

CANADA

Business confidence deteriorated at the end of 2015

HIGHLIGHTS

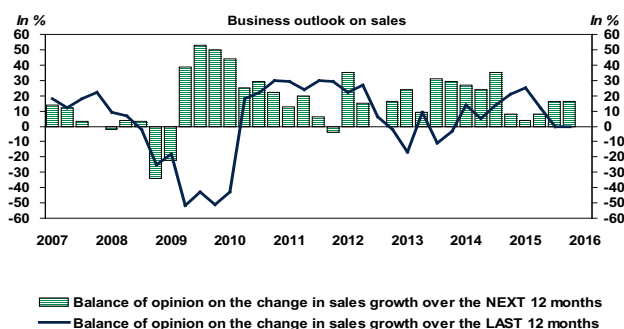
- According to the Bank of Canada's Business Outlook Survey, business confidence deteriorated overall in the fourth quarter of 2015.
- The adverse effects of the commodities price shock continue to materialize and spread beyond the resources sector.
- Exporters not directly affected by commodity prices still benefit from strong U.S. demand and a weak Canadian dollar.
- Businesses continue to expect their sales to accelerate in the coming 12 months, but the outlook differs greatly among sectors. However, sales' performance over the last 12 months remains neutral.
- Investment and hiring intentions fell to their lowest levels since 2009.
- Pressure on production capacity remains moderate mainly due to weak demand, particularly for businesses in the Prairies.
- Overall, business credit conditions tightened somewhat during the fourth quarter of 2015.

COMMENTS

With the fourth-quarter drop in commodity prices in 2015, it is not surprising to see Canadian business confidence remain depressed. Moreover, the contagion effects on other regions and activity sectors are more apparent according to the Bank of Canada. These results are clearly not good news for the Canadian economy, and they confirm our most recent forecast, which called for practically zero growth by real GDP in the fourth quarter of 2015. Under these conditions, it is even possible to see another retreat in production in the fall.

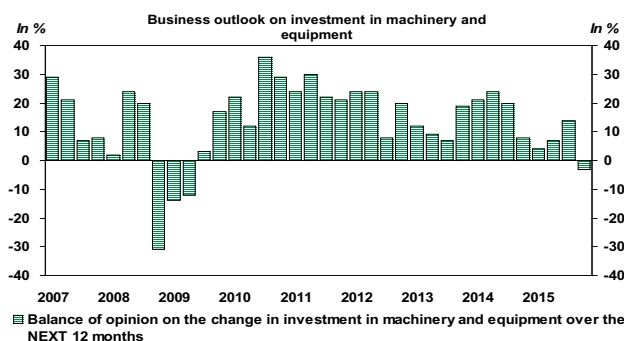
For 2016, a lot of hope rests on commodity prices gradually increasing to stabilize the Canadian economy. Unfortunately, recent price movement in international markets still shows significant weakness.

Businesses do not indicate a change in past sales growth, but expect acceleration in the future



Sources: Bank of Canada and Desjardins, Economic Studies

Businesses expect their investments to slow somewhat



Sources: Bank of Canada and Desjardins, Economic Studies

Implications: Business confidence does not seem to be low enough to prompt quick action by the Bank of Canada. Nonetheless, the survey results show the importance of the ongoing adjustments within the Canadian economy, and they could continue for some time.

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