



**ONTARIO
CHAMBER of
COMMERCE**

Ontario Business Survey Program

2009 Business Climate Survey

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Executive Summary

Ontario Chamber of Commerce Business Climate Survey

An analysis of the 2009 Ontario Business Climate Survey reveals that respondents are -- not surprisingly -- concerned about the Ontario economy, but believe the provincial government should provide taxation and regulatory relief in order to help business weather the storm.

While over 80% expect the performance of the Ontario economy to be somewhat or much weaker in 2009 than in 2008, a majority of respondents are far more optimistic about the future of their own companies, with 55% believing that they will perform the same or better next year.

Meanwhile, respondents are unclear as to whether the provincial government is doing enough to address the challenges facing the Ontario economy. Only 17% say the government is on the 'right track', 37% believe it is on the 'wrong track', while an additional 39% 'don't know'. In addition, 61% of respondents think the investment climate in Ontario is poor.

We asked how OCC members felt about budgetary deficits, now that they have become a reality provincially. More than half of the respondents don't object to temporary budgetary deficits as long as spending goes toward stimulating the economy and the deficits are not long-term structural ones. As well, many respondents believe that the provincial government could fund stimulative actions through paring back its own organization.

In terms of recommendations for government action for both the short term and for the long term, reducing the corporate income tax was the key priority for respondents, who believed it could help businesses to weather the economic downturn and make the province more competitive in the long run.

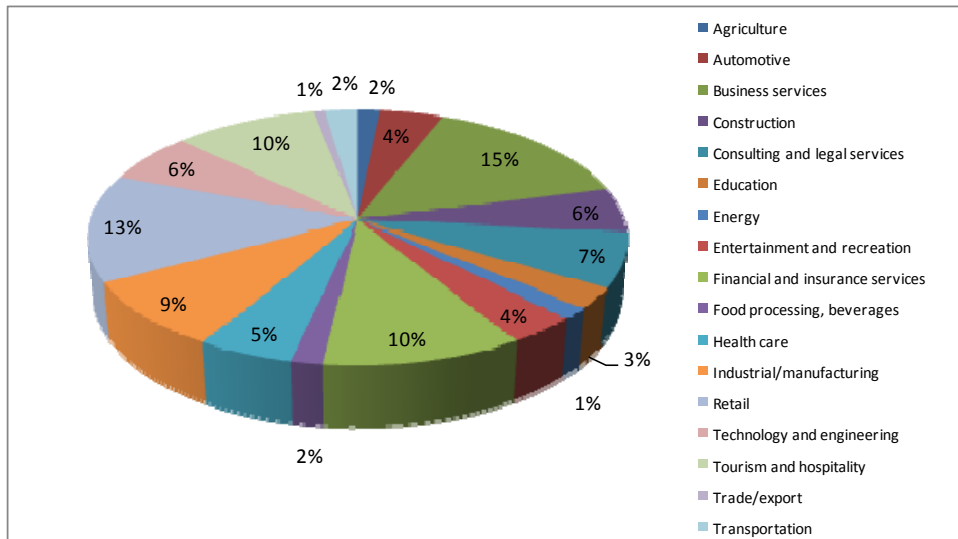
The survey shows that the credit crunch is on the minds of Ontario businesses. Issues that were a high priority for respondents in past years, such as the shortage of skilled workers, have been displaced, for the moment, by issues such as the availability of financing for businesses.

Businesses believe that the province can weather the downturn and protect existing businesses by streamlining the business regulatory and taxation environment. One suggestion that many respondents made in the comments is to harmonize the GST and PST to reduce the amount of paperwork that must be completed.

The survey was conducted Nov 21 to Dec 12 and received responses from 1,397 members from a wide cross section of industries and business size.

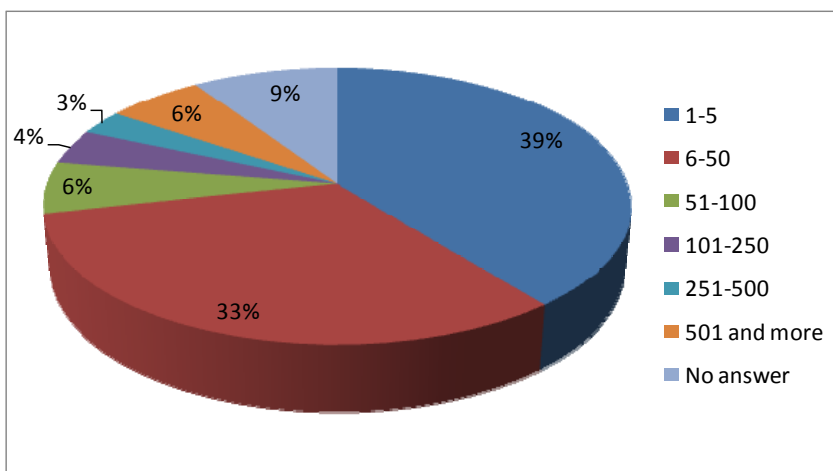
The OCC represents 60,000 members through 160 chambers of commerce and boards of trade throughout the province. The OCC has worked on behalf of business since 1911.

1. What is your organization's primary business activity?



- No one sector dominates the results
- Business services and retail are the two largest sectors represented in this year's survey

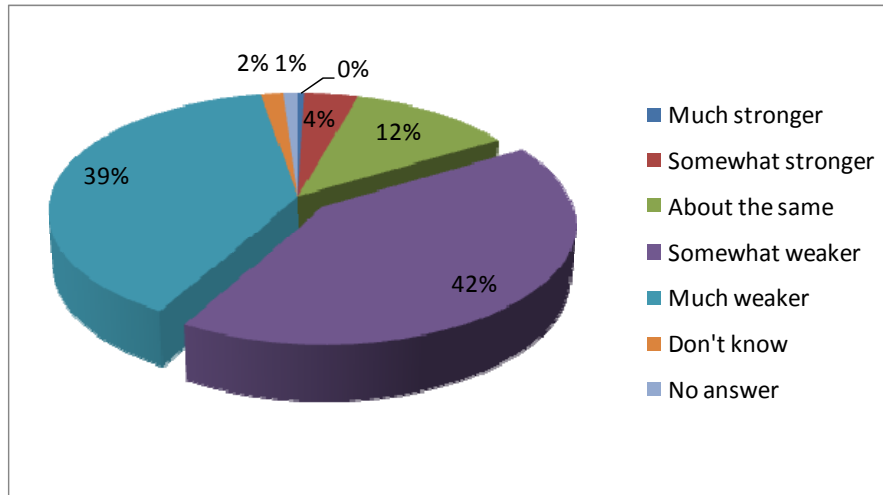
2. How many people does your company currently employ?



Over 70% of survey respondents represent organizations with less than 50 employees, and almost 4 out of ten respondents are from very small organizations.

