



Small Businesses in Canada Hit Hard

The Big Financial Toll of Labour Shortages

November 2023

CFIB

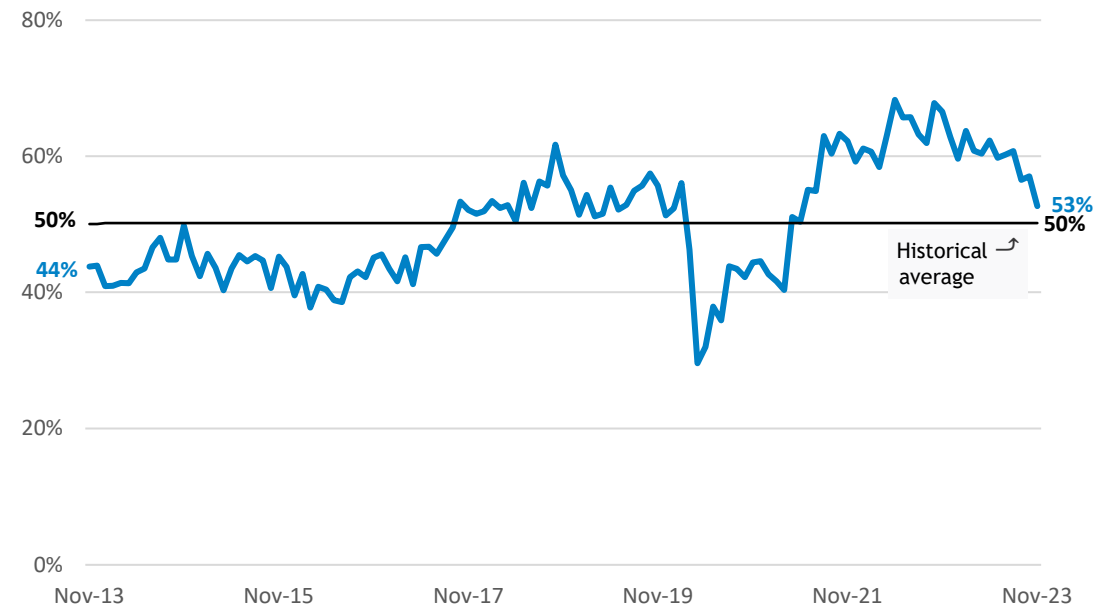
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Labour shortages have been an ongoing challenge for small and medium-sized enterprises (SMEs) for several years, adding to the many other difficulties they face.¹ Indeed, 53% of Canadian small business owners have reported that labour shortages are hindering the growth of their business (Figure 1). Despite the declining trend, labour shortages are still exceeding the historical average of 50% by a small margin.²

Most SMEs are feeling the effects of labour shortages across different aspects of their operations. In a recent report on the topic, CFIB highlighted the number of hours worked by small business owners, particularly those who had to compensate for labour shortages by working more hours.³

In 2022, CFIB also published a report that estimates the business opportunities Quebec SMEs lost due to labour shortages.⁴ This study extends the same analysis to the national level, as part of CFIB's ongoing commitment to highlight labour shortages and the importance of taking action to mitigate their various impacts, now and in the longer term.

Figure 1
Despite a slight dip in recent months, the share of small businesses facing growth obstacles due to labour shortages remains high (in % of responses)



Sources: CFIB, Business Barometer - November 2013- November 2023, more details available at cfib.ca/barometer.

Question: "What factors are limiting your ability to increase sales or production?" The share above represents respondents who selected [Shortage of skilled labour] and/or [Shortage of unskilled, semi-skilled labour] from a multiple-choice list.

¹ Bomal, Laure-Anna, Labour shortages are back with a vengeance. CFIB, December 2021.

² CFIB, *Business Barometer*®, Nov. 2013-Nov. 2023.

³ Bomal, Laure-Anna, Vincent, François, The 8-Day Workweek: The impact of labour shortages on the number of hours worked by Canada's small business owners. CFIB, April 2023.

⁴ Bomal, Laure-Anna, Financial impact of labour shortages in Quebec: Estimated revenue losses incurred by small businesses in the last year. CFIB, August 2022.

