



the gandalf group

The 47th Quarterly C-Suite Survey Trade, Currency & Monetary Policy: Uncertainty for North America's Economy

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- ❑ Methodology: telephone interviews with 150 C-level executives from ROB1000-listed companies between May 16 & June 12, 2017.
- ❑ This quarter's survey asked the C-Suite about:
 - Trade Policy, NAFTA, Softwood
 - The Trump Administration in its 2nd quarter
 - Monetary Policy, Interest Rates, the Canadian Dollar



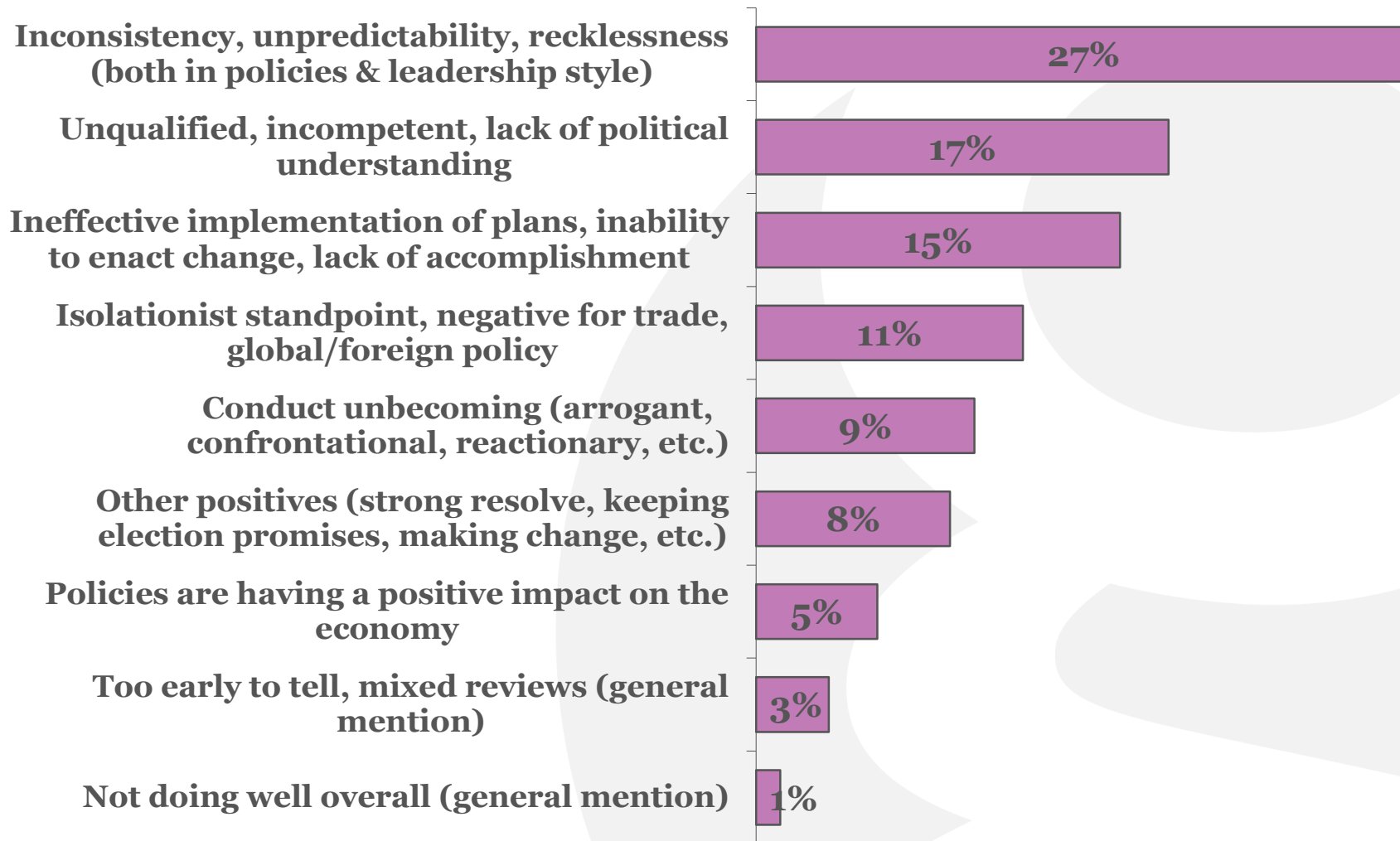
- ❑ Opinion about President Trump's performance has worsened over the past quarter. Many now expect his Administration will make major changes to NAFTA – 3 in 4 think this is at least somewhat likely.
- ❑ Most want Canada to resolve disputes such as softwood lumber through negotiation or trade tribunals. Fundamentally, they want to improve the bilateral trading relationship.
- ❑ They are less inclined to take steps that might open a trade war. They are open to negotiations that might see Canada's agricultural marketing boards dismantled if it would either expand access or reduce irritants in long standing trade irritants.
- ❑ While recent economic data may point to a stronger economy and a potential interest rate hike, the C-Suite is less bullish. Their view of the US economy is has softened somewhat this quarter. They are far more concerned about politics impacting trade than they are about Canadian lending or mortgage issues.
- ❑ Perhaps as a result of concerns they have about trade and the economy, few see a strong case for interest rate increases and many are comfortable with a lower Canadian currency, trading at 70 to 75 cents US.



- ❑ Most in the C-Suite now give President Trump a poor performance rating. Much of their criticism relates to his effectiveness and leadership or focus.
- ❑ Yet there is also concern about Administration policy. Last quarter, 48% of the C-Suite felt his Administration had done well on economic policy. This quarter, half as many rated his Administration as doing well in this area.
- ❑ Most believe Canada stands to gain at least somewhat in terms of its ability to attract skilled talent given the politics surrounding immigration in the US.
- ❑ There is growing concern among Canadian companies about the implications of politics on trade.
 - Many now expect President Trump will make major changes to NAFTA – 3 in 4 think this is at least somewhat likely.
 - Concern about trade is substantially greater than concern about Canadian housing or mortgage markets. Last quarter 26% were very worried about the implications of politics on trade – now 42% said they were very worried about this.



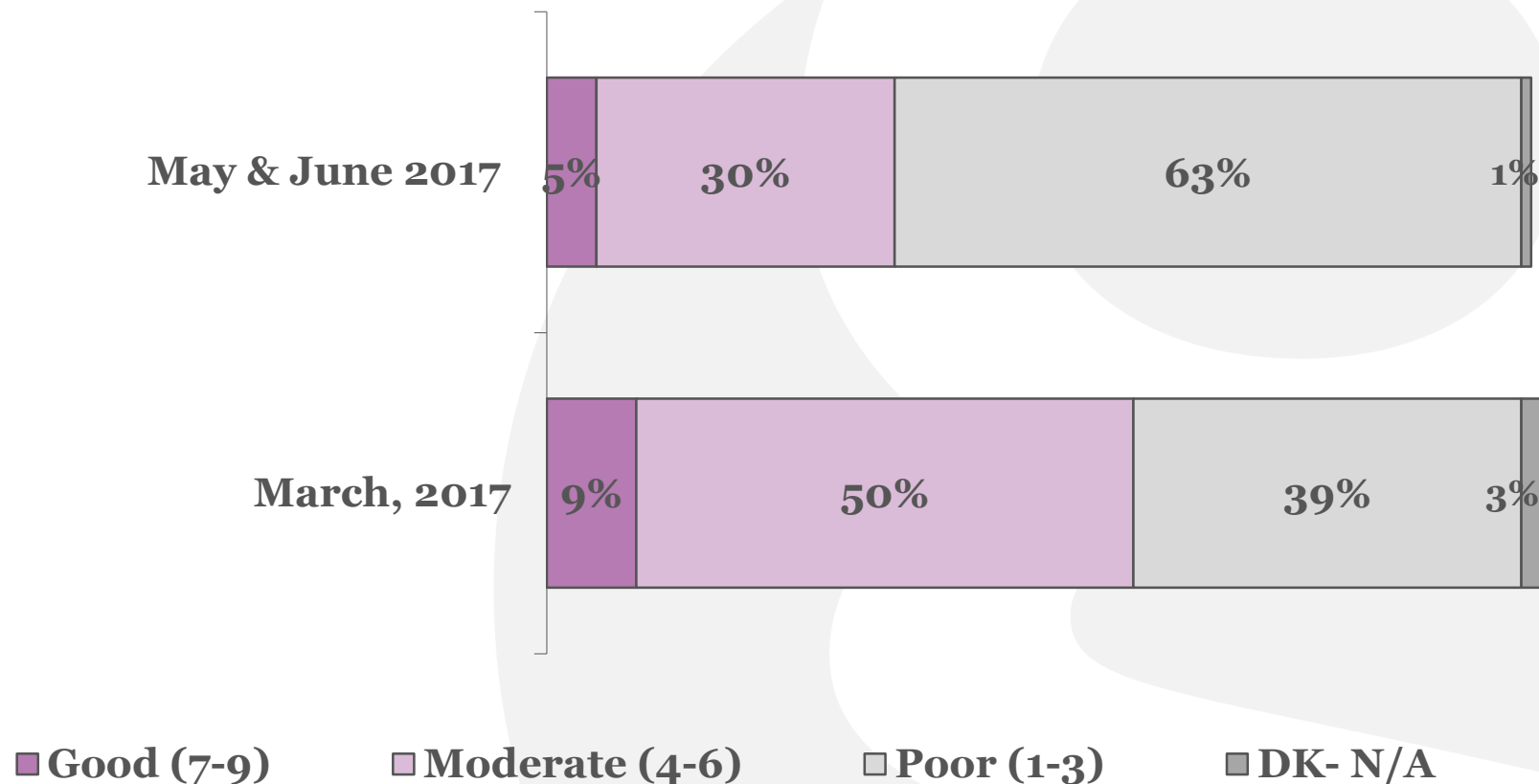
What is the primary reason you gave him that rating? (Open ended)





