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Analysis in Brief

Analysis on supply chains in Canada, third quarter of 2022

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Analysis on supply chains in Canada, third quarter of 2022

by **Stephanie Tam, Shivani Sood and Chris Johnston**

Challenges that have arisen since the beginning of the COVID-19 pandemic have shone a spotlight on the strength and resilience of supply chains. Many businesses have not yet fully recovered from the prior tightening and closing of borders, restrictions on the movement of people and goods, and lockdowns. As a result, the status of supply chains and the impact they have on their respective economies are of great interest.

Widespread global supply constraints in combination with pent-up consumer demand resulted in inflationary pressures. While annual inflation was 0.7% in 2020 and 3.4% in 2021,¹ it picked up speed in 2022, with the Consumer Price Index (CPI) showing a 7.6% year-over-year increase in July, following an 8.1% increase in June, the largest annual change since January 1983. On a monthly basis, the CPI rose 0.1% in July, the seventh consecutive monthly increase.² In addition, in July 2022, the Industrial Product Price Index increased 11.9% year over year, although on a monthly basis it decreased by 2.1%. Prices of raw materials purchased by manufacturers operating in Canada, as measured by the Raw Materials Price Index, remain 19.1% higher compared with July 2021, despite the most recent month-over-month variation showing a decline of 7.4%.³ On average, prices (+7.6%) rose faster than hourly wages (+5.2%) year over year in July, based on data from the Labour Force Survey.⁴

From the beginning of July to early August 2022, Statistics Canada conducted the Canadian Survey on Business Conditions to better understand the current environment that businesses in Canada are operating in and their expectations moving forward. Based on the results of the survey, businesses expect supply chain issues to continue into the short term, specifically when acquiring inputs, products or supplies domestically and abroad, and maintaining inventory levels. Additionally, of those businesses that expected supply chain challenges, the vast majority expect the situation to stay the same or worsen over the next three months, and businesses plan to use various strategies to address supply chain issues. This article provides insights on the topic of supply chain challenges and the impacts of these issues on businesses in Canada.

Supply chain challenges anticipated to continue

One-quarter (26.8%) of businesses expect difficulty acquiring inputs, products or supplies domestically over the next three months.⁵ This proportion has decreased slightly from the previous quarter, when over one-quarter (28.2%) of businesses anticipated challenges in this regard. Nearly half of businesses in construction (47.8%) and manufacturing (43.9%) expect difficulty acquiring inputs, products or supplies domestically over the next three months. Of the businesses expecting difficulty acquiring inputs, products or supplies domestically, over half (54.3%) expect these challenges to continue for six months or more, down slightly from the previous quarter (57.3%). Meanwhile, one-third (33.3%) of businesses are uncertain how long these challenges will persist.

Over 1 in 10 (14.4%) businesses expect difficulty acquiring inputs, products or supplies from abroad over the next three months. This is down from 18.2% of businesses in the previous quarter. Around one-third of businesses in wholesale trade (36.1%) and manufacturing (33.2%) expect to experience this challenge over the next three months. Of businesses expecting difficulty acquiring inputs, products or supplies from abroad, over half (55.7%) expect these challenges to continue for six months or more, down slightly from the previous quarter (58.2%). At the same time, nearly one-third (31.8%) of businesses are uncertain how long these challenges will persist.

