























The Main Street Quarterly

Small business insights into the Canadian economy | 2023 Q3

Economic Forecasts, Canada

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

 ANALYSE STRATÉGIQUE • ANALYTICS	History				Forecasts		Trends (2022 Q3-2023 Q4)
	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	
GDP by expenditure							
Level, chained \$B (2012)	2,187	2,186	2,200	2,199	2,201	2,208	
Q/Q annualized growth	2.3%	-0.1%	2.6%	-0.2%	0.3%	1.4%	
Y/Y growth	3.8%	2.1%	2.1%	1.1%	0.6%	1.0%	
GDP by industry, business sector							
Level, chained \$B (2012)	1,693	1,693	1,703	1,702	1,703	1,709	
Q/Q annualized growth	2.0%	0.0%	2.3%	-0.2%	0.2%	1.4%	
Y/Y growth	4.3%	2.4%	2.1%	1.0%	0.6%	0.9%	
Retail sales							
Level, \$M	64,848	65,454	65,877	65,859	66,183	66,629	
Q/Q annualized growth	-3.0%	3.8%	2.6%	-0.1%	2.0%	2.7%	
Y/Y growth	7.0%	5.7%	3.7%	0.8%	2.1%	1.8%	
CPI, total							
Level, index (2002 = 100)	153	154	155	156	158	159	
Q/Q annualized growth	4.2%	4.2%	2.2%	3.3%	4.8%	2.3%	
Y/Y growth	7.1%	6.6%	5.2%	3.5%	3.6%	3.1%	
CPI, excluding food and energy							
Level, index (2002 = 100)	143	144	146	147	148	149	
Q/Q annualized growth	5.2%	3.9%	3.3%	3.3%	3.4%	2.6%	
Y/Y growth	5.4%	5.4%	4.8%	3.9%	3.5%	3.2%	
Gross fixed capital formation, business sector							
Level, chained \$B (2012)	374	368	363	364	362	360	
Q/Q annualized growth	-9.1%	-6.6%	-5.3%	1.6%	-2.1%	-2.4%	
Y/Y growth	-0.8%	-5.0%	-7.8%	-4.9%	-3.2%	-2.1%	
Payroll Employment							
Level, k persons	17,638	17,747	17,906	17,974	18,135	18,318	
Q/Q annualized growth	3.1%	2.5%	3.6%	1.5%	3.6%	4.1%	
Y/Y growth	5.6%	4.5%	4.1%	2.7%	2.8%	3.2%	

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.

The economy is stalled, marked by 0.3% growth, and expected to rebound slightly in Q4 2023

Economic forecasts based on the most recent Monthly Business Barometer® data indicate that GDP growth was weak, but positive, in 2023 Q3 at 0.3% (0.2% in the business sector). Growth is set to rebound slightly to 1.4% in Q4, meaning that a recession could be avoided. Although below the historical pace of about 2.5%, the GDP forecast points to resilience in the economy, despite a challenging environment. The recent developments in the Middle East region could also weigh on growth over the coming quarters.

Retail sales grew by 2.0% in Q3 and are expected to grow by a further 2.7% in Q4. However, with year-over-year growth of around 2%, the volume of sales has likely been flat over the past year when the effects of price increases are excluded.

CPI inflation, both total and excluding food and energy, is gradually coming down, but at a slower pace than a year ago. Total CPI even rebounded slightly in Q3, from 3.5% to 3.6%. Should inflation remain sticky around 3%, the Bank of Canada may want to hike rates one more time in 2023. However, the full effect of previous rate hikes has yet to completely materialize in the economy, calling for patience.

Private investment rose in 2023 Q2 for the first time since 2022 Q1. This recent uptick is not expected to continue, with investment contracting by 2.1% in Q3 and 2.4% in Q4, in line with the slowdown observed in the residential construction sector.

Payroll employment grew by 3.6% in Q3 and is expected to gain another 4.1% in Q4. Although job vacancies have started declining, they are still higher than the historical average, pointing to an underlying demand for workers. The recent inflow of immigration will support employment growth in the short term.

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Private sector job vacancies



Job vacancy rate decreases

The job vacancy rate in Canada’s private sector in Q3 2023 continued its downward trend, dropping to 4.2% (Figure 1). This should help soften the labor market, as employers post fewer vacancies and overall employment grows.¹

Saskatchewan recorded the highest vacancy rate

Saskatchewan, Quebec and Manitoba businesses recorded the highest job vacancy rates (Figure 1 and Table 2). Saskatchewan (4.9%) and Manitoba (4.6%) are the only jurisdictions which saw increases in their rates over the past quarter.

