



State of the Nation: What's next for Canada's digital advertising sector?

IAB AGM 2023
May 31, 2023

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Outline: where are we now and where are we going?

1. Context:

Current Business & Economic Conditions

2. Pulse on digital advertising trends:

Advertising and e-commerce in Canada

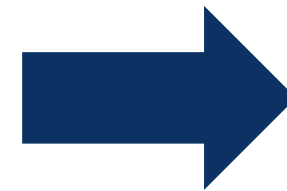
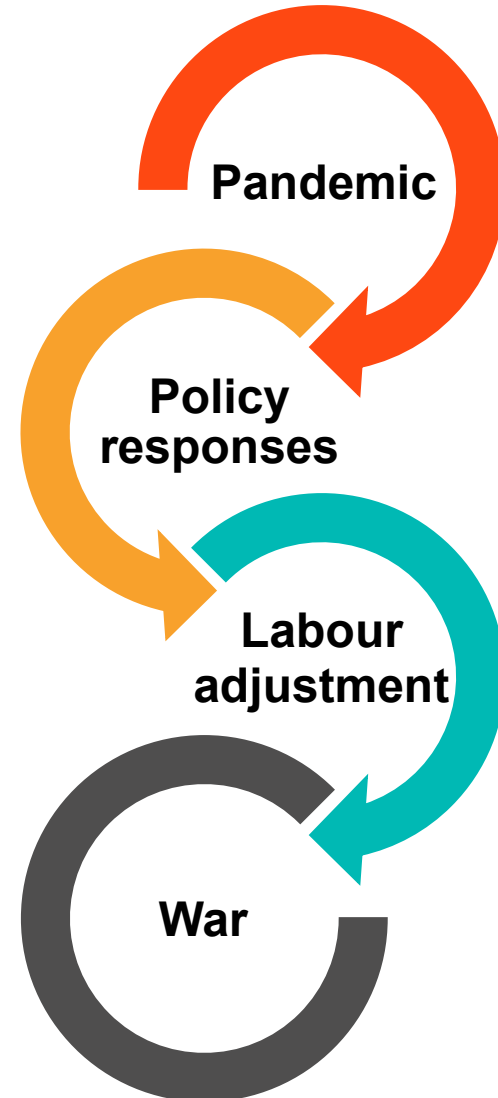
3. Outlook ahead:

Growth in time of uncertainty.



Context: Current Business & Economic Conditions

Multiple global + domestic shocks



Inflation



↑ Interest rates

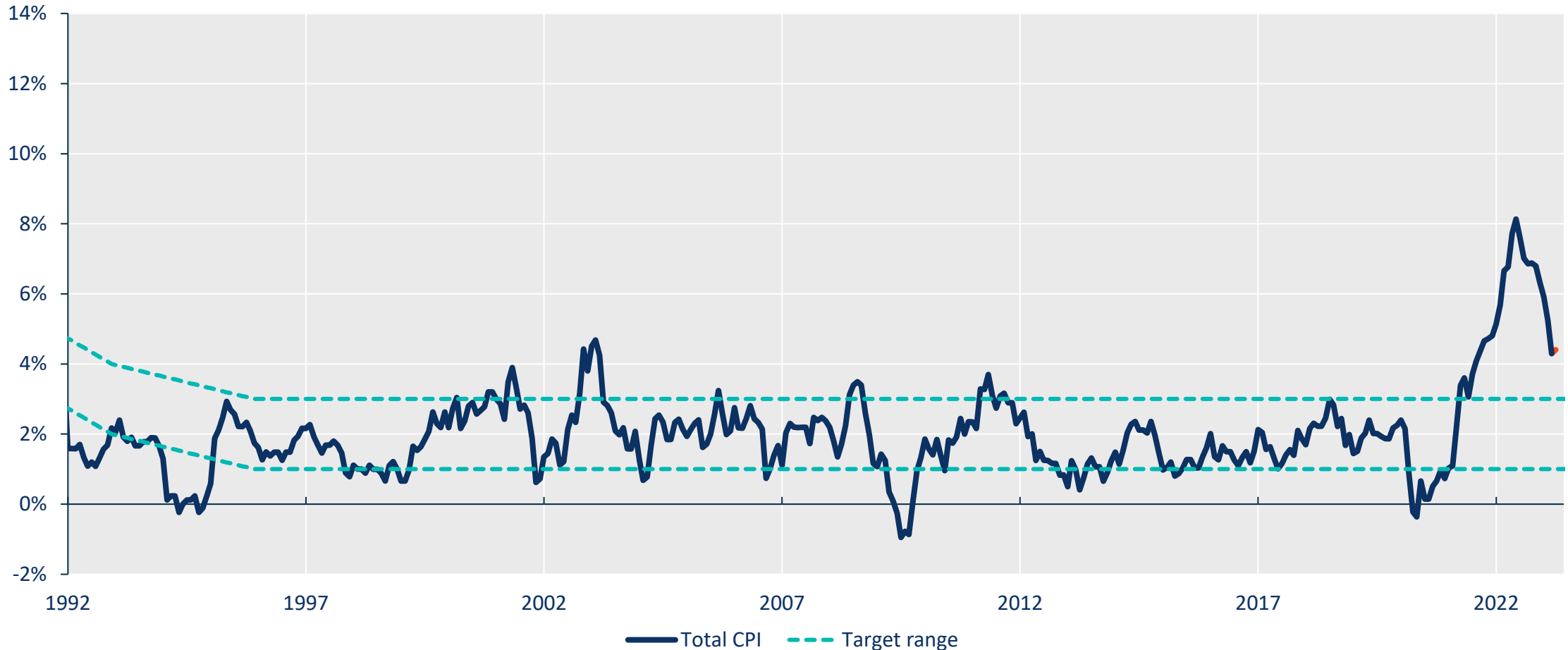


↓ Growth



Inflation peaked at 8.1% last June and is slowing, but remains well above the Bank of Canada's 2% target.

Canadian consumer price index (CPI)
% change, year-over-year



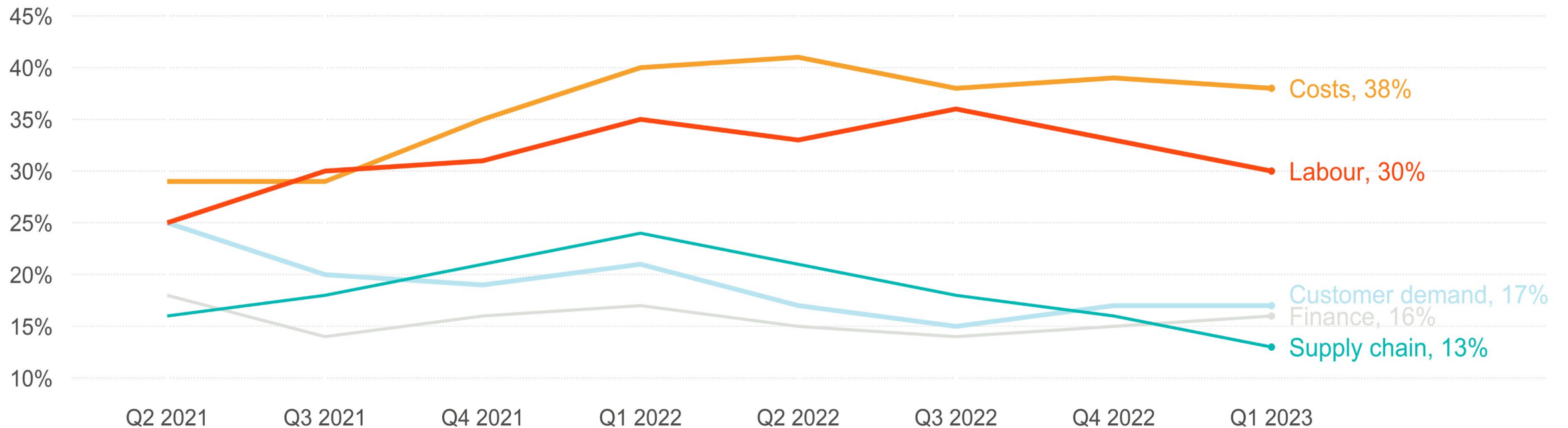
Sources: Canadian Chamber of Commerce Business Data Lab; Statistics Canada.



