

B.C. BUSINESS CONFIDENCE SURVEY



Business Council of
British Columbia
Est. 1966

Q4 2022

B.C.'S LARGE AND LEADING FIRMS SEE AN ECONOMIC SLOWDOWN AND PERSISTENT INFLATION AHEAD

HIGHLIGHTS

- B.C.'s economy is headed for marked slowdown in 2023, according to BCBC's third survey of large and leading businesses in the province. The survey canvasses the views of 50 major employers sampled in accordance with the industrial composition of B.C.'s business sector GDP.
- On balance, B.C.'s large firms expect slower sales growth over the next 12 months compared to the previous 12 months. While sales growth will be cooler, it will remain positive.
- Hiring plans are robust, suggesting B.C.'s labour market will remain overstimulated and overheated in the near term. However, plans to increase capital investment are less widespread. Firms appear to be relying more on hiring additional labour, rather than making capital investments, to expand output and meet expected sales growth over the next 12 months.
- Around two-thirds of firms believe a recession in B.C. is highly likely or likely in 2023, while a further quarter see it as somewhat likely. Business leaders expressed deteriorating confidence that the current policy settings of the provincial government will help their businesses succeed over the next 12 months. Taken together, the results suggest business leaders see a potential recession looming while being saddled with largely unfavourable policy settings for conducting commerce and operating large businesses in the province.
- Firms expect CPI inflation and wage inflation to average 5.0% and 6.1% per annum over the next two years, respectively. This implies real wage growth for employees working at large firms of 1.1% per annum over the next two years, on average. Notably, this is slightly above the 0.9% per annum average pace of labour productivity and real product wage growth across Canada over 2000-2019. Thus, large firms appear to be expecting positive real wage growth to resume, after a period of falling real wages since 2019.

ABOUT THE SURVEY

The Business Council of British Columbia's B.C. Business Confidence Survey canvasses the views of senior decision-makers at 50 large and leading companies operating in the province. The companies are major employers in the province and are sampled broadly in accordance with the industrial composition of B.C.'s business sector GDP. The survey asks about firms' outlook for their: sales growth, investment and hiring plans; outlook for the provincial economy; views about provincial government policies; and outlook for inflation and wage growth. The survey methodology is similar to that used by the Bank of Canada's Business Outlook Survey.

This is BCBC's third B.C. Business Confidence Survey. Previous surveys were conducted in 2021Q2 and 2020Q4. The latest results should be interpreted with caution. There were no responses from firms in the wholesale and retail trade sectors, which represent about 8% of the target sample. To achieve 50 responses, the survey includes some modest oversampling of manufacturing firms relative to their weight in provincial business sector GDP. The survey was conducted from October 26 to November 24, 2022.

SALES VOLUMES

Most large firms operating in B.C. expect sales volumes to increase or remain the same over the next 12 months (**Figure 1**). Despite broader concerns about the economy going into recession, only 18% of large firms sampled expect an outright decline in their sales volumes. This suggests the B.C. economy could retain at least some positive momentum over 2023 and that large firms may well fare better than small firms.

GROWTH IN SALES VOLUMES

Most firms expect sales growth to remain the same or slow down over the next 12 months compared to the previous 12 months (**Figure 2**). Only 14% anticipate faster sales growth, while 40% expect slower growth, giving a negative balance of opinion of -26%.

