Q2 Calgary Business Conditions

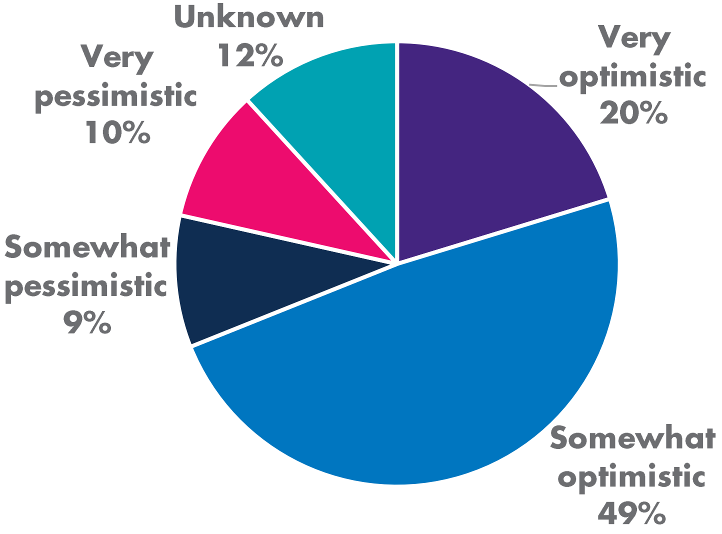
June 22, 2023

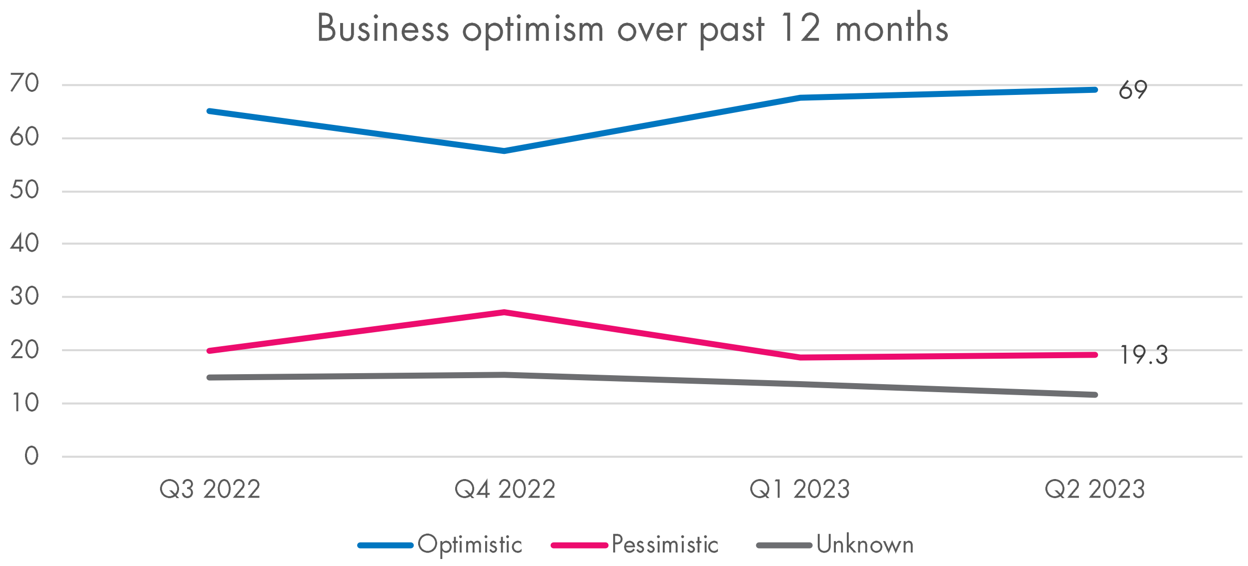
Calgary Chamber

Key insights

- Concerns **regarding rising costs** remain high. While businesses are no more concerned about costs compared to last quarter, significantly more cite cash flow concerns and expect to take on less debt, which will likely result in lower levels of economic investment.
- **Labour concerns** have improved slightly, with businesses more focused on retaining employees than recruiting new employees.
- **Remote work** has increased since last quarter, with fewer employees working mostly or exclusively in person, suggesting the hybrid model is here to stay.
- **Supply chains** are gradually easing, and fewer businesses cite supply chain related challenges as being the limiting factor for business growth.
- Businesses remain **cautiously optimistic** about their future. However, while most businesses are more optimistic than last quarter, some sectors are extremely pessimistic.

Business outlook





Business optimism has remained steady through 2023 – 5% higher than Q3 and Q4 last year.

However, we are seeing 'K-shaped' optimism. In previous quarters, optimism levels were consistent across sectors. Now, most businesses feeling very pessimistic are in the retail sector (35.6%), real estate (9.9%), and accommodation and food services (10.7%) sectors. These sectors account for the vast majority of very pessimistic businesses.

