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The 20th Quarterly C-Suite Survey: Canada-US Economic Outlook, Productivity and Innovation

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- ❑ Telephone interviews with 152 C-Suite executives from the ROB 1000 list of companies, conducted between September 7th and September 22nd, 2010. This sample yields a margin of error of +/- 7.32 % 19 times out of 20.
- ❑ This presentation covers their views on:
 - The Canadian and US economic outlook, interest rates and public policy
 - The business outlook, acquisitions and capital spending
 - The possibility of a double-dip recession in the US and how that would affect Canada
 - Canada's private sector productivity and innovation



- ❑ Executives' outlook on the economy has diminished somewhat this quarter, but they remain confident about their own businesses' prospects.
- ❑ Interest rate increases haven't unsettled them; with most supporting the Bank of Canada's recent rate hike.
- ❑ Many are considering increasing capital expenditures. A third said they will very likely consider increasing staff levels this quarter.
- ❑ Executives' views about the Canadian economy and their businesses have yet to be dragged down by their outlook for the US. Over the last two quarters executives' forecasts are down precipitously – 29 points.
- ❑ As optimistic as they are about Canada and their businesses, most believe Canada cannot avoid recession if the US goes into one, and half expect the US economy to decline this year.



- ❑ Executives are split on continuing government stimulus to promote the economy – half believe the government should maintain current levels.
- ❑ When it comes to Canada's productivity very few believe Canada is ahead of comparable countries on productivity and innovation. They believe business has a responsibility but they also believe public policy is an important reason for Canada's standing. They are very receptive to government policies to promote innovation.
- ❑ Executives said taxes and tax credit policies are important reasons behind Canada's productivity lag, but many also cite a culture of complacency and around risk aversion among executives themselves.

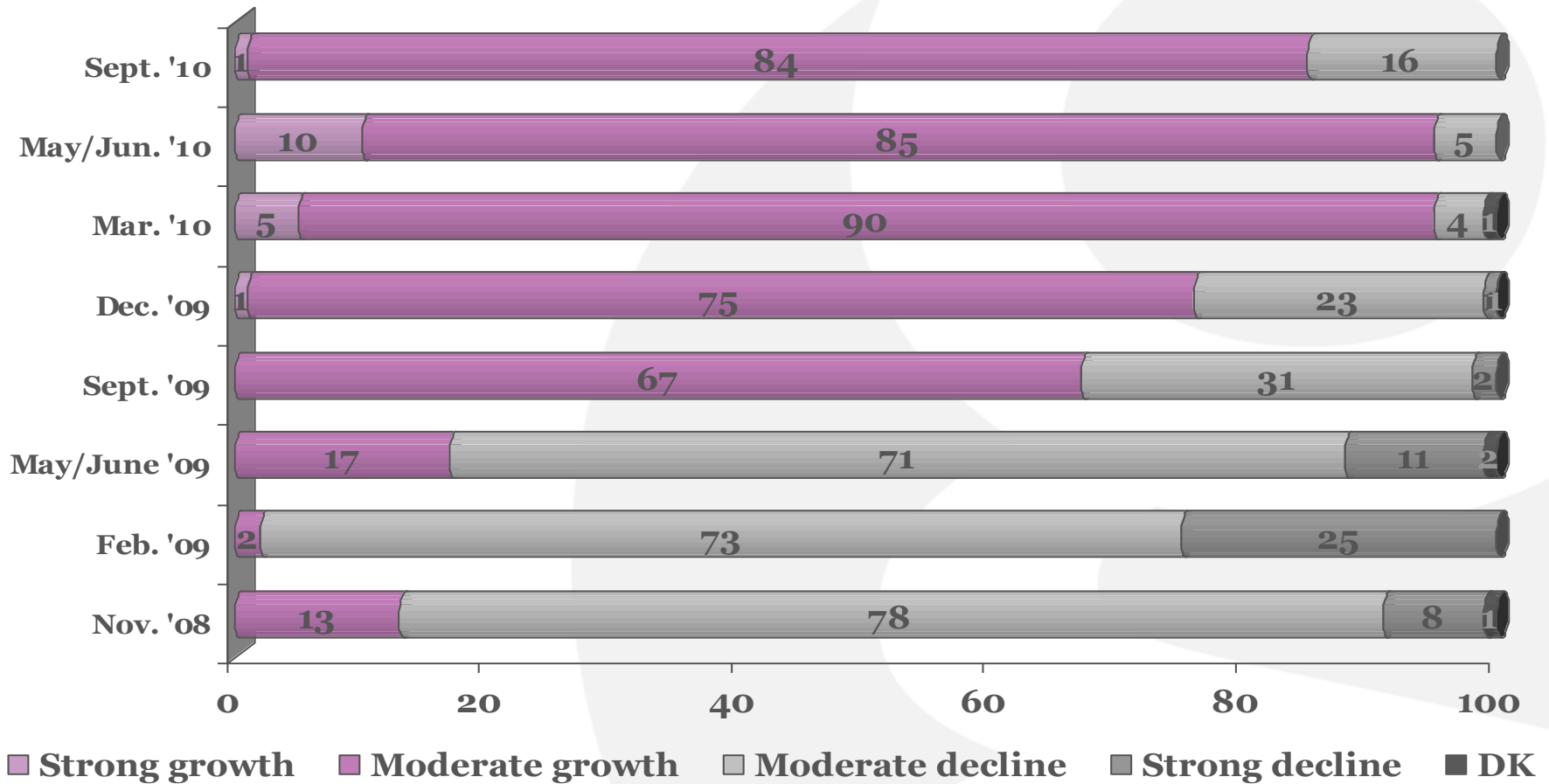


- ❑ Confidence in the economy is down from where it stood last quarter – 16% said they believe the economy is in decline and 14% expect that to continue over the next 12 months.
- ❑ Those who expect the Canadian economy to contract tend to be those who expect the US to contract as well. Those who continue to expect the US economy to grow are more confident about the outlook in Canada.
- ❑ Most companies remain optimistic, expecting their companies to grow over the next year – those expecting strong growth for their companies is up 8 points from last quarter with resources companies driving most of that optimism.
- ❑ Some companies are signalling concerns, particularly those who expect the US economy to decline. The number who now say they don't expect their company to grow over the next year is at 10%, the highest in over a year.



The Canadian Economy Now

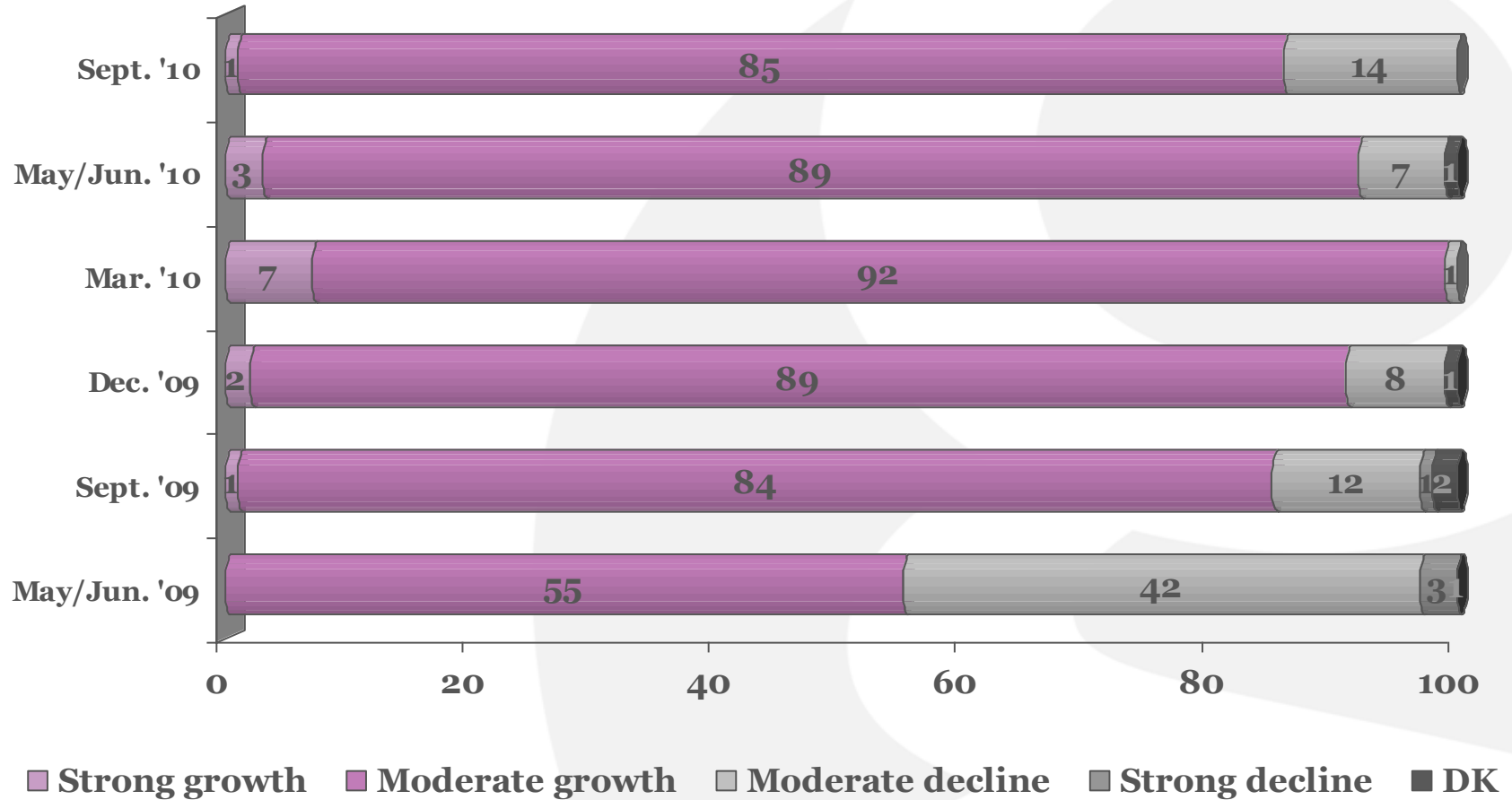
“First, which of the following do you think best describes the Canadian economy at the current time - strong growth, moderate growth, moderate decline, strong decline?”





The CDN Economy Over The Next Year

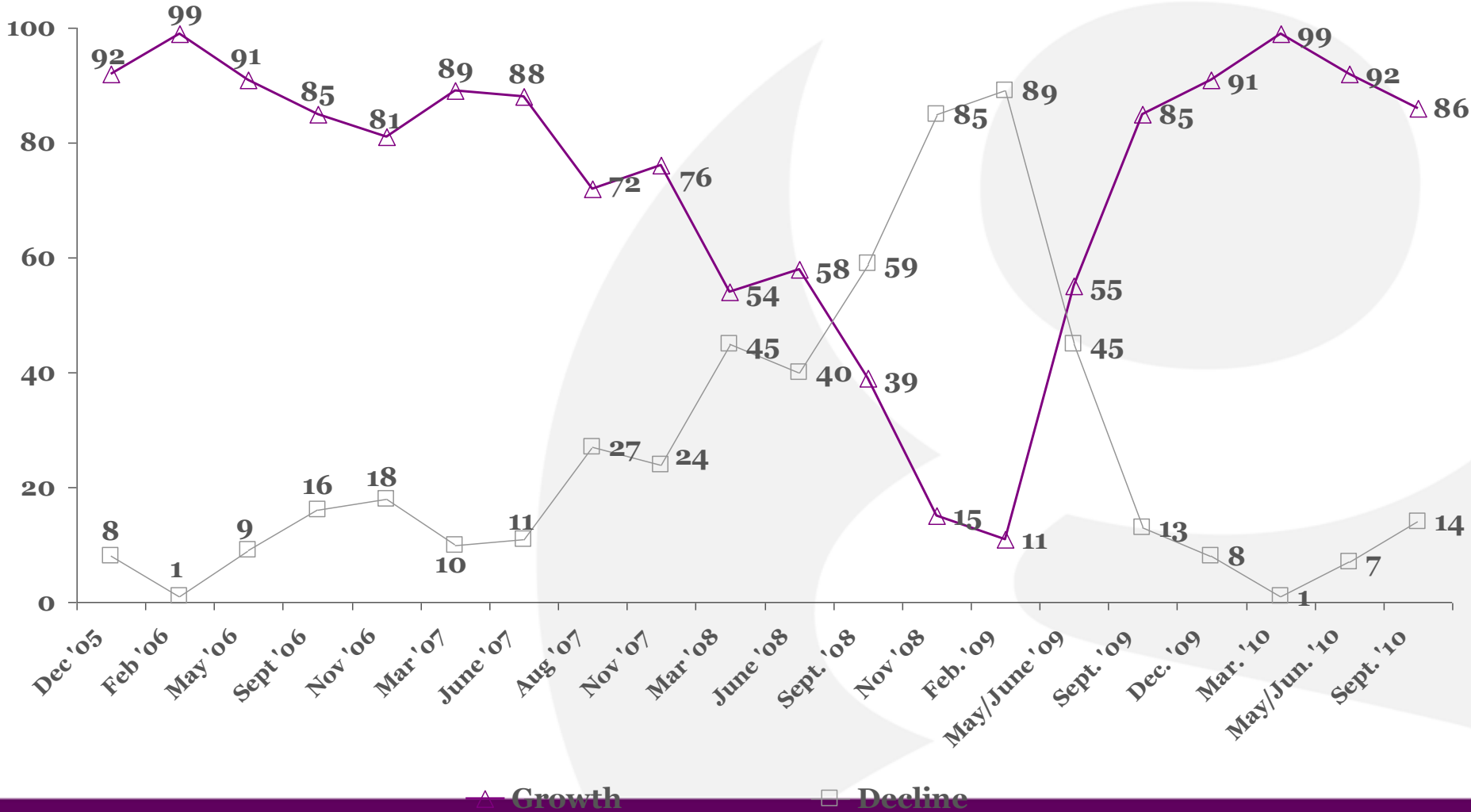
“And what are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





