

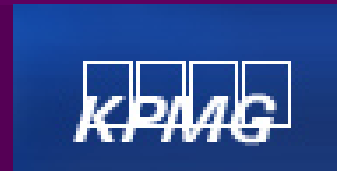


the gandalf group

The 18th Quarterly C-Suite Survey: The Economy and Viewpoints on the 2010 Federal Budget

March 2010

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- ❑ Telephone interviews with 151 C-Suite executives from the ROB 1000 list of companies, conducted between March 5 and March 22, 2010. This sample yields a margin of error of +/- 7.97% 19 times out of 20
- ❑ This presentation covers their views on:
 - The Federal budget
 - Federal finances and managing with deficits
 - The Canadian and American economies

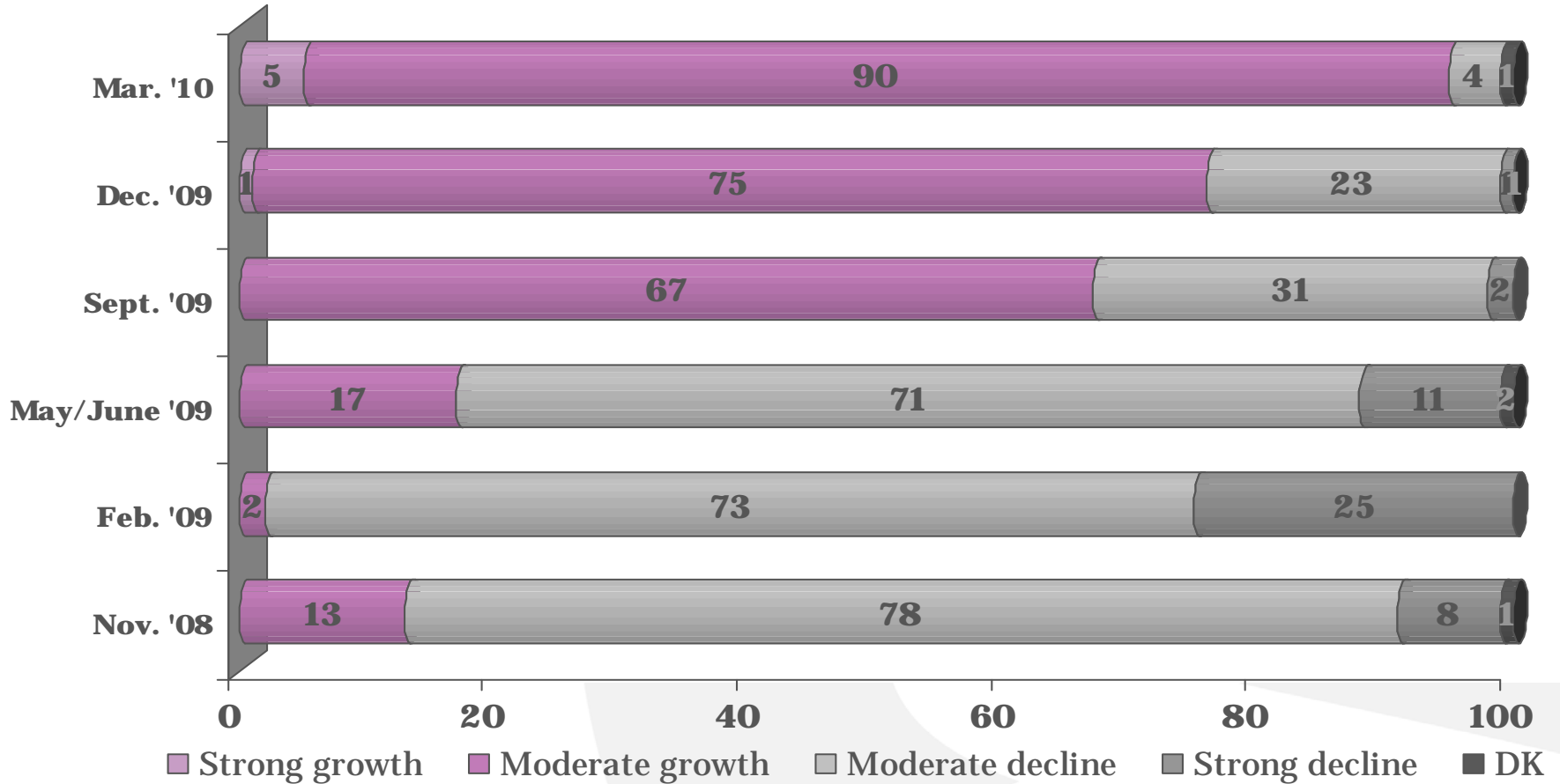


- ❑ There is near-unanimity in the Canadian business community that the recession is over, and the Canadian economy is in for a run of growth, albeit modest growth.
- ❑ For the first time in four years, almost no executives in the C-Suite believe the economy will decline over the next 12 months. The number saying the economy is currently in decline has dropped from 23% to 4% since December.
- ❑ While the numbers saying the economy is growing are up, executives remain overwhelmingly camped in the view that the economy will only experience moderate growth - 7% expect strong growth over the next 12 months, up from 2% last quarter.



The Canadian Economy Now

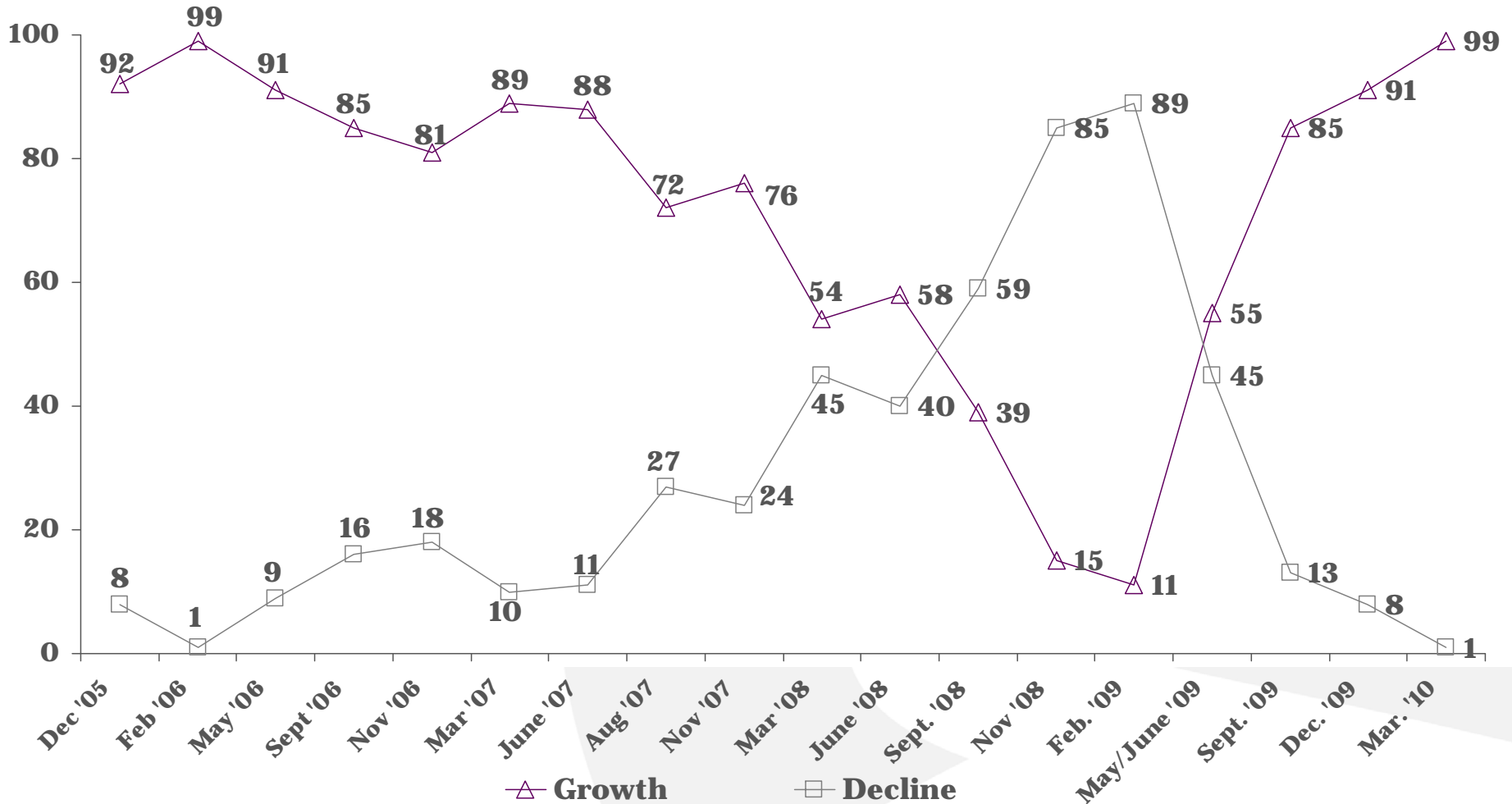
“Which of the following do you think best describes the Canadian economy at the current time - strong growth, moderate growth, moderate decline, strong decline?”





Canadian Economy Over The Next Year

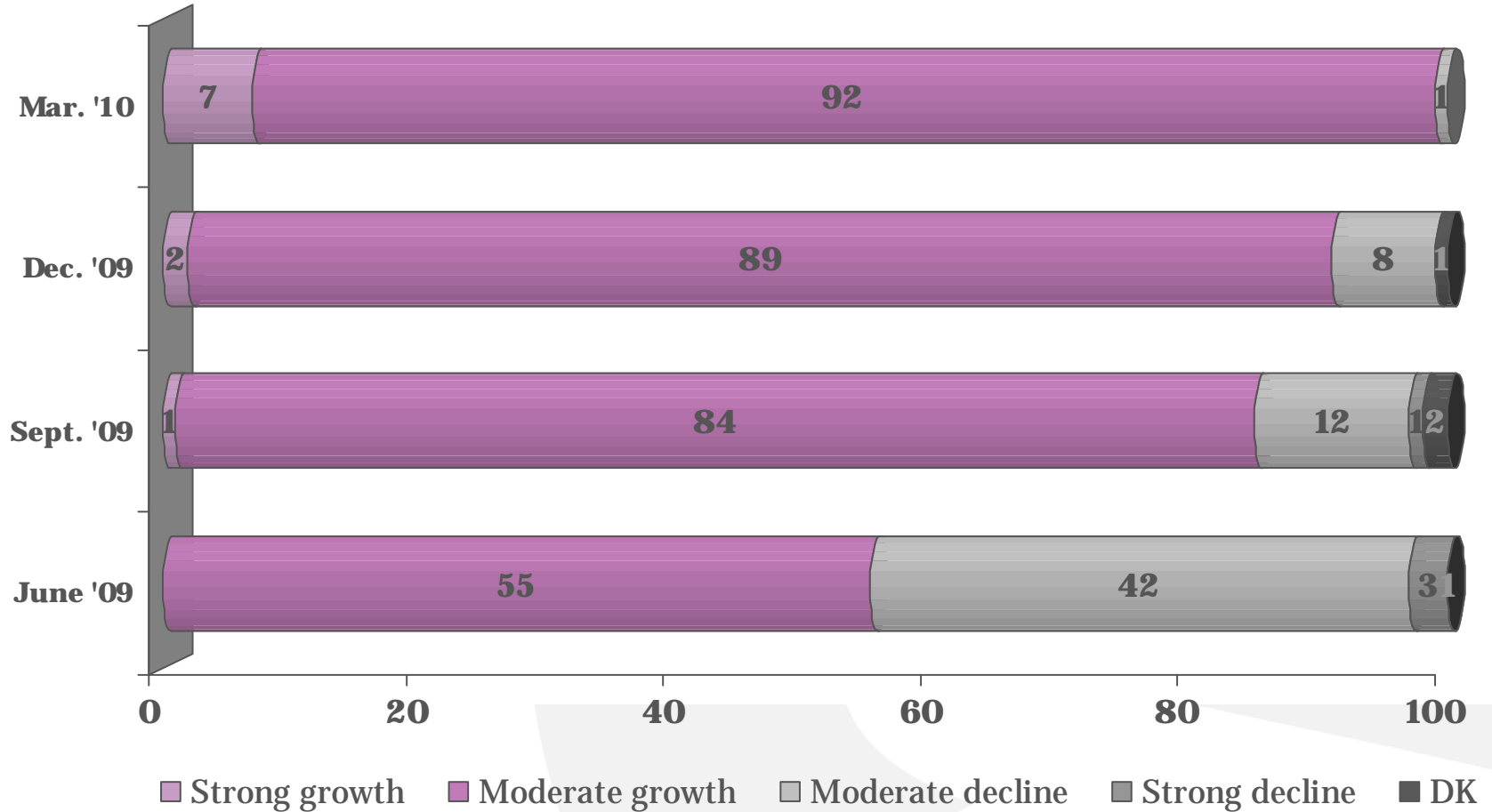
“What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





