Innovation, Science and Economic Development Canada
Innovation, Sciences et Développement économique Canada

2022

Biannual Survey of Suppliers of Business Financing

Data Analysis, First Half 2022

This document presents data on business lending activities gathered from the Statistics Canada Biannual Survey of Suppliers of Business Financing, the Bank of Canada Senior Loan Officer Survey and Business Outlook Survey, and the PayNet Canadian Business Lending Index.

Canada

Summary

Overall, private sector lending extended to Canadian businesses continued to grow in the first half of 2022 (January to June), with increases in credit outstanding and new disbursements to businesses of all sizes, in nearly every industry sector. These increases occurred in the context of increases in the Bank of Canada's policy interest rate, which rose from 0.25% in January 2022 to 1.5% in June 2022. Businesses reported to the Bank of Canada a continued tightening of business lending conditions, while lender sentiment on business lending was mixed.

The *Biannual Survey of Suppliers of Business Financing* covers the lending of banks, credit unions and other suppliers of financing in Canada and excludes government-funded lending such as the Canada Emergency Business Account (CEBA).

According to data from the *Biannual Survey of Suppliers of Business Financing*, business sector lending continued to increase in the first half of 2022. The value of disbursements increased by 3.4% from the second half of 2021 (July to December) to $176.3 billion at the end of the first half of 2022, while the value of credit outstanding increased by 7.5% to $1,178.3 billion over the same period.

Continued growth was observed in lending to firms of all sizes. Disbursements to small firms (those with loan authorization levels of less than $1 million), medium-sized firms (those with loan authorization levels of $1 million or more but less than $5 million) and large firms (those with loan authorization levels of $5 million or more) grew by 5.6%, 6.2% and 2.6%, respectively, to $15.7 billion, $25.6 billion and $135.0 billion, respectively. Likewise, credit outstanding increased across all firm sizes.

The macroeconomic environment during the first half of 2022 was significantly impacted by a number of factors, including: continued growth as most public health restrictions were removed; the concurrent withdrawal of fiscal policy supports provided during the COVID-19 pandemic; high inflation and significant tightening of monetary policy—including both quantitative tightening and the first increases in the policy interest rate since 2018—by the Bank of Canada aimed at curbing inflation; continued supply chain disruptions; and, war in Ukraine.

Bank of Canada survey results indicate that borrowers reported a continued tightening of credit conditions during the first half of 2022. Lender sentiment on business lending was mixed.

Overall lending conditions

Survey results from the *Biannual Survey of Suppliers of Business Financing* indicate that the value of credit disbursements and credit outstanding continued to increase between the second half of 2021 (H2 2021) and the first half of 2022 (H1 2022). The value of new loans[1] extended to businesses totalled $176.3 billion in H1 2022, compared to $170.6 billion in new loans disbursed in H2 2021, an increase of 3.4% (Figure 1). Total credit outstanding in H1 2022 increased by 7.5% over H2 2021 levels to $1,178.3 billion.

Note that these figures exclude Canada Emergency Business Account (CEBA) lending, valued at roughly $48.4 billion in January 2022, since lenders consider these loans to be off balance sheet items.[2] These increases in business lending occurred as the Government and Canada withdrew significant fiscal and monetary policy support that had been provided to businesses throughout the COVID-19 pandemic.

The majority of public health restrictions related to the COVID-19 pandemic had been removed by or were removed during H1 2022. As a result, most Government of Canada supports to businesses introduced during the initial months of the pandemic—including CEBA and other government financing programs[3], as well as direct fiscal supports such as Canada Emergency Wage Subsidy (CEWS)—had already been withdrawn by January 2022, with remaining programs such as Highly Affected Sectors Credit Availability Program (HASCAP), Tourism and Hospitality Recovery Program (THRP) and Hardest-Hit Business Recovery Program (HHBRP) ending by the end of H1 2022.

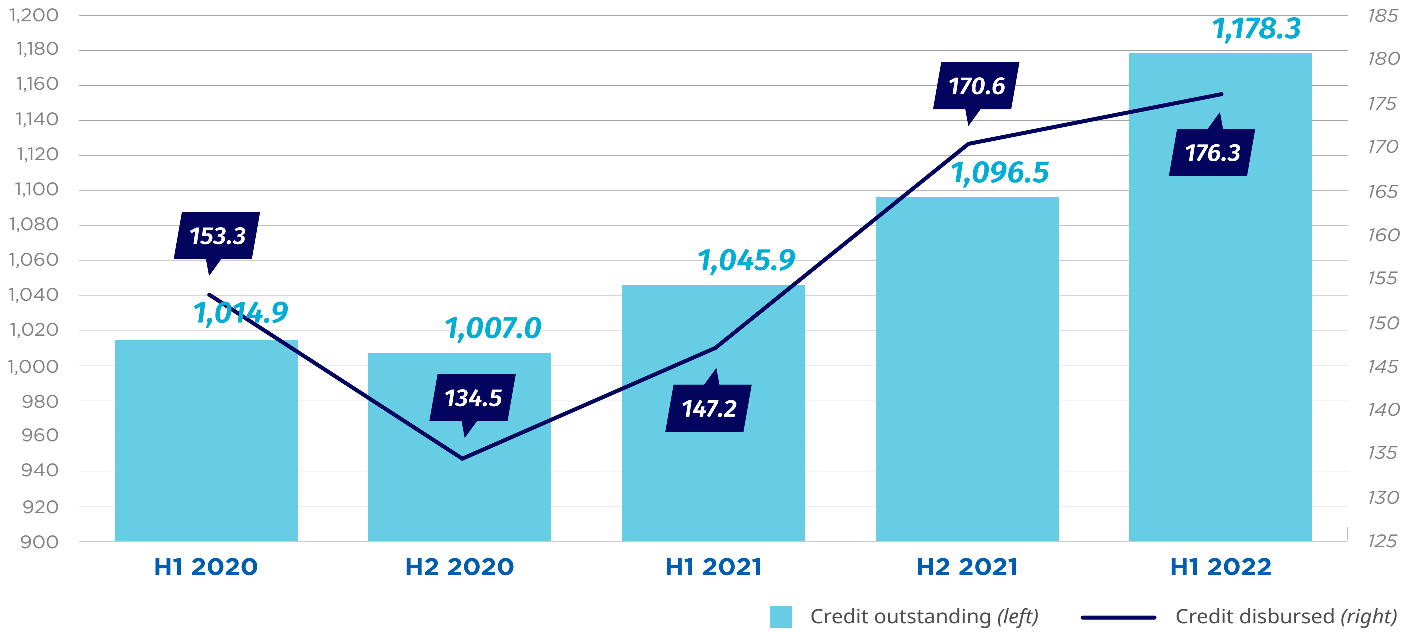
Likewise, the Bank of Canada began tightening monetary policy in the spring of 2022, with quantitative tightening and increases in its policy interest rate. The increases to the policy interest rate were the first increases since 2018 and brought the overnight rate from 0.25% to 1.5% by the end of H1 2022.

1 New loans include term loans, non-residential mortgages, and credit provided under government guarantees that have a fixed repayment schedule of greater than one year.

2 Applications for CEBA funding were accepted up to June 30, 2021. CEBA had provided, as of January 2022, interest-free and partially forgivable loans of $40,000 or $60,000 to roughly 885,527 businesses. Statistics on CEBA lending are available here and here. CEBA lending is excluded because it originates from the Government of Canada (rather than bank or other business lender).

3 The Business Credit Availability Program (BCAP) was a co-lending and loan guarantee program offering financing to small and medium-sized enterprises of up to $6.25 million. The Large Employer Emergency Financing Facility (LEEFF) provided bridge financing to large employer firms. The statistics presented in this report include BCAP lending but not LEEFF lending. The Highly Affected Sectors Credit Availability Program (HASCAP) was a loan guarantee program offering financing to small and medium-sized enterprises of up to $1 million. The statistics presented in this report exclude HASCAP lending.

