Overview

- Businesses’ expectations for the pace of economic activity over the next 12 months remain positive, although somewhat less so than in the winter survey.

Business activity

- Businesses expect the volume of sales to grow more strongly over the next 12 months than in the previous 12 months, owing primarily to vigorous growth in the United States and low interest rates.

- Businesses see the risks to future sales growth as relating mainly to the ongoing adjustment to the rapid appreciation of the Canadian dollar in 2003, including potential second-round effects.

- Business investment intentions are still slightly positive. However, for those firms negatively affected by the exchange rate, intentions are weaker than in the previous survey.

- Employment intentions are positive across most industries.

- Businesses report little pressure on production capacity. Labour shortages remain essentially unchanged and are not widespread.

Prices and wages

- Over the next 12 months, input prices are expected to increase more slowly, reflecting the lower cost of imports because of the appreciation of the dollar and a moderation in the costs of energy and insurance. Wage increases are expected to be moderate.

- Output prices are expected to increase at roughly the same rate over the next 12 months as in the past 12-month period. This pricing outlook, which is somewhat firmer than that of the previous survey, partly reflects expectations that the Canadian dollar will be more stable in the next 12 months.

- Inflation expectations are well within the Bank’s inflation-control target range of 1 to 3 per cent.
Almost half of the firms surveyed are expecting stronger growth in sales over the next 12 months. Factors cited include a strong U.S. economy and lower interest rates. Potential risks stem from the continuing adjustment to a higher Canadian dollar.

Investment intentions for expenditures on machinery and equipment remain somewhat positive. Reflecting advances in the prices of non-agricultural commodities, firms in the primary sector are the most optimistic about their spending intentions. Intentions are more restrained among firms that are negatively affected by the past appreciation of the Canadian dollar or concerned about the sustainability of the U.S. recovery. Others have lowered their investment intentions because of significant investments made last year.

Employment intentions remain positive and, indeed, have strengthened slightly, but during the interviews many firms noted that they are expecting only minor increases. Employment intentions are strongest in the wholesale and retail trade sectors. The outlook is weakest in the manufacturing sector, particularly for firms adversely affected by the appreciation of the Canadian dollar.

The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between +100 and -100. A strong positive balance of opinion suggests an acceleration in the trend growth rate over the previous period.
Nearly 70 per cent of firms reported that they would have no difficulty meeting an unexpected increase in demand. Excess capacity is most pronounced in central Canada and in the manufacturing sector. For the companies that are experiencing constraints, the constraint is most often labour, although some firms are pushing against production capacity limits. Capacity constraints are most acute in the transportation and construction sectors.

The percentage of firms facing labour shortages remains basically unchanged. Shortages were most often mentioned in the trades and in specialized professions, including accounting, engineering, and financial planning.
Outlook for Prices and Inflation

The rate of increase in input prices is still expected to slow. Factors contributing to this include the appreciation of the Canadian dollar, sourcing from abroad, and slower growth in the costs of fuel and insurance. Some input prices, such as those of various construction materials, steel, and aluminum components, are increasing more rapidly, the latter two reflecting the impact of Chinese demand on world commodity prices.

Over the next 12 months, output prices are expected to increase at about the same rate. Firms expecting a smaller increase in output prices tend to be those passing on lower input costs resulting from the high Canadian dollar and those facing strong domestic competition. Firms expecting higher output prices are passing on increased costs for materials.

Inflation expectations are centred around the 2 per cent target and are well within the Bank’s inflation-control target range of 1 to 3 per cent.