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Despite modest improvements, soft data remains soft

By Taylor Schleich & Ethan Currie

Canada's economic resilience has been put to the test over the past year and by some key measures, it's performed well *all things considered*. GDP growth has been stronger than expected and the labour market, while exceedingly volatile, has held up reasonably well. But as we've highlighted before, it's difficult to have much confidence in the Canadian resilience narrative when soft data consistently casts the outlook in a pessimistic light. For the most part, that's been case for the Bank of Canada's *Business Outlook Survey*, arguably the most important 'soft' data in Canada. The latest survey, conducted between November 6th and 26th, continues to raise concerns even as some signs of improving business confidence start to present themselves:

- Overall business sentiment improved but remained weak as the headline BOS indicator inched up to -1.8 from -2.3. That's firmly below the Q4:2024 reading (-1.1) from when the economy looked to be improving (before trade tensions upended the outlook).
- A third of firms reported declining sales volumes last year (average = ~25%) but this is seen improving in 2026. However, while more firms see sales picking up, the share is low which suggests overall growth will be modest. Importantly, businesses don't expect the impact of tariffs and trade tensions to *worsen* from here.
- Despite the improving sales outlook, businesses are paring back hiring plans. The share of firms planning to outright *reduce* their staffing levels reached its highest level since 2016. Curiously, this survey was conducted at a time when hiring was reported to have surged per the *Labour Force Survey*.
- Investment intentions picked up and are now near their historical average. However, firms are noting that investment activity is all about routine maintenance, *not* expanding capacity. That's likely because most firms have ample capacity. Only a third of businesses would have trouble meeting unexpected demand, the least since 2020.

As we were reminded earlier this morning, the inflation picture in Canada is somewhat mixed. Overall inflation continues to run *close* to target but there are also signs that "underlying" pressures are a little bit above 2% (which has been the official stance from the BoC). To be clear, we're not

overly concerned about inflation at its current level, and we don't see meaningful risk it will surge higher. Still, the BOS continues to allude to cost pressures and marginally elevated inflation expectations:

- Encouragingly, the share of firms expecting *large* cost and/or price increases has fallen to near 10-year lows. However, firms expect input and output prices to rise at a slightly faster rate over the next year. Expected wage growth had steadily fallen over the past few years but has now stabilized slightly above 3% Y/Y. Surprisingly (given worsening hiring plans), the share of firms facing labour shortages rose to a 2-year high.
- Measures of inflation expectations continue to run near but slightly above the Bank of Canada's target. Businesses see inflation running between 2.5% and 3% over all reported time horizons (1-5 years).

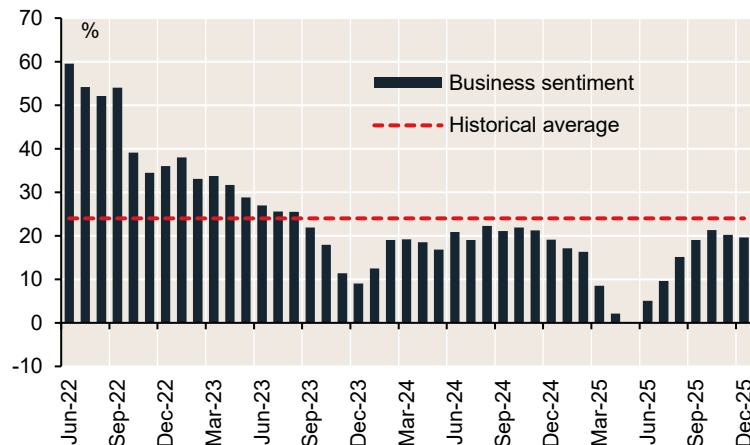
Released at the same time as the BOS, the Canadian Survey of Consumer Expectations (CSCE) also paints a downbeat picture:

- Following a tepid recovery in Q3, consumer confidence retreated at the end of 2025. The labour market outlook remained soft, as the perceived likelihood of losing a job stepped up. Meantime, concerns related to financial health grew, as rising debt servicing costs and still-elevated inflation expectations weighed on the consumption outlook. Opinions were mixed about whether the worst of financial impacts from trade conflicts have already presented themselves.

