RBC Economics & Thought Leadership

Daily Economic Update



January 16, 2023

The good, the bad and the ugly from latest Bank of Canada BOS survey

Ahead of the BoC's first interest rate decision of 2023 next week, the closely-watched Business Outlook Survey was a mixed bag of information including deteriorating growth outlook, moderating but still-elevated inflation expectations and easing capacity pressures. We continue to expect a 25 basis point increase to the overnight rate on January 25th, but a pause is not entirely off the table given the relatively dovish undertone from today's survey.

Higher interest rates from BoC hikes to-date are already having an impact on Canadian businesses' outlooks. Most businesses surveyed expect Canada to be heading towards a (mild) recession within the next year, and sales growth to slow significantly. Leading indicators like sales inquiries and new orders have already started to weaken for some. And that's led to moderations in firms' Investment and hiring intentions over the next 12 months. Indicators on those have now fallen back closer to their historical averages.

Slower domestic demand from interest rates increases are the main driver behind a softening outlook for most businesses. The amount of businesses that named demand or credit as the most pressing concern has doubled from a quarter ago. The impact is particularly pronounced for those that are more interest rate sensitive, and have operations tied to either housing activities or consumer purchases. Businesses that are tied to commodities on the other hand continued to expect robust demand.

The good news is that inflation expectations on balanced

improved again in Q4. More businesses expect it to take longer for inflation to return fully to the BoC's 2% target – over 40% of businesses surveyed expected inflation to return to 2% only in 2026 or beyond. But the average expected inflation rate over the next 2-to-5 years still ticked lower, and so did expected growth for input and output prices over the next year. Key capacity constraints – namely labour and supply chain bottlenecks also eased more significantly. That combined with softening demand is adding more weight to the expectation that current positive inflation trends will persist, starting with tomorrow's December inflation report.







Source: Q4 2022 Bank of Canada Business Outlook Survey, RBC Economics

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639s For more economic research, visit our website at <u>https://thoughtleadership.rbc.com/economics/</u>

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.