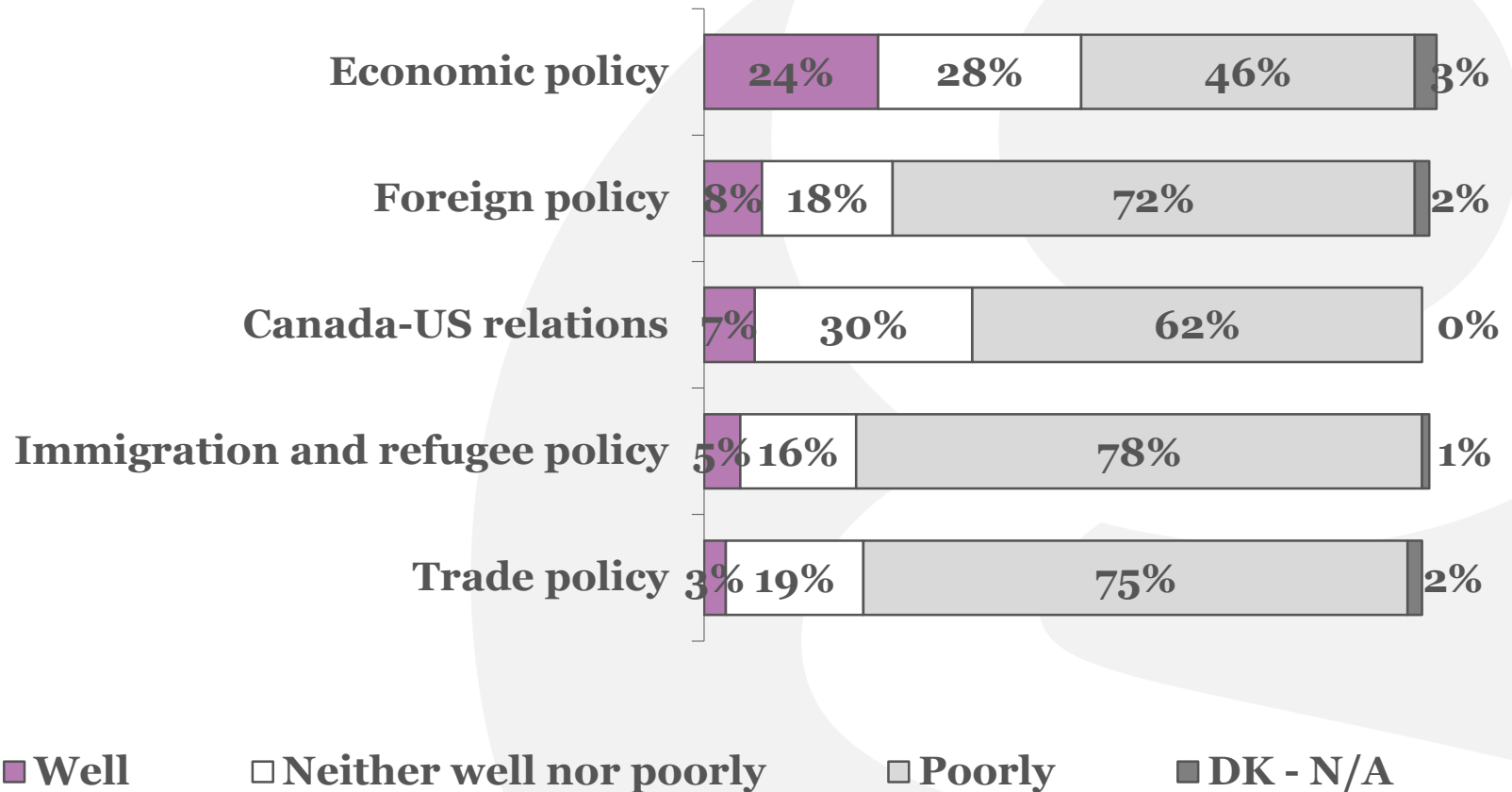
Assessing Trump's Performance

On a scale of one to nine where one is very poor and nine is excellent, how would you rate the performance of President Donald Trump since the start of 2017?



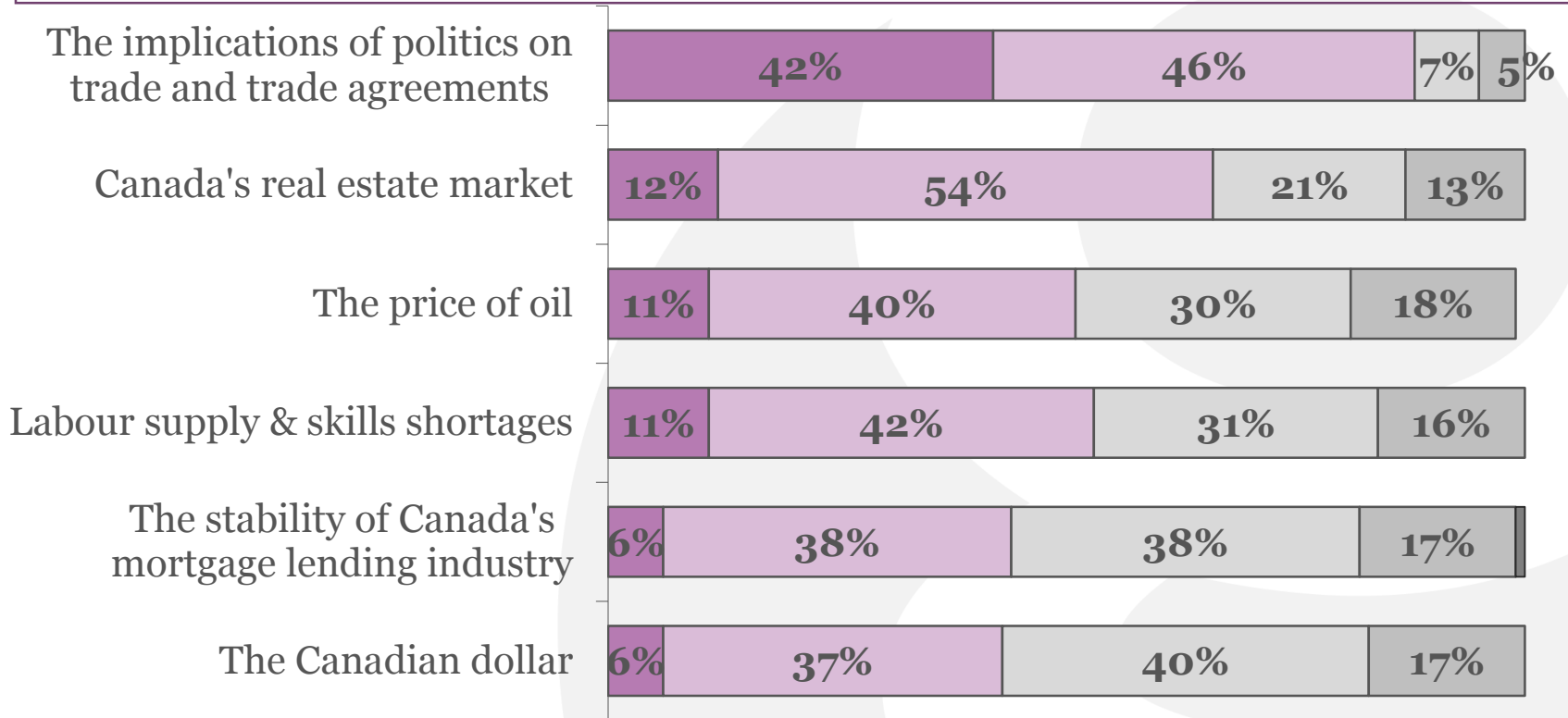


Since the inauguration of President Trump on January 20th, would you say that he and his administration are performing well or poorly, when it comes to _____?





Now I'd like to ask how worried you are about various economic and business issues. Would you say you are very worried, somewhat worried, not very worried or not at all worried about ...?



■ Very worried ■ Somewhat worried ■ Not very worried
■ Not at all worried ■ DK/NR

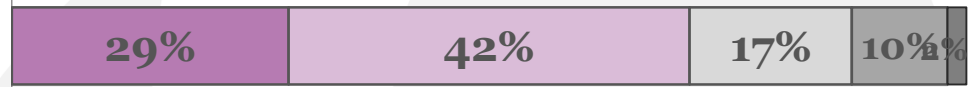


Would you say it's very likely, somewhat likely, not very likely or not at all likely that President Trump's administration will...

...make only tweaks to NAFTA as it impacts Canada ?

...make major changes to NAFTA as it relates to both Canada & Mexico?

