

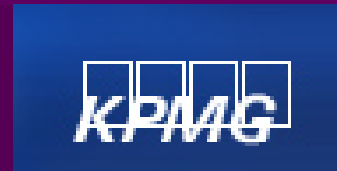


the gandalf group

The 17th Quarterly C-Suite Survey: 2009 in Review and the Challenges of 2010 and Beyond

December 15, 2009

Sponsored By:



Published and Broadcast by:





- ❑ Telephone interviews with 158 C-Suite executives from the ROB 1000 list of companies, conducted between Nov. 25 and Dec. 9, 2009
- ❑ This sample yields a margin of error of +/- 7.16% 19 times out of 20
- ❑ This presentation covers their views on:
 - A look back on 2009
 - The year ahead
 - Executives' salaries
 - Federal finances and managing with deficits
 - US and Canadian Leadership



Key Findings About The Economy

- ❑ A look back at 2009 sees executives' assessments of the economy completely turn around. In February 2009, executives were in the grips of a recession. Now virtually all are predicting modest economic growth for 2010.
- ❑ Most agreed the markets rallied faster than expected in 2009
- ❑ One in three now predict strong growth for their companies.
- ❑ Most expect their companies to pay out bonuses yet the majority also agree that the recession demonstrated executive pay had become too generous.
- ❑ Executives are bullish on post-recession prospects for Canadian financials, Canadian commodities (oil & gas, mining) and high-tech. However, they are worried about the retail and telecom sectors, and have written off manufacturing.



Key Findings About Public Policy

- ❑ Executives are in no rush to pull the fiscal stimulus out of the economy. Balanced budgets should not be the foremost priority for the federal government. Most support the federal government's decision to run deficits till 2013.
- ❑ They don't want radical approaches (e.g. deficit reduction taxes or hikes to personal income tax rates) to deal with the federal deficit.
- ❑ Executives are generally supportive of the Harper government's approach. A clear majority thought the size of the government's stimulus package was about right. Over 2009 they have developed a more favourable view of Prime Minister Harper, and now think far less of his opponent, Michael Ignatieff.
- ❑ While they are divided on whether or not the federal government faces structural – rather than temporary – deficits, a clear majority believe federal spending should come below pre-recession levels.
- ❑ Executives also now have about as favourable view of Harper that they do of President Obama. In almost every respect tested they believe the Canadian government has done a better job handling economic matters than the US government.

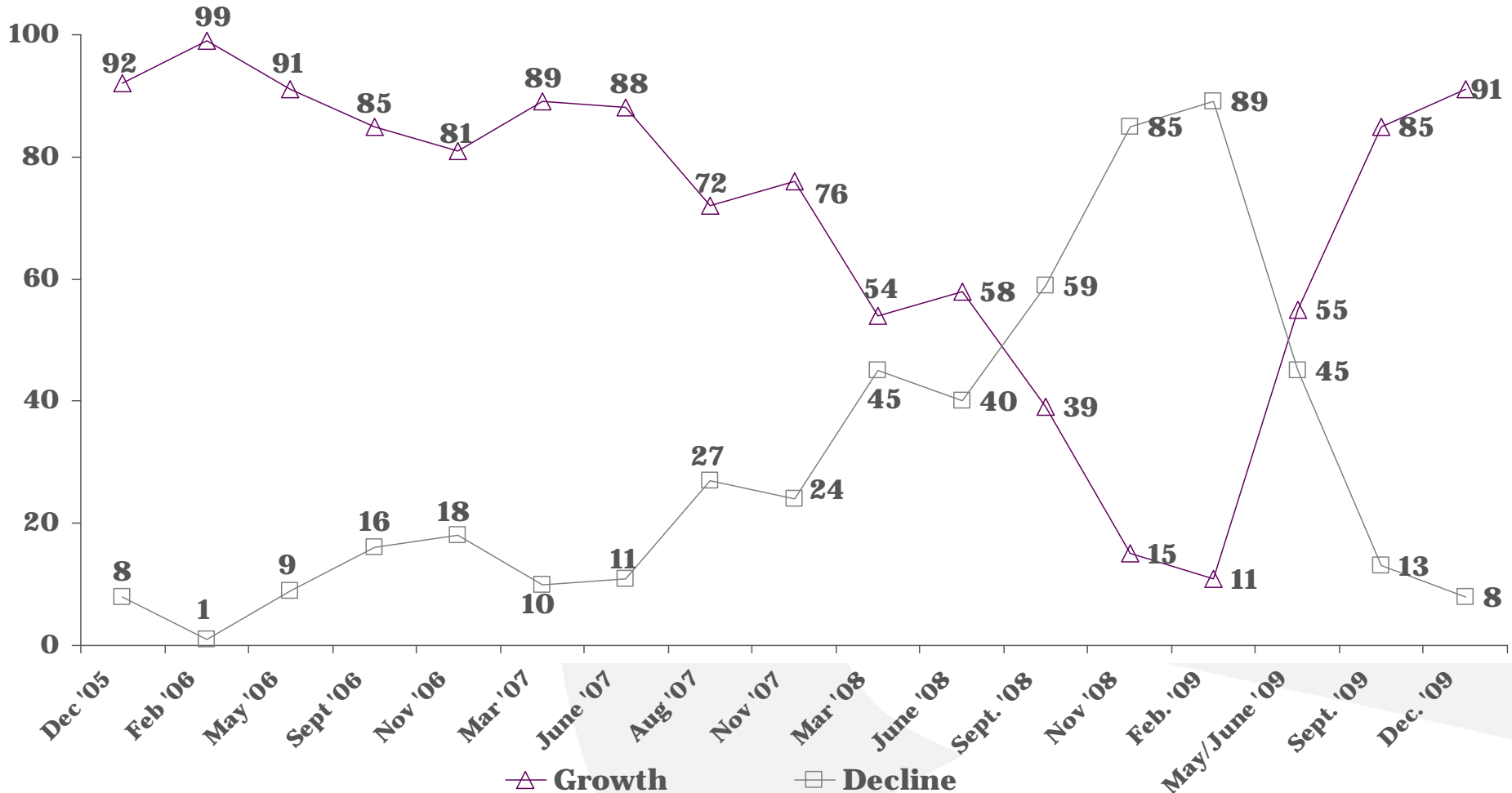


- ❑ The economic outlook improved considerably over 2009 from the depths of the recession last winter. Most said the economy turned the corner in the second half of the year and by early December, three-quarters said the economy was growing, albeit moderately.
- ❑ Executives are more optimistic than Canadians: only half of whom think the economy is growing.
- ❑ Executives were surprised at how stock markets rallied in 2009.
- ❑ Most did not see their personal investments recover entirely.
- ❑ Just over half saw the value of their companies increase over 2009.
 - Ontario-based executives were slightly more likely than Western executives to agree their companies' values had increased.
- ❑ Most disagreed with the statement: “The recession was not as deep as we were led to believe a year ago.”
- ❑ A strong majority agreed we are facing a slow recovery.



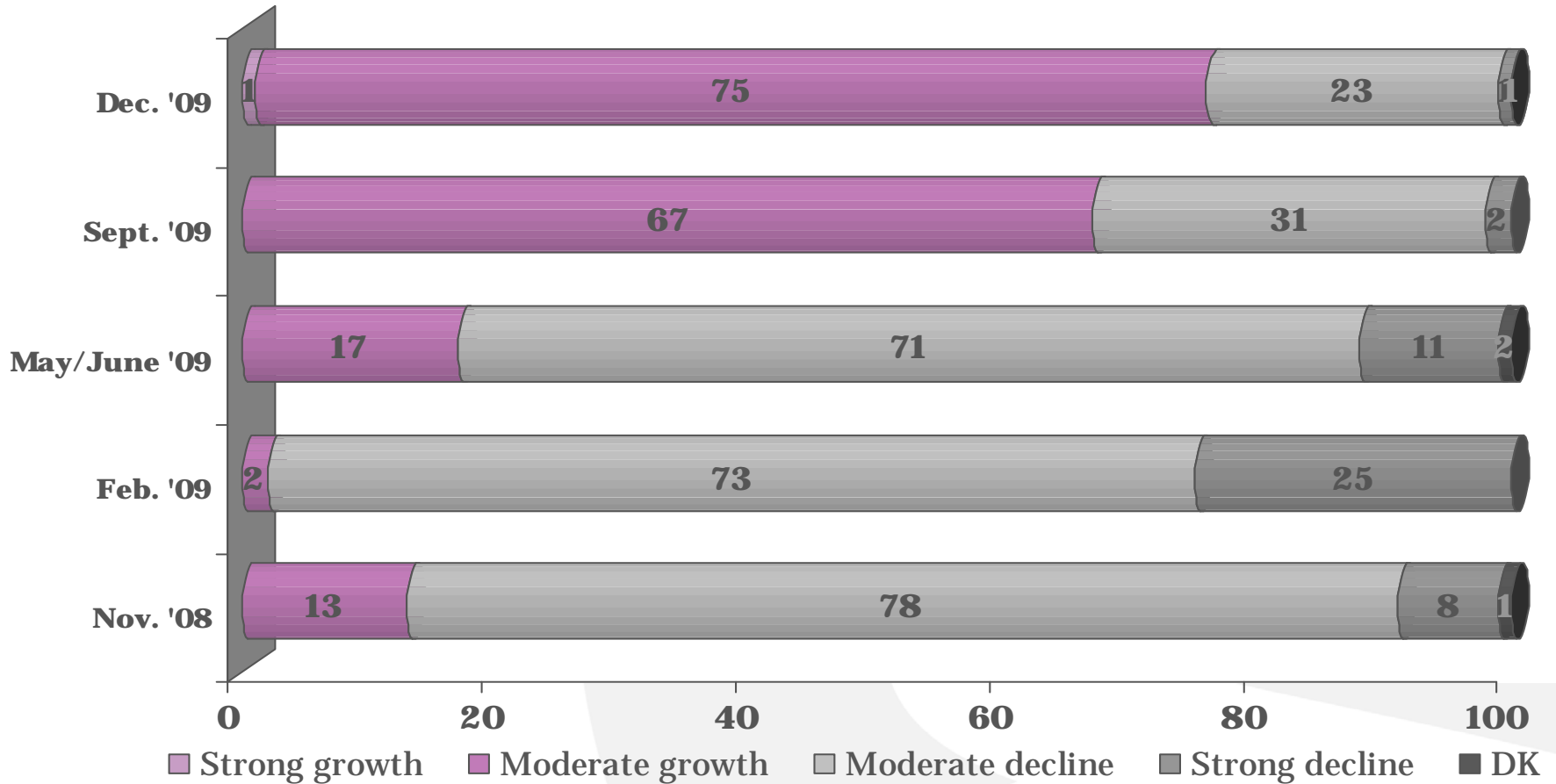
Expectations: Canadian Economy

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



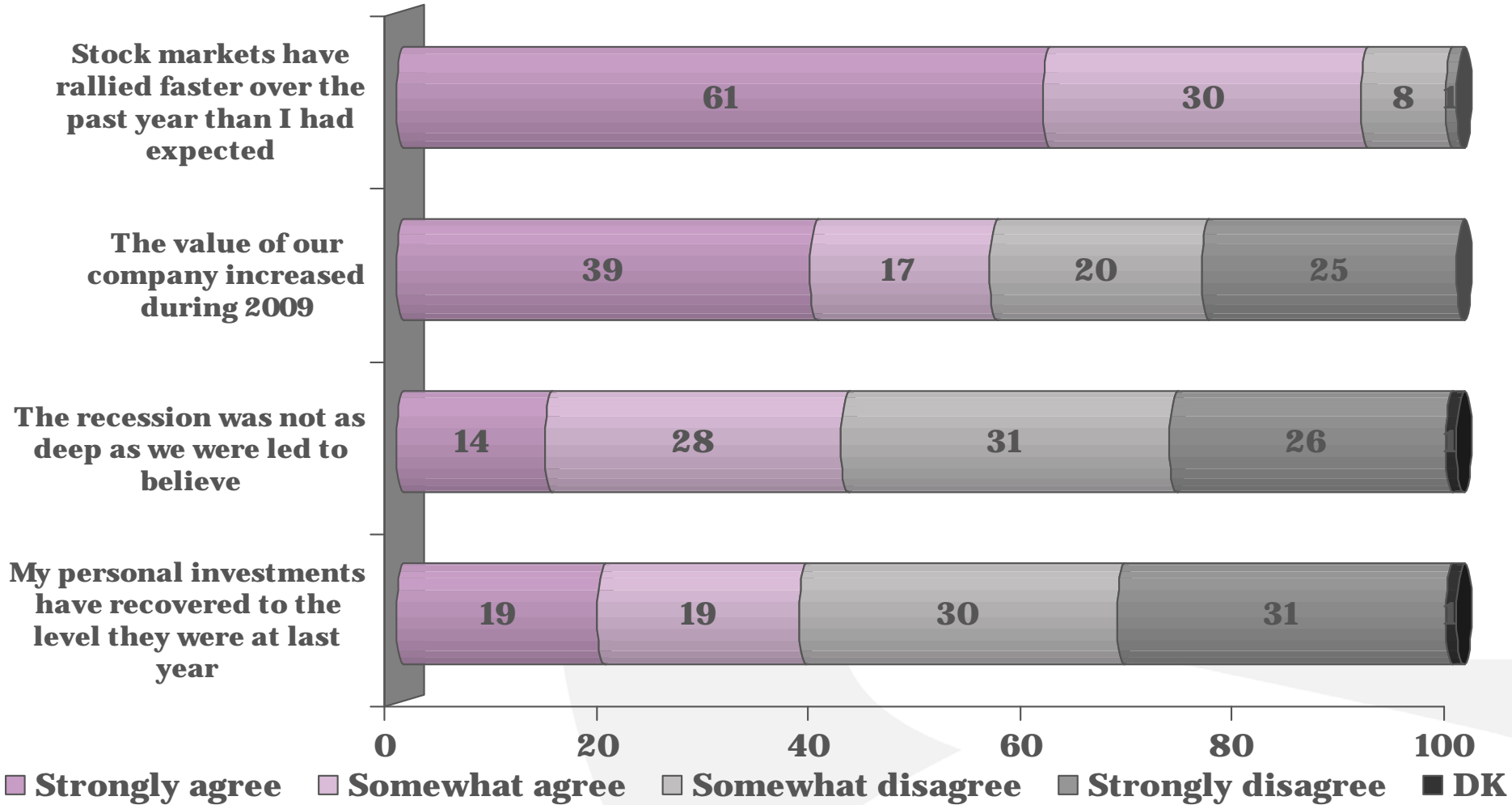


“Which of the following do you think best describes the Canadian economy at the current time - strong growth, moderate growth, moderate decline, strong decline?”





