



Study
January 2021

Investment Intentions of Canadian Entrepreneurs

An Outlook for 2021

bdc 

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“The results of this latest investment survey paint a picture of an economy that will be in a slow but sustained recovery during the coming year.”

Message from the Chief Economist

It's been a difficult year and we're happy to be moving on to 2021. The distribution of vaccines against the coronavirus brings hope that the coming year will be better for the economy and for Canadian businesses.

Each quarter, BDC conducts a Small Business Investment Outlook Survey of 1,000 owners of small and medium-sized enterprises (SMEs) in Canada. The objective is to assess their business prospects and investment intentions for 2021. This report presents the results of the winter 2021 survey on business investment intentions for the next 12 months.

The results indicate that business investment intentions are improving, with a growing number of Canadian entrepreneurs planning to invest more in 2021 than they did last year. Indeed, these are the most positive results we've seen since the beginning of the pandemic.

The survey indicates entrepreneurs will invest more in technology this year, building on momentum started in 2020. This is great news because technology adoption enhances productivity and competitiveness for businesses and the Canadian economy as a whole. It will also help entrepreneurs deal with changes brought on by the pandemic; the rapid rise of online sales and the growth of remote work being two of the most salient examples.

Taken together, the results of this latest investment survey paint a picture of an economy that will be in a slow but sustained recovery during the coming year. We would like to thank the entrepreneurs who took the time to participate in our survey. We hope this report will help you plan a successful 2021.

Pierre Cléroux
Vice President,
Research and Chief Economist

Executive summary

Renewed optimism improves investment intentions for 2021

Investment intentions are expected to remain weak in 2021, but are improving significantly from last year. This rise in investment intentions is largely due to increased business confidence and improved sales outlook, according to our new winter 2021 survey.

Net investment intentions stand at -3, up six points from last quarter but still down four points compared to last winter, when investment intentions were beginning to recover after

a disappointing year-end in 2019. Investment intentions then collapsed with the first wave of COVID-19 in the spring, before slowly recovering in the summer and fall of 2020.

Weak investment intentions reflect a reluctance to invest in tangible assets, such as buildings, machinery and equipment, but spending in intangible assets, such as software, R&D or employees training, is gaining momentum.

A desire to improve productivity as well as sales and marketing appear to be the main drivers of investment, while high uncertainty remains the main factor holding back investment



Executive summary (cont.)

spending in 2021, although to a lesser extent than in previous quarters.

A new hope

With the U.S. election behind us and the hope offered by coronavirus vaccines, this winter's survey reveals that the mood of entrepreneurs has improved significantly. We now find as many optimistic as pessimistic entrepreneurs, a marked improvement from the previous quarter, when more than half of entrepreneurs thought the economy would deteriorate over the next months. This signals that a slow but sustained recovery is underway. However, there is still a long way to go before we see a marked improvement in business

confidence. High indebtedness, weak demand, additional containment measures and news of a virus mutation could dampen this renewed optimism.

Capacity pressure and hiring difficulties are building up

Half of entrepreneurs said it would be difficult to either hire new skilled employees or meet an unexpected increase in demand because they are operating at or above full capacity. While capacity and labour shortage issues have not yet become a major barrier to investment in much of the country, we expect these issues to grow in importance as the economy gears up in 2021.

Sectoral and regional outlook

- Companies in the resources sector are showing a strong recovery in their investment intentions for the coming year.
- The situation is deteriorating for wholesalers and technology companies.
- The resources sector faces significant capacity and productivity challenges as commodity prices recover.
- Spending in the technology sector is expected to return to normal after an exceptional year in 2020.

- Quebec and Atlantic Canada have the most buoyant investment intentions overall, with positive outlooks in both regions.
- Net spending intentions remain weak in all other regions.



Main results

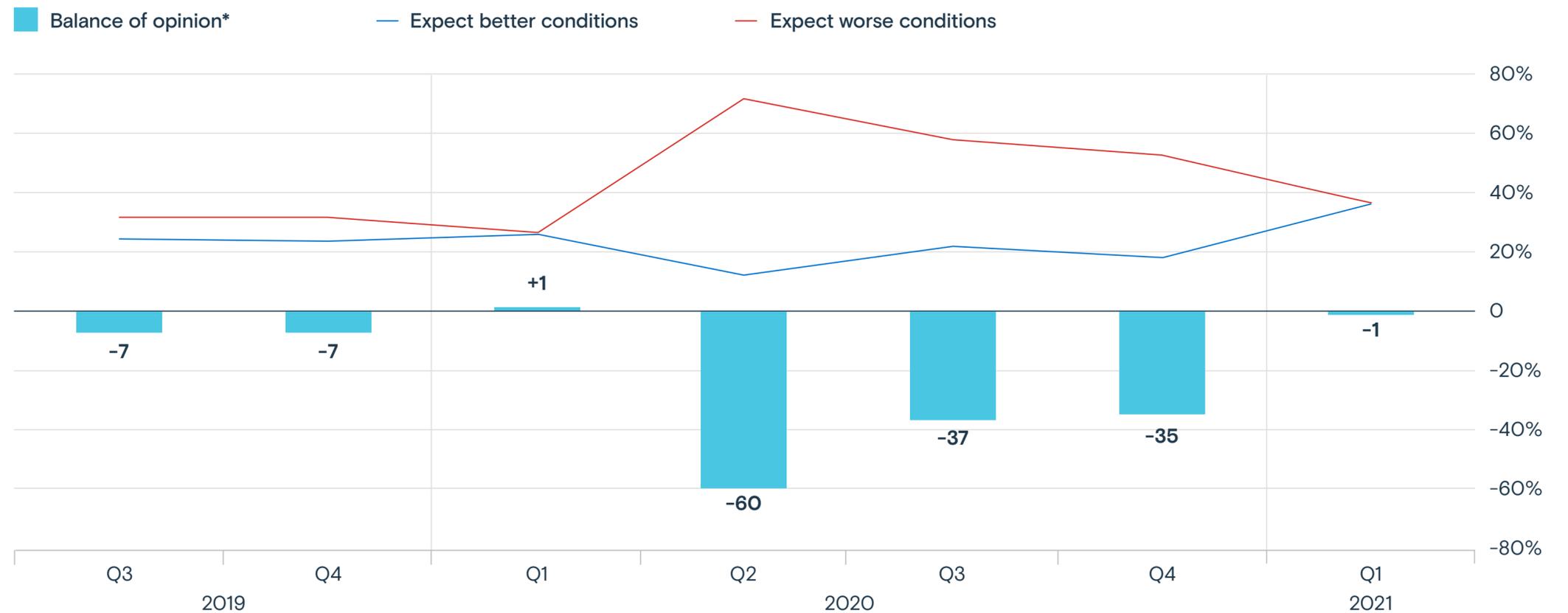
Business confidence

Our winter 2021 survey shows that entrepreneurs are gradually regaining confidence in the Canadian economy. Net business confidence is close to zero at -1, a jump of 34 percentage points from the fall 2020 survey. We now find as many optimistic (35%) as pessimistic (36%) business owners, a marked improvement from previous quarters, when more than half of entrepreneurs expected the economy to deteriorate over the next 12 months.

Entrepreneurs in the Prairies (43%) were the most likely to expect worse economic conditions in 2021.

Figure 1: Net business confidence

When you think about the next 12 months, how confident are you about the economic conditions in Canada?



Net business confidence by region in Q1 2021:

- B.C. and the North (+13)
- Prairies (-11)
- Ontario (-10)
- Quebec (+14)
- Atlantic (-2)

*The balance of opinion (blue bar) is the difference between the percentage of entrepreneurs expecting better conditions (blue line) and the percentage expecting worse conditions (red line).

