



the gandalf group

## The 40<sup>th</sup> Quarterly C-Suite Survey: Federal Election, Interest Rates, Oil Prices and Trade

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- ❑ Methodology: telephone interviews with 152 C-Suite executives from ROB1000 companies between August 24<sup>th</sup> and September 18<sup>th</sup>, 2015.
- ❑ This survey quarter's survey asked the C-Suite about:
  - The state of the Canadian economy
  - Monetary and fiscal policy responses to the recession
  - Opinion about the Federal Election: what the parties and leaders should be discussing
  - Attitudes to foreign markets, trade promotion & supply management



- ❑ Recent C-Suite surveys signaled concern about the broader impact of the downturn in the oil & gas sector.
- ❑ However this quarter we see a pronounced lack of confidence in the economy, with a 20-point drop in the number of executives who expect Canada's economy to grow.
- ❑ This is undoubtedly tied to the oil and gas sector. Far fewer this quarter are predicting the benchmark North American price for oil will return to \$70 or higher in the next 12 months.
- ❑ Four in ten agreed that Canada is not only in a technical recession but one that will last through to the end of 2015.
- ❑ Other executives – whether they agreed or disagreed that Canada is in a technical recession – are still dissatisfied with current growth rates and any economic growth will be grudging going forward.



- ❑ The C-Suite thinks the economy is far and away the biggest issue that leaders and parties should be prioritizing in this election.
  - There is good support for monetary or fiscal stimulus to help grow the economy.
  - Few expressed opposition to the Bank of Canada's recent rate cut.
  - There is modest concern that a new government would reverse recent tax cuts.
- ❑ Where there is more debate is on the question of whether the federal government should exercise spending restraint with a view to balancing the budget.
- ❑ Those who take this view were more likely to favour using monetary policy over fiscal policy to assist the economy. However nearly half of the C-Suite believes restraint should not be the order of the day and that spending on stimulus or infrastructure is in order.

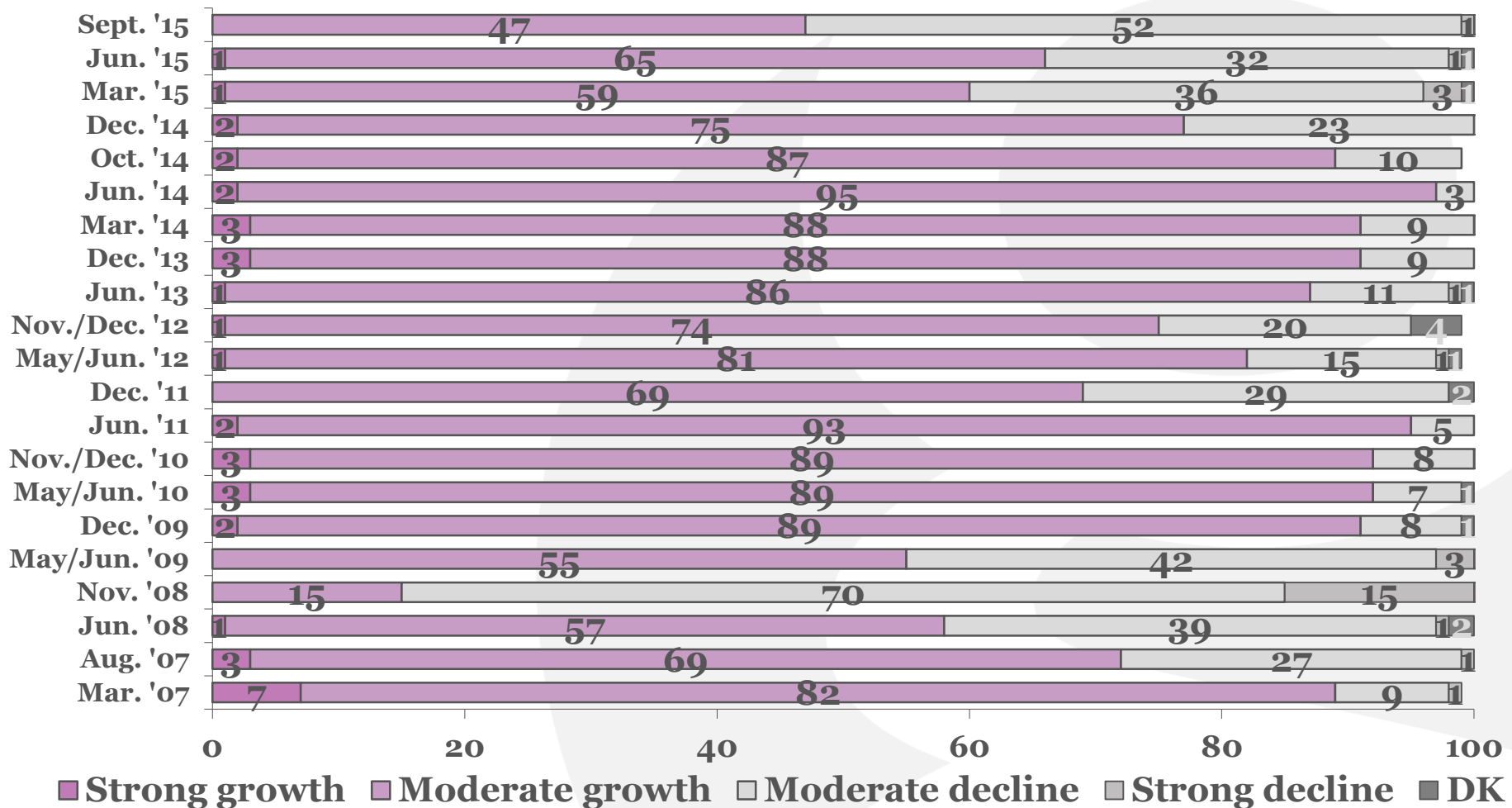


- ❑ Oil prices have been depressed since the beginning of 2015, yet the outlook for Canada's economy is worse now than it was in surveys conducted in the first two quarters of 2015.
- ❑ There is no consensus as to whether Canada is in recession.
  - Fifty-three percent of the C-Suite believes Canada is in a recession. Most who said Canada is in recession agreed it will extend into 2016, but some believe the economy will rebound.
  - Many disagree with the premise that the contraction in Canada's economy is limited to the oil and gas sector. However those who believe the economy is growing were more likely to agree the contraction is confined to oil & gas.
  - Most executives still expect their business will grow over the next 12 mos., but the number has declined slightly – as many as one in five now expects their business will not grow over the next 12 mos.
  - The outlook is most pessimistic in Alberta and among resources/oil & gas cos.; and relatively positive in Ontario.
  - The outlook for the US economy is far better than the outlook for Canada's.



# Projections For The Canadian Economy

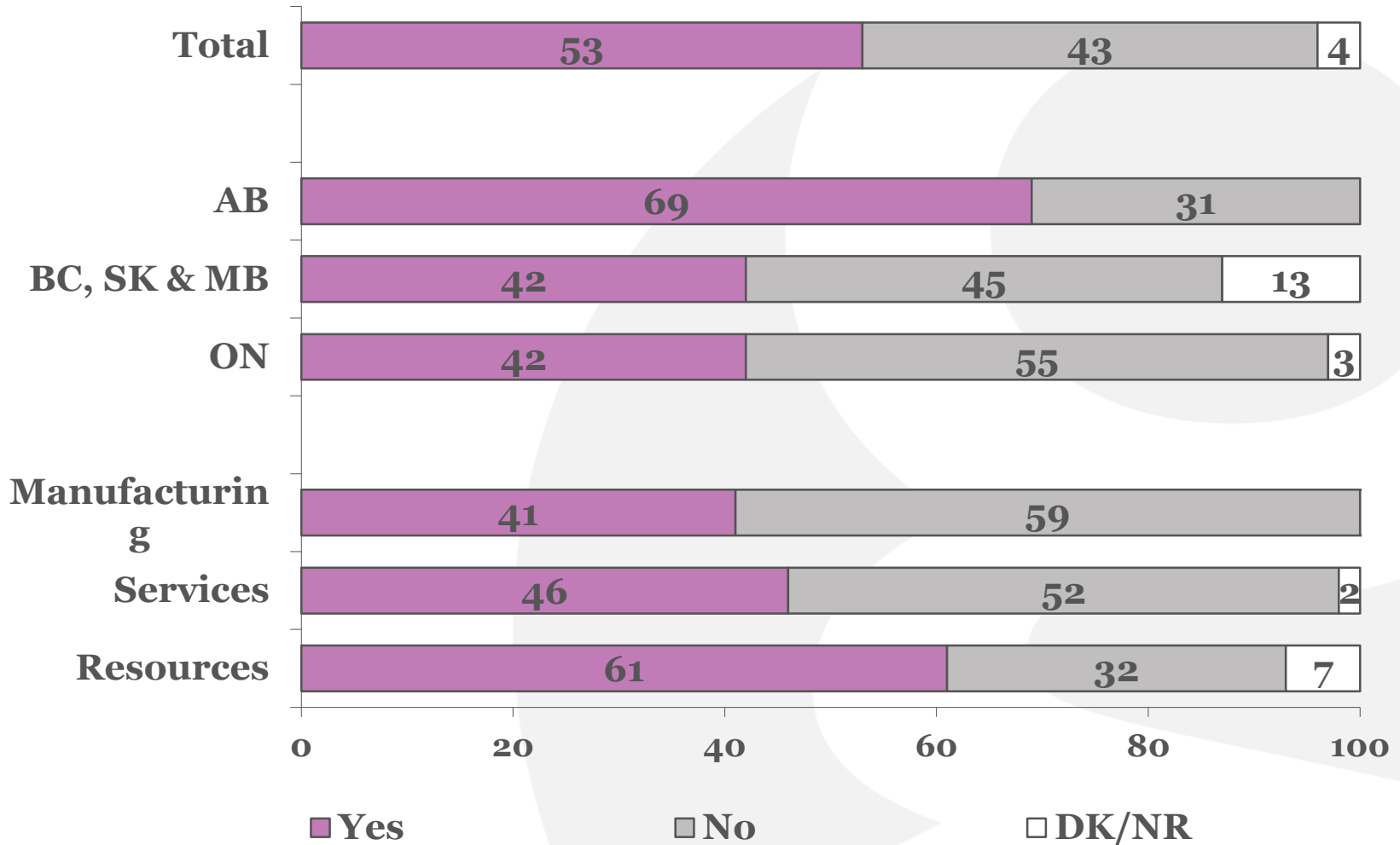
What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline? (% saying each)





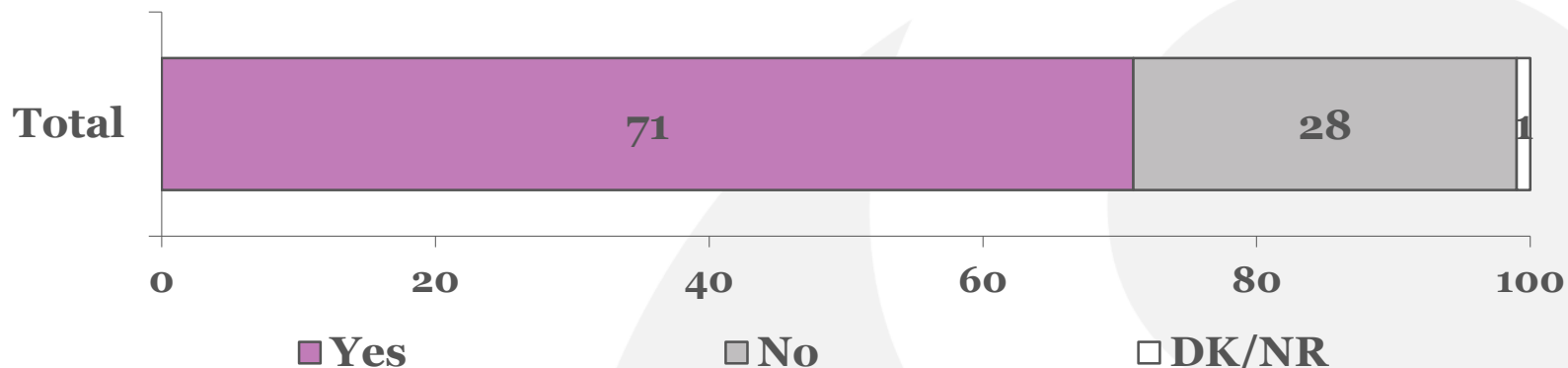
# Is Canada Currently In Recession?

