

Musings — Economics: Small business confidence stages a slight recovery in April, but price pressures creeping upward

The Canadian Federation of Independent Businesses released their April 2026 Business Barometer survey. The results showed a slight improvement in both short-term (3-month) and long-term (12-month) sentiment following the sharp, Iran war induced, drop in March.

What is notable, is that small business sentiment has remained at the higher end of readings observed since the pandemic. We aren't at the highs, but we are solidly in the range of "OK." This also might help explain why global equity market sentiment has improved during April – Economic conditions are not as good as they were, but they are not "bad." This seems confirmed by the IMF April 2026 World Economic Outlook (WEO). Of note, the IMF lowered its 2026 forecast for global economic growth by 0.2 percentage points to 3.1%, while the 2027 forecast was unchanged at 3.2%. Lower, but not a disastrous cut to global growth. Global inflation was revised upward for both 2026 and 2027, with inflation to be 4.4% this year and 3.7% next.

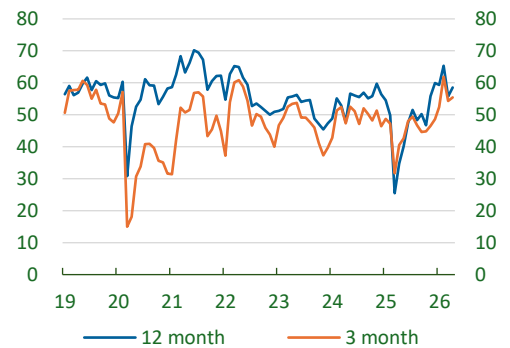
More interesting was the IMF comment that: *"Absent the war, global growth would have been revised upward."* Hence, things were looking better for 2026 prior to the war. We are not back to pre-war conditions, but things seem to be going in the right direction, so long as things continue to cool off.

That said, we should not get too far over our skis regarding our optimism. The US aircraft carrier George H.W. Bush is reported to be heading to the Middle East. To get there, it is taking the long way sailing around the Cape of Good Hope rather than traversing the Mediterranean and the Red Sea ports, thus avoiding a possible chokepoint at the Bab el-Mandeb Strait. It should be a little discomfoting that the US has serious military hardware heading to the Middle East. One should retain some measure of short-term concern.

Charts 2 and 3 put more context on small businesses assessment of current business conditions and their expected performance in 12 months. Much like what was observed in chart 1, the 12-month outlook improved slightly, reflecting an easing of the headwinds to sentiment. Curiously, however, there was little improvement in firms' assessment of their current situation.

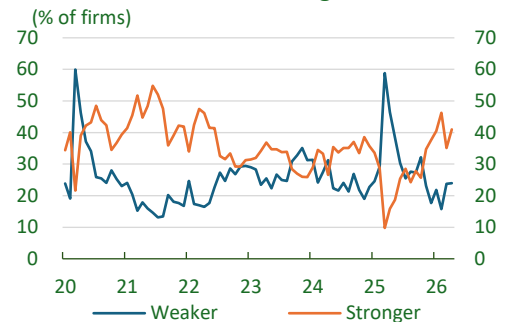
This makes sense. It suggests that firms look toward a further de-escalation in the Middle East at some point, but there are still some notable concerns regarding very near-term developments. We also see a similar situation in the oil market. Futures prices reflect an easing in the situation, while the physical oil market remains impaired by the closure of the Strait of Hormuz.

1. SME sentiment stages small rebound (Index)



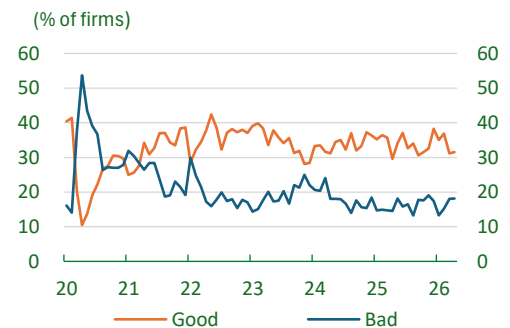
Source: Canadian Federation of Independent Business, Watt Strategic Economic Advisors

2. Expected performance improves slightly but is not that bad all things considered (% of firms)



Source: Canadian Federation of Independent Business, Watt Strategic Economic Advisors

Current business situation still a bit worrisome (% of firms)



Source: Canadian Federation of Independent Business, Watt Strategic Economic Advisors

Beware the ideo of inflation

As reflected in the IMF WEO the upward pressure on oil prices has put upward pressure on global inflation readings.

We also see some burgeoning inflation pressures among small businesses in Canada. The April CFIB survey showed that firms expect inflation to be 3.2% in the next year. In February, the reading was 2.1%, its lowest point since early 2021, which reflected a slowing economy and easing inflationary pressures. Note that wage pressures did not follow inflation pressures. This is reflective of a supply side shock, which is important in considering the potential response by the Bank of Canada.

Inflation concerns are also reflected in chart 5, which shows the share of firms that expect inflation to be over 3%, and the share of firms that expect inflation to be below 1%. The percentage of firms seeing higher inflation rose above 50%, for the first time since April 2025, when the price effects of Liberation Day tariffs were all the rage.

Not surprisingly, the other side of this development is that the share of firms that see inflation below 1% fell to a 13-month low below 30%.

These are indications that upward pressures on prices are returning as a concern for firms. They also put in context the Bank of Canada's evaluations, as reflected in the recent Summary of Deliberations for the 18 March policy meeting:

The Bank assessed that the *“risks to growth looked tilted to the downside while the oil price shock represented additional upside risk to inflation.”*

On the optimistic side, the Bank noted that *“beyond the short run, the impact of higher energy prices on ongoing inflation could be limited.”*

But, the Bank also noted that:

“higher inflation expectations make it easier for businesses to pass along cost increases. But when the economy is soft, firms often look for ways to avoid raising prices so that they don't lose customers. Similarly, upward pressure on wages is less likely in a weak economy.”

So far, the latter is not unfolding, as the labour market has been softening.

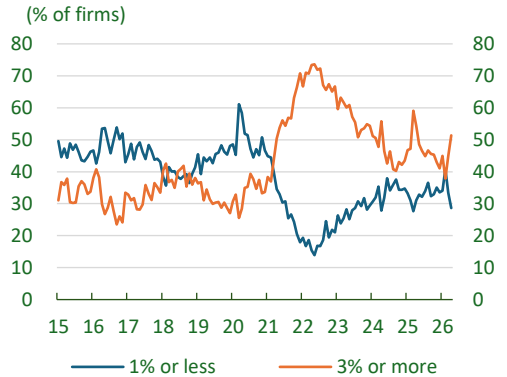
Overall, what the Bank of Canada might do in coming months is likely to revolve around the evolution of inflation expectations. If those inflation expectations rise, the Bank might well conclude that it needs to raise interest rates to ensure that inflation expectations remain well contained close to the 2% target.

4. Anticipated price and wage growth (% YoY)



Source: CFIB, Watt Strategic Economic Advisors

5. How much prices are expected to change over the next 12 months (% of firms)



Source: CFIB, Watt Strategic Economic Advisors

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