Study
December 2021

Canadian Entrepreneurs' 2022 Investment Outlook

bdc

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Author
Mathieu Galliot
mathieu.galliot@bdc.ca

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This report is based on public and proprietary data analyzed and interpreted by BDC. Any errors or omissions are BDC's sole responsibility. All numbers in this study have been rounded. Reliance on and use of the information herein is the reader's responsibility.

Message from the Chief Economist

The Canadian economy's growth has been strong in 2021, as a high COVID-19 vaccination rate enabled provinces to reopen their economies despite the threat of the Delta variant. While economic growth slowed in the fall, the Canadian economy should return to pre-pandemic levels in early 2022.

Each quarter, BDC surveys 1,000 owners of small and medium-sized enterprises (SMEs) in Canada. The objective is to assess their business prospects and investment intentions. This report presents and analyzes the results of the fall 2021 survey on business investment intentions for the next 12 months.

The results indicate that entrepreneurs' confidence in the economy is strong and that investment intentions are above their pre-crisis level, with one out of five SMEs planning to increase their investments in 2022.

Fear of new lockdowns is fading away, thanks to vaccination, and businesses are optimistic for 2022. However, a structural problem (labour shortages) and a circumstantial problem (supply chain disruptions) linked to the reopening have emerged and will limit investments.

We hope you will find this report informative.

Pierre Cléroux
Vice President, Research and Chief Economist

Highlights

84%

of businesses are planning to **invest more or the same in the next 12 months.**

(↑ 8 points since December 2020)

31%

of businesses are limiting their investments because of **economic uncertainty.**

(↓ 8 points since December 2020)

55%

of businesses are experiencing **difficulties hiring qualified workers.**

(↑ 1 point since December 2020)

74%

of businesses expect **Canadian economic conditions will improve or remain the same.**

(↑ 12 points since December 2020)

87%

of businesses expect to **hire or keep the same number of employees.**

(↑ 10 points since December 2020)

83%

of businesses expect **their sales will increase or remain the same.**

(↑ 13 points since December 2020)

The current situation

Successful vaccination campaign have led to broad optimism and strong investment intentions

Our survey reveals that sales outlooks over the next 12 months are at an all-time high, despite concerns over labour shortages and supply chain issues. Investment intentions are also gaining momentum, as the economy has almost fully reopened and Canada is entering a new phase of the pandemic. About 84% of businesses are planning to either maintain their current level of investment (64%) or to invest more (20%) in the next 12 months. This has increased by 1 percentage point since spring 2021 and by 8 percentage points since December 2020.

Labour scarcity is ratcheting up

While economic uncertainty continues to hold back investments for a third of the businesses surveyed, its importance has been declining with the reopening of the economy and the success of the vaccination campaigns. For the first time since March 2020, labour shortages are starting to hold back investments for a growing proportion of business leaders. While low demand and low cash flow remain greater barriers to investments than labour shortages, the situation is expected to change as labour shortages worsen while cash flow and demand improve. Over half of those surveyed already had difficulties in hiring qualified workers, the highest proportion since we started the Small Business Investment Outlook Survey in summer 2019.

Efficiency is at the heart of business priorities

In this context, businesses are mainly investing to improve efficiency. Entrepreneurs also invest to increase sales and to introduce new products or services. Businesses most affected by lockdowns, such as those in accommodation and food services, tend to be the ones investing the most in new types of offerings to attract clients; businesses facing high demand, such as those in the manufacturing sector, invest mostly to improve efficiency.

Investment outlook is positive across Canada

Investment intentions are at an all-time high in the Atlantic provinces and in British Columbia, where 92% and 90% of businesses, respectively, plan to maintain or increase their investment level in 2022. British Columbia experienced one of the country's strongest recoveries in 2021. Investment intentions remain lower in the Prairies. However, they are above pre-crisis levels, as high global demand for energy pushes up oil prices. These high prices will help spur investments in 2022, but uncertainty remains high for the energy sector in the long term.

What's to come in 2022

The Canadian economy should return to pre-pandemic levels in early 2022, as high savings rates in 2020 and 2021 will boost customer spending, and improved business cash flow will increase investments. However, two issues will slow down the recovery: supply chain disruptions and labour shortages.

Supply chain disruptions will keep affecting businesses in 2022, as demand is high and stocks are low. It will take months for manufacturers to clear backlog orders accumulated during the crisis and for maritime transport to go back to normal. The complexity of global supply chains and their dependence on a few ports has led to significant bottlenecks. Consequently, capacity pressure is expected to be particularly high in the first half of 2022. This is not a long-term problem, however, and should largely be resolved before the end of 2022.

Labour shortages are expected to worsen in 2022, as businesses face both the short-term challenge of recruiting employees lost during the pandemic—many of whom changed fields—and the long-term structural challenge of an aging Canadian population. Additionally, the pandemic decreased immigration, which slowed population growth in the past two years. Labour shortages are therefore expected to be more severe than they were before the crisis.

Machinery and equipment investments should grow in 2022, as businesses will need to improve efficiency and automate tasks to deal with labour shortages and meet strong demand. Investments in intangibles are also expected to increase in 2022, especially in employee training and software.

Business outlook

Business confidence remains high

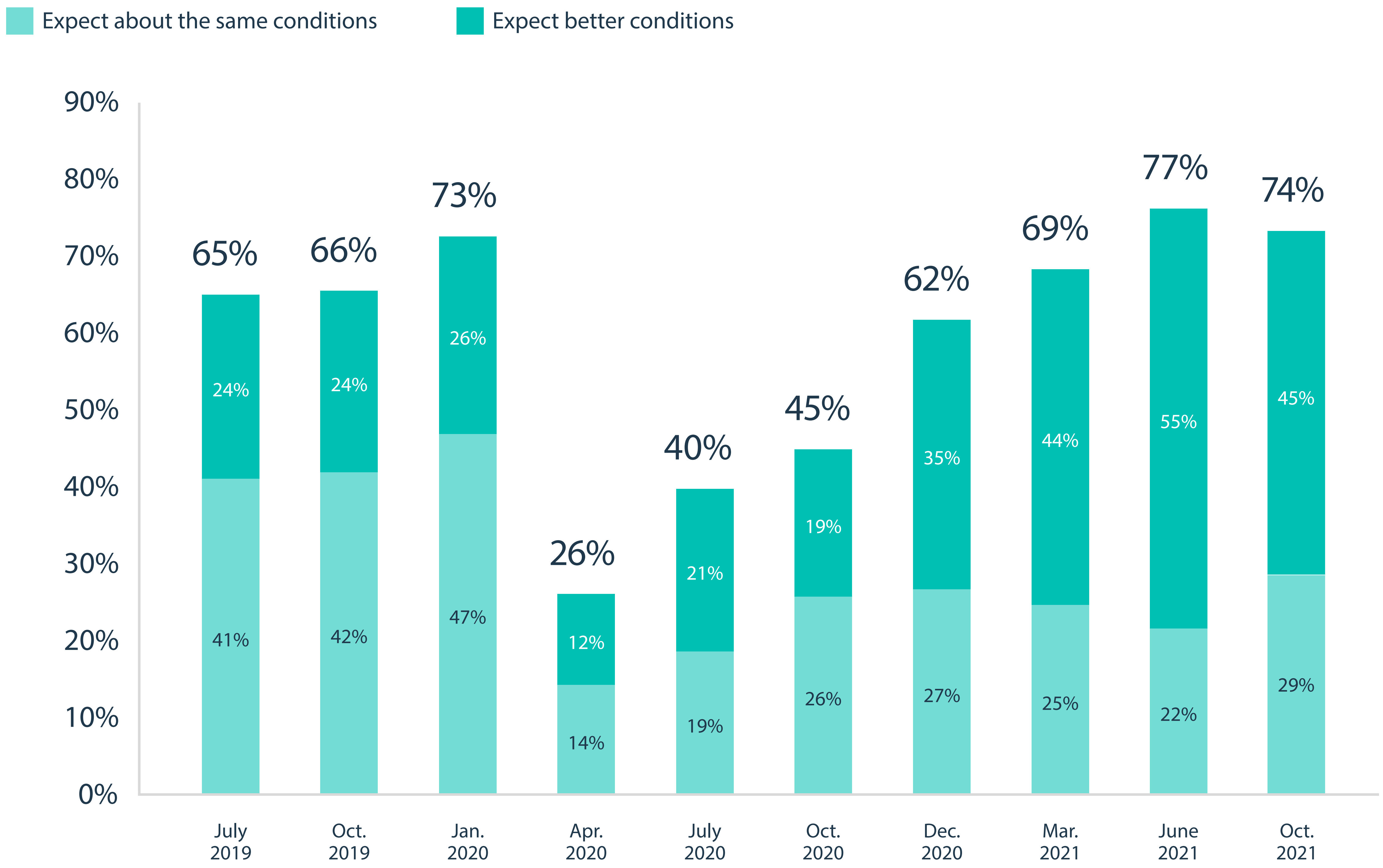
Our fall 2021 survey shows that confidence in the Canadian economy remains high among entrepreneurs, although slightly below the peak reached last June.

