

Canadian businesses remain relatively optimistic in the face of global economic uncertainty

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Just when spirits were starting to pick up again, in light of the recent economic troubles in Europe and beyond, and with the economic collapse of 2008 still fresh in everyone's mind, the global business community isn't optimistic about the year ahead.

That is the finding from the Grant Thornton *2011 International Business Report (IBR)*, which revealed that net global business optimism suffered a pandemic collapse in the third quarter of 2011—dropping from 31% to just 3%. Not only has this negative outlook affected the European Union (falling from 34% to 0%) and North America (from 43% to 3%), but it's hit emerging

markets as well with both China and India experiencing a 29-point decline in optimism.

While the results of the survey reveal that uncertainty is constraining growth across the globe, we're pleased to report that the feeling among many Canadian businesses, from a wide range of industry sectors, is

that they may be able to dodge yet another bullet. That's despite the significant drop in optimism—from 80% in Q2 to 60% in Q3—ranking Canada as the sixth most optimistic in the 39 economy survey and well ahead of the US.

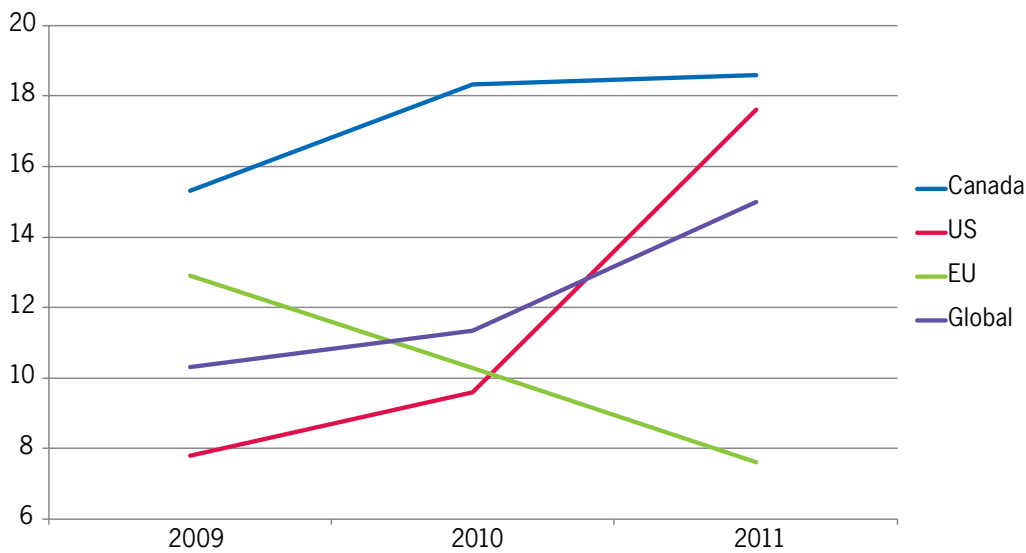


It's news that points to an economy whose industries are markedly more optimistic than their global counterparts, but, unfortunately the outlook for many business sectors isn't wholly encouraging. The strong Canadian dollar, for example, has many businesses that rely on exports to the US experiencing a dip in revenue. But this same trend may also provide

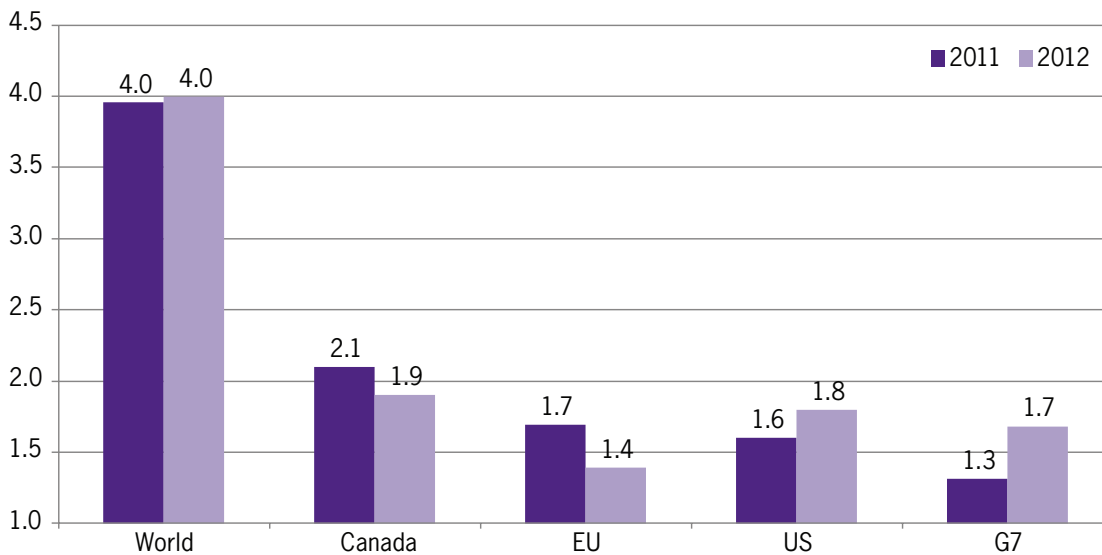
opportunities. A high CAD has the potential to help foster innovation for savvy business owners who know how to take advantage of the exchange rate by investing in technology available south of the border. It might be worthwhile for Canadian businesses to see what other opportunities there are to be had in the wake of such global pessimism.

