

Canada

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance¹ of +95 per cent with the Philippines joining them at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent whilst PHBs in Canada are less optimistic about 2008 (+41 per cent) than they were about 2007 (+60 per cent).

The Canadian economy

The Canadian economy recorded real GDP growth of 2.7 per cent in 2007, on the back of consumer spending increases of 4.7 per cent. Canadian consumers continue to power ahead, with retail sales rising by over seven per cent year-on-year in January. Canada is also bucking some other global trends; inflation has been falling in 2008, while the housing market is still enjoying strong growth. Canadian firms, outside of manufacturing and timber, continue to create jobs at a rapid pace.

The strong Canadian dollar – a by-product of United States (US) dollar weakness, the commodities boom and earlier monetary tightening by the Bank of Canada – is hurting the manufacturing sector, which is reeling from the downturn south of the border. Automotive exports fell by 23 per cent in real terms between November 2007 and January 2008 and the US housing crash continues to hit sales in the timber industry.

Canadian banks have been hit hard by the global credit crunch and have restricted access to money markets. This, and the sharper than expected United States slowdown, are now the key fault lines for the Canadian economy, with the Bank of Canada now likely to cut its policy rate down to 2.75 per cent.



The Grant Thornton IBR contact for Canada is:

Grant Thornton LLP
John Holdstock
T +1 416 360 4945



¹ the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.

Business expectations/revenue

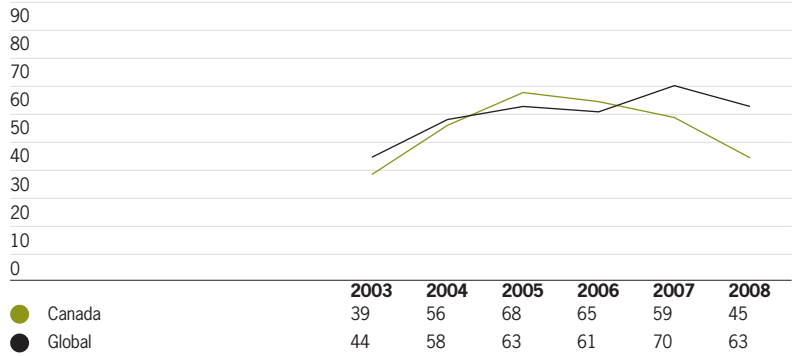
- PHBs in Canada are more optimistic about their revenue prospects in 2008 (+45 per cent) compared to 2007 (+59 per cent).
- Their levels of optimism regarding revenue performance remain below the global average (+63 per cent).
- The level of optimism regarding exports is just +1 per cent. This is below the global average (+18 per cent) and is down from +16 per cent in 2007.

Employment

- Expected employment growth in Canada has fallen from +40 per cent in 2007 to +31 per cent in 2008.
- Businesses globally are slightly more optimistic with regard to employment growth in 2008 (+33 per cent) than PHBs in Canada.
- Actual reported employment growth in Canada (+31 per cent) was lower than expected in 2007.

Figure 1: Revenue expectations for Canada and the global average 2003-2008

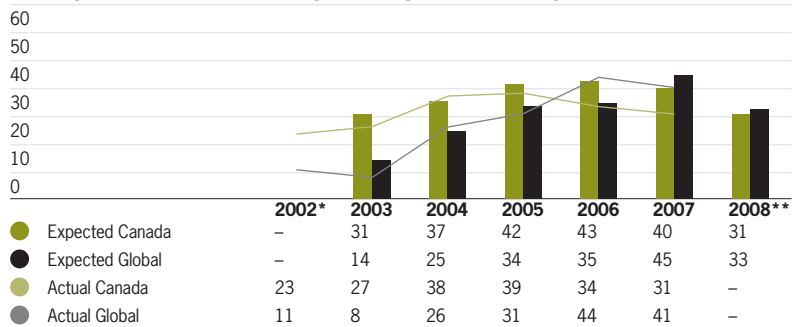
Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2008