This slight drop in confidence is due to price volatility and supply shortages in the goods-producing sector. It is worth noting that just above half (56%) of businesses in primary sectors—such as forestry, mining and agriculture—expect economic conditions to improve or stay the same over the next 12 months; that is much lower than the 74% reported for all sectors.

The lacklustre confidence among primary-sector entrepreneurs may be linked to expectations regarding commodity prices. While prices are well above their pre-crisis levels—and while energy prices should remain high in 2022—commodity prices are not expected to keep increasing in 2022.

Figure 1: Business confidence

When you think about the next 12 months, do you expect the economic conditions in Canada to be better, the same or worse than they were in the last 12 months?



Base = All respondents.

Sales expectations have fully recovered

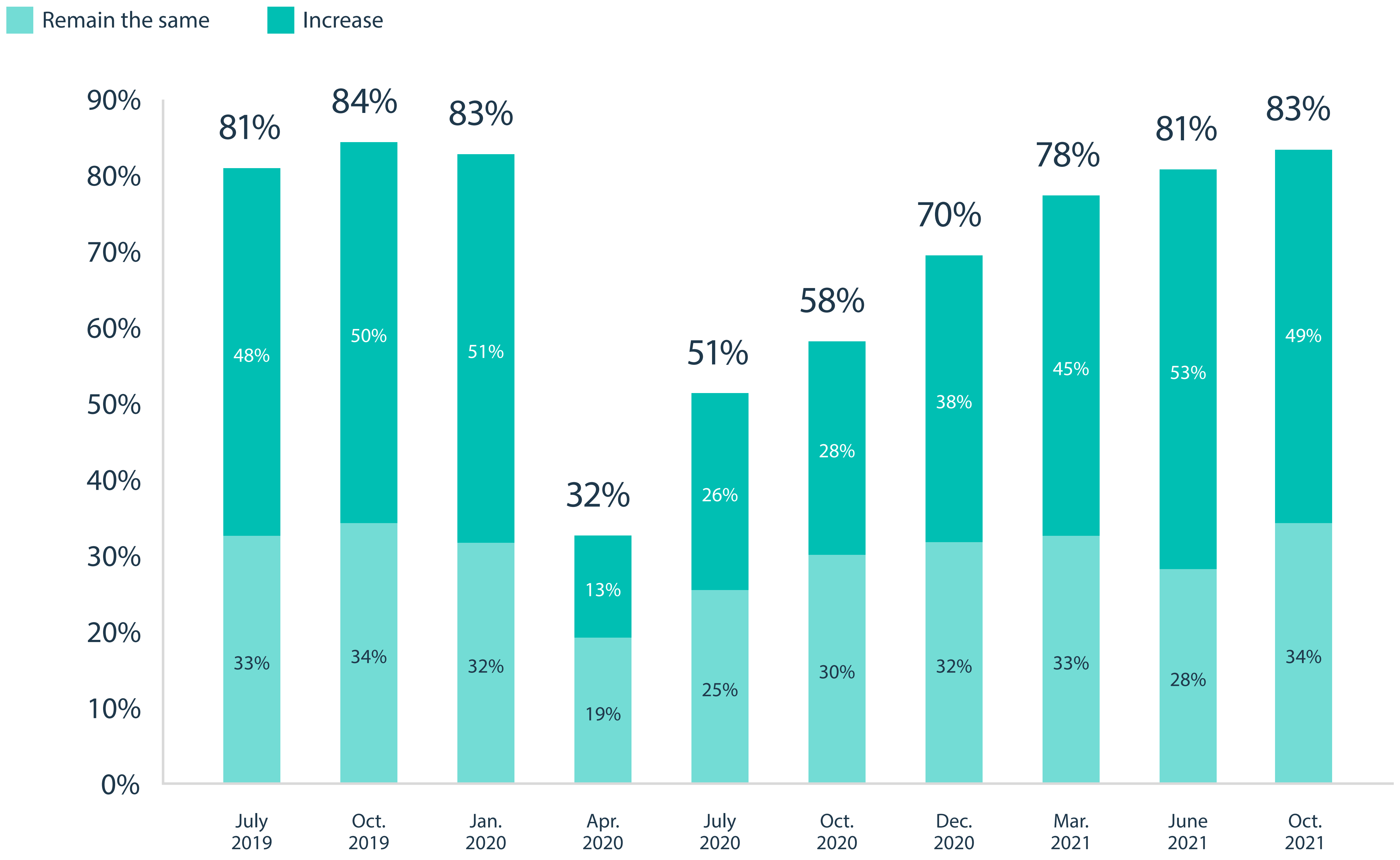
While business leaders' faith in the economy remains stable overall, it's a different story when it comes to their own sales outlook. The percentage of entrepreneurs who expect their sales to remain stable or improve has steadily increased since April 2020. It has now returned to pre-pandemic levels, thanks to the reopening of the economy, which will significantly improve the cash flow of businesses in 2022.

This trend can be seen in all regions and sectors, even in the goods-producing sector, despite its lower confidence in the country's economic outlook for 2022.

The uptick in sales expectations is especially pronounced in sectors that were hit hardest during the pandemic. Accommodation and food services businesses are the most optimistic, with 64% of them expecting to increase sales in 2022.

Figure 2: 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?



