

CEO Confidence Index

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

Q2 2024

ANALYSIS by Dr. Peter Andersen Economist

Our latest TEC CEO Confidence Survey was closed off on April 2nd. It could not be more up to date. The number of respondents is again very high. Over 400 TEC CEOs shared their thoughts.

The survey is telling us what Canada's small and medium sized business leaders are thinking right now. The median company size, measured in annual revenue, is in the \$5 to \$50

million range. The survey covers a wide range of industries and all of Canada's geographic regions.

As a result, we have a valuable reading on Canada's business confidence. The large sample size means that we are getting a good picture of what is going on. It is also important to see how thinking and opinions may have changed compared to the last survey, three months ago.

Survey Respondents

The respondents surveyed for this report are members of TEC Canada, representing a diverse range of Canadian business leaders. This inclusive group comprises of owners, CEOs, and senior executives from small to mid-sized companies across various industries. From manufacturing and engineering to pharmaceuticals, transportation, food, and more, the membership base reflects a broad spectrum of expertise.

This diversity extends beyond industry lines to cover the geographical breadth of the nation, with members situated from coast to coast. This varied representation ensures the formation of TEC groups draw upon a rich mix of perspec-

tives, enhancing leadership development, mentorship, and peer advisory collaboration.

TEC Canada leverages this diversity to provide a holistic understanding of the challenges and opportunities faced by business leaders in today's evolving landscape. The collaborative exchange of insights fosters strategic thinking and equips members to navigate the complexities of their industries with agility and resilience. In essence, TEC Canada's diverse and widespread membership base forms a dynamic community where leadership excellence is not only nurtured but celebrated across sectors and regions.

TECCANADA

CEO Confidence Index
Q2 2024

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The key question for everyone now is, “where is inflation headed.” The answer will determine tomorrow's interest rates and the economy's performance.

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For **45%**

of TEC leaders, business conditions have worsened over the last 12 months.

Only 23% expect them to improve

Expectations: Will the Economy Get Worse?

Q2 **Q1**



Q2	B. C.	Q1
31%		37%
25%	BETTER	21%
44%	ABOUT THE SAME	37%
0%	DON'T KNOW/NO OPINION	5%



Q2	Alberta	Q1
28%		41%
20%	BETTER	11%
51%	ABOUT THE SAME	44%
1%	DON'T KNOW/NO OPINION	4%



Q2	Ontario	Q1
62%		44%
26%	BETTER	18%
43%	ABOUT THE SAME	36%
2%	DON'T KNOW/NO OPINION	2%



Q2	Quebec	Q1
19%		62%
16%	BETTER	7%
65%	ABOUT THE SAME	31%
0%	DON'T KNOW/NO OPINION	0%

Economic Outlook

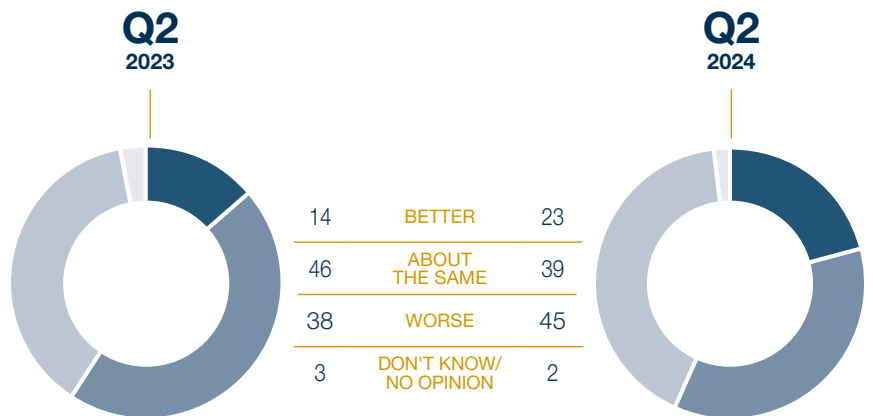
The key question for everyone now is, “where is inflation headed”. The answer will determine tomorrow’s interest rates, and the economy’s performance. In past surveys, TEC CEOs indicated that they had significant pricing power. Economic conditions were difficult, but there was a general belief that costs could be passed on in selling prices. Inflation expectations were elevated last year.

