

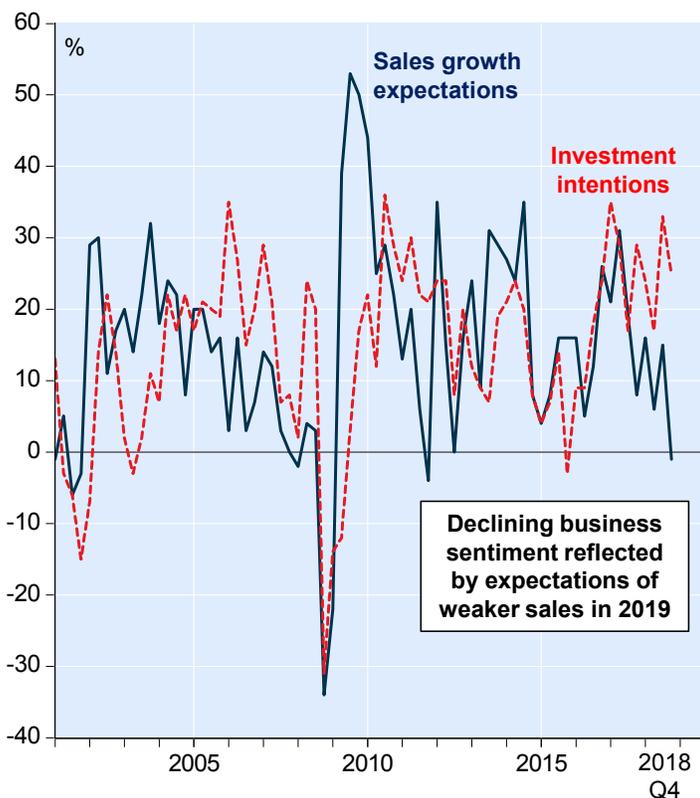
## Canada Watch

By Krishen Rangasamy

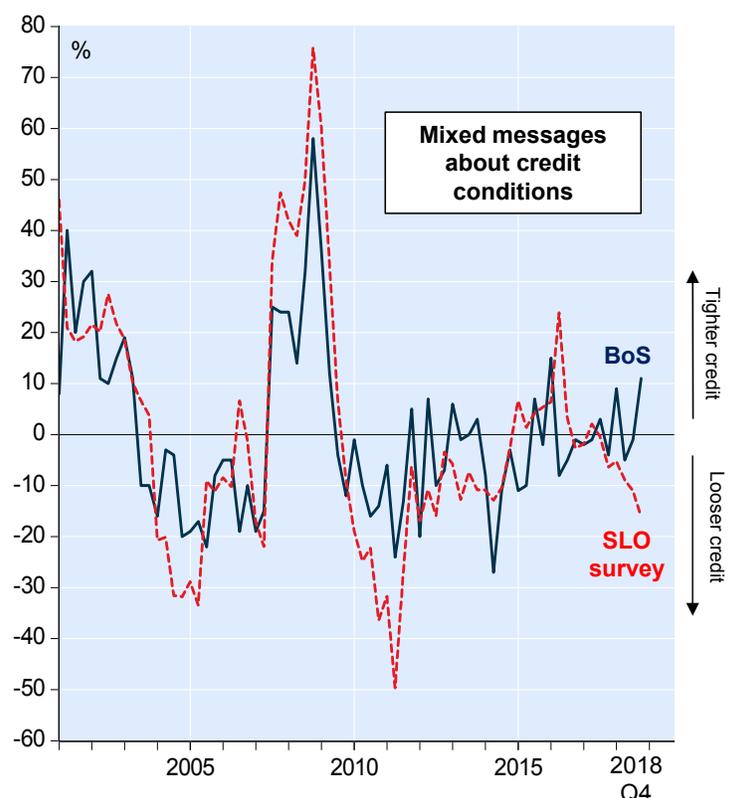
The Winter edition of the Bank of Canada's Business Outlook Survey (conducted between November 5 and November 28) suggests businesses are less optimistic than in the Fall. That's evidenced by the aggregate indicator sinking in Q4 to the lowest since the first quarter. As today's *Hot Charts* show, the balance of opinion about sales growth over the next year fell into negative territory – i.e. more respondents expecting a decline than expecting an increase –, and that for the first time since 2011. Intentions to increase employment and investment were both positive buoyed particularly by the services sector. Even then, the balance of opinion for investment fell a bit in Q4. Capacity pressures remained roughly unchanged, with 56% of respondents stating either some or significant difficulty in meeting an unexpected increase in demand. The proportion of respondents facing labour shortages was also unchanged at 37%. Inflation expectations were little changed with the large majority of firms (89%) still expecting inflation to be in the Bank of Canada's 1-3% target range over the next two years. Firms, particularly based in the Prairies, reported a significant deterioration in credit conditions. Interestingly, that goes counter to the separately-released BoC Senior Loan Officer's survey for Q4 which showed overall business lending conditions improving. All told, the Business Outlook Survey won't make the Bank of Canada more confident about the economic outlook. Expect the central bank to lower its 2019 Canadian GDP growth forecast in its upcoming *Monetary Policy Report*.

### Canada: Business sentiment weakens

Balance of opinion on sales growth over the next year and investment



Senior Loan Officer Survey's overall business lending conditions versus BoS's balance of opinion on credit



NBF Economics and Strategy (data via Bank of Canada)

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