Do you believe the Canadian economy is in a recession at the current time? (% saying each)

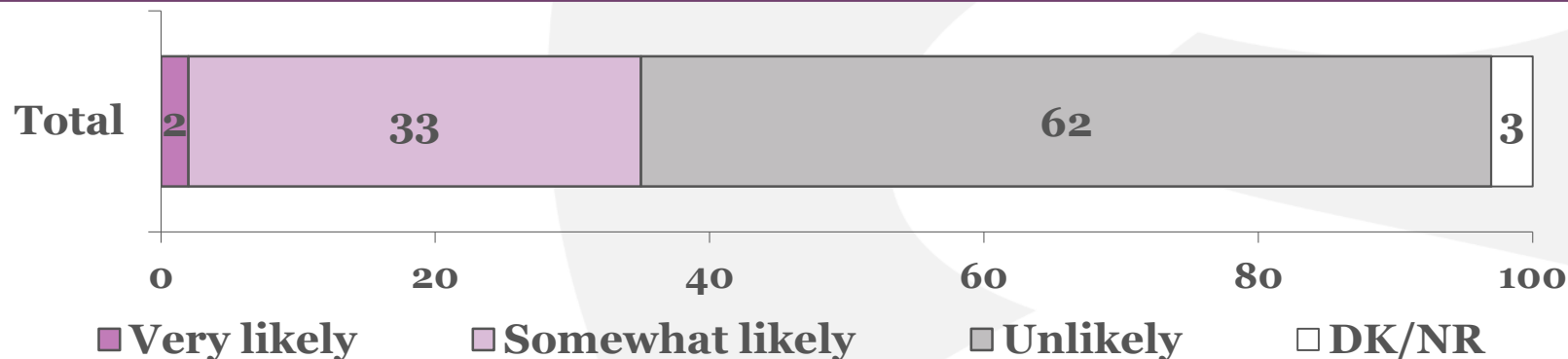




**Do you believe that the recession will be prolonged and extend into 2016?  
[Among those that believe we are currently in recession] (% saying each)**



**Do you believe the Canadian economy is very likely, somewhat likely or unlikely to  
fall into a recession in 2015? [Asked of those who do not believe we are currently in  
recession] (% saying each)**

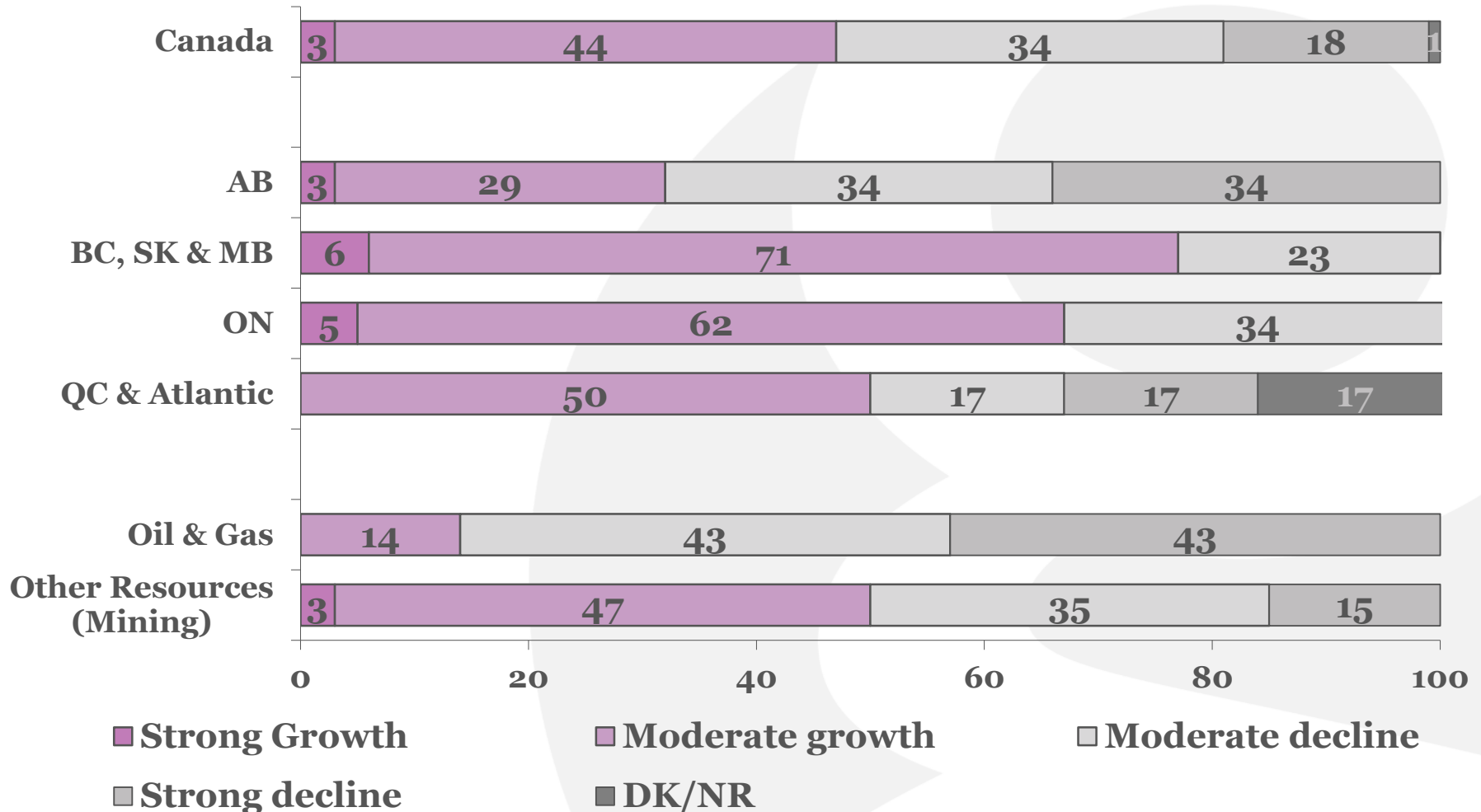






# Expectations of Provincial Economies

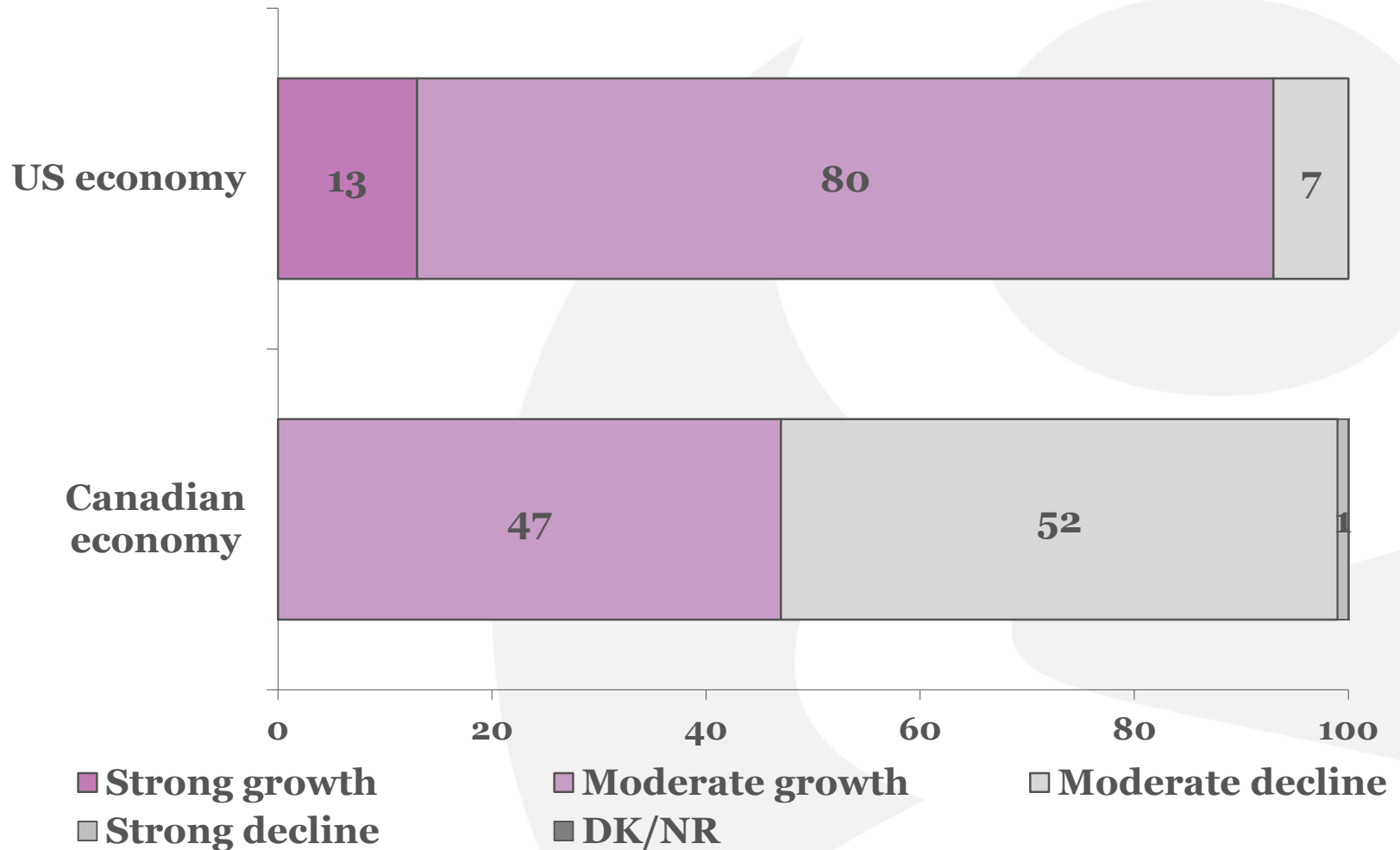
And what are your expectations for the economy of the province where you are located - strong growth, moderate growth, moderate decline or strong decline? (% saying each)





# Expectations of the Canadian and US Economies

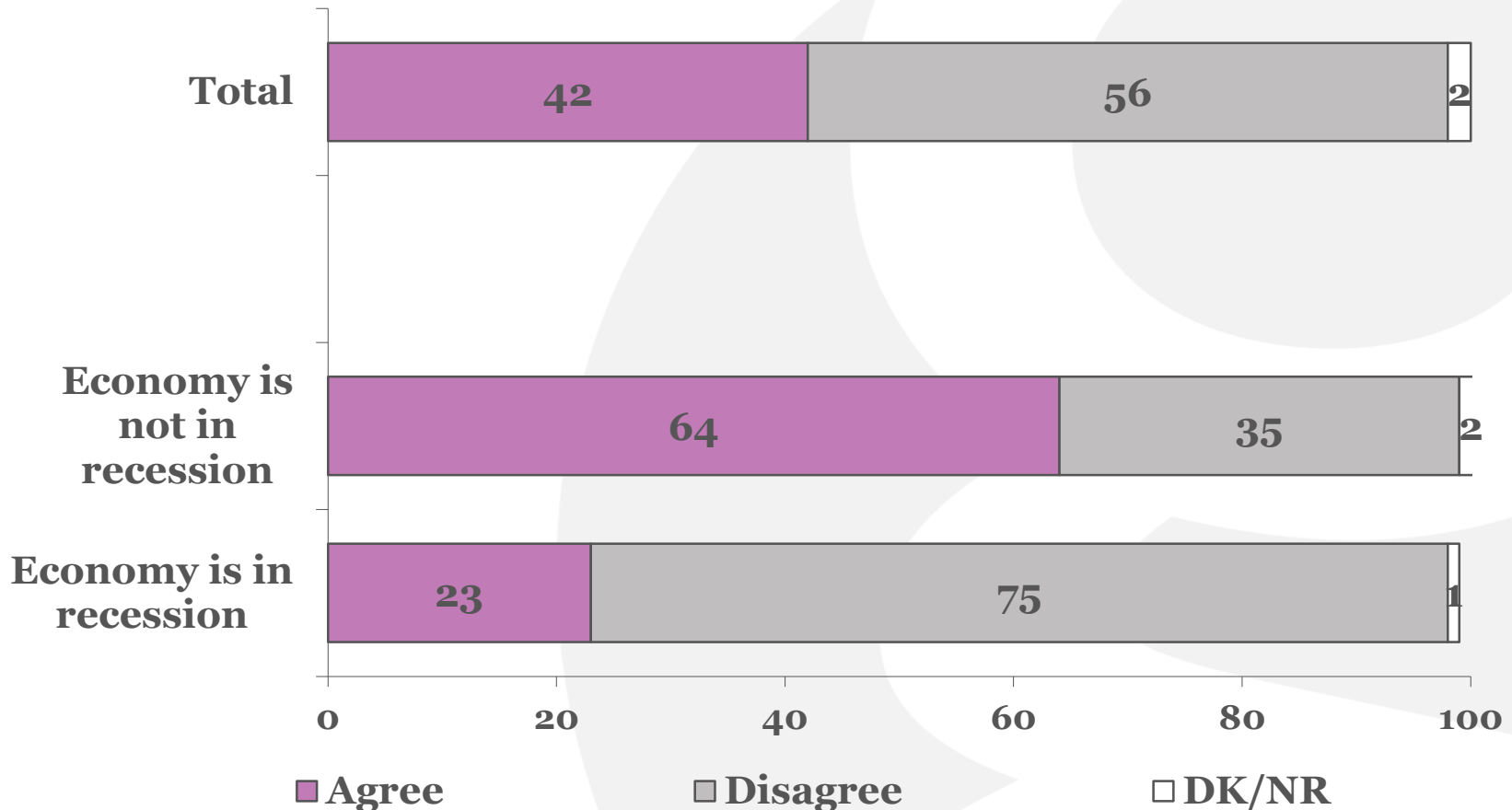
What are your expectations for the U.S. /Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline? (% saying each)