We invite you to read further for some uniquely Canadian insight into the Q3 IBR results, along with a selection of data from the survey. As always, if you need assistance in better preparing your business for today's global economic climate, we're here to help.

Above-inflation salary increases (%)



Forecast GDP growth (%)



Bo Mocherniak, CA, CBV

Partner



Helping to build Canada's economy— real estate and construction

The sector that helped Canada keep its head above water during the last economic downturn continues to remain strong. Businesses in the sector remain positive, thanks to significant condominium construction and, with the arrival of new US retailers coming to Canada, increased construction activity in retail malls—not surprising given Canada's economic and financial record through the recession. As such, we're seeing a lot of foreign

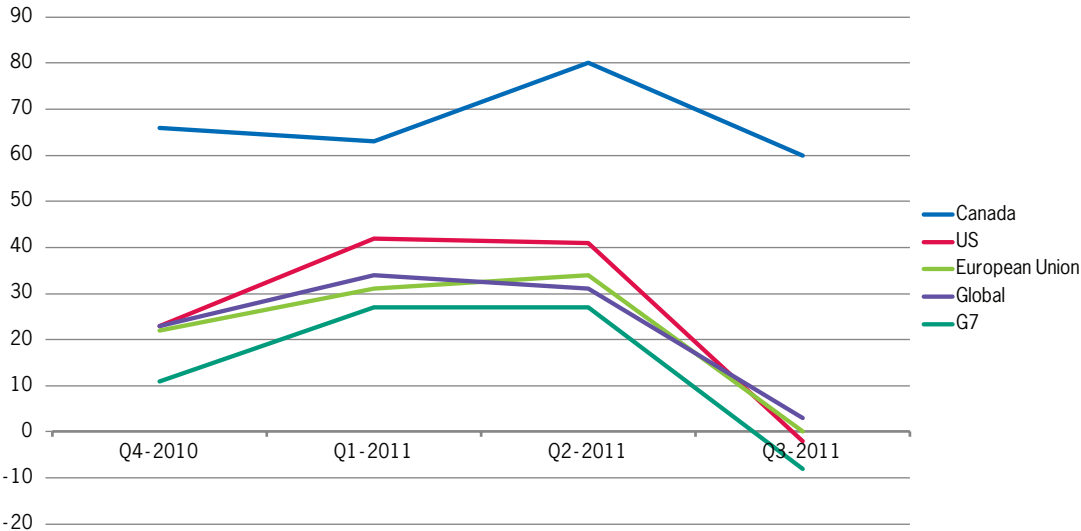
capital coming into Canada looking for opportunities to invest in the real estate sector.

Over 70% of real estate companies are either slightly or very optimistic about the future—and many are boasting healthy balance sheets and high staffing levels, the latter indicative of a low unemployment rate for the sector as a whole.

While the news is mostly encouraging, there are some areas of concern—the lack

of large real estate portfolios that come up for sale given the relatively small group of companies and pension plans that own large blocks of real estate in Canada, and the continuing shortage of skilled trades in the market place, to name just two. And although financing for real estate is available, there is a significant amount of due diligence taking place on large real estate projects.

Net optimism - last 12 months (%)



Jim Menzies, CA

Partner



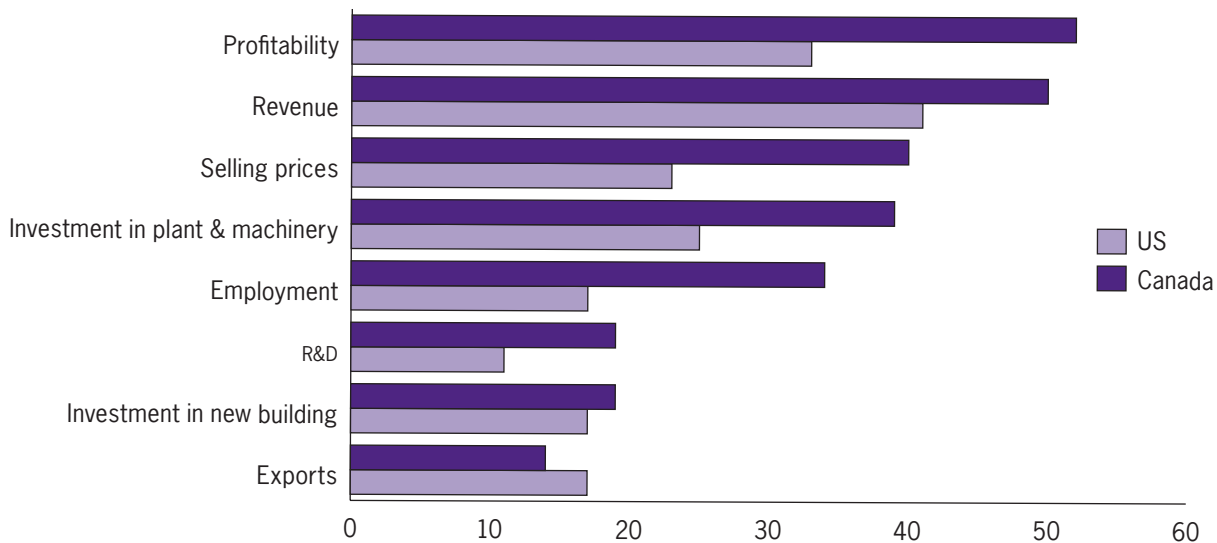
Opportunities for growth— manufacturing and distribution

