



Daily Economic Update

April 9, 2018

Sentiment remains positive in Canada's Q1/18 Business Outlook Survey

The Bank of Canada's Q1/18 Business Outlook Survey struck a positive tone once again. Future sales and employment intentions ticked higher. Measures of capacity pressures — businesses' difficulty meeting demand and reports of labour shortages — edged lower but remained high. Machinery & equipment investment intentions ticked lower but to a still above-average level. The survey was collected before the emergence of greater optimism about NAFTA negotiations over the last couple of weeks but also before concerns about a global trade war became more prominent. Perhaps most importantly for near-term policy implications, the tone of the BoC's commentary remained generally positive. Those comments often reflect underlying details collected but not published

To be sure, the report was not without grey clouds. 'Competitiveness' issues — tied to US tax cuts and regulatory differences versus trading partners — were directly mentioned five times by our count. Although the investment intentions component was still relatively high, M&E investment only accounts for about a third of total business spending. Other surveys, as well as our own tracking of company plans, have not been so optimistic about overall business investment. Nonetheless, on balance, the data continues to point to an economy humming along at close if not somewhat beyond its long-run capacity limits. Growth has slowed but not enough to prevent further improvement in labour markets and firming in inflation trends. We continue to think that's a backdrop that will ultimately warrant further gradual rate hikes from the Bank of Canada this year.

Highlights:

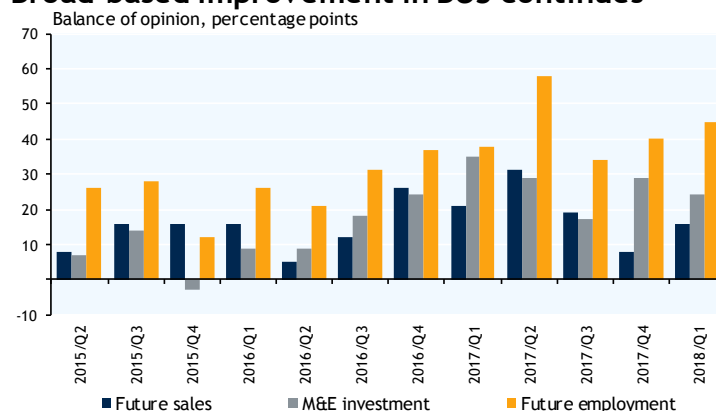
- The BOS indicator, which summarizes the main survey questions, ticked lower but to a still elevated level.
- The balance of opinion on future sales and employment improved while equipment investment plans remained at an above-average level
- Measures of capacity pressures edged lower but are still high historically
- Inflation expectations ticked higher
- The survey was conducted Feb 12th to March 9th — before recent progress in NAFTA negotiations

Business Outlook Survey Summary

	<u>2017/Q3</u>	<u>2017/Q4</u>	<u>2018/Q1</u>
<i>Balance of opinion (%) unless otherwise indicated</i>			
BOS indicator	0.81	2.48	1.96
Future sales growth	19.0	8.0	16.0
M&E Investment	17.0	29.0	24.0
Future Employment	34.0	40.0	45.0
Difficulty meeting demand (%)	47.0	56.0	47.0
Labour shortages (yes %)	25.0	30.0	26.0
Input price inflation	0.0	26.0	22.0
Output price inflation	0.0	2.0	6.0

Source: Bank of Canada, RBC Economics Research

Broad-based improvement in BOS continues



Source: RBC Economics Research, Bank of Canada

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