Musing: Business sentiment — June 2025

Not normal, but not as bad as feared

The Canadian Federation of Independent Business released its June 2025 Monthly Business Barometer on 19 June.

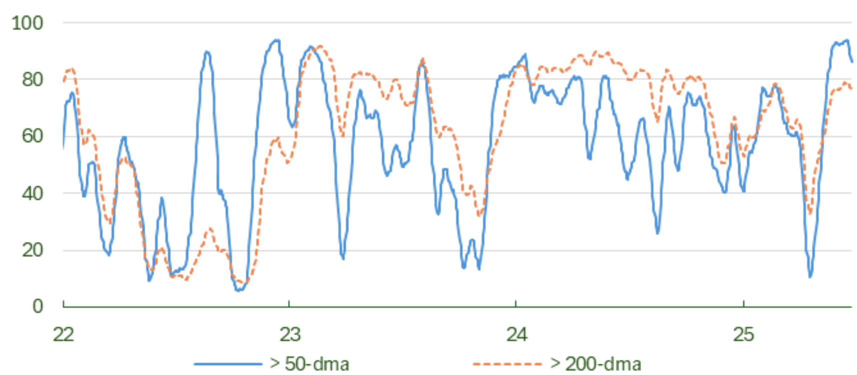
The results were interesting in that fear among small and medium-sized firms has seeming dissipated to a great degree. Sentiment isn't back to "normal," but firms are nowhere near as unnerved as they were when US tariff policy uncertainty was at extremes. All things considered, the atmosphere has improved markedly.

Chart 1 shows that short-term and longer-term business sentiment has rebounded sharply from its US trade policy uncertainty depths. Short-term sentiment is pretty much back to where it was through much of 2024, while longer-term sentiment remains well below pre-Liberation Day levels. Hence, firms are still cautious, but things are less ominous. Other indicators presented below provide further evidence of similar developments.

The rebound in business sentiment occurred alongside other indicators of improved sentiment. For example, global equity markets have recovered with some vigour as reflected in our global market performance indicator. The low reading in 2025 occurred on 4 April, amid peak tariff uncertainty after Liberation Day. However, delays and policy shifts/reversals helped spark a general rebound in global market sentiment.

Market performance indicator

(% of 60 global indices, 10-d ma)



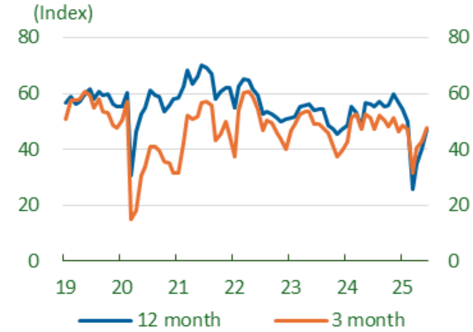
Source: Macrobond

The improved market backdrop was also noted by the Bank of Canada (BoC). In the Summary of Deliberations (SoD) for 4 June policy meeting (released on 17 June), the Governing Council (GC) noted:

> "*Members noted that financial conditions were similar to the conditions seen at the beginning of the year, although the Canadian dollar had appreciated by about 4%, largely reflecting broad weakness in the US dollar. The turmoil experienced by markets in April was severe but short-*

SME sentiment rebounds after tariff-related beat-down

(Index)



Source: Macrobond, Canadian Federation of Independent Business

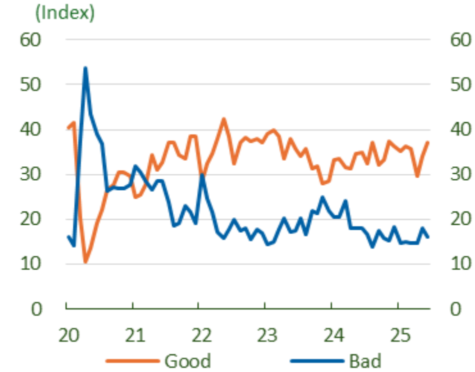
2. Expected performance in 12 months

(Index)

Source: Macrobond, Canadian Federation of Independent Business

3. Current business situation

(Index)



Source: Macrobond, Canadian Federation of Independent Business

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lived. While financial markets remained sensitive to US policy announcements, volatility had become less pronounced as the severity of US tariffs had been scaled back from their early April peaks, and market assessments of the probability of a recession had diminished. Equity markets in North America and Europe dropped by as much as 20% in April but had since regained much of their value. Similarly, credit spreads were also back to January levels after widening in April."

