



the gandalf group

# C-Suite Survey On The Canadian Dollar

December 2007

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Published and Broadcast by:





- ❑ Telephone interviews among 152 C-Suite executives from the top 1000 corporations in Canada
- ❑ Conducted between November 7 and November 21, 2007
- ❑ This sample yields a margin of error of +/-7.32%
- ❑ We did not represent the Atlantic region on the regional breakdowns because the sample size was small, thus yielding a much higher margin of error
  - Atlantic (n=6)



- ❑ Executives are concerned about the high level of the dollar. In a very short period of time – for the first time since we started C-Suite survey – the dollar has vaulted ahead of other concerns facing Canadian business.
- ❑ Most executives say it's had a negative effect on their bottom line and it's the number one reason cited for recent declines in sales.
- ❑ While most expect the dollar to stay above \$1 US for the next year, most would prefer it lower than that, with 93 cents being the average preference of executives.



- ❑ Most think the Bank of Canada's job is, first and foremost, to control inflation. Most executives do not think the Bank should intervene to bring down the value of the dollar – though manufacturers disagree. David Dodge wins high marks at the end of his term as Bank Governor.
- ❑ The Finance Minister has recovered somewhat with this audience. Subsequent to the Economic Statement his favourability numbers are up noticeably, and his confidence numbers are up a little.
- ❑ We found the strongest support for the proposed plan of cutting corporate tax rates to 15%, among other remedies to the challenges posed by a high dollar - but very little for cutting the GST to 5%.



- ❑ Manufacturing executives are deeply concerned about the value of the dollar and think it will certainly lead to layoffs and cost cutting, and may lead to the end of manufacturing in Canada. In advance of the fed/prov finance ministers meeting set for Dec. 11-12, manufacturing executives are looking for immediate relief.
- ❑ The C-Suite thinks that the high value of the dollar says less about the strength of the Canadian economy than it does about the weakness of the US economy. As a consequence, most do not see the high dollar as any reason for pride in Canada.



- ❑ Unlike previous surveys, regional differences are not as stark as those between industrial sectors or company type. E.g. Last quarter, we found that human resources challenges were a problem for most executives in the West, in contrast to other regions. This time, a regional or national snapshot masks the divergent paths taken by companies in response to the dollar.
- ❑ There are at least two key divergences in this case:
  - 1) The first is between manufacturers and the service sector – the former has had to cut costs significantly and seen orders decline, while the service sector is reporting much less difficulty owing to the high dollar;
  - 2) The second is between companies who depend on the US for sales but whose costs are in Canada, and those whose sales are in largely in Canada.
- ❑ Looking at these divergent groups yields much insight on where business is going on the issue. Since many of the executives reporting negative effects are large employers, they speak to a significant portion of Canada's economy and where it is going.

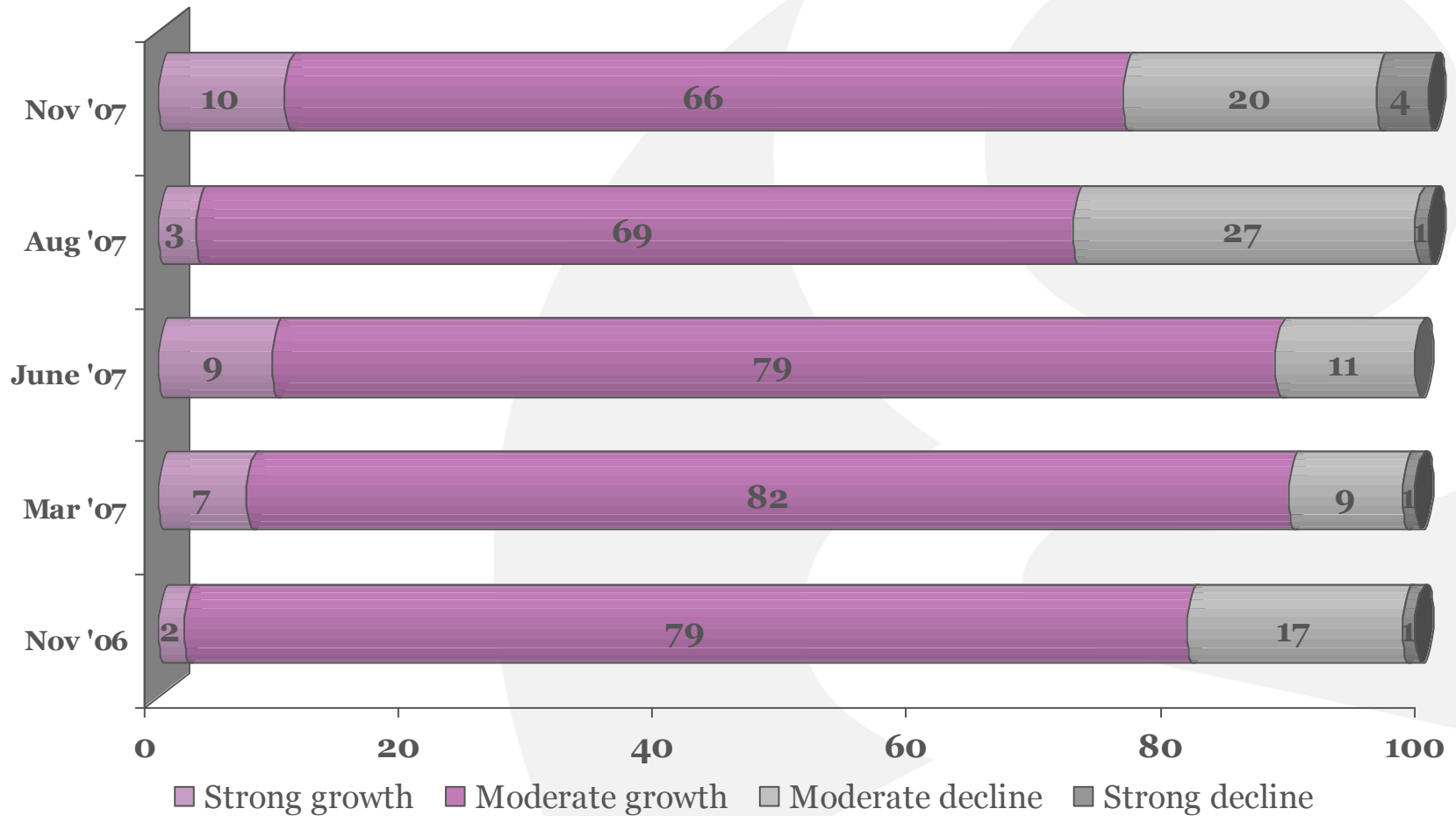


- ❑ Expectations for the Canadian economy are similar to those recorded last quarter. Last quarter's responses in turn were down from previous quarters. Three quarters of respondents predict growth (most say moderate growth) while just under a quarter (24%) expect moderate decline. This remains below the optimistic levels we saw in 2006 (when those predicting decline did not exceed 17%).
- ❑ Those executives who mostly strongly believe the loonie will be at or above \$1US a year from now tend to be less optimistic about the economic outlook. Those who strongly expect the dollar to swing back below \$1US are more bullish.
- ❑ Last quarter, 27% of executives predicted growth for the US economy – the lowest since we began C-Suite. That has now declined to 21%.



# Expectations: Canadian Economy

What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?

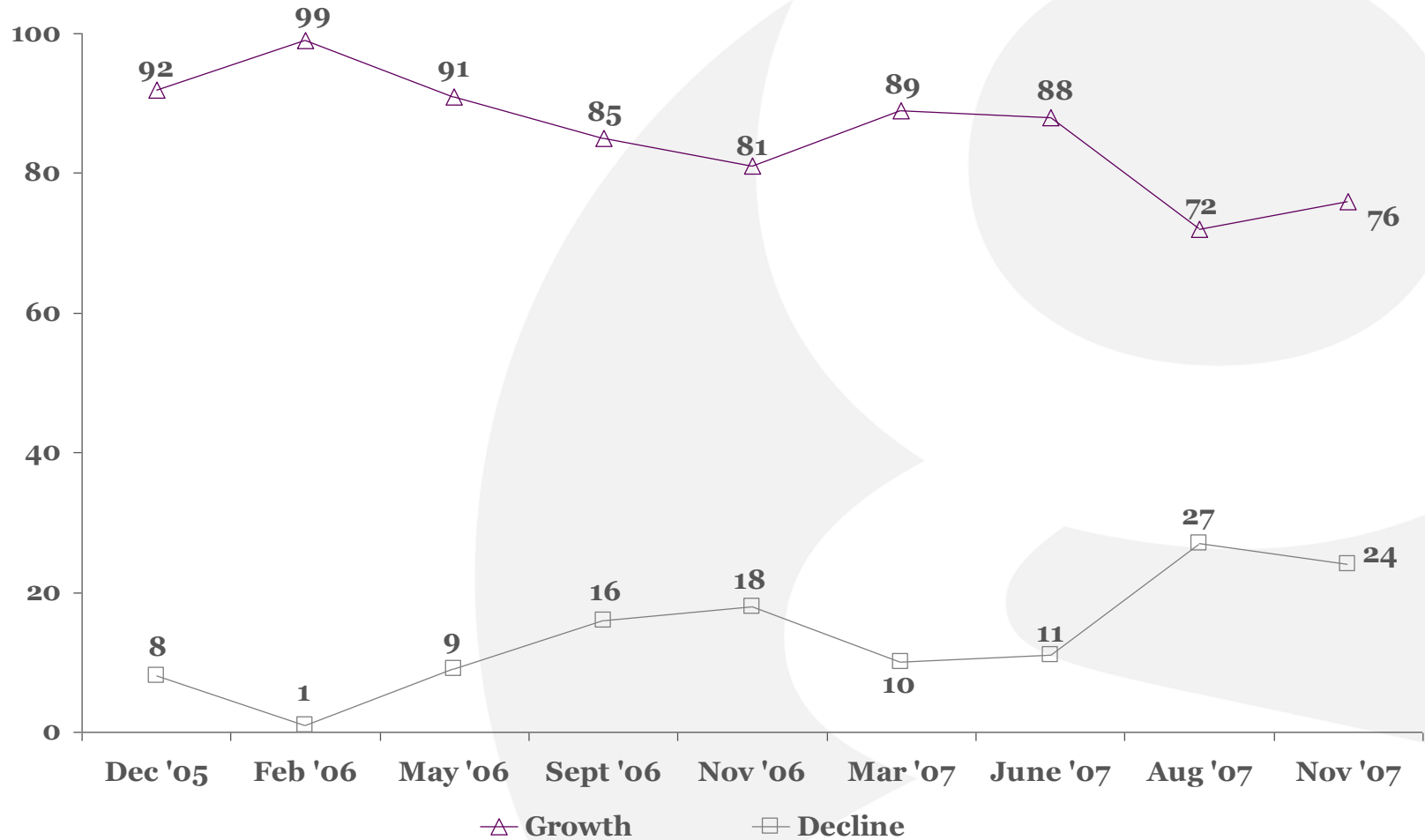






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# Expectations: Canadian Economy

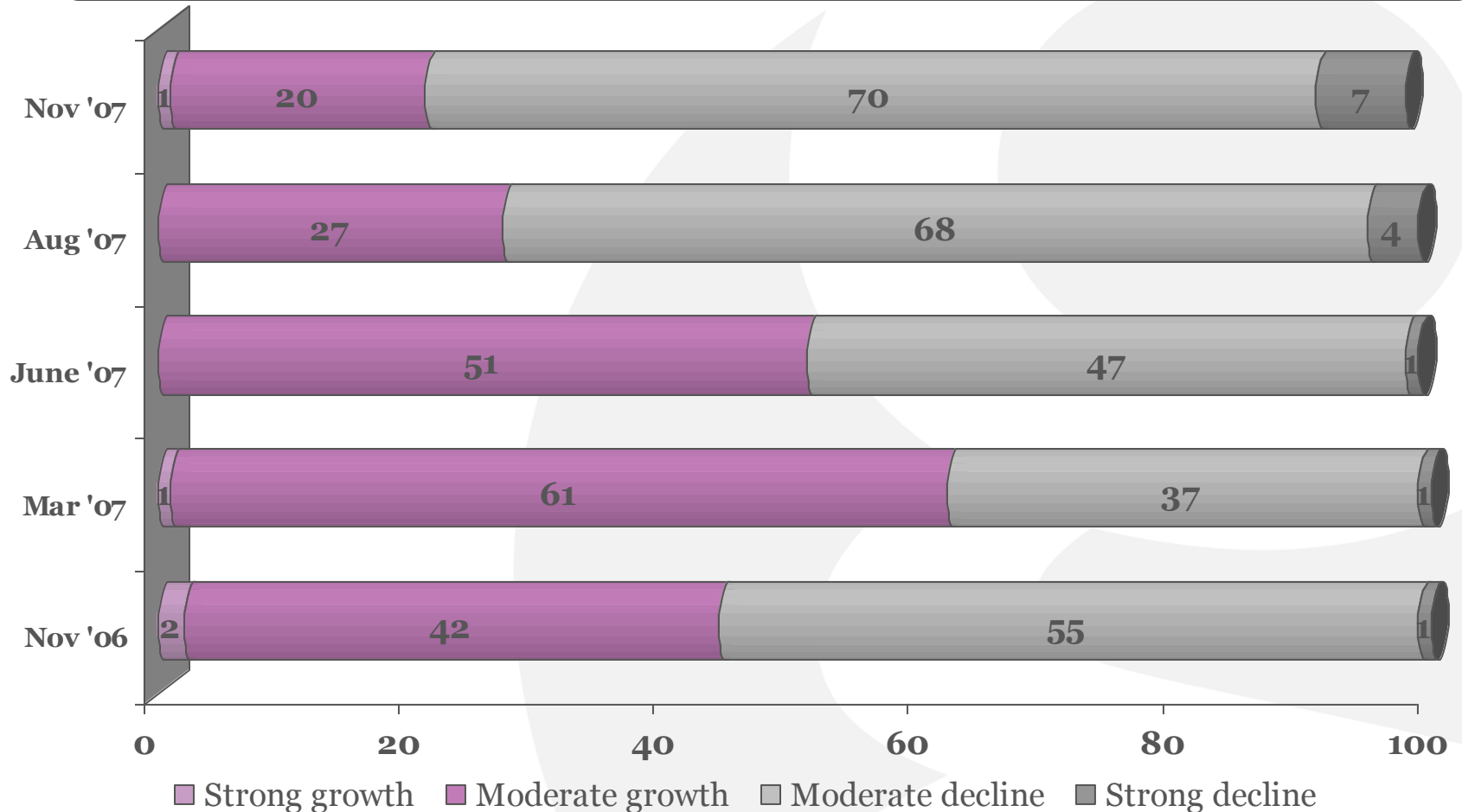
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# Expectations: U.S. Economy

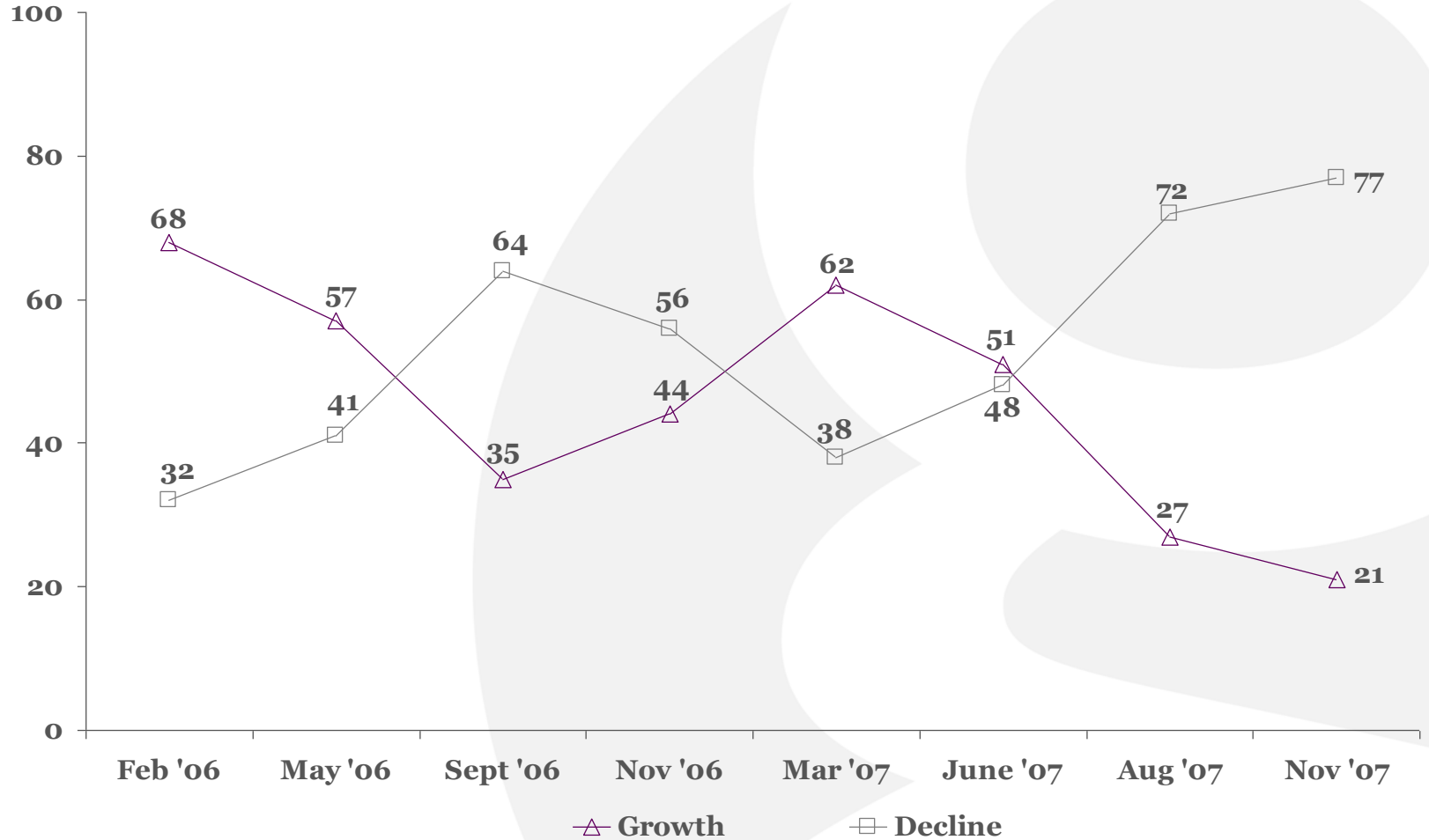
What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





# Expectations: U.S. Economy

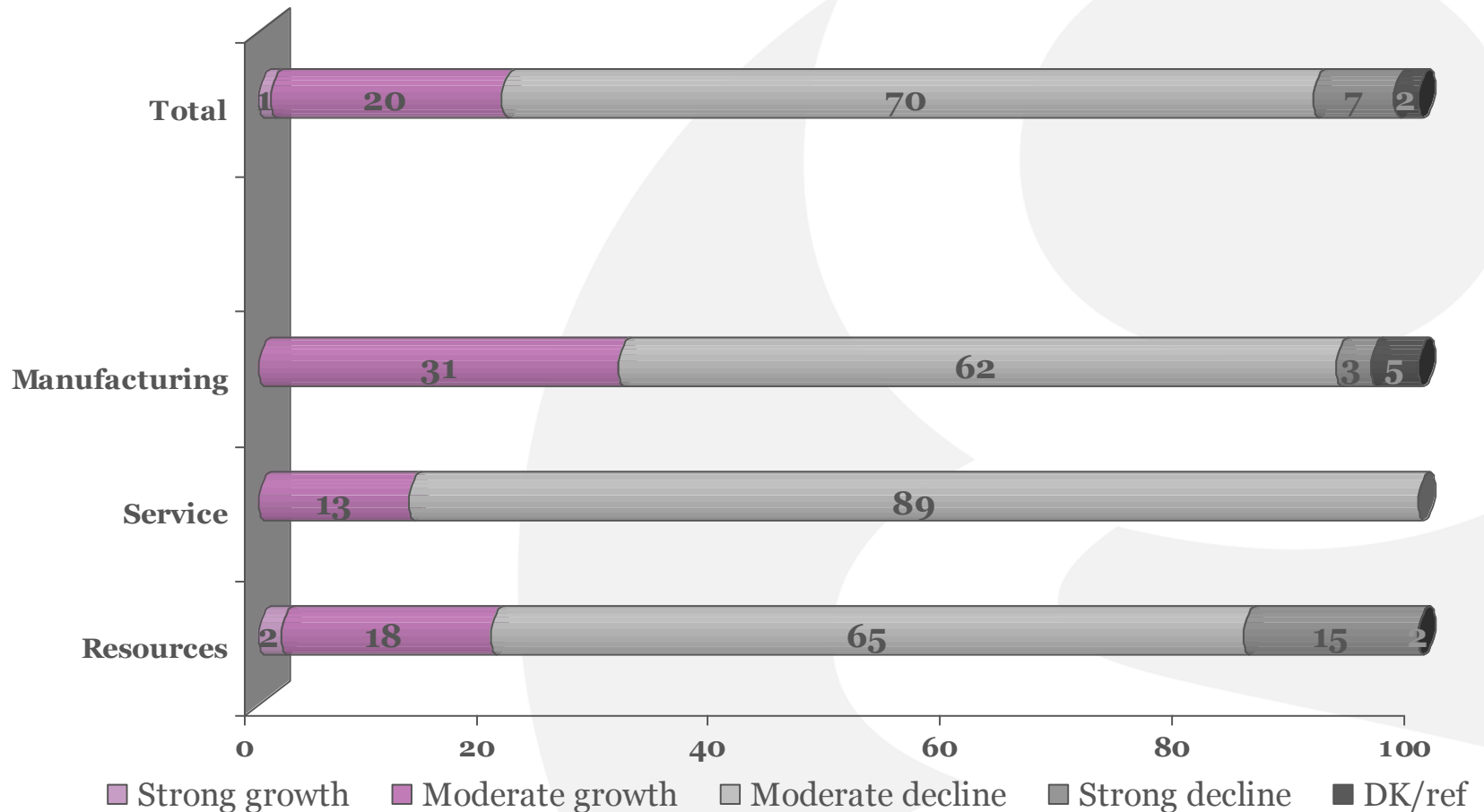
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# Expectations: U.S. Economy

What are your expectations for the U.S. over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?



