

BUSINESS CONFIDENCE SURVEY



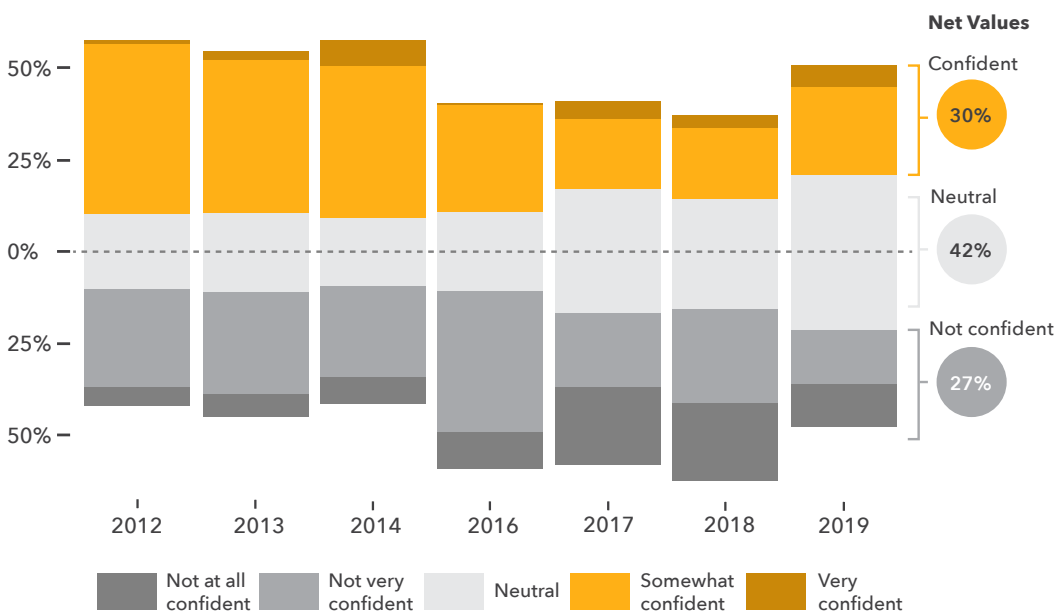
Downtown Quinte West
by Sean Scally for the City of Quinte West

The OCC regularly surveys its members to better understand the experience of business in Ontario. This data provides a grassroots perspective on the economy and can identify developing trends in economic activity.¹

In 2019, we observed an increase in business confidence in Ontario's overall economic outlook. The proportion of businesses expressing confidence in the broader economy is up 7 percentage points compared to last year, currently standing at 30 percent. This is accompanied by a considerable drop in those lacking confidence in the economy, which has declined from 48 percent to 27 percent since 2018.

Despite a more optimistic outlook for 2019, it is important to note that overall confidence has decreased over time since 2012, while the share of those feeling neutral about the province's outlook has increased.

Figure 1: How confident are you about Ontario's economic outlook as of right now?²



Our members' confidence in Ontario's economic outlook has a notable positive correlation with the province's GDP growth since 2012, suggesting economic growth is linked to confidence in the economy.³

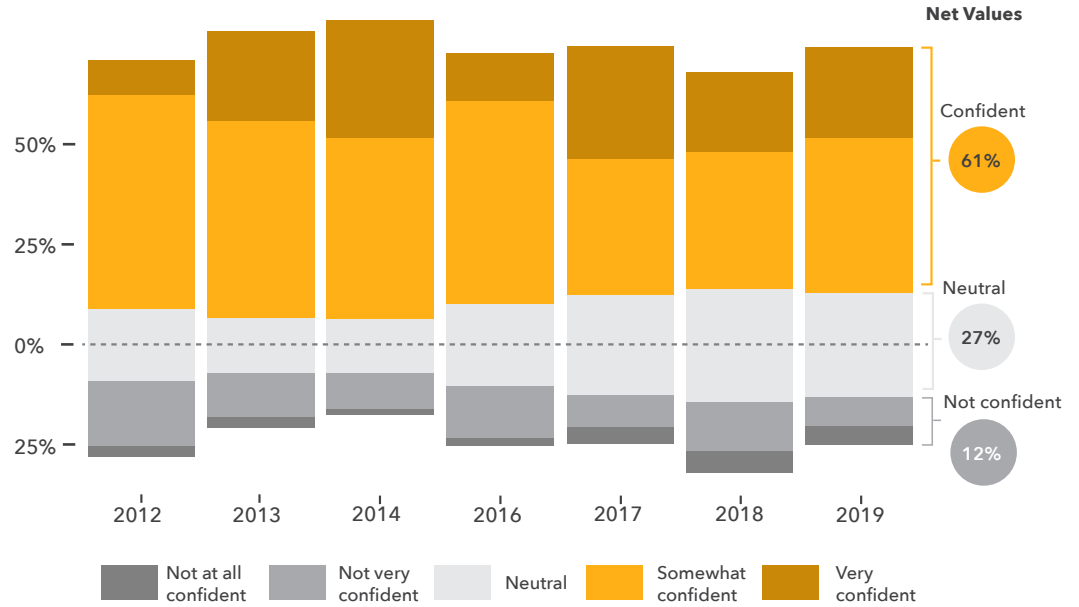
1 A survey of n=1091 OCC members was conducted online by Navigator between September 26 and November 9, 2018.

