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TD Economics

Data Release: Canadian business marginally more optimistic in third quarter

- The Bank of Canada's quarterly Business Outlook Survey (BOS) suggests that Canadian business sentiment improved slightly in the third quarter. Survey respondents perceive a bottoming-out as occurring in the resource sector, and see a supportive export environment even as expectations of U.S. growth have trended down.
- The past 12 months saw flat sales growth – the fifth consecutive survey in which this has been the case. The balance of opinion on future sales growth remained positive (balance: +12; previous: +5), with a marked improvement in the indicators of future sales (balance: +21; previous: +4), such as advance orders and sales inquiries.
- After several quarters of weakness, the balance of opinion regarding future investment picked up, albeit slightly. The improvement was reported to be largely among firms in the service sector as investment intentions among manufacturers remained weak. Employment intentions also improved, with positive intentions more widespread across the country – seemingly related to the potential end of job cuts among firms in the Prairies.
- On the inflation front, it was a slightly less positive story. Input prices are expected to stabilize, while competitive pressures are expected to slow output price growth. The share of firms expecting inflation in the bottom half of the control band (i.e. between 1% and 2%) rose again, reaching 76% of respondents – the highest ever recorded level, with sluggish economic growth cited as the driver.

Senior Loan Officer Survey

- Also released today was the Senior Loan Officer Survey. Credit conditions were largely unchanged after tightening somewhat in prior quarters. This largely reflects unchanged price conditions, as non-price conditions tightened slightly. The tightening on the non-price side of lending was largely focused on corporate borrowers in the oil and gas sector, while conditions were unchanged for small business and commercial borrowers. Demand for credit fell in the third quarter, driven by non-corporate borrowers.

Key Implications

- That could have been worse. Despite the numerous headwinds currently facing the economy, firms have become slightly more optimistic about their prospects. However, even with the improvement, business optimism about the future remains well below historic trends, likely reflecting the challenge of operating in a slow growth environment. Moreover, the reliance on foreign demand underscores the challenging domestic environment currently facing Canada.
- From the Bank of Canada's perspective, the BOS will likely stir mixed feelings. Governor Poloz will undoubtedly be happy to see an improvement in the business outlook, no matter how small. At the same time, the record high share of firms expecting inflation in the bottom half of the control band is not inspiring. On balance, we doubt that the Bank of Canada will be moved by the survey results, and remain of the view that the monetary policy rate will be maintained at 0.50% on October 19th.

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