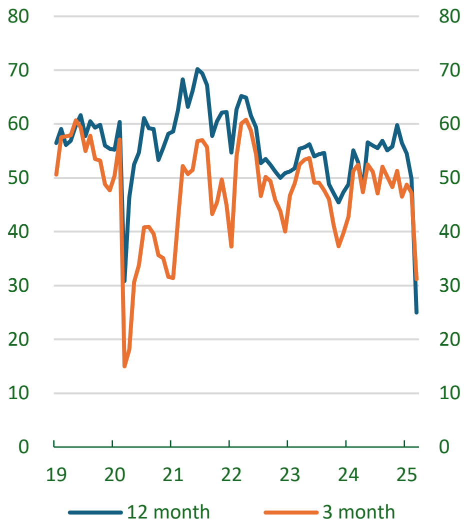
WATT STRATEGIC ECONOMIC ADVISORS

BoC nightmare on Wellington St: SME sentiment tanks, inflation fears soar

21 March 2025

SME sentiment crushed by tariff uncertainty

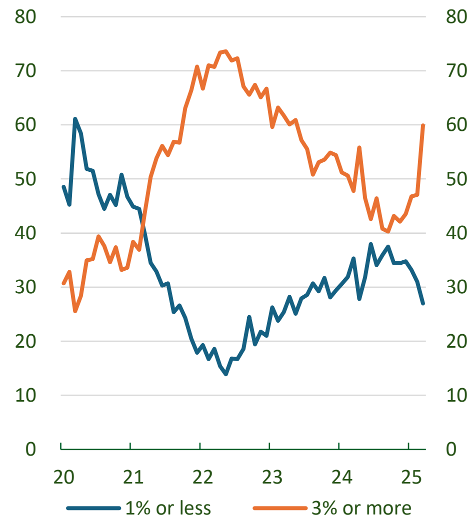
(Index)



Source: Macrobond, Canadian Federation of Independent Business

How much to expect prices to change over next 12 months

(% of firms)



Source: Macrobond, Canadian Federation of Independent Business

The Canadian Federation of Independent Business released its March 2025 survey results. ***Gobsmacked, alarming, frightening*** — all apply.

They showed that small business sentiment TANKED in March at both the 3-month and 12-month horizons. The short-term outlook fell to 31.2 its lowest level since the pandemic recession. However, the 12-month outlook plunged to 25 from 49.8, a level even lower than that observed during the pandemic. In November, the reading was just below 60. Hence, in just a few months, the business outlook for the next year has been absolutely crushed.

However, while business sentiment plunged, inflation expectations soared to their highest level since spring 2023. The share of firms expecting price increases to be more than 3% YoY increased to 59.9%. As recently as September this was around 40%, with an almost equal share of firms looking for price changes of 1% YoY or less. The most notable increases started in November 2024.

Inflationary expectations are not embedded yet, but the confluence of severe downward pressure on business confidence and significant upward pressure on inflation is the BoC's nightmare scenario coming true.

The root cause is easy to discern: The abrupt change in US trade policy owing to the mercurial actions of one monumentally ill-informed and spiteful man.

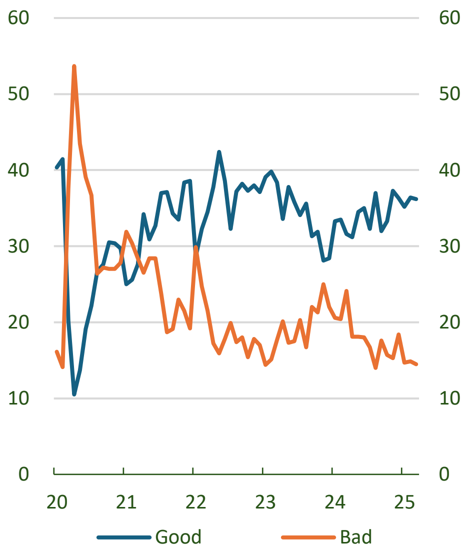
David G Watt, Founder and Principal

From moderate optimism to abject terror in the blink of an eye

21 March 2025

Current business situation

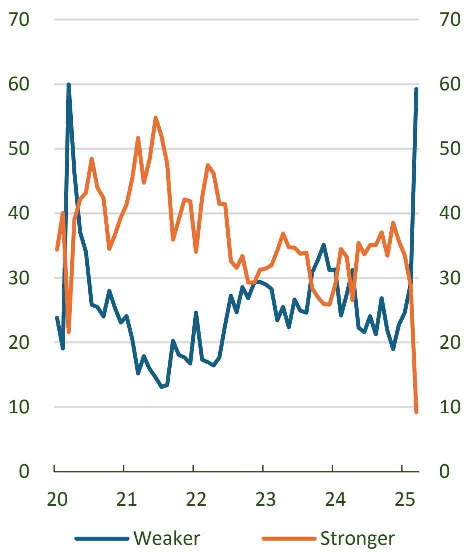
(Index)



Source: Macrobond, Canadian Fedearation of Independent Business

Expected performance in 12 months

(Index)



Source: Macrobond, Canadian Fedearation of Independent Business

Small business do continue to report that current business conditions are ok (a small bit of good news), but the outlook for the next year has seen a dramatic reversal of fortune.