Costs & labour remain the biggest concerns for Canadian firms for the next quarter and likely to persist till end of 2023.

Business obstacles expected, next three months

% of respondents, grouped by category

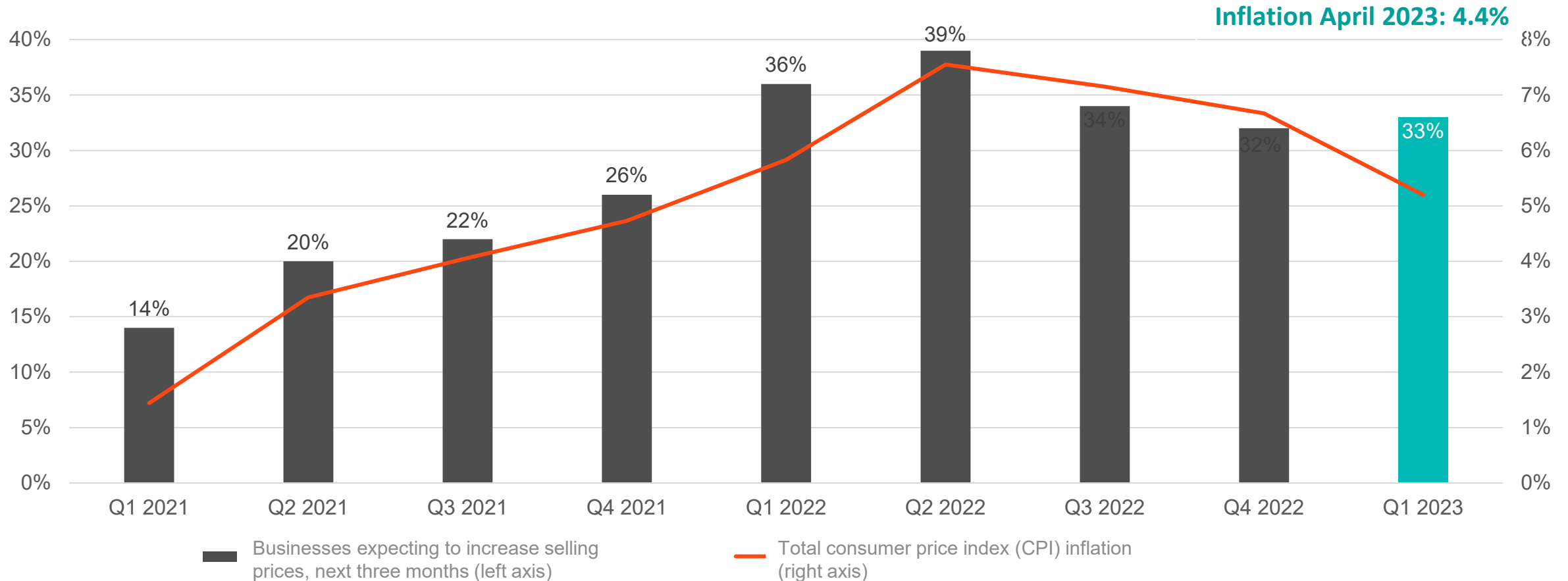




Firm pricing behavior not yet normalized, despite headline disinflation.

Businesses expecting to raise the selling price of their goods and services, next three months and CPI inflation

Left axis % of respondents; right axis year-over-year % change

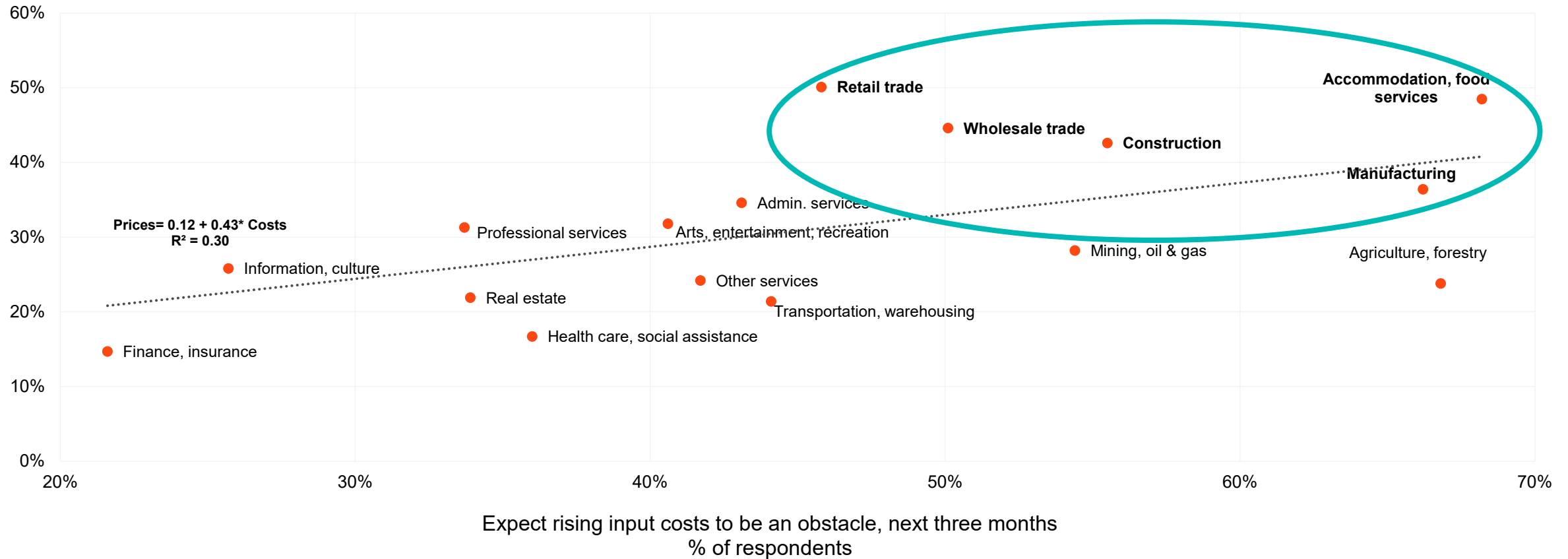




Industries facing stronger cost pressures more likely to raise prices.

