Economic News

Highlight:

• This morning, the Bank of Canada (BoC) released the most recent results of its quarterly Business Outlook Survey.
• Overall, businesses pointed to less rapid growth in the past 12 months. However, most businesses expect their sales activity to accelerate in the next 12 months.
• Businesses expect to increase their investment in machinery and equipment in the next 12 months, but fewer expect to do so than in the previous quarter. More specifically, 39% of survey respondents expect to boost their investment, 27% expect investment to drop and 35% intend to maintain a similar level of investment.
• The balance of opinion on jobs continues to point to growth in the next 12 months.
• Pressures on production capacity remain almost unchanged while expectations on price advances show few fluctuations.
• According to the Senior Loan Officer Survey, loan conditions for non-financial businesses have eased slightly.

Comments:

If we rely on the comments made by the BoC that accompanied the Business Outlook Survey, major reservations remain about the first quarter’s results. At first glance, a fairly large number of respondents seem to expect their sales to accelerate in the next 12 months. We could therefore be led to believe that the weak level of sales recorded this past year was simply temporary. However, the BoC stated that respondents widely believe that any improvement in sales will be moderate, given persistent concerns about domestic demand and global demand. The weakness of Canada’s economic growth in recent months is chipping away at the optimism shown by businesses.

Several businesses also indicated that the current climate of uncertainty is holding sway over their investment decisions. The balance of opinion on investment outlooks deteriorated slightly for the quarter. This result confirms the weaker forecasts recently published by Statistics Canada on changes in non-residential investment for 2013.

Implications: The Business Outlook Survey released today by the BoC confirm that Canada’s economy is currently in a slump, with domestic demand slowing and an external trade sector that is still grappling with difficulties in the global economy. We therefore expect Canadian companies to be showing concern. While the survey’s results do not point to a steep decline in business activity, there is little to suggest that a significant rebound will occur in the next few months. This clearly argues in favour of maintaining the current monetary policy for a few more quarters, especially since inflation pressures are still under control.

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Sources: Bank of Canada and Desjardins, Economic Studies

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