Focus on: Canada

International Business Report 2011 – Economy focus series

The economy

The Canadian economy has weathered the economic storm better than many rich countries, thanks to robust demand for raw materials from developing nations and relatively healthy public finances. The economy remains deeply integrated with the United States, which absorbs around three-quarters of goods exports and is the source for around half of imported goods in 2010, so the expected slowdown south of the border is likely to impact on growth prospects.

The key indicators[1] are highlighted below:

- the economy expanded by 0.9% in the three months to September, having contracted by 0.1% in Q2
- merchandise exports were up by 4.2% in September, while imports declined 0.3%.
- as a result, the trade balance moved from a deficit of $487 million in August to a surplus of $1.2 billion in September
- the unemployment rate rose to 7.4% in November but employment was up 1.2% (+212,000) from 12 months earlier
- consumer prices rose 2.9% in the 12 months to October, led by higher prices for gasoline and food.

The business perspective

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of over 11,500 businesses in 39 economies around the world. This report focuses on the experiences of privately held businesses in Canada and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that businesses in Canada remain optimistic about their economy over the next 12 months, with expectations for the year ahead matching those observed in 2010. Expectations for revenue, profitability and employment are robust but and a lack of skilled workers remains a major constraint on potential expansion.

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

The outlook

The outlook for the economy is much stronger than most OECD countries but weak growth prospects in Canada's major trading partner south of the border have dampened expectations. The economy is expected to grow by 2.2% this year, before decelerating to 1.8% growth in 2012. Expansion is broad-based with domestic components – consumer spending, investment and government spending – all expected to show steady expansion. Exports are expected to be the weak link, reflecting the US economy's slower speed limit.

Consumer spending is likely to slow with households feeling the pinch of inflation and reining in borrowing, especially with higher interest rates looming on the horizon. Growth in this area is expected to average 2.3% per annum in 2010-20, below the long-term trend, but still stronger than the performance forecast for most of the other G7 countries. Headline inflation is expected to decline over the year with relatively high unemployment keeping a lid on wages.

With interest rates set to rise, nonperforming loans and bankruptcies are expected to be on the rise. While this should remain manageable – and Canada's banks are some of the healthiest and best-run in the developed world – there could still be some surprises.

Talk to us to find out how we can help you deal with the challenges your business is facing today.

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Figure 1: Key indicators for MLEs

Canada compared with the Global average	2009 Canada	2010 Canada	2011 Canada	2011 Global
Outlook for the economy over the next 12 months				
Net optimism	+3%	+62%	+60%	+3%
Change in employment levels				
Net hiring expectations	-3%	+22%	+34%	+24%
Constraints on expansion				
Availability of skilled workers	40%	30%	35%	26%
Regulations/red tape	24%	24%	26%	30%

Source: Grant Thornton IBR 2011

International Business Report results

The Grant Thornton IBR 2011 reveals that global business optimism dipped sharply in the third quarter. Businesses sentiment in Canada has fallen in Q3 with net 60% of businesses optimistic, down from net 80% in the previous quarter. Globally the quarter-on-quarter average declined from 31% to 3%.

Optimism dropped sharply in many markets across the globe including mainland China and India; net optimism fell by -29% in both markets. Optimism in North America as a whole fell by 40%, and by 35% in both the Eurozone and across the G7.

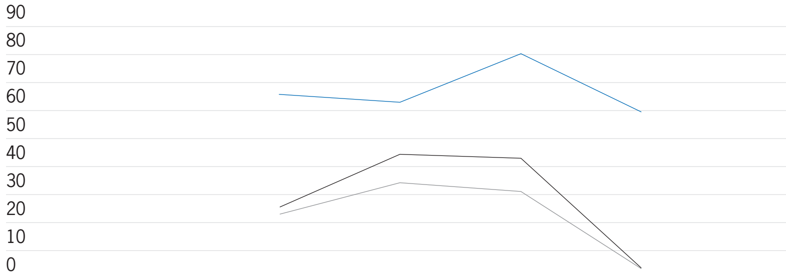
Year-on-year optimism amongst businesses has declined slightly from net 24% in 2010, to net 22% across 2011.

Optimism/pessimism

- businesses optimism in Canada declined by 20 percentage points in the third quarter, dropping from 80% to 60%, however, it still ranks as one of the most optimistic countries in the IBR survey
- optimism fell more drastically across North America as a whole, from 43% in Q2 to only 3% in Q3
- globally, business sentiment dropped by 28 percentage points in Q3 to stand at just 3%.