The Canadian Economy

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



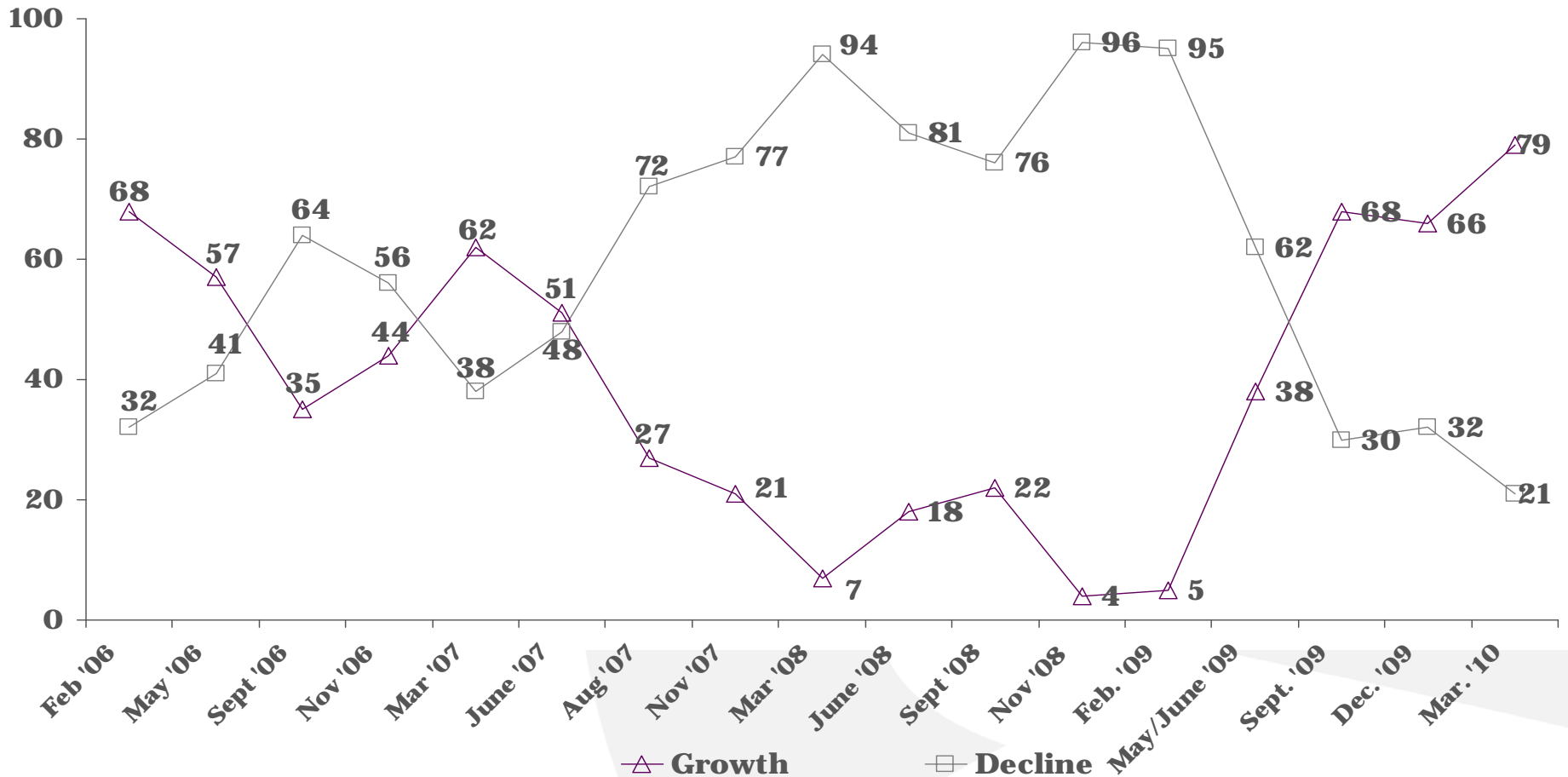


- ❑ More Canadian executives are becoming more positive about the US economy, and more than three quarters expect growth there as well



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?”



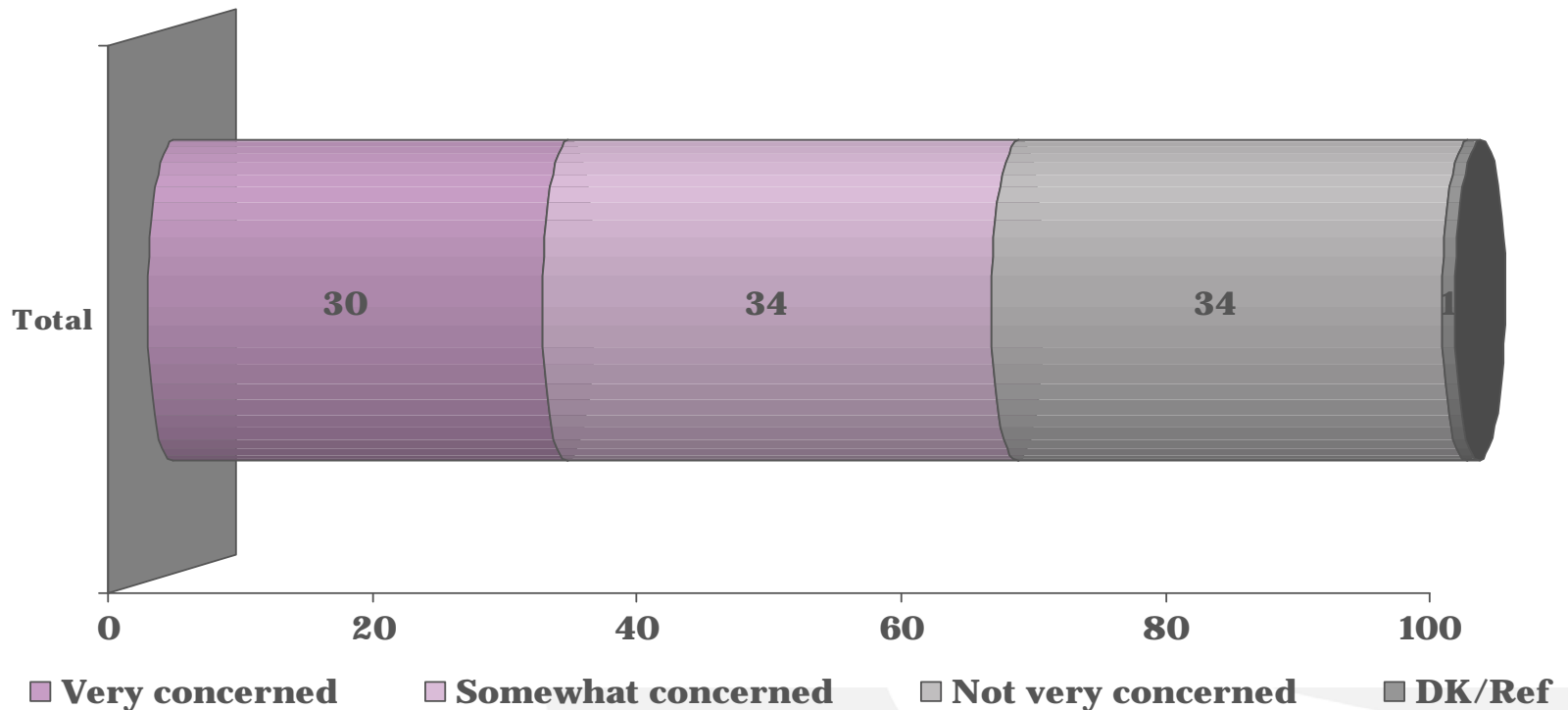


- ❑ Potential clouds on the horizon are a rise in interest rates and the continued rise in the dollar's value.
- ❑ Canadian business is divided by the dollar approaching parity with the US dollar – a third are very concerned and a third are not concerned at all.
- ❑ A surprising 48% would support a rate hike by the Bank of Canada, indicating there might be real inflationary concerns in some quarters. However, of the 50% opposed, many are strongly opposed, indicating they have a lot on the line with a rise in interest rates.



The Rising Dollar

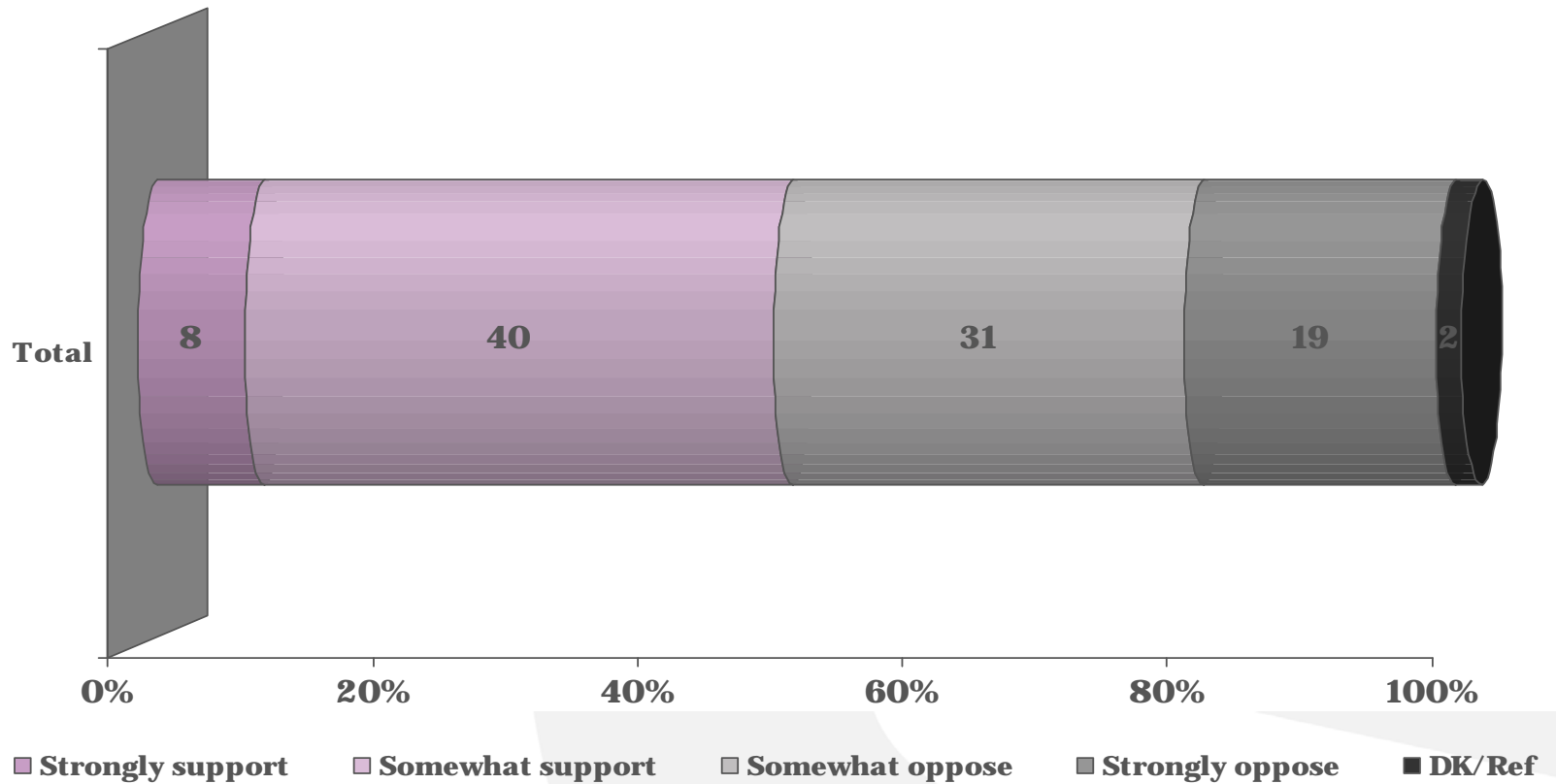
“Thinking of your business, please tell me on a scale of one to nine where one means not at all concerned and nine means very concerned, how concerned are you about the current value of the Canadian dollar?”