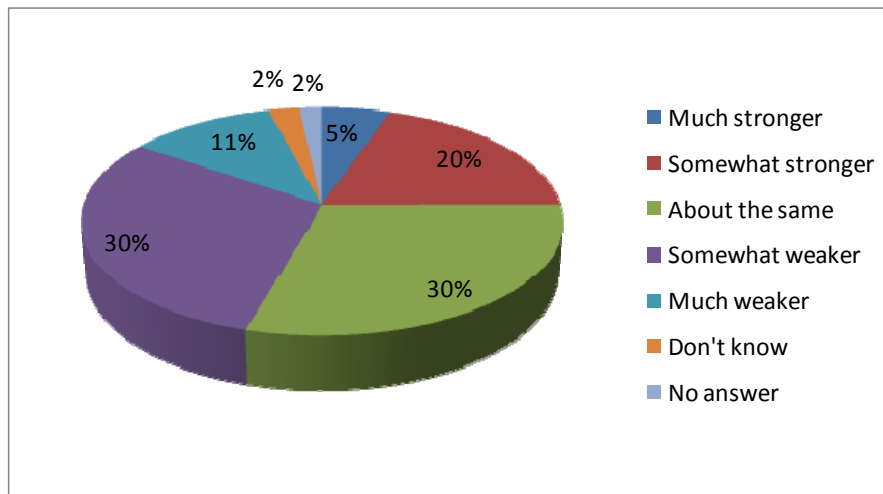
ASSESSING THE BUSINESS ENVIRONMENT IN ONTARIO

3. How do you expect the Ontario economy to perform in 2009 relative to 2008?



- Respondents are pessimistic about the outlook for the Ontario economy in 2009. Only 4% believe the economy will be stronger in 2009 than in 2008.
- Last year, 37% of respondents expected the economy to perform about the same in 2008 vs. 2007, while 38% expected it to be somewhat weaker. This year's responses are significantly more negative.

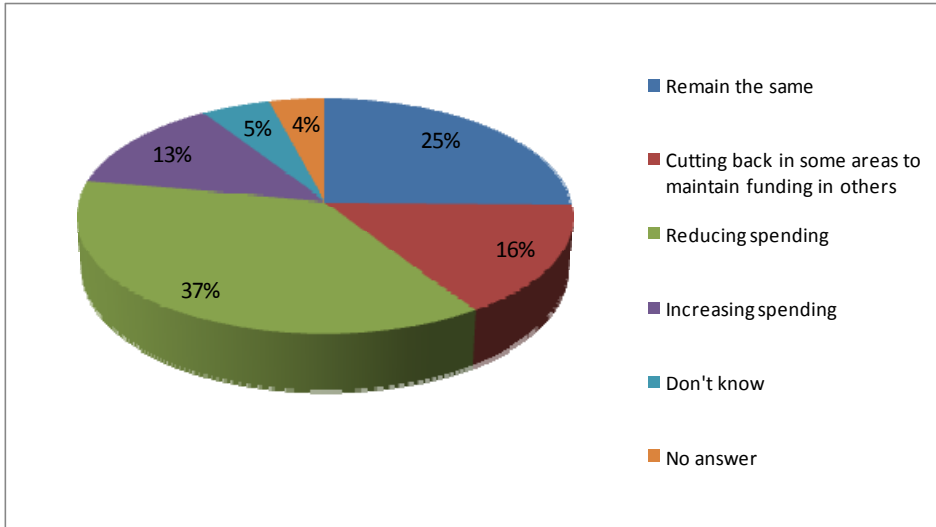
4. How do you expect your company to perform in 2009 as compared to 2008?



- Organizations feel much more confident about the prospects of their own organizations than about the Ontario economy as a whole. Respondents expect, for the most part, their organizations to perform better than the overall economy. This was true in 2008 as well.

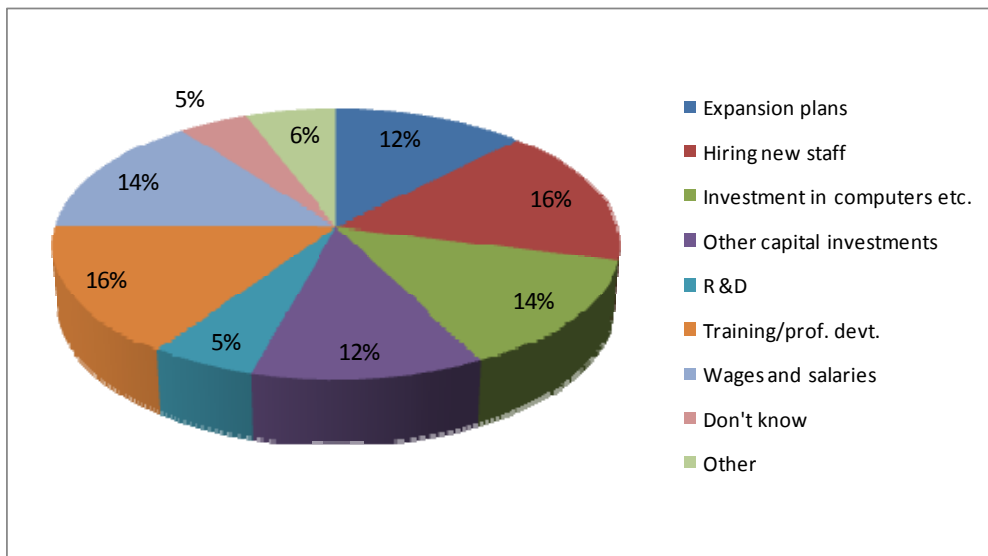
- However, compared to 2008, organizations are less optimistic about their prospects in 2009. In 2008, 52% believed their own performance would be somewhat or much stronger than 2007. Only 25% believe that this year.

5. What are your investment intentions this year?



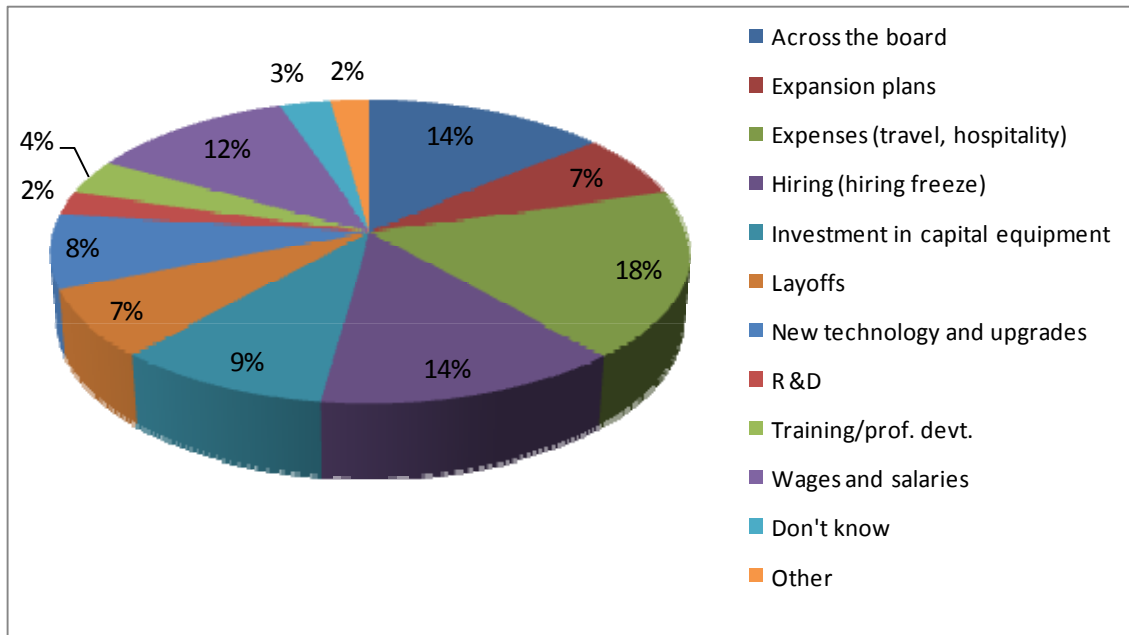
- More than half of the respondents are planning to redistribute their spending or cut back on spending this year.
- Only 13% of respondents are actually planning to increase spending.
- Last year, just 18% of respondents had no investment plans.

