February 2025

2025 Outlook for Canada’s Creative and Cultural Industries

Adaptation and Growth Amidst Upheaval and Change

1. Creative businesses, unique challenges

What are the creative and cultural industries?

The creative economy encompasses a wide range of activities driven by individual creativity and the generation of intellectual property.

This outlook focuses on three sub-sectors that partially cover the wide range these activities. The following NAICS codes are included in the analysis, although they do not represent the industries perfectly:

- Information and cultural industries (51) and more specifically the motion picture and sound recording industries (512)
- Advertising, public relations and related services (5418), which includes media and audiovisual services
- Computer systems design and related services (5415), which includes digital and immersive experience companies
- Due to data availability, the analysis also covers the broader arts, entertainment and recreation sectors (71).

This report is based solely on public data and the industries considered in the data change throughout the report. Note that NAICS 5418, 5415 and 71 covers wider categories of businesses that ranges beyond the creative aspects of those sectors.

Industries with unique challenges

Creative and cultural companies face specific challenges that can make it more difficult for them to scale and obtain financial support from partners.

- Media production and production services businesses are often project oriented. This results in large and unpredictable year to year fluctuations in revenues, based on production schedules.
- Distribution and publishing companies are speculative in nature, as revenue is closely tied to the popularity of content. They face significant financial risks, as there is no guarantee of a product's commercial success.
- Businesses in the rapidly evolving gaming industry depend on scale, strong customer engagement and top talent. The success of games is uncertain and relies on audience response.
- Design and services companies also face unpredictable and volatile revenues, given that these companies typically don't have long-term and exclusive contracts with their clients.

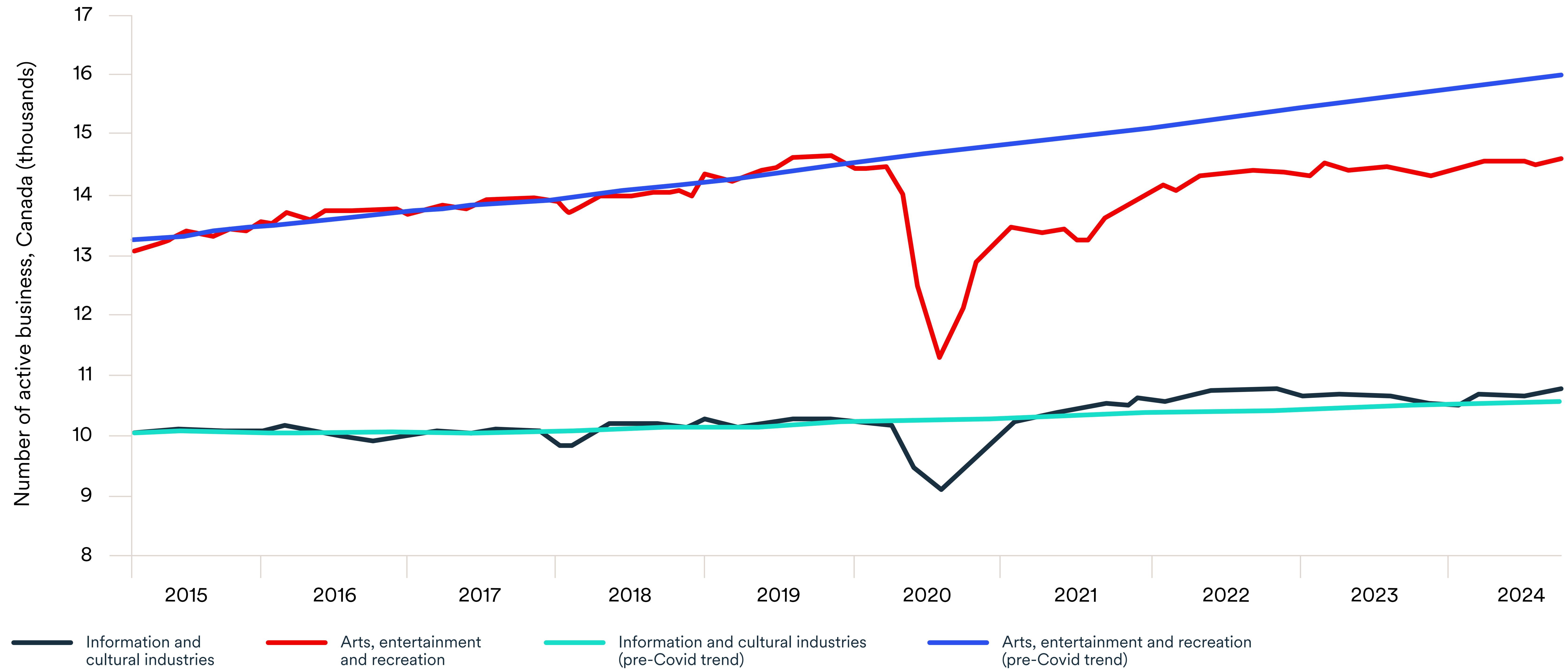
Business dynamism in the sector has been slumping since COVID

The creative and cultural industries have been dealing with the long-term effects of a tough recovery that is still unfolding following the pandemic that hit in 2020.

