



the gandalf group

The 24th Quarterly C-Suite Survey: The Global Economy, Finance, Consumer Confidence, and Emerging Markets

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- ❑ This is the 24th edition of the C-Suite Quarterly survey, conducted on behalf of KPMG; published and broadcast by the *Globe and Mail's Report on Business* and *BNN*. Previous quarters' surveys are available at GandalfGroup.ca.
- Telephone interviews were conducted with 160 C-Suite executives from ROB 1000 companies, between September 6th and 22nd, 2011. Margin of error +/- 7.1% 19 times out of 20.
- ❑ This quarter's survey focused on :
 - The Global Economy
 - Debt/equity financing & ability of businesses to make projections
 - Emerging Markets & Adjusting to the New Normal in North America



- ❑ C-Suite confidence in the economy has crashed, with most executives expecting recession in the US, worried about recession in Canada and following developments in Europe anxiously.
- ❑ The outlook is not as bleak as it was in 2008 at the onset of the financial crisis but the relative optimism of the last 18 months is gone.
- ❑ The C-Suite cited more conservative business plans as evidence of businesses reacting to consumers' recession level confidence.
- ❑ Despite pessimism over the North American economy, the ROB1000 executives have not further downgraded their growth forecasts for their own companies since last quarter's survey.
- ❑ Although there is wide agreement on the importance of strategies to access emerging markets, only two in five companies have one.
- ❑ Companies that have an emerging markets strategy, or are relatively less reliant on the US, are more optimistic about their companies' and the economy's prospects.

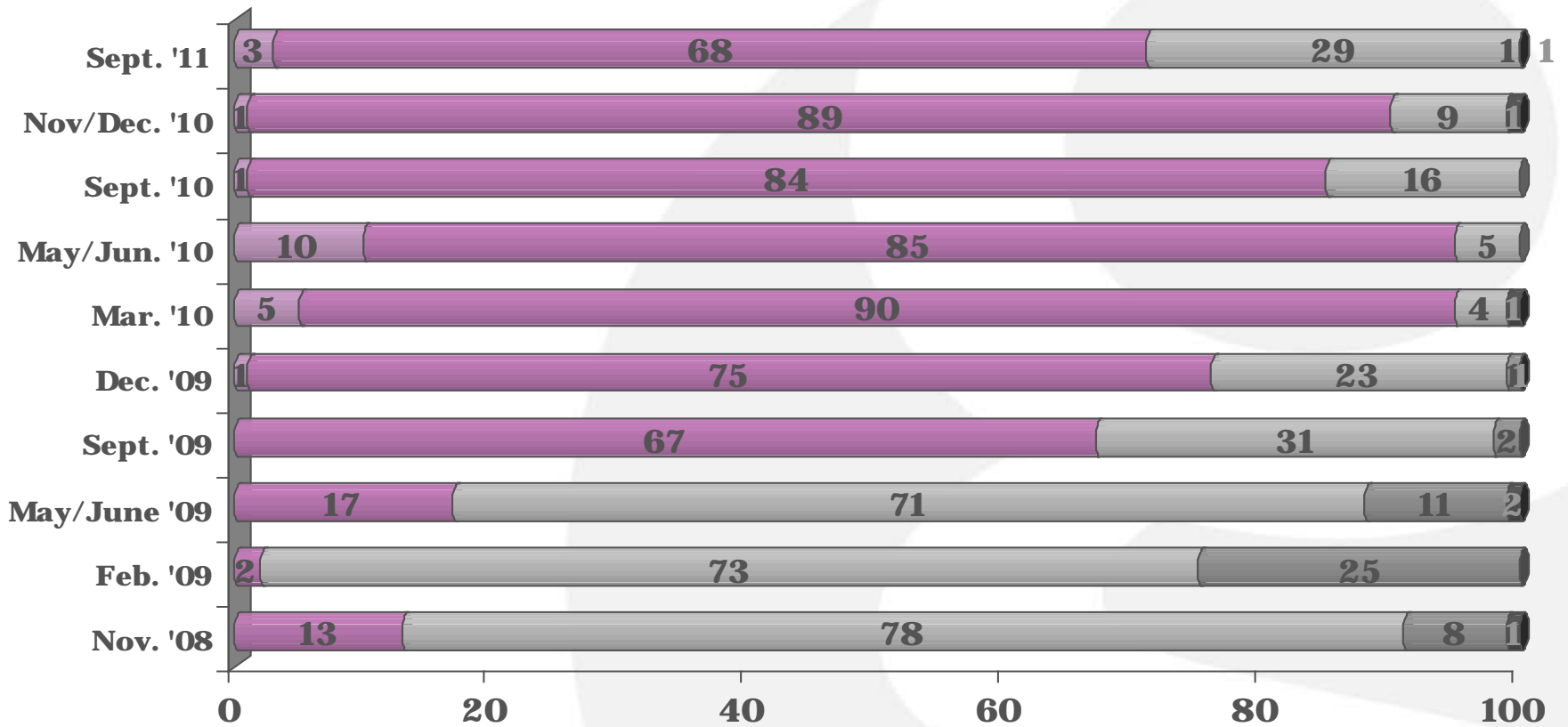


- ❑ Two thirds of C-Suite executives expect moderate decline for the US economy over the next 12 months.
- ❑ The C-Suite is not certain that Canada will bear the full effects of a US or global recession. Executives are more confident about Canada than they are about the US but a similar percentage of executives anticipated Canadian growth/recession just before the collapse of '08.
 - Thirty nine per cent believes the economy is currently experiencing moderate decline and one in four expects Canada's economy will experience decline over the next 12 months.
 - Those who are pessimistic about the Canadian economic outlook overwhelmingly expect a declining US economy.
 - The gap between Canadian and US economic forecasts has widened since last quarter.
 - Few executives surveyed depend on Europe for their companies' revenue or sales but they are still watching the European situation closely.



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?”

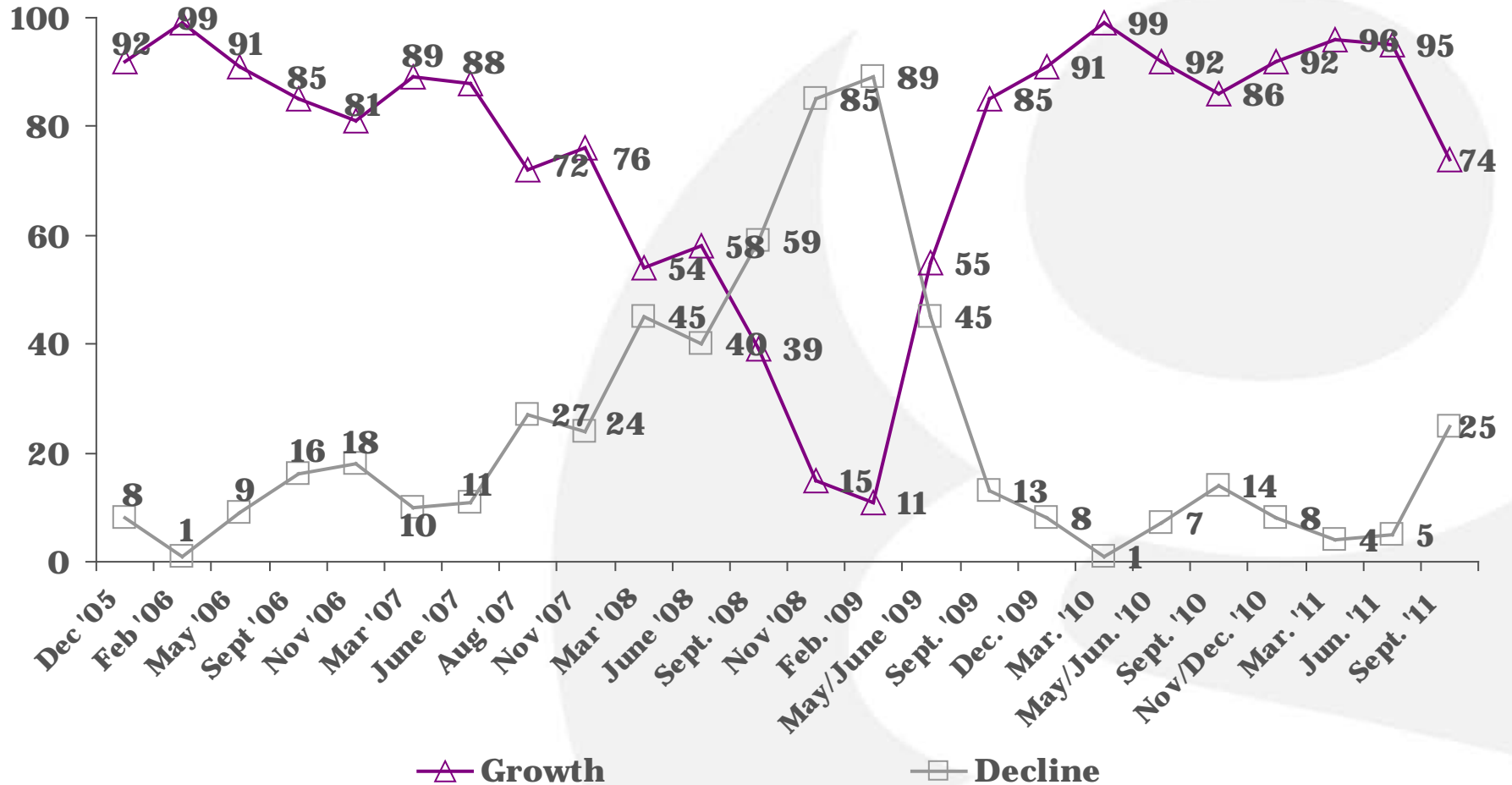


■ Strong growth ■ Moderate growth ■ Moderate decline ■ Strong decline ■ DK



The CDN Economy Over The Next Year

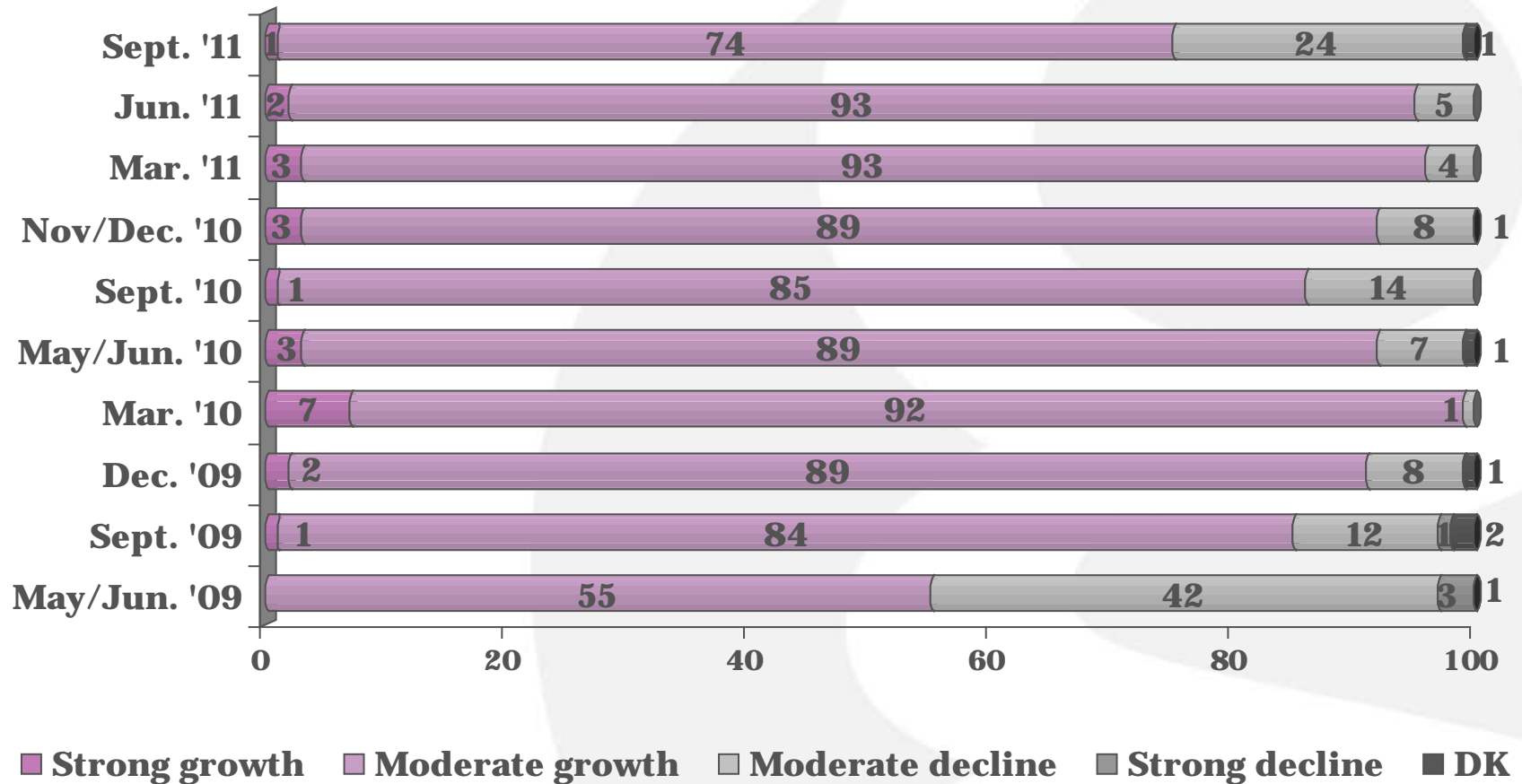
“First, what are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





The Canadian Economy Over The Next Year

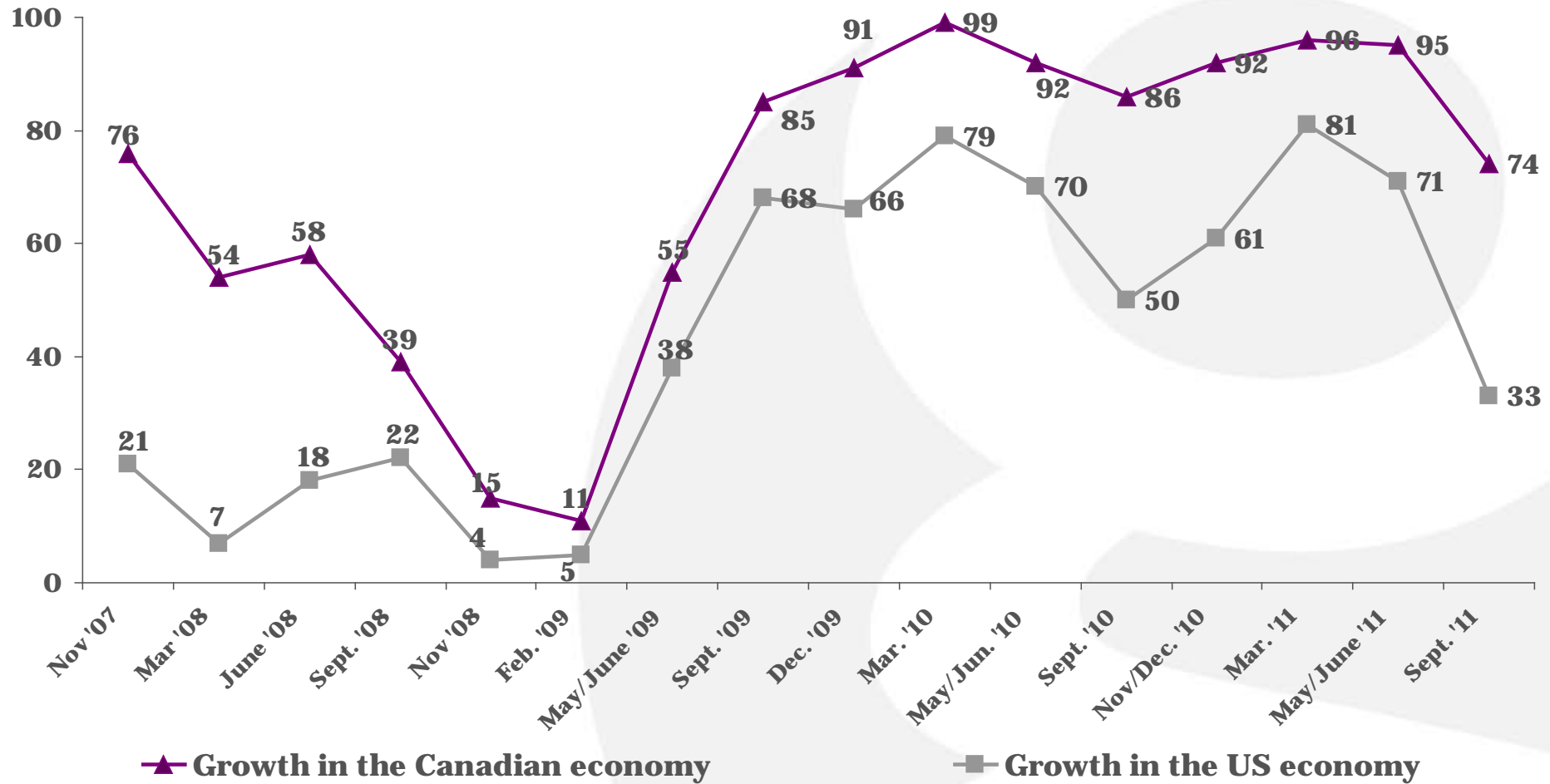
“First, what are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





