

BoC's BOS & SLOS Offer A Mixed Picture

- Overall sales growth expectations are holding firm...
- ...with improved cap-ex intentions...
- ...but softened hiring intentions...
- ...as capacity pressures rise
- The survey offers weak tracking of actual behaviour
- Inflation expectations remain in the lower half of the BoC's target range
- Credit conditions eased for mortgages...
- ...but tightened for non-mortgage consumer lending...
- ...and held unchanged for business lending products
- Implications for the BoC

This Business Outlook Survey ([here](#)) was fairly good on balance but it settles little about the policy outlook facing the Bank of Canada. CAD appreciated a little and the two year Canada yield reversed some of the earlier rally after the survey was released.

Chart 1 summarizes recent trends in several of the key component gauges. Businesses are signaling slowing sales growth, continued expectations for future sales growth, improved cap-ex plans and softer hiring intentions. At the same time, they are signalling that capacity pressures are increasing including through more acute labour shortages. On net, however, businesses are indicating little expected pressure on inflation and continue to indicate they expect inflation to be in the lower half of the BoC's target range. The survey's tracking abilities are nevertheless of limited usefulness.

The companion Senior Loan Officer Opinion Survey ([here](#)) also came in fairly healthy on balance and mostly due to the easing of mortgage credit conditions. Mortgage lending conditions eased through pricing decisions which isn't new information to anyone monitoring mortgage lending conditions in the open market but non-mortgage consumer lending conditions tightened somewhat due to both price and non-price variables. Business lending conditions were unchanged in Q3.

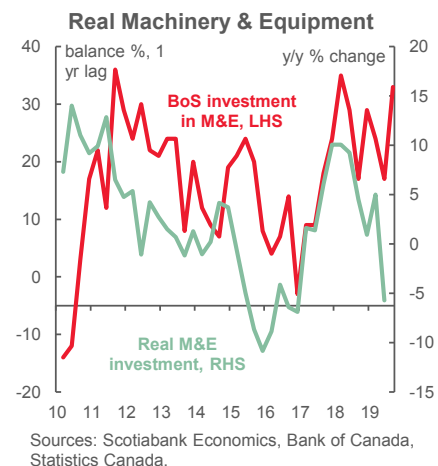
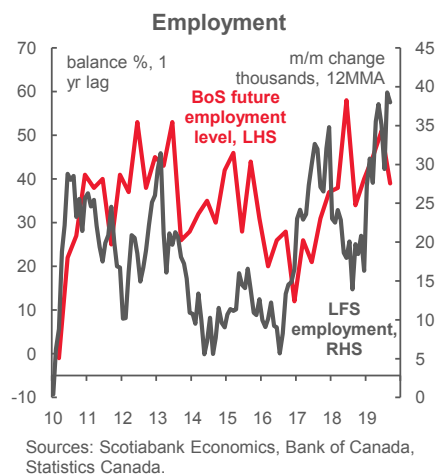
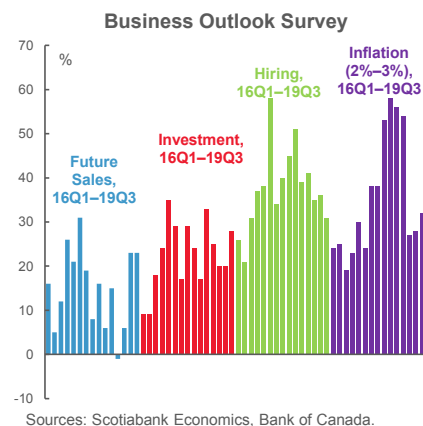
The component measure of future sales expectations held firm at 23 and thus retained the improvement of the prior two quarters. That is despite the escalating risks to the global outlook into the survey reference period that covered August 20th to September 13th.

Having said that, the pace of improvement has levelled off according to the separate question on whether indicators like orders, advance bookings and sales inquiries have improved compared to a year ago. Further, it's worth observing that the future sales expectations reading typically turns too late; for instance, it only dipped negative in Q3 of 2008 amidst ample evidence by then of deep challenges facing the outlook.

Other positives included that investment intentions improved somewhat with a net +28% of firms saying they expect to raise rather than lower cap-ex compared to the previous 20% in Q2.

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com



Hiring intentions weakened a little with a net 31% of firms expecting to expand the number of employees over the next year (36% prior). That's the lowest share since 2016Q3.

How do investment intentions and hiring intentions track actual data? Not very well as charts 2 and 3 depict. When hiring and investment intentions over the coming year are plotted against actual hiring and investment both lagged out a year, the result is that a) the BOS is much more volatile than actual behavior which isn't surprising for sentiment surveys, and b) that intentions don't track actual behavior with a degree of reliability that anyone would be wise to hang their hats upon.

Reported capacity pressures also increased. Half of businesses reported they'd have either some difficulty (37% of firms) or significant difficulty (13%) meeting an unexpected increase in demand. That's not a cycle peak, and it still says half of businesses don't face any capacity pressures, but it's a sizeable jump from a combined 31% of firms in Q1 who said they were capacity constrained back then.

Price expectations eased somewhat. A net 7% of firms now expect the pace of cost increases to slightly ease. A net 5% of firms expect to keep raising output prices, but this is very slightly weaker than the prior report and not exhibiting cyclical strains on inflation.

In fact, businesses' inflation expectations remain skewed to the lower half of the BoC's inflation target range. An unchanged 64% of firms expect inflation to land between 1–2% over the coming year. The BoC's policy target range is 1–3% with a 2% mid-point. Businesses are signaling unmoored expectations

Thus, we continue to face an outlook in which inflation expectations derived from both business expectations and market expectations like the 5 and 10 year RRBs breakevens are tracking in the lower half of the BoC's inflation target zone.

Why does this matter? It offer a Canadian parallel to the Fed's arguments. After years of perennially missing its inflation target (chart 4) and with expectations riding beneath the target, perhaps the BoC should emphasize the symmetry of its 2% target and indicate a willingness to tolerate a mild overshoot for a period. At the margin, that may require adding stimulus.

Indeed, if the Fed is determined to go along this policy path with its current policy review then through the BoC may be dragged along with it through the implications for the exchange rate. If the Fed cuts on top of the BoC's overnight rate by month-end and quite possibly cuts again and the longstanding negative BoC-Fed policy rate differential turns positive, then CAD risks being ignited by hot money flows. There is no MCI or type 1 and type 2 framework surrounding currency effects today as the BoC utilized in the past. That does not mean the currency is irrelevant to the country's export competitiveness, the rotation of the sources of growth toward net exports and all in the context of great uncertainties facing the outlook for global trade policy and the world economy.

Overall, the survey and its tracking abilities should carry little influence upon BoC decisions. Hard data on activity and inflation readings, forward looking global event risks, an inverted Canada yield curve and spillover effects from foreign central bank actions notably the Fed's all matter much more. The surveys reinforce our expectation that while the BoC will probably revise its world and domestic growth forecasts lower in the October 30th MPR, it will continue to monitor conditions at home and abroad and potentially return with easing thereafter.



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.