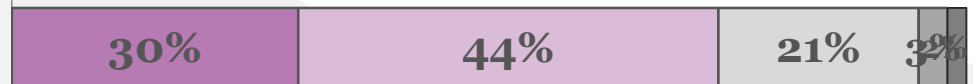
May 2017 - Make only tweaks to NAFTA as it impacts Canada



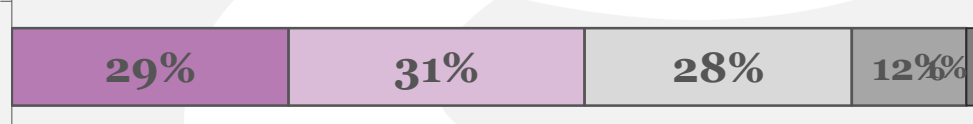
March 2017 - Make only tweaks to NAFTA as it impacts Canada



May 2017 - Make major changes to NAFTA as it relates to both Canada and Mexico



March 2017 - Make major changes to NAFTA as it relates to both Canada and Mexico



■ Very likely

■ Somewhat likely

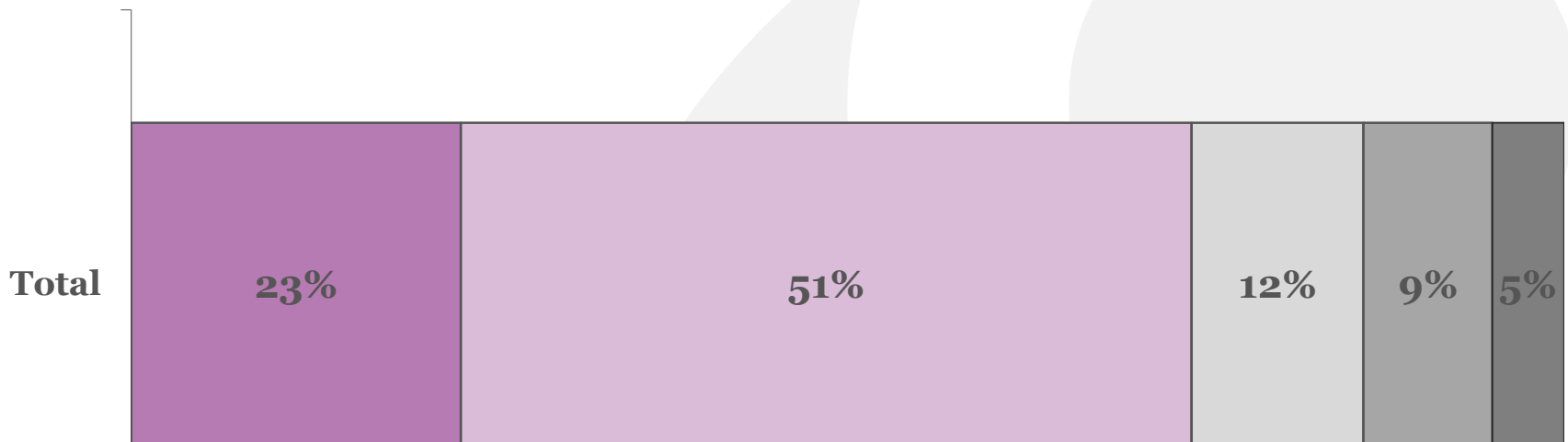
■ Not very likely

■ Not at all likely

■ DK - N/A



Would you agree or disagree that Canada stands to improve its ability to attract skilled talent away from the United States because of events relating to immigration and domestic politics in the US?



■ Strongly agree

■ Neither agree nor disagree

■ Strongly disagree

■ Somewhat agree

■ Somewhat disagree

■ DK - N/A



- ❑ There is clear majority agreement that the government should protect Canada's softwood lumber industry. The preference is for defending the industry before trade panels or in negotiations with the US. There is less consensus around retaliation.
 - Just over half agreed Canada should retaliate against US duties on lumber by imposing a tax on US thermal coal. However, many oppose this – 4 in 10.
 - In a forced choice, the vast majority preferred that Canada respond by means of negotiation and trade tribunals rather than signal an intention to retaliate against US tariffs.

- ❑ A clear majority supports the idea of offering to phase out Canada's supply managed dairy system as a concession if it would help gain better market access for Canadian exporters to the US.

- ❑ While some want to preserve the access Canada has or in fact increase access for Canadian goods and services to the US market, many in the C-Suite believe it's time to tackle existing trade irritants, including addressing US complaints about marketing boards or improving dispute resolution mechanisms.

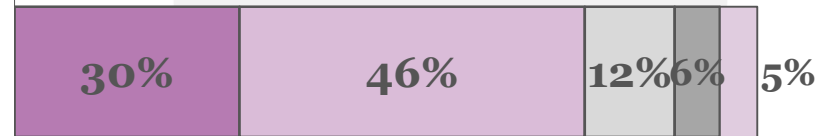


I'm going to read some approaches to Canada-US trade that the government of Canada could implement and I'd like to know if you support or oppose each.

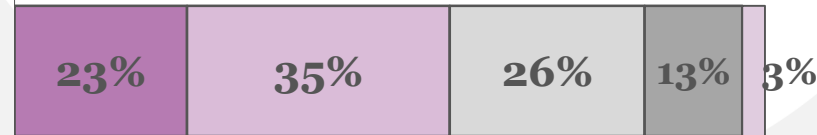
Protecting Canadian softwood lumber interests by fighting recent duties imposed by the US and defending the industry before trade dispute panels



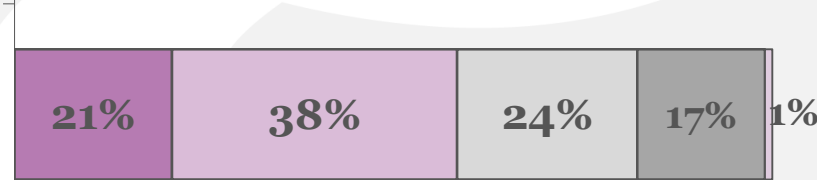
Seeking better market access from the US for Canadian goods by offering to phase out Canada's protected dairy supply management system



Retaliating against US duties imposed on Canadian softwood lumber by imposing taxes or limits on exports of thermal coal from Canada to the US



Implementing a "Buy-Canadian" government procurement policy in the event that the United States implements "Buy American" provisions that prevent procurement contracts going to Canadian firms



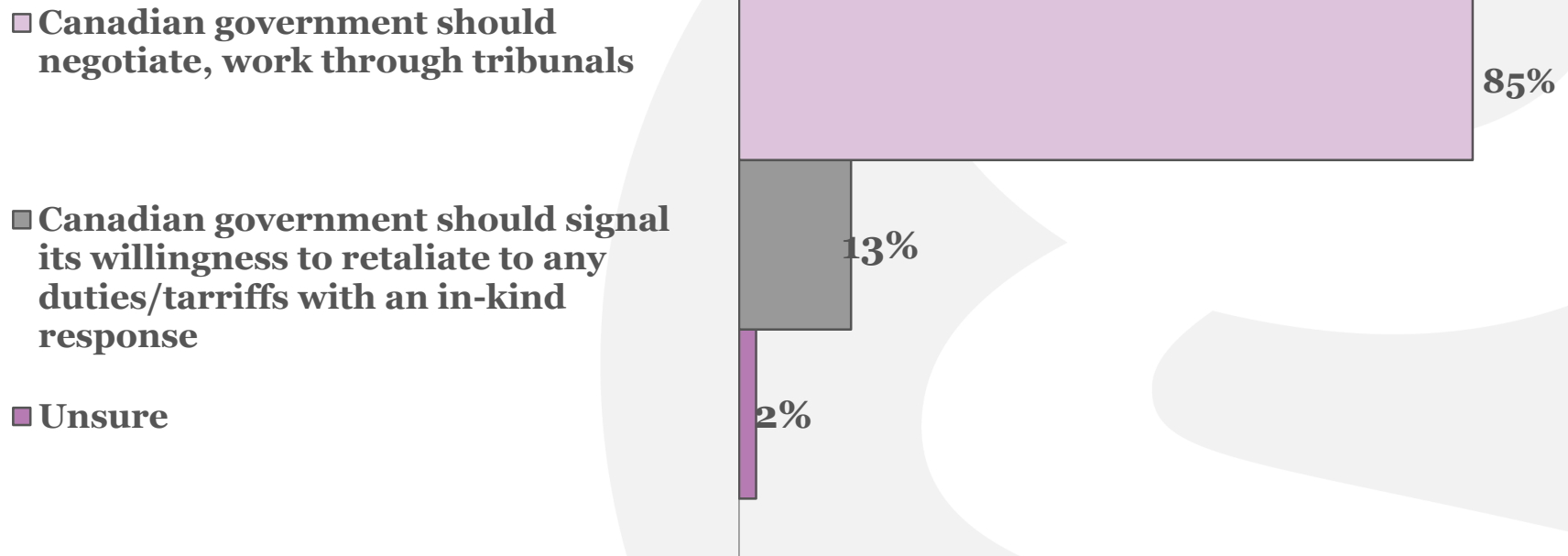
- Strongly support
- Somewhat support
- Somewhat oppose
- Strongly oppose
- DK- N/A



Some/other people say the Canadian government should diplomatically negotiate with the US and work through dispute panels to get it to reverse course on tariffs and avoid an escalation of tariffs on both sides.

