



BANK OF CANADA

BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices

Results of the Summer 2005 Survey

Overview

- Businesses remain optimistic about the economic outlook. Indeed, the results of this survey are broadly similar to those of the spring 2005 survey.
- Regional differences are still significant, with Western Canada experiencing stronger demand and more evident capacity constraints than the rest of the country.

Business Activity

- Businesses continue to report strong sales momentum and remain optimistic about future sales growth.
- Firms' intentions regarding the level of their investment spending are quite robust, as they have been for the past few surveys.
- Capacity constraints have moved back up to levels similar to those observed in the latter part of 2004.
- Hiring intentions remain positive but have fallen somewhat from the peak reached in the last survey.

Prices and Inflation

- On balance, companies expect the prices of their inputs and outputs to rise over the next 12 months at a similar pace to that of the past 12 months.
- Inflation expectations have moved up but remain well within the inflation-control target range of 1 to 3 per cent.

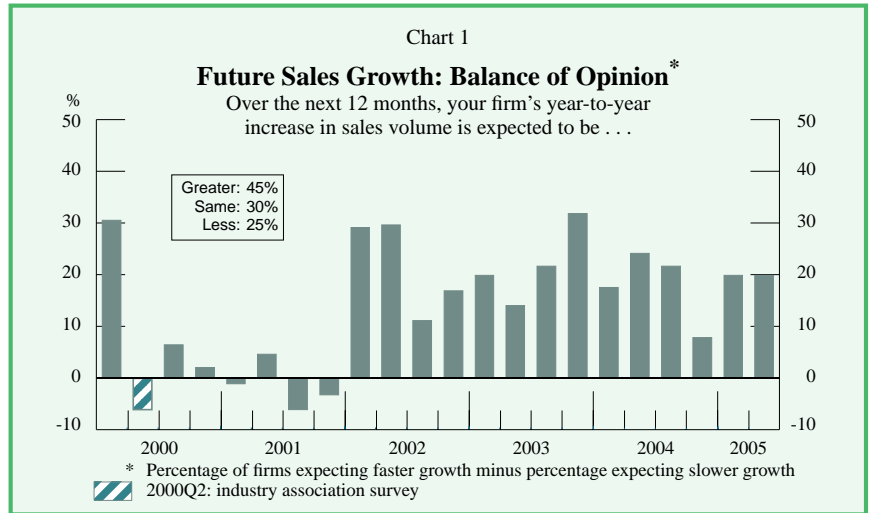
The Business Outlook Survey summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms, selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of 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 summer 2005 survey was conducted from 9 May to 3 June.

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.

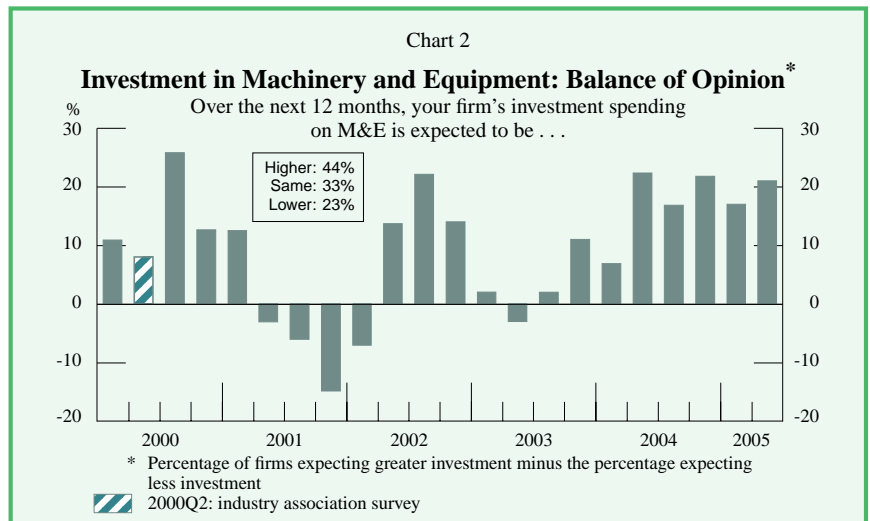
Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)

