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Analysis in Brief

# Strong revenue growth for service industries in 2022

by Marie-Christine Bernard, Terilyn Ebert, Vivian Lin and Shannon O'Brien

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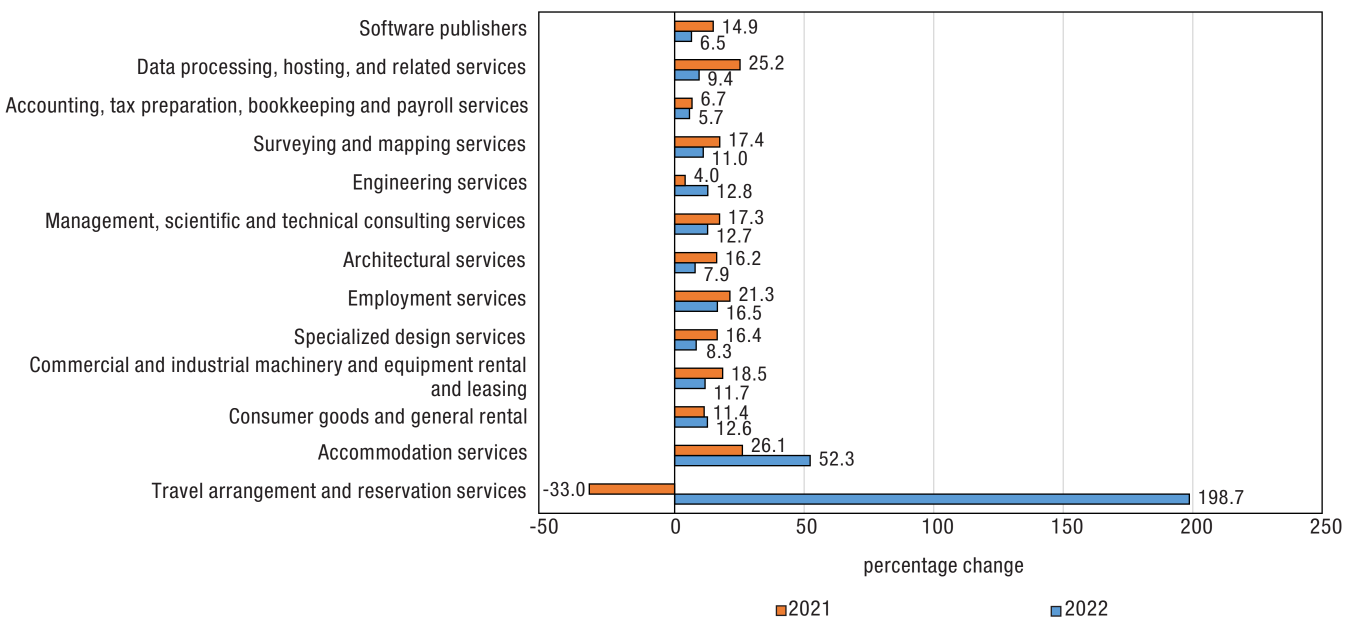
## Introduction

Canada's economy experienced many different challenges and opportunities as the COVID-19 pandemic ran its course. Using administrative data, particularly the goods and services tax (GST) revenue,[1] this study assesses how changing conditions in the economy—such as the end of pandemic-related restrictions, inflationary pressures, strong population growth, tight labour markets and rising interest rates—impacted selected service industries in 2022. Analyzing GST revenue data helps identify business trends before actual survey estimates are compiled.[2] After validation, the GST revenue data offer a fairly accurate representation of operating revenue for several service industries, a key input into the measurement of economic statistics such as gross domestic product (GDP).

In many aspects, the performance of service industries revenue in 2022 mirrored that of 2021, as they recorded appreciable revenue growth (see Chart 1). The resilience of Canadian businesses helped to mitigate the effects of changing monetary and economic conditions to sustain robust revenue growth in service industries in 2022.