Base = All respondents.

Hiring intentions have improved but remain below pre-crisis levels

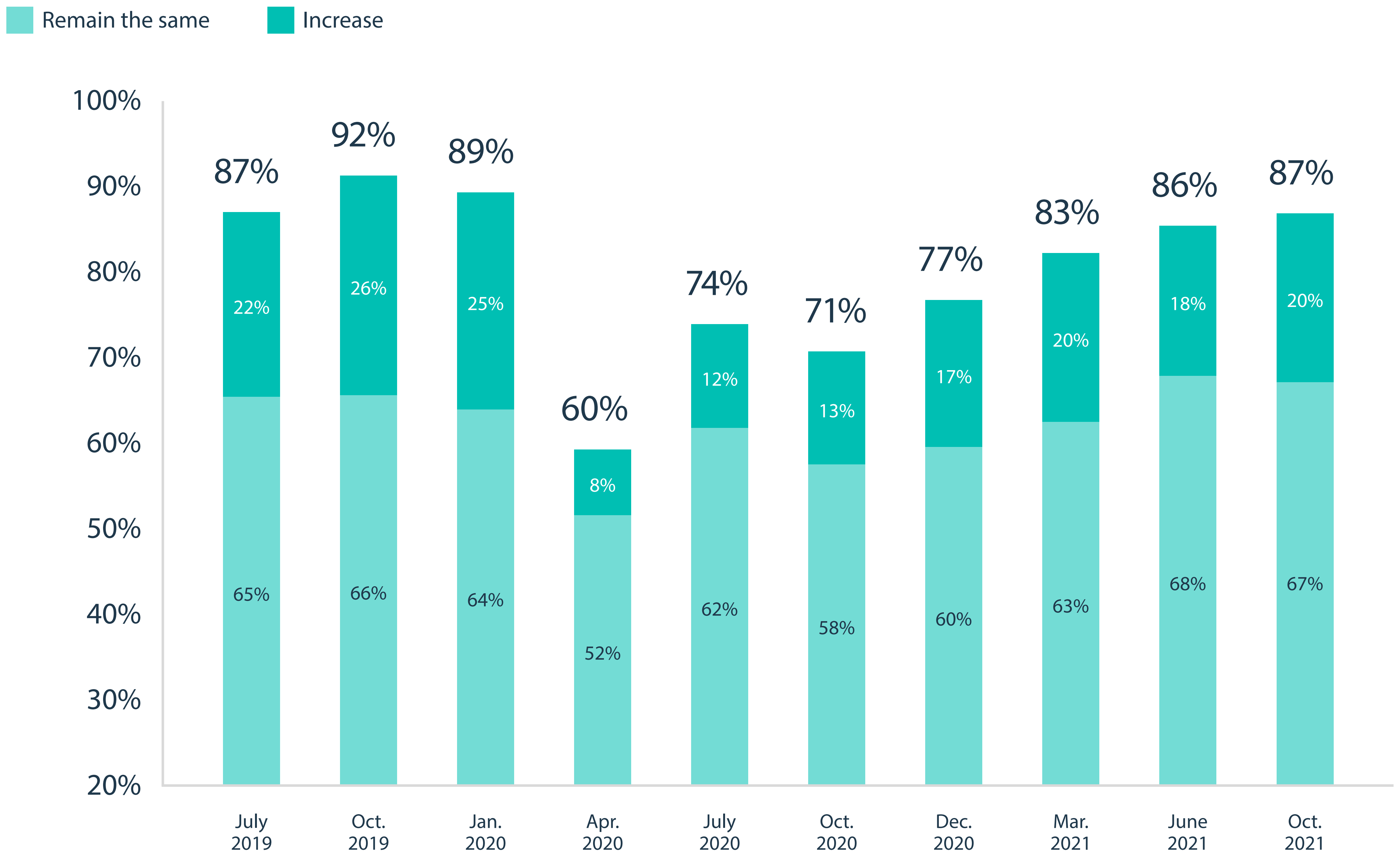
Hiring intentions continue to improve but remain below pre-crisis levels, despite the strong surge in demand. Business owners remain cautious about the pandemic situation and the acute labour shortage is making hiring difficult.

Hiring intentions are highest in Ontario, where they increased significantly during the summer reopening.

Across the country, the SME hiring outlook should continue to improve in the coming year, making the job market even more competitive in 2022, especially in the tourism sector and for mid-sized businesses.

Figure 3: Hiring intentions

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?



Base = All respondents.

Who will be hiring in 2022?

Businesses that will hire the most[1]

38%
Mid-sized businesses

34%
Exporters

30%
Accommodation and food services

27%
Construction

Businesses that will hire the least

14%
Business with one to four employees

13%
Businesses in rural areas

10%
Primary-sector businesses

[1] Percentage of companies intending to increase their number of employees.

Manufacturing hit hard by capacity pressure

Capacity pressure was slowly returning to normal in early 2021, as problems created by the first lockdowns were fading away. Then, in the summer, demand surged around the world as the recovery took hold, creating bottlenecks in global supply chains.

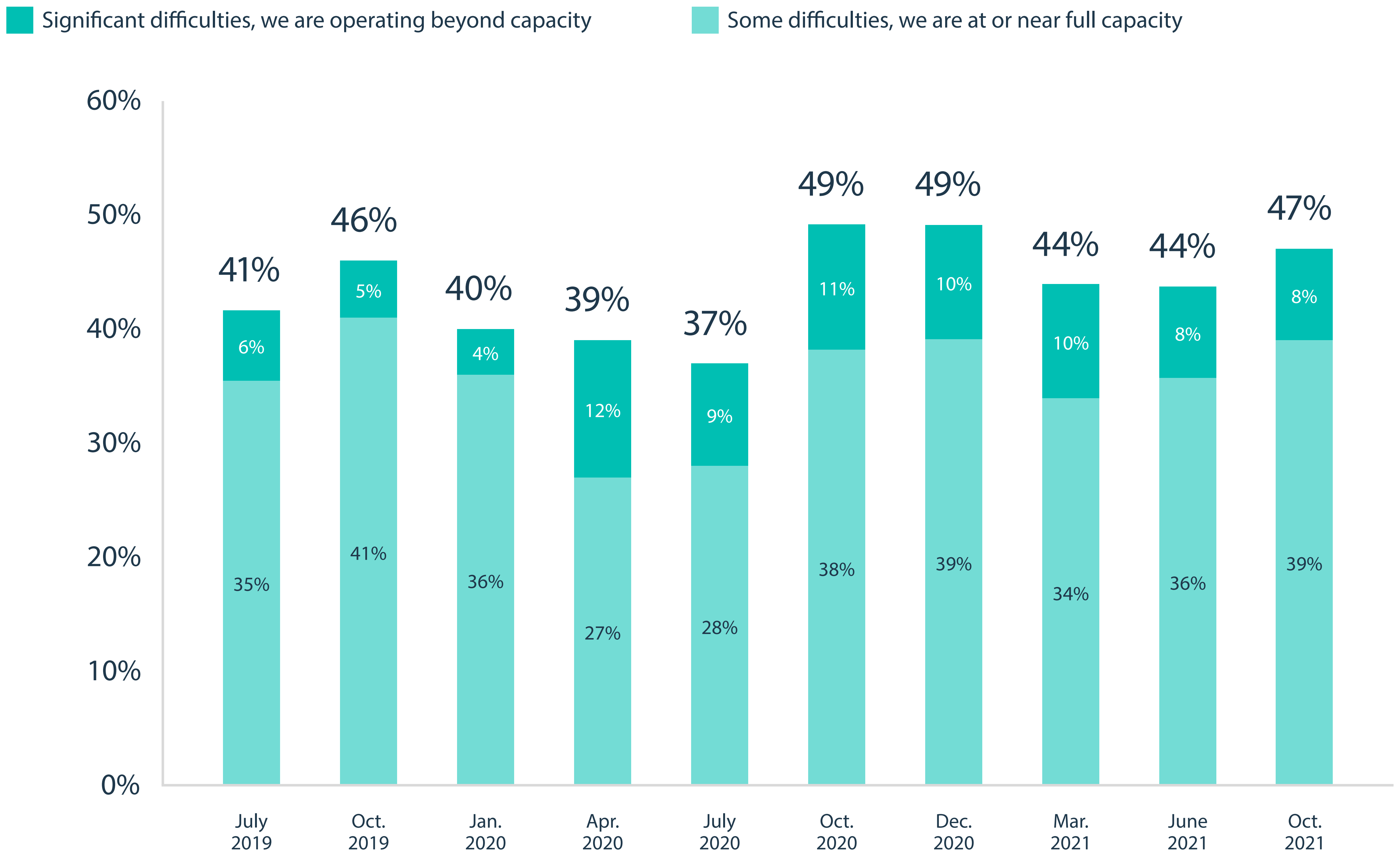
The story is different for manufacturing companies that were already facing capacity pressures in June 2021. Their situation was worsened by supply chain bottlenecks that piled up on top of existing shortages of goods such as semiconductors.