All sectors but agriculture experienced a decline in their rates

The personal services, construction, and hospitality sectors continued to see the highest job vacancy rates, although they saw a drop in quarterly changes. Hospitality and transportation recorded the most significant quarterly declines (Table 2).

Job vacancy rate remains strong in micro-businesses

Micro-businesses (fewer than 5 employees) recorded a slight quarterly increase and a modest year-over-year decrease. In contrast, large businesses saw more pronounced quarterly and yearly declines (Table 2).

Wage increase plans slow down

As expected, in line with recent Monthly Business Barometer reports, wage increase plans are trending down. Businesses with job vacancies intend to raise wages by 3.1% over the next 12 months, while those without vacancies are planning increases of 2.2% (Figure 3).

Sources

(1) CFIB, Your Business Outlook Survey, Jan. 2004-Sept. 2023. Trended.
(2) Statistics Canada. Table 14-10-0398-01. Adjusted for seasonality.
Note: * Q/Q (3-month) and Y/Y (12-month) changes are in percentage points.

Figure 1 – Job vacancy rates by province, Canada^{1,2}

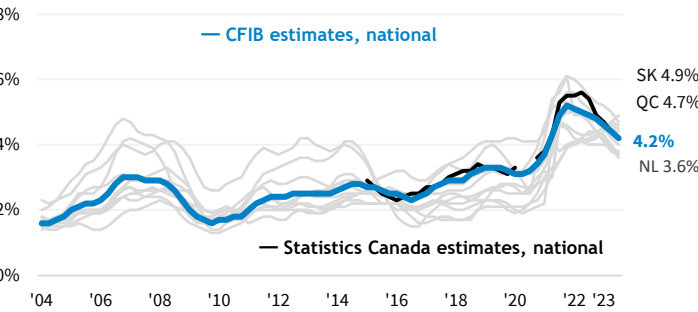


Figure 2 – Job vacancy rates by sector, Canada¹

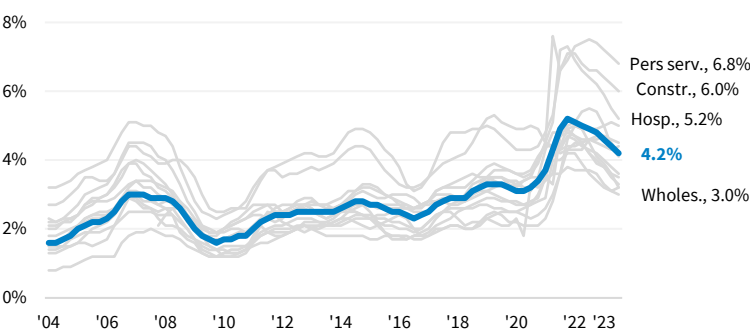


Figure 3 – Average planned wage hike, next 12 months¹



Table 2 – Private sector job vacancies, 2023 Q3²

	Vacancy rate (%)	Q/Q change*	Y/Y change*	Total vacancies (n)
Canada	4.2	-0.2	-0.6	594,900
Saskatchewan	4.9	0.3	0.5	17,700
Quebec	4.7	-0.2	-0.8	148,700
Manitoba	4.6	0.2	0.4	21,400
New Brunswick	4.5	0.0	-0.3	11,700
British Columbia	4.4	-0.2	-0.8	87,900
Ontario	4.0	-0.3	-0.7	224,900
Nova Scotia	3.8	-0.1	-0.2	12,800
Prince Edward Island	3.7	-0.3	-1.1	1,800
Alberta	3.7	-0.3	-0.2	62,700
Newfoundland and Labrador	3.6	-0.3	-0.2	5,300
Personal services	6.8	-0.2	-0.4	41,200
Construction	6.0	-0.2	-0.6	75,300
Hospitality	5.2	-0.4	-1.1	70,200
Agriculture	5.0	0.1	0.2	8,400
Enterprise management	4.5	-0.1	0.3	44,500
Health, education	4.4	-0.1	-0.3	53,500
Professional services	4.2	-0.2	0.0	53,700
Transportation	4.1	-0.6	-1.0	28,500
Retail	3.6	-0.2	-0.6	75,600
Finance, insurance, real estate	3.5	-0.2	-0.9	39,000
Manufacturing	3.3	-0.3	-1.0	53,700
Natural resources	3.2	-0.2	-0.6	7,000
Information, arts, recreation	3.2	-0.3	-1.3	18,500
Wholesale	3.0	-0.1	-0.8	25,700
1-4 employees	7.6	0.1	-0.2	85,900
5-19 employees	6.4	-0.1	-0.6	148,700
20-49 employees	4.1	-0.3	-1.0	73,800
50-99 employees	3.3	-0.4	-1.3	45,100
100+ employees	3.2	-0.2	-0.4	241,300

