

## Canada August SME Survey: Small Rebound from July

- Canadian small-business sentiment in August recovered most of the setbacks it suffered in July and remained on a positive trend despite the recent clouding of global growth prospects and increasing trade tensions.
- Professional service sectors and parts of eastern Canada saw the biggest improvements in their outlook, while transportation and Alberta recorded notable downturns.
- Hiring intentions pulled back even as wage pressures remained a dominant cost concern for SMEs. Meanwhile, capex intentions softened slightly, but continued to point to a pick-up in actual investment heading into the end of 2019.

The Canadian Federation of Independent Business' (CFIB) August Business Barometer of small-to-medium enterprises' (SMEs) sentiment reversed nearly all of the decline it recorded in July, rising from 57.8 to 60.6, the second time it's been above 60 this year (chart 1). This leaves the overall index just below the average of the last decade, but still trending upward on its three- and six-month moving averages.

Even though the survey window (August 1 to 19) straddled the [recent intensification of US-China trade tensions](#), the results are likely skewed somewhat positively by relatively strong domestic conditions. Only about 4% of all Canadian SMEs sell any of their output abroad, but together they account for about a quarter of the value of annual Canadian exports. Nearly all Canadian SME exports go to the United States, where consumer demand and [sentiment](#) both remain solid on the back on strong labour markets and robust household balance sheets.

**SME sentiment and activity nevertheless remain important bellwethers for the Canadian economic outlook:** Canadian SMEs account for about 99% of Canadian businesses and together produce around half of total business output. Additionally, Canadian SMEs employ over two-thirds of private-sector workers and have dominated Canada's strong job gains during 2019.

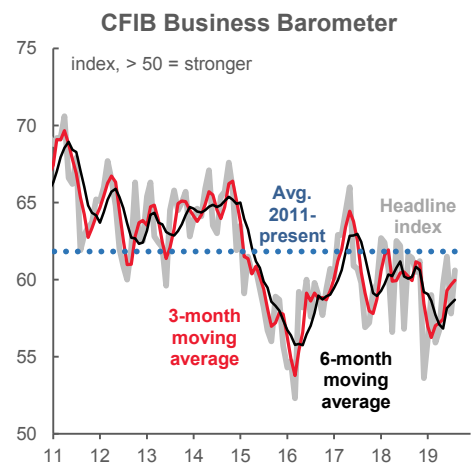
**The strengthening in SME sentiment was widely shared across the country, with Alberta standing out as the notable exception.** The biggest month-on-month improvements were observed in Nova Scotia, Ontario, and Newfoundland & Labrador (chart 2), though the gains in Newfoundland & Labrador still leave its overall index at the lowest level amongst all of the provinces (chart 3) after NL's broad economic contraction during 2018 (chart 4). Alberta's index recorded the only notable drop amongst provincial indices, which took it down to the second-lowest level, after NL, amongst all of the provinces. Alberta, Saskatchewan, and Newfoundland & Labrador were the only provinces where weak domestic demand was cited as a stronger limitation on sales or production growth than shortages of skilled labour. This reflects the relatively poor outlook for growth in Alberta and Saskatchewan in 2019 (chart 4, again), and the dominance of large projects in the growth rebound happening this year in Newfoundland & Labrador.

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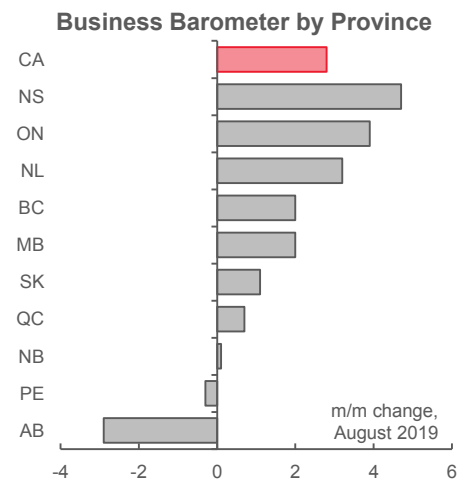
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Chart 1



Sources: Scotiabank Economics, CFIB.

Chart 2



Sources: Scotiabank Economics, CFIB.

At the industry level, gains in sentiment were concentrated broadly in the professional services sectors, while transportation saw a retreat in sentiment five times greater than the next closest decline (chart 5). Transportation gave up its gains from May–June amidst a substantial pullback in hiring intentions, still-firm fuel prices, and rising trade doubts.