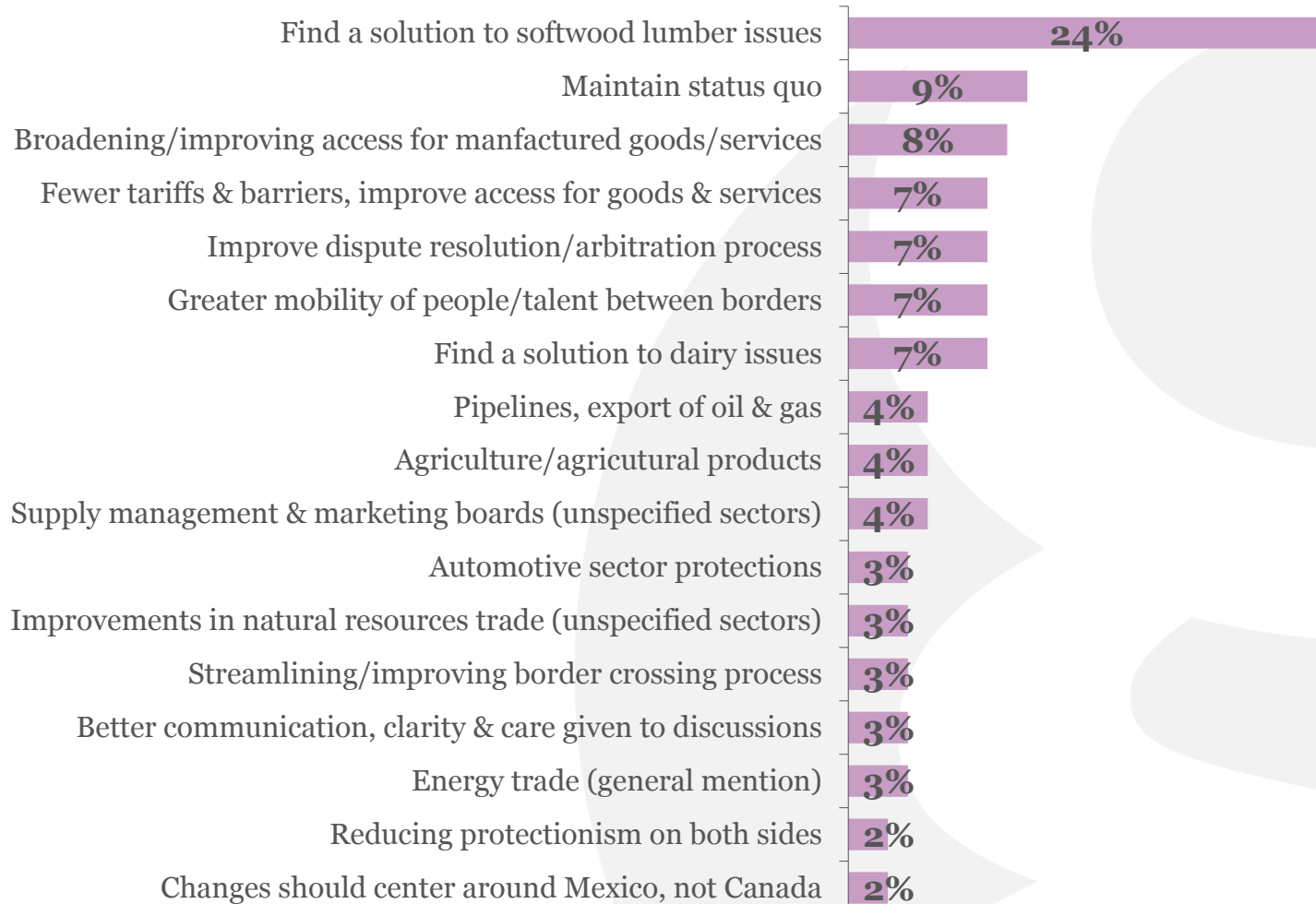
Other/some people say the Canadian government should demonstrate its willingness to retaliate to any duties and tariffs the US imposes with an in-kind response against US goods.

Which of those is closer to your own view?





Assuming that NAFTA and Canada-US trade could be improved in the interest of either country, what aspects of NAFTA and the Canada-US trading relationship would you most want to see adjusted or improved?



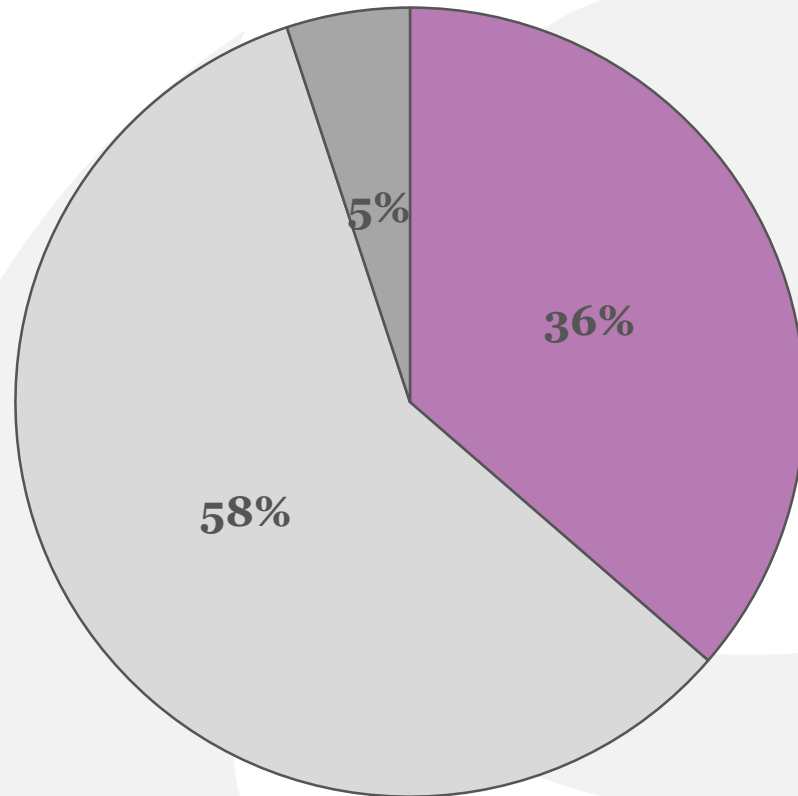


- ❑ Should the US withdraw from NAFTA, there is a preference for Canada to enter negotiations towards a bilateral deal with the US rather than a trilateral deal with Mexico.
- ❑ Most would support an effort by the Government of Canada to pursue free trade with China, or to join other signatory countries to the Trans Pacific Partnership and implement a similar trade agreement even without the involvement of the US. Nearly half believes this should be a top priority for Canada's government.



If the US administration revoked NAFTA, would you prefer that Canada joined negotiations towards a new:

- **TRILATERAL** trade deal with the US and Mexico
- **BILATERAL** trade deal negotiated with the US
- **DK - N/A**

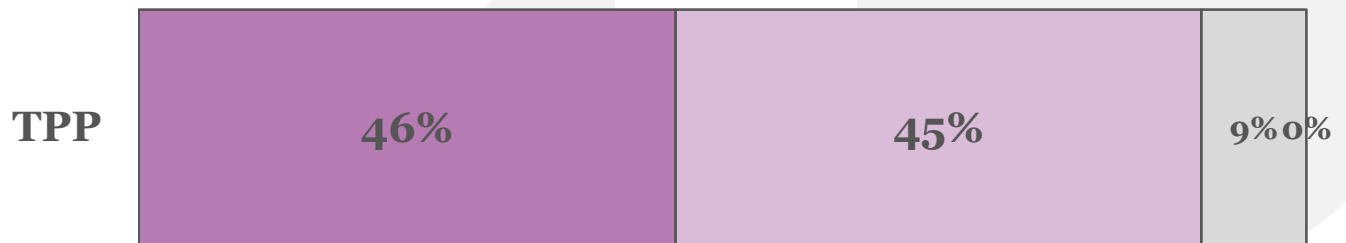




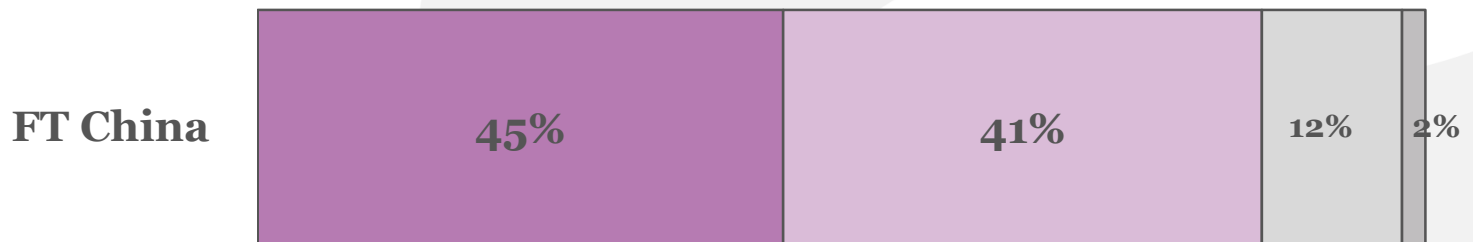
Half Believe TPP & Free Trade with China Should be High Priorities

“Last year negotiations were completed on the Trans Pacific Partnership trade agreement or TPP between Canada, the US, Mexico, Japan, Australia and 7 others. This year President Trump withdrew the US as a signatory to the TPP.

How much of a priority should it be for the government of Canada to work with the other 10 TPP signatories to negotiate and implement a similar trade agreement between those nations without the involvement of the US?” (Scale of 1 to 10, 1 = not at all a priority & 10 = highest priority.)



On a similar scale, how much of a priority should it be for the government of Canada to negotiate and implement a free trade agreement with China? Please tell me on a scale of 1 to 10, with 1 being not at all a priority and 10 being the highest priority.



