

Focus on: Québec

International Business Report 2010 – Regional focus series

The recovery

After a challenging year – in which the exports contraction was the worst since records began in 1981 – the province of Québec pulled out of recession in Q3 2009 following two successive quarters of contraction. The recovery accelerated through the end of 2009 but the health of important industries such as aerospace and aluminium – which fell hard over the year – remains a concern.

The key indicators¹ are highlighted below:

- having shrunk by 0.1 per cent in the second quarter, the economy expanded by 0.8 per cent quarter-on-quarter in the three months to September; the economy is expected to have expanded by around four per cent in the fourth quarter
- exports of goods overseas rose by 5.6 per cent from November to December, but the annual decline was the largest on record at 14.1 per cent
- manufacturing sales climbed by 0.2 per cent in the three months to December, still one per cent short of the level observed at the end of 2008
- the unemployment rate dropped by 0.4 per cent to eight per cent in January, although this was 0.1 per cent higher than 12 months previously.

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 Québec, 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 Québec are considerably more optimistic on the outlook for the economy over the next 12 months than they were in 2009, whilst two-thirds expected to see an upturn in the global economy by the end of 2010 at the latest. Expectations for revenue, profitability and employment growth are all markedly more positive this year, but a lack of skilled workers remains a major constraint on potential expansion.



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

Looking ahead

Having ended 2009 strongly, growth in the Québec economy is expected to track that of Canada as a whole pretty closely over the next two years; 2.2 per cent growth is expected this year, accelerating to 3.7 per cent in 2011.

The liveliness of residential construction continues to surprise, with Québec forecast to account for 23 per cent of total housing starts over the next 24 months. Retail sales declined by 0.9 per cent in 2009, but are forecast to bounce back to 4.1 per cent this year, accelerating to 5.1 per cent in 2011. The unemployment rate is expected to peak at 8.8 per cent this year, before falling back to 8.1 per cent in 2011.

Downside risks include the persistent problems in the aerospace sector – which accounts for around 20 per cent of international exports – where aircraft orders have dropped sharply, and the strength of the Canadian dollar.



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Figure 1: Key indicators for PHBs

Québec compared to the Canadian average	2008	2009	2010	2010
	Québec	Québec	Québec	Canada
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+45%	0%	+56%	+62%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+15%	-7%	+15%	+22%
Constraints on expansion				
Lack of availability of a skilled workforce	34%	38%	30%	30%
Shortage of orders/reduced demand	38%	42%	23%	23%

Source: Grant Thornton IBR 2010



International Business Report results

The Grant Thornton IBR 2010 reveals that businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Québec are much more optimistic about prospects for 2010; their optimism/pessimism balance² has risen by 56 per cent from +/-0 per cent in 2009 to +56 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. 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.

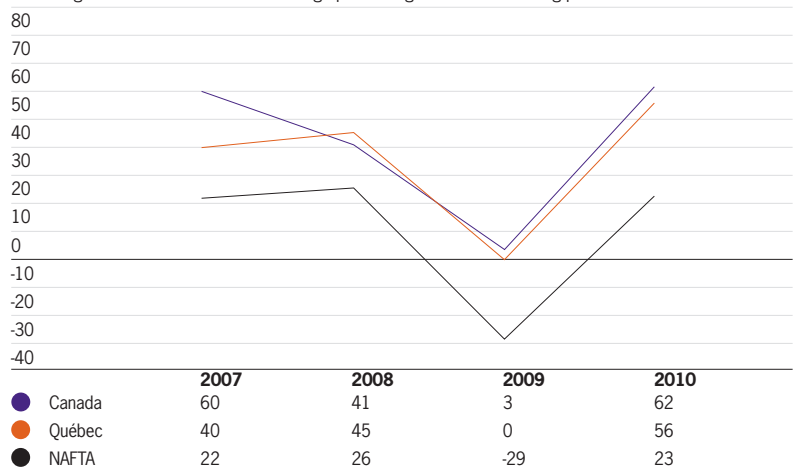
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

