

## Canadian SMEs Not Very Merry This December

- Small- and medium-sized enterprise (SME) sentiment dropped to its lowest level in a year, less than a cheerful end to the Holidays, but the index remained in optimistic territory at 55.5.
- Alberta and Saskatchewan continued to lead the decline at the regional level and were joined in pessimistic territory by Newfoundland this month.
- Concerns about general business health hit a three year low while concerns over insufficient domestic demand begin to spread nationally and insurance costs join wages and taxes as top of mind concerns for SMEs.

### SME SENTIMENT ENDS YEAR WITH A WHIMPER

The Canadian Federation of Independent Business' (CFIB) monthly Business Barometer Index fell in December to its lowest level in a year, but remained in optimistic territory at 55.5 (chart 1). The Barometer has historically moved in tandem with real GDP growth (chart 2), and the trend we've seen for the last couple of months of the year is in line with the weak start we're seeing so far for the fourth quarter of 2019 (chart 3).

At the provincial level, the retreat in sentiment has become more widespread than a month ago with 8 out of 10 provinces' indices declining to close out the year (chart 4). New Brunswick and Newfoundland led the declines in December with 7.5 and 7.1 point drops respectively, resulting in Newfoundland joining Alberta and Saskatchewan as the only provinces in negative territory (chart 5). Alberta and Saskatchewan remain the most pessimistic provinces, however, with index levels of 38.3 and 40.0 respectively. Regional SME sentiment remains in conflict with our expectation that Alberta and BC will lead the provinces in growth next year (chart 6). In both cases large projects are expected to fuel much of this rebound, but SMEs are still likely to be indirect beneficiaries.

As is the case with the provinces, softer sentiment widened to 10 of the 13 sectors surveyed in December (chart 7). On the heels of an 8.2 point contraction in November, natural resources saw another negative turn in sentiment with a 7 point drop in December, bringing it down into negative territory for the first time since May 2019. Natural resources and agriculture joined transportation this month in negative sentiment territory, while hospitality, wholesale, retail and information, arts & recreation all dipped below the national average (chart 8). Combined, the three sectors with negative sentiment account for over 14% of GDP while the other four account for over 16% of GDP.

The overall picture is trending more to the negative with sentiment ebbing further across industries and geography and only 37.9% of respondents saying their businesses are in good shape, the lowest level since November 2016 (chart 9). On the cost constraints side, while wages, taxes and regulations are perennially top of mind for SME's, insurance costs have rapidly risen to the #3 spot in recent surveys (chart 10). And although shortages in both skilled and unskilled labour have been the top concern for most SME's, insufficient domestic demand has been edging closer to the top spot (chart 11). The Scotiabank [Nowcast](#) is currently only

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Chart 1

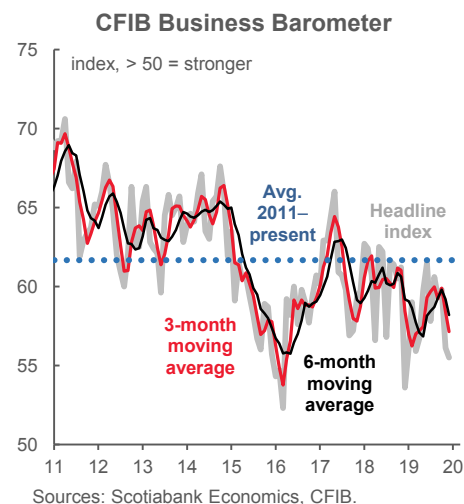
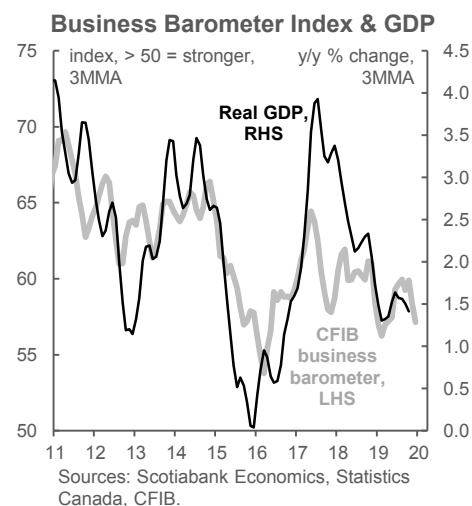


