



the gandalf group

The 22nd Quarterly C-Suite Survey: The Economy and Expectations for the 2011 Federal Budget

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- ❑ This is the 22nd edition of the C-Suite Quarterly survey, conducted on behalf of KPMG published and broadcast every three months by the *Globe and Mail's Report on Business* and *BNN*. Previous quarters' surveys are available at www.GandalfGroup.ca.
- ❑ Telephone interviews were conducted with 152 C-Suite executives from the ROB 1000 list of companies, between February 10th and February 24th, 2011.
 - Data was weighted to reflect previous waves' proportionate distribution of resources cos., manufacturers and those in the services' and other sectors.
 - This sample yields a margin of error of +/- 7.32% 19 times out of 20.
- ❑ This quarter's survey focused on :
 - Opinion in advance of the 2011 Federal budget
 - Federal finances and managing with deficits
 - Pensions
 - The Canada/US Border



- ❑ Confidence in the economy has improved over the past year, particularly with an improved outlook for the US.
- ❑ Yet executives remain concerned about the fundamentals of the economy and creating the conditions for long-term growth. Few see a major rebound for the economy over the next four years – they don't predict significantly faster economic growth than they see now. The outlook for the US has only just recovered and remains cautious.
- ❑ The effect is that executives are looking to government for a serious commitment to deficit reduction, followed by targeted investments and tax credits to lay a foundation for stronger growth. They would prioritize these initiatives well ahead of reductions in personal income taxes or vote-friendly measures on the eve of a confidence vote that may trigger an election.



- ❑ This mix of concerns – around economic fundamentals and sluggish growth – is particularly evident in Ontario. Executives there are less likely to report strong growth than Westerners and are especially concerned about a number of economic and monetary pressures: public borrowing, inflation, interest rates, personal debt and rising energy prices.
- ❑ Ontario executives are especially interested in investments in transportation, improving trade and transit through the border. And with executives in the West – where labour shortages are more of a concern – many strongly support investments in education and training.
- ❑ Support for R&D is also a top priority for the C-Suite, across regions and sectors, but particularly for manufacturers.
- ❑ Essentially, executives want more than a cautious or prudent approach to fiscal and monetary concerns. They want something more strategic that will lead to stronger growth across sectors in Canada and respond to some of the pressures that are holding down economic growth.

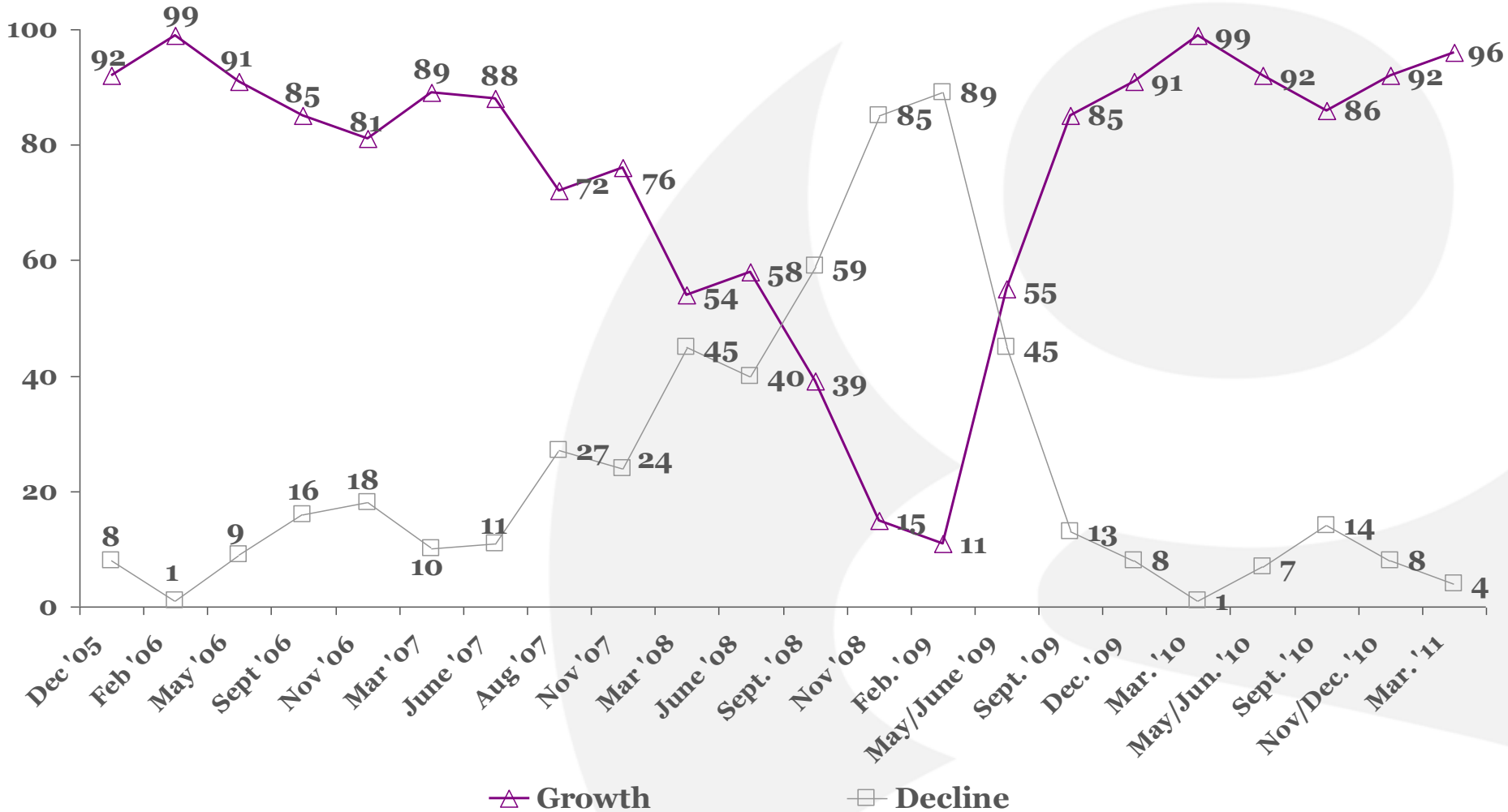


- ❑ Virtually all executives believe that the economy is currently growing and will continue to for the next 12 months. Expectations continue to be for moderate, rather than strong, growth.
- ❑ Confidence in the long-term growth in the economy has improved – more executives this year are expecting sustained growth through to 2015, the year in which government expects to balance the books. But most expect only moderate growth.
- ❑ Positive outlooks for the US economy have jumped and now Canadian executives are almost as likely to see growth for the US economy as they are for Canada. Two quarters ago only half of executives expected the US economy to grow.
- ❑ With sustained growth and optimism for several quarters since the recession, confidence in the federal government's economic management, specifically its Finance Minister, is at a high.



The CDN Economy Over The Next Year

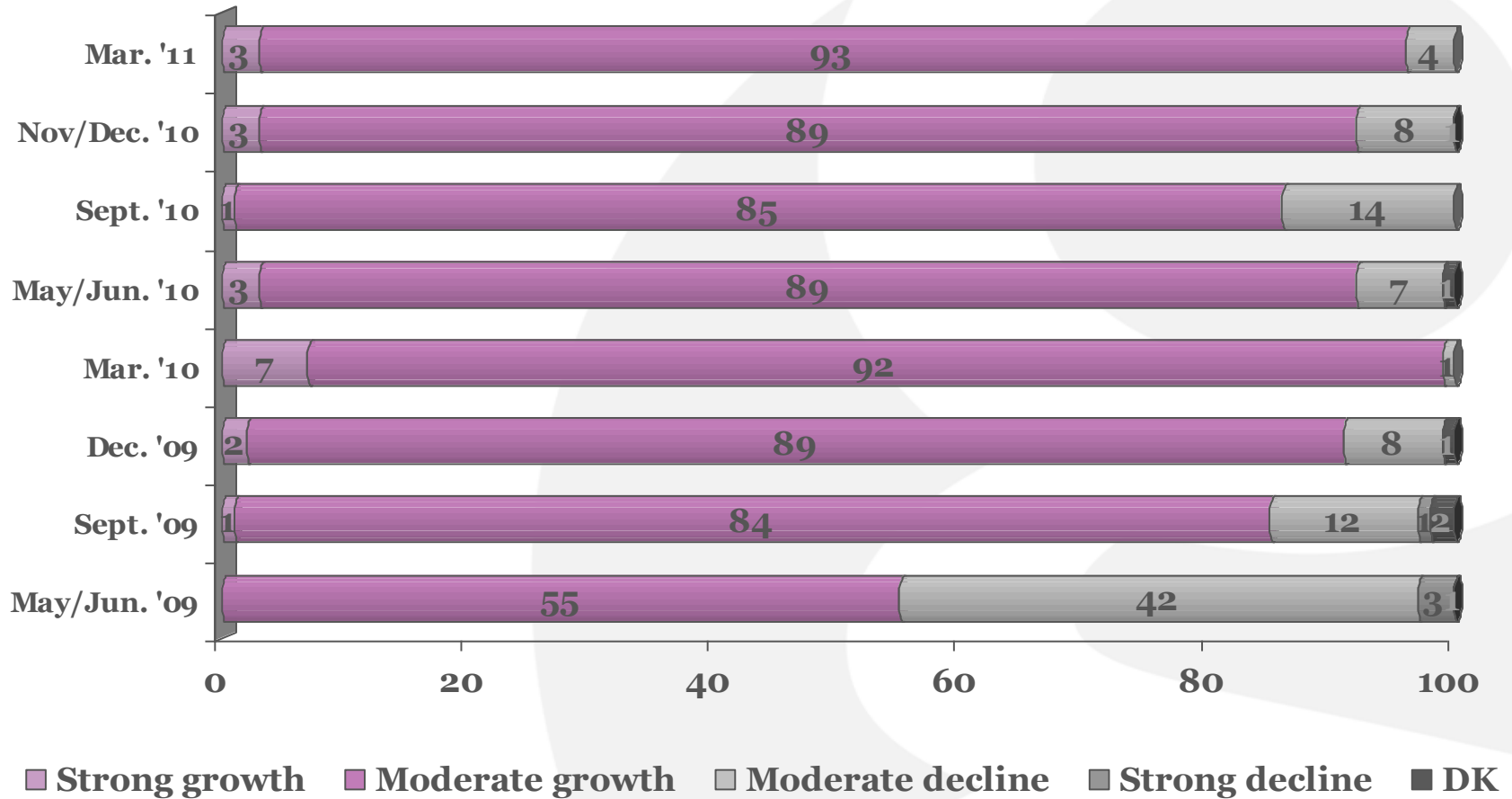
“First, what are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





The CDN Economy Over The Next Year

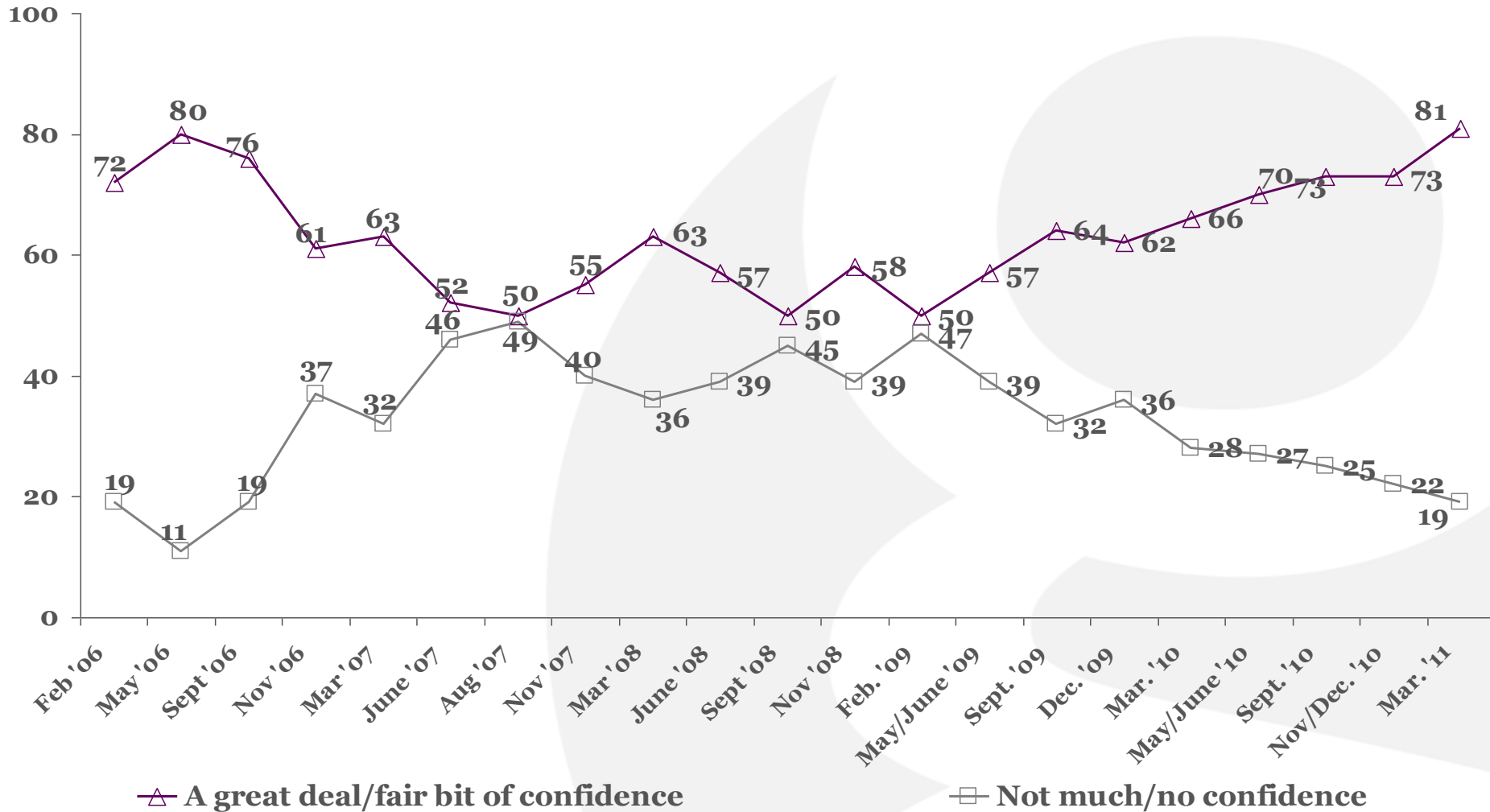
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Confidence in Minister Flaherty

