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Outlook of rural businesses and impacts related to COVID-19, third quarter of 2021

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Outlook of rural businesses and impacts related to COVID-19, third quarter of 2021

by Andrew Balcom, Darren Ytsma, Segun Odunade, Marina Smailes and Christopher Cottin

With vaccination rates increasing and an easing of restrictions across the country as summer approached, rural businesses in Canada continued to adapt to the evolving economic landscape. Real gross domestic product (GDP) decreased by 0.3% during the second quarter from the first quarter, after three consecutive quarterly increases.¹ GDP had still not recovered to pre-pandemic levels as of June 2021, down 1.5% from February, 2020.²

The Canadian Survey on Business Conditions (CSBC) provides a detailed understanding of current business practices and expectations, as well as the effects of the ongoing pandemic on businesses. This analysis focuses on businesses in rural areas³ using results from the CSBC, third quarter 2021, conducted from early July to early August 2021.⁴

The rising cost of inputs was the most frequently expected short-term obstacle⁵ for rural businesses, at 45.1%. The other common challenges expected by rural businesses were skilled employee recruitment (37.6%), labour force shortages (33.9%) and cost of insurance (33.1%). Expectations of difficulties arising from labour force shortages increased from the previous quarter, and was most common among the accommodation and food services industry, at almost two thirds of rural businesses.

In terms of remote work possibilities, one in five rural employers anticipated having at least some employees primarily teleworking in the long term. This was most pronounced in the real estate and rental and leasing industry, of which about half of rural businesses expect at least some of their employees to continue teleworking.

Over half of rural businesses were implementing one or more environmental practices or will be doing so within the next year, with reducing waste the most commonly cited strategy.

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1. Statistics Canada. (2021). [Gross domestic product, income and expenditure, second quarter 2021](https://www150.statcan.gc.ca/n1/daily-quotidien/210831/dq210831a-eng.htm). <https://www150.statcan.gc.ca/n1/daily-quotidien/210831/dq210831a-eng.htm>
 2. Statistics Canada. (2021). [Gross domestic product, June 2021](https://www150.statcan.gc.ca/n1/daily-quotidien/210831/dq210831b-eng.htm). <https://www150.statcan.gc.ca/n1/daily-quotidien/210831/dq210831b-eng.htm>
 3. 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](https://www.statcan.gc.ca/eng/subjects/standard/sgc/2016/index). <https://www.statcan.gc.ca/eng/subjects/standard/sgc/2016/index>
 4. Statistics Canada. (2021). [Canadian Survey on Business Conditions, third quarter 2021](https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&Id=1314086). <https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&Id=1314086>
 5. The most recent survey was conducted from July 2 to August 6, 2021. 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 2 to November 6, 2021, depending on when the business responded. Similar date ranges apply to questions pertaining to expectations over the next 12 months.





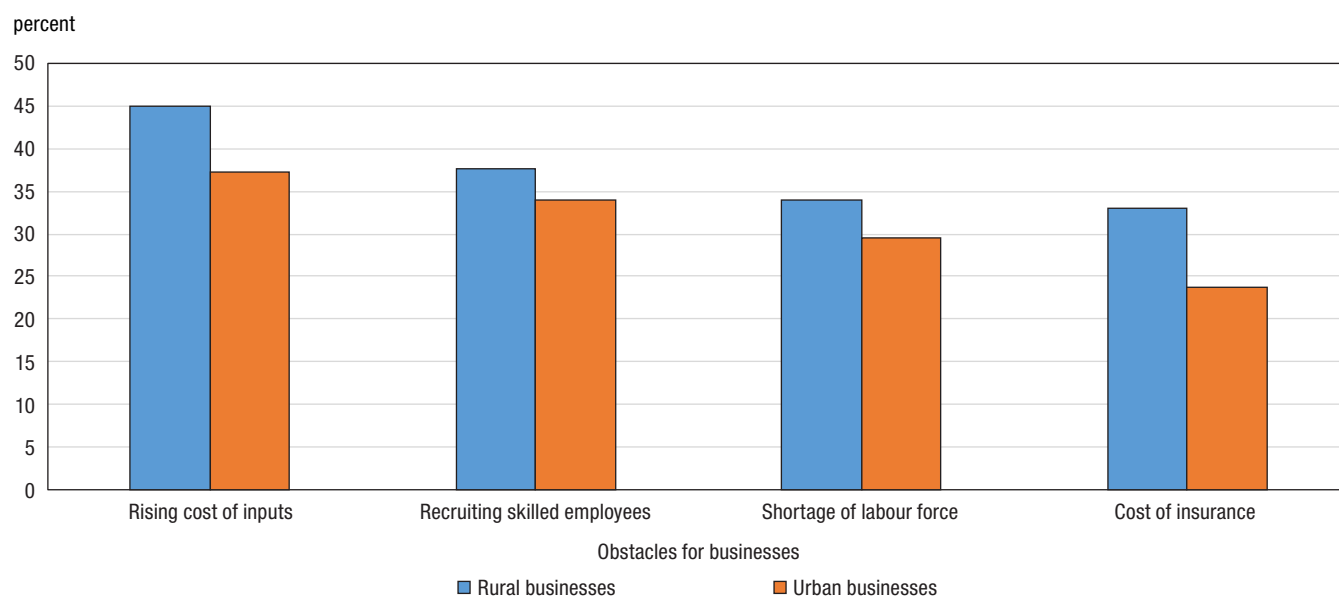
Rising cost of inputs was the most common obstacle for rural businesses for the third quarter in a row