**Chart 1**
**Percentage change in revenue for selected industries providing professional and administrative services for businesses and consumers, 2021 and 2022**




**Source:** Statistics Canada, Annual Services Industries Program.

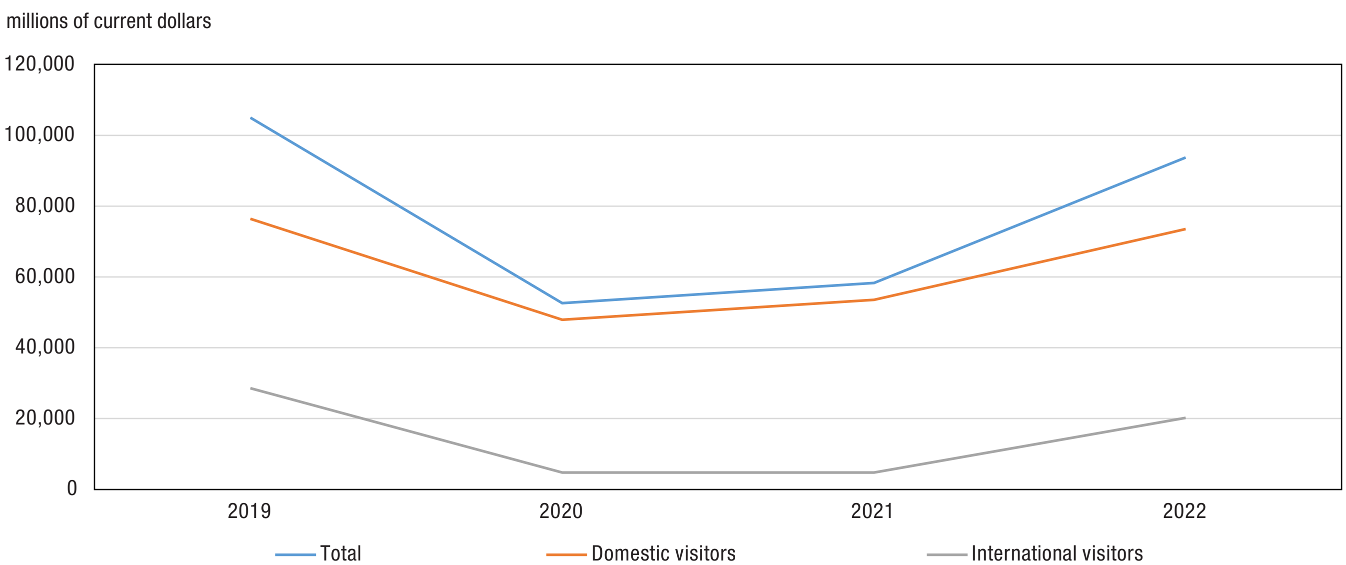
1. The GST revenue data referenced in this study reflect the level of operating revenue reported to the Canada Revenue Agency for the purposes of GST remittances. The GST revenue data were reviewed to ensure consistency and comparability with estimates from the Annual Services Industries Program.
2. Business survey estimates are available with lags of 8 to 15 months.

## Sturdy growth for administrative and support services

### Travel arrangement and reservation services and accommodation services bolstered by pent-up demand in 2022

With global restrictions easing and pent-up demand for travel-related activities, the tourism sector's recovery accelerated in 2022. With the return of more typical travel patterns and the increasing popularity of short-term accommodation rental platforms, revenue for accommodation services grew 52.3% in 2022 and completely recovered from the impacts of the pandemic, surpassing 2019 revenue levels by 9.1%. Revenue estimates for travel arrangement and reservation services swelled by 198.7% but were still behind 2019 levels by 17.3%. According to national tourism indicators, tourism spending in Canada in 2022 remained 10.7% below the 2019 level,[3] as spending by international visitors lagged by nearly one-third, while spending by Canadians trailed by 3.8% (see Chart 2).