# Contraction is Confined to Oil & Gas

Would you agree or disagree with the following statement? “The economic contraction in the Canadian economy is exclusively in the energy sector, while the rest of the economy is growing.” (% saying each)

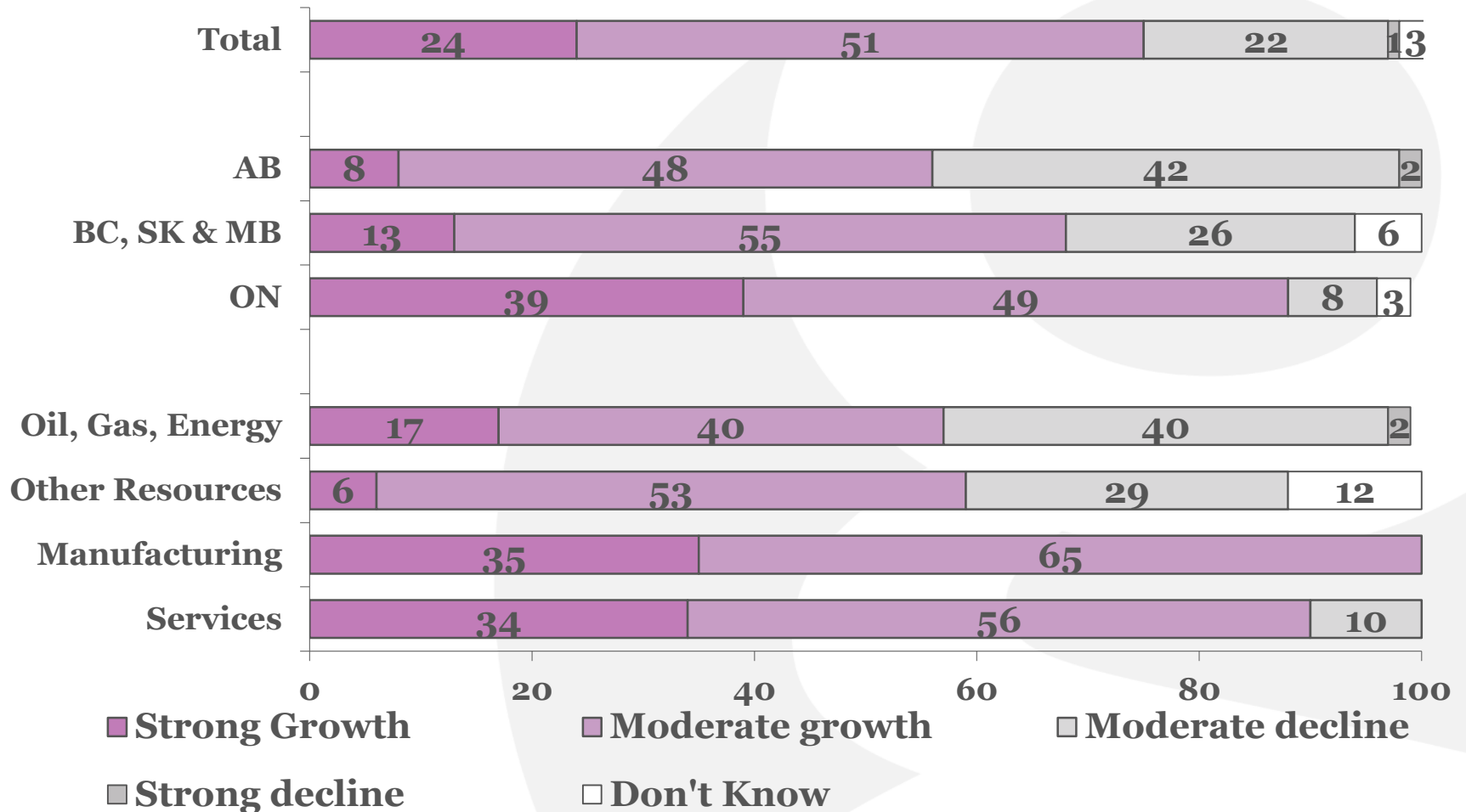




- ❑ Most executives with ROB1000 companies still expect their businesses will grow. That number has declined only slightly since last quarter.
  - 23% said their business will not grow over the next 12 mos. – up 4 points since last quarter.



What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline? (% saying each)



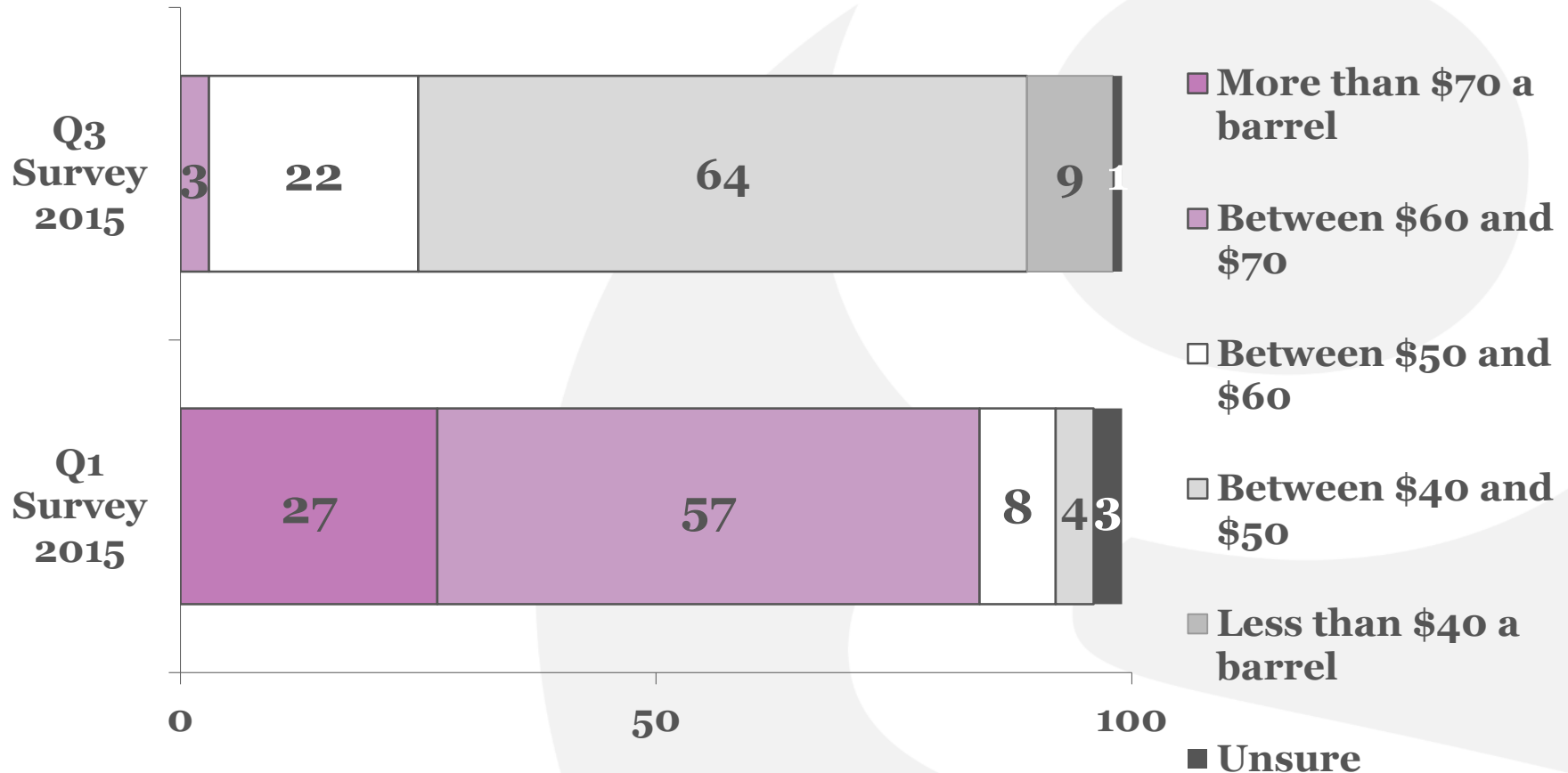


- ❑ Explaining much of the slide in opinion about the economy is the clear sense that oil prices will remain depressed into 2016.
  - Last quarter most executives believed the price for WTI crude would exceed US\$60 a barrel.
  - Now virtually none expect this, and most expect prices to stay below \$50 a barrel until the end of the year:
    - only 25% expect prices to exceed \$50 a barrel;
    - among oil & gas executives 31% expect prices to exceed \$50.
- ❑ The outlook is only somewhat better for 2016 – but few expect oil to return to prices of 2015.
  - Most believe prices will be below \$60 in a year's time;
  - 17% expect prices could exceed \$60 in a year.
  - Oil & gas executives are somewhat more likely to predict WTI oil prices reaching \$60 or \$70.



# Most Expect \$40-\$50 Price of Oil By End of 2015

By the end of 2015 what do you predict will be the benchmark price for North American or West Texas Intermediate in US dollars per barrel? (% saying each)





# Most Expect \$50-\$60 Price of Oil in One Year

And what do you predict the benchmark price for North American or West Texas Intermediate in US dollars per barrel will be one year from today? (% saying each)





