

ANALYSIS by Dr. Peter Andersen Economist

TEC Canada's CEO Confidence Index serves as a real-time barometer of the Canadian economy, offering valuable insights into evolving business conditions and the confidence of Canada's SME leaders. Conducted between November 21st 2024 and January 5th 2025, the survey captured responses primarily from small and mid-sized firms (fewer than 100 employees), with representation from larger firms (up to 500 employees) as well. The robust response rate in the survey ensures a high level of statistical reliability, making the Index one of Canada's most timely and relevant measures of business confidence.

Our TEC CEO Survey shows that confidence continues to be low in Canada's small and medium size business sector. In fact it has worsened since the November US elections. This is critical, as SMEs form the backbone of Canada's economy, and regional disparities amplify these challenges.

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 that draw upon a rich mix of perspectives, 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 Q1 2025



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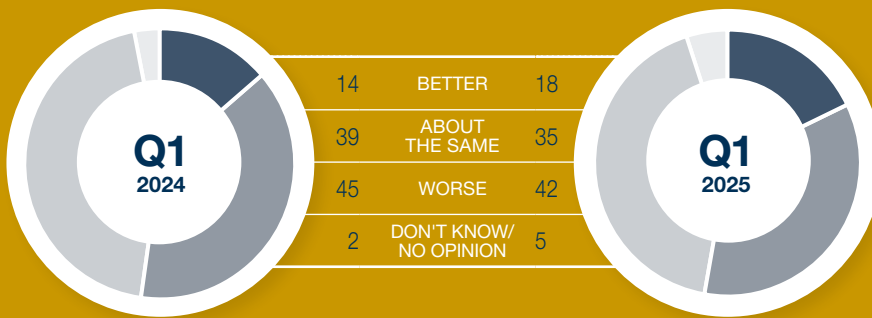
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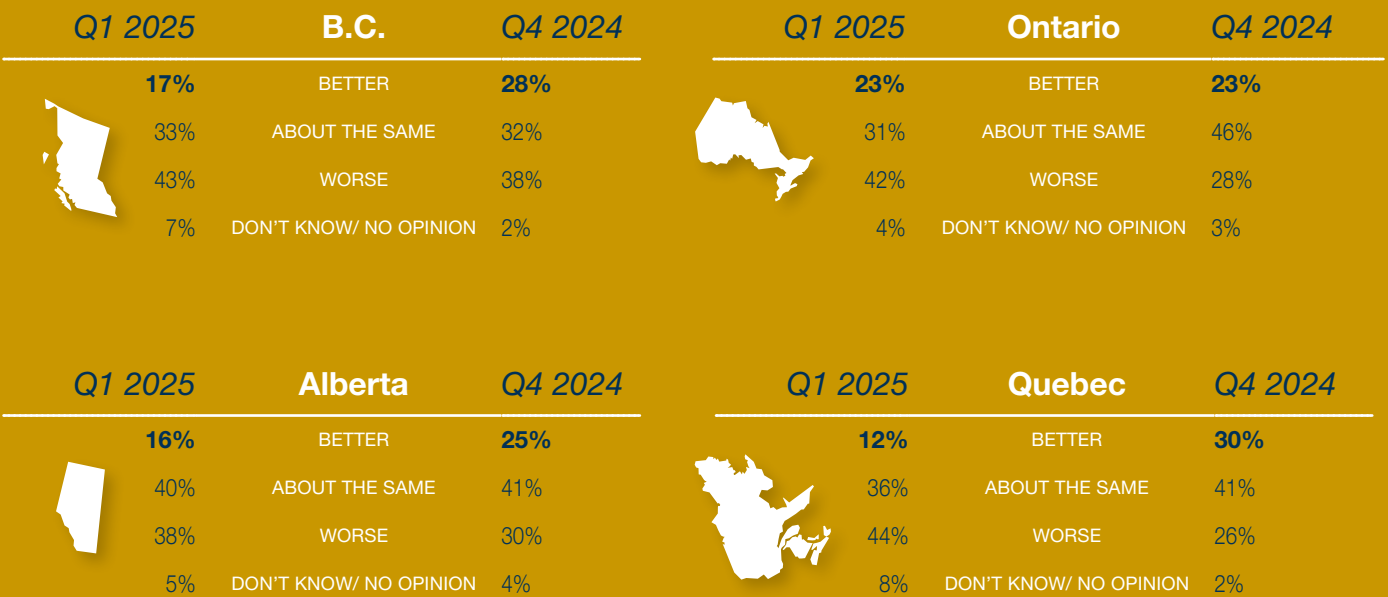
Economic Outlook

During the next 12 months, do you expect overall economic conditions in Canada will be better, about the same, or worse than now?



