

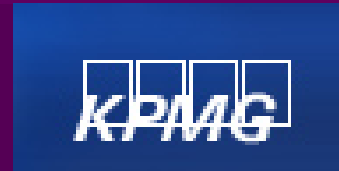


the gandalf group

C-Suite Survey: The Federal Budget and the Economic Outlook

February 2009

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- ❑ Telephone interviews among 150 C-Suite executives from the ROB 1000 list of companies
- ❑ Conducted between January 29th and February 12th, 2009
- ❑ This sample yields a margin of error of +/- 7.38% 19 times out of 20.



- ❑ Opinion on the economy has become more negative, with more saying we are facing a prolonged downturn.
- ❑ More are ruling out that the economy will grow this year coming year and more are saying that Canada will go into a strong decline.
- ❑ Those predicting a strong decline now outnumber those predicting growth
- ❑ Measures taken to date by companies themselves to weather the economic downturn won't be enough
- ❑ Not only is there no improvement in accessing credit, most said the situation has gotten worse in the last three months.
- ❑ Companies have put off long-term growth plans and slashed capital spending to focus on short term imperatives
- ❑ Majority now concerned about their business's survival, despite the fact respondents tend to be more confident about their own company's prospects than for the economy as a whole



- ❑ Restoring order to the financial system and accessing credit remain critical concerns for most executives and the recent federal Budget didn't really respond to their concerns
- ❑ Most executives had a somewhat favourable impression of the budget – but those who are hurting or who are most concerned about the economic situation disliked it.
- ❑ While executives said some measures will help stimulate the economy they said it did not address the critical priorities
- ❑ They were supportive of budget measures that address access to credit but have a poor view of the overall tax cuts as well as the deficits it projects for the next four years.
- ❑ Budget did nothing to bolster confidence in Flaherty

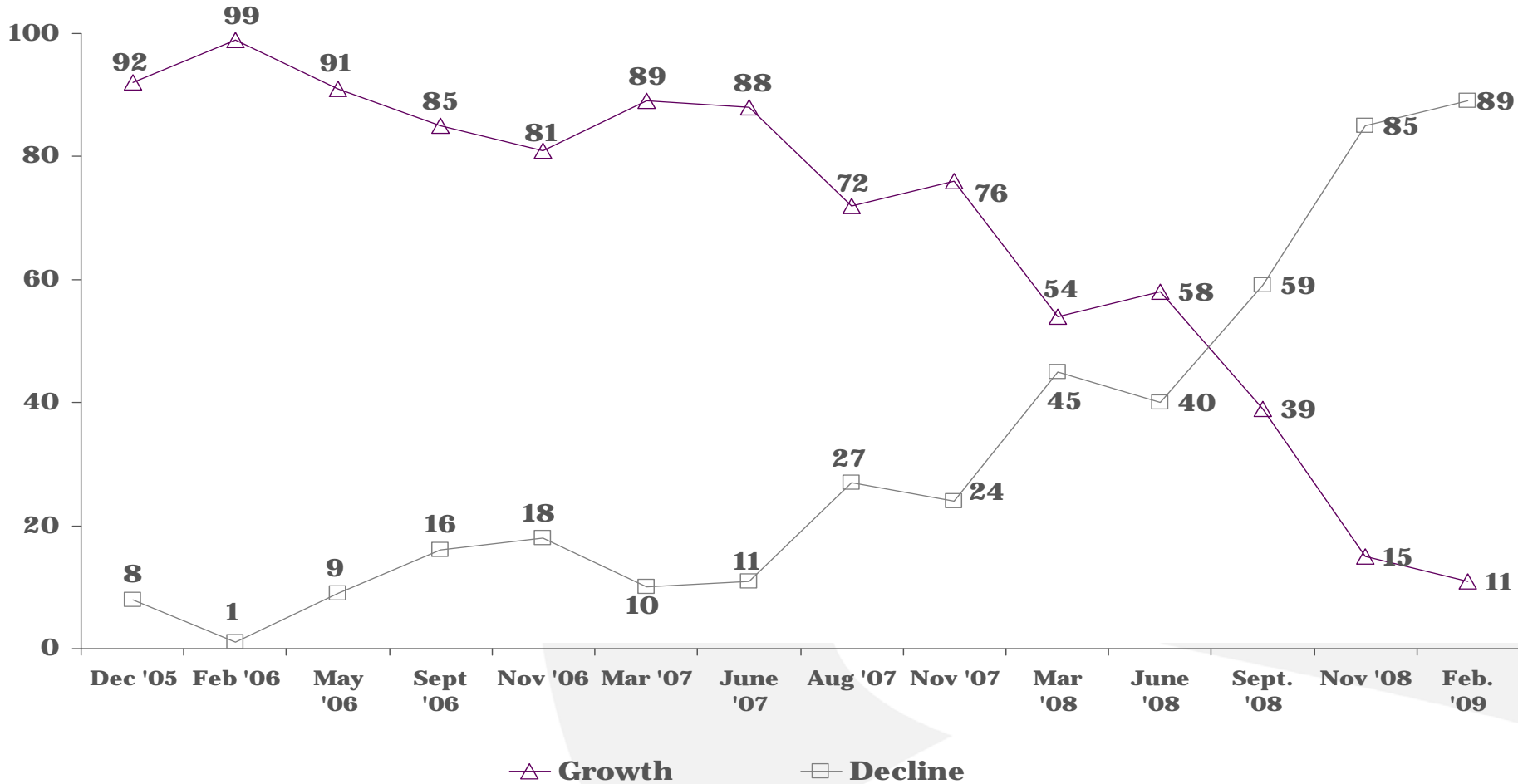


- ❑ In December only 15% predicted growth for the Canadian economy over the next 12 mos. – that’s down to 11%.
- ❑ 24% said the economy will experience “strong decline” – last quarter 15% said so
- ❑ Those who say the economy is growing at the current time dropped from 13% to 2%.
- ❑ Turnaround predictions are worse
 - Almost all say it will take at least six months before the economy starts to turn around.
 - 50% say it will be longer than a year for the economy to turn round – last quarter 44% said so.



Expectations: Canadian Economy

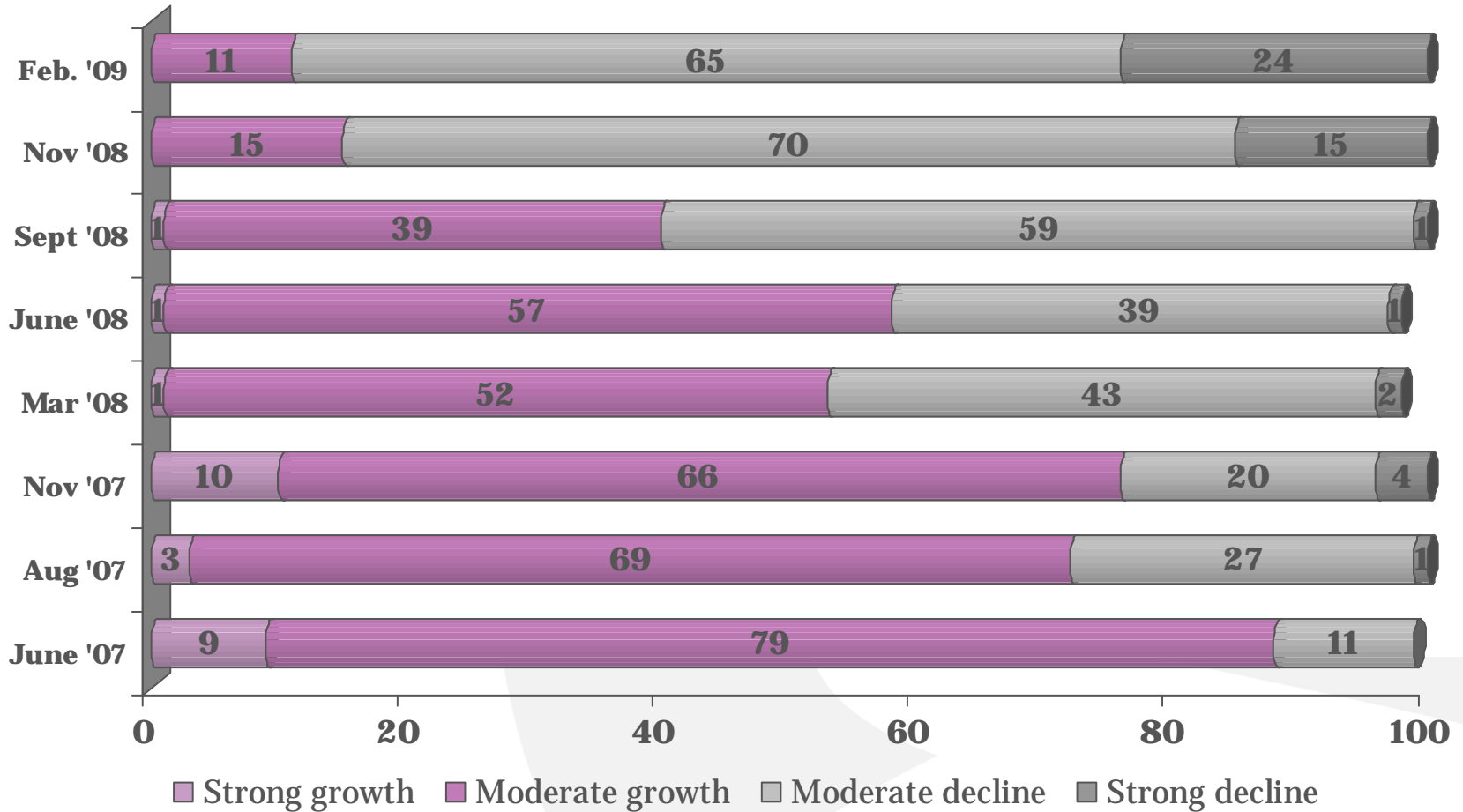
What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Outlook: Canadian Economy

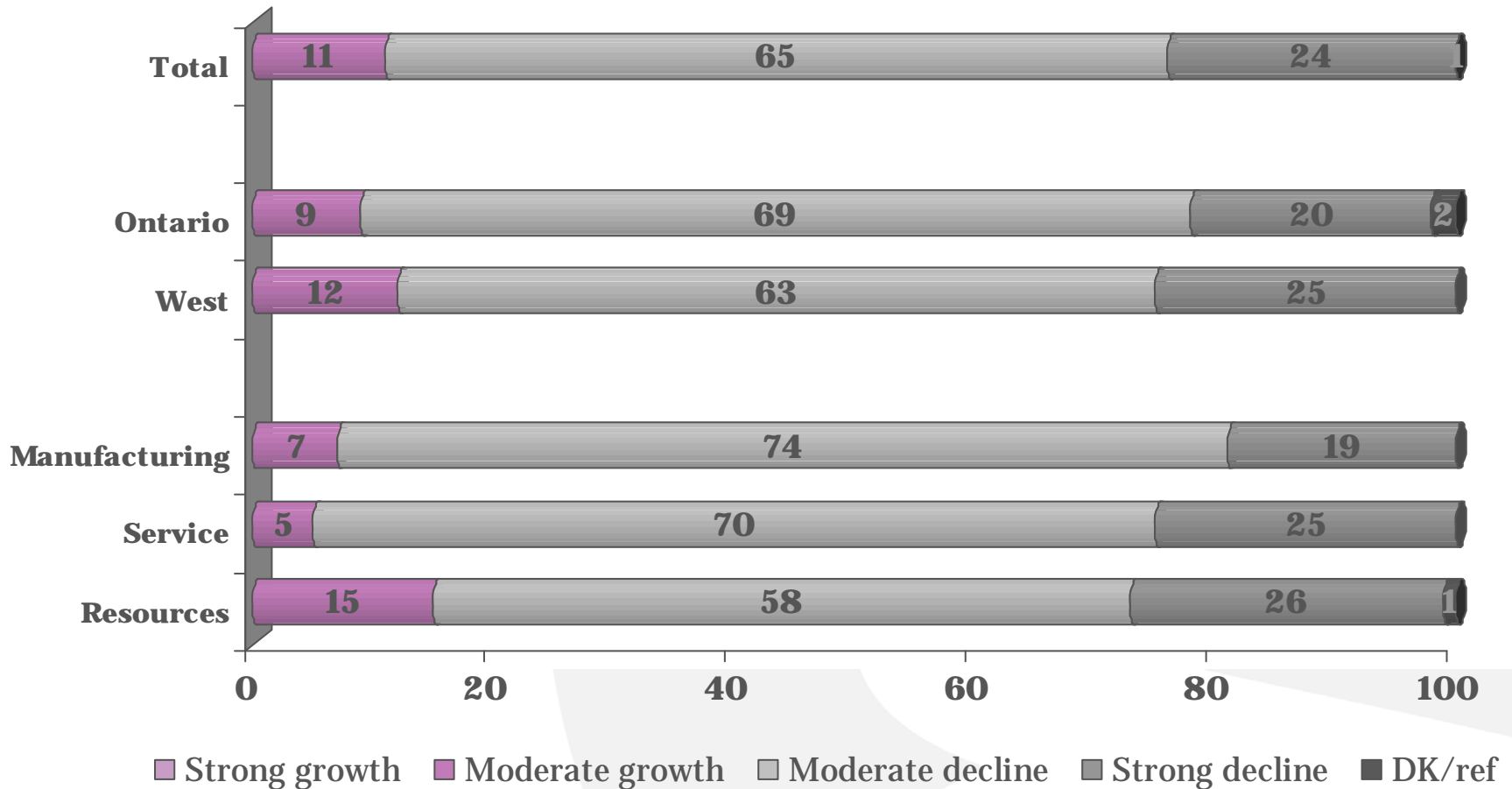
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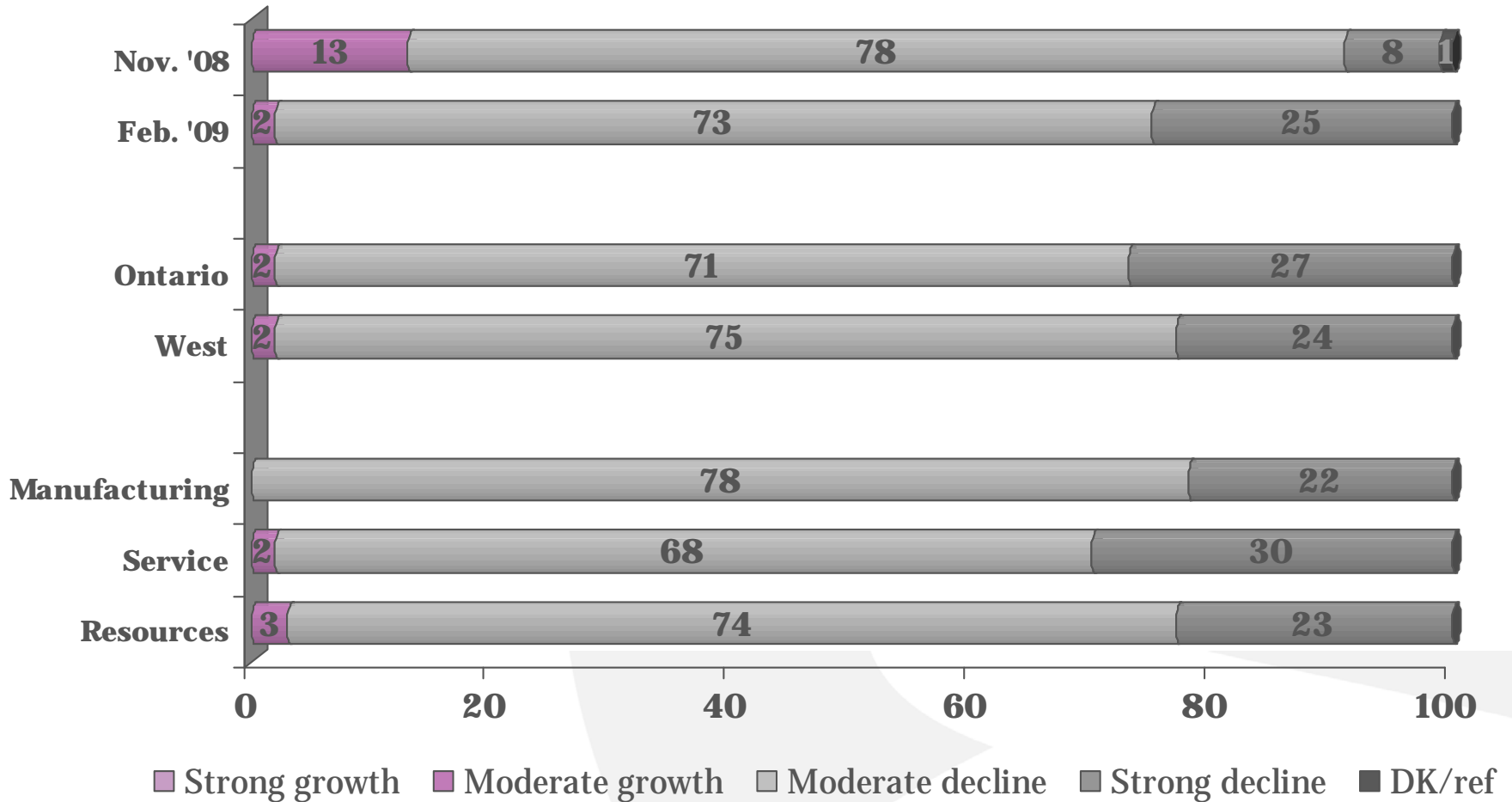
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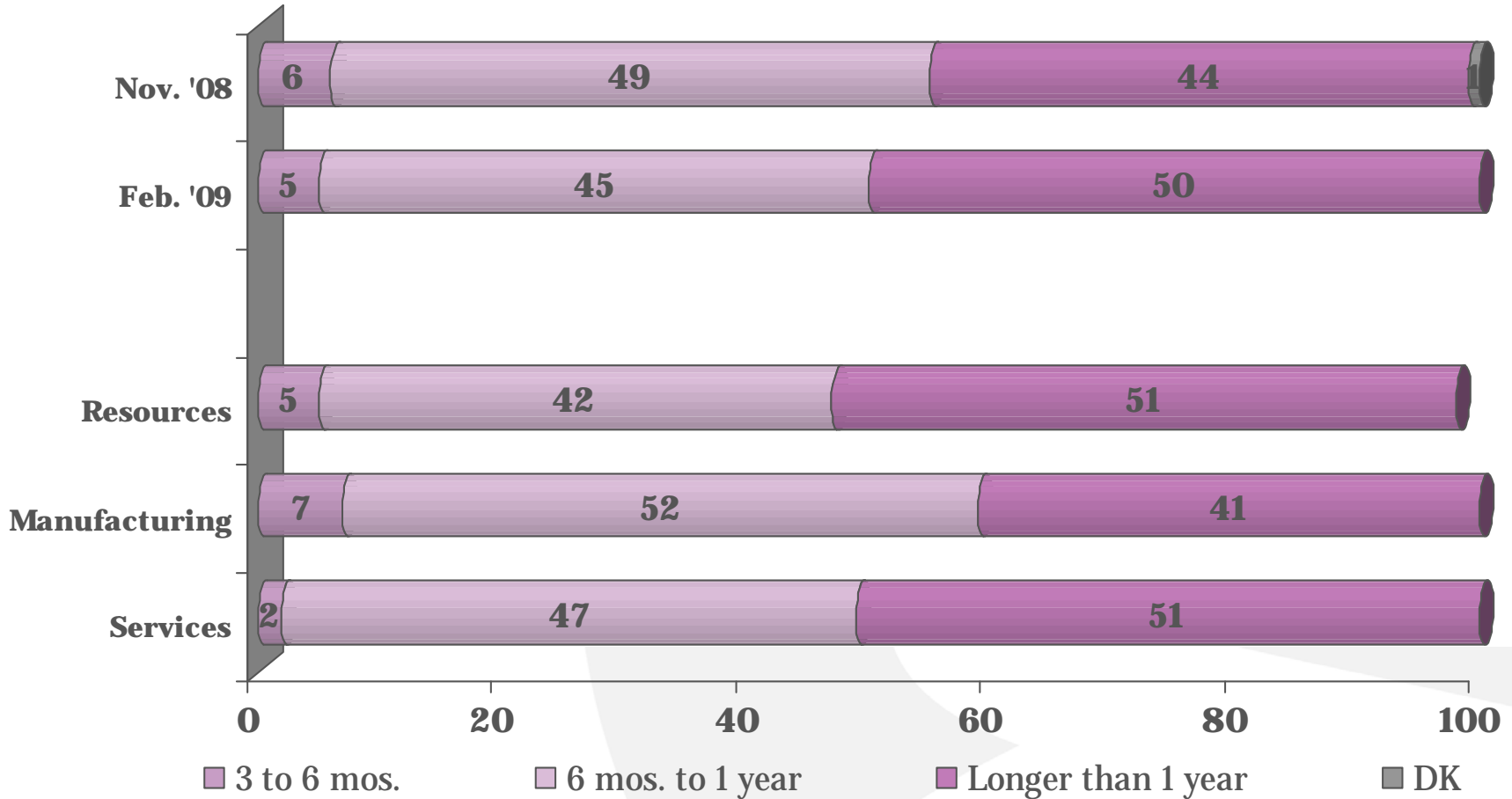
Which of the following do you think best describes the Canadian economy at the current time - strong growth, moderate growth, moderate decline, strong decline?





