

Focus on: Québec

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 regional economy remains robust. Real GDP was up in the Québec City CMA, reaching a record high of \$26.1 billion in Q2. The construction sector and the services sector recorded the strongest growth, offsetting the decline in the manufacturing sector.

The key indicators¹ are highlighted below:

- real GDP was up 0.3% in Q2 with the construction sector (+1%) and the services sector (+0.5%) recording the strongest growth, but the manufacturing sector declined in Q2 (-1.1%)
- the Canadian economy expanded by 0.9% in the three months to September, having contracted by 0.1% in Q2
- employment across the region rose by 1.1% in Q3, with 43,800 jobs being created
- the unemployment rate across the region stood at 7.2% in Q3, marginally below the Canada average (7.4%).

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 Québec and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that businesses in Québec remain optimistic about their economy over the next 12 months. Expectations for revenue, profitability and employment remain robust but 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 Canadian 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 fragility of the US economy.

Québec's weaker than expected export markets have reduced the province's GDP outlook to 2.1% in 2012. However, Québec's economy is expected to pick up due to improvements at home and in the U.S. economy. A re-invigorated demand for Québec's exports, and a steady improvement in the province's job market could also stimulate consumer demand. Higher capital spending and higher investment in non-residential structures and equipment by both the private and public sectors are set to generate substantial construction activity outside the residential sector.

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

Sébastien Bellemare

T +1 (514) 954-4678

E bellemare.sebastien@rcgt.com

W www.rcgt.com

Figure 1: Key indicators for MLEs

Québec compared with the Canadian average	2009	2010	2011	2011
	Québec	Québec	Québec	Canada
Outlook for the economy over the next 12 months				
Net optimism	0%	+56%	+64%	+60%
Change in employment levels				
Net hiring	-7%	+15%	+26%	+29%
Constraints on expansion				
Availability of skilled workers	38%	30%	38%	35%
Shortage of orders/reduced demand	42%	23%	16%	17%

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 Québec remained in line with Q3 with net 64% of businesses optimistic, down from net 66% 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.

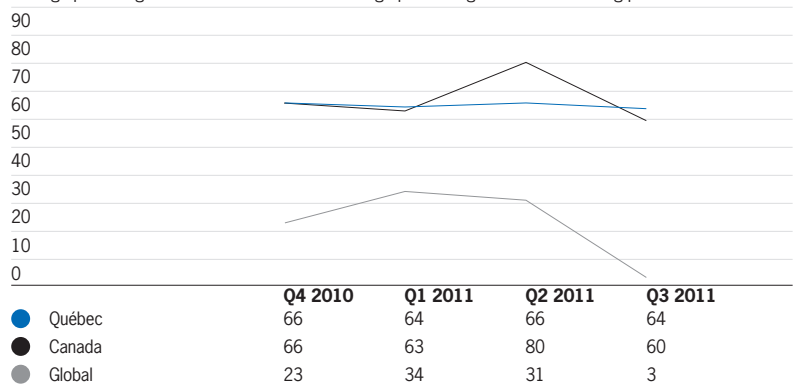
Year-on-year optimism amongst businesses has declined slightly from net 24% in 2010, to net 22% across 2011.

Optimism/pessimism

- businesses optimism in Québec has remained pretty stable over the past four quarters
- it remained in-line with the second quarter, falling marginally from 66% in Q2 to 64% to Q3
- optimism in Canada as a whole fell more sharply from 80% to 60%
- 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



Source: Grant Thornton IBR 2011

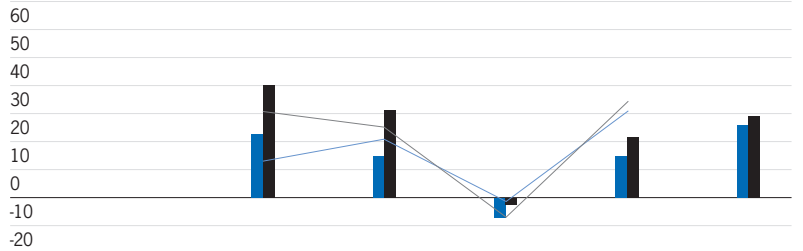


Employment

- net 26% of businesses in Québec expect employment to grow in 2011, compared with 29% of businesses in Canada as a whole
- actual employment growth reported by businesses in Québec for 2010 (31%) was significantly higher than expected 12 months previously (15%).

