



BANK OF CANADA

BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices

Results of the Autumn 2005 Survey

Overview

- Firms overall remain positive about the economic outlook.
- Indicators continue to be stronger in Western Canada than in the rest of the country. These regional differences have become more pronounced for most indicators since the last survey.

Business Activity

- Businesses continue to anticipate stronger sales growth, although the balance of opinion has moderated somewhat from that in the two previous surveys.
- Firms' investment intentions continue to be strong across all regions and most sectors.
- Pressures on capacity are similar to the high levels observed through most of 2004. At the same time, labour shortages have risen significantly, mainly in Western Canada.
- Consistent with the indicator of labour shortages, businesses have raised their hiring intentions sharply.

Prices and Inflation

- The balance of opinion regarding both input and output price inflation has risen. These indicators have been volatile over the past few surveys, partly reflecting changes in the outlook for energy prices.
- Inflation expectations are up in all regions. More firms in this survey expect inflation to exceed 3 per cent, with many of them likely influenced by the surge in energy prices following Hurricane Katrina.

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. Details of the survey and its 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 autumn 2005 survey was conducted from 22 August to 14 September.

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.

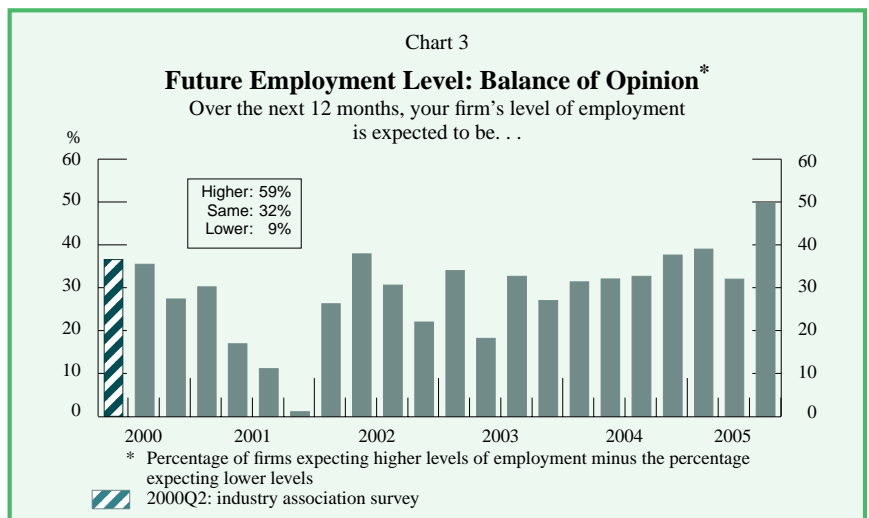
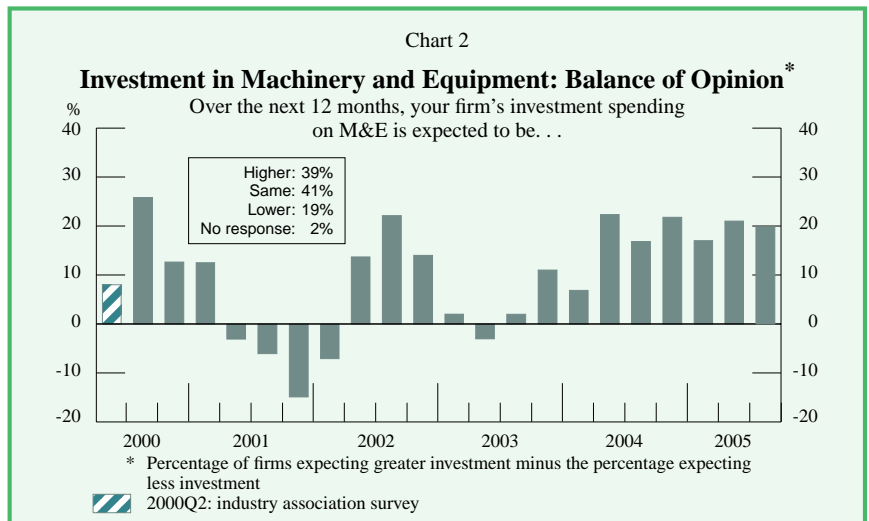
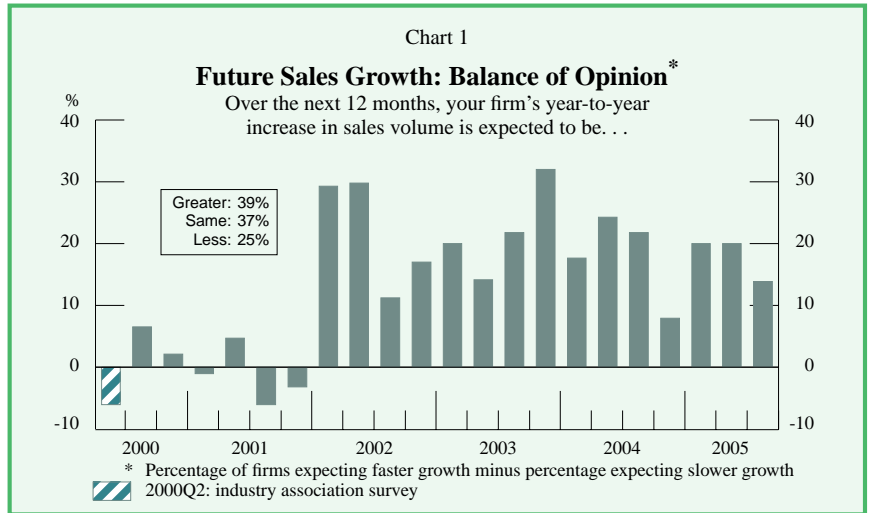
Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)