Whereas there had been some moderate optimism about the 12-month outlook for business performance, there is now abject terror. The share of firms that see activity as “stronger” over the next 12 months has dipped to a record low below 10%.

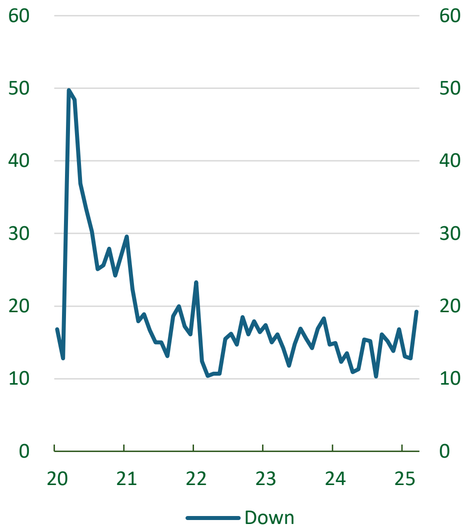
The best that we can say here is that this might be an exaggerated response to the unfolding situation, and things won’t turn out to be the worst-case scenario.

That said, this whole situation is the result of the actions of one person, who seems to not care and is unchecked.

Labour market weakness anticipated, as price pressures spike

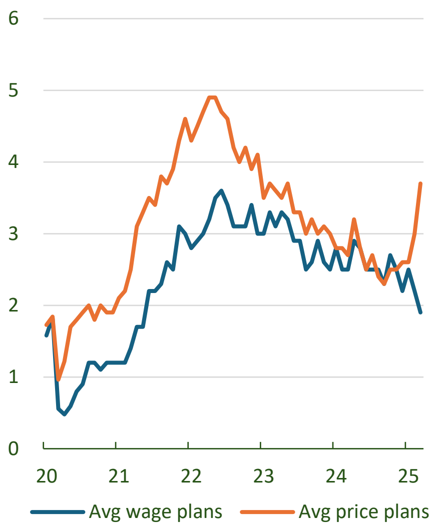
21 March 2025

Expected full-time employment change in the next 3-4 months
(% of firms)



Source: Macrobond, Canadian Federation of Independent Business

Anticipated price changes match anticipated wage growth
(% YoY)



Source: Macrobond, Canadian Fedearation of Independent Business

Labour market outcomes also reveal some disconcerting patterns. First a rising share of firms reported that their full-time employment levels are likely to move down over the next 3-4 months. While it might be a relief that this level is still below 20% of firms, we think that the risks are tilted to the high side the further out you look. Firms might not cut staffing levels right now because activity is still pretty good, but should activity slow and a resolution does not seem apparent, firms might have become less reluctant to cut staffing levels.

Second, as the job market looks set to cool further, firms also expect wage growth to slow. In March, expected annual wage growth fell below 2% for the first time since mid-2021. Compounding the economic challenges, firms also see average price changes of 3.7% over the next year. This reading had been 2.4% in September.

The easing of price and wage pressures had created the opportunity for the Bank of Canada to reduce its policy rate. The surge in inflation concerns, and signs of downside risks to the labour market reinforce the nightmare scenario for the Bank of Canada.

There are also renewed concerns for consumers and households. While real wages had just started to stabilize or even rise a bit after years of financial pressure, the prospects of job losses are rising and price pressures might be building once again. No wonder consumer confidence is also in the tank.

The Bank of Canada's policy suite is not designed to deal with tariffs imposed without justification by a madman. Yet, here we are.

Disclaimer

This report is provided by Watt Strategic Economic Advisors. It is provided for informational purposes only. Opinions, estimates and projections contained in this report are those of Watt Strategic Economic Advisors as of the date of this report. Views expressed are subject to change without notice based on market and economic conditions, and outcomes might differ from projections. Though, the information presented in this report has been drawn from sources considered to be reliable, there is no guarantee of accuracy. Watt Strategic Economic Advisors assumes no responsibility for errors or omissions contained. This material does not constitute investment advice or investment recommendations and is not to be relied upon as such.