



CEO Confidence Index

A quarterly survey measuring the confidence of Canadian business leaders of small-to-medium enterprises.

Q4 2018

ANALYSIS BY

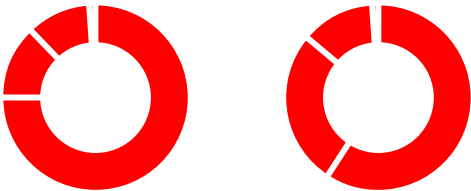
Dr. Peter Andersen
Economist

This is the third quarterly TEC Canada CEO Confidence Survey. It was carried out between September 20th and October 11th and therefore gives real-time information. The continuity of specific questions is important. It shows developing trends for our members on current economic conditions, the economic outlook and expectations for their own sales, profits, employment and capital spending plans.

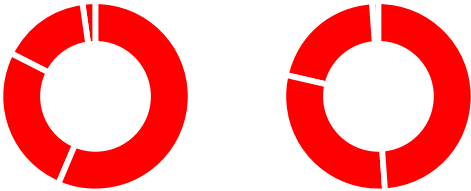
In addition new questions have been introduced in our October survey on the taxation of small business and on NAFTA. These are major issues that TEC CEOs have been dealing with. The competitiveness problems facing Canada’s business community have become more elevated with the recent U.S. tax reform. NAFTA uncertainty reached a peak this fall.

Confidence Index

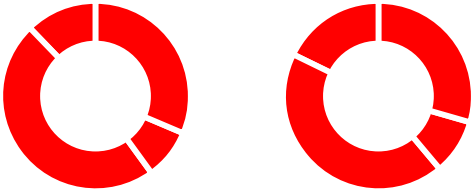
Please note that the answers below have been divided into western Canada (British Columbia, Alberta, Saskatchewan, Manitoba) and eastern Canada (Ontario, Quebec, New Brunswick, Nova Scotia)



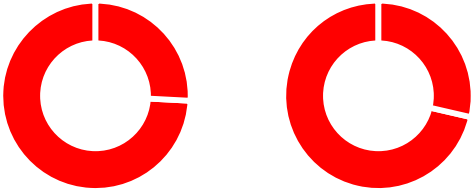
66.5% of respondents anticipate that their firm’s sales revenues will increase during the next 12 months (75% of respondents in eastern Canada and 59.3% of respondents in western Canada)



18% of respondents expect their firm’s profitability to worsen during the next 12 months (15.2% of respondents in eastern Canada and 20.4% in western Canada)



30.5% of respondents report that NAFTA uncertainty had no effect on their business (31.5% in eastern Canada and 29.6% in western Canada)



72.5% of respondents tell us that the current small business tax rate does not provide sufficient after-tax funds to reinvest in their company (73.9% in eastern Canada and 71.3% in western Canada)

“Our October survey tells us that CEOs do not think that Canada’s economy is performing well. They felt unhappy about overall current economic conditions in our previous survey and they still do.”

Dr. Peter Andersen
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TEC Canada CEO Confidence Survey – October 2018

One of the strongest messages in the current TEC CEO survey is the adverse effect of the small business tax rate on competitiveness. An overwhelming 73% of the respondents (74% in eastern Canada and 71% in western Canada) believe that the current small business tax rate does not provide sufficient after-tax funds to reinvest in their companies.

Approximately 55% of TEC CEOs believe that NAFTA uncertainty has had an adverse effect on their business.

On the question of the impact of NAFTA uncertainty on business confidence, approximately 55% of TEC CEOs believe that NAFTA uncertainty has had an adverse effect on their business. In addition, among that group 17% believe that NAFTA uncertainty has strongly affected their business. These results were widespread across Canada.

Now that a preliminary trade agreement has been made between the United States, Mexico and Canada, future TEC surveys will be examined carefully to see if there has been a resulting improvement in TEC CEO confidence for the overall economy. At this point the majority do not think that Canada’s economy is much better off than a year ago.