This report will have no impact on the coming BoC decision as the central bank has already firmly established itself on the sidelines. However, some of the trends in this report bear monitoring. On one hand, we'll be assessing if improving sentiment and a stronger sales outlook will translate into faster GDP growth. On the other hand, the reported layoff intentions are concerning and raises the risk of the recent labour market recovery stopping in its tracks. Still lingering cost pressures will also be key to watch. For now, there's nothing that will have policymakers rushing to tighten or loosen monetary policy for the foreseeable future. While we continue to see a path to rate hikes beginning in the fourth quarter, we'll readily concede that risks to this call are skewed towards tightening being pushed into 2027 rather than being pulled earlier this year.

Chart 1: Sentiment improved in 2025, but remains subdued...

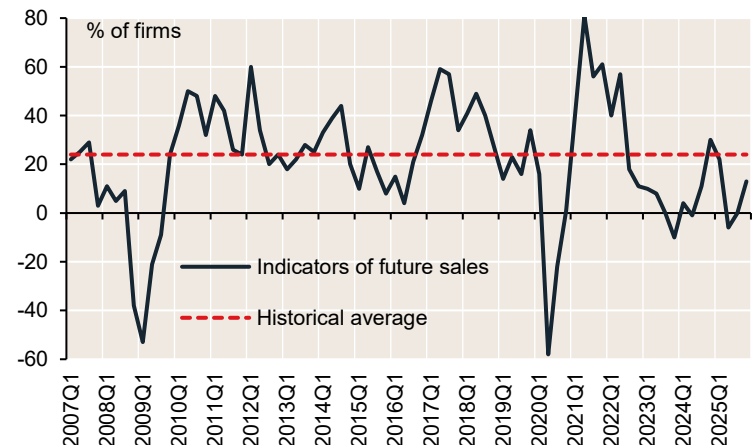
Current business conditions (balance of opinion) and historical survey average



Source: NBC, BoC

Chart 2: ... as sales outlook also shows some signs of life

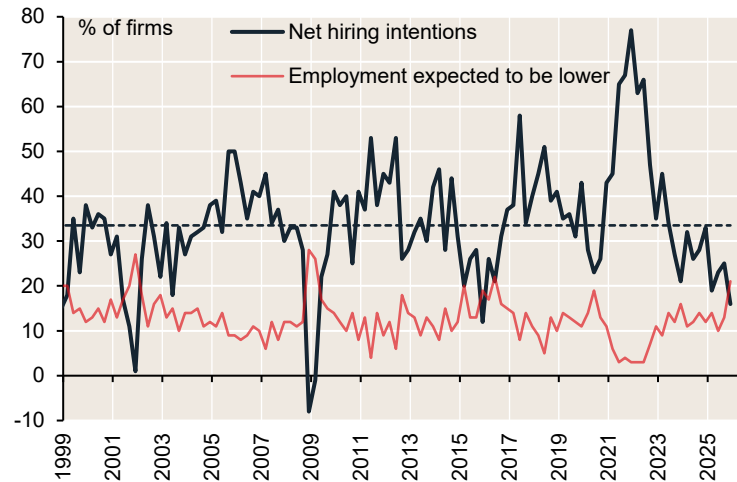
Indicators of future sales (balance of opinion) and historical survey average



