

Spending/Lending Stoking Recovery

Canadian businesses are preparing to spend more, on hiring along with machinery and equipment, in response to surging sales expectations. Meanwhile, credit conditions and bank lending standards are stabilizing, according to the Bank of Canada's latest Business Outlook Survey (BOS) and Senior Loan Officer Survey (SLOS).

The BOS (conducted from 24 August to 17 September) showed the balance of opinion about future sales growth above 50% for the first time ever. The survey only started in 1998, so we don't have another post-recession period to compare it to. But the fact that the balance exceeds the early part of this decade, when the U.S. was recovering from recession and helping boost Canadian sales, suggests that business sentiment is indeed upbeat. In response, hiring and investment intentions are the highest they have been in a year (before the recession began). In other words, the back-to-back monthly employment gains also reported today were no fluke.

For the first time since the global credit crisis began during the summer of 2007, businesses perceive net easier credit conditions, albeit only modestly. Loan officers are still leaning ever so slightly on the net tightening side, so the overall picture is more of stabilization. Importantly, despite brighter spending and lending prospects, Canada still exhibits significant economic slack. The share of firms reporting at least some difficulty in meeting unexpected demand fell to its lowest level since this survey question started a decade ago. The Bank of Canada is already pegging the output gap at -4.3%, the lowest level in 26 years.

(balance of opinion, greater
minus lesser, %)

	09Q3	09Q2	09Q1	08Q4	08Q3	08Q2
Difficulty Meeting Increased Demand*	22.0	28.0	30.0	36.0	47.0	48.5
Credit Conditions	-4.0	12.0	36.0	58.0	32.0	13.6
Future Sales Growth	53.0	39.0	-22.0	-34.0	3.0	4.0
Investment in M&E	3.0	-12.0	-14.0	-31.0	20.0	23.8
Employment	27.0	22.0	-1.0	-8.0	28.0	32.7
Labour Shortages*	16.0	17.0	13.0	20.0	36.0	40.0
Input Price Inflation	10.0	-15.0	-34.0	-48.0	-15.0	37.6
Output Price Inflation	3.0	-10.0	-35.0	-23.0	-5.0	19.8

* (Yes, % of firms)

The Bottom Line: These business spending and lending prospects are the stuff of a more robust recovery. Fortunately, the Bank of Canada can let this run for a while, owing to the massive amount of inflation-absorbing economic slack, augmenting what are also improvements in consumer spending and lending prospects, and ensuring that the budding economic expansion sprouts deep roots.

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