

Canadian Small Business Health Index summary

The Canadian Small Business Health Index is a quarterly tool that provides a timely and insightful snapshot of the financial health of small businesses in Canada.

Who created the Index?

The Index leverages credit bureau data from Equifax Canada (Equifax), survey data from the Business Development Bank of Canada (BDC), and macroeconomic data from public sources, such as Statistics Canada and the Bank of Canada. Both Equifax and BDC have contributed expertise to this project.

Why was the Index needed?

Other small business health indices in Canada focus on sentiment. This Index combines information on business sentiment with data on growth intentions, credit performance and operating environment to offer a more holistic view of small business financial health.

This Index can help entrepreneurs plan ahead. For instance, it may help them decide when and where to start or expand a business. It can also give other players in the SME sphere a regional picture of business conditions that they can use for their strategy and planning.

What are the components of the Index?

The Index has four components: Credit Performance, Business Confidence, Growth Projection and Business Environment. Equifax took the lead on the Credit Performance component, while BDC led the creation of the Business Confidence component. Each organization contributed equally to the Growth Projection component, and the Business Environment component was based on public macroeconomic data.

How was the Index developed?

BDC and Equifax—which we'll refer to here as “the team” or “they”—defined many variables that could be used to create the components. They shortlisted a large set of variables, based on their availability and relevance.

The team also chose relevant and credible benchmarks for each component, so that they could select the right variables to create a useful Index. They removed variables that didn't predict or align with the chosen benchmark, as well as redundant variables that did not provide additional meaningful information.

The team used various statistical techniques to select the relevant variables and assign their weight. It wasn't possible to use these techniques for some variables, such as survey data. In those cases, the team relied on economic theory and qualitative expert judgment.

What variables and benchmarks did the team choose?

In the end, the team chose the following variables for each component.

Credit Performance

Variables on loan repayment, loan sizes and bankruptcies

Business Confidence

Variables on cash-flow position, economic conditions outlook, satisfaction with financial institutions, debt repayment pressure

Growth Projection

Variables on consumer credit usage, capital expenditure expectations, sales expectations, hiring/workforce expectations, business credit activity, new business starts

Business Environment

Variables on employment growth, wage growth, yield spread between 10-year and 2-year benchmark bond yields, inflation rate minus the target rate

Where does the data come from?

BDC data comes from BDC's Investment and Financing Outlook Survey (IFOS), which is conducted quarterly. Data from companies with more than 500 employees is excluded.

Equifax data comes from all credit product-providing institutions that subscribe to Equifax.

How often will the Index be published?

The team will update the Index quarterly and will publish it about six weeks after the end of each quarter.

Are regional breakdowns of the Index available?

Yes, regional breakdowns are available for Alberta, British Columbia, Ontario, Quebec, the Atlantic provinces (New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island) and Central Canada (Manitoba and Saskatchewan).

Are industry-specific breakdowns of the Index available?

The team will explore the feasibility of developing national breakdowns of the Index by industry. If conclusive, they will be included in later versions of the Index.