



BANK OF CANADA

BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices

Results of the Autumn 2004 Survey

Overview

- Businesses remain essentially as optimistic about the economic outlook as they were in the summer survey. Although they have marked down their growth forecast for the U.S. economy, businesses expect stronger domestic demand.
- Indicators of sales, investment, employment, wage pressures, and capacity constraints are stronger among firms based in Western Canada than they are for those in Central and Eastern Canada.

Business activity

- Businesses report stronger sales during the past year and remain generally optimistic about future sales growth.
- Pressures on production capacity remain high, and labour shortages have intensified.
- Investment intentions remain solid, reflecting the need to expand capacity and improve competitiveness.
- Employment intentions remain positive.

Prices and inflation

- Respondents expect input costs to increase over the next 12 months at about the same pace as over the past 12 months.
- Businesses expect to increase output prices more rapidly over the next 12 months, in an attempt to pass through cost increases or to improve profitability.
- Inflation expectations have eased slightly since the summer survey.

The Business Outlook Survey and the document Adjusting to the Appreciation of the Canadian Dollar summarize interviews conducted by the Bank's regional offices with the senior management of about 100 firms, selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Details of the survey and its content are discussed in the article, "The Bank of Canada's Business Outlook Survey," published in the Spring 2004 issue of the Bank of Canada Review. The autumn 2004 survey was conducted from 23 August to 14 September.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

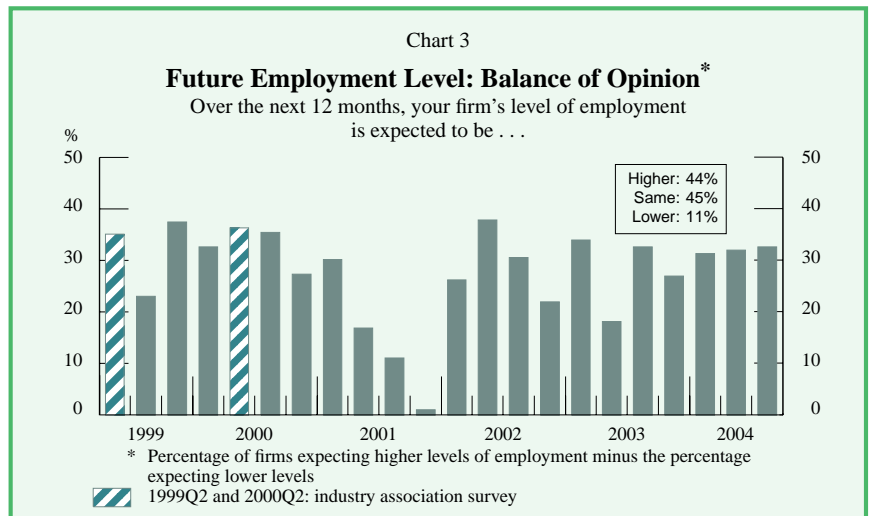
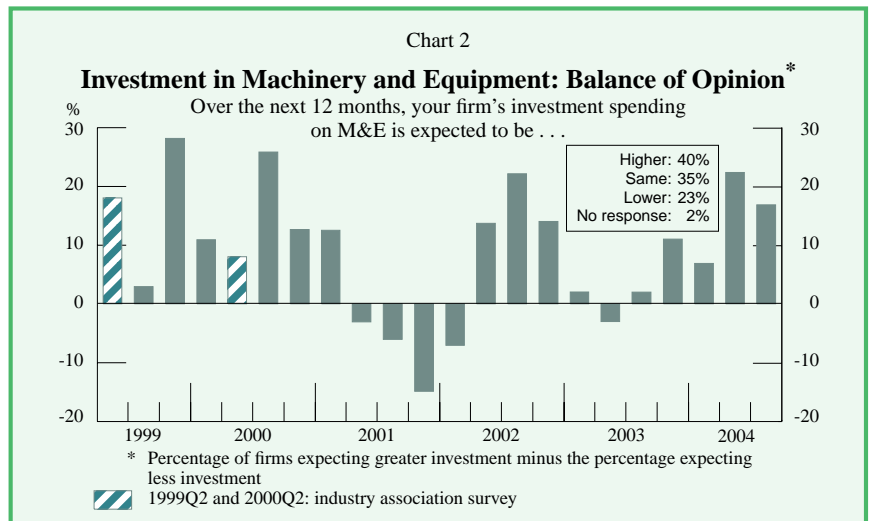
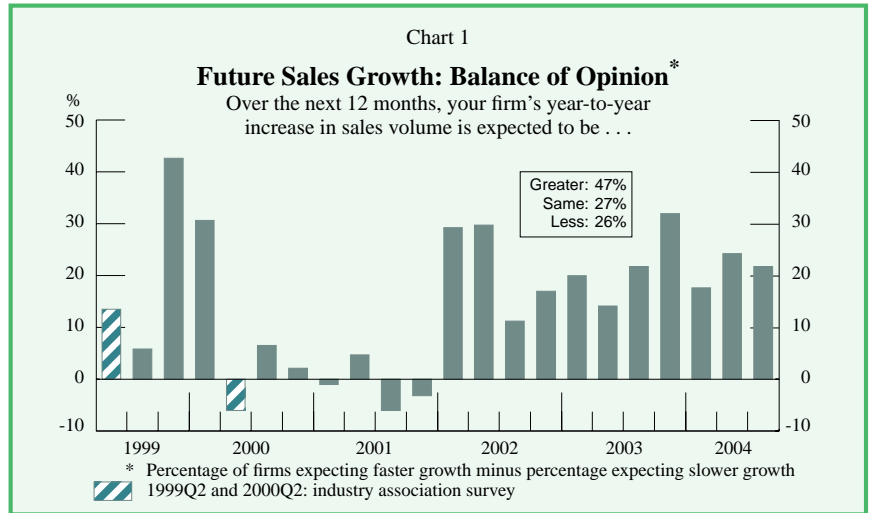
Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)

