

WEEKLY COMMENTARY

Innovation and Trade Can Boost Small Business Productivity and Profitability in Canada

By Randall Bartlett, Senior Director of Canadian Economics

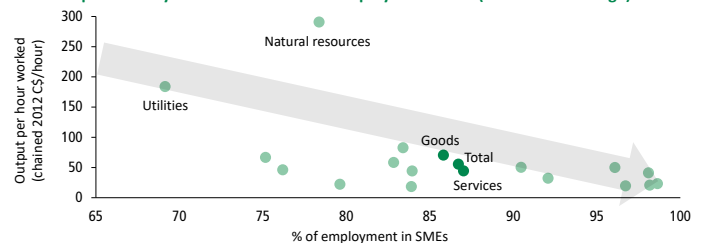
As Small Business Week 2024 nears its close, it seemed a good occasion to highlight the importance of small enterprises in the Canadian economy as well as the opportunities and challenges they face innovating, exporting and growing.

At last count, small businesses—defined as enterprises with less than 100 employees—made up nearly 98% of Canadian companies. The highest prevalence of small businesses is in real estate and leasing; other services; agriculture; construction; professional services; transportation and warehousing; hospitality; and retail and wholesale trade. But as we’ve highlighted in the past, these sectors were among the [most likely to be struggling](#) at the end of the COVID-19 pandemic and the [least likely to expect to repay their Canada Emergency Business Account \(CEBA\) loans](#). They’re also the sectors that tend to have the lowest labour productivity (graph 1).

Low productivity among Canadian small businesses is a long-standing issue. They are not only less productive than larger enterprises in Canada, but also their American peers of similar size in the same industries. According to [McKinsey](#), SMEs are about half as productive as large companies. Structural issues that are often highlighted as contributing factors are a lack of access to financing for growth and investment, as well as the added cost of greater distances between producers, their customers and their suppliers. But it’s more than that. Our [research](#) found that Canadian small and medium-sized enterprises (SMEs) are slow to integrate new innovations into their business processes, citing insufficient time, training and resources.

Graph 1
Industries Dominated by SMEs Are Generally Less Productive

Labour productivity versus small business employment share (1998–2022 average)



SME: Small- and medium-sized enterprises
Statistics Canada, Innovation, Science and Economic Development Canada and Desjardins Economic Studies

In the past, small businesses have seen high productivity growth when new technologies became cheaper, more widely available, and more easily used and integrated into existing business processes. Think back to the widespread adoption of information and communications technology (ICT) in the mid- to late-1990s. The pandemic later accelerated the adoption of digital technologies, as small businesses rapidly shifted their activities online. Much of this happened organically, without the need for politicians and public servants to intervene. Indeed, where innovation policy has been deployed, the impact has tended to be marginal at best (for example, the Canada Digital Adoption Program and the once-lauded superclusters). Some other programs have even been accused of providing a disincentive for companies to scale up, such as the Scientific Research and Experimental Development (SR&ED) tax incentives ([CD Howe, 2024](#)).

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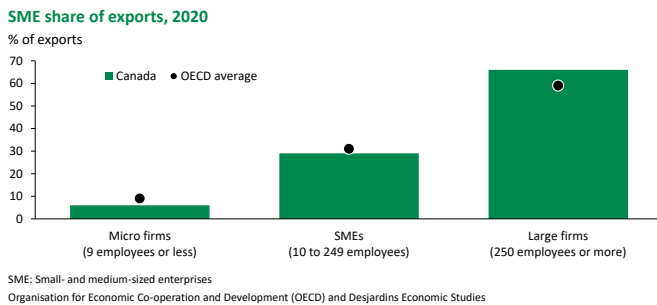
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What’s more, Canadian small businesses have been slow to adopt the latest generation of new technological innovations, such as [artificial intelligence](#). This is unfortunate, as more innovative and productive companies also tend to be more profitable. And given the prevalence of small businesses among total enterprises, their lower productivity holds back productivity for the whole economy.

International trade engagement is also an important driver of small business productivity and profitability. Companies that trade tend to be more competitive, operationally efficient and prone to adopt new technologies. And with the share of Canadian small businesses that export lagging their peers in the Organisation for Economic Co-operation and Development (OECD), there is a lot of room to grow (graph 2).