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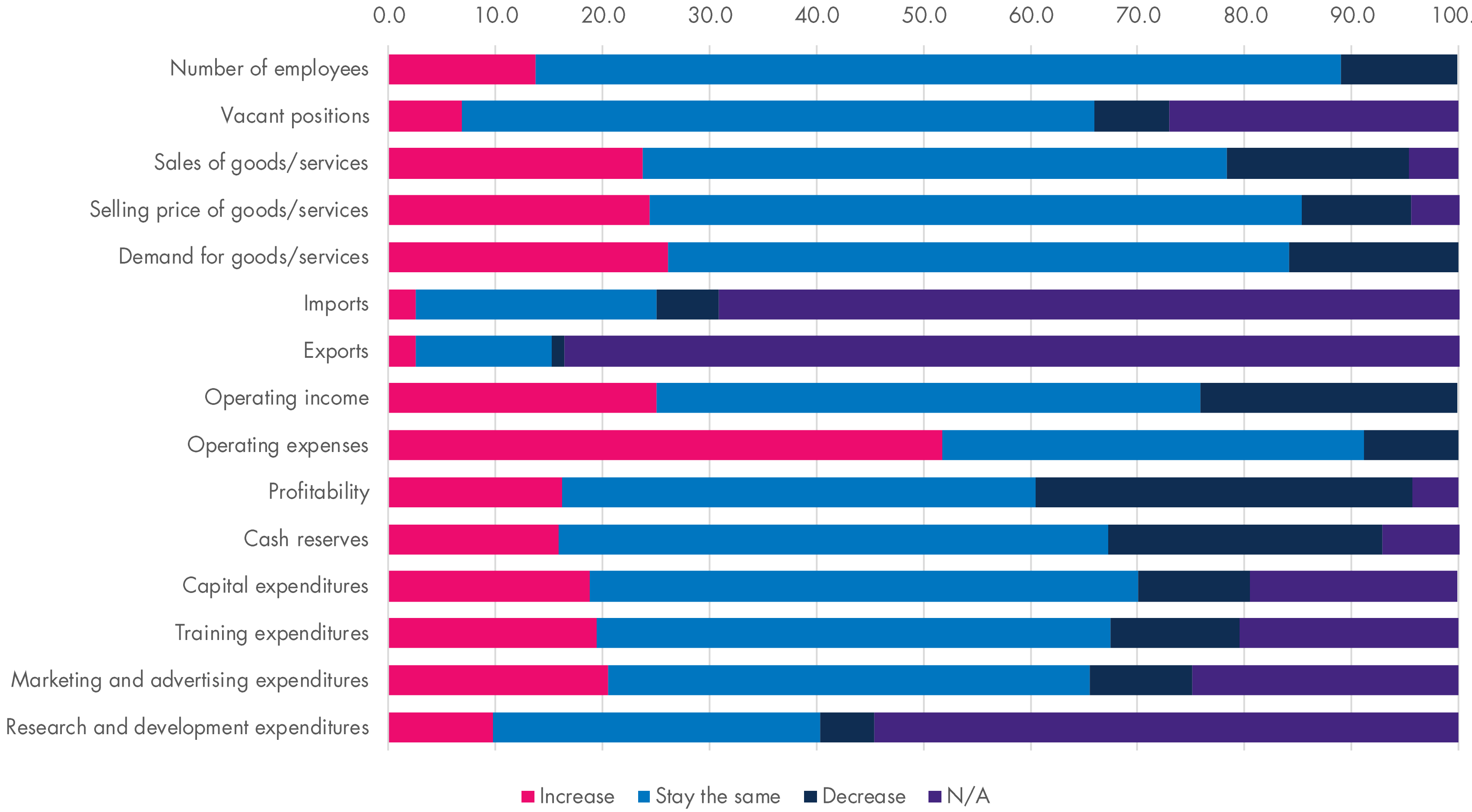
Business expectations

Over the next three months, businesses expect to see several changes.

Most notably, many **expect operating expenses to increase significantly** – and more than operating income. Increased expenditures are largely in capital, training and marketing.

