

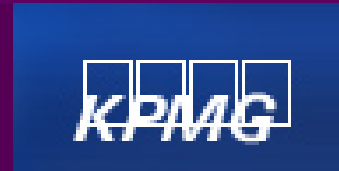


the gandalf group

C-Suite Survey: Responses to the Economic Downturn

December 2008

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- ❑ Telephone interviews among 158 C-Suite executives from the top 1000 corporations in Canada
- ❑ Conducted between November 6th and November 27th, 2008
- ❑ This sample yields a margin of error of +/- 7.16% 19 times out of 20.
- ❑ On December 3 & 4, we returned to 89 of our participants to ask about the potential fall of the government and reaction to the economic update.



- ❑ Executives are hunkering down for a very difficult time
 - 80% expect recession this year
 - Sharp rise in the number of companies who report that they will be in trouble this year
 - Many report that they will be laying off workers and most report that they will be cutting capital expenditures

- ❑ The silver lining is that many executives believe that both the credit crunch and Canada's economic fortunes will start turning around in the next 12 month period

- ❑ Outlooks on the economy and access to credit have worsened since September. While the credit crunch appears to be having a more negative effect this quarter than last, the bulk of executives see that the end is in sight and many believe it will be easing off within the next two quarters



- ❑ Opinions on economic growth have moved dramatically over the last year. Business leaders are now profoundly negative about the Canadian economy and for the first time many are showing concern about their businesses, scaling back growth projections or planning for negative growth.
- ❑ And what's top of mind has shifted too - with the slowdown in the economy and fluctuations in cost of fuel and currency, the value of the dollar or the price of oil are not the top of mind issues they were.
- ❑ Companies are seriously considering changes to spending and capital plans and overall they will be trimming employment levels
- ❑ The C-Suite believes consumer confidence may rebound over the next year and a majority expect conditions in equity markets and access to credit to improve within a year



- ❑ Executives are supportive of infrastructure investments, even if it puts the country into deficit. They are more supportive though of corporate tax cuts as a response to the economic downturn.
- ❑ They do not believe the government should be replaced over the economic update and have a very negative view of a coalition, particularly if led by Stephane Dion
- ❑ They are divided though on the merits of Minister Flaherty's economic update and whether it was an adequate response to the economic downturn.



- ❑ A year ago, 76% of executives said the economy would grow over the course of the year – today only 15% say so.
- ❑ Whereas only one in ten thought their companies would see negative growth – today nearly one in three predict decline for their companies.
- ❑ A year ago, 41% of executives said currency exchange or the rise of the dollar was the top issue facing Canada and 51% said it was the most important issue facing Canadian businesses. Today executives say it's the state of the economy and access to capital that are the top issues.
- ❑ Human resources shortages were top of mind for companies' of the executives we spoke to a year ago. This quarter HR issues are barely mentioned. In fact more companies say they will lay off than say they will be hiring.
- ❑ Whereas two-thirds said a year ago that the Canadian dollar would be above \$1 US today, today only 14% agree the loonie will return to a value above \$1US over the next twelve months.



- ❑ The vast majority expect the economy to decline over the next year
 - Last quarter, 40% of executives said the Canadian economy would experience growth – that number has dropped to 15% nationally, and 21% in the West alone – a region where executives in previous quarters have been more bullish.
 - Pessimism is up 25 points from last quarter when 60% of executives thought the economy would decline over the next 12 months. Six months ago, only 40% of executives thought the economy would decline.

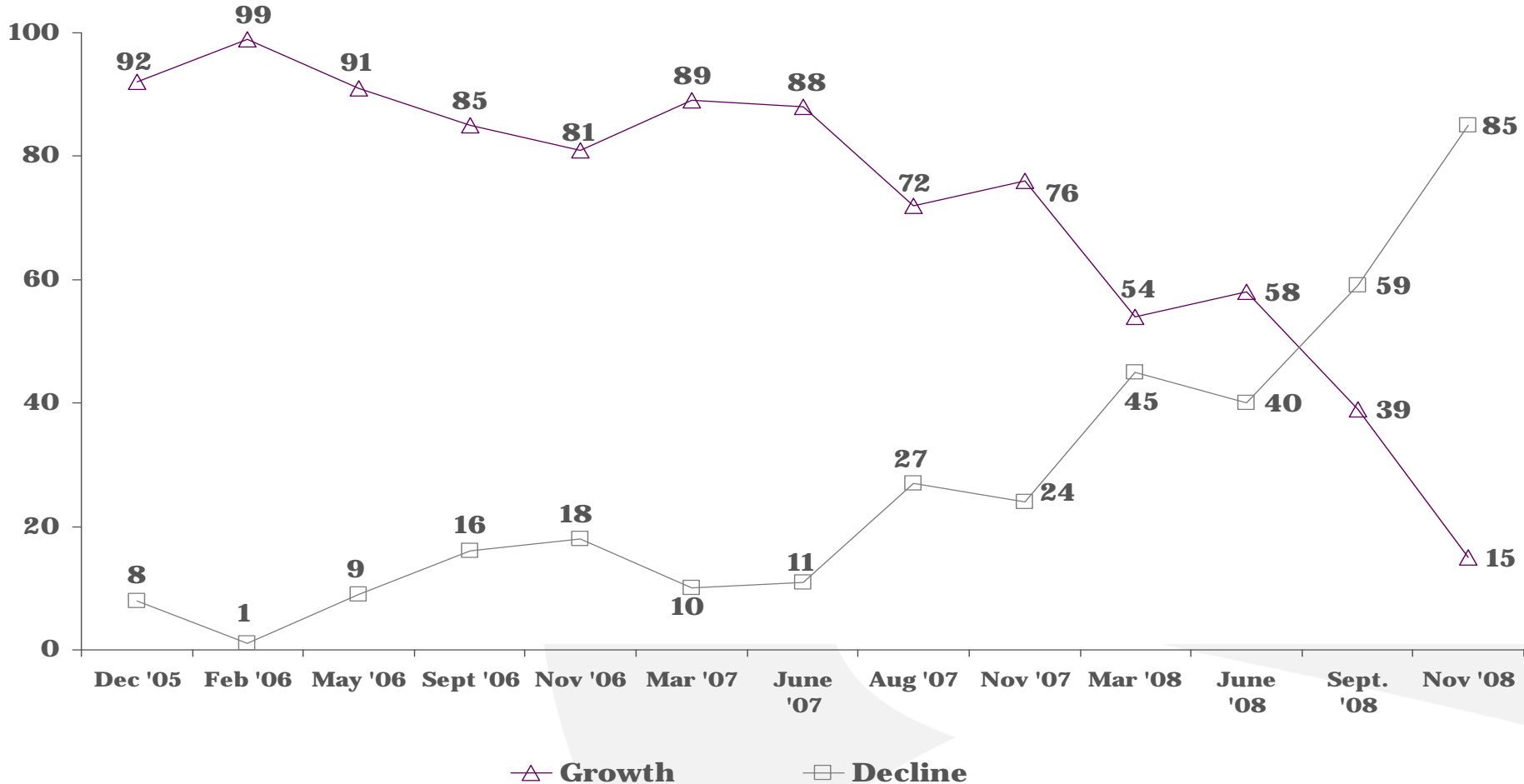
- ❑ 78% said the economy is already in a state of “moderate decline” – 8% said “strong decline.”

- ❑ Many executives are optimistic that the economy will turn around in 2009
 - Half said it will take 6 mos. to a year for the economy to turn around – 44% say it will take longer than a year (of those, almost all say it will take up to two years).
 - Only 32% of executives in the resources sector think it will take longer than a year, while a majority of service and manufacturing sector execs say it will take more than a year.



Expectations: Canadian Economy

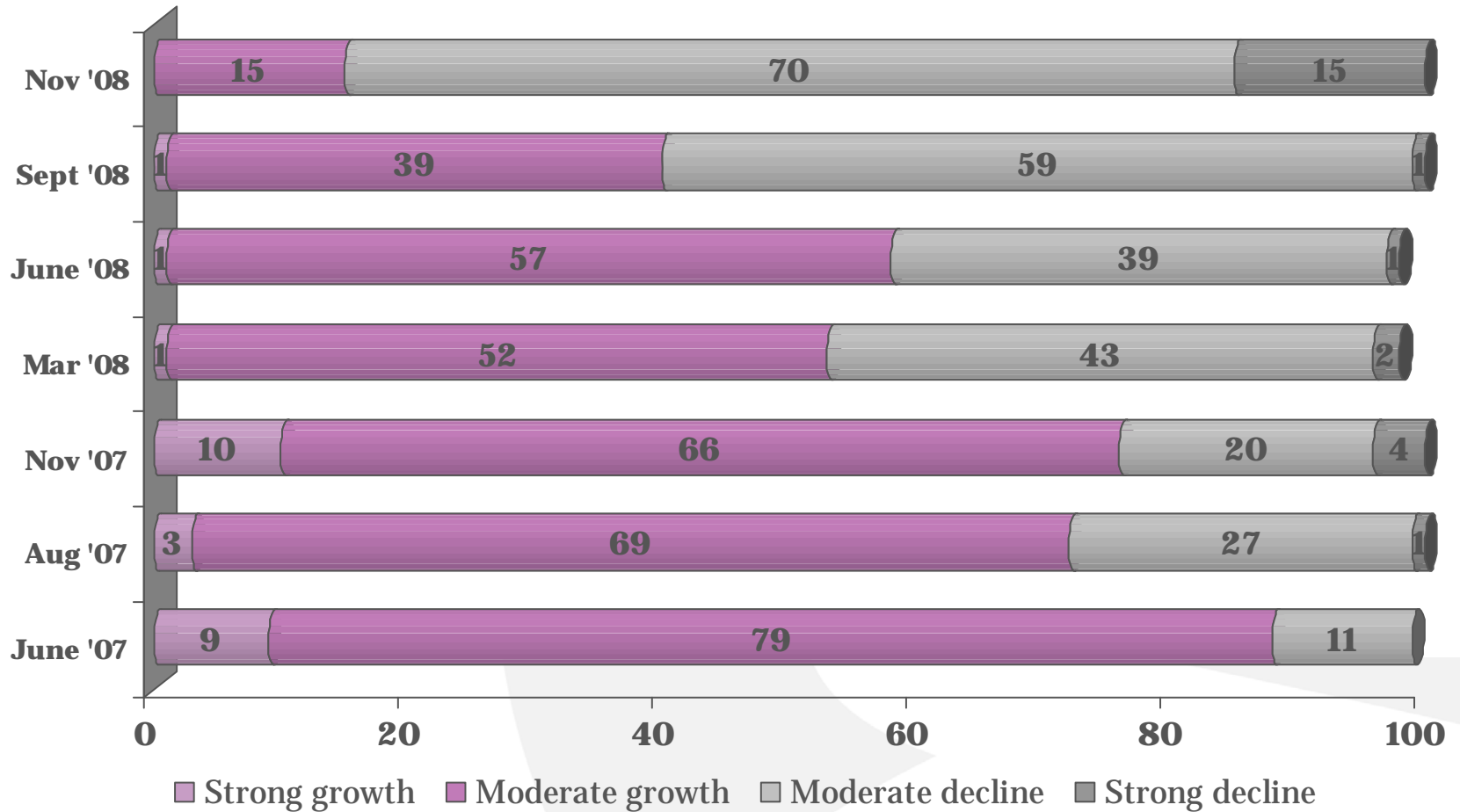
What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Expectations: Canadian Economy

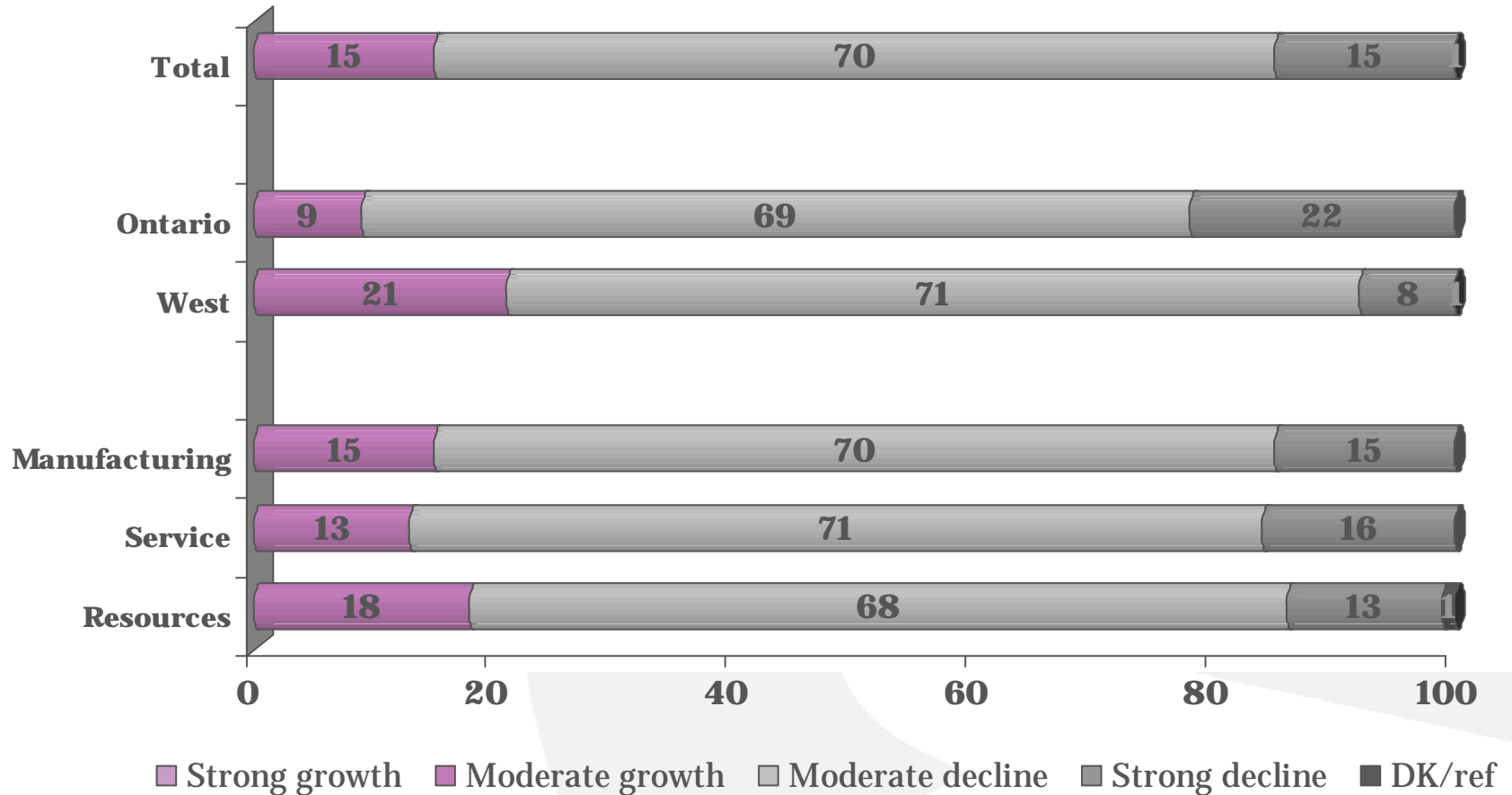
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Expectations: Canadian Economy