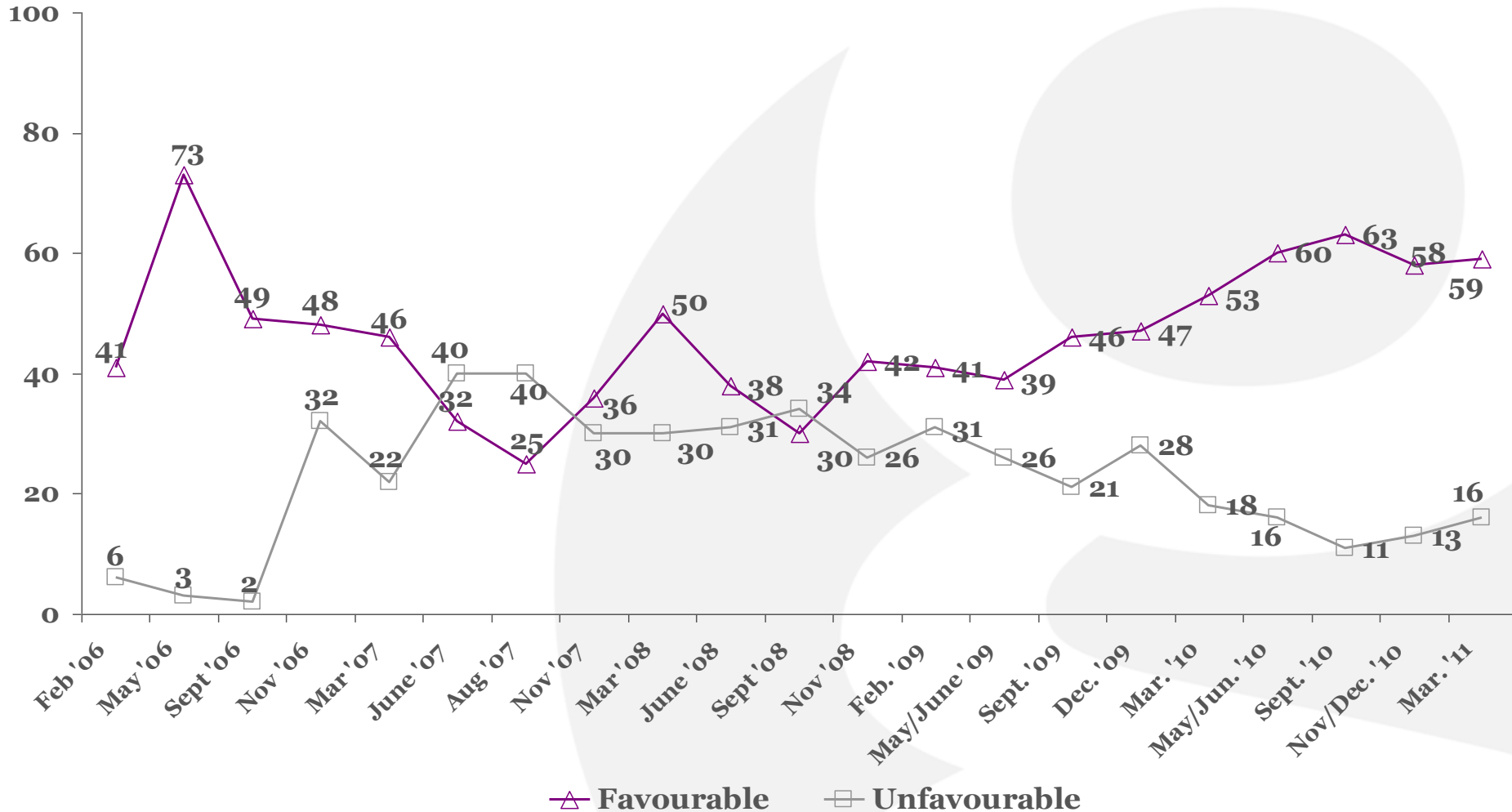
“How much confidence do you have in Finance Minister Flaherty’s management of the economy?”





Impressions of Minister Flaherty

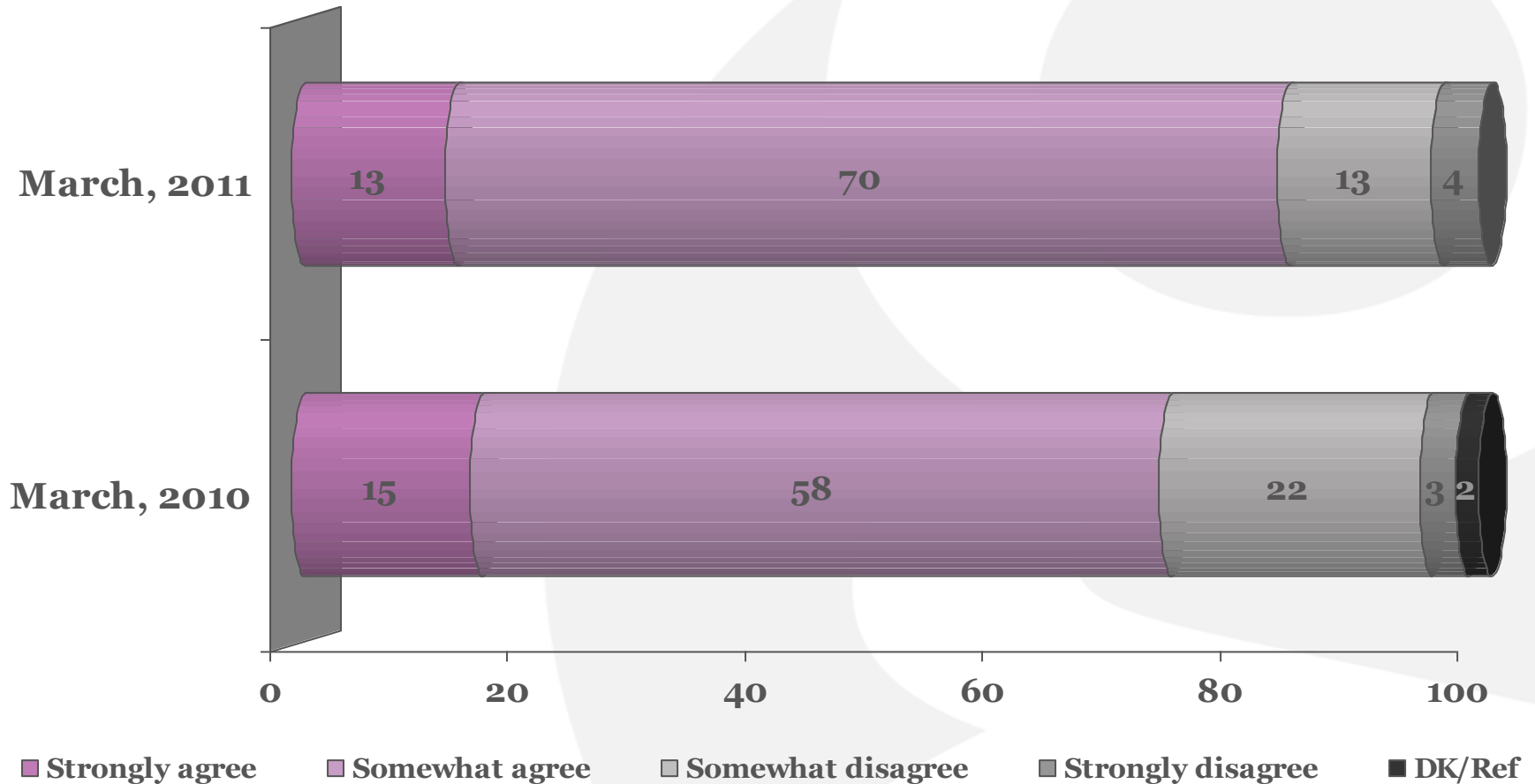
“How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?”





Budgetary Measures

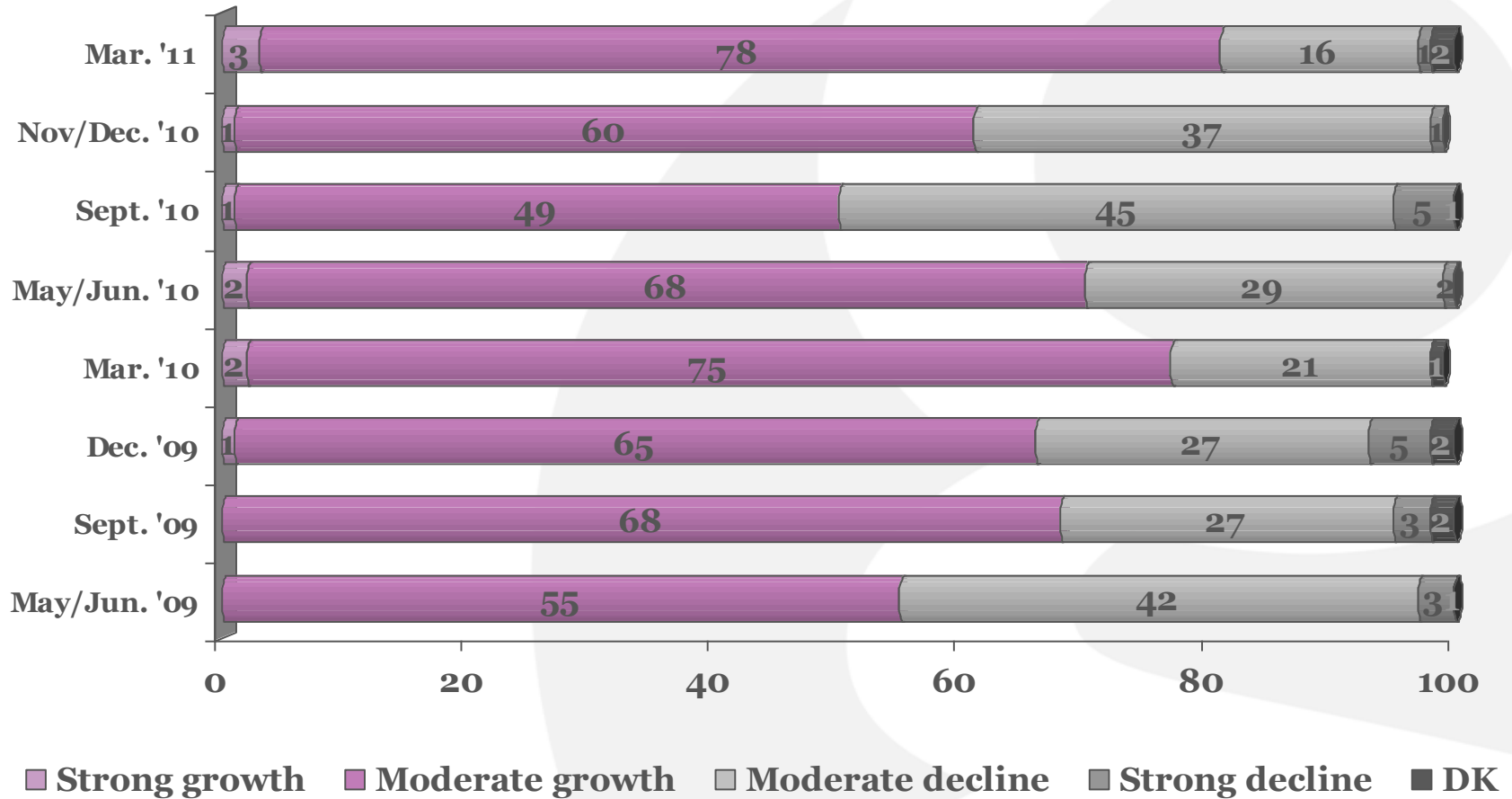
“The following are statements about the federal budget. I’d like to know if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.” **“It is likely that the economy will be in growth mode in each of the next FIVE years” (March 2010)** and **“It is likely that the economy will be in growth mode in each of the next FOUR years” (March 2011)**





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, strong decline?”