The CDN Economy Over The Next Year

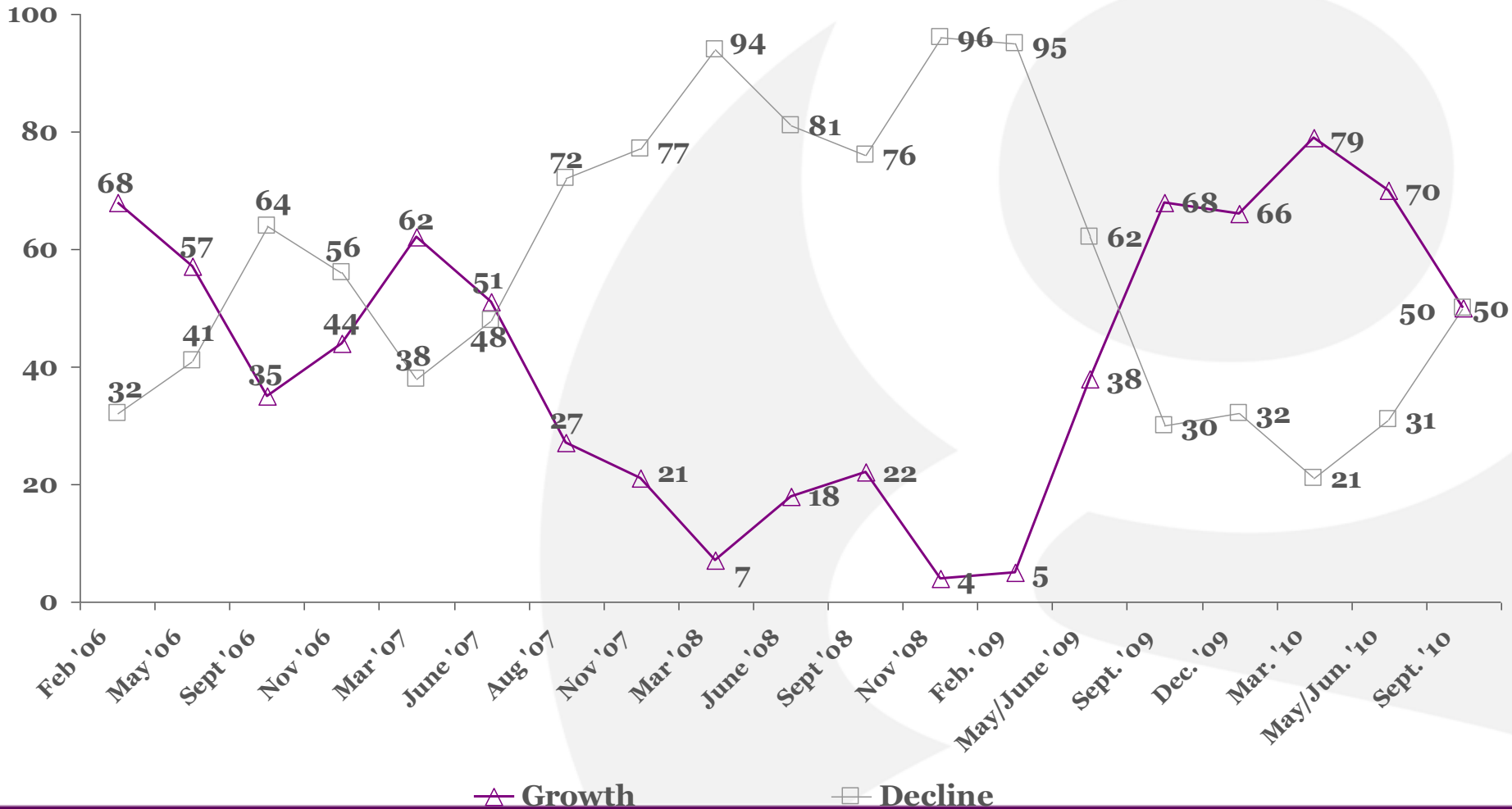
“What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





The US Economy Over The Next Year

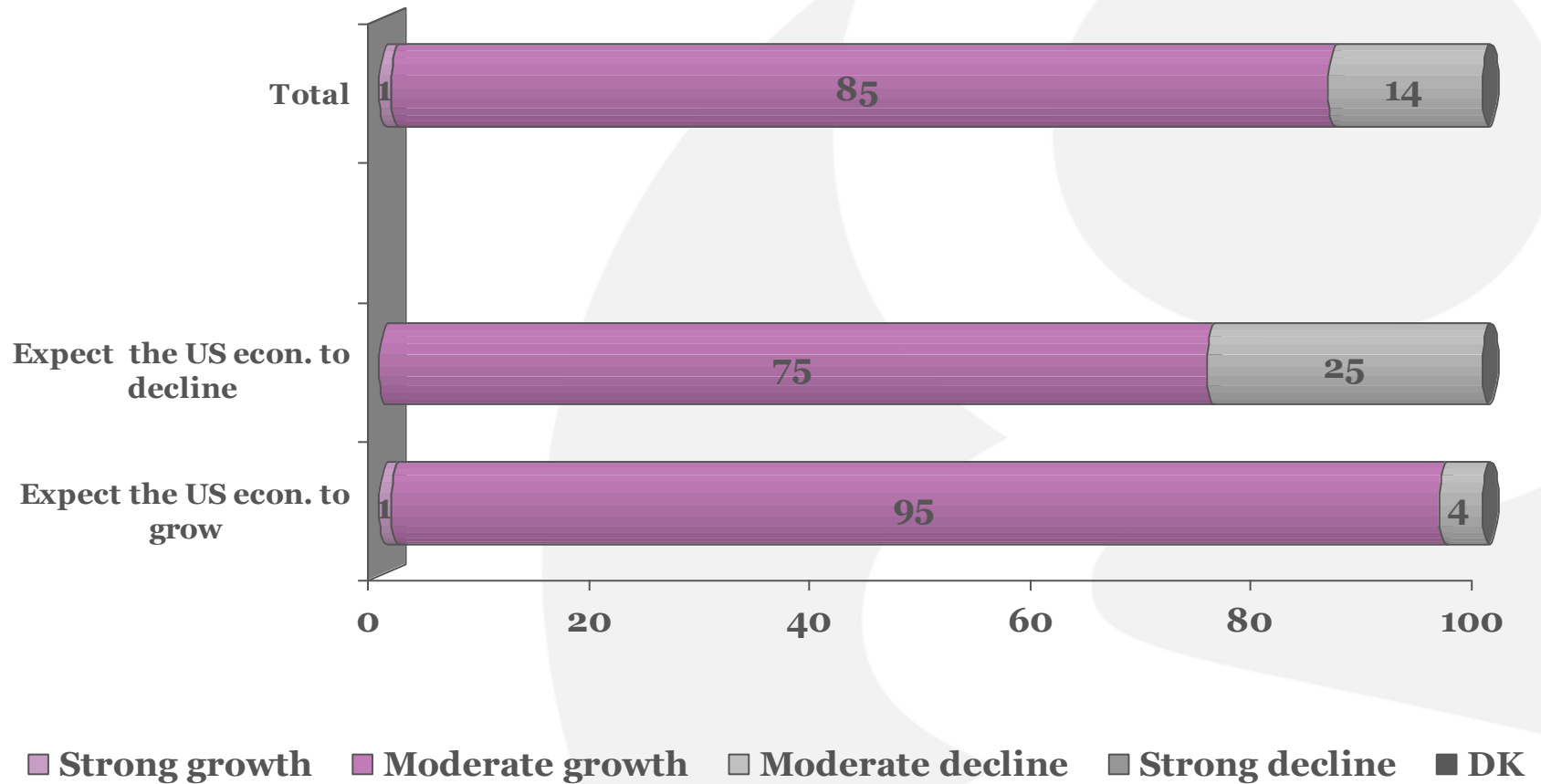
“What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





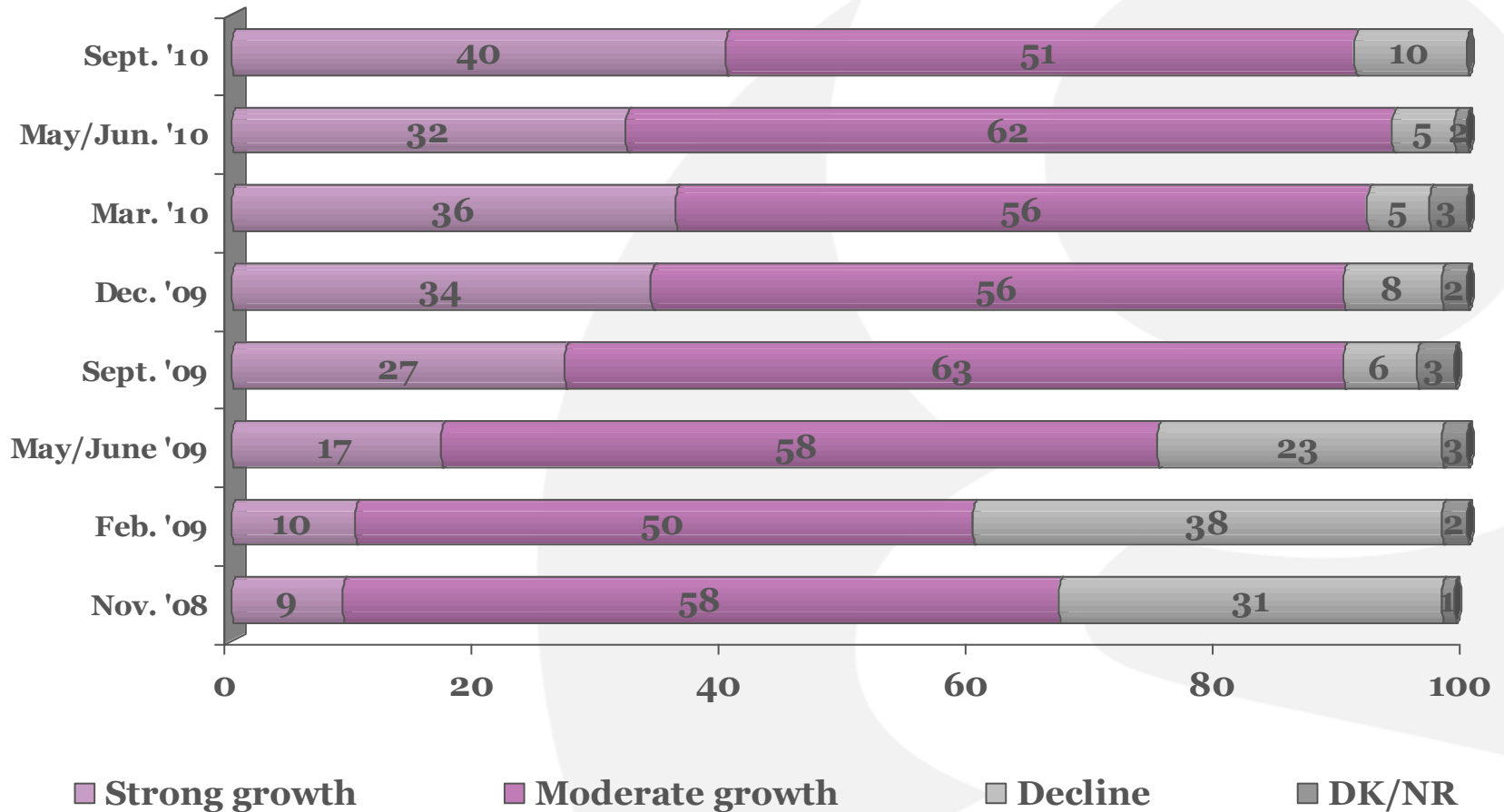
The CDN Economy Over The Next Year

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



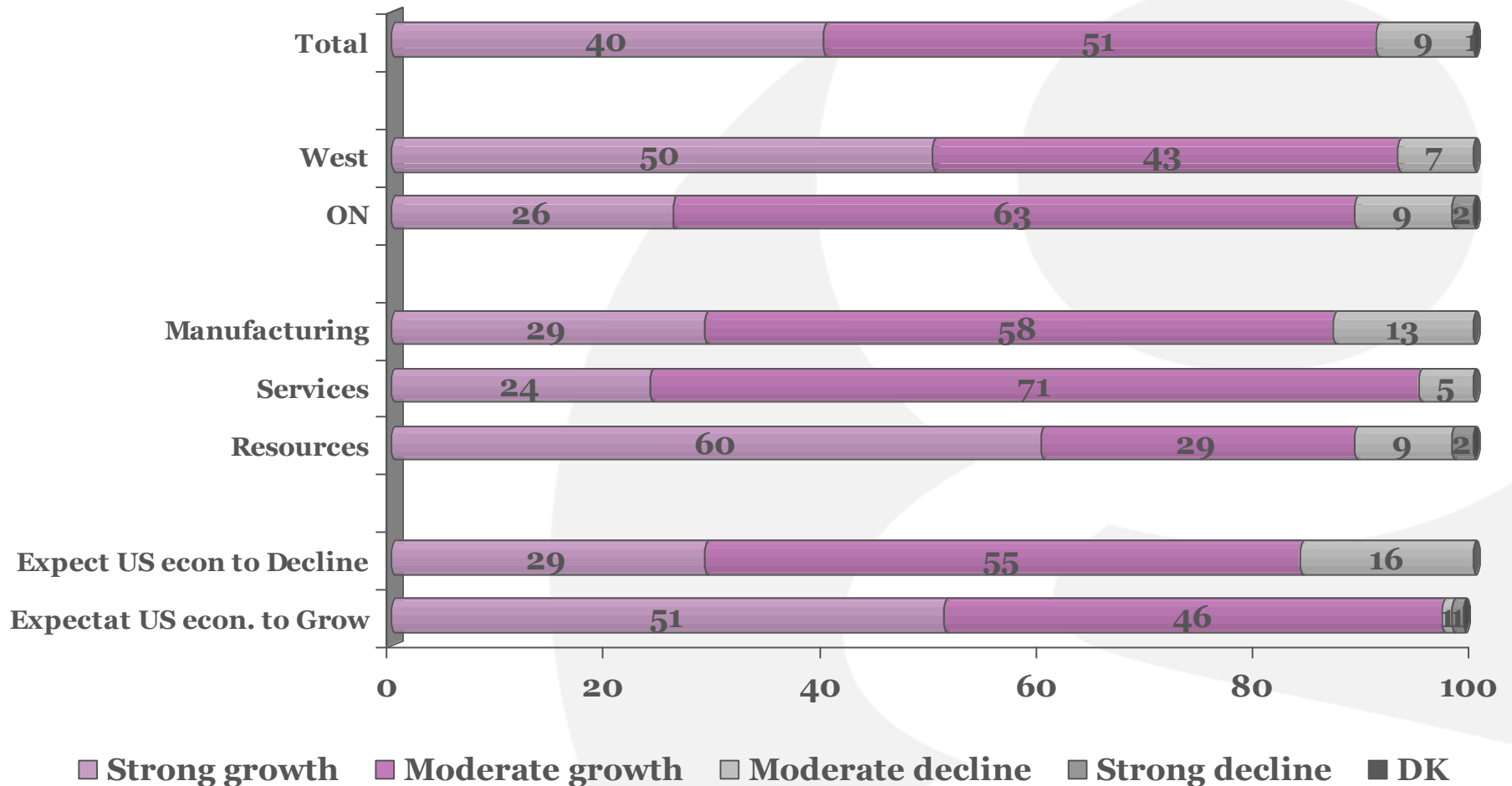


“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





“And what are your expectations for your company over the next 12 months: strong growth, moderate growth, moderate decline, strong decline?”



