

The Canadian Chamber of Commerce, in collaboration with Deloitte Canada, identified insights from the Q2 2021 Canadian Survey on Business Conditions; this document summarizes these findings

Background

The Canadian Chamber of Commerce (CCC), in collaboration with **Deloitte Canada**, identified insights on the last five iterations of the *Canadian Survey on Business Conditions*

The most recent survey was conducted by **Statistics Canada** in **Q2 2021**. The aim was to collect data to measure the impact COVID-19 is having on Canadian businesses as the pandemic continues to disrupt the economy



Overview of Findings

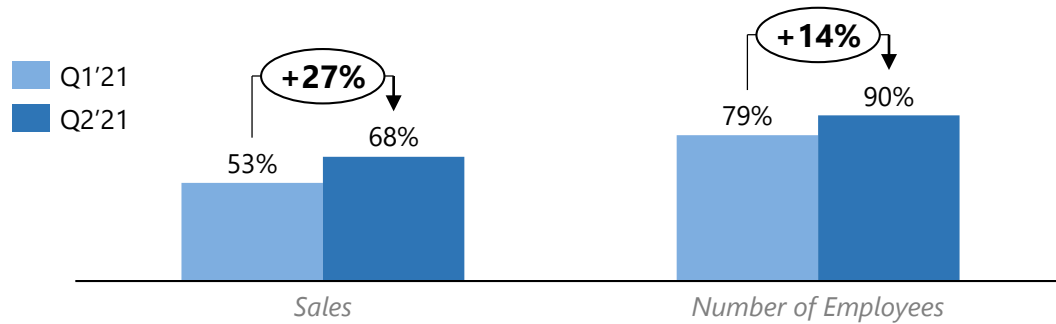
As part of the analysis conducted, Deloitte and the CCC have identified **five key themes** and supporting insights, including:

- 1 | Canadian businesses are **increasingly optimistic** about their **short and long-term outlooks**, with some variation by business size and sector
- 2 | Businesses appear to be **mitigating supply availability challenges** and **rising input costs** through **supply chain diversification** activities and **price increases**
- 3 | While most businesses do not see access to financing as an obstacle in the short-term, continued **cashflow-related challenges may be contributing to degradation of credit ratings**
- 4 | As businesses continue their journey into the **brave new digital world**, they are faced with balancing short-term needs on topics like **cyber security** with the **long-term implications of technologies like 5G**
- 5 | Canadian firms could **seek further global growth** by thinking differently about the types of **international activities** they focus on, the **countries** they do business with, and the **channels** used to access markets

Canadian businesses are increasingly optimistic about their short and long-term outlooks, with some variation by business size and sector

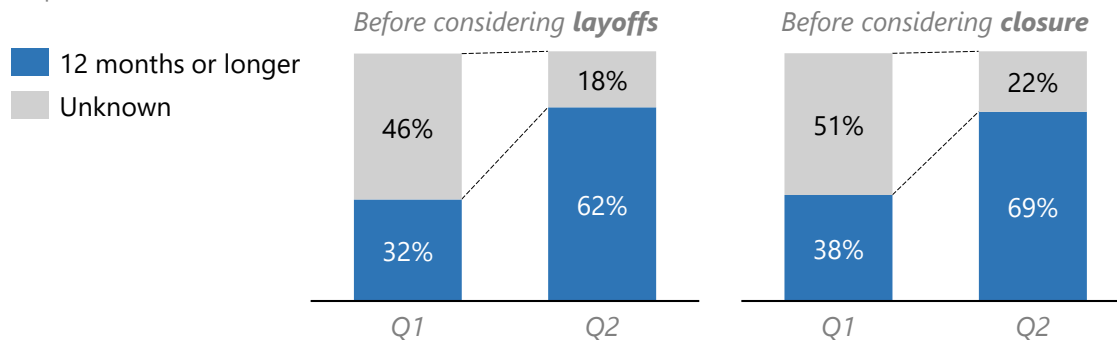
IN THE SHORT-TERM, THE MAJORITY OF BUSINESSES ARE OPTIMISTIC ABOUT THE TOPLINE AND EXPANDING THEIR WORKFORCES

Over the next three months, how are each of the following expected to change?
% of businesses that answered 'Stay about the same' or 'Increase'



