



the gandalf group

# The 37<sup>th</sup> Quarterly C-Suite Survey

## Outlook for 2015, Federal budget

December 15, 2014

Sponsored by:



*cutting through complexity*

Published and  
broadcast by:





- ❑ This is the 37<sup>th</sup> edition of the C-Suite Quarterly Survey, conducted on behalf of KPMG; published and broadcast by *The Globe and Mail's Report on Business* and *BNN*.
  - Previous quarters' surveys are available at [GandalfGroup.ca](http://GandalfGroup.ca).
- ❑ This quarter's survey included questions about:
  - The impact of changing oil prices
  - The state of the Canadian economy
  - Federal budget policy options
- ❑ Methodology: telephone interviews with 153 C-Suite executives from ROB1000 companies between November 17<sup>th</sup> and December 8<sup>th</sup>, 2014.

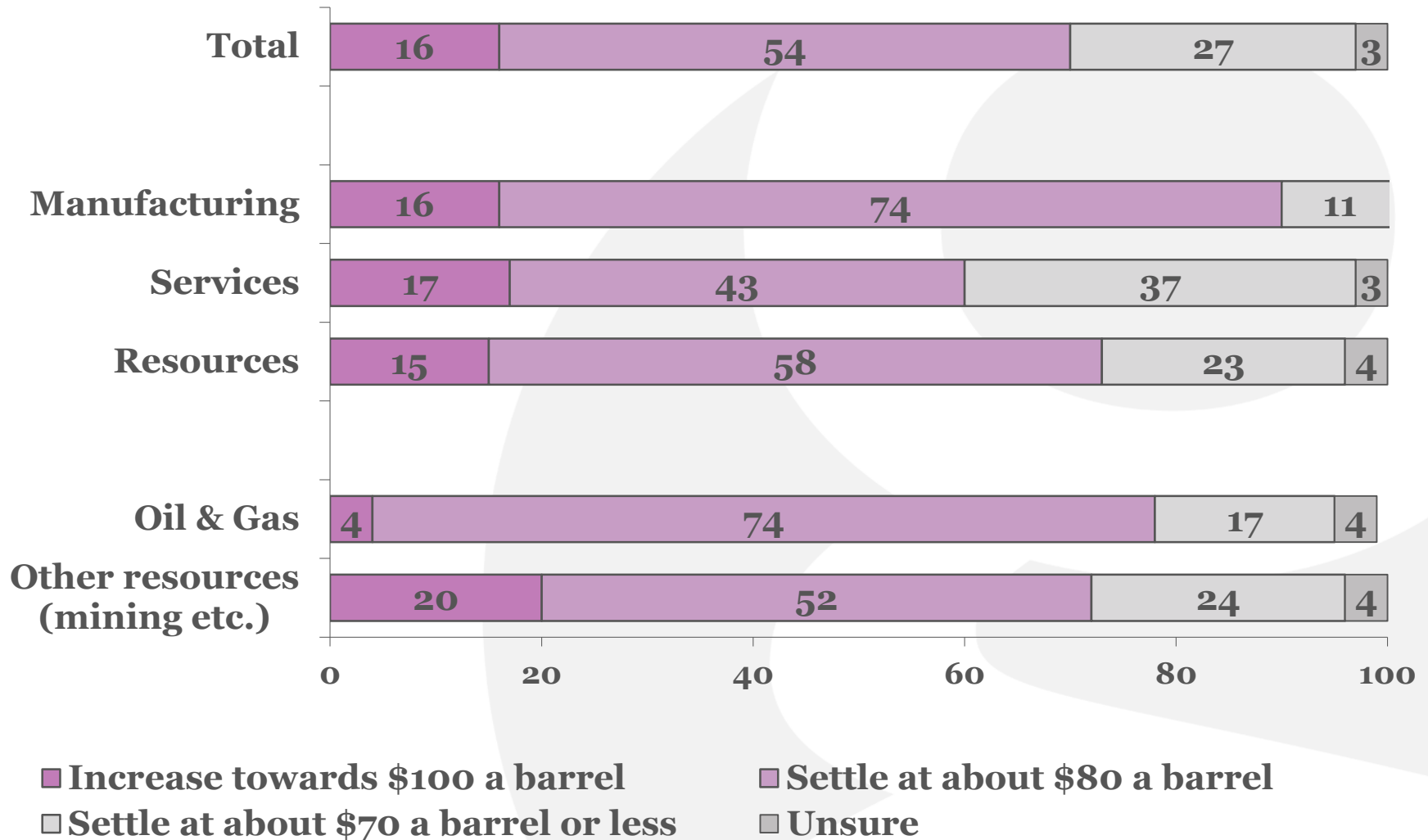


# The Impact of Falling Oil Prices

- ❑ Executives expect 2015 will be difficult for Canada's oil patch. Few expect the price for North American crude to return to \$100 a barrel in 2015.
- ❑ The expected range is between 70-80 dollars a barrel.
- ❑ Most executives, **in every sector**, said if oil prices stayed at around \$80 a barrel in 2015 it would have a **negative** impact on the Canadian economy.
  - 71% of western executives thought it would be bad for the economy.
- ❑ The impact of \$80 a barrel oil on the performance of companies in the manufacturing and service sector is a wash, with as many saying it hurts as helps and many saying it will make no difference.
- ❑ In the oil and gas sector, 70% feel it will hurt their business.



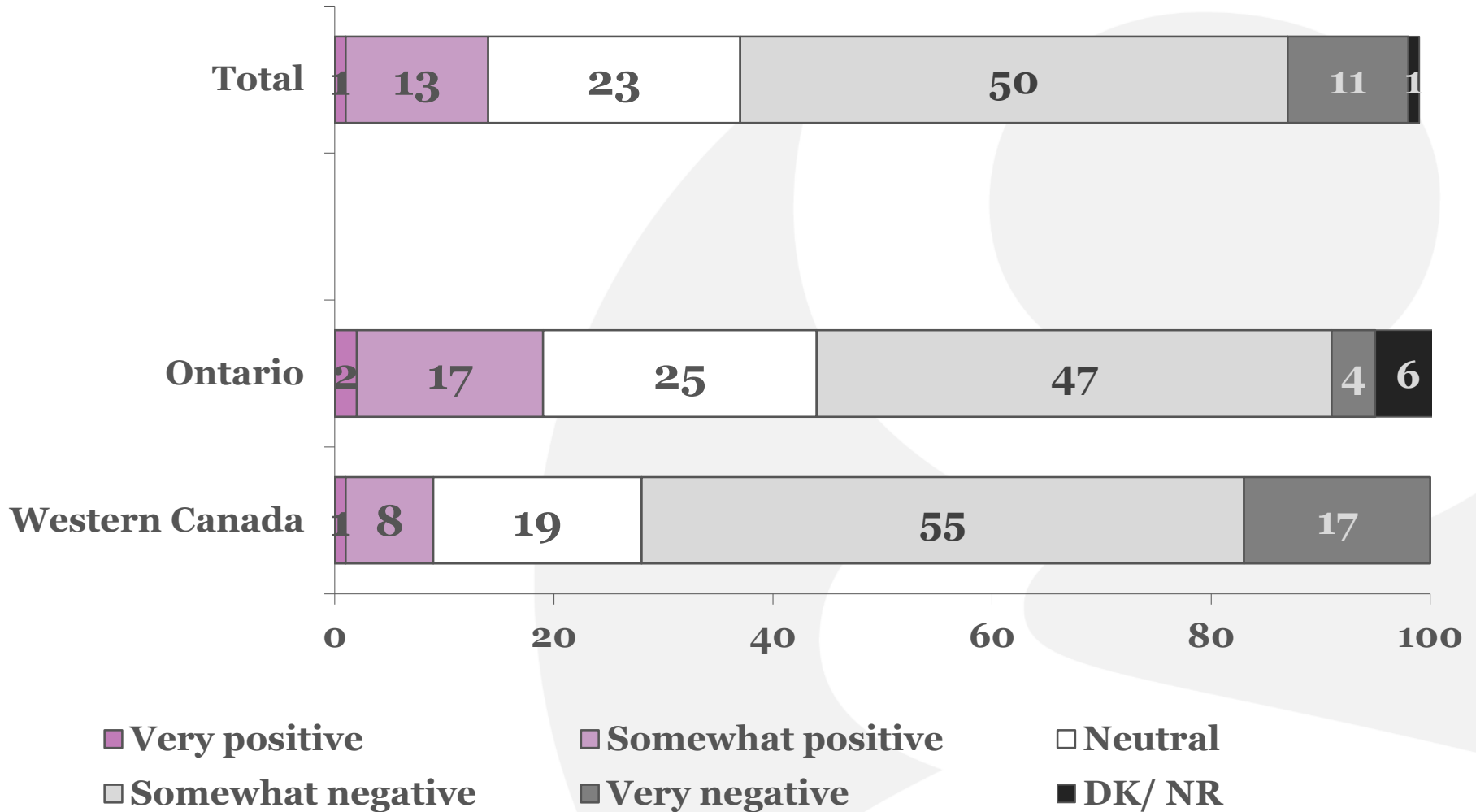
“Thinking about 2015, do you believe prices for North American crude oil are more likely to:”