Expect to raise prices, next three months

% of respondents



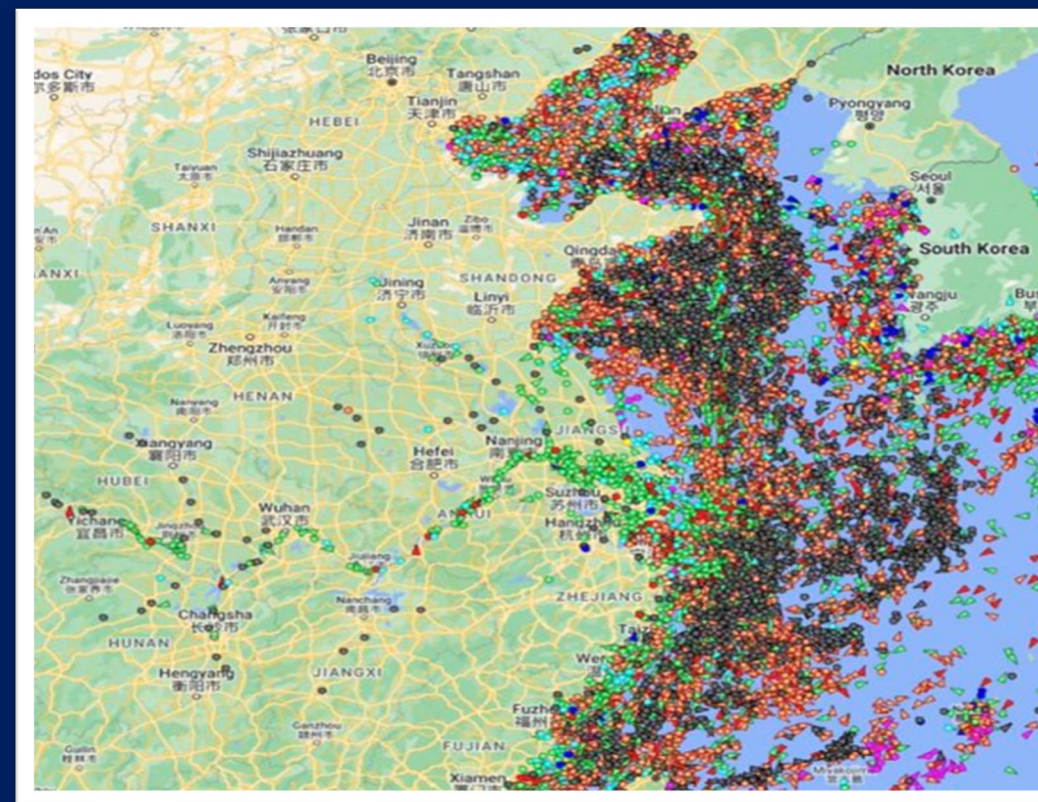


Backlog challenges ongoing albeit slowly normalizing.

U.S. West Coast
Summer 2021



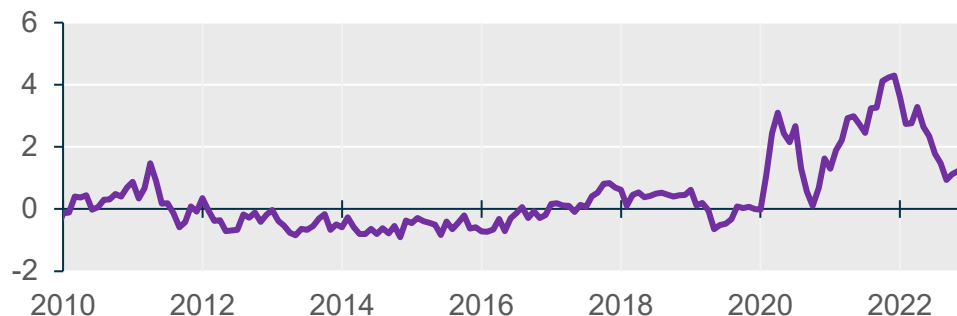
SE Asia
Spring 2022



Supply chain challenges are improving.

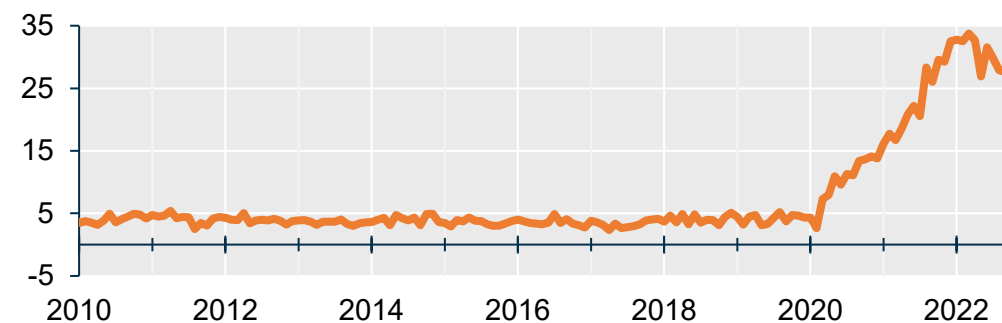
Global supply chain pressure index falling

Standard deviation from average value



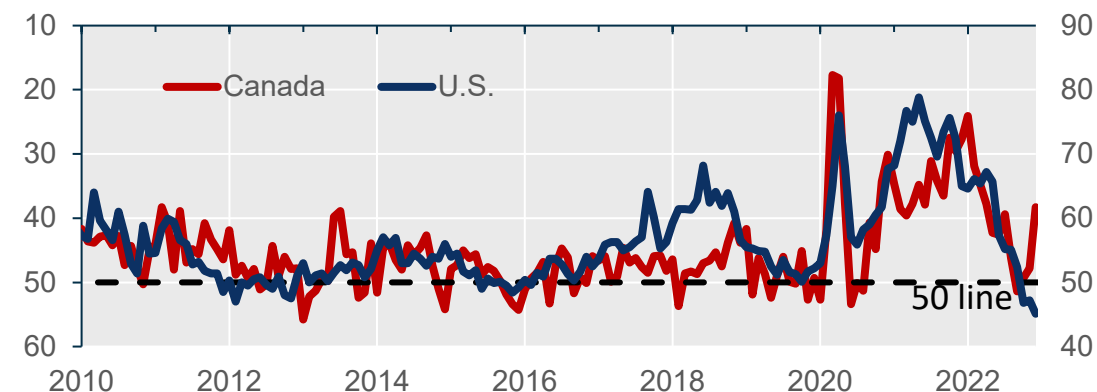
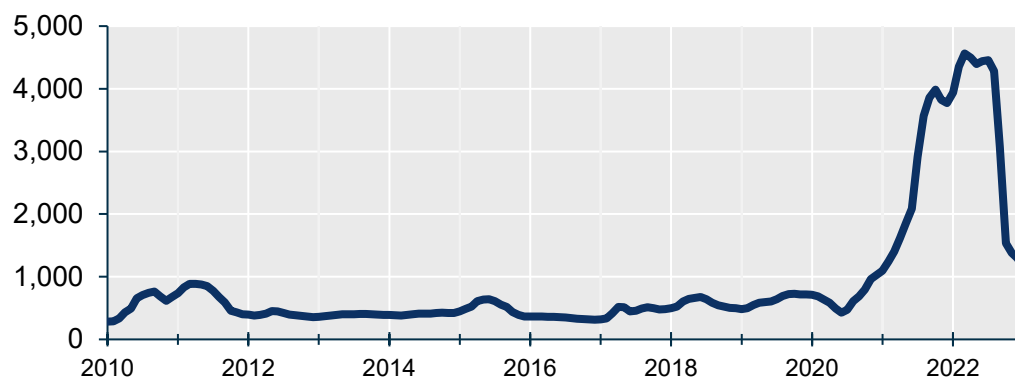
Fewer Canadian firms reporting input shortages