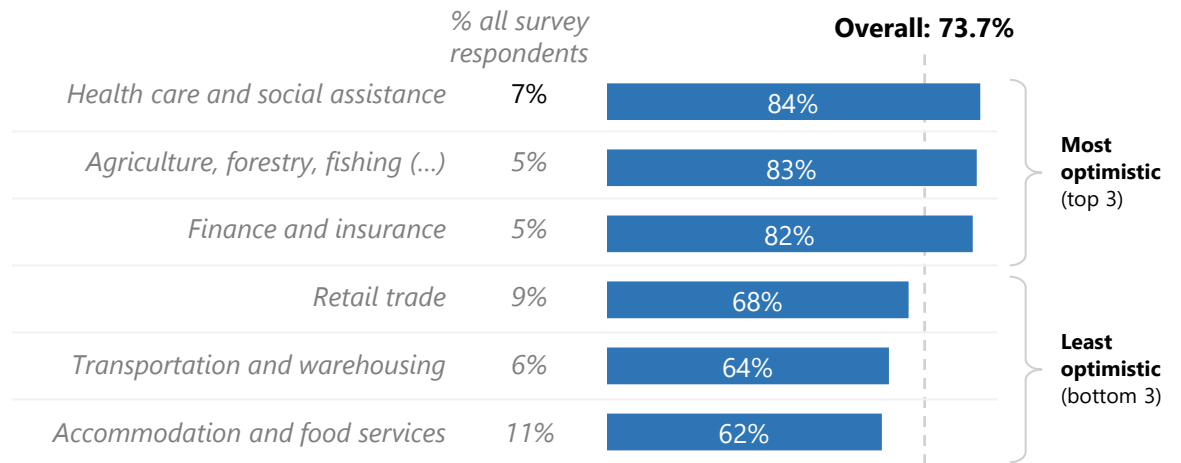
UNCERTAINTY ON HOW LONG BUSINESSES COULD AVOID LAYOFFS OR CLOSURES REPLACED WITH INCREASED OPTIMISM THAT THEY CAN GO A YEAR OR MORE WITHOUT CONSIDERING THESE MEASURES

How long can this business continue to operate at its current level of revenue and expenditures before having to consider the following options?
% respondents



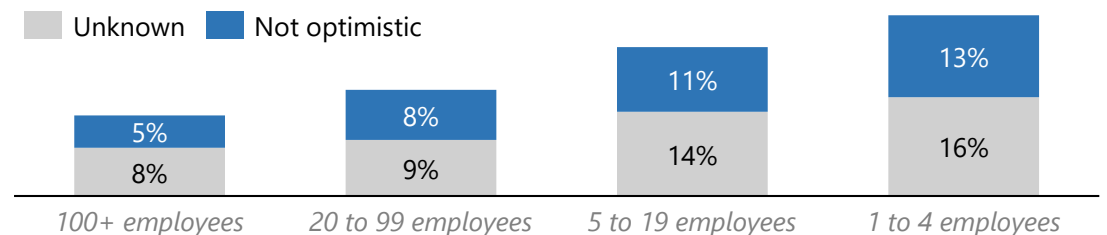
MAJORITY OF BUSINESSES ARE FEELING OPTIMISTIC ABOUT FUTURE OUTLOOK OVER THE NEXT 12 MONTHS

Over the next 12 months, what is the future outlook for this business?
% of businesses that answered 'Somewhat optimistic' or 'Very optimistic'



HOWEVER, IT APPEARS SMALLER BUSINESSES ARE RELATIVELY LESS OPTIMISTIC COMPARED TO THOSE WITH 100+ EMPLOYEES

Over the next 12 months, what is the future outlook for this business?
% of businesses that answered 'Somewhat optimistic' or 'Not optimistic'