Most Canadian manufacturers reported facing record-high capacity pressure in October 2021 (58%) and June 2021 (56%), as they struggled to access raw materials and workers. These are the highest proportions we've seen since we launched this survey in summer 2019.

Capacity pressure is expected to remain high in 2022, explaining why manufacturers are less optimistic about 2022 than they were about recent months.

Figure 4: Capacity pressure

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



Base = All respondents.

Labour shortages affect over half of businesses

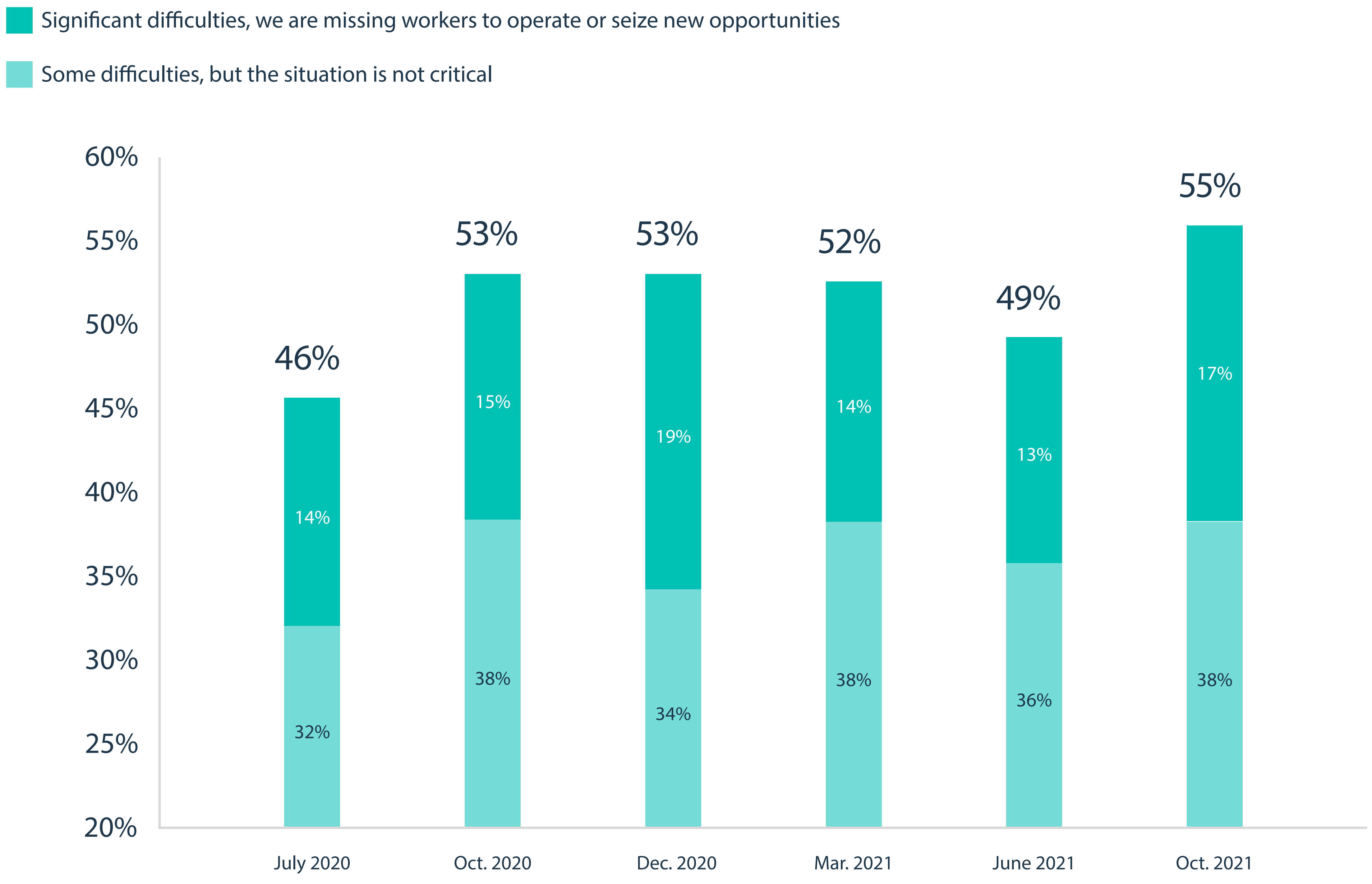
Labour scarcity is being felt across the country. Over half of businesses have difficulties hiring qualified workers. Small businesses (72%), mid-sized businesses (74%) and those in accommodation and food services (80%) are more likely to be affected by labour shortages. Many hotels and restaurants are looking for workers in a labour market that has fully recovered and where 20% of those who lost their jobs have changed fields (see link to the study below).

Our survey reveals that businesses will find it increasingly difficult to fill positions in 2022 as a result of an aging population and of lower immigration due to COVID-19. The Atlantic provinces are expected to suffer the most from labour shortages.

Download our study, How to Adapt to the Labour Shortage Situation, for more details on the labour shortage in Canada.

Figure 5: Hiring difficulties

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



Base = All respondents.

