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Analysis in Brief

The state of business financing and debt in Canada, fourth quarter of 2024

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The state of business financing and debt in Canada, fourth quarter of 2024

by **Stephanie Tam, Shivani Sood** and **Chris Johnston**

Businesses may decide to take on debt for several reasons. For businesses that are flourishing, debt can be a useful tool for growth and investment purposes. For those that are struggling, it can be a way to endure difficult business conditions.

Recent changes in economic conditions may have impacted business decisions related to debt. Monetary authorities have reacted by decreasing interest rates, which could affect debt servicing costs. After the target overnight rate in Canada remained at 5.0% from July 2023 to June 2024 — the highest level since 2008 — the Bank of Canada decreased the overnight rate by 0.25% in June, July and September 2024, and by 0.5% iin October and December 2024, landing at 3.25%.[1] In this rapidly changing context, understanding business debt levels, the challenges associated with debt, and plans for taking on new debt are important.

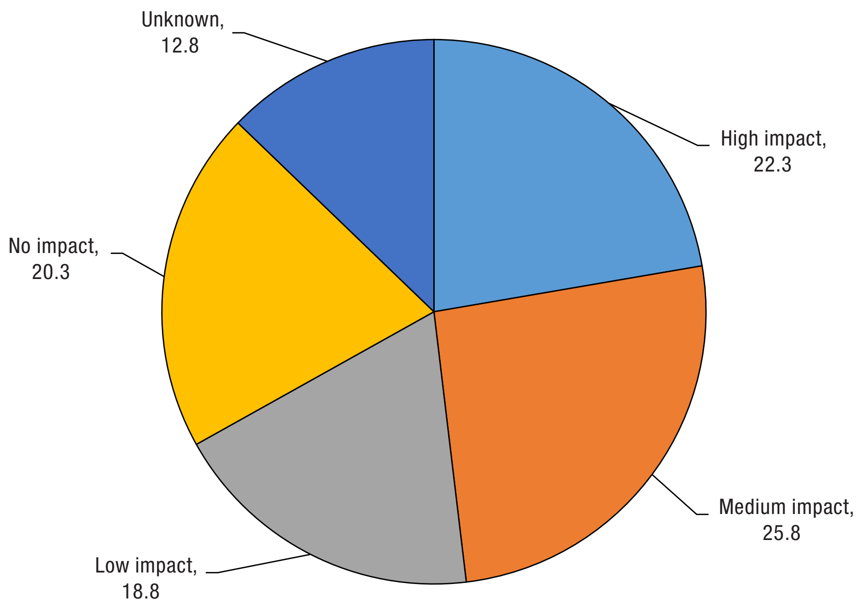
From the beginning of October to early November 2024, Statistics Canada conducted another iteration of the Canadian Survey on Business Conditions to better understand the current environment that businesses in Canada are operating in and their expectations moving forward. Based on the results of the survey, most businesses said that interest rates had at least some impact on the business over the last 12 months. At the same time, most businesses have the cash or liquid assets to operate, and most do not plan to apply for debt financing. This article provides insights on interest rates, liquidity and debt and their impacts on businesses in Canada.

Interest rate impact on businesses in Canada

Although one-fifth (20.3%) of businesses said that interest rates had no impact on the business over the last 12 months, two-thirds (66.9%) reported that interest rates had at least some impact on the business. Specifically, one-quarter (25.8%) of businesses said that interest rates had a medium impact on the business, while around one-fifth said that they had either a low (18.8%) or high (22.3%) impact. Additionally, 12.8% of businesses were unsure on the level of impact interest rates had on the business.

1. Bank of Canada. 2024. Policy interest rate.

Chart 1
Level of impact interest rates had on the business over the last 12 months, fourth quarter of 2024



Source: Canadian Survey on Business Conditions, fourth quarter of 2024 (Table 33-10-0908-01).

The sectors in which businesses were most likely to report that interest rates had an impact on the business were construction (76.0%); real estate and rental and leasing (74.4%); and agriculture, forestry, fishing and hunting (73.3%).

