



# Small business debt and profitability

## THE COVID-19 IMPACT

February 2021

**CFIB**  
CANADIAN FEDERATION  
OF INDEPENDENT BUSINESS  
*In business for your business™*

## About the Canadian Federation of Independent Business

The Canadian Federation of Independent Business (CFIB) is Canada's largest association of small and medium-sized businesses with 110,000 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.

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### About the Author



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COVID-19 is putting a majority of small businesses in a precarious financial situation as only a quarter are making normal sales and over seven in ten report having taken on debt. With four in ten businesses saying it will take them longer than a year to return to profitability, the financial threat to thousands of small businesses is very real.

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## **Current business conditions**

Over the last year many business were forced to close or scale back operations due to COVID-19, some for much longer than others. While most businesses had been able to fully reopen and resume operations, many of them struggled to return to normal sales levels. Further, the overall effort to return to a normal state of affairs was put on pause as a result of the second wave of the virus, which caused restrictions to be reintroduced for businesses in many regions.

**Currently, only 25 per cent of small businesses are making sales they consider normal for this time of year. CFIB has been tracking the return to normal revenues, noting very modest progressions and only during certain periods since mid-July.<sup>1</sup>**

With little improvements in income generation being made week over week, it is concerning that a higher number of businesses are fully open (51%) and fully staffed (39%) than are making normal sales (25%).<sup>2</sup> A business that is fully open and must pay full fixed costs (and possibly some semi-fixed staffing costs<sup>3</sup>), while making less than normal sales, is on an unsustainable path. Further, if expenses remain higher than sales for an extended period of time, a business could risk incurring significant debt.

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<sup>1</sup> By looking back to mid-July, we see that 26 per cent were making normal sales, meaning the share has now decreased by one percentage point in the last six and a half months.

<sup>2</sup> CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n = 3,554.

<sup>3</sup> Excluding reimbursed staffing costs for businesses using the Canada Emergency Wage Subsidy (CEWS).

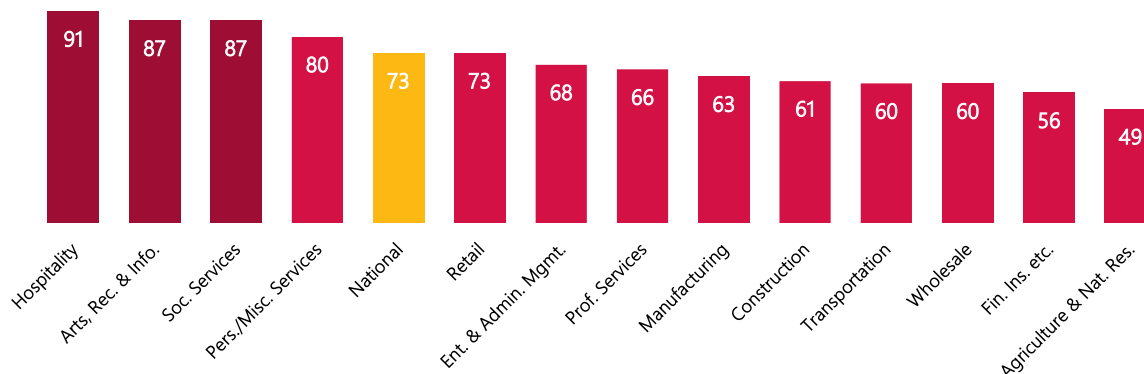
## Business debt due to COVID-19

### Share of businesses that took on debt

More than seven in ten business owners across Canada report that they have taken on debt to cope with the impacts of COVID-19 (Figure 1). This number varies significantly by sector, with businesses in the Hospitality, Arts, Recreation & Information, and Social Services sectors being more likely to have taken on debt. Businesses in these sectors tend to be public-facing with a limited ability to conduct work remotely and/or be considered nonessential by their provincial governments. On the opposite end, the sector with the fewest businesses reporting debt is Agriculture & Natural Resources, though nearly one in two businesses still indicate they have debt to repay due to COVID-19.

FIGURE 1

#### Businesses that took on debt due to COVID-19, by sector (% response)



Source: CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n = 3,096.

### Debt piling on

On average, small businesses across Canada report taking on \$169,992 in additional debt due to COVID-19. Debt taken on per business on average varies widely across sectors and between regions, however.