2 For statistical accuracy, figures in this section will not include 2015, where the survey methodology differed from other years. Prior to 2015, survey responses included seven different levels of confidence, which was aggregated into five levels to be consistent with the rest of the survey data.

3 Positive correlation between members' confidence and Ontario's GDP growth since 2012 (R=0.67).

Members' confidence in themselves also increased this year, with 61 percent of businesses surveyed reporting confidence in their own organizations' economic outlook heading into 2019. This represents a seven-percentage-point increase from last year.

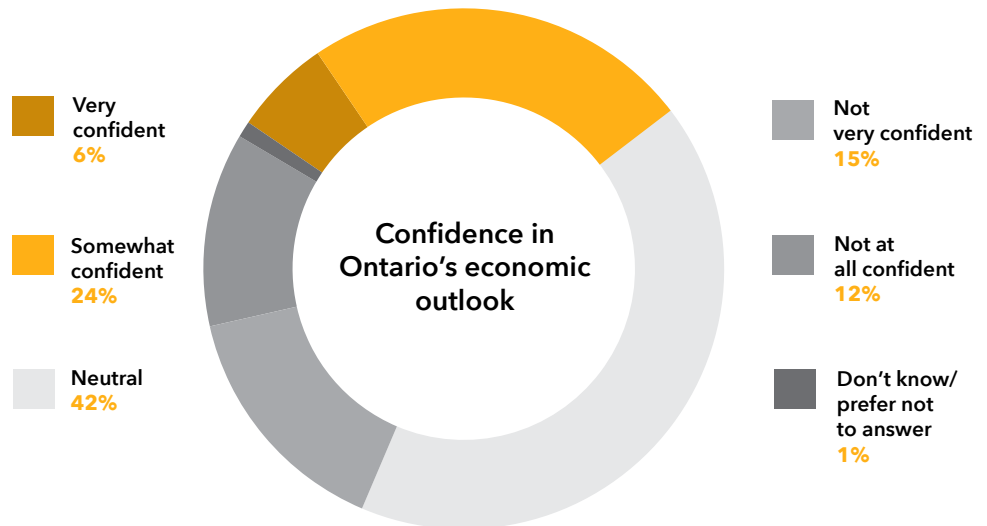
Figure 2: How confident are you in your own organization's economic outlook as of right now?



Figures 1 and 2 indicate that 2018 was a year of pessimism for Ontario business.

2019 Confidence Numbers in Focus

Figure 3: How confident are you about Ontario's economic outlook?



The top four most commonly cited drivers of confidence in Ontario's economic outlook are: recent economic growth projections (37 percent), population growth projections (37 percent), solid consumer confidence (30 percent), and a skilled and productive workforce (28 percent). These results are consistent with the OCC's 2018 survey. While it was not a top contributing factor, 'solid economic policy from government' increased by nine-percentage-points over the last year (19 percent in 2019 vs. 10 percent in 2018).

For the 27 percent of member respondents who expressed a lack of confidence in the Ontario economy, the reasons cited are reflective of what we have heard throughout the year in member and stakeholder consultations.

Among those who lack confidence in Ontario's economic outlook, the primary reason selected by over half of respondents is the high cost of living (54 percent). Other main drivers include the high price of inputs such as raw materials and electricity (47 percent), and a high level of provincial debt (44 percent). Concern about government economic policy remains a significant driver of non-confidence in the Ontario economy for a segment of our membership.

Figure 4: How confident are you in your own organization's outlook?



The two biggest drivers of optimism among those who are confident about their organization's economic outlook are a growing client base (71 percent) and increased demand for their product or service (62 percent).