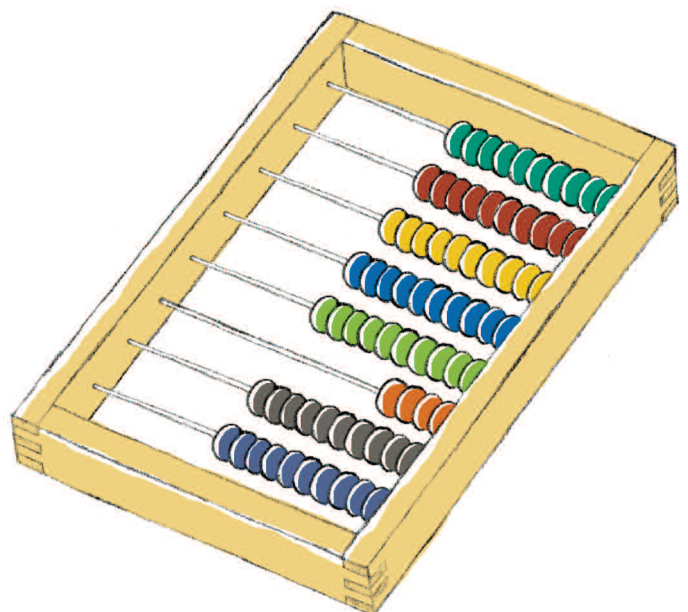
- businesses in Québec are considerably more optimistic about their country's economic outlook (+56 per cent) compared with 2009 (+/-0 per cent)
- the Canadian average has risen by 59 per cent, and the North American Free Trade Agreement (NAFTA) average by 52 per cent.

Figure 2: Outlook for the economy over the next 12 months: 2007-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



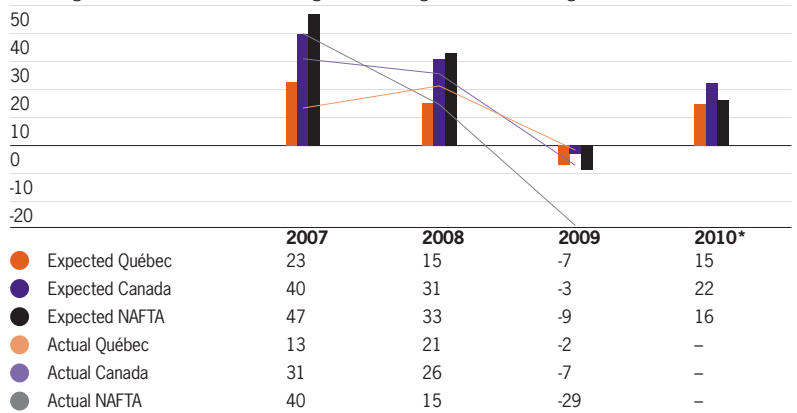
²the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Employment

- a balance of 15 per cent of businesses in Québec expect employment to grow in 2010, compared with 22 per cent of businesses in Canada as a whole
- actual employment contraction reported by businesses in Québec in 2009 (-2 per cent) was less severe than expected 12 months previously (-7 per cent).

Figure 3: Employment history: 2007-2010

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



*actual 2010 data will be documented in IBR 2011

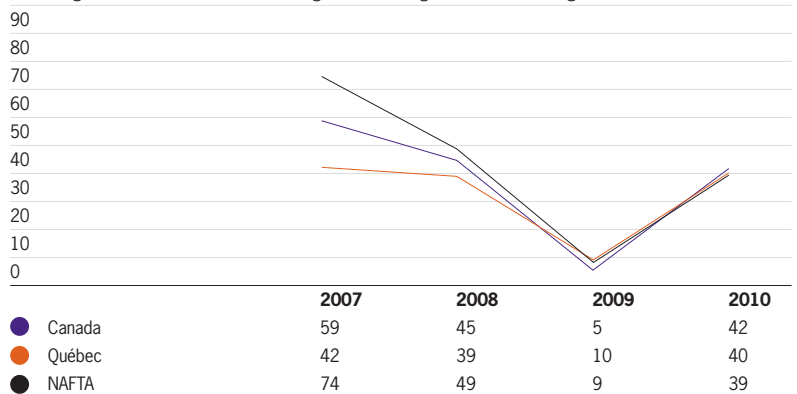
Source: Grant Thornton IBR 2010

Revenue expectations

- expectations for revenue prospects have risen sharply this year, from just +10 per cent in 2009 to +40 per cent this year
- the Canadian and NAFTA averages have risen by 37 per cent and 30 per cent respectively.