The Q1 survey shows business confidence continues to decline, with concerns about tariffs, cash flow pressures, and labor costs further straining the SME sector. These concerns have reversed the cautious optimism seen in the previous quarter's survey, and overshadowed the Bank of Canada's recent rate cuts.

Provincial Expectations: Worsening Conditions



Questions to Consider

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

How have

1 potential tariff shocks and regional cash flow disparities affect your ability to sustain operations and maintain profitability? What strategies could you implement to mitigate these risks and safeguard liquidity?

Are your

2 current labour cost management strategies resilient enough to handle rising compensation pressures? How can you balance employee retention with cost control in a challenging economic environment?

How do

3 declining productivity trends and low business confidence in your region impact your growth outlook? What steps can you take to drive efficiency improvements and maintain competitiveness in a slowing economy?

Tariff Impacts

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If a tariff deal is delayed, many companies could be forced into a defense mode. Manufacturers that are dependent on the US market would be the most vulnerable. There will be a need to reduce overheads and remain in a break-even cash position.

Sales and Profitability

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This latest survey continues to show concern about demand for TEC members' products and services.

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This percentage ranges from 63% in BC to only 36% in Quebec. It stands at 51% in Alberta and 49% in Ontario. BC stands out with the weakest outlook for member firm's sales revenues.

This is consistent with the regional outlook for member firm's profitability. Only 17% of respondents in BC expect profitability to improve during the next 12 months (40% in BC expect profitability to worsen). This gives a net balance of opinion on the profitability outlook of negative 23% for BC. It compares with a net positive of 40% for Quebec, a positive 18% for Alberta and a positive of 16% for Ontario.

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Pricing & Cost Pressures

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Productivity has been a problem for Canada's economy for a number of years, and the prospects for an improvement in 2025 are not good.

The economic shock from a delayed US tariff deal could mean that TEC members are misjudging their ability to pass on labour cost increases to customers. At present two-thirds of those surveyed think that such costs can be passed on.

However there is resistance, as 48% in this survey (and 47% in the previous one) say that while they can pass costs on, it is not as easy as a year ago. If this resistance increases, profit margins, cash and liquidity will be under pressure.

Productivity improvement is not likely to be a safety valve for costs and margins. Productivity has been a problem for Canada's economy for a number of years, and the prospects for an improvement in 2025 are not good. Only 8% of TEC CEOs report that their firm's productivity (output per person hour) has improved significantly in the past 12 months.

Our latest survey shows an almost even split between those reporting more cash and liquidity in their business, compared to a year ago (30% of responses), and those reporting less cash (27% of responses). This gives a positive 3% net balance of opinion (% reporting

more minus % reporting less).

However there are important regional differences. A cash squeeze is apparent in BC, where the balance of opinion is a net negative of 20%. Ontario shows a negative 7% net balance of opinion on firms' cash and liquidity positions. In contrast, cash is king in Alberta, which shows a net positive of 16%. Quebec is also net positive at 8%.

The bottom line is that a 2025 tariff shock that squeezes cash and liquidity, could be more of a problem for Canada's small and medium size business community in BC, and to some extent in Ontario.

At this point, only a small per cent (6%) of TEC CEOs are planning to reduce overheads by making layoffs. A large majority (76%) are not planning on layoffs. The rest (11%) are actually already currently undertaking layoffs.

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of TEC CEOs are planning to reduce overheads by making layoffs. A large majority (76%) are not planning on layoffs.