Investment intentions

Investment intentions are improving

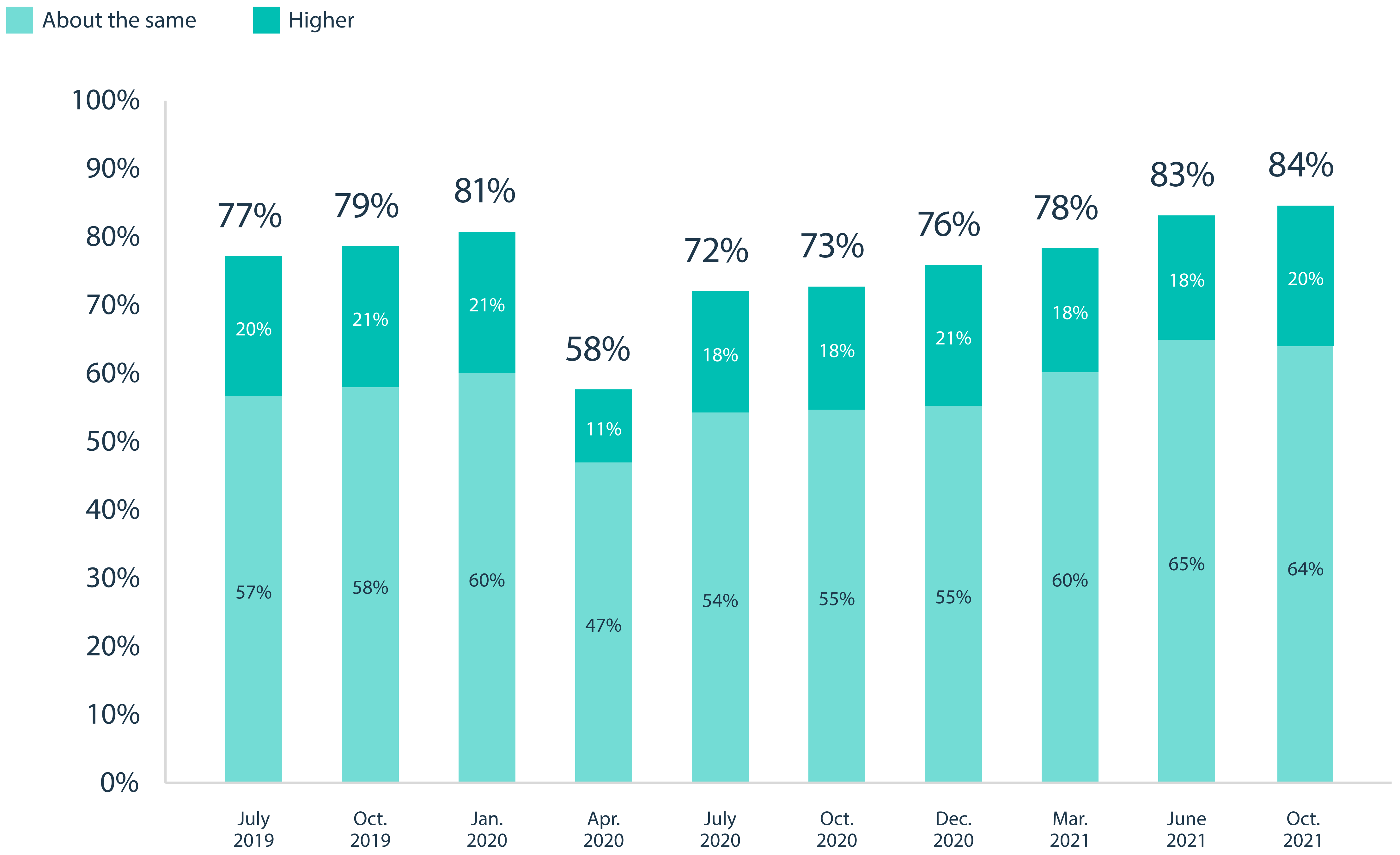
Driven by strong confidence in the economy, business investment intentions have improved in 2021 and are now slightly above pre-crisis levels.

Investment intentions are highest among manufacturing businesses that export (69% will invest more), which are looking to become more efficient to respond to capacity pressure.

Investment intentions are expected to remain high in 2022, as businesses will benefit from strong Canadian and foreign household demand.

Figure 6: Investment intentions

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



Base = All respondents.

Who will invest in 2022?

Businesses that will invest the most[2]

69%
Manufacturing business that export

33%
Mid-sized businesses

25%
Businesses in rural areas

Businesses that will invest the least

17%
Micro businesses

10%
Wholesalers

13%
Businesses in Alberta

[2] Percentage of companies planning to invest more.

Businesses invest to become more efficient

The top investment goals remain improving efficiency (first) and increasing sales (second), but introducing new products (third) joined them on the podium in October.

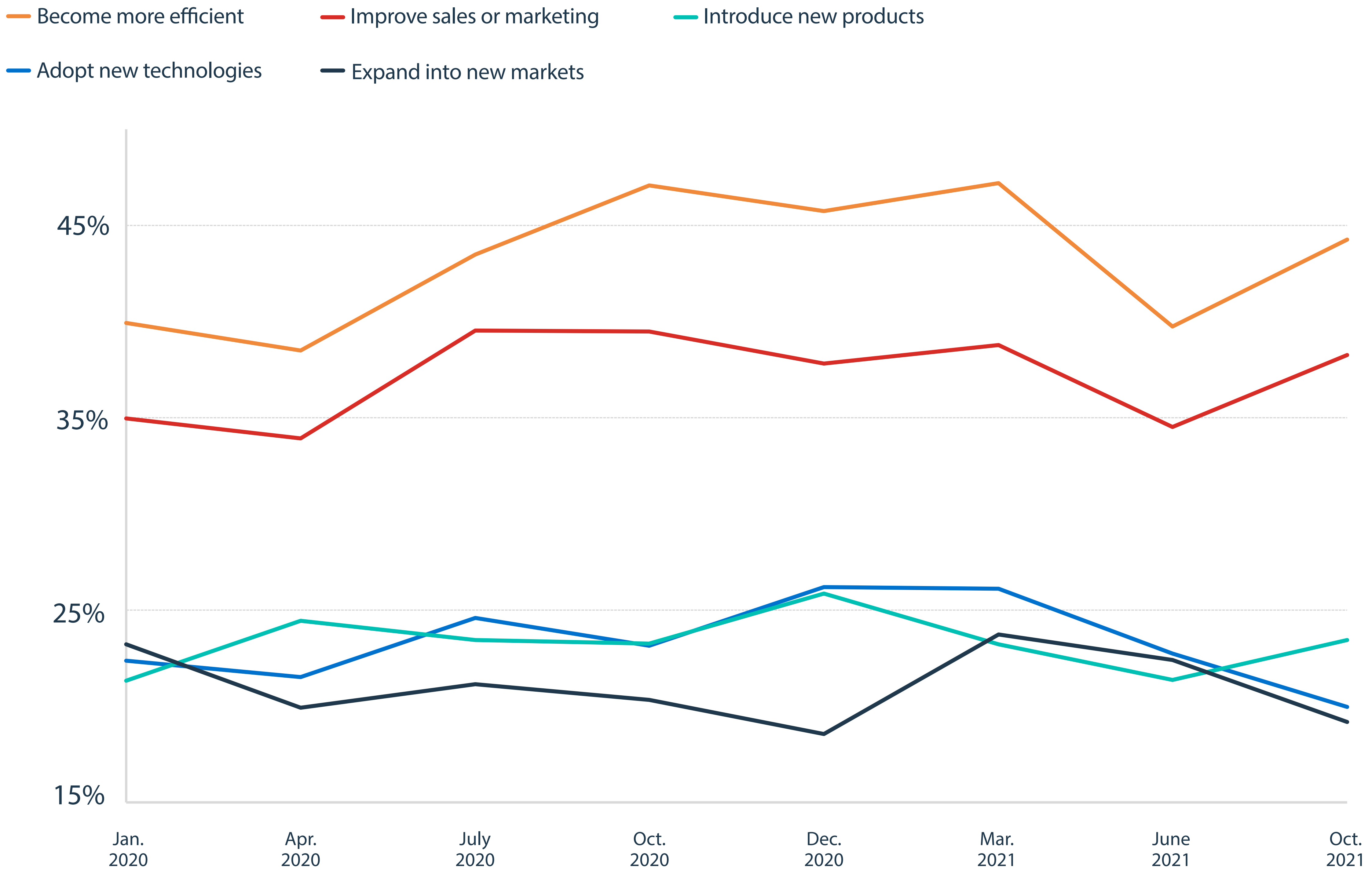
Businesses in retail and accommodation and food services are the ones pushing hardest to introduce new products and services (39% and 38% on average in June and October 2021). It appears that even though the economy has reopened, demand remains lower in this sector, spurring businesses to innovate to attract customers.

