

# Memorandum



the gandalf group

*Date:* December 6, 2007

*Re:* ***Executive Summary re. C-Suite Quarterly Survey***

---

This quarter's survey focused on the rise of the Canadian dollar. Telephone interviews were conducted with 152 C-Suite executives from the top 1000 corporations in Canada, between November 7 and November 21, 2007. This sample yields a margin of error of +/-7.32%.

## **Key Findings**

- 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.
- Almost two thirds of 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 the majority expect the dollar to be above \$1 US a year from now, 52% would prefer it lower than that, with 93 cents being the average preference of executives.
- Over half of respondents 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.
- 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.
- 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.
- Unlike previous C-Suite quarterly 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

# Memorandum



the gandalf group

regions. This time, a regional or national snapshot masks the divergent paths taken by companies in response to the dollar.

- This quarter there are at least two key divergences:
  - 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.

## Detailed Findings

- ❑ Expectations for the Canadian economy are similar to those recorded last quarter. However late summer and autumn 2007 have seen executives much more pessimistic about the Canadian economy than in the previous two years. There has been a significant drop since June contemporaneous with the increasing value of the Canadian dollar. Three quarters of executives 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%).
- ❑ Last quarter, 27% of executives predicted growth for the US economy – the lowest since we began C-Suite. That has now declined to 21%.
- ❑ 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.
- ❑ Many in manufacturing are companies whose sales are largely in the US but whose production costs are Canadian – 36% of manufacturing companies are in this situation

# Memorandum



the gandalf group

compared to only 10% of those in the service industry and 23% in the resources industry. Twenty one percent of all companies in the manufacturing industry forecast decline over the coming year. The resources sector is most bullish (94% forecasting growth, 44% strong growth).

- ❑ 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.
- ❑ 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.
- ❑ 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.
- ❑ Almost two-thirds say the rising dollar has had a somewhat or very negative affect 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 affect. In contrast, 31% of resources executives and only 6% of service sector companies say it's had a very negative affect. In fact, one third of service sector executives say the high dollar has had a positive affect on their company.

# Memorandum



the gandalf group

- ❑ Among those companies who say it's had a very negative affect, the majority are those with the bulk of their sales are in the US but whose costs are in Canada.
- ❑ 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.
- ❑ 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. Thirteen percent recommend cutting prices/becoming competitive.
- ❑ 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. Twelve percent think the currency should be managed while an equal number suggest leaving it alone. Manufacturers are more likely to want interest rates cut or the currency to be managed than a reduction in taxes.
- ❑ 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 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 than other sectors. When asked what has caused the rise or decline of orders the dollar is most often cited as the reason.
- ❑ 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.

# Memorandum



the gandalf group

- ❑ On the cause of the high dollar, 70% say it has more to do with US volatility than the strength of Canada's 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.
- ❑ A slim majority (53%) say the Bank of Canada should not intervene to bring the dollar down. 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.
- ❑ A substantial segment of the C-Suite (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 (36%). In contrast, 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.
- ❑ 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. 45% believe Western Canada will be the only economically robust region. Manufacturers are even more likely to agree with this (69%).
- ❑ Most believe that the rise in the value of the Canadian dollar has more to do with volatility in the U.S. economy (70%) and less to do with the strength of the Canadian economy (25%).
- ❑ Ninety percent believe we'll likely see serious steps to boost productivity, and an additional two-thirds think we'll see significant layoffs. Almost all companies 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.

# Memorandum



the gandalf group

- ❑ In terms of corporate philanthropy, 38% of companies say they've increased giving this year - 56% say it's the same as last year. Those that reduced giving are mainly manufacturers. Overall, half donate less than 0.5% of pre-tax profits. Less than 25% donate between 0.5% and 1%; 12% donated more than 1%, which is the minimum standard set by Imagine Canada's standards for giving.