# Impact of \$80 a Barrel on National Economy

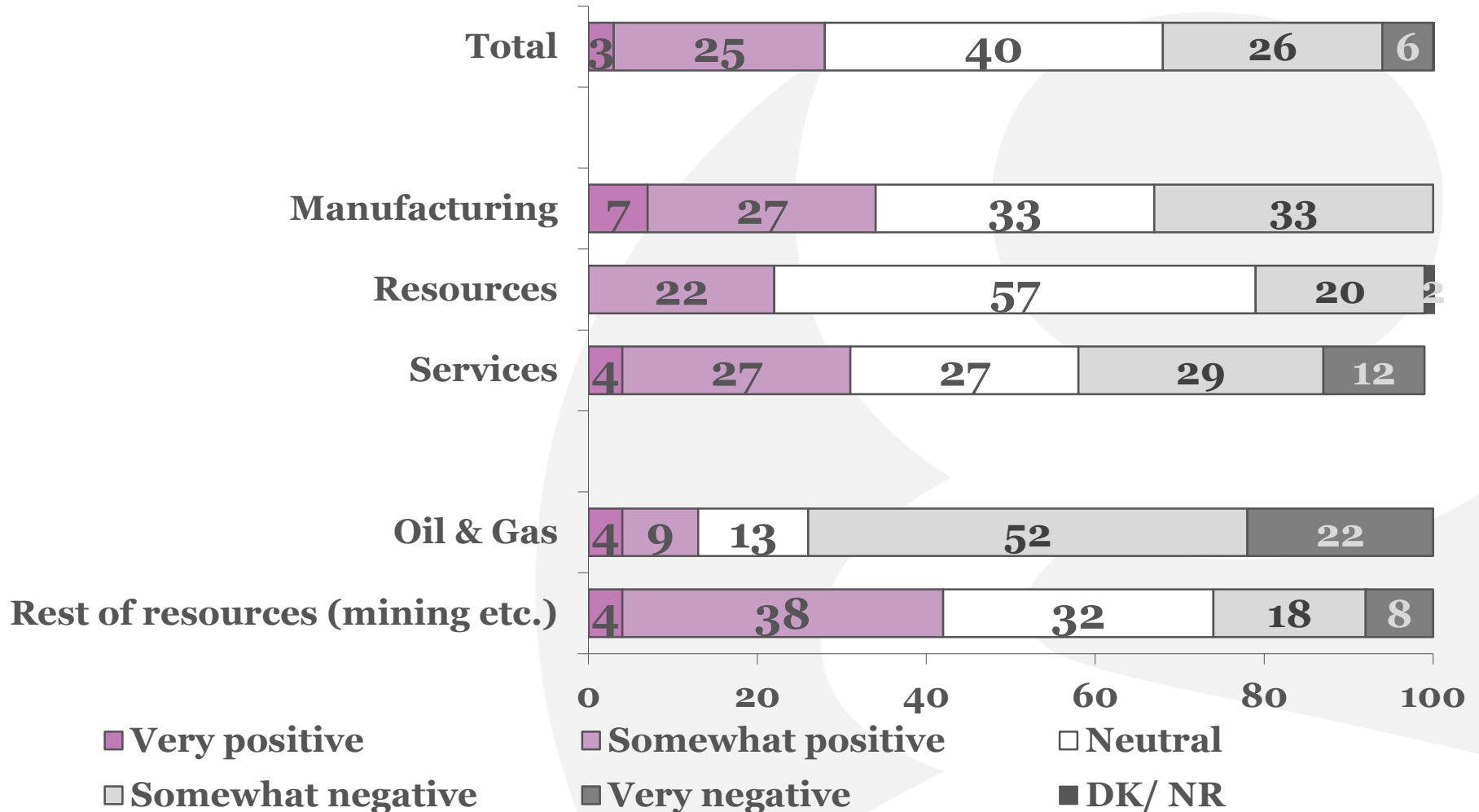
“Assuming oil prices remain around \$80 a barrel over the next year or so, do you think the net impact on the national economy will be very positive, somewhat positive, somewhat negative, very negative or neutral?”





# Impact of \$80 a Barrel on Company

“Assuming oil prices remain around \$80 a barrel over the next year or so, do you think the net impact on your company will be very positive, somewhat positive, somewhat negative, very negative or neutral?”





# The Impact of Falling Oil Prices

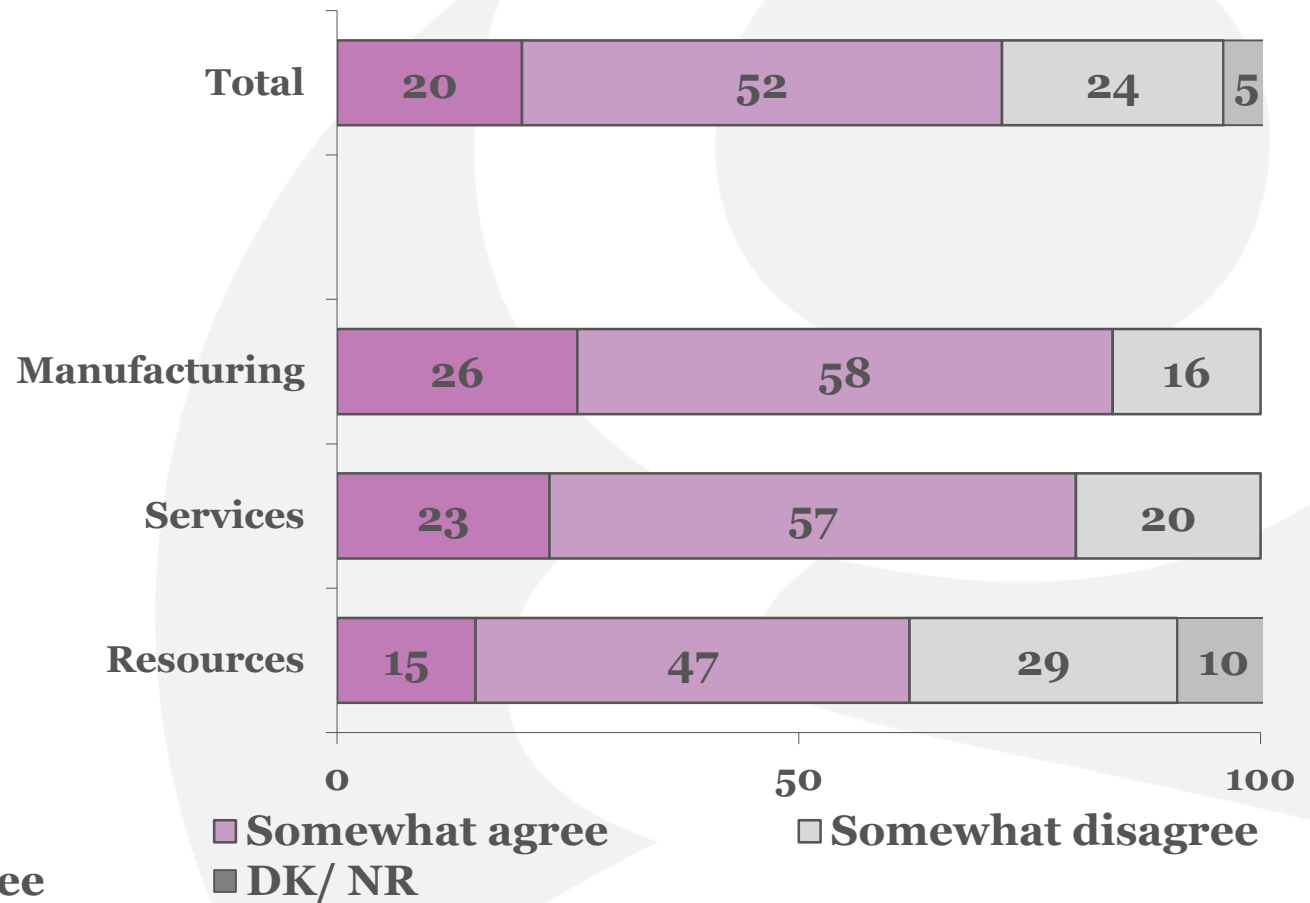
- ❑ Nearly three in four, including most resource company executives, agreed that Canada's economy is too dependent on high prices for oil.
  
- ❑ Half of executives do not believe the US administration will approve Keystone XL by the end of 2015.
  - Those that predict oil prices settling at \$70 are twice as likely to doubt that Keystone will be approved, than to be confident it will be approved.



# Even Resources Execs Say Economy Too Dependent on High Oil Prices

“As you know the price for North American crude has dropped from about \$100 a barrel to below \$80. I'm going to read some statements relating to the economy and oil, and I would like you to tell me if you strongly or somewhat agree, or strongly or somewhat disagree with each”

