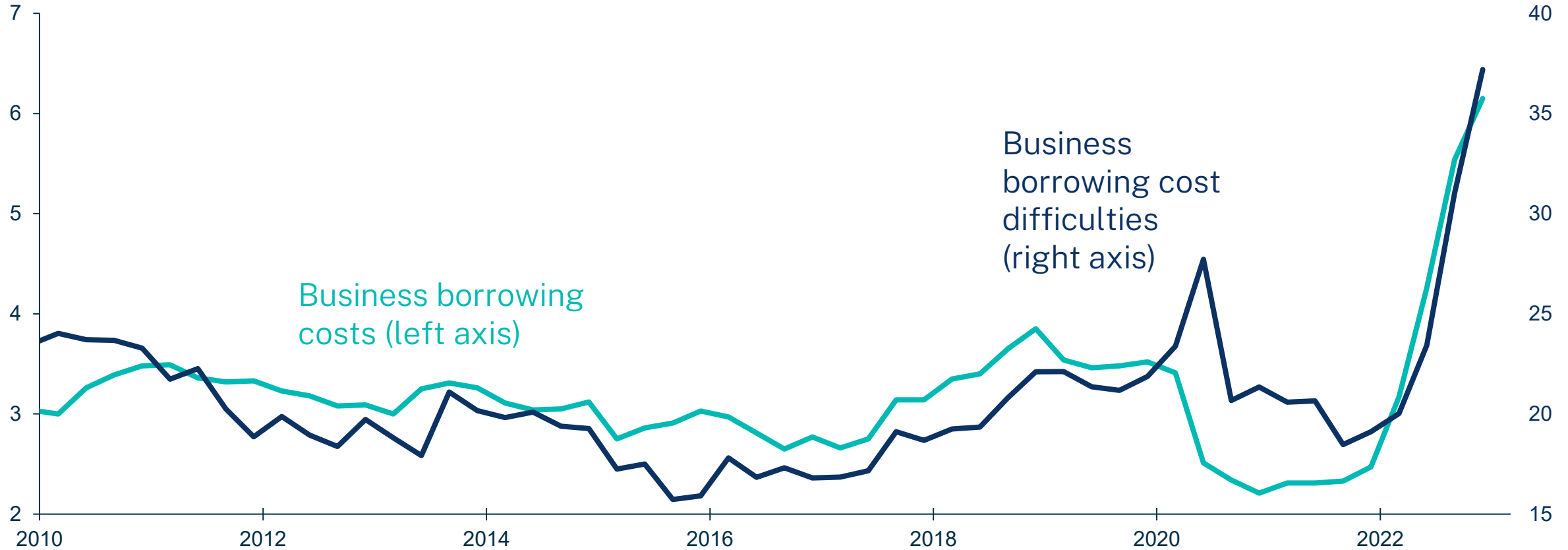
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Interest rates and debt constraints



Context: Business struggles with borrowing costs have increased significantly since the Bank of Canada began raising interest rates.

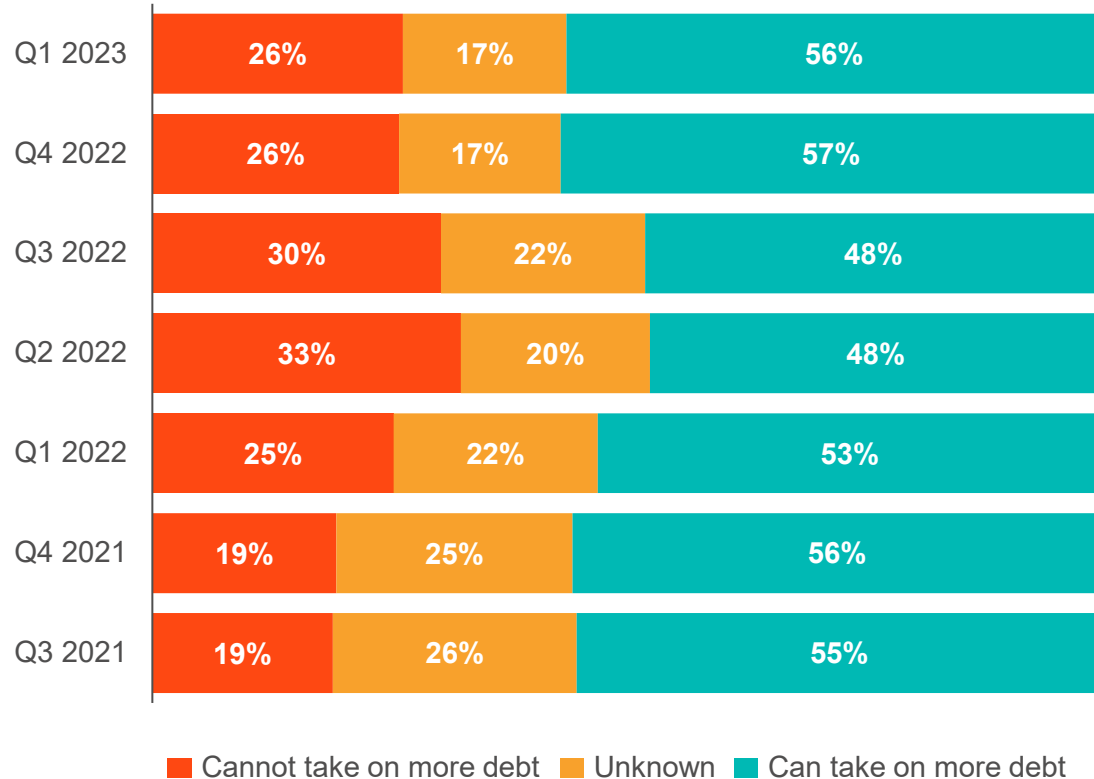
Effective business interest rate and share of small businesses reporting borrowing cost difficulties
Quarterly (left axis %; right axis % of total, seasonally adjusted)



