

Investment Intentions of Canadian Entrepreneurs: **An Outlook for 2016**

January 2016

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HIGHLIGHTS

- > Canadian small and medium-sized businesses (referred to throughout the rest of this report as “small businesses,” for simplicity) plan to invest a total of \$111 billion in 2016, an amount similar to what they invested in 2015.
- > British Columbia and the territories show the greatest increase in investment intentions (14% more than a year ago), followed by Ontario (2%).
- > Only Alberta is experiencing a decline in investment intentions (27% less than investment in 2015). The situation remains stable in the other parts of Canada.
- > A minority of enterprises (10%) account for the lion's share (75%) of investment intentions. Among all companies surveyed, these firms are more likely to be companies with strong revenue growth outlooks, exporters, organizations with investment projects in other countries, and older or larger companies.
- > Over three-quarters (77%) of Canadian small businesses invest to support their growth objectives.
- > The purchase of commercial buildings and land, construction and major renovation work accounts for the largest share of investment value (57%), followed by the purchase of machinery, equipment or vehicles (19%).
- > The main factor limiting investment is lack of confidence in the economy (48%).

INTRODUCTION

99.8%

**OF ALL CANADIAN
BUSINESSES
ARE SMALL AND
MEDIUM-SIZED
BUSINESSES**

Investments are key for businesses that wish to grow and stay competitive. More often than not, growth strategies require an investment program. Thus, the investment intentions of small and medium-sized businesses (referred to throughout the rest of this report as “small businesses,” for simplicity) are a significant indicator of Canada’s economic vitality, especially since they represent 99.8% of all Canadian businesses.¹

That said, since the end of the 2008–09 recession, enterprises in the mining and oil and gas extraction sector have been the only ones to show sustained investment growth. Since 2012, investment by firms in other sectors has been stagnating. Many factors account for this, including lack of confidence in the economy and the weakness of the Canadian currency, which increases the prices of imported machinery and equipment.² Another factor is that many entrepreneurs feel no need to invest.

With this in mind, BDC has launched the Survey on Investment Intentions of Canadian Entrepreneurs for 2016. This is the first study of its kind in Canada³ designed to show what executives of small businesses are considering in terms of investment projects—not only the sums of money they plan to allocate, but also the motivations and constraints that are holding them back.

¹ According to data from Statistics Canada’s Business Register as at June 2015, for private sector firms with 1 to 499 employees.

² BDC, *Economic Letter*, October 2015.

³ Statistics Canada’s data on investment encompass firms of all sizes, across all industries and government entities in Canada. These data cover only capital and repair expenditures for construction and for machinery and equipment. Data cannot be broken down by firm size.

INVESTMENT INTENTIONS

PLANNED INVESTMENTS BY CANADIAN SMALL BUSINESSES AMOUNT TO A TOTAL OF **\$111B**

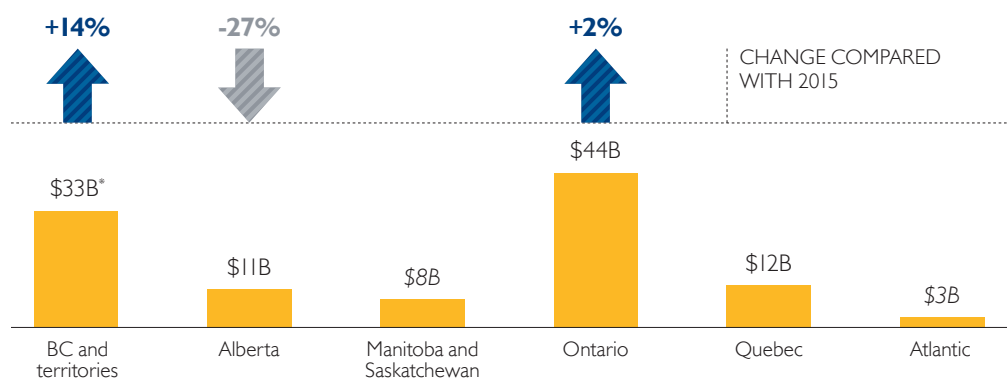
Nationwide stability and regional disparities

For 2016, Canadian small businesses plan to invest a total of \$111 billion, similar to the amount they planned to invest in 2015.

While that seems to indicate some stability from one year to the next, the distribution of investment intentions by region reveals a few disparities. In absolute terms, Ontario holds first place for total planned investments (\$44 billion), followed by British Columbia and the territories (\$33 billion)⁴ and Quebec (\$12 billion), which is consistent with the fact that there are more small businesses in those three regions than in any other Canadian region. However, British Columbia and the territories show the largest increase (14%) in investment intentions. Ontario is the only other region where small businesses plan to invest more (2%) than they did in 2015. As for Alberta, it is the only region where small businesses are choosing to invest smaller amounts, with a pullback of 27%. Small businesses in the other regions plan to invest amounts in 2016 pretty similar to those they invested in 2015 (Figure 1).⁵

These results clearly show the likelihood of a correlation between investment intentions and the economic climate, since the decision to invest is first and foremost a matter of confidence on the part of executives of small businesses. When the survey was taken, British Columbia was reporting the highest rate of economic growth in Canada, while the Alberta economy was suffering the repercussions of a generalized slump in oil prices around the world.

Figure 1: Ontario leads in small business investment intentions for 2016



* These data are shown for information purposes only.

⁴ Total investments for British Columbia and the territories are estimated at \$33 billion. However, a significant portion of the dollar amount of planned investments is attributable to a very small number of firms, each of which has a very large sum to invest. This situation results in a high margin of error. That is why we present the total dollar amount of planned investment for information purposes only. If we exclude the amounts invested by this small number of enterprises, total investment intentions are only half as large.

⁵ In this report, results in italic indicate that estimates are less precise due to a small number of observations. See the methodology section for more details.

48%

OF THE SMALL BUSINESSES THAT PLAN TO INVEST IN 2016 BELIEVE THAT THEIR REVENUES WILL INCREASE

REVENUE GROWTH MOTIVATES INVESTMENT INTENTIONS

A greater number of firms that choose to invest are expecting their revenues to grow. Of the small businesses that plan to invest in 2016, 48% believe their revenues will increase. Of the small businesses that have decided not to invest, 22% believe their revenues will go up.

The higher the rate of revenue growth expected, the more marked the difference becomes: 13% of the firms that have chosen to invest (versus 3% of the firms that have no investment plans) expect their revenues to grow by more than 20%.

Furthermore, of the firms that plan to invest internationally, 70% believe their revenues will increase.

IMPACT OF POPULATION AGING

Canada's population is aging. According to data from Statistics Canada, the segment of the population comprising those aged 65 and over, which now represents 16% of the population, will expand to 21% in 2025 and should reach 24% in 2035.⁶ The same holds true of Canadian entrepreneurs: In 2014, nearly two-thirds of entrepreneurs (59%) were over 50 years old, compared with 47% 10 years earlier.⁷ A question comes to mind: Do older entrepreneurs invest less?

In fact, the survey reveals that only 63% of executives aged 65 and over intend to make investments in 2016; this is much lower than the proportion of younger people who plan to do so (Figure 2). Also, the older executives are, the less likely they are to expect an increase in their revenues. Furthermore, more of them feel no need to invest, or are prepared to sell or close their business.

Figure 2: Executives of small businesses who plan to invest in 2016, by age group



The numbers in **bold** type indicate a statistically significant difference between sub-groups with a confidence level of 95%.