**Canada's economy is too dependent on high prices for oil**



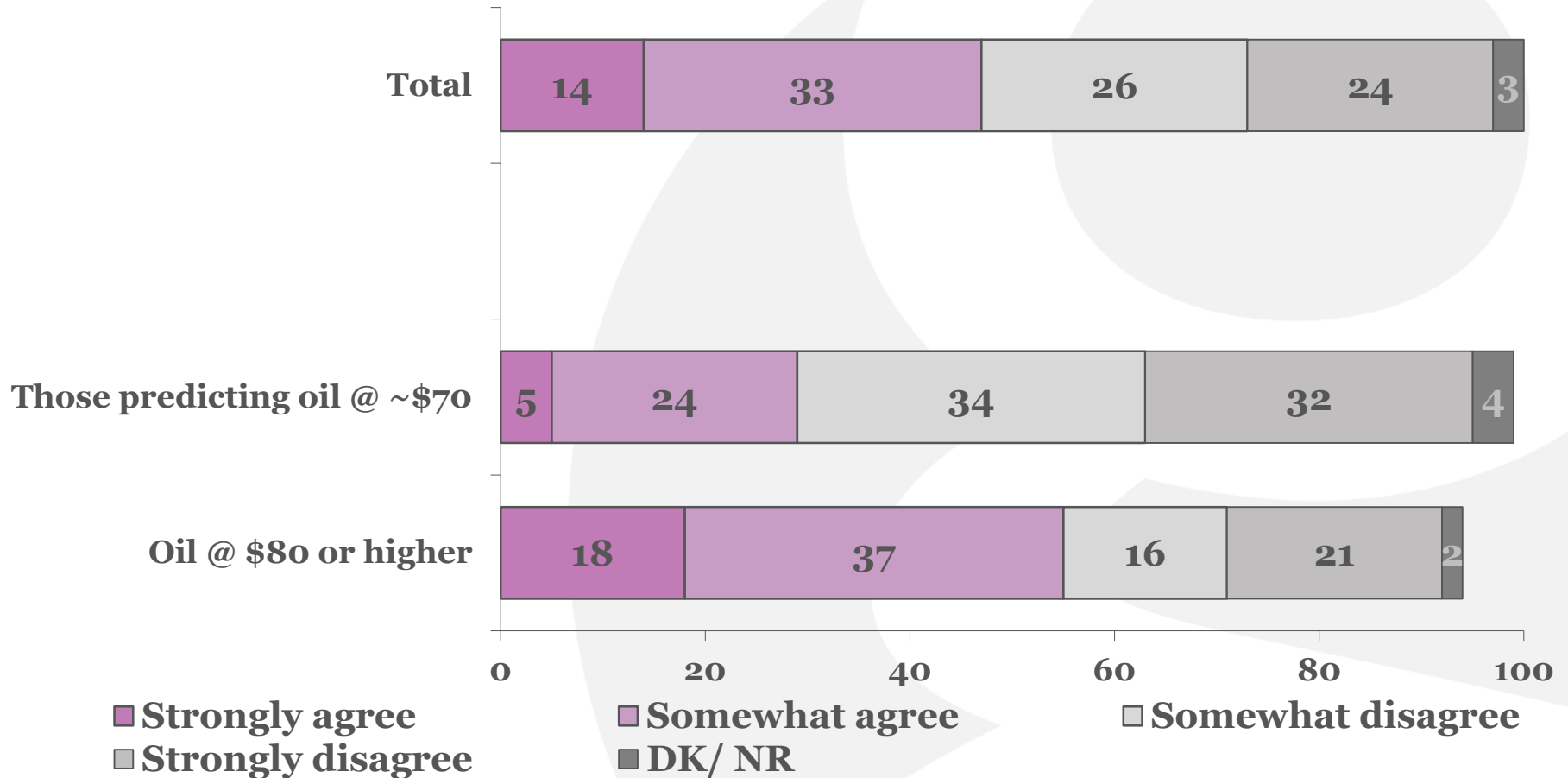




# Low Oil Price Linked with Lack of Confidence in Keystone XL Approval

“As you know the price for North American crude has dropped from about \$100 a barrel to below \$80. I'm going to read some statements relating to the economy and oil, and I would like you to tell me if you strongly or somewhat agree, or strongly or somewhat disagree with each”

**I am confident the US administration will approve the Keystone XL pipeline by the end of 2015**





- ❑ There is a consensus among the C-Suite that the US/China climate agreement is going to force Canada to accelerate climate change initiatives.
- ❑ About half of Canadian business leaders think this will have a negative impact on the oil patch.
- ❑ Interestingly, many executives in and out of the oil and gas sector, think that accelerated climate change initiatives need not have a negative impact on the oil and gas sector.

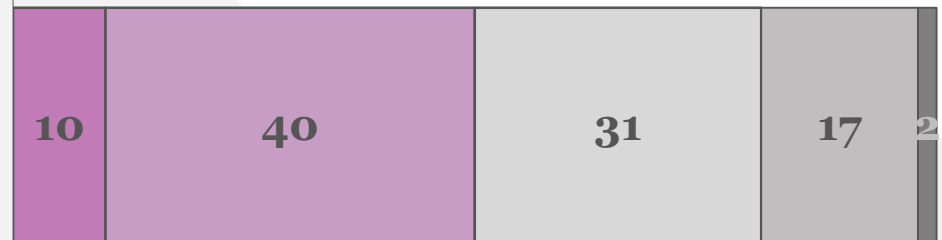


“As you know the price for North American crude has dropped from about \$100 a barrel to below \$80. I'm going to read some statements relating to the economy and oil, and I would like you to tell me if you strongly or somewhat agree, or strongly or somewhat disagree with each”

**A US-China climate change agreement will push Canada to accelerate its climate change initiatives**



**The recent US-China agreement on climate change will have a negative impact on business development in Canada's oilpatch**



0

50

100

■ Strongly agree  
■ Strongly disagree

■ Somewhat agree  
■ DK/ NR

■ Somewhat disagree

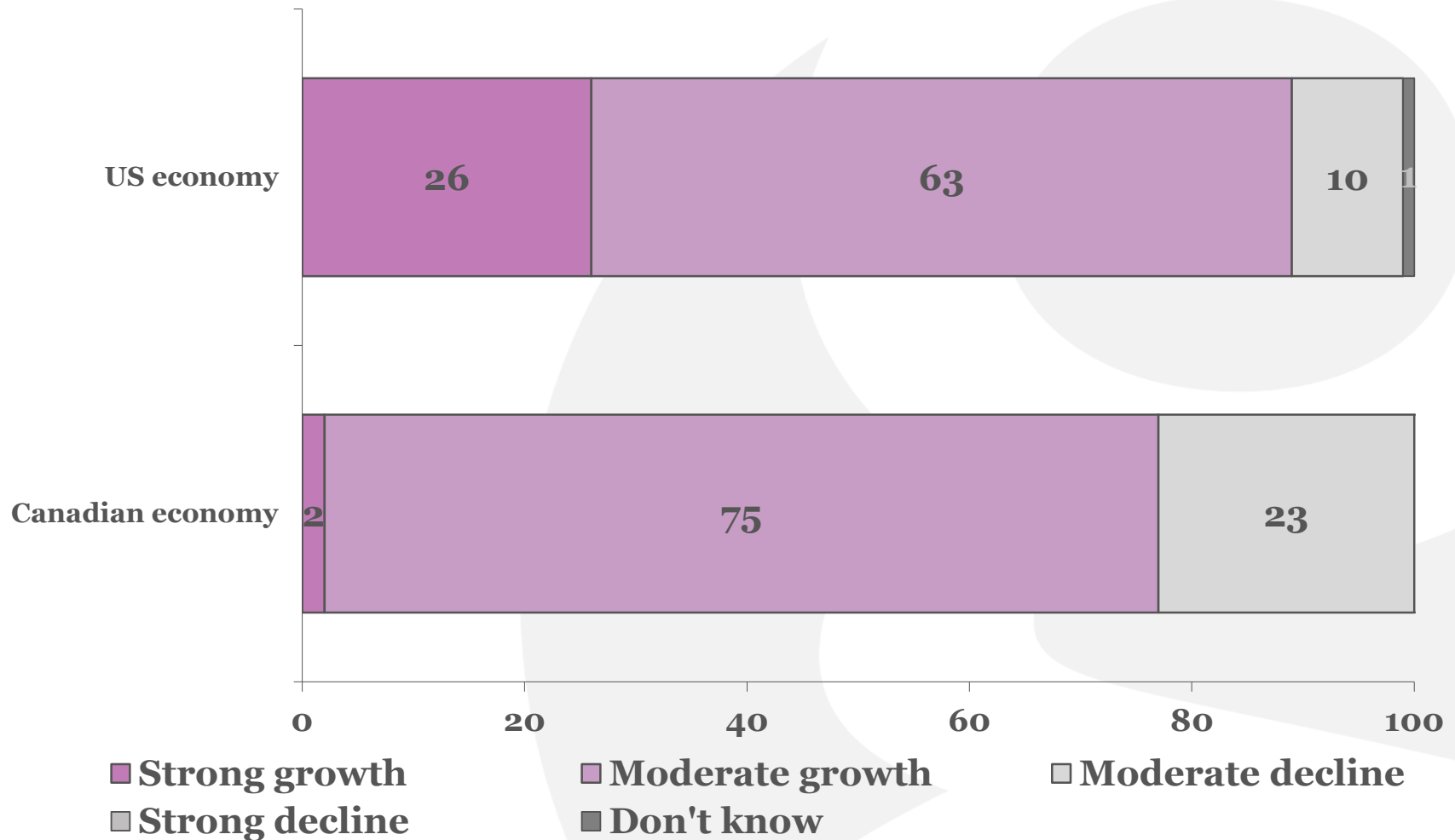


- ❑ Expectations for the economy have taken a sharp turn south. For the first time in two years, more than one in five now expect the Canadian economy to decline somewhat over the next 12 months.
- ❑ This stands in stark contrast to expectations for the US economy, which one quarter of executives now expect to grow strongly over the next 12 months. Confidence in the strength of the American economy has been growing throughout the year.
- ❑ As well, the vast majority expect the Canadian dollar to stay at or below 90 cents US. Few expect a return to parity.



# Expectations of the Canadian and US Economies

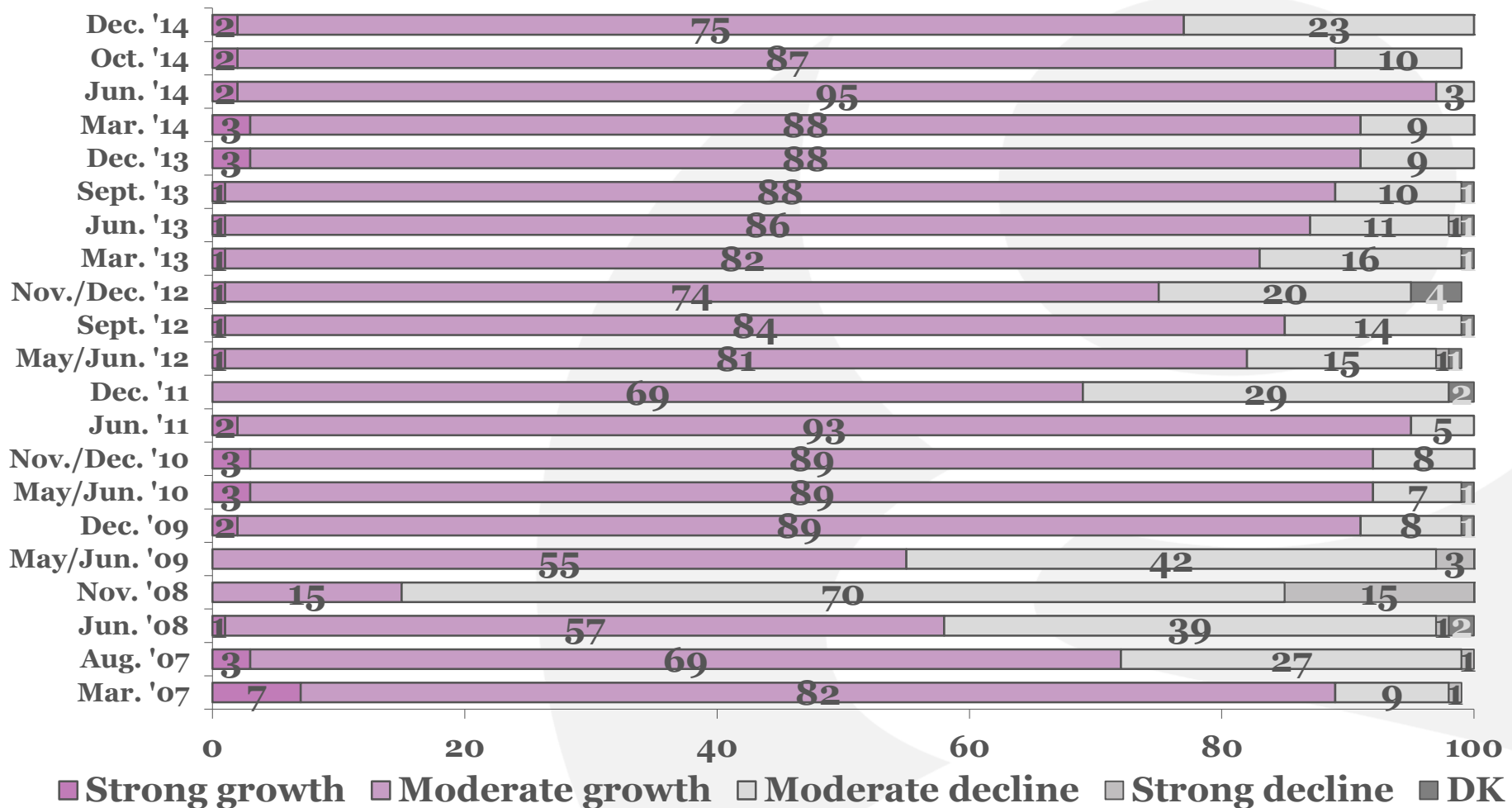
“What are your expectations for the **U.S. /Canadian** economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)





