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WORKFORCE

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More with Less

Economic growth with an aging workforce

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At a time when a large segment of the workforce is beginning to retire, small businesses in Atlantic Canada are struggling to find workers. While increased immigration is easing some of this pressure, challenges remain and all too many small business owners are putting growth and expansion on hold to cope with the difficulties they experience when hiring. This puts economic growth in the region at risk at a time when growth is desperately needed. If Atlantic Canada is to ward off economic decline, it is vital for small businesses to be able to attract workers to the region and make investments to boost their productivity.

INTRODUCTION

A declining, aging and retiring workforce is quickly becoming one of Atlantic Canada's principal concerns. While the impacts are already being felt by small business owners struggling to fill jobs, the trend will have wider economic implications with fewer workers contributing to the economy and governments dealing with the costs of age-related services.

This trend has been the focus of a series of reports by the Canadian Federation of Independent Business (CFIB). The first report, *Winter is coming: Why Atlantic Canada's aging population should scare governments (and the people who pay for them)*², highlighted the realities of population change and the need for governments to take a new approach on managing public funds. *The Rising Tide*, the second in this series, outlined a small business agenda for using regional cooperation to address Atlantic Canada's most pressing demographic and economic challenges.³ This third report examines the staffing challenges small businesses currently face and the types of investments they want to be able to make to succeed in a future where workers will become harder to find.

¹ Written under the supervision of Erin McGrath-Gaudet, Director, PEI and Intergovernmental Policy

² McGrath-Gaudet, Erin, CFIB, [Winter is coming : Why Atlantic Canada's aging population should scare governments \(and the people who pay for them\)](#), 2017

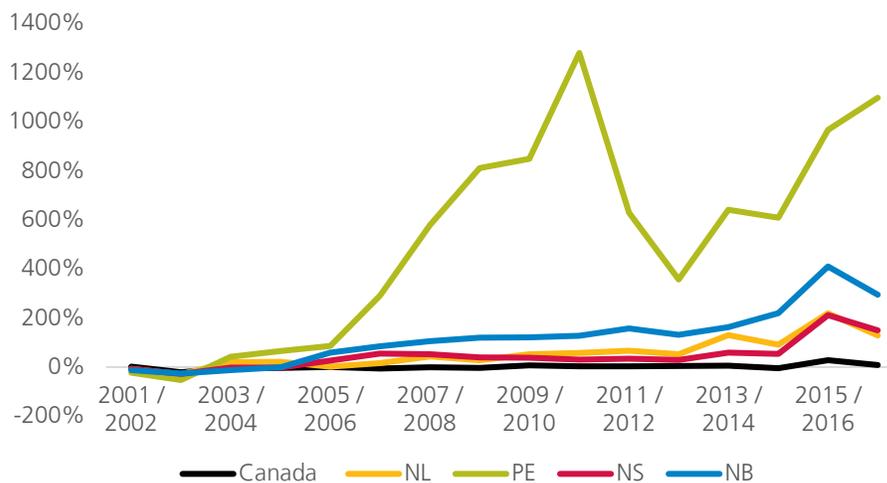
³ Allen, Kate; Bourgeois, Andreea, CFIB, [The Rising Tide](#), 2017

POPULATION

It is no secret the population in Atlantic Canada is rapidly aging. Smaller families, out-migration of youth, and low levels of immigration that have resulted in an outright decline of population in some areas.⁴ Statistics Canada projects that this trend will continue for much of the region over the next 20 years.⁵

There has been considerable focus placed on immigration to address population decline in the Atlantic provinces and recent immigration numbers show some improvement (see Figure 1). Beyond the normal immigration system and provincial nominee programs, the Atlantic Immigration Pilot Program⁶ was launched in 2017 as a federal-provincial initiative to bring more skilled workers to Atlantic Canada.