6. If you expect your company to increase spending in 2009, please tell us in which areas (choose up to three):



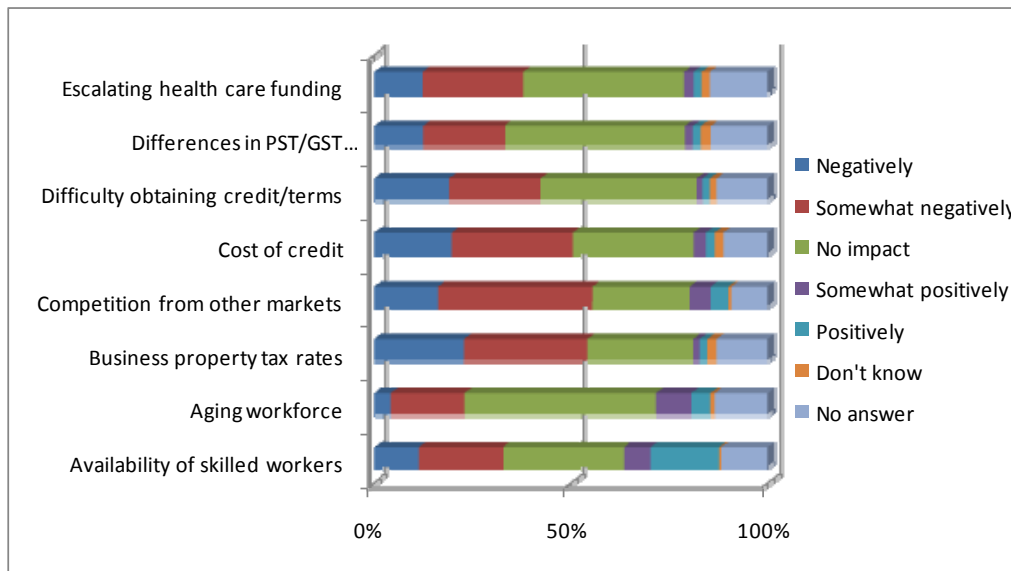
- Very few respondents plan to spend on research and development in 2009 – 5% versus 12% last year
- Much of the planned spending is related to human resources – either hiring new staff, wages and salaries or training.
- Most of the “other” answers given related to plans to increase spending on marketing and advertising.

7. If you expect your company to decrease spending in 2009, please tell us in which areas (choose up to three):

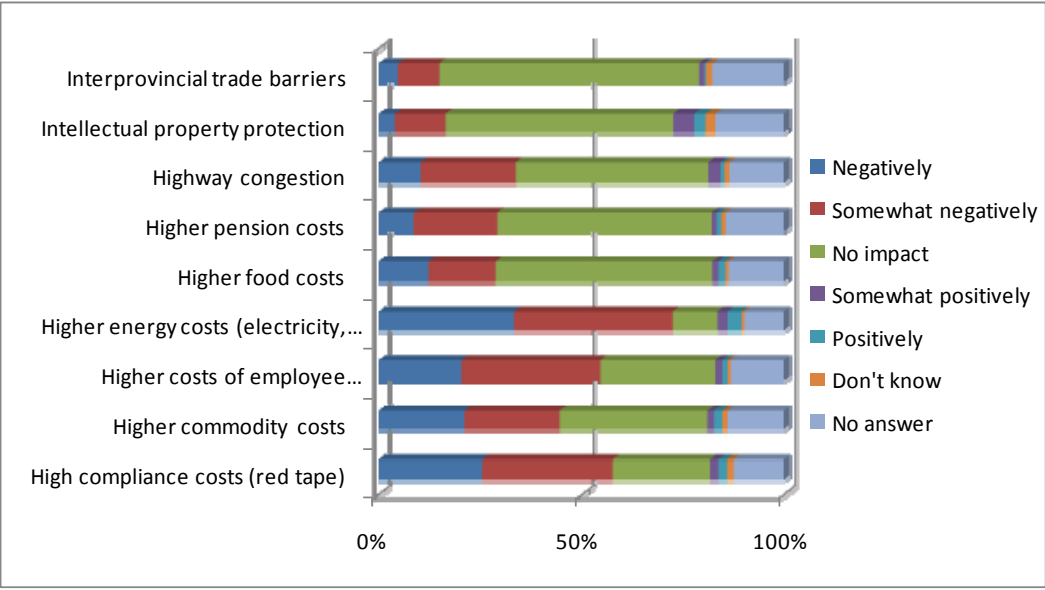


- In terms of spending cuts as well, human resources are the area that will be most affected. However, a relatively small number of respondents are planning layoffs at this point.
- Organizations are looking to cut discretionary spending first, which will affect the hospitality industry and other business services most immediately.
- Interestingly, most of the “other” answers related to **decreases** in advertising and marketing budgets.

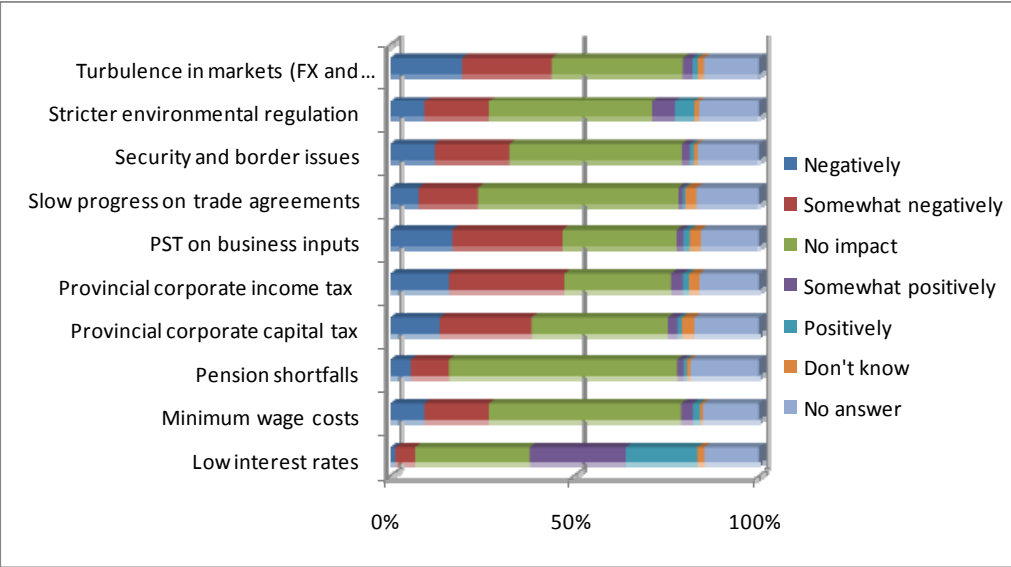
8. Please indicate how each of the following factors affects the competitiveness of your business (bars represent number of responses):



- Organizations feel they are facing increased pressure from competition from other markets. The cost of credit is also an issue having a significant impact on respondents, and something which was not listed among potential factors last year.
- Interestingly, much-discussed issues such as the aging workforce and the availability of skilled workers are not seen as having a negative impact on many respondents at this time, perhaps because the business climate has shifted organizations to more short-term concerns.