More than 1 in 10 (14.2%) businesses expect maintaining inventory levels to be an obstacle over the next three months. This number has decreased somewhat from the previous quarter, when almost one-fifth (17.4%) of businesses expected maintaining inventory levels to be an obstacle. Nearly two-fifths (39.9%) of businesses in retail trade and over one-quarter (26.1%) of businesses in accommodation and food services expect maintaining inventory levels to be a challenge over the next three months. Among businesses that expected maintaining

1. Statistics Canada. 2022. [Consumer Price Index: Annual review, 2021](#).

2. Statistics Canada. 2022. [Consumer Price Index, July 2022](#).

3. Statistics Canada. 2022. [Industrial product and raw materials price indexes, July 2022](#).

4. Statistics Canada. 2022. [Labour Force Survey, July 2022](#).

5. The results in this article are based on the survey that was in collection from July 4 to August 8, 2022, and respondents were asked what their expectations would be over the next three-month period. As a result, those three months could range from July 4 to November 8, 2022, depending on when the business responded.

inventory levels to be a challenge, over half (52.1%) expect these difficulties to continue for six months or more, and nearly one-third (31.6%) are uncertain how long these challenges will persist, similar to the previous quarter (55.9% and 24.6% respectively).

Table 1
Business expectations of how long supply chain obstacles will last, by selected industries, third quarter of 2022

	Business expects difficulty acquiring inputs, products or supplies from within Canada for six months or more	Business expects difficulty acquiring inputs, products or supplies from abroad for six months or more	Business expects maintaining inventory levels to be an obstacle for six months or more
	percent		
All industries	54.3	55.7	52.1
Wholesale trade	67.5	67.1	57.8
Real estate and rental and leasing	65.7	48.5	60.5
Agriculture, forestry, fishing and hunting	64.4	63.7	66.2
Retail trade	58.9	55.4	63.2
Construction	54.6	54.5	47.7
Arts, entertainment and recreation	52.2	61.3	46.9
Accommodation and food services	51.1	44.1	34.4
Manufacturing	49.4	62.1	50.4
Transportation and warehousing	49.4	64.8	27.2
Administrative and support, waste management and remediation services	48.5	48.4	73.2
Other services (except public administration)	46.3	39.7	47.9
Professional, scientific and technical services	33.0	56.1	25.4

Note: Respondents were asked from July 4 to August 8, 2022 their expectations on various obstacles over the next three months. Therefore, the three month period could range from July 4 to November 8, 2022 depending on when the business responded. If they reported that they expected difficulty acquiring inputs or supplies from within Canada or abroad, or maintaining inventory levels as obstacles, they were asked how long they expected these to continue being an obstacle.

Source: Canadian Survey on Business Conditions, third quarter of 2022 (Table 33-10-0536-01).

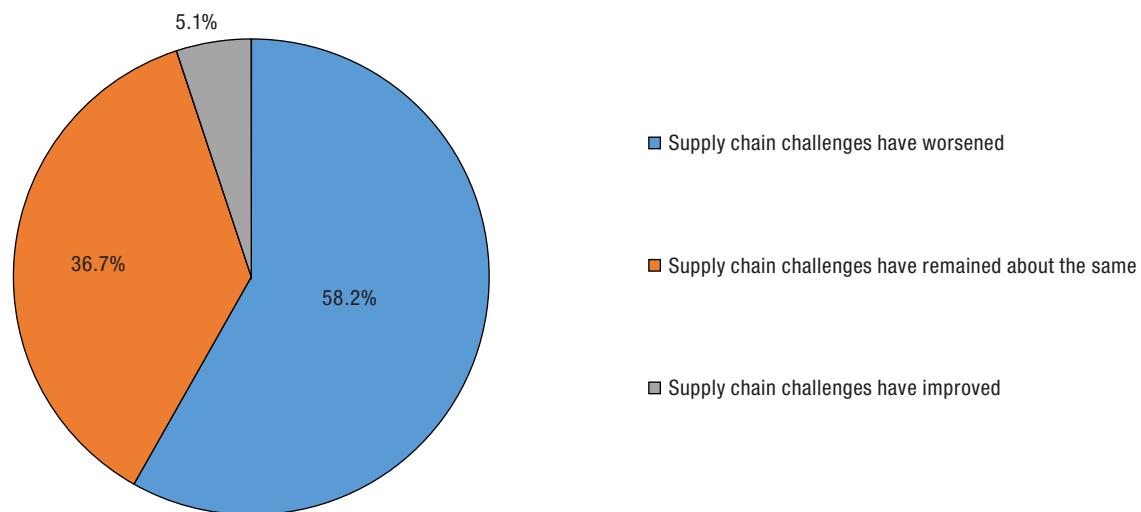
Businesses are still experiencing worsened supply chain challenges, despite improvement from last quarter