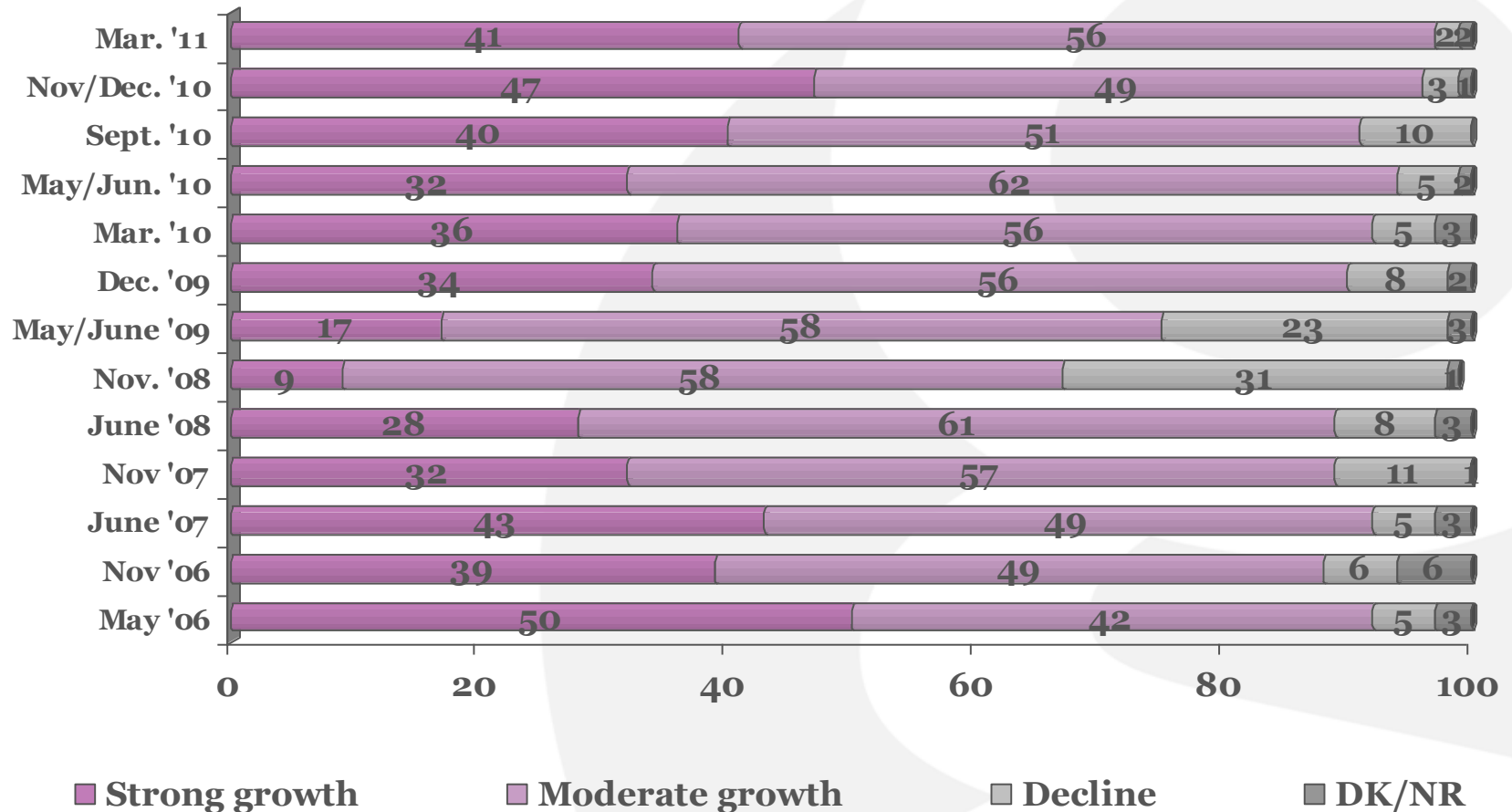


- ❑ Executives' expectations for their companies have weakened only slightly - this is specifically the case among non-resource sector companies.
- ❑ The resource sector remains most optimistic – as we saw last quarter 6 in 10 resources executives expect strong growth for their companies.
- ❑ As with last quarter, the ROB 1000 remains more confident than it has been since 2006.



Expectations: Company

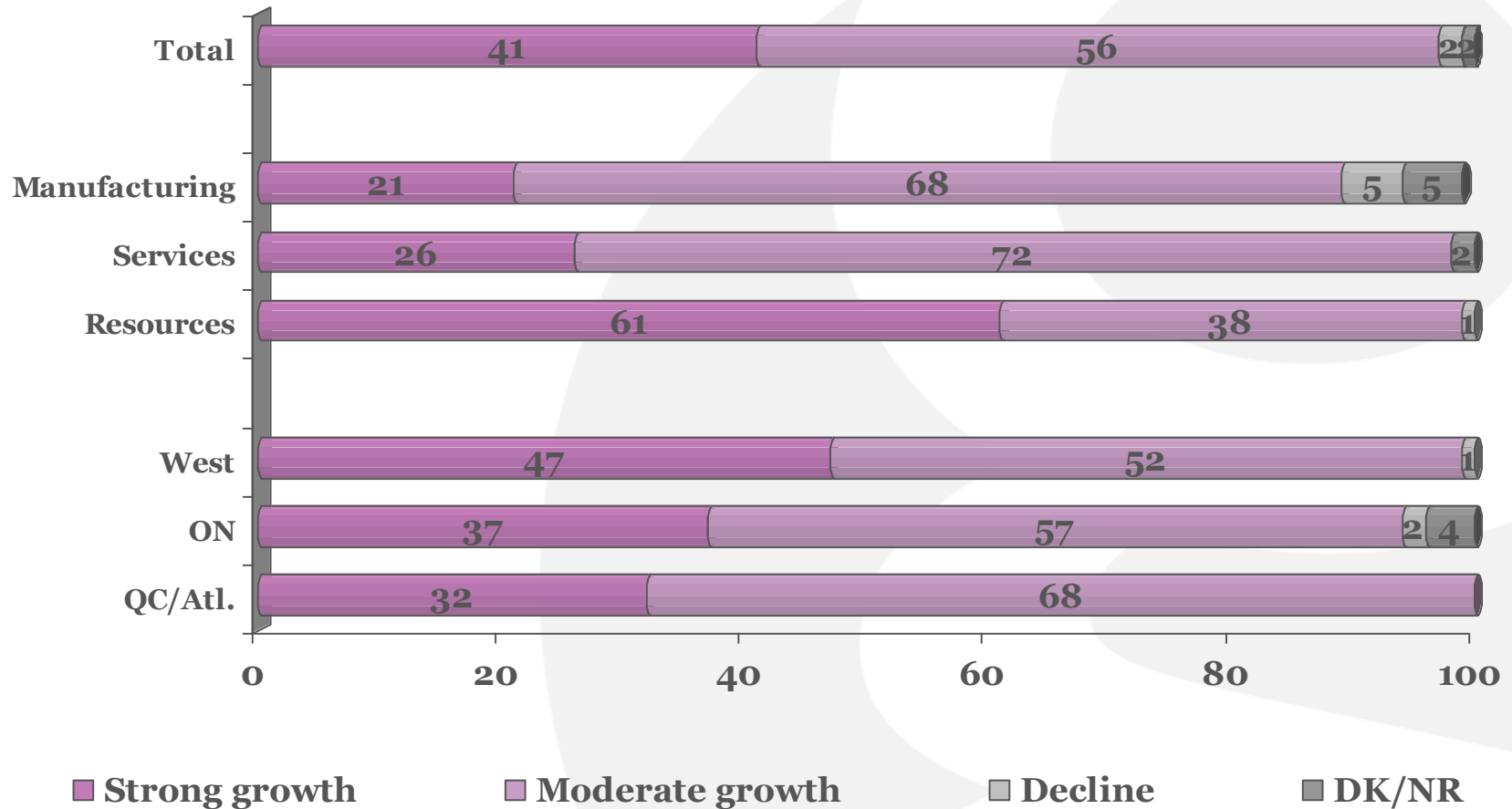
“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





Expectations: Company

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

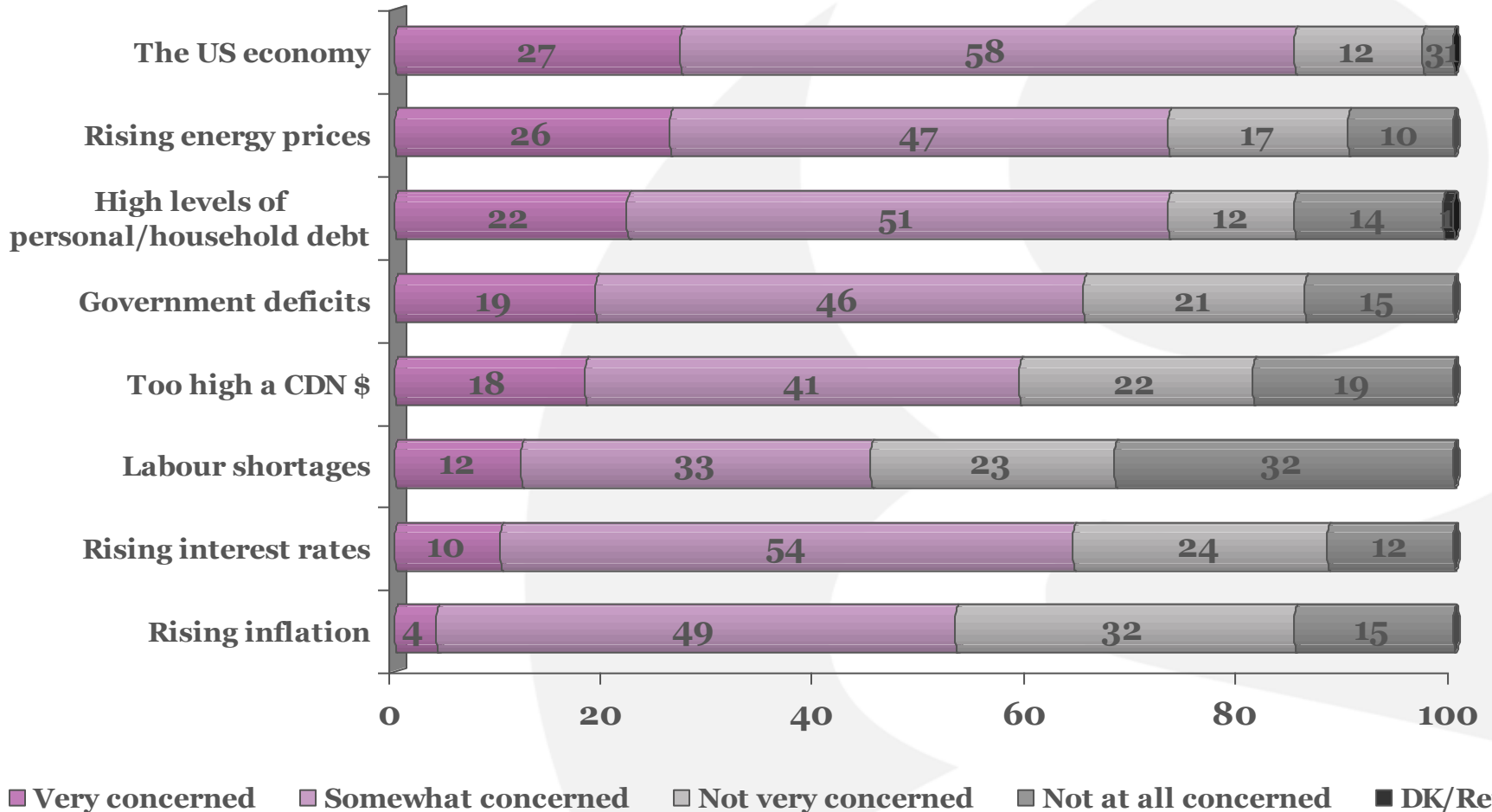




- ❑ The US economy remains one of the biggest concerns C-level executives have. It's a top concern for both manufacturing and resources executives.
- ❑ Rising energy prices are a concern for most executives in all regions and sectors, including in the West and the resources sector.
- ❑ Recent reports about high personal debt levels in Canada have also taken hold.