Meanwhile, among those who lack confidence in their organization, the primary reasons cited are increases in the price of inputs (50 percent), difficulty in finding and retaining staff (49 percent), and the burden of Ontario's regulatory and tax regimes (44 percent).

Confidence Gap Remains, Despite Greater Optimism

The OCC measures the ‘confidence gap’ between how businesses view the economic outlook of their own organizations versus that of the province as a whole.

Since 2012, when the OCC began measuring both organizational confidence and confidence in Ontario’s economic outlook, we have observed a strong positive correlation between the two measures, suggesting our members see their individual fortunes as tied to the provincial economy.⁴

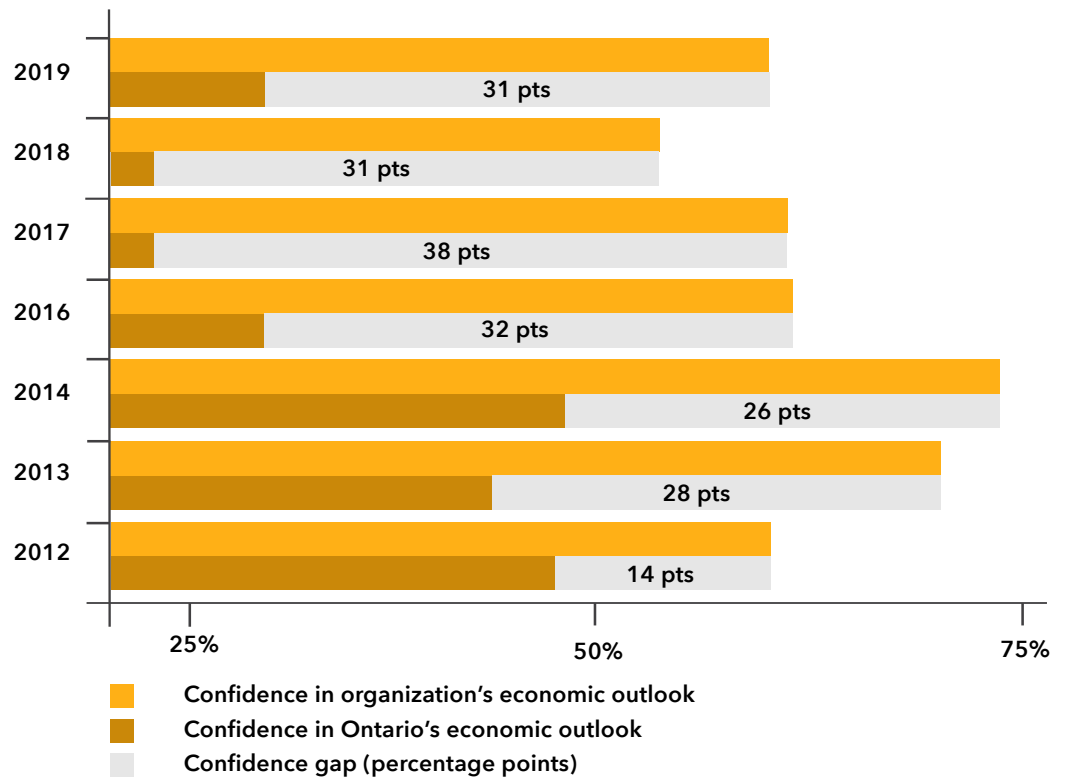
We have consistently observed members reporting stronger confidence in their own organization than the broader economic outlook of the province. However, it is important to note that the gap has widened over the last seven years.

In 2012, the confidence gap was only 14 points, with 61 percent of members expressing confidence in their organization and 47 percent indicating optimism about Ontario’s economic outlook. By 2017, optimism in the provincial outlook had plummeted to 24 percent with 62 percent reporting confidence in their own business, resulting in a 38-point differential.

Over the last 2 years, the gap has remained steady at 31 points, with both economic and organizational confidence increasing by 7 percentage points in 2019. While members have become more optimistic about both measures, the confidence gap remains the same. Challenges such as the high cost of living, rising input costs, and a growing provincial debt also remain unchanged and unaddressed by policymakers.

We believe the confidence gap is at least partially caused by the complex, multi-layered issues that require long-term policy solutions. Until Ontario makes meaningful progress on these core issues, a substantial confidence gap is likely to remain.