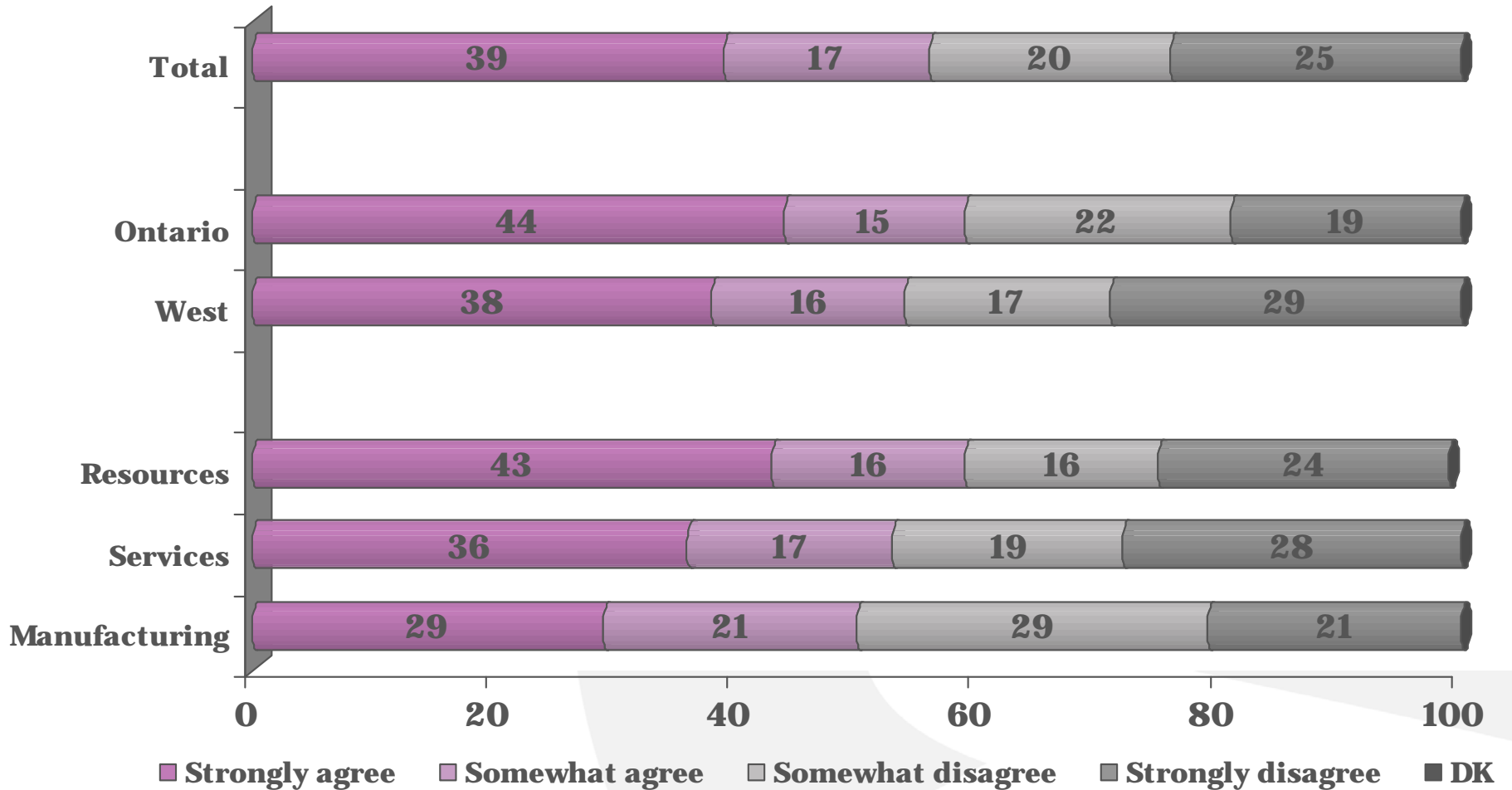
“I’m going to read a number of statements people might make about the past calendar year and the next calendar year. Please indicate whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.”



■ Strongly agree ■ Somewhat agree ■ Somewhat disagree ■ Strongly disagree ■ DK



“The value of our company increased in 2009.”

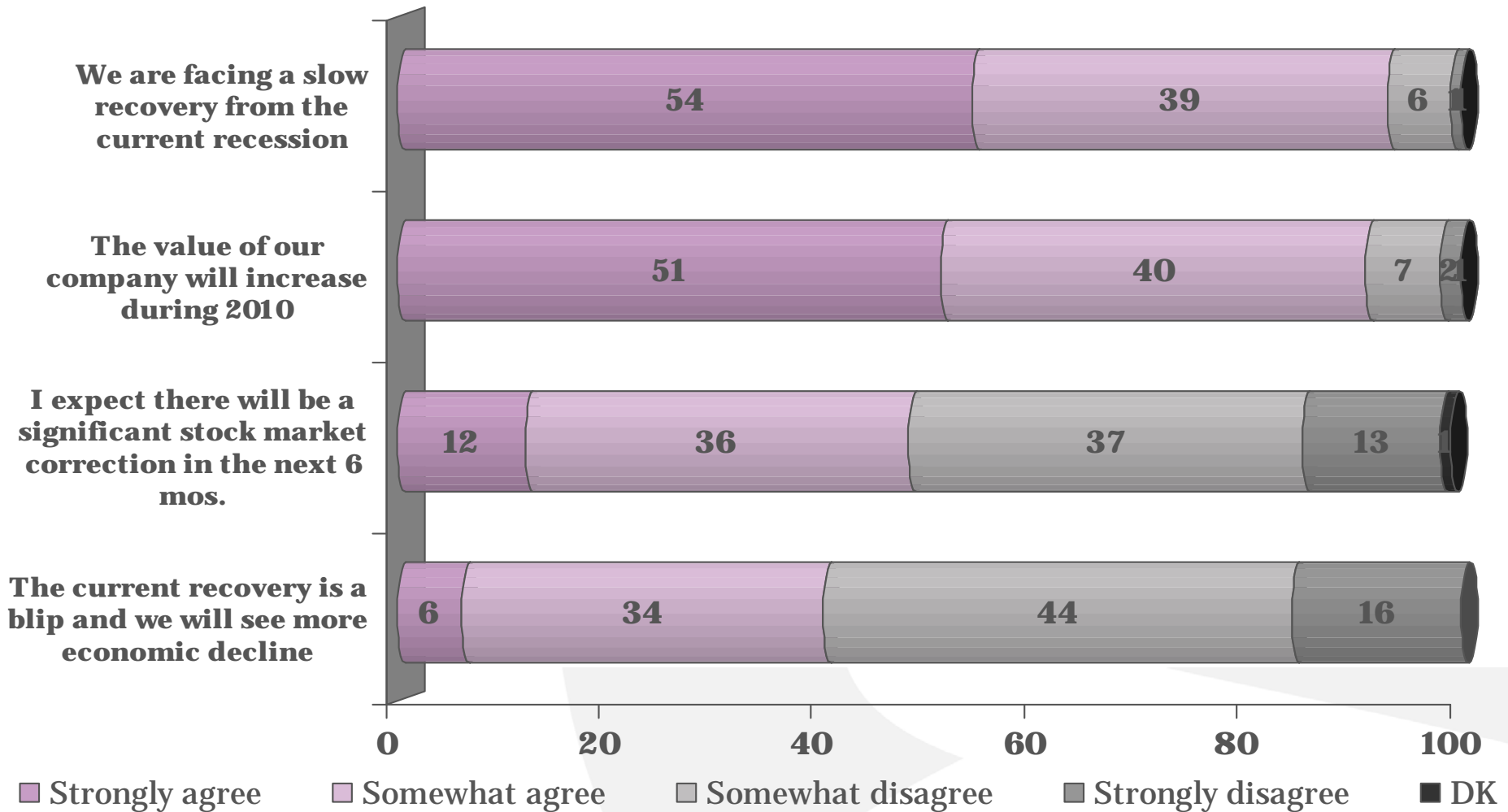




- ❑ Executives are mostly confident we're on the road to recovery. But while more executives now believe the economy will grow, there is virtually no increase in the number expecting *strong* growth. Most executives agreed we are facing a slow recovery from the current recession.
 - Expectations for both Canada's and the US' economy have leveled off.
- ❑ Fewer than one in ten executives believe the economy will grow over the next two years at the average growth rate of the last ten years. Most think growth will be below the average of the last decade.
- ❑ Most expect the TSX to return to peak levels by 2011 or 2012. However, virtually none expect it to return to peak levels in 2010, and half of executives think there will likely be a major market correction in the next six months.



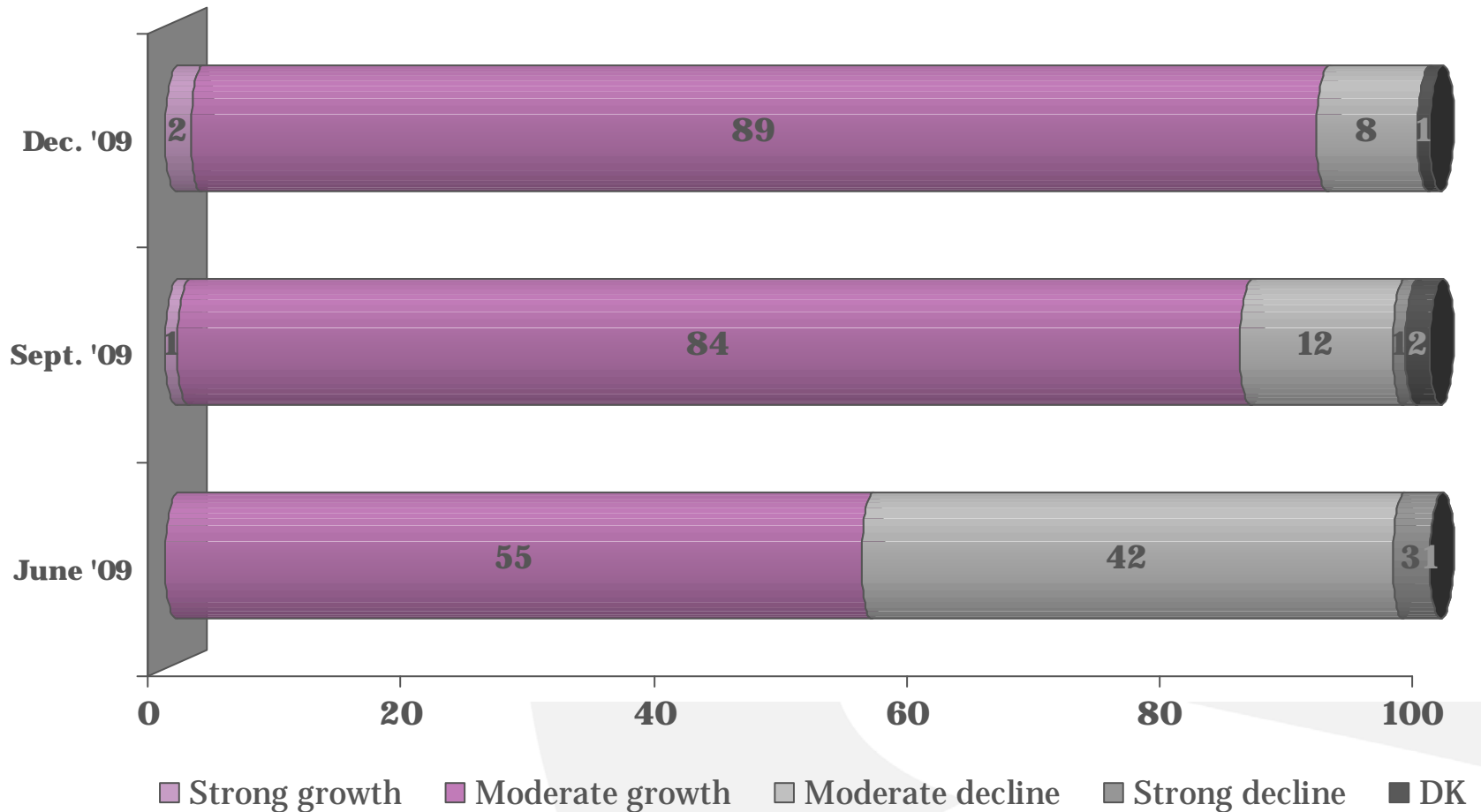
“I’m going to read a number of statements people might make about the past calendar year and the next calendar year. Please indicate whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.”





