BANK OF CANADA
BANQUE DU CANADA

Business Outlook Survey

Conducted by the Bank's Regional Offices

Results of the Summer 2011 Survey

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Overview

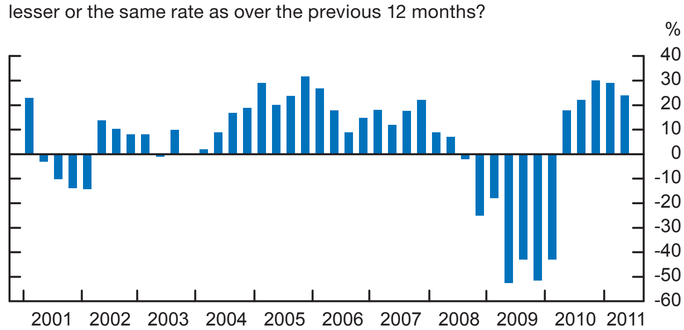
- Businesses remain positive about the outlook for the next 12 months, despite more modest expectations for U.S. economic growth. Indicators of future sales and investment are moderately higher, and intentions to hire have become more widespread.
- The view that sales growth will increase over the coming year continues to be driven by firms in Western Canada—owing to strong demand for commodities—while firms elsewhere generally expect stable growth. This sales outlook, together with efforts to expand and to improve competitiveness, is underpinning plans to increase employment and investment across most regions and sectors.
- More firms report that they would have some difficulty meeting an unexpected increase in demand, although few report that they would face significant difficulty. The balance of opinion on output prices remains more muted than that for input prices, since many firms report that competitive pressures are restraining their ability to pass on expected cost increases. Inflation expectations are essentially unchanged and continue to be concentrated in the Bank's inflation-control range of 1 to 3 per cent.
- On balance, firms reported more favourable credit conditions over the past three months.

Business Activity

On balance, firms reported an increase in sales growth over the past 12 months (**Chart 1**) and that they expect sales to rise at a greater rate over the next 12 months (**Chart 2**). Given

Chart 1: Firms report a pickup in sales growth over the past year . . .

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?

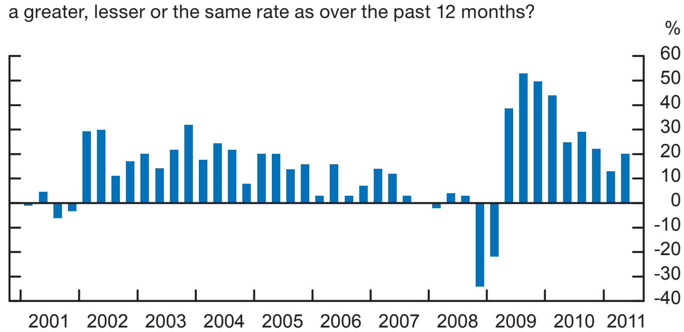


Greater: 52% Same: 21% Lesser: 28%

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

Chart 2: . . . and expect sales volumes to rise at a greater rate over the next 12 months

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: 49% Same: 23% Lesser: 29%

* 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. The summer 2011 survey was conducted from 24 May to 16 June 2011. 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.

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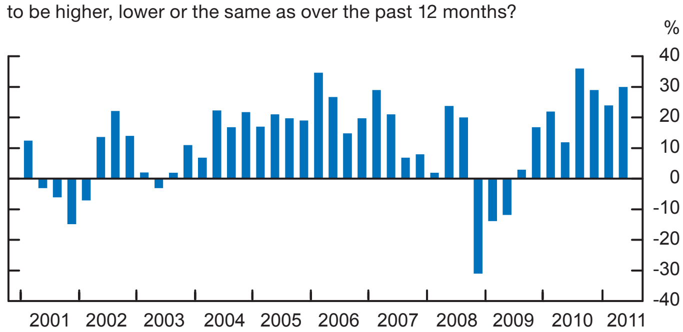
the strong demand for commodities and related products, firms tied directly or indirectly to the resource sector—notably those in Western Canada—are the most optimistic about sales prospects. Firms based in Central and Eastern Canada generally expect sales growth to be similar to that over the past 12 months, given an economic backdrop characterized by continuing softness in U.S. demand, strong competition and a high Canadian dollar. Nonetheless, a number of firms reported that they expect to benefit from recent efforts to reposition their businesses or diversify their markets.

Continued strength in the balance of opinion on investment in machinery and equipment is evident across most regions and sectors (**Chart 3**). As in recent surveys, intentions to increase investment spending over the next 12 months reflect plans for expanding production or improving productivity to enhance competitiveness.