% of respondents, seasonally adjusted



Global shipping rates nearing pre-pandemic levels

Index, Jan 2001 = 1000



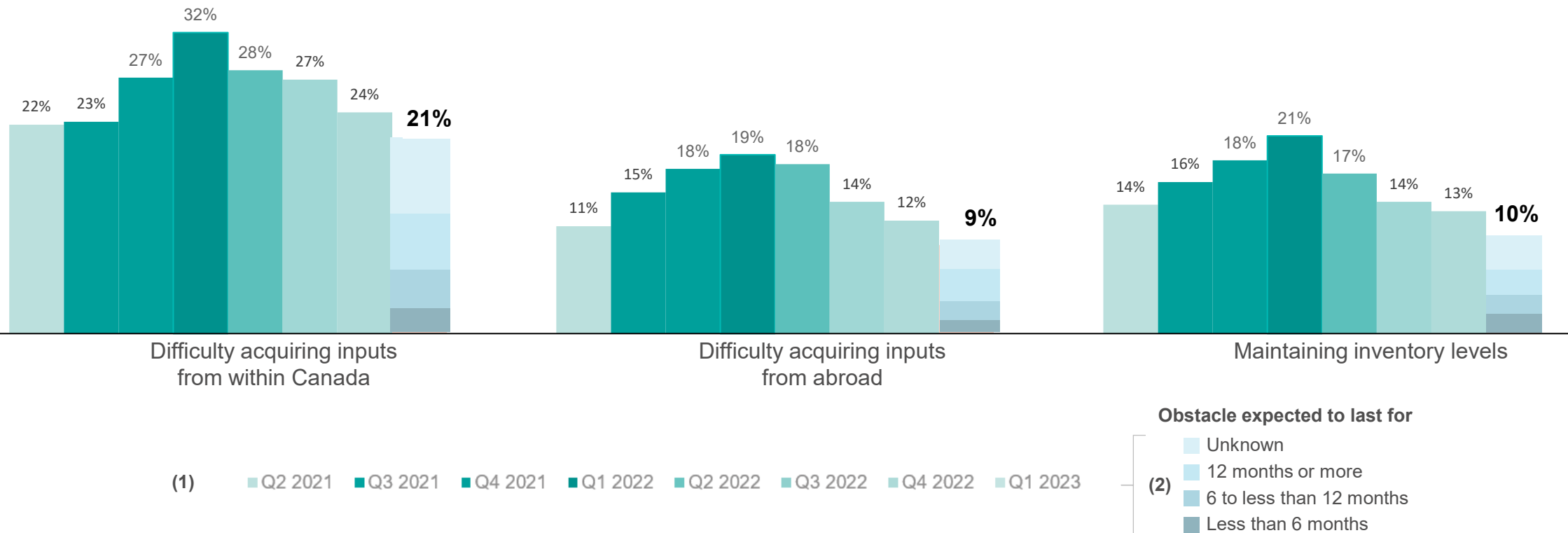


Supply-chain challenges have improved since the start of 2022, but they remain elevated, and many firms expect them to persist.

(1) Expected supply-chain obstacles, next three months

(2) Expected duration of obstacles

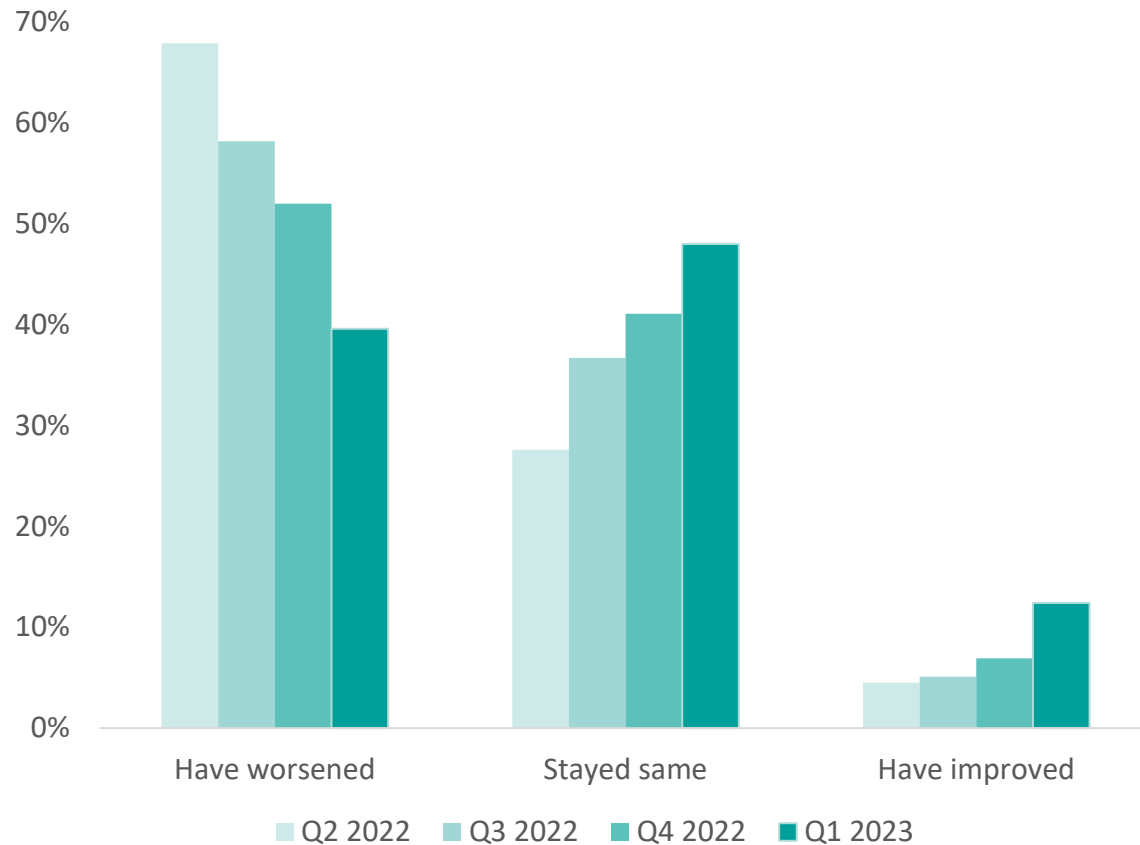
% of respondents





Most firms experiencing supply-chain issues say they have been the same or improved, and generally don't expect things to worsen.

Supply-chain obstacles experienced, last three months
% of respondents, of those that expect supply-chain obstacles



Supply-chain obstacles expected, next three months
% of respondents, of those that expect supply-chain obstacles





Businesses are planning to partner with new suppliers, substitute inputs and work with existing suppliers.