The pandemic transformed the landscape for many sectors within the industry. Arts, entertainment and recreation were among the hardest-hit areas of the economy, resulting in thousands of job losses. Operating revenue fell sharply in 2020, with sectors such as motion picture and video exhibition experiencing a decline of over 69%.

Despite government assistance, many businesses struggled to stay afloat. We estimate that the number of active businesses in the arts, entertainment and recreation industry is roughly 1,400 below the pre-pandemic trend, which had shown consistent growth up until 2020. This means that this sector alone had almost 10% fewer businesses in August 2024 than it would have if the pre-pandemic trend had continued. (See Figure 1.)

Figure 1: The creative economy has been stagnating since the pandemic



Sources: Statistics Canada, BDC.

COVID accelerated the technology revolution

While the overall Canadian economy has rebounded and the total number of active businesses now exceeds pre-pandemic levels, the number of active businesses in the information and cultural industries has stagnated, and the arts, entertainment and recreation sector has yet to return to its 2019 peak.

The pandemic accelerated the shift toward digital platforms. Many businesses adapted by offering digital services, such as streaming performances and online exhibitions. While this helped mitigate some losses, it did not fully compensate for the decline in in-person revenue at the time.

Although there has been some recovery since the pandemic shutdowns ended, attendance-driven businesses continue to lag, reflecting a shift in consumer trends.

The creative and cultural industries are gradually rebuilding, but the path to full recovery remains rocky. Traditional business models have been upended and revenue streams are changing. Businesses that want to stay afloat and thrive must adapt or risk falling behind.

Overall, the pandemic highlighted vulnerabilities and underscored the need for robust support systems to help creative and cultural organizations navigate future crises, including economic downturns.

A modest recovery for the industry in 2025

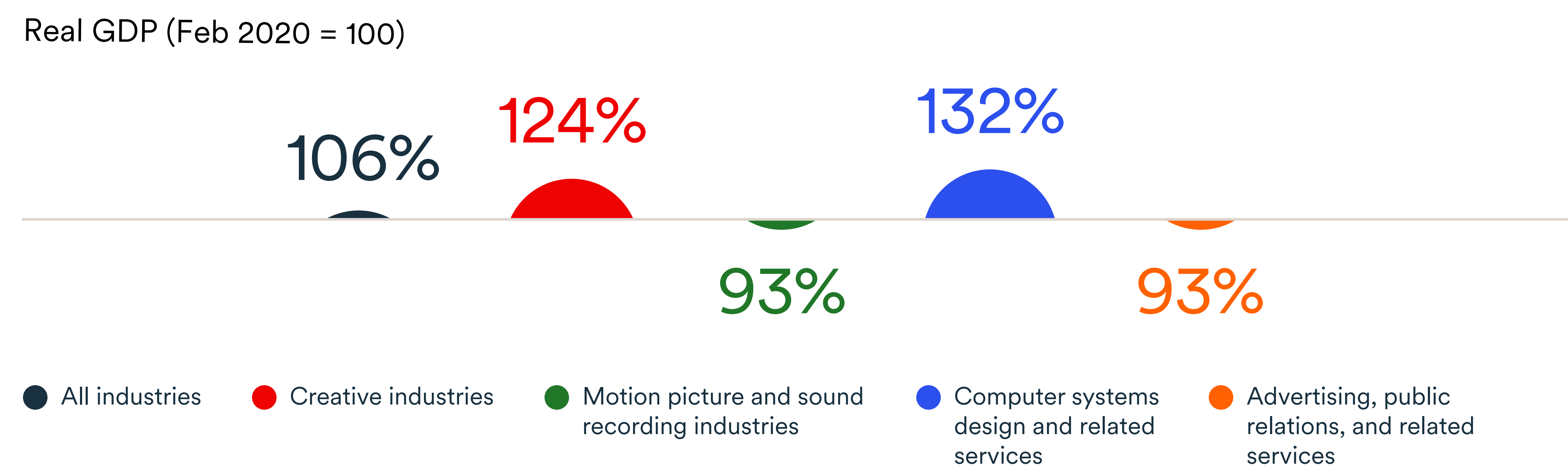
The Canadian economy is navigating a complex landscape marked by cautious optimism for a soft landing following the peaks of the post-pandemic recovery, together with persistent structural challenges and high uncertainty.