**Chart 2**
**Tourism expenditures, Canada, 2019 to 2022**



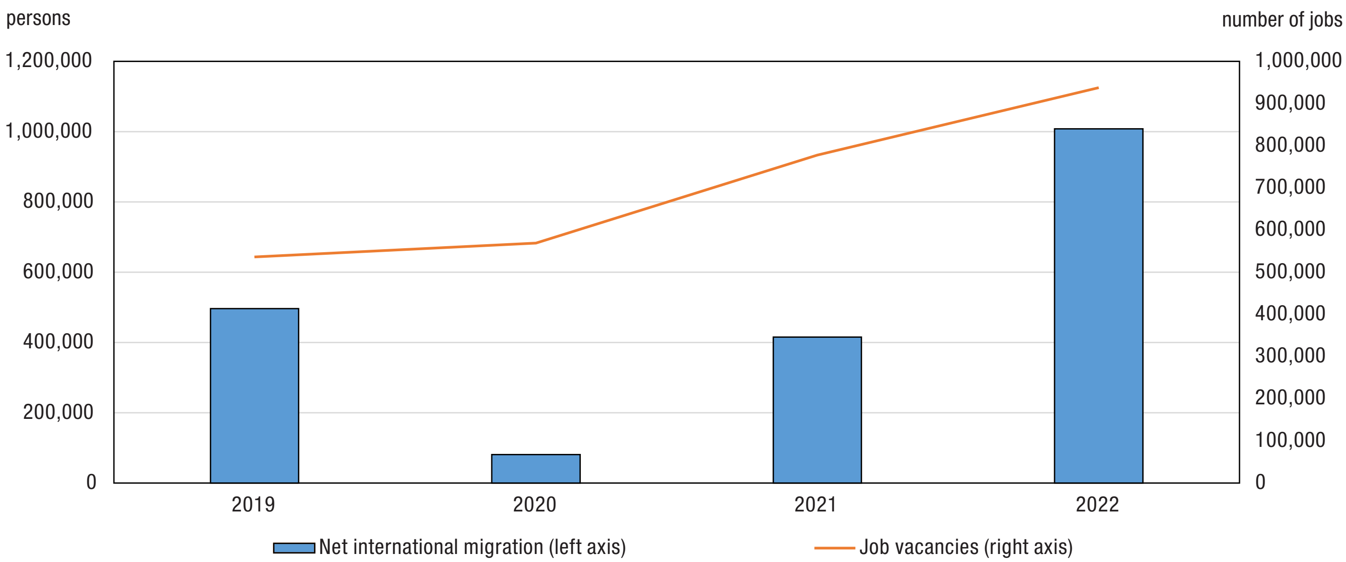

**Source:** Statistics Canada, Table 36-10-0230-01.

### Labour market challenges sustained robust growth in employment services

Demand for workers in high-skilled fields, such as information technology, health care and finance, did not ease in 2022. Businesses faced challenges related to hiring and retention. Moreover, high job vacancies, a low unemployment rate, strong international immigration and an aging workforce are some of the factors that have propelled demand for employment services in the last few years (see Chart 3). Revenue for employment services in 2022 grew 16.5% and surpassed pre-pandemic levels in 2019 by almost one-third.

3. Statistics Canada. (2023). Table 36-10-0230-01 Tourism demand in Canada, constant prices (x 1,000,000) [Data table]. https://doi.org/10.25318/3610023001-eng.

