



BANK OF CANADA

BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices

Results of the Winter 2005–06 Survey

Overview

- The results of this survey are broadly similar to those of the autumn survey, with firms in aggregate remaining optimistic about the economic outlook.
- Pressures on production capacity and labour shortages remain, and are concentrated in Western Canada.
- Inflation expectations have eased somewhat, with three-quarters of participants expecting inflation over the next two years to stay within the inflation-control target range of 1 to 3 per cent.

Business Activity

- Sales prospects continue to be strong in Western Canada, and firms in Central and Eastern Canada expect the pace of sales to improve. Firms in the West reported that further acceleration in growth is limited either by the exceptional pace of recent sales or by capacity constraints.
- Investment intentions remain strong, particularly in the primary sector.

- Hiring intentions of businesses are robust across most sectors of the economy.

Prices and Inflation

- Firms expect output prices to increase at about the same pace over the next 12 months as they did over the previous 12 months.
- Many commodity producers expect a slowdown in price increases for both energy and non-energy commodities.
- While the balance of opinion regarding input price inflation has eased somewhat, companies overall continue to expect the prices of their inputs to rise more rapidly over the next 12 months than they did over the past 12 months.

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 winter 2005–06 survey was conducted from 15 November to 14 December.

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.

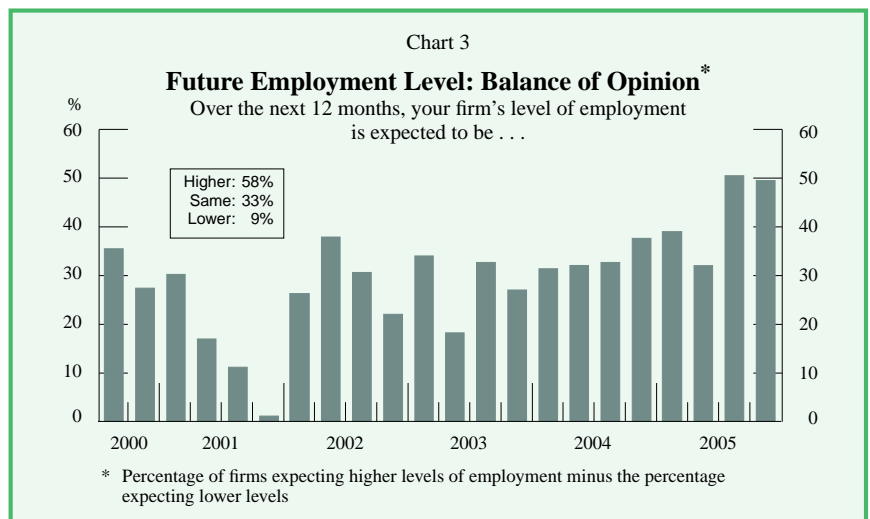
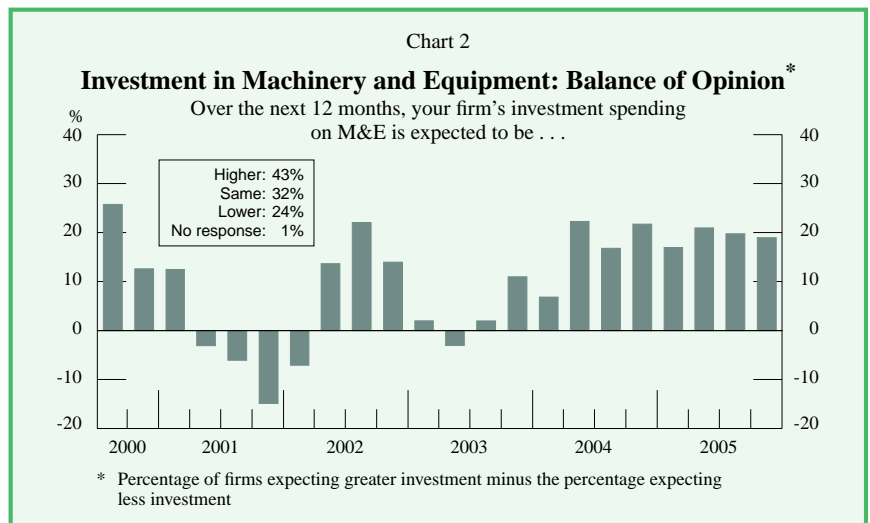
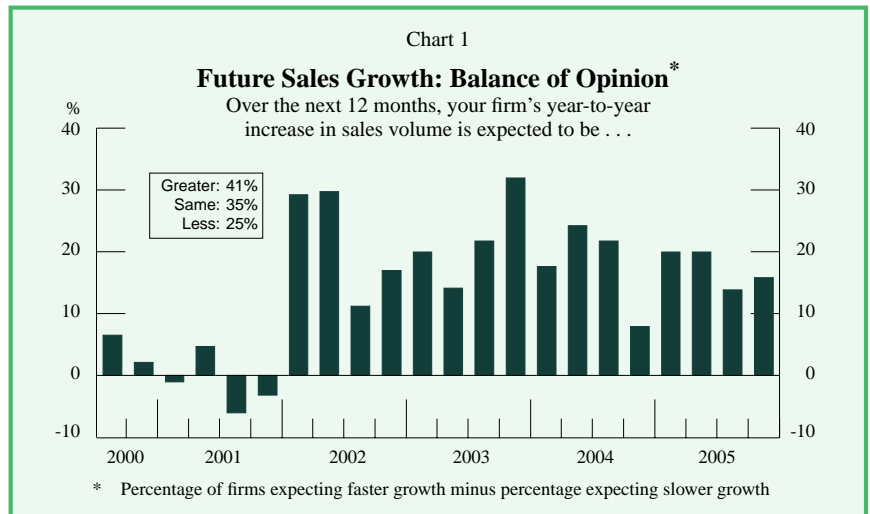
Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)