# Projections For The Canadian Economy

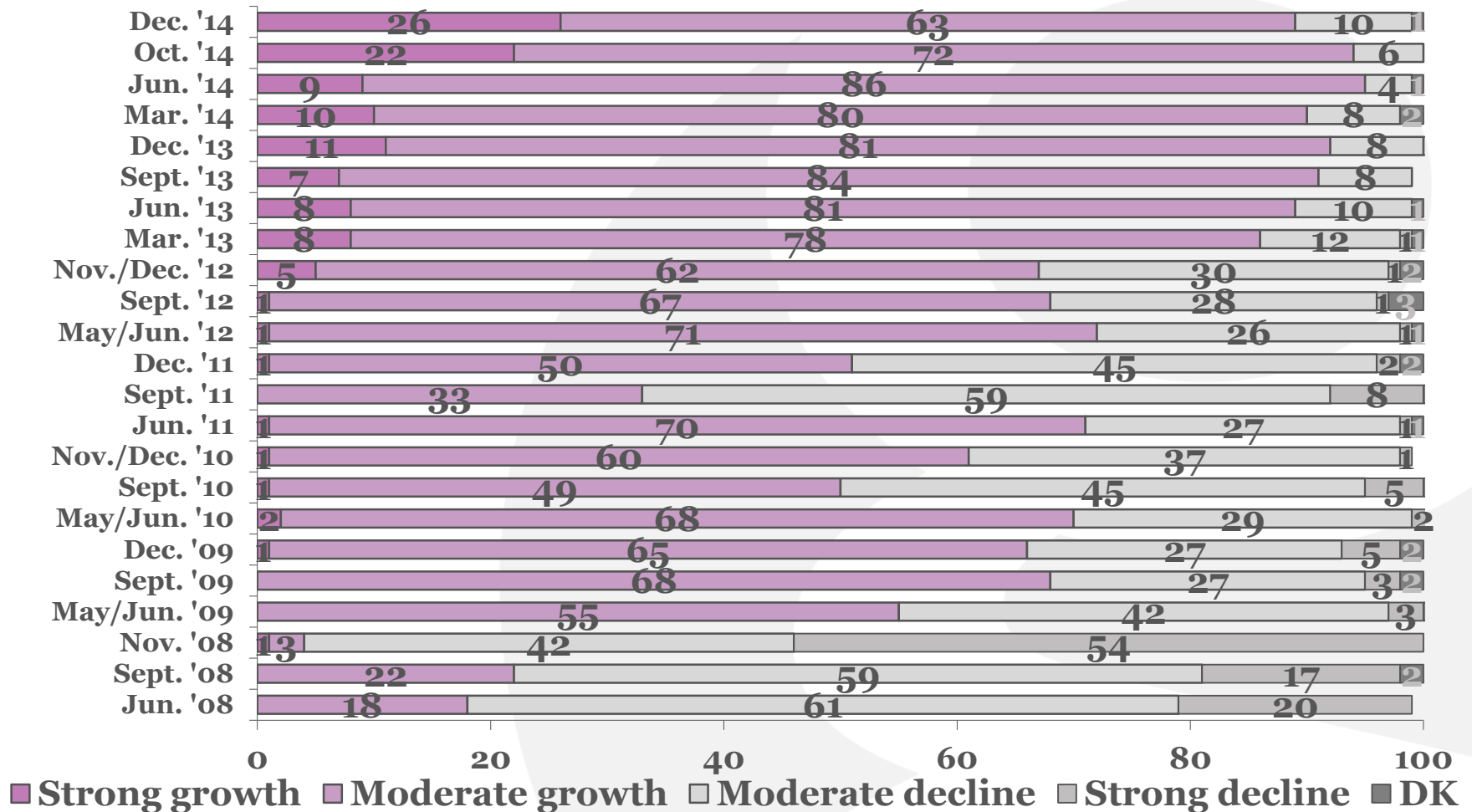
“What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)





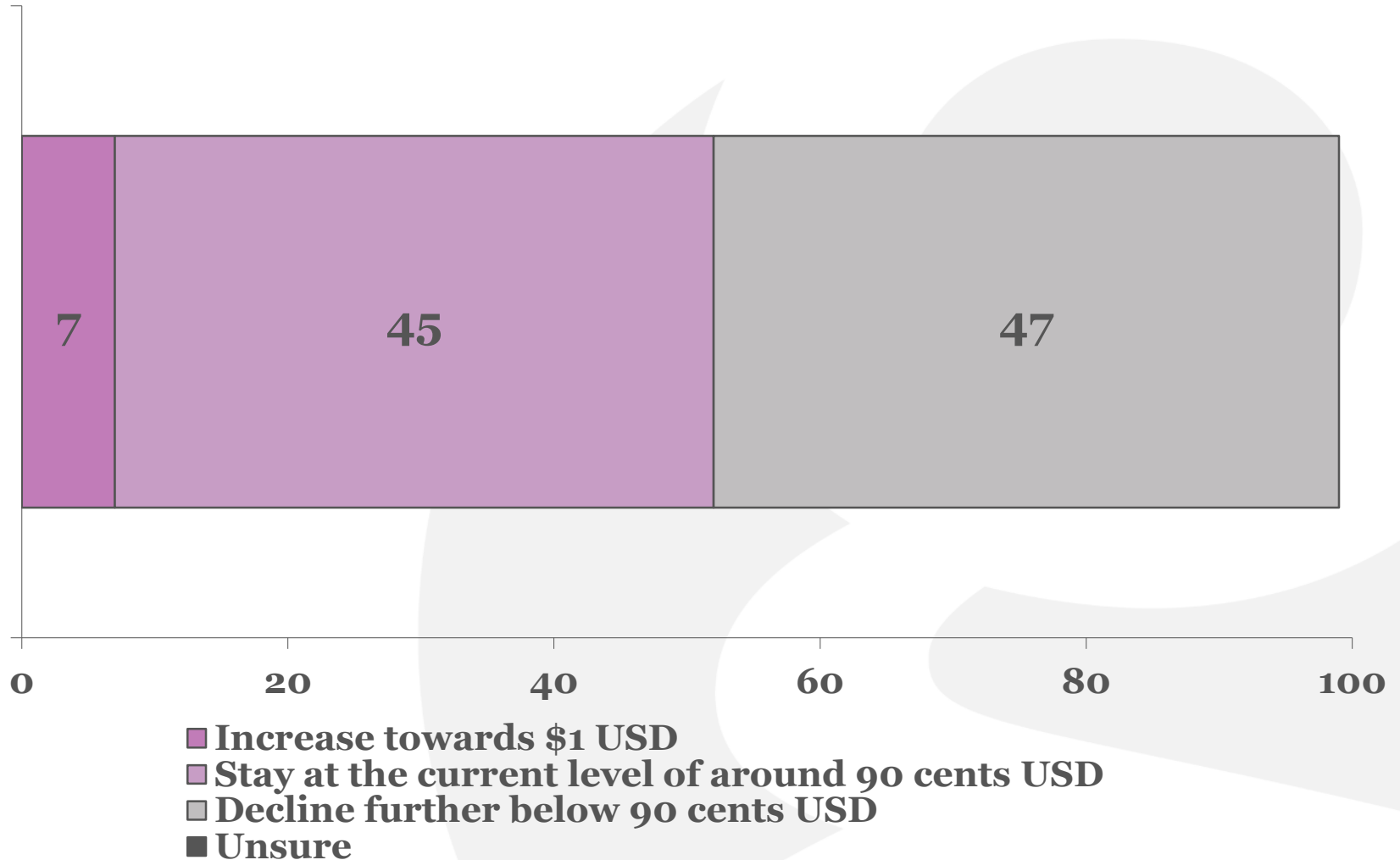
# Projections for The US Economy

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





“Thinking about 2015, do you believe the Canadian Dollar is more likely to:”



