



# Business Outlook Survey

Conducted by the Bank's Regional Offices | Results of the Autumn 2013 Survey | Vol. 10.3 | 11 October 2013

## Overview

- Weak demand and uncertainty regarding future demand continue to weigh on firms' investment decisions and near-term capacity planning, according to responses to the autumn survey.
- Businesses reported slower or negative sales growth over the past 12 months. The indicator of future sales has moved up, as firms are generally of the view that sales growth will not deteriorate further over the next 12 months or will modestly improve, yet plans to increase investment and employment have not become more widespread.
- While waiting for evidence of a strengthening in demand before expanding capacity, firms are relying on existing capacity more intensively over the near term. Firms generally consider overall price pressures to be subdued. Inflation expectations remain concentrated within the Bank's inflation-control range of 1 to 3 per cent, with most firms expecting inflation to be in the bottom half of that range.
- Credit conditions are unchanged.

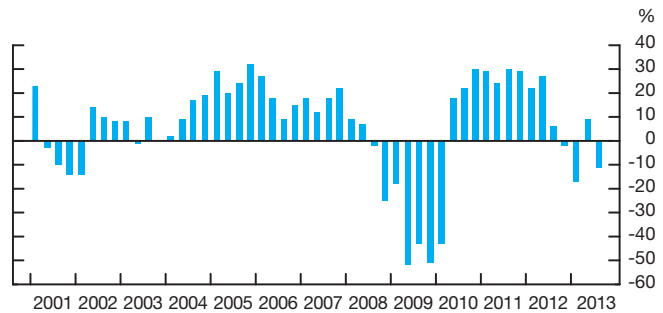
## Business Activity

The balance of opinion on past sales is negative (Chart 1), as firms reported a slowing in sales growth over the past 12 months and many experienced negative sales growth. The balance of opinion on future sales growth has moved up (Chart 2), reflecting expectations that sales growth will not deteriorate further over the next 12 months or will modestly improve. Firms continue to expect that gradually recovering U.S. demand will

**Chart 1: Firms report that sales growth deteriorated over the past 12 months...**

Balance of opinion<sup>a</sup>

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?



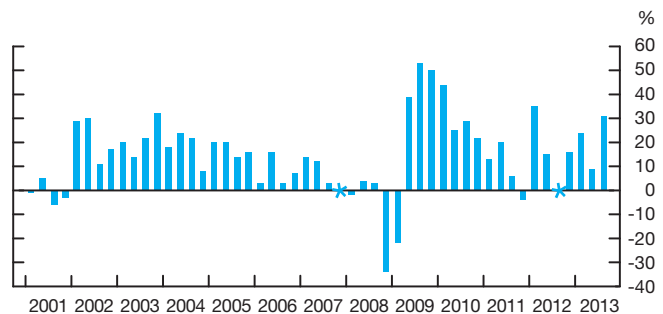
Greater: 33% Same: 24% Lesser: 44%

a. Percentage of firms reporting faster growth minus the percentage reporting slower growth

**Chart 2: ...and, while they expect sales growth to improve modestly over the next 12 months, concerns about demand persist**

Balance of opinion<sup>a</sup>

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: 52% Same: 26% Lesser: 22%

a. Percentage of firms expecting faster growth minus the percentage expecting slower growth

\* Indicates a balance of opinion of zero

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 Autumn 2013 survey was conducted from 26 August to 19 September 2013. 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.

support sales prospects, but they anticipate that any benefits over the next 12 months will be limited, given expectations that growth in U.S. economic activity will remain slow and competitive conditions in the U.S. market will remain intense. Firms cited concerns about persistent weakness in domestic demand as a key factor restraining sales expectations over the next 12 months.

The balance of opinion on investment in machinery and equipment remains positive, albeit modestly so (Chart 3). Many firms continue to report that uncertainty is affecting investment decisions, notably by leading them to postpone some projects, or to shift their focus toward initiatives that involve less risk or smaller outlays—such as repairing and replacing existing equipment—or that target new or different segments of demand.