Source: NBC, BoC

**Chart 3: Hiring conditions dip, with layoff potential signaled**

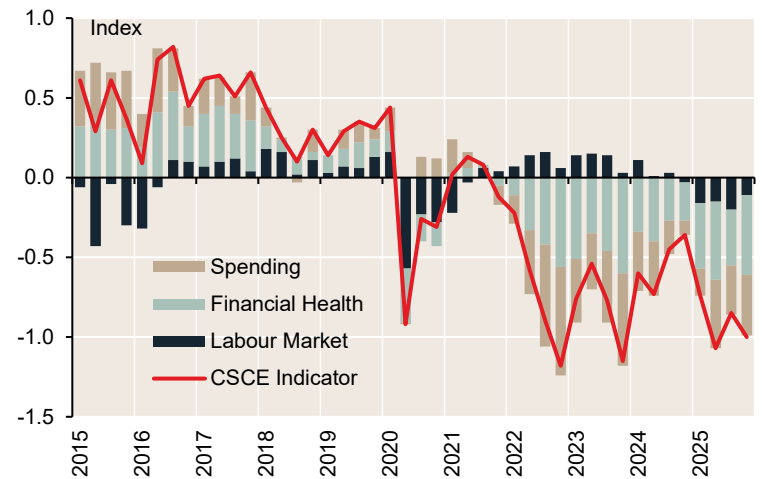
Hiring intentions (balance), % of firms expecting lower employment in next 12M



Source: NBC, BoC | Note: Dotted line refers to long-term average for net hiring intentions

Chart 4: Consumer expectations remain subdued

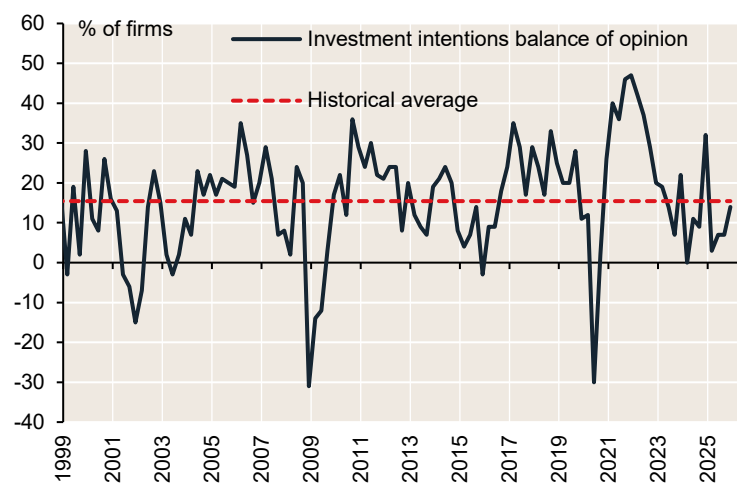
Contributions to the CSCE indicator, average of indexes



Source: NBC, BoC

Chart 5: Investment intentions almost back to normal...

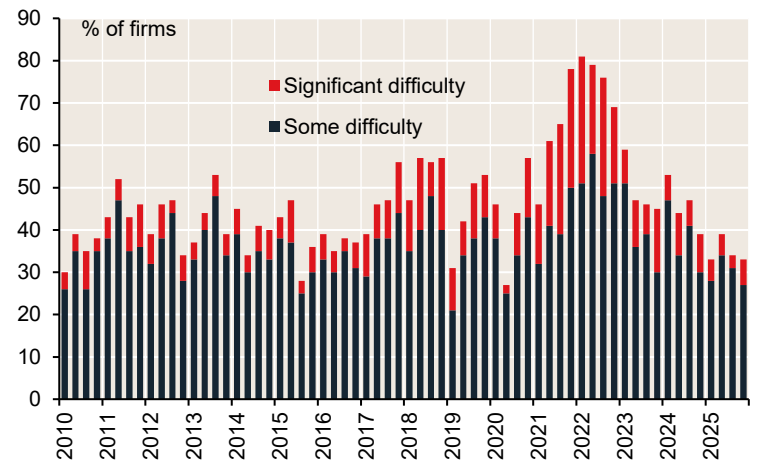
Investment intentions (balance of opinion) and historical survey average