INVESTMENT

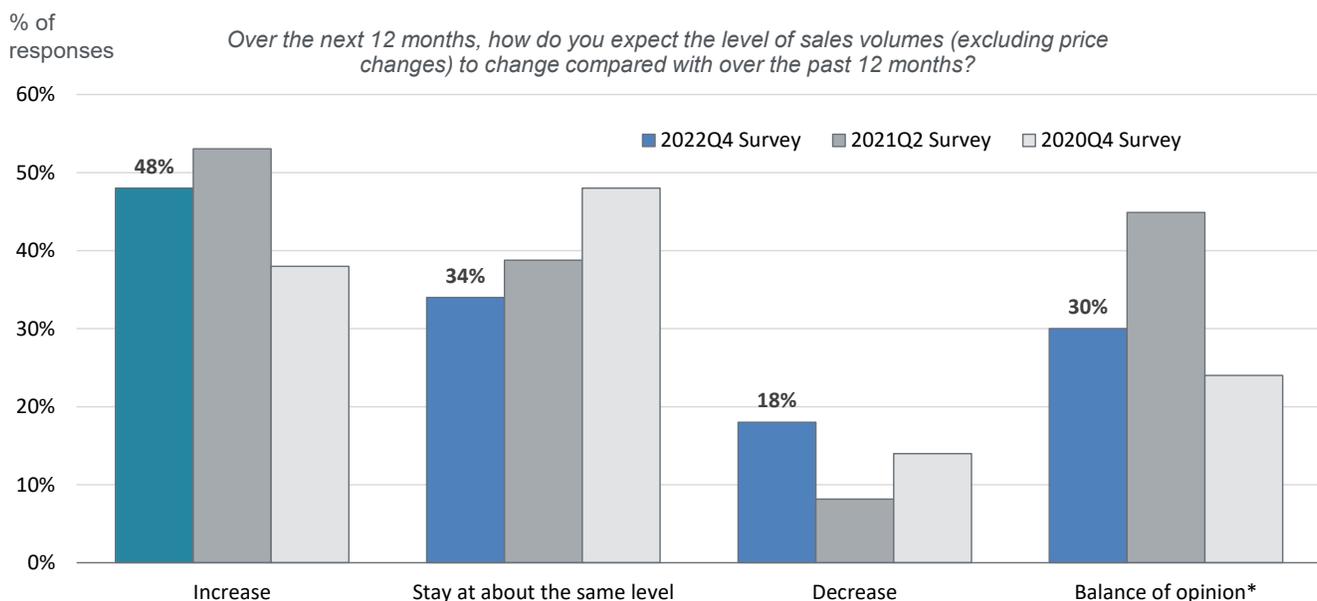
On balance, plans to increase capital investment in B.C. over the next 12 months are positive but much less widespread compared to our previous survey (**Figure 3**). Capital investment includes total spending (before depreciation) on machinery and equipment, technology, factories, intangible capital, buildings, offices, engineering structures, and research and development. Around one-quarter of large B.C. firms plan to increase total investment spending “significantly” over the next 12 months, while about a fifth of firms plan to increase investment “slightly.” A further quarter of firms plan to keep investment at the same level, while the remaining quarter plan to reduce investment “slightly” or “significantly.”

EMPLOYMENT

Labour demand remains exuberant. On balance, plans to increase employment in B.C. over the next 12 months are very widespread (**Figure 4**). Almost *half* of large firms surveyed plan to increase full time equivalent (FTE) employee numbers “significantly” (26%) or “slightly” (22%). A further 40% of firms said staffing levels would remain the same. Only 14% of firms plan to decrease staffing levels.

These findings suggest that the B.C. labour market is likely to remain tight and overheated in the near term. As noted above, firms have indicated expectations of slower (but still positive) sales growth and less widespread increases in investment spending. Taken together, this suggests that large firms tend to be relying on their ability to hire additional staff, more so than on capital investments, to meet sales growth expectations over the next 12 months.