- Very high priority (8-10)
- Not a priority (1-3)

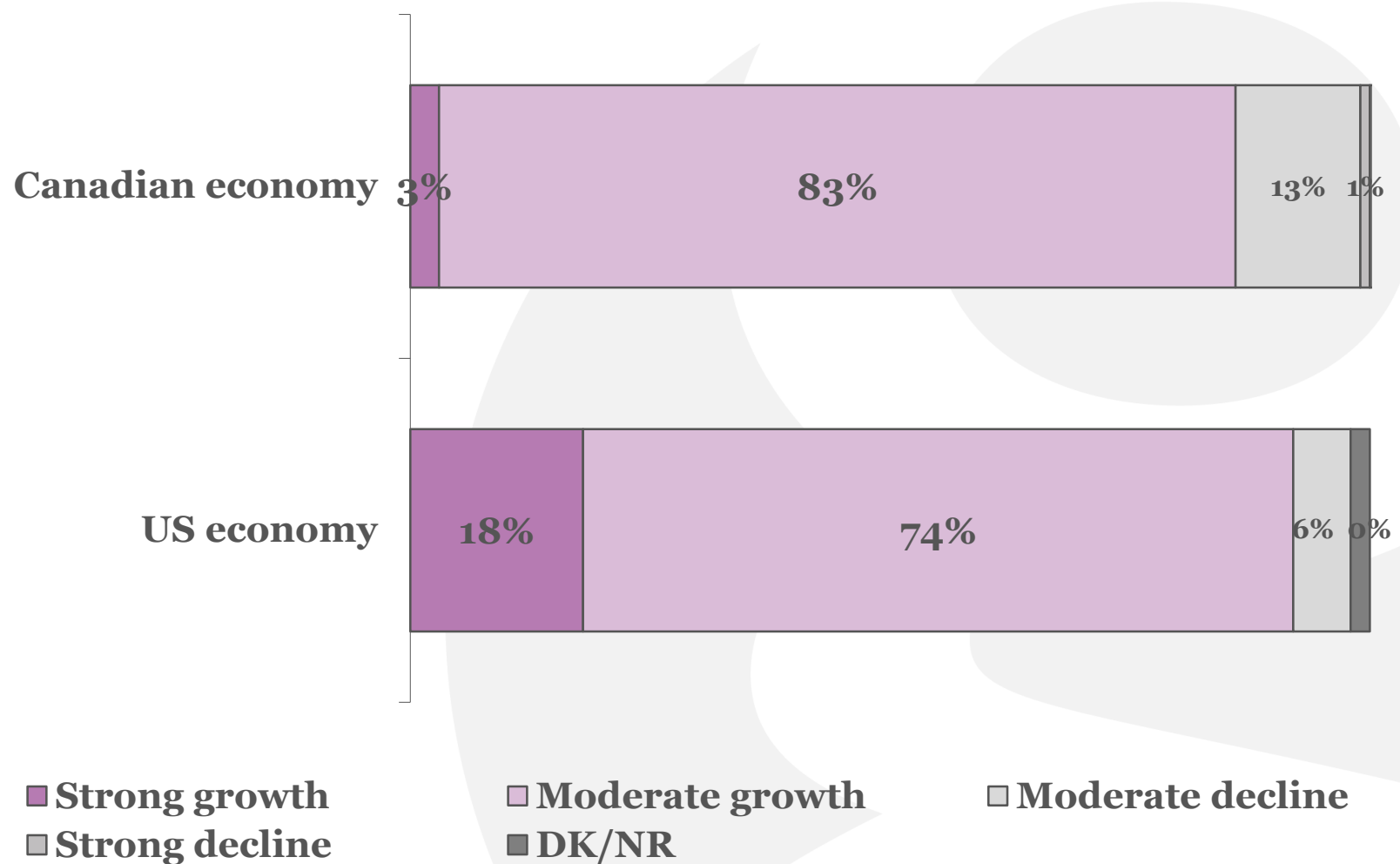
- Moderate priority (4-7)
- DK/NR



- ❑ Opinion about Trump and concern about trade agreements may explain a leveling off in expectations for the economy this quarter, following two successive improvements in the C-Suite's forecasts.
- ❑ Despite positive jobs & GDP reports from Statistics Canada recently, the outlook is cautious – few appear to have improved their forecasts.
 - The outlook for the US economy has actually softened since last quarter when roughly 4 in 10 expected the US to post strong economic growth. Now, only 2 in 10 expect strong economic growth.
 - The outlook for Canada's economy is stable, with no significant shift since last quarter following incremental improvement over the course of 2016. The vast majority expect modest growth.
- ❑ The C-Suite's outlook for businesses is more positive but unchanged over the last three quarters but still up significantly from 18 months ago.
 - About a third expect strong growth, most expect moderate growth. Many cite concern about geopolitics or trade disputes and to a lesser extent global markets as a key business concern.

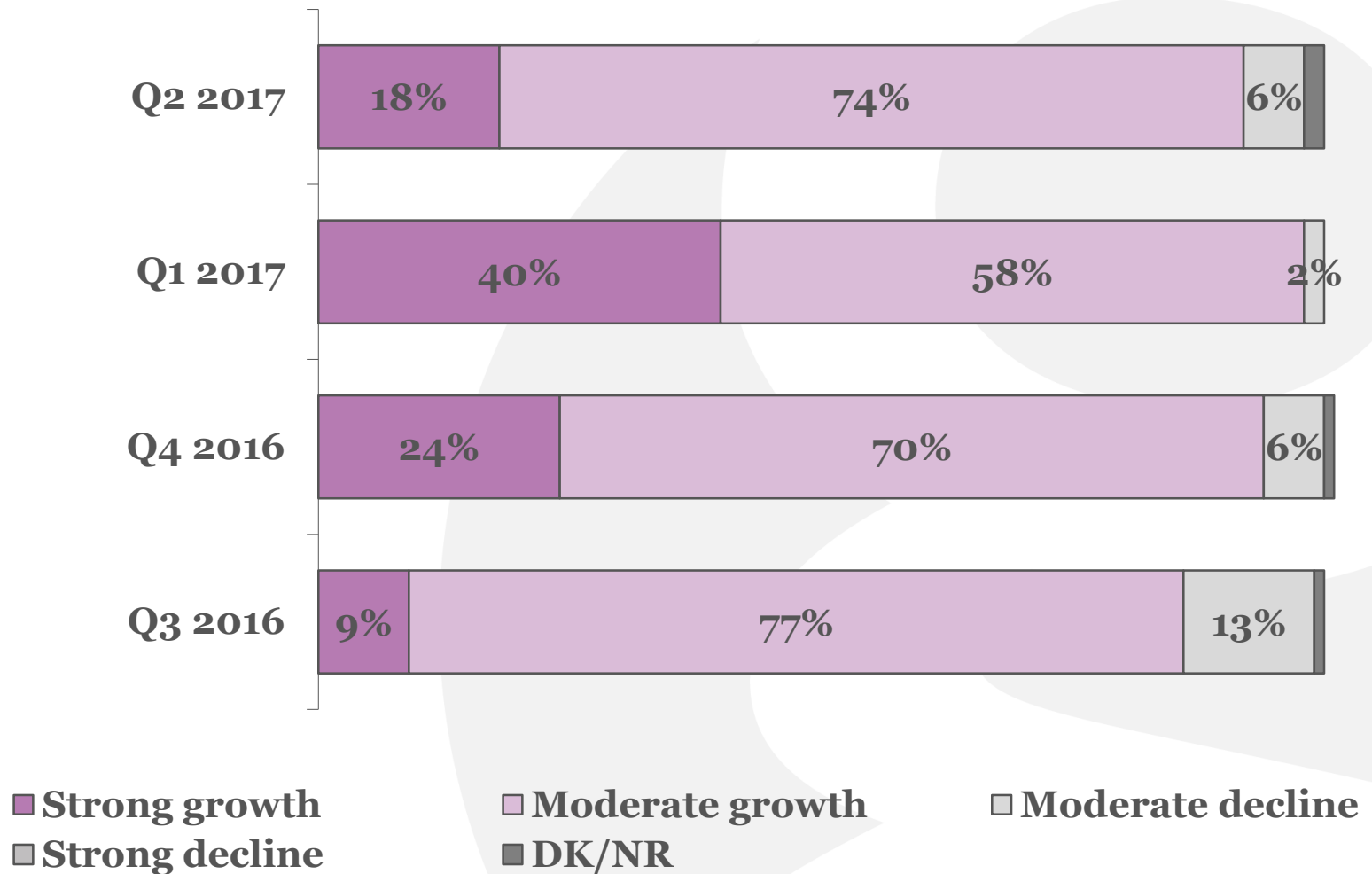


What are your expectations for the U.S. /Canadian economy over the next 12 months?



