



BANK OF CANADA

BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices

Results of the Spring 2006 Survey

Overview

- Businesses are positive about the economic outlook. Hiring and investment intentions are strong, while future sales are expected to increase at about the same pace as in the past 12 months.
- Labour shortages and pressures on capacity have eased somewhat but remain slightly above their historical averages and continue to be more evident in Western Canada.

Business Activity

- The balance of opinion regarding future sales growth has declined appreciably from that of the previous survey. Many firms, especially in Western Canada, reported that a further acceleration in the already strong pace of sales was not likely.
- Pressures on production capacity persist, and firms are engaged in efforts to alleviate them.
- The balance of opinion regarding future investment in machinery and equipment has increased to a very high level.

- Hiring intentions continue to be robust across all regions.

Prices and Inflation

- On balance, firms expect input and output prices to rise over the next 12 months at about the same pace as in the past year.
- Inflation expectations are essentially unchanged from the winter survey, and continue to be highly concentrated within the Bank's target range of 1 to 3 per cent.

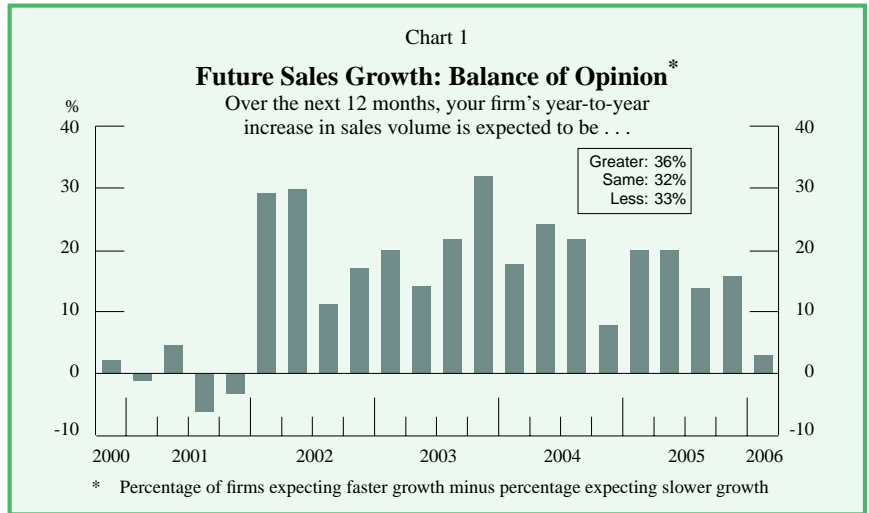
The Business Outlook Survey summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms, selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of 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 2006 survey was conducted from 17 February to 17 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.

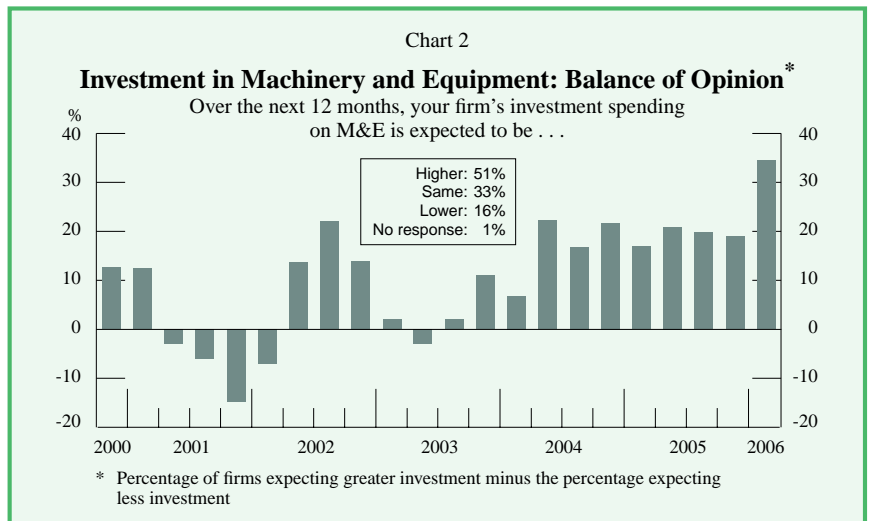
Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)

