



BANK OF CANADA

# BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices

## Results of the Summer 2006 Survey

### Overview

- The results of this *Business Outlook Survey* are broadly in line with those of the previous one.
- Businesses continue to be positive about the economic outlook. On balance, they expect sales to increase at a faster pace over the next year than they did over the past year. Investment intentions, in particular, remain strong.
- Pressures on production capacity are relatively unchanged and above the historical average. They continue to be much more evident in Western Canada.

- Hiring intentions have declined from relatively high levels.

### Prices and Inflation

- The balance of opinion regarding both input and output price inflation is slightly positive overall. It is higher in Western Canada than in the rest of the country.
- Expectations about consumer price inflation remain largely unchanged and continue to be concentrated within the Bank's target range of 1 to 3 per cent.

### Business Activity

- The balance of opinion regarding future sales growth has increased in most regions. However, firms in the Eastern half of the country expressed more uncertainty about the outlook than other firms.
- After hitting a record high in the previous survey, the balance of opinion on investment in machinery and equipment has come down somewhat, but continues to be strong.

*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 2006 survey was conducted from 10 May to 7 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.*

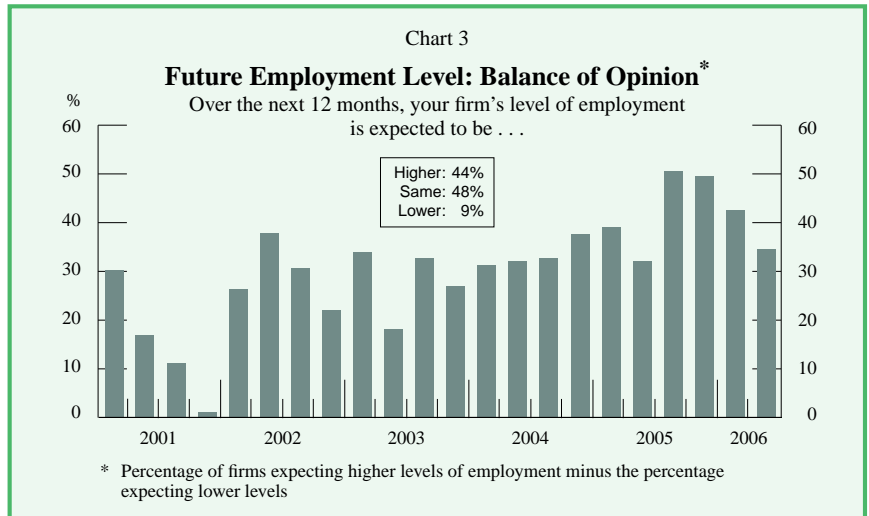
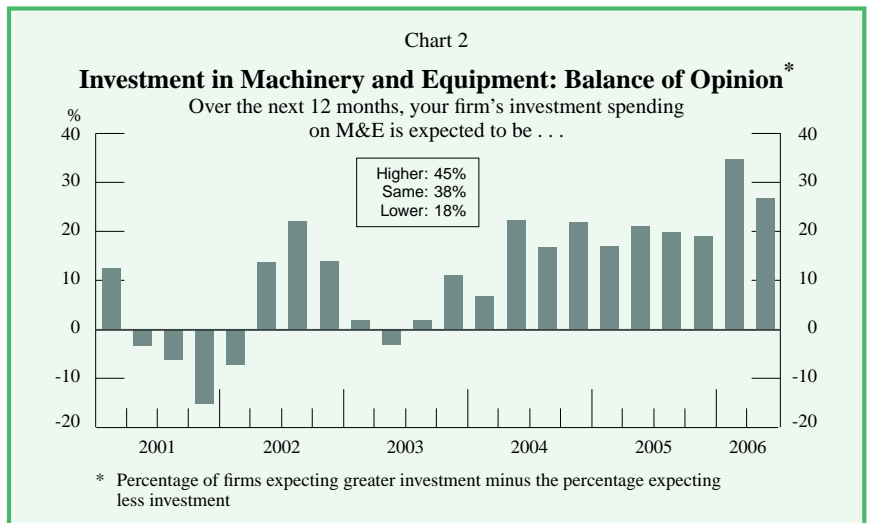
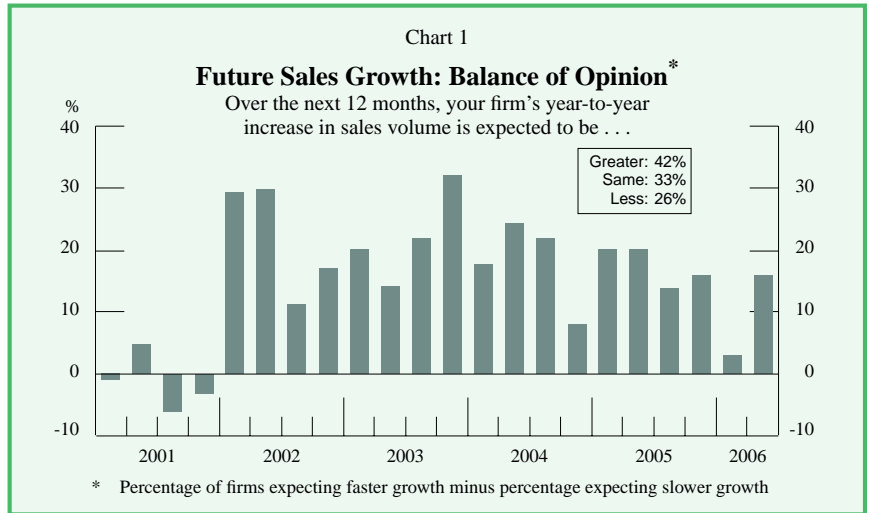
*Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)*

## Outlook for Business Activity

The balance of opinion on future sales growth has strengthened in most regions. In Western Canada, in particular, this builds on already strong sales momentum. While firms in both the goods and services sectors expect improvements, those in the services sector are generally more optimistic about future sales.

