



Small Business Insolvency: The Tip of the Iceberg?

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CFIB

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Executive summary



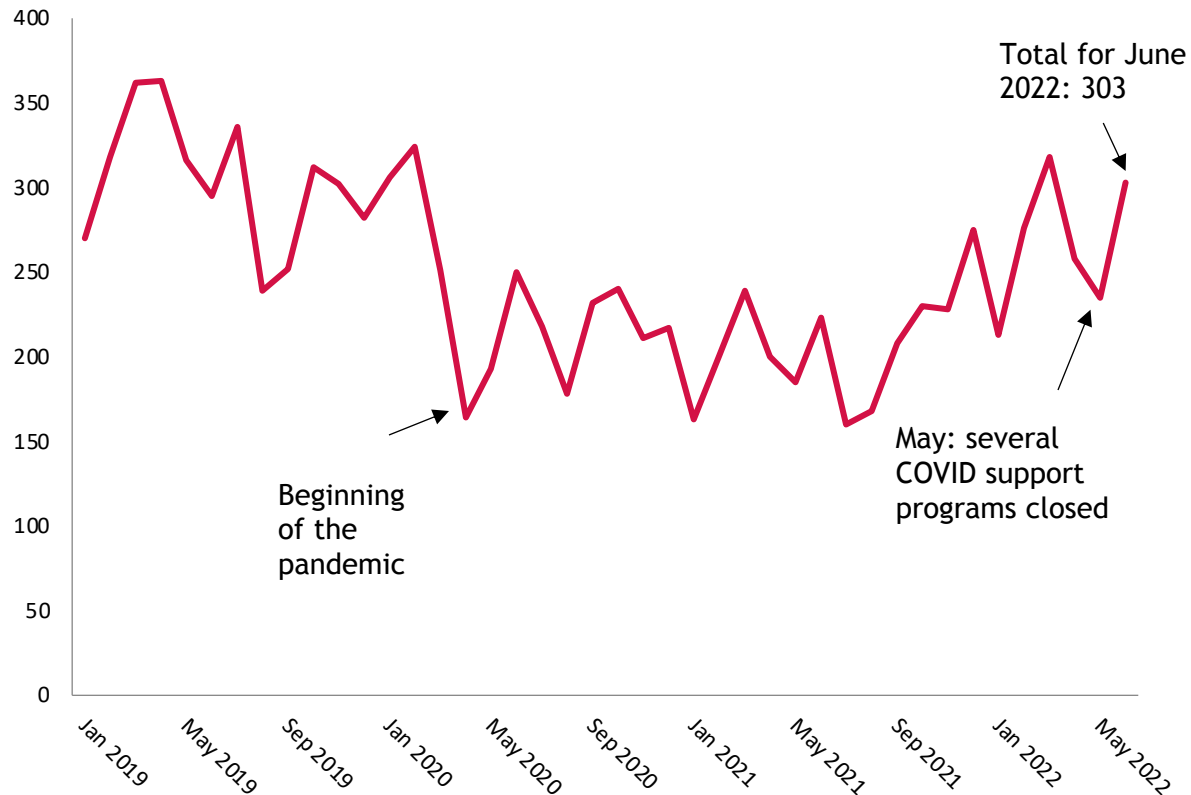
- This report aims to provide a broader perspective on Canadian business insolvencies (bankruptcies + proposals).
- Official small business bankruptcy numbers have been increasing steadily since the beginning of the year and are currently at a 2-year high. CFIB data shows these figures are just the tip of the iceberg.
- According to recent exclusive CFIB data, only 10% of Canada's small business owners would choose to file for bankruptcy if they were unable to keep their doors open. **46% of businesses at risk of closure would simply stop operating rather than go through the bankruptcy process.** Canadian business insolvency data does not reflect these types of closures.



- As we emerge from the COVID-19 crisis, other challenges continue to deeply affect Canada's small businesses, including struggles to return to normal revenues, the weight of the COVID-related debt businesses were forced to take on to pivot and survive, rising costs on virtually every business expense and a gripping shortage of labour.
- 54% of businesses are still reporting below-normal revenues and 62% are still carrying unpaid debt taken on during the pandemic, \$158,000 on average, according to the latest available estimates.
- Small businesses are feeling the financial pressure mount and seem to have much less room to manoeuvre. Targeted measures would keep many from closing for good.

