

Xero Small Business Insights Canada Update January - March 2024

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Small business performance improves

Average results for three months to March 2024



Sales
-4.6% y/y



Late Payments
7.5 days



Time to be paid
28.2 days

The latest Xero Small Business Insights (XSBI) data for Canada shows small businesses started the year in better shape than they ended 2023, recording improved performance across sales, payment times and late payments.

Sales fell an average of 4.6% y/y in the three months to March, following a 3.3% y/y decline in the three months to December. This initially looks like a deterioration in sales performance, however, this result was mainly due to an unusually large 10.9% y/y decline in sales in the month of March. Sales actually rose in February, up 0.2% y/y. The two-month average for January and February (-1.5% y/y) represents a more realistic picture of small business sales performance for early 2024. While sales still fell on average in the two months, they fell by less than in the December quarter. The weak month of March result is likely due to the early timing of the Good Friday public holiday, which is usually in April. This gives small businesses one less trading day than normal in March. This impact was seen in other countries where Good Friday is a national public holiday such as Australia and New Zealand, hence our suggestion to set aside the March result when assessing the broader sales performance of small businesses over the quarter.

Both measures of payment times shortened in the three months to March. Late payment times averaged 7.5 days, down from an average of 8.2 days in the three months to December 2023. Similarly, the time small businesses waited to be paid after issuing an invoice averaged 28.2 days in the three months to March down from an average of 29.3 days in the three months to December. The time to be paid result is particularly encouraging, continuing this metric's downward trend that has been underway since the first quarter of 2023.

Looking at regional results, Ontario was the best performing Province, where sales fell an average of 0.4% y/y in January and February, compared to an average fall of 4.9% y/y in the December quarter. British Columbia had the shortest quarterly payment times across three Provinces (27.6 days) but Ontario was the only Province, of the three tracked by XSBI, where payment times were shorter than the previous quarter (28.6 days versus 30.0 days in the December quarter).

Looking ahead, small businesses likely welcomed the Bank of Canada's decision to cut the interest rate from 5.0% to 4.75% on June 5, 2024. This should start to ease the squeeze on household budgets and leave customers with a little more to spend in local small businesses. At its latest meeting in April, [the Bank](#) noted: "With continued evidence that underlying inflation is easing, Governing Council agreed that monetary policy no longer needs to be as restrictive and reduced the policy interest rate by 25 basis points. Recent data has increased our confidence that inflation will continue to move towards the 2% target."

Overall, there were some positive signs for sales at the start of the year, and if this trend continues, Canadian small businesses could soon be back to consistently experiencing positive sales growth. Small businesses and their advisors will welcome the improvements in the two payment time measures, although invoices are still paid, on average, more than a week late in Canada. This highlights the importance of taking steps to encourage prompt payment, such as having as many options to pay as possible, adding a 'pay now' button to invoices and sending reminders to late paying customers.

Sales continue to show signs of improvement

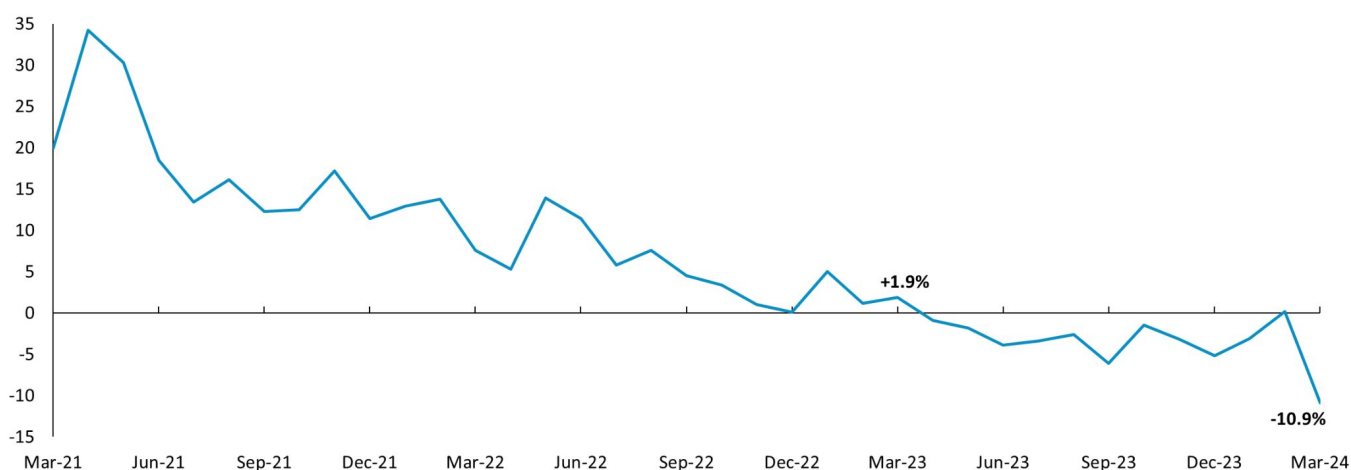
Setting aside the distorted month of March result, the latest sales data for Canadian small businesses builds on the tentative signs of improvement seen in the final three months of 2023. After declining 4.0% y/y in the September quarter, sales fell a smaller 3.3% y/y in the December quarter, then fell 3.1% y/y in January before rising 0.2% in February. The February result is the first rise in sales since March 2023.

