



BANK OF CANADA

# BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices

## Results of the Autumn 2006 Survey

### Overview

- Overall, businesses continue to be positive about the economic outlook.
- On balance, businesses expect future sales to increase at about the same pace as they did over the past 12 months. Investment and hiring intentions remain firm.
- Pressures on production capacity are largely unchanged from those of the past several surveys. Capacity pressures continue to be most prevalent in Western Canada.

### Business activity

- The balance of opinion regarding growth in future sales is close to zero, implying that firms expect sales to increase at about the same rate as over the past year. Many firms in Western Canada do not expect to exceed recent high rates of growth, owing mainly to capacity constraints.
- Although down from the very high levels in recent surveys, the balance of opinion on investment in machinery and equipment remains relatively strong.

- Hiring intentions have risen modestly, and remain positive across all sectors and regions.

### Prices and inflation

- On balance, businesses expect input and output prices to increase more slowly over the next 12 months, driven mainly by an expected slowing in the rise of commodity prices.
- Expectations about consumer price inflation have been stable for the past four surveys, and are concentrated within the Bank's 1 to 3 per cent target-control range.

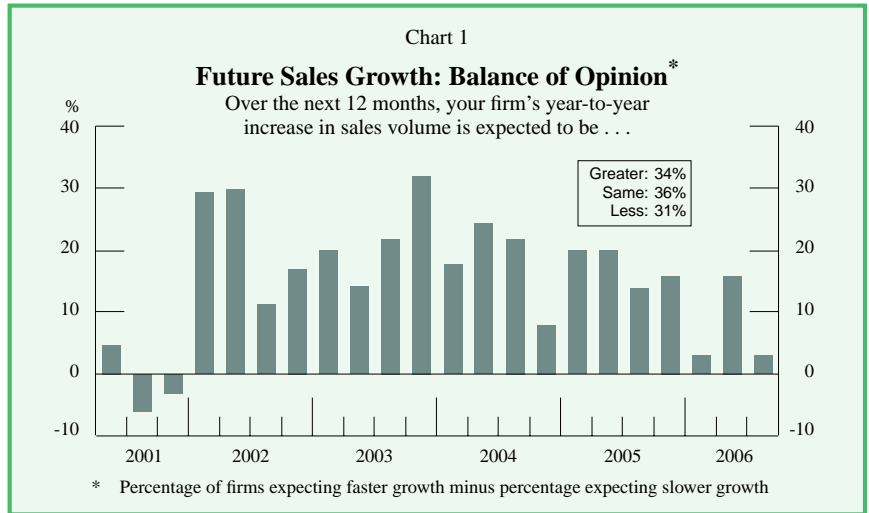
*The Business Outlook Survey summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of 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 autumn 2006 survey was conducted from 16 August to 13 September.*

*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.*

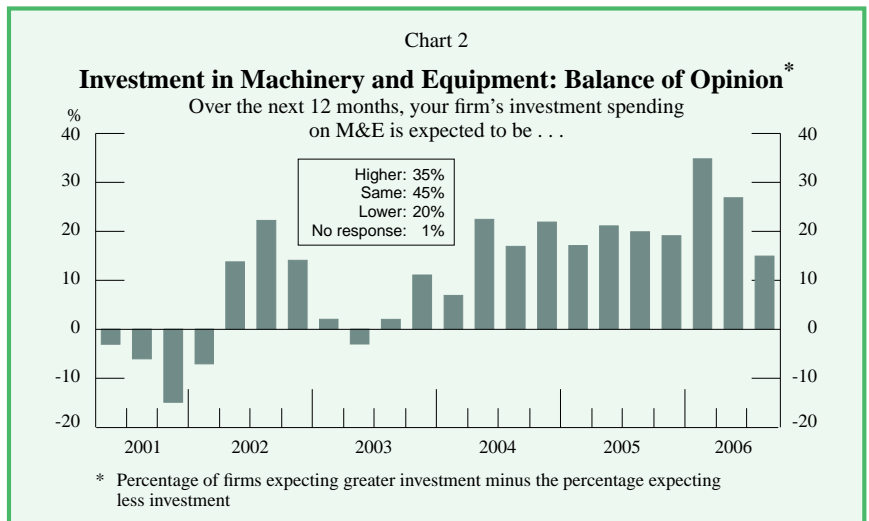
*Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)*

