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This time, it's *softer* and stale (for the Canadian business outlook)

By Ethan Currie & Vy Le

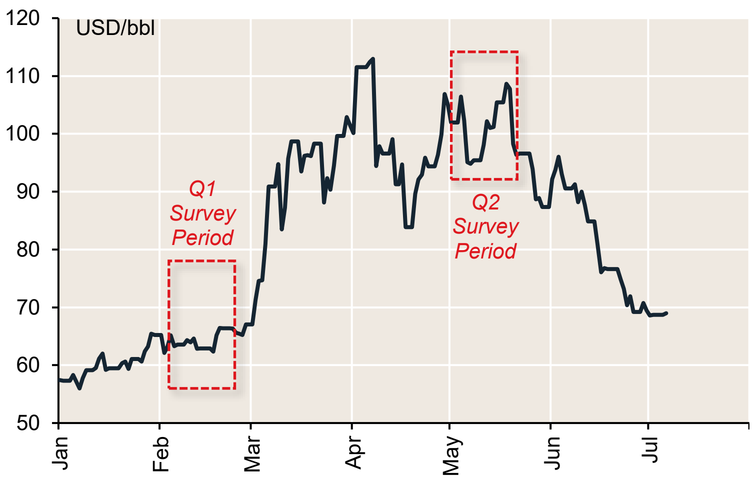
Canadian economic activity remains volatile, as growth contends with layers of uncertainty, reflected in hard data that undershot expectations to begin the year. More recent indicators have pointed to a pickup in activity and, while de-escalation in the Middle East has brought oil prices (and inflation expectations) down, the second quarter *Business Outlook Survey* highlights a softer outlook driven by price concerns. In this regard, and much like the **prior BOS**, this latest survey was already somewhat stale on arrival. Conducted between May 1st and 21st, the slightly weaker outlook should thus be assessed with caution, as near-term expectations have likely been recast with the evolving geopolitical backdrop.

- Overall business sentiment took a step down after improving in the prior three quarters. As the survey was conducted in May, it captured elevated oil prices and heightened geopolitical volatility, which understandably coincided with warmer inflation expectations. Sales outlooks took an associated hit, as business and consumer spending was expected to step down in response to rising fuel-related prices and lingering uncertainty. Notwithstanding the softer balance of opinion, future sales indications were healthier for firms unaffected or positively affected by the war, with public spending cited as a support for the outlook, like last quarter's results.
- The BOS price and activity indicators (new this survey) moved in opposite directions, consistent with the BoC's policy 'dilemma'. While both input and selling costs were expected to jump, inflation expectations per the *Business Leaders' Pulse* quickly came down from their peaks recorded in April, as the bulk of anticipated price impacts stemmed from the Mideast war.
- Owing to the more immediate impact of the energy price shock on certain sectors, outlooks in this survey are not consistent across the board. Export outlooks have improved, with fewer firms reporting that trade uncertainty / hesitancy is constraining activity. Note this was reported prior to the more recent July 1st 'deadline' on the USMCA renewal, suggesting a potentially recast outlook on this front, too). Stronger demand for commodity shipments was also cited. As such, the regional outlook is mixed, with uncertainty weighing on activity in some, while higher oil prices have improved outlooks in the Prairie provinces. Looking through (at least some of) the uncertainty, investment intentions have remained broadly strong in this BOS.
- Employment intentions edged lower in the second quarter, and are weaker than the survey's historical average, coinciding with softer hiring figures year-to-date per the LFS. This was once again a regional story, with hiring intentions increasing among firms in the Prairies, supported by loftier commodity prices. Lower expected employment (i.e., layoffs) ticked up but remained low, while wage pressures remained muted.
- Most firms are continuing to report spare capacity, and demand constraints point to an inability to pass on the full extent of energy costs—an assessment confirmed by the *Canadian Survey of Consumer Expectations*, released at the same time as the BOS. Here, sentiment remains subdued (despite a slight easing in labour market anxieties), with real spending expected to be held back in response to higher fuel costs and economic uncertainty.