Real gross domestic product (GDP) growth of the Canadian economy was below potential in 2023 and into 2024. That trend is expected to continue in 2025. We forecast real GDP growth stood at 1.2% in 2024 and will increase to 1.5% in 2025.

Despite a challenging environment characterized by high interest rates, uncertainty and elevated prices, the creative and cultural industries have shown resilient growth, even as economic conditions have squeezed household budgets, dampening discretionary spending on leisure, arts, culture and recreation. Figure 2 shows the post-COVID GDP growth of the overall Canadian economy, the creative industry and three sub-sectors of the creative and cultural industries, as compared to their GDP in February 2020, immediately before the pandemic shutdown.

Modest growth in 2025 should lead to a modest recovery for the creative economy.

Figure 2: Recovery of GDP level since COVID



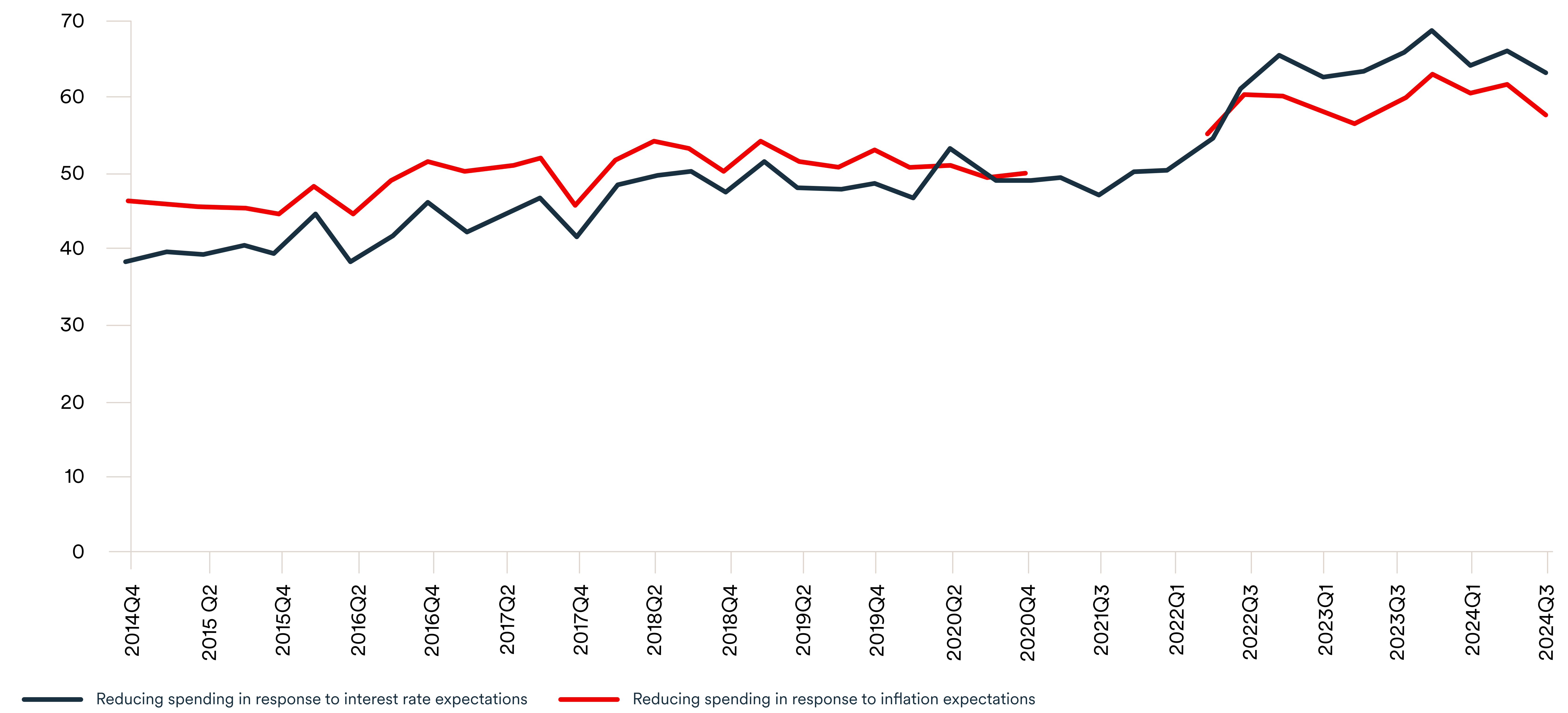
Sources: Statistics Canada, BDC.

