

Economic Commentary



Businesses confidence at its highest as the economy reopens

Bottom line: The Bank of Canada's Business Outlook Survey shows that business confidence at its strongest on record as the economy reopens. As such, expected sales and hiring and investment intentions are at high levels, pointing to a solid rebound in activity in the coming quarters. However, the survey also indicates divergences between sectors, with the sectors hardest-hit by the pandemic being less optimistic than other firms. The report also points that continued supply chain frictions are a key bottleneck to production and the main impediment on firms to meet an increase in demand, while inflation expectations remain anchored around the Bank of Canada's target. Overall, the report suggests a robust recovery, both in activity and employment, as the economy reopens in the coming months.

Business sentiment improved to its highest level on record. The release of the Bank of Canada's Business Outlook Survey for 2021Q2, an important input in the BoC's rate decision process, shows a continued improvement in business sentiment, increasing to 4.17, from 2.95. The survey was conducted during the second half of May, as many provincial authorities were announcing their reopening plans following the third wave of COVID-19 infections.

The details show that the balance of firms expecting sales to increase faster over the next 12 months rose to 47, marginally lower than in the first quarter. The details show that many businesses expect their level of sales to return fully to their pre-COVID-19 level within the next 12 months. However, while confidence is improving in the hardest-hit sectors, many firms do not expect their level of sales to return to their pre-pandemic level over the next 12-months due to international travel restrictions, consumer caution, and continued online shopping and remote work.

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MARKET RESEARCH**

CHARLES ST-ARNAUD
Chief Economist

[Charles.starnaud@alberta
central.com](mailto:Charles.starnaud@albertacentral.com)

Hiring intentions are at a record-high level, with 65% of firms on balance saying they expect their level of employment to be higher over the next 12 months. However, some businesses in the hardest-hit areas do not expect to return to pre-pandemic level of employment within the next 12 months.

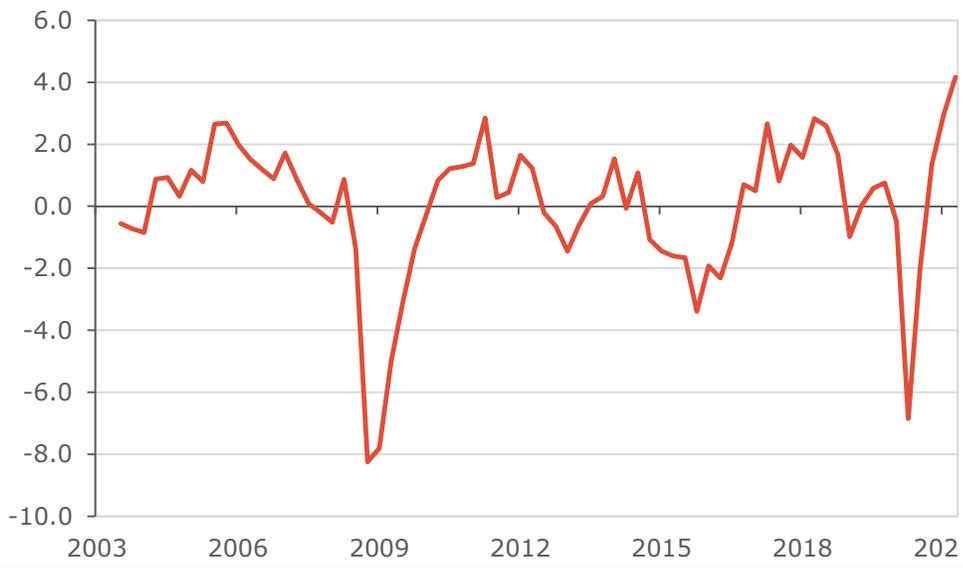
So far, the share of businesses reporting labour shortages remains low. However, the details show that for those who face labour shortages, its intensity has increased and are citing difficulties finding skilled or specialized labour, especially in skilled trades and information technology.

Capital expenditures are expected to increase over the next 12 months, with 36% of firms saying they intend to increase investment over the next year. The survey indicates that about one-third of businesses expect to resume investment plans put on hold due to the pandemic. Higher spending continues to be linked to increased investment in digitalization and information technologies.

The share of firms reporting some difficulty to meet an unexpected increase in demand rose to 61%, its highest on record. In addition, firms are reporting that supply chain frictions are a key bottleneck to production and they expect those constraints to persist until at least the end of 2021.

While there are some price pressures, most businesses expect inflation to be consistent with the Bank of Canada's target. 54% of firms expect inflation over the next 12 months will be at a similar pace to that of before the pandemic. Nevertheless, the details show that inflation expectations have increased, with about 35% of firms expecting inflation above 3%, the highest since 2008. Similarly, 26% of businesses on balance expect to raise prices over the next year. In addition, the share of firms expected to increase wages over the next year is at its highest since 2000, citing the need to attract and retain skilled labour and the rising cost of living as the main reasons for higher wages.

Fig 1. Bank of Canada's Business Confidence Index



Source: Bank of Canada

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