Chart 2



tracking 0.13% q/q SAAR for Q4 GDP growth, well below the Bank of Canada's projected 1.3%, and with December SME sentiment trending further into negative territory the risks are tilted even further towards a disappointing end to 2019.

Chart 3

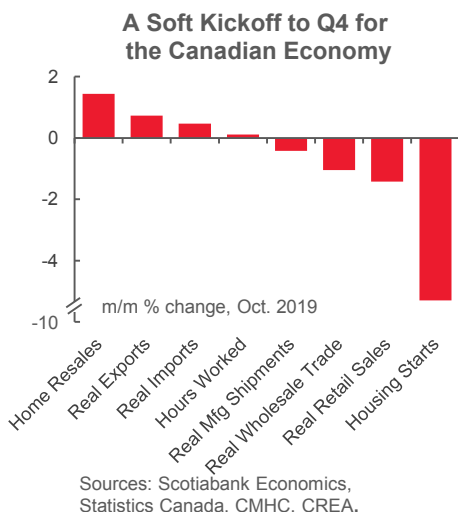


Chart 4

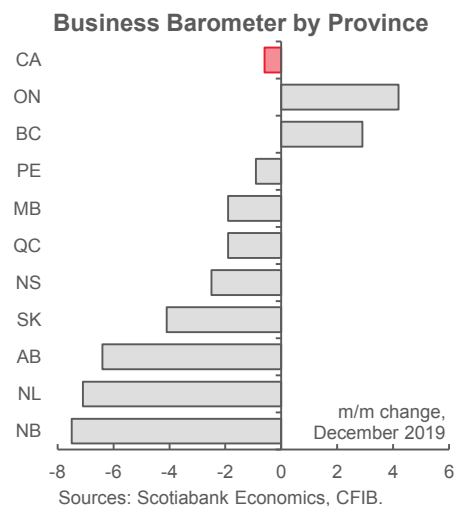


Chart 5

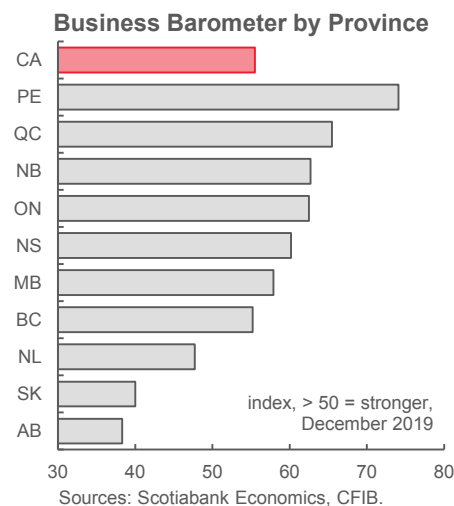