Lower inflation and interest rates could positively affect discretionary spending

A recent report from the Bank of Canada indicated that most consumers expect to spend more on essential purchases and housing costs in the coming year. Consequently, a smaller proportion of Canadians anticipate increasing their spending on discretionary items—spending that is crucial for the creative industry.

However, there are signs of change. Canada made significant progress in its fight against inflation in 2024, and lower interest rates are on the horizon. While most households remain cautious about discretionary spending, the anticipated decrease in interest rates in 2025 should help revive momentum in the industry.

Figure 3: Share of consumers planning to reduce spending in the coming 12 months (%)



Sources: Statistics Canada, BDC.

Note: Data was not collected for a period of time between 2020 and 2022 explaining the gap in the red line.

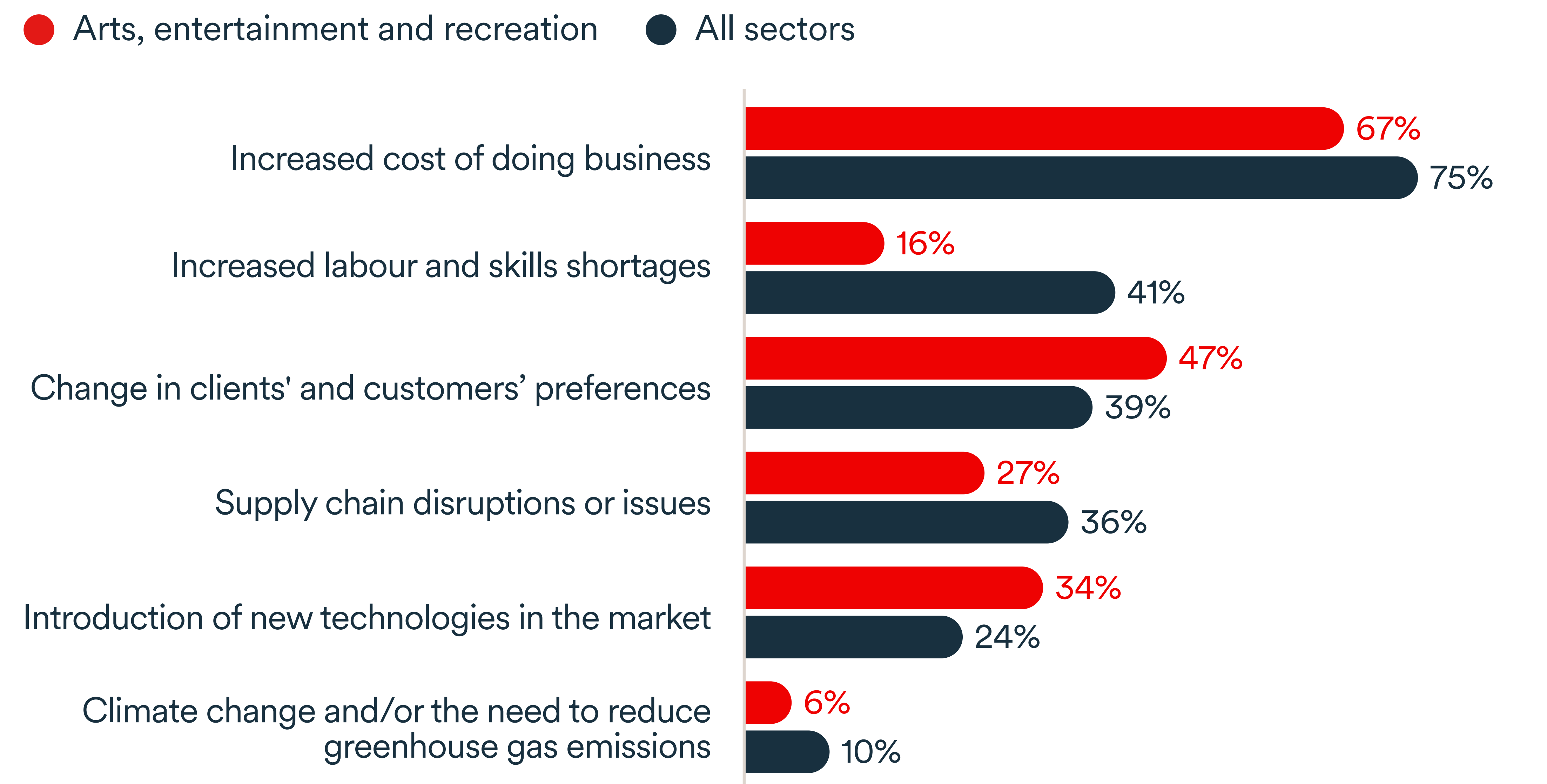
Rising costs, changing consumer preferences and new technologies

The rise of streaming services, social media platforms and direct-to-consumer strategies has changed the creative industry's traditional sensitivity to economic cycles.

