



Business Outlook Survey

Conducted by the Bank's Regional Offices

Results of the Spring 2012 Survey | Vol. 9.1 9 April 2012

Overview

- The results of the spring survey point to more optimism among firms than in the winter survey, as some of the uncertainty dampening the economic outlook has dissipated.
- The view that sales growth will be higher over the next 12 months is considerably more widespread, as reflected in a sharp rise in the balance of opinion on future sales. Intentions to increase investment and employment remain firmly positive. Many businesses report that their investment spending continues to be focused on reducing costs or raising productivity.
- Capacity pressures have eased modestly. The balance of opinion on input prices is just slightly positive, and firms expect output prices to increase at about the same rate as over the past 12 months. Inflation expectations remain concentrated within the Bank's inflation-control range, but have moved up in line with higher oil prices.
- On balance, firms reported an easing in credit conditions over the past three months.

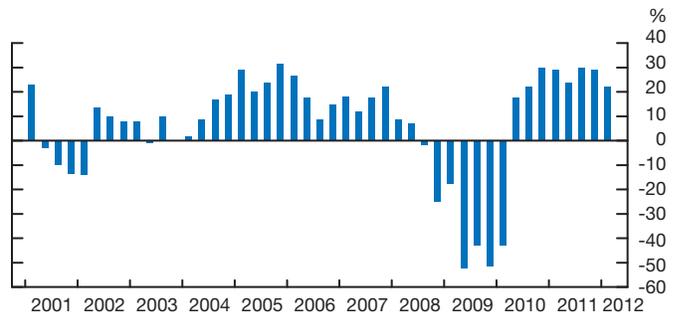
Business Activity

Firms reported an improvement in sales growth over the past 12 months (**Chart 1**), although the balance of opinion on past sales has moderated somewhat from recent high levels. The balance of opinion on future sales growth has risen sharply (**Chart 2**), reflecting a more widespread view that sales will increase at a greater rate over the next 12 months than over the past 12 months. With modestly improved expectations for

Chart 1: The balance of opinion on past sales growth eased but remains positive ...

Balance of opinion*

Over the past 12 months, did your firm's sales volume increase at a greater, lesser or the same rate as over the previous 12 months?



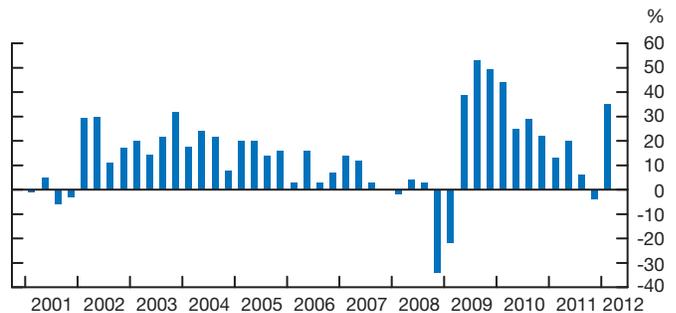
Greater: 50% Same: 22% Lesser: 28%

* Percentage of firms reporting faster growth minus percentage reporting slower growth

Chart 2: ... and expectations for future sales are more optimistic

Balance of opinion*

Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 58% Same: 19% Lesser: 23%

* Percentage of firms expecting faster growth minus percentage expecting slower growth

The *Business Outlook Survey* summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Additional information on the survey and its content is available on the Bank of Canada's website. The spring 2012 survey was conducted from 21 February to 15 March 2012. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

near-term U.S. economic growth and fewer concerns about the global economic and financial situation, some of the dampening effects on sales expectations have subsided, and more firms report that recent indicators of future sales activity, such as order books and new contracts, have improved compared with a year ago. The strength of commodity prices and the resulting spillover effects on domestic activity, along with some firms' efforts to reposition themselves to gain market share in highly competitive markets, are also supporting expectations for higher sales growth over the next 12 months.

The balance of opinion on investment in machinery and equipment—which had shown resilience to a more uncertain environment in the previous two surveys—remains solidly positive (**Chart 3**). This indicator continues to point to an increase in investment over the next 12 months. Many firms reported that their investment spending remains focused on ways to reduce costs and raise productivity.