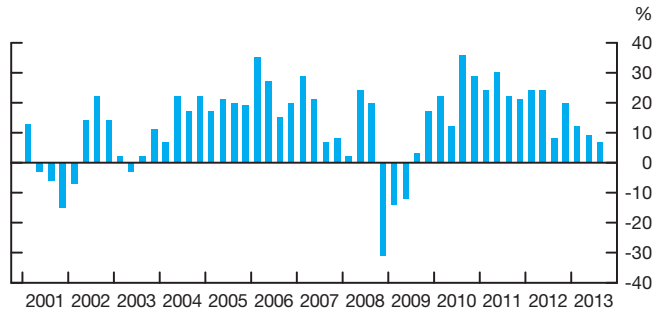
The balance of opinion on employment intentions edged down in the autumn survey (Chart 4). Firms intending to increase employment frequently cited plans for specific additions to their workforces in terms of certain skills or positions to meet operational needs.

## Pressures on Production Capacity

The indicator of capacity pressures rose in the autumn survey, with more firms reporting that they would face “some” difficulty in meeting an unexpected increase in demand (Chart 5). A number of firms noted that they are aligning operating capacity with weak market conditions over the near term and are waiting for signs of a strengthening in demand before expanding capacity. While more businesses would face some difficulty or additional costs in the event of an unexpected increase in demand, very few anticipate any “significant” difficulties.

### Chart 3: The balance of opinion on investment is modestly positive

Balance of opinion<sup>a</sup>  
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?

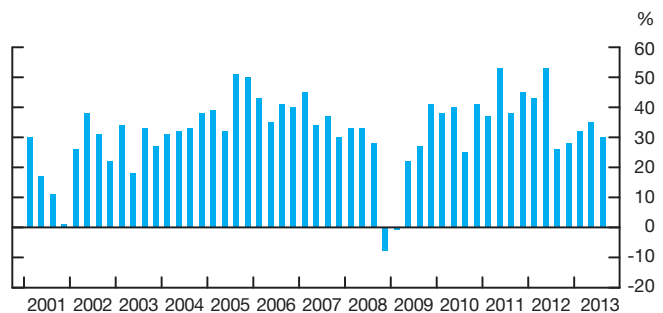


Higher: 34% Same: 40% Lower: 27%

a. Percentage of firms expecting higher investment minus the percentage expecting lower investment

### Chart 4: Employment intentions have eased

Balance of opinion<sup>a</sup>  
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?

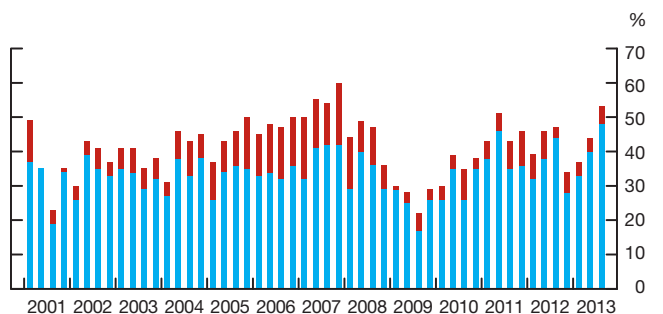


Higher: 43% Same: 45% Lower: 13%

a. Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

### Chart 5: Capacity pressures rose as firms are using existing capacity more intensively in the near term

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



Significant difficulty: 5% Some difficulty: 48%

The percentage of firms reporting that labour shortages are restricting their ability to meet demand has moved up, after edging down in recent surveys (Chart 6). As firms adjust their operations to current needs, more reported having difficulty filling specific positions or finding workers with specific skills. In general, firms do not consider the intensity of labour shortages to be very different from 12 months ago.

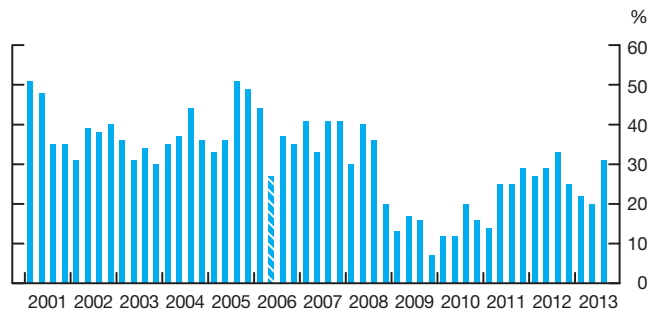
## Prices and Inflation

The balance of opinion on input prices is slightly positive (Chart 7), but remains close to the low levels seen over the past eight surveys. A majority of firms expect input price inflation to be about the same as over the past 12 months.

The balance of opinion on output prices is also positive (Chart 8). In a number of cases, this reflects expectations that output prices will be stable or will rise slightly, following a period of price declines. Some businesses in the goods sector anticipate a firming in their prices linked in part to the additional short-term costs associated with drawing more heavily on existing capacity to meet fluctuations in demand. Nonetheless, overall, tepid growth in demand and stiff competition continue to exert downward pressure on output prices.

