The Bank of Canada's Spring Business Outlook Survey (BOS) showed that business sentiment continued to deteriorate in the first quarter of 2015, as lower oil prices pinched the energy sector. The Bank did note that a majority of respondents are benefiting from stronger growth in the United States and the boost in competitiveness from the weaker Canadian dollar.

The balance of opinion on future sales worsened further in Q1, after having deteriorated sharply in Q4. On balance, businesses do not expect a material increase in sales over the next year. The number of respondents expecting an outright contraction in sales over the next year also increased. The Bank also reported that the increase in negative sentiment is starting to spillover to non-energy sectors.

The balance of opinion on plans to invest in machinery and equipment also deteriorated further in Q1. Weakness was concentrated in the goods sector and among firms adversely affected by higher oil prices. However, the Bank mentioned that the positive effects of a stronger US economy and weaker loonie are taking time to materialize on investment intentions. In contrast, firms in Central Canada and in the services sector had stronger investment intentions.

Hiring intentions also fell in the first quarter. While the energy sector plans outright reductions in its workforce, hiring intentions were weaker in most regions and sectors as firms desire greater efficiency. There was little change in measures of capacity pressures, and labour shortages remain low. The Bank states that a decline in the intensity of labour shortages signals somewhat higher labour market slack than in the previous survey.

Inflation expectations were little changed from Q4. The majority of respondents expect inflation to be in the bottom half of the Bank's 1-3% target range.

The survey also pointed to an easing in credit conditions for businesses over the past three months. The Bank mentioned that firms that cited an easing in credit conditions "often" attributed it to modestly lower borrowing costs.

The Q1 Senior Loan Officer Survey (SLOS) indicated that overall business lending conditions were broadly unchanged, but tightened for the oil and gas sector. Tightening was seen in non-price conditions, which was attributable to the oil and gas sector, while price conditions eased slightly.

The further deterioration in business sentiment seen in the Q1 BOS is consistent with an economy where growth is expected to be broadly flat in the first quarter. The oil price collapse is taking a toll on Canada's economy, which we expect to show up most notably in an outright contraction in business investment in 2015. That forecast is consistent with this survey, which showed that firms are quite pessimistic about expanding their capacity over the next year. The balance of opinion on both hiring and investment were at their weakest level since the recession.

However, a stronger U.S. economy, lower energy costs and the competitiveness-enhancing effects of a weaker Canadian dollar are providing important offsets, particularly for regions of the country that are less exposed to the oil and gas sector. The results are consistent with the Bank's narrative that while the hit to the oil patch is immediate, some of the positives take longer to boost the economy. The survey was conducted between February 17th and March 12th, so would have included the reaction to the Bank...
of Canada’s surprise rate cut in January, which likely showed up in the easing in price conditions for credit.

- All told, a further deterioration in business sentiment was broadly expected, and there is little in this report that would suggest a further easing by the Bank of Canada at its rate announcement next week.

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