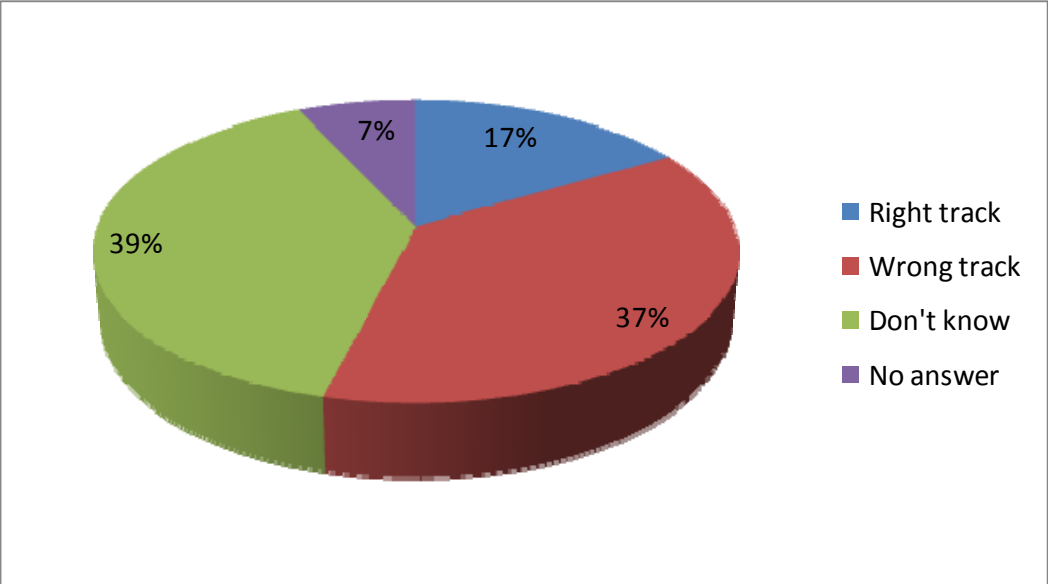
- Higher energy costs have a very direct impact on the overhead costs of organizations. Although the price of crude oil has tumbled from its highs in the summer of 2008, many companies still face higher electricity costs.
- Interprovincial trade barriers are not seen as having a major impact on most respondents. With many respondents coming from very small organizations, they may not do much trade, or much regulated trade, outside the province.
- Many organizations find red tape a burden.



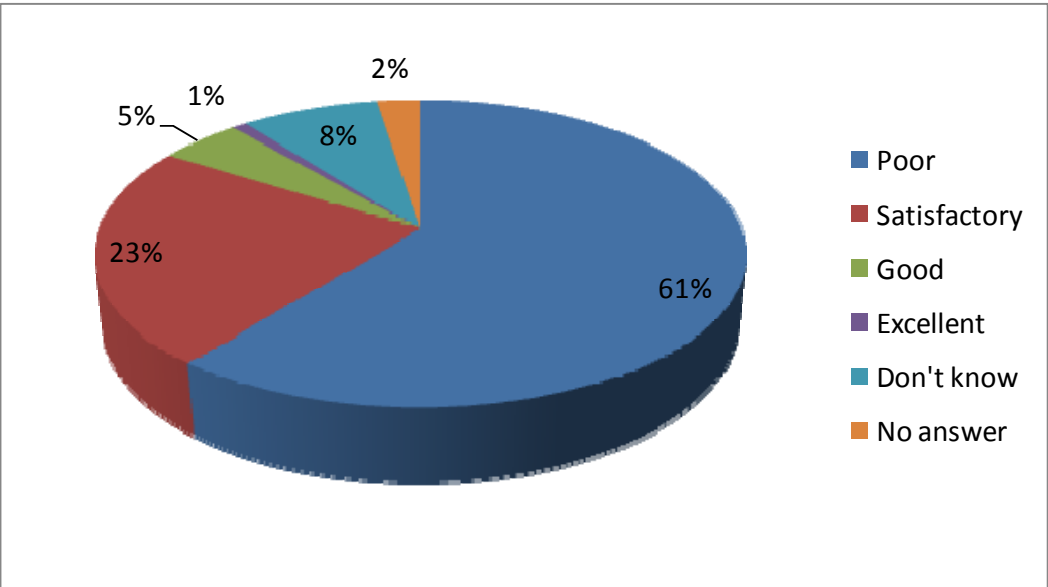
- Although market moves and a volatile currency have grabbed headlines, they do not affect the organizations that responded to the survey as much as taxes, such as the PST payable on business inputs, the provincial corporate capital tax and the corporate income tax
- The hot-button issue of pension shortfalls is not a source of great concern to many respondents, likely because many smaller companies do not run pension plans.
- Interestingly, although the minimum wage increased once again in 2008, many SMEs who responded to the survey did not believe this affected their competitiveness.

