



# BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices



## Results of the Autumn 2007 Survey

### Overview

- Overall, businesses continue to be positive about the economic outlook, notwithstanding lower expectations for U.S. economic growth and recent financial market turbulence.
- Strong domestic demand boosted sales growth over the past year, and, on balance, firms expect this pace of growth to continue over the next 12 months.
- Capacity pressures remain near their recent high level, and more firms report that labour shortages are restricting their ability to meet demand. Nevertheless, firms do not expect input and output prices to increase at a faster rate than over the past 12 months.

### Business Activity

- Firms reported an increase in sales growth over the past year, driven by those with a domestic sales orientation. On balance, firms expect sales to grow at about the same pace over the next 12 months.
- While still positive, the balance of opinion on investment spending has declined markedly

from recent high levels. Many firms with lower intentions attributed this to heavy investment spending during the previous year.

- A number of firms reported tighter credit conditions as a result of recent financial market turbulence. But few firms indicated that this had affected their sales outlook or investment plans.
- Capacity pressures remain elevated in both the goods- and services-producing sectors.

### Prices and Inflation

- Firms expect increases in input and output prices over the next year to be about the same as over the past 12 months.
- Expectations for consumer price inflation continue to be within the Bank's inflation-control 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 autumn 2007 survey was conducted from 16 August to 14 September 2007.*

*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.*

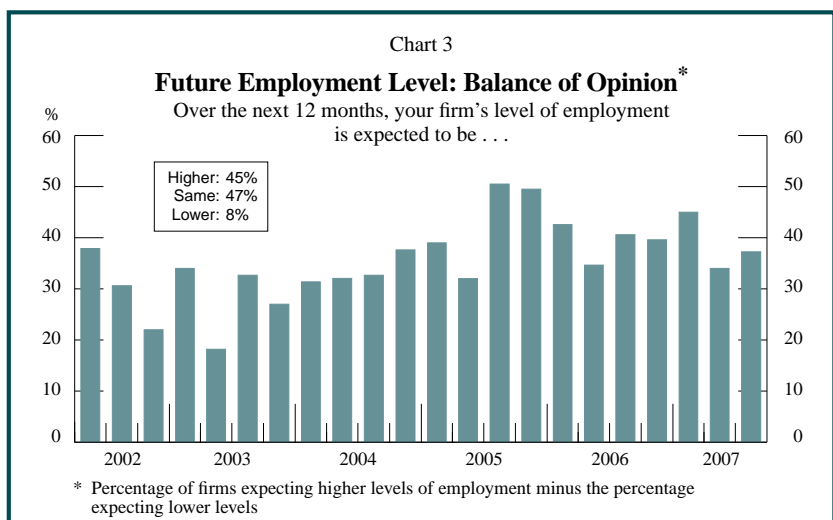
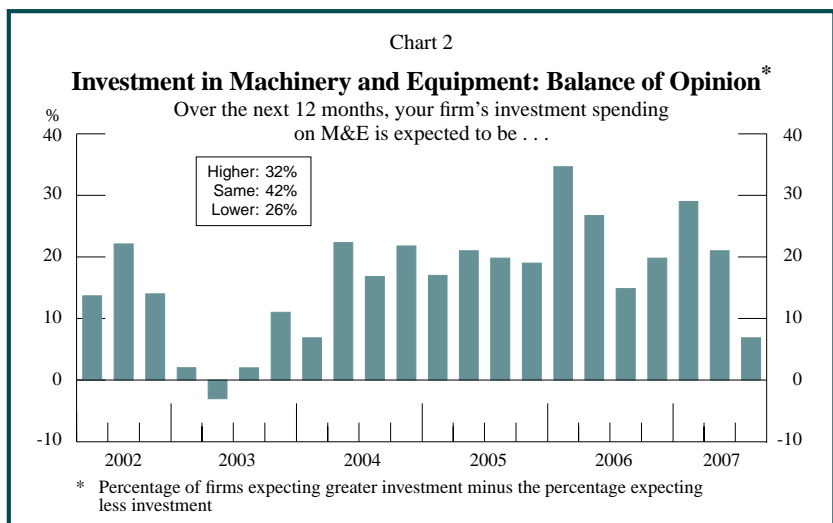
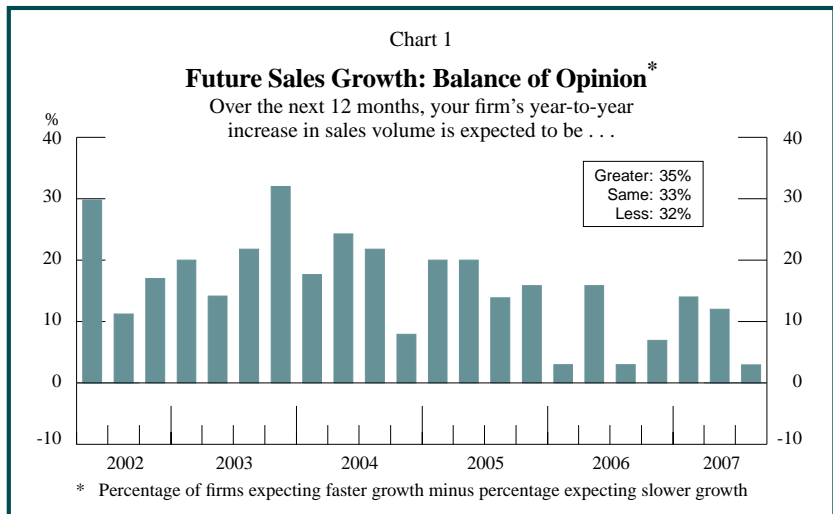
*Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)*