Outlook for Business Activity

Overall, firms continue to anticipate stronger sales growth over the next year, but the balance of opinion has declined somewhat. Firms in Western Canada are the most optimistic as a result of continuing robust demand for commodities and related products.

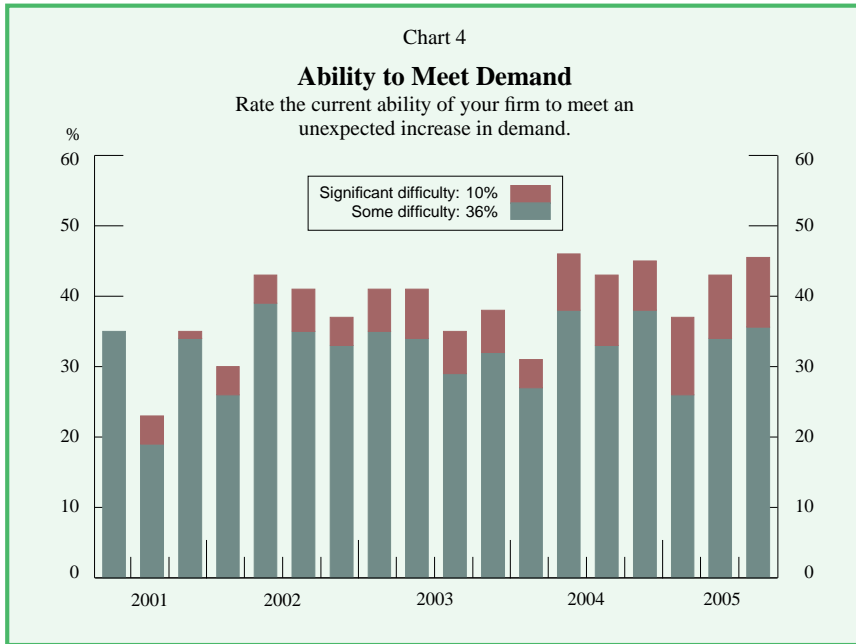
The balance of opinion regarding investment in machinery and equipment remains strong across all regions. Investment intentions are solid in many sectors, including manufacturing, but have fallen in the primary sector after rising steadily over several previous surveys. In general, new investment is aimed at upgrading or replacing equipment and expanding production.

Hiring intentions have strengthened across the country and are particularly robust in Western Canada, where about three-quarters of firms intend to hire more workers. Intentions are driven mainly by the need to alleviate capacity constraints.

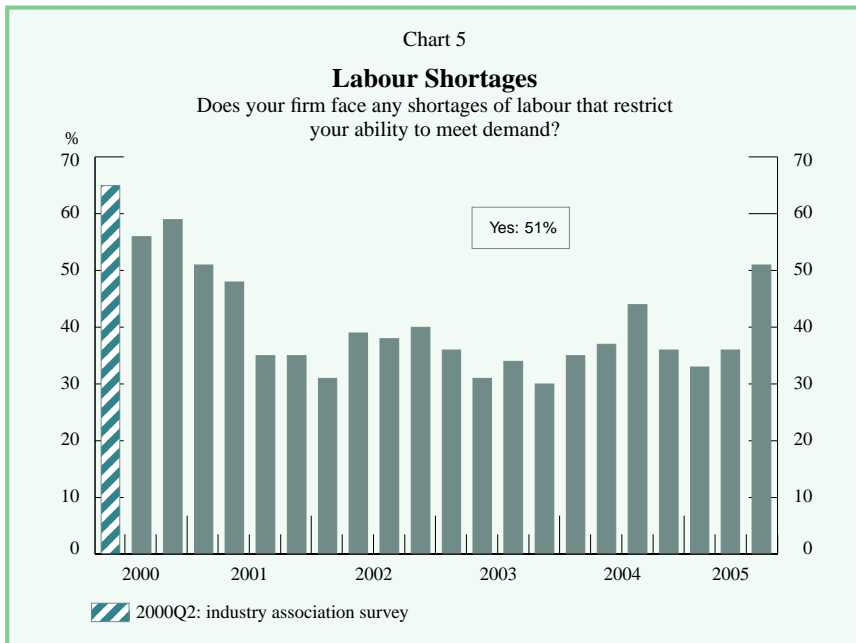


The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between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

