Canada September SME Survey: Small Pull-Back from August

- Canada’s small-business sentiment index fell in September, but remained in positive territory (i.e., above 50) at 59.3, up 5.7 points since end-2018.

- On the sectoral front, the professional and business services index reached its highest level since November 2017 at 72.3. Parts of eastern Canada also continue to lead the country in SME sentiment. In contrast, transportation and parts of western Canada continue to lag.

- Shortages in skilled labour continue to top the list of concerns for SMEs, however, insufficient domestic demand became a more pressing concern in September. At the same time, still-strong M&E capex intentions aren’t translating into higher real investment growth.

The Canadian Federation of Independent Business’ (CFIB) September Business Barometer of small-to-medium enterprises’ (SMEs) sentiment fell 1.3 points to 59.3 in September from 60.6 in August (chart 1). The overall index remains below its average over the last decade, however, the trend is still on an upward trajectory and the level remains 5.7 points up in 2019 to date.

Sentiment was split across the country with five provinces posting declines and five posting increases. On a month-on-month basis, sentiment in New Brunswick, Nova Scotia, Quebec, Ontario, and Manitoba improved while Alberta, Newfoundland, BC, Saskatchewan, and PEI posted declines (chart 2). Despite having the largest decline in September (falling from 66.7 to 62.9), PEI remains in the top four provinces with the highest positive SME sentiment with Quebec continuing to lead the pack at 68.8, narrowly edging out Nova Scotia at 68.5 (chart 3). Positive, but weaker, sentiment remains concentrated in western Canada with Alberta, BC, and Saskatchewan in the bottom four and Newfoundland the lone Eastern province with relatively downbeat expectations (also chart 3). SMEs in Alberta, Saskatchewan, and Newfoundland all continue to list insufficient domestic demand as their top limitation on sales or production growth, reflecting the relatively weaker real GDP growth prospects in these three provinces (chart 4), as opposed to the shortage of skilled labour that dominates concerns in every other province.

At the industry level, hospitality and transportation led the declines with 5.3 point dips (chart 5). Professional business services posted the third largest single-month increase this year, improving by 8.7 points to 72.3, making it the best-performing industry in September (chart 6) and 2019 year-to-date.

Canada-wide, the shortage of skilled labour remains the most cited limitation on sales or production growth, with 43.1% of SMEs listing it as a dampening factor on increasing sales or production (chart 7). However, insufficient domestic demand is beginning to become a more important concern, jumping from 28.4% in August to 33.9% in September (also chart 7). Worries about insufficient foreign demand also rose in September, but very few Canadian
SMEs export. Shortages in management and skilled labour will likely continue to present a problem for SMEs so long as average wage plans remain on their downward path (chart 8).

SME indicators point to weaker inflation pressure ahead with average price plans down 0.2 ppts from 1.9% to 1.7%. This is the second time this year average price plans have been as low as 1.7% (March 2019 was the other). Levels this low haven’t been seen since May 2017 and on a 3-month moving average basis since June 2017 (chart 9).

The percentage of SMEs planning new capital expenditure (capex) during the next 3–4 months picked up slightly, increasing from 52.3 in August to 53.8 in September, but continues to remain more or less flat compared with the last three years (chart 10). Intentions to purchase machinery and equipment have shown the strongest gains over the last few years (chart 11), however, sentiment has diverged in this particular category from what has been observed in the real economy in recent quarters (chart 12). This augurs poorly for business investment in Q3 GDP, which will be released in November (chart 13).
Chart 9

**Price-Wage Plans & Core Inflation**

- **Expected average wages change in next year**
- **Average of 3 core CPI measures, 6-month lead**

Sources: Scotiabank Economics, Bank of Canada, CFIB.

Chart 10

**Planning on Capex in the Next 3 to 4 Months**

- % of total, 3MMA

Sources: Scotiabank Economics, CFIB.

Chart 11

**Planned Capex in the Next 3 to 4 Months**

- % of total, 12MMA

Sources: Scotiabank Economics, CFIB.

Chart 12

**Sentiment Diverging from Real Economy?**

- % of total, 12MMA
- y/y % change

Sources: Scotiabank Economics, CFIB, Statistics Canada.

Chart 13

**Business Barometer Index & GDP**

- Real GDP, RHS
- CFIB business barometer, LHS
- index, > 50 = stronger, 3MMA
- y/y % change, 3MMA

Sources: Scotiabank Economics, Statistics Canada, CFIB.
This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.