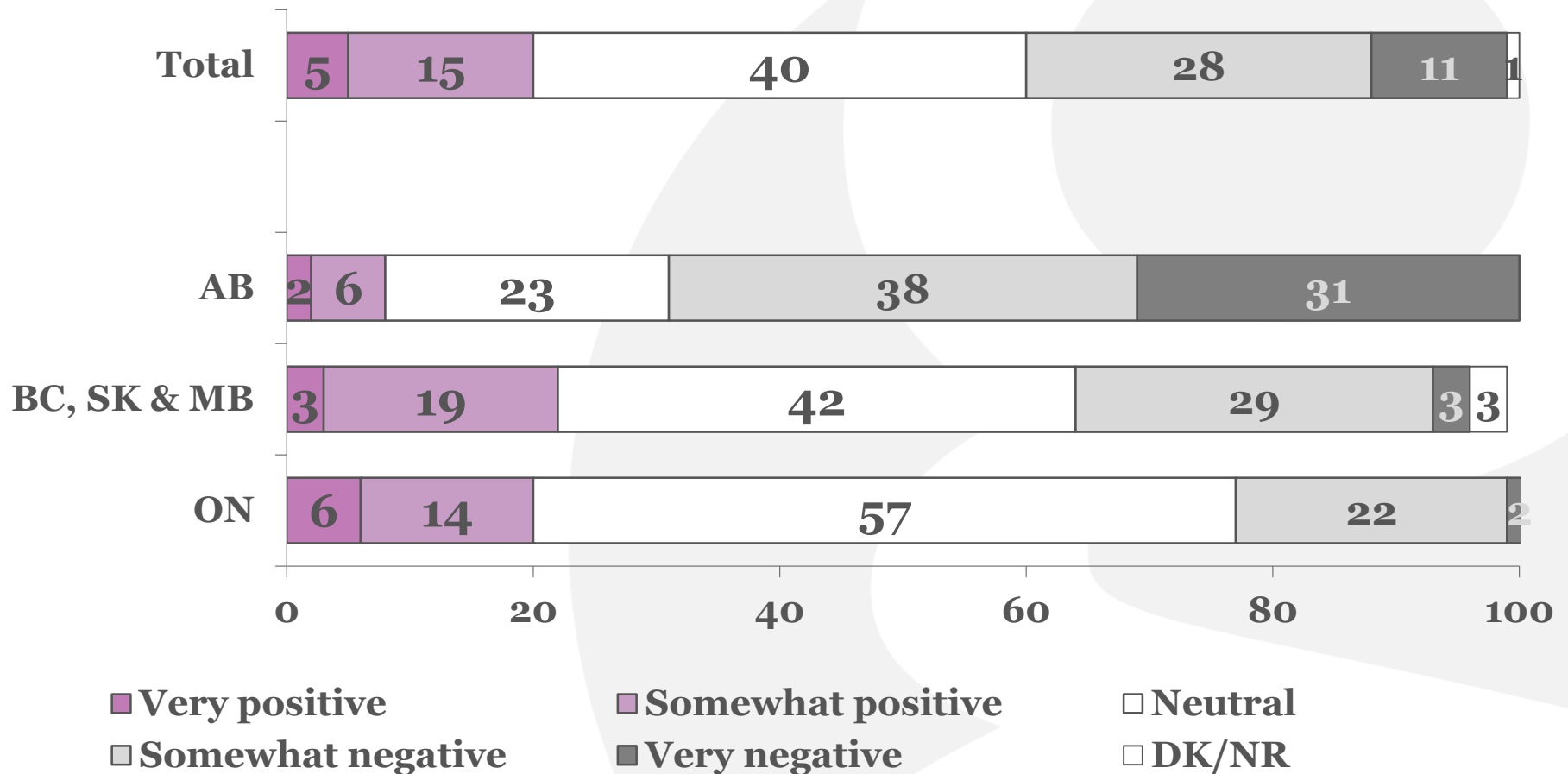


- ❑ Very few companies in any region in Canada said they stand to benefit if oil prices stay at current levels until the end of 2015:
  - 40% said there would be no impact or a neutral impact on their business
  - 39% said it would have a very or somewhat negative impact.



# Impact if Oil Prices Stay at Current Levels Until the end of 2015

Since the price of oil has dropped significantly over the past year, what would be the impact on your company if oil prices stay at current levels until the end of 2015? Would it be a positive for your company or negative for your company or neutral?  
(% saying each)



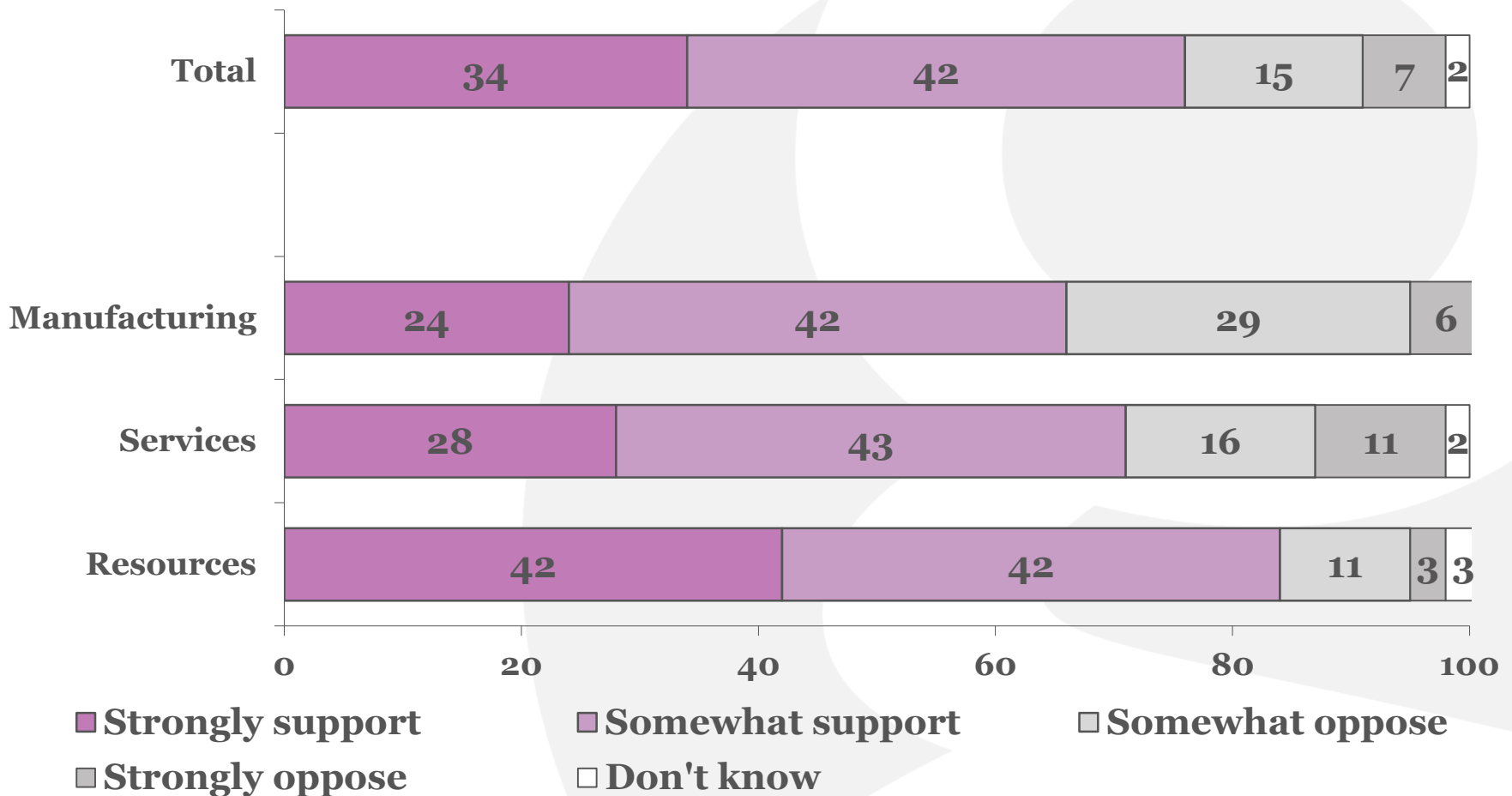


- ❑ Three quarters of executives support the Bank of Canada's recent (July) cut to the prime lending rate. In our March 2015 survey only half said they supported the idea of an additional rate cut.
  - Support is highest among Resources sector executives, and opposition to this is mostly not strong opposition.
  - There is very little difference between executives who think the country is in recession and those who think it is growing: 72% of those who said the economy is growing supported the rate cut. A sign perhaps of how any growth that Canada is experiencing is likely to be moderate growth.



# Solid Support for BoC Rate Change

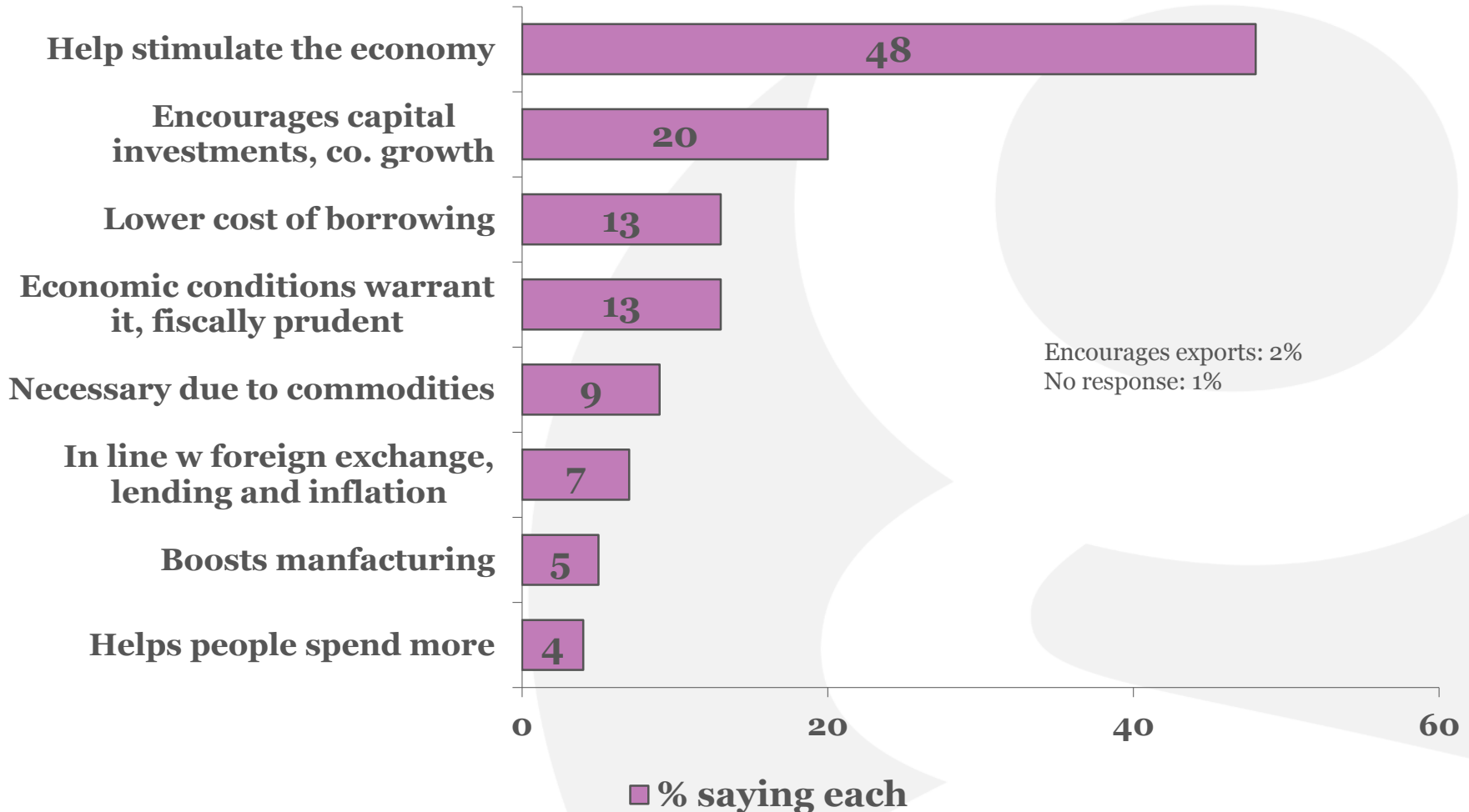
In July, the Bank of Canada lowered the interest rate by quarter percentage point. Do you strongly support, somewhat support, somewhat oppose or strongly oppose this move by the Bank?