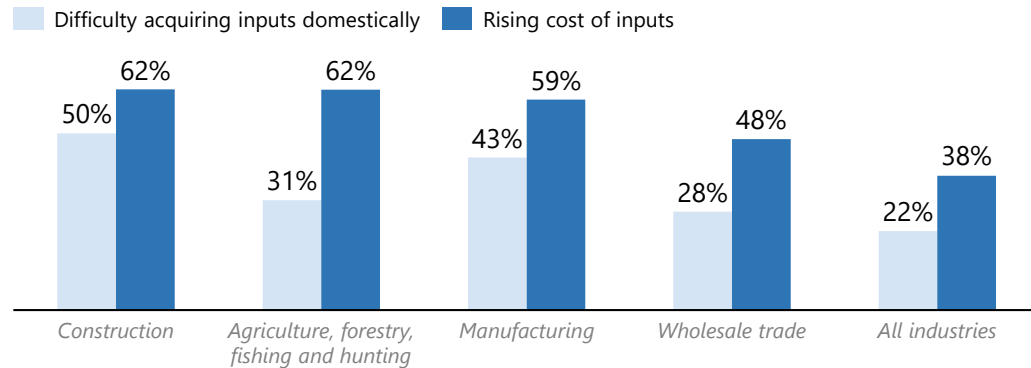


Businesses appear to be mitigating supply availability challenges and rising input costs through supply chain diversification activities and price increases

BUSINESSES ACROSS SEVERAL INDUSTRIES ARE EXPERIENCING CHALLENGES WITH AVAILABILITY AND COSTS OF INPUTS...

Over the next three months, which of the following are expected to be obstacles for this business?

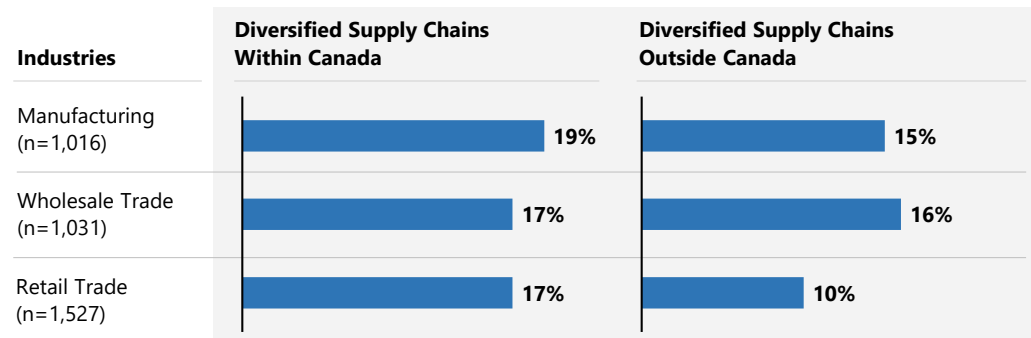
% of respondents facing difficulty acquiring inputs or rising the cost of input, by industry