Of businesses that expected supply chain challenges⁶ over the next three months, nearly three-fifths (58.2%) reported that challenges experienced by the business have worsened over the last three months. This figure has decreased from the previous quarter (67.9%). For these businesses, the leading factors that contributed to worsened supply chain challenges were increased delays in deliveries (82.7%); increased prices of inputs, products or supplies (78.3%); and supply shortages that resulted in fewer inputs, products or supplies being available (72.3%), similar to the previous quarter (84.1%, 78.5%, and 75.7% respectively). Over one-third (36.7%) of businesses that expected supply chain challenges reported that these challenges have remained about the same over the last three months, up from the previous quarter (27.6%), while 5.1% of businesses said that supply chain challenges have improved.

6. Businesses that expect to experience supply chain challenges are those that reported expecting at least one of the following obstacles: difficulty acquiring inputs, products or supplies domestically; difficulty acquiring inputs, products or supplies abroad; maintaining inventory levels.

Chart 1

Change in supply chain challenges experienced over the last three months, third quarter of 2022



Note: These results are based on the survey that was in collection from July 4 to August 8, 2022, and respondents were asked what the business or organization experienced in the last three-month period. As a result, those three months could range from April 4 to August 8, 2022, depending on when the business responded.

Respondents were asked if the business or organization expected various obstacles over the next three months. If they reported that they expected difficulty acquiring inputs or supplies from within Canada or abroad, or maintaining inventory levels as obstacles, they were asked how supply chain challenges experienced by the business or organization have changed over the last three months.

Source: Canadian Survey on Business Conditions, third quarter of 2022 (Table 33-10-0537-01).

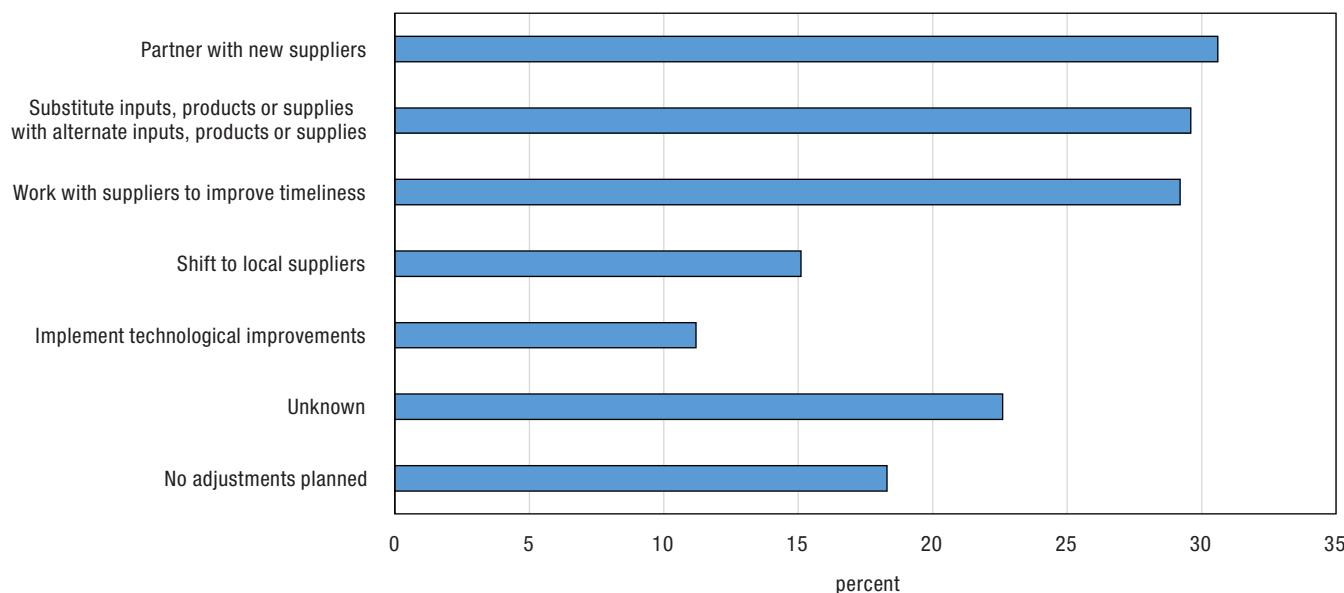
Among businesses that expect supply chain challenges over the next three months, businesses in information and cultural industries (78.2%), accommodation and food services (72.7%), and professional, scientific and technical services (64.5%) were the most likely industries to report that supply chain challenges have worsened.

