The CFIB Business Barometer remained largely unchanged in May at 60.6, after declining to 60.5 the previous month. Keeping in mind that an index level in the range of 65 to 70 is usually observed when the economy is growing at its trend, the current reading is consistent with an economy growing below its potential growth rate of around 2%.

In all, only 5 of the 13 sectoral components experienced a slowdown in business sentiment in the month, with the drop in confidence recorded in some sectors offset by renewed optimism in others. For instance, the sharp declines in the manufacturing (-5.1 points to 54.9) and retail (-4.2 points to 55.2) sectors were met by improved sentiment among businesses in the construction and professional services industries (+2.1 points each), and in the transportation sector (+4.9 points to 62.2). Good news this month, optimism rose markedly in the natural resource sector (+4.2 points to 51.3) and stands at its highest level since the beginning of the year, after dipping under the 50 mark indicating a contraction in business activity.

Regionally, the portrait stayed the same, with small and medium-sized businesses in British Columbia being the most optimistic in Canada (+1.6 points to 73.5). Notable confidence gains also occurred in Manitoba (+1.8 points to 62.0), while optimism eroded in New Brunswick (-1.8 points to 58.9) and dropped further in the oil-producing provinces of Newfoundland and Labrador (-2.1 points to 56.9) and Alberta (-1.3 points to 45.7). Alberta is presently the only province where businesses are anticipating a contraction in activity in the coming year.

Key Implications

- Small and medium-sized business confidence sailed on calm waters in May, which is good news after last month's sharp decline. Further, some industries that have been lagging behind since the beginning of the year saw a modest improvement in business sentiment, most notably the transportation and natural resources sectors.

- Buoyed by the recent stabilization in oil prices, the natural resources sector saw its confidence level rise for the second consecutive month in May. As such, it appears that the bulk of the economic shock from lower oil prices has been front-loaded, as was anticipated by the Bank of Canada. This supports the Bank's decision on Wednesday to maintain the policy rate unchanged at 75 bps. With the worst of the oil price shock behind us, we expect the Bank to keep rates on hold until the end of 2016.

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