Canada: Business Confidence Remains High

HIGHLIGHTS

- According to the Bank of Canada’s (BoC) business outlook survey, confidence remains high as evidenced by the overall summary measure.
- Leading indicators for sales continue to be favourable in most regions and sectors.
- Due to the recent high demand, pressures on production capacity and the labour market are being felt in most regions. The country’s continuing excess production capacity is concentrated mainly in energy-producing regions.
- Business intentions to increase investment are still widespread.
- Economic growth expectations in the United States have improved further. However, some businesses indicated that surging protectionism and eroding competitiveness were limiting positive effects on sales.

COMMENTS

Generally speaking, the results of the business outlook survey continue to be very positive. The BoC seems even more convinced in its analysis that excess capacity is disappearing. Some shortages are becoming increasingly apparent, particularly in British Columbia’s and Central Canada’s job markets. This affects inflation expectations, which have risen substantially in recent months. For example, a large number of respondents still anticipate an acceleration in input price growth, whereas more than half of respondents expect inflation to be above the median target (2%) for the next two years.

IMPLICATIONS

In light of the survey results, it is clear that the BoC should continue to raise its key interest rates to a less expansionary level. However, it will do so gradually, and there is no indication that urgent action is needed in April.

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