

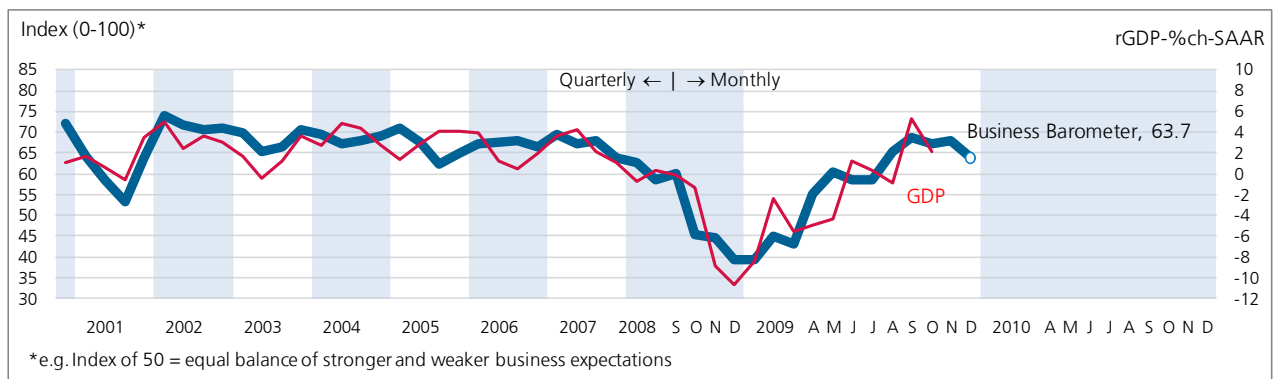
Business Barometer®

Monthly Results of December 2009 SME Business Outlook Survey

Ted Mallett, Vice-President Research & Chief Economist

Business confidence among Canada's small and mid-sized enterprises lost ground in December, suggesting that the economy is still only recovering at a gradual pace. CFIB's Business Barometer Index fell to 63.7 in December, from 68.0 a month earlier. The Index has still to match its September peak for the year of 68.7, which means customer demand growth remains below par.

CFIB Business Barometer Index and GDP



Measured on a scale between 0 and 100, an index level above 50 means owners expecting their business' performance to be stronger in the next year outnumber those expecting weaker performance. According to past results, index levels normally range between 65 and 75 when the economy is growing.

The decline in optimism was broad based, falling in 10 of 13 industry categories and in 8 of 10 provinces. The personal services sector as well as the retail sector performed above the average, which means the important

holiday season was at least reasonably positive for these businesses. However the hospitality industry is still feeling the effects of tight consumer spending, and activity in the important manufacturing and construction sectors is settling back somewhat after their partial rebound earlier in the fall.

With the Olympic Games approaching, it is no surprise that optimism continues to run strongest in British Columbia. It is also reasonably healthy, however, in Nova Scotia and New Brunswick—each with an index level

above 70. Weakest optimism is in Prince Edward Island and Quebec—both with indexes hovering near 60. Weaker sentiment in the resource sector also helped bring down general optimism in the Prairie Provinces and in Newfoundland and Labrador.

Now that the winter months are here, which more often than not is a slower time for business, the balance of opinion on expected short-term future performance has settled even further to only plus 3 per cent, while past short-term performance remains in negative territory at minus 9 per cent. Similarly the balance of opinion on how inventories, new orders and overtime levels are performing, while showing gradual improvements, all remain well under parity.

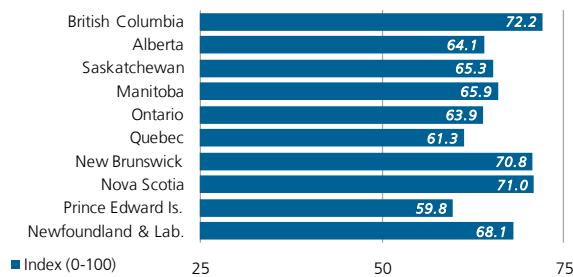
Employment plans also continue to show the chill of the seasonal winter slowdown. Only 11 per cent of business owners expect to be hiring more full-time employees in the next three or four months, while 18 per cent expect to be cutting back. Part-time hiring expectations are not much different.

Capital spending plans are not much better—plateauing late this year after posting modest gains through the mid-part of 2009. Business owners are most likely willing to spend on office and communications technologies, while spending on vehicles, land and machinery are relatively flat.

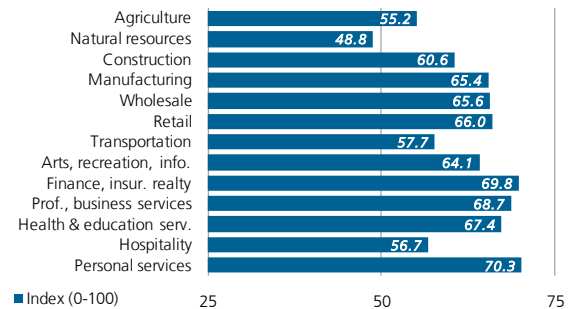
Overall, annual pricing and wage plans remain at a low 1.3 per cent and 1.5 per cent respectively, well below historical inflation. The main business operating challenges cited by business owners are customer demand (50 per cent), levels of working capital (28 per cent) and shortages of skilled labour (27 per cent). The main cost constraints are taxes and regulations (60 per cent), energy (54 per cent) and insurance (52 per cent).