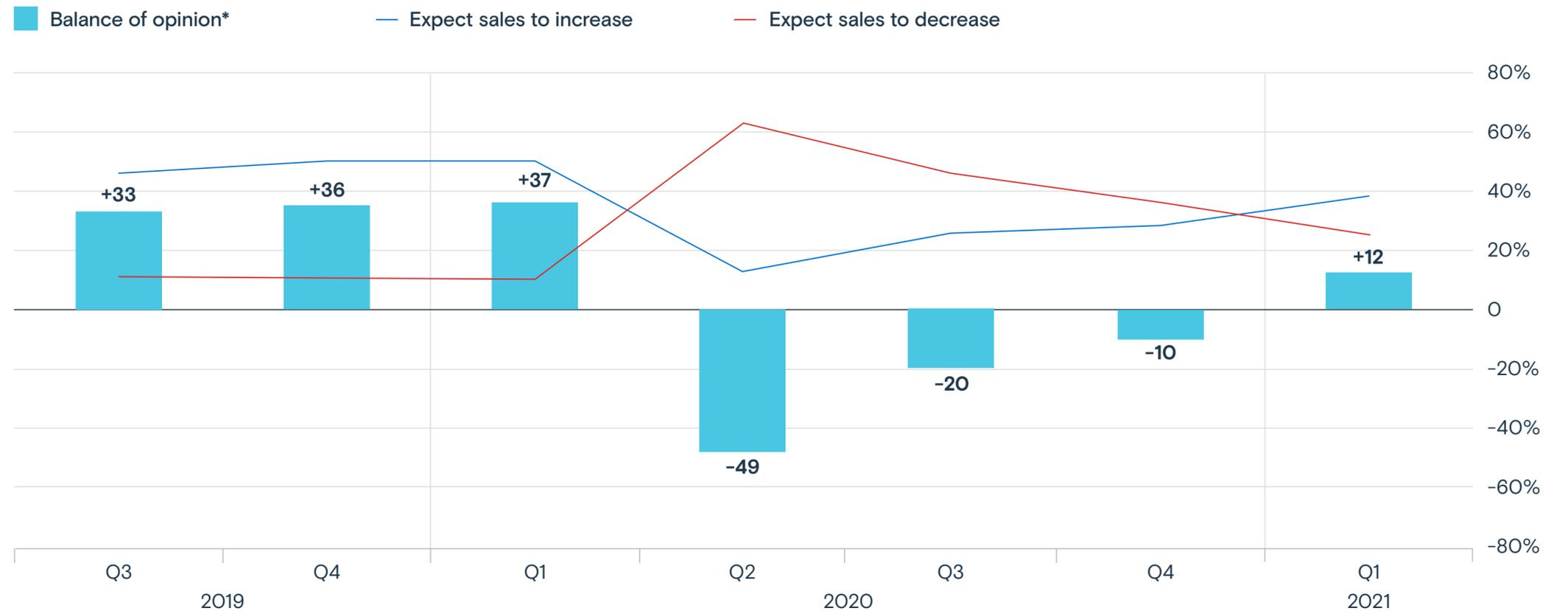
Sales outlook

Future sales expectations are gaining momentum. For the first time since the beginning of the recession last spring, there are more entrepreneurs who expect sales to increase than decrease in the next 12 months (38% vs. 25%, respectively).

Large companies (55% expect an increase) were the most likely to expect higher sales, while companies in the Prairies (33% expect a decrease), were the most likely to expect lower sales.

Figure 2: Net future sales expectations

Over the next 12 months, do you expect your company's total sales or revenue to increase, remain the same or decrease compared to the last 12 months?



Net future sales expectations by region in Q1 2021:

- B.-C. and the North (+12)
- Prairies (-3)
- Ontario (+8)
- Quebec (+34)
- Atlantic (+17)

* The balance of opinion (blue bar) is the difference between the % expecting sales to increase (blue line) and the % expecting sales to decrease (red line).

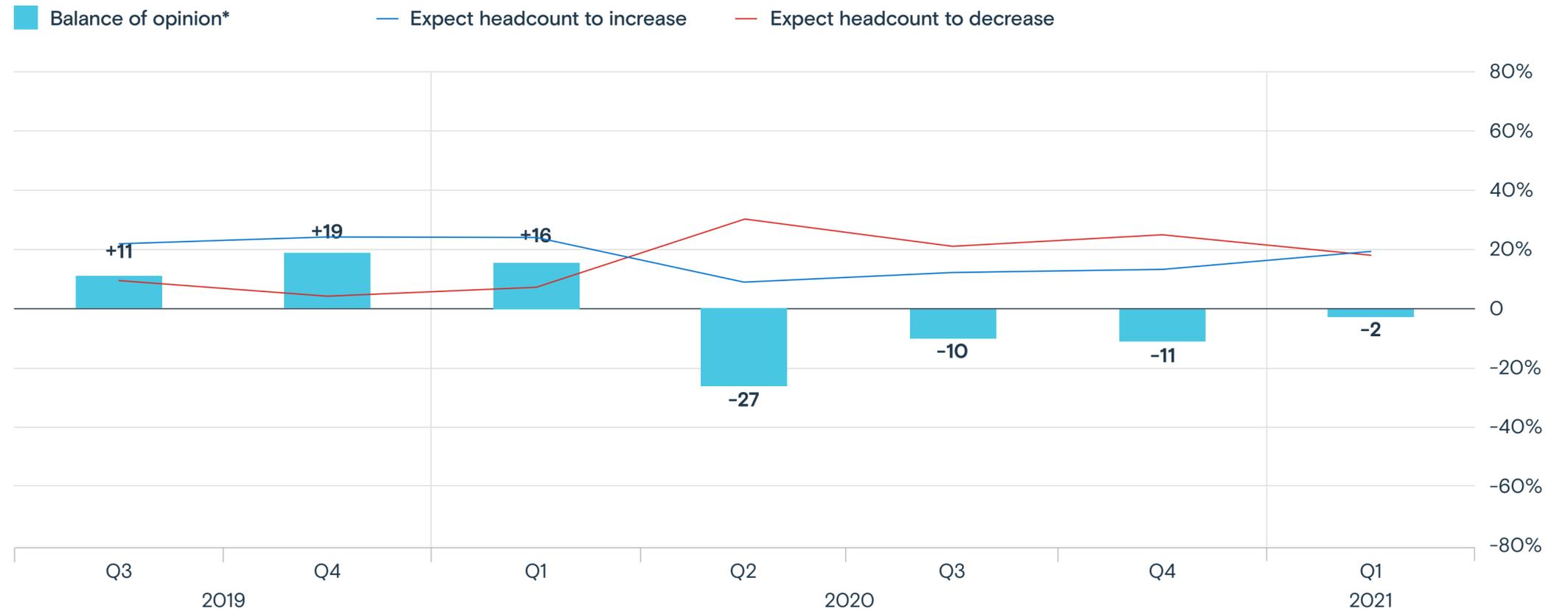
Hiring outlook

Net hiring intention has improved but remains negative. This suggests that while a strong labour market recovery is unlikely, further massive layoffs are not expected.

Large companies (29%), companies in Quebec (32%) and those in the resources sector (57%) were more likely to expect headcount to increase.

Figure 3: Net hiring intention

Over the next 12 months, do you expect your company's number of employees to increase, remain the same or decrease compared to the last 12 months?



Net hiring intentions per region in Q1 2021:

- B.C. and North (-5)
- Prairies (-13)
- Ontario (-3)
- Quebec (+14)
- Atlantic (0)

*The balance of opinion (blue bar) is the difference between the percentage of entrepreneurs expecting headcount to increase (blue line) and the percentage expecting headcount to decrease (red line).

Who will be hiring in 2021?

Net hiring intention by business size



Small businesses
(Less than \$2 million in annual revenue)

-3

+ 12 percentage points*



Medium businesses
(\$2 to \$10 million in annual revenue)

+1

+ 2 percentage points**



Large businesses
(Over \$10 million in annual revenue)

+14

+ 1 percentage point

* All comparisons are with the previous quarter unless otherwise noted.

** A percentage point is the difference between two percentages. For example, moving up from 10% to 15% is a 5 percentage-point increase.

Capacity pressure

Our winter 2021 survey reveals that capacity pressure is building up. Half of companies said it would be difficult to meet an unexpected increase in demand as they are now operating at or beyond capacity. This is likely due to capacity problems created by lockdowns and other sanitary measures.

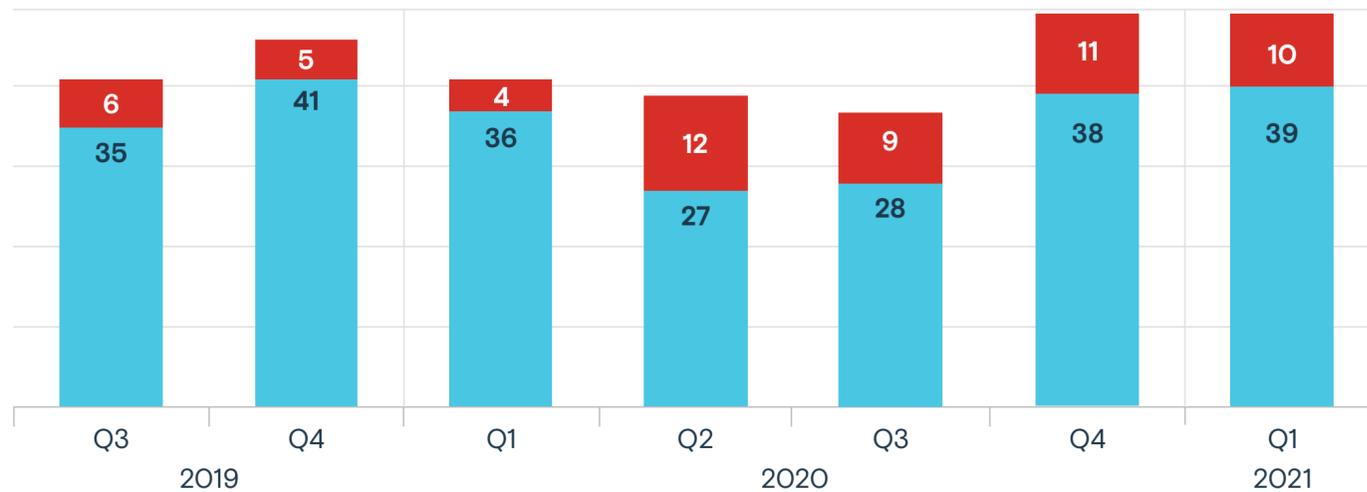
Labour shortages are also starting to increase, with 54% of business leaders reporting some or significant difficulties recruiting skilled employees.