“As you look ahead to the next twelve months and think about your business, how concerned are you about each of the following:”



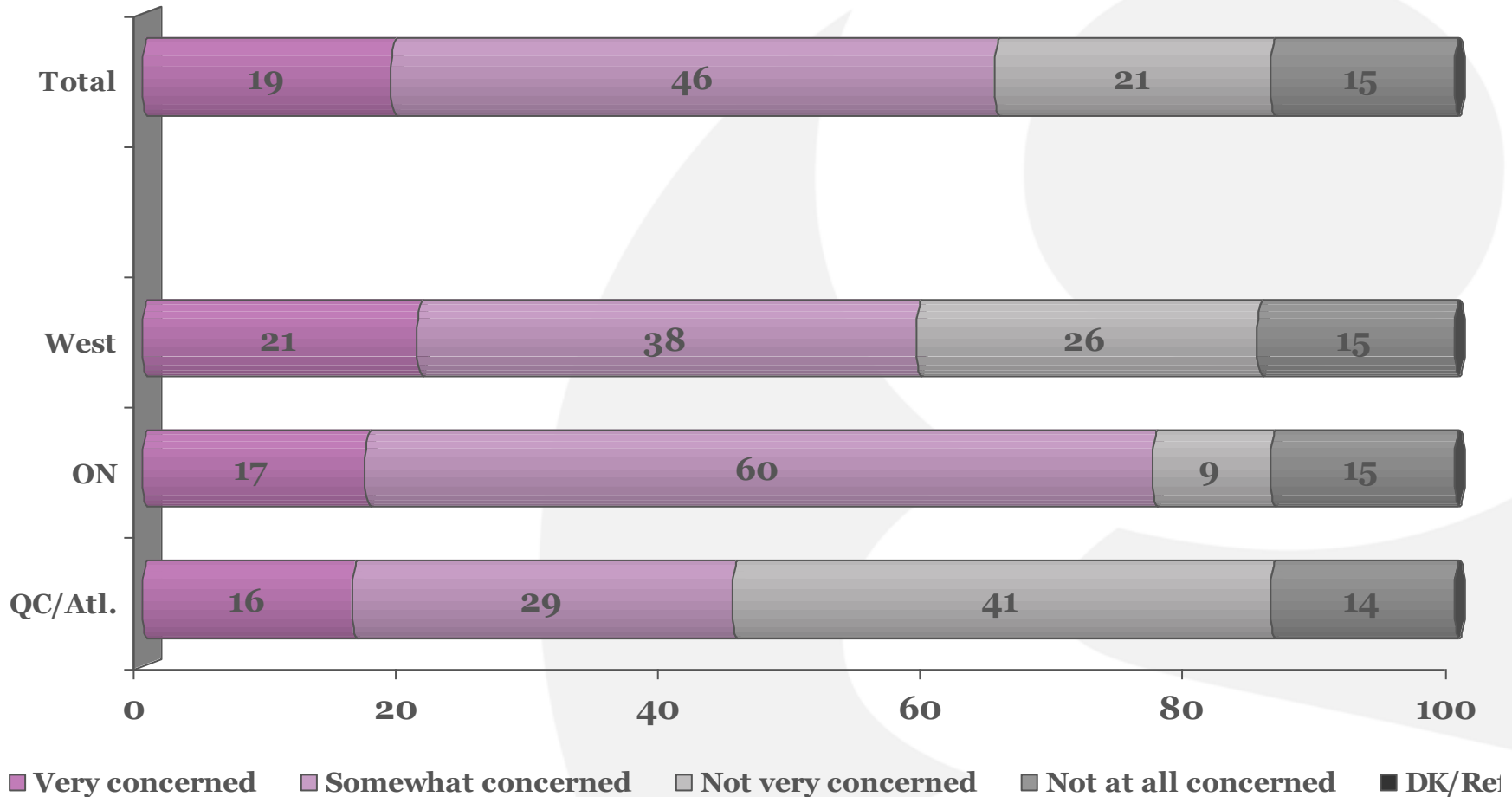


- ❑ The value of the Canadian dollar polarizes executives, with some fearing it and some cheering it. The majority of those who are “very concerned” are almost all manufacturing executives.
- ❑ Just over half of Western Canadian executives said they were concerned about labour issues – in Ontario only about one in three were as concerned.
- ❑ There is apprehended, but not current, concern about interest rates. This is an issue many will be watching, given concern about debt.
- ❑ Ontario executives are somewhat more concerned than others about this and other monetary and fiscal issues. They’re somewhat more concerned about energy prices, high personal debt levels, inflation and government deficits.



Gov. Deficit Concerns

“As you look ahead to the next twelve months and think about your business, how concerned are you about each of the following: Government deficits”





- ❑ The possible Budget priorities around which there is the most consensus are education, training and R&D, followed by investments in transport and infrastructure and debt reduction.
 - Training and education along with R & D investments are popular in all sectors, especially among manufacturing executives. This group would also favour investments in development of renewable technologies.
 - Strong support for training is up 12 points over last year, when 46% strongly supported “enhanced investments in training.”
- ❑ Despite their anxieties about government debt, Ontario executives were no more likely to want a faster reduction in the deficit than Western Executives. Ontario executives still want to see investments in public infrastructure and transportation - half said this should be a high priority.

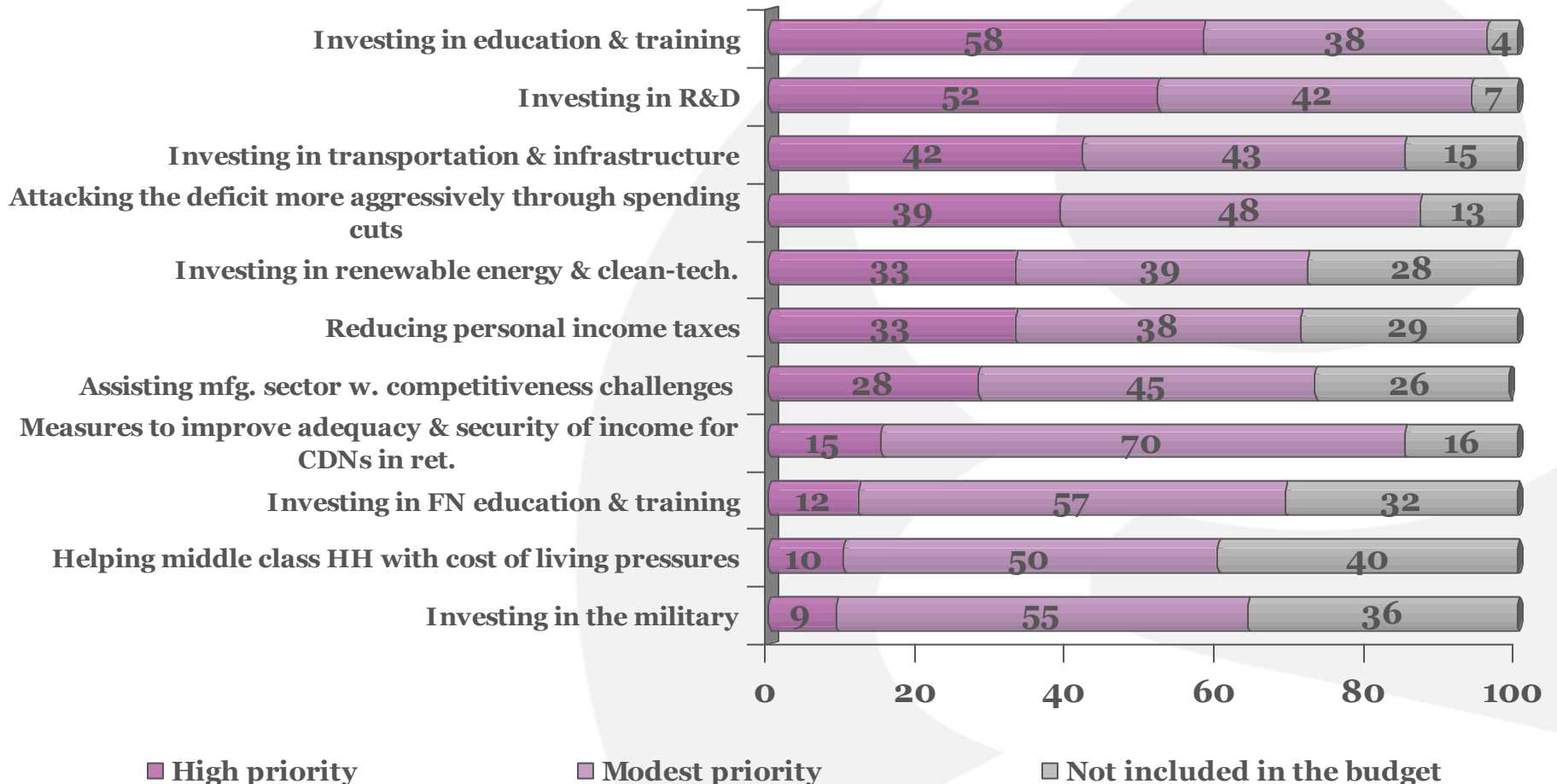


- ❑ Executives tend not to see assistance to individuals or funding the military as high priorities, nor do they want to put a special focus on First Nations training and education.
- ❑ Neither do they think the government should be doing more to assist the manufacturing sector directly, despite the fact that there was a very strong consensus among those surveyed that Canada needs a large and successful manufacturing sector.



Federal Budget Priorities

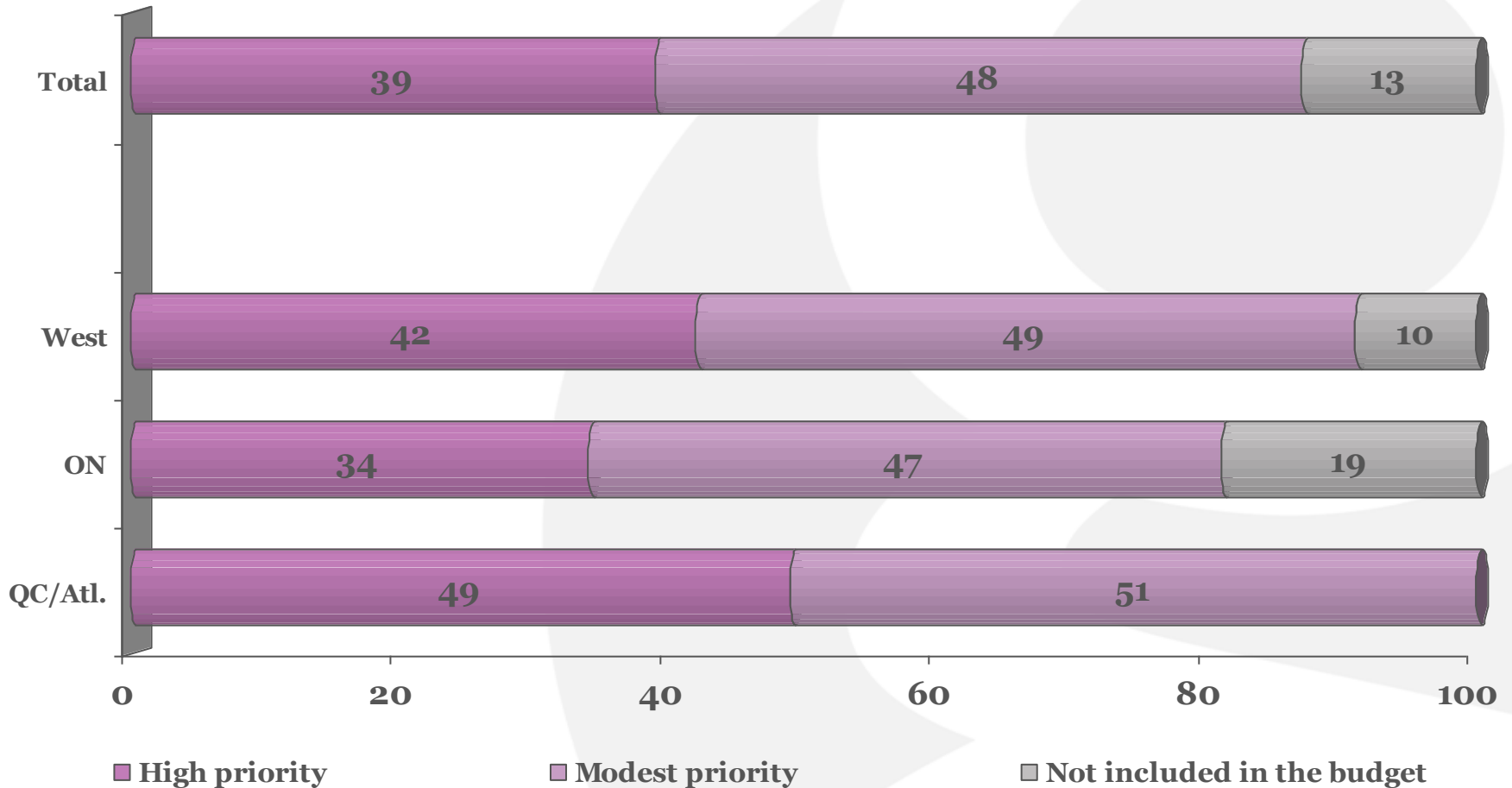
“The federal finance minister has announced that a federal budget will be introduced in March. I’d like to know whether you believe each of the following should be a high budget priority, a modest budget priority, or not included in the budget:”