Figure 5: Confidence gap since 2012

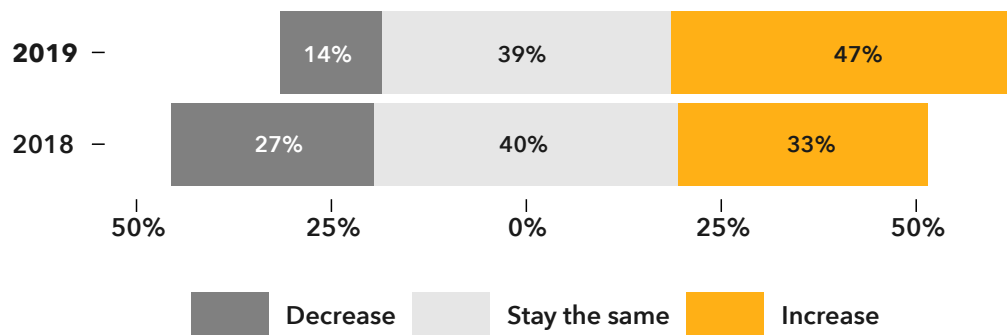


⁴ Strong positive correlation between members’ confidence in their own organization’s outlook and that of the Ontario economy since 2012 (R=0.73). For statistical accuracy, calculations do not include 2015, where the survey methodology differed from other years.

Revenue and Staffing Projections

Ontario businesses are significantly more likely to project an increase rather than a decrease in their organization's revenue over the next 12 months. This optimism aligns with higher levels of organizational confidence observed in 2019. Specifically, 86 percent of respondents expect to see their organization's revenues increase or stay the same over the next year. Far fewer (14 percent) believe their revenue will decline over the next 12 months.

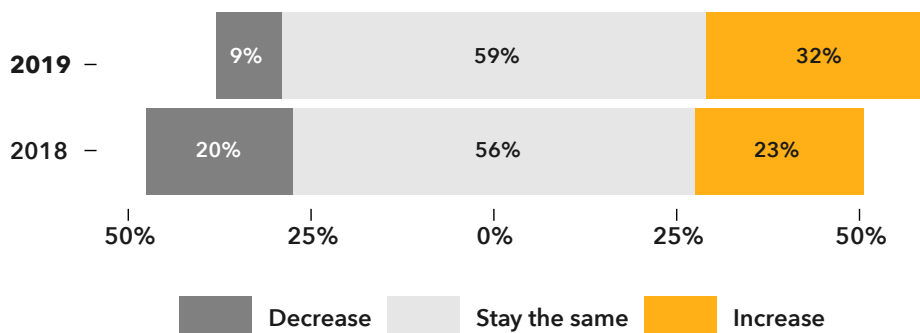
Figure 6: Based on the way the Ontario economy is operating now, do you expect your organization's revenue to increase, stay the same, or decrease in the next 12 months?



Revenue expectations are far more positive than they were in 2018. Compared to last year's survey, the number of members who feel their business revenues will decrease has reduced by nearly half from 27 percent in 2018 to 14 percent in 2019.

This optimism broadly carries through to staffing projections as well. Firms are far more likely to expect their workforces to increase rather than decrease over the next six months (32 percent compared to 9 percent, respectively). The proportion of members expecting to increase staff is up nine percentage points from 2018. Despite this trend, there is a strong likelihood that job growth in 2019 will be marginal given that 59 percent of firms believe their workforces will remain unchanged over the next six months.

Figure 7: In the next 6 months, do you expect your workforce to...