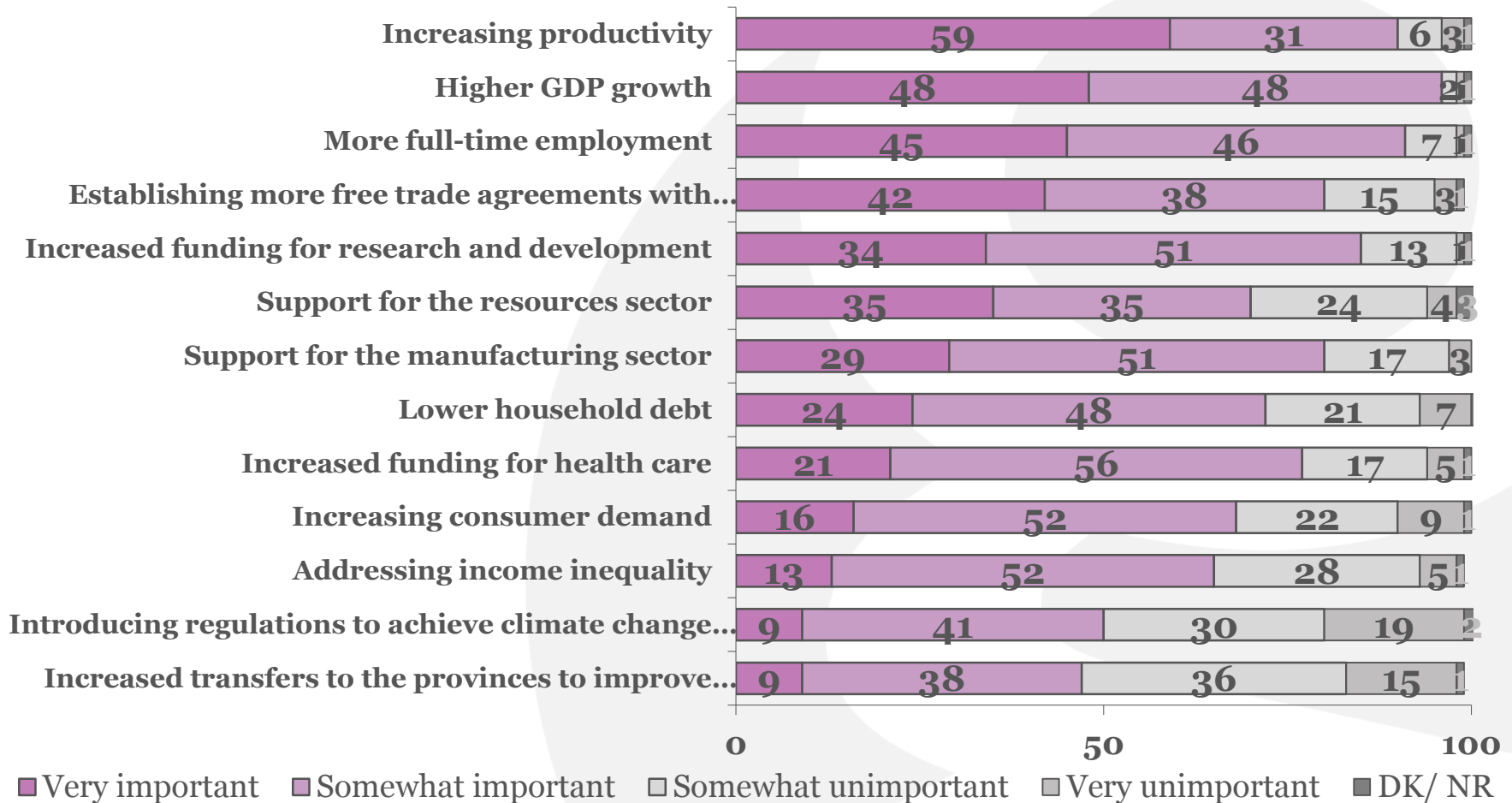




- ❑ The C-Suite believes that the federal government should be focused on growing the economy, focusing on increasing productivity, increasing GDP growth, expanding trade, and more full-time employment.
  
- ❑ Assistance to individual Canadians, whether with their personal debt, ability to spend, or housing costs is second tier, but not seen as unimportant.
  - The vast majority think more money will have to be spent on health care.
  - Most executives see income inequality as something worth addressing.
  
- ❑ Thinking specifically of their own companies, the C-Suite tells us that tax cuts are the most helpful things government could introduce to help their businesses. Demand for corporate tax cuts has been growing in recent years.



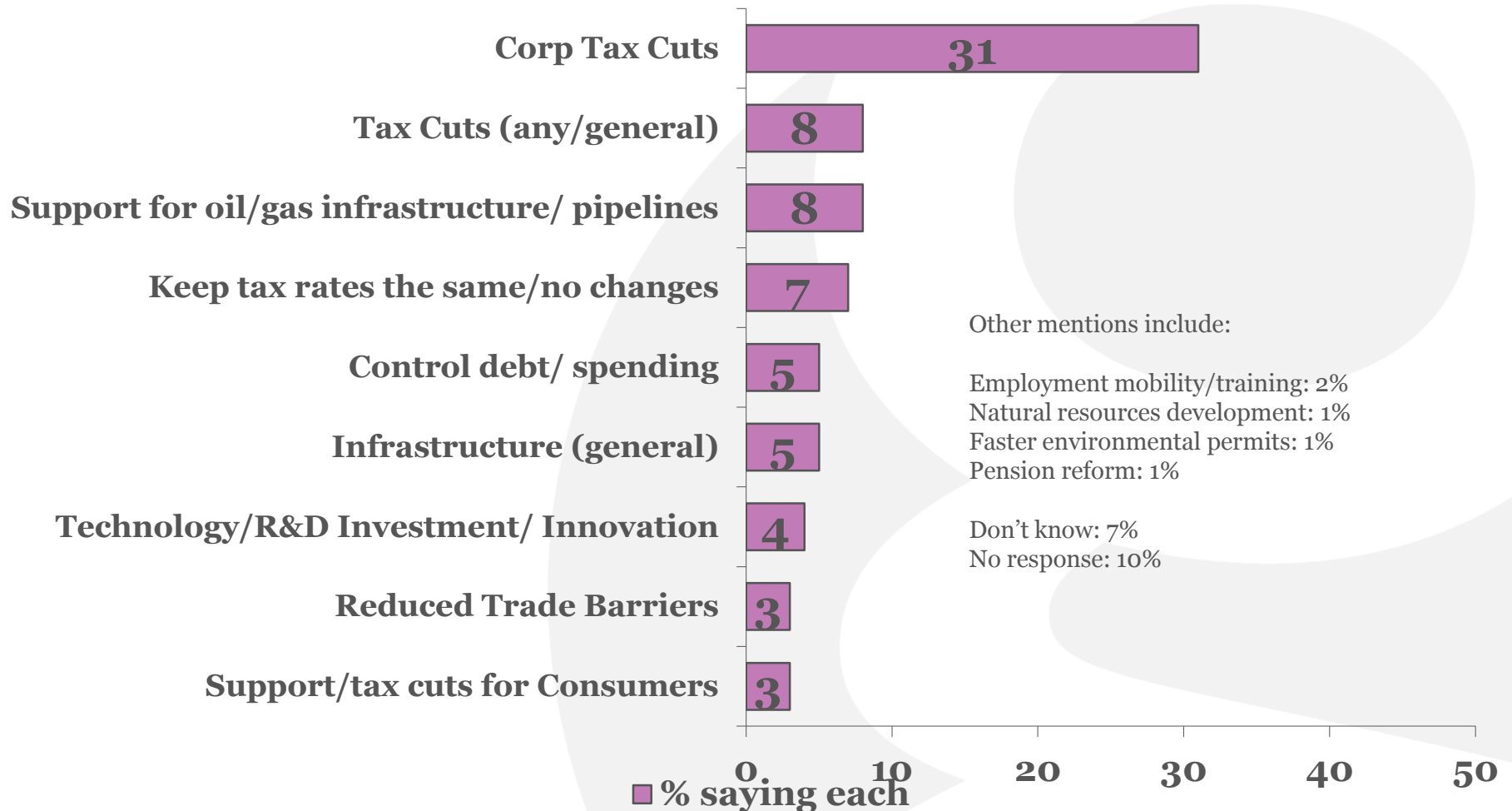
“I’m going to read a list of national priorities the federal government could focus on and I’d like you to tell me how important you think each is for the national well-being. Would you say this is very important, somewhat important, somewhat unimportant or very unimportant?”





# C-Suite's Most Wanted Budget Items/ Priorities

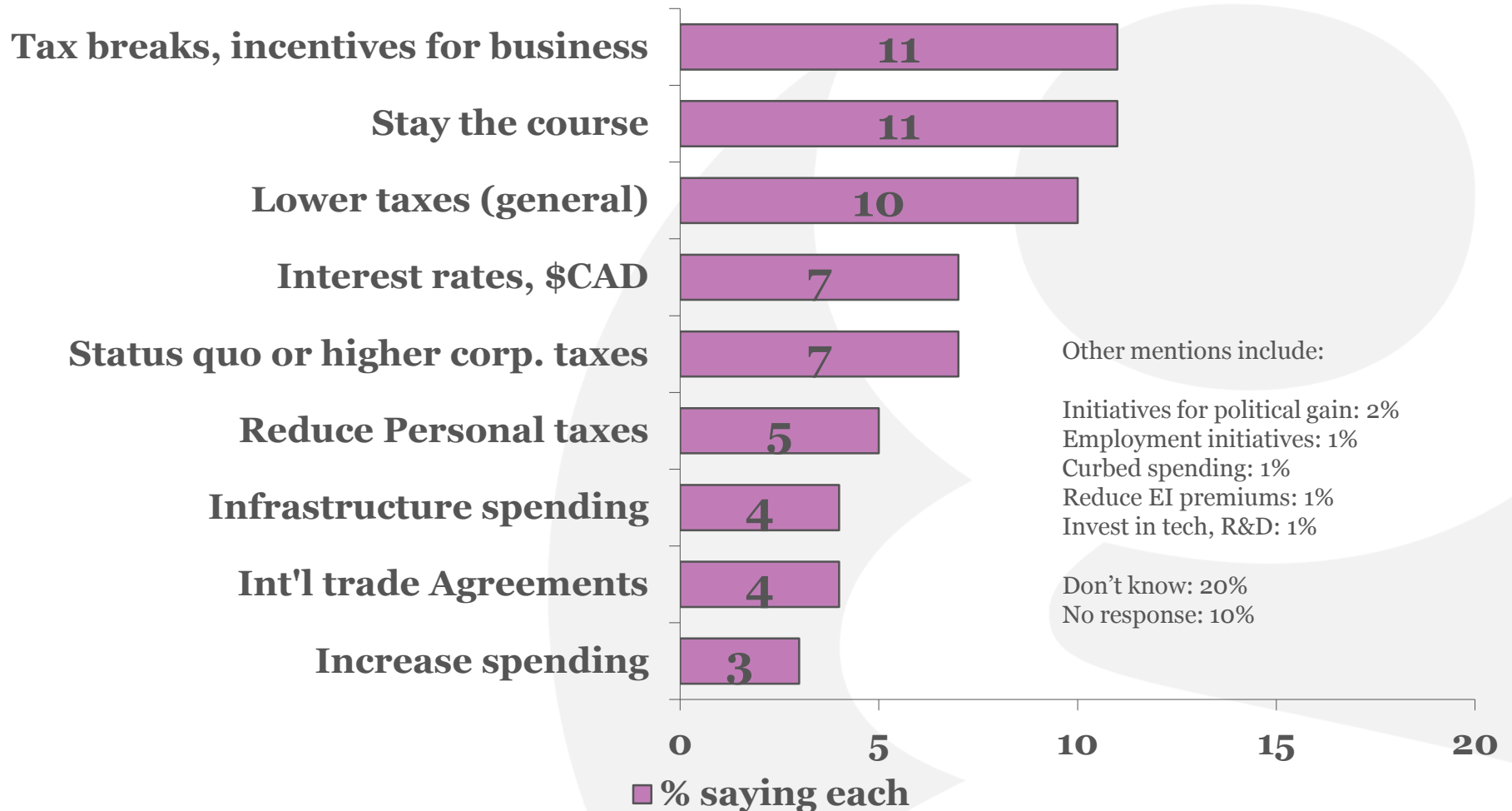
“The government of Canada's 2015 budget will be introduced within a few months. Thinking specifically of your company, what would you most want to see included in the budget?” (% saying each – open ended)