Chart 3: Firms expect to increase 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: 48% Same: 35% Lower: 18%

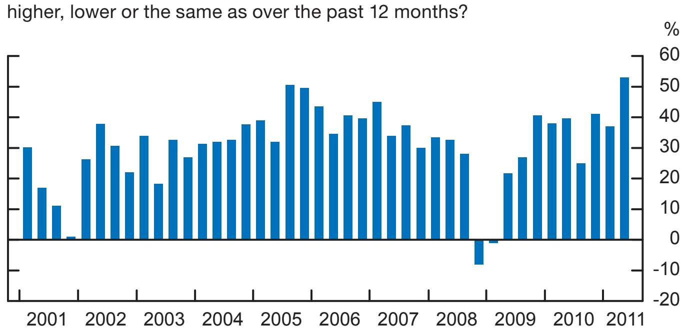
* Percentage of firms expecting higher investment minus the percentage expecting lower investment

The balance of opinion on employment has risen to a record-high level (**Chart 4**). Intentions to increase employment over the next 12 months were widespread across all regions and sectors, particularly in the services sector. Firms generally expect to hire staff to accommodate prospects for growth or to support plans for expansion.

Chart 4: The balance of opinion on employment has reached a record high

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: 57% Same: 39% Lower: 4%

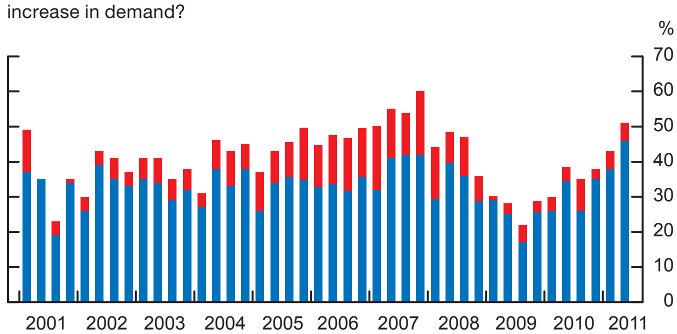
* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Pressures on Production Capacity

The percentage of firms reporting that they would have difficulty meeting an unexpected increase in demand moved up in the summer survey (**Chart 5**). With little change in the results for Western Canada, the increase was driven by firms in Central and Eastern Canada, where more businesses reported that they would face "some" difficulty if demand were to increase unexpectedly. While the overall level of this indicator moved into the range observed over the late-2005 to 2007 period, considerably fewer firms describe the pressures they are experiencing as "significant."

Chart 5: Capacity pressures have moved up, although few firms characterize pressures as "significant" . . .

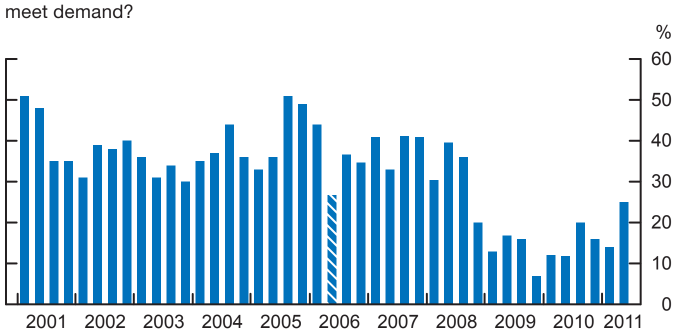
How would you rate the current ability of your firm to meet an unexpected increase in demand?



Significant difficulty: 5% Some difficulty: 46%

Chart 6: . . . and reports of labour shortages have moved up as well

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



Yes: 25%

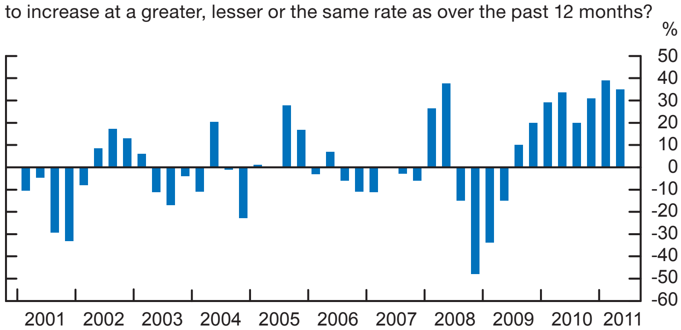
The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

Firms indicated somewhat more difficulty finding workers than in recent surveys, as the percentage of firms reporting that labour shortages are restricting their ability to meet demand moved up (**Chart 6**). While firms generally consider that there is less labour market slack than 12 months ago, the share of firms currently facing labour shortages remains below the survey average.