# Positive Impacts of BoC Rate Change

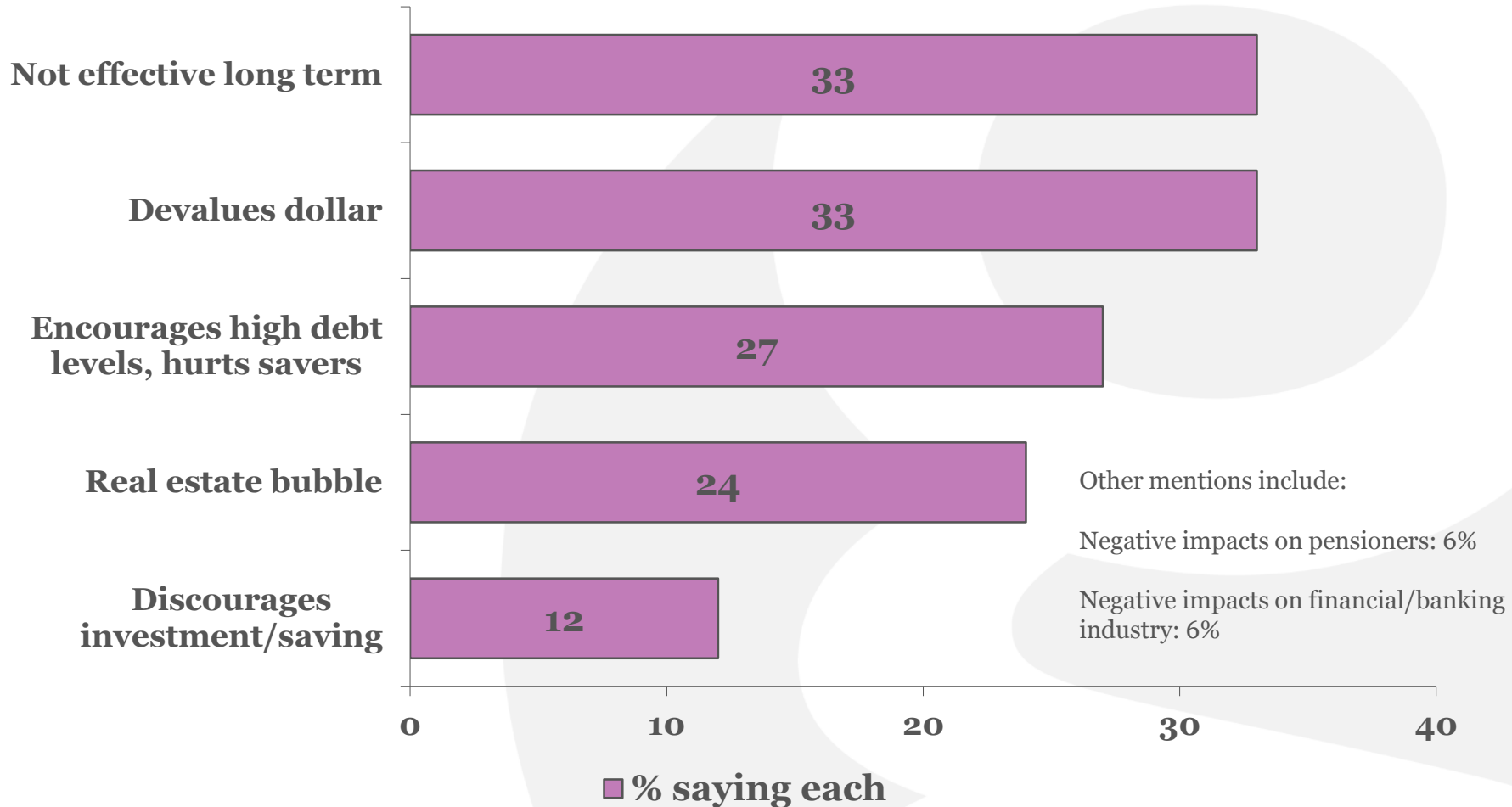
**Why do you support the Bank's rate cut? (Open ended, multiple mentions)  
Among those who support rate change; n=116**





# Negative Impacts of BoC Rate Change

**What most concerns you about a rate cut? (Open ended, multiple mentions)  
Among those who oppose rate change; n=33**



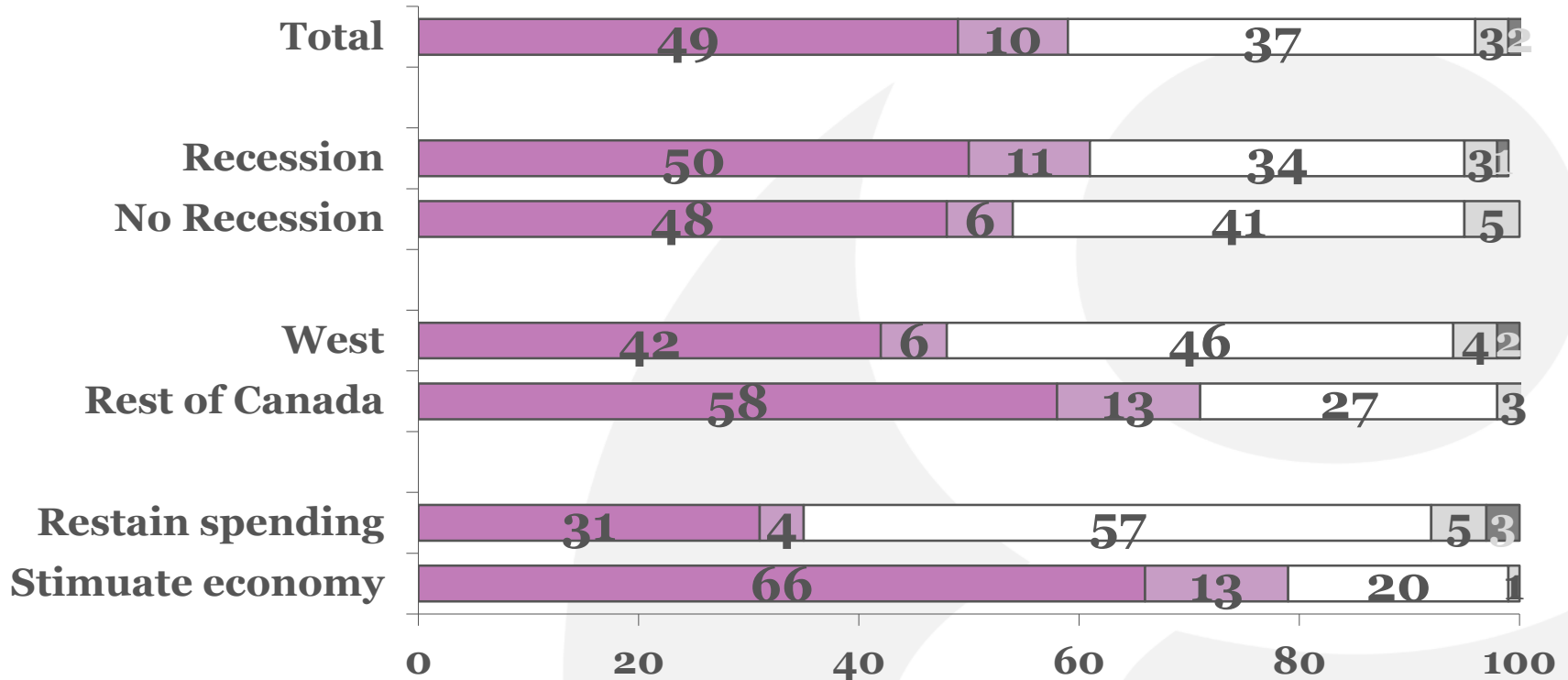


- ❑ Executives tend to believe fiscal stimulus would be more effective at boosting the economy than monetary policy measures.
  - In a forced choice, 37% said monetary policy would be more effective, while 49% said fiscal policy would be more effective.
  - In Ontario, Quebec and Atlantic Canada there is a strong preference for fiscal policy measures such as infrastructure.
  - Those who favour fiscal restraint (rather than fiscal stimulus) tend to believe monetary policy is more effective than fiscal policy measures when it comes to boosting the economy.
- ❑ Respondents were split on whether the federal government should restrain spending to run a balance budget or stimulating the economy.
  - In a forced choice: roughly half said government should restrain spending to ensure a balanced budget; and half said the government should stimulate the economy instead.
- ❑ One third of executives said spending restraint to maintain a balanced budget should be a high priority, down from 53% saying so in our survey in the first quarter of 2015.



# Fiscal Stimulus Preferred to Monetary Stimulus

Which would have been more effective at boosting the Canadian economy? (% saying each)



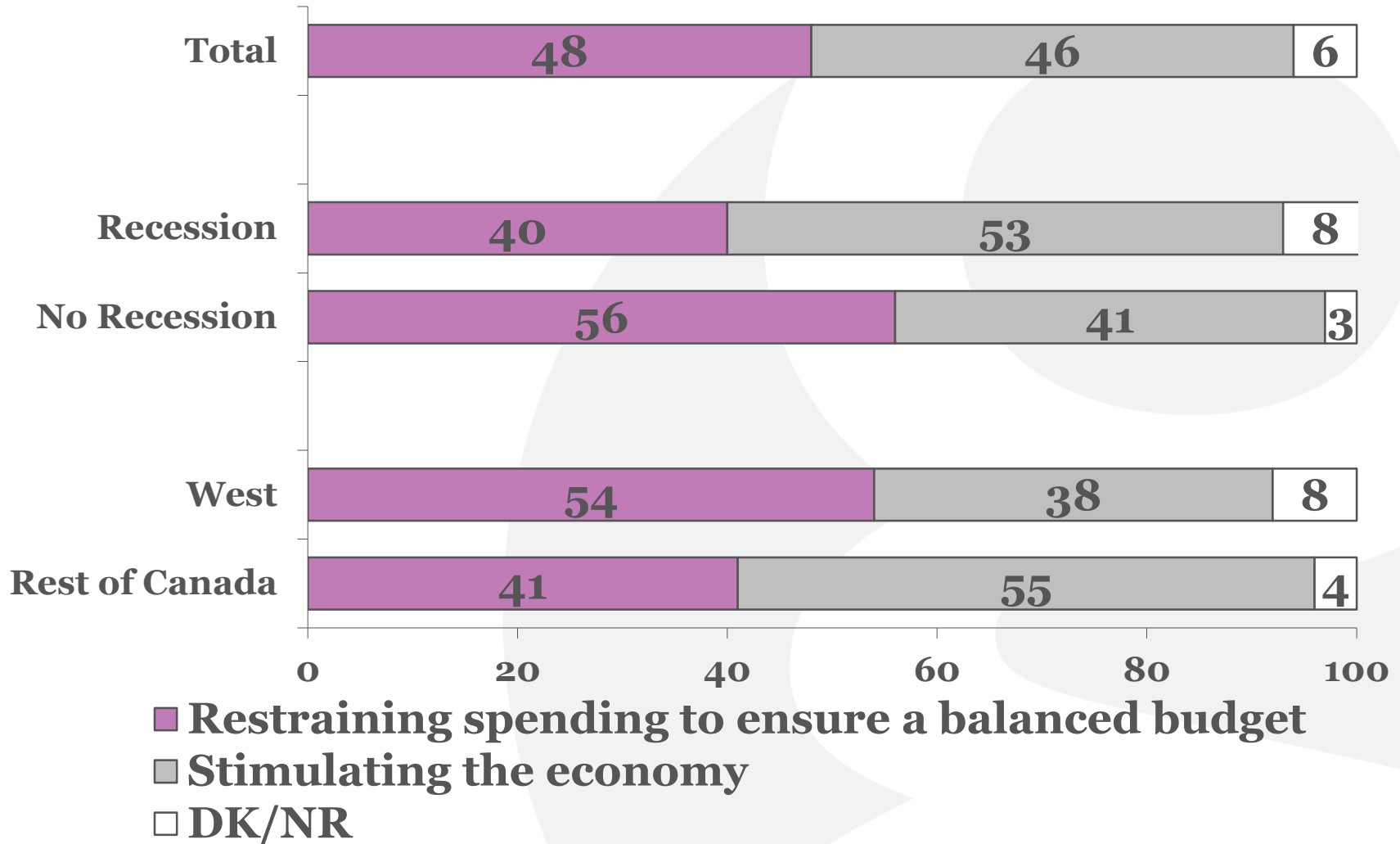
- Fiscal stimulus, such as capital investments in infrastructure
- Both (Accepted but not offered)
- Monetary stimulus in the form of the recent rate cuts announcement
- Neither (Accepted but not offered)
- DK/NR (Accepted but not offered)