There is no doubt that confidence in the economy is still slumping. Many respondents (45%) still report that economic conditions have worsened

over the past 12 months. Only 23% expect them to improve over the next 12 months.

This is not as bad as before though. In our previous survey 63% said that business conditions had worsened, and fewer (14%) expected an improvement. In Quebec and BC in our 2nd Quarter survey, the balance of opinion (better vs worse) is still negative on the outlook, but there has been an improvement. Fortunately, we can now say that TEC member confidence has bottomed, and has improved slightly.

433 leaders were polled with this first question—during the next 12 months, do you expect overall economic conditions in Canada will be better, about the same, or worse than now?



While the future of inflation and interest rates remains uncertain, TEC leaders remain cautious in their assessment of the economy and their business intentions. However, there has been a marginal increase in optimism on the future of the economy, suggesting economic sentiment has already hit rock bottom – and will continue to go up.

Questions to Consider

Reflect on these critical questions as you read the report, and discuss them with your organization's Leadership Team.

1 **Do you expect** the Bank of Canada to begin lowering interest rates this summer? This fall? Are these expectations shaping your decision making? What might be the impacts of this influence?

2 **How do you feel** your firm's productivity compares to industry peers in Canada? How do you feel it compares to industry peers in the US? Are there opportunities to identify and adopt industry best practices to improve efficiency or output?

3 **Do you believe** your business has pricing power? Will this impact how you price your products or services? How can you build a long-term strategy to make your price strategy sustainable?

Inflation Expectations

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There is a pronounced inflation mindset though. There is still a perception of pricing power. More of our members now think that they can pass on higher costs in selling prices (65% compared to 45% in our last survey).

Supply chain shortages of non-labour inputs are not a problem for a large majority of respondents (74%). Workers are not as hard to find. Only 16% now report that it is more difficult to fill jobs. This is down from 21% in our 1st Quarter survey.

There is a pronounced inflation mindset though. There is still a perception of pricing power. More of our members now think that they can pass on higher costs in selling prices (65% compared to 45% in our last survey). However, there are qualifications. Within that 65%, the number saying that their ability to pass on costs has lessened, and outnumber by 3 to 1 those saying that it has become easier to pass them on.

Expected economy-wide inflation, looking 1-year ahead, is now clustered in the 3% range (57% of our respondents). This is unchanged from our previous survey. The next most likely level is 4% inflation (25% of respondents). This could be a problem, as inflation expectations of 3% to 4% are too high. They are not compatible with the official inflation target and the hope for lower interest rates.

Despite this inflation projection, most TEC CEOs expect the Bank of Canada to begin cutting rates, either this summer (39%) or in the fall of 2024 (33%). Some even still expect rate cuts before mid-year 2024. Relatively few expect rate cuts to be delayed until 2025 or later (13%).



Only

16%

of respondents now report that it is more difficult to fill jobs.

Down from 21% in our 1st Quarter survey.



39%

of TEC CEOs expect the Bank of Canada to begin cutting rates this summer.

33%

believe it will happen the fall of 2024.

Profitability, Sales & Hiring

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Hiring intentions have held up, with 88% now planning on an increase, or no change in payrolls.

Compared to our last survey, these expectations are more positive. Hiring intentions have held up, with 88% now planning on an increase, or no change in payrolls. A lower percentage now plans to cut employment. There is also a higher reading now for the expected increase in sales revenues. In addition, the outlook for business investment and profitability has stayed upbeat.

To summarize, 45% plan to increase employment over the next 12 months. Only 11% expect to reduce employment. Fewer are now considering or undertaking layoffs, compared to 3 months ago (25% compared to 29%).

However layoffs are still an issue in BC, where 33% are either considering them or actually undertaking them. This is the same percentage for BC as in our 1st Quarter survey.