# Federal Government's Likely Business Initiatives

“What do you believe the federal government is most likely to do in terms of budget initiatives that would impact Canadian businesses?” (% saying each)

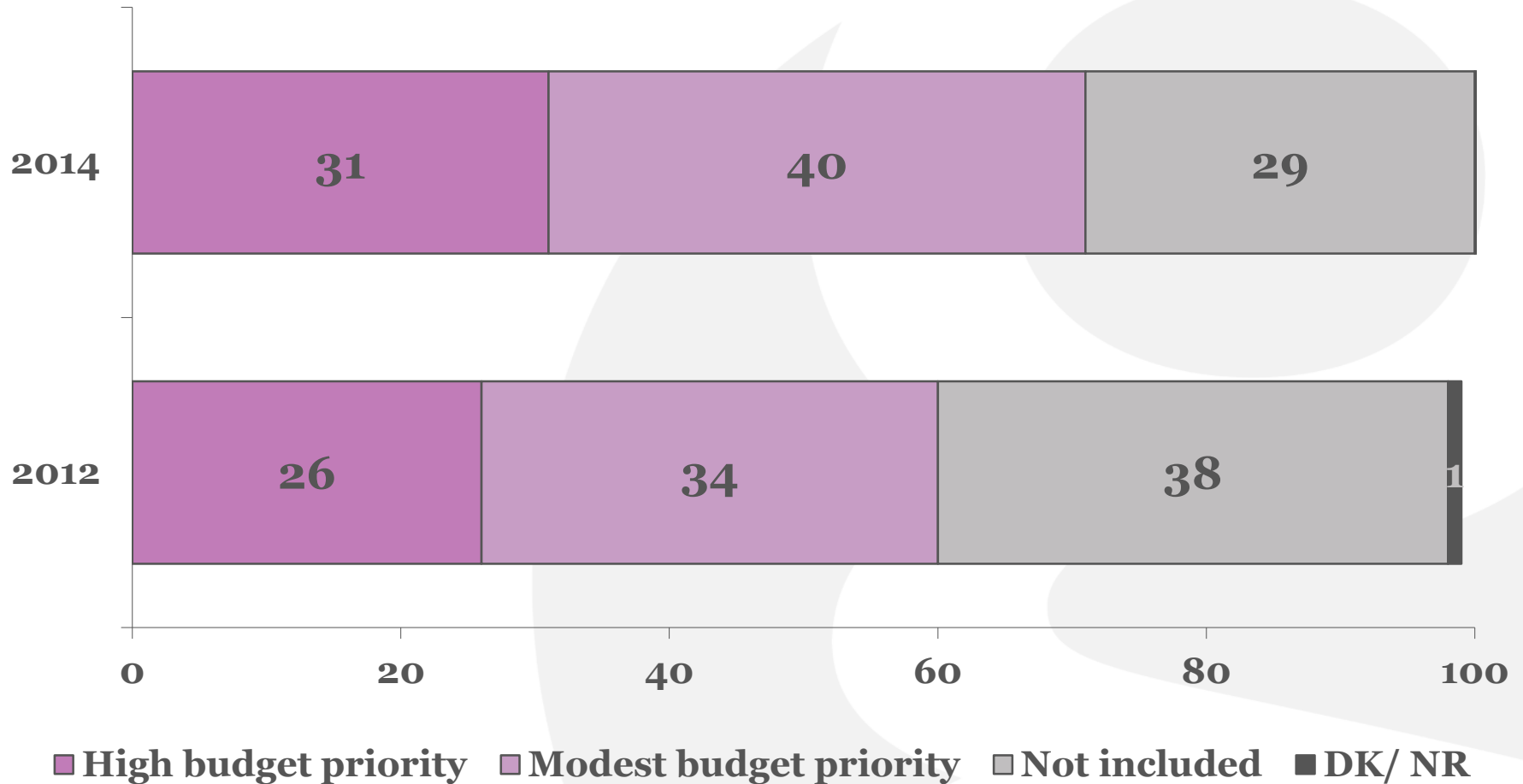




# National Priorities – Corp. Tax Cuts Tracking

“Now thinking about the federal surplus and the government's upcoming 2015 budget, I'd like to know if you believe each of the following items should be a high budget priority, a modest budget priority or not included in a federal budget:”

## Reducing corporate income taxes





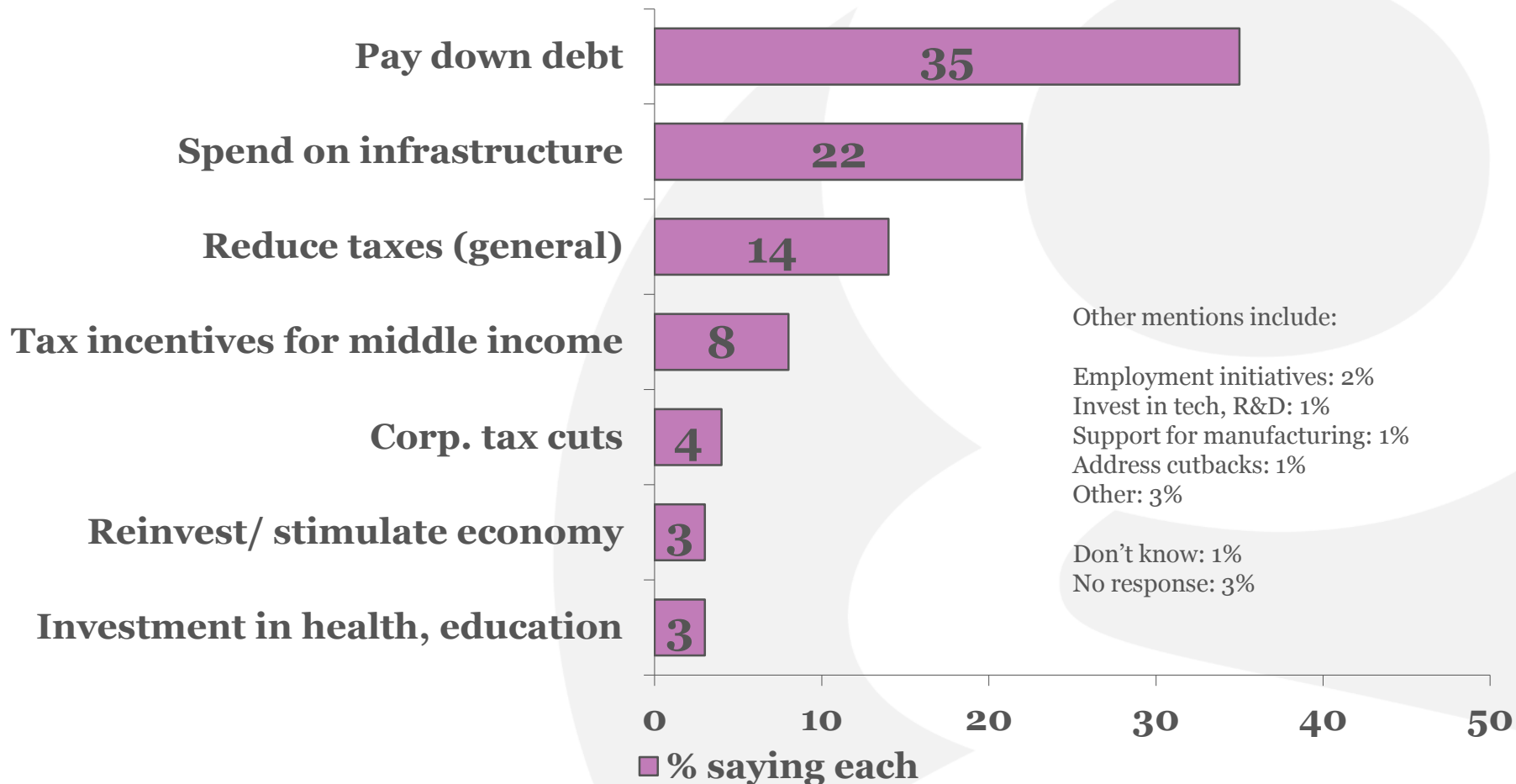
# Whither the Federal Surplus?

