

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 the 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).

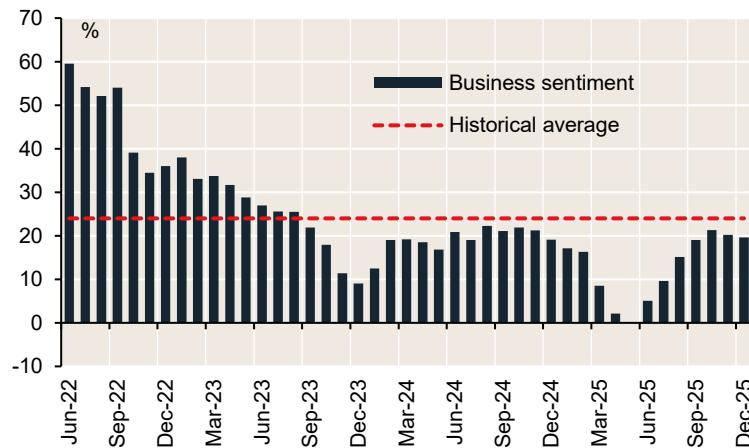
Released at the same time as the BOS, the Canadian Survey of Consumer Expectations (CSCE) also paints a downbeat picture:

- 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...

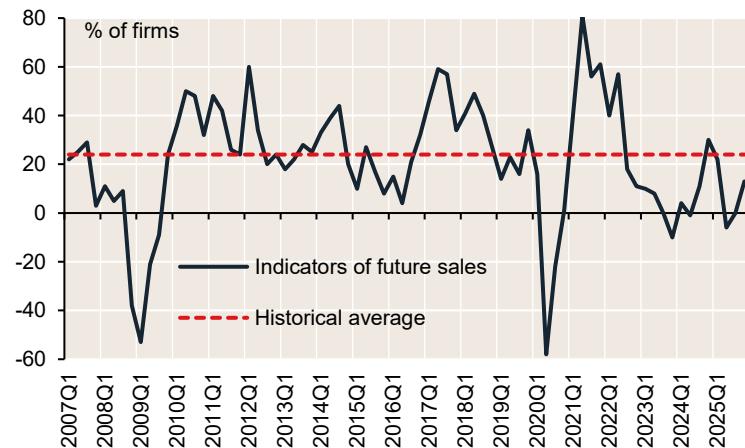
Current business conditions (balance of opinion) and historical survey average



Source: NBC, BoC

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

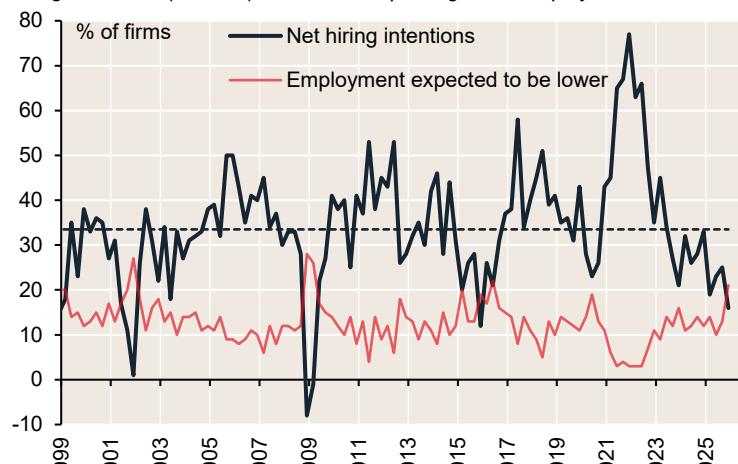
Indicators of future sales (balance of opinion) and historical survey average