Business insolvency on the rise in Canada

Figure 1: Small business insolvencies in Canada, January 2019 to June 2022



Insolvencies in Canada may have declined early in the pandemic, but they have clearly been on an upward trend since mid-2021 (Figure 1).

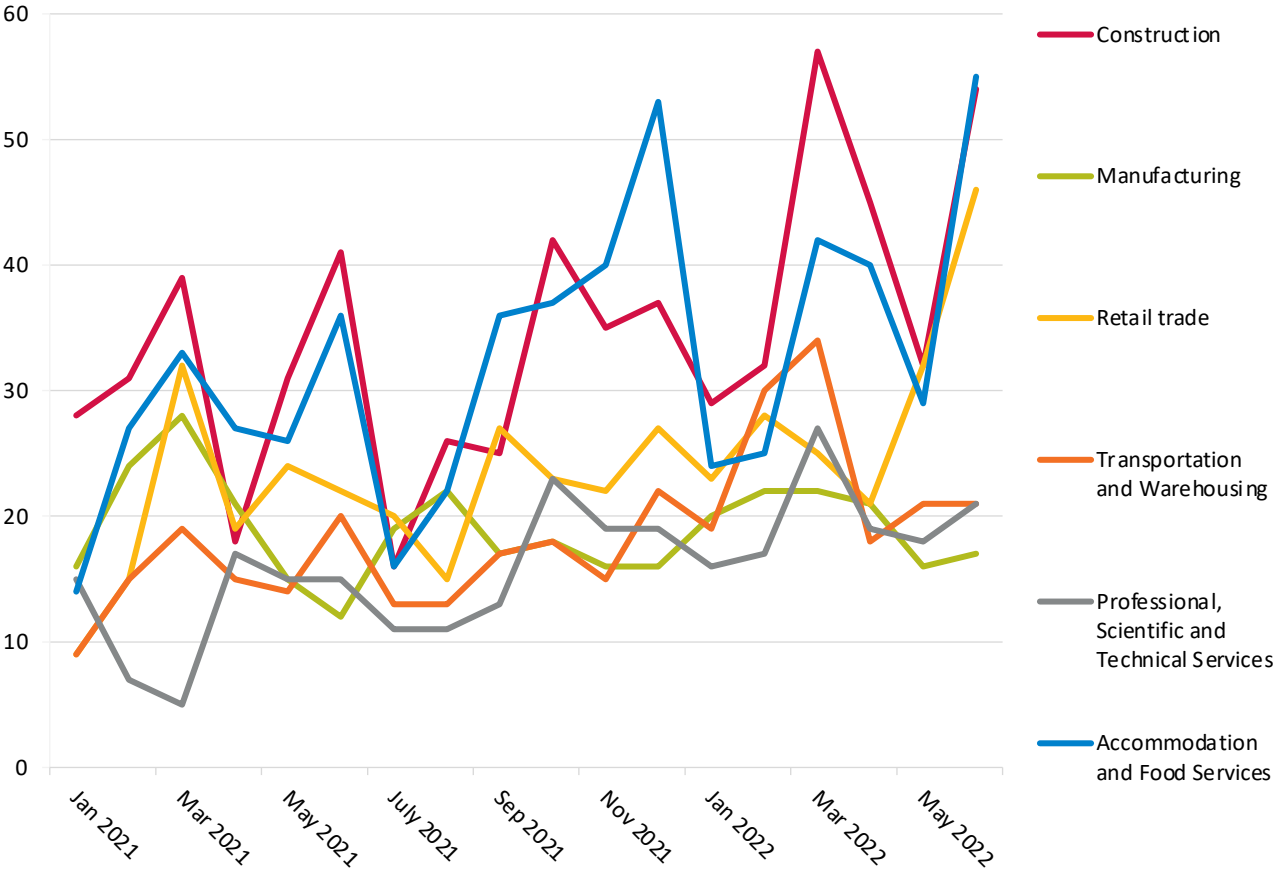
Insolvencies since the start of the pandemic peaked in March 2022 with 318 cases.