Rising cost of inputs remained the most commonly cited obstacle expected by rural businesses over the short-term for the third quarter in a row, and continued to increase over the course of 2021 from 40.2% of businesses in the first quarter to 45.1% in the third quarter.⁶ Rising cost of inputs was also the most frequent obstacle for urban businesses in the third quarter of 2021. This pattern can also be seen in the Raw Materials Prices Index increasing by 37.7% year-over-year in July 2021,⁷ and unit labour cost increasing by 2.7% during the second quarter.⁸

Challenges with recruiting skilled employees was the second most common obstacle for rural businesses (37.6%). In the previous quarter, this obstacle was cited by 29.4% of businesses in rural areas. The third most commonly cited obstacle was labour force shortages (33.9%), the first time in 2021 that this was one of the top four most common obstacles for rural businesses.

Cost of insurance was the fourth most common obstacle in the third quarter of 2021, with 33.1% of rural businesses anticipating it to be a challenge over the short-term. This remained nearly unchanged from the second quarter (32.7%), when cost of insurance was the second most common obstacle for rural businesses. The share of rural businesses that expected to face no obstacles over the short-term was 22.7%, up 9.0 percentage points from the second quarter (13.7%).

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



Note: Urban businesses are provided for comparison only and do not have the same top four obstacles as rural businesses.
Source: Canadian Survey on Business Conditions, third quarter of 2021.

6. Inputs include cost of labour, energy, capital, and raw materials.
7. Statistics Canada. (2021). [Industrial product and raw materials price indexes, July 2021](https://www150.statcan.gc.ca/n1/daily-quotidien/210827/dq210827a-eng.htm).
8. Statistics Canada. (2021). [Labour productivity, hourly compensation and unit labour cost, second quarter 2021](https://www150.statcan.gc.ca/n1/daily-quotidien/210903/dq210903a-eng.htm).



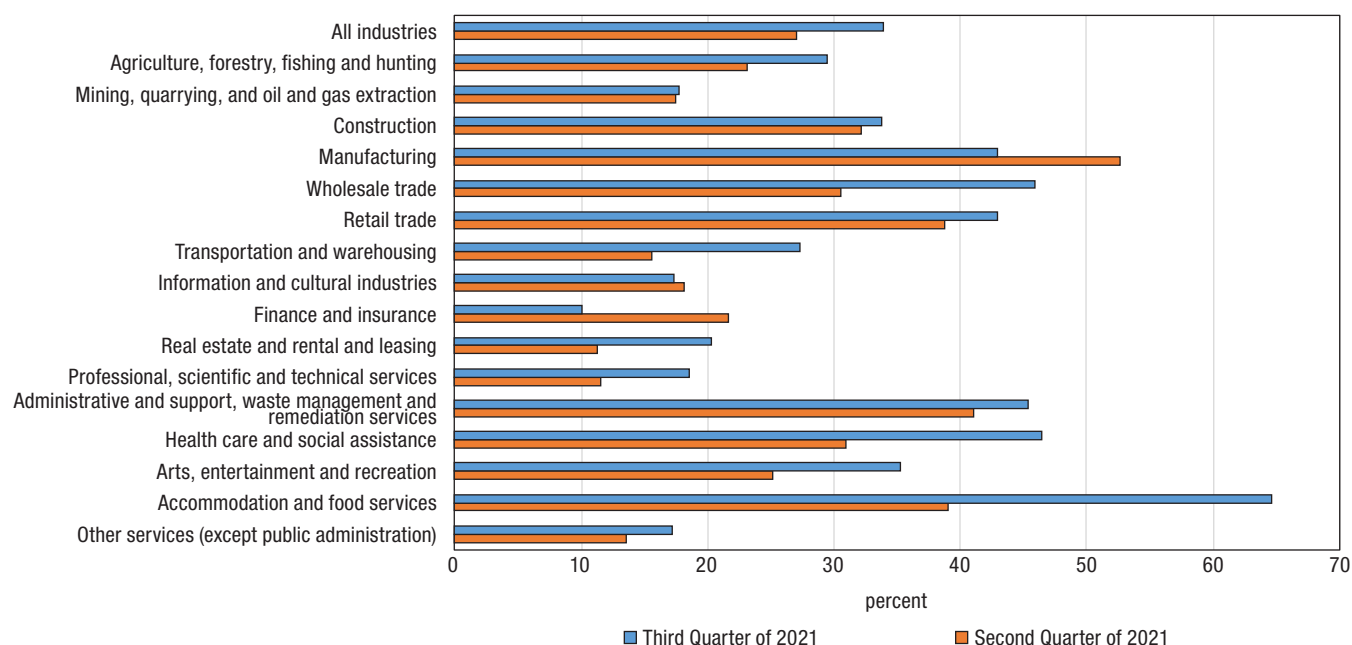
Labour force shortage expected to affect almost two-thirds of rural businesses in accommodation and food services