Looking at the average debt accumulated in each sector, on the lower end, businesses in the Social Services sector took on \$68,714 in additional debt due to COVID-19. On the high end, Agriculture & Natural Resources businesses have accumulated more than four times as much, with an average of \$328,887 COVID-19-related debt (for detailed information on the amount of debt incurred by businesses in each sector, please see Table A1 in Appendix 1).

While businesses in the Atlantic and Western regions' average debt is lower, those in the Prairies and Ontario report debts at least \$10,000 higher than the national average, over \$37,000 higher for Ontario (see Table A2 in appendix for information on regional average debt).

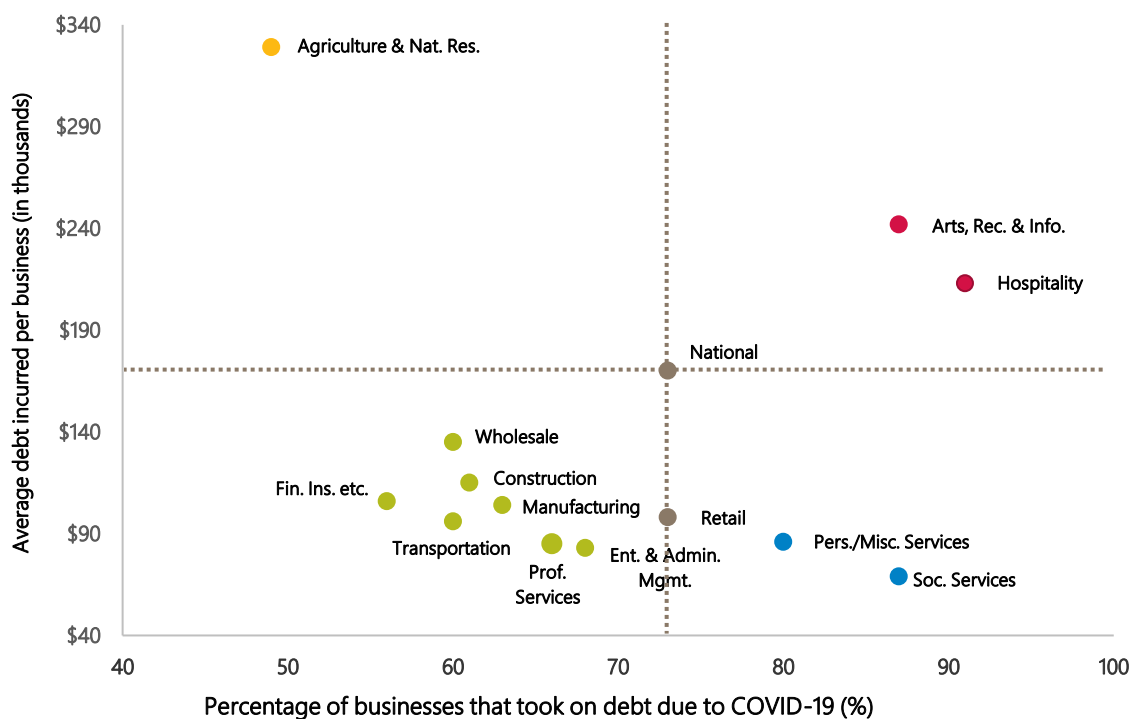
Using these results, and after adjustments to reflect the entire business community, CFIB estimates that the total debt taken on so far by small businesses in Canada as a direct result of COVID-19 is approximately \$135 billion.

This represents 33 per cent of what the federal government has spent (\$407 billion) on COVID-19 health and safety measures, and to provide relief measures for Canadians, businesses and other employers so far.<sup>4</sup>

Figure 2 displays the average amount of debt incurred per business in comparison with the total share of businesses that took on debt in each sector to cope with COVID-19.

FIGURE 2

**Average debt incurred per business\* vs. share of businesses that took on debt, by sector**



Source: CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n(y) = 1,993, n(x) = 3,096.

\*Note: Average debt per business due to COVID-19 for businesses that took on debt.

Certain sectors find themselves in a relatively better position than others when it comes to debt taken on due to COVID-19. Sectors that fall in the quadrant on the bottom left (marked in green) are those whose average debt and share of businesses that took on debt both come in below the national average. On the opposite end, sectors in the quadrant on the top right (marked in red) are those whose average debt and share of businesses that took on debt both

<sup>4</sup> Department of Finance Canada (2020), Supporting Canadians and Fighting COVID-19 – Fall Economic Statement 2020, <https://www.budget.gc.ca/fes-eea/2020/report-rapport/toc-tdm-en.html>.

come in above the national average. In the remaining two quadrants are sectors who come in above the national average debt, but below the national average for the share of businesses that took on debt (marked in yellow), and vice versa (marked in blue).