Facing strong demand, manufacturing businesses are focusing mostly on efficiency (73%).

Micro businesses are still less likely to adopt new technologies (19%) than mid-sized businesses (32%) are. This difference has been identified in previous years and seems to be persistent.

Figure 7: Top five investment goals

What are your main investment goals for the next 12 months?



Base = Respondents planning to invest.

The obstacles to investment are less pronounced

One in three businesses are limiting their investments because of economic uncertainty. This is a marked improvement from April 2020, when it was an obstacle for half of all business owners.

Successful vaccination campaigns reduced the risk of new lockdowns and improved stability for businesses. That is also helping relieve other obstacles to investment. A decreasing proportion of entrepreneurs are mentioning low cash flow and low demand as important barriers. Our fall 2021 survey also shows a rising proportion of businesses leaders saying nothing will limit investment (14% vs 6% in April 2020).

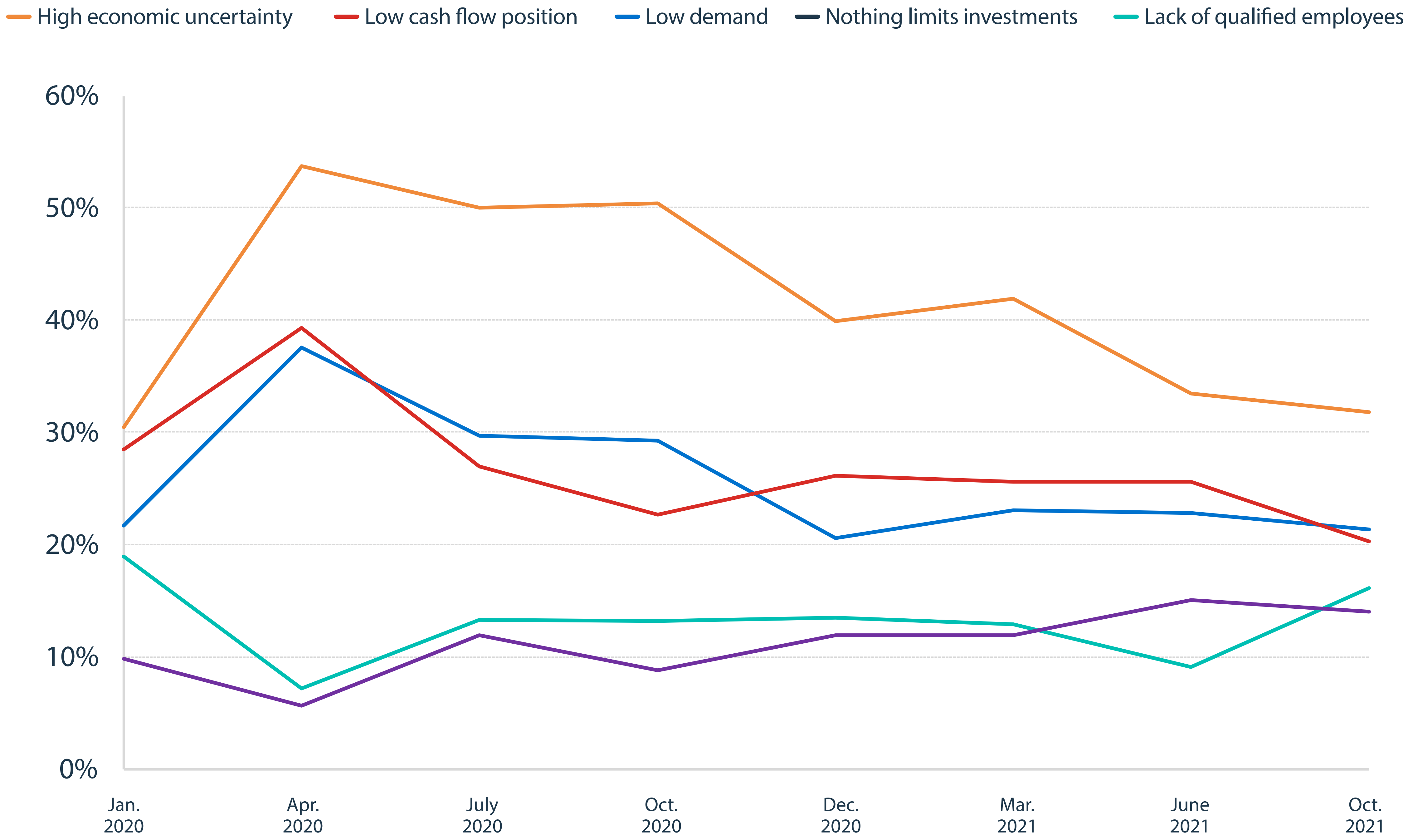
On the other hand, hiring difficulties are beginning to have an effect on investment intentions. The proportion of business leaders saying it is a major obstacle has more than doubled since April 2020. That is particularly true for mid-sized companies, where one in four business (27%) are delaying their investments due to a lack of personnel.

Factors limiting investment to watch in 2022:

- labour shortages
- inflation and supply chain disruptions, which could create cash flow problems
- traditional uncertainty related to inflation and supply chains

Figure 8: Top five factors limiting investment

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



Base = All respondents

Investment intentions are improving in every region

Investment intentions in British Columbia and the North, and in the Prairies, fell more drastically during the crisis than those in other regions. They have since improved significantly in British Columbia, thanks to the province's strong recovery. High energy prices have raised investment intentions to pre-crisis levels in the Prairies, but the region continues to lag behind the rest of the country.

Diverse economies in Ontario and Quebec buffered some of the worst effects of the crisis in 2020. The two provinces continue to follow a similar recovery path. Investment intentions in these two provinces have now fully recovered.