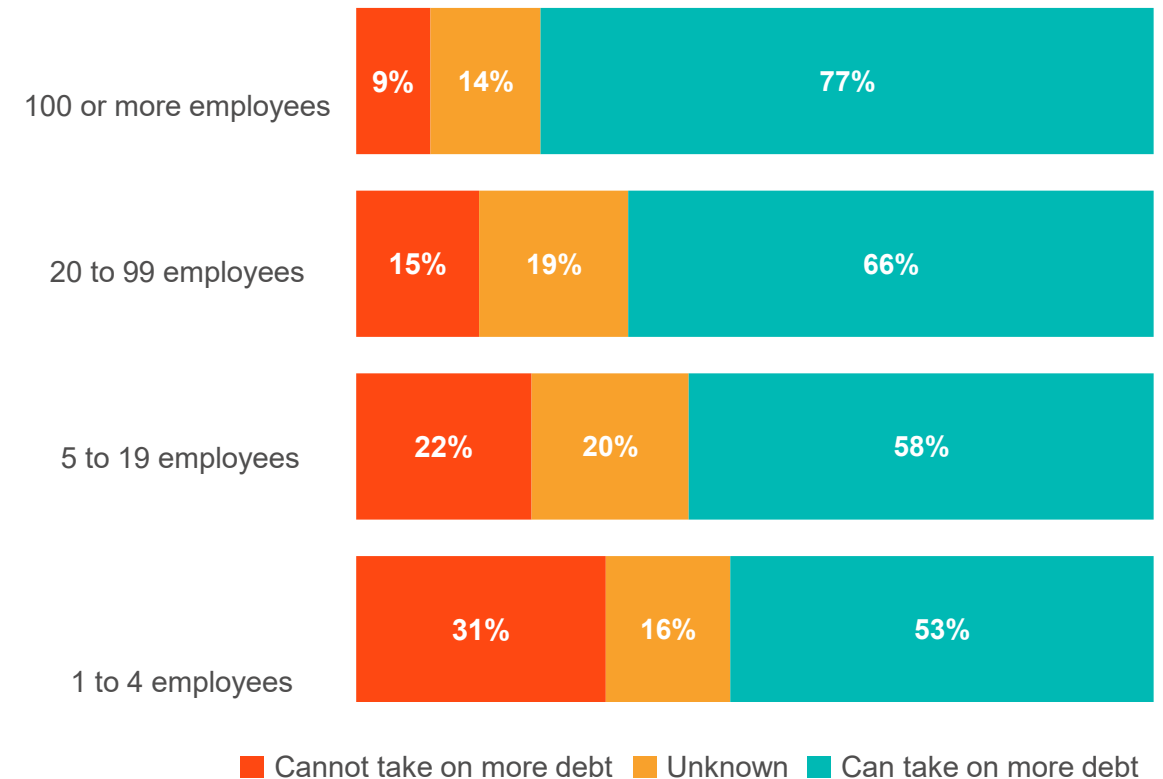


Business debt rose and constraints tightened over the pandemic; small firms are most constrained.

Ability to take on more business debt
% of respondents, by quarter of survey



Ability to take on more business debt
% of respondents, by employment size in Q1 2023

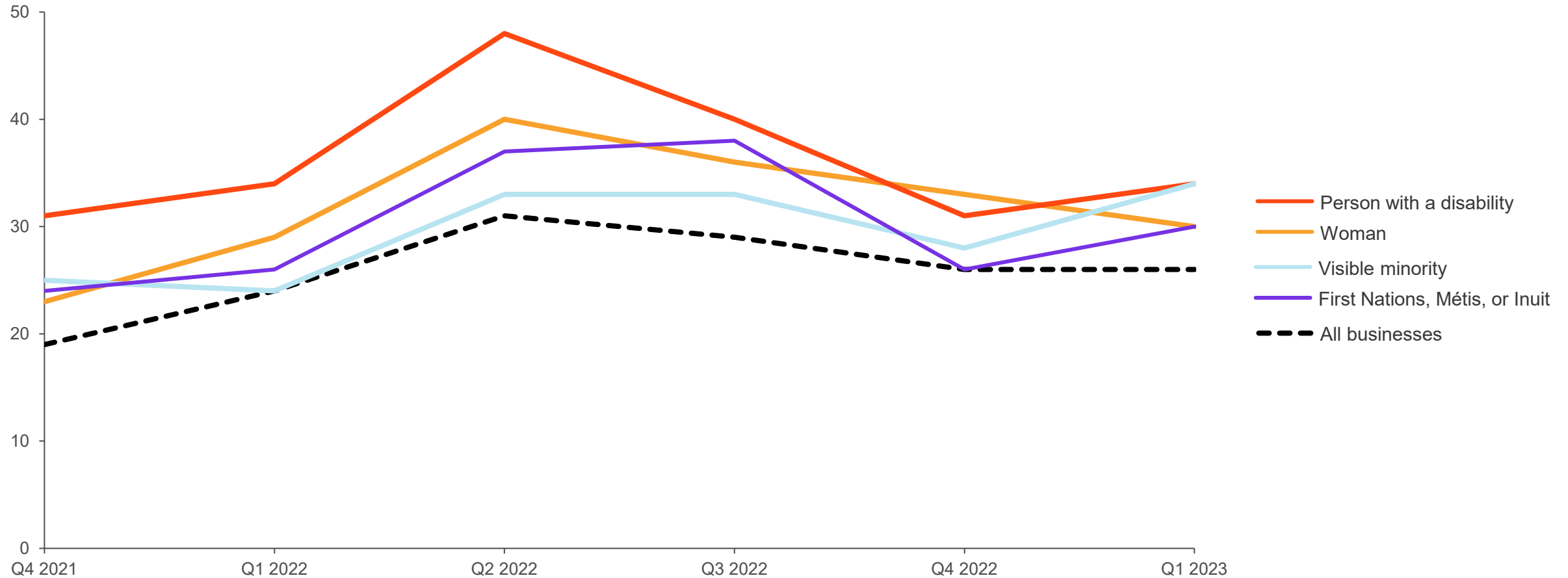


In the last survey, nearly one-quarter of private-sectors firms reported higher business debt relative to the start of the pandemic.



Debt constraints are worse for business owners in underrepresented groups.

Unable to take on more business debt
% of respondents, by business ownership





Higher interest rates are the most common reason businesses say they **can't take on more debt.**

Reasons business can't take on more debt

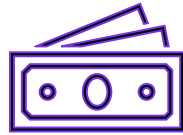
Top answers from the 26% of all respondents who said they can't take on more debt



53%

**Unfavourable
interest rates**

+13 pts
from Q4 2022



38%

Cash flow

+5 pts
from Q4 2022



36%

**Uncertain
future sales**

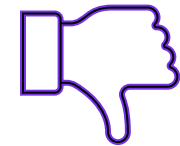
+2 pts
from Q4 2022



12%

**Unfavourable
payment terms**

+1 ppt
from Q4 2022



11%

**Request would
be turned down**

unchanged
from Q4 2022



Higher interest rates are impacting firms in various ways, including causing firms to raise prices, reduce investment and delay hiring.