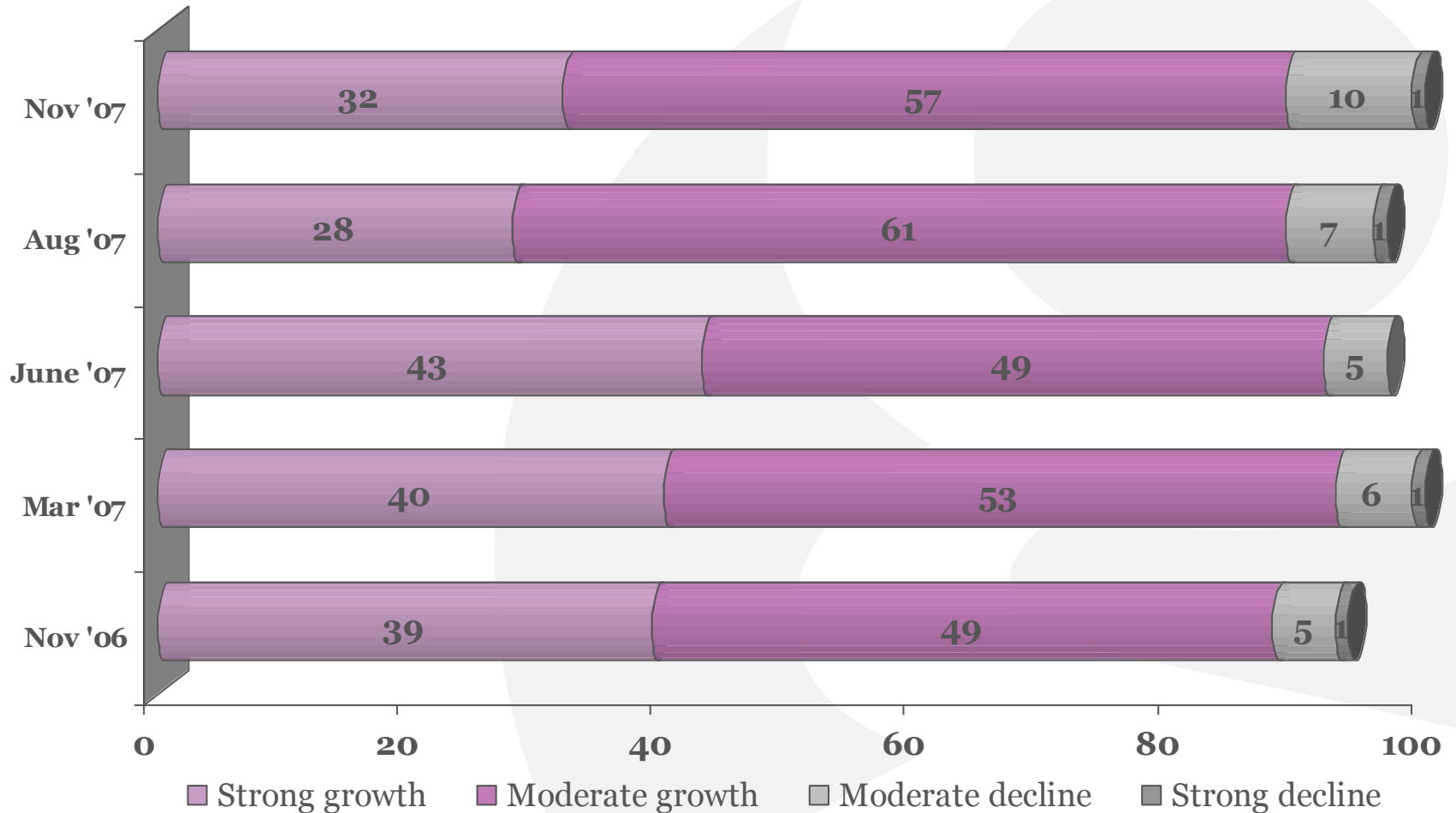


- ❑ Executives' forecasts for their own companies are more optimistic than their view of the Canadian and US economies. As with our last survey, 88% expect growth over the coming year. The manufacturing sector is less optimistic than the resources and services sectors, with 77% predicting growth for their companies and 21% predicting moderate decline.
- ❑ Almost no respondents are predicting strong decline for their company.
- ❑ Many in manufacturing are companies whose sales are largely in the US but whose production costs are Canadian. 21% of all companies in that category forecast decline over the coming year.
- ❑ Resources executives are the most bullish – with 94% forecasting net growth, 44% forecasting strong growth.



# Expectations: Company

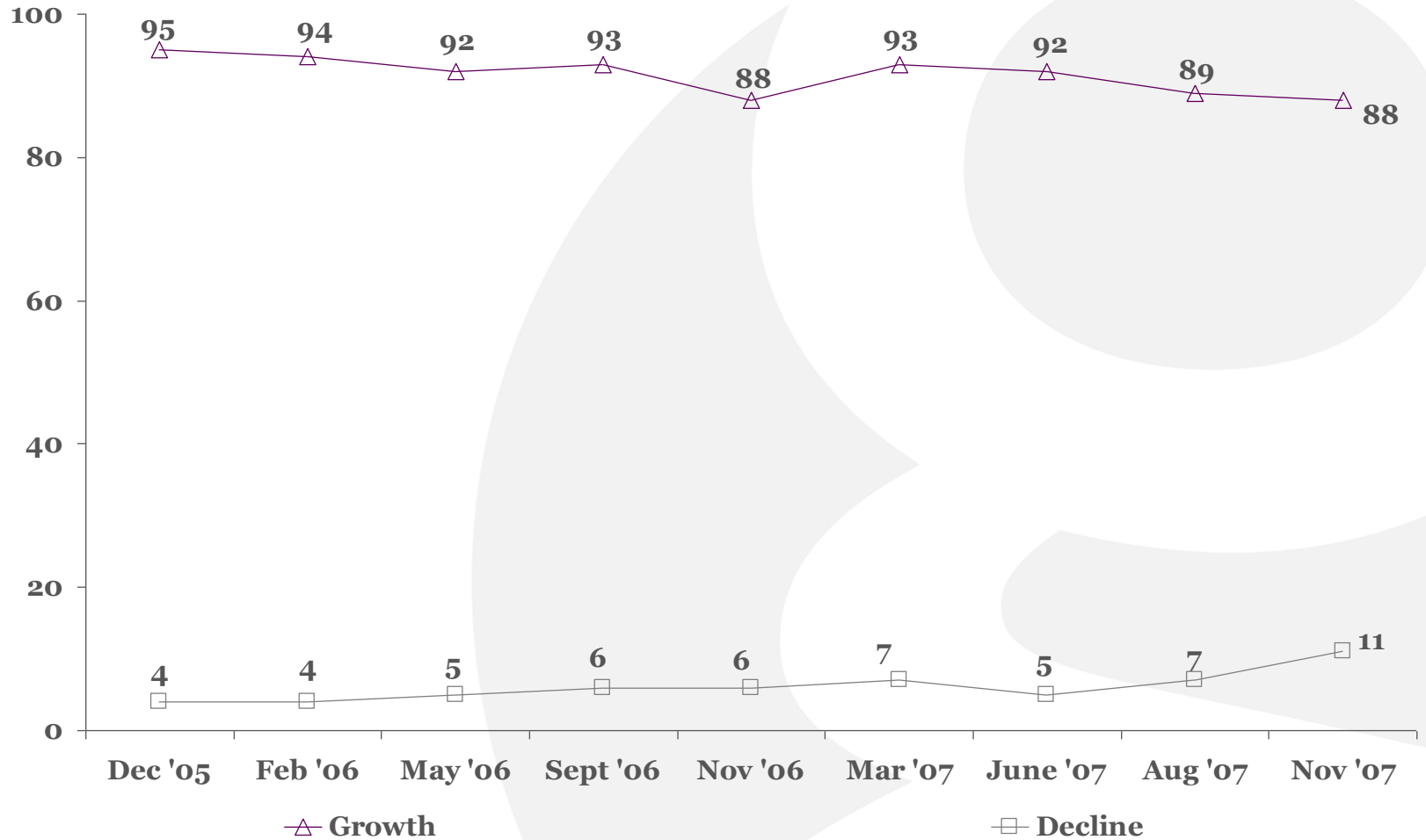
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# Expectations: Company

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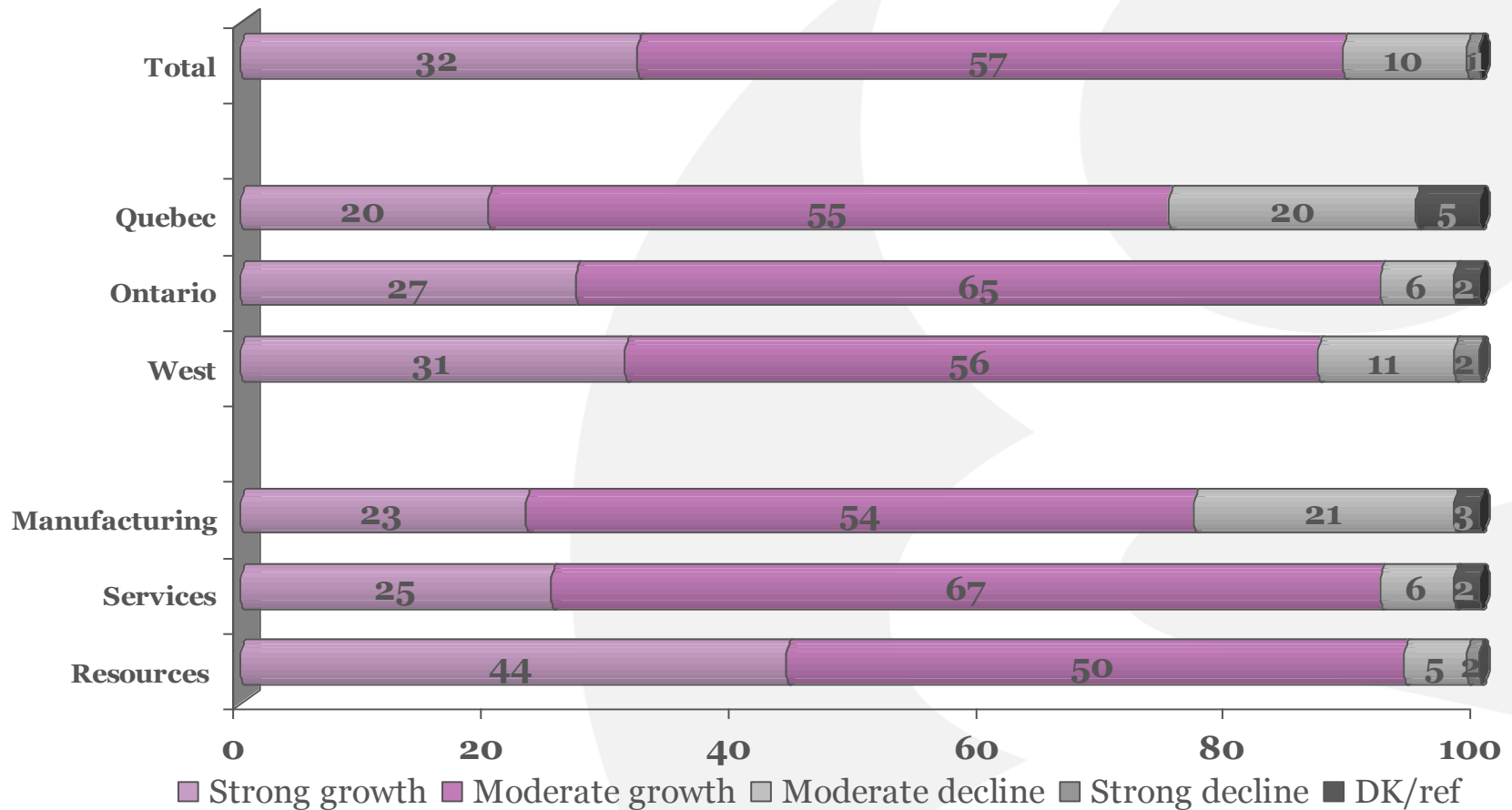






# Expectations: Company

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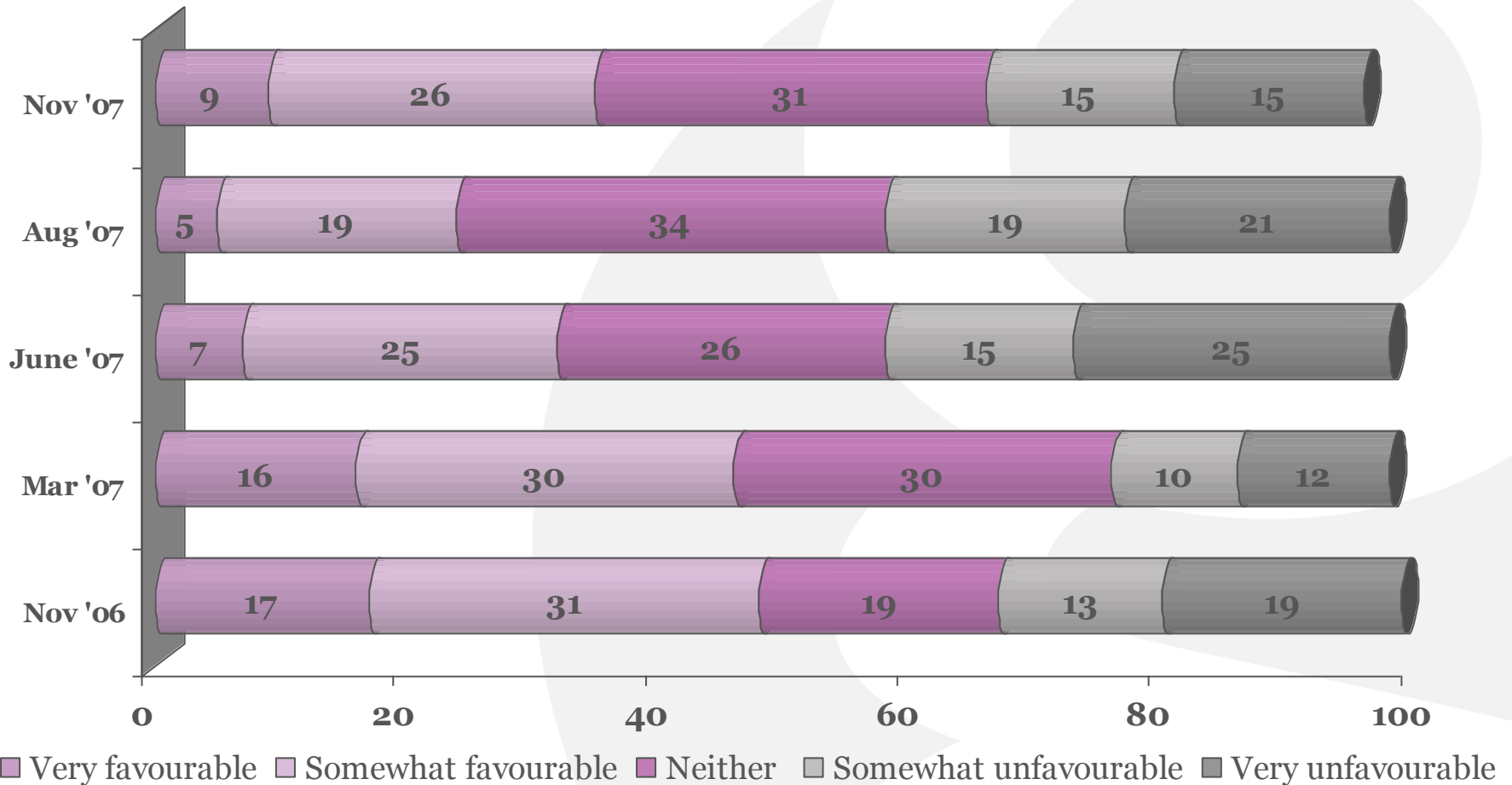


- ❑ Opinions of Jim Flaherty show small signs of righting themselves. 36% express a favourable view, up since last quarter. This follows his economic statement which introduced among other things a plan for cutting corporate taxes. His stock seems to have improved among resource executives, who previously gave Flaherty the lowest ratings. He gets generally higher ratings (42% favourable) among mid-size companies, than larger ones (1000 plus employees).
- ❑ His confidence numbers have improved this quarter, with 55% having a fair or great deal of confidence, up five points. Only 38% of manufacturing executives express confidence in his management of the economy.



# Impression of Minister Flaherty

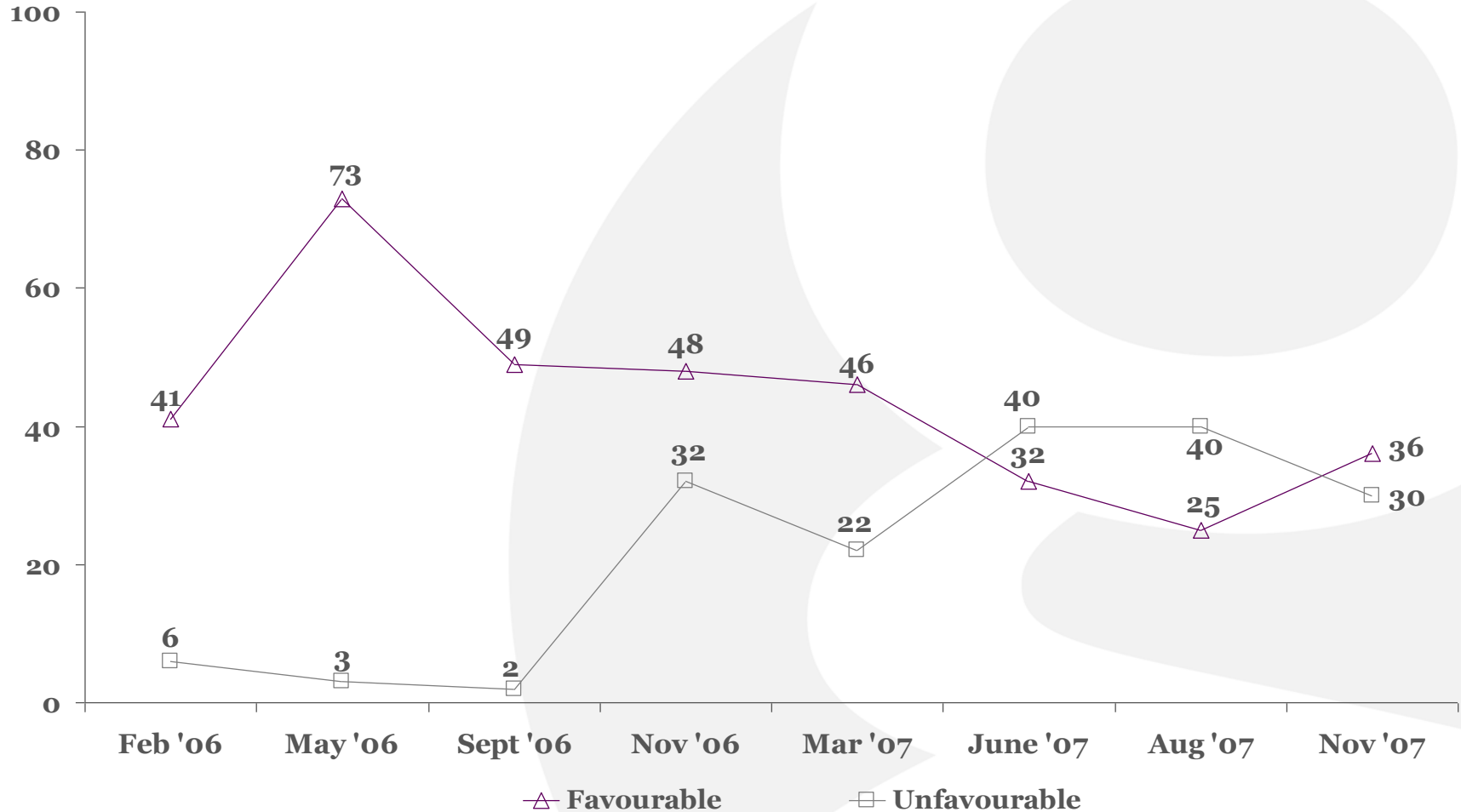
How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?





