



the gandalf group

C-Suite Survey: The Economic Outlook

June 22, 2009

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- ❑ Telephone interviews with 157 C-Suite executives from the ROB 1000 list of companies, conducted between May 21 and June 3, 2009
- ❑ This sample yields a margin of error of +/- 7.18% 19 times out of 20.



- ❑ Optimism among C-Suite executives in terms of economic outlook has rebounded swiftly and significantly after negative opinion levels over the last two quarterly surveys
- ❑ This quarter, just over half of executives say the economy will grow over the coming year – five times as many as said so last quarter
- ❑ However, virtually all executives think the economy currently is still declining



- The optimism is driven in part by a core group of executives who are projecting increased activity for their companies in the next two quarters
 - About one in five were particularly optimistic in their growth forecasts for this year and more likely to project increased capital spending. These executives are also more likely to consider a range financing initiatives over the next two quarters. They are also more confident in their ability to forecast performance. Their optimism in terms of their own companies is driving their view of the economy overall and they are more optimistic than others on the standard of living we'll have when the economy normalizes.



- ❑ The number who have seen credit conditions improve is still modest – less than one in five have seen an improvement
- ❑ The future prospects for credit availability are much more positive. The vast majority expect credit conditions to improve over the coming year. They are also optimistic about equity markets.
- ❑ Many expect they will be considering increasing capital spending two quarters from now and believe we'll see improvements over the next twelve months in the economy on consumer confidence and spending
- ❑ Despite the fact that many will look to increase capital spending by the end of the year, executives are not as confident about the prospects for job gains and higher income levels in the economy as a whole. Indeed, most expect we'll have a lower standard of living when the economy normalizes.
- ❑ One of the most important lessons learned out of the last year according to executives is around managing debt and the dangers of being highly leveraged. And many now have less confidence in their ability to forecast their companies' performance.

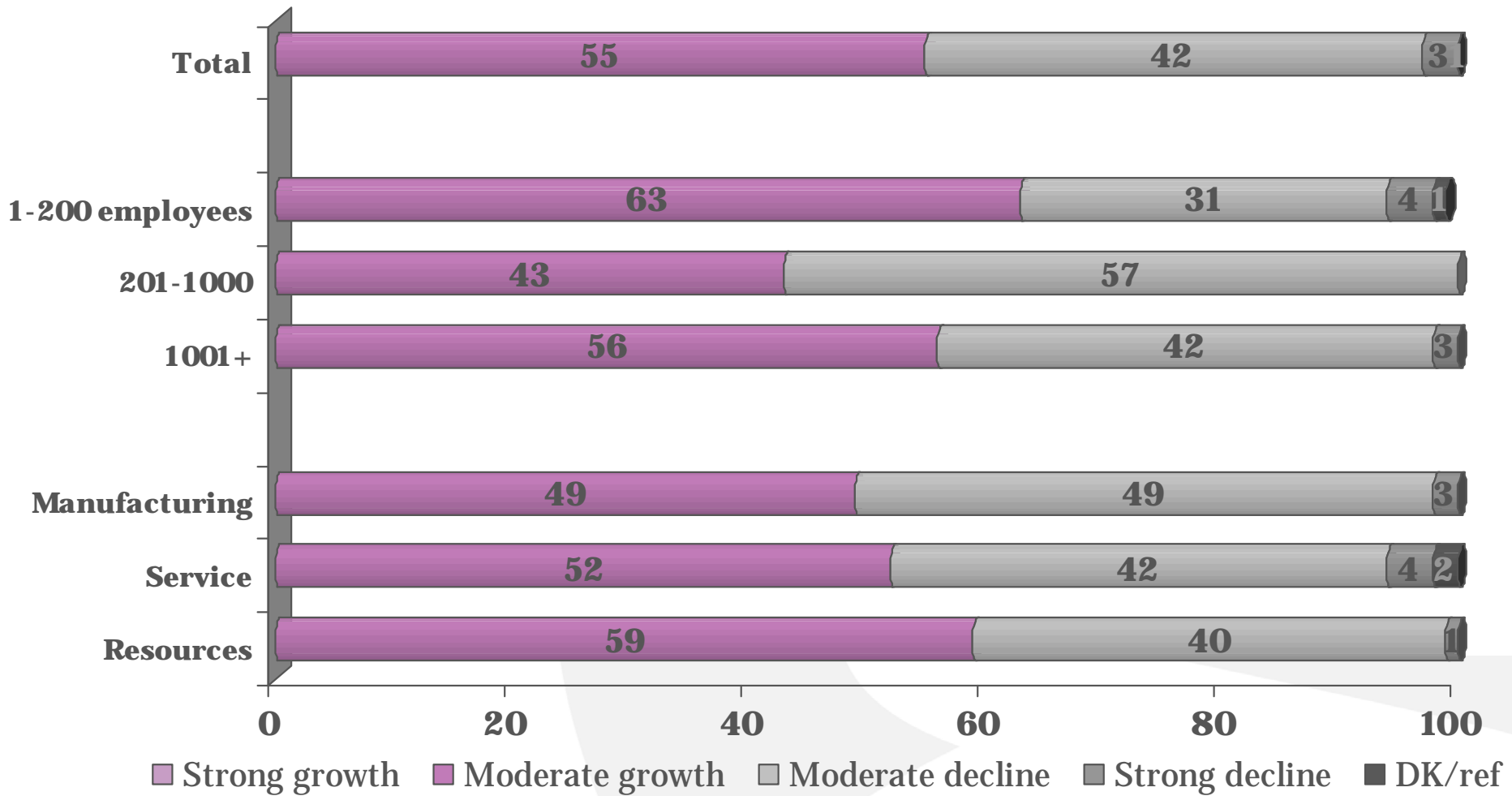


- ❑ Executives' projections for the next twelve months have moved sharply back to levels not seen since last summer. It's the biggest swing in opinion in fifteen quarterly surveys.
- ❑ Outlook in part is a reflection of companies' circumstances
 - Smaller companies and resources companies are somewhat more bullish about the economy over the next twelve months.
 - Executives who intend to increase staff over the coming year are more likely to say the economy will do well over the next year
- ❑ Expectations about the speed of the turnaround are increasing as well
 - 86% think the economy is currently in decline, but three quarters of those think the recovery will be on in less than a year
- ❑ Business is not expecting the economy to roar into recovery – most are expecting moderate growth when it starts
- ❑ Outlook for the US economy has rebounded to levels not seen in two years



Outlook: Canadian Economy

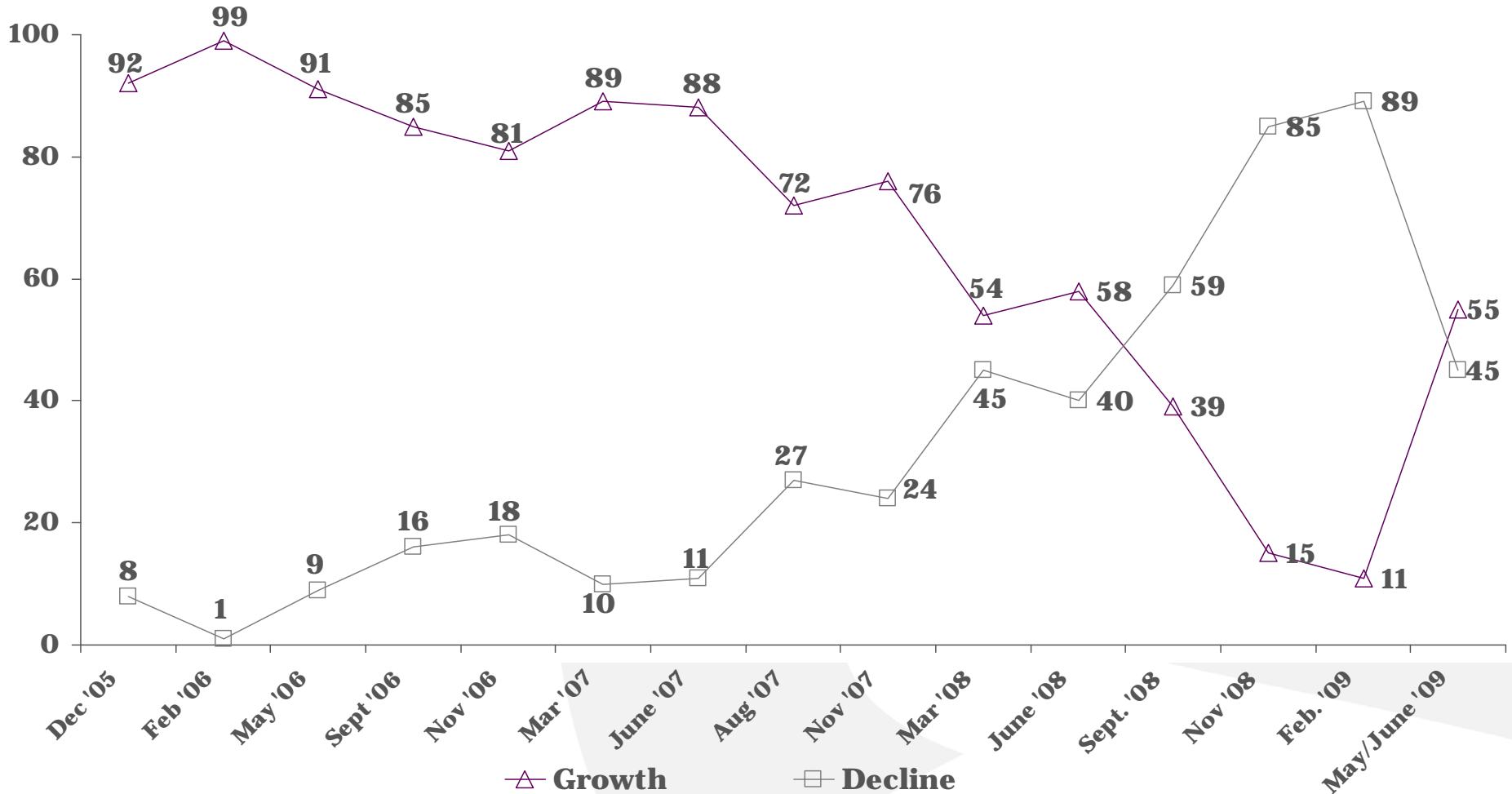
“What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





Expectations: Canadian Economy

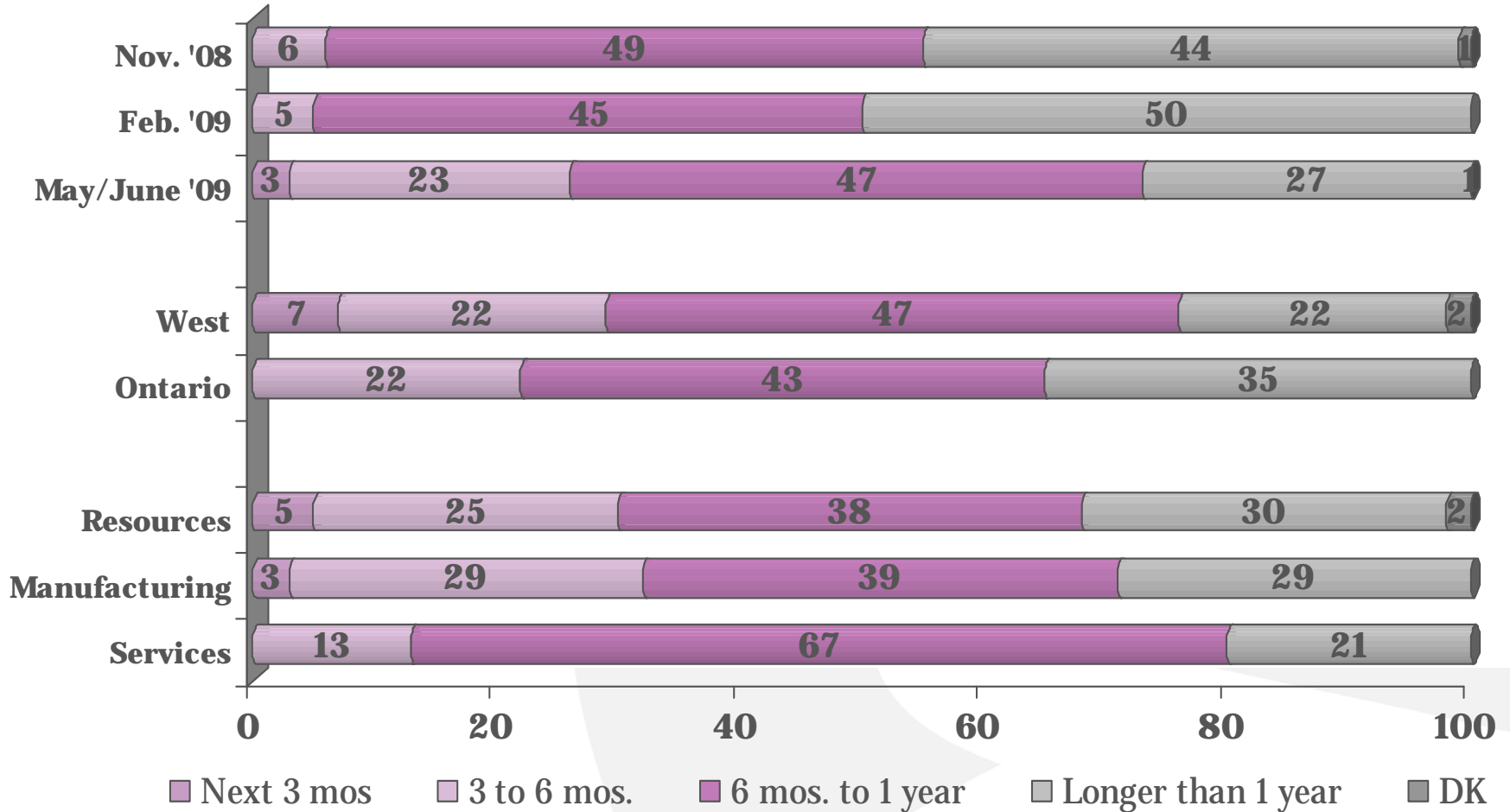
“What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





How long before the economy starts to turn around?

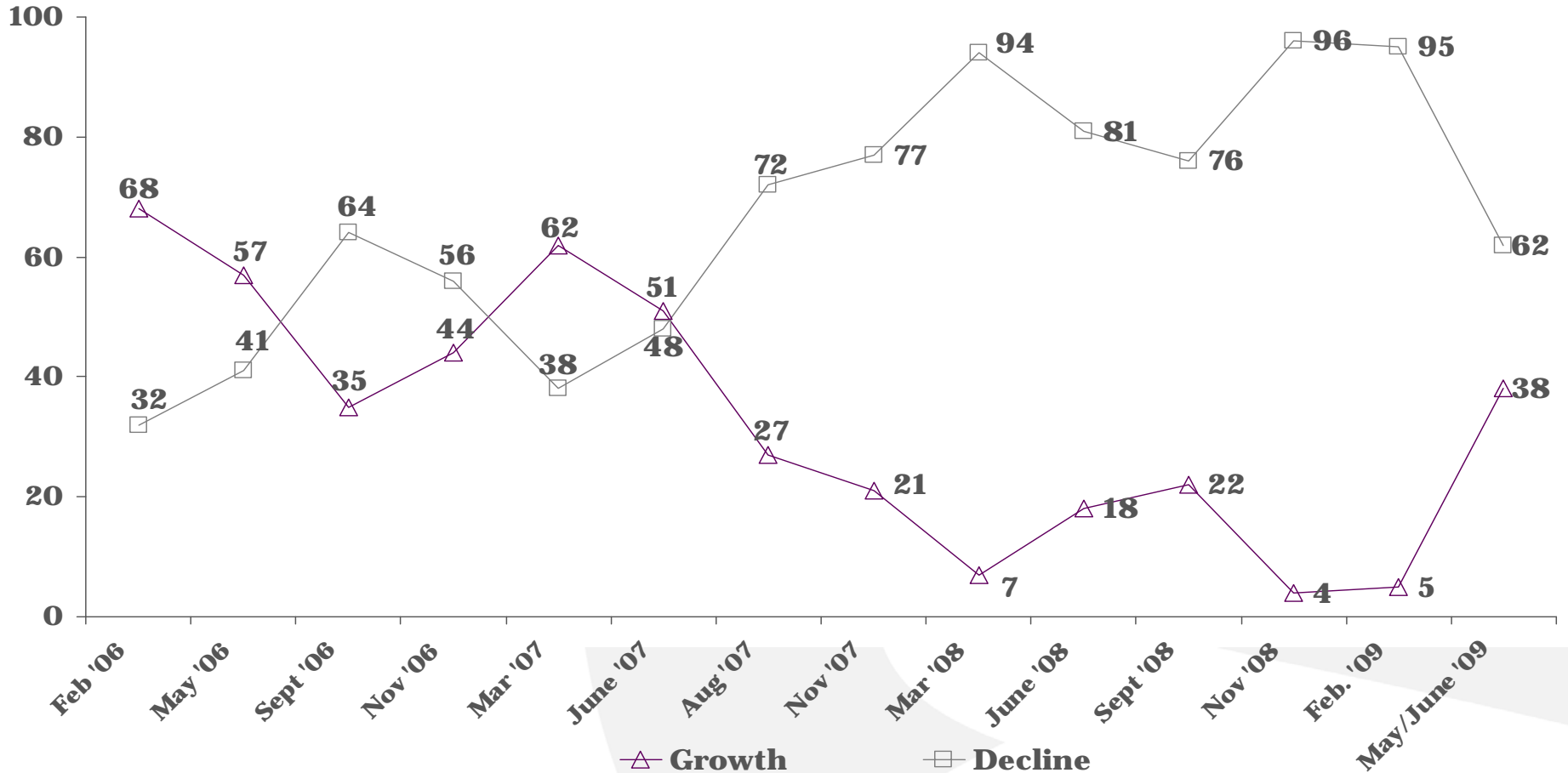
“How long do you think it will be before the Canadian economy starts to turn around and experience growth? Would that be within the next three months, three to six months, six months to one year, longer than a year?” (n=128)





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?”