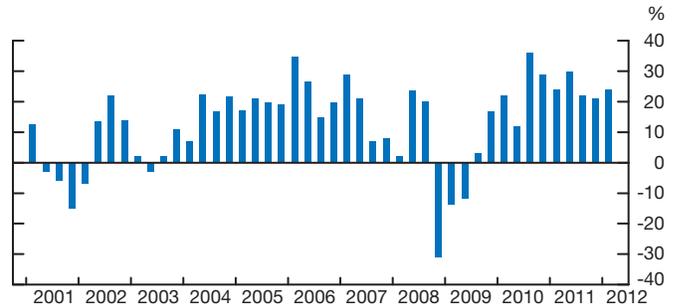
The balance of opinion on employment is essentially unchanged and indicates that firms plan to raise employment over the next 12 months (**Chart 4**). Most firms expecting to expand their workforces cited the need to support current or expected sales growth, which, in some cases, was related to strategies to increase market share.

Pressures on Production Capacity

The percentage of firms reporting that they would have some or significant difficulty meeting an unexpected increase in demand declined modestly in the spring survey (**Chart 5**). Some firms, notably those in the services sector, reported that they could accommodate higher demand because of earlier investments to expand capacity or because they have flexibility in adjusting the scale of their operations.

Chart 3: Firms intend to increase investment ...

Balance of opinion*
Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower or the same as over the past 12 months?

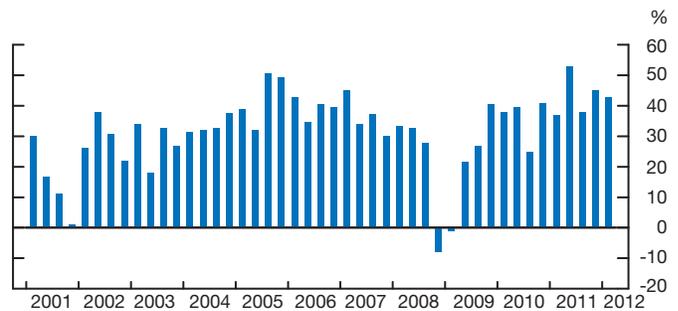


Higher: 46% Same: 31% Lower: 22% No response: 1%

* Percentage of firms expecting higher investment minus the percentage expecting lower investment

Chart 4: ... and they also plan to raise employment

Balance of opinion*
Over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the past 12 months?

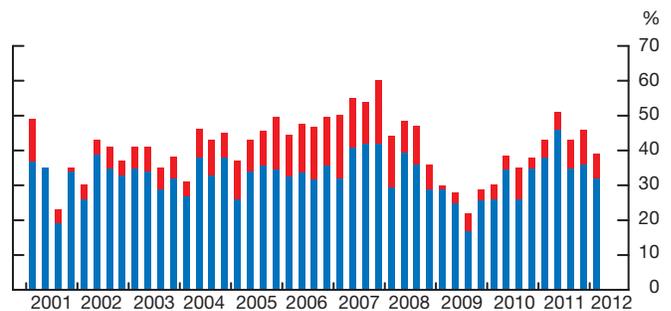


Higher: 55% Same: 33% Lower: 12%

* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Chart 5: Capacity pressures eased somewhat ...

How would you rate the current ability of your firm to meet an unexpected increase in demand?

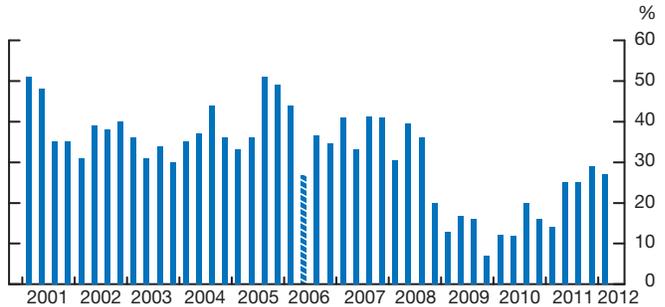


Significant difficulty: 7% Some difficulty: 32%

The percentage of firms reporting that labour shortages are currently restricting their ability to meet demand is largely unchanged from the winter survey and remains below the survey average (Chart 6).

Chart 6: ... while labour shortages are essentially unchanged

Does your firm face any shortages of labour that restrict your ability to meet demand?



