

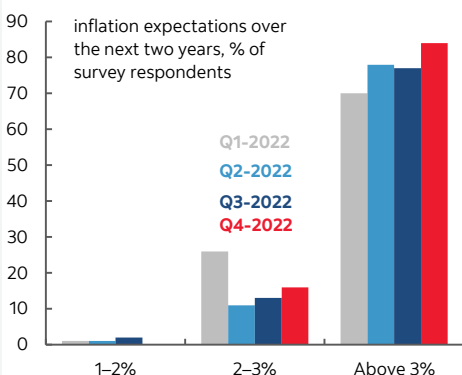
Contributors

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Chart 1

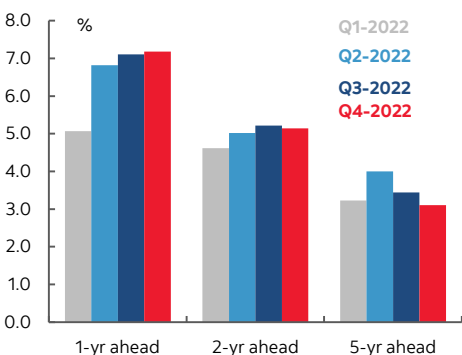
Canadian Businesses Expect Inflation to Surpass BoC's Target



Sources: Scotiabank Economics, Bank of Canada.

Chart 2

Canadian Consumers Expect a Sustained Inflation Overshoot



Sources: Scotiabank Economics, Bank of Canada.

Sorry, Bank of Canada, But Nobody Believes Your Target

- **Inflation expectations remain well above target for years to come**

What will catch the BoC's eye in surveys of business expectations ([here](#)) and consumer expectations ([here](#)) is likely to be the evidence of sticky wage and price pressures.

USDCAD was left unchanged by the results. Canadian short-term yields are outperforming other markets today. Two-thirds of today's 9bps rally in the two-year yield occurred before the releases this morning and another 3bps decline has been tacked on since. In my view, this reflects dovish positioning into the start of the week ahead of CPI tomorrow with either little incremental effect from the surveys and/or markets and some media outlets are not reading their implications the same way as I am.

Businesses are demonstrating no faith in 2% (chart 1). The latest results point to a whopping 84% of businesses who think that inflation will average over 3% over the next two years which is up from 77% the prior quarter.

Consumers not only do not believe that the BoC will hit its 2% inflation target within any reasonable time period, they also don't believe that inflation will land within the 1-3% policy target range for many years (chart 2). Consumers' expectations for inflation held steady in the 1- and 2-year horizons at 7.2% (prior 7.1%) and 5.1% (prior 5.2%) respectively, while the 5-year ahead inflation expectations gauge eased a touch to 3.1% (prior 3.4%) but remains above 3%.

Businesses are also showing lessened optimism toward future sales growth (chart 3), but they still expect growth to stay in the black and recall that this is coming off a period of torrid growth when Canada's economy outshone the rest of the world throughout 2021Q3-2022Q3. That's a point of resilience and against recession talk. Businesses continue to report ongoing capacity pressures that are just a little lighter than previously (chart 4). Businesses are also continuing to indicate very high difficulty meeting demand with only a slight easing compared to prior quarters (chart 5).

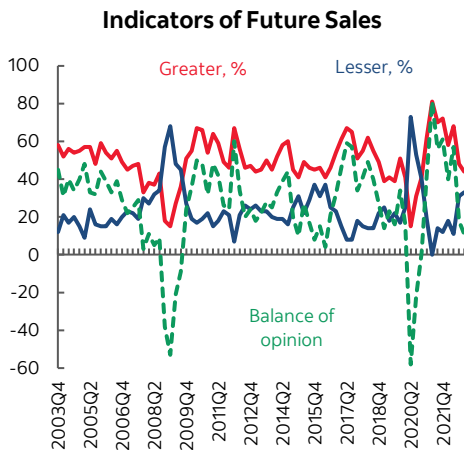
In order to rise to the occasion, businesses are signalling continued appetite to investment in machinery and equipment with a modest deterioration in the balance of opinion in favour of investing (chart 6).

A majority of firms also continue to signal that they intend to hire more workers over the next year than firms signalling they intend to let some go and the net balance of opinion in favour of more hiring is now back toward longer-run averages from historically elevated readings (chart 7). One reason for positive but somewhat lessened hiring appetite lies in what they are saying about the ongoing difficulty getting workers that improved in negligible fashion and remains a historically pessimistic heights (charts 8, 9). Accordingly, firms believe they will have to continue to raise wages going forward but the net balance of opinion of firms saying they will have to raise wages has softened somewhat (chart 10).