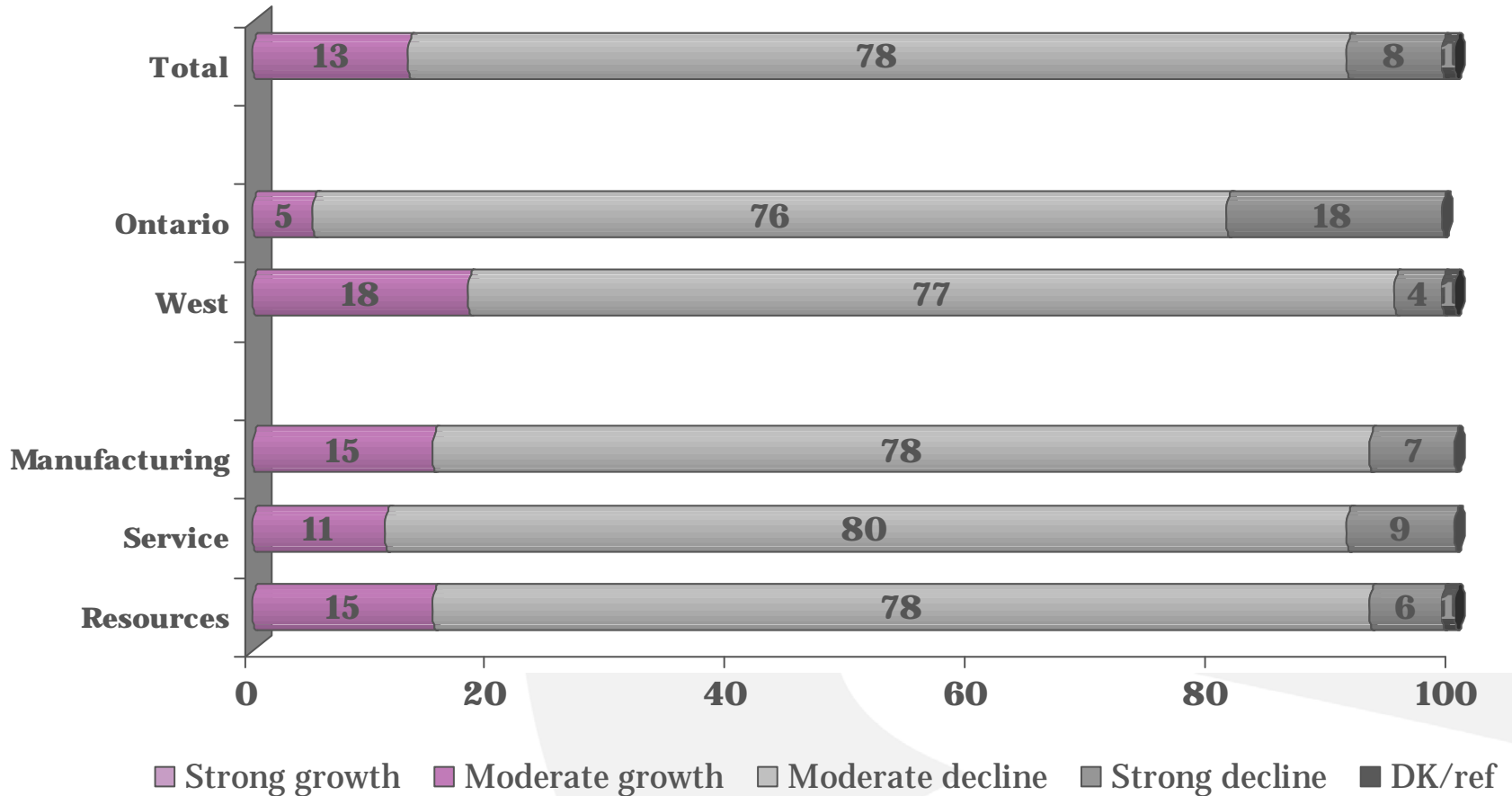
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Expectations: Canadian Economy

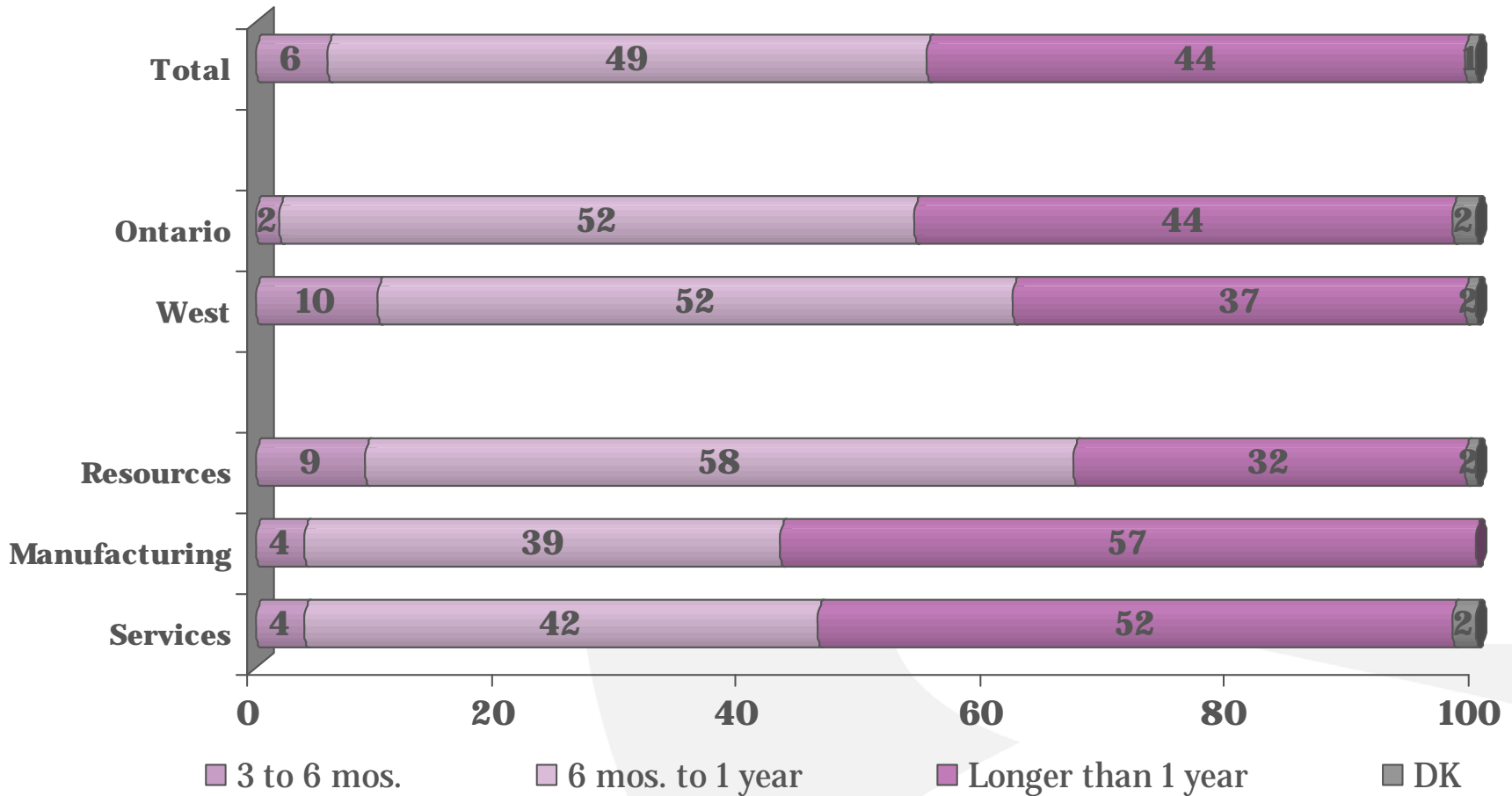
Which of the following do you think best describes the Canadian economy at the current time - strong growth, moderate growth, moderate decline, strong decline?





How long before the Canadian economy starts to turn around and experience growth?

How long do you think it will be before the Canadian economy starts to turn around and experience growth? Would that be within the next three months, three to six months, six months to one year, longer than a year?



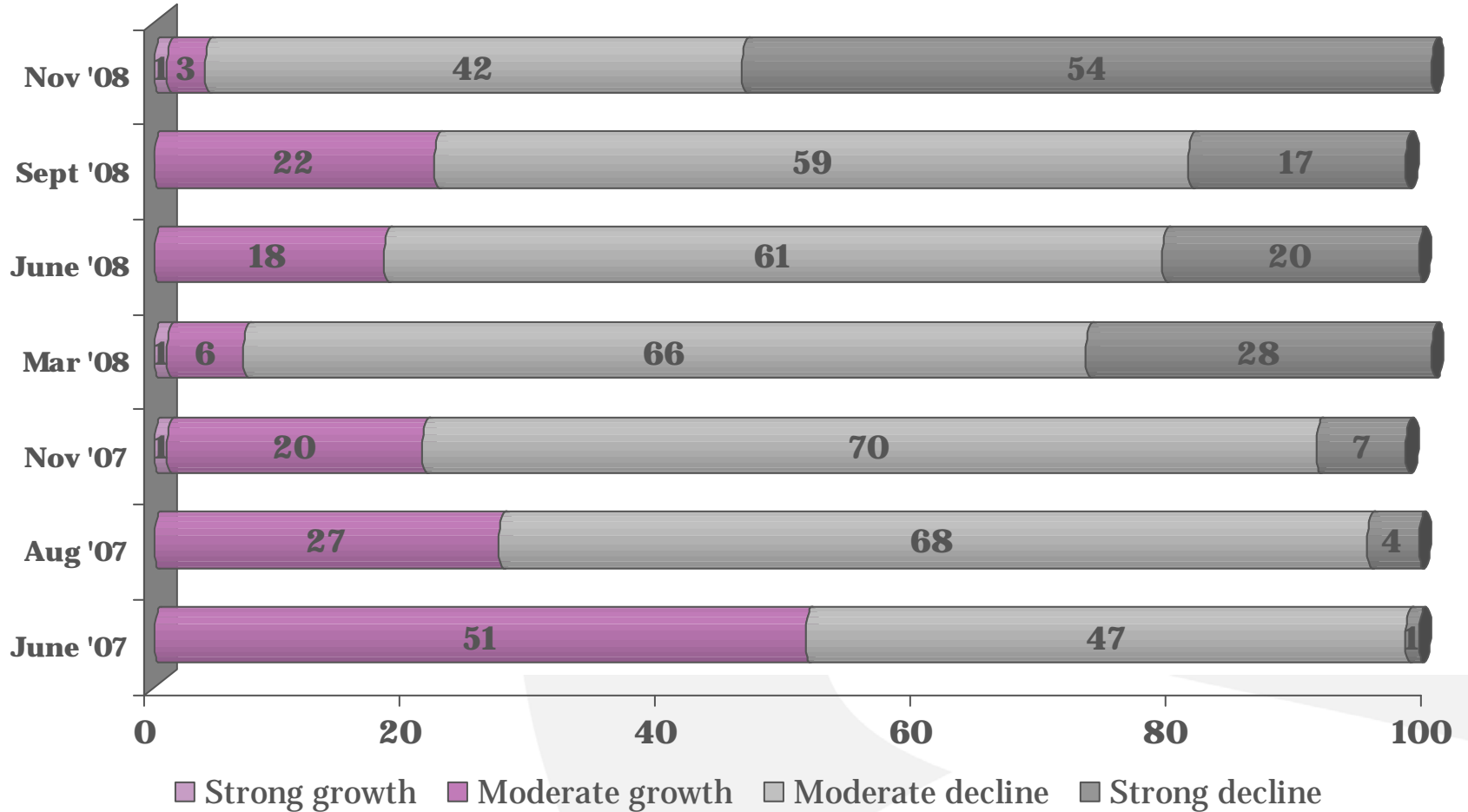


- ❑ Virtually all Canadian executives believe the US economy will continue to decline over the next year with 42% expecting moderate decline and 54% expecting strong decline. The greatest movement since the last quarter was in the number of executives expecting strong decline in the US – up almost 40 pts.
- ❑ Last quarter 59% and 17% foresaw moderate or strong decline respectively.



Expectations: U.S. Economy

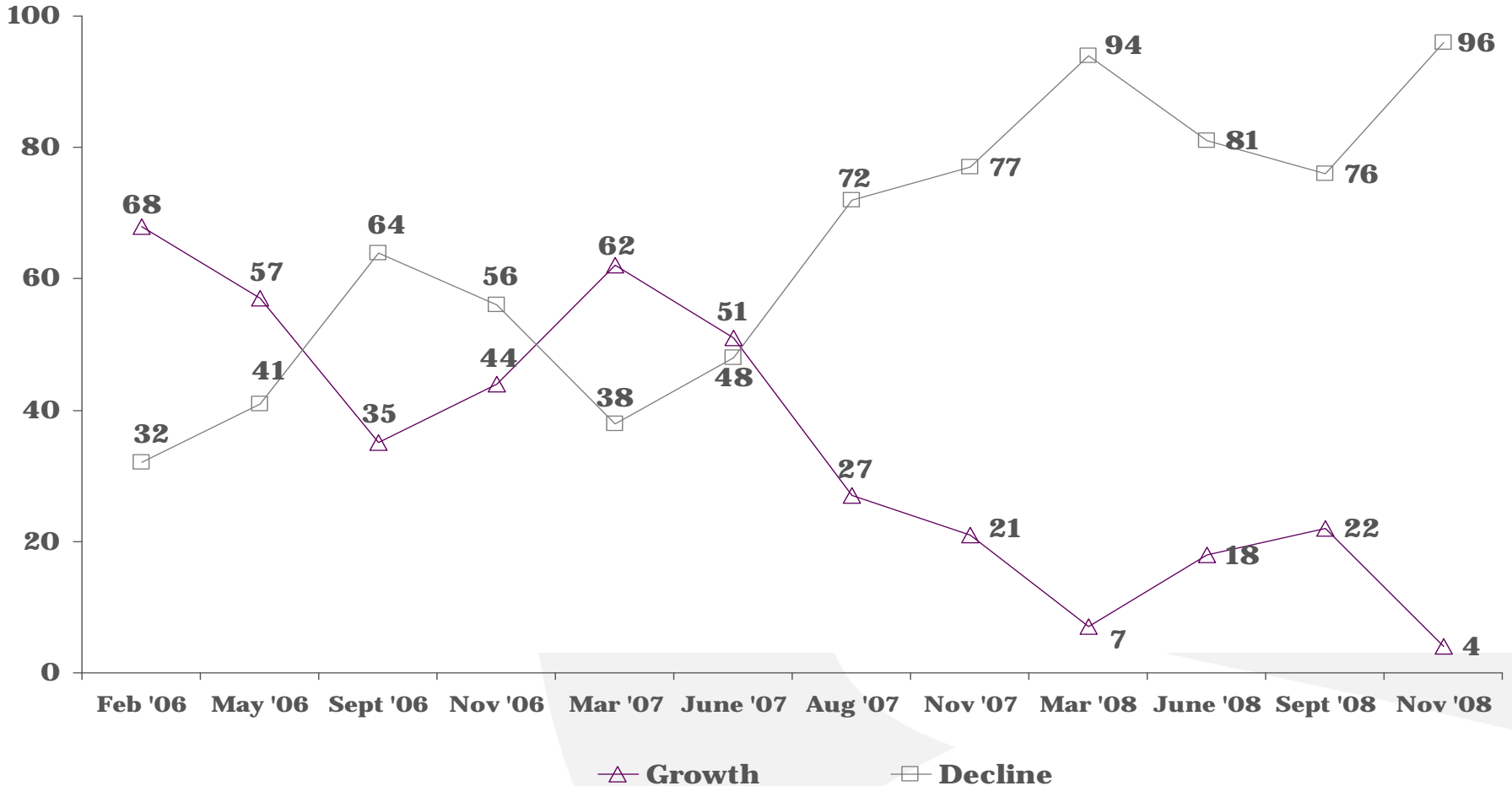
What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Expectations: U.S. Economy

What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





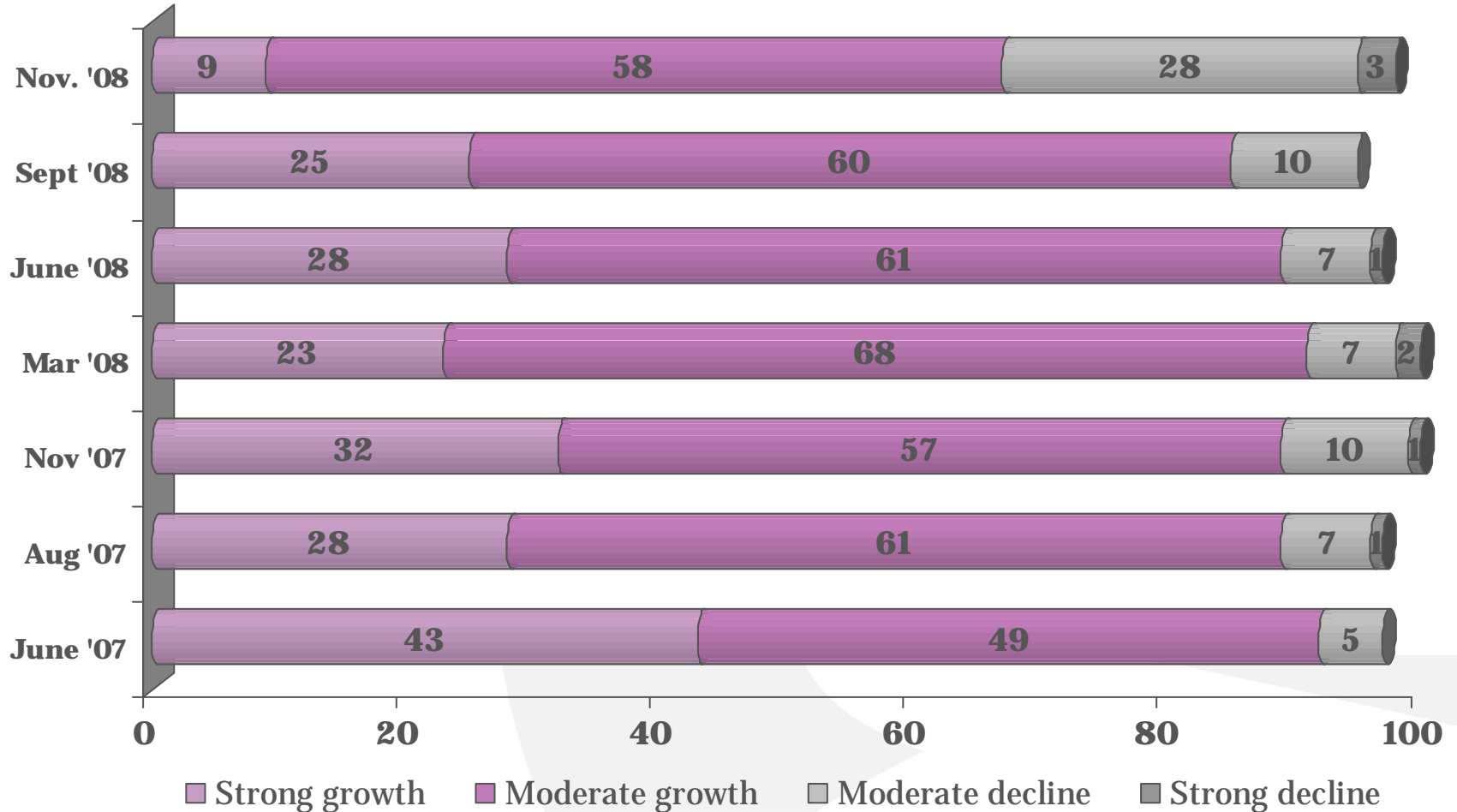
- ❑ In previous surveys executives' optimism was essentially unmoved by events they were seeing in the US and Canadian economies
 - In each quarter, the number of execs who predicted decline for their companies was static, despite what they saw as worsening conditions in the US over the year and more recently in Canada