⁶ Statistics Canada, Table 052-0005, and calculations by BDC.

⁷ Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2004* and *Survey on Financing and Growth of Small and Medium Enterprises, 2014*.

75%

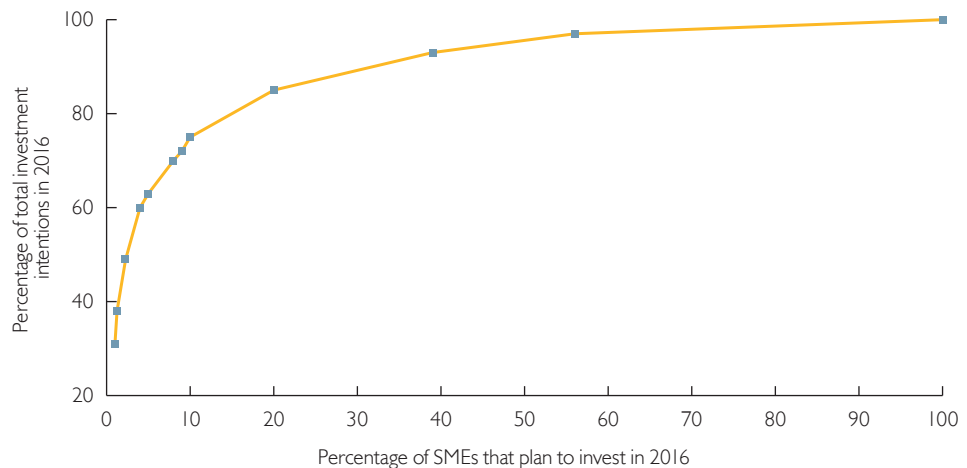
OF PLANNED INVESTMENTS COME FROM JUST 10% OF FIRMS

A minority of firms account for most of the money to be invested

Our survey reveals that nearly one-third (31%) of investment value in 2016 is associated with the projects of just 1% of the firms that plan to invest (Figure 3). On average, these small businesses will invest 42 times more than their peers. If we set aside the amounts they plan to invest, total investment intentions amount to \$77 billion, instead of \$111 billion.

Three-quarters (75%) of the \$111 billion comes from just 10% of firms.

Figure 3: A few small businesses account for most of the money to be invested



Who are the small business investment champions?

The 10% of firms that lead the pack in terms of investment intentions are more likely than other companies surveyed to:

- > have strong revenue growth outlooks
- > have existed for more than 35 years
- > export abroad
- > invest outside Canada
- > operate in the manufacturing or resources sector⁸
- > have 20 or more employees

These findings reinforce the idea that a small number of businesses have a high impact on the Canadian economy. Not only do they invest more, but they also have better revenue growth outlooks and are expanding in international markets. In a report published last year, BDC showed that “high-impact” enterprises play a key role in job creation, GDP growth and improvement in Canadian competitiveness.⁹

⁸ The resources sector includes agriculture, forestry, hunting and fishing, as well as mining and oil and gas extraction.

⁹ BDC, *High-Impact Firms: Accelerating Canadian Competitiveness*, May 2015.

\$63B

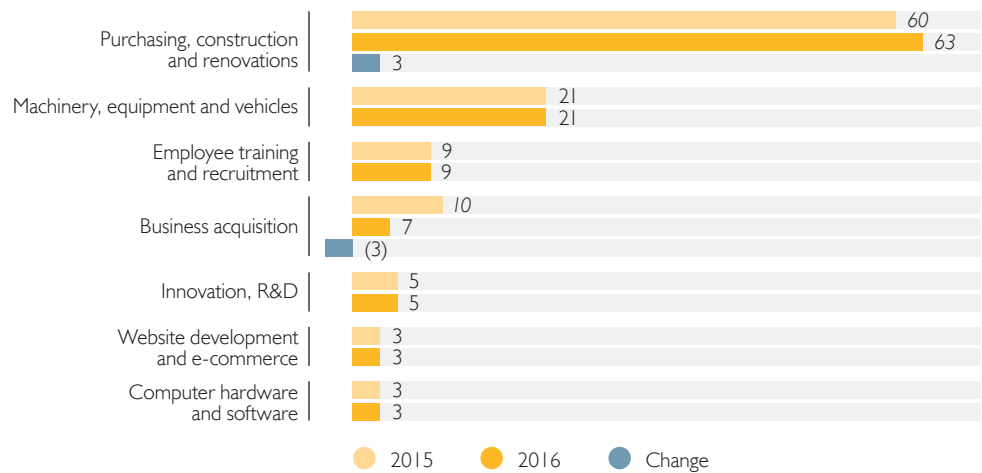
SUM ALLOCATED TO PURCHASING COMMERCIAL BUILDINGS AND LAND, BUILDING NEW FACILITIES AND UNDERTAKING MAJOR RENOVATIONS

Real estate, machinery and equipment top the list of investment intentions

As was the case in 2015, small businesses' investment intentions focus mainly on purchasing commercial buildings and land, building new facilities, and undertaking major renovations. The sums allocated to these projects should reach \$63 billion in 2016—that is, 5% more than a year ago. That increase is cancelled out by a pullback of the same amount in business acquisitions in Canada (Figure 4).

Figure 4: Capital spending dominates small businesses' investment intentions

(Estimated value in billions of \$)



A majority of small businesses are focusing on workforce development and technologies

Although fewer firms plan to invest in them in 2016, workforce development and technologies continue to attract the attention of a majority of businesses. Of the small businesses that intend to invest in 2016, 59% are choosing to purchase computer hardware and software, while 51% are opting to develop a website and e-commerce activities. These figures are slightly lower than in 2015, when the proportion of firms choosing such investments was 66% and 53%, respectively.

Given that information and communications technology (ICT) significantly improves business productivity, it is encouraging to find that the majority of small businesses are continuing to invest in this area.¹⁰ In particular, the survey results show that firms expecting strong revenue growth are more inclined to invest in ICT (Figure 5).

¹⁰ Several studies have associated insufficient investment in ICT with Canada's poor productivity growth, in comparison to the United States. See Someshwar Rao, *Cracking Canada's Productivity Conundrum*, Institute for Research on Public Policy, November 2011.

51%

ONE SMALL BUSINESS OUT OF TWO PLANS TO INVEST IN TRAINING

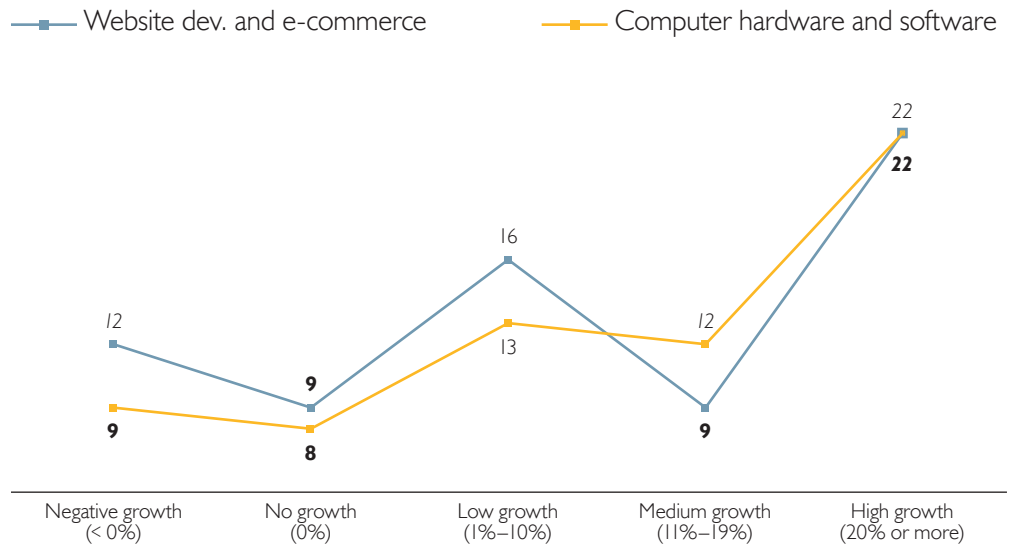
Workforce development is also a concern for a majority of firms. One small business in two (51%) plans to invest in training or in recruiting new talent,¹¹ the same proportion as in 2015. This fact corroborates the findings of a recent BDC study, which indicated that executives of growing small businesses pay particular attention to human resources. The study showed that 85% of them are banking on training, and 72% on hiring more qualified personnel.¹²