Figure 1: Total Immigration, by province (cumulative % change)



Source: Statistics Canada, Table 17-16-0014-01, Estimates of the components of international migration (2000/2001– 2016/2017 trend)

⁴ El-Assal, Kareem; Goucher, Sam, [Immigration to Atlantic Canada: Toward a Prosperous Future](#), The Conference Board of Canada, ON, 2017

⁵ Statistics Canada. Table 051-0001 & Table 052-0005, medium-growth projections (1991/92- 2010/11 trend)

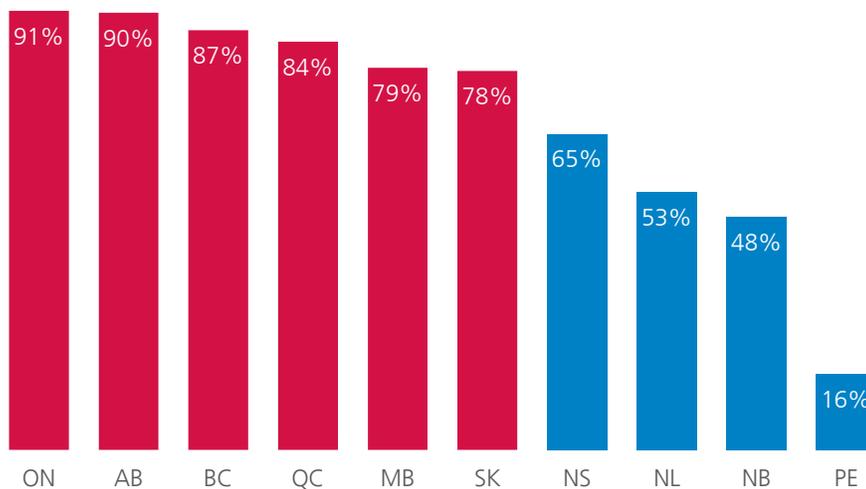
⁶ The Atlantic Immigration Pilot (AIP) is a partnership between the Government of Canada and the four Atlantic provinces. It is designed to help employers in the Atlantic region hire job candidates who aren't Canadian citizens or permanent residents. The candidates will fill jobs the employers have had trouble filling locally. If the candidate and employer meet the requirements, the candidate gets permanent resident status in Canada. If requirements are met, employers must recruit candidates and support their settlement and integration in the region. This entails working with a local immigrant settlement service provider organization (SPO) to develop a settlement plan for the candidate and their dependants.

“Our experience with the Atlantic Immigration Pilot Project has been very positive so far.”

- Hospitality Business Owner, NL

While more immigrants are locating in the Atlantic region, retention remains a challenge. Tax-filer residence data show that the Atlantic Provinces lag behind the rest of Canada in immigrant retention. Nova Scotia has the highest five-year retention rate in the region (72% of immigrants remaining in the province after five years). Newfoundland and Labrador (56%) and New Brunswick (52%) have retained slightly better than half of their immigrants for at least five years while PEI’s retention was only 18% (see Figure 2). No province outside Atlantic Canada has a retention rate below 80%⁷.

Figure 2: Five-year immigrant retention rate, by province, 2011-2015

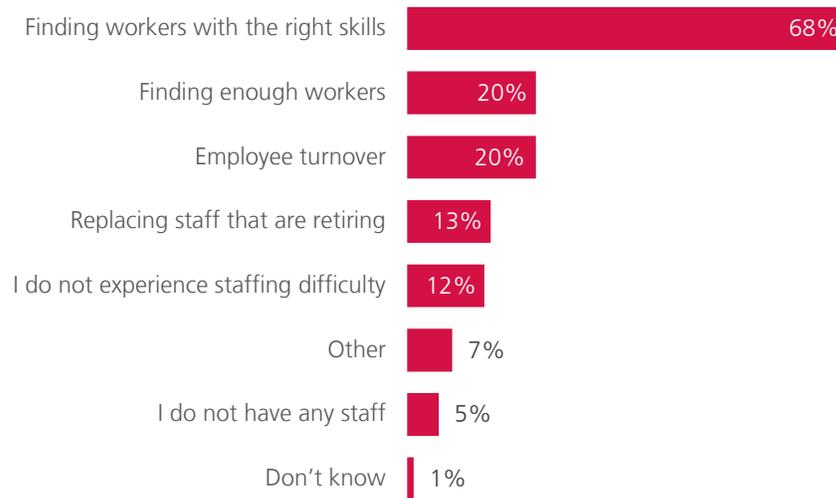


Source: Statistics Canada, 2018, Table 43-10-0035-01 Mobility of immigrant tax filers, Canada; IMDB 2015 Technical Report Appendix D3: Calculating Retention Rates

When creating policies around immigration, it is important the focus not only be on increasing population numbers but also on meeting local labour needs. The majority of small business owners in the region have experienced difficulty when hiring new employees. Their greatest hiring challenge is finding workers with the right skills (68%) followed by finding enough workers (20%) and dealing with employee turnover (20%) (see Figure 3).