Graph 2
Canadian SMEs Are Less Trade-Engaged than Their OECD Peers



From uncertainty over foreign regulations to limited access to export financing and the increasing volatility of cross-border commerce, the barriers and risks to international trade can be daunting. Indeed, the upcoming US presidential election and [what it means for Canadian trade](#) is front of mind for many SMEs. But [our recent research](#) shows that there are ways to mitigate the risks. These include diversifying export markets (something that immigrant-run businesses are known for); expanding into new provincial markets; diversifying suppliers; increasing supply chain resiliency; accelerating digitization and modernization; and leveraging existing export promotion programs. None of these approaches to mitigating trade risks are mutually exclusive. All are instead mutually reinforcing.

Together, greater trade engagement and adoption of new innovations can help small businesses improve their productivity and boost their profitability in the process. The risks are real, but there are ways of mitigating them. Sitting on the sidelines means missed opportunities, which leaves individual businesses and the Canadian economy worse off.

What to Watch For

TUESDAY October 29 - 9:00

August	y/y
Consensus	n/a
Desjardins	5.10%
July	5.92%

TUESDAY October 29 - 10:00

October	
Consensus	99.0
Desjardins	99.0
September	98.7

MONDAY October 30 - 8:30

Q3 1st est.	ann. rate
Consensus	3.0%
Desjardins	2.9%
Q2 3rd est.	3.0%

FRIDAY November 1 - 8:30

October	
Consensus	120,000
Desjardins	135,000
September	254,000

FRIDAY November 1 - 10:00

October	
Consensus	47.6
Desjardins	47.6
September	47.2

UNITED STATES

S&P/Case-Shiller home price index (August) – Month-on-month growth in existing home prices cooled somewhat in July. Prices appreciated by just 0.3%, the smallest bump since March. We expect the August uptick was about the same. Mortgage rates began falling sharply that same month, but the resale market nevertheless slowed. A 0.3% monthly increase would bring the index's year-on-year growth down from 5.9% in July to 5.1% in August.

Conference Board Consumer Confidence Index (October) – US consumer sentiment as measured by the Conference Board tumbled in September. The 6.9-point drop was the biggest monthly decline since August 2021. The pullback was a surprise, as the stock market performed reasonably well and gas prices and interest rates fell. But confidence indexes have been volatile of late, which should be understood as a result of media coverage of the US election, whose outcome remains highly uncertain. The election could still have a substantial impact on the October data. Normally, the continued decline in gas prices, improved job market (according to the September print) and good stock market performance since the beginning of the month should boost consumer confidence. And in fact, both the TIPP and the University of Michigan's confidence index (after revision) went up in October. Those economic data are leading us to expect a slight improvement, but uncertainties about the election could move the confidence index in either direction.

Real GDP (third quarter – advance estimate) – The US economy accelerated between the first and second quarters of 2024, with annualized real GDP growth jumping from 1.6% to 3.0%. We believe real GDP growth probably amounted to almost 3% for the third quarter. This gain was likely mostly driven by another surge in real goods consumption. As for businesses, investments in equipment and inventory probably didn't provide as much of a boost as in the second quarter, but we expect this to have been partially offset by greater investment in intellectual property products. We also forecast another decline in residential investment and more restrained growth in government spending. Both real exports and real imports seem to have ramped up considerably in the third quarter, but on a net basis their contribution would have been practically nil. Overall, real GDP is expected to have increased an annualized 2.9%.

Change in nonfarm payrolls (October) – After a few months of softer jobs data, the blockbuster September reading was a big surprise. The 254,000 new jobs reported in the establishment survey represent the biggest gain since March. But the October print could very well reveal a pullback. First, some Boeing factories went on strike in September. This directly affects some 30,000 workers, and although the September jobs report was unaffected, the labour dispute will probably show up in the October figures. In addition, the passage of Hurricanes Helene (late September) and Milton (during the week of the October survey) likely weakened job growth. Furthermore, the increase in weekly initial unemployment claims from mid-September (222,000 applications) to mid-October (242,000 applications) could signal lower job numbers. We believe net hires will probably slow to 135,000 in October. However, this forecast involves a great deal of uncertainty. We expect unemployment to hold steady at 4.1%.

ISM Manufacturing index (October) – The ISM Manufacturing index remained unchanged at 47.2 in September, despite slight improvements in the production and new orders components. We expect the ISM to edge up in October, as suggested by most of the regional manufacturing indexes published so far this month. For now, we see the index climbing to 47.6. But the extent of the impact of the Boeing strike and Hurricanes Helene and Milton remains to be seen. The election could also cause new orders to show some volatility in October and the following months.