Federal Budget Priorities

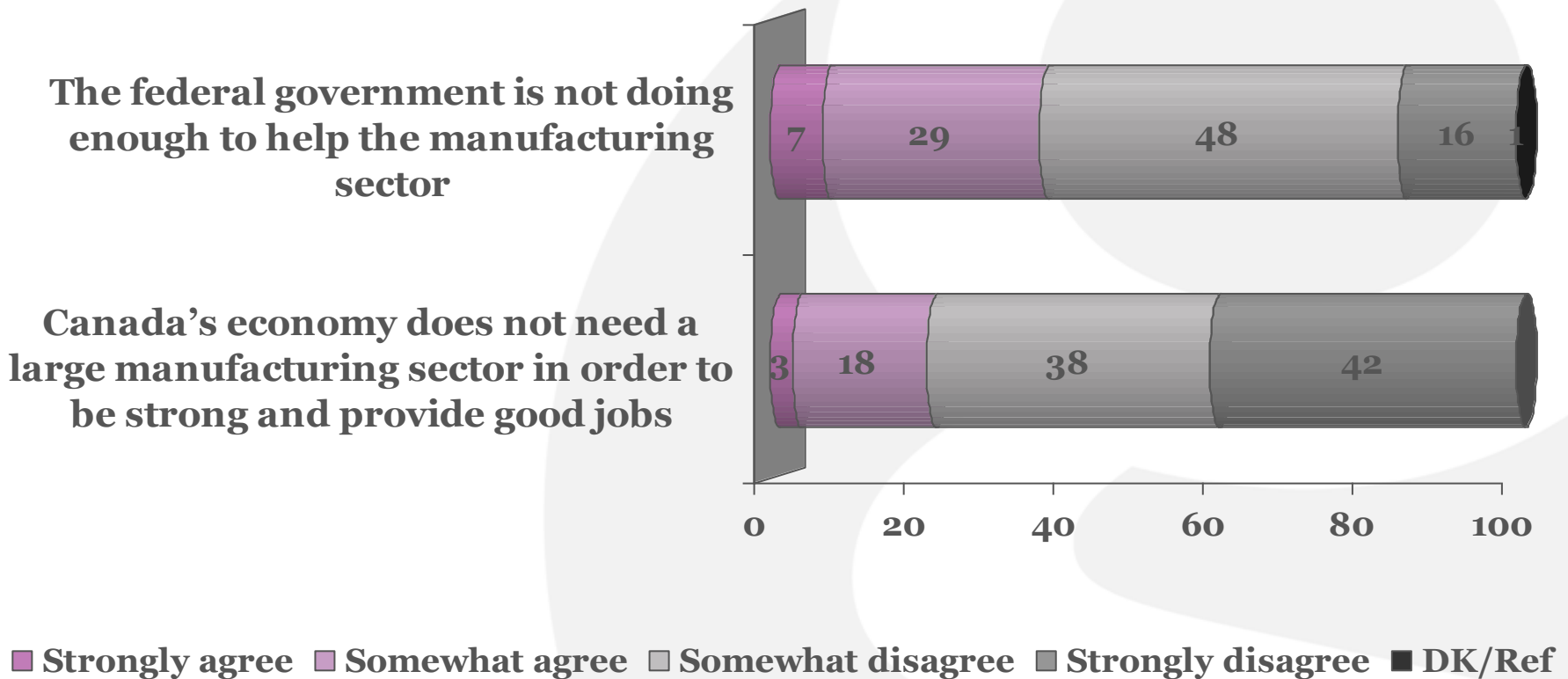
“The federal finance minister has announced that a federal budget will be introduced in March. I’d like to know whether you believe each of the following should be a high budget priority, a modest budget priority, or not included in the budget.” **Attacking the deficit more aggressively through spending cuts**





Help for Manufacturers

“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.”



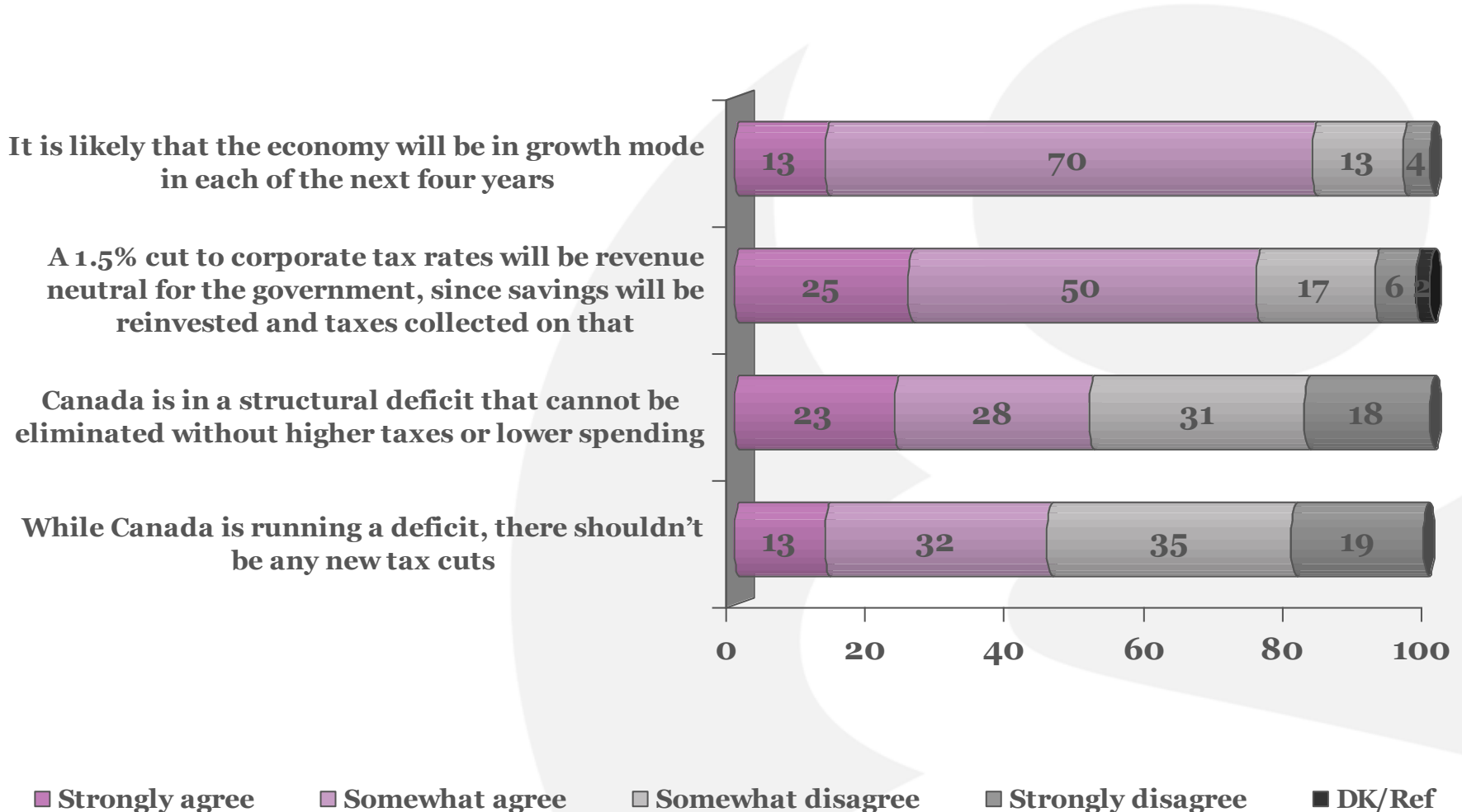


- ❑ Executives are concerned about the deficit, and think it needs more attention than it is getting.
- ❑ Just as they told us last year, most continue to reject the government's assertion that the deficit can be balanced by 2015 without major decreases in size of government or major increases in tax revenue.
- ❑ With stimulus programs winding down, more sustained recent growth and a better long-term outlook for the economy, executives are less likely than they were a year ago to believe a tax increase will be necessary.
- ❑ If there is unexpected fiscal room, executives would apply almost half to deficit reduction, prioritizing it ahead of either tax cuts or spending.



Budgetary Measures

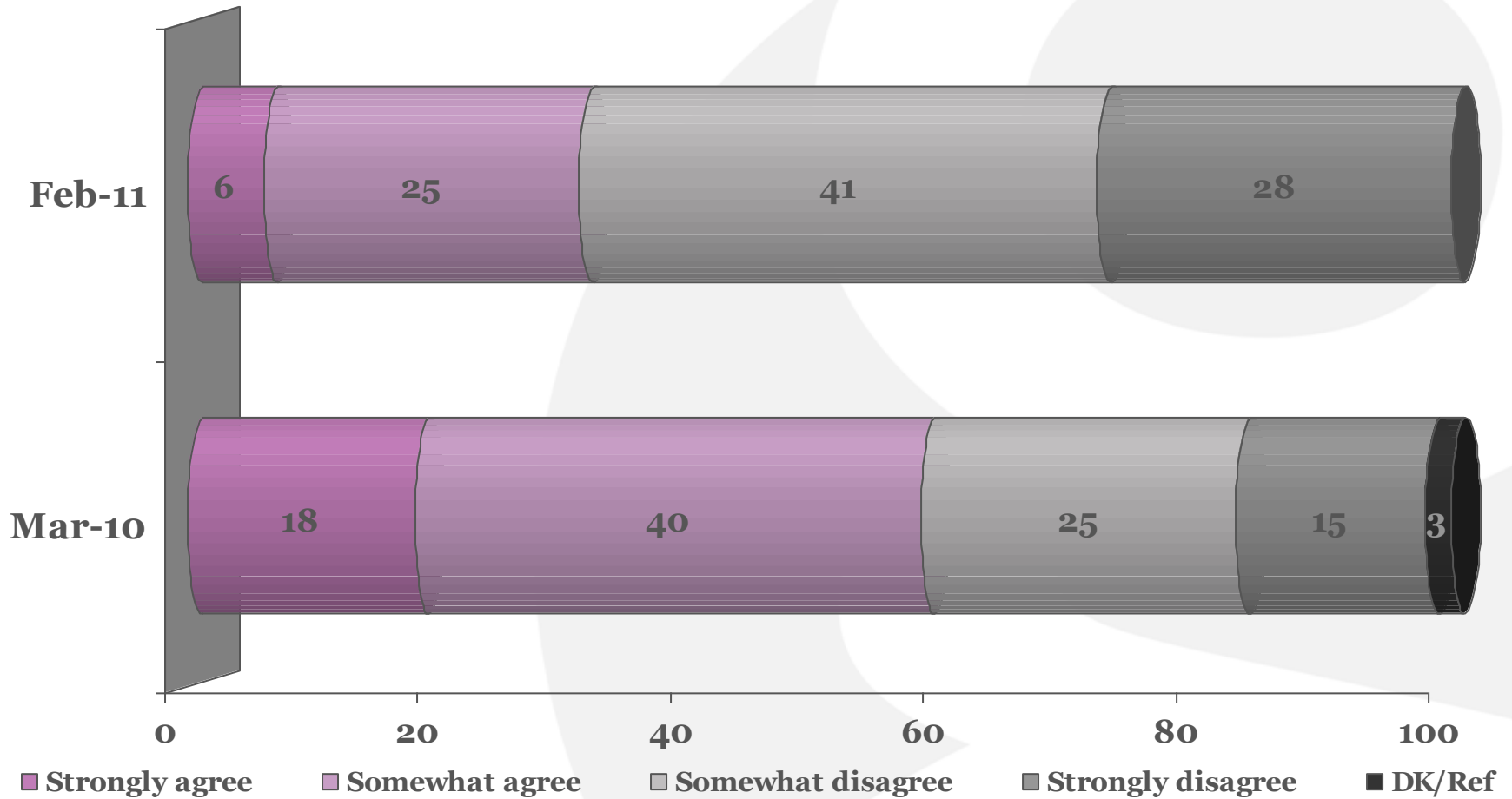
“The following are statements about the federal budget. I’d like to know if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.”





