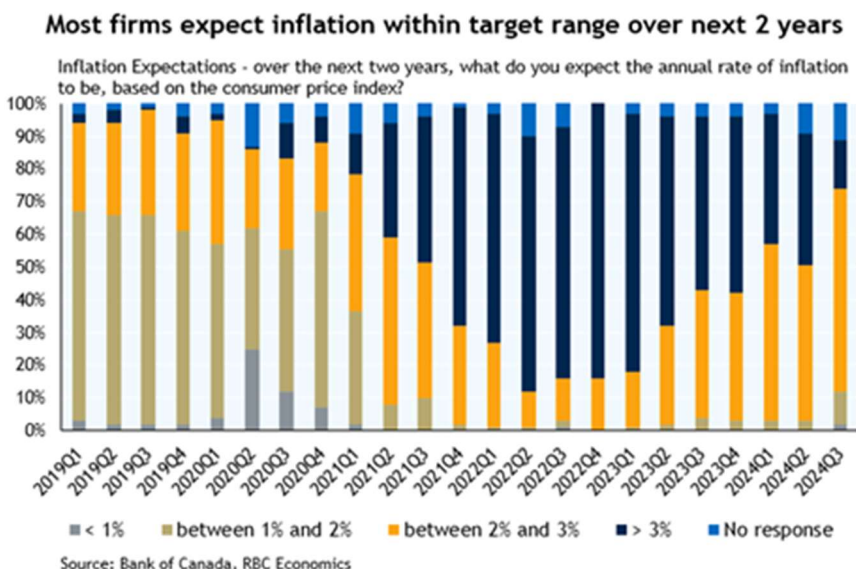


October 11, 2024

Q3 Business Outlook Survey gives green light for larger rate cuts from the BoC

- All inflation indicators included in the Q3 Business Outlook Survey today are pointing to further moderation in the coming period. 72% of firms surveyed were expecting average inflation in the next two years will land within the BoC's 1% to 3% target, up from 43% a year ago.



- A lot of that is tied to persistently weak demand and sales. Business conditions were characterized as “subdued but stable” over the August survey period.
- Indicators related to past sales performance and future sales expectations are softer than usual and little changed from the prior quarters.
- There are tentative signs of a pick-up in business sentiment but they’re very moderate. Less firms (16% in Q3 comparing to 27% at the beginning of the year) were planning for a recession in the next 12 months.
- With demand continuing to soften, businesses reported growing excess capacity both with supply chains and with labour.

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639s
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- Importantly, lessened labour constraints mean downward pressure on wage growth is expected to persist. The share of firms reported they have trouble hiring at current wage dropped to 10% in Q3. Firms' expectations for average wage increase in the next year also eased on balance.
- In Q3, lending conditions as reported by businesses were to have eased for the first time in quarters as interest rates drop but were still restricting investment.
- On balance, there are little changes to businesses' hiring and investment plans over the next year. Intentions related to both are also still below historical average levels in Q3.

Bottom line: Details from the third quarter Bank of Canada Business Outlook Survey are suggesting that demand is still weak and businesses continue to expect inflation pressures will further unwind. That combination should be enough of a catalyst for a larger 50 bps rate cut from the next BoC meeting in two weeks.