With the end of relief programs and businesses navigating a lot of uncertainty, the next few months will be critical for many small businesses.

Source: <https://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br02290.html>

Insolvency numbers vary by sector

Figure 2: Small business insolvencies in Canada by sector, January 2021 to June 2022



The construction, and the accommodation and food services sectors have had the most insolvencies since the start of 2021.

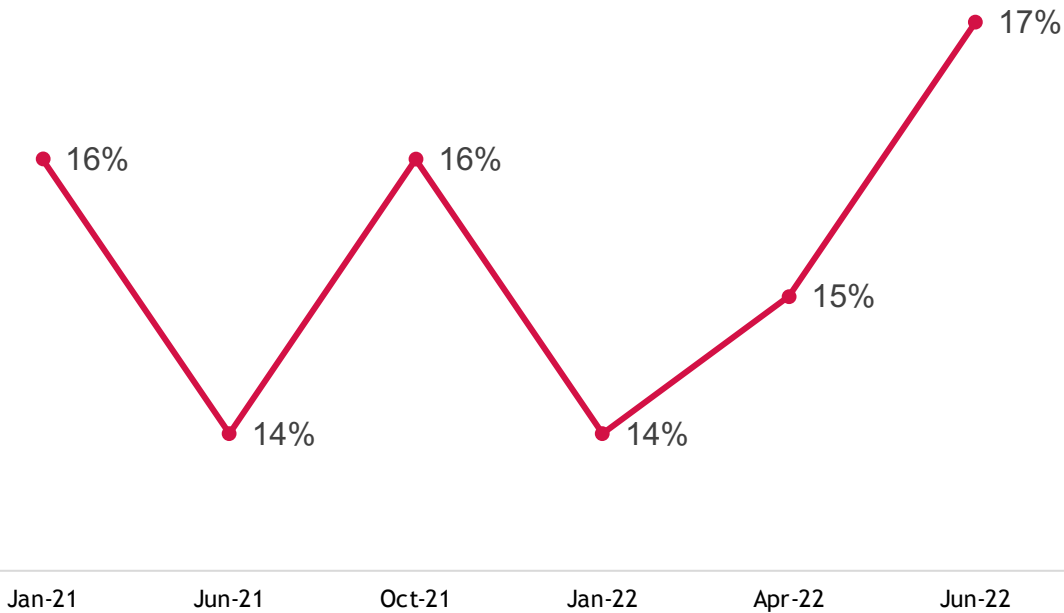
Figure 2 also shows an upward trend in other sectors during the same period.

Source: <https://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br02290.html>

Note: We selected the 6 sectors with the most insolvencies.

Insolvencies: Only the tip of the iceberg

Figure 3: Percentage of small businesses considering bankruptcy or permanent closure, Canada



Since the pandemic began, a significant number of Canada’s small businesses reported their concern over the potential for bankruptcy or permanent closure.

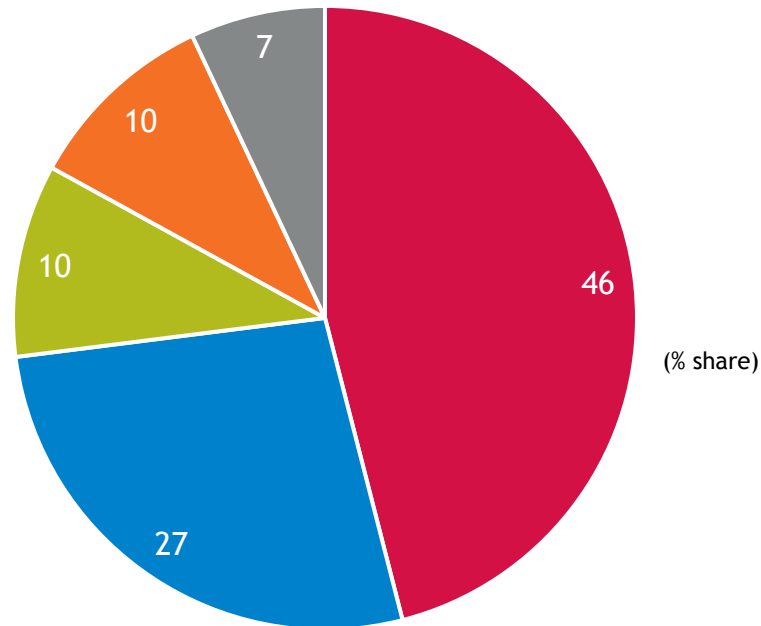
Taking a look back at the January 2021 data in Figure 3, we can see that 16% of the country’s small businesses were already considering bankruptcy or closure. A year and a half later, the June 2022 CFIB survey shows things haven’t changed much, **with more than one in six small businesses across the country considering going out of business.**