Many businesses also **anticipate profitability and cash reserves to decrease.**



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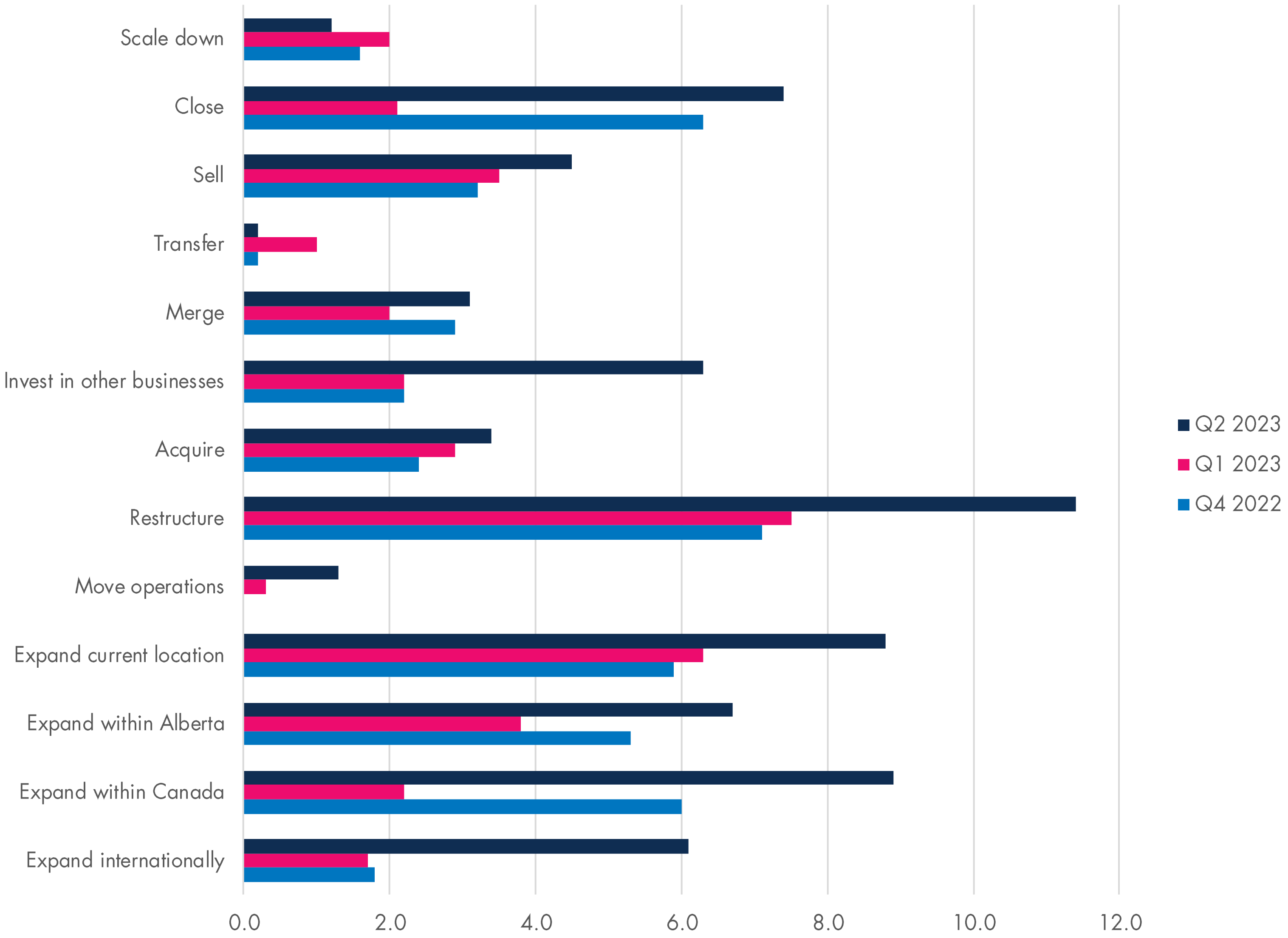
Businesses' Plans

More businesses plan to expand beyond their current location, whether in Alberta, Canada or internationally, compared to previous quarters.

At the same time, 7.4% of businesses expect to close this quarter – up from 2.1% last quarter, and the national average of 2.3%.

Critically, 16.8% of small businesses with four or fewer employees expect to close or sell.

We anticipate an ongoing K-shaped recovery, with some businesses doing well and others continuing to struggle.