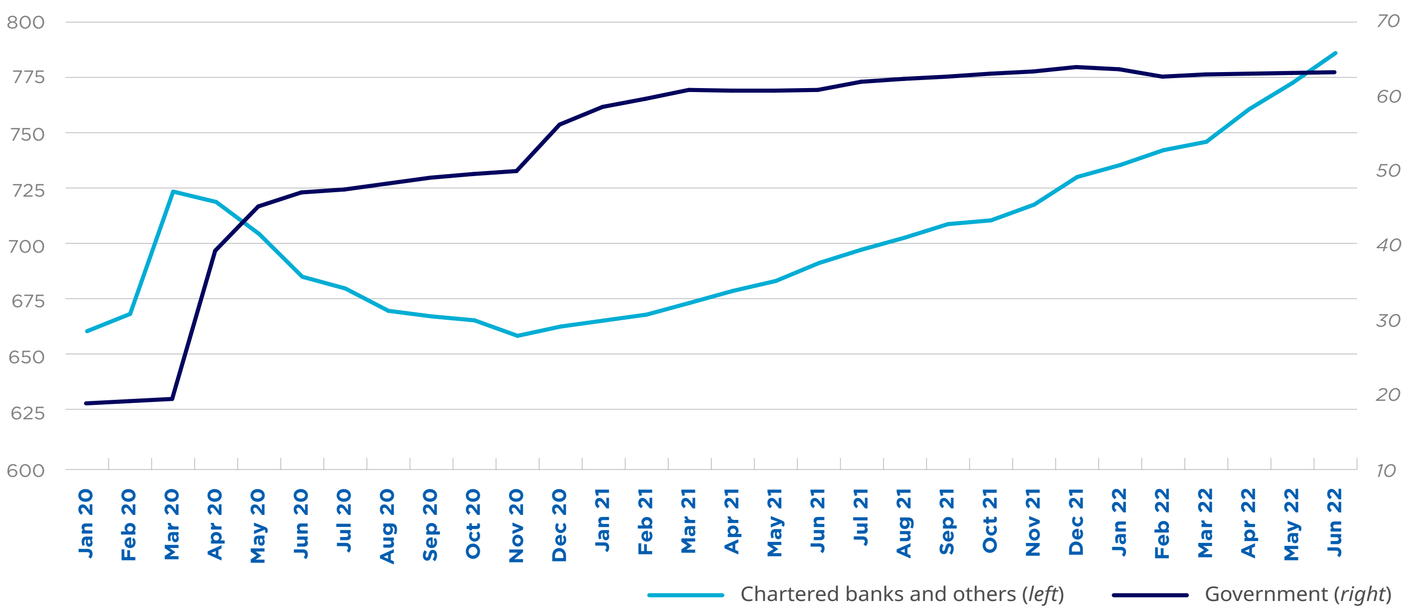
Figure 1: Value of credit outstanding ($ billions) and disbursed ($ billions) to all businesses



Source: Statistics Canada, Table 33-10-0013-01 — Business credit outstanding, by supplier type and authorization level.

CEBA and other Government of Canada financing programs played a significant role in supporting business lending, particularly throughout the first year of the pandemic as the value of non-mortgage loans to private non-financial corporations declined significantly from H1 2020 to H2 2020 (Figure 2).[4] Throughout 2021, private business lending recovered—and government financing programs were tapered—with the value of non-mortgage lending to businesses from chartered banks and others reaching pre-pandemic levels by the end of H2 2021. In H1 2022, non-mortgage loans to firms from chartered banks continued to grow, while the value of non-mortgage loans to firms from government was essentially unchanged.

Figure 2: Non-mortgage loans to private non-financial corporations ($ billions)

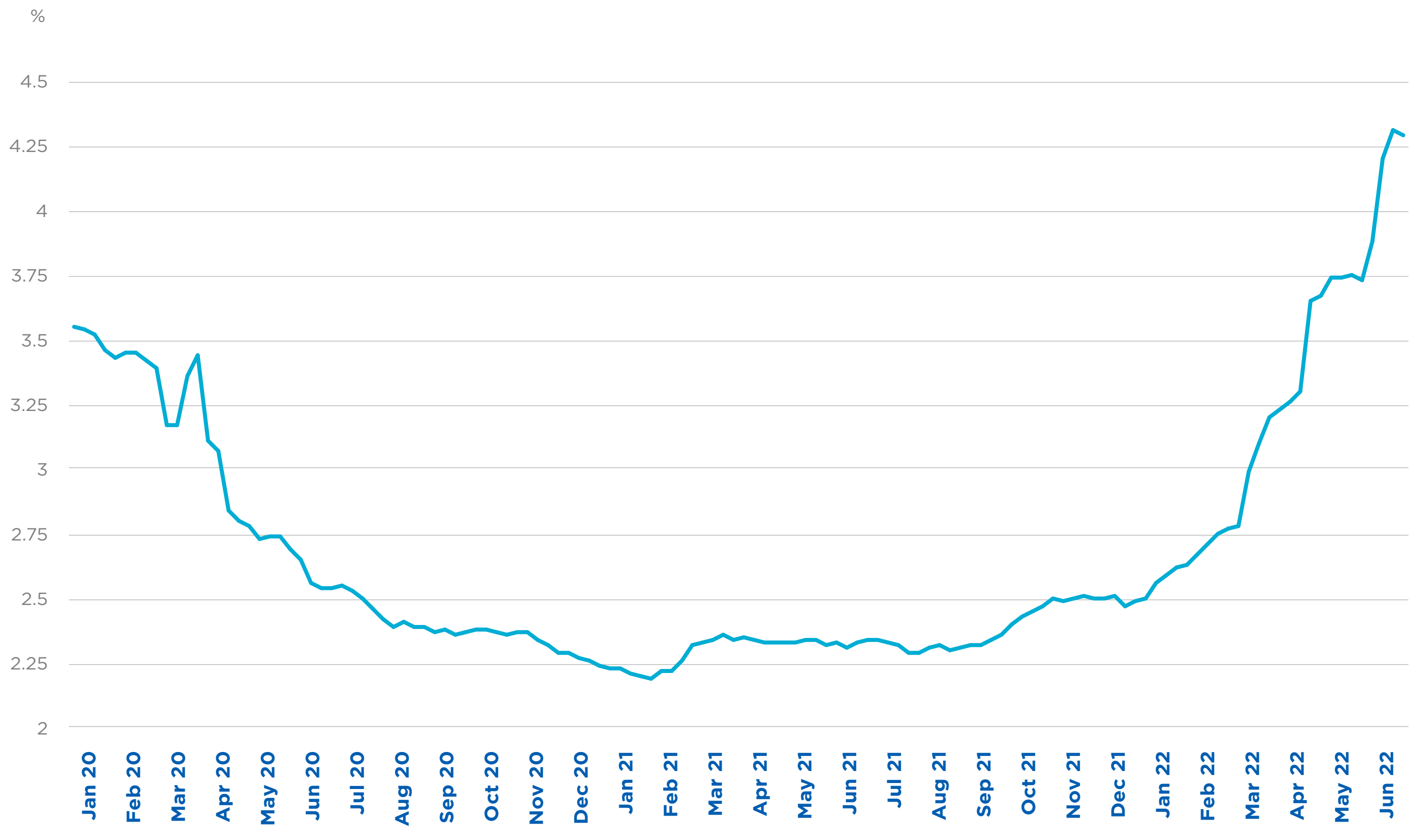


Source: Statistics Canada, Table 36-10-0640-01 — Credit liabilities of private non-financial corporations.

[4] Business lending markets were likely also impacted by other Government of Canada response programs, such as Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Commercial Rent Assistance (CECRA). By directly subsidizing wages and rent, these programs likely reduced the demand for capital from businesses accessing these supports.

With the Bank of Canada increasing its overnight rate, the weekly effective business interest rate, which proxies for the interest rate faced by businesses, increased from 2.5% to 4.3% over the course of H1 2022 (Figure 3).

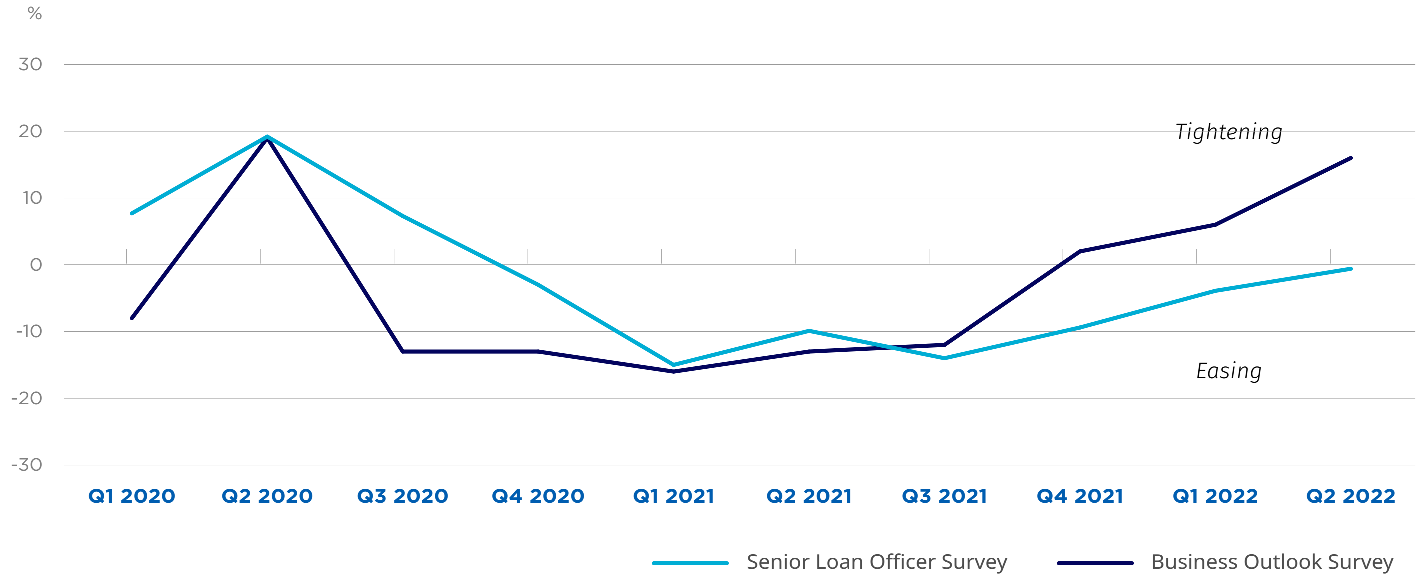
Figure 3: Weekly effective business interest rate, January 2020 to June 2022



Source: Bank of Canada, Weekly effective business interest rate.

