



BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices



Results of the Winter 2006–07 Survey

Overview

- The results of the winter survey are little changed from those of the previous survey.
- On balance, businesses expect their sales over the next 12 months to increase at a rate slightly above that posted during the preceding 12 months. Hiring and investment intentions have not changed significantly since the last survey.

Business activity

- The balance of opinion regarding future sales growth is slightly positive. Overall, firms in Central and Eastern Canada expect an improvement in their sales growth. As in the previous survey, many firms in Western Canada do not expect to surpass the recent high rates of growth.
- Pressures on production capacity remain in the same range as those in the past several surveys. They continue to be stronger in Western Canada, where labour shortages are also more prevalent.
- Investment and hiring intentions remain firm in most sectors.

Prices and inflation

- On balance, firms expect slower growth of input prices over the next 12 months, but they expect output prices to rise at about the same rate as over the past year.
- After remaining stable during the past several surveys, expectations about consumer price inflation have fallen. They continue to be concentrated within the Bank's inflation-control target range of 1 to 3 per cent.

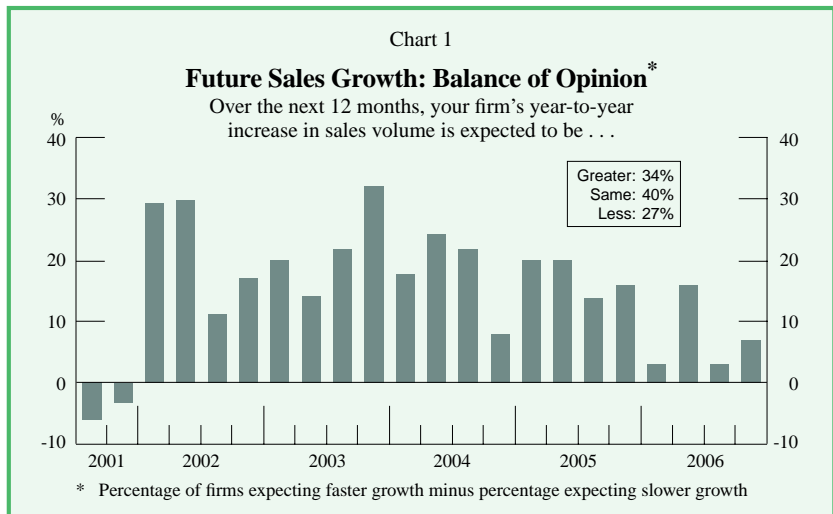
The Business Outlook Survey summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Details of the survey and its content are discussed in the article, "The Bank of Canada's Business Outlook Survey," published in the spring 2004 issue of the Bank of Canada Review. The winter 2006–07 survey was conducted from 14 November to 8 December.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

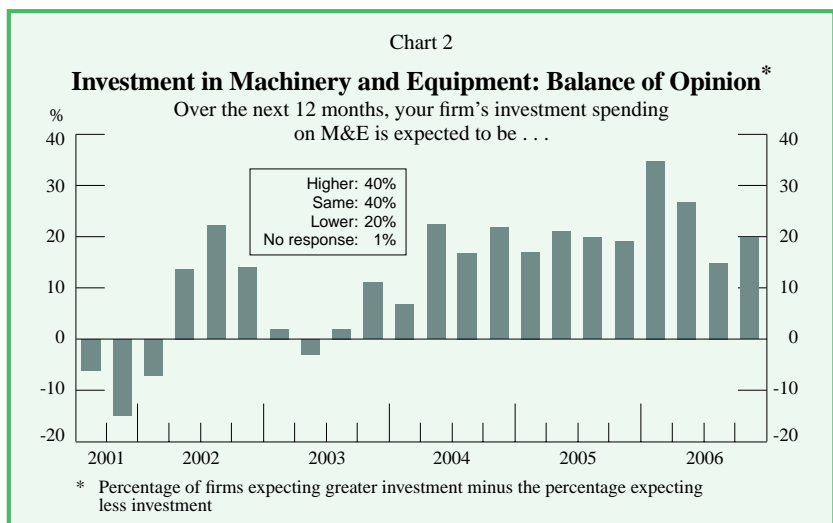
Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)

