

July 15, 2024

BoC's Business Outlook Survey flags slowing inflation pressures

- The Bank of Canada's Q2 Business Outlook Survey broadly confirmed that the Canadian economy continues to soften and that inflation is most likely to continue to drift broadly lower.
- Fewer firms are planning for a 'recession' in the next 12 months (20% versus 27% in the Q1 survey.) But sales growth expectations are still weak, particularly for firms tied

Canadian businesses planning smaller wage increases



Source: RBC Economics Research, Bank of Canada

- to discretionary consumer spending. Firms tied to essential consumer spending have a more positive thanks to still rapid population growth.
- Business investment plans remained weak -- with a focus on maintaining existing capital stock rather than investing in new capacity -- and hiring plans slowed.
- Perhaps most importantly for the BoC as the central bank considers its next interest rate decision on July 24th, most inflation indicators are pointing to further moderation.
- Closely watched corporate pricing behavior continues to normalize with fewer firms planning abnormally large or frequent price increases in the year ahead.
- The share of firms expecting inflation within the BoC's 1% to 3% target range over the next two years actually edged lower (to 55% from 59% in Q1) but firms' average expected inflation was "inside the Bank's inflation control range."
- Firms' attributed lower inflation expectations to weakness in demand and increased competition and lower wage growth offsetting a tick higher in supply chain concerns (container shipping costs have spiked once again in to the summer.)

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- Downward pressure on wage growth is likely to persist. Fewer firms reporting labour shortages (the 15% share in Q2 is half the historical average share.) The average expected wage increase in the next 12 months slowed to 3.2% from 4.1% in the prior survey.

Bottom line: The Q2 BoC surveys broadly confirmed a softening economic backdrop. The BoC's governing council is particularly focused on implications for inflation from the supply/demand balance in the economy, corporate pricing behaviour, inflation expectations, and wages - and all of those showed further improvement in the Q2 BOS. The data should help reinforce that interest rates no longer need to be as high as they are to get inflation sustainably under control. The June consumer price index numbers tomorrow will still be watched closely for whether the BoC will be able to follow up the June interest rate cut with another next week. But absent a significant upside surprise, the BoC looks on track to cut interest rates again.

Business Outlook Survey Summary

	<u>2023/Q4</u>	<u>2024/Q1</u>	<u>2024/Q2</u>
<i>Balance of opinion (%) unless otherwise indicated</i>			
BOS indicator	-3.1	-2.4	-2.9
Future sales growth	20.0	1.0	1.0
M&E Investment	22.0	0.0	11.0
Future Employment	21.0	32.0	26.0
Difficulty meeting demand (%)	45.0	53.0	44.0
Labour shortages (yes %)	27.0	22.0	15.0
Input price inflation	-57.0	-48.0	-32.0
Output price inflation	-21.0	-18.0	-23.0

Source: Bank of Canada, RBC Economics Research