

## **Bank of Canada's Business Outlook Survey**

About 100 firms were surveyed across the country in the fourth quarter of 2008 (between mid-November and mid-December) for the Bank of Canada's quarterly 'Business Outlook Survey'.

- 57% of firms expect sales growth to slow over the next 12 months, and many expect an outright decline. About 20% see no change, and 23% expect an increase compared to the previous 12 months.

- 48% of firms expect their investment spending on M&E to be lower over the next 12 months compared to past 12 months. About 34% of firms expect their M&E spending to remain the same, and 17% expect to invest more compared to the previous 12 months. The replacement or repair of existing equipment is the most frequently cited target for investment spending.

- 28% of firms expect their level of employment to be lower over the next 12 months; 52% about the same; and 20% higher.

- Pressure on production capacity has fallen since the last survey. 36% of firms reported "some" or "significant" difficulty in meeting an unexpected increase in demand compared to 47% in the third quarter of 2008.

- 20% of firms reported labour shortages that restrict their ability to meet demand, a record low level. By comparison, 36% reported labour shortages during the third quarter.

- 65% of firms expect their input prices to increase at a lesser rate over the next 12 months than they did over the past 12-month period. About 17% of firms think input prices will increase at the same rate, and another 17% believe input prices will increase at a faster rate.

- 53% of businesses expect output prices to increase at a slower rate compared to the past 12 months; 16% expect output prices to increase at the same pace; and 30% expect output prices to increase at a faster pace.

- With respect to overall inflation (CPI), only 3% of firms expect inflation to exceed 3% over the next two years, that is, exceed the upper bound of the Bank of Canada's inflation-control target range of 1% to 3%. 43% of firms expect inflation of 1% to 2%. Another 22% of firms expect inflation of 2% to 3%. 30% expect inflation below 1%.

- Nearly two-thirds (63%) of firms reported tighter credit conditions in the last quarter of 2008 relative to the third quarter. The majority of firms felt this was driven primarily by a market-wide adjustment in risk premiums (higher borrowing costs).

The bottom line: The effects of the international financial crisis and the weak global economy have taken their toll. The survey showed that business sentiment deteriorated markedly as 2008 came to a close, with almost all indicators at their lowest level since the Bank of Canada started doing this survey in 1997. Falling commodity prices, especially for oil and related energy prices, and the weaker economic environment has resulted in a significant decline in inflation expectations. Many firms have curtailed planned investment in response to the weaker economy, tighter credit conditions, and falling commodity prices. Lastly, hiring intentions are lower among firms in the goods sector than for those operating in the services sector.

(Source: Canadian Chamber of Commerce)