How long before the economy starts to turn around?

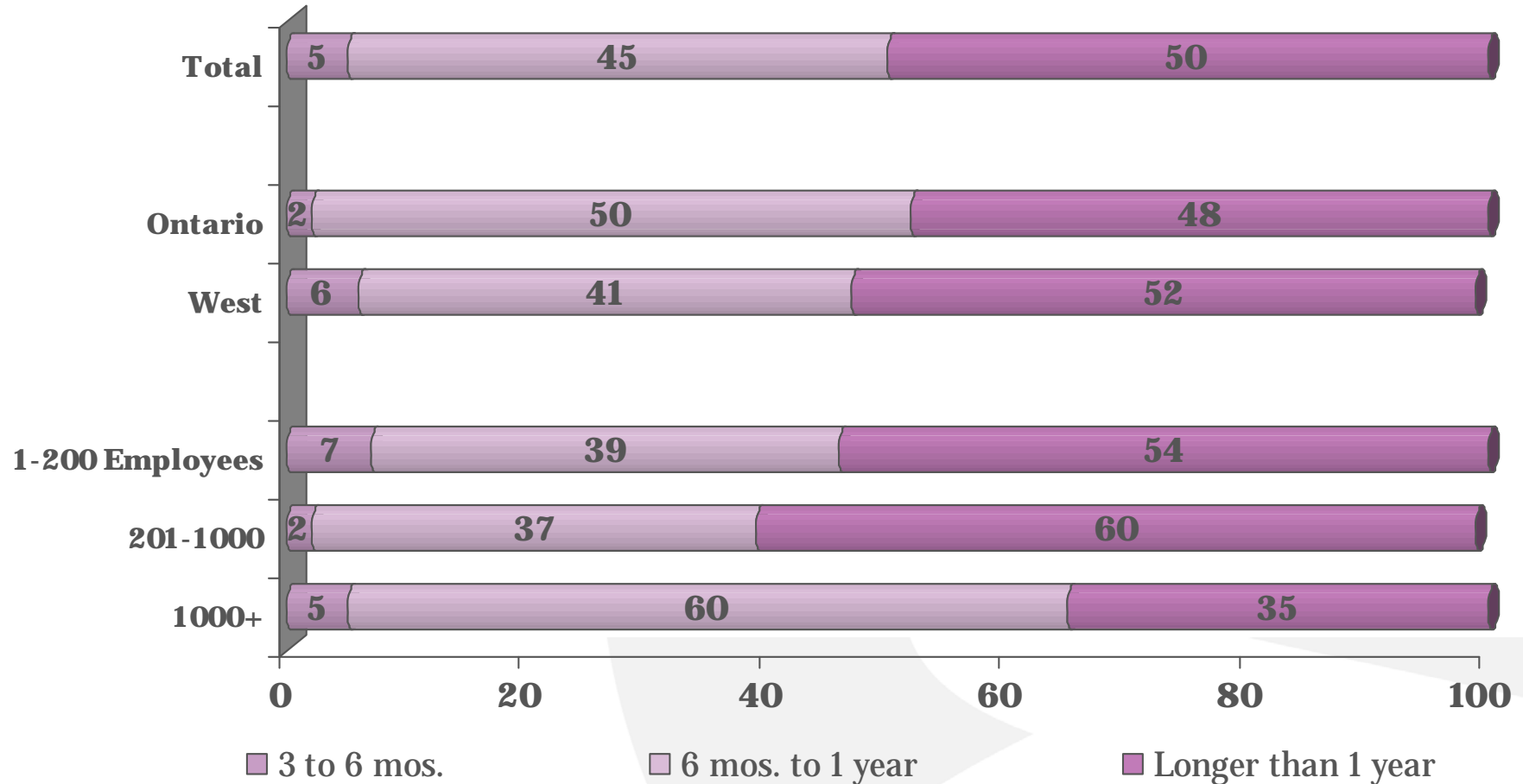
How long do you think it will be before the Canadian economy starts to turn around and experience growth? Would that be within the next three months, three to six months, six months to one year, longer than a year?





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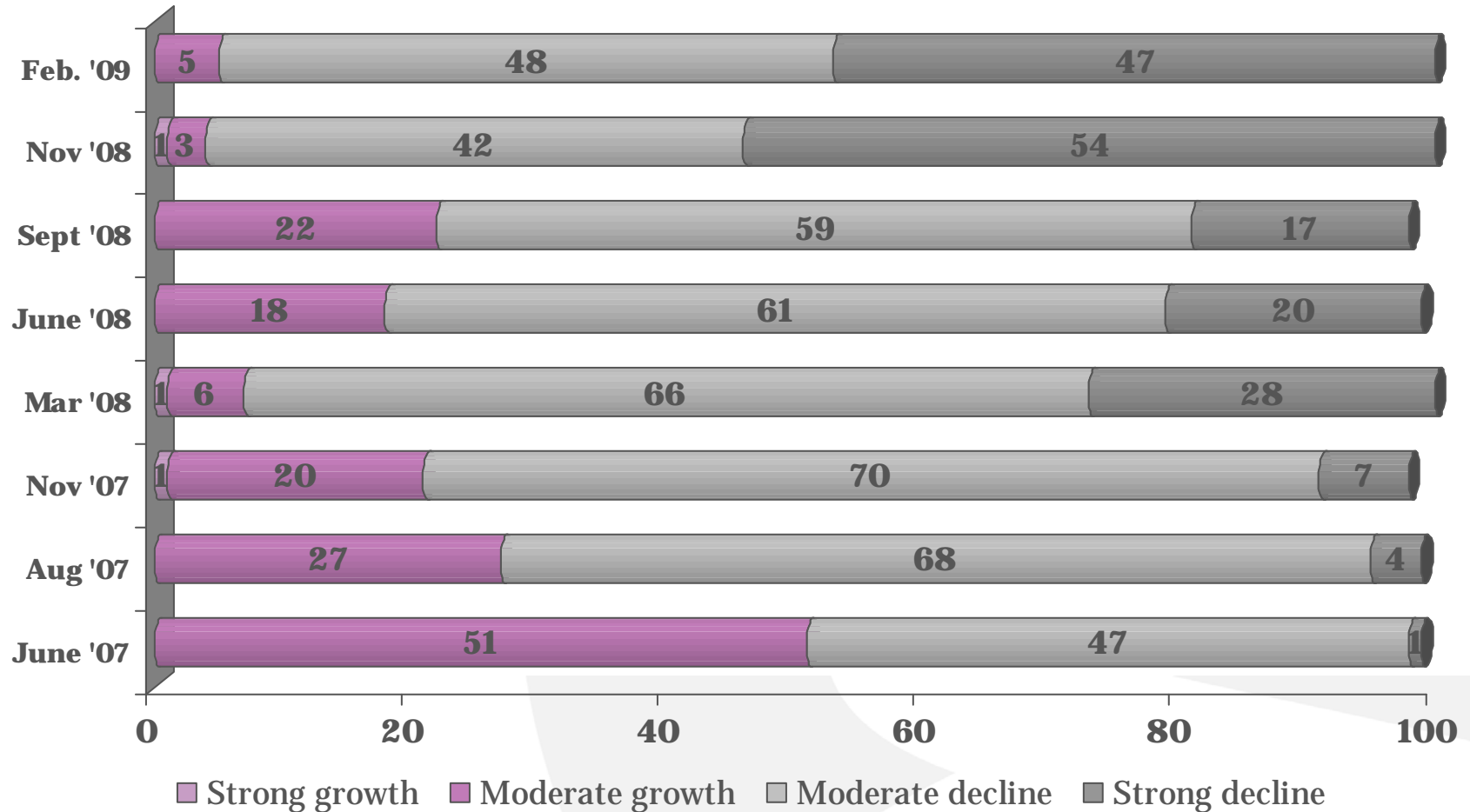


- ❑ Predictions for the US economy are gloomier than for the Canadian economy
- ❑ 47% said the US economy will experience strong decline over the coming year
- ❑ More believe our economy will turn around only when the US economy does than believe our economic fundamentals mean a shorter recession in Canada than in the US



Expectations: U.S. Economy

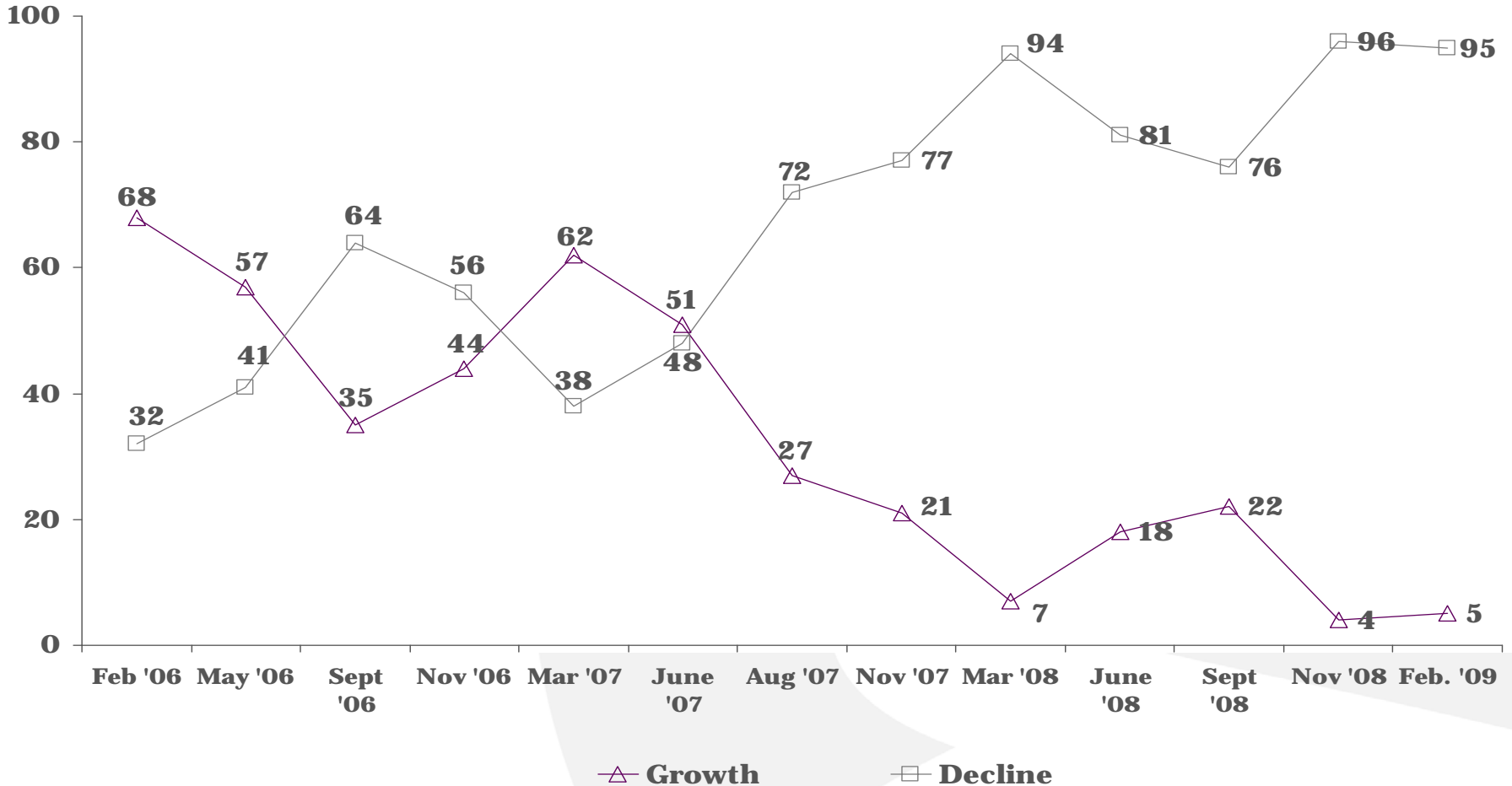
What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Expectations: U.S. Economy

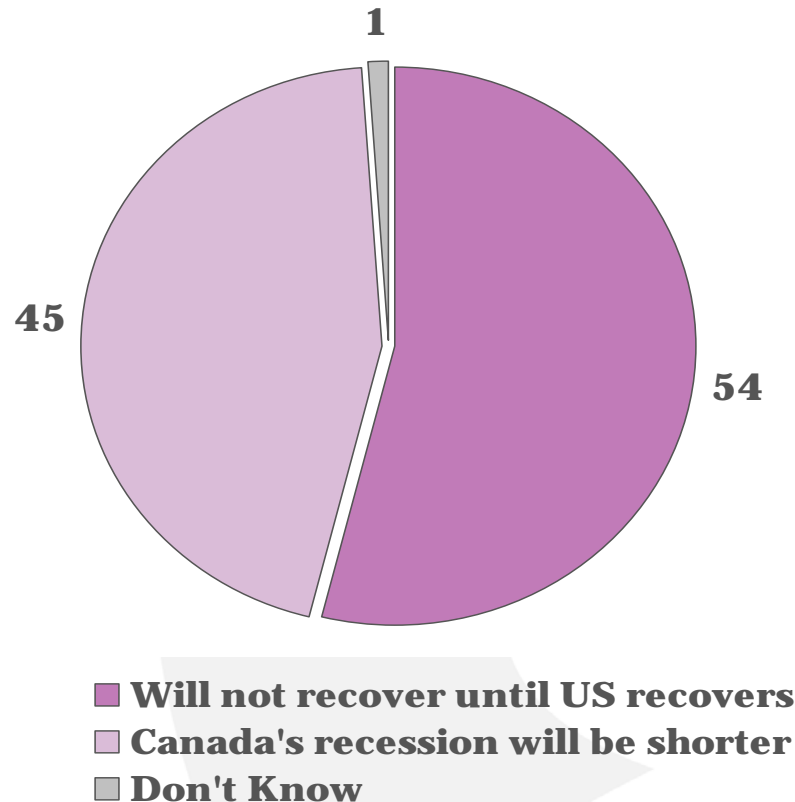
What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





Will we recover before the US?