Raising Interest Rates

“When it comes to interest rate setting, would you strongly support, somewhat support, somewhat oppose or strongly oppose an increase in interest rates when the Bank of Canada revisits rates in April?”

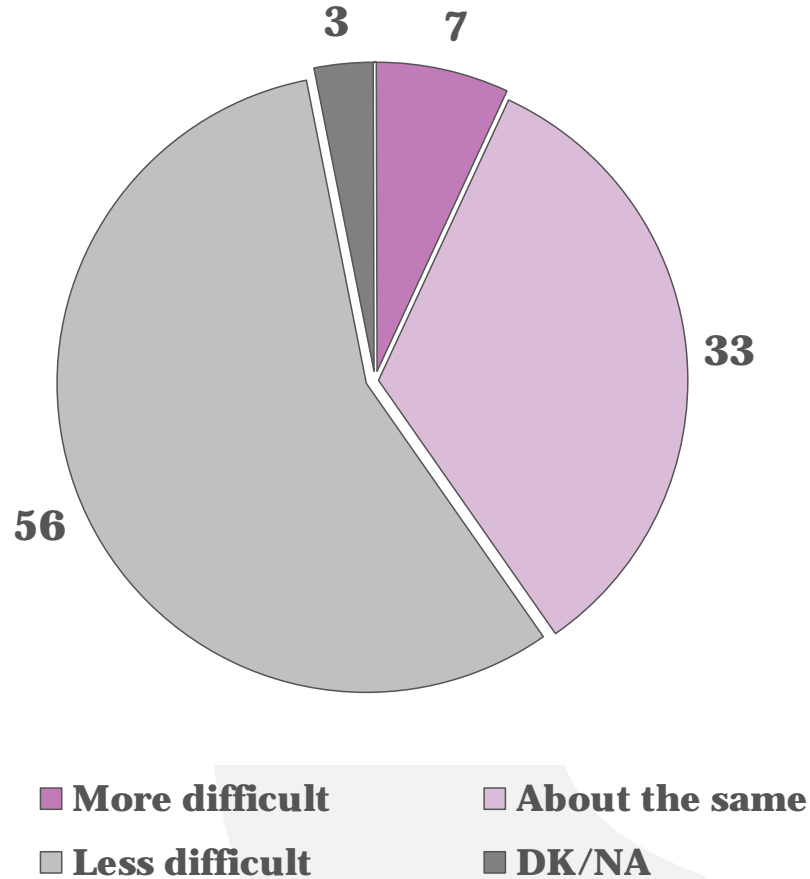




- ❑ Most executives say the credit crunch is now significantly easing. The majority say access to credit has been improving recently, and this extends into the smaller employer/resource based companies that had experienced the most difficulty getting the capital they needed through the financial crisis.



“Is it more difficult or less difficult for your company to access credit and financing now compared with 12 months ago or has there been no change?”



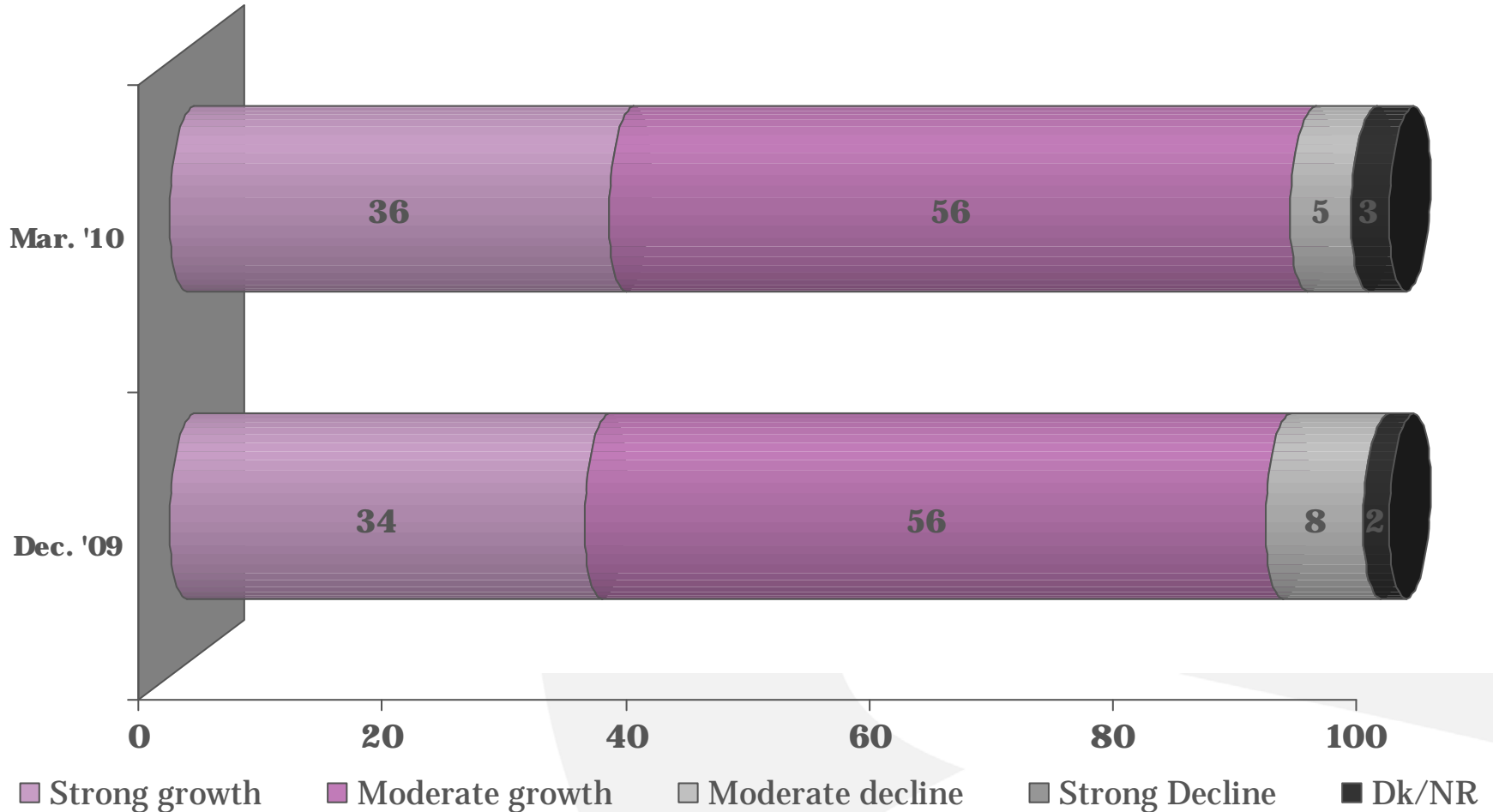


- ❑ In December, just over half expected moderate growth for their companies over the next year, and 34% expected strong growth – those numbers have changed little this quarter.



Expectations: Company

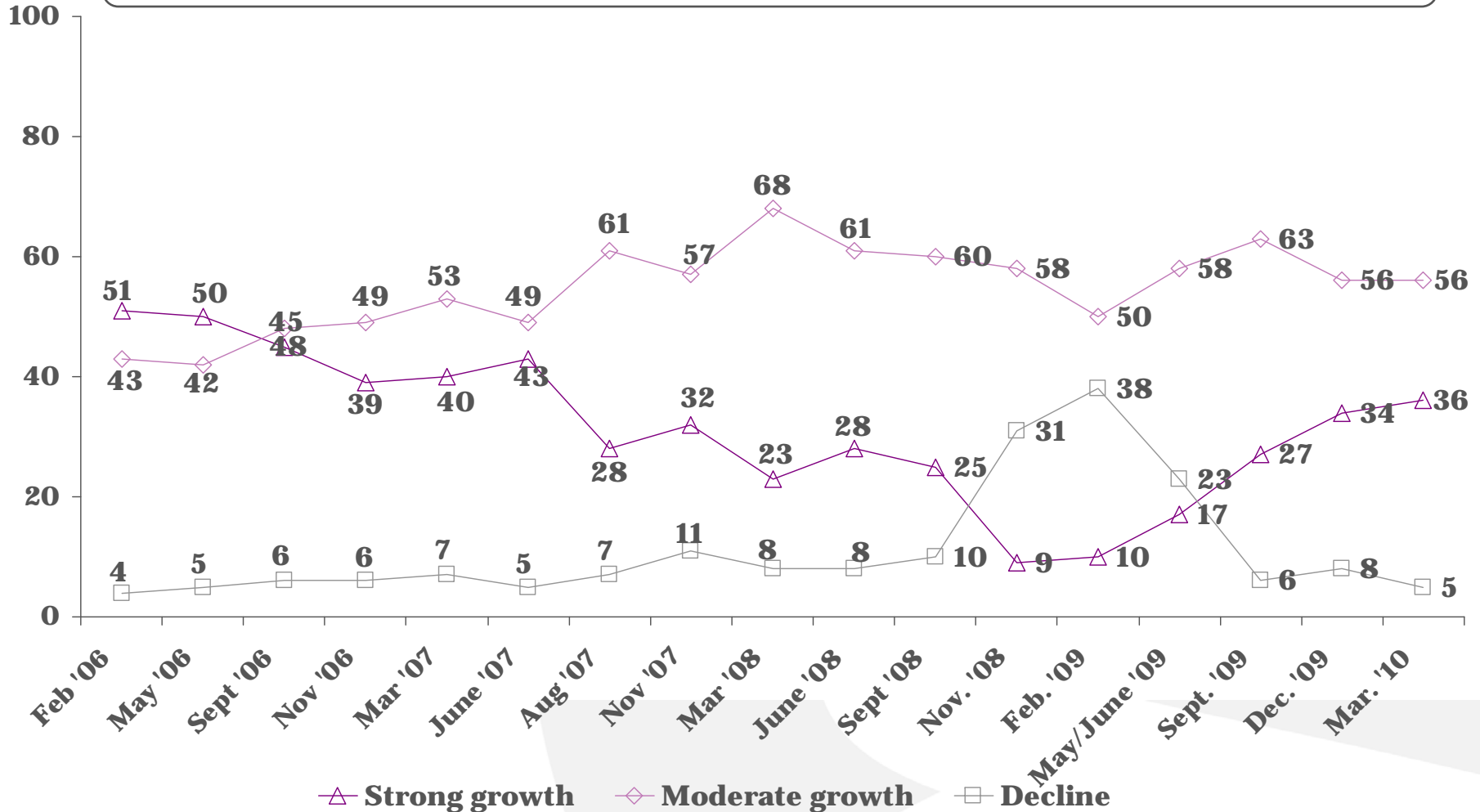
“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