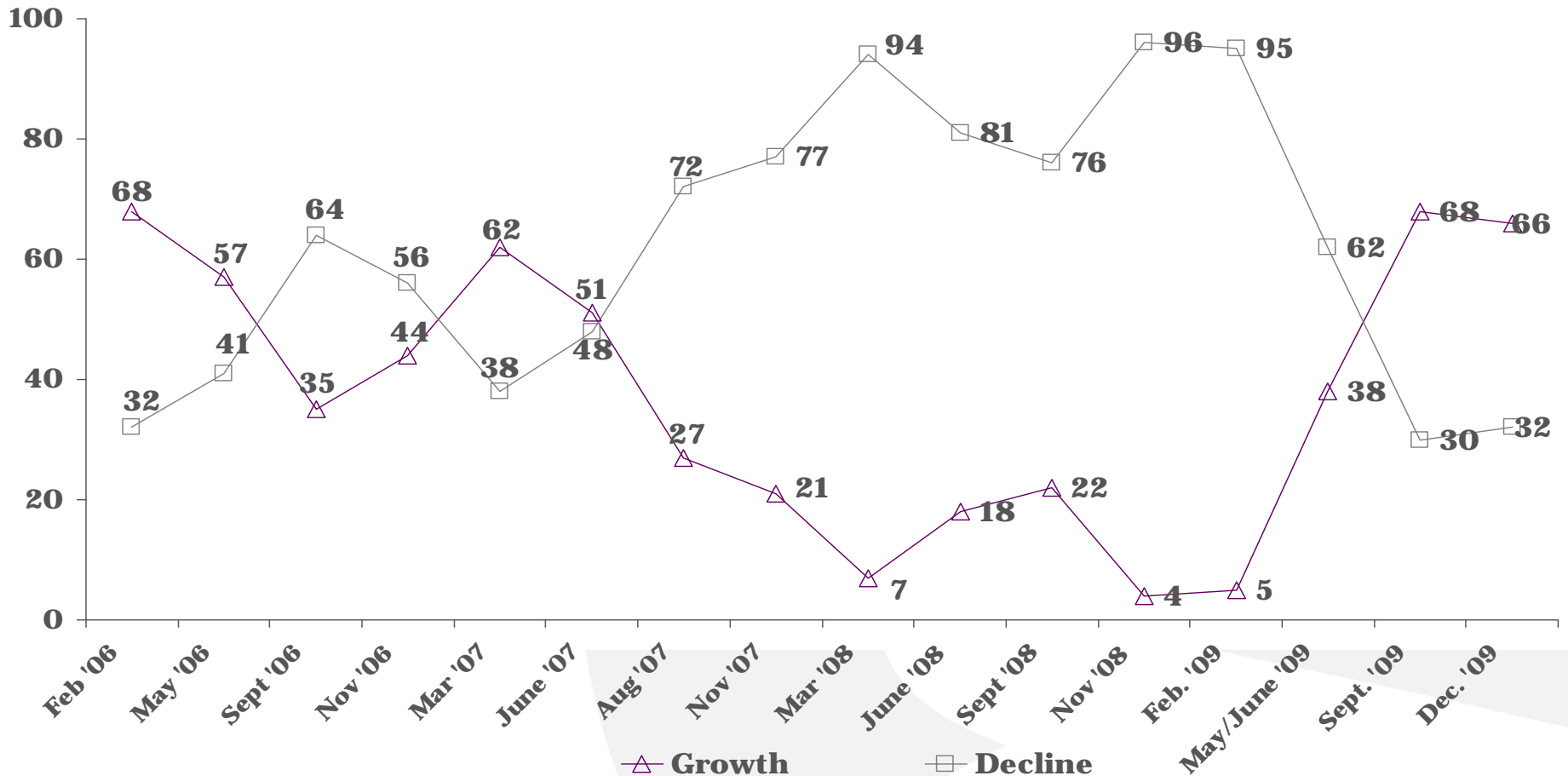
2010: Canadian Economy

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





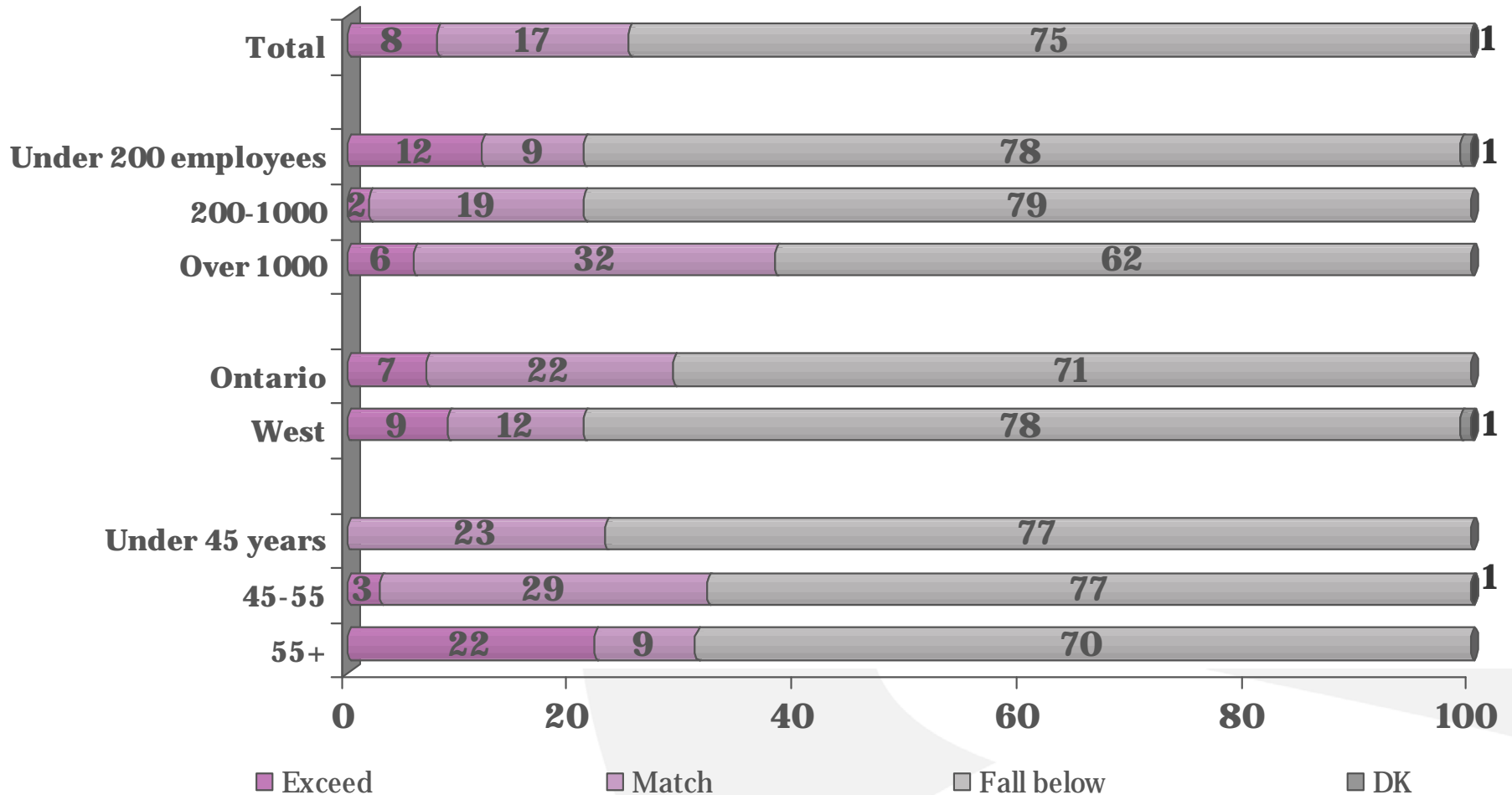
“What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





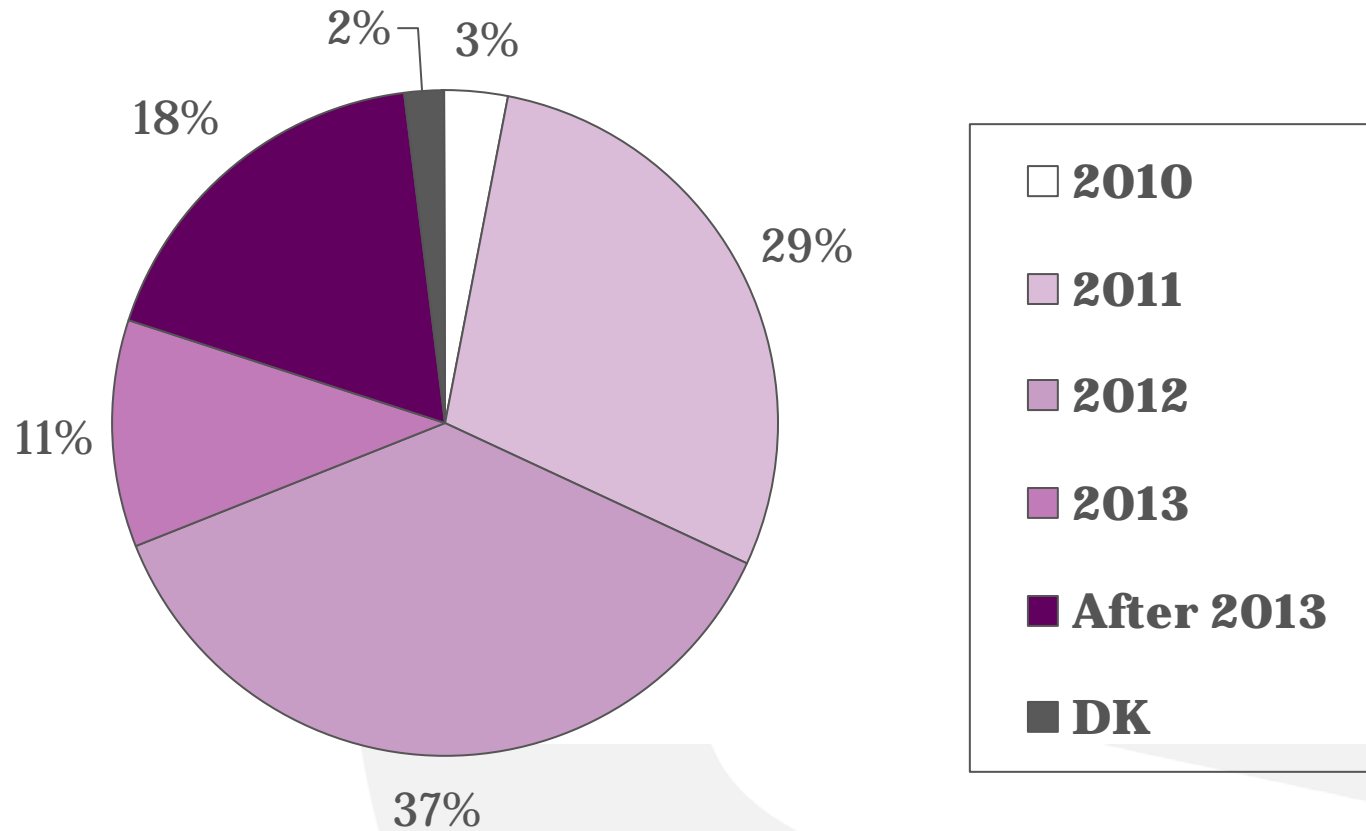
2010-2011: Cdn. Economy

“Over the next two years do you think Canada’s annual economic growth rate will, exceed the average growth rate of the last decade, match the average growth rate of the last decade or fall below the average of the last decade?”





“When do you expect the TSX Index to return to its peak of 15,000? In 2010, 2011, 2012, 2013 or after 2013?” % saying each year



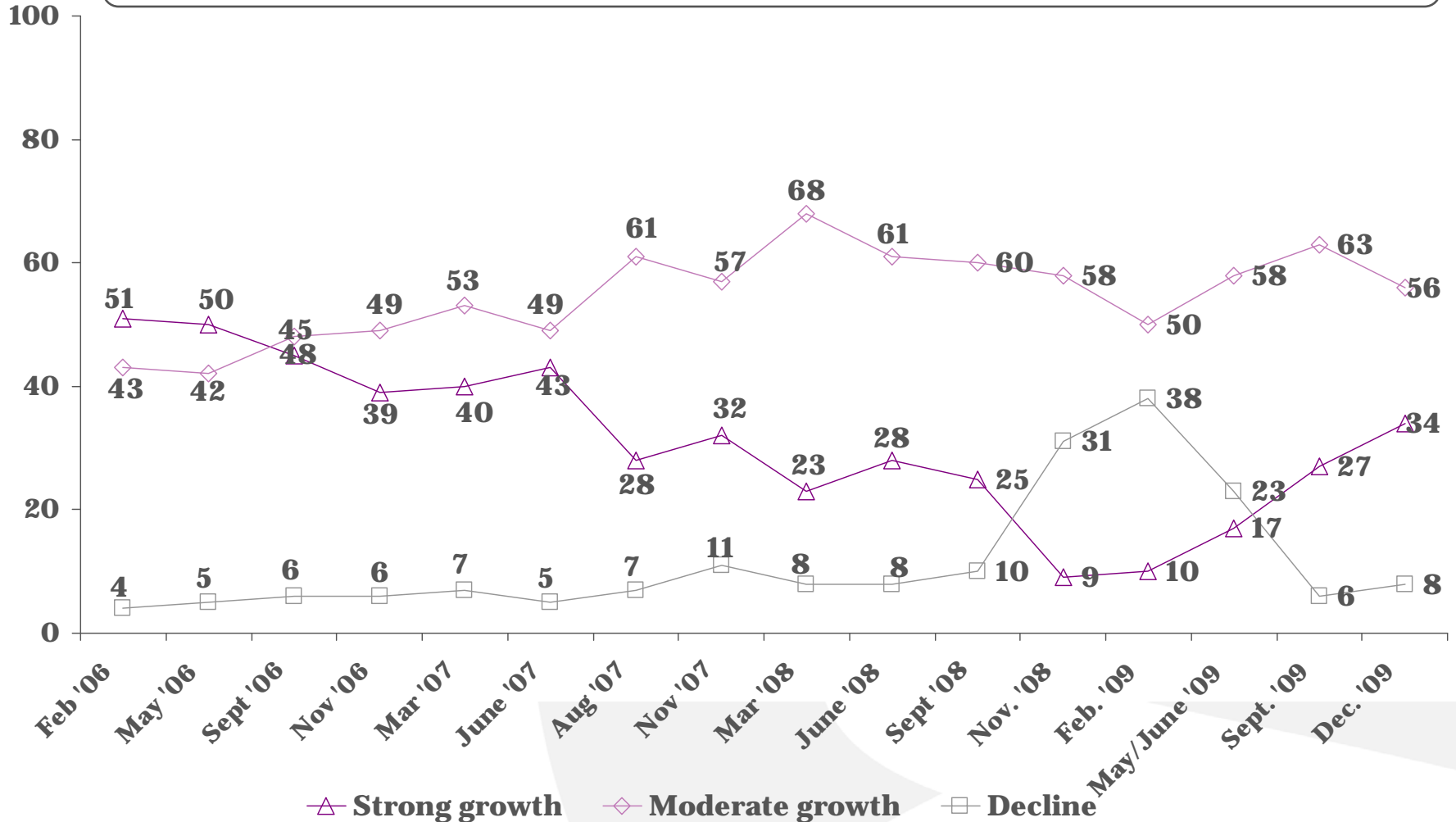


- Executives' expectations for their own companies are up somewhat with just over a third expecting strong growth over the next 12 mos. This is up slightly from last quarter and twice as many as those who said so two quarters ago.
- The outlook of large and service sector companies' outlooks is more moderate.



Expectations: Company

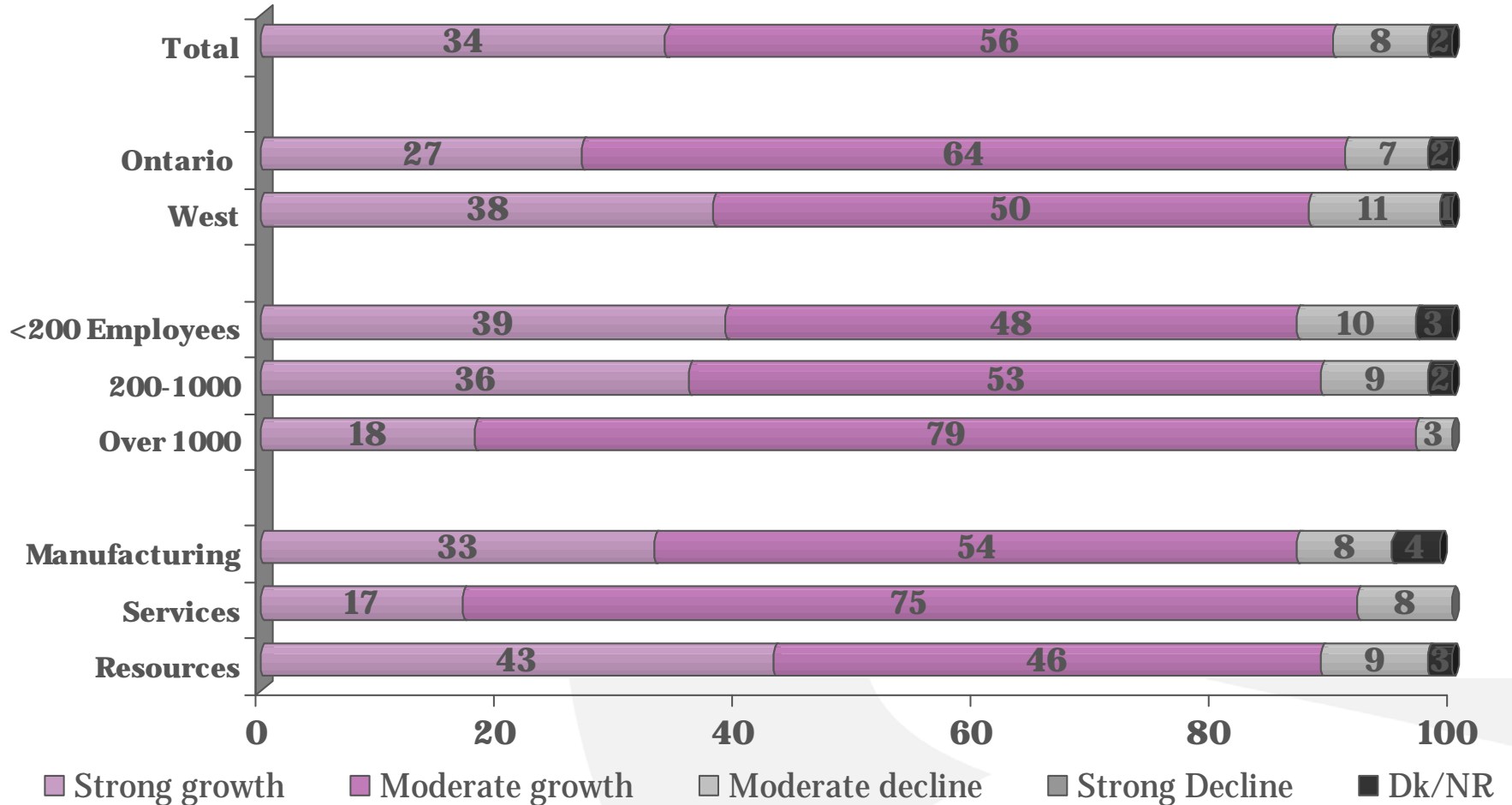
“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