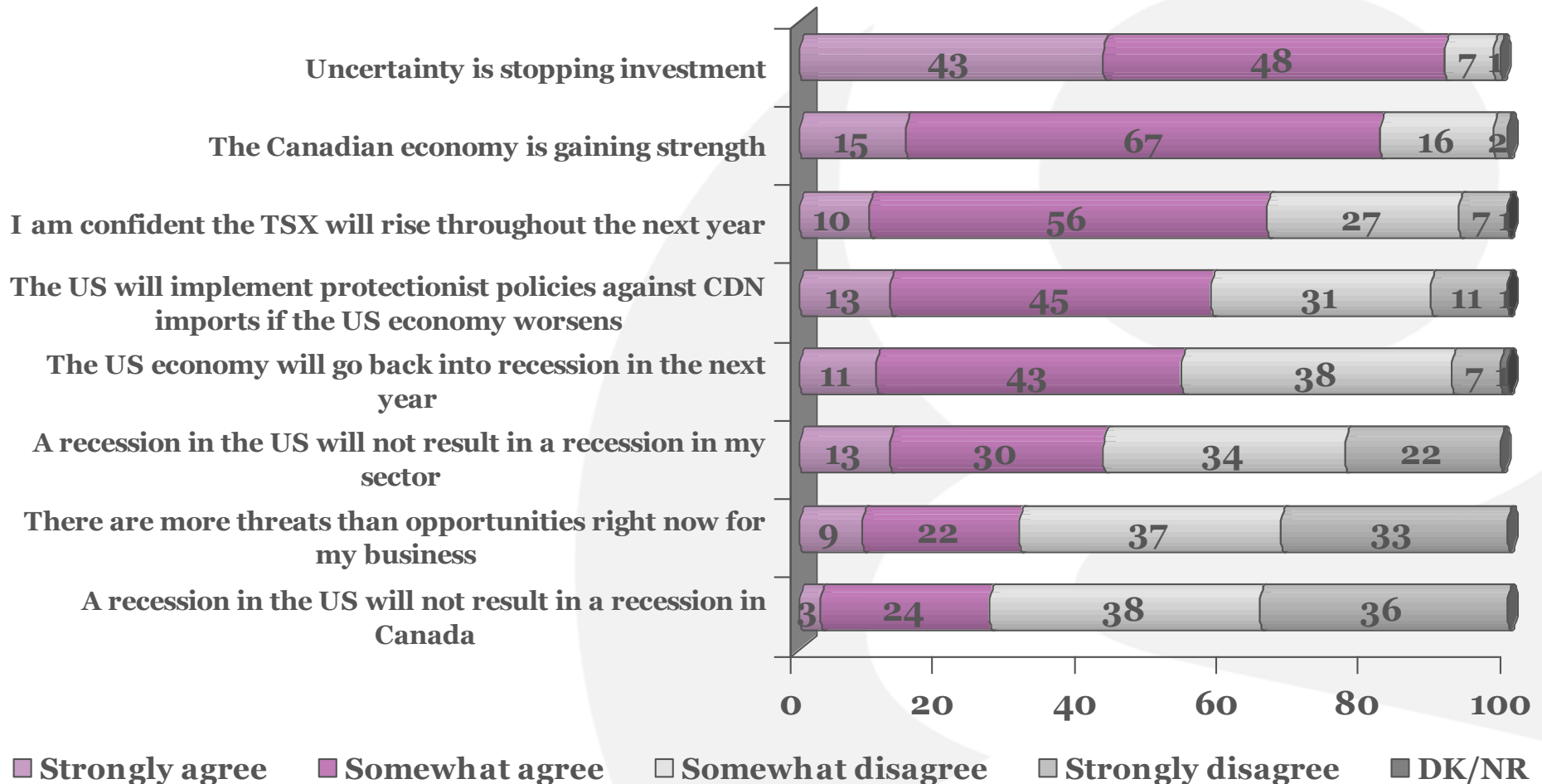


- ❑ We continue to see signs of cautious optimism.
 - Most disagreed there were more threats than opportunities facing their business.
 - Most agreed the economy is gaining strength.
 - But almost all agreed “uncertainty is stopping investment.”
- ❑ Most were moderately confident the TSX index will rise in value.
- ❑ Most believe a recession in the US will bring the risk of one here.
- ❑ Most executives in each sector agreed their industry could not avoid recession if the US continues its slide.
- ❑ A recession brings not only downward demand, but also the risk of the US taking protectionist measures at its borders. Most executives agreed the US will take action against Canadian imports if its economy worsens.



Opinions on the Economy

“I’m going to read a number of statements people might make about the economy. Please indicate whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.”

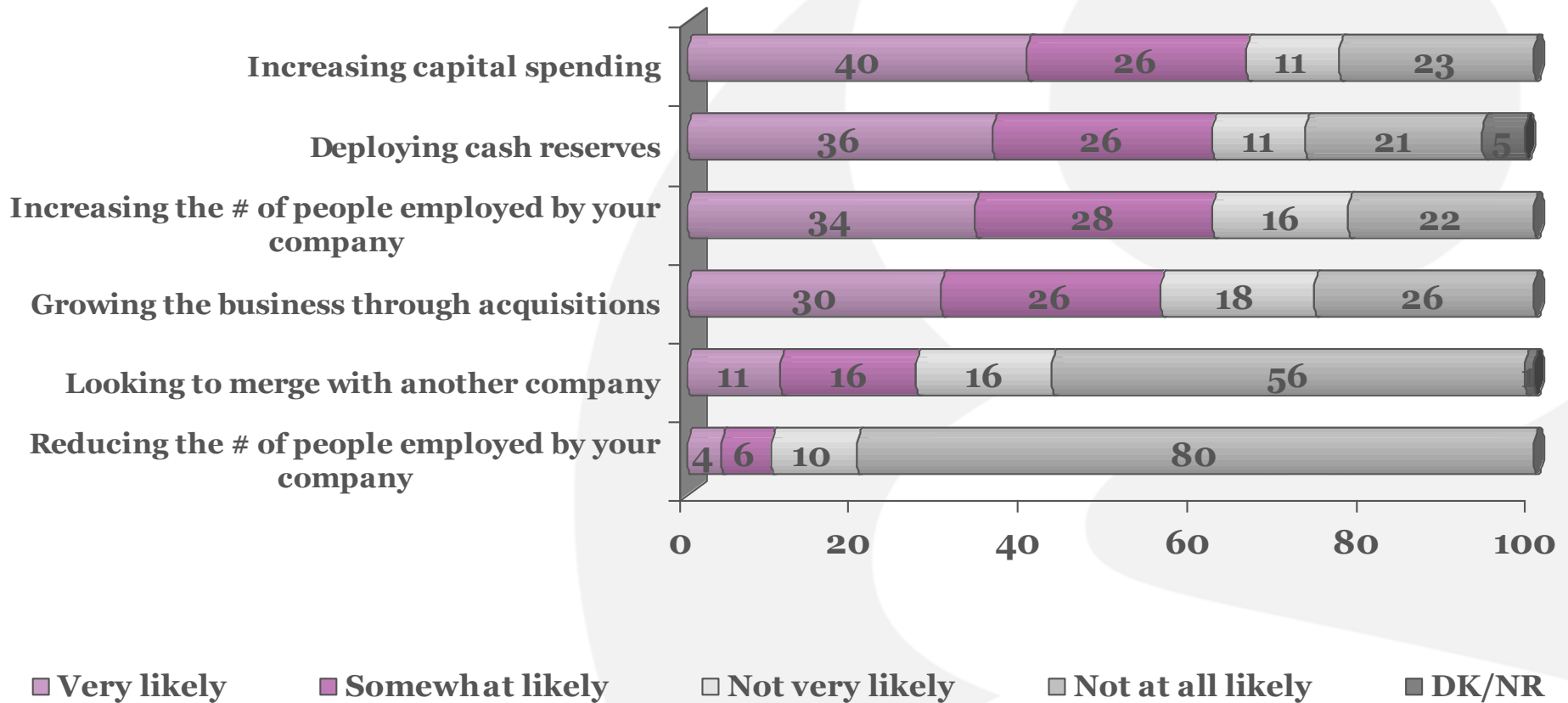




- ❑ Four out of ten companies will be seriously considering increasing capital spending this quarter.
 - Resources companies are most likely to be considering increasing spending but just over a third of manufacturers and services sector companies are planning capital spending.
- ❑ And companies are likely to be increasing staff levels.
 - A third said they were very likely to be considering hiring this quarter with almost none saying the same about layoffs.
- ❑ About one in three executives said they were very likely to be considering growing their business through acquisitions – one in ten are seriously considering a merger.
- ❑ Very few publicly traded companies are considering share buy backs or altering their dividend formula.
- ❑ Among the companies likely to consider issuing shares, almost all are smaller firms and in the resources sector.



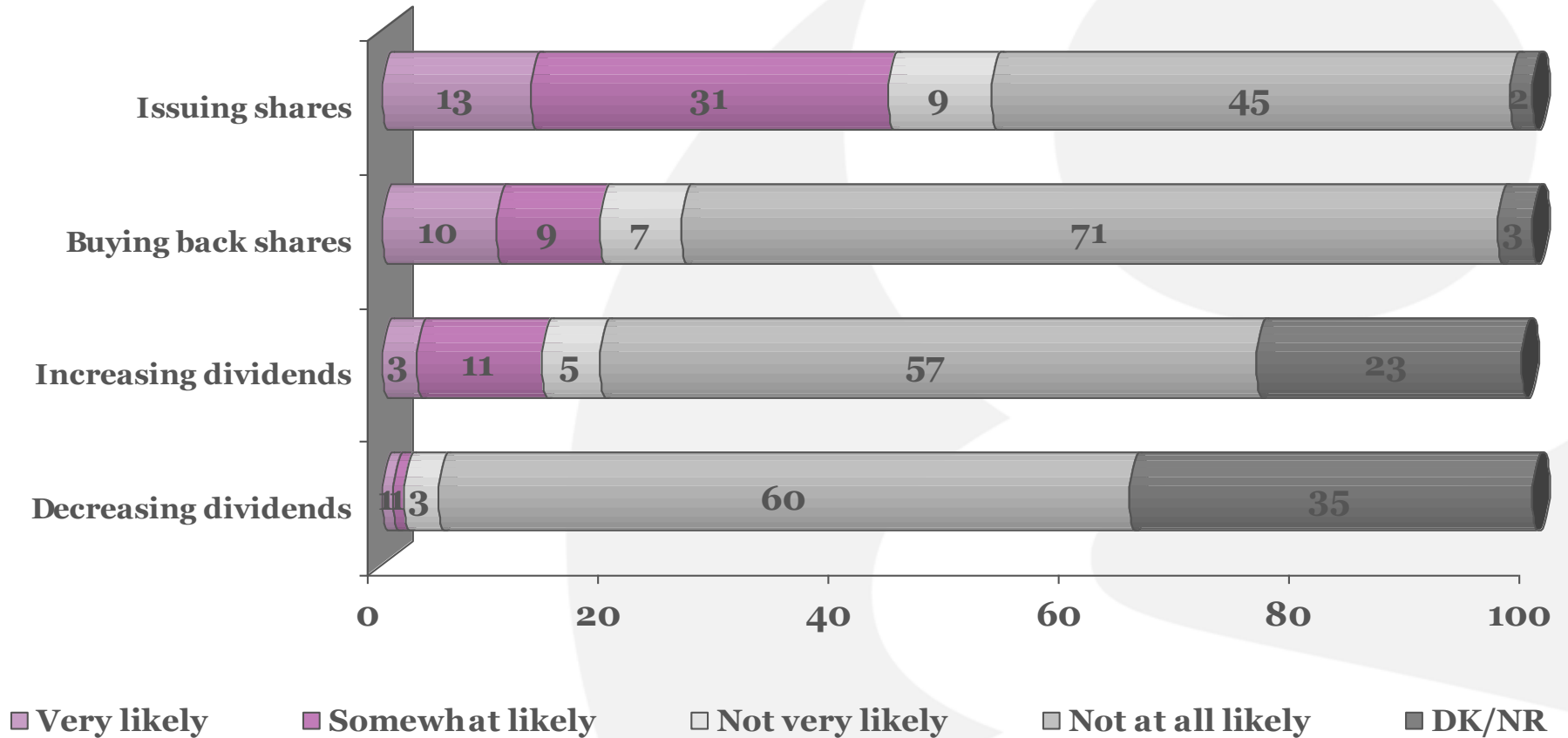
“Please tell me if in this quarter your company would be very likely to consider, somewhat likely to consider, might possibly consider or not at all likely to consider the following initiatives: ”





Shares and Dividends

“In the next quarter is your company very likely to consider, somewhat likely to consider, somewhat unlikely to consider or not at all likely to consider.” (Among publicly traded companies)



