

TD Economics

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Data Release: Bank of Canada's Business Outlook Survey shines light on future economic growth

- The Bank of Canada's summer outlook survey showed that businesses remain optimistic that the Canadian economic recovery will remain on track.
- Not surprisingly, the number of firms who experienced stronger demand over the last twelve months picked up in the second quarter, supported by the global and Canadian economic recovery that began in the late summer of last year. More importantly, 53% of firms expect sales growth to pick-up in the next twelve months. The share of firms that expect sales growth to accelerate in the coming year has fallen from 64% in Q1, but remains at historically high levels.
- Despite the optimism over demand, businesses appear more cautious about making large outlays in the near future. The share of firms expecting to ramp up business investment in the next year fell to 38% from 43% in the previous quarter. Meanwhile, the share of firms anticipating to increase employment stayed constant at 50% - which is comparable to pre-recession levels.
- The survey also indicates that the slack accumulated over the downturn continues to be eaten up. There was a significant increase in the share of firms who experienced some difficulty in meeting demand to 35%, up from 26% in the previous quarter. Still, a record low number of firms (4%) reported having significant difficulties meeting demand. Moreover, inflation expectations continued to recovery from record low levels. The share of firms expecting inflation to fall below 1% fell to zero, a record low. The percent of firms expecting inflation in the range of 2-3% increased to 45% from 40%, but also remains historically low. On average the majority of firms expect inflation to remain within 1-2%.

Key Implications

- On balance, the Bank of Canada's business outlook survey is a good indication that despite fears over a slowdown in U.S. and global economic growth, businesses remain confident that the economic recovery will continue. Still, the survey results did provide an indication that the pace of recovery is beginning to wind down.
- As a leading indicator, the survey suggests we can expect good things from the economic data in the coming months. The strongest aspect of this report was employment intentions. However, this may be largely concurrent with the strong employment gains of 175,000 already registered in the second quarter.
- The drop in the number of firms that anticipate future sales to rise was not unexpected, and underscores the belief that some fears over a U.S. double-dip recession have resurfaced. It's not just an external story, as other data suggests that domestic spending is beginning to moderate to a more sustainable pace.
- Nonetheless, the report was a positive one, and gives the Bank of Canada good reason to continue with a second rate hike of 25 basis points next week.

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