

# Focus on: Canada

## International Business Report 2009 – Country focus series

### A year of turmoil

Canada's economy, grappling with both the US economy and other key developed-world export markets, and heightened credit costs associated with the global financial crisis, is suffering its worst recession since 1982. The key indicators highlight the issues facing the economy:

- the economy shrank in the second quarter by 3.4 per cent, although this was less severe than the declines observed in the previous two quarters
- weak demand from the United States, Japan and the EU has hit exports hard; real exports are forecast to fall by eight per cent across 2009
- the unemployment rate has soared to 8.7 per cent in August 2009; 388,000 jobs have been lost since October 2008
- retail sales rose one per cent in June 2009, the fifth increase in six months; with the automotive sector showing the strongest advance and general merchandise stores the weakest.

### Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2009 surveyed the views of 7,200 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 worst economic downturn in decades as illustrated in figure 1.

Figure 1: Key indicators for PHBs

Canada compared to the global average	2007 Can	2008 Can	2009 Can	2009 Global
<b>Outlook for the economy over the next 12 months</b>				
Balance of optimists over pessimists	+60%	+41%	+3%	-16%
<b>Issue of greatest concern in the next 12 months</b>				
Fall in consumer demand			34%	39%
Shortage of business credit			17%	19%
<b>Change in employment levels</b>				
Balance of PHBs expecting an increase over those expecting a reduction	+40%	+31%	-3%	-4%
<b>Constraints on expansion</b>				
Availability of skilled workforce	45%	41%	40%	27%
Shortage of orders/reduced demand	19%	22%	40%	49%

Source: Grant Thornton IBR 2009



The IBR survey tells us that PHBs in Canada expect to suffer as much as other businesses globally in terms of falling consumer demand whilst employment growth is also expected to contract. These concerns have impacted negatively on expectations for turnover growth and on profitability and PHBs are also considerably less optimistic about the year for the economy than they were in 2008. Clearly the effects of the global decline in activity are taking its toll on PHBs.

### Looking ahead

Weak external demand across 2009 is expected to drive a collapse in trade, a sharp rise in unemployment and falling real private consumption; real GDP is forecast to contract by 2.9 per cent before recovering to 0.7 per cent in 2010, and 1.8 per cent in 2011 as markets strengthen.

Three-quarters of Canadian exports go to the United States and the forecast recovery south of the border should see export growth pick up to around 4.2 per cent in 2010, although contracting exports across 2009 will see the trade balance slip into deficit for the first time since the 1970s. Unemployment could reach ten per cent in 2010 and as such growth in consumer spending is expected to be sluggish at just 0.8 per cent in 2010.

The recovery in the Canadian economy will need privately held businesses to be back at the forefront to drive new business, employment and trade. To achieve this:

- businesses need to adjust to the new level of demand while working on innovative ways to develop product and market share
- access to credit needs to be improved to enable businesses to manage their working capital and long term funding needs
- a rapidly deteriorating labour market will need to be well managed if job security fears are not to further dampen consumer spending.

It is clear that during the months and years ahead, all businesses will face a number of key threats and opportunities which will require senior management to make some very 'big decisions'. Businesses surviving the downturn will look back on these decisions as pivotal moments in their company's history. Focusing on the right things will give businesses under pressure more room for manoeuvre, while for others it will provide opportunities to realise their ambitions more quickly than they had planned.

At Grant Thornton we help businesses to make these decisions on a daily basis, to guide them through the good and bad times. Talk to us to find out how we can help you make the right choices for your business.



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### International Business Report results

The Grant Thornton IBR 2009 reveals that privately held businesses in almost all countries are less optimistic about economic prospects for the year ahead. PHBs in Canada are considerably less optimistic about prospects for 2009 with a drop of 38 percentage points from an optimism/pessimism balance<sup>1</sup> of +41 per cent in 2008 to +3 per cent in 2009.

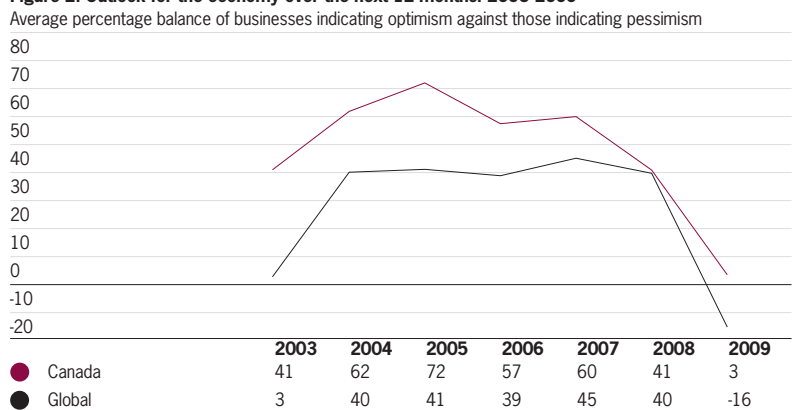
For the sixth consecutive year, India tops the league table with a net balance of +83 per cent (+95 per cent in 2008), whilst Japan remains at the bottom with a balance of -85 per cent.