The numbers seemed to be trending downward as 2022 kicked off, but that trend has reversed in recent months.

Source: CFIB, *Your Voice* surveys. For more information, visit cfib.ca/research. The question asked was: “ Please indicate the extent to which you agree or disagree with the following statement; We are actively considering bankruptcy/winding down our business”. The percentages represent the businesses that strongly agreed or somewhat agreed with the statement.

“Closed for good”: the different paths

Figure 4: How entrepreneurs would permanently close their business, Canada, June 2022



- Permanently closing the business
- Transferring the business to a new owner
- Filing for bankruptcy
- Don't know/Unsure
- Other

Source: CFIB, *Your Voice - June 2022 survey*, June 9 - 30, 2022, n= 368

Bankruptcy is a major issue for Canadian small businesses in all sectors, but it does not measure the full scope of the problem. Of all the methods business owners would use to close their business due to financial hardship, **filing for bankruptcy is only a small piece of the pie**. In a recent CFIB study, **only 10% of the businesses considering bankruptcy or closing would most likely do it by filing for bankruptcy**.

Bankruptcy is not the first thing business owners think about when they can no longer keep their doors open. For **nearly half** of small business owners who think they will have to shut down in the near future, their first choice is to just wind down without going through the bankruptcy process.

The increase in small business insolvencies isn't just a pandemic problem



We're suffering from a severe staffing shortage. And the drastic increase in the cost of materials and supplies has eaten into our profit margins and made it impossible to pay back any debt we took on during the pandemic.

- Hospitality sector, Alberta



As the owner of a small woodworking business, I had to go back into the shop after losing one of my two employees because I couldn't find anyone with experience. It takes a year and a half to train a well-rounded employee. I'm not physically able to work non-stop so I'm going to shut down in June 2022.

- Construction sector, Quebec



Once again, small businesses are pushed to the back burner. We got some relief during the worst of the pandemic, but businesses are failing right and left and recovery is slow. I'd like to see more support and the easiest way to do that would be to increase the forgivable portion of CEBA loans.

- Professional Services sector, Ontario

The increase in small business insolvencies isn't just a pandemic problem



We filed for bankruptcy this morning. Two years without any help, because we're in the grey area and financial institutions only go by measures that are unattainable for us... So I'm sure you can imagine how I as an executive have been feeling for the past two years and how the six employees who just lost their jobs are feeling in terms of our mental health. We've been forgotten and abandoned. It's too little, too late.

- Retail sector, Quebec



The public health crisis is far from over and the aftermath looks bleak, considering the debt we took on...

