



Business Outlook Survey

Conducted by the Bank's Regional Offices

Results of the Spring 2009 Survey

Vol. 6.1 13 April 2009

Overview

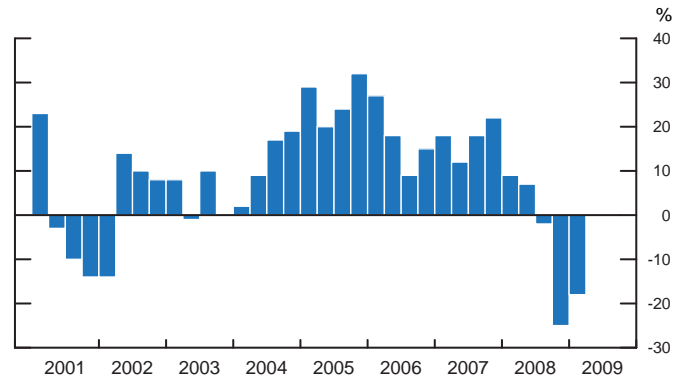
- Business sentiment remains negative. While some indicators have inched up from historical lows, the results of the spring survey continue to suggest a weak outlook for the Canadian economy.
- Firms continue to expect sales growth to slow over the next 12 months, and many anticipate an outright decline in sales volumes. Investment and hiring intentions are weak, and the level of uncertainty remains high.
- Reported pressures on production capacity have eased further, particularly among firms in Western Canada, and labour shortages are at a record-low level. Input and output prices are both expected to grow at a slower pace over the next 12 months, and expectations for inflation over the next two years have declined.

Business Activity

The balances of opinion for both past and future sales remain markedly negative, although no longer at record-low levels (**Charts 1 and 2**). As in the winter survey, many firms expect a decline in their sales volumes over the next 12 months. This weak outlook

Chart 1: Past Sales Growth: Balance of Opinion*

Over the past 12 months, did your firm's sales volume increase at a greater, lesser, or the same rate as over the previous 12 months?

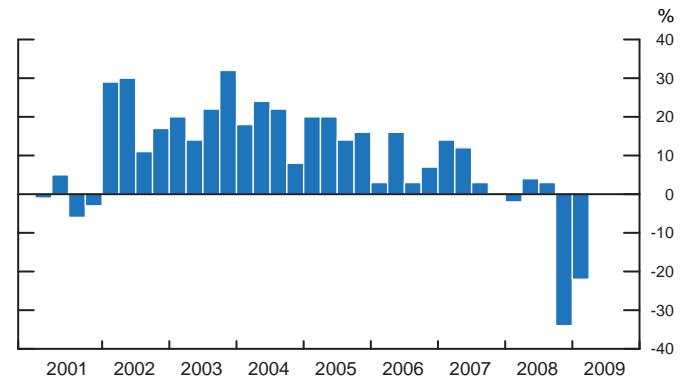


Greater: 30% Same: 22% Lesser: 48% No response: 1%

* Percentage of firms reporting faster growth minus percentage reporting slower growth

Chart 2: Future Sales Growth: Balance of Opinion*

Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser, or the same rate as over the past 12 months?



Greater: 30% Same: 18% Lesser: 52% No response: 1%

* Percentage of firms expecting faster growth minus percentage expecting slower growth

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. Additional information on the survey and its content is available on the Bank of Canada's website at <www.bankofcanada.ca/en/bos/index.html>. The spring 2009 survey was conducted from 23 February to 20 March 2009. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding.

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.

is widespread, since the global recession is expected to continue to affect foreign and domestic demand across the country. Again in this survey, uncertain economic conditions led many firms to cite downside risks to their outlook.

While it has improved somewhat, the balance of opinion on investment in machinery and equipment remains negative, indicating that firms expect to invest less over the next 12 months (**Chart 3**). Businesses are postponing expansion plans and focusing investment spending on essential repairs and the replacement of existing equipment. Intentions to lower investment spending are more prominent in Western Canada than in Central and Eastern Canada.

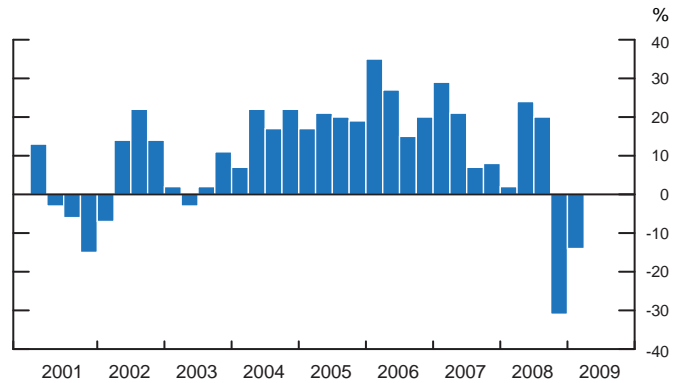
The balance of opinion on employment for the next 12 months indicates that firms expect the level of employment to be about the same as over the past 12 months (**Chart 4**). Unlike the past few surveys, the hiring intentions of firms in Western Canada are now weaker than those of firms in the rest of the country.