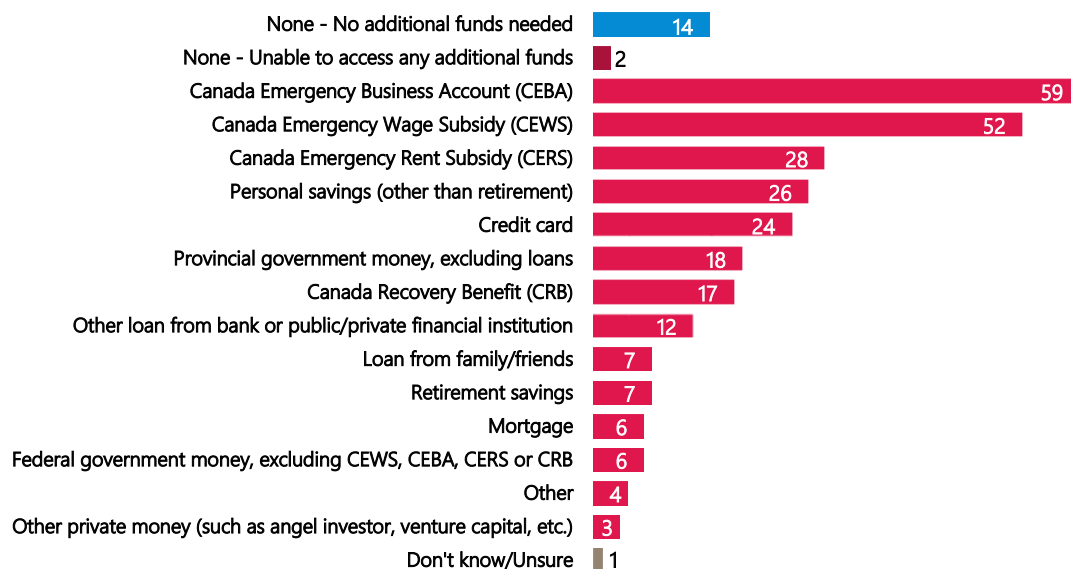
Based on this comparison, it is clear that businesses in the Hospitality and Arts, Recreation & Information sectors likely face the greatest hurdles to recovering from debt. Unsurprisingly, businesses in sectors that have more flexibility to conduct operations remotely, are able to maintain required physical distancing, or be considered essential services are more likely to fall in the bottom left quadrant and come in below the national average on both indicators. Conversely, businesses in sectors that are largely customer-facing, or face difficulty abiding by distancing requirements due to their business model, are more likely to fall in one of the other three quadrants, placing them above the national average in one or both indicators.

## How are small businesses financing their COVID-19 debt?

COVID-19 has put financial pressure on the vast majority of small businesses. As can be seen from Figure 3, only 14 per cent do not need additional funds to cope with the pandemic's impact. To acquire the financing they need to continue operations, most business owners are drawing on a number of different resources that are further fueling their overall debt.

FIGURE 3

### What sources of money is your business using to cope financially with COVID-19? (% response)



Source: CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n = 3,402.

Certain federal relief programs have been widely used by businesses as a lifeline during this time. The Canada Emergency Business Account (CEBA) has been the most used program by far, with nearly six in ten businesses reporting that they are using it. The program initially provided businesses with interest-free loans of \$40,000 where only 25 per cent of the loan was

forgivable.<sup>5</sup> The federal government has since introduced a top up of \$20,000 for businesses that previously qualified for CEBA, or a total loan of \$60,000 for businesses applying to the program for the first time. The maximum amount eligible for forgiveness is 33 per cent (\$20,000) for businesses that have accessed the entire \$60,000.<sup>6</sup> While it is clear from Figure 3 that businesses are in desperate need of the funding provided through CEBA, a secondary result is that 59 per cent of small businesses have at least \$30,000 worth of accumulated debt through accessing the program, with the possibility of adding another \$10,000.

