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TD Economics

Data Release: Canadian firms remained optimistic in early 2017.

- The Bank of Canada's quarterly Business Outlook Survey (BOS) pointed to continued optimism among Canadian businesses, supported by gains in indicators of future sales and further improved investment intentions.
- On a backward-looking basis, sales growth has been stable, with the balance of opinion remaining effectively unchanged for a seventh straight quarter (balance of opinion: +2). On a forward-looking basis it was a more positive story. Sentiment for sales over the next 12 months fell slightly on balance, but remained near recent highs at +21. Moreover, the 'indicator of future sales' (based on order books, sales inquiries, etc.) climbed sharply, reaching +46 (Q4 survey: +32). Rebounds in energy-related activity and the level of the loonie were both cited as factors supporting the sales outlook.
- Firms were also more optimistic regarding the outlook for investment. At +35, the balance of opinion on investment now sits near all-time highs as the share of firms planning to decrease spending dropped for a fourth straight quarter. Although sentiment improved, the Bank of Canada noted that many firms expect the anticipated increase in spending to be "modest" in scope.
- Hiring intentions were effectively unchanged from the previous survey, as more than half of firms expect to increase their staffing levels.
- There was not much reported in terms of burgeoning price pressures. The pace of output price growth is expected to remain around current levels on balance despite a modestly positive balance of sentiment around input prices. Consistent with this, 64% of respondents expect inflation over the next two years to be between 1% and 2%, with only 30% expecting price growth of 2% to 3%.

Senior Loan Officer Survey


- The Bank of Canada also released its Senior Loan Officer Survey, which pointed to a third quarter of effectively unchanged business lending conditions. In aggregate, both price and non-price conditions were unchanged. Overall demand for credit was reported to have decreased in the first quarter owing to substitution to capital market fundraising among corporate borrowers.

Key Implications

- Add another tick to the 'plus' column for the Canadian economy. Canadian firms remained optimistic on balance, and the details of the report were encouraging. Although there are caveats around what pace it may translate to, investment intentions are sitting at historic highs, and the outlook for hiring remains healthy. The BOS suggests that while the hot pace of first quarter activity is not likely to be repeated, it may be reasonable to expect solid economic momentum as we head into the remainder of 2017.
- The Bank of Canada is undoubtedly pleased with today's report, but it is not likely to change the dovish tone of recent communications. Governor Poloz has remained focused on the downside risks, and the possibility that Canada may be in the midst of a 'false start'. To his point, the

outlook for machinery and equipment investment showed steady improvement throughout 2016, and yet actual investment fell over this time (although a box in today's report suggests that the BOS as a whole may provide a better indication of the path of investment). Until intentions begin translating into actual investment, Bank of Canada officials appear likely to downplay today's BOS and the recent improvement in the Canadian economic data more broadly.

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