Expectations: Company

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

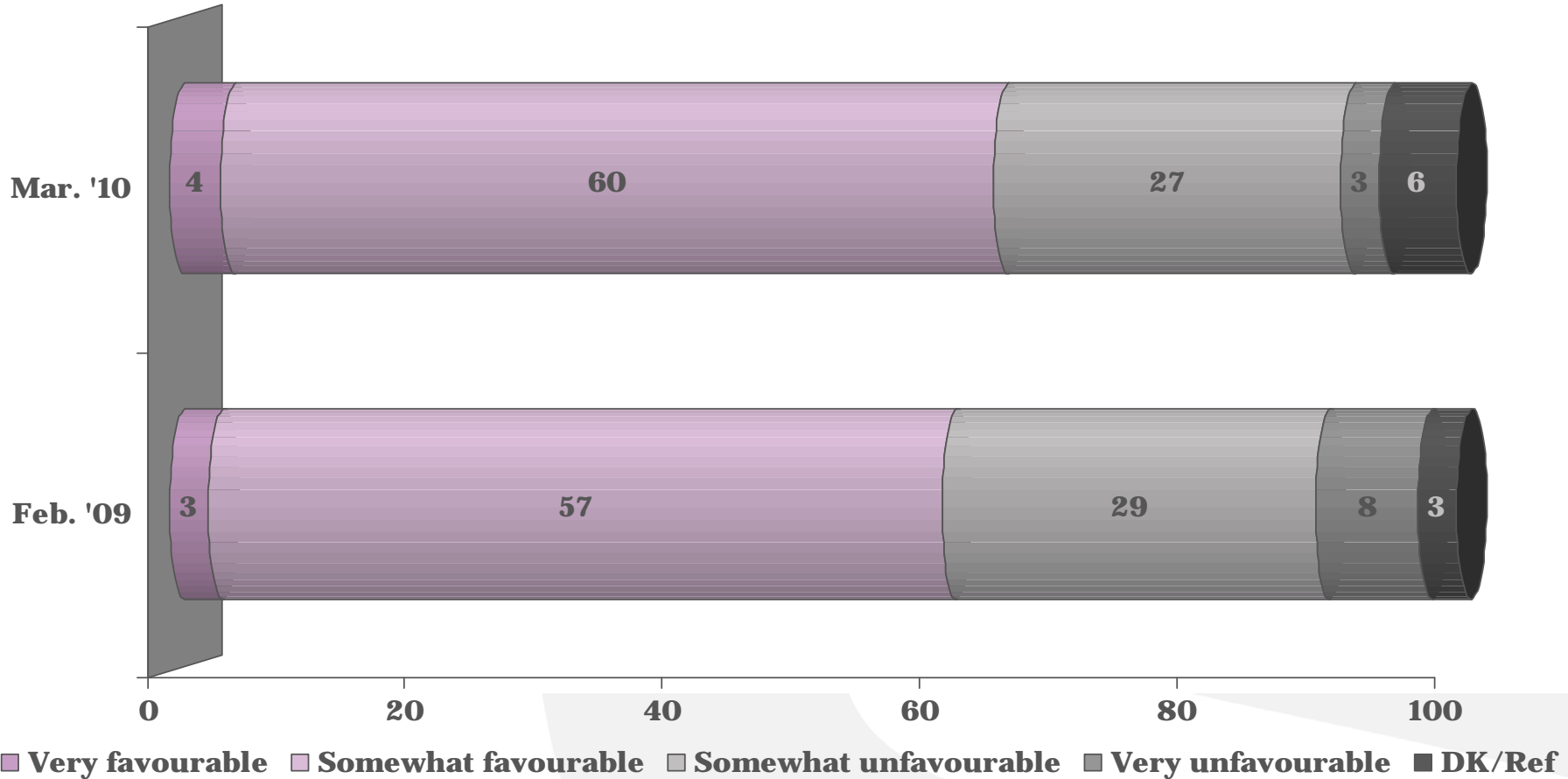




- ❑ Most executives had a favourable view of the budget. Less than a third of the C-Suite disliked the budget on balance. However, it is not seen to have done much that is important, so very few executives are strongly impressed with the budget.
- ❑ Outright disapproval of the budget is driven largely by those executives who feel that the deficit and fiscal condition require more action.
- ❑ These are very similar results to C-Suite opinion on the last Conservative budget of February 2009, when 60% had a favourable view, but only 3% had a very favourable view on the budget.
- ❑ The Finance Minister has clearly won converts with his work during the recession. If one looks at September '08 as the beginning of the recession here in Canada, the number of executives expressing confidence in him and seeing him favourably has grown significantly between then and now.



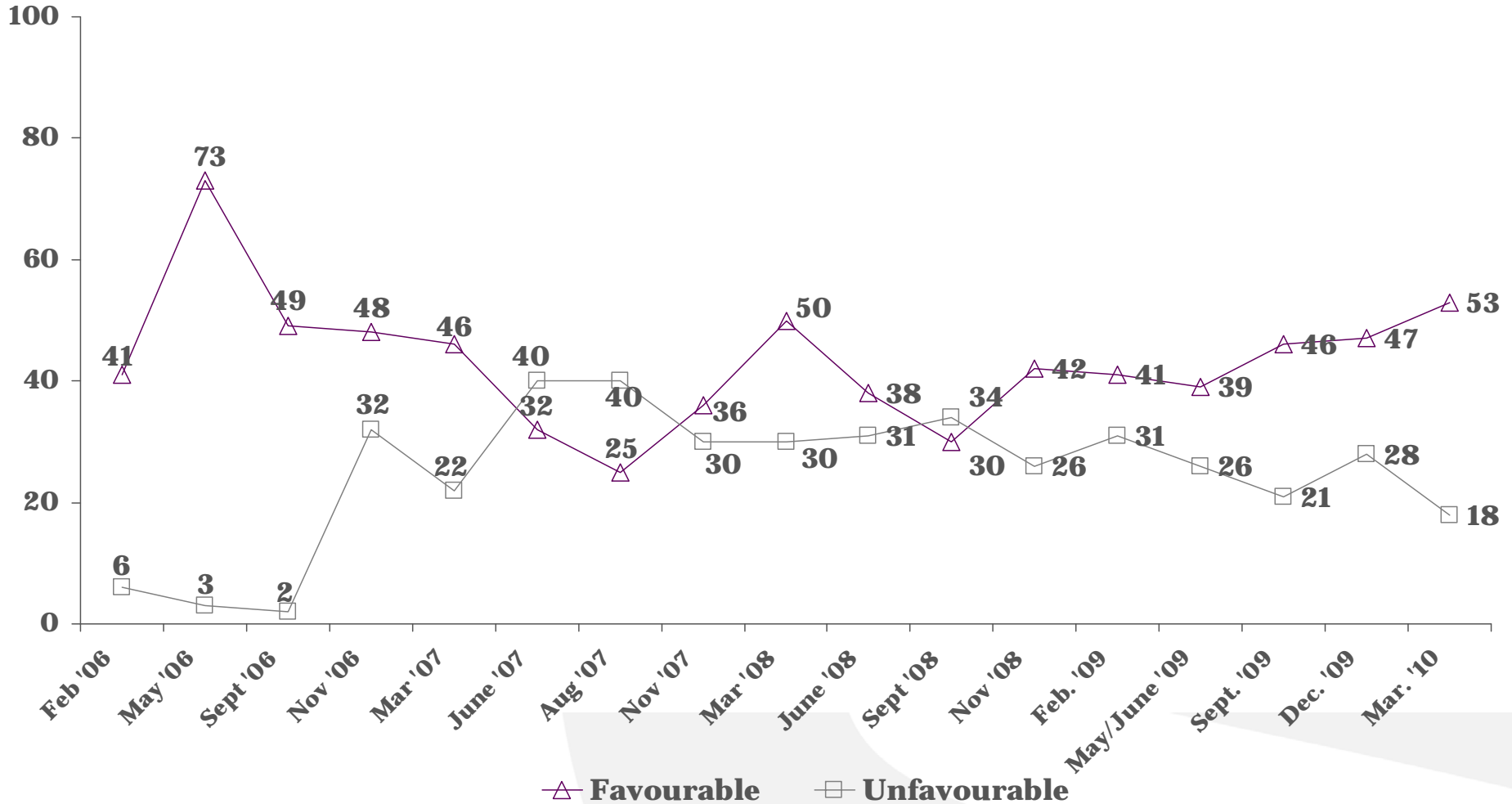
“I’d like to know how favourable your view is of the recent federal budget. Is it very favourable, somewhat favourable, somewhat unfavourable or very unfavourable?”





Impressions of Minister Flaherty

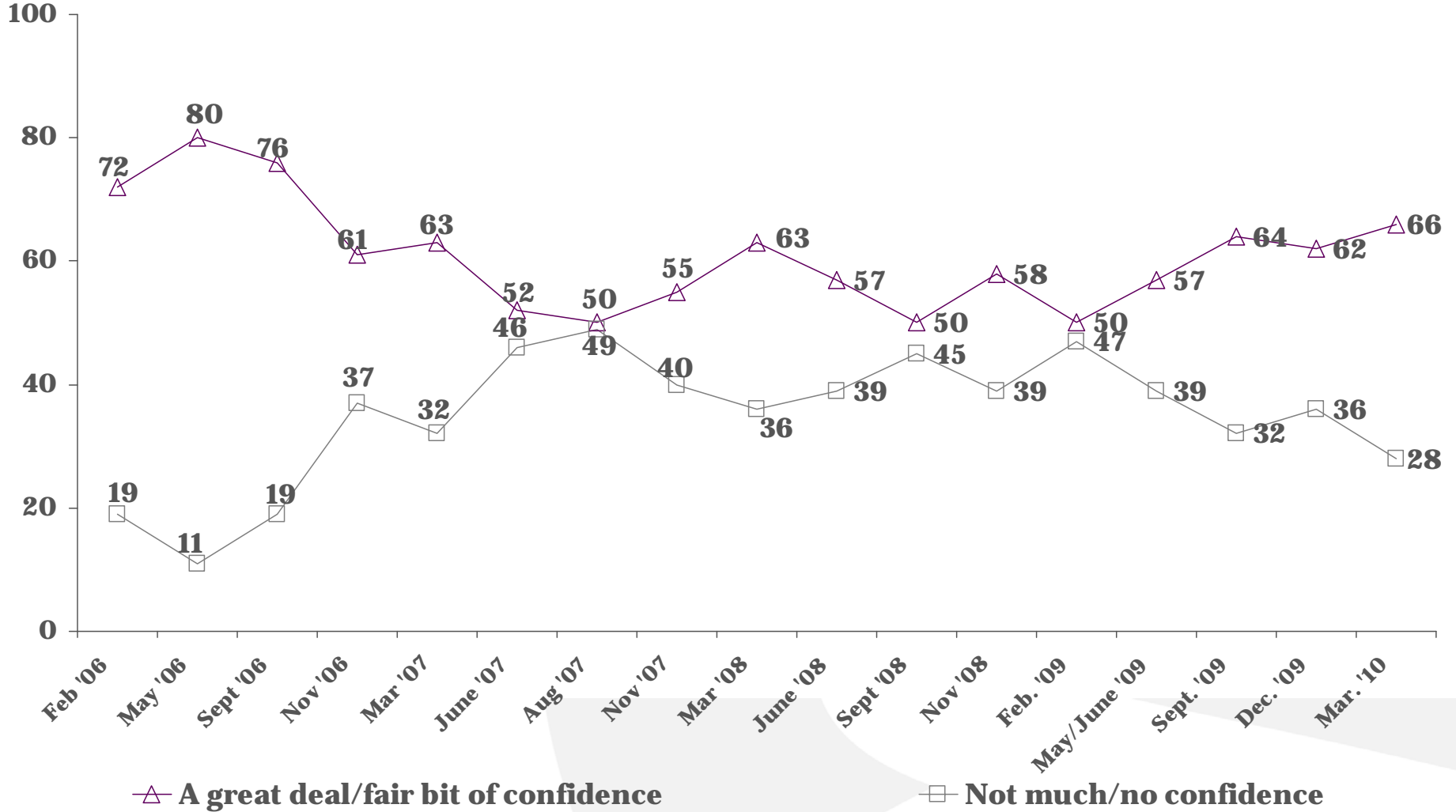
“How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?”





