

Focus on: Canada

International Business Report 2010 – Country focus series

The recovery

After a challenging year, Canada pulled out of recession in Q3 2009 posting GDP growth of 0.1 per cent, following three successive quarters of contraction. The improvement in the economy of its neighbour and major trading partner south of the border, together with the stimulus and infrastructure spending, which is due to peak in 2010, has underpinned the recovery. However, consumer spending remains depressed due to rising unemployment.

The key indicators¹ are highlighted below:

- real GDP grew by 1.2 per cent quarter-on-quarter in the three months to December, although this represented a 1.2 per cent year-on-year contraction
- investment continued to improve in the fourth quarter; gross fixed capital formation posted a quarter-on-quarter increase of 1.6 per cent
- exports, which had been in decline since the end of 2007, grew by 2.9 per cent in the third quarter of 2009, accelerating to 3.7 per cent in Q4
- imports bounced back in the third quarter, posting an increase of eight per cent from the previous quarter, slowing to 2.2 per cent in Q4
- the unemployment rate dropped by 0.1 percentage points to 8.2 per cent in February as 21,000 jobs were added to the economy.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Canada, the experiences and attitudes of its privately held businesses and how they have been affected by the economic crisis, along with how they are dealing with recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Canada are considerably more optimistic on the outlook for the economy over the next 12 months in 2010, than they were in 2009, with the majority of businesses believing that they will see an upturn in the global economy in the second half of 2010 to 2011. Expectations for revenue, profitability and employment growth are all markedly more positive this year.



¹ Source: International Monetary Fund, The Economist and Experian.

Looking ahead

A robust recovery is expected in the Canadian economy. Strong stimulus and infrastructure spending, improving credit conditions and a revival in exports are expected to underpin growth of 2.6 percentage points in 2010, rising to 3.9 percentage points in 2011.

Lower interest rates and improving consumer confidence should help consumer spending increase by 2.3 percentage points in 2010, before accelerating to 2.7 percentage points in 2011. However, the unemployment rate is forecast to average 8.7 per cent across 2010 – before falling to 7.8 per cent in 2011 – which may dampen consumer confidence.

Following declines of 4.7 percentage points and 13.8 percentage points in 2008 and 2009 respectively, exports are forecast to bounce back to 7.6 percentage point growth this year, accelerating to 9.8 per cent in 2011. Meanwhile, imports are expected to increase by 10.2 percentage points this year.

As the economy exits recession, all businesses will need to face new challenges and take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for PHBs

Canada compared to the NAFTA average	2008	2009	2010	2010
	Canada	Canada	Canada	NAFTA
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+41%	+3%	+62%	+23%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+31%	-3%	+22%	+16%
Constraints on expansion				
Lack of availability of a skilled workforce	41%	40%	30%	13%
Regulations/red tape	27%	24%	24%	31%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can help you deal with the challenges of a new world economic order.



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International Business Report results

The Grant Thornton IBR 2010 reveals that privately held businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Canada are much more optimistic about prospects for 2010; their optimism/pessimism balance² has risen 59 percentage points from +3 per cent in 2009 to +62 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile, although it should be noted that this survey took place before the devastating recent earthquake. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

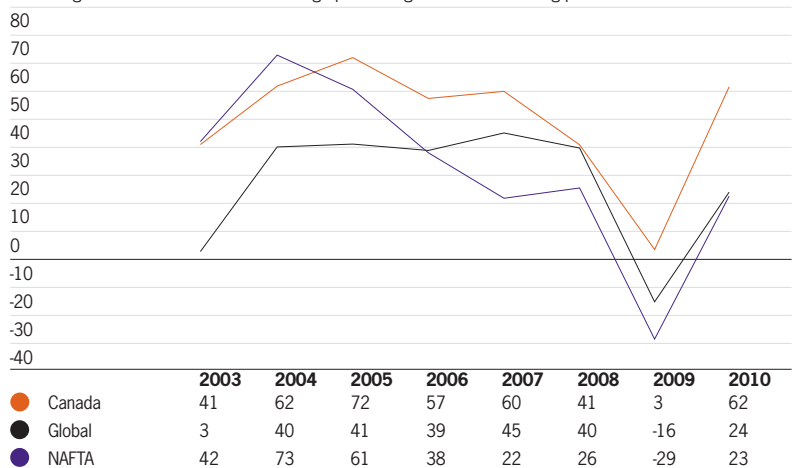
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