Business plans to adjust their supply chains, next 12 months
% of respondents



32%

partner with
new suppliers

unchanged
from Q4 2022



29%

substitute inputs
with alternatives

- 4 pts
from Q4 2022



28%

work with
suppliers
to improve
timeliness

- 3 pts
from Q4 2022



14%

shift to local
suppliers

+ 4 pts
from Q4 2022



14%

make
technological
improvements

+ 2 pts
from Q4 2022



Pulse on Digital Trends and Business Sentiment





Digital & e-commerce in numbers: **emphasis on digital resulted in growth for Canadian businesses of all sizes.**



\$398 billion
e-commerce sales



\$6.5 billion
Online advertisements



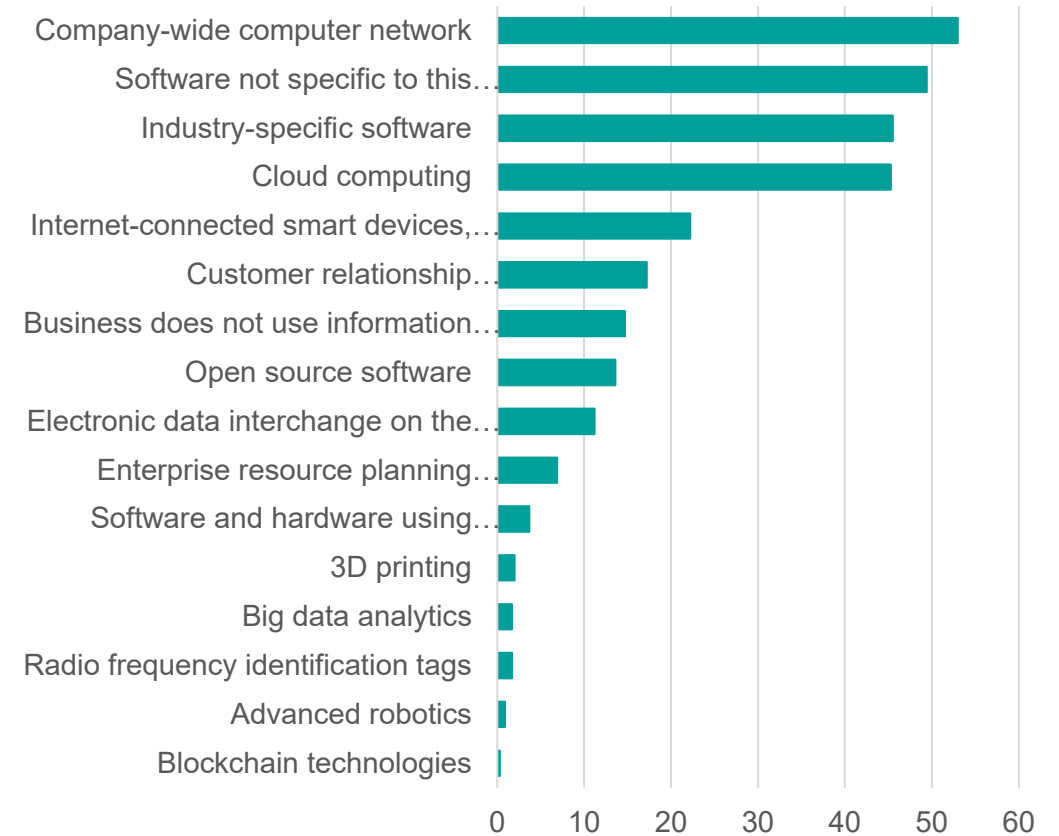
33%
Businesses with e-commerce sales



89%
Of business have at least one type of web presence

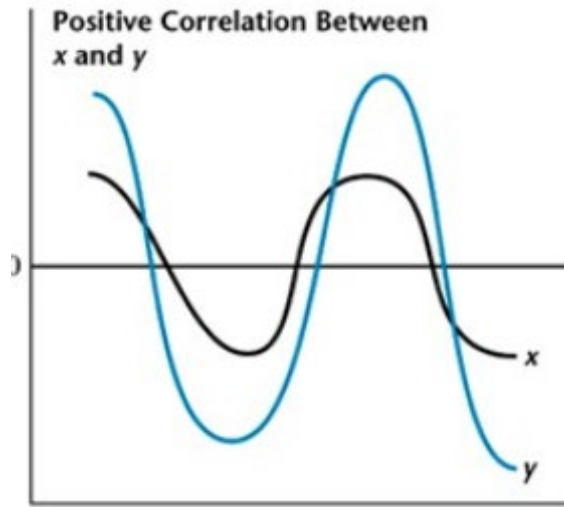
▲ 2019

Information and communication technologies used by businesses, Canada, 2021
% of respondents





(Online) Advertising among marketing instruments most procyclical to economic conditions.



The Role of National Culture in Advertising's Sensitivity to Business Cycles: An Investigation Across Continents

Advertising and Public Policy: The Macroeconomic Effects of Advertising

[Robert Jacobson](#) and [Franco M. Nicosia](#) [View all authors and affiliations](#)

[Volume 18, Issue 1](#) | <https://doi.org/10.1177/002224378101800103>

DOI: 10.2307/1060982 • Corpus ID: 155758253

The Macroeconomic Relationship between Advertising and Consumption

[Chulho Jung](#), [Barry J. Seldon](#) • Published 1995 • Business, Economics • Southern Economic Journal

The Cyclical Response of Advertising Refutes Counter-Cyclical Profit Margins in Favor of Product-Market Frictions

[Robert E. Hall](#)

Advertising is a means by which firms advertise in order to increase the demand for the goods they produce. Hence, we would expect increases in a firm's advertising to be associated with increases in consumption of the firm's goods, ceteris paribus. The increased demand for the firm's goods may be associated with decreased demand of their rivals' at the market level, increases in advertising by the industry may not be accompanied by increased production of the industry's output. This is because... [Expand](#)

WORKING PAPER 10770 DOI: 10.3386/w10770 ISSUE DATE September 2012 REVISION DATE November 2012

According to the standard model, advertising is remarkably sensitive to profit margins. Firms advertise to stimulate demand for their products. They advertise high-margin products aggressively and low-margin ones hardly at all. In macroeconomics, variations in profit margins over the business cycle have a key role. A widening of margins can explain the rise in unemployment in recessions. A higher margin implies a lower real wage. A variety of models ranging from Keynesian to search-and-matching imply a decline in wages to higher unemployment. But a rise in profit margins should expand advertising by a lot. Really a lot. Advertising should be highly countercyclical. Instead, it is somewhat procyclical. The rate of advertising spending to gross GDP falls when the economy contracts. The behavior of advertising refutes the hypothesis that profit margins rise. But it is true that the labor share of income falls. Hence there must be another factor that lowers the labor share without raising profit margins. The only influence that fits the facts is a rise in a product-market friction that has the same effect as an increase in sales taxes.

