

Canada: SMEs Kick-Off 2020 Where They Left 2019

- Small- and medium-sized enterprise (SME) sentiment remained in positive territory despite a small drop of 0.2 points in January to 55.3.
- PEI had the largest drop in sentiment for the month of January, but the province's SMEs remained the most optimistic overall, while Alberta and Saskatchewan SMEs continued to exhibit the most pessimism.
- Concern about general business health eased off its three-year low from December, but worries about insurance costs continued to surge and overtook anxieties about wages for the first time in nearly five years.

NEGATIVE SME SENTIMENT SPILLS INTO THE NEW YEAR

The Canadian Federation of Independent Business' (CFIB) monthly Business Barometer Index fell for the third straight month in January, dropping 0.2 points to 55.3, continuing the negative trend we saw at the end of 2019 (chart 1). The Barometer has historically led real GDP growth (chart 2). Most recently, it has anticipated Q4-2019's [softness](#) and the current readings do not bode well for Q1-2020.

At the provincial level, the retreat in sentiment remains widespread with 7 out of 10 provinces' indices declining in January (chart 3). PEI, which has been one of the strongest performing provinces, fell 8.8 points in January to 65.3, but still tops the list as the most optimistic province in Canada (chart 4). Saskatchewan led the increases, jumping 2.7 points to 42.7, but remained one of only three provinces in contractionary territory (Alberta and Newfoundland being the other two). BC's improvement in sentiment over the last couple of months is in line with our expectation that it will lead the provinces in growth this year; in contrast, our Alberta outlook for 2020 has been pared back a touch, but we still [expect](#) the province to be a growth leader in 2021 (chart 5).

As is the case with the provinces, softer sentiment persists in the majority of industries surveyed in January, with 10 of the 13 sectors reporting a decline in their outlook since December (chart 6). After shedding 15.2 points over the previous two months, natural resources had a modest uptick in sentiment in January with a 3.0 point improvement, but its index remained in negative territory at 48.7. Transportation and agriculture were the only other industries that recorded an improvement in sentiment, with increases of 2.7 and 1.6 points respectively, to nudge themselves out of negative territory. Natural resources and hospitality were the only two industries in negative sentiment territory in the month of January, but there were five others that remained below the national average (chart 7). Natural resources and hospitality only account for about 10% of GDP, but combined with the other five industries they would cover nearly 29% of GDP.

The hand-off from 2019 to 2020 for overall SME sentiment remains weak, with the outlook for the majority of provinces and industries continuing to decline. The perception of the general business situation eased off December's three-year low, but the percentage of respondents who consider the situation bad remained elevated at 16.1% in January (chart 8). On the cost constraints side, insurance expenses have overtaken wages as a top concern for SMEs for the first time since April 2015 (chart 9); meanwhile, shortages of skilled labour and insufficient domestic demand remain the key perceived constraints on growth (chart 10).