More expect to increase business investment (33%), than reduce it (20%). More expect their firm's profitability will improve (37%), than worsen (25%). The majority (52%) expect their firm's sales revenue volumes to increase during the next 12 months.

Alberta and Ontario respondents are even more optimistic on the outlook for their firms' revenue volumes. In Alberta 58% of TEC CEOs expect an increase, and in Ontario 54% expect an increase.



33%

are planning to increase business investments

20%

will reduce them.



37%

expect their firm's profitability will improve.

25%

expect it to worsen.

Pricing & Productivity

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There are 4 main reasons holding back productivity improvement. They are availability of skilled or specialized talent, cost of labour or materials, the regulatory environment and government policy restraint, and finally, scale of operations and market size limitations.

These positive readings probably reflect the belief that cost increases can be passed on in selling prices, and also the expectation that interest rate cuts are coming soon. Time will tell whether this will happen. The outlook for compensation costs implies an inflation and interest rate risk. The median response by TEC CEOs is that compensation costs (wages, salaries, and benefits) are currently increasing by 4% to 5%.

This could be inconsistent with a soft landing (continuing economy-wide growth combined with declining inflation). A soft landing would be the good news scenario. Our 2nd Quarter survey shows that a soft landing is what the majority of TEC CEOs (52%) expect for 2024.

Compensation increases in the 4% to 5% range though, would require some offset from productivity gains, in order to bring inflation and interest rates down, and achieve a soft landing. Fortunately, the majority of TEC respondents (58%) expect their firm's productivity to improve. Nonetheless, there is still a sizeable percentage (36%) that expects their firm's productivity to remain unchanged.

There are 4 main reasons holding back productivity improvement. They are availability of skilled or specialized talent, cost of labour or materials, the regulatory environment and government policy restraint, and finally, scale of operations and market size limitations. These headwinds are not easy to deal with. Productivity improvement will be the key challenge facing Canada's business leaders.



The majority of TEC respondents,

58%

expect their firm's productivity to improve.