Outlook for Business Activity

The balance of opinion regarding future sales growth has risen slightly since the last survey, reflecting an increase among firms based in Central and Eastern Canada. While prospects remain positive among firms in Western Canada, many did not think that a further acceleration in sales was feasible, either because of the very strong pace of sales recently or because of capacity constraints.

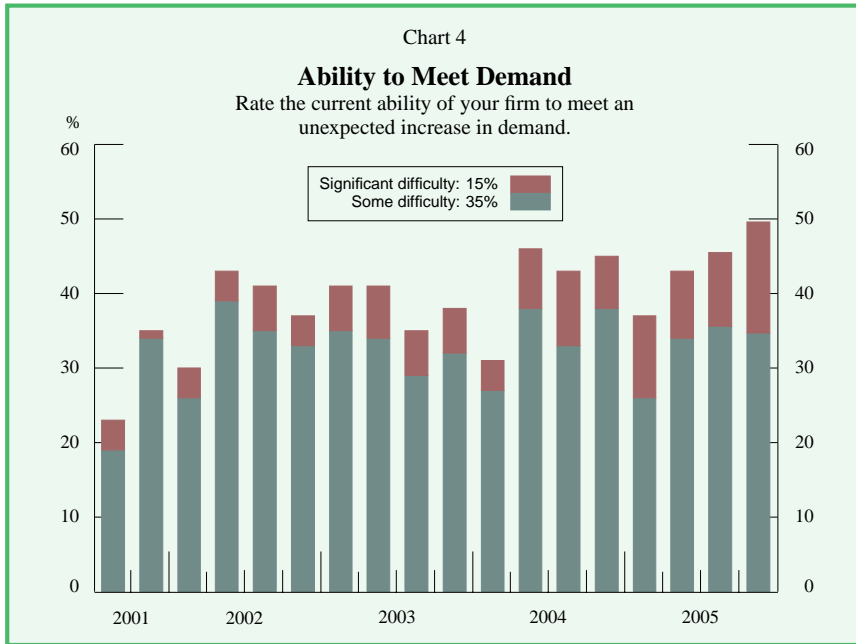
The balance of opinion regarding investment intentions in machinery and equipment remains strong, led by the primary sector. Firms are investing largely to maintain their existing stock of equipment and to add capacity to expand their operations.

Hiring intentions remain robust across most sectors and are particularly high among firms in Western Canada. For firms in the rest of Canada, the balance of opinion regarding hiring intentions has risen slightly above its historical average.

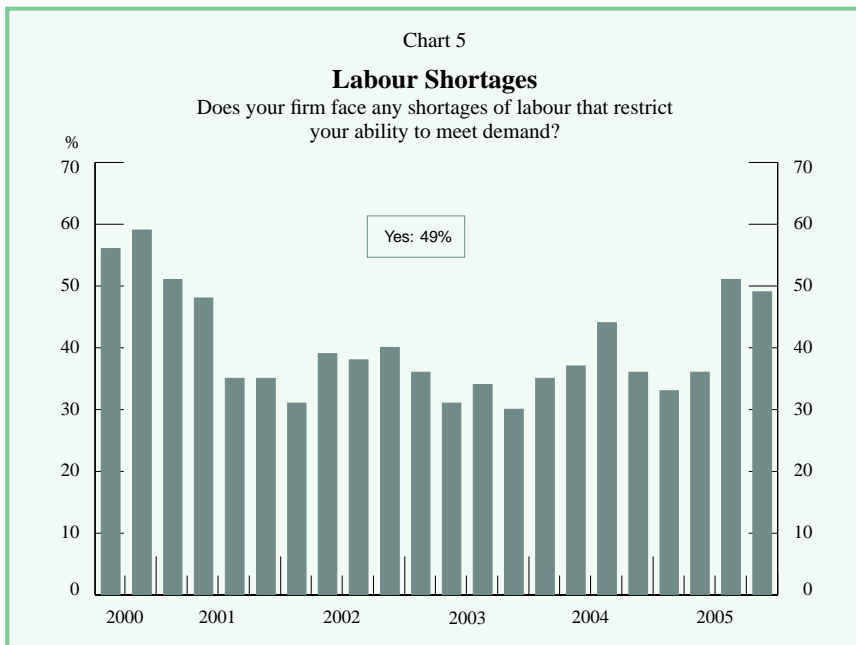


The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between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