The December 2010 findings are based on 1,161 responses, collected from a stratified random sample of CFIB members, to a controlled-access web survey. Findings are statistically accurate to +/- 2.9 per cent 19 times in 20.

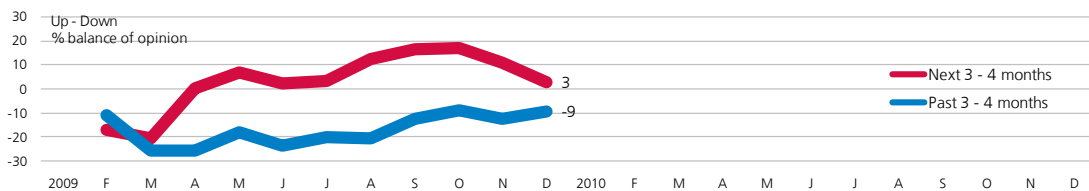
Business Barometer - Provinces



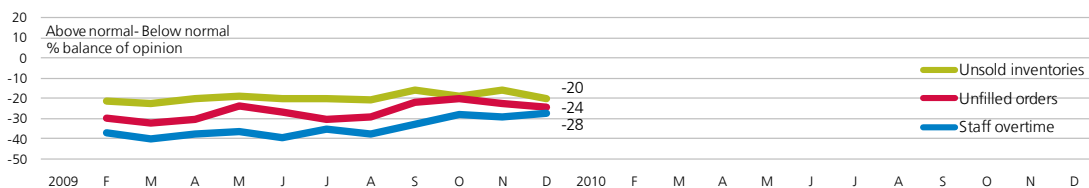
Business Barometer - Industries



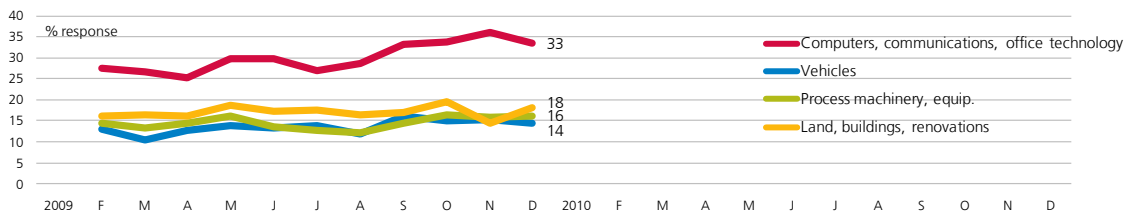
Short-term Business Performance



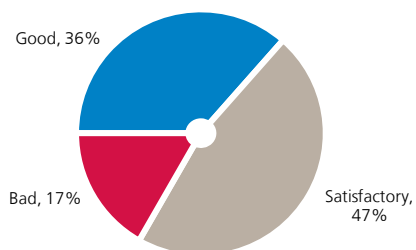
Leading Indicators



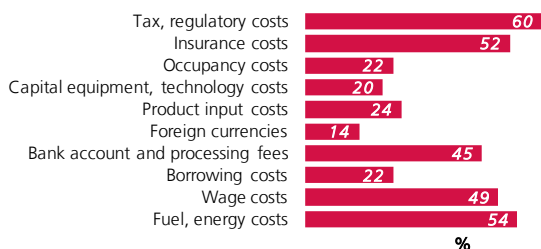
Capital Spending Plans, Next 3-4 Months



Overall State of Business



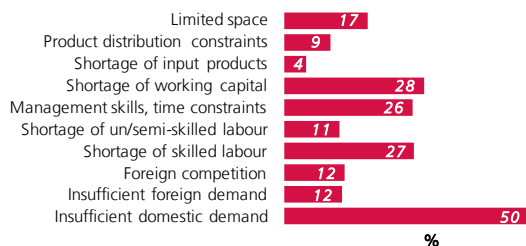
Major Cost Concerns



Wages and Prices, Next 12 Months

	December
Average pricing plans	+1.3 %
Average wage and salary plans	+1.5 %

Main Business Constraints



Employment Plans, Next 3-4 Months

	Full-time	Part-time
	% resp.	% resp.
Increase	11	12
No change	71	68
Decrease	18	20

Notes: CFIB's Business Barometer Index was revised as of the May 2009 issue. It is based on the same survey question on 12-month future business performance expectations collected annually 1987-2000, quarterly 2001-2008 and monthly since late 2008. The index is a weighted average of response scores: 100 for stronger performance, 50 for same performance, and 0 for weaker performance. Recasting the index with national historical data shows a record high of 74.1 in March 2002 and a record low of 39.4 in December 2008. To compensate for small monthly sample sizes, the index calculations for some subcategories are based on monthly moving averages. The data are not seasonally adjusted.

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