Table 1: Investment intentions, by project, 2016

Investment project	Proportion of firms that plan to invest	Average investment per firm
Computer hardware and software	59%	\$12,100
Website development and e-commerce	51%	\$14,100
Workforce training and recruitment	51%	\$42,500
Machinery, equipment and vehicles	48%	\$101,400
Purchase of commercial buildings and land, construction and major renovation work	29%	\$479,000
Innovation, research and development	25%	\$43,700
Business acquisition in Canada	3%	\$282,000

Figure 5: Growing small businesses intend to invest considerably more in ICT

(Average value in thousands of \$)



The numbers in **bold** type indicate a statistically significant difference between sub-groups of a same investment project with a confidence level of 95%.

¹¹ Hiring of new resources, other than replacements.

¹² BDC, *SMEs and Growth: Challenges and Winning Strategies*, October 2015.

2. THE RATIONALE FOR INVESTING, OR NOT INVESTING

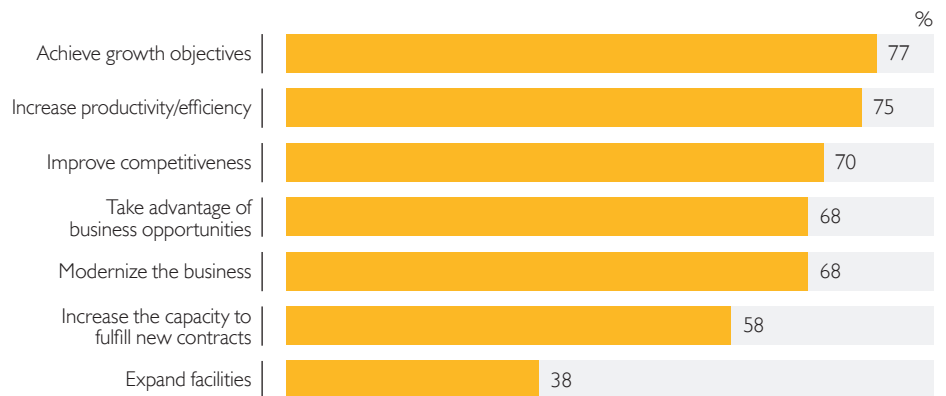
77%

OF SMALL
BUSINESSES THAT
PLAN TO INVEST
DO SO TO
SUPPORT
THEIR GROWTH
STRATEGY

First and foremost, a question of growth and productivity

The vast majority of small businesses (77%) that plan to invest are doing so to support their growth strategy. They also seek to increase their productivity or efficiency (75%) and to improve their competitiveness (70%) (Figure 6). Growth is the main motivation of the small businesses in British Columbia and the territories, Alberta, Quebec, and the Atlantic provinces that plan to invest. In Ontario, Manitoba and Saskatchewan, growth comes second, after the desire to increase productivity or efficiency.

Figure 6: Firms' motivations



48%

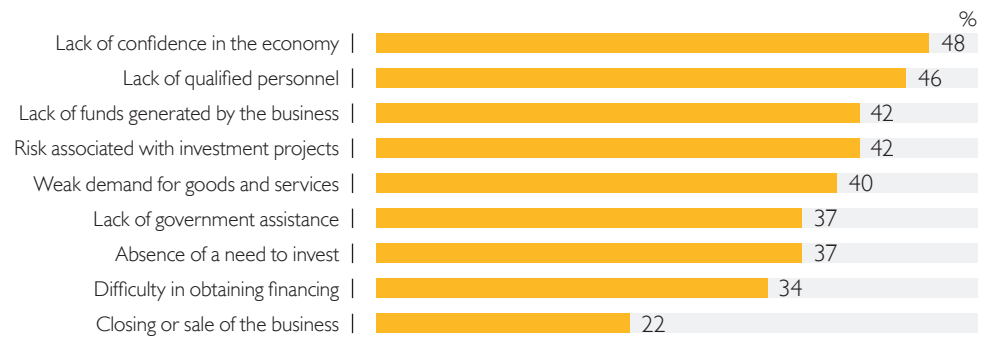
**OF SMALL
BUSINESS
EXECUTIVES
SAY THEY
DO NOT HAVE
CONFIDENCE IN
THE ECONOMY**

Held in check by unfavourable conditions

The firms that are limiting the value of their investments, or choosing not to invest, point mainly to unfavourable conditions. The executives of nearly half of all small businesses (48%) say they do not have confidence in the economy. This is the main obstacle to investing for small businesses in Alberta (66%), Ontario (46%) and the Atlantic provinces (52%). This is also true of the majority of firms in the resources sector (57%), which are much more affected by the generalized slump in commodity prices.

Another factor that makes conditions less favourable for investment is the lack of qualified labour. This issue particularly affects firms in British Columbia and the territories (53%), Manitoba and Saskatchewan (48%), and Quebec (41%).

Figure 7: Obstacles to investment



Differences according to the nature of the firm

Obstacles to investment are not the same for all firms. There can be marked differences if a firm exports, is in a period of growth or is investing outside the country. Firms that fall into these categories face particular challenges:

- > Weak demand for their goods and services, and the lack of funds generated by the business, are the main obstacles to investment for exporting firms (46%).
- > Difficulty in obtaining financing and the risks associated with investments are the main issues facing start-up companies (51%).
- > The lack of funds generated by the business is the main concern of high-growth firms (52%).¹³
- > Risk is still the main obstacle for firms that have investment projects abroad (59%).

¹³ Firms that expect their revenues to grow by 20% or more in 2016.

Table 2: Main obstacles to investment, by category of firm, 2016

ALL FIRMS	EXPORT FIRMS	START-UP FIRMS (two years or less)	HIGH-GROWTH FIRMS	FIRMS THAT INVEST ABROAD
1				
48% Lack of confidence in the economy	46% Weak demand for their products and services	51% Difficulty in obtaining financing	52% Lack of funds generated by the business	59% Risk associated with projects
2				
46% Lack of qualified personnel	46% Lack of funds generated by the business	51% Risk associated with projects	50% Difficulty in obtaining financing	57% Lack of funds generated by the business
3				
42% Lack of funds generated by the business	45% Risk associated with projects	45% Lack of confidence in the economy	47% Lack of government assistance	46% Lack of confidence in the economy

SPECIAL CHALLENGES FACING HIGH-GROWTH FIRMS

Having access to sufficient funds is the main issue facing high-growth firms;¹⁴ often, this is what limits their enthusiasm for investing. These firms need large sums of cash to support their growth. Accordingly, in greater proportions than most other firms, they report a lack of funds generated by the business (52%) and difficulty in obtaining financing (50%). More of them also mention a lack of government assistance (47%) for carrying out their investment projects.