Overall optimism amongst PHBs globally has fallen from 2008; this year a balance of -16 per cent of PHBs across all countries are positive about their country's economy – compared to a balance of +40 per cent in 2008.

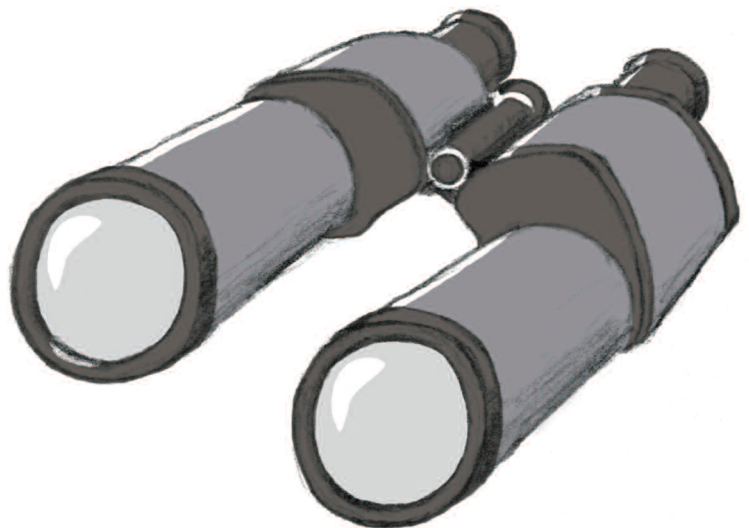
### Optimism/pessimism

- PHBs in Canada are considerably less optimistic about their country's economic outlook (three per cent) compared with 2008 (+41 per cent)
- levels of optimism regarding economic outlook have fallen by 38 percentage points from 2008 in Canada, compared with a 56 percentage point drop observed globally.

**Figure 2: Outlook for the economy over the next 12 months: 2003-2009**



Source: Grant Thornton IBR 2009



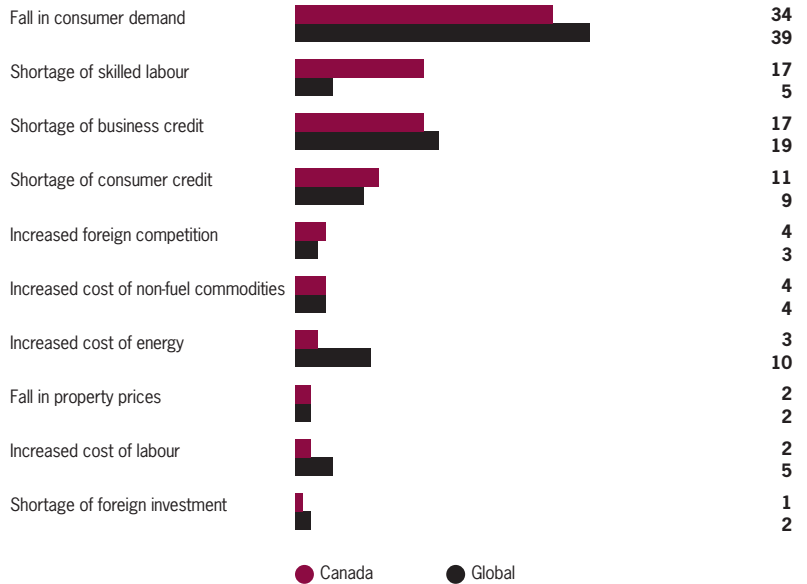
<sup>1</sup> the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

**Greatest concern**

- a fall in consumer demand is viewed as the greatest concern restricting expansion for PHBs in Canada (34 per cent), this is lower than the global average (39 per cent)
- a shortage of skilled labour is of considerably greater concern for PHBs in Canada (17 per cent), than the global average (five per cent).

**Figure 3: Greatest concern in the next 12 months**

Average percentage of businesses



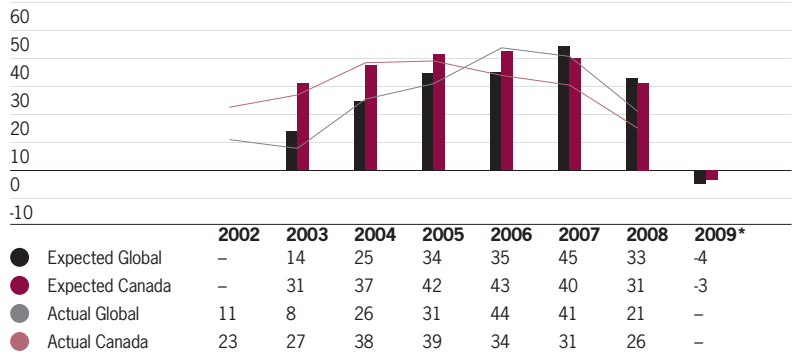
Source: Grant Thornton IBR 2009

**Employment**

- PHBs in Canada expect employment to contract sharply in 2009, with the balance of businesses expecting a decrease falling 34 percentage points this year
- actual employment growth across Canada in 2008 (+26 per cent) was lower than expected (+31 per cent).

