TD Economics

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Data Release: Canadian firms finish 2016 with an improved outlook

- The Bank of Canada's quarterly Business Outlook Survey (BOS) reported another improvement in Canadian business sentiment in the fourth quarter of last year. Respondents pointed to improving domestic sales momentum, while the negative effects of the oil price shock continue to fade.
- Sales growth over the past 12 months has stabilized, as the balance of opinion was effectively unchanged from the previous survey. Firms are much more optimistic about the future. The balance of opinion on future sales improved again, and now exceeds the historic average (current: +26, historic average: +14.4). Firms again pointed to the lower level of the Canadian dollar and U.S. demand as supporting future sales, although a high level of uncertainty surrounds the outlook in light of the U.S. election outcome.
- Intentions around future investment improved again (current: +24, previous: +18), as fewer firms reported plans to reduce investment. Expenditures plans are reported to be smaller-scale in nature, although some firms do report planning to expand operations via new establishments. Similarly, the balance of opinion surrounding future hiring improved as more firms reported plans to hire, and fewer firms reported plans to reduce staff levels. As well, measures of both the scale and intensity of labour shortages ticked up again.
- In a reversal of the last survey's results, the balance of firm opinion points to rising input and output price growth over the next 12 months. Accordingly, while the balance of opinion around future price growth remains concentrated in the Bank of Canada's 1% to 3% 'control band', the share of firms expecting price growth of 2% to 3% rose, as did the share of those reporting year-ahead inflation expectations above 3%.

Senior Loan Officer Survey

- Released alongside the BOS, the Senior Loan Officer Survey reported that credit conditions were largely unchanged. Non-price lending conditions eased slightly, while price conditions were unchanged. The easing of non-price conditions was reported linked to increased competition among commercial and small business lending in Ontario. The survey also reported a slight decrease in demand from small business and commercial borrowers (nationally), while corporate demand was unchanged.

Key Implications

- The healing process continues. Canadian firm optimism continues to improve as the impacts of the oil price shock continue to fade. Indeed, in several key categories, notably investment intentions and the outlook for future sales, the balance of opinion has recovered to levels last seen in 2014. If there is a fly in the ointment, it is the reported heightening of uncertainty in light of the U.S. election outcome. Regardless, today's report is consistent with an economy that has put the worst impacts of the oil shock behind it.

- The Bank of Canada will likely be pleased to see the continued gains in business sentiment, but is unlikely to be stirred to action. This is because any improvement in investment will be starting from a much lower level – Canadian business investment has shrunk for nearly two years straight, and it be a long time before previous levels are reached. As a result, Governor Poloz will not follow the Federal Reserve, and is likely to instead keep the policy interest rate at its current level of 0.50% for some time to come, helping the investment recovery process.

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