# Impression of Minister Flaherty

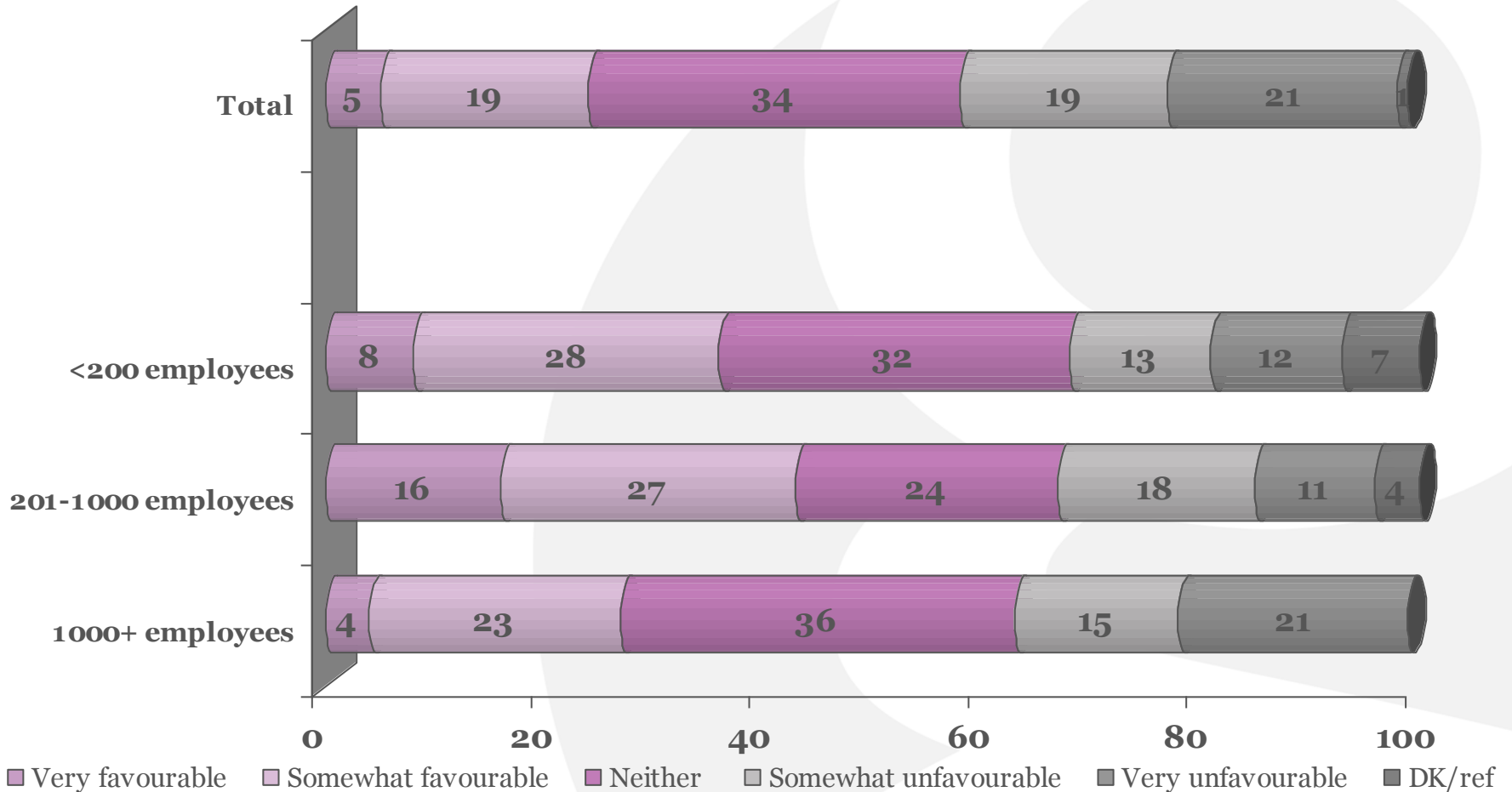
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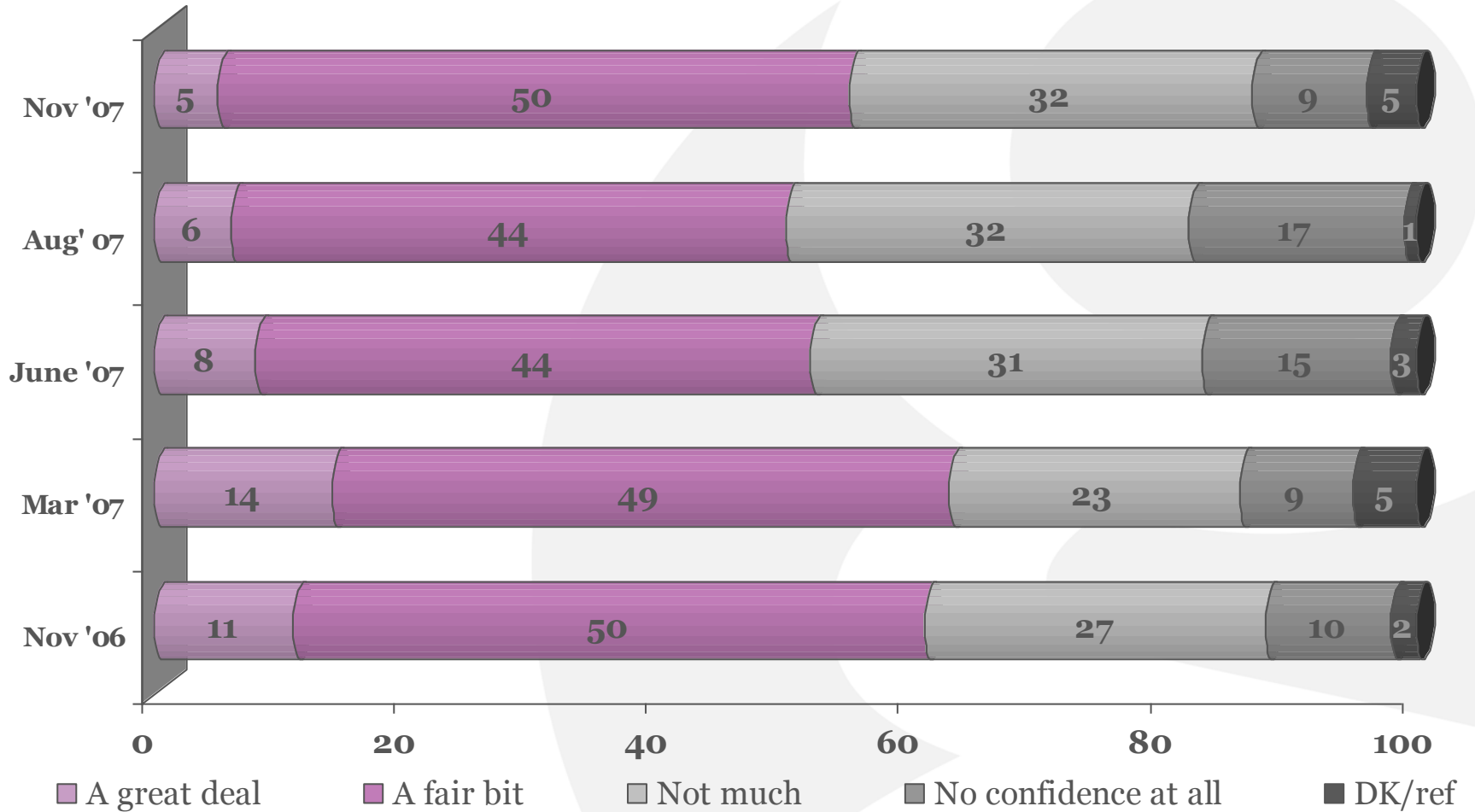
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# Confidence in Minister Flaherty

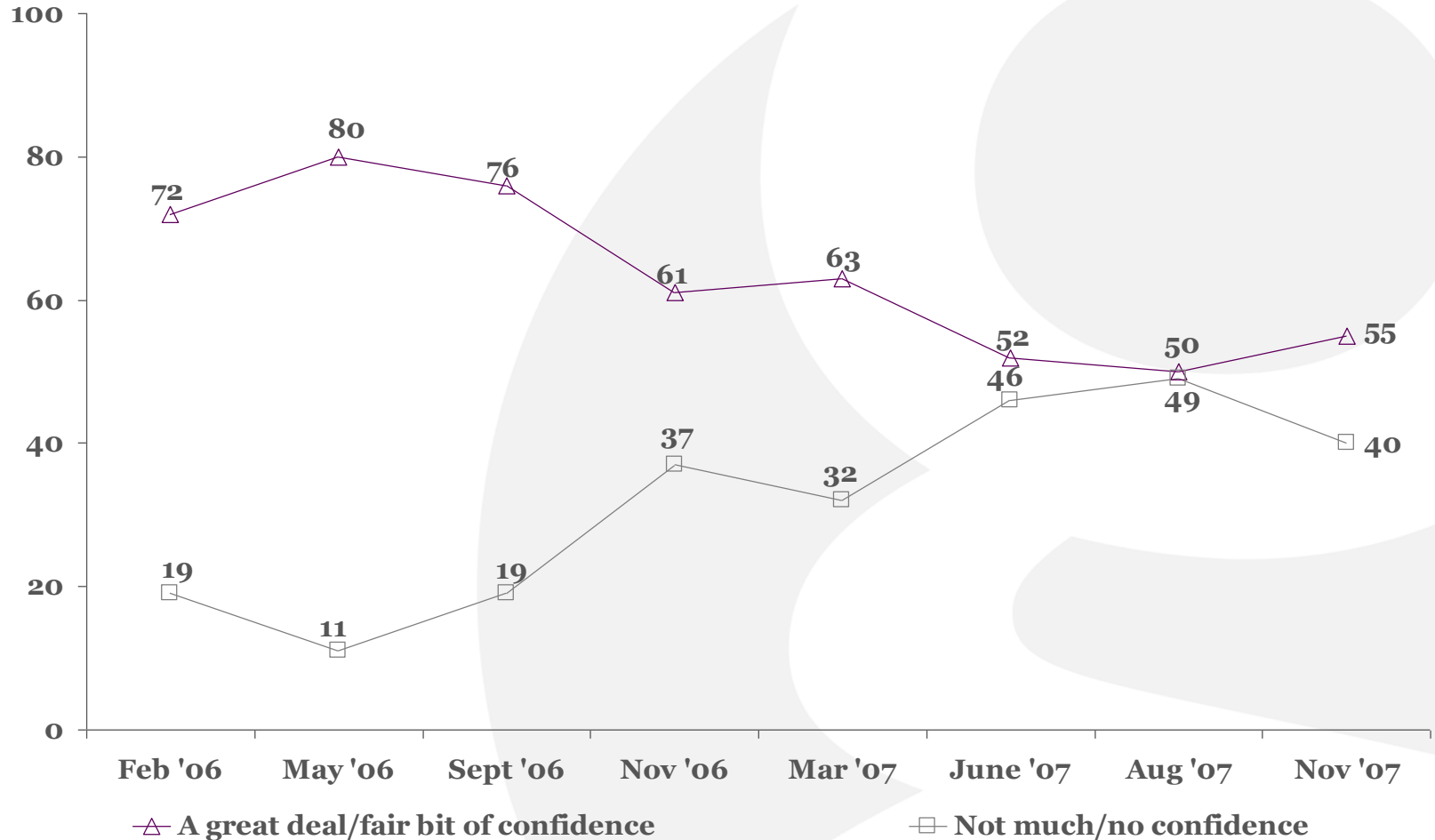
How much confidence do you have in Finance Minister Flaherty's management of the economy?





# Confidence in Minister Flaherty

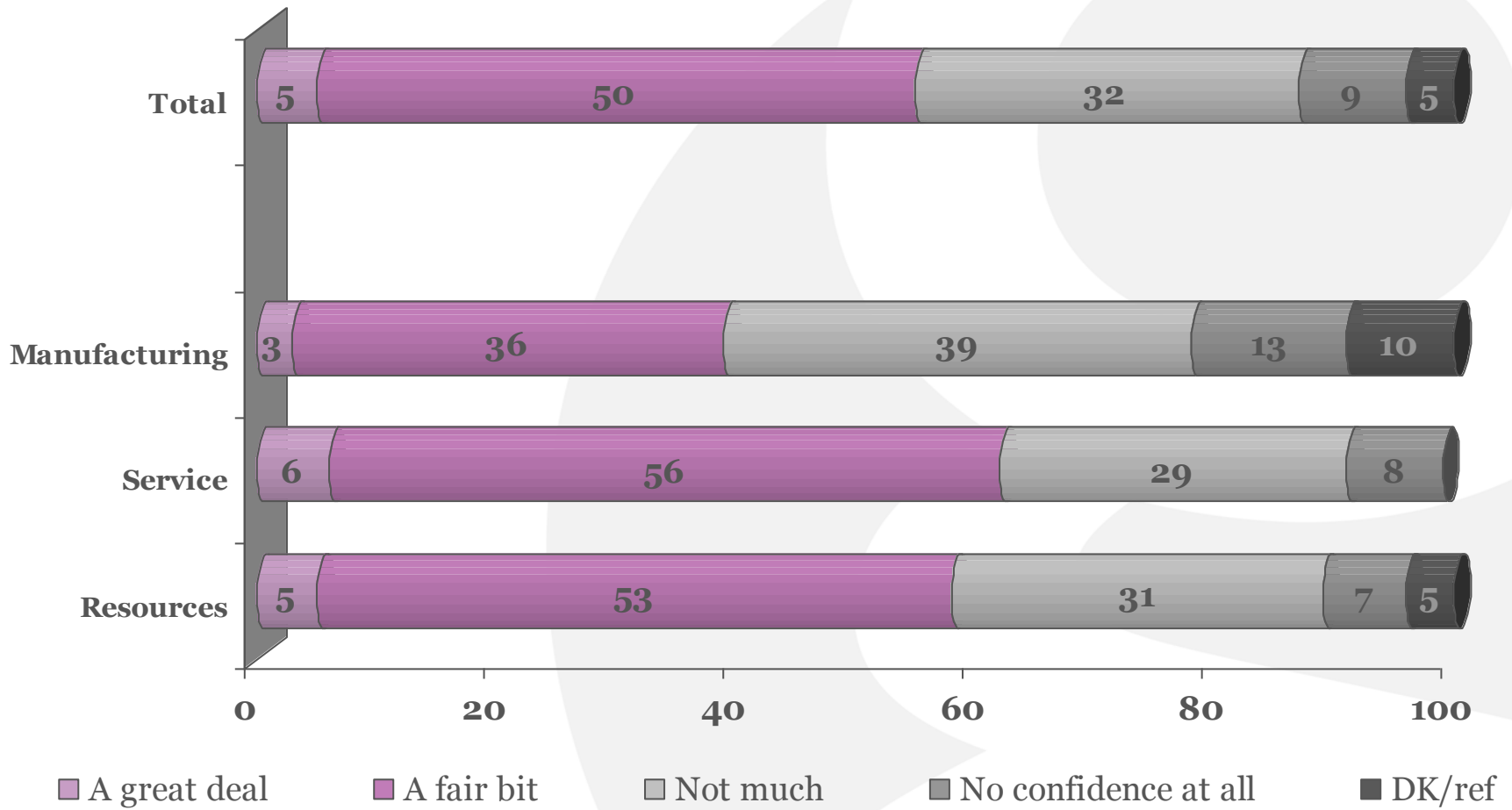
How much confidence do you have in Finance Minister Flaherty's management of the economy?





# Confidence in Minister Flaherty: Sector

How much confidence do you have in Finance Minister Flaherty's management of the economy?







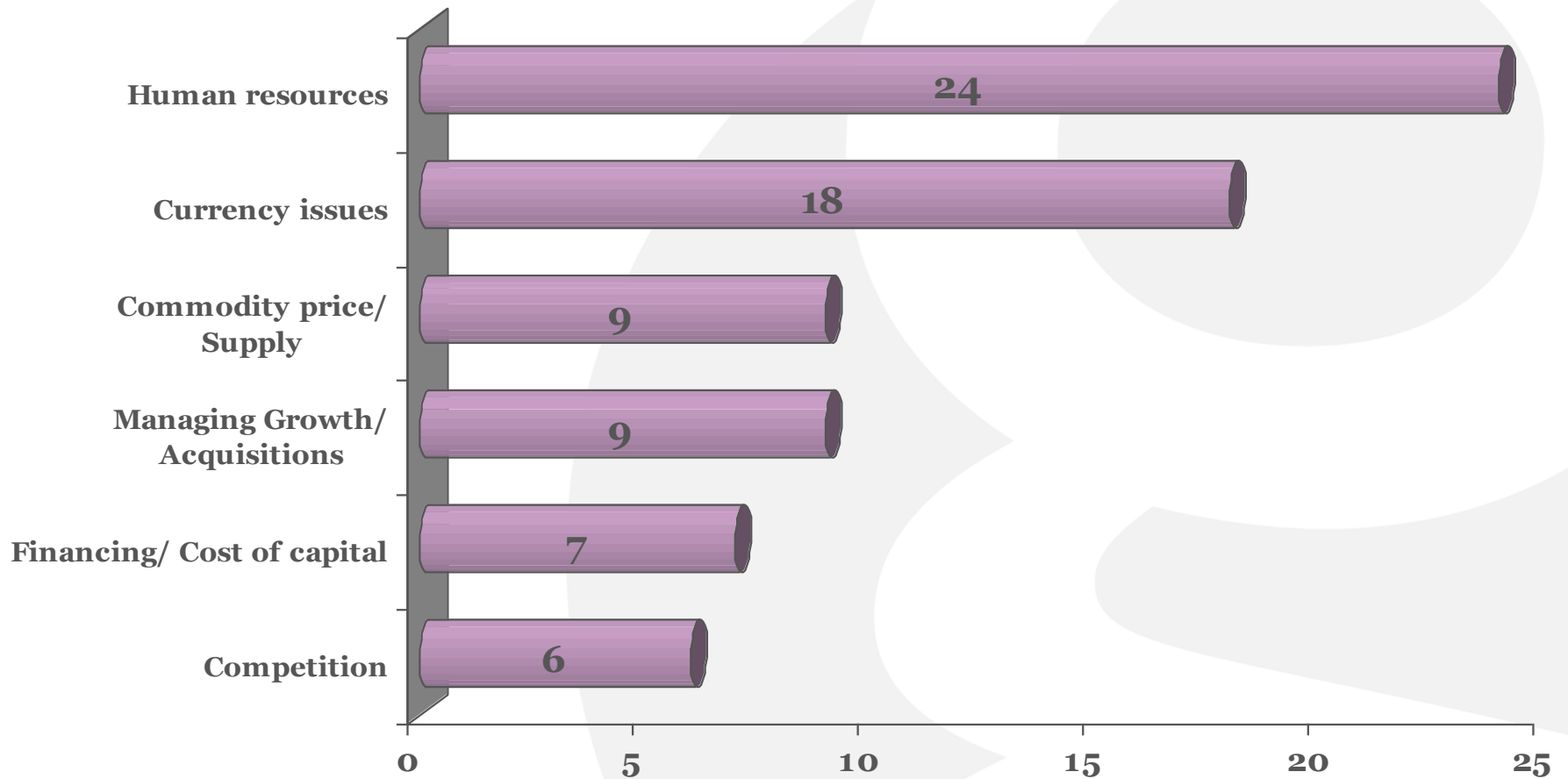
# Top of Mind Challenges

- ❑ As in previous quarters, human resources challenges are the most frequently cited challenge facing the companies we surveyed (24%), but this quarter currency concerns have risen sharply, mentioned by 18% of respondents (7% and 9% mentioned them in Q 2 and Q3 respectively). Those are coming overwhelmingly from manufacturing executives, 41% of whom cite this concern.
- ❑ The service sector is most concerned with human resources challenges as are companies in the West. Western-based executives and those in the resource sector also list costs of financing/capital, costs in general, and commodity price/supply.



# Biggest Issue Facing Company

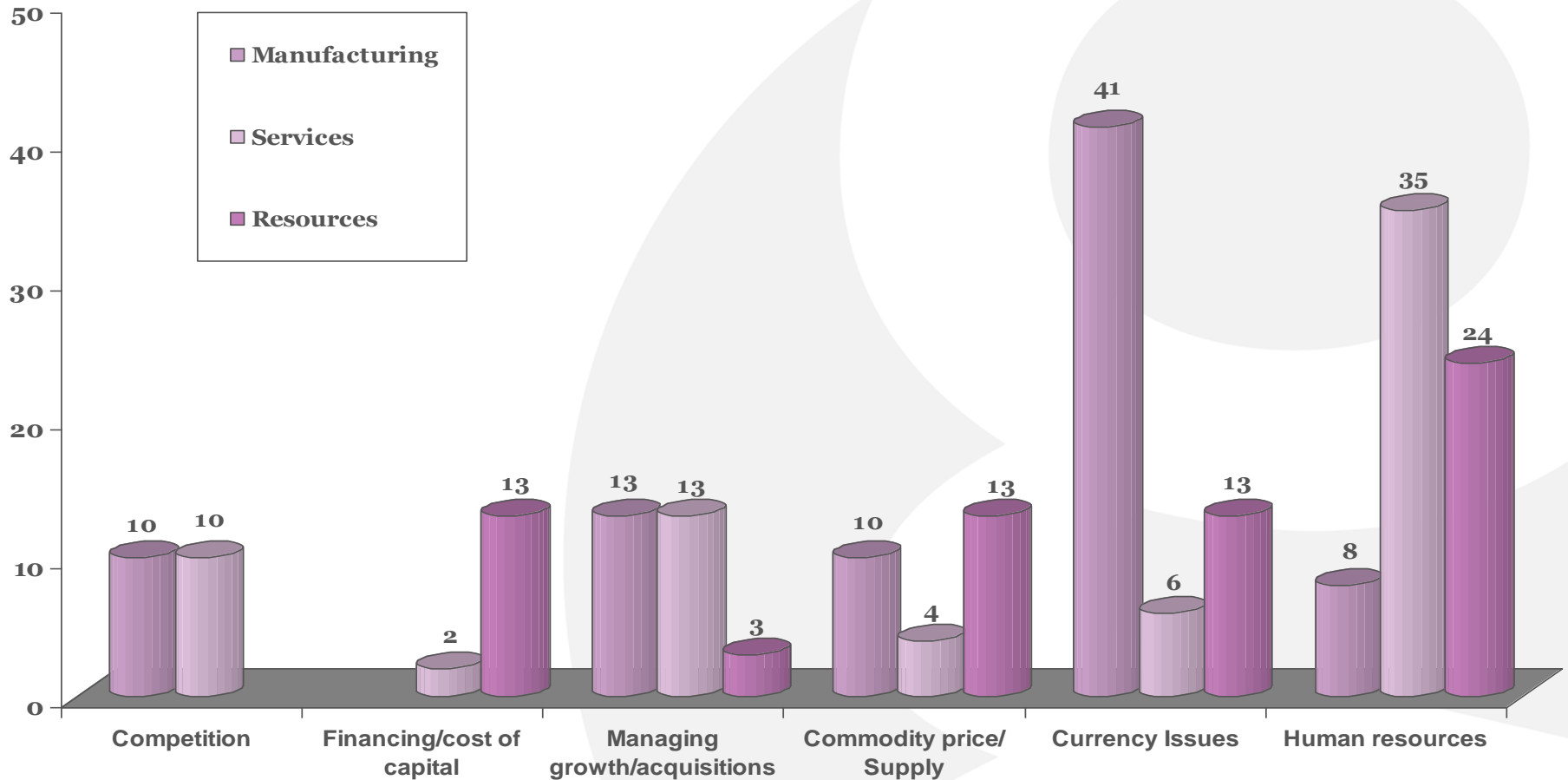
What is the biggest challenge facing your company right now?