Figure 2: Outlook for the economy over the next 12 months: Q4-2010 to Q3-2011

Average percentage balance of businesses indicating optimism against those indicating pessimism



	Q4 2010	Q1 2011	Q2 2011	Q3 2011
Canada	66	63	80	60
North America	26	44	43	3
Global	23	34	31	3

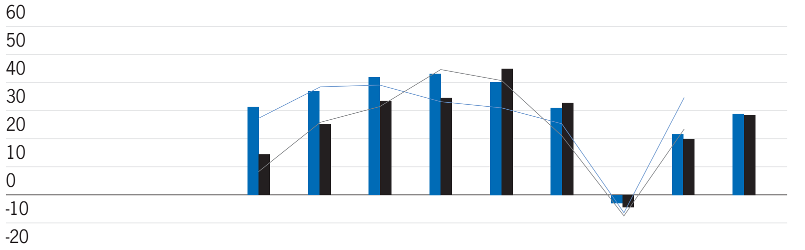
Source: Grant Thornton IBR 2011

Employment

- net 29% of businesses in Canada expect employment to grow in 2011, in-line with businesses across the North America region as a whole
- actual employment growth reported by businesses in Canada for 2010 (34%) was higher than expected 12 months previously (22%).

Figure 3: Employment history: 2003-2011

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



	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Exp. Canada	31	37	42	43	40	31	-3	22	29
Exp. Global	14	25	34	35	45	33	-4	20	28
Act. Canada	27	38	39	34	31	26	-7	34	–
Act. Global	8	26	31	44	41	21	-8	23	–

*actual 2011 data will be documented in IBR 2012

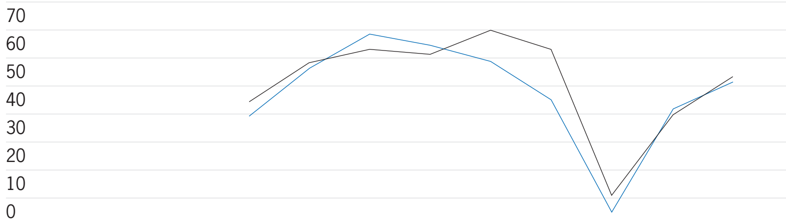
Source: Grant Thornton IBR 2011

Revenue expectations

- revenue expectations have climbed since 2010, 51% this year compared with 42% last year
- prospects remained robust in Q3, with 50% of businesses expecting to increase revenues over the next 12 months
- globally, expectations rose from 40% in 2010 to average 53% in 2011
- however, globally expectations dropped to 45% in Q3.

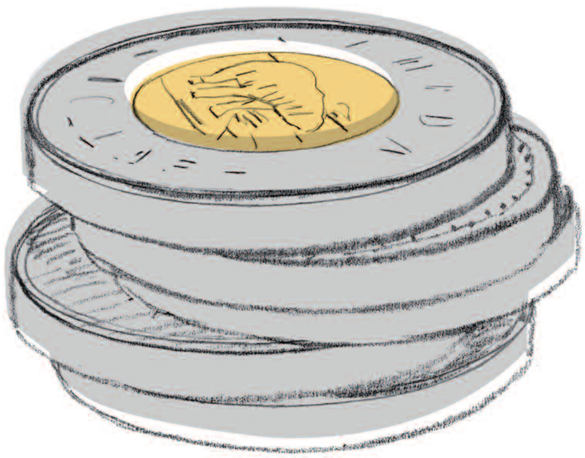
Figure 4: Revenue expectations: 2003-2011

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



	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Canada	39	56	68	65	59	45	5	42	51
Global	44	58	63	61	70	63	11	40	53

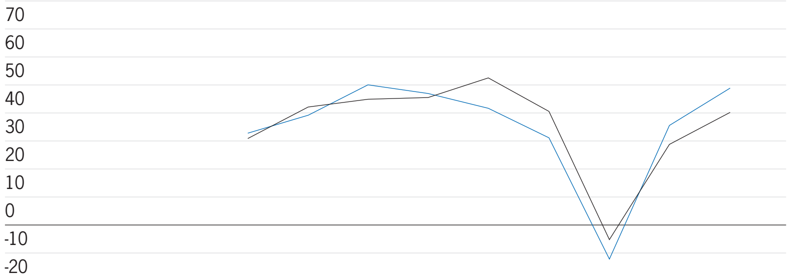
Source: Grant Thornton IBR 2011



Profitability expectations

- the balance of businesses expecting to increase profits in Canada has remained positive again following the steep fall observed in 2009
- this year net 48% of businesses in Canada expect their profits to rise compared with 36% in 2010
- the global business average rose by 11 percentage points year on year, but the Q3 result dropped to 33%.