- Retail sector, Quebec



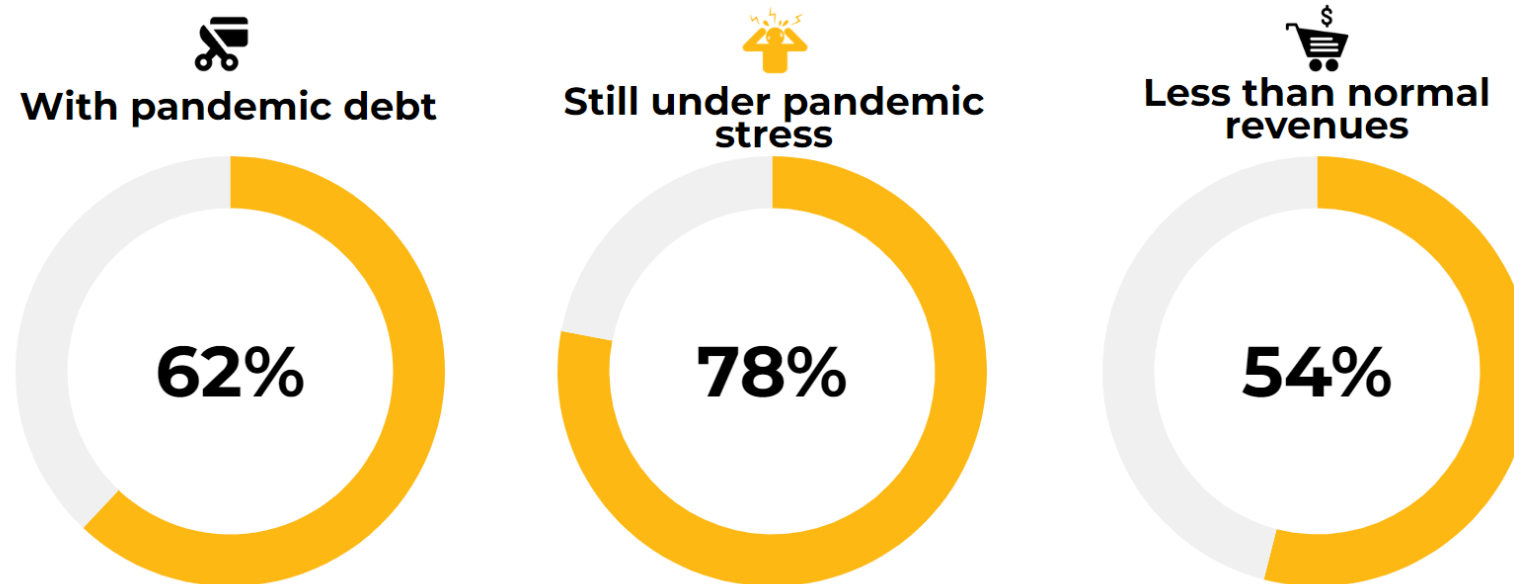
The first quarter of this year was the hardest since the pandemic began. We're still feeling the aftershocks. When it comes to increasing our business, my hands are still tied because many of our clients haven't fully returned. The impact of the pandemic isn't over for me or our company.

- Professional Services sector, British Columbia

Current socioeconomic landscape

Despite public health restrictions being lifted, many businesses are still struggling (Figure 5). A business's economic health is affected by myriad factors. The challenges Canadian small businesses are grappling with threaten their near-term survival.

Figure 5:
Canadian small businesses



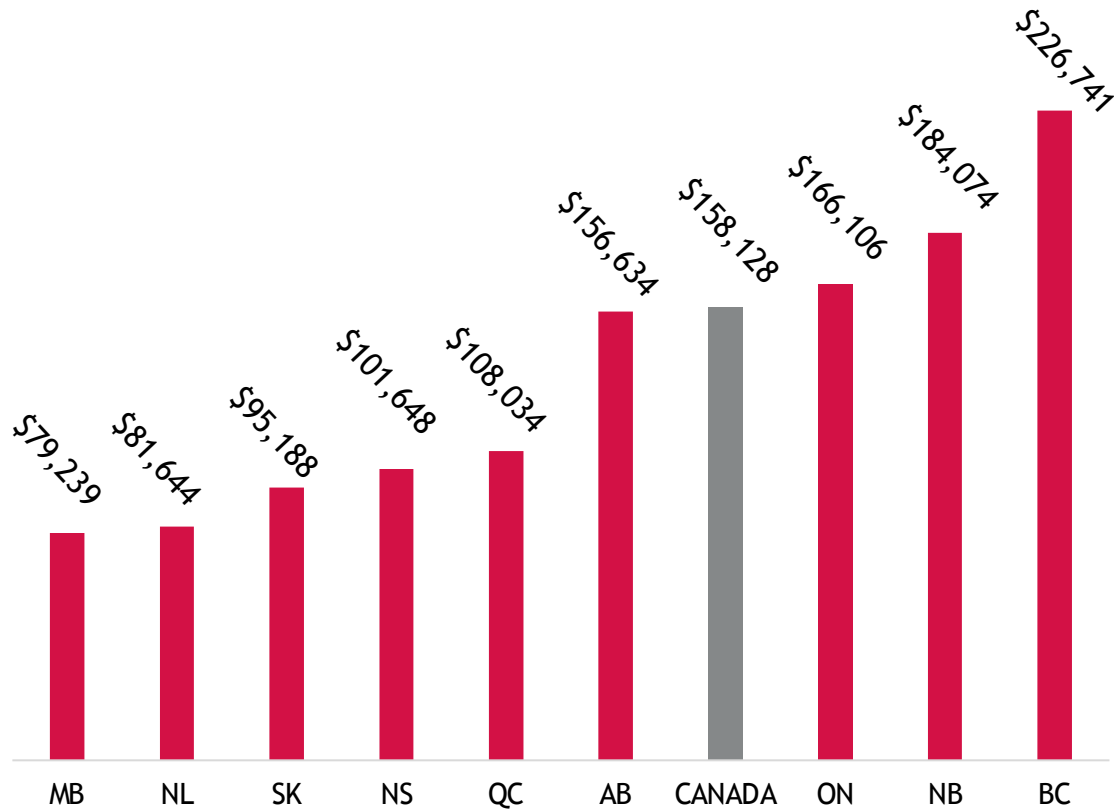
Source: CFIB, *Your Voice - June 2022*, June 9-30, 2022 n= 2,533, preliminary results.