Expected impacts due to increased interest rates, next three months (NEW SURVEY QUESTION)

Top answers from the 40% of all respondents who said they expect rising interest rates and debt costs to be an obstacle over the next three months



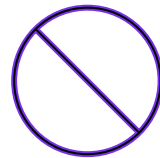
46%

**Increase
selling prices**



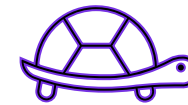
31%

**Reduce
investment**



30%

**No reported
impacts**



22%

**Delay
hiring**



11%

**Decrease
employment**



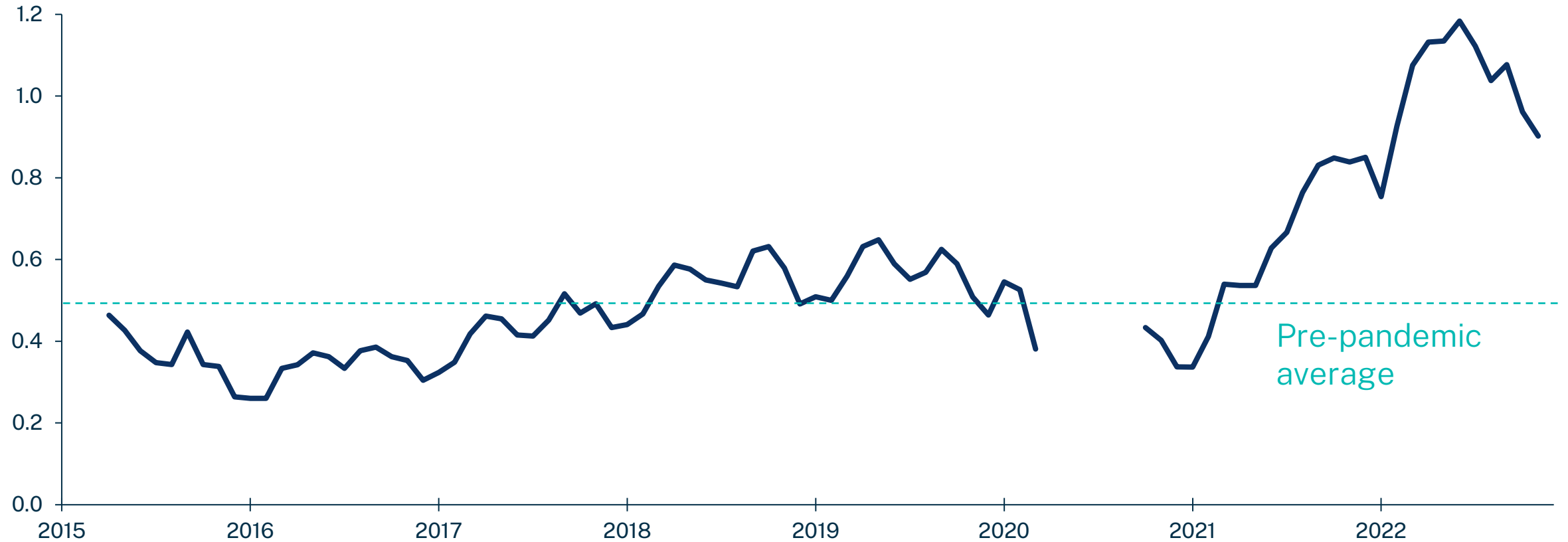
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Competition for talent



Context: Canada's labour market tightened significantly in the pandemic. Despite recent loosening, it remains hard for employers to hire workers.

Job vacancies per unemployed Ratio



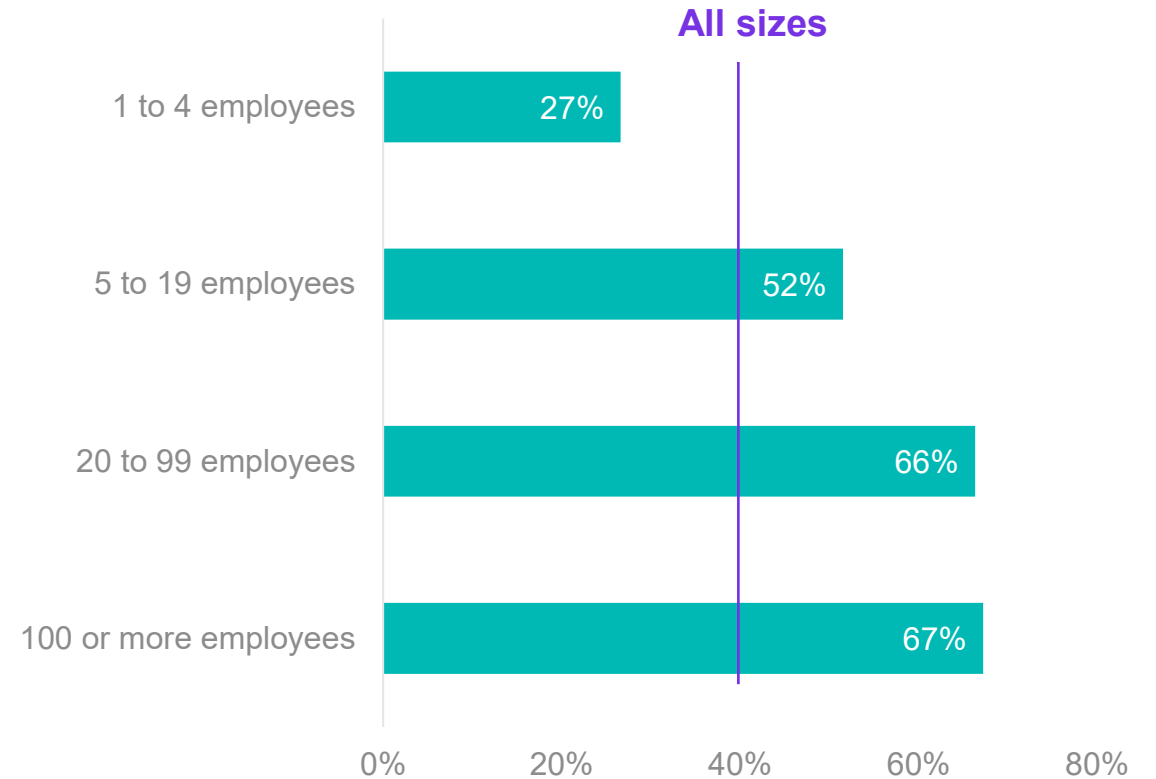


Labour challenges are slowly easing, but remain a key concern for most companies with over five employees.

Labour-related business obstacles expected, next three months
% of respondents



Expect obstacles recruiting and retaining skilled employees, next three months
% of respondents by firm size in Q1 2023



