

Catalogue no. 21-006-X  
ISSN 1481-0964  
ISBN 978-0-660-45278-4

## Rural and Small Town Canada Analysis Bulletin

# The outlook of rural businesses, third quarter of 2022



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Release date: September 20, 2022



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# The outlook of rural businesses, third quarter of 2022

by **Andrew Balcom, Anne Munro, and Jacqueline Ha**

In July 2022, consumer prices increased by 7.6% year-over-year after a rise of 8.1% year-over-year in June.<sup>1</sup> Average hourly wages also increased by 5.2% from July of 2021,<sup>2</sup> and the prices of raw materials purchased by manufacturers operating in Canada increased 19.1% year-over-year.<sup>3</sup> Supply chain bottlenecks remained persistent for Canadian businesses<sup>4</sup> while historically low unemployment of 4.9% continued from the June into July.<sup>5</sup> High inflation, in conjunction with very low unemployment and persistent supply chain issues created an environment of uncertainty for rural businesses.

The most commonly expected short-term obstacles for rural businesses were rising inflation (62.7%), the rising cost of inputs (52.9%), transportation costs (46.0%), and rising interest rates and debt costs (42.5%). These obstacles were cited more frequently by rural businesses than their urban counterparts. However, similar proportions of rural businesses and urban businesses had plans to increase their prices within the next three months (33.7% to 34.1%).

Among rural businesses that anticipated supply chain challenges, almost two-thirds (64.3%) reported that those difficulties had worsened in the preceding three months, higher than the 56.7% of urban businesses. The most commonly cited factors by rural businesses in supply chain issues were delays in deliveries (85.6%), increased prices (76.5%), and shortages (71.6%), with urban businesses expressing similar views. Nearly three-fifths (59.2%) of rural businesses anticipating domestic supply chain challenges expected them to continue for six months or more.

A smaller share of rural (8.3%) than urban businesses (11.5%) were likely to adopt automation and digital technologies. The rural sector where this was most common was manufacturing, at 21.5%. Health care and social assistance had a 9.0 percentage point difference in the likelihood to adopt these technologies between rural and urban businesses (15.3% to 6.3%), indicating that there was a distinct difference in how rural and urban businesses in this industry plan to deal with a labour shortage.

The Canadian Survey on Business Conditions (CSBC) provides detailed information on businesses' perceptions of the environment in which they are currently operating as well as their expectations moving forward. This analysis focuses on businesses in rural areas<sup>6</sup> using results from the CSBC, third quarter of 2022, conducted from July 4 to August 8, 2022.<sup>7</sup>

## Over three-fifths of rural businesses cite concerns over rising inflation

Rising inflation was the most commonly expected short-term obstacle<sup>8</sup> among rural businesses in the third quarter of 2022 at 62.7%. It was also the most frequently cited short-term obstacle for urban businesses at 59.4%. The Bank of Canada has cited the war in Ukraine, ongoing supply constraints, and strong demand as reasons for high inflation across the globe.<sup>9</sup>

The rising cost of inputs were the second most common short-term obstacle for rural businesses at 52.9%. Less than half (45.8%) of urban businesses also had concerns about the rising cost of inputs over the next three months. These inputs include labour, capital, energy and raw materials, and rising costs in these areas would contribute to rising inflation affecting businesses. The Consumer Price Index (7.6%),<sup>10</sup> the Industrial Product Price

1. Statistics Canada. (2022). [The Daily — Consumer Price Index, July 2022](#).

2. Statistics Canada. (2022). [The Daily — Labour Force Survey, July 2022](#).

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

4. Bank of Canada. (2022). [Business Outlook Survey - Second Quarter of 2022](#).

5. Statistics Canada. (2022). [The Daily — Labour Force Survey, July 2022](#).

6. Using Statistics Canada's Standard Geographical Classification (SGC) 2016, businesses located in either census metropolitan areas (CMAs) or census agglomerations (CAs) are classified as "urban" and all others as "rural". See [Standard Geographical Classification \(SGC\) 2016](#).

7. Statistics Canada. (2022). [Canadian Survey on Business Conditions, third quarter of 2022](#).

8. When respondents were asked questions pertaining to their expectations over the next three-months (referred to in text as 'short-term' when discussing business obstacles), that three-month period could range from July 4 to November 8, 2022, depending on when the business responded. For questions pertaining to expectations over the next 12 months, that period could range from July 4, 2022 to August 8, 2023.

9. Bank of Canada. (2022). [Bank of Canada increases policy interest rate by 100 basis points, continues quantitative tightening](#).