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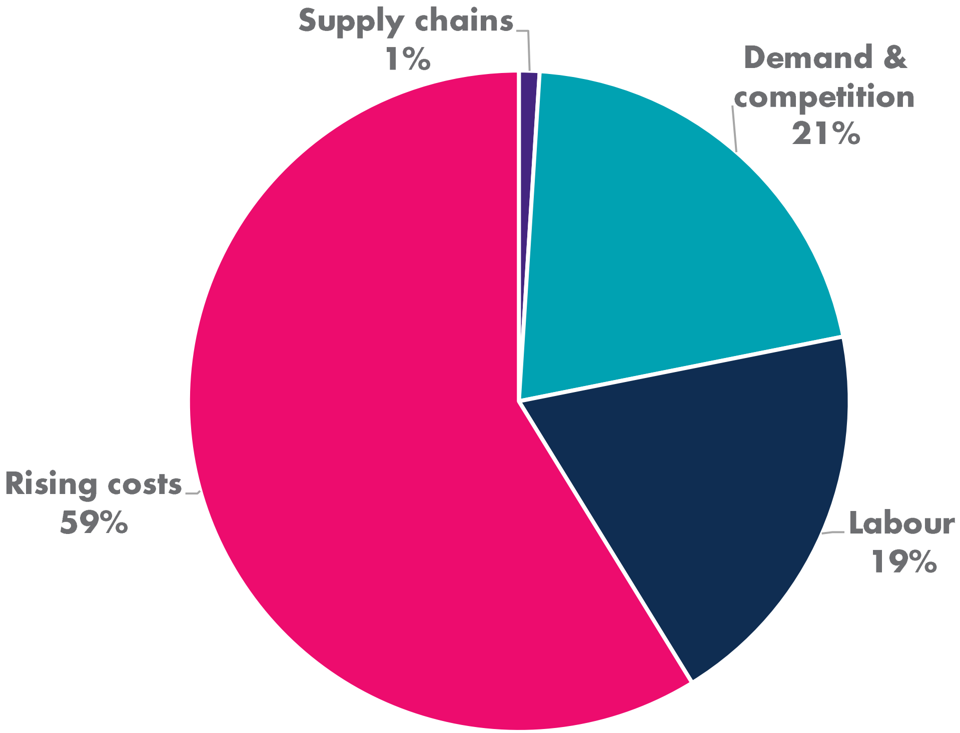
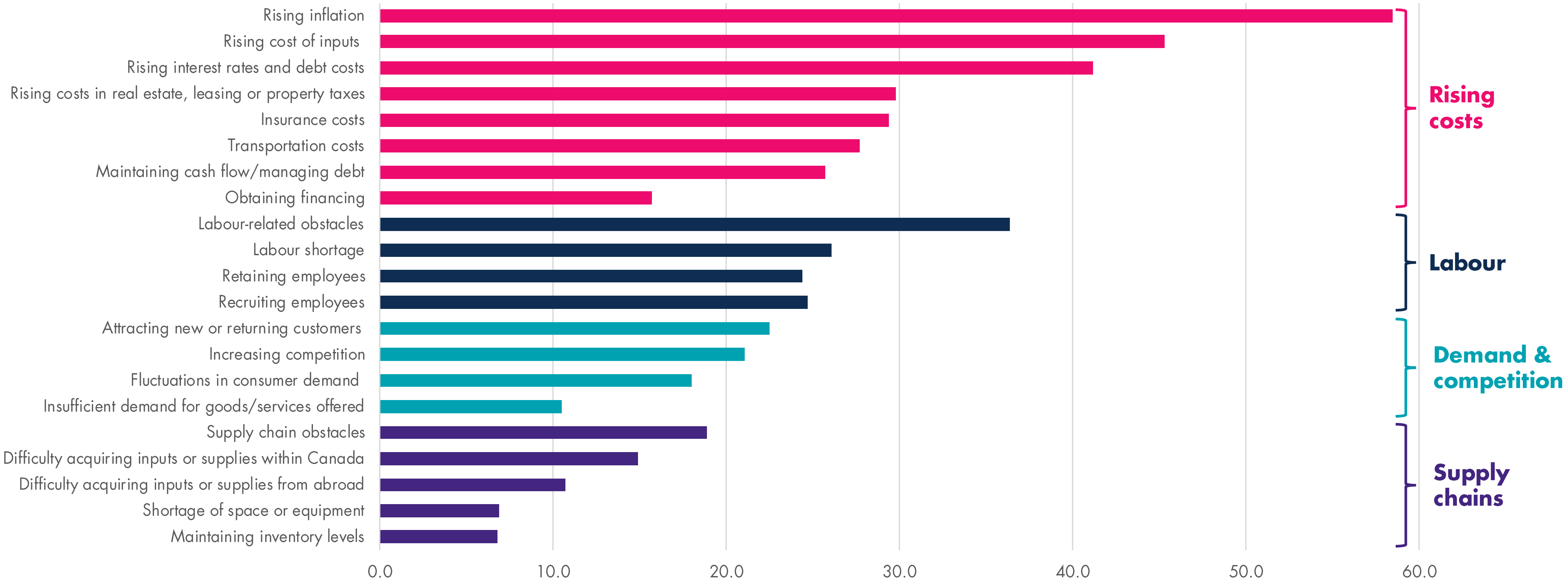
Businesses’ biggest concerns



Looking ahead to Q3, 58.6% of businesses are most concerned with rising costs and 19.3% expect labour-related challenges to be their largest issue. While supply chain issues continue to persist, only 1% of businesses cite them as their primary issue.