Outside of federal relief programs, businesses report using credit cards, bank loans, mortgages and loans from family and friends. Many are also borrowing from their future selves to get through the current situation, with 26 per cent of small businesses drawing on their personal savings and 7 per cent on retirement savings.

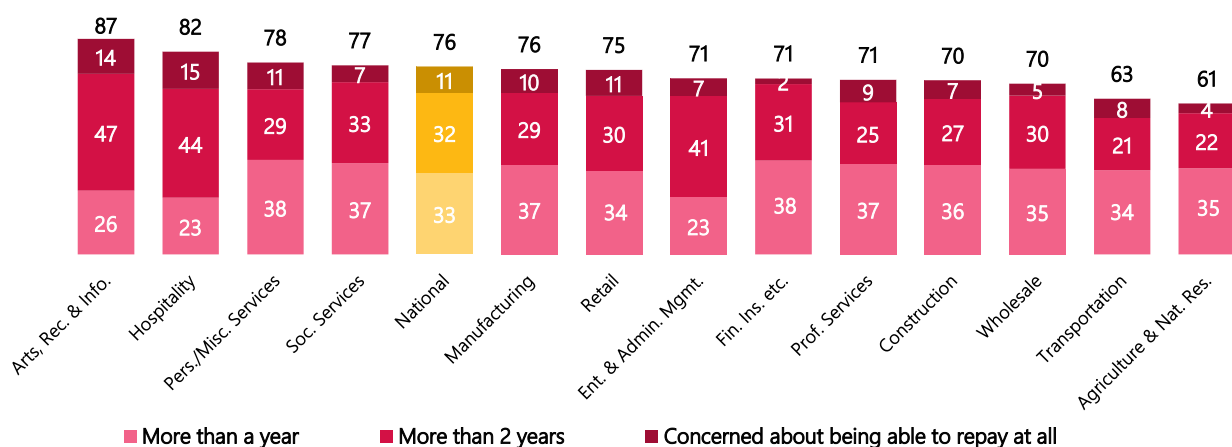
## Expected time required to repay debt

Of those that took on debt, three quarters of businesses (76%) say it will take them longer than a year to pay it off.

In fact, 11 per cent indicate they are concerned about being able to repay their debt at all (see Figure 4). There are proportionately more businesses in the Arts, Recreation & Information, Hospitality, Personal & Miscellaneous Services and Social Services sectors that expect to take longer than a year to repay their debt.

FIGURE 4

How long will it take your business to pay back its COVID-19 related debt? by sector (% response)



Source: CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n = 3,096.

<sup>5</sup> Repaying the balance of the loan on or before December 31, 2022 will result in loan forgiveness of 25 per cent (up to \$10,000).

<sup>6</sup> Repaying the balance of the top up loan on or before December 31, 2022 will result in loan forgiveness of 50 per cent (up to \$10,000).

## Return to profitability

To properly recover from the challenges they have been facing over recent months, businesses need to get back to making normal sales as soon as possible. However, with economic restrictions having come back into force to combat the “second wave” of the virus, 47 per cent of SMEs in Canada currently indicate that they are only partially open or remain fully closed due to COVID-19. Further, 36 per cent are making less than half their usual sales for this time of year. As a result, many businesses do not expect to quickly snap back to a normal state of affairs moving forward.

### Expected time required to return to profitability

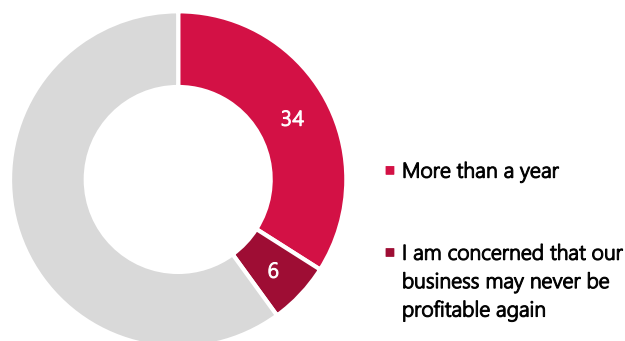
In comparison with 2019, three in ten businesses say their gross business profits for 2020 declined by 50 per cent or more.

**Further, four in ten businesses estimate it will take them more than a year to return to their usual levels of profitability.**

Profitability in this sense is referring to revenues exceeding expenses, but not including paying back any debt incurred as a result of COVID-19. Within this group, six per cent are concerned that their business may never be profitable again (Figure 5) (see Figure A1 in Appendix 1 for more information on sectoral differences).