ADDRESSING THE SLOWDOWN

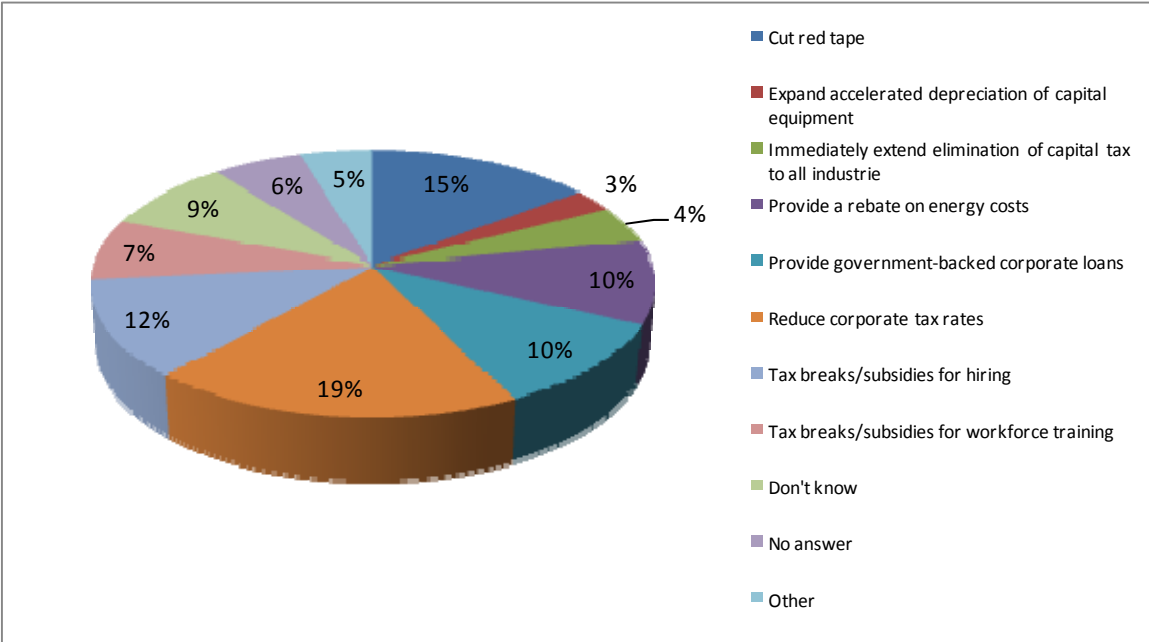
9. Do you believe the provincial government is on the right track or the wrong track in terms of addressing the economic downturn?



10. How would you rank the investment climate in Ontario?

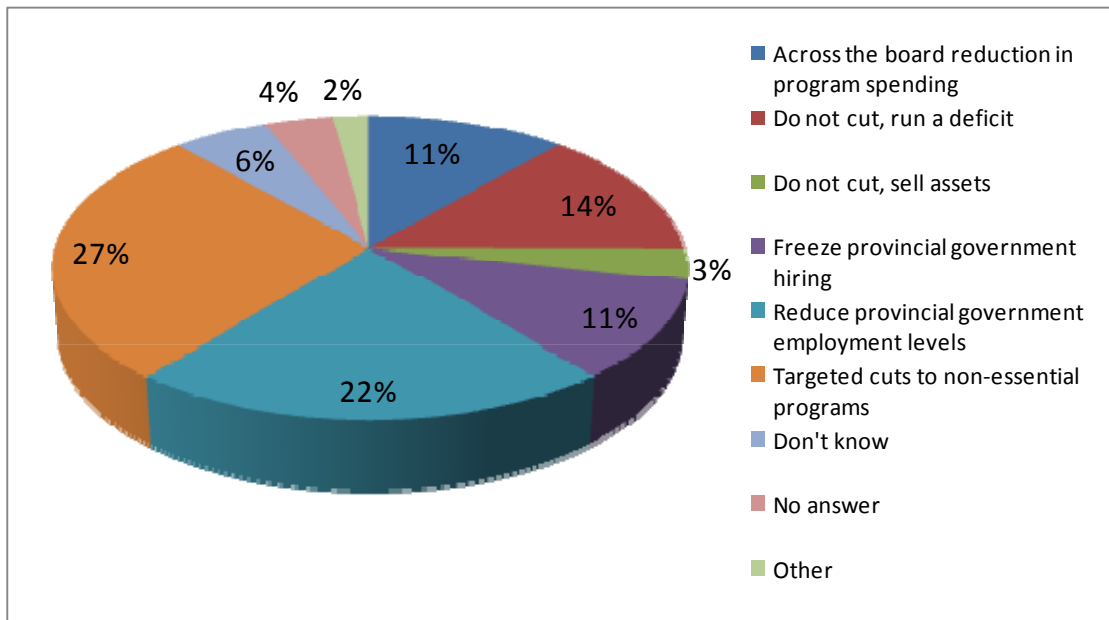


11. What short-term government actions do you believe would be most effective in helping your business to weather the current economic slowdown:



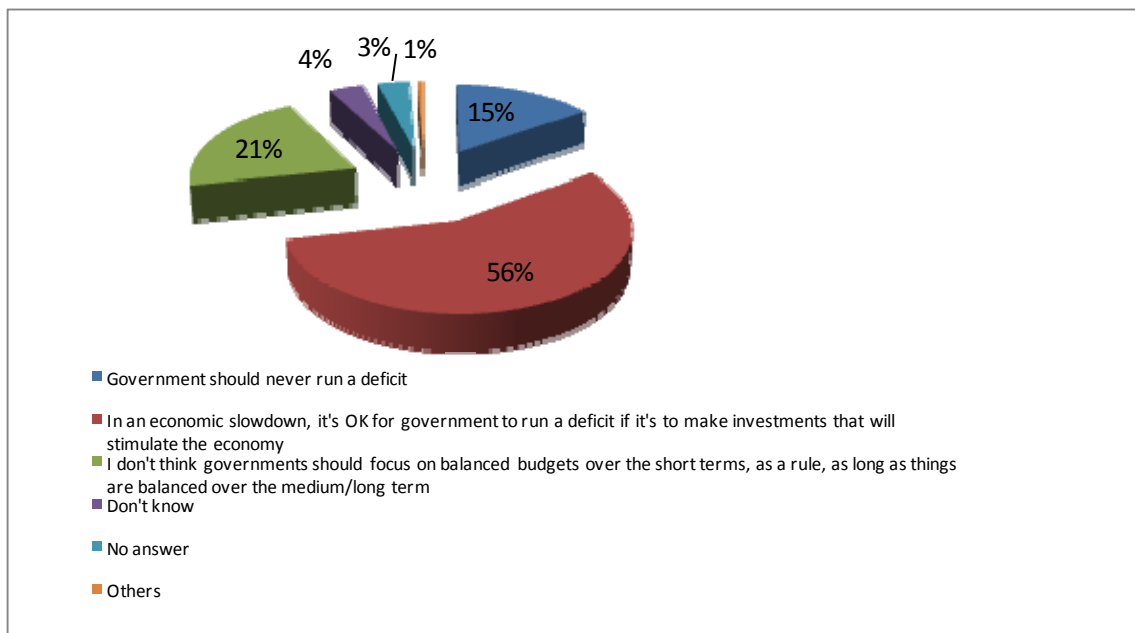
- Smaller companies were more likely to choose tax breaks/subsidies for hiring and for workforce training
- Other answers included:
- Harmonizing the PST and GST
- Reducing the PST
- Encouraging retail spending through stimulus
- Many suggestions for infrastructure spending, not necessarily a short-term initiative
- Freezing the minimum wage
- Productivity enhancement grants

12. If the provincial government needs to reduce spending during the slowdown, where should it cut back?



-Almost one-third of answers chosen related to staffing levels in the provincial government
 - 14% did not want any cutting in provincial spending at all, but recommended running a deficit to implement any short-term initiatives aimed at addressing the downturn.