Results from the Bank of Canada's *Senior Loan Officer Survey* show that lender sentiment on business lending was mixed, with the proportion of lenders reporting easing credit conditions roughly equal to the proportion of lenders reporting tightening credit conditions (Figure 4). In contrast, the business lending indicator from the Bank of Canada's *Business Outlook Survey* clearly pointed to tightening business credit conditions by the end of H1 2022.

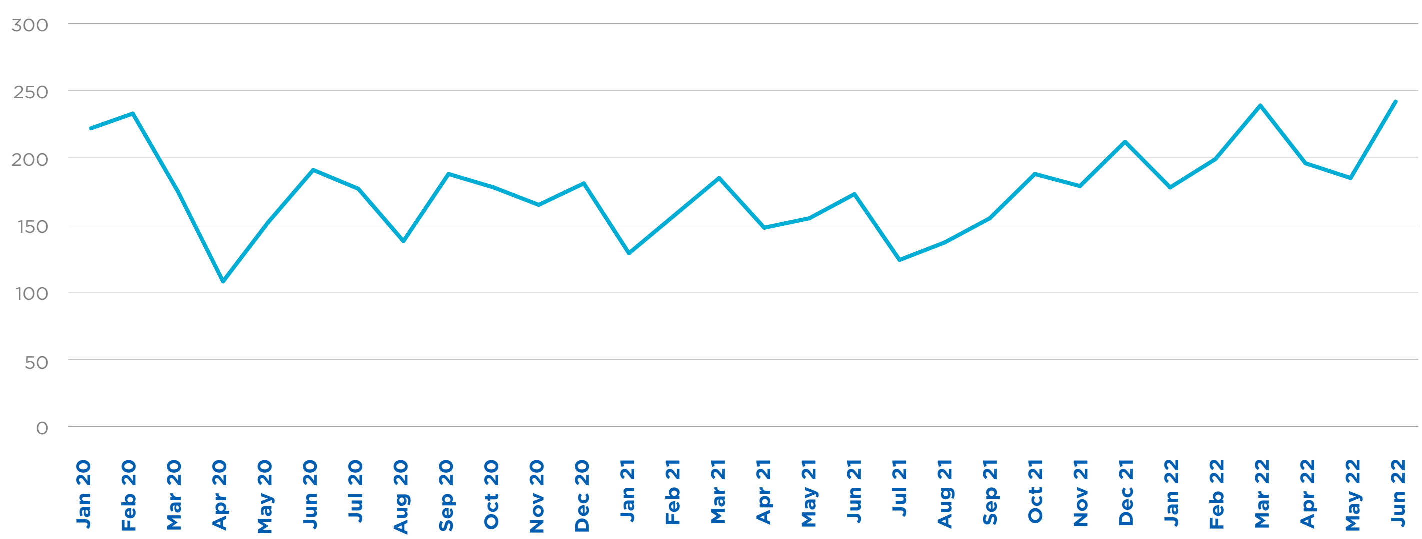
Figure 4: Credit lending conditions in Canada



Note 1: The *Senior Loan Officer Survey* lending index shows the difference between the weighted percentage of financial institutions reporting tighter credit conditions and the weighted percentage reporting easier credit conditions in the preceding 3 months, where the weight is based on each respondent's relevant market share. The *Business Outlook Survey* lending index shows the percentage of firms reporting tighter lending terms and conditions minus the percentage reporting easier terms and conditions compared with the previous 3 months.
Note 2: Positive values indicate a tightening of credit. Negative values indicate a loosening of credit.
Sources: Bank of Canada, *Senior Loan Officer Survey*, Q1 2022 and Q2 2022; and *Business Outlook Survey*, Q1 2022 and Q2 2022.

During H1 2022, monthly bankruptcies averaged 207 bankruptcies, compared to a monthly average of 166 during H2 2021. This increase brought H1 2022 levels close to pre-pandemic levels (an average of 247 monthly during H1 2019).[5] The modest increase in bankruptcies to relatively low levels was notable in the context of the withdrawal of significant fiscal supports, such as CEWS or CEBA, as well as a number of other challenging macroeconomic factors, such as rising interest rates and high inflation.[6]

Figure 5: Number of bankruptcies for businesses



Source: Office of the Superintendent of Bankruptcy Canada, Insolvency Statistics in Canada.

[5] Pre-pandemic levels were relatively low due to a steady decline in the number of bankruptcies during the years leading up to 2020.

[6] Bankruptcy figures do not comprise all closures, since they do not include businesses that terminated operations without filing for bankruptcy.

Table 1 shows data on new lending from the *Biannual Survey of Suppliers of Business Financing* with total loan disbursements distributed, by supplier type. Domestic banks, which account for more than half of new lending in Canada, increased their disbursement of credit by 4.9% between the second half of 2021 and the first half of 2022 to $105.6 billion. Likewise, new loans by finance companies, other banks and credit unions and caisses populaires increased by 6.0%, 3.1% and 1.2%, respectively. By contrast, new loans from insurance companies and portfolio managers decreased substantially by 23.5% to $4.4 billion.

Table 1: Value of credit disbursed ($ billions) to all businesses by supplier type

	2020		2021		2022
Supplier type	H1	H2	H1	H2	H1
Domestic banks	87.4	74.0	83.9	100.6	105.6
Other banks	32.6	28.1	29.6	33.7	34.7
Credit unions and caisses populaires	11.6	12.0	14.1	14.8	15.0
Finance companies	16.9	15.1	14.8	15.6	16.6
Insurance companies and portfolio managers	4.8	5.3	4.9	5.8	4.4
All suppliers	153.3	134.5	147.2	170.6	176.3

Source: Statistics Canada, Table 33-10-0013-01 — Business credit outstanding, by supplier type and authorization level.

Lending conditions by business size

Results from the *Biannual Survey of Suppliers of Business Financing* show lending to businesses of all sizes continued to increase from H2 2021 to H1 2022.

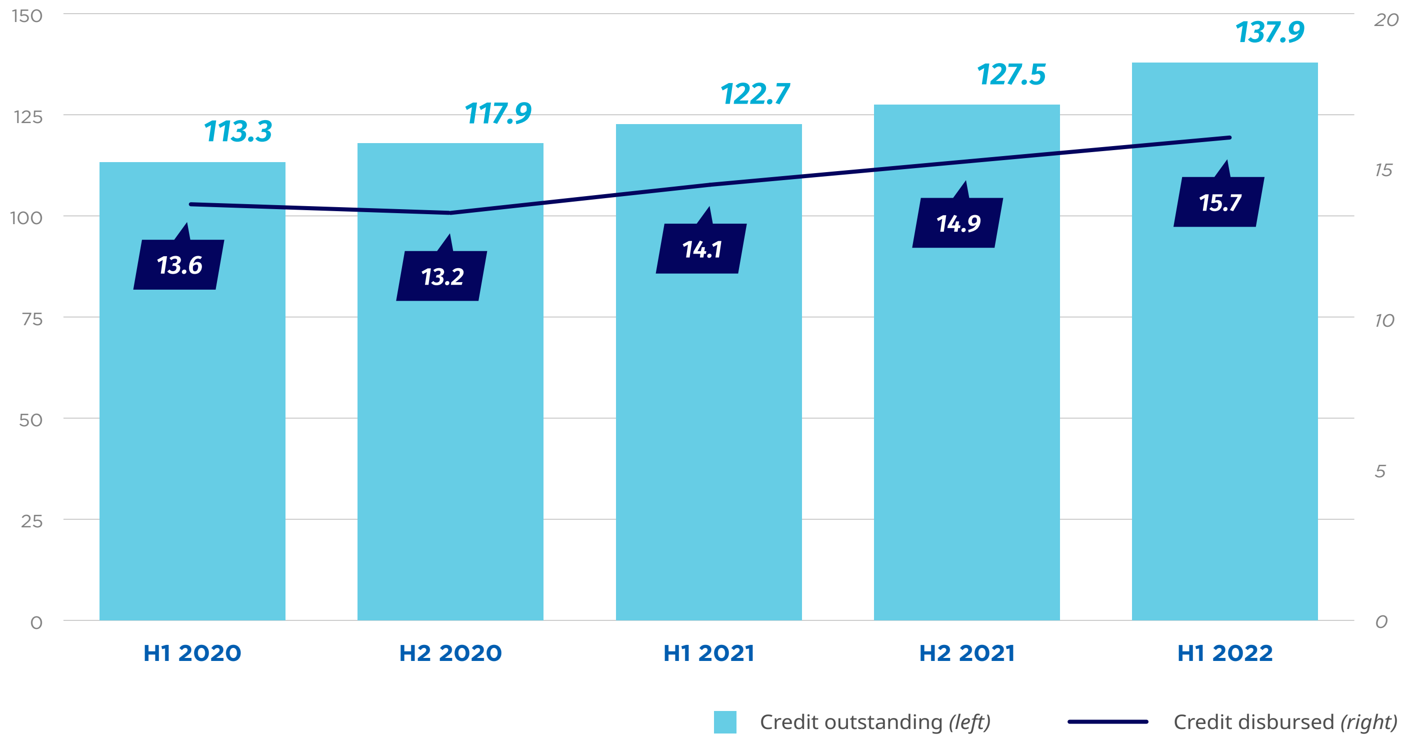
New loans to small firms (those with loan authorization levels of less than $1 million), medium-sized firms (those with loan authorization levels of $1 million or more but less than $5 million) and large firms (those with loan authorization levels of $5 million or more) increased by 5.6%, 6.2% and 2.6%, respectively, to $15.7 billion, $25.6 billion and $135.0 billion (Figures 6a to 6c).

