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Growth expectations among Canadian businesses resilient in Q4

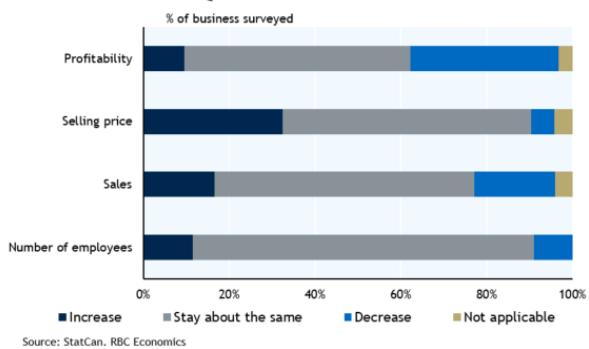
- Shortage of labour, high inflation and input costs again headlined businesses' concerns
- Optimism holding up given robust demand but higher interest rates expected to slow spending ahead
- Steady selling price expectations in line with easing inflation backdrop; Bank of Canada may be close to end of hiking cycle

Early economic indicators have been pointing to a slightly more robust start to the fourth quarter than we have previously expected. The Q4 Canadian Survey on Business Conditions, conducted through October to early November echoed that sentiment. Supply side constraints including labour shortage issues, high inflation, and rising input costs remained top of the list when it comes to key obstacles that businesses were expecting for the next 3 months. Concerns over rising interest rates and debt costs are also growing. But profitability expectations held up relatively well with business sales growth still limited more by ability to source inputs or hire enough workers than insufficient orders.

Indeed, robust demand for products, services and workers is still bumping significantly against supply constraints, keeping price and wage growth at elevated levels. Rising inflation and input costs were again the top two most reported obstacles, according to the Q4 survey. These challenges are also much more acute for the manufacturing sector, with 60% of businesses in that industry expecting them to persist in the quarter ahead. Ongoing labour shortage issues also meant little relief in challenges related to hiring and retaining workers. Over half of businesses surveyed were expecting average wages to increase over the next 12 months, by as much as 8.2% on average.

Perhaps most importantly, nearly 60% of businesses surveyed in Q4 planned to keep their selling prices relatively unchanged through the next quarter. That's in line with expectations that early green shoots in easing/narrowing inflation pressure in recent months will be extended through the quarters ahead. Higher interest rates are still working their way through the economy, and we expect slower GDP growth and an upward drift in unemployment to also help push inflation rates gradually lower. The Bank of Canada may be nearing the end if its hiking cycle provided those trends continue. We look for one more hike of 25 basis points in the overnight rate in December, before the central bank pauses to reassess the impact of higher interest rates to-date.

Majority of Canadian businesses expect no change in near-term conditions in Q4



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