

August 30, 2022

Labour shortages and rising interest rates headline Canadian Q3 business concerns

- Concerns over labour shortage issues growing as supply chain pressures recede
- Business remain optimistic about their 12-month outlook
- Bank of Canada rate hikes triggering debt worries, softening expected demand and economic backdrop in 2023

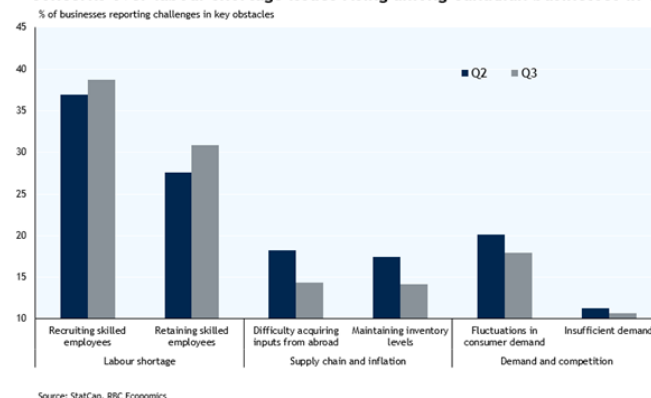
While global supply chain pressures have shown signs of easing, more businesses reported challenges when it comes to recruiting and retaining skilled employees, according to the Q3 release of the Canadian Survey on Business Conditions. Over two thirds of businesses were still at least somewhat optimistic about the outlook for the next year. But the share expecting an increase in profitability or employment count over the next 3 months edged lower, relative to Q2.

Concerns about labour supply were also especially acute among businesses operating in recreation and leisure services, where the employment shortfall relative to pre-pandemic remains large. But despite the challenges, only 11% of all businesses suggested at least some likelihood for adopting automation and digital technologies to reduce hiring needs.

Around 47% of all businesses were still reporting rising input costs as a key challenge. But that was down slightly from Q2. The amount of businesses reporting difficulties in acquiring inputs (domestically and from abroad) and maintaining inventories also dropped, in line with falling commodity prices and persistent moderation in supply chain conditions in recent months. Over the next quarter, more businesses expected supply chain challenges to remain unchanged or even improve, and their own selling prices to keep steady.

Still-solid recent spending trends for both goods and services meant concerns about insufficient or fluctuations in consumer demand continued to decline. Still the outlook isn't exactly rosy. More than a third of businesses surveyed were feeling the pinch from central bank rate hikes and were concerned about rising debt costs. Going forward, supply chain pressures should further recede. In addition, both price growth and consumer demand should show more slowing, following incoming Bank of Canada interest rate hikes to 3.5% by the end of October as we expect. That should alleviate some of the pressure in the labour markets, before leading to a more significant softening in the economic backdrop, and rising unemployment, in 2023.

Concerns over labour shortage issues rising among Canadian businesses in Q3



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