Chart 6

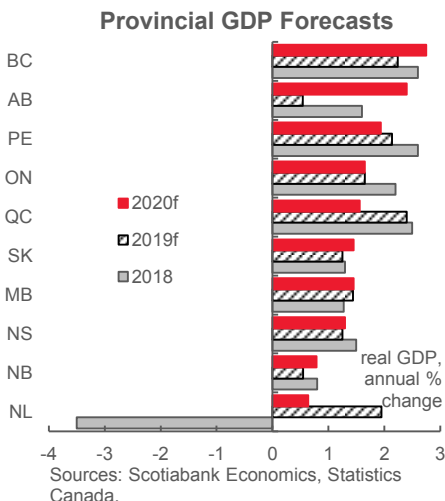


Chart 7

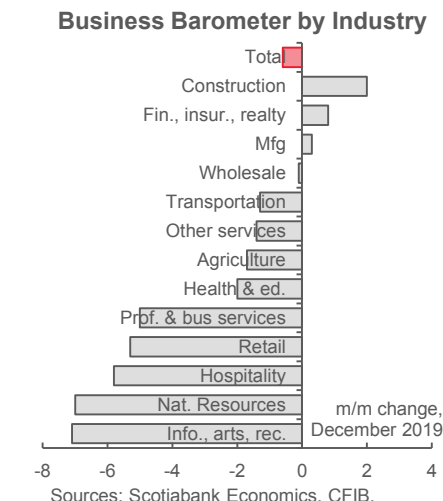


Chart 8

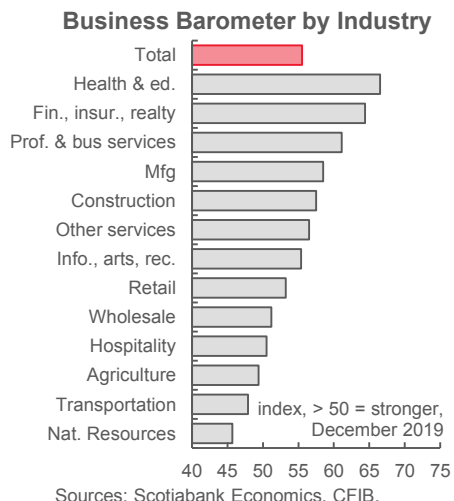


Chart 9

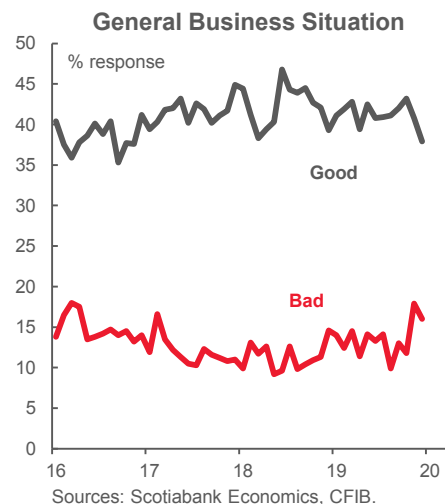


Chart 10

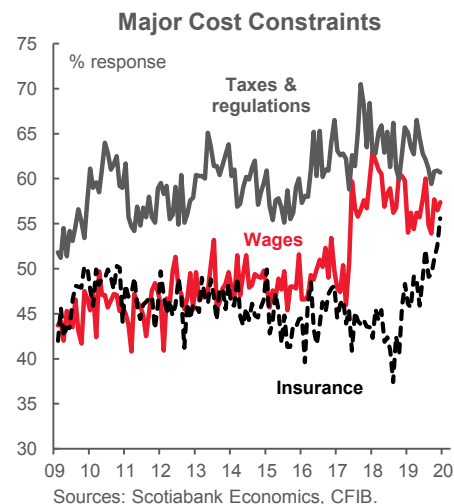
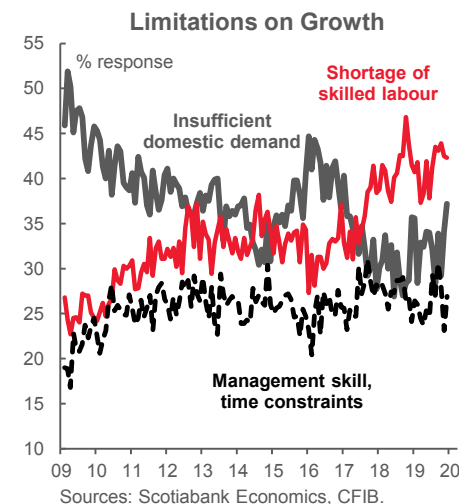


Chart 11



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