Projected Growth – Canadian Economy and US Economy

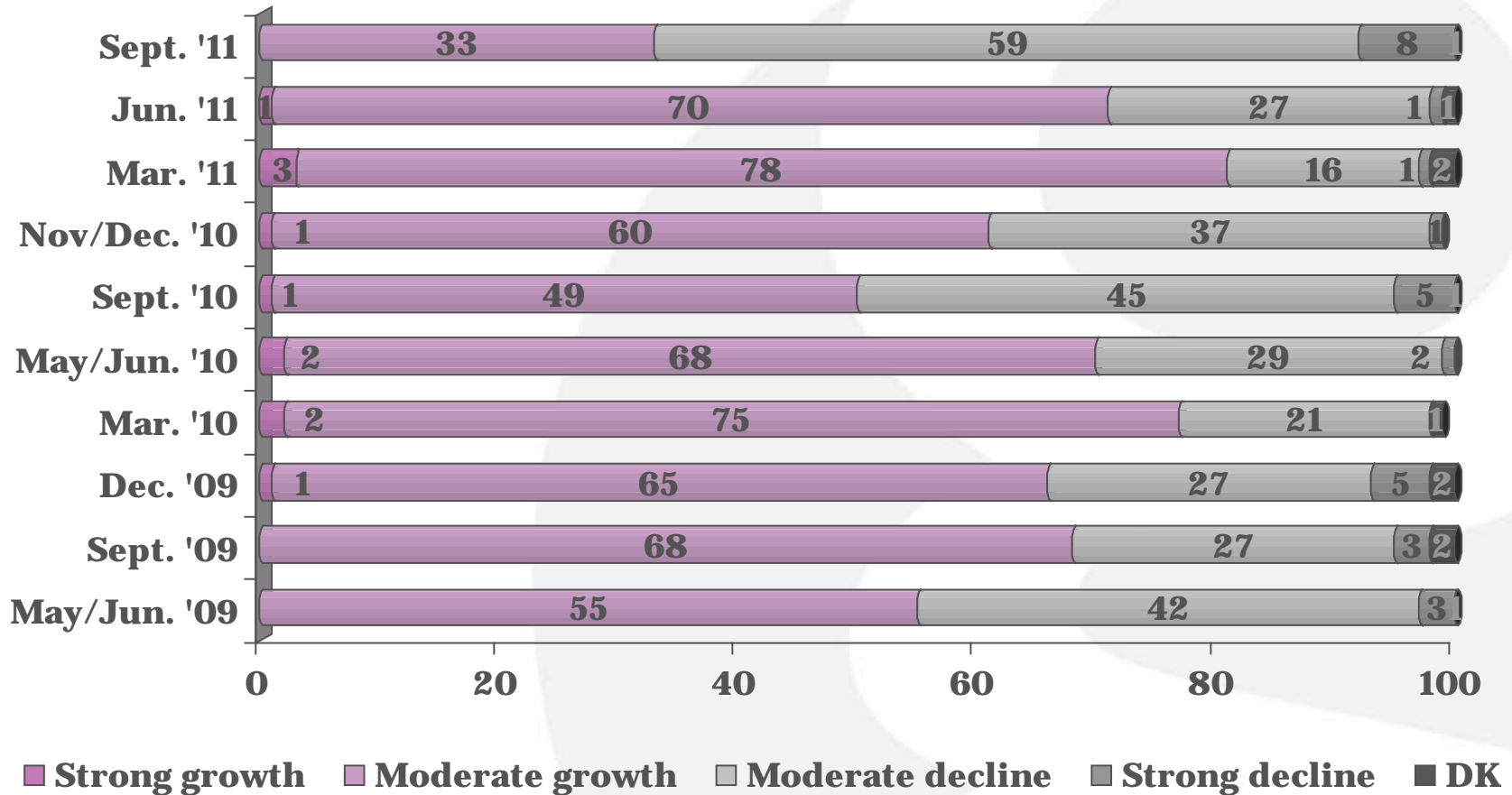
“What are your expectations for the Canadian/U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





The US Economy Over The Next Year

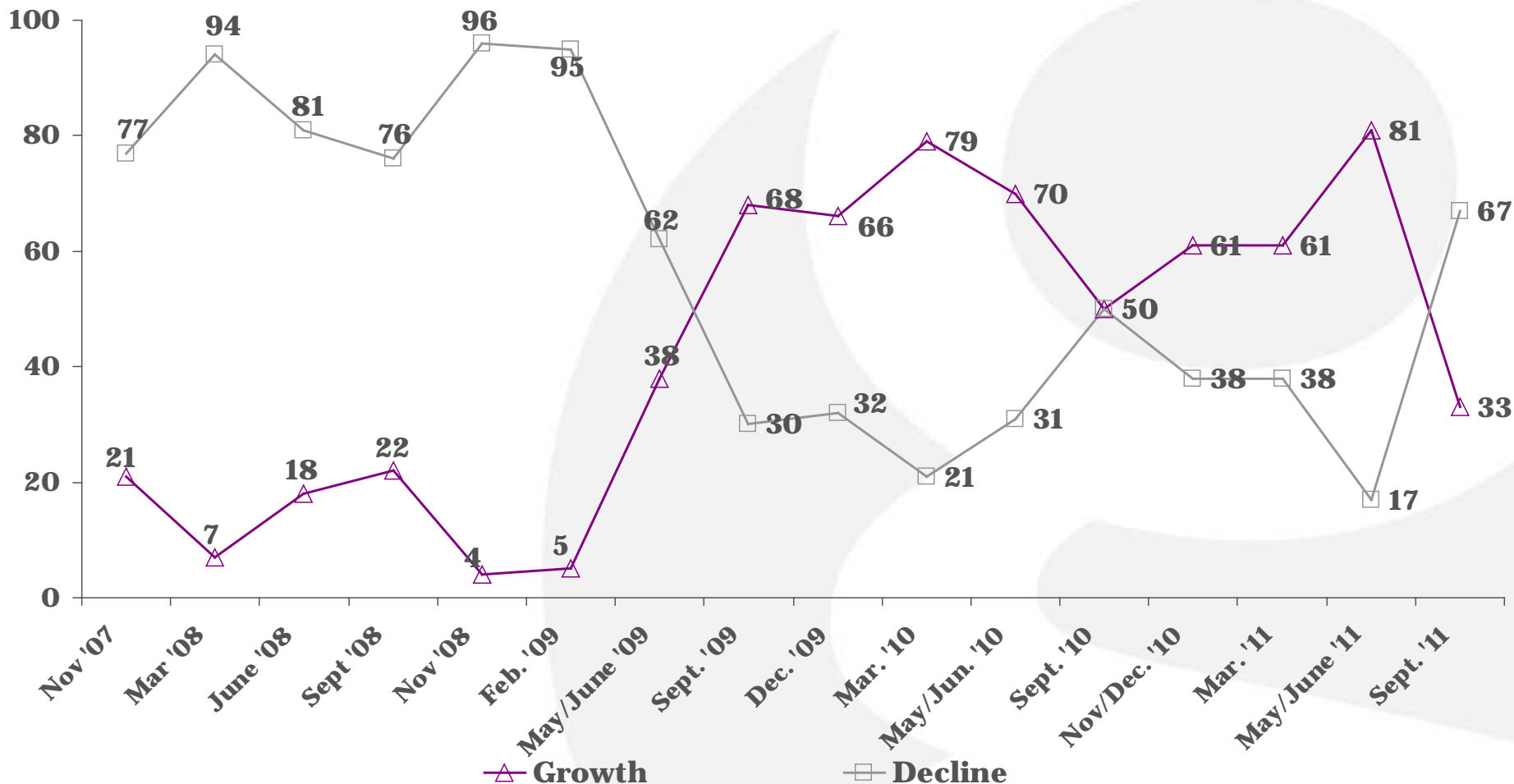
“What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





The US Economy Over The Next Year

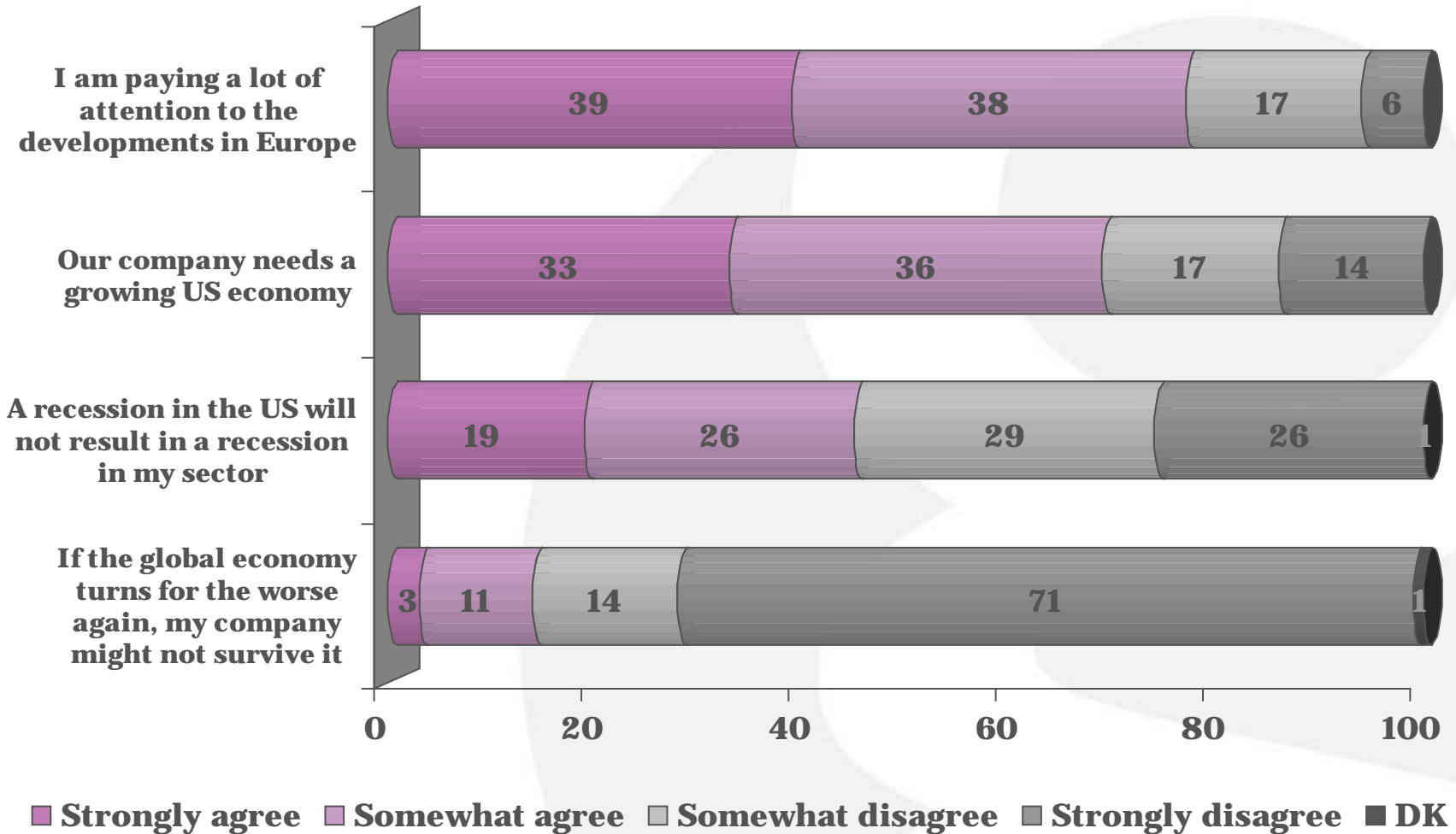
“What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





Opinion on the Global Economy

Agree/Disagree Statements



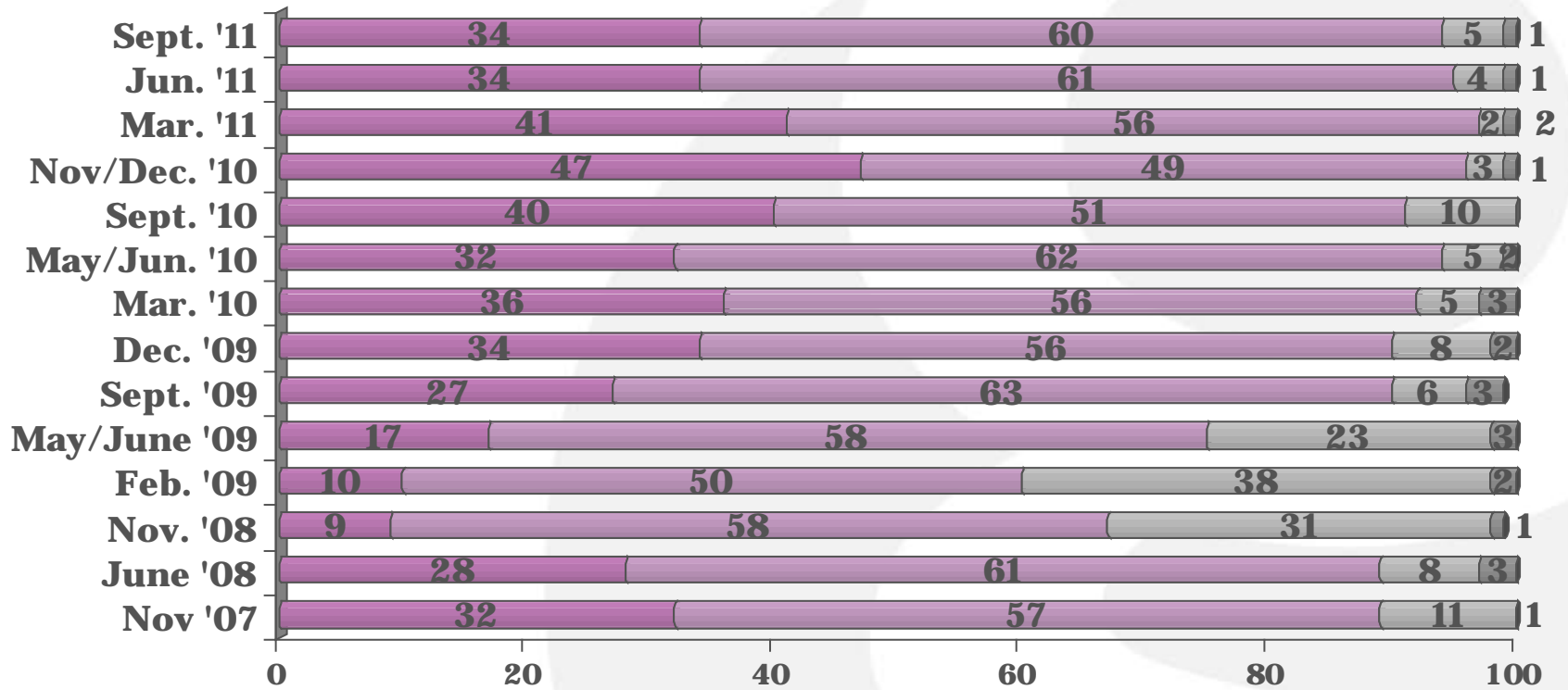


- ❑ Almost all executives said they expect their companies will grow, though forecasts remain down from where they were three quarters ago.
- ❑ A key factor will be exposure to various foreign markets.
- ❑ Most Canadian businesses will be negatively affected by a US recession – the manufacturing sector is particularly exposed to the US economy.
 - In the manufacturing sector, 40% said they receive more than half of their revenue from the US.
 - The resources sector is much more insulated from the American economy
- ❑ Those who don't rely on the US for any revenue/sales were much more likely to predict strong growth for their company.
- ❑ And those without an emerging markets strategy were significantly more likely to say they expect Canada's economy to be in decline over the next 12 months.