The percentage of rural businesses that anticipated shortage of labour to be an obstacle over the short-term increased from 27.1% in the second quarter to 33.9% in the third quarter. Accommodation and food services had the highest rate of businesses expecting to have challenges with a labour shortage in the third quarter at 64.7%. Urban accommodation and food services also expected to face labour shortages (59.2%). Other industries that also had a large share of rural businesses expecting difficulty with a labour shortage included health care and social assistance (46.4%), wholesale trade (45.9%), administrative and support, waste management and remediation services (45.4%), manufacturing (43.0%), and retail trade (42.9%).

While there was an increasing share of rural businesses in most industries that cited shortage of labour force as a future obstacle between the second and the third quarters of 2021, some industries reported a quarter-to-quarter drop. Specifically, the share of rural businesses in finance and insurance that expected difficulty with a shortage of labor decreased by 11.7 percentage points from 21.7%, and in manufacturing which decreased by 9.7 percentage points from 52.7%.

In the majority of industries, rural businesses had larger shares expecting shortage of labour force than their urban counterparts, the largest differences being in wholesale trade (20.1 percentage points) and health care and social assistance (18.3 percentage points). In contrast, other services (except public administration) and finance and insurance had the highest rates of urban businesses exceeding rural businesses in expecting labour force shortage, by 11.9 percentage points and 9.7 percentage points respectively.

Chart 2
Percent of rural businesses expecting labour shortage to be a future obstacle, by industry



Sources: Canadian Survey on Business Conditions, third quarter of 2021 and Canadian Survey on Business Conditions, second quarter of 2021.



The majority of rural businesses do not plan to implement any teleworking as a permanent feature after COVID-19

With telework technology adoption becoming more prevalent in the workplace, businesses have begun to plan their workforce arrangements once the COVID-19 pandemic will be over. However, the majority of businesses in both rural and urban areas anticipated that once the COVID-19 pandemic was over, they would not have any of their employees primarily teleworking (79.1% rural, 70.8% urban). In rural areas, 8.9% of businesses expected that 100% of their employees would be teleworking post-pandemic, while 12.0% indicated that some of their employees would telework as the pandemic ended. For urban businesses, these percentages were 9.9% and 19.2%, respectively.

The accommodation of remote working has differed by industry, based on June 2021 results from the Labour Force Survey. For the largest rural employer, the health care and social assistance industry, 28.8% of workers (rural and urban) reported being able to work from home during the pandemic, compared to a cross-industry average of 42.3%. For the next four highest rural employers, this share was 58.5% for wholesale trade, 20.9% for manufacturing, 12.3% for construction, and 4.8% for agriculture.^{9,10}

In rural areas, the highest rate among industries that expected at least some employees to use teleworking after the pandemic was in real estate and rental and leasing, at 50.9%. This industry also had one of the largest differences between rural and urban businesses, at 18.6 percentage points.

Of businesses that plan to implement at least some telework in the post-pandemic future, 7.3% of those located in rural areas anticipated shrinking office locations due to a portion of their workforce teleworking, about half that of urban businesses (15.8%).

