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Impact of COVID-19 on small businesses in Canada, third quarter of 2021

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Impact of COVID-19 on small businesses in Canada, third quarter of 2021

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

Following the onset of the pandemic, Canada experienced a drop in its real gross domestic product (GDP), with the economy contracting 18.2% between March and April 2020.¹ With the gradual easing of pandemic-related restrictions, the business climate began to improve. GDP grew for eleven consecutive months following the beginning of the pandemic, followed by contractions and expansions from April to June 2021, leaving overall economic activity approximately 1.5% below February 2020's pre-pandemic level.² In light of the persistence of COVID-19 and repeated changes in restrictions in several provinces, there remain challenges and uncertainty ahead for businesses. By the third quarter of 2021, the Canadian economy had experienced over a year of COVID-19.

Small and medium sized businesses are significant contributors to the Canadian economy. For context, small businesses made up 98.0% of all employer businesses in Canada in 2020,³ employing 9.7 million individuals in Canada - approximately 64% of the total labour force. By comparison, medium-sized businesses employed 3.2 million individuals (21.2% of the labour force) and large businesses employed 2.3 million individuals (14.8% of the labour force).⁴ As such, small businesses are an important role in employing Canadians and are a significant driver towards economic recovery.

From the beginning of July to early August 2021, Statistics Canada conducted the Canadian Survey on Business Conditions to better understand the ongoing effects of the pandemic on businesses and business expectations moving forward. Based on the results of the survey, while the majority of businesses in Canada expected to be impacted, smaller businesses expected more significant impacts, such as a decrease in profitability and sales. Small businesses were less likely to be able to take on more debt, have the liquid assets to operate, have their workforce primarily telework after the pandemic, outsource tasks, and implement environmental practices. This article provides insights on the expectations of small business as well as the specific realities faced by these businesses during these unprecedented times.

Small business sentiment about sales improves since last quarter

Nearly one in six (15.5%) businesses with 1 to 19 employees and one in ten (10.4%) businesses with 20 to 99 employees expected to see a decrease in sales over the next three months,⁵ while 7.1% of businesses with 100 or more employees expected the same. These figures are down from last quarter, where over one-quarter of businesses with 1 to 19 employees and less than one-fifth of businesses with 20 to 99 employees expected a decrease in sales.

Additionally, over one-quarter (28.5%) of businesses with 1 to 19 employees and under one-fifth (18.5%) of businesses with 20 to 99 employees expect to see a decrease in profitability, while over one in ten (12.4%) businesses with 100 or more employees reported the same. These numbers are also down from last quarter, where nearly two-fifths of businesses with 1 to 19 employees and over one-quarter of businesses with 20 to 99 employees expected a decrease in profitability.

1. Statistics Canada. (2020). [Gross domestic product by industry, April 2020](#).

2. Statistics Canada. (2021). [Gross domestic product by industry, June 2021](#).

3. Statistics Canada. (2021). [Table 33-10-0304-01: Canadian Business Counts, with employees, December 2020](#) [Data table].

4. Statistics Canada. (2020). [Table: 14-10-0068-01: Employment by establishment size, annual \(x 1,000\)](#) [Data table].

5. The most recent survey was conducted from July 2 to August 6, 2021, 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 2 to November 6, 2021, depending on when the business responded.



Table 1

Business expectations of sales over the next three months, third quarter of 2021

	Increase	Stay about the same	Decrease	Not applicable
	% of businesses			
All employment sizes	21.0	61.1	14.8	3.2
1 to 19 employees	19.6	61.9	15.5	3.1
20 to 99 employees	30.3	55.8	10.4	3.5
100 or more employees	35.5	52.5	7.1	4.9

Note: Respondents were asked between July 2 to August 6 how their sales and profitability were expected to change over the next three months. Therefore, the three month period could range from July 2 to November 6, 2021, depending on when the business responded.

Source: Canadian Survey on Business Conditions, third quarter of 2021 (Table 33-10-0363-01).