10. Statistics Canada. (2022). [The Daily — Consumer Price Index, July 2022](#).

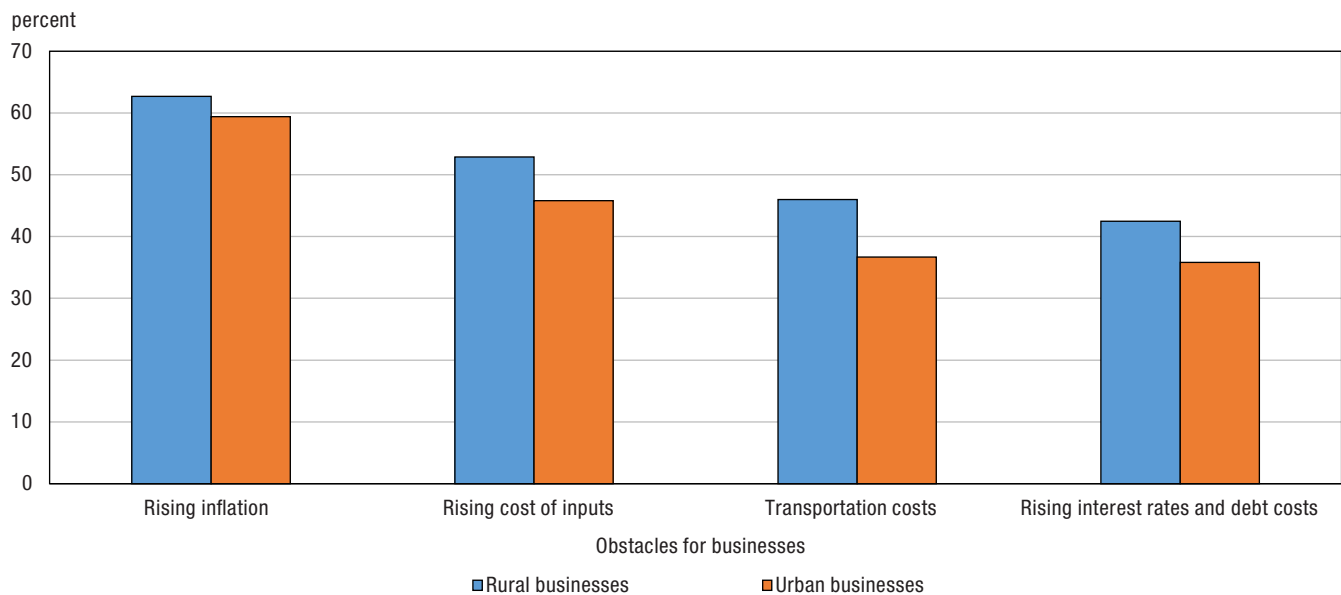
Index (11.9%),<sup>11</sup> and the Raw Materials Price Index (19.1%)<sup>12</sup> all increased year-over-year in July 2022, indicating that inflation has been prevalent across the economy.

Transportation costs were the third most commonly cited obstacle for rural businesses at 46.0%. There was nearly a 10 percentage point difference between the rural and urban businesses (36.7%), which reflects that transportation costs are of greater concern for rural areas due to their greater comparative isolation. The prices of energy and petroleum products had decreased in July after six months of consecutive growth, but were still up 57.5% year-over-year.<sup>13</sup>

Rising interest rates and debt costs were the fourth most common obstacle expected by rural businesses at 42.5%. The Bank of Canada raised its benchmark interest rate by a full percentage point in July to 2.5%,<sup>14</sup> the largest single increase announced since 1998.<sup>15</sup> Over one-third (35.8%) of urban businesses also cited this as an obstacle.

One-third (33.7%) of rural businesses reported that they expected to raise their prices over the next three months, with a similar proportion (34.1%) of urban businesses that expected to do the same. In addition, 36.3% of rural businesses and 35.8% of urban businesses expected their profitability to decrease in the short-term. While rural businesses were more concerned about the obstacles (Chart 1) than urban ones, both rural and urban businesses had a similar likelihood to raise prices.

**Chart 1**  
**Top four obstacles for rural businesses over the next three months**



**Note:** Figures for urban businesses are provided for comparison only. They do not have the same top four obstacles as rural businesses.

