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PERSPECTIVES ON BUSINESS & FINANCIAL MANAGEMENT

the Capital Partner

"Protecting, Preserving & Propagating Capital through Prudent Planning"

Small businesses mark one-year of COVID with delayed retirements, more debt and digital leaps

Toronto - March 15, 2021.

BUSINESS LOCKDOWNS & restrictions first hit Canada a year ago. After one year, only 62% of businesses are fully open, 44% are fully staffed and only 31% report normal sales, according to the latest data by the ***Canadian Federation of Independent Business (CFIB).***

As a result, many business owners are delaying retirement, grappling with mounting debt or facing mental burnout. They are also leaping into the digital sphere at an unprecedented pace or getting out of the game entirely, finds the latest report by CFIB.: *One Year of COVID-19: Seven Ways the World Has Changed for Small Business***.**

"Small businesses have seen it all this past year, from devastation to digital innovation. It's clear this is going to have an impact for years to come," said **Simon Gaudreault**, CFIB's Sr. Director of Research.

Retirement Delayed

Two fifths (42%) of small business owners are delaying their retirement as a result of the pandemic, while 5% will retire earlier than planned. Many business owners rely on the sale of their business to finance their retirement, but 55 per cent report that the value of their business has dropped after months of COVID-19 rules. Additionally, 7% of business owners have dipped into their retirement savings to finance their business.

"The impact on retirement plans underscores just how profoundly hard-hit small business owners and their families have been by this pandemic," added Gaudreault.

Debt overload

The average small business is now more than $170,000 in debt. Three quarters (76%) of businesses that have taken on debt say it will take them over a year to repay, and 11% are worried they may never be able to repay it.

Mental burnout

Nearly half of business owners (48%) report they have suffered from mental health issues as a result of the pandemic and 46% have had to work significantly longer hours.

Leaping into the digital sphere

One third of all small businesses are now selling online. That's an increase of 152k new entrants into the eCommerce market since the start of the pandemic. Retailers, arts & recreation (e.g. gyms), hospitality (e.g. cafés,

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CAPITAL COMMENT

A '21 Federal Budget: What a Great Idea!

IF YOU HAVE EVER reported to a boss, share holders and stake owners, you've likely produced an annual budget that outlines priorities, expenses, needs and expected returns on invested capital.

And, if your boss takes herself seriously, she will review and question your assumptions or ask for clarification where needed.

It's how corporate organizations, like businesses, faith communities, charitable organizations, pension plans, endowments, foundations, even households stay accountable.

Usually bigger budgets demand greater accountability and a greater need for checks and balances.

That's all true unless… unless, you're the federal government of Canada.

On Monday, April 19, the Trudeau Liberals will introduce the first budget in 2 years. That's right. Two years.

No budget was introduced last year because the government was overwhelmed by the scope of the COVID-19 Global Pandemic. The ground was shifting and the prime minister thought his daily press sessions would be enough to navigate the worst pandemic to strike in 100 years.

No plan. No vision. No debate. Just Justin and his blessed re-assurances that his government will "be there for us" while he and his sycophants throw countless tax payor dollars at poorly conceived plans and programs.

To be fair, it's not like JT had any administrative experience prior to assuming the PMO. Good hair, the right name, a trust fund and celebrity status carry a lot of weight in the federal Liberal party.

Who needs competency when you have pedigree and electability?

Then in August, Ethics Commissioner Mario Dion began an investigation after the Trudeau Liberals gave the WE Charity a $43.53-million contract to administer a $900-million student "volunteer" program - despite his family having close ties to the charity.

Finance Minister Bill Morneau felt the heat and resigned. No budget was tabled. Again, no plan. No review. No debate. The result? Our public coffieures are a mess.

On April 19th, we'll find out by how much. Happy April Fool's Day… I wish. ❍

the Capital Partner

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CAPITAL CONCERNS

Letter to the Federal Government from the Canada Business Council

By President & CEO Goldy Hyder

Dear Minister Freeland,

As I write to you, the second wave of COVID-19 infections in Canada is subsiding, new daily hospitalizations are falling, and the country's vaccination campaign is ramping up. For the first time since the onset of the pandemic a year ago, Canadians have reason to hope that the worst of the health emergency is behind us.

On behalf of Canada's business leaders, I want to thank you and your colleagues for your leadership at this difficult time. Public servants at all levels of government, and particularly health care workers, have worked hard to protect Canadians from the virus and respond to the economic fallout. The members of the Business Council of Canada join all Canadians in expressing gratitude for their service.

