



BANK OF CANADA

BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices

Results of the Summer 2004 Survey

Overview

- Businesses are somewhat more optimistic about the outlook than they were in the spring, reflecting increased confidence about the robustness of the global economic recovery.
- Compared with the spring survey, businesses expect input prices to rise at a faster rate over the next 12 months. Pressures on production capacity have also increased. Nevertheless, output prices are expected to rise at the same rate as over the past 12 months.

Business activity

- Businesses remain generally optimistic about future sales volumes. This outlook is based largely on favourable economic prospects both domestically and abroad.
- Reflecting their increased level of comfort regarding the outlook, businesses have raised their investment intentions significantly. As well, businesses report that pressures on production capacity have intensified. Labour shortages, however, are largely unchanged and remain relatively moderate.

- Employment intentions remain positive, although many firms expect only modest employment growth.

Prices and wages

- Over the next 12 months, input prices are expected to rise more rapidly, reflecting recent higher prices for energy and other commodities.
- Businesses expect to be granting larger wage increases, but the size of these increases will, for the most part, remain modest.
- These pressures notwithstanding, firms expect to increase output prices at the same pace as in the past 12 months. This reflects the continued strong competition reported in many sectors.
- Inflation expectations have moved up since the spring survey, primarily reflecting recent increases in energy prices. Still, the majority of firms surveyed expect inflation to be within the Bank's inflation-control target range of 1 to 3 per cent.

This document summarizes interviews conducted by the Bank's regional offices with the senior management of 103 firms. Firms are selected based on the composition of Canada's gross domestic product. Surveys are designed to identify the underlying trends in the economy but are subject to the limitations of sample size and should be interpreted with caution. Details of the survey and its information content are discussed in the article, "The Bank of Canada's Business Outlook Survey," published in the Spring 2004 issue of the Bank of Canada Review. The summer 2004 survey was conducted from 20 May to 15 June.

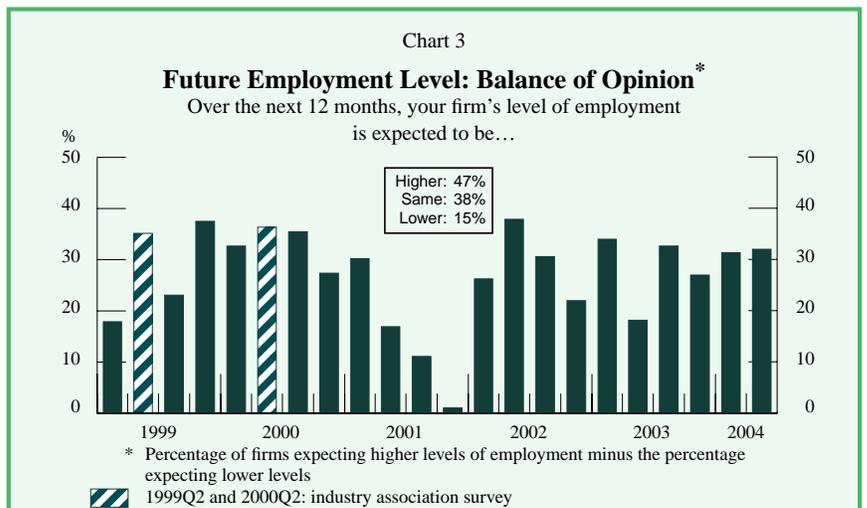
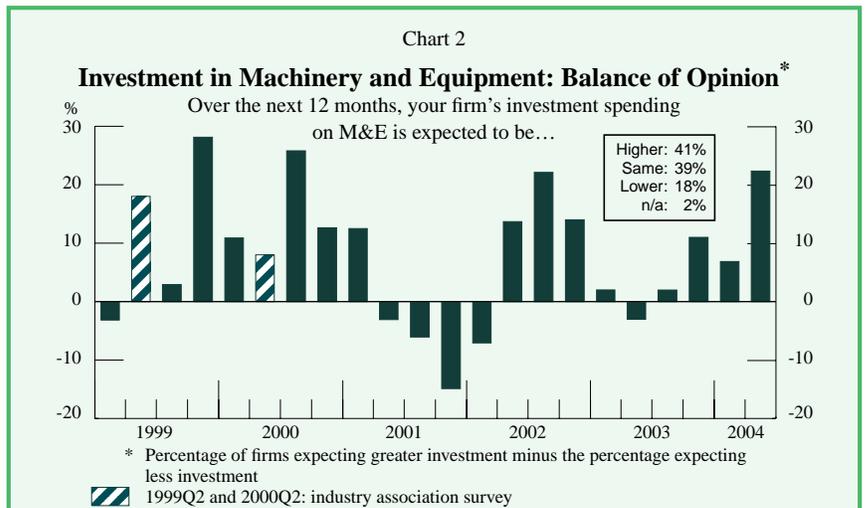
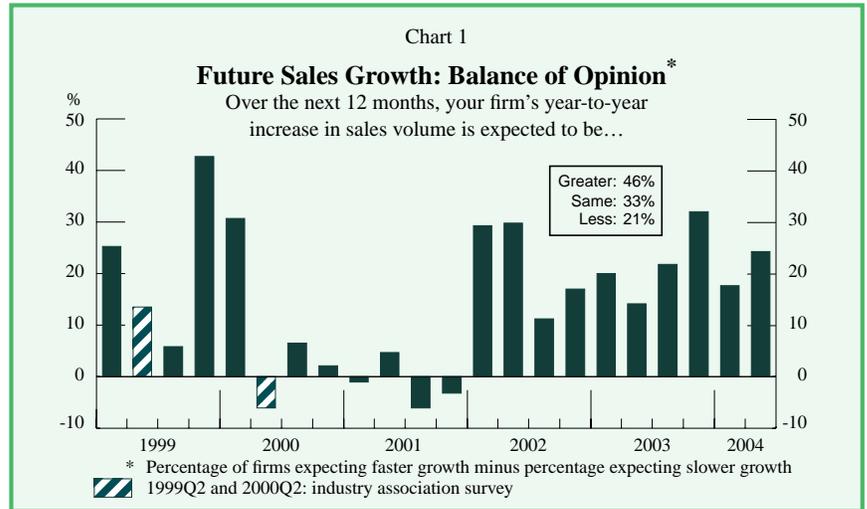
Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)