Expectations: Company

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

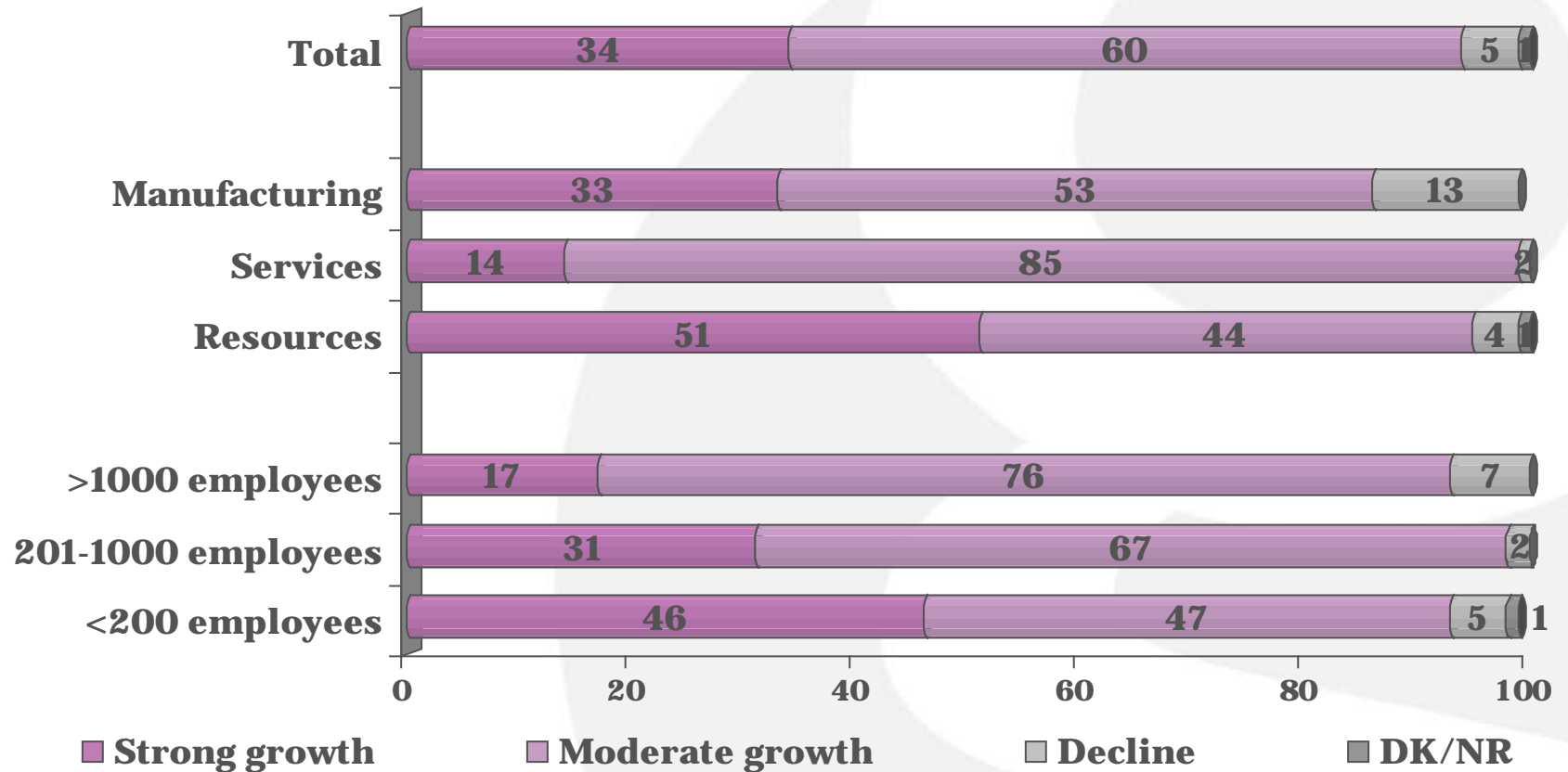


Strong growth
 Moderate growth
 Decline
 DK/NR



Expectations: Company

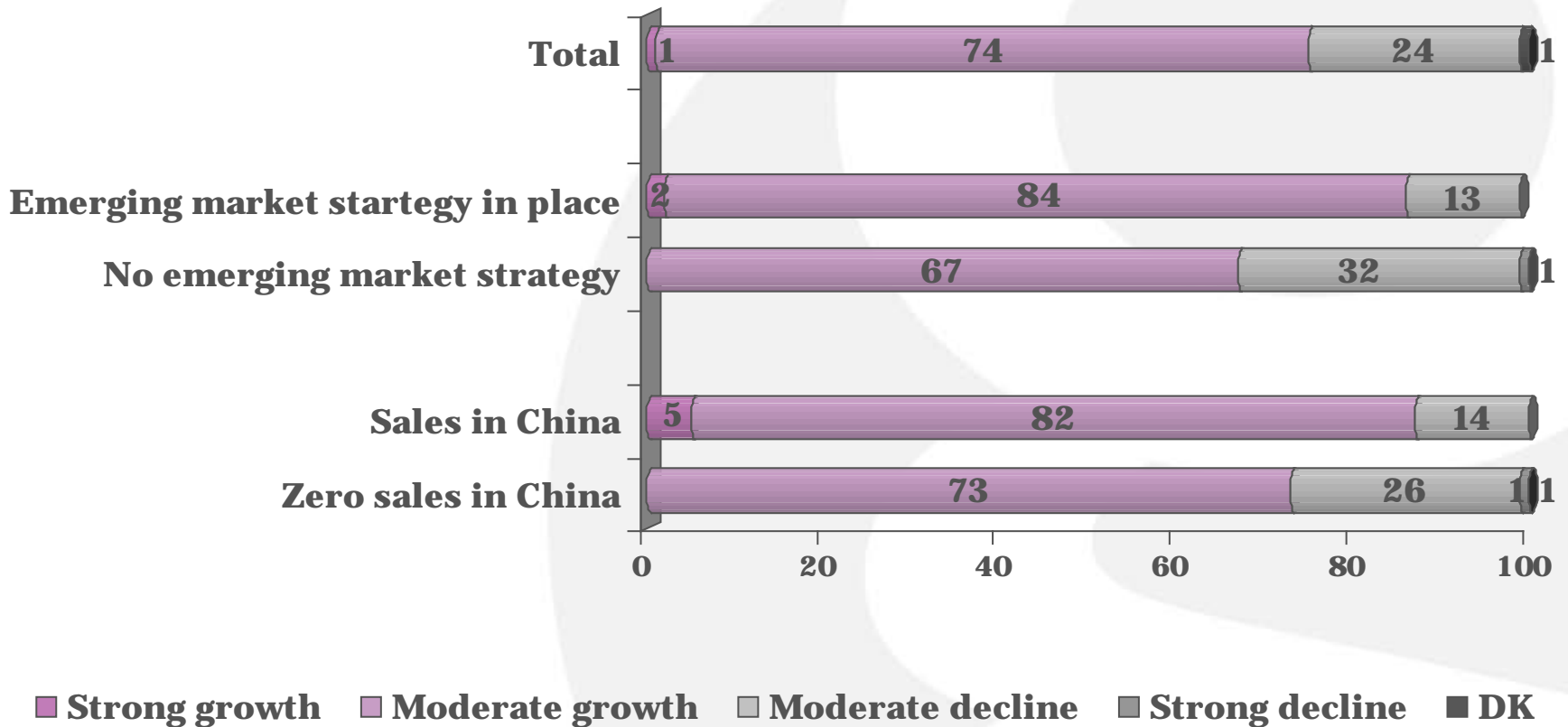
“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





The CDN Economy Over The Next Year

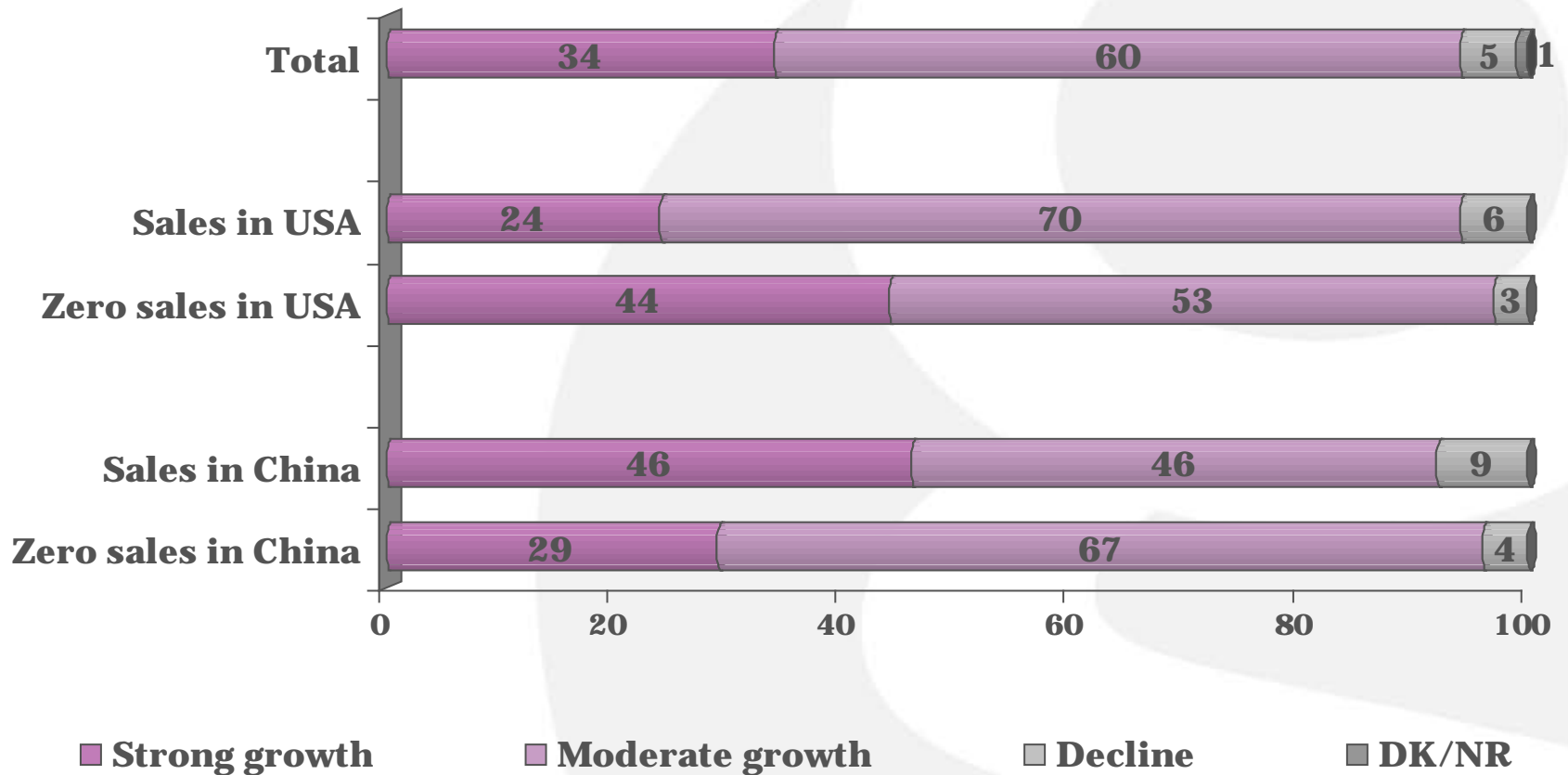
“First, what are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





Expectations: Company

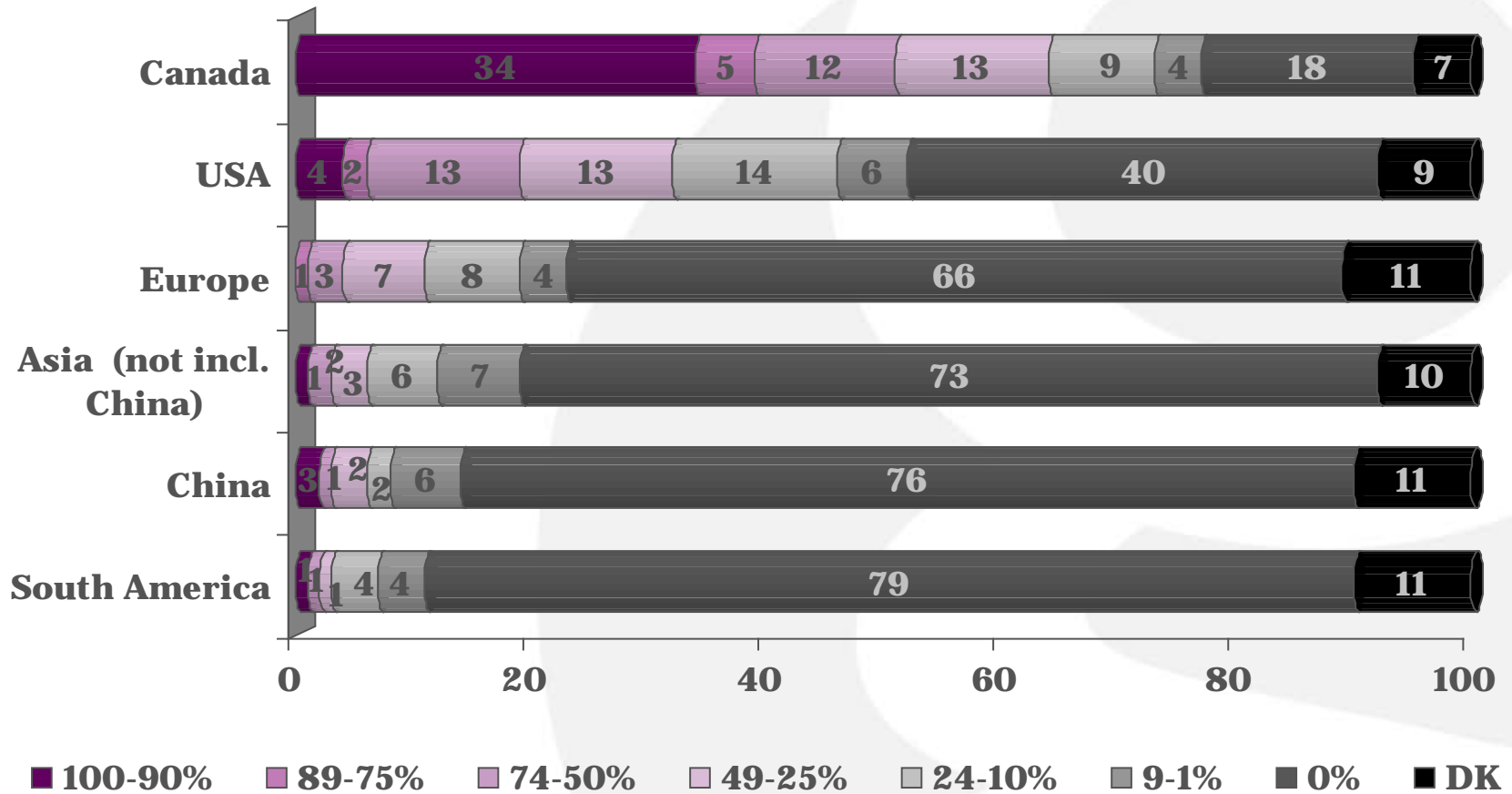
“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





% Revenue from Markets

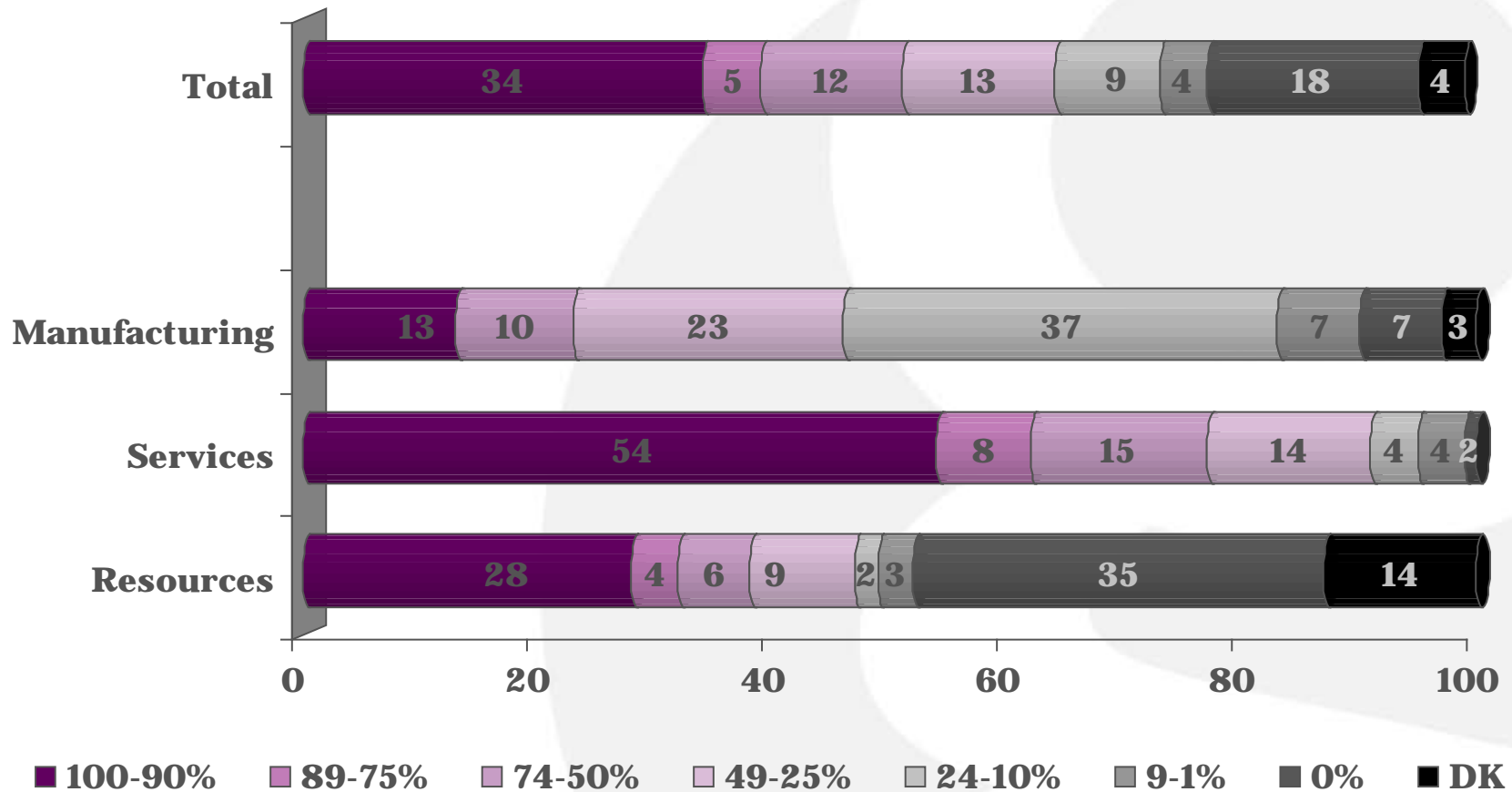
“What percent of your revenue or sales results directly from...?”





