

Canadian soft data is softening, significantly

By Taylor Schleich

No, CFIB Business Barometer headlines today were *not* a typo. The nearly 25-year-old small business sentiment indicator (capturing year-ahead expectations for business performance) really just collapsed to an all-time low, consistent with [recent consumer surveys](#) that are equally depressing. The rate of change is also jarring as March's print is an "abysmal" 25 points below February, the fastest fall since the survey's inception.

The source of souring sentiment is easy to identify. It's President Trump and his tariffs/threats. Indeed, it's not a coincidence that expectations were steadily improving in 2024 (like GDP) before momentum stopped in its tracks after the U.S. election. More granular survey questions confirm this is all about trade. Optimism of importing/exporting firms has fallen most, but it's not like the outlook for domestically focused businesses is all that rosy either. Industry breakdowns are also intuitively consistent, as conditions are worse for trade-sensitive sectors (e.g., manufacturing) than the better-insulated services sector (e.g., finance and insurance). To be clear though, confidence is waning in all corners of the economy.

This risks bringing Canada's impressive economic momentum in H2:2024 to a screeching halt. There may have been hints of that in February's jobs

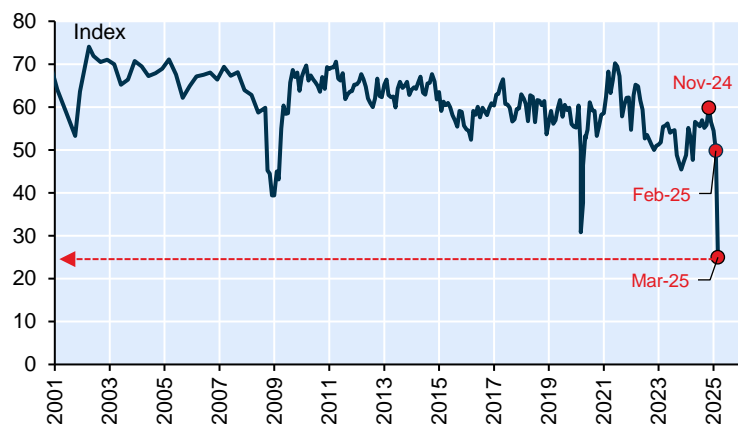
data but small businesses suggest the labour market could worsen ahead. Plans to reduce staffing over the next year are increasing, the balance of opinion the weakest since Jan-21. Outside COVID, there's just one month (since 2010) where net hiring plans were worse.

For a forward-looking central bank, this is worrying and would typically lead to a steady dose of pre-emptive rate relief. The problem is that this weakness comes alongside a sharp increase in pricing plans as firms intend to raise prices at the fastest pace since early 2023. Last week, the BoC was already elevating inflation risks, and this more hawkish stance proved justified after February's red-hot CPI report. So, while the soft data is softening, the BoC may have its hands tied in the near-term (i.e., April). We still see scope for further cuts this year but those may only be delivered if/when deteriorating survey data is reflected in hard data.

If there's good news from an inflation perspective in this survey, it's that planned wage increases have fallen. That reduces the risk of a wage-price spiral taking hold and inflation becoming entrenched. It also hints at a collapse in demand that could limit future price pressure. To borrow Fed Chair Powell's words yesterday, perhaps tariff inflation will prove *transitory*.

Chart 1: CFIB Business Barometer hits an all-time low...

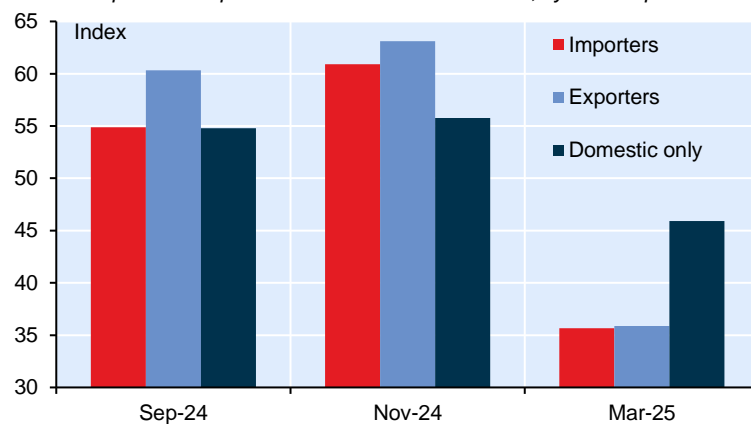
CFIB Business Barometer Index



Source: NBC, CFIB | Notes: Reflects outlook over next 12 months

Chart 2: ...with trade uncertainty driving the collapse

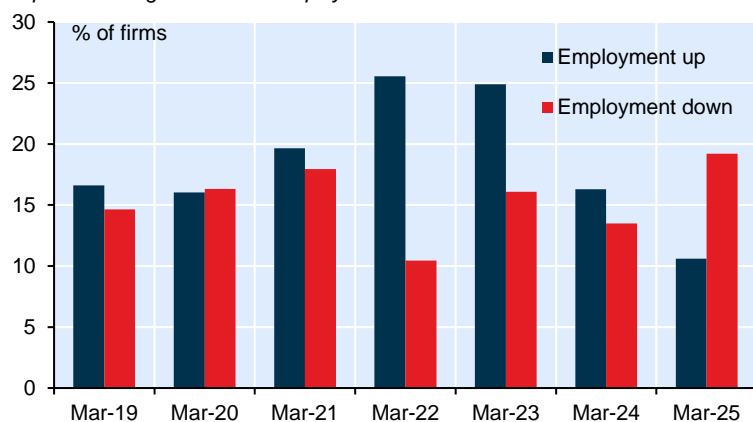
Index of expected firm performance over next 12 months, by trade exposure



Source: NBC, CFIB | Notes: Data reflects 3-month moving average

Chart 3: More firing and less hiring, per small businesses

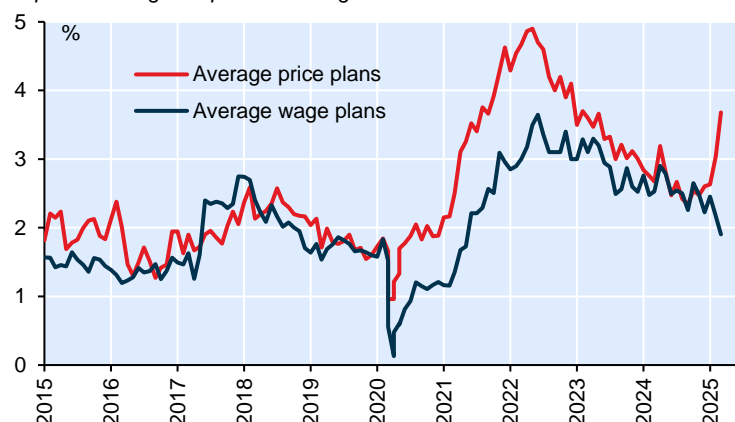
Expected change to full-time employment levels: Next 3 to 4 months



Source: NBC, CFIB | Notes: Mar-20 reflects survey from first half of month (before COVID hit)

Chart 4: Inflation set to rise even with slower growth, hiring?

Expected changes to prices and wages over the next 12 months



Source: NBC, CFIB



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