Source: NBC, BoC

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

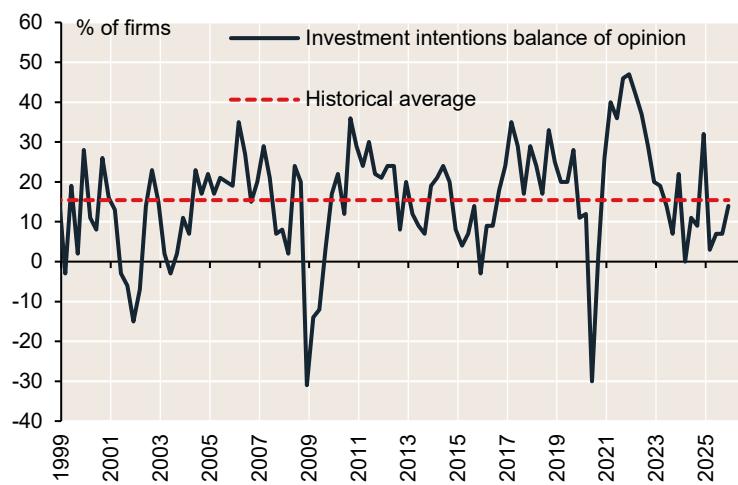
Hiring intentions (balance), % of firms expecting lower employment in next 12M



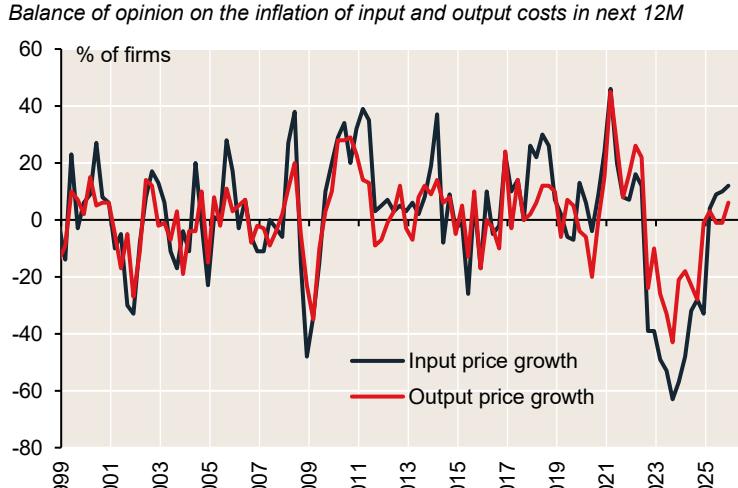
Source: NBC, BoC | Note: Dotted line refers to long-term average for net hiring intentions

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

Investment intentions (balance of opinion) and historical survey average

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

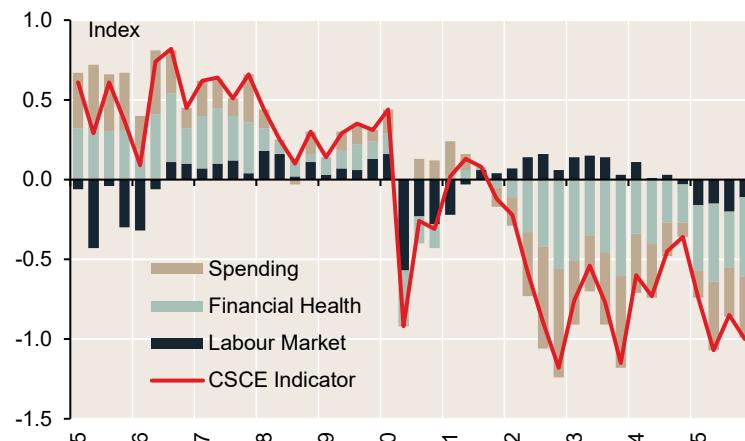
Balance of opinion on the inflation of input and output costs in next 12M