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20%

Ontario shows a negative

7%

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16%

Interest Rates and Economic Outlook



The 12-month outlook for the general economy shows a depressed level of business confidence across Canada.

The 12-month outlook for the general economy shows a depressed level of business confidence across Canada. A high percentage of respondents (42%) expect overall economic conditions in Canada to worsen. This is bad news. It shows a drop in confidence from our previous survey, three months ago. It showed that 29% at that time expected economic conditions to worsen.

There is a strong belief among TEC CEOs that additional interest rate cuts are needed. The Bank of Canada's policy interest rate has already been cut five times from 5.00% on June 5th 2024 to 3.25% on December 11th 2024. The last two cuts were large ones (50 basis points each).

Our latest survey shows that only 16% of TEC respondents feel that these rate cuts have at this point had an impact. In addition a high percentage (41%) think that a full percentage point of additional Bank of Canada rate cuts are needed.

TEC CEOs also think that Bank of Canada rate cuts take time to work. Their expectations on the interest rate impact-lag are centered on either 3 to 6 months (24% of respondents) or between 6 months and 1 year (28% of respondents). Some of TEC survey respondents (15% of them) think that it actually takes more than a year for rate cuts to affect their business.

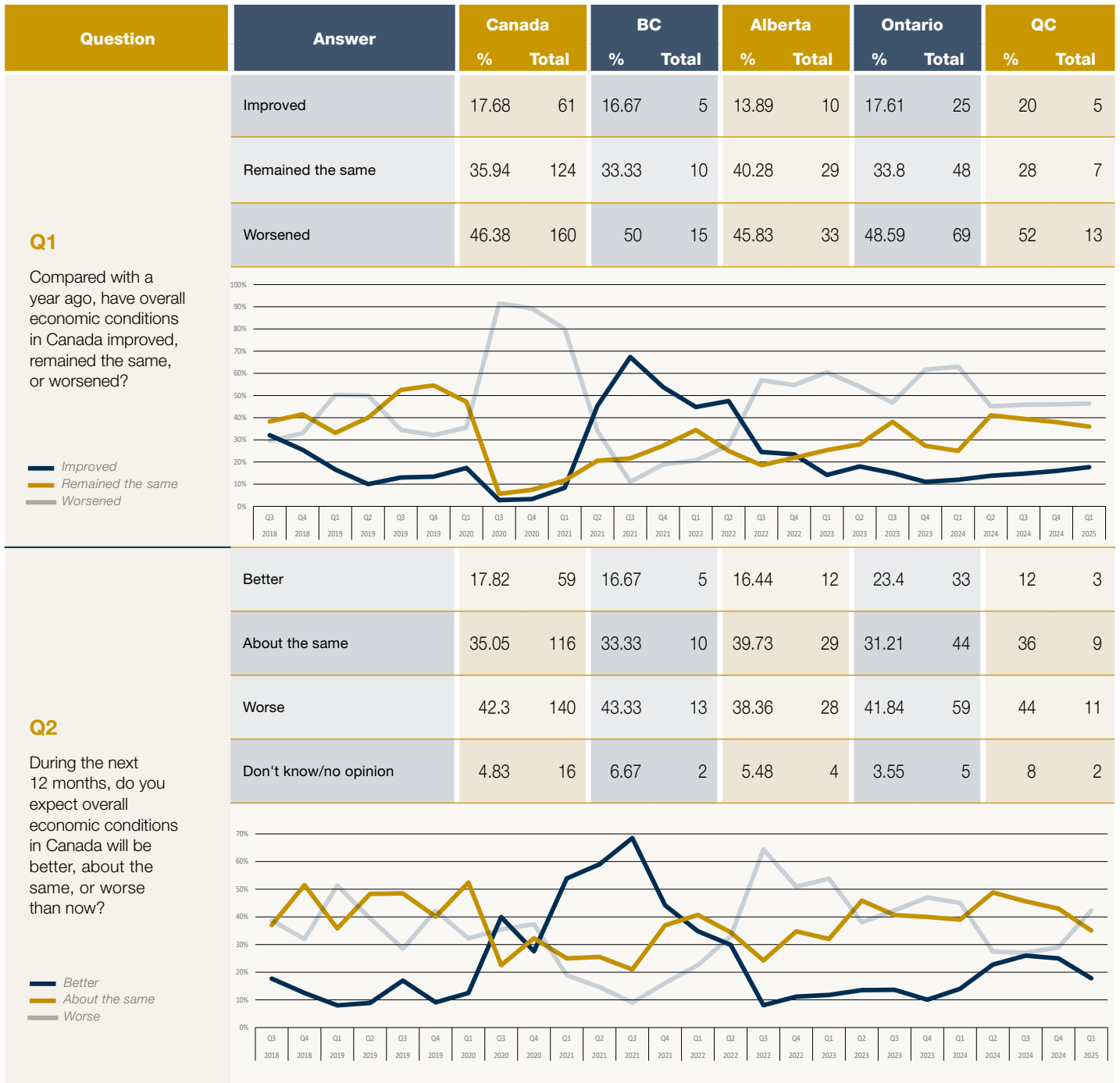
16%

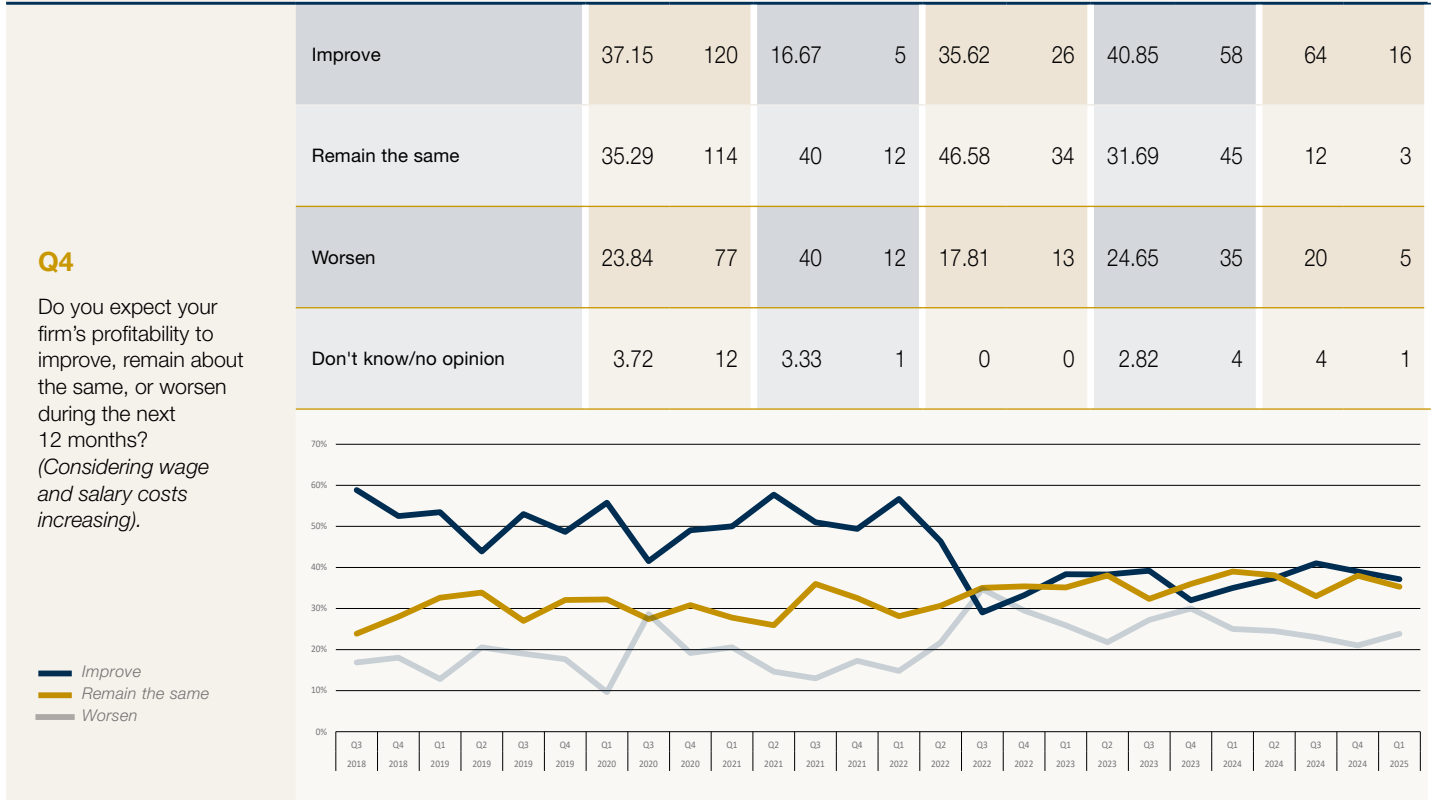
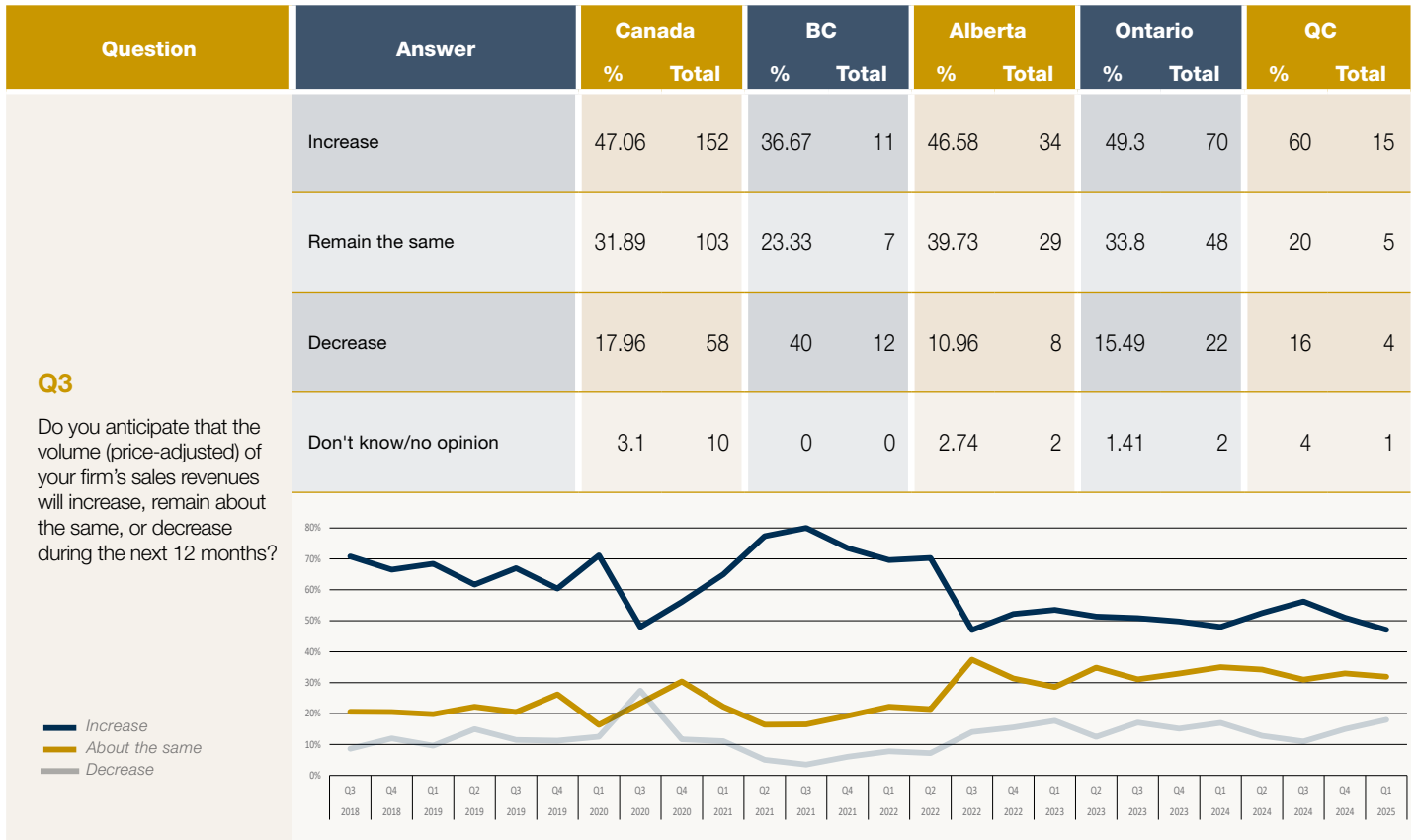
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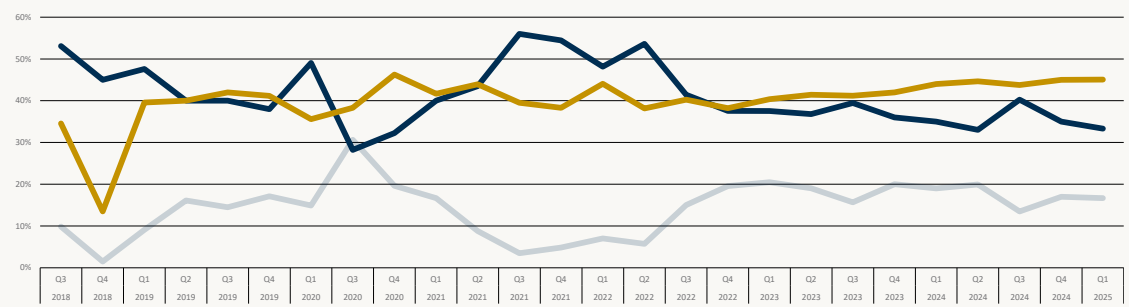
Survey Results

