The Main Street Quarterly

Small business insights into the Canadian economy | ***2023 Q1***

CANADIAN FEDERATION OF INDEPENDENT BUSINESS
In business for your business.

ECONOMIC FORECASTS, CANADA

Table 1 - Key macroeconomic variables, historical and forecasted data, Canada, 2022-2023

	History				Forecasts		Trends (2022 Q1-2023 Q2)
AppEco Analyse stratégique • Analytics	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	
GDP by expenditure							
Level, chained $B (2012)	2,154	2,173	2,186	2,186	2,199	2,206	
Q/Q annualized growth	2.4%	3.6%	2.3%	0.0%	2.5%	1.2%	
Y/Y growth	3.1%	4.7%	3.8%	2.1%	2.1%	1.5%	
GDP by industry, business sector							
Level, chained $B (2012)	1,666	1,684	1,692	1,691	1,702	1,707	
Q/Q annualized growth	3.0%	4.4%	1.9%	-0.1%	2.6%	1.2%	
Y/Y growth	3.3%	5.1%	4.2%	2.3%	2.2%	1.4%	
Retail sales							
Level, $M	60,218	61,902	61,237	61,908	61,767	61,856	
Q/Q annualized growth	13.8%	11.7%	-4.2%	4.5%	-0.9%	0.6%	
Y/Y growth	8.5%	11.2%	7.0%	6.2%	2.6%	-0.1%	
CPI, total							
Level, index (2002 = 100)	147	151	153	154	155	156	
Q/Q annualized growth	7.8%	10.5%	4.2%	4.2%	2.0%	2.9%	
Y/Y growth	5.8%	7.6%	7.1%	6.6%	5.2%	3.3%	
CPI, excluding food and energy							
Level, index (2002 = 100)	139	141	143	144	145	146	
Q/Q annualized growth	5.5%	6.9%	5.2%	3.9%	3.1%	2.8%	
Y/Y growth	4.1%	5.1%	5.4%	5.4%	4.8%	3.7%	
Gross fixed capital formation, business sector							
Level, chained $B (2012)	392	382	375	370	373	376	
Q/Q annualized growth	5.0%	-10.1%	-6.8%	-5.3%	3.8%	2.5%	
Y/Y growth	-0.5%	-3.1%	-0.6%	-4.5%	-4.7%	-1.5%	
Employment							
Level, k persons	17,204	17,503	17,638	17,747	17,950	18,133	
Q/Q annualized growth	5.3%	7.1%	3.1%	2.5%	4.6%	4.1%	
Y/Y growth	7.5%	7.7%	5.6%	4.5%	4.3%	3.6%	

Source: Modelling and forecasts by AppEco using CFIB's monthly Business Barometer® data.
Note: Forecasts are based on weighted CFIB data. The interpretation of recent dynamics can differ from that of unweighted data.

Canadian economy heading toward a slowdown, inflation on the right path and still no recession in sight

Quarterly economic forecasts based on the most recent monthly Business Barometer® data indicate that total GDP grew by 2.5% in Q1 2023, boosted by the very strong rebound of GDP by industry in January (+7.3%), improved business sentiment regarding the next 12 months, and increased overtime hours. A slowdown should nonetheless materialize in Q2 2023, with a growth rate of 1.2%.

After rebounding at the end of 2022, retail sales contracted by 0.9% in Q1 2023, although they are higher than in Q1 2022 in absolute value. Sales are expected to grow moderately in Q2 2023.

CPI inflation, both total and excluding food and energy, continue their gradual descent, reaching 5.2% and 4.8% in Q1 2023, respectively. Although businesses' expectations of price increases have moderated in recent months, they remain well above average. Production cuts recently announced by OPEC+ should also put upward pressure on inflation over the coming months.

Private investment should grow in Q1 and Q2 2023, supported by high levels of unfilled orders. However, year-over-year, the decline in the level of investment is expected to persist.

Employment grew by 4.6% in Q1 2023, supported by the rebound in GDP growth and high unfilled orders. This pace will nonetheless continue to slow down on a year-over-year basis, consistent with lower GDP growth forecasts and elevated labour shortages.