...AND MAY BE PERMANENTLY DIVERSIFYING THEIR SUPPLY CHAINS TO MITIGATE THESE CHALLENGES

Likelihood of measures being permanently adopted once the pandemic is over

% of respondents that have permanently diversified supply chains, by industry

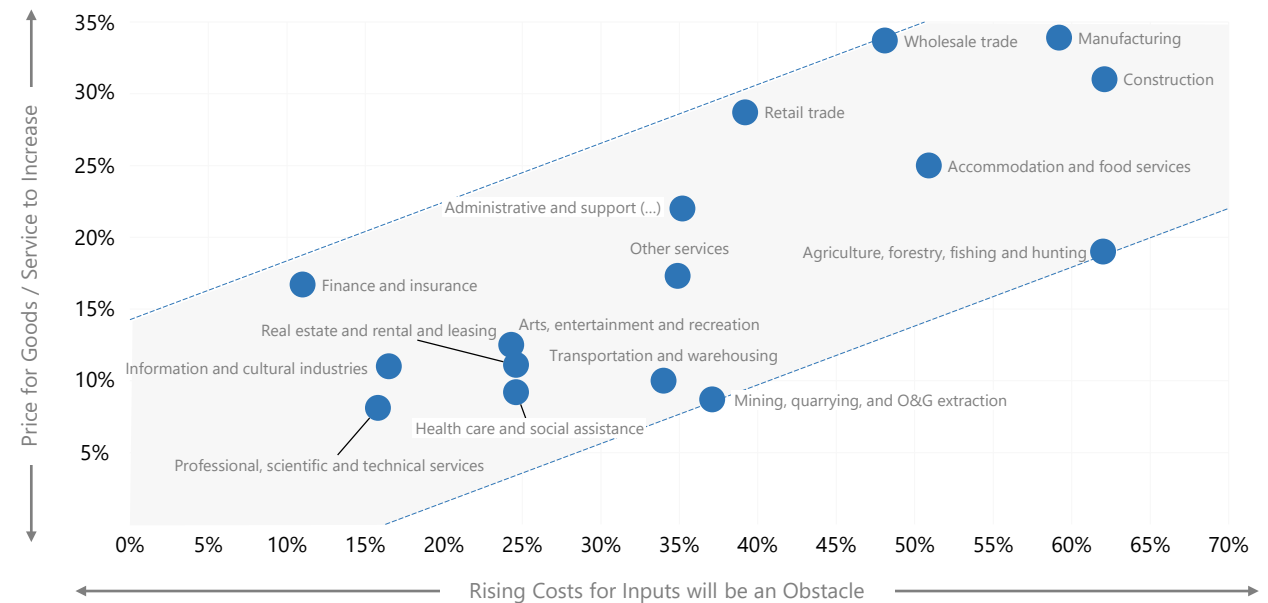


INDUSTRIES EXPERIENCING RISING INPUT COSTS ARE MORE LIKELY TO INCREASE SELLING PRICES OF GOODS / SERVICES IN COMING MONTHS

Two questions: (1) Over the next three months, which of the following are expected to be obstacles for this business?; and (2) Over the next three months, how are each of the following expected to change for this business?

X-axis: % of respondents that said they expect rising costs of inputs to be an obstacle in the next 3 months

Y-axis: % of respondents that said they expect selling prices for their goods / services will increase in next 3 months



The **strong positive association** between the industries experiencing rising input costs and those expecting the selling prices of their products / services to increase **may be an indication that a portion of the incremental costs** businesses are facing **may be passed to end-customers**

While most businesses do not see access to financing as an obstacle in the short-term, continued cashflow-related challenges may be contributing to degradation of credit ratings

THE MAJORITY OF FIRMS DO NOT SEE OBTAINING FINANCING AS AN OBSTACLE. FOR THOSE WHO DO, THE 'REOPENING OF THE ECONOMY' MAY HELP TO RESOLVE THEIR ISSUES

Three questions: **(1)** Over the next three months, which of the following are expected to be obstacles for this business?; **(2)** Does this business or organization have the ability to take on more debt?; and **(3)** For which of the following reasons is this business or organization unable to take on more debt?

% of all respondents

15%

Of businesses would consider taking on additional debt financing but are unable to do so

Share of the 15%



47% Cannot take on more debt due to **cash flow**



56% Cannot take on more debt due to **uncertainty in future sales**



22% Believe their request for additional debt would be **turned down**

SMALL BUSINESSES ARE DISPROPORTIONATELY AFFECTED BY FINANCING ISSUES

Two Questions: **(1)** Over the next three months, which of the following are expected to be obstacles for this business? and **(2)** Has this business's or organization's credit rating been negatively affected by the pandemic?

% of all respondents

22%

Of **small businesses** expect challenges with maintaining sufficient cash flow or managing debt compared with only **9% of large businesses** expecting the same