Figure 4: Revenue expectations: 2007-2010

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



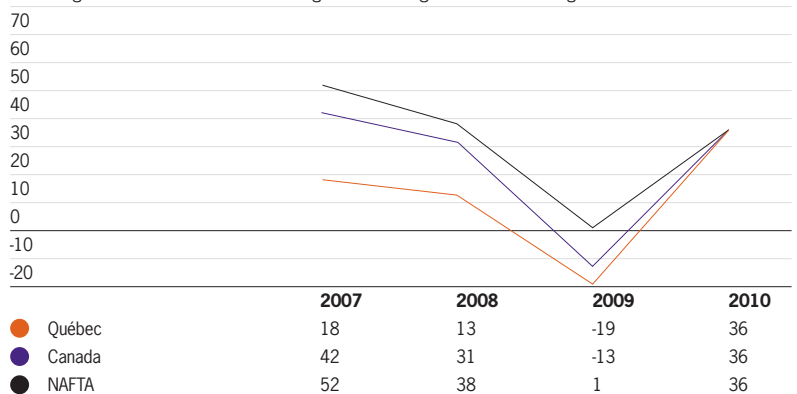
Source: Grant Thornton IBR 2010

Profitability expectations

- the balance of businesses in Québec expecting their profits to increase in 2010 has risen from -19 per cent to +36 per cent
- businesses in Canada as a whole are also more optimistic, the balance expecting to increase profits having risen from -13 per cent to +36 per cent.

Figure 5: Profitability expectations: 2007-2010

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



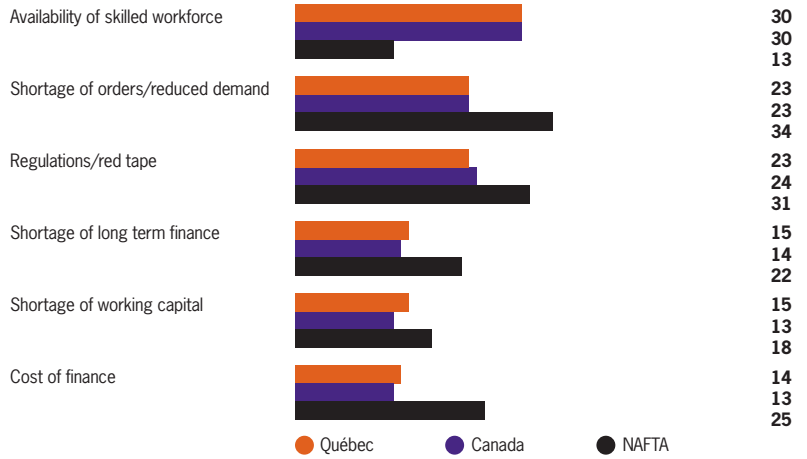
Source: Grant Thornton IBR 2010

Constraints

- the lack of availability of a skilled workforce is viewed as the most pressing constraint on expansion by businesses in Québec and Canada as a whole (both 30 per cent), although this is cited as a major constraint by just 13 per cent of businesses 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 Québec.

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



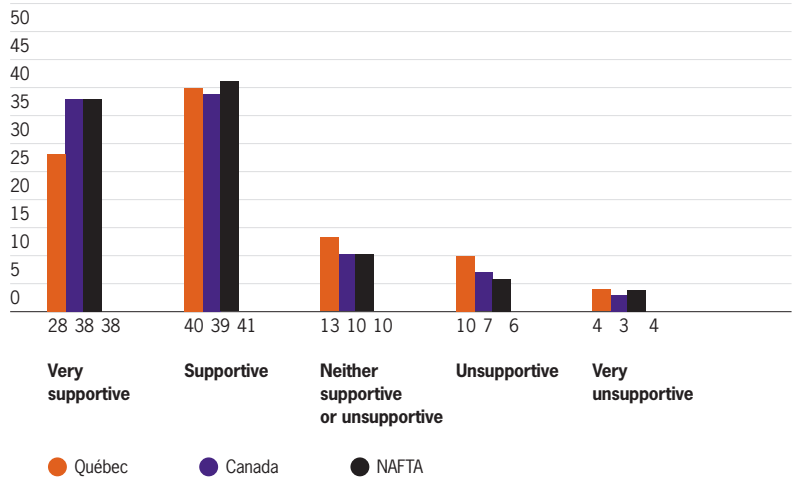
Source: Grant Thornton IBR 2010

Support of lender

- the majority of businesses in Québec are happy with the level of support provided by lenders; 68 per cent class lenders as supportive or very supportive towards their business
- this compares with 77 per cent of businesses across Canada and 79 per cent across NAFTA
- 14 per cent of businesses in Québec believe that lenders are unsupportive or very unsupportive of their business.