ALSO FEATURED:

Job vacancy rates in Canada remained elevated and have changed little in Q1 2023

The job vacancy rate in the Canadian private sector in Q1 2023 showed little change from a revised 4.7% in Q4 2022 (Figure 2). This is in line with the latest results which indicate a robust labour market.[1]

Gaps among provinces are minimal, while variations by sector are significant

As in previous quarters, businesses in the personal services, construction and hospitality sectors recorded the highest vacancy rates, 7.5%, 6.3%, and 6.1% respectively (Figure 2). These sectors showed no or only a minimal improvement since Q4 2022. Almost all sectors experienced a year-over-year decline, except for the transportation sector (Table 2).

Smaller businesses are more likely to observe high vacancy rates

Job vacancy rates increased in Q1 2023 for smaller businesses (less than 20 employees) and declined for larger ones (Table 2), accentuating the existing gap.

Businesses with at least one job vacancy still feel more pressure to increase their wages

The gap in wage increase plans between businesses with vacancies and those without is stable on a quarterly basis. However, it remains larger than it was before the pandemic (Figure 3).

Sources:
(1) https://www150.statcan.gc.ca/n1/daily-quotidien/230406/dq230406a-eng.htm
(2) CFIB, Your Business Outlook Survey, Jan. 2004–March 2023.
(3) Statistics Canada. Table 14-10-0398-01.
Note: *12-month and 3-month changes are in percentage points.

Figure 1 - Job vacancy rates by province, Canada, 2004-2023[2,3]

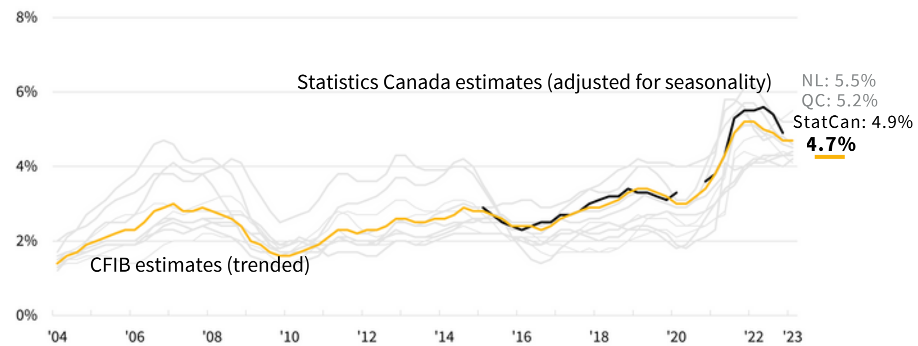


Figure 2 - Job vacancy rates by sector, Canada, 2004-2023[2]

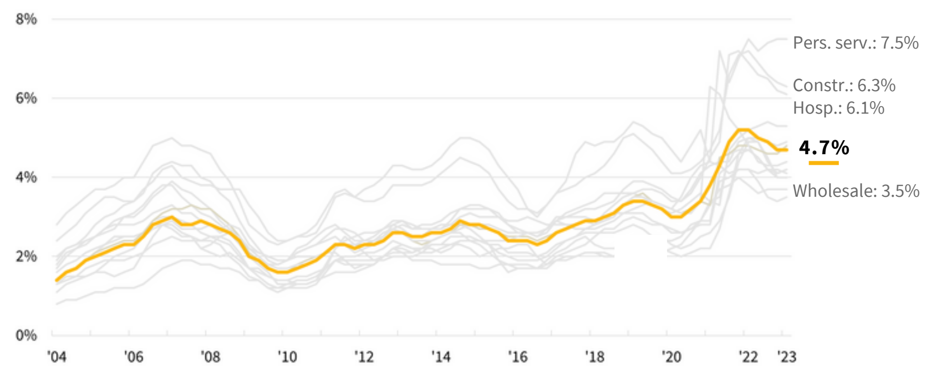


Figure 3 - Average planned wage hike among firms with and without job vacancies, Canada, 2009-2023[2]

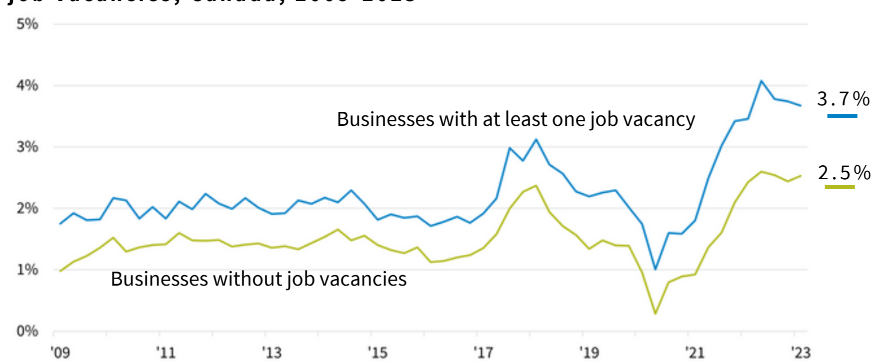


Table 2 - Private sector job vacancies, 2023 Q1[2]