Expectations: Company

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





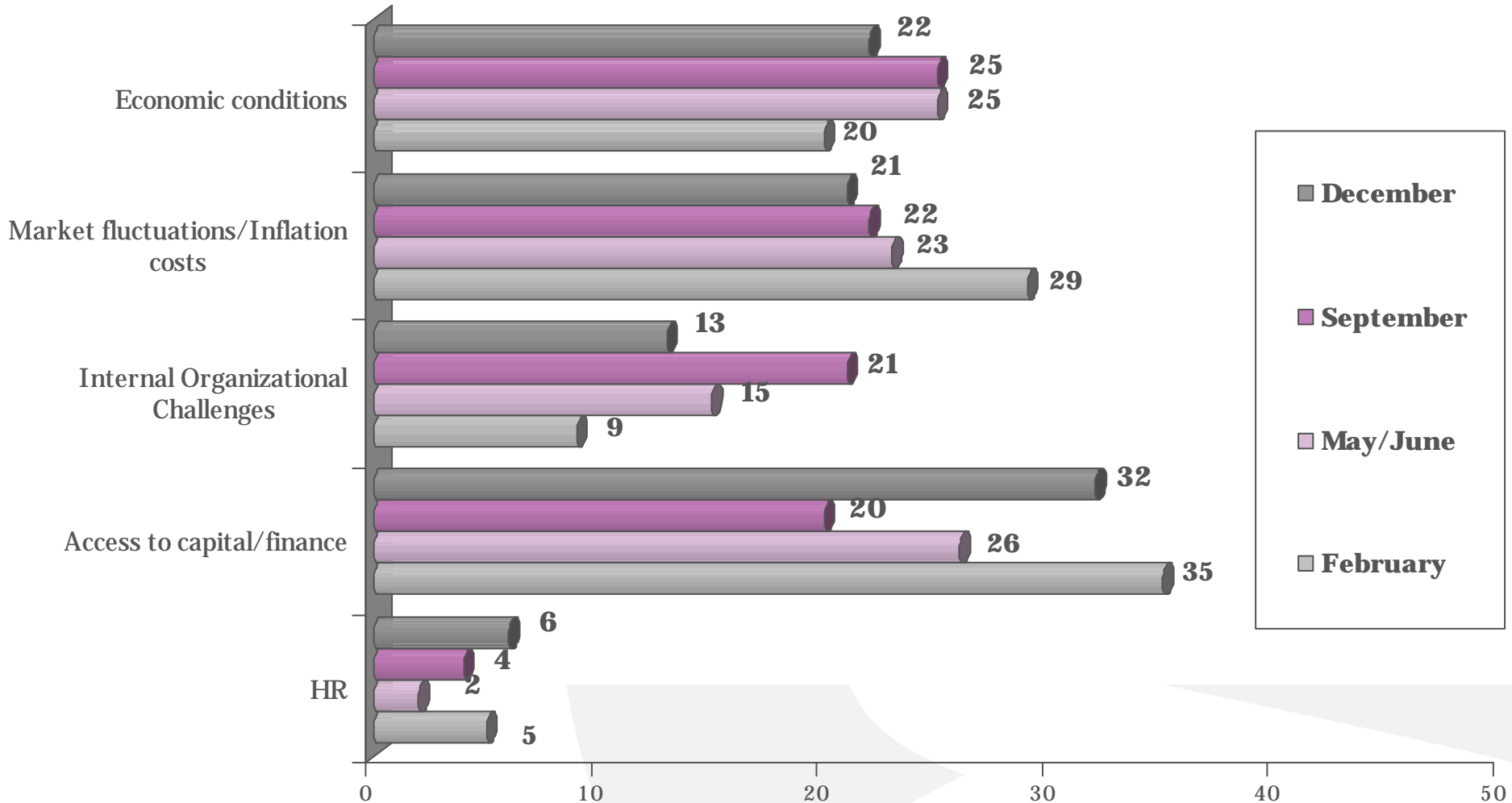
Challenges Facing Companies

- ❑ Concern around access to capital is once again the top concern of companies in the C-Suite survey.
 - This is largely driven by resources companies and smaller companies in the survey – those with less than 200 employees.
 - Correspondingly there is a decline in concern around the economy and market fluctuations this quarter compared to last.
 - 49% of smaller companies mention it as a concern.
 - Those with more than 1000 employees were more likely to cite economic conditions as a concern.



Challenges Facing Companies

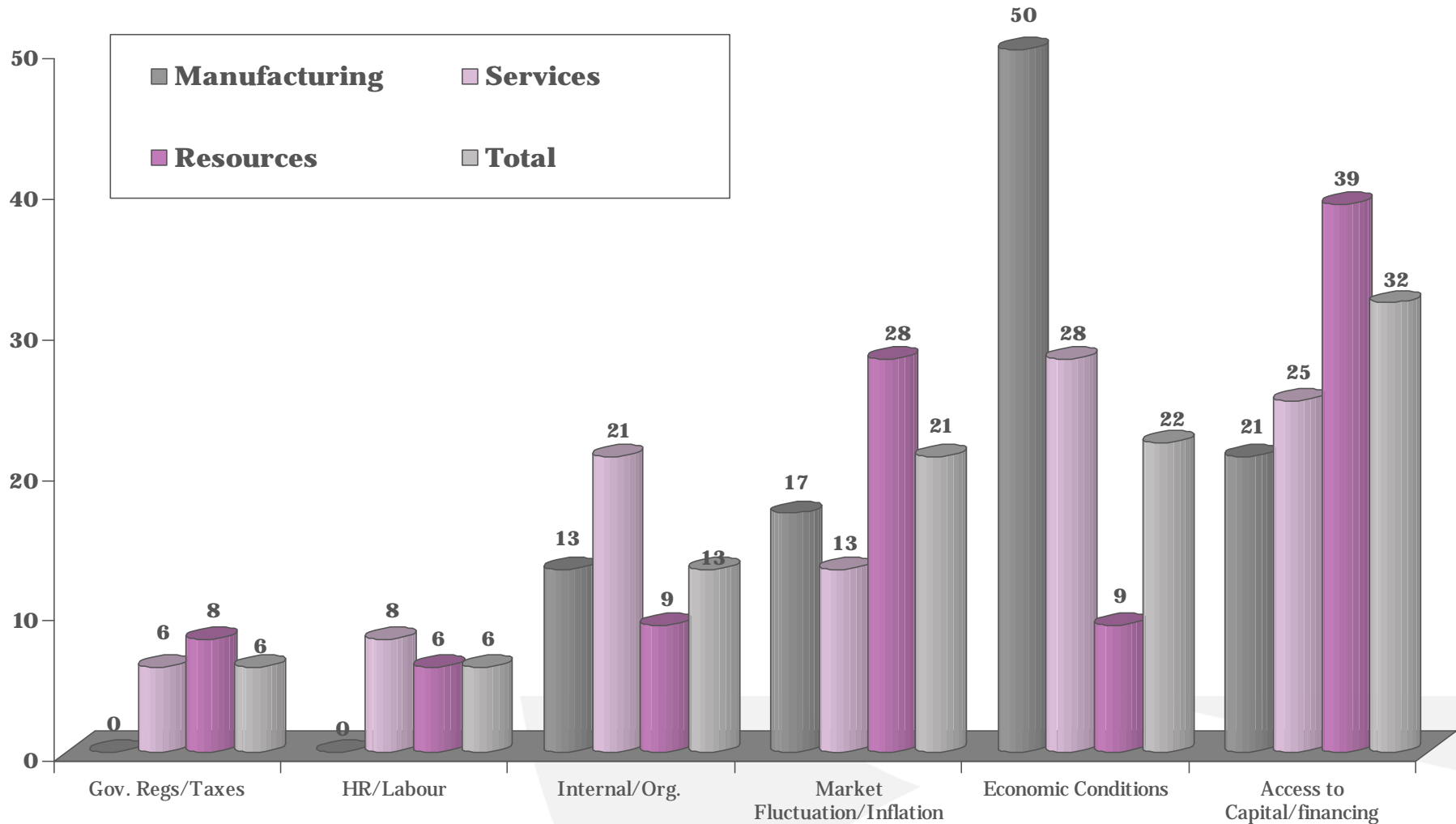
“What is the biggest challenge facing your company right now?”





Biggest Issue Facing Company: Sector

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



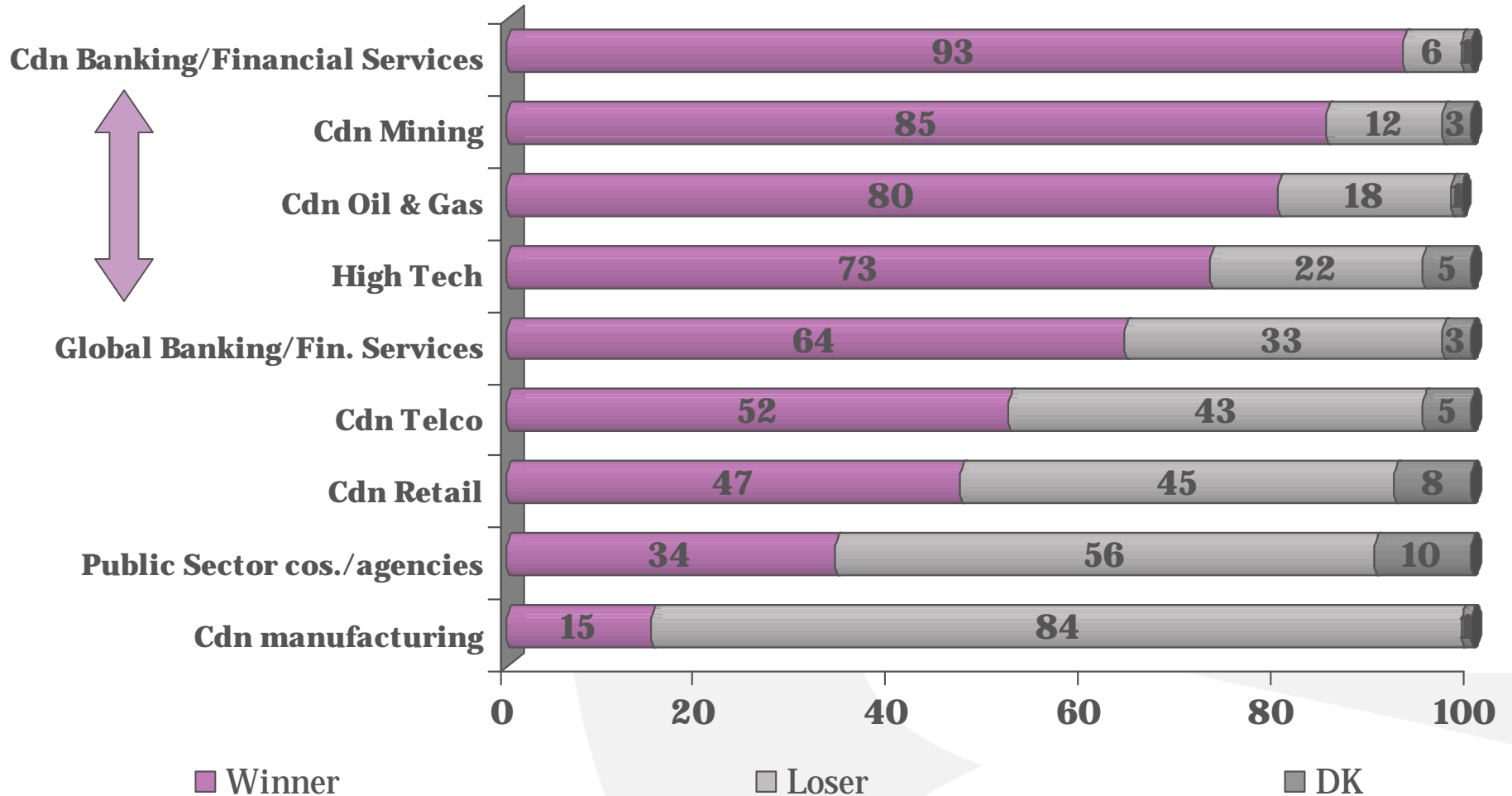


- ❑ Coming out of the recession they believe the Canadian banking and financial services sector is best positioned to be a “winner,” among a number of sectors tested.
 - They expect it will do better than its Global competitors.

- ❑ Executives are bullish on the post-recession prospects for Canadian commodities (oil and gas, mining) and high tech companies, but are worried about the retail and telecom sectors, and above all manufacturing.



“Coming out of the current recession, would you say the following industries are poised to be winners or losers?”



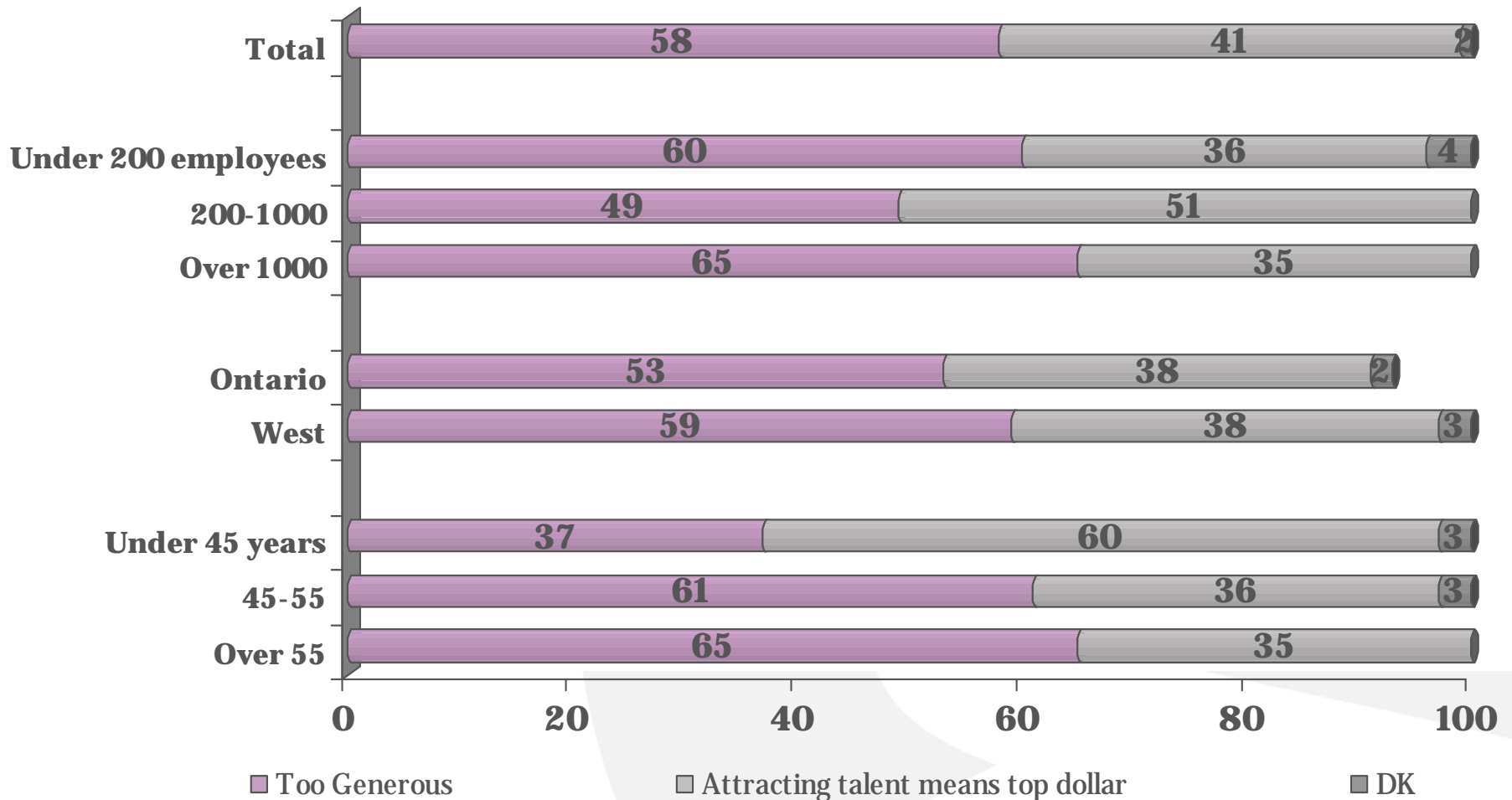


- ❑ We asked executives whether in their view the recent financial crisis had revealed that executive compensation had gotten too generous or whether attracting top talent means paying top dollar even if it appears too generous.
 - Younger executives were less likely to agree that the crisis had revealed executive pay had become too generous.
- ❑ Most expect their companies will pay out executive bonuses in the next year.
- ❑ Most expect continued pressure on the subject of executive pay from boards, the public, shareholders and the Obama administration...but not from the Harper government.