⁷ Public Policy Forum, [The People Imperative Volume 1](#), 2018

Figure 3: When it comes to staffing, what causes you the most difficulty? (% Response)



Source: CFIB, Atlantic Staffing and Investment Survey, April - May 2018, n= 566.

While immigration programs tend to be focused on attracting higher-skilled, highly-educated workers, often lower-skilled and technical workers are in highest demand by small businesses. Almost half of small business owners in Atlantic Canada have had difficulty filling positions that require on-the-job training, while 34% found it difficult to find employees for skilled and technical occupations (see Figure 4).

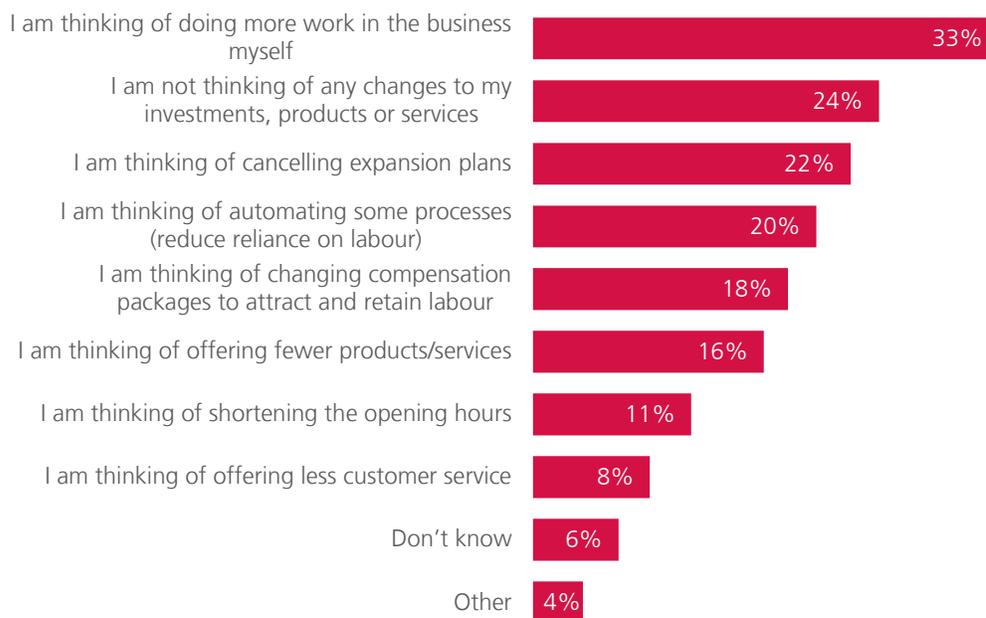
Figure 4: What types of positions have you had difficulty filling in the past two years? (% Response)



Source: CFIB, Atlantic Staffing and Investment Survey, April - May 2018, n=566.

These challenges impact how small businesses operate. One-third of small business owners indicated they are thinking about doing more of the work themselves to cope with staffing difficulties (see Figure 5). For 22%, the situation is acute enough they are considering cancelling expansion plans. Many are also thinking of automating some work (20%) or changing compensation packages (18%) to attract and retain workers.

Figure 5: How have these staffing difficulties changed your thinking about investments, products, and services in your business? (% Response)



Source: CFIB, Atlantic Staffing and Investment Survey, April - May 2018, n=566.