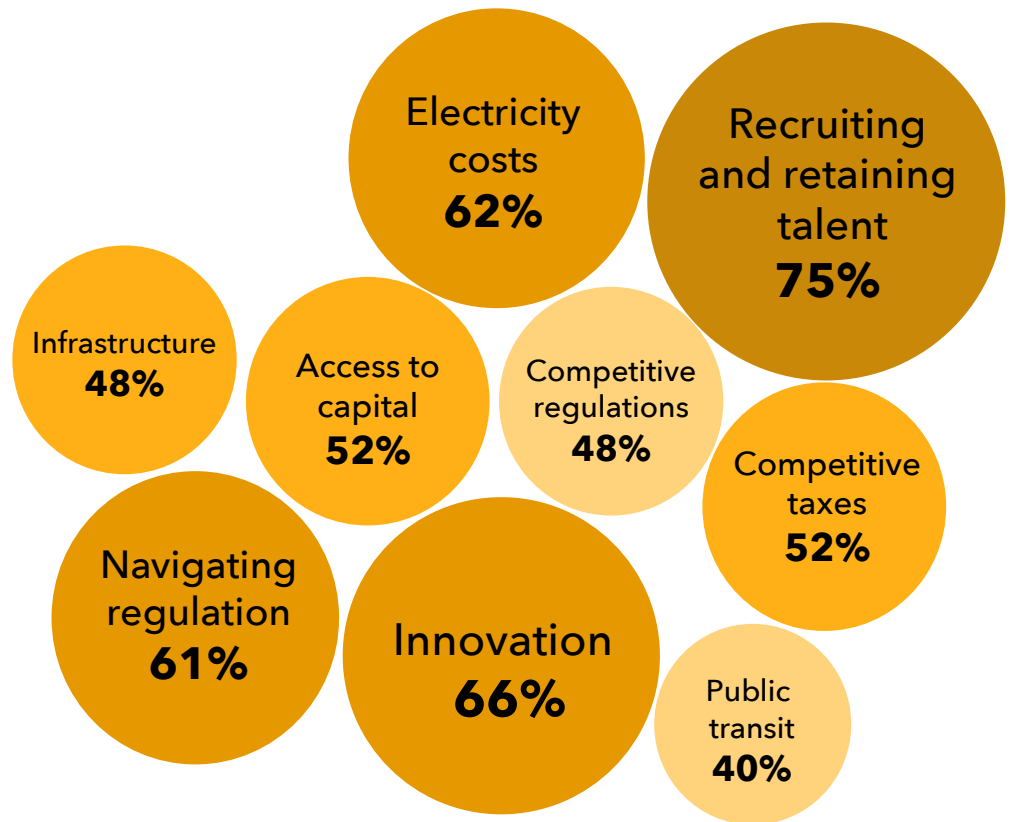


Nine Critical Success Factors to Organizational Competitiveness

Over the last eight years, the OCC has tried to better understand what Ontario businesses see as critical to their organization’s ability to thrive. Through multiple iterations of this survey, certain factors have been added or subtracted, depending on the amount of traction they receive, to best capture the most important considerations for organizational competitiveness.

In 2019, nine critical success factors have emerged and have been ranked in order of importance below. The ability to recruit and retain talent (75 percent) emerged as the largest area of agreement among survey respondents. This is followed by the ability to innovate (66 percent) and the cost of electricity (62 percent).

Figure 8: To what extent do you agree or disagree that the following factors are critical to your organization’s competitiveness?



The findings also reveal that more than half of members consider access to capital and a competitive tax regime to be critical success factors. This is followed closely by transportation infrastructure—which has increased by 10 percentage points since 2018 (48 percent vs. 38 percent)—and regulations compared to other jurisdictions (48 percent).

The Growing Influence of Technology

As depicted in Figure 8, the majority of survey respondents (66 percent) believe innovation is one of the most critical factors to organizational competitiveness. Fifty-seven percent indicate they are receptive to new technologies and innovations, and nearly half of respondents (forty nine percent) believe their organization has already benefited from such modernizations.

While Ontario business appears to understand innovation is critical to competitiveness, many remain hesitant to embrace technological innovation. This can be partly explained by two overarching trends. First, decreasing levels of organizational and economic confidence over time have impacted business' willingness to invest, take risks, and adopt potentially disruptive technological advancements. Second, attitudes towards technology vary somewhat by region; more businesses in Northwestern Ontario tend to consider rapid technological advancements a threat to their competitiveness compared to other parts of the province. Although most members across the province view it as an opportunity, there is some indication that it could impact regional disparities.

Key Takeaways

The results of the 2019 Business Confidence Survey show a shift in how business views both its own success and the success of the Ontario economy more broadly. Expectations for 2019 are higher than they were in 2018, and respondents have found reason to be cautiously optimistic.

Member confidence in their own organizations as well as the broader economy both increased by seven percentage points in 2019, while negative sentiment towards the province's economic outlook has dropped over 20 percentage points since 2018. Similarly, there has been a 13-percentage point rise in members expecting revenues to increase over the next 6 months, compared to a 13-percentage point decline in the members believing revenues will decline since 2018.

All of these are positive indicators, but challenges relating to the cost of doing business in Ontario and the ability for firms to successfully recruit and retain talent loom large, undermining the province's economic potential. Ontario's economic forecast calls for slower GDP and job growth in 2019, as the economy pushes against its capacity limits, which is consistent with the OCC's finding that the majority of members project no staffing increases in the next six months.

Ontario's policymakers should be acutely aware of these potential vulnerabilities and develop policies with the aim of fostering competitiveness, placing particular emphasis on the issues identified by our membership above.