Investment intentions for 2022 are highest in Atlantic Canada and in British Columbia and the North. Atlantic Canada is seeing a lift from high energy prices and the full reopening of Nova Scotia on October 4, which coincided with our survey.

Figure 9: Investment intentions, by region

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

Base = All respondents.

Table 1: : Key indicators, by province

October 2021 (%) and variations since December 2020 (percentage points)

	Canada	Atlantic provinces	Quebec	Ontario	Prairies	B.C. and North
Confidence in the economy (improve + remain the same)	74% (+12 pts)	79% (+20 pts)	80% (+13 pts)	74% (+15 pts)	68% (+13 pts)	72% (+0 pt)
Sales outlook (increase + remain the same)	83% (+13 pts)	79% (+4 pts)	85% (+7 pts)	81% (+15 pts)	85% (+22 pts)	84% (+12 pts)
Hiring intentions (increase + remain the same)	87% (+10 pts)	86% (+2 pts)	87% (+11 pts)	88% (+11 pts)	87% (+15 pts)	85% (+5 pts)
Capacity pressure (those with difficulties)	47% (-2 pts)	52% (-1 pt)	49% (-16 pts)	45% (-4 pts)	45% (+9 pts)	49% (+6 pts)
Hiring difficulties (those with difficulties)	55% (+1 pt)	63% (+6 pts)	56% (-11 pts)	58% (+8 pts)	47% (-3 pts)	51% (+3 pts)
Investment intentions (increase + remain the same)	84% (+8 pts)	92% (+12 pts)	84% (+8 pts)	82% (+7 pts)	81% (+7 pts)	90% (+11 pts)

Table 2: Top barriers to investment and top investment objective (October 2021)

	Canada	Atlantic provinces	Quebec	Ontario	Prairies	B.C. and North
Top barrier to investment	Uncertainty (31%)	Uncertainty (27%)	Uncertainty (31%)	Uncertainty (33%)	Uncertainty (32%)	Uncertainty (28%)
Second-most significant barrier to investment	Low demand (21%)	Labour shortage (17%)	Labour shortage (27%)	Low demand (23%)	Low cash flow (24%)	Low cash flow (25%)
Top investment objective	Become more efficient (44%)	Become more efficient (43%)	Improve sales (39%)	Improve sales (44%)	Become more efficient (49%)	Become more efficient (54%)

Investment intentions of micro businesses are above pre-crisis levels

The investment intentions of micro businesses fully recovered in December 2020 and are now above pre-crisis levels, despite remaining lower than those of larger businesses. This result is due to higher intentions among microenterprises (compared to pre-crisis levels) to invest in machinery and equipment.

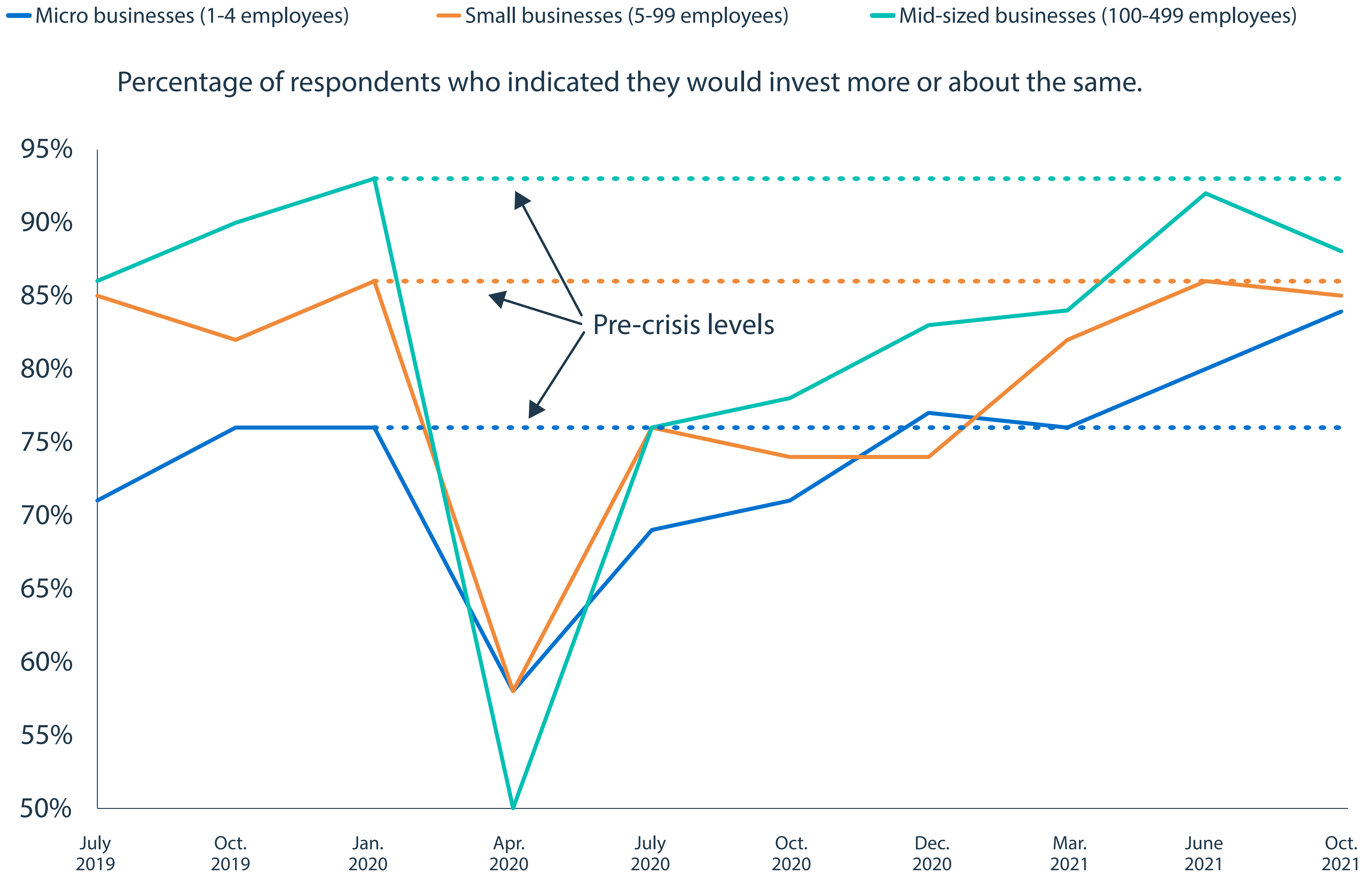
The spread between micro businesses and mid-sized businesses is significantly smaller now than it was before the pandemic.

It seems that larger businesses are more sensitive to economic uncertainty than micro businesses when it comes to investment decisions. The intentions of mid-sized businesses to invest in non-residential buildings and machinery fully recovered, but those to invest in intangible assets are still below pre-crisis levels.

The investment intentions of small businesses fully recovered and now approximate their historical averages.

Figure 10: Investment intentions, by company size

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



Base = All respondents.

Investment intentions in intangible assets remain below pre-pandemic levels

Historically, more businesses tend to invest in intangibles than in buildings or machinery. In 2022, intangibles will remain the most popular investment, but other categories will follow closely.

