



# Annual Outlook Survey



JANUARY 2023



## Introduction



- › This report presents the results of our annual outlook survey. Among other issues, it covers the outlook for both organizations and the economy, and the effects of inflation and rising interest rates.
- › The survey was conducted from January 16 to February 23, 2023, and had a sample size of 811 managers and executives.
- › The data have a margin of error is +/-3.5 percentage with 95% confidence.
- › The survey data has been weighted by region and organizational size using the most recent Statistics Canada data.



## Organizational and economic health



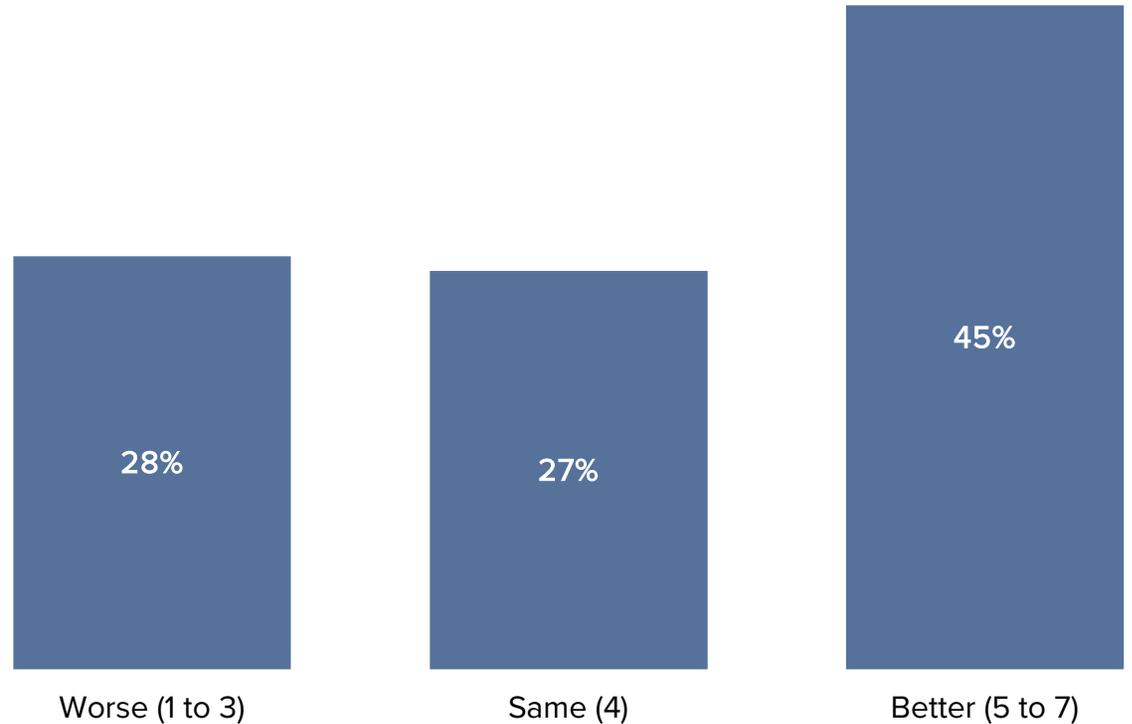
- › Almost half of all Canadian managers and executives thought that their organization was better off in 2022 and expect an equal situation in 2023
- › Although a plurality felt that their organization would be better off in 2023, over two-thirds of Canadian managers thought the state of the economy would worsen.
- › Inflation topped the list of concerns for 2023 but strong pluralities also expressed concern about wage demands and rising interest rates
- › A majority of managers said their organizations had increased their investment in employee compensation in 2022 and a plurality said they had increased their investment in recruiting
- › Expectations for investment in 2023 mostly mirrored what happened in 2022 with the exception that much more investment was expected in business development, and staff training
- › Business confidence has dropped to its lowest level since the pandemic with nearly 60% of managers describing the current health of the economy as bad
- › Optimism about the near term has also slumped with over 60% of managers saying that the Canadian economic situation will get worse over the next 12 months
- › A recession is regarded as likely by 42% of managers and executives, although most managers do not expect a recession to be severe.
- › Not surprisingly inflation and rising interest rates were considered to be the greatest risks, but these were closely followed by housing affordability, the real estate market and household debt.

## Organization health 2022 vs. 2021

Almost half of all Canadian managers and executives thought that their organization was better off in the year after the pandemic hit but a quarter thought they were worse off



All things considered, how did 2022 stack up for your company compared to 2021?

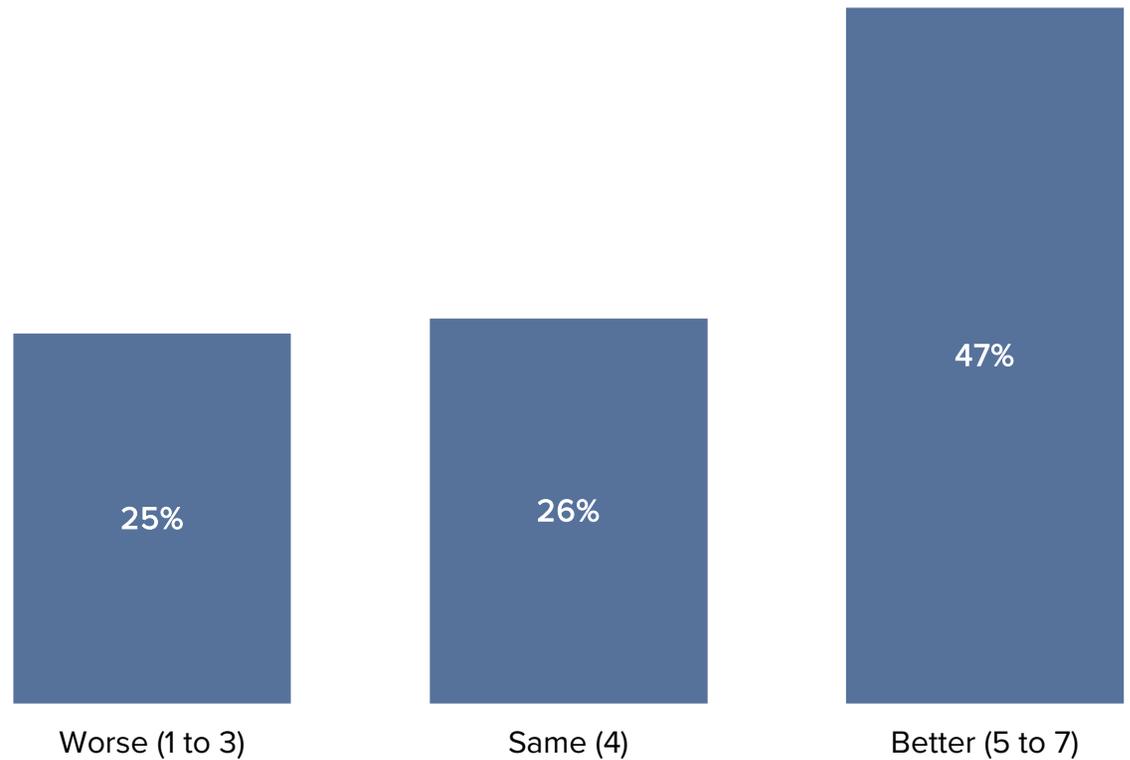


## Organizational outlook for 2023

Canadian managers and executives expect an equal situation for 2023 with almost 50% saying their organization will be better off and 25% saying worse.