“Some people say that recovery in Canada will not occur until the US has started to recover because our economy is so closely linked with the American economy. Other people say that Canada’s recession will be shorter and our recovery quicker than the US because our economic fundamentals are stronger than the Americans’. Which view is closer to your own?”





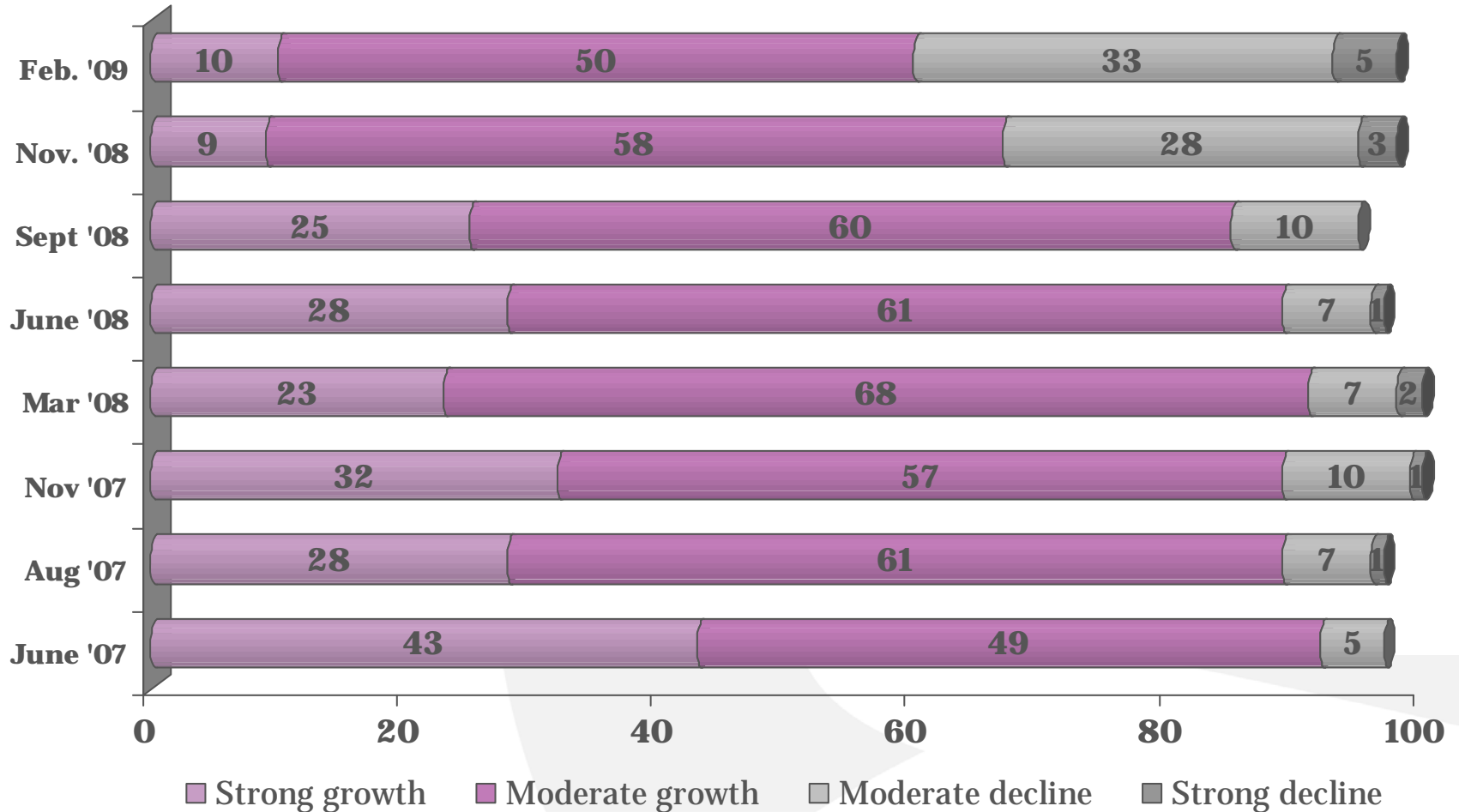
- ❑ 60% expect their companies to grow over the coming year, with most expecting moderate growth – last quarter, 67% expected growth for their cos.

- ❑ We are seeing more companies predicting their businesses will decline over the coming year than at any time in the last three years of the C-Suite survey
 - As we saw last quarter, services sector companies are more pessimistic than resources or manufacturing companies on whether their business will grow or decline
 - The few that are predicting strong growth are more than twice as likely to be in the West than elsewhere



Expectations: Company

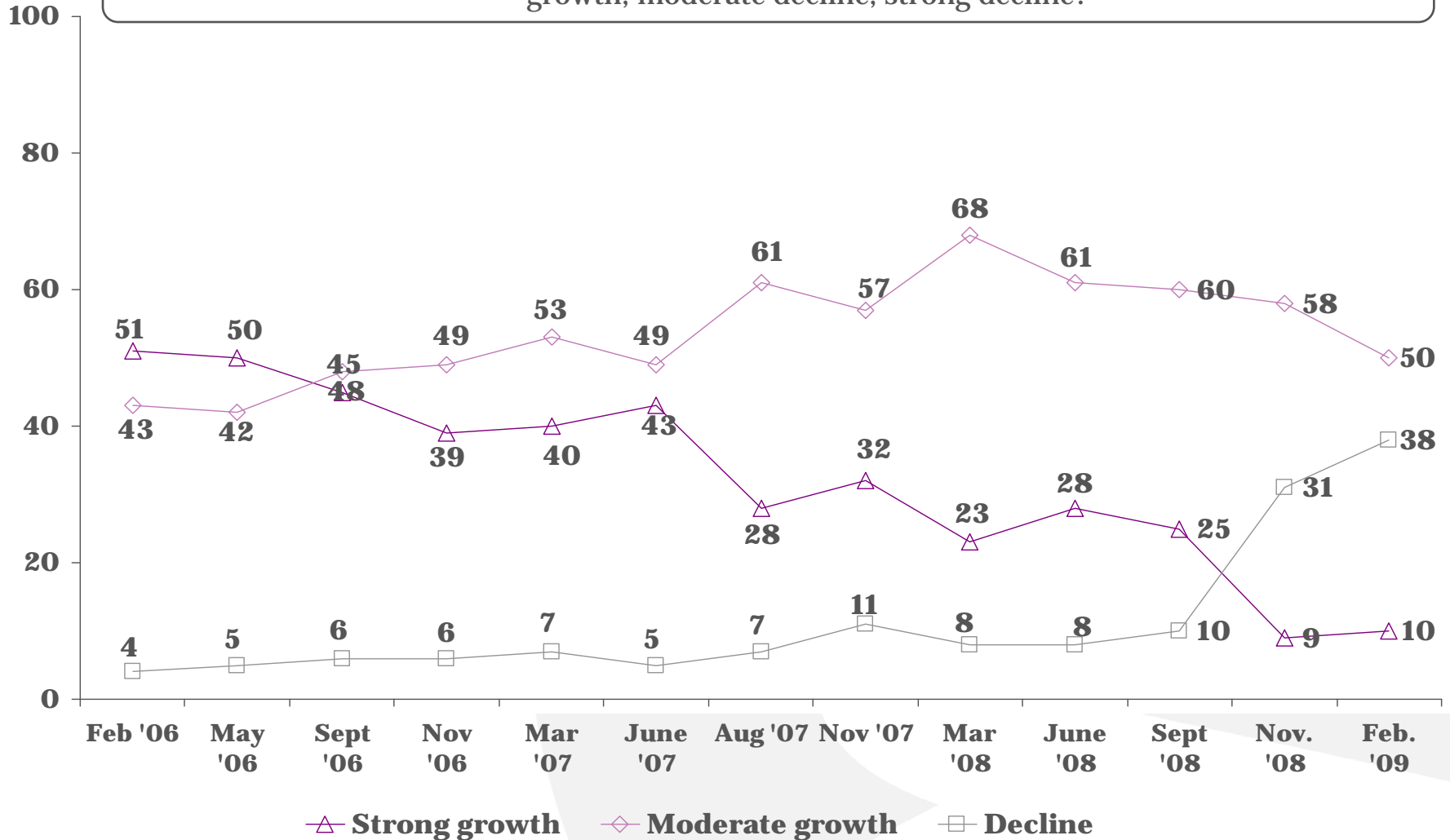
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Expectations: Company

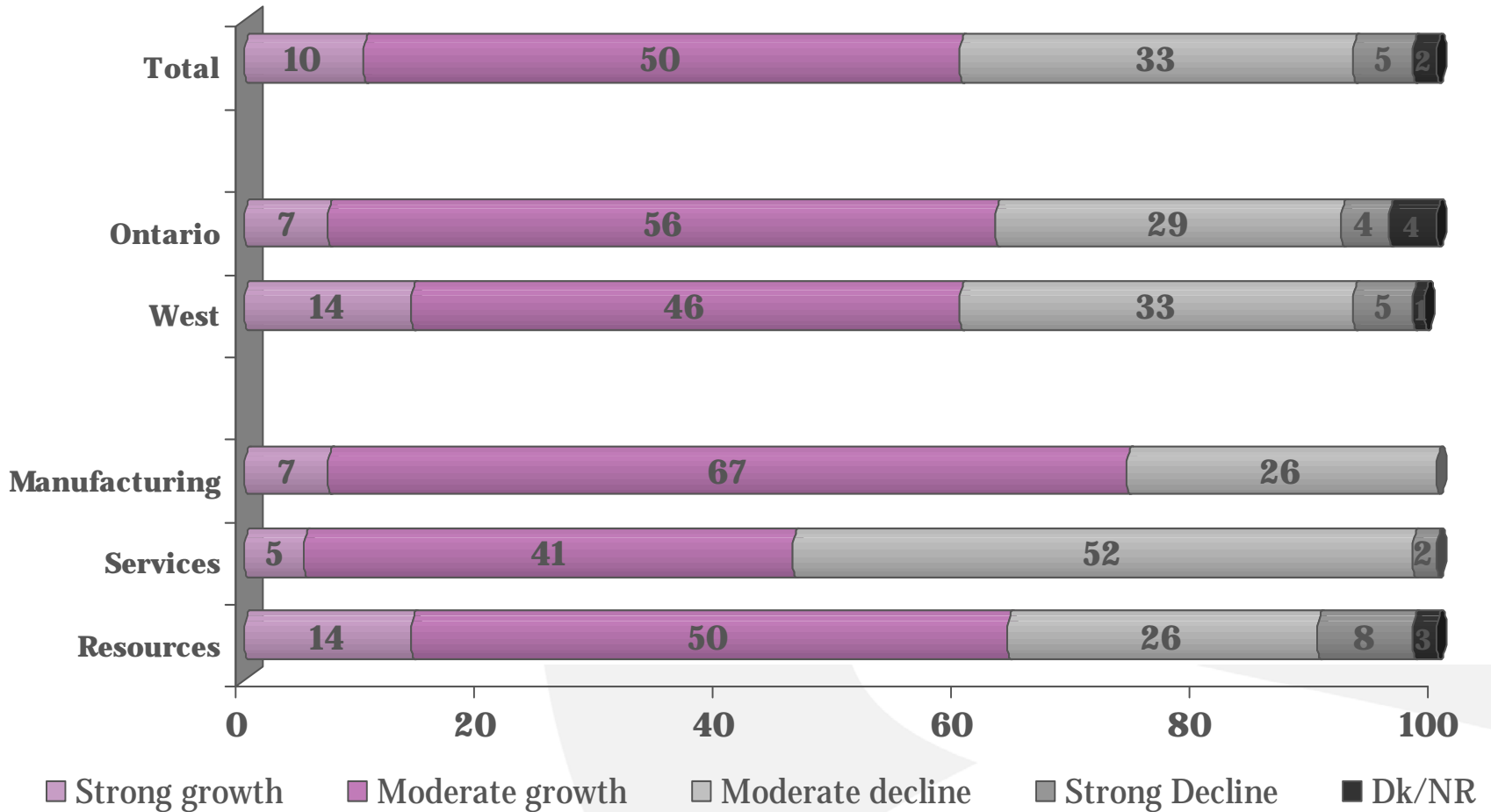
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Expectations: Company

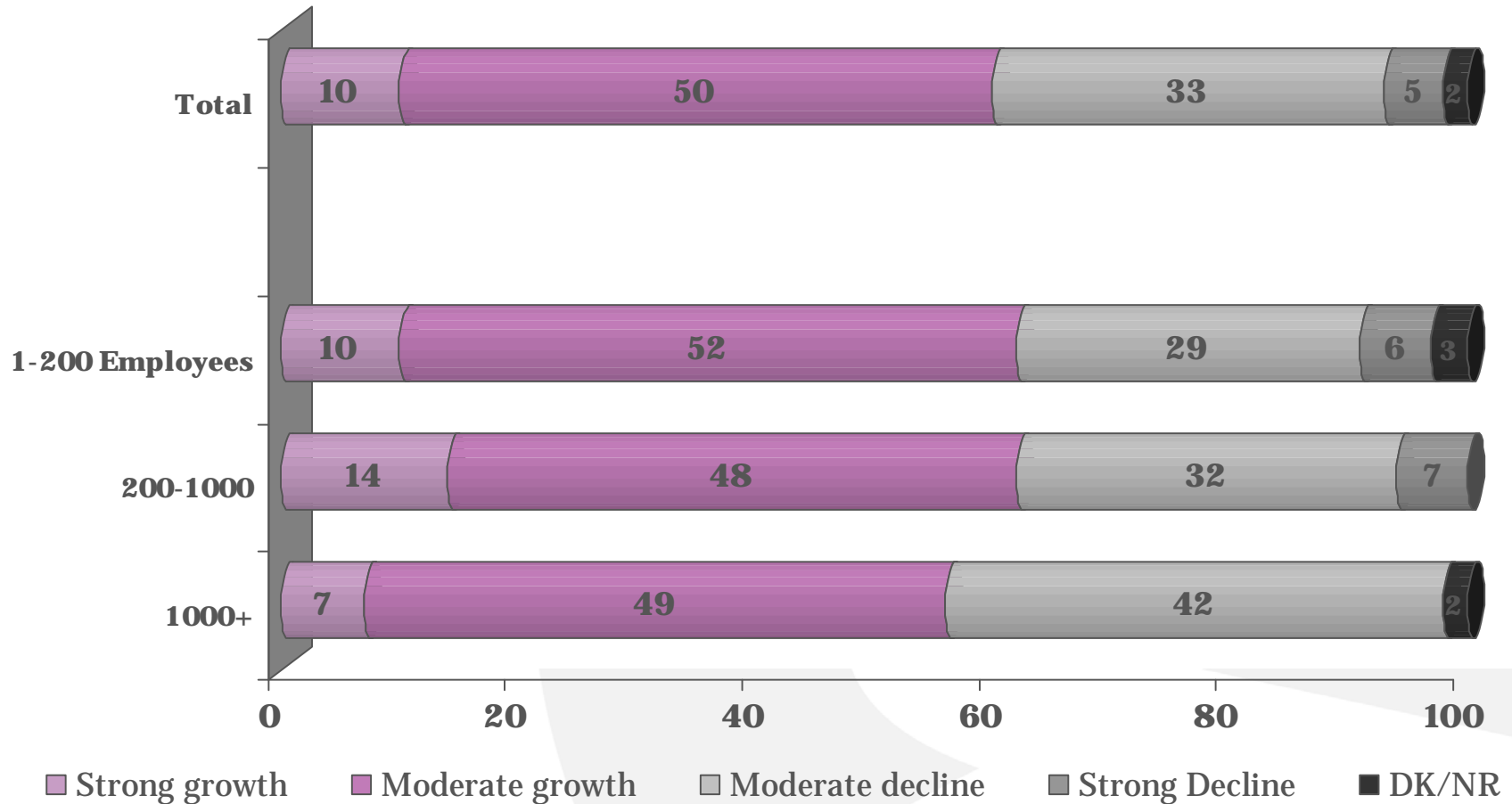
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Expectations: Company