- ❑ That has now changed - expectations for C-Suite companies are the least optimistic they have been in over two years of quarterly surveys
 - Most predict growth, but there is a significant rise among those predicting decline over the coming year, and now very few predict strong growth
 - Large companies, with over 1000 employees, are less likely to predict strong growth this year



Expectations: Company

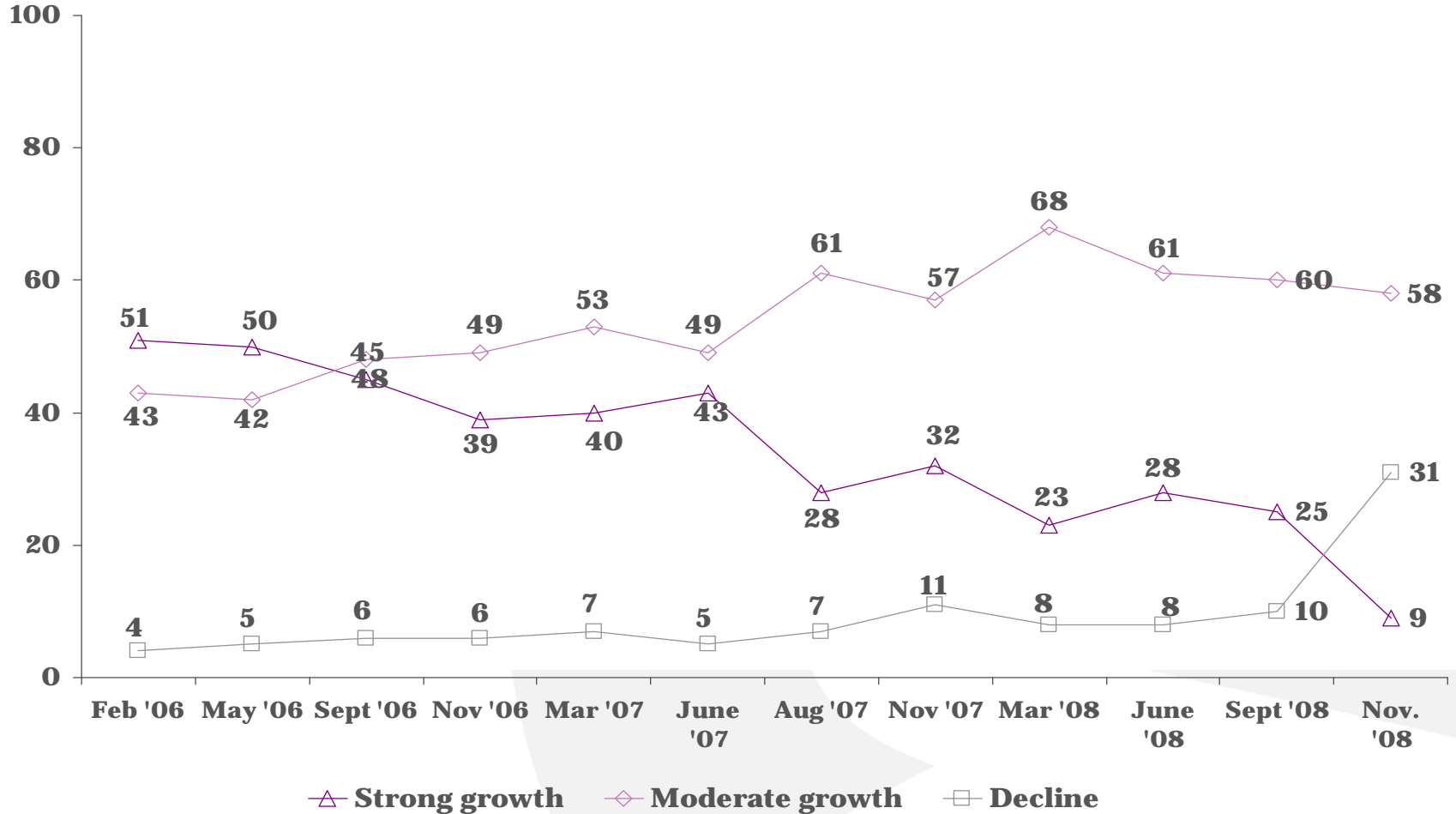
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Expectations: Company

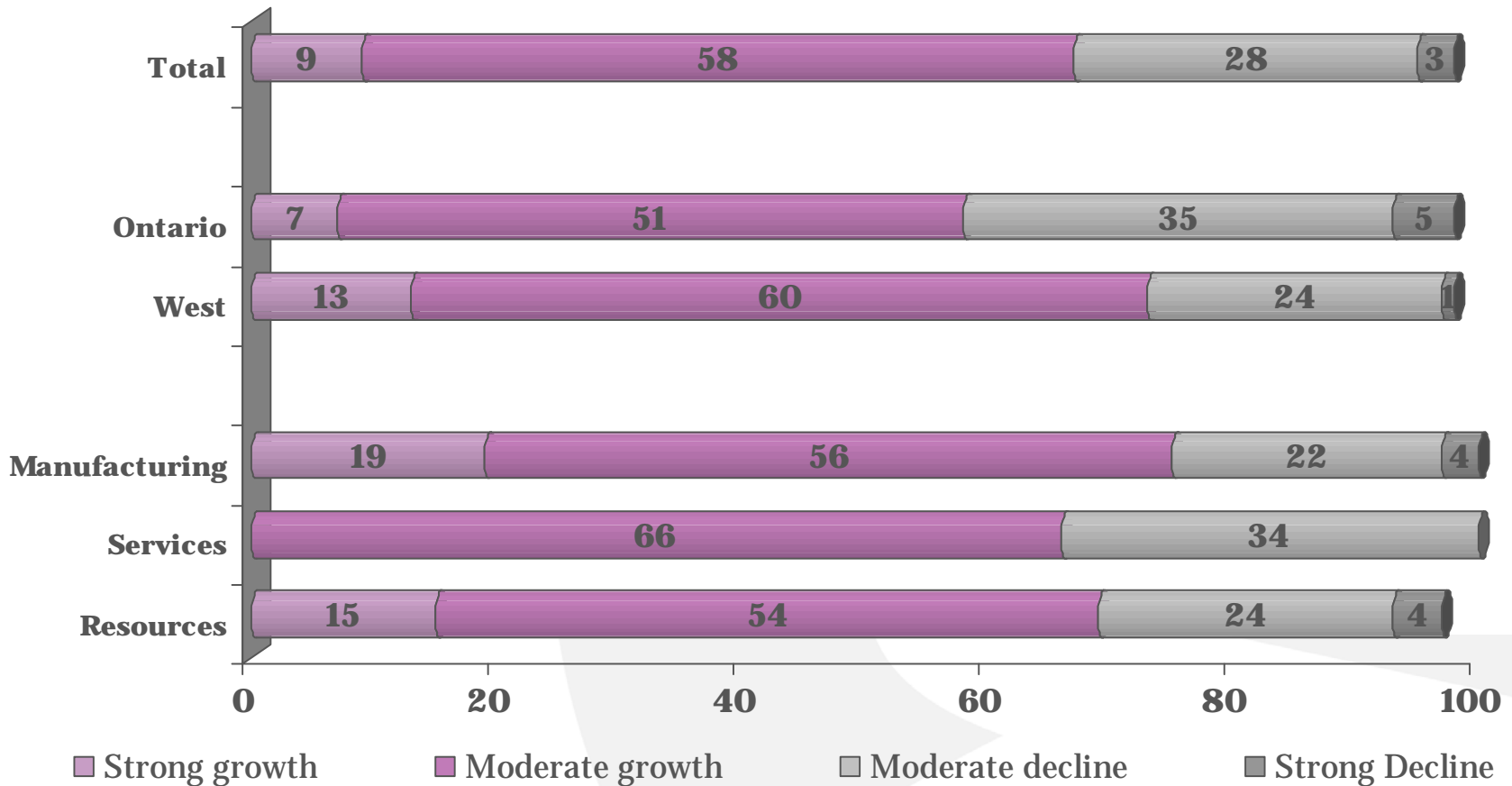
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Expectations: Company

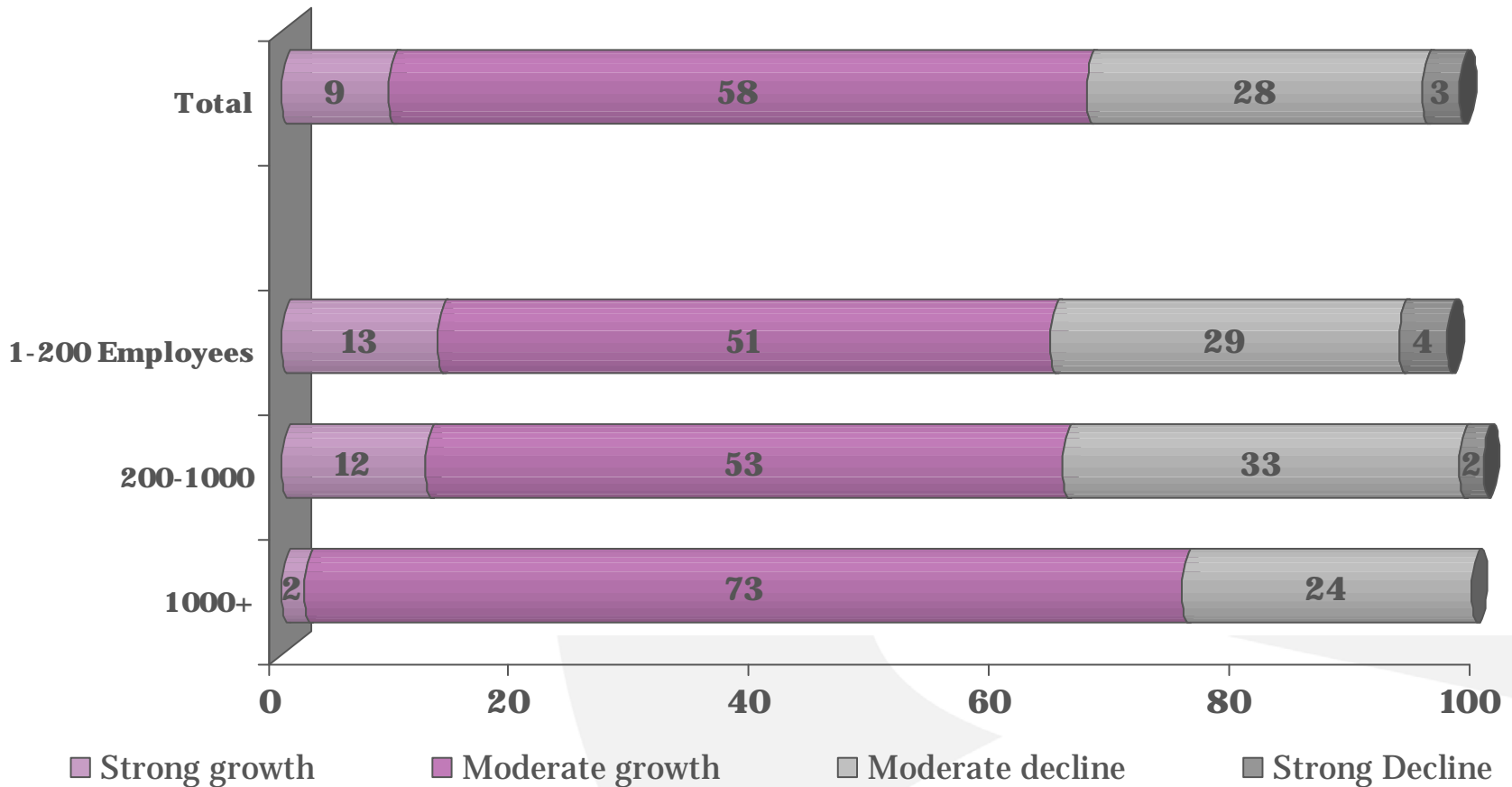
What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Expectations: Company

What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





- ❑ The credit crunch has worsened over the last quarter.
 - More than two thirds of executives (68%) said it was significantly harder to access capital or financing – an increase of 20 pts from last quarter.

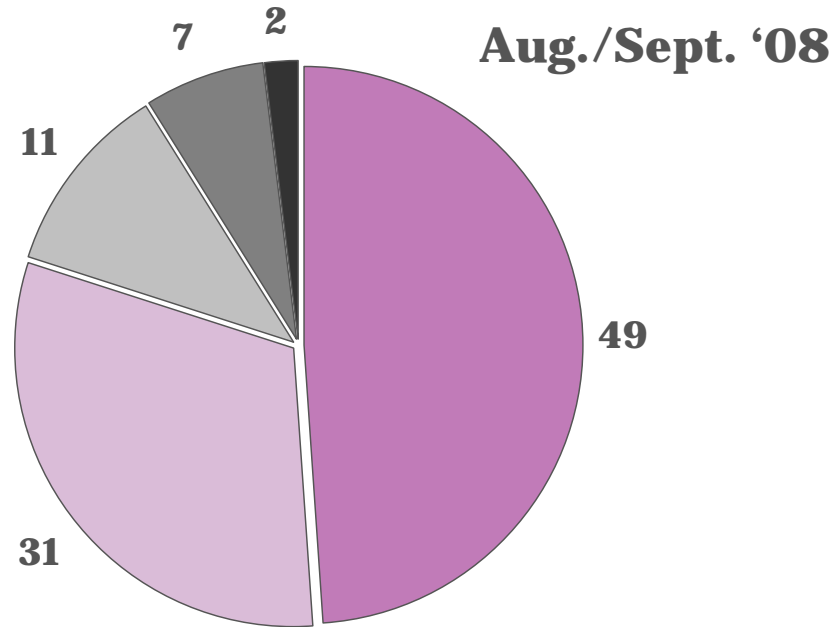
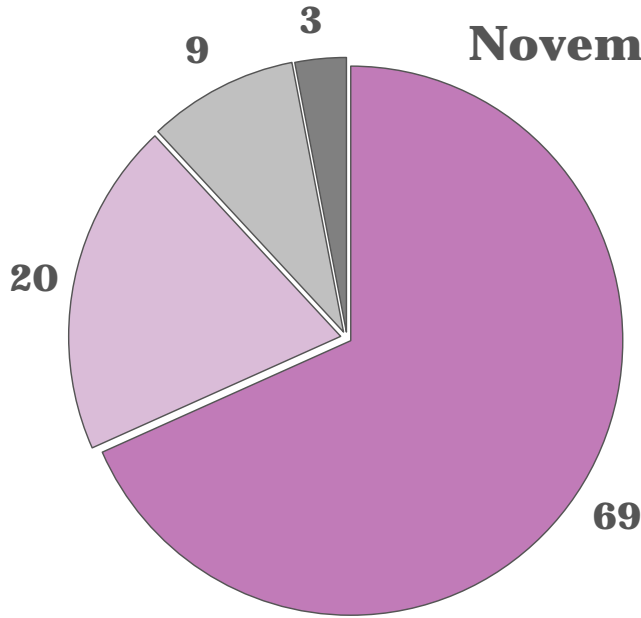
- ❑ Of those who said it is significantly or somewhat harder, roughly half said their view is based on what they are hearing from others while the rest said it's based on their company's experiences.
 - Executives in Ontario are more likely than others to say it's based on their experiences.

- ❑ Executives are more likely this quarter to say the end of the credit crunch is around the corner
 - The number saying it's easing off now or will in six months is up by a third
 - Executives are suggesting that access to credit will improve over the year.
 - The number who believe it will last 6 months or less however has risen since last quarter – and now stands at almost half.



How will the credit crunch affect companies?