Budgetary Measures

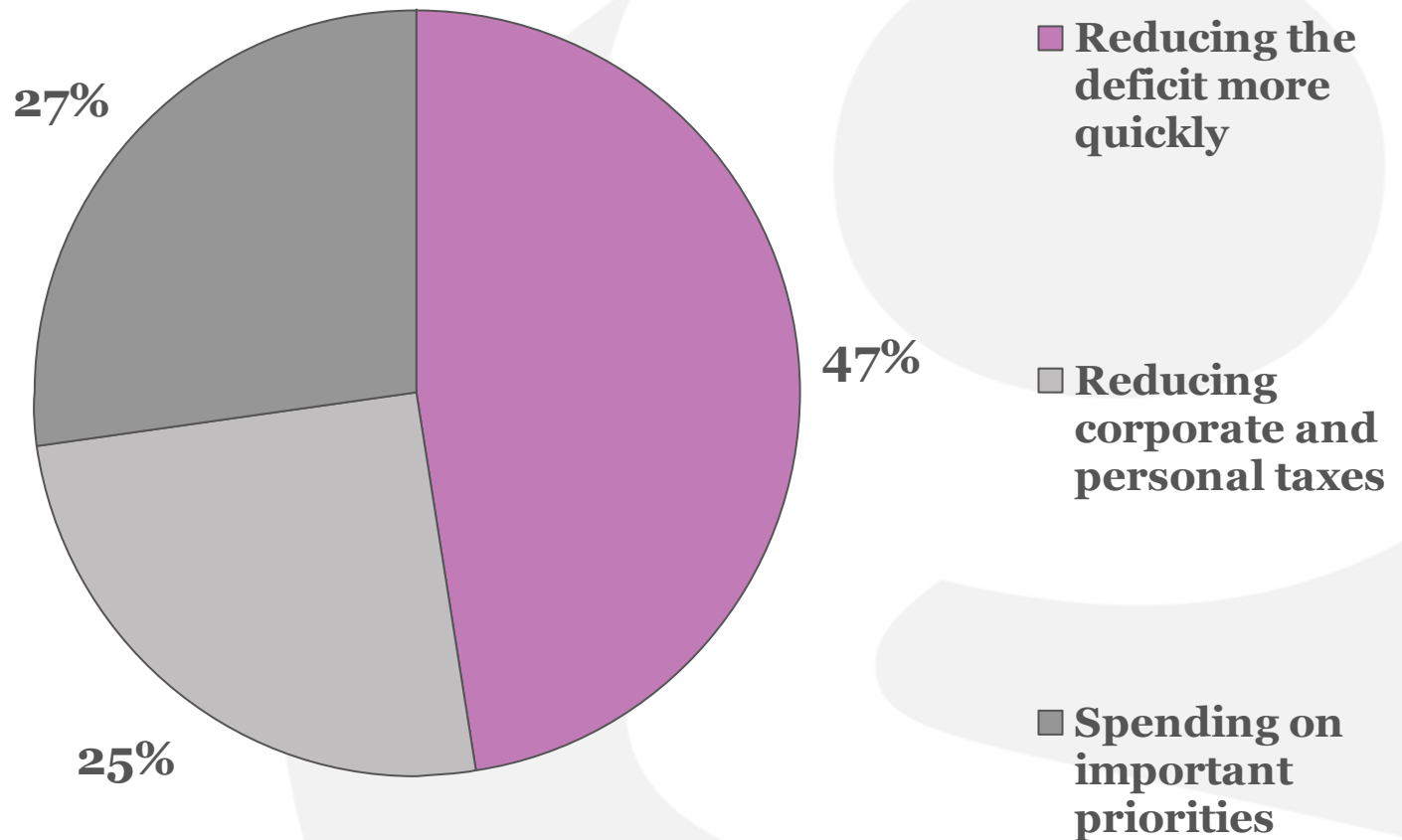
“The following are statements about the federal budget. I’d like to know if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each. **In order to eliminate the deficit, some form of tax increase will be necessary**” *2010 and 2011 responses.*





Budgetary Measures

“The federal Government’s fiscal position may be better than it thought in its last update. If there is unexpected fiscal room, what percentage of that should go to each of the following:”



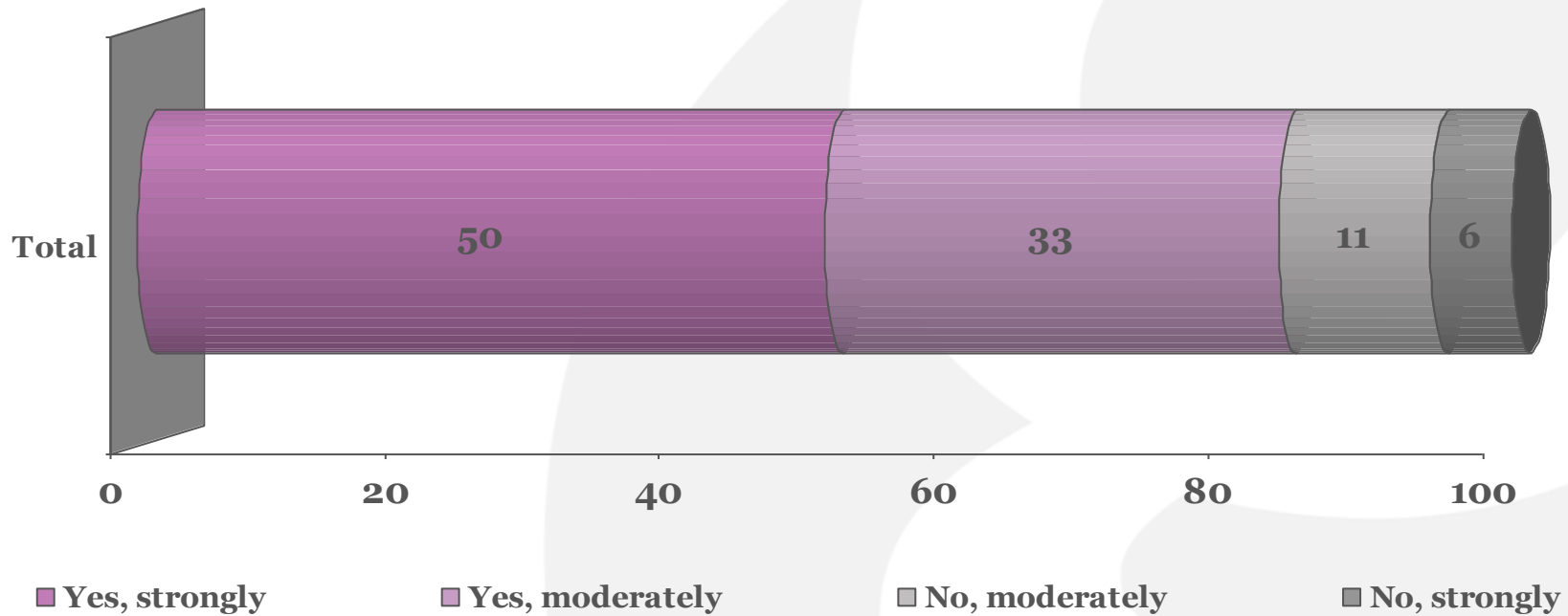


- ❑ Most executives believe currently scheduled corporate tax cuts should go ahead.
- ❑ Almost half agreed there should be no new tax cuts until the deficit is resolved. In Ontario, where apprehension about deficits is greater, a majority agreed.
- ❑ When forced to make a choice, most executives would prefer faster action on the deficit to corporate tax reductions.
- ❑ The vast majority agreed a small rate cut in corporate taxes will be revenue neutral.
- ❑ Somewhat fewer were certain about how they could reapply the resulting dividend. One in three expect the scheduled rate cut will make little difference to their company's approach. Many are likely to reinvest: either expand or boost R&D or make other investments.



Corporate Tax Rate Reductions

“Do you think reductions in the corporate tax rate that are scheduled for next year should go ahead? Do you feel that way strongly or just moderately?”

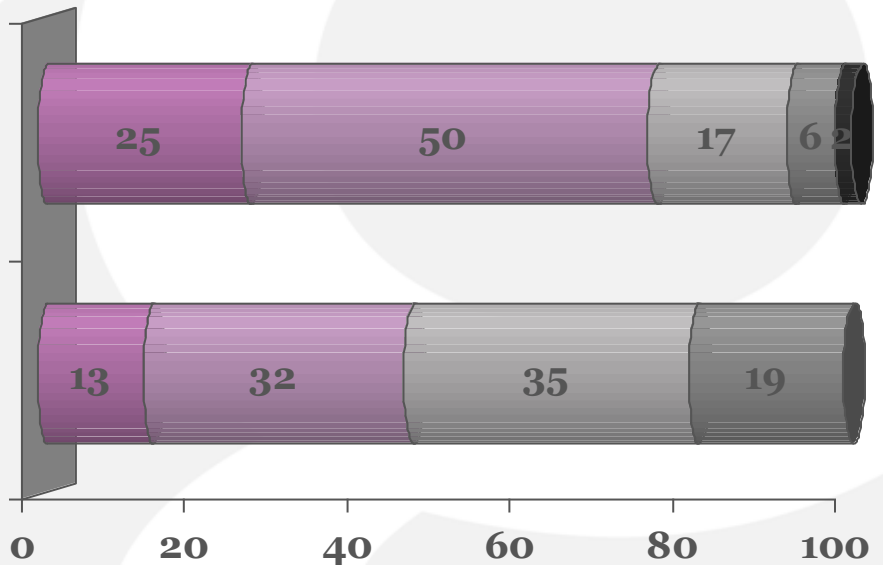




“The following are statements about the federal budget. I’d like to know if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each.”

A 1.5% cut to corporate tax rates will be revenue neutral for the government, since savings will be reinvested and taxes collected on that

While Canada is running a deficit, there shouldn’t be any new tax cuts

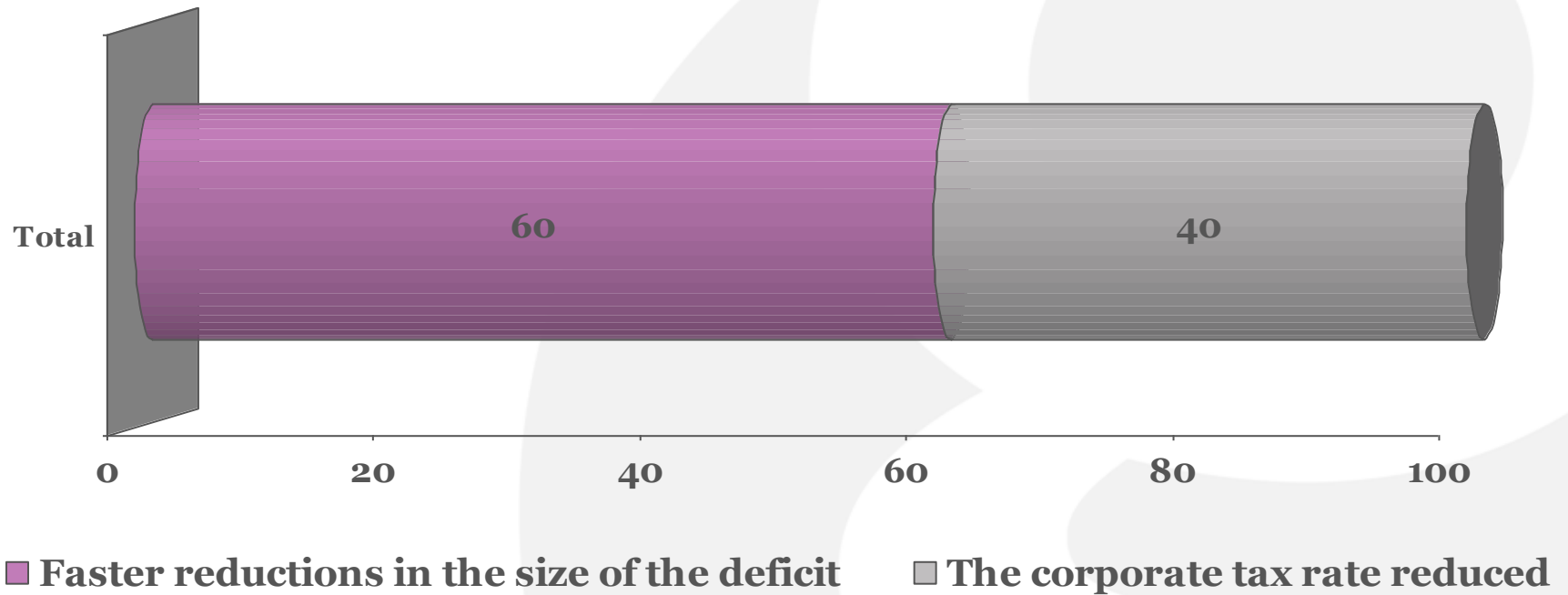


■ Strongly agree ■ Somewhat agree ■ Somewhat disagree ■ Strongly disagree ■ DK/Ref