Outlook for Business Activity

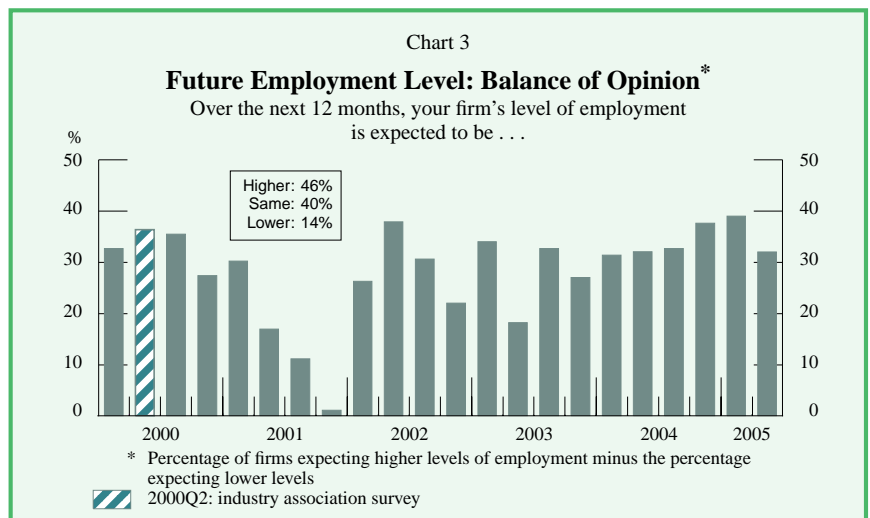
The positive balance of opinion regarding future sales is unchanged from the spring 2005 survey. Firms in Western Canada continue to be more optimistic about sales prospects than those in the rest of the country. Many firms in the resource and services sectors have a positive outlook regarding their future sales prospects.



The balance of opinion regarding investment in machinery and equipment remains strong. Expectations of increased investment spending are positive across many sectors, but continue to be strongest in the primary sector. Investment intentions, in general, are focused in areas where demand is strong and capacity constraints most pressing. In contrast, in the manufacturing sector, investment intentions are comparatively weak and are focused on strengthening productivity.

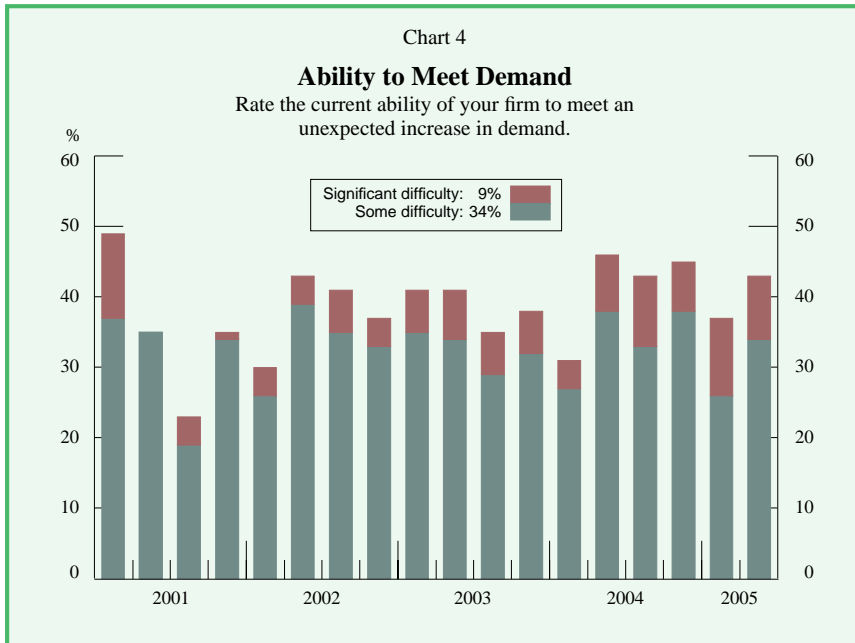


While employment intentions remain positive, they have declined since the last survey. Hiring intentions are strong in the services sector and in commodity-producing industries.

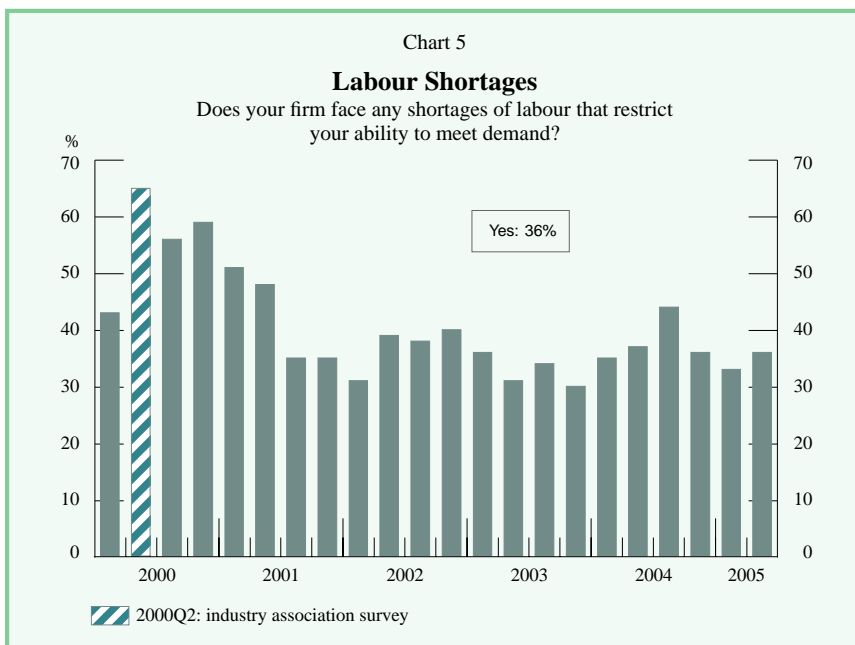


The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between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