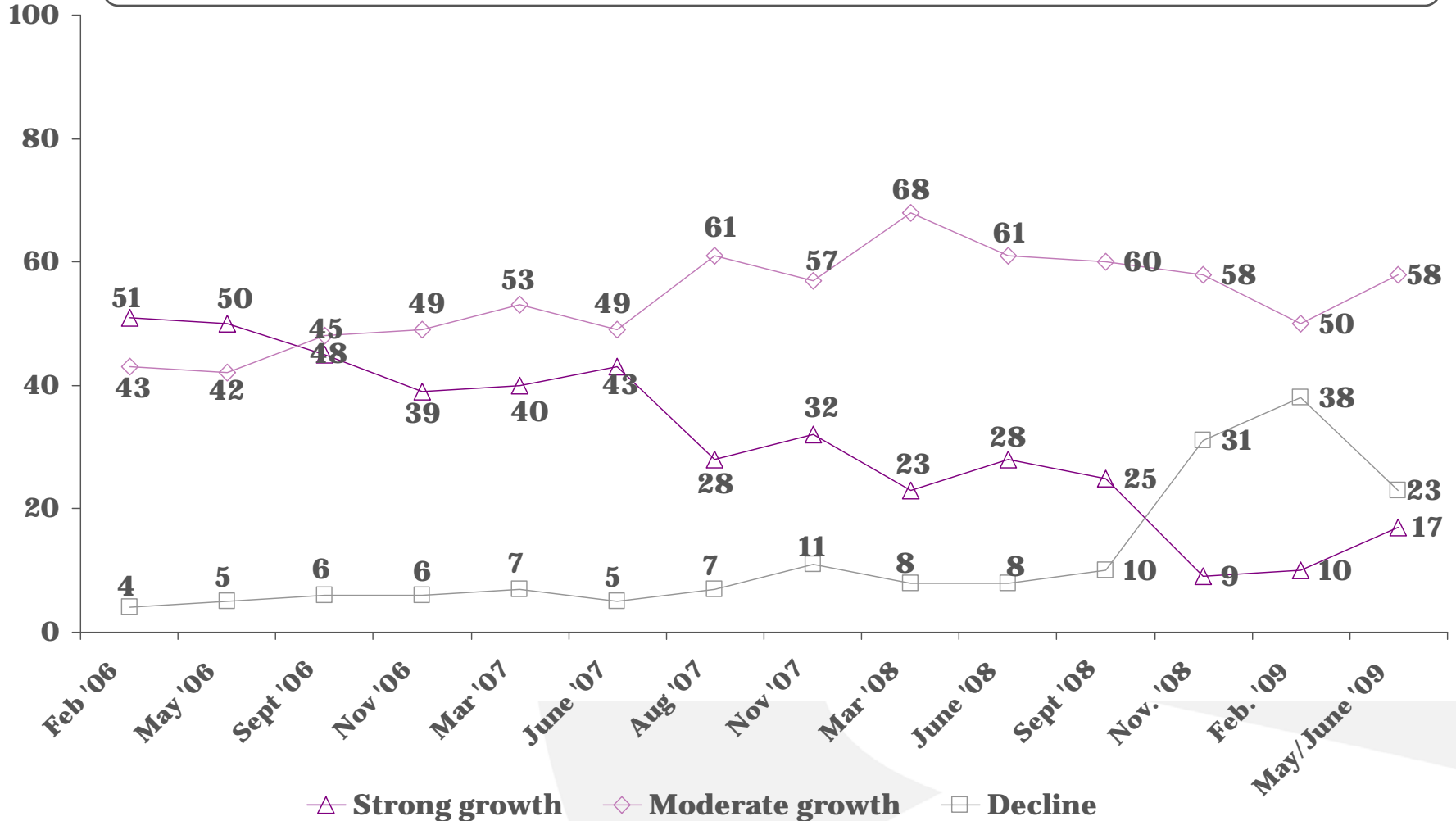


- ❑ Corporate projections have improved though not as sharply as executives' projections for the economy
 - Outlook for executives' companies over the next twelve months is better than it was in the last two quarterly surveys though still not where it was last summer
 - As with their projections for the Canadian economy, executives with smaller and resources-based companies are more optimistic than others



Expectations: Company

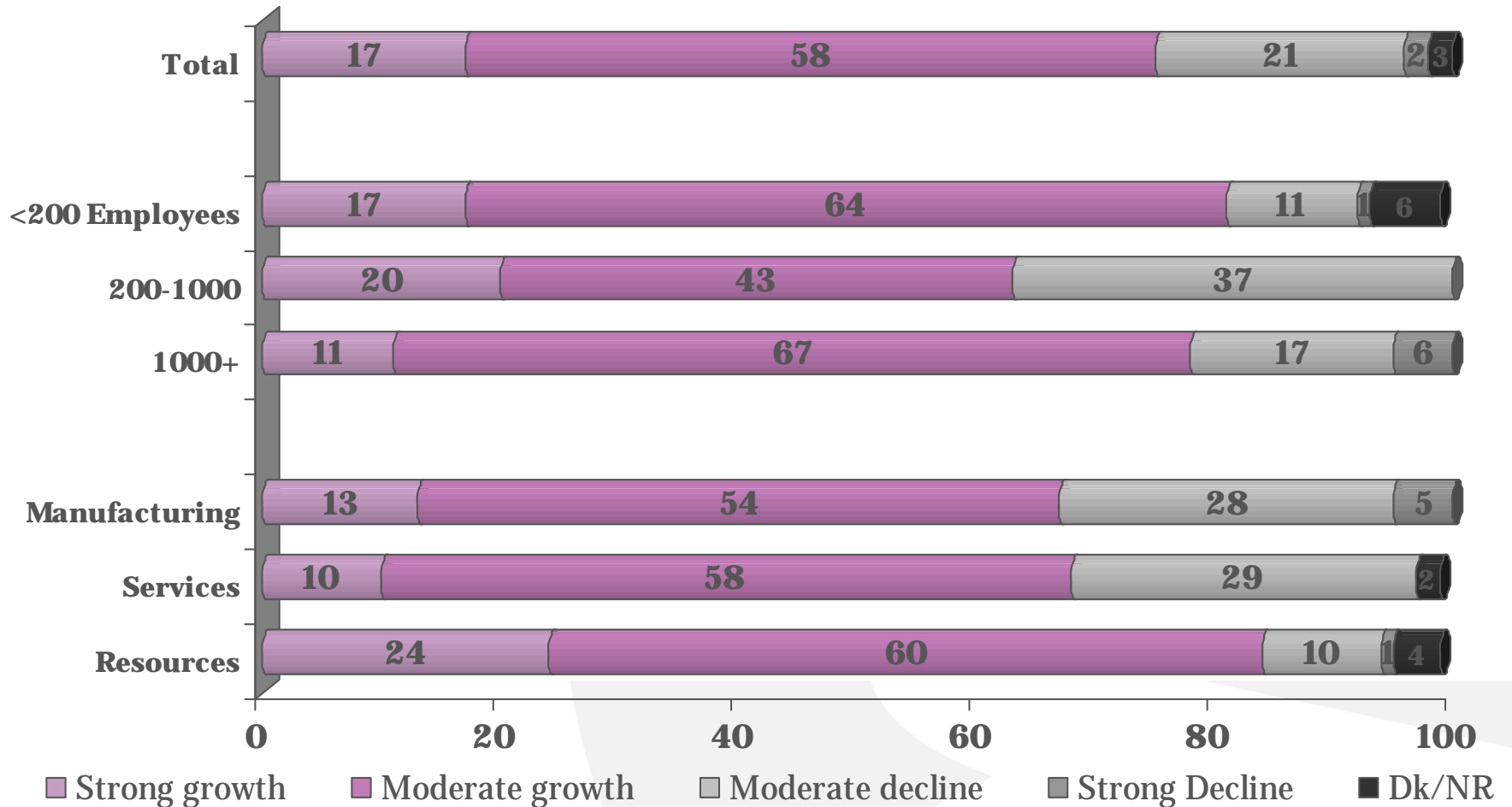
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Expectations: Company

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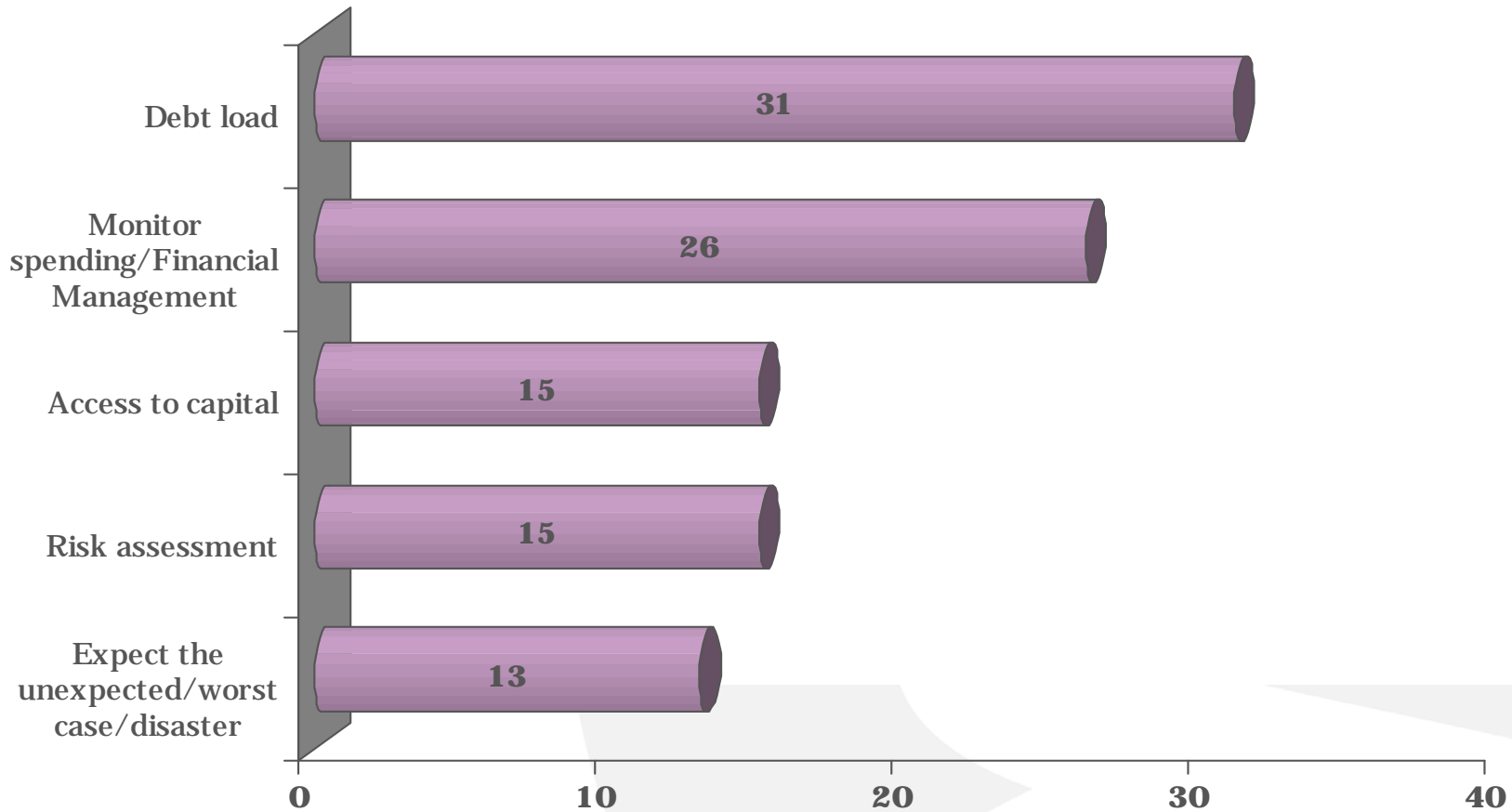




- ❑ There are several key areas where executives say they have learned lessons from the past year that will change how they do business
 - Primary among them are lessons learned around debt and leverage.
 - Businesses should be wary of high leverage, according to executives, and companies should keep a tighter control on debt
 - Other enduring lessons concern around financial mgmt.: e.g. expense monitoring and cash management
 - Resources companies are more likely to mention debt loads as an area where their approach will change while executives in the service sector are far less likely to mention debt and leverage as areas where their approach will change



“Some would say that the current recession will leave behind enduring lessons for businesses and capital markets. What would you say are the lessons you have learned from the developments over the past year that have or will change how you do business?” (open end - % saying each)

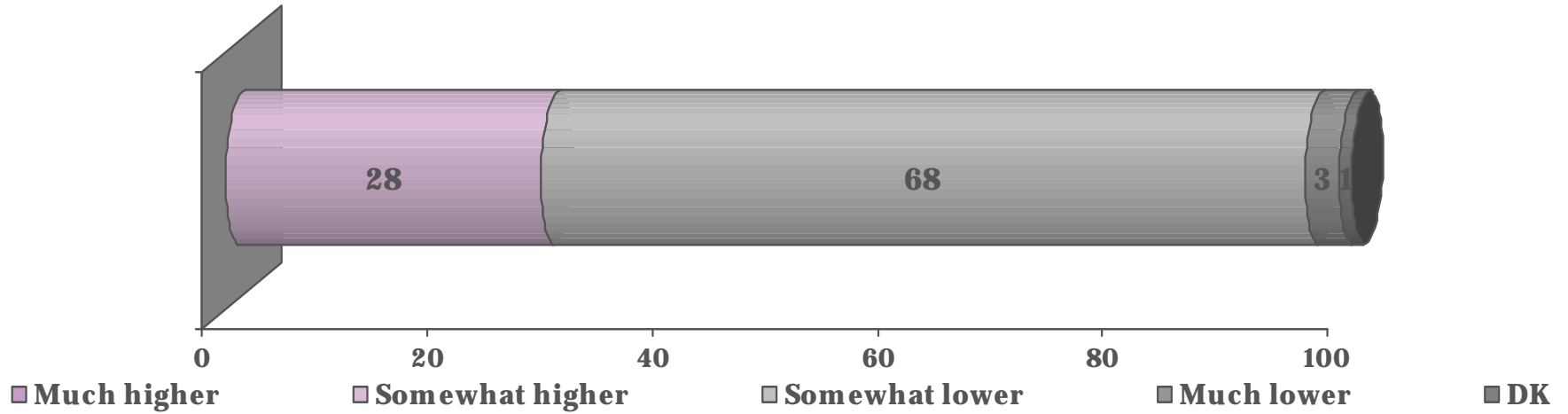




- ❑ Most executives believe that when the recession ends and the economy normalizes, Canada will have a lower standard of living than it did prior to the recession
 - There is little variation on this question by company type, region, size



“When this recession ends and the economy normalizes, do you think we will have a much higher, somewhat higher, somewhat lower or much lower standard of living than we used to have?”





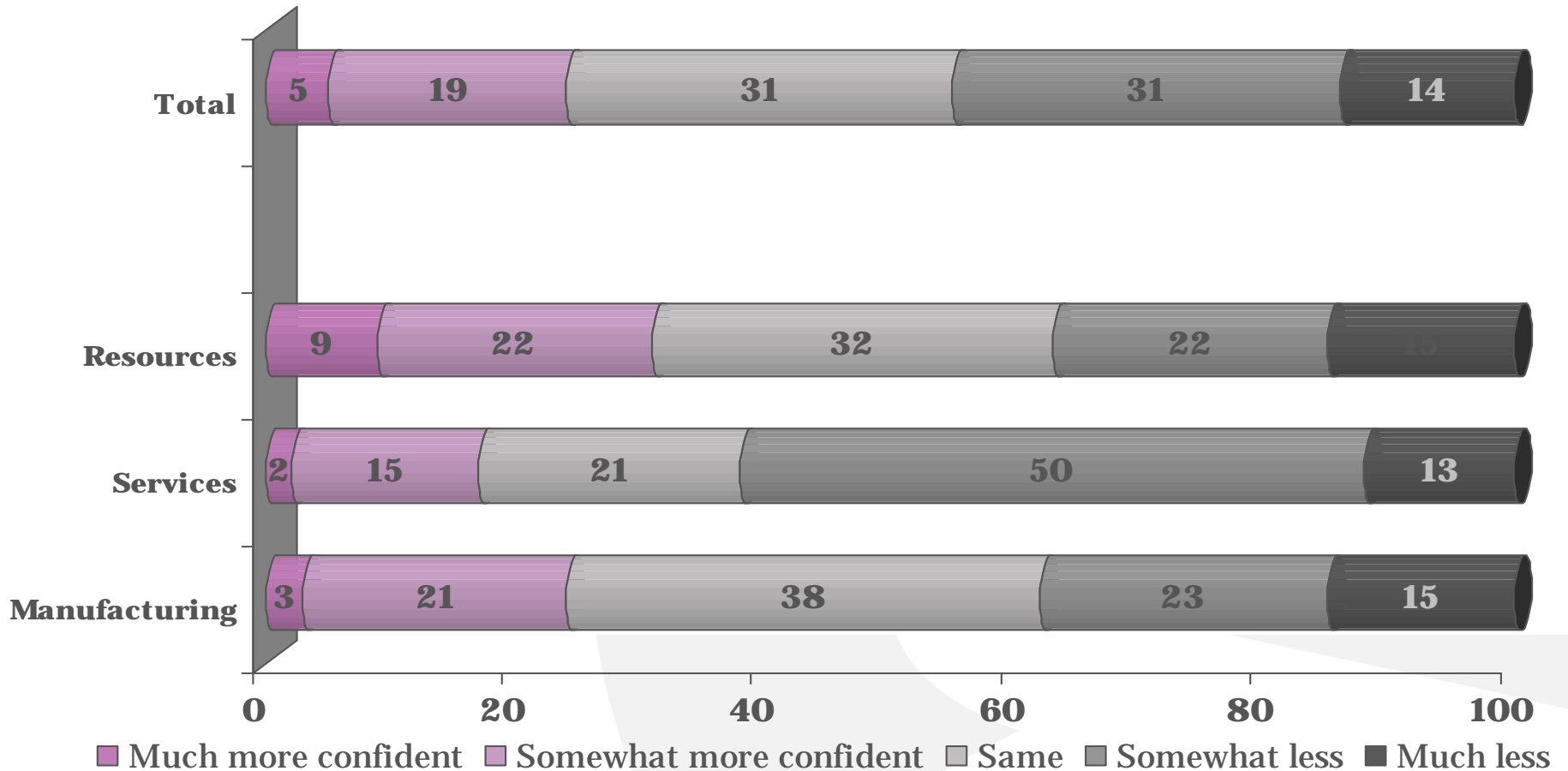
Confidence in Forecasting is Shot

- ❑ Many executives have lost confidence in their ability to forecast company performance
 - 45% say they are less confident than they were in their forecasting capacity
 - Nearly two-thirds of services sector executives report this concern
 - Those who are less confident in their performance forecasting are more pessimistic about the economy (in their forecast for the next twelve months and in terms of how fast it will turnaround) and less likely to say we'll have a higher standard of living when the economy normalizes
 - Those who are more confident are more optimistic about the economy overall and more likely to be considering increasing staffing levels and acquisitions



Forecasting Confidence

“We’d like to know your level of confidence in your ability to forecast your company’s performance today compared to one year ago. Would you say you’re much more confident, somewhat more confident, somewhat less confident, much less confident, or just as confident as you were 12 months ago in the ability of your company to forecast business performance?”



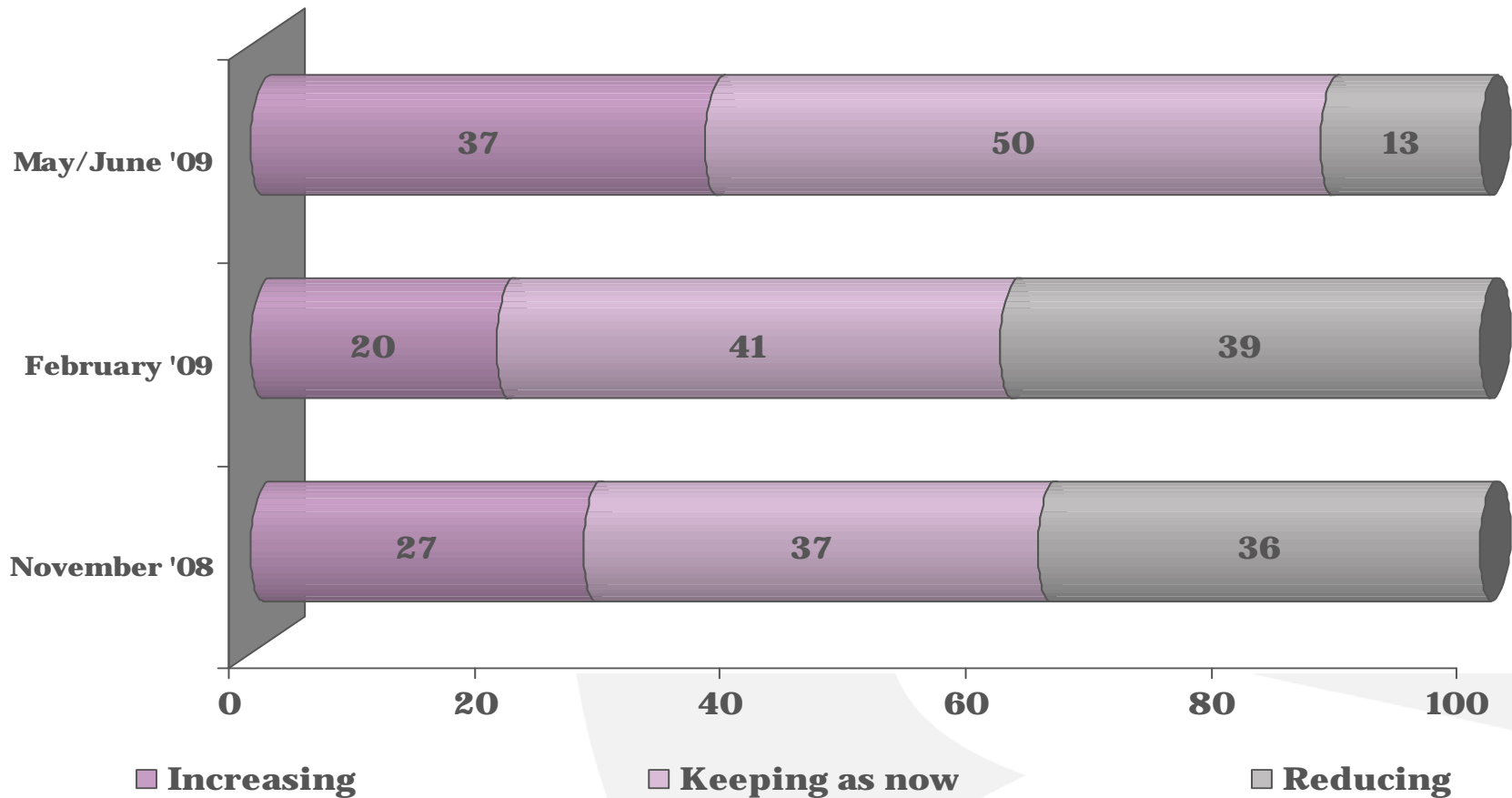


- ❑ While the pace of job cuts should be slowing down soon, the pace of job growth will be slow
- ❑ For two quarters, more executives told us they would be cutting jobs than adding them. This quarter that expectation is reversed. However, any significant hiring is at least six to nine months away as very few intend to be hiring in the next two quarters.
- ❑ The few that say they will be raising staffing levels significantly are almost exclusively resources companies.