Cancelled or delayed sales or contracts are among the most likely impacts of labour shortages on Canadian SMEs

Labour shortages can impact businesses on various fronts, such as time, money, or their future plans.

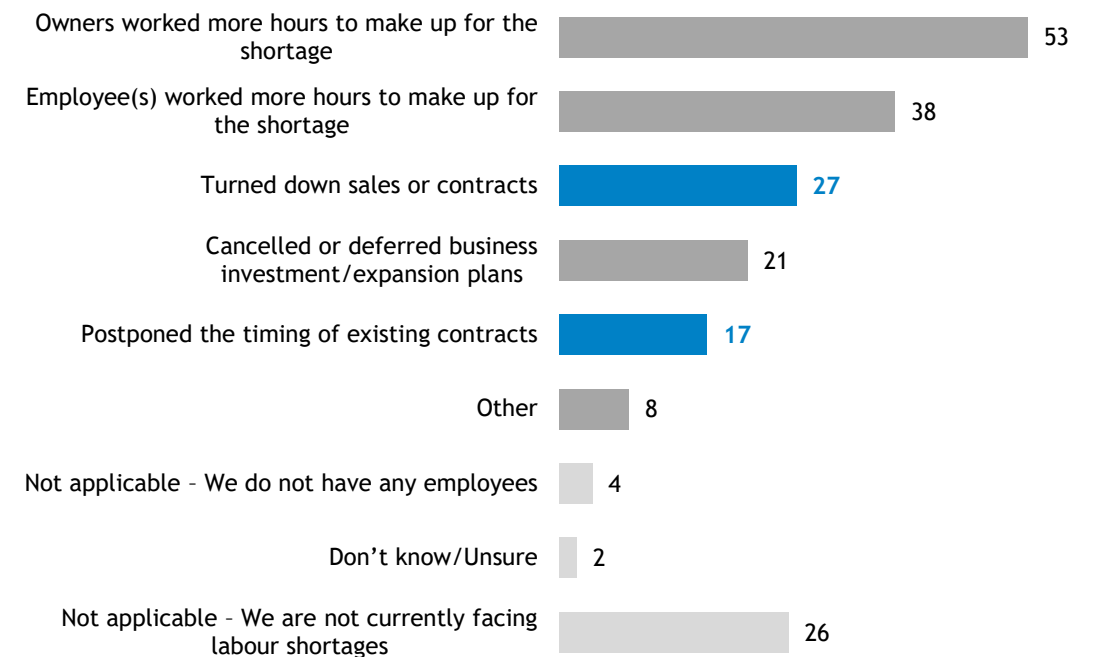
In February and April of this year, we conducted surveys with CFIB members to get a better understanding of these different impacts. One of the questions asked about the top consequences of labour shortages on the business.

Out of the more than five thousand small business owners who answered it, 53% said they - and 38% said their staff - worked more due to personnel shortages (see Figure 2). As mentioned previously, the specific consequences of a lack of time have already been analyzed in an April 2023 CFIB research report.⁵

Another top consequence was financial: approximately 27% of survey respondents said that they have had to turn down sales or contracts, while 17% have had to postpone the timing of existing contracts. These decisions to forgo or postpone revenue-generating opportunities result in lost business opportunities for small businesses and also deserve a special look that can give us a sense of the true costs of labour shortages.

Figure 2

Top consequences of labour shortages on SMEs: Cancelled or postponed sales and contracts is only surpassed by rising work hours by owners and staff (in %)



Sources: CFIB, Your Voice - February 2023 and Your Voice - April 2023 surveys, n = 5,254.

Question: "What impact, if any, do labour shortages currently have on your business?"

Note: Respondents were allowed to select more than one answer choice. Percentages will not add to 100%.

⁵ Bomal, Laure-Anna, Vincent, François, The 8-Day Workweek: The impact of labour shortages on the number of hours worked by Canada's small business owners. CFIB, April 2023.

Lack of staff was most likely to have resulted in lost business opportunities in construction, manufacturing, and Quebec businesses

The share of businesses having lost these revenue opportunities varies greatly from one sector to another. SMEs in the construction, manufacturing, enterprise and administration management, and transportation sectors (Table 1) have been forced to turn down more contracts than those in other sectors.

