

ECONOMIC NEWS

Canada: Businesses and Consumers Increasingly Optimistic

HIGHLIGHTS

- ▶ The Bank of Canada (BoC) released the recent results of its quarterly business and consumer outlook surveys this morning.
- ▶ Overall, the business confidence index continued to improve in the first quarter of 2021 to reach 2.87, its highest level historically.
- ▶ Moreover, the results of the businesses' intentions to invest in machinery and equipment rose to 40%, the highest point since 1998, when the business outlook survey was launched.
- ▶ The proportion of businesses expecting input and output prices to rise faster was up sharply compared to previous quarters. The survey results show 46% for input prices and 45% for output prices, a historic high in both cases.
- ▶ Businesses also expect consumer prices to move higher over time. The proportion of respondents expecting the total annual inflation rate to be below 2% in the next two years declined, whereas the proportion of respondents expecting inflation to exceed 2% rose.

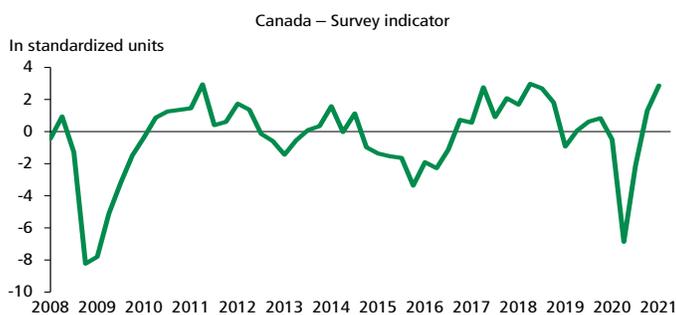
- ▶ On the consumer side, expectations that spending would grow peaked, probably because of the pent-up demand for some goods and services.

COMMENTS

The BoC's surveys were conducted between mid-February and early March, i.e., between the second and third waves of COVID-19. The gradual easing of some public health measures at that time certainly tipped the scales. However, there is little doubt that the new restrictions to fight the third wave will dampen the enthusiasm of some businesses and consumers. Still, these fluctuations should be temporary and have little impact in the end on business and consumer confidence.

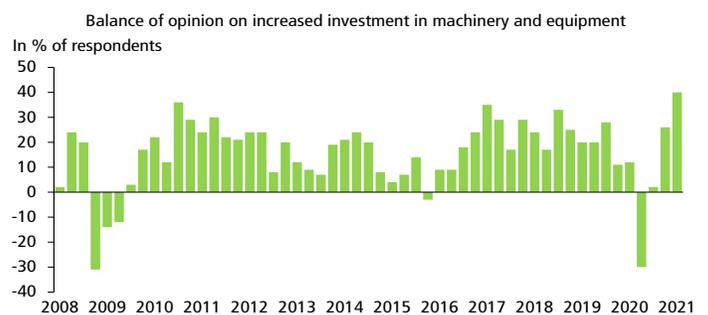
The surveys' results overall paint a positive picture of the Canadian economy, especially once the vaccination campaign has been completed. Furthermore, pent-up demand in accommodation, food services, travel and recreation suggest that these sectors will be able to take full advantage of a major recovery. The expected increase in investment in machinery and equipment is also good news for economic growth.

GRAPH 1
Business confidence continues to rise



Sources: Bank of Canada and Desjardins, Economic Studies

GRAPH 2
Many businesses plan to speed up investment



Sources: Bank of Canada and Desjardins, Economic Studies

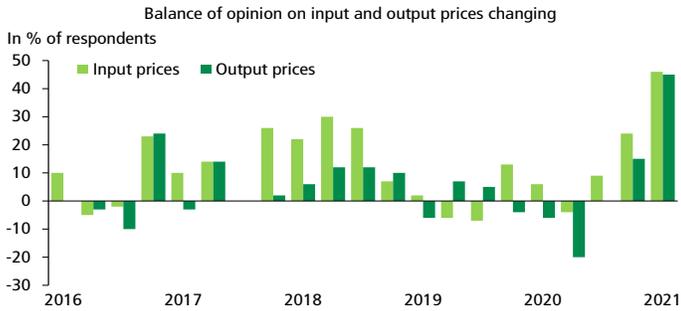
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GRAPH 3
More businesses expect input and output prices to increase faster



Sources: Bank of Canada and Desjardins, Economic Studies

Nonetheless, the surveys reveal a major risk involving price changes that will need to be closely watched in the coming months. Even if consumer expectations about inflation have changed little, the business outlook survey suggests that prices will climb faster in the next few quarters. But, for now, nothing points to inflation exceeding the BoC’s range on a lasting basis, but the risks are clearly greater as certain imbalances will force some prices to move higher.

IMPLICATIONS

The outlook for businesses and consumers is clearly bright. The BoC should take this into account in the way it conducts its monetary policy. There is no question of increasing key interest rates for now, but the BoC may announce as early as next week that it will be gradually reducing its quantitative purchases on the financial markets.

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