## Outlook for Business Activity

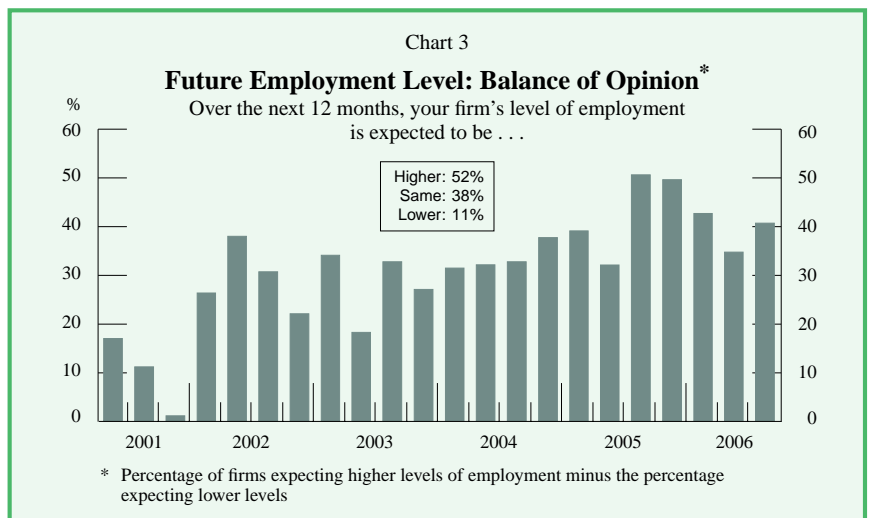
The balance of opinion on future sales growth has fallen close to zero, indicating that sales are expected to increase at about the same pace as in the past 12 months. Many firms in Western Canada, including those in the services sector, are facing capacity constraints and therefore do not expect to exceed the high rates of growth experienced over the past 12 months.



Although the balance of opinion on investment in machinery and equipment is below the high levels of recent surveys, it remains well above average in Western Canada. Many firms, especially in Central and Eastern Canada, do not expect to invest as much in the coming 12 months because they have invested heavily over the past 12 months.

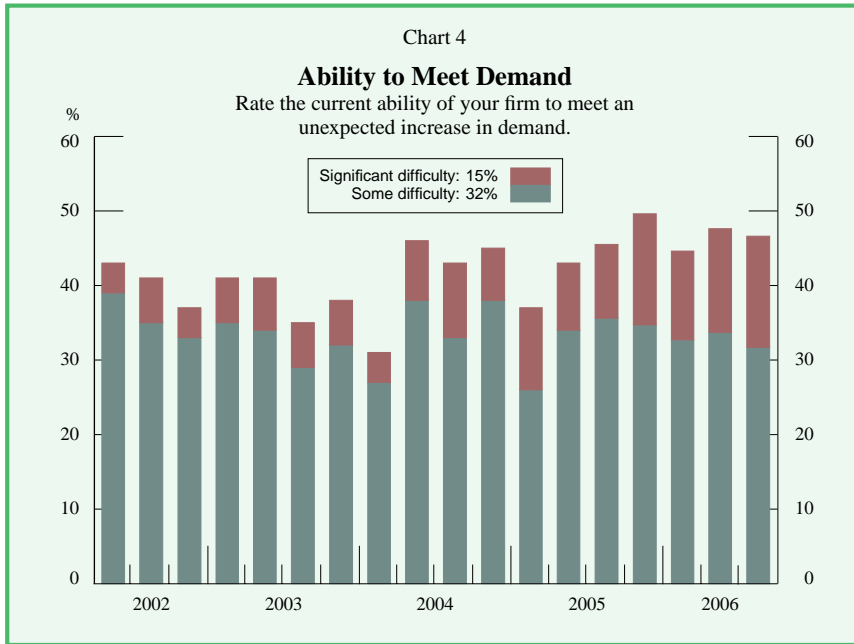


Hiring intentions rose across most regions. In the goods-producing sector, the balance of opinion on employment is particularly high relative to historical experience.

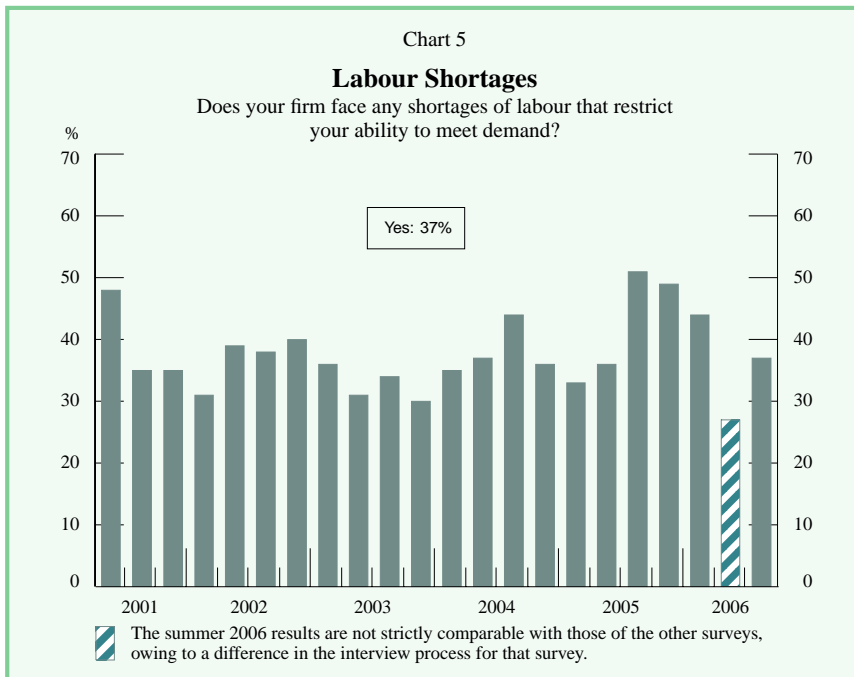


The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between +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 percentage of firms reporting difficulties in meeting an unexpected increase in demand is largely unchanged from levels in the past several quarters. Capacity pressures are reported in many sectors but are concentrated in firms operating in Western Canada.