Yes: 27%

The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

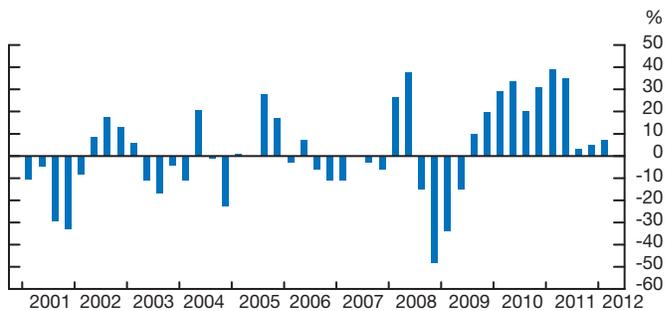
Prices and Inflation

The balance of opinion on input prices is slightly positive, although not notably above its level in the previous survey (Chart 7). Firms expecting input prices to increase at a greater rate over the next 12 months often cited higher prices for oil or related products as the main reason for this view. Competition among suppliers was among the factors expected to moderate increases in input prices. Overall, a large majority of firms reported that they expect input prices to increase at about the same rate as over the past 12 months.

Chart 7: The balance of opinion on input prices is slightly positive

Balance of opinion*

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 23% Same: 61% Lesser: 16%

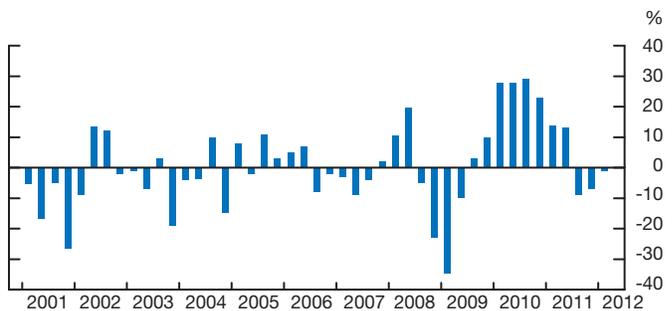
* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

On balance, firms expect output prices to increase at about the same rate over the next 12 months as they did over the past 12 months (Chart 8). Many businesses continue to identify competitive pressures as a factor restraining increases in output prices.

Chart 8: Firms expect output prices to increase at about the same rate

Balance of opinion*

Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser or the same rate as over the past 12 months?



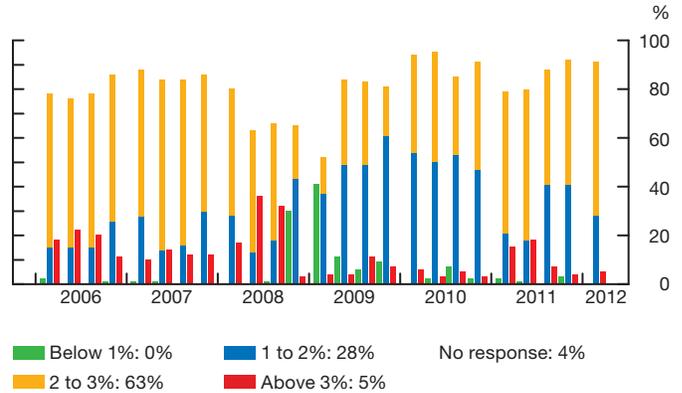
Greater: 31% Same: 37% Lesser: 32%

* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

The vast majority of firms continue to expect CPI inflation to be within the Bank's inflation-control range of 1 to 3 per cent over the next two years (Chart 9). Nevertheless, more firms expect inflation to be in the upper half of this range, often citing the recent strength in oil prices as a factor driving their expectations.

Chart 9: Inflation expectations are concentrated within the Bank's inflation-control range

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?

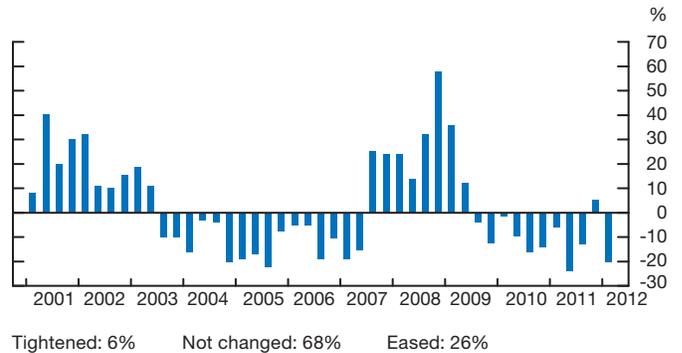


Credit Conditions

The balance of opinion on credit conditions (Chart 10) is negative, pointing to an easing over the past three months. The easing in credit conditions was broadly based across most regions, sectors, firm sizes and sources of financing.

Chart 10: Firms report an easing in credit conditions

Balance of opinion*
Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



* Percentage of firms reporting tightened minus percentage reporting eased.
For this question, the balance of opinion excludes firms that responded "not applicable."

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