

## How many Canadian businesses are at risk of permanently closing due to COVID-19?

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### Current business conditions

Since mid-March, governments across Canada have imposed severe restrictions on business/economic activity as part of their plans to fight COVID-19. Many restrictions have recently been relaxed, but small businesses have not returned to normal staffing or sales levels. The latest [small business recovery dashboard](#) shows COVID-19 has led to a significant drop in activity at Canadian independent businesses. Only 62 per cent are currently fully open, with 37 per cent at or above normal staffing capacity and 26 per cent at or above normal sales.

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### Normal business turnover

Under normal conditions, businesses enter and exit the economy. The latest StatCan data shows<sup>1</sup> that, on average, business entries (starts) were 140,000 each quarter between the third quarter of 2016 and the third quarter of 2019. Business exits (permanently closing) averaged roughly 126,000 per quarter. Net business creation has been positive for every single one of the past 13 measured quarters, averaging +14,000 (+1.2%). These pre-COVID numbers help put current small business exits into perspective.

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### How many Canadian businesses are currently at risk of closing?

Acknowledging this ebb and flow that is naturally occurring in the Canadian economy, CFIB estimates the number of Canadian small and medium-sized enterprises (SMEs) at risk of closing **due to COVID-19**. The estimate also **does not include** business closures due to COVID-19 that already happened prior to the end of June.<sup>2</sup>

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<sup>1</sup> Statistics Canada. [Table 33-10-0165-01 Quarterly estimates of business entry and exit](#)

<sup>2</sup> While there are no good estimates yet of how many businesses closed between March and the end of June as a result of COVID-19, a [Facebook/OECD/World Bank](#) international survey conducted at the end of May with about 30,000 SMEs that have a Facebook Business Page (including 1,609 from Canada) show 6.8% of respondents had to close due to COVID-19 with no indication they expected to reopen.

## How many Canadian businesses are at risk of permanently closing due to COVID-19?

CFIB estimates that the number of Canadian small and medium-sized businesses (SMEs) at risk of closing due to COVID-19 is in the range of 55,000 to 218,000 (between 5% and 19% of all SMEs). The wide range reflects high uncertainty business owners are feeling about the future. **CFIB's mid-range estimate is 158,000 (14% of SMEs, or one in seven).**

To estimate the proportion of SMEs that are likely to close permanently, CFIB used results from a June 26-July 2 member survey where respondents were asked to what extent they agreed or disagreed with the following statement: "I am actively considering bankruptcy/winding down my business as a result of COVID-19". Projecting these results to all Canadian SMEs allowed us to determine an estimate and a range around the estimate for business closures across Canada, by province and by sector. The methodology, including how the range was determined, is more fully discussed in the appendix.

Detailed results of CFIB's estimates are presented in Table 1. For example, the first row of the table shows that the mid-range estimate for businesses at risk of closing in Newfoundland and Labrador is 2,735 SMEs (16% of all SMEs in the province). The table also provides a low and high-end range around the estimate.

Based on the survey results, Alberta has higher percentages of businesses at risk of closure compared to the average, with 19% or almost one in five actively considering bankruptcy or winding down their business.

Industries most at risk include Arts/Recreation/Information (30%) and Hospitality (27%).

CFIB estimates may be conservative as member businesses are usually more established and therefore more resilient.<sup>3</sup> There is also a "survivor" survey bias as CFIB membership ends when a business stops being active. Worryingly, this indicates high vulnerability even within the most resilient group of Canadian independent businesses.

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<sup>3</sup> In mid-June, the [B.C. Business Council](#) reported that the number of B.C. businesses with at least one paid employee could be 10% to 15% (20,000-30,000) lower before the end of 2021, which is consistent with CFIB's BC estimate.

In a mid-April [Restaurants Canada](#) survey, 8% of respondents said they had already closed their doors permanently and one out of every two independent restaurants indicated they would do so in the next three months under the current conditions. The number indicating they would close is higher than CFIB's estimate.