Since the crisis, intentions to invest in buildings and machinery have recovered and are now above pre-crisis levels, while intangibles have yet to fully recover.

With improving efficiency being the top investment goal of entrepreneurs, investment intentions in machinery and equipment are expected to remain high in 2022. Additionally, persistent labour shortages will push businesses to pursue more automation.

Figure 11: Investment intentions, by asset type

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

Base = All respondents.

Investment in intangible assets is mostly in software

We added a new question this year to better understand investments in intangible assets.

We find that most businesses investing in intangibles invest in software. Businesses in technology invest the most in software (88%) while those in accomodation and food services invest the least in it (18%).

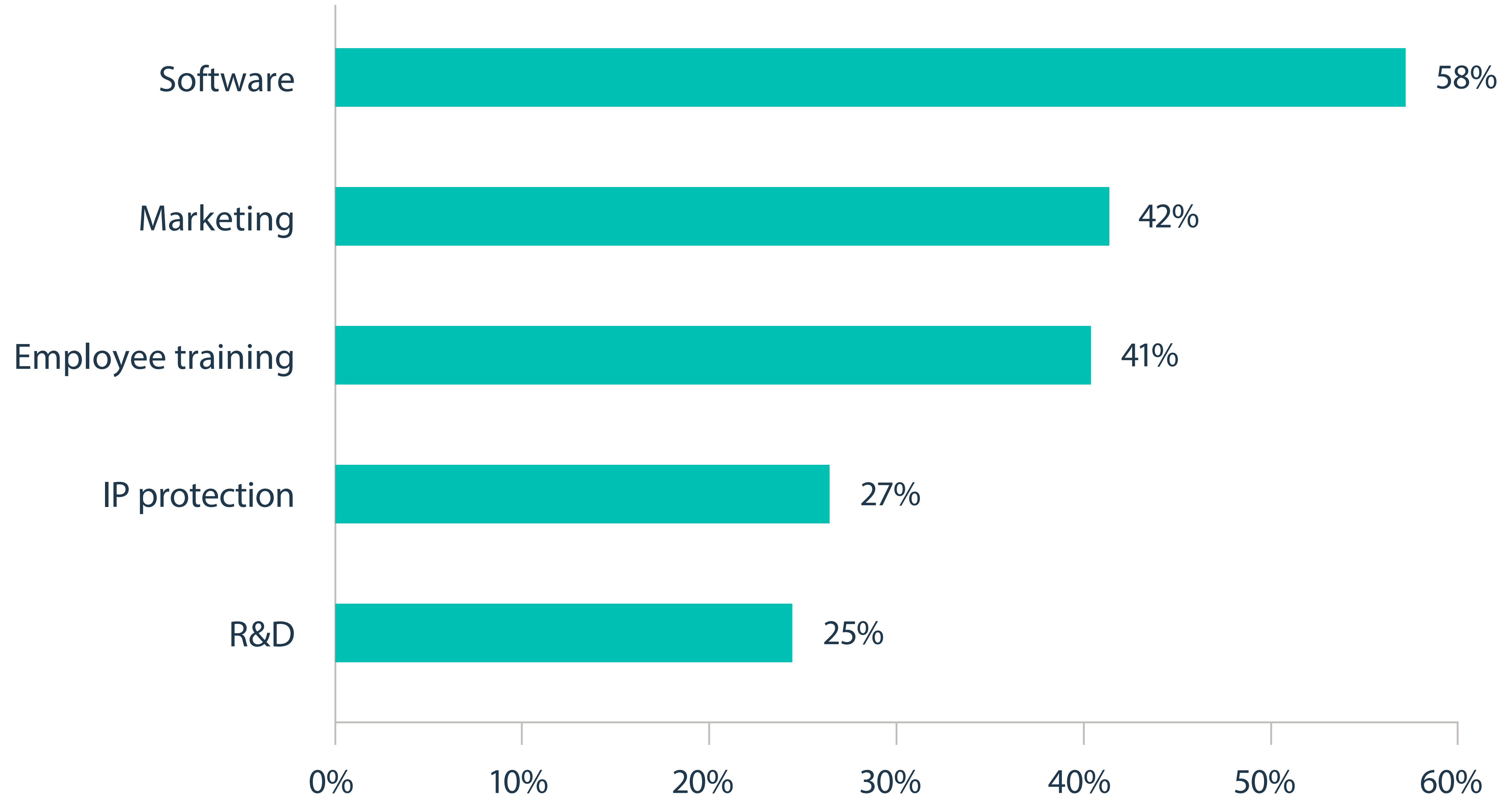
Manufacturing businesses invest mostly in intellectual property (IP) protection (55%) and in employee training (69%).

Mid-sized businesses invest more in research and development (R&D) (42%) and in employee training (64%) than smaller businesses do (20% and 34%, respectively). This is consistent with our previous finding that mid-sized businesses are more likely to adopt new technologies.

Exporting businesses invest more in R&D (49%) than those that do not export (20%). They also invest more in IP protection (43% vs. 23%). Innovation seems to be the key to exporting.

Figure 12: Investment in intangible assets

You mentioned your company will invest in intangible assets. More specifically, in which category will you spend money?



Base = Respondents investing in intangibles.

Methodology and definitions

Methodology

This study is based on an online survey of business owners and decision-makers who are part of Delvinia's AskingCanadians panel.

Survey dates

Wave 1: July 12 to July 22, 2019. n = 1,022

Wave 2: October 1 to October 17, 2019. n = 1,000

Wave 3: January 15 to February 7, 2020. n = 1,058

Wave 4: April 7 to April 16, 2020. n = 1,000

Wave 5: July 6 to July 17, 2020. n = 1,002

Wave 6: September 24 to October 7, 2020. n=1,000

Wave 7: December 3 to December 18, 2020. n=1,001

Wave 8: March 1 to March 14, 2021. n=1,000

Wave 9: May 31 to June 14, 2021. n=1,010

Wave 10: October 4 to October 15, 2021. n=992

Margin of error

The maximum margin of error for a probability sample of 1,000 respondents is ± 3.1 percentage points, 19 times out of 20. As this survey is based on a non-probability sample, these numbers should be interpreted with caution.

Data processing and analysis

BDC's Economic Research and Analysis team performed all data processing and analysis.

Weighting factors

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.

Change in methodology

Previous studies presented the results of this survey as a "balance of opinion," which is the difference between the proportion of businesses that have positive and negative opinions. This study shows the percentage of positive and neutral opinions, making it easier to present more detailed information.

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, 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.

Business characteristics used in this report

Sectors

- Accommodation and food services
- Arts, entertainment and recreation
- Construction
- Manufacturing
- Primary sectors (agriculture, fishing, mining,oil and gas, etc.)
- Real estate, rental and leasing
- Retail
- Services: Professional, scientific and technical; finance and insurance
- Services: Other private services
- Technology, information and cultural industries
- Transportation and warehousing
- Wholesale trade

Regions

- British Columbia and North
- Prairies (Alberta, Saskatchewan and Manitoba)
- Ontario
- Quebec
- Atlantic provinces (New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador)

Business size (number of employees)

- Micro businesses (one to four employees)
- Small businesses (five to 99 employees)
- Mid-sized businesses (100 to 499 employees)

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