Many people have likened the fight against COVID-19 to a war. If, as now appears possible, we are finally gaining the upper hand, our country must prepare to confront another challenge familiar to the generation of Canadians that survived the Second World War: the task of rebuilding the economy, helping unemployed people find good jobs, and fostering a higher quality of life.

In Canada and elsewhere, the mantra for the post-COVID-19 recovery is **"build back better**". This simple phrase means different things to different people. To some, it is a call to permanently expand the size and scope of government, the result of which would be larger deficits or higher taxes – or both. Rather than prioritizing economic growth and competitiveness, the government's primary focus would be on wealth redistribution.

That approach, however, is clearly unsustainable. Without an enabling environment that prioritizes private-sector growth, nurtures new ventures, and incents existing businesses to invest and create well-paying jobs, the economy will falter and household incomes will stagnate. The inevitable result would be lower tax revenues to fund essential public services.

If we are serious about building back better, we must recognize that a stronger economy is fundamental to solving many of society's most challenging issues – everything from high unemployment and inequality to the global fight against climate change. Economic growth leads to rising incomes and higher tax revenues, which in turn support high-quality public services. It fosters more and better jobs, expanding opportunities for people of all ages and abilities to achieve their full potential.

Fifteen months ago, our CEO Task Force on Canada's Economic Future published a report outlining how governments, businesses and other stakeholders could work together to strengthen Canada's growth capacity. The Task Force identified six priority actions that the federal government could take to improve the environment for private sector investment:

1. Modernize the regulatory environment
2. Prioritize nationally significant infrastructure projects
3. Modernize and simplify the tax system
4. Rethink Canadian foreign policy for a changing world
5. Increase immigration inflows to build the future labour force Canada needs
6. Develop a national resource and climate strategy

We believe that progress in each of these areas is essential to ensuring Canada's long-term success in a rapidly changing global economy.

At the same time, we recognize that COVID-19 has created or exacerbated a range of additional economic and social challenges. For example:

- Just over a year ago, the country's unemployment rate was 5.6 per cent – lower than at any point since the mid-1970s. Today it is 9.4 per cent, representing nearly 1.9 million jobless workers.

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Goldy Hyder is President & Chief Executive Officer of the **Business Council of Canada.** Founded in 1976, the Council is a non-profit, non-partisan organization representing the chief executives and heads of 150 leading Canadian businesses, employing 1.7 million Canadians & composed of every major industry across the country.
Mr. Hyder is a regular commentator in the Canadian media on business, politics and leadership. He is the host of the "**Speaking of Business**" podcast, featuring interviews with Canadian business leaders, innovators and entrepreneurs. In 2013, he received the Queen's Diamond Jubilee Medal in recognition of his contributions to Canada. He holds a Master of Arts in Public Policy from the University of Calgary.

- Low-wage, immigrant and racialized workers have been disproportionately impacted by the pandemic, while Canadians with higher incomes and higher skill levels have largely been spared. Many recently displaced workers will need retraining to get back into the labour force.
- Many working parents, especially mothers, have faced an increased burden of family care responsibilities during the pandemic, leading some to cut their paid working hours or drop out of the labour force altogether. This has shone a light on the importance of quality, affordable child care in ensuring high rates of labour force participation among women.
- Lockdowns and work-from-home protocols have dramatically accelerated the rise of the digital economy and the shift to e-commerce. As the Canadian Council of Innovators has noted, the post-pandemic world will be significantly more data-driven than it was before COVID-19. To thrive in this new world, Canadians must become better at transforming knowledge and intellectual capital into commercial products and services.
- The pandemic ignited an explosion in public spending and debt. The federal debt-to-GDP ratio was 30 per cent before COVID-19 but now exceeds 50 per cent. This will impose serious constraints on the federal government's fiscal capacity and further underscores the need for an economic growth strategy.

In recent months, our Council has reached out to a wide range of business and labour representatives, economists, non-profit groups and other organizations for their views on the best way to promote an inclusive post-pandemic economic recovery.

We also published a major paper, "**Powering a Strong Recovery: An Economic Growth Plan for Canada".** Based on the work of our CEO Task Force as well as ongoing consultations with a diverse group of stakeholders, the paper acknowledged that there can be no quick fix to Canada's economic malaise. Rather, building a more prosperous future for Canadians will require sustained action over many years on three fronts: people, capital and ideas.