A large number of consumers are still signalling willingness to voluntarily leave their job which is a plus in terms of appetite for mobility and with a steady percentage response to the probability of losing their jobs (chart 11). Consumers still expect relatively faster wage growth going forward than in prior years at only a very slightly cooler pace (chart 12) and bear in mind that their perceptions bear little resemblance to what the data shows on quicker wage growth over the years. Consumers still signal that they expect to spend at a faster rate than save as they have been signalling for years (chart 13); hello, debt. The BoC will be pleased by greater caution toward house prices (chart 14).

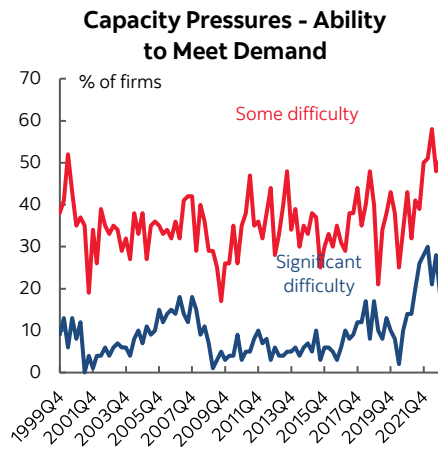
The surveys have a spotty track record in terms of lining up with what actually happens. They also lack some freshness (October 27th to November 17th for the consumer survey, . November 14th to December 2nd for the business survey). Onto CPI tomorrow!

Chart 3



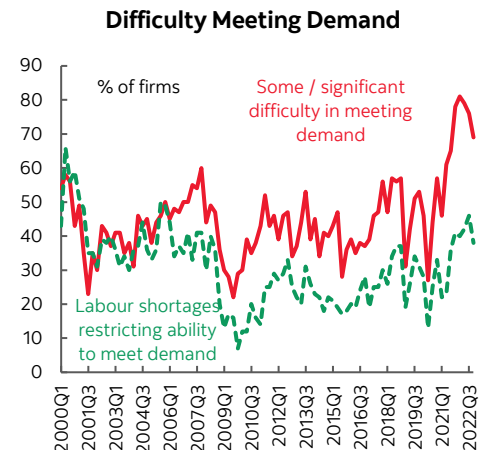
Sources: Scotiabank Economics, Bank of Canada.

Chart 4



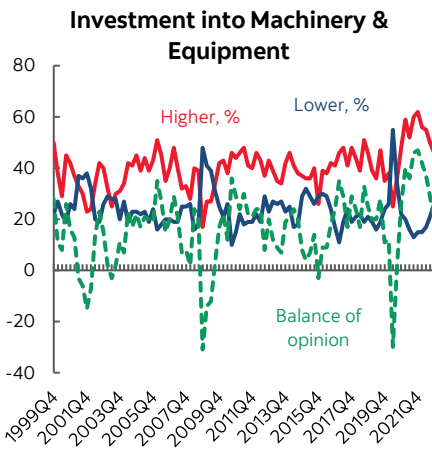
Sources: Scotiabank Economics, Bank of Canada.

Chart 5



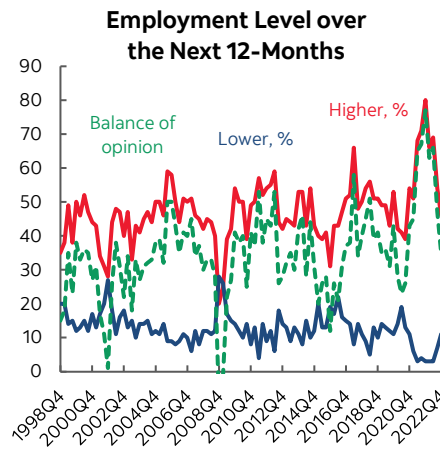
Sources: Scotiabank Economics, Bank of Canada.