National Culture and Advertising Sensitivity to Business Cycles: A Reexamination

[Jung Seek Kim](#) [View all authors and affiliations](#)

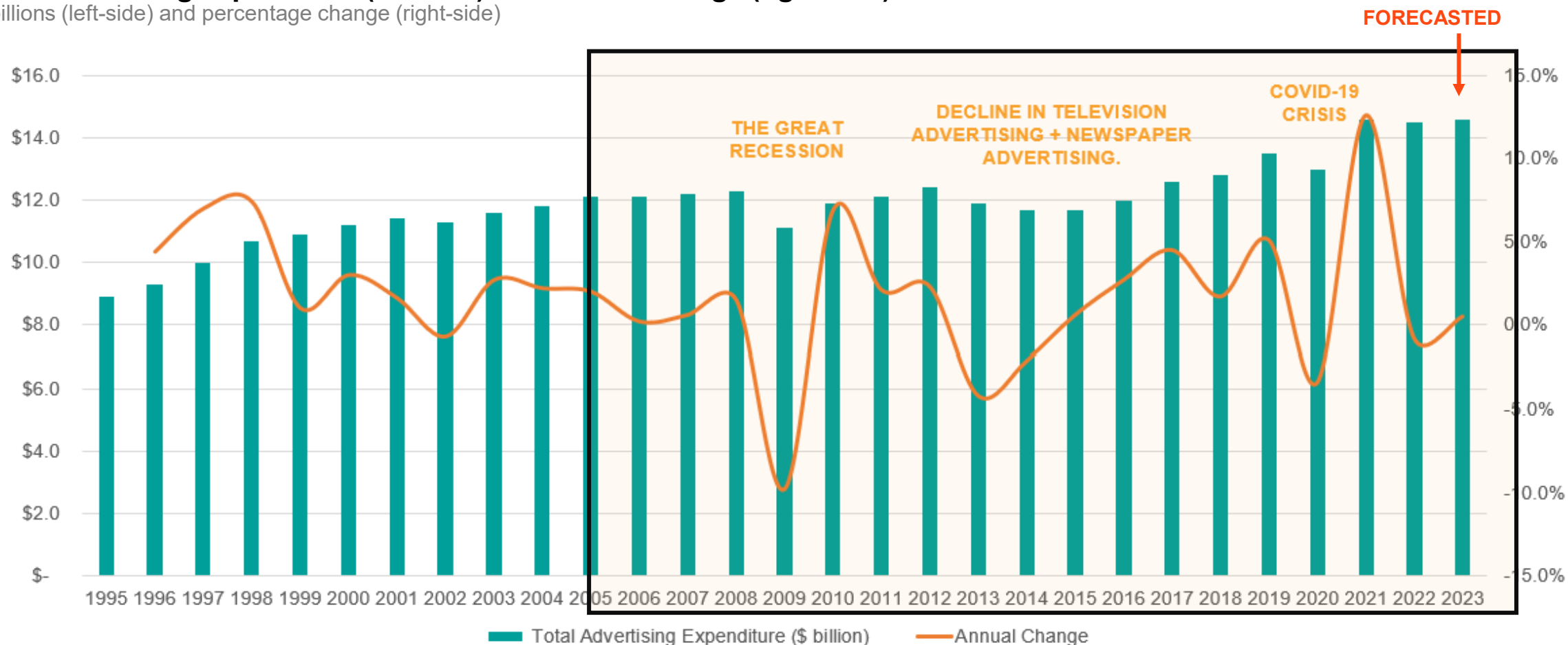
[Volume 28, Issue 4](#) | <https://doi.org/10.1177/1069031X20923310>



Advertising expenditure has averaged approx. 2% annual growth over the last (almost) three decades.

Total advertising expenditure (left side) and annual change (right side)

\$billions (left-side) and percentage change (right-side)

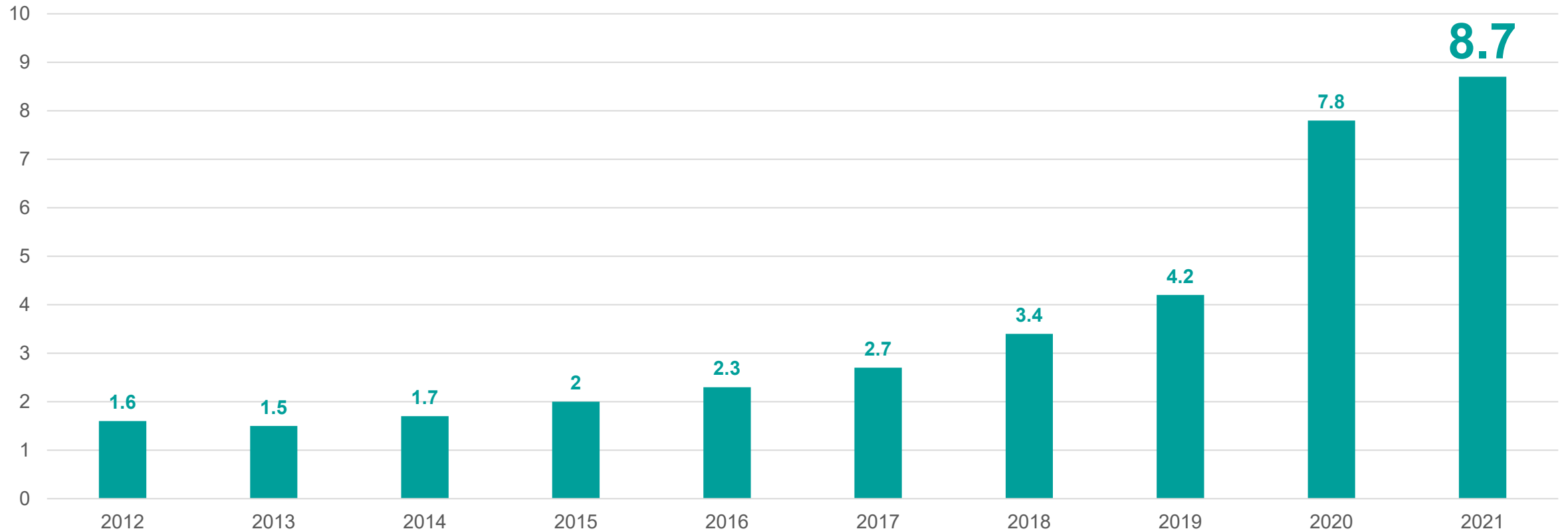




Proportion of e-commerce sales has steadily grown over the last decade to peak of 8.7%.

E-commerce and sales

Percentage of total sales





Retail trade amongst the top industries with plans to implement new or pre-existing digital tech to buttress e-commerce or online sales.

