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## TD Economics


### Data Release: Canadian small business confidence rises to highest point in two and a half years

- The CFIB's Business Barometer index rose 1.6 points to 66 in May. This marks the best reading in two and a half years, with the confidence index back near levels seen prior to the collapse in oil prices that started in mid-2014.
- Confidence in the oil-producing provinces of Newfoundland and Labrador (45.3), Saskatchewan (49.1) and Alberta (61.9) still lag behind, but the latter is not far from the national average, having improved by a stunning 25 points since November. The most optimistic provinces in May were British Columbia (69.4), Ontario (68.2) and Prince Edward Island (67.9). Optimism readings in the remaining provinces, except for New Brunswick (60.2), were clustered near the 65-point mark.
- The most optimistic sectors were professional and business services; finance, insurance & realty; and health & education – all above the 70 level in May. Manufacturing (68.9) and hospitality (67.4) followed closely behind. The least optimistic sectors were construction (57.9) and natural resources (56.8) – the latter recording the third consecutive monthly decline.
- Most other underlying indicators showed positive signs. The share of business owners stating that their business is in good shape rose to 43.2%, while above normal unfilled orders rose to 16.5% – both near post-recession highs. Even employment and capital expenditure plans showed marketed improvements – the latter being at the best level in two and a half years.

### Key Implications

- Small business confidence is now back near levels recorded prior to the collapse in oil prices. Although regional variations persist, underlying indicators are generally showing positive signs, with very encouraging improvements in the state of businesses, and employment and investment plans.
- The progress in small business optimism in April and May is indicative of continued economic growth in the second quarter, which we project to come in at above 2% (annualized) – slower than last quarter's estimated 4%, but still very healthy.
- Beyond the near term, a number of factors bode well for small business confidence and economic growth in general. A few worth mentioning are a resilient consumer, accommodative monetary policy, further upside in oil prices and an improving U.S. economy. Yet, a continuation of the upward trajectory in confidence is not certain. The fact that our trade relationship with the U.S. is poised for renegotiation has the potential to generate some uncertainty among small business owners, possibly taming optimism and expansion plans in the process.

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