FIGURE 5

**How long do you think it will take your business to get back to its usual level of profitability? (% response)**



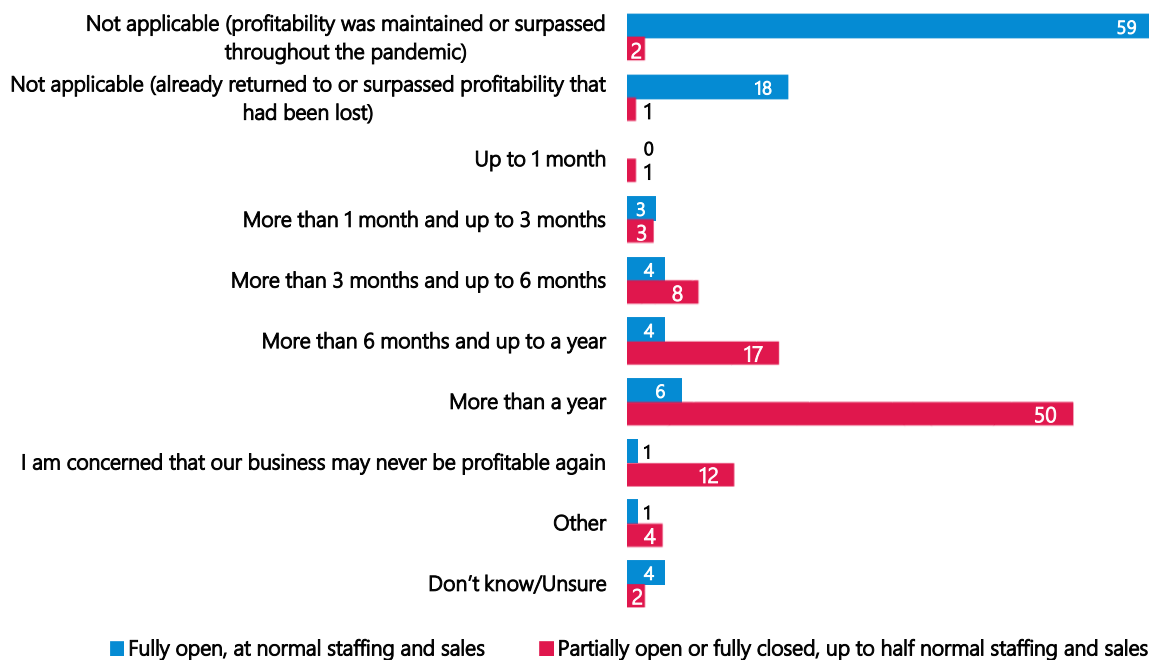
Source: CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n = 3,425.

The expected time to return to profitability is also very different for businesses that have been fully open, fully staffed and making normal sales than for those that have not. The majority of those that have been fully operational either indicate that they have already been able to return to their typical profitability, or that they were able to maintain or surpass profits throughout the pandemic. Only 11 per cent of this group will take longer than six months to return to typical profits with just one per cent concerned that they may never be profitable again (Figure 6).



FIGURE 6

**How long do you think it will take your business to get back to its usual level of profitability? by open, staffing and sales status (% response)**



Source: CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n = 3,425.

Conversely, for businesses that are only partially open or remain fully closed, and are at up to half their normal staffing and sales, over six in ten say it will take them longer than a year to regain profits. What's more, 12 per cent of this group are concerned that their business may never be profitable again (Figure 6); twice the national average (Figure 5). As businesses were asked to estimate their timeline for returning to profitability in early February, a majority of these businesses are currently at least eleven months away from returning to their usual profits, if they are able to at all.

## A risky place

The current situation in which many businesses find themselves (i.e. holding a considerable amount of debt, being almost a year away from typical profits and making lower than normal sales) is unsustainable. As of early February, 53 per cent of businesses report that they are worried about the survival of their business, given their amount of debt and slow recovery in terms of sales.<sup>7</sup> Additionally, 17 per cent of businesses are even less certain about their survival and have indicated that they are already actively considering bankruptcy or winding down their business. According to CFIB's recent research on Canadian businesses and jobs at risk due to COVID-19, an estimated 181,000 (or, one in six) SMEs are at risk of closing permanently due to COVID-19.<sup>8</sup> This estimate is on top of businesses that have already closed.<sup>9</sup>

## Debt is top of mind for small businesses

With all the above in mind, it comes as no surprise that debt (i.e. the long-term financial consequences of debt and depleted savings) is currently one of the greatest COVID-19-related worries for small businesses (Figure 7). Keeping in mind that businesses in some sectors are more likely to take on debt, a majority of the worries that are ranked higher are associated with other general financial impacts that the pandemic is having on businesses, including: business cash flow, reduced consumer spending even following the pandemic, and economic repercussions.