Services Sector Most Dependant on Canadian Economy

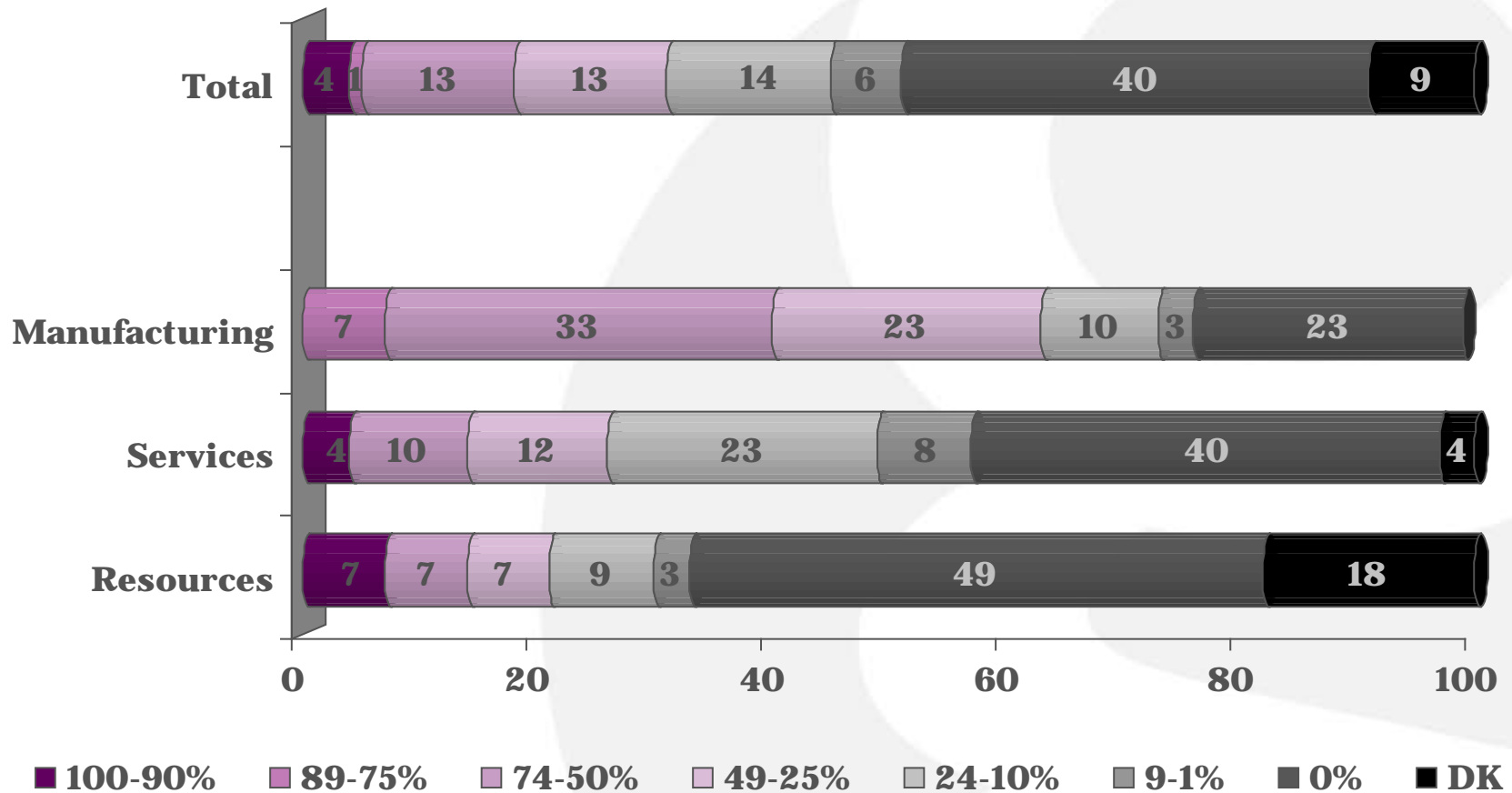
“What percent of your revenue or sales results directly from Canada?”





Manufacturing Sector Most Dependiant on US Economy

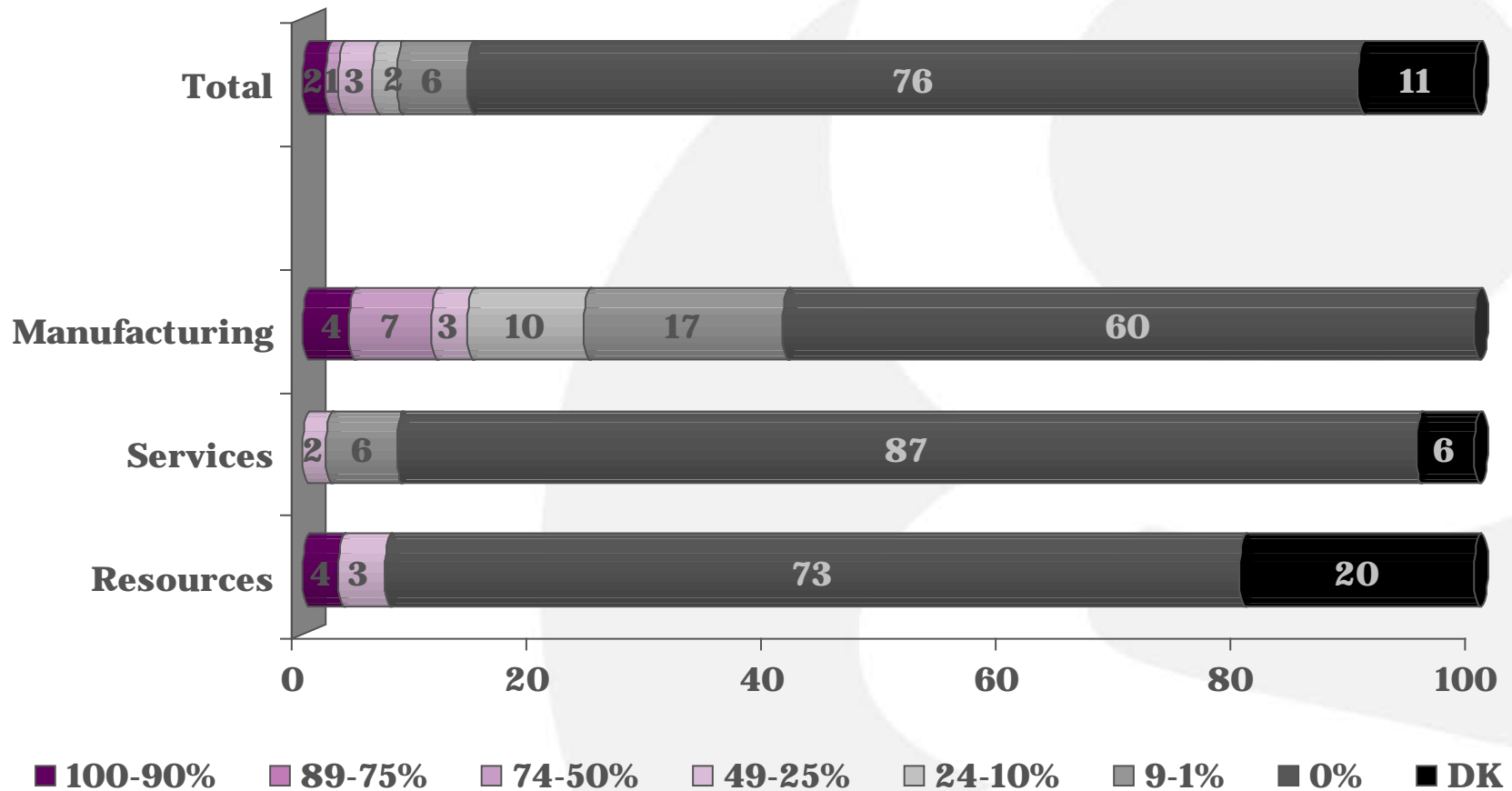
“What percent of your revenue or sales results directly from the USA?”





Manufacturing Sector Most Dependiant on Chinese Economy

“What percent of your revenue or sales results directly from China?”





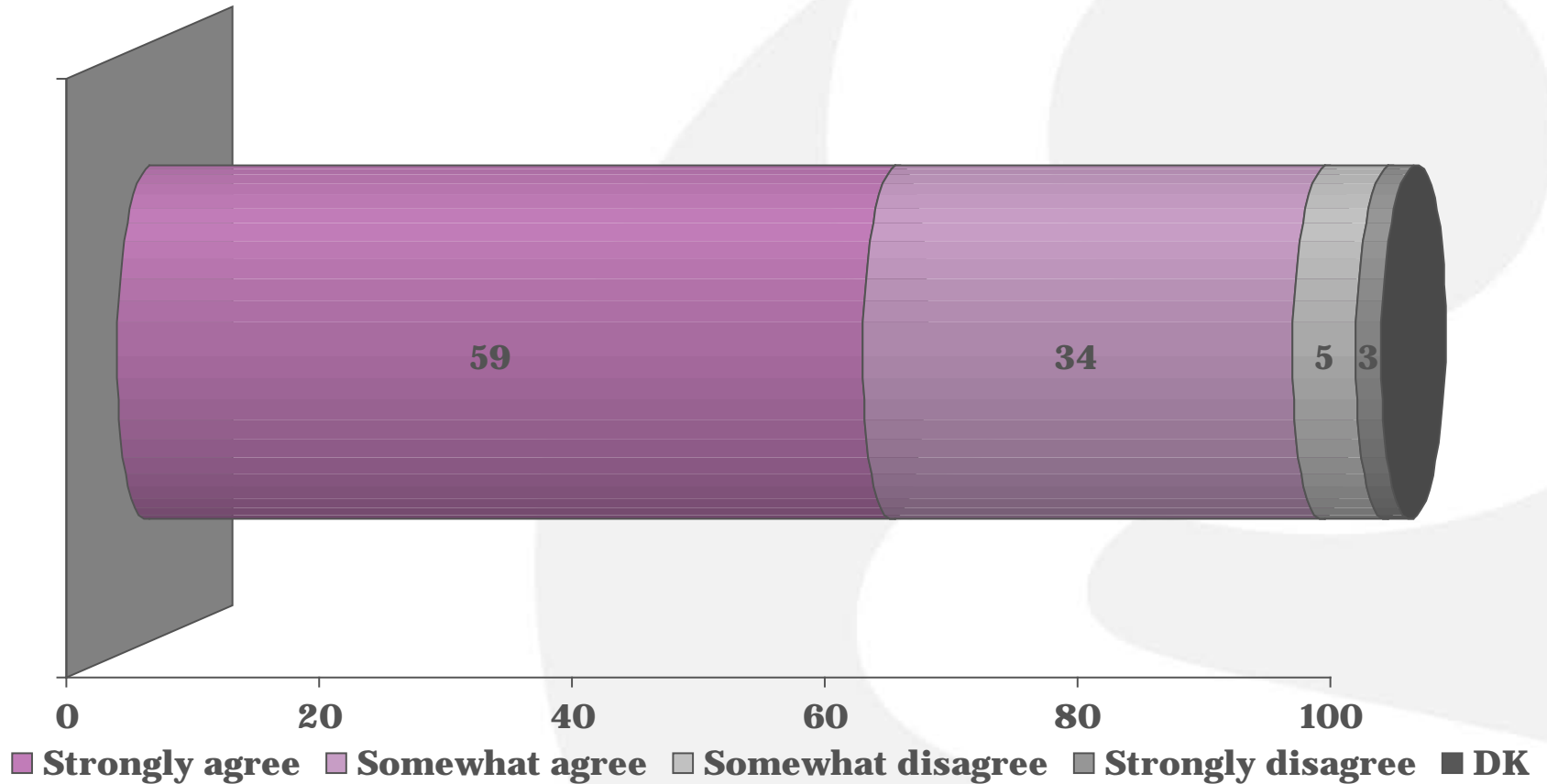
Emerging Markets: Presence and Plans to Access

- ❑ Three quarters of Canadian executives don't see any revenue from or sales in Asian markets currently, but the vast majority agreed Canadian companies need to access emerging markets in order to grow and stay competitive.
- ❑ Despite wide agreement that emerging markets need to be accessed, only four in ten have a strategy in place to reach those markets.
- ❑ The top initiatives those companies are undertaking as part of those strategies involve logistics (distribution and supply chain) and sales offices. Government relations (applications, permits) and acquisitions were also mentioned.



Importance of Emerging Markets

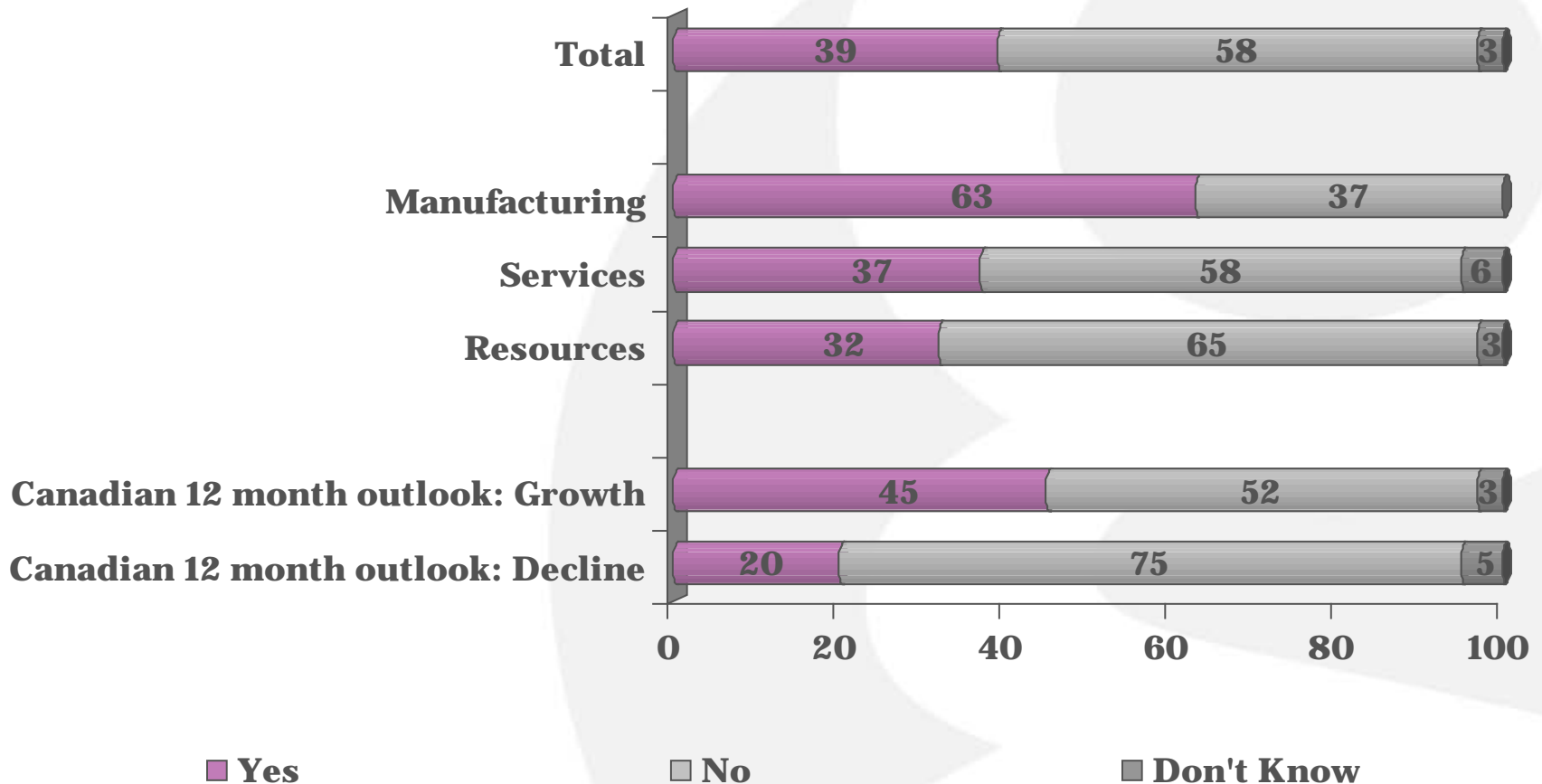
Agreed/Disagree “Canadian Companies in general need to access emerging economies such as India and China in order to stay competitive and continue to grow.”





