

Contributors

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Chart 1

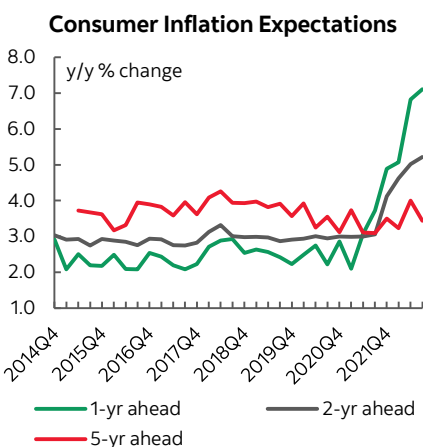
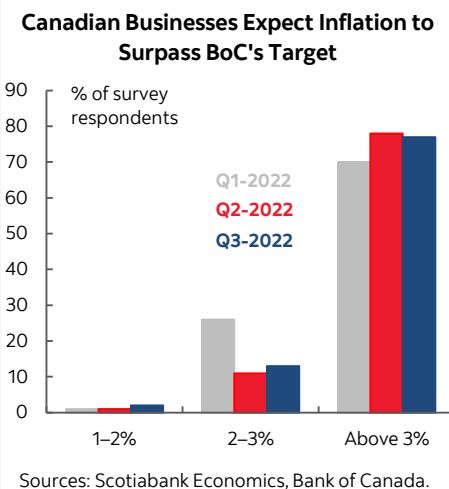


Chart 2



Canadian Businesses Expect High Inflation, But Curiously Admit to Playing No Role

- Inflation and wage expectations continue to become unmoored
- Businesses expect high inflation, but admit no role

The Bank of Canada's lagging surveys of consumer ([here](#)) and business ([here](#)) attitudes continue to highlight growing risks of a wage-price spiral effect as few believe in the credibility of the central bank's 2% inflation target. That unmooring of inflation expectations places the central bank in dangerous territory and continues to signal that it's job is far from being done. Of course, the usual caution with these surveys concerns their limited usefulness in terms of what actually winds up happening.

STILL HIGH INFLATION EXPECTATIONS

As chart 1 shows, consumers upped their inflation expectations over each of the next one- and two-years ahead to even further dizzying heights. Their five-year inflation expectations edged lower from 4% to 3.44% but this remains well above the BoC's upper limit of the 1–3% medium-term inflation target range. In all cases, the statistical significance of the moves within what is a consumer attitudes survey is probably pretty low, but notwithstanding this point there is no material evidence that inflation expectations are starting to push back into the target range across all time horizons.

Chart 2 shows that the vast majority of businesses still believe that the BoC won't achieve its inflation target over the next two years with minor differences that are dismissable given the survey's statistical noise.

Go to the consumer survey's link and check out the BoC's chart 3 that may have had the folks at the BoC spilling their mocha grandes. Those who think Canada even has an inflation target think the target is 2.9% (not 2%) and rising. Those who don't even know that one exists (ha!) think it's 4.9% and rising. Apparently the BoC has some work to do to explain to mainstream what it's trying to achieve.

RAISE PRICES? WHO ME??

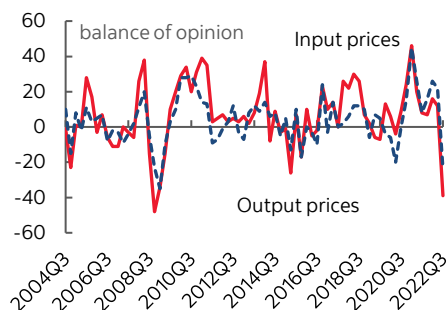
A net 24% of firms are now saying they expect to be pushing through lower output prices over the next year (chart 3) including a gross 47% who say they plan on cutting prices and 23% saying they plan on raising them. Yeah right. That seems rather inconsistent to what they are saying about inflation and the BoC's inability to hit its target. Don't pay much attention to that chart since it's a pretty weak gauge. A year ago, only a net 8% of the little darlings said they were planning on raising prices by now and yet 81% of the CPI basket is up by more than 2% y/y, 75% is up by more than 3% and 70% by more than 4%. "What, sweet little me raise prices? Nah, must be the evil competition doing that, we'd never raise prices on our customers!" Hogwash.

This also seems inconsistent with the share of businesses saying they would have some difficulty meeting unexpected demand that eased a touch but still remains elevated (charts 4, 5).

