BANK OF CANADA
BANQUE DU CANADA

Business Outlook Survey

Conducted by the Bank's Regional Offices

Results of the Winter 2011–12 Survey Vol. 8.4 9 January 2012

Overview

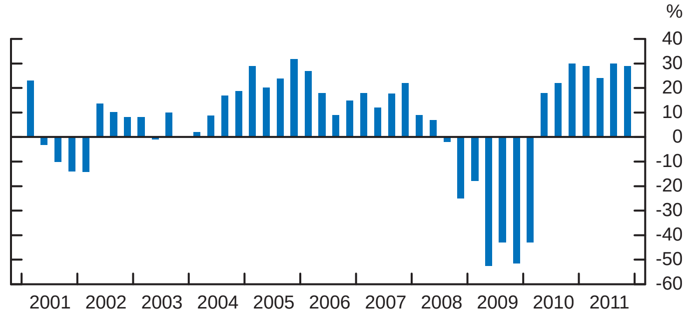
- Responses to the winter survey suggest that the global economic outlook and concerns about demand continue to weigh on firms' expectations for business activity.
- While the indicator of past sales activity has held up, the balance of opinion on future sales has turned slightly negative, as firms in Western Canada expect sales growth to slow from the recent strong pace and those elsewhere generally expect growth to remain modest. Firms still expect to increase investment and employment, although the balances of opinion remain below the high levels reached earlier in the year.
- Reports of capacity pressures and labour shortages are little changed, with somewhat greater pressure in the West largely offset by less pressure elsewhere. On balance, firms expect input prices to rise at about the same pace over the next 12 months and output prices to rise at a slower rate. Inflation expectations are essentially unchanged.
- Businesses no longer report a net easing in credit conditions.

Business Activity

The balance of opinion on past sales growth remains strongly positive (**Chart 1**), with many firms in Western Canada or those tied to commodity-related activity

Chart 1: Firms report an improvement 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?

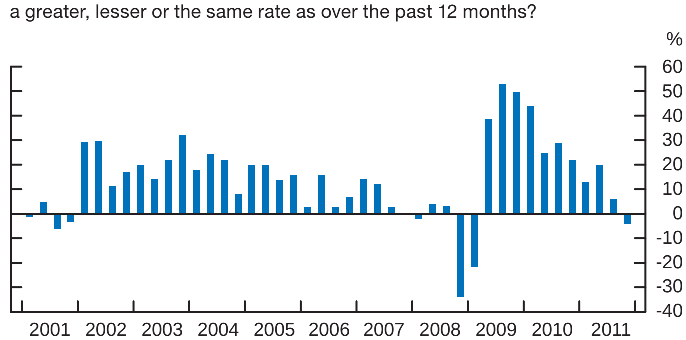


Greater: 54% Same: 21% Lesser: 25%

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

Chart 2: . . . but, on balance, are not expecting an increase in sales growth 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: 37% Same: 22% Lesser: 41%

* 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 winter 2011–2012 survey was conducted from 14 November to 14 December 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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reporting robust sales over the past 12 months. The balance of opinion on future sales growth has eased for the second consecutive survey, however, falling to just below zero (**Chart 2**). Firms in Western Canada, notably those in the Prairies, expect sales growth to slow from the recent strong pace, while others continue to expect modest growth similar to that experienced over the past 12 months. Overall, the weak U.S. economic outlook, concerns about adverse effects from the situation in Europe and an expected slowing in household spending were among the factors dampening sales prospects. Of those firms anticipating higher sales growth over the next 12 months, many cite plans for new product development or diversification into new domestic or external markets.

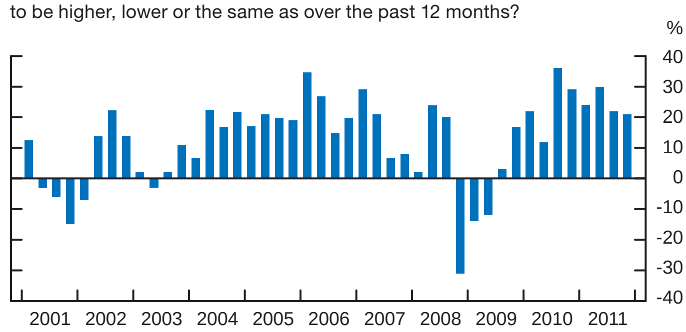
After moderating in the autumn survey, the balance of opinion on investment in machinery and equipment is essentially unchanged (**Chart 3**) and continues to point to an increase in investment spending over the next 12 months. Intentions to increase investment are being supported by efforts to reduce costs, seize new opportunities or reposition through expansion. Some firms report that volatility in financial markets and global economic uncertainty have led them to curtail, or alter, their investment plans.