Employment Levels

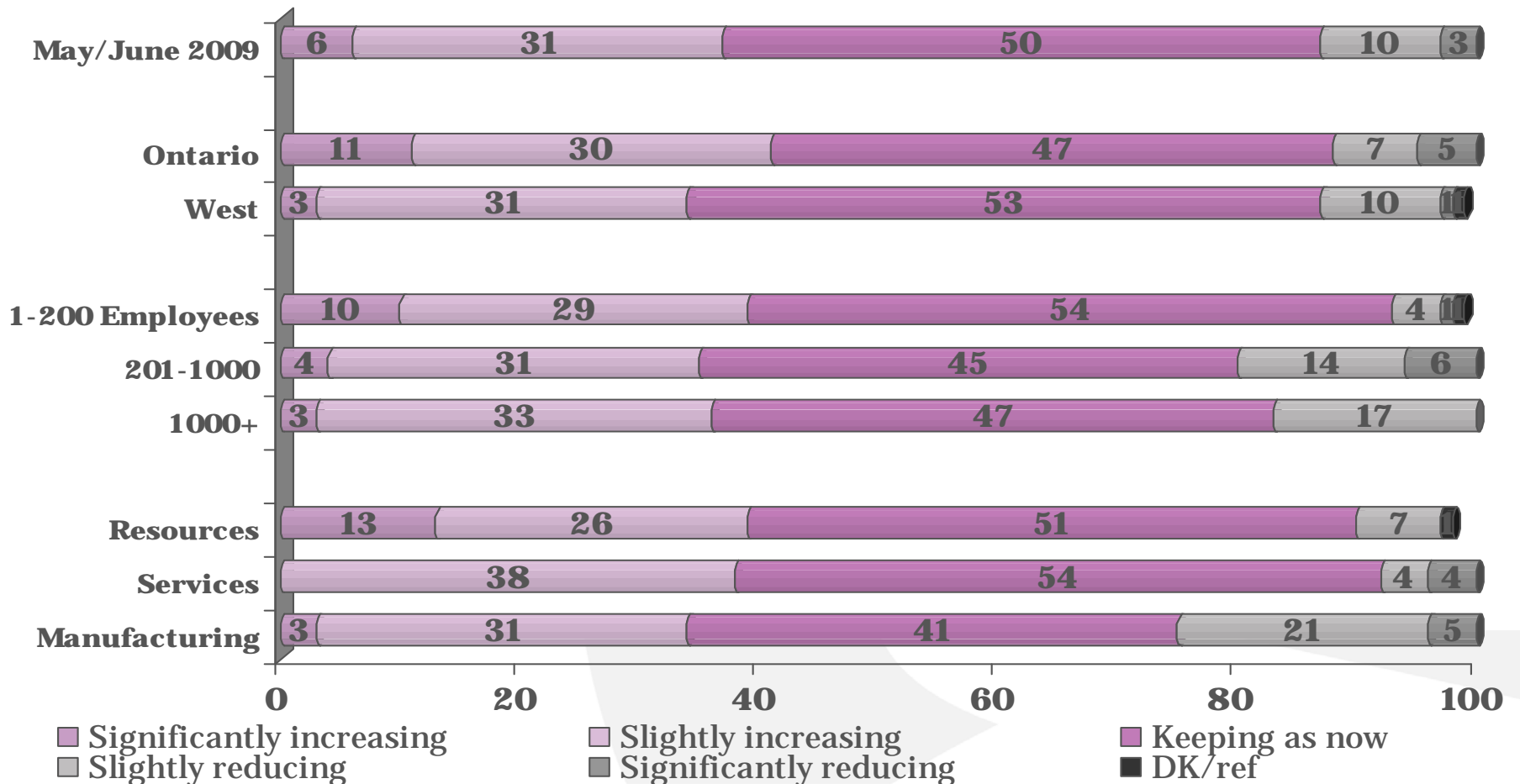
“Thinking of your company’s workforce over the next year, will you be: significantly increasing overall staffing & employment levels; slightly increasing overall staffing & employment levels; keeping staffing & employment levels where they are now; slightly reducing overall staffing & employment levels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





Employment Levels

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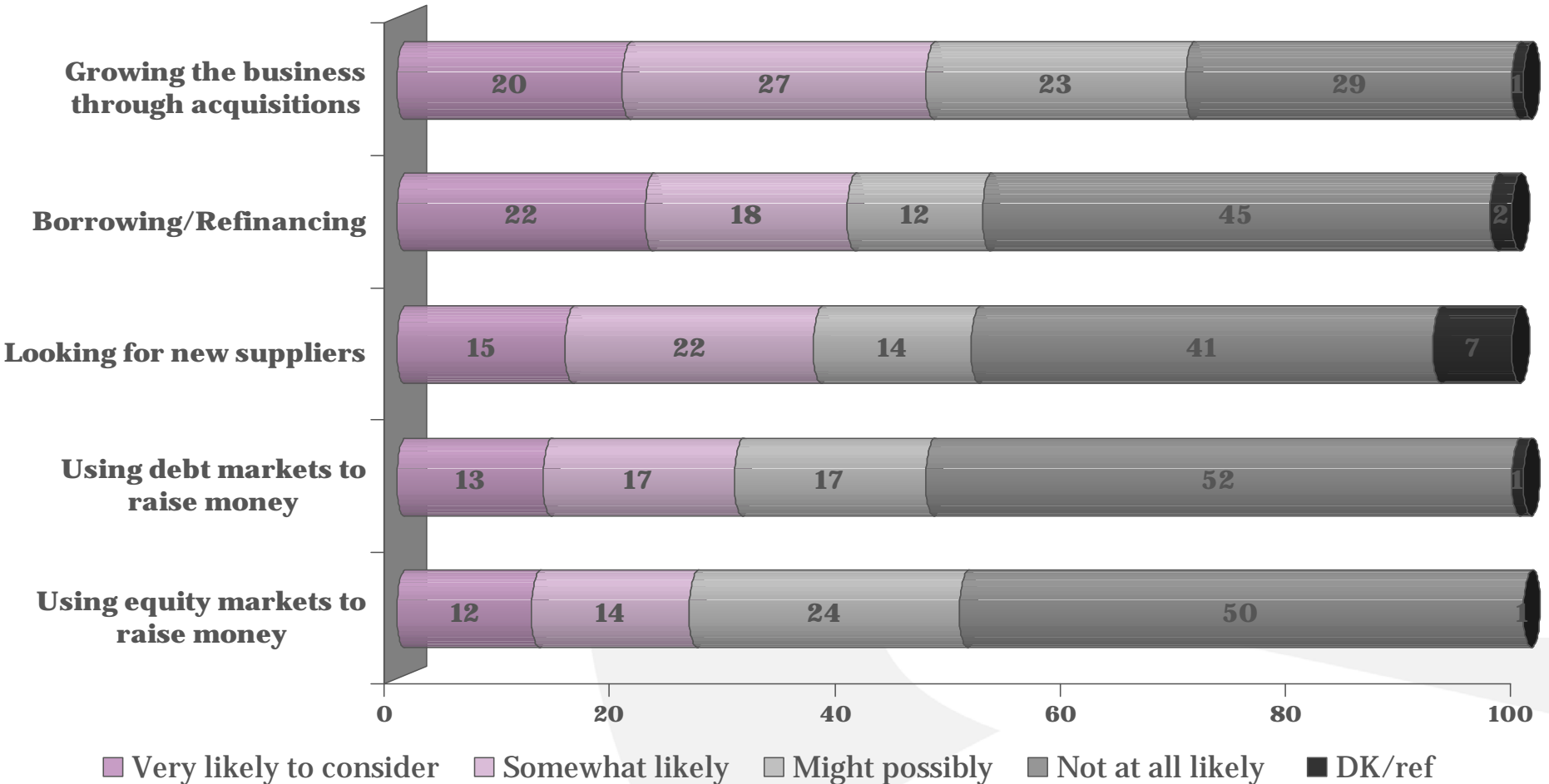


- ❑ Among the financing and management options facing companies this quarter, executives are most likely to be considering growing their businesses through acquisitions, and to a lesser extent borrowing or refinancing
 - They are somewhat more likely to be considering these options than using debt or equity markets to raise money
- ❑ They are more likely to be looking at acquiring companies to grow their businesses than at merging or diluting equity
- ❑ While some are considering increasing capital spending, very few are looking to restore staff levels or inventory levels this quarter



Financial & Mgmt Considerations

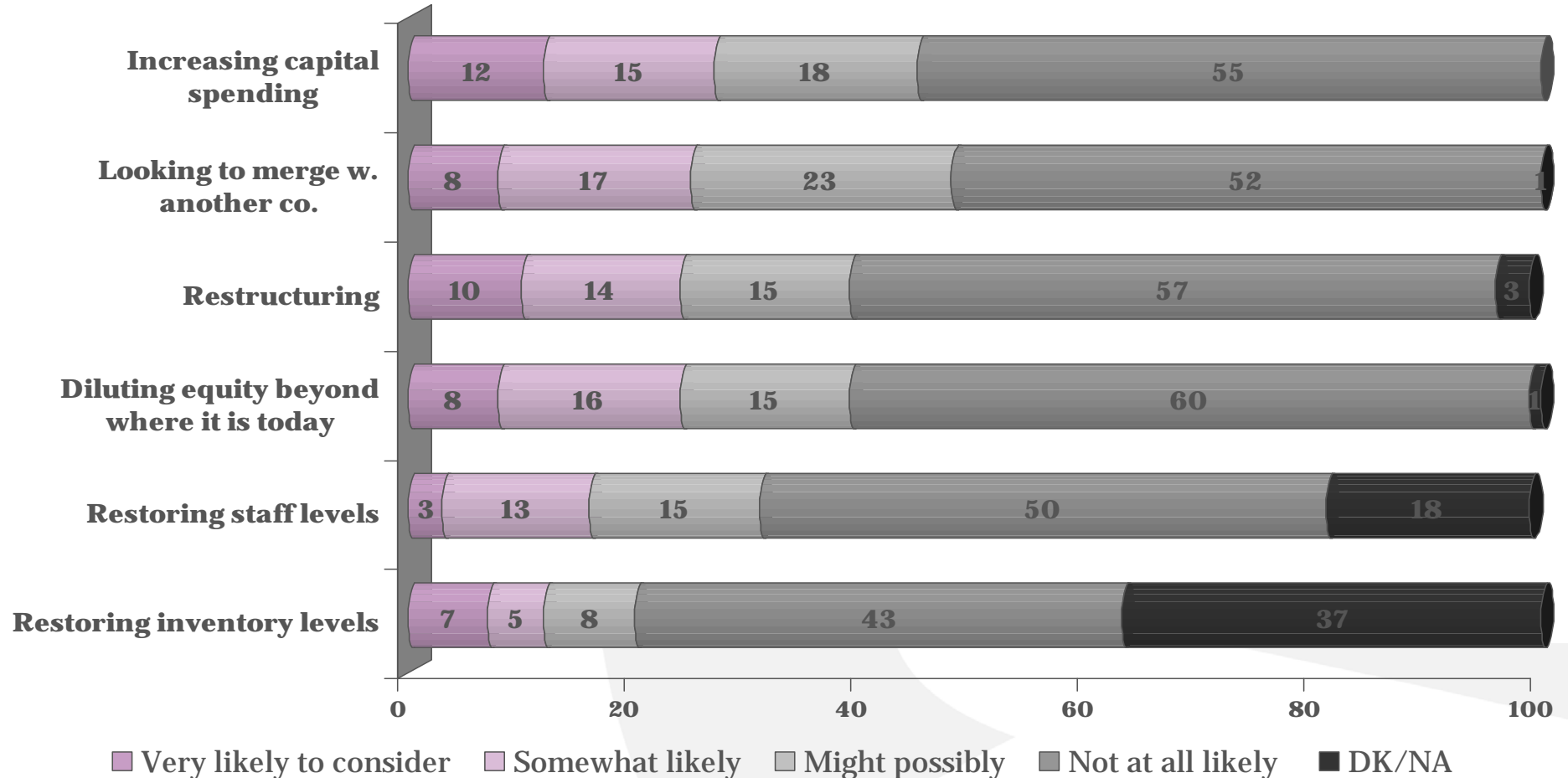
“I’m going to list a number of things companies are considering in light of current conditions. Please tell me if in this quarter your company would be very likely to consider, would be somewhat likely to consider, might possibly consider or would be not at all likely to consider the following initiatives. For...”





Financial & Mgmt Considerations

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- ❑ The companies that are considering mergers and diluting equity tend to be resources companies
- ❑ Resources companies are somewhat more likely than others to consider using equity markets to raise money at this time and grow their companies through acquisitions
 - They are less likely than manufacturing and services companies to be considering “borrowing or refinancing” among the options listed
 - There is less difference between companies when it comes to increasing capital spending, as well as restructuring and increasing staff levels
 - Manufacturers are more likely to be considering new suppliers and restoring inventory levels
- ❑ Larger employers account for most of the executives considering restoring inventory levels
- ❑ There is little difference between companies by size when it comes to considering restructuring or restoring staff levels.

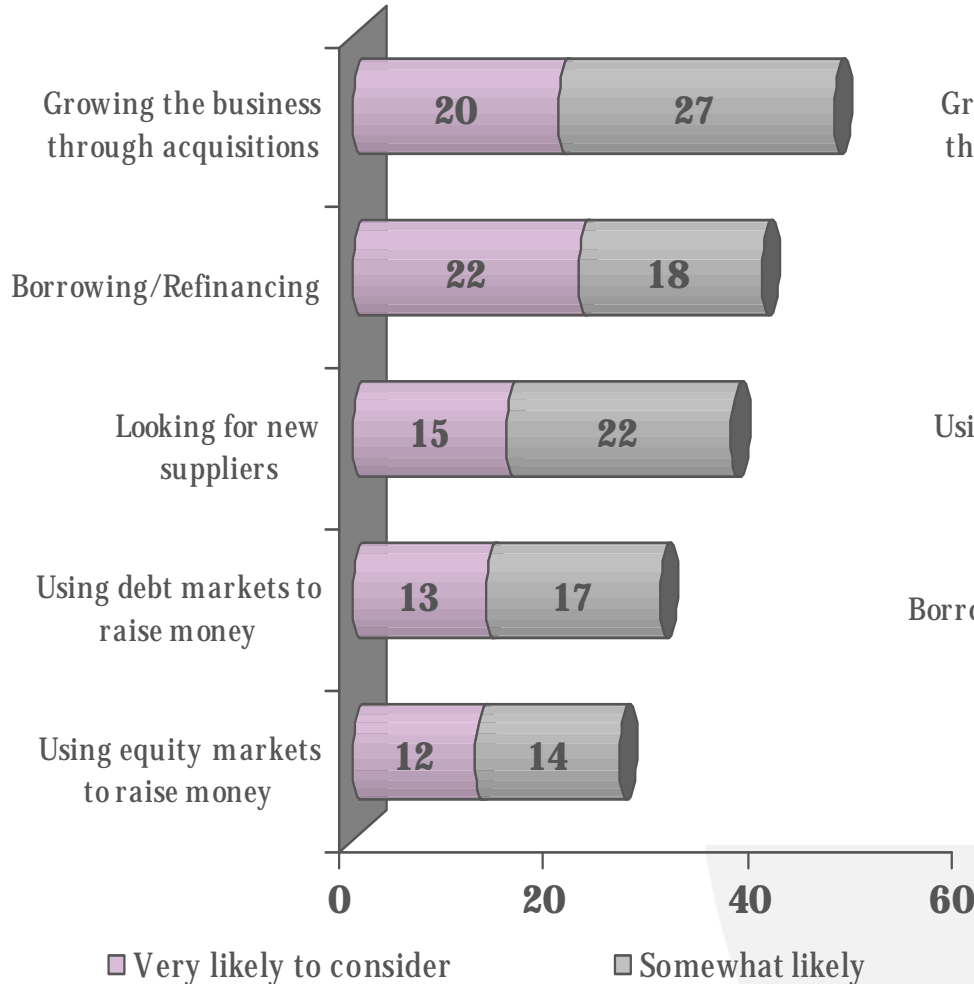


- ❑ When we asked executives how likely it is that they will be considering these options two quarters from now, they are still most likely to say they'll be considering growing their businesses through acquisitions – it will be a top priority, as it is in the current quarter.
- ❑ However, they say they are more likely two quarters from now to be considering increasing capital spending
 - This and growing the business through acquisitions, will be top priorities
 - They're more likely to be projecting capital spending than increasing staff levels by the end of the year
 - However a greater number will be very or somewhat likely to consider increasing staff levels two quarters from now than in the current quarter
- ❑ Executives will be somewhat more likely to consider equity and debt markets as a source for raising money two quarters from now than they are in the current quarter

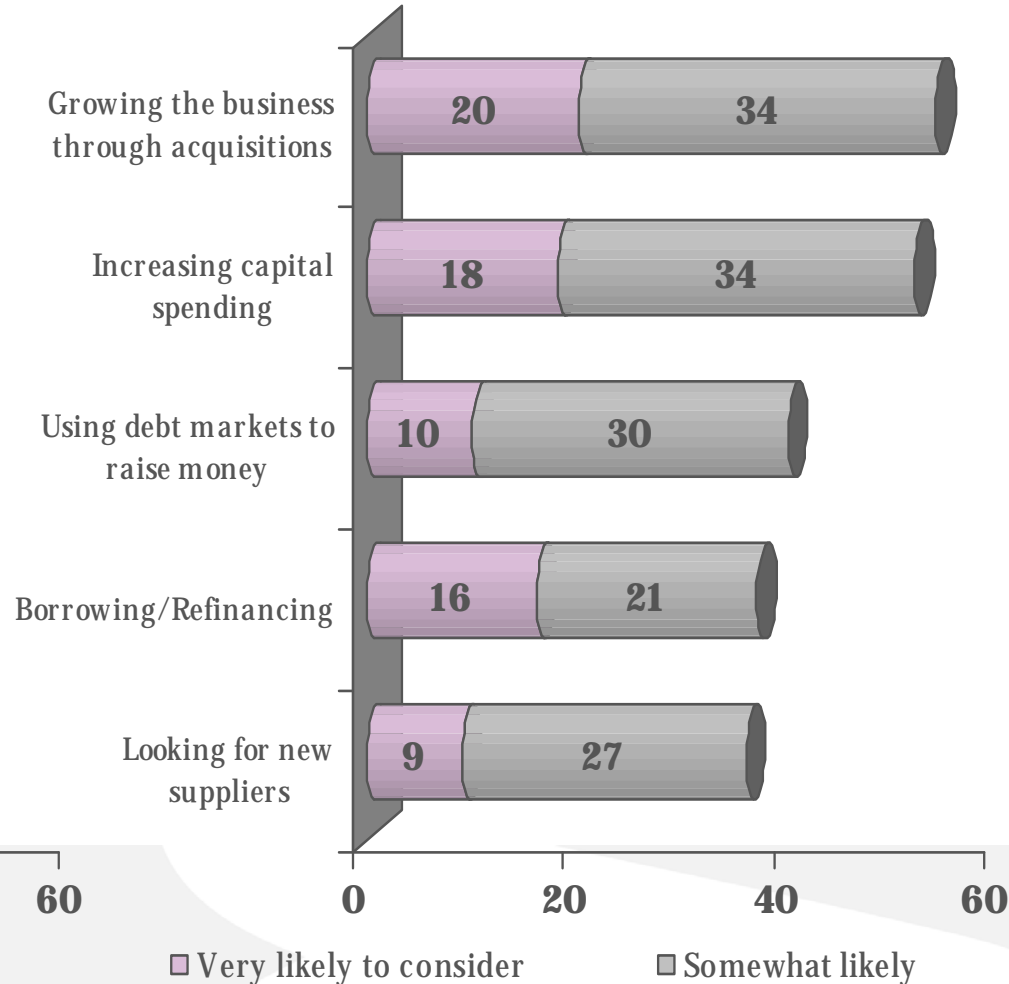


Financial & Mgmt Considerations

Likelihood to consider in this quarter



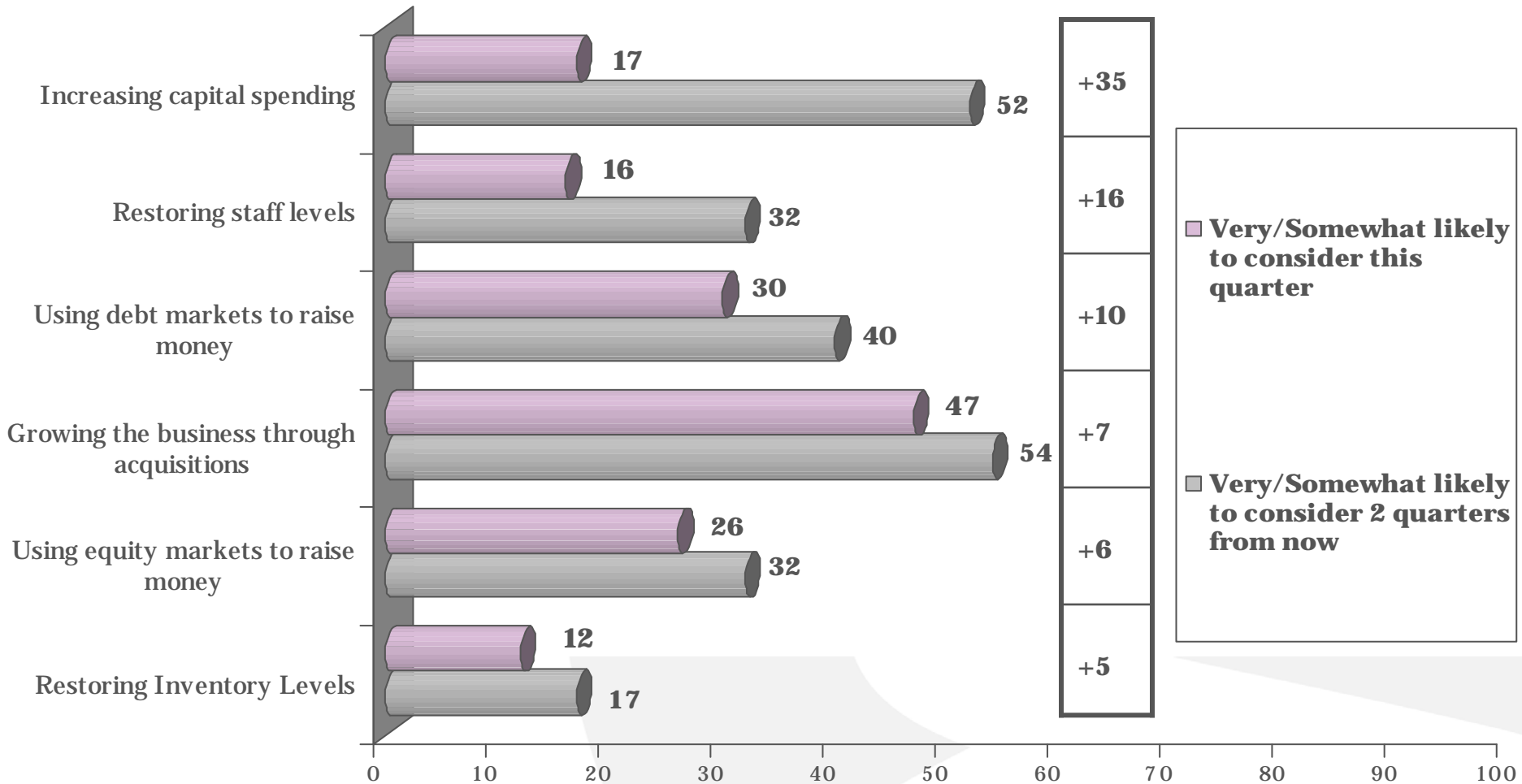
Likelihood to consider two quarters from now