WAGES

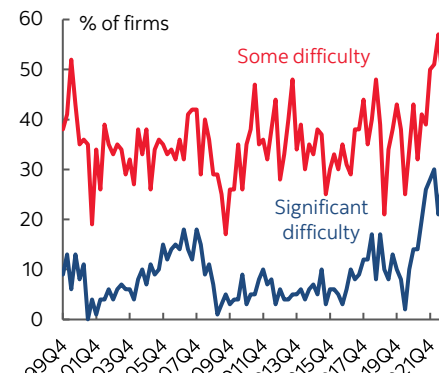
Consumers' wage expectations over the next year continue to shoot higher (chart 6). This suggests that the wage cycle is reinforcing inflation risks. 40% of workers expect a wage hike of over 4% over the next year.

When businesses are asked about expected wage pressures, there was a decline in the net percentage of firms expecting to pay higher wages but it still remains at elevated levels (chart 7). A somewhat smaller share of businesses—but still a majority—say that labour

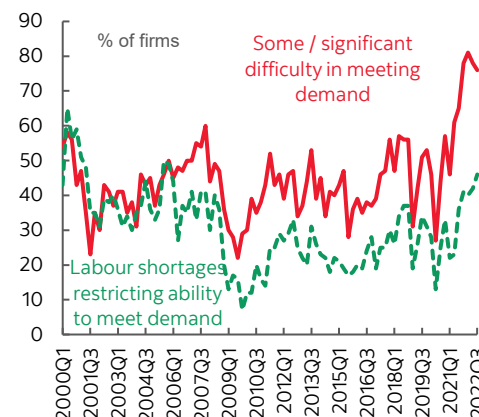
Chart 3
Input vs Output Prices*


*Over the next 12 months, are the prices of products/services purchased and sold expected to be greater than, less than, or the same as the last 12 months?

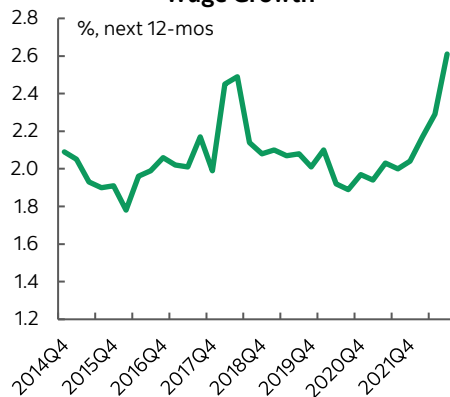
Sources: Scotiabank Economics, Bank of Canada.

Chart 4
Capacity Pressures - Ability to Meet Demand


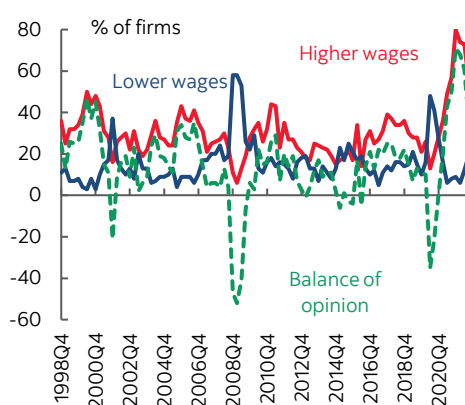
Sources: Scotiabank Economics, Bank of Canada.

Chart 5
Difficulty Meeting Demand


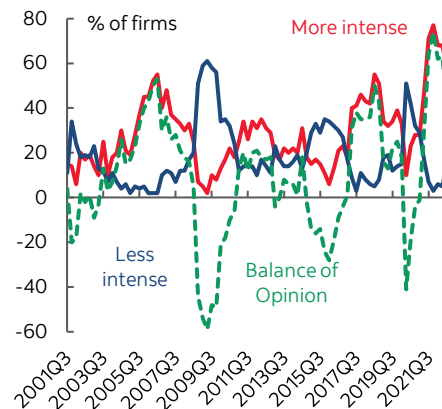
Sources: Scotiabank Economics, Bank of Canada.

Chart 6
Consumers' Expected Wage Growth


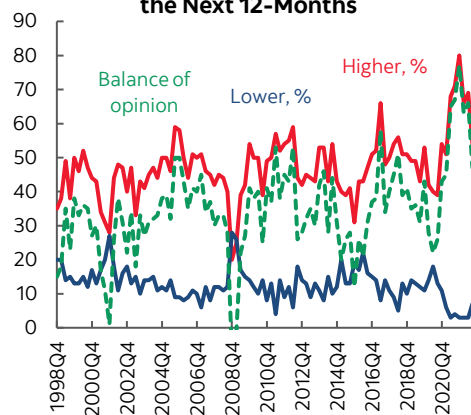
Sources: Scotiabank Economics, Bank of Canada.