Likewise, the value of credit outstanding for small, medium-sized and large firms increased by 8.1%, 9.0% and 7.0%, respectively, from H2 2021 levels, to $137.9 billion, $201.7 billion and $838.8 billion.

Data from PayNet's *Canadian Business Lending Index* (CBLI) suggests new lending to medium-sized businesses increased in H1 2022 (Figure 7). By contrast, while new loans to small businesses were roughly unchanged from Q4 2021 to Q1 2022, the CBLI points to a modest decrease in Q2 2022. Note that, in general, readers should be cautious in making direct comparisons between the two sources due to methodological differences.

PayNet data on defaults points to increasing defaults during H1 2022. The default rate for small businesses was unchanged in Q1 2022 but increased slightly to 0.81% in Q2 2022.[7] The default rate for medium-sized businesses increased from 0.63% in Q3 2021 to 1.53% in Q2 2022.

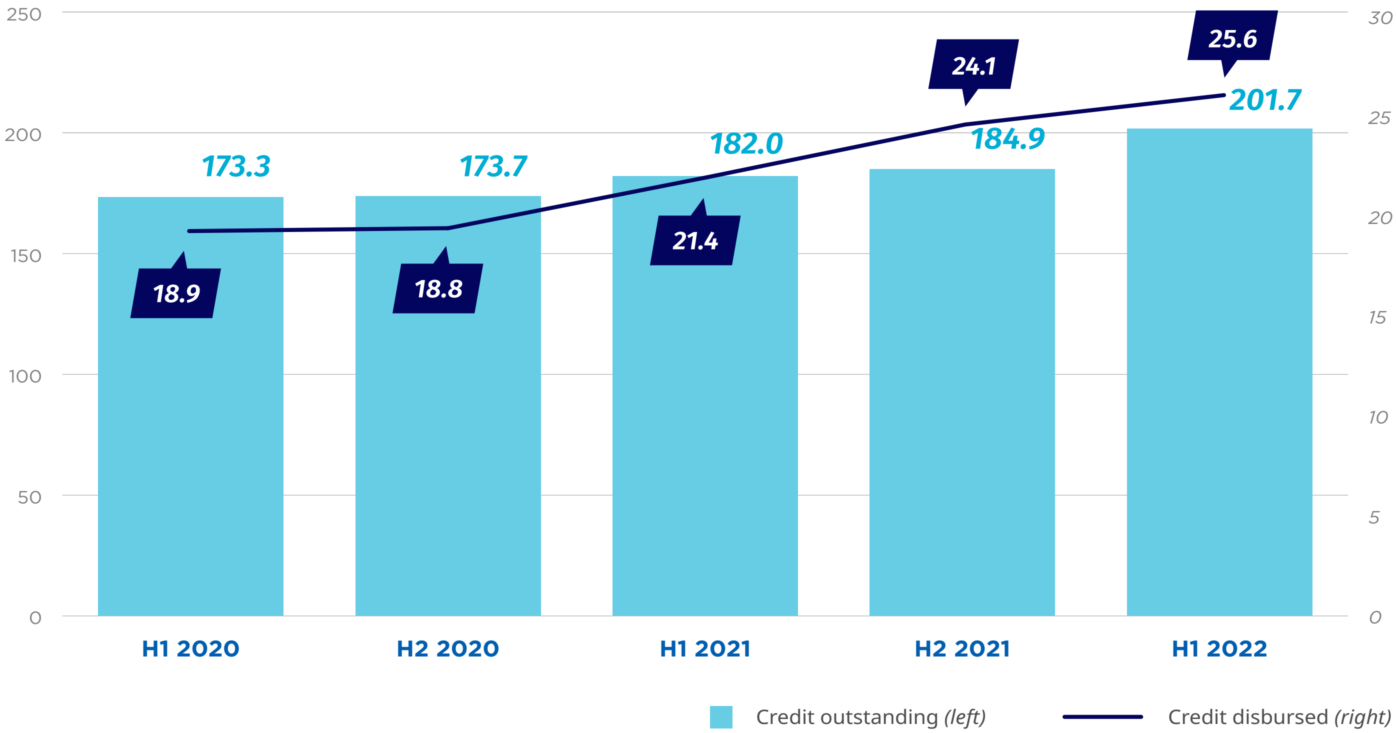
Figure 6a: Value of credit outstanding ($ billions) and disbursed ($ billions), small businesses



Source: Statistics Canada, Table 33-10-0013-01 — Business credit outstanding, by supplier type and authorization level.

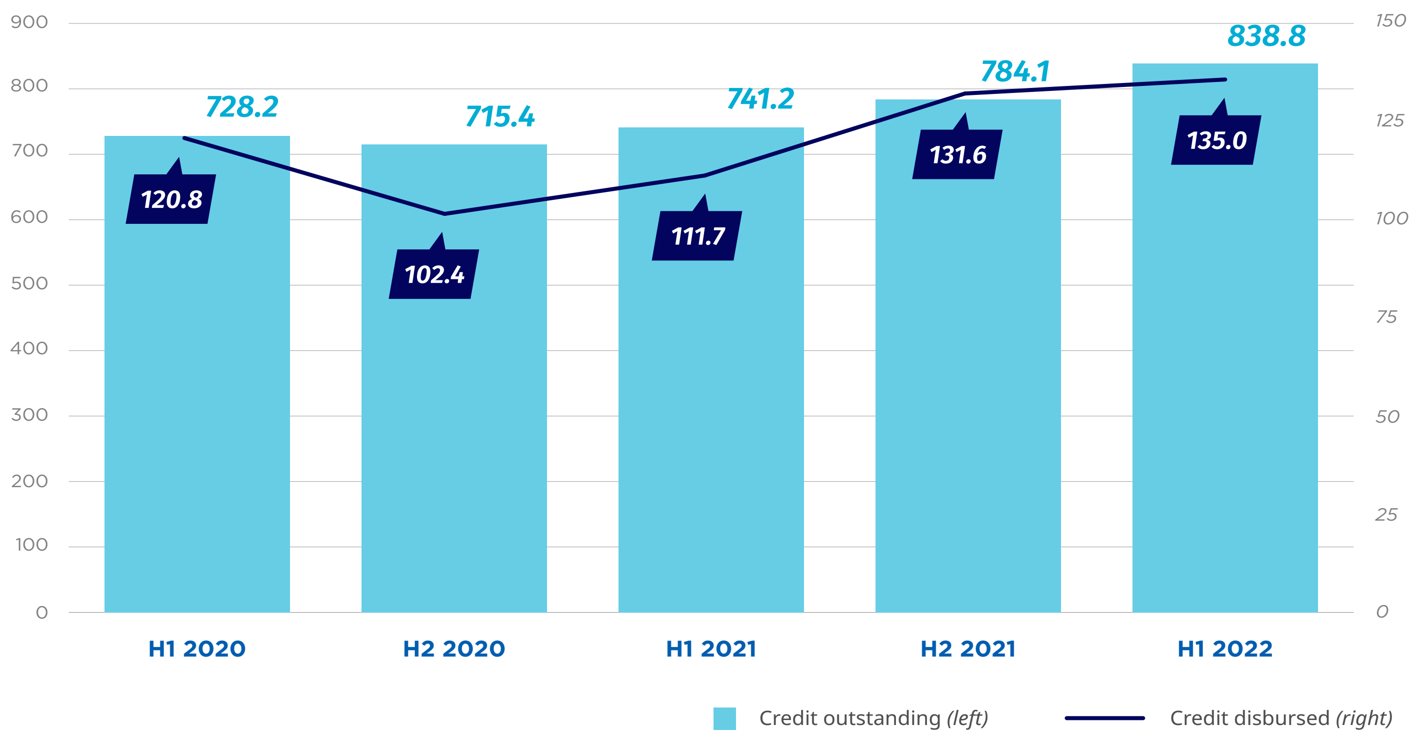
[7] The default rate for H2 2021 is the average of the default rates in Q3 2021 and Q4 2021. Similarly, the default rate for H1 2022 is the average of the default rates in Q1 2022 and Q2 2022.