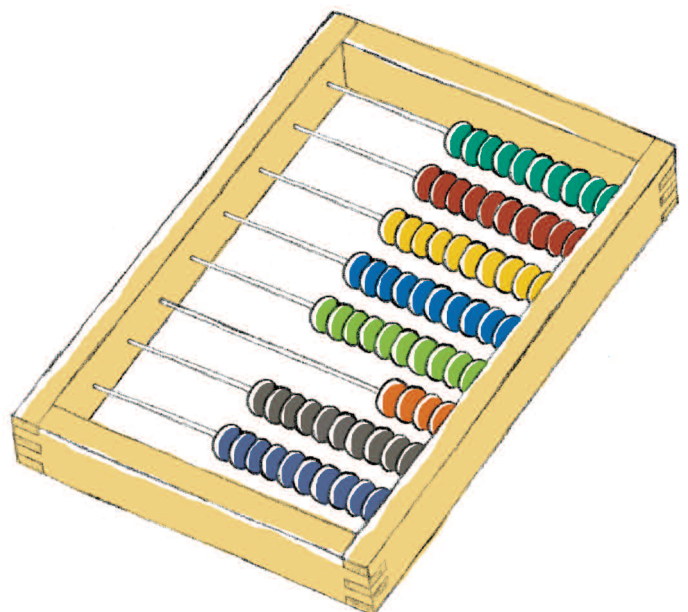
- businesses in Canada are considerably more optimistic about their country's economic outlook (+62 per cent) compared with 2009 (+3 per cent)
- optimism amongst NAFTA businesses has risen by 52 percentage points this year, whilst the global average has risen by 40 percentage points.

Figure 2: Outlook for the economy over the next 12 months: 2003-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



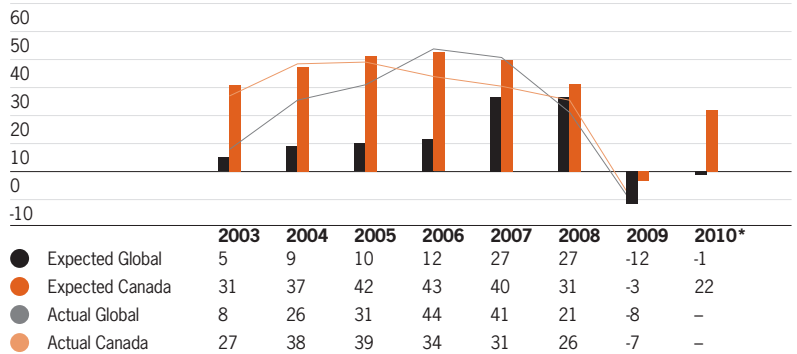
² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Employment

- a balance of 22 per cent of businesses in Canada expect employment to grow in 2010, compared with -1 per cent of businesses globally
- actual employment contraction reported by businesses in Canada in 2009 (-7 per cent) was more severe than expected 12 months previously (-3 per cent).

Figure 3: Employment history: 2003-2010

Percentage balance of businesses



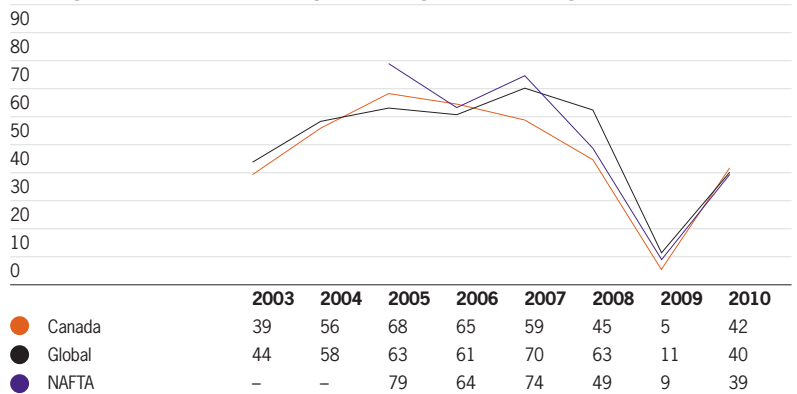
*actual 2010 data will be documented in IBR 2011
Source: Grant Thornton IBR 2010

Revenue expectations

- expectations for revenue prospects have risen by 37 percentage points; from just +5 per cent in 2009 to +42 per cent this year
- the NAFTA average has risen by 30 percentage points and the global average by 29 percentage points.

