

Canada: SMEs Cautiously Optimistic About Future Business Operations

- Small- and medium sized enterprise sentiment (SME) continued to improve, from April's reading of 46.4 to 52.5 in the month of May. COVID-related impacts continue to create operational hurdles for SME's, but adaptation measures and easing of restrictions are leading to sentiment trends in the right direction.
- Business owners feel more broadly optimistic as six out of ten provinces show index values of 50 or above, indicating stronger business conditions over the next year.
- General business indicators show early signs of strengthening, but it is too early to tell if these are transitory. Nonetheless, indicators such as hiring, capacity utilization, and general business situations, have risen from their prior months' downbeat readings.

SME PESSIMISM BEGINNING TO WANE, BUT EARLY SIGNS OF IMPROVEMENT SHOULD BE INTERPRETED WITH CAUTION.

The Canadian Federation of Independent Business' (CFIB) monthly Business Barometer Index increased to 52.5 in May (chart 1).

Business sentiment improved further in the month of May, with the index registering a value above 50, after two straight months in the sub-50 pessimistic territory. While the level of business activity is expected to remain subdued relative to pre-COVID, the improving sentiment implies that businesses expect a gradual improvement in the coming 12 months. It also appears that Federal and Provincial stimulus in conjunction with easing of business restrictions are aiding in lifting the mood among business owners. However, uncertainty is here to stay, as Canada's Q2-2020 GDP contraction is expected to be very deep (chart 2).

Every province recorded an improvement in sentiment in May with the exception of PEI. Nation-wide business reopening plans fueled stronger business sentiment in May. Nova Scotia and Ontario business owners are the most optimistic (59.2) and (57.1) respectively, while those in PEI (30.0) are well below the national average (chart 3). The provinces of Alberta, British Columbia, Manitoba, and Saskatchewan all sit within five index points of the national average.

Sentiment continued to broadly improve across industries. April's small rise in sentiment was followed by further expansion in May, as seven sectors pushed into the above-50 territory (chart 4), and all but one registering a general increase in business optimism. Service-producing industries appear to be more optimistic than their goods-producing counterparts, with notable increases in Finance & Insurance (currently at 59.4), Hospitality (56.8), and Transportation (55.1). Agriculture (43.5) and Natural Resources (37.5) sectors remain well below the national average.

General business indicators showing improvement in May amidst continuing operational challenges. The percentage of respondents who think their

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Chart 1

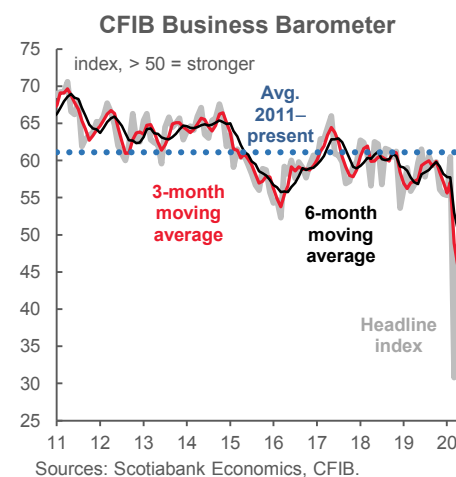
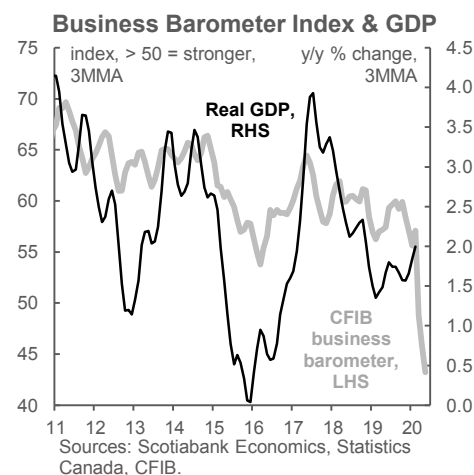


Chart 2



general business situation is 'good' slightly increased from April lows, although still well below average levels (chart 5). Following the downward trend reversal is full-time staffing plans, where the outlook in May looks marginally more positive (chart 6), as slightly fewer business owners expect to reduce staff. Planned pricing saw an increase in the month of May, but this could be do in part to recovering the high costs of shut down (chart 7). Capacity utilization also improved in May, with the average capacity utilization increasing by almost 10 percentage points to 49.1% from 39.9% in April. Expect to see this number continue to slowly rise over the coming months as business restrictions are lifted gradually.