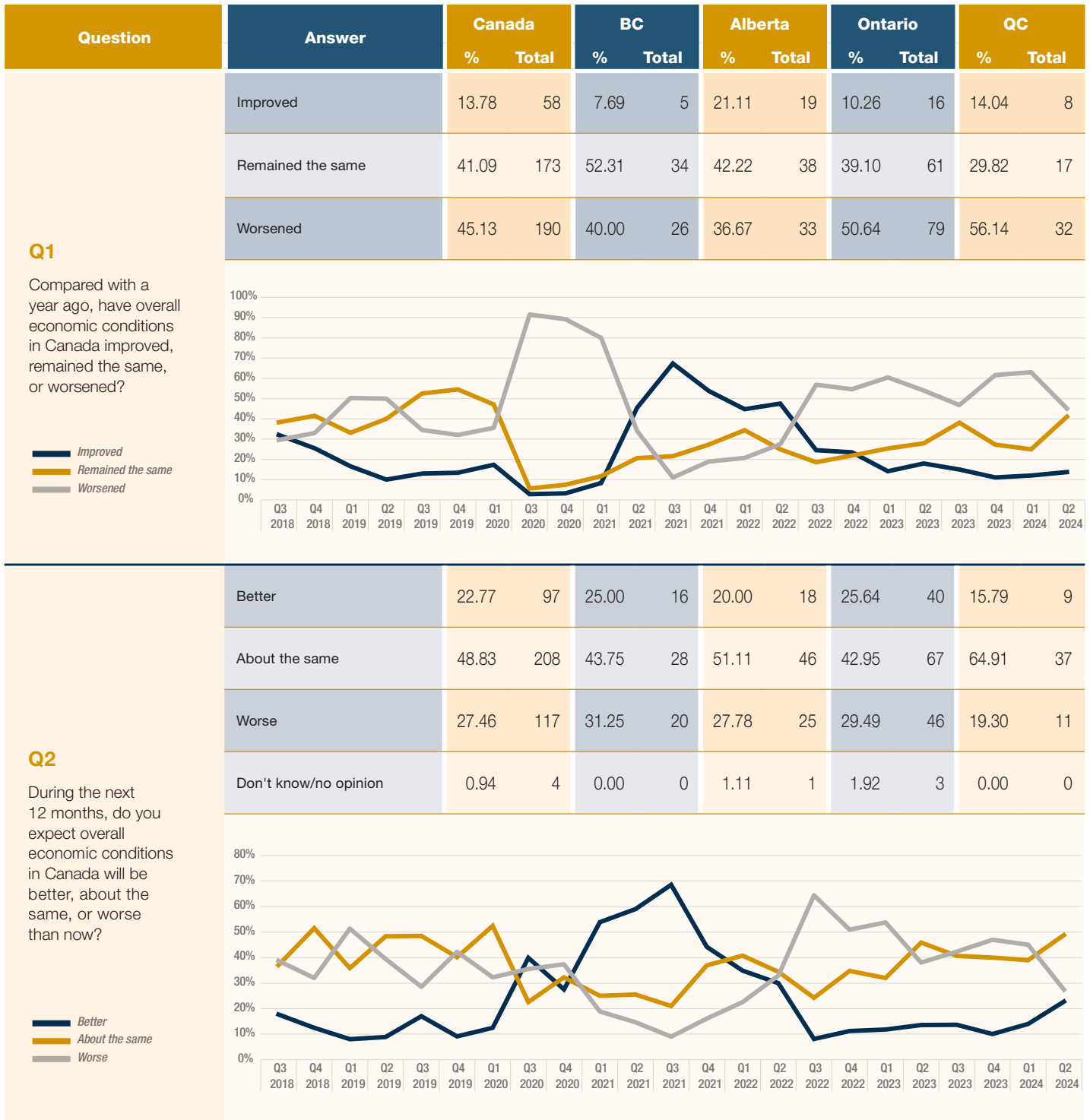
Nonetheless,

36%

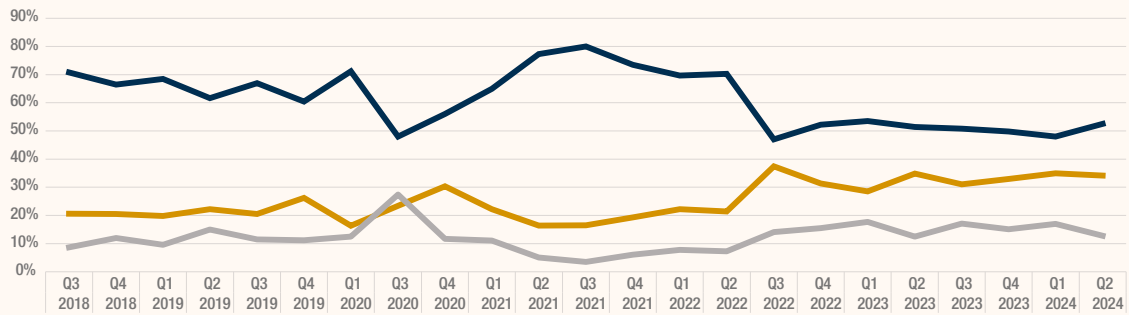
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Survey Results

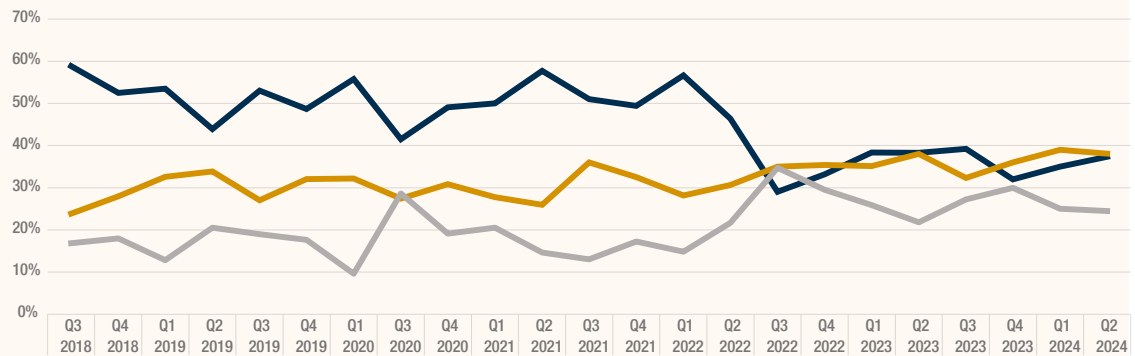
The TEC Canada CEO Confidence Index is a quarterly survey measuring the confidence of Canadian business leaders of small-to-medium enterprises. The results provide insight into the challenges and opportunities faced by leaders and their confidence in the Canadian business environment. The TEC CEO Confidence Index Q2 2024 was conducted from March 1st to April 1st, 2024, and had 433 Canadian participants in the research.