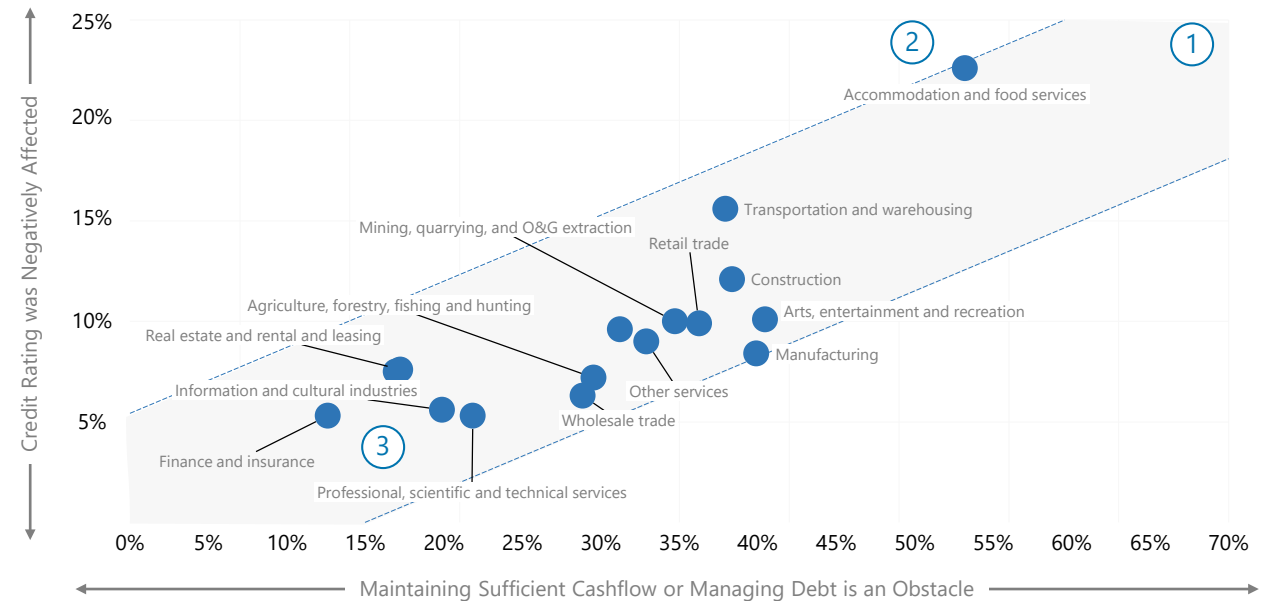
Small business were **250%** more likely to see their **credit ratings negatively impacted by the pandemic** compared to larger organizations

THOSE INDUSTRIES EXPERIENCING CHALLENGES WITH MANAGING DEBT ARE MORE LIKELY TO SEE THEIR CREDIT RATINGS IMPACTED AS A RESULT

Two questions: **(1)** Does this business expect maintaining sufficient cash flow or managing debt will be an obstacle in the next 3 months?; and **(2)** Has this businesses' credit rating been negatively affected by the pandemic?

X-axis: % of respondents that said they expect maintaining sufficient cashflow or managing debt to be an obstacle

Y-axis: % of respondents that said their businesses' credit rating has been negatively affected by the pandemic



- ① Positive association between the two variables indicates that challenges with **managing cashflow and debt levels may be contributing to negative impacts on businesses' credit ratings**
- ② **Accommodation and Food Services** appears most likely to be experiencing cashflow related challenges and appear more likely to see negative impacts to their credit ratings as a result of these challenges
- ③ Businesses within **Finance and Insurance** and **Professional Services** appear least likely to experience challenges with maintaining cashflow or managing debt, which may be a contributing factor in explaining the lessor impact to their ratings

As businesses continue their journey into the brave new digital world, they are faced with balancing short-term needs on topics like cyber security with the long-term implications of tech. like 5G

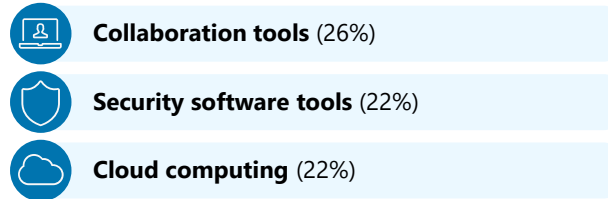
BUSINESSES CONTINUE THEIR DIGITALIZATION JOURNEYS WITH MANY ADOPTING NEW TECHNOLOGIES IN THE COMING NEXT 12 MONTHS

Over the next 12 months, does this business plan to adopt or incorporate any of the following technologies?
% of respondents

Top three new technologies businesses plan to adopt

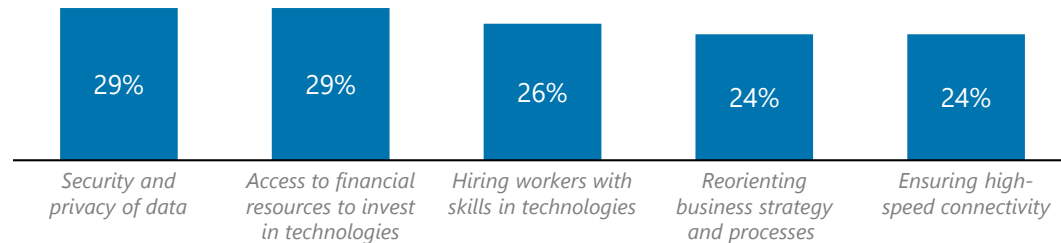
41%

of businesses plan to implement at least one new technology in the next 12 months