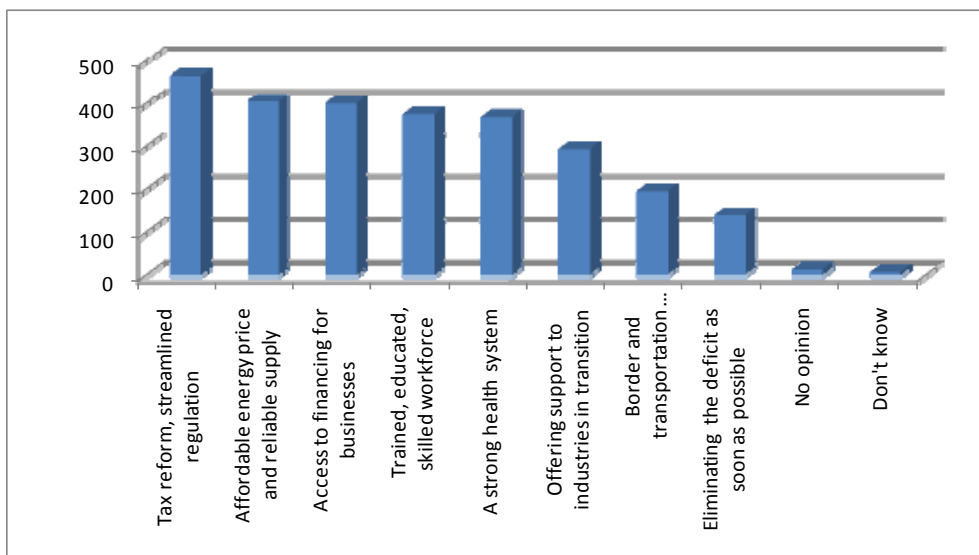
13. The provincial government will fall into deficit this year, and is expected to again be in deficit the following year. Please characterize your thoughts on budgetary deficits:



- A significant majority of respondents (77%) support government running budgetary deficits if necessary, as long as budgets are balanced over the long term and investments are made to stimulate the economy.
- Only 15% of respondents believe government should never run a deficit.

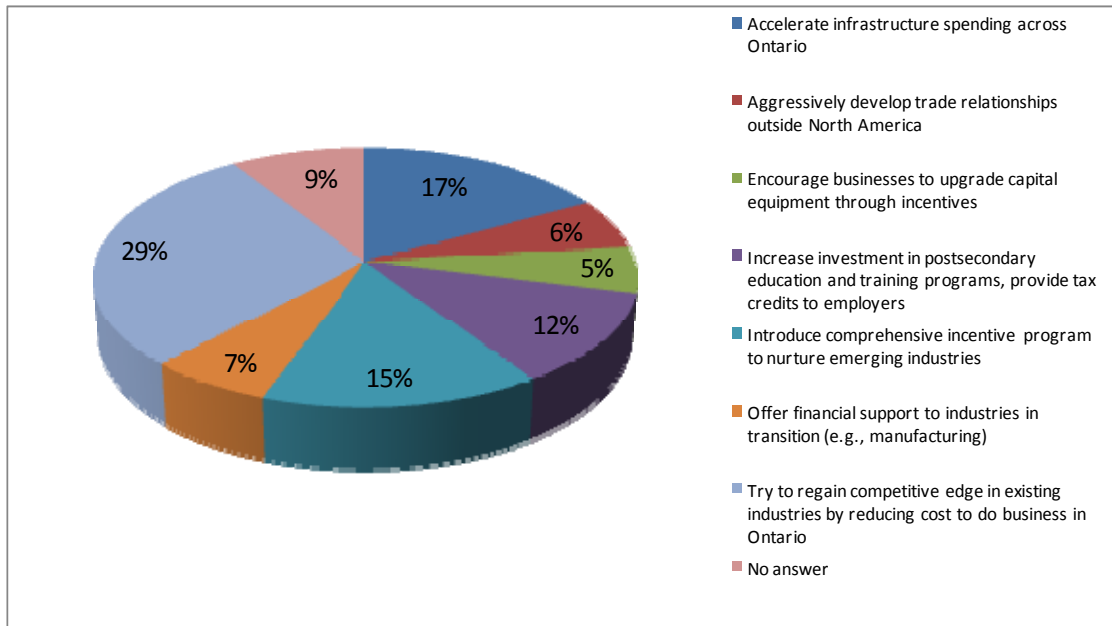
SETTING GOVERNMENT PRIORITIES

14. Please rank up to three policy priorities that you believe the provincial government should focus on for the next one to two years.



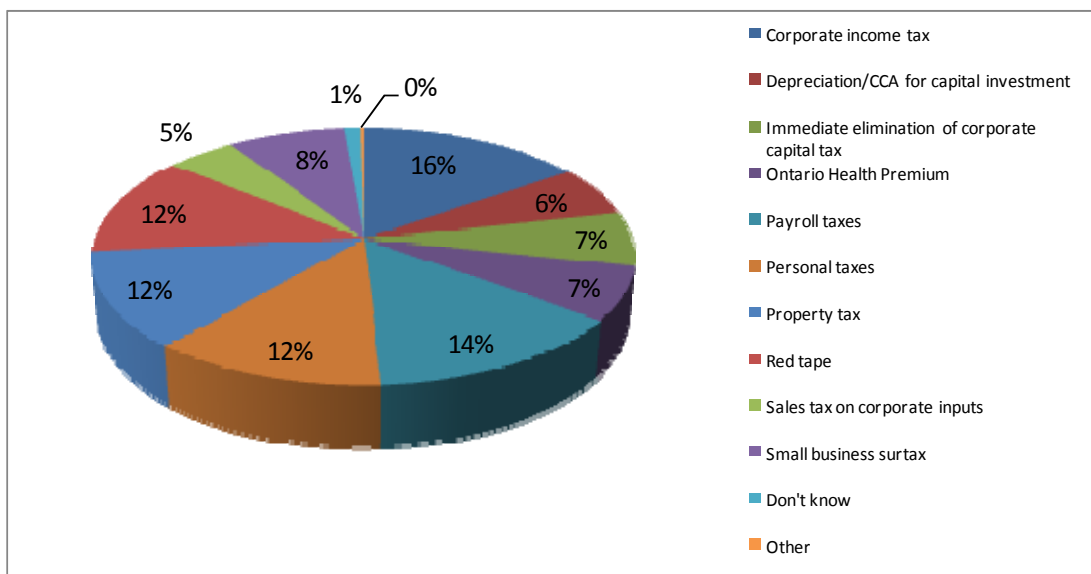
- The price and supply of energy was a greater priority for respondents to last year's survey than this year. Since then, the price of oil has declined and the electricity supply outlook has become more predictable with the commitment to new nuclear facilities.
- It's no surprise that access to financing is the top ranked priority in this year of the credit crunch.