That the economic and financial backdrop had improved was also put in context by Chicago Fed President Austan Goolsbee, who recently said "*somewhat surprisingly, thus far, the impact of tariffs has not been what people feared*." This led him to another thought regarding the potential impact of tariffs on inflation: "*if we do not see inflation resulting from these tariff increases, then, in my mind, we never left what I was calling the golden path before April 2*" — before Trump47's Liberation Day tariff announcements.

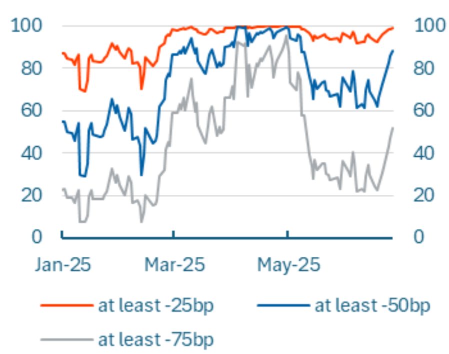
Goolsbee's comments are far from an "all clear" regarding tariffs, and it is quite possible that the negative effects have just been delayed by pre-tariff inventory management. However, thus far, economic conditions don't seem to be tracing out worst-case scenarios. Far from it.

Goolsbee's comments aligned with other Fed officials indicating the possibility of an earlier Fed rate cut, possibly as soon as July, given that the economic and financial backdrop might not have deteriorated that badly compared to the pre-Liberation Day situation. While a July rate cut is still a low probability event (~25% at the present time), the market has moved to price in at least two cuts by year end with about an 88% probability, and a slightly better than 50-50 chance of at least three 25bp rate cuts.

FOMC probabilities: 30 July 2025
(%)

Source: Macrobond CME FedWatch

FOMC probabilities: 10 December 2025
(%)

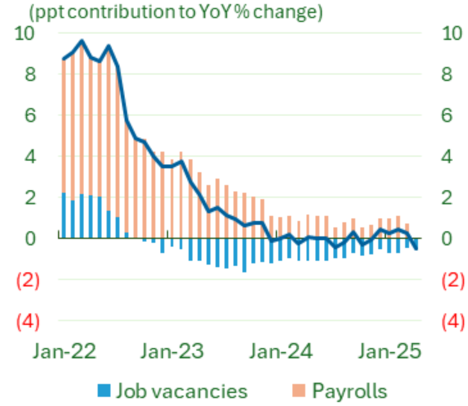


Source: Macrobond CME FedWatch

Not quite normal; Not as bad as feared

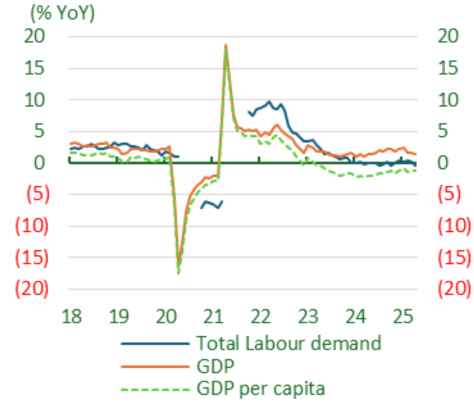
That Goolsbee is thinking that pre-Liberation Day conditions might still be relevant is important. The spike in trade policy uncertainty weighed on the outlook but does not seem to have seriously hit short-term performance in general.