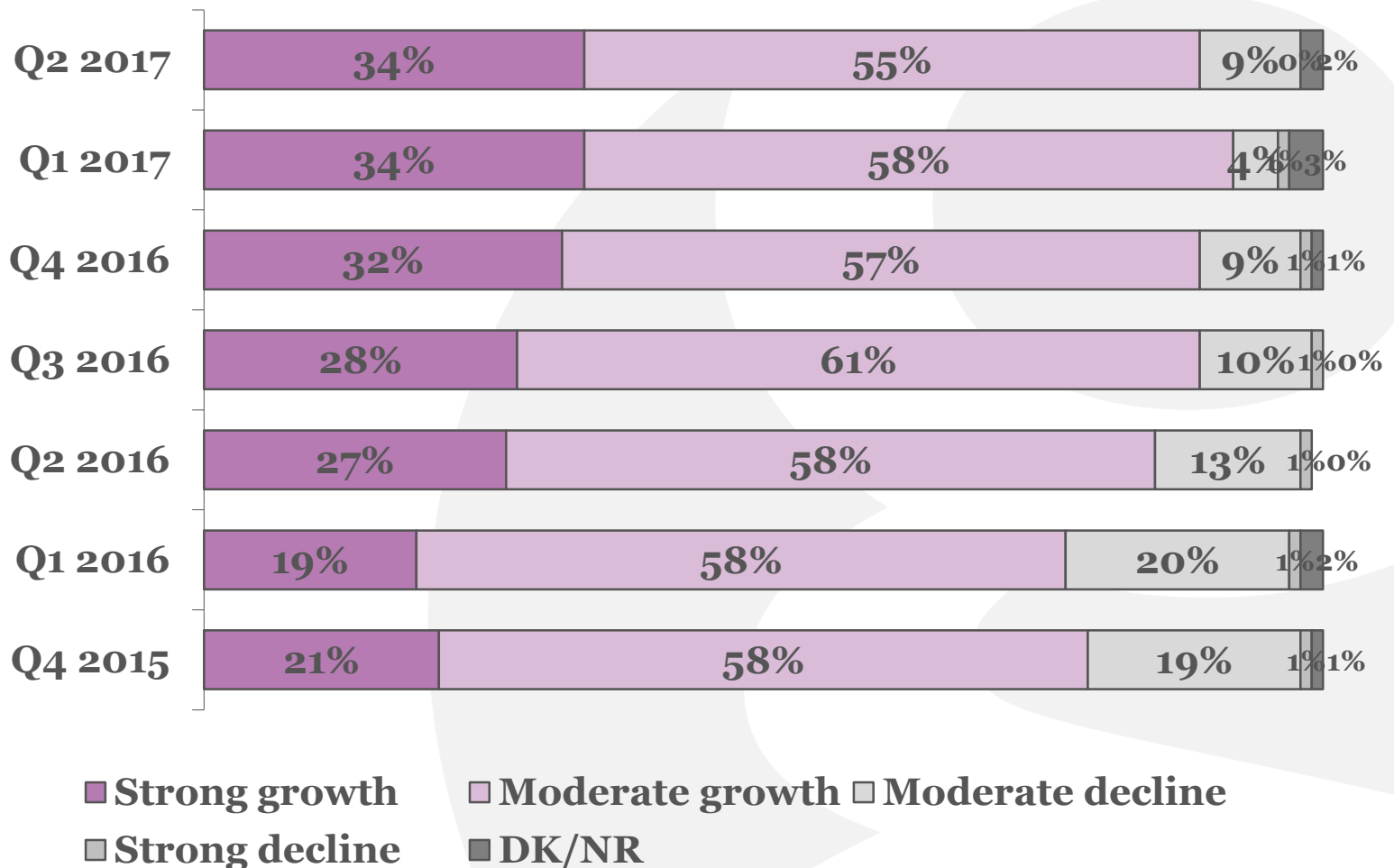


What are your expectations for the U.S. economy over the next 12 months?



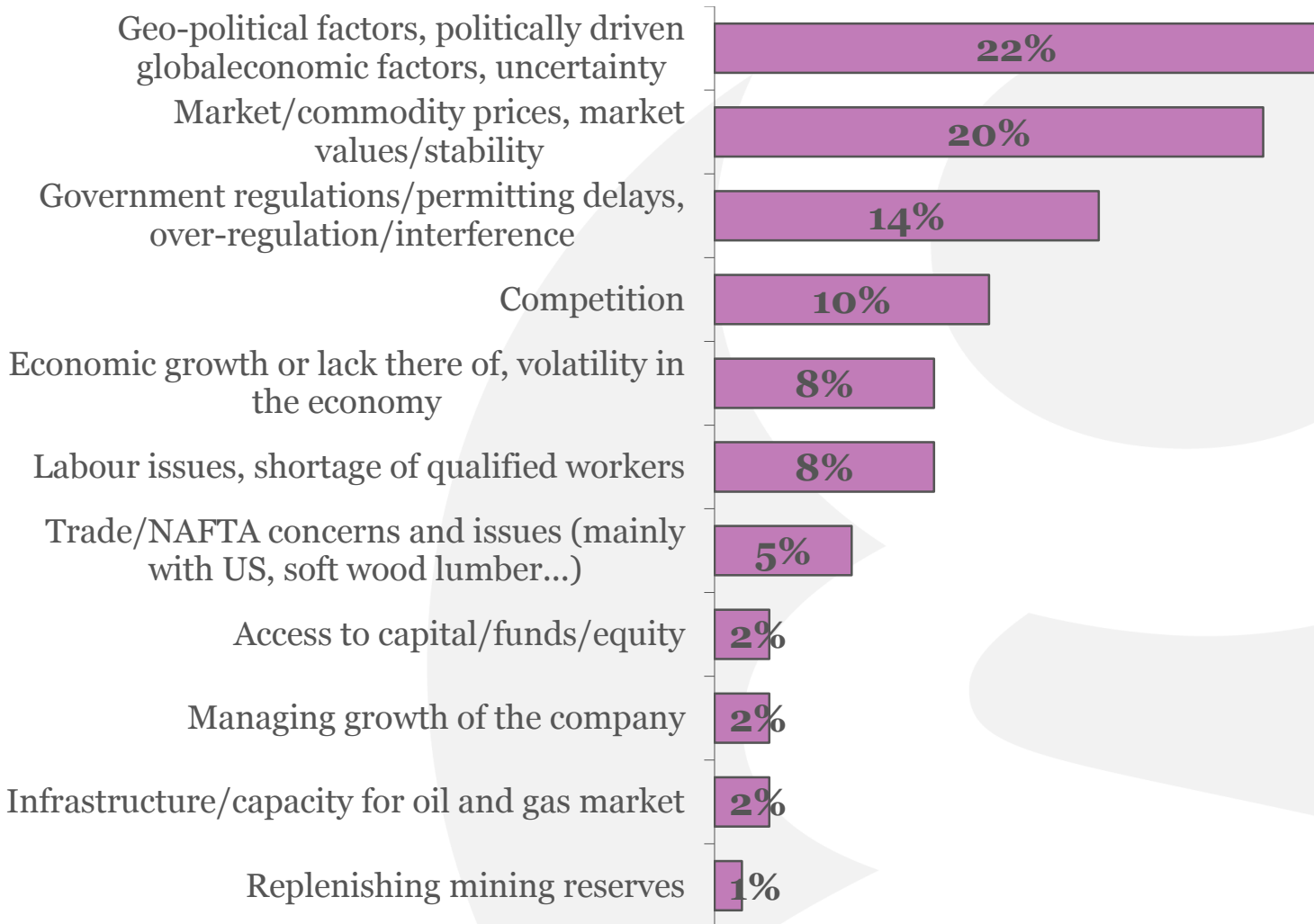


What are your expectations for your company over the next 12 months?





And what would you say is the biggest challenge facing your business right now?



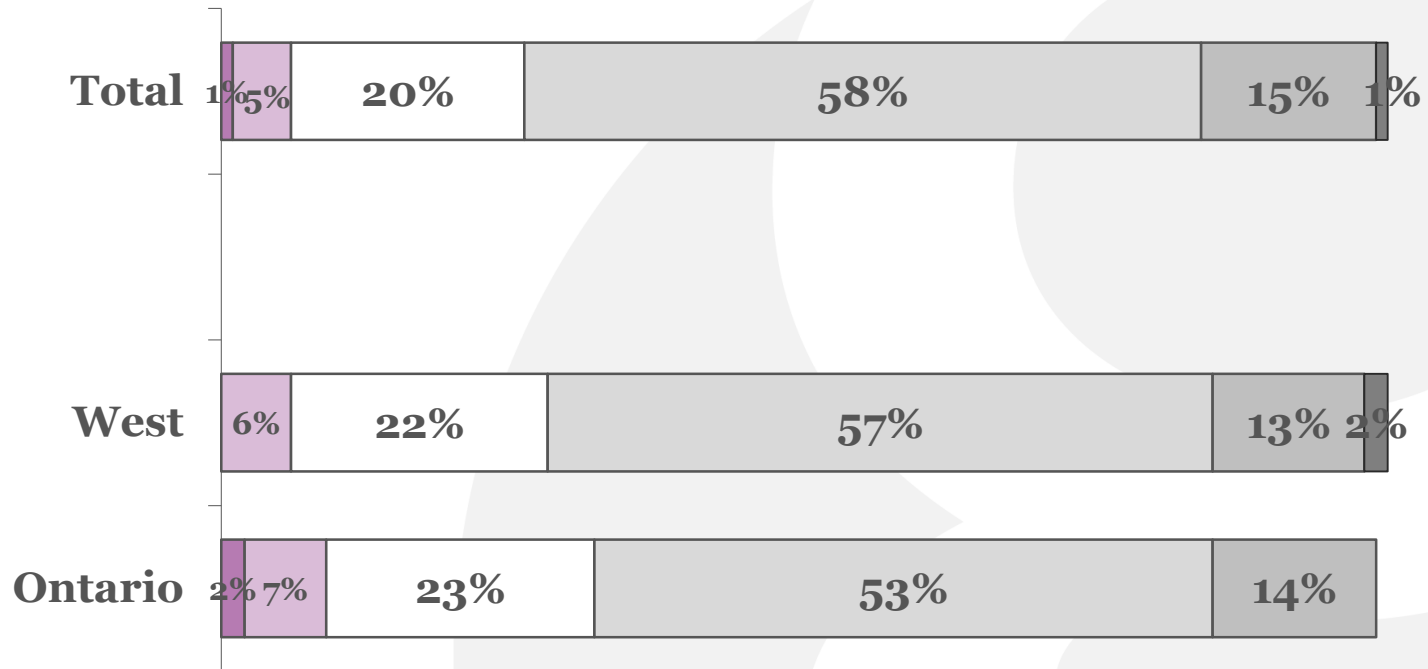


- ❑ There is a fair degree of comfort with Canadian monetary policy.
- ❑ Most said their businesses are planning on the Canadian dollar remaining at a valuation of 70 to 75¢ US over the near- to medium-term.
 - Fewer (1 in 5) expect the dollar will rise to above 75¢ US.
 - Almost none are planning on the dollar going below 70¢ US.
- ❑ Yet few would be concerned if the dollar did dip to 70¢ US this year.
 - Most said the impact on their companies would be positive or neutral.
 - Just over half said the impact would be somewhat positive for Canada's economy as a whole and 7 in 10 said it would be positive for Canadian exports. Few see any downside for Canada's trade prospects should the dollar drop further to 70¢ US (despite the US Administration's expressed concerns regarding trade balances & deficits).
- ❑ The C-Suite would be more concerned about a rise in interest rates and the potentially negative impact that would have on access to capital and financing.
 - Most said a rate increase by the Bank of Canada would have at least a somewhat negative impact on the economy.
 - About 1 in 3 said it would have at least a somewhat negative impact on their companies.