THE MINING AND OIL AND GAS EXTRACTION SECTOR

Small businesses in the mining and oil and gas extraction sector face entirely different realities than their peers in other sectors. In the majority of cases, they choose to invest to take advantage of business opportunities (73%) or to improve their productivity (72%). In addition, considerably more of them (51%) invest in expanding their facilities than small businesses in other sectors do (38%).

At the same time, more executives of small businesses in this sector (75%) express pessimism about the economic outlook. The significant slump in commodity prices over the past year is certainly the main factor behind this finding. The risk associated with investment projects comes second among the reasons curbing the enthusiasm of these firms; they were far more likely to mention it (69%) than were firms in other sectors (42%).

The lack of qualified personnel does not seem to be a major issue in this business sector, since it comes second to last in the list of obstacles to investment. Close to one-third (30%) of respondents in this sector deem it to be an obstacle, which is the lowest score among all the business sectors. Coming in last in the list of concerns of firms in this sector is the risk of the closing or sale of the business, with a score of 19%.

¹⁴ Firms that expect their revenues to grow by 20% or more in 2016.

3. HOW ARE INVESTMENT PROJECTS FUNDED?

AT LEAST

80%

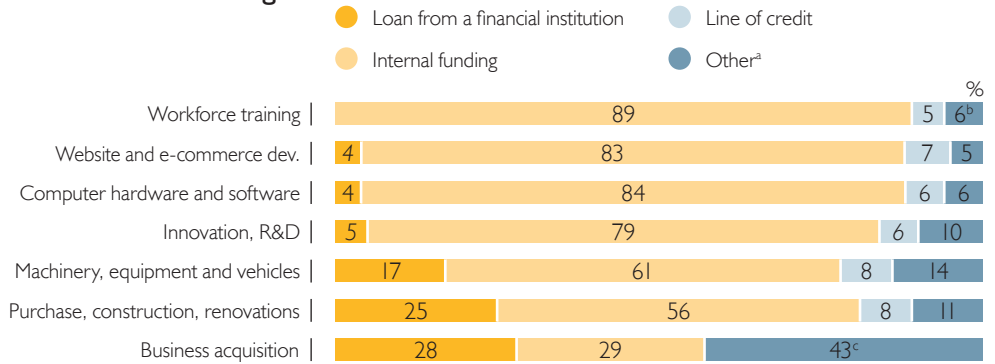
OF INVESTMENT PROJECTS ARE FUNDED FROM THE BUSINESS'S OWN MONEY

Internal funds as a source of money

In most cases, investment projects are funded with the company's own money.¹⁵ This holds true for at least 80% of small businesses whose projects involve a relatively small average investment. The larger the sum to be invested, the more small businesses will turn to an external source, such as a loan or other type of financing (Figure 8).

Figure 8: The higher the sum required for an investment, the more small businesses will rely on a loan

Main source of financing



a Includes government subsidies, credit cards, capital leases, the capital market and venture capital.

b Includes a loan from a financial institution due to the high margin of error for the estimated value of the percentage.

c Includes a line of credit due to the high margin of error for the estimated value of the percentage.

¹⁵ Internal financing includes working capital, owners' equity and retained earnings, to which shareholders' personal assets and the capital of the parent company may be added as sources of funding.

Financing issues

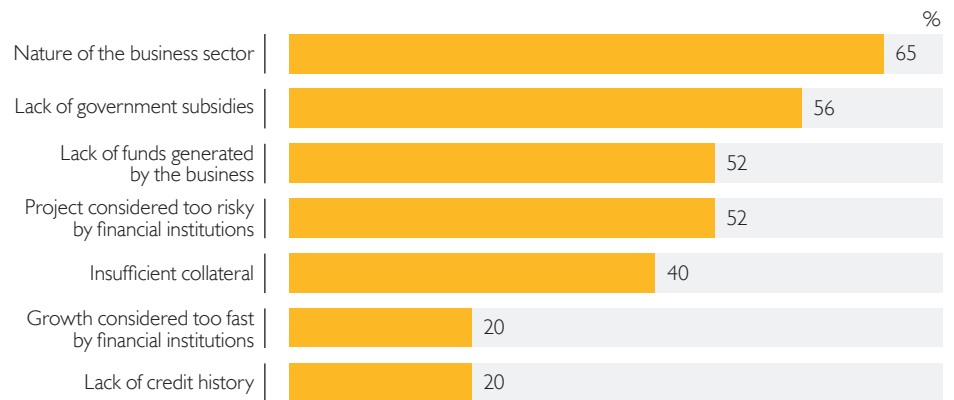
A number of executives of small businesses mentioned difficulty in securing the financing they need to carry out their investment projects, despite the favourable borrowing conditions in Canada at present.

Although the vast majority of respondents stated it was relatively easy to obtain the required financing, 13% of them indicated it was very difficult. The difficulties are even more severe for the following types of companies:

- > young firms, especially those in the start-up phase (30%)
- > firms in the mining and oil and gas extraction sector (28%)
- > firms that supply consumer services¹⁶ (19%)
- > firms that have investment projects abroad (25%)
- > high-growth firms (21%)

As shown in Figure 9, some of the most common limitations cited with respect to financing are the nature of the sector in which the business operates (65%), the lack of government subsidies (56%), the lack of funds generated by the business (52%) and the risk associated with an investment project (52%).

Figure 9: Factors that reduce the ability to obtain financing for investment projects



¹⁶ Consumer services include the following fields: culture, information, arts, entertainment and recreation, accommodation and food services, and other services (except public administration).

4. INVESTMENT PROJECTS OUTSIDE CANADA

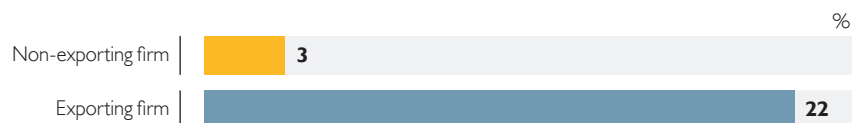
6%

OF SMALL
BUSINESSES HAVE
PROJECTS TO
INVEST ABROAD,
PARTICULARLY
IN THE
UNITED STATES

Few Canadian small businesses invest abroad; only 6% of them have such projects planned for 2016. In the majority of cases (59%), they target the American market. Firms in the manufacturing sector (11%) and the business services sector (9%)¹⁷ are more likely than the others to look beyond Canada's borders. Executives of exporting firms also stand out from the crowd. They are seven times more likely to want to invest abroad (Figure 10), in particular to establish a base by purchasing or building facilities (factories or commercial buildings).

Furthermore, in Ontario and in British Columbia and the territories, a higher proportion of small businesses are considering expanding their investments beyond our borders, at 8% and 9%, respectively.

Figure 10: One in five exporting firms plans to invest outside Canada in 2016



The numbers in **bold** type indicate a statistically significant difference with a confidence level of 95%.

¹⁷ Business services include transportation and warehousing; finance and insurance; real estate and leasing services; professional, scientific and technical services; management of companies and enterprises; and administrative and support, waste management and remediation services.