PRODUCTIVITY

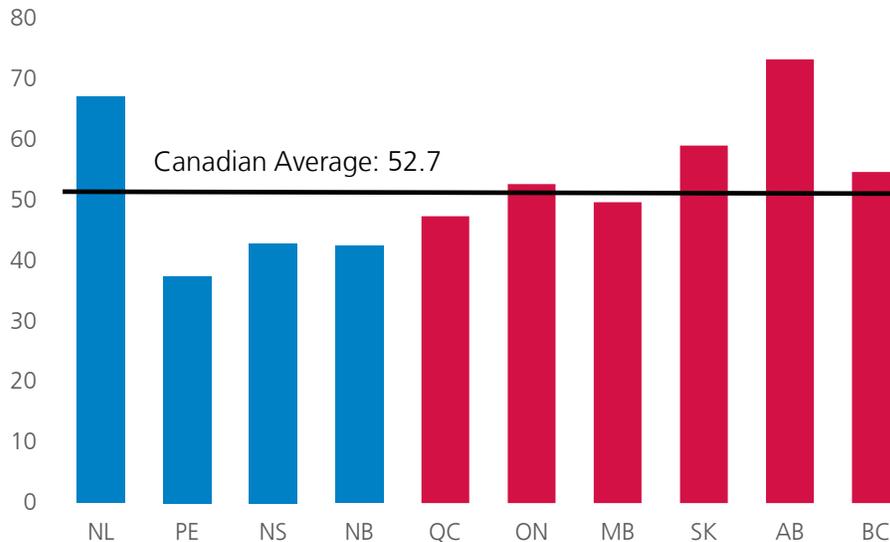
Barring massive influxes of workers from other parts of the country and significant improvements to immigrant retention rates, trends do not suggest there will be enough workers to completely replace those retiring.⁸ For this reason, it is vital that economic development policies extend beyond increased immigration to include policies designed to help small businesses adapt to an environment where workers are increasingly

⁸ McGrath-Gaudet, Erin, CFIB, [Winter is coming : Why Atlantic Canada's aging population should scare governments \(and the people who pay for them\)](#), 2017

scarce. In essence, we need to be able to produce the same or a greater amount of goods and services while using less labour.

Productivity, defined as the amount of economic output produced per worker, in the three Maritime provinces is the lowest in the country (see Figure 6). Newfoundland and Labrador has bucked that trend with the help of natural resources, however, productivity growth has experienced highs and lows as natural resource prices fluctuate.

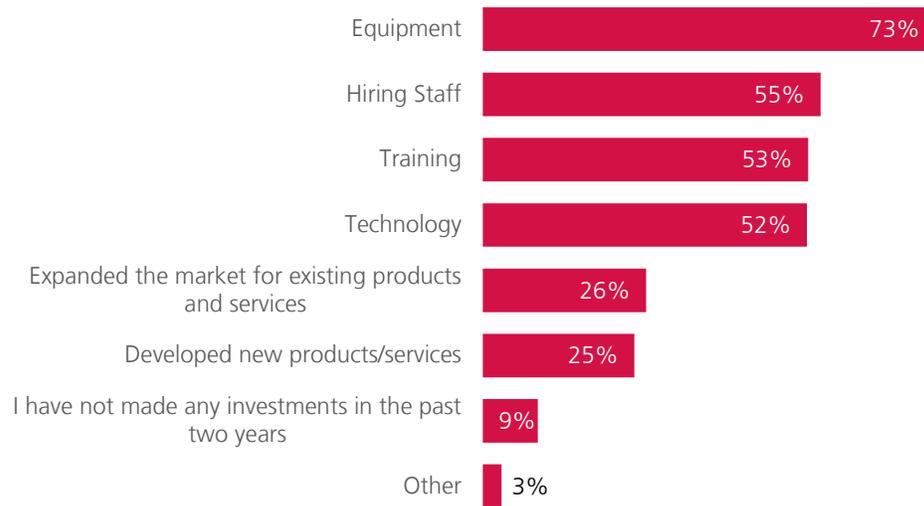
Figure 6: Labour Productivity (2017, all industries), by province



Source: Statistics Canada, Tables 36-10-0480-01

The keys to improving productivity are investments in new equipment, adoption of emerging technologies, and improved skills. The good news is small businesses are already taking steps to become more productive. According to a recent CFIB survey, only 9% of SMEs had not made any investments in the last two years (see Figure 7). Small business owners are investing in equipment (73%), hiring staff (55%), training (53%), and technology (52%).