Figure 6b: Value of credit outstanding ($ billions) and disbursed ($ billions), medium-sized businesses



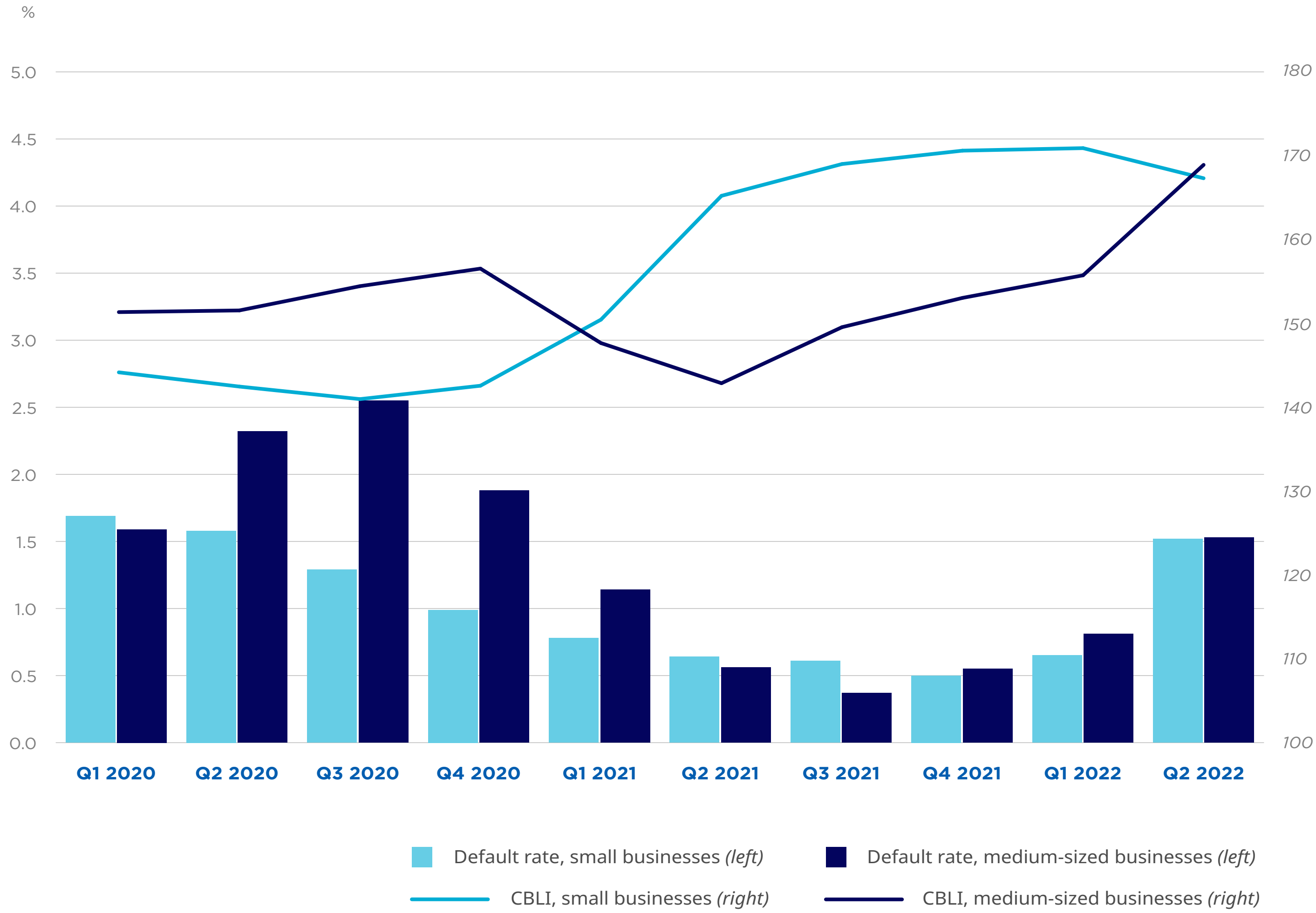
Source: Statistics Canada, Table 33-10-0013-01 — Business credit outstanding, by supplier type and authorization level.

Figure 6c: Value of credit outstanding ($ billions) and disbursed ($ billions), large businesses



Source: Statistics Canada, Table 33-10-0013-01 — Business credit outstanding, by supplier type and authorization level.

Figure 7: Loan default rate (percentage) and Canadian Business Lending Index (CBLI) for small and medium-sized businesses



Note 1: The CBLI is a measure of the volume of new commercial loans and leases to small and medium-sized businesses. The CBLI uses a different definition of small and medium businesses than the one used in the *Biannual Survey of Suppliers of Business Financing*. Borrower size classification is based on the most current High Credit (H/C)—defined as the highest total balance outstanding in the PayNet Database for any given borrower. Small borrowers are those with a H/C of less than $3.5 million and medium borrowers are those with a H/C of more than $3.5 million but less than $19 million.

Note 2: Defaults are totalled for each quarter and are divided by the average current balance outstanding for the quarter. The result is then annualized. The CBLI is calculated based on the dollar weighted percentage change in qualifying new originations from the prior quarter to the current quarter, for qualifying lenders with data in both quarters. It is then presented on an absolute index basis, indexed so that Q4 2007 equals 100.

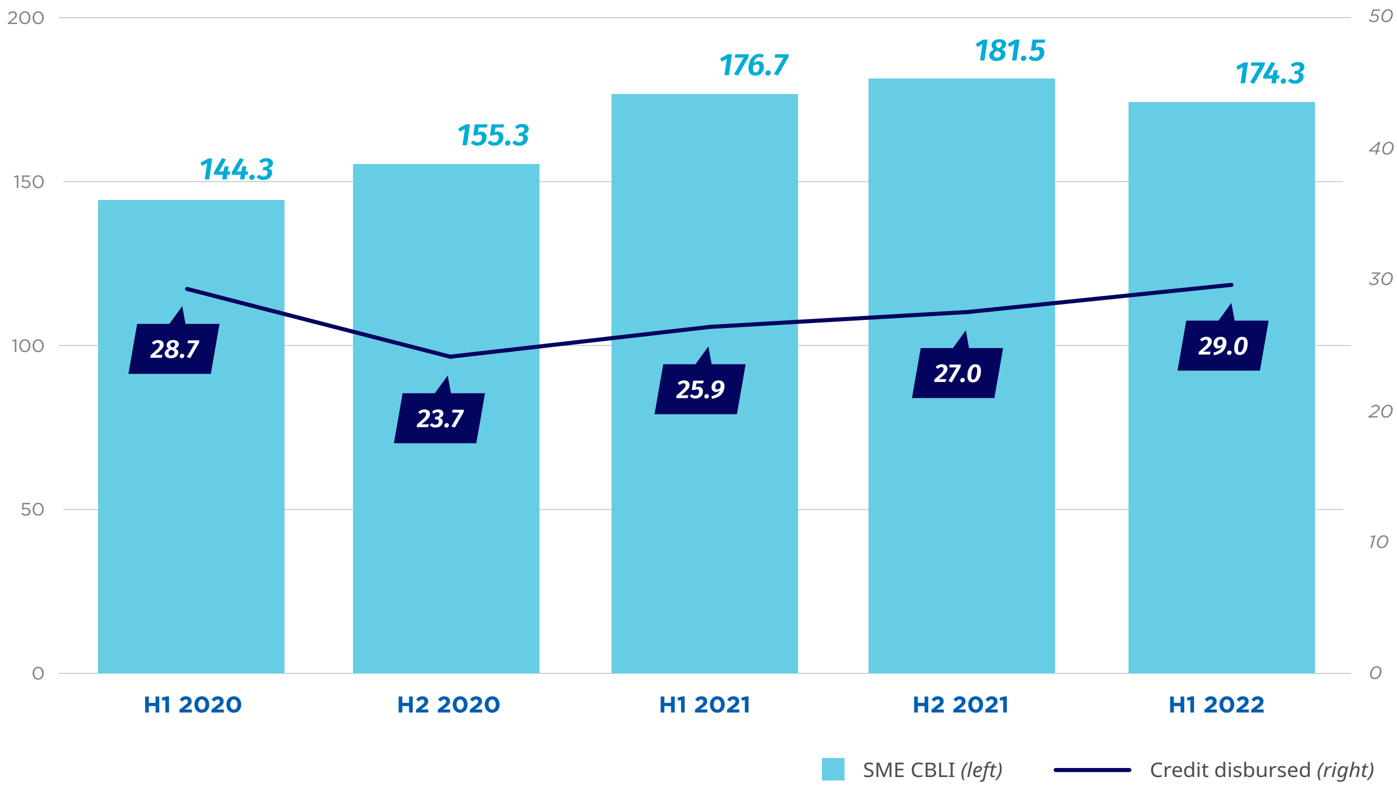
Source: PayNet Inc., *Canadian Business Lending Index*, 2022.

Lending conditions by sector

Results[8] from the *Biannual Survey of Suppliers of Business Financing* indicate new lending in H1 2022 increased to businesses in nearly every sector (Figures 8a to 8h). From H2 2021 to H1 2022, new loans increased in the professional, scientific and technical services (19.9%, $5.2 billion), accommodation and food services (7.8%, $4.6 billion), primary (7.4%, $29.0 billion), wholesale and retail trade (6.6%, $16.3 billion), transportation and warehousing (2.3%, $7.1 billion), and manufacturing (1.3%, $16.9 billion) sectors, with disbursements to construction firms roughly unchanged (0.5%, $17.9 billion). By contrast, new lending decreased from H2 2021 to H1 2022 in the other industries sector (-2.8%, $29.0 billion).

PayNet's CBLI points to increases, from H2 2021 to H1 2022, in new business lending activity in the construction (2.8%) and other industries (2.2%) sectors, with little change in the indexes for the transportation and warehousing (0.4%), manufacturing (-0.3%) and wholesale and retail trade (-0.5%) sectors. The CBLI decreased by 5.4%, 4.0% and 3.5% for the accommodation and food services, primary and professional, scientific and technical services sectors, respectively.

