

Memorandum



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Date: February 23, 2009

Re: ***Executive Summary - C-Suite Quarterly Survey***

This quarter's survey asked C-Suite executives about the economy and employment and measures reaction to the federal budget. 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.

Key findings:

- 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.
- 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.

Findings on the Economy and Business

Memorandum



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



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- ❑ 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.
- ❑ The number who said they are more likely to consider reducing capital expenditures they had planned stands at 80% - up 5% from last quarter. Marketing and worker retraining are likely to see serious cuts, as is Research and Development.
- ❑ 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. 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

Reaction to the Federal Budget and Leadership

- ❑ 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.
- ❑ 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”

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- ❑ 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
- ❑ The budget did especially poorly on lowering taxes, in the view of executives. 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.
- ❑ 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