

This bad BOS will only get bad-der

By Taylor Schleich & Ethan Currie

To say soft data in Canada has been weak lately would be an understatement. Last month, key indicators of consumer confidence and small business optimism both hit all-time lows on an unsettled global trade environment (as we covered [here](#) and [here](#)). Today, the king of all Canadian soft data releases dropped: the *Business Outlook Survey*. Critically, the survey period for the quarterly questionnaire was February 6 to 26 which was *before* fentanyl/border security tariffs went into effect, *before* steel and aluminum tariffs, *before* auto tariffs and *before* Liberation Day (although Canada was surprisingly spared here). Suffice it to say, things would look much worse if reconducted today.

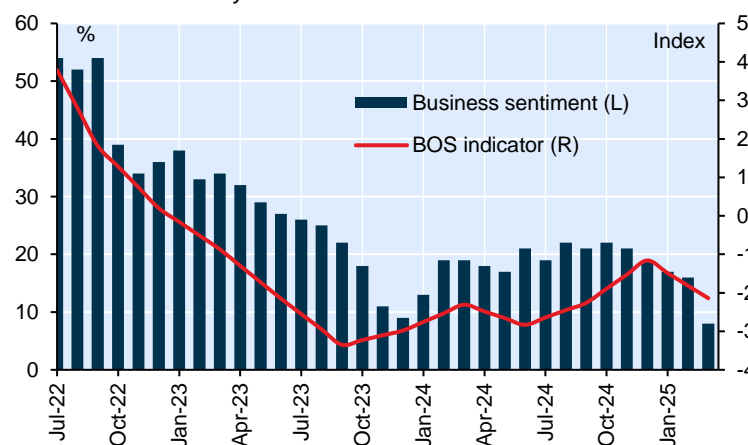
Before getting into the details of this Q1 BOS, consider the set-up. Canadian businesses *had* generally been growing more optimistic last year after pessimism peaked in late 2023. This improvement was consistent with a pick-up in GDP growth and hiring. In 2025, this improvement has been abruptly terminated. Even though the timing of the survey suggests business anxiety is understated, the negative impact of the early days of the Trump administration is clear:

- Business sentiment fell sharply, pushing the headline BOS indicator down to -2.1 from -1.2. This was the first drop in three quarters. 32% of firms expect a recession in the next 12 months (vs. 15% before).
- Expectations and indicators of future sales fell on uncertainty and consumer spending worries, with the drop most acute for exporters. "Buy Canadian" sentiment was highlighted as a potential offset to weaker US demand. We'd note that most firms had not incorporated tariffs into their outlooks when the survey was conducted.
- After hitting a 10-quarter high in Q4, investment intentions retreated on elevated uncertainty and a weak C\$. The drop reflects putting new plans on hold *and* scaling back existing plans.
- The balance of opinion on hiring plummeted to a nine-year low as reported labour shortages are limited. This mostly reflects firms putting hiring on hold as layoff plans remain in a 'normal' range.

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

Chart 1: The BOS indicator took a step back...

Business Outlook Survey indicator and assessed current business conditions



Source: NBC, BoC | Note: BOS indicator is quarterly interpolated to generate monthly readings.

- Self-assessed job security fell to its lowest mark on record, leaving consumers more concerned about their financial health. Spending intentions *had* been improving but Canadians now plan to reduce discretionary spending and put off major purchases

Usually, these are the types of reports that rate cuts are made of. However, the growth outlook isn't the only consideration for the Bank of Canada. As Governor Macklem has repeatedly emphasized in recent weeks, the inflation implications of the global trade upheaval warrant their utmost attention. And unlike a more 'normal' economic slowdown that pushes inflation down, inflation expectations today are on the rise:

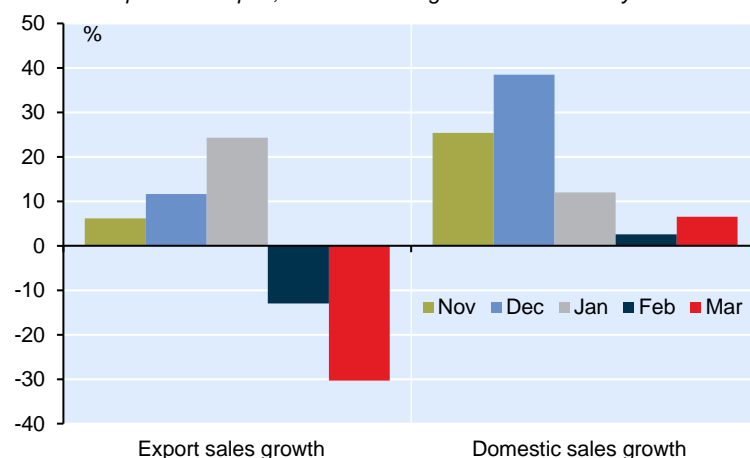
- For the first time in two years, input price growth is expected to accelerate. Similarly, selling price growth should pick up as the majority of firms impacted by tariffs plan to pass higher costs on.
- Overall inflation expectations picked up, most notably in the near-term. Longer-term expectations stayed in the normal range. Inflation expectations in the CSCE exhibited similar dynamics.
- Mitigating worries of entrenched inflation is a well-behaved wage growth outlook. Firms aren't planning to *pay* larger wage increases and consumers are expecting to *receive* smaller increases.

What will the BoC ultimately opt for? In the near-term (i.e., next week), we still believe the path to an eighth straight cut is murky. So far, tariff-related impacts on hard economic data have been limited (most notably evident in the March LFS). Meanwhile, inflation risks are skewed decisively higher with a starting point for headline CPI (slightly) above target and core running even hotter. The ongoing deterioration in financial conditions, assuming it continues, could tip the scales toward easing but if it were *only* up to the data, the BoC would likely pause.

However next week plays out, we see scope for further easing in 2025. If incoming economic data softens as we expect, the next step lower on the overnight target could come as soon as 4-Jun. And as it's shown that the negative growth impacts of this trade war are greater than the resulting inflation pressure, further cuts will be delivered. Subject to no shortage of uncertainty, we expect the BoC to end the year at 2%.

Chart 2: ...driven by a plummeting outlook for exporters

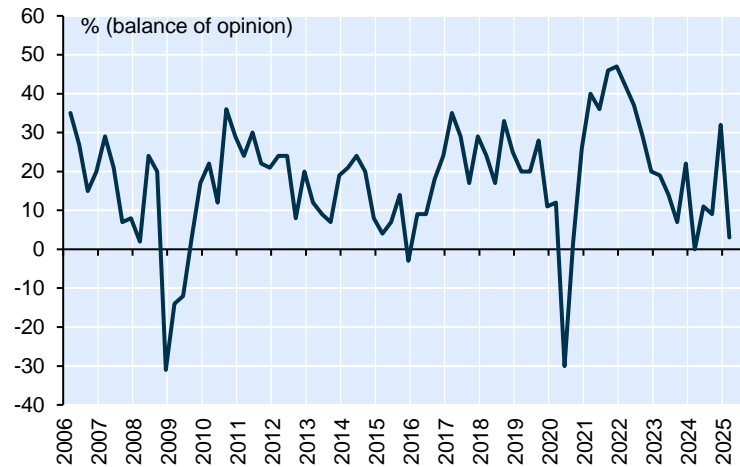
Balance of opinion on export, domestic sales growth over the next year



Source: NBC, BoC

Chart 3: Investment plans are being walked back...

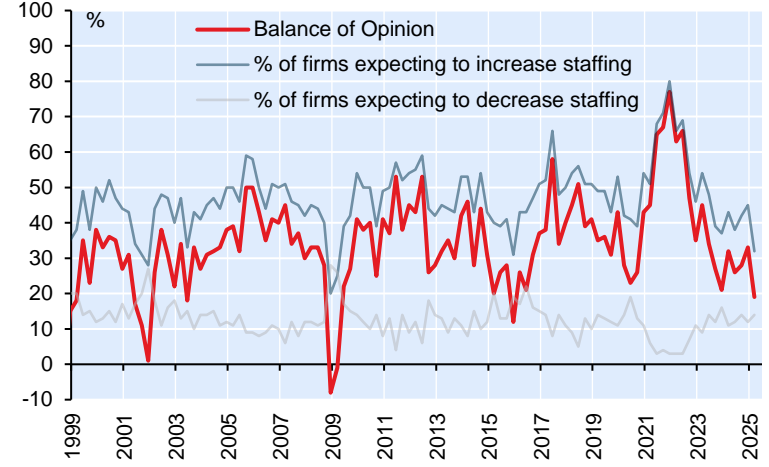
Balance of opinion – 12M forward investment spending expectations