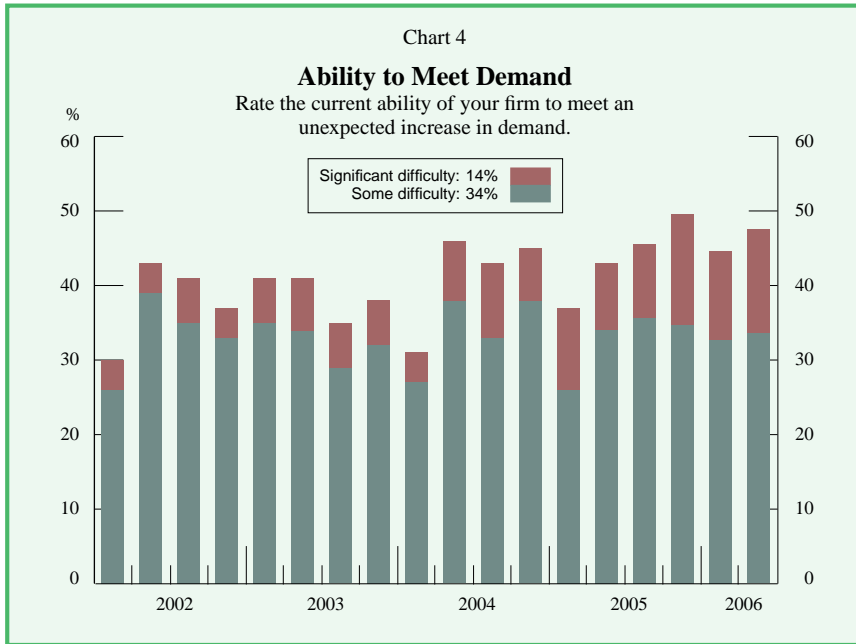
Continued strength in the balance of opinion regarding investment in machinery and equipment is evident across most sectors and all regions. However, as in the past two surveys, primary industries, buoyed by the strength of commodity prices, lead other sectors in their plans for future investment.

Hiring intentions have fallen from the very high levels reported in the second half of 2005. Although intentions among firms in Western Canada, which initially boosted the balance of opinion, have since moderated, the decline in this survey reflects lower intentions among firms in Central and Eastern Canada.



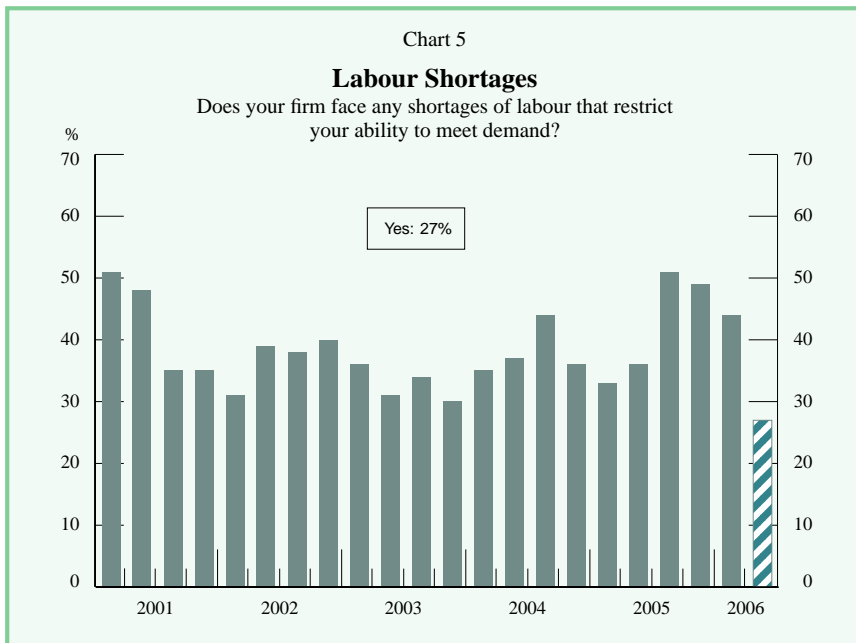
The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between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



The number of firms reporting difficulties in meeting an unexpected increase in demand has not changed much over the past few quarters. The level of reported difficulties is above the historical average in several sectors.

In addition to constraints on physical capital and labour, more firms are now reporting difficulties associated with sourcing of critical inputs and transportation.



The proportion of firms reporting labour shortages declined substantially from recent surveys. This is somewhat at odds with anecdotal evidence and with other responses in the survey.

Part of the sharp decline may be the result of a change in the interview process intended to probe the nature of labour shortages. This change makes comparisons with previous survey results difficult.

## Outlook for Prices and Inflation

The balance of opinion regarding input price inflation is slightly positive, indicating that businesses expect the prices of their inputs to rise at a faster pace than in the previous 12 months.

In some cases, firms expected more upward price pressures as past energy price increases pass through to other prices.

The balance of opinion regarding output prices is also slightly positive overall. It is much stronger in Western Canada.

For the third consecutive survey, inflation expectations are essentially unchanged.