# Should the government restrain spending or stimulate the economy?

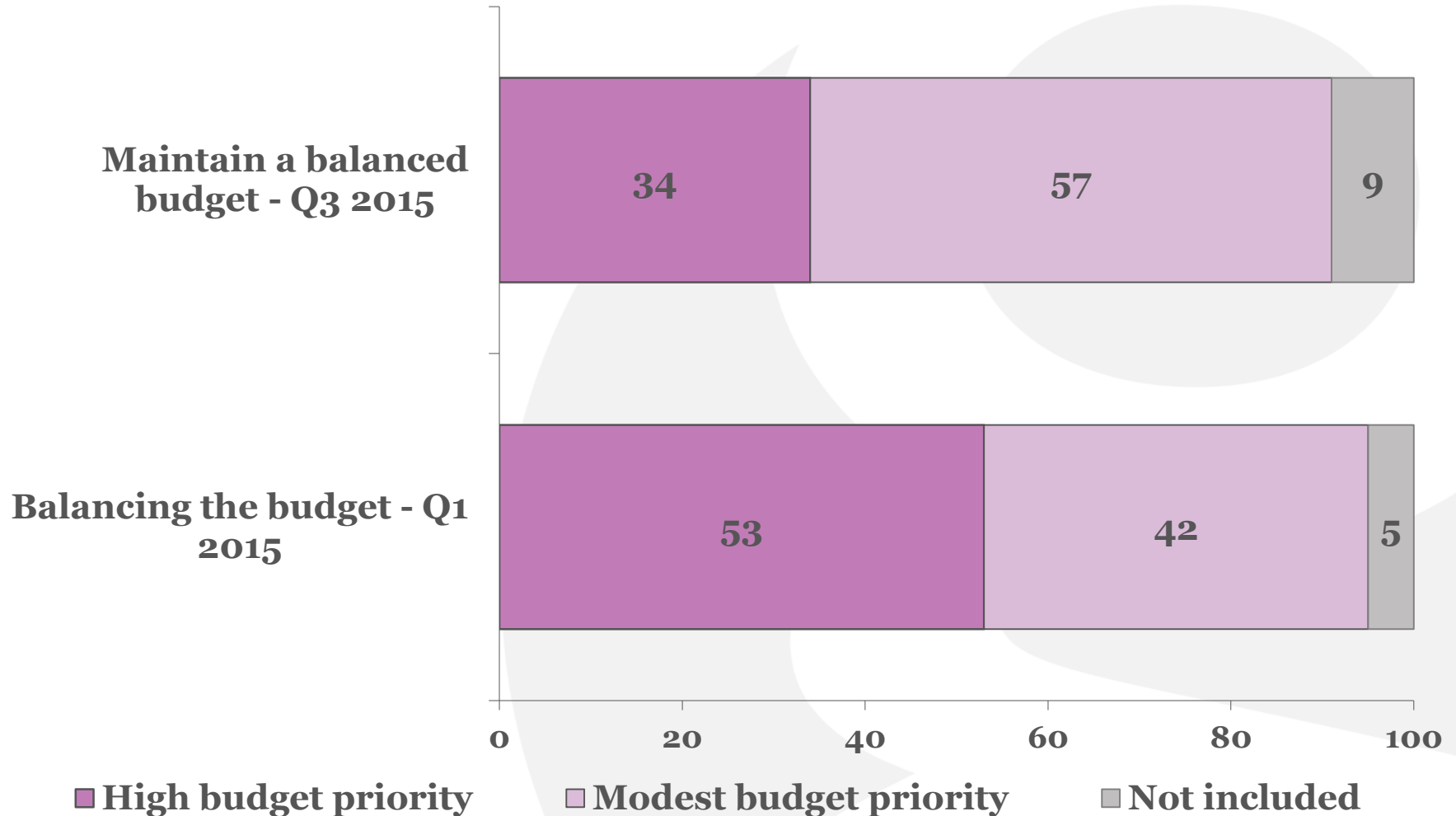
Do you think the federal government should focus on ...(% saying each)





# Prioritizing a Balanced Budget

Thinking of the next federal budget would you say that spending restraint to maintain a balanced budget should be: (% saying each)



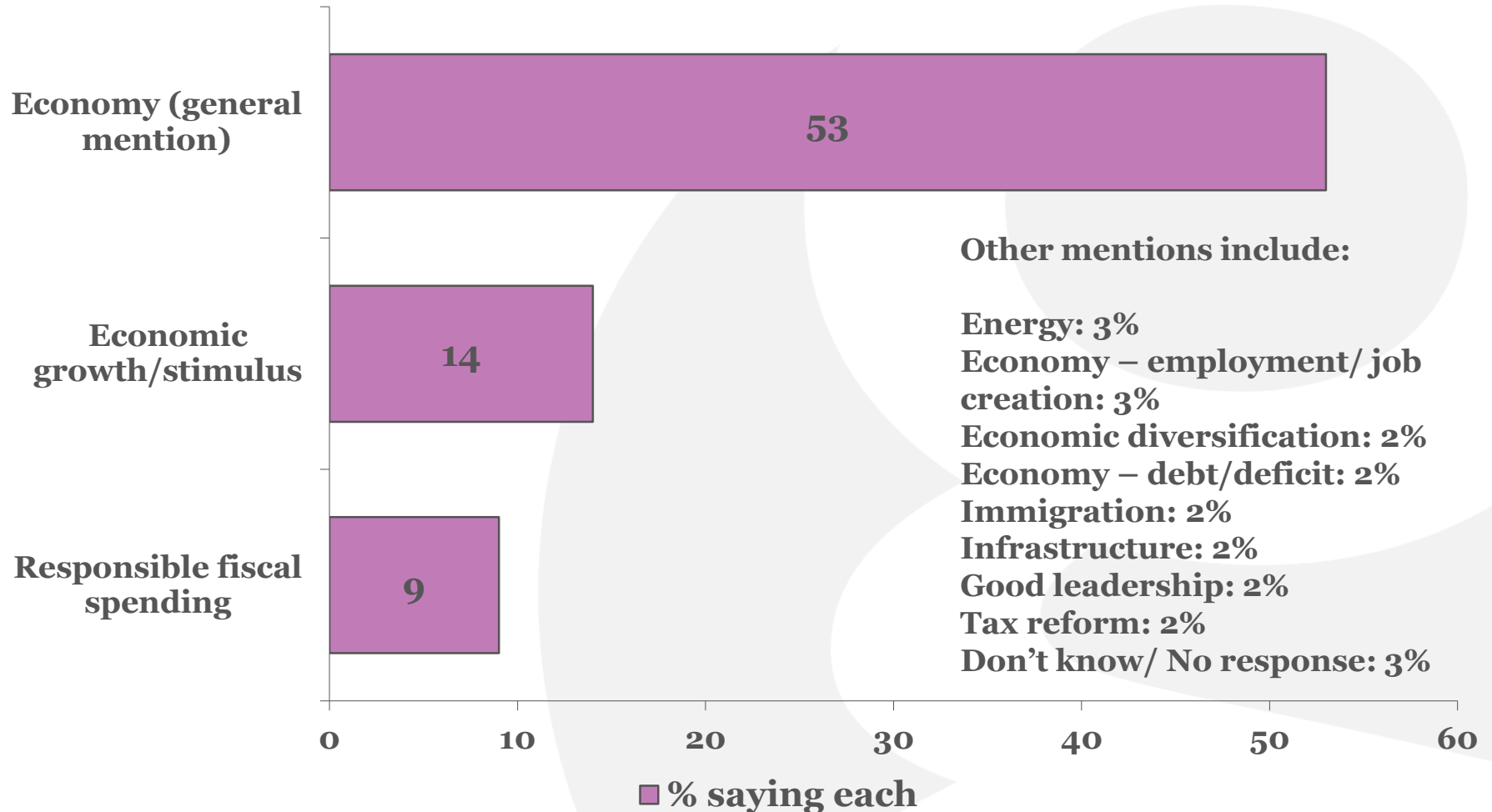


- ❑ Most executives said that the economy is the most important issue that leaders and parties should be discussing in this election.
  
- ❑ When asked what issues leaders and parties are **not discussing** we heard a range of issues.
  - No single issue such as the economy predominates, suggesting that the economy has been an important focus of debate so far.
  - Among the issues mentioned are employment and labour market concerns (as well as education), the environment, health care, defense, and issues relating to Aboriginal land and agreements.



# The Economy is Most Important Issue in Federal Election

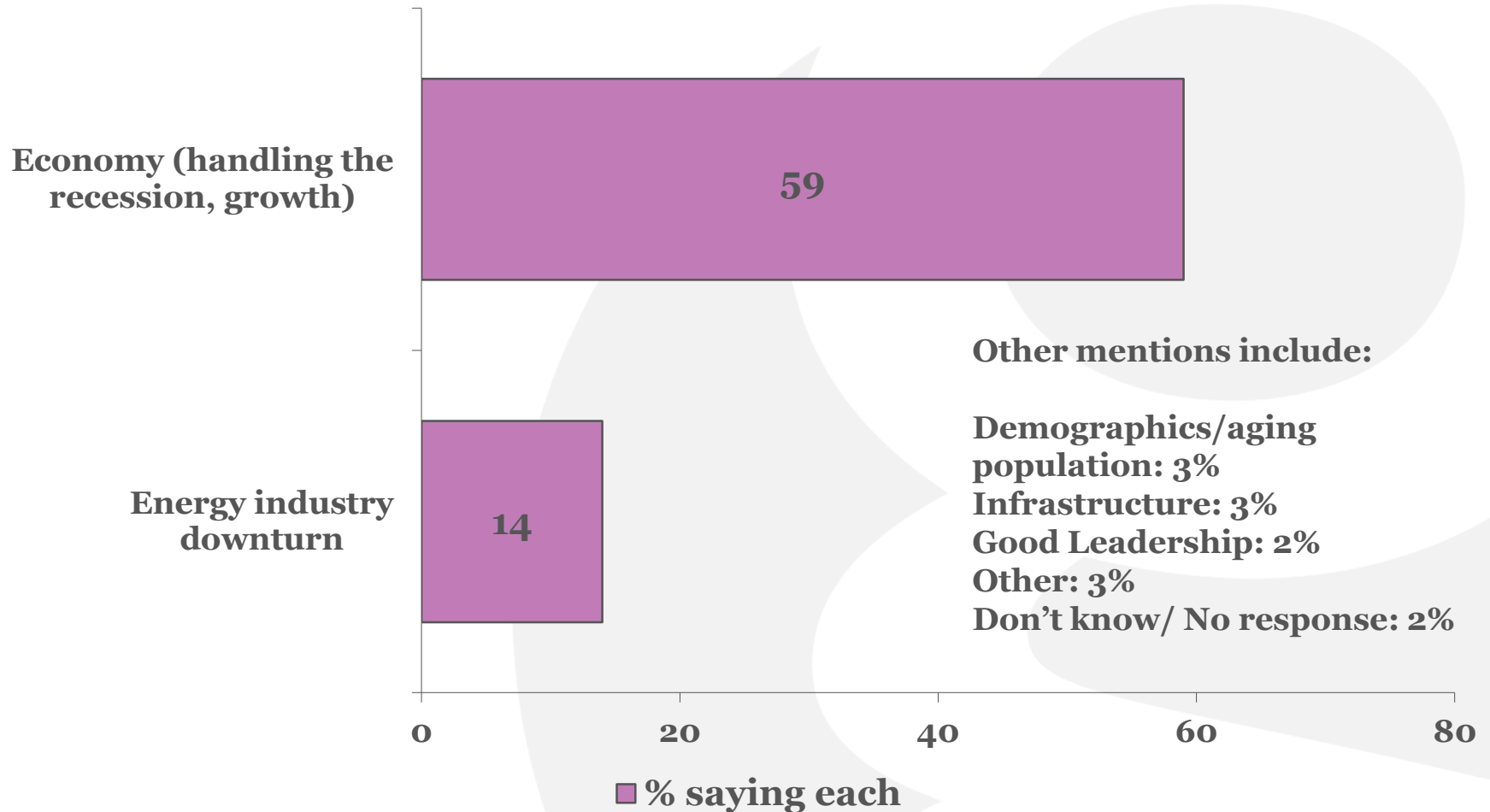
What issue should be the most important issue that leaders and parties should be discussing in this election? (Open ended)