## Outlook for Business Activity

The balance of opinion on future sales growth remains positive but has moved closer to zero. Coming off a period of solid momentum in sales growth, driven by strength in the services sector, firms expect sales to grow at about the same pace over the next 12 months. In Western Canada, the low level of activity in the natural gas sector continues to weigh on the outlook.

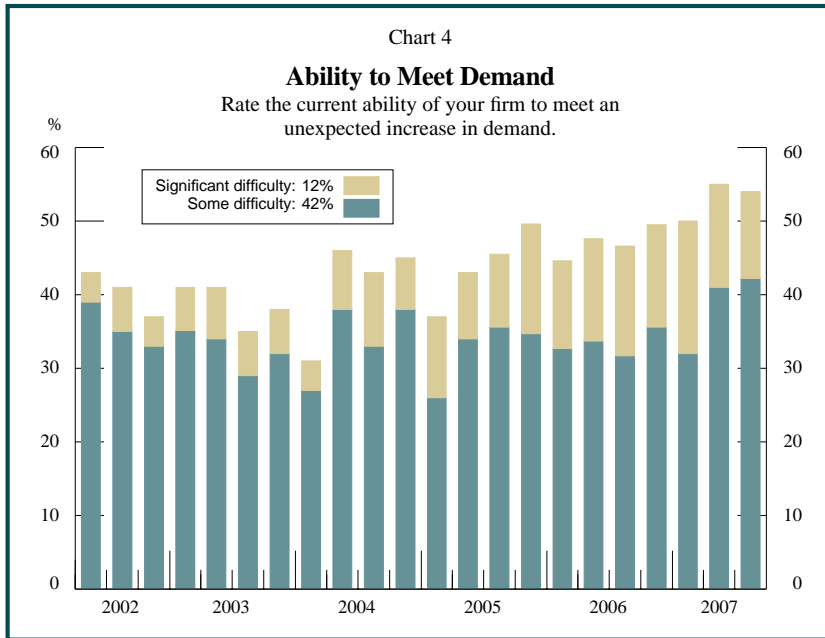
Following several quarters of strength, the balance of opinion on investment spending remains positive but has declined to its lowest level since the beginning of 2004. Many firms with lower intentions attributed this to heavy investment over the past year. In the West, high costs have also tempered investment intentions, particularly in the natural gas sector.

Hiring intentions remain solid and are up slightly from the previous survey. These intentions are particularly strong among firms reporting capacity pressures due to labour constraints.

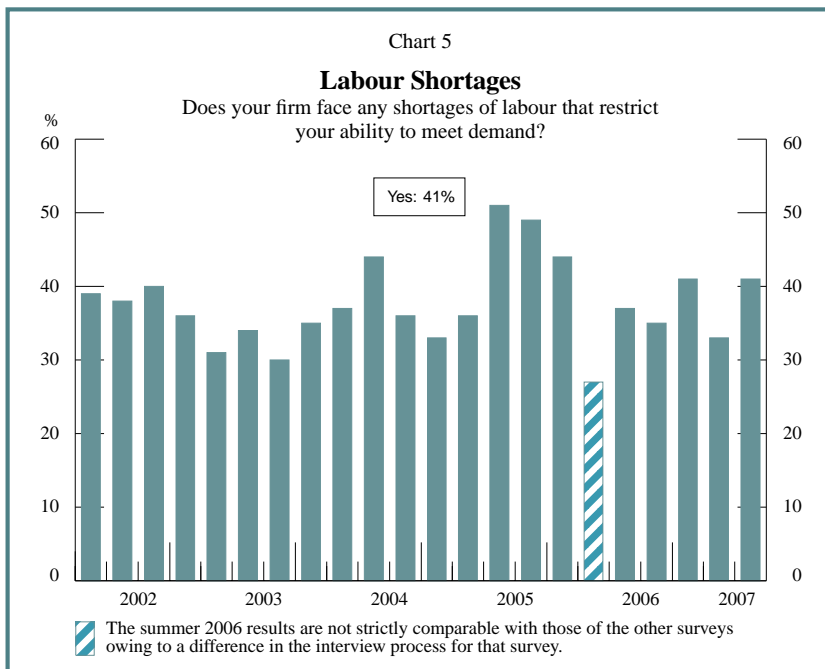


The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between +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 close to the high level reached in the summer survey, and remains above average in both the goods and services sectors. Western Canada is still the region most affected by capacity constraints, although pressures in the rest of the country have risen over the past two surveys. Labour was the most commonly reported constraint on production capacity.



The proportion of firms reporting labour shortages that restrict their ability to meet demand moved back up to the level reported in the spring survey. The increase was widespread across regions, although shortages continue to be most acute in British Columbia and in the Prairies.