Executive Compensation

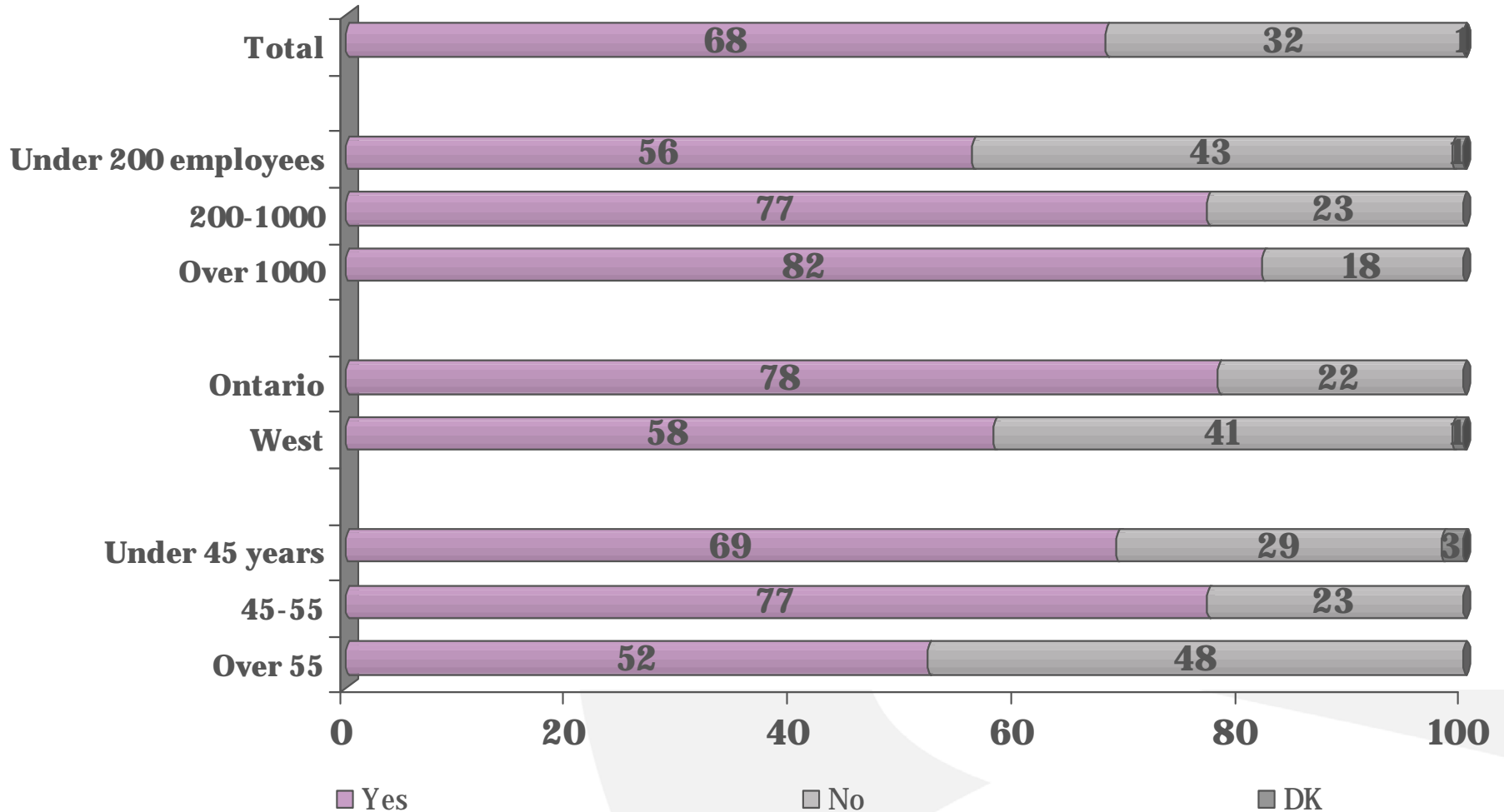
“Some people say that the financial crisis revealed that executive compensation had gotten too generous. Other people say attracting talent means paying top dollar even if it appears too generous. Which view is closer to your own?”





Executive Compensation

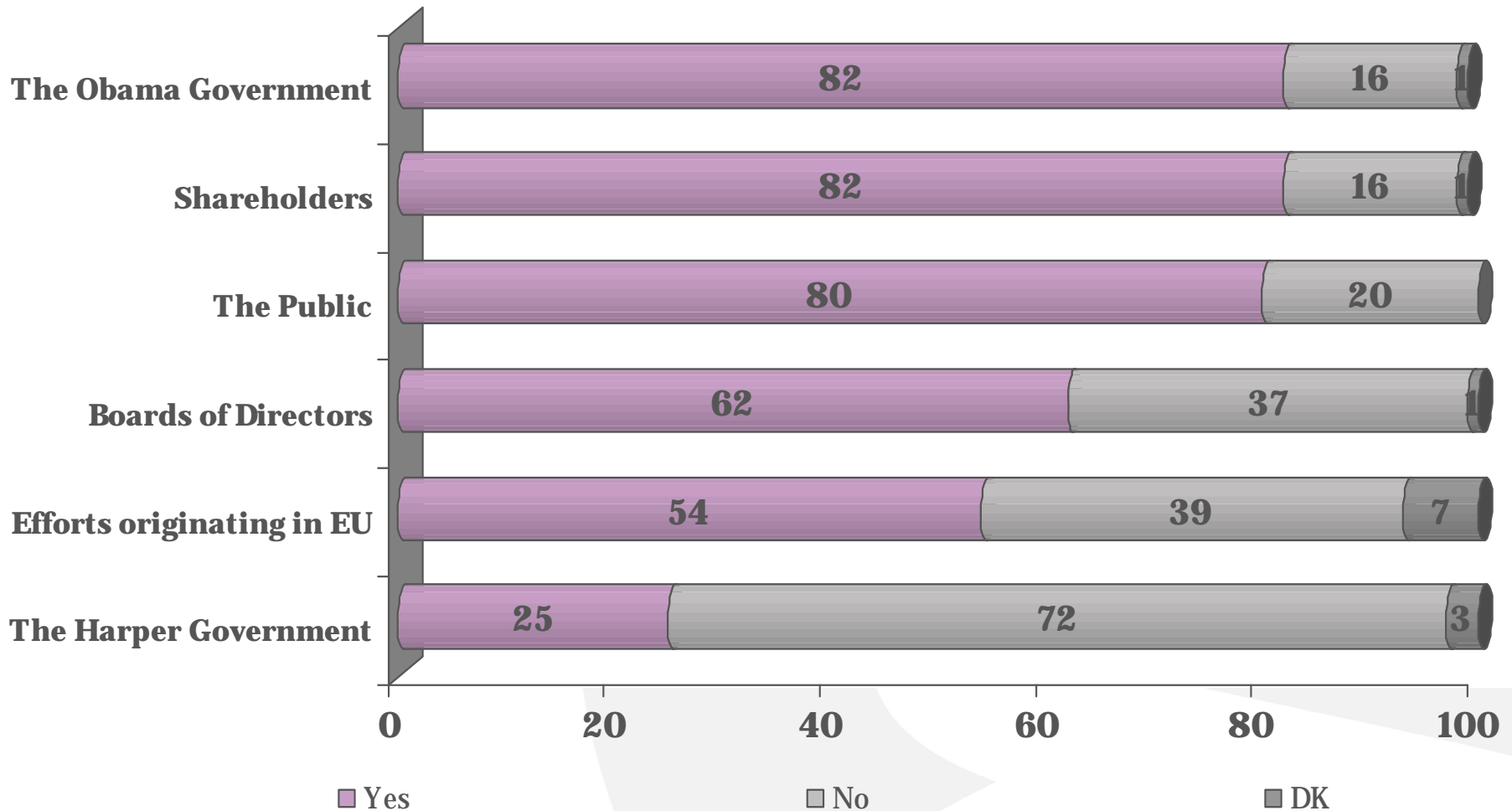
“Do you expect your company will pay out executive bonuses in the next year?”





Executive Compensation

“Please tell me whether over the next year you expect pressure on the issue of executive compensation to come from:...”

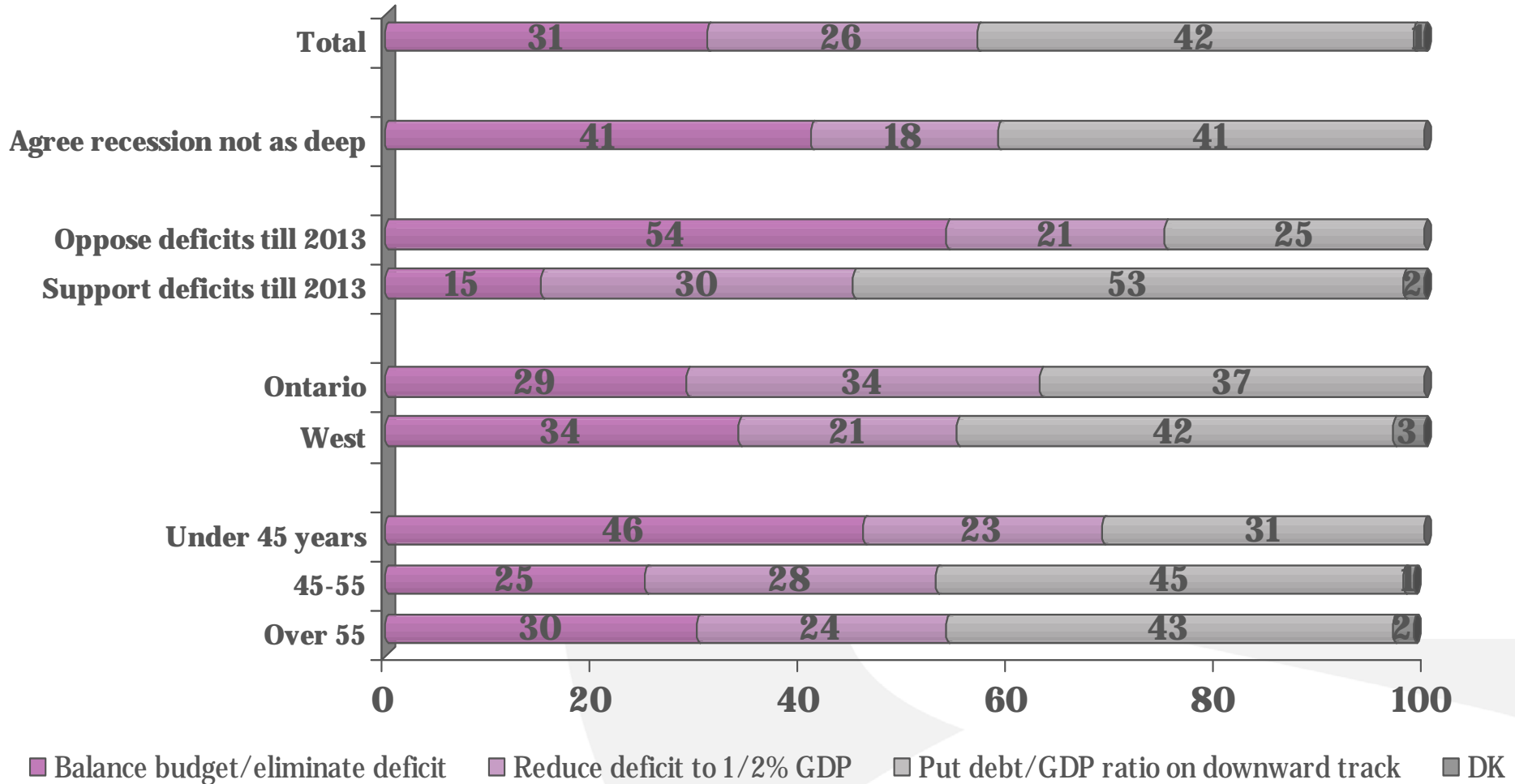




- ❑ Canadian CEO's are not stressed about the government's fiscal policy or deficit financing.
 - Last quarter they gave the government good grades for financial management despite record deficits. In this survey, most tell us that they are comfortable with the government's timetable for returning to balance.
 - Fewer than one in ten C-level executives thinks that balancing the budget should be the top priority for the federal government. In fact, only a third think the government's main fiscal objective should be a balanced budget. The plurality prefer using a declining debt to GDP ratio as the fiscal anchor for government policy.
 - Of those that oppose deficits, only half believe eliminating the deficit should be the main fiscal policy of the federal government. Those that agreed the deficit was not as bad as we were led to believe were more likely support deficit elimination over reduction. Those that disagreed, were less likely to support deficit elimination.

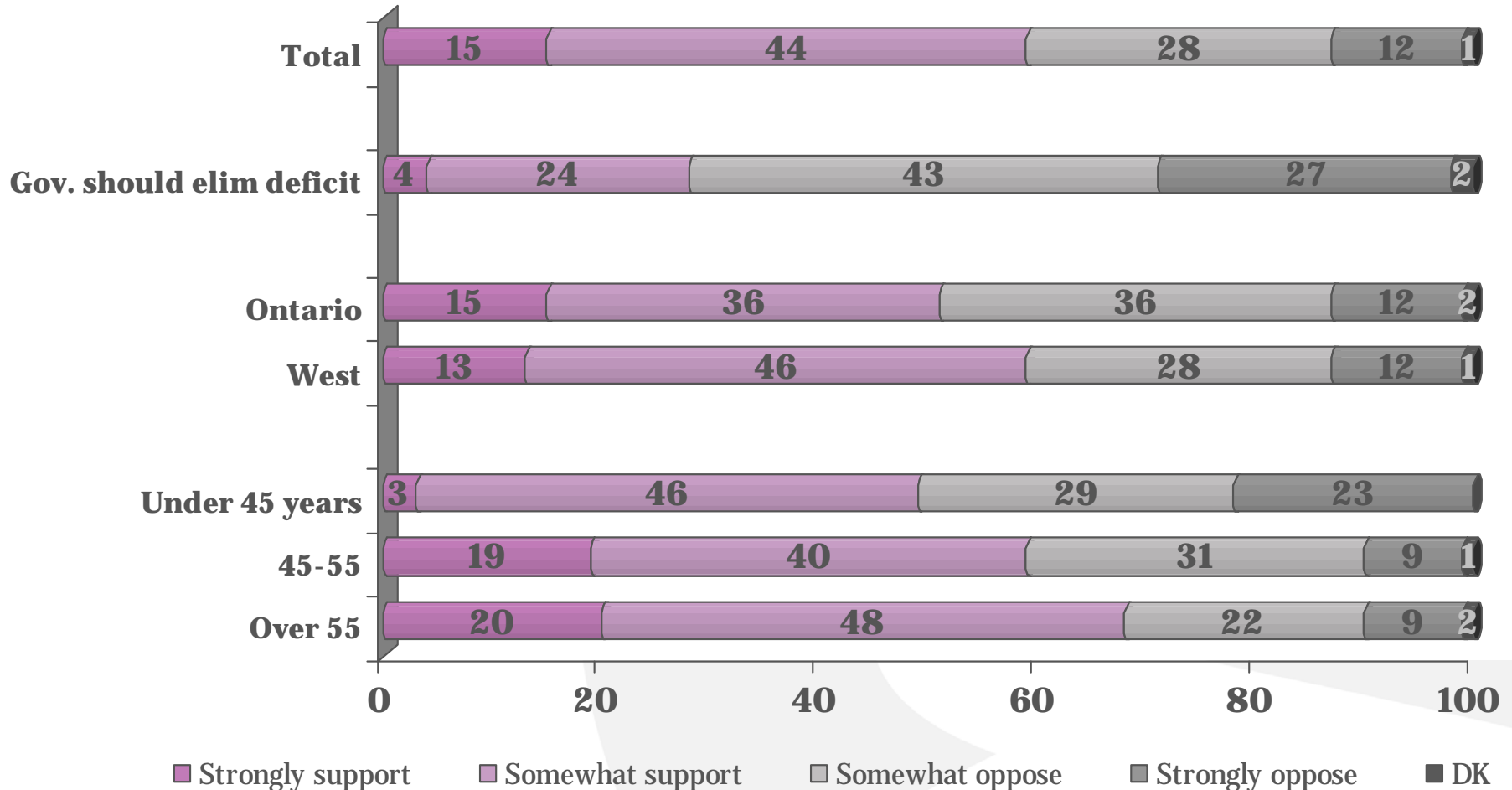


“Which of the following should be the federal government’s main fiscal objective over the next few years?
 A: Balancing the budget and eliminating the annual deficit; B) Reducing the annual deficit to one or two percent of GDP, c) Putting the ratio of government debt to GDP back on a downward trajectory.”