Outlook for Business Activity

Businesses remain generally optimistic about expected sales growth. Businesses in Western Canada expect strong domestic and foreign demand for a variety of products, including industrial commodities. Overall, businesses in Central and Eastern Canada expressed more concern about the negative implications of high oil prices and slower growth in the U.S. economy.

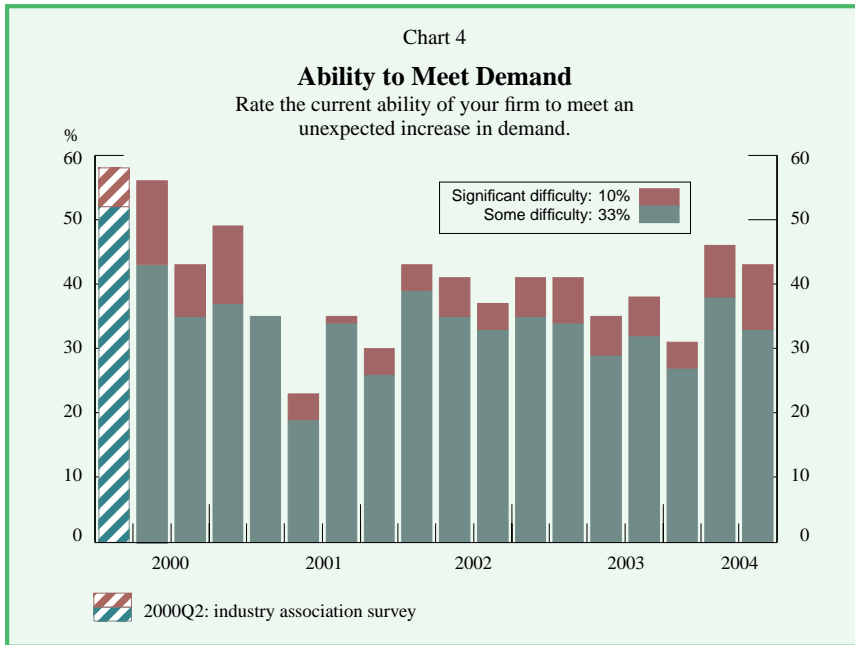
Investment intentions for expenditures on machinery and equipment remain solid. Many businesses referred to the need to expand capacity and improve competitiveness through technological upgrades.

Employment intentions remain positive, given continued pressures on production capacity and expected strong domestic demand, notably in the wholesale, retail, and other service sectors.

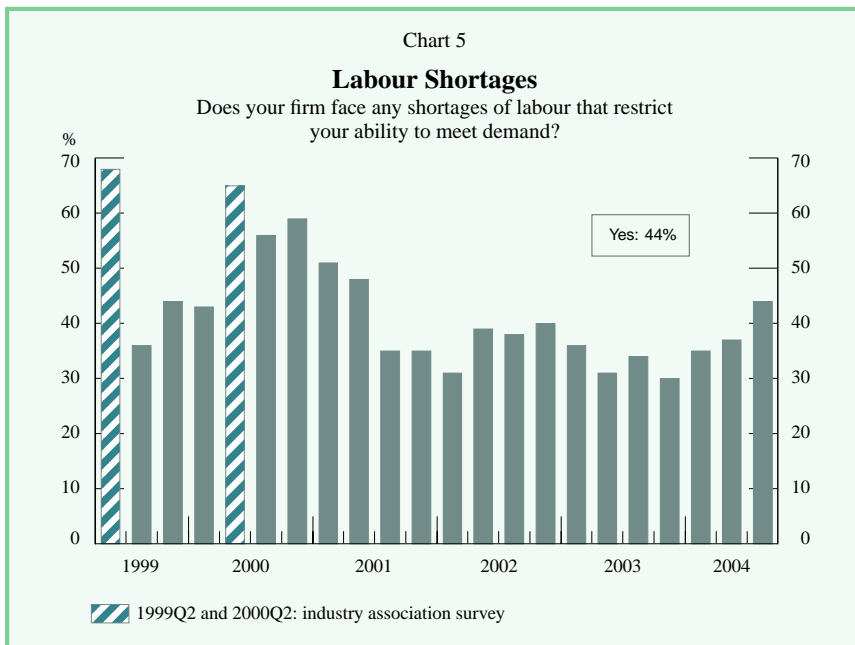


The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between +100 and -100. A strong positive balance of opinion suggests an acceleration in the trend growth rate over the previous period. Note: Survey respondents do not necessarily answer all questions. Percentages therefore will not always add to 100.