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TABLE 1

### Projection of SMEs at risk of closing due to COVID-19, Canada, summer 2020

	Low end estimate		Mid-range estimate		High end estimate	
	total SMEs at risk	as a share of all SMEs	total SMEs at risk	as a share of all SMEs	total SMEs at risk	as a share of all SMEs
Newfoundland and Labrador	1,380	8%	2,735	16%	3,435	19%
Prince Edward Island	0	0%	220	4%	769	12%
Nova Scotia	923	3%	2,272	9%	3,503	13%
New Brunswick	1,342	6%	3,247	15%	4,752	21%
Quebec	5,128	2%	17,993	8%	29,564	14%
Ontario	23,545	6%	67,112	16%	90,253	22%
Manitoba	1,071	3%	4,279	11%	5,475	15%
Saskatchewan	1,665	4%	6,283	16%	8,503	21%
Alberta	13,097	8%	32,522	19%	42,159	25%
British Columbia	6,395	4%	21,116	12%	28,820	16%
Territories	31	1%	439	11%	650	17%
<b>CANADA</b>	54,577	5%	158,218	14%	217,883	19%
Agriculture and Natural Resources	1,941	3%	6,018	9%	8,726	12%
Construction	5,743	3%	16,157	9%	25,415	15%
Manufacturing	1,601	3%	6,924	13%	11,769	22%
Wholesale	1,119	2%	4,865	10%	7,472	15%
Retail	5,664	5%	17,190	15%	23,944	21%
Transportation, Wharehousing & Utilities	3,023	3%	13,572	15%	18,099	20%
Arts, Recreation & Information	3,582	10%	10,788	30%	14,205	39%
Finance, Insurance, Real Estate & Leasing / Enterprises & Administration Management	11,342	7%	26,177	16%	31,110	19%
Professional Services	5,019	3%	12,876	7%	19,128	11%
Hospitality	8,504	10%	22,962	27%	29,563	35%
Other Services	7,038	6%	20,689	17%	28,452	23%
<b>CANADA</b>	54,577	5%	158,218	14%	217,883	19%

## Conclusion

Since mid-March, things have been far from business as usual in Canada. Many independent businesses continue to be negatively affected, with only 62 per cent fully open, 37 per cent at or above normal staffing capacity and 26 per cent at or above normal sales. **CFIB estimates that going forward 158,000 (14%) Canadian small and medium-sized businesses (SMEs) are at risk of closing due to COVID-19**, a number that does not include businesses that have already shut their doors. The low range of CFIB's estimate is 55,000 and the upper end of the range is 218,000 (between 5% and 19% of all SMEs). Sectors most at risk include Arts/Recreation/Information and Hospitality.

## Appendix: Methodology

To estimate the proportion of SMEs that are likely to be at risk, CFIB used survey results from its 15<sup>th</sup> national member survey on COVID-19 (June 26-July 2, 2020). Respondents were asked to list their level of agreement with the statement: “I am actively considering bankruptcy/winding down my business as a result of COVID-19 (see Table 2 and Figures 1-2 below).

TABLE 2

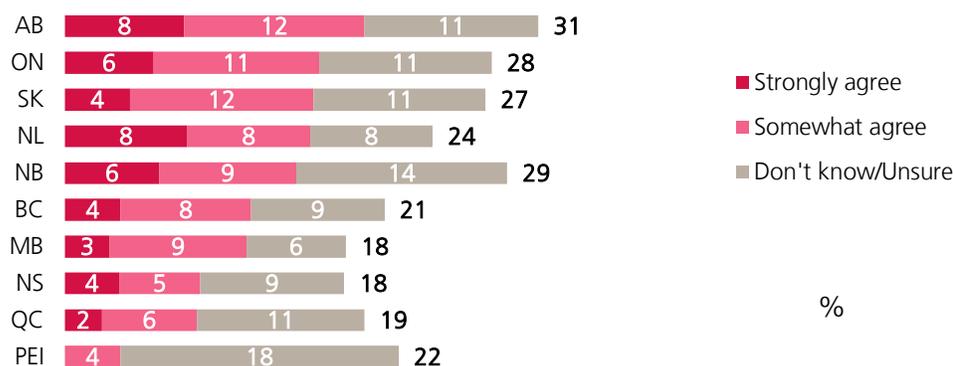
### “I am actively considering bankruptcy/winding down my business as a result of COVID-19” – Canada

	n	%
<i>Strongly agree</i>	218	4.9%
<i>Somewhat agree</i>	421	9.4%
<i>Somewhat disagree</i>	416	9.3%
<i>Strongly disagree</i>	2,293	51.1%
<i>Don't know/Unsure</i>	475	10.6%
<i>Not applicable</i>	661	14.7%
<i>Total</i>	4,484	100.0%

Source: CFIB, “Your Business and COVID-19 - Survey Number Fifteen”, controlled-access online survey, June 26-July 2, 2020. The number of respondents for that question was 4,484. For comparison purposes, a probability sample with the same number of respondents would have a margin of error of +/-1.5%, 19 times out of 20.