Confidence in Minister Flaherty

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





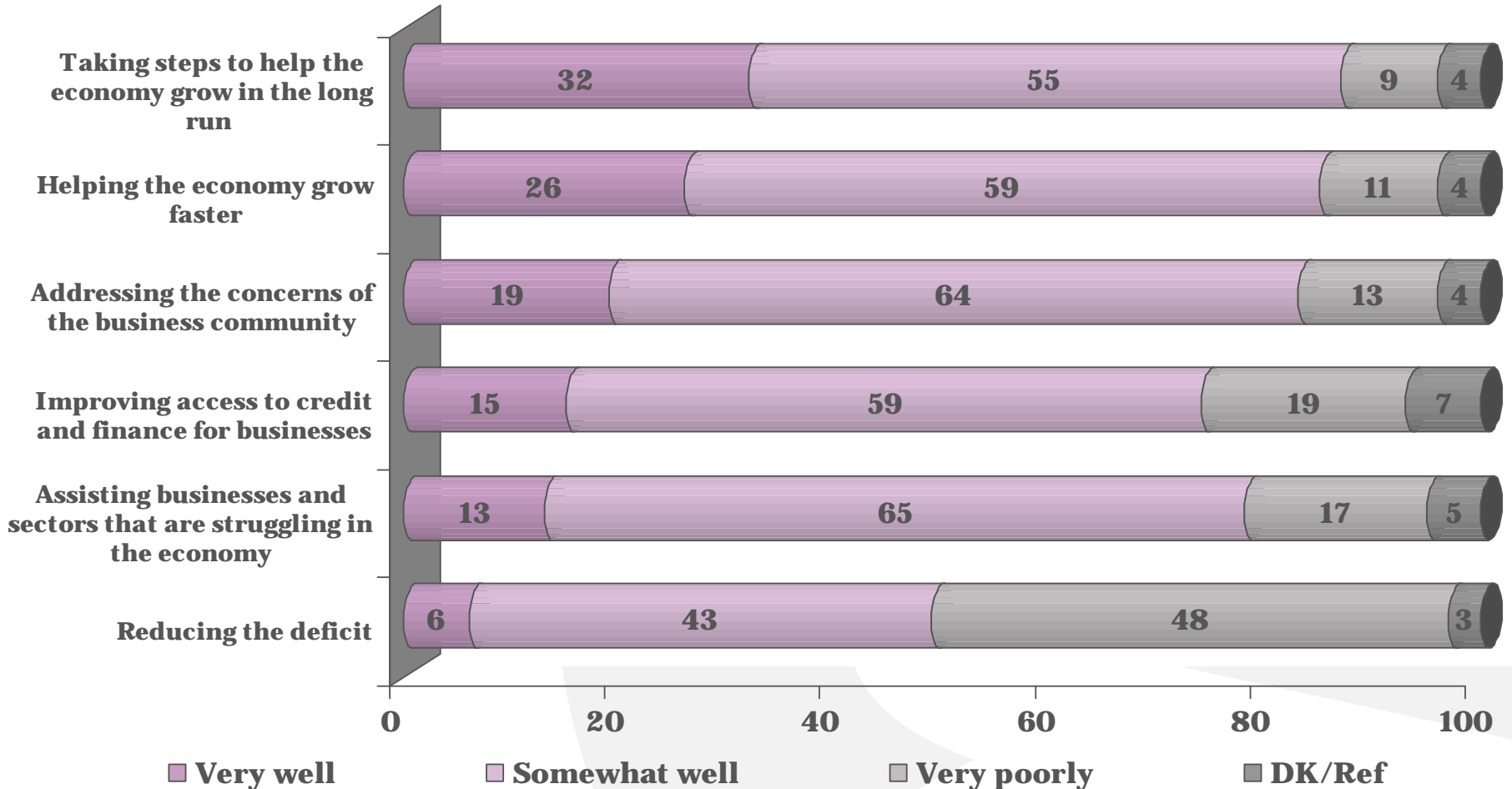
Budgetary Measures

- ❑ Executives give the budget passing grades but not top marks on key tests.
- ❑ The business community is most impressed with the budget measures to stimulate economic growth – both immediately and in the long term.
- ❑ They reserve their worst marks for the budget in the area of deficit reduction - half believe it did poorly or very poorly when it comes to reducing the deficit. Very few said it did very well at responding to this concern.



Budgetary Measures

“On a scale of one to nine where one means very poorly and nine means very well, how well or how poorly did the federal budget do in advancing the following objectives?”



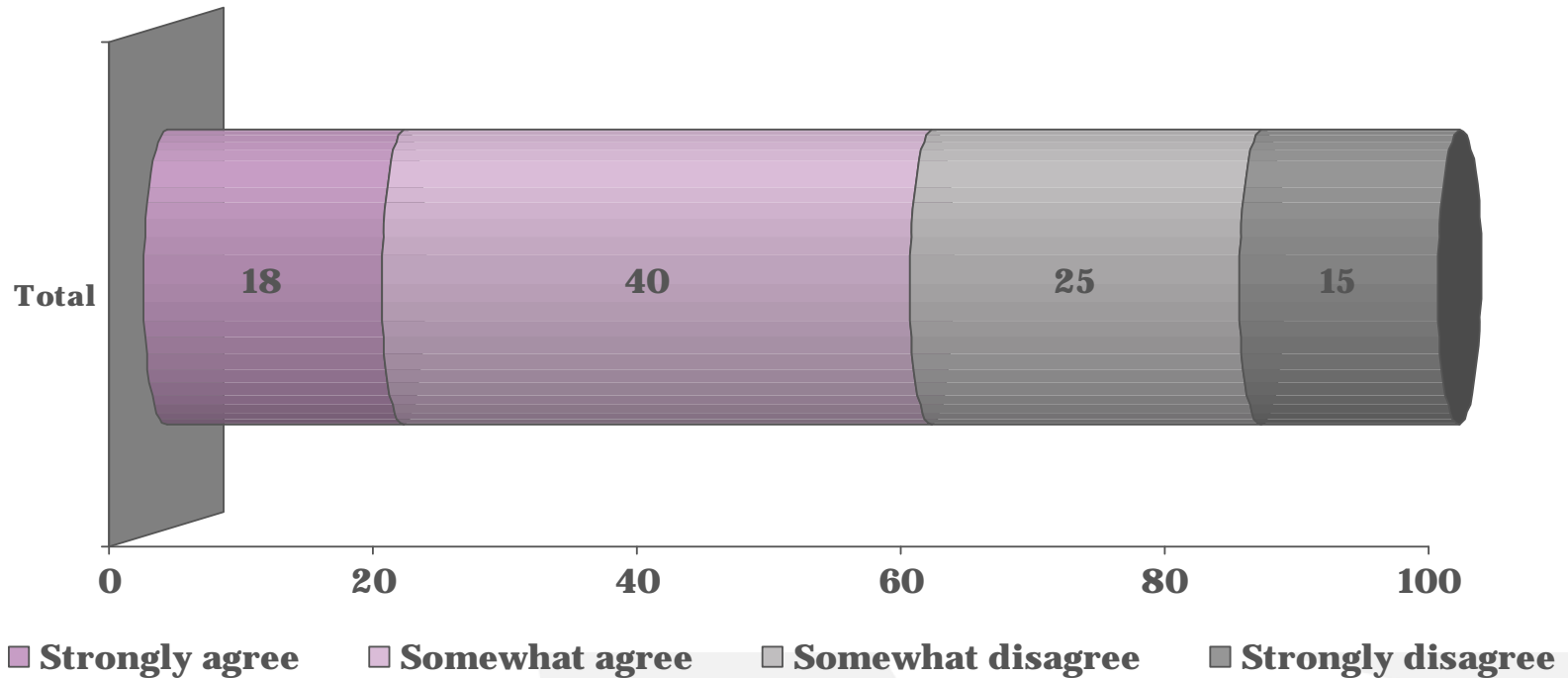


- ❑ Executives are uncomfortable with the size of the deficit for this year and with the fiscal track laid out in the budget.
- ❑ As we saw last quarter, executives are not so uncomfortable that they want draconian action. In fact, most are supportive of the government's approach to restraint.
- ❑ There is skepticism that the current track will lead to a balanced budget and most executives think a tax increase will at some point be necessary.



Taxes and the Deficit

“The following are statements about the federal budget. I’d like to know if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each. In order to eliminate the deficit, some form of tax increase will be necessary”



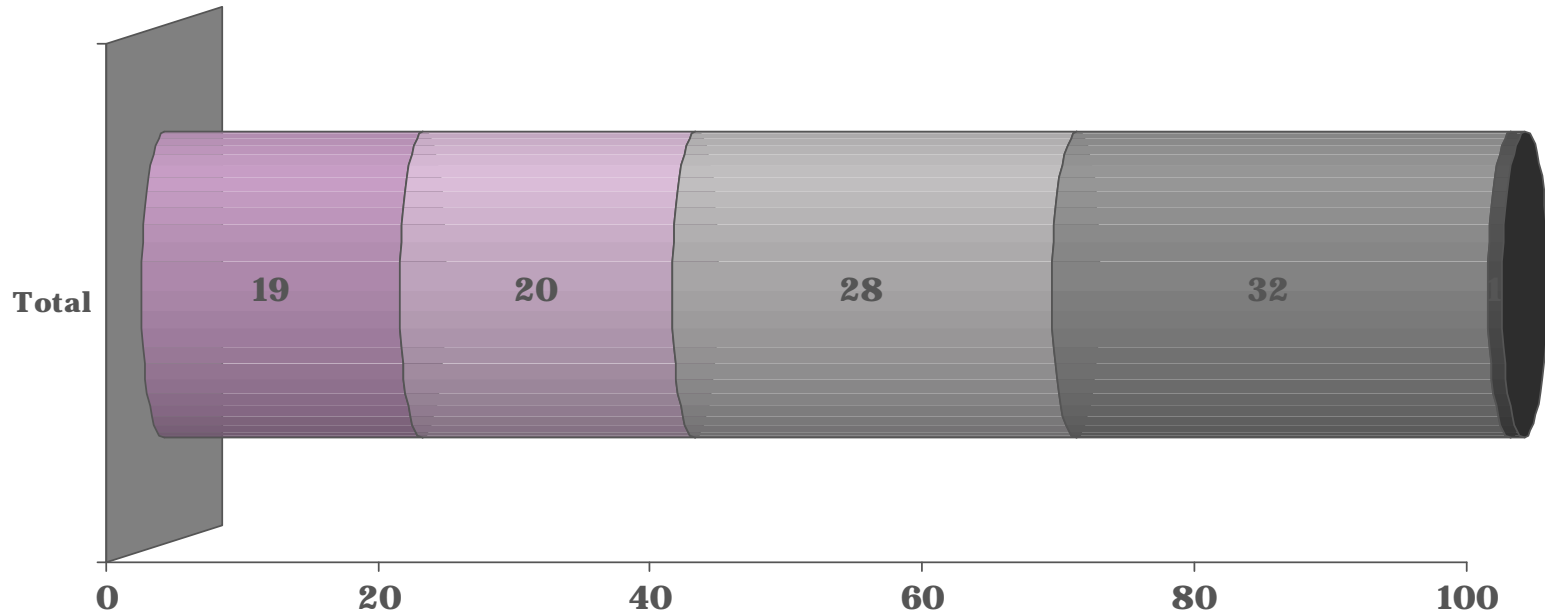


- ❑ Most disagreed that the government should be required by law to balance its books. And most executives supported the government's move to continue stimulus spending – specifically the \$19 billion the federal government plans to inject into the economy.
- ❑ However, executives are concerned about the size of the current deficit and duration of deficits going forward. Just over half said they oppose the deficit running at \$53.8 billion this year and nearly two-thirds said they oppose running deficits until 2015.
- ❑ The spending restraint that the Harper government announced is really the minimum the business community expects. Few said it goes too far. Just under half say the departmental spending freeze government announced is the right amount of restraint – but another 41% said it's not enough.