Figure 4: Revenue expectations: 2003-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



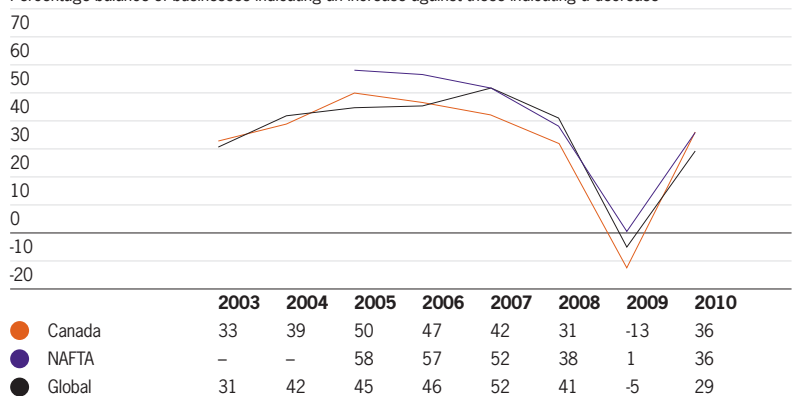
Source: Grant Thornton IBR 2010

Profitability expectations

- profitability expectations amongst businesses in Canada have also risen this year
- at +36 per cent, expectations for profitability in 2010 have increased by 49 percentage points, and are now higher than they were in 2008
- the NAFTA average has increased by 35 percentage points, marginally above the 34 percentage point global average increase.

Figure 5: Profitability expectations: 2003-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



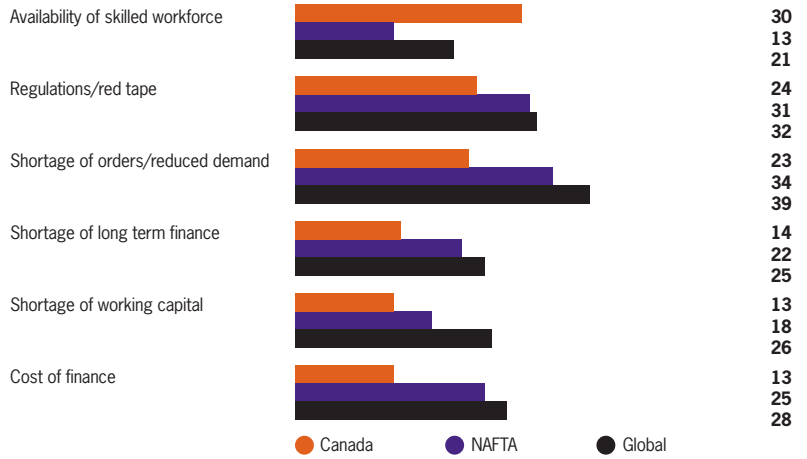
Source: Grant Thornton IBR 2010

Constraints

- as in 2009, the lack of availability of a skilled workforce (30 per cent) is viewed as the major constraint restricting expansion for businesses in Canada, although this is the least important constraint for NAFTA businesses as a whole
- financial constraints are less of a concern for businesses in Canada than for businesses globally or across NAFTA
- the greatest concern for businesses globally is shortage of orders/reduced demand (39 per cent) but this is cited by just 23 per cent of businesses in Canada.