Source: NBC, BoC

Chart 6: ...while capacity constraints remain a non-issue

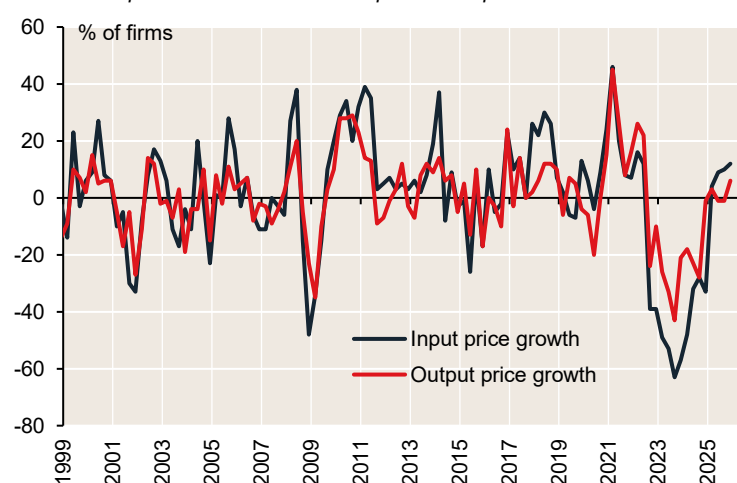
Share of firms signalling a difficulty meeting demand



Source: NBC, BoC

Chart 7: Input cost pressures are no longer a non-factor...

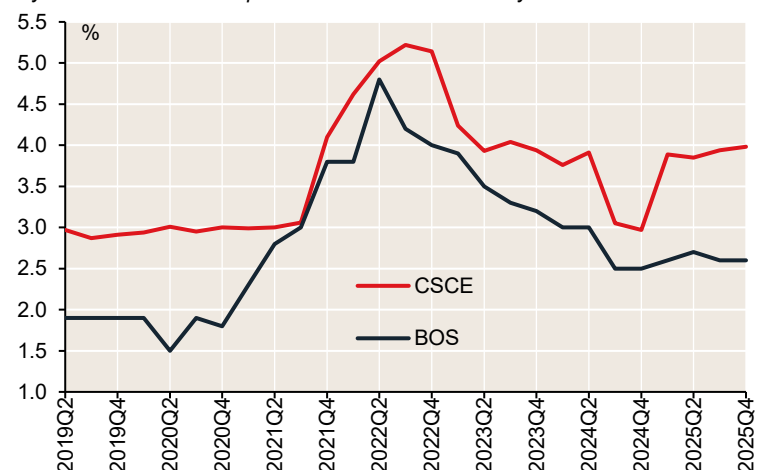
Balance of opinion on the inflation of input and output costs in next 12M



Source: NBC, BoC

Chart 8: ... as business and consumers see sticky CPI ahead

2-year ahead inflation expectations—consumer survey vs BOS



Source: NBC, BoC

**Table: Perspective on the Business Outlook Survey**

Survey indicator with latest / prior readings, interpretation, trend, and question details