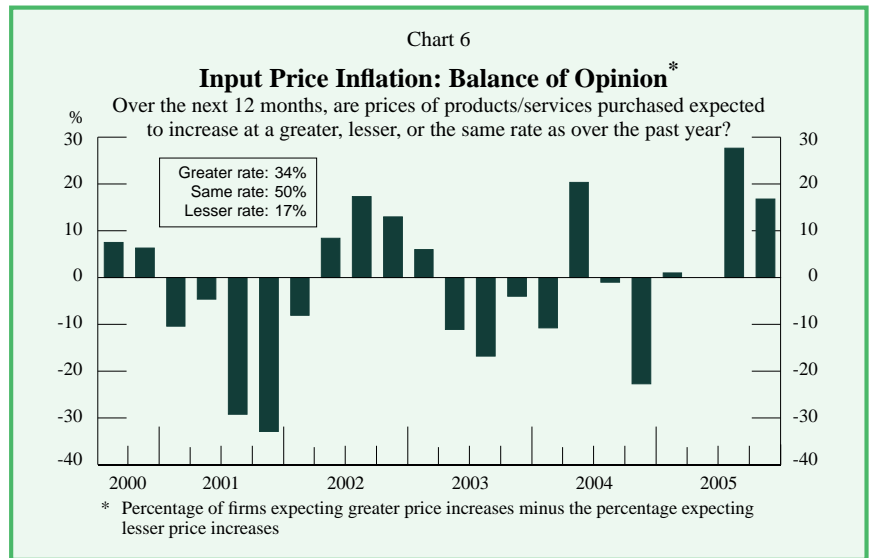
Pressures on production capacity continue to intensify. They are at particularly high levels in Western Canada, limiting the scope for further increases in production and sales. A number of firms in the rest of the country report that they are more fully utilizing their existing capacity, after having recently rationalized their operations.



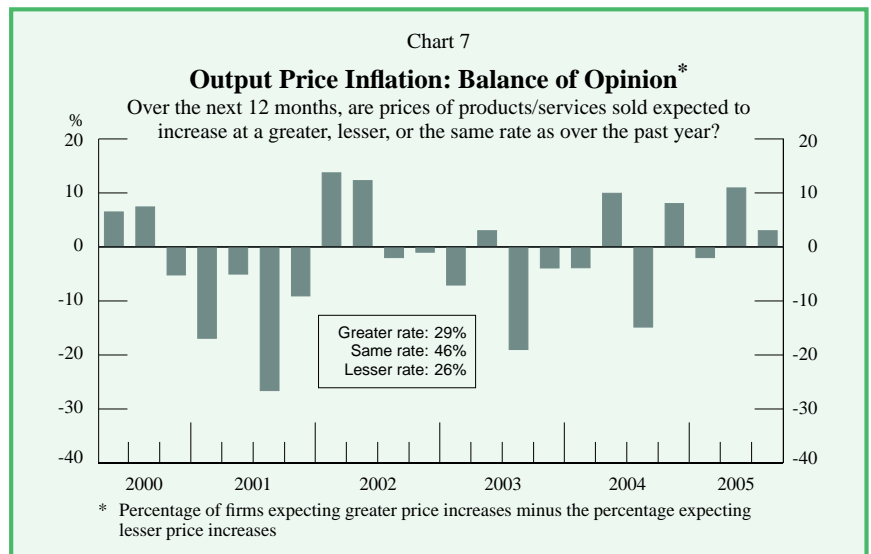
Labour shortages remain close to the high level reported in the autumn survey. They are substantially more pronounced in Western Canada, and are more prevalent in the goods-producing sector, where about 55 per cent of firms reported labour constraints.

Outlook for Prices and Inflation

The balance of opinion regarding input price inflation has eased. However, in aggregate, businesses continue to expect the prices of their inputs to rise more rapidly than in the previous 12 months.



The balance of opinion on output prices has fallen to just above zero, suggesting that firms expect their output prices to increase at about the same pace as in the previous 12 months. Most commodity producers are expecting their product prices to increase less rapidly.



Inflation expectations have fallen somewhat. The number of firms expecting consumer price inflation to exceed 3 per cent over the next two years has declined to 19 per cent of the sample, from 27 per cent in the last survey.