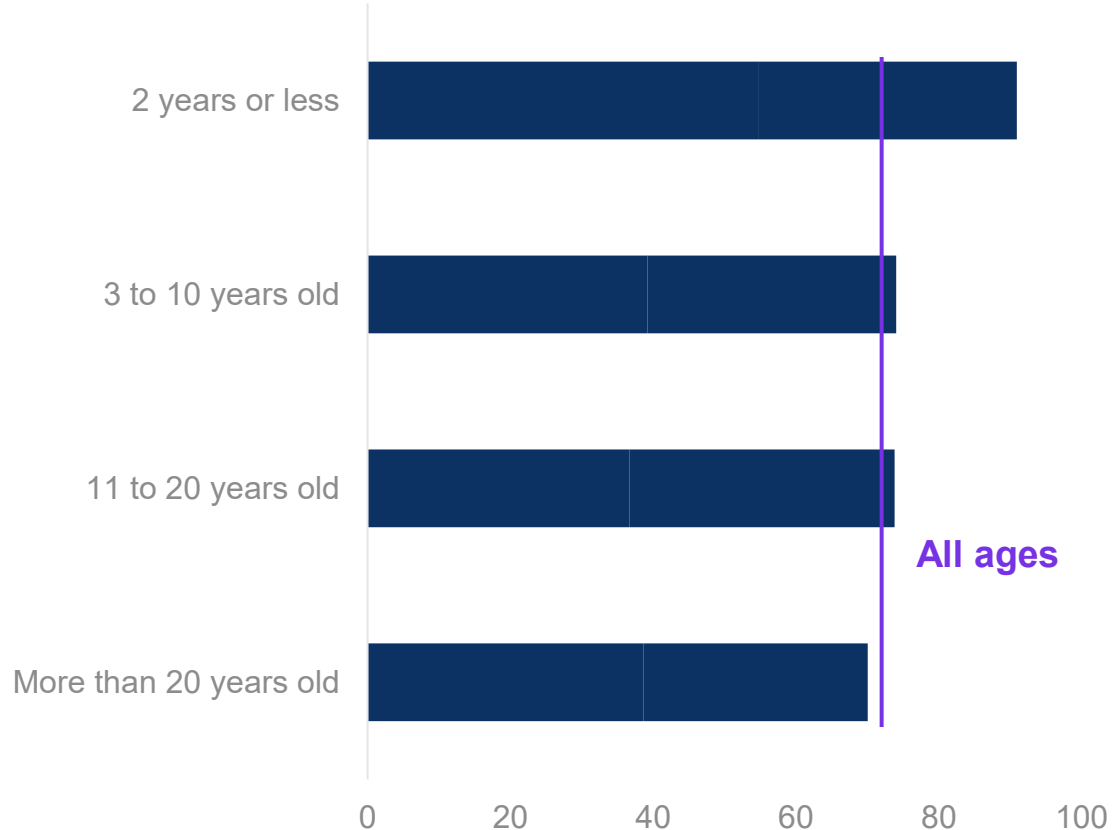


Of affected firms, the majority expect **recruiting and retention challenges to hinder production.**

Of the 40% of firms that expect labour challenges, these percentages foresee a “medium” or “high” impact on their ability to deliver goods and services over the next three months (NEW SURVEY QUESTION)