Figure 1

### “I am actively considering bankruptcy/winding down my business as a result of COVID-19” – By province



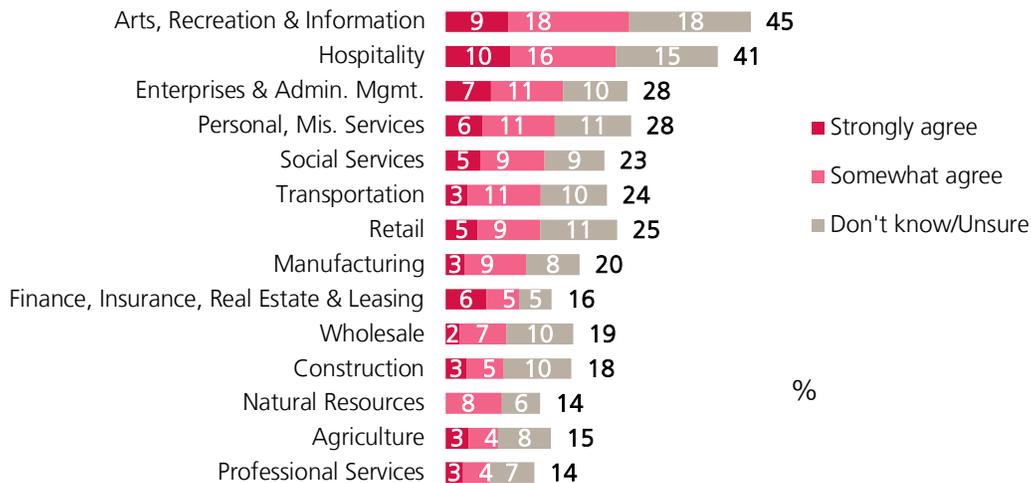
Source: CFIB, “Your Business and COVID-19 - Survey Number Fifteen”, controlled-access online survey, June 26-July 2, 2020. The number of respondents for that question was 4,484. For comparison purposes, a probability sample with the same number of respondents would have a margin of error of +/-1.5%, 19 times out of 20.

Note: provinces ranked according to the sum of “Strongly agree” + “Somewhat agree”

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Figure 2

### "I am actively considering bankruptcy/winding down my business as a result of COVID-19" – By industry



Source: CFIB, "Your Business and COVID-19 - Survey Number Fifteen", controlled-access online survey, June 26-July 2, 2020. The number of respondents for that question was 4,484. For comparison purposes, a probability sample with the same number of respondents would have a margin of error of +/-1.5%, 19 times out of 20.

Note: provinces ranked according to the sum of "Strongly agree" + "Somewhat agree"

### Data for total SME count

CFIB uses the survey results above to project an estimate of businesses at risk for the entire Canadian SME group. StatCan data on SMEs that are active employer businesses (1,137,260 as of Q3 2019) is the main source of data for estimating the SME group. StatCan business location counts are used to estimate provincial/business size distribution because these breakdowns are not available for the StatCan data on active employer businesses.

### Estimate of all Canadian SMEs at risk

The percentages from the CFIB survey described above are applied to the count of SMEs that are active employer businesses. Some adjustments are made for province, industry and business size to reflect the differences between the composition of the CFIB membership and that of all Canadian businesses. Special industry groups are created to account for difference in industry classification between CFIB survey data and StatCan data.

We project three estimates based on the responses to the statement "I am actively considering bankruptcy/winding down my business as a result of COVID-19":

- Low end estimate: applying only respondents who selected "strongly agree"
- Mid-range: "strongly agree" + "somewhat agree"
- High end: "strongly agree" + "somewhat agree" + 50% of the "don't know/unsure"

Although the ratio of net "agree" (n = 639) vs net "disagree" (n = 2,709) is about 1 to 4, we have split the "don't know/unsure" group into equal shares of net "agree" and "disagree" to reflect the notion of risk, which is linked to high uncertainty about the future.