Prioritization of Emerging Markets

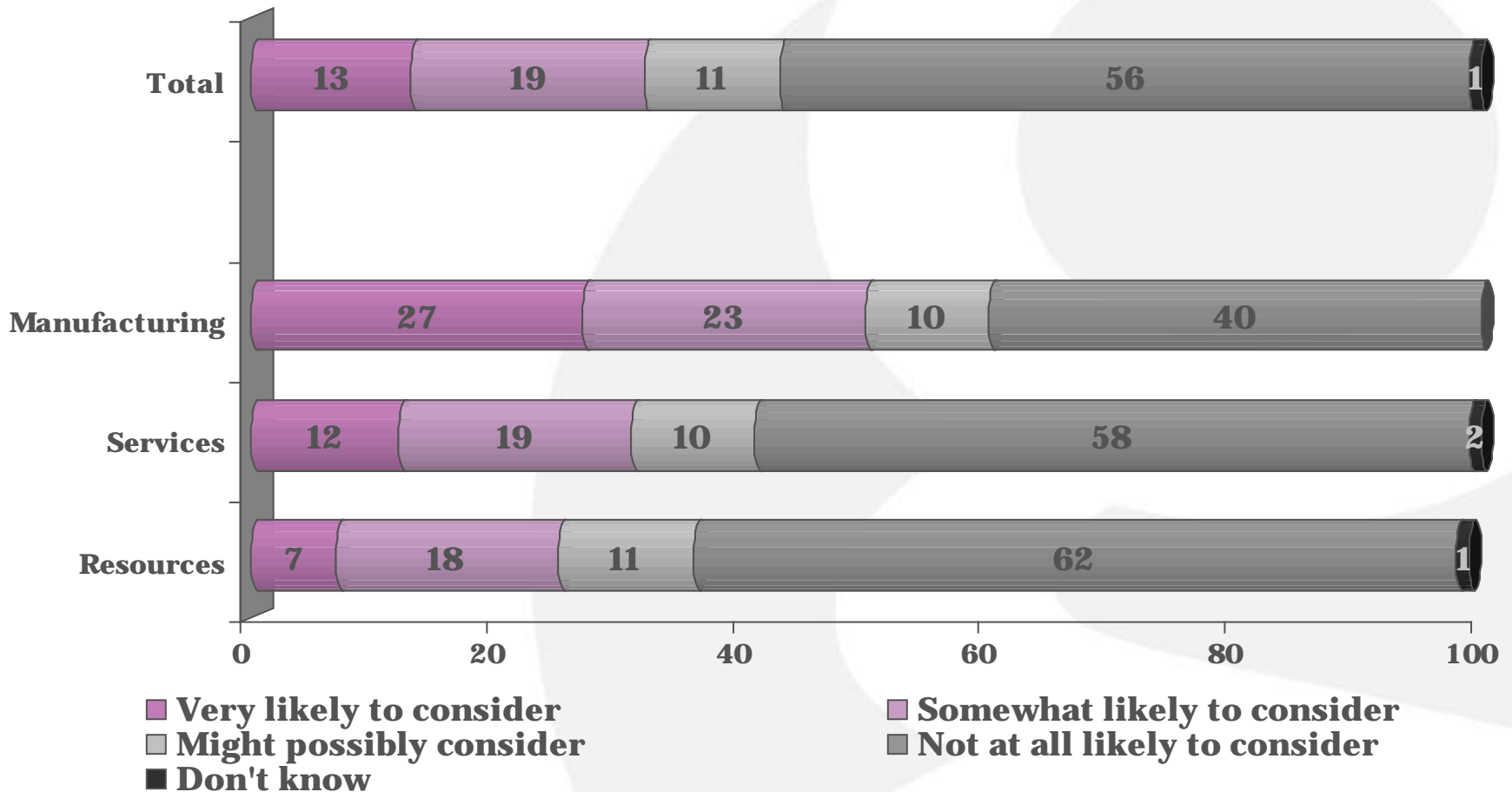
Does your company have a strategy in place to access these markets?





Considering Diversification, by sector

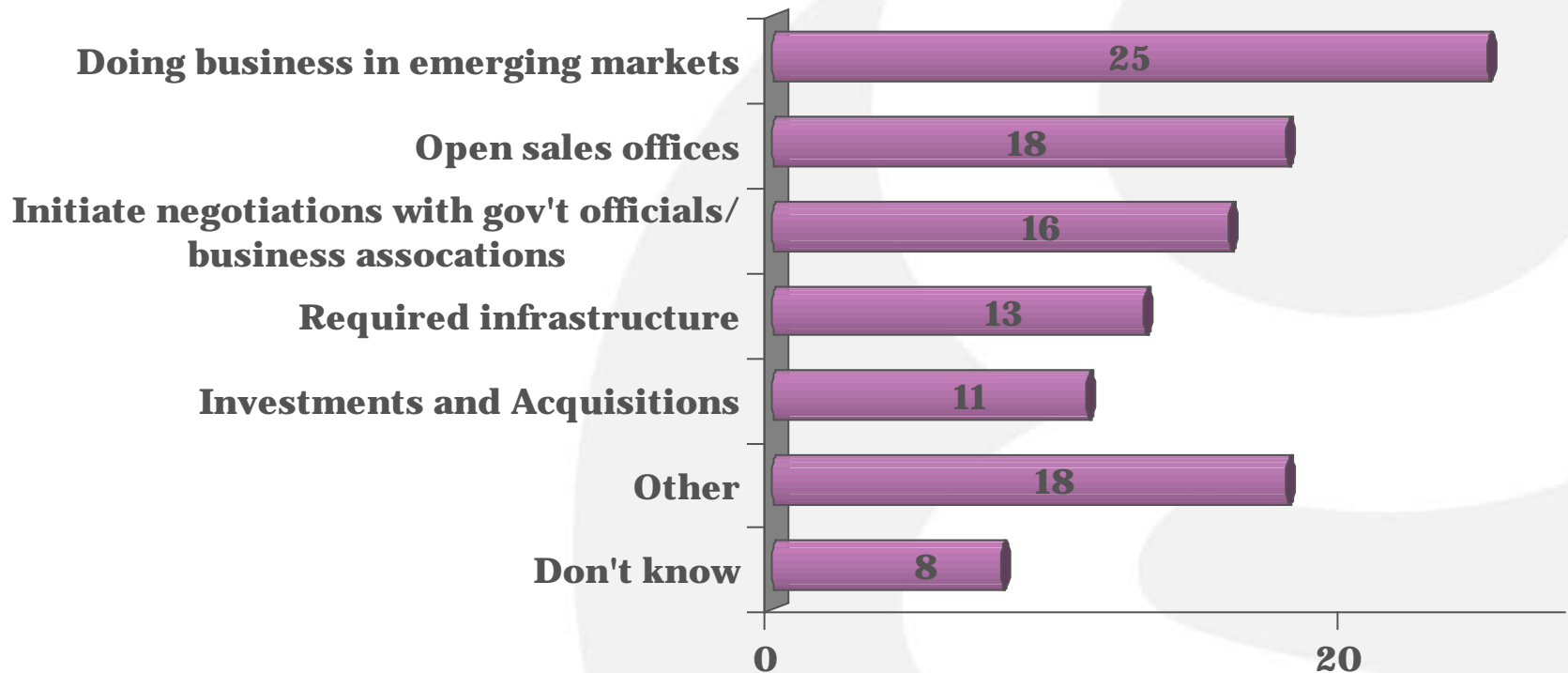
“Please tell me if in this quarter your company would be very likely to consider, somewhat likely to consider, might possibly consider or not at all likely to consider... Diversifying your business into new foreign markets”





Initiatives to Access Emerging Markets

“What are key initiatives your company is undertaking as part of your strategy to access emerging markets?” n= 63



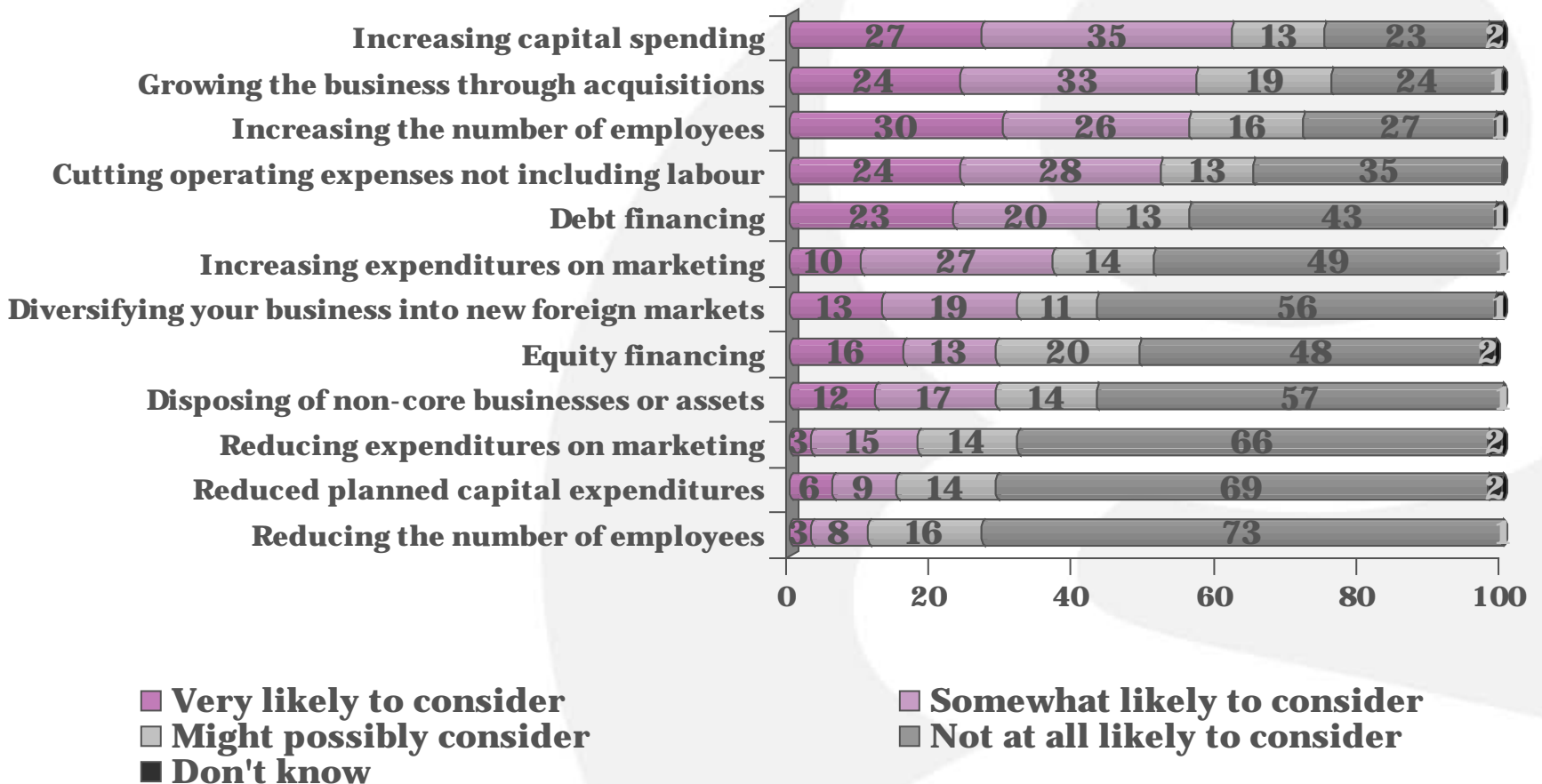


- ❑ Very few expect their companies to decline over the next year and none are considering layoffs at the current time.
- ❑ A few admit they could be vulnerable - One in ten agreed their companies may not survive another economic downturn. These were mostly smaller companies, i.e. less than 200 employees.
- ❑ A shortage of qualified labour remains a challenge for some as a top concern or challenge right now. Aside from general economic uncertainty, commodity prices, financing and access to cash are also on the radar.
- ❑ A significant number of executives are considering increasing capital expenditures, hiring staff or acquisitions, but numbers are down since 2010.
 - 27% said they are very likely to consider increasing capital spending this quarter – down from 40% in October 2010 and down from 45% in December 2010.
 - The number considering hiring staff is down slightly – 30% now, down from 36% in December and 34% in October last year.
 - The number who are very likely to consider acquisitions is unchanged – 24%, down from 23% in December and 30% in October last year.
 - The large number of businesses “somewhat likely” to consider growth strategies suggests significant potential variance in economic outcomes depending on how businesses perceive the external environment and what decisions they make as a consequence.



Initiatives for Consideration

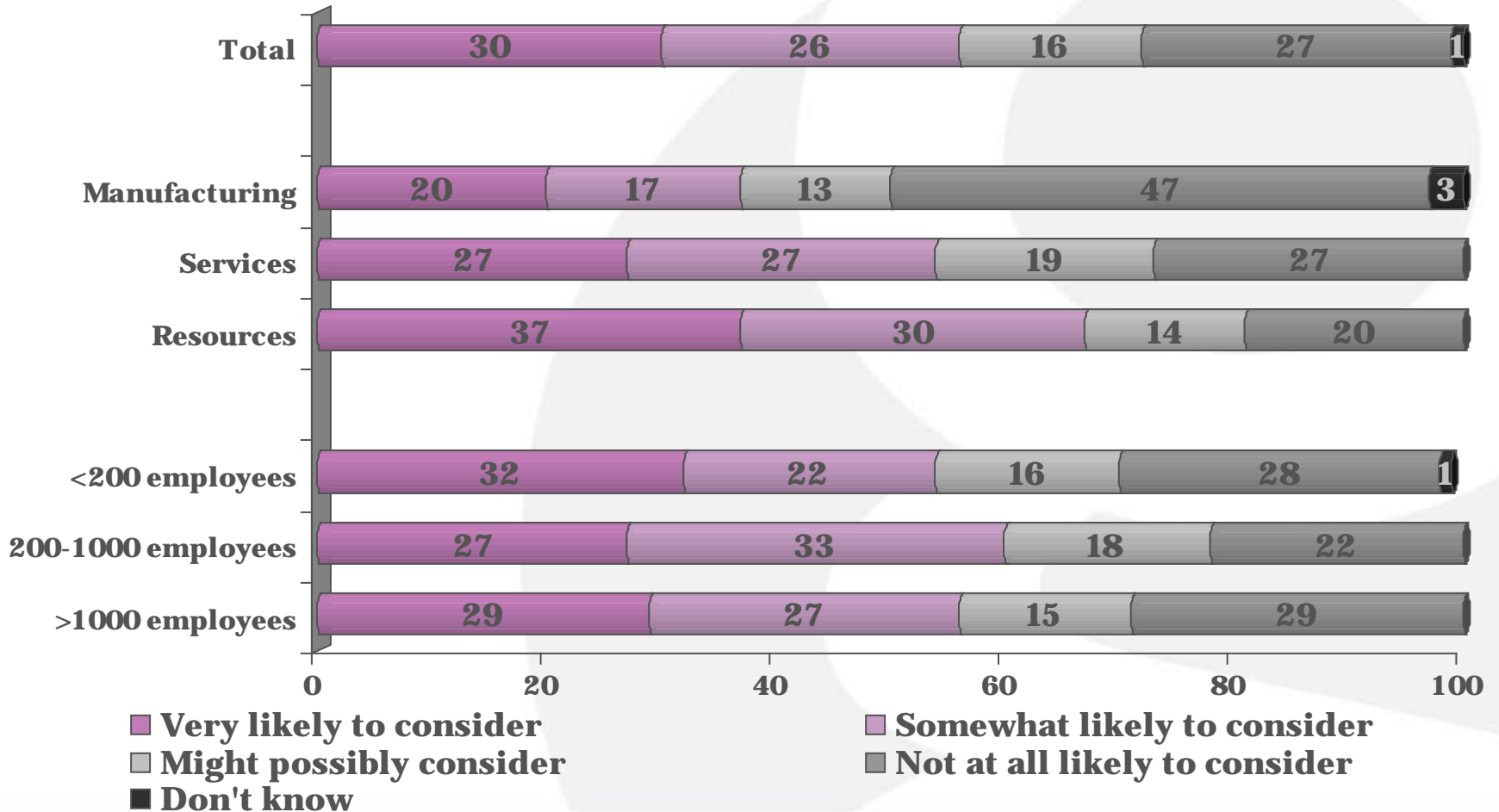
“Please tell me if in this quarter your company would be very likely to consider, somewhat likely to consider, might possibly consider or not at all likely to consider the following initiatives:”