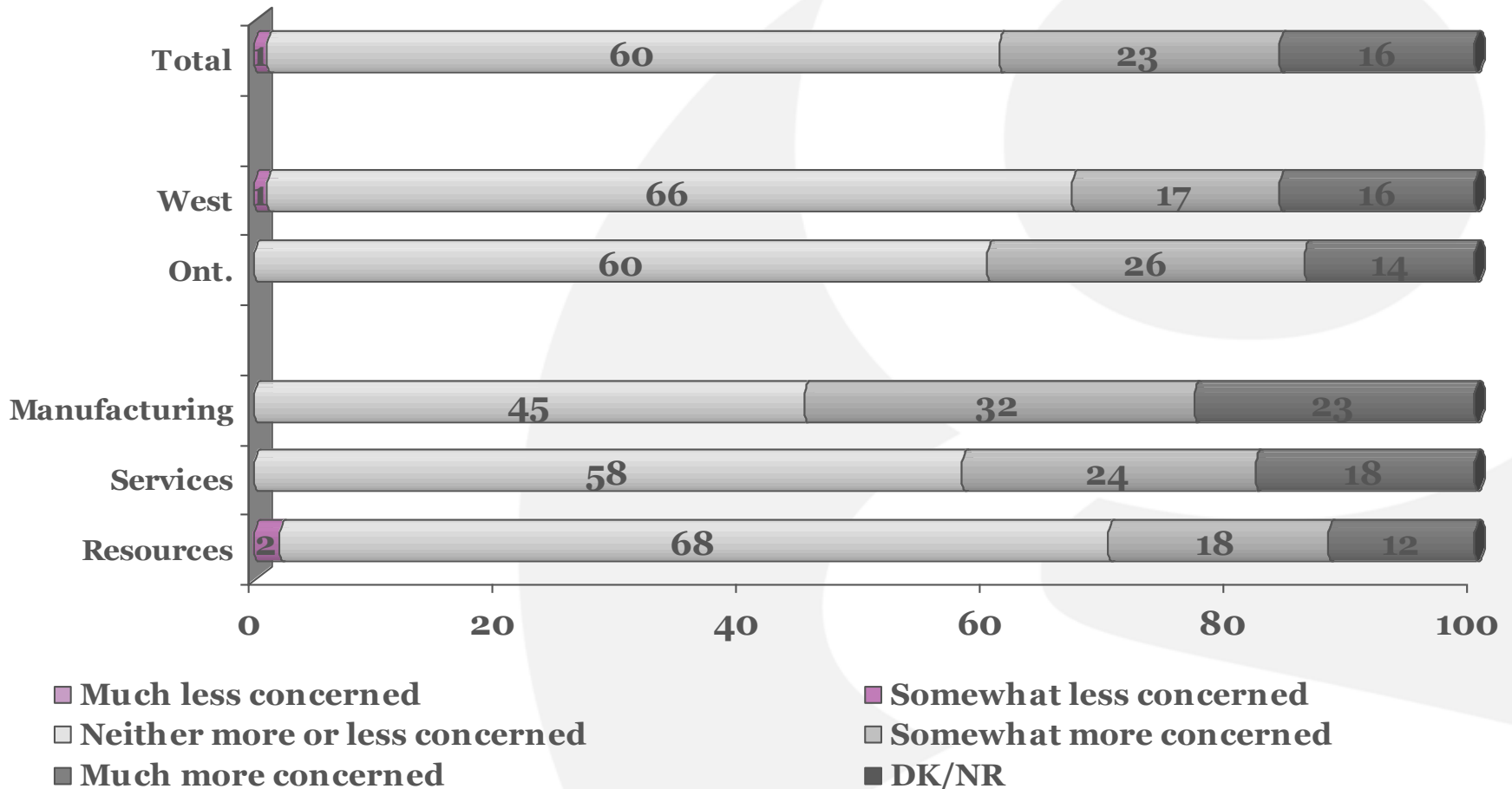


- ❑ A significant number of executives said they have become more concerned about foreign ownership in certain sectors since news of a takeover for the Potash Corporation of Saskatchewan.
- ❑ Half said they were concerned about a potential foreign takeover of the company.
 - Among those who were least concerned were in fact based in the West or with resources companies.



Potash Corporation Takeover

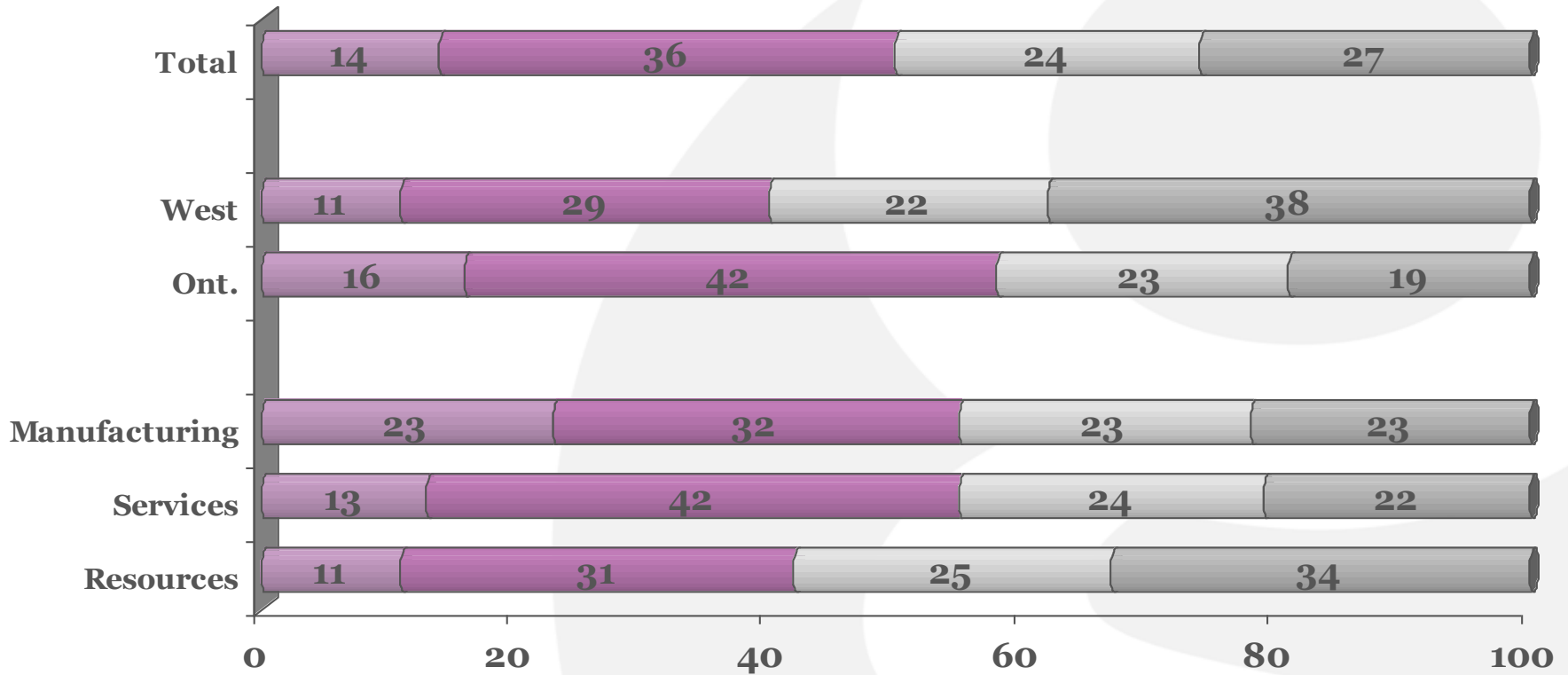
“Has the recent attempted takeover of The Potash Corporation of Saskatchewan made you more or less concerned about foreign ownership in certain sectors or no more or less concerned than you were before?”





Potash Corporation Takeover

“Would you say you are very concerned, somewhat concerned, not very concerned or not at all concerned about a foreign takeover of The Potash Corporation of Saskatchewan?”



Very concerned Somewhat concerned Not very concerned Not at all concerned DK/NR



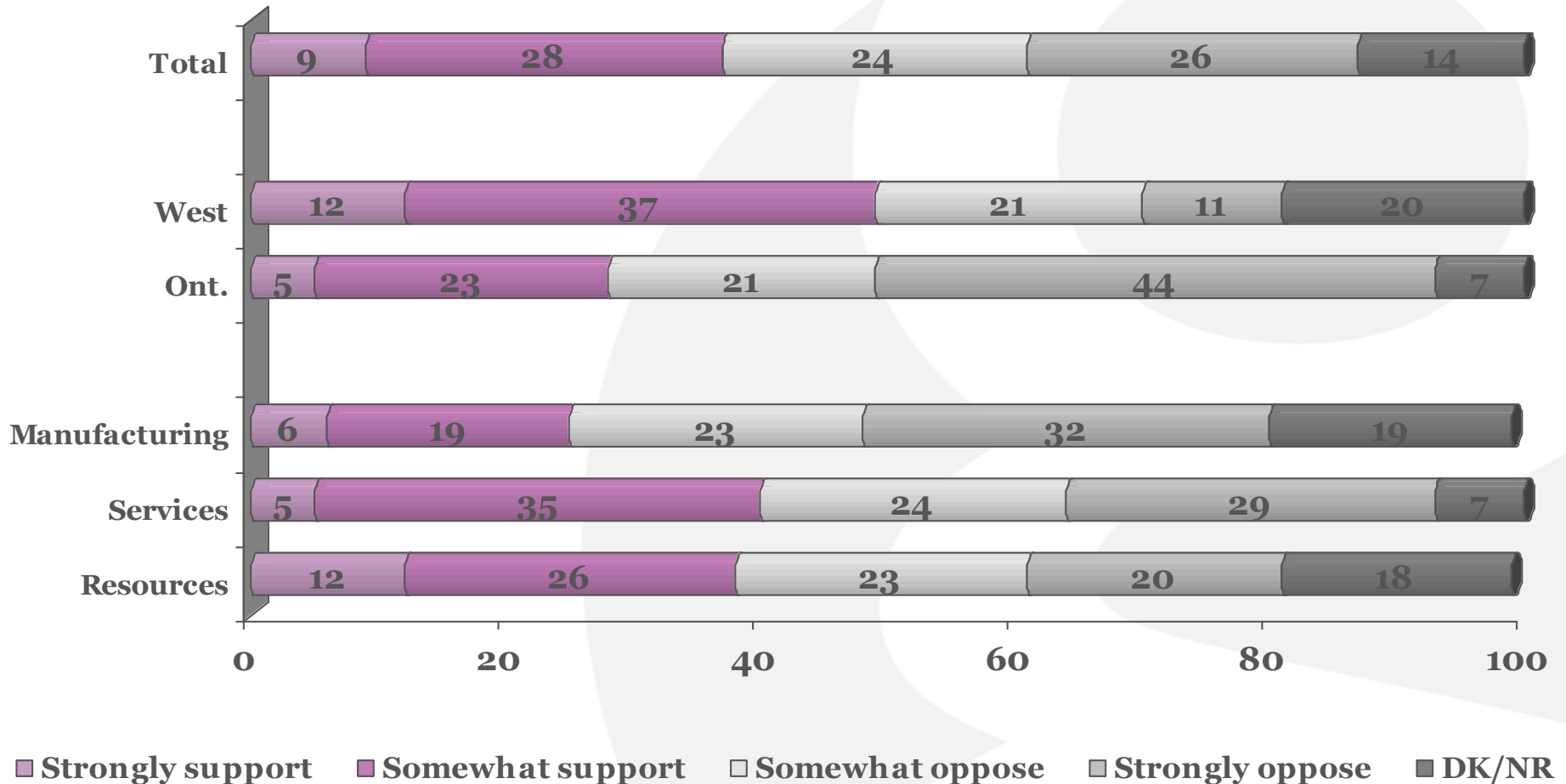
Confidence in Minister Flaherty

- ❑ The government's changes to the federal census are opposed by most executives – only a third support the changes.
 - Far more strongly oppose the changes than strongly support them.
- ❑ The census does not appear to have impacted the government's rating with the government's ratings continuing to climb.
 - Finance Minister Flaherty's favourability is up slightly this quarter but up significantly since the start of the recession and the Fall Economic Statement of 2008. Confidence in Jim Flaherty's handling of the economy is at its highest in four years.
 - Prime Minister Harper's favourability is also up somewhat from Feb. 2009 when 58% had a favourable view of him compared to 65% this quarter.
 - Just over half of executives have a favourable view of President Obama but his standing is off '09 levels when 78% said they were favourable.
- ❑ Executives are mostly comfortable with the federal government's five year timetable to balance the budget, but they are split on whether or not to maintain stimulus funding at current levels.
 - Western executives were somewhat more likely to support extension of the stimulus.



Opinions on the Census Changes

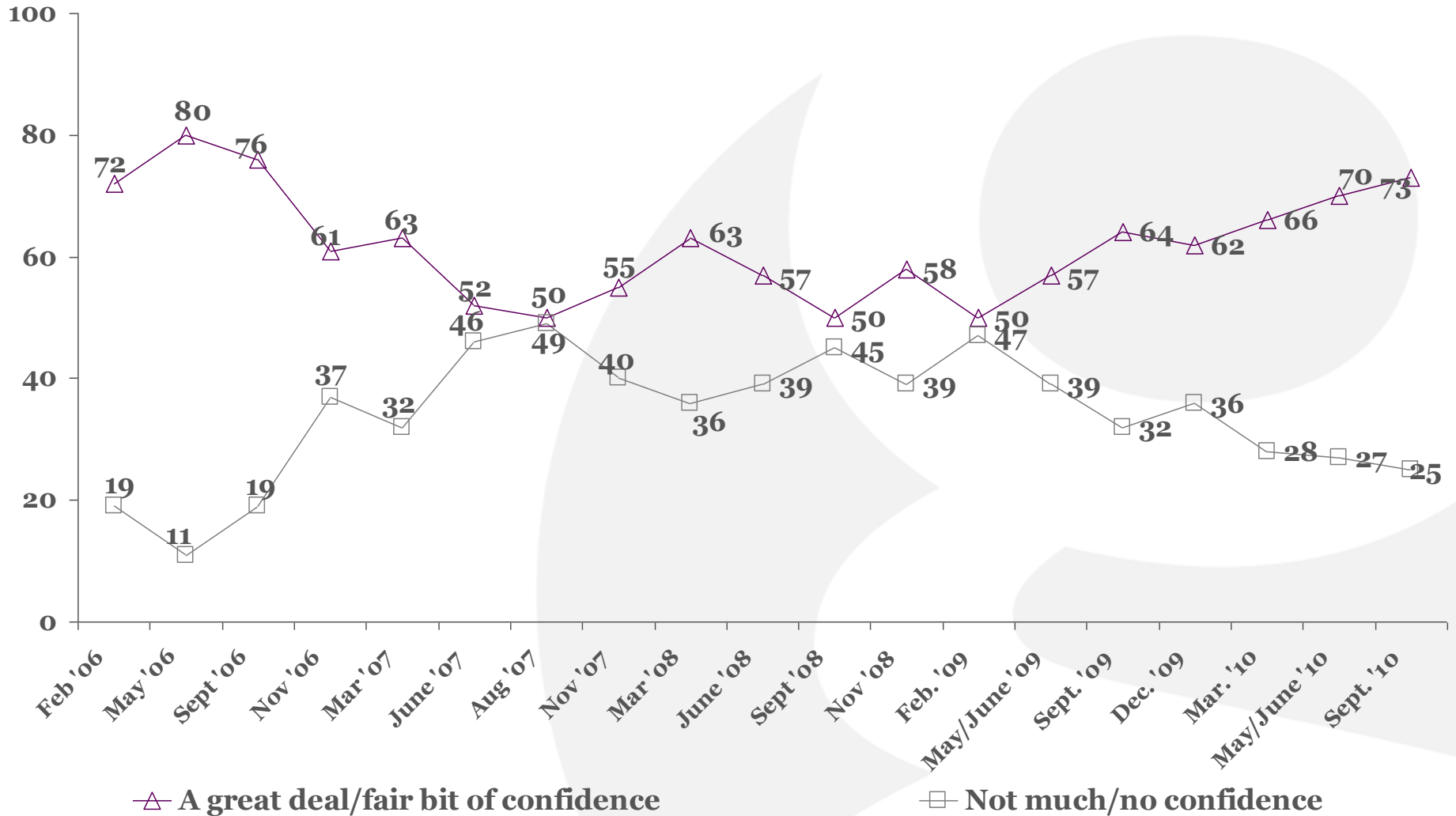
“There has been much discussion about the Census this summer. Do you support or oppose the federal government’s changes to the Census?”