15. Where should the government focus resources to position itself for future growth in Ontario?



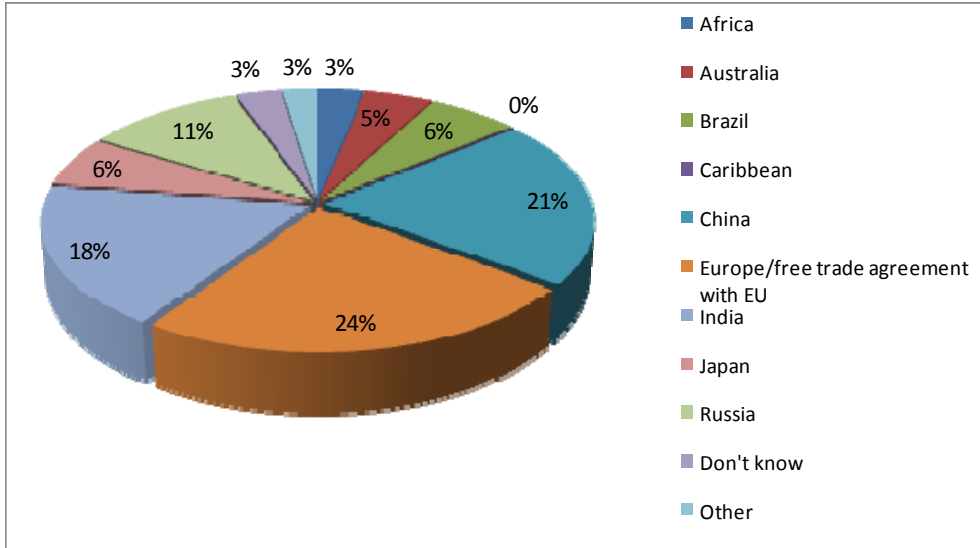
- Almost 30% of respondents want improvements in Ontario’s business regulatory and taxation regime, believing this will allow existing industry to maintain competitiveness.
- Only 6% believe the government should be focusing on developing new trade relationships outside North America.
- There is little support among respondents for financial support for industries such as manufacturing (7%). Twice as many respondents would prefer to see funds deployed to the development of new, emerging businesses (15%).

16. If you chose “Try to regain competitive edge in existing industries by reducing costs to do business in Ontario”, which costs do you think should be reduced most urgently?



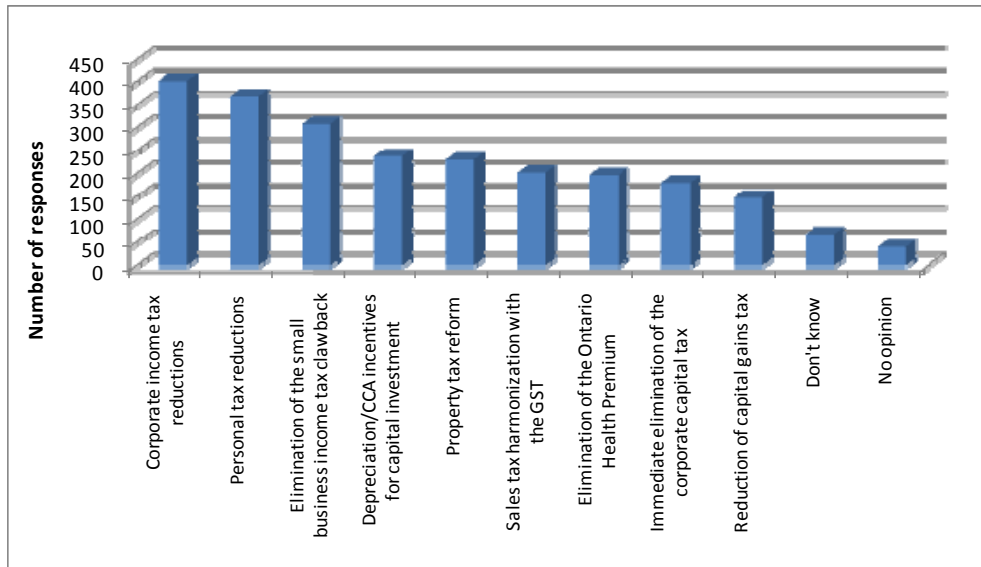
- Respondents believe reducing the corporate income tax would be the best way to make existing industry more competitive. This mirrors responses to question 18, where respondents ranked reducing the corporate income tax first in terms of making Ontario businesses more competitive.

17. If you chose “aggressively develop trade relationships outside North America”, where do you think the government should focus? (choose up to three)



SMARTER TAXATION

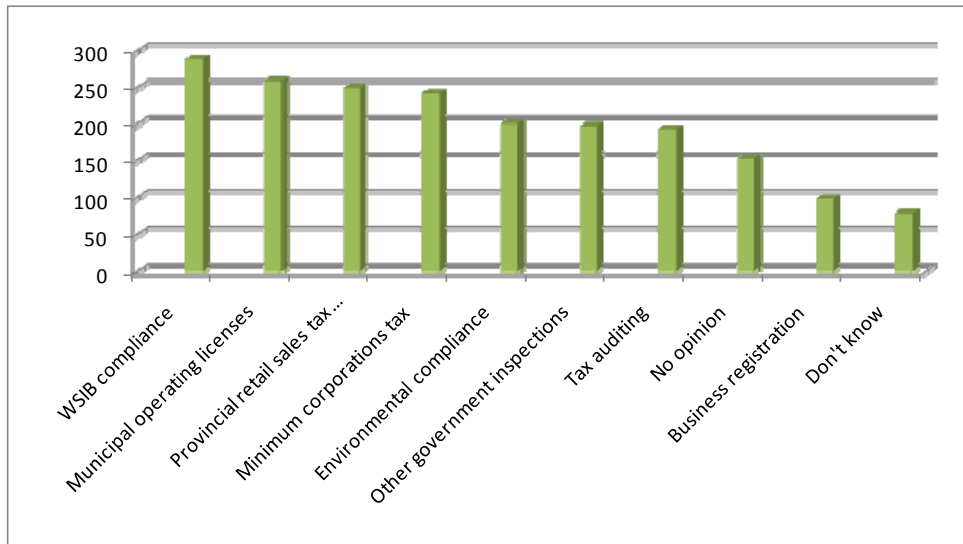
18. Please rank the following tax initiatives based on whether you believe they will make Ontario businesses more competitive. Please select up to three tax policy priorities from the list below.



- Respondents here, as well as elsewhere in the survey, cite current corporate income tax levels as a key impediment to competitiveness in Ontario.
- The small business income tax clawback is also ranked as one of the top three barriers to competitiveness. The OCC recommends that the government immediately **replace the small business income tax clawback** with a *progressive* marginal rate of 10 percent on income exceeding the small business income threshold of \$500,000-\$1.5 million.