ON THIS JOURNEY, BUSINESSES ANTICIPATE A VARIETY OF TECHNICAL AND NON-TECHNICAL CHALLENGES WITH ADOPTING TECHNOLOGIES

Using a scale from 1 to 5, where 1 means "not at all challenging" and 5 means "extremely challenging", how challenging are the following for this business or organization when adopting or incorporating technologies?
% of respondents that answered 'Somewhat challenging' or 'Extremely challenging'



Half of businesses in **Agriculture, forestry, fishing and hunting** (51%) report high-speed connectivity as challenge for adopting new technologies. Businesses with **less than 20 employees** appear **3x more likely** to see financing investment in technologies as **extremely challenging** compared to those with 100 or more employees

CYBERSECURITY REMAINS TOP-OF-MIND FOR MANY LARGER BUSINESSES AS SECURITY INCIDENTS INCREASED YEAR OVER YEAR

Two questions: **(1)** Was this business or organization impacted by more, less or approximately the same number of cyber security incidents in 2020 compared to 2019?; and **(2)** Over the next 12 months, does this business plan to adopt or incorporate any of the following technologies?
% of respondents



16%

of businesses with 100 or more employees saw an **increase in cyber security incidents** in 2020



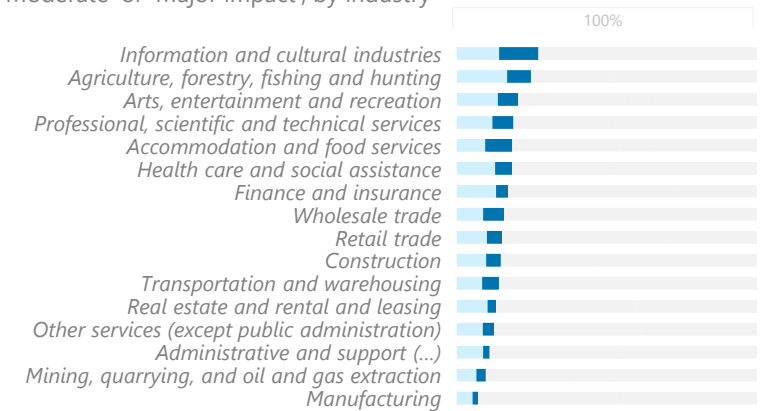
38%

of businesses with 100 or more employees plan to **adopt new cyber security tools** in next 12 months

ANTICIPATED IMPACT OF 5G VARIES ACROSS INDUSTRIES BUT REMAINS SURPRISINGLY LOW

Over the next 12 months, how much will 5G availability impact the operations or services of this business?
% of businesses that answered 'Moderate' or 'Major impact', by industry

Businesses within **Information and Cultural Industries and Agriculture** appear most likely to expect impact of 5G, though the average across all industries remains at only **16%**



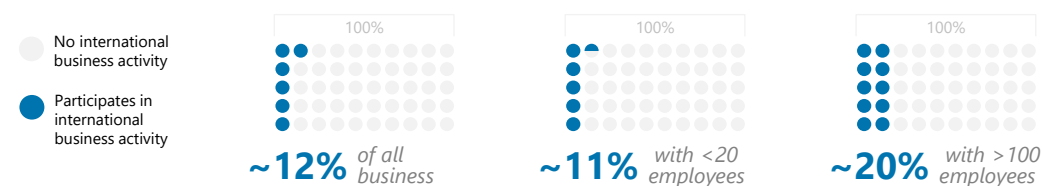
Legend: Light blue = A moderate impact, Dark blue = A major impact

Canadian firms could seek further global growth by thinking differently about the types of international activities they focus on, the countries they do business with, and the channels used to access markets

GLOBAL GROWTH NOT SEEN AS TOP PRIORITY FOR BUSINESSES OF ALL SIZES, WITH AN AVERAGE OF ONLY 12% PARTICIPATING...

Over the next 12 months, what type of international activity does this business plan to focus on?