# Economy Most Pressing Issue for New Government

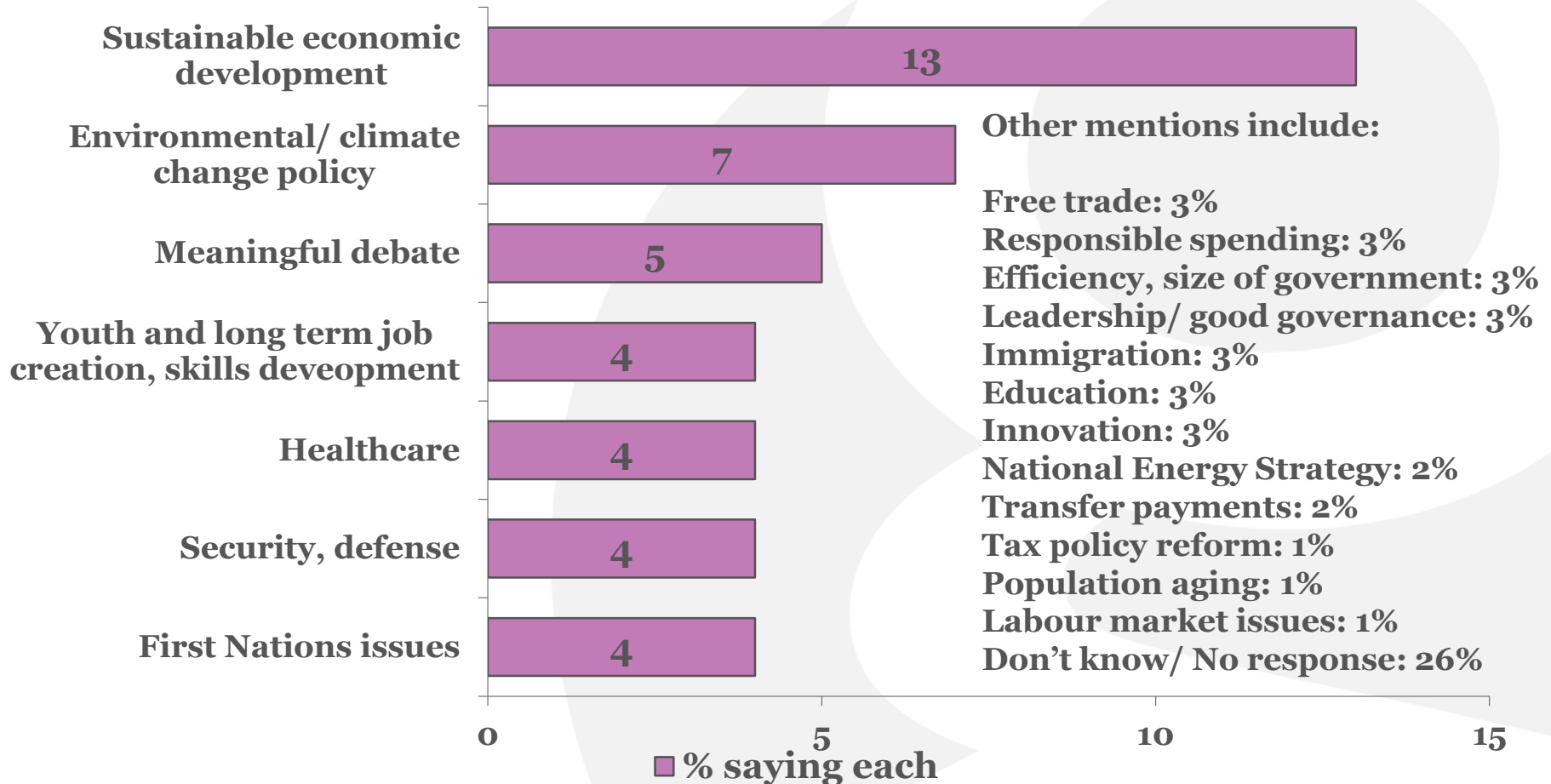
Regardless of which party is elected to form government, what is the single most pressing issue that the new government will face? (Open ended, multiple mentions)





# The Economy is Most Important Issue in Federal Election

Based on what you know or have read or heard, what is the most important issue that is not being discussed enough by the political parties and their leaders in this election?  
(Open ended, multiple mentions)



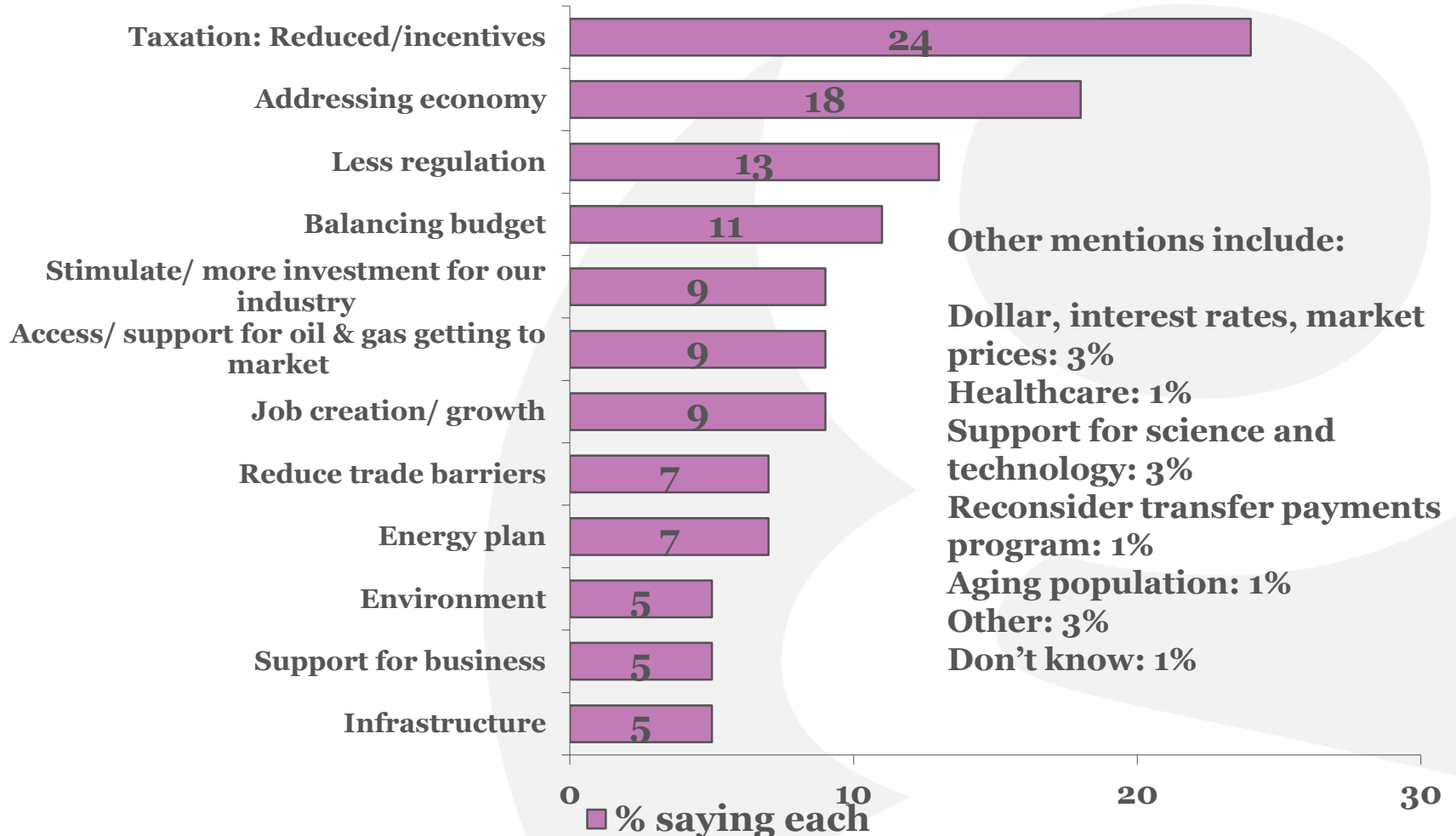


- ❑ When it comes to the interests of their companies, executives said they would like to see political parties prioritize:
  - Lower taxes
  - Stimulus to address the downturn
  - A balanced budget
  - and simplifying regulations.
  
- ❑ In terms of what they personally would like to hear the parties prioritize:
  - Many raised taxes – either reductions or that recent reductions should be kept in place (e.g. no increases, no cancelling of income splitting, TFSA's)
  - Also important: jobs and the economy, responsible government spending, climate change/environment.



# Policy Priorities for Companies

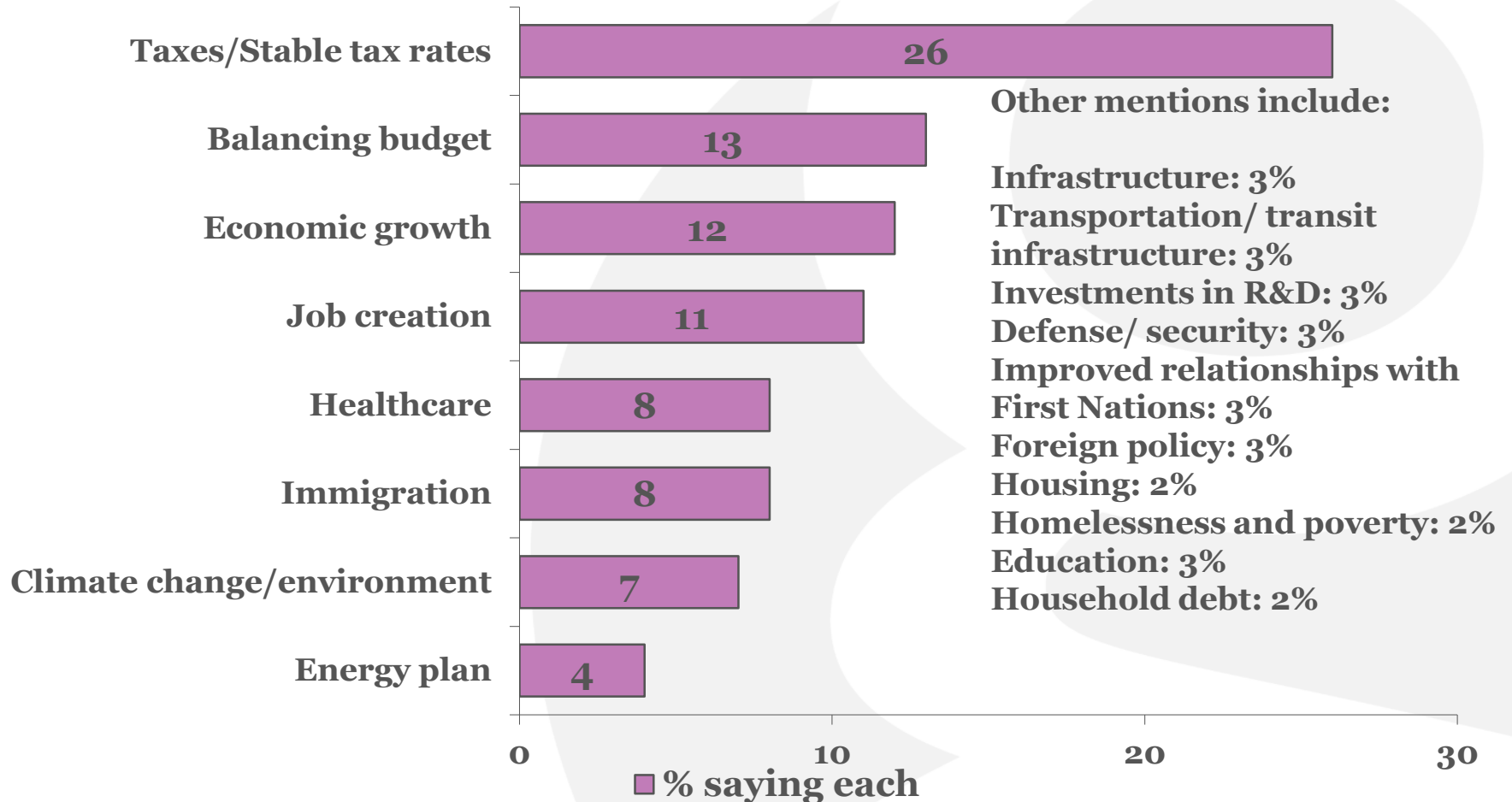
Thinking specifically of your company, what policies would you like to see political parties prioritizing as they lay out platforms and policy? (Open ended, multiple mentions)







And now thinking not about your company but your own personal concerns or perspective, are there other policies you would like to see political parties prioritizing as they lay out platforms and policy? (Open ended, multiple mentions)