Youngest firms struggling more

% of respondents, by age of firm



Services sectors more impacted

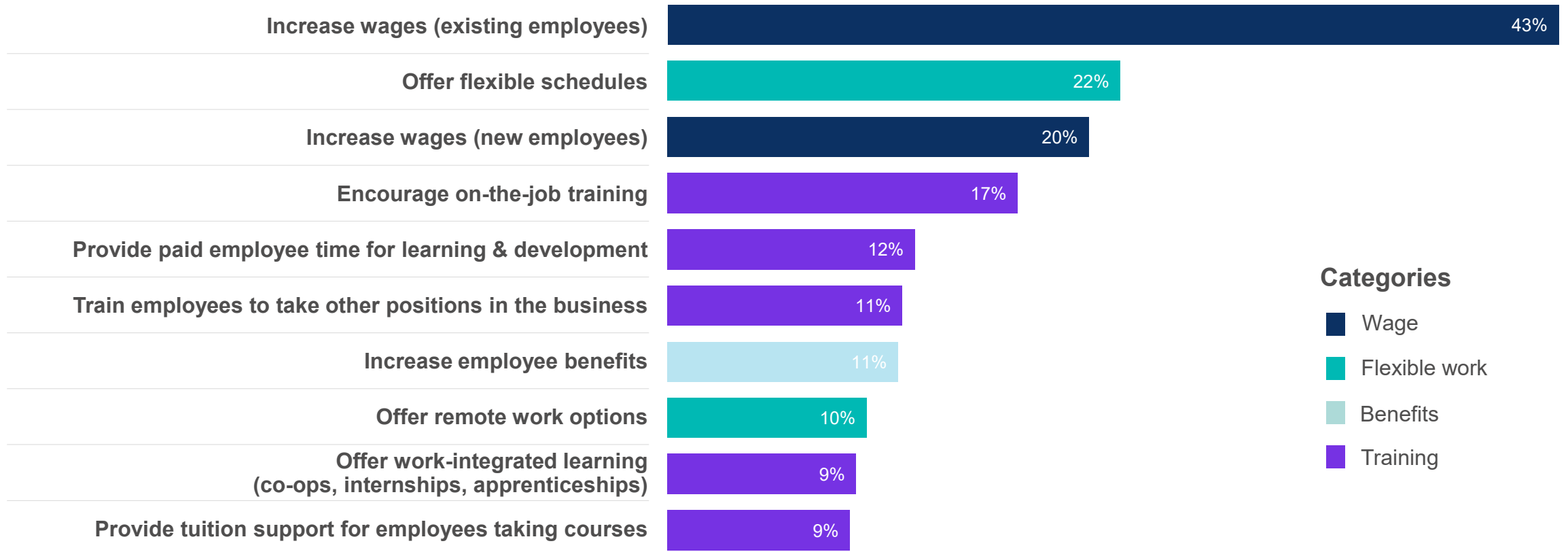
% of respondents, by industry

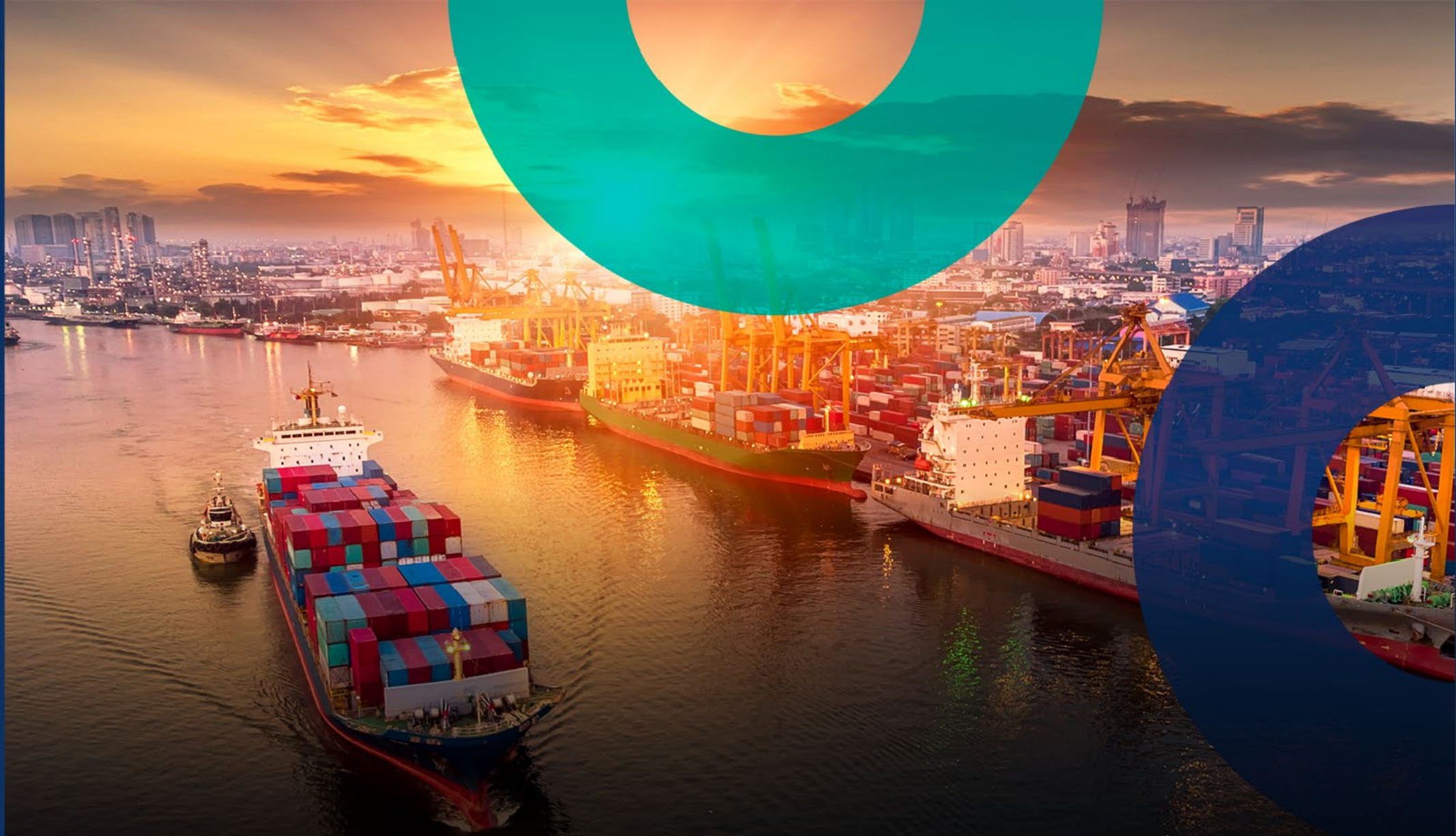




Businesses plan to address labour challenges with higher wages, more flexibility, training and benefits.

Of the 40% of firms that expect labour challenges, these are the top 10 plans to address them over the next 12 months
% of respondents





Q1 2023

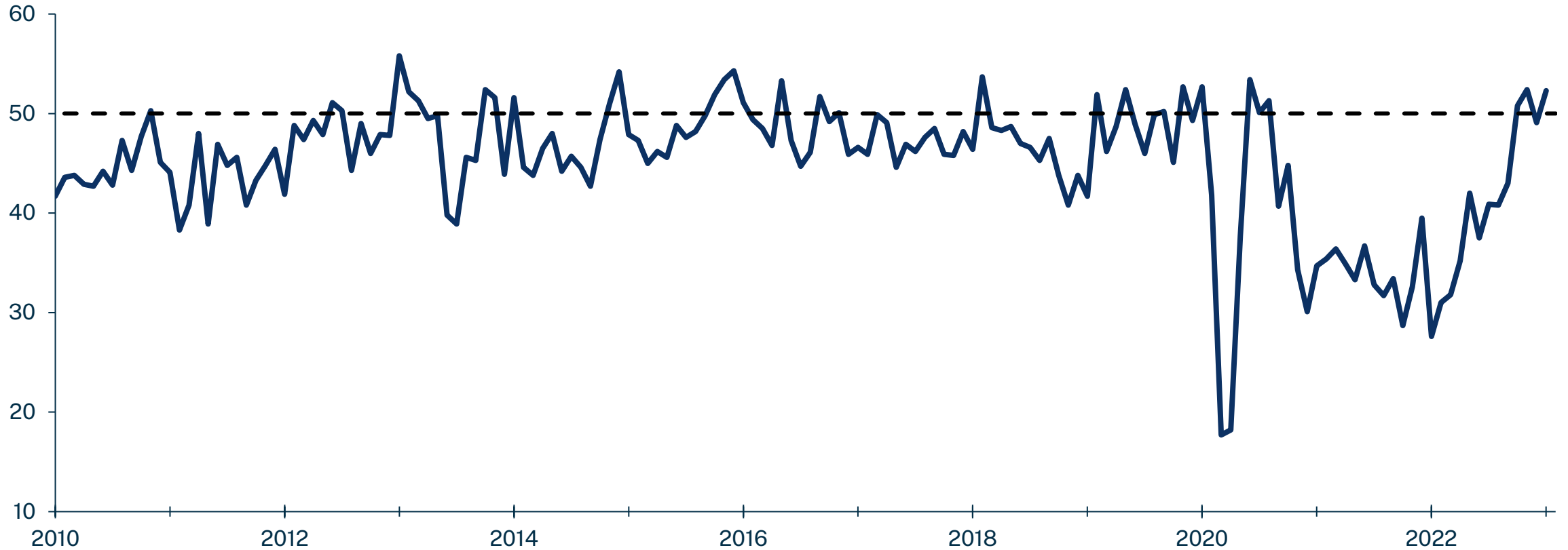
Supply-chain challenges



Context: Supply chains experienced significant backlogs throughout the pandemic, but delivery times are finally starting to improve.

Canadian supplier delivery times

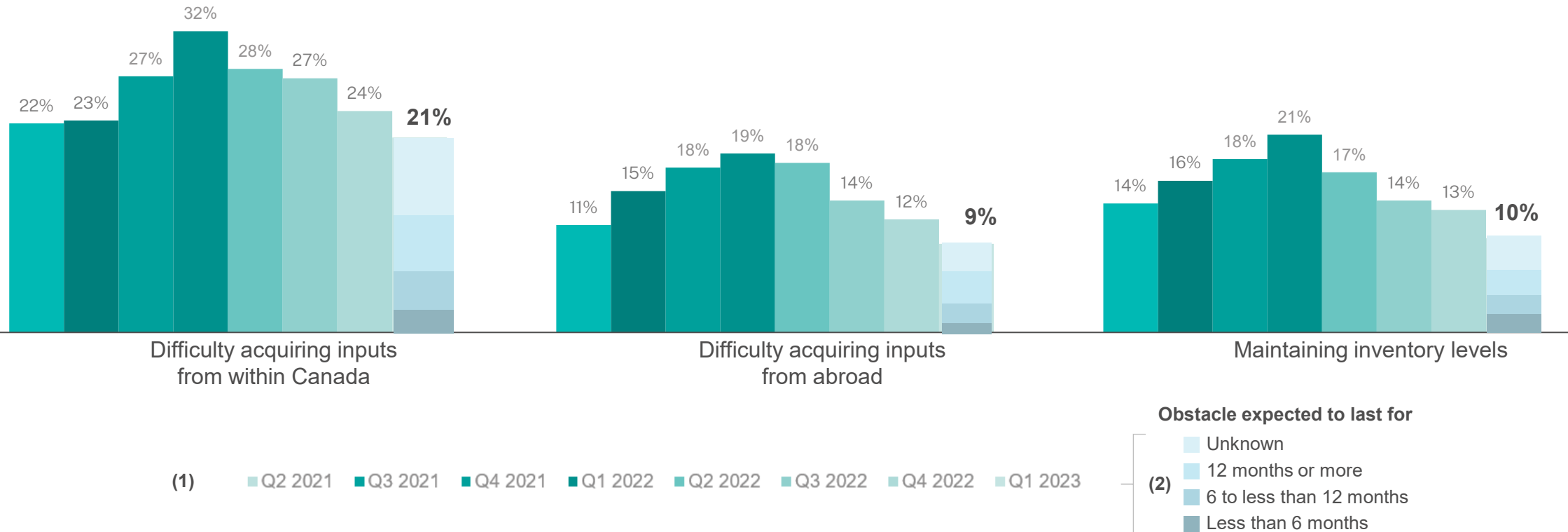
Index, less than 50 implies deliveries were slower than the previous month





Supply-chain challenges have improved since the start of 2022, but they remain elevated and many firms expect them to persist.