“Some people say there is a credit crunch that is making it more difficult for companies to access financing today compared with two years ago. Would you say that it is significantly harder to access financing, somewhat harder, slightly harder or not at all harder?”



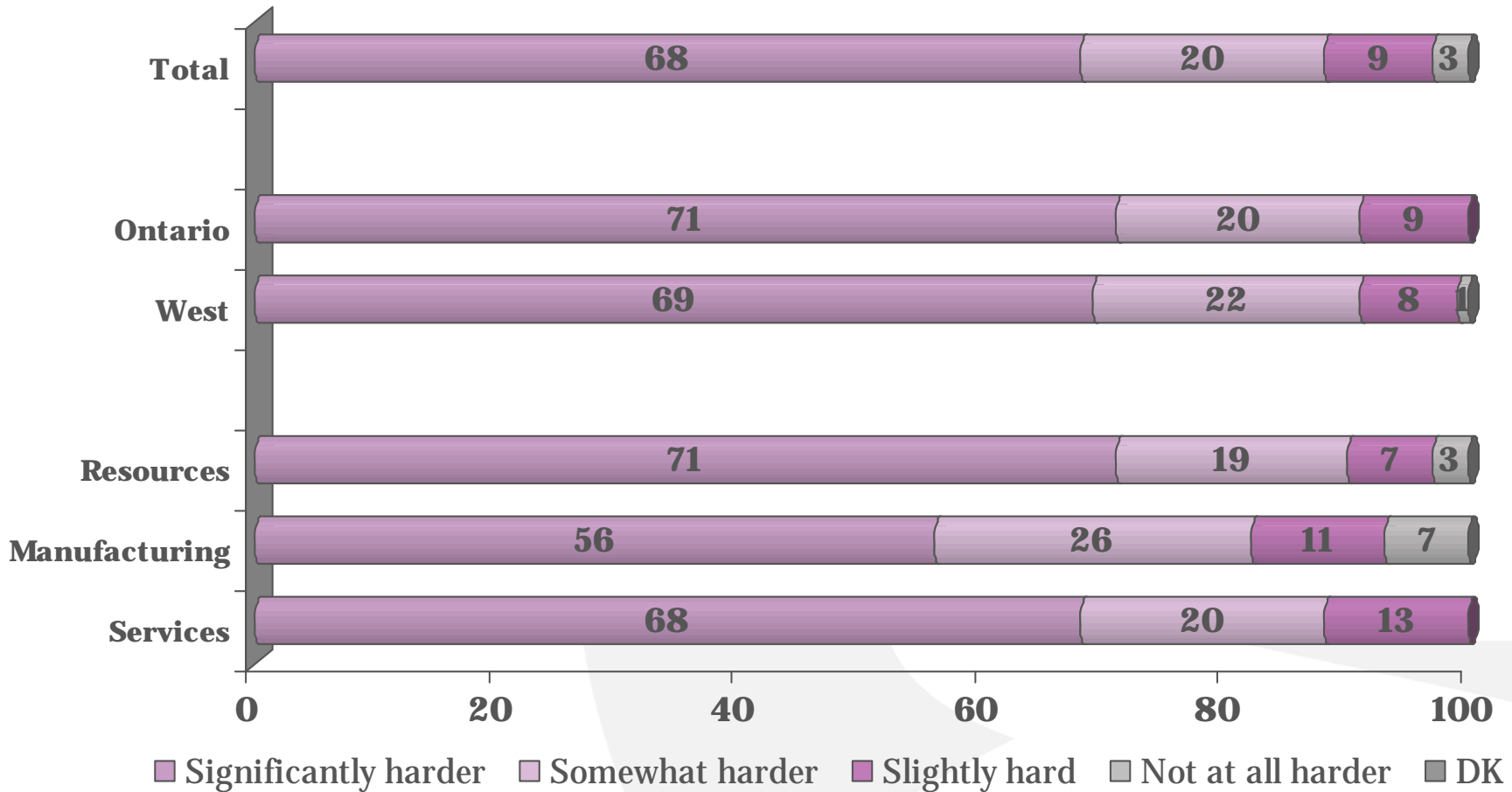
■ Significantly harder ■ Somewhat harder
■ Slightly harder ■ Not at all

■ Significantly harder ■ Somewhat harder
■ Slightly harder ■ Not at all
■ DK



Is the Credit Crunch making it harder to access financing?

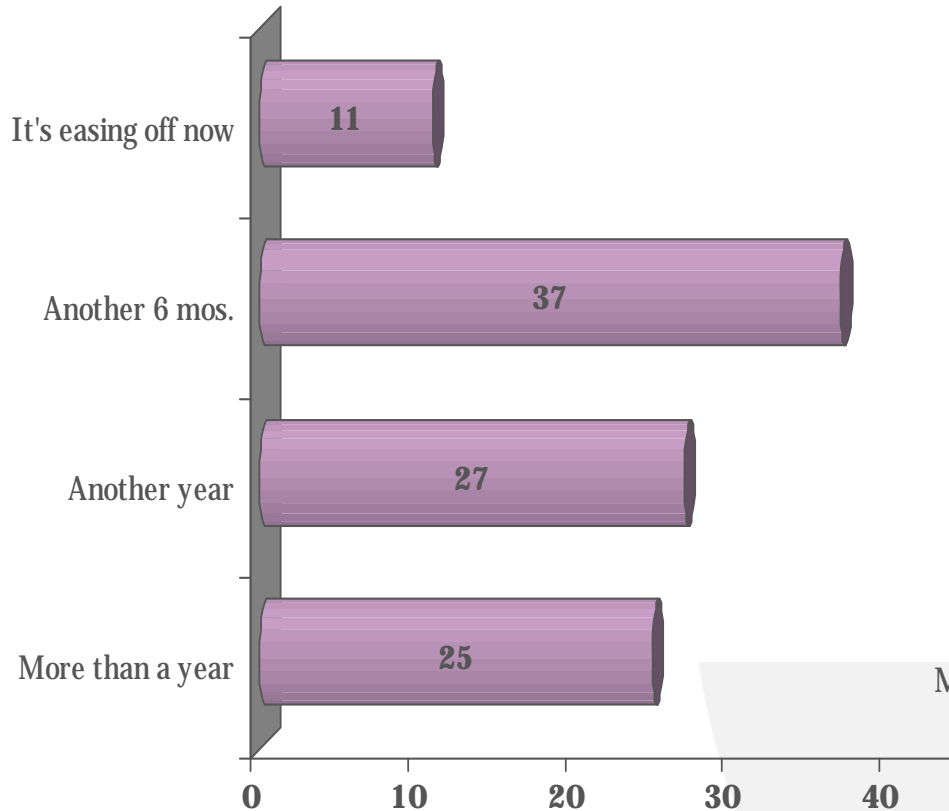
“Some people say there is a credit crunch that is making it more difficult for companies to access financing today compared with 2 years ago. Would you say that it is significantly harder to access financing, somewhat harder, slightly harder or not at all harder today than 2 years ago?”



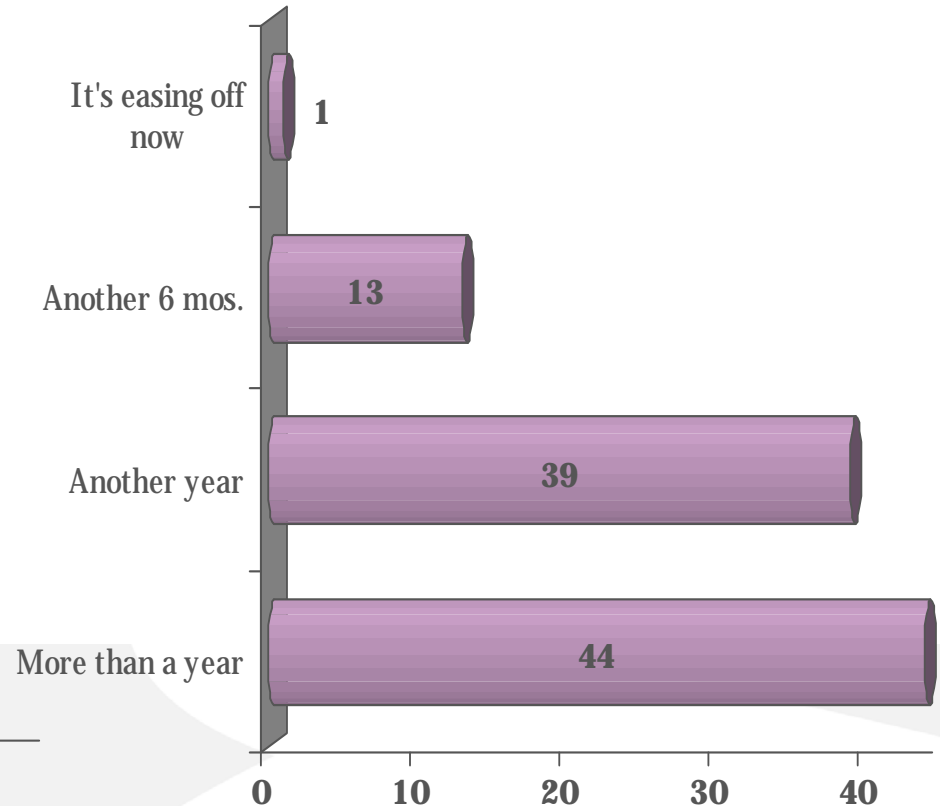


How much longer do you think the credit crunch will last?

November '08



Aug./Sep. '08

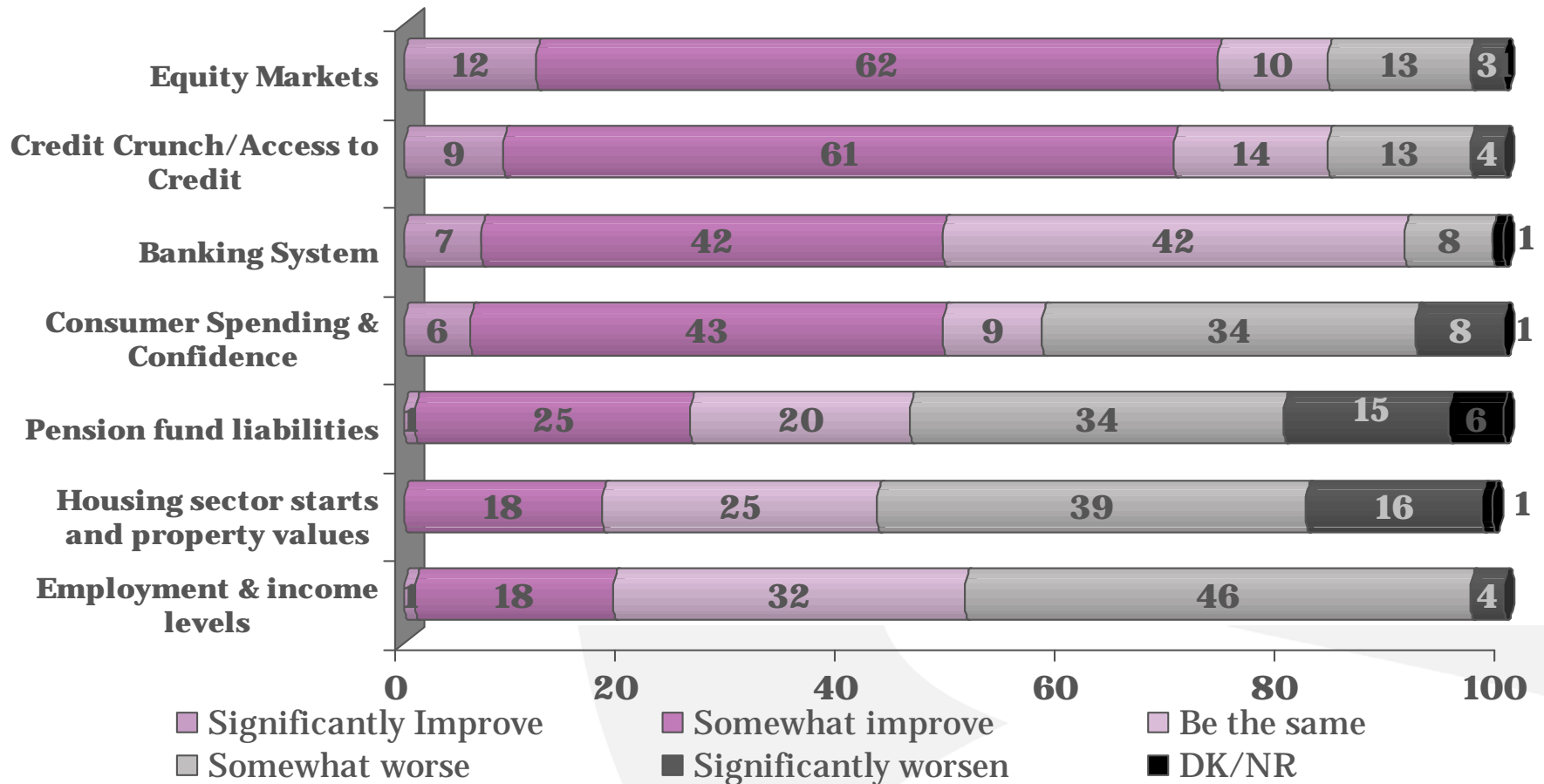




- ❑ Executives expect business conditions to improve but consumer and individual economic outlooks to worsen
 - Most think equity markets and access to credit will improve over the next year
 - Western execs are more bullish (or less bearish) about the markets than Ontario execs
 - Executives who predict a long turnaround for the economy are likewise more pessimistic about access to credit over the coming year
 - Roughly half expect conditions in the banking system to improve, while 42% expect they will stay the same
 - One area where they express serious concern is around pensions – most see fund liabilities as an area where conditions will worsen even if markets improve
 - 47% expect consumer confidence spending to improve while 43% expect it will worsen.
 - 56% expect the housing market to worsen – 25% expect it will stay the same.
 - 49% expect income and employment levels to worsen – 18% expect they will improve
 - Interestingly, younger executives (under 45) tend to be more pessimistic than older ones



Now I would like to ask your opinion on the outlook for specific economic and business indicators and sectors. Looking ahead to 12 months from now, I'd like you to tell me if you expect the outlook for each of these to significantly/somewhat improve; somewhat/significantly worsen or be the same 12 mos. from now.





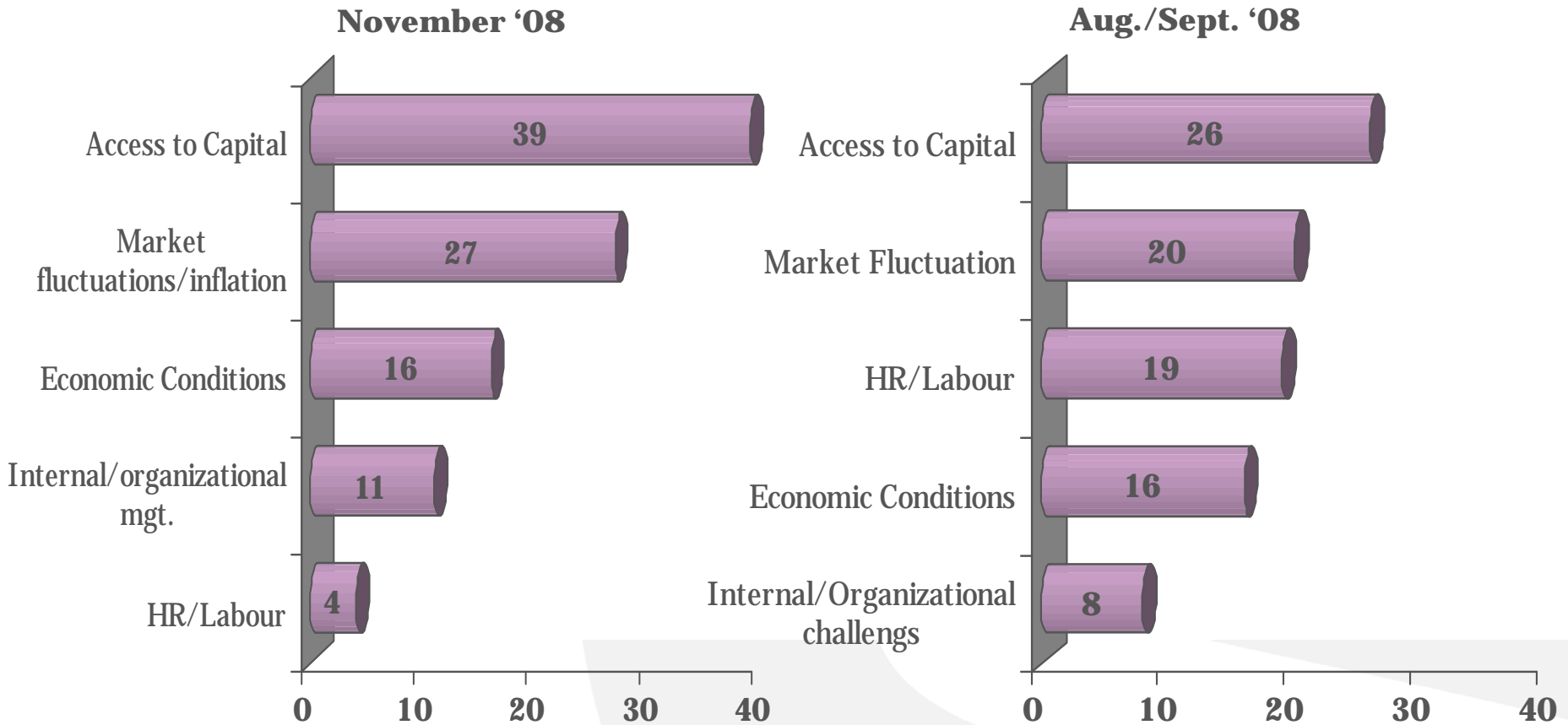
Issues facing Companies

- ❑ Access to capital is the most important issue, mentioned by 39% overall
- ❑ It is a significantly greater problem for small companies than for medium and large companies
- ❑ It is affecting the Resources sector more than the manufacturing and services sector. It's much less an issue for manufacturers, who are more concerned than other sectors with “economic conditions” overall.
- ❑ Human resources, a big issue in previous surveys, is no longer top of mind (mentioned by 16% last quarter, 4% this quarter). Last year it was the top issue for 24% of executives and their companies.



