Canada: Business Is More Optimistic

HIGHLIGHTS

- According to the Bank of Canada’s (BoC) Business Outlook Survey, businesses are fairly neutral about the pace of their sales growth in the past 12 months, but most of them expect their sales growth to keep accelerating in the next 12 months.

- Expectations tied to exports help support this outlook, despite the uncertainties from potential changes to U.S. trade policies, including a possible corporate tax cut and protectionist measures.

- Intentions with regard to investments in machinery and equipment have greatly improved while the balance of opinions reached its highest level since the summer of 2010. Hiring intentions have also stayed quite strong.

- Labour shortage indicators suggest that there is some slack in the volume of unused resources in the labour force, but the gap has stopped widening.

COMMENTS

Overall, the results of the BoC survey are quite encouraging. Improvements in investment intentions for machinery and equipment is especially gratifying, as this suggests that business investment could recover slightly in the coming quarters after grappling with several difficulties since 2015.

In addition, that most businesses expect their sales to accelerate in the next 12 months is reassuring. However, this outlook is a projection, and projections is still not translate to actual results, based on the weak showing in the balance of opinions on changes in past sales forecasts. This will certainly prompt the BoC to remain prudent when interpreting this data.

IMPLICATIONS

This survey is handing the BoC arguments to further extend the status quo for its monetary policy. Most particularly, the unused resources highlighted by the labour shortage indicator show that the BoC has considerable leeway in managing its monetary policy.

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