Table 2

Business expectations of profitability over the next three months, third quarter of 2021

	Increase	Stay about the same	Decrease	Not applicable
	% of businesses			
All employment sizes	13.7	56.5	27.2	2.7
1 to 19 employees	12.6	56.4	28.5	2.5
20 to 99 employees	20.2	57.1	18.5	4.2
100 or more employees	27.4	55.8	12.4	4.5

Note: Respondents were asked between July 2 to August 6 how their sales and profitability were expected to change over the next three months. Therefore, the three month period could range from July 2 to November 6, 2021, depending on when the business responded.

Source: Canadian Survey on Business Conditions, third quarter of 2021 (Table 33-10-0363-01).

Small businesses were more likely to expect insufficient demand for goods or services offered and the cost of insurance to be an obstacle over the next three months. One in seven (14.3%) businesses with 1 to 19 employees and 11.8% of businesses with 20 to 99 employees expected insufficient demand for goods or services to be a challenge over the next three months, while 8.6 % of businesses with 100 or more employees anticipated the same. Additionally, one-quarter of businesses with 1 to 19 employees (25.9%) expected the cost of insurance to be a challenge over the next three months, compared with over one-fifth of businesses with 20 to 99 employees (21.6%) and 100 or more employees (20.2%).

Although the majority of businesses reported that they had an optimistic outlook over the next 12 months, smaller businesses were less likely to report being optimistic, and slightly more likely to be uncertain of their future outlook. Nearly three-quarters (74.1%) of businesses with 1 to 19 employees reported an optimistic future outlook, compared with close to nine in ten businesses with 20 to 99 employees (86.9%) and 100 or more employees (88.7%) that had the same outlook. Meanwhile, 14.3% of businesses with 1 to 19 employees were uncertain of their future outlook, compared with 7.0% of businesses with 20 to 99 employees and 6.3% of businesses with 100 or more employees.

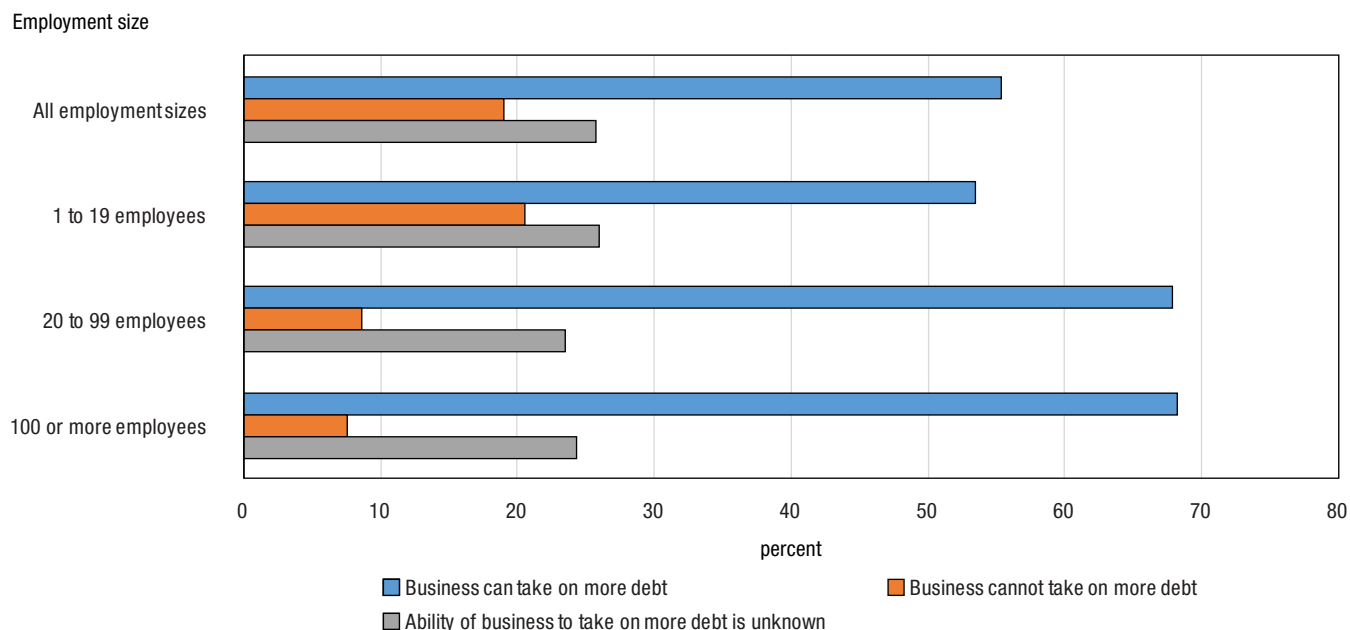
Small businesses more likely to have financial constraints than their larger counterparts

As COVID-19 restrictions were put in place, many businesses sought external financing in order to survive. As a result, some businesses have now reached a point where they do not have the ability to take on more debt. Smaller businesses were more likely to report this being the case. At the same time, smaller businesses were less likely to report having the cash or liquid assets required to operate.