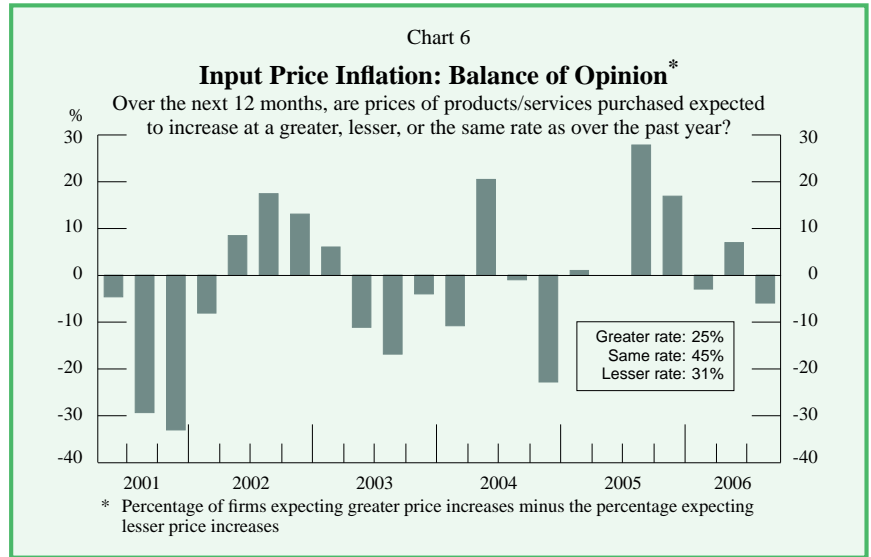


The proportion of firms reporting labour shortages that restrict their ability to meet demand has declined over the past several surveys and is now slightly below the historical average.<sup>1</sup> Shortages continue to be most prevalent in the primary sector and in the West. More broadly, firms report taking various measures to adjust to tight labour markets; in particular, raising wages.

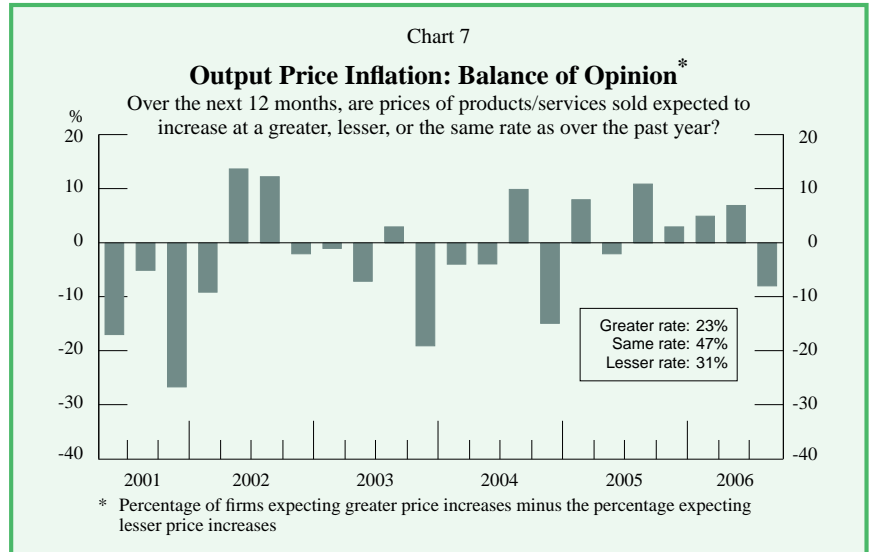
1. When probing the issue of labour shortages during this survey, we returned to the interview process used prior to the summer 2006 survey. This allows the results to be compared with those of all previous surveys, with the exception of that of last summer.

## Outlook for Prices and Inflation

The balance of opinion regarding input price inflation is slightly negative, indicating that businesses expect the prices of inputs to rise at a slower pace than in the previous 12 months. This result is driven mainly by an expected slowing in the rise of commodity prices.



The overall balance of opinion regarding output price inflation is negative, owing entirely to the goods-producing sector. Competitive pressures and an anticipated easing in commodity price increases are expected to moderate output price inflation.



Once again, inflation expectations are essentially unchanged. Over three-quarters of firms expect the rate of change in the consumer price index over the next two years to be within the Bank's inflation-control target range of 1 to 3 per cent.