The shortage of skilled labour remained far and away the most cited limitation on sales or production growth, with 43% of SMEs noting this as a brake on expansion (chart 6)—keeping it consistently more top-of-mind than insufficient domestic demand, the next most-mentioned issue at 28% of respondents (chart 7). Despite a retreat in hiring intentions from July (chart 8) that echoed that month’s *Labour Force Survey*, the most recent Canadian job-vacancy rate stayed at 2.2% (chart 9) and Canada-wide wage growth accelerated to 4.5% y/y, the highest rate since January 2009 (chart 10). Wage pressures are, with taxes and regulation, a dominant cost concern for SMEs, but business’ price and wage intentions appear to point toward a moderation in overall inflation (chart 11).

SMEs reporting capital expenditure (capex) plans declined for a second month in a row, but remained more or less flat compared with the last three years (chart 12)—and continue to imply a possible small pick-up in actual economy-wide investment spending into the end of 2019 (chart 13). Intentions to purchase machinery and equipment have shown the strongest gains over the last few years, likely in response to labour and skills shortages (chart 14).

Chart 3

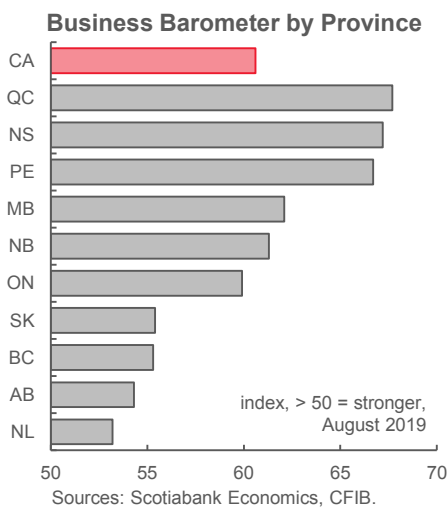


Chart 4

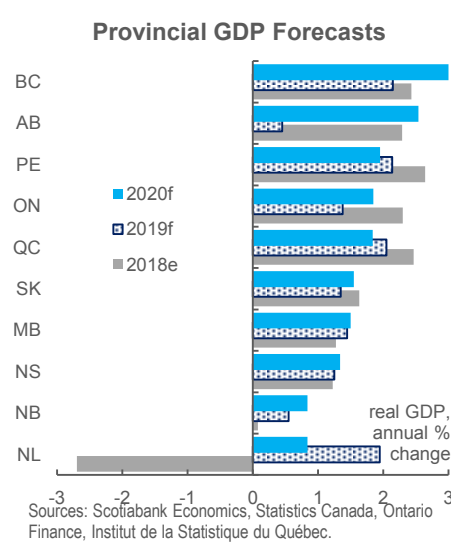


Chart 5

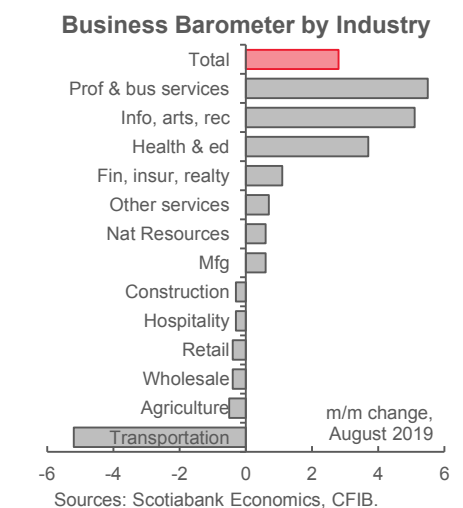


Chart 6

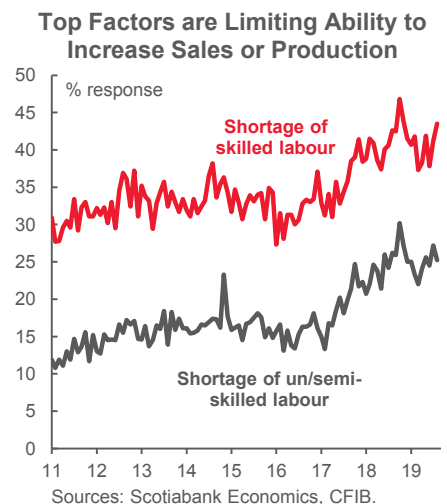


Chart 7

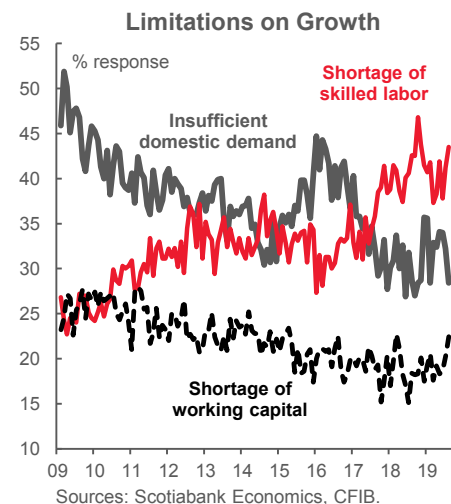


Chart 8

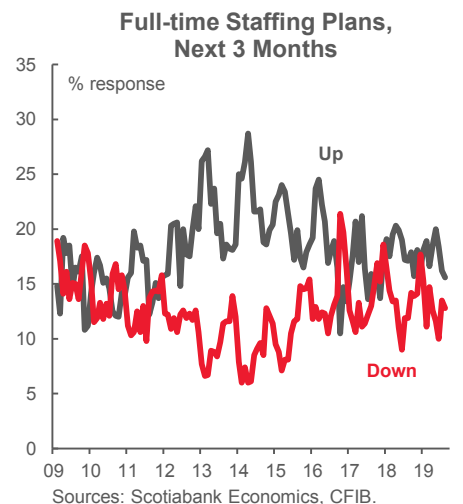


Chart 9



Chart 10

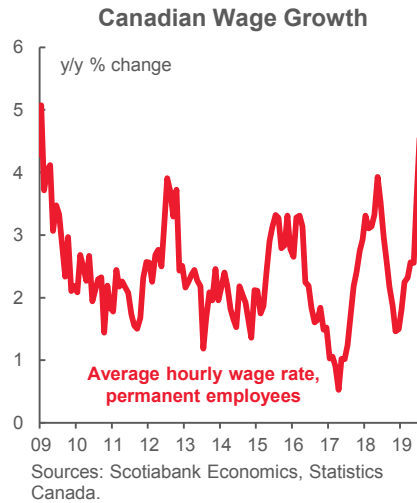


Chart 11

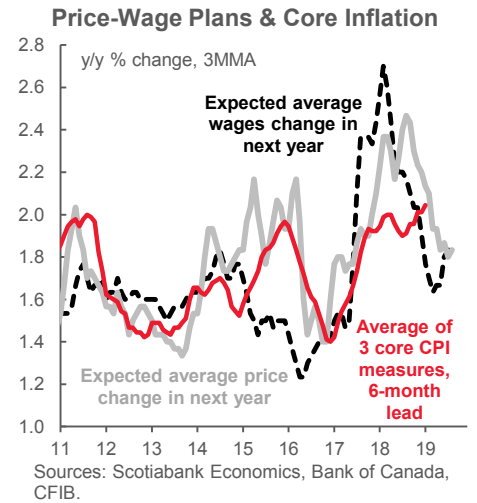


Chart 12



Chart 13

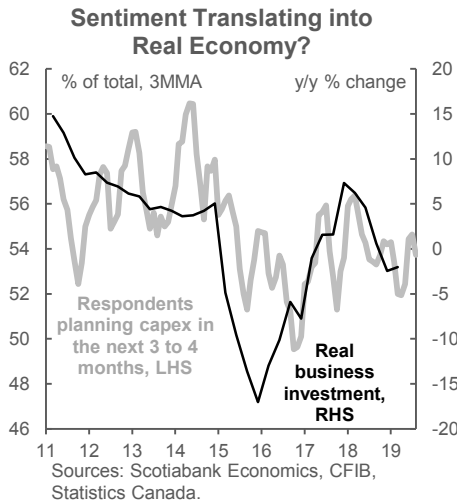
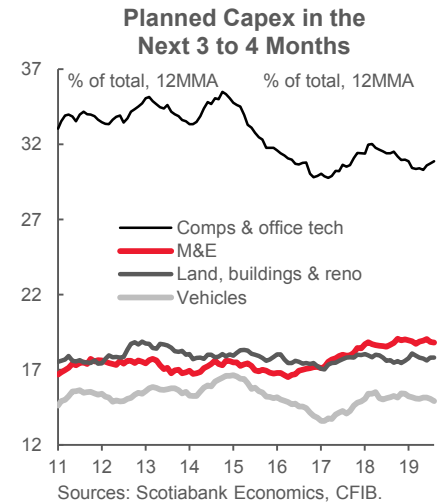


Chart 14



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