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.

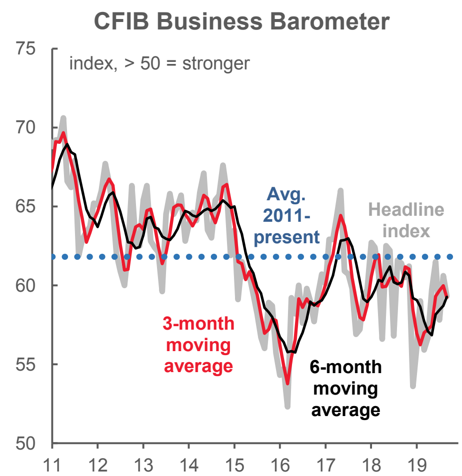
Canada-wide, the shortage of skilled labour remains the most cited limitation on sales or production growth, with 43.1% of SMEs listing it as a dampening factor on increasing sales or production (chart 7). However, insufficient domestic demand is beginning to become a more important concern, jumping 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

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com
@BrettEHouse

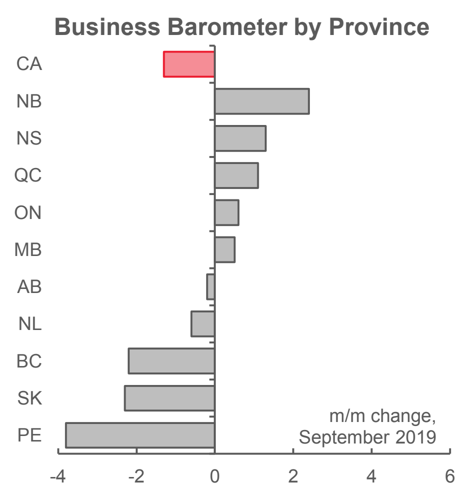
Raffi Ghazarian, Senior Research Analyst
416.866.4211
Scotiabank Economics
raffi.ghazarian@scotiabank.com
@RaffiMGhazarian

Chart 1



Sources: Scotiabank Economics, CFIB.

Chart 2



Sources: Scotiabank Economics, CFIB.