Initiatives for Consideration

“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... **increasing the number of people employed by your company?**”



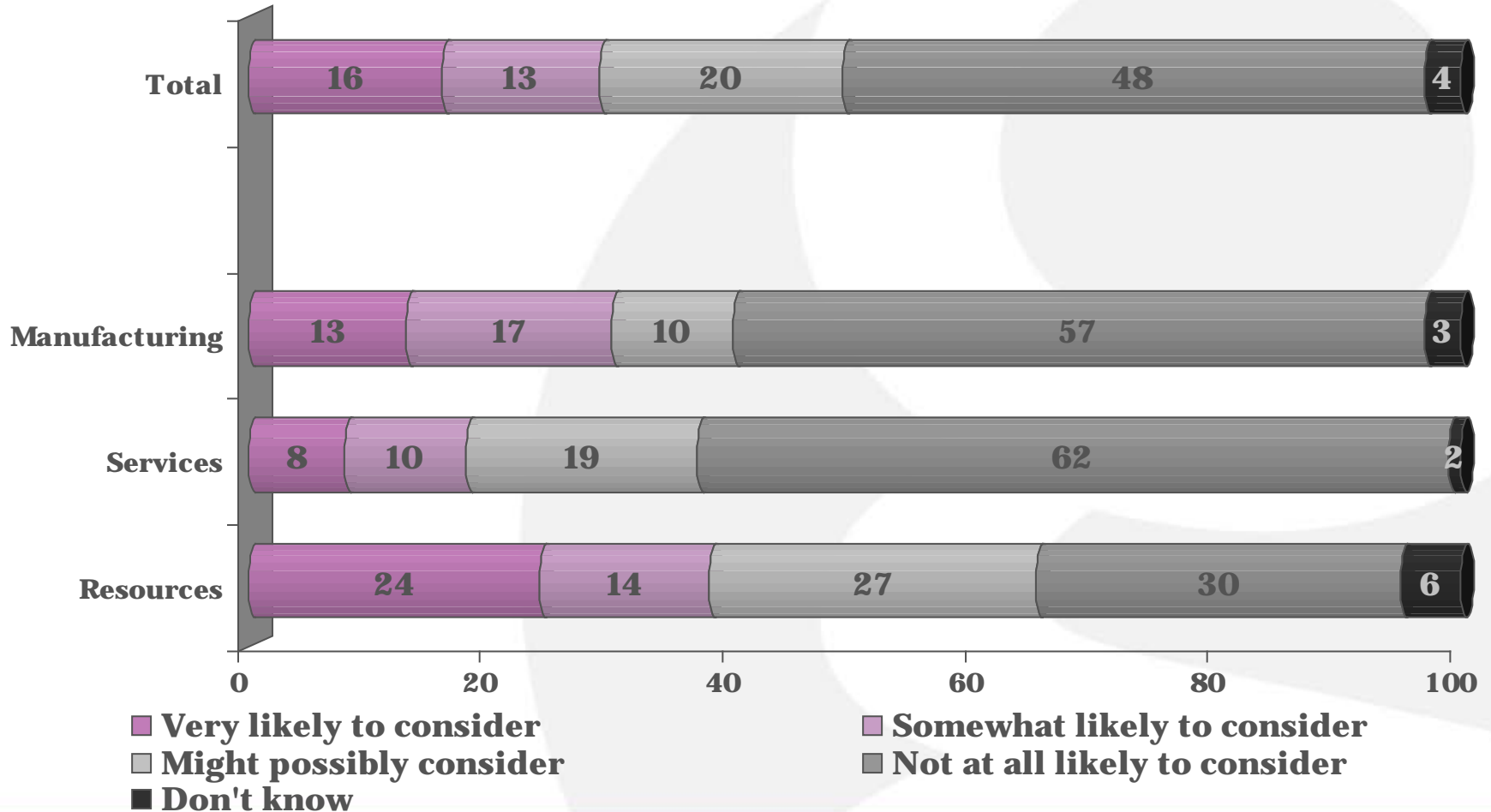


- ❑ Executives are more likely to consider debt financing than equity financing. The percentage considering each is little changed since last year.
- ❑ Most executives expect it will be more difficult to raise capital on equity markets in the coming year.



Initiatives for Consideration

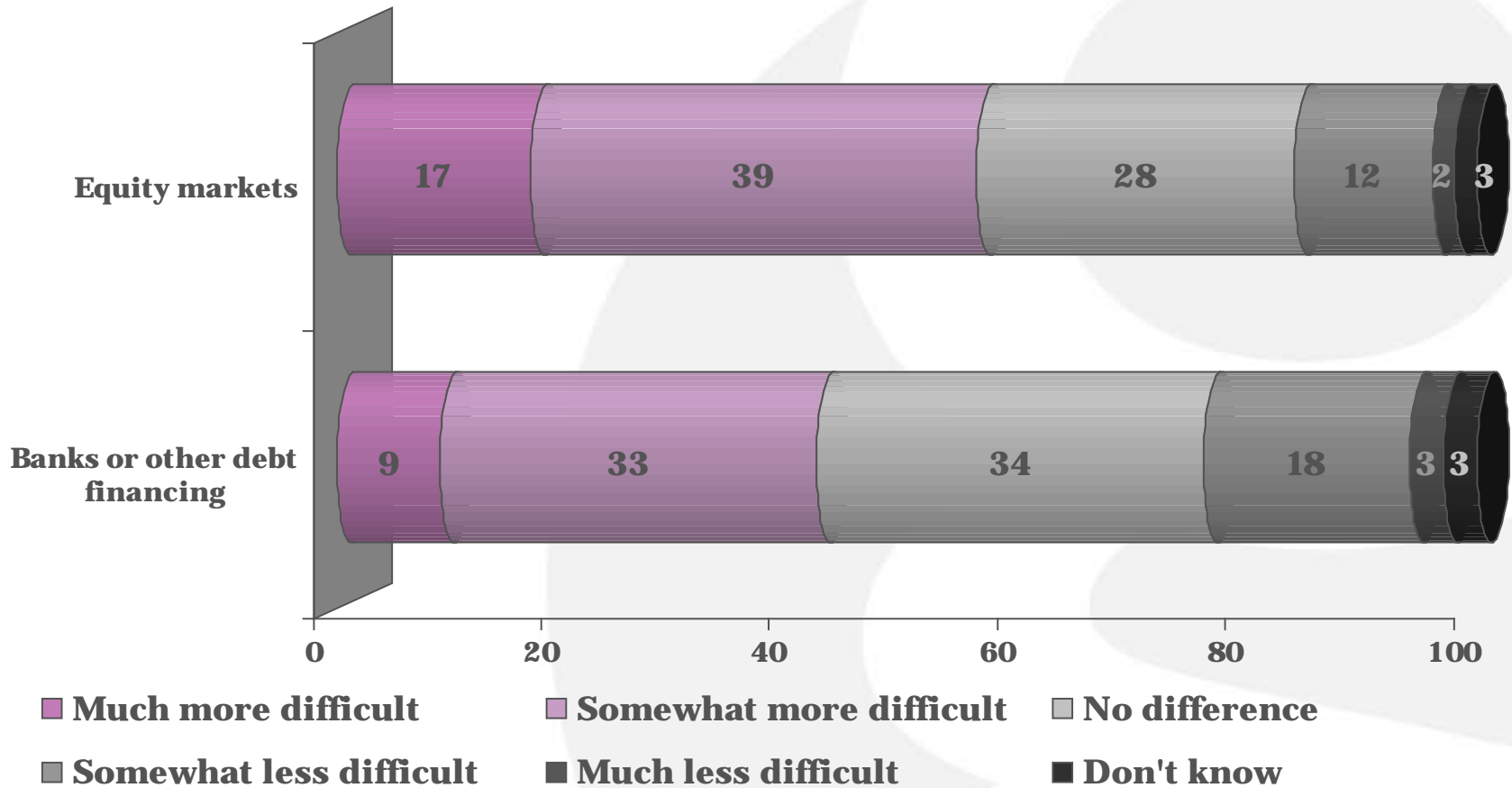
“In this quarter your company would be very likely to consider, somewhat likely to consider, might possibly consider or not at all likely to consider... **equity financing**”





Difficulties Raising Money

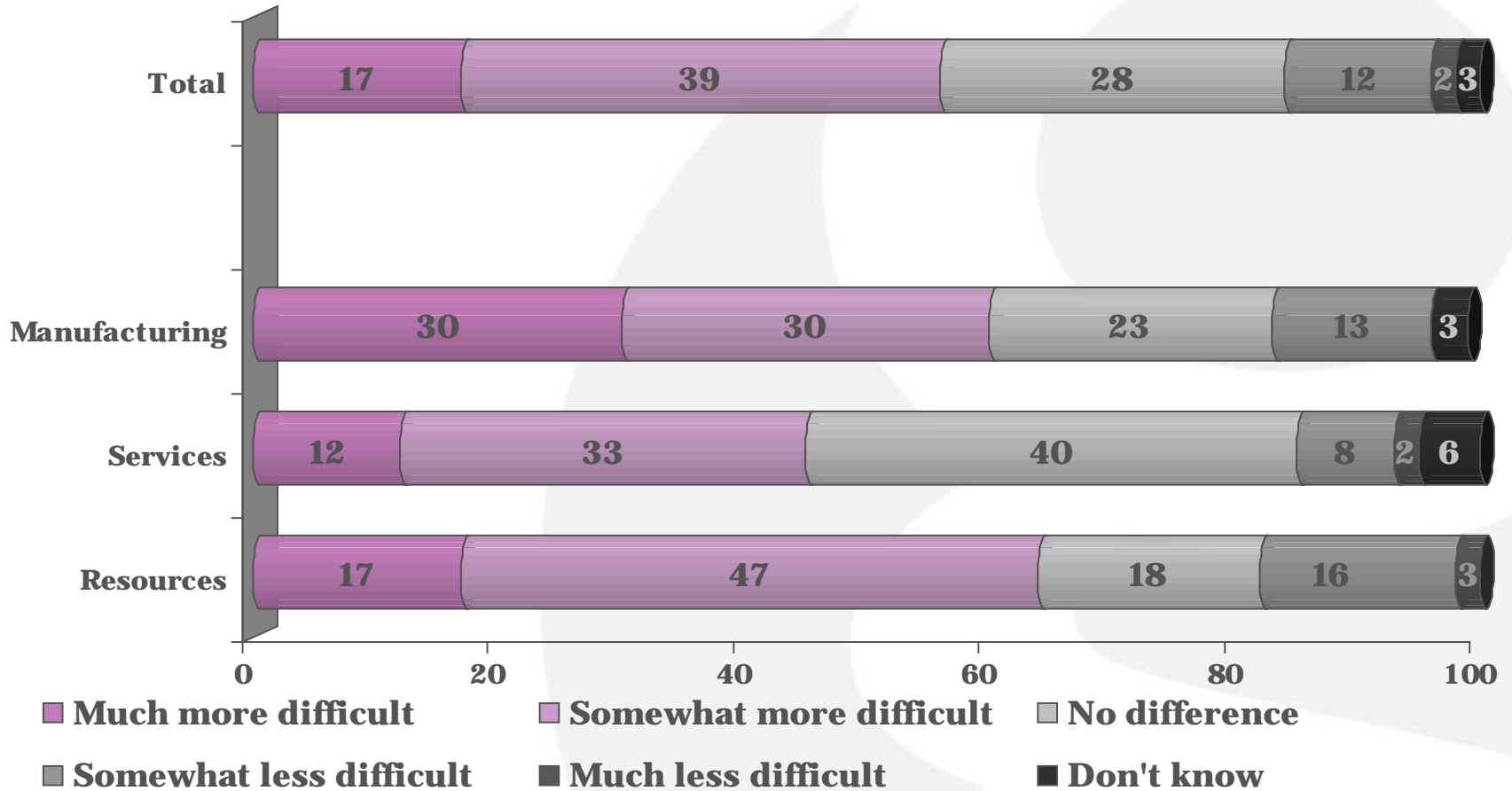
“Are you anticipating that it will be easier or more difficult for you to raise money from ____ in the next year.”





Difficulties Raising Money via Equity Markets, by Sector

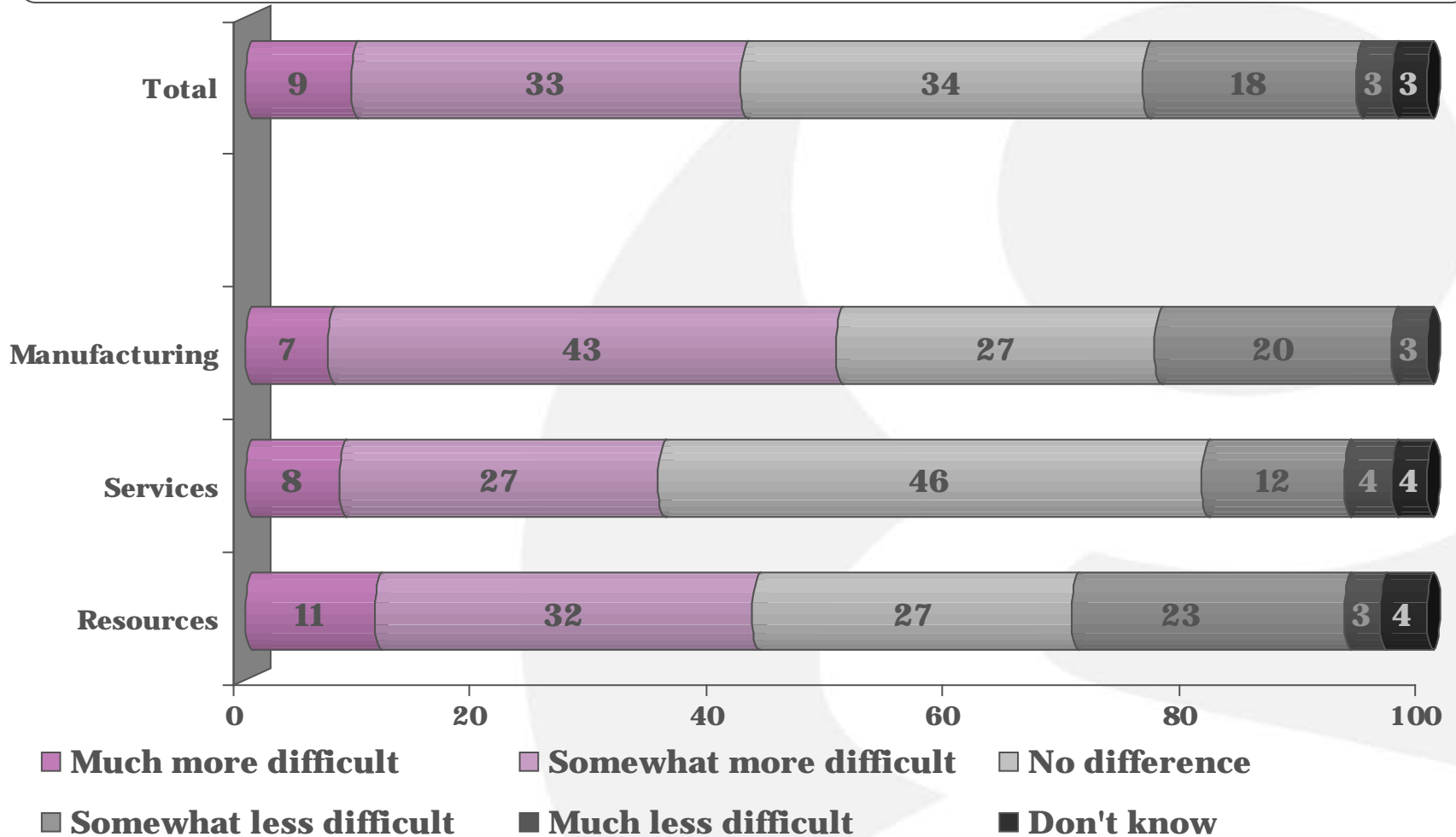
“Are you anticipating that it will be easier or more difficult for you to raise money from equity markets in the next year, compared to last year?”





Difficulties Raising Money via Debt Financing, by Sector

“Are you anticipating that it will be easier or more difficult for you to raise money from banks or other debt financing in the next year, compared to last year.”





- ❑ We asked executives about low consumer confidence and a sluggish economy and how they believe companies have been responding to this shift: roughly one in four said they've seen companies adopt more conservative business plans/general behaviour; others mentioned cost-cutting and price reductions.
- ❑ While the US economy and the possibility of a recession are top concerns, other developments executives are concerned about include US government debt and deficits, North American consumer demand and European defaults. Most executives support a bailout by European governments of European banks.
- ❑ Rising energy prices and stock market volatility are also of moderate concern as is the possibility of higher interest rates.
- ❑ More executives are concerned about the lack of consumer demand than about high levels of debt among households.



