

Bank of Canada says companies more optimistic as case for rate hike grows

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Canada's business outlook remained at elevated levels with signs of capacity constraints emerging in the economy, even as expectations for future sales moderate.

The overall Business Outlook Survey Indicator – an aggregate gauge of sentiment – rebounded to 2.49 in the fourth quarter from 0.86 in the last report, according to the Bank of Canada's quarterly Business Outlook Survey Monday in Ottawa.

The reading is one of the highest in the past 17 years for the gauge, and has been positive for five straight quarters after eight quarters of declines.

“Capacity and labor pressures are becoming more apparent and are stimulating firms' employment and investment plans,” the Bank of Canada said.

The report is the last major data point before a Jan. 17 rate decision, and could be the deciding factor for a hike following a stellar jobs report last week that showed unemployment falling to the lowest in four decades. An increase is almost fully priced in, with a second one expected by May and at least 3 hikes by the end of this year.

The Bank of Canada found that businesses are planning to expand operations in the face of “sustained demand,” reflected in a rebound in investment and hiring intentions. There is also evidence of a pick-up in capacity pressures and labor shortages.

“Survey results suggest that economic slack is now largely limited to the energy-producing regions,” it said.

The weak point of the results was a drop in expectations for future sales, which the Bank of

Canada said was a “return to a more sustainable pace.” The share of firms that expect to see sales volumes growth accelerate was at 39 per cent, the lowest since 2012. Those who see slower sales growth increased to 31 per cent. The balance of opinion – at 8 percentage points – was down from 19 points in the last survey.

The share of businesses that saw an improvement in their indicators of future sales – such as orders and sales inquiries – was 51 per cent, the lowest since 2016.

Despite the moderation, the Bank of Canada said the outlook for sales “is still healthy.”

The moderation reflects “many firms' views that sales growth will return to more normal levels following its recent strength, which businesses often qualified as unsustainable,” it said.

Other Details:

- Survey finds businesses are expecting faster growth of input prices on higher commodity prices, though pass-through to output prices remains limited
- Inflation expectations are “modest and unchanged from the third quarter”
- Firms expect an acceleration in export growth as views of U.S. economic strength outweigh worries about protectionism
- Indicator of investment intentions over the next 12 months rebounded. Some 48 per cent of businesses expect higher investment in machinery and equipment, matching a post-recession record. Employment intentions rebounded and labor shortages are becoming more common. “Recent results show that pressures on wage growth have edged up”