

Musings: Small business confidence and job market vulnerabilities

The Canadian Federation of Independent Businesses have released their September 2025 Business Barometer survey. This survey was one of the first to show the collapse in business confidence as US tariff policy became a significant source of uncertainty. It continues to be a key reading of the pulse of small firms in Canada.

Tracking the performance of small firms is extremely important right now. If the Canadian economy is going to successfully undergo a massive transformation, it is going to need a vibrant small business sector.

Relying on a few large oligopolies to drive the process is not a recipe for success. We also need to ensure that governments remain focused on small firms even as they are enamoured of major projects. We need a policy backdrop to stimulate the entire supply chain as projects move toward putting shovels in the ground. Expecting, or hoping, for benefits to trickle down is not an effective strategy to ensure success.

Small business confidence

Small business confidence indices (3-month and 12-month) have rebounded with some vigour from their February/March lows (chart 1). Current readings don't suggest boundless optimism, but they also don't suggest abject despair. Businesses remain cautious; not fearful.

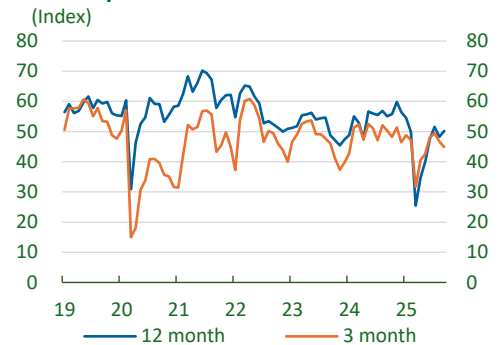
Similar dynamics were observed in firms' expected performance over the next 12 months. In late 2024, firms could be characterized as being somewhat optimistic. This is reflected in the widening gap between the number of firms expecting stronger activity compared to those expecting weaker activity (chart 2).

Then Trump arrived and confidence sank. Regarding the collapse in confidence [we said](#): *"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."*

Then a pressure release valve — Trump baulked.

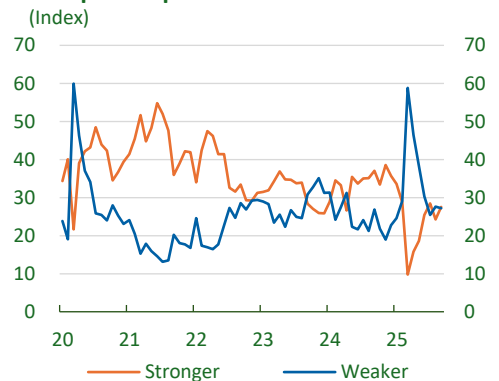
As well, we found out that most Canadian exports could enter the US tariff-free, if they were USMCA/CUSMA compliant. This was a powerful development in easing concerns about US tariff policy on the Canadian economy. Businesses did not turn optimistic, but pessimism dissipated.

1. SME sentiment off lows but still below pre-tariff levels



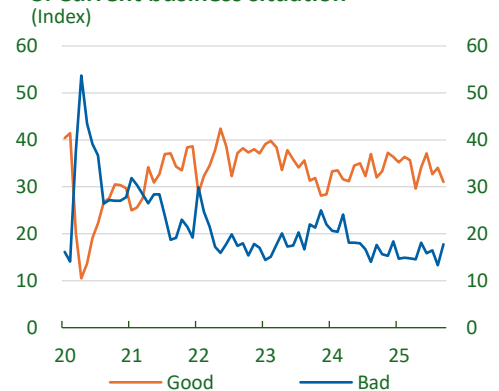
Source: Macrobond, Canadian Federation of Independent Business

2. Expected performance in 12 months



Source: Macrobond, Canadian Federation of Independent Business

3. Current business situation



Source: Macrobond, Canadian Federation of Independent Business

Scarring

That said, there is still some scarring from this situation. The number of firms expecting a stronger performance over the next 12-months remains below pre-Trump levels. Such a development is understandable — uncertainty remains elevated and the outlook for the US economy has deteriorated, though worst-case scenarios seem less likely than a few months ago.

Despite the wild swings in forward-looking sentiment, there has been some surprising resilience regarding current business conditions, as many firms still see their business situation as good (chart 3). This indicates that firms did not overreact to the changes in US trade policy despite disconcerting implications for the Canadian economy. Firms did revisit investment and hiring plans.

However, layoffs have remained limited overall. That is, firms are not slashing payrolls. In fact, even amid the turbulence, firms continue to report above average skilled labour shortages (chart 4). That is small firms still seem to be looking for good candidates. We will provide more context on this issue.

Supply side challenges linger

Small firms report that supply side challenges are rising once again, with product distribution constraints heading higher (chart 5). Not quite at post-pandemic highs, but high enough to cause small business owners to lose some sleep.