A Rate Increase & the Economy

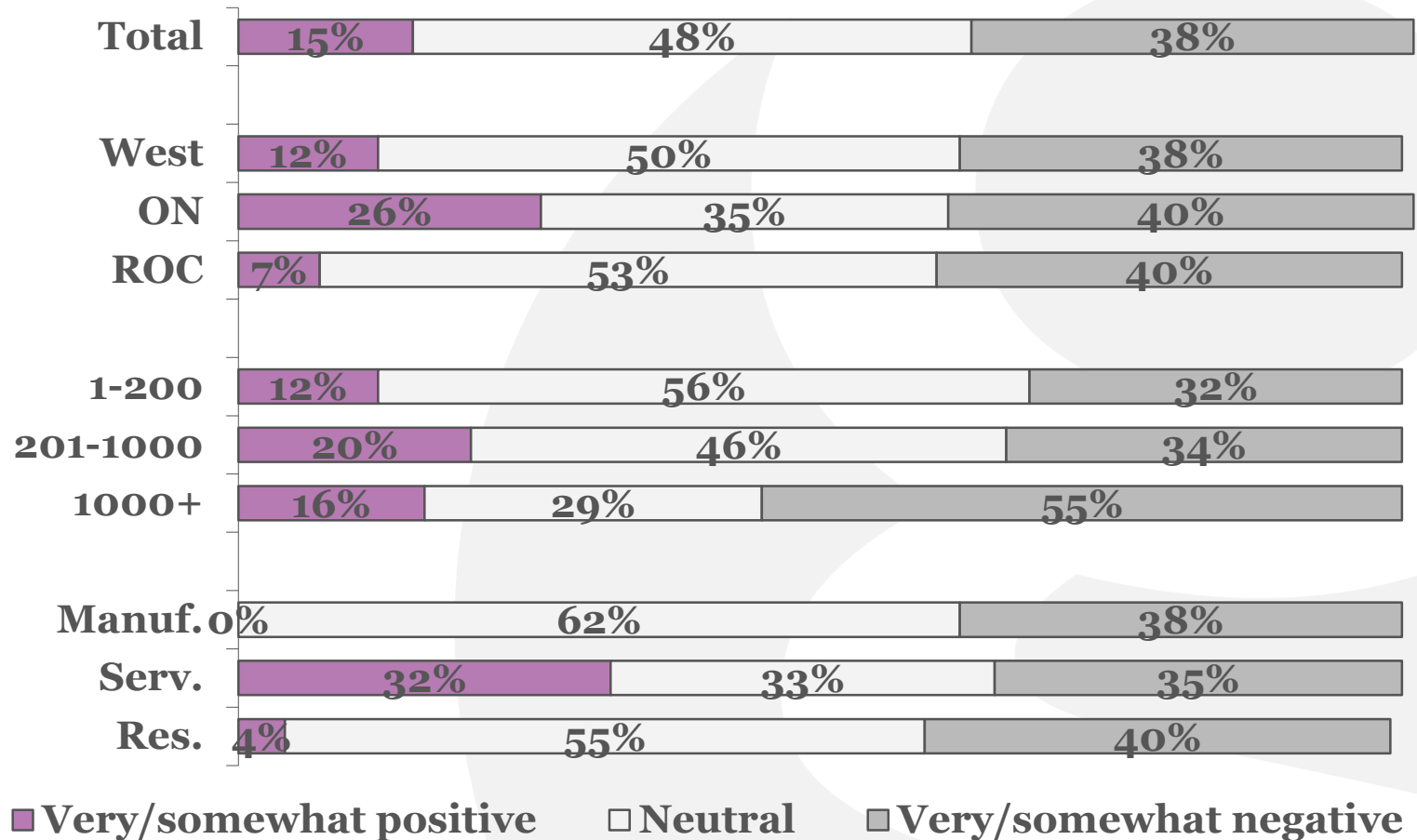
If the Bank of Canada raised interest rates would the net impact on THE ECONOMY be positive, negative, or neutral?



- Very Positive
- Somewhat Positive
- No change
- Somewhat negative
- Very negative
- DN/NR



If the Bank of Canada raised interest rates would the net impact on YOUR COMPANY be positive, negative, or neutral? Is that very or somewhat ___?

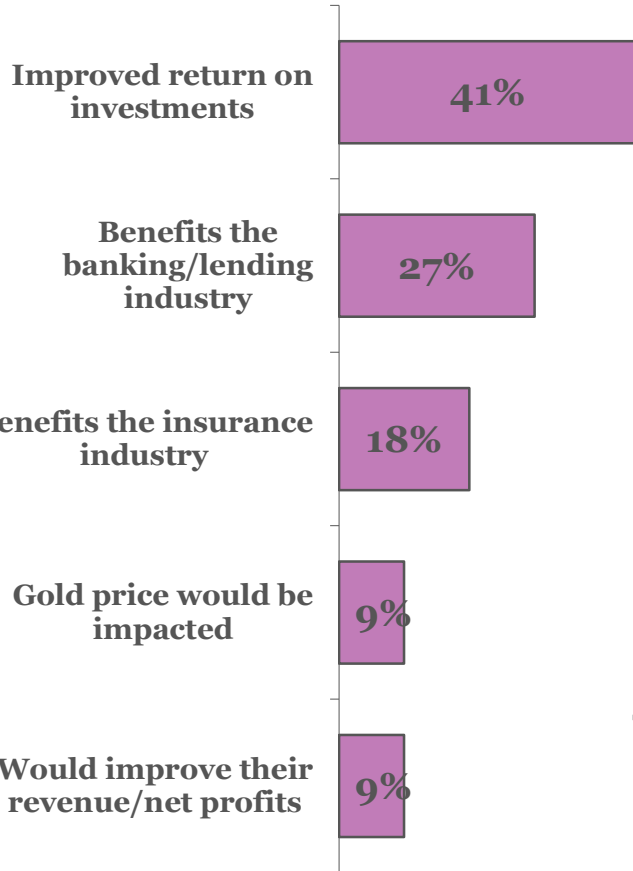




And why do you say (a rate increase) would have a (positive/ negative/ neutral) impact?

Positive Impacts

Negative Impacts



Limits access/rates for the company to capital/financing, impact on repayment of debts, borrowing is more expensive for the company

Cost of borrowing increased (general mention)

Will negate the companies opportunities for growth/expansion, will not be able to grow their business

More cost to operations, increase cost of doing business

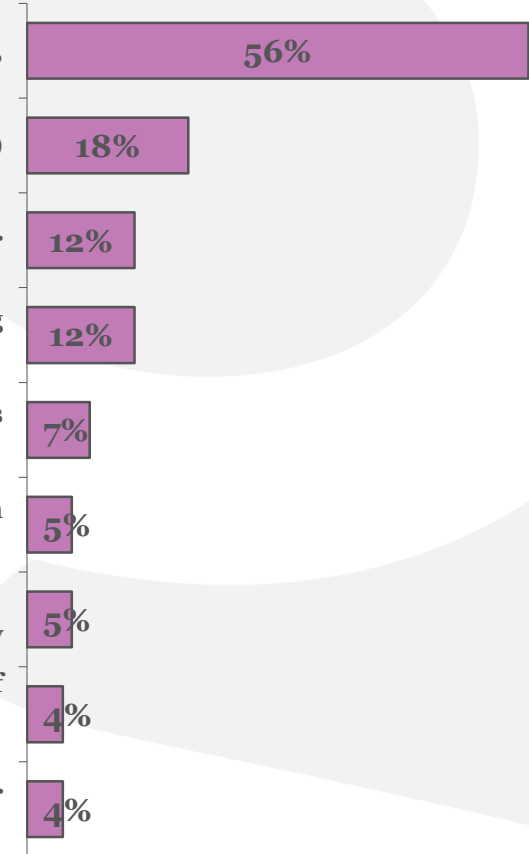
Depletes money they can spend on goods, hurts consumer spending

Negative effects on economy/market/inflation rates

Less competitive with their product, less competitive for demand on their commodity