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





- ❑ No improvement in the credit situation – 63% said it's gotten more difficult to access credit in last three months
 - Resources and small companies (under 200 employees) are even more concerned
 - While almost half of manufacturers and large employers (1000+ employees) said the credit situation is about the same
 - Companies who said it's about the same are more optimistic about the economy - they were more likely to predict the economy will turn around in less than a year
- ❑ While some blame global credit concerns in general, half hold banks and lending institutions responsible
- ❑ Those having trouble accessing credit – smaller and resources companies – were about as likely to blame banks or lending institutions as they were to blame “global” concerns

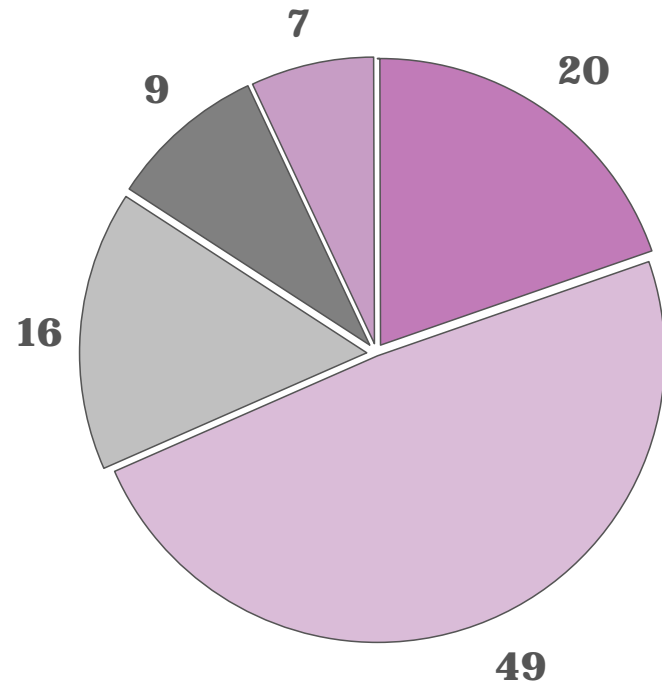
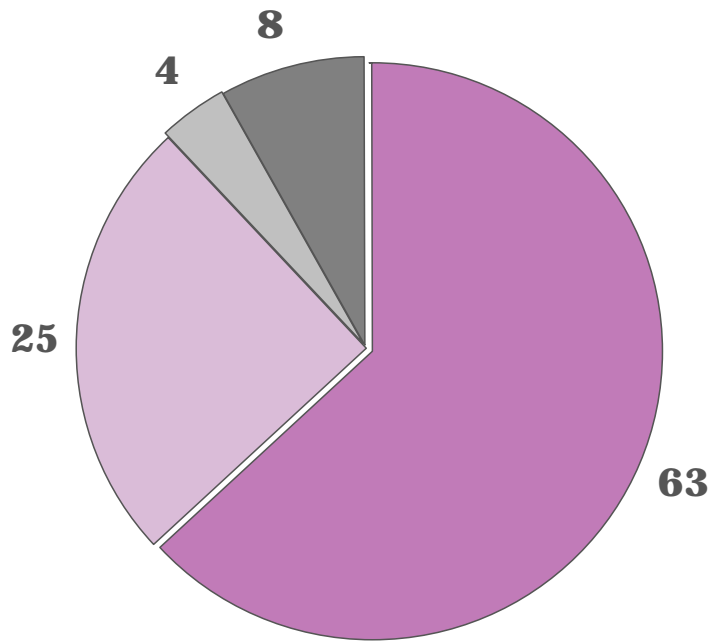


- Most believe it will take longer than a year for their companies to rebuild market value
- Roughly one in five said it will take longer than 2 years
- Large employers (1000+ employees) are somewhat more likely than small to mid-size companies to say it will take less than a year



“Has it become more or less difficult to access credit in the last 3 mos.?”

“How long do you think it will take for your company to rebuild its market value?”



More difficult
Less Difficult

About the same
DK

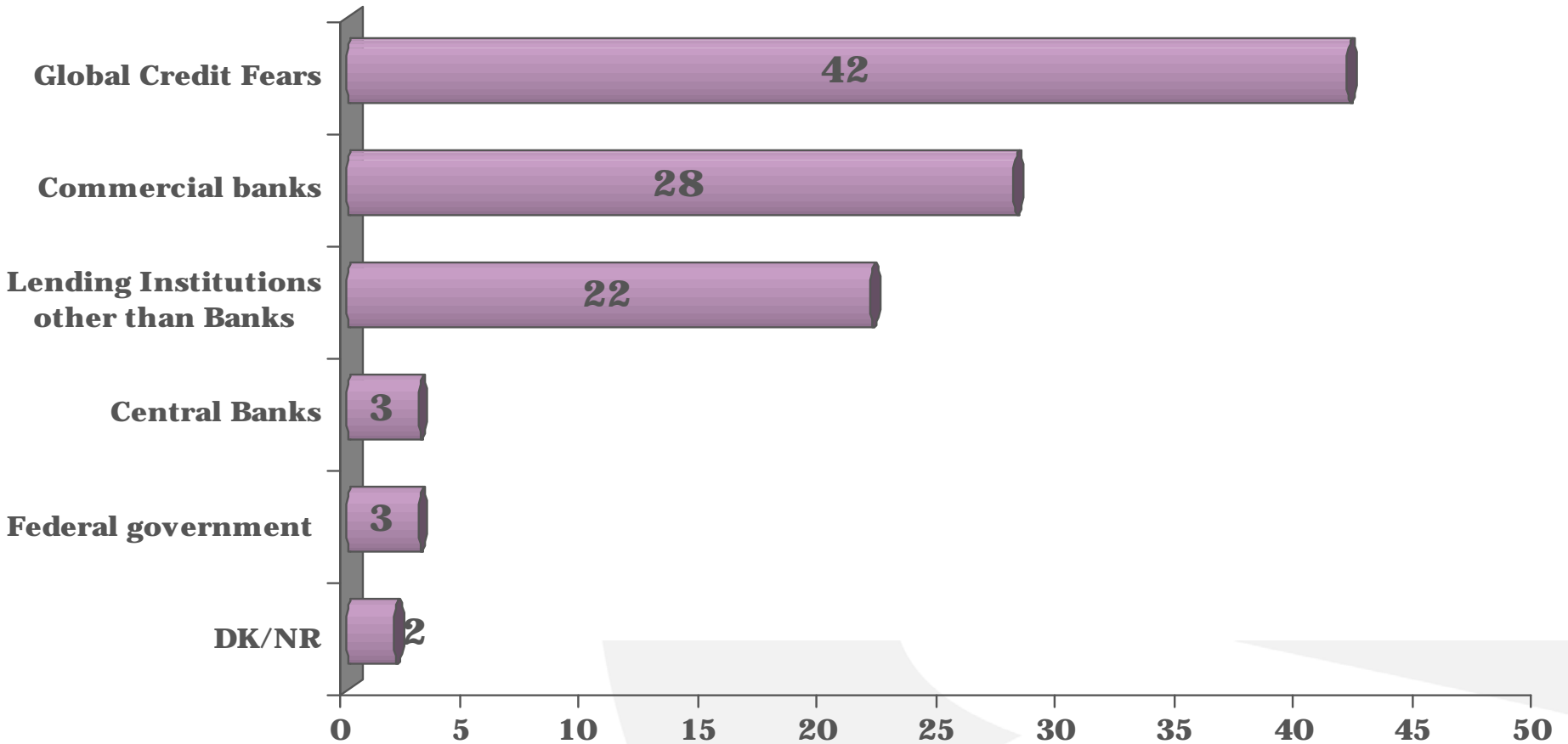
2+ years
Next 6 mos.

1-2 years
DK/NA

6-12 mos.



Which of the following entities would you say is most responsible for current credit conditions?



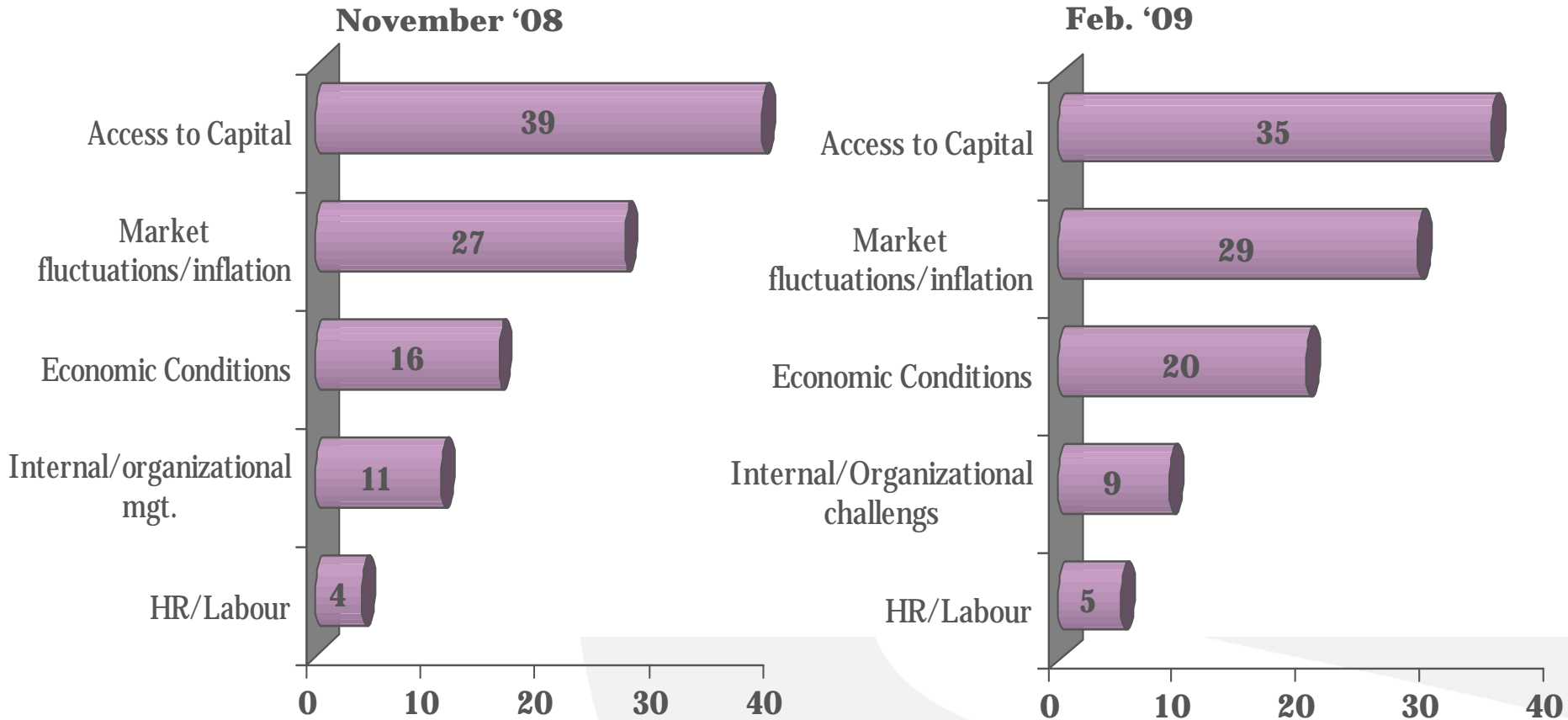


- ❑ Access to capital remains the top concern of businesses – more named it than named the general economic conditions
- ❑ It is as much of a concern in the West as in Ontario and it's hitting smaller companies especially hard
- ❑ It continues to affect resources companies, along with price fluctuations



Challenges facing Company

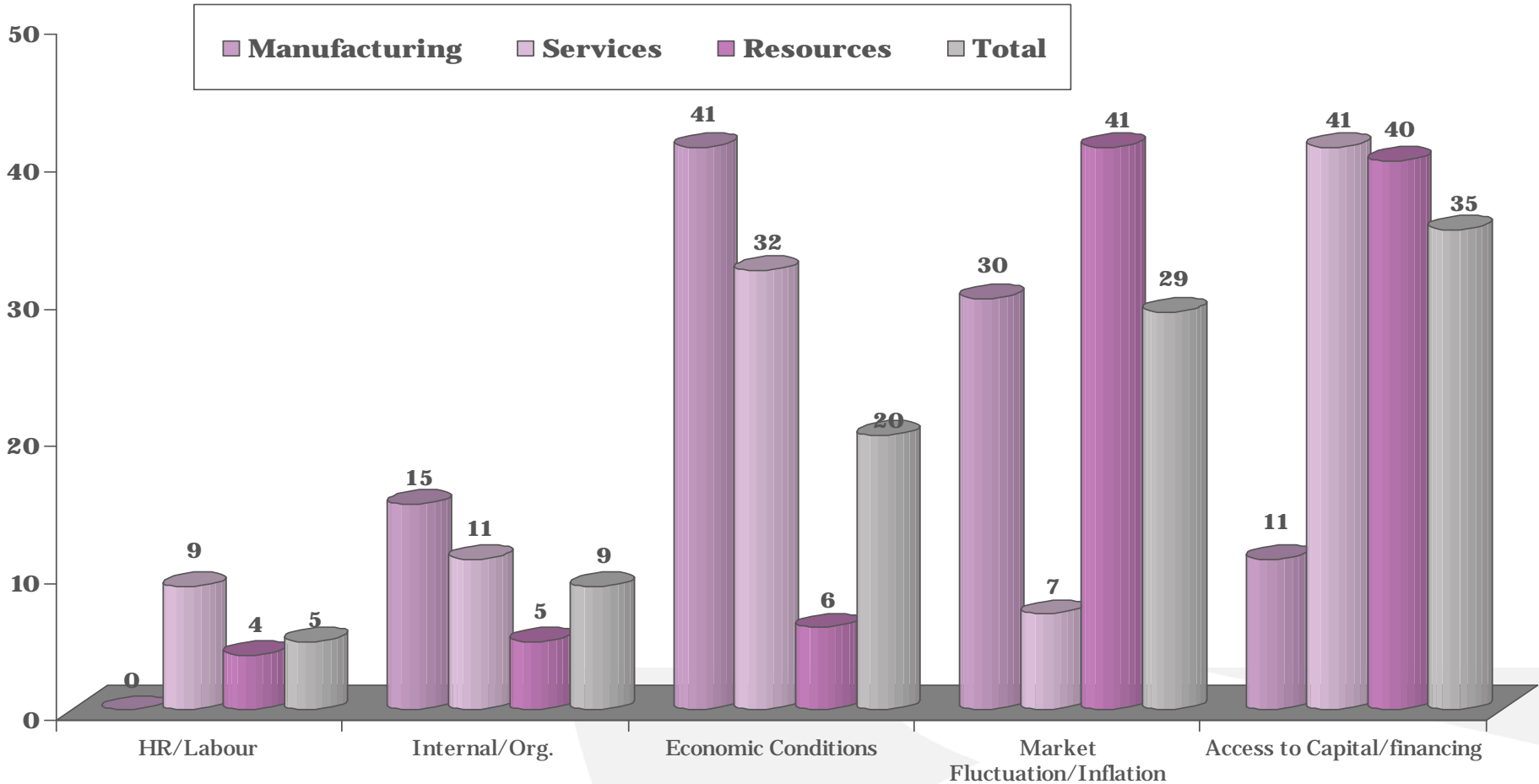
What is the biggest challenge facing your company right now? (open end)