Source: NBC, BoC | Note: Historical average balance of opinion is 16

Chart 4: ... while hiring is put on hold

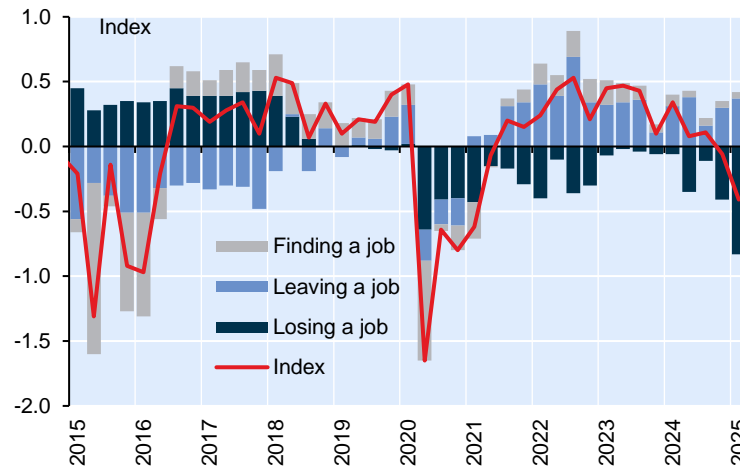
Share of firms expecting an increase / decrease in staffing over next year



Source: NBC, BoC

Chart 5: Consumers increasingly worried about job security

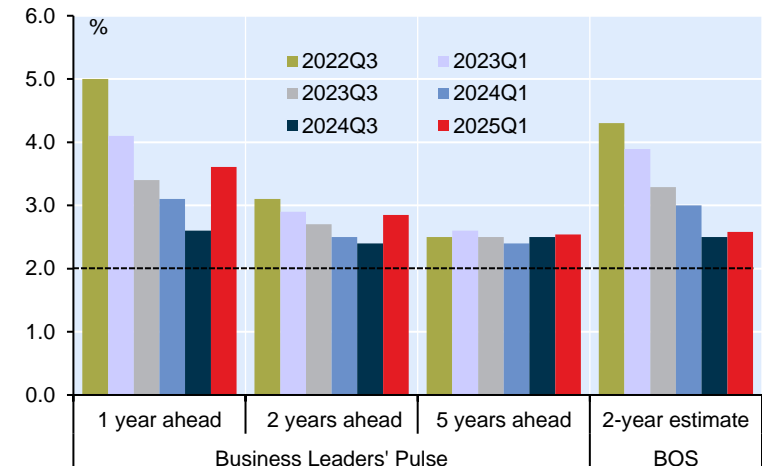
Contributions to the CSCE labour market index



Source: NBC, BoC | Note: Contributions based on survey probabilities (i.e., prob. of job loss)

Chart 6: After trending down, inflation expectations back up

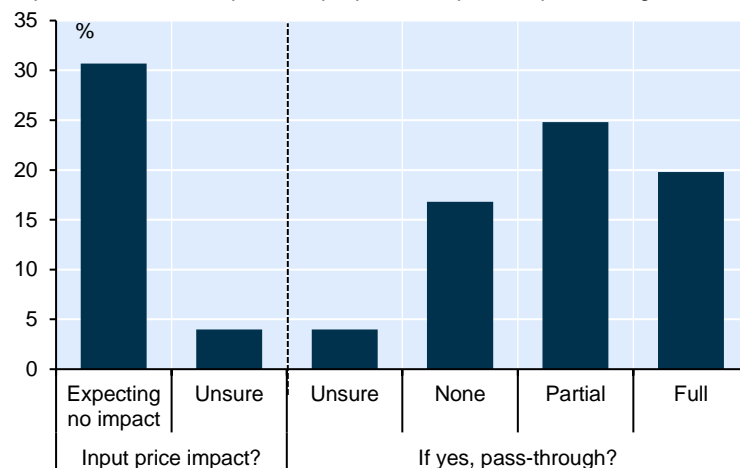
Inflation expectations over varying horizons, from BLP and BOS