During previous economic downturns, gaming often remained a popular form of affordable entertainment, which has helped sustain its growth. Now, different platforms are democratizing that aspect of the creative industry. Interactive media is growing in popularity and often represents an affordable option for growth.

While increasing costs is still identified as the most pressing issue by business owners in the sector, Creative economy entrepreneurs are not as worried about it compared to entrepreneurs in other sectors. The introduction of new technologies in the market had a greater disruptive impact than in the rest of the economy.

Figure 4: Over the past five years, which of the following market shifts or disruptions have significantly impacted the way you do business?



Sources: BDC, *4 key trends shaping the future of Canada's businesses* (October 2024).

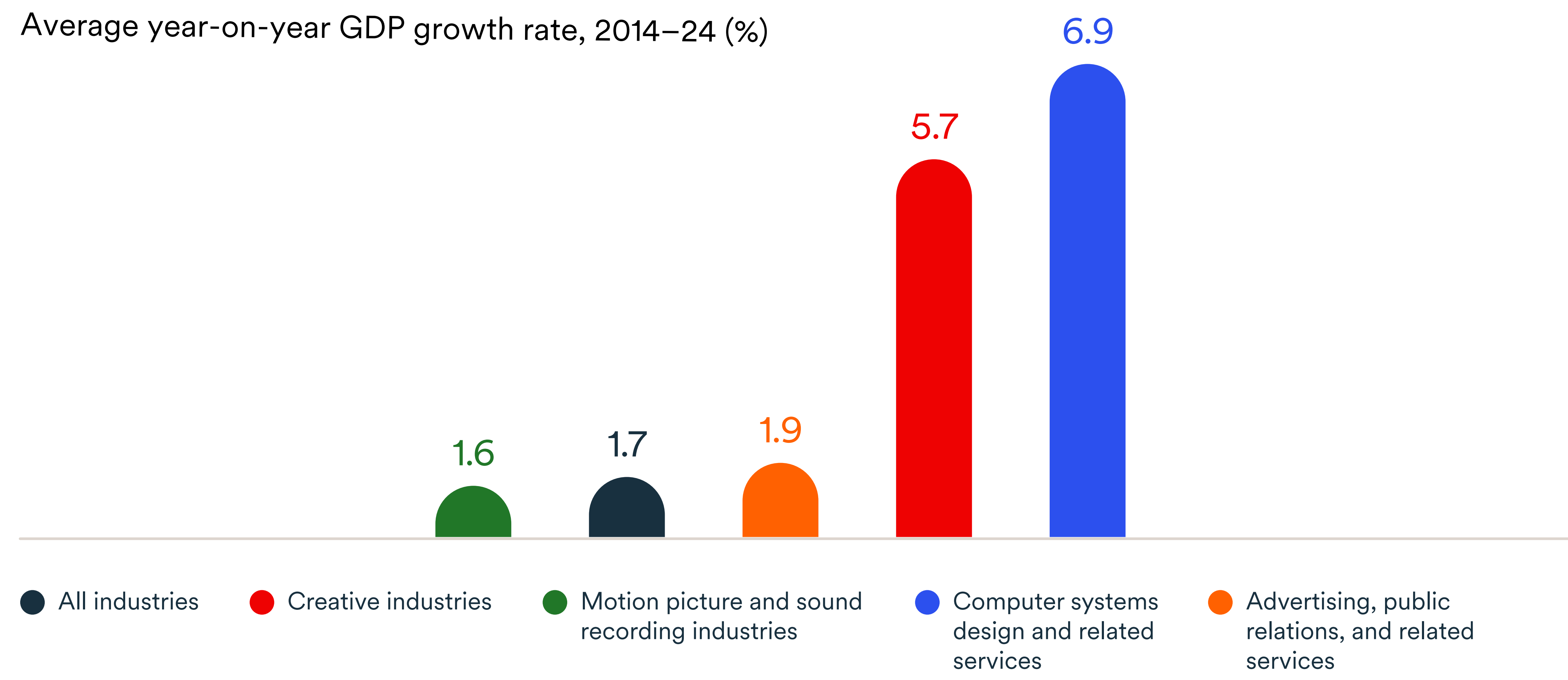
2. Trends and growth opportunities

Digitization and competition are driving growth in the computer sub-sector

While the Canadian economy grew at an average annual rate of 1.7% over the last 10 years, growth of the aggregated creative industry outpaced it, at a rate of 5.7% per year.