Biggest Issue Facing Company: Sector

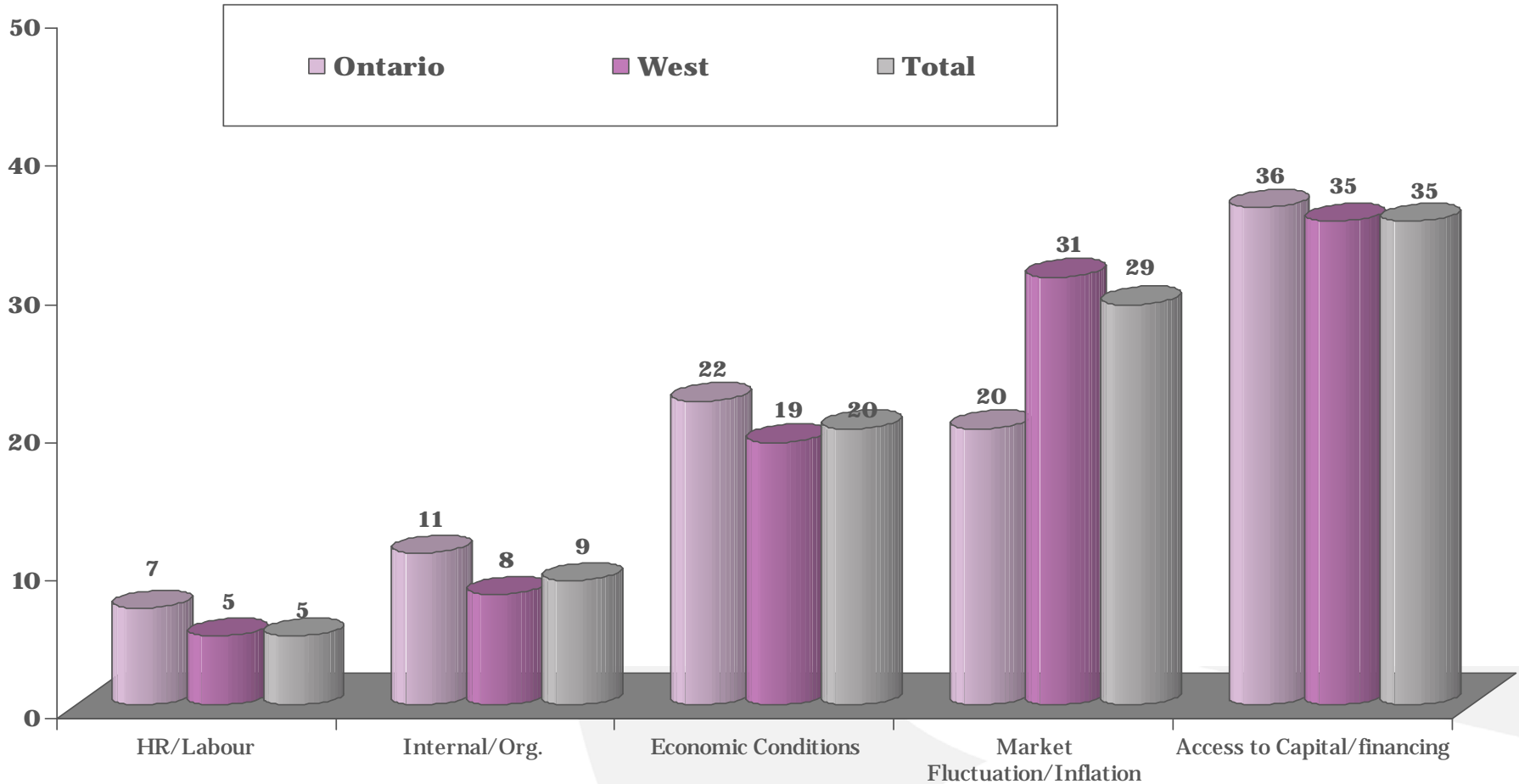
What is the biggest challenge facing your company right now?





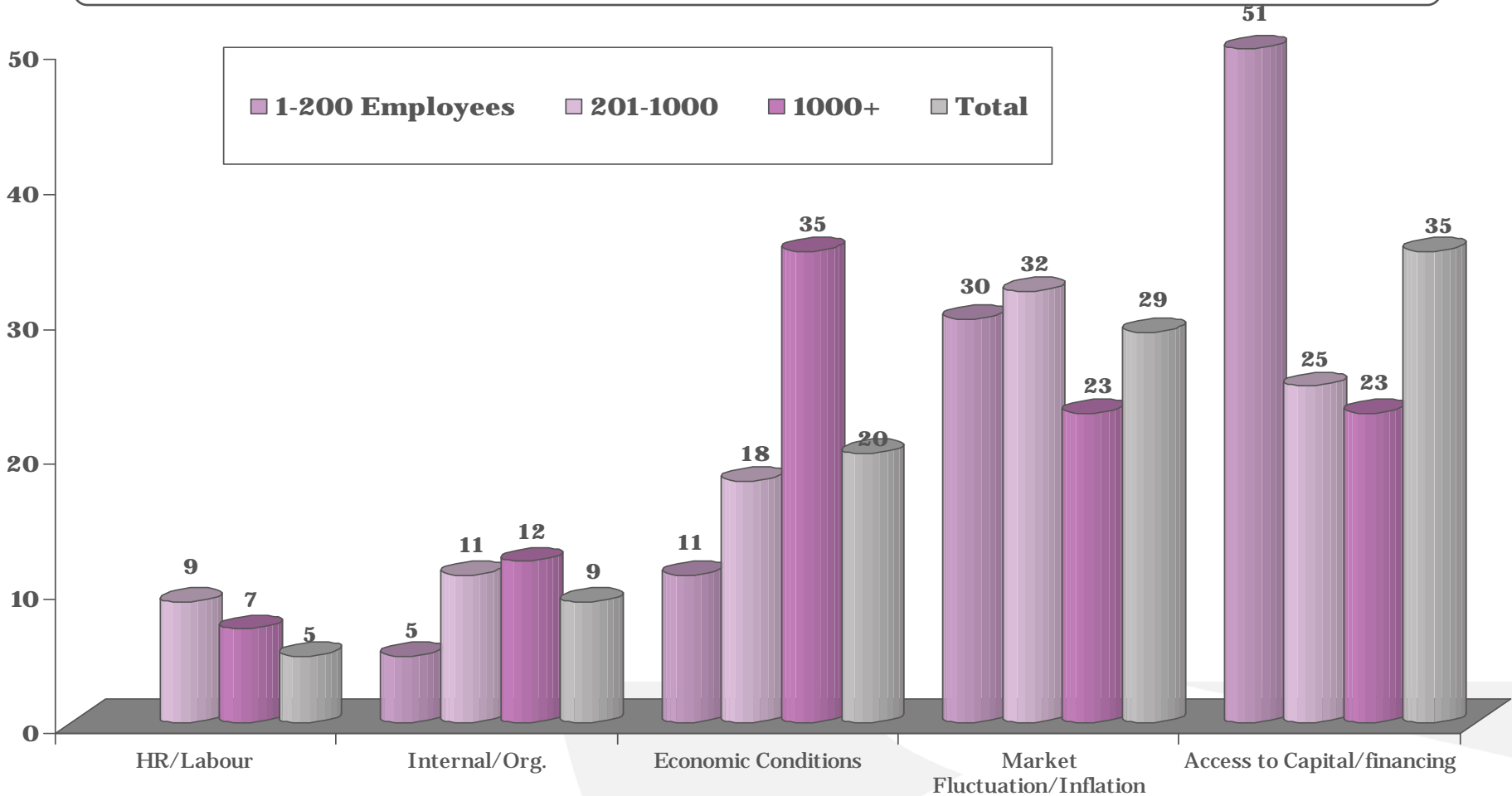
Biggest Issue Facing Company: Region

What is the biggest challenge facing your company right now?





What is the biggest challenge facing your company right now?



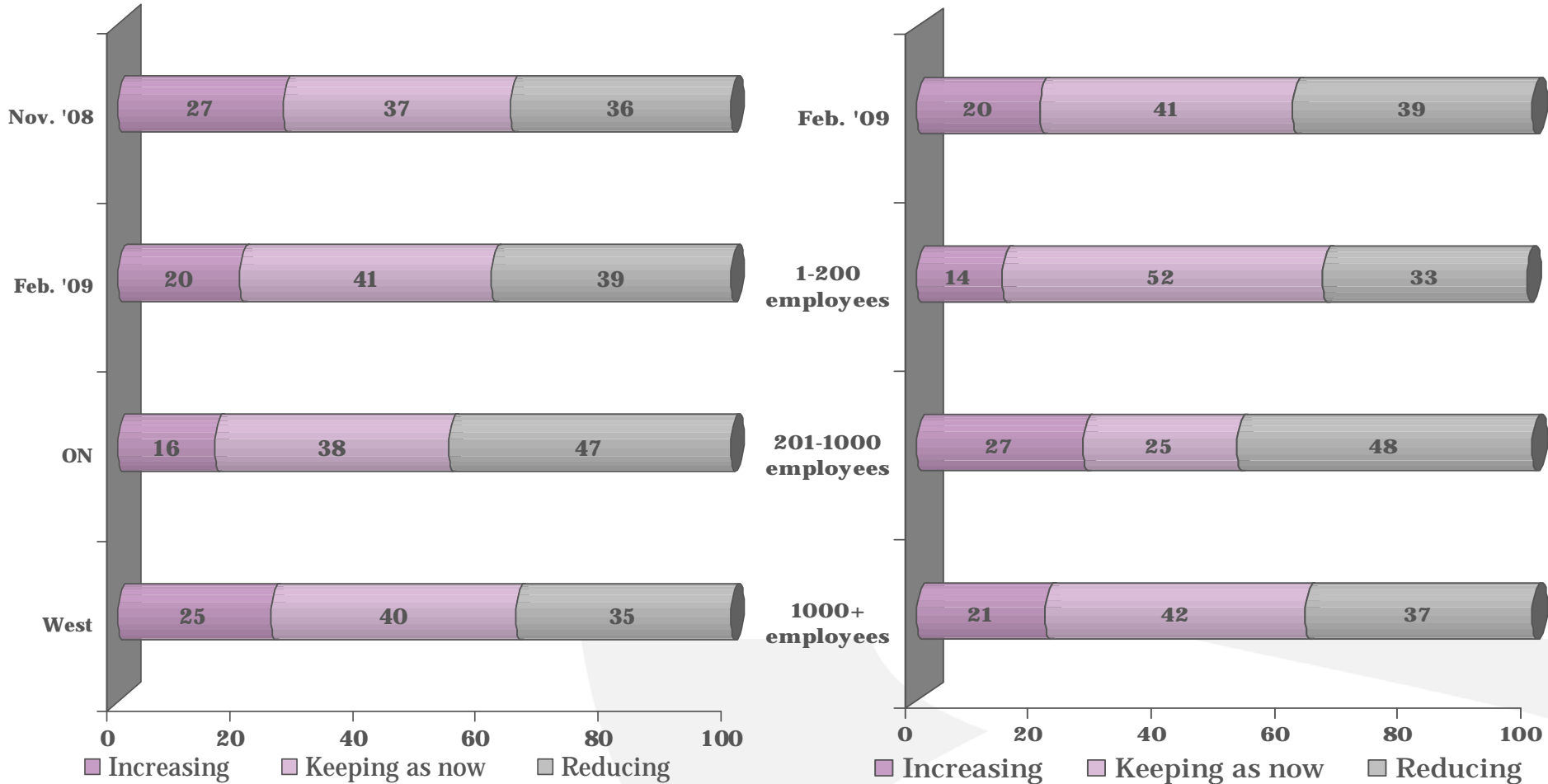


- ❑ Companies will be reducing their workforce, and far fewer this quarter said they'll be hiring
- ❑ The resulting unemployment will be significant:
 - 3% said they'd be significantly increasing staffing and employment levels
 - 17% said they'd be slightly increasing
 - 33% said they'd be slightly reducing
 - 6% said they'd be significantly reducing
- ❑ Most that are laying off will be cut staff by 10% or more
 - Executives with large companies that are cutting staff envision job cuts in the 5%-10% range
 - But companies with less than 1000 employees as well as resources companies that say they are cutting staff are more likely to talk about cuts in the range of 25% or more



Employment Levels

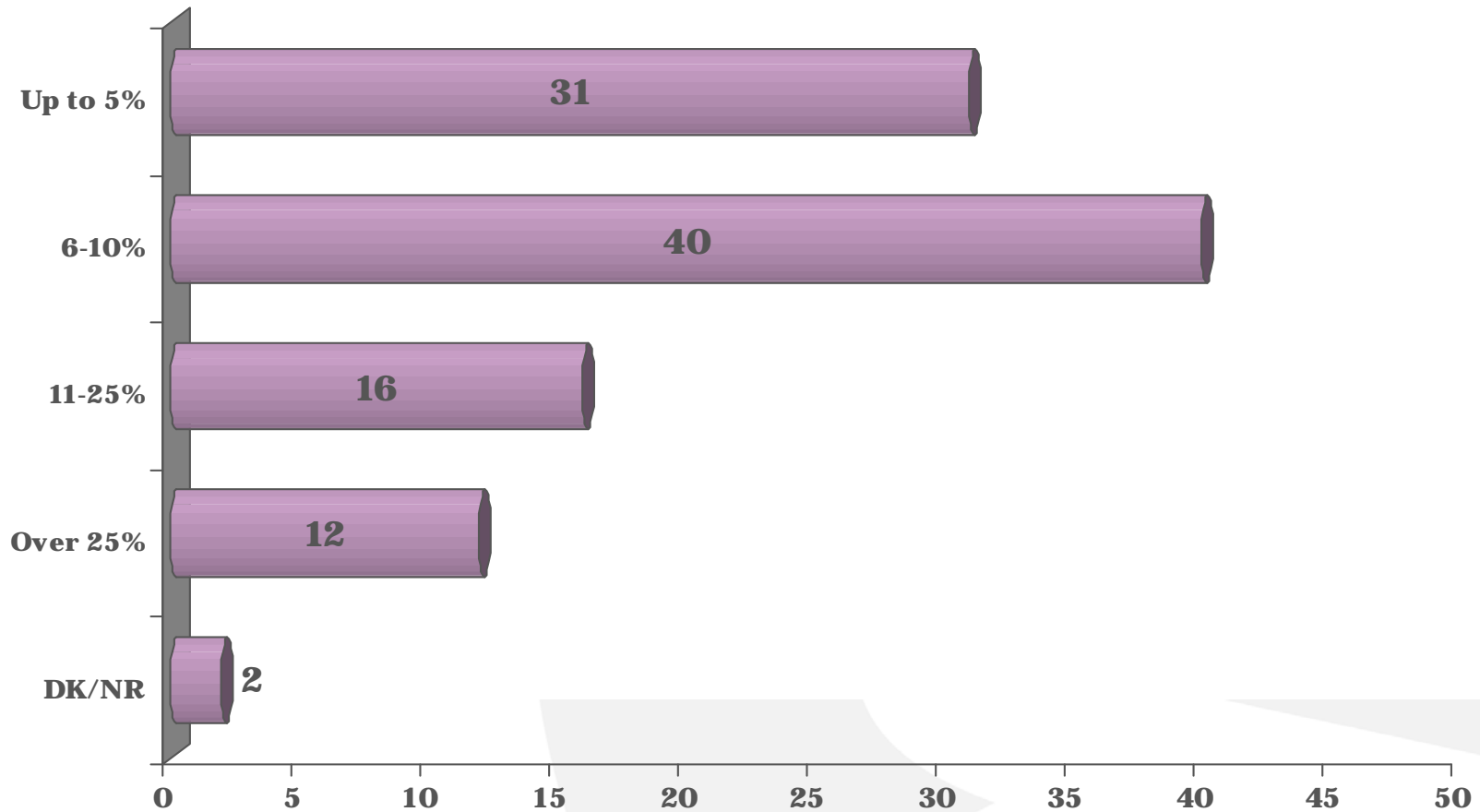
“Thinking of your company’s workforce over the next year, will you be: significantly increasing overall staffing & employment levels; slightly increasing overall staffing & employment levels; keeping staffing & employment levels where they are now; slightly reducing overall staffing & employment levels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





Significant Layoffs

“In percentage terms how much do you expect your workforce to be reduced over the next year?”
n=58





- ❑ Most have had to shelve long-term growth plans to focus on the short-term and most agree they are more concerned about their company's survival
 - Resources companies and smaller employers were more likely than those in other sectors and or with mid-size and larger employers to say they are more concerned about their companies' survival
- ❑ The number who said they are more likely to consider reducing capital expenditures they had planned stands at 80% - up 5% from last quarter
 - 47% said they are much more likely – up 12%
 - Executives in the resources sector, the West and with smaller companies are much more likely than others to be cutting
- ❑ Marketing and worker retraining are likely to see serious cuts, as is Research and Development
 - Large companies were not as likely to say they were considering cuts to marketing or worker training as smaller companies



