



BANK OF CANADA

BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices

Results of the Spring 2005 Survey

Overview

- Businesses are more optimistic about the economic outlook than in the winter survey. The greater stability of the Canadian dollar in the three months since the previous survey has helped to ease concerns among exporters. Businesses continue to expect strong domestic sales.
- Indicators of demand continue to be stronger and capacity constraints more evident in Western Canada than in Central and Eastern Canada.

Business Activity

- Businesses report stronger growth of sales during the past year and are more optimistic about future sales growth than in the winter survey.
- Fewer firms report capacity constraints and labour shortages. Nevertheless, certain sectors, as well as certain regions of the country, face significant constraints.
- Investment and hiring intentions remain strong.

Prices and inflation

- On balance, companies expect the prices of their inputs to rise over the next 12 months at a pace similar to that of the past 12 months.
- Firms expect output prices to increase at a more rapid pace over the next 12 months than they did over the previous 12 months.
- The majority of businesses expect inflation to be within the inflation-control target range of 1 to 3 per cent.

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 spring 2005 survey was conducted from 11 February to 10 March.

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.

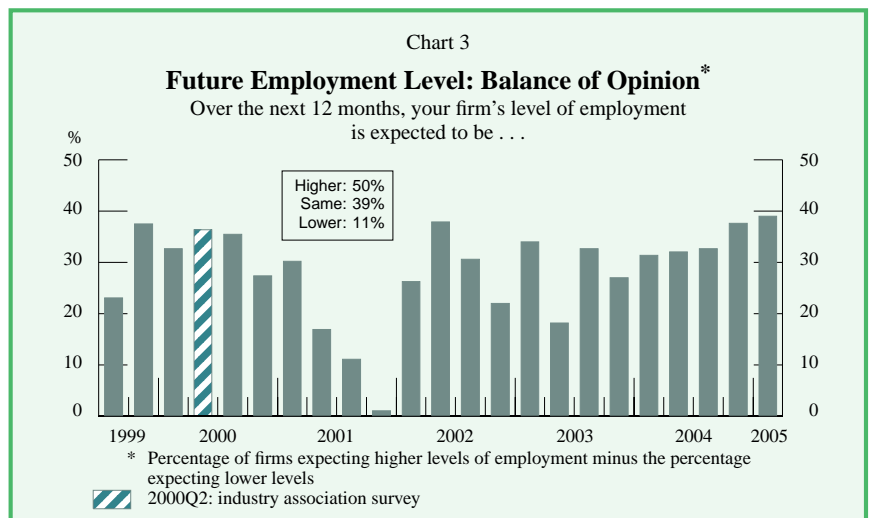
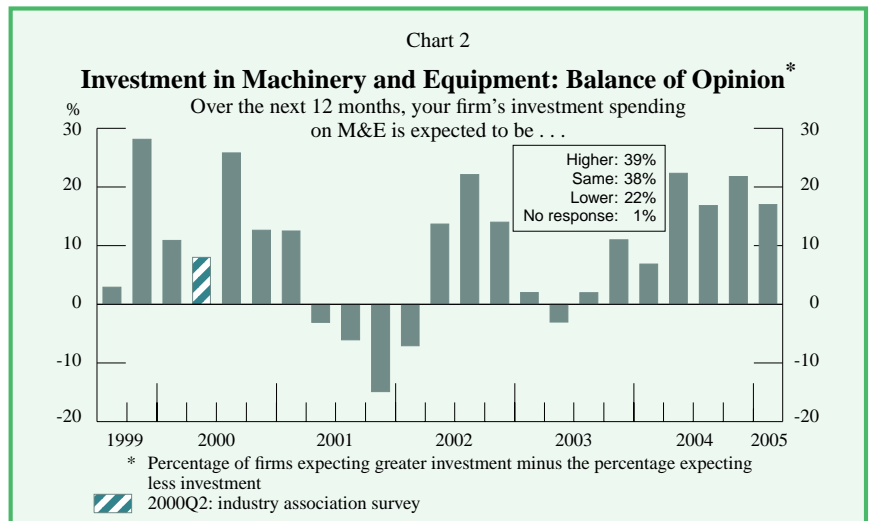
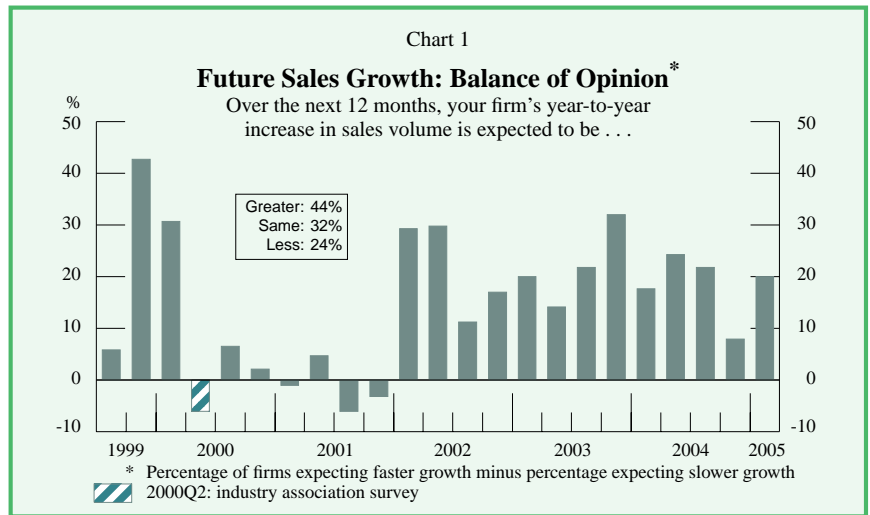
Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)