Although provincial differences are not as pronounced, Quebec stands out with almost one in three small businesses having turned down contracts, followed by SMEs in Manitoba (28%) and British Columbia (28%).

The following section estimates the value of the revenue opportunities that SME owners have turned down or postponed in the past year due to a lack of employees.

Table 1
Businesses in construction and those located in Quebec were more likely to have turned down contracts (in %)

Sector	Turned down sales or contracts	Postponed the timing of existing contracts	Province	Turned down sales or contracts	Postponed the timing of existing contracts
Construction	52	38	QC	33	18
Ent. & Admin. Mgmt.	41	32	MB	28	13
Transportation	34	16	BC	28	14
Manufacturing	31	28	CA	27	17
Personal, Misc. Services	31	15	NB	26	14
Natural Resources	30	29	AB	26	18
Professional Serv.	29	18	ON	25	18
Hospitality	28	6	SK	24	14
Canada	27	17	NS	23	14
Arts, Rec., & Info.	23	11	PEI	21	6
Wholesale	19	16	NL	18	9
Social Services	18	6			
Retail	16	8			

Sources: CFIB, Your Voice - February 2023 and Your Voice - April 2023 surveys, n = 5,254.

Lost business opportunities due to labour shortages cost Canadian small businesses dearly

Building on last year’s Quebec report⁶, CFIB estimated the business opportunities that Canadian small businesses lost due to turned down contracts or sales caused by labour shortages in 2022 (see Methodology in the Appendix for more information). Table 2 presents the total value of the business opportunities small business owners lost throughout the past year. The opportunities lost in the construction sector alone exceeded \$9.6 billion in the last year. This high amount, compared to other sectors, could be explained by different factors: the sector size (number of SMEs),⁷ the higher proportion of affected small businesses, and the higher share of lost opportunities compared to revenue (see Table A1 in Appendix).

Business opportunities lost due to labour shortages were consistent across provinces, with Quebec and Alberta being the most impacted at 32% and 27%, respectively (Table A1). As provincial numbers depend on the ratio of affected small businesses within each province to the national total, it is no surprise that greater losses were reported in larger provinces (Table 2). Alberta’s higher share of business owners turning down contracts contributes to its lead over British Columbia in this regard.

Although small business owners experience a notable effect on contracts and sales due to a lack of employees, it is crucial to note that this does not always translate into an equivalent net loss for the Canadian economy. The amounts that were not invested in these contracts or sales could have been redirected towards alternative projects or allocated to other expenses by SMEs. Plus, the lost customers may have spent their money elsewhere in Canada, stimulating economic activity in different ways.

Nevertheless, over \$38.4B could have been a major boon for small businesses, helping them address staffing issues through investments in automation. The business opportunities lost in 2022 are particularly significant given current conditions: 60% of Canadian SMEs must now repay their COVID debt (\$126,000 on average), and only 44% are back to normal revenues.⁸

⁶ Bomal, Laure-Anna, Financial impact of labour shortages in Quebec: Estimated revenue losses incurred by small businesses in the last year. CFIB, August 2022.

Table 2
In the past year, small businesses in the construction industry and Ontario faced the most significant lost business opportunities (in \$ million)

Sector	Losses	Province	Losses
Construction	9,647.3	ON	16,041.9
Retail	3,829.1	QC	8,351.4
Social Services	3,339.0	AB	4,866.7
Personal, Misc. Services	3,080.4	BC	3,995.5
Professional Services	3,036.1	MB	1,472.0
Ent. & Admin. Mgmt.	3,030.4	SK	1,141.6
Hospitality	2,812.5	NS	1,021.4
Agric. & Nat. Res.	2,785.9	NB	991.4
Manufacturing	2,597.7	NL	330.5
Transportation	1,789.4	PEI	150.2
Wholesale	1,774.4	Canada	38,362.5
Arts, Rec. & Info.	640.4		
Canada	38,362.5		

Source: CFIB, Your Voice - February 2023 and Your Voice - April 2023 surveys, n = 1,243.

⁷ Statistics Canada. Table 33-10-0661-01. Canadian Business Counts, with employees, December 2022.