At the Province level, Ontario had the best sales performance. Sales averaged only 0.4% y/y lower for the first two months of the year. The fall in sales was larger in Alberta (-4.9% y/y) and British Columbia (-4.8% y/y).

Sales volumes (which removes the effect of price changes from the XSBI series so that we can measure changes in how many goods and services have been sold) have been even weaker than the nominal-based XSBI series. Although, like the nominal series, there are signs that the largest falls in sales volumes this cycle have passed (excluding the monthly March result). Using the Canadian CPI as a proxy for prices, sales volumes declined an average 4.3% y/y in January and February after declining an average of 6.5% y/y in the three months to December and 7.7% in the three months to September.

Small business sales

% , year-on-year, monthly



Source: Xero Small Business Insights

Business survey points to improving confidence

More recent data is consistent with these improvements in the XSBI sales data. The Canadian Federation of Independent Business June 2024 [Monthly Business Barometer](#) showed small business confidence for the next 12 months rose almost 9 points in May to reach 56 points and held onto those gains in June. This is the highest reading since June 2022, although still just below the long-term average for this Index of 60 points. The survey found the national improvement in May was driven mostly by Ontario, which also had the best sales performance in the most recent XSBI data. British Columbia and Alberta have slightly lower levels of long-term confidence than Ontario but both have also been trending higher over 2024.

Small business payment times getting shorter

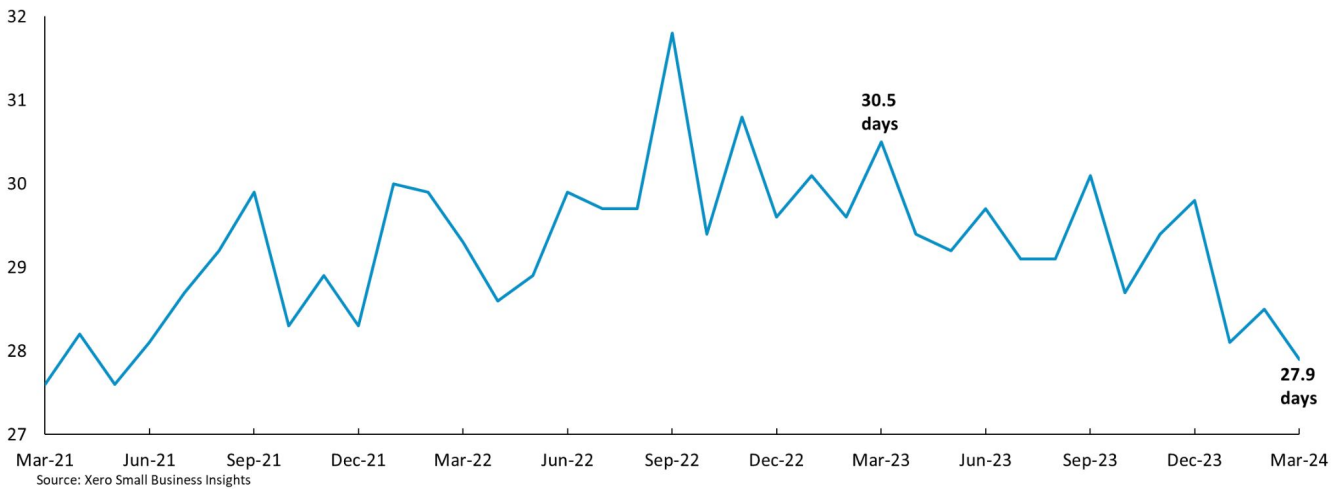
After spending trended broadly lower in 2023, the average time to be paid continued to improve in the three months to March. Small businesses **waited an average of 28.2 days to be paid** in the March quarter. This is 1.1 days shorter than the December quarter (29.3 days). The improvement mainly happened in the first and third months of the quarter. Average payment times were 28.1 days in January but then rose to 28.5 days in February and dropped to 28.2 days in March.