Medium (70%) and large (72%) companies as well as companies in Quebec (67%) were more likely to face hiring difficulties.

Figure 4: Capacity pressure

How would you assess your company's current ability to meet an unexpected increase in demand or sales?

- Significant difficulties, we are operating beyond capacity
- Some difficulties, we are or near full capacity



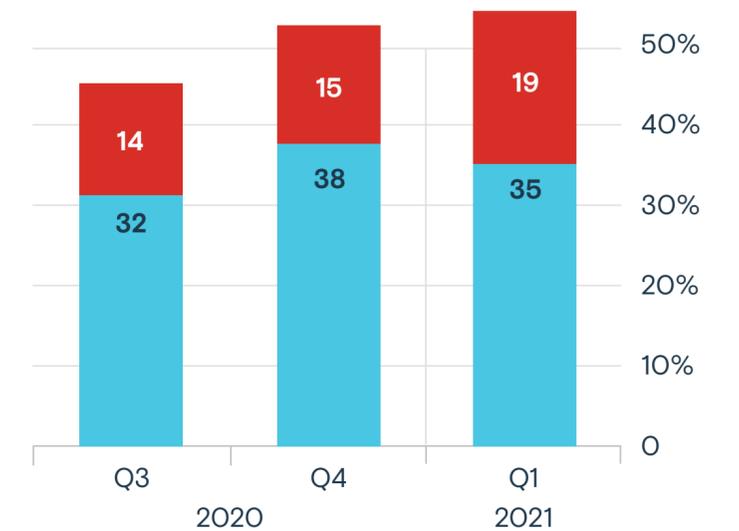
Capacity pressure per region in Q1 2021:

- B.C. and North (43%)
- Prairies (36%)
- Ontario (49%)
- Quebec (65%)
- Atlantic (53%)

Figure 5: Hiring difficulties

How would you assess your company's current ability to hire qualified workers?

- Significant difficulties, we are missing workers to operate or seize new opportunities
- Some difficulties, but the situation is not critical



Hiring difficulties per region in Q1 2021:

- B.C. and North (48%)
- Prairies (50%)
- Ontario (50%)
- Quebec (67%)
- Atlantic (57%)

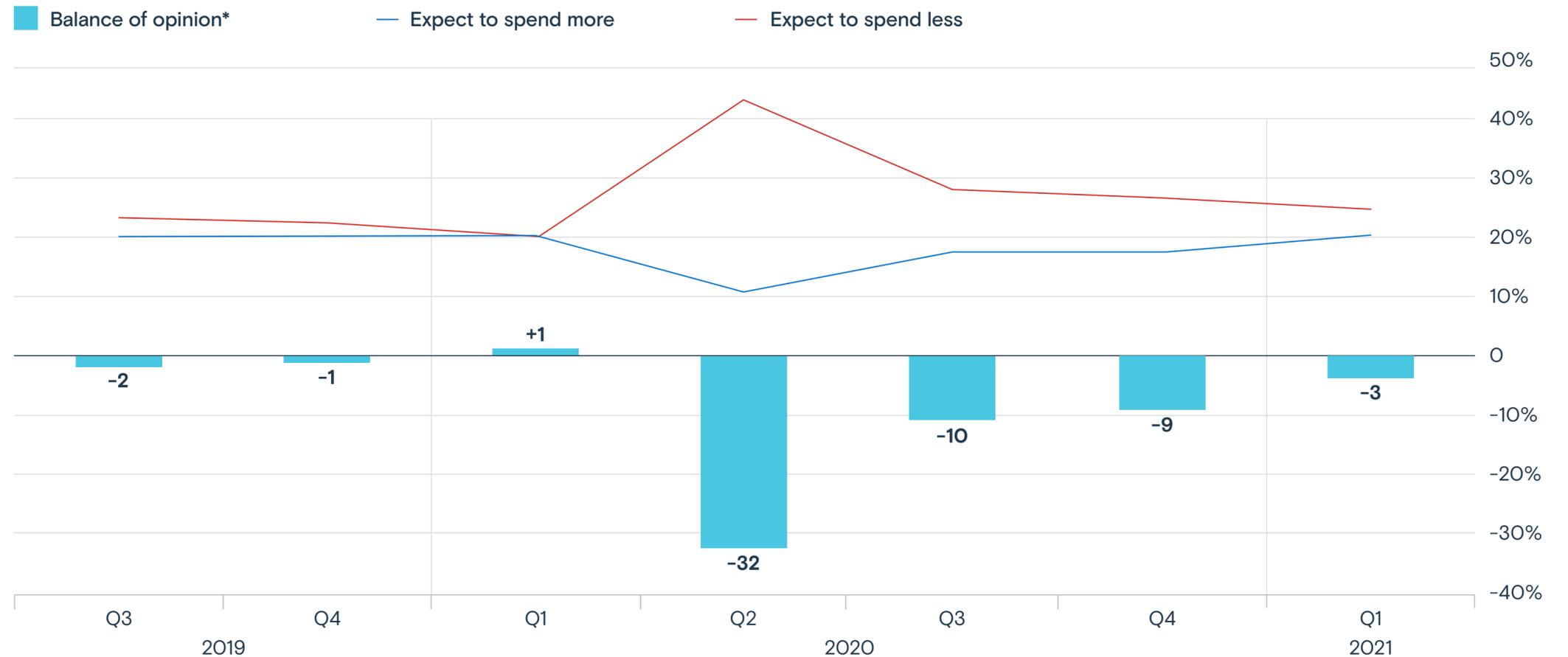
Investment outlook

Investment intentions have improved from last spring but still remain weak in 2021. The number of business leaders who plan to reduce spending over the next 12 months (24%) continues to offset those who plan to spend more (21%).

The year 2020 had started on a positive note, with net investment intentions beginning to recover after a sluggish year-end in 2019. Investment intentions then collapsed in the spring of 2020 before improving in the following quarters. It now stands at -3, an increase of 6 percentage points from the fall of 2020.

Figure 6: Net investment intentions

Over the next 12 months, what do you expect your company's investment spending to be compared to the last 12 months?



*The balance of opinion (blue bar) is the difference between the % expecting to spend more (blue line) and the % expecting to spend less (red line).

Main factors driving investment decisions

A desire to increase productivity as well as sales and marketing are the main drivers of investment intentions for the next 12 months. We also see a growing proportion of business leaders mention the need to replace and add new capacity, or reduce their environmental footprint, when explaining their investment goals.

By far the most significant barrier to investment remains the high level of economic uncertainty, although this impediment has decreased since fall 2020. Lack of money to invest and low demand are the two other most common factors that limit business investment.

Figure 7: Factors driving business investment

Which of the following best describes your main business investment goals for the next 12 months?