For comparison purposes, a probability sample with the same number of respondents would have an error margin of +1,9% 19 times out of 20.

[Small Business Recovery Dashboard \(cfib-fcei.ca\)](https://cfib-fcei.ca)

COVID-19 debt is high for small businesses across Canada

Figure 6: Average debt of small businesses by province



Business owners were among the first to feel the pinch of the pandemic. Whether forced to shut down for months, reduce their hours of operation or cap the number of customers they could serve, small businesses haven't had it easy.

Relief measures have dried up, but the debt small businesses had to take on to survive the pandemic remains. Businesses in debt owe **\$158,000 on average** (Figure 6) and fewer than half think they will be able to pay it all back in the next two years.

Many received up to \$60,000 in government assistance through the CEBA program but have to repay the lion's share of the loans by December 2023.

The Bank of Canada's recent interest rate hikes aren't helping small businesses get out from under their debt—70% say they have been negatively impacted.

Sources: (1) Figure 6 = CFIB, *Your Voice, January 2022 survey*, January 18-27, 2022, final result, n= 5,630. We selected the provinces that received at least 40 responses.

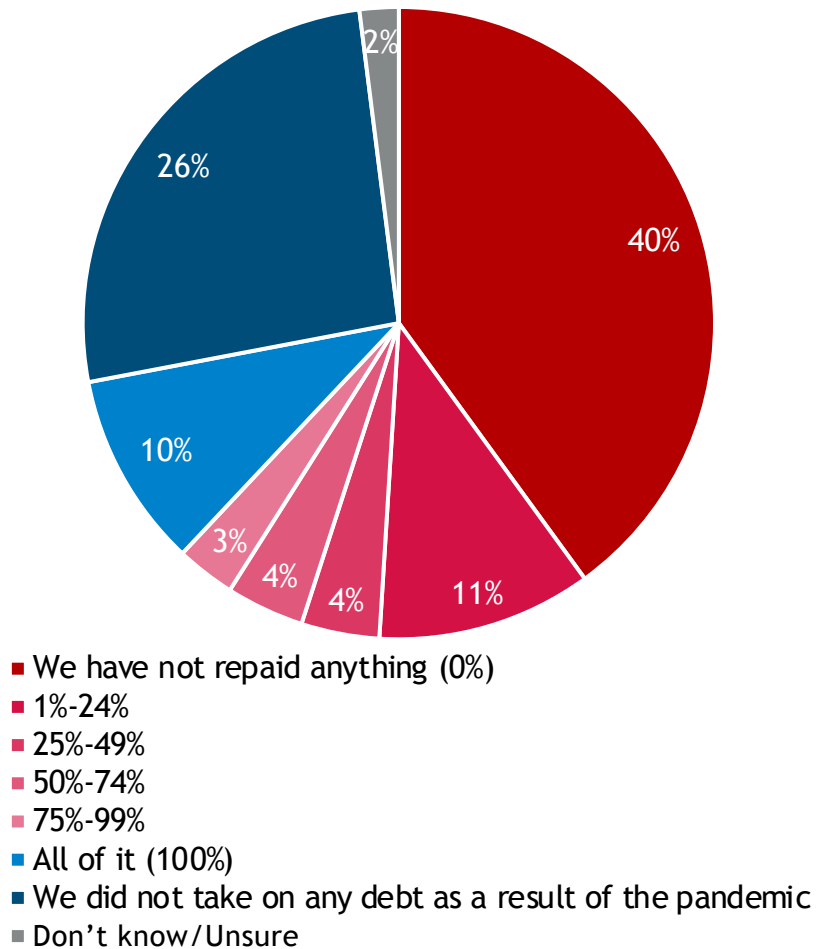
Therefore Yukon, the Northwest Territories and Prince Edward Island were excluded