	Total vacancies	Vacancy rate (%)	12-month change*	3-month change*
Canada	658,900	4.7	-0.5	0
NL	8,700	5.5	0.7	0.2
PEI	2,000	4.1	-1.1	-0.2
NS	14,700	4.4	0.3	0.1
NB	11,300	4.6	-0.4	-0.2
QC	164,500	5.2	-1	0
ON	256,200	4.5	-0.6	-0.1
MB	19,700	4.3	0	-0.1
SK	14,900	4.2	0	0.2
AB	74,000	4.3	0.2	0
BC	92,900	4.7	-1	0
Agriculture	8,900	4.9	-0.1	0.1
Oil & gas, mining	8,100	3.7	-0.1	0
Construction	75,000	6.3	-0.9	-0.1
Manufacturing	65,100	4.0	-0.7	0
Wholesale	29,300	3.5	-0.7	0.1
Retail	87,400	4.2	-0.5	0.1
Transport	35,900	5.3	0.1	0
Information, arts, recreation	25,600	4.2	-0.8	0.1
Finance, insur., real estate	43,500	4.0	-0.9	0
Professional services	59,100	4.8	0	0.2
Enterprise management	41,700	4.1	-0.1	-0.1
Health, education	50,500	4.4	-0.4	0.1
Hospitality	84,000	6.1	-0.8	-0.1
Personal services	44,800	7.5	0	0
1-4 employees	88,800	7.9	-0.3	0.3
5-19 employees	157,300	6.9	-0.5	0.1
20-49 employees	88,100	4.8	-0.8	-0.2
50-99 employees	48,600	3.5	-1.4	-0.5
100+ employees	276,100	3.8	-0.2	0.1

The average increase in wages in Q1 2023 remains high despite a downward trend

In a context where inflation is high[4] and the job market remains tight, the average wage increase remains significant, hovering around 3.1% in Q1 2023 (Table 3). This increase is driven by the large share of small businesses (15%) that plan to increase wages by 6% or more (Figure 4). However, the average wage increase has been on a slight downward trend since the peak reached in mid-2022.

Some sectors have more aggressive wage plans

Firms in hospitality and transportation plan to increase wages by 4.1% and 3.6%,on average, in the next 12 months (Table 3). Moreover, since 2019, these two sectors have recorded the highest hikes in the share of businesses planning to increase wages by 6% or more. In Q1 2023, they reached 35% and 24%, respectively (Figure 5).

Labour shortages play a role

As mentioned in the previous section, labour shortages drive significant wage increases. Firms without labour shortages are planning to increase wages by 2.4% on average, while those with shortages of skilled labour, unskilled/semi-skilled labour or both are expecting to increase wages by more than 3% (Figure 6). Since 2017, shortages of unskilled or semi-skilled labour have tended to have a greater influence on wage hikes than skilled labour shortages have.

Sources:
(4) https://www.bankofcanada.ca/rates/indicators/capacity-and-inflation-pressures/
(5) CFIB, Your Business Outlook Survey, Jan. 2013–March 2023.
Notes:
*12-month and 3-month changes are in percentage points.
**Less than 30 respondents.

Figure 4 – Despite a Q1 2023 slump, the proportion of small businesses intending to implement substantial wage hikes remains elevated[5]