Plans to implement new or update pre-existing digital technology to enable or enhance e-commerce or online sales
of respondents, by industry and technology

	Yes, very likely to work with a consultant	Yes, somewhat likely to work with a consultant	Yes, somewhat unlikely to work with a consultant	Yes, very unlikely to work with a consultant	Yes, unknown	
All industries	4.4	4.5	1.4	2.6	1.4	
Arts, entertainment and recreation	8.1	7.4	2.9	4.4	2.1	24.9%
Accommodation and food services	8.1	5.8	4.2	3.3	1	22.4%
Real estate and rental and leasing	7.4	5.1	0.4	2.3	1.6	16.8%
Retail trade	7.2	3.6	4.3	4.1	2.5	21.7%
Finance and insurance	6.3	4.9	2.5	3.2	6	22.9%
Information and cultural industries	5.8	5.5	1.5	3.5	2	18.3%
Other services (except public administration)	5.7	5.6	0.8	2	1.1	15.2%
Wholesale trade	5.3	7.9	2.1	3.3	2.5	21.1%
Manufacturing	5.2	5.2	1.1	3.3	0	14.8%
Administrative and support, waste management and remediation services	4.8	3	0.6	4.2	1.8	14.4%
Health care and social assistance	3.3	2.5	0.2	1.3	0.3	7.6%
Professional, scientific and technical services	3.2	6.3	1.2	4.2	1.4	16.3%
Agriculture, forestry, fishing and hunting	2.2	2.1	0.7	2.2	0.1	7.3%
Transportation and warehousing	1.3	2.7	0	0.6	0.8	5.4%
Construction	1.1	4.1	0	0.3	1.3	6.8%
Mining, quarrying, and oil and gas extraction	0.9	0.5	0	0.9	0	2.3%

Lowest % of businesses

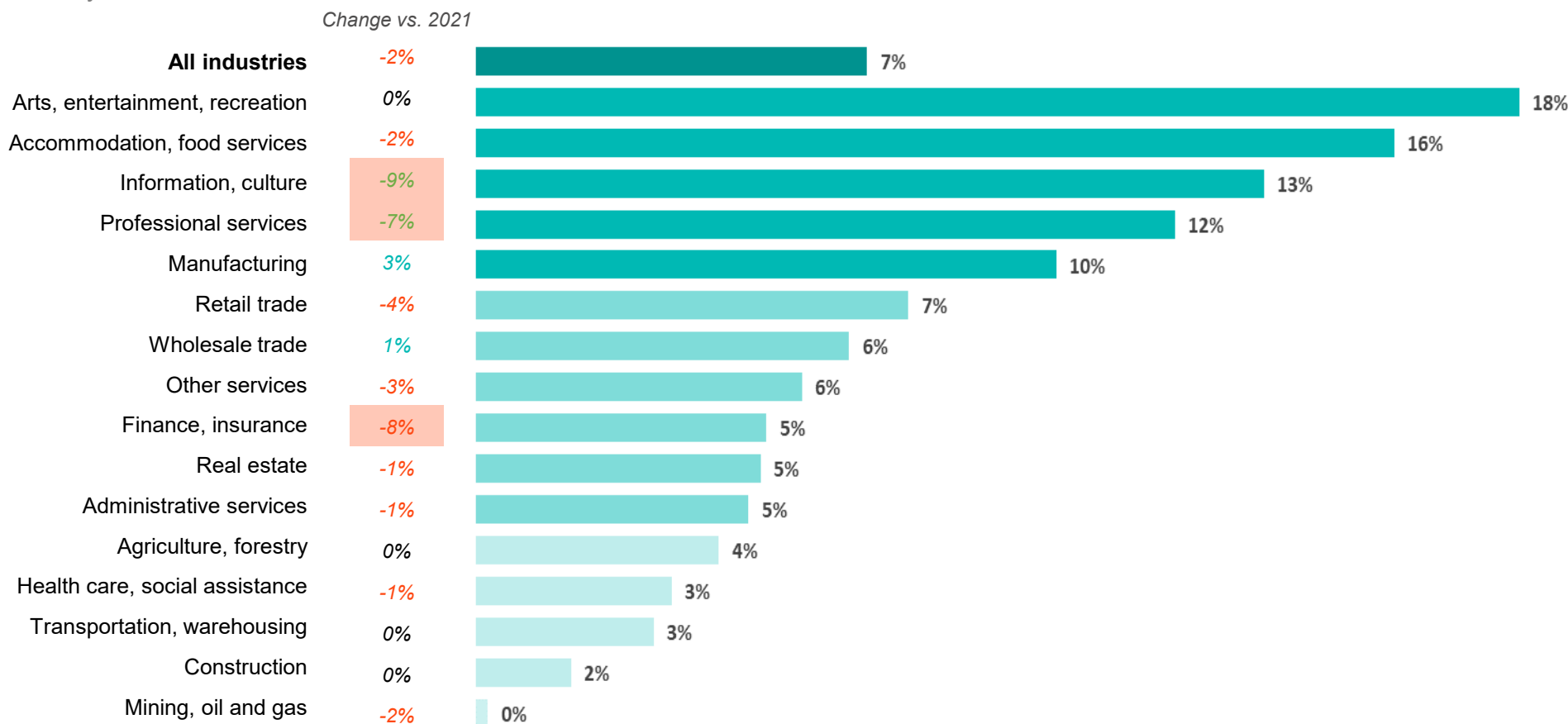
Highest % of businesses



After a pandemic boom, share of total sales online fell in 2022, with notable declines for information and culture, professional services and finance.

Percentage of total sales made online in 2022

%, by industry





Manufacturing, information and culture, professional services firms and retail trade lead technology adoption plans.

Business plans to adopt new technologies, next 12 months

% of respondents, by industry and technology

	Move business operations online	Automate tasks	Software or hardware using Artificial Intelligence	Robotics	Security software tools	Cloud computing	Collaboration tools	Software or databases for other purposes
All industries	6%	6%	6%	1%	12%	14%	12%	6%
Manufacturing	6%	14%	9%	5%	16%	14%	9%	8%
Information and culture	7%	13%	15%	1%	19%	25%	25%	12%
Professional services	8%	12%	10%	1%	16%	30%	17%	10%
Retail trade	9%	9%	5%	1%	15%	13%	15%	6%
Agriculture, forestry	3%	8%	3%	2%	10%	7%	6%	5%
Finance, insurance	9%	7%	6%	0%	17%	18%	18%	6%
Wholesale trade	8%	7%	6%	0%	17%	14%	14%	11%
Arts, entertainment, recreation	7%	5%	4%	0%	10%	16%	18%	10%
Accommodation, food services	6%	5%	8%	1%	7%	11%	6%	5%
Mining, oil and gas	2%	5%	5%	2%	14%	17%	10%	6%
Real estate	3%	4%	6%	0%	14%	13%	13%	7%
Health care, social assistance	2%	4%	4%	0%	11%	12%	10%	3%
Transportation, warehousing	3%	4%	5%	0%	6%	7%	5%	5%
Administrative services	4%	3%	7%	0%	15%	12%	13%	8%
Construction	4%	3%	2%	2%	7%	7%	7%	2%

Lowest % of businesses



Highest % of businesses



Roughly 3 in 10 firms cite hiring skilled employees and access to finance as top challenges to adopting new technologies.

Business challenges when adopting technologies

% of respondents that answered, “somewhat challenging” and “extremely challenging”



Hiring workers with tech skills

35%

Firms in **agriculture, construction, and manufacturing**, report the most challenges in **hiring workers with skills to implement new technologies**.



Accessing financial resources to invest in new tech

33%

Firms in **construction, administrative services, and health care** report more challenges **retraining/reskilling employees**.



Retraining employees with new tech skills

28%



Accessing external financing to support implementation

28%

Firms in **arts and recreation, administrative services, health care, accommodation and food services** report **access to financial resources and external financing** as impediments to tech adoption.