However, growth has been driven by the digitization of cultural products and increased competition from tech giants. As a result, growth in the computer systems design and related services sub-sector far outpaced growth in the other two sub-sectors highlighted in this report.

Figure 5: Growth in the computer systems and design sub-sector outpaced growth in other parts of the creative economy



Sources: Statistics Canada, BDC.

Technology is propelling change

The pandemic brought certain sectors of the creative industry to a halt, accelerating existing structural changes. The rise of digital platforms and streaming services, the increasing popularity of video games and the growing role of individual content creation will continue to disrupt the industry.

These trends represent growth opportunities for entrepreneurs in all sub-sectors, but some sub-sectors will find it more difficult to adopt technology than others.

Over the last five years, social media and websites were the technologies that cultural industry businesses were most likely to adopt. Surveys show businesses in this sector expect to adopt new tech—and extend use of their existing tech—more quickly in the future than their peers in other sectors do.

The rise of CreaTech

CreaTech—the convergence of computer science, design, art, entertainment and social sciences—flourished during the pandemic, as online and entertainment services had to reinvent themselves. CreaTech seeks to improve and automate the delivery and use of creative services.

How to take advantage of these new technologies?

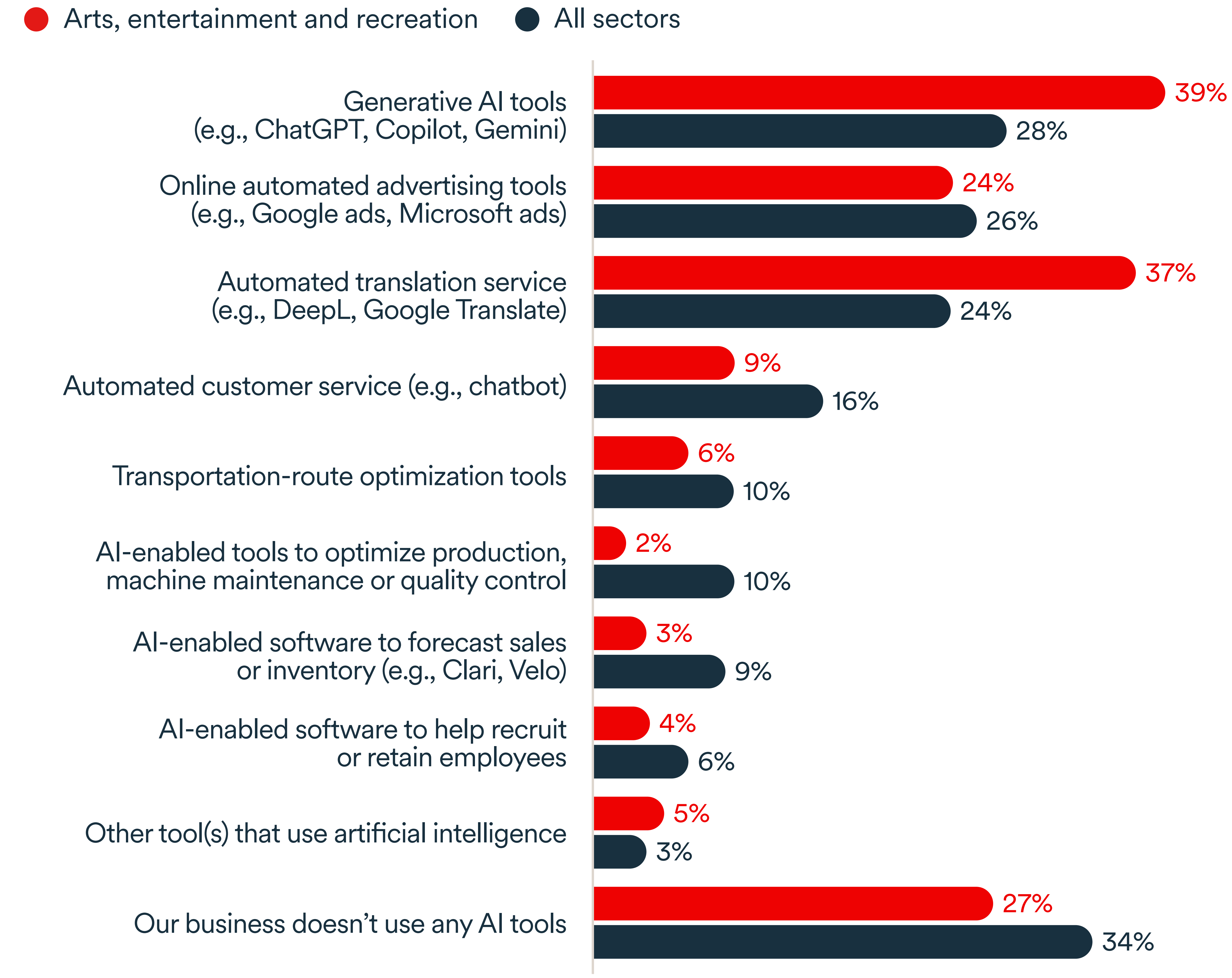
- Technologies such as virtual reality and augmented reality can enhance storytelling and create immersive experiences for users of video games and other interactive media.
- Tools such as 3D modelling software and digital painting applications enable artists to push the boundaries of traditional art forms, including graphic design and animation.
- CreaTech is crucial in developing engaging marketing campaigns. This includes the use of artificial intelligence (AI) to create personalized advertising, data analytics to understand consumer behaviour and interactive content to capture audience attention.
- The integration of technology—such as smart textiles, wearable tech and 3D-printed clothing—into fashion and film costumes opens new avenues for artistic expression.