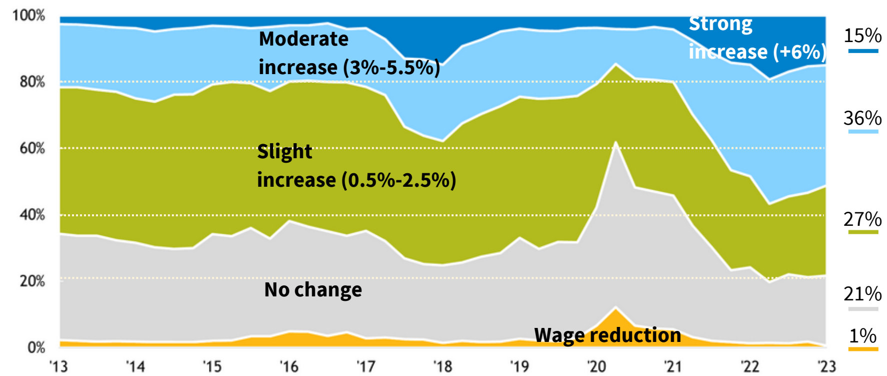


Figure 5 – A larger share of businesses plan on raising wages by 6% or more in the next 12 months, compared to before the pandemic[5]

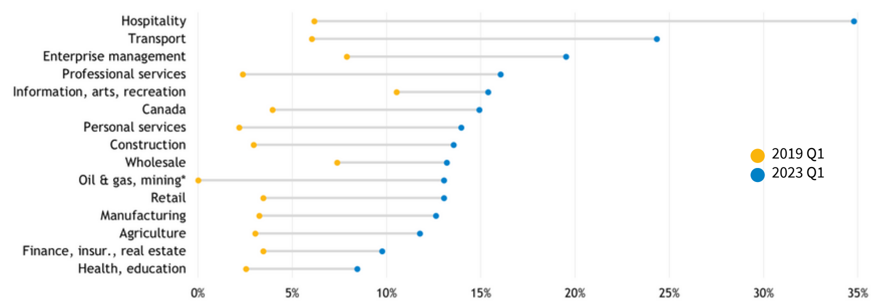


Figure 6 – Small businesses facing labour shortages are more prone to planning higher average wage increases[5]

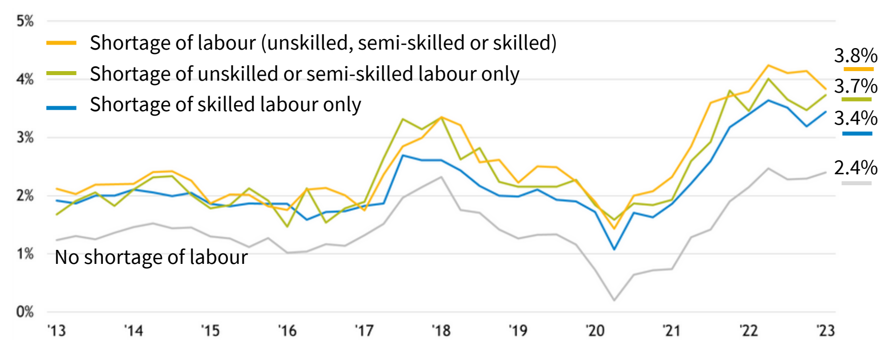


Table 3 – SMEs' planned wage increases, 2023 Q1[5]

	Average increase	12-month change*	3-month change*	Share of SMEs +6%
Canada	3.1%	0.2	0.0	15%
NL**	2.9%	0.8	0.7	11%
PEI**	3.7%	0.7	-0.1	18%
NS	3.2%	0.6	-0.2	18%
NB	3.6%	0.6	0.2	25%
QC	3.7%	-0.1	0.3	20%
ON	3.0%	0.1	-0.1	12%
MB	4.4%	1.7	0.8	34%
SK	2.8%	0.5	0.1	17%
AB	2.4%	0.2	-0.1	9%
BC	3.1%	0.0	-0.5	14%
1-4 employees	2.6%	0.2	0.0	13%
5-19 employees	3.3%	0.1	-0.1	16%
20-49 employees	3.7%	-0.1	0.0	16%
50-99 employees	3.9%	0.1	-0.6	16%
100+ employees*	4.8%	1.1	0.9	29%
Health, education	2.3%	-0.2	-0.1	8%
Retail	2.8%	0.1	-0.1	13%
Personal services	2.9%	0.4	-0.2	14%
Agriculture	2.9%	-0.4	-0.5	12%
Oil & gas, mining*	3.0%	0.2	-0.3	13%
Information, arts, recreation	3.1%	-0.1	-0.8	15%
Construction	3.3%	0.2	0.0	14%
Enterprise management	3.3%	-0.1	-0.3	20%
Manufacturing	3.3%	-0.1	-0.1	13%
Professional services	3.4%	0.3	-0.6	16%
Wholesale	3.4%	0.2	0.2	13%
Finance, insur., real estate	3.5%	0.6	0.8	10%
Transport	3.6%	0.4	0.5	24%
Hospitality	4.1%	0.9	0.7	35%

Footprint

	GDP ($B)	BUSINESSES ('000)	WORKFORCE ('000)
	38.7	120	1,004
SME SHARE (%)[6]	80	99.97	61.5

The hospitality industry has the highest share of small and mid-sized enterprises (SME) among all sectors (99.97%). SMEs generate 80% of the sector's GDP and employ two-thirds of its workforce.

