

**October 17, 2022**

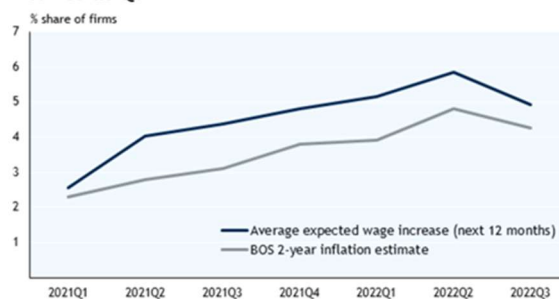
## Canadian businesses expect lower inflation and slower growth in Q3 BOS

The Bank of Canada's Q3 Business Outlook Survey painted a mixed picture between growth outlook, key production constraints and future expectations held by Canadian businesses.

Perhaps most importantly as the central bank considers how much higher to hike interest rates, businesses' inflation expectations have shown signs of easing over both the short and longer-run, after spiking sharply higher in Q2. The average expected inflation rate over the next 2 years ticked down to a still-elevated 4.3%. But most businesses that hold higher inflation expectations in the near-term also believe that it will slow back down to the BoC's target range within 3 years. And after the initial surge in prices during the recovery from the pandemic, many businesses reportedly have returned to pre-pandemic approaches of raising prices less frequently, following concrete signs of rising costs and competition.

Lower business inflation expectations however came at a price of slower expected growth. Businesses on balance expect future sales to worsen over the next 12 months. Many of them anticipate an economic downturn (over half put the odds of a recession within the next year at more than 50%), with those that have sales linked to housing activity and household consumption expecting a bigger impact. Faced with growing uncertainty, businesses have adjusted their investment and hiring intentions downward, and expect slower (but still-elevated) wage growth. Capacity pressures, namely supply chain bottlenecks and labour shortages remain elevated but showed early signs of improving in Q3.

**Expectation for inflation and wage growth ticked lower in Q3**



Source: Bank of Canada Q3-22 Business Outlook Survey

The aggressive central bank rate hiking cycle that started last spring has in large part been an effort to prevent very high rates of inflation currently from becoming entrenched in longer-run business and consumer inflation expectations. Despite improving signs in today's survey results, price pressures currently are still too high and broad to reverse quickly. And we don't expect the Bank of Canada to ease off the monetary policy brakes until policymakers are confident that inflation will slow substantially and sustainably. Our forecast assumes a 50 bps hike in the overnight rate later this month, with risks skewed to the upside pending key September inflation data still to come later this week.

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