Lessons learned? Hollywood strikes and the search for key talent

The 2023 labour disruption in Hollywood had a significant impact on Canadian production workers. The influx of U.S. productions to Canadian cities—including Vancouver, Toronto and Montreal—was abruptly halted by widespread strikes involving nearly 175,000 American industry workers. In 2024, as their U.S. counterparts recover from those disruptions, Canadian writers and producers are at a critical point in their own contract negotiations.

Initially, AI was not a major concern in these negotiations, but its rapid integration into the global media landscape has since raised concerns. The animation sector, in particular, is seen as vulnerable to potential technological threats, especially AI.

Figure 6: Do you or your employees use any of the following AI-enabled tools?



Source: BDC, *4 key trends shaping the future of Canada's businesses* (October 2024).

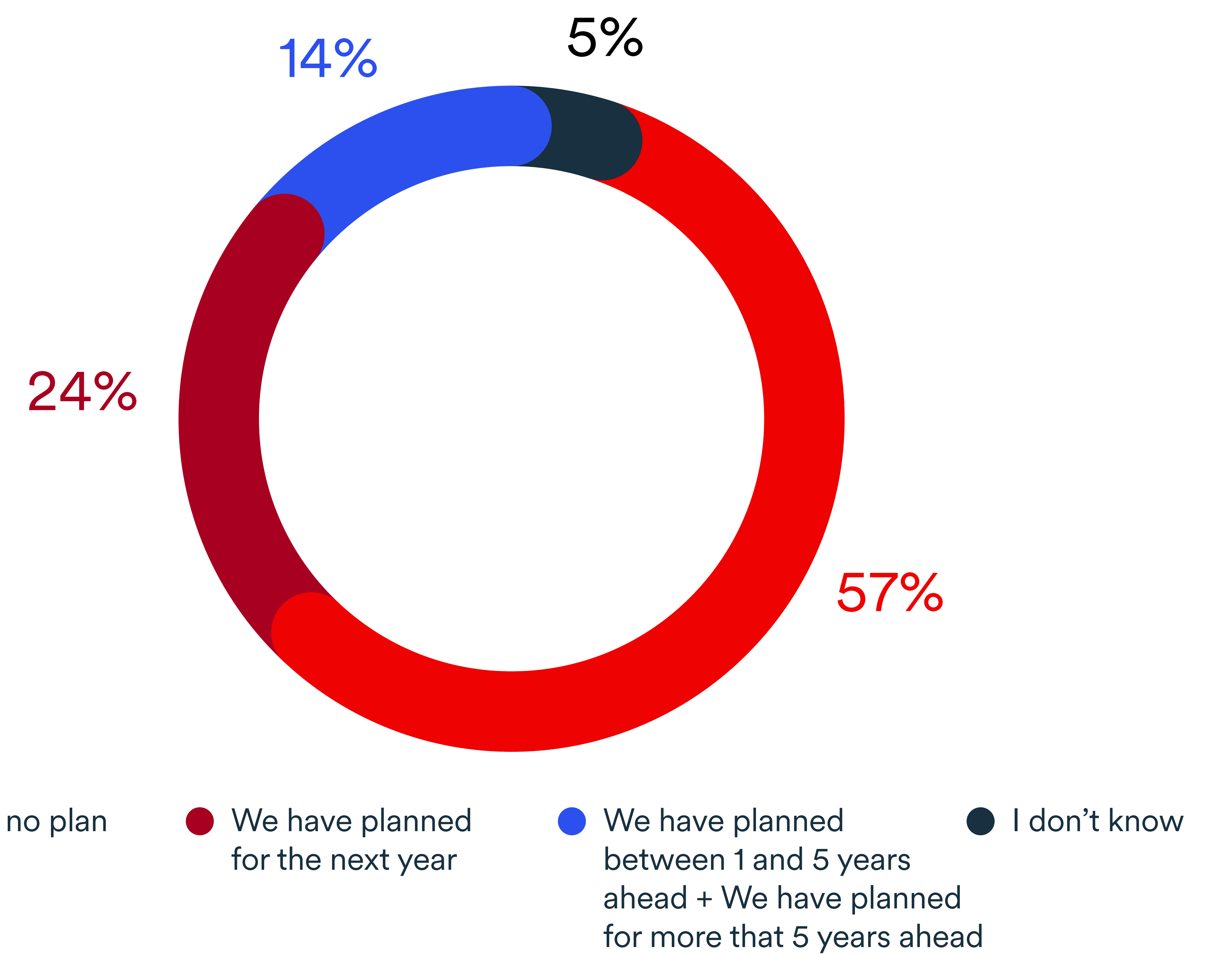
Labour: A challenge passing under the radar?