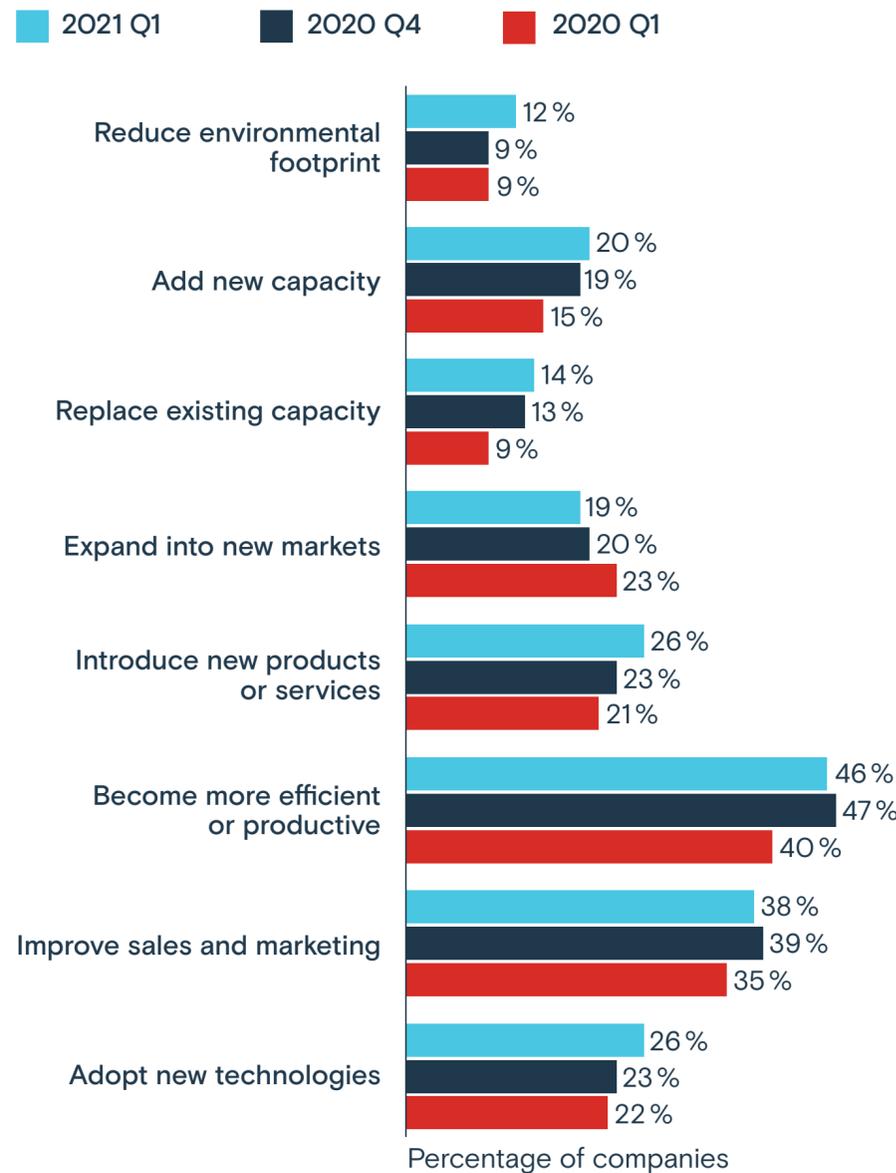
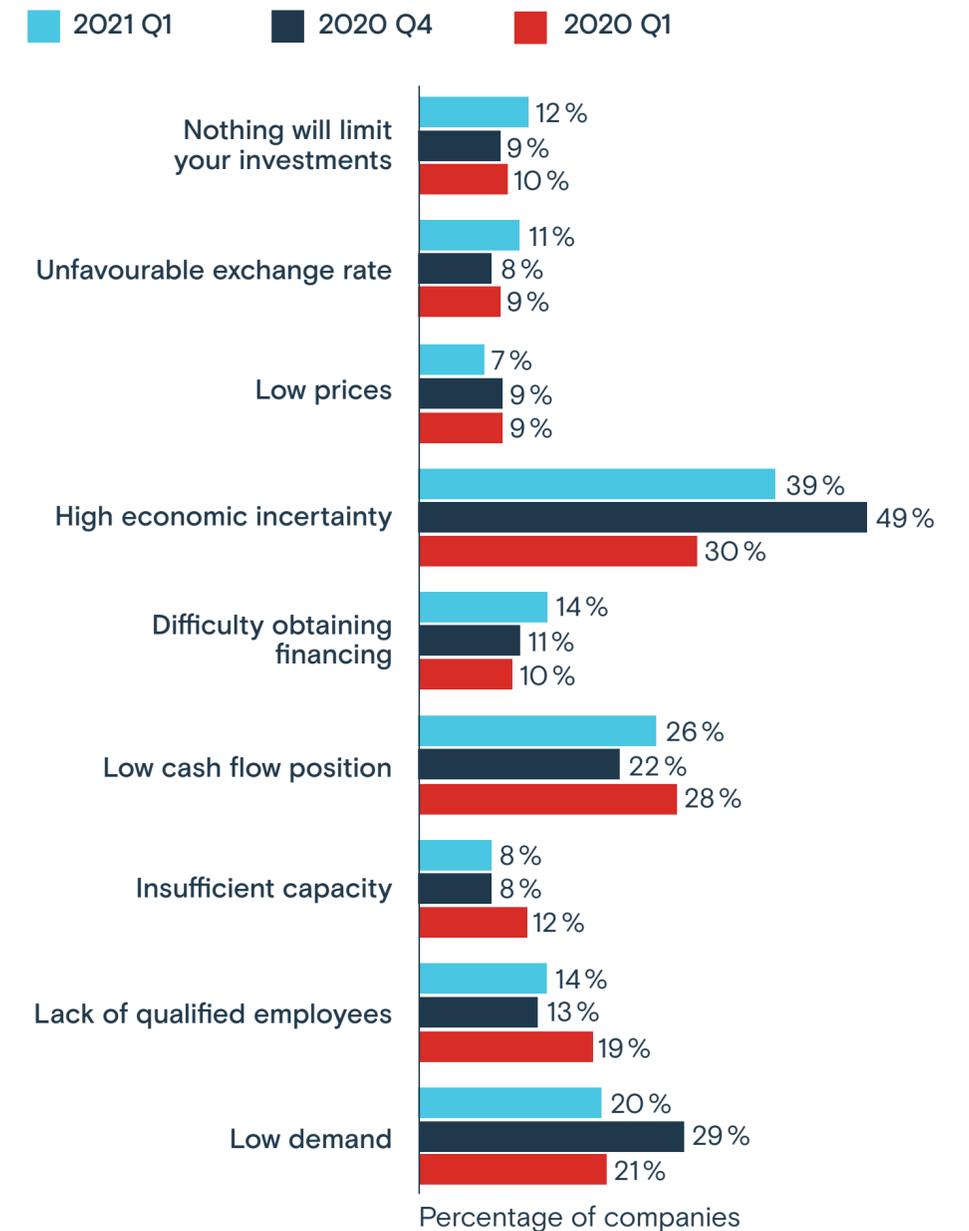


Figure 8: Factors limiting business investment

Which of the following factors are most likely to limit your investment spending in the next 12 months?

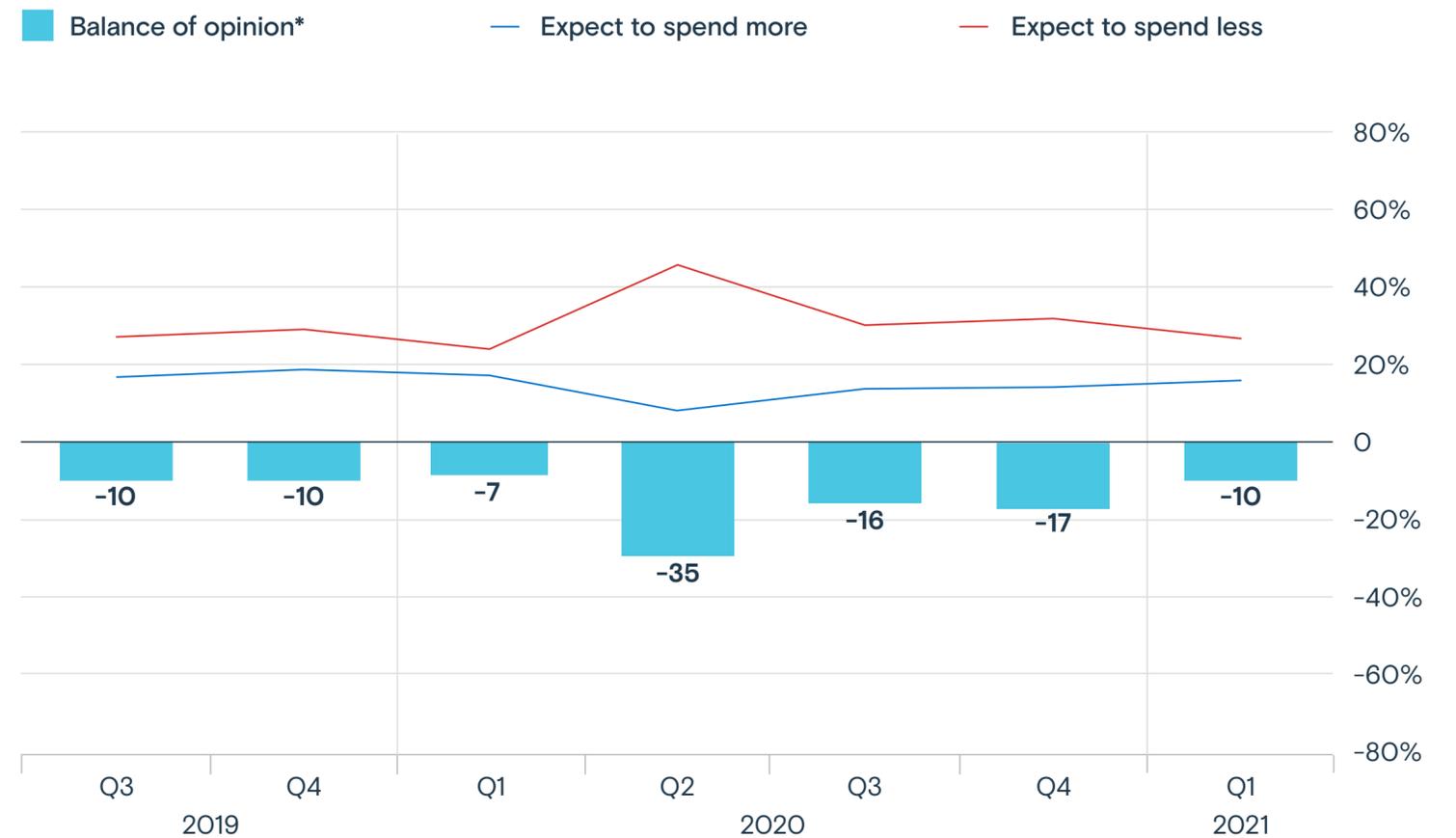


Investment outlook by asset categories

Low investment intentions reflect a reluctance to invest in tangible assets, such as buildings and machinery and equipment, but spending in intangible assets is gaining momentum.