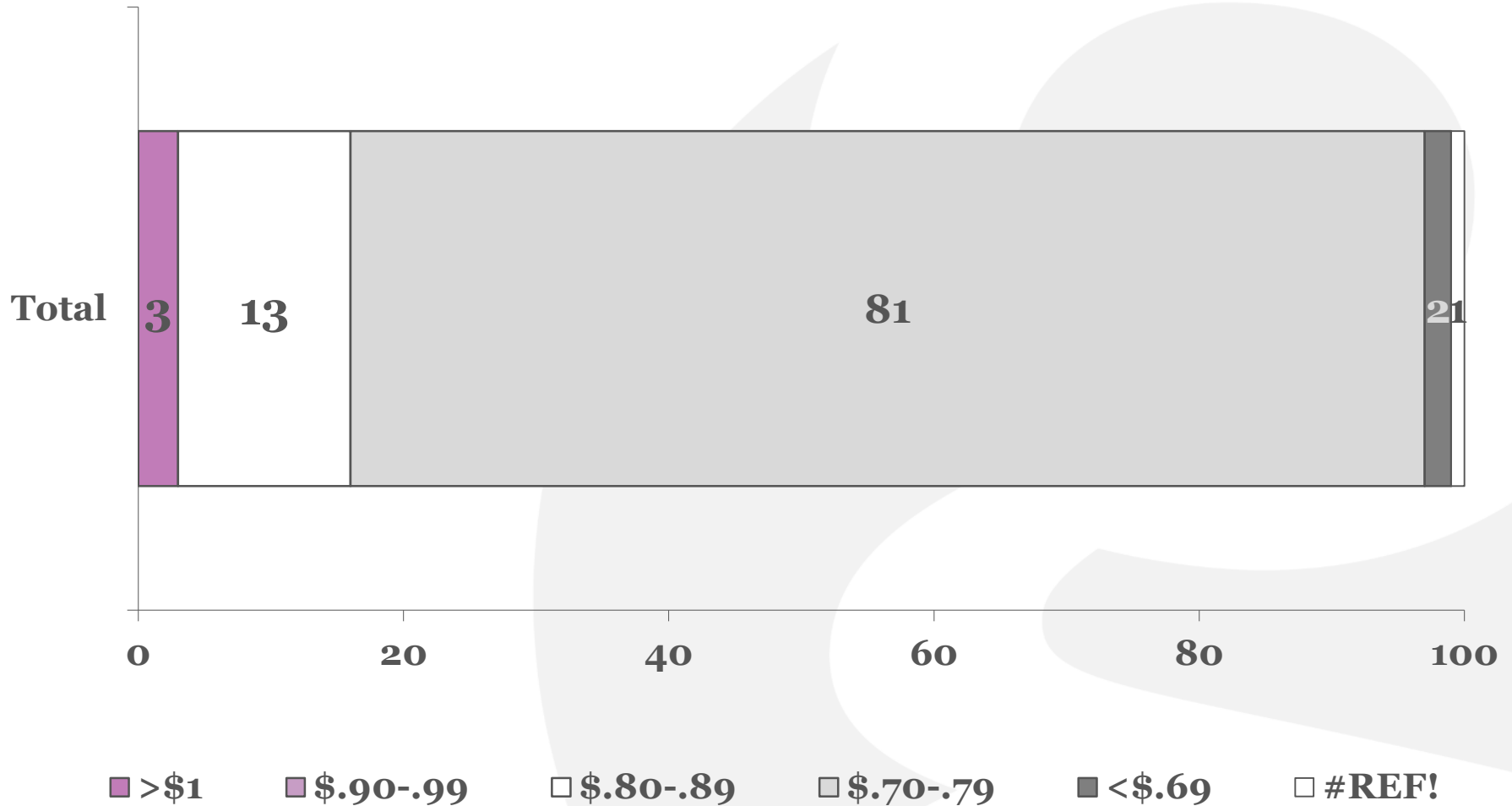
# Expectations for The Canadian Dollar Valuation

- ❑ The overwhelming majority of the C-suite expects the value of the Canadian dollar to remain at between 70 and 80 cents US through to the end of the year.
  
- ❑ When asked what Canadian dollar valuation would be optimal for executives' companies and the economy, most hoped for a valuation higher than 80 cents US.
  - Only 31% believe a dollar priced at less than 80 cents US is good for their companies
  - 38% would welcome a valuation at between 80 cents and par.
  - Only 20% believe the Canadian economy benefits from a dollar priced at below 80 cents US.



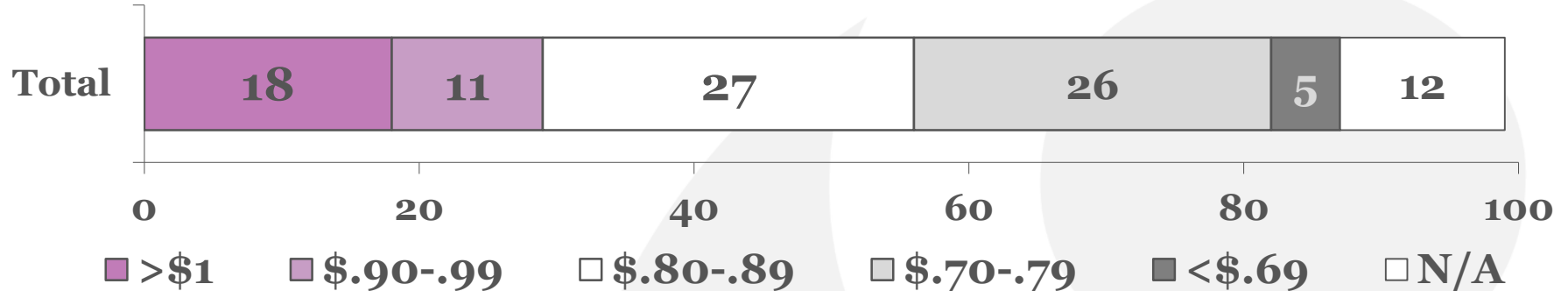
# Vast Majority Expect Canadian Dollar Value of Less than 80 cents USD

By the end of 2015 what do you predict will be the value of the Canadian dollar in US dollars or US cents? (% saying each)

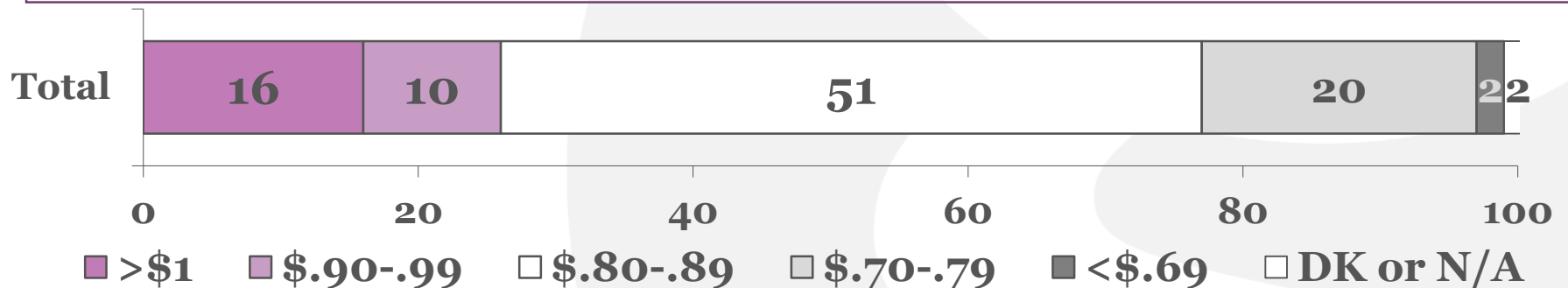




**“Thinking specifically of your company, what would be the optimal value of the Canadian dollar against the US dollar?” (% saying each)**



**“Thinking now about the Canadian economy, what would be the optimal value of the Canadian dollar against the US dollar?” (% saying each)**

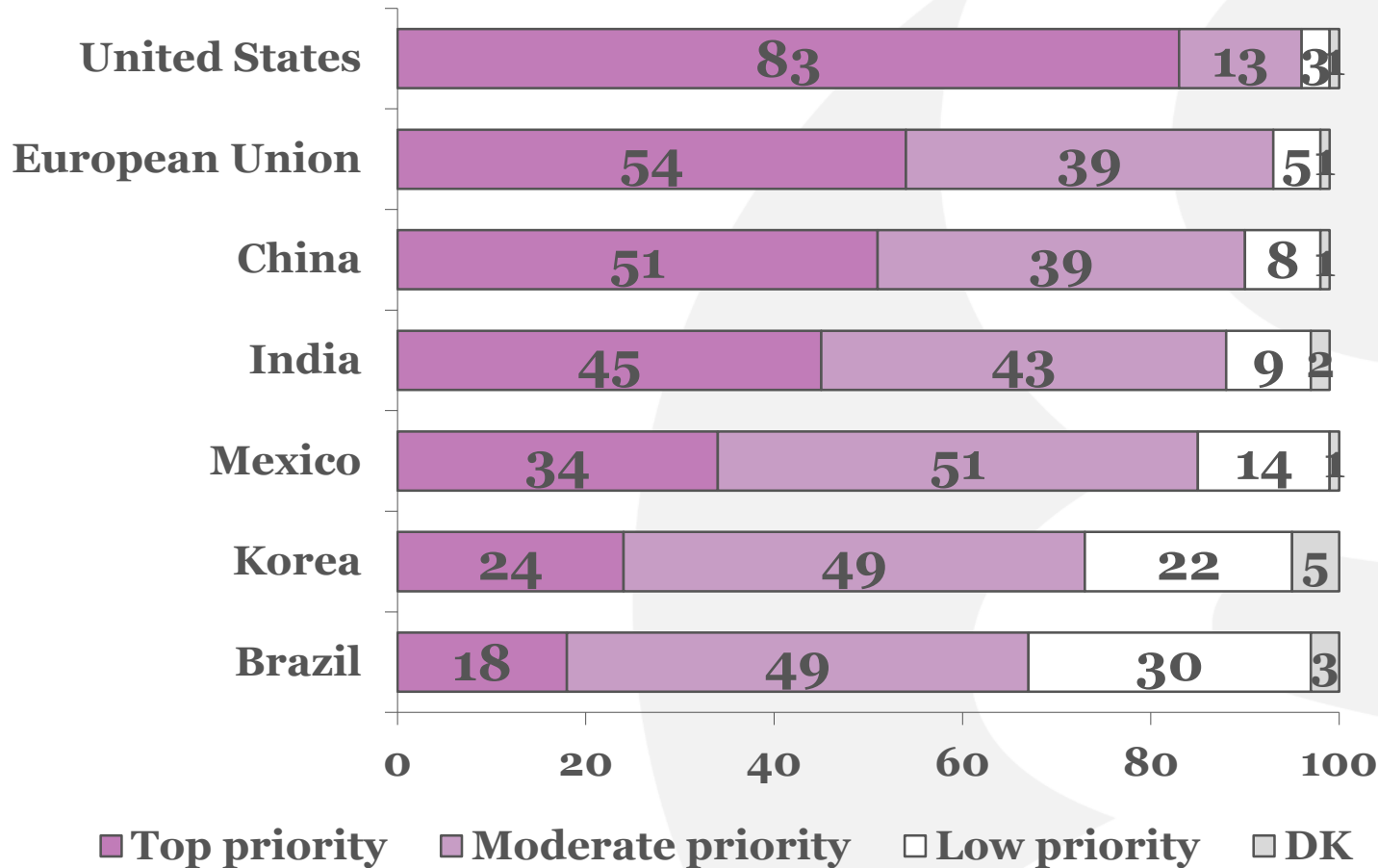




- ❑ Executives were nearly unanimous in saying the US should be a top priority for Canada when it comes to opening up two-way trade and investment.
- ❑ Half said that the EU and China should be top priorities.
  - In 2014 two in three executives surveyed said China should be a top priority, meaning we see a 15% drop in interest now compared to last year when assessing China as a priority for expanded Canadian trade.
  - Mexico and India are the next highest priorities for the C-Suite with about four in ten saying they should be top priorities.
  - Somewhat fewer now, compared to past surveys would prioritize Brazil (-15%) and Korea (-14%).
- ❑ A key issue in trade talks is farming quotas, which most oppose:
  - 54% oppose the continuation of supply management in Canada.
  - 39% support supply mgt. However strong opposition is much stronger than strong support.
  - There is majority support in each region



I'd like you to tell me how much of a priority Canada should place on opening up two-way trade and investment with specific markets. Should opening up trade with \_\_\_\_\_ be a top priority, a moderate priority, or low priority? (% saying each)



| top priority % change since '14 | top priority % change since '13 |
|---------------------------------|---------------------------------|
| N/A                             | N/A                             |
| +1%                             | +19%                            |
| -15%                            | -25%                            |
| -1%                             | -10%                            |
| N/A                             | N/A                             |
| -14%                            | -6%                             |
| -15%                            | N/A                             |



**Do you support or oppose the continuation of supply management in Canada? This is the policy that controls the price of agricultural products and agrifood through marketing boards and limits imports with tariffs. (if support/oppose) Would that be: (% saying each)**