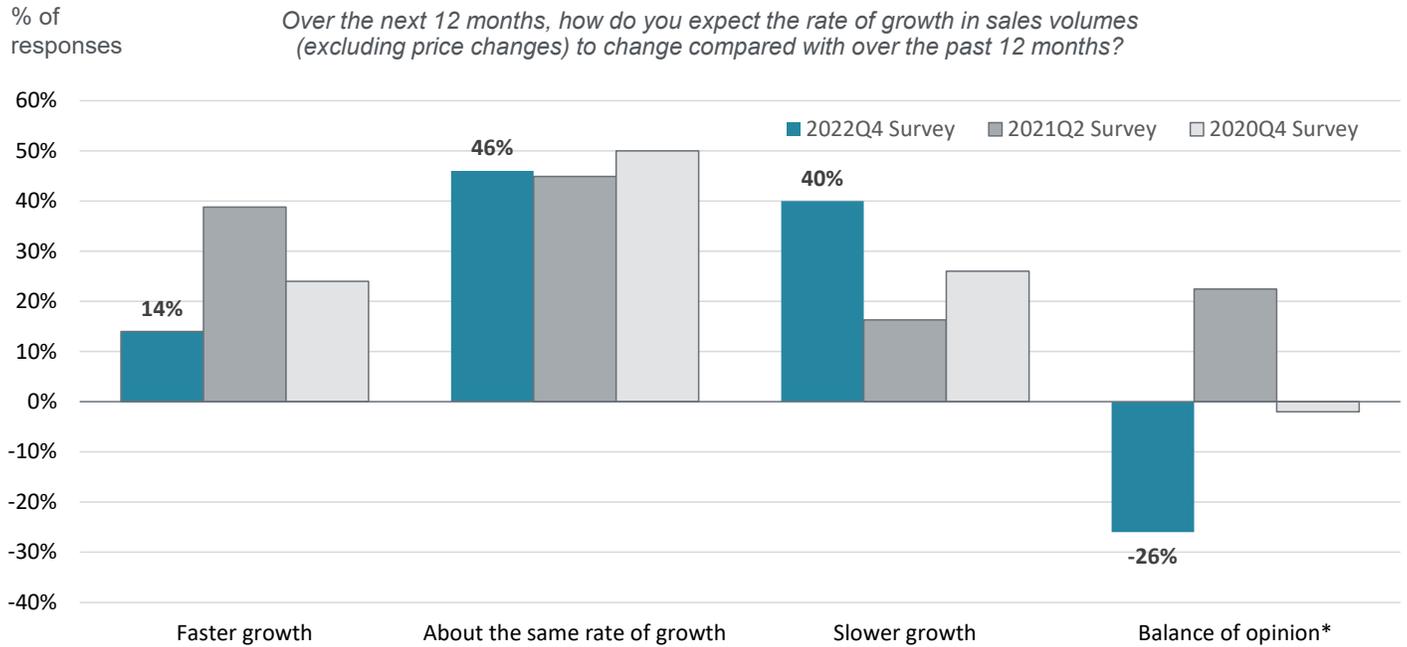
FIGURE 1: B.C.'S LARGE FIRMS EXPECT SALES VOLUMES TO INCREASE



Source: B.C. Business Confidence Survey.

* Percentage of firms saying “increase” minus percentage of firms saying “decrease”.