Outlook for Business Activity

Based on favourable economic prospects for Canada and abroad, businesses are generally optimistic about expected sales volumes over the next 12 months. Robust demand is expected to more than offset the continued adverse effects of the past appreciation of the Canadian dollar.

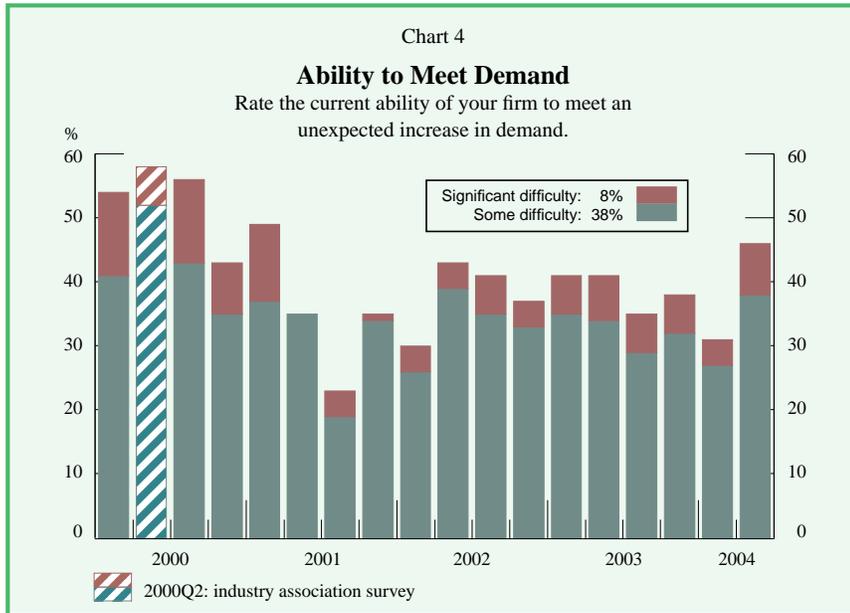
Investment intentions for expenditures on machinery and equipment have improved markedly since the spring survey. This seems to reflect reduced uncertainty about the outlook, brighter sales prospects, and improved profits and balance sheets. In addition, some firms are operating close to their production capacity.

Employment intentions remain positive. Many companies, however, expect only small increases in employment.

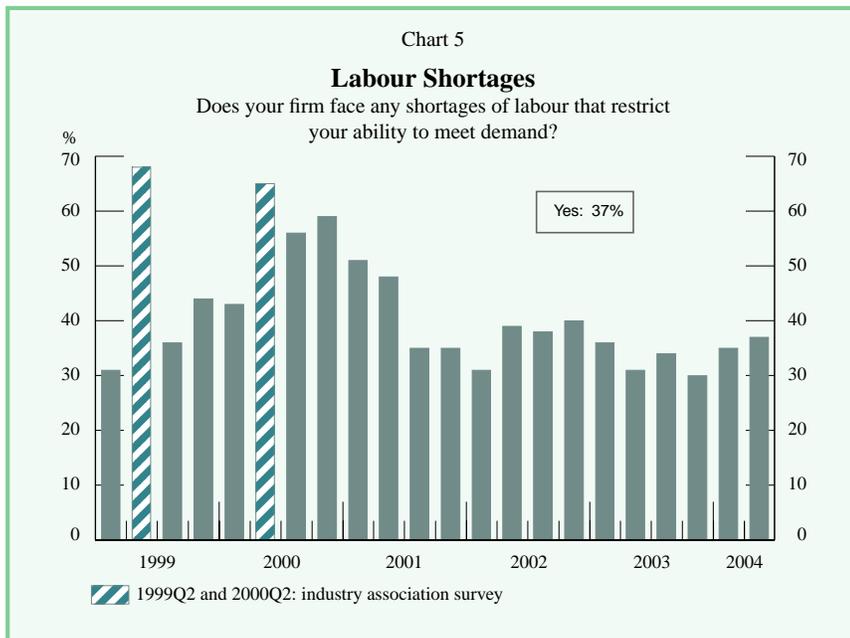


The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between +100 and -100. A strong positive balance of opinion suggests an acceleration in the trend growth rate over the previous period. Note: Survey respondents do not necessarily answer all questions. Percentages therefore will not always add to 100.