Figure 3: Employment history: 2007-2011

Balance percentage of businesses



	2007	2008	2009	2010	2011*
Exp. Québec	23	15	-7	15	26
Exp. Canada	40	31	-3	22	29
Act. Québec	13	21	-2	31	-
Act. Canada	31	26	-7	34	-

*actual 2011 data will be documented in IBR 2012

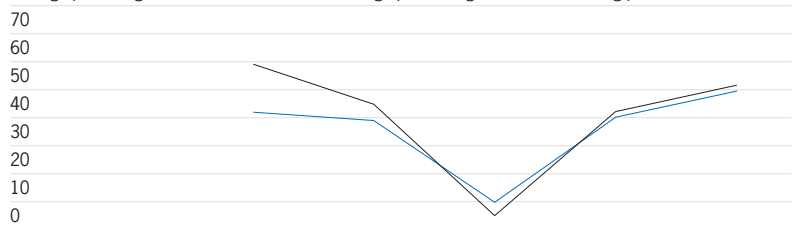
Source: Grant Thornton IBR 2011

Revenue expectations

- revenue prospects have climbed since 2010, up to 49% in 2011 compared with 40% last year
- the Canadian business average has risen by 9 percentage points, from 42% in 2010 to 51% this year.

Figure 4: Revenue expectations: 2007-2011

Average percentage balance of businesses indicating optimism against those indicating pessimism



	2007	2008	2009	2010	2011*
Québec	42	39	10	40	49
Canada	59	45	5	42	51

Source: Grant Thornton IBR 2011

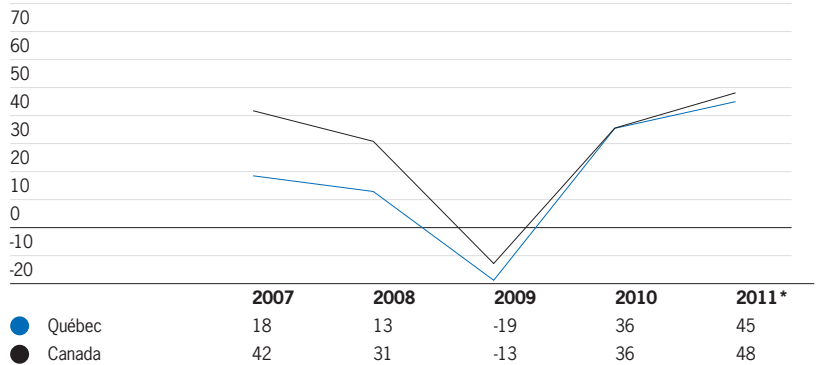


Profitability expectations

- the balance of businesses expecting to increase profits in Québec has continued to increase following the steep fall observed in 2009
- this year net 45% of businesses in Québec expect their profits to rise compared with 36% in 2010
- the Canadian business average rose by 12 percentage points.

Figure 5: Profitability expectations: 2007-2011

Average percentage balance of businesses indicating optimism against those indicating pessimism



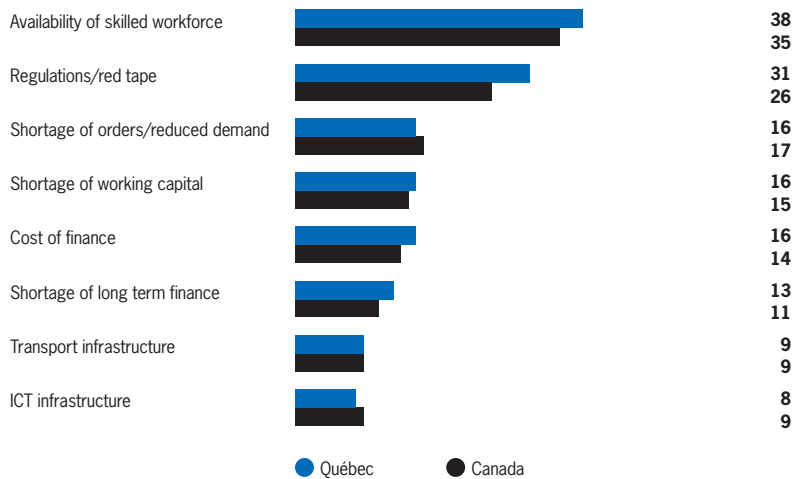
Source: Grant Thornton IBR 2011

Constraints

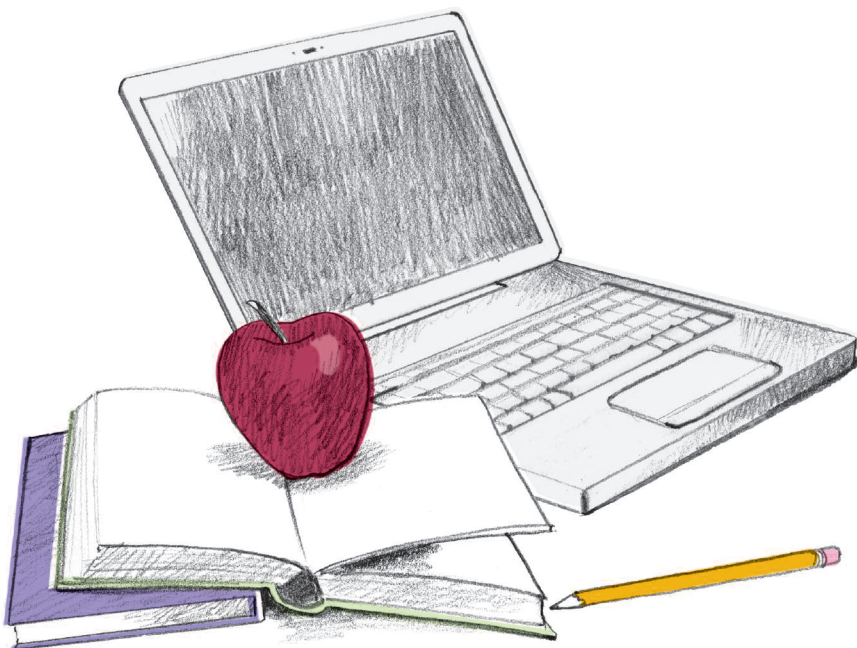
- the availability of skilled workers (38%) is cited as the most pressing constraint on expansion by businesses in Québec this year, similar to the Canadian business average (35%)
- regulations/red tape is also cited as a major constraint by businesses in Québec, at 31% compared with 26% in Canada as a whole.