THURSDAY October 31 - 8:30

August	m/m
Consensus	0.1%
Desjardins	0.1%
July	0.2%

WEDNESDAY October 30

October	
Consensus	0.25%
Desjardins	0.25%
September 19	0.25%

WEDNESDAY October 30 - 6:00

Q3 2024	q/q
Consensus	0.2%
Q2 2024	0.2%

WEDNESDAY October 30 - 21:30

October	
Consensus	n/a
September	50.4

THURSDAY October 31 - 6:00

October	y/y
Consensus	1.9%
September	1.7%

CANADA

Real GDP by industry (August) – We anticipate monthly real GDP by industry increased by 0.1% in August, one tick more than Statistics Canada’s flash estimate. Strength in monthly home sales and resource extraction likely drove up this rise. The August Labour Force Survey also showed some job gains. In contrast, weak numbers for manufacturing sales, wholesale trade and housing starts likely put downward pressure on the headline number. Looking ahead to the September real GDP release, we expect Statistics Canada’s flash estimate will show a reacceleration of growth to 0.2% m/m. In the coming months, we continue to anticipate the TMX will help drive economic expansion as shown in [our recent analysis](#). Auto production also looks likely to provide a tailwind to growth in the final months of 2024.

OVERSEAS

Japan: Bank of Japan meeting (October) – We believe Japan’s central bank is feeling less pressure to continue hiking rates. The country’s new prime minister Shigeru Ishiba has said as much. In early October, he claimed that Japan wasn’t in an environment that required rates to rise further. Note that general elections will be held in Japan this Sunday, October 27. It’s true that economic data for Japan is still mixed. Inflation also eased in September, but nevertheless stayed above the 2% target. The three-month annualized change in prices, excluding food and energy, amounted to 3%. Wage inflation also remains well above the historical average. We therefore believe that Japanese monetary policy could normalize over the next few quarters. At the same time, there are good reasons for the Bank of Japan to take a gradual approach. We expect the central bank to stand pat on monetary policy in October, but probably raise rates again by the end of the year. We also believe normalizing Japanese monetary policy won’t require that many rate hikes.


Eurozone: Real GDP (third quarter – preliminary) – The eurozone economy cooled slightly between the first and second quarters of 2024. That said, growth improved significantly this spring (a non-annualized 0.2%) from 2023 (average of 0.04%). We believe growth over the summer also came in at around 0.2%. First, industrial production picked up, especially in Germany, which was a good sign. But retail sales were relatively anemic compared to the previous quarter. The purchasing managers’ indexes did better over the summer, but the trend in September wasn’t quite so promising. These mixed signals suggest growth was fairly muted.


China: Composite PMI (October) – China’s composite PMI started gaining ground again after a six-month losing streak, advancing from 50.1 in August to 50.4 in September. Although these gains were broad-based, some components like manufacturing stayed below the 50-point threshold, signalling a slowdown in this sector. New orders in the construction sector also plummeted, dragging the index down to a record low of 39.5 in September. This is a reminder that the Chinese economy is still struggling and that one month of growth isn’t enough to call a trend. October’s PMI data will give us more insight into the trajectory of Chinese growth in the fourth quarter.

Eurozone: Consumer price index (October – preliminary) – Eurozone inflation continued to ease, falling below the European Central Bank’s 2% target for the first time since June 2021. Headline inflation totalled 1.7% in September, well below the 10.6% peak recorded two years ago. But core inflation proved somewhat more stubborn, coming in at 2.7% in September. It will be interesting to see whether the flash estimate for October will show headline inflation staying under 2% and core inflation approaching the target.