(2) "Repay in the next 2 years" data = CFIB, *Your Voice Survey, January 2022 survey*, January 18-27, 2022, final result, n= 5,630.

(3) "70% negatively impacted" data = CFIB, *Your Voice Survey*, June 9-30, 2022, n= 2,298.

Many are struggling under the debt burden

Figure 7: Canadian small businesses, by share of pandemic debt repaid to date



As shown in Figure 7, the level of debt among Canadian small businesses remains very high.

A recent CFIB survey in June 2022 also shows that many small businesses are weighed down by debt. Nearly 2 out of 3 Canadian businesses (62%) are still carrying pandemic debt.

And 40% of Canadian small businesses haven't repaid anything yet, presumably because they're not in a solid enough financial position to do so (Figures 5 and 6).

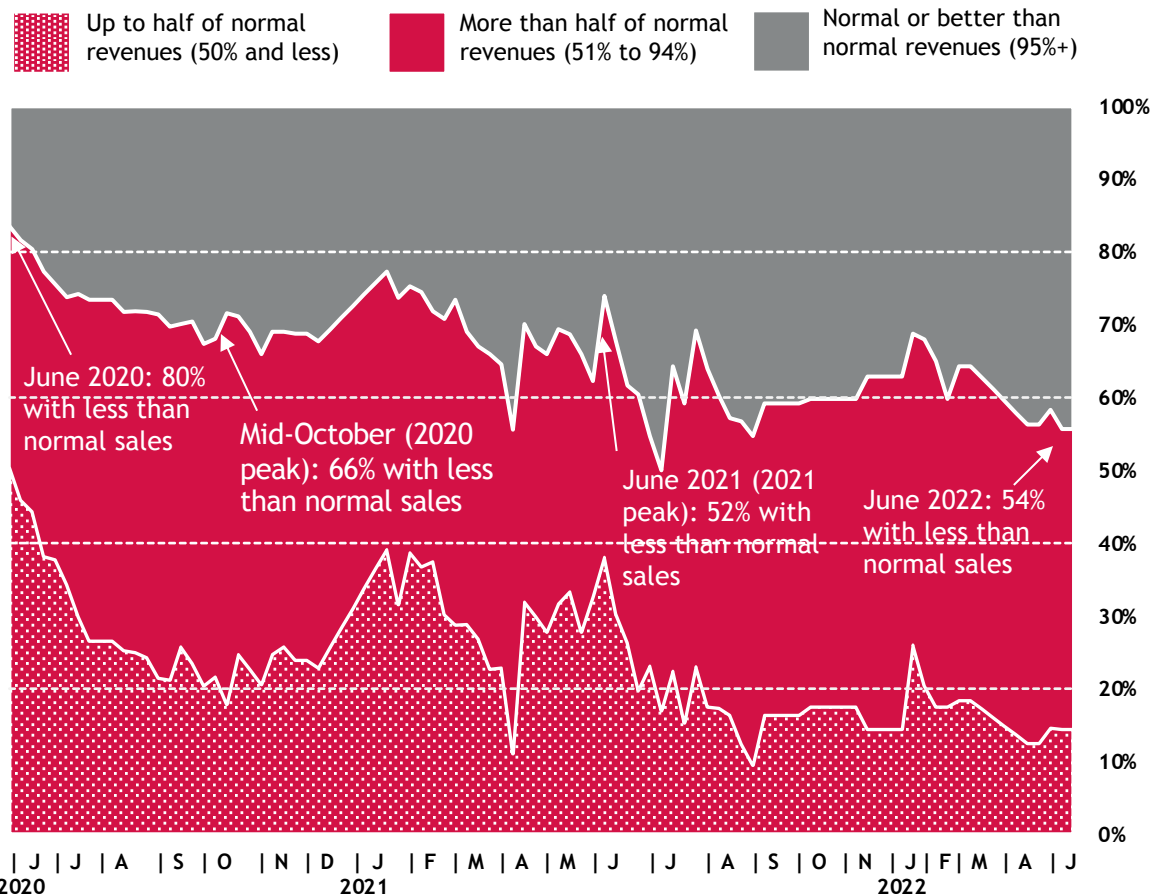
Finally, it is important to note that **only 14% of businesses that took on debt during the pandemic (10% of all businesses) have been able to pay it back in full.**⁽¹⁾

