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## Inside Canada's C Suites: More Growth Ahead

Ottawa - June 12 2006. Canadian business executives are decidedly optimistic about the economy but concerned about the potential impact of the Canadian dollar and the paucity of skilled labour. And while that is the overall picture, the regional variation is quite significant, both in terms of expectations for the economy and the challenges it faces. The C suite reacted positively to the budget, despite somewhat weaker marks for measures to enhance productivity where business believes it matters - a strong supply of skilled labour, an open border with the United States, lower personal income taxes and a dollar value that does not price them out of key markets.

Overall, 91% of executives expect the Canadian economy to grow in the next 12 months. This is even slightly more optimistic than Canadians as a whole, 76% of whom when asked this question earlier this year thought that the economy would continue on its rosy path. Nonetheless, the C-suite sees some storm clouds on the longer term horizon.

Concern is growing about the US economy. Between February and May of this year those expecting the US economy to decline rose from 33% to 41%. CFO's are even more pessimistic with more than half expecting a decline compared to just 29% of CEO's. Obviously, despite this rising tide of concern, Canadian executives and Canadians in general are more confident about the direction of their country and economy and of its ability to withstand a downturn in the United States.

Domestically, the concern stems more from roadblocks than storm clouds. Both the crying need for skilled labour and the right human resources and the high value of the Canadian dollar loom as potential blockages to continued growth. One potential wild card in this remains the US border. With approximately \$2 billion in trade between the two countries every day, delays or blockages at the border could have a serious impact. The recent terrorist arrests in Ontario and US plans to

impose an identity card requirement for border crossings are worrying. Half of C-suite executives believe measures to improve the efficient movement of goods, services and people across the border would have a very positive impact on productivity – the single highest support for any measure, with a further 42% believing it would be somewhat positive.

For all that, executives overall are smiling about the fortunes of the economy and their own companies. 92% of executives expect to their company to grow with 50% saying they expect strong growth. That optimism is relatively evenly spread across all sizes of business. Smaller companies – those employing fewer than 150 people – to larger companies – employing more than 1000 employees – share an almost expectation for strong growth (22% to 24%) with a small increase in expectations for moderate growth among smaller businesses (72% to 65%). The recent job growth numbers for the Canadian economy – 97,000 new full-time jobs in May alone and the highest employment rate ever – reflects and reinforces these trends.

In the West, the economy is hopping and Canadian c-suite executives don't see it ending any time soon. 95% expect growth with fully 32% expecting strong growth. And while very few Western executives see the high Canadian dollar as much of an issue (just 5%), the crying need for human resources of all kinds has their attention, with 40% saying it is their number one challenge.

The challenges to sustained growth also vary with company size. Only 4% of small businesses identify exchange rates as a challenge (compared to 27% of medium-sized and 20% of large enterprises). Conversely, 29% and 32% respectively of large and medium – sized businesses are primarily concerned about human resources with only 14% of small businesses sharing the same view. On the whole, small businesses rank access to capital and issues involving growth/sales and funding as equally or more important challenges (at 14% and 16% for each in turn).

In Ontario and Quebec, manufacturers are confronting the cost challenges of a rising dollar, with it being the number one overall concern for 23 and 28 % of executives respectively. And not surprisingly, the C-suite in the manufacturing sector is very concerned, with 43% of its executives focused on exchange rates.

Unlike the West, the demand for labour is not as immediate in Ontario and Quebec, with only 15% and 8% identifying it as their biggest worry.

When it comes to the budget, executives across all sectors and regions paid attention, gave it good marks and thought better of Finance Minister Jim Flaherty as a result. Almost three-quarters of executives rated the budget as good, largely because it did what the party promised during the election campaign and because it took steps to reduce the tax burden. Despite the high marks, executives don't see it as a productivity budget - a majority of executives report that the budget will have no impact on productivity.

Minister of Finance Flaherty now has almost three quarters of Canadian executives having a favourable impression of him – a thirty percent increase since February 2006, when a majority of executives were withholding judgment.

Canadian business nonetheless has a clear message for the Finance Minister – they want the federal government to focus its efforts on measures that enhance productivity and executives have a very clear idea of what those are: ensuring the efficient movement of goods, services and people across the US-Canadian border (92%), reducing personal income taxes (92%), improving transportation infrastructures (91%) and an easier integration process for credentials approved in other jurisdictions (82%).

The desire for a productivity agenda was also a key finding of our last survey of executives in February and explains the high support for the measures outlined above. This presents a longer term challenge for the Conservative government in aligning its policies with those of the Executive Suite. The GST cut, to be implemented July 1 of this year and the further 1 per cent cut promised later will use up a significant part of the fiscal room of the federal government for other tax cuts. While tax cuts of any kind are supported by business, tax cuts that push productivity are strongly preferred – such as personal income tax cuts and continuing reductions in corporate income and capital tax rates.

In the short term however, there is much enthusiasm for the Harper government among Canadian businessmen and women. Despite the significant consensus in the C-suite about the new government and the policy directions the country needs, Ontario-based executives reflect to some degree that provinces' greater skepticism about the Conservatives. Ontario business has confidence in Jim Flaherty's management of the economy but less so than anywhere else in the country and were the least positive about the budget's impact on productivity.

One area where the policy focus of the government and of business diverges in part is child care, where the Harper government is trying to transfer the primary supply responsibility to the private sector from government. Two thirds of Canadian executives say that childcare policy is related to economic productivity and can be an important factor in hiring and retaining employees. However, most executives believe that child care needs of their employees are reasonably well met (51% saying they are well met), which perhaps reflects the male makeup of executive offices.

In addition, very few executives expect to take advantage of the \$10,000 tax credit to build childcare spaces, suggesting that the federal government's promise to create new spaces through the private sector will be unsuccessful. Only 3% of executives thought that it was very likely that they would create child care spaces for their employees. That being said, there was stronger support for the Conservative commitment to direct funding for parents as opposed to incentives for business or direct funding by governments. In other words, market mechanisms are the best method of addressing the need for child care.

In conclusion, business enthusiasm for the Canadian economy and the Harper government is strong and the Executive Suite expects more good news to come, with continued growth and a federal government that will respond to its needs and priorities.