**Chart 3**
**Net international migration and job vacancies, Canada, 2019 to 2022**




**Source:** Statistics Canada, tables 17-10-0040-01 and 14-10-0375-01.

## Professional business services still in high demand

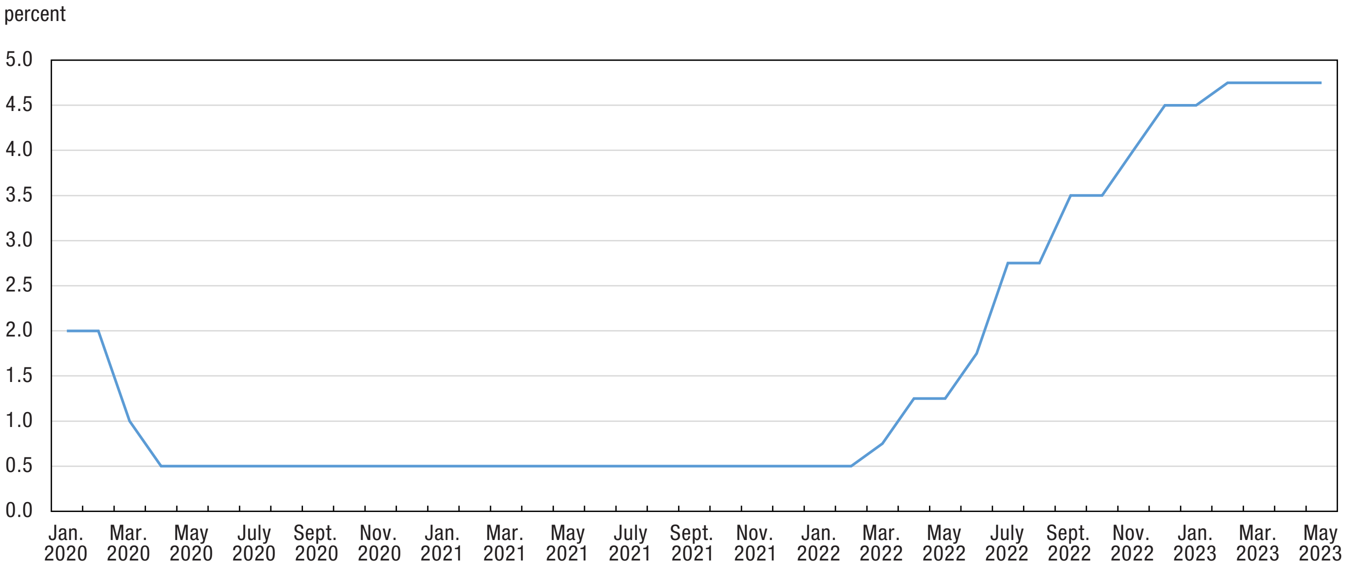
### Engineering services benefited from higher capital expenditures, while rising interest rates slowed growth in architectural services

Demand for engineering services accelerated in 2022, leading to revenue growth of 12.8%. As businesses adapted to the changing work environment and were able to operate with few to no restrictions, public and private sector projects related to infrastructure development, energy, transportation and environmental sustainability propelled demand for engineering services. For instance, capital expenditures in the oil and gas extraction industries rose 42.8% in 2022.[4] At an aggregate level, total non-residential investment grew 16.7% in 2022 in Canada, while government investment advanced 15.3%.[5]

While the residential sector remained active, driven by factors such as population growth and a rising emphasis on sustainable and energy-efficient design of homes, architectural services were sensitive to the increases in interest rates and financing costs (see Chart 4). Architectural services gained 7.9% in revenue in 2022, less than half the growth seen in 2021. Housing starts started to come down, dropping 3.4% in 2022 to 261,849 units.[6] Even so, housing starts remained more than one-quarter higher than their average over the last 10 years.

4. Statistics Canada. (2023). Table 25-10-0054-01 Capital expenditures, oil and gas extraction industries, Canada (x 1,000,000) [Data table]. https://doi.org/10.25318/2510005401-eng.
5. Statistics Canada. (2023). Table 36-10-0108-01 Gross fixed capital formation, quarterly, Canada (x 1,000,000) [Data table]. https://doi.org/10.25318/3610010801-eng.
6. Statistics Canada. (2023). Table 34-10-0126-01 Canada Mortgage and Housing Corporation, housing starts, under construction and completions, all areas, annual [Data table]. https://doi.org/10.25318/3410012601-eng.

