



THE SCOTIABANK 2021 CANADIAN BUSINESS OUTLOOK REPORT
MID-TO-LARGE SIZED BUSINESSES

Revived optimism
for the future

Scotiabank



View from the Bank

As we reach the one-year milestone since the pandemic shook the foundation of our economy, Canadian mid-to-large size businesses are beginning to turn the corner on a challenging year. Optimism is starting to take hold of many Canadian business owners, with the back half of 2021 shaping up to be a runway to recovery and opportunity.

Kevin Teslyk
Executive Vice-President,
Canadian Business Banking

For Canadian businesses, if 2020 was a year to protect, pivot, and persevere, then 2021 will be the year to grow, gain, and prosper. Notwithstanding recent lockdown restrictions, economic recovery has already begun in Canada and it is expected that the trend from recession to recovery will continue through the year. In fact, Scotiabank Economics expects Canada's GDP to grow by more than 6% in 2021.

With more shipments of the vaccine making their way into Canada, governments have been tasked with the herculean effort of getting all Canadians vaccinated in 2021. While we wait for the economy and the global health crisis to stabilize, we anticipate some restrictions and tactical shutdowns to continue to be necessary. Despite these impacts to Canadian businesses, nearly eight in 10 businesses feel optimistic about the future of their company.

In 2021, Scotiabank recently launched a Client Advisory Roundtable series, meeting with clients nationally across industries to understand how they are navigating the pandemic. Through conversations with clients, it has been astonishing to witness the strength and resilience of Canadian businesses and the creative ways they have adapted to our current situation. From developing new strategies and infrastructure to pivoting onto new products and opportunities, almost one in four companies report their sales and revenue levels are equal to pre-pandemic levels.

Some businesses have cited essential government programs like the Canada Emergency Wage Subsidy (CEWS) and the expanded Canadian Emergency Business Account (CEBA) programs to have been key sources of support for their business operations. We encourage the government to continue supporting businesses of all sizes as they move through these late stages of the pandemic.

I was proud to see that more businesses who feel supported by their financial institution state their company is doing better now than pre-COVID-19. This is the impact maintaining a solid relationship with your financial institution can make. While the next 6-12 months cannot be predicted, now is the time to partner with your financial institution. As we continue to see, unprecedented headwinds can come at any point – it is how we learn, adapt, and grow from these experiences that can make all the difference. As we have been from the beginning, we are in this together for the road ahead.

Kevin Teslyk
Executive Vice-President,
Canadian Business Banking

¹Research conducted by Maru/Blue on behalf of Scotiabank from February 18-22, 2021 and October 21-November 3, 2020. A total of 310 and 305 completed surveys respectively were collected from financial decision-makers at Canadian businesses with annual revenue between \$5 million and \$500 million.



Though the pandemic continues to rage and restrictions are still in place in much of the country, it is now clear that we are in the final stages of our battle against the virus. It is now simply a matter of when, not if, the economic consequences fade. Given the improving vaccine progress, signs point to a significant rebound in economic activity sometime in the spring. We currently anticipate growth of at least 6% in 2021, and risks around the forecast seem clearly tilted to the upside for the first time since the start of the pandemic.

Jean-Francois Perrault,
Scotiabank Chief Economist

WHY THIS OPTIMISM?

Massive amounts of policy support will be maintained for the foreseeable future. The Bank of Canada has indicated that it will not alter its policy rate until at least 2023. From a fiscal perspective, the federal and provincial governments have deployed massive amounts of stimulus and have indicated that more is to come. These developments have led to a significant accumulation of cash in household and business balance sheets, which we think will be drawn down as virus-related uncertainties fade by April.

We have already seen compelling signs of a rebound in industrial activity, a sharp pick-up in employment in industries less affected by COVID-19, very robust increases in retail sales across several sectors, an incredible rebound in housing markets, as well as sharp rebounds in asset markets.

Remarkably, the financial situation of most firms and households seems to have improved beyond pre-COVID-19 positions. Moreover, indicators of domestic strength are compounded by rising global optimism, even as we are in the midst of a very problematic surge in the virus. Finally, President Biden is clearly looking at additional measures to raise economic growth in the United States, which could lead to a sizeable boost there, and in turn raise growth here.