4. Total labour demand
(ppt contribution to YoY % change)



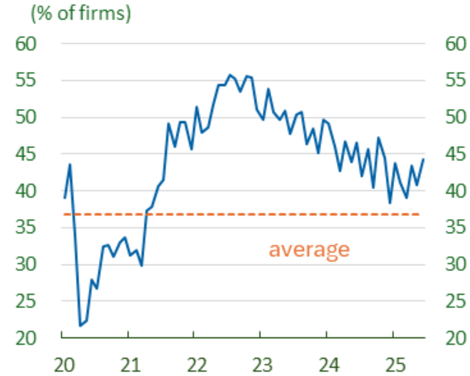
Source: Macrobond, Statistics Canada

5. Total labour demand and GDP
(% YoY)



Source: Macrobond, Statistics Canada

6. Firms with skilled labour shortages
(% of firms)



Source: Macrobond, Canadian Federation of Independent Business

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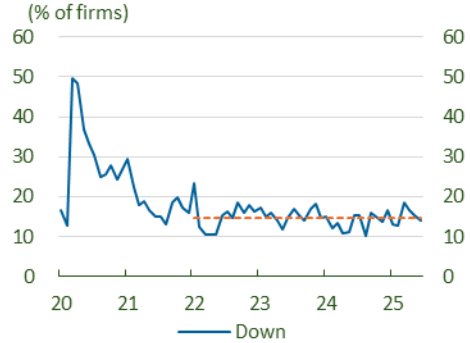
Charts 2 and 3 help highlight, in a Canadian context, the comments of Goolsbee that economic conditions might not be as bad we feared they might be. This is not a surprise given that the Bank of Canada's SoD noted that on June 4 the GC members "*agreed that the economy showed more resilience than expected*."

Chart 2 reinforces the information from Chart 1 — the sharp loss of confidence caused due to the spike in tariff policy uncertainty led many firms to project a much weaker 12-month ahead performance. The other side of this coin was that the number of firms expecting their performance to be stronger over the next 12 months tumbled to new lows taking out pandemic-era lows along the way.

We had previously described this as a swing from optimism to abject terror. However, extreme pessimism has dissipated and the gap in anticipated performance narrowed sharply.

What is relevant here, particularly in the context of the Goolsbee and the BoC comments, is that firms' views on current business conditions had remained stable despite the gathering storm clouds. Now, amid calmer conditions and as the economy has shown "*resilience*," firms are still somewhat confident about the current business environment (Chart 3).

7. Expected full-time employment Change in next 3-4 months



Source: Macrobond, Canadian Federation of Independent Business

Caveats

We can't, however, ignore big caveats regarding the impact of tariffs and trade policy uncertainty on the Canadian economy. There have been negative effects on the Canadian auto, auto parts, steel and aluminum industries. Bank of Canada Governor Tiff Macklem recently discussed the fallout from US trade policy uncertainty on the Canadian economy (See, The impact of US trade policy on jobs and inflation in Canada, 18 June 2025).

> "*Some two million Canadian jobs rely on goods exports to the United States. US tariffs had a near-immediate impact on jobs in directly affected industries. Businesses that are subject to tariffs know that US demand for their products will be lower, and they have cut jobs. Several Ontario auto parts and assembly plants have announced layoffs and production cuts, and manufacturing jobs are down 55,000 since January. More broadly, we've seen a big decline in employment in trade-sensitive sectors since the start of the year.*"

In addition, the demand for labour has cooled, with total labour demand growth having slipped back into contraction territory in April.

For some context: During the BoC's tightening cycle, total labour demand slowed sharply via a lower level of payroll employment growth and declines in job vacancies. That is, payroll growth remained positive, though firms slowed the pace of hiring, with much of the adjustment to labour demand occurring via lower job vacancies.

Chart 4 shows that total labour demand fell into contraction territory in April, as payroll growth fell to 0% YoY its weakest reading since fall 2021. The labour market adjustment might be starting to spill over into lower payrolls not just lower job vacancies. This needs to be closely monitored because the evolution of total labour demand is closely linked to economic growth (Chart 5).

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Those caveats in mind, BoC Governor Macklem noted that employment in other sectors "*has held up*," and turning back to the CFIB survey there are indications suggesting that some of the downside risks have eased through June.

Chart 6 shows that firms continue to highlight skilled labour shortages as a factor limiting their ability to increase sales or production. In fact, in June the share of firms reporting skilled labour shortages hit its highest level since November — a situation more like that observed before the tariff tumult. Firms might be dusting off employment plans from before the tariff shock.

Chart 7 shows the number of firms planning to reduce their employment level over the next 3-4 months. Note that after rising to it highest level since January 2022 in March, it slipped to levels observed from 2022 through 2024 suggesting that only a very modest share of small and medium-sized firms plan to reduce employment levels in the next few months.

It is thus possible that the total labour demand data are a reflecting of that period of intense uncertainty.

Based on the most recent data and observations small and medium-sized firms seemingly remain rather confident about current conditions; are less concerned about the outlook, despite some lingering uncertainty; see skilled labour shortages as an impediment to growth; and, are not planning to reduce payrolls in the short-term.

Not a great situation, but not a terrible one either.

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