FIGURE 7

### What worries you most about COVID-19? (% response)



Source: CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n = 3,474.

Note: Answer choices have been simplified.

<sup>7</sup> CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n = 3,554.

<sup>8</sup> Simon GAUDREAU, Canadian Federation of Independent Business (2021), Canadian businesses and jobs at risk due to COVID-19 <https://www.cfib-fcei.ca/sites/default/files/2021-01/Businesses-and-jobs-at-risk-due-to-COVID19.pdf>.

<sup>9</sup> Ibid. Although limited in scope (not covering the period since October), Statistics Canada's data series on active businesses shows that in September 2020, there were 58,000 fewer active businesses in Canada than in September 2019.

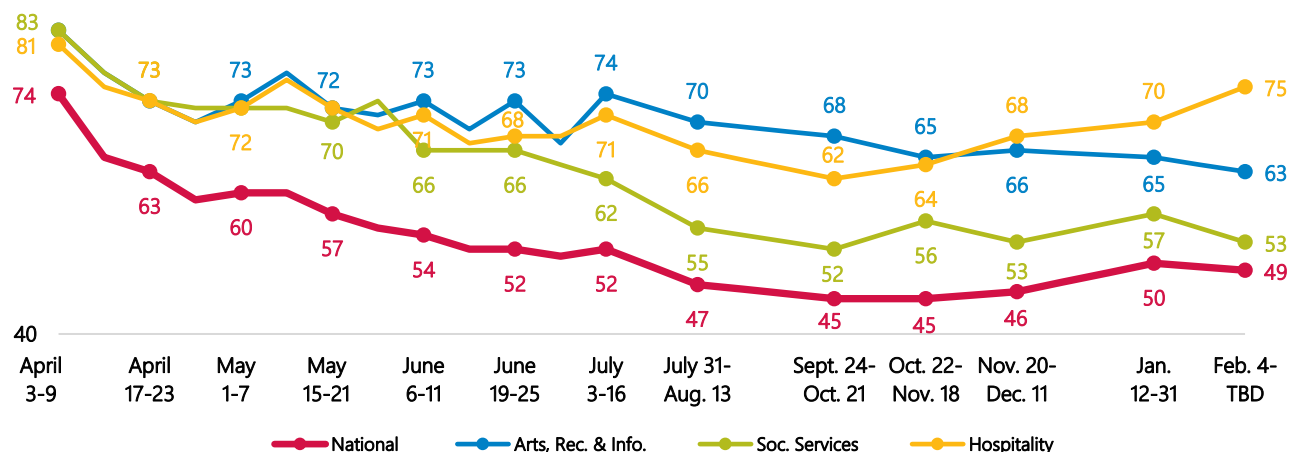
Debt has consistently been identified as a top concern for business owners week over week throughout the COVID-19 emergency. At the height of the pandemic in early April, nearly three quarters of businesses said they were worried about debt. Although this number has since dropped, it has remained a prominent issue for around half of businesses since the beginning of June (Figure 8).

**In CFIB's recent COVID-19 survey from early February, just under half of small businesses (49%) still select debt as being one of their greatest worries. As restrictions have been reintroduced on certain businesses in response to a "second wave" of the pandemic, we have recently seen a slight increase in the share of businesses that are worried about debt.**

As can be seen from Figure 8, there are certain sectors for which worry about debt has remained significantly higher than the national average and has not declined as drastically. The latest data shows that debt is a worry for 75 per cent of Hospitality businesses, 63 per cent of Arts, Recreation & Information businesses, and 53 per cent of Social Services businesses. Relative to the other thirteen possible options, since the start of the pandemic these sectors have consistently ranked debt as one of their top five greatest worries. As these and other customer-facing sectors have been disproportionately impacted by COVID-19, they may continue to worry about debt and be forced to incur more as restrictions to combat the "second wave" of the virus remain in place.