Figure 6: Constraints on expansion

Average 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



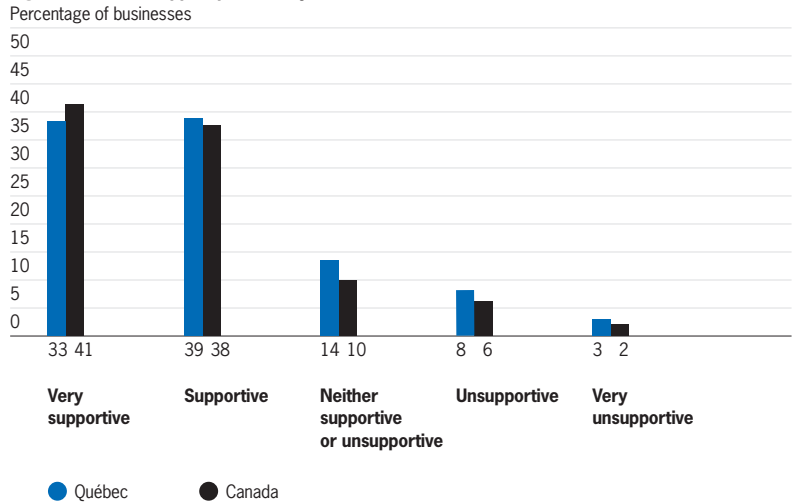
Source: Grant Thornton IBR 2011



Support of lender

- the majority of businesses in Québec are happy with the level of support provided by lenders; 72% class lenders as supportive or very supportive towards their business
- this compares with 79% of businesses in Canada as a whole
- eleven% of businesses in Québec believe that lenders are unsupportive or very unsupportive of their business, compared to 8% in Canada as a whole.

Figure 7: Level of support provided by lenders

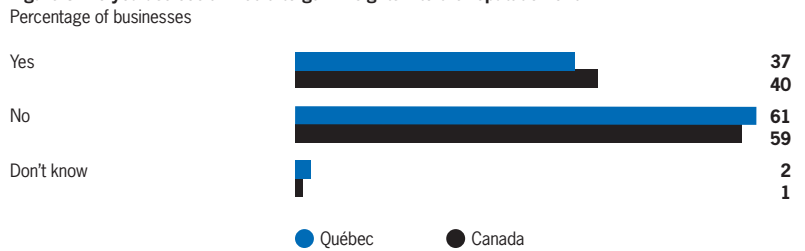


Source: Grant Thornton IBR 2011

Social media

- 37% of businesses in Québec use social media to gain insights into the reputation of a firm – this compares to 40% of businesses in Canada as a whole
- the majority of businesses in Québec (79%) believe social media does influence a brand's perception, marginally higher than the proportion in Canada overall (77%).

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

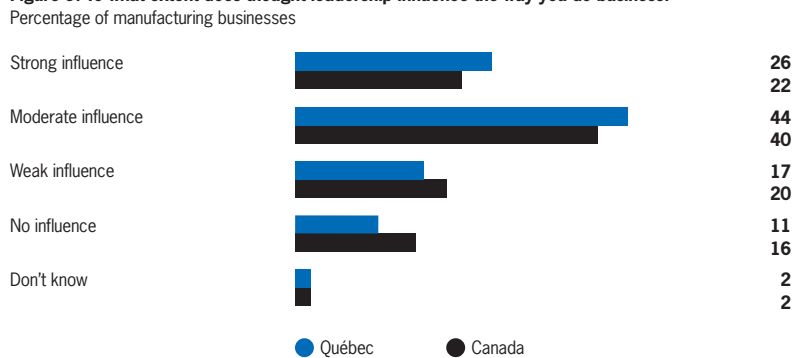


Source: Grant Thornton IBR 2011

Thought leadership

- the majority of manufacturing businesses in Québec (70%) think thought leadership (such as white papers, articles, conferences, webcasts, etc.) has a strong influence on the way they do business, higher than manufacturing businesses in Canada as a whole (62%)
- 11% believe thought leadership has no influence on the way they do business compared to 16% in Canada as a whole.

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



Source: Grant Thornton IBR 2011