Outlook for Business Activity

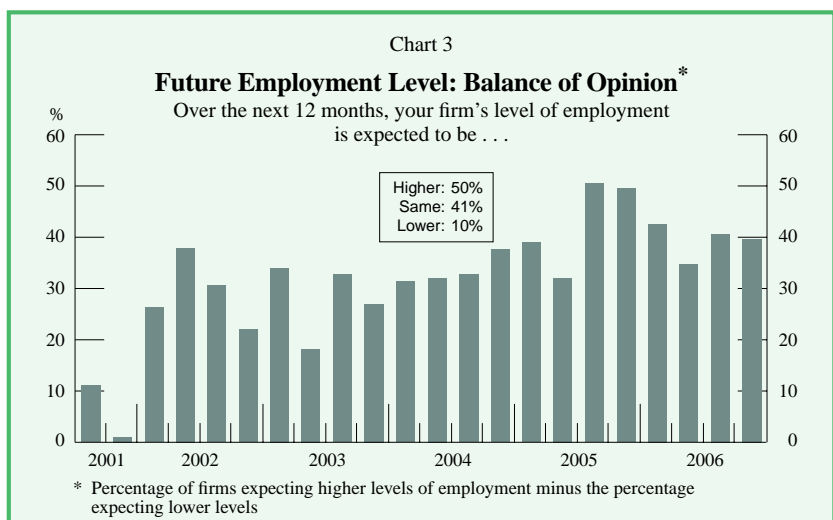
- The balance of opinion regarding future sales growth has risen somewhat. Compared with the previous survey, prospects have improved in Central and Eastern Canada. Once again, many firms in Western Canada expect that their already robust sales growth will not accelerate further.



- The balance of opinion on investment in machinery and equipment remains solid in most sectors. In Western Canada, after having peaked in the spring of 2006, the balance of opinion regarding investment has gradually returned to its historical average. In contrast, the investment intentions of firms in the rest of the country have, on balance, improved since the previous survey.

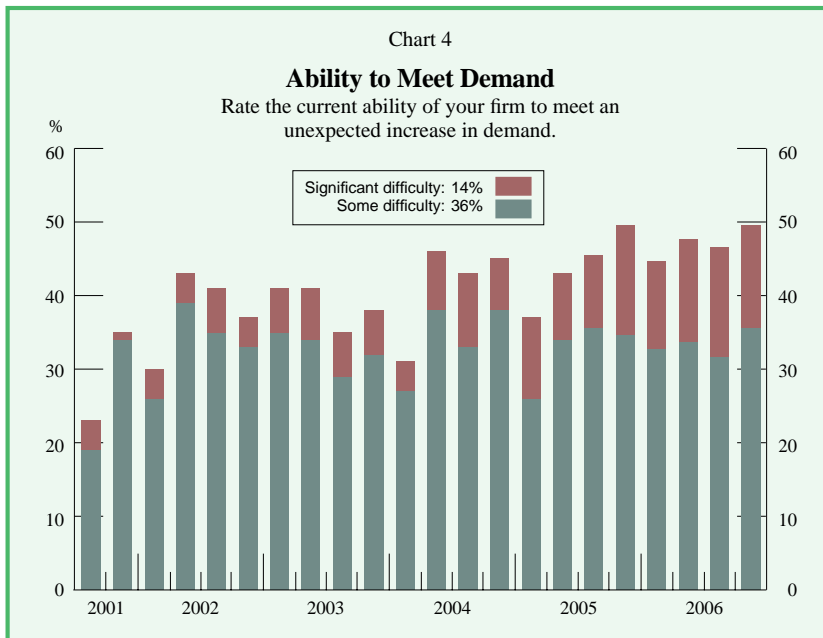


- Hiring intentions remain virtually unchanged, and high relative to the historical average. They are more robust in the services sector than in the goods-producing sector.

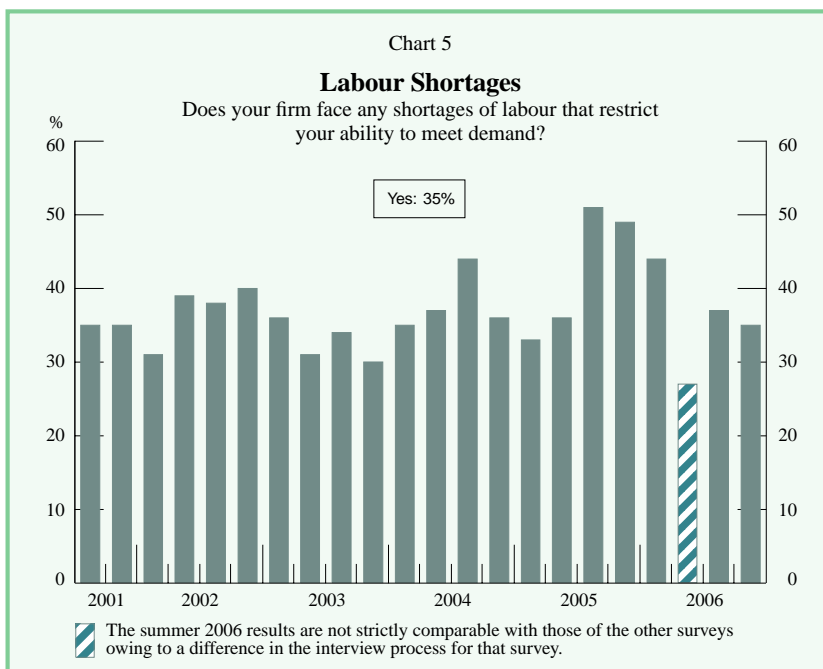


The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between +100 and -100. A strong positive balance of opinion suggests an acceleration in the trend growth rate over the previous period. Note: Percentages may not always add to 100 because of rounding.