Looking ahead to the new year, how do you think 2023 will compare with 2022 for your company ?



## 2023 issues

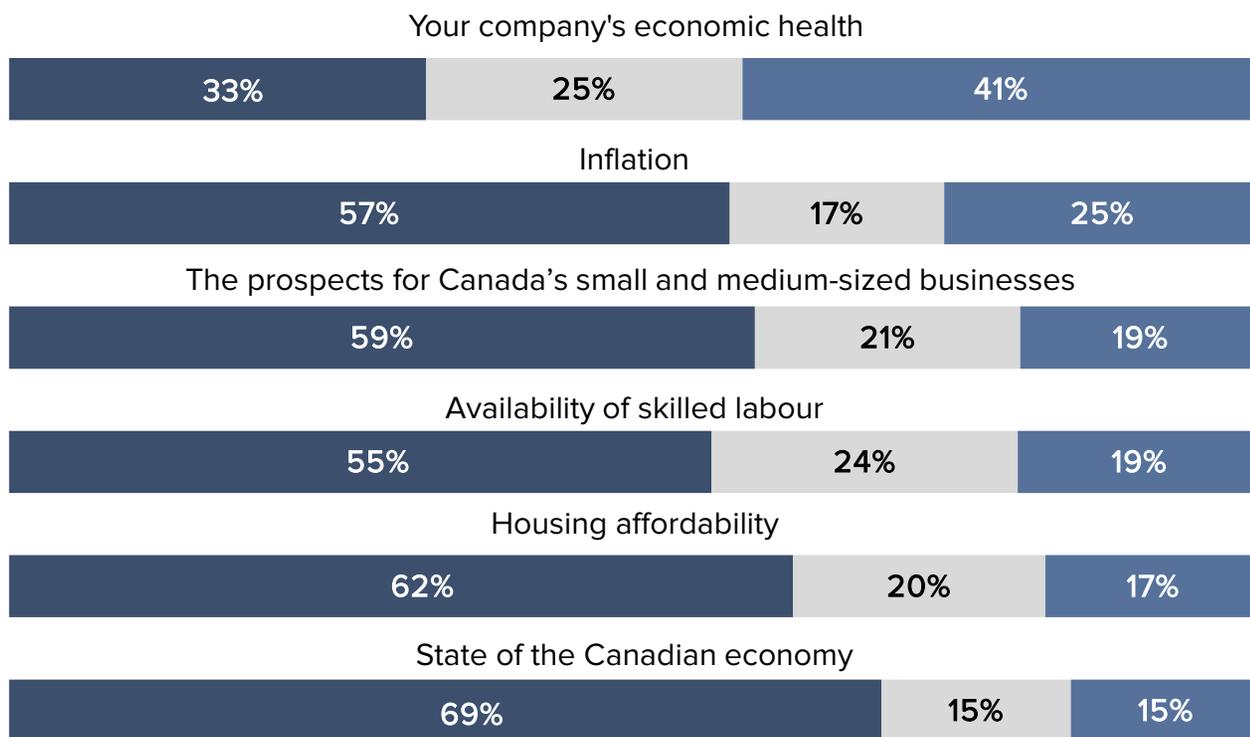
Although a plurality felt that their organization would be better off in 2023, over two-thirds of Canadian managers thought the state of the economy would worsen

In addition, a majority thought that housing affordability, the availability of skilled labour, the prospects for SME's, and inflation would all worsen in 2023



Do you think the following will improve or worsen in 2023?

■ Worsen (1 to 3)    ■ Neither (4)    ■ Improve (5 to 7)



## 2023 concerns

Inflation topped the list of concerns for 2023 with less than 10% not being concerned

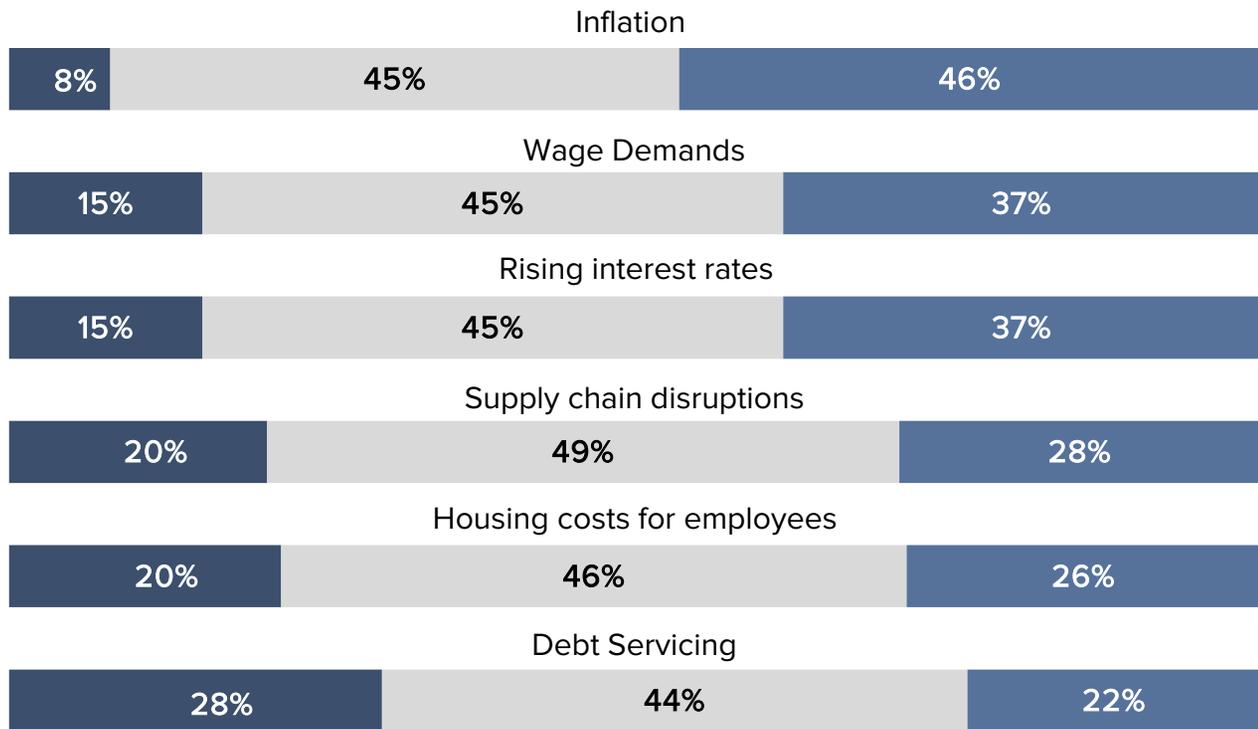
Strong pluralities also expressed concern about wage demands and rising interest rates

Of much lesser concern were supply chain disruptions and housing costs, and debt servicing was of relatively low concern



How concerned are you about the potential impact of each of the following on your company in 2023.