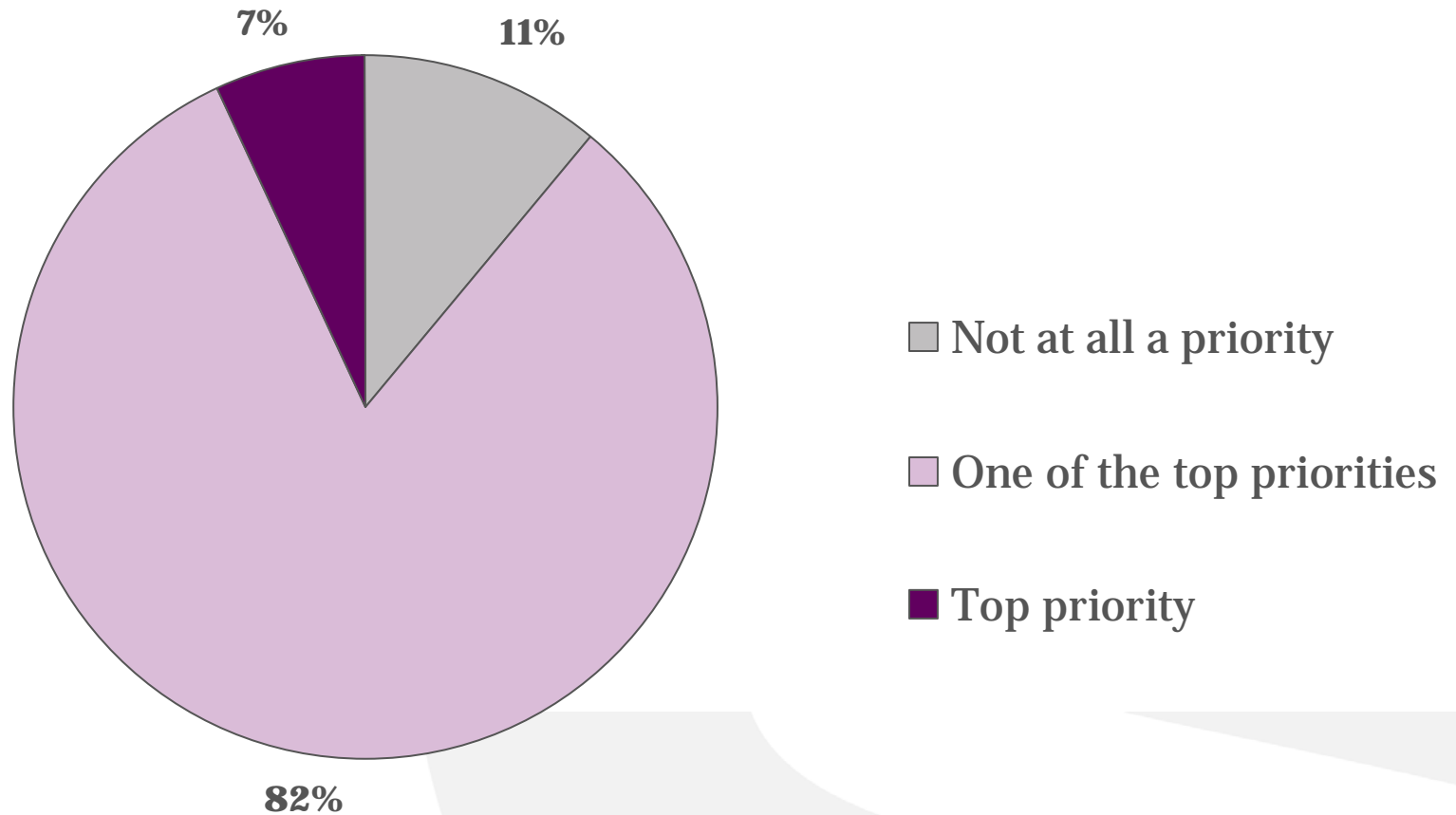


“As you may know, the federal government is predicting it will run a deficit until 2013. Would you say you strongly support, somewhat support, somewhat oppose or strongly oppose the federal government running a deficit until 2013?”





“Would you say that balancing the federal budget should be the top government priority, one of the top government priorities, or not at all a priority?” % saying each

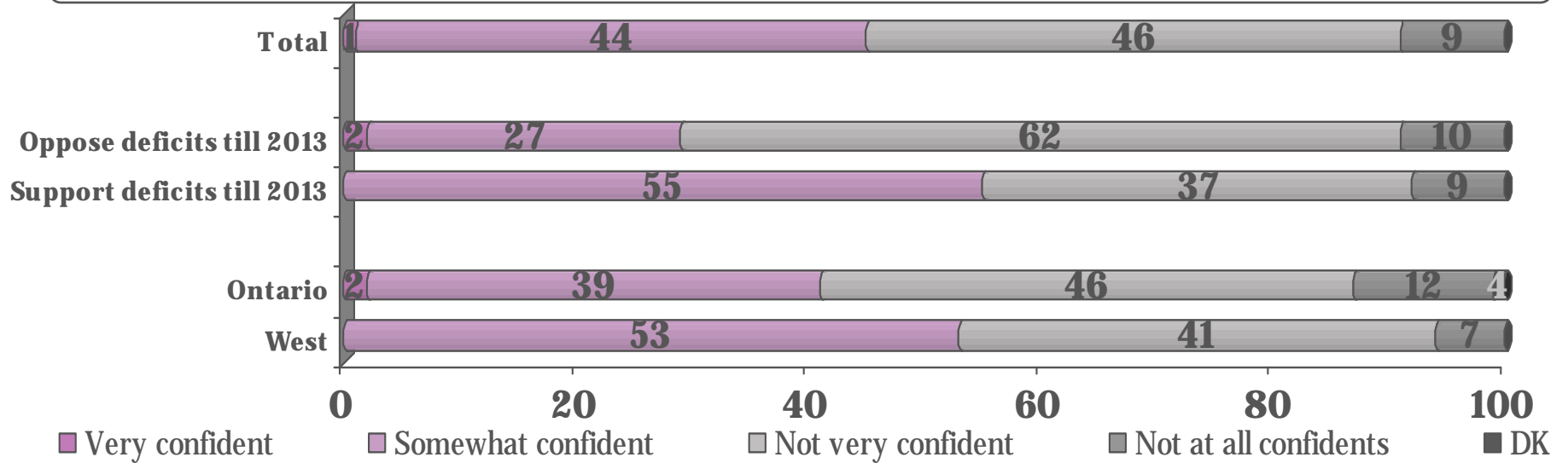




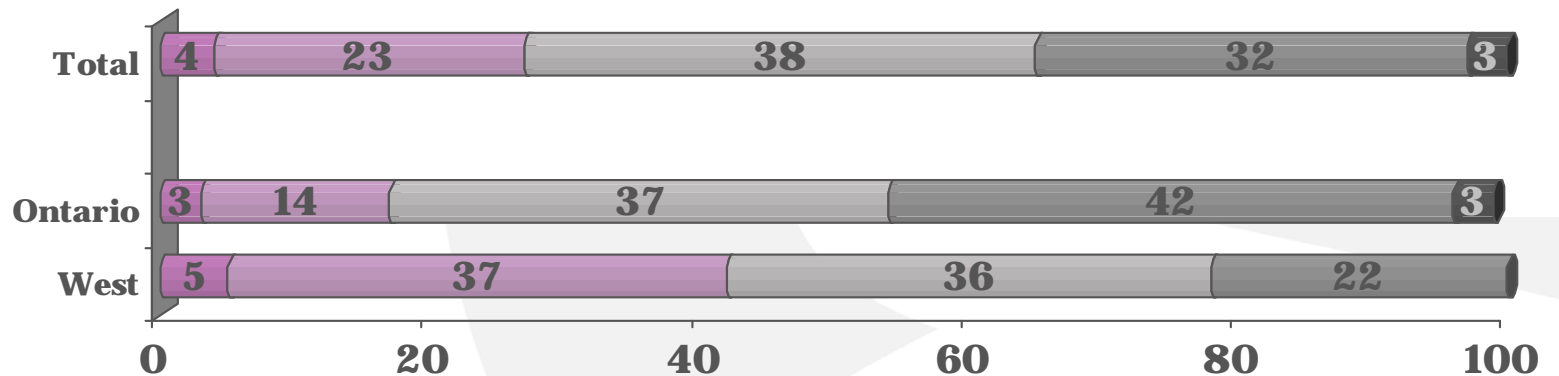
- ❑ Just less than half of executives are confident the federal government has the ability to balance the budget. They are even less confident in their provincial governments' ability to balance the budget.
 - Ontario executives are more pessimistic than Western executives on the ability of both levels of government to balance budgets.
- ❑ A slim majority thinks the federal budget will eventually be balanced while the rest believe we will face a structural deficit.
 - Even those who agreed the deficit is not as bad as we were led to believe are not significantly more confident.
 - Younger executives were slightly less optimistic, as are Ontario executives, that the books will be eventually balanced.



“How confident are you in the federal government’s ability to balance its budget?”

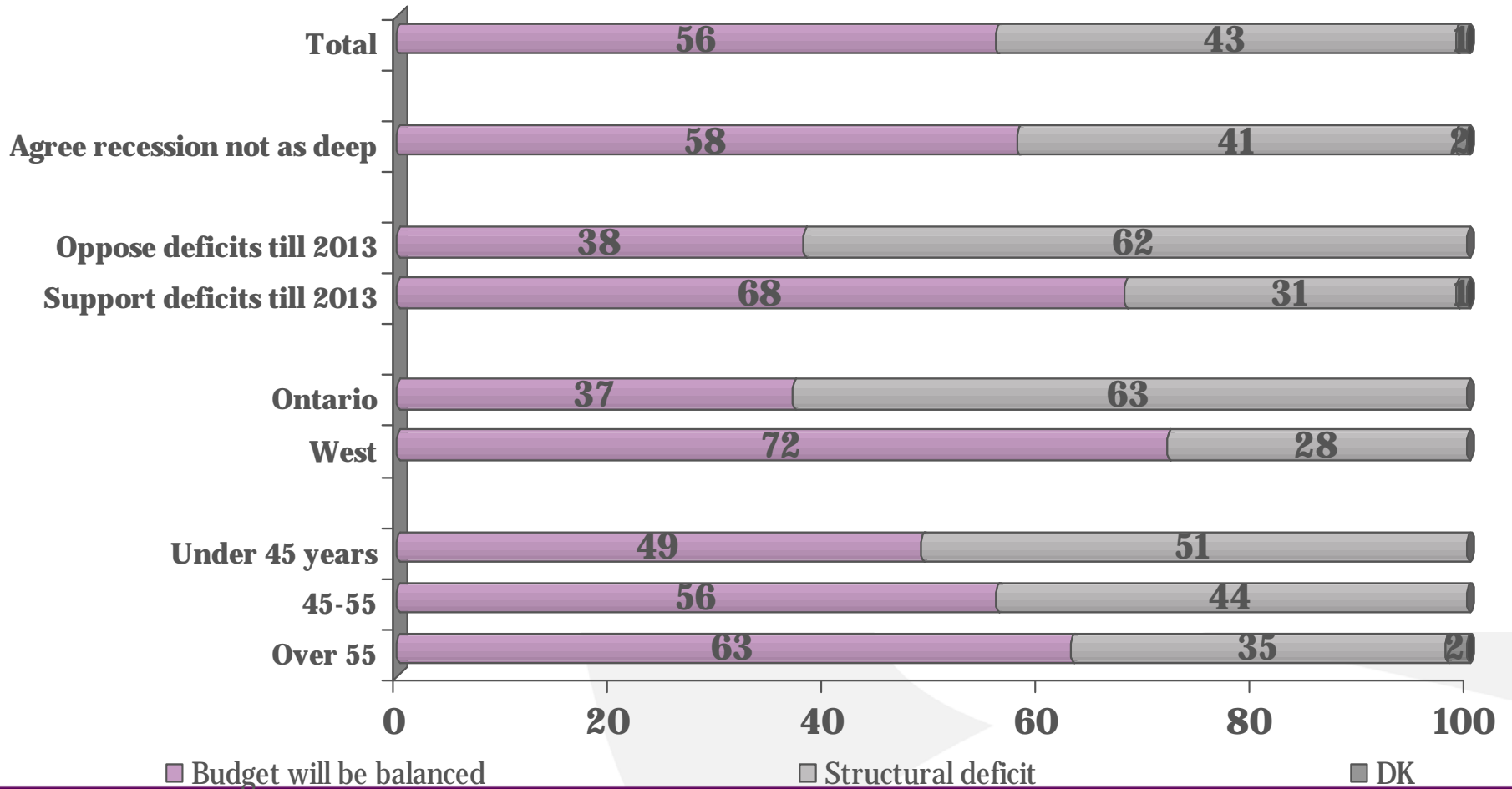


“How confident are you in your provincial government’s ability to balance its budget?”





“Some people say the federal deficit is temporary and the budget will be balanced after the economy recovers. Other people say that even after the economy recovers, federal government spending will continue to exceed revenues resulting in a structural deficit. Which view is closer to your own?
Would you say the budget will eventually be balanced or that we face a structural deficit?”