Following a decline in the autumn survey, the balance of opinion on employment moved up (**Chart 4**). Intentions to increase employment over the next 12 months are more widespread in the Prairies region than elsewhere. Firms reporting capacity constraints stemming from a fully utilized labour force were more likely to report plans to expand their workforces.

Chart 3: Firms still plan to increase investment, but remain somewhat cautious

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?



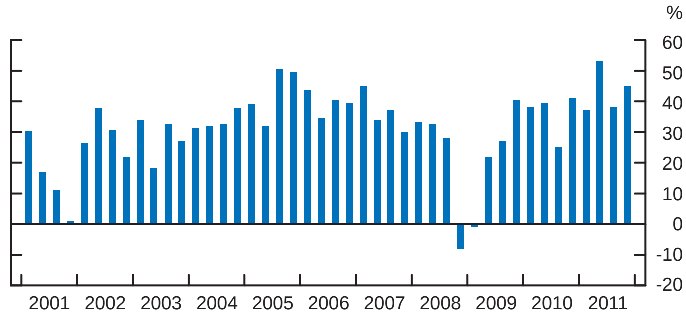
Higher: 40% Same: 41% Lower: 19%

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

Chart 4: Intentions to increase employment rose modestly

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: 54% Same: 37% Lower: 9%

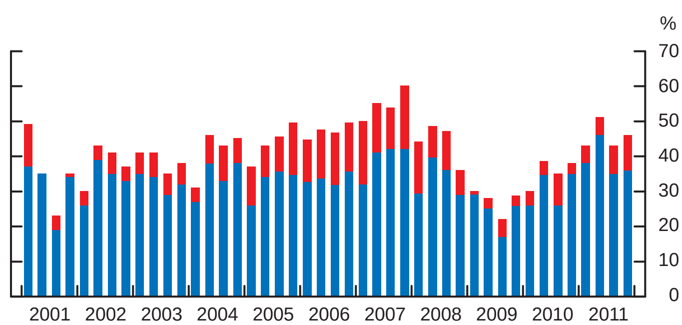
* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Pressures on Production Capacity

The percentage of firms reporting that they would have some or significant difficulty meeting an unexpected increase in demand is little changed from the previous survey (**Chart 5**). Capacity pressures continue to be more evident in Western Canada than elsewhere, with those reporting "significant difficulty" heavily concentrated in that region.

Chart 5: Capacity pressures are little changed

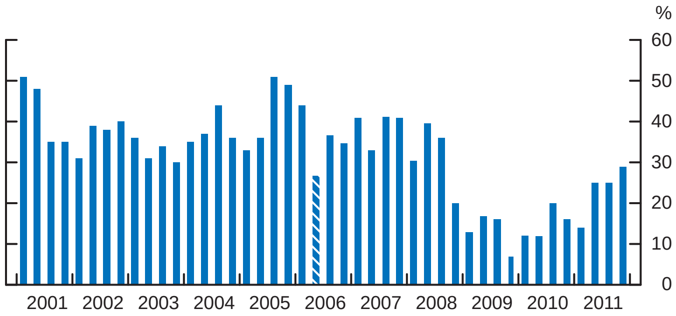
How would you rate the current ability of your firm to meet an unexpected increase in demand?



Significant difficulty: 10% Some difficulty: 36%

Chart 6: Reports of labour shortages are essentially unchanged

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



Yes: 29%

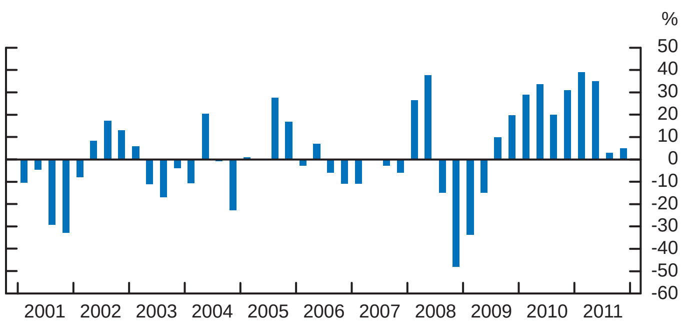
The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

The percentage of firms reporting that labour shortages are currently restricting their ability to meet demand is little changed from the autumn survey (**Chart 6**). Reports of labour shortages rose notably in Western Canada, but this was mostly offset by a decline in Central and Eastern Canada.

