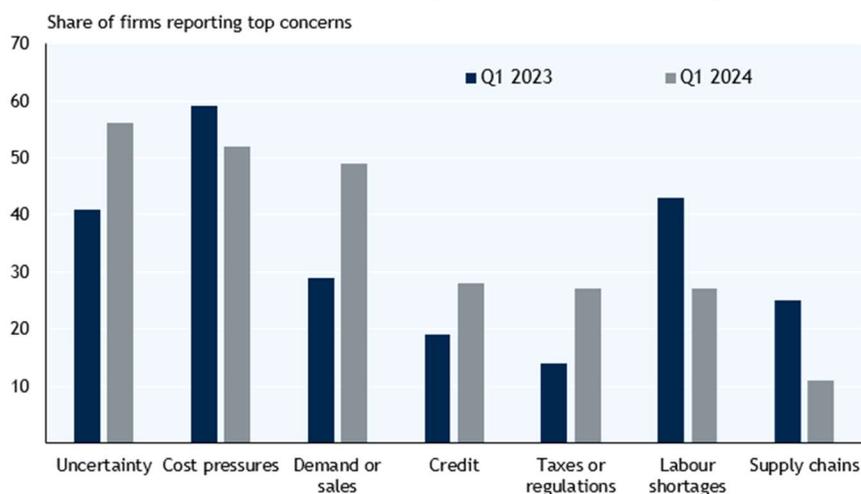


April 1, 2024

Bank of Canada Q1 BOS survey confirms easing inflation pressures

- Results from Q1's Bank of Canada Business Outlook Survey today were broadly consistent with data readings elsewhere, that conditions for businesses remain sluggish amid a weak consumer demand backdrop.
- Importantly, that's allowed for further normalizing in businesses' pricing behaviour – less were planning for frequent or larger price increases in the year ahead. The Bank of Canada has

Canadian businesses worry about uncertainty in Q1



Source: Bank of Canada Q1 Business Outlook Survey, RBC Economics

- been focused on this measure of firms' pricing strategy/behaviour to help confirm that the recent downtrend in inflation measures will persist.
- The shift in businesses' concerns from capacity constraints such as labour shortages and supply chain issues, to more demand-oriented factors including uncertainty (in economic conditions), insufficient demand and access to credit carried on in Q1. That alongside elevated borrowing costs has led to less investment intentions. The net share of businesses expecting a higher investment spending in machinery and equipment over the next year has dropped to 0% in Q1, well below the 16% historical average.
- Wage growth expectations among firms have continued to ease but to still-elevated levels. Overall, the average rate of expected wage increase in the next year was little changed at 4.1% in Q1 and above the 3.1% historical average rate.

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- Overall cost pressures have eased substantially but there are corners where businesses were still seeing stress, namely persistently elevated wage gain, in some cases input costs that were still catching up to past high inflation, and profit margins that are still lagging.
- Inflation expectations among businesses trended lower Q1 and for the most part stayed within Bank of Canada's inflation target range. On average, businesses were expecting prices to increase by 3% each year over the next two years, down from 3.2% a quarter ago and 3.9% in Q1 2023.
- Canadian consumers on the other hand, continued to expect higher rate of inflation, at 4.1% over the next year that was little changed from what was expected a quarter ago. That has to do with a widening gap between "perceived" inflation by consumer and the current actual readings. In Q1, consumers were perceiving inflation at as much as 5.25%, that's lower than the 5.9% perceived reading in Q4 but well above the headline CPI reading of 2.8% latest in February.
- Both businesses and consumers in Q1 held a more positive view when it comes to the economic outlook for the next 12 months. Fewer firms were planning for a recession. And fewer (but still the majority of) consumers were reducing or planning to reduce spending due to expectation for inflation and interest rates.
- **Bottom Line:** Details from today's Bank of Canada surveys flagged a slight rebound in what's still considered very soft business sentiment and consumer demand backdrop. Capacity constraints have also continued to ease, alleviating cost pressures for businesses while leading to further normalization of their pricing practices. Wage gain expectations among businesses were still relatively elevated, but should continue to moderate following weakening in labour market conditions (unemployment rate in Canada has risen by 0.7% over the past year). Overall, we continue to expect both inflation and wage growth to keep trending lower persistently in the year ahead, and for that to allow for the Bank of Canada to start moving the overnight rate lower in June.