Overall Economic Conditions

The best way to look ahead is to get a good picture of the starting point. Our October survey tells us that CEOs do not think that Canada’s economy is performing well. They felt unhappy about overall current economic conditions in our previous survey and they still do.

In fact, the percentage of our survey respondents, who believe overall economic conditions are worse compared with a year ago, not only remains high but has actually edged even higher (to 33% from 30%). In addition, many other CEOs continue to believe that there has been no improvement in the general economy over the past 12 months (42% compared to 38% three months ago).

On a regional basis, while there is basically a widespread consensus, a higher percentage of CEOs in eastern Canada (30%) report improved economic conditions compared to western Canada (21%).

In order to smooth out the inevitable volatility in the responses to the April, July and October surveys, it is a good idea to calculate what is called “the balance of opinion”. This is the difference in the percentages of the respondents giving the most optimistic answer and the percentage giving the most pessimistic.

This calculation gives a clear message. The balance of opinion on current economic conditions has turned negative again to minus 7% (the percentage seeing an improvement minus the percentage seeing a worsening). This compares with minus 2% in the April survey and plus 2% in the July survey.

Economic Outlook Worries

Unfortunately CEOs remain worried looking ahead over the next 12 months, with 32% expecting Canada’s economy to be worse than now. Only 13% expect to see an improvement, down from 18% in the previous survey. This gives a balance of opinion of minus 19%, about the same as in the July survey. There is not much regional variation in these results.

Tariff and trade war worries still appear to be a dampener on expectations for the overall economy. However looking ahead, this could change in the next CEO survey as the trade agreement with the U.S. was finally reached just before midnight on Sunday, September 30th.

Business Investment Plans

A solid percentage of CEOs (45%) still plan to increase total fixed investment expenditures over the next 12 months. Only 14% plan to reduce investment (17% in eastern Canada and 10% in western Canada). Nonetheless there has been a slight weakening in the balance of opinion for capital expenditures over the past 3 months to plus 31% from plus 43%.

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The CEOs positive outlook for capital spending reflects a high level of confidence on their individual sales outlook, despite worries about the overall economy. While a high percentage (67%) expect that their firms' sales will increase over the next 12 months, the balance of opinion on this question has still weakened to plus 55% from plus 62% in the July survey.

Company Sales Revenues

A solid majority of CEOs (67%) still expect that their firms' sales revenues will increase over the next 12 months. There has been some slippage though with the balance of opinion slipping to plus 55% in the latest survey from plus 62% in July and plus 63% in April. The balance of opinion on the sales outlook is more favourable in eastern Canada (plus 64%) than in western Canada (plus 46%).

Profits and Prices

There is a corresponding slippage in the outlook for profits. The percentage expecting an increase over the next 12 months, at 53% (57% in eastern Canada and 49% in western Canada) remains elevated but is not as robust as the 59% expecting higher profits last summer. The balance of opinion on the profit outlook has slipped to plus 35% from plus 42% over the past 3 months.

Almost half of the respondents still expect to increase prices for their product or services during the next 12 months. While only 10% expect to cut prices, this is up slightly from 5% this summer. There is little regional variation in these results.

Employment

Approximately half (51%) of the CEOs in the October survey expect to increase their firms' total number of employees over the next 12 months (48% in western Canada and 53% in eastern Canada). This is lower than in the previous 2 surveys. In addition, the balance of opinion on the employment question has slipped to plus 41% from plus 50%. Increases are generally expected to be spread out evenly across coming calendar quarters.



Dr. Peter Andersen is an independent consulting economist specializing in economic forecasting. He obtained his doctorate in economics from Harvard University. Early in his career he was Assistant Chief of the Bank of Canada's Research Department where he advised the Governor and Bank of Canada management on economic conditions and the economic outlook.

Later as a partner with a national management consulting firm, Andersen was an economic

consultant and advisor to a wide range of companies. He has always emphasized communication and the need to put economic analysis into terms that are useful for business decision-making.

Dr. Andersen also spent several years with several major Bay Street investment dealer firms before founding Andersen Economic Research Inc. His clients are widely distributed across a broad range of corporations and financial institutions throughout North America.