Challenges facing Company

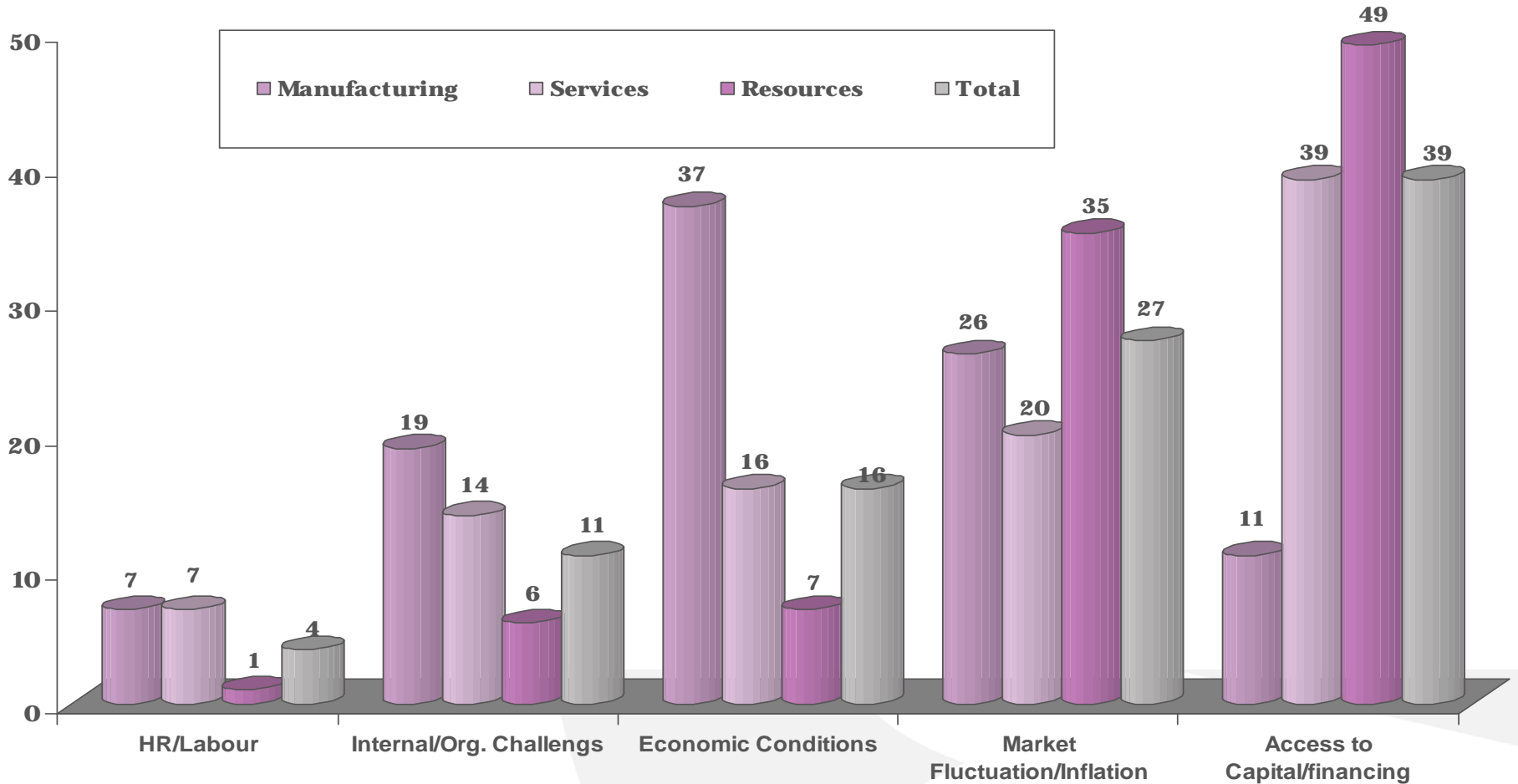
What is the biggest challenge facing your company right now? (open end)





Biggest Issue Facing Company: Sector

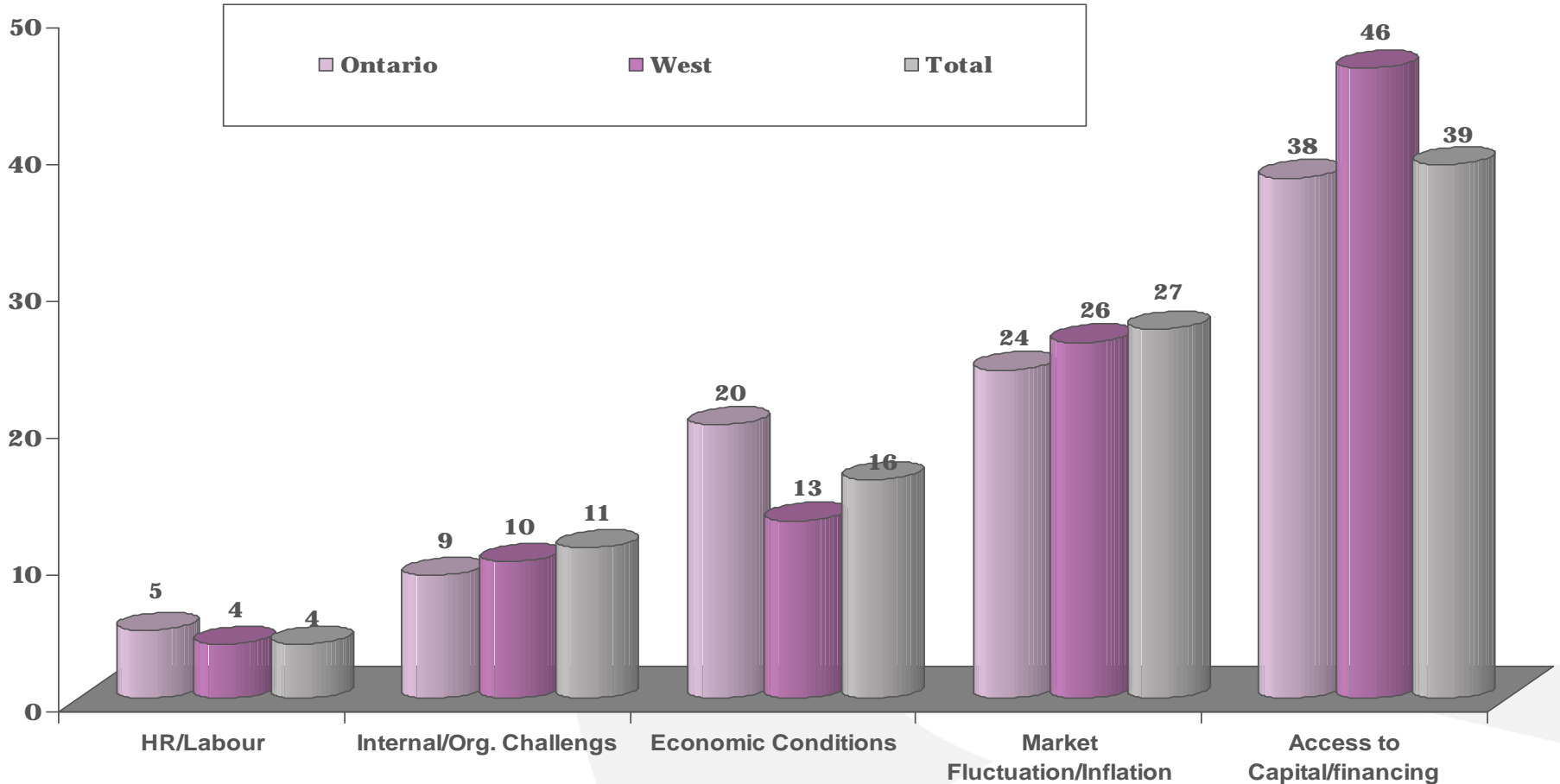
What is the biggest challenge facing your company right now?





Biggest Issue Facing Company: Region

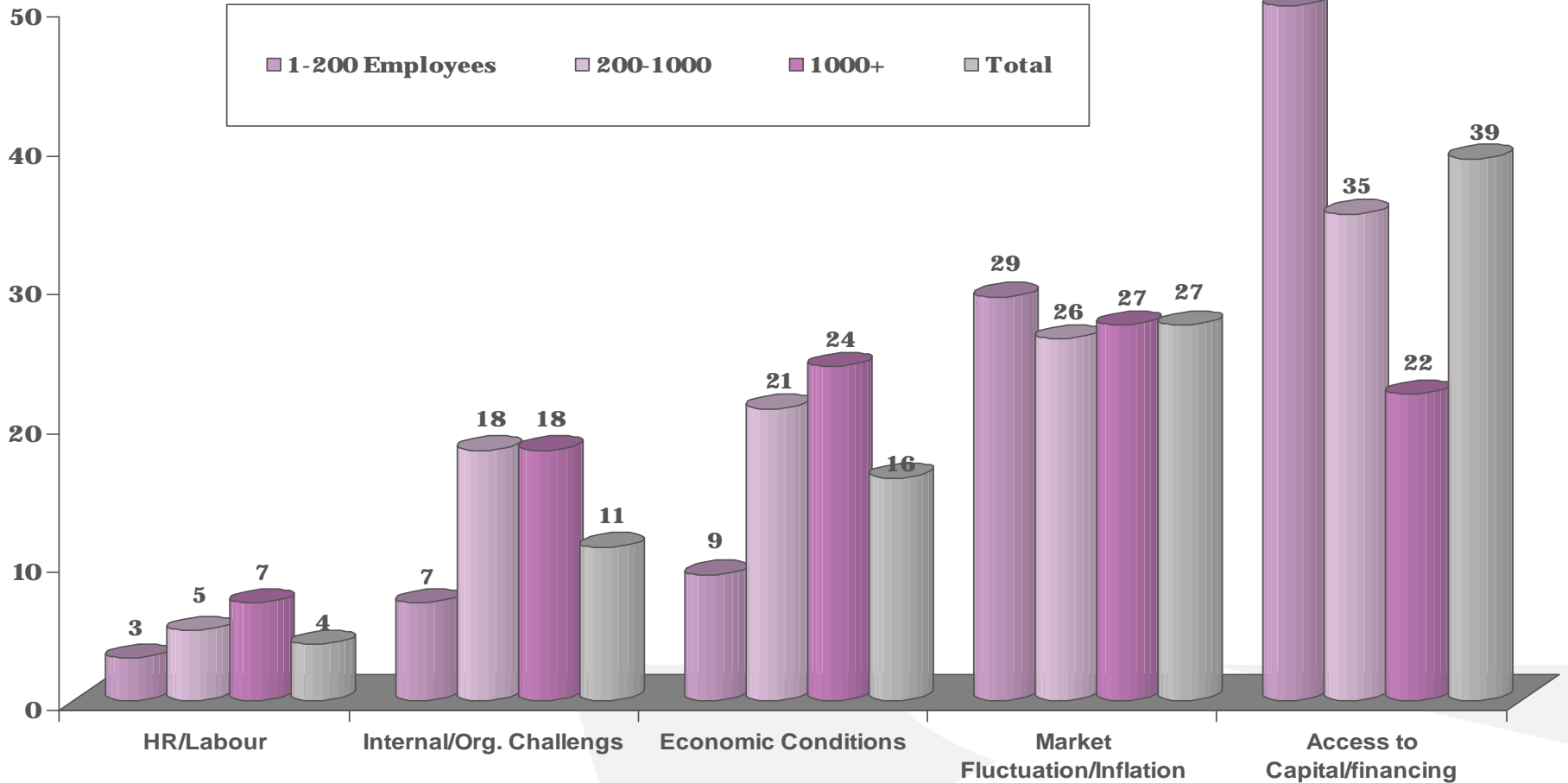
What is the biggest challenge facing your company right now?





Biggest Issue Facing Company: Co. Size

What is the biggest challenge facing your company right now?





- ❑ The vast majority say they are more likely now to consider cutting planned capital expenditures and operating expenses such as personnel
 - This includes a majority of those who expect their companies to grow this year

- ❑ Half of executives said conditions make it more likely they would consider acquisitions specifically to grow their businesses
 - Resources companies are more likely to say they would consider mergers and growing the business through acquisitions in light of current conditions, as are companies who are looking to increase their workforce over the coming year
 - Mid-size companies are less likely to say they will seek to grow the business through acquisitions, as are those who expect their companies to see negative growth this year
 - Small companies are far more likely than medium and large size companies to say they are more likely to consider mergers because of current conditions

- ❑ Just over half said they're more likely now to consider selling non-core assets.
 - Smaller companies are somewhat more likely than medium and large firms to say so, as are executives who are predicting the credit crunch will last a year or more

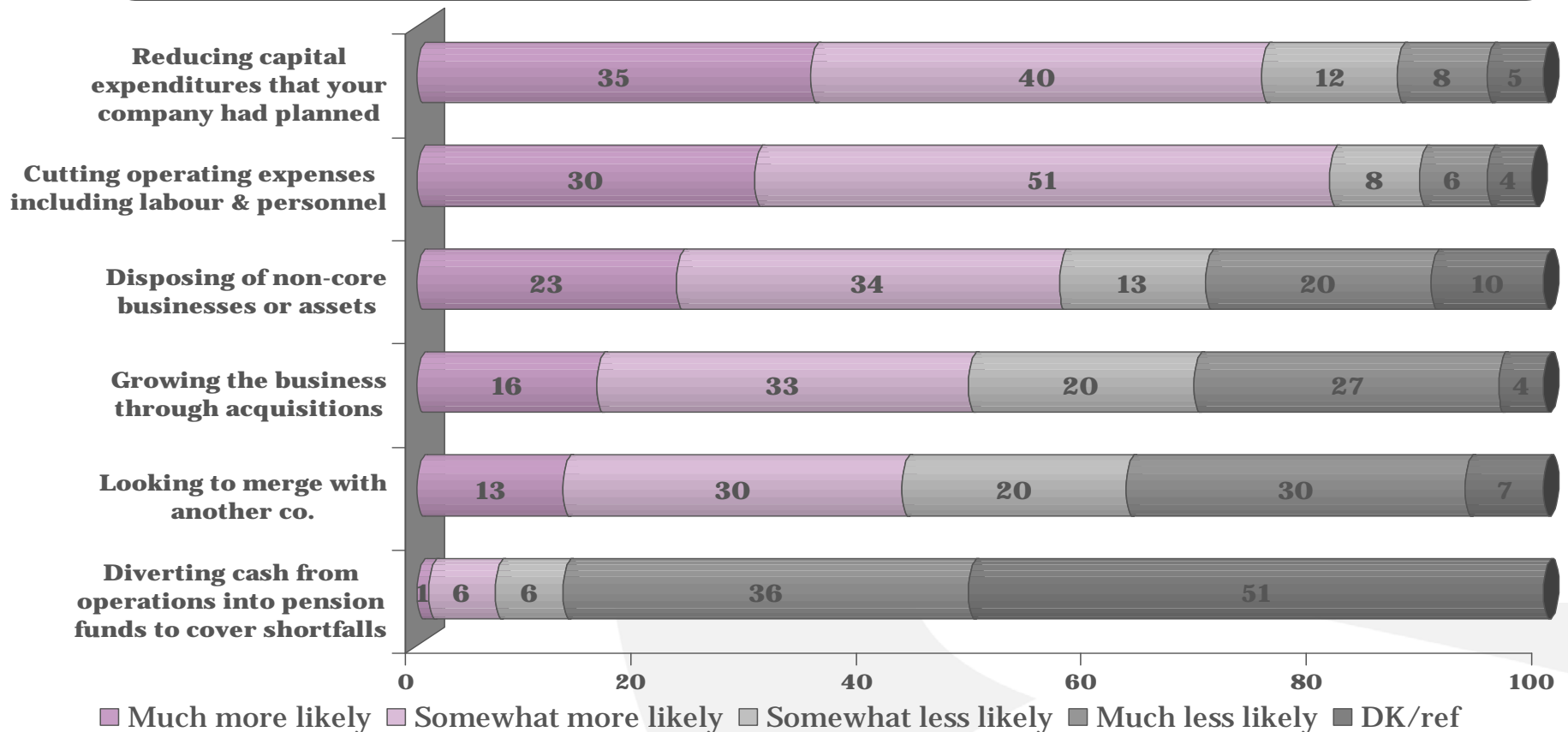


- ❑ 75% of executives said they're somewhat or much more likely now to reduce planned capital expenditures.
 - Smaller companies and resources sector companies are most likely to say so, as are companies that are reducing personnel

- ❑ Half did not have a view as to whether or not they would be more likely to divert cash to cover pension shortfalls – only 7% said they're more likely under current conditions to do so.
 - Small companies were less likely to express a view on the matter - those who agree are essentially the largest companies, of 1000 plus employees
 - Most expect that the pension situation of companies will worsen or stay the same over the next year.