Pressures on Production Capacity



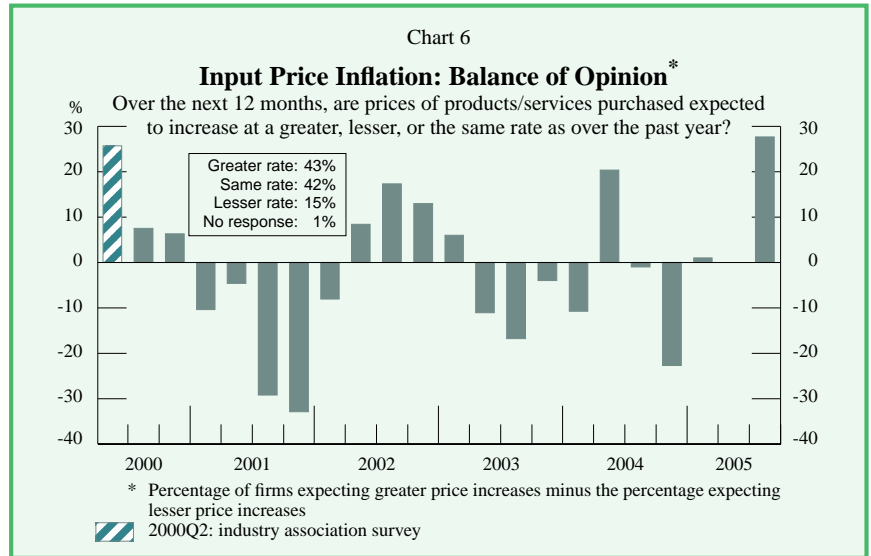
Capacity pressures are similar to the high levels that prevailed through much of 2004. They continue to be stronger in the primary, construction, and transportation sectors. Western Canada remains the region most affected by capacity constraints.



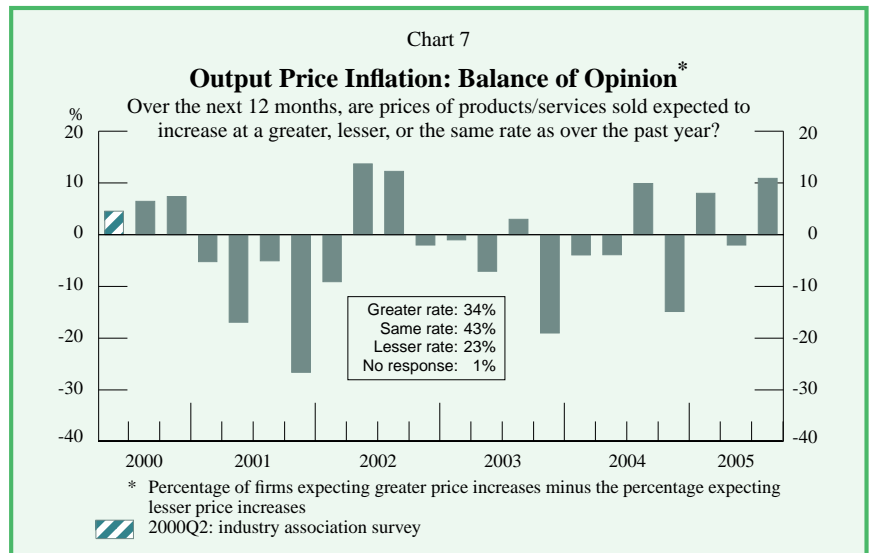
Pressures on production capacity stem mainly from labour constraints. Indeed, the proportion of firms reporting labour shortages that restrict their ability to meet demand has risen substantially.

Outlook for Prices and Inflation

The balance of opinion regarding input price inflation has rebounded in the autumn survey. But this indicator has been volatile over the past several surveys, partly reflecting uncertainty regarding the outlook for energy and other commodity prices.



The balance of opinion regarding output price inflation has also been volatile recently. Uncertainty surrounding the outlook for input and output prices was likely exacerbated during the autumn survey, since many interviews took place when energy prices were reacting to tighter supply in the wake of Hurricane Katrina.



Inflation expectations have risen across all regions. About one-quarter of firms expect inflation to exceed the upper bound of the Bank's inflation-control target range. This result was likely influenced by the surge in energy prices after Hurricane Katrina.