Financial & Mgmt Considerations

“Please tell me if **in this quarter** your company would be very likely to consider, would be somewhat likely to consider, might possibly consider or would be not at all likely to consider the following initiatives” & “...tell us how likely it is that your company will be considering those same activities **two quarters from now** – at the end of 2009.”



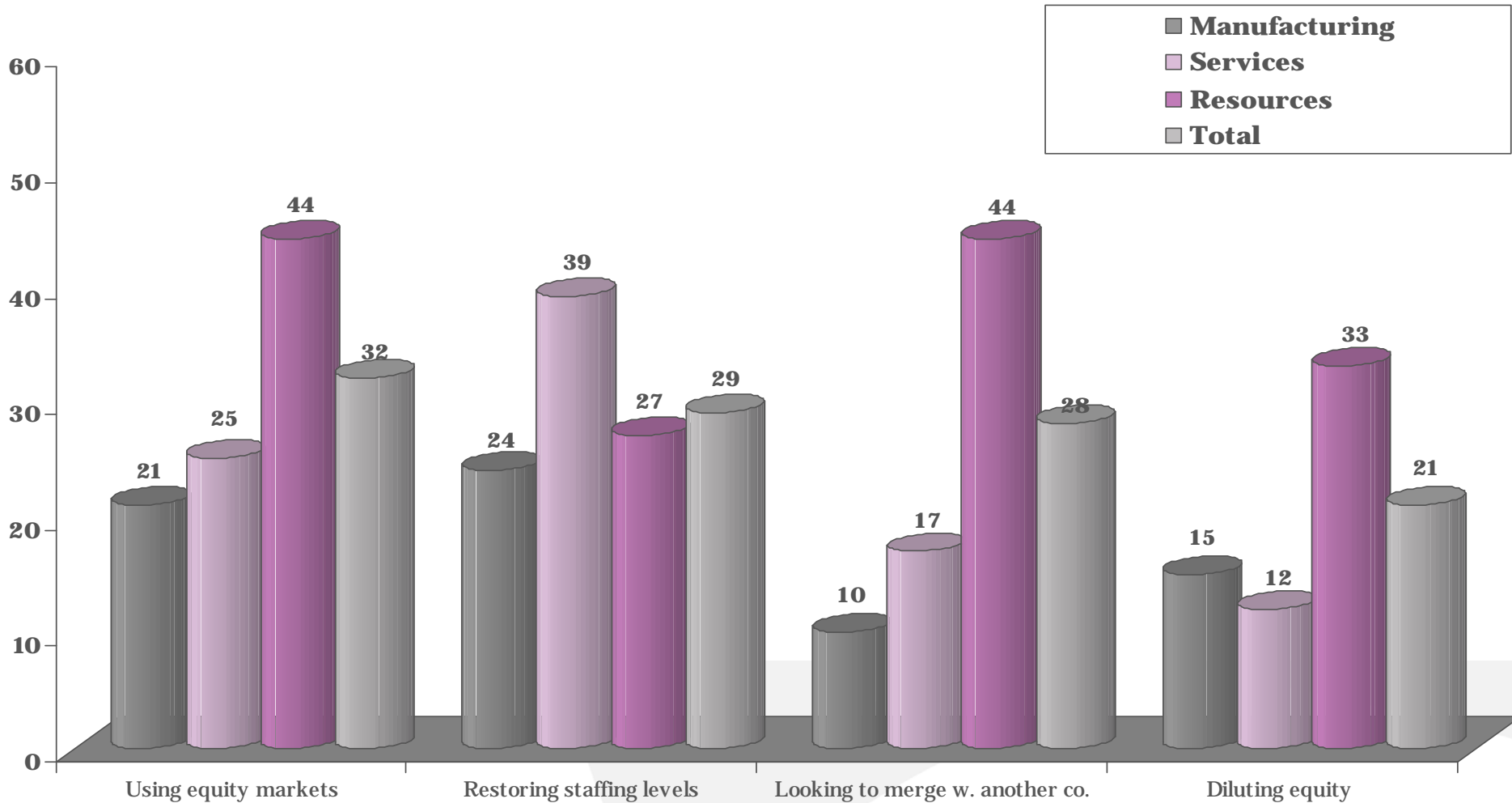


- ❑ Resources sector companies are poised for much higher levels of activity than others over the next two quarters in the areas of mergers, acquisitions and financing
- ❑ All companies by type/sector are giving similar degrees of consideration to increasing capital spending by the end of the year
 - Those are more likely to be considering increasing capital spending are also more likely to consider acquisitions, raising money in the debt and equity markets and borrowing/refinancing, and increasing staff
- ❑ There is little difference by company type on likelihood to consider inventory, restructuring, and new supplies – similar percentages are very or somewhat likely to consider each



Financial & Mgmt Considerations

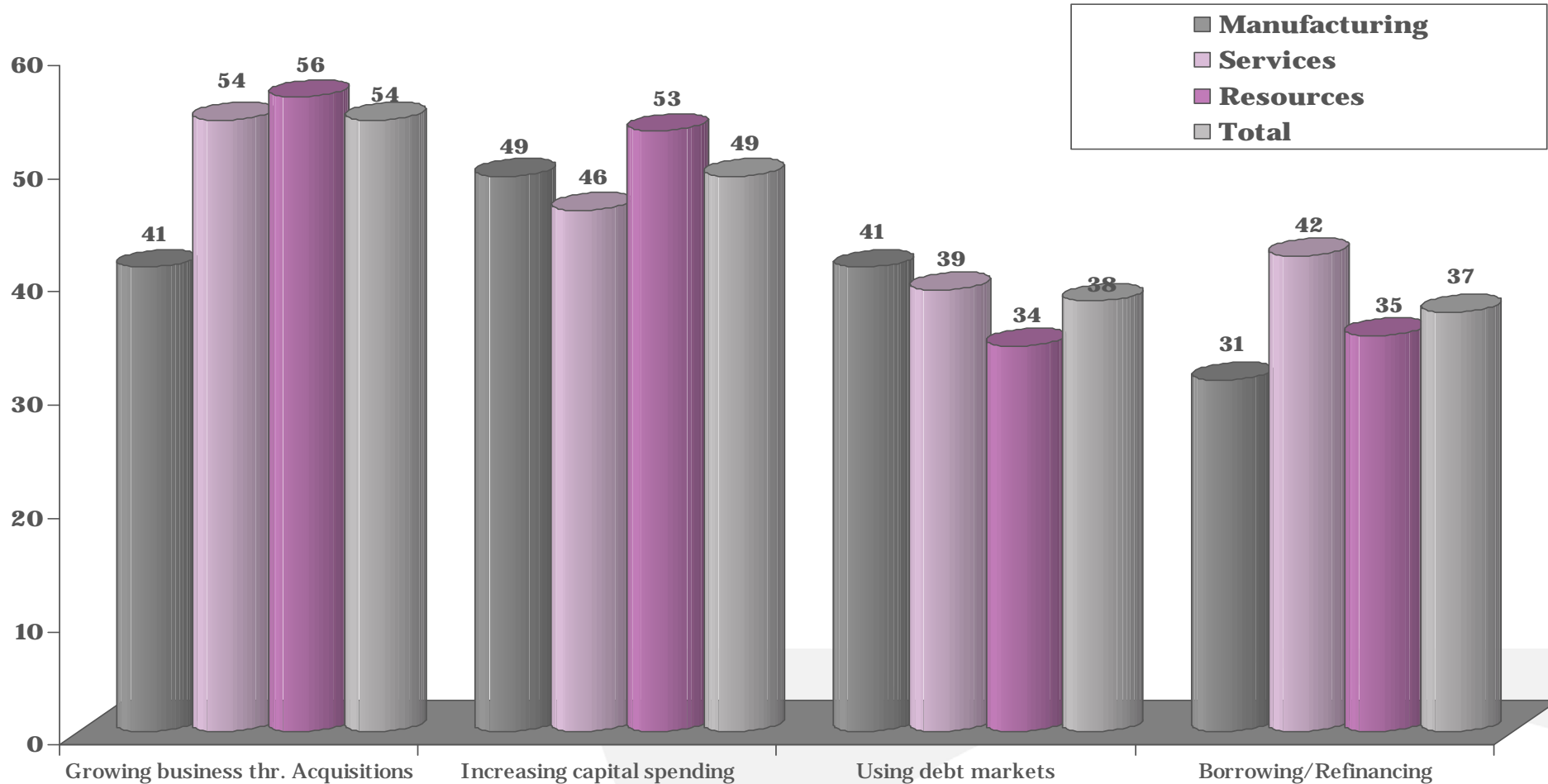
“To the best of your ability, we’d like you to tell us how likely it is that your company will be considering those same activities **two quarters from now** – at the end of 2009. For...” (% very/somewhat likely to consider)





Financial & Mgmt Considerations

“To the best of your ability, we’d like you to tell us how likely it is that your company will be considering those same activities **two quarters from now** – at the end of 2009. For...” (% very/somewhat likely to consider)



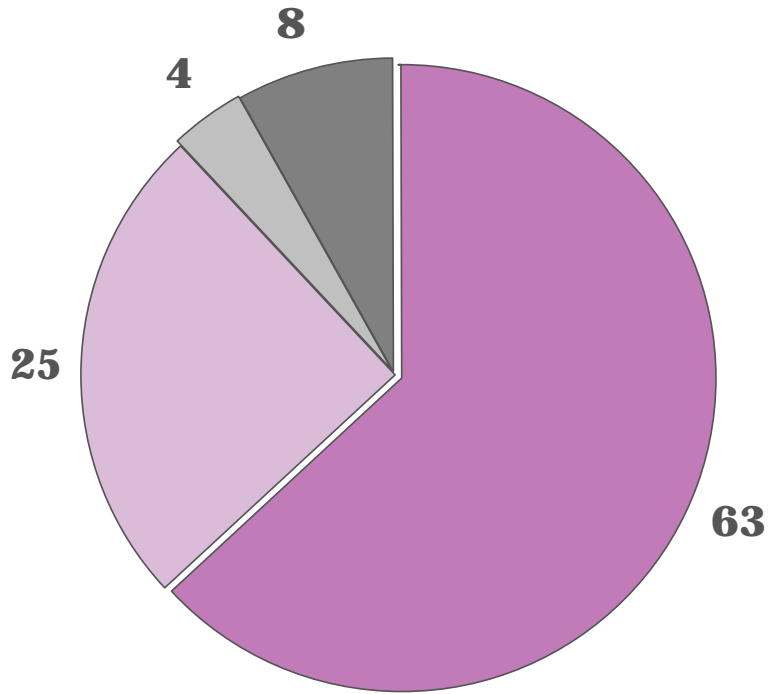


- ❑ There's been some improvement in the credit markets. Still, only one in five say credit conditions improved in the past quarter
- ❑ Last quarter, a majority said it had become more difficult to access credit in the last three months – now less than half are saying so
 - Whereas 44% of Western Canadian executives and 50% of resources executives say it's become more difficult, only 30% of executives in Ontario say it's become more difficult
- ❑ Executives who say it's more difficult are far less likely to be considering capital spending than those who say it's the same or easier
- ❑ Those with less difficulty accessing credit are more optimistic than others in their performance forecasts for the coming year – among these executives almost all expect their businesses to grow in the coming year
 - Companies who are increasing staffing levels over the next year are less likely than others to say access to credit has become harder

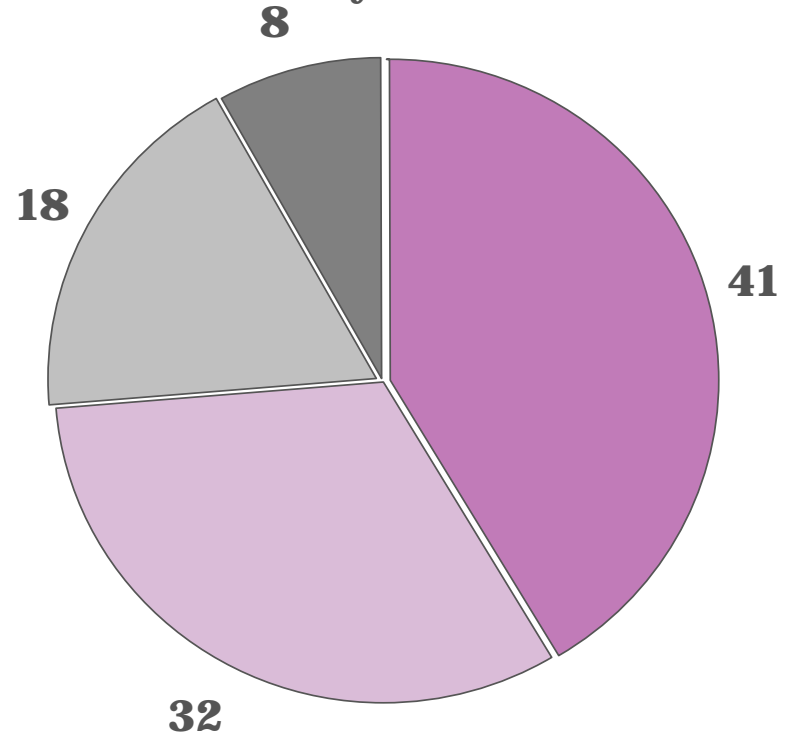


“Has it become more or less difficult to access credit in the last 3 mos.?”

February 2009



May/June 2009



More difficult
Less Difficult

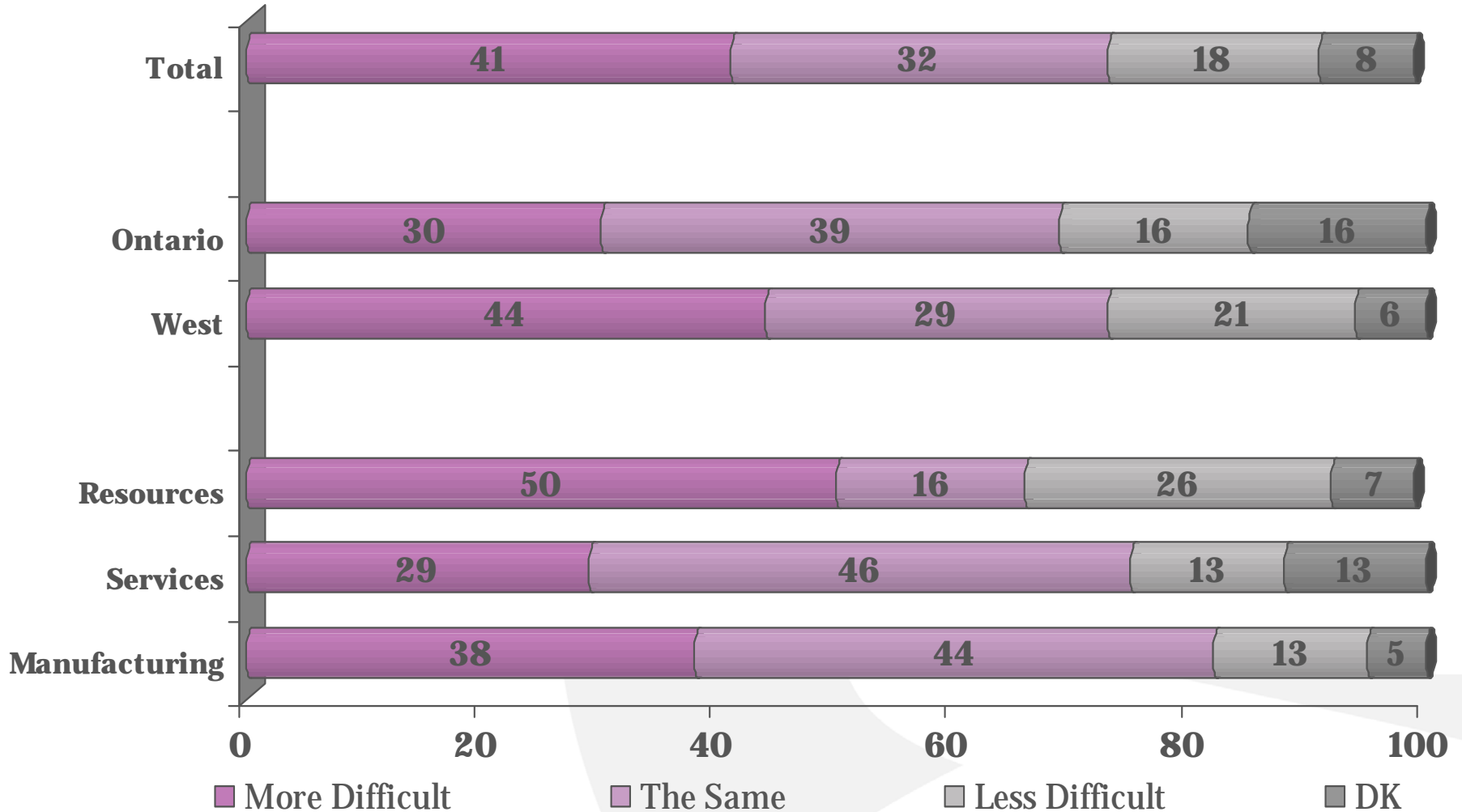
About the same
DK

More difficult
Less Difficult

About the same
DK



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





Challenges facing Company

- ❑ Last quarter, access to capital was the top concern of businesses. This concern has diminished somewhat and is now joined by others
 - The number who cite credit as the top concern is down over 10 points from 6 months ago, (26% now vs. 39% last fall)