■ Not Concerned (1 to 3)    ■ Somewhat (3 to 5)    ■ Concerned (6 to 7)



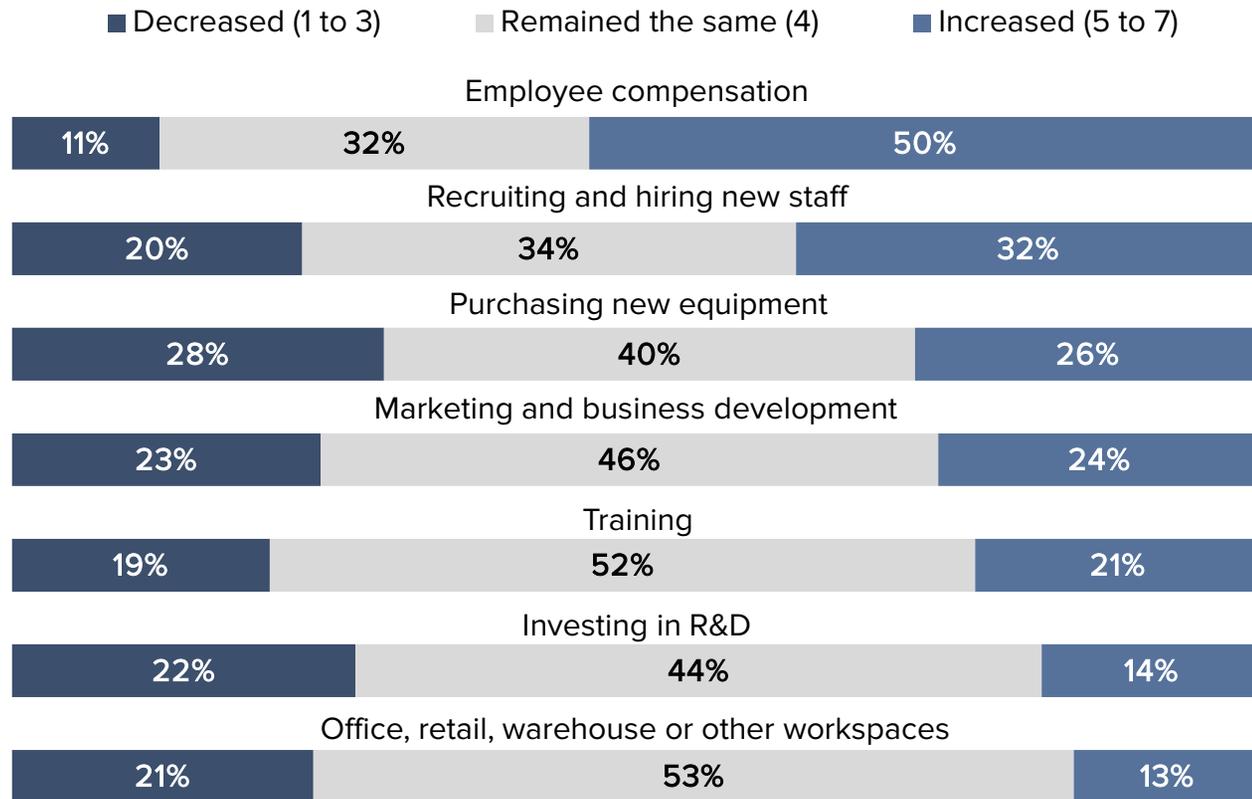
## Investment in 2022

A majority of managers said their organizations had increased their investment in employee compensation in 2022 and a plurality said they had increased their investment in recruiting

Investment in new equipment, marketing, and training was neutral on balance and more organizations decreased their investment in R&D and office space than increased it



In 2022, did your company increase or decrease spending in each of the following areas relative to 2021?



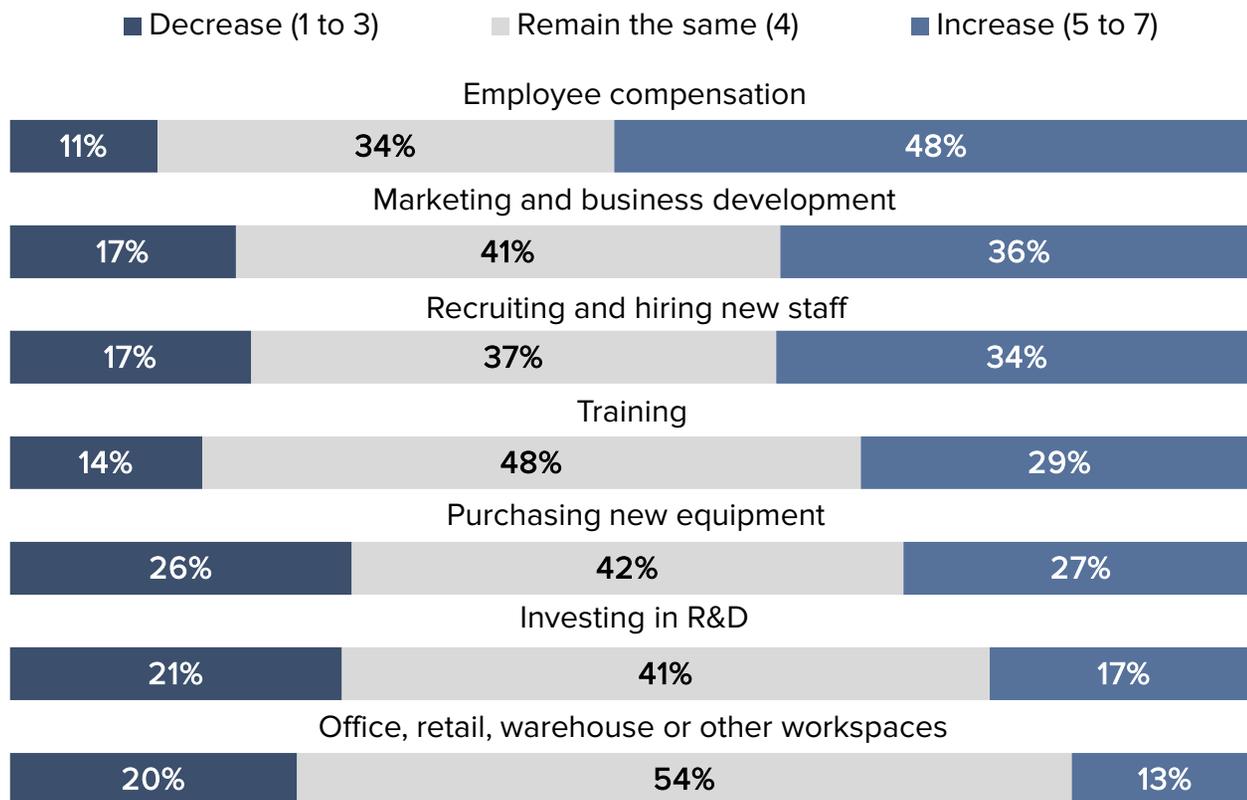
## Investment in 2023

Expectations for investment in 2023 mostly mirrored what happened in 2022 with the exception that much more investment was expected in:

- > Marketing and business development, and
- > Training of staff



Looking out over 2023, do you expect your [TYPE] to increase or decrease spending in each of these areas relative to 2022?