Similar to the previous quarter, of businesses that expect to experience supply chain challenges, the vast majority also expect supply chain challenges to either worsen or remain about the same over the next three months.

Specifically, almost one-third (31.9%) of businesses expect supply chain challenges to worsen, while nearly three-fifths (58.6%) expect the situation to remain about the same. At the same time, 9.5% of businesses expect supply chain challenges to improve over the next three months.

Planned adjustments to supply chains

Businesses that expect supply chain challenges over the next three months have also planned various adjustments to address them over the next 12 months. In the third quarter of 2022, among businesses that expect to experience supply chain challenges, around 3 in 10 businesses plan to partner with new suppliers (30.6%), substitute with alternate inputs, products or supplies (29.6%), and work with suppliers to improve timeliness (29.2%). Meanwhile, 15.1% of businesses plan to shift to local suppliers. Additionally, nearly one-quarter (22.6%) of businesses were uncertain of plans to adjust their supply chain, and nearly one-fifth (18.3%) had no plans to adjust their supply chain over the next 12 months.

Chart 2**Plans to adjust supply chain over the next 12 months, third quarter of 2022**

Note: Respondents were asked if the business or organization expected various obstacles over the next three months. If they reported that they expected difficulty acquiring inputs or supplies from within Canada or abroad, or maintaining inventory levels as obstacles, they were asked if they planned to make any adjustments to its supply chain over the next 12 months.

Source: Canadian Survey on Business Conditions, third quarter of 2022 (Table 33-10-0539-01).

