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Analysis in Brief

Analysis on small businesses in Canada, first quarter of 2023

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by **Esteban Pinzon Delgado, Robert Fair, and Chris Johnston**

Small businesses are major contributors to the Canadian economy. In 2022, businesses with 1 to 99 employees comprised 98.0% of all employer businesses in Canada¹ and employed 10.7 million individuals which is almost two-thirds (63.0%) of all employees. By comparison, businesses with 100 to 500 employees, employed 3.6 million individuals (21.0% of employees) and businesses with more than 500 employees employed 2.7 million individuals (16.0% of employees) in Canada.² As such, smaller businesses play an important role in employing Canadians and are a significant driver in shaping the economy.

From the beginning of January to early February 2023, Statistics Canada conducted the Canadian Survey on Business Conditions to better understand the current environment businesses in Canada are operating in and their expectations moving forward. Based on the results of the survey, obstacles expected by small businesses in the coming months are centered around rising inflation, rising cost of inputs, and rising interest rates and debt. Small businesses were also more likely to expect a decrease in profitability and to expect supply chain problems but less likely to hire new employees and to increase prices for goods and services. This article provides insights on the expectations of small businesses as well as the unique conditions faced by these businesses.

Expected obstacles differ by size of business

Some of the obstacles smaller businesses expected to face in the coming months are different than those expected by larger businesses. The top five expected obstacles for businesses with 1 to 19 employees over the next three months were rising inflation (57.5%), rising cost of inputs (44.7%), rising interest rates and debt costs (40.6%), recruiting and retaining skilled employees (35.6%), and cost of insurance (34.1%). In comparison, the top five expected obstacles for businesses with 100 or more employees over the next three months were recruiting and retaining skilled employees (67.2%), rising inflation (59.3%), rising cost of inputs (55.5%), shortage of labour force (55.3%), and rising interest rates and debt costs (33.6%). While obstacles related to rising costs were expected to be significant for both smaller and larger businesses, larger businesses were more likely to expect challenges related to labour.

More than one-third (35.6%) of businesses with 1 to 19 employees expected to have obstacles related to recruiting and retaining skilled employees over the next three months, compared to around two-thirds of businesses with 20 to 99 employees (66.3%) and with 100 or more employees (67.2%).

1. Statistics Canada. (2023). [Table 33-10-0661-01 Canadian Business Counts, with employees, December 2022](#) [Data table].
2. Statistics Canada. (2023). [Table 14-10-0068-01 Employment by establishment size, annual \(x 1,000\)](#) [Data table].

Table 1
Selected business obstacles over the next three months, first quarter of 2023

	All employment sizes	1 to 19 employees	20 to 99 employees	100 or more employees
	percent of businesses			
Rising inflation	58.1	57.5	63.0	59.3
Rising cost of inputs	45.7	44.7	51.7	55.5
Rising interest rates and debt costs	40.2	40.6	38.4	33.6
Business expects obstacles related to recruiting and retaining skilled employees	39.7	35.6	66.3	67.2
Cost of insurance	33.4	34.1	30.5	19.8
Shortage of labour force	30.4	27.1	51.4	55.3

Notes: Respondents were asked between January 3 to February 6, 2023, about various expected business obstacles over the next three months. Therefore, the three-month period could range from January 3 to May 6, 2023, depending on when the business responded.

Source: Canadian Survey on Business Conditions, first quarter of 2023 (Table 33-10-0635-01).

Smaller businesses more likely to expect decreasing profitability, less likely to increase prices

More than one-third (35.6%) of businesses with 1 to 19 employees expected a decrease in profitability over the next three months, in comparison to 29.2% of businesses with 20 to 99 employees and 21.9% of businesses with 100 or more employees. These results remain largely unchanged from the previous quarter.

Table 2
Business expectations of profitability over the next three months, first quarter of 2023

	Increase	Stay about the same	Decrease	Not applicable
	percent of businesses			
All employment sizes	10.8	51.1	34.6	3.5
1 to 19 employees	9.8	51.4	35.6	3.2
20 to 99 employees	17.7	47.8	29.2	5.2
100 or more employees	15.9	57.4	21.9	4.8

Notes: Respondents were asked between January 3 to February 6, 2023, how their profitability was expected to change over the next three months. Therefore, the three-month period could range from January 3 to May 6, 2023, depending on when the business responded.

Source: Canadian Survey on Business Conditions, first quarter of 2023 (Table 33-10-0634-01).

More than one in four (27.1%) businesses with 1 to 19 employees did not plan to increase prices for goods and services offered over the next twelve months, compared to 15.3% of businesses with 20 to 99 employees and 14.9% of businesses with 100 or more employees. Close to three in ten businesses (29.1%) with 1 to 19 employees expected to increase prices for goods and services by up to seven percent, compared with 39.6% of businesses with 20 to 99 employees and 37.4% of businesses with 100 or more employees. The proportion of businesses expected to increase prices of goods and services by eight percent or more was similar in all employment sizes.