One-fifth (20.5%) of businesses with 1 to 19 employees reported that they did not have the ability to take on more debt. In contrast, 8.6% of businesses with 20 to 99 employees and 7.5% of businesses with 100 or more employees reported not being able to take on more debt.

Chart 1
Businesses' ability to take on more debt



Note: Respondents were asked if the business or organization had the ability to take on more debt.

Source: Canadian Survey on Business Conditions, third quarter of 2021 (Table 33-10-0386-01).

Among businesses that could not take on more debt, the most commonly reported reasons were lack of confidence or uncertainty in future sales and cash flow. Smaller businesses with 1 to 19 employees (39.4%) and larger businesses with 100 or more employees (37.8%) were less likely to report cash flow as a reason, compared with businesses with 20 to 99 employees (44.4%). However, smaller businesses with 1 to 19 employees (41.4%) were more likely to report lack of confidence or uncertainty in future sales as a reason, in comparison with businesses with 20 to 99 employees (33.0%) and 100 or more employees (36.9%).

Less than one-fifth of businesses with 1 to 19 employees (18.8%) and 13.4% of businesses with 20 to 99 employees expected maintaining sufficient cash flow to be an obstacle over the next three months. Conversely, 6.0% of businesses with 100 or more employees reported similar concerns.

Over half (52.6%) of businesses with 1 to 19 employees reported that they could continue to operate for 12 months or more before considering closure or bankruptcy, while more than three-fifths of businesses with 20 to 99 employees (62.9%) and 100 or more employees (65.7%) said the same.

Almost four-fifths (78.1%) of businesses with 1 to 19 employees reported that they had the cash or liquid assets required to operate, while 87.4% of businesses with 20 to 99 employees and 89.5% of businesses with 100 or more employees said the same.



Small businesses and future teleworking plans

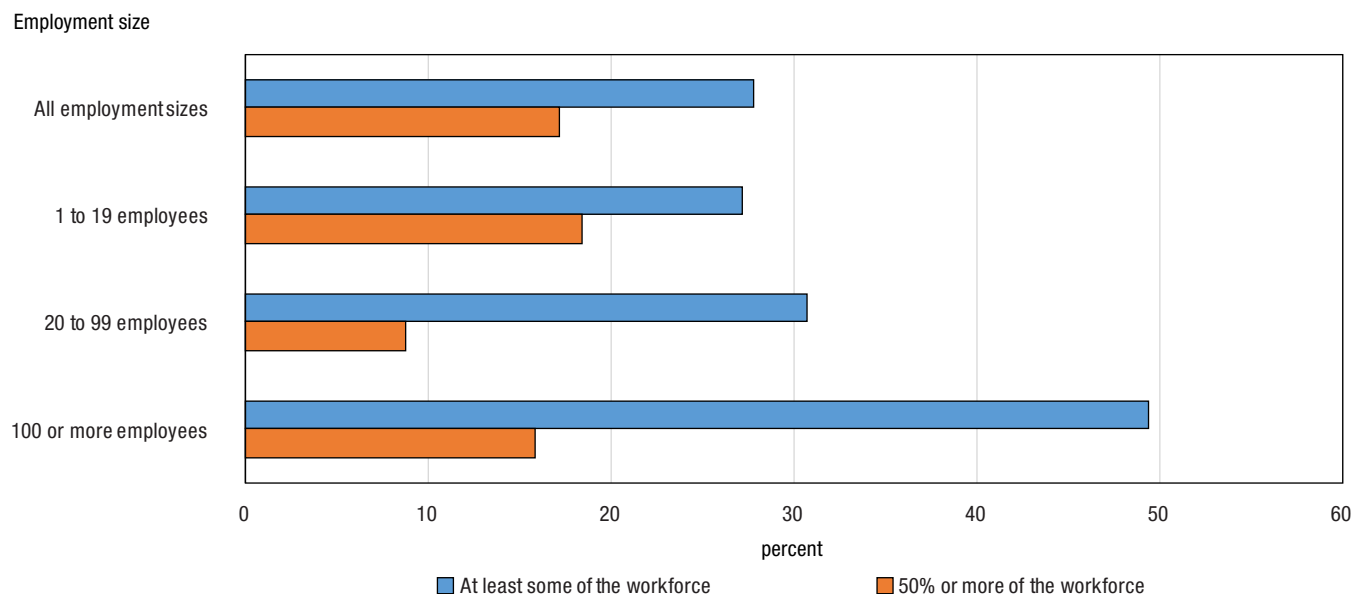
As the COVID-19 pandemic continues into the near future, businesses have started to rethink the teleworking model. Respondents identified that employee productivity has remained stable and employees have stated preferences to continue working from home, demonstrated in the results of February 2021's Labour Force Survey. Considering new teleworkers, 90% reported being at least as productive, i.e. accomplishing at least as much work per hour at home as they did previously in their usual place of work,⁶ and 80% would like to work at least half of their hours from home once the pandemic is over.⁷ As such, some businesses are considering the use of teleworking in the future. Small businesses were less likely to have some of their workforce continue to primarily telework.