- ❑ While most executives said they are confident their companies will weather the downturn, most also said this is the worst business environment they've seen
- ❑ Many said morale has been affected by cuts and layoffs
 - Morale is worse in Ontario than in the West
- ❑ A not insignificant number of executives admitted to some serious concerns and challenges:
 - 39% have had to rethink their approach to getting through this downturn
 - 20% said their suppliers have moved to cash basis
 - 16% said they are now more likely to consider seeking protection under the Companies' Creditors Arrangement Act – these tend to be smaller companies (less than 200 employees) than large ones



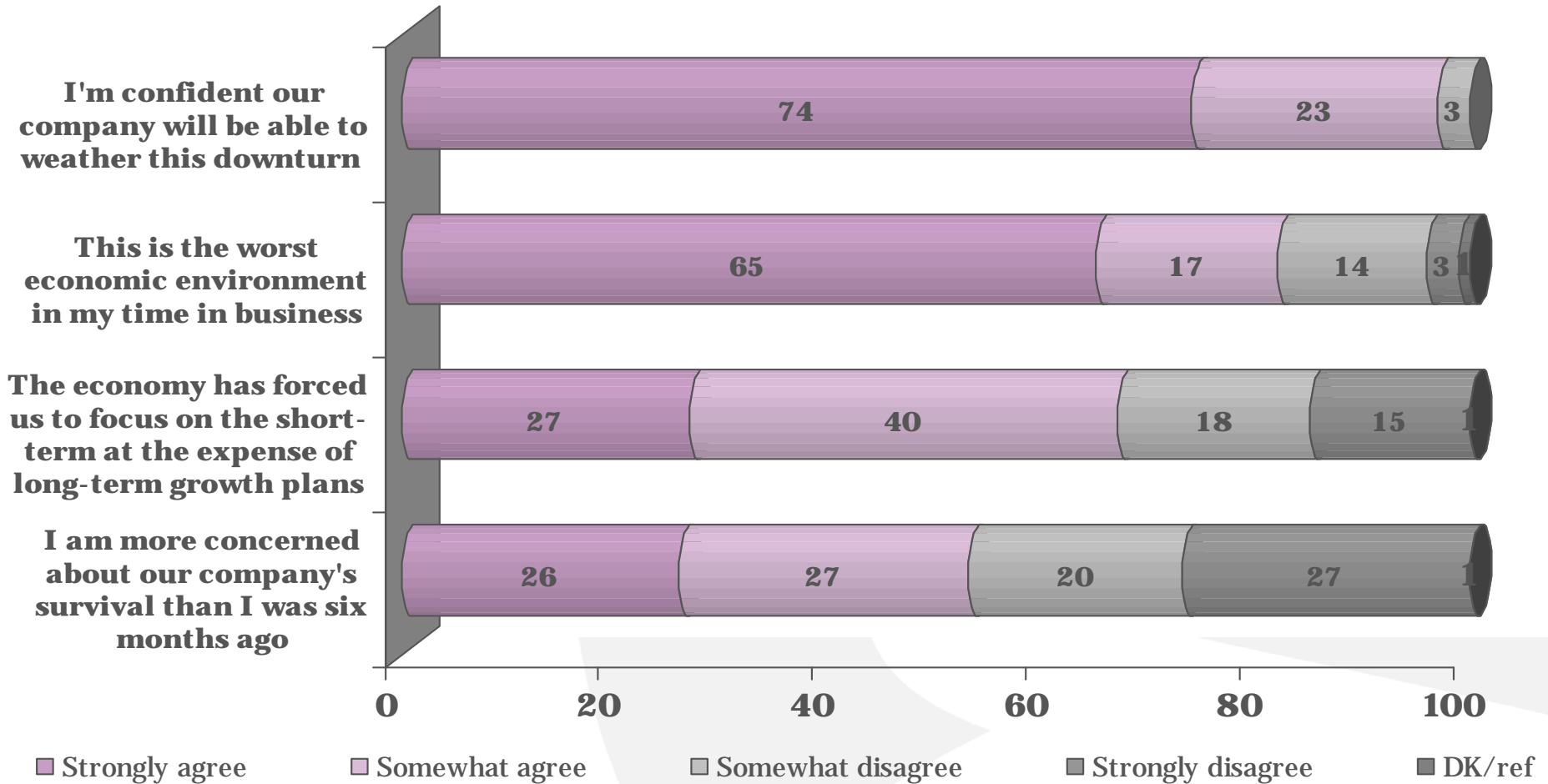
“I’m going to list a number of things companies are considering in light of current market and credit conditions. For each please tell me if current conditions have made it much more likely, somewhat more likely, somewhat less likely or much less likely for your company to consider them.”





A Challenging Economy

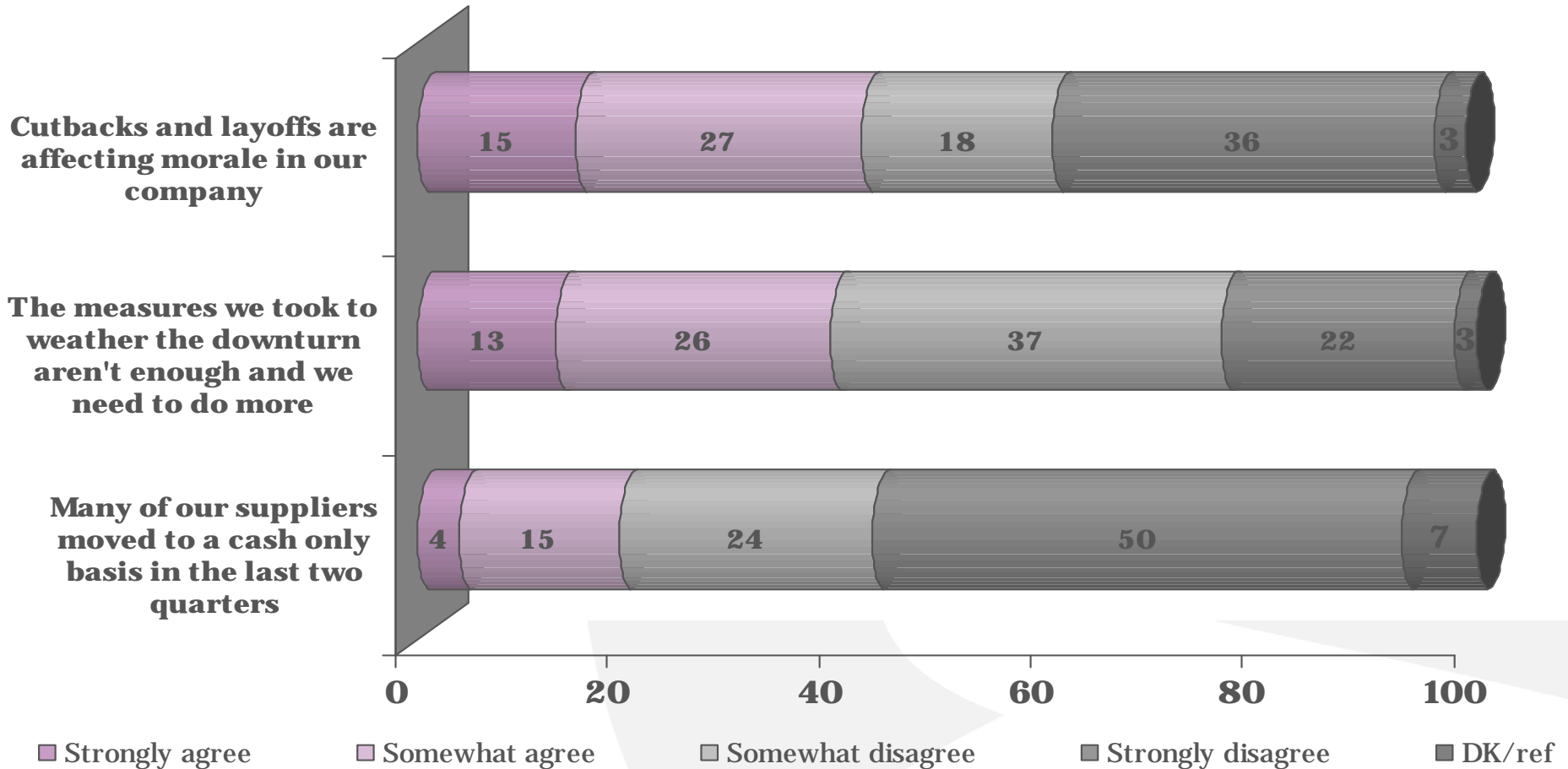
“Please indicate whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each statement as it applies to your own company.”





A Challenging Economy

“Please indicate whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each statement as it applies to your own company.”



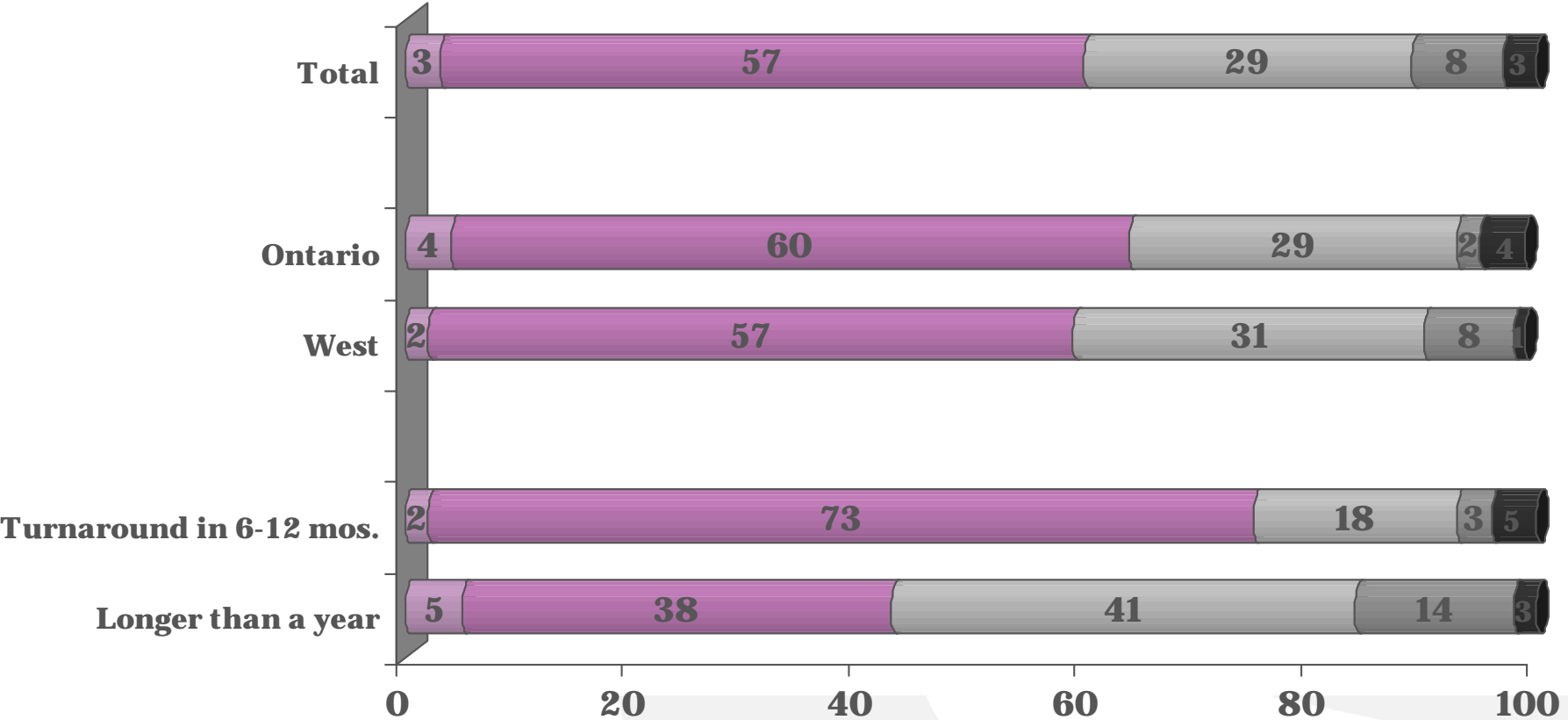


- ❑ Most executives had a somewhat favourable view of the budget but it did not address their key concerns
- ❑ Those who are most concerned about the economy had a mostly unfavourable reaction to the budget.
- ❑ Those with an unfavourable reaction were significantly more likely to be predicting strong decline for the economy over the coming year. Those that think the economy will take longer than a year to turn around were much more likely to have an unfavourable impression.
- ❑ Mid-size companies were less favourable than smaller or larger companies
 - They likewise were more pessimistic about the economy than companies with 1000+ employees and small companies and they will be laying off more employees than those companies.



Budget Reaction

How favourable or unfavourable was your impression of the recent federal budget?

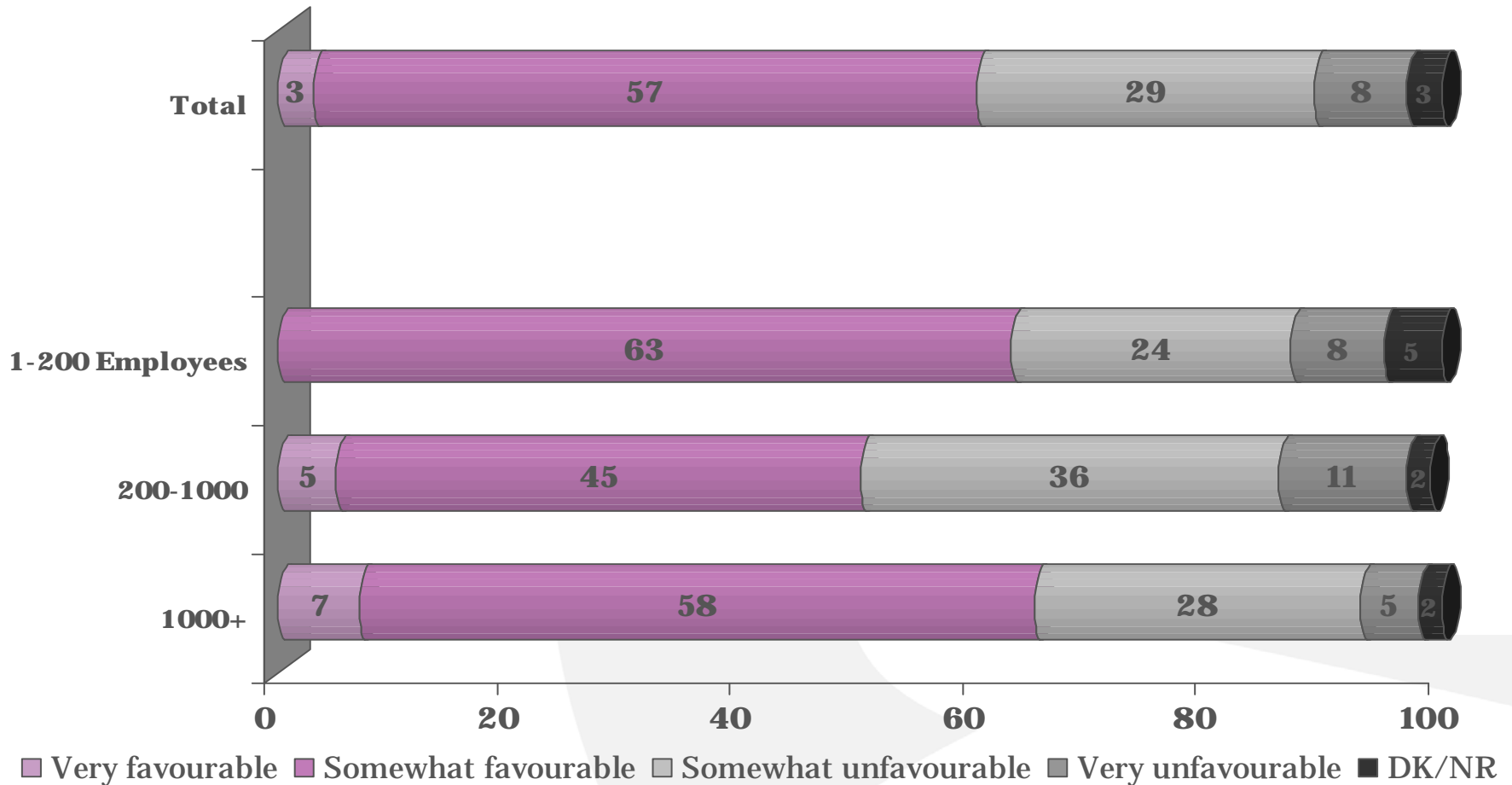


Very favourable Somewhat favourable Somewhat unfavourable Very unfavourable Dk/NR



Budget Reaction

How favourable or unfavourable was your impression of the recent federal budget?



