

Business Outlook Survey: Losing Altitude

The Bank of Canada's latest quarterly Business Outlook Survey showed an economy still operating at very high levels but losing momentum as tighter credit conditions, a strong loonie and weaker U.S. demand take a toll. Most importantly, the outlook for sales growth was the weakest since 2001, when the U.S. economy was in recession. Although investment intentions crept up in Q4, they weakened substantially in the second half of last year due to the tougher environment for getting financing, though respondents reported somewhat less difficult terms in Q4 than in Q3. Because of the increased uncertainty about the economic outlook, firms plan to slow the pace of hiring over the next 12 months, suggesting the weak December jobs report may not be an anomaly.

There was mixed news on the inflation front. Although the highest percentage of firms on record reported greater difficulty meeting an unexpected increase in demand, inflation expectations actually moderated as more firms believe that the strong currency and softer commodity prices will restrain input prices over the next year.

(balance of opinion, greater
minus lesser, %)

	07Q4	07Q3	07Q2	07Q1	06Q4	06Q3
Difficulty Meeting Increased						
Demand**	60.0	54.0	55.0	50.0	49.5	46.6
Future Sales Growth	0.0	2.9	12.0	14.0	6.9	3.0
Investment in M&E	8.0	6.9	21.0	29.0	19.8	14.9
Employment	30.0	37.3	34.0	45.0	39.6	40.6
Labour Shortages**	41.0	41.0	33.0	41.0	35.0	37.0
Input Price Inflation	-6.0	-2.9	0.0	-11.0	-10.9	-5.9
Output Price Inflation	2.0	-3.9	-9.0	-3.0	-2.0	-7.9

** (Yes, % of firms)

The Bottom Line: The survey points to a moderation in Canadian economic growth and less capacity pressures in the year ahead, which will keep underlying inflation on a downward keel. The door remains open for further monetary easing in the months ahead, though still tight capacity will keep the pace of rate cuts mild.

Sal Guatieri, 416-359-5295