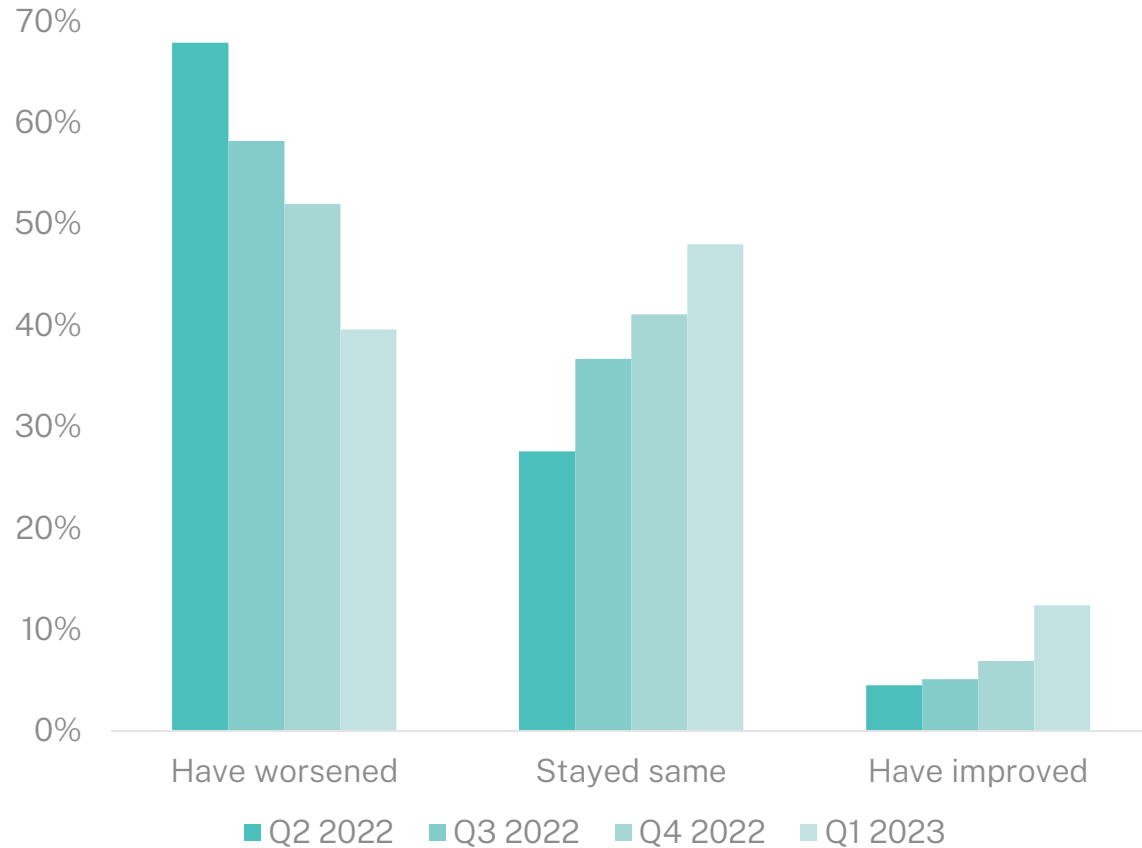
(1) Expected supply-chain obstacles, next three months
 (2) Expected duration of obstacles
 % of respondents



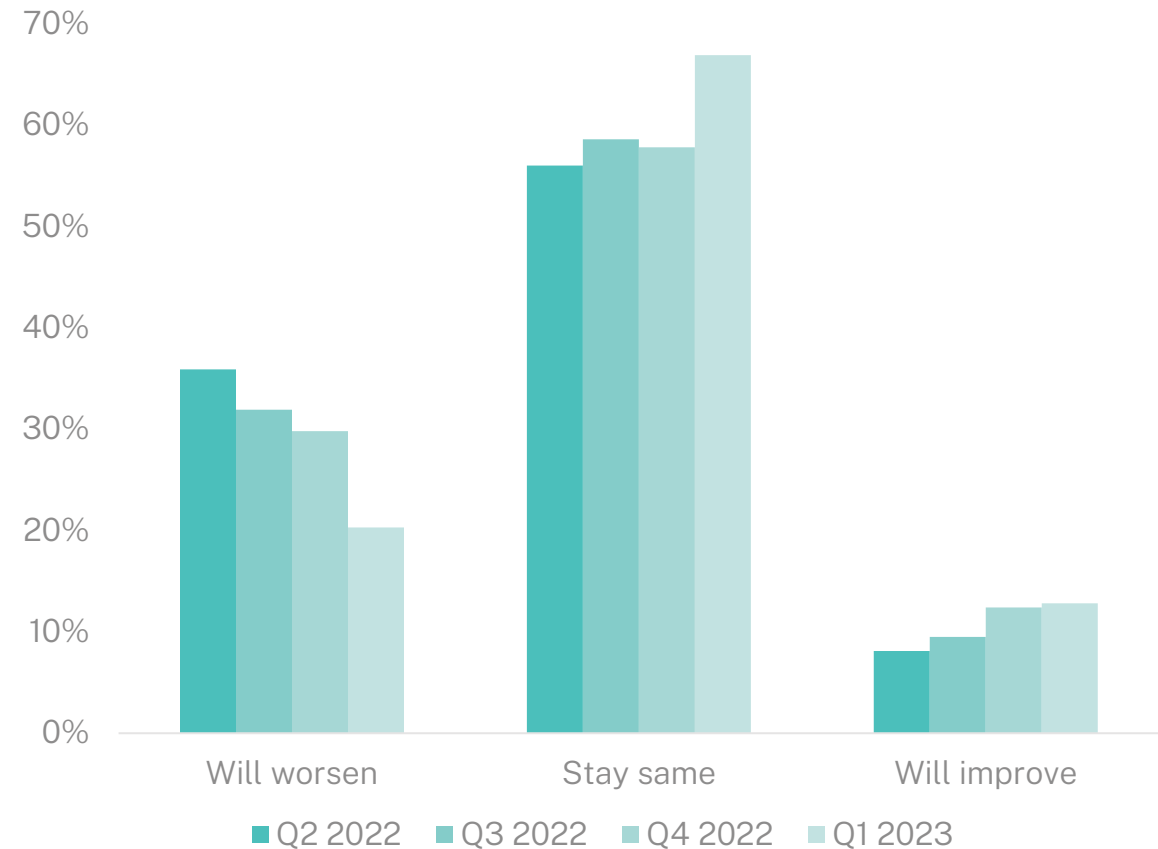


Most firms experiencing **supply-chain issues** say they have been the **same or improved**, and generally don't expect things to worsen.