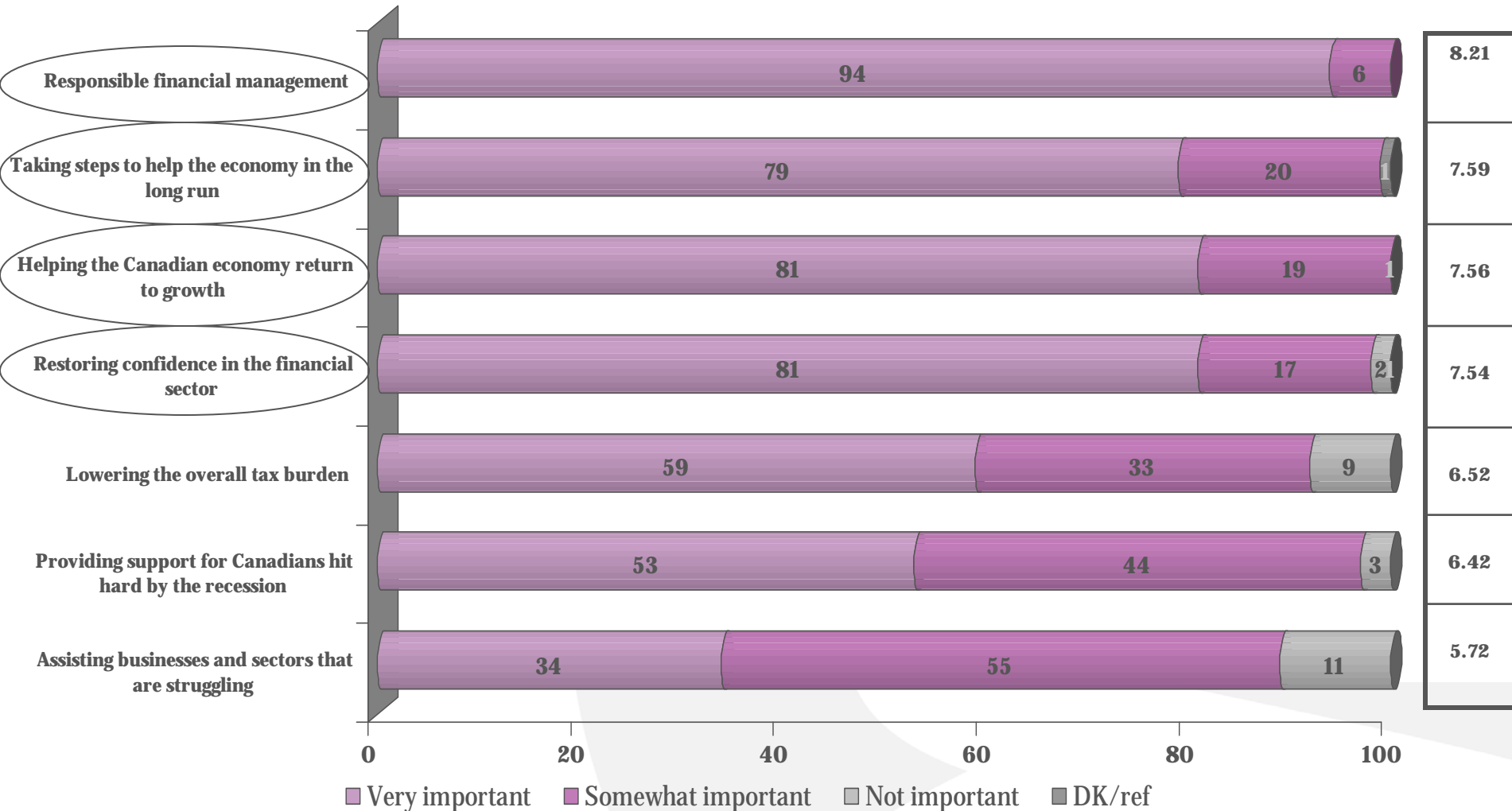


- ❑ When we asked executives what they consider to be the top economic objectives for Canada they said:
 - “responsible financial management”
 - “restoring confidence in the financial sector. ”
 - “taking steps to help the economy in the long run”
 - And “helping the economy return to growth”
- ❑ They told us that the budget did not do as well on these priorities – with the exception of helping with economic growth – as in other areas
- ❑ They told us “helping Canadians hard hit by the recession” was of medium importance while “assisting businesses and sectors that are struggling” is least important of the objectives listed
 - Assisting struggling businesses is less important to Western executives than to Ontario execs.
- ❑ The budget did especially poorly on lowering taxes



Economic Priorities

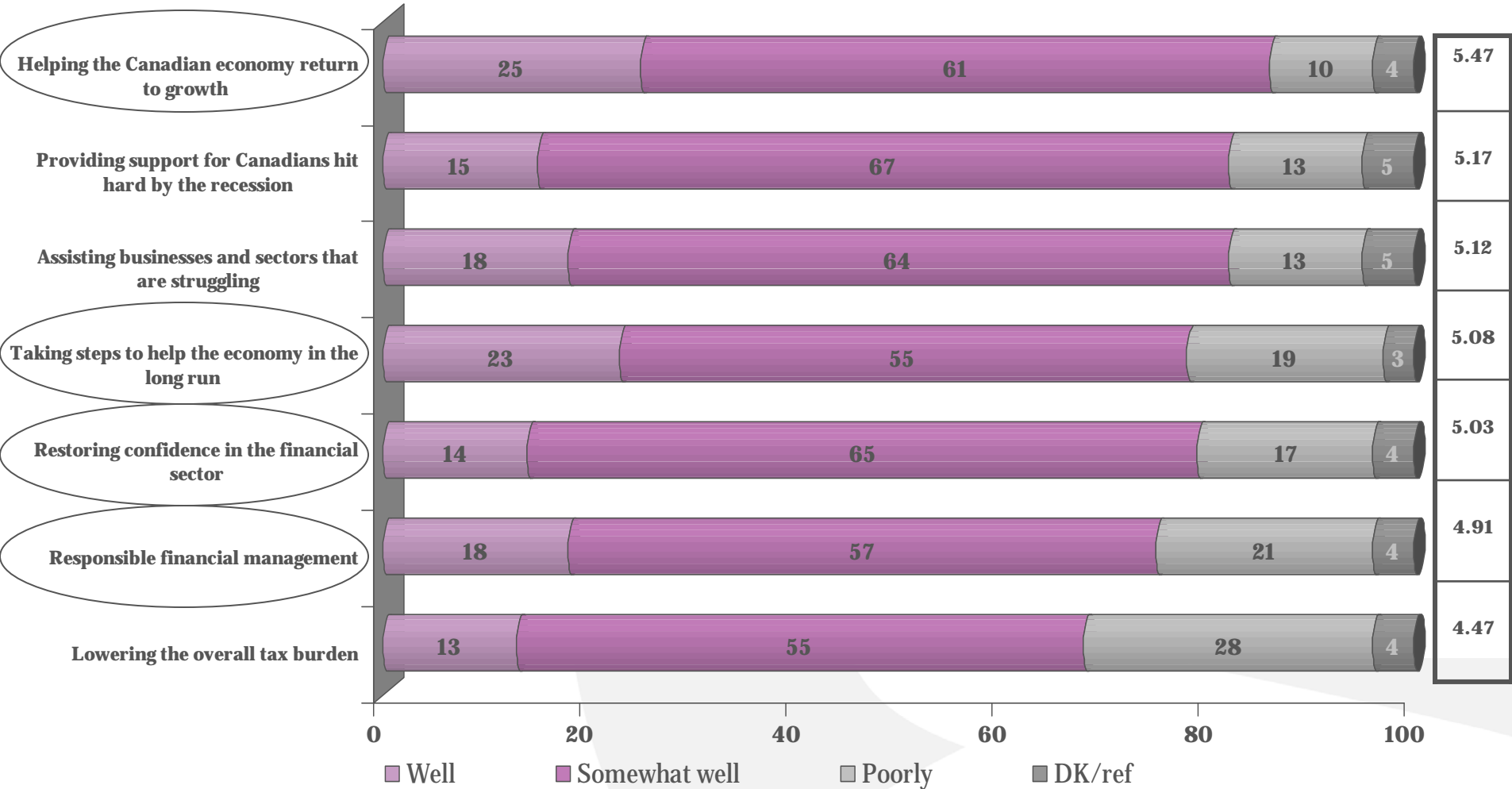
How important are the following economic objectives for Canada? on a scale of one to nine where one means not at all important and nine means extremely important, how important is...?





Budget Priorities

On a scale of one to nine where one means very poorly and nine means very well, how well or poorly did the budget advance the following objectives?

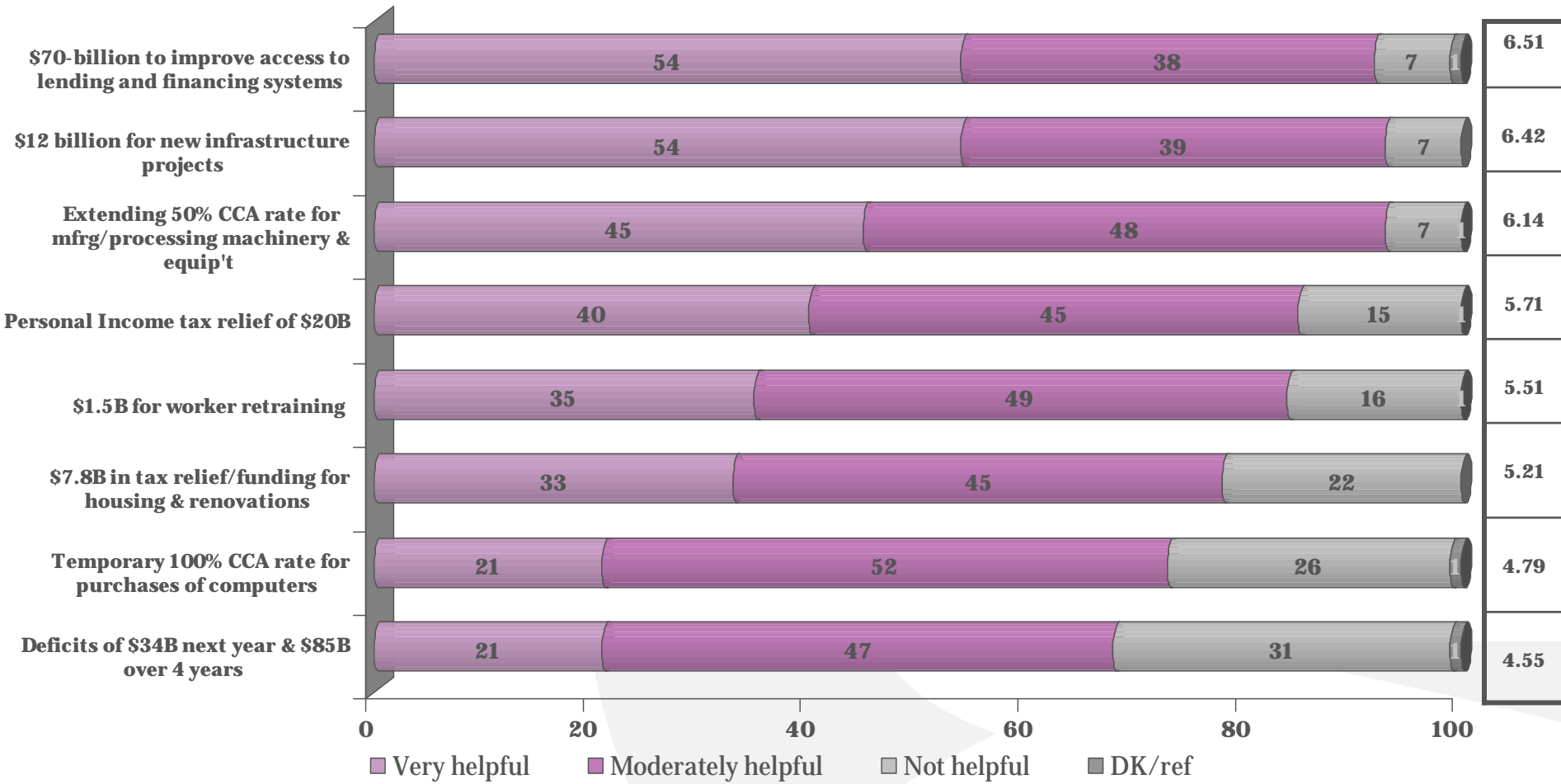




- ❑ Of the specific budget measures tested with executives the \$12b for infrastructure and \$70b in support of credit/lending were felt to be most helpful for the economy along with extending the Capital Cost Allowance rate for manufacturing equipment
- ❑ This was followed by personal income tax relief and money for worker retraining
- ❑ The temporary Capital Cost Allowance for computers and the size of the forecasted deficits (\$85b) were not thought to be nearly as helpful
- ❑ Western executives were the most concerned over the projected deficits, and less enthusiastic than Ontario executives about housing and infrastructure funding



“I am going to list some policy initiatives that were included in the recent federal budget and ask you to tell me for each how helpful they will be for the Canadian economy. On a scale of one to nine where one is not at all helpful and nine is extremely helpful how helpful is/are...?”





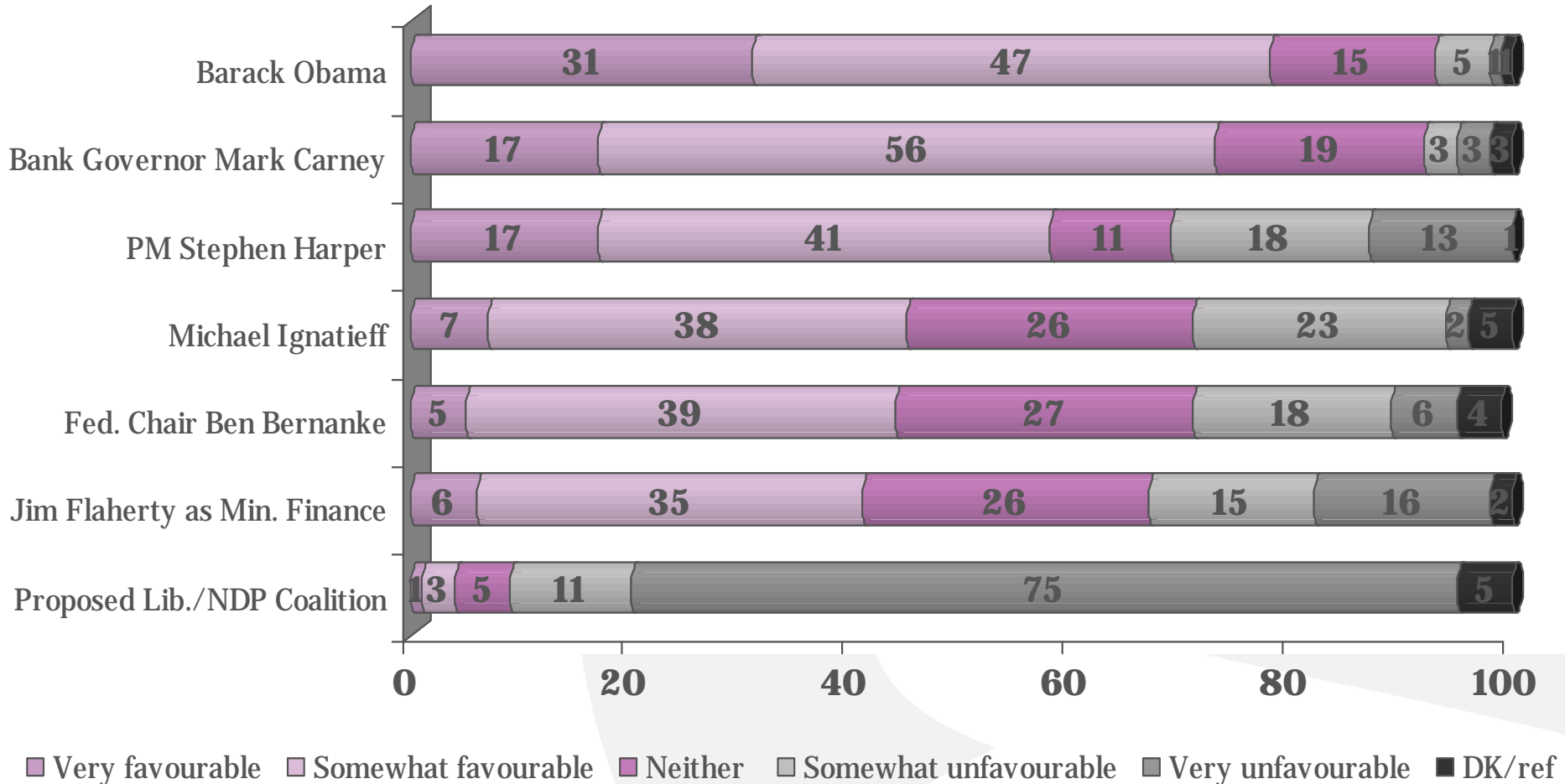
- ❑ The Budget did little to improve opinion of Minister Flaherty
- ❑ Executives think less favourably of Flaherty than they do of the Conservative government
- ❑ His favourability is unchanged from last quarter but confidence in his management of the economy is down
 - Those with more confidence in Flaherty tend to project growth for their companies, while most of those who expect their business to decline have little or no confidence in his economic management
- ❑ Executives have somewhat more confidence in Obama's administration than in Stephen Harper's economic plan and management
- ❑ But there is clearly no appetite to replace the Conservative government with a Liberal NDP coalition