Table 3
Business expectations of price of goods and services offered over the next twelve months, first quarter of 2023

	Does not plan to increase prices	Up to 7%	8% or more	Unknown
	percent of businesses			
All employment sizes	25.5	30.4	16.6	27.4
1 to 19 employees	27.1	29.1	17.0	26.9
20 to 99 employees	15.3	39.6	14.3	30.9
100 or more employees	14.9	37.4	17.3	30.5

Notes: Respondents were asked between January 3 to February 6, 2023, on average, how much will the prices for goods and services offered by this business or organization were expected to increase over the next twelve months. Therefore, the twelve-month period could range from January 3 to Feb 6, 2024, depending on when the business responded.

Source: Canadian Survey on Business Conditions, first quarter of 2023 (Table 33-10-0647-01).

Smaller businesses less likely to hire in the short-term

Consistent with the differences in expected obstacles between smaller and larger business regarding recruiting and retaining skilled employees or shortage of labour force over the next three months, the proportion of businesses with 1 to 19 employees that expected their number of employees to increase (11.8%) was significantly lower than larger businesses over the next three months, with 23.4% of businesses with 20 to 99 employees and 31.0% of businesses with 100 or more employees expecting the same. Similarly, 7.4% of businesses with 1 to 19 employees expected the number of vacant positions to increase, compared with 11.2% of businesses with 20 to 99 employees and 13.7% of businesses with 100 or more employees.

Table 4
Business expectations regarding the number of employees over the next three months, first quarter of 2023

	Increase	Stay about the same	Decrease
	percent of businesses		
All employment sizes	13.5	80.0	6.4
1 to 19 employees	11.8	81.7	6.5
20 to 99 employees	23.4	70.5	6.1
100 or more employees	31.0	62.5	6.5

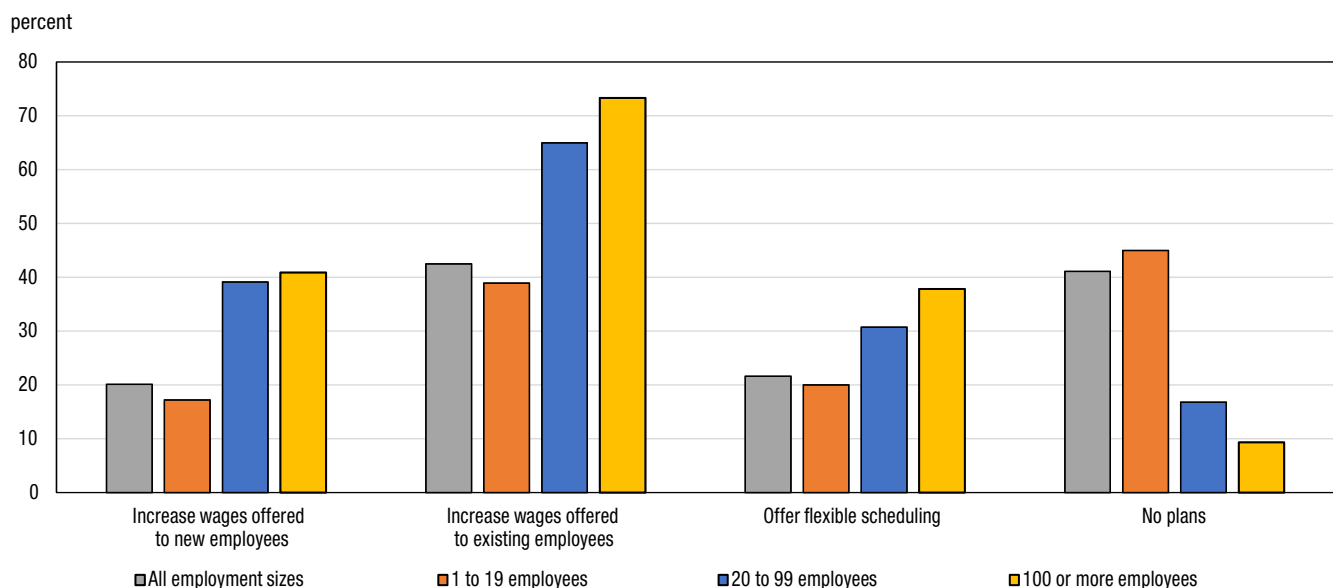
Notes: Respondents were asked between January 3 to February 6, 2023, what their expectations on the number of employees would be over the next three months. Therefore, the three-month period could range from January 3 to May 6, 2023, depending on when the business responded.