People: We need to cultivate and enhance our human capital by developing a more agile and adaptable workforce, doing more to help young Canadians build rewarding careers, and enhancing our immigration system to make our country an even more powerful magnet for international talent.

Capital: We need to strengthen business investment by adopting a more focused approach to infrastructure, enhancing interprovincial trade, removing unnecessary regulatory barriers, and ensuring that our tax system is globally competitive.

Ideas: In a world in which wealth creation is driven by knowledge and innovation, we must get better at commercializing our research, protecting intellectual property, harnessing the power of public procurement, and pursuing a more intentional industrial strategy that leverages Canada's domestic strengths for success in the global market.

Over the following pages we will highlight several specific proposals for Budget 2021 within these three policy areas, as well as a number of recommendations that would put Canada on a path toward meeting its international commitments to reduce greenhouse gas (GHG) emissions.

People

The federal government should work with employers, provinces and territories to develop a comprehensive skills agenda that prepares displaced workers for new careers in sectors where talent is in high demand. One possible model is Palette, a national not-for-profit organization that helps young, fast-growing companies find the talent they need by rapidly re-skilling and up-skilling diverse and non-traditional workers. Training initiatives should be business-led and results-driven, similar to the approach taken by the Business + Higher Education Roundtable in expanding work-integrated learning opportunities for students and recent post-secondary graduates.

Equally important are investments to improve the quality, reliability, affordability and flexibility of early learning and child care services across the country. Such investments would enable more parents – especially women – to participate in the workforce, which in turn would strengthen gender equity, improve household finances, and support economic recovery. We welcome the federal government's recent commitment to work with all provinces and territories to ensure that high-quality child care is accessible to all.

The federal government should prioritize initiatives and programs that facilitate the entry of skilled immigrants and remove barriers to their labour market integration. In both regulated and non-regulated occupations, foreign qualification recognition continues to pose a significant challenge for new Canadians.

Capital

As former Finance Minister **John Manley** has noted, business confidence is the single most powerful form of economic stimulus. The federal government can boost business confidence and encourage higher levels of private sector investment by committing to a responsible and prudent post-pandemic fiscal plan that avoids unnecessary new spending and seeks to gradually ease the burden of public debt. The government must adopt a clear fiscal anchor; we favour the proposal by **David Dodge**, former deputy minister of finance and governor of the Bank of Canada, to impose a limit of 10 per cent on the share of government revenue that is devoted to debt servicing. Furthermore, as the International Monetary Fund (IMF) said in its recent mission report on Canada, any new spending should be evaluated against broader policy objectives, including the need to increase the economy's productive capacity.

1) Additional measures to spur business investment include:
2) Reducing barriers to foreign direct investment. Canada currently ranks 17th in the OECD.
3) Extending the enhanced capital cost allowance rates that were introduced in the 2018 Fall Economic Statement.

Resisting the temptation to raise corporate tax rates. If the Biden Administration moves forward with its proposal to increase the U.S. federal corporate income tax rate, Canada should take advantage of the opportunity to recover our country's previous tax advantage over the United States.

Further investing in trade-enhancing infrastructure, including by reinvesting in the National Trade Corridors Fund to improve access to foreign markets.

Working with the provinces and territories with urgency to eliminate all remaining exemptions under the Canada Free Trade Agreement, a step the IMF says would add four per cent to the country's GDP.

Kevin Lynch, former Clerk of the Privy Council, has for years called for a Canadian version of the Australian Productivity Commission, an independent agency that advises government on key policy or regulatory issues that affect Australia's economic performance. **Don Drummond**, former chief economist at Toronto-Dominion Bank and a former associate deputy minister at the Department of Finance, more recently proposed the Canadian Equitable Growth Institute, a government agency that would focus on "strengthening economic growth in an environmentally sustainable manner with the benefits more evenly distributed among the population".

In both cases, the goal is to ensure a deeper, broader and sustained focus on the importance of productivity and economic growth to national well-being. We are agnostic with regard to the specific approach but unequivocally endorse the objective. As we said in "Powering a Strong Recovery", Canada's productivity rates have lagged those of our peers for decades, resulting in lower incomes and lower household purchasing power. For the sake of future generations, we must be laser-focused on expanding our economic capacity.

