

Bank of Canada surveys show businesses, consumers confident, despite recent economic hiccups

By David Parkinson

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Canadian businesses and consumers remained relatively confident despite the country's lacklustre economic performance in the final quarter of 2019, a pair of Bank of Canada quarterly surveys indicated Monday.

The central bank said its closely watched Business Outlook Survey suggested that the small amount of slack that had remained in the economy in the third quarter "has been absorbed," as companies reported rising pressures in production capacity and labour shortages in much of the country, with the exception of the Prairies.

For the first time, the bank also published its Canadian Survey of Consumer Expectations, which showed that consumers remain buoyant about spending plans over the next year, despite a mixed outlook for employment and modest wage growth expectations. The survey showed that consumers generally expect house prices to accelerate, although overall inflation expectations eased slightly from the third quarter.

The surveys are the last public word from the Bank of Canada ahead of its Jan. 22 interest-rate decision and quarterly Monetary Policy Report, in which the bank will update its economic forecasts. The central bank is widely expected to leave its key interest rate unchanged at 1.75 per cent, but a recent spate of tepid economic indicators has raised questions about whether the bank will significantly lower its growth outlook.

In a news conference last week, Bank of Canada Governor Stephen Poloz played down the recent weak economic data, suggesting that transitory factors, including rail and auto strikes and adverse weather, may have temporarily dampened economic activity.

Economists said that while these surveys didn't suggest surprising strength in the economy, they nevertheless support the view that growth is poised to bounce back from the sluggish fourth quarter.

"We can reasonably expect a return to 'normal' after a soft end to the year," said Toronto-Dominion Bank senior economist Brian DePratto in a research report, saying that all the key components of the business survey "still point to a net expansion to come."

Economists said the Bank of Canada will take particular notice of the business survey's indications that output and the labour market are both near full capacity, as the central bank views capacity pressures as a pivotal signal for its interest-rate policy. Indeed, the central bank has pointed to the near-capacity conditions as its key argument for resisting lowering interest rates over the second half of 2019, even as most of the world's major central banks cut rates.

"The slightly upbeat tone of the survey and the economy operating near capacity provides more reasons to believe that the Bank of Canada will keep policy rates steady for some time," Bank of Montreal chief economist Douglas Porter said in a research note.

The business survey indicated that more companies expect to increase their staff in the next 12 months, implying further pressures to come in the already tight labour market. Businesses also indicated that they continue to expect to increase their pace of sales growth, and their machinery and equipment investment, over the next year, although those views have moderated a bit since the third-quarter survey.

The Bank of Canada said that the easing of investment intentions comes after “more firms than usual reported having just completed large investment projects in the past year.” That finding follows Statistics Canada’s third-quarter gross domestic product report, released at the end of November, which showed an unexpected surge in business investment.

The Bank of Canada has been conducting its consumer survey for the past five years, but until now it has kept the results in-house. The public debut of the survey showed that while consumer expectations have generally cooled from their mid-2018 peaks, spending confidence has picked up from a lull in early 2019.

However, the bank said that spending expectations have risen despite a more modest and steady outlook for wage and income growth, “suggesting that consumers may reduce saving or increase debt,” it said.

“These survey numbers won’t do much to ease concerns at the Bank of Canada that household

debt growth, and the financial market vulnerabilities that go along with it, are starting to pick up again,” said Royal Bank of Canada senior economist Nathan Janzen in a research report.

The survey showed that consumers’ expectations for 12-month house-price growth rose to their highest pace in five quarters, with average 12-month growth expectations of 4.44 per cent. The improving outlook comes amid a rebound in many of the country’s residential real estate markets in the second half of 2019, as mortgage rates dipped and markets recovered from the impact of stricter mortgage-borrowing rules that came into effect in 2018. However, price growth expectations were down in Alberta and flat in Saskatchewan.

Indeed, economists said that a divergence between those two provinces and the rest of the country was a theme throughout both surveys, as the struggles of the oil and gas industry weigh on the region’s expectations.