Supply-chain obstacles experienced, last three months
% of respondents, of those that expect supply-chain obstacles



Supply-chain obstacles expected, next three months
% of respondents, of those that expect supply-chain obstacles





To manage supply chains, businesses plan to partner with new suppliers, substitute inputs and work with existing suppliers.

Business plans to adjust their supply chains, next 12 months
% of respondents



32%

partner with new suppliers

unchanged
from Q4 2022



29%

substitute inputs with alternatives

- 4 pts
from Q4 2022



28%

work with suppliers to improve timeliness

- 3 pts
from Q4 2022



14%

shift to local suppliers

+ 4 pts
from Q4 2022



14%

make technological improvements

+ 2 pts
from Q4 2022



Q1 2023

Technology / Digitization



Manufacturing, information and culture, professional services firms lead **technology adoption plans.**

Business plans to adopt new technologies, next 12 months

% of respondents, by industry and technology

	Move business operations online	Automate tasks	Software or hardware using Artificial Intelligence	Robotics	Security software tools	Cloud computing	Collaboration tools	Software or databases for other purposes
All industries	6%	6%	6%	1%	12%	14%	12%	6%
Manufacturing	6%	14%	9%	5%	16%	14%	9%	8%
Information and culture	7%	13%	15%	1%	19%	25%	25%	12%
Professional services	8%	12%	10%	1%	16%	30%	17%	10%
Retail trade	9%	9%	5%	1%	15%	13%	15%	6%
Agriculture, forestry	3%	8%	3%	2%	10%	7%	6%	5%
Finance, insurance	9%	7%	6%	0%	17%	18%	18%	6%
Wholesale trade	8%	7%	6%	0%	17%	14%	14%	11%
Arts, entertainment, recreation	7%	5%	4%	0%	10%	16%	18%	10%
Accommodation, food services	6%	5%	8%	1%	7%	11%	6%	5%
Mining, oil and gas	2%	5%	5%	2%	14%	17%	10%	6%
Real estate	3%	4%	6%	0%	14%	13%	13%	7%
Health care, social assistance	2%	4%	4%	0%	11%	12%	10%	3%
Transportation, warehousing	3%	4%	5%	0%	6%	7%	5%	5%
Administrative services	4%	3%	7%	0%	15%	12%	13%	8%
Construction	4%	3%	2%	2%	7%	7%	7%	2%

Lowest % of businesses



Highest % of businesses



Roughly 3 in 10 firms cite hiring skilled employees and access to finance as **top challenges to adopting new technologies.**

Business challenges when adopting technologies

% of respondents that answered, “somewhat challenging” and “extremely challenging”



Hiring workers with tech skills

35%



Accessing financial resources to invest in new tech

33%



Retraining employees with new tech skills

28%



Accessing external financing to support implementation

28%



Ensuring security and privacy of data

27%

Firms in **agriculture, construction and manufacturing** report the most challenges in **hiring workers with skills to implement new technologies.**

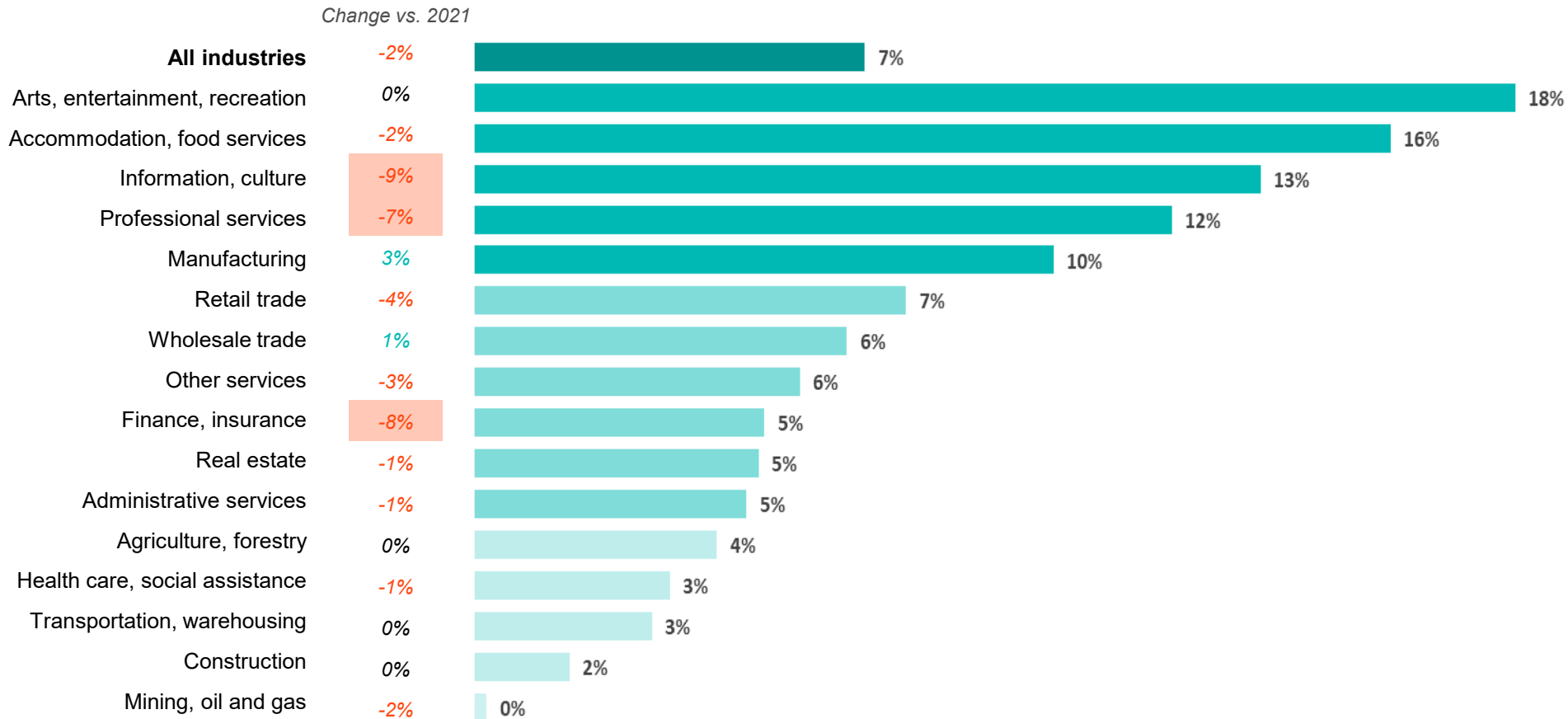
Firms in **construction, administrative services and health care** report more challenges **retraining/reskilling employees.**

Firms in **arts and recreation, administrative services, health care, accommodation and food services** report **access to financial resources and external financing** as impediments to tech adoption.