Around three-tenths of businesses with 1 to 19 employees (27.2%) and 20 to 99 employees (30.7%) anticipated at least some of their workforce to primarily telework once the pandemic is over. In comparison, nearly half (49.4%) of businesses with 100 or more employees had the same expectations.

However, while almost one-fifth (18.4%) of businesses with 1 to 19 employees anticipated having 50% or more of their employees primarily telework once the pandemic is over, 8.8% of businesses with 20 to 99 employees and 15.8% of businesses with 100 or more employees expected the same.

Chart 2

Workforce anticipated to continue to primarily telework once the COVID-19 pandemic is over



Note: Respondents were asked what percentage of the workforce was anticipated to continue to primarily telework once the COVID-19 pandemic is over.

Source: Canadian Survey on Business Conditions, third quarter of 2021 (Table 33-10-0391-01).

About one in seven (14.7%) businesses that anticipate having at least some of their workforce primarily teleworking after the pandemic also anticipate shrinking office locations due to these new work arrangements. Although this proportion is similar for businesses with 20 to 99 employees (20.3%) and 100 or more employees (18.8%), the proportion is slightly smaller for businesses with 1 to 19 employees (13.8%).

6. Mehdi, T. and Morissette, R. (2021). [Working from home: Productivity and preferences.](#)

7. Mehdi, T. and Morissette, R. (2021). [Working from home after the COVID-19 pandemic: An estimate of worker preferences.](#)



