



Daily Economic Update

January 8, 2018

BoC's Business Outlook Survey firms up expectations for a rate hike next week

We think last Friday's impressive employment report tipped the scales in favour of a January rate hike, and today's release of the *Business Outlook Survey* gives further weight to that view. This survey has become a key input in the Bank of Canada's policy deliberations, and signs that "positive business sentiment is widespread" give the central bank the all clear to raise interest rates next Wednesday. Importantly, capacity pressures continued to firm and businesses are responding by boosting investment and hiring, even amid concerns about US trade policy. Not all indicators point to an urgent need to raise rates—wage pressures increased but still aren't widespread and upward pressure on output prices is being offset somewhat by structural factors like e-commerce—but overall it is increasingly clear that Canada's economy doesn't need the amount of monetary policy stimulus currently being provided.

Highlights:

- The BOS indicator, which summarizes the main survey questions, rebounded close to the peak seen in the summer survey—which was a major factor in the BoC raising rates last July.
- The balance of opinion on future sales moderated following "unsustainable" strength in the first half of 2017. Still, firms expect an acceleration in export growth.
- Investment intentions rebounded as firming capacity pressures helped offset "tax and regulatory hurdles" as well as uncertainty over US trade policy.
- The share of firms that would have difficulties meeting an unexpected increase in demand hit its highest level in a decade. Labour shortages also became more common.
- Inflation expectations were little changed with a slight majority of respondents still expecting inflation to be in the lower half of the BoC's 1-3% target range.

Business Outlook Survey Summary

	2017/Q2	2017/Q3	2017/Q4
<i>Balance of opinion (%) unless otherwise indicated</i>			
BOS indicator	2.77	0.83	2.49
Future sales growth	31.0	19.0	8.0
M&E Investment	29.0	17.0	29.0
Future Employment	58.0	34.0	40.0
Difficulty meeting demand (%)	46.0	47.0	56.0
Labour shortages (yes %)	25.0	25.0	30.0
Input price inflation	14.0	0.0	26.0
Output price inflation	14.0	0.0	2.0

Source: Bank of Canada, RBC Economics Research

Key indicators from the Business Outlook Survey

balance of opinion, percentage points



Source: Statistics Canada, RBC Economics Research

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