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 Q1 2025 was conducted from November 21st, 2024 to January 5th, 2025, and had 352 Canadian participants in the research.

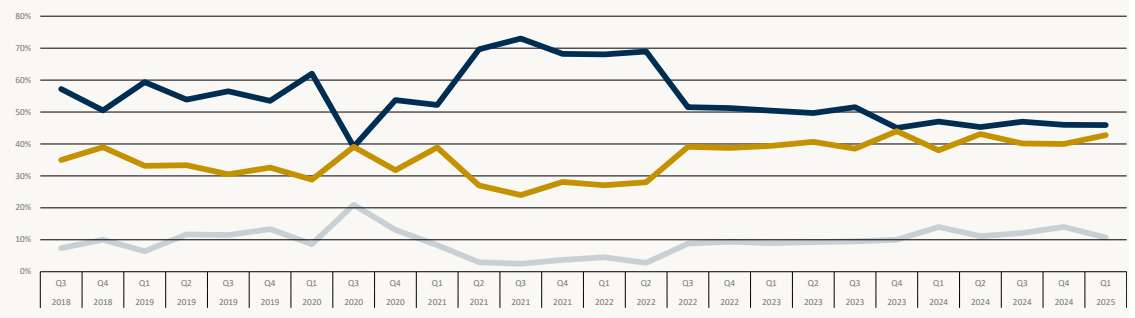




Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q5 Are your firm's total fixed investment expenditures likely to increase, remain about the same, or decrease during the next 12 months?	Increase	33.33	108	50	15	32.88	24	29.58	42	28	7
	Remain the same	45.06	146	20	6	50.68	37	48.59	69	40	10
	Decrease	16.67	54	26.67	8	15.07	11	18.31	26	16	4
	Don't know/no opinion	4.94	16	3.33	1	1.37	1	3.52	5	16	4



