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TD Economics

Data Release: Small business confidence falls slightly in September

- The CFIB's Business Barometer index fell 0.8 points to 59 in September. The sentiment reading was 3 points higher than last year but still relatively low compared to prior years (September readings averaged 63.8 during 2010-14). Confidence has stabilized in a narrow range of 58 to 60 over the last six months.
- Sectoral readings were mixed with confidence falling in 7 and rising in 6 sectors. Confidence retreated sharply in hospitality (-9.4 to 51.9) – the least optimistic sector this month. On the other hand, manufacturing (66.5) recorded a sharp monthly gain of almost 11 points and took the top spot as the most optimistic sector in September. Information, arts and recreation (64.7), professional and business services (63.9) and finance, insurance and real estate (63.1) were the runners up at the top of the leaderboard. There were no sectors in contractionary territory this month, but confidence in hospitality, transportation and agriculture were still close to the 50-point mark.
- On a regional basis, declines in confidence were broad-based as sentiment readings retreated in 7 of the 10 provinces. At the top of the leaderboard were Quebec (67.1), Prince Edward Island (63.9, despite a sharp 6.6 point drop) and British Columbia (63.3). The bottom spots continue to be occupied by the resource-based economies of Saskatchewan (54.1), Alberta (47.1), Newfoundland and Labrador (41.1) – despite recording a small improvement this month, the latter two remain in contractionary territory.
- Concerns about foreign currencies continued to decline but employment plans are at still at cyclical lows with only 16.5% of SMEs expected to add employees over the next 3-4 months.

Key Implications

- For an index that remains volatile on a month-to-month basis, September's minor decline in confidence does not really move the needle. More importantly, the underlying trend of the last six months points to confidence having stabilized close to the 60-point mark. This is encouraging as it suggests that the cyclical lows recorded earlier in the year are now well in the rear-view mirror.
- Along with headline, some underlying indicators – such as foreign currency costs and insufficient domestic demand – have also seen an improvement on a trend basis. Yet other indicators continue to point to underlying fragility and suggest that small businesses are proceeding with caution as employment and capital expansion plans remain weak compared to prior years.
- An economy poised to grow at a sub-2% (annualized) rate from this point forward (see our most recent [Quarterly Economic Forecast](#)), points to only moderate gains in confidence ahead. Part of this growth profile hinges on a resumption in export growth. Since small and medium sized enterprises tend to be mostly domestically oriented, should exports disappoint again as they have done in the recent past, a domestic economy that is still on a decent footing – stimulated but lower-for-even-longer interest rates – will nevertheless help support optimism among SMEs.

Admir Kolaj, Economic Analyst
416-944-6318

@TD_Economics

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