Source: Canadian Survey on Business Conditions, first quarter of 2023 (Table 33-10-0634-01).

Almost two in five (38.9%) businesses with 1 to 19 employees plan to increase wages offered to existing employees, while nearly two-thirds (65.0%) of businesses with 20 to 99 employees and close to three-quarters (73.3%) of businesses with 100 or more employees reported the same. Additionally, 17.2% of businesses with 1 to 19 employees plan to increase wages offered to new employees, in comparison to 39.1% of businesses with 20 to 99 employees and 40.9% of businesses with 100 or more employees.

One in five (20.0%) businesses with 1 to 19 employees plan to offer flexible scheduling to staff, whereas 30.7% of businesses with 20 to 99 employees and 37.8% of businesses with 100 or more employees had the same plans. Meanwhile, nearly half of businesses with 1 to 19 employees (45.0%) had no plans regarding recruitment, retention and training over the next 12 months, in contrast with 16.8% of businesses with 20 to 99 employees and 9.3% of businesses with 100 or more employees.

Chart 1
Recruitment, retention and training plans over the next 12 months



Notes: Respondents were asked between January 3 to February 6, 2023, which various business plans were expected over the next twelve months. Therefore, the twelve-month period could range from January 3 to February 6, 2024, depending on when the business responded.

Source: Canadian Survey on Business Conditions, first quarter of 2023 (Table 33-10-0649-10).

Smaller businesses expect to change how they operate because of rising interest rates

Nearly three quarters of businesses (71.4%) with 1 to 19 employees responded that they do not plan to apply for a new loan, in comparison to 64.4% of businesses with 20 to 99 employees and 61.5% of businesses with 100 or more employees that did not plan to do so.

Among the businesses that do not plan to apply for a new loan, more than one-quarter (28.1%) of businesses with 1 to 19 employees reported that they cannot take on more debt. Meanwhile, 15.4% of businesses with 20 to 99 employees and 9.3% of businesses with 100 or more employees reported the same.

Of the businesses unable to take on more debt, 53.2% of businesses with 1 to 19 employees and 49.4% of businesses with 20 to 99 employees reported that the most common reason was that the interest rates were unfavorable. Conversely, 41.1% of businesses with 100 or more employees reported the same.

Businesses that reported rising interest rates and debt costs as an obstacle had different plans to address this issue. Almost half (45.1%) of these businesses with 1 to 19 employees expected to increase the selling prices of goods or services offered over the next three months, while 50.9% of businesses with 20 to 99 employees and 39.3% of businesses with 100 or more employees expected to do the same. Furthermore, 32.6% of these businesses with 1 to 19 employees expected reducing investment, in contrast to 19.7% of businesses with 20 to 99 employees and 24.5% of businesses with 100 or more employees.

Smaller businesses experienced worsening supply chain challenges

Among all businesses that reported difficulty acquiring inputs, products or supplies from within Canada or abroad, or maintaining inventory levels, approximately two-fifths of businesses with 1 to 19 employees (39.8 %) and 20 to 99 employees (40.4%) experienced worsening supply chain challenges over the last three months, compared with under three-tenths (28.6%) of businesses with 100 or more employees. Additionally, one-fifth of businesses with 1 to 19 employees (20.5 %) and 20 to 99 employees (20.8%) expected supply chain challenges to worsen over the next three months, while less than one-tenth of businesses with 100 or more employees (9.5%) expected this.

Smaller businesses remain less optimistic than larger businesses

Smaller businesses were more likely to have lower revenues in 2022 when compared with 2021. More than one-third (34.4%) of businesses with 1 to 19 employees reported that revenues were lower in 2022 compared to 2021. Meanwhile, 26.7% of businesses with 20 to 99 employees and 28.9% of businesses with 100 or more employees reported lower revenues.

Consistent with the lower revenues experienced from 2021 to 2022, smaller businesses were also less likely to have an optimistic outlook over the next 12 months. Nearly two-thirds (65.2%) of businesses with 1 to 19 employees reported having a positive outlook over the next 12 months, while over four-fifths of businesses with 20 to 99 employees (81.9%) and 100 or more employees (85.0%) had the same outlook.

Methodology

From January 3 to February 6, 2023, representatives from businesses across Canada were invited to take part in an online questionnaire about business conditions and business expectations moving forward. The Canadian Survey on Business Conditions uses a stratified random sample of business establishments with employees classified by geography, industry sector, and size. An estimation of proportions is done using calibrated weights to calculate the population totals in the domains of interest. The total sample size for this iteration of the survey is 30,554 and results are based on responses from a total of 15,963 businesses or organizations.

References

Statistics Canada. (2023). Canadian Survey on Business Conditions, first quarter of 2023.