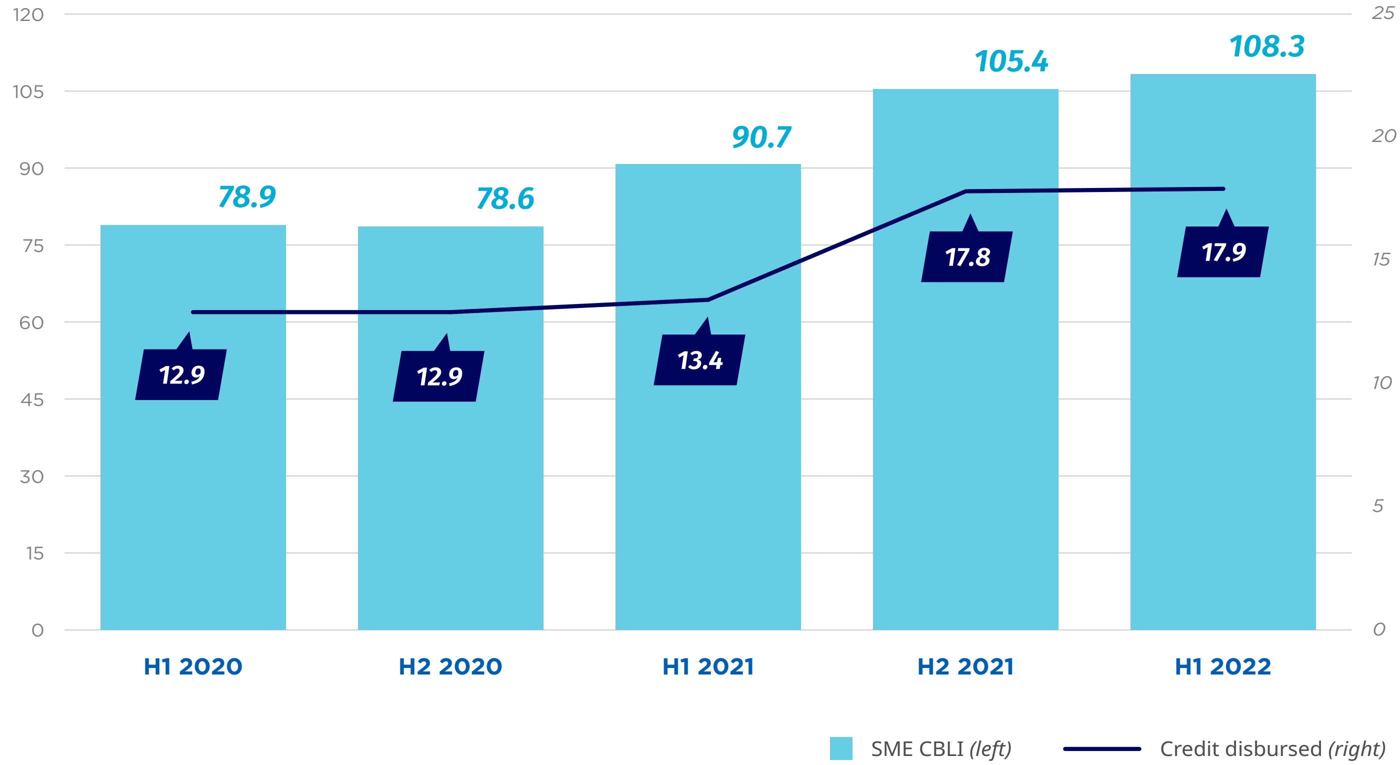
Figure 8a: SME Canadian Business Lending Index and value of credit disbursed ($ billions), primary sector



Sources: PayNet Inc., *Canadian Business Lending Index*, 2022; and Statistics Canada, Table 33-10-0014-01 — Business credit outstanding, by supplier type and industry.

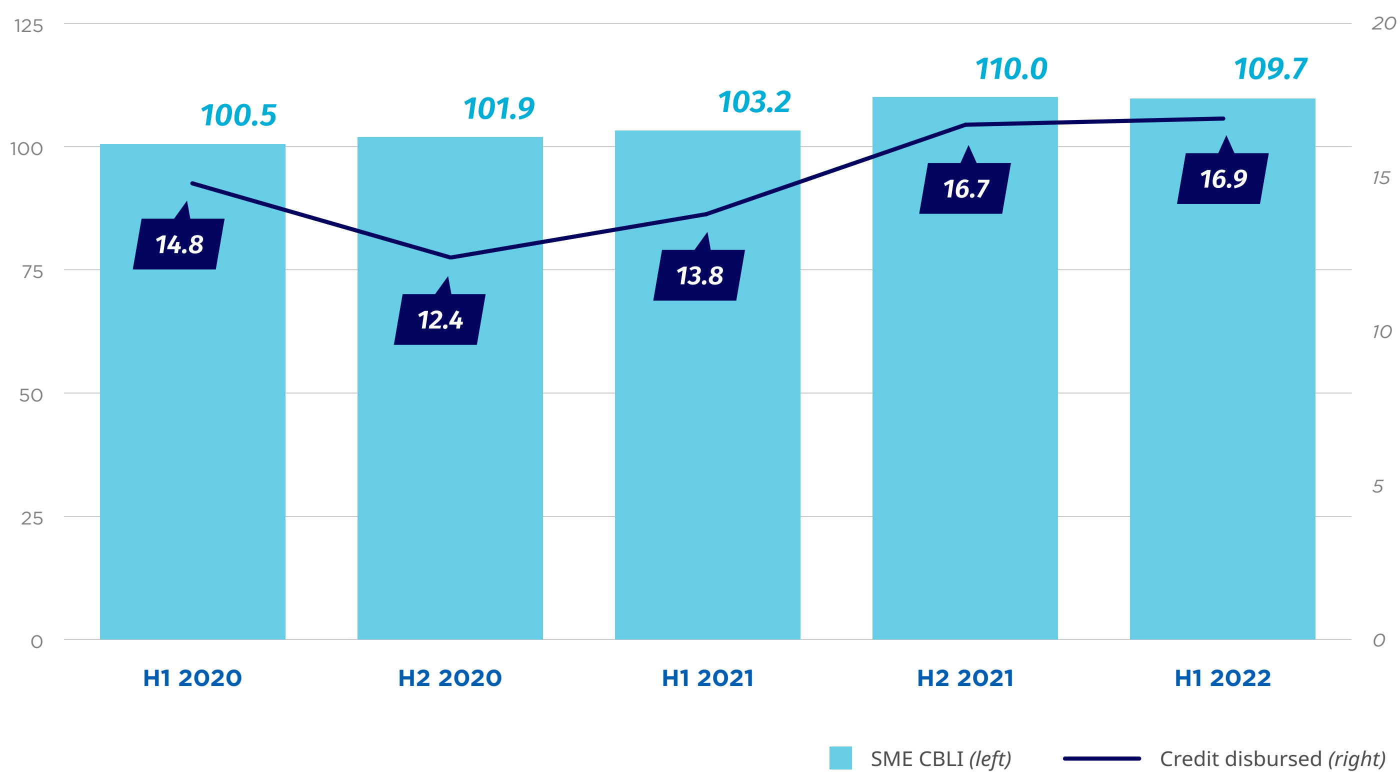
[8] Not shown in Figures 8a to 8h are disbursements for the finance and insurance, and the real estate and rental and leasing sectors, which are major borrowing sectors and wherein disbursements decreased by 2.1% and increased by 10.2% respectively, between H2 2021 and H1 2022.

Figure 8b: SME Canadian Business Lending Index and value of credit disbursed ($ billions), construction sector