The Canadian manufacturing sector continues to look forward with cautious optimism—but optimism nonetheless. There is a clearly shared view among these businesses that the industry is in expansion mode—and, as a result, most are looking to invest in new employees, lines of business and geographic markets.

There's also a focus on improving sales, controlling costs and increasing productivity. Investing in innovation and process improvement, while managing the many other risks that could impact their businesses, is something they understand to be critical to their future success.

Despite the optimism, there are still a number of themes that keep manufacturers awake at night—namely, producing high-quality products at lower costs; expanding to new and uncertain foreign markets; and focusing on long-term strategies and risk management.

Expectations - next 12 months (%)



Mark Zastre, CA, MBA, CPA (Illinois)

Partner



Extracting the positive—mining

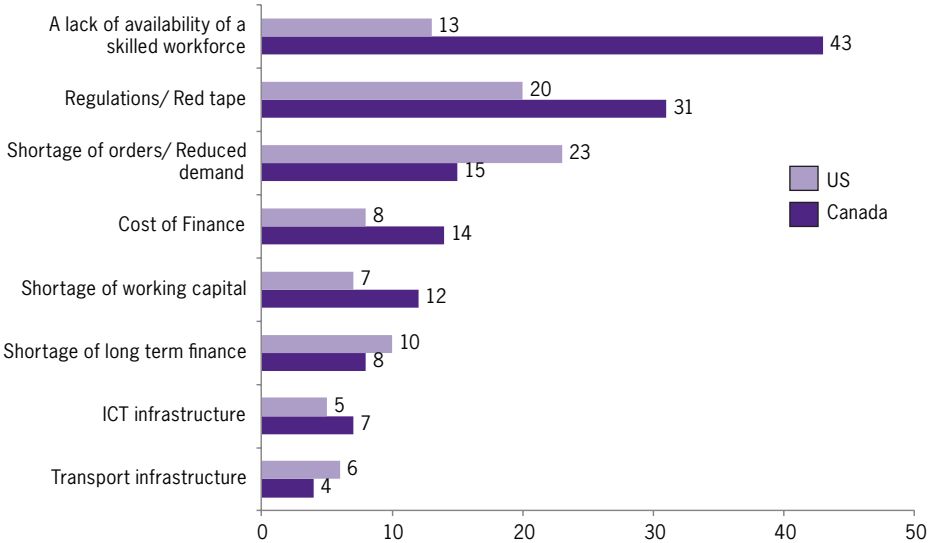
Canada’s mining sector also seems to be bucking the global trend with approximately 75% of respondents reporting either a very or slightly optimistic economic outlook. The majority (63%) expects an increase in turnover, and 56% expect an increase in profitability. Approximately 65% expect commodity prices to increase over the next little while.

As the sector with the fastest year-over-year payroll growth in Canada, according to Statistics Canada,¹ it’s not a surprise that 56% of respondents stated that the number of people employed by their company increased in the last year—and half expect to increase their head count in the short term.

Buoyed by strong commodity prices, Canadian mining companies have continued to undertake exploration and development activity both at home and abroad, however, signs of slowing economic growth in major emerging markets will threaten to exert some downward pressure on base metal prices in the short term.

¹ Source: Statistics Canada., Payroll employment, earnings and hours, June 2011, <http://www.statcan.gc.ca/daily-quotidien/110825/dq110825a-eng.htm> (Accessed November 15, 2011).

Perceived constraints - next 12 months (%)



Paul Coleman, CA, CFE

Partner



Fuelling optimism—transportation and trucking

There's a long held belief that the transportation sector leads the economy into a recession and out of it, as well. This is primarily because freight transportation is one of the first sectors affected when manufacturing activity declines (as a result of its role in the delivery of goods) and one

of the first to recover when the economy picks up again. With Canada's other sectors continuing to remain optimistic, it's not a surprise that those in the transportation sector feel the same way.

More than 77% of transportation sector respondents expressed that they were either slightly or very optimistic about the

year ahead—with 70% saying they expect revenues to increase in the coming year. More than 37% expect employment levels within their organizations to increase and only 2% expected employment levels to decline.

Employment - last 12 months (%)