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



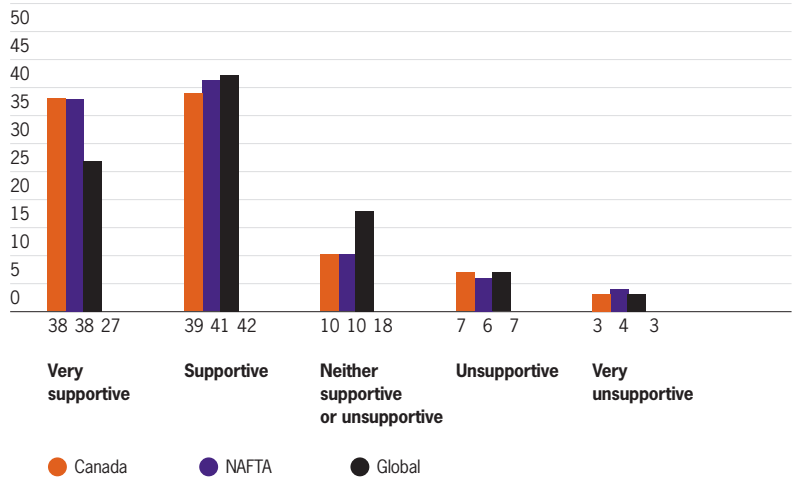
Source: Grant Thornton IBR 2010

Support of lender

- the majority of businesses in Canada are happy with the level of support provided by lenders; 77 per cent class lenders as supportive or very supportive towards their business
- this compares with 79 per cent of businesses across NAFTA and 69 per cent globally
- ten per cent of businesses in Canada, across NAFTA and globally believe that lenders are unsupportive or very unsupportive of their business.

Figure 7: Level of support provided by lenders

Percentage of businesses



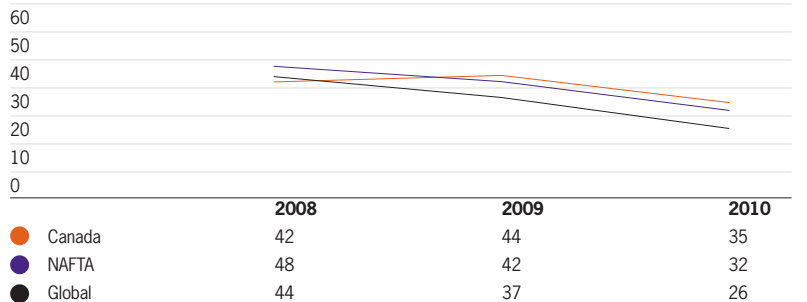
Source: Grant Thornton IBR 2010

Mergers & acquisitions

- having risen marginally last year, the proportion of businesses in Canada planning to grow through acquisition this year has fallen by nine percentage points to 35 per cent
- 84 per cent of those planning to grow in this way expect to acquire domestic businesses, whilst just 18 per cent expect to acquire across borders
- for two-thirds of these businesses the key driver is access to new geographic markets.

Figure 8: Plans to grow through acquisition in the next three years

Percentage of businesses planning to grow through acquisition



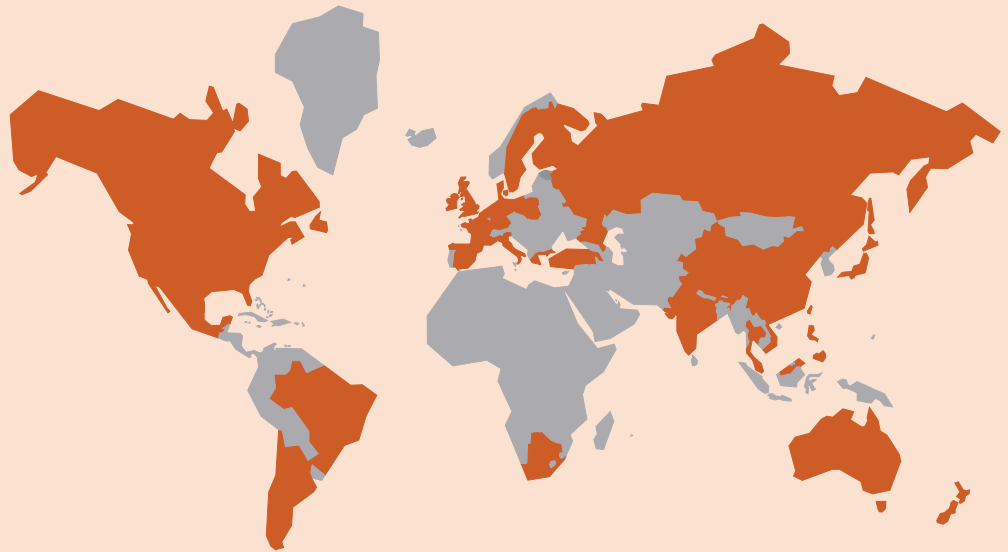
Source: Grant Thornton IBR 2010

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In Canada 300 businesses were surveyed across all industry sectors. These businesses ranged from small to large in size with total turnover of between \$15m and \$500m.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armeria	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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