⁸ CFIB, Your Voice - May 2023 survey, n = 2,672.

Conclusion

This report showcases another significant impact of labour shortages on Canadian small businesses, as they have to turn down sales or contracts.

CFIB estimated that in the past year labour shortages have cost Canadian SMEs over \$38 billion in lost/postponed contracts or sales. This is a significant amount that could have been a major boon for small businesses, helping them address staffing issues through investments in automation or the still challenging post-COVID recovery on Main Street.

Challenging demographics and a failure to truly rise to the moment from governments also mean the current situation could deteriorate further in the future. Therefore, it is crucial to acknowledge these financial impacts and address the staffing challenges by introducing relevant measures to help small business owners.⁹

⁹ Bomal, Laure-Anna, Vincent, François, The 8-Day Workweek: The impact of labour shortages on the number of hours worked by Canada's small business owners. CFIB, 2023.

Recommendations

A variety of measures are required to address labour shortages and provide support to affected small business owners.

It is crucial to implement measures that can aid small business owners by providing them with more resources, including:

- Introducing a payroll tax holiday for all new hires (e.g., EI, CPP/QPP, WCB premiums, etc.).
- Introducing a training tax credit that recognizes on-the-job training for SMEs.
- Making permanent the Accelerated Capital Cost Allowance and Immediate Expensing to support investments in automation.

Other measures could also be considered to increase Canada's labour supply. A recent CFIB report looks at actions taken by certain provinces and other countries to address barriers to work for different age groups, and suggests solutions that governments could put in place.¹⁰

¹⁰ Nicolaï, J., Santini, C. *Unlocking potential: Breaking down barriers to work across all ages*. CFIB, November 2023.

Appendix: Methodology

Calculation of lost business opportunities

The share of SMEs that lost business opportunities is multiplied by the adjusted number of small businesses in Canada calculated previously for each sector. This allows us to estimate the number of small businesses affected by labour shortages, by sector.

In parallel, thanks to CFIB members' self-assessment of the business opportunities they lost expressed as a percentage of their revenue in the last year, we can estimate the value of the opportunities lost by affected businesses, by sector. That is why the total revenue extracted from financial performance data is multiplied by this percentage, by sector.

Finally, the product of the value of the opportunities lost by affected businesses multiplied by the number of affected businesses gives us an estimate of the contract losses Canadian SMEs suffered due to labour shortages, by sector.

The following formula is a basic illustration of the methodology used:

$$\sum_s [\text{SSMEs} \times \text{SMETOTs}] \times [\text{Ls} \times \text{Rs}]$$

Where:

SSMEs = Share of SMEs in sector "s" that lost business opportunities

SMETOTs = Adjusted number of SMEs in sector "s" in Canada

Ls = Average value of lost business opportunities as a % of revenue for an SME in sector "s"

Rs = Average revenue of an SME in sector "s" in Canada

Data on the share of SMEs that lost business opportunities

The share of SMEs that suffered sales or contract disruptions due to labour shortages was estimated with the help of two questions from two online omnibus surveys completed by a total of 6,076 CFIB members in Canada. The first survey was conducted between February 8 and February 28, 2023, and the second between April 5 and April 20, 2023. In order to avoid duplicate responses, members who answered the questions in February were not able to answer them in April. For comparison purposes, a probability sample with the same number of respondents would have a margin of error of +/-1.3%, 19 times out of 20.

The first question was:

- *What impact, if any, do labour shortages currently have on your business? (Select all that apply)*
 - Not applicable - We are not currently facing labour shortages*
 - Not applicable - We do not have any employees*
 - Turned down sales or contracts*
 - Postponed the timing of existing contracts*
 - Cancelled or deferred business investment/expansion plans*
 - Owners worked more hours to make up for the shortage*
 - Employee(s) worked more hours to make up for the shortage*
 - Other (Please specify)*
 - Don't know/Unsure*

Data on the number of SMEs (SMETOTs)

Statistics Canada table 33-10-0493-01¹¹ shows the number of businesses by number of employees, sector, and province or territory for December 2021. We removed the following from the total:

- Businesses with more than 500 employees and unclassified businesses;
- Businesses in public administration, utilities, finance and insurance, and real estate, rental and leasing (CFIB made certain custom calculations to adjust various components in some sectors);
- Businesses from the Yukon, Northwest Territories, and Nunavut.

