

July 5, 2021

Canadian business confidence resilient through spring virus wave

- BoC's Summer Business Outlook Survey showed businesses still optimistic about future sales in the spring
- Businesses in high-contact service sectors hit hard by spring virus wave, but encouraged by vaccine distribution
- Production capacity limits already becoming more of a problem than lack of customers for other businesses
- Higher input prices and expectations for an economic bounce-back pushed inflation expectations higher

The Bank of Canada's summer Business Outlook Survey was conducted from mid-to-late May - a period when virus containment measures were largely still in place but were set to ease. Against that backdrop, expectations for future sales remained solid, even if slightly lower, on balance, than in the spring.

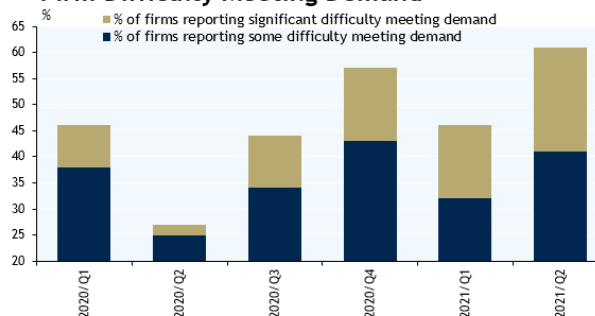
Businesses in 'high-contact' service industries like accommodation and food services were still being hard-hit by restrictions, but the future outlook was improving with optimism building alongside an accelerating vaccine rollout. About 40% of firms reported current sales still below pre-pandemic levels, and those generally saw substantial increases in expected future sales.

For many businesses, production capacity limits have already become a larger concern than a lack of customers with over 60% reporting they would have difficulty meeting an unexpected increase in demand. Firms' expectations for input price increases remained high but moderated from the spring. Over half of businesses were planning increased investment in machinery and equipment over the next year.

With input prices rising and demand growth outpacing production capacity, business inflation expectations edged higher. 86% of businesses expected inflation at or above the BoC's 2% inflation target, and more than a third expected growth above the 3% top-end of that range, over the next year.

Some of the upward pressure on input prices is expected to ease as households shift consumption to services from goods as the economy reopens, giving international supply chains a chance to begin catching up on production. But inflation expectations will be watched closely by the central bank. Consumers are, for now, looking through near-term inflation pressures more than businesses. Consumer inflation expectations in the separately released Canadian Survey of Consumer Expectations edged higher for the year-ahead but were little-changed beyond that.

Firm Difficulty Meeting Demand



Source: Bank of Canada, RBC Economics Research

Business Outlook Survey Summary

	2020/Q4	2021/Q1	2021/Q2
<i>Balance of opinion (%) unless otherwise indicated</i>			
BOS indicator	1.4	3.0	4.2
Past sales growth	-29.0	-29.0	-29.0
Future sales growth	48.0	52.0	47.0
M&E Investment	26.0	40.0	36.0
Future Employment	43.0	45.0	65.0
Difficulty meeting demand (%)	57.0	46.0	61.0
Labour shortages (yes %)	33.0	22.0	23.0
Input price inflation	24.0	46.0	20.0
Output price inflation	15.0	45.0	26.0

Source: Bank of Canada, RBC Economics Research

Nathan Janzen | Senior Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-0569

For more economic research, visit our website at www.rbc.com/economics

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.