“I’m going to list a number of things companies are considering in light of current market and credit conditions. For each please tell me if current conditions have made it much more likely, somewhat more likely, somewhat less likely or much less likely for your company to consider them.”



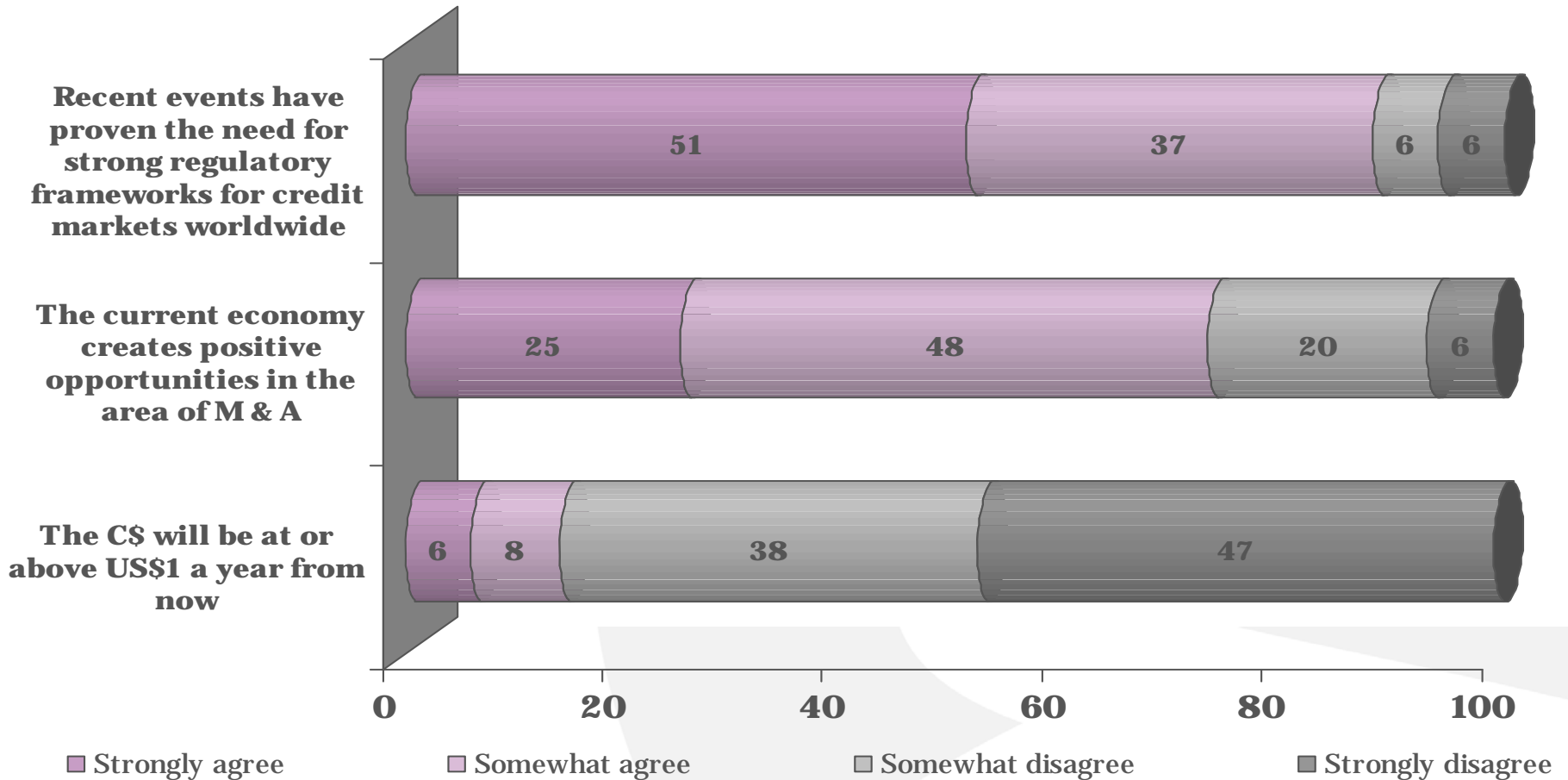


- ❑ The vast majority said recent events prove the need for stronger global regulatory frameworks around credit markets.
 - Executives in the West and the resources sector agree, though less strongly
 - Those with large companies, of over 1000 workers, agree strongly – they are almost unanimous in this respect
- ❑ While most executives agree the current economy creates positive opportunities for them in terms of M & A activity, executives in the West are significantly more likely to agree
 - Executives with large companies are somewhat more likely to agree
 - Those companies that say they are increasing their workforce are significantly more likely to agree
- ❑ A year ago at this time 65% agreed that the Canadian dollar would be above \$1 US in a year's time. In this survey, very few executives think the loonie will return to a value at or above \$1US in twelve months.



A Changing Economy

I'm going to read a number of statements some people might make about the economy and their businesses. Please indicate whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each statement as it applies to your own company.

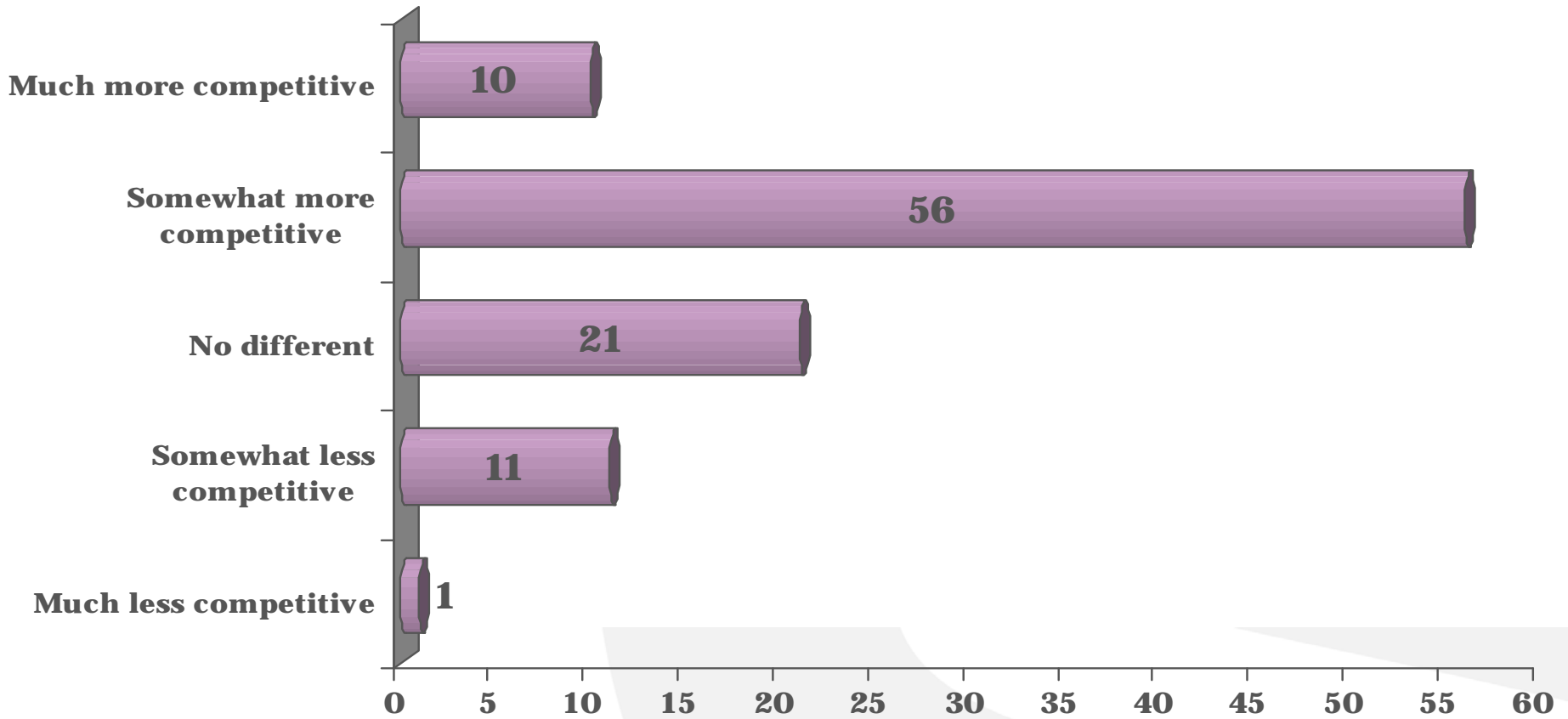




- ❑ Most executives believe Canada will come out of this economic downturn in a more competitive position, but only somewhat
 - A third say Canada will emerge the same or less competitive
 - Those that are least likely to say Canada will be more competitive are those executives who predict the credit crunch will last a year or more



Thinking of current Canadian and global economic and business conditions, how competitive would you expect the Canadian economy to be when global and national economies emerge from the current economic downturn?



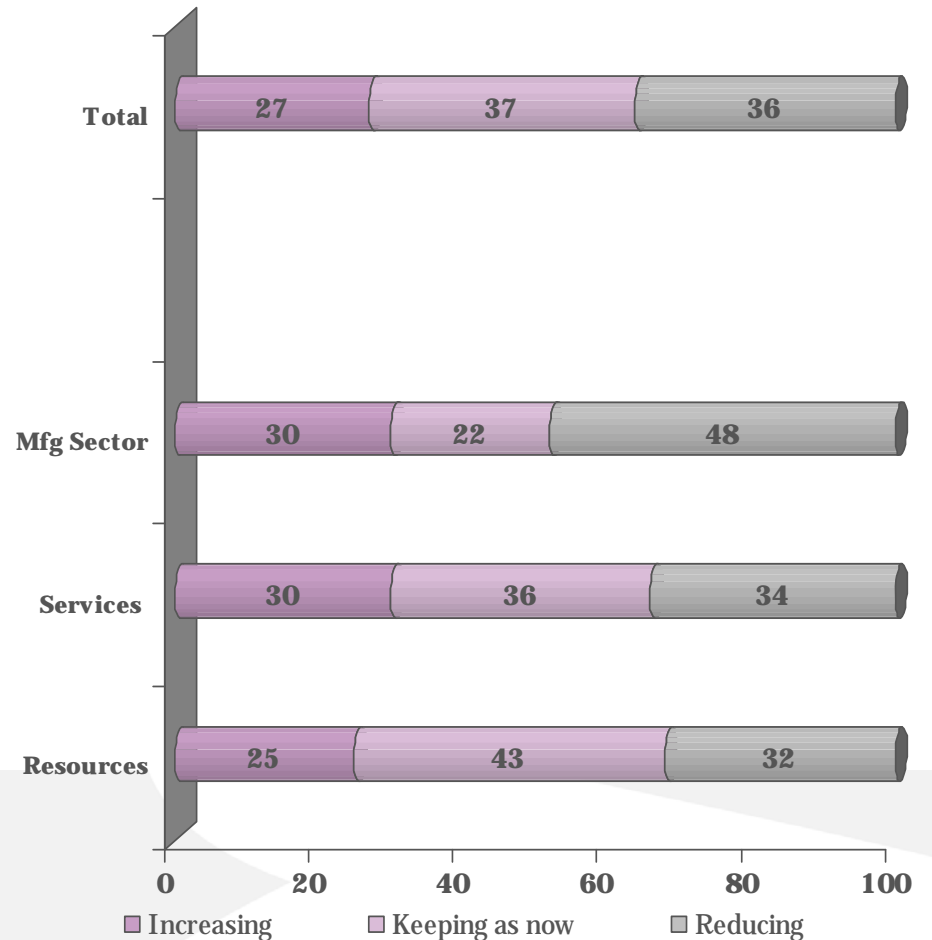
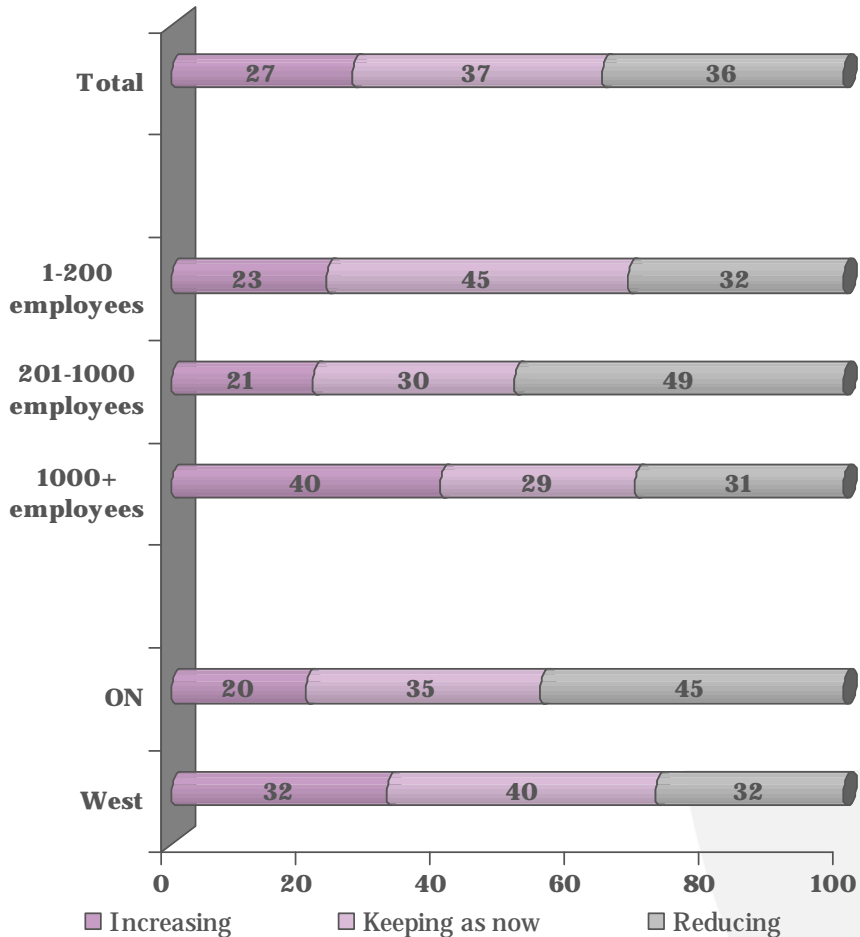


- ❑ On balance, companies will be reducing their workforce:
 - 4% said they'd be significantly increasing staffing and employment levels
 - 23% said they'd be slightly increasing staff and employment
 - 34% said they'd be slightly reducing
 - 2% said they'd be significantly reducing
- ❑ Based on responses from the C-suite there will be substantial job losses in Ontario
 - Executives there are two and half times more likely to signal they will be cutting jobs, rather than hiring – and are significantly more likely than Western executives to say they'll be reducing staff and employment levels
- ❑ Large companies may in fact be growing staffing levels
 - Large companies with over 1000 employees are somewhat more likely than smaller companies to say they'd be increasing personnel. Companies with less than 1000 employees are more likely to say they'd be cutting rather than hiring



Employment Levels

“Thinking of your company’s workforce over the next year, will you be: significantly increasing overall staffing & employment levels; slightly increasing overall staffing & employment levels; keeping staffing & employment levels where they are now; slightly reducing overall staffing & employment levels or significantly reducing overall staffing & employment levels”?