Figure 9: Net investment intentions—non-residential buildings and renovations

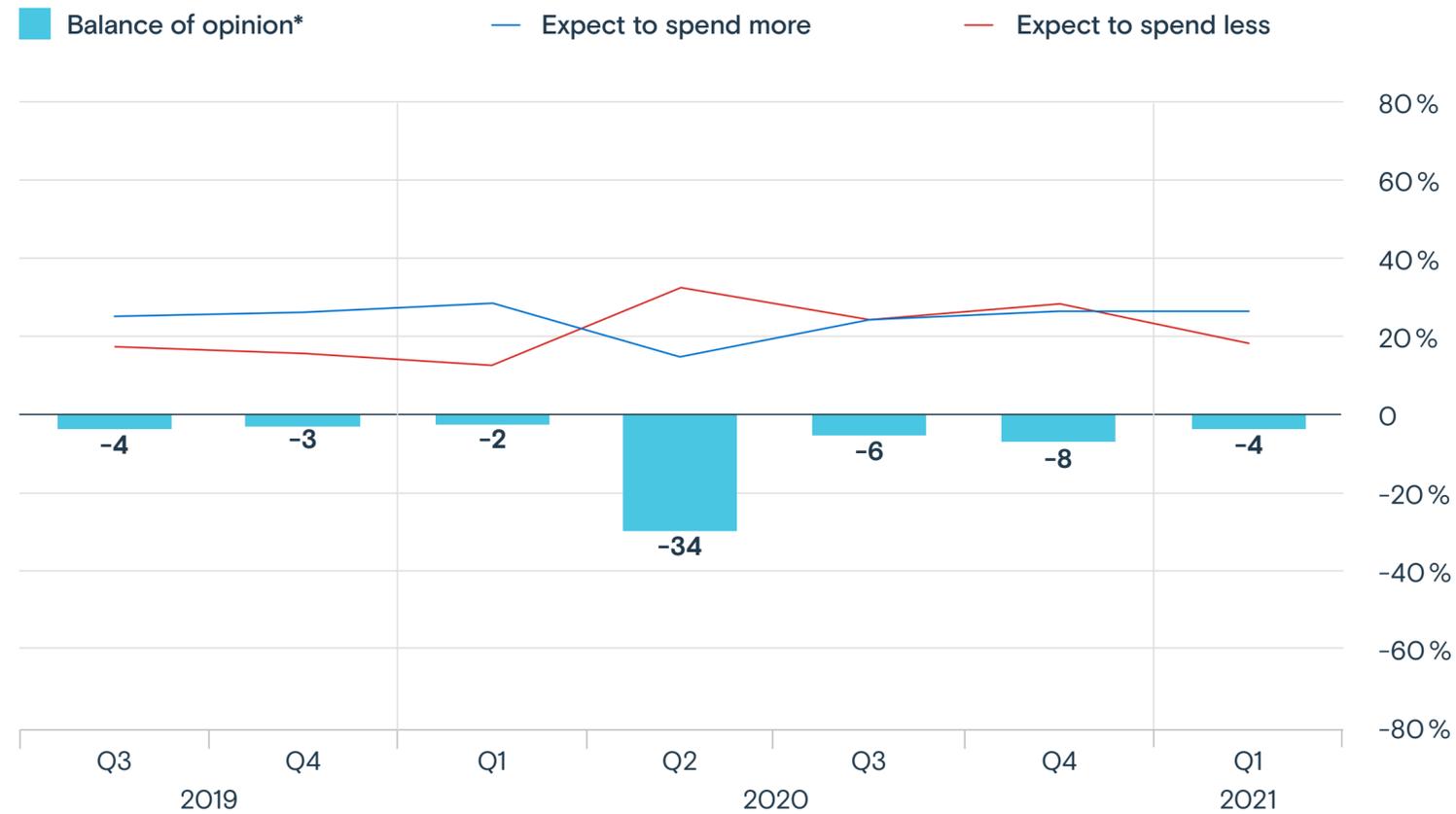
Over the next 12 months, what do you expect your company's investment spending to be compared to the last 12 months?



*The balance of opinion (blue bar) is the difference between the % expecting to spend more (blue line) and the % expecting to spend less (red line).

Figure 10: Net investment intentions—machinery and equipment

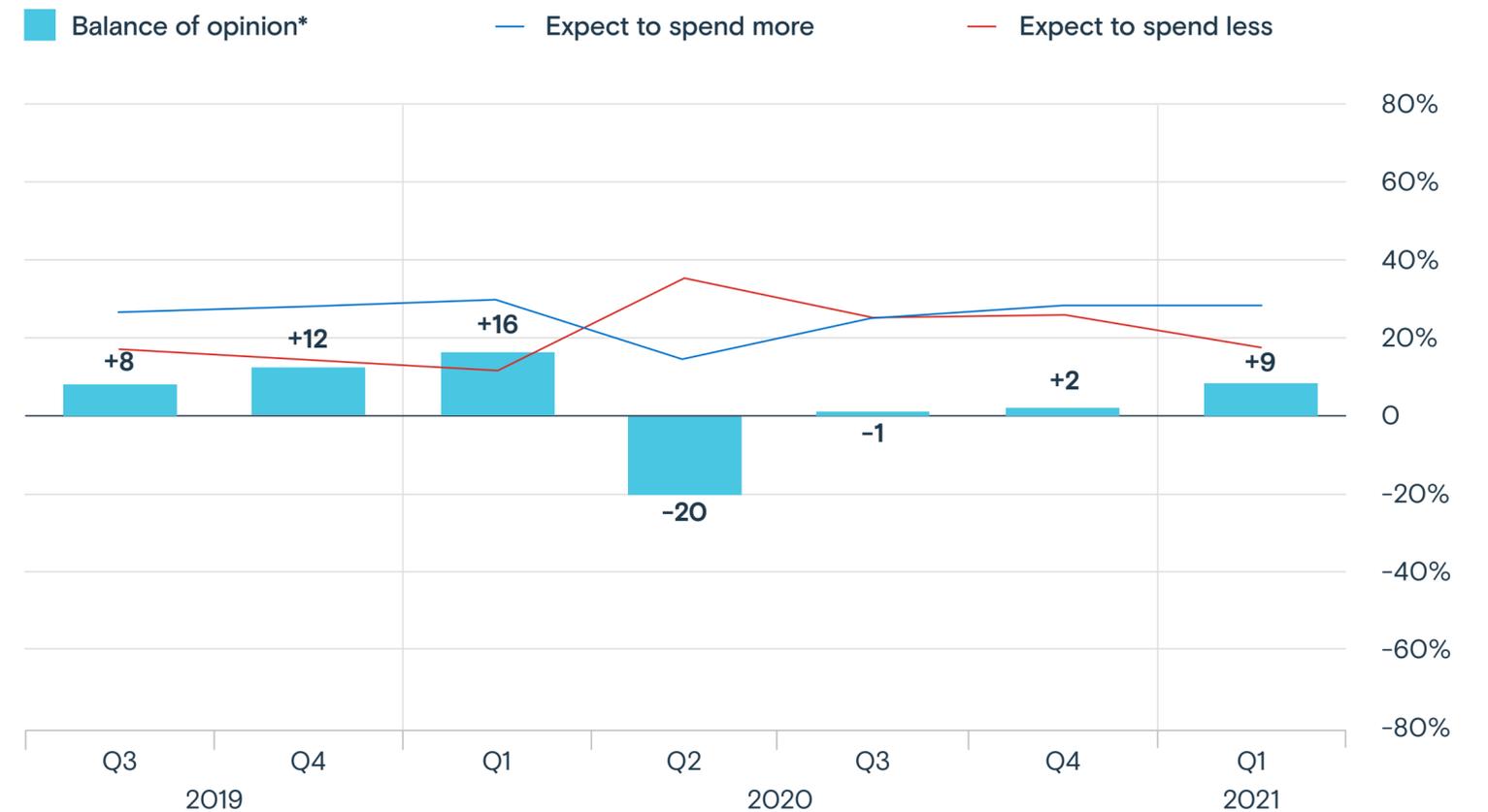
Over the next 12 months, what do you expect your company's investment spending to be compared to the last 12 months?



*The balance of opinion (blue bar) is the difference between the % expecting to spend more (blue line) and the % expecting to spend less (red line).

Figure 11: Net investment intentions—software, IP protection, R&D, marketing and employee training

Over the next 12 months, what do you expect your company's investment spending to be compared to the last 12 months?



What investments are entrepreneurs planning for 2021?

Percentage of businesses with investment intentions in 2021

35%

will invest in non-residential buildings and renovations

46%

will invest in machinery and equipment

53%

will invest in intangible assets*

*Assets with no physical form, such as software, marketing initiatives, training and intellectual property.

