

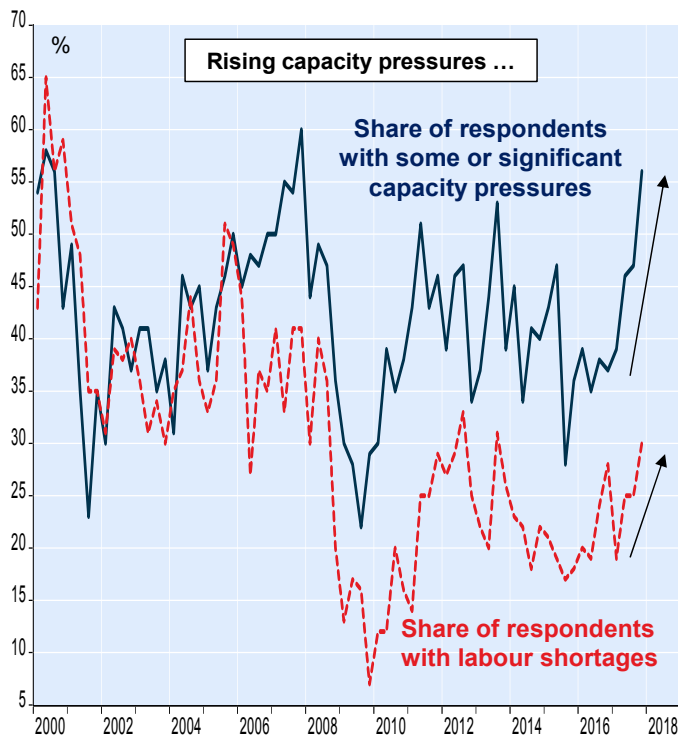
## Canada Watch

The Canadian economy had momentum heading into 2018. The latest Business Outlook Survey (conducted by the Bank of Canada between November 14th and December 8<sup>th</sup> last year) showed sentiment remaining strong, the survey's aggregate indicator returning near last summer's cyclical peak. Firms reported better sales growth in the last 12 months and expected it to remain positive over the next year. While some firms were concerned about U.S. trade policy, there is largely optimism about export growth which is expected to accelerate thanks to strong U.S. demand and a weak Canadian dollar. Capacity pressures became more intense with 56% of respondents (the highest in a decade) now stating either some or significant difficulties in meeting an unexpected increase in demand. The proportion of respondents facing labour shortages also increased to a multi-year high. While wage pressures are not yet widespread, firms expect an increase due to the minimum wage hikes. As such, expectations of input price inflation rose, but those of output price inflation remained low because firms anticipate increased competition to restrain their ability to raise prices. Firms reported some easing in credit conditions, which was confirmed by the separately-released Senior Loan Officer's survey for 2017Q4 (also conducted by the central bank). With capacity and labour pressures intensifying, firms are not surprisingly keen to increase employment and to invest in machinery and equipment. As today's *Hot Charts* show, the related measure of intentions bounced back sharply following the Autumn dip.

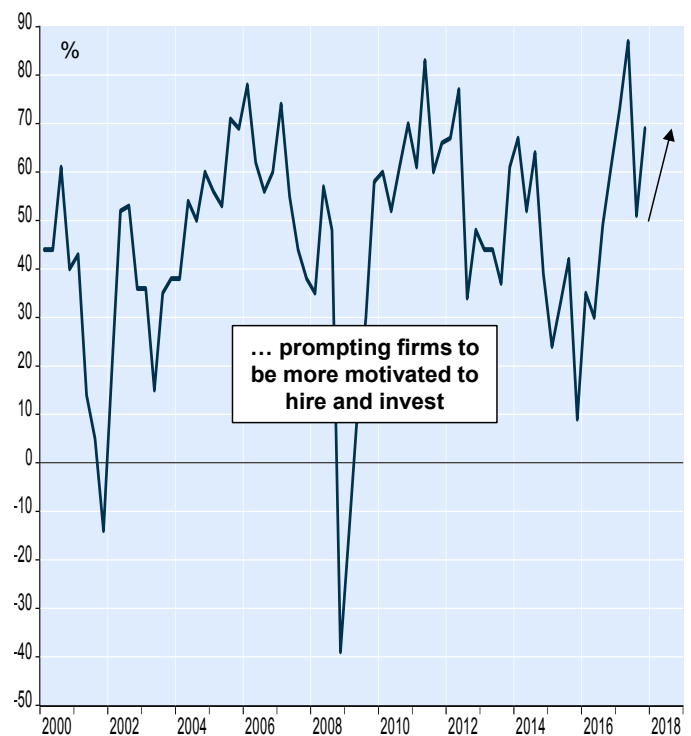
Krishen Rangasamy

## Canada: Reasons to be upbeat about investment and hiring prospects

Share of respondents with capacity pressures and labour shortages



BoC survey's balance of opinion on investment and hiring



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