Chart 3

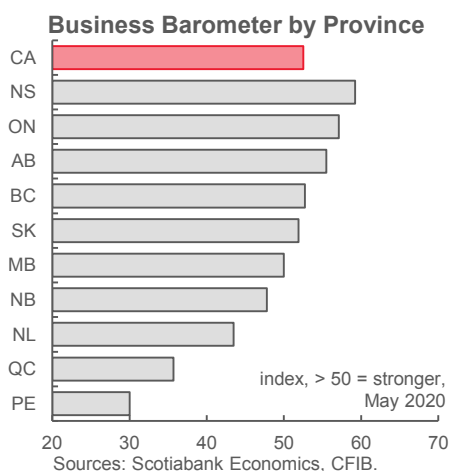


Chart 4

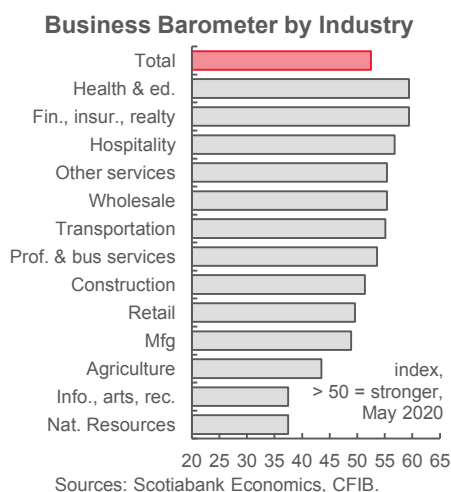


Chart 5

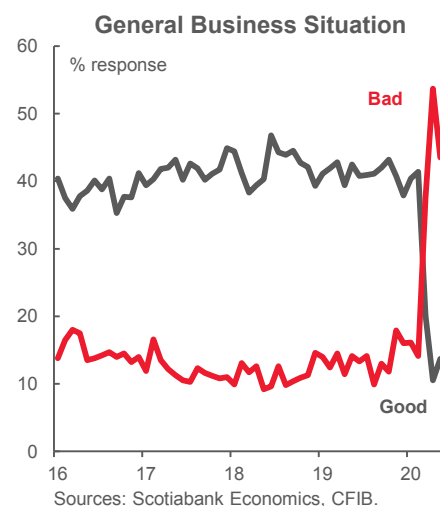


Chart 6

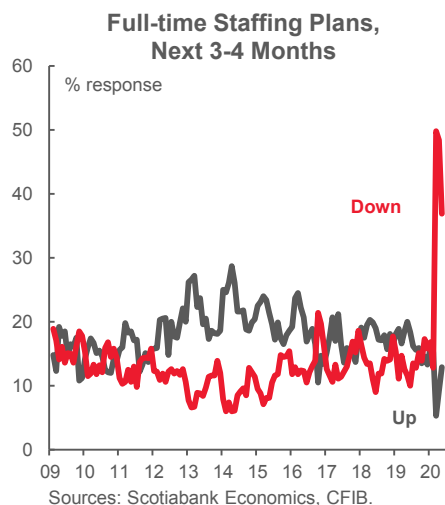
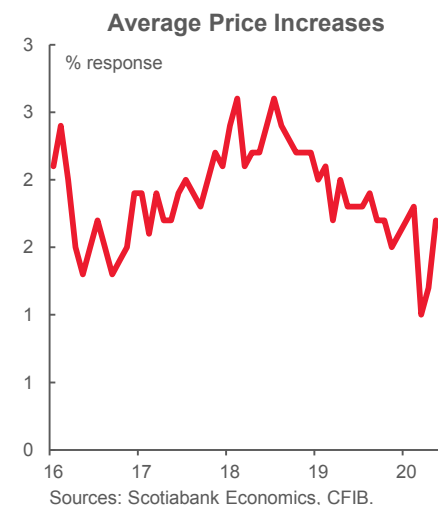


Chart 7



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