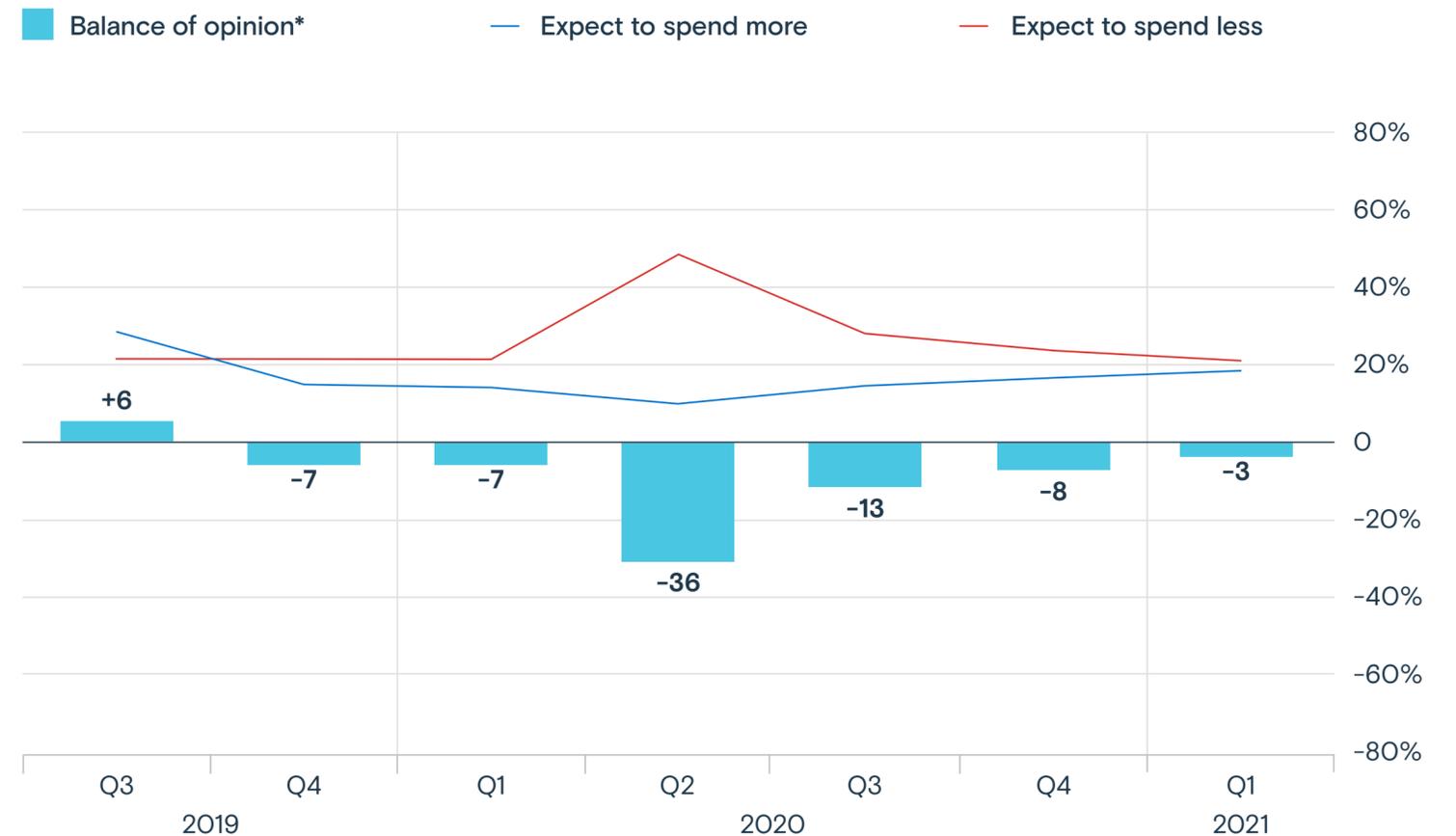
Investment outlook by region

Investment intentions are gaining momentum in Quebec and the Atlantic region. In Quebec, strong business confidence and capacity pressures will drive entrepreneurs to spend more, while business owners in the Atlantic region will invest to improve sales and marketing.

While intentions are improving in other provinces, net intentions remain negative, mainly due to high economic uncertainty. Business owners in the Prairies are also more likely to reduce spending due to lack of cash flow and low prices for their products and services.

Figure 12: Net investment intentions—B.C. and North

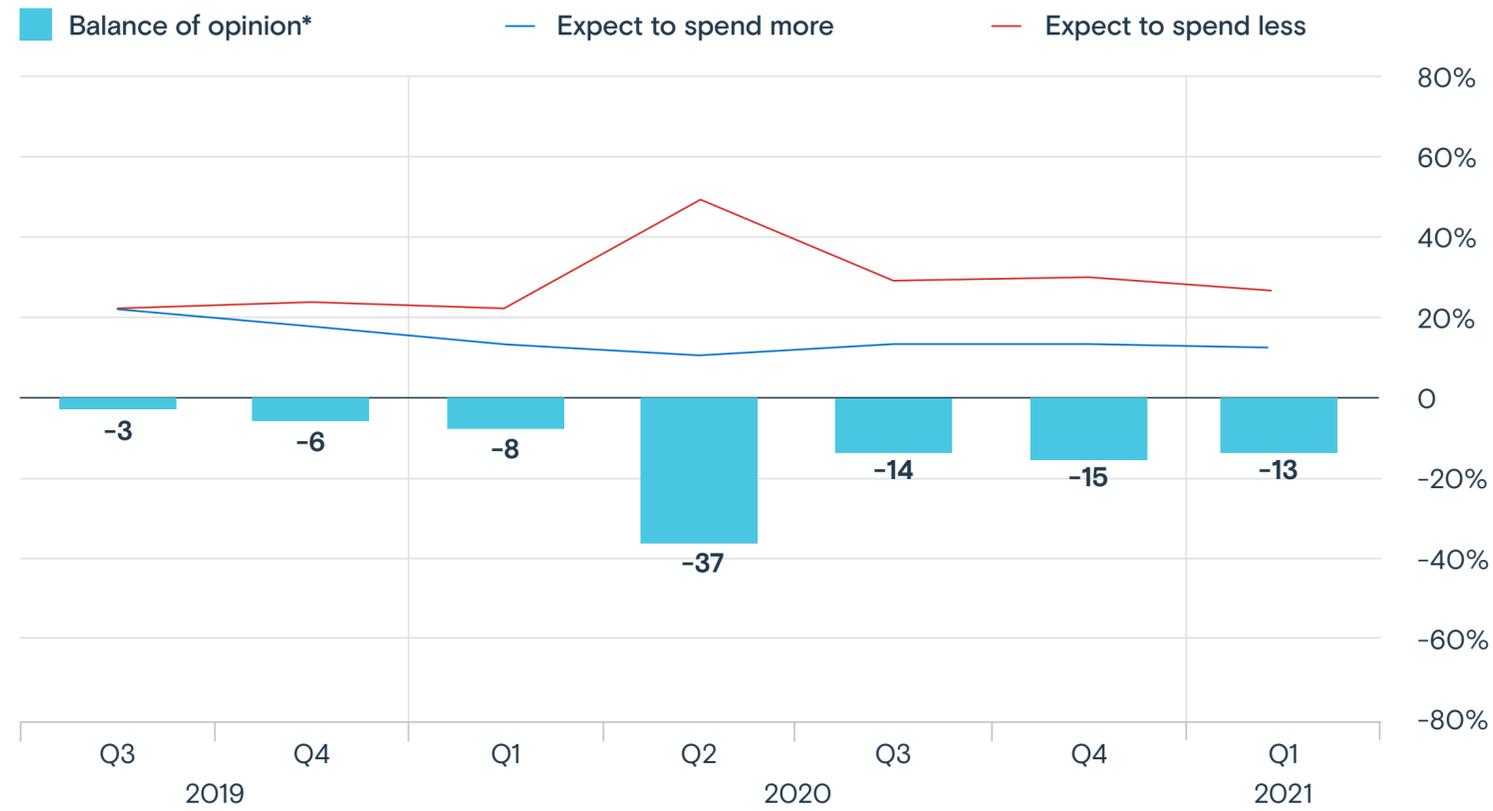
Over the next 12 months, what do you expect your company's investment spending to be compared to the last 12 months?



*The balance of opinion (blue bar) is the difference between the % expecting to spend more (blue line) and the % expecting to spend less (red line).

Figure 13: Net investment intentions—Prairies

Over the next 12 months, what do you expect your company's investment spending to be compared to the last 12 months?



*The balance of opinion (blue bar) is the difference between the % expecting to spend more (blue line) and the % expecting to spend less (red line).

Figure 14: Net investment intentions—Ontario

Over the next 12 months, what do you expect your company's investment spending to be compared to the last 12 months?