**Source:** Canadian Survey on Business Conditions, third quarter of 2022.

## Supply chain difficulties expected to continue for rural businesses

A similar proportion of rural (14.5%) and urban (14.4%) businesses were expecting challenges acquiring inputs, products or supplies internationally in the short-term. By contrast, close to one-third (32.7%) of rural businesses anticipated challenges acquiring inputs, products or supplies domestically in the near future, higher than the one-

11. Statistics Canada. (2022). [The Daily — Industrial product and raw materials price indexes, July 2022.](#)

12. Statistics Canada. (2022). [The Daily — Industrial product and raw materials price indexes, July 2022.](#)

13. Statistics Canada. (2022). [The Daily — Industrial product and raw materials price indexes, July 2022.](#)

14. Bank of Canada. (2022). [Bank of Canada increases policy interest rate by 100 basis points, continues quantitative tightening.](#)

15. CBC. (2022). [Bank of Canada hikes rate to 2.5%. Here's what it means for you.](#)

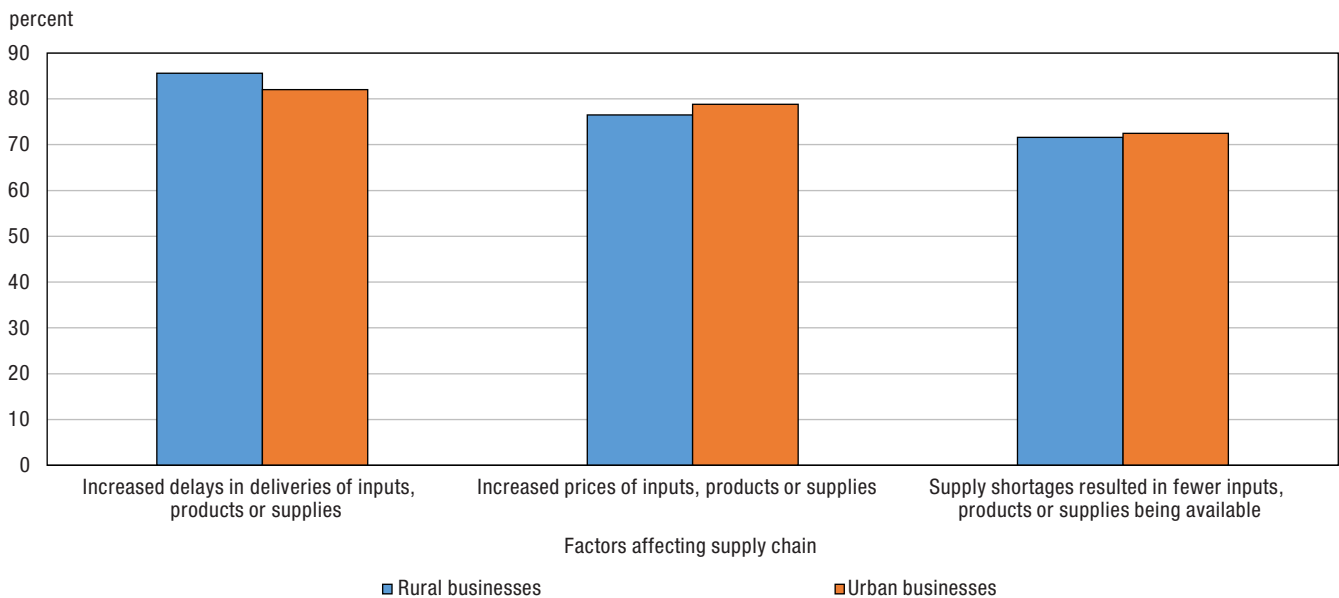
quarter (25.5%) of urban businesses. This may be due to a greater dependency on domestic suppliers for rural businesses, along with higher transportation costs, and challenges associated with remote rural areas.

Close to two-thirds (64.3%) of rural businesses expecting supply chain difficulties<sup>16</sup> in the short-term reported that these challenges had worsened over the preceding three months. A lower value (56.7%) of urban businesses expecting supply chain difficulties reported that these issues had increased in severity over the previous three months.

The majority of rural businesses experiencing supply chain challenges attributed these intensified difficulties to increased delays in deliveries for inputs, products or supplies (85.6%), increased prices for inputs, products or supplies (76.5%), and shortages resulting in fewer inputs, products or supplies being available (71.6%). Urban businesses attributed supply chain issues to these reasons in largely similar proportions as rural businesses, although urban businesses were less concerned by delays in deliveries (82.0% to 85.6%), but more concerned by increased prices (78.8% to 76.5%) and shortages (72.5% to 71.6%).

## Chart 2

### Most common factors cited by businesses for worsened supply chain challenges over the last three months



Source: Canadian Survey on Business Conditions, third quarter of 2022.

Among rural businesses that expected difficulty acquiring inputs, products or supplies from within Canada in the short-term, close to three-fifths (59.2%) expected these challenges to continue for six months or more. On the other hand, 8.1% expected these difficulties to subside within the next six months, while 32.7% were unsure how long the difficulties would remain.

Of rural businesses that expected difficulty acquiring foreign inputs, products or supplies, over three-fifths (61.4%) expected the challenges to continue for six months or more, 4.0% expected them to be resolved within six months, and 34.6% were unsure when they would subside.

Among rural businesses that expected difficulty with maintaining inventory levels, over half (53.4%) of businesses expected the issues to continue for six months or more, with 13.4% expecting them to be resolved within the next six months, and 33.2% were unsure.