(1) Calculation: $10\% \div 72\% = 14\%$

Source: CFIB, *Your Voice - June 2022 survey*, June 9-30, 2022, n= 2,275

The economic recovery is taking longer than expected

Figure 8: Canadian small business sales levels



Businesses are facing a mountain of post-pandemic debt and most have not yet returned to their normal level of operations. Despite public health restrictions being lifted, in June 2022, **54% of business owners said they haven't regained their normal pre-pandemic sales levels** (Figure 8).

It's also clear from the graphic that the recovery is not happening overnight. **The share of businesses that have not yet returned to normal sales levels has shrunk very little since June 2020.** It's no wonder then that many small businesses are struggling to pay off their debts.

Source: CFIB, COVID-19 and Your Voice surveys - June 2020 to June 2022.

Small business owners still face major challenges

Figure 9: Percentage of Canadian small businesses experiencing sales or production growth limitations



Businesses are grappling with other issues that limit their ability to return to normal sales or production levels (Figure 9). The top two constraints cited by owners are the shortage of skilled and unskilled labour.

The list shows that many other issues are also affecting a small firm's ability to get back on solid financial ground, including supply chain issues and a lack of demand.

Source: CFIB, survey from July 5th to 13th, n= 734, statistically accurate to +/- 3.6 per cent, 19 times in 20.

Note: Respondents could choose more than one answer, so the chart total may exceed 100%.

Recommendations to federal and provincial governments to assist small businesses carrying pandemic debt

1. Ease the pandemic debt burden for the hardest hit small businesses by increasing the forgivable portion of the Canada Emergency Business Account (CEBA) loan to at least 50%
2. Extend the repayment deadline for CEBA loans to qualify for partial loan forgiveness to December 2024
3. Find a way to retroactively support newer businesses and others that slipped through the cracks of CEBA
4. Include a forgivable portion in other federal COVID loan programs or provincial programs

Recommendations to federal and provincial governments to ensure the viability of small businesses and help keep operating costs down

5. Increase the small business deduction to \$600,000 (currently \$500,000)
6. Reduce the federal small business tax rate (for example, at the federal level, reduce it to 8% from its current 9%)
7. Freeze planned hikes in payroll taxes (Canada Pension Plan and Employment Insurance) and permanently lower the small business EI rate to the same level as employees; reduce the provincial payroll tax burden
8. Immediately implement the promised reduction in credit card fees for small merchants

About the authors



Benjamin Rousse is an Intern in Public Policy and Entrepreneurship in CFIB's annual internship program sponsored by Scotiabank. He holds a BA in Business Administration from UQAM's School of Management, a Legal Certificate from Université de Montréal and an LL.M. in Business Law from Université Laval.



Simon Gaudreault is the Chief Economist and Vice President of CFIB. He is responsible for conducting research and lobbying on a variety of economic, commercial, political and social issues affecting SMEs across Canada. Simon holds an Honours BA in Economics from the University of Ottawa and an MSc in Economics from l'UQAM. His Master's thesis is on entrepreneurship in outlying regions of Canada.



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