Looking at the Province level, during the March quarter invoices took, on average, 27.6 days to be paid in British Columbia. Payment times were longer than this in both Alberta (28.2 days) and Ontario (28.6 days). Payment times improved the most in Ontario, down from 30.0 days in December quarter to 28.6 days in March quarter.

Small businesses were **paid an average of 7.5 days late** in the March quarter. This is 0.8 days shorter than the December quarter (8.2 days). The best month in the quarter was in February, when payments were made on average 6.9 days late - the shortest late payment time since June 2022 (6.6 days).

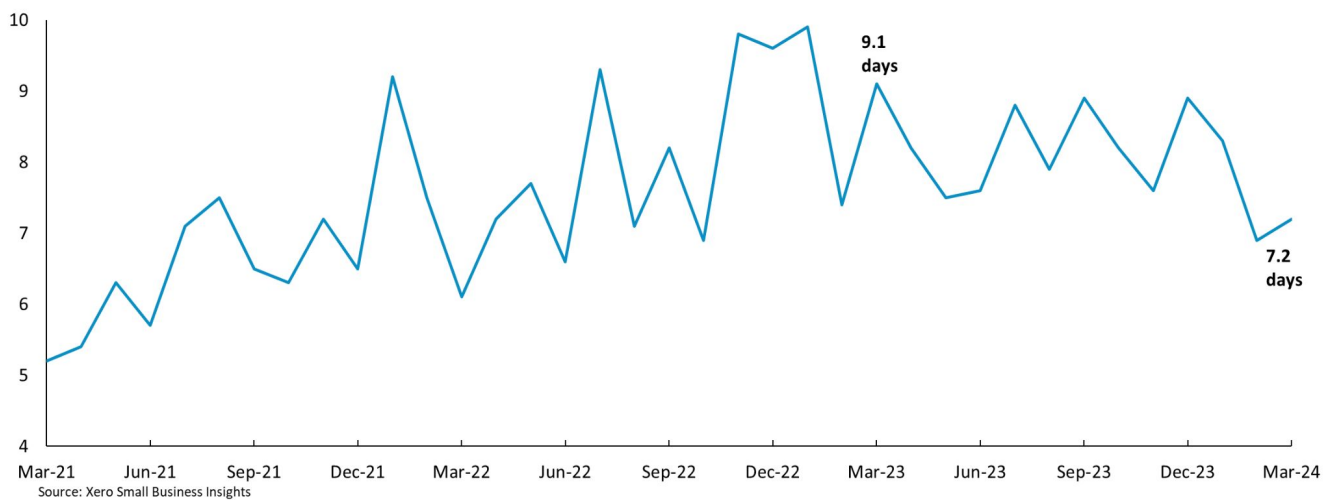
Time to be paid

Days, seasonally adjusted



Average Late Payments

Days, seasonally adjusted



Additional details about Xero Small Business Insights

About Xero

Xero is a global small business platform with 4.2 million subscribers. Xero's smart tools help small businesses and their advisors to manage core accounting functions like tax and bank reconciliation, and complete other important small business tasks like payroll and payments. Xero's extensive ecosystem of connected apps and connections to banks and other financial institutions provide a range of solutions from within Xero's open platform to help small businesses run their business and manage their finances more efficiently.

About Xero Small Business Insights

The aim of Xero Small Business Insights is to create insights to help inform decision makers in support of the small business economy as a whole. The principal source of small business insights in this report is customer data from Xero - a small business platform that supports online accounting and a range of other applications. Xero is a responsible custodian of our customers sensitive data and does not release any data that could identify individual businesses. The data used is aggregated and anonymized to ensure the privacy of Xero subscribers, and their counterparts.

As part of the program, we publish regular blogs and research notes and deep-dive Special Reports on specific small business topics. These can all be found at xero.com/xerosbi.

Methodology

Full details of the methodology used to construct the Xero Small Business Index can be found [here](#).

Disclaimer

This report was prepared using Xero Small Business Insights data and publicly available data for the purpose of informing and developing policies to support small businesses.

This report includes and is in parts based on assumptions or estimates. It contains general information only and should not be taken as taxation, financial, investment or legal advice. Xero recommends that readers always obtain specific and detailed professional advice about any business decision.

The insights in this report were created from the data that was available as at the date it was extracted. Data used was anonymised and aggregated to ensure individual businesses can not be identified.