16. Supply chain difficulties include domestic supply chain challenges, foreign supply chain challenges, and difficulty maintaining inventory levels.

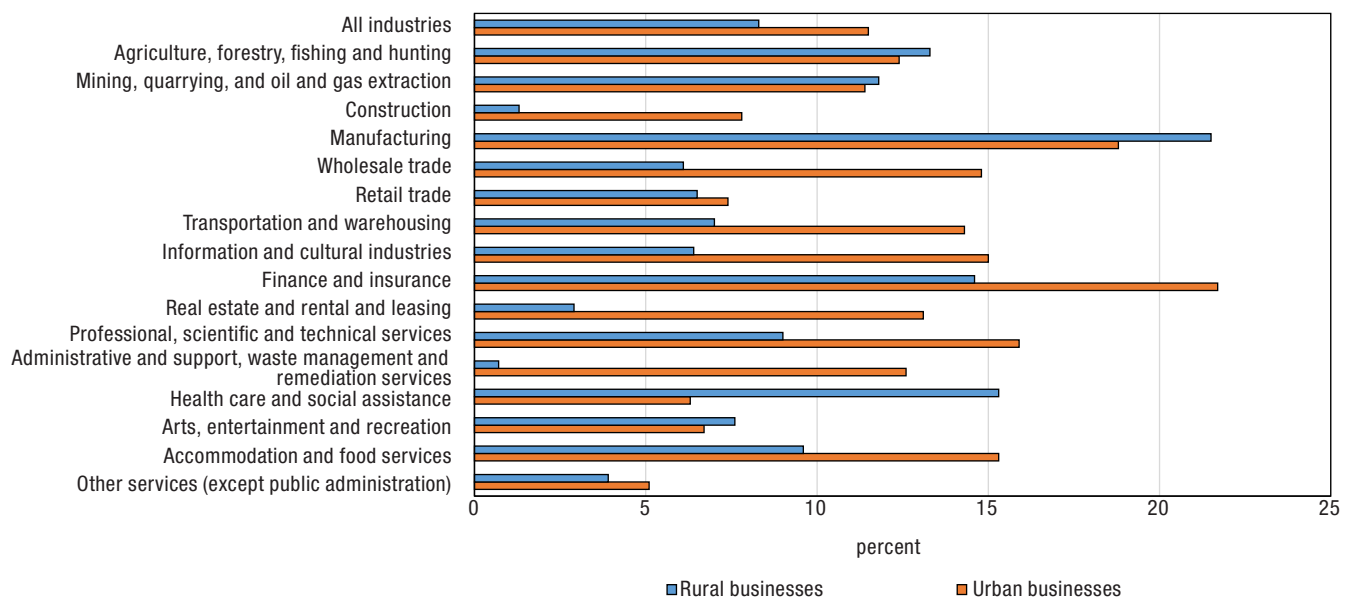
## Manufacturing the rural sector with highest share of businesses likely to adopt automation and digital technologies

In response to a historically low unemployment rate,<sup>17</sup> some businesses are turning to technological alternatives to reduce their demands for labour. Rural businesses (8.3%) were less likely than urban businesses (11.5%) to be somewhat or very likely to adopt automation and digital technologies that may reduce their hiring over the next 12 months. The manufacturing sector had the highest rate of adoption among rural businesses at 21.5%. Other industries where a high share of rural businesses reported that they were likely to adopt new technologies included health care and social assistance (15.3%), finance and insurance (14.6%), agriculture, forestry, fishing and hunting (13.3%), and mining, quarrying, and oil and gas extraction (11.8%).

Health care and social assistance had a 9.0 percentage point difference between rural and urban businesses (15.3% to 6.3%). This indicates a significant difference in the approaches that rural and urban businesses within this sector are considering to resolve labour shortage issues.

In contrast, administrative and support, waste management and remediation services, as well as real estate and rental and leasing had much higher rates of urban businesses reporting that they were somewhat or very likely to adopt new technologies that might reduce hiring, at 11.9 percentage point and 10.2 percentage point differences respectively.

**Chart 3**  
**Percent of businesses somewhat or very likely to adopt automation and digital technologies which may reduce hiring over the next 12 months**



Source: Canadian Survey on Business Conditions, third quarter of 2022.

17. Statistics Canada. (2022). [The Daily — Labour Force Survey, July 2022](#).

## 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. Businesses were classified as rural or urban based on their geographic location. The 2016 Census Subdivision Boundary File was used to identify all businesses' census subdivisions (CSD) based on location. Businesses located in CSDs classified as either Census Metropolitan Areas or Census Agglomerations were classified as urban. All businesses in other locations were classified as rural.

## References

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