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TD Economics

Data Release: Small business confidence loses ground in July

- After cresting at its highest level in the last thirteen months in June, the small business barometer index retreated slightly to 57.6 points. Confidence among small businesses remains choppy month-to-month, although the current reading remains above the twelve-month moving average. Overall, 85.8% of businesses felt their current business situation was satisfactory or good in July, down 0.4 percentage points from last month.
- Sector results were closely grouped around the average, with business owners in manufacturing (59.9), wholesale (58.0) and retail (58.0) remaining relatively upbeat about their sectors. On the other side, agriculture (53.9), and natural resources (55.4) were below the national average. Transportation was a notable outlier in this report, with an index reading of 50. The transportation sector had low readings at or around this level since the start of the year.
- Declines were registered in six of ten provinces in July. Broadly speaking, business confidence in the resource-centric provinces of Alberta (46.7), Saskatchewan (51.1) and Newfoundland & Labrador (50.0) remain soft around the 50 mark. Still improvements in N&L and Alberta were noted in July. Sentiment pulled back somewhat in British Columbia, Ontario, New Brunswick, Nova Scotia, Manitoba, and Saskatchewan.
- Unfilled orders and accounts receivable pulled back from a surge last month, though remain at high levels. 61.3% of respondents felt that unfilled orders were at normal levels, with 13.4% feeling orders were above average.

Key Implications

- Despite the pullback in this month's print, overall business confidence continues to hold up reasonably well.
- Given the recent softness in the economy, the continued decent readings may come as a surprise. Indeed, real GDP in Canada is expected to contract by around 1% in Q2 (on quarterly annualized basis). This apparent disconnect is largely a result of the fact that much of the recent softness reflects the localized (and temporary) impact of the wildfire-related devastation and production shutdowns.
- That said, the economic ramifications of Brexit remain at the forefront of our minds. While the direct impacts on small businesses are unclear, some modest pullback in confidence would be reasonable to expect in the near term.
- Regional disparities in business confidence are still prominent, and generally follow our expectations for GDP growth. British Columbia and Ontario continue to outperform, with business confidence and forecast real GDP growth in 2016 well above average. Conversely, Alberta and Newfoundland & Labrador business confidence remains lacking, with their economies still

signaling a sizeable contraction for this year. The rest of the provinces remain somewhere in the middle, with those more resource focused provinces tending to be lower on the index, and U.S. export-centric regions likely to register higher readings.

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