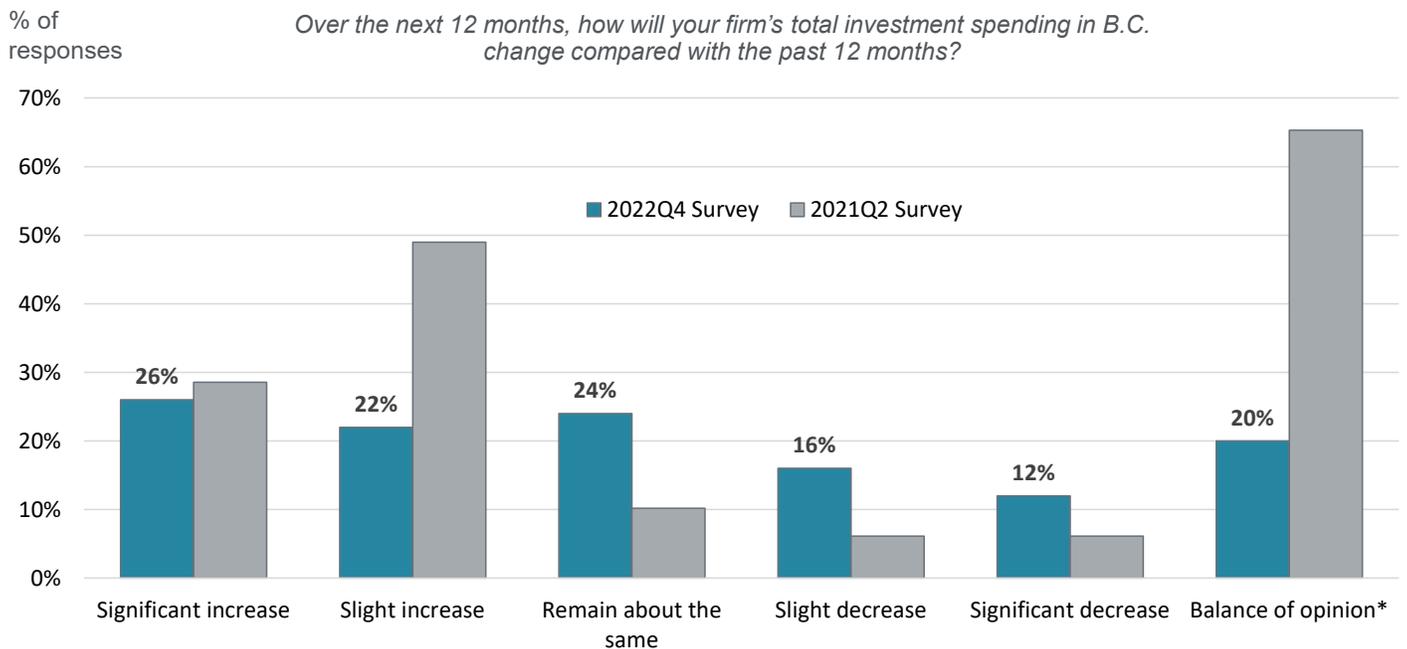
FIGURE 2: ON BALANCE, FIRMS EXPECT SALES GROWTH TO SLOW



Source: B.C. Business Confidence Survey.

* Percentage of firms saying "faster" minus percentage of firms saying "slower".

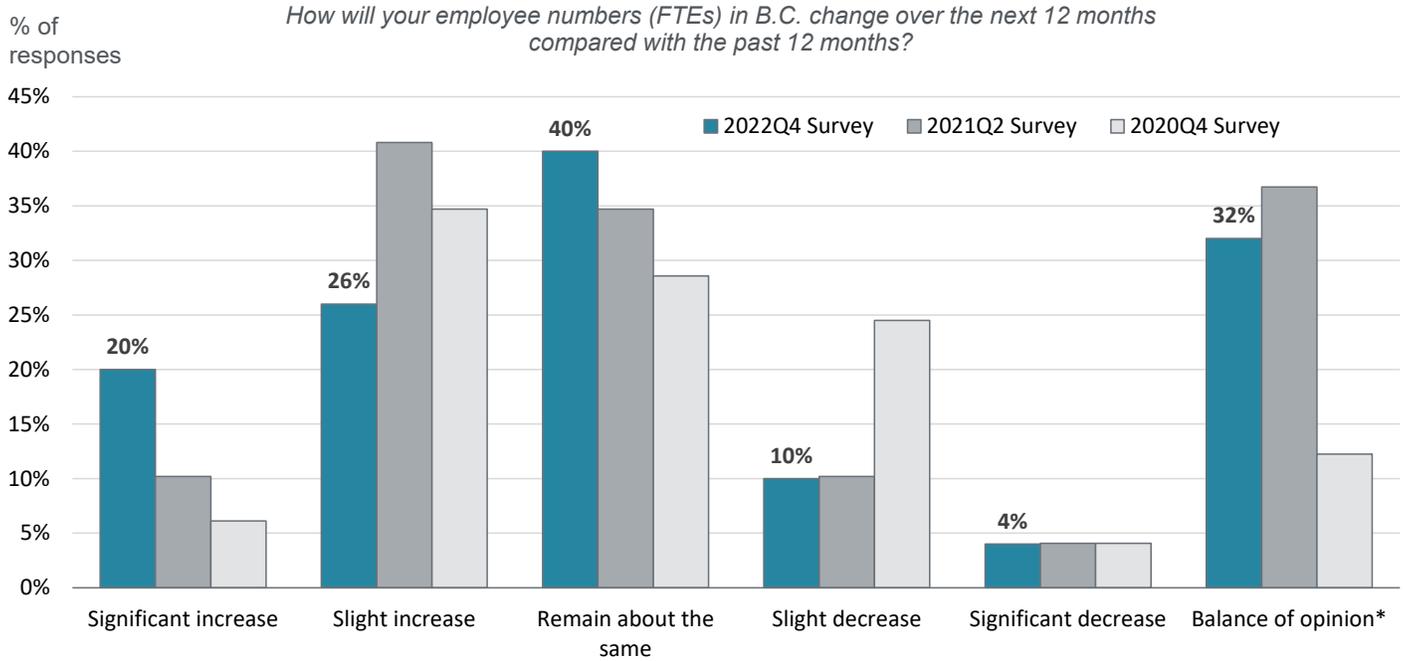
FIGURE 3: PLANS TO INCREASE INVESTMENT ARE POSITIVE BUT LESS WIDESPREAD



Source: B.C. Business Confidence Survey.