Pressures on Production Capacity



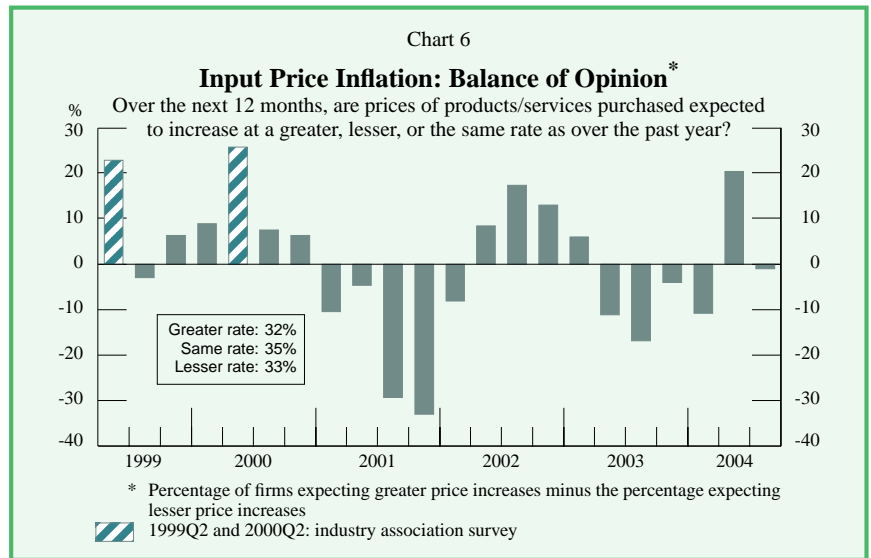
The number of firms reporting that they would have difficulty meeting an unexpected rise in demand remained elevated, suggesting continued pressure on production capacity. Capacity constraints were most often cited in the resource and construction sectors.



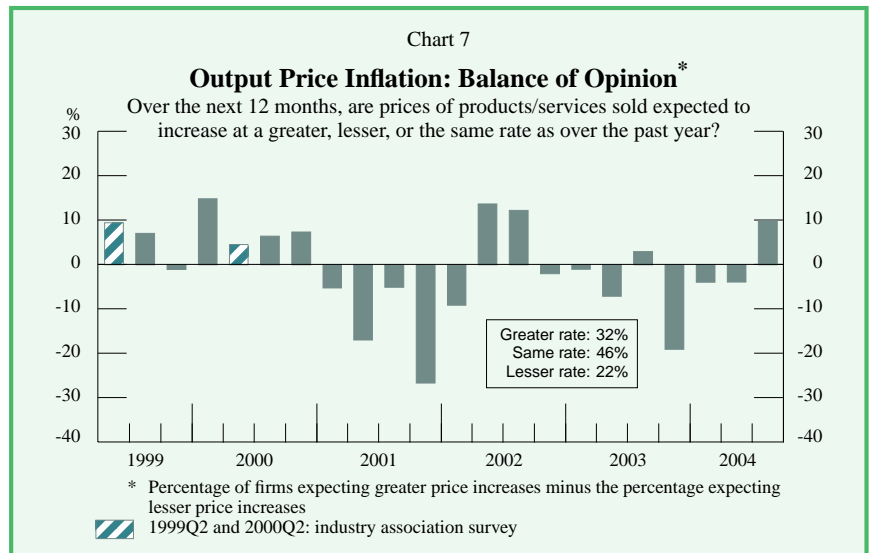
Labour shortages have intensified since the summer survey. They are most prevalent in Western Canada and are the main source of pressure on production capacity. Shortages were most often mentioned in the resource, construction, and wholesale and retail trade sectors.

Outlook for Prices and Inflation

Respondents expect input prices to rise at about the same pace over the next 12 months as they did over the past 12 months. As in the summer survey, businesses appear to be more uncertain than usual about future movements in commodity prices.



Over the next 12 months, businesses expect output prices to rise at a faster rate than they did during the past 12 months. Prospects of higher sales are encouraging some firms to attempt to pass through cost increases or to increase profit margins.



Inflation expectations had moderated slightly at the time of this survey. The number of firms expecting inflation to be above the Bank's inflation-control target range of 1 to 3 per cent was down from the summer survey, reflecting businesses' expectations of slower increases in the price of energy.

