BoC's Reactionary BOS Survey Disappoints

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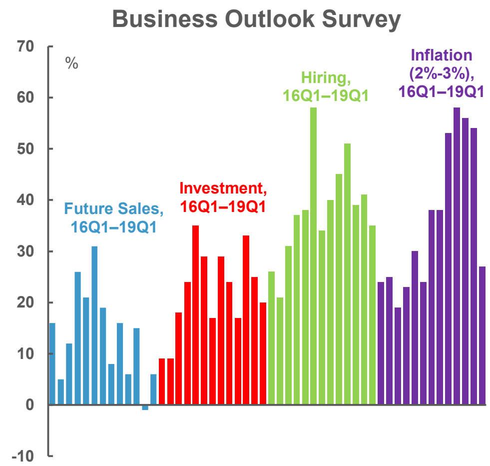
- The Bank of Canada's Q1 Business Outlook Survey (here) generally provided neutral-dovish confirmation of soft growth readings overall, at least to those who believe in the survey. The results are broadly consistent with our expectation for a prolonged policy hold at least until the end of this year in anticipation of a rebound in domestic growth and improved global risks. The C$ depreciated by just over half a cent to the USD following the release and the two-year Canada yield fell by over 3bps and is outperforming the US front-end. **I think this survey's overall results are likely to follow expectations for a rebound in economic growth in lagging fashion to the data.** I'd pay somewhat more attention to the next Q2 edition that will be surveyed between early May and early June but more so the Fall edition that is more likely to hopefully capture rebound evidence.
- **The main takeaways involve a middle ground assessment if taken at face value** (more on why not to in a moment). Canadian businesses are not even remotely in the camp expecting a US recession and expect sales growth to modestly improve over the next year. Nevertheless, their investment and hiring intentions softened but point to expansion, and **they suddenly indicate much less capacity pressure overall and through labour shortages that I personally view with a lot of suspicion.**
- The advantage to this survey is that it can provide fairly timely anecdotes and intentions to inform growth tracking and forecasts. The disadvantage is that its usefulness as a forward looking gauge is limited by its tendency to be a reactionary and contemporaneous signal of developments. The sample of opinion is small—about 100 'senior management' members of firms drawn across regions and industries—and the headline gauges can be easily swung by developments in one or a handful of industries or regions. The survey was conducted from February 19th to March 13th and therefore while global risks remain prevalent, recent prospects for a US–China trade deal and indications from both sides that a 'hard' Brexit isn't an option may not be adequately captured.
- As the accompanying chart demonstrates, **most of the results reflected more cautious attitudes across the c-suite**. One exception was the mild improvement in expectations for future sales. Nevertheless, smaller—but still positive—net percentages of firms are reporting plans to invest and hire.
- **The largest shifts came in what businesses think of capacity pressures and the inflation outlook.** The share of responses expecting inflation in the upper half of the BoC's 1–3% target range fell by half to just 27% of firms as expectations for inflation in the 1–2% range increased by a commensurate share (chart 9 in their link). **It would be helpful if the BoC were to include in their survey a measure of what firms expect for *core* inflation (the average of the three measures) apart from headline.**
- **The net percentage of firms reporting pressures on capacity fell from 56% to 31%. The net percentage of firms reporting labour shortages fell from 37% to 19% in the space of one single quarter while the intensity of labour shortages gauge fell from 43% to 16%.**
- Really?? You mean to tell me that **in the same quarter in which firms hired 115,500 workers—without even annualizing the figure—we're asked to**



Sources: Scotiabank Economics, Bank of Canada.

believe that labour shortages went much *lower*? Also, in the span of just one quarter there was such an enormous widening of spare capacity? Output gap measures have widened of late but it's difficult to believe that space capacity has widened by this much in the span of one single quarter since the last survey was conducted.

- In special supplemental questions, businesses were asked to weigh in on expectations for the US economy. Next to none see a US recession and only a handful expect no growth in the US economy. Most see slow growth and the share expecting strong growth went from 52% in Q4 to 17% in Q1. One might suggest they missed the memo in coming off peak US growth in response to the stimulus efforts that took the form of the TCJA and the US$300 billion spending bill that the Trump administration introduced early last year.