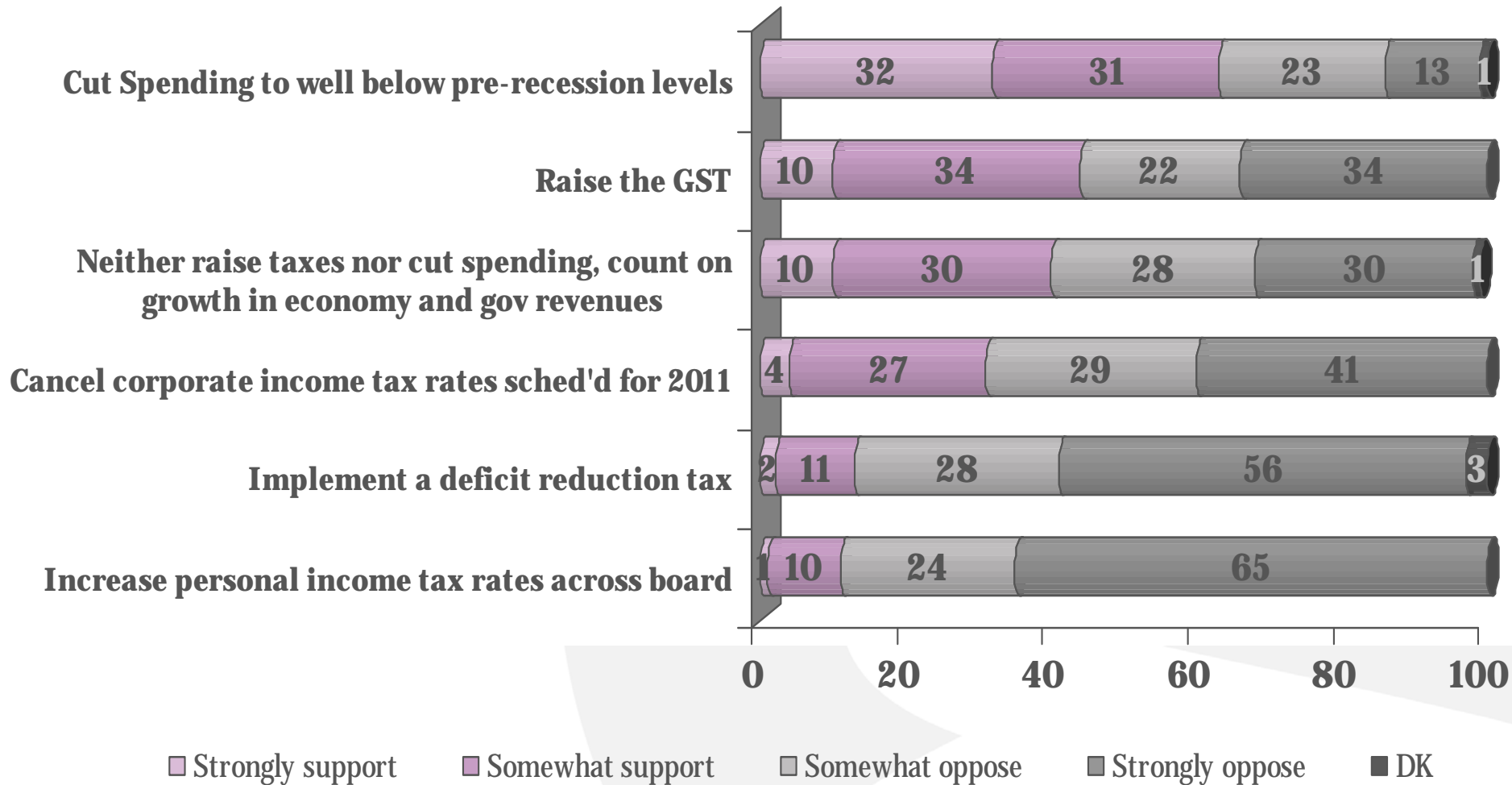




- ❑ A majority oppose inaction – specifically most opposed the proposal we tested of “neither raising taxes nor cutting spending and counting on growth” in order to balance the budget.
- ❑ Of the steps that government could take to reduce the deficit most support cutting government spending to well below pre-recession levels.
 - Even half of those who support the federal deficits into 2013 support cutting spending.
- ❑ If the government had to raise taxes, raising the GST would be the least unpalatable option.
 - While few strongly support this, almost half support it somewhat or strongly.
- ❑ Executives are far more opposed to a “deficit reduction tax,” cancelling planned corporate tax cuts, and most of all are strongly opposed to across the board increases in personal income tax rates.

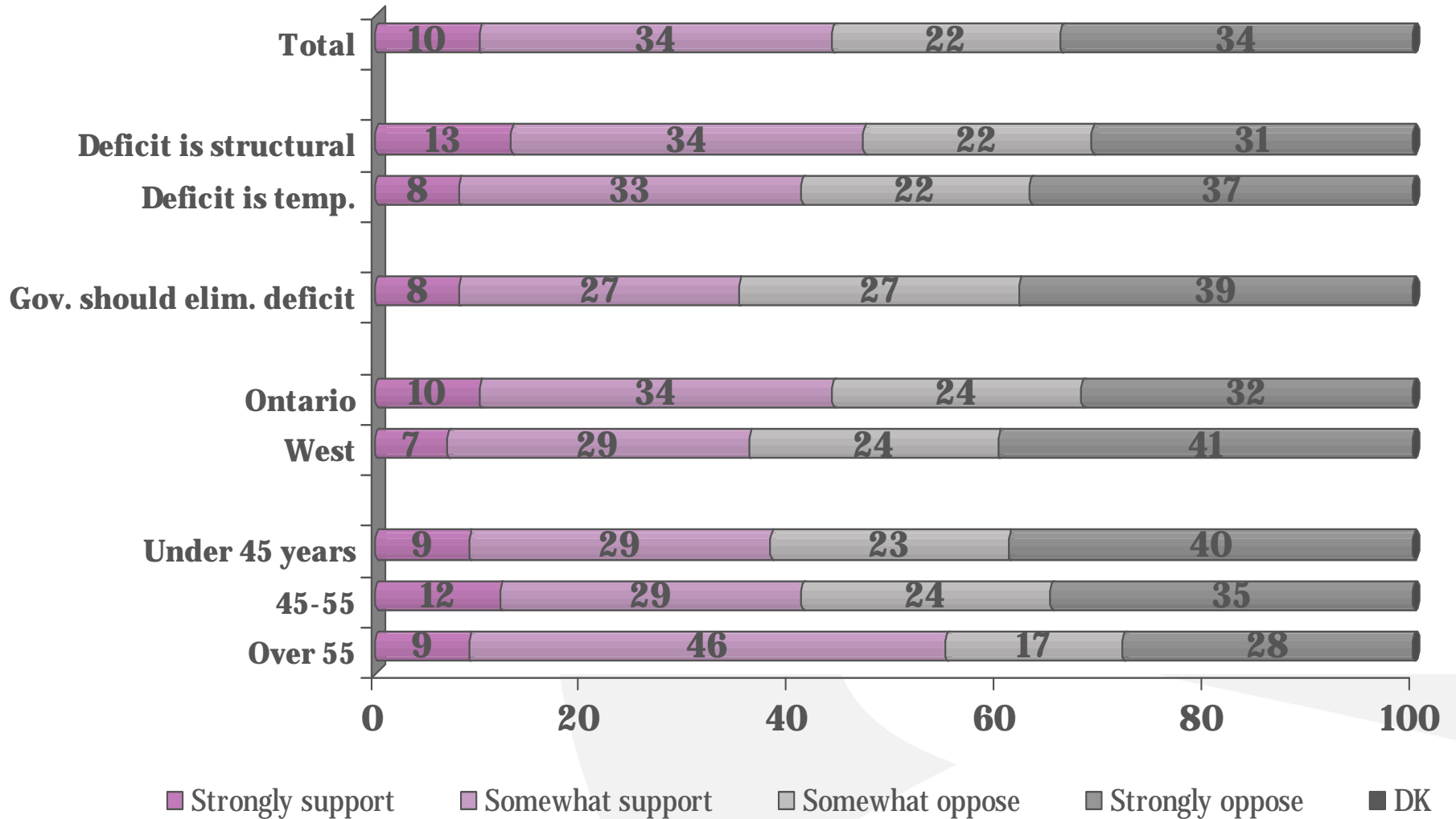


“The following are steps the federal government could take in the next few years to reduce the deficit. Please tell me if you strongly support, somewhat support, somewhat oppose, or strongly oppose each.”



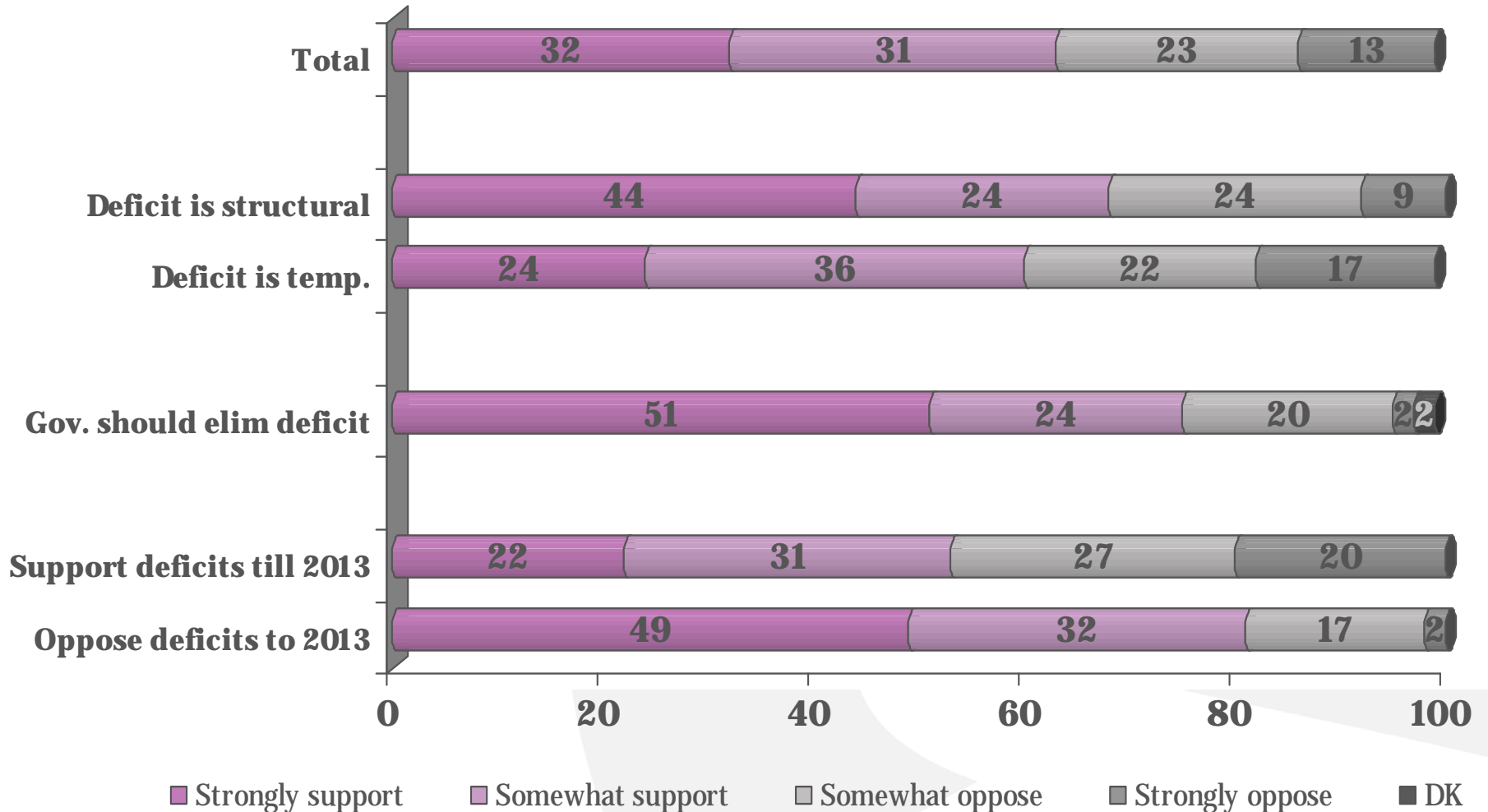


“Raise the GST”





“Cut spending to well below pre-recession levels”



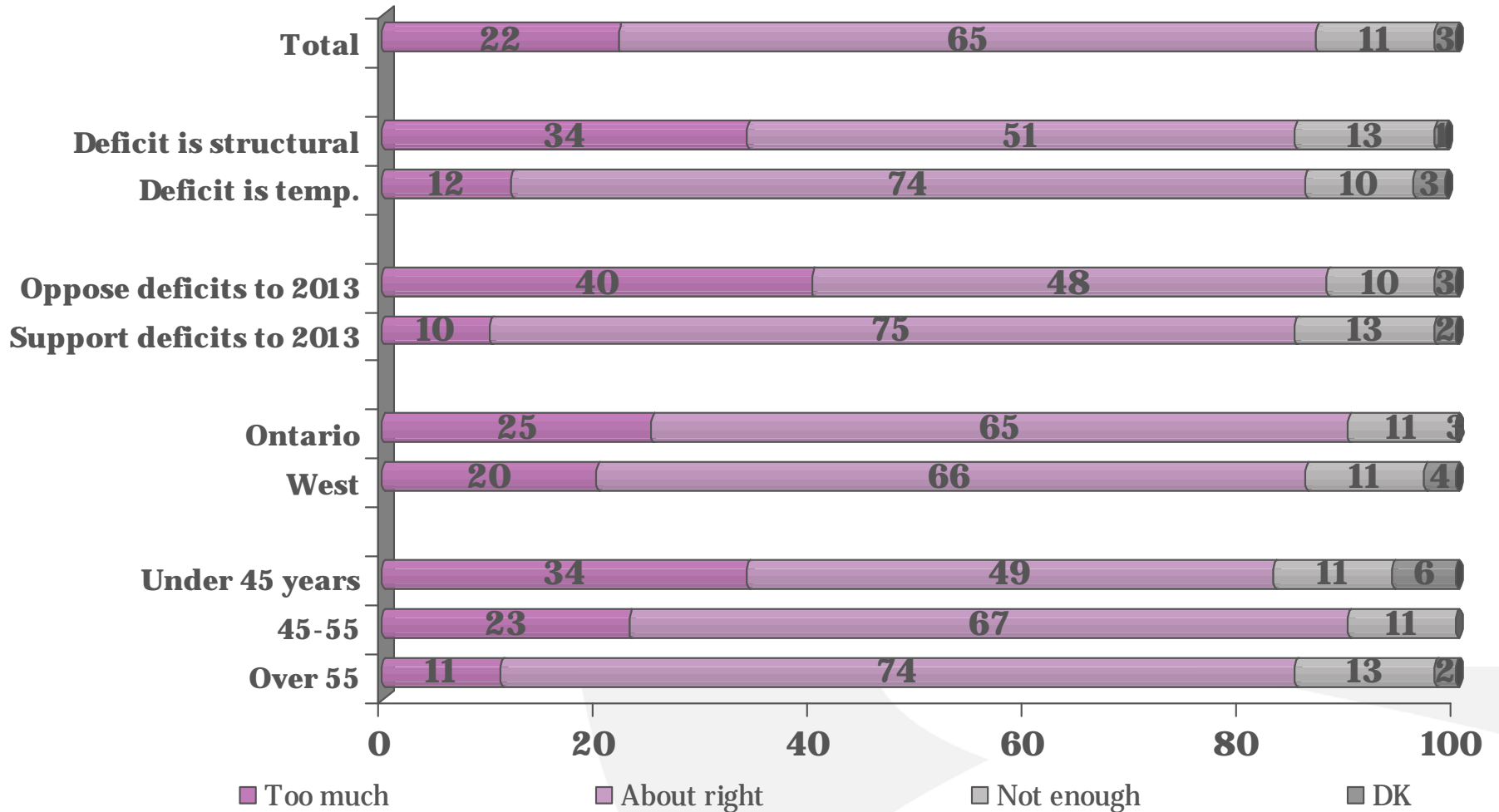


- ❑ Only one in five thought the government's stimulus plan was too much money. Roughly two-thirds thought it just the right amount.
 - Those who were opposed to four years of federal deficits or believed the deficit was structural were more likely to say the stimulus was too much, though even half of them said it was about right.
 - Older executives were far less likely to say it was too much.
- ❑ Among the stimulus options we presented, executives told us stimulus measures should go to spending on projects such as infrastructure first and foremost. There is virtual unanimity on this point.
 - Fewer – though still a majority – believe stimulus should go to R&D
 - Most opposed stimulus measures in the form of tax cuts.
 - Most oppose launching a second wave of stimulus measures and spending as the IMF has proposed.