His objective is to act as a filter, separating the signals from the noise, in order to provide clients with the useful information that they really need. In his consulting practice, he provides strategic economic advice to senior management through boardroom meetings, video conferencing, email commentary, conference calls and the monthly Andersen Economic Report.

About the survey

The TEC Canada CEO Confidence Index is a quarterly survey measuring the confidence of Canadian business leaders of small-to-medium enterprises. The results provide insight into the challenges and opportunities faced by leaders and their confidence in the Canadian business environment.

The TEC Canada members surveyed are CEOs and business owners of predominantly small-to-medium enterprises with employees primarily between 50 to 500 and annual revenue of between \$1 million to \$500 million. The TEC Canada CEO Confidence Index Q4 2018 was conducted from September 20 to October 11, 2018 and had 200 Canadian participants in the research.

Please note that the answers below have been divided into western Canada (British Columbia, Alberta, Saskatchewan, Manitoba) and eastern Canada (Ontario, Quebec, New Brunswick, Nova Scotia)

Q1	Compared with a year ago, have overall economic conditions in Canada improved, remained the same, or worsened?	Improved	30.4%	28	21.3%	23
		Remained the same	38.0%	35	44.4%	48
		Worsened	31.5%	29	34.3%	37
Q2	During the next 12 months, do you expect overall economic conditions in Canada will be better, about the same, or worse than now?	Better	14.1%	13	11.1%	12
		About the same	52.2%	48	50.9%	55
		Worse	29.3%	27	34.3%	37
		Don't know/no opinion	4.3%	4	3.7%	4
Q3	Are your firm's total fixed investment expenditures likely to increase, remain about the same, or decrease during the next 12 months?	Increase	45.7%	42	44.4%	48
		Remain the same	17.4%	16	10.2%	11
		Decrease	1.1%	1	1.9%	2
		Don't know/no opinion	35.9%	33	43.5%	47
Q4	Do you anticipate that your firm's sales revenues will increase, remain about the same, or decrease during the next 12 months?	Increase	75.0%	69	59.3%	64
		Remain the same	13.0%	12	26.9%	29
		Decrease	10.9%	10	13.0%	14
		Don't know/no opinion	1.1%	1	0.9%	1
Q5	Do you expect your firm's profitability to improve, remain about the same, or worsen during the next 12 months?	Improve	56.5%	52	49.1%	53
		Remain the same	26.1%	24	29.6%	32
		Worsen	15.2%	14	20.4%	22
		Don't know/no opinion	2.2%	2	0.9%	1
Q6	Do you expect prices for your product or service to increase, remain about the same, or decrease during the next 12 months?	Increase	48.9%	45	46.3%	50
		Remain the same	40.2%	37	45.4%	49
		Decrease	10.9%	10	8.3%	9
		Increase	53.3%	49	48.1%	52
Q7	Do you expect your firm's total number of employees will increase, remain about the same, or decrease during the next 12 months?	Remain the same	33.7%	31	43.5%	47
		Decrease	13.0%	12	7.4%	8
		Don't know/no opinion	0.0%	0	0.9%	1

		Q4 2018	17.4%	16	9.3%	10
Q8	When do you plan to increase your firm's total number of employees over the next 12 months?	Q1 2019	14.1%	13	9.3%	10
		Q2 2019	8.7%	8	9.3%	10
		Q3 2019	7.6%	7	11.1%	12
		Steadily throughout the next 12 months	32.6%	30	39.8%	43
Q9	How much of an effect has NAFTA uncertainty had on your business?	It has had no effect on my business	31.5%	29	29.6%	32
		It has strongly affected my business	8.7%	8	9.3%	10
		It has had some effect on my business	47.8%	44	43.5%	47
		Don't know/no opinion	12.0%	11	17.6%	19
Q10	Does the current small business tax rate provide sufficient after-tax funds to reinvest in your company?	Yes	26.1%	24	28.7%	31
		No	73.9%	68	71.3%	77