Surveyed at a time of acute geopolitical stress, firms were expecting higher energy costs to be reflected in selling prices in Q2, unlike the prior BOS. Still, elevated uncertainty weighed on the outlook for firms not expected to benefit from the move in commodity prices, and though inflation expectations moved higher, these were quickly pared back (and should continue to move lower). Combined with a still-subdued hiring outlook and a cautious Canadian consumer, second-round effects on inflation should be minimal, with core pressures remaining contained.

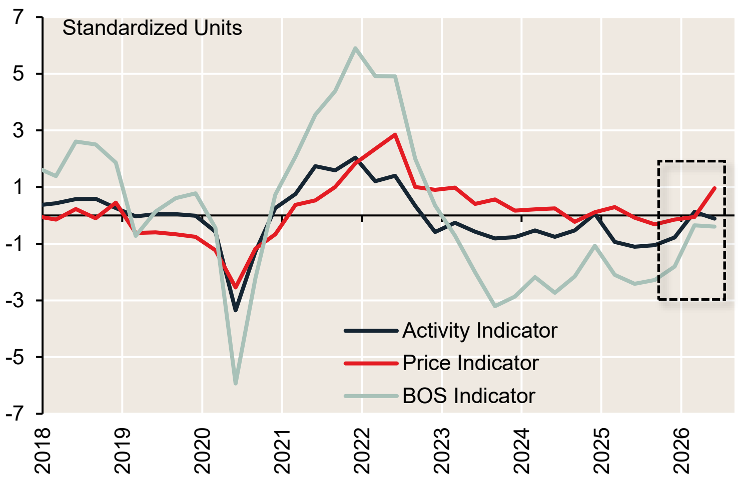
This report shouldn't change markets' thinking on the BoC rate path. OIS-implied tightening has been pushed back on the timeline since oil prices peaked, and today's softer outlook should only reinforce the Bank's patient stance for now. While there are signs pointing towards eventual slack absorption and marginal rate hikes (i.e., investment intentions), we continue to see the BoC sidelined for the remainder of 2026—a materially weaker (or stronger) outlook will have to be accommodated by clear and sustained trends in hard data to prompt a policy move.

Chart 1: Swing and a miss on survey timing (again)…
WTI prompt contract with BOS survey periods (2026 year-to-date)



Source: NBC, BoC, Bloomberg | Note: Q2 BOS conducted between May 1st-21st

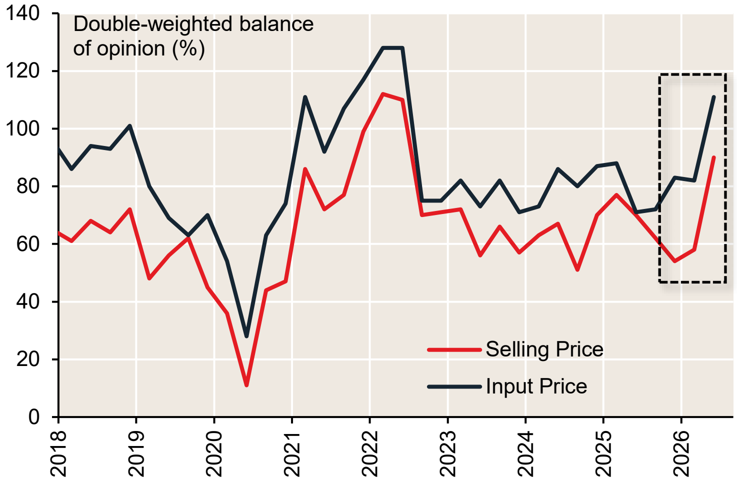
Chart 2: …as sentiment dips, driven by Mideast price shock
Business Outlook Survey Indicator



Source: NBC, BoC | Note: BOS Indicator re-estimated every Q, where historical avg set to 0

