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TD Economics

Data Release: Canadian small business confidence rises to highest level in two years

- The CFIB's Business Barometer index rose 2.7 points in February to 62.9 – the highest reading since January 2015 and an improvement of 8.2 points from the same period last year. This boost in optimism comes after the sentiment reading remained mostly flat near the 60-point mark over the prior 10 months.
- On a regional basis, businesses were most upbeat in Manitoba (66.9) and Quebec (66.6), with businesses in the Maritime provinces, Ontario and British Columbia nearly as optimistic. Businesses across the oil-producing regions remained the most pessimistic, but confidence continued to improve for the third consecutive month in the Saskatchewan (57.7) and Alberta (49.8).
- Sectoral readings were mostly upbeat, rising in all but two of the 13 sectors. The natural resources sector is now the most upbeat with a confidence reading of 69.2, having recovered over 35 points from the lows recorded early last year. Information (67.9) and wholesale (67.1) took the second and third spots, respectively. Confidence was lowest in healthcare and education (56.3), transportation (58.1) and agriculture (58.8).
- Other indicators, such as accounts receivables and employment plans, point to some modest improvement but remain below levels typically observed at this time of year, suggesting some caution by businesses.

Key Implications

- February's improvement, which brought the headline measure to a two-year high is encouraging, especially when contrasted with the lack of significant progress in the prior ten months. This performance was partially supported by continued gains in oil prices, which was reflected in rising confidence in Alberta and Saskatchewan.
- While the level of optimism has certainly improved, it still has a long way to go to reach levels recorded prior to the recent collapse in commodity prices. Moreover, the improving narrative remains nuanced with businesses still cautious, perhaps in light of the rising uncertainty, with employment and investment plans still remaining below par.
- In summary, the current level of optimism is a reflection of the still existing economic slack and rising policy uncertainty in the U.S. – both factors that will likely keep the Bank of Canada on the sidelines for some time. Barring any downside surprises, optimism among Canadian small business owners should continue to improve alongside moderate economic growth – supported by a relatively resilient consumer, competitive loonie, low interest rates and gradually rising oil prices. Still, we expect the pace of improvement to remain moderate.

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