# Biggest Issue Facing Company: Sector

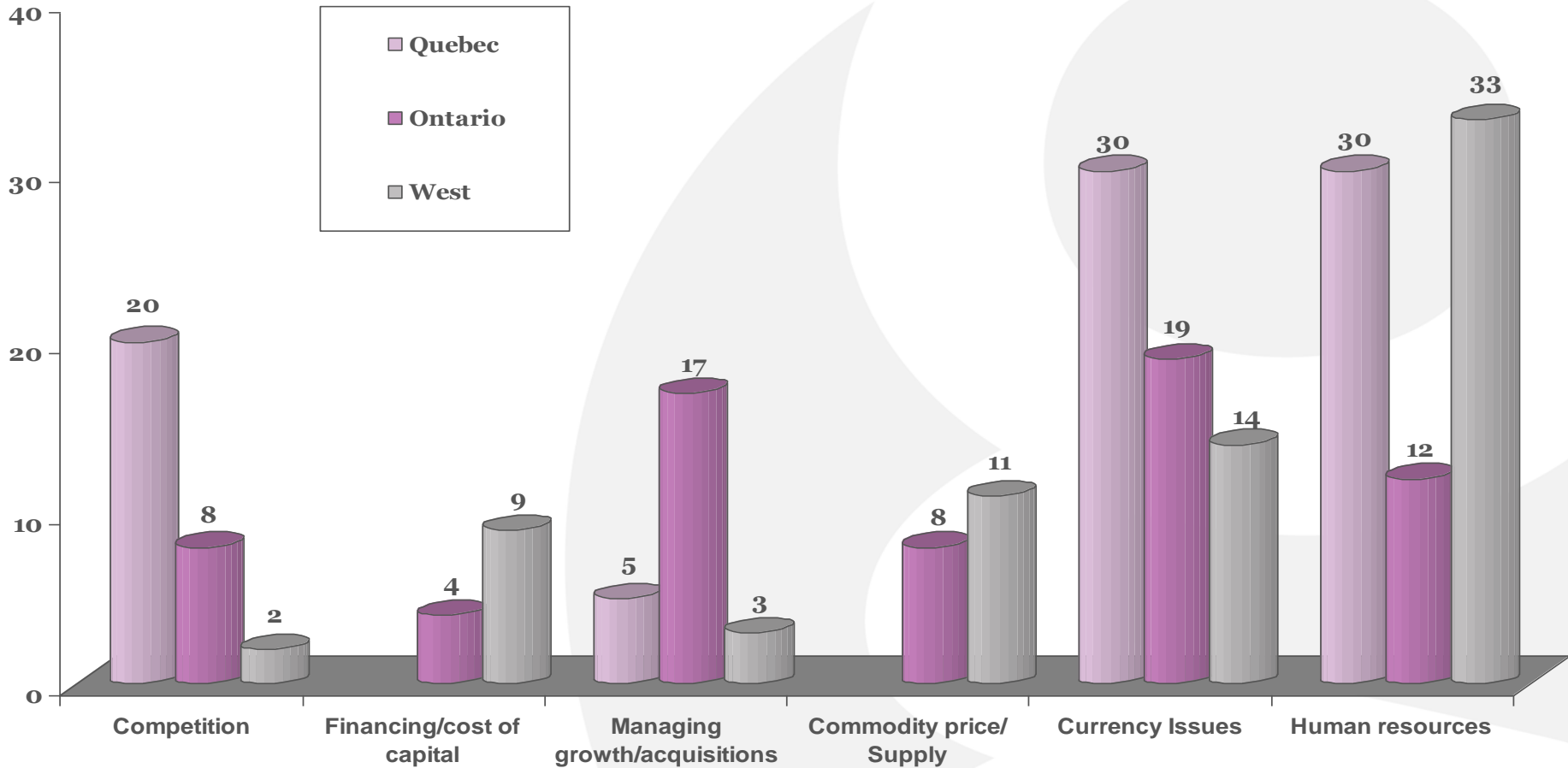
What is the biggest challenge facing your company right now?





# Biggest Issue Facing Company: Region

What is the biggest challenge facing your company right now?





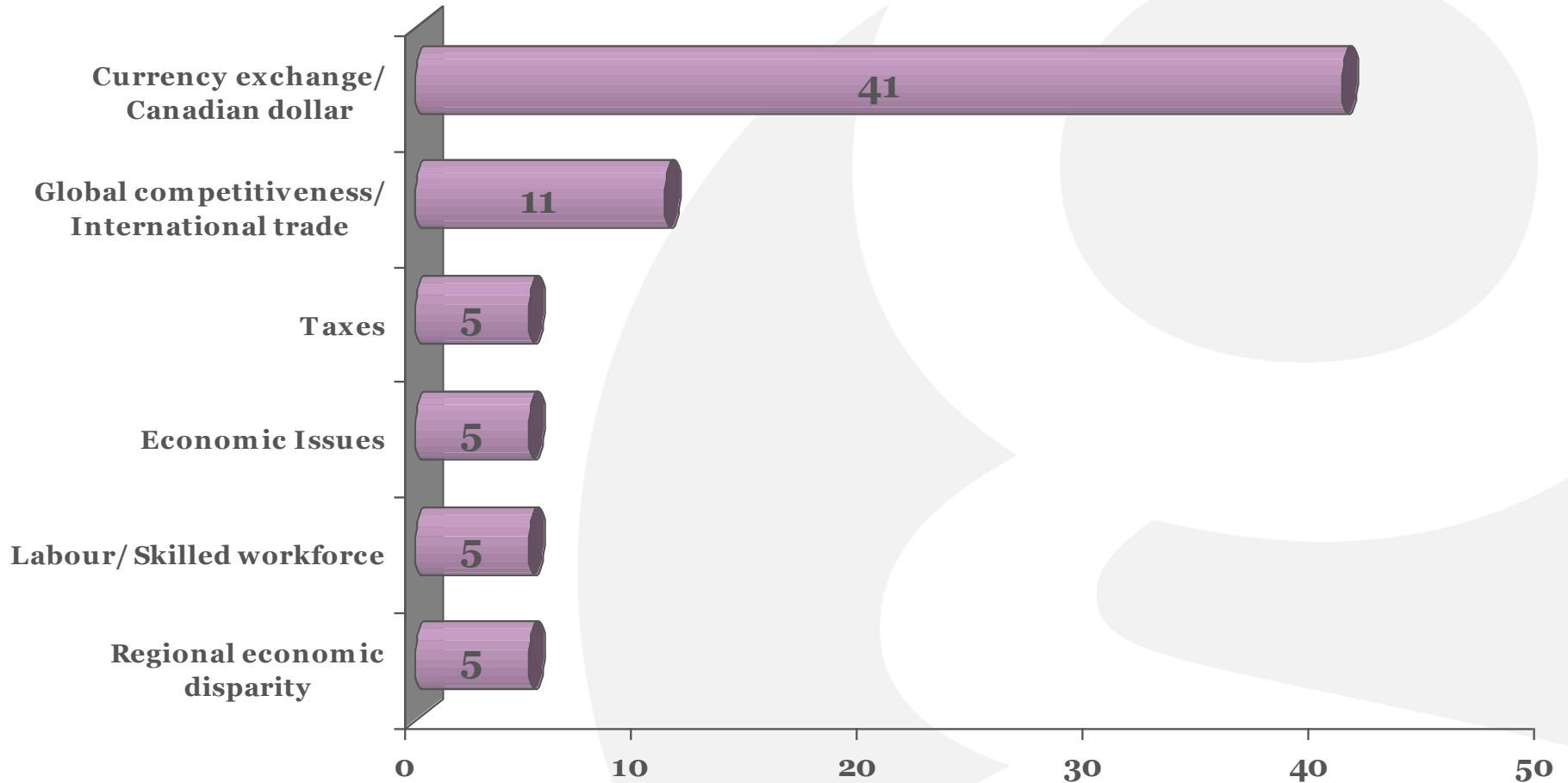
## Top of Mind Concerns

- ❑ C-Suite executives clearly put economic concerns at the forefront of the national agenda. When asked what the biggest issue facing Canada is, 41% say the dollar. Respondents who said so also generally felt that the dollar would be at or above \$1 US a year from now. They see this as a significant issue now and for the medium to long-term.
- ❑ On the most important issue facing Canadian business, 51% say the dollar, a significant shift from last quarter when 25% said global competitiveness/international trade, 21% said human resources and 17% cited the dollar. Concern is higher among manufacturers, but it's the top issue given by respondents in all sectors and regions.



# Most Important Issue Facing Canada

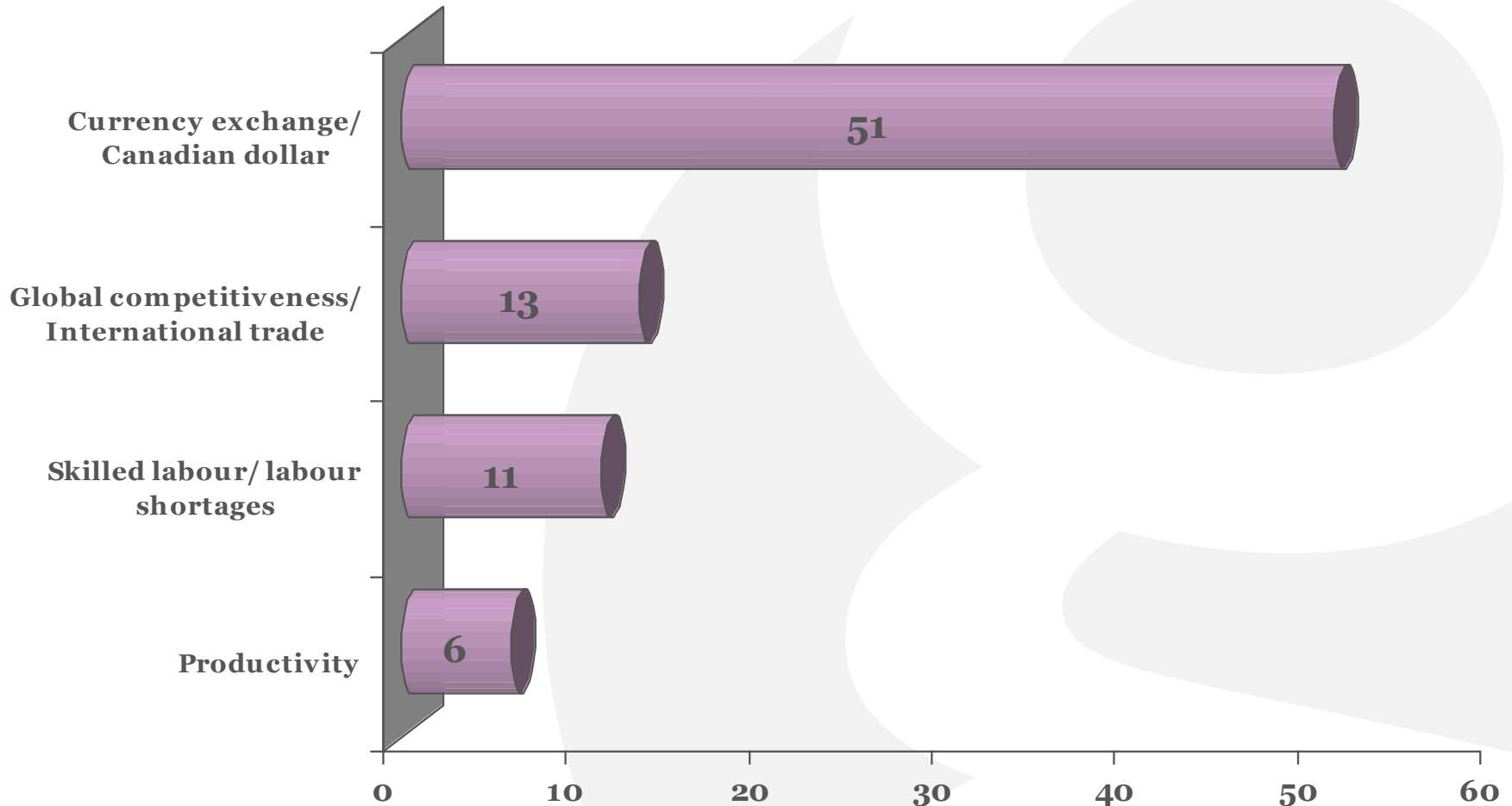
What would you say is the most important challenge facing Canada right now?





# Most Important Issue Facing Canadian Businesses

What would you say is the most important issue facing Canadian businesses today?





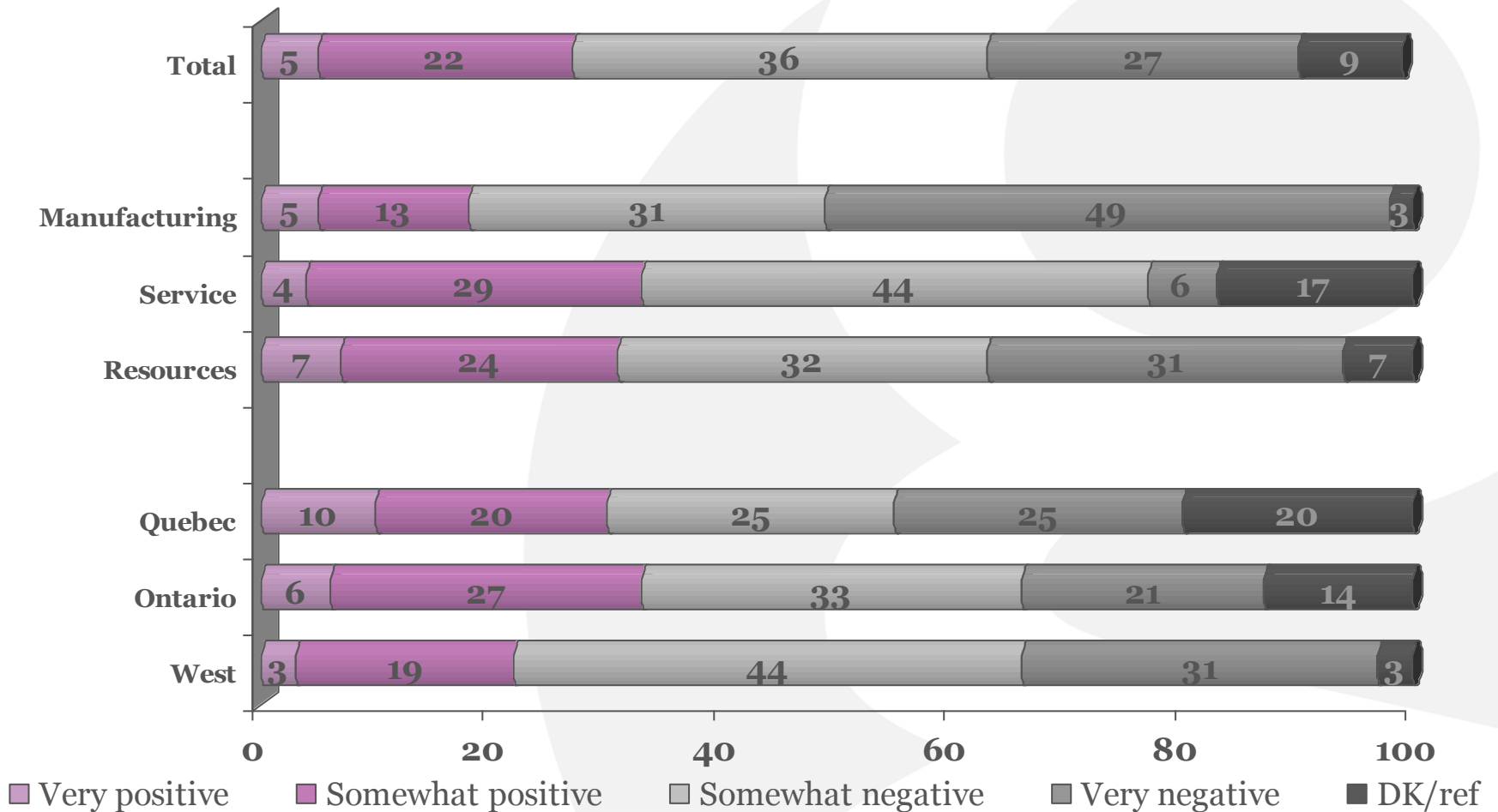
- ❑ Almost two-thirds say the rising dollar has had a somewhat or very negative effect on their bottom line. This view is held by half of service sector companies, two-thirds of resources companies and 80% of manufacturers, 49% of whom say it's had a very negative effect. In contrast, 31% of resources executives and only 6% of service sector companies say it's had a very negative effect. In fact, one third of service sector executives say the high dollar has been a positive.
- ❑ Among those companies who say it's had a very negative effect, the majority are those with the bulk of their sales are in the US but whose costs are in Canada.





# Impact of Increased Value of Canadian Dollar

Over the past year, the value of the Canadian dollar has risen significantly. Would you say this has had a very positive, somewhat positive, somewhat negative or very negative impact on your firm's bottom line?





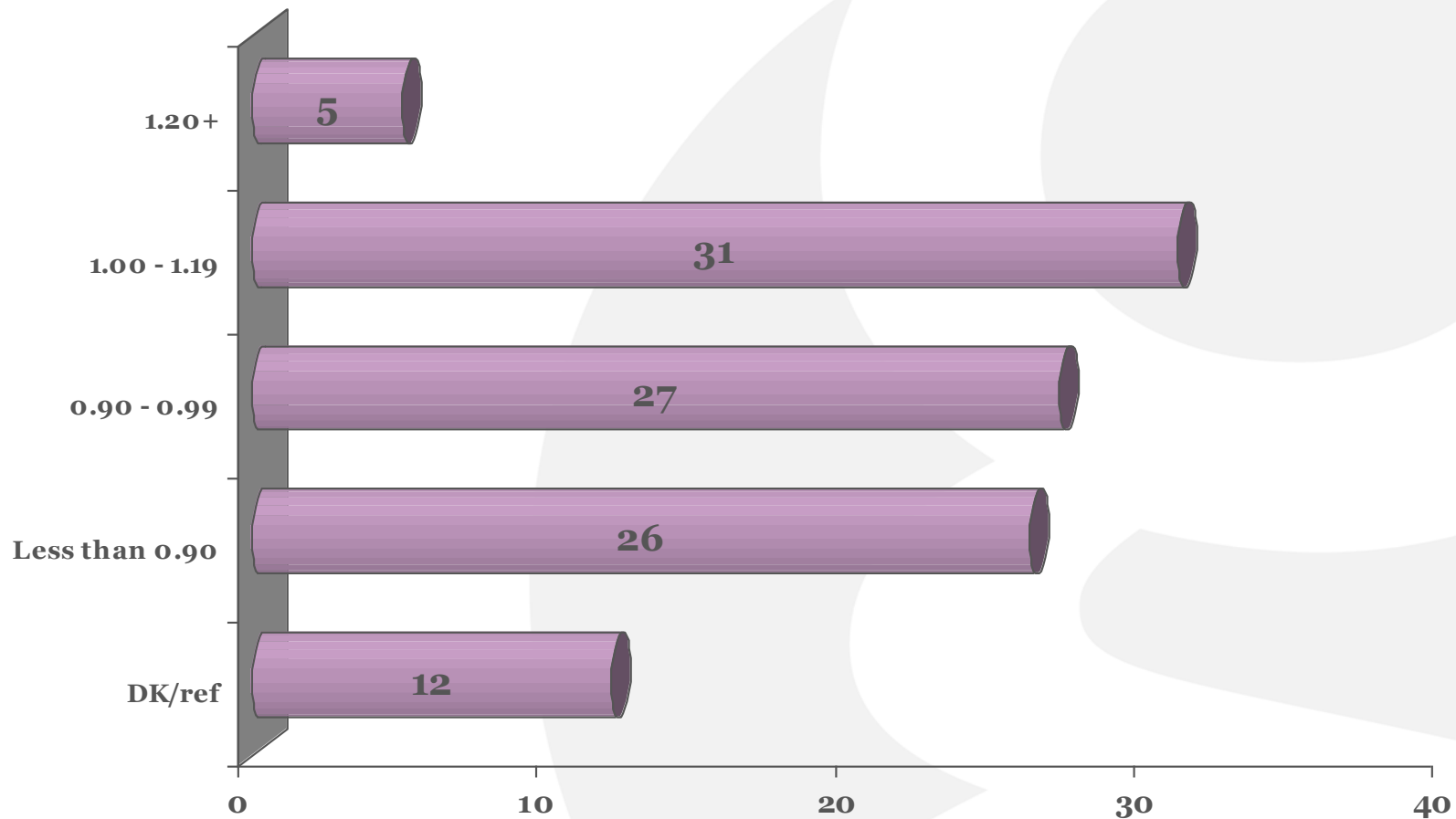
# The Dollar's New Valuation

- ❑ When asked to set an optimal value for the dollar, from the point of view of their company, the mean response of participants was 93 cents US. Manufacturing executives want the dollar at a lower level than do executives from other sectors, and almost seventy percent of manufacturing executives want the dollar below par with the US currency.
- ❑ Executives aged 55 and up favour a lower dollar – only 24% of them want the dollar at or above par. In contrast, 48% of executives under 44 favour a dollar at or above par.
- ❑ 74% of executives say the high loonie has had a positive effect on their personal standard of living. That number is higher in the West.



# Optimal Value of the Canadian Dollar

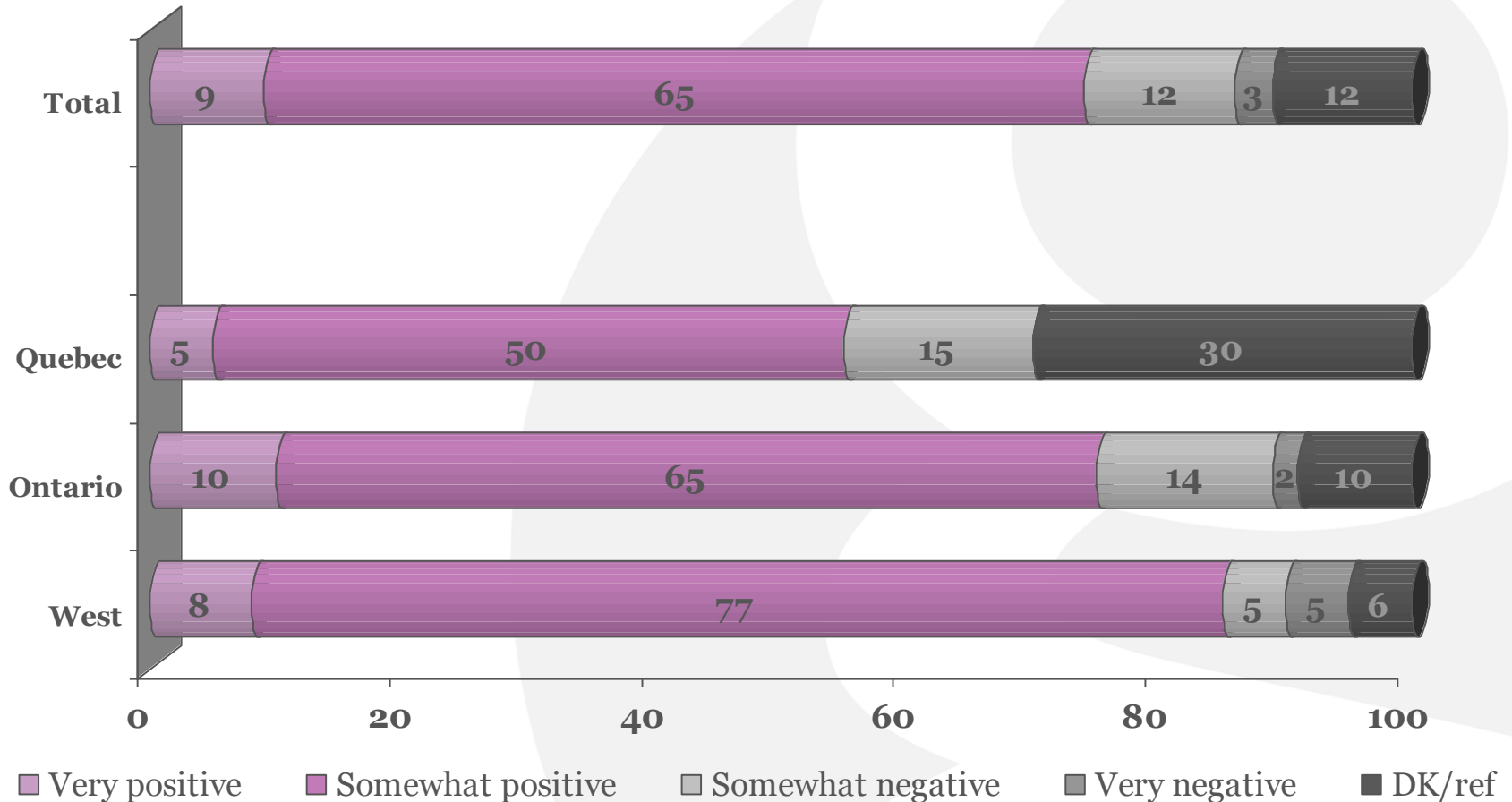
Thinking specifically of your company, what would be the optimal value of the Canadian dollar against the US dollar?