* Percentage of firms saying "increase" minus percentage of firms saying "decrease".

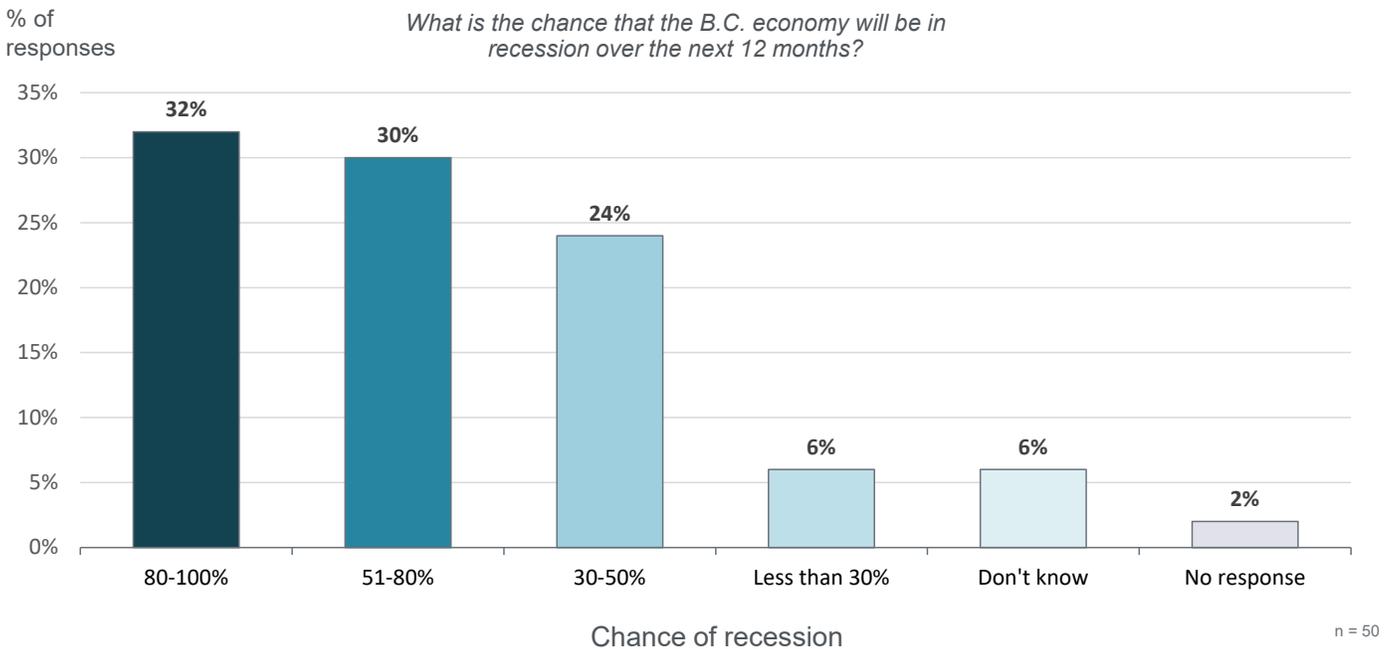
FIGURE 4: ROBUST DEMAND FOR LABOUR CONTINUES



Source: B.C. Business Confidence Survey.