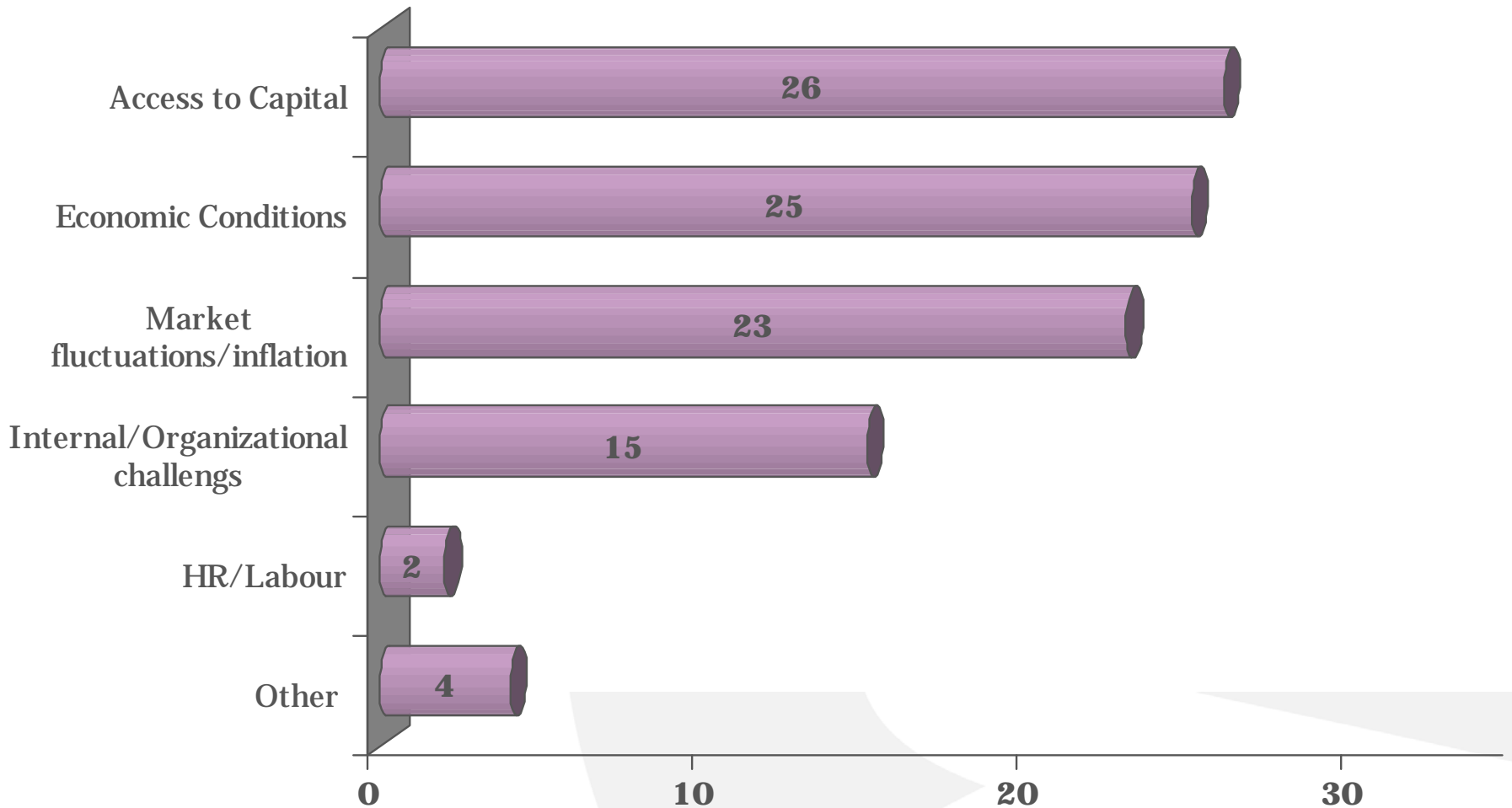
- ❑ The credit situation continues to affect resources companies, along with price fluctuations

- ❑ However the concern among smaller companies about access to credit has diminished significantly – half of small companies said it was their top concern last quarter – now it's a third who say so



Challenges facing Company

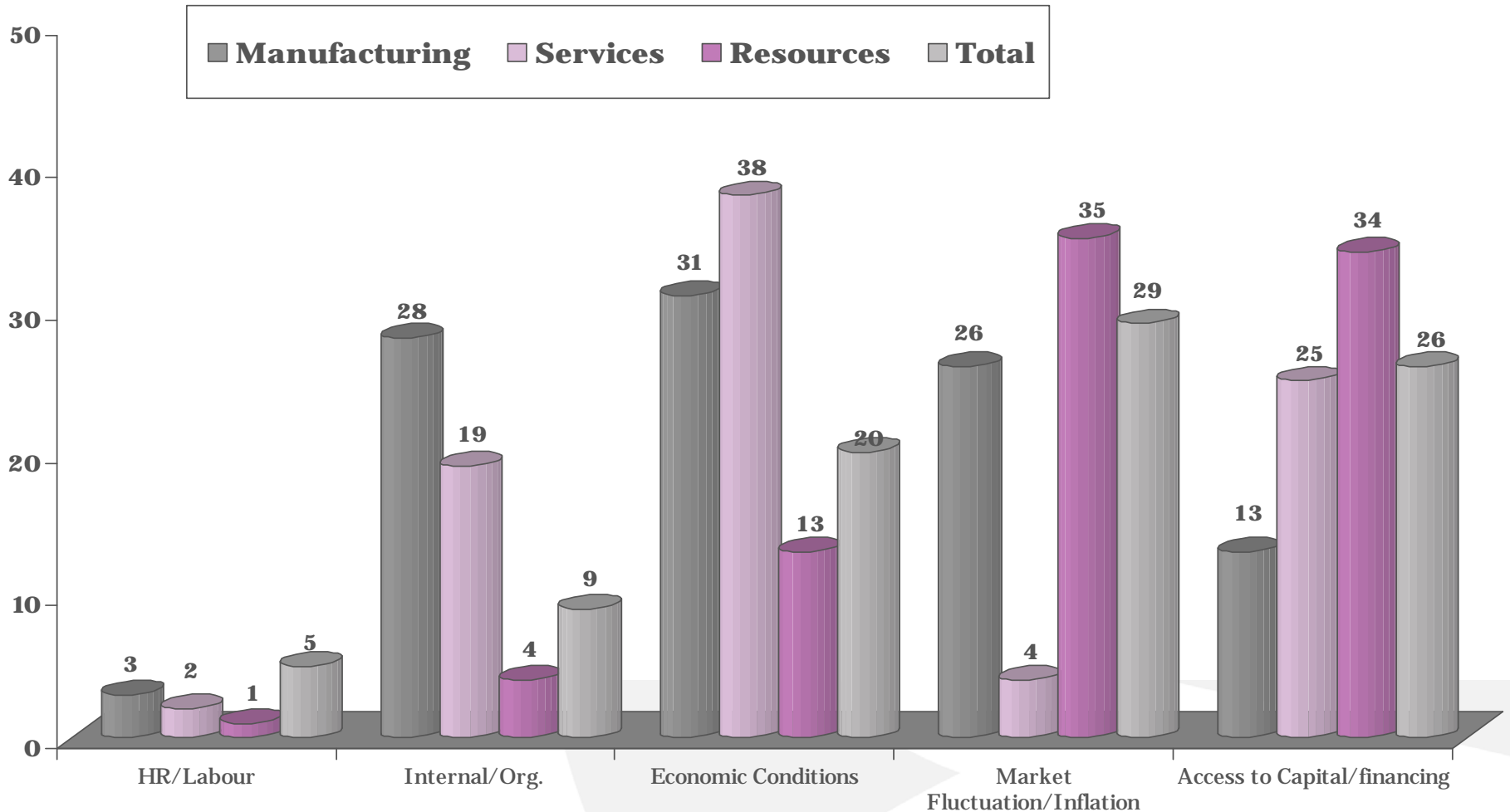
“What is the biggest challenge facing your company right now?” (% saying each this quarter)





Biggest Issue Facing Company: Sector

“What is the biggest challenge facing your company right now?”



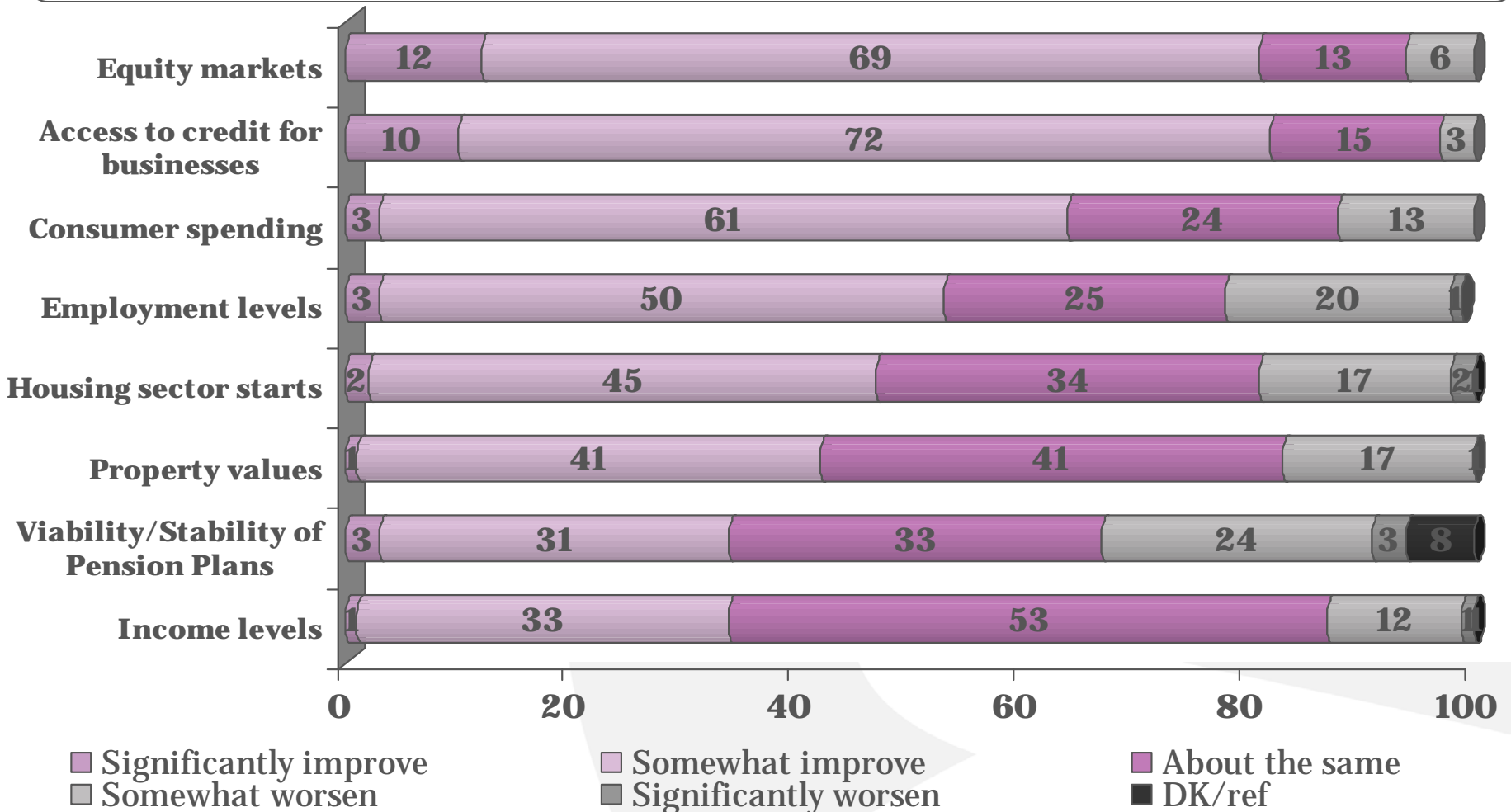


- ❑ Despite the modest improvements over the past year in their reading of credit markets, executives' outlook for credit (and equity markets) is very optimistic
- ❑ A majority think consumer spending will increase somewhat, but only half believe employment levels will improve and just a third expect incomes to improve
- ❑ Despite their optimism around equity markets, few see the situation of pension plans improving – one in four see it worsening



Economic Indicators

“Now looking ahead one year from today, I’d like you to tell me if you expect each of the following business and economic indicators to significantly improve; somewhat improve; somewhat worsen; significantly worsen or be about the same. For...”



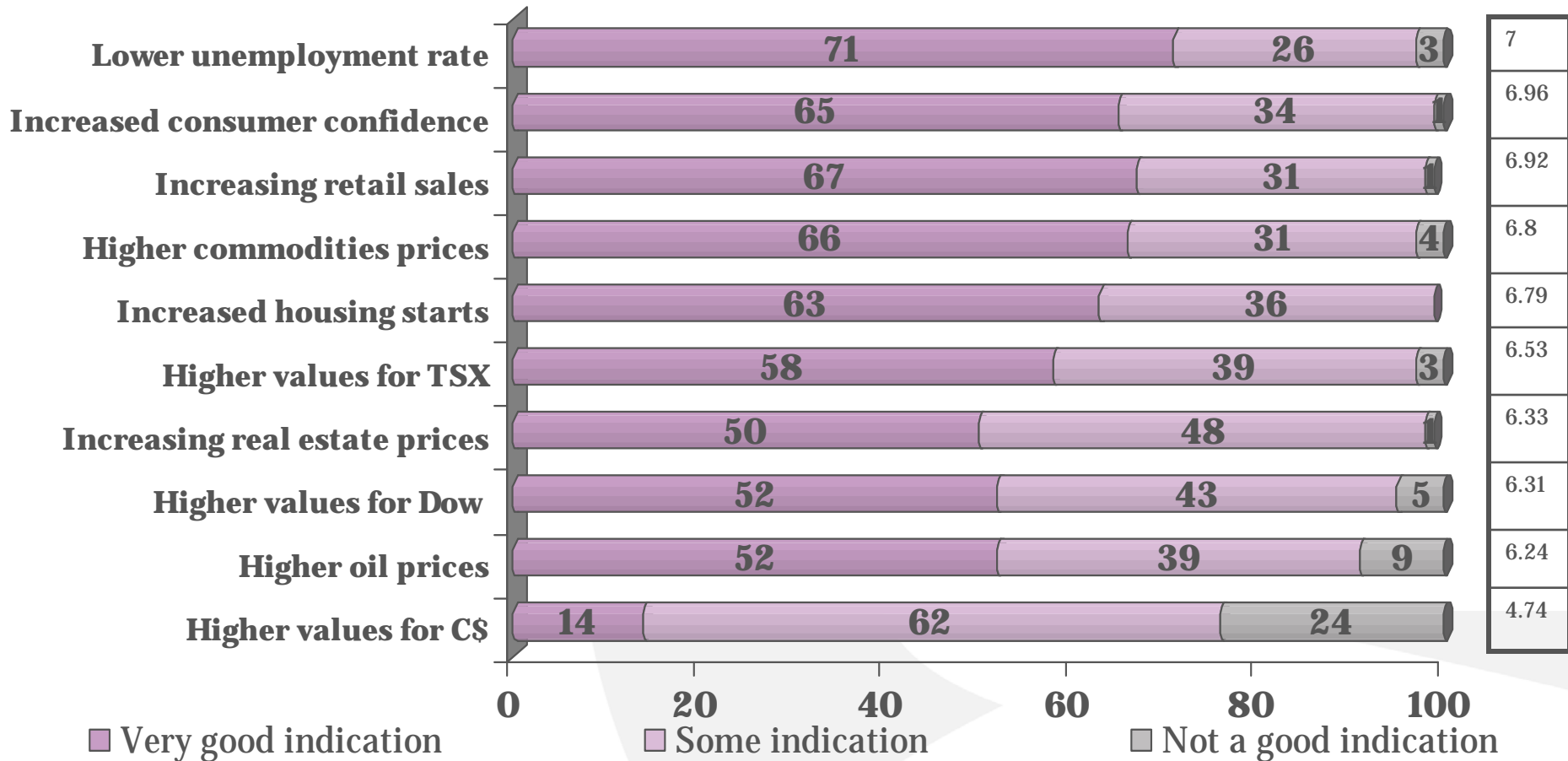


- ❑ Executives are putting a lot of hope in a consumer-led recovery
 - The indicators they are looking at to tell them if the recovery is on are jobs, consumer confidence, retail sales and housing starts.
 - Across the board, executives feel commodities price rises are a better indicator of the economy's turnaround overall than rising oil prices
 - Executives aren't as certain that higher oil prices would speak to an economic turnaround and they especially don't see a higher dollar in that light



Economic Indicators

“We’d like to know how good an indication certain changes in these indicators over the near term would provide of Canada’s overall economic recovery and growth. Using a scale of one to nine where one means not at all a good indication of economic recovery and growth and nine means a very good indication of economic recovery and growth, how good an indication of Canadian economic recovery and growth would the following be?”





- ❑ Roughly half of executives say that one or more reports or indicators in the last quarter have indicated to them that the economy has experienced the worst and is starting to turn around
 - They mention the stock markets, commodity prices, housing and real estate
 - Manufacturing executives are less likely to say they've seen indicators pointing to the start of a turnaround (62% say they have not seen any such indication compared to 46% among all executives)
 - Executives in the services sector are most likely to say they've seen such positive indicators – only a third of them say they have not

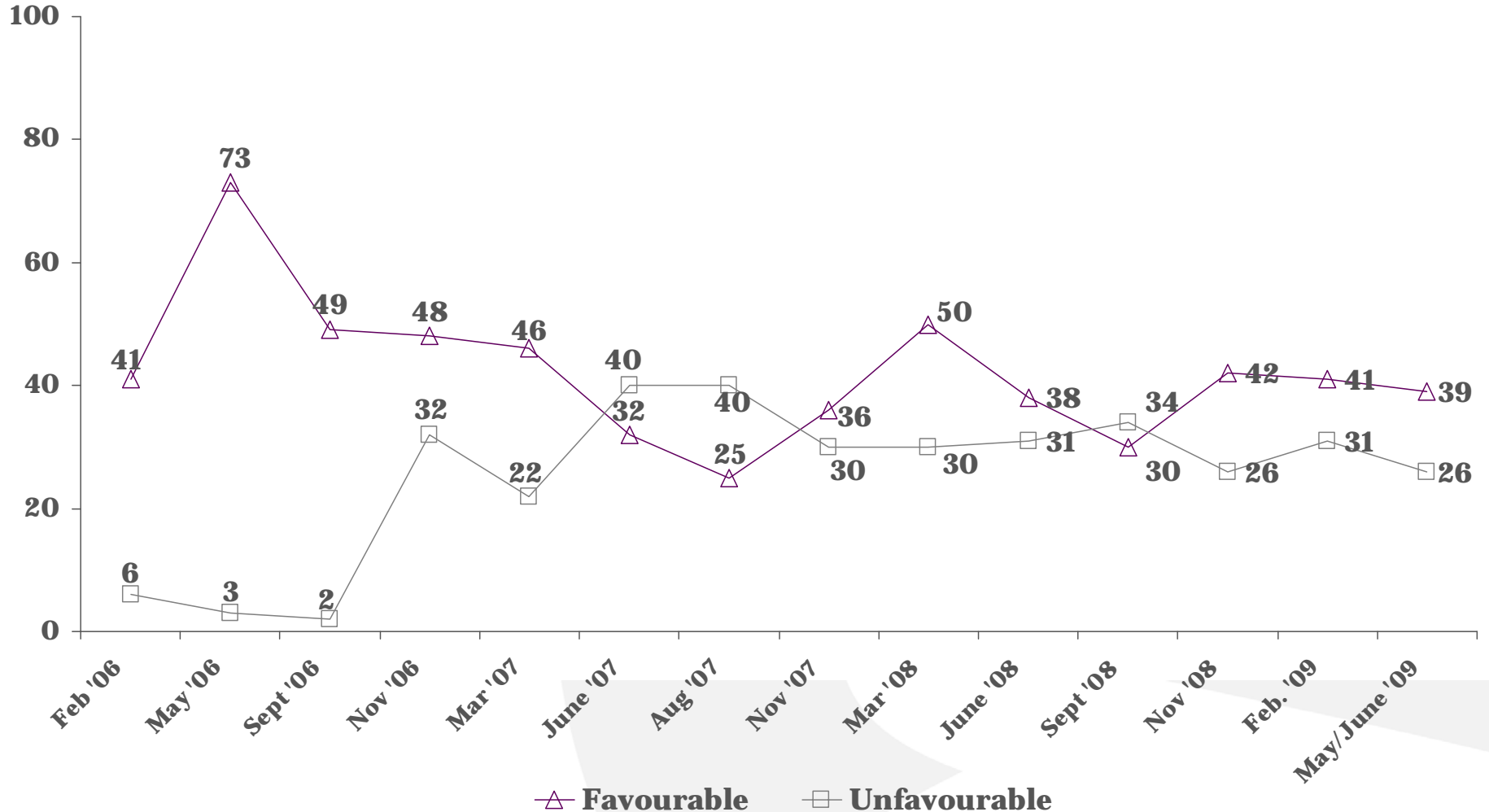


- ❑ Federal Finance Minister Flaherty's ratings have not improved at a pace near what we've seen in terms of improving economic forecasts among executives. The federal deficit may be the cause of this
- ❑ Our survey was conducted over the time period of May 21-June 3. Midway through interviewing, Minister Flaherty announced the deficit would be higher than previously forecast, as high as \$50 b
- ❑ Prior to this announcement, with almost half of interviews complete, the percentage of executives with favourable views of the Minister and confidence in his economic management was at higher levels than at the end of our last survey. By the end of interviews favourability had returned to about where it stood before and confidence had come down somewhat although to a level above where he was last quarter
- ❑ Those with more confidence in Minister Flaherty are slightly more likely to predict the economy will grow and more likely to be considering increasing capital now and two quarters from now