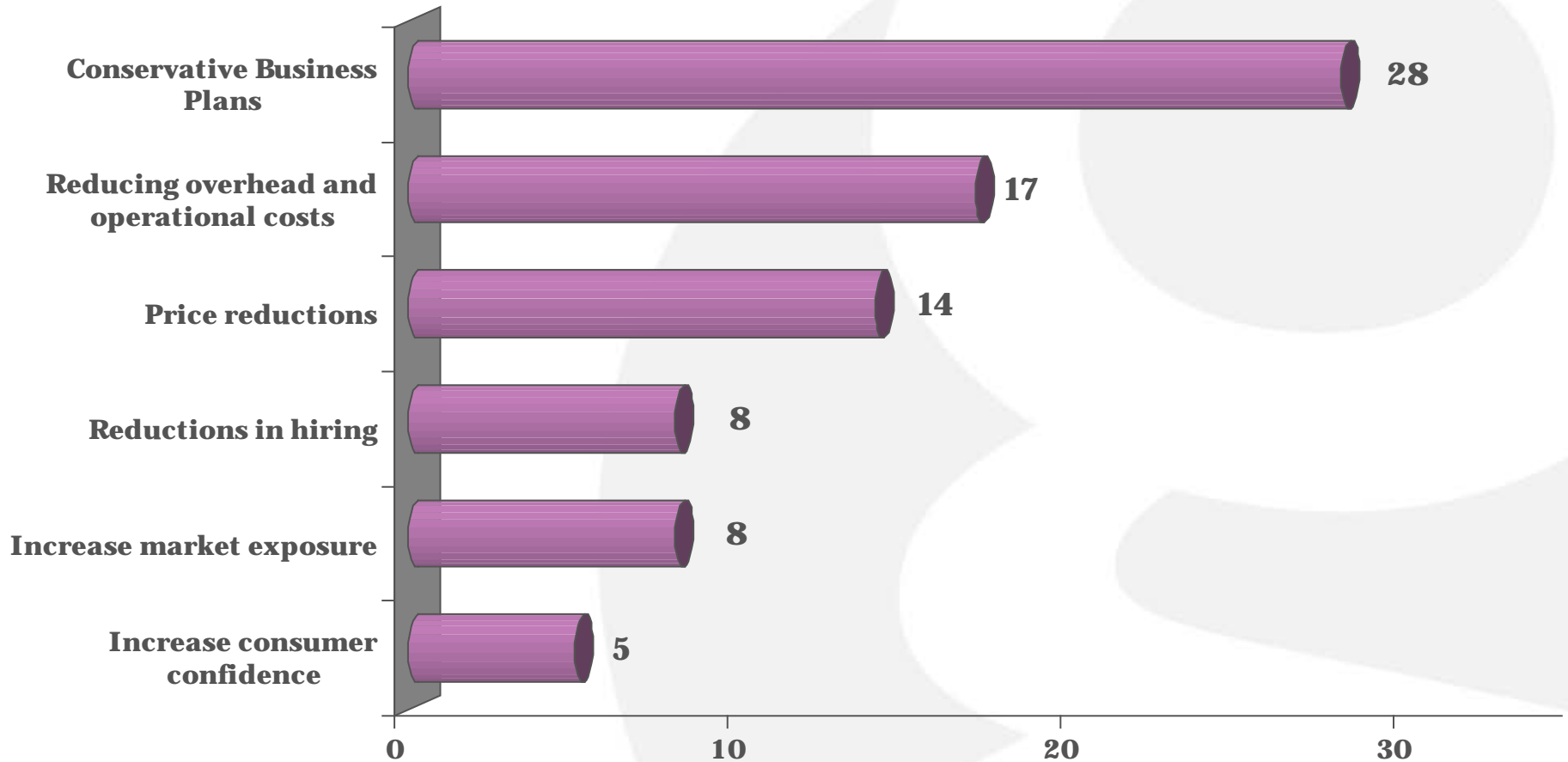
Concerns by Industry

- ❑ The manufacturing sector was most concerned with the high Canadian dollar, while a shortage of labour is a big concern for the resource sector.
- ❑ The US economy is most worrisome for manufacturing, while those in the service sector are more concerned than others about high levels of household debt.
- ❑ Services sector executives were the most concerned about going back into a recession.



Low Consumer Confidence, Conservative Business Plans

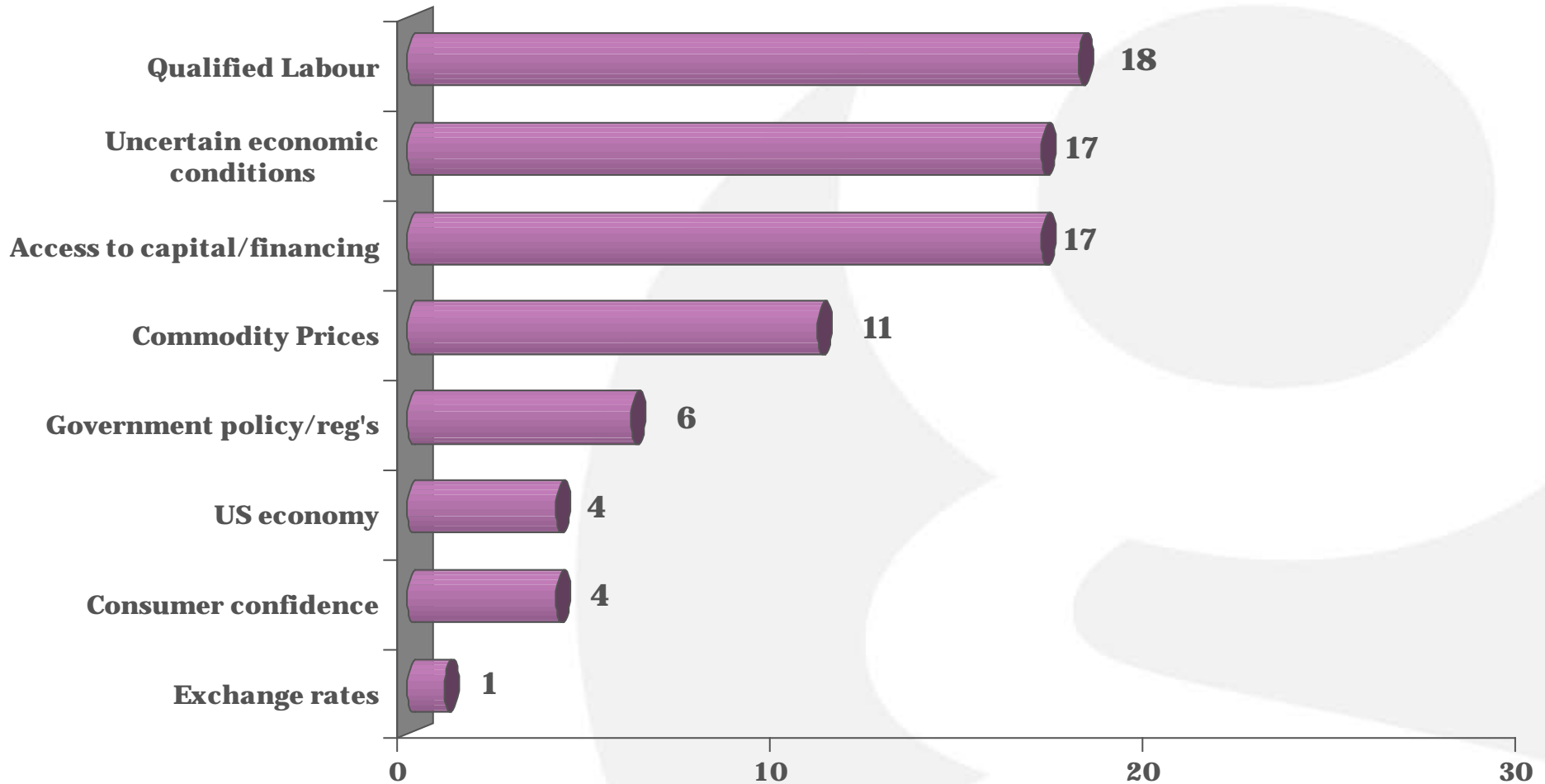
“Even prior to the S&P downgrade in the US, a Nielsen study showed most Canadians still felt we were in a recession and they were acting as such, suggesting a very fragile consumer base. What are the ways in which you have seen companies responding to this paradigm shift?”





Biggest Challenge Facing Company

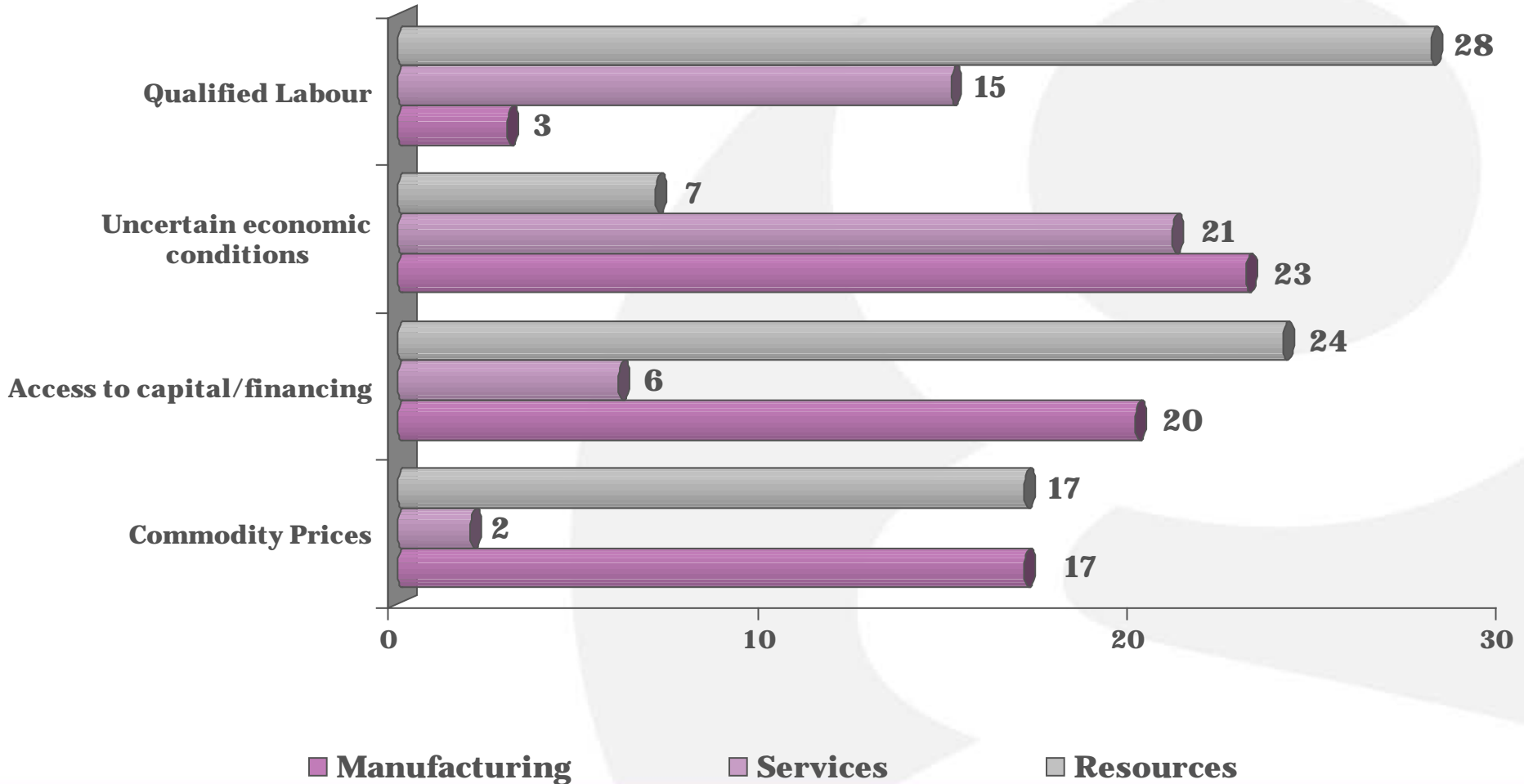
“What is the biggest challenge facing your company right now?”





Biggest Challenge Facing Company, by Sector

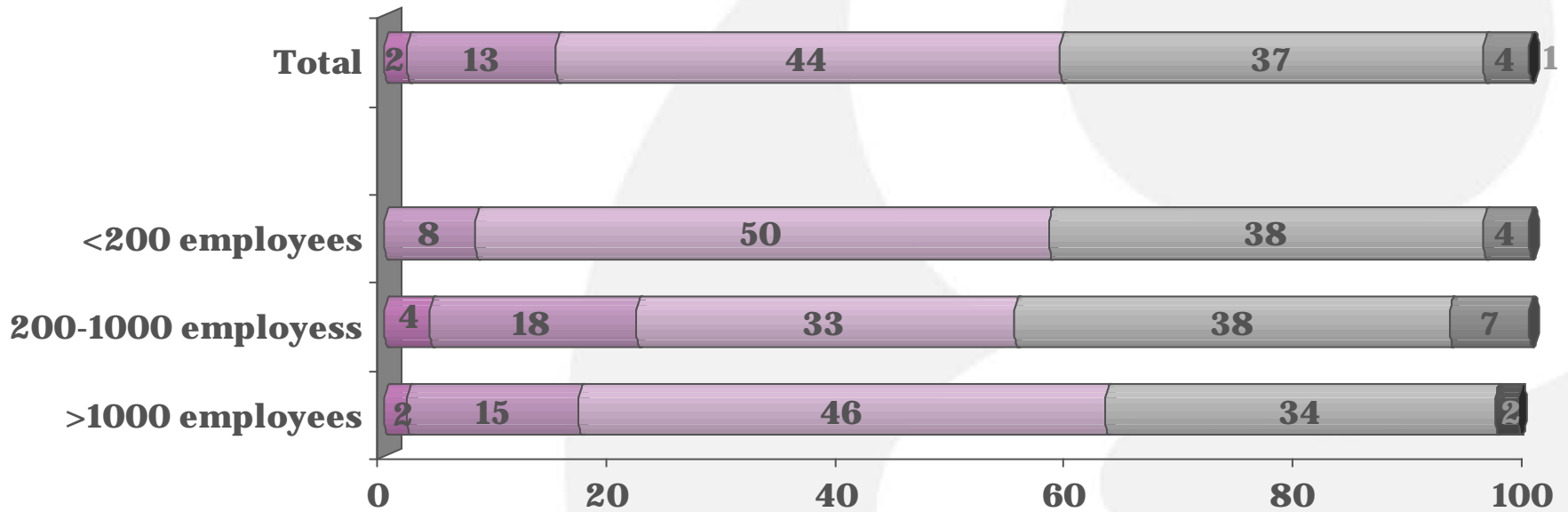
“What is the biggest challenge facing your company right now?”





Impact of Baby Boom Retirement

“Now a question on human resources. Thinking about your company’s staffing over the next five years, do you expect the retirement of the baby boom generation will have a very negative impact on your business, a somewhat negative impact, no impact, or a somewhat positive impact, or a very positive impact?”