- ❑ The clear two priorities for the surplus are paying down the debt, and increased funding for infrastructure.
- ❑ Personal and corporate tax cuts are clearly secondary to those priorities but most executives would dedicate some of the surplus to reducing the tax burden.
  - Income splitting is less attractive than other personal tax cuts.
- ❑ Those that said more full time employment is very important, were more likely to support a wide range of measures, including affordable housing, daycare, benefits to parents of young children, infrastructure and R&D.
- ❑ Those that said productivity is very important were more likely to support more R&D incentives.



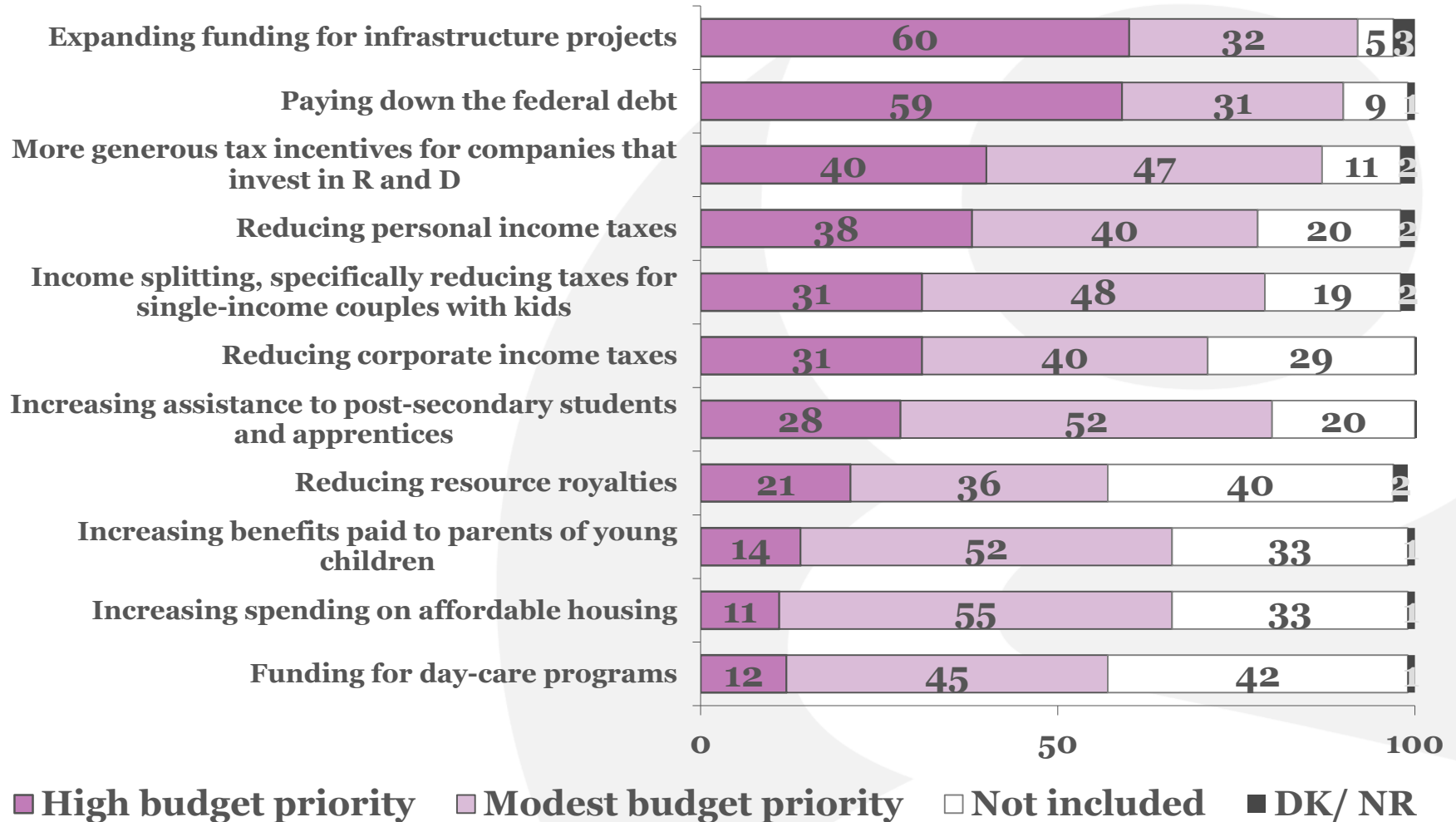
# How should government spend the surplus?

“Earlier this year the federal government forecast that it would balance its budget and then run annual surpluses. If it was up to you what would you have proposed the federal government do first and foremost with its forecast surplus revenue?” (% saying each – open ended)





“Now thinking about the federal surplus and the government's upcoming 2015 budget, I'd like to know if you believe each of the following items should be a high budget priority, a modest budget priority or not included in a federal budget:”





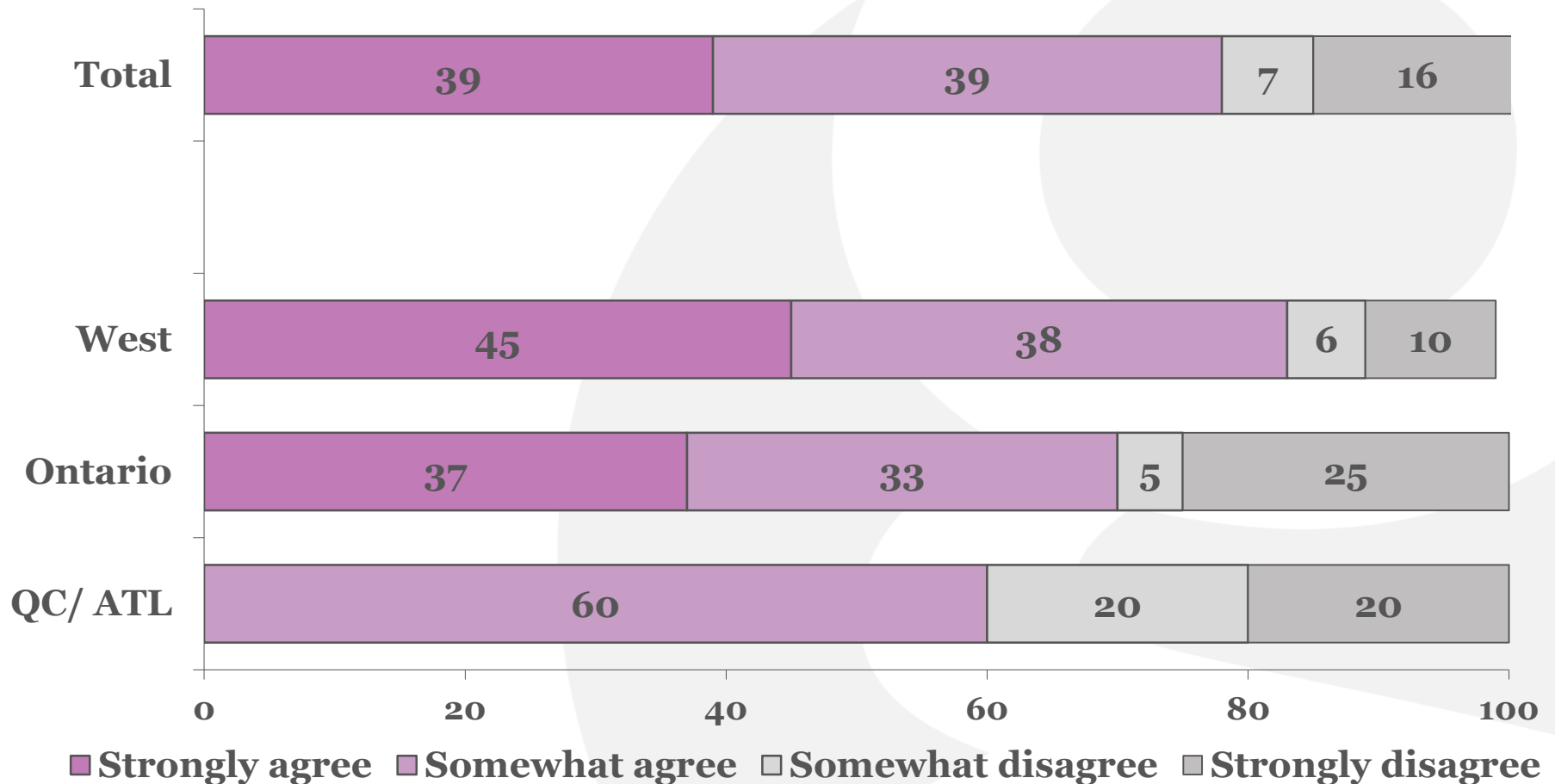


- ❑ We asked the C-Suite if it was acceptable for companies to continue to move profits to locations that give them the best tax advantage: 78% agreed it would be acceptable for companies to do this if it remains legal.
- ❑ It's important to note that in last year's survey a majority supported measures to close loopholes that facilitate base erosion and profit shifting and that many companies said they would be unable to shift profits or report outside of Canada.
- ❑ In any event, most said in last year's survey they did not face significant pressure to do so from shareholders.