Chart 6



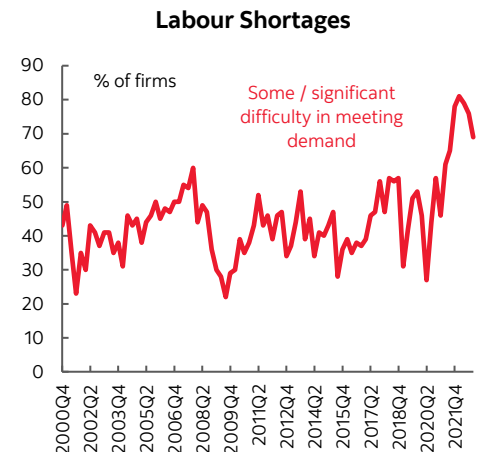
Sources: Scotiabank Economics, Bank of Canada.

Chart 7



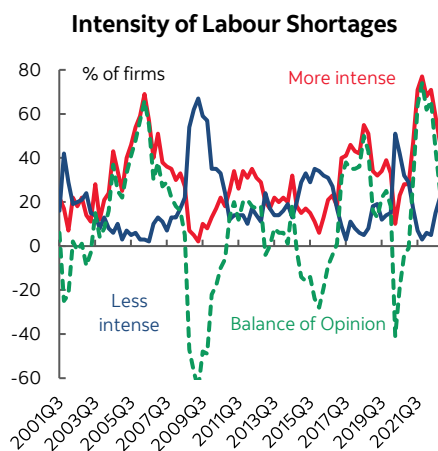
Sources: Scotiabank Economics, Bank of Canada.

Chart 8



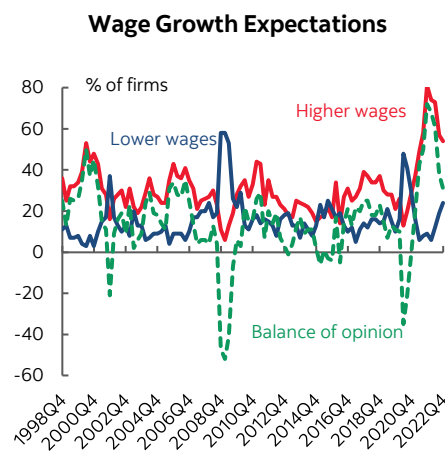
Sources: Scotiabank Economics, Bank of Canada.

Chart 9



Sources: Scotiabank Economics, Bank of Canada.

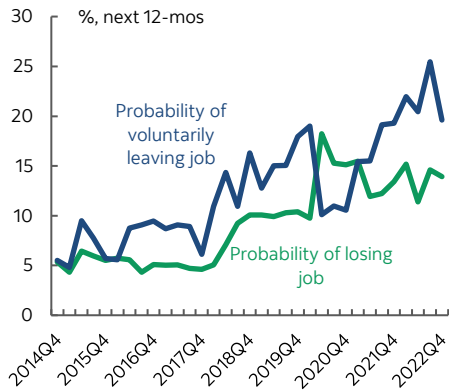
Chart 10



Sources: Scotiabank Economics, Bank of Canada.

Chart 11

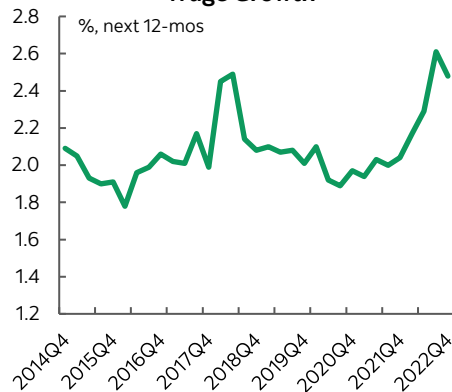
How Consumers Feel About Jobs



Sources: Scotiabank Economics, Bank of Canada.

Chart 12

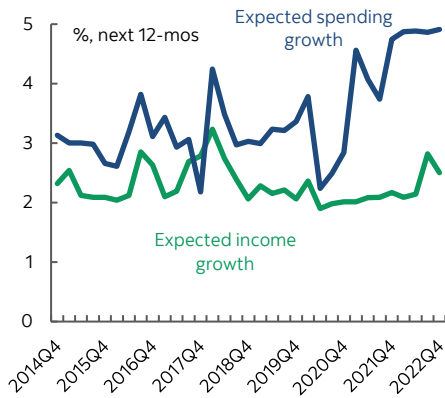
Consumers' Expected Wage Growth



Sources: Scotiabank Economics, Bank of Canada.

Chart 13

Spending and Income Growth



Sources: Scotiabank Economics, Bank of Canada.

Chart 14

Average House Price Growth Expectations



Sources: Scotiabank Economics, Bank of Canada.

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