CANADA
Drop in oil prices still affecting the business outlook

HIGHLIGHTS

- Businesses in the Prairies and those operating in the energy supply chain continue to say they have been adversely affected by the lower oil prices. Signs are materializing that this is spreading to other sectors and regions.
- However, many businesses estimate that lower oil prices and a weaker dollar support their sales outlook, and most are forecasting that vigorous expansion in the United States will have a positive impact.
- Overall, past sales growth has improved, but respondents do not expect their sales to advance significantly in the next 12 months.
- The balances of opinion on investment and hiring intentions have fallen further due to the negative repercussions of falling oil prices. The intentions of firms to increase their investments are more widespread among those in Central Canada and those in the services sector.
- The production capacity pressure indicator has not changed much.
- Firms expect inflation in input prices to vary minimally for the coming 12 months, but they forecast a slightly faster increase in output prices, given the effects of the Canadian dollar’s recent depreciation.

COMMENTS

In general, results of the Bank of Canada (BoC) establishment survey are as expected. The quicker advance in sales that has been expected for several quarters is materializing more and more, and the pace of sales growth over the last 12 months has increased again, particularly benefiting from the strength of U.S. demand and the depreciation of the Canadian dollar. However, we are sensing that this upswing is starting to lose steam, as the balance of opinions on future sales growth has fallen to nearly zero.

This weakening is fairly troubling, as it signals that the contagion effects of low oil prices are starting to be felt in non-energy sectors. The latest results for Canadian manufacturers’ sales are very disappointing. It must be said that the balance of opinions on the future of investments in machinery and equipment has deteriorated again, suggesting that growth in non-residential investment will now be practically non-existent in the coming 12 months. Obviously, this particularly impacts the country’s machinery and equipment manufacturers.

Implications: The results of the Business Outlook Survey not only highlight the difficulties in business investment, but also the contagion effects that are impacting certain non-energy sectors. Under these circumstances, we can expect that Canadian economic growth will continue to be fairly weak for the coming months. That said, nothing in the survey would justify the BoC to act precipitously to lower key interest rates.

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