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 3

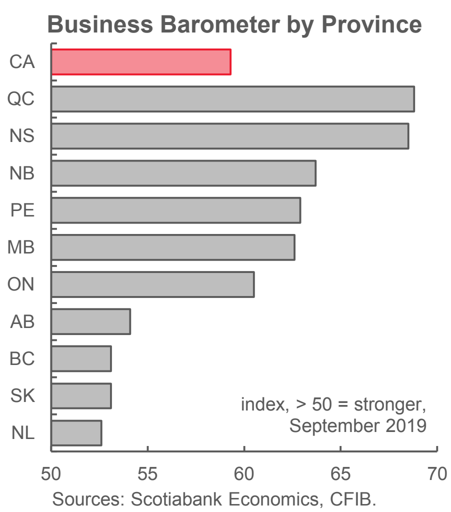


Chart 4

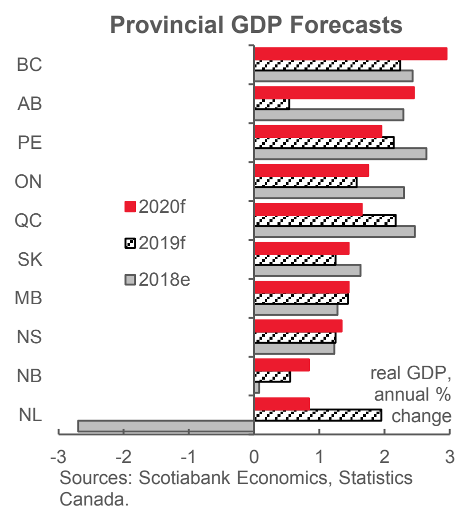


Chart 5

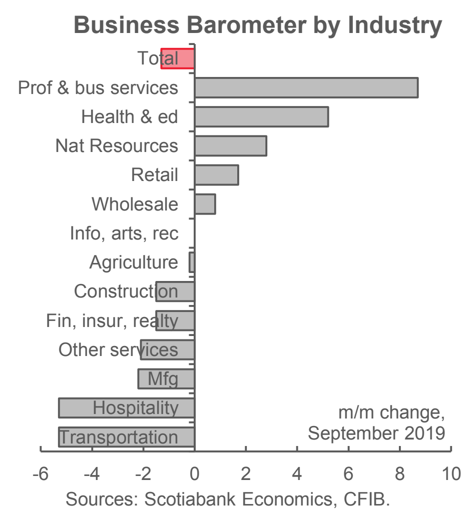


Chart 6

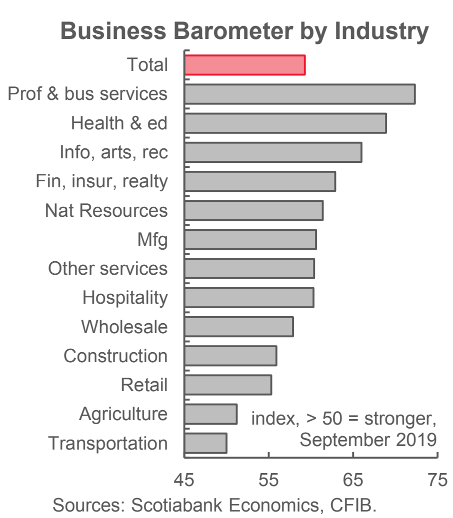


Chart 7

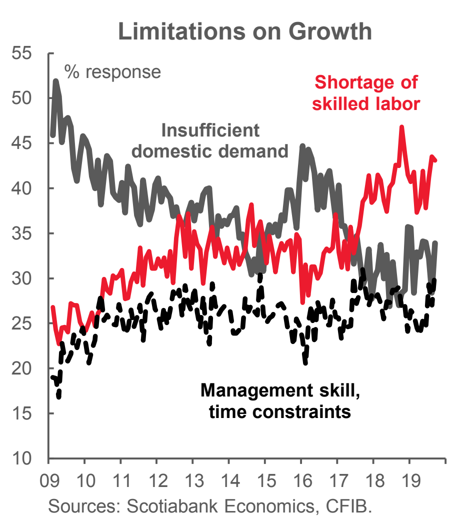


Chart 8

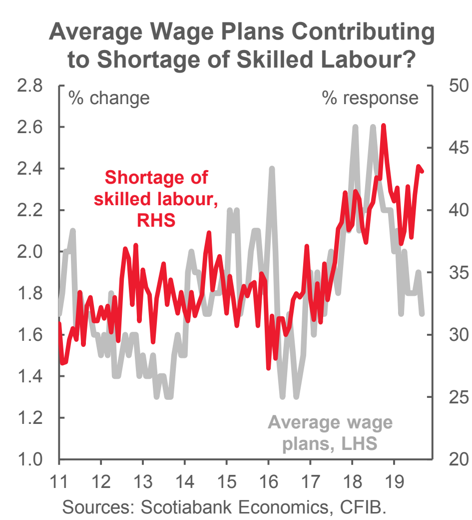
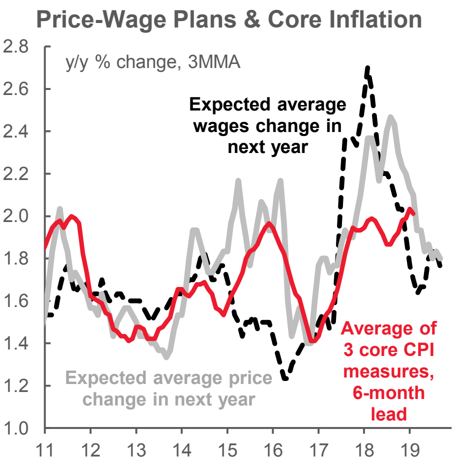
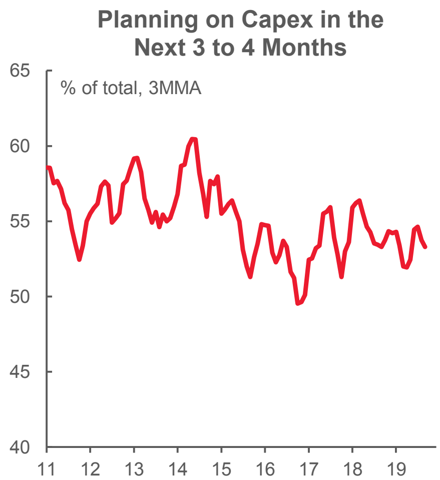


Chart 9



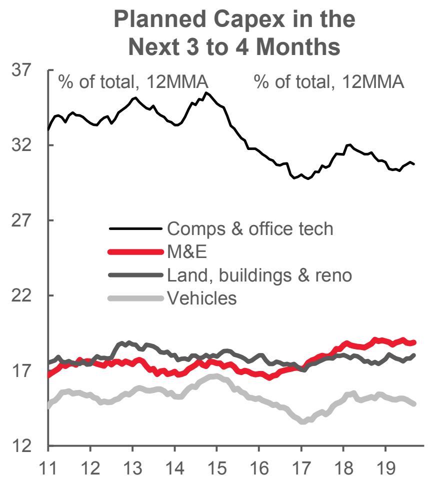
Sources: Scotiabank Economics, Bank of Canada, CFIB.

Chart 10



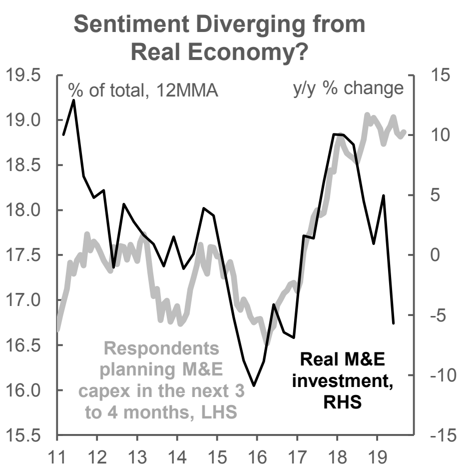
Sources: Scotiabank Economics, CFIB.

Chart 11



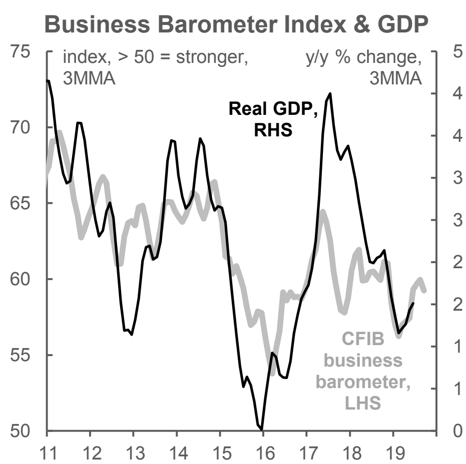
Sources: Scotiabank Economics, CFIB.

Chart 12



Sources: Scotiabank Economics, CFIB, Statistics Canada.

Chart 13



Sources: Scotiabank Economics, Statistics Canada, CFIB.