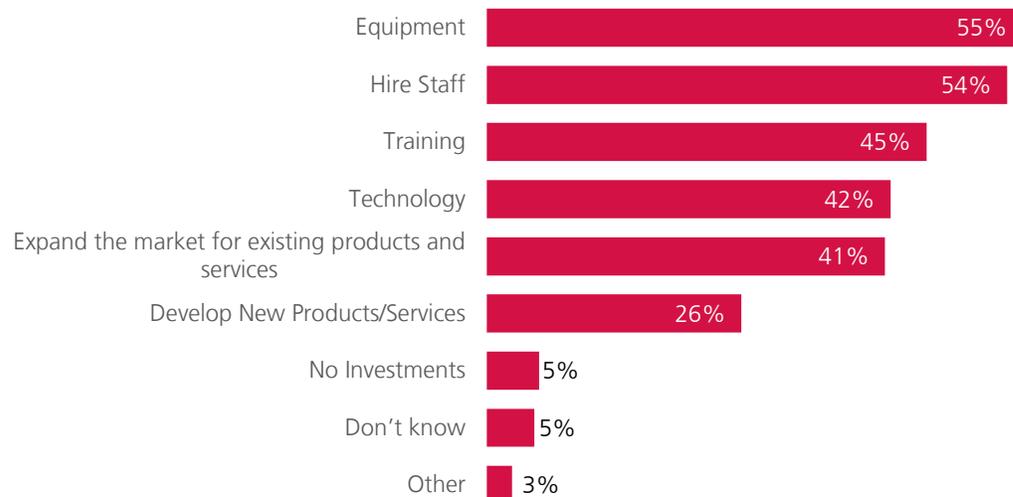
Figure 7: What types of investments have you made in your business in the past two years? (% Response)



Source: CFIB, Atlantic Staffing and Investment Survey, April - May 2018, n=566

Looking at the future, 96% of small business owners stated they would like to make more investments in the next two years. Their main focus is on purchasing equipment (55%), hiring (54%) and training staff (45%), investment in technology (42%) and expansion (41%) (see Figure 8). These are all areas that are critical to productivity improvement.

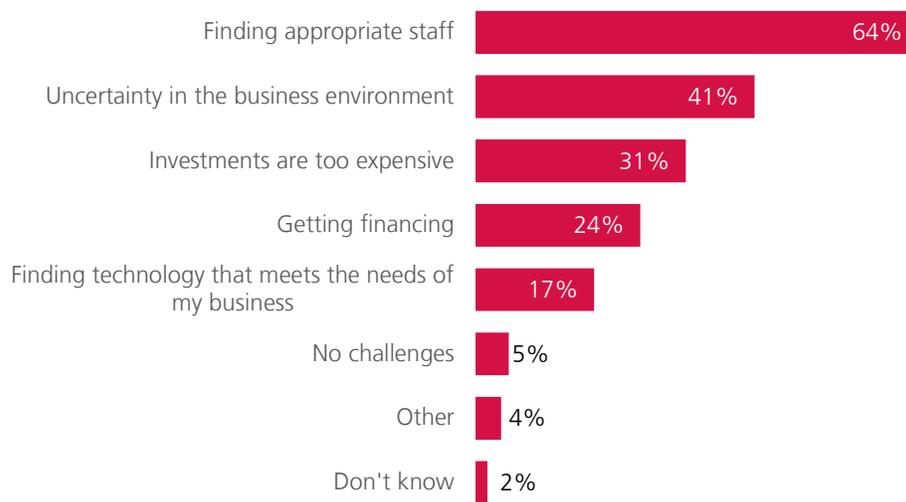
Figure 8: What types of investments would you like to be able to make in your business in the next two years (% Response)



Source: CFIB, Atlantic Staffing and Investment Survey, April - May 2018, n=566

But while small business owners have a good sense of the types of investments that would help make their businesses more productive and competitive, they are not completely confident they will be able to make those investments (see Figure 9). The number one challenge they think they will face is finding appropriate staff (64%), followed by uncertainty in the business environment (41%). Financial challenges were also a consideration for many small businesses, these include the cost of investment (31%) and the availability of financing (24%).