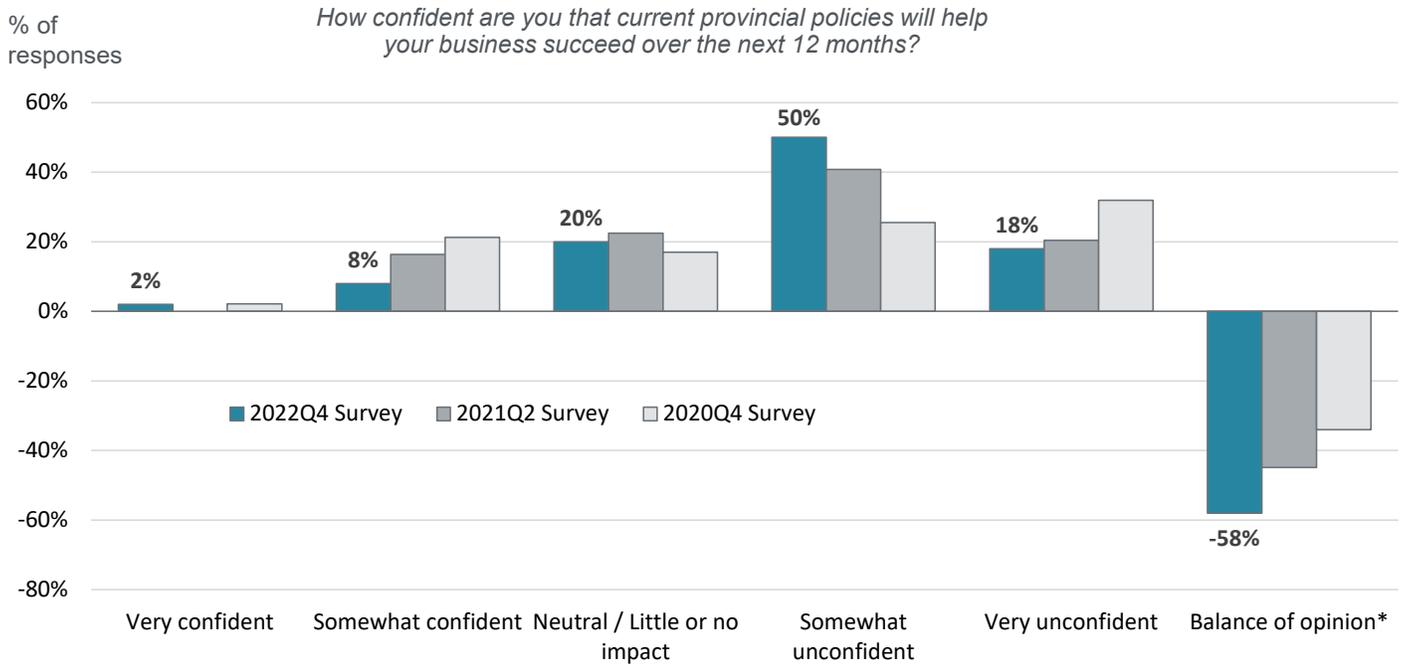
* Percentage of firms saying "increase" minus percentage of firms saying "decrease".

FIGURE 5: FIRMS BELIEVE B.C.'S ECONOMY WILL LIKELY GO INTO RECESSION IN 2023



Source: B.C. Business Confidence Survey.