Chart 3: Cost inflation seen leaking into selling prices…

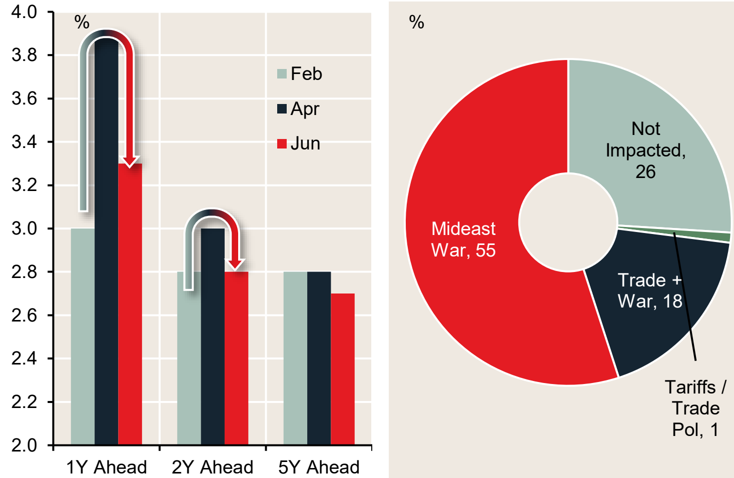
Expected changes to input costs and output prices over the next 12 months



Source: NBC, BoC

Chart 4-5: …though war-driven concerns already fading

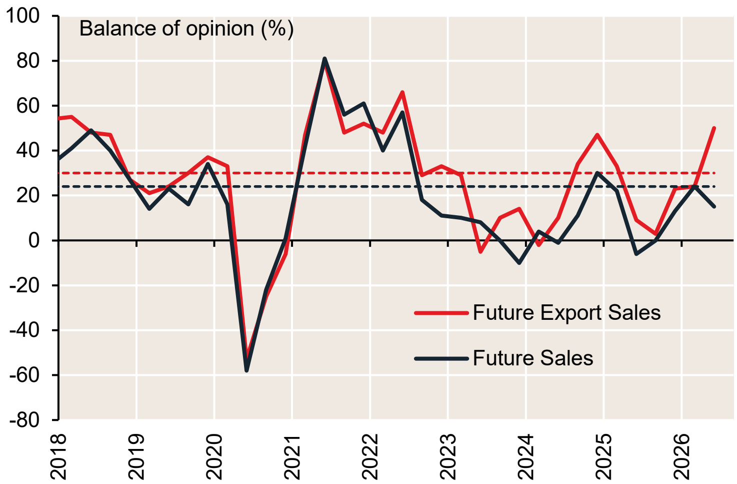
BLP inflation expectations in 2026 (LHS) vs expected input cost drivers



Source: NBC, BoC

Chart 6: Domestic sales pessimism, export sales optimism

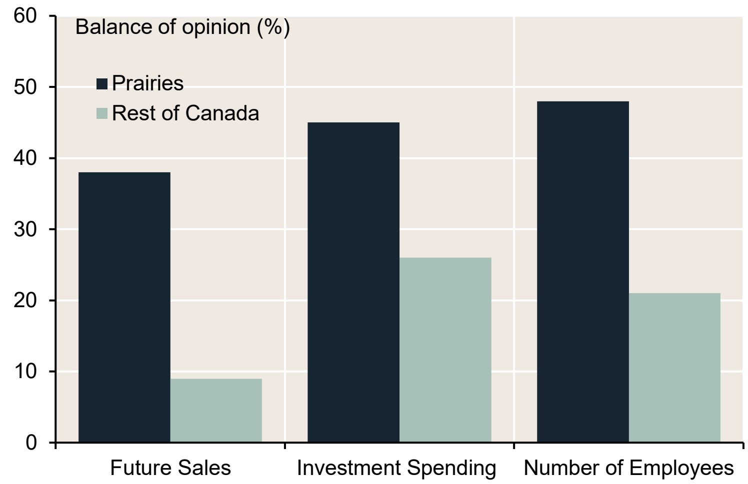
Indicators of future sales and export sales, with survey average