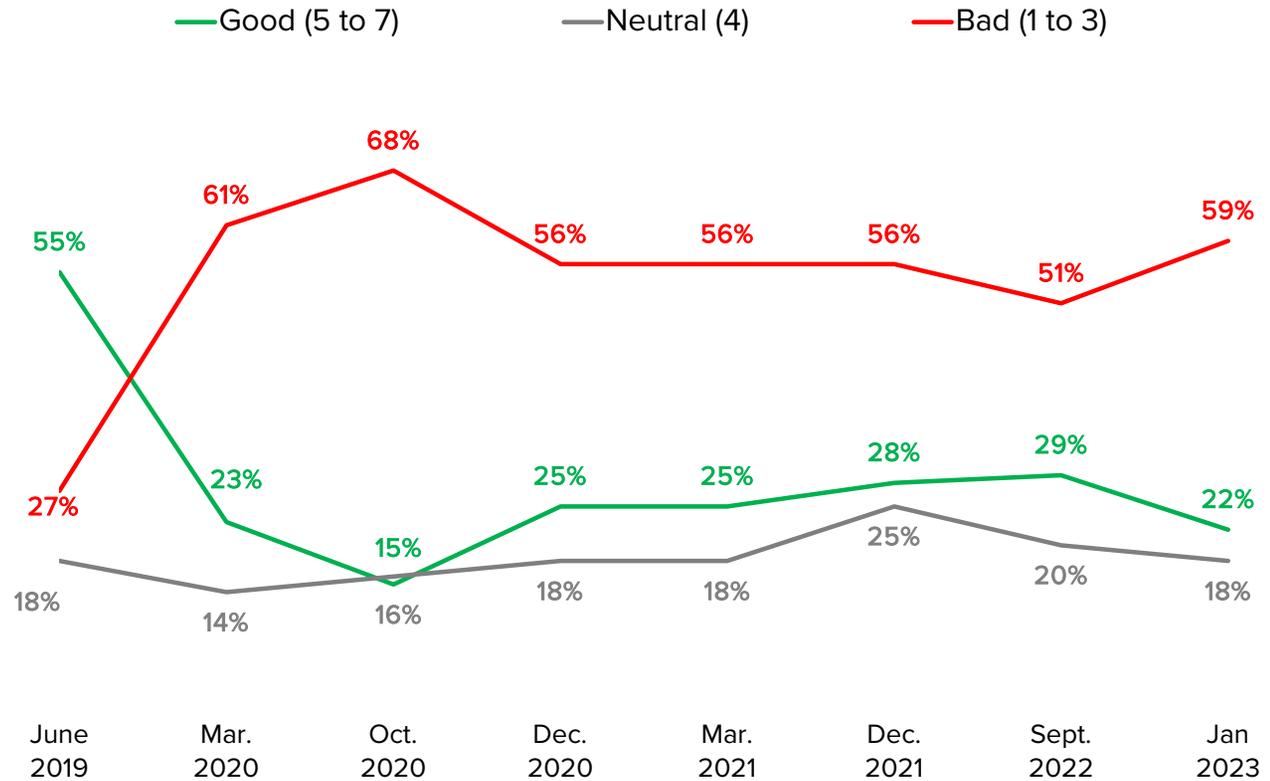


## Canadian economic health

Business confidence has dropped to its lowest level since the pandemic with nearly 60% of managers describing the current health of the economy as bad and only 22% describing it as good.



How would you rate the current health of the Canadian economy?

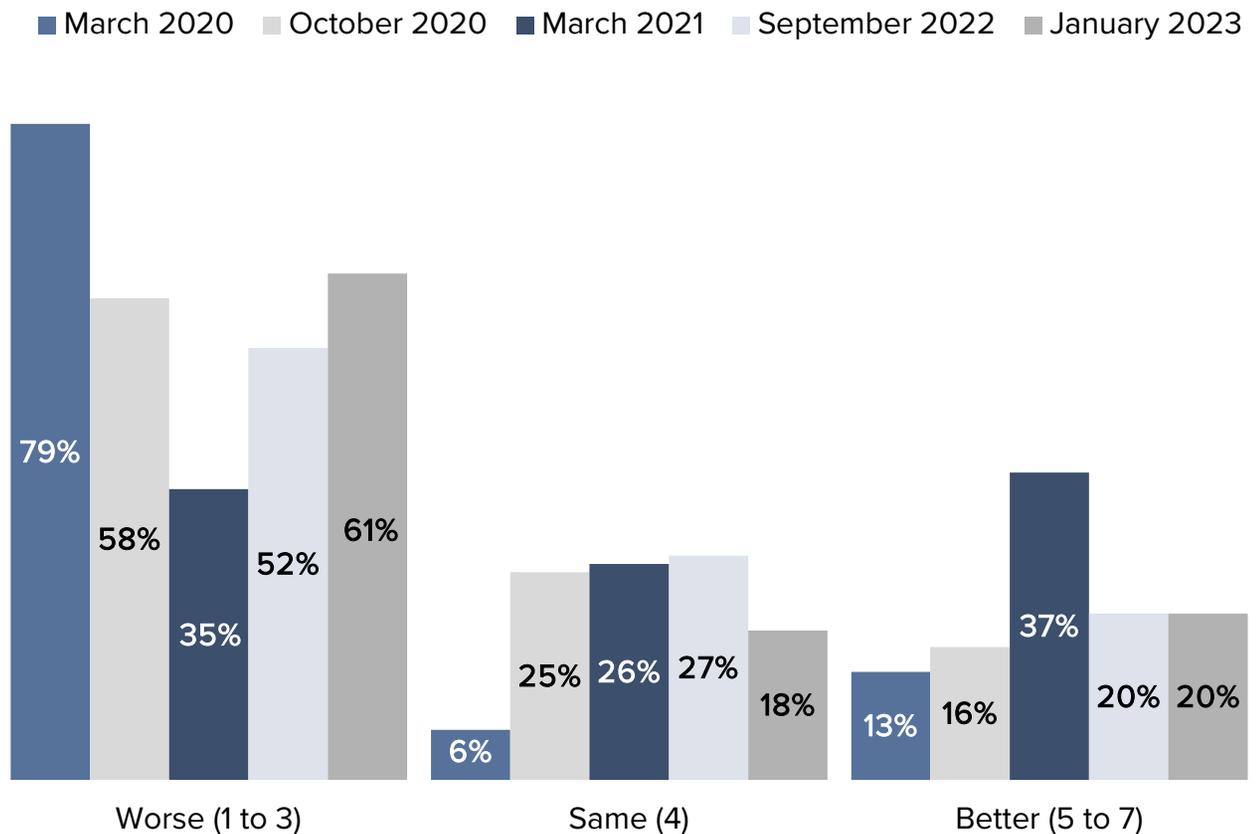


## Canadian economic outlook

Optimism about the near term has also slumped with over 60% of managers saying that the Canadian economic situation will get worse over the next 12 months, the highest level for over 2 years



What do you think will be the general outlook for the Canadian economy over the next 12 months?