Pressures on Production Capacity



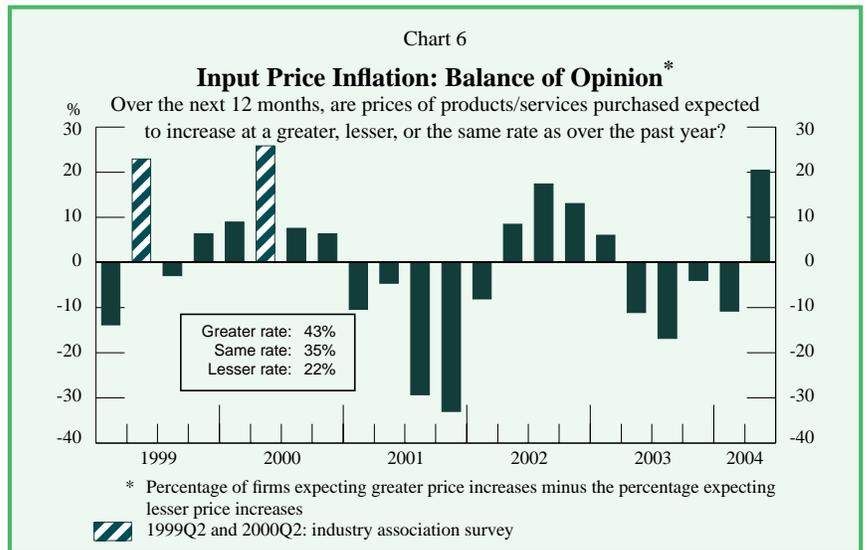
More firms reported that they would have difficulty meeting an unexpected rise in demand, suggesting increased pressure on capacity. This result, however, was not found in Ontario, where there is still evidence of unused capacity. Capacity constraints are most prevalent in the construction and transportation sectors, as was the case in the spring.



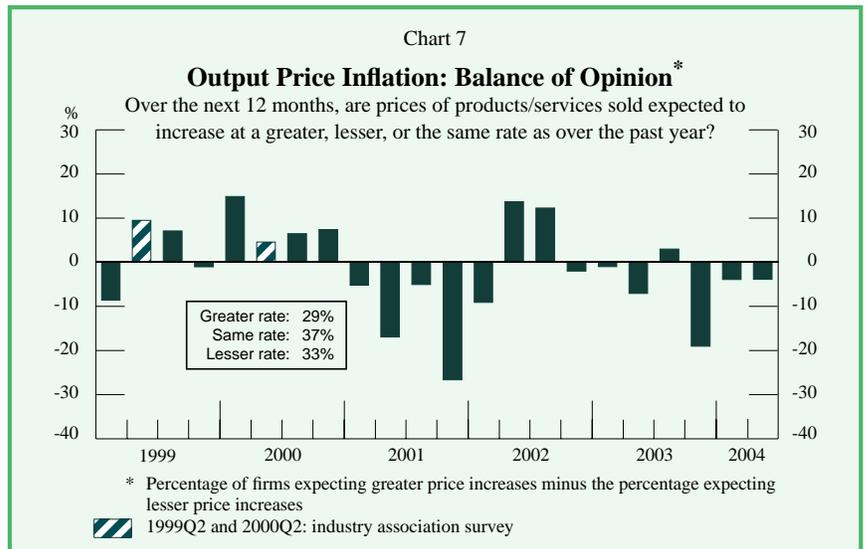
The percentage of firms facing labour shortages is largely unchanged from the previous survey. Shortages were most often mentioned in the service and construction sectors.

Outlook for Prices and Inflation

Input prices are expected to rise more rapidly over the next 12 months, reflecting the anticipated feeding through of recent increases in the prices of energy, steel, lumber, and other commodities. Businesses also seem more uncertain than usual about future movements in commodity prices.



Over the next 12 months, businesses expect output prices to continue to rise at about the same rate, in spite of increased pressures on costs. This is mainly attributed to the competitive environment.



Inflation expectations have risen since the last survey, reflecting recent increases in energy prices. Of the firms expecting total CPI inflation to be within the Bank's inflation-control target range of 1 to 3 per cent, over two-thirds think it will be in the upper part of the range. A greater number of companies expect total CPI inflation to be above the upper limit of the range than in the spring survey.