Chart 7: Firms expect input prices to increase at a greater rate . . .

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: 50% Same: 36% Lesser: 15%

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

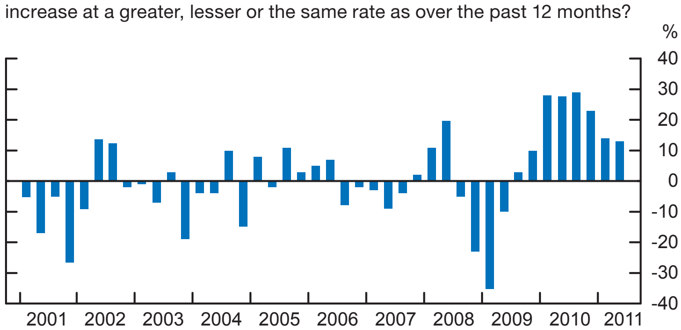
Prices and Inflation

The balance of opinion on input prices edged down but is little changed from its high level in the spring survey (**Chart 7**), and indicates that firms expect the prices of inputs to rise at a faster pace over the next 12 months than over the past 12 months. Firms most often cited higher prices for commodities and related inputs as the main driver of their expectations for input costs. Some firms also referred to rising costs of intermediate goods and contractual services.

Chart 8: . . . and, on balance, expect output prices to increase at a greater rate

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: 36% Same: 41% Lesser: 23% No response: 1%

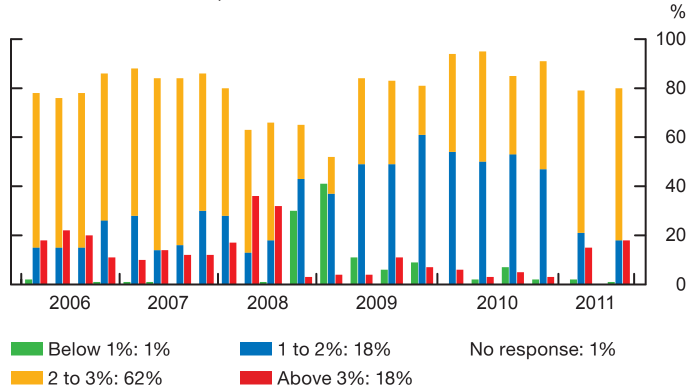
* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

On balance, firms expect their output prices to rise at a greater rate over the next 12 months (**Chart 8**). As in the spring survey, however, the balance of opinion on output prices is lower than that on input prices. Many firms continue to report that they face competitive pressures that limit their ability to pass on cost increases to customers.

Expectations for total CPI inflation over the next two years are little changed from the spring survey. Inflation expectations continue to be concentrated within the Bank's inflation-control range of 1 to 3 per cent, with the majority of firms in the upper half of that range (**Chart 9**).

Chart 9: Inflation expectations continue to be concentrated in the Bank's inflation-control range of 1 to 3 per cent

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



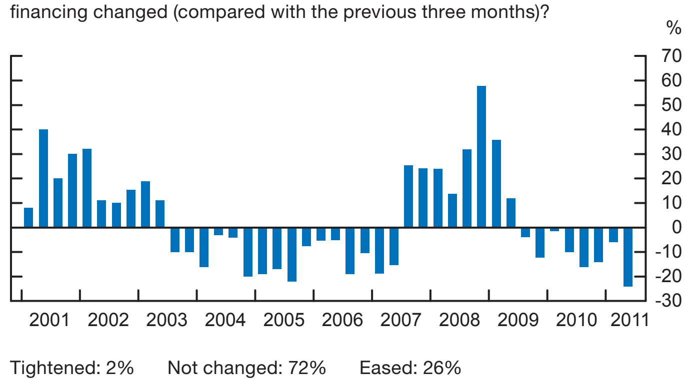
Credit Conditions

Most firms that observed a change in the terms and conditions for obtaining financing over the past three months indicated an easing. The prevalence of reports of easing relative to tightening resulted in a record-low level for the balance of opinion on credit conditions (**Chart 10**), and points to an improvement in conditions over the past three months. On balance, compared with recent surveys, reports of easing were more broadly based across sectors, regions and firm size.

Chart 10: The balance of opinion on credit conditions points to easing over the past three months

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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