Competition for workers in Canada's creative technology sector is particularly acute, since many other fields also need these skilled tech workers. The financial, professional, scientific, and technical services sectors are expected to offer some of the highest salary increases for these workers, ranging from 2.8% to 3.8%. Given that creative technology companies often overlaps with these sectors, business owners in this field can anticipate similar trends. However, only 8% of them believe labour management will be challenging.

According to a recent BDC study, business owners in the creative industry do not expect labour management to be an important issue in the near future. And even though the creative and cultural industries are some of the most labour-intensive sectors, with wages accounting for about 70% of total expenses, a majority of entrepreneurs in the field have no plan for hiring, training and employee retention.

Business leaders must innovate and develop rapidly to remain competitive and relevant for workers. For instance, they can use virtual reality and augmented reality not just to create products, but also to create immersive learning environments.

Figure 7: Do you have a plan for hiring, training and employee retention?



Source: BDC, *4 key trends shaping the future of Canada's businesses* (October 2024).

Growing through mergers and acquisition

Many media and entertainment companies are consolidating to strengthen their market positions and expand their capabilities. Overall, the creative and cultural industries are leveraging mergers and acquisitions to adapt to technological advancements, changing consumer preferences and competitive pressures. This trend is expected to continue, with companies seeking to position themselves for long-term success in an evolving market.

Firms often acquire companies with complementary strengths. In doing so, they should act before revenue growth weakens. Often, businesses wait until revenues start to falter to improve their profitability. It's best to get ahead of the curve in these three areas:

- improving operational efficiency
- diversifying sources of revenue and suppliers
- securing financing

When a client represents 20% or more of a firm's revenues, the company faces client concentration risk. Diversifying one's customer base also includes ensuring geographic diversification. Canadian firms are woefully dependent on our southern neighbour. As uncertainty looms over Canadian–U.S. economic ties, the stability of the industry could be jeopardized.

In almost every industry, but particularly in design realms, the longer a company has been around, the tougher it becomes to find opportunities to innovate. Relying on multiple income sources can help mitigate risks. For example, a theatre company might stream performances online in addition to offering live shows.

Cross-industry collaboration: A recession-proof strategy

Cross-industry collaboration is another strategy for diversifying a business effectively and successfully. It harnesses the power of diverse perspectives to drive innovation and create value across multiple sectors. In the creative industry, it involves partnerships between creative sectors (such as arts, design and media) and other industries (such as technology, health care and manufacturing). This collaboration aims to leverage the unique strengths of each sector to solve complex problems, and create new opportunities.

Benefits of cross-industry collaboration

- Spur innovation of new products and services
- stimulate economic growth by opening up new markets and creating jobs
- improve the competitiveness of a product or service
- foster the development of new methodologies and best practices to enhance productivity
- creative professionals can often create to unique and effective solutions to long-standing problems because they often approach challenges differently than those in more traditional industries do.

3.
The bottom line

Key opportunities for Canada’s creative businesses

Despite the uncertain economic environment, key opportunities exist to boost business dynamism in Canada’s creative and cultural industries.

Consumer spending is expected to increase

In the short term, easing financial conditions—particularly interest rate reductions—should promote household spending on entertainment.

Skilled labour is available

Labour market conditions, bolstered by a significant influx of talent between 2022 and 2024, should also help the industry. However, the creative industry could benefit by investing in targeted training programs focused on both artistic abilities and technology skills.

Financial partners are willing to listen

Entrepreneurs that get into difficulty should be up front with their partners and financial institutions. It’s crucial to develop a restructuring plan, with expert advice, and rearrange financing.

We get creative helping you grow your business

- Learn how we can help your creative business with flexible financing and strategic advice.

For more information

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