In focus: Commercial rents see steep hikes



Strong pressure on costs, especially rental costs

In a recent CFIB survey, 76% of Canadian SMEs identified the cost of doing business as a top concern¹. A growing share of SMEs are having difficulties with occupancy costs, reaching 29% in September, well above the historical average of 22% (Figure 4). One of the most important costs of doing business is rental expenses with 64% of SMEs making commercial rent payments (Table 3). StatsCan Commercial Rent Price Index shows that pressure has steadily risen for renters since Q4 2021, particularly for industrial buildings (Figure 5).

SMEs are grappling with steep rent hikes

CFIB data¹ shows a majority of small businesses had to face significant rent increases in the last 12 months: 12% of SMEs nationwide faced high rent hikes of 30% or more and an additional 39% had to absorb moderate increases between 6 and 29% (Table 3). Similar rent pressures are found across provinces, sectors, and types of buildings.

SMEs have limited flexibility amidst rising rents

Rent hikes pose significant challenges for small firms. Among those who faced an increase of 6% or more, one third considered moving and another 7% effectively relocated (Figure 6). The reality of each business model makes it very difficult for many entrepreneurs to turn relocation intentions into actions.

Sources and notes

(1) CFIB, Your Voice survey – September 7-21 2023, n= 2,618.
(2) CFIB, Your Business Outlook Survey, Jan. 2019-Sept. 2023.
(3) Statistics Canada. Table 18-10-0260-01.
(4) Question: What impact have rent increases had on your physical business space? (Select all that apply) [Respondents who previously indicated they had a significant (6%+) increase in their commercial rent in the past 12 months].

Figure 4 – The share of small businesses having difficulties with occupancy costs has been trending up and away from its historical average in the past year ²

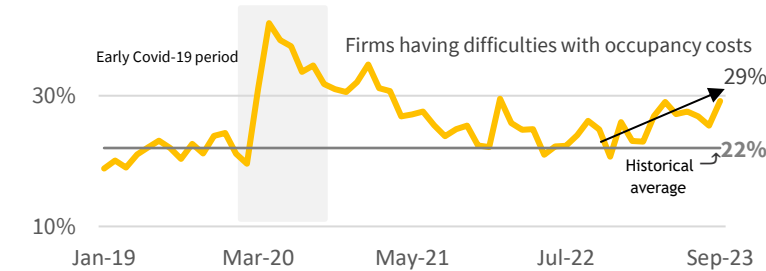


Figure 5 – Commercial rent indices³ on the rise, with biggest increase for industrial buildings

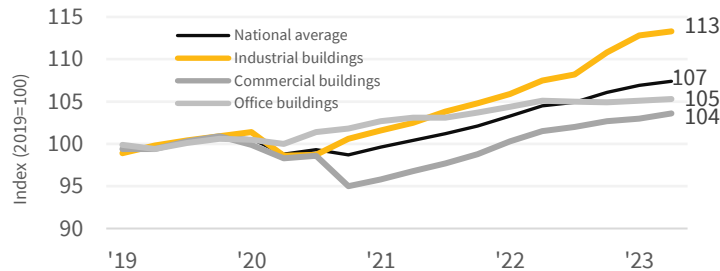


Figure 6 – Most business owners who faced commercial rent increases in the past 12 months have opted for or considered relocating^{3,4}