Impressions of Minister Flaherty

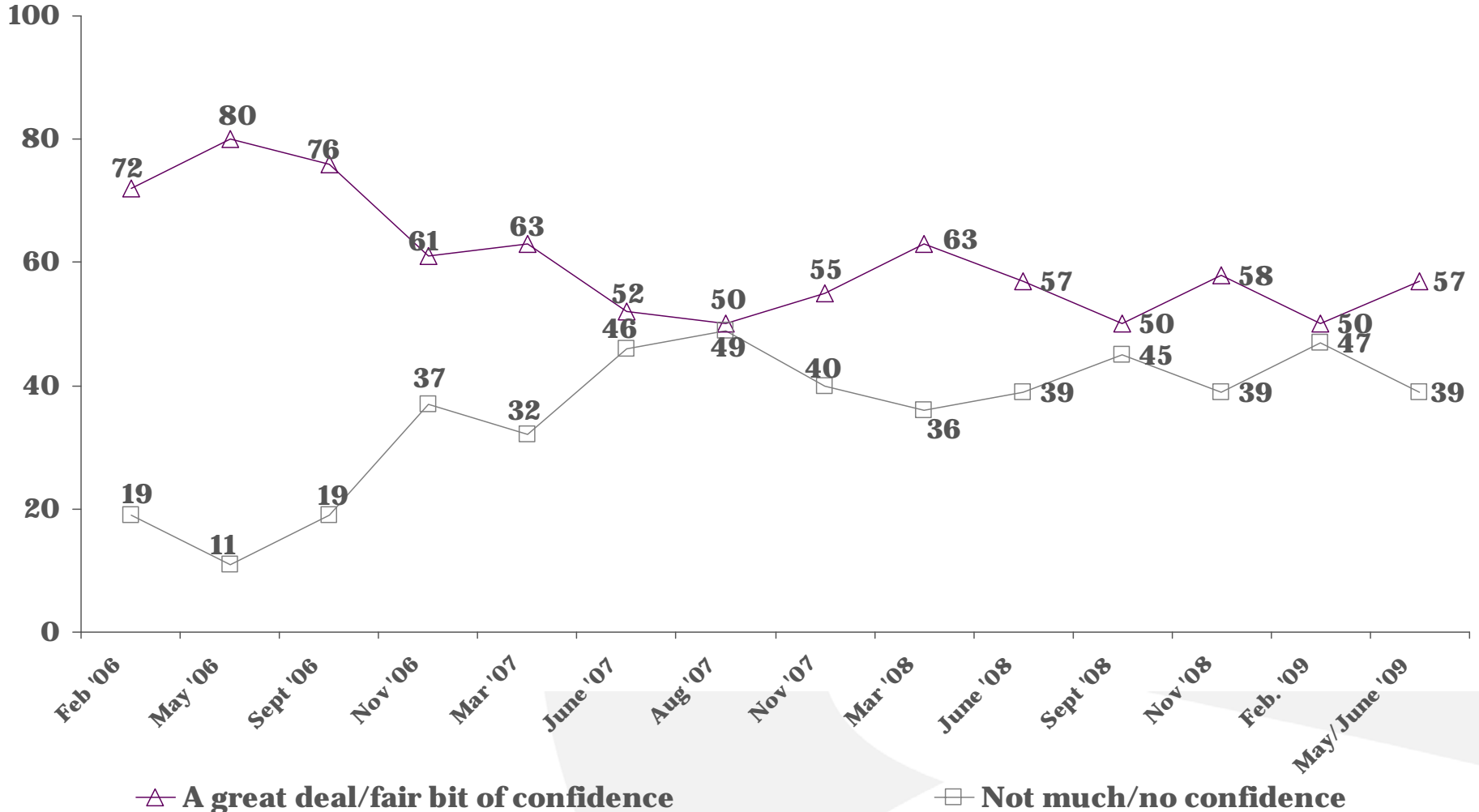
“How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?”





Confidence in Minister Flaherty

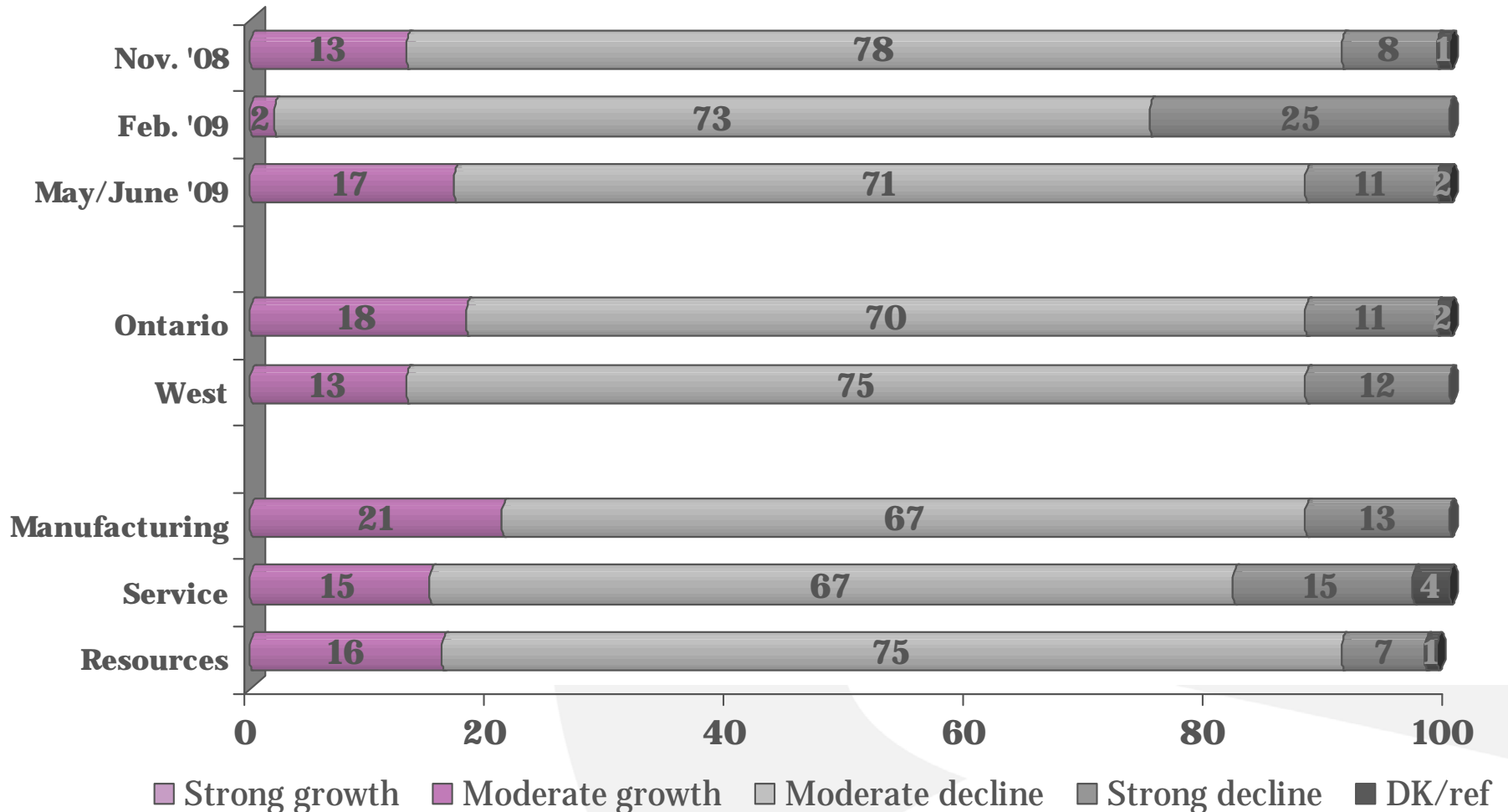
“How much confidence do you have in Finance Minister Flaherty’s management of the economy?”







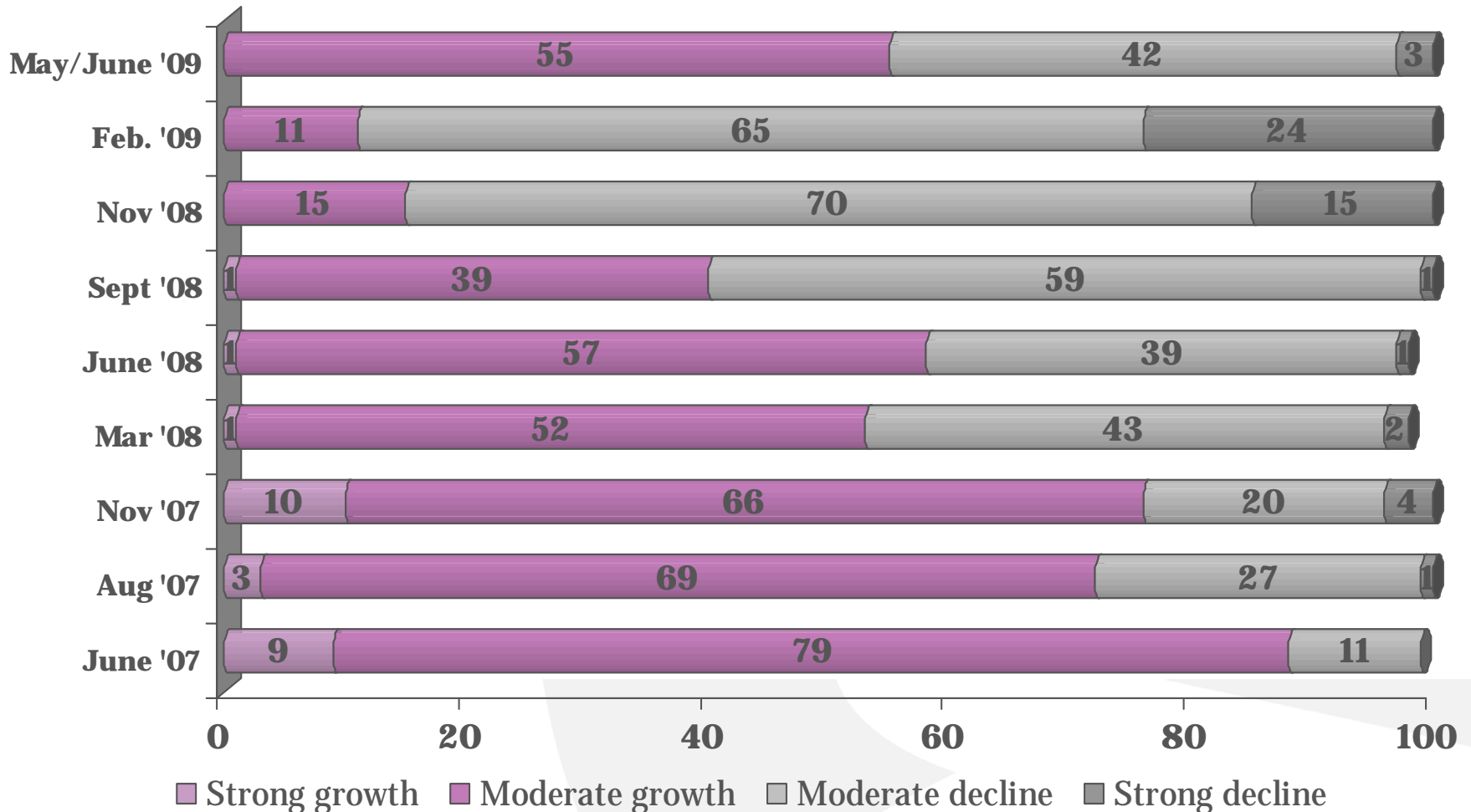
“Which of the following do you think best describes the Canadian economy at the current time - strong growth, moderate growth, moderate decline, strong decline?”





Outlook: Canadian Economy

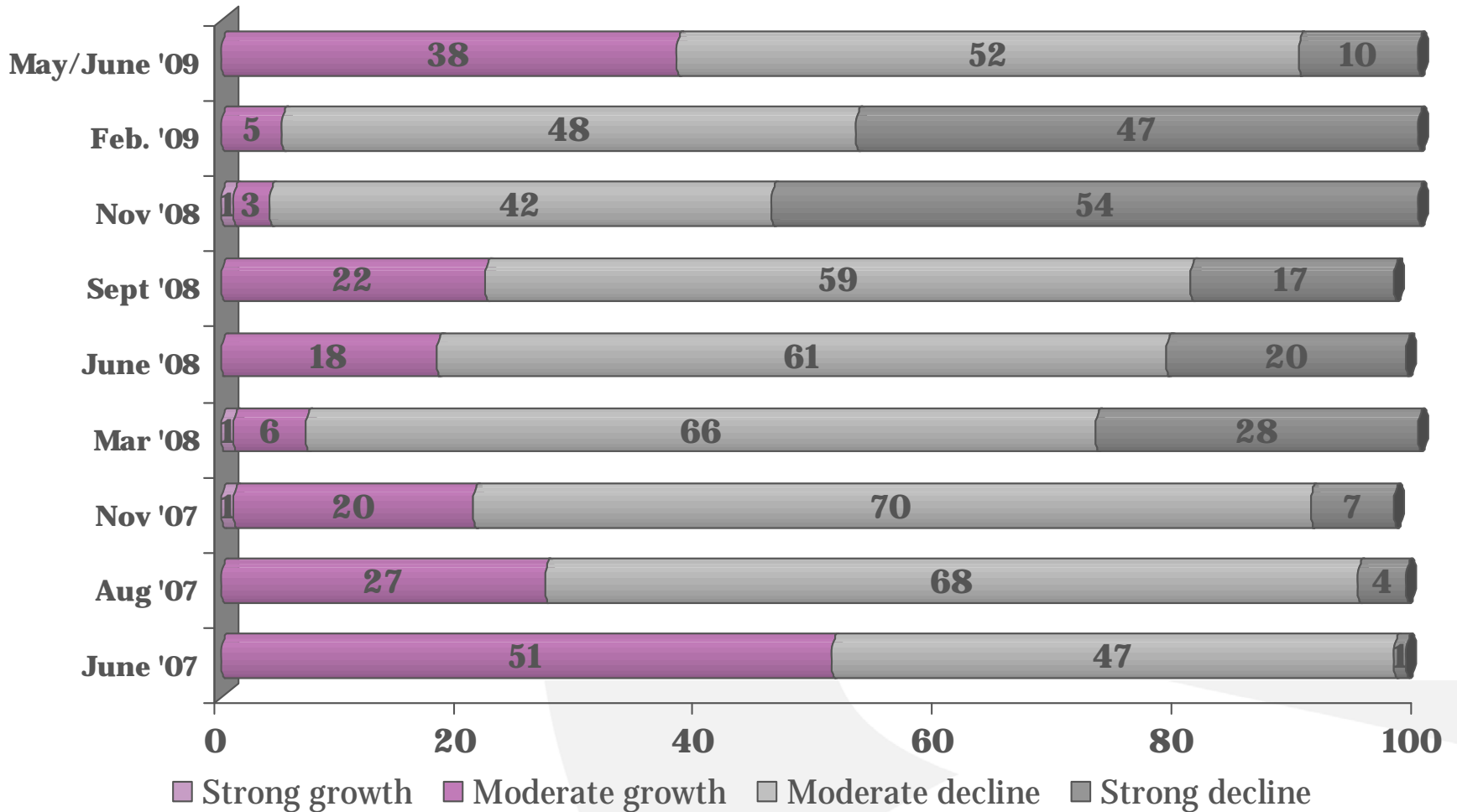
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Expectations: U.S. Economy

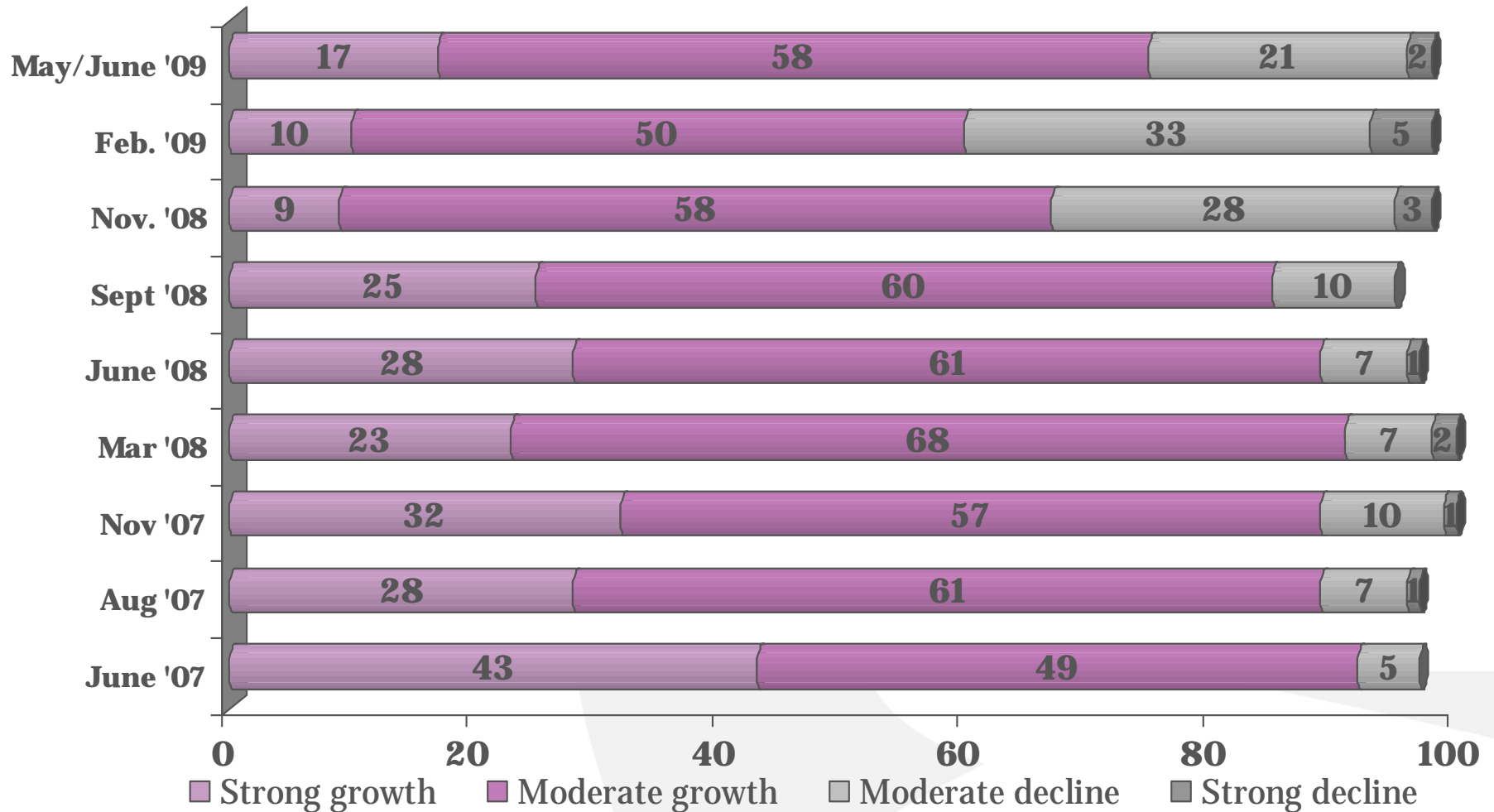
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Expectations: Company