FIGURE 8

**What worries you most about COVID-19? Debt (long-term financial consequences of debt and depleted savings), national and by sector (% response)**



Source: CFIB, Your Business and COVID-19 Survey Series, April 2020–February 2021.

The federal government has, however, announced updates to increase and/or extend existing business relief programs (i.e. CEBA and CEWS), and introduced the highly anticipated CERS rent relief program where funding goes directly to small business tenants.<sup>10</sup> With these relief programs having been readily available going into the “second wave”, businesses may not be forced to take on as much debt as they did when COVID-19 first began, and ultimately be better equipped to make it through the pandemic. In fact, six in ten businesses agreed that the updated federal relief programs (CEWS, CERS, CEBA) offer their business the lifeline it needs to survive.<sup>11</sup>

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<sup>10</sup> The Canada Emergency Rent Subsidy (CERS) covers fixed property expenses, including rent and interest on commercial mortgage. It has been available as of October 24, 2020 for claims covering the period between September 27, 2020 and June 2021.

<sup>11</sup> CFIB, COVID-19 Recovery Survey – October 2020, Oct. 22–Nov.18, 2020, n = 6,726.

## Comments from small business owners

*"Small businesses need direct cash flow, not loans from banks. It is unconscionable that small businesses have to incur more debt when the government forced them to shut down and placed restrictions when they reopened."*

—Personal & Miscellaneous Services Business Owner, British Columbia, October 2020

*"Our personal resources have taken a real hit. Like many entrepreneurs, we did everything we could to maintain our staff levels, even when sales plummeted by 50%. In addition to the government programs, we took on more debt, collapsed personal RRSP investments and refrained from taking owner salaries."*

—Professional Services Business Owner, Nova Scotia, January 2021

*"The pandemic will ruin us. At the end of it all, we will have so much debt we will never be able to pay it all off. I am worried that even though I've done everything right in life – worked hard, university degree, master's degree – I will end up on the poverty line."*

—Retail Business Owner, Ontario, February 2021

*"We feel the repayment of the loans should be forgiven at a higher rate. As it is we have two years to repay the loan to be forgiven \$20,000 out of the \$60,000 we owe. Due to the slow response in recovery of our business we are unsure about the repayment of the loan in that timeframe, not to mention the increase in debt."*

—Personal & Miscellaneous Services Business Owner, Manitoba, February 2021

*"I am going to lose my business if the restrictions in Alberta aren't lifted soon. As it is, I have accumulated over \$90,000 in debt and that number keeps going up. It will take me years to pay it off."*

—Hospitality Business Owner, Alberta, January 2021

## Conclusion and Recommendations

This year businesses in Canada have gone from emergency mode, to transitioning to the new normal, to doing their best to recover from the negative impacts that COVID-19 has had on their business. Though 51 per cent are fully open, businesses cannot quickly bounce back to their state of affairs from early March 2020, particularly in light of many regions reinstating business restrictions. With only 25 per cent making normal sales, 73 per cent having taken on debt that will take a great majority longer than a year to pay back, and 40 per cent being more than a year away from returning to normal profits, businesses are facing a winding path to recovery.

For the sake of small businesses making it through this challenging time, governments must ensure that support programs are matching business needs and can be easily accessed by those that need them. Further, keeping in mind that businesses are now much more financially vulnerable than they were at the beginning of the pandemic, every effort should be made to keep as many businesses open as possible while managing the health implications of COVID-19. Consumer support of businesses is critical to their survival, and should be encouraged and made available wherever possible.

## Appendix 1: Additional analysis

TABLE A1

### Average debt due to COVID-19 (for businesses that took on debt) – CFIB member survey results, by sector

	<i>Average debt per business<sup>1</sup></i>
Agriculture & Natural Resources <sup>2</sup>	\$328,887
Arts, Recreation & Information	\$242,366
Hospitality	\$213,498
<b>CANADA</b>	<b>\$169,992</b>
Wholesale	\$134,967
Construction	\$114,979
Finance, Insurance, Real Estate & Leasing	\$106,409
Manufacturing	\$104,079
Retail	\$97,734
Transportation, Warehousing & Utilities	\$95,714
Personal, Miscellaneous Services	\$86,173
Professional Services	\$84,556
Enterprise & Administration Management	\$83,410
Social Services	\$68,714

Source: CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n = 1,993.