Outlook for Business Activity

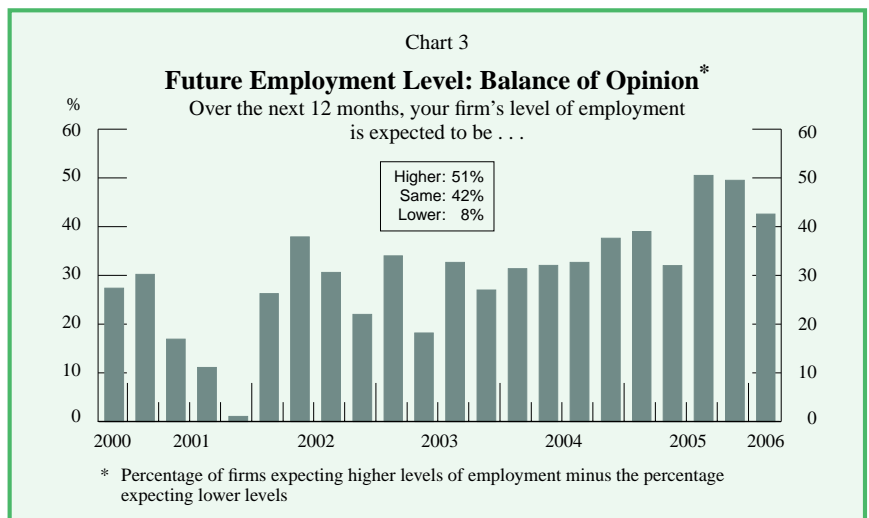
The balance of opinion regarding future sales growth remains positive but has declined noticeably since the last survey. Many firms, particularly in Western Canada, indicated that a further acceleration in sales growth is unlikely, given the strong pace of sales recently or because of capacity constraints.



The balance of opinion regarding investment intentions in machinery and equipment has risen to a very high level. Firms are investing to maintain their existing capital, to expand capacity, and/or to reduce costs.

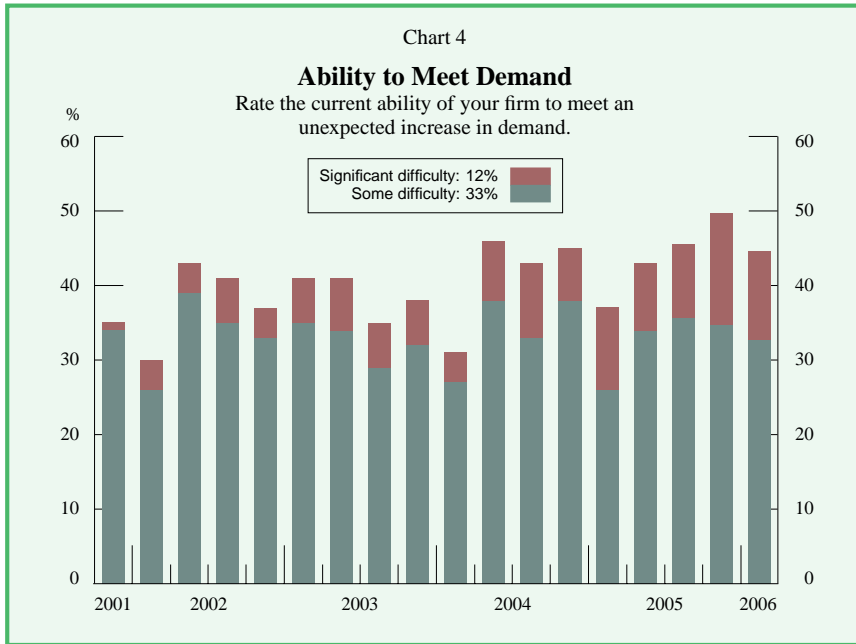


Hiring intentions remain robust across most sectors and all regions. In Western Canada, intentions have declined from the exceptionally high levels reported in the two previous surveys.

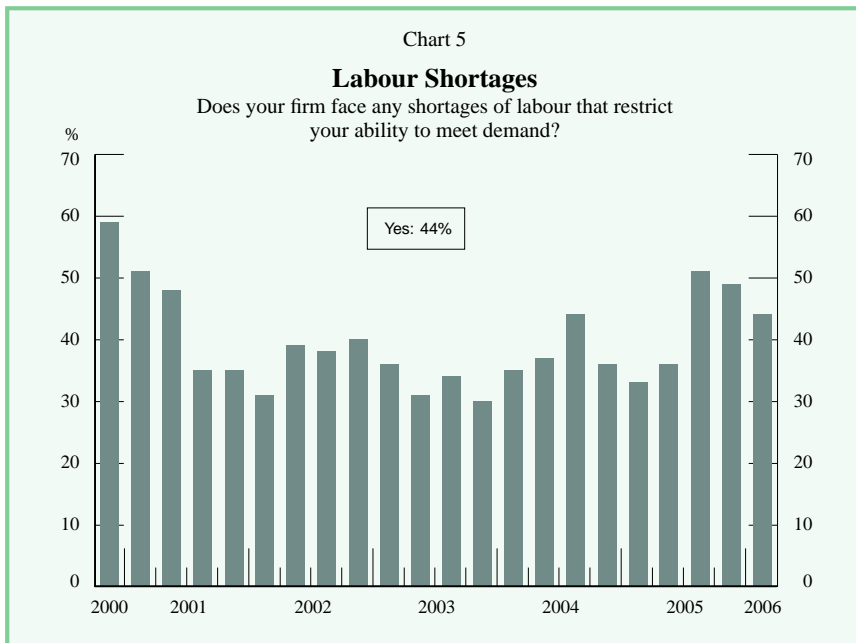


The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between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



