

## Canada Watch

By Jocelyn Paquet

One day after the publication of the Business Outlook Survey and the Canadian Survey of Consumer Expectations by the Bank of Canada, we must admit that we remain somewhat perplexed by some of their conclusions. Our surprise stems in part from the discrepancy between these surveys and the hard data obtained recently, particularly on the employment front. While “hard” data such as the Labour Force Survey reported a solid rebound in hiring in the country in the fourth quarter, the labour market indicators included in the “soft” data that are the Central Bank’s surveys painted a less rosy picture of the situation. It is true that more businesses reported labour shortages in Q4 and that a greater proportion of consumers planned to voluntarily leave their jobs—two developments that suggest an improvement in labour market dynamics—but these proportions remained very low on a historical basis. Adding to that, the net percentage of businesses planning to increase their workforce in the next 12 months continued to decline, falling to its lowest level in 10 years, suggesting very low marginal labour demand. Given that slack has already built up in the labour market in the past few months—the unemployment rate has trended upward—, one would expect this reluctance on the part of businesses to hire to act as a cold shower on consumers’ wage expectations. But as today’s Hot Chart shows, the average Canadian expects to see wages increase by 2.9% over the next 12 months, the most in the consumer survey’s history. Admittedly, these high expectations reflect consumers’ fears that inflation will continue to rise rapidly—they expect prices to increase by 4% over the next year—but we suspect that they also betray a desire to catch up on *past* inflation. One thing is certain: if wage growth remains sticky, it will be harder for the Bank of Canada to bring inflation back down to the middle of its target range. Economists had warned that a prolonged upward deviation in inflation could alter consumer expectations and behaviour. And while we’re still far from full-fledge stagflation, the discrepancy between the state of the labour market and wage expectations nonetheless suggests that the post-pandemic inflation surge left some lasting marks on the economy.

### Canada: Wage growth expectations die hard

Year-ahead wage growth expectations according to the Canadian Survey of Consumer Expectations vs. future employment level\* according to the Business Outlook Survey



\*Net percentage of firms expecting employment level to increase over the next 12 months

NBC Economics and Strategy (data via the Bank of Canada)



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