Confidence in Minister Flaherty

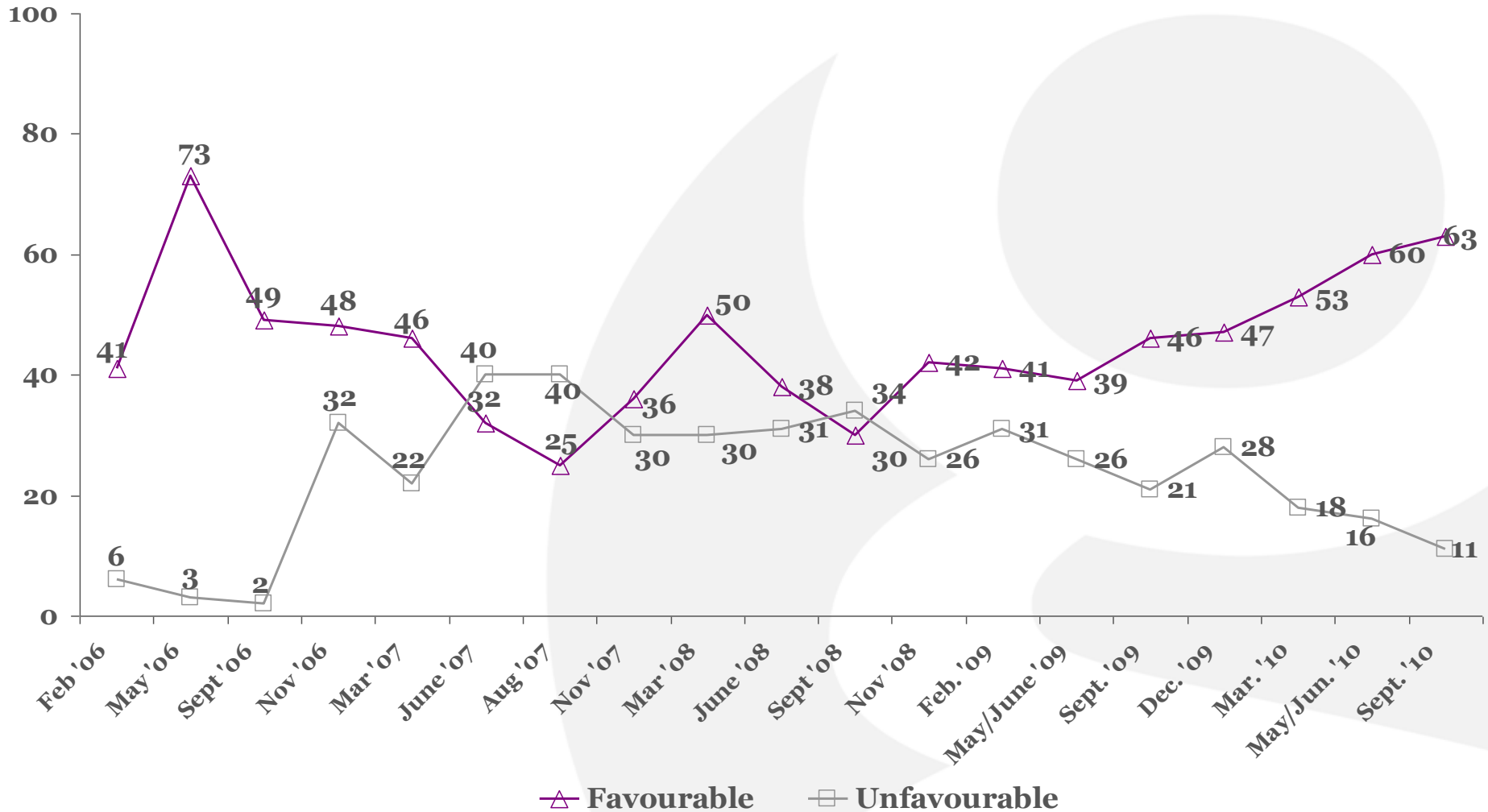
“How much confidence do you have in Finance Minister Flaherty’s management of the economy?”





Impressions of Minister Flaherty

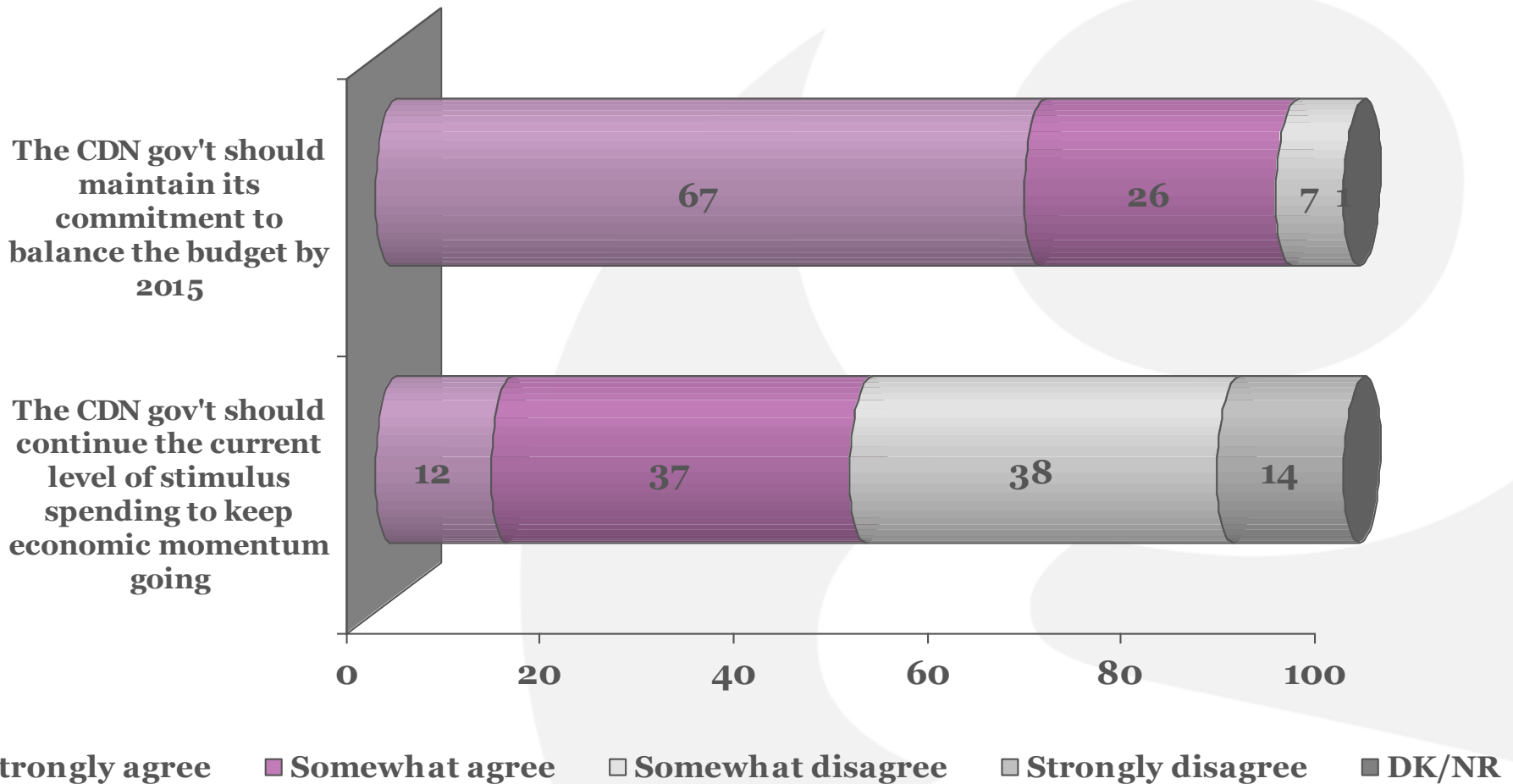
“How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?”





Fiscal and Economic Policy

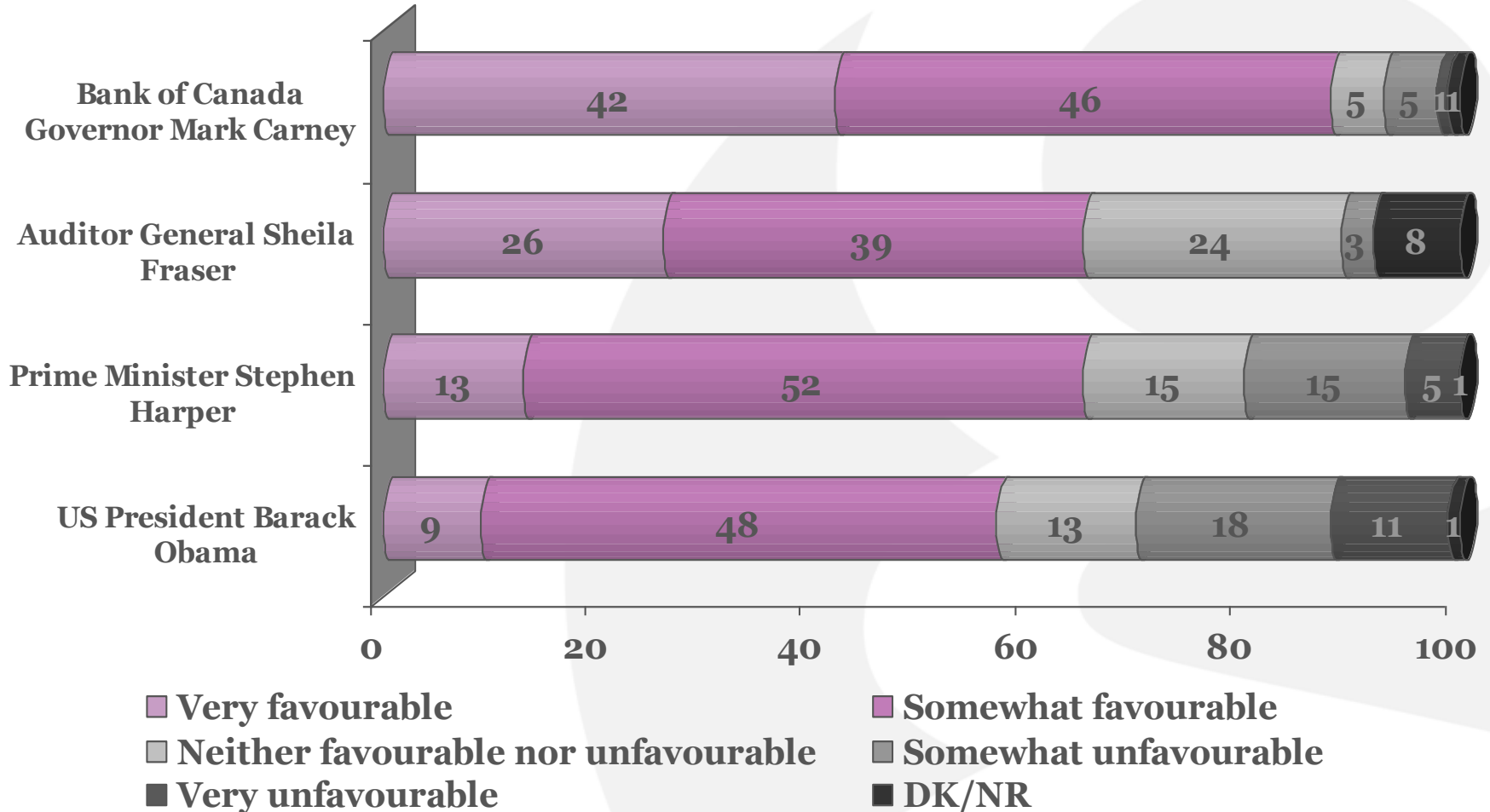
“I’m going to read a number of statements people might make about the economy. Please indicate whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.”





Impressions of Gov't Figures

“Would you say your impression of _____ is very favourable, somewhat favourable, neither favourable nor unfavourable, somewhat unfavourable or very unfavourable?”