Chart 7
Wage Growth Expectations


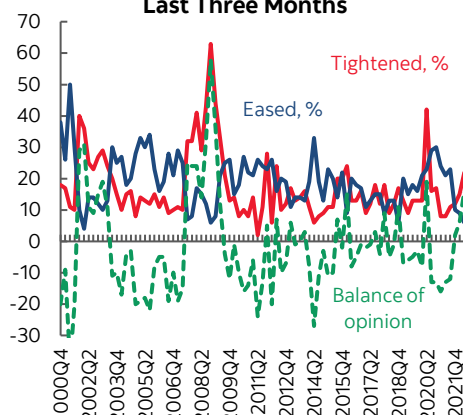
Sources: Scotiabank Economics, Bank of Canada.

Chart 8
Intensity of Labour Shortages


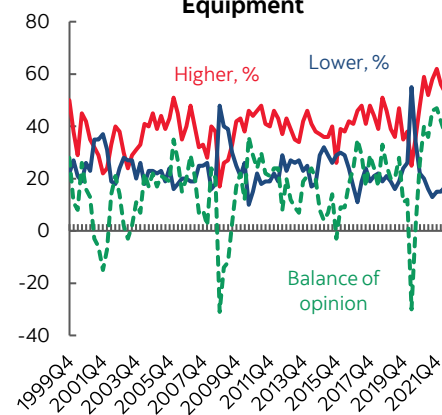
Sources: Scotiabank Economics, Bank of Canada.

Chart 9
Employment Level over the Next 12-Months


Sources: Scotiabank Economics, Bank of Canada.

Chart 10
Credit Conditions Over the Last Three Months


Sources: Scotiabank Economics, Bank of Canada.

Chart 11
Investment into Machinery & Equipment


Sources: Scotiabank Economics, Bank of Canada.

October 17, 2022

shortages are more intense (chart 8). Ditto for expected employment levels over the next year (chart 9).

OTHER METRICS

Businesses are indicating tightening credit conditions (chart 10).

Business plans to invest remained fairly elevated (chart 11), though tightening financing conditions could challenge this expectation.

Consumers' expectations for growth in house prices over the next year fell, but was always underestimated in the past and likely underestimates downside risk going forward (chart 12).

Activity readings point to weakening expected growth (chart 13) that should surprise no one. The BoC will remain overwhelmingly focused upon cooling wage and price pressures and it will take material damage to the economy and job market to achieve such an outcome.

SURVEYS ARE DATED

The surveys are partly stale because they predate much of the turmoil that has recently swept through global financial markets owing in no small part to the UK government's severe missteps. The consumer survey was conducted between August 2nd and August 23rd (basically two months ago...) and the business survey was conducted from August 15th to September 9th. Frankly it still takes the BoC an absurdly long time to turn around the results, longer than any other sentiment survey I'm aware of including the universe of PMIs and confidence gauges. Perhaps the surveys should be outsourced?

Chart 12

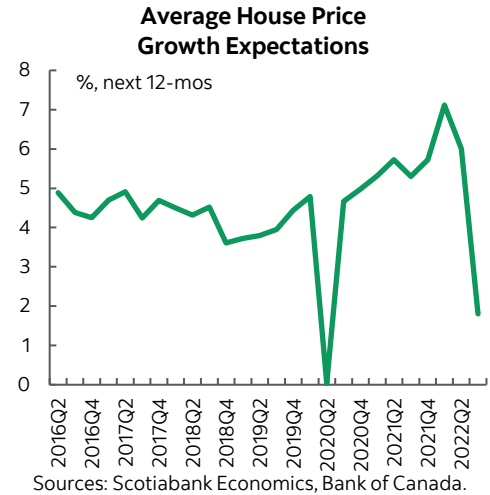
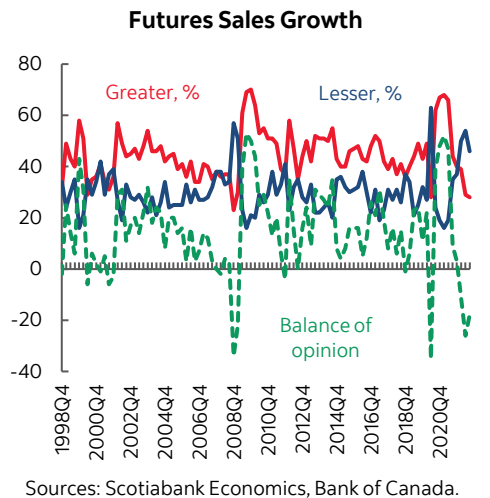


Chart 13



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