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CANADIAN SMEs TO GRADUALLY LOOSEN INVESTMENT PURSE STRINGS

- SME confidence levels on the rise in Canada and globally, despite economic uncertainties

Canadian SMEs (small and medium-sized enterprises) reveal a willingness to gradually loosen the purse strings on capital investments, but keep a cautious view on economic outlook and a steady hand on recruitment plans, say respondents to the second wave of a semi-annual HSBC survey of SMEs globally. Nearly all respondents across developed and emerging markets also say that their economic outlook is more positive than it was six months ago.

For Canadian SMEs, who represent the vast majority of our country's 2.3 million businesses and form an integral part of the Canadian economy, this increase in confidence and investment intentions is a welcome sign of gradual, but cautious economic recovery in Canada. Forming a vital part of the Canadian economy, the collective impact of small businesses is significant.

The semi-annual HSBC Small Business Confidence Monitor gauges the six-month outlook of SMEs on local economic growth, capital investment plans and recruitment. This is the largest international survey of its kind, covering 6,346 SMEs across 21 markets in North America, Asia, the Middle East, Europe, and Latin America. The results were used to calculate an index ranging from 0 to 200, where 200 represents the highest confidence level, 0 represents the lowest, and 100, neutral.

Confidence increased across the globe from 111 to 118, with emerging markets (122) appearing seven points higher than developed markets (115). Compared to the previous results from the fourth quarter of 2009, developed markets' confidence levels increased from 106 to 115 (9 points), showing signs of increased optimism within their borders.

Most markets across the globe held a positive outlook, with Turkey leading at 138, followed by the Middle East (132), Greater China (121), India (121), South-East Asia (119), Latin America (118) and Europe (99). North America showed the second highest overall increase of all regions (up 12 points), with only a single point separating Canada (119) and the United States (120).

Miguel Barrias, Senior Vice President and National Head of Business Banking, HSBC Bank Canada, said: "Earlier this year, Canadian small businesses expressed a fair deal of optimism, and we're encouraged to see that feeling improve further. As emerging markets continue to drive a large portion of the globe's economic recovery, Canadian SMEs are uniquely placed to explore new trading and investment opportunities beyond our traditional partner, the United States."

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Canadian SMEs sticking close to home

The HSBC Small Business Confidence Monitor once again asked SMEs about the extent of their cross-border trade and other international business, such as overseas operations. In Canada, 28 per cent of respondents say they do business internationally, which represents an increase of nearly 10 per cent in just over six months. This compares to 36 per cent of SMEs across all 21 markets surveyed, which increased just 5 percent more over the same period.

Outlook on local economic growth

In terms of economic growth, 61 per cent of Canadian SMEs expect local GDP growth to maintain the same pace in the next six months, while only 10 per cent expect growth to slow and 28 per cent expect the pace to increase.

Outlook on capital expenditure

Fifty-four per cent of Canadian SMEs indicated that their plans for investing in their own businesses through capital expenditures have not changed, down from 59 per cent. A corresponding increase in capital expenditure plans saw a rise from 27 to 32 per cent of respondents who would slightly or significantly increase their capital expenditures. Only 14 per cent would decrease capital expenditures slightly or significantly, down one percentage point over the same period.

Outlook on recruitment plans

Three-quarters of Canadian SMEs, the bulk of whom (80 per cent) employ no more than ten employees, foresee their hiring plans to remain unchanged in the coming six months. A slight bump from 22 to 25 per cent of respondents plan to increase staff in the next six months, while the number planning to reduce staff dipped from 4 to 3 per cent.

Barriers to doing business internationally

The chief barrier to doing business internationally was identified by 33 per cent of Canadian respondents as the risk of doing business in foreign currencies, followed by local regulations and complexities (28 per cent), complexity of certain international markets (18 per cent), solvency or reliability of overseas suppliers (18 per cent), and sovereign risk (16 per cent).

Mr. Barrieras said: “While the emerging markets remain the most confident, it is interesting to note the significant increase in confidence levels amongst the developed markets, especially the United States. It is encouraging to see that despite global economic uncertainty, small businesses around the world remain confident and continue to invest and recruit. With our international footprint and local expertise, HSBC continues to provide small businesses with an ideal platform to grow and look for new business opportunities.”

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About the survey

The semi-annual HSBC Small Business Confidence Monitor, gauges the six-month outlook of SMEs on local economic growth, capital investment plans and recruitment. This edition of the survey captures the views of 6,346 SMEs across 21 markets in Asia, the Middle East, Europe, North America and Latin America – the largest international survey of its kind. The survey was conducted in May and June 2010, with a sampling error of +/- 5.7 per cent, at a 95 per cent confidence interval.

About HSBC Bank Canada

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 260 offices, including over 140 bank branches, and is the leading international bank and trade finance bank in Canada. HSBC was rated the top bank for small businesses (5-49 employees) in a recent survey conducted by the Canadian Federation of Independent Business. With around 8,000 offices in 88 countries and territories and assets of US\$2,418 billion at 30 June 2010, the HSBC Group is one of the world's largest banking and financial services organizations.

Canadian companies currently or considering doing business internationally are invited to visit and join **BUSINESS without BORDERS** (www.bwob.ca), a unique program designed to deliver expertise and thought-provoking advice to Canadian business decision-makers looking to help their organizations grow internationally. **BUSINESS without BORDERS** was recently launched by HSBC Bank Canada, in partnership with The Globe and Mail and Rogers Publishing Limited.

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