Small businesses less likely to outsource tasks, projects or short contracts

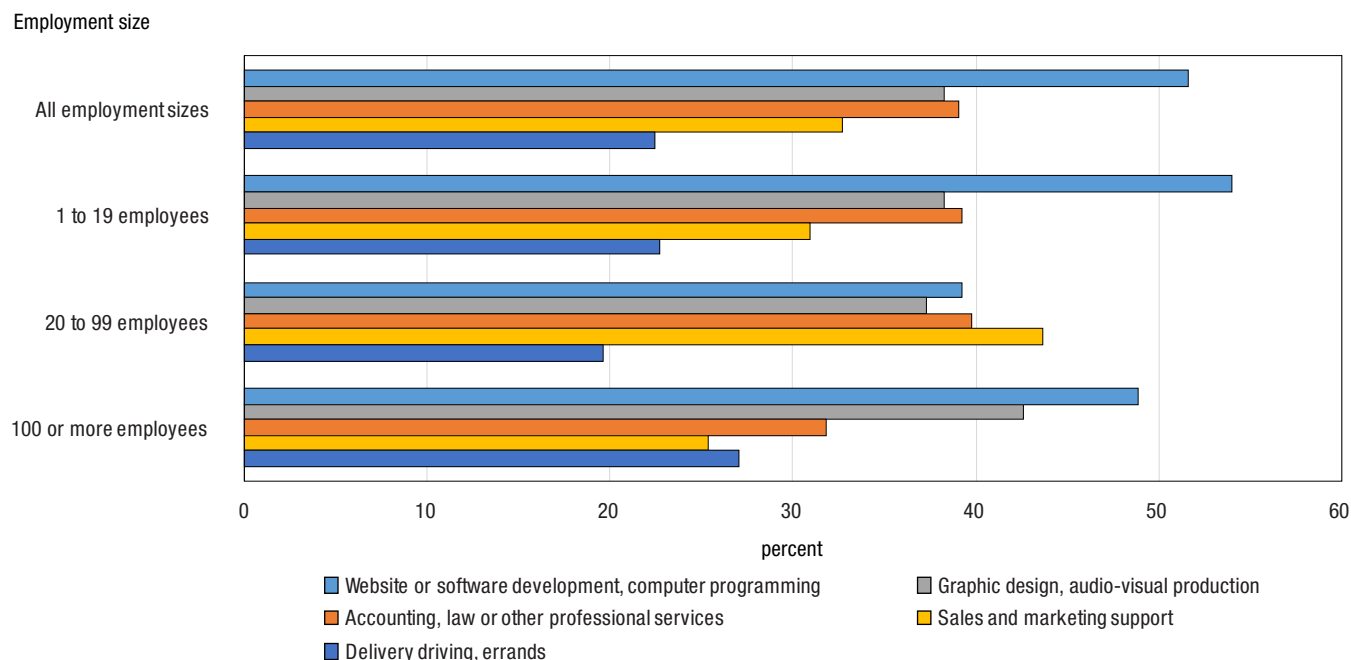
Some businesses have begun outsourcing certain tasks, projects, or short contracts by paying freelancers, “gig” workers or other businesses. Examples of these activities might include delivery driving, cleaning, translation, and web or graphic design. Increasingly, third-party online platforms, websites or applications can be used to outsource these activities.

Small businesses were less likely to outsource tasks, projects or short contracts compared with large businesses. One-fifth (20.2%) of businesses with 1 to 19 employees reported that they outsourced activities to freelancers, “gig” workers or other businesses in the last 12 months, while around one-third of businesses with 20 to 99 employees (28.9%) and 100 or more employees (34.1%) said the same.

When outsourcing tasks, projects or short contracts, the proportion of businesses that used third-party digital platforms, applications or websites were similar in all employment sizes. Over a quarter of businesses with 1 to 19 employees (26.2%), 20 to 99 employees (27.1%), and 100 or more employees (27.9%) said that they had used third-party digital platforms to outsource tasks, projects or short contracts to freelancers, “gig” workers or other businesses.

Businesses were most likely to use third-party digital platforms, applications or websites to outsource website or software development and computer programming, and graphic design and audio-visual production. Over half (51.6%) of businesses used these third-party digital platforms to outsource website or software development and computer programming, which is similar in all employment sizes. In contrast, when outsourcing graphic design and audio-visual production tasks, less than two-fifths (38.3%) of businesses with 1 to 19 employees and 20 to 99 employees (37.3%) used third-party digital platforms to do so, compared with over two-fifths (42.6%) of businesses with 100 or more employees.

Chart 3
Activities outsourced through third-party digital platforms, applications or websites



Note: Respondents were asked if the business or organization outsources any tasks, projects or short contracts to freelancers, “gig” workers or other businesses or organizations. If they reported that they did and they use third-party digital platforms, applications or websites to outsource tasks, projects or short contracts, they were asked what kind of business or organizational activities the business or organization outsourced through third-party digital platforms, applications or websites.

Source: Canadian Survey on Business Conditions, third quarter of 2021 (Table 33-10-0389-01).