Canadian enterprises (tracking: sample size varies from 600 to 990)

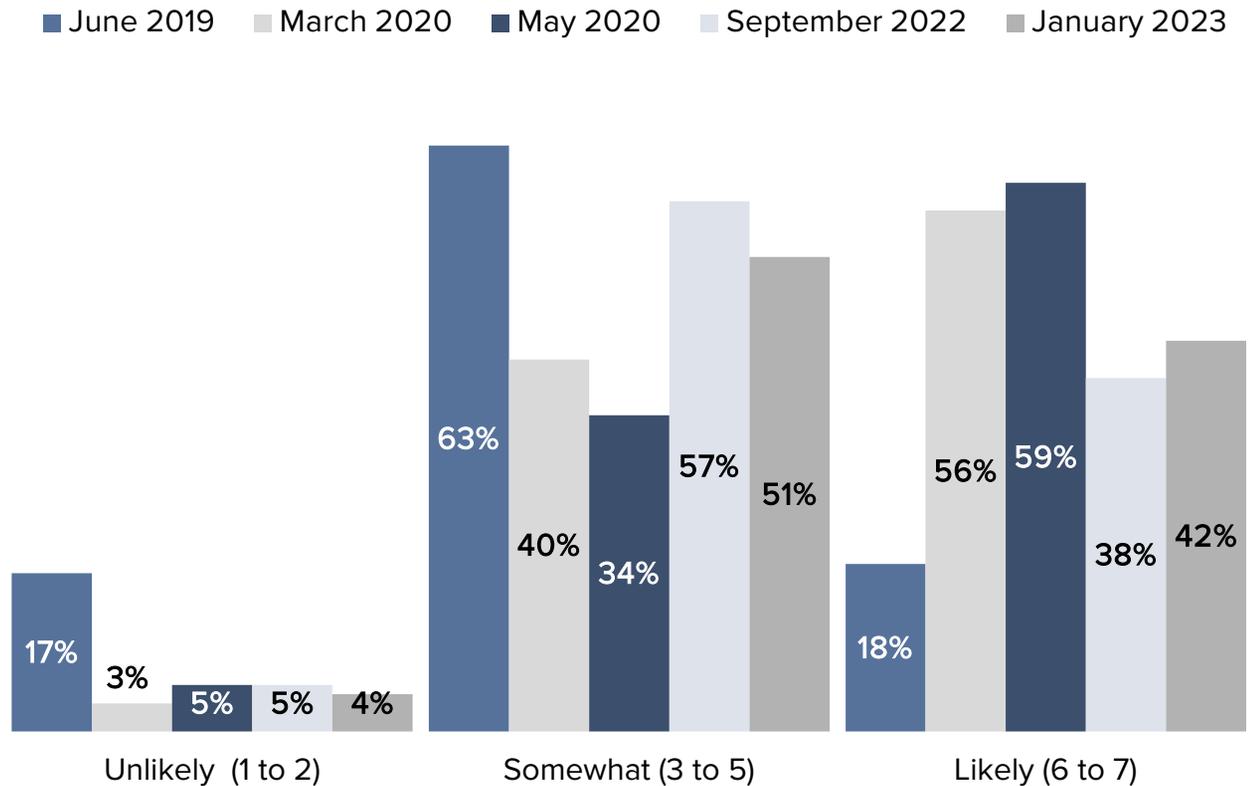
©Modus Research 10

## Likelihood of a recession

A recession is regarded as likely by 42% of managers and executives (a slight increase over September 2022) and 51% rating this as somewhat likely. Only 4% regarding it as unlikely.



In your opinion, how likely is it that the Canadian economy will go into recession over the next 12 months?

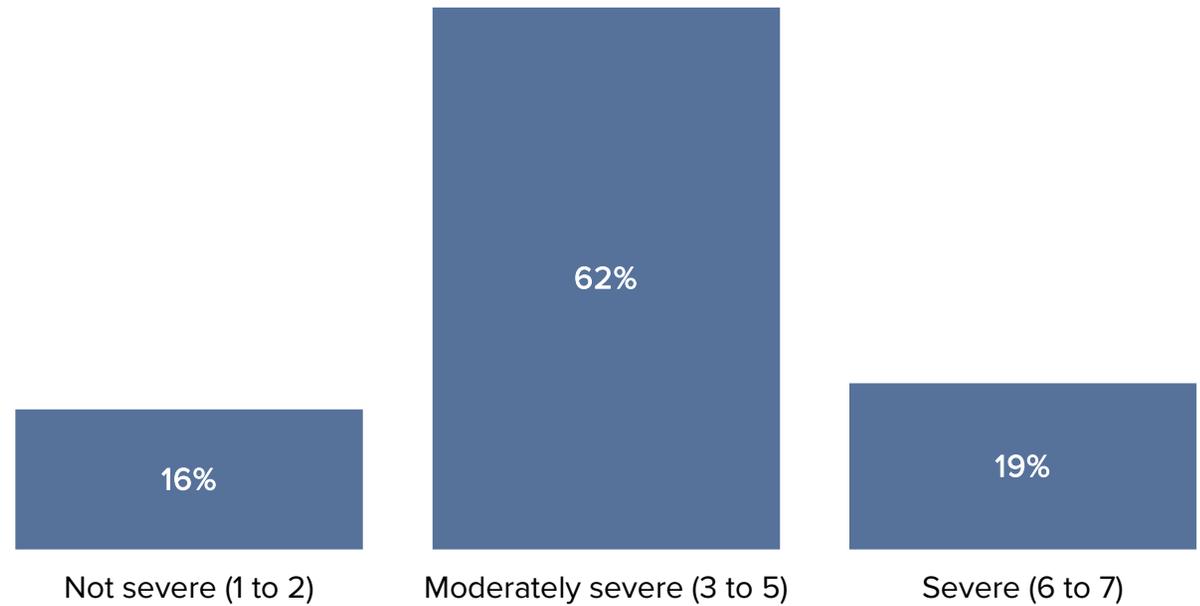


## Recession severity

Most managers do not expect a recession to be severe.



In your estimation, were there to be a 2023 recession in Canada, how severe would you expect it to be?