Figure 9: In your opinion, what challenges might you face in making the types of investments you would like in the next 2 years (% Response)



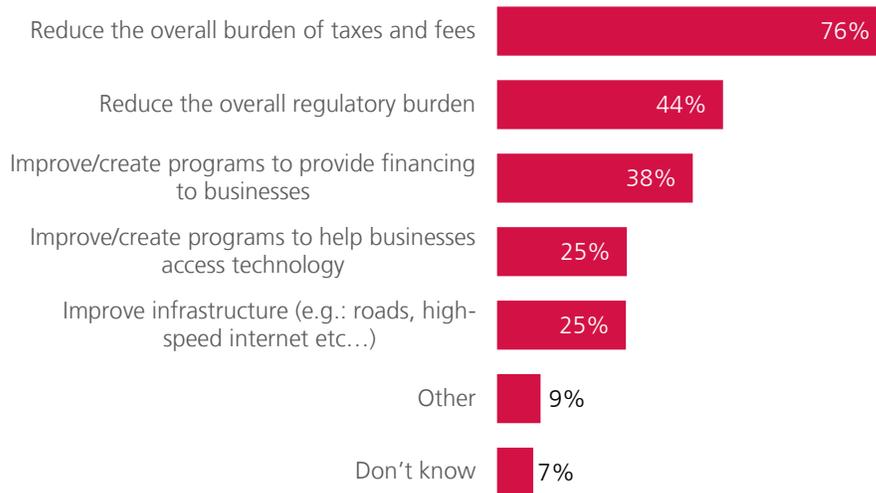
Source: CFIB, Atlantic Staffing and Investment Survey, April - May 2018, n=566

When asked about the best ways governments could help them make investments, 76% of small business owners said reduce the overall burden of taxes and fees followed by 44% citing a reduction in the regulatory burden. Small business owners also saw value in improving or creating new programs that would help with financing investments (see Figure 10). This is not surprising given that the cost of investments and availability of financing were seen as challenges for small businesses.

“Government programs are so difficult to access that the process of applying for assistance is too overwhelming.”

- Social Services Business Owner, PEI

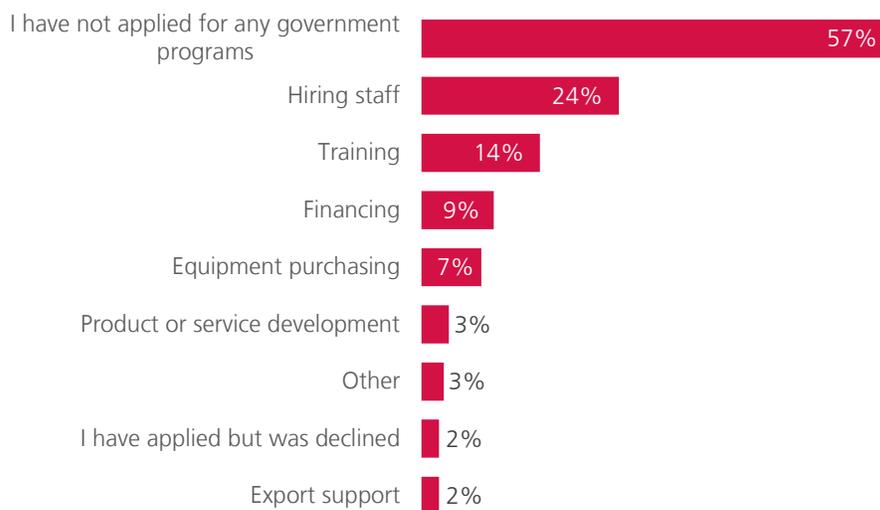
Figure 10: What are the best ways for governments to help you make investments in your business? (% Response)



Source: CFIB, Atlantic Staffing and Investment Survey, April - May 2018, n=566

While governments have a number of programs available, most small businesses (57%) do not access them (see Figure 11). Where they have accessed programs, they tend to be related to labour needs such as hiring (24%) or training (14%). Often programs are narrow in scope, involve a significant administrative burden or small businesses simply are not aware of all the different programs that exist.

Figure 11: Has your business accessed any government programs in the past 5 years to help with the following? (% Response)



Source: CFIB, Atlantic Staffing, and Investment Survey, April - May 2018, n=566

Recommendations

In order to support small businesses and the economy navigate a future where labour is increasingly scarce, CFIB recommends governments act in these five key areas:

1) Matching immigrant recruitment to small business needs

While there is an emphasis on provincial and regional needs through programs like provincial nominee programs and the Atlantic Immigration Pilot Program, retention has continued to be a struggle. Given that economic opportunities are often a key factor for immigrants when determining where they want to settle in Canada, the key priority for small businesses is ensuring newcomers to Atlantic Canada are suited for the labour opportunities that exist in the region. This means immigrants that match the industrial profile and skill-level requirements of small businesses. While many immigration programs focus on higher-skill, highly-educated immigrants, most small businesses need workers to fill lower-skilled jobs where on-the-job training is provided.