Data on the average value of the business opportunities lost by SMEs (Ls)

From the CFIB surveys mentioned above, respondents who selected “Turned down sales or contracts” or “Postponed the timing of existing contracts” were asked a follow-up question:

- *In the past year, what percentage of your business revenues were lost as a result of sales or contracts that were postponed or turned down due to labour shortages? (Enter an approximate percentage)*

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Extreme values for the percentages of the value of the business opportunities lost due to turned down or extended contracts were handled by excluding percentages of 90% or more from the sample. Five answers were removed after this adjustment was made.

¹¹ Statistics Canada. Table 33-10-0493-01, Canadian Business Counts, with employees, December 2021.

Data on average revenue by sector (Rs)

Data on the average total revenue of Canadian SMEs by sector stems from reports on financial performance data prepared by Statistics Canada for 2021.¹² This data is available by province, sector, revenue range, and incorporation status.

Only SMEs with a revenue range of \$30,000 to \$5M are considered in our analysis. This makes the cost estimate more conservative by excluding smaller or larger businesses. It is also why we have preferred to use average revenue rather than median revenue. Median revenue would also have included self-employed workers, while we wanted to focus on the revenues of businesses with employees.

We focused on incorporated SMEs, except for certain sectors where financial performance data is not available for confidentiality reasons. In such cases (management of companies and enterprises; arts, entertainment and recreation), we considered all businesses in the sector, regardless of incorporation status.

The finance and insurance sector was also excluded due to unavailable data.

¹² Statistics Canada - Small business profiles, 2021.

Additional data considerations

For each sector, the proportion of affected SMEs (Table A1) corresponds to the number of businesses that reported a percentage of the business opportunities lost due to turned down or extended contracts compared to the total number of businesses with employees in the sample.

Even though postponed contracts mean financial gains could have simply been delayed (i.e., not been realized in the last 12 months, but perhaps later), in the context of this survey, we deem this impact to be negative for SMEs and include it as a lost business opportunity in the estimate.

Members who reported being affected but did not enter a percentage are not included in this proportion. This is an additional margin of prudence in this estimate.

Note on provincial estimates

The calculation of lost business opportunities is less precise by province than by sector, as the percentage of lost revenue varies little between provinces (see Table A1). To calculate the opportunities lost per province, we first determined the share of the total number of respondents who reported lost business opportunities for each province. We did so by dividing the number of respondents who reported lost opportunities in each province by the national total. We then multiplied each province's share by the national total of lost business opportunities previously calculated using the sector method.

Table A1

Canadian SMEs that either turned down or postponed sales or contracts due to labour shortages, as a share of all SMEs and average share of lost business opportunities, by sector and by province

Sector	Affected SMEs (in % of total)	Average losses (in % of revenue)	Province	Affected SMEs (in % of total)	Average losses (in % of revenue)
Construction	48	20	QC	32	19
Ent. & Admin. Mgmt.	40	22	AB	27	20
Manufacturing	32	17	MB	25	21
Transportation	32	20	ON	24	20
Professional Services	29	18	BC	24	21
Hospitality	25	21	SK	22	18
Arts, Rec. & Info.	25	16	NB	21	20
Personal, Misc. Services	25	23	NL*	20	19
Agric. & Nat. Res.	20	24	NS	20	16
Wholesale	19	18	PEI*	15	19
Social Services	17	23	Canada	25	20
Retail	15	19			
Canada	25	20			

Source: CFIB, Your Voice - February 2023 and Your Voice - April 2023 surveys, n = 1,283.

Note: *Small sample, use with caution (<30).

About the Author



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Laure-Anna Bomal is an Economist in Montreal for the Canadian Federation of Independent Business (CFIB). Since joining CFIB in 2021, she has worked on a range of surveys and research reports on issues affecting small business, including business logistics and labour shortages.

Laure-Anna holds a Master of Arts in Economics from the University of Ottawa and a Bachelor of Science in Mathematics and Economics from the Université de Montréal.

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