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	45.91	146	33.33	10	47.95	35	47.18	67	56	14
	Remain the same	42.77	136	50	15	39.73	29	41.55	59	40	10
	Decrease	10.69	34	16.67	5	12.33	9	10.56	15	4	1
	Don't know/no opinion	0.63	2	0	0	0	0	0.7	1	0	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	51.74	164	63.33	19	49.32	36	49.3	70	52	13
	Remain the same	40.38	128	30	9	41.1	30	42.25	60	40	10
	Decrease	5.99	19	6.67	2	5.48	4	6.34	9	8	2
	Don't know/no opinion	1.89	6	0	0	4.11	3	2.11	3	0	0
Q8 How has your firm's productivity (output per person hour) changed in the last 12 months?	Significantly improved	7.86	25	0	0	6.85	5	8.45	12	16	4
	Remained the same	35.22	112	40	12	39.73	29	35.21	50	20	5
	Slightly declined	17.3	55	23.33	7	17.81	13	17.61	25	8	2
	Don't know/no opinion	1.57	5	0	0	0	0	0.7	1	0	0
	Slightly improved	35.53	113	36.67	11	32.88	24	35.21	50	52	13
	Significantly decline	2.52	8	0	0	2.74	2	2.82	4	4	1
Q9 How do your current levels of available cash and liquidity in your business compare to last year?	Higher	29.84	94	16.67	5	36.99	27	24.65	35	36	9
	About the same	42.86	135	46.67	14	42.47	31	42.96	61	36	9
	Lower	26.98	85	36.67	11	20.55	15	31.69	45	28	7
	Don't know/no opinion	0.32	1	0	0	0	0	0.7	1	0	0

Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
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	18.04	57	13.33	4	21.92	16	18.31	26	12	3
	Yes- to a lesser extent than a year ago	48.1	152	50	15	43.84	32	48.59	69	40	10
	No	24.05	76	26.67	8	27.4	20	24.65	35	24	6
	Not Sure	9.81	31	10	3	6.85	5	8.45	12	24	6
Q11 Have you started, or are you planning to undertake layoffs?	Yes - I am considering layoffs.	6.05	19	0	0	9.59	7	6.34	9	4	1
	Yes - currently undertaking layoffs.	10.83	34	23.33	7	4.11	3	13.38	19	12	3
	No	76.43	240	66.67	20	79.45	58	73.94	105	80	20
	Not Sure	6.69	21	10	3	6.85	5	6.34	9	4	1
Q12 Has the possibility of a slowdown or decline in your business increased or decreased since the U.S. election?	Increased	32.69	102	43.33	13	26.03	19	37.59	53	24	6
	Decreased	11.86	37	16.67	5	17.81	13	9.22	13	16	4
	No Change	55.45	173	40	12	56.16	41	53.19	75	60	15
Q13 What potential outcomes of the U.S. Election will impact your business the most?	Weakness in the Canadian Dollar	25.8	81	36.67	11	27.4	20	24.65	35	32	8
	Trade tariffs	40.13	126	40	12	35.62	26	44.37	63	32	8
	Shifts in political and social rhetoric	9.24	29	3.33	1	12.33	9	9.15	13	8	2
	Changes in international investment into the Canadian Economy	7.64	24	3.33	1	10.96	8	4.93	7	12	3
	Other	3.18	10	3.33	1	2.74	2	2.82	4	0	0
	Unsure	14.01	44	13.33	4	10.96	8	14.08	20	16	4

Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q14 What additional level of interest rate cuts are needed to impact your business?	Quarter of a percentage point	5.52	17	0	0	8.22	6	4.26	6	8	2
	One-half of a percentage point	14.61	45	16.67	5	16.44	12	15.6	22	12	3
	Full percentage point	40.91	126	43.33	13	30.14	22	47.52	67	28	7
	Current rate cuts have already had an impact	15.58	48	26.67	8	12.33	9	14.18	20	20	5
	Changes in interest rates do not have an impact	23.38	72	13.33	4	32.88	24	18.44	26	32	8
Q15 How long will it take your business to realize the impact of current or future interest rate cuts?	Less than 3 months	11.33	35	20	6	9.59	7	9.15	13	16	4
	Between 3 to 6 months	23.62	73	26.67	8	30.14	22	21.13	30	20	5
	Between 6 months to a year	28.48	88	23.33	7	21.92	16	31.69	45	24	6
	More than a year	14.89	46	16.67	5	15.07	11	19.01	27	4	1
	Lower interest rates do not impact my business	17.8	55	13.33	4	23.29	17	14.08	20	32	8
	Other	3.88	12	0	0	0	0	4.93	7	4	1
Q16 What year over year rates of increase are you experiencing in your firm's compensation costs (wages, salaries, benefits)?	Over 5%	11.44	35	10	3	9.59	7	10.56	15	4	1
	4% to 5%	51.96	159	56.67	17	57.53	42	44.37	63	76	19
	Less than 3%	34.64	106	33.33	10	32.88	24	41.55	59	20	5
	No change	1.96	6	0	0	0	0	3.52	5	0	0

Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	%	Total	%	Total
Q17 What province or territory is your business located in?	British Columbia	9.93	30	100	30	0	0	0	0	0	0
	Alberta	24.17	73	0	0	100	73	0	0	0	0
	Saskatchewan	4.97	15	0	0	0	0	0	0	0	0
	Manitoba	2.98	9	0	0	0	0	0	0	0	0
	Ontario	47.02	142	0	0	0	0	100	142	0	0
	Quebec	8.28	25	0	0	0	0	0	0	100	25
	New Brunswick	0.66	2	0	0	0	0	0	0	0	0
	Nova Scotia	1.32	4	0	0	0	0	0	0	0	0
	Newfoundland and Labrador	0	0	0	0	0	0	0	0	0	0
	Northwest Territories	0	0	0	0	0	0	0	0	0	0
	Nunavut	0.33	1	0	0	0	0	0	0	0	0
	Prince Edward Island	0.33	1	0	0	0	0	0	0	0	0
	Yukon	0	0	0	0	0	0	0	0	0	0
Q18 What is your business's annual revenue?	< \$500k	0.78	1	0	0	0	0	0	0	0	0
	\$500k-\$999k	2.34	3	0	0	0	0	3.45	2	0	0
	\$1M-\$4.9M	20.31	26	9.09	1	12.5	4	17.24	10	53.85	7
	\$5M-\$9.9M	14.06	18	18.18	2	25	8	10.34	6	15.38	2
	\$10M-\$49.9M	41.41	53	36.36	4	37.5	12	50	29	23.08	3
	\$50M-\$99.9M	10.16	13	9.09	1	15.63	5	8.62	5	7.69	1
	\$100M+	10.94	14	27.27	3	9.38	3	10.34	6	0	0

Question	Answer	Canada		BC		Alberta		Ontario		QC	
		%	Total	%	Total	%	Total	Total	%	Total	
Q19 What industry best describes your business?	Professional, Scientific, and Technical Services (such as legal, accounting, architectural/engineering, design, consulting, advertising, etc.)	21.88	28	18.18	2	21.88	7	17.24	10	46.15	6
	Other	7.81	10	0	0	9.38	3	10.34	6	7.69	1
	Manufacturing	19.53	25	9.09	1	15.63	5	24.14	14	15.38	2
	Construction	15.63	20	18.18	2	18.75	6	15.52	9	7.69	1
	Wholesale Trade	7.81	10	9.09	1	0	0	13.79	8	0	0
	Finance and Insurance	2.34	3	0	0	0	0	3.45	2	7.69	1
	Administrative and Support and Waste Management and Remediation Services	0	0	0	0	0	0	0	0	0	0
	Retail Trade	6.25	8	36.36	4	0	0	5.17	3	0	0
	Information	3.13	4	0	0	3.13	1	3.45	2	7.69	1
	Real Estate Rental and Leasing	3.13	4	0	0	9.38	3	0	0	0	0
	Transportation and Warehousing	3.13	4	0	0	6.25	2	1.72	1	7.69	1
	Health Care and Social Assistance	0.78	1	0	0	0	0	0	0	0	0
	Educational Services	2.34	3	0	0	3.13	1	1.72	1	0	0
	Public Administration	0	0	0	0	0	0	0	0	0	0
	Mining	1.56	2	0	0	3.13	1	0	0	0	0
	Arts, Entertainment, and Recreation	0	0	0	0	0	0	0	0	0	0
	Agriculture, Forestry, Fishing and Hunting	1.56	2	0	0	3.13	1	1.72	1	0	0
	Accommodation and Food Services	0	0	0	0	0	0	0	0	0	0
Utilities	3.13	4	9.09	1	6.25	2	1.72	1	0	0	

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.