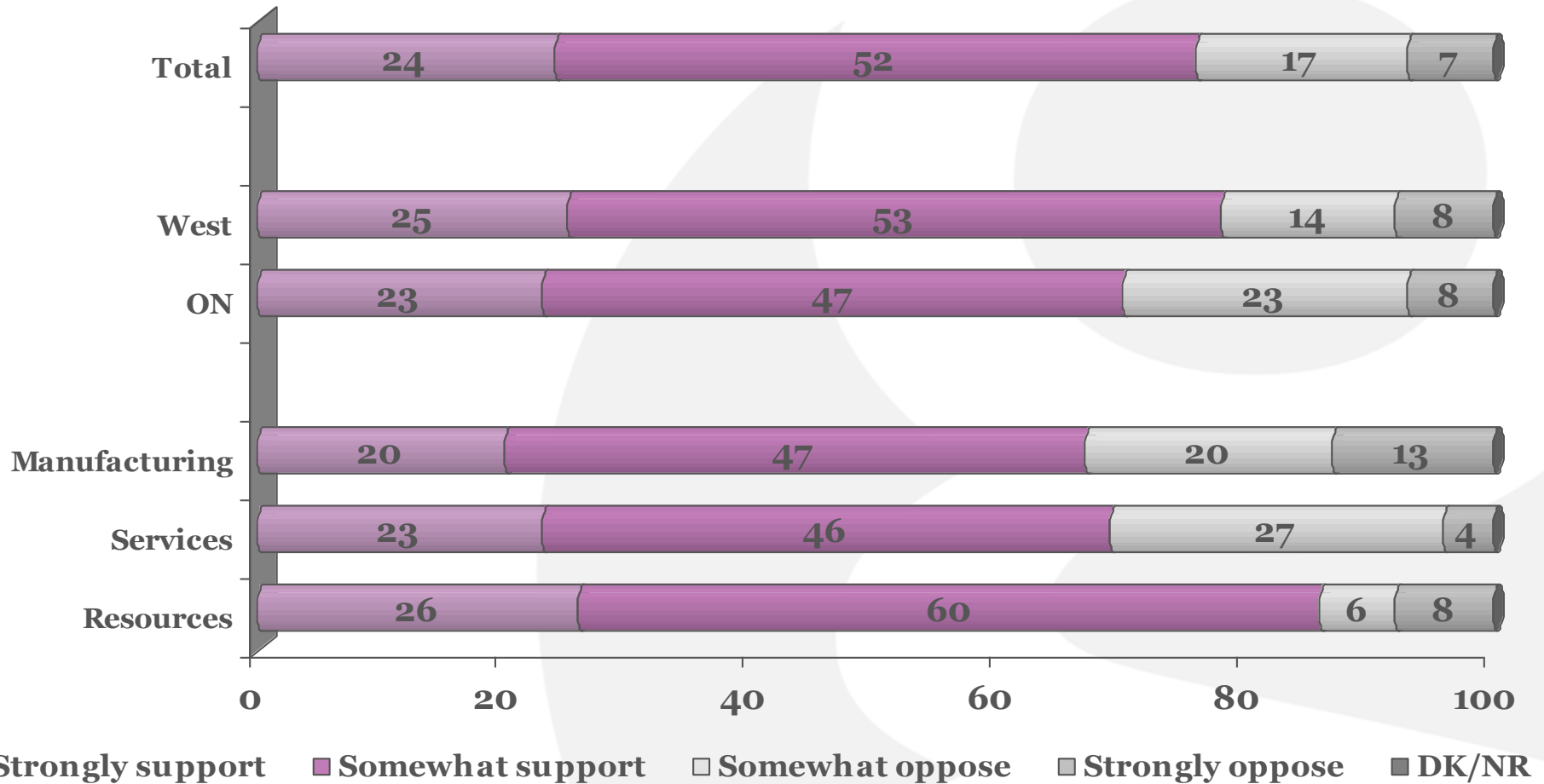
- ❑ Bank of Canada Governor Mark Carney can seemingly do no wrong, with extremely high favourability levels and most executives saying they support the Bank's decision on Sept. 8 to raise interest rates.
 - Support for the rate increase was high among executives in each region.
 - The sector that's most bullish on the economy – the resources sector – was least likely to express concern about the rate increase.
 - A significant number of executives saw what they considered to be excessive growth rates or high levels of lending, particularly in the real estate sector, as reasons to raise rates.

- ❑ Most agreed with Governor Carney's statement that Canadian productivity lags other countries because business does not invest in innovation. A third of executives disagreed with this and indeed many executives believe public policy measures are extremely important to Canada's competitiveness or lack thereof in this area.



Bank of Canada – Increased Interest Rates

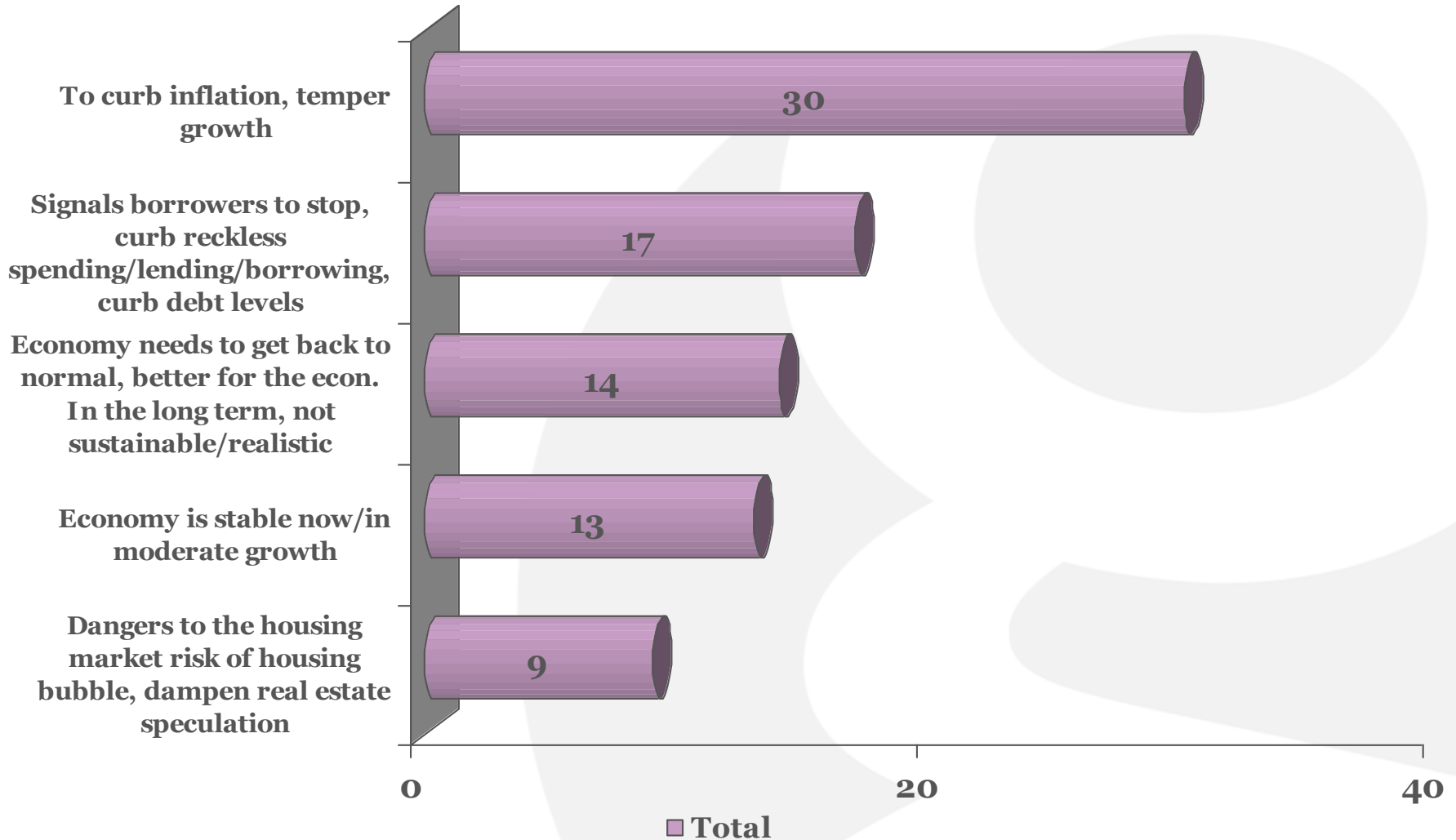
“On September 8, the Bank of Canada chose to raise interest rates by 1/4%. Do you strongly support, somewhat support, somewhat oppose or strongly oppose the increase in rates by the Bank of Canada?”





Support For Increased Interest Rates

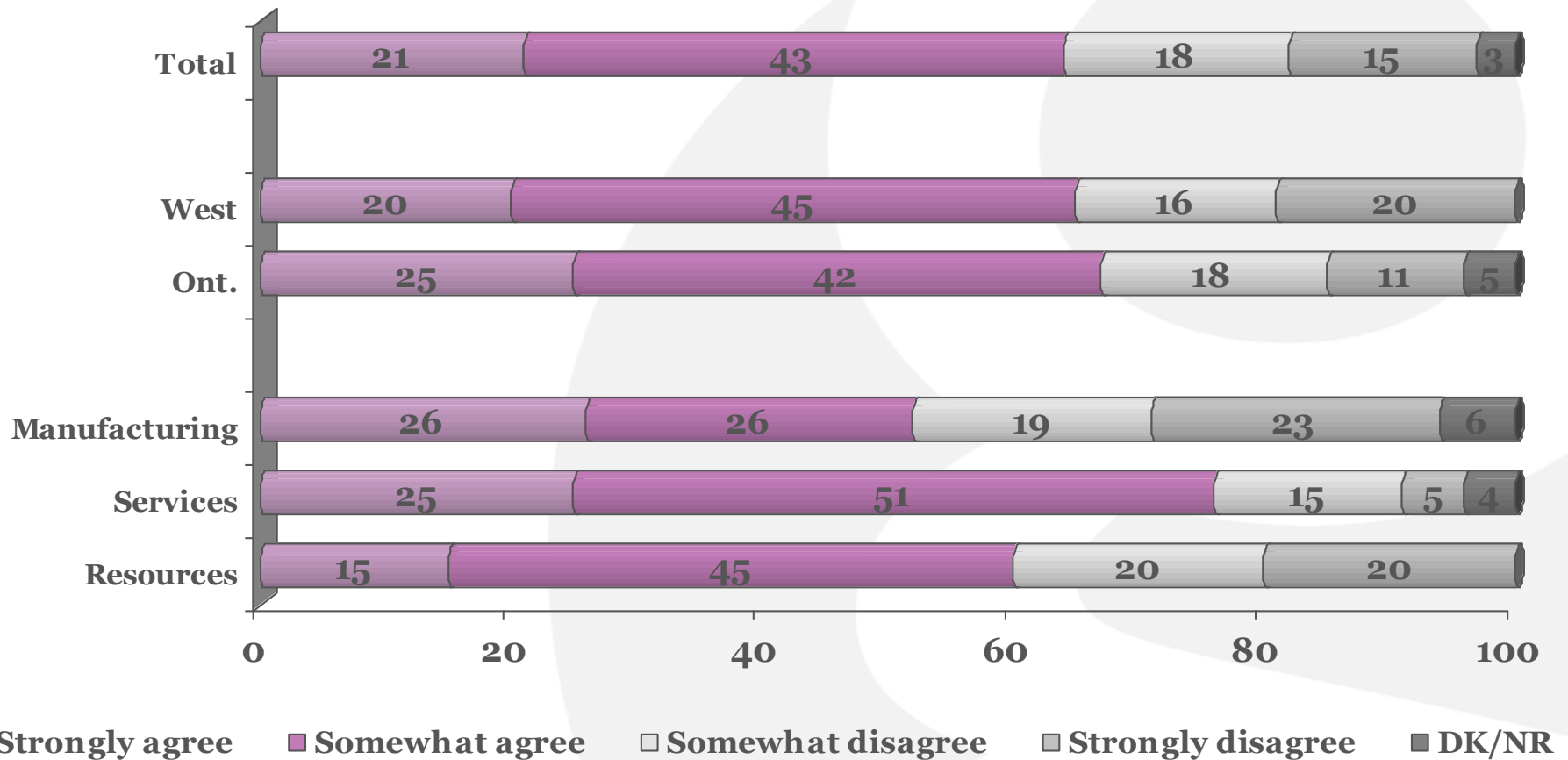
“Why do you support an interest rate increase?”





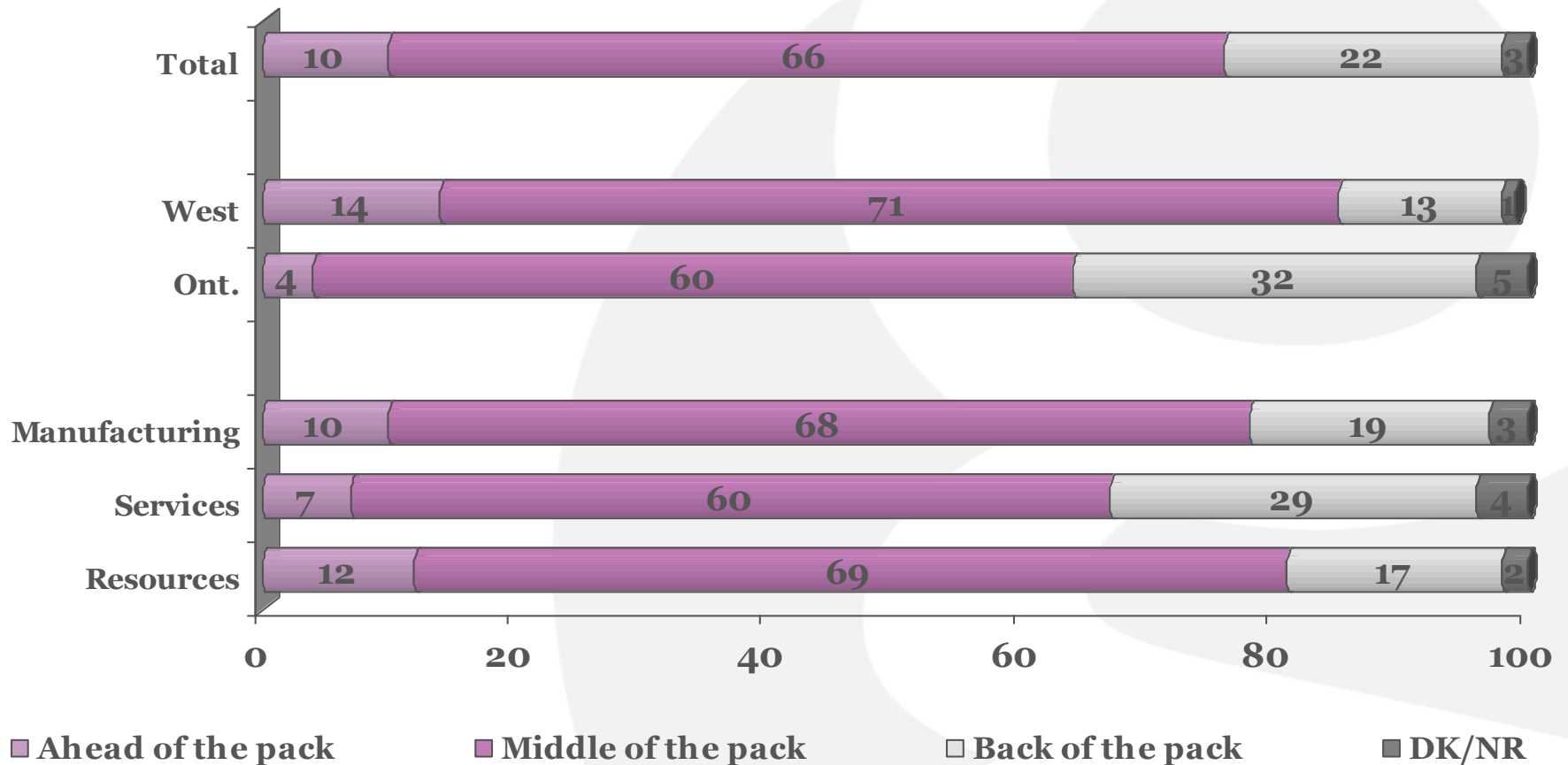
Canada's Productivity

“Bank of Canada governor Mark Carney has said productivity in Canada lags other countries because business does not invest enough in innovation. Do you agree or disagree with that statement? Would that be strongly agree/disagree or somewhat disagree/agree?”