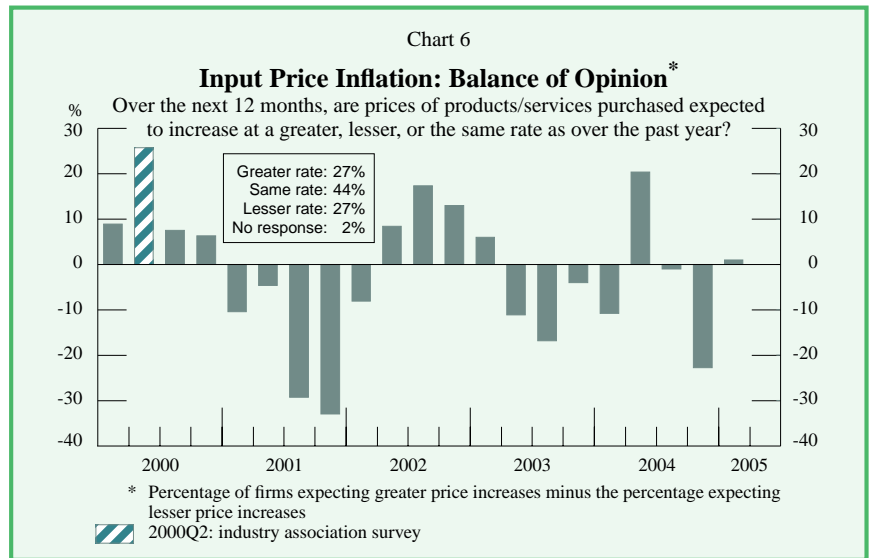
A greater number of firms report that they would have difficulty in meeting an unexpected rise in demand, as the level of capacity constraints has moved back into the range observed in the latter part of 2004. Capacity constraints remain more evident in Western Canada than in the rest of the country. Pressures on production capacity continue to be concentrated in the primary, construction, and transportation sectors.



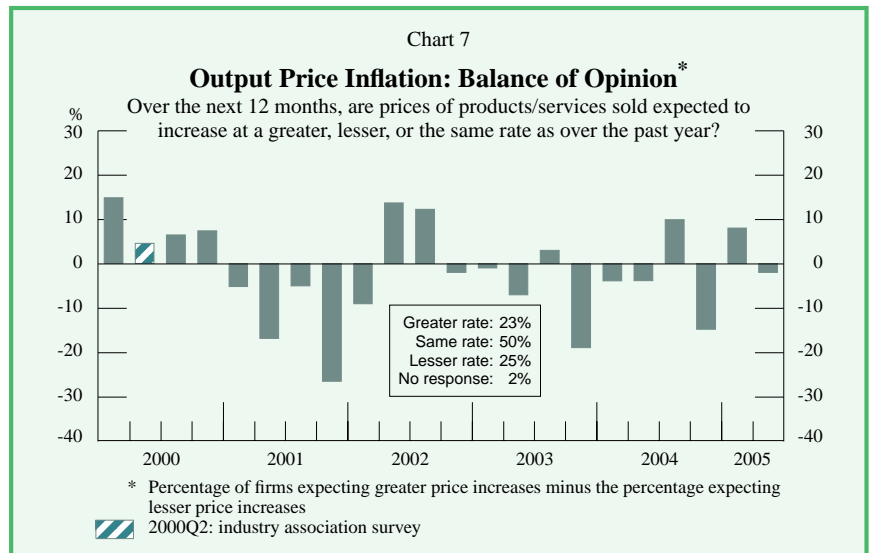
The incidence of labour shortages is little changed from the past two surveys. Labour shortages continue to be most severe in the construction and transportation sectors. From a regional perspective, shortages are particularly pronounced in the Prairie provinces.

Outlook for Prices and Inflation

The balance of opinion regarding pressures on input prices remains largely unchanged at zero, suggesting that businesses expect input prices to rise at the same pace as in the previous 12 months. Pressures on input prices appear to be stronger in Western Canada than elsewhere.



The balance of opinion on output prices has fallen to just below zero, suggesting that businesses expect their output prices to increase at about the same pace as in the previous 12 months. Firms report that strong competition from both domestic and foreign sources continues to restrain price increases in both the goods and services sectors.



While inflation expectations remain well within the Bank's 1 to 3 per cent inflation-control target range, a strong and growing majority of firms now expect inflation to be in the upper half of this range. These higher inflation expectations primarily reflect persistently high energy prices.