**Chart 4**
**Bank of Canada bank rate, January 2020 to May 2023**



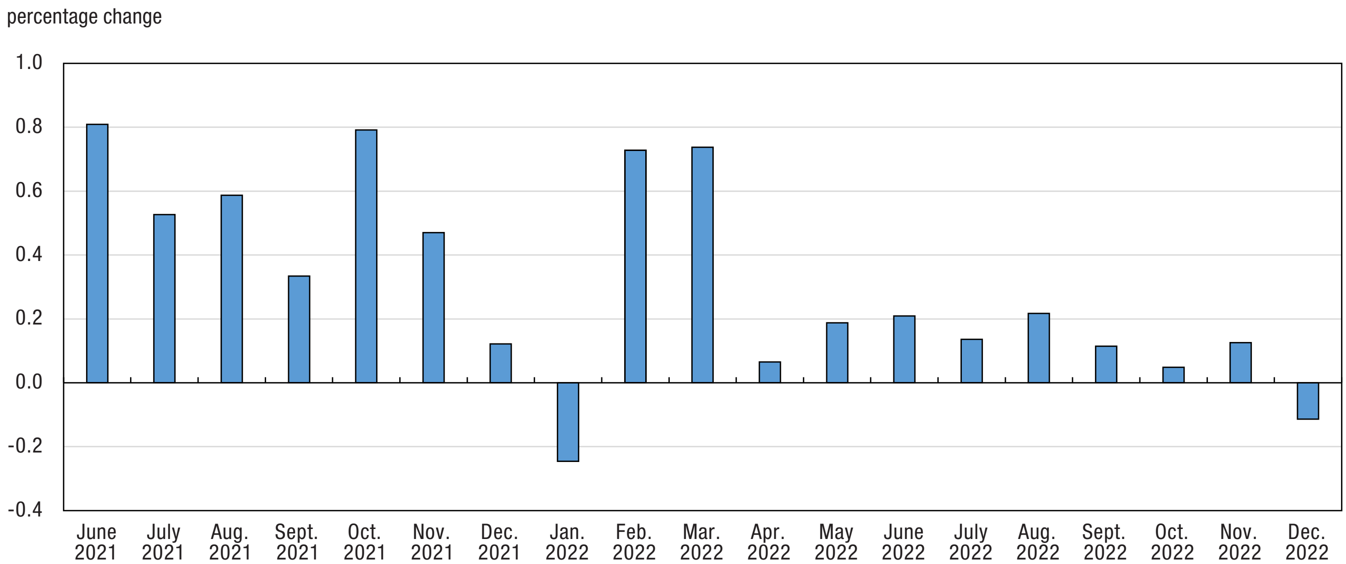

**Source:** Statistics Canada, Table 10-10-0122-01.

## Accounting and consulting services: Barometers of economic conditions

Easing economic growth (see Chart 5), rising regulatory and compliance requirements, increasing competition in the market, and labour shortages all impacted accounting services in 2022. Revenue for accounting, tax preparation, bookkeeping and payroll services moved up 5.7% in 2022, a slower pace than in 2021. Canadian businesses in this industry have faced adaptation and transformation challenges from innovative technologies,[7] such as artificial intelligence applications, blockchain and others, while they continue to benefit from the rising trend in consulting work.[8]

7. Randy Lasnick, "How Canadian accountants will benefit from ChatGPT," *Canadian Accountant*, May 16, 2023, https://www.canadian-accountant.com/content/thought-leaders/accountants-chatgpt.
8. Canadian Accountant, "Deloitte Canada tops rival Canadian accounting firms in annual revenue," *Canadian Accountant,* February 2, 2023, https://www.canadian-accountant.com/content/profession/special-report-canadian-accounting-firms-annual-revenue.

**Chart 5**
**Percentage change in real gross domestic product, Canada, June 2021 to December 2022**




**Source:** Statistics Canada, Table 36-10-0434-01.

The revenue of management, scientific and technical consulting services climbed 12.7% in 2022. Businesses and governments have been seeking advice, assistance and consulting services on financial or risk management matters, or to capitalize on new technologies.