5. CONCLUSION

The Survey on Investment Intentions of Canadian Entrepreneurs for 2016 is the first study of its kind in Canada. Thanks to a broad sample of firms, it enhances understanding of the factors that executives of small businesses take into account when choosing to invest.

One of the main findings revealed by this survey is that a minority (10%) of small businesses accounts for most (75%) of the money that will be invested in 2016. These firms generally have a strong revenue growth outlook and are aiming to expand their business in international markets. They also rank in the upper echelons in terms of number of employees and years in existence.

Another finding is that confidence about the future is a primary factor influencing the decision to invest. Many entrepreneurs base such decisions on an outlook of sustained revenue growth or on the fact they are located in an area that shows promising signs of economic activity.

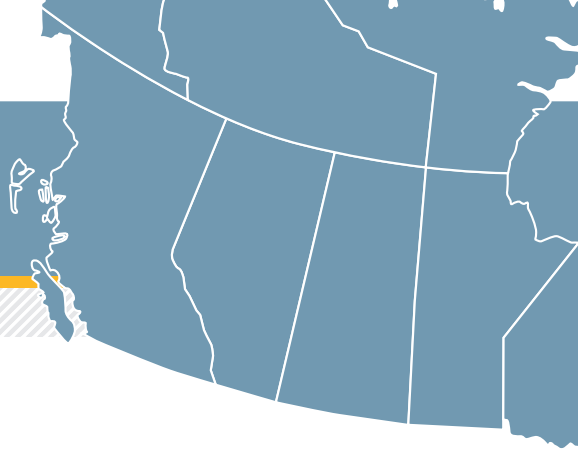
In fact, executives of small businesses who decide to invest generally do so to support their growth strategy. However, a lack of confidence in the economy and a lack of qualified personnel will curb the enthusiasm of many of them and lead them to defer their investment projects. For some firms, difficulty in obtaining the financing they need is the true obstacle to investment. This is mainly the case for exporting firms, start-ups or high-growth companies, or businesses that have investment projects abroad.

That said, it is reassuring to note that most executives are aware it is essential to take measures to remain competitive and improve their firm's productivity. In this regard, the decision to keep investing in technologies and workforce development is very wise.

We can conclude that investment decisions provide evidence of the influence that economic conditions (at the regional, national and global levels) have on executives' decisions. The exchange rate, commodity prices, the ability to recruit the right talent, the accessibility of financing and the revenue growth outlook are all factors that help determine whether a firm will proceed with an investment project.

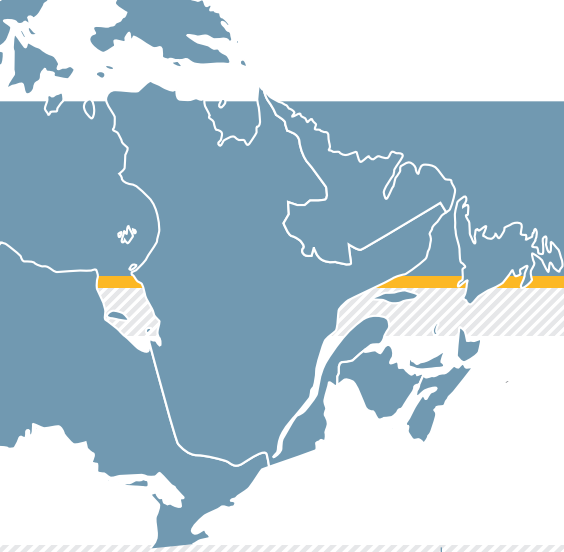
With the Canadian economy experiencing a period of sluggish growth, it is not surprising that executives of small businesses are opting for the path of caution and, for the most part, are maintaining their investments at a level similar to that of last year.

6. REGIONAL OUTLOOKS



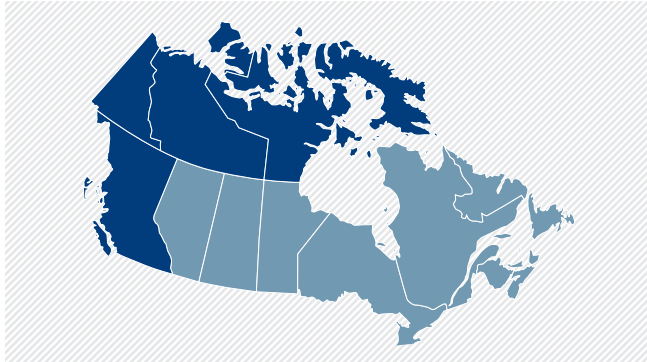
Investment Intentions of Canadian Entrepreneurs: An Outlook for 2016

CANADA	BRITISH COLUMBIA AND THE TERRITORIES	ALBERTA
Share of all Canadian small businesses		
100%	16%	15%
Investment intentions: Median value		
\$41,000	\$50,000	\$65,000
Proportion of small businesses that expect to increase their revenues		
45%	55%	33%
Proportion of small businesses that plan to invest in 2016		
76%	76%	77%
Main reason for investing		
77% Growth	78% Growth	79% Growth
Main obstacle to investing		
48% Lack of confidence in the economy	53% Lack of qualified personnel	66% Lack of confidence in the economy



MANITOBA AND SASKATCHEWAN	ONTARIO	QUEBEC	ATLANTIC PROVINCES
7%	35%	21%	7%
\$55,000	\$39,000	\$25,000	\$30,000
39%	49%	39%	42%
76%	75%	76%	77%
77% Productivity	74% Productivity	83% Growth	79% Growth
48% Lack of qualified personnel	46% Lack of confidence in the economy	41% Lack of qualified personnel Lack of government assistance	52% Lack of confidence in the economy

BRITISH COLUMBIA AND THE TERRITORIES



Leading the pack in terms of increased investment intentions

British Columbia and the territories are in first place when it comes to increasing their investment intentions. Collectively, the firms in this region plan to invest a total of \$33 billion in 2016, a gain of 14% compared with 2015.¹⁸

This upturn in entrepreneurs' investment intentions reflects favourable economic conditions; this region boasts the best growth outlook in Canada. Executives of small businesses there are also more optimistic about revenue growth.

Over half of them (55%) expect to increase their revenues during the coming year, versus 45% of all entrepreneurs across the country (Figure 11).

British Columbia and the territories: Overview of conditions for 2016

Main reasons for investing

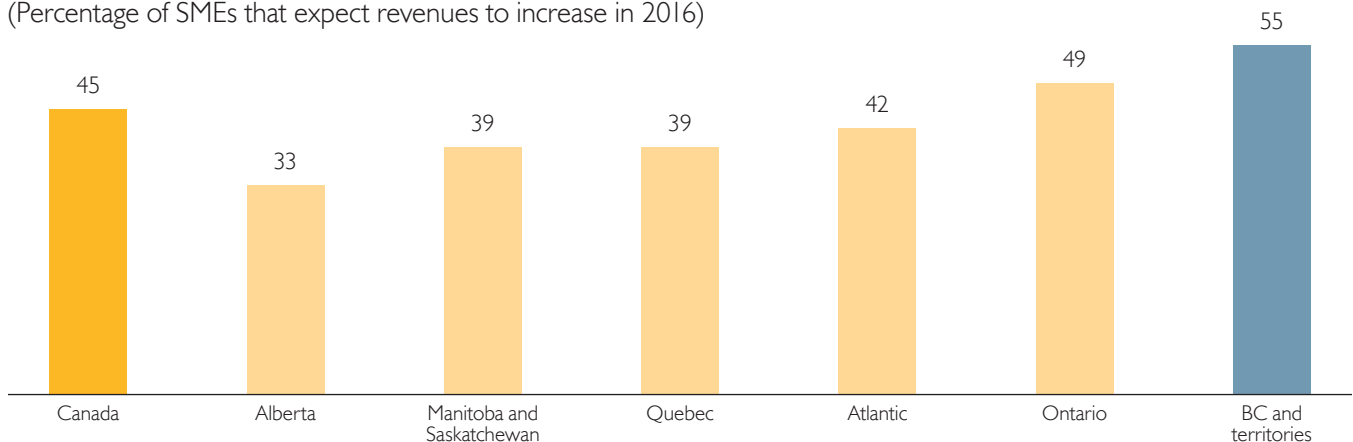
78% Achieve growth objectives	75% Improve competitiveness	74% Take advantage of business opportunities
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Main obstacles to investing