Balanced Budget Legislation

“The following are statements about the federal budget. I’d like to know if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each. The federal government should be required by law to balance its books.”

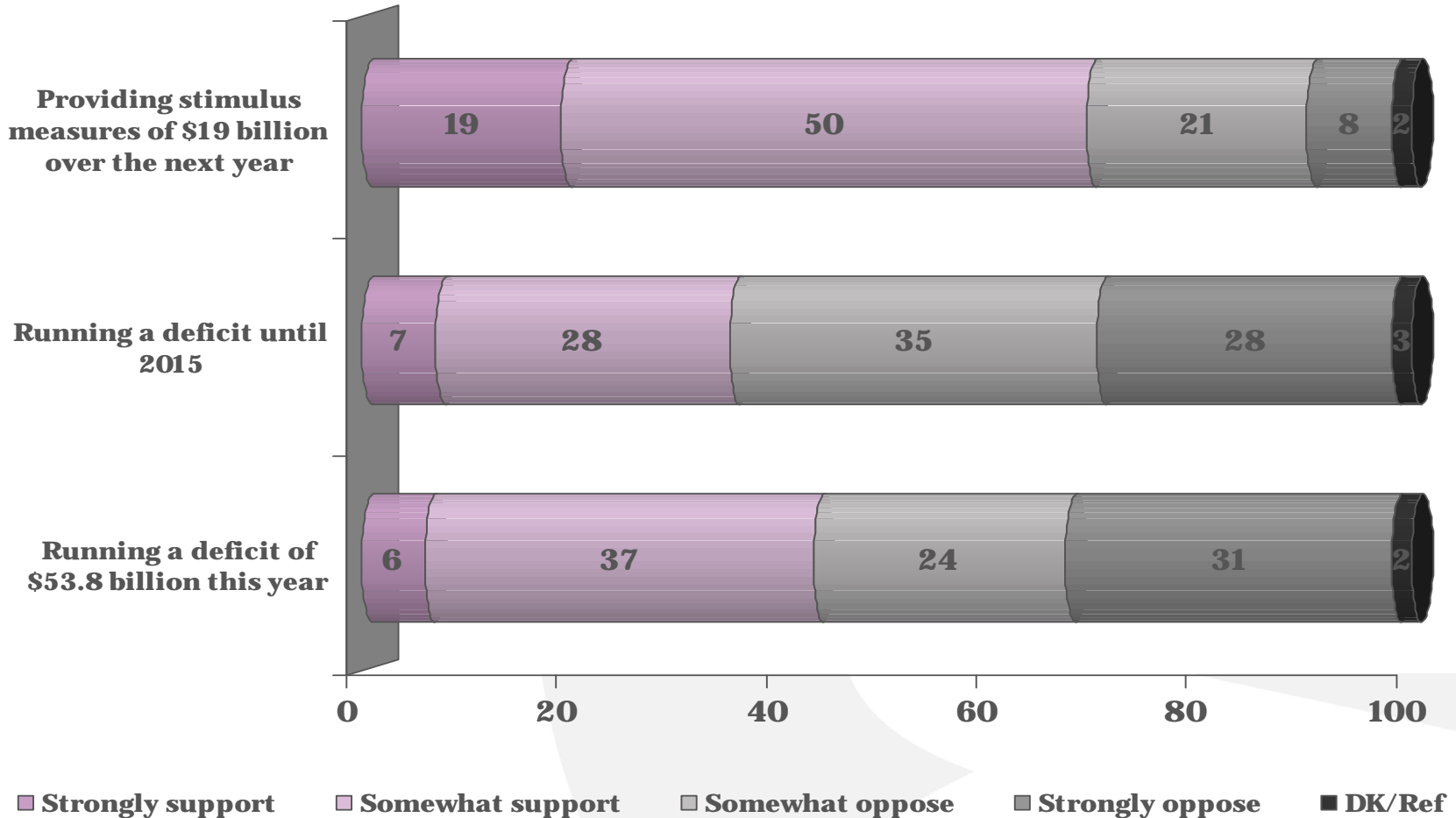


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Budgetary Measures

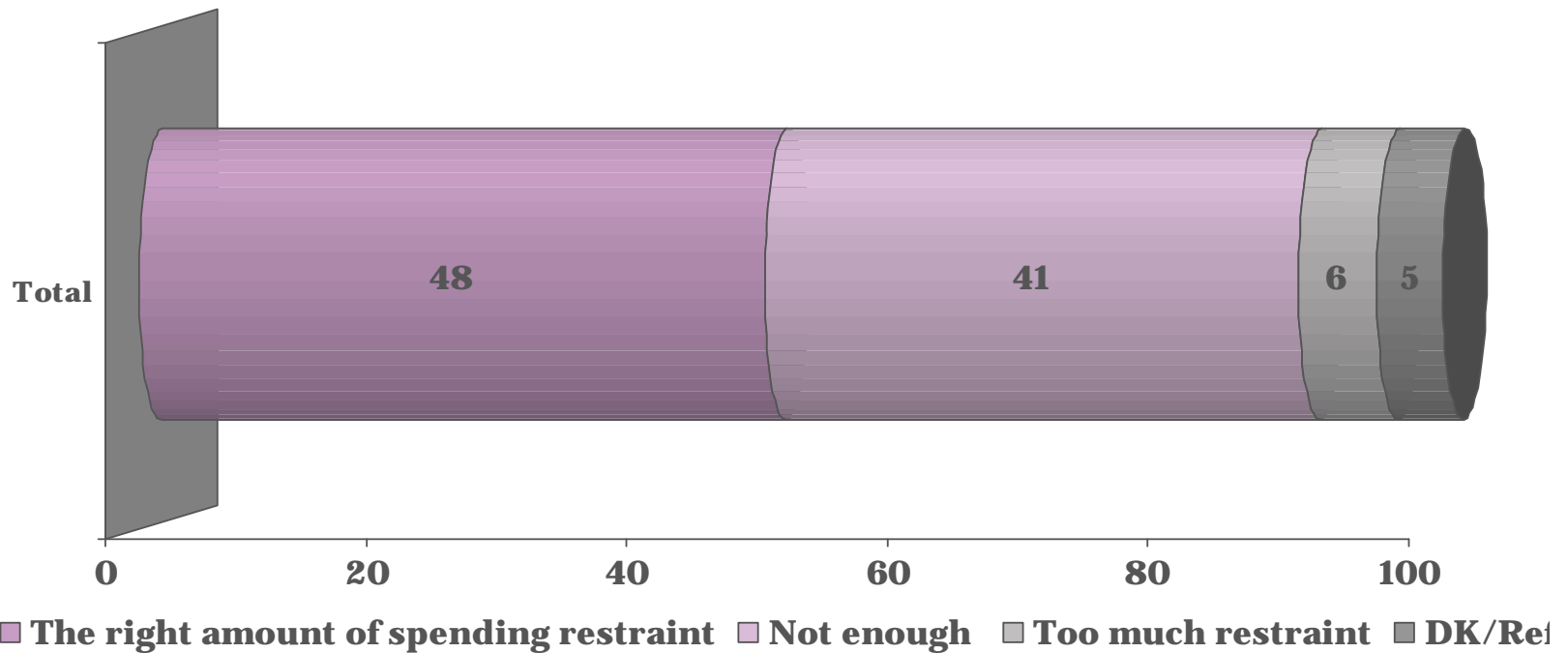
“I’m going to read a list of measures proposed in the Conservative government’s budget and Throne Speech and ask whether you strongly support, somewhat support, somewhat oppose or strongly oppose each.”





The Restraint Plan

“The federal budget is proposing a freeze on departments’ spending, saving \$17 billion over five years, and to hold a review to find more savings, without reducing transfers to the provinces for health care and social programs. Would you say this is:..”





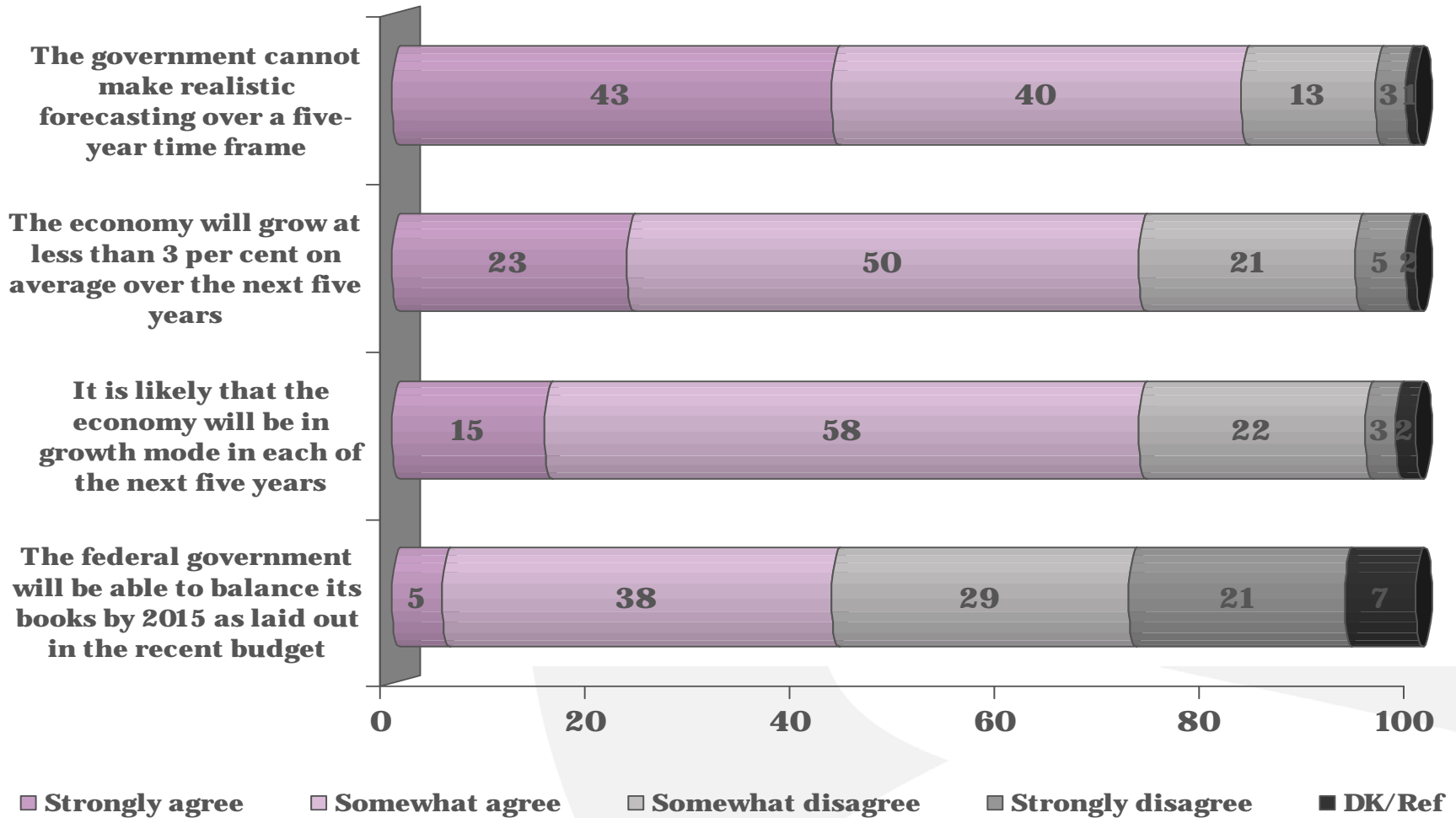
Judging The Fiscal Plan

- ❑ Less than half agreed that the government will be able to balance its books by 2015 as laid out in the budget.
- ❑ The vast majority agreed that the government cannot make realistic forecasting over a five-year time frame.
- ❑ Most agreed that the economy will be in growth mode in each of the next five years.