**Chart 6: More firms report having difficulty filling specific positions**

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



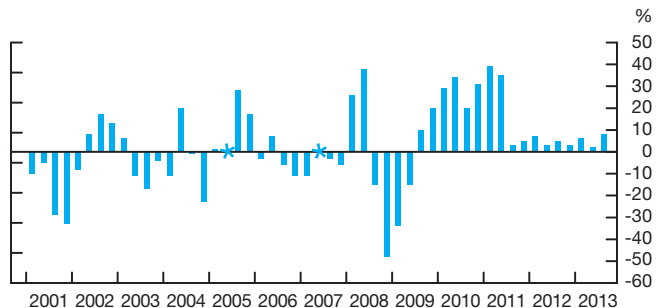
Yes: 31%

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.

**Chart 7: A majority of firms expect input price inflation to remain about the same...**

Balance of opinion<sup>a</sup>

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: 62% Lesser: 15%

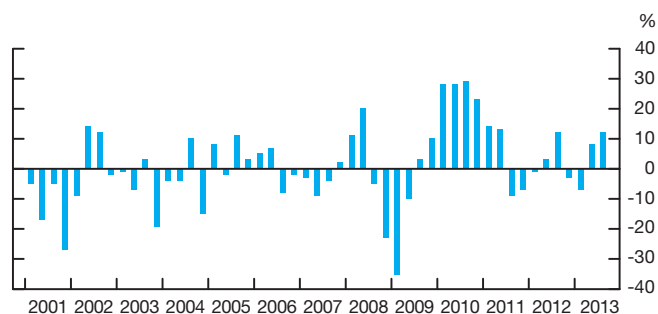
a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

\* Indicates a balance of opinion of zero

**Chart 8: ...and output prices to increase at a greater rate, but against a backdrop of weak demand and competitive pressures**

Balance of opinion<sup>a</sup>

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: 30% Same: 52% Lesser: 18%

a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

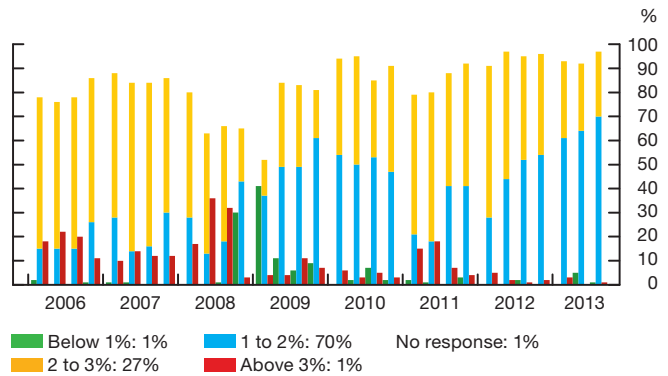
Inflation expectations are little changed. While almost all firms expect CPI inflation to be within the Bank's 1 to 3 per cent inflation-control range over the next two years, the majority expect it to remain in the bottom half of that range (Chart 9). As in the summer survey, a number of firms cited the current lack of inflationary pressures and subdued demand as factors driving their expectations.

## Credit Conditions

The balance of opinion on credit conditions is zero, indicating no change over the past three months (Chart 10). Most firms report that credit is currently easy or relatively easy to access, although a small number report firm-specific difficulties.

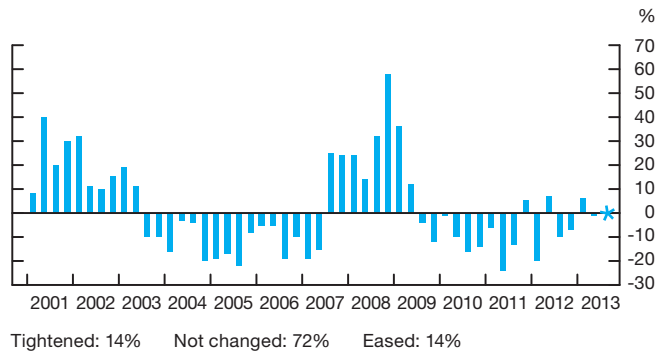
**Chart 9: Inflation expectations remain subdued and concentrated within the Bank's inflation-control range**

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



**Chart 10: Firms report no change in credit conditions over the past three months**

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



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

\* Indicates a balance of opinion of zero

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