Chart 7: Firms expect input prices to rise at about the same 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: 28% Same: 49% Lesser: 23%

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

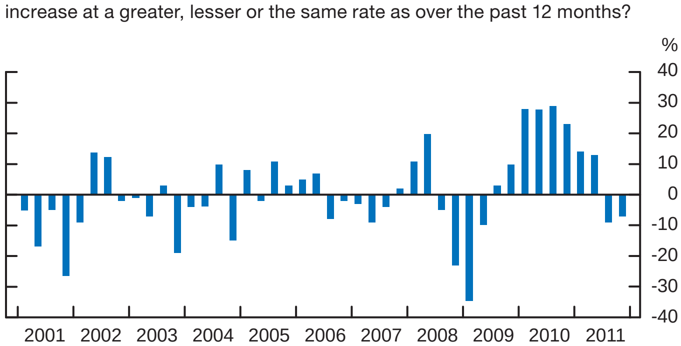
Prices and Inflation

The balance of opinion on input prices remains close to zero, indicating that firms expect the cost of inputs to rise at about the same rate as over the previous 12 months (**Chart 7**).

Chart 8: . . . and output prices to increase at a slower 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: 30% Same: 33% Lesser: 37%

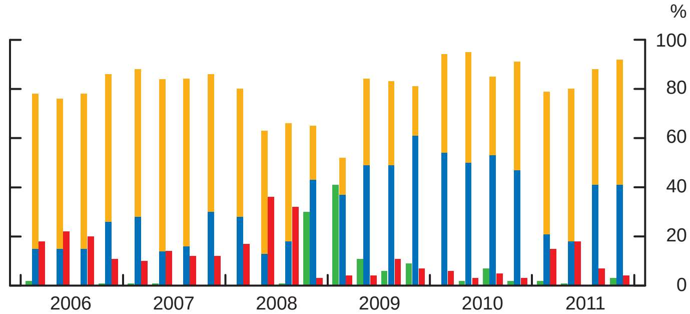
* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

The balance of opinion on output prices is modestly negative for a second quarter, suggesting that firms expect their output prices to increase at a slower rate over the next 12 months (**Chart 8**). Firms generally cite weaker demand conditions or competitive pressures as the main factors restraining increases in output prices. The view that output prices will rise at a slower rate is most widespread among firms in the services sector.

Expectations for total CPI inflation over the next two years are similar to those in the autumn survey. Inflation expectations continue to be concentrated within the Bank's inflation-control range of 1 to 3 per cent (**Chart 9**).

Chart 9: Inflation expectations are concentrated within the Bank's inflation-control range

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



Below 1%: 3% | 1 to 2%: 41% | No response: 1%
2 to 3%: 51% | Above 3%: 4%

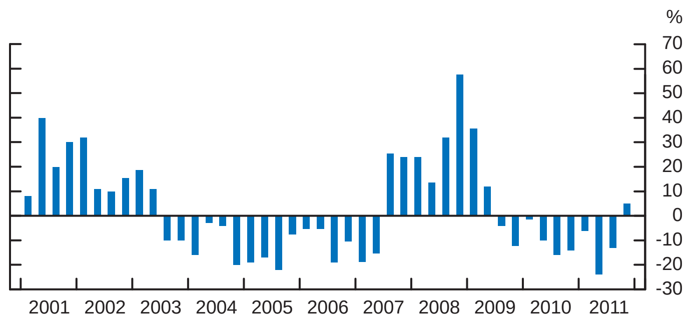
Credit Conditions

The balance of opinion on the terms and conditions for obtaining financing rose to just above zero in the winter survey (**Chart 10**), as firms no longer report a net easing in credit conditions. The change in the balance of opinion was due to an increase in the percentage of firms reporting that credit conditions had tightened over the past three months. These reports were more evident among large and medium-sized firms and/or those that source financing from domestic capital markets. An increase in borrowing costs was the most commonly cited reason for a tightening in credit conditions.

Chart 10: Firms no longer report a net easing in 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)?



Tightened: 28% Not changed: 49% Eased: 23%

* 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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