Challenges anticipated in next three months



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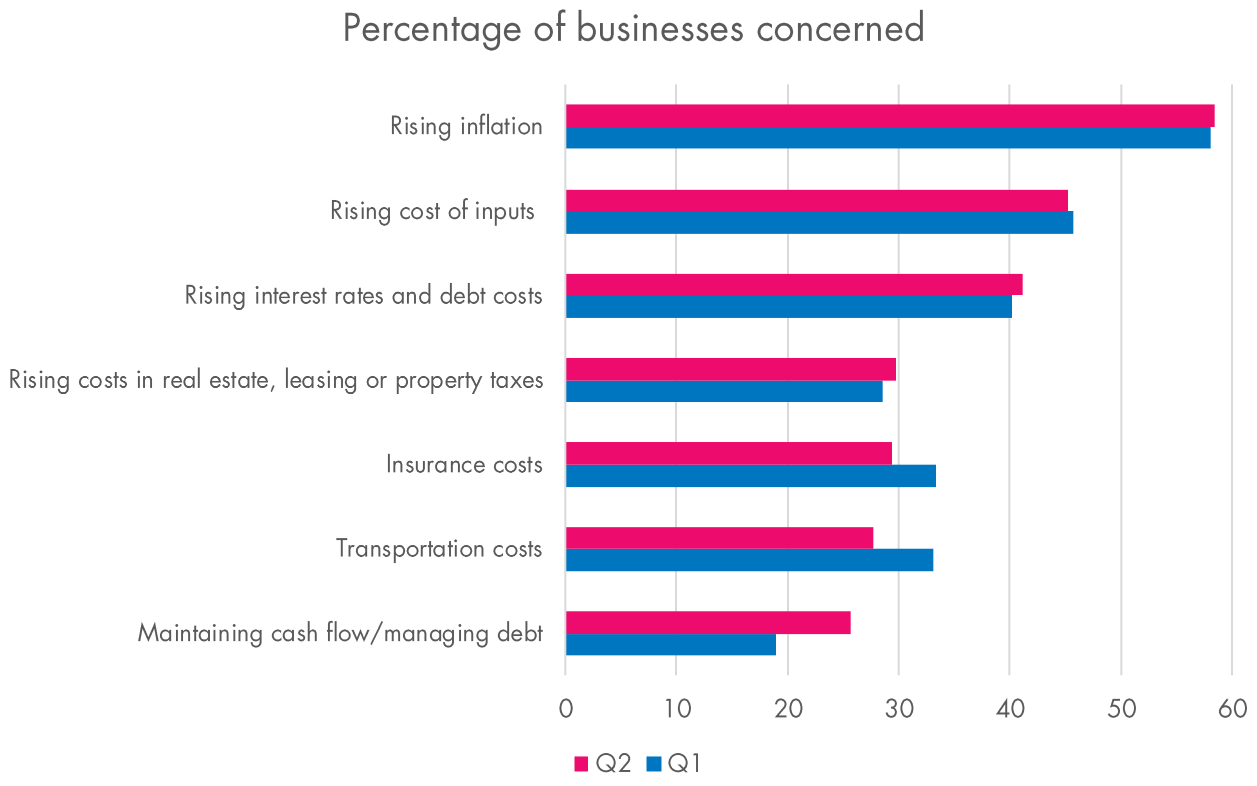
Rising costs

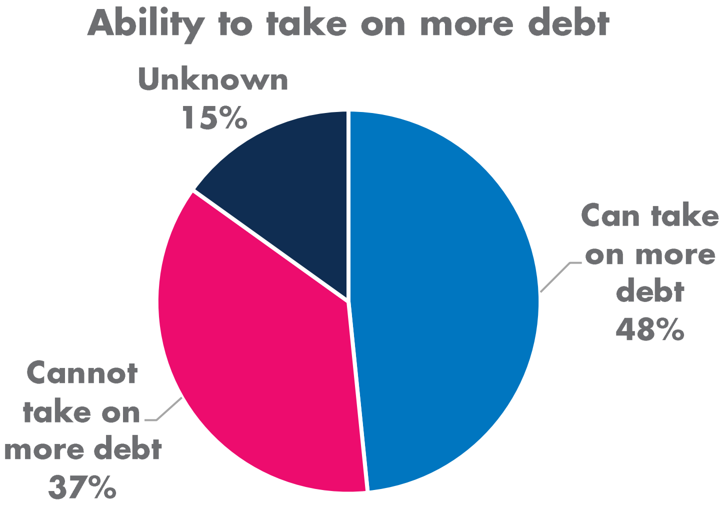
The percentage of businesses concerned about inflation, interest, and inputs remains steady, while cost of insurance and transportation has eased slightly.

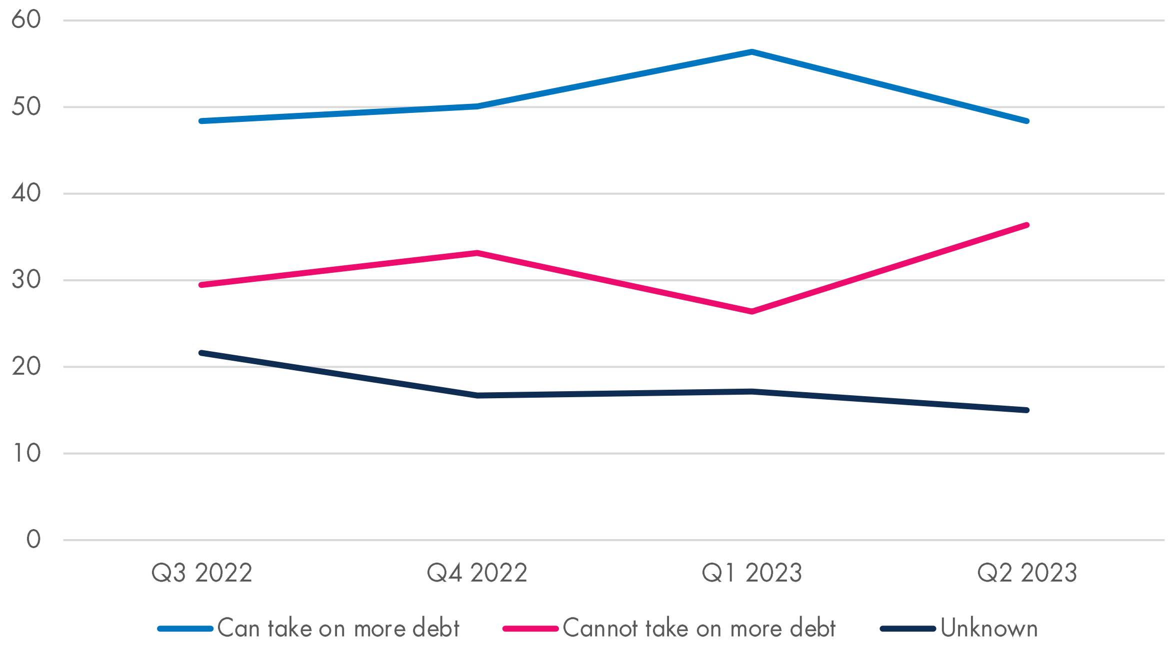
However, the percentage of businesses concerned about maintaining cash flow and managing debt has jumped considerably, from 19% last quarter to 25.7%.