# Is Profit Shifting Acceptable? As Long As It Remains Legal

“The G20 and the OECD are reviewing options to address tax base erosion, profit shifting, and tax evasion by some corporations who push activities to low tax jurisdictions...If profit shifting options and opportunities remain legal, **do you agree or disagree it is acceptable for companies to continue to move profits to locations that give them the best tax advantage?**”

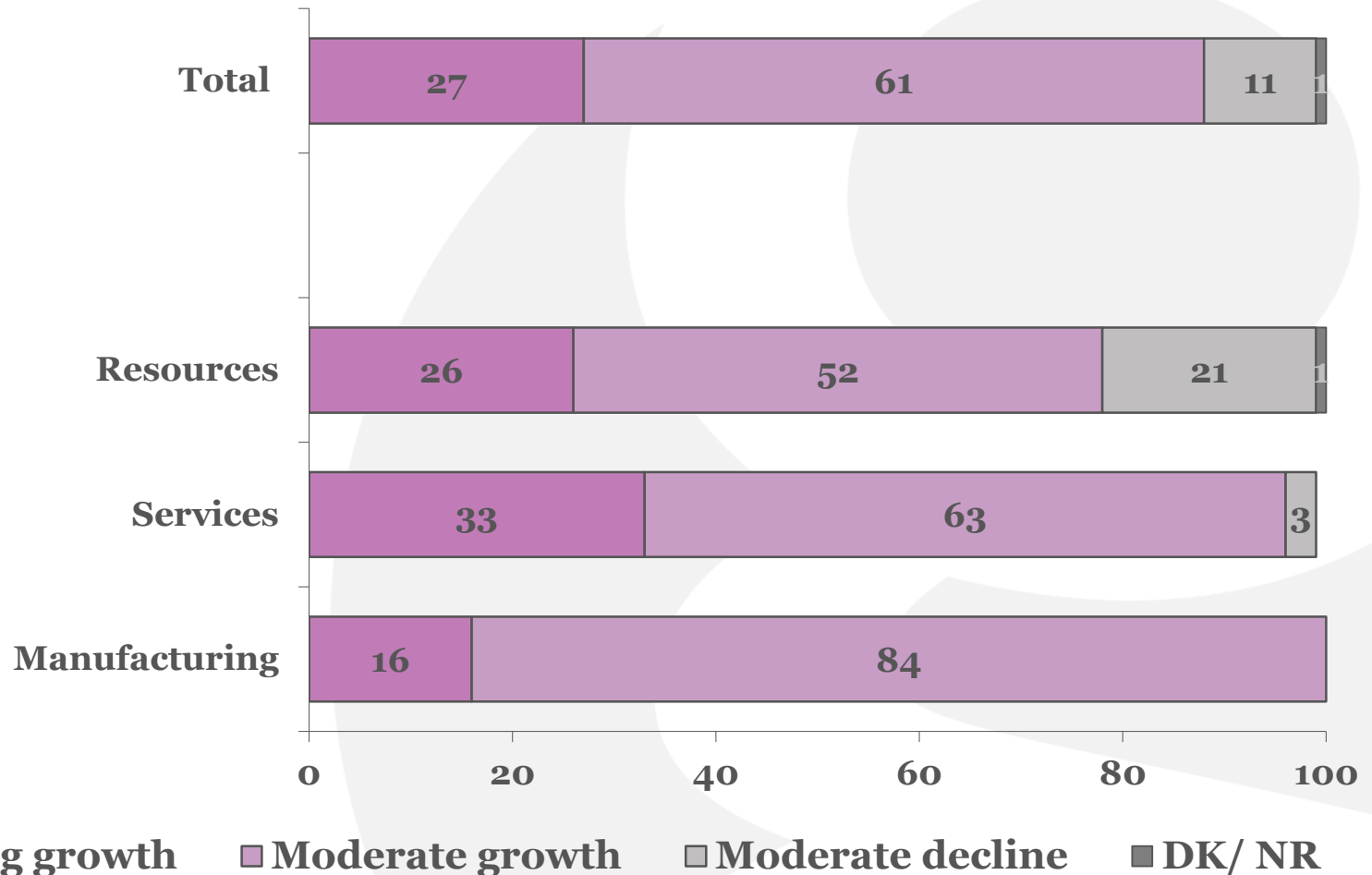




- ❑ The services sector is slightly more bullish about company growth with one third expecting strong growth, while the resources sector remains the most pessimistic.
- ❑ In fact, only the services sector has improved its outlook since October, with 14% fewer in manufacturing, and 15% fewer in resources expecting strong growth.



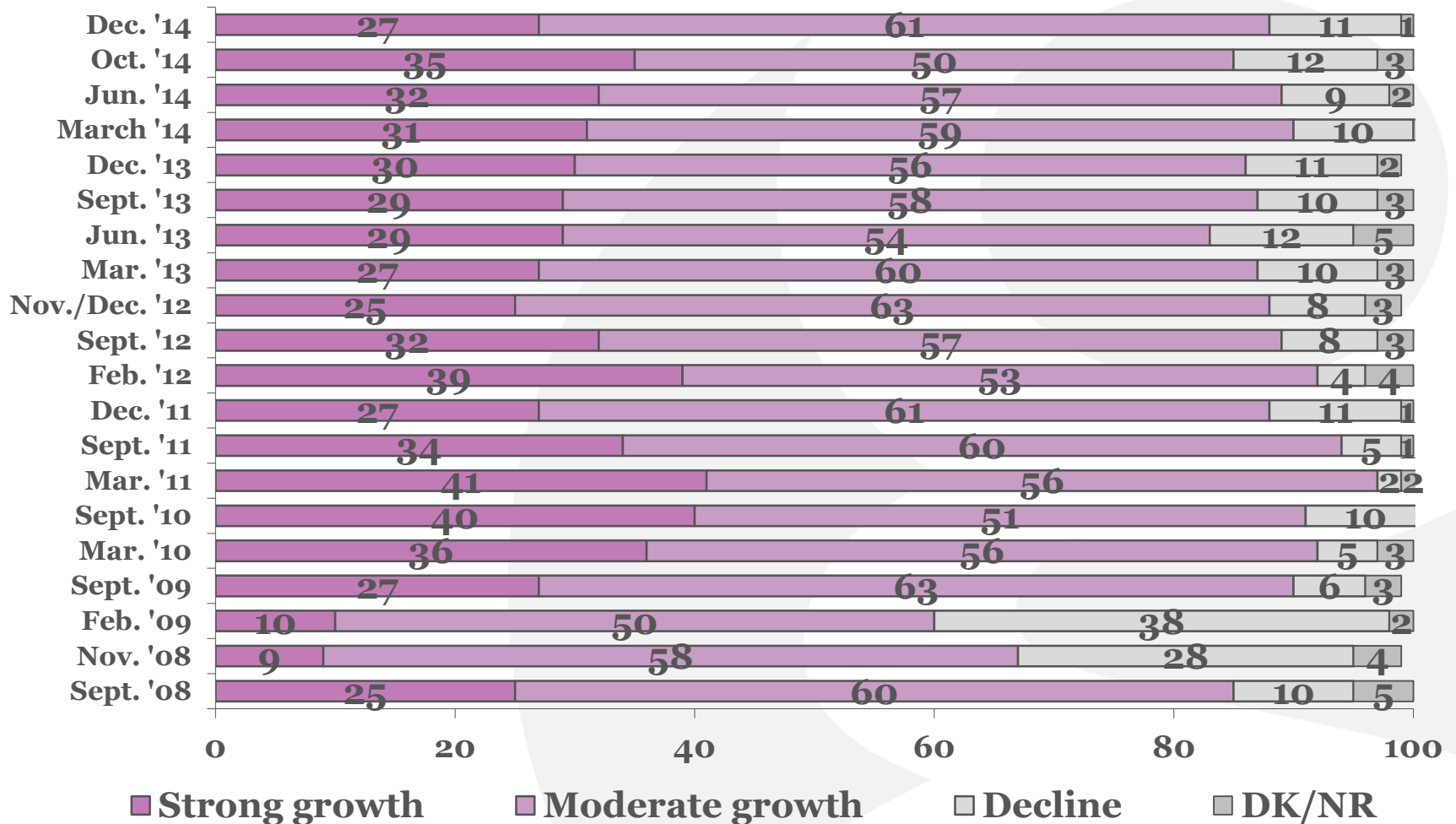
“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)





# Projections For Your Company

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





## Notable Verbatim Responses to Open-Ended Questions



# Notable Verbatim Responses

“The government of Canada's 2015 budget will be introduced within a few months. Thinking specifically of your company, what would you most want to see included in the budget?” (% saying each)

Oil and Gas Infrastructure	Tax Incentives for their Industry	R&D Investment/Innovation	Notable Miscellaneous
no significant changes other than commitment to capital expenditure programs specifically for energy pipelines east and west, credits for provinces if approved. Funding directed to what makes provinces work together	Incentives for Junior oil and gas oil sands development. A focus on infrastructure and specifically pipeline takeaway capacity.	incentives to invest in R & D, intellectual property, SRED program. Keep tech innovation strong in Canada	job training programs for youth-apprenticeship, retraining in specific geographic areas of manufacturing in places like Sarnia and Atlantic Canada, reexamination of health care funding between feds and provinces
anything that gets pipeline to fruition and crude oil to market	I would like to see a reduction in royalties, and further investments in infrastructure.	incentives to invest in R & D, intellectual property, SRED program. Keep tech innovation strong in Canada	measures for quicker environmental permitting processing



# Federal Government's Likely Business Initiatives

“What do you believe the federal government is most likely to do in terms of budget initiatives that would impact Canadian businesses?” (% saying each)

Notable Miscellaneous	Infrastructure Spending	Interest Rates, \$CAD	Lower Corp. Tax
<p>They have done a lot already in a negative way (anti-science, reducing size of departments is counter-productive, which may have to reproduce information that was there in the past and is now lost.) The other issue that has not been addressed Provincially and Federally is the aboriginal issue, making it difficult for resource companies to work.</p>	<p>more spending, infrastructure to catch up for what wasn't spent over past 5 years, focus on short term job creation for next election</p>	<p>drive the value of the dollar down to make exports more complete and keep interest rates low to accomplish that</p>	<p>I think their stance on corporate taxes would have a significant impact on Canadian businesses. Either stimulating or hindering foreign investments and foreign ownership would have a significant impact on our industry.</p>
<p>They may increase spending to target areas where they are trying to garner more votes, IE a political budget.</p>	<p>Infrastructure is important. Tax cuts for businesses, investments in innovation</p>	<p>Keep interest stable and low</p>	<p>look at lower business tax</p>





“Earlier this year the federal government forecast that it would balance its budget and then run annual surpluses. If it was up to you what would you have proposed the federal government do first and foremost with its forecast surplus revenue?” (% saying each)

Notable Miscellaneous	Spend on Infrastructure
<p>Promote a strong middle class through higher wages. Promoting stronger Unions.</p>	<p>I would invest in infrastructure that has long-term positive implications for strengthening our economy.</p>
<p>Institute some of the programs that it cut to create a surplus.</p>	<p>strengthen security for the country including infrastructure like pipelines, electrical and social programs</p>
<p>address issues that have resulted from 5 years of cutbacks</p>	<p>dedicated to the infrastructure deficit</p>