Figure 2: Employment history of Canada and the global average 2002-2008

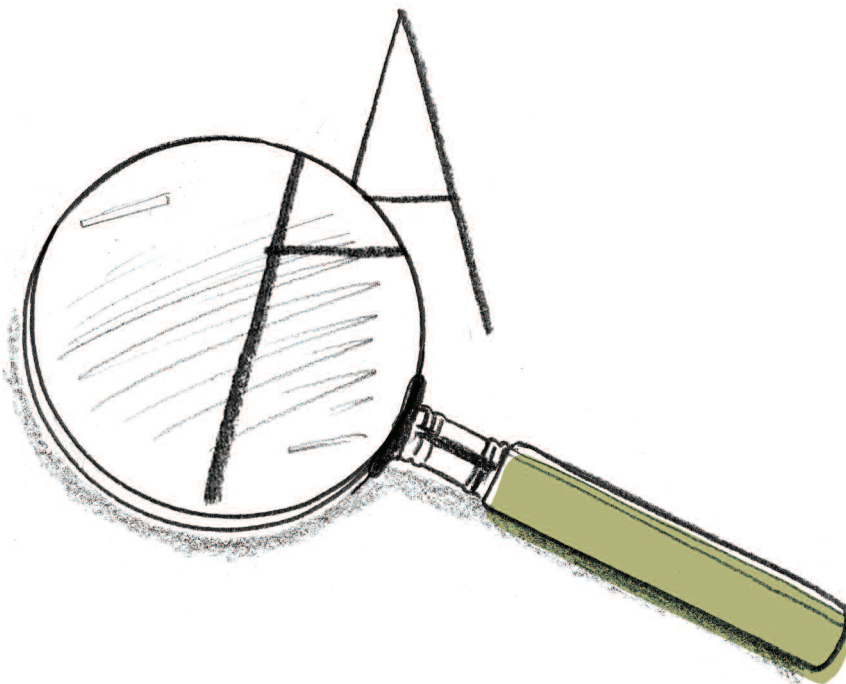
Percentage balance of businesses indicating optimism against those indicating pessimism



*no data available

**2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



Constraints

- The availability of a skilled workforce is the constraint restricting expansion cited most by businesses, both in Canada (41 per cent), and globally (35 per cent).
- Regulations/red tape is cited by 27 per cent of PHBs in Canada, compared to 31 per cent of businesses globally.
- The cost of finance, the shortage of long-term finance and the shortage of working capital are cited by at least ten per cent fewer PHBs in Canada than is true of businesses globally.

Emerging markets

- The most important factor for PHBs in Canada and businesses globally, when determining whether to invest internationally, is market size and growth potential (59 per cent).
- Similarly to businesses globally, 39 per cent of PHBs in Canada export. This represents a three per cent increase from 2007.
- Half of PHBs in Canada import, which is above the global average (39 per cent).
- 40 per cent of PHBs in Canada see their main competition coming internationally. This is close to double the global business average (22 per cent).

Competitiveness

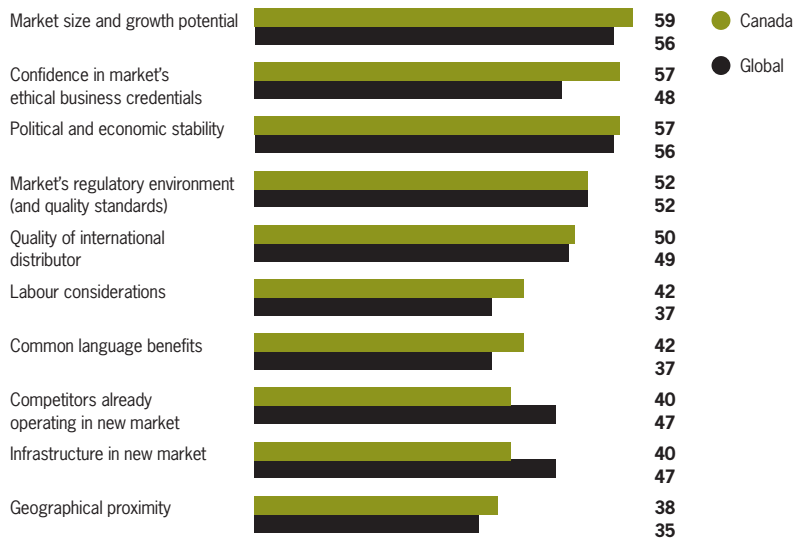
- PHBs in Canada see their greatest source of competitive advantage as product service quality (74 per cent), as is true of businesses globally.
- 61 per cent of PHBs in Canada see ethical business practices as a source of competitive advantage, just above the global business average of 58 per cent.
- 31 per cent of businesses globally cite international market links, compared to 21 per cent of PHBs in Canada.

Figure 3: Largest constraints on growth for Canadian businesses compared to the global 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



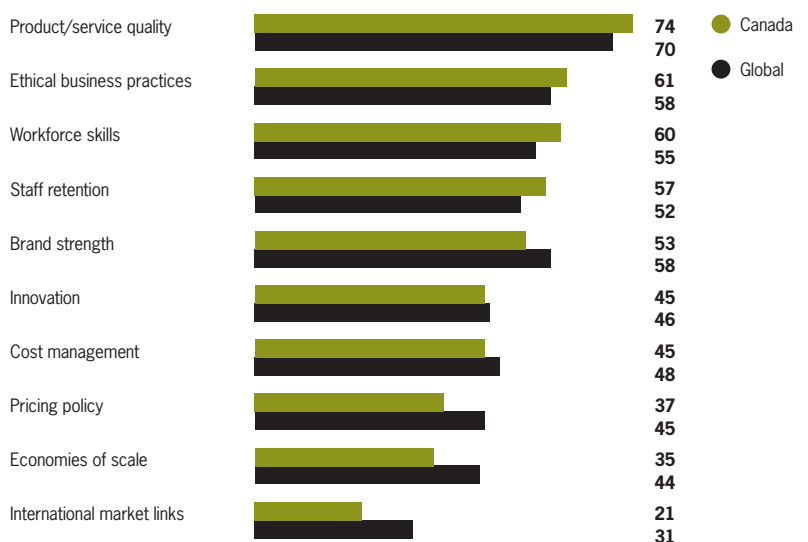
Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment
Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