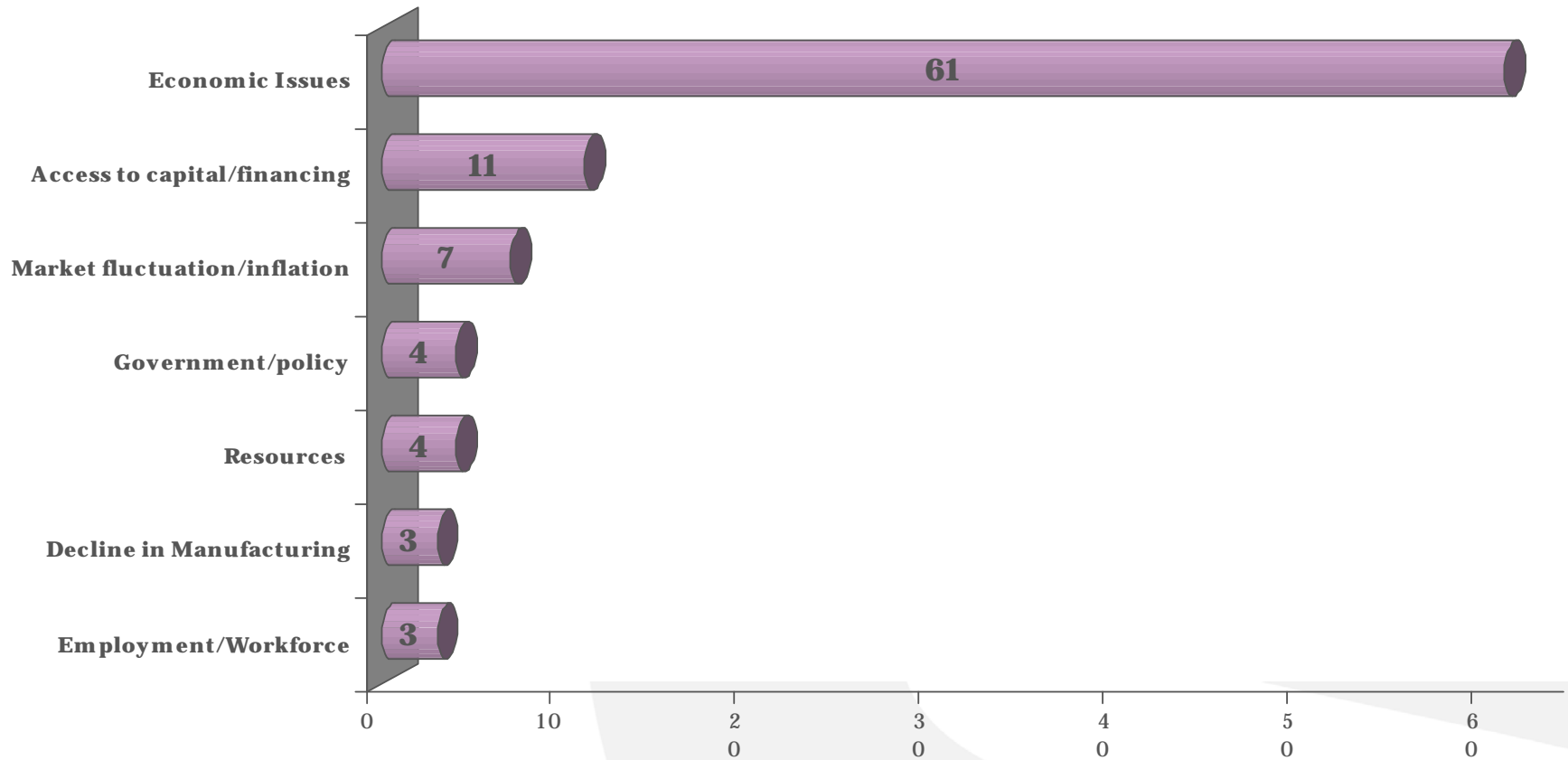


- ❑ The economy and access to credit are the predominant concerns in the minds of Executives
 - Specific policy issues such as labour or the environment no longer figure
- ❑ Executives are prepared to accept serious measures to deal with the economy.
 - They will accept a deficit if it means helping to turn the economy around and while most reject the idea, 40% are prepared to contemplate government involvement in the banks to ease credit
- ❑ Executives are most supportive though of corporate tax cuts as a response to the downturn
 - Support is higher among those whose businesses are growing, compared to those who expect their companies to see negative growth
- ❑ A majority support increased infrastructure spending, even if it means going into deficit
 - Executives in Ontario are especially supportive of infrastructure spending
 - a majority thought interest rate cuts would be helpful or very helpful
 - Companies that are cutting personnel are more likely to agree with this
- ❑ There is medium to positive support for plant retooling and labour retraining as a response to the economic downturn.
 - There is less support for this among Western executives



Most Important Issue Facing Canada

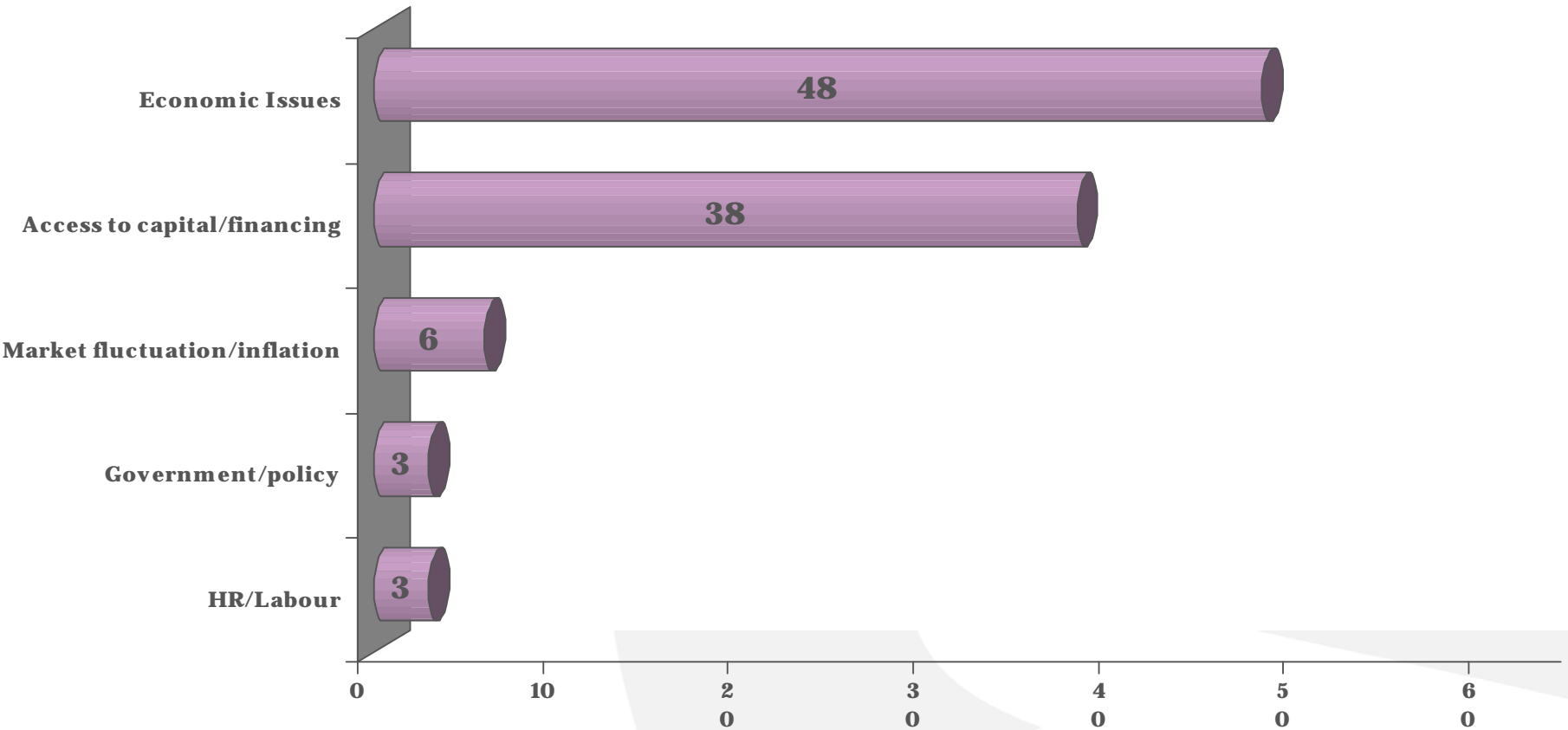
What would you say is the most important challenge facing Canada right now?





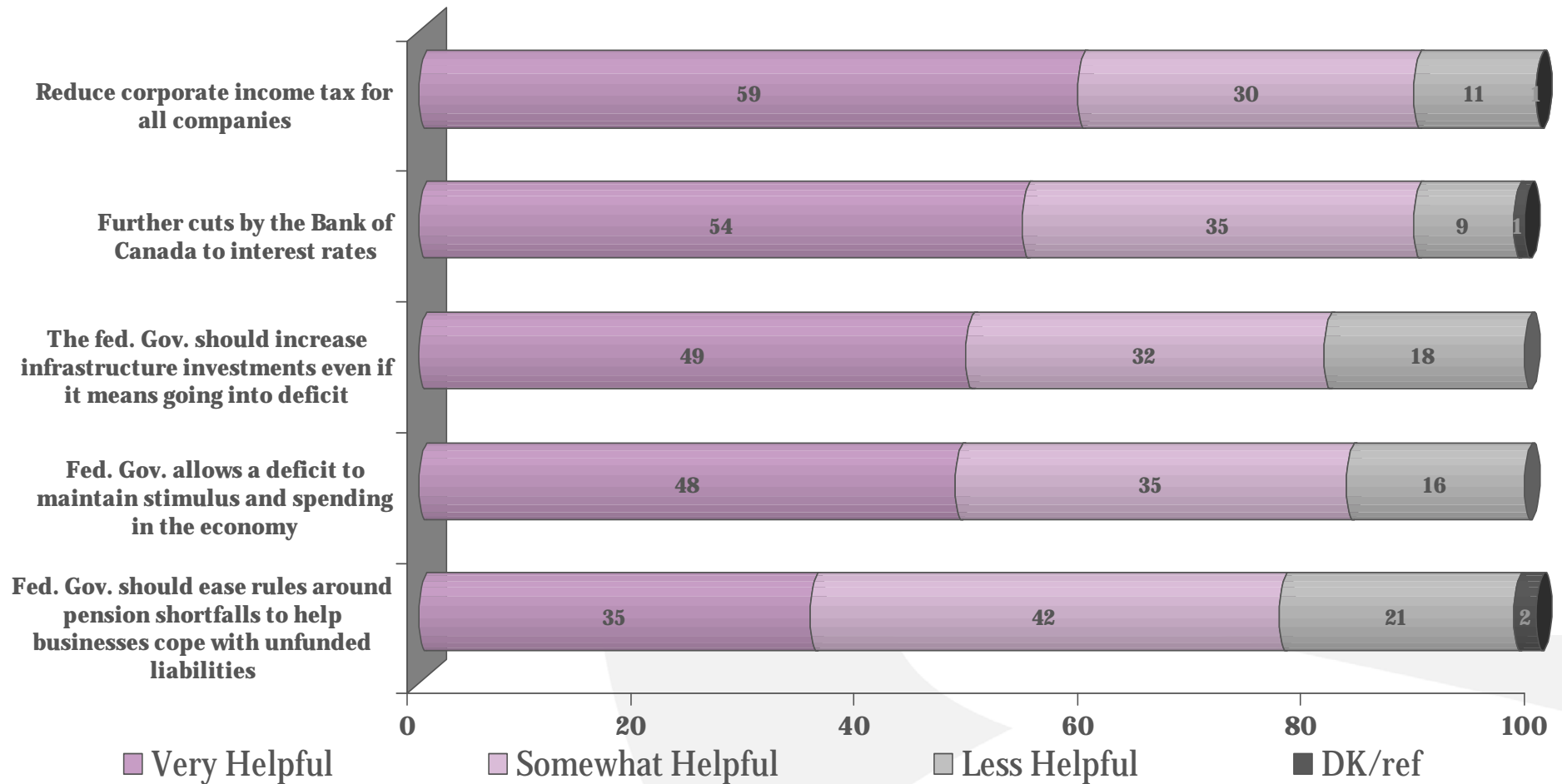
Most Important Issue Facing Businesses

What would you say is the most important challenge facing Canadian businesses today?



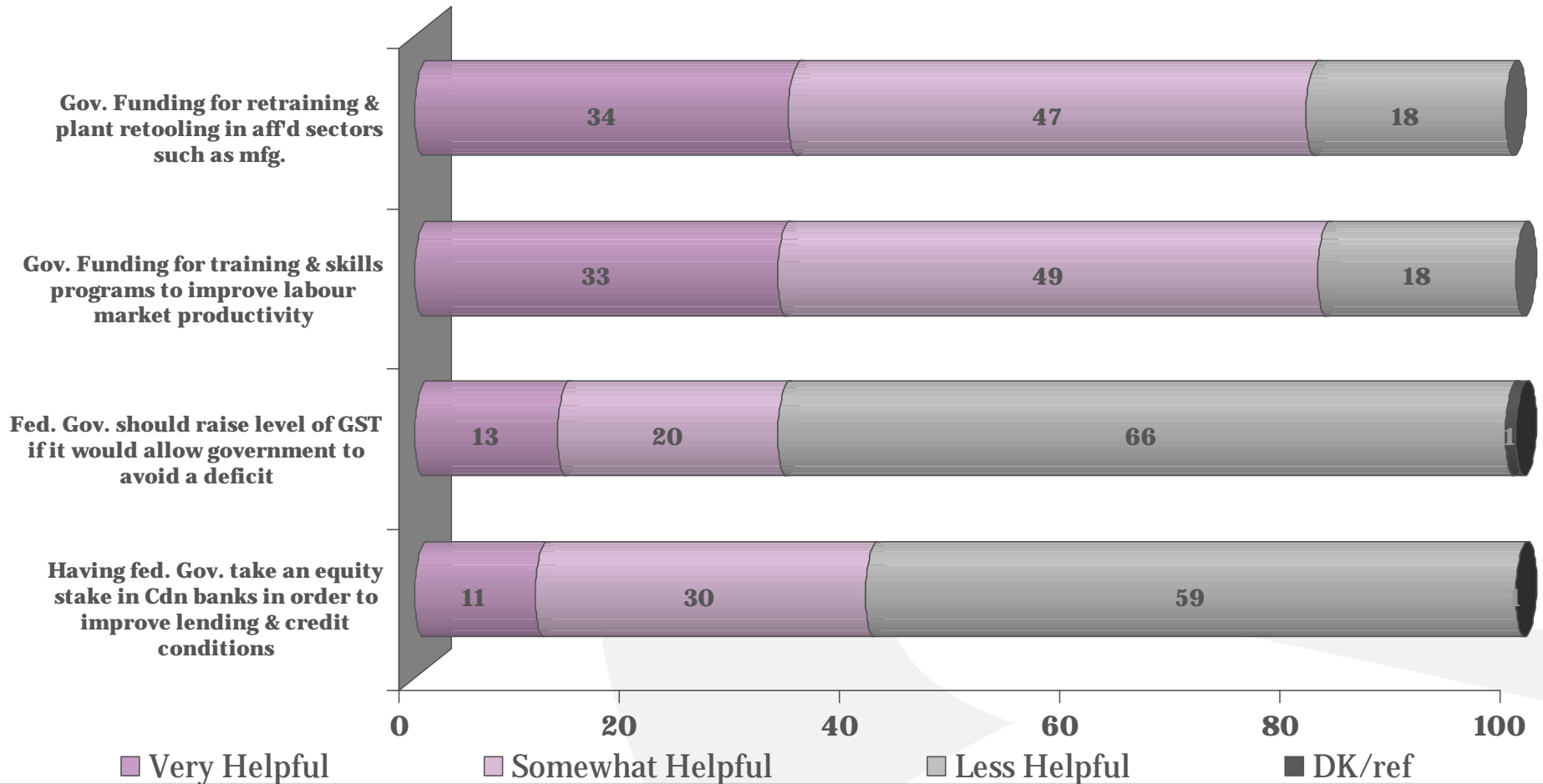


“I am going to list some policy initiatives that have been put forward and ask you to tell me for each how helpful they would be to keep Canada out of recession or increase economic growth. On a scale of one to nine where one is not at all helpful and nine is extremely helpful:”





“I am going to list some policy initiatives that have been put forward and ask you to tell me for each how helpful they would be to keep Canada out of recession or increase economic growth. On a scale of one to nine where one is not at all helpful and nine is extremely helpful:”





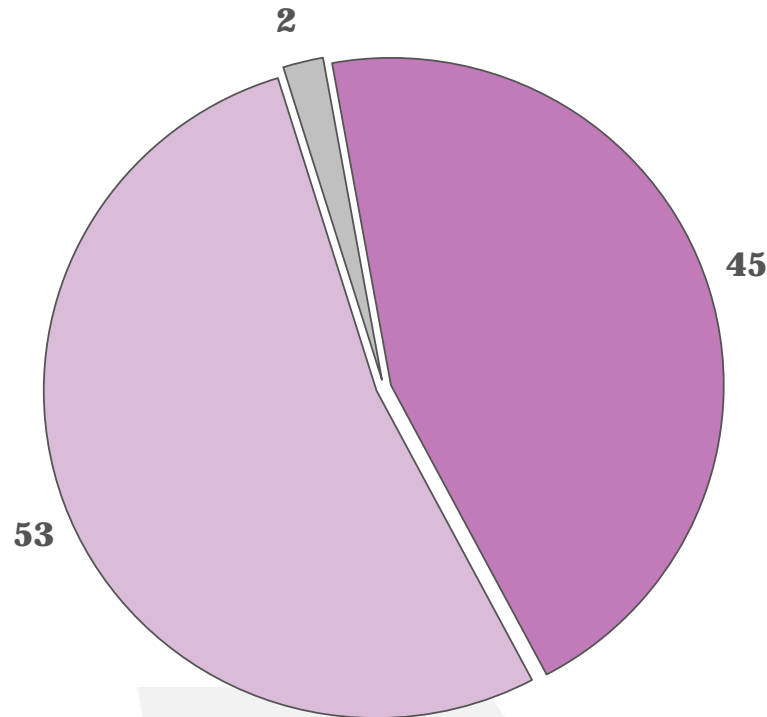
- ❑ Finance Minister Flaherty's reputation has recovered somewhat, following his efforts to respond to the economic fallout here at home with mortgages and abroad meeting G8 counterparts in Washington
 - Favourability up 12% to 42% from 30% last quarter but still not as positive as it was in March of this year. 58% have confidence in his ability to manage the economy – last quarter that number stood at 50%.
 - However this question was asked before the economic update – executives we went back to and asked about that are split on whether it should have contained more stimulus

- ❑ Only 23% of executives agree that “the economic policies of the government at this time warrant the defeat of the Government in Parliament.” 14% somewhat disagree with this statement and 56% strongly disagree with this.