Economic Indicators

Week of October 28 to November 1, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 28						
TUESDAY 29						
	8:30	Goods trade balance – preliminary (US\$B)	Sep.	-96.0	-97.9	-94.3
	8:30	Retail inventories (m/m)	Sep.	n/a	n/a	0.5%
	8:30	Wholesale inventories – preliminary (m/m)	Sep.	n/a	n/a	0.1%
	9:00	S&P/Case-Shiller home price index (y/y)	Aug.	n/a	5.10%	5.92%
	10:00	Consumer confidence	Oct.	99.0	99.0	98.7
WEDNESDAY 30						
	8:30	Real GDP (ann. rate)	Q3f	3.0%	2.9%	3.0%
	10:00	Pending home sales (m/m)	Sep.	n/a	n/a	0.6%
THURSDAY 31						
	8:30	Initial unemployment claims	Oct. 21–25	n/a	228,000	227,000
	8:30	Employment cost index (q/q)	Q3	0.9%	1.0%	0.9%
	8:30	Personal income (m/m)	Sep.	0.4%	0.2%	0.2%
	8:30	Personal consumption expenditures (m/m)	Sep.	0.4%	0.5%	0.2%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Sep.	0.2%	0.1%	0.1%
		Excluding food and energy (m/m)	Sep.	0.3%	0.2%	0.1%
		Total (y/y)	Sep.	2.1%	2.0%	2.2%
		Excluding food and energy (y/y)	Sep.	2.6%	2.6%	2.7%
	9:45	Chicago PMI	Oct.	n/a	47.0	46.6
FRIDAY 1						
	---	Total vehicle sales (ann. rate)	Sep.	15,750,000	16,000,000	15,770,000
	8:30	Change in nonfarm payrolls	Oct.	120,000	135,000	254,000
	8:30	Unemployment rate	Oct.	4.1%	4.1%	4.1%
	8:30	Average weekly hours	Oct.	34.2	34.1%	34.2
	8:30	Average hourly earnings (m/m)	Oct.	0.3%	0.3%	0.4%
	10:00	Construction spending (m/m)	Sep.	0.0%	-0.2%	-0.1%
	10:00	ISM Manufacturing index	Oct.	47.6	47.6	47.2
CANADA						
MONDAY 28						
	---	Saskatchewan Election				
	13:30	Speech by Bank of Canada Governor T. Macklem				
TUESDAY 29						
WEDNESDAY 30						
THURSDAY 31						
	8:30	Real GDP by industry (m/m)	Aug.	0.1%	0.1%	0.2%
FRIDAY 1						

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of October 28 to November 1, 2024

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
DURING THE WEEK								
United Kingdom	---	Nationwide house prices	Oct.	0.3%	2.8%	0.7%	3.2%	
MONDAY 28								
Japan	19:30	Unemployment rate	Sep.	2.5%		2.5%		
TUESDAY 29								
Germany	3:00	Consumer confidence	Nov.	-20.5		-21.2		
WEDNESDAY 30								
Japan	---	Bank of Japan meeting	Oct.	0.25%		0.25%		
Japan	1:00	Consumer confidence	Oct.	36.7		36.9		
France	2:30	Personal consumption expenditures	Sep.	0.1%	0.0%	0.2%	0.0%	
France	2:30	Real GDP – preliminary	Q3	0.3%	1.3%	0.2%	1.0%	
Germany	5:00	Real GDP – preliminary	Q3	-0.1%	-0.3%	-0.1%	0.0%	
Italy	5:00	Real GDP – preliminary	Q3	0.2%	0.9%	0.2%	0.9%	
Eurozone	6:00	Consumer confidence – final	Oct.	n/a		-12.5		
Eurozone	6:00	Industrial confidence	Oct.	-10.5		-10.9		
Eurozone	6:00	Services confidence	Oct.	6.5		6.7		
Eurozone	6:00	Economic confidence	Oct.	96.3		96.2		
Eurozone	6:00	Real GDP – preliminary	Q3	0.2%	0.8%	0.2%	0.6%	
Germany	9:00	Consumer price index – preliminary	Oct.	0.2%	1.8%	0.0%	1.6%	
Japan	19:50	Industrial production – preliminary	Sep.	0.8%	-3.2%	-3.3%	-4.9%	
Japan	19:50	Retail sales	Sep.	-0.3%	2.2%	1.0%	3.1%	
China	20:30	Composite PMI	Oct.	n/a		50.4		
China	20:30	Manufacturing PMI	Oct.	50.0		49.8		
China	20:30	Non-manufacturing PMI	Oct.	50.5		50.0		
THURSDAY 31								
Japan	1:00	Housing starts	Sep.		-4.3%		-5.1%	
France	3:45	Consumer price index – preliminary	Oct.	0.2%	1.1%	-1.2%	1.1%	
Italy	5:00	Unemployment rate	Sep.	6.2%		6.2%		
Eurozone	6:00	Consumer price index – preliminary	Oct.	0.2%	1.9%	-0.1%	1.7%	
Eurozone	6:00	Unemployment rate	Sep.	6.4%		6.4%		
Italy	6:00	Consumer price index – preliminary	Oct.	0.0%	0.9%	-0.2%	0.7%	
Japan	20:30	Manufacturing PMI – final	Oct.	n/a		49.0		
FRIDAY 1								
United Kingdom	5:30	Manufacturing PMI – final	Oct.	50.3		50.3		

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).