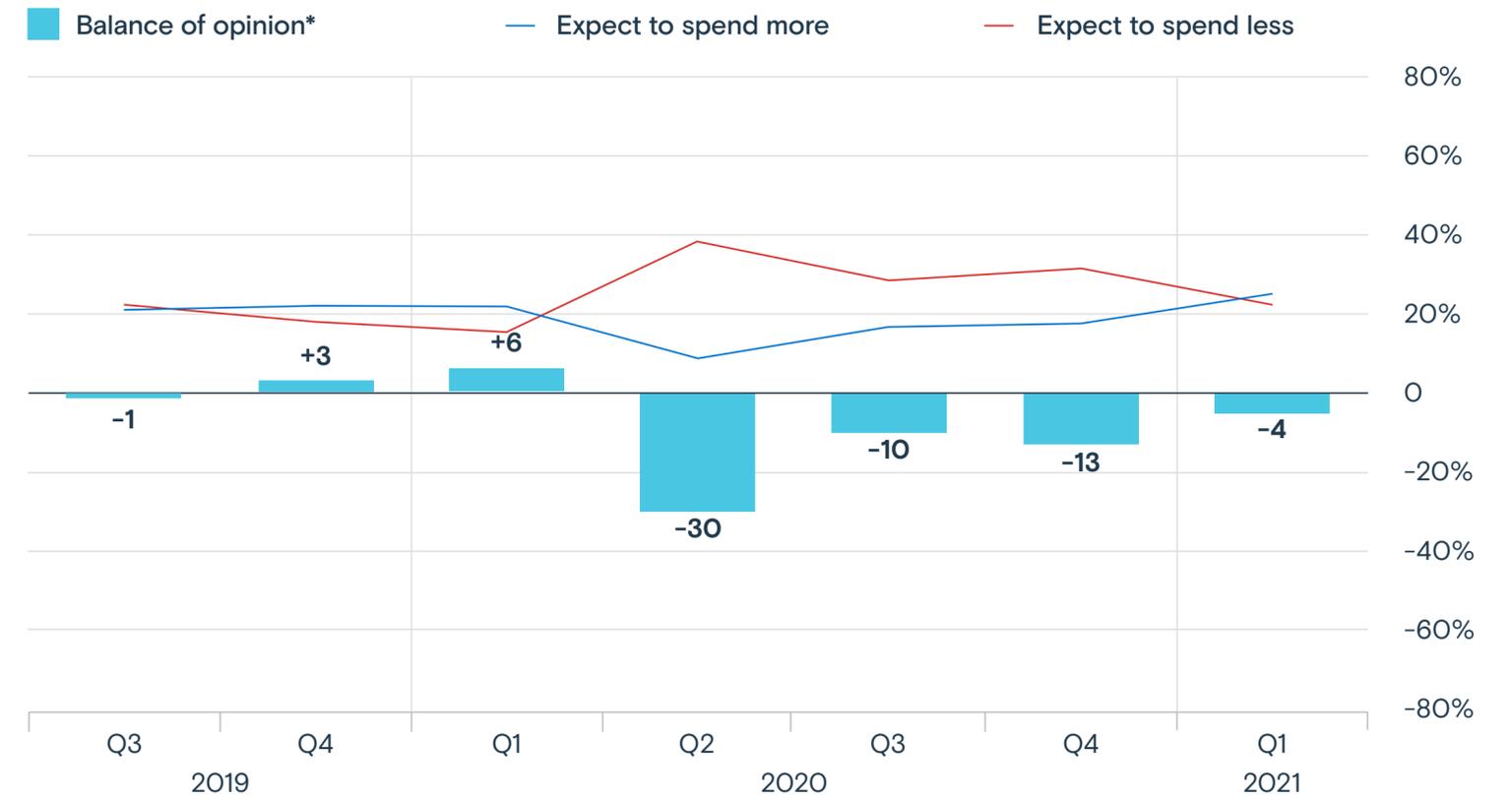
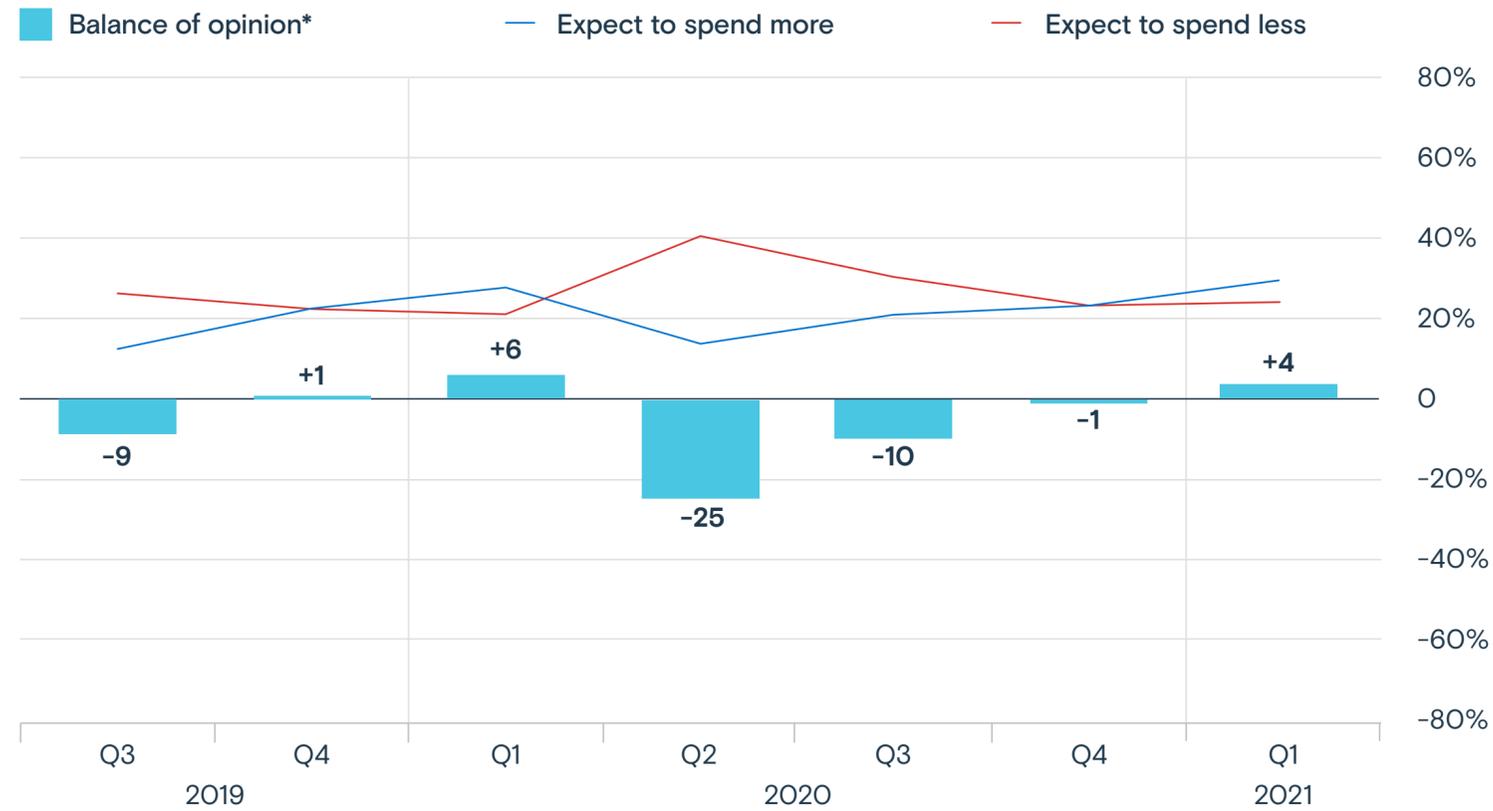


Figure 15: Net investment intentions—Quebec

Over the next 12 months, what do you expect your company's investment spending to be compared to the last 12 months?



*The balance of opinion (blue bar) is the difference between the % expecting to spend more (blue line) and the % expecting to spend less (red line).

Figure 16: Net investment intentions—Atlantic

Over the next 12 months, what do you expect your company's investment spending to be compared to the last 12 months?