**Figure 4: Employment history: 2002-2009**

Balance percentage of businesses



\*actual 2009 data will be documented in IBR 2010

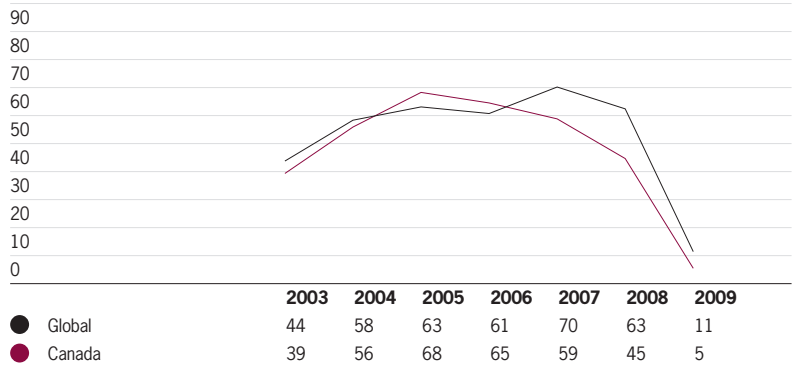
Source: Grant Thornton IBR 2009

### Revenue expectations

- optimism levels regarding revenue prospects have fallen sharply in Canada this year, falling by 40 percentage points from +45 per cent in 2008 to just five per cent
- the average decline globally is the largest in IBR history, falling 52 percentage points, down from +63 per cent in 2008 to just +11 per cent this year.

**Figure 5: Revenue expectations: 2003-2009**

Average percentage balance of businesses indicating optimism against those indicating pessimism



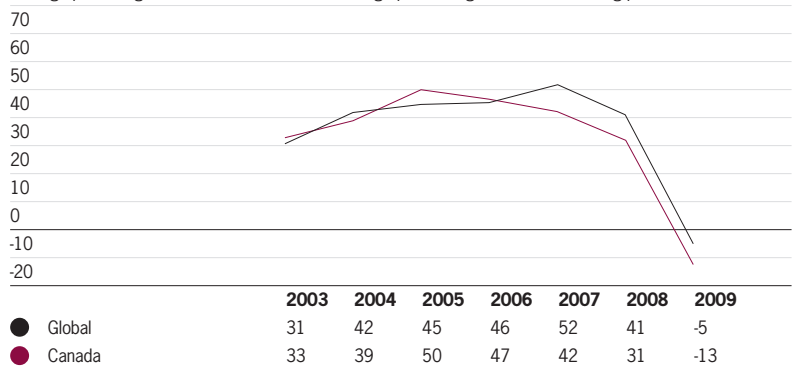
Source: Grant Thornton IBR 2009

### Profitability expectations

- profitability expectations amongst PHBs in Canada have plummeted this year, falling by 44 percentage points from +31 per cent in 2008 to -13 per cent
- the average drop across all countries as a whole regarding profitability is also the greatest in IBR history, falling by 46 percentage points to -5 per cent this year.

**Figure 6: Profitability expectations: 2003-2009**

Average percentage balance of businesses indicating optimism against those indicating pessimism



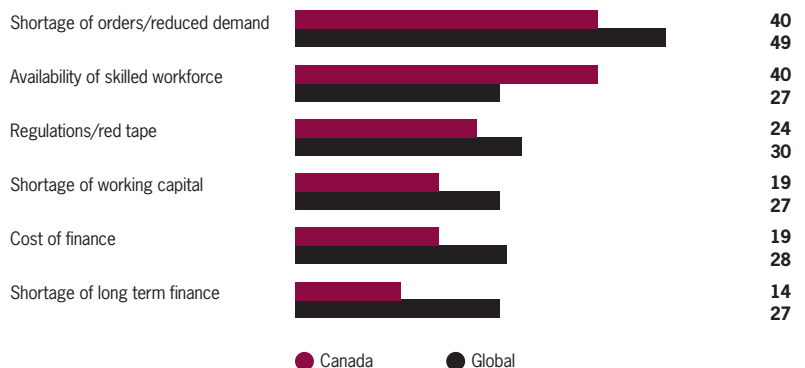
Source: Grant Thornton IBR 2009

### Constraints

- a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs in Canada this year; at 40 per cent this is lower than the global average (49 per cent)
- the availability of a skilled workforce is of much greater concern for PHBs in Canada (40 per cent), than it is globally (27 per cent)
- a shortage of long term finance is of much greater concern for PHBs globally (27 per cent), than it is in Canada (14 per cent).