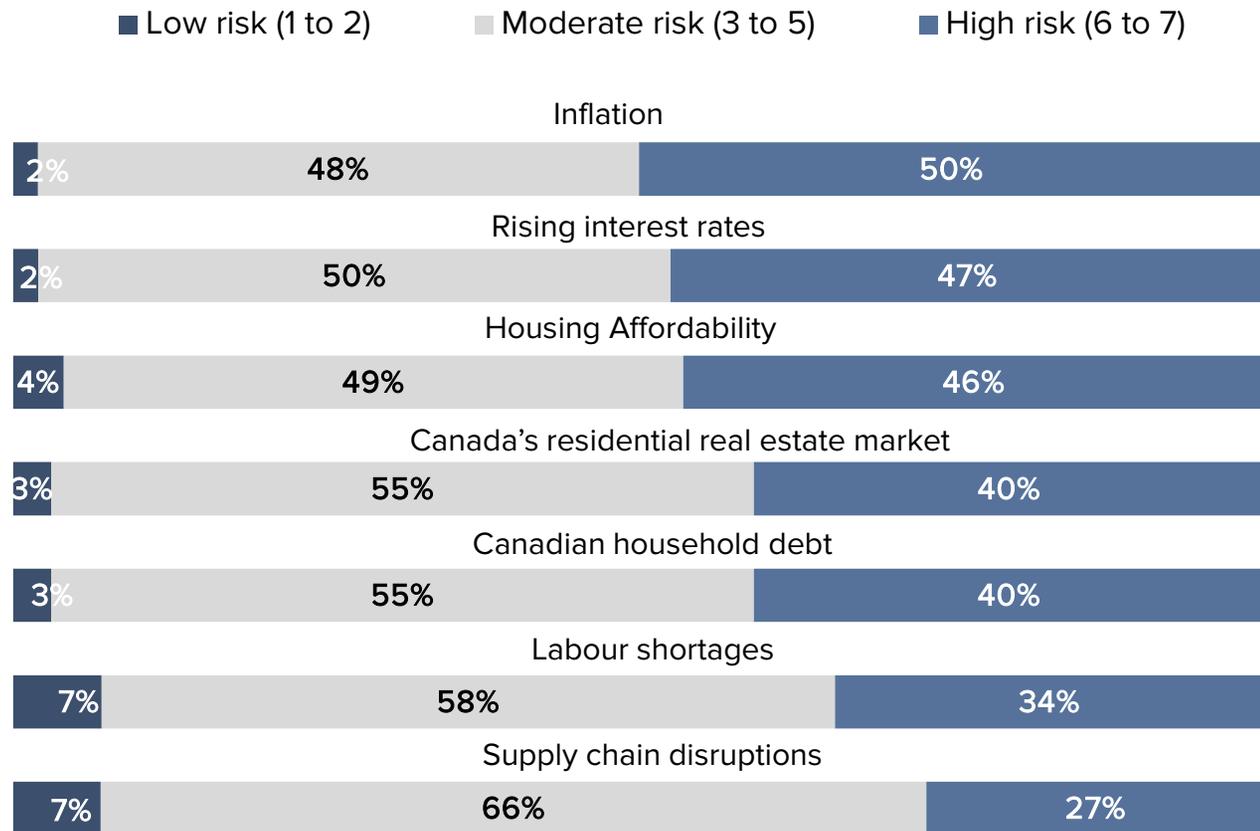


## Risks to the economy

Not surprisingly inflation and rising interest rates were considered to be the greatest risks, but these were closely followed by housing affordability, the real estate market and household debt



How would you rate each of the following in terms of risks to the Canadian economy in 2023?





## Interest rates and inflation



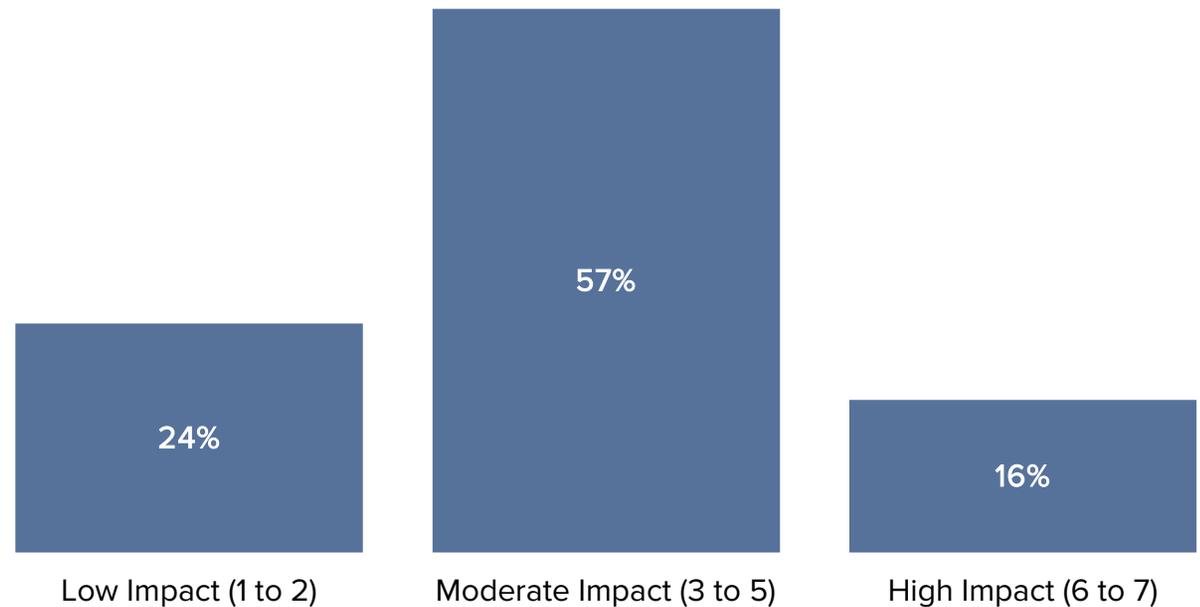
- › Managers did not consider that increasing interest rates is a particularly effective way of curbing inflation
- › The expectation is that interest rates will continue to increase both in the short and medium term
- › Opinion is evenly divided on whether inflation will increase or decrease during 2023 although the majority of managers and executives think that any change will be moderate
- › Rising interest rates increased costs for 70% of companies and greatly so for one quarter
- › Most companies rely on credit cards or LOC's for debt financing at least to some extent. Relatively few rely on private equity, loans, or mortgages, and only 5% rely on bond issues
- › The majority of companies plan to reduce their reliance on debt with nearly a quarter planning to do so a great deal
- › A majority of companies expect to reduce capital expenditure and operating costs in 2023 (at least somewhat) as a result of rising interest rates. In addition, nearly a quarter expect to reduce spending on R&D

## Effectiveness of increasing interest rates

Managers did not consider that increasing interest rates is a particularly effective way of curbing inflation



What impact, if any, do you think interest rate increases have had on curbing inflation?



## Future interest rates

The expectation is that interest rates will continue to increase both in the short and medium term