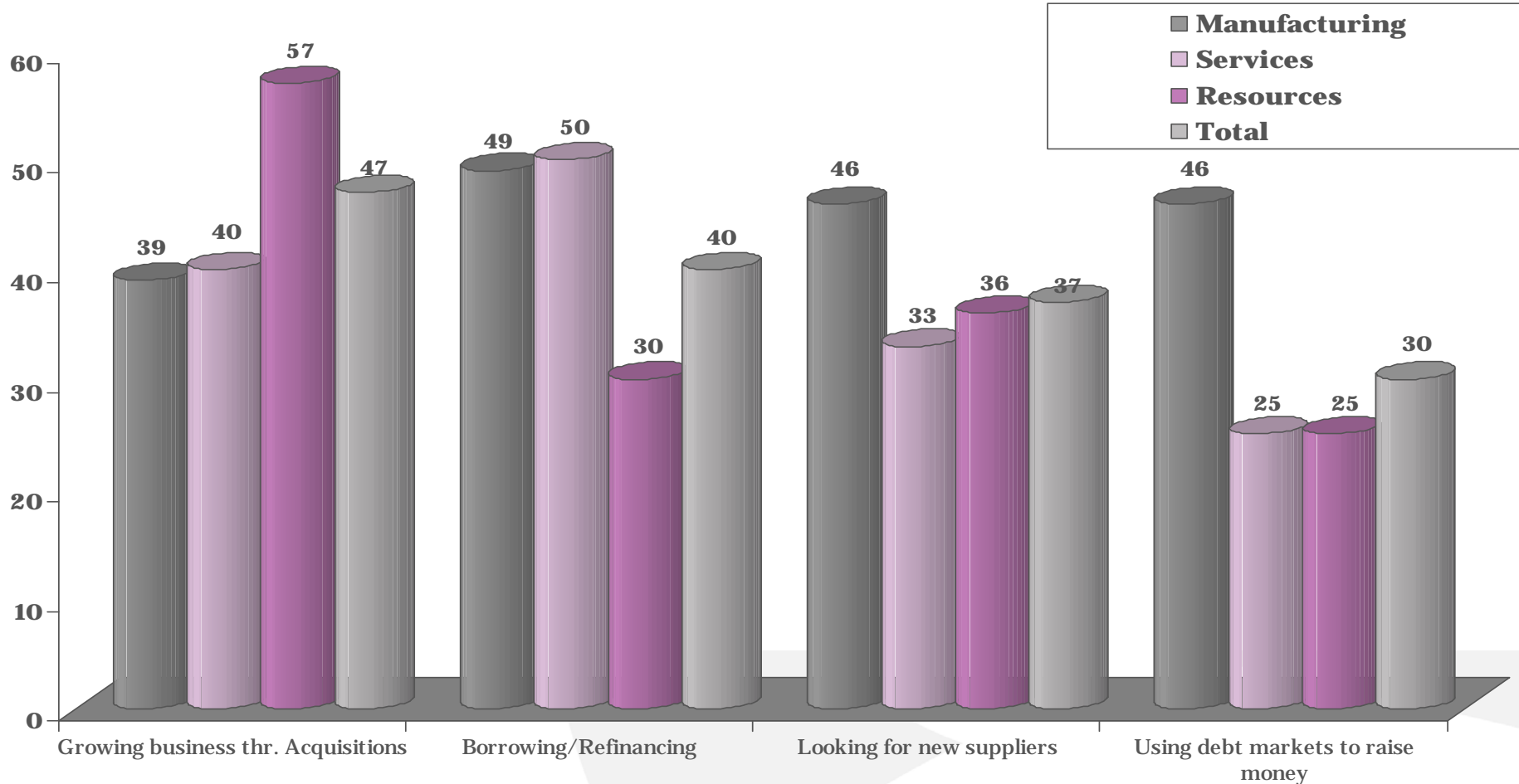
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Financial & Mgmt Considerations

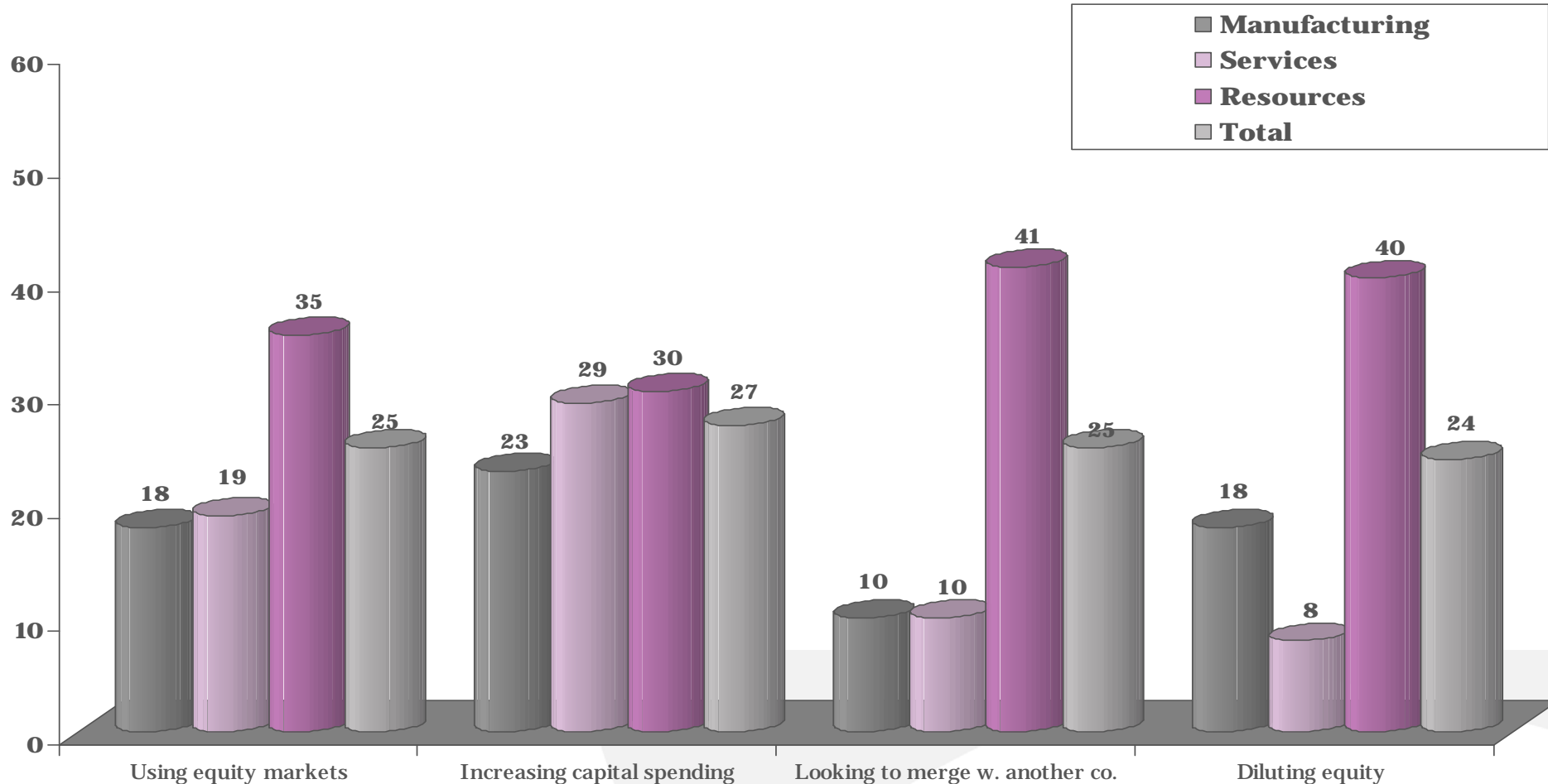
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(% that are very/somewhat likely to consider)





Financial & Mgmt Considerations

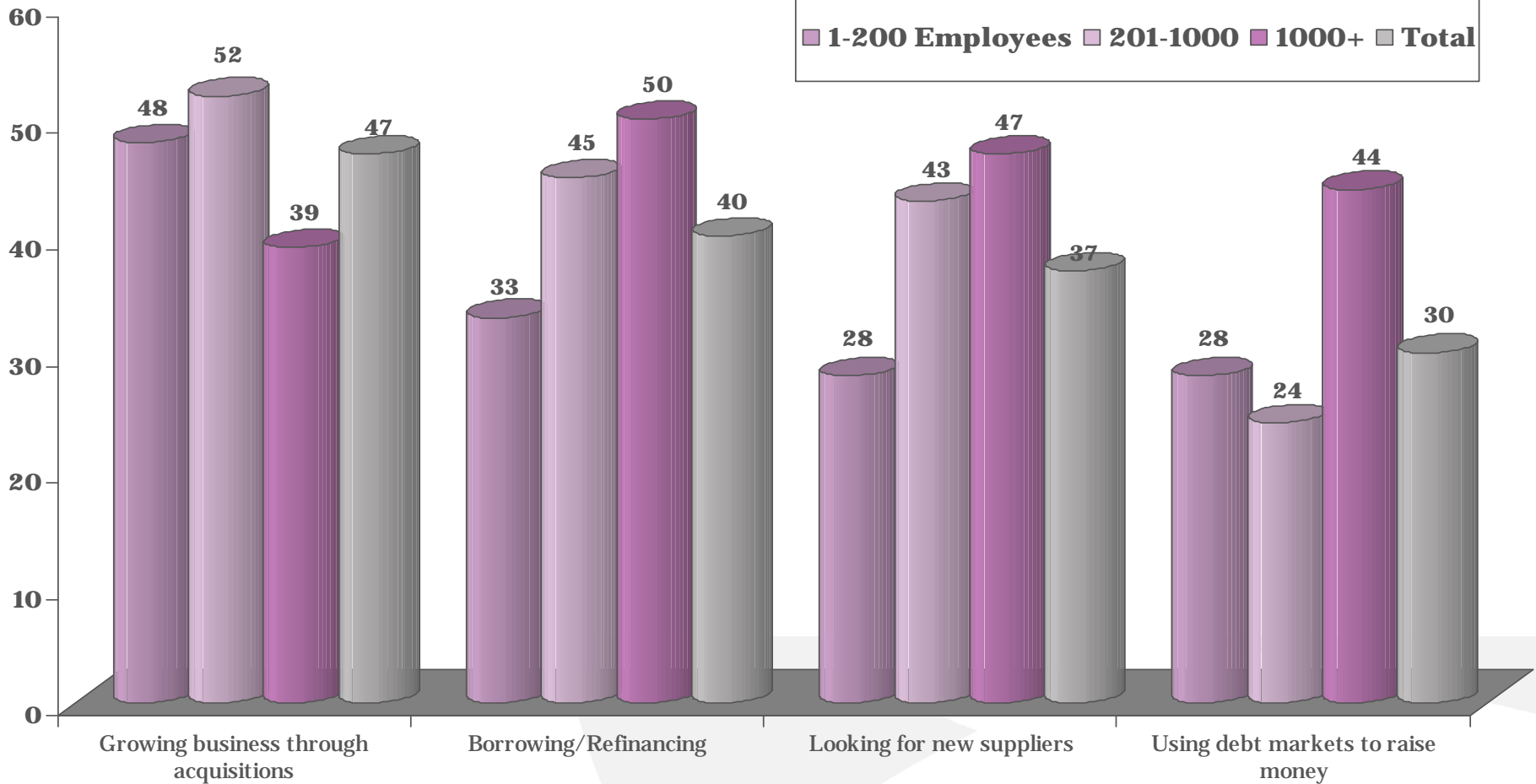
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Financial & Mgmt Considerations

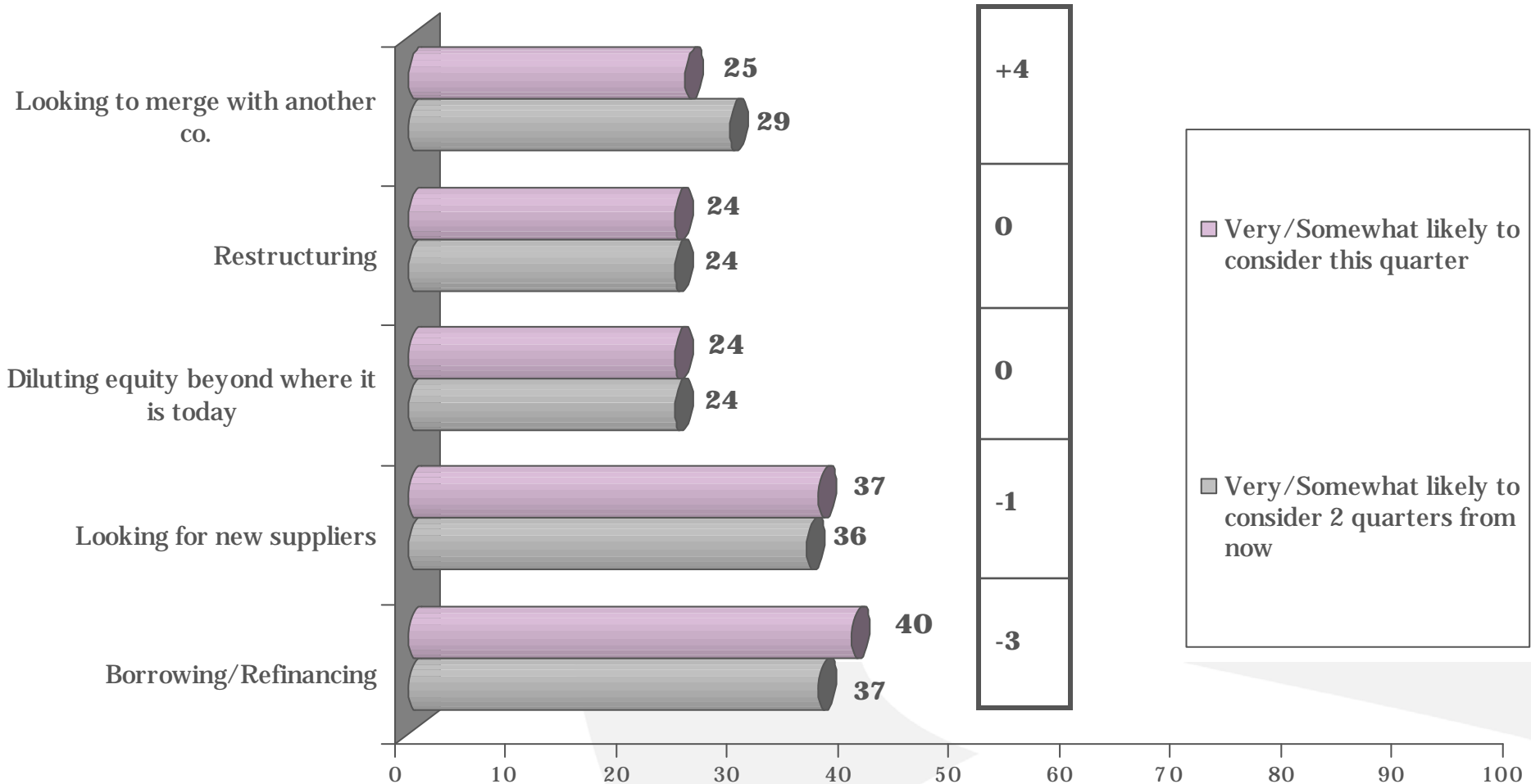
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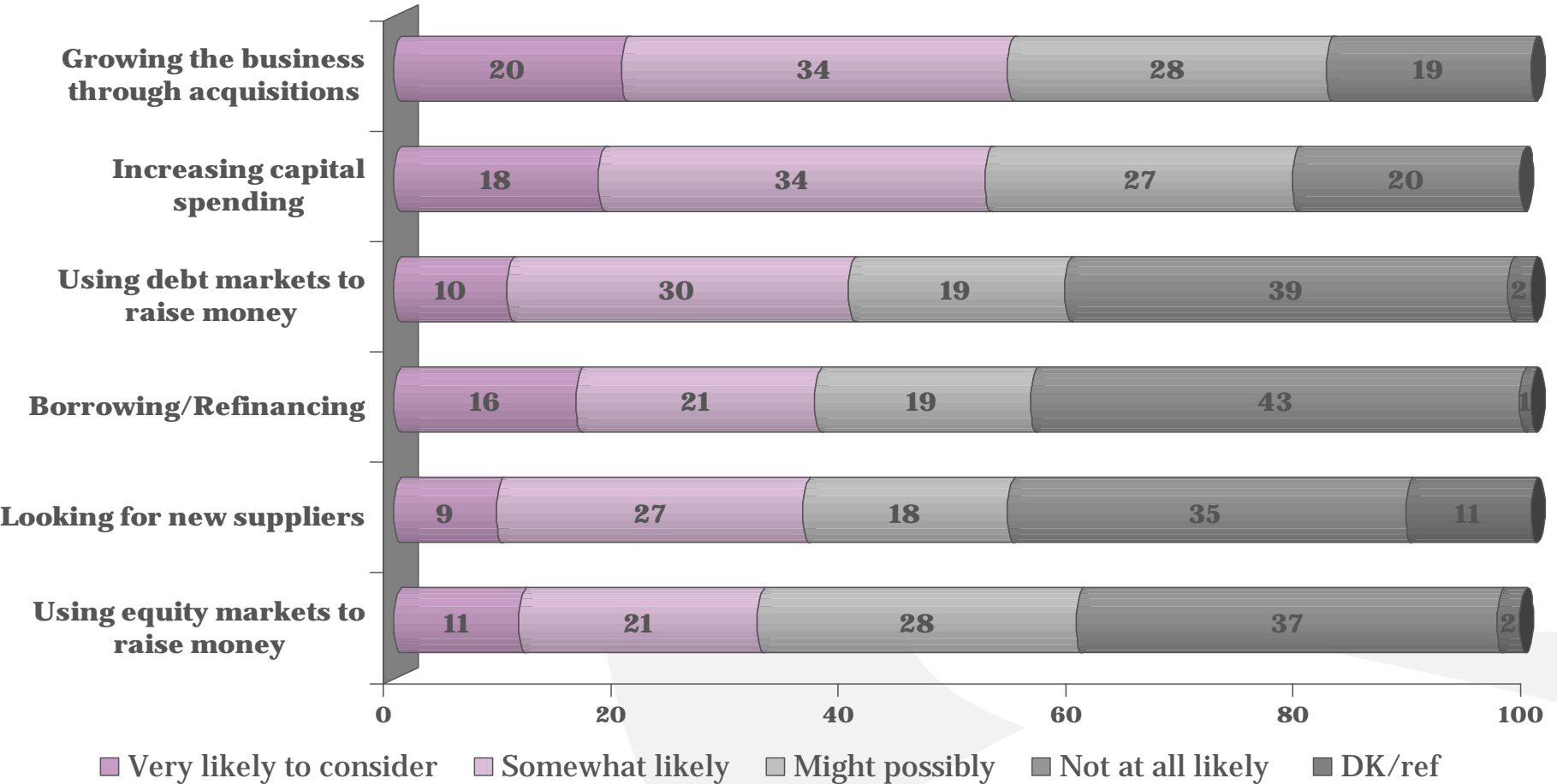
“Please tell me if **in this quarter** your company would be very likely to consider, would be somewhat likely to consider, might possibly consider or would be not at all likely to consider the following initiatives” & “...tell us how likely it is that your company will be considering those same activities **two quarters from now** – at the end of 2009.”