“How does innovation in Canadian business compare with that of other industrialized nations: ahead of the pack, in the middle of the pack, or back of the pack?”



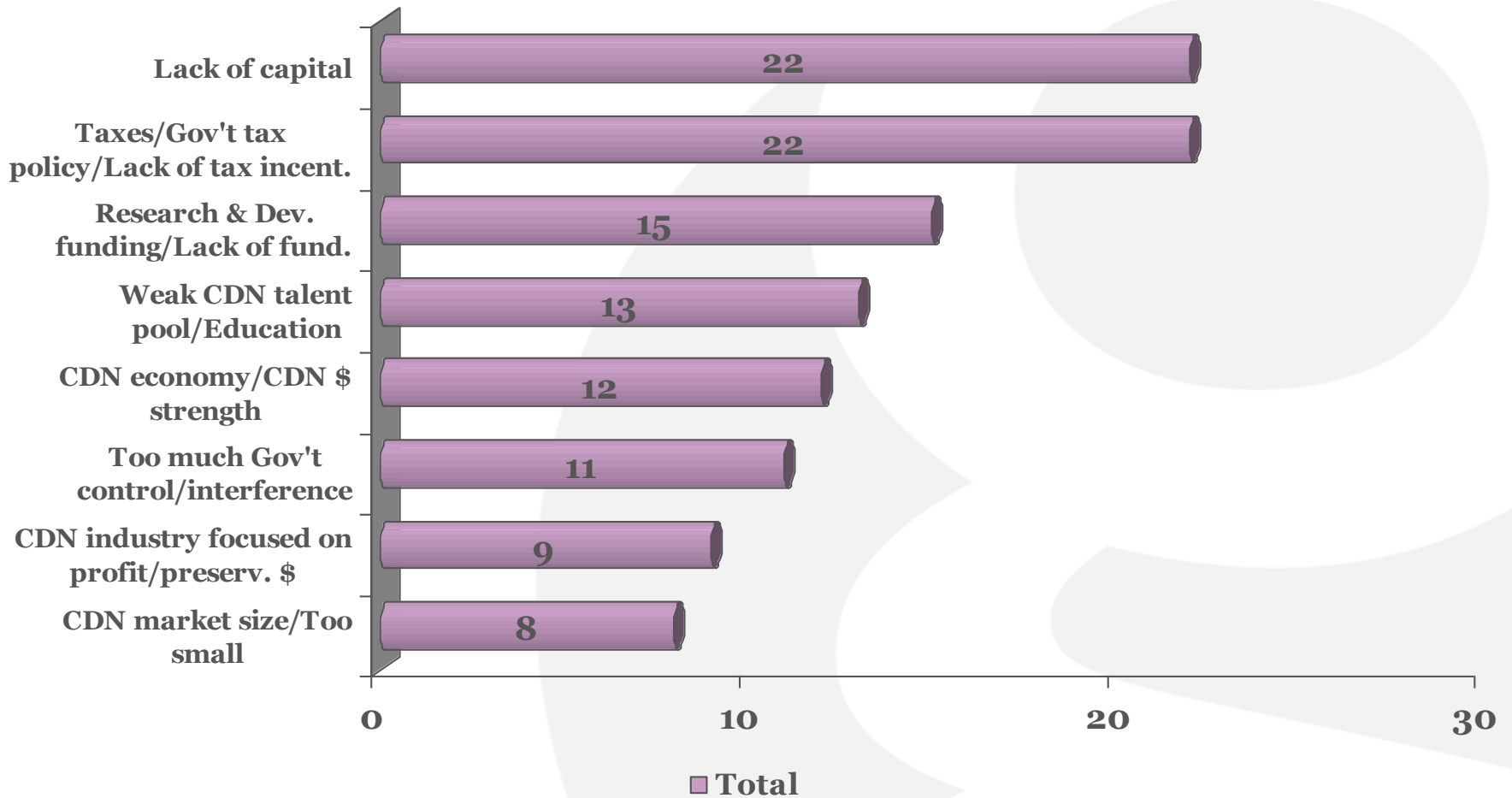


- ❑ Most executives said inadequate tax credits, high taxes generally, a weak academic research culture or low levels of R&D are important factors in Canada’s productivity lag with the US.
- ❑ But a third cited a “culture of complacency” as a very important factor. One in four put the blame on “risk aversion among executives”.
- ❑ Most companies are spending no more than 5% of revenue on R&D – half are spending 1% or less.
 - Resources companies are the most R&D intensive as a percentage of revenue. These tend to be smaller companies in terms of number of employees.
 - Larger companies were more likely to say they work with academic institutions and with higher revenues those large companies may be contributing significant dollar amounts compared to smaller R&D intensive companies. 31% of large employers are spending between 2% and 5% of revenue on R&D.



Barriers to Innovation in Canada

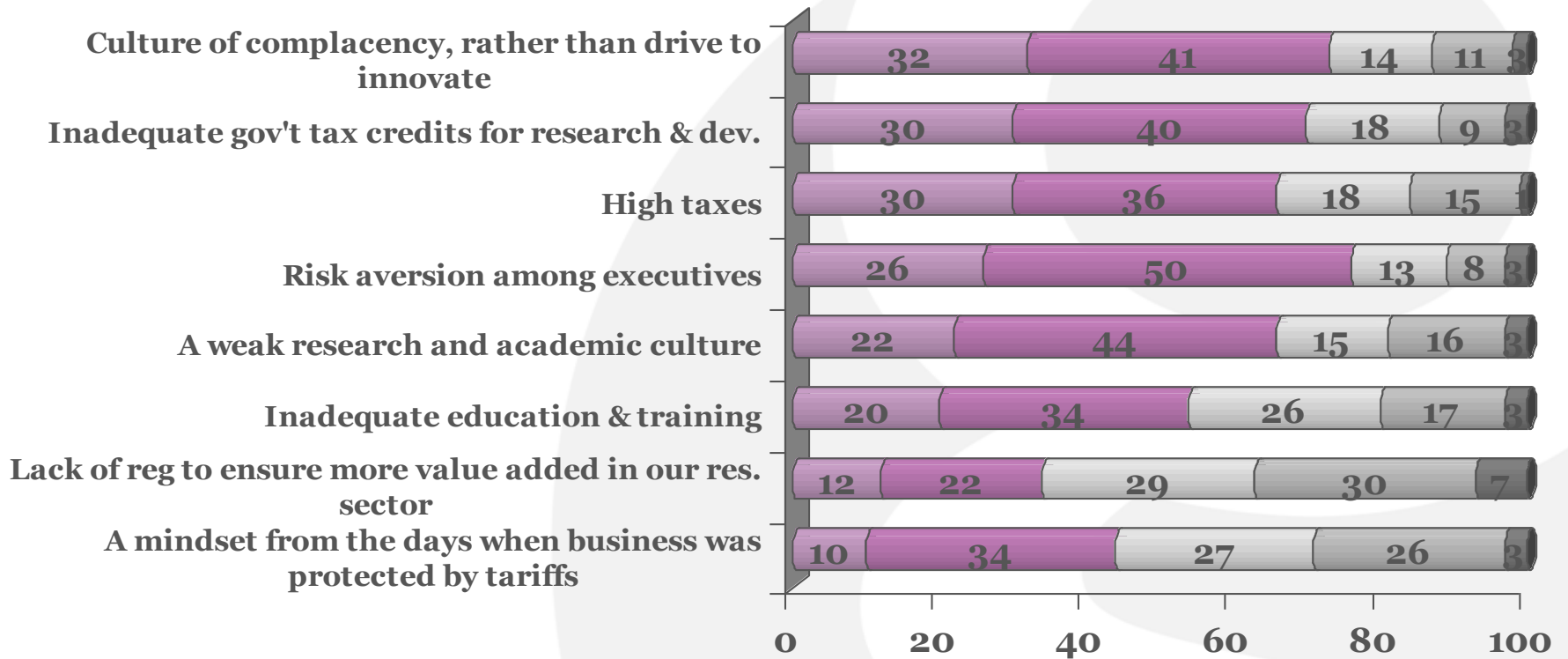
“What would you say are the barriers to increased innovation among Canadian companies?”





Canadian Productivity

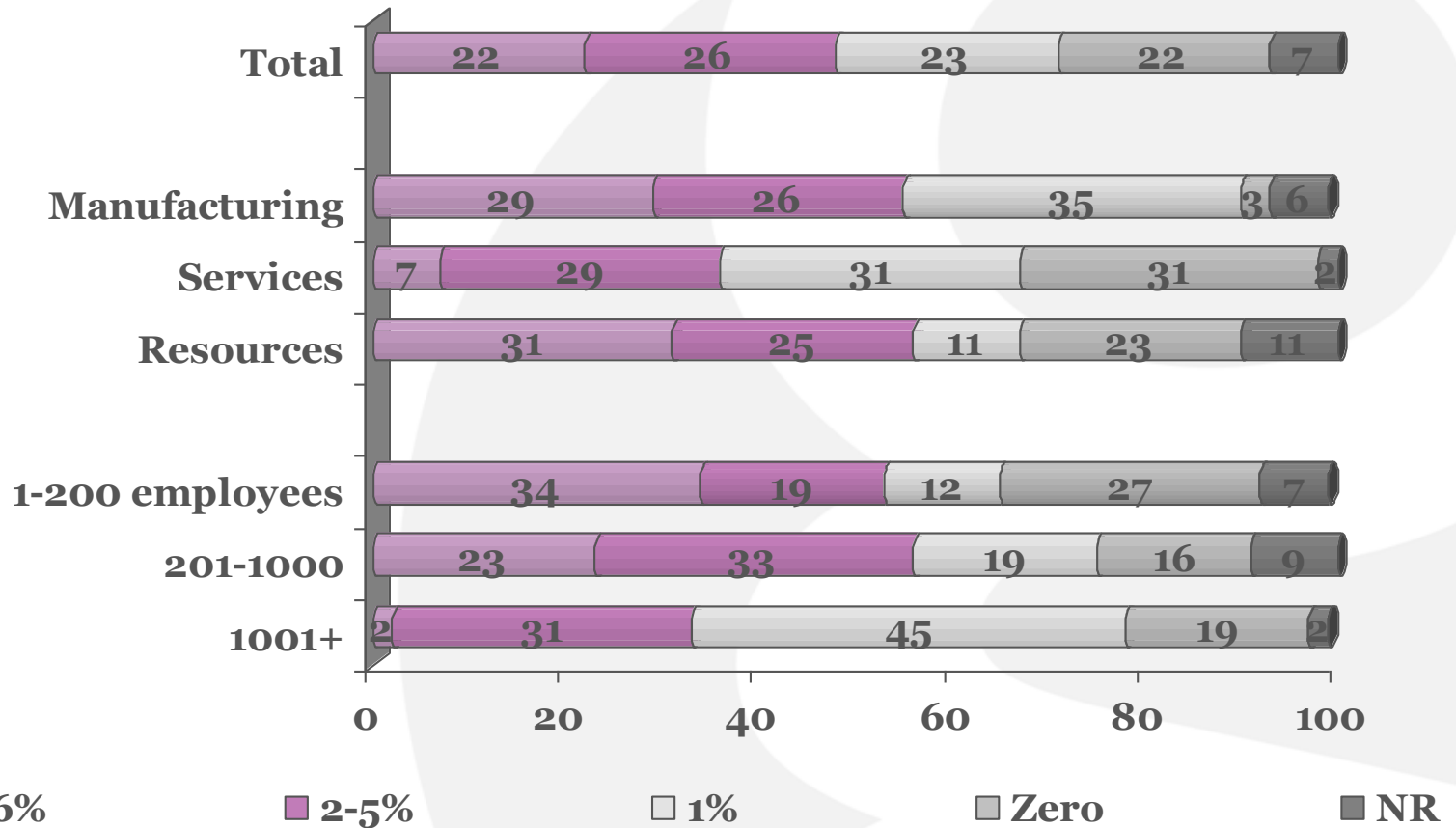
“Canadian productivity lags behind the US. How important a factor is _____ in explaining weaker Canadian productivity? Is _____ a very important factor, a somewhat important factor, not very important or not at all important?”