Figure 7: Level of support provided by lenders

Percentage of businesses

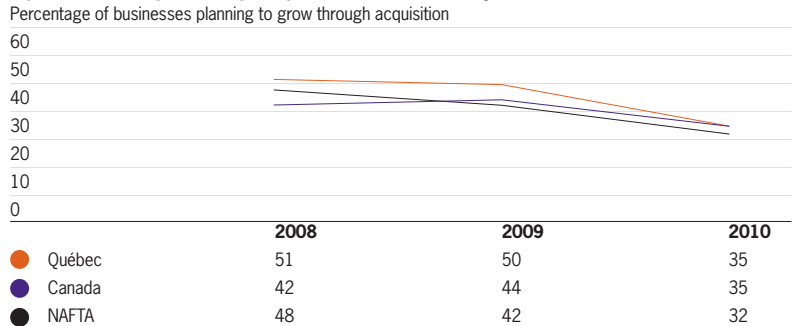


Source: Grant Thornton IBR 2010

Mergers & acquisitions

- the proportion of businesses in Québec planning to grow through acquisition this year has fallen by 15 per cent to 35 per cent
- 83 per cent of those planning to grow in this way expect to acquire domestic businesses, whilst just 17 per cent expect to acquire across borders
- for more than three-quarters of these businesses the key driver is access to new geographic markets.

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

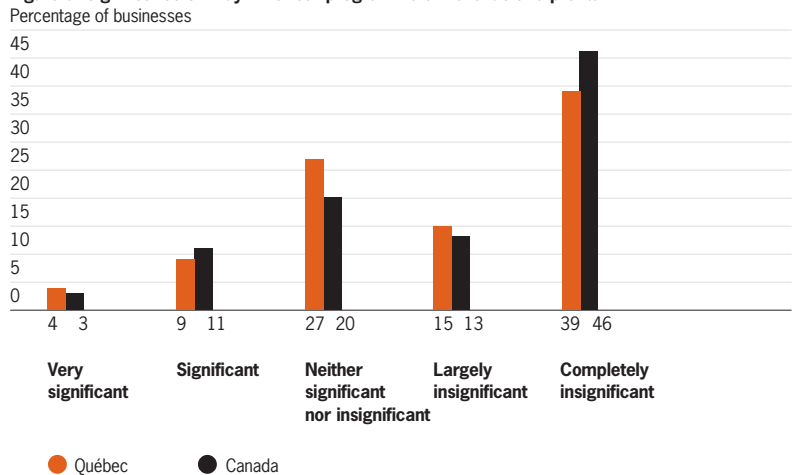


Source: Grant Thornton IBR 2010

“Buy America” programme

- 54 per cent of businesses in Québec regard the “Buy America” programme as completely insignificant or largely insignificant in terms of impact on their revenue and profits; this compares with 59 per cent of businesses across the whole of Canada
- just 13 per cent of businesses in Québec regard the programme as having a significant or very significant impact on their business revenue and profits.

Figure 9: Significance of “Buy America” programme on revenue and profits

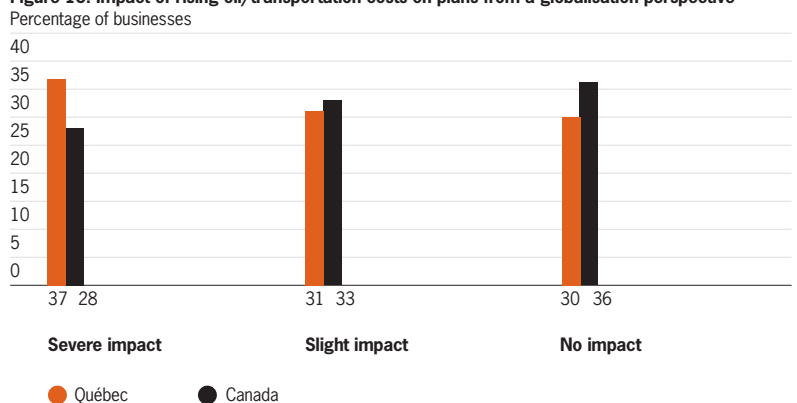


Source: Grant Thornton IBR 2010

Rising oil & transportation costs

- recent and future price rises have had a severe impact on 37 per cent of businesses in Québec in terms of their plans from a globalisation perspective, compared with 28 per cent of businesses across Canada as a whole
- 31 per cent of businesses in Québec report that rising costs have had a slight impact, whilst 30 per cent report no impact at all on their plans.

Figure 10: Impact of rising oil/transportation costs on plans from a globalisation perspective



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 Québec, 150 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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