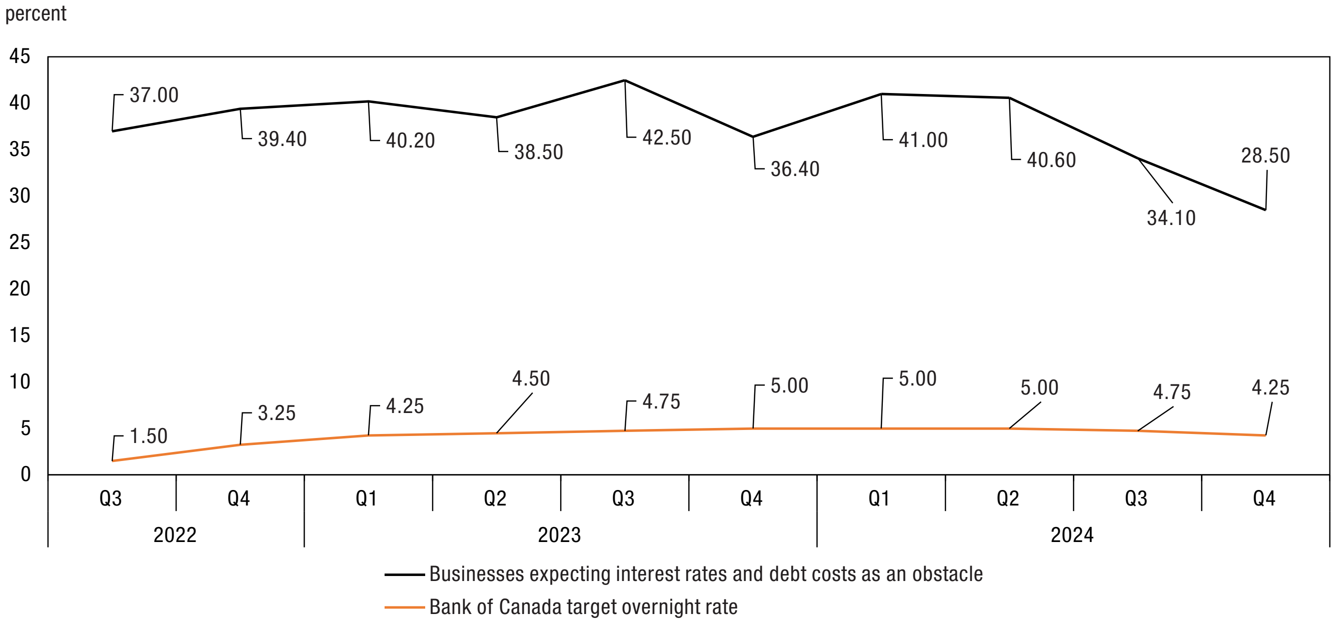
Businesses with 100 or more employees were the least likely (55.2%) among all business sizes to report that interest rates had an impact on the business. By comparison, around two-thirds of businesses with 1 to 4 employees (65.2%), 5 to 19 employees (68.7%) and 20 to 99 employees (71.9%) reported that interest rates had an impact on the business.

Among businesses impacted by interest rates, one-third (33.3%) reported that the cost of existing debt was most impacted by interest rates. Meanwhile, nearly one-fifth (18.0%) reported that sales of products and services offered by the business were most impacted and 15.3% reported it was new borrowing costs.

Interest rates and debt costs as an expected obstacle has decreased since previous quarters

Nearly 3 in 10 (28.5%) businesses expect interest rates and debt costs to be an obstacle over the next three months. This is a decrease from the third quarter of 2024, when over one-third (34.1%) of businesses had this expectation. Additionally, the proportion of businesses expecting this to be an obstacle peaked in the third quarter of 2023 at 42.7%, around the same time that the Bank of Canada’s target overnight rate reached 5.0%, its highest level since 2008.

Chart 2
Businesses expecting interest rates and debt costs as an obstacle, and the Bank of Canada target overnight rate



Source: Canadian Survey on Business Conditions, third quarter of 2022 to fourth quarter of 2024; and Bank of Canada, Policy interest rate.

Businesses in transportation and warehousing (42.8%) and agriculture, forestry, fishing and hunting (38.4%) were most likely to expect interest rates and debt costs to be an obstacle.