Pressures on Production Capacity

The percentage of firms reporting that they would have difficulty meeting an unexpected increase in demand has fallen further, reaching its second-lowest level on record (**Chart 5**). Capacity pressures eased significantly in Western Canada, closing the gap observed in recent years between these firms and those based in Central and Eastern Canada.

Chart 3: Investment in Machinery and Equipment: Balance of Opinion*

Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower, or the same as over the past 12 months?

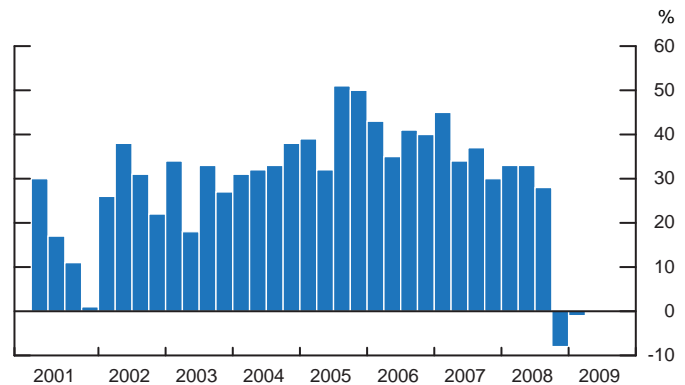


Higher: 26% Same: 32% Lower: 40% No response: 3%

* Percentage of firms expecting greater investment minus the percentage expecting less investment

Chart 4: Future Employment Level: Balance of Opinion*

Over the next 12 months, is your firm's level of employment expected to be higher, lower, or the same as over the past 12 months?

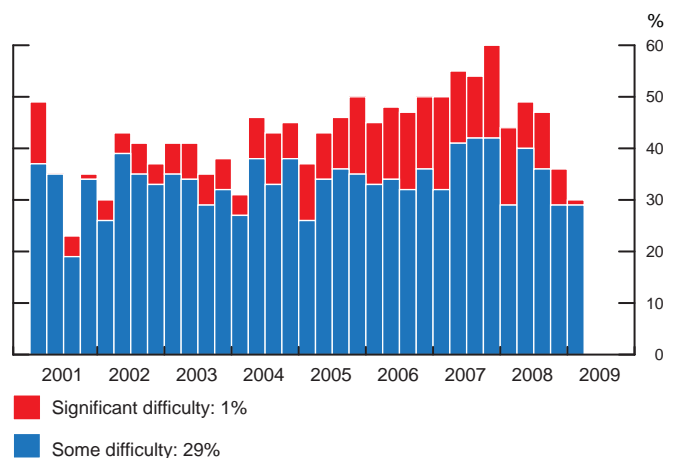


Higher: 25% Same: 50% Lower: 26%

* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Chart 5: Ability to Meet Demand

How would you rate the current ability of your firm to meet an unexpected increase in demand?

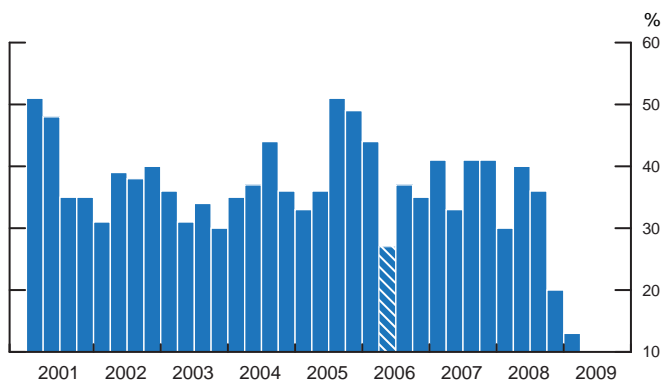


Significant difficulty: 1%

Some difficulty: 29%

Chart 6: Labour Shortages

Does your firm face any shortages of labour that restrict your ability to meet demand?



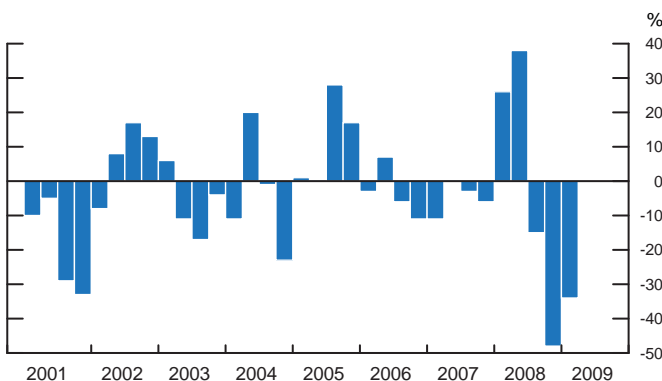
Yes: 13%

The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

The percentage of firms reporting that labour shortages are restricting their ability to meet demand has fallen again to reach a new record low (**Chart 6**). There were fewer reports of shortages in all sectors, with the majority of respondents indicating that labour shortages were less intense than 12 months ago.