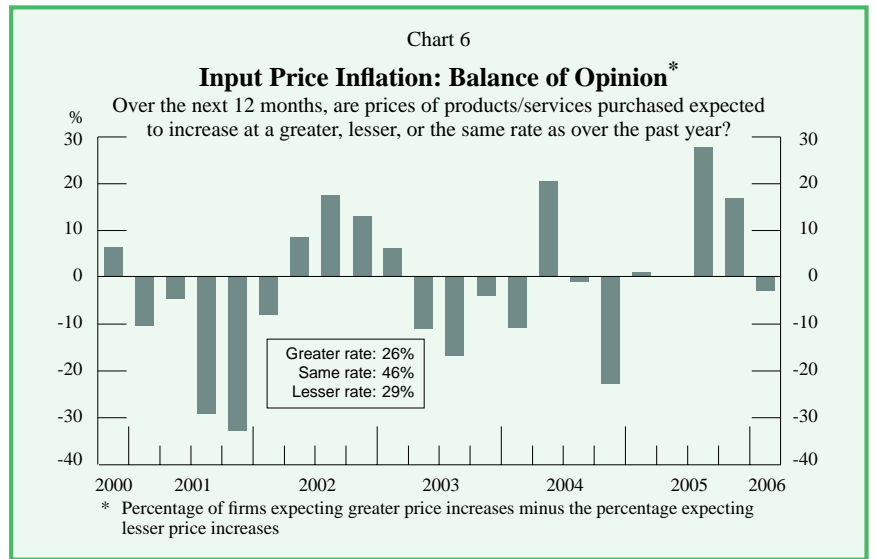
Capacity pressures are less than in the winter survey but remain slightly above average. A number of firms have expanded their production capacity to accommodate increased demand. Pressures on production capacity continue to be much stronger in the primary sector.



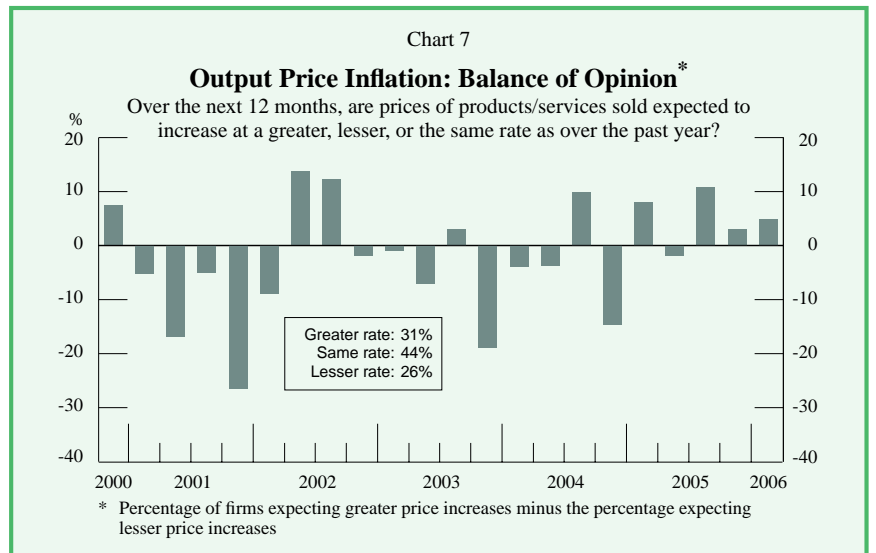
The proportion of firms reporting labour shortages has declined somewhat from the high levels reported in the autumn and winter surveys. Shortages continue to be more prevalent in the primary, construction, and transportation sectors.

Outlook for Prices and Inflation

The balance of opinion regarding input price inflation has fallen to a level just below zero, suggesting that, on balance, firms now expect their input prices to increase at about the same pace as in the previous 12 months.



The balance of opinion on output prices remains essentially unchanged at a level slightly above the zero mark, suggesting that firms also expect their output prices to increase at about the same pace as in the previous 12 months. Overall, commodity producers continue to expect their product prices to increase less rapidly.



Inflation expectations are basically unchanged. The majority of firms are expecting consumer price inflation to be within the Bank's target range of 1 to 3 per cent over the next two years.