### Informatics services: Growth eased as demand momentum moved closer to pre-pandemic trends

The COVID-19 pandemic accelerated the need for businesses to embrace technology solutions to maintain operations, resulting in higher demand for informatics services in the past few years. Although digital transformation and cloud computing continued to be in demand and implemented across various industries in 2022, revenue growth for informatics services started to move closer to pre-pandemic trends. Revenue for the data processing, hosting, and related services industry grew 9.4% in 2022, while software publishers saw an estimated increase of 6.5%.

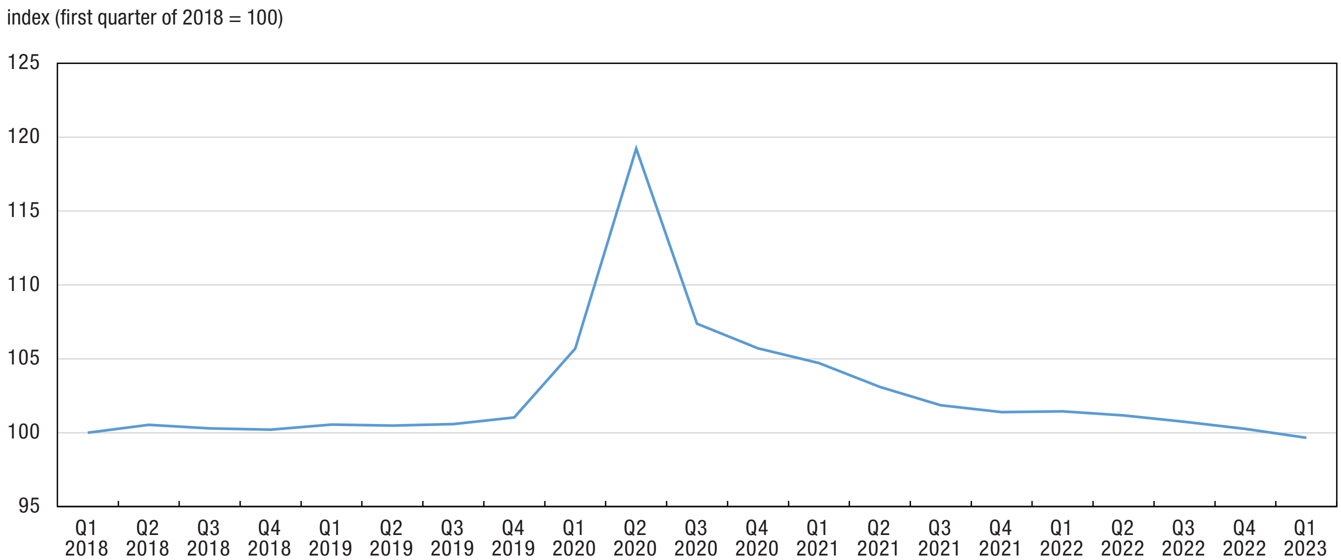
### Rental services sustained momentum

Revenue for the commercial and industrial machinery and equipment rental and leasing industry increased by 11.7% in 2022. Construction projects, a pickup in investment in the oil and gas industry, and government investments in infrastructure have been the main drivers of growth for this industry. Likewise, rising prices of consumer goods caused by inflation, coupled with the increasing popularity of rental services since the start of the pandemic, led to a rise in revenue for the consumer goods rental industry of 12.6% in 2022.

## Conclusion

While the Canadian economy remains resilient, with real GDP annualized growth in the first quarter of 2023 just slightly weaker than in 2022, the lagged impacts of monetary policy to tame inflationary pressures could influence economic momentum going forward. Furthermore, structural factors such as an aging workforce, a skills mismatch of available workers, declining labour productivity and technological change are key influences that may also have a significant impact on business operations in Canada and revenue growth for many service industries (see Chart 6).

**Chart 6**
**Labour productivity, Canada, first quarter of 2018 to first quarter of 2023**




**Source:** Statistics Canada, Table 36-10-0206-01.