

ECONOMIC NEWS

Canada: Business confidence improves

HIGHLIGHTS

- ▶ According to the Bank of Canada survey, the business outlook has improved recently, especially for future sales growth.
- ▶ The responses attest to an increase in domestic demand, a better outlook for exports, and the anticipated energy sector recovery.
- ▶ Investment and hiring intentions have recovered and are more general.
- ▶ According to business, however, the pressure on production capacity has not changed.
- ▶ Inflation expectations have ticked up from the previous quarter's low level.

COMMENTS

For over a year, the survey has been showing some stability in sales growth over the last 12 months, but businesses are now starting to be more optimistic about sales growth over the next 12 months. Clearly, the uncertainties associated with the rise in U.S. protectionism after the outcome of the election there has not substantially impacted the improvement in Canadian business confidence. Note that respondents are also a little more optimistic about U.S. economic growth, which has a positive influence on the expectations for exports. The increased optimism is also being reflected in investment and hiring intentions, which are much higher than they have been in the last few quarters.

IMPLICATIONS

Caution is in order despite the better results, because the improvement in the outlook might not show up in the actual results. A case in point, although expectations have been accelerating somewhat since mid-2015, actual sales growth (over the last 12 months) has been very stable. Under these conditions, the improvement to the business outlook should not have a

GRAPH 1

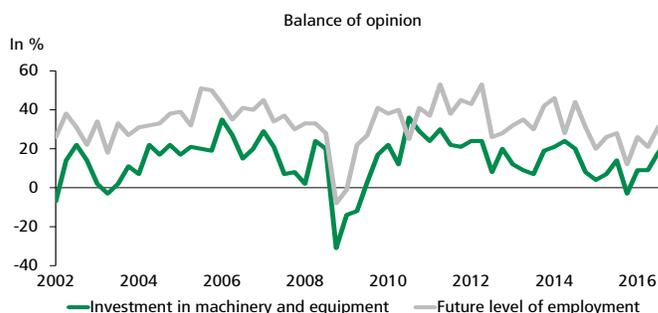
The outlook for future sales growth improves



Sources: Bank of Canada and Desjardins, Economic Studies

GRAPH 2

Investment and hiring intentions are up



Sources: Bank of Canada and Desjardins, Economic Studies

major influence on the Bank of Canada's January 18 decision. We can therefore expect an ongoing status quo on key interest rates.

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