Smaller businesses were more likely to expect interest rates and debt costs as an obstacle. Nearly 3 in 10 businesses with 1 to 4 employees (28.7%), 5 to 19 employees (28.9%), and 20 to 99 employees (27.7%) expect interest rates and debt costs as an obstacle over the next three months, compared with 18.3% of businesses with 100 or more employees.

Most businesses have cash or liquid assets required to operate

Nearly three-quarters (73.8%) of businesses reported that they have the cash or liquid assets required to operate over the next three months, while 12.0% do not and 14.2% were unsure. The proportion of businesses that have the cash or liquid assets required to operate was slightly higher this quarter than in the third quarter of 2024 (72.5%). In the fourth quarter of 2024, among businesses who said that they do not have the cash or liquid assets required to operate, 32.5% said that they would be able to acquire these assets if needed.

Liquidity among businesses varies by sector. The sectors in which businesses were most likely to report having the cash or liquid assets required to operate over the next three months were agriculture, forestry, fishing and hunting (86.5%); wholesale trade (85.7%); and mining, quarrying, and oil and gas extraction (82.6%). By contrast, businesses in transportation and warehousing (24.2%), construction (17.9%) and real estate and rental and leasing (17.9%) were the most likely to report that they do not have the cash or liquid assets required to operate over the next three months.

Businesses with 100 or more employees (81.0%) and 20 to 99 employees (80.3%) were the most likely to have the cash or liquid assets required to operate. Meanwhile, nearly three-quarters of businesses with 5 to 19 employees (74.2%) and 1 to 4 employees (72.0%) reported having the cash or liquid assets required to operate.

Plans to apply for debt financing

The majority of businesses do not plan to apply for debt financing[2] over the next three months. Specifically, nearly three-quarters (72.7%) of businesses reported that they do not plan to apply for a new line of credit, a new term loan, a new non-residential mortgage or the refinancing of an existing non-residential mortgage over the next three months, while 8.6% have plans to apply and 18.7% are unsure of their plans. These are similar proportions to the fourth quarter of 2023 (69.7%, 12.2% and 18.1% respectively). Businesses in agriculture, forestry, fishing and hunting (17.0%) and accommodation and food services (16.4%) were most likely to have plans to apply for debt financing.

Among businesses that do not plan to apply for debt financing over the next three months, nearly one-quarter (23.4%) said that they also do not have the ability to take on more debt. The top reasons these businesses cannot take on more debt included a lack of confidence or uncertainty in future sales (45.4%), interest rates being unfavourable (39.9%) and cash flow (34.7%).

Businesses in transportation and warehousing (37.0%), manufacturing (33.0%) and administrative and support, waste management and remediation services (27.5%) were the most likely to state that they do not have the ability to take on more debt. Meanwhile, businesses in finance and insurance (86.4%), wholesale trade (74.8%) and mining, quarrying, and oil and gas extraction (73.4%) were the most likely to state that they have the ability to take on more debt.

Smaller businesses were more likely than larger businesses to be unable to take on more debt. Around one in five smaller businesses with 1 to 4 employees (28.8%) or 5 to 19 employees (18.5%) do not have the ability to take on more debt. By comparison, larger businesses were less likely to be unable to take on more debt, as reported by 10.7% of businesses with 20 to 99 employees and 6.5% of businesses with 100 or more employees.

Smaller businesses were also more likely to report a pessimistic future outlook, with 19.3% of businesses with 1 to 4 employees and 14.4% of businesses with 5 to 19 employees having this perspective. By contrast, 10.2% of businesses with 20 to 99 employees and 11.6% of businesses with 100 or more employees have a pessimistic future outlook over the next 12 months.

Methodology

From October 1 to November 4, 2024, representatives from businesses across Canada were invited to complete an online questionnaire about business conditions and business expectations moving forward. The Canadian Survey on Business Conditions uses a stratified random sample of business establishments with employees classified by geography, industry sector and size. Proportions are estimated using survey weights, ensuring that the survey results are representative of all employer businesses in Canada. The total sample size for this iteration of the survey was 20,955, and results are based on responses from a total of 9,420 businesses or organizations.

References

Statistics Canada. 2024. Canadian Survey on Business Conditions, fourth quarter of 2024.

2. Debt financing refers to a new line of credit, a new term loan, a new non-residential mortgage, or the refinancing of an existing non-residential mortgage.