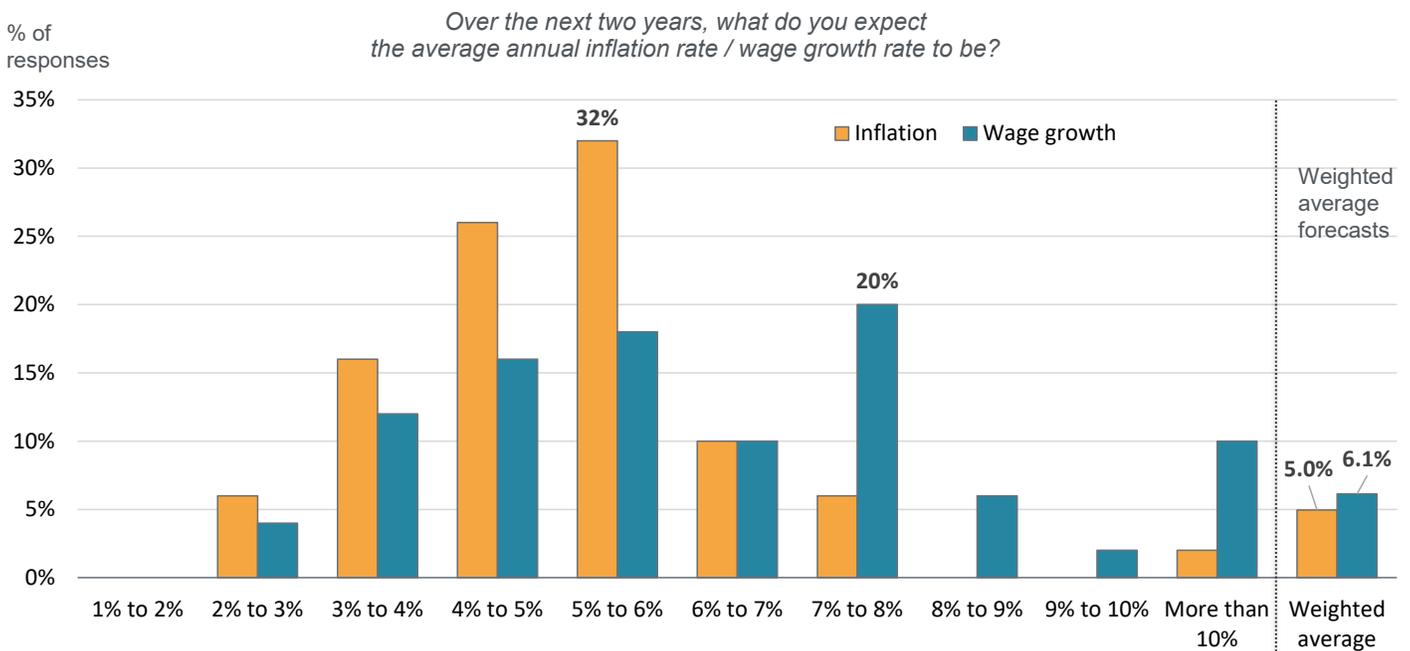
FIGURE 6: FIRMS FACE HEADWINDS FROM PROVINCIAL GOVERNMENT POLICY SETTINGS



Source: B.C. Business Confidence Survey.

* Percentage of firms saying "confident" minus percentage of firms saying "unconfident".

FIGURE 7: FIRMS EXPECT WAGE GROWTH TO OUTPACE CPI INFLATION OVER THE NEXT TWO YEARS



Source: B.C. Business Confidence Survey.

Note: To construct a weighted average, "more than 10%" is given a numerical value of 10.5%.

OUTLOOK FOR B.C.'S ECONOMY

Firms were asked about the likelihood of B.C.'s economy going into recession during the next 12 months (**Figure 5**). Around 32% thought a recession very likely (80-100% chance of recession) and 30% thought it was likely (51-80% chance), while a further 24% of firms thought there was a moderate chance of recession (30-50% chance). Only 6% of firms thought there was a low chance of recession (less than 30% chance).

IMPACT OF PROVINCIAL GOVERNMENT POLICIES

Business leaders expressed deteriorating confidence that the current policy settings of the B.C. government will help their businesses succeed in 2023 (**Figure 6**). Half of all firms said they are “somewhat unconfident,” and almost one-fifth said they were “very unconfident” about provincial policies. Meanwhile, only one-in-ten firms said they were “somewhat confident” (8%) or “very confident” (2%) in provincial government policies.

Taken together with previous questions, the results suggest firms see B.C. as facing a potential recession in 2023 while being saddled with a largely unfavourable policy settings for conducting commerce and operating large businesses in the province.

SPECIAL TOPIC – INFLATION AND WAGES

Firms were asked about their expectations for average annual consumer inflation and wage inflation over the next two years (**Figure 7**). For inflation, the mode response (i.e., the most common response, with 32% of firms) was for CPI inflation to average between 5-6% per annum over the next two years. The mean response (i.e., the weighted average of responses) was for inflation to average 5.0% per annum.

Only a tiny proportion of firms (6%) believe inflation will return to the Bank of Canada's 1-3% inflation control range over the next two years – and all of those firms that did expect it to be in the upper half of that range (i.e., 2-3%). It seems that B.C. business decision-makers are more pessimistic about the path of inflation in 2023-24 than either the Bank of Canada or most economic forecasters. Most Canadian economists see inflation falling to around 4% y/y in 2023 and to around 2-3% y/y by 2024.

Expectations for nominal wage growth were stronger than expectations for inflation. Firms' mode response was for wage growth to average between 7-8% per annum over the next two years. The mean response was for wage growth to average 6.1% per annum. Taken together, this implies that large firms expect to see positive average real wage growth for their employees of around 1.1% per annum over the next two years.

Notably, this is slightly above the 0.9% per annum average pace of labour productivity and real product wage growth in Canada over 2000-2019 (see [Williams, 2021](#)). One possible interpretation of this finding is that large firms expect positive real wage growth to resume, after a period of falling real wages since 2019.

AUTHORED BY

[David Williams, DPhil.](#)
Vice President of Policy