This suggests that while businesses are no more worried about rising costs than in previous quarters, their ability to withstand rising costs is waning.



Access to capital





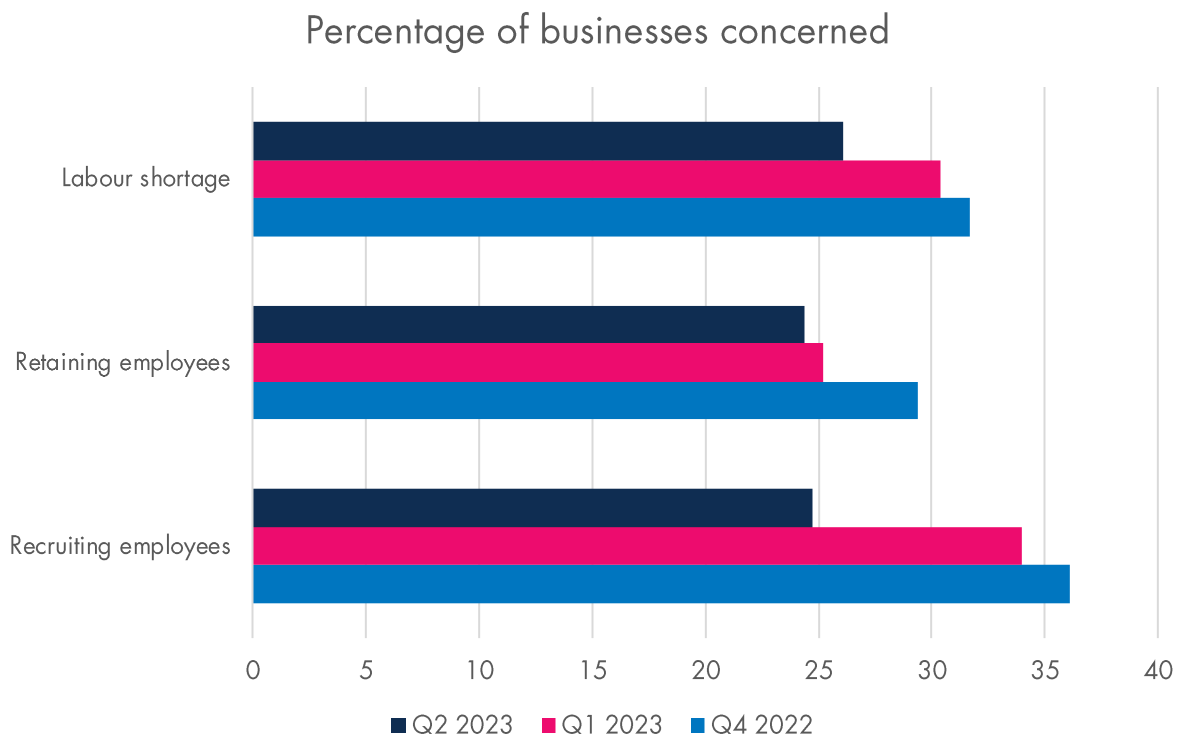
Businesses that cannot take on more debt indicated inability to do so due to:

- 45.7% unfavorable interest rates
- 42.8% cash flow
- 34.1% lack of confidence in future sales

Businesses' ability to take on debt is down 8% since last quarter, with businesses primarily citing cash flow as a growing issue.

Willingness to borrow due to uncertainty has decreased to 34.1%, consistent with the previous quarter and down from Q4 2022 and 41.2%.

Labour concerns



Concerns about the labour shortage and recruiting employees have eased over the past six months, with businesses significantly less worried about recruiting employees.

Despite this, given the persistent nature of our labour force – due to accelerated retirement during the pandemic and a declining working-age population – we anticipate labour shortage remaining a concern.