Ensuring security and privacy of data

27%



Digital Outlook Ahead





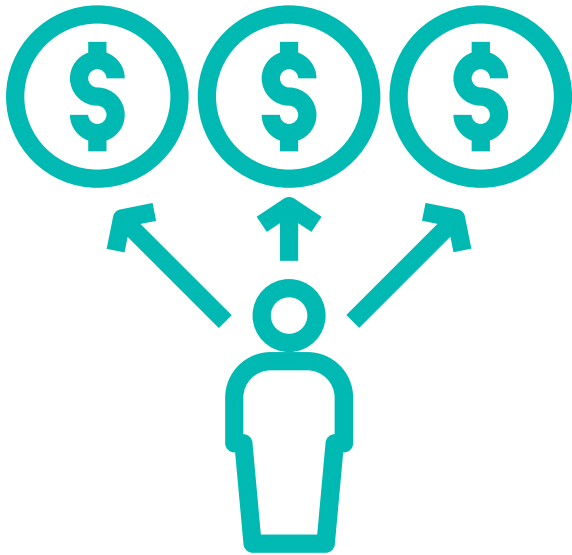
Canada's economic growth slowed in 2022. Mild recession expected in 2023.

Canadian real gross domestic product (GDP) growth

Chained 2012 dollars, annualized quarterly percent change



Growth in times of uncertainty – intentionality goes a long way.



1. Calibrate investments to consumer demand.
2. Let data guide the way and engage with evidence-based marketing.
3. Optimize your existing resources and stay agile.



Canadian Survey on Business Conditions Reports

Gain More Insight with free tools from the Canadian Chamber of Commerce Business Data Lab

Canadian Survey on Business Conditions Reports

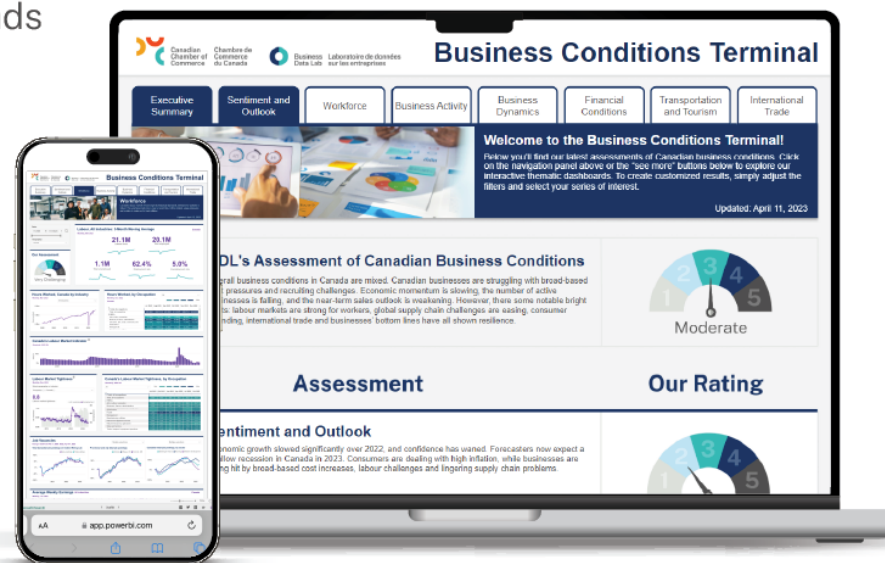


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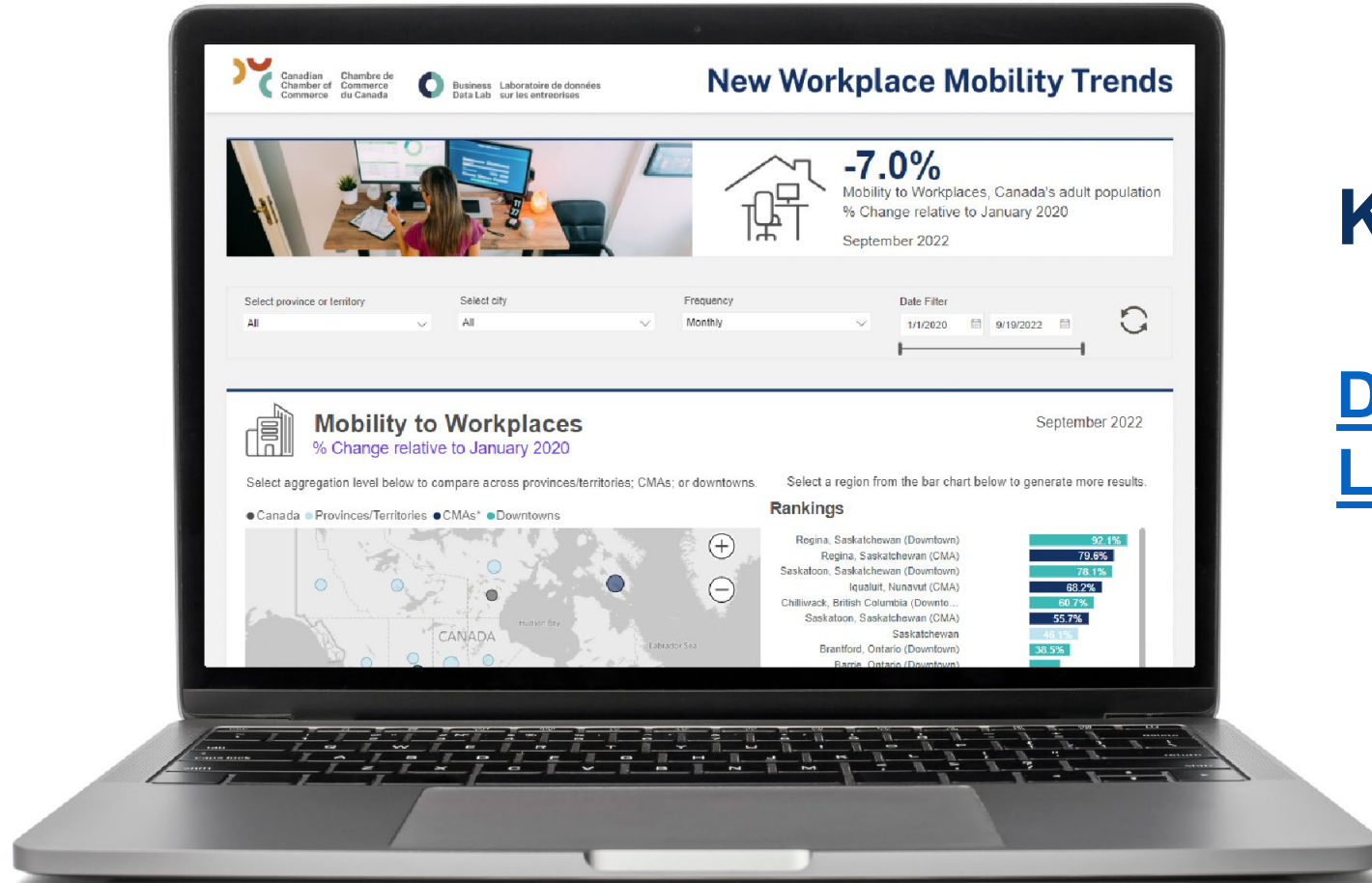
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- "Always on" with updated data



Mobility to Workplace Dashboard



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The BDL is made possible through our collaboration with Statistics Canada and financial support from Innovation, Science and Economic Development Canada.

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