Ideas

To create a more robust innovation ecosystem that contributes to growth, productivity and higher living standards, the federal government should embrace a demand-side, mission-driven approach to innovation policy, setting clear national goals to translate scientific strengths into economic performance. Specifically, we recommend that Canada create an agency similar to the U.S. Defense Advanced Research Projects Agency (DARPA). The agency should focus on high-growth sectors in which Canada has a competitive advantage – agri-food, health and biosciences, clean tech and energy, advanced manufacturing and digital services – using public-private partnerships to help scale-up and commercialize research.

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CAPITAL PRESERVATION

Financial optimism during the pandemic:

Canadians discovering true value of advice & planning – RBC poll

- **Those without an advisor more likely to worry about balancing living today, while trying to save for tomorrow**
- **Those without a plan more likely to be concerned about retirement finances**
- **Cash flow & managing debt are key focus for Canadians during pandemic**

SOME CANADIANS are finding financial peace of mind in the midst of the pandemic. Why?

They have a financial plan, with savings and investing actions in place to help achieve their goals. They've connected with an advisor. And they're feeling much more confident about their future, according to the latest *RBC Financial Independence in Retirement Poll*.

A larger group of Canadians, is not benefiting from the confidence that having a plan supported by advice can bring, however.

Over half (54%) of Canadians surveyed do not have a financial plan and almost three-quarters (71%) have not connected with a financial advisor in the past year.

Some hard truths about this group:

- 67% feel they are behind in saving for their retirement
- 45% don't have a TFSA or an RRSP, which could help them build their investment savings
- 43% are between the ages of 35 - 54, when conflicting financial demands are often at their peak

"This is a group that could benefit from seeking out financial advice and engaging with an advisor. When people have a financial plan in place, they are more likely to contribute regularly to their savings – including building their retirement fund through investments within their TFSAs and their RRSPs," says **Michael Walker**, VP & Head, Distribution & RBC Financial Planning, RBC.

"They also are more likely to have a stronger sense of how to balance day-to-day expenses while building a rainy day fund and saving for the longer term."

Pandemic-related poll findings

The poll also found that cash flow ranked highest (38%) in what Canadians reported they are paying more attention to now, with one-quarter (26%) reporting that their cash flow has worsened since the onset of the pandemic, leaving them with less money left over after they pay necessary expenses.

Of those experiencing cash flow impact, the majority (74%) say this is giving them high anxiety about their financial future, compared to the early days of the pandemic. ❍

Canada Business Council Budget Ideas (continued)

Continued from page five

In parallel with this effort, the federal government should take further steps to help Canadian researchers and entrepreneurs understand, protect, and capture value from their intellectual property (IP). As the **Industry Strategy Council** noted in its recent report, Canada currently ranks 17th on the World Intellectual Property Organization's Global Innovation Index.

For Canada to reap the benefits of its collective investments in innovation, we must become better at transforming knowledge and intellectual capital into commercial products and services. We need to adopt a **Germany/Fraunhofer** approach to R&D commercialization and IP protection.

Meeting the climate challenge

The federal government has tabled a comprehensive plan to meet or exceed its 2030 GHG-reduction target and has also committed to reach net-zero emissions by 2050. These are substantial commitments requiring a clear signal from the federal government that it is willing to partner with the private sector in facilitating the investments necessary to reduce emissions, enhance the competitiveness of Canada's natural resource and manufacturing base, and create opportunities for Canadian clean technology innovators to grow their market share, both domestically and abroad. Early, strategic, and substantial investment is required to enable GHG-reduction technologies to move down the cost curve and to facilitate broad deployment at a scale necessary to meet the government's 2030 and 2050 targets.

To enhance the private sector's ability to invest in existing and emerging GHG-reduction opportunities – including carbon capture, utilization and sequestration (CCUS), hydrogen, renewable natural gas and other clean technologies - the Government of Canada should develop a policy framework that:

Provides clarity and carbon policy and regulatory predictability to businesses that make long-term investments in the development and implementation of emissions-reduction technology;

Creates stable revenue streams for companies and includes a broad suite of investment incentives benchmarked against internationally recognized best practices, such as production tax credits for CCUS (a potential model is the 45Q provisions in the United States), low-carbon fuel production and renewable power generation; accelerated capital cost allowances; access to a suite of verified carbon offsets; & flow-throw shares;

Clarifies the role of the federal government, both in strategic investments in R&D related to potential breakthrough technologies and in helping to de-risk private sector investment in emerging technologies, by providing significant and long-term funding support, including through the **Canada Infrastructure Bank**;

Brings coherence and focus to federal funding that is designed to stimulate cleantech research and innovation. This includes funding from **Sustainable Development Technology Canada**, **Business Development Canada** and **Export Development Canada**;

Supports Indigenous peoples, communities and organizations that want to participate in the energy transition, through ownership and equity, jobs, procurements, skills and training, and community investment.

