



## Bank of Canada Business Outlook and Consumer Expectations Surveys: A soft landing and pinched pockets

Heading into the Bank of Canada's next rate decision, the Bank's released its [Business Outlook Survey \(BOS\)](#) and [Canadian Survey of Consumer Expectations \(CES\)](#). The BOS pointed to signs of an economic soft landing as inflation expectations gradually eased and business optimism firmed during the first quarter. Expectations point to a period of softness, but lower anticipation that the economy dips into recession. From the CES, consumers continued to perceive much higher inflation than businesses, both current and future. Consumers remain pinched by inflation and interest rates and continue to adjust through purchasing behaviour, but the environment looks to be stabilizing given the peak in interest rates and expectations of future rate reductions. Housing expectations remain resilient, and more households look to purchase in the coming year.

### *Business Outlook Survey*

Business sentiment moved higher from the winter doldrums observed from November through January, to reach the highest levels since September. While demand is increasingly a constraint due in part to interest pass through and a rising concern for business, observed in subdued sales and orders, more businesses are expecting sales growth to rise over the coming 12 months. This is particularly the case for interest sensitive sectors as businesses anticipate interest rates to fall. Firms' expectations for a recession dipped, with about 27 per cent planning for a mild or severe recession, down from 37 per cent in Q4 and 34 per cent in Q3.

Nevertheless, business investment intentions remain weak, which reflects high interest rates, softer labour market, and demand constraints. This is also leading to more repair and maintenance in contrast to new investment.

For inflation, news out of the BOS was positive as expectations eased and remained well anchored. The two-year ahead inflation expectation continued to move down to 3.0 per cent compared to 3.2 per cent in Q4. Meanwhile, its Business Leaders' Pulse survey showed 1-year ahead expectations near 3 per cent, and a well anchored 2- and 5- year expectations near 2.5 per cent suggesting inflation expectations are well-anchored in the target range. Contributing to this is a softening labour market. Fewer firms are reporting labour shortages, and the magnitude is less intense than a year ago. This is translating into less wage pressure, although growth remains elevated. During the latest quarter, year-ahead wage expectations sat a 4.0 per cent with 40 per cent of respondents noting that wage growth is not abnormally high. Higher costs of living continue to contribute to wage gains. In terms of pricing behaviour which the Bank continues to monitor closely, fewer firms are expecting significant gains in input or output pricing, although levels remain higher than pre-pandemic levels.

### *Consumer Expectations Survey*

In contrast to the BOS, the Bank's Survey of Consumer Expectation (CES) showed much higher expectations for future inflation that deviates sharply from current realized CPI inflation, highlighting how perceptions can differ from reality. While declining, consumer estimates of current 12-month inflation were 5.25 per cent (compared to about 3 per cent per the CPI), while 1-year ahead and 2-year ahead expectations were 4.92 and 3.76 per cent. This highlights the impact of key spending on everyday items like food, rent and gas would have on views. Expectations could have detrimental impact on inflation normalization if it creates a push to drive wages higher to compensate.

Other key survey findings pointed to ongoing stress from high inflation and interest rates on consumer finances, but patterns are not worsening from prior quarters as much of the impact has been felt. Consumers are less pessimistic than in 2023, albeit sentiment continues to worsen around financial deterioration. Expectations about lower interest rates have provided some boost to confidence.

Nevertheless, consumers have shifted behaviour which continues. This includes the expected reduction in spending, albeit less so than in prior quarters, and purchasing adjustments to fuel usage, bulk buying, and other behaviour. At the same time, a vestige of the pandemic loss, is that consumers still plan to spend on vacation and events. Interestingly, Canadians seem bullish on housing, with an expectation of higher prices, and more households looking to purchase in the coming year (15 per cent in Q1 compared to 13 per cent in 2023).

Consumer expectations for the economy have shown signs of stabilizing after some recent pessimism. Like businesses, fewer consumers anticipate a significant decline, with most anticipating flat or slightly negative performance over the coming year. A mild improvement in sentiment could reflect expectations of rate cuts. This has contributed to stronger than normal expectations for wage growth (2.8 per cent).

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**Bryan Yu**

Chief Economist

Central 1 Credit Union

byu@central1.com