

Some obstacles harder to clear than others

By Warren Lovely

Not to be confused with the Bank of Canada's well-followed *Business Outlook Survey* (next due in October), Statistics Canada offered up its own quarterly tally of business expectations today. For the uninitiated, StatCan's *Canadian Survey on Business Conditions* was launched in 2020 and gauges business sentiment/expectations any number of ways, providing detailed splits by industry, business type and/or region. The latest survey was conducted from July 4th to August 8th and thus probes the outlook as far out as November.

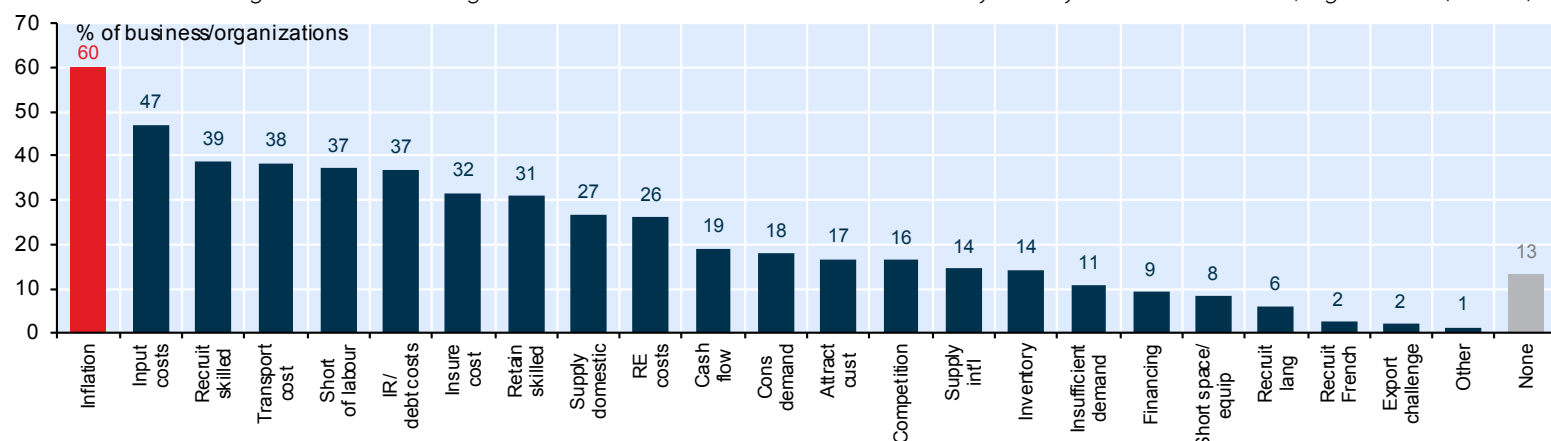
The latest survey highlights a laundry list of obstacles to doing business in Canada. It's not hard to guess at the chief worry these days: rising inflation. Fully 60% of firms cited 'rising inflation' as a near-term impediment to business, the most commonly cited obstacle (Chart 1). Directly, rising inflation ranked as the main obstacle in most industries and was a pervasive fear across the country (Chart 2). Alberta firms appear particularly uneasy on inflation, which may help explain the anxiety (and 'rage') reflected in public opinion polling. Consistent with a more contented public, Quebec firms were relatively less anxious on inflation (vs. other provinces), even if a majority deemed inflation as an obstacle.

The Q3 survey is the first time 'rising inflation' was included on the list of impediments to business, although cost pressures have been identified in one form or another for some time now. Once again, roughly half of the businesses surveyed (47% to be precise) warned that the 'rising cost of inputs' threatened their business (Chart 3). A host of other 'costs' continue to weigh (e.g., transportation, insurance, real estate). And after a series of rate hikes, debt costs have now become a more common concern. Notwithstanding a somewhat less positive balance of opinion on employment, labour shortages remain acute, seen as an obstacle to doing business by 37% of participants. Anxiety reigns then, or so it appears, with barely 10% of firms flashing the 'all clear' signal (i.e., seeing no obstacles to their business over the coming three months).

One presumes that the discomfort flagged here continues to be felt at the central bank, where a policy rate decision looms. Sure, market based inflation expectations may have eased ever-so-slightly, and the latest monthly CPI release hinted at slower inflation momentum, but unless and until the BoC really gets inflation under wraps, restrictive policy rates look to be needed... and not for a mere quarter or two but perhaps over a prolonged period. After all, some obstacles (like elevated costs and labour shortages) are proving harder to clear than others. And as for future surveys, here's hoping the BoC's BOS shows some tangible easing in capacity pressures/ability to meet unexpected demand.

Chart 1: 'Rising inflation' chief obstacle to doing business, according to firms surveyed by Statistics Canada

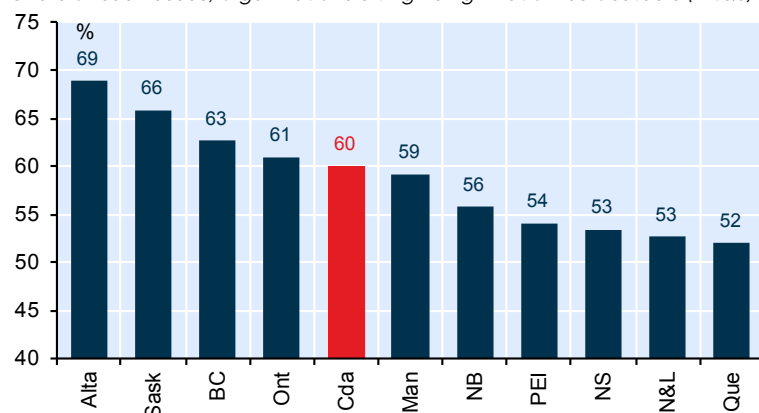
Noted obstacles to doing business over coming three months: Ranked from most to least commonly cited by Canadian businesses/organizations (2022:Q3)



Source: NBF, StatCan | Note: Refer to survey for detailed descriptions of individual obstacles

Chart 2: Inflation anxiety most acute in Alberta (less so in Que)

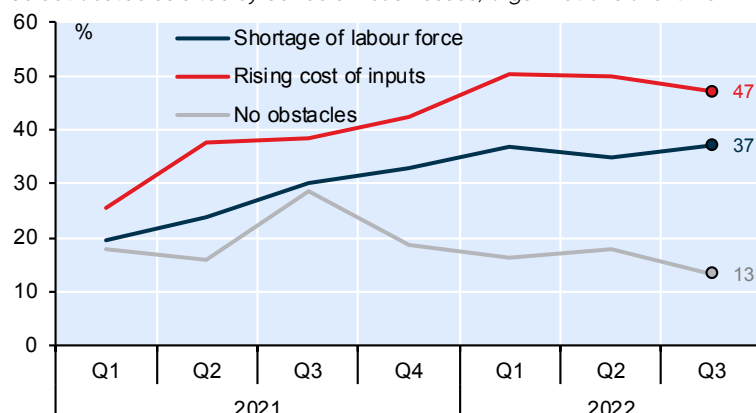
Share of businesses/organizations citing 'rising inflation' as obstacle (22:Q3)



Source: NBF, StatCan | Note: Based on all industry averages for each province

Chart 3: Rising input costs and labour shortages look sticky

Select obstacles cited by Canadian businesses/organizations over time



Source: NBF, StatCan | Note: Labour shortages & input costs two of many obstacles



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