- ❑ Most have confidence in Harper's government – the numbers are similar in Ontario and in the West
- ❑ They were less confident in provincial governments - Ontario executives had more confidence in the Harper government than in their provincial government
- ❑ Harper's favourability is highest in the West, while almost a third of Western executives had an unfavourable impression of Liberal Leader Michael Ignatieff
- ❑ BoC Governor Mark Carney has the highest favourability



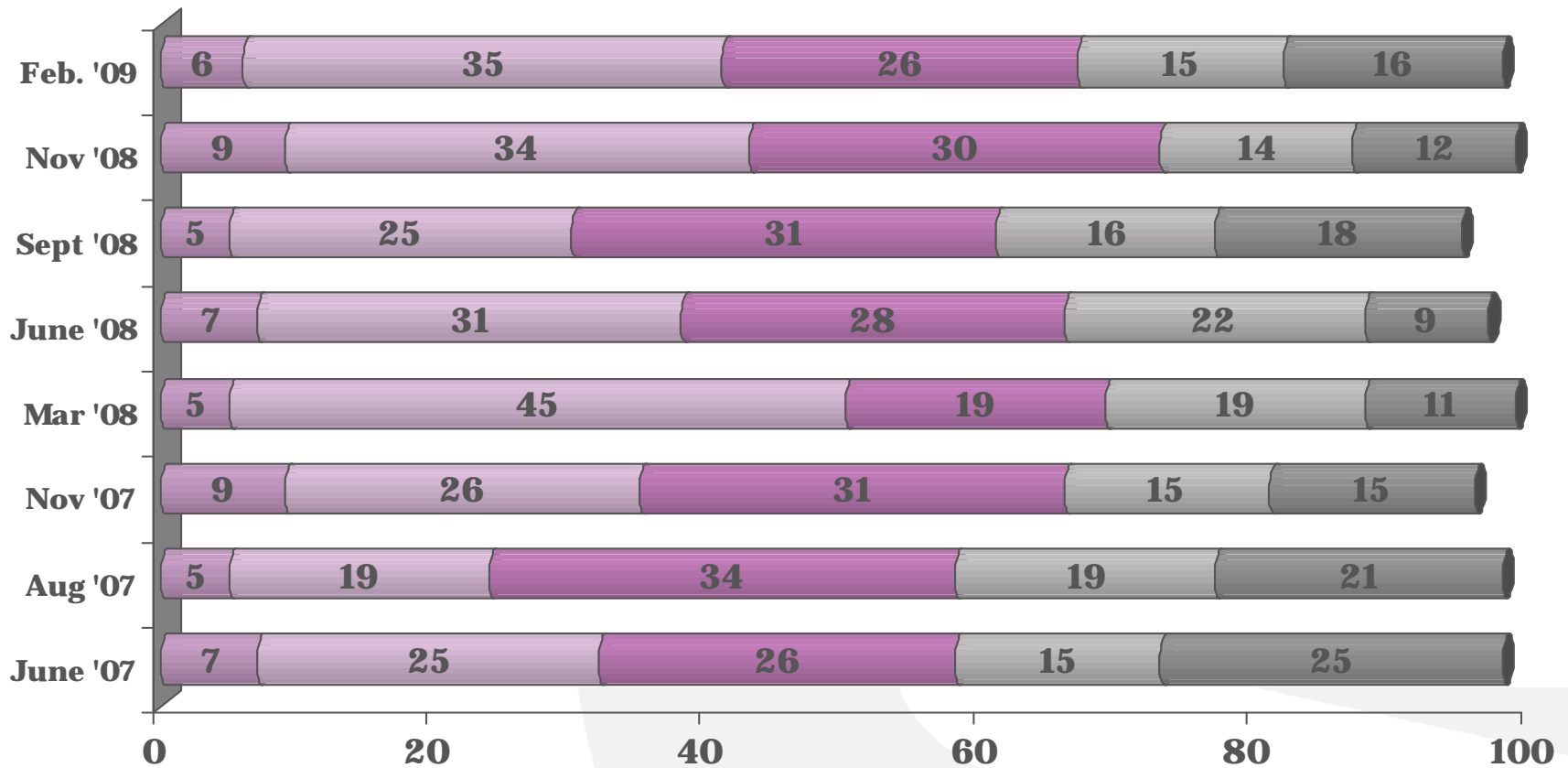
How favourable or unfavourable is your impression of ...?





Impressions of Minister Flaherty

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

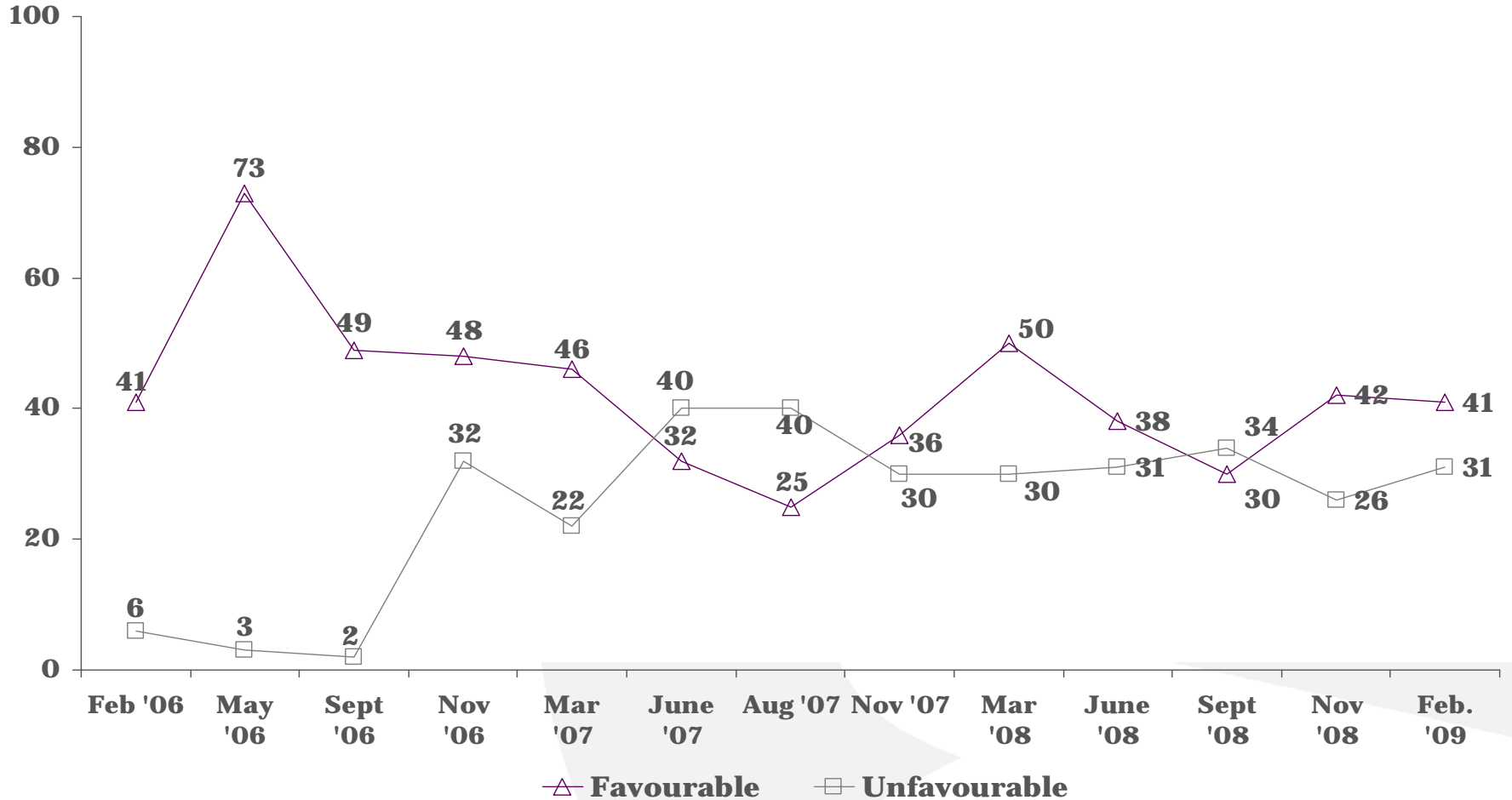


Very favourable Somewhat favourable Neither Somewhat unfavourable Very unfavourable



Impressions of Minister Flaherty

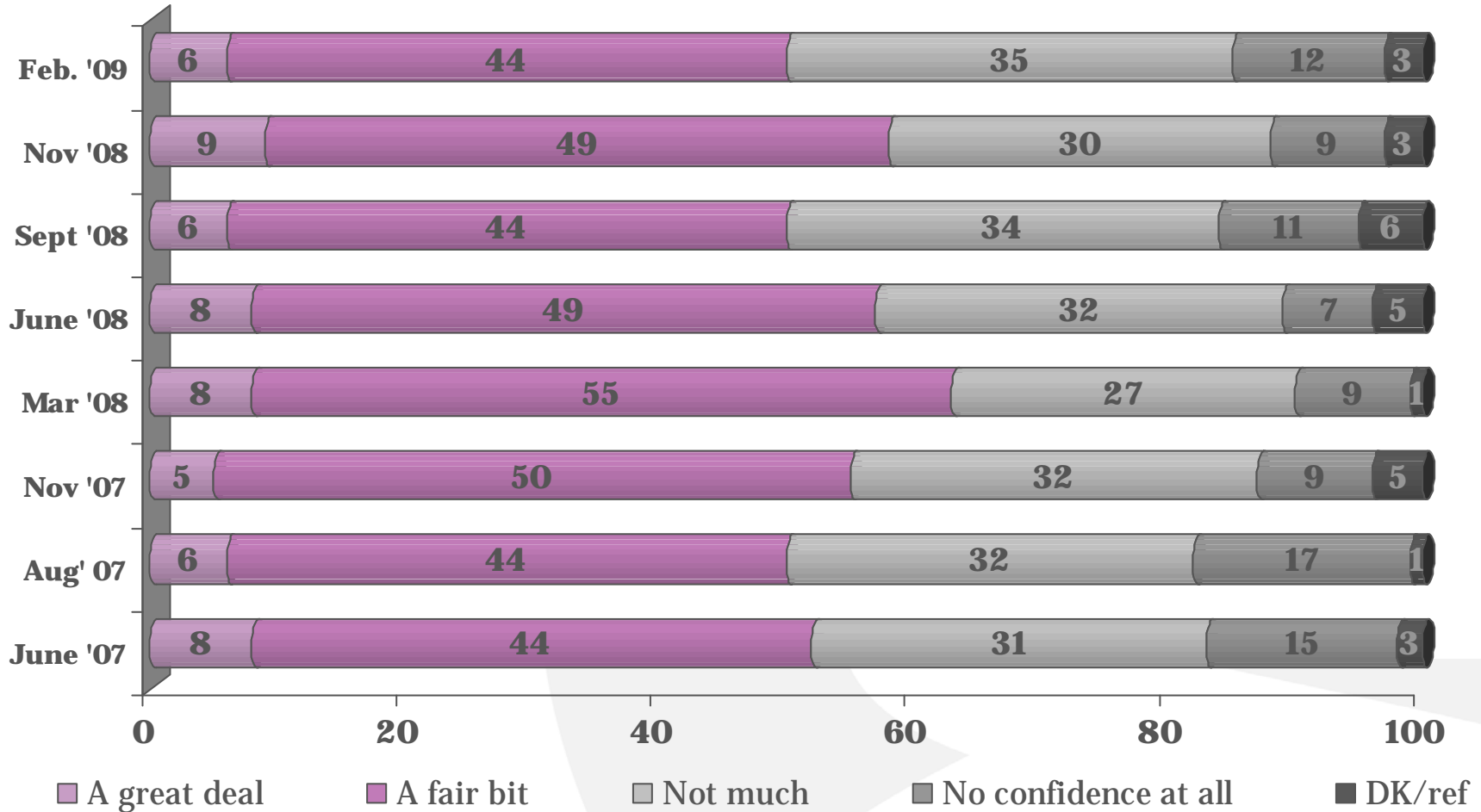
How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?





Confidence in Minister Flaherty

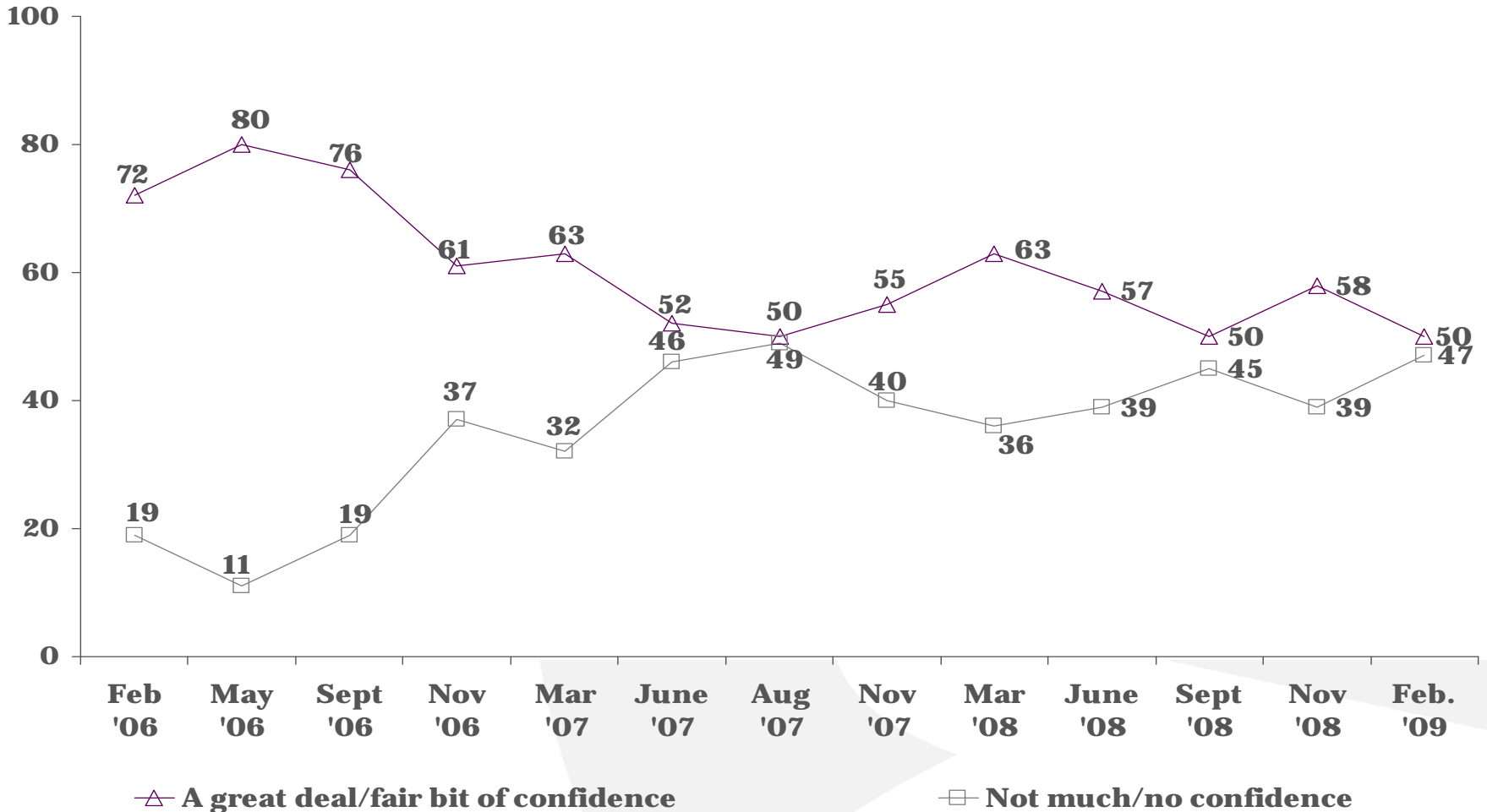
How much confidence do you have in Finance Minister Flaherty's management of the economy?





Confidence in Minister Flaherty

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





Economic Management

“We’d like to ask how much confidence you have in the economic plan and management of governments. Would you say you have a great deal of confidence, some confidence, little confidence or no confidence at all in:...?”