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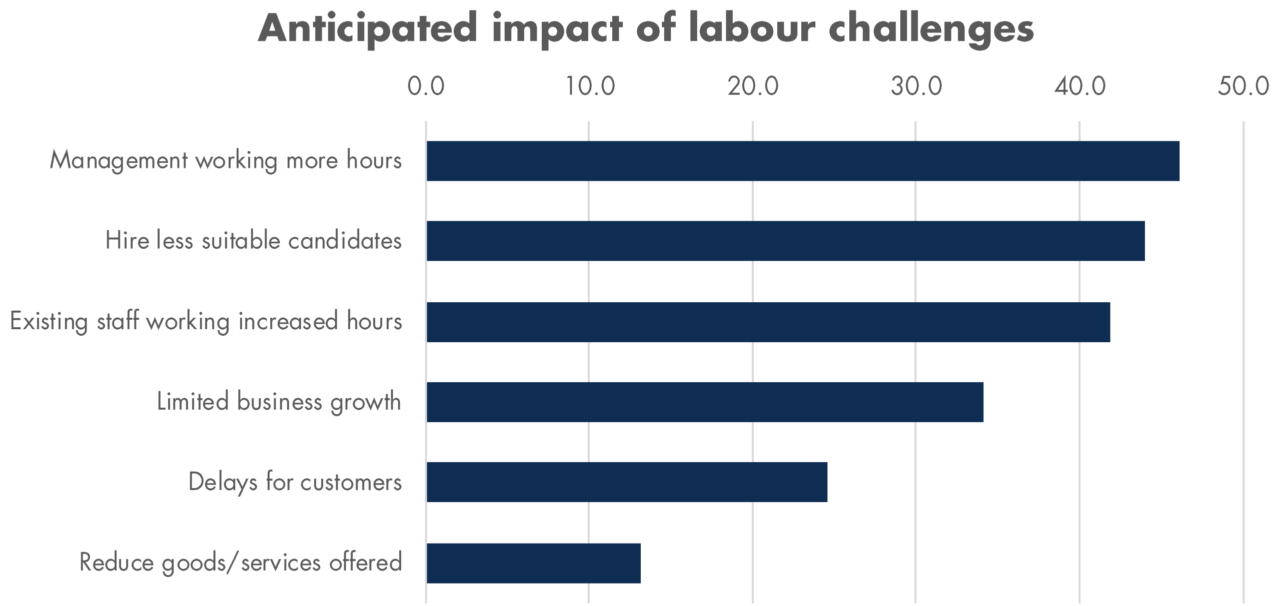
Impact of labour challenges



In response to the ongoing labour shortage, many businesses will increase working hours for existing staff. With mental health issues on the rise for business owners, this may be cause for concern.

34.1% of businesses anticipate limiting their growth as a result of labour challenges. This is disproportionately concentrated in small- and medium-sized businesses. Labour challenges may therefore exacerbate an anticipated economic slowdown.

While the labour shortage has been persistent, only 4.2% of businesses have accessed the Temporary Foreign Worker Program (TFWP). The TFWP has primarily been used by manufacturing, accommodation and food services, large businesses, and businesses run by immigrants. However, 10% of businesses plan to access the program in the next year.