Source: NBC, BoC

Chart 4: Consumer expectations remain subdued

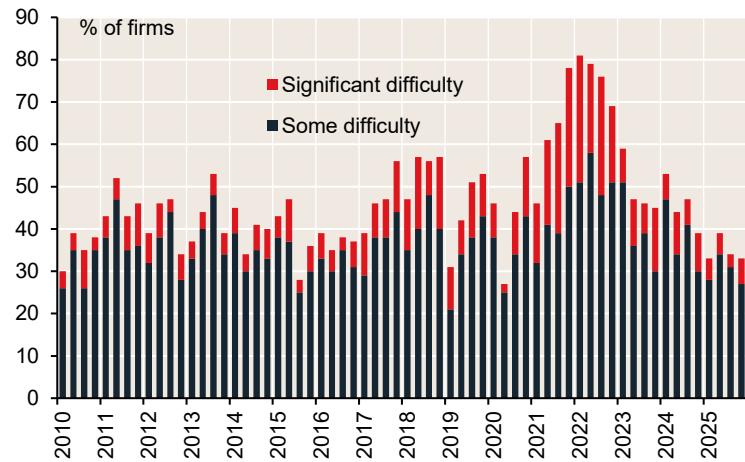
Contributions to the CSCE indicator, average of indexes



Source: NBC, BoC

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

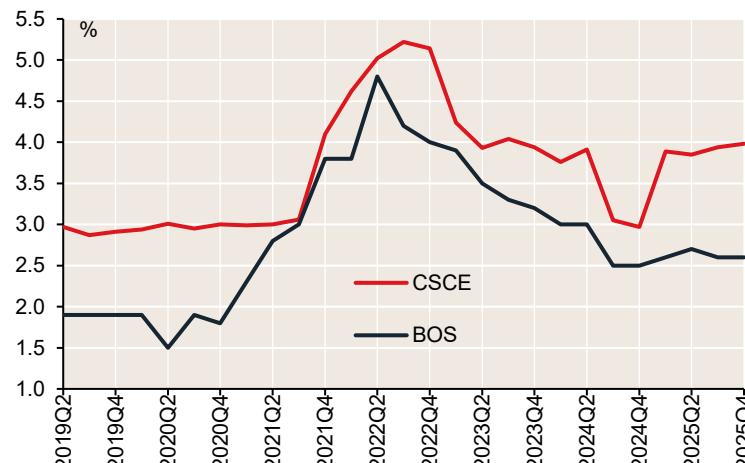
Share of firms signalling a difficulty meeting demand



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

	Indicator	Latest	Prior four surveys					10 year max	10 year min	2017-19	Interpretation	Trend		Survey question / NBF calculation
		2025:Q4	2025:Q3	2025:Q2	2025:Q1	2024:Q4	Average					Recent surveys	vs. prior survey	
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



Economics and Strategy

Subscribe to our publications: NBC.EconomicsStrategy@nbc.ca

To contact us:

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau

Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet

Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms

Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme

Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA

Senior Economist
daren.king@nbc.ca

Warren Lovely

Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich

Rates Strategist
taylor.Schleich@nbc.ca

Ethan Currie

Strategist
ethan.currie@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard

Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli

Desktop Publisher
giuseppe.saltarelli@nbc.ca

General: This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of CIRO), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

Canadian Residents: NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.

UK Residents: This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

EU Residents: With respect to the distribution of this report in the member states of the European Union ("EU") and the European Economic Area ("EEA") by NBC Paris, the contents of this report are for information purposes only and do not constitute investment advice, investment research, financial analysis or other forms of general recommendation relating to transactions in financial instruments within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MiFID 2"). This report is intended only for professional investors and eligible counterparties within the meaning of MiFID 2 and its contents have not been reviewed or approved by any EU/EEA authority. NBC Paris is an investment firm authorised by the French Prudential Control and Resolution Authority ("ACPR") to provide investment services in France and has passported its investment services throughout the EU/EEA under the freedom to provide services and has its registered office at 8 avenue Percier, 75008 Paris, France. "NBC Financial Markets, a subsidiary of National Bank of Canada" is a trade name used by NBC Paris S.A.

NBF is not authorised to provide investment services in the EU/EEA.

U.S. Residents: With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only. This report is not subject to U.S. independence and disclosure standards applicable to research reports.

HK Residents: With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright: This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.