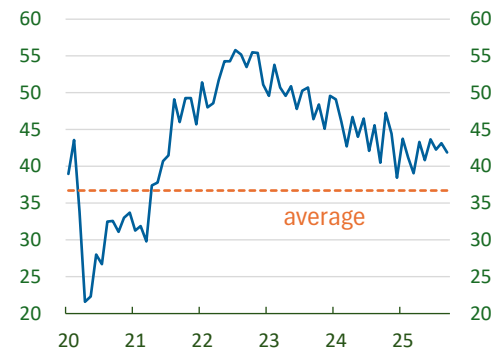
Thankfully, shortages of input products have not worsened, instead remaining near levels observed over the past two years. It might be taking longer to get inputs, but inventory levels are not problematic, and firms don't feel the same amount of pressure to meet the needs of customers. That said, the costs of input products are causing some difficulties (chart 6).

Overall, the CFIB report characterizes an economy that is, not without some difficulty, effectively navigating the turbulence of evolving US tariff policy and elevated economic uncertainty. It also highlights an economy that is vulnerable.

Labour market dynamics

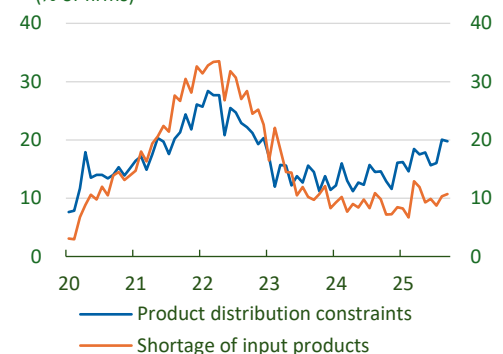
The last two charts look at the CFIB measure of the share of firms reporting skilled labour shortages and the prime-working age unemployment rate from Statistics Canada's Labour Force Survey. We use the latter because firms reporting skilled labour shortages are most likely to find suitable candidates in the PWA cohort.

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



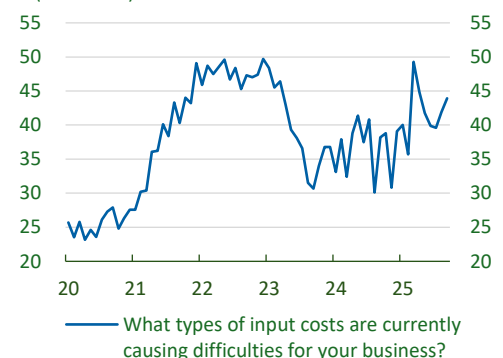
Source: Macrobond, Canadian Federation of Independent Business

5. Supply chain issues in play again
(% of firms)



Source: Macrobond, Canadian Federation of Independent Business

6. Product input cost concerns linger
(% of firms)



Source: Macrobond, Canadian Federation of Independent Business

The information is provided two ways. First as time series (chart 7). Note that the share of firms reporting labour shortages tends to track PWA unemployment rate (inverted). Hence, when the share of reporting challenges related to skilled labour shortages is elevated, it tends to read across to a low PWA unemployment rate (a strong job market).

Second, we present essentially the same data in a scatter plot. This is akin to a Beveridge curve with skilled labour shortages replacing job openings. Right now, the curve seems to be flattening. That is, the unemployment rate is rising, while the number of firms reporting skilled shortages has been largely unchanged for the past few months.

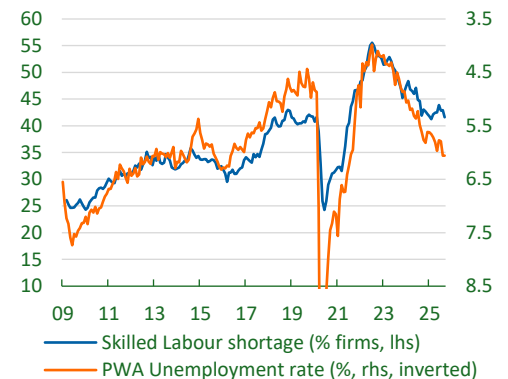
This is a bit of a concern. Seemingly firms still have shortages of skilled labour, but they are not filling those positions even though the jobless rate is rising. Maybe they just aren't finding good candidates (a skills matching issue), or they are more concerned about adding to payrolls in the current time and are prepared to leave things as they are.

With current business conditions still pretty good, there is no clear signal to downsize though elevated uncertainty makes firms reluctant to hire skilled labour.

Warning signs as vulnerabilities rise

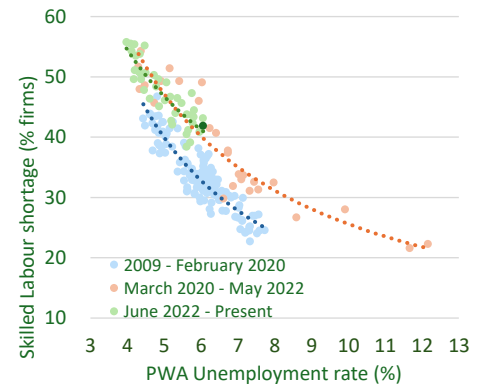
It seems that there is some inefficiency building in the labour market which is potentially a warning sign regarding the economy. Conditions do not suggest that the economy is in recession, but labour market conditions are highlighting some building vulnerabilities.

7. Labour shortages and unemployment



Source: Macrobond, Canadian Federation of Independent Business, Statistics Canada

8. Labour shortages and unemployment



Source: Macrobond, Canadian Federation of Independent Business, Statistics Canada

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