Notes: 1) average debt per business due to COVID-19 for businesses that took on debt;

2) these sectors have been combined due to small sample sizes from Natural Resource sector businesses.

TABLE A2

### Average debt due to COVID-19 (for businesses that took on debt) – CFIB member survey results<sup>1</sup>

	<i>Average debt per business<sup>2</sup></i>	<i>Total debt estimate (all businesses)<sup>3</sup></i>
BC	\$138,720	\$17.5B
AB	\$185,732	\$21.2B
Prairies	\$180,858	\$8.3B
ON	\$207,611	\$66.7B
QC	\$97,041	\$16.7B
Atlantic	\$91,460	\$4.7B
Territories		
<b>CANADA</b>	<b>\$169,992</b>	<b>\$135.1B</b>

Source: CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n = 1,993.

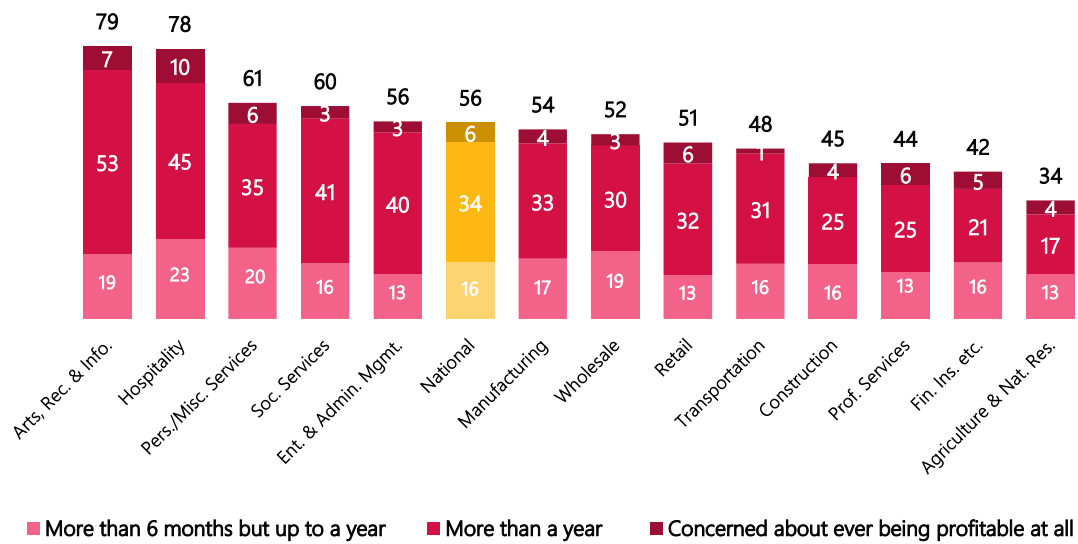
Notes: 1) differences due to rounding;

2) average debt per business due to COVID-19 for businesses that took on debt;

3) total debt due to COVID-19 – estimate for all Canadian SMEs.

FIGURE A1

**How long do you think it will take your business to get back to its usual level of profitability?**  
**At least six months or longer, by sector (% response)**



Source: CFIB, Your Voice Survey – February 2021, Feb. 4–TBD, 2021, preliminary results, n = 3,425.



## Appendix 2: Methodology

This paper presents findings from the following recent CFIB surveys:

- Your Voice Survey – February 2021, an online survey completed by 3,554 CFIB members starting February 4, 2021 to TBD. The survey has a margin of error of  $\pm 1.6$  per cent, 19 times out of 20. Results obtained so far are preliminary.
- Your Voice Survey – January 2021, an online survey completed by 7,096 CFIB members between January 12 to 31. The survey has a margin of error of  $\pm 1.2$  per cent, 19 times out of 20.
- COVID-19 Recovery Survey – October 2020, an online survey completed by 7,371 CFIB members between October 22 to November 18, 2020. The survey has a margin of error of  $\pm 1.1$  per cent, 19 times out of 20.

**The total COVID-19-related debt estimate for Canadian SMEs** is based on Statistics Canada small business counts from December 2020 and two CFIB survey question results: 1) the share of businesses that took on debt due to COVID-19, and 2) the approximate total COVID-19-related debt that businesses had incurred to date. CFIB used these figures to develop an estimate of COVID-19 debt so far, for all active Canadian SMEs with at least one employee. The total debt estimate includes adjustments to reflect provincial, industrial and business size distribution within the Canadian economy.

