Data Release: Oil price collapse hits business outlook in Q4

Business Outlook Survey

- The Bank of Canada's Winter Business Outlook Survey (BOS) showed an improvement in opinion on sales over the past 12 months. However, that is where the optimism ends, with the rest of the measures saw sentiment deteriorate. Business sentiment remains positive overall, but the collapse in oil prices has significantly dampened the outlook for firms tied to the energy sector.
- The balance of opinion on future sales deteriorated sharply in Q4, to its lowest level since the third quarter of 2012. However, the balance of opinion remained positive overall, indicates firms expect a modest acceleration in sales over the next 12 months.
- Canadian firms investment intentions are also markedly lower than in Q3, primarily due to firms based in Western Canada. Firms in Eastern and Central Canada still plan to increase their investment spending. Report of higher investment in machinery and equipment are more widespread in the manufacturing sector.
- Hiring intentions also fell in the fourth quarter, primarily due to a decline in the number of firms planning to increase employment over the next year to 43%, from 53% in Q3. The worsening in the balance of opinion on hiring intentions was relatively less severe, remaining higher than it was in Q2. Again, hiring plans for companies on the Prairies declined. Notably, firms expecting to benefit from improved economic conditions in the U.S. were more optimistic than domestically oriented firms.
- Notably, inflation expectations declined. The majority of firms expect inflation to be in the bottom half of the BoC's 1-3% range. But, almost all respondents anticipate that inflation will be within the Bank's inflation-control range. Firms expect input prices to increase at a similar pace as over the previous 12 months, while output prices are expected to rise at a slower pace over the next 12 months. Intense competition continues to be cited as a factor restraining output prices.
- The majority of firms reported no change in credit conditions in the fourth quarter. Firms who source funding from capital markets reported a tightening, however most businesses characterized credit as easy to obtain.

Senior Loan Officer Survey

- The Q4 Senior Loan Officer Survey (SLOS) also showed that overall business lending conditions were nearly unchanged. On the demand side, a net increase in the demand for credit was seen from small business and commercial borrowers, while corporate demand was reported as unchanged.

Key Implications

- Given the collapse in oil prices, the deterioration in sentiment seen in the BOS is discouraging but not surprising. That said, there do appear to be optimistic offsets coming from businesses tied to the upswing in economic activity south of the border.
- Business investment has been a weak spot in the Canadian economy, and the winter BOS suggests that it may still be some time before we see an improvement in investment, although there was some good news from the manufacturing sector. The weakening in hiring intentions was less severe, again with stronger growth expected in the United States providing an offset.
- The survey was conducted between Nov 17th and Dec. 11th, and so would have captured some of the oil price collapse, but prices have only continued to slide since then. The softening in business sentiment,
combined with slightly lower inflation expectations, underscores that the Bank of Canada will likely be very patient before taking interest rates higher.

Leslie Preston, Economist
416-983-7053

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