Budgetary Measures

“The following are statements about the federal budget. I’d like to know if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.”



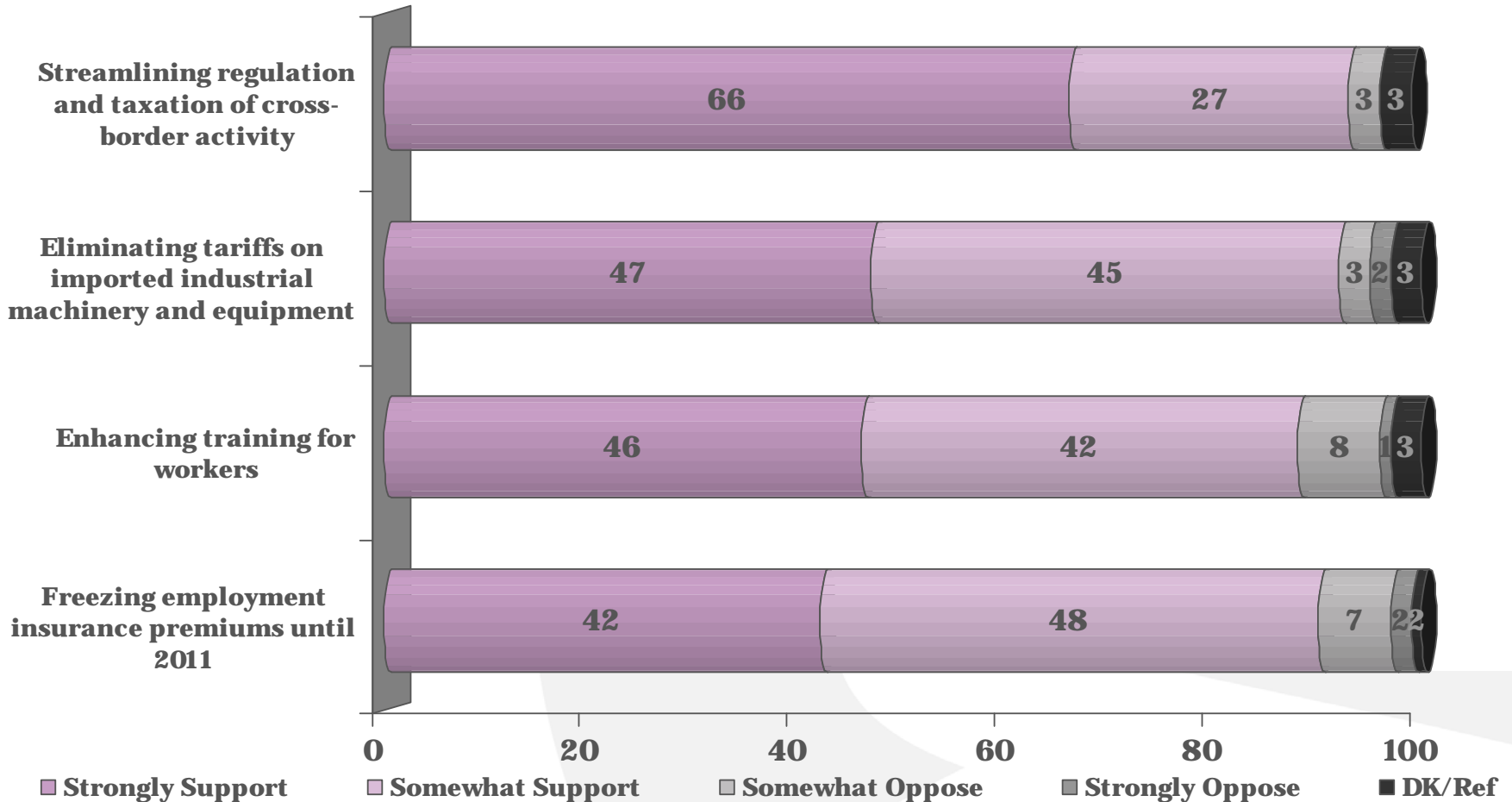


- ❑ Other economic measures in the budget - investing in research and innovation, enhancing training for workers, and freezing employment insurance premiums until 2011 - were widely supported and virtually unopposed.
- ❑ Economic measures most strongly supported were eliminating tariffs on imported industrial machinery and equipment and streamlining regulation and taxation of cross-border activity.
- ❑ Most manufacturing executives believe the government is not doing enough to assist the manufacturing sector – a view that is not shared by executives in services or resources.
- ❑ Creating a national securities regulator has broad support, but much more enthusiastically in Ontario than anywhere else



Budgetary Measures

“I’m going to read a list of measures proposed in the Conservative government’s budget and Throne Speech and ask whether you strongly support, somewhat support, somewhat oppose or strongly oppose each.”

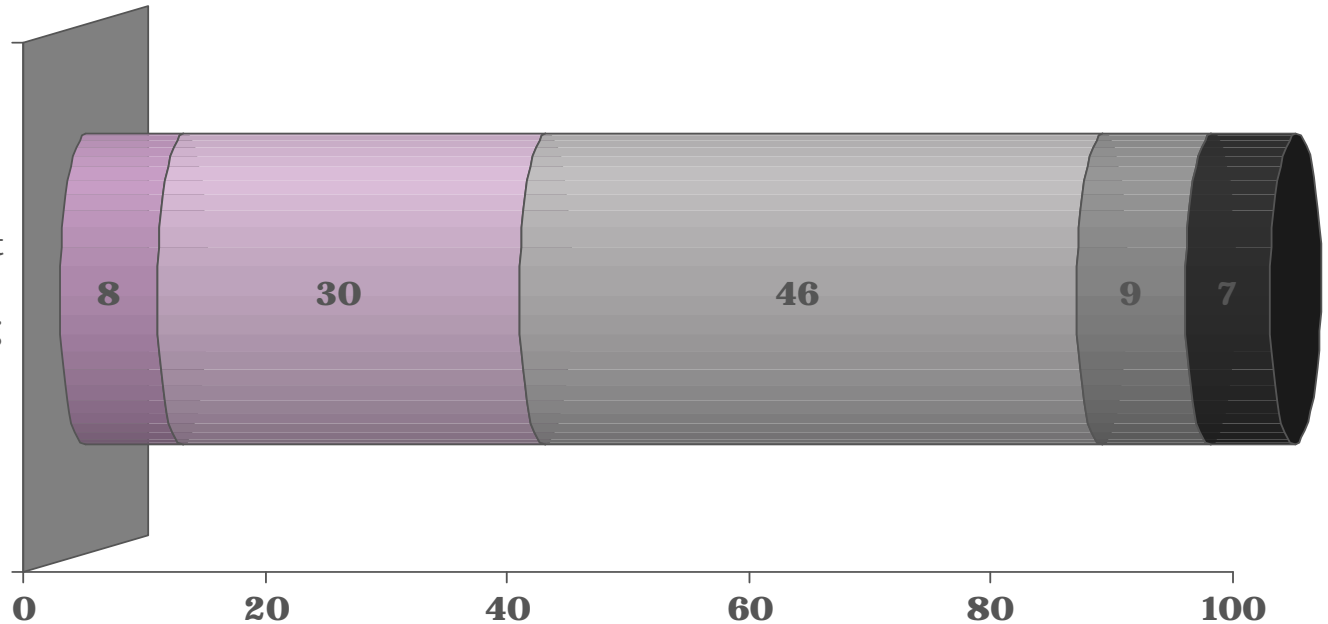




Budgetary Measures

“The following are statements about the federal budget. I’d like to know if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.”

The federal government is not doing enough to help the manufacturing sector

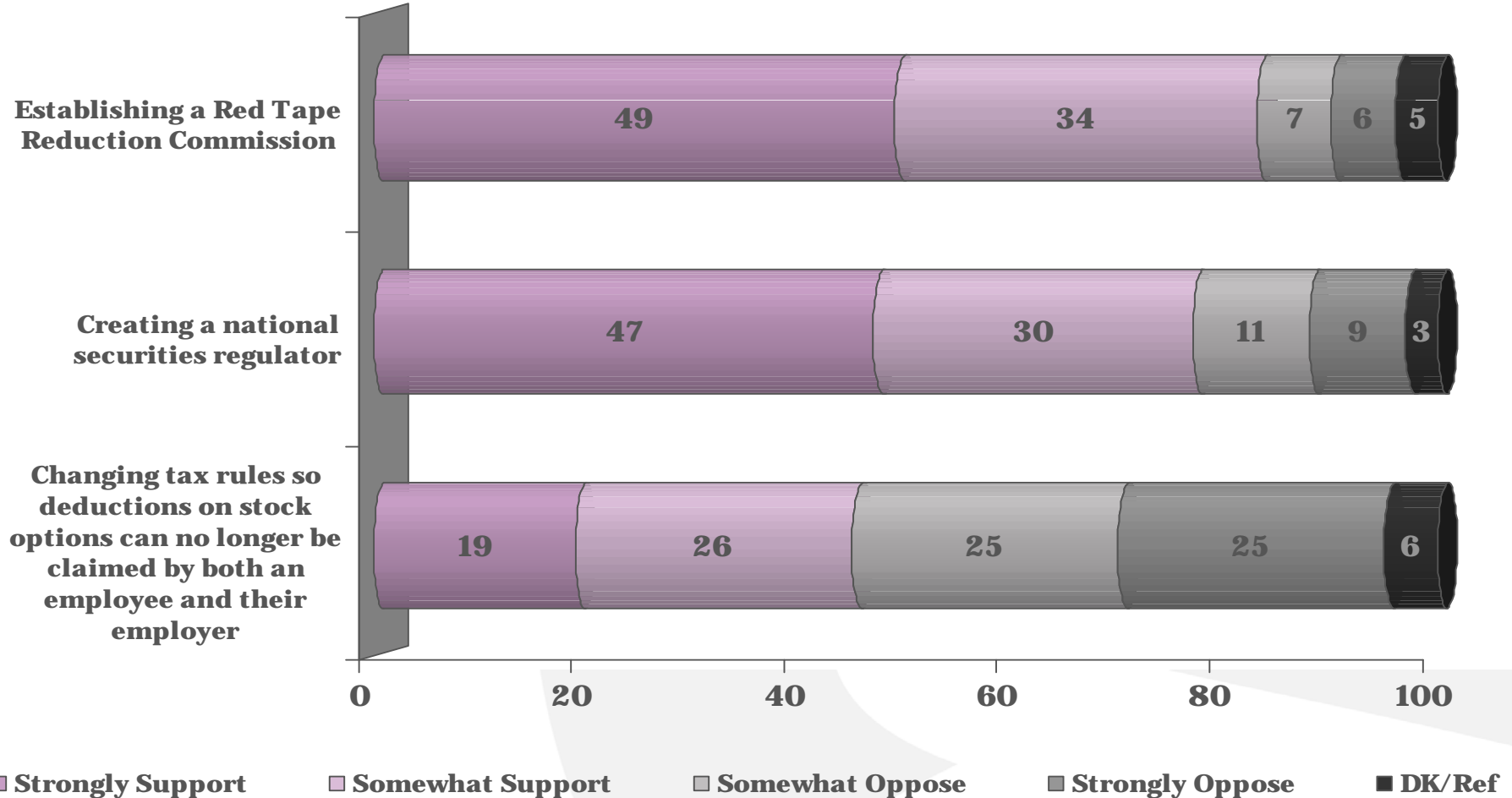


■ Strongly agree ■ Somewhat agree ■ Somewhat disagree ■ Strongly disagree ■ DK/Ref



Budgetary Measures

“I’m going to read a list of measures proposed in the Conservative government’s budget and Throne Speech and ask whether you strongly support, somewhat support, somewhat oppose or strongly oppose each.”

