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## Vaccine news boosted Q4 Canadian business confidence

- Canadian business confidence boosted by vaccine news and rising global demand
- Firms in "high-contact" services sector (eg. leisure & hospitality) still challenged, but other sectors feeling better
- Investment intentions picking up

Canadian business confidence was boosted by vaccine news and strengthening in global demand late last year. The Bank of Canada's closely-watched Q4 Business Outlook Survey struck a more optimistic tone, despite ramping up of virus spread and containment measures over the mid-November to early-December survey period

The industry backdrop is increasingly bifurcated. Rising global demand boosted the outlook of exporting firms, particularly those in the manufacturing sector. And the outlook for the natural resources sector has improved alongside higher global oil prices. A third of businesses reportedly still do not expect their sales to return to pre-pandemic levels "over the next year" (by the end of 2021), but that third is highly concentrated among the "high-contact" services sector (eg. leisure and hospitality industries).

Business investment intentions improved sharply in Q4 with more firms reportedly bumping up against production capacity limits. The exception again is among firms in the hospitality sector, but 57% of businesses overall reported they would have at least some difficulty meeting an increase in demand - that is up from a low of 27% in spring 2020, and the highest share since the second quarter of 2018. A third of firms reported labour shortages, up from a low of 13% in spring 2020.

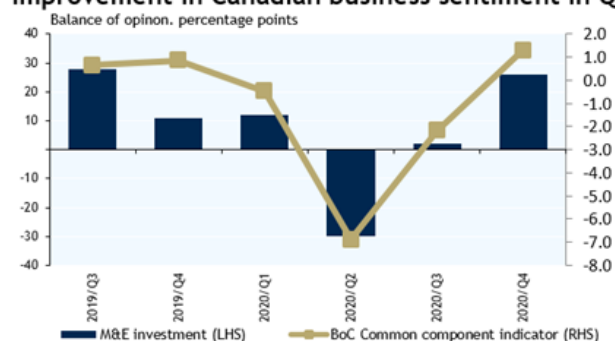
Inflation expectations edged higher with more firms expecting to raise prices at a faster pace over the next 12 months. Still, two-thirds of businesses continue to expect price inflation at or below the Bank of Canada's 2% target. And despite growing labour shortages in some sectors, companies are, on balance, not planning wage increases over the next year.

The BoC survey responses were collected ahead of an intensification of both virus spread and containment measures in Canada. But to-date those measures appear likely to only widen the already large gap between conditions in leisure/hospitality/travel sectors versus the rest of the economy.

As of December, half of the remaining underperformance of employment relative to pre-shock levels in Canada is coming from the accommodation & food services sectors alone. Those sectors have never been expected to recovery fully while the threat of the virus remains. But manufacturing and natural resource sectors have broadly continued to improve, both in Canada and abroad.

We expect the economic recovery to stall, on net, in early 2021, although a large chunk of the economy (outside of "high-contact" services) will likely continue to improve. And the second half of 2021 could look substantially better for the hospitality sector as well provided vaccine distribution goes as planned.

**Improvement in Canadian business sentiment in Q4**



Source: Bank of Canada, RBC Economics Research

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