Pressures on Production Capacity



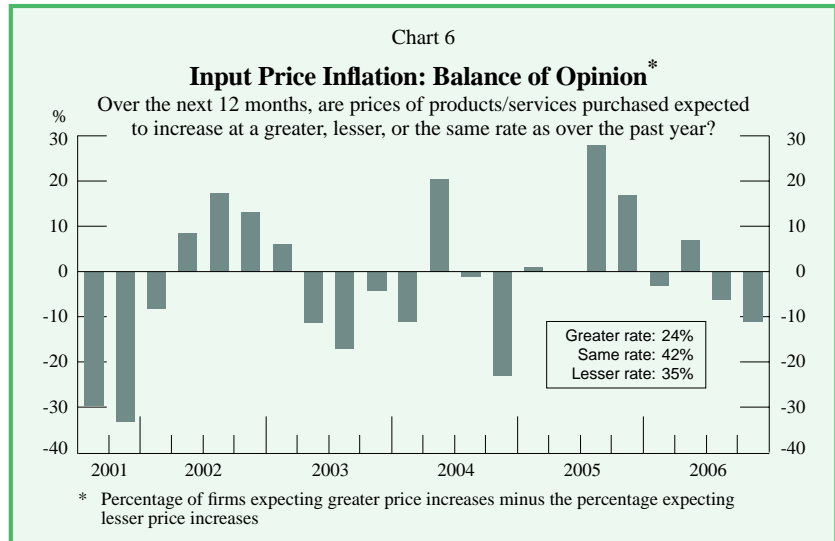
- Pressures on production capacity remain quite stable and also continue to be more intense in Western Canada. Firms that foresee potential problems in meeting an unexpected increase in demand cite labour constraints, physical capacity, and difficulties in sourcing raw materials.



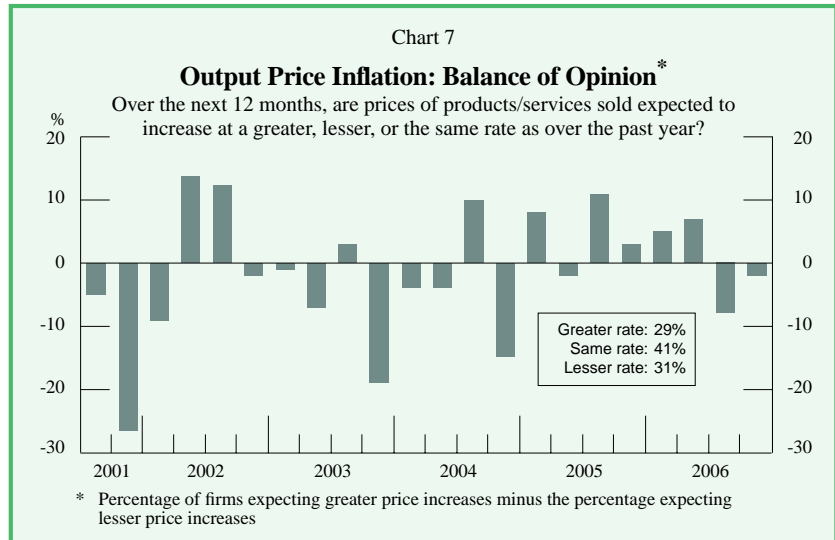
- The percentage of firms reporting labour shortages that restrict their ability to meet demand is relatively unchanged from the previous survey. Shortages are still more prevalent in Western Canada than in the rest of the country. The primary sector is still the most affected by labour shortages, despite the downward trend observed in this sector since the autumn 2005 survey.

Outlook for Prices and Inflation

- On balance, firms expect the prices of their inputs to rise more slowly over the next 12 months than during the past 12 months. Many firms expect a slowdown in the rate of increase—or even a decrease—in the prices of oil and other commodities over the course of the coming year.



- On balance, firms expect their output prices to rise at the same pace as during the past 12 months.



- After having held constant over the four previous surveys, inflation expectations have fallen, primarily reflecting an anticipated slowing in energy price increases. The percentage of firms expecting the rate of change in the consumer price index to be over 3 per cent has fallen, while the number expecting it to be under 2 per cent has risen. Most firms (86 per cent) expect inflation to remain within the Bank's inflation-control target range of 1 to 3 per cent.