BUSINESS REGULATION STREAMLINING

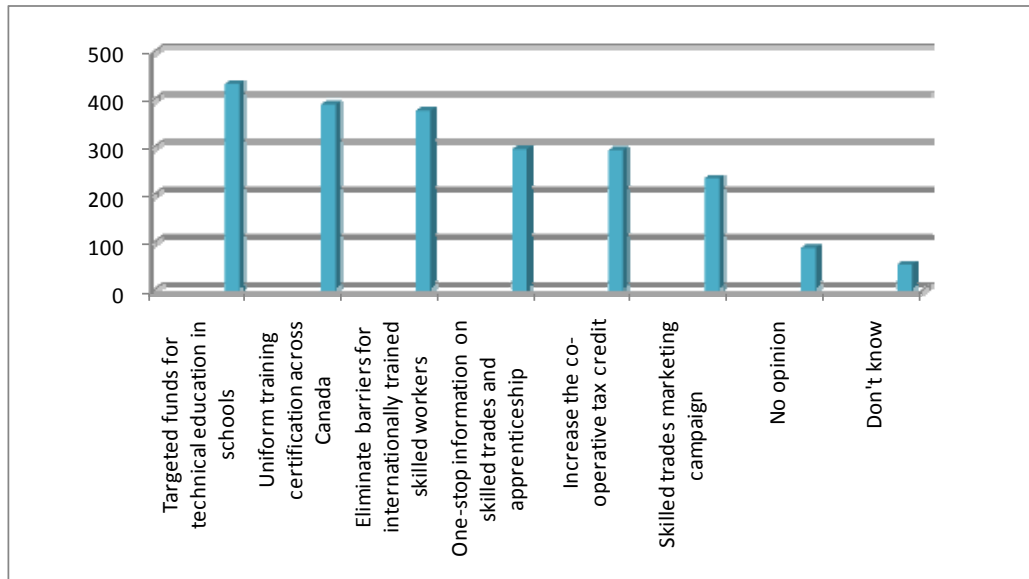
19. Please rank the top regulatory issues ("red tape") that, in your opinion, may impact the competitiveness of your business (choose up to three from the list):



- The extension of mandatory WSIB coverage had taken place just before this survey went into the field and was a top-of-mind issue for many respondents. Last year, when this issue was less prominent, provincial sales tax compliance (now the number 2 issue) was the top regulatory issue listed by respondents.

AVAILABILITY OF SKILLED LABOUR FORCE

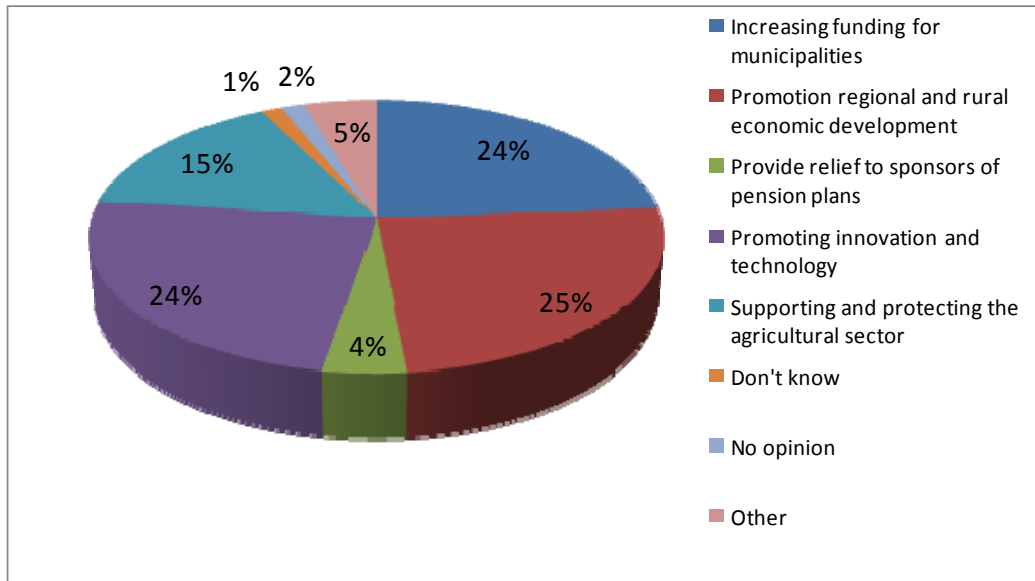
20. Please rank the following initiatives based on the positive impact they would have in improving access to skilled labour. Please select up to three policy priorities from the list below.



- The rankings of priorities in this area are almost identical to the 2008 responses, demonstrating that respondents don't feel much has changed since then.
- Once again, eliminating barriers, such as credential recognition, for internationally-trained workers is the top priority.

FINAL THOUGHTS

21. As the OCC prepares its advice to the provincial government, are there other issues that you would like to see the Ontario government address in its upcoming budget?

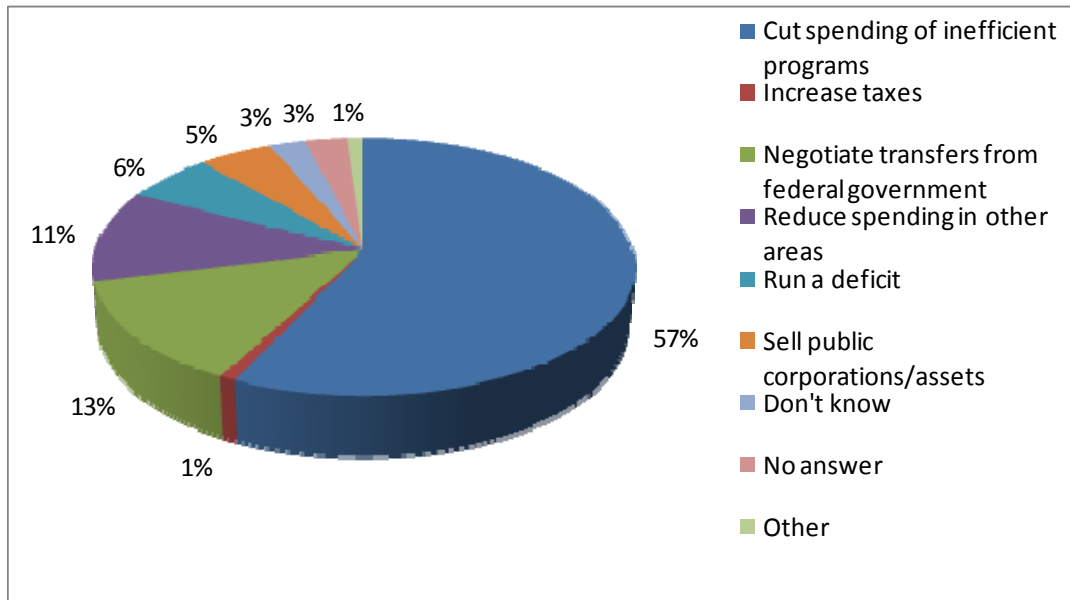


Other comments

- Focus on efficiency and cost-reduction across all government/public sectors, but not at the expenses of essential (growth) services
- Consolidate GST & PST (several comments)
- Give financial incentives for businesses wanting to go green (several calls for funding “green economy”)
- Eliminate recent 10% hydro rate increase
- Long term, multi-sourced power generation plan
- Reform WSIB

FUNDING REFORMS

22. If the provincial government required additional funding for the priority areas that you identified, where should that funding come from?



- Other suggestions reiterated the calls in question 12 to reduce or freeze provincial hiring levels.

23. Are there any programs or services the provincial government provides that are no longer needed?

- Respondents had to give their own suggestions here – they were not given choices.
- Out of 1397 respondents, 178 provided suggestions.

Key suggestions:

- Hire an independent auditor to determine what spending is unnecessary
- Cut staffing levels, salaries and wages
- Programs that are duplicated at other levels of government
- WSIB