Source: NBC, BoC | Note: Dotted lines denote historical survey average

Chart 7: Outlooks in this BOS are especially region-specific

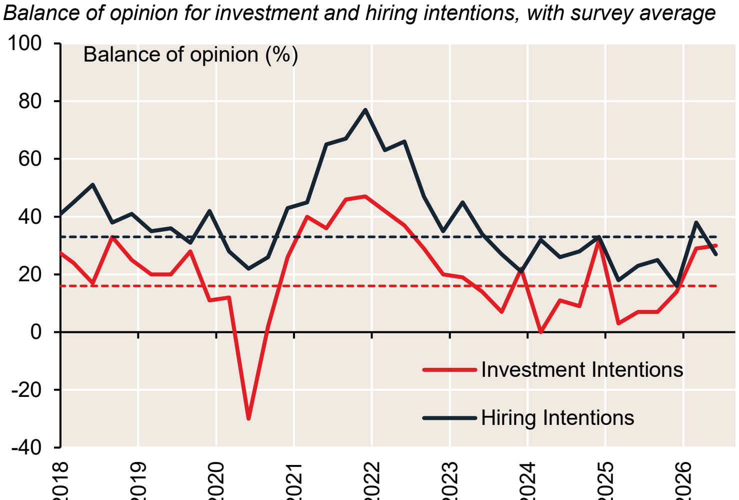
Select BOS indicators (balance of opinion) by region



Source: NBC, BoC

Chart 8: Hiring plans step down, investment stays healthy

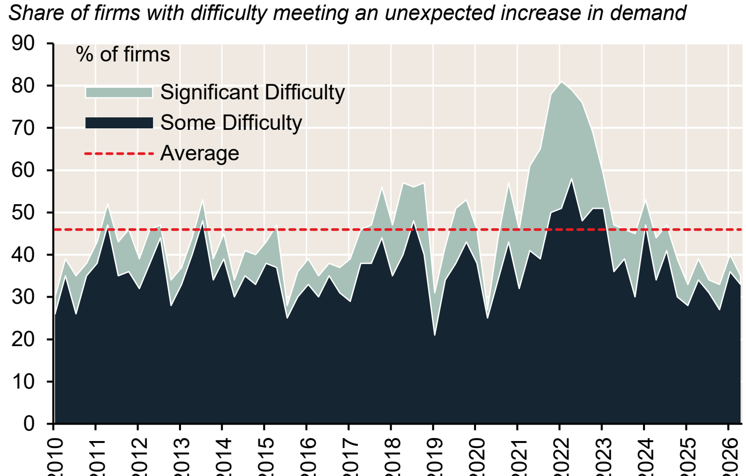
Balance of opinion for investment and hiring intentions, with survey average



Source: NBC, BoC | Note: Dotted lines denote historical survey average

Chart 9: Spare capacity points to reduced price pressures

Share of firms with difficulty meeting an unexpected increase in demand



Source: NBC, BoC | Note: Average is since 2010 and reflects the sum of 'some' + 'significant'

Table: Business Outlook Survey Results

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

		Latest	Prior four surveys						Average		Trend		
	Indicator	2026:Q2	2026:Q1	2025:Q4	2025:Q3	2025:Q2	10 year max	10 year min	2017-19	Intepretation	Recent surveys	vs. prior survey	Survey question / NBF calculation
BOS	Overall BOS Indicator	**-0.4**	-0.4	-1.8	-2.3	-2.41	5.9	-5.9	1.2	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]	**8.0**	25.0	13.0	-2.0	6	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]	**15.0**	24.0	13.0	0.0	-6	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]	**30.0**	29.0	14.0	7.0	7	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]	**1.0**	-2.0	9.0	-6.0	16	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]	**27**	38	16	25	23	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]	**33**	36	27	31	34	58	21	37.3	33% 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]	**2**	4	6	3	5	30	2	11.2	2% 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]	**35**	40	33	34	39	81	27	48.5	35% 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]	**16**	21	22	13	16	46	13	28.6	16% of firms experiencing labour shortgages		Fewer firms reporting shortages	Does your firm face any shortages of labour that restrict your ability to meet demand?
	Labour shortage intensity [Balance of opinion]	**-29**	-11	-15	-33	-36	74	-54	28.8	Labour shortages less intense than 12M ago		Deteriorating	Compared with 12M ago, are labour shortages generally…
Price, wage & inflation expectations	Wage growth [Balance of opinion]	**1**	-15	-10	-21	-34	72	-50	17.5	Wages will rise at a faster 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]	**48**	2	12	10	9	48	-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]	**25**	-8	6	-1	-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	1	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]	**4**	14	16	21	12	76	0	53.3	4% 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]	**48**	72	60	51	51	72	11	39.0	48% 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]	**44**	11	16	18	23	84	0	3.5	44% 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]	**54**	89	82	80	72.4	100.0	13.3	94.6	54% 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]	**95**	86	82	77	85.1	100.0	20.0	43.5	95% 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.

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