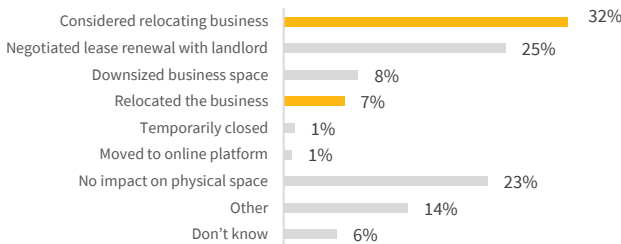


Table 3 – Commercial rent situation across Canada²

Share of businesses (%)	Paying commercial rent	Among firms paying commercial rent:		Faced rent hikes and relocated or considered it
		Affected by high rent increases*	Affected by moderate rent increases*	
Canada	64	12	39	39
British Columbia	73	14	44	45
Alberta	66	7	38	44
Saskatchewan	62	10	28	33
Manitoba	57	8	39	38
Ontario	65	14	34	41
Quebec	63	12	43	33
New Brunswick	55	14	47	39
Nova Scotia	57	9	36	37
Prince Edward Island**	36	NA	40	NA
Newfoundland and Labrador**	48	NA	57	38
Agriculture**	18	7	20	NA
Natural resources**	52	8	33	NA
Construction	56	9	31	40
Manufacturing	59	20	33	40
Wholesale	58	19	33	42
Retail	71	10	41	37
Transportation	44	9	46	29
Information, arts, recreation	77	8	33	48
Finance, insurance, real estate**	52	27	32	44
Professional services	70	11	38	35
Enterprise management	73	15	33	48
Health, education	78	8	44	46
Hospitality	65	5	47	22
Personal services	65	16	40	41
Commercial buildings	57	9	41	38
Industrial buildings	26	20	34	45
Office buildings	12	10	40	32

Notes:
* High rent hikes are 30% or more. Moderate rent hikes are 6% to 29%.
** Low count of responses.

Sectoral Profile: Retail



Footprint

The retail industry contributes approximately 5% to the Canadian GDP. Small and mid-sized enterprises (1 to 499 employees) account for about 55% of retail GDP. Additionally, SMEs represent the majority of businesses (99.9%) and employ 46% of the workforce in that sector.

Table 4 – The retail sector in Canada

	GDP ^{1,2}	Businesses ^{3,4}	Workforce ⁵
Total	\$107B	254,000	2,281,000
Sector's share of the economy	5%	6%	12%
SMEs' share of the sector	55%	99.9%	46%

The retail sector comprises businesses that sell products and related services directly to the general public.⁶

To simplify this analysis, CFIB created three subgroups of retailers:

- **Sellers of essential items**, which include grocery stores, speciality food stores, and health and personal care stores (37%).^{3,4}
- **Sellers of big-ticket items**, which include (nonexclusively) automobile and other motor vehicle dealers, furniture stores, building materials and supplies dealers, and electronics and appliance stores (22% of retail stores).
- **Sellers of other discretionary items**, which include clothing and shoe stores, used merchandise, jewellery, book, and music stores, department and general merchandise stores and florists (41%).