Risks remain, however. Despite the rebound in growth we expect, the recovery has very much been two-tracked. As lockdowns kicked off the year, restrictions and their after-effects will continue to loom as we race to vaccinate. Sectors most reliant on social interaction such as travel, hospitality, and accommodation will continue to struggle until the vaccine triggers a change in mindset in consumers. For this reason, aggregate economic activity is unlikely to return to pre-COVID-19 levels until late 2021. This means unemployment will remain higher than pre-COVID-19 for some time, and the financial stresses on many firms and households caused by the pandemic will persist. There is also a risk the insolvencies for both firms and households will rise when government supports are withdrawn as planned this summer.

Taking it all together, the case for Canadian and global economy activity rebounding sharply this year is a compelling one. Commercial opportunities will continue to improve, and firms that act proactively to take advantage of these opportunities should reap rewards. For those with the financial capability to do so, there may even be some urgency: the job vacancy rate in Canada in October had already returned to the range observed in 2019, a time in which labour shortages were widely considered to be the key constraint to business expansion in Canada.

Jean-Francois Perrault,
Scotiabank Chief Economist

Canadian businesses express revived optimism for future

Following a year of community health restrictions, public lockdowns, and weak economic conditions, Canadian businesses have adopted a positive outlook for post-pandemic recovery

Revived optimism has taken hold of many Canadian businesses, despite the economic crisis of 2020 and resulting impact on sales and revenue that many endured. These are among the key findings from recent Scotiabank surveys of more than 300 financial decision-makers at mid-to-large size businesses across the country.²

IMPACT OF PANDEMIC AND OPTIMISM FOR FUTURE

The Scotiabank study highlights a renewed sense of hope for the future following a year of unprecedented operational challenges presented by the pandemic. Mid-to-large size businesses reported that their revenues suffered during the crisis, either moderately (36%) or significantly (16%).

But despite all obstacles, over three-quarters of businesses said they feel positive about their futures, with 26% feeling “extremely optimistic”, and 52% feeling “very optimistic”. In fact, almost one in four (23%) noted that their company’s sales and revenues were equal to pre-pandemic levels, and 23% stating their company is doing better now than before the crisis. Fueled by an optimistic outlook, more than one-third of survey participants plan to invest in their company in the next six months. Top investments included increasing their use of technology (53%), enhancing their digital and online capabilities (49%), or hiring more employees (45%).

This remarkable resiliency can be attributed in part to the numerous support programs made available to businesses throughout the pandemic, with 63% of companies citing government or bank relief programs as a key source of support, and 54% of those surveyed leveraging the Canada Emergency Wage Subsidy. Almost eight in 10 businesses (78%) also report that support from their financial institution contributed to their ongoing survival or growth, with many relying on financial support, payment deferrals, covenant relief, or information and advice from their banker, to manage risks.

PLANNING FOR POST-PANDEMIC RECOVERY

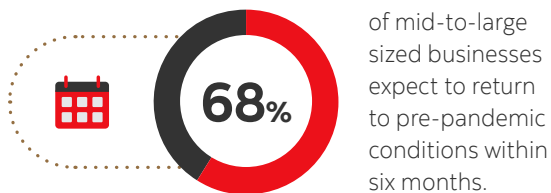
While the economic crisis has taken a toll on Canadian businesses, more than half (53%) of survey participants said that their company will be changed for the better in some ways. In fact, a number of company decision-makers described how they turned challenges into opportunities by adopting new strategies, pivoting to introduce new products, and learning as a team to react effectively in times of crisis.

Many businesses have continuously adapted their operations to survive by being innovative, introducing new technology, reducing their expenses, introducing cost controls, and supporting their workforce in transitioning to a remote work environment, when required. As a result, over one third (38%) predicted that their company will return to normal when the COVID-19 crisis is over, with a majority (68%) of those surveyed feeling confident that their company will return to pre-pandemic conditions within six months or less.