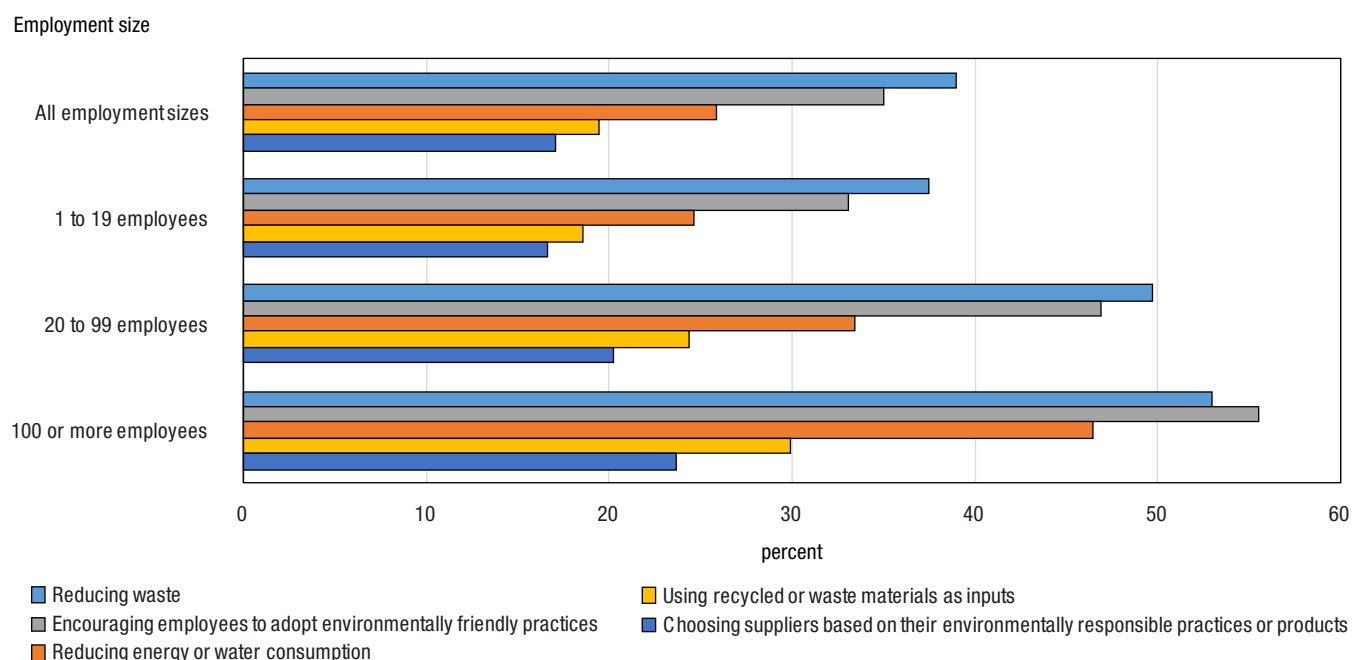


Small businesses less likely to implement environmental practices

Some businesses may be considering implementing environmentally friendly practices to address their impact on the environment and reduce their environmental footprint. The majority (59.9%) of businesses implemented at least one environmental practice, however smaller businesses were less likely to do so than larger businesses. While over half (57.7%) of businesses with 1 to 19 employees reported that they either had at least one environmental practice in place or had plans to implement one, just over three-quarters of businesses with 20 to 99 employees (75.4%) and businesses with 100 or more employees (76.0%) said the same.

The most commonly implemented environmental practice was reducing waste, and larger businesses were more likely to have this environmental practice in place. While around half of businesses with 20 to 99 employees (49.7%) and businesses with 100 or more employees (53.0%) planned to reduce waste or had already implemented the practice of reducing waste, businesses with 1 to 19 employees (37.5%) were less likely to do so.

Chart 4
Environmental practices in place or to be implemented



Note: Respondents were asked what environmental practices the business or organization had currently in place or plans to implement in the next 12 months.
Source: Canadian Survey on Business Conditions, third quarter of 2021 (Table 33-10-0373-01).

Although the majority (58.7%) of businesses reported that there were no major barriers to adopting more green practices, the most commonly reported reason businesses could not adopt green practices was the lack of financial resources. Around one in seven (15.1%) businesses with 1 to 19 employees and 9.5% of businesses with 20 to 99 employees reported that they did not have the financial resources to adopt more green practices. In contrast, 7.6% of businesses with 100 or more employees reported the same reason.



Methodology

From July 2 to August 6, 2021, representatives from businesses across Canada were invited to take part in an online questionnaire about how COVID-19 is affecting their business 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 36,294 and results are based on responses from a total of 16,925 businesses.

References

Statistics Canada. (2021). Canadian Survey on Business Conditions, third quarter of 2021.