- ❑ A strong majority think the proposed coalition will have a negative effect on economic policy and they would be even less supportive of the coalition if Stephane Dion led it.



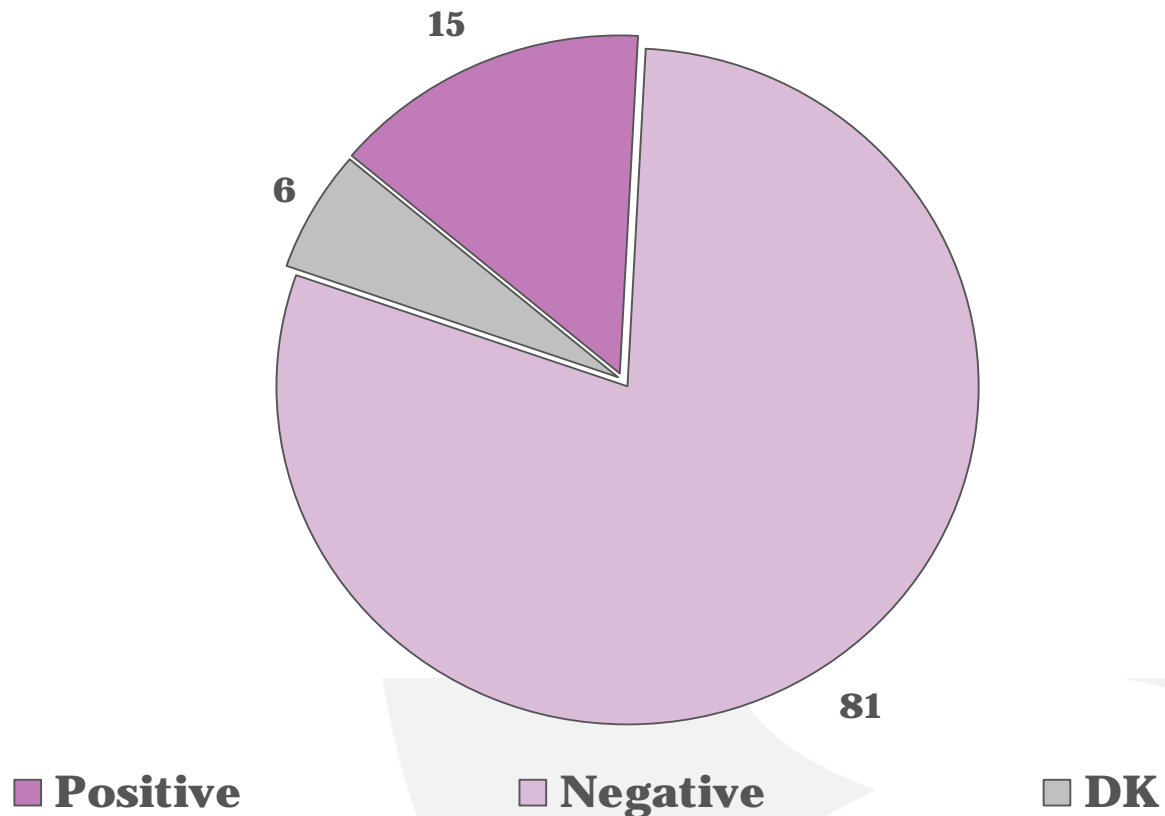
“Some people say that the Conservative economic update introduced last week was inadequate to deal with the economic crisis and should have included immediate fiscal stimulus to spur the economy. Others say that it was appropriate to engage in belt tightening and take some time to understand the needs of the economy before engaging in new spending. Which view is closer to your own?” (N=89)



■ Inadequate Stimulus **■ Appropriate, belt tightening** **■ DK**



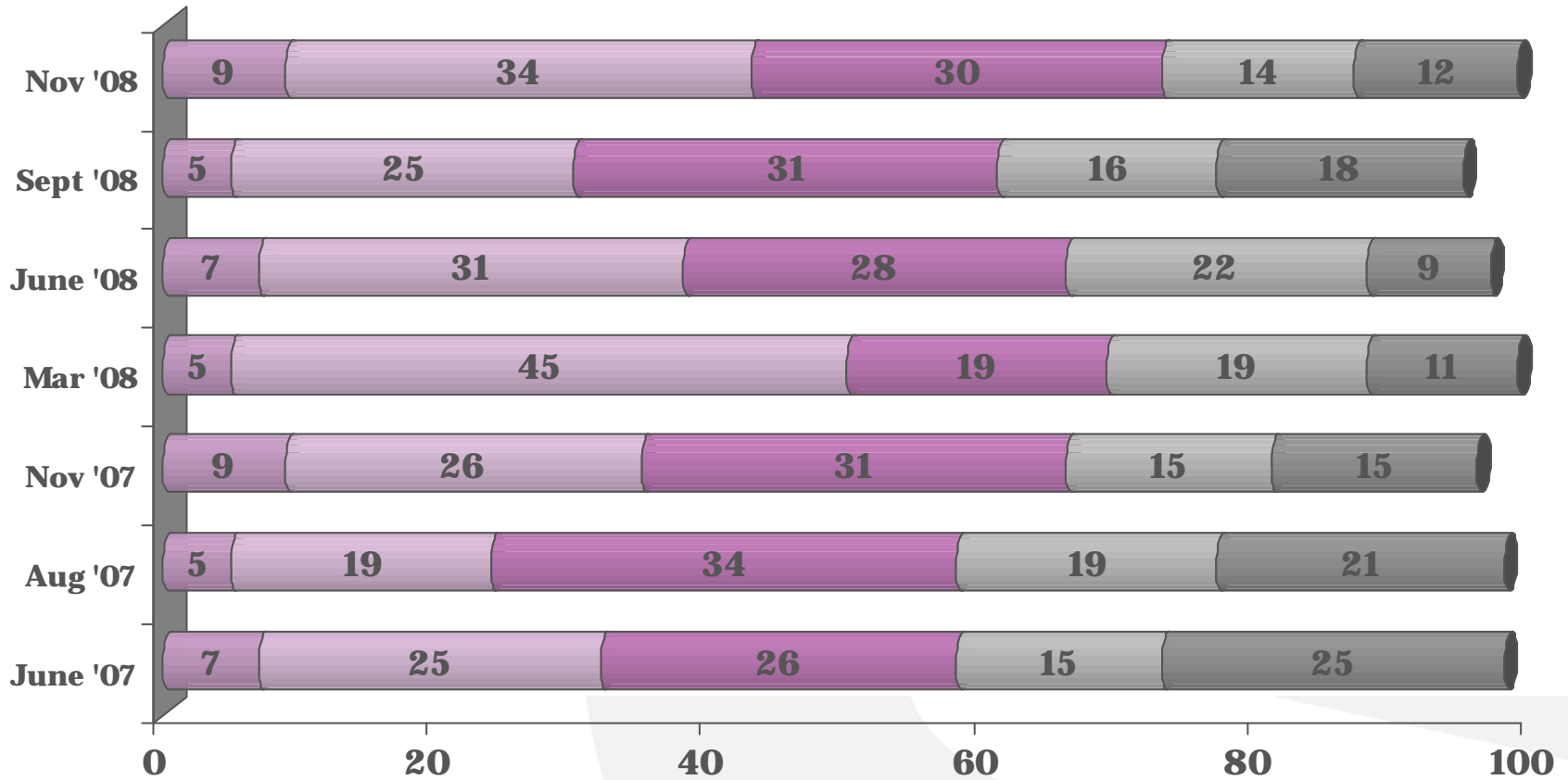
“Do you think a coalition government, led by the Liberals, including New Democrats in the cabinet and supported by the Bloc Quebecois would have a positive or a negative effect on economic policy in this country?” (N=89)





Impressions of Minister Flaherty

How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?

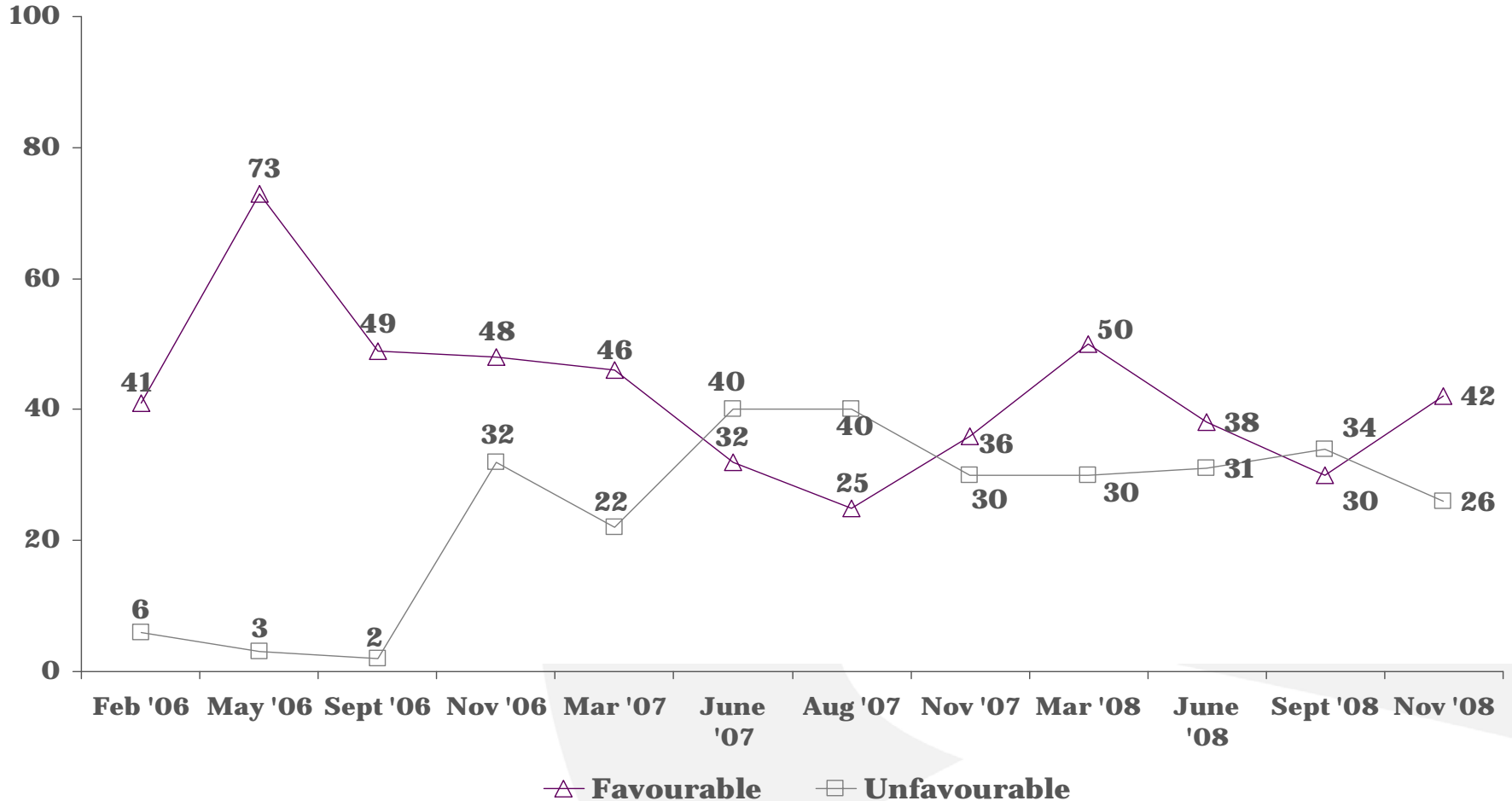


Very favourable Somewhat favourable Neither Somewhat unfavourable Very unfavourable



Impressions of Minister Flaherty

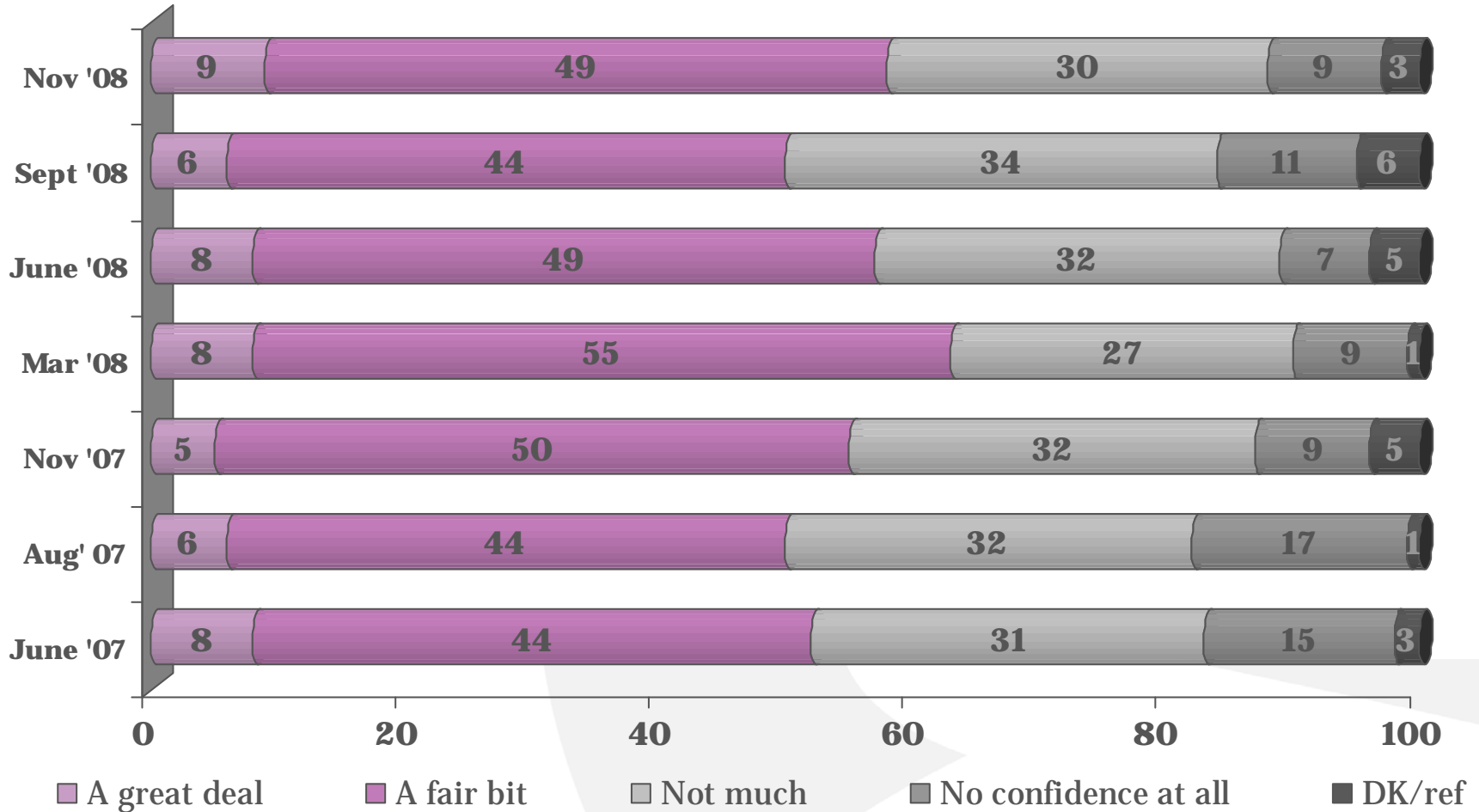
How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?





Confidence in Minister Flaherty

How much confidence do you have in Finance Minister Flaherty's management of the economy?





Confidence in Minister Flaherty

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