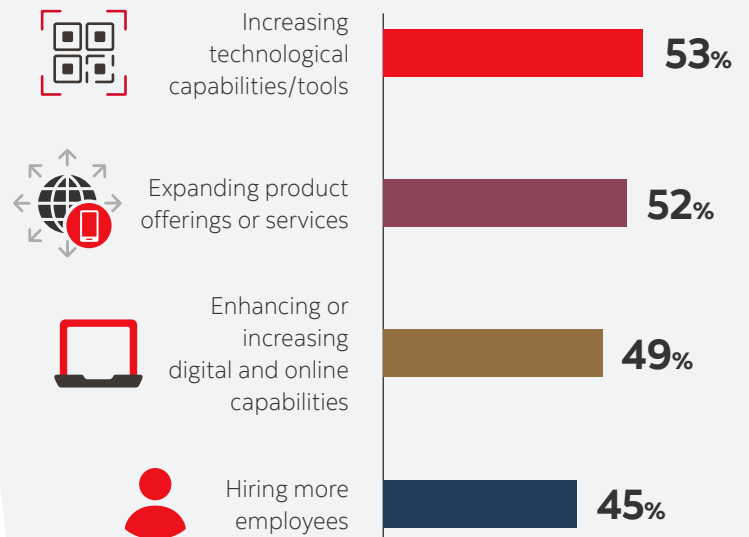
It’s clear that Canadian businesses are eager to put the pandemic behind them. As we continue to navigate ongoing restrictions and more of our population becomes vaccinated, we encourage companies to continue to apply the tools, resources, and learnings from this past year when planning for their recovery and future growth.

² Research conducted by Maru/Blue on behalf of Scotiabank from February 18-22, 2021 and October 21-November 3, 2020. A total of 310 and 305 completed surveys respectively were collected from financial decision-makers at Canadian businesses with annual revenue between \$5 million and \$500 million.

Canadian businesses are optimistic about the road ahead



In the next six months, top priorities for businesses are:



5 Key Priorities for Recovery and Growth

Along with their revived optimism, Canadian businesses are mindful of the challenges that lie ahead. When asked about their biggest concerns, many of those surveyed pointed to the state of the economy (40%), government restrictions during future pandemic waves (39%), and revenue generation (30%). With more vaccine shipments making their way into Canada and positive growth expected in the Canadian economy in 2021, the shift from economic recession to recovery is already underway.

As you plot your operational strategies for the year ahead, we recommend monitoring five key areas:

1. PLAN YOUR LIQUIDITY AND CASH FLOW

Begin scenario planning for 6-12 months ahead. Evaluate your cash flow, employee requirements, supply chain and inventory, and variable and fixed expenses (including additional costs related to COVID-19, like PPE for employees).

2. INVEST IN YOUR WORKFORCE

Studies have consistently shown that engaged employees are more productive. It's important that you provide support to your employees during and after the pandemic, while projecting optimism, communicating regularly, and promoting diversity and inclusion at all levels. Continue to invest in your employees and above all, embrace remote work – it's now a competitive advantage that can draw new talent on a wider geographical scale!

3. DIVE INTO DIGITAL

Take advantage of the many tools and resources available to help your business grow its digital capabilities. Explore opportunities for your business to incorporate online innovation, and investigate ways to process customer payments faster, such as [Scotiabank Interac e-Transfer for Business](#). As your circumstances fluctuate, agile operating processes can also adapt quickly with changing conditions.

4. TEST NEW OPERATING BUSINESS MODELS

Be bold and think of new or innovative ways to operate 'outside of the box'; whether that means expanding in this low interest rate environment, partnering with other businesses, mergers or acquisitions, etc. Consider pursuing supply chain diversification that includes local or multiple suppliers to increase your operational resiliency.

5. REACH YOUR STRATEGIC GOALS WITH A GREAT BANKING PARTNER

Now is the time to reach out to your bank. The survey revealed that more businesses who feel supported by their financial institution state their company is doing better now than pre-COVID-19. Many financial institutions offer customized financial relief accommodations and access to government support programs, and Scotiabank has a vast network of experienced professionals who have supported thousands of businesses throughout challenging periods. Our team offers specialized solutions to help you manage risks, capitalize on new opportunities, and plan for your future. We are here to guide and support you throughout your journey with strategies from recovery to growth.