Figure 5: Profitability expectations: 2003-2011
Percentage balance of businesses indicating an increase against those indicating a decrease



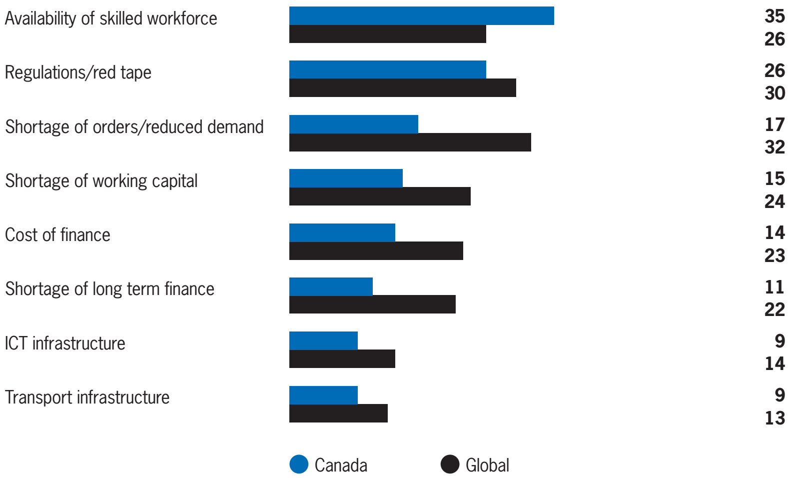
	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Canada	33	39	50	47	42	31	-13	36	48
Global	31	42	45	46	52	41	-5	29	40

Source: Grant Thornton IBR 2011

Constraints

- the availability of skilled workers (35%) is cited as the most pressing constraint on expansion by businesses in Canada this year, above the global business average (26%)
- a shortage of orders/reduced demand is cited as the greatest constraint by businesses globally, at 32% compared with 17% 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

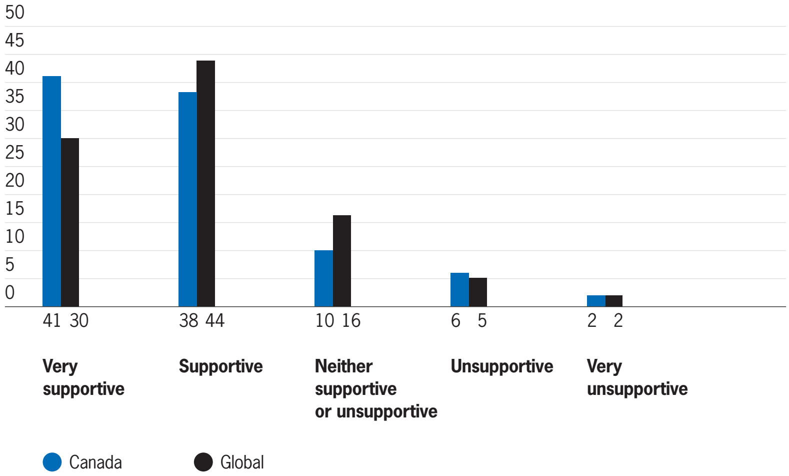


Source: Grant Thornton IBR 2011

Support of lender

- the majority of businesses in Canada are happy with the level of support provided by lenders; 79% class lenders as of their business
- this compares with 74% of businesses globally
- 8% of businesses in Canada believe that lenders are unsupportive or very unsupportive of their business, in-line with businesses globally.

Figure 7: Level of support provided by lenders
Percentage of businesses



Source: Grant Thornton IBR 2011

Social media

- two fifths of Canadian businesses use social media to gain insights into the reputation of a firm
- a third of businesses believe social media has a strong influence on a brand's perception while 44% believe it has a moderate influence
- only 8% think social media has no influence on a brand's perception.

Figure 8: Do you use social media to gain insights into the reputation of a firm?
Percentage of businesses

Source: Grant Thornton IBR 2011

Thought leadership

- a fifth of manufacturing businesses in Canada think though leadership (such as white papers, articles, conferences, webcasts, etc.) has a strong influence on the way they do business
- 16% believe thought leadership has no influence on the way they do business.

Figure 9: To what extent does thought leadership influence the way you do business?
Percentage of manufacturing businesses

Source: Grant Thornton IBR 2011

The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3,000 senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 11,000 PHBs in 39 economies on an annual basis providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

In Canada 760 businesses were surveyed across all industry sectors. These businesses ranged from small to medium in size with total revenue of between $15-$500m. Data for this report were drawn from interviews conducted between November 2010 and September 2011.

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

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