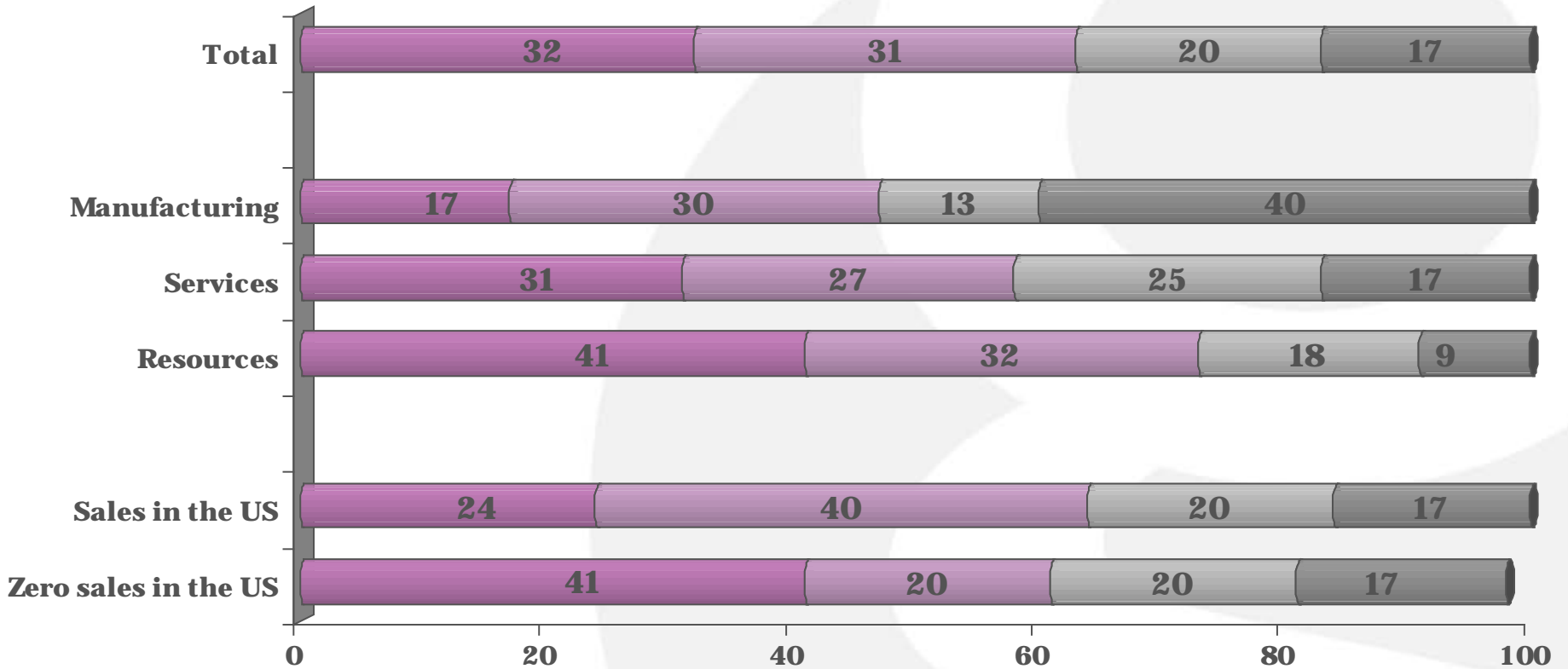


Very positive impact
 Somewhat positive impact
 No impact

Somewhat negative impact
 Very negative impact
 DK



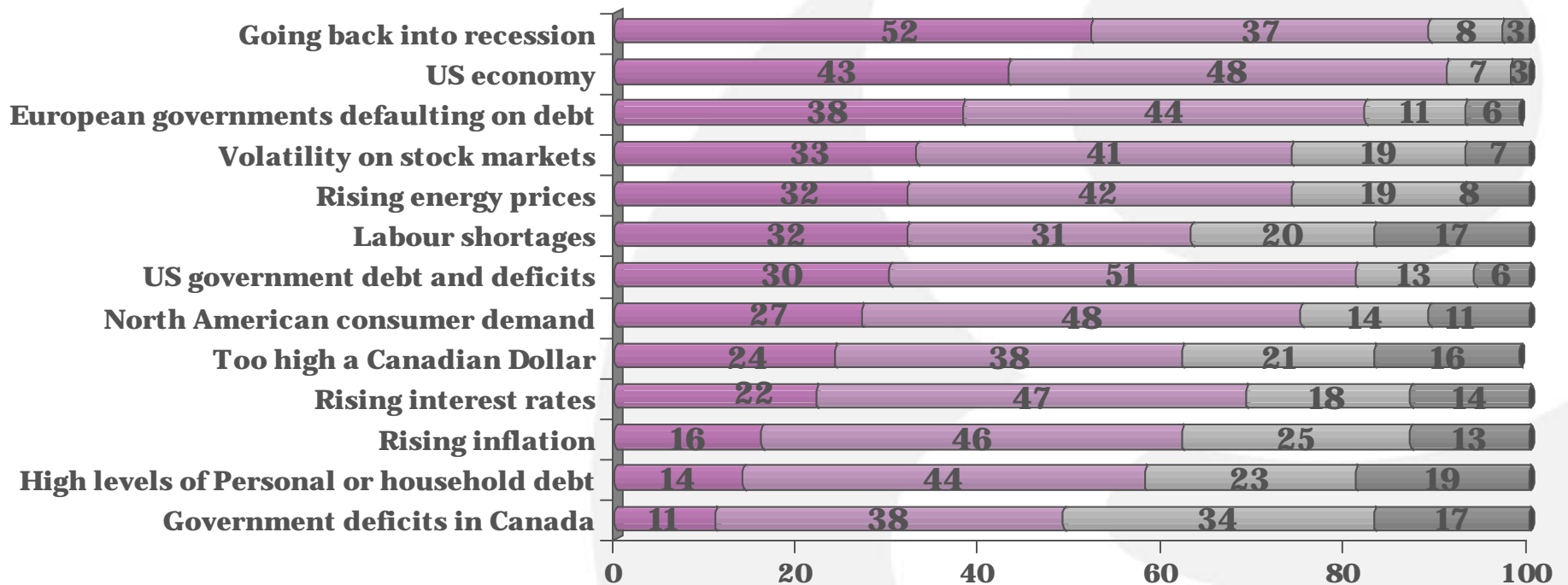
“When it comes to labour shortages, are you very concerned, somewhat concerned, not very concerned, or not at all concerned?”



■ Very concerned ■ Somewhat concerned ■ Not very concerned ■ Not at all concerned



“I’m going to read a list of market forces and thinking about your company I’d like you to tell me how concerned you are about each. When it comes to _____, are you very concerned, somewhat concerned, not very concerned, or not at all concerned?”



■ Very concerned ■ Somewhat concerned ■ Not very concerned ■ Not at all concerned



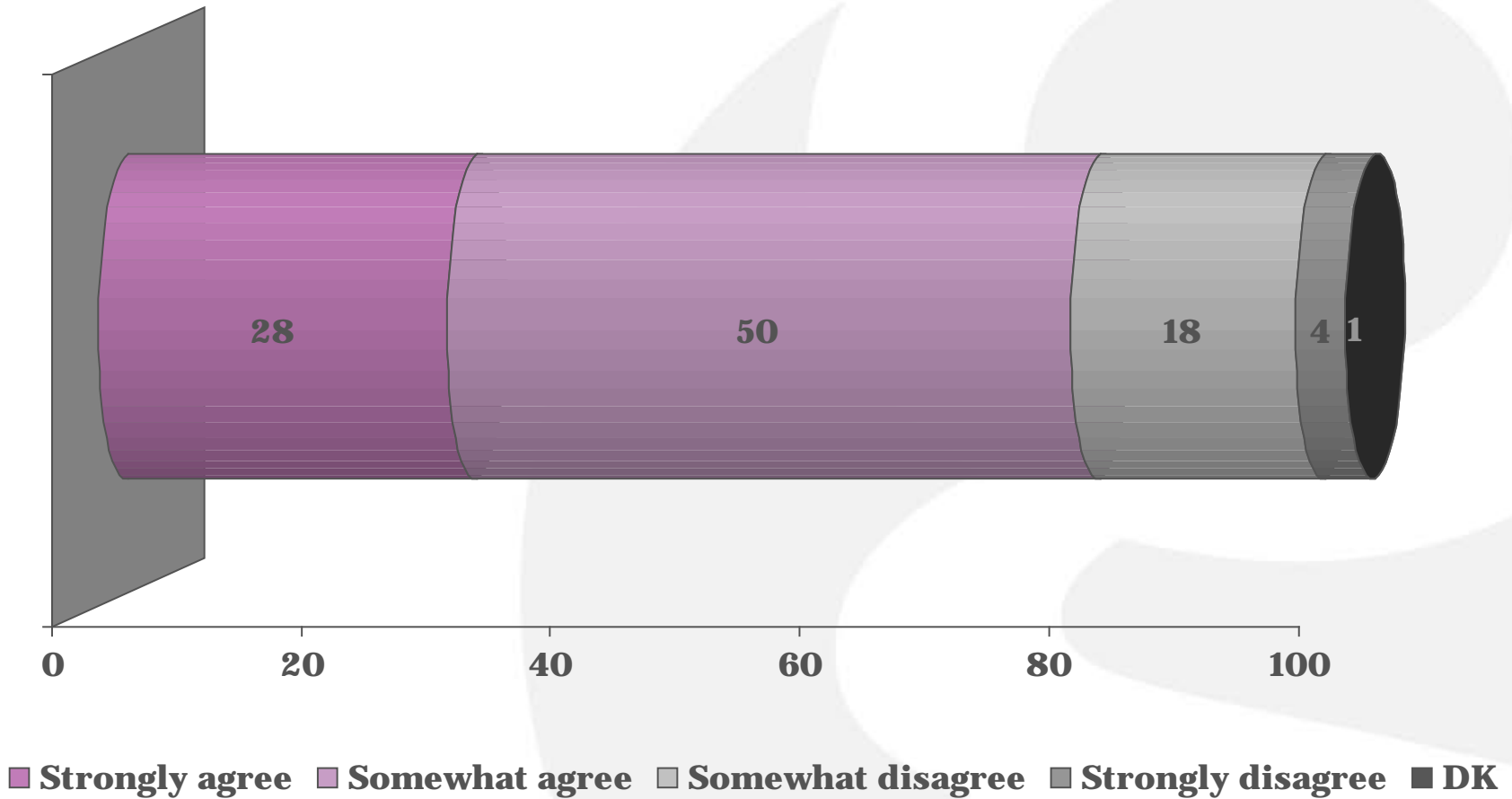
Projections, Financing More Difficult

- ❑ Almost 8 in 10 executives agreed it is getting more difficult to make reliable projections about corporate performance.
- ❑ In terms of things that can influence business planning, executives told us they pay a lot more attention to fiscal policy than monetary policy, and TSX results are much more important than the DJIA.



Difficulties Making Reliable Projections

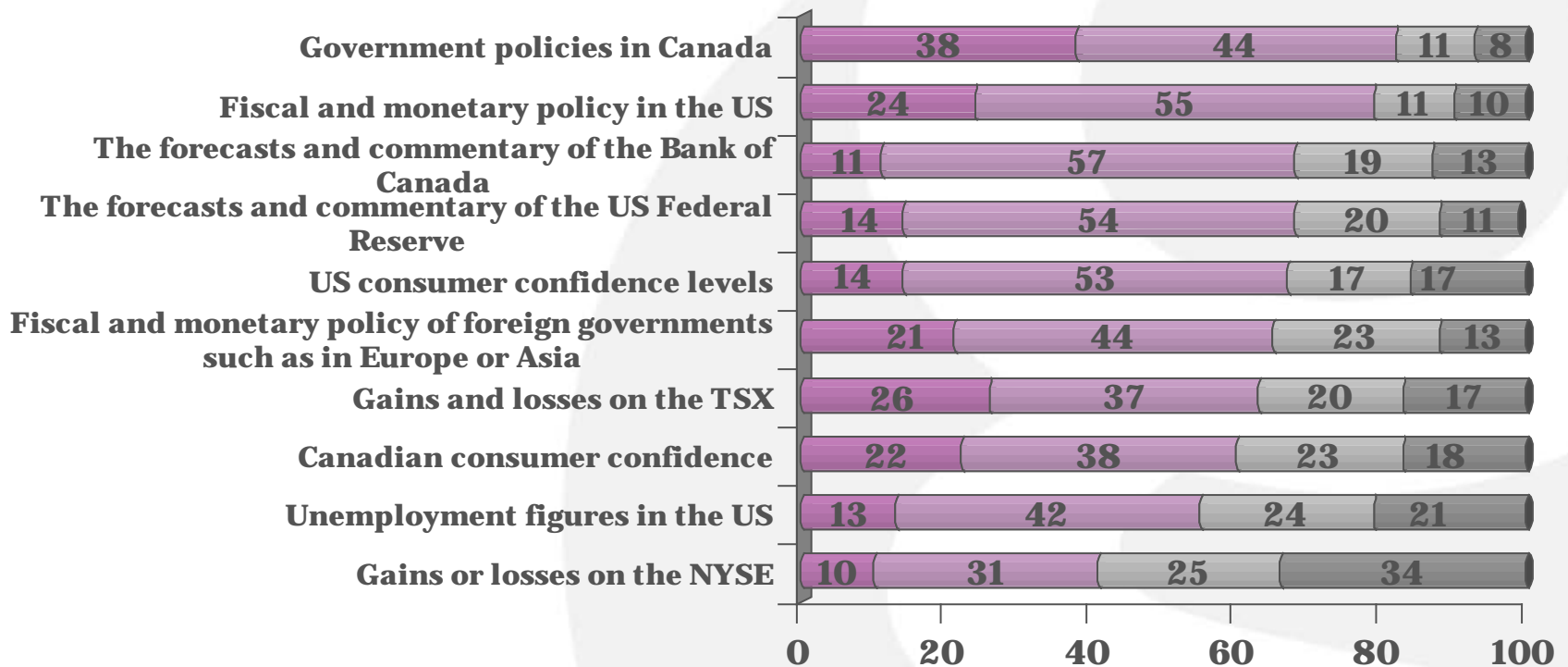
Agree/Disagree: "It is getting more difficult to make reliable projections about corporate performance"





Market Developments Influential on Business Planning

“I’m going to read a list of various market developments and ask how influential each is on your business planning. For _____ would that be very influential, somewhat influential, not very influential or not at all influential?”



■ Very influential ■ Somewhat influential ■ Not very influential ■ Not at all influential



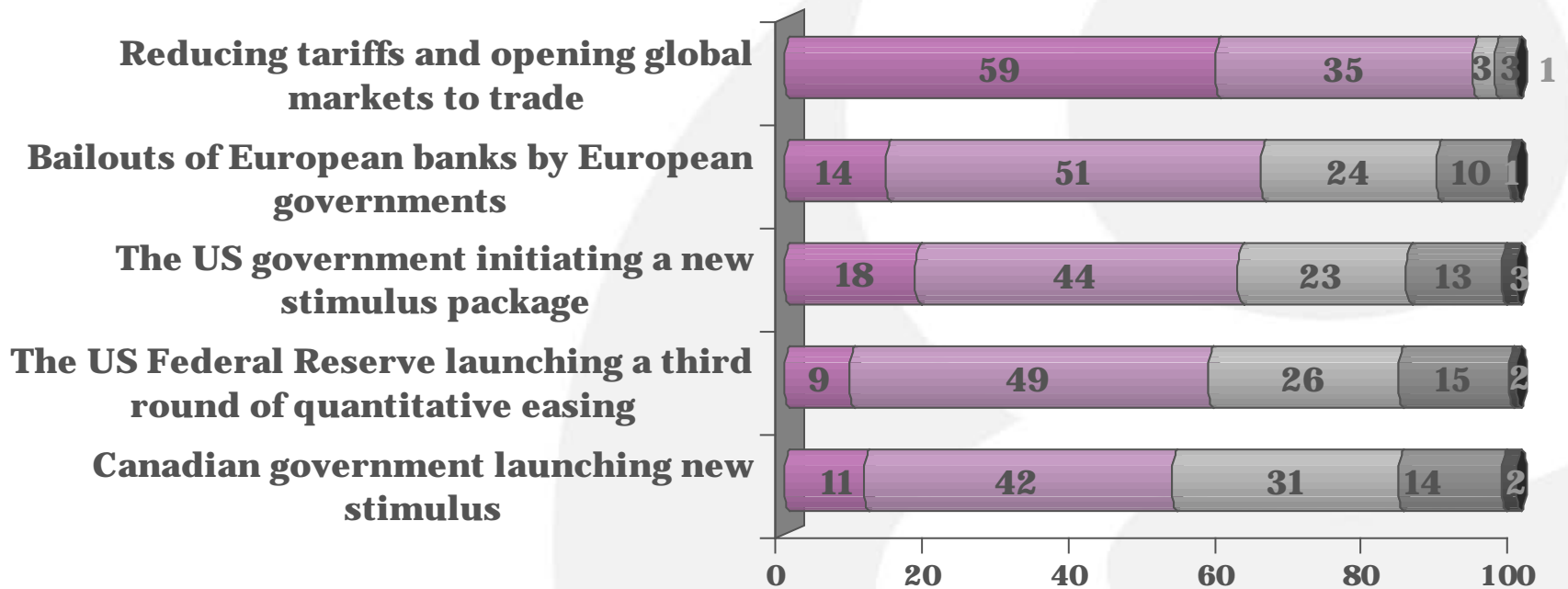
Market Developments Influential on Business Planning

- ❑ Most executives do not appear to know what public policies will create a stronger economic environment. There is tepid support for: a US government stimulus package of stimulus; another round of Quantitative Easing by the Federal Reserve, bailing out European banks and more stimulus in Canada. But executives do not seem convinced that any of those are a magic bullet.
- ❑ Manufacturing executives tend to be more likely than those in other sectors to offer strong support for such initiatives.
- ❑ Ontario executives are more likely than Western executives to mention the need for a jobs-driven recovery, while Western executives are more likely to say the course of US and European markets will be a major factor in any recovery.



Support for Growth Initiatives

“We would like to know if you support or oppose the following initiatives to spur growth and stabilize markets.”



■ Strongly support ■ Somewhat support ■ Somewhat oppose ■ Strongly oppose ■ DK



Fiscal Policy and Financial Markets

Top Factors to Improve GDP in NA

“What factors will do the most to bring about improved GDP growth in North America”
(Open ended)