		Latest	Prior four surveys						Average		Trend		
	Indicator	2025:Q4	2025:Q3	2025:Q2	2025:Q1	2024:Q4	10 year max	10 year min	2017-19	Interpretation	Recent surveys	vs. prior survey	Survey question / NBF calculation
BOS	Overall BOS Indicator	-1.8	-2.3	-2.4	-2.1	-1.07	5.9	-5.9	1.2	N/A - Summary indicator of BOS		Improving	The BOS indicator is a summary measure of the main Business Outlook Survey questions that gauges overall business sentiment
Sales indicators	Future sales [Balance of opinion]	13.0	-2.0	6.0	13.0	31	52	-35	14.9	Sales expected to accelerate next 12M		Improving	Over the next 12M, the rate of increase in your firm's sales volume (compared with the past 12M) is expected to be...
	Future sales indicators [Balance of opinion]	13.0	0.0	-6.0	22.0	30	81	-58	36.7	Future sales indicators better than 12M ago		Improving	Compared with 12M ago, have your recent indicators (order books, advanced bookings, sales inquiries, etc.)...
Investment indicators	Investment intentions [Balance of opinion]	14.0	7.0	7.0	3.0	32	47	-30	24.0	More investment spending next 12M than last 12M		Accelerating	Over the next 12M, your firm's investment spending on M&E (compared with the past 12M) is expected to be...
	Credit conditions [Balance of opinion]	9.0	-6.0	16.0	-3.0	-3	30	-16	-0.9	Credit conditions eased over last 3M		Accelerating	Over the past 3M, how have the terms and conditions for obtaining financing changed (compared with the previous 3M)?
Jobs	Employment level [Balance of opinion]	16	25	23	19	33	77	16	40.9	Employment will be higher 12M from now		Deteriorating	Over the next 12M, your firm's level of employment is expected to be...
Capacity pressures	Some difficulty meeting demand [Share of firms]	27	31	34	28	30	58	21	37.3	27% would have significant difficulty meeting unexpected demand		Fewer firms with some difficulty	How would you rate the current ability of your firm to meet an unexpected increase in demand?
	Significant difficulty meeting demand [Share of firms]	6	3	5	5	9	30	2	11.2	6% would have some difficulty meeting unexpected demand		More firms with signif. difficulty	How would you rate the current ability of your firm to meet an unexpected increase in demand?
	Any difficulty meeting demand [Share of firms]	33	34	39	33	39	81	27	48.5	33% would have at least some difficulty meeting unexpected demand		Fewer firms with difficulty	NBF calculation - Share of firms that would have some or significant difficult meeting an expected increase in demand
	Labour shortages [Share of firms]	22	13	16	20	17	46	13	28.6	22% of firms experiencing labour shortages		More firms reporting shortages	Does your firm face any shortages of labour that restrict your ability to meet demand?
	Labour shortage intensity [Balance of opinion]	-15	-33	-36	-38	-42	74	-54	28.8	Labour shortages less intense than 12M ago		Accelerating	Compared with 12M ago, are labour shortages generally...
Price, wage & inflation expectations	Wage growth [Balance of opinion]	-10	-21	-34	-33	-42	72	-50	17.5	Wages will rise at a slower pace next 12M vs. past 12M		More firms expect faster wage growth	Over the next 12M, are increases in labour costs expected to be higher, lower or about the same rate as over the past 12M?
	Input price growth [Balance of opinion]	12	10	9	4	-33	46	-63	11.4	Input prices will rise faster next 12M vs. past 12M		More firms expect faster input price growth	Over the next 12M, are prices of products/services purchased expected to rise at a greater, lesser, or the same rate as past 12M?
	Output price growth [Balance of opinion]	6	-1	-1	3	-1	45	-43	4.6	Output prices will rise faster next 12M vs. past 12M		More firms expect faster output price growth	Over the next 12M, are prices of products/services sold expected to increase at a greater, lesser, or the same rate as over the past 12M?
	Inflation below 1% next 2 years [Share of firms]	1	0	1	0	0	25	0	1.8	1% of firms expect inflation below 1% over next 2 years		More firms expect sub-1% inflation	Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?
	Inflation 1-2% next 2 years [Share of firms]	16	21	12	23	24	76	0	53.3	16% of firms expect 1-2% inflation over next 2 years		Fewer firms expect 1-2% inflation	Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?
	Inflation 2-3% next 2 years [Share of firms]	60	51	51	44	51	62	11	39.0	60% of firms expect 2-3% inflation over next 2 years		More firms expect 2-3% inflation	Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?
	Inflation above 3% next 2 years [Share of firms]	16	18	23	23	20	84	0	3.5	16% of firms expect inflation above 3% over next 2 years		Fewer firms expect 3%+ inflation	Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?
	Inflation in target range next 2 years [Share of firms]	82	80	72	74	78.9	100.0	13.3	94.6	82% of responding firms expect inflation between 1-3%		More firms expect inflation in target band	NBF calculation - Share of firms (only those who provided estimate) that expect inflation between 1-3% over the next 2 years.
	Inflation above 2% target next 2 years [Share of firms]	82	77	85	74	74.7	100.0	20.0	43.5	82% of responding firms expect inflation above 2%		More firms expect inflation above 2%	NBF calculation - Share of firms (only those who provided estimate) that expect inflation above BoC's 2% target over next two years.

Source: NBC, BoC



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