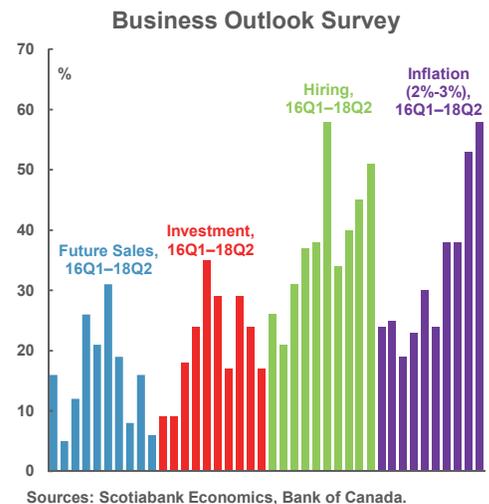


Businesses Are Crying Out For The BoC To Hike

- Businesses are crying out for the Bank of Canada to hike on July 11th. They may not be saying it quite that way in the BoC's latest Business Outlook Survey ([here](#) and see the updated chart below), but the degree to which they are reporting overheating conditions and record high labour shortages in the context of building inflation expectations will send shivers down Governor Poloz's spine. He had the results when he spoke on Wednesday and may be thinking that not staying on a hike path risks falling further behind intensifying capacity constraints that are driving wage and price pressures. No one would—or should—fault the Governor if he had to reverse course at some later stage of developments that we don't anticipate to occur in our baseline forecasts, but the risk in the here and now that too often gets ignored is that of ignoring the BoC's prime price stability mandate and allowing inflation expectations to possibly become unmoored which can be very difficult to put back in the bottle once unleashed. I don't think next Friday's jobs and trade updates will matter for any purpose other than scorekeeping across economists and fine tuning growth tracking. The BoC is pretty much assured of hiking on July 11th with our forecast continuing to anticipate five hikes in total between now and the end of 2019.
- Why is this happening despite NAFTA risks? I've argued that NAFTA risks would matter more if we had slack and it was more of an option to invest and hire. In a decently performing global economy with Canada at capacity limits, businesses still have decisions to make about how to deal with capacity pressures regardless of uncertainties. Either invest and hired to deal with capacity constraints, or raise prices to moderate demand—either of which supports monetary tightening. Alternatively, do neither and risk a firm's lunch being eaten by the competition.
- Expectations for future sales growth moderated to a reading of 6 which is down from 16 the prior quarter and back to about Q4 levels following prior strength. This isn't bearish per se for two reasons. First, link that up with the sales growth that is being reported over the past year which climbed to the fastest reading in about six years. It is natural to expect softer growth off of the kind of acceleration they have experienced to date. Second, the separate measure for "indicators of future sales" that is derived from indicators like order books, advance bookings and sales inquiries increased and is toward cycle highs.
- Investment intentions softened for a second straight quarter but remain elevated.
- Hiring intentions picked up to the second fastest pace of the past six years and fourth fastest pace on record.
- The problem is that businesses are saying they are having rising difficulty finding workers. Labour shortages increased to the highest since 2008Q3.
- The BoC probed further on labour shortages with special questions. **The net percentage of firms reporting that the labour force is fully utilized soared to an all-time high. The net percentage indicating that they are having inability to find new labour at the current wage increased to the highest in about six years.**

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
 416.863.7707
 Scotiabank Economics
derek.holt@scotiabank.com



- **A record high net percentage of firms are reporting some or significant capacity constraints** getting in the way of their ability to meet an unexpected increase in demand. This is particularly concentrated in Ontario, Quebec and BC—three of the four biggest provinces with the energy related provinces lagging behind.
- **The net percentage of firms expecting accelerating price pressures climbed to about a four year high.** The net percentage of firms expecting inflation to fall below 2% declined to about a six year low. The net percentage of firms that expect inflation to rise by 2–3% increased to about a six year high and the net percentage expecting inflation over 3% also climbed but is small.

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