53% Lack of qualified personnel	50% Lack of confidence in the economy	47% Lack of funds generated by the business
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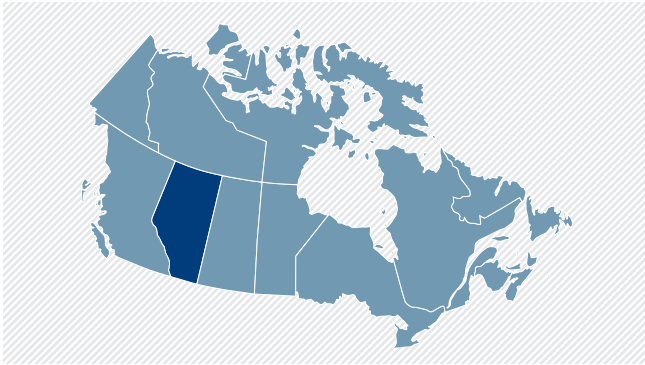
Figure 11: Marked optimism for 2016 among entrepreneurs in British Columbia and the territories

(Percentage of SMEs that expect revenues to increase in 2016)



¹⁸ A significant portion of the planned investments is attributable to a very small number of firms, each of which has a very large sum to invest. This situation results in a high margin of error. That is why we present the total amount of planned investment for information purposes only. If we exclude the amounts invested by this small number of enterprises, total investment intentions are only half as large.

ALBERTA



A region influenced by global economic conditions

To no one's surprise, the plunge in oil prices in the past year has had a strong influence on executives of small businesses in Alberta. The investment intentions of firms in this region are down sharply, due to a real lack of confidence in the economy.

This is the only region in Canada where planned investments will decline in 2016, compared with the previous year. Small businesses in Alberta plan to invest \$11 billion, or 27% less than they did in 2015. Lack of confidence in the economy is the main factor behind this major pullback. In fact, executives of Alberta's small businesses are more pessimistic about the future than are Canadian entrepreneurs overall (Figure 12).

Only a third of Albertan entrepreneurs (33%) expect to see an increase in their revenues in 2016; this is one of the lowest scores in the country. In addition, more of them (66%) lack confidence in the economy.

On the other hand, small businesses in Alberta are in the lead with respect to intentions to invest in workforce training. The median value of investments in that area is \$24,000, up by \$4,000 from 2015.

Alberta: Overview of conditions for 2016

Main reasons for investing

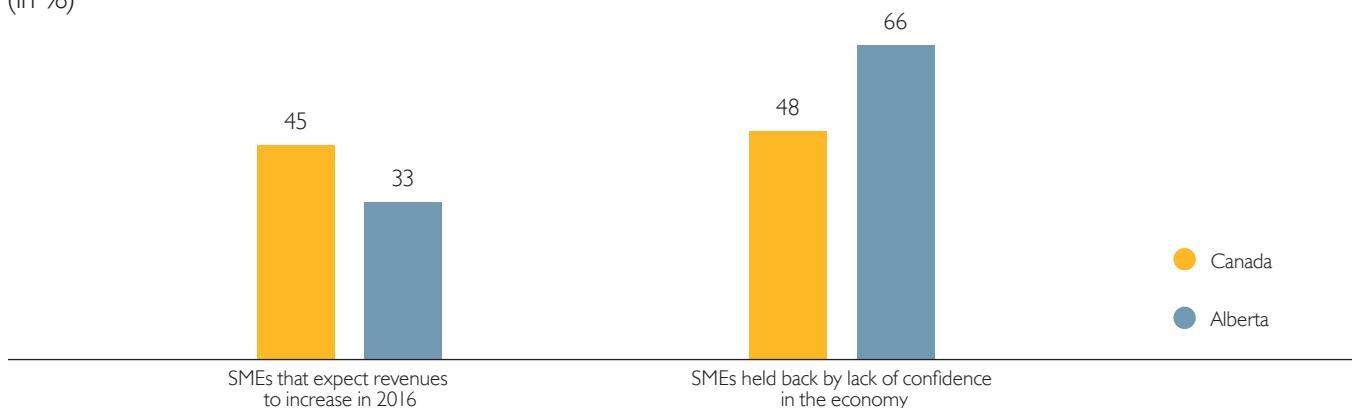
79% Achieve growth objectives	74% Increase productivity or efficiency	72% Take advantage of business opportunities
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Main obstacles to investing

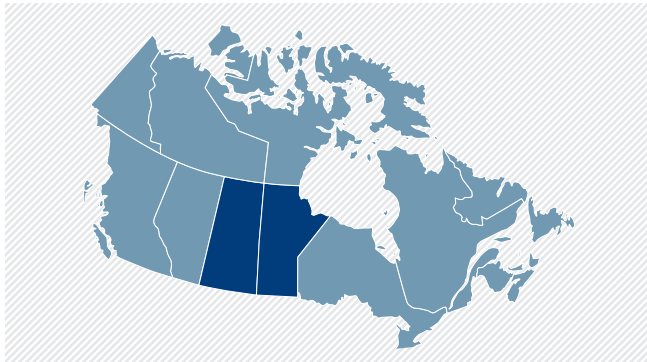
66% Lack of confidence in the economy	49% Weak demand for goods and services	49% Lack of qualified personnel
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Figure 12: Marked pessimism for 2016 among small businesses in Alberta

(in %)



MANITOBA AND SASKATCHEWAN



Two opposite trajectories

In Manitoba, the survey results show an increase in investment intentions among executives of small businesses, who are showing the highest degree of optimism in the country. Nearly half of these entrepreneurs (48%) are expecting revenue growth in 2016, and only 38% of them consider economic conditions an obstacle to investment (Figure 13), the lowest score in the country on that point.

Conversely, Saskatchewan's economy is suffering the repercussions of the plunge in commodity prices and the drought that has hit some of the province's farms. Consequently, only one-third (33%) of small businesses are expecting an increase in their revenues—a result similar to that found in Alberta—while nearly half of them (48%) lack confidence in the economy (Figure 13).