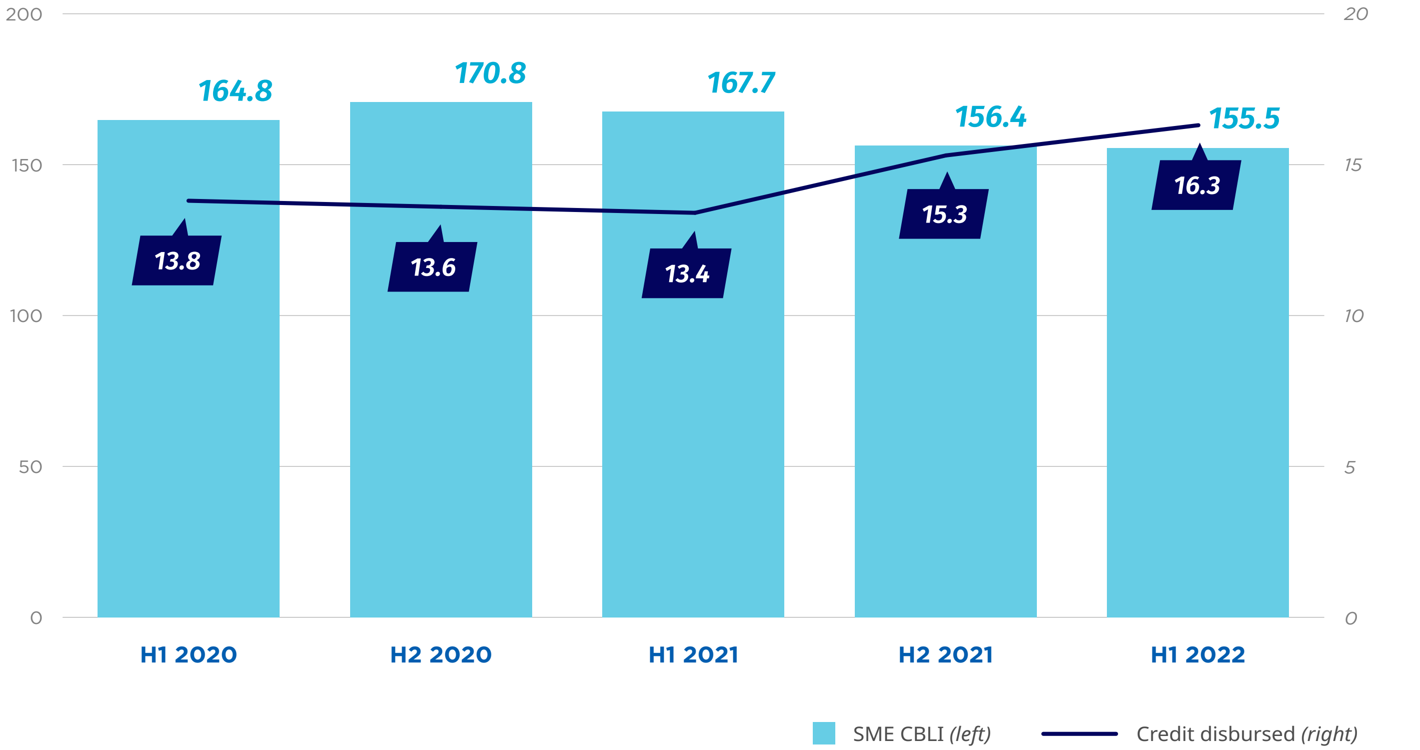
Sources: PayNet Inc., *Canadian Business Lending Index*, 2022; and Statistics Canada, Table 33-10-0014-01 — Business credit outstanding, by supplier type and industry.

Figure 8c: SME Canadian Business Lending Index and value of credit disbursed ($ billions), manufacturing sector



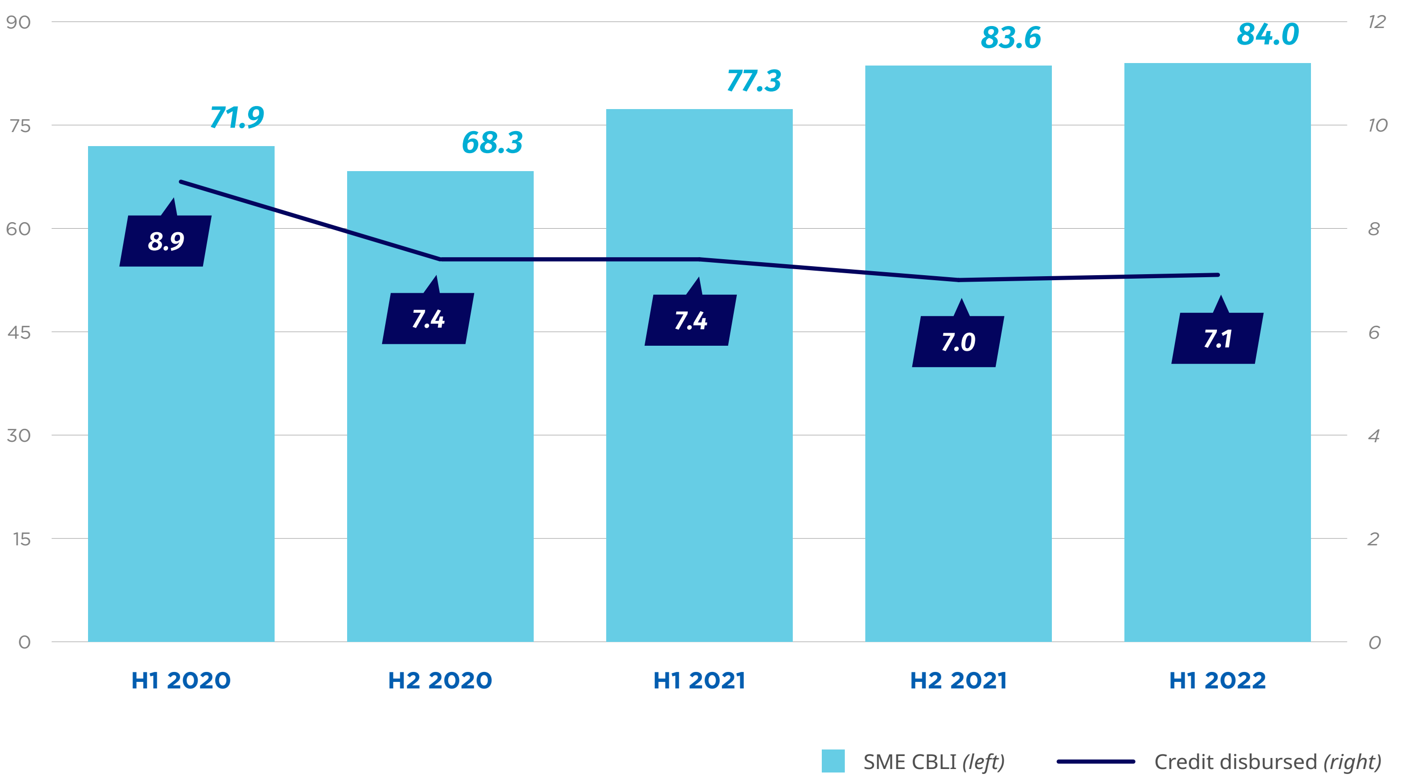
Sources: PayNet Inc., *Canadian Business Lending Index*, 2022; and Statistics Canada, Table 33-10-0014-01 — Business credit outstanding, by supplier type and industry.

Figure 8d: SME Canadian Business Lending Index and value of credit disbursed ($ billions), wholesale and retail trade sectors



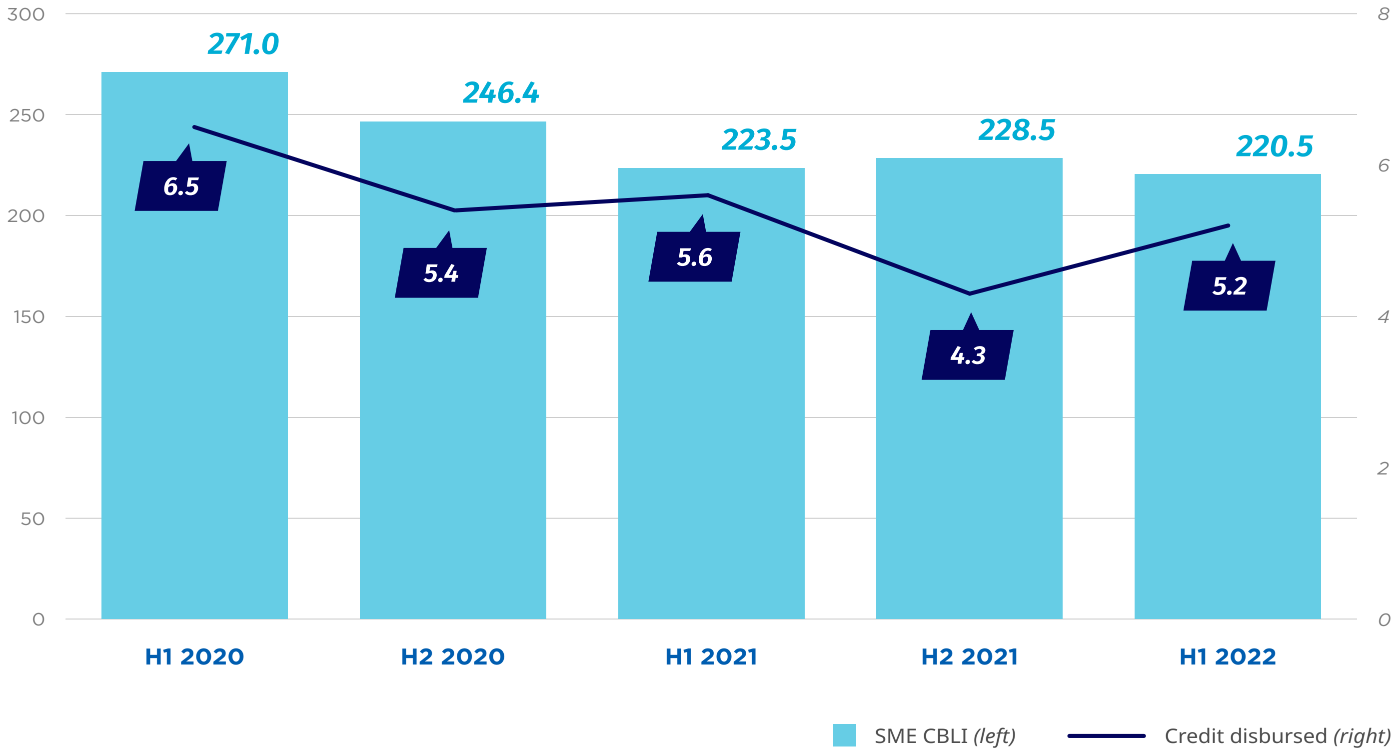
Sources: PayNet Inc., *Canadian Business Lending Index*, 2022; and Statistics Canada, Table 33-10-0014-01 — Business credit outstanding, by supplier type and industry.

