

October 18, 2021

Canadian Q3 Business Outlook Survey highlighting supply chain challenges

- Businesses expect recovery to continue
- Supply-side challenges (global supply-chain disruptions and labour shortages) weighing on ability to produce.
- Firms plan to boost capacity by hiring and buying more equipment
- Cost pressures remain acute, although future increases expected to be smaller

Ongoing supply chain disruptions, higher input prices, and labour shortages featured prominently in the Q3 iteration of Bank of Canada's quarterly business survey. Expected future sales growth slowed after surging higher in prior quarters but remained positive. But the larger concern has been ability to produce given ongoing global supply chain disruptions and shortages of labour. The share of businesses that report they would have difficulty meeting an unexpected increase in demand increased to a new record 65%. As a result, businesses intend to expand production capacity with planned investment in machinery and equipment and hiring intentions both also rising to record highs (dating back to 1998.)

Input and output prices also remained high, but plans for further acceleration were significantly lower. Most businesses (87%) are expecting consumer prices to rise at 2% or more over the next two years, with 45% expecting price growth above the top end of the central bank's 1% to 3% target range. The majority of businesses expecting above 2% inflation see the drivers as "temporary" but "many" expect supply chain disruptions to stretch through the first half of next year. And over a third of businesses reported labour remained in short supply. Global supply chain challenges might ease going forward, but labour shortages were a major issue ahead of the pandemic and still will be after given ongoing and longer-lasting demographic headwinds from the aging population.

More businesses expect inflation to exceed BoC target



Source: Bank of Canada BOS survey, RBC Economics

The separately-released Canadian Survey of Consumer Expectations showed households still planning to increase spending going forward, including plans to spend about one-third of a large stockpile of savings accumulated during the pandemic to-date (with about 10% reportedly already having been spent). Consumers also expect inflation to be higher over the next year, but expectations remain relatively well-grounded with 2-year and 5-year inflation expectations little changed from pre-pandemic levels.

From the Bank of Canada's perspective, a still relatively firm outlook and more indications that 'transitory' price growth could still last longer than previously expected argue for the central bank to ease off the monetary policy accelerator slightly later this month with another taper of asset purchases.

Business Outlook Survey Summary

	<u>2021/Q1</u>	<u>2021/Q2</u>	<u>2021/Q3</u>
<i>Balance of opinion (%) unless otherwise indicated</i>			
BOS indicator	2.8	4.0	4.7
Past sales growth	-29.0	-29.0	30.0
Future sales growth	52.0	47.0	9.0
M&E Investment	40.0	36.0	46.0
Future Employment	45.0	65.0	67.0
Difficulty meeting demand (%)	46.0	61.0	65.0
Labour shortages (yes %)	22.0	23.0	36.0
Input price inflation	46.0	20.0	8.0
Output price inflation	45.0	26.0	8.0

Source: Bank of Canada, RBC Economics Research