Manitoba: Overview of conditions for 2016

Main reasons for investing

80%

Increase productivity or efficiency

77%

Modernize the business

77%

Achieve growth objectives

Main obstacles to investing

48%

Lack of qualified personnel

46%

Lack of funds generated by the business

46%

Risk associated with investment projects

Saskatchewan: Overview of conditions for 2016

Main reasons for investing

75%

Increase productivity or efficiency

73%

Achieve growth objectives

70%

Modernize the business

Main obstacles to investing

49%

Lack of qualified personnel

48%

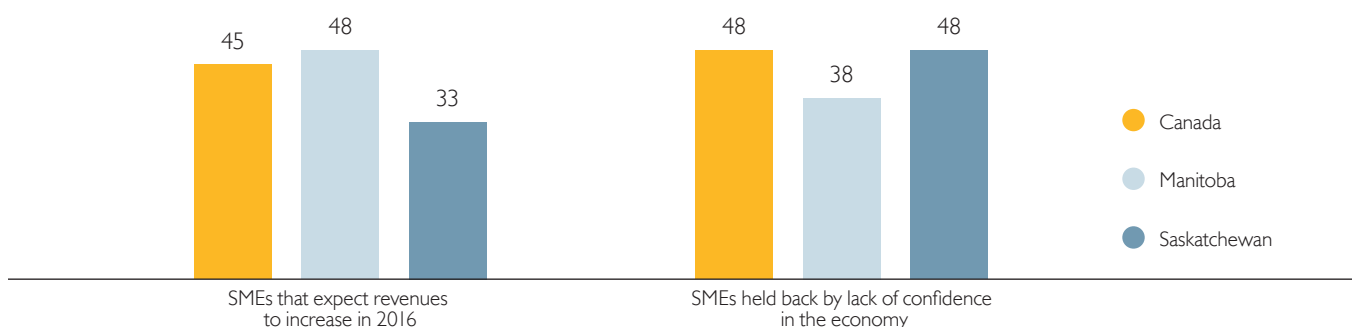
Lack of confidence in the economy

45%

Risk associated with investment projects

Figure 13: Opposite trajectories for Manitoba and Saskatchewan

(in %)



ONTARIO



Champions of investment intentions in terms of absolute value

Ontario has the largest number of small businesses of any region in Canada, so it is not surprising that it should hold first place with respect to investment intentions. Ontario's small businesses plan to invest a total of \$44 billion in 2016, 2% more than in 2015; this represents 40% of the value of planned investments for Canada as a whole (Figure 14). Executives of Ontario's small businesses also have greater than average optimism: 49% of them believe their revenues will increase, compared with 45% of all the survey respondents.

That said, more executives in Ontario mentioned having difficulty in obtaining the financing required for their investment projects. Even though, in general, access to financing is favourable, the survey shows that nearly one Ontario small business out of five (17%) is having trouble

raising the funds required to carry out its projects; this is considerably higher than the national average (13%). This problem affects a larger percentage of small businesses that are in the consumer services sector (24%), have investment projects abroad (29%), are high growth (31%) or are start-ups (56%). The executives of these firms say the business sector in which they operate is largely the reason for this situation.

Ontario: Overview of conditions for 2016

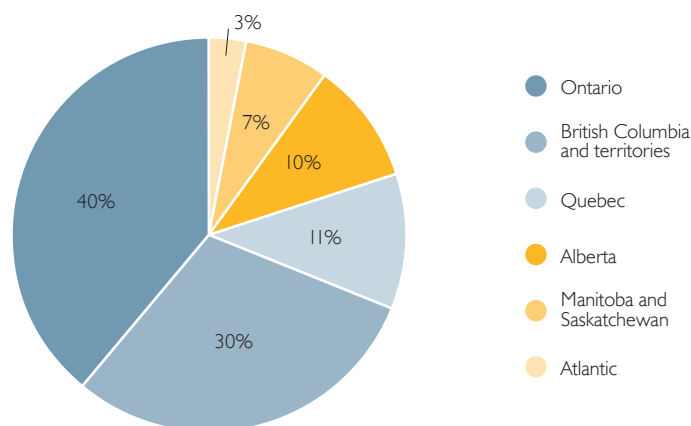
Main reasons for investing

74% Increase productivity or efficiency	74% Achieve growth objectives	66% Improve competitiveness
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Main obstacles to investing

46% Lack of confidence in the economy	45% Lack of qualified personnel	42% Lack of funds generated by the business
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Figure 14: Ontario leads in the value of investment intentions for 2016



Note: Figures may not add up to 100% due to rounding.



Investment intentions are modest

Overall, small businesses in Quebec plan to invest around \$12 billion in 2016, an amount similar to that invested last year. This finding runs counter to the trend in economic growth, which should accelerate in Quebec during this period.¹⁹ In such conditions, one might have expected the investment intentions to follow a similar upward curve. However, an in-depth analysis of the survey data shows that 39% of executives of Quebec small businesses expect their revenues to increase, which is well below the national average of 45%. Also, the amounts invested will be smaller than those that firms in other regions plan to invest (Figure 15).

Executives in Quebec are also the only ones to have mentioned the lack of government assistance as one of the main obstacles to investing (41%). This issue mainly affects start-up firms (72%). It is also the main obstacle raised by firms operating in the resources sector (61%) and in consumer services (49%).

Quebec: Overview of conditions for 2016

Main reasons for investing

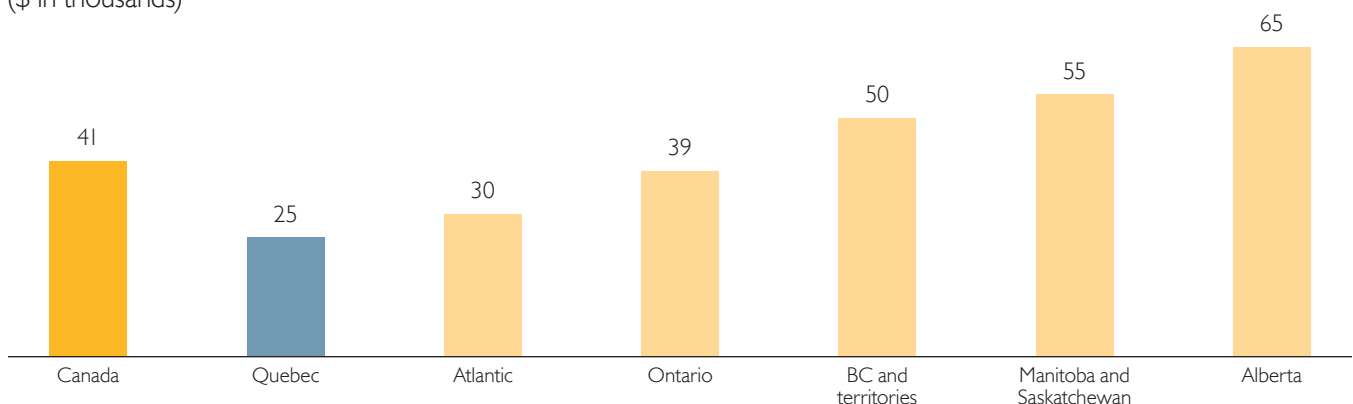
83% Achieve growth objectives	79% Improve competitiveness	78% Increase productivity or efficiency
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Main obstacles to investing

41% Lack of qualified personnel	41% Lack of government assistance	41% Lack of confidence in the economy
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Figure 15: Median value of intended investment in 2016

(\$ in thousands)



¹⁹ The average of the forecasts by the Canadian chartered banks and Desjardins Group is 1.4% in 2015 and 1.8% in 2016 (based on the most recent data available as at December 1, 2015).