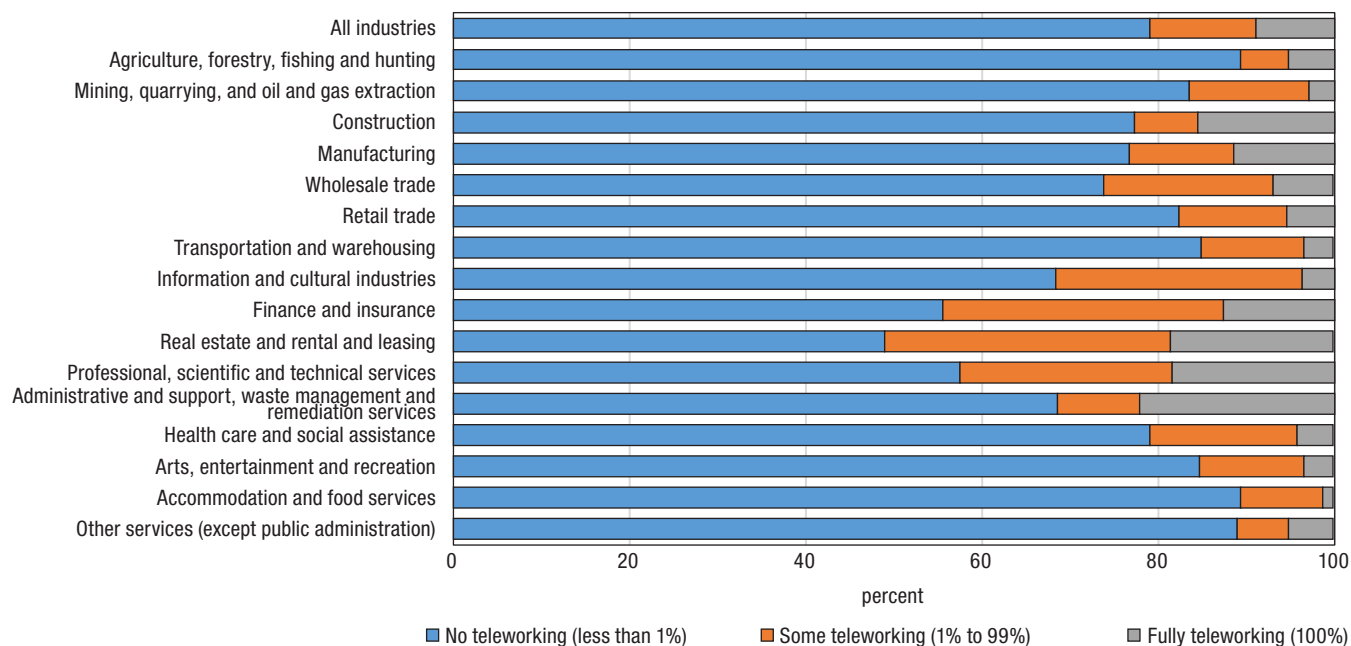
9. Statistics Canada. (2021). [The Daily – Working from home during the COVID-19 pandemic, April 2020 to June 2021](https://www150.statcan.gc.ca/n1/daily-quotidien/210804/t001b-eng.htm). <https://www150.statcan.gc.ca/n1/daily-quotidien/210804/t001b-eng.htm>.

10. Statistics Canada. (2021). [Table: 14-10-0377-01, Employment by class of worker and industry, annual \(x 1,000\)](https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410037701). <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410037701>.





Chart 3
Percentage of rural businesses that anticipated continuing to primarily telework once the COVID-19 pandemic is over, by industry



Note: Rural results for professional, scientific and technical services had components of their values labelled with a data quality label of E and should be used with caution.
Source: Canadian Survey on Business Conditions, third quarter of 2021.

Reducing waste was the most common environmental practice for rural and urban businesses

Overall, rural businesses were slightly less likely than urban businesses to have implemented or have plans to implement environmental practices within the next 12 months (58.0% and 60.3%, respectively). Third quarter results show that 36.5% of rural businesses and 39.6% of urban businesses had already implemented or had plans to reduce their waste. In addition, 33.2% of businesses in rural areas and 35.3% of businesses in urban areas had plans to encourage their employees to adopt environmentally friendly practices. About one-quarter of both rural (26.0%) and urban (25.9%) businesses had plans to reduce their energy or water consumption. Approximately two-fifths of both rural (42.0%) and urban businesses (39.7%) had no environmental practice in place nor plans to implement one.



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. This iteration of the Canadian Survey on Business Conditions¹¹ used a stratified random sample of business establishments with employees classified by geography, industry sector, and size. Estimation of proportions is done using calibrated weights to calculate the population totals in the domains of interest.

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

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

11. Statistics Canada. (2021). [Canadian Survey on Business Conditions, third quarter 2021](https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&Id=1314086). <https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&Id=1314086>.