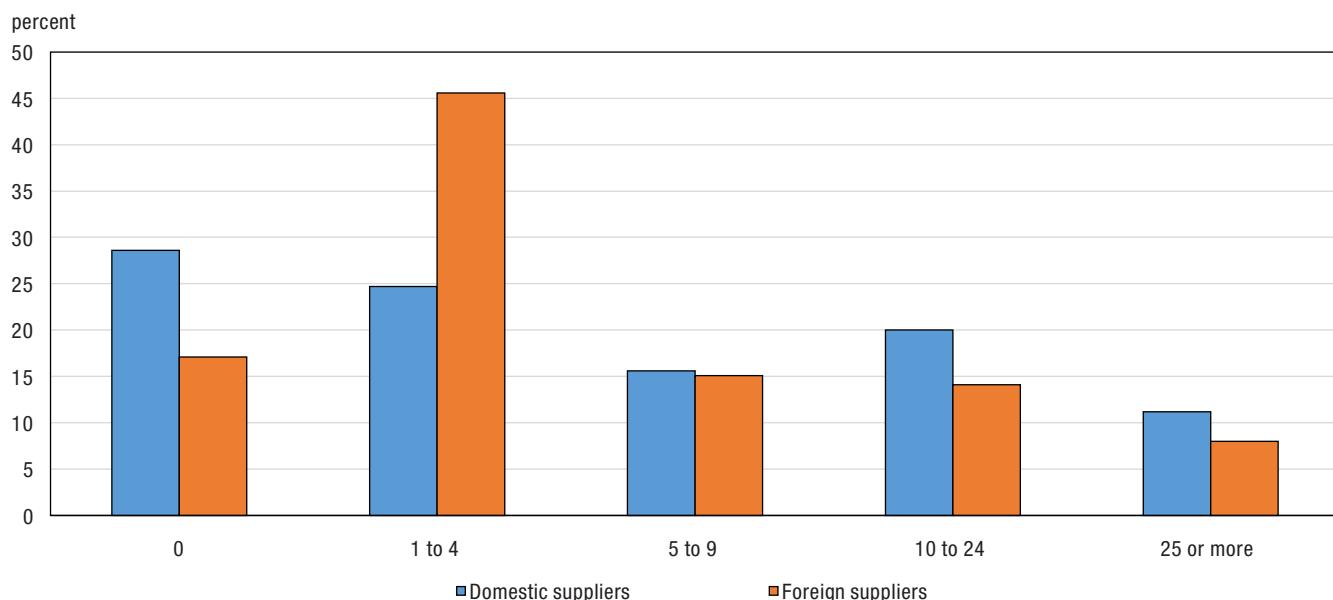
Domestic and foreign direct suppliers

Nearly three-quarters (71.5%) of businesses purchased materials, parts, components, or goods directly from a domestic supplier. Two-fifths (40.3%) of businesses purchased directly from between 1 and 9 domestic suppliers, while nearly one-third (31.2%) had 10 or more direct domestic suppliers. The vast majority of businesses in manufacturing (93.2%), retail trade (92.3%), and accommodation and food services (90.6%) sourced directly from domestic suppliers. Among businesses who had at least one direct domestic supplier, on average, businesses reported around half (49.8%) of their suppliers would be difficult to replace. Businesses in retail trade (87.1%) and accommodation and food services (86.8%) were the most likely to have domestic suppliers that would be difficult to replace. The industries that had the largest proportion, on average, of their direct domestic suppliers that would be difficult to replace were retail trade (59.4%), accommodation and food services (57.0%), and construction (55.2%).

Over fourth-fifths (82.8%) of businesses purchased materials, parts, components, or goods directly from a foreign direct supplier. Three-fifths (60.7%) of businesses purchased directly from between 1 to 9 foreign suppliers, while over one-fifth (22.1%) had 10 or more direct foreign suppliers. The overwhelming majority of businesses in real estate and rental and leasing (97.8%); retail trade (94.6%); and other services, excluding public administration (93.6%) sourced from foreign direct suppliers. Among businesses who had at least one foreign direct supplier, on average, businesses reported nearly two-thirds (63.6%) of their suppliers would be difficult to replace. Businesses in mining, quarrying, and oil and gas extraction (91.6%) and manufacturing (90.3%) were the most likely to have foreign suppliers that would be difficult to replace. Businesses with the largest proportion, on average, of their foreign direct suppliers that would be difficult to replace were in construction (73.3%); other services, excluding public administration (71.1%); and accommodation and food services (70.8%).

Chart 3

Domestic and foreign direct suppliers of businesses in Canada, third quarter of 2022



Note: All respondents were asked the number of domestic direct suppliers the business or organization had. However, respondents were asked if the business or conducted any international activities over the last 12 months. If they reported that they either exported goods or services outside of Canada or imported goods or services from outside of Canada, they were also asked the number of foreign direct suppliers the business or organization had.

Source: Canadian Survey on Business Conditions, third quarter of 2022 (Table 33-10-0540-01).

Methodology

From July 4 to August 8, 2022, 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 35,603 and results are based on responses from a total of 17,013 businesses or organizations.

References

Statistics Canada. 2022. Canadian Survey on Business Conditions, third quarter of 2022.