Streamlines the approval and permitting processes necessary to support major GHG emissions-reduction projects.

In closing, Minister, let me again thank you and your colleagues for your efforts to guide Canada through and beyond the current health emergency. **You recently stated that the 2021 budget will be among the most significant of our lifetimes**. For the economic recovery from COVID-19 to be durable and resilient, the budget must establish a responsible and credible fiscal framework. It must foster a partnership between government and the private sector to boost investment and job creation. It must enhance productivity growth and strengthen the ability of Canadians and Canadian companies to compete and win in the global economy.

The members of the Business Council of Canada stand ready to work with you and all parliamentarians in forging a better, stronger, more productive economy that benefits all Canadians.

Sincerely,

Goldy Hyder
President & CEO
Business Council of Canada ❍

Small Businesses - Coping in Pandemic

continued from page one

restaurants and health services businesses) are the biggest adopters—not surprising as they have also been the hardest hit by lockdowns.

Fewer Small Businesses

One in six (181,000) small businesses is at risk of permanently closing. Adding in the 58,000 businesses that became inactive in 2020, Canada could lose a full 20% of its businesses by the end of the pandemic.

"Many small businesses are no longer in business or are unsure of their future. CFIB itself has 15,000 fewer members as Canada enters a second year of the pandemic," noted **Dan Kelly**, CFIB's president. "While CFIB is proud to provide any small business owner with free support until the pandemic is over, provinces need to ensure they find a way to end lockdowns for good across the country."

"Despite being told lockdowns were a short-term measure to 'flatten the curve,' many small businesses—including those in Canada's largest city—remain locked down one year after COVID-19 began. It is well past time to shift gears as small firms have done more than their fair share in the fight against COVID-19. Until vaccines are widespread, lockdowns should be replaced with rapid testing and contact tracing to allow all small firms to safely serve Canadians once again," Kelly concluded. ❍

Released from the Federation of Independent Business (CFIB)
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About CFIB

The Canadian Federation of Independent Business (CFIB) is Canada's largest association of small and medium-sized businesses with 95,000 members across every industry and region. CFIB is dedicated to increasing business owners' chances of success by driving policy change at all levels of government, providing expert advice and tools, and negotiating exclusive savings. Learn more at www.cfib.ca.

Business Briefs

Large Canadian Corps Still Profitable During Pandemic Year

Figures below represent 2020 profits & as % of Annual Revenues

Royal Bank of Canada	$11,104 M	24.20%
Toronto-Dominion Bank	$11,895 M	27.20%
The Bank of Nova Scotia	$6,778 M	21.80%
Canadian National Railway	$3,562 M	25.70%
Suncor Energy	- $4,319 M	-23.5%
Enbridge	$3,363 M	8.74%
Canadian Pacific Railway	$2,444 M	31.70%
Bank of Montreal	$5,097 M	21.70%
C.I.B.C.	$3,790 M	20.23%
TC Energy	$4,616 M	34.20%
Sun Life Financial	$2,781 M	5.54%
Nutrien	$459 M	2.19%
Intact Financial	$1,082 M	8.79%

CAPITAL PARTNER BUSINESSES

Sample Annuity Rates

Rates are as of **March 28, 2021** & based on a $100,000 premium. Payments are **Guaranteed for LIFE** & include a 10- year guaranteed payment stream (i.e. balance paid to beneficiaries). Rates change daily. Quotes available upon request. E & O.E.

# of Lives, Age & Gender	Monthly Income	Annual Payment as % of Premium
60 Yr Male	$ 431.63	5.20%
60 Yr Female	$ 408.22	4.90%
60 Yr Joint	$ 375.26	4.50%
65 Yr Male	$ 488.60	5.86%
65 Yr Female	$ 455.23	5.46%
65 Yr Joint	$ 414.81	4.98%
70 Yr Male	$ 563.00	6.76%
70 Yr Female	$ 521.69	6.26%
70 Yr Joint	$ 464.97	5.58%
75 Yr Male	$ 619.37	7.43%
75 Yr Female	$ 571.75	6.86%
75 Yr Joint	$ 526.22	6.31%