After a pandemic boom, the share of total sales made online fell in 2022, with notable declines for information and culture, professional services and finance.

Percentage of total sales made online in 2022 %, by industry





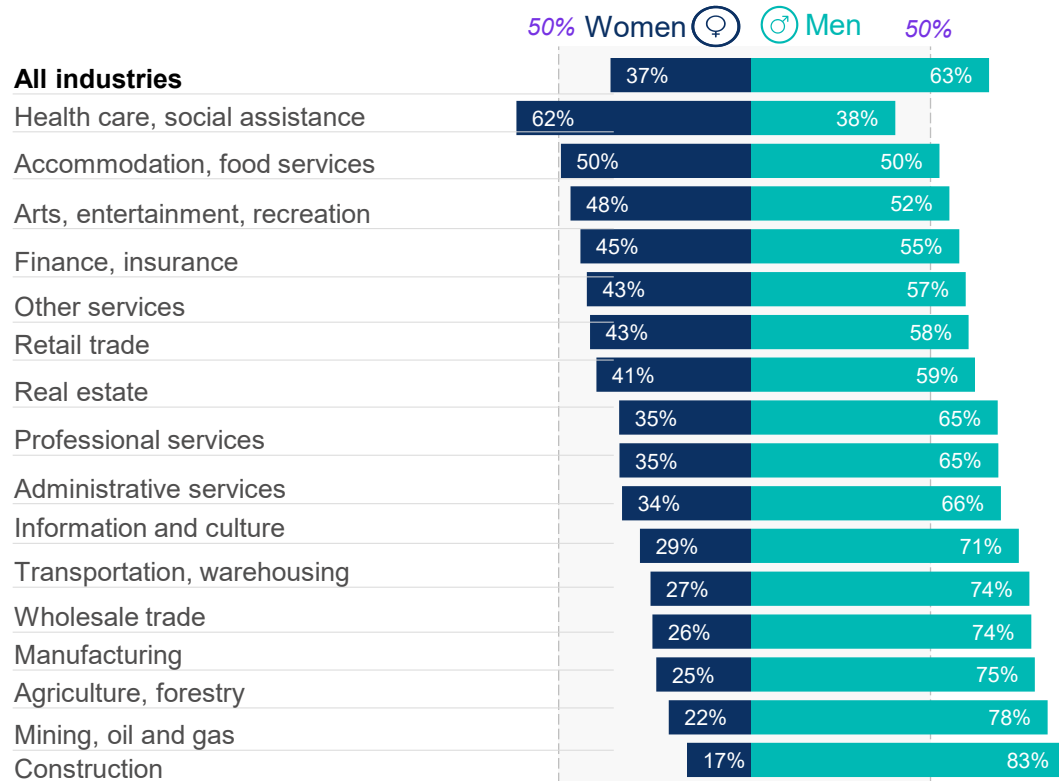
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Women in management

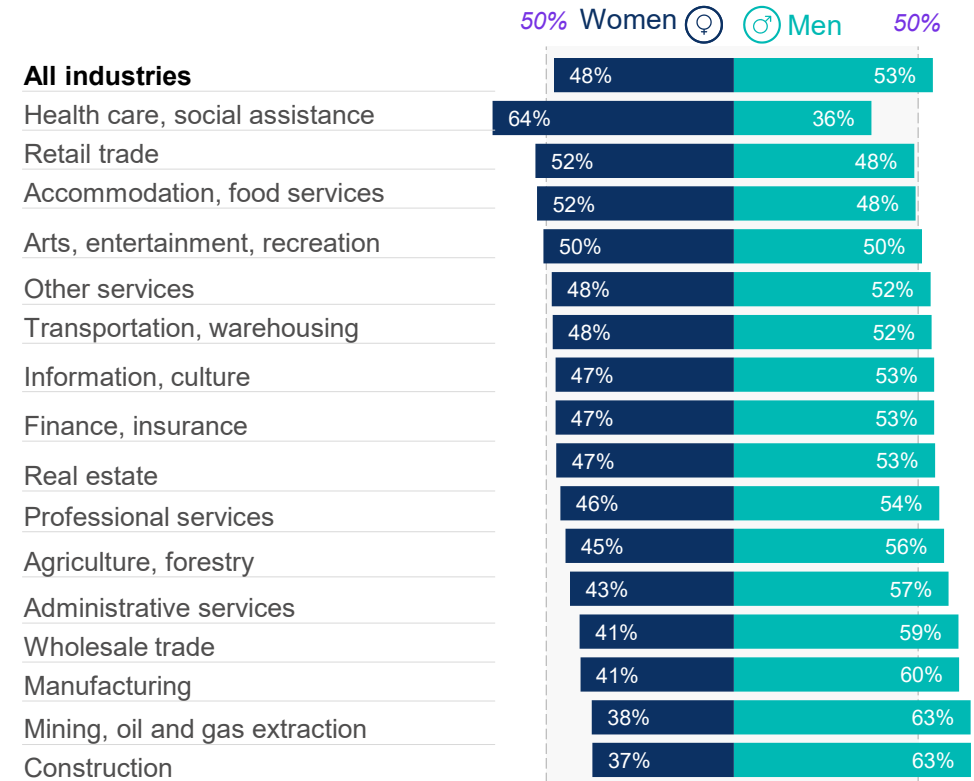


Women continue to be underrepresented in senior management positions, with very modest progress reported over the last year.

Share of women and men in senior management positions
% by industry



Share of women and men in other management positions
% by industry





Appendix



Survey methodology

- **Survey objectives:** The Canadian Survey on Business Conditions (CSBC) was created in spring 2020 by Statistics Canada in partnership with the Canadian Chamber of Commerce to provide timely, relevant data on business conditions in Canada, as well as businesses' expectations and views on emerging issues. These surveys are used by governments, chambers of commerce, business associations and analysts to monitor evolving business conditions and devise policies to support Canadian business.
- **Survey period:** The Q1 2023 CSBC data were collected from January 3 to February 6, 2023.
- **Survey approach:** The survey was conducted by Statistics Canada via electronic questionnaire, using a stratified random sample of business establishments with employees, classified by geography, industry sector and size. Population totals are estimated using calibration weights. The survey is based on responses from 15,963 businesses.
- **Note:** Charts might not sum to 100% due to rounding.
- **Contact:** This report presents analysis of the CSBC conducted by the Canadian Chamber of Commerce Business Data Lab. For questions, comments or media inquiries, contact Stephen Tapp, Chief Economist (STapp@Chamber.ca).

The BDL is made possible through our collaboration with Statistics Canada and financial support from Innovation, Science and Economic Development Canada.