

Canadian Business Optimism Falls In July, But Trend Remains Positive

- The Canadian Federation of Independent Business's (CFIB) Business Barometer Index fell 3.7 points to 57.8 in July following improved sentiment readings for three consecutive months.
- Labour shortages remain an important issue for firms, with demand for both skilled and un/semi-skilled labour continuing to rise.
- Capital expenditure spending plans remain flat, though elevated in relation to 2011–16, as trade uncertainty and government-mandated oil cuts take a bite out of the economic outlook.

The CFIB Business Barometer fell 3.7 points month-on-month in July after recording monthly gains in each of April, May, and June (chart 1). Despite the monthly drop, the index still sits one point above July 2018, and significantly above the recent low of 53.6 in December 2018. The pick-up in optimism is reflected in a solid reversal in the 3-month-moving average of the index from late-2018 lows (chart 1, again).

The industry breakout was a mixed bag with half of the sectors posting m/m gains and the other half posting declines (chart 2), with a particular steep decline in professional and business services, where sentiment has not materially recovered since Q4-2018. On the other hand, manufacturing sentiment has begun to show signs of recovery, while firms in the construction industry appear to be regaining confidence following a slump in construction activity through 2018. Despite the trend in sentiment creeping downward since 2017, when the Canadian economy recorded a strong 3% expansion, the overall economic atmosphere still remains relatively favourable and in line with an anticipated deceleration in GDP growth.

The labour market is still tight with firms continuing to report job shortages of both skilled and un/semi-skilled employees (chart 3) as one of the top factors limiting production, which has in turn, pushed wage pressures higher (chart 4). The reported labour shortages are in line with the rise in job vacancy rates over the last 2 years, as reported by Statistics Canada (chart 5).

While strong demand in labour markets continues to bode well for the economy in terms of earnings growth and household consumption, tepid capital expenditure planning by firms remains a sore spot in what is generally an otherwise favourable business environment. The overall share of respondents planning to invest in capital within the next 3 to 4 months has remained modest, hovering only slightly above 50% (chart 6). The only spending category maintaining a relatively elevated share of respondents indicating a willingness to invest over the last 2 years has been machinery and equipment (chart 7). The improvement in spending intentions through 2016 and 2017 translated into the real economy, with M&E outlays steadily rising since 2016 (chart 8) before decelerating in late-2018, likely in response to trade risks on the horizon and the temporary curtailment of oil production in Alberta.

CONTACTS

Raffi Ghazarian, Senior Research Analyst
416.866.4211
Scotiabank Economics
raffi.ghazarian@scotiabank.com

Juan Manuel Herrera, Economist
416.866.6781
Scotiabank Economics
juanmanuel.herrera@scotiabank.com

Chart 1

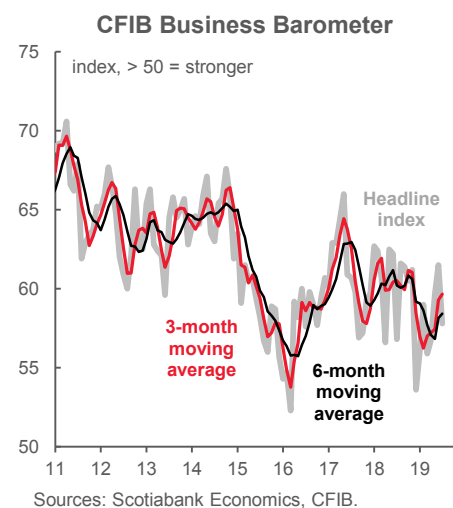


Chart 2

Business Barometer by Industry

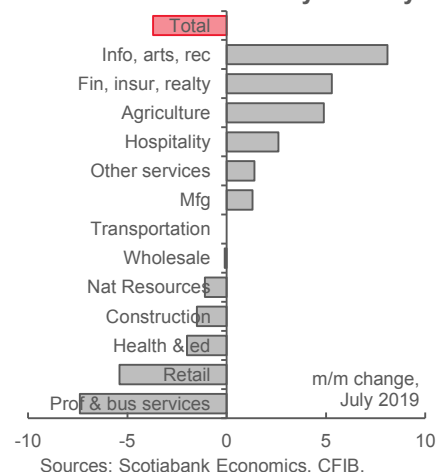


Chart 3

What Factors are Limiting Ability to Increase Sales or Production?