Chart 7: Input Price Inflation: Balance of Opinion*

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser, or the same rate as over the past 12 months?



Greater: 24% Same: 19% Lesser: 57%

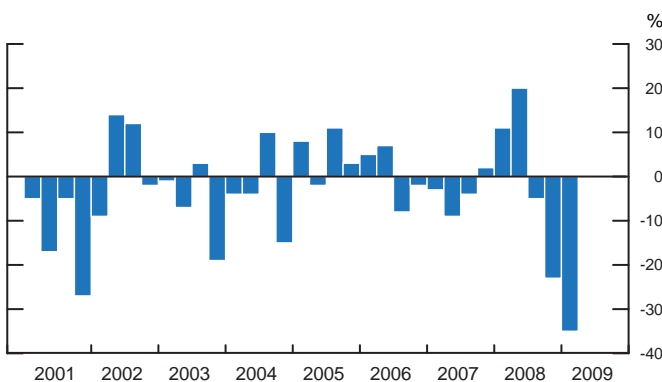
* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Prices and Inflation

Firms continue to expect slower growth in input prices over the next 12 months (**Chart 7**), and a number believe that input prices will decline outright. Firms cited a broad list of inputs, in addition to those related to energy and commodity prices, for which prices are expected to increase at a slower pace, owing to weak economic conditions. Nonetheless, the balance of opinion is less negative than in the winter survey, partly because the recent depreciation of the Canadian dollar has raised the prices of imports.

Chart 8: Output Price Inflation: Balance of Opinion*

Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser, or the same rate as over the past 12 months?



Greater: 25% Same: 16% Lesser: 59%

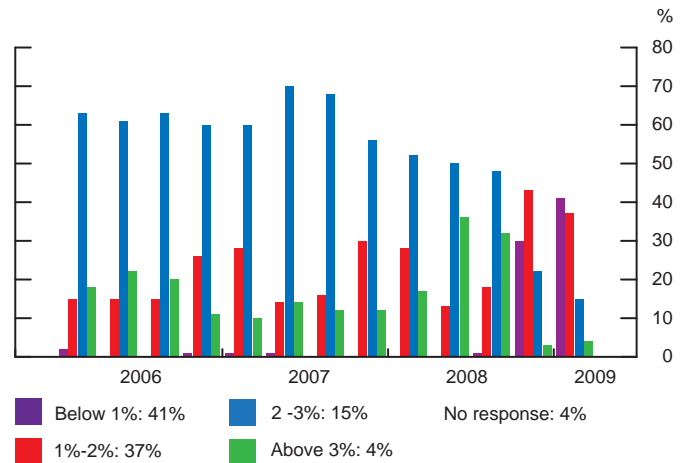
* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

The balance of opinion on output prices has reached its lowest level since the survey began in 1997 (**Chart 8**), suggesting that output prices are expected to grow at a slower pace than over the past 12 months, and many firms anticipate price reductions. An environment of weak demand was cited as the main factor driving down the expected growth in output prices, but slower growth of input prices continues to have an effect. Both the goods and services sectors expect a slowdown in the growth of output prices, but the decline in the balance of opinion since the winter survey is entirely due to services-producing firms.

Inflation expectations continue to decline (**Chart 9**). For the second consecutive survey, three-quarters of firms expect inflation to be below the 2 per cent target midpoint of the Bank's inflation-control range over the next two years, and many expect inflation to fall below 1 per cent. The current economic slowdown was the factor most often cited for a low inflation outlook.

Chart 9: Inflation Expectations

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?

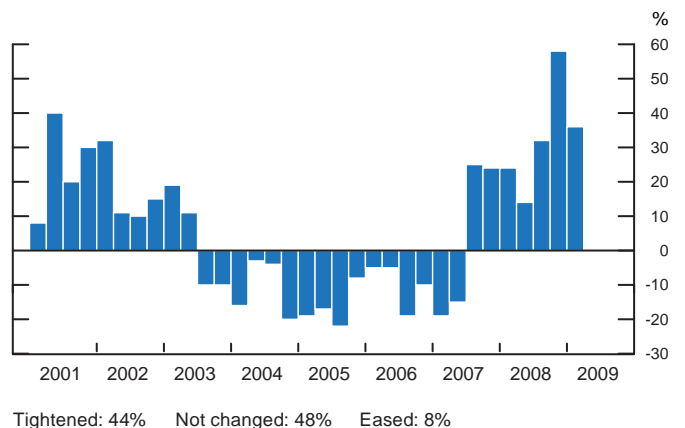


Credit Conditions

The balance of opinion on credit conditions remains positive, although no longer at a record level, indicating that firms faced tighter terms and conditions for obtaining financing over the past three months (**Chart 10**). Regardless of where firms sourced their financing, a tightening of credit was reported, mainly in the form of higher borrowing costs.

Chart 10: Credit Conditions: Balance of Opinion*

Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



* Percentage of firms reporting tightened minus percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

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