One option CFIB has proposed to help improve access to workers in lower-skilled positions is creation of an “Introduction to Canada Visa,” which would give foreign workers of all skill levels the opportunity to work with an employer for two years as a defined step towards permanent residency.

2) Reducing the total tax burden

When it comes to financing investments in their operations, small business owners like to rely on their own revenues and profits. This is why they see tax reductions as the number one way governments can help them make investments in their businesses. While there are examples of tax reductions in the region, overall the burden for many businesses in the region continues to increase. Governments should also keep in mind that five years’ worth of increases to Canada Pension Plan premiums will begin to be phased in starting in 2019.

To improve small businesses’ ability to invest in their operations, governments should put a freeze on any new or increased taxes and fees for businesses to ensure that the burden is not further increased in order to give small business owners’ confidence that they won’t face additional cost increases. They should then move to examine ways they can reduce the burden on small businesses to allow them to reinvest more of their profits into their own operations. This could include an expense deduction, similar to what exists in the United States, where small businesses can deduct technology or equipment in the year of purchase.

3) Reducing the total regulatory burden

Less time and money spent complying with government regulations and filling out paperwork means more resources for businesses to invest in their own productivity. All Atlantic Premiers committed to improvement and introduced legislation designed to bring greater regulatory accountability to their provinces. Unfortunately, implementation thus far has been uneven. To move forward, all provinces should commit to following the spirit of that legislation and ensure the burden being placed on businesses is being reduced and not increased. Measurement is key to achieving this.

Furthermore, governments should also focus on improving the customer service it gives to small business owners in order to help them and prospective entrepreneurs navigate government regulatory requirements. Consideration should be given to adopting the business navigator model recently introduced in Nova Scotia.

4) Improving the flow of goods and services in the region

An important area where small business owners experience “red tape” is when they are doing business in different provinces and territories. Inconsistencies between jurisdictions create unnecessary differences that act as barriers to trade, raising the operating costs and the cost to consumers.

Work is currently underway both at the regional level through the Joint

“Quantifying the economic cost of interprovincial trade barriers is challenging. However, recent empirical research suggests the long run gains in Atlantic Canada’s GDP from removing all barriers to trade among all ten Canadian provinces, could be as high as 7.6 per cent of GDP (\$8.5 billion). A 10 per cent reduction in trade costs among the three Maritime provinces alone is also estimated to boost their GDP by a combined 1.4 per cent.”

Chaundy, David, APEC, [Trade Barriers in Atlantic Canada: Opportunities for Regulatory Reform](#), 2016.

Office of Regulatory Affairs and Service Effectiveness and nationally through the Regulatory Reconciliation and Cooperation Table formed under the new Canadian Free Trade Agreement. Small businesses support this work and, while there have been recent improvements, over a century of differing rules and regulations leave many barriers to tackle. Work should continue and even be accelerated to ensure that we are ambitiously removing regulatory obstacles that limit markets for businesses in Atlantic Canada.

5) Ensuring government programs are focused on small businesses

The main reason why small businesses tend to favor tax reductions over government programs is that they are administratively simple and fair to all business and industries. As noted, the expense of investments and the availability of financing were seen as being significant challenges to productivity growth.

Any government programs aimed at helping small businesses make investments and improve their productivity should be:

- a) **broad-based and flexible**- programs should not be limited to small strategic sectors or narrow definitions of “innovation” if they are to have an effective uptake for small businesses;
- b) **administratively simple**- programs with excessive amounts of red tape or paperwork will limit their accessibility to small businesses;
- c) **well-communicated**- the current landscape includes a multitude of different programs and it is difficult for small business owners to know what is accessible to them.

Conclusion

The demographic challenges of Atlantic Canada have been talked about for decades and the consequences of those challenges are now starting to be felt throughout the region. For a region that has historically struggled with economic development and immigration, addressing these challenges is critical to our economic future. While small business owners are actively working to invest in their businesses and employ people in their communities, government needs to understand the realities facing small business owners and help establish an environment conducive to small business productivity growth.