The pandemic has had a more severe impact on the hospitality industry than on the rest of the economy (Figure 7). The sector is still on the road to recovery and has not yet reached pre-pandemic levels (Figure 8).

The recovery is slow as two-thirds of firms have sales below their normal levels. About 80% of businesses are still carrying pandemic debt which is on average about $119,000 (Table 4).

The main challenges the industry is facing are high wage costs driven mainly by steep vacancy rates; and high product input costs caused by supply chain issues and high inflation (Figure 9). The main limitations on business growth are labour shortages and weak domestic demand (Figure 10).

Sources:
(6) Statistics Canada. (a) Table 36-10-0434-03; (b) Table 33-10-0568-01; (c) Innovation, Science and Econ. Dev. Canada, Key Small Business Statistics 2022; (d) Labour Force Survey data, custom tabulations.
(7) Statistics Canada. Table 36-10-0449-01.
(8) CFIB, Your Voice Survey, Feb. 2023, n=3,023.
(9) CFIB, Your Business Outlook Survey.

Fitness

Figure 7 – The industry has not yet fully recovered from the pandemic[7]

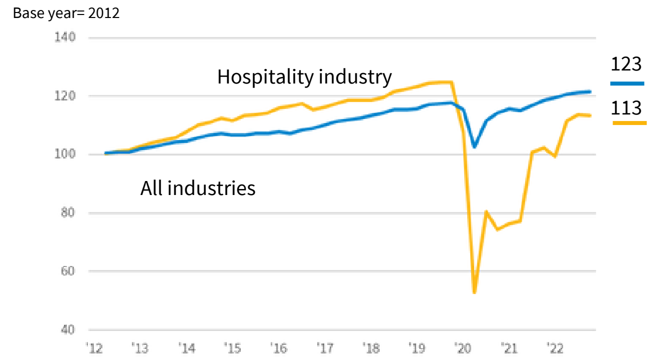
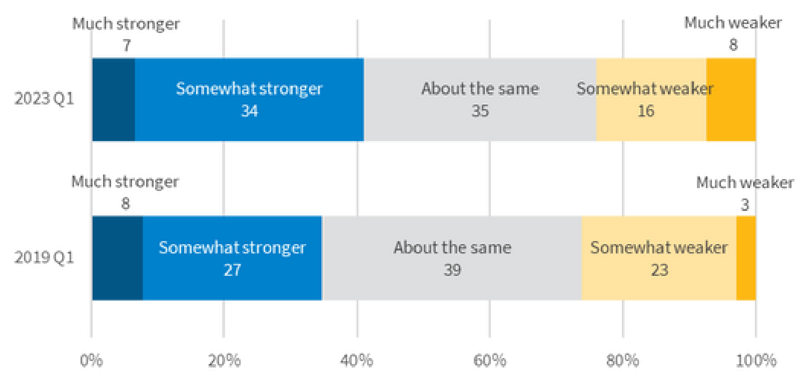


Table 4 – The industry is on a path of slow recovery[8]

64%	79%	119,000
SHARE OF SMES WITH SALES BELOW NORMAL	SHARE OF SMES WITH PANDEMIC DEBT	AVERAGE BUSINESS PANDEMIC DEBT (IN $)

Figure 8 – Expectations for the next 12 months are stronger compared to the same time in 2019[9]



Challenges

Figure 9 – Wage costs, product input costs, banking fees and occupancy costs affect the hospitality industry more than other sectors[9] (% responses)