Outlook for Business Activity

The balance of opinion regarding future sales is positive across most sectors and has improved in the manufacturing sector. Although many firms continue to be adversely affected by the appreciation of the Canadian dollar, exchange rate considerations are less of a concern owing to the greater stability of the dollar in the three months since the winter survey. Firms in Western Canada continue to be more optimistic about sales prospects than those in Central and Eastern Canada.

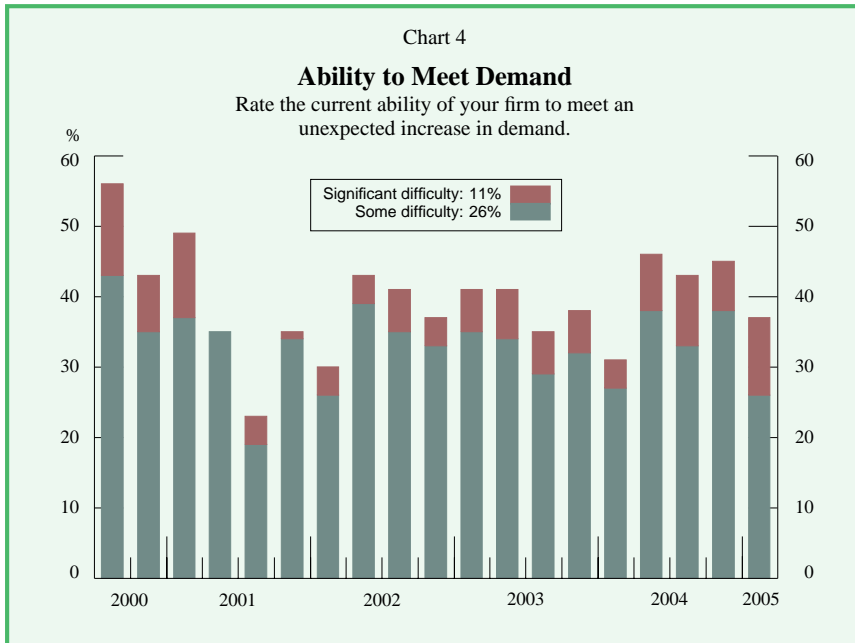
Intentions regarding investment in machinery and equipment remain strong. While expectations of increased investment spending are widespread across the regions, they are concentrated in industries where capacity constraints are most pressing. Manufacturers' intentions have weakened but continue to be focused on productivity-enhancing investments.

The outlook for employment continues to be robust. Hiring intentions are stronger in the services sector than in the goods-producing sector.

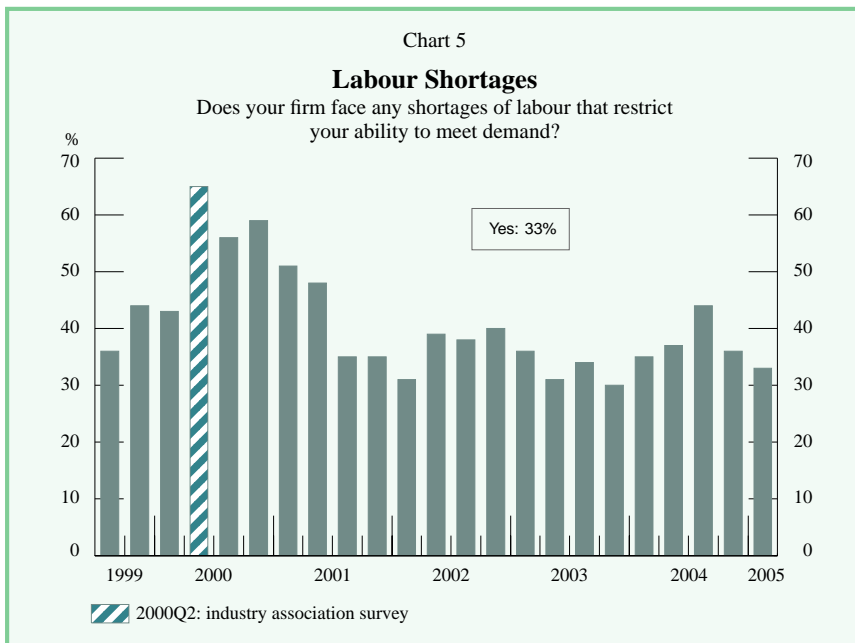


The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between +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