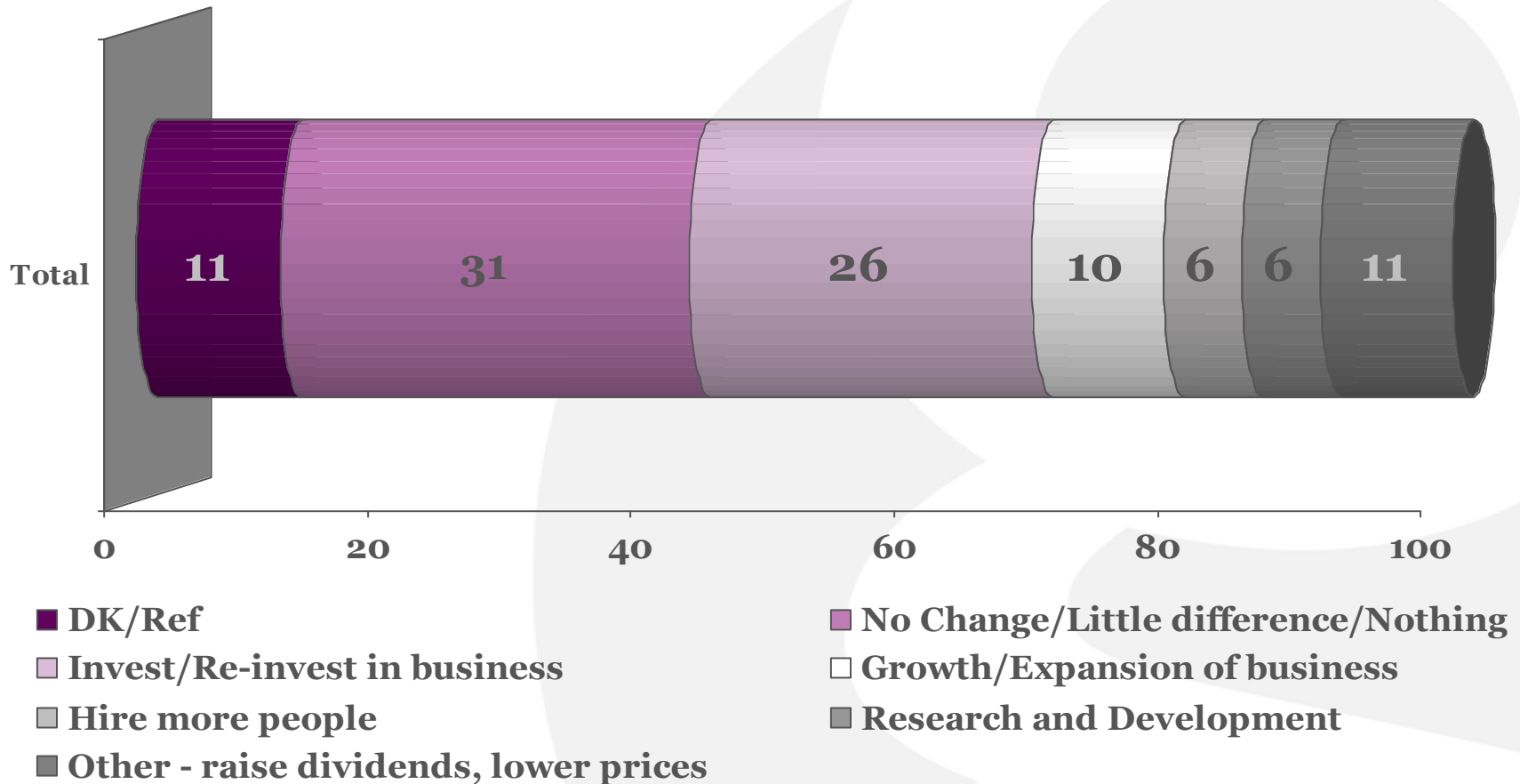
Corporate Tax Rate Vs. Deficit

“Would you prefer seeing faster reductions in the size of the deficit or the corporate tax rate reduced?”





“What will you do differently as a business as a result of a reduction in corporate tax rates?”



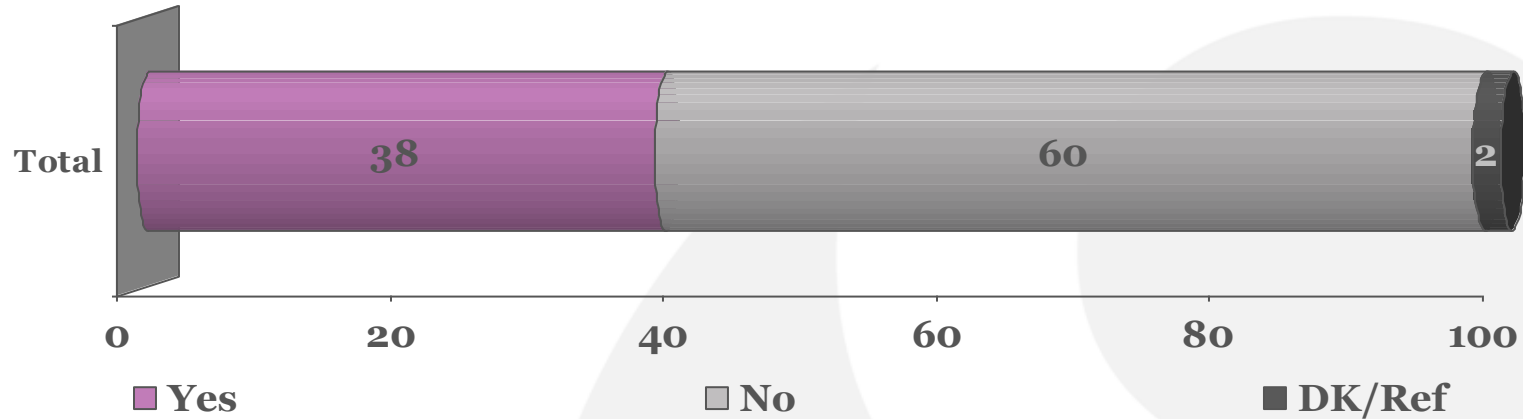


- ❑ While retirement income concerns were not the highest priority for executives, very **few** said the federal Budget should **not** address the issue.
- ❑ Most agreed the CPP/QPP is not a reliable source of retirement income for the future. Just over half believe individuals should not rely on savings alone – though many did people they should be expected to.
- ❑ The idea therefore of expanding the CPP/QPP with higher premiums for larger benefits is a polarizing one.
 - Most in the West oppose this measure, most in the East support it.
 - Larger companies – those with more than 1000 employees - were somewhat less likely to strongly support increased premiums.
 - Indeed, executives of the majority of ROB 1000 companies – which have less than 1000 employees – are not likely to offer pension plans to their executives, particularly among the many resources companies on the ROB 1000, so many of which are smaller in size.

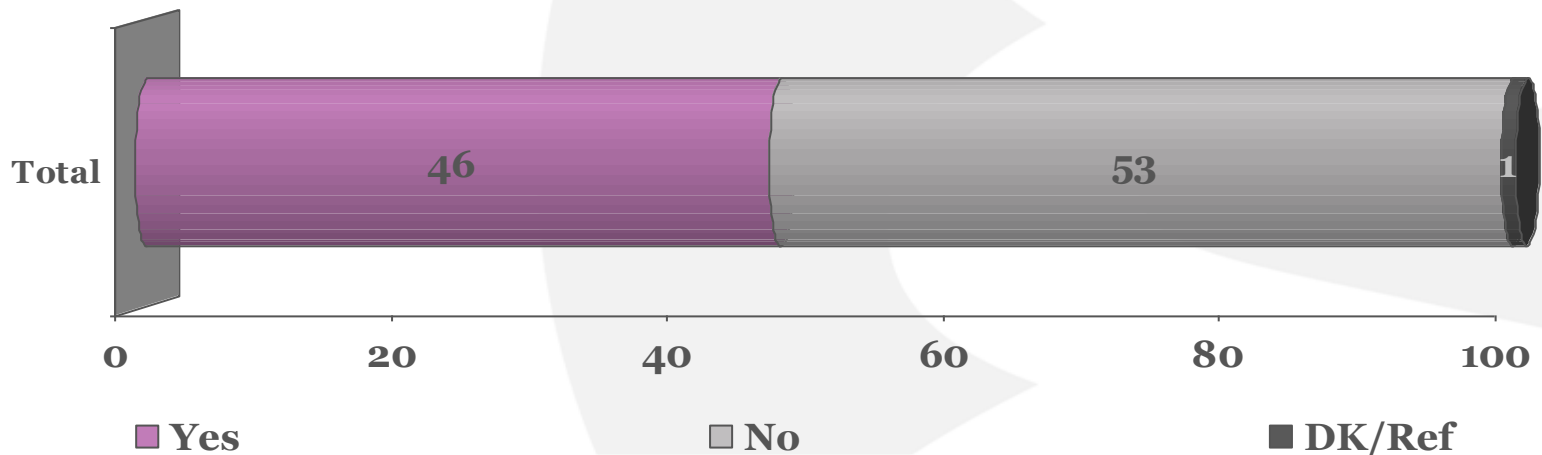


CPP/QPP as Retirement Income

“Do you think the Canada Pension Plan or CPP/Quebec Pension Plan or QPP is a reliable source of retirement income for the future?”



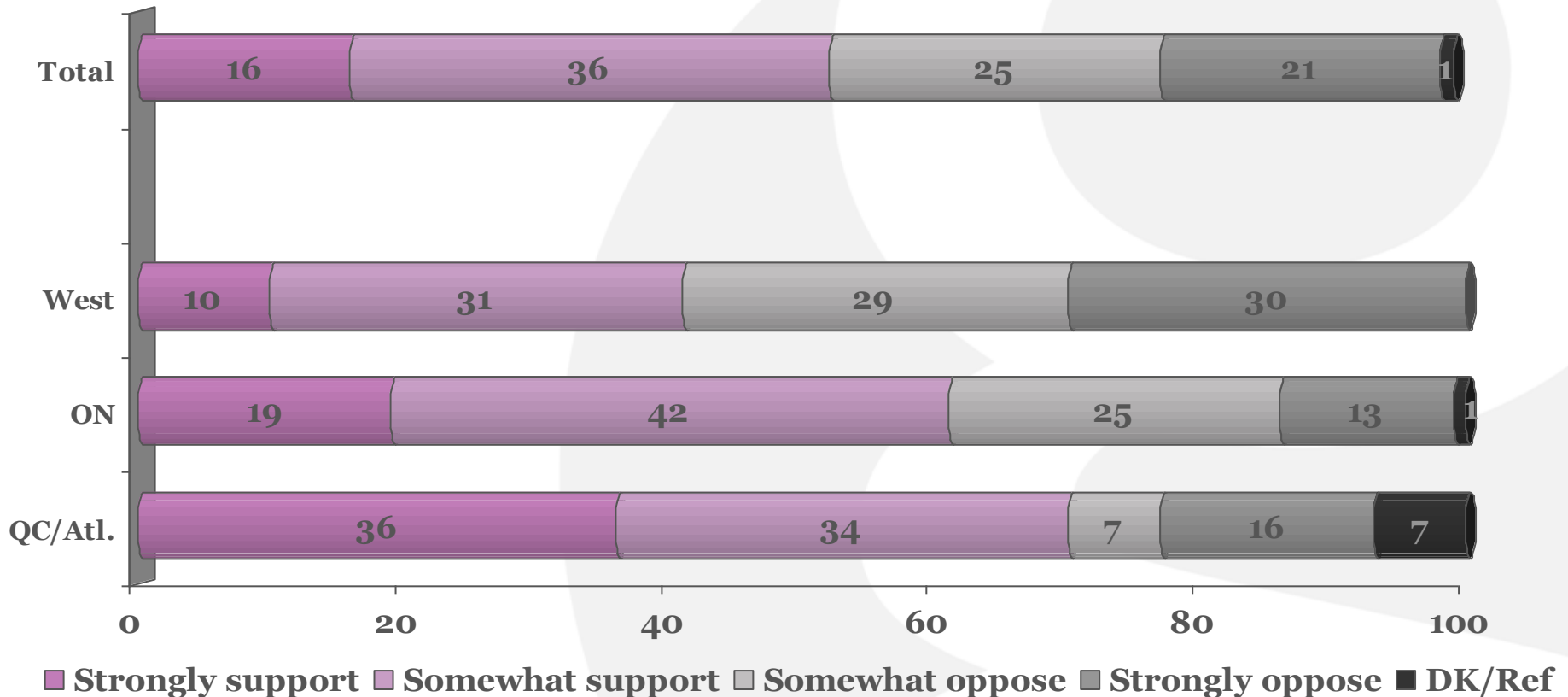
“Do you think that people should be expected to be able to fund their retirement entirely through personal savings?”