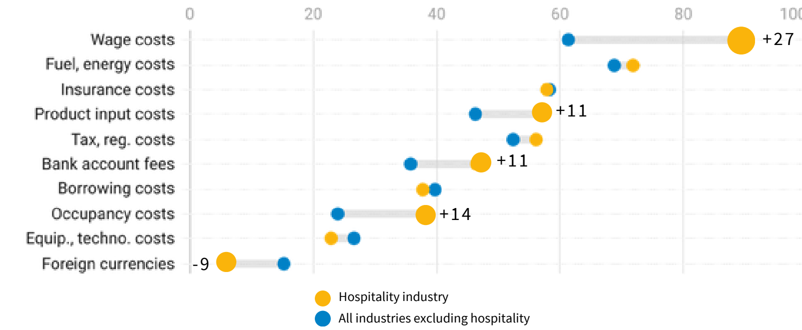
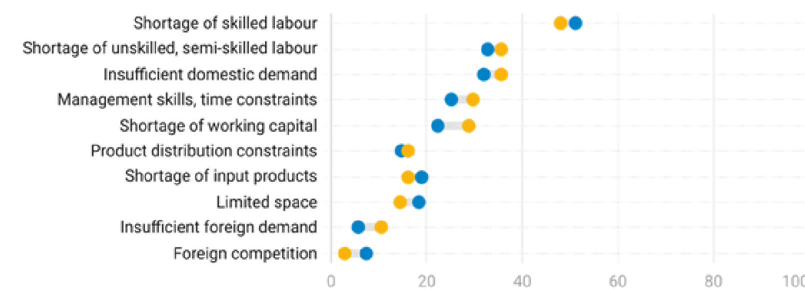


Figure 10 – Labour shortages and insufficient domestic demand are limiting firms' ability to grow, similar to other sectors[9] (% responses)



The **hospitality industry** includes two subsectors:[6b]

- food services & drinking places (81% of establishments) such as restaurants, bars and other places serving food or drinks, and
- accommodation services (19% of establishments) such as hotels, motels, bed & breakfast places, campground and RV parks, and boarding houses.

METHODOLOGY

CFIB's research is based on members' views, which are collected through various controlled-access member surveys using a one-member one-vote system. CFIB produces clear, credible and compelling analysis that supports the success of independent business in Canada.

CFIB membership has good representation across regions, sectors and business sizes; hence the survey data offers a reasonable estimate of the distribution of economic activity across Canada.

Your Business Outlook is a monthly CFIB tracking survey that covers small business confidence, expectations and operating conditions. Findings are typically based on several hundred responses from a stratified random sample of CFIB members. Every last Thursday of the month, results are released in our Business Barometer® reports (Canada, provinces and industries), at cfib.ca/barometer.

Your Voice is a monthly CFIB omnibus survey that covers a wide range of current topics related to small business. Results are based on several thousand responses each time and are presented in a few monthly key charts at cfib.ca/yourvoice.

Forecasts are based on CFIB data collected via the Your Business Outlook survey, a data set that is available the same month it is collected. By contrast, most other publicly available economic indicators have a delay, sometimes longer than two months.

Job vacancies estimates are also based on the Your Business Outlook survey. The analysis uses data from the CFIB survey, Statistics Canada's Survey of Employment, Payrolls and Hours as well as custom tabulations from Statistics Canada's Labour Force Survey.

For more information on the methodologies used, visit cfib.ca/research.

ABOUT CFIB

The Canadian Federation of Independent Business (CFIB) is Canada's largest association of small and medium-sized businesses with 97,000 members across every industry and region. CFIB is dedicated to increasing business owners' chances of success by driving policy change at all levels of government, providing expert advice and tools, and negotiating exclusive savings. Learn more at cfib.ca.

CFIB Economics

Simon Gaudreault
Chief Economist and Vice-President Research

Andreea Bourgeois
Director, Economics

Laure-Anna Bomal
Economist

Alchad Alegbeh
Research Analyst

cfib.ca/research

economics@cfib.ca

@CFIB_FCEI_Stats

ABOUT APPECO

AppEco is a consulting firm specializing in economic and strategic analysis. It possesses in-depth technical expertise and delivers first-class services in applied economics: economic impact studies, surveys and polls, cost-benefit analyses, modelling, econometrics, pricing, etc. Its mission is to provide useful services that contribute to economic growth and the success of clients' projects. AppEco works with firms of all sizes, from small to multinationals, as well as governments and non-profit organizations. Learn more at appeco.ca/en/.

Pierre Emmanuel Paradis
President and Economist

Richard Fahey
Vice-President and Lawyer

Julien Mc Donald-Guimond
Economist

appeco.ca

info@appeco.ca

AppEco