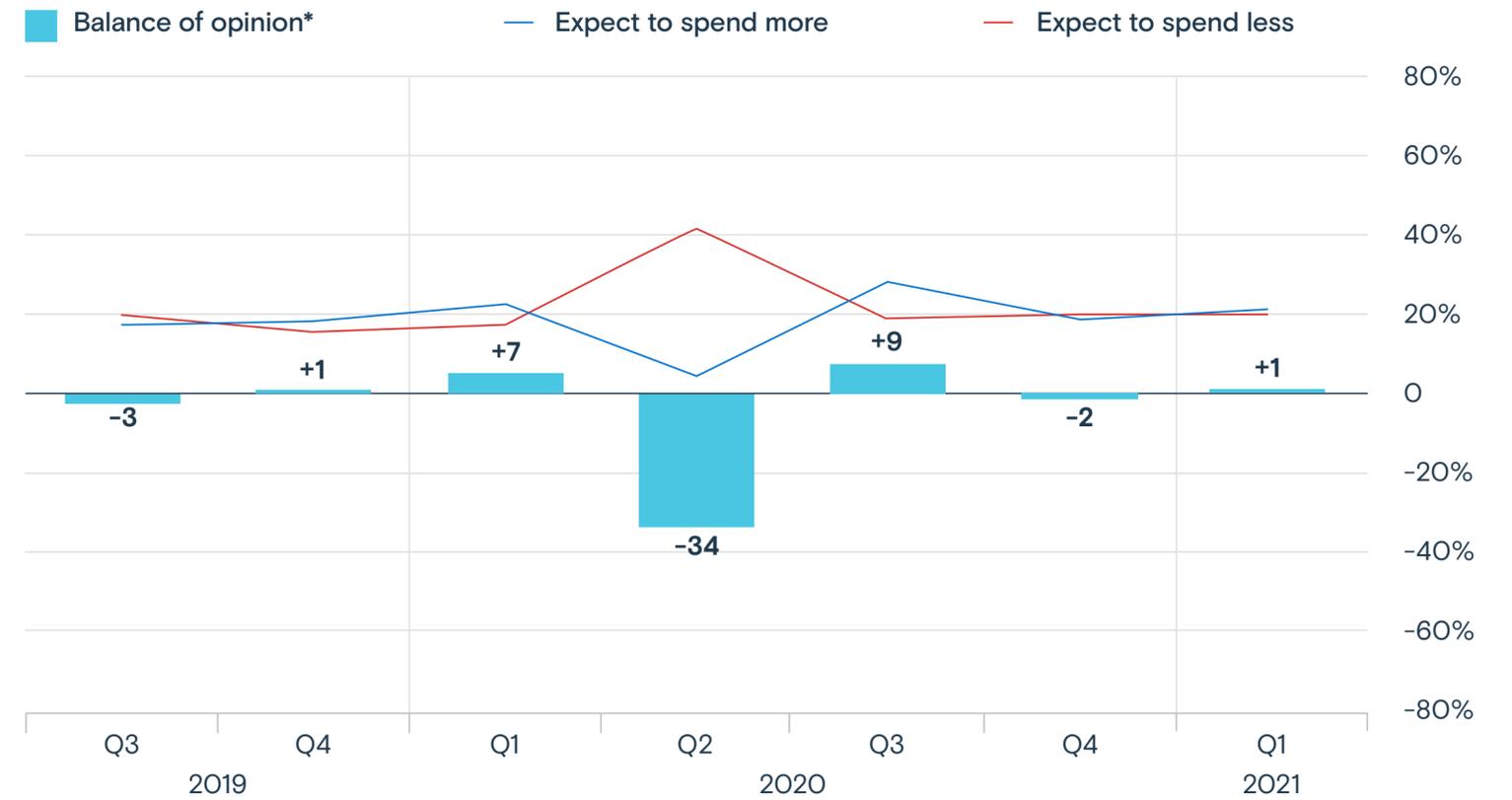
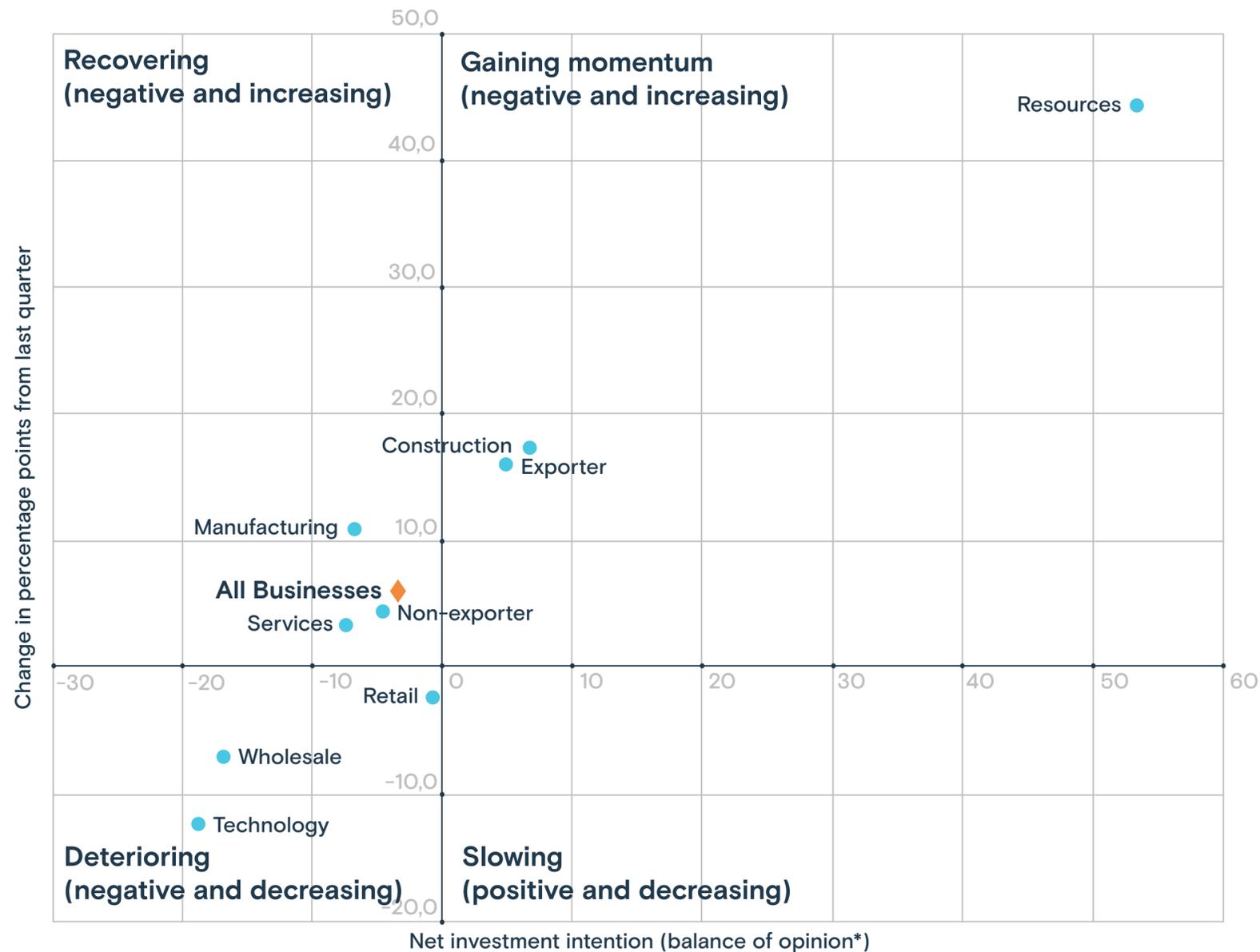


Figure 17: Net investment intentions and trends by business sector

Over the next 12 months, what do you expect your company's investment spending to be compared to the last 12 months?



*Businesses are categorized according to their net investment intentions (positive or negative) and the trend in investment intentions (increasing or declining) according to company characteristics.

Investment outlook by business sector

Despite overall weak spending intentions, some sectors have better investment outlooks than others.

Companies in the resources sector stand out as having the most favourable investment outlook. Rising prices for many commodities (e.g., oil, mineral, lumber) and the need to add new capacity while remaining efficient is fuelling investment in new machinery and equipment.

Exporters and construction companies expect to spend more in intangibles; the former to improve their sales and marketing and the latter to become more productive.

In contrast, technology companies expect investments to decline the most. The decline could reflect a return to normal since the demand for technology solutions boomed during the pandemic. This pace could hardly be maintained in 2021. The decline might also reflect the trend toward remote work, especially strong in the technology sector, which is reducing the need to invest in office space.

Data and methodology

Survey on investment intentions of small and mid-sized businesses

Since July 2019, Delvinia conducts a quarterly online survey of approximately 1,000 business owners and decision makers on its AskingCanadians panel.

To ensure enough data are collected at the regional level, by sector and business size, the Atlantic region, the manufacturing sector, and the medium-sized and large businesses segments were oversampled. The results were weighted by region, sector and size of business to ensure findings were representative of

Canadian small and medium-sized businesses. Excluded from the sample were self-employed workers, companies with 500 or more employees, and those operating in the utility, education, health care, social assistance and public administration sectors.

Online surveys cannot have a margin of error since they are not probabilistic. For comparison purposes, a probability sample of this size would carry a margin of error of ± 3.1 percent points, 19 times out of 20.

Date of surveys

- **Summer 2019:** July 12 to July 22, 2019. A total of 1,022 business owners completed the survey.
- **Fall 2019:** October 1 to October 17, 2019. A total of 1,000 business owners completed the survey.
- **Winter 2020:** January 15 to February 7, 2020. A total of 1,058 business owners completed the survey.
- **Spring 2020:** April 7 to April 16, 2020. A total of 1,000 business owners completed the survey.
- **Summer 2020:** July 6 to July 17, 2020. A total of 1,002 business owners completed the survey.
- **Fall 2020:** September 24 to October 7, 2020. A total of 1,000 business owners completed the survey.
- **Winter 2021:** December 3 to December 18, 2020. A total of 1,001 business owners completed the survey.

What do we consider business investment?

Business investment, or investment spending, is money a business spends to buy tangible or intangible assets.

Tangible assets are the machinery, equipment and materials workers use in their jobs, and the buildings where production takes place.

Intangible assets are non-physical things—such as software, intellectual property protection, research and development, and marketing—that businesses depend on to prosper in a modern economy. Intangible assets also include investments in employee training.

Business investment excludes the purchase of shares, bonds and other securities. It also excludes residential investments and everyday expenditures, such as fees for maintenance, repairs or the day-to-day operations of the business.

Calculation of the balance of opinion

This report looks at various investment outlook indicators, such as Canadian entrepreneurs' level of confidence in the economy, their business and hiring outlooks, and their investment plans over the next 12 months. Results are presented as a balance of opinion and are representative of Canadian small and medium-sized businesses.

Balance of opinion is the difference between the proportion of businesses that have a positive and negative opinions. Businesses that have a neutral opinion are excluded from the calculation.

A positive balance means more respondents have a positive opinion on a given subject than a negative opinion. A balance moving up sends a signal that the indicator is improving, while a balance moving down means it is declining.

All survey results were weighted by regions, sectors and size of businesses.

The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding.





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