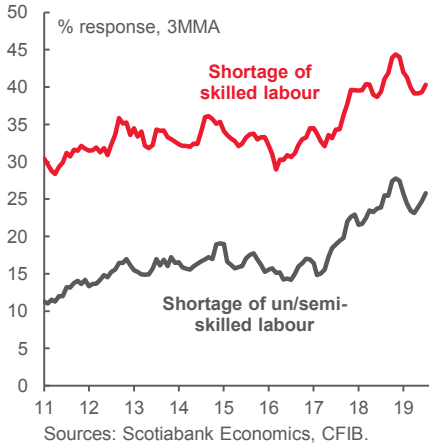


Chart 4

What Input Costs are Causing Difficulties for your Business?

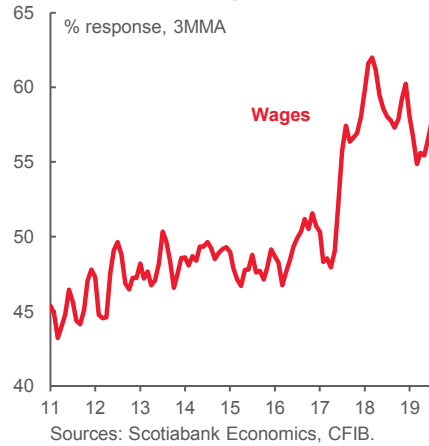


Chart 5

Job Vacancy Rate

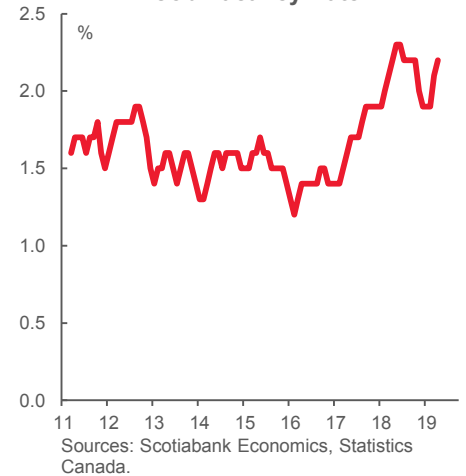


Chart 6

Planning to Spend in the Next 3 to 4 Months

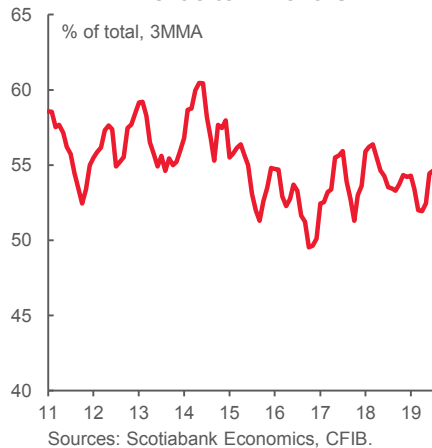


Chart 7

Planned Capex in the Next 3 to 4 Months

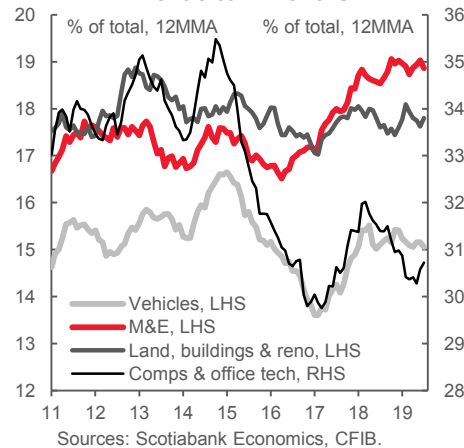
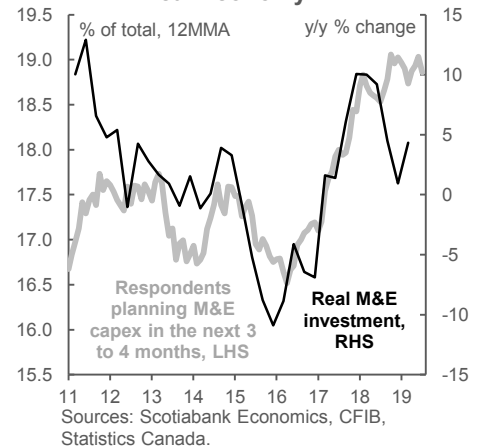


Chart 8

Sentiment Translating into Real Economy?



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