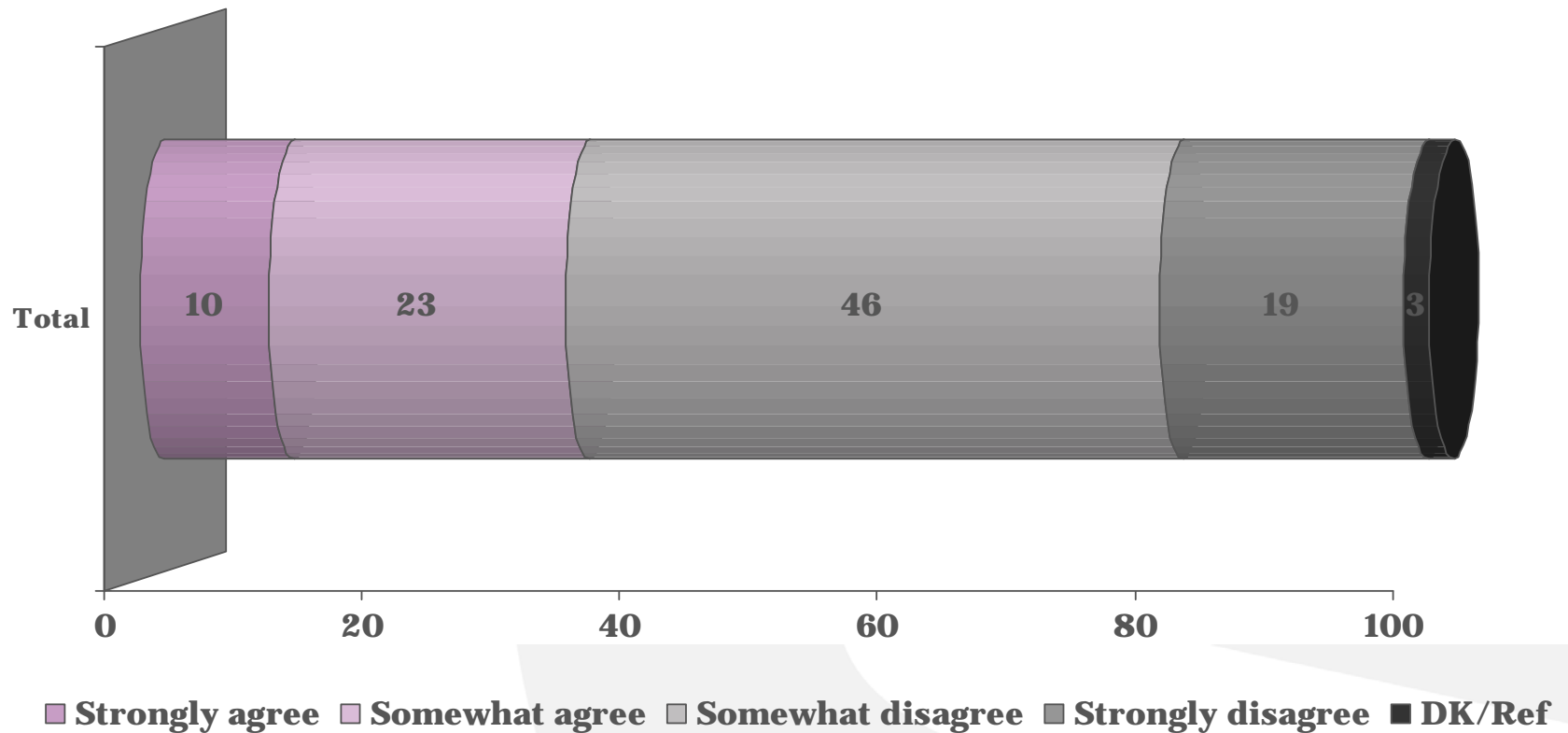




- ❑ Concern about the fiscal situation has tempered demand for tax reduction.
- ❑ Most executives do not think the budget should have contained corporate tax cuts, or PIT cuts designed to stimulate consumer demand.

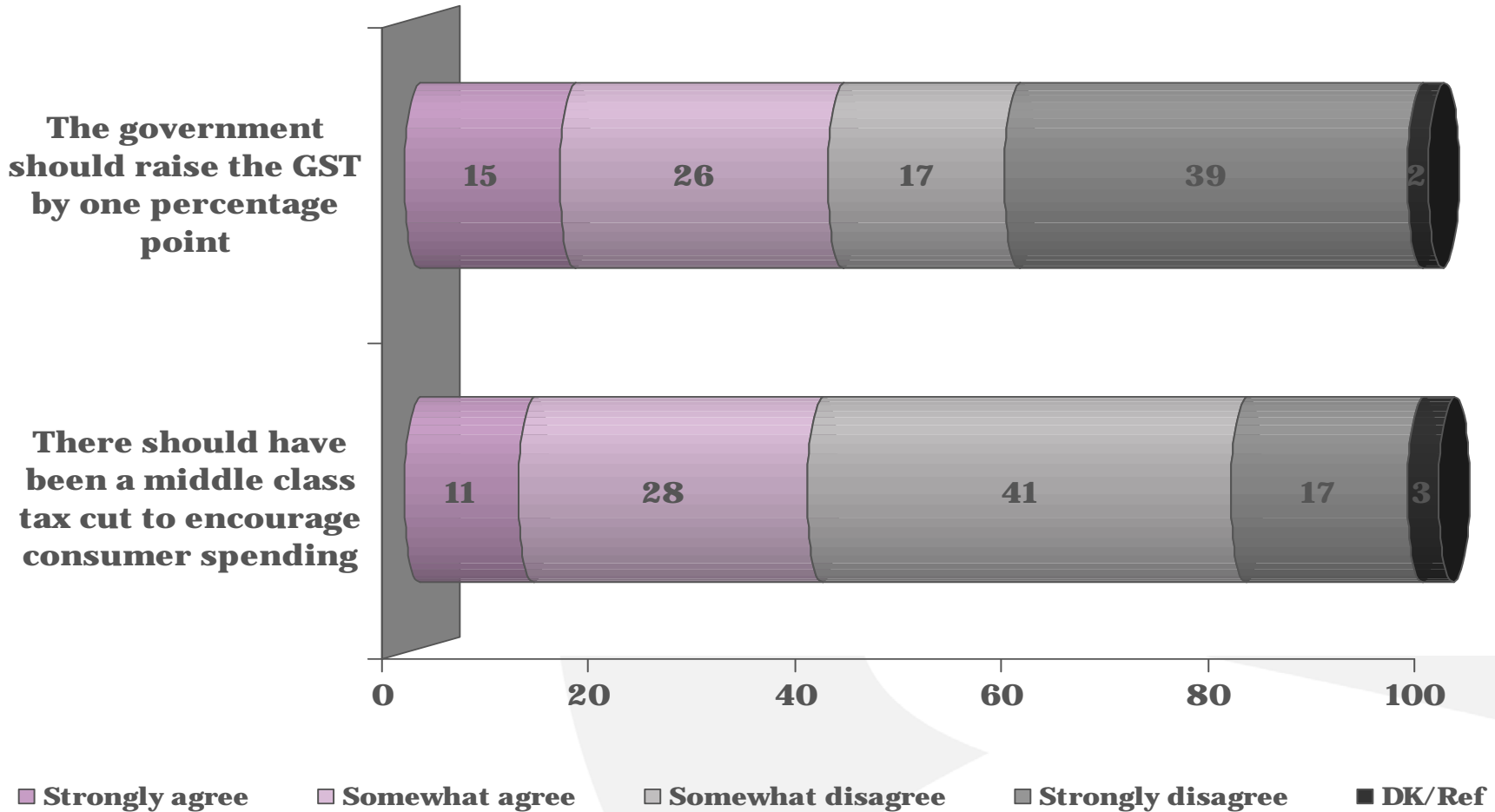


“The following are statements about the federal budget. I’d like to know if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each. The budget should have included corporate tax cuts for this fiscal year.”





“The following are statements about the federal budget. I’d like to know if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.”



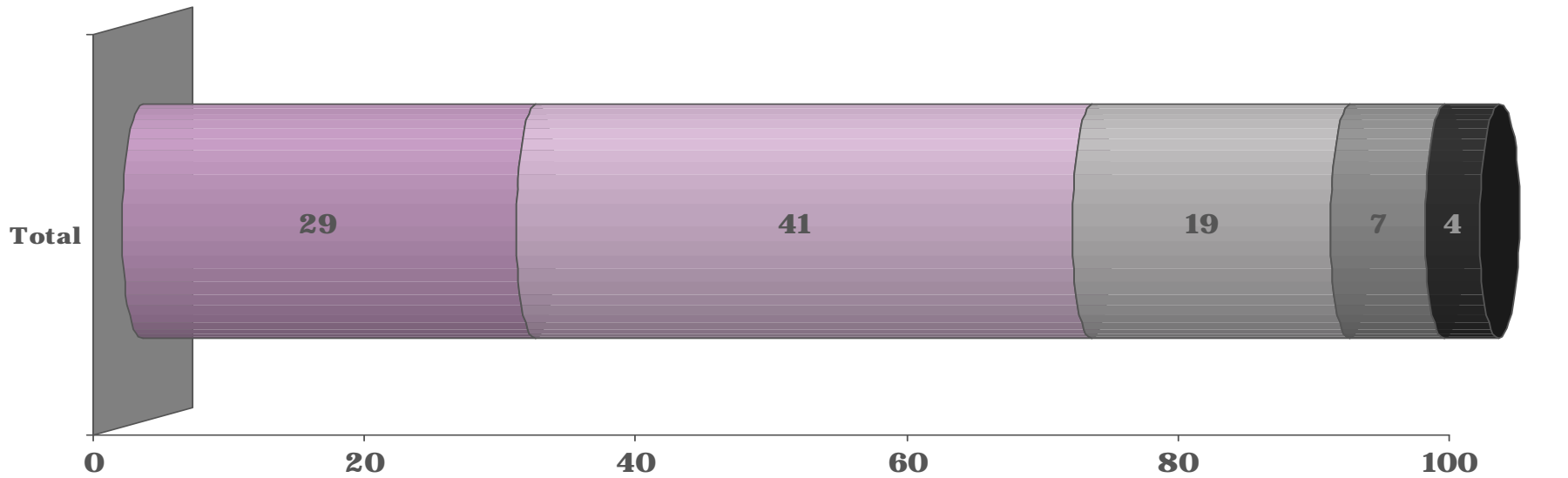


- ❑ In its Throne Speech, the government announced its intention of opening up ownership in the telecommunications sector beyond what is currently allowed. Two-thirds support this move. Strong support is more than three times strong opposition.



The Telecommunications Sector

“Would you say that you strongly support, somewhat support, somewhat oppose or strongly oppose reducing restrictions on foreign investment and ownership in Canada’s telecommunications sector?”



■ Strongly Support ■ Somewhat Support ■ Somewhat Oppose ■ Strongly Oppose ■ DK/Ref



- ❑ The business community believes the recession is over, and foresees a long period of slow economic growth.
- ❑ Executives are not so bullish on the economy that they want major restraint measures in place – that will have to wait.
- ❑ However, the minority's dissatisfaction with the federal government's economic policies clearly comes from fiscal conservatives who think there needs to be more urgent and significant action on the deficit. When the economy strengthens, there will likely be a more broad-based demand from business for a more rigorous deficit reduction plan.
- ❑ As with debt strapped consumers, a rise in interest rates could be very damaging for a significant number of businesses.
- ❑ With fewer manufacturing companies and more resource companies, the balance of opinion about the merits of a strong dollar are shifting in Canadian business.
- ❑ The federal government exits the recession with a stronger standing in the business community than they had when the country went into recession.