Stimulus Measures

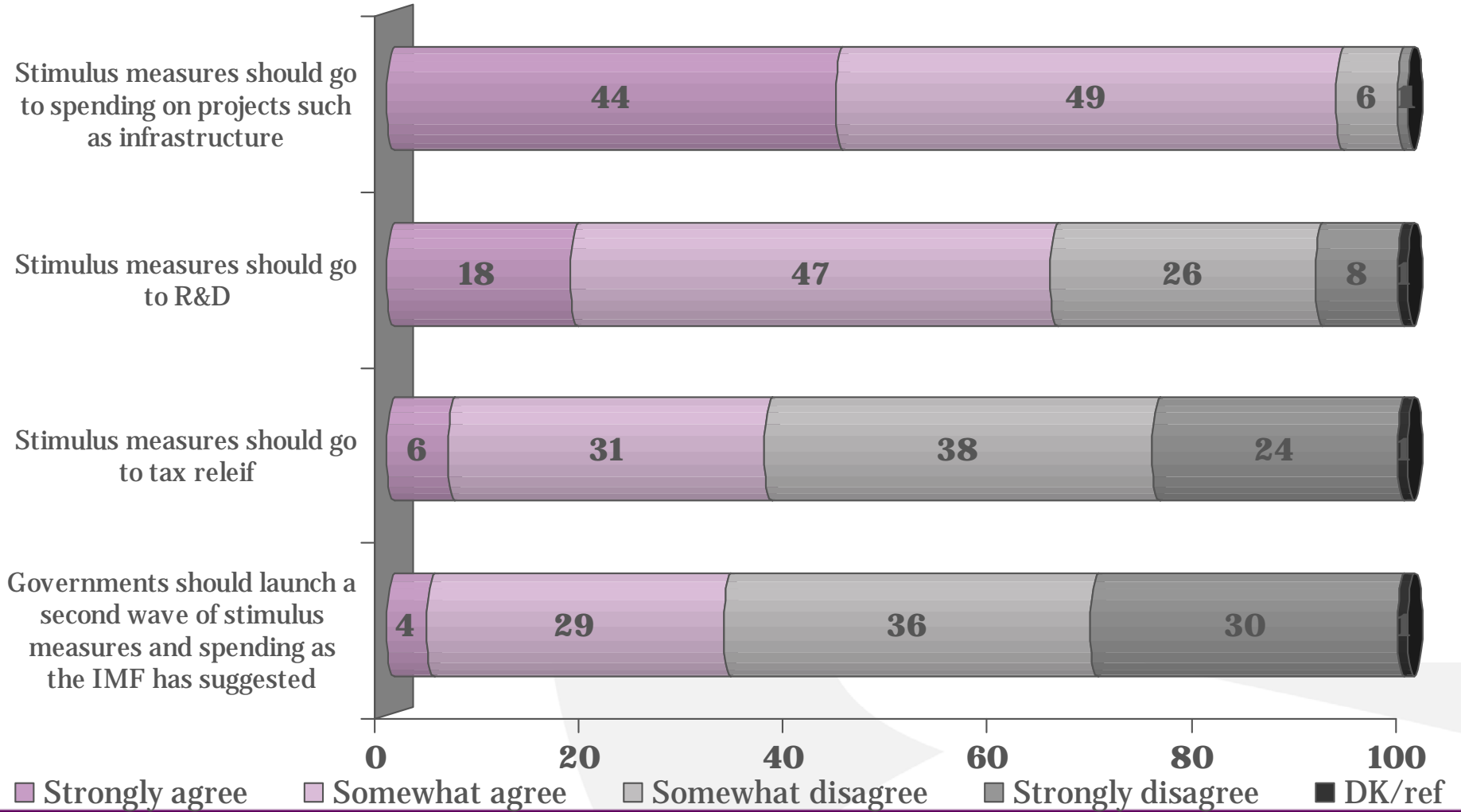
“The federal government’s stimulus plan will cost \$30 billion this year and its deficit will exceed \$55 billion. Would you say the \$30 billion stimulus plan was: too much money, about the right amount of money, or too little money to stimulate the economy?”





Stimulus Measures

“I’m going to read some statements about the budget and for each ask if you strongly agree, somewhat agree, somewhat disagree or strongly disagree.”



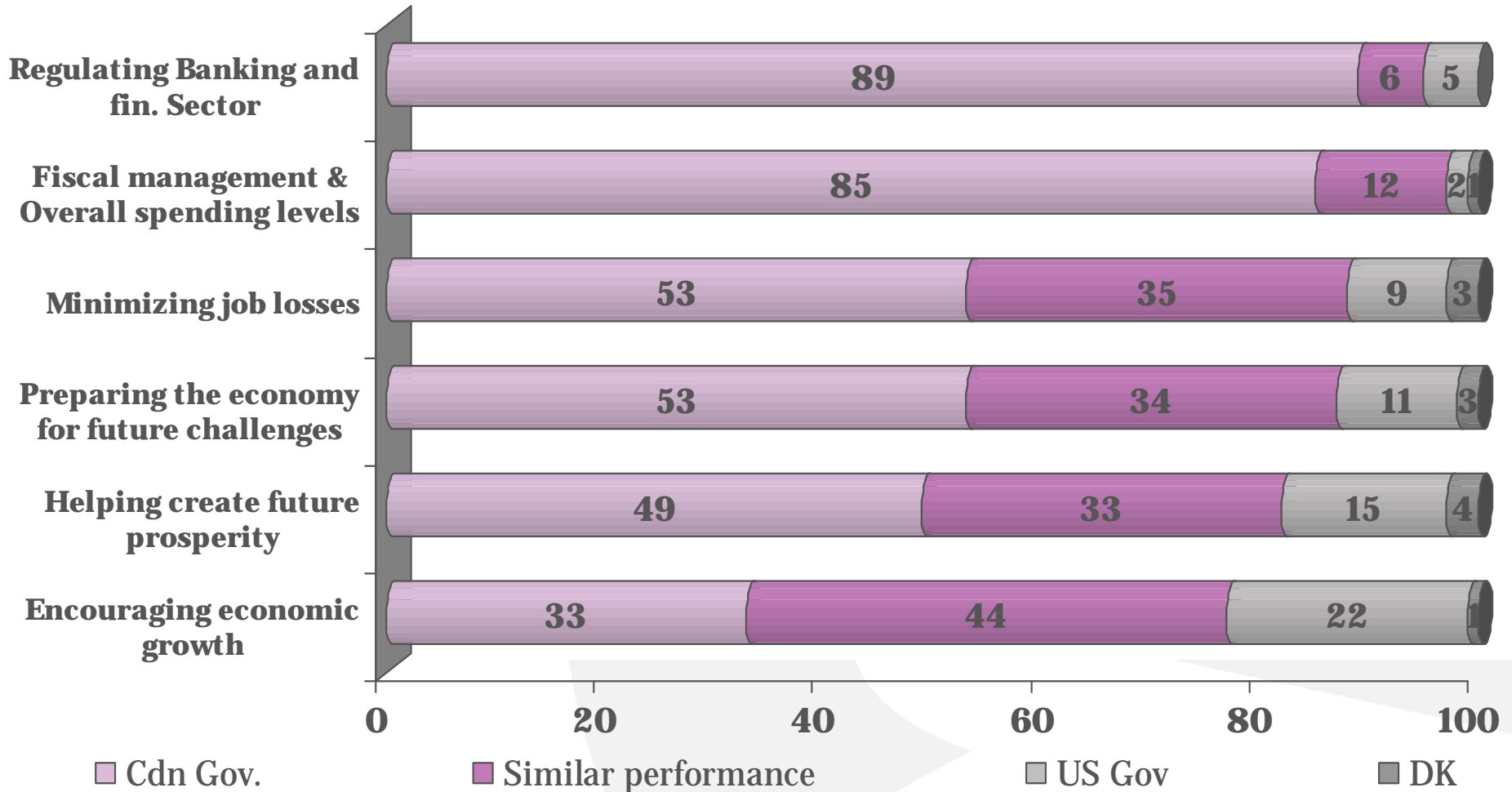


- ❑ Most Canadian business leaders believe the Canadian government has handled most all economic issues confronting it more effectively than the US government.
- ❑ Meanwhile, Obama's favourability has dropped since early 2009, while Harper's has risen.
 - 20% have a very favourable view of Obama compared to 13% for Harper.
 - Western executives have a more favourable view of Harper than Ontario executives, only half of whom have a favourable impression of the PM.
 - Those who believe government should have deficit elimination as its main fiscal objective have a less favourable view of Obama.
 - Michael Ignatieff's favourability has plummeted since February.
 - Minister Flaherty's net favourability is slightly higher among Western Executives – a 50% net positive impression. This is a substantial turnaround in the years since his decision on Income Trusts which hit energy sector particularly hard.



Canada-US Leadership

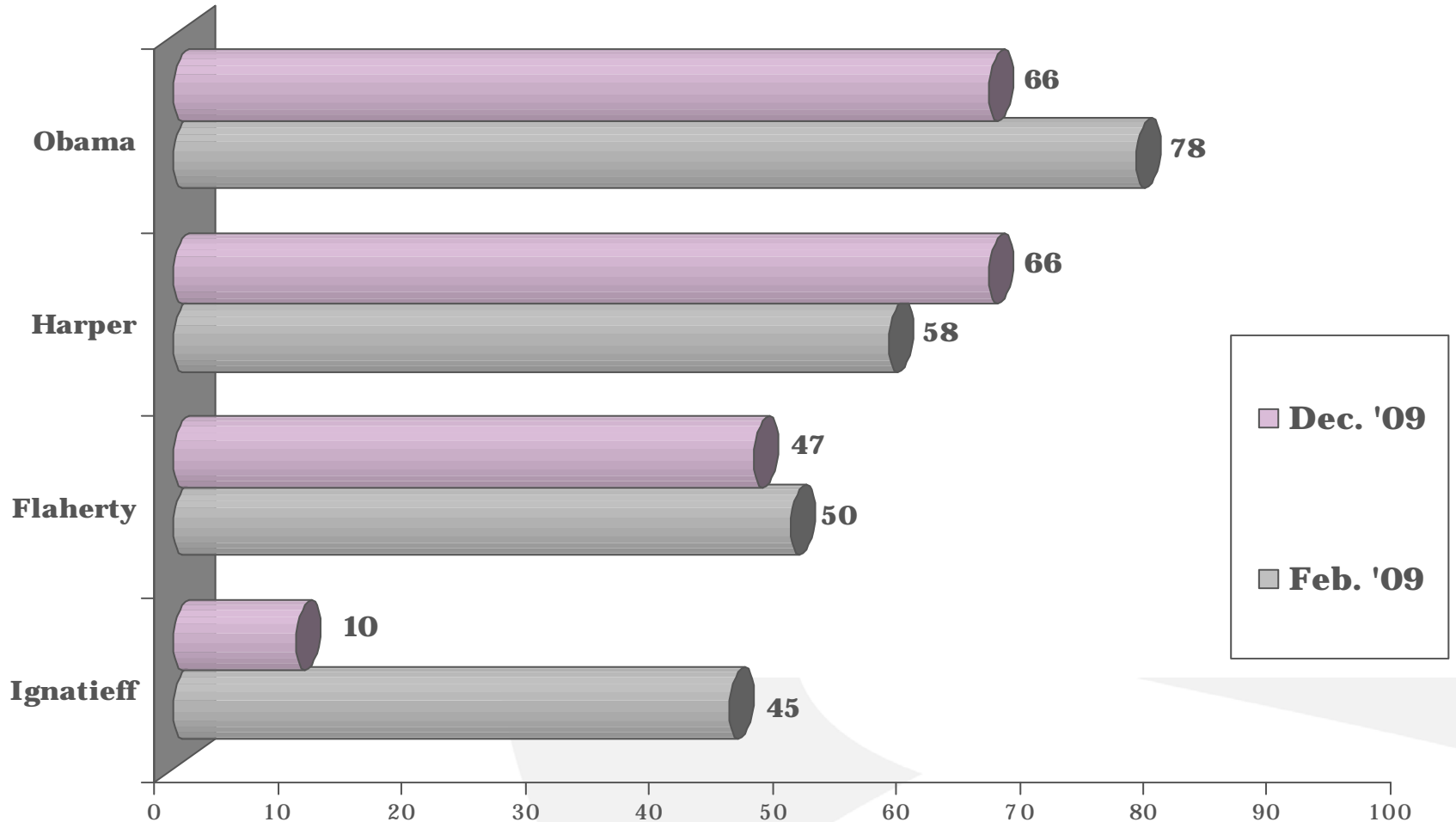
“I’m going to read a list of economic policy concerns, and ask you whether you think the Canadian government or the US government has done a better job of managing each, or whether you think both governments have performed similarly.”





Leadership Impressions

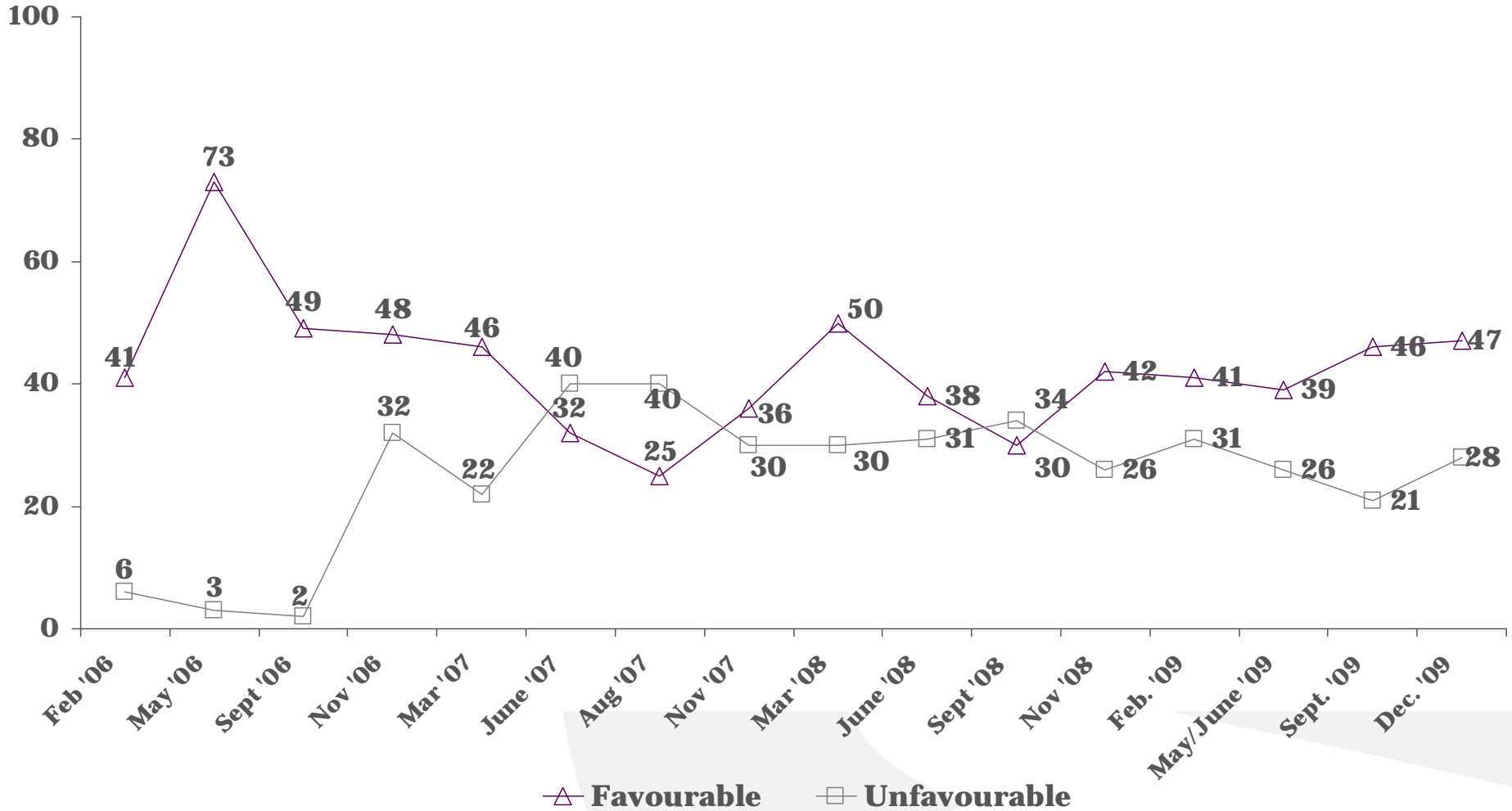
“We’d like to know how favourable or unfavourable your impression is of the following government figures. Would you say your impression of _____ is very favourable, somewhat favourable, neither favourable nor unfavourable, somewhat unfavourable or very unfavourable?” % w. a net favourable view.





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?”