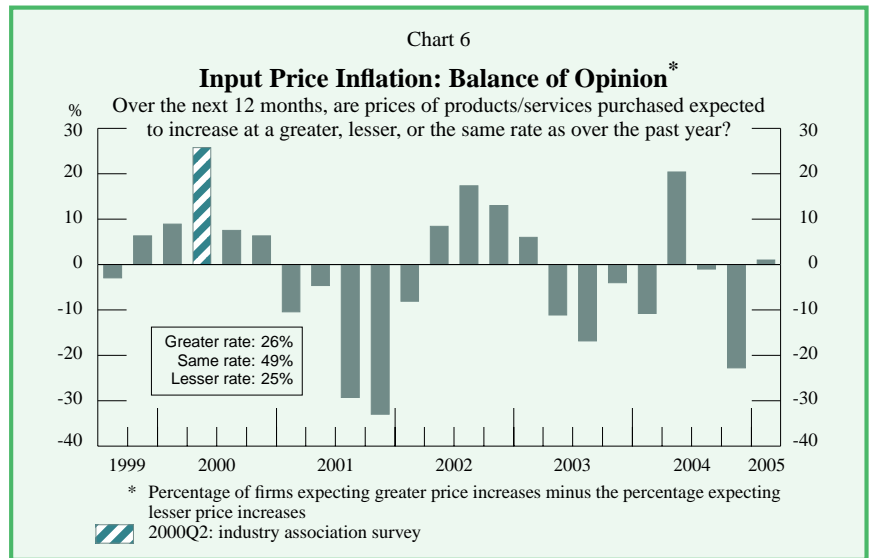
While fewer firms report difficulty meeting an unexpected increase in demand, the number of firms reporting significant difficulty has risen. The sectors most affected by capacity constraints are energy, mining, construction, and transportation.



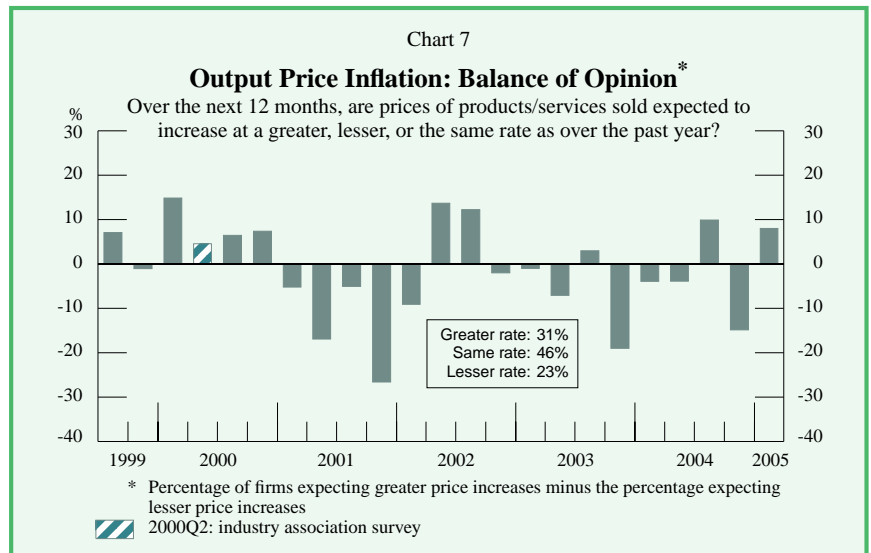
Capacity constraints are most often related to labour shortages. Still, the proportion of firms reporting labour shortages that would restrict their ability to meet demand fell to 33 per cent—a relatively low level.

Outlook for Prices and Inflation

Recent volatility in expectations for input prices reflects uncertainty regarding the outlook for the prices of energy and other raw materials. The balance of opinion is now close to zero, indicating that businesses expect the prices of their inputs to rise at about the same pace as in the previous 12 months.



On balance, firms expect to raise their output prices faster in the next 12 months than in the previous 12 months. In some cases, firms intend to take advantage of improved demand conditions to pass on cost increases.



A larger percentage of firms than in the winter survey (93 per cent) believe that inflation will remain within the inflation-control target range over the next two years. A majority of respondents expect inflation to be in the upper half of the range.