# Rise in Dollar: Affect on Personal Standard of Living

Speaking as an individual consumer, has the rise of the dollar had a positive or negative affect on your personal standard of living?



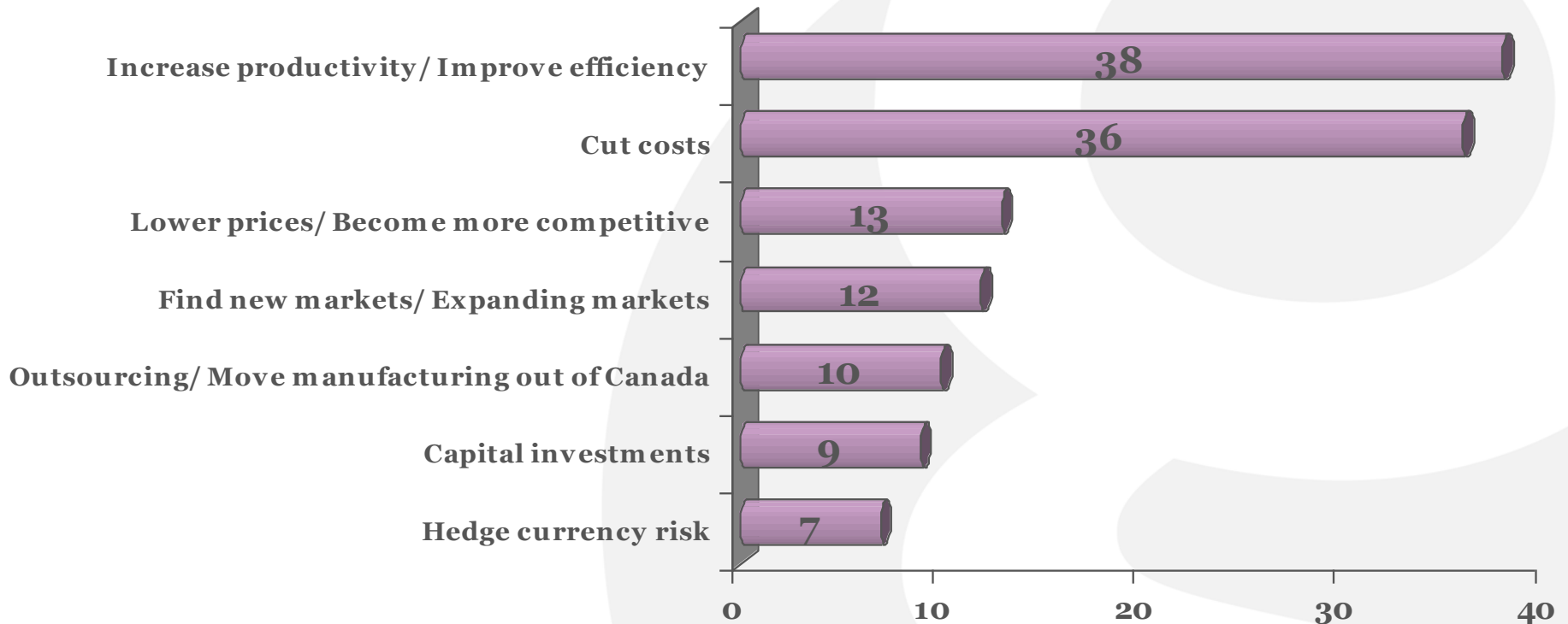


- ❑ On what measures companies should take, just over a third say “increase productivity/improve efficiency” and a similar number suggest cutting costs. Offshore outsourcing/relocation is suggested by 10% while 12% suggest finding new markets. 13% recommend cutting prices/becoming competitive. Companies that suggest offshore sourcing and relocation are almost all companies who say the dollar’s rise has had a negative effect on their bottom line.
- ❑ On what government should do, a majority think some action is required. Lowering interest rates is favoured by about 32% of respondents, while 17% say lower taxes. 12% think the currency should be managed while an equal number suggest leaving it alone.



# Necessary Business Measures

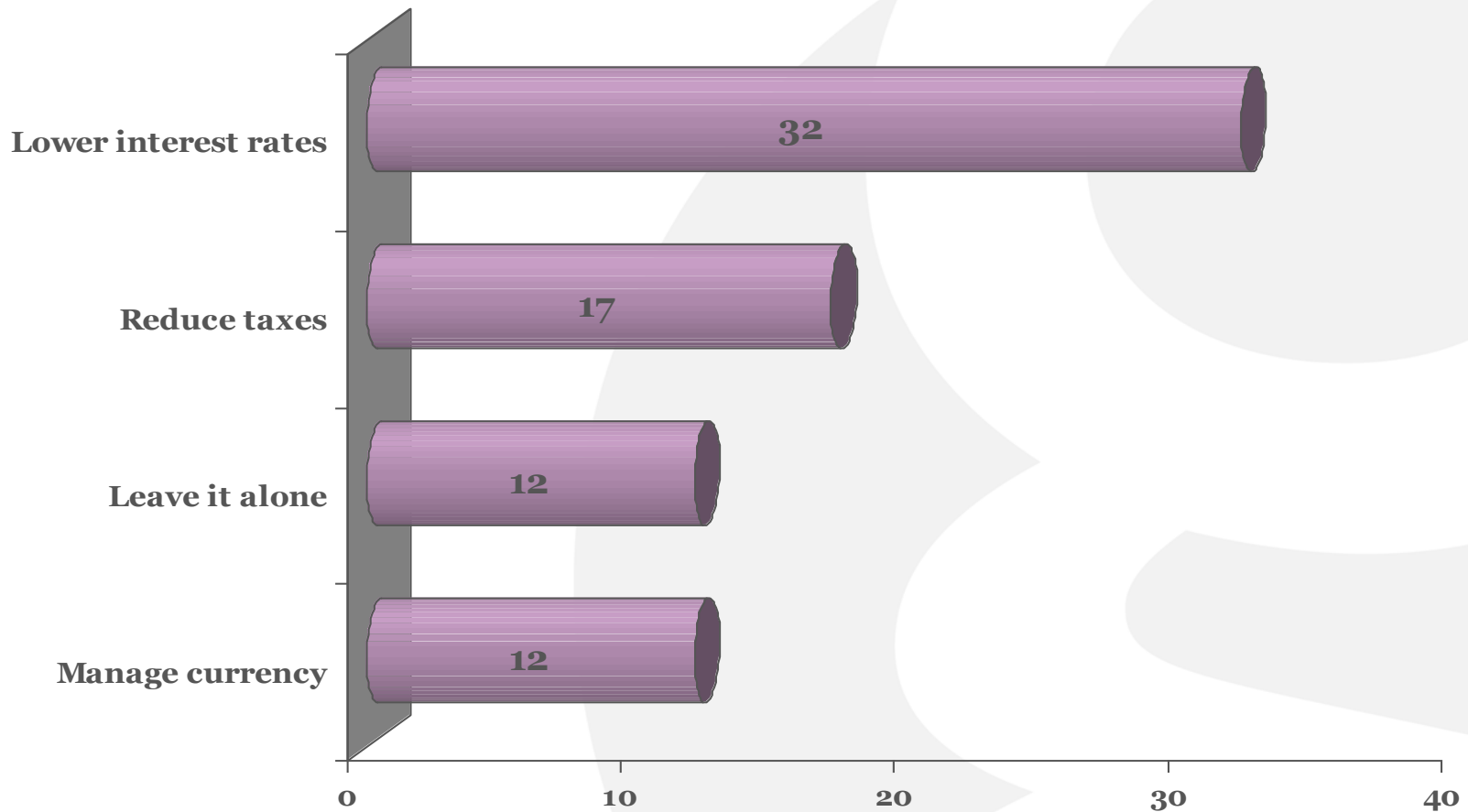
How would you say companies need to respond to the higher dollar? Specifically, what business measures will be needed?





# Necessary Government Policies

How would you say that governments or government agencies should respond to the higher dollar?  
Specifically, what policies may be needed?





# Productivity and Cost Cutting

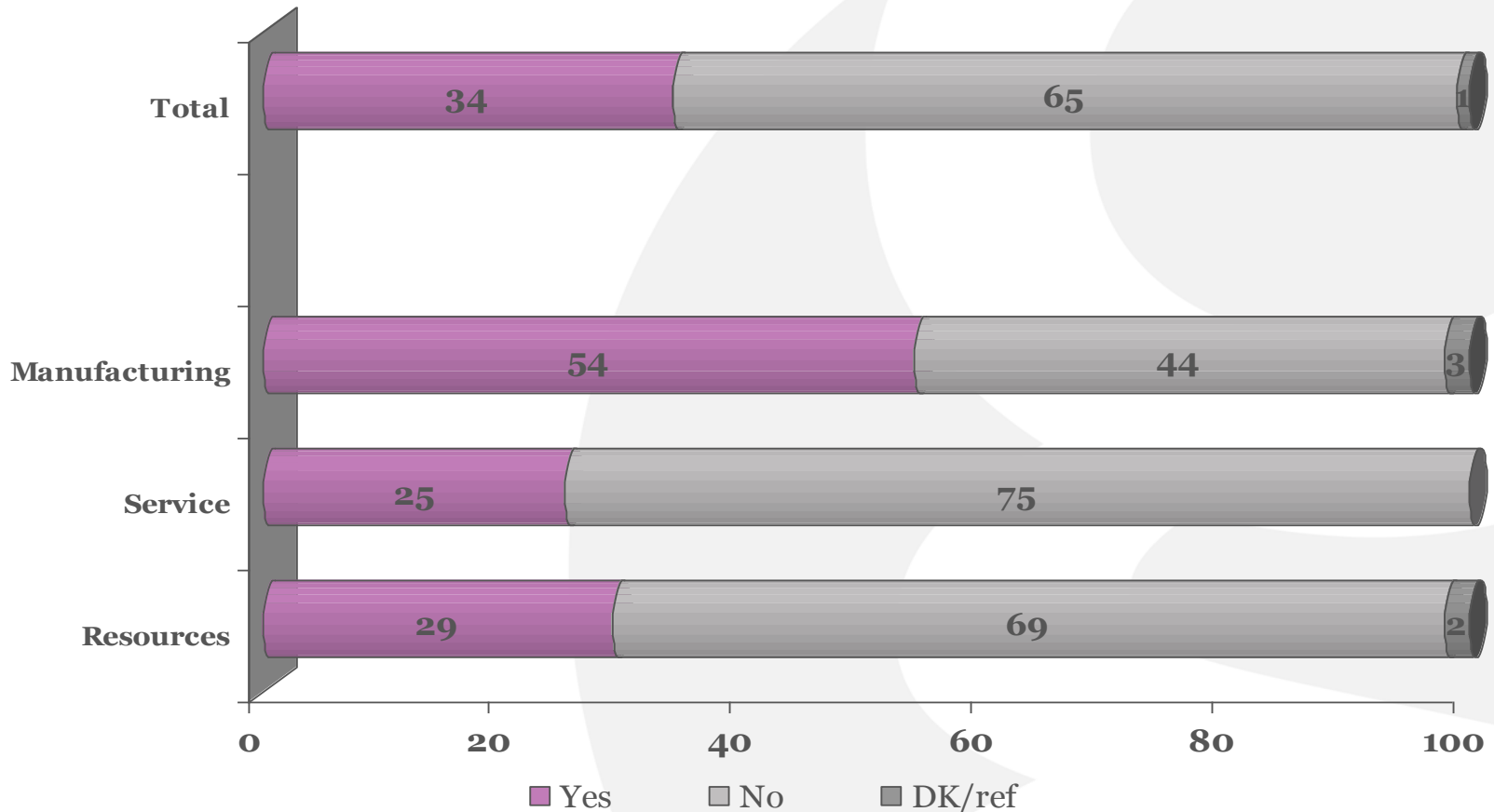
- ❑ While just a third of companies have taken steps to increase productivity in the last two quarters because of the higher dollar, just over half of manufacturers say they have implemented measures.
- ❑ Overall, 34% of the C-Suite report they've cut costs as a result of the dollar in the last two quarters, but that number is higher among companies with 1000 or more employees and higher still among manufacturers (62%). In stark contrast, 79% of service sector executives say they have not had to reduce costs to adjust to the higher dollar.
- ❑ Slightly more businesses say they have seen orders rise than say they have seen them decline over the last two quarters. A third have seen no change. Manufacturers have seen more of a decline as have large employers. When asked what has caused the rise or decline of orders the dollar is most often cited as the reason.





# Measures Taken To Increase Productivity

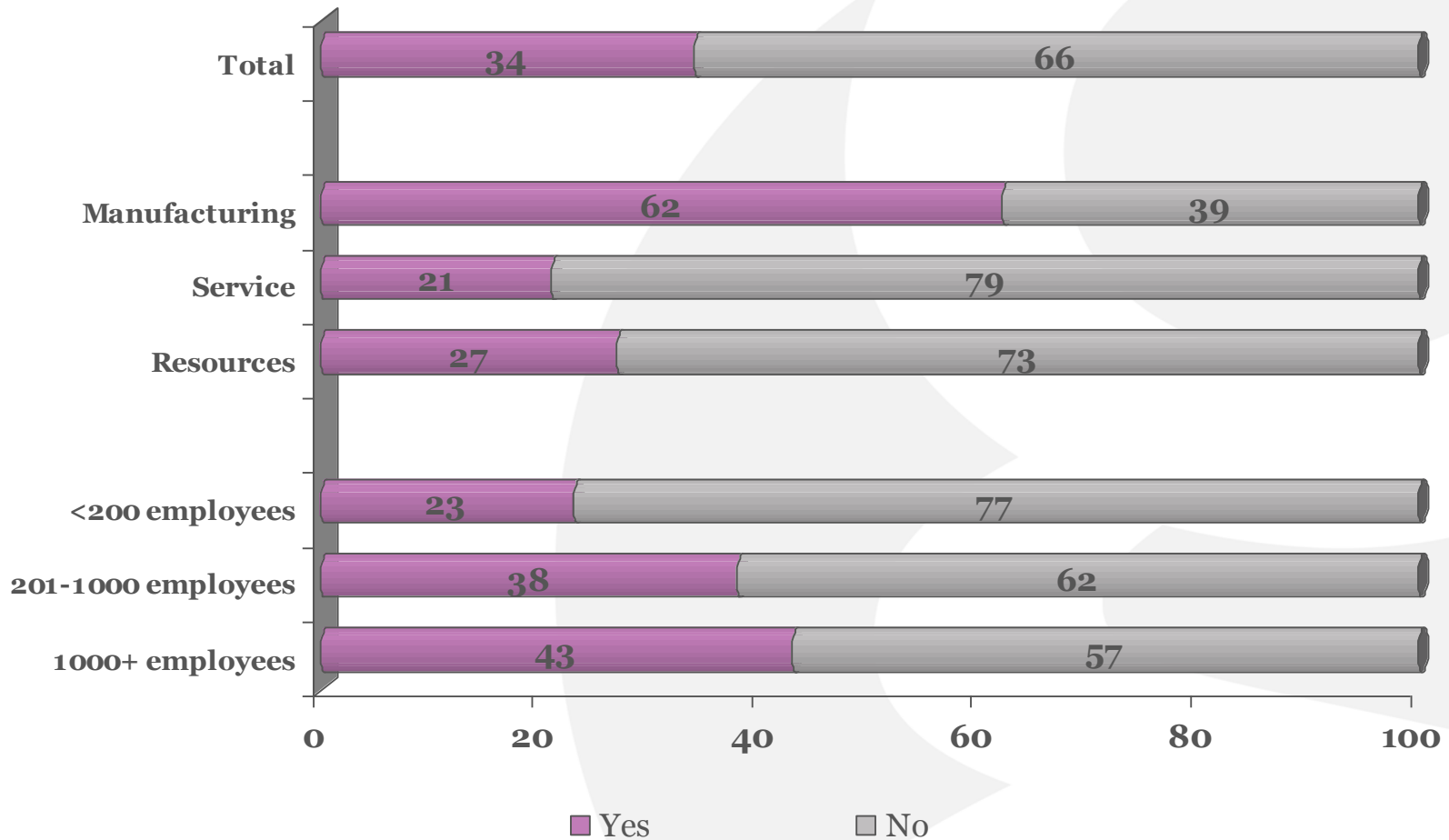
Has your company taken specific measures to increase productivity in the last two quarters because of the rise of the dollar?





# Company Cut Costs?

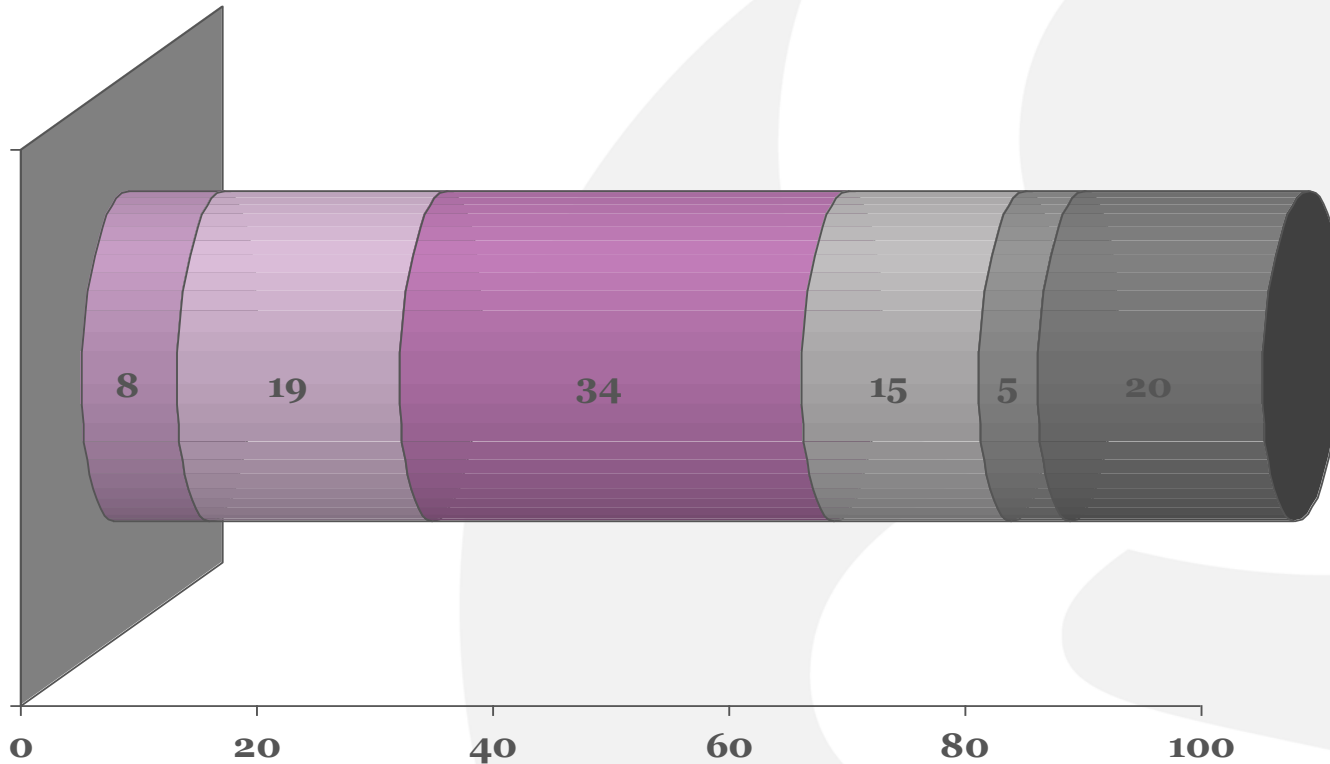
Has your company had to cut costs in the last two quarters because of the rise of the dollar?





# Rise or Decline in Orders

Over the last two quarters have you seen orders rise significantly, rise slightly, stay the same, decline slightly or decline significantly?