**Figure 7: 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

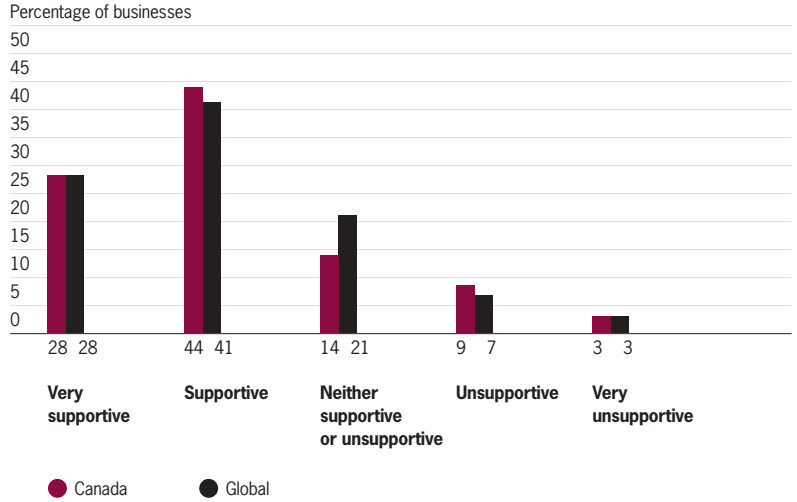


Source: Grant Thornton IBR 2009

### Support of lender

- nearly three quarters of PHBs in Canada class lenders as supportive or very supportive towards their business, this is higher than the global average of 69 per cent
- 12 per cent of PHBs in Canada class lenders as unsupportive or very unsupportive towards their business, above the global average (ten per cent).

**Figure 8: Level of support provided by lenders**

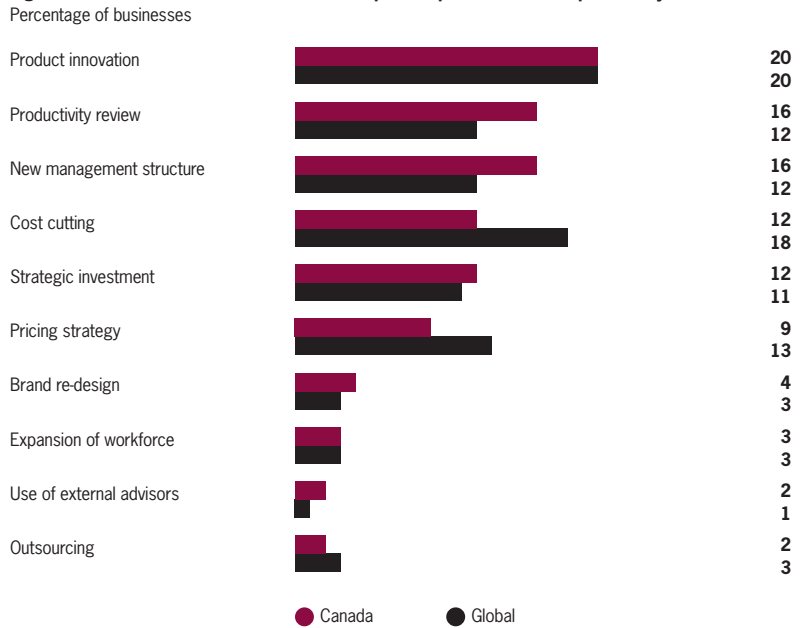


Source: Grant Thornton IBR 2009

### Business planning

- product innovation has been the most successful initiative introduced by PHBs in Canada to increase profits; at 20 per cent this is identical to the global average
- cost cutting is a considerably less successful initiative in Canada (12 per cent), compared to the global average (18 per cent).

**Figure 9: Successful initiatives that have been put into place to increase profitability**



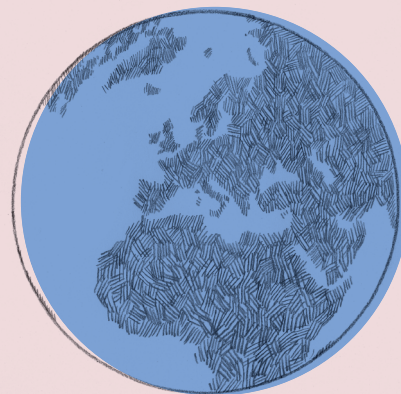
Source: Grant Thornton IBR 2009

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 7,200 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 PHBs 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](http://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
Armenia	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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