Source: NBC, BoC

Chart 7: Most businesses will raise prices if inputs higher

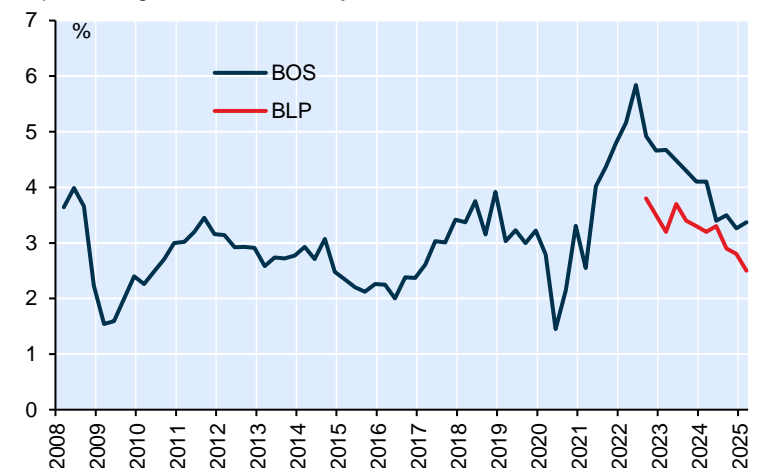
Expectations for tariff impact on input prices and potential pass-through



Source: NBC, BoC | Note: For clarity, ~35% of firms expect no input price impact (or are not sure), ~65% expect higher input prices. Total of all bars sums to 100%.

Chart 8: Slower wage growth may help limit inflation

Expected wage increase over next year:



Source: NBC, BoC | Note: Business Leaders' Pulse data begins in 2022.

**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:Q1	2024:Q4	2024:Q3	2024:Q2	2024:Q1	10 year max	10 year min	2017-19	Interpretation	Recent surveys	vs. prior survey	Survey question / NBF calculation
BOS	Overall BOS Indicator	-2.1	-1.2	-2.3	-2.8	-2.31	5.7	-5.9	1.1	N/A - Summary indicator of BOS		Deteriorating	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	31	13	1	1	52	-35	14.9	Sales expected to accelerate next 12M		Deteriorating	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]	22	30	11	-1	4	81	-58	36.7	Future sales indicators better than 12M ago		Deteriorating	Compared with 12M ago, have your recent indicators (order books, advanced bookings, sales inquiries, etc.)...
Investment indicators	Investment intentions [Balance of opinion]	3	32	9	11	0	47	-30	24.0	More investment spending next 12M than last 12M		Deteriorating	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]	-3	-3	-7	0	4	30	-16	-0.9	Credit conditions tightened over last 3M		No change	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]	19	33	28	26	32	77	12	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]	28	30	41	34	47	58	21	37.3	28% 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]	5	9	6	10	6	30	2	11.2	5% would have some difficulty meeting unexpected demand		Fewer 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	39	47	44	53	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]	20	17	18	15	22	46	13	28.6	20% 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]	-38	-42	-34	-54	-39	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]	-33	-42	-36	-46	-18	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]	4	-33	-28	-32	-48	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]	3	-1	-28	-23	-18	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]	0	0	2	0	0	25	0	1.8	0% of firms expect inflation below 1% over next 2 years		No change	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]	23	24	10	3	3	76	0	53.3	23% 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]	44	51	62	48	54	62	11	39.0	44% of firms expect 2-3% inflation over next 2 years		Fewer 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]	23	20	15	41	40	84	0	3.5	23% of firms expect inflation above 3% over next 2 years		More 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]	74	79	81	55	58.8	100.0	13.3	94.6	74% of responding firms expect inflation between 1-3%		Fewer 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]	74	75	87	97	96.9	100.0	20.0	43.5	74% of responding firms expect inflation above 2%		Fewer 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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