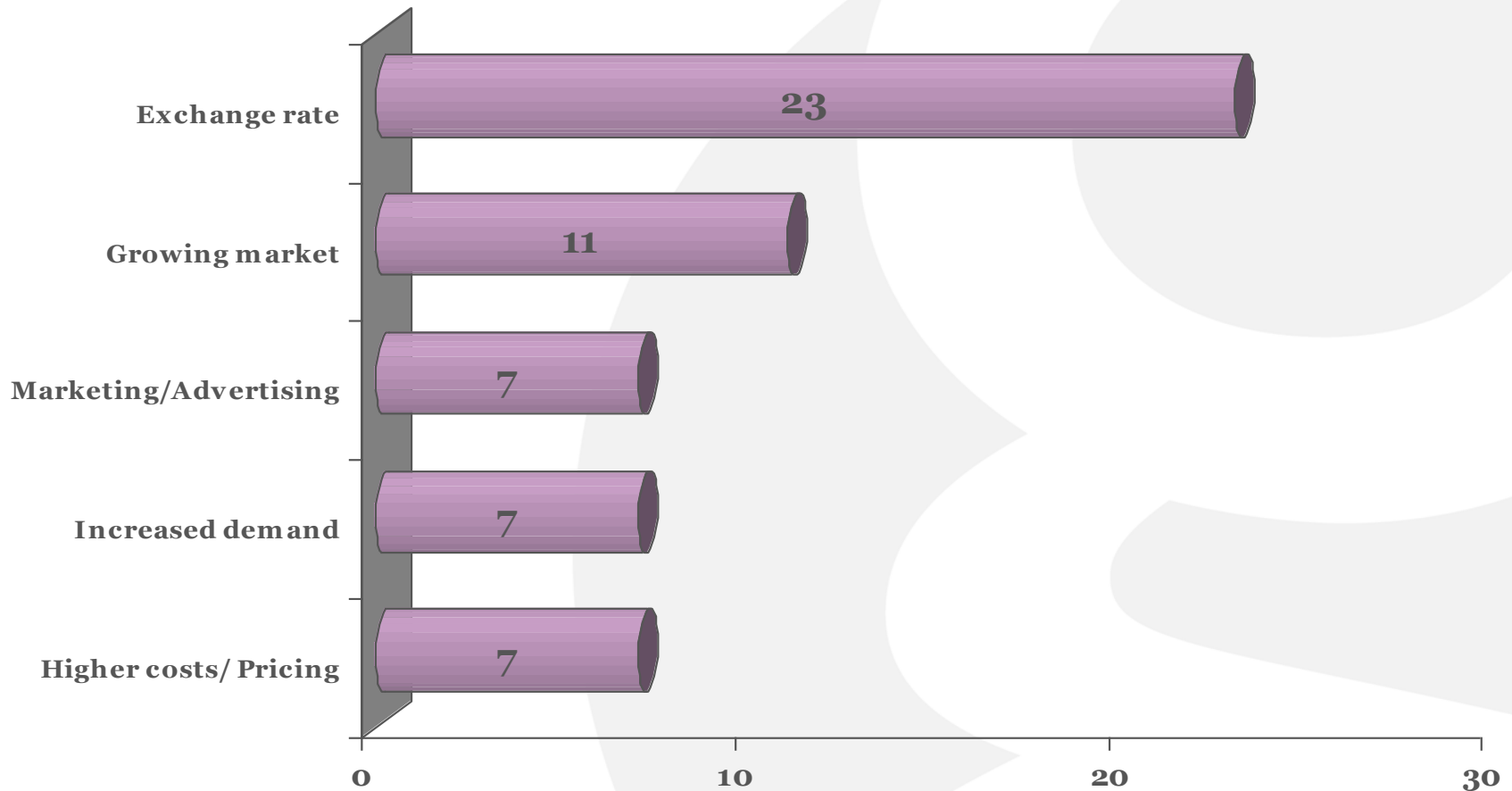


■ Rise significantly ■ Rise slightly ■ Stay the same ■ Decline slightly ■ Decline significantly ■ DK/ref



# Change in Rise/ Decline in Orders

What do attribute that change in orders to?



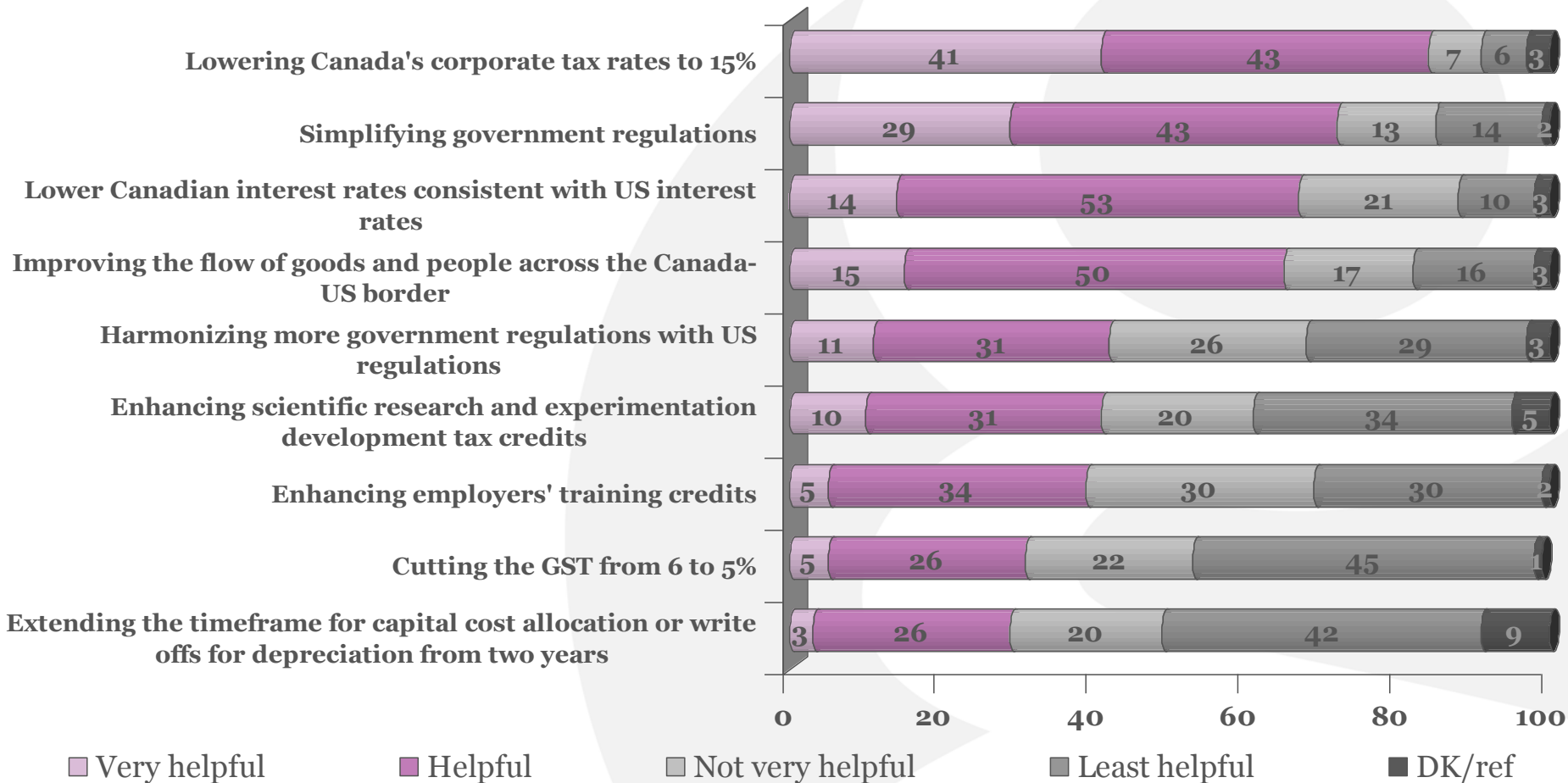


- ❑ Participants rated how helpful certain measures would be as a response to the higher dollar. Cutting corporate tax rates to 15% drew the most favourable response.
- ❑ Simplifying regulations, improving border management and lowering interest rates consistent to US rates are also supported.
- ❑ Less helpful would be harmonizing government regulations with US regulations and enhancing science, experimentation and development tax credits. Extending capital cost allocations/write offs for depreciation was not thought to be very helpful. A majority say cutting the GST would be unhelpful.
- ❑ Those who say the dollar has had a very negative effect on their bottom line are more likely to support corporate tax cuts and improving the flow of goods across the border. At the same time they are even less enthusiastic than their peers about capital cost write-offs and science and development tax credits.



# Measures To Deal With Rise of the Canadian Dollar

What would these measures mean to your company in dealing with the rise of the Canadian dollar: \_\_\_\_\_ ?



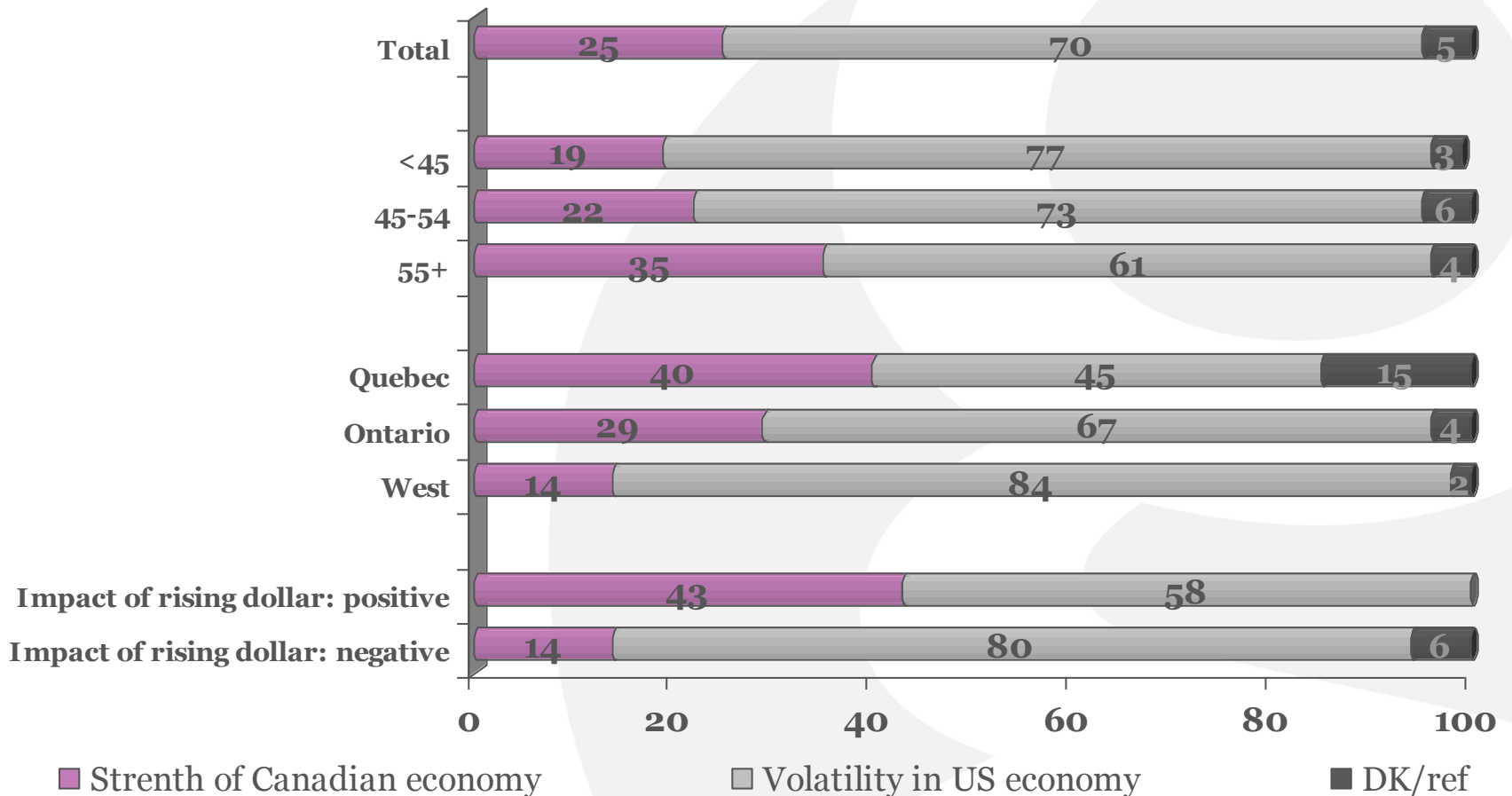


- ❑ On the cause of the high dollar, 70% say it has more to do with US volatility than the strength of Canada's economy. That number is higher in the West and with younger executives. Those who say it has to do with US volatility are generally the companies that say the dollar's had a negative effect on their bottom line. Those who report a positive effect from the high dollar tend to say the dollar's strength is a reflection of our economy.
- ❑ Most think it's the Bank of Canada's role to keep interest rates at a level that checks inflation rather than a level that encourages economic growth. However, majorities of manufacturers, larger companies and executives in Quebec/Atlantic all believe that the Bank of Canada's primary job is to encourage economic growth.



# Strength in Canadian Economy OR Volatility in US Economy

Some people say that the rise in the value of the Canadian dollar speaks to the strength of Canada's economy. Other people say it has more to do with volatility in the US economy and US fiscal and monetary policy. Which of those two views is closer to your own?

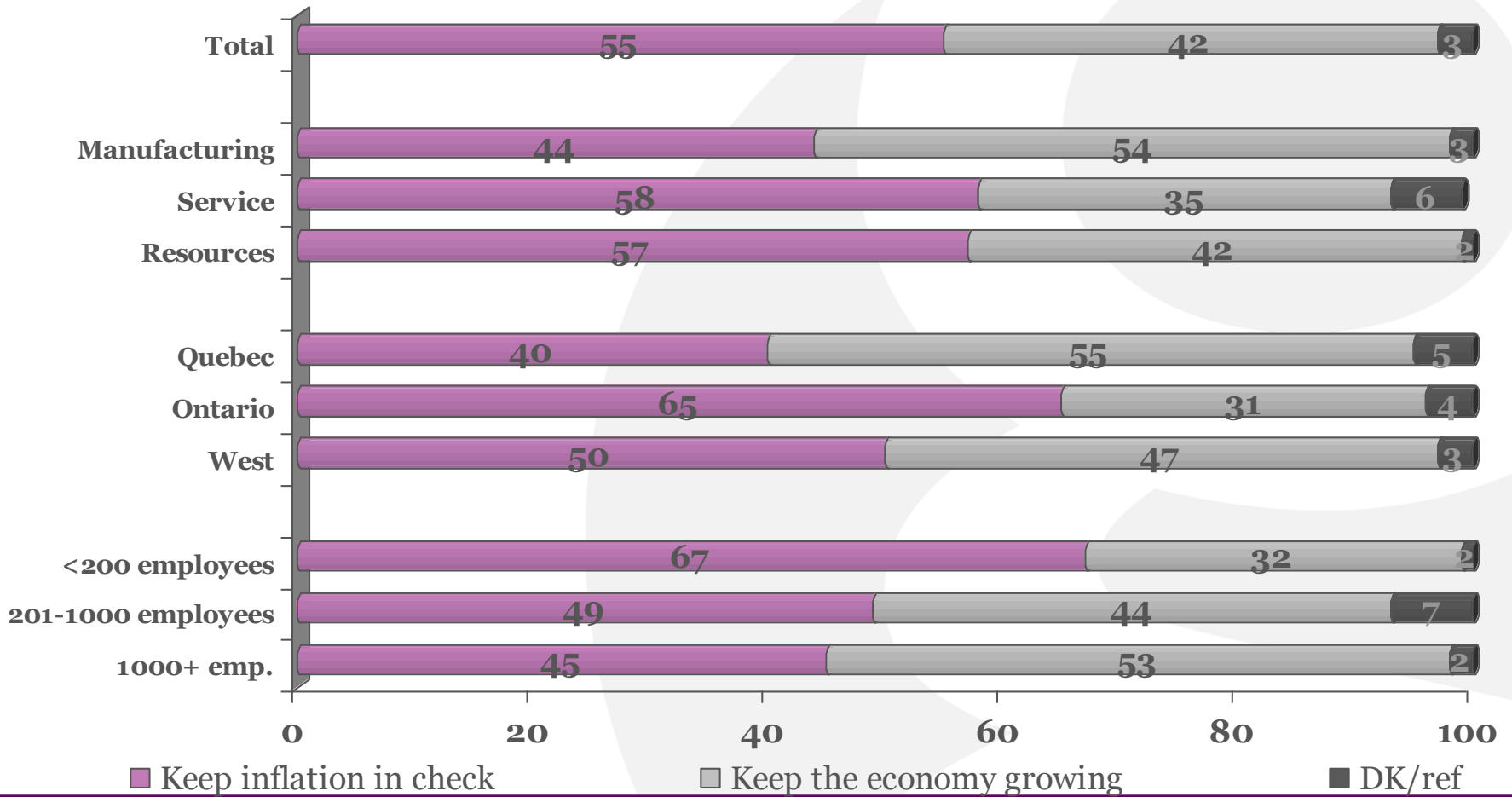






# Interest Levels to Keep Inflation in Check OR to Keep Economy Growing

Some people say that the job of the bank in Canada is to peg interest rates at a level that will keep inflation in check. Other people say that the job of the bank of Canada is to peg interest rates at a level that will keep the economy growing. Which of those two views is closer to your own?



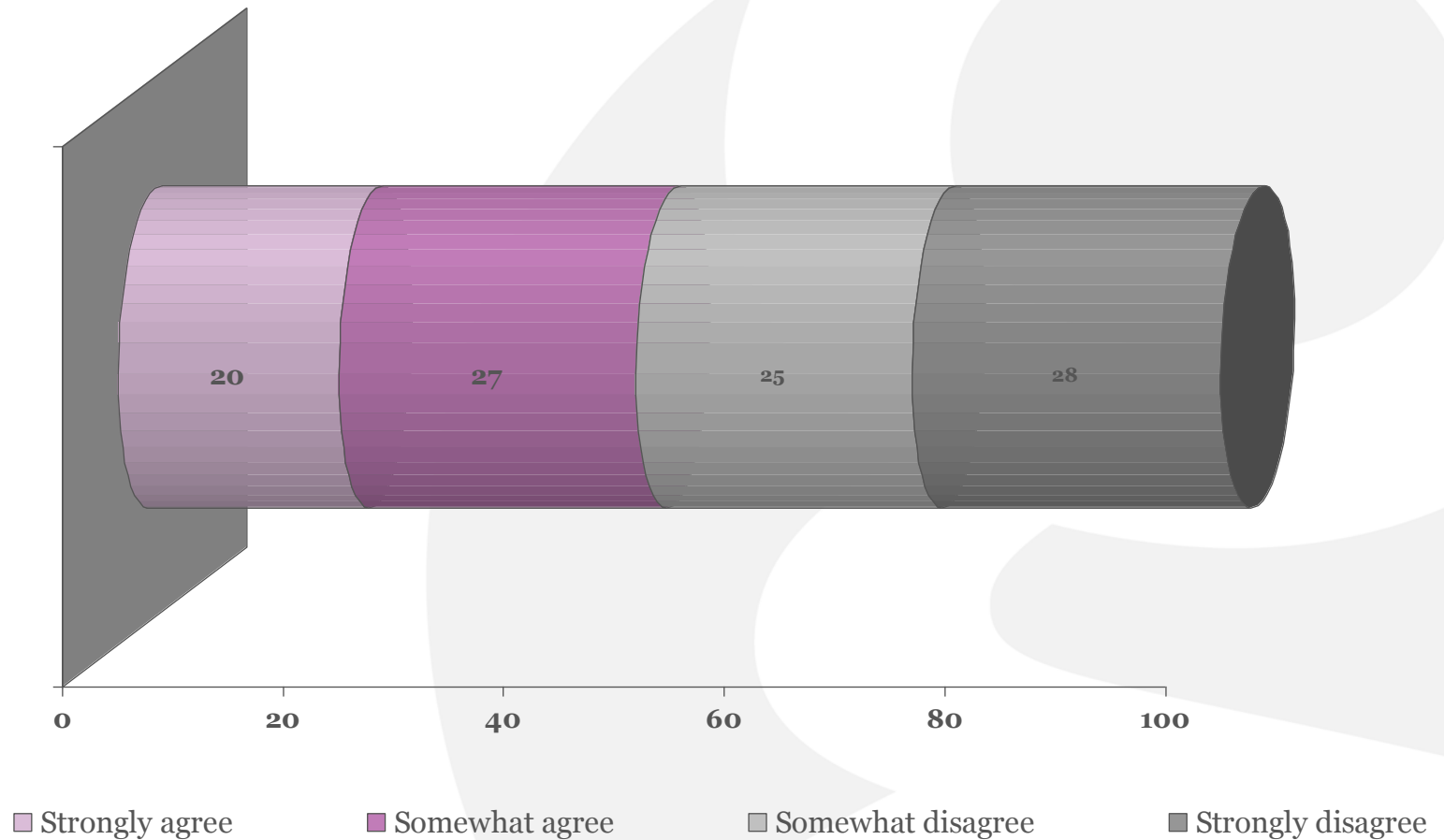


- ❑ A slim majority (53%) say the Bank of Canada should not intervene to bring the dollar down. Those companies that don't want the bank to intervene tend to be those that have their sales and costs in Canada. Those with significant sales in the US and also those whose production costs are in the US, tend to want the Bank to bring the dollar down. Executives with smaller companies are least likely to support intervention by the bank (65% oppose it). A clear majority in the west (57%) oppose the Bank's intervention, while executives in the rest of the country are split 50-50.
- ❑ On the eve of David Dodge's departure from the Bank of Canada, 78% give a him a positive rating, and 10% give him a neutral rating. Those that gave David Dodge a negative rating are the same ones who told us that the Bank's priority should be to peg interests at a level that keeps the economy growing.