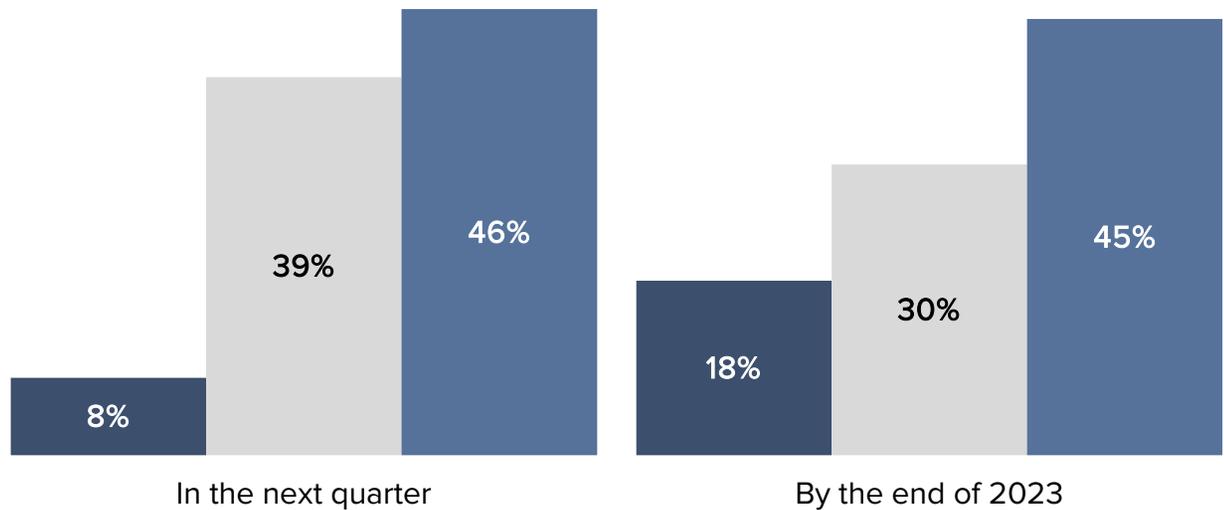


Do you think the Bank of Canada will increase or decrease the prime interest rate ... ?

■ Decrease (1 to 3)

■ Neither (4)

■ Increase (5 to 7)

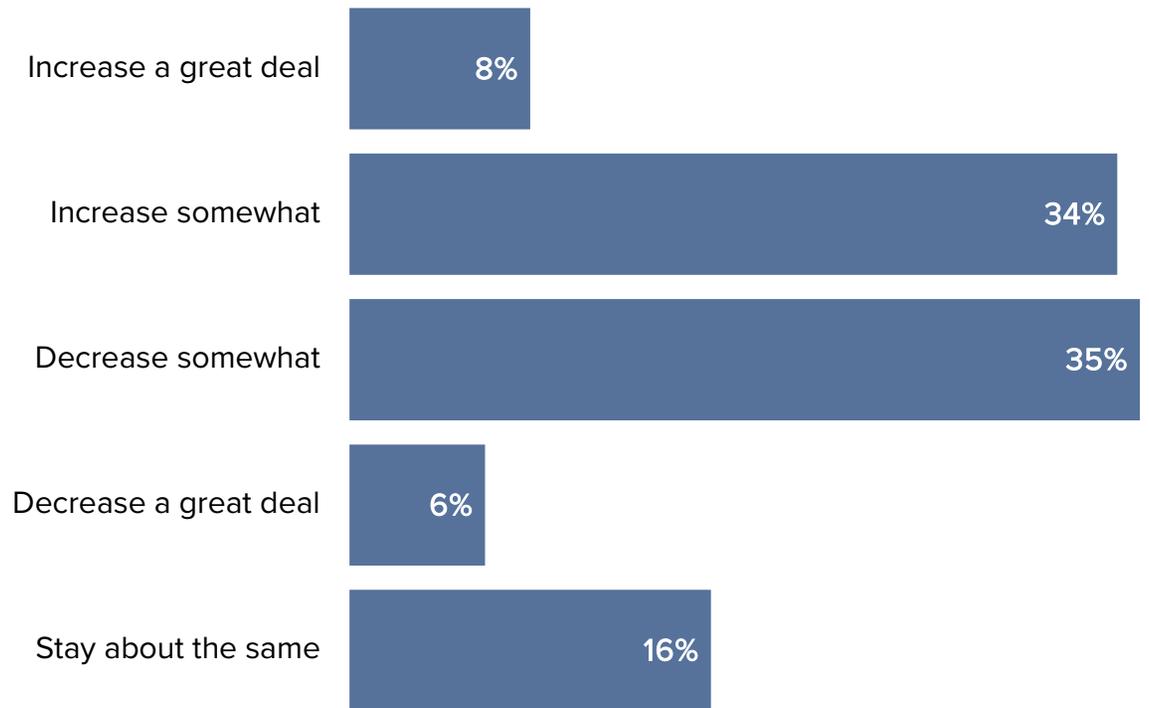


## Inflation in 2023

Opinion is evenly divided on whether inflation will increase or decrease during 2023 although the majority of managers and executives think that any change will be moderate



Looking out over 2023, do you think the rate of inflation in Canada will increase, decrease or stay about the same as it is today?



## Effect of rate increases on costs

Rising interest rates increased costs for 70% of companies and greatly so for one quarter



Have increased interest rates also increased costs for your company ?

Yes, a great deal

24%

Yes, somewhat

46%

No

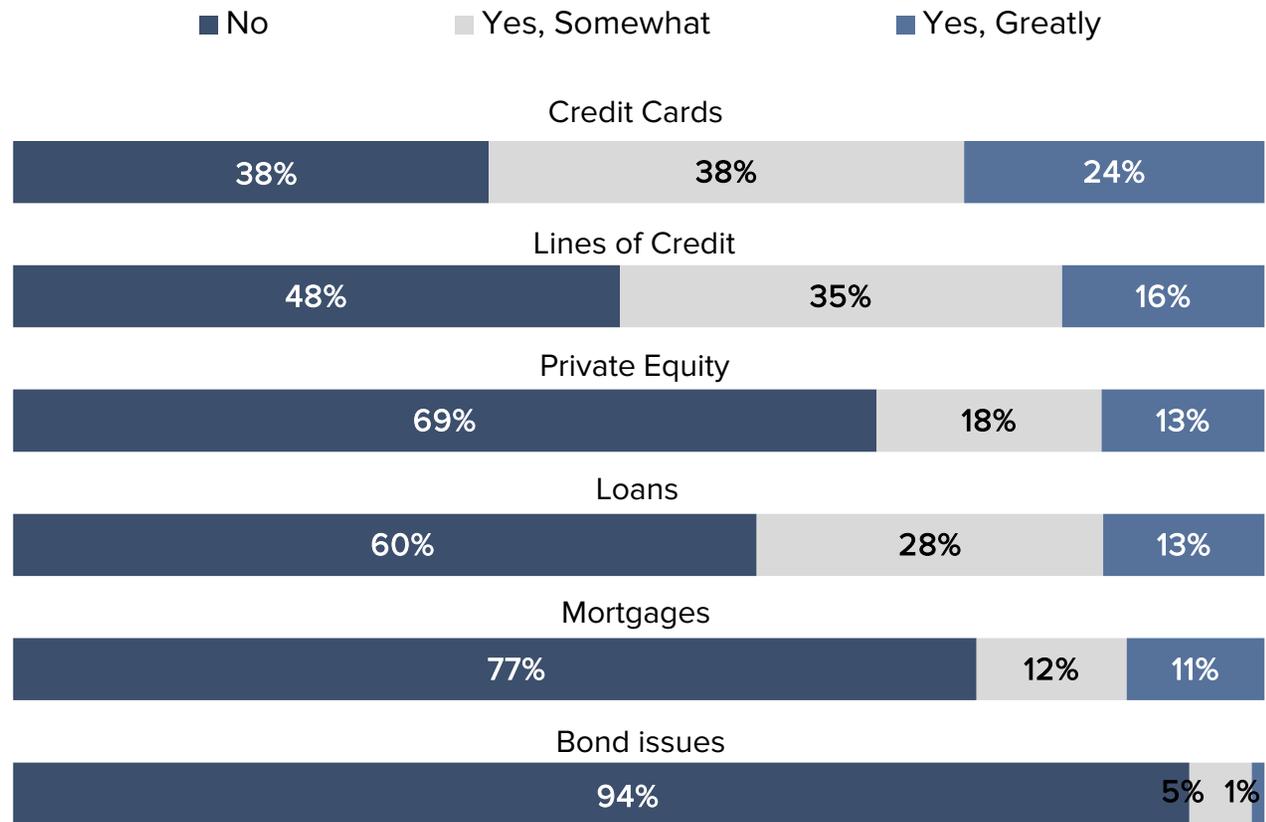
30%

## Debt financing

Most companies rely on credit cards or LOC's for debt financing at least to some extent. Relatively few rely on private equity, loans, or mortgages, and only 5% rely on bond issues



Does your company rely on the any of the following types of debt financing?