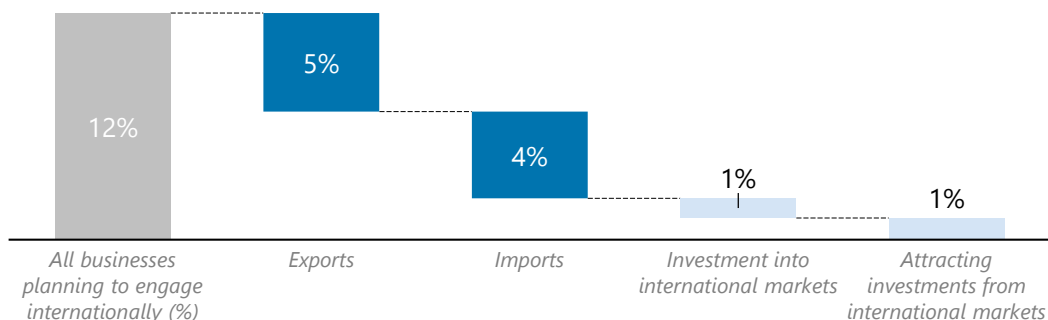
% of respondents that plan to engage in international business activity



...OF THE ~12% PARTICIPATING IN INTERATIONAL BUSINESS ACTIVITIES, IMPORTS AND EXPORTS REMAIN THE PRIMARY FOCUS

Over the next 12 months, what type of international activity does this business plan to focus on?

% of respondents that plan to engage in international business activity, by activity type

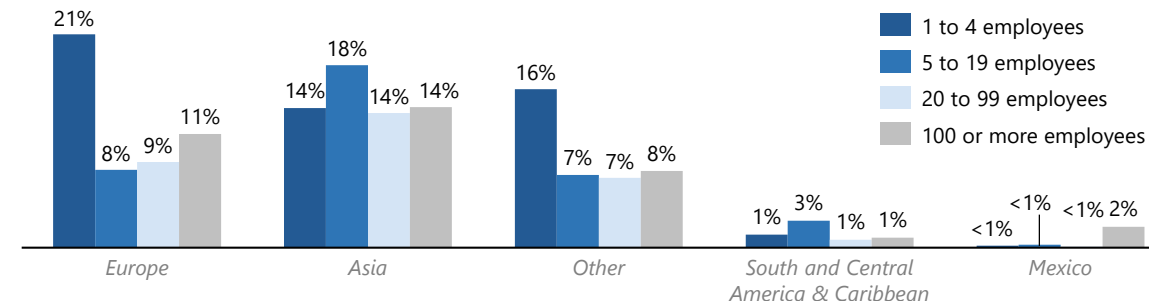


Businesses in **Information and Cultural Industries** are **5x more likely to be seeking investments from international markets** (5.5%) compared to average (1.1%) – this is likely driven by Canadian technology firms seeking foreign investment

WHILE THE U.S. REMAINS THE TOP DESTINATION (55%) FOR TRADE, SMALLER BUSINESSES APPEAR TO BE MORE ACTIVE IN OTHER REGIONS

Over the next 12 months, which international market does this business primarily plan to focus on?

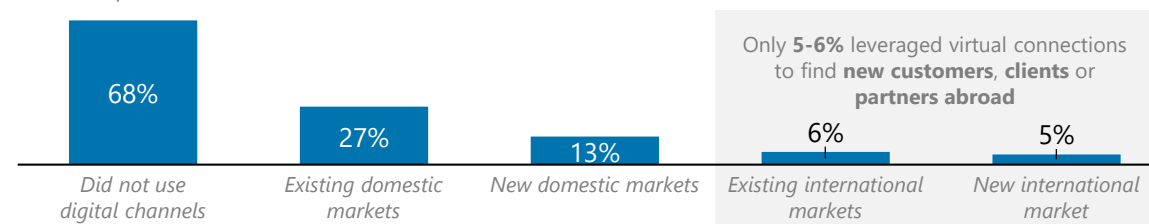
% of respondents (excluding the U.S.)



VERY FEW BUSINESSES ARE USING DIGITAL CHANNELS TO ACCESS NEW OR EXISTING INTERNATIONAL MARKETS

Over the last 12 months, did this business use virtual connections to reach new customers, clients or partners in any of the following markets?

% of all respondents



Though leveraging digital channels to access markets poses an interesting opportunity for businesses, some industries with large trade activity – like Wholesale Trade and Manufacturing – **still see travel restrictions as an obstacle** in the coming months (39% and 29%, respectively). This may be indication that many still see the need to conduct **business face-to-face**