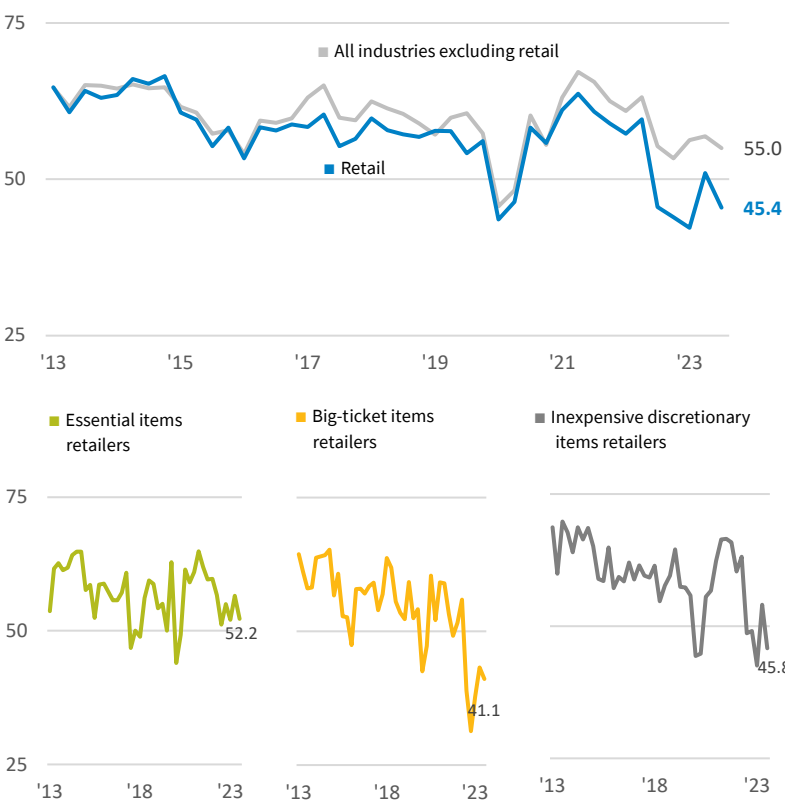
Sources

(1) Statistics Canada. Table 36-10-0434-03.
(2) Innovation, Science and Econ. Dev. Canada, Key Small Business Statistics 2022.
(3) Statistics Canada. Table 33-10-0717-01.
(4) Statistics Canada. Table 33-10-0718-01.
(5) Statistics Canada, Labour Force Survey data, custom tabulations.
(6) Statistics Canada. North American Industry Classification System (NAICS) Canada 2022 Version 1.0.
(7) CFIB, Your Business Outlook Survey, January 2013-September 2023.

Fitness

Optimism in the retail sector is running very low by historical levels, outside of the pandemic. It has been on an overall downward trend for the past four quarters with a minor uptick in Q2 2023. Retail businesses are also lagging all other businesses in optimism, a gap that started mid-2021 and has been widening gradually (Figure 7a). The sector's drop in optimism has been driven mainly by very low confidence among businesses selling big-ticket items (Figure 7b).

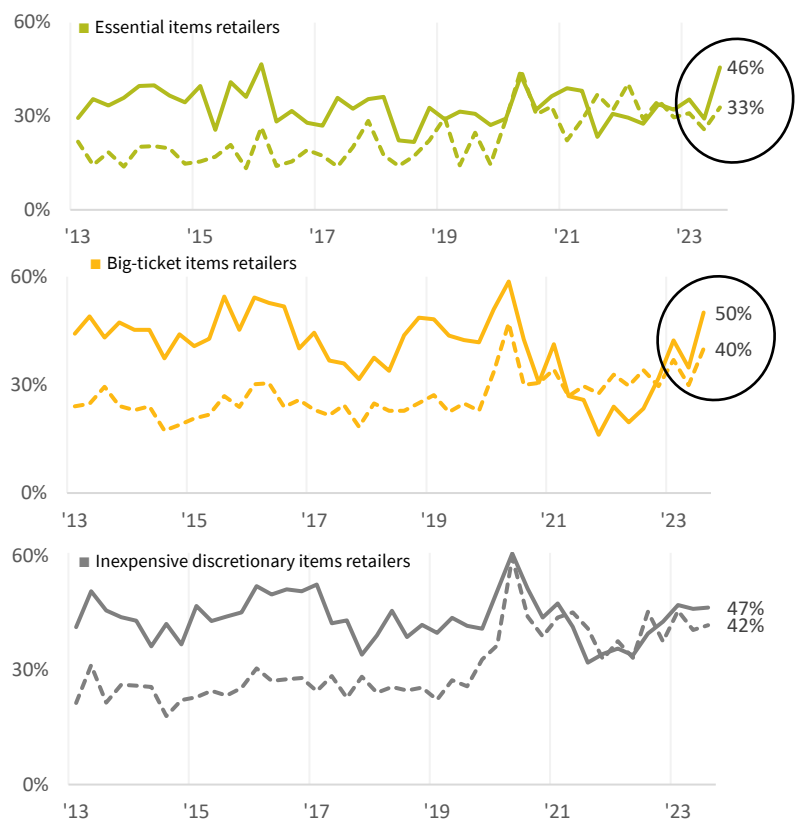
Figures 7a and 7b – Retail businesses have a lower optimism index for the next 12 months than the rest of the economy, and optimism is weakest among retailers selling big-ticket items⁷



Challenges

The September Monthly Business Barometer[®] shows that retail SMEs are more likely to report being limited by lack of domestic demand and logistics.⁷ More specifically, an increasing share of businesses selling essential or big-ticket items report insufficient domestic demand and unsold inventories, which are early signs of an overall demand slowdown.

Figure 8 – Retailers of essential and big-ticket items report sharp increases in insufficient domestic demand (solid lines) and unsold inventories (dotted lines)



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

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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/.

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