Figure 5: Main sources of competitive advantage for Canadian businesses compared to the global average
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Corporate social responsibility (CSR)

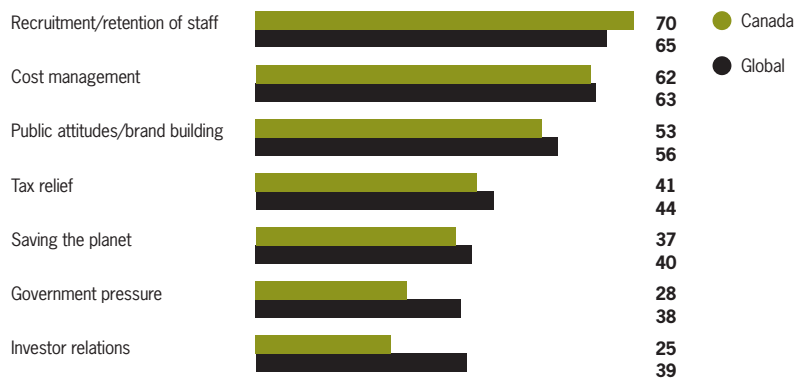
- Recruitment/retention of staff is viewed as the biggest driver towards more ethical practices by PHBs in Canada (70 per cent). This is higher than the global average (65 per cent).
- 86 per cent of PHBs in Canada donated to community causes/charities in the past year, compared to 65 per cent of all businesses.
- 54 per cent of PHBs in Canada have incorporated their policies in to a written CSR document, which is slightly below the global average of 56 per cent.

Recruitment and retention

- The balance of PHBs in Canada more focused on retention than one year ago is +51 per cent. This is up from +41 per cent in 2005.
- 76 per cent of PHBs in Canada ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention. This is above the global average of 64 per cent.
- Cited by half of PHBs in Canada, increased workload for remaining staff and operating costs are viewed as the major problems staff retention issues have caused.
- It is costing 61 per cent of PHBs in Canada significantly more to pay their staff than it was 12 months ago. This is slightly below the global average of 63 per cent.

Figure 6: Importance of drivers to more ethical practices for Canadian businesses compared to the global average

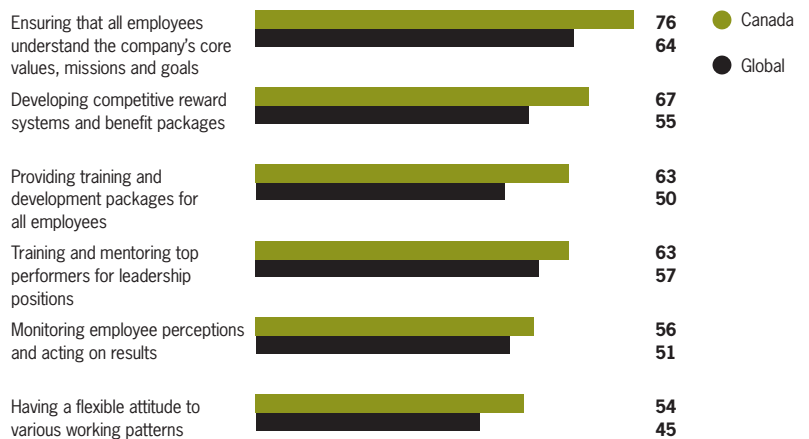
Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



Source: Grant Thornton IBR 2008

Figure 7: Usage of recruitment and retention tools for Canadian businesses compared to the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the Canadian economy

Real GDP growth is forecast to decelerate sharply in 2008, even as the consumer sector enjoys another good year. The strong Canadian dollar and a sharp weakening in US demand will continue to take their toll. Growth of around 1.7 per cent per annum in 2008-09 is expected, compared with a recent trend of close to three per cent per annum, in 2000-07.

Growth in export volumes has been weak since 2004 and this is forecast to continue over the next two years. The US housing market slump may last until early 2009, hitting timber exports. The down year in terms of the United States consumer will be 2008, hitting Canadian manufacturing reeling from the strong Canadian dollar. While a slowdown in 2008 south of the border has long been expected, the United States economy looks like it will fall into recession while also taking longer to bounce back, postponing any export revival until 2010 at the earliest.

The main risk to the outlook emanates from south of the border. In the event of a mild United States recession, a Canadian recession is likely to be avoided, as in 2001. However, a United States downturn more similar to that of the early 1990s could result in a much less benign outturn.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

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



www.gti.org
www.internationalbusinessreport.com

© 2008 Grant Thornton International Ltd. All rights reserved.
Grant Thornton International Ltd (Grant Thornton International) and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.