



Daily Economic Update

June 30 , 2017

Q2 business outlook survey confirms firming Canadian economy

The Bank of Canada’s Q2 Business Outlook Survey showed improved Canadian business optimism once again in Q2 and will reinforce now widely-held expectations that the Bank of Canada could hike interest rates as soon as the July 12th policy announcement. Expected future sales growth and hiring intentions both rose with the latter easily hitting a record high. Investment intentions dipped but from a very high Q1 reading that matched the second-highest on record. Comments from the bank — which often reflect underlying details not reported in the ‘standard’ data release — suggested that firms have, encouragingly, “become more focused on expanding capacity to accommodate stronger demand.” Consistent with the need to expand capacity, the share of businesses reporting difficulties meeting demand rose sharply as did the reported intensity of labour shortages.

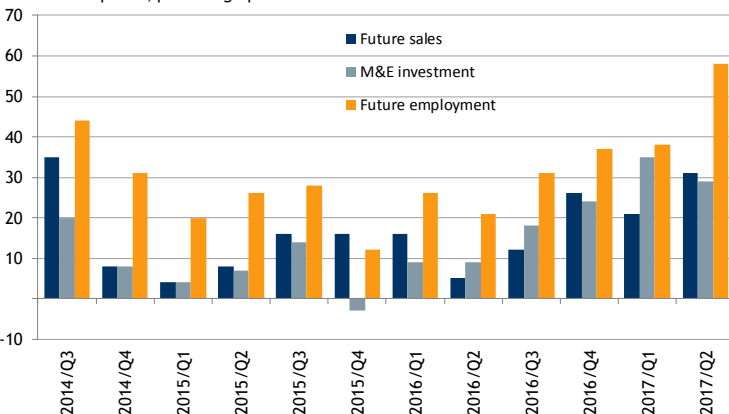
A report from Bank of Canada researchers earlier this week argued that ‘soft’ indicators like the BOS have been a better predictor of official monetary policy decisions than ‘hard’ indicators, like GDP growth. Even that distinction, though, is becoming increasingly unnecessary given another strong [April GDP report](#) this morning. Thus, both ‘soft’ and ‘hard’ data increasingly argue that the current extremely low level of interest rates is no longer needed to support the economy

Highlights

- Expected future sales and employment intentions both rose sharply. Investment intentions ticked lower but from elevated Q1 levels and with a more optimistic tone to the accompanying commentary.
- Indicators of capacity pressures rose sharply. The share of businesses reporting difficulty meeting demand rose to its highest since Q2/2015.
- Most respondents expect inflation in the Bank of Canada’s 1-3% target range although with an increase in those expecting something in the bottom-half of that range.

Broad-based improvements in BOS continue

Balance of opinion, percentage points



Source: Bank of Canada, RBC Economics Research

Business Outlook Survey Summary

	2016/Q4	2017/Q1	2017/Q2
<i>Balance of opinion (%) unless otherwise indicated</i>			
Future sales growth	26.0	21.0	31.0
M&E Investment	24.0	35.0	29.0
Future Employment	37.0	38.0	58.0
Difficulty meeting demand (%)	37.0	39.0	46.0
Labour shortages (yes %)	28.0	19.0	25.0
Input price inflation	23.0	10.0	14.0
Output price inflation	24.0	-3.0	14.0

Source: Bank of Canada, RBC Economics Research

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