Figure 8e: SME Canadian Business Lending Index and value of credit disbursed ($ billions), transportation and warehousing sector



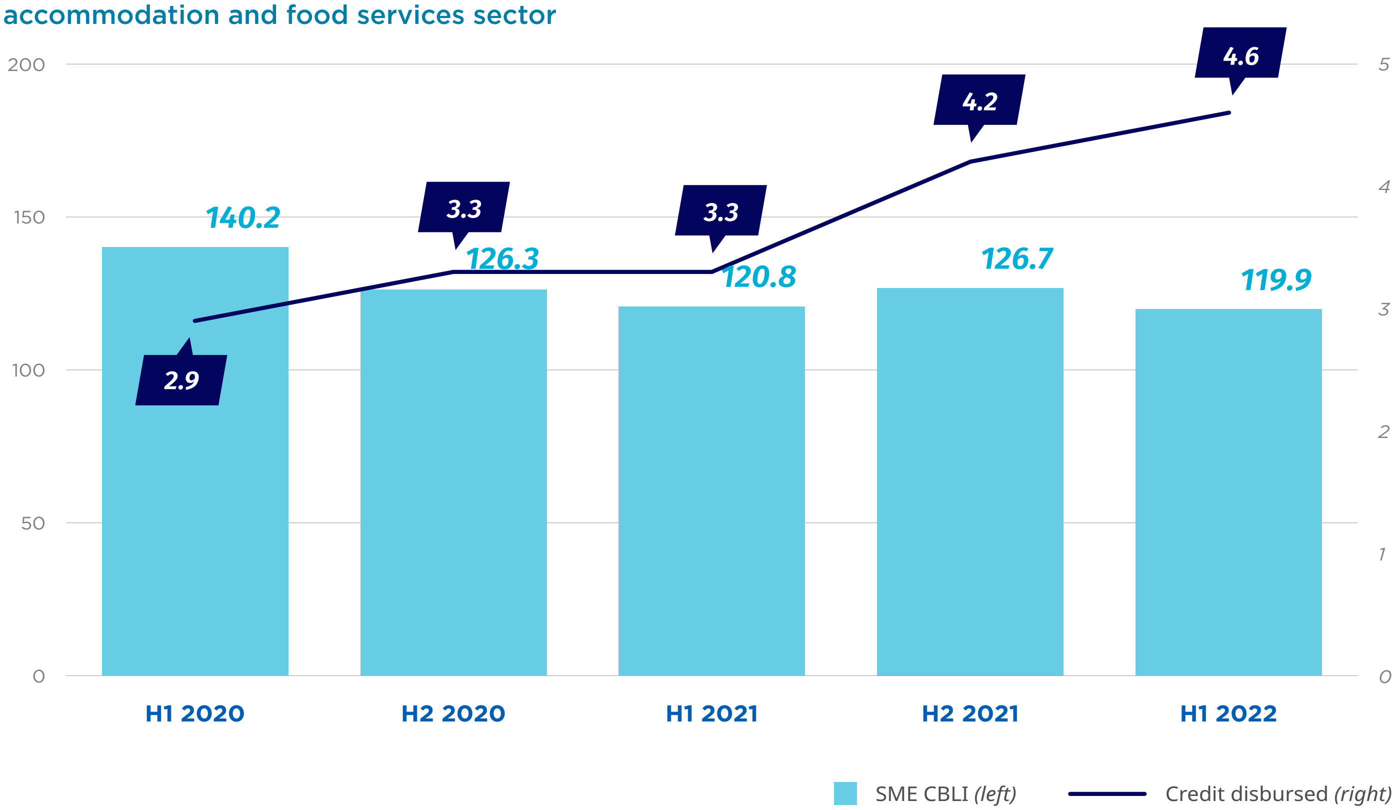
Sources: PayNet Inc., *Canadian Business Lending Index*, 2022; and Statistics Canada, Table 33-10-0014-01 — Business credit outstanding, by supplier type and industry.

Figure 8f: SME Canadian Business Lending Index and value of credit disbursed ($ billions), professional, scientific and technical services sector



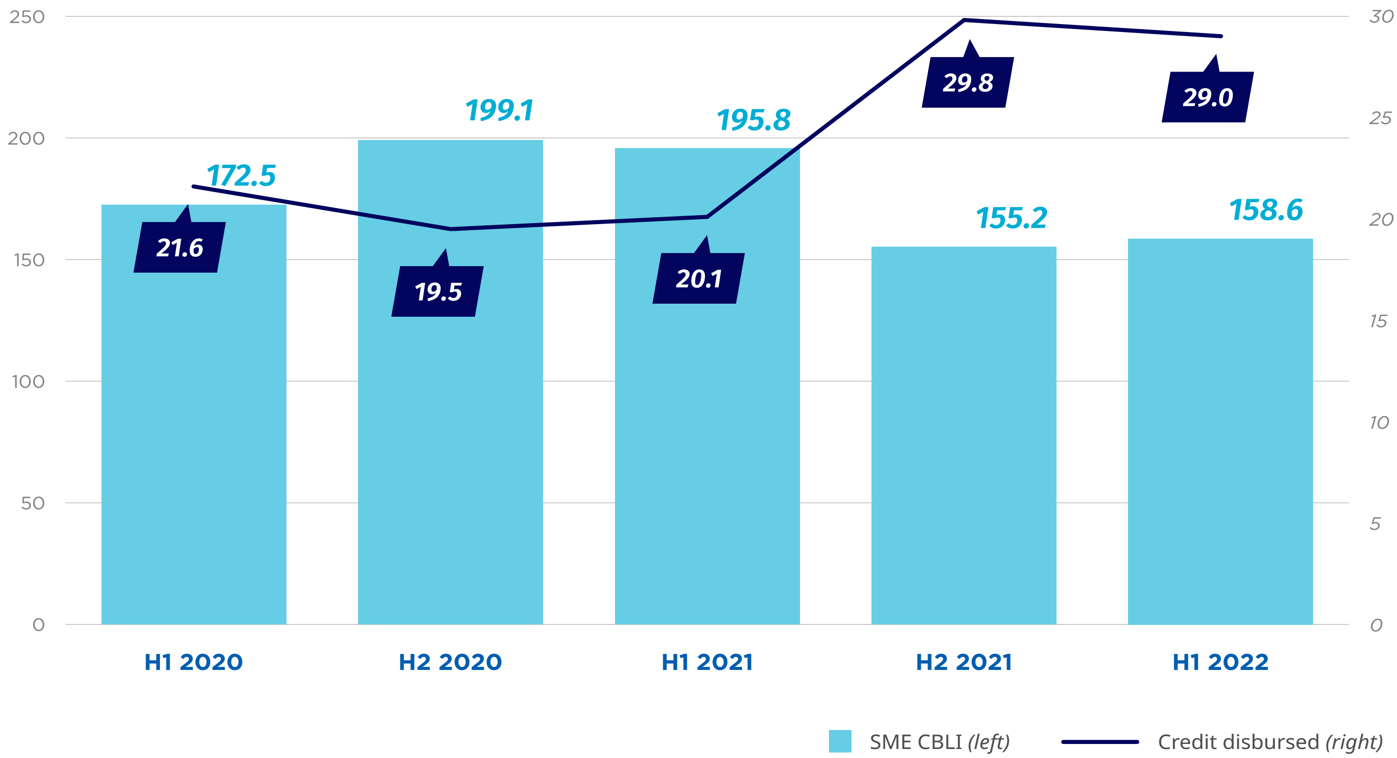
Sources: PayNet Inc., *Canadian Business Lending Index*, 2022; and Statistics Canada, Table 33-10-0014-01 — Business credit outstanding, by supplier type and industry.

Figure 8g: SME Canadian Business Lending Index and value of credit disbursed ($ billions), accommodation and food services sector



Sources: PayNet Inc., *Canadian Business Lending Index*, 2022; and Statistics Canada, Table 33-10-0014-01 — Business credit outstanding, by supplier type and industry.

Figure 8h: SME Canadian Business Lending Index and value of credit disbursed ($ billions), other industries sector



Note: Value of credit disbursed to firms in finance, insurance, real estate, and rental sector was excluded from "other industries."
Sources: PayNet Inc., *Canadian Business Lending Index*, 2022; and Statistics Canada, Table 33-10-0014-01 — Business credit outstanding, by supplier type and industry.

About the main sources

The Statistics Canada *Biannual Survey of Suppliers of Business Financing* is the result of a commitment by the Government of Canada to improve the availability of information about on business financing in Canada. This survey collects data from 120 major suppliers of financing, including domestic banks, and credit unions and caisses populaires, representing over 90% of all lending to businesses in Canada.

The Bank of Canada *Senior Loan Officer Survey* collects information on the business-lending practices of Canadian financial institutions. In particular, the survey gathers the perspectives of respondents on price and non-price terms of business lending and on topical issues of interest to the Bank of Canada. The survey is conducted quarterly, near the end of the quarter for which the results are reported.

The Bank of Canada *Business Outlook Survey* consists of interviews conducted by the Bank's regional offices with the senior management of about 100 firms, selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity.

The PayNet *Canadian Business Lending Index* is built using PayNet's proprietary database, which is updated weekly, and represents a growing collection of commercial loans and leases encompassing more than 1 million reported contracts worth over $102 billion.