■ Very important ■ Somewhat important □ Not very important □ Not at all important ■ DK/NR



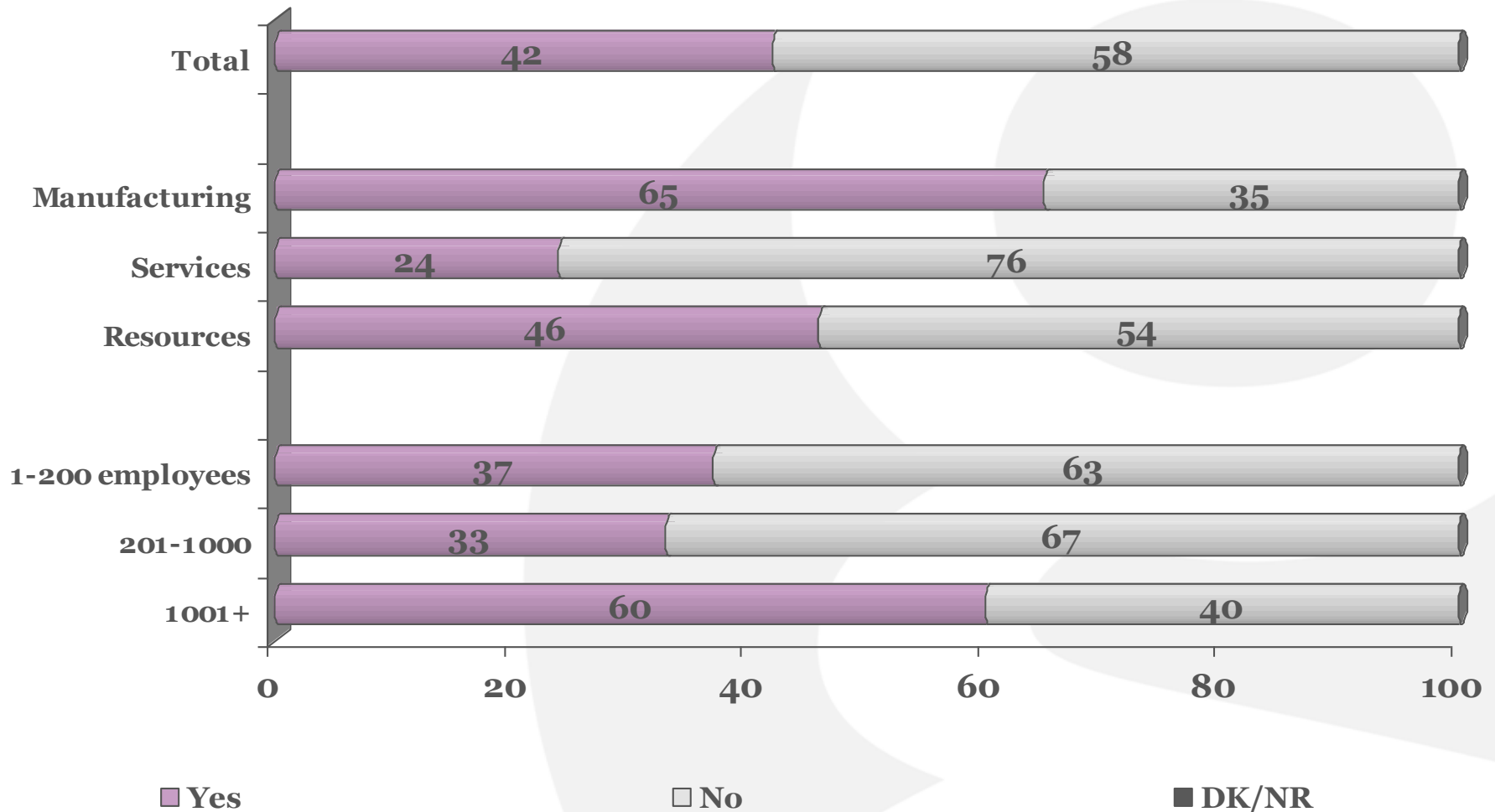
“What percentage of your revenue do you spend on research and development?”





Boosting Innovation via Academic Institutions

“Do you work with universities or other academic institutions to try to boost innovation in your company?”



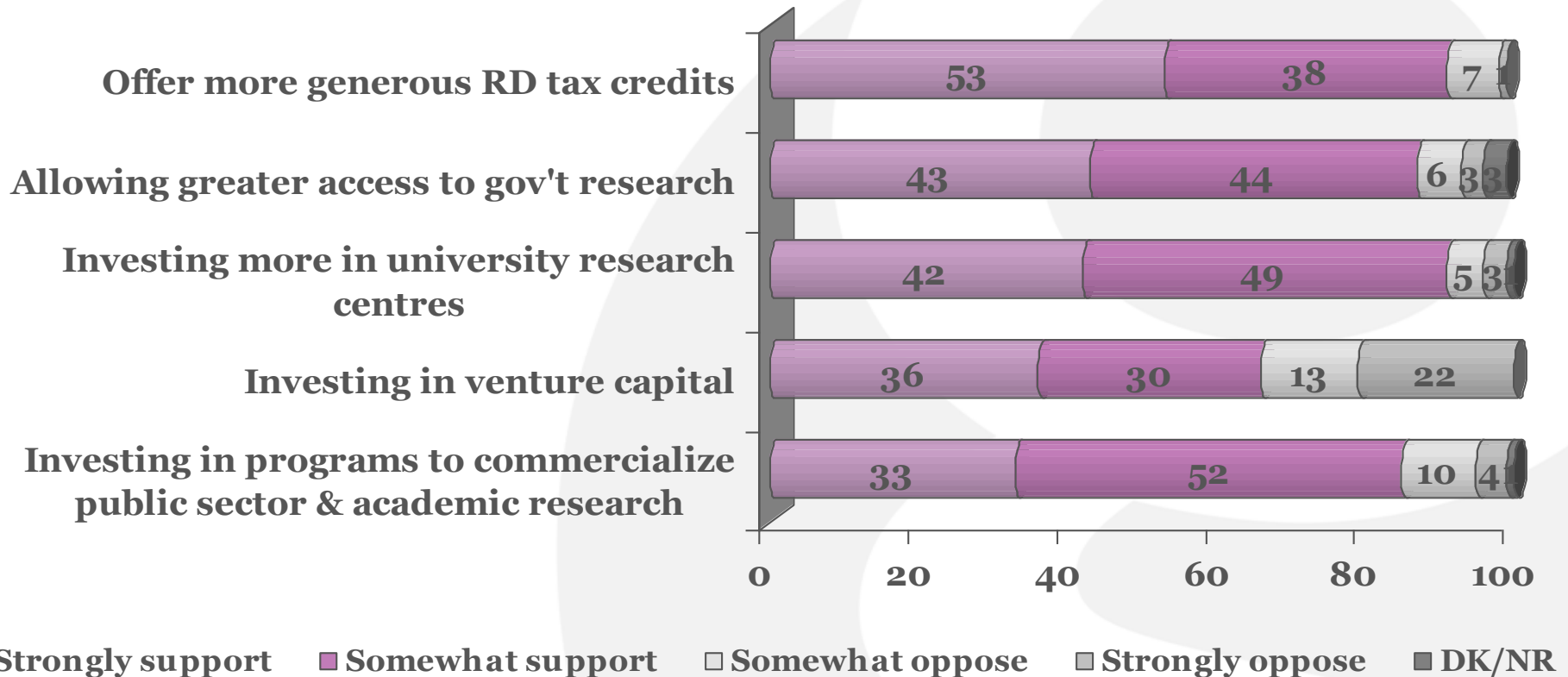


- ❑ Executives were strongly supportive of most measures to boost productivity and innovation, in particular R&D tax credits or increased government investment in university research centres.
- ❑ Two thirds support investment in Venture Capital, but executives with smaller companies were especially supportive of VC.



Gov't Measures to Boost Innovation

“Would you say you strongly support, somewhat support, somewhat oppose or strongly oppose the following measures that governments in Canada could take to boost innovation in the private sector?”

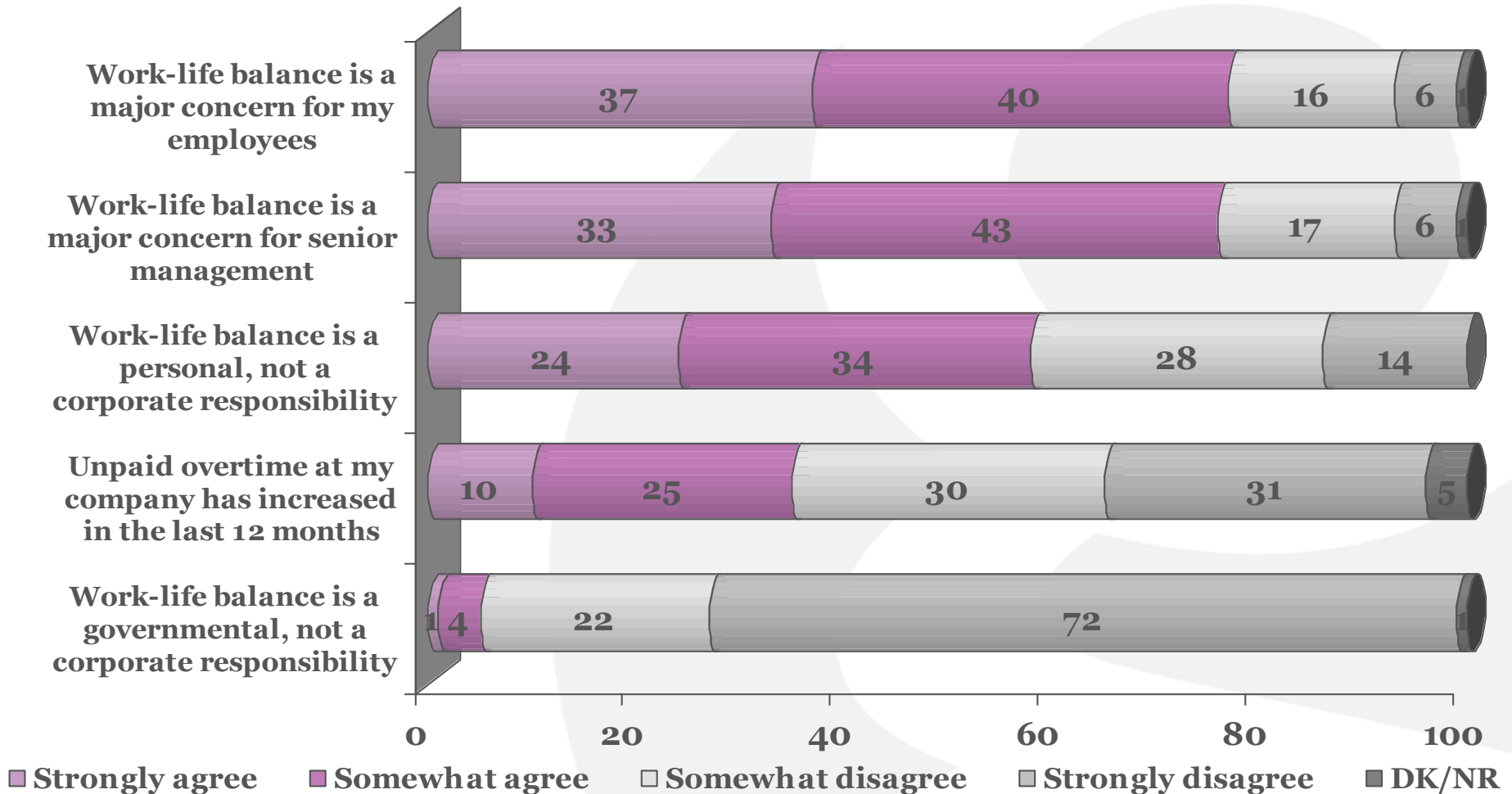




- ❑ A majority of executives agreed work-life balance is a concern for employees and senior management, with concern somewhat more pronounced among larger employers.
- ❑ Most believe it's a personal concern, however, not a corporate one.

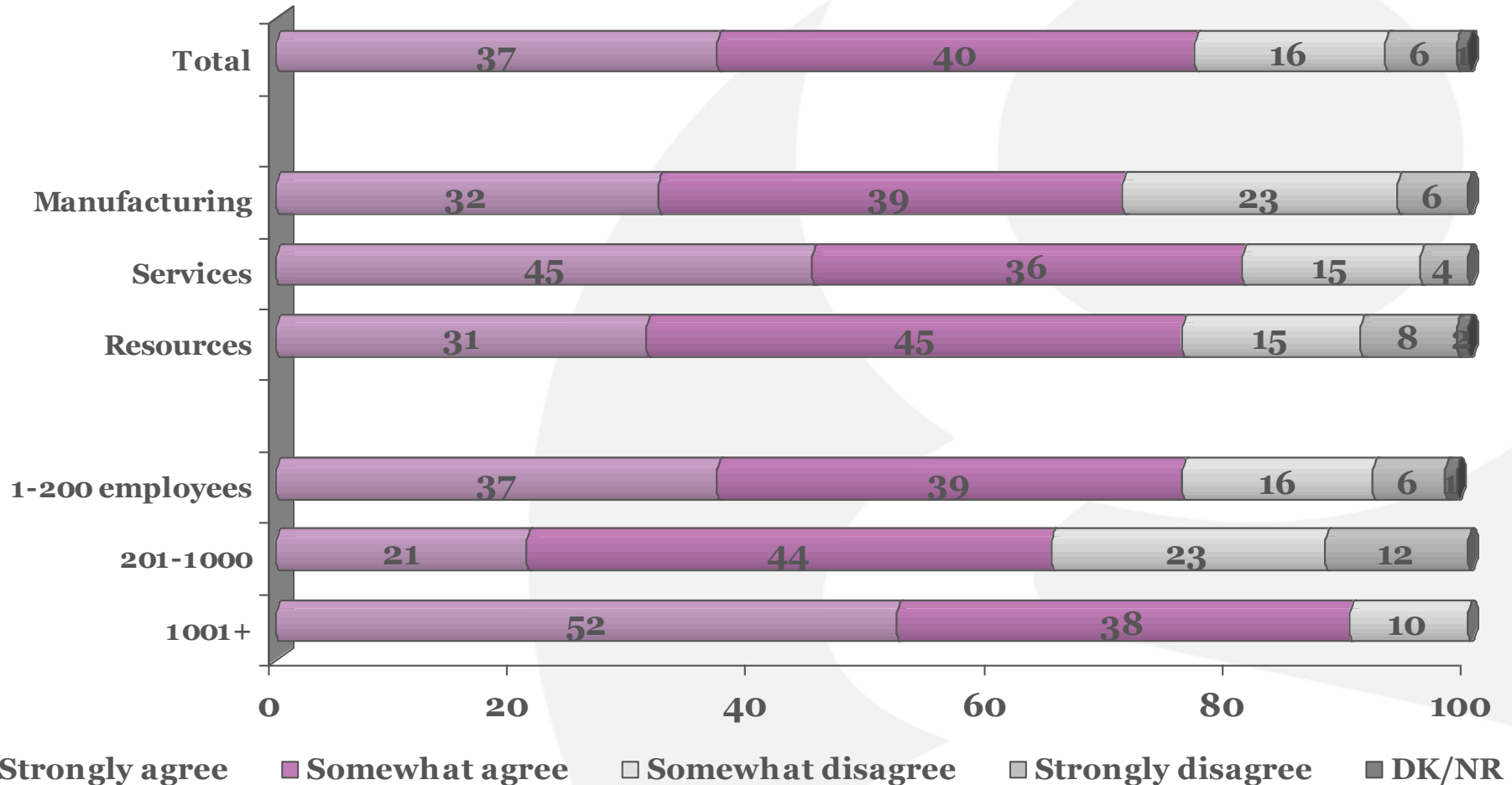


“Please indicate whether you agree or disagree with the following statements about personnel: Would that be strongly or somewhat agree/disagree?”





“Please indicate whether you agree or disagree with the following statements about personnel: Would that be strongly or somewhat agree/disagree? **Work-life balance is a major concern for my employees**”





“Please indicate whether you agree or disagree with the following statements about personnel: Would that be strongly or somewhat agree/disagree? **Work-life balance is a major concern for senior management**”