# Agree/Disagree: Bank Intervention

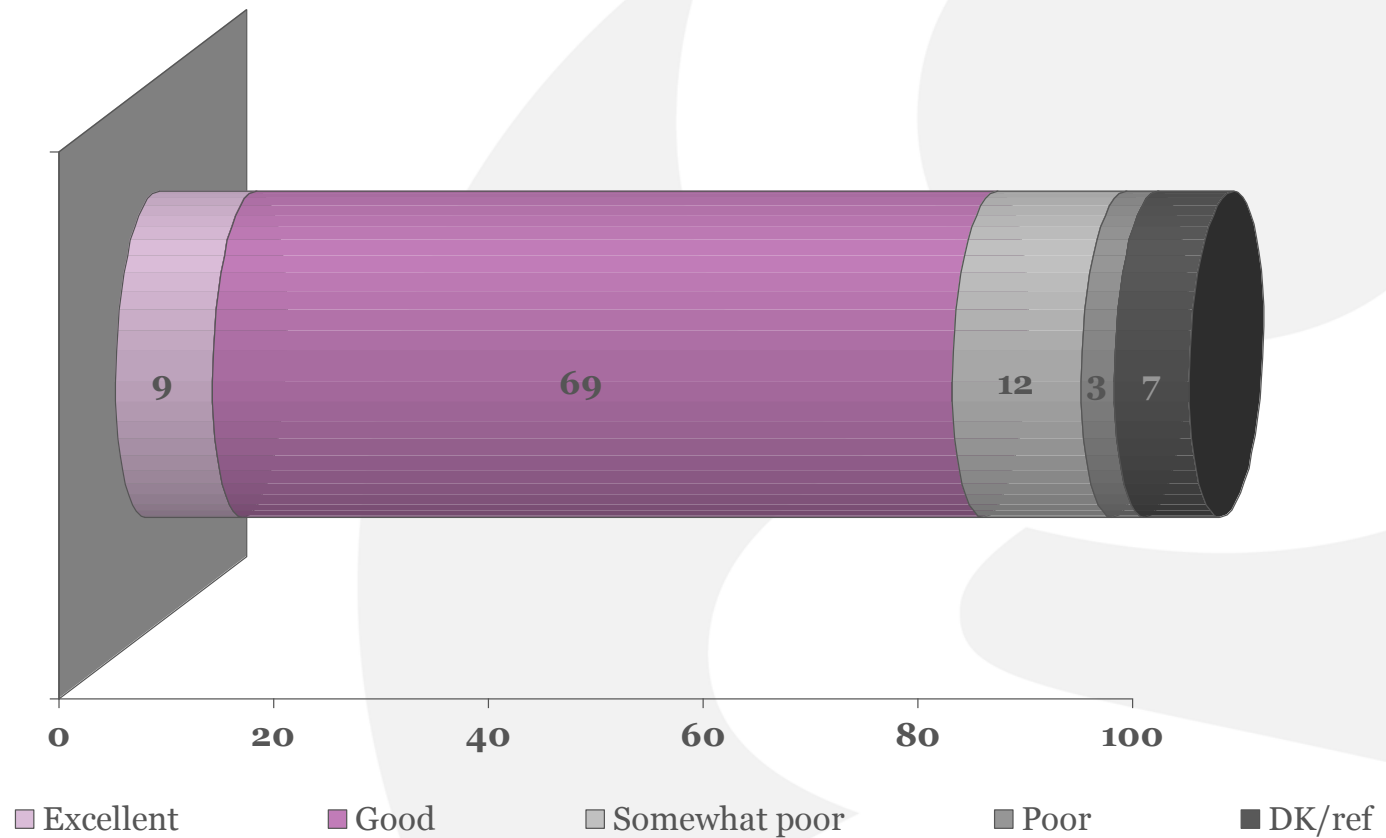
How much do you agree or disagree with the following statements: **the bank of Canada should intervene to bring the dollar down from current levels?**





# The Outgoing Governor of the Bank of Canada's Performance

How would you rate the performance of the outgoing Governor of the Bank of Canada?



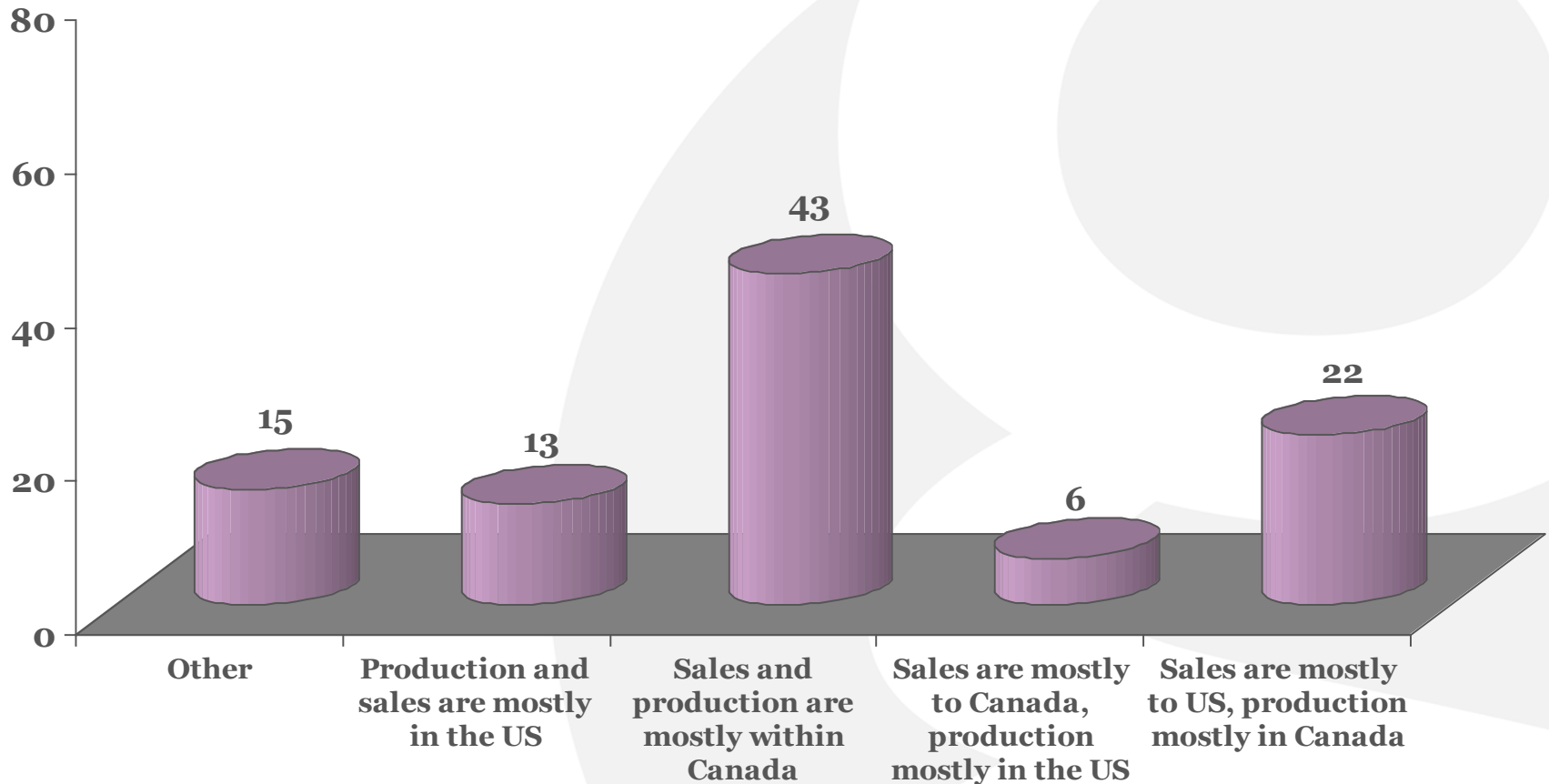


- ❑ A substantial segment of the C-Suite is particularly exposed on the issue of the higher dollar. 22% report that most of their sales are in the US while most of their costs are here in Canada. That number is higher among manufacturers, at 36%. In contrast with manufacturers and resources companies, service sector companies do more of their business within Canada. Companies with significant sales in the US but with their costs in Canada are more likely to say their orders have declined or stayed the same of late, confirming that the dollar's recent rise has already had a real impact.
- ❑ While a majority agrees that the rise of the dollar will help drive down inflation, the majority of manufacturers disagree.
- ❑ Most (65%) believe the dollar will be above \$1 US a year from now.



# Sales and Production: C-Suite Profile

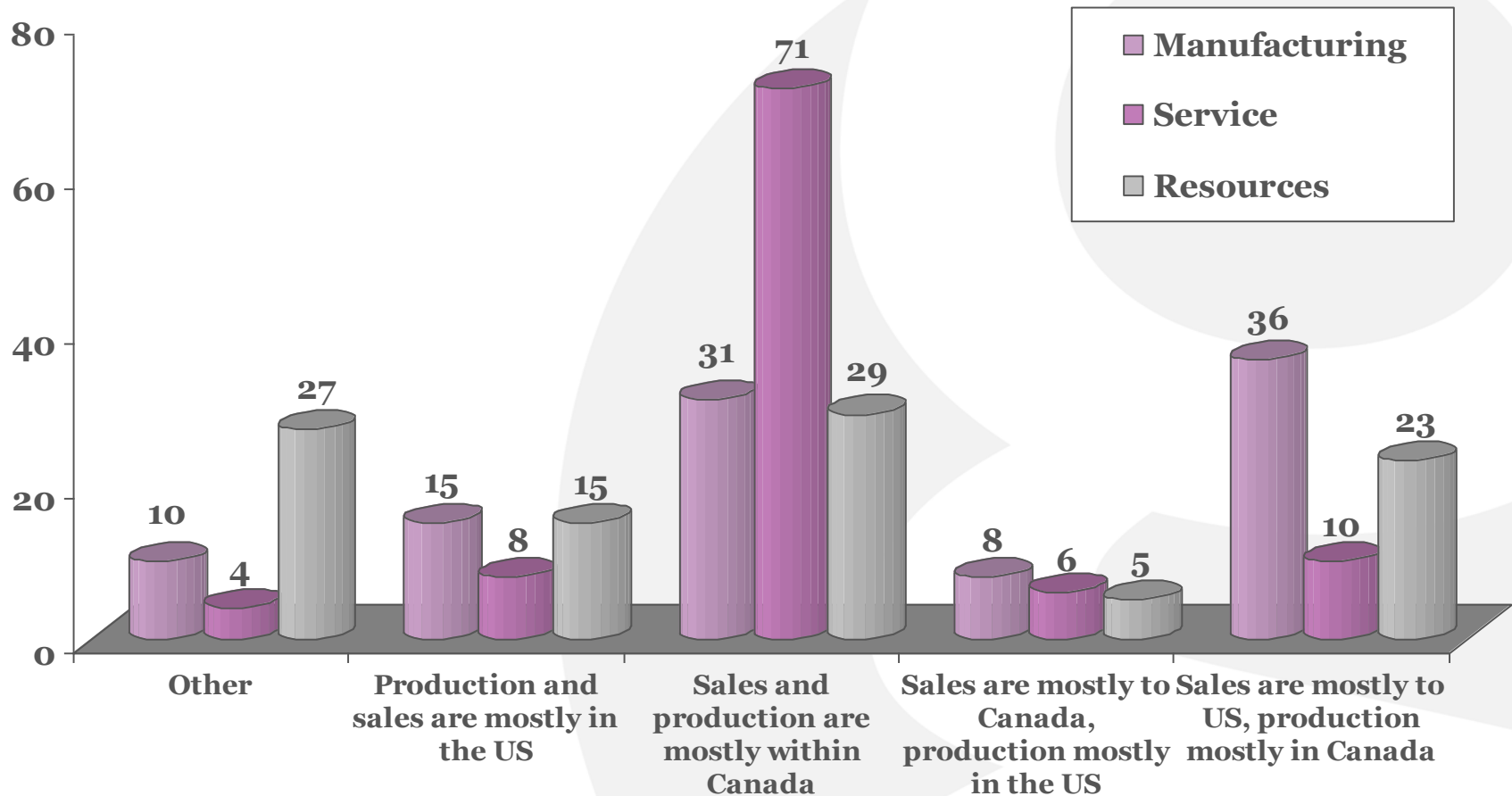
Which of the following best describes your business:?





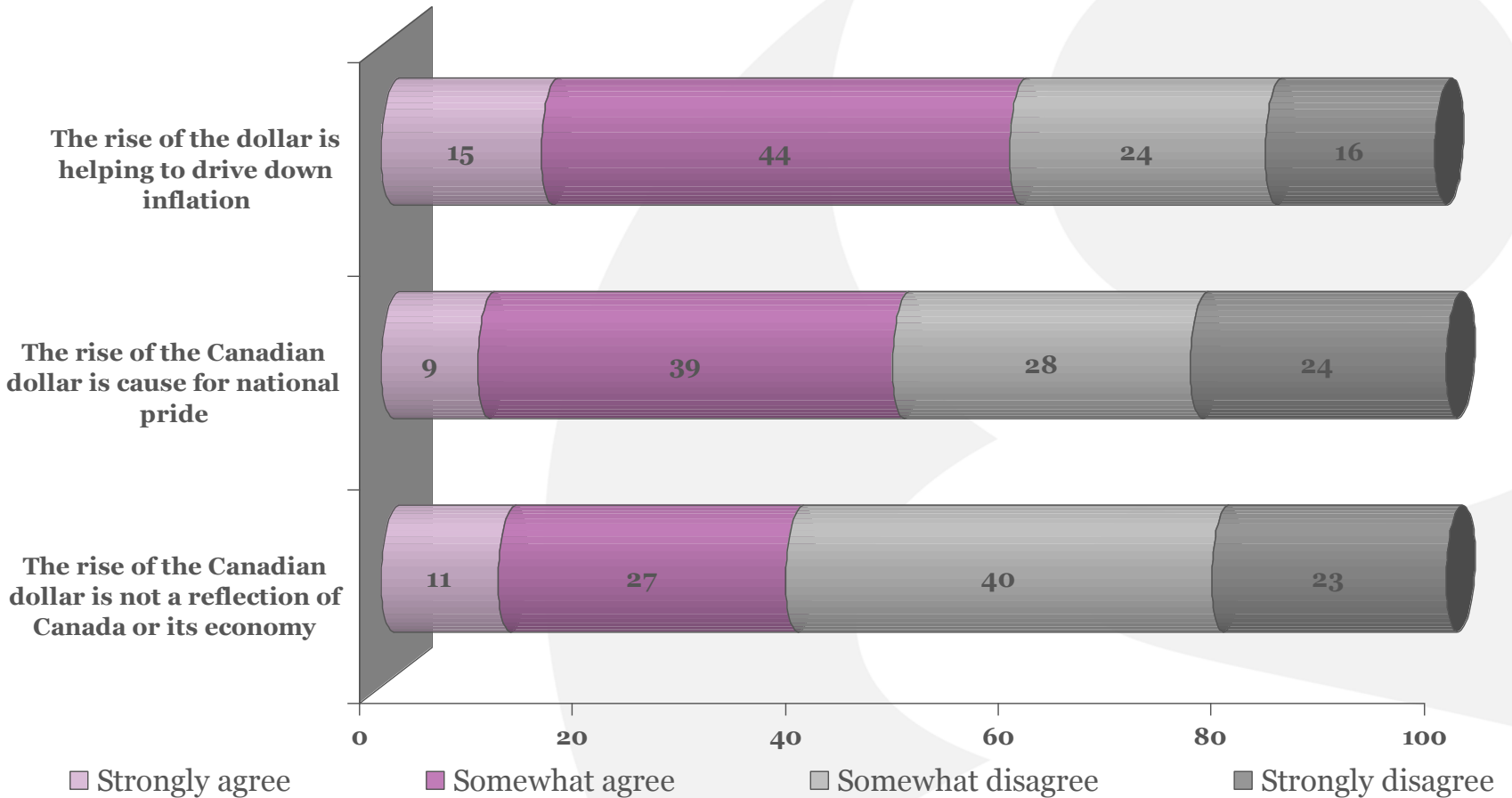
# Sales and Production: Sectors

Which of the following best describes your business:?





How much do you agree or disagree with the following statements: \_\_\_\_\_ ?

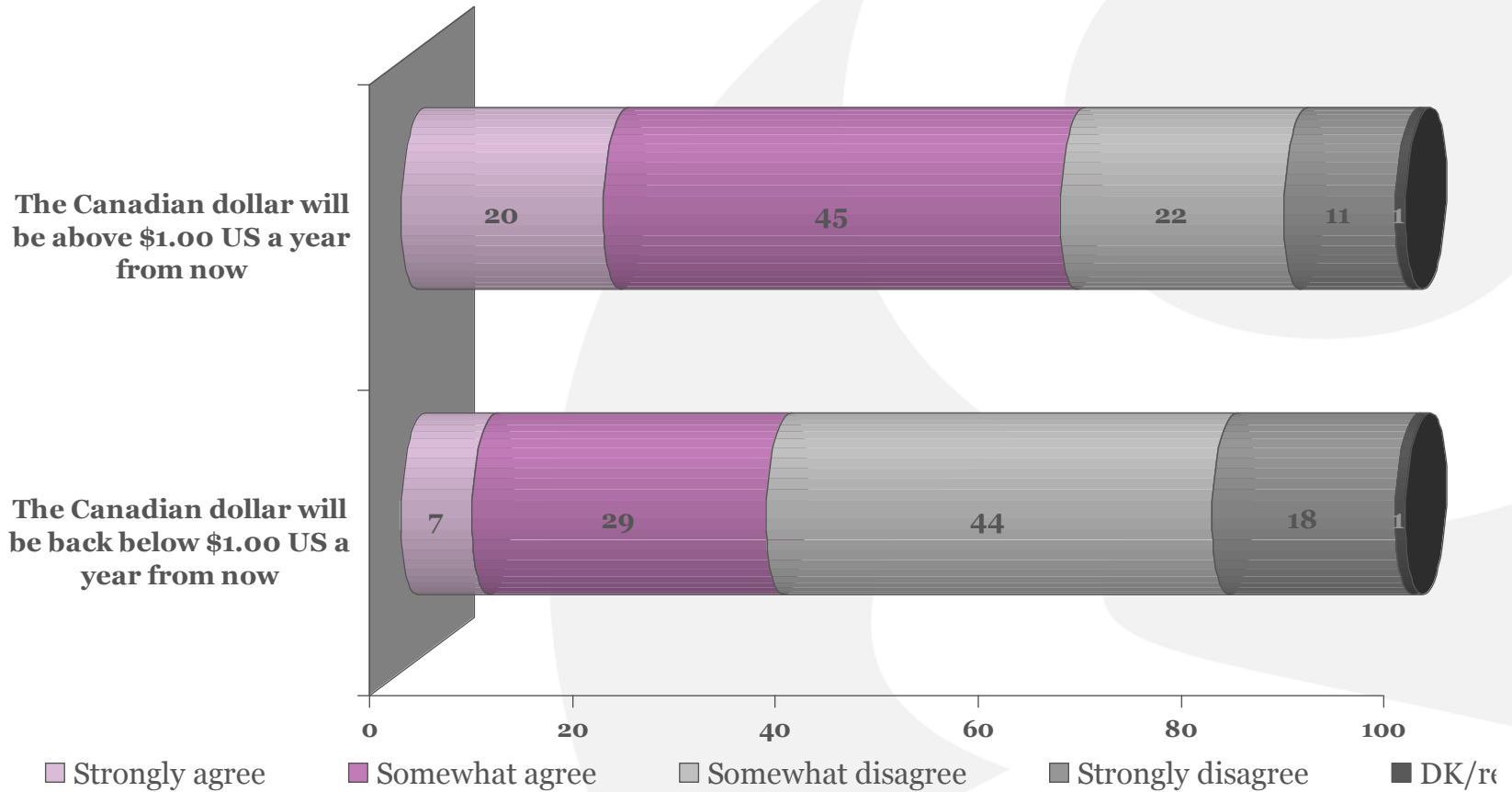






# Agree/Disagree: Canadian Dollar One Year from Now

How much do you agree or disagree with the following statements: \_\_\_\_\_ ?

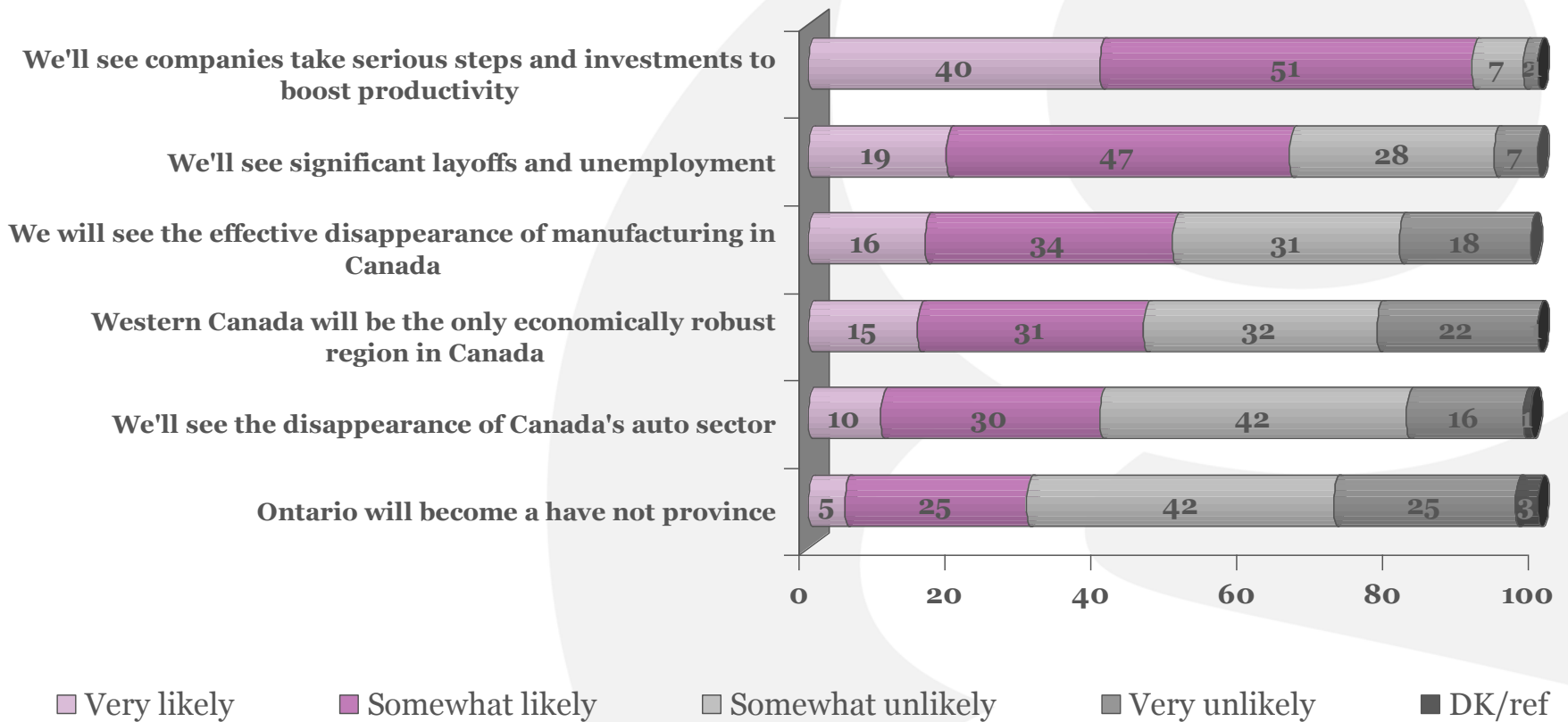




- ❑ Roughly half of executives, and almost three quarters of manufacturing executives, believe we'll see the "effective disappearance of manufacturing in Canada." Fewer (40%) believe we'll see the end of the auto sector, but 54% of manufacturers say we will.
- ❑ Two-thirds think it unlikely that Ontario will become a "have-not" province but 45% believe Western Canada will be the only economically robust region. Manufacturers are even more likely to agree with this (69%).
- ❑ Only 48% believe the rise of the dollar is cause for national pride. Younger executives, those in Ontario, Atlantic and Quebec are least likely to say so, while a majority of westerners are likely to agree.
- ❑ Will companies take productivity seriously or just shed jobs? 90% believe we'll likely see serious steps to boost productivity, while two-thirds think it likely we'll see significant layoffs. Almost all companies (90%) that say their sales are primarily in the US while their costs are in Canada are predicting significant layoffs. The largest employers are also more likely to predict layoffs. Smaller companies are least likely.