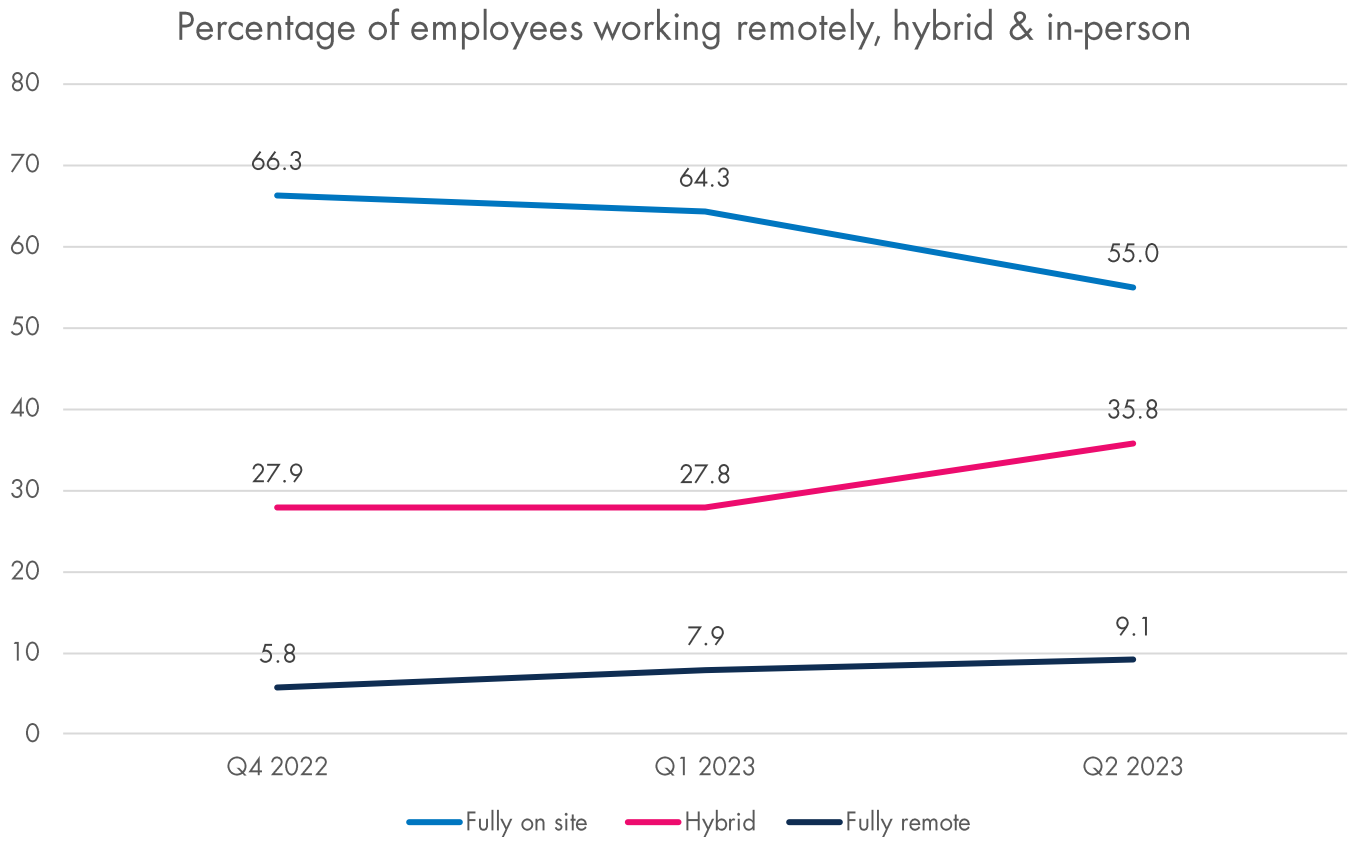
Response to labour challenges

Increase compensation	Hire different demographics	Provide flexibility	Promote training
• **45.4% increase wages to existing employees** • **23.8% increase wages to new employees** • 16.1% increase benefits to existing employees • 12.3% increase benefits to new employees • 5.0% offer signing bonuses to new employees	• 10.0% use the Temporary Foreign Worker Program • 6.9% hire internationally to relocate to Canada • 5.3% hire international remote workers • 11.4% outsource projects • 3.4% hire seniors or retirees	• 13.5% offer remote or hybrid • 21.7% offer flexible scheduling	• 21.1% encourage on-the-job training • 13.7% provide training so employees can take on new roles • 10.9% provide paid time for training • 10.6% encourage micro-credentialing • 9.7% provide tuition for courses or programs

While businesses are using several tactics to recruit and retain employees, most are focused on increasing compensation. This will continue to drive the price of labour up, causing input costs to increase, prices to consumers to increase, and therefore inflation to increase.

Rising cost of labour → Rising costs of inputs → Rising costs to consumers → Higher inflation

Remote work



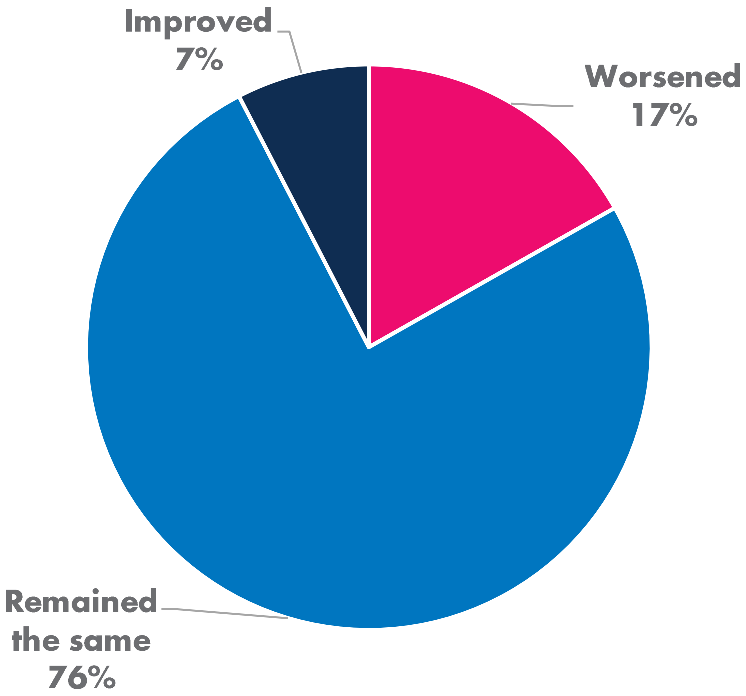
The percentage of employees working in person full time has dropped significantly since last quarter. Notably, the Canadian average has remained consistent over time, and is similar to Calgary's Q4 and Q1 numbers.

Hybrid and fully remote work also continues to be on the rise, suggesting that hybrid working models may be here to stay.

Supply chains

While only 1% of businesses cite supply chain issues as their primary challenge, 16.8% believe supply chains have worsened over the last quarter, and 75.6% believe they have stayed the same.

The low percentage of businesses citing supply chains as their primary concerns should not be interpreted as being of negligible concern – rather, that the concerns of rising costs and labour are so grave that they eclipse supply chains.



100% of oil and gas, 98.9% of transportation and warehousing, and 94.9% of waste management businesses indicate supply chains are worsening.

92.7% of oil and gas businesses do not anticipate changing behaviour in response to supply chain issues, while transportation and warehousing anticipate:

- Switching to local suppliers,
- Substituting inputs, and
- Investing in technology.

Policy recommendations

Keep controlled costs low

- Maintain low taxes and minimal fees and licensing
- Ensure costs are predictable and stable

Address the labour shortage

- Prioritize immigration systems adjustments, up-skilling and reskilling, marketing campaigns

Invest in supply chains

- Promote local manufacturing hubs, modernization & infrastructure investments