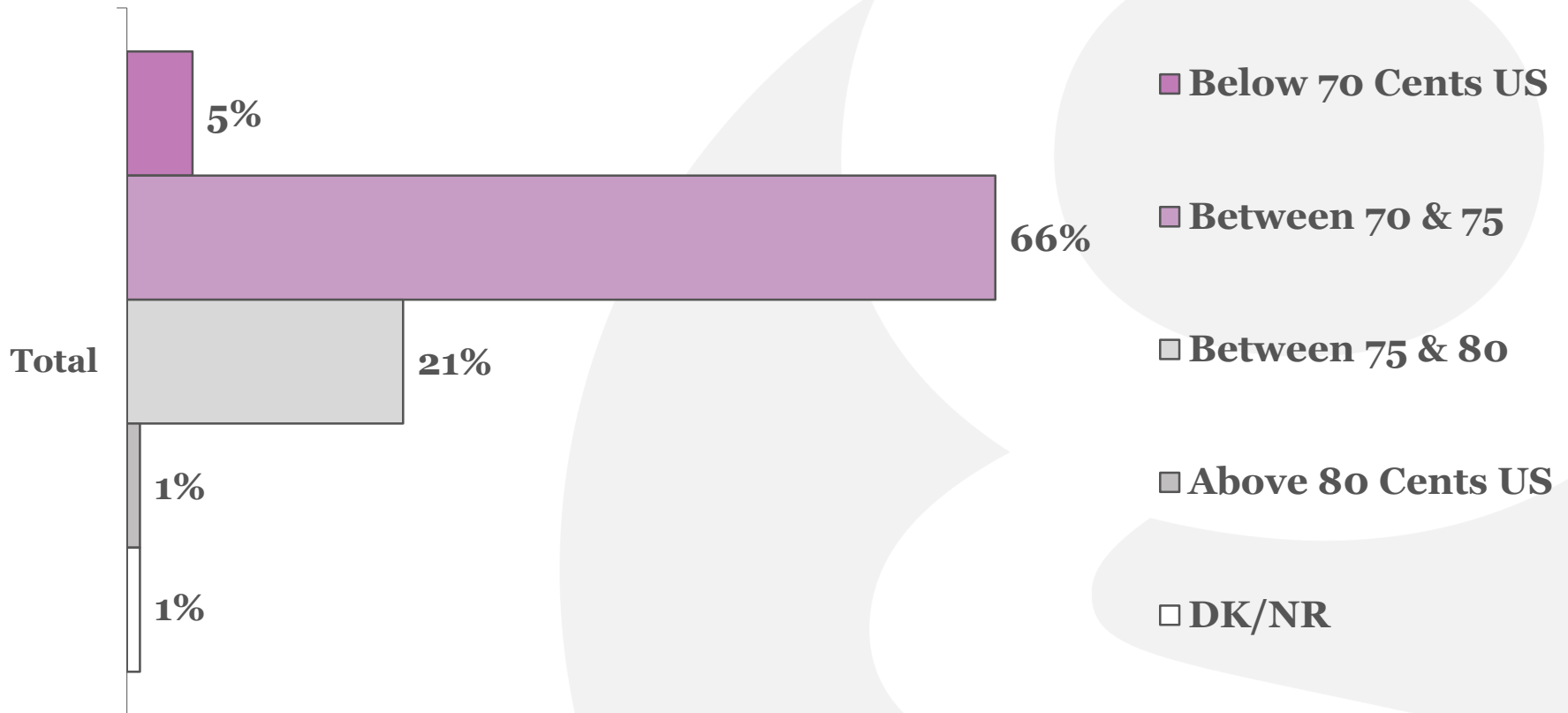
They would have to /don't want to raise the cost of products to the consumer, trickle down and hurt the the consumer, have to raise their prices

Negative effects on shares/stock, less yield for shareholders



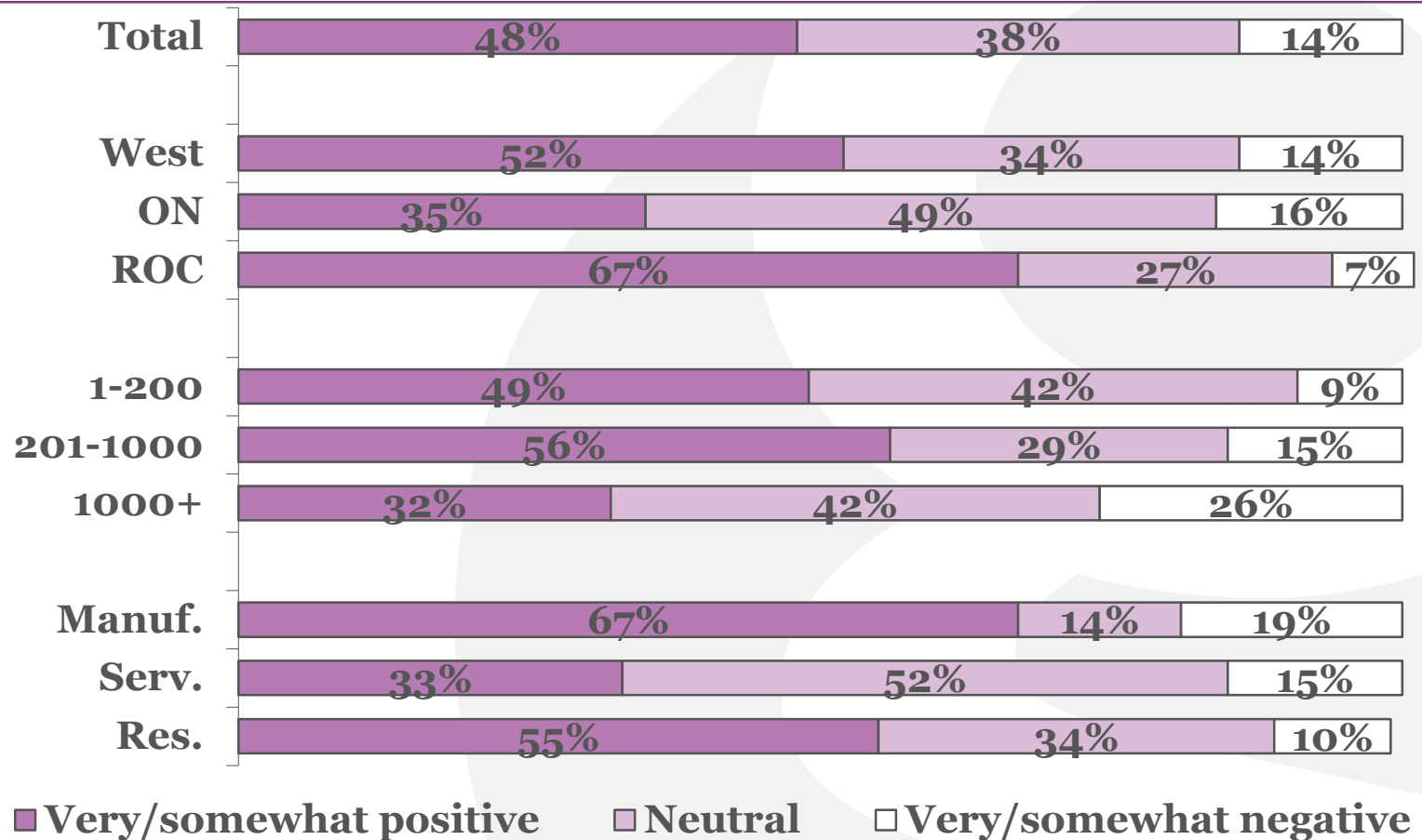


In May of this year the Canadian dollar reached a value of close to 73 cents US. What value for the Canadian dollar would you assume or are assuming for near- and medium-term company forecasts? Would it be...:



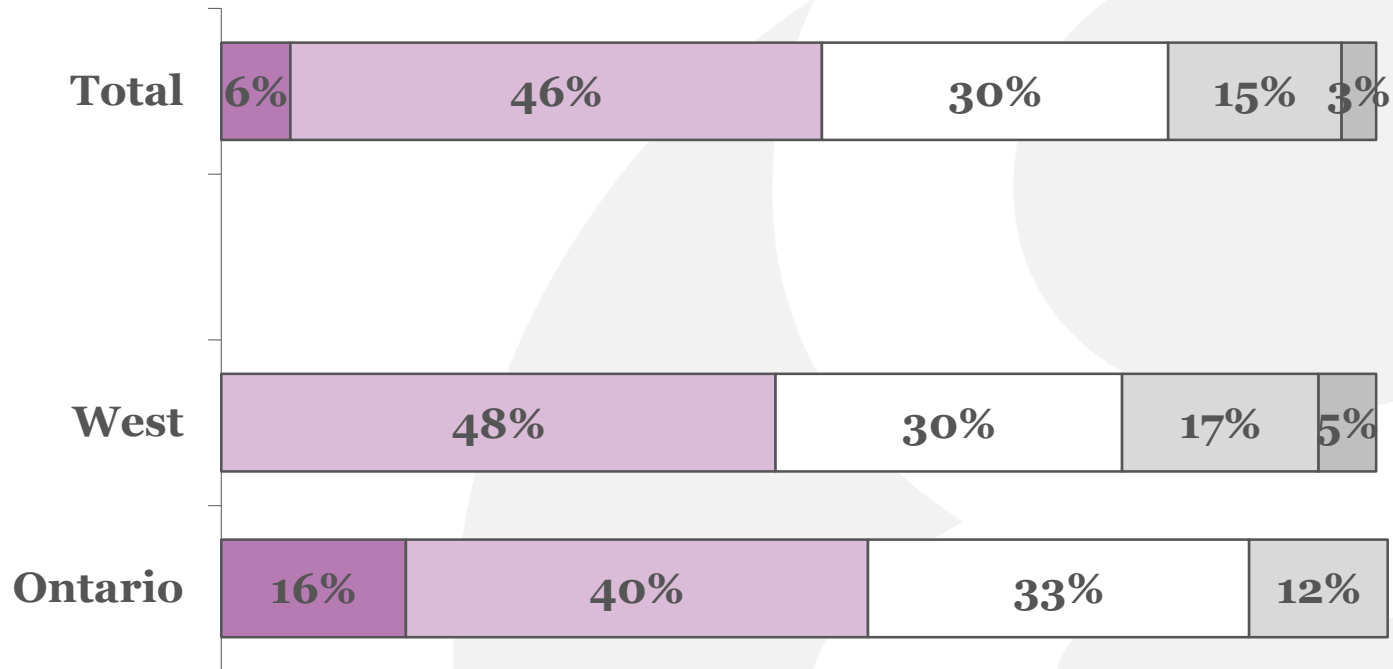


If the value of the Canadian dollar reached and stayed at about 70 cents US by the end of 2017, would the net impact on YOUR COMPANY be positive, negative, or neutral? Is that very or somewhat ?





If the value of the Canadian dollar reached and stayed at about 70 cents US by the end of 2017, do you think the net impact on the Canadian ECONOMY would be positive, negative, or neutral?



- Very Positive
- Somewhat Positive
- No change
- Somewhat negative
- Very negative
- DN/NR



**And what would the impact be on Canada's trade with the US with a 70-cent dollar?
Would it have a positive or negative impact on Canada's trade with the US?**