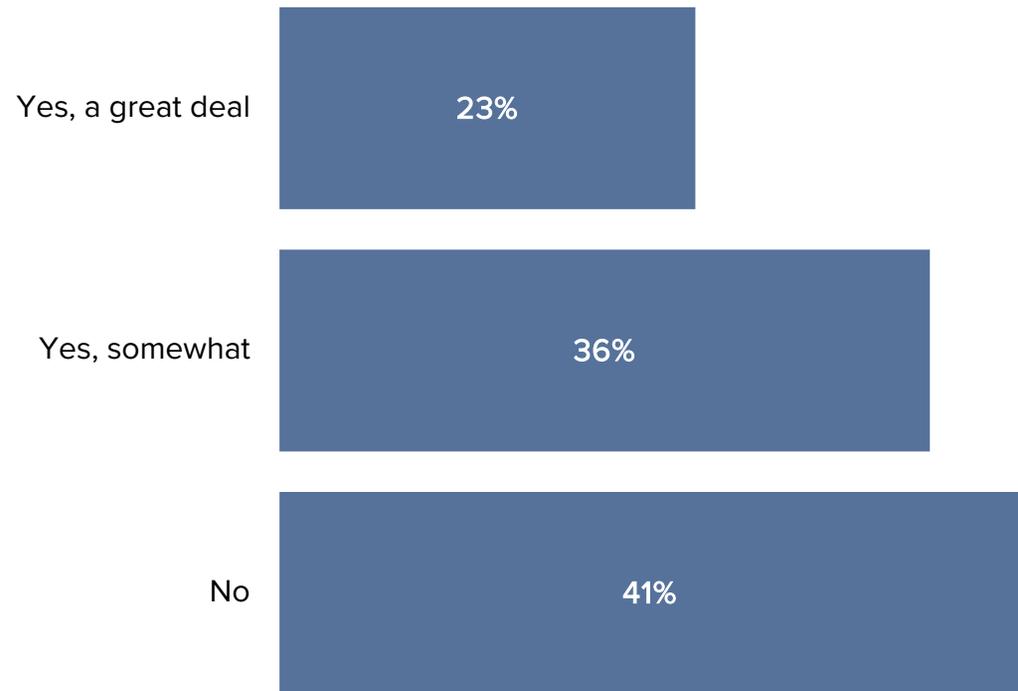


## Debt reduction

The majority of companies plan to reduce their reliance on debt with nearly a quarter planning to do so a great deal



For 2023, does your company plan to reduce its reliance on debt financing due to higher interest rates?

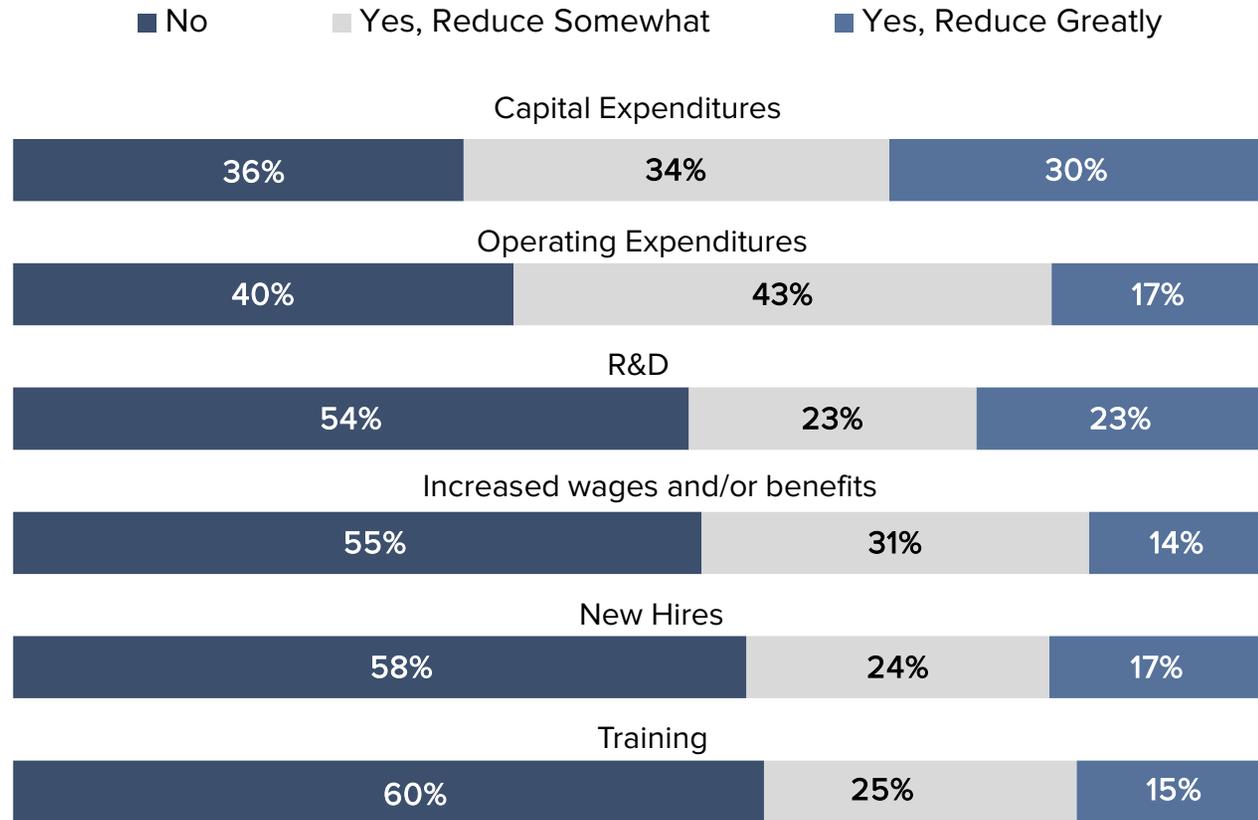


## Reductions in spending

A majority of companies expect to reduce capital expenditure and operating costs in 2023 (at least somewhat) as a result of rising interest rates. In addition, nearly a quarter expect to reduce spending on R&D



Will dealing with rising interest rates and debt in 2023 result in a reduction in spending in any of the following areas for your company ?





*Real answers from real people*