Financial & Mgmt Considerations

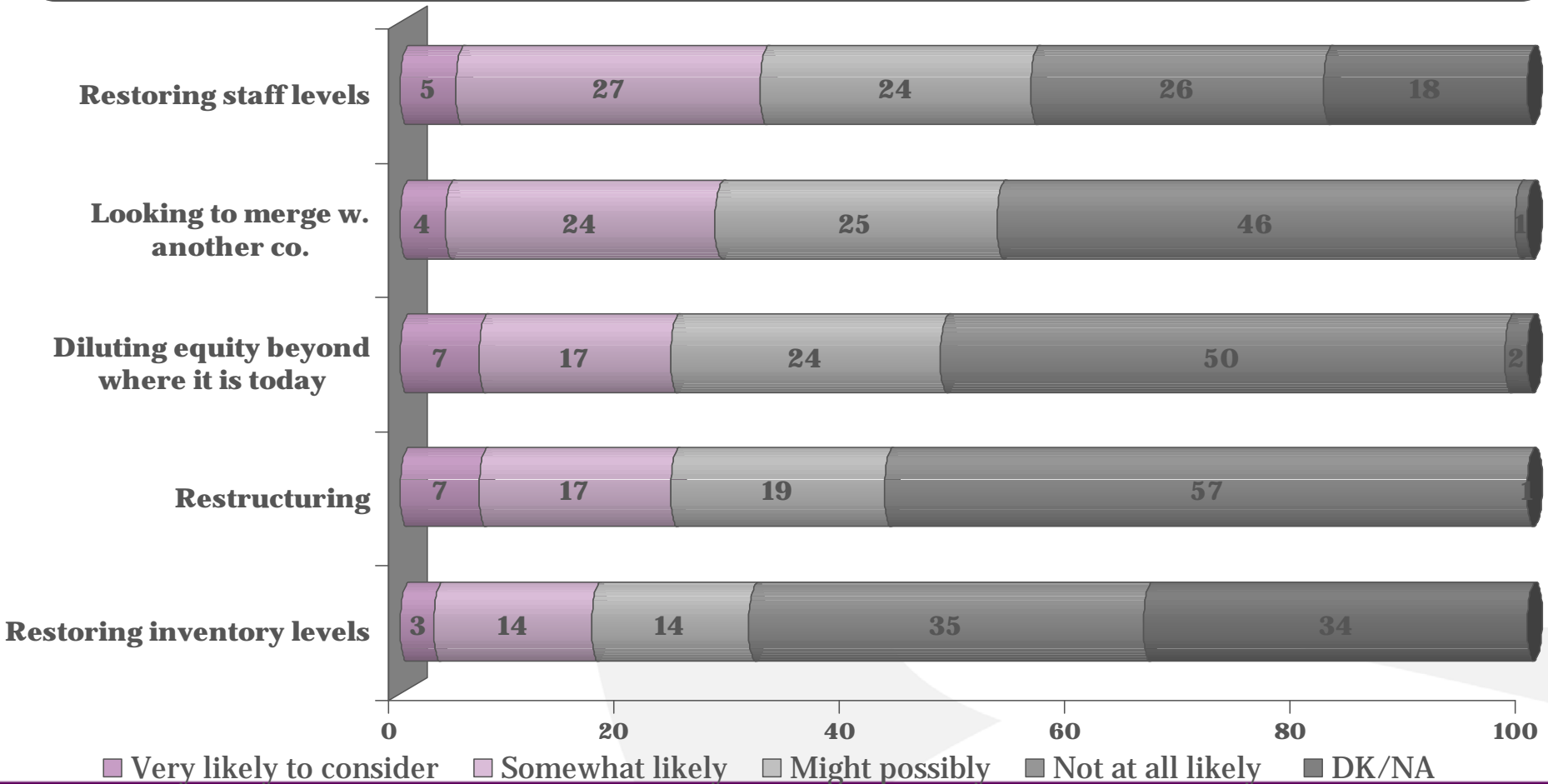
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Financial & Mgmt Considerations

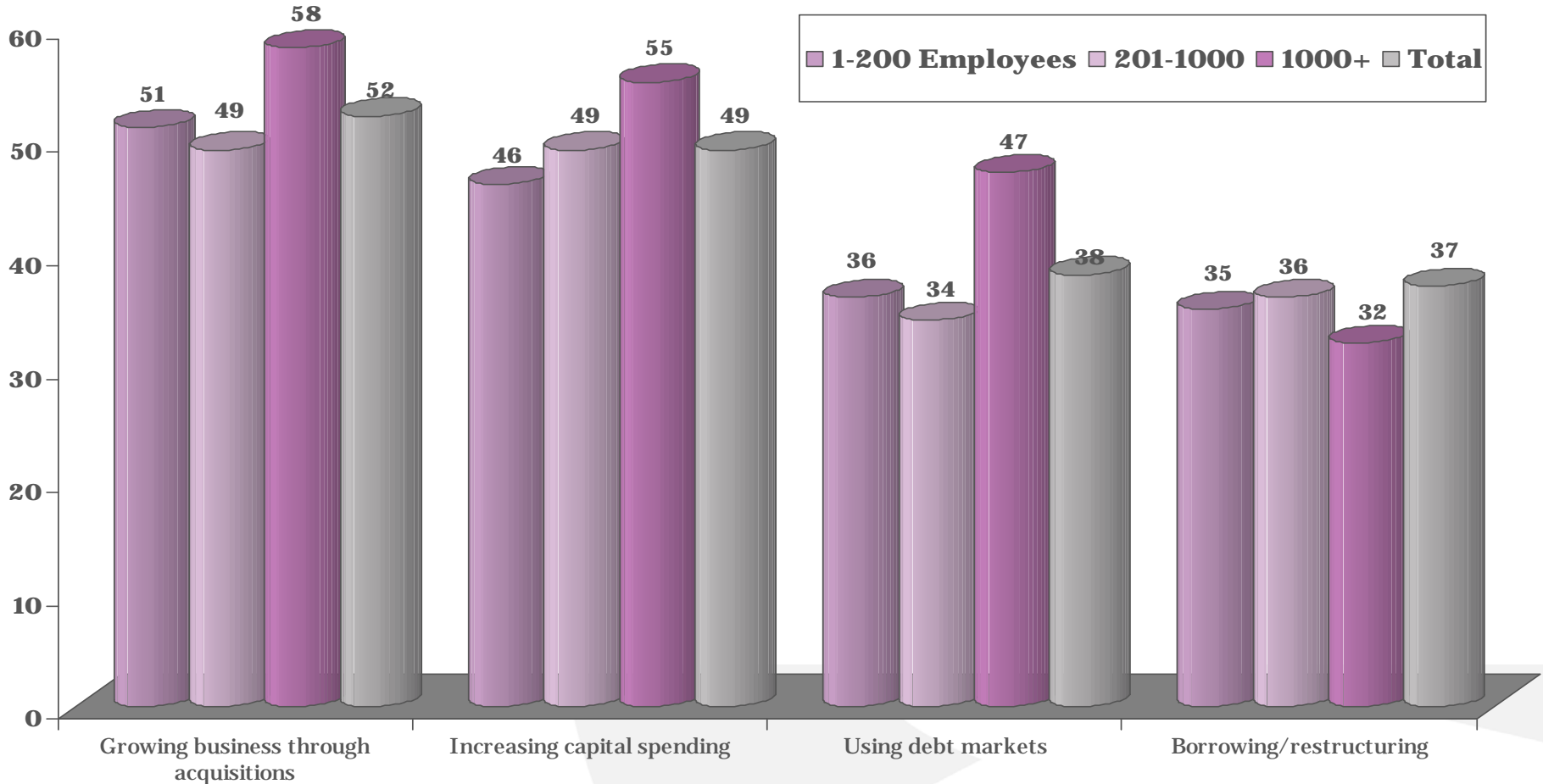
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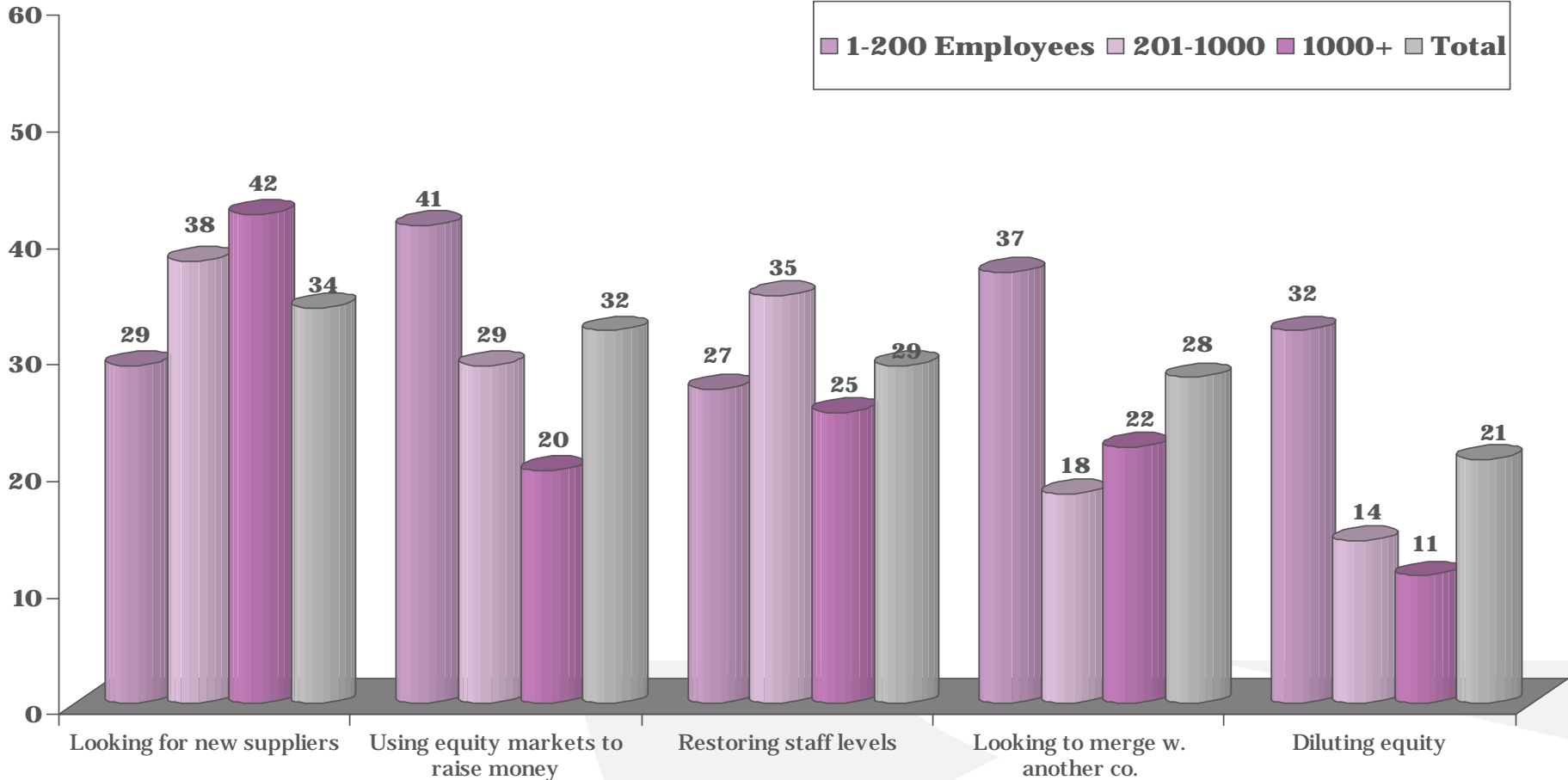
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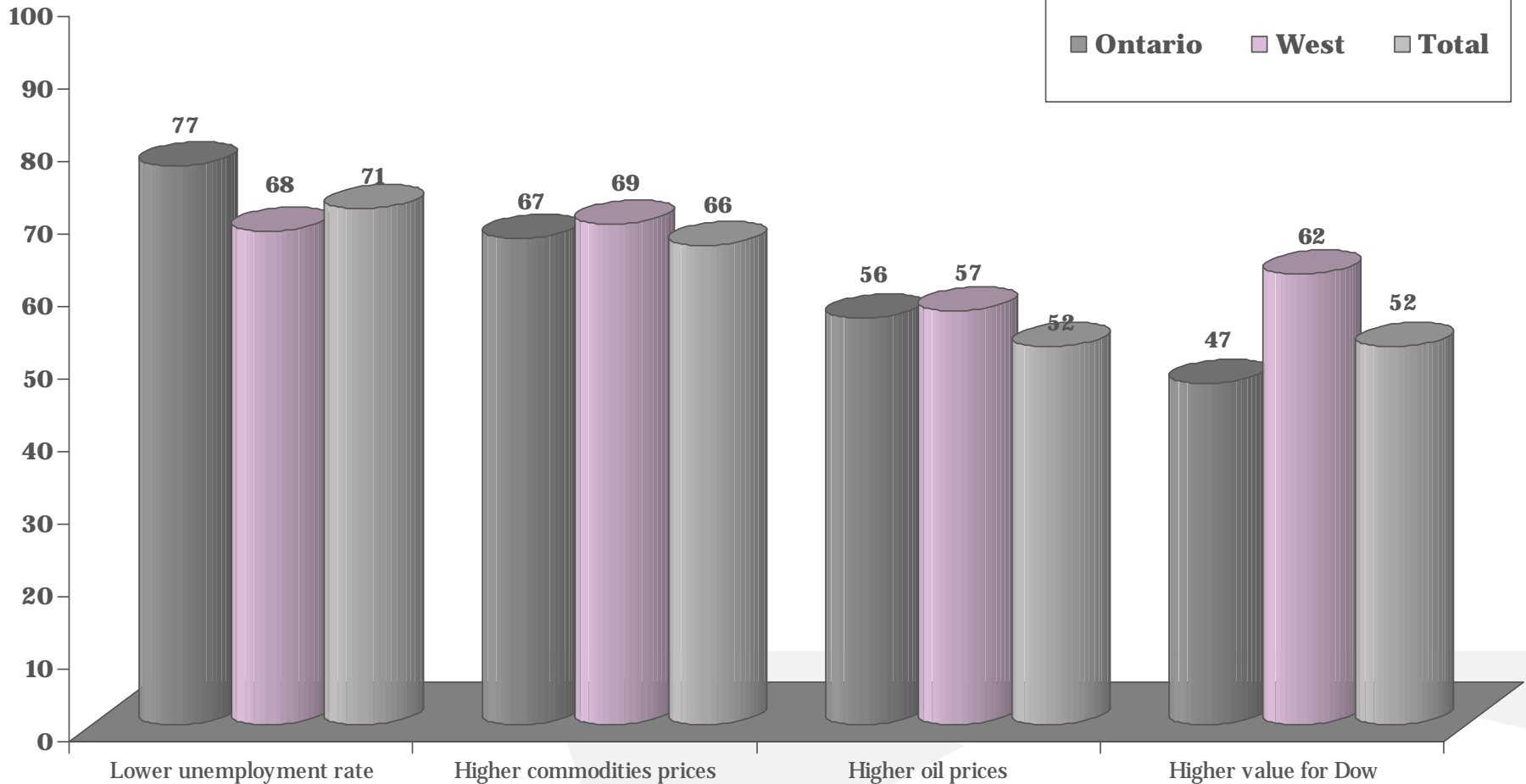
“To the best of your ability, we’d like you to tell us how likely it is that your company will be considering those same activities **two quarters from now** – at the end of 2009. For...”





Economic Indicators

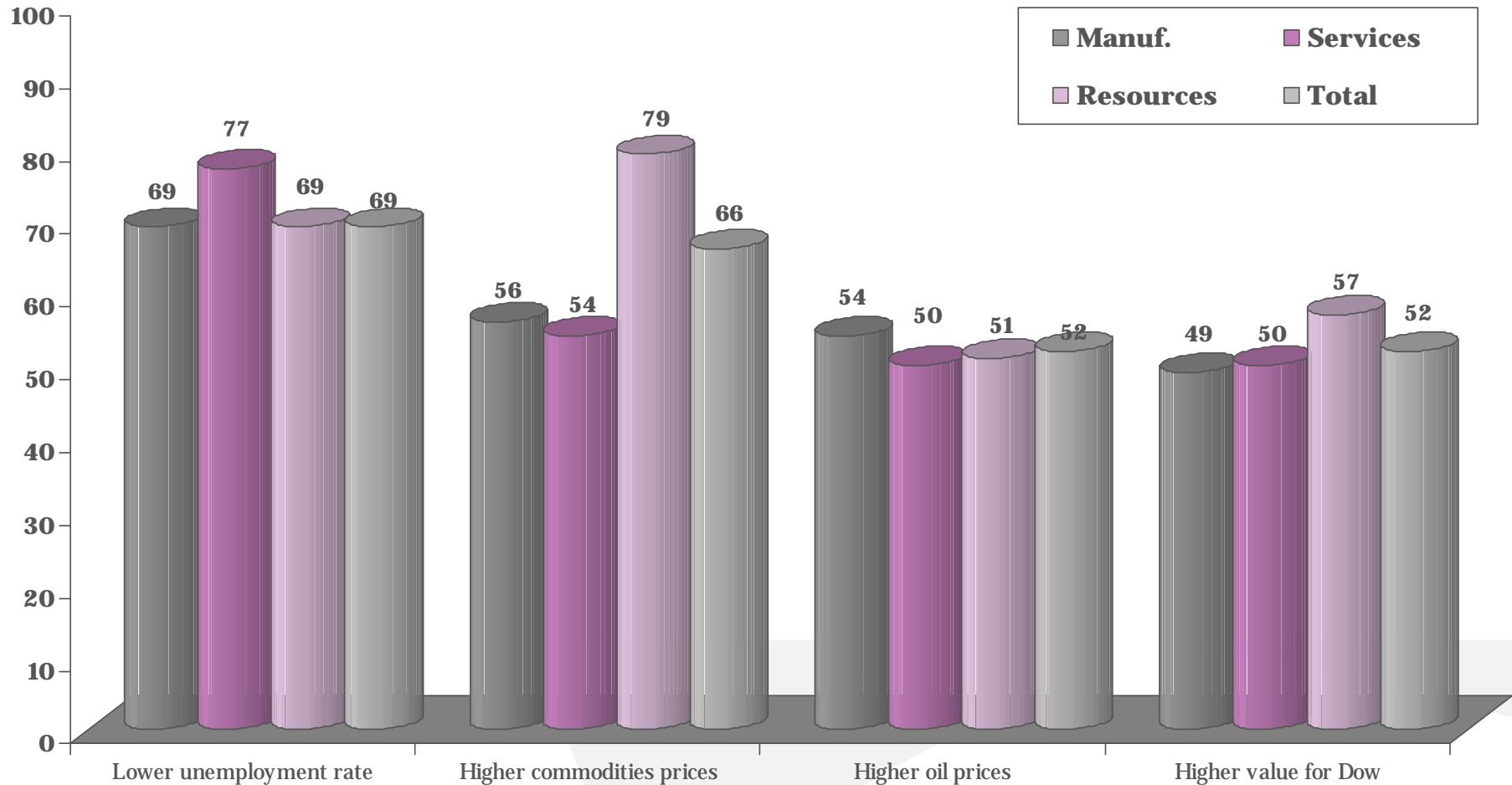
“We’d like to know how good an indication certain changes in these indicators over the near term would provide of Canada’s overall economic recovery and growth. Using a scale of one to nine where one means not at all a good indication of economic recovery and growth and nine means a very good indication of economic recovery and growth, how good an indication of Canadian economic recovery and growth would the following be?”





Economic Indicators

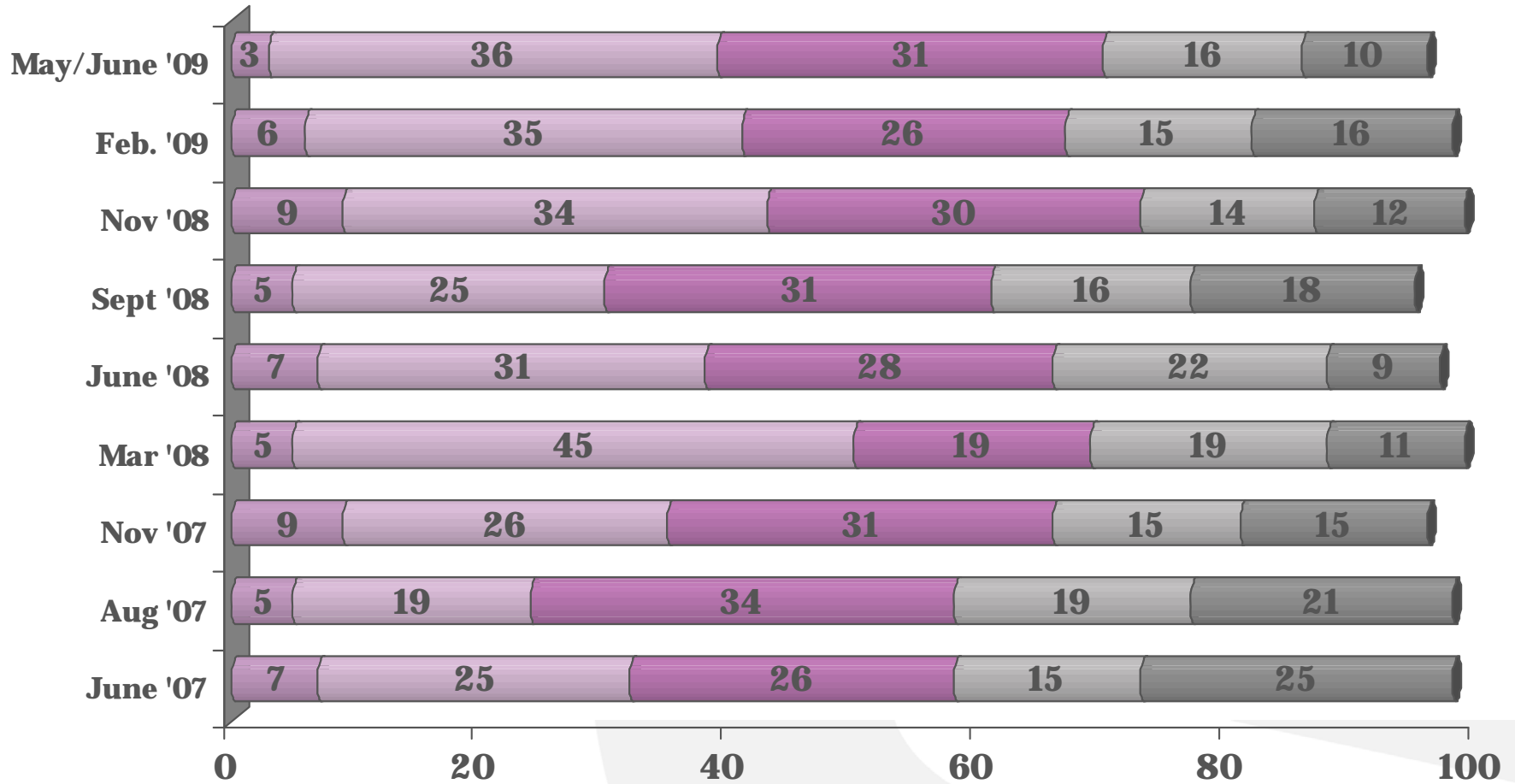
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Impressions of Minister Flaherty

“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



Confidence in Minister Flaherty

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