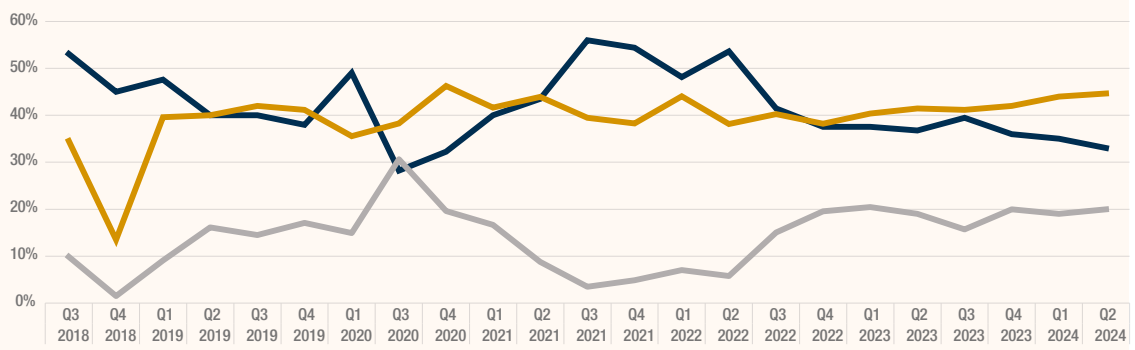
Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q3 Do you anticipate that the volume of your firm's sales revenues will increase, remain about the same, or decrease during the next 12 months?	Increase	52.49	221	47.69	31	57.78	52	53.85	84	52.63	30
	Remain the same	34.20	144	33.85	22	36.67	33	31.41	49	29.82	17
	Decrease	12.83	54	18.46	12	4.44	4	14.10	22	17.54	10
	Don't know/no opinion	0.48	2	0.00	0	1.11	1	0.64	1	0.00	0



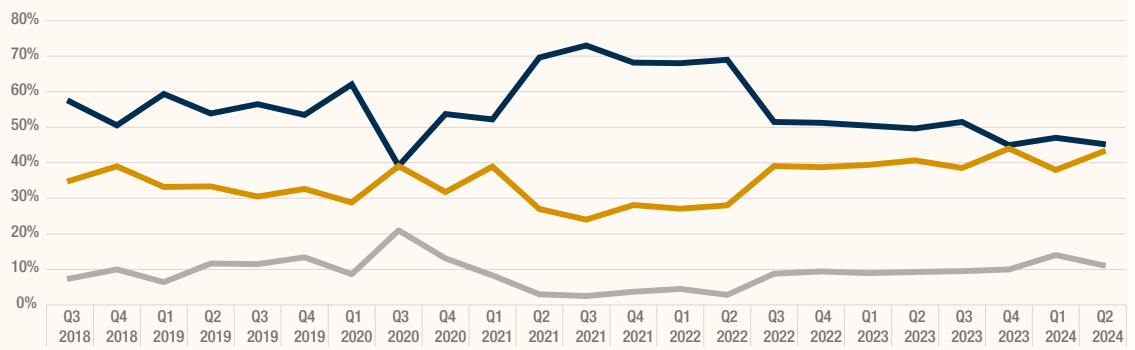
Q4 Do you expect your firm's profitability to improve, remain about the same, or worsen during the next 12 months? (Considering wage and salary costs increasing).	Improve	37.38	157	34.38	22	32.22	29	37.82	59	43.86	25
	Remain the same	38.10	160	46.88	30	45.56	41	38.46	60	19.30	11
	Worsen	24.52	103	18.75	12	22.22	20	23.72	37	36.84	21
	Don't know/no opinion	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0



Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q5 Are your firm's total fixed investment expenditures likely to increase, remain about the same, or decrease during the next 12 months?	Increase	33.02	139	33.85	22	40.00	36	33.97	53	15.79	9
	Remain the same	44.66	188	46.15	30	45.56	41	41.03	64	54.39	31
	Decrease	19.95	84	20.00	13	10.00	9	22.44	35	28.07	16
	Don't know/no opinion	2.38	10	0.00	0	4.44	4	2.56	4	1.75	1



Q6 Do you expect your firm's total number of employees will increase, remain about the same, or decrease during the next 12 months?	Increase	45.28	187	32.31	21	57.78	52	48.08	75	35.09	20
	Remain the same	43.10	178	55.38	36	35.56	32	41.03	64	45.61	26
	Decrease	11.14	46	10.77	7	6.67	6	10.26	16	19.30	11
	Don't know/no opinion	0.48	2	1.54	1	0.00	0	0.64	1	0.00	0



Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q7 Do you expect prices for your product or service to increase, remain about the same, or decrease during the next 12 months?	Increase	49.27	203	46.88	30	51.11	46	49.36	77	52.63	30
	Remain the same	42.96	177	46.88	30	43.33	39	42.95	67	35.09	20
	Decrease	7.28	30	3.13	2	5.56	5	7.69	12	12.28	7
	Don't know/no opinion	0.49	2	3.13	2	0.00	0	0.00	0	0.00	0
Q8 Do you expect your firms productivity and output to improve, remain the same, or worsen during the next 12 months?	Improve	57.87	239	49.23	32	48.89	44	60.26	94	71.93	41
	Remain the same	35.84	148	41.54	27	44.44	40	35.26	55	22.81	13
	Worsen	4.84	20	6.15	4	4.44	4	3.21	5	5.26	3
	Don't know/no opinion	1.45	6	3.08	2	2.22	2	1.28	2	0.00	0

Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q9 Which of the following barriers do you believe most significantly restricts your firm's productivity compared to industry peers in the United States? Select all that apply.	Access to advanced technology or digital tools	3.99	35	3.27	5	2.23	4	4.53	15	7.69	8
	Availability of skilled workforce or specialized talent	18.91	166	16.99	26	21.79	39	19.03	63	16.35	17
	Scale of operations or market size limitations	14.69	129	17.65	27	15.08	27	12.69	42	18.27	19
	Regulatory environment or government policy constraints	17.65	155	22.22	34	19.55	35	15.11	50	13.46	14
	Investment in research and development (R&D) or innovation	4.21	37	3.92	6	6.15	11	3.63	12	2.88	3
	Organizational culture or management practices	6.04	53	5.23	8	3.91	7	6.95	23	7.69	8
	Access to capital or financing for expansion/investment	8.66	76	6.54	10	9.50	17	9.67	32	8.65	9
	Cost of labour or materials	18.68	164	21.57	33	17.32	31	18.13	60	18.27	19
	Other	2.39	21	1.96	3	1.68	3	3.02	10	1.92	2
	My firms productivity is not restricted compared to industry peers in the US.	4.78	42	0.65	1	2.79	5	7.25	24	4.81	5
Q10 Do you believe that your firm will have the ability to pass on cost increases to customers through increasing prices for your products or services?	Yes - to a greater extent than a year ago	15.09	62	10.77	7	18.89	17	11.69	18	19.30	11
	Yes - to a lesser extent than a year ago	50.61	208	63.08	41	48.89	44	52.60	81	36.84	21
	No	25.55	105	21.54	14	26.67	24	27.92	43	26.32	15
	Not sure	8.76	36	4.62	3	5.56	5	7.79	12	17.54	10

Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q11 Have you considered or undertaken layoffs in response to economic uncertainty?	Yes - I am considering layoffs.	13.32	55	15.38	10	10.00	9	10.90	17	23.21	13
	Yes - currently undertaking layoffs.	12.35	51	18.46	12	7.78	7	12.18	19	14.29	8
	No	68.77	284	63.08	41	77.78	70	71.15	111	55.36	31
	Not sure	5.57	23	3.08	2	4.44	4	5.77	9	7.14	4
Q12 What is your assessment of the Canadian economy for 2024?	Already experienced a soft landing	20.34	84	18.46	12	25.56	23	19.87	31	17.86	10
	A soft landing is coming	31.72	131	41.54	27	30.00	27	28.21	44	32.14	18
	Currently in a recession	30.02	124	20.00	13	25.56	23	36.54	57	30.36	17
	A recession is coming	15.74	65	16.92	11	15.56	14	13.46	21	19.64	11
	Other	2.18	9	3.08	2	3.33	3	1.92	3	0.00	0
Q13 What is your 1-year ahead expectation for inflation?	5%	9.47	39	10.77	7	14.61	13	8.97	14	5.36	3
	4%	24.51	101	23.08	15	25.84	23	26.28	41	21.43	12
	3%	57.28	236	60.00	39	49.44	44	53.85	84	69.64	39
	2%	8.74	36	6.15	4	10.11	9	10.90	17	3.57	2
Q14 How has the difficulty of filling open jobs at your company changed compared to a year ago?	Easier to fill roles	30.75	127	36.92	24	17.78	16	30.13	47	51.79	29
	No change	53.75	222	50.77	33	61.11	55	50.64	79	44.64	25
	More difficult to fill roles	15.50	64	12.31	8	21.11	19	19.23	30	3.57	2

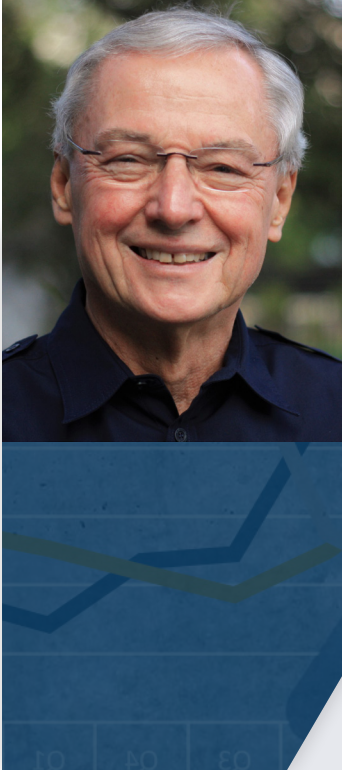
Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q15 Has the housing shortage in Canada impacted your ability to attract talent and retain talent?	Yes	20.34	84	41.54	27	15.56	14	18.59	29	8.93	5
	No	48.43	200	33.85	22	57.78	52	49.36	77	57.14	32
	Not sure	25.67	106	21.54	14	20.00	18	26.92	42	25.00	14
	Not applicable	5.57	23	3.08	2	6.67	6	5.13	8	8.93	5
Q16 When do you expect the Bank of Canada to begin cutting rates?	Before mid-year 2024	10.34	42	9.23	6	11.11	10	10.26	16	12.50	7
	Summer 2024	38.92	158	40.00	26	36.67	33	37.82	59	44.64	25
	Fall 2024	32.76	133	33.85	22	31.11	28	33.33	52	26.79	15
	In 2025 or later	13.30	54	13.85	9	14.44	13	14.10	22	14.29	8
	Not sure	4.68	19	3.08	2	6.67	6	4.49	7	1.79	1
Q17 What year over year rates of increase are you experiencing in your firm's compensation costs (<i>wages, salaries, benefits</i>)?	Over 5%	24.14	98	26.15	17	26.67	24	23.08	36	25.00	14
	4% to 5%	54.19	220	52.31	34	46.67	42	53.85	84	55.36	31
	Less than 3%	17.24	70	15.38	10	20.00	18	19.23	30	17.86	10
	No change	4.43	18	6.15	4	6.67	6	3.85	6	1.79	1
Q18 Are you experiencing supply chain shortages of non-labour inputs?	Yes	21.98	89	26.15	17	24.44	22	19.35	30	14.29	8
	No	74.07	300	69.23	45	72.22	65	76.13	118	80.36	45
	Not sure	3.95	16	4.62	3	3.33	3	4.52	7	5.36	3

Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q19 Do you expect that you will be growing your inventories in 2024?	Yes	14.53	59	18.46	12	21.11	19	13.46	21	5.36	3
	No	56.16	228	58.46	38	40.00	36	58.33	91	71.43	40
	Not sure	5.17	21	6.15	4	6.67	6	5.77	9	1.79	1
	Not applicable	24.14	98	16.92	11	32.22	29	22.44	35	21.43	12
Q20 What province or territory is your business located in?	British Columbia	15.97	65	100.00	65	0.00	0	0.00	0	0.00	0
	Alberta	22.11	90	0.00	0	100.00	90	0.00	0	0.00	0
	Saskatchewan	4.42	18	0.00	0	0.00	0	0.00	0	0.00	0
	Manitoba	3.19	13	0.00	0	0.00	0	0.00	0	0.00	0
	Ontario	38.33	156	0.00	0	0.00	0	100.00	156	0.00	0
	Quebec	14.00	57	0.00	0	0.00	0	0.00	0	100.00	57
	New Brunswick	0.49	2	0.00	0	0.00	0	0.00	0	0.00	0
	Nova Scotia	1.47	6	0.00	0	0.00	0	0.00	0	0.00	0

Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q21 What industry best describes your business?	Professional, Scientific, and Technical Services	17.76	38	10.00	3	24.53	13	14.12	12	23.08	6
	Other	14.95	32	20.00	6	16.98	9	17.65	15	3.85	1
	Manufacturing	22.43	48	3.33	1	20.75	11	25.88	22	34.62	9
	Construction	14.49	31	23.33	7	13.21	7	15.29	13	3.85	1
	Wholesale Trade	8.41	18	13.33	4	5.66	3	10.59	9	7.69	2
	Finance and Insurance	3.74	8	0.00	0	1.89	1	4.71	4	3.85	1
	Administrative and Support and Waste Management and Remediation Services	0.47	1	0.00	0	0.00	0	1.18	1	0.00	0
	Retail Trade	7.01	15	10.00	3	3.77	2	5.88	5	7.69	2
	Information	0.93	2	0.00	0	0.00	0	1.18	1	3.85	1
	Real Estate Rental and Leasing	0.93	2	0.00	0	3.77	2	0.00	0	0.00	0
	Transportation and Warehousing	4.21	9	6.67	2	1.89	1	3.53	3	11.54	3
	Health Care and Social Assistance	0.47	1	0.00	0	1.89	1	0.00	0	0.00	0
	Educational Services	1.40	3	0.00	0	3.77	2	0.00	0	0.00	0
	Public Administration	0.47	1	0.00	0	0.00	0	0.00	0	0.00	0
	Mining	1.40	3	6.67	2	1.89	1	0.00	0	0.00	0
	Utilities	0.93	2	6.67	2	0.00	0	0.00	0	0.00	0

Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q22 What is your business's annual revenue?	< \$500k	0.93	2	0.00	0	0.00	0	0.00	0	0.00	0
	\$500k-\$999k	2.80	6	0.00	0	5.66	3	1.18	1	0.00	0
	\$1M-\$4.9M	17.76	38	30.00	9	16.98	9	14.12	12	19.23	5
	\$5M-\$9.9M	15.89	34	10.00	3	20.75	11	18.82	16	11.54	3
	\$10M-\$49.9M	38.79	83	43.33	13	43.40	23	41.18	35	34.62	9
	\$50M-\$99.9M	10.28	22	10.00	3	7.55	4	5.88	5	19.23	5
	\$100M+	13.55	29	6.67	2	5.66	3	18.82	16	15.38	4

Dr. Peter Andersen, Economist



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.

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