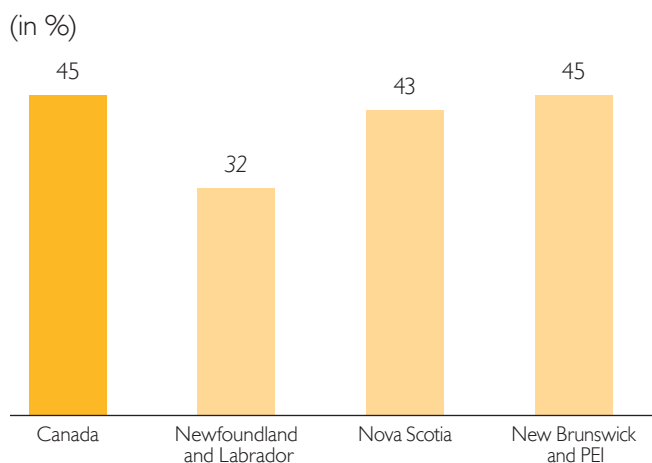
ATLANTIC PROVINCES



Newfoundland and Labrador is in a different context

Like Alberta and Saskatchewan, Newfoundland and Labrador is being hurt by the collapse of oil prices. Executives of just one firm out of three (32%) in this province believe that their revenues will increase in 2016, whereas the other Atlantic provinces show a score close to the Canadian average on this point (Figure 16).

Figure 16: Small businesses that expect their revenues to increase



However, it is the firms in Newfoundland and Labrador that plan to invest the largest sums to carry out their projects in 2016. The median value of investment is \$37,000, versus \$31,000 in Nova Scotia, and \$23,000 in New Brunswick and Prince Edward Island.

New Brunswick and Prince Edward Island: Overview of conditions for 2016

Main reasons for investing

82% Achieve growth objectives	81% Increase productivity or efficiency	71% Modernize the business
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Main obstacles to investing

55% Lack of confidence in the economy	46% Lack of qualified personnel	45% Lack of government assistance
---	---	---

Nova Scotia: Overview of conditions for 2016

Main reasons for investing

73% Achieve growth objectives	72% Increase productivity or efficiency	71% Improve competitiveness
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Main obstacles to investing

49% Lack of confidence in the economy	49% Risk associated with investment projects	47% Lack of qualified personnel
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Newfoundland and Labrador: Overview of conditions for 2016

Main reasons for investing

83% Achieve growth objectives	81% Increase productivity or efficiency	79% Modernize the business
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Main obstacles to investing

51% Lack of confidence in the economy	47% Lack of qualified personnel	37% Lack of government assistance
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METHODOLOGY USED IN THE SURVEY

We asked the research firm SOM to conduct a telephone survey of roughly 4,000 executives of businesses with 1 to 499 employees. The survey was carried out between August 19 and November 4, 2015. Non-proportional, stratified sampling was used in order to obtain a sufficient number of respondents in each region of the country and in each group of firms, based on their size. The results were then weighted according to region and size to ensure they were representative of the population of small businesses in Canada.

The maximum sampling error for all respondents is 2.2%, 19 times out of 20. All of the statistics presented have a coefficient of variation of 16.5% or less, except those in italics, for which the coefficient of variation is between 16.6% and 25.6%. These latter results should be used with caution.

Figure 17: Distribution of respondents, based on number of employees

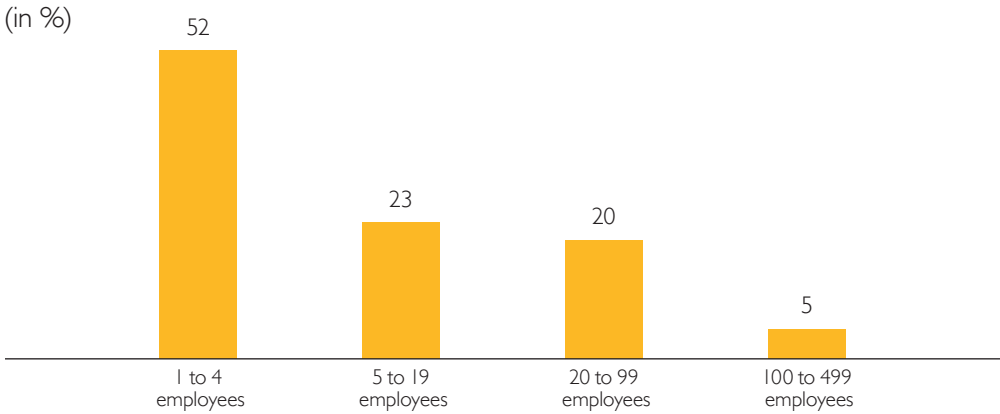




Figure 18: Distribution of respondents, by region

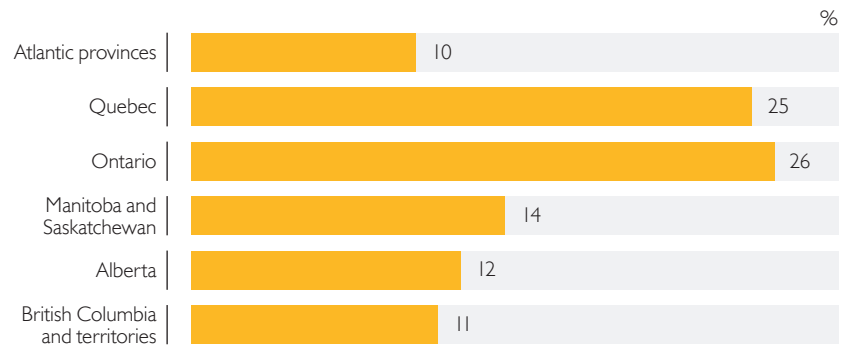
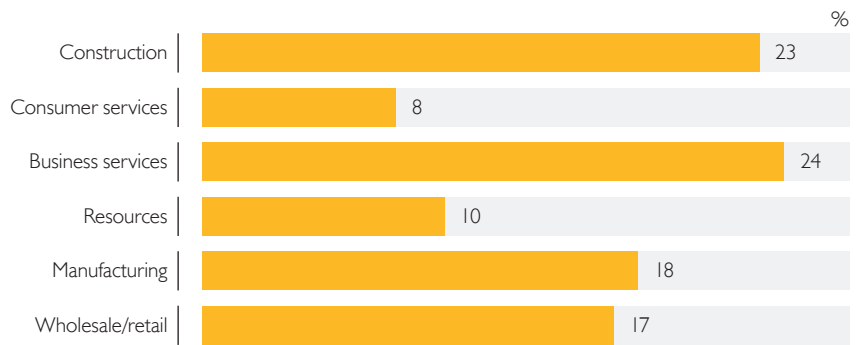


Figure 19: Distribution of respondents, by business sector



CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This paper contains forward-looking statements about future events. In this context, the forward-looking statements pertain to our forecasts of the future business and financial performance of small and medium-sized Canadian enterprises. These statements contain terms such as “wants,” “anticipates,” “expects,” “intends,” “plans,” “has the intention,” “believes,” “could,” “should” and “would be.” By their very nature, forward-looking statements cover topics that can, to varying degrees, be random.

Various risks and uncertainties could substantially change the results presented in this report. Those risks include, without being limited to, the performance of industries and firms, the impact of a change in regulation or policy, the performance of the national or international economy, and any other regional, national or international change including changes of a political or economic nature, or relating to the business environment.

All the information contained herein is verified to the best of our ability and constitutes our judgment at the time of publication; it does not constitute general or specific financial, legal, tax or accounting advice of any kind. This report is based on data collected between August 19 and November 4, 2015, and any error or omission is not BDC’s responsibility. Readers bear sole responsibility for any use they may make of this information.

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