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Chart 1

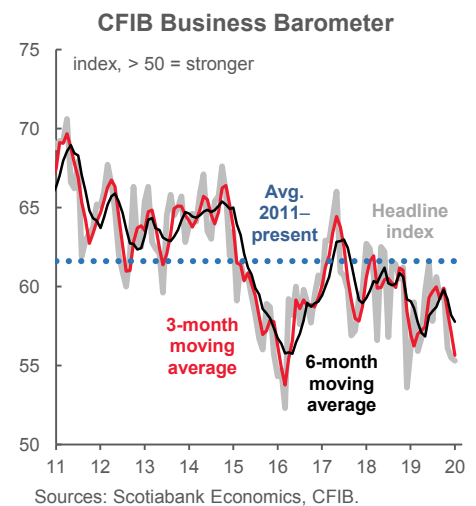


Chart 2

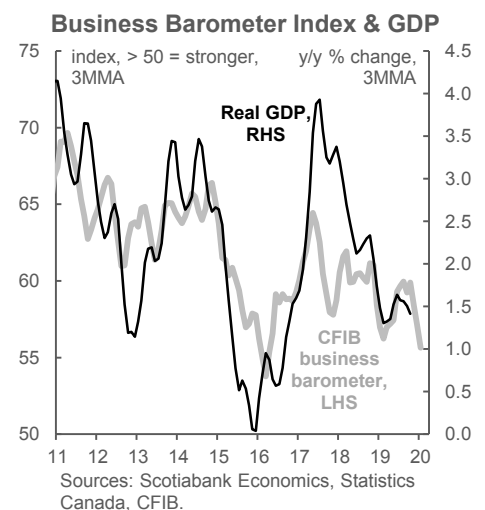


Chart 3

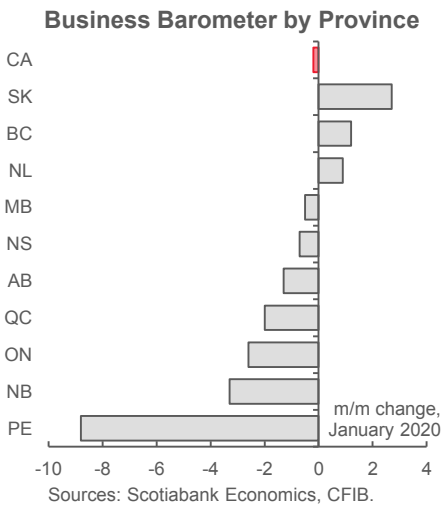


Chart 4

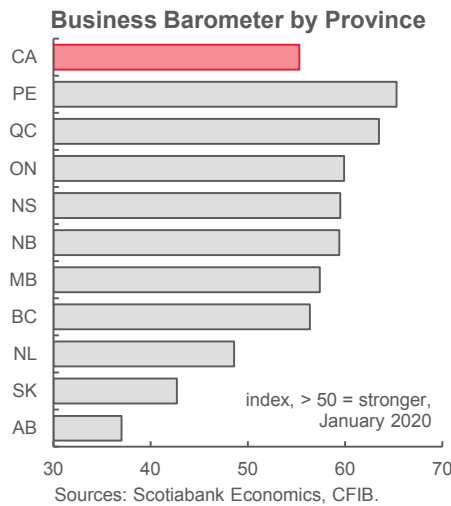


Chart 5

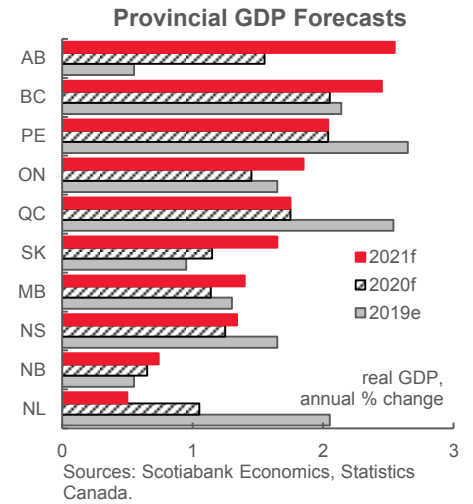


Chart 6

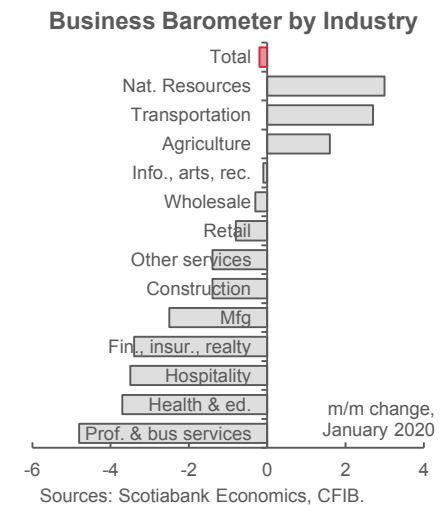


Chart 7

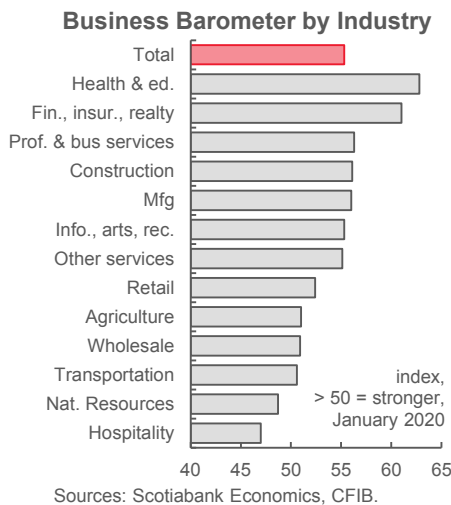


Chart 8

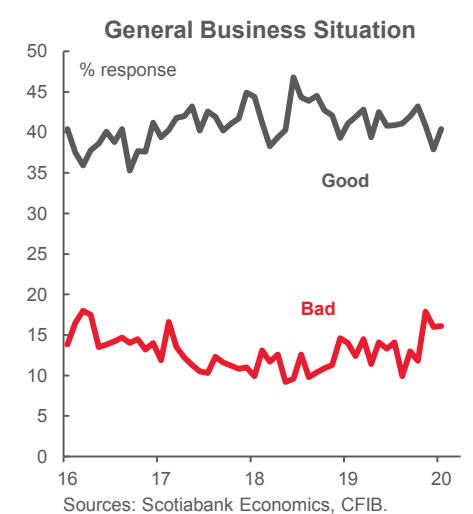


Chart 9

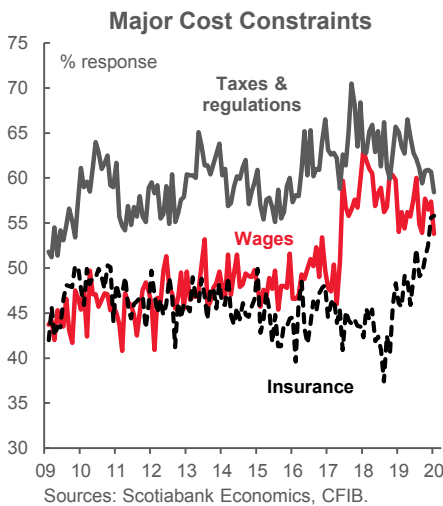
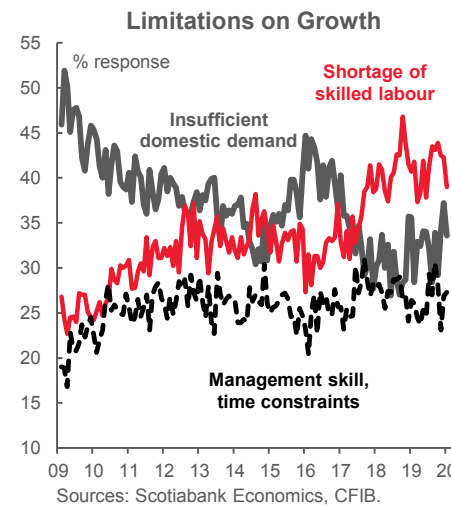


Chart 10



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