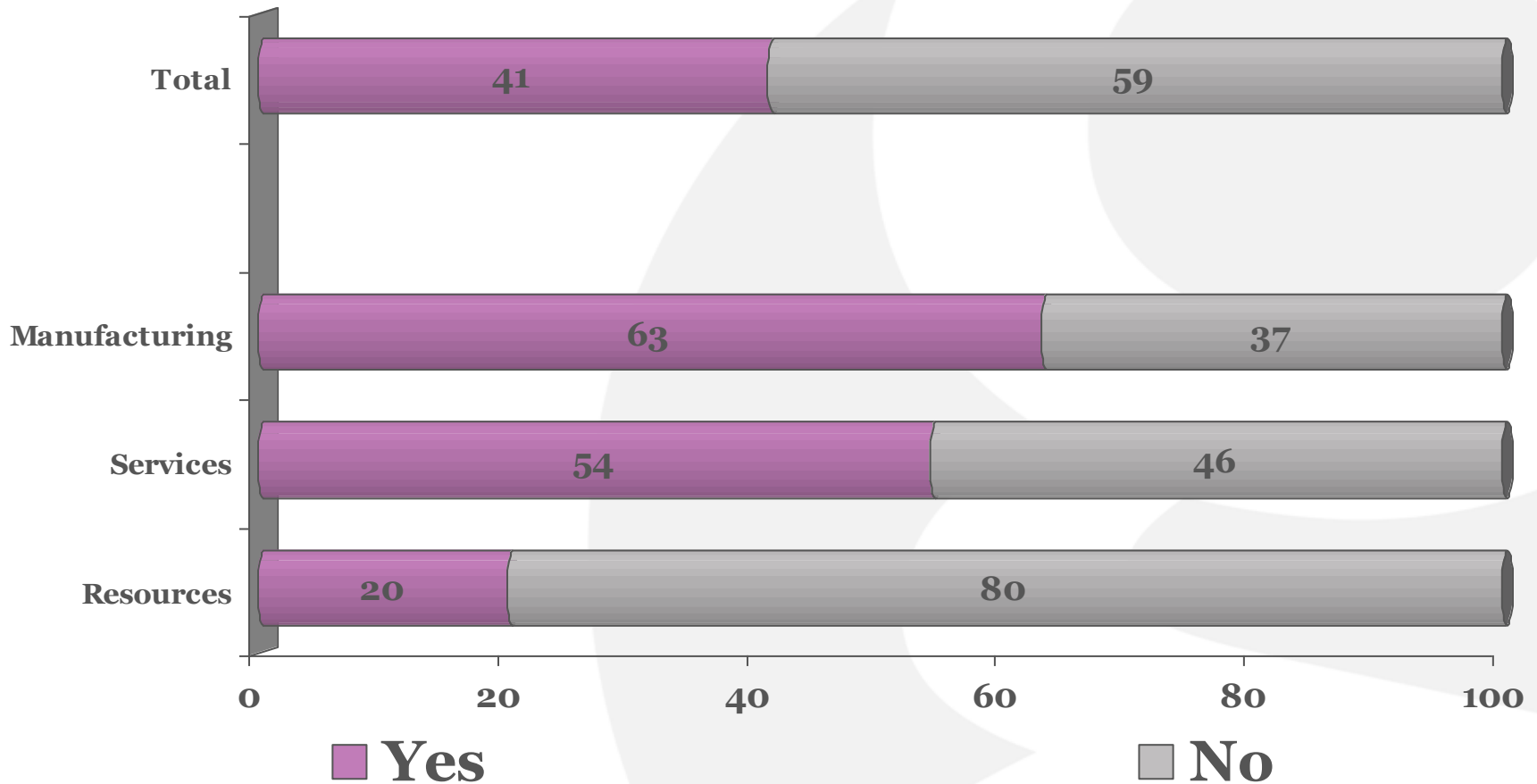
CPP/QPP as Retirement Income

“Some people have proposed that the (CPP/QPP) benefit be increased as a way of helping provide adequate retirement income to people with no pensions and insufficient savings. Would you strongly support, somewhat support, somewhat oppose or strongly oppose increasing the employee and employer premiums paid to the (CPP/QPP) to pay for larger benefits?”





“Do you personally have a pension plan through your company for your retirement?”



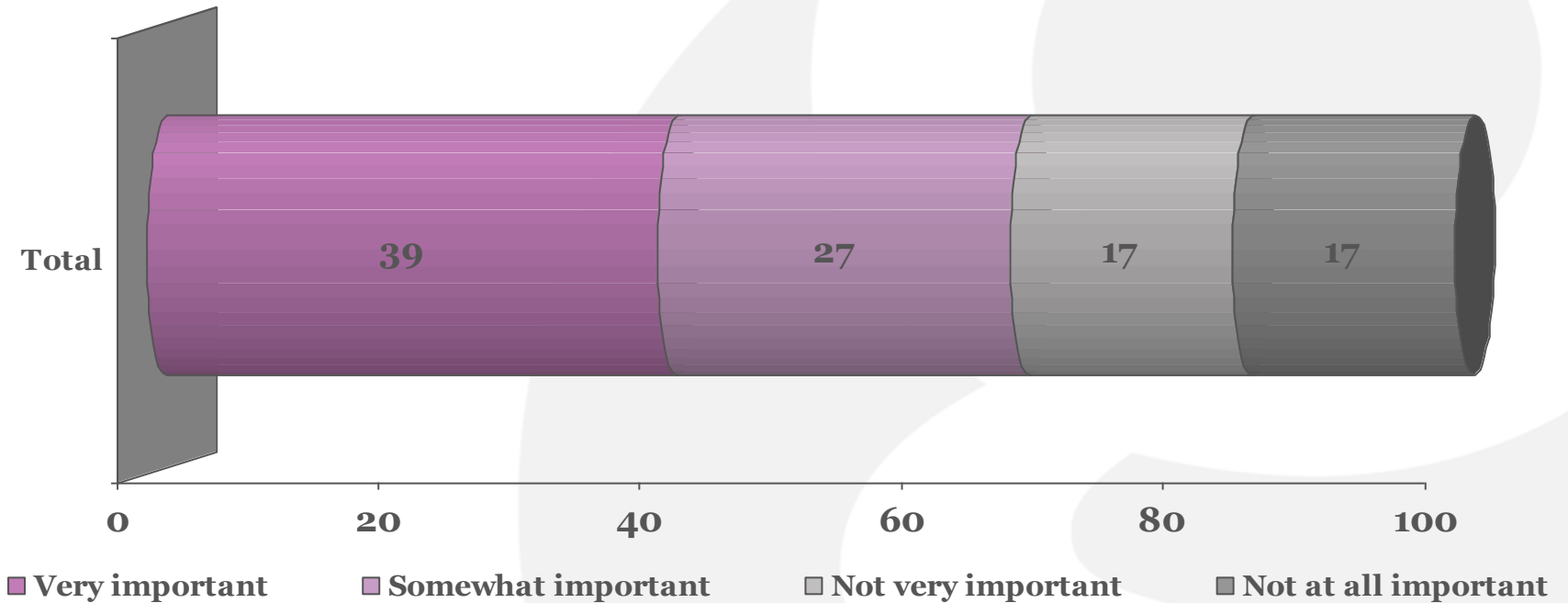


- ❑ The perimeter discussions have the strong support of business leaders. Four in ten executives said it's very important to their companies that Canada and the US improve border crossings and customs, and among manufacturers it's higher still.
- ❑ Despite the fact only a minority said it's very important to their companies, virtually all executives support specific steps to change how goods and people are managed at the border – almost none see a downside:
 - Almost all support standardizing certain regulations and accepting the other country's standards to streamline the flow of goods and trade.
 - And a majority strongly support information sharing - the vast majority support increasing intelligence and immigration file sharing between the two countries. Despite the strong support, of the two issues, this is the one that elicits at least some opposition.



Canada/US Border Management

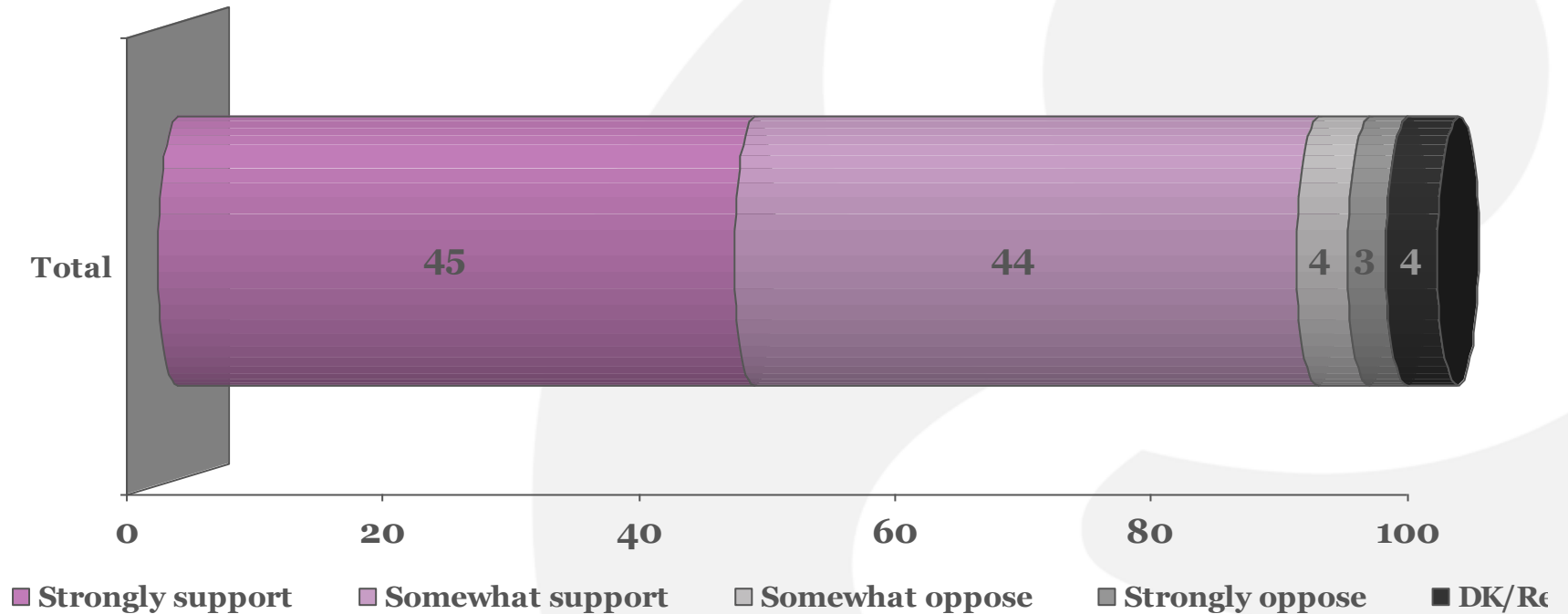
“How important is it to your company that Canada and the US improve the management of border crossings and customs? Is it very important, somewhat important, not very important or not at all important?”





Canada/US Imported Goods Management

“The Canadian government is considering accepting American standards and regulations on some products imported into Canada to make the processing of goods and compliance at the border more efficient. Would you say you strongly support, somewhat support, somewhat oppose or strongly oppose such a proposal?”





Canada/US Immigration Management

“The Canadian government is considering sharing more intelligence and immigration information with the US to enhance security and border management. Would you say you strongly support, somewhat support, somewhat oppose or strongly oppose such a proposal?”