How likely are certain trends as a result of the Canadian dollar remaining at or above par with the US dollar? Do you think it's likely or unlikely that \_\_\_\_\_ ?

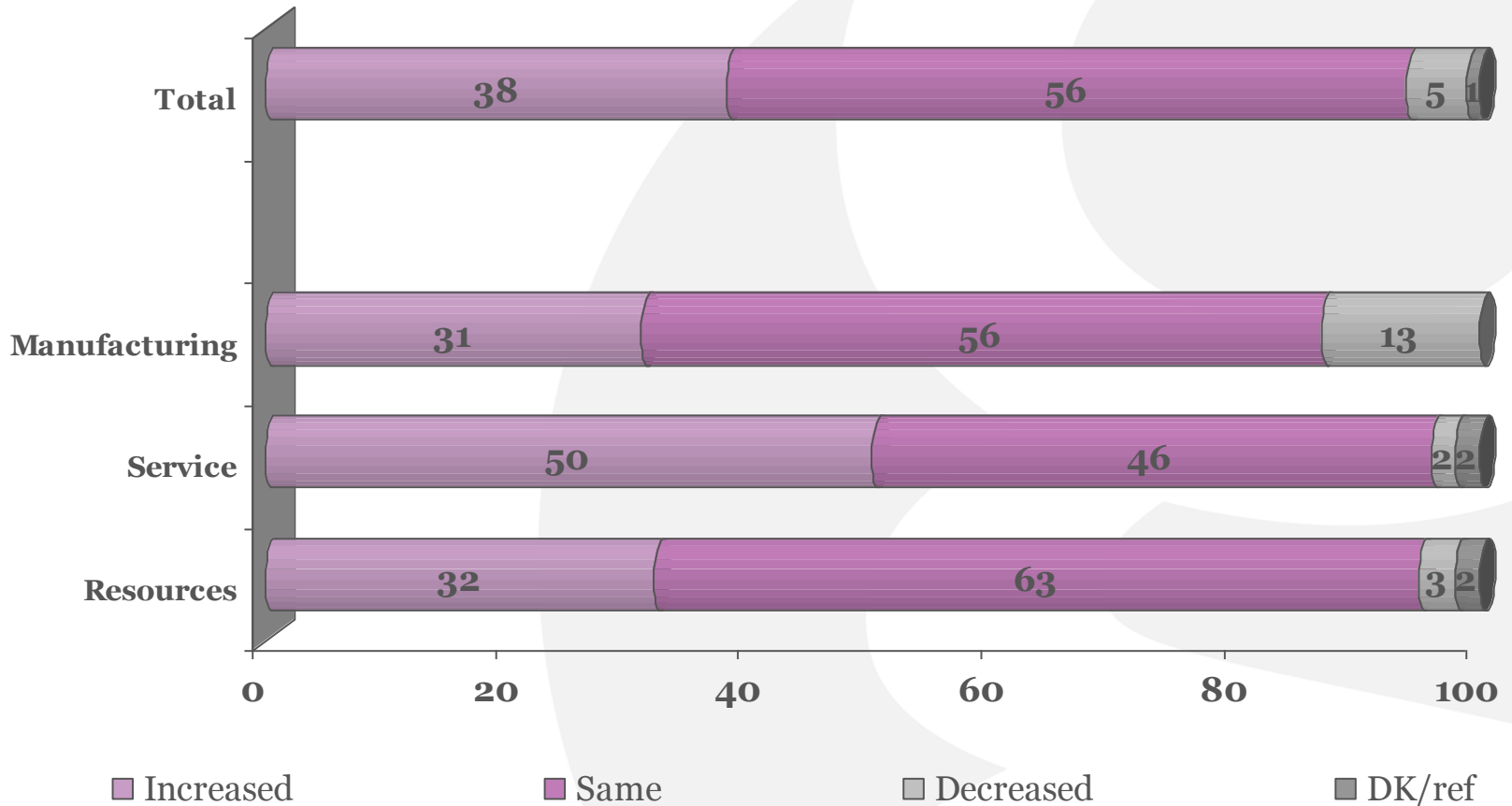




- ❑ On philanthropy, 38% of companies say they've increased giving this year - 56% say it's the same as last year. Service sector companies are more likely to have increased giving, and larger companies are somewhat more likely. The few that reduced giving this year are mainly manufacturers.
- ❑ Half donate less than 0.5% of pre-tax profits. Those tend to be smaller and medium sized companies. Almost a quarter donate between 0.5% and 1%; 12% donated more than 1%, which is the minimum standard set by Imagine Canada's standards for giving. These trends are fairly even across Canada – no region stands out.
- ❑ 29% are aware of the Imagine Canada standard – fewer still can name that standard.

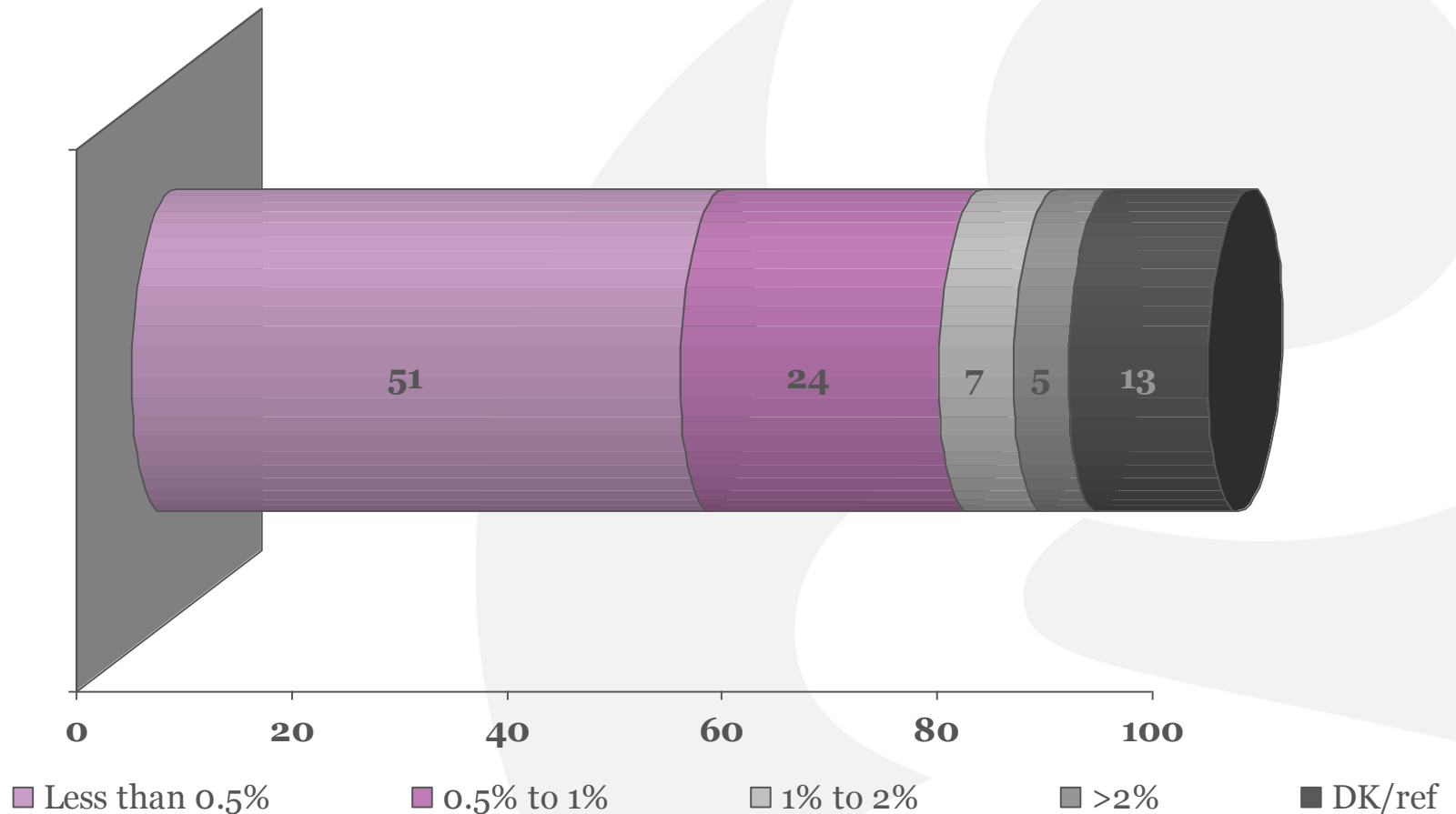


Would you say that your company has increased its charitable giving this year compared to last year?





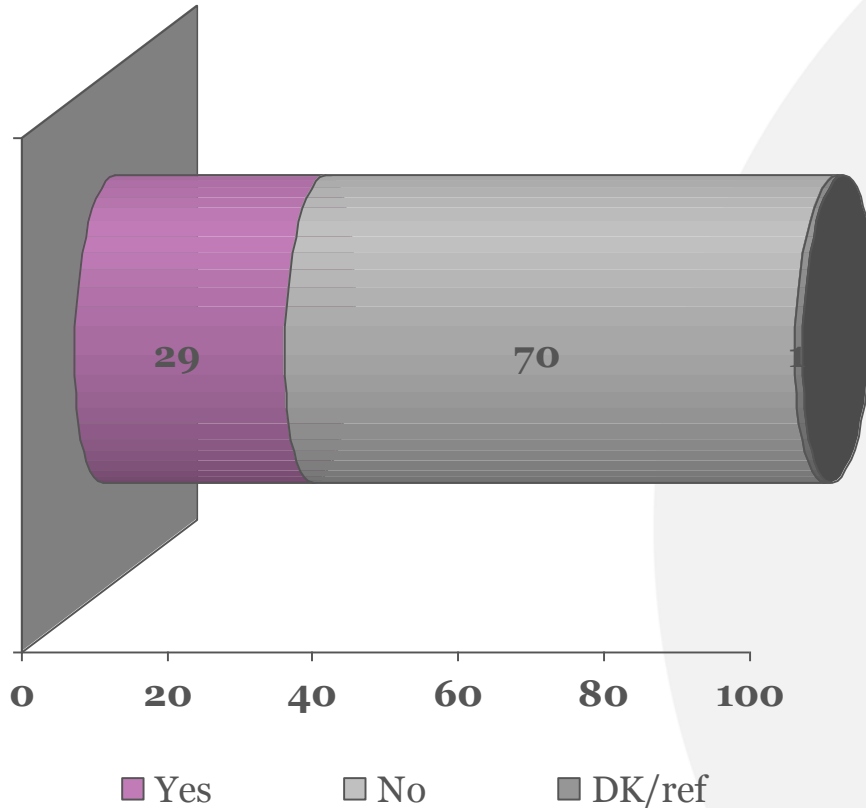
What percentage of pre-tax profits would you say your company contributes annually in corporate giving?



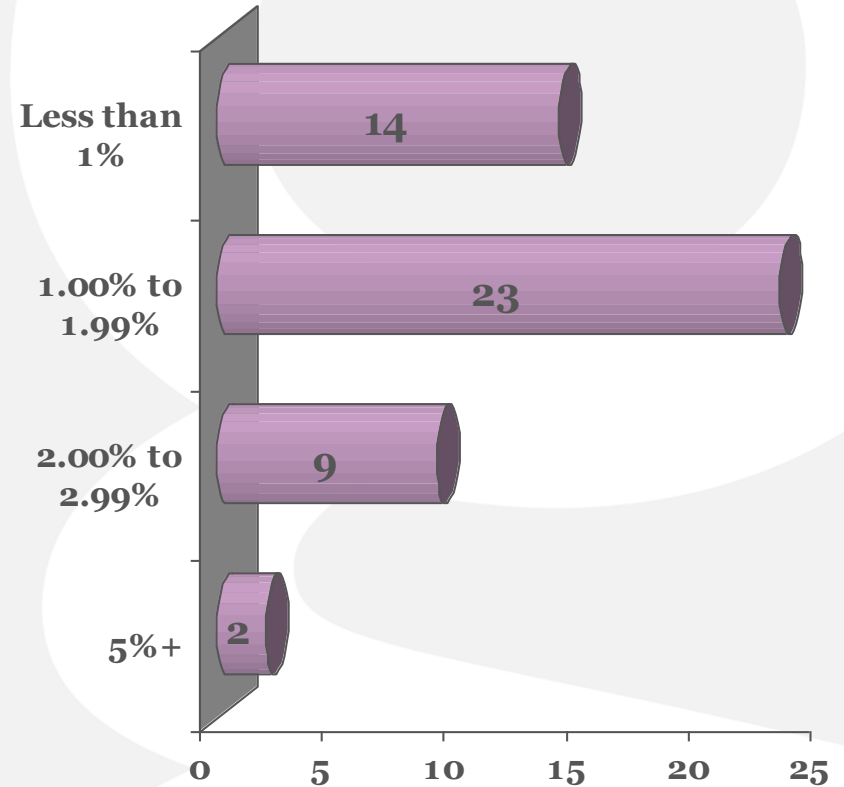


# Charitable Giving

Are you aware of Imagine Canada's Caring Company commitment, which sets a target for companies to give a percentage of pre-tax domestic profit to charitable organizations?



What is that percentage? (if yes n=44)





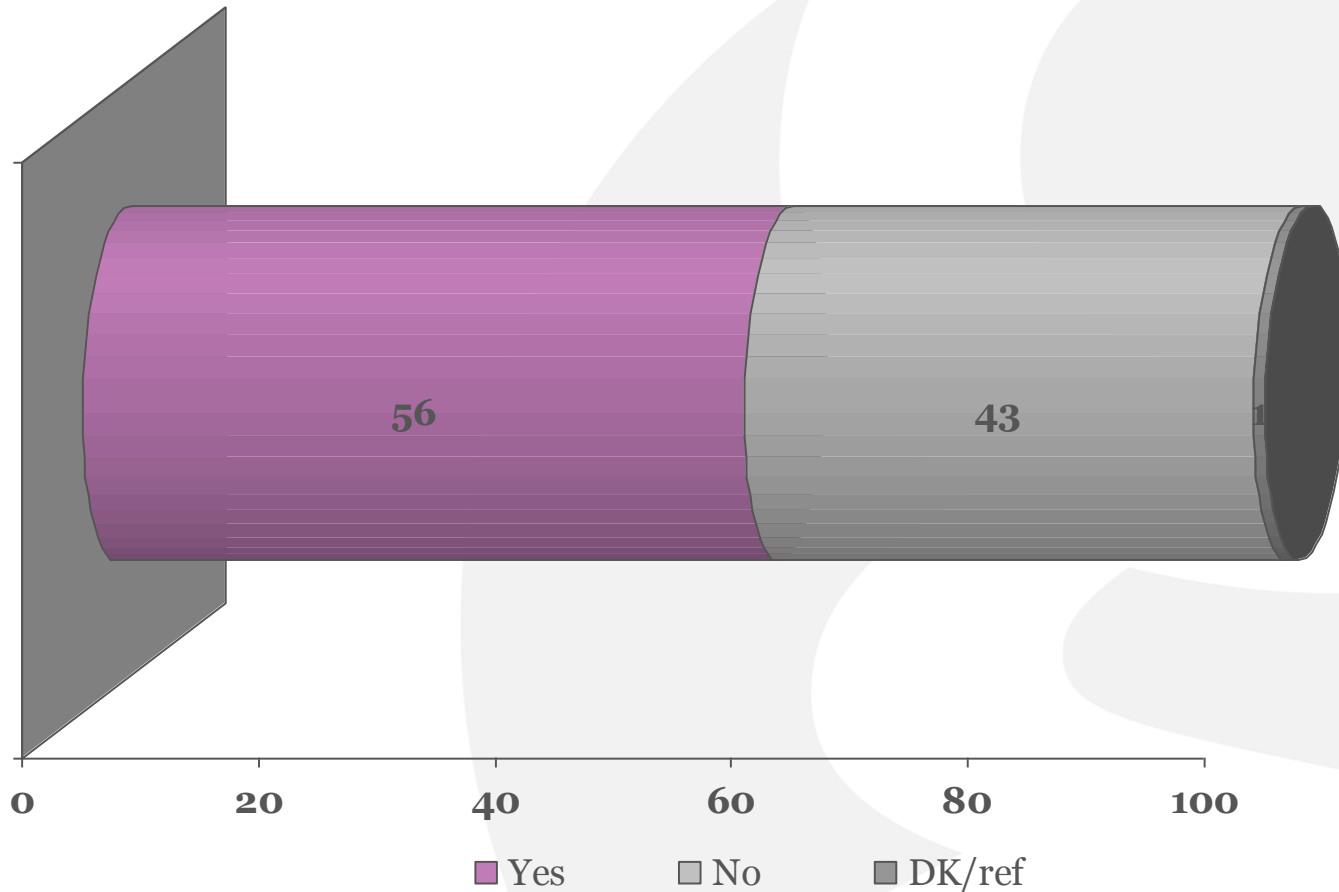
- ❑ A majority of companies (56%) facilitate or provide incentives for volunteering while just under half match employee donations.
- ❑ A majority of executives say their giving is not geared to strategic/ marketing goals – 40% say it is. The number that say it is tied to strategic/marketing goals is higher with the service sector (52%) and smaller companies (48%), and lowest among executives aged 55 and over (25%); those aged 35-44 are much more likely to say it is 62%.





# Encourage Volunteering

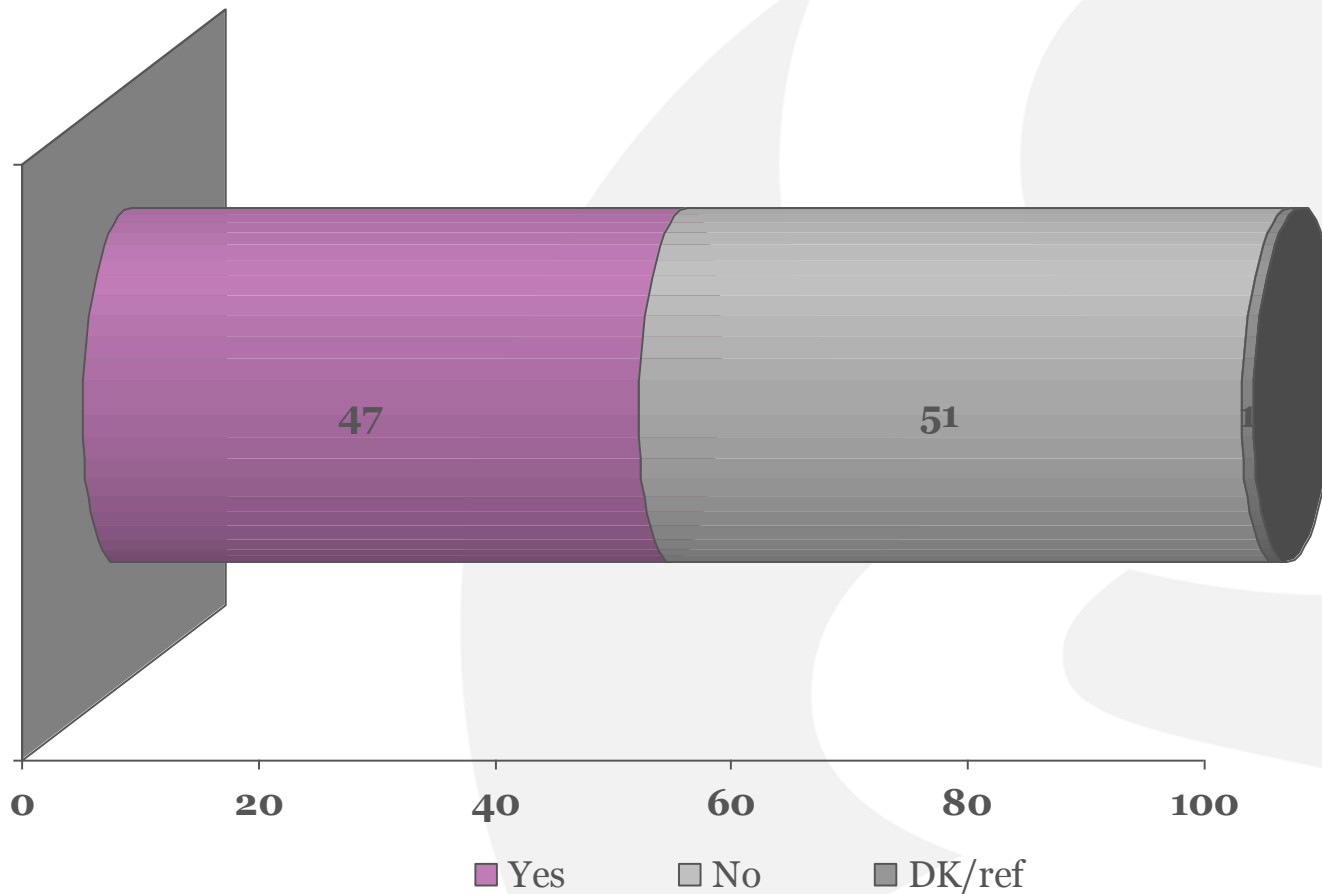
Does your company facilitate or offer incentives to encourage volunteering by your employees in the community?





# Match Employee Giving/Donations to Charities

Does your company match employee giving and donations to charities?





# Charitable Giving Geared to Company Goals

Is your company's charitable giving geared to the strategic or marketing goals of your company?

