



the gandalf group

The 38th Quarterly C-Suite Survey

The Impact of Lower Oil Prices & Outlook for 2015

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- ❑ This is the 38th 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 .
- ❑ This quarter's survey included questions about:
 - The price of oil and a low dollar
 - The state of the Canadian economy
 - Federal budget policy options
- ❑ Methodology: telephone interviews with 152 C-Suite executives from ROB1000 companies between February 23rd and March 16th, 2015.



- ❑ The outlook for Canada's economy has weakened significantly. This is the most pessimistic outlook among the C-suite since 2009 - the aftermath of the recession.
- ❑ Few expect strong growth for the Ontario economy but expectations for provincial economies in Western Canadian are very negative.
- ❑ The US economy is now leading the way to growth, rather than tracking with or behind the Canadian economy as it did in the years following the great recession.
- ❑ The most commonly cited concern for businesses are low oil or commodities prices. However, many other companies are concerned about access to finance, raising equity or funding.
- ❑ The drop in the price of oil has hurt many companies and they are cutting not just capital but salaries or staff levels.
 - A minority of executives said their companies are benefitting somewhat from cheaper energy prices.



- ❑ In contrast, the C-Suite thinks the lower value for the Canadian dollar is mostly good news for the economy. About half would welcome a dollar priced at less than 90 cents US in 2015 as far as their company is concerned.
- ❑ The C-Suite is almost evenly divided on the wisdom of another rate cut this year:
 - 51% would favour an additional rate cut by the Bank of Canada
 - A similar proportion – 52% – would support a deliberate low dollar policy if the Bank of Canada pursued it.
- ❑ The C-Suite thinks balancing the federal budget should be a top priority – most saying it should be a high priority in the upcoming Spring budget.
- ❑ But many are looking to government to make investments, notably in infrastructure spending and in skills. Fewer now are interested in corporate tax cuts and fewer would prioritize paying down debt, compared to our 2014 survey on the Budget.



- ❑ The economic outlook has worsened since last December; now only six in ten expect growth in the next 12 mos.
 - 39% expect a mostly moderate decline for the Canadian economy.

- ❑ In a reversal of recent years, the outlook for Ontario is better than the outlook for the West.
 - Expectations are far worse for Western Canada. Most expect their province's economy to decline in the next 12 months, with 24% expecting a strong decline or recession.
 - In Ontario most expect growth but almost none expect strong growth.

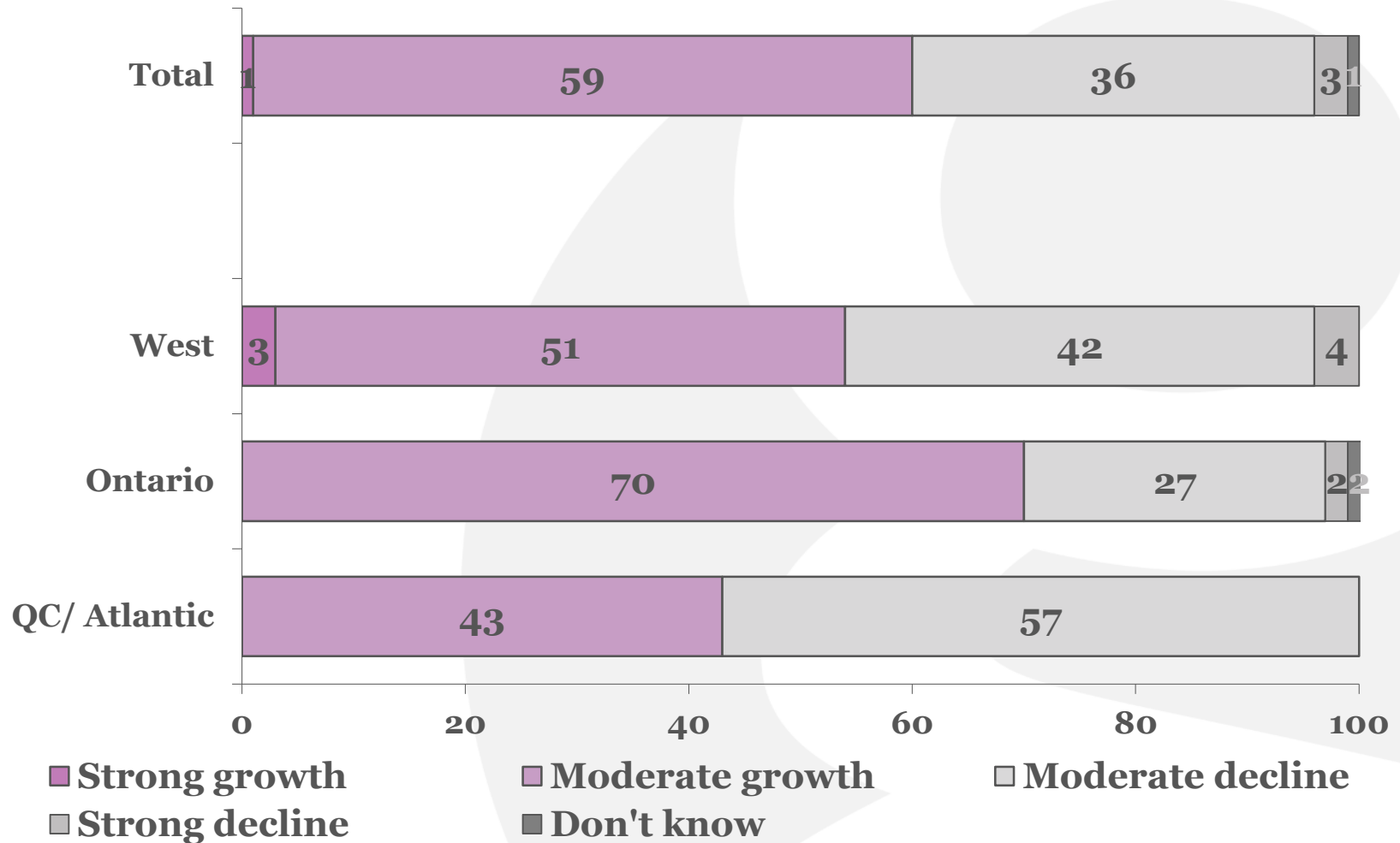
- ❑ The C-Suite's expectations for their own companies is not as poor, although a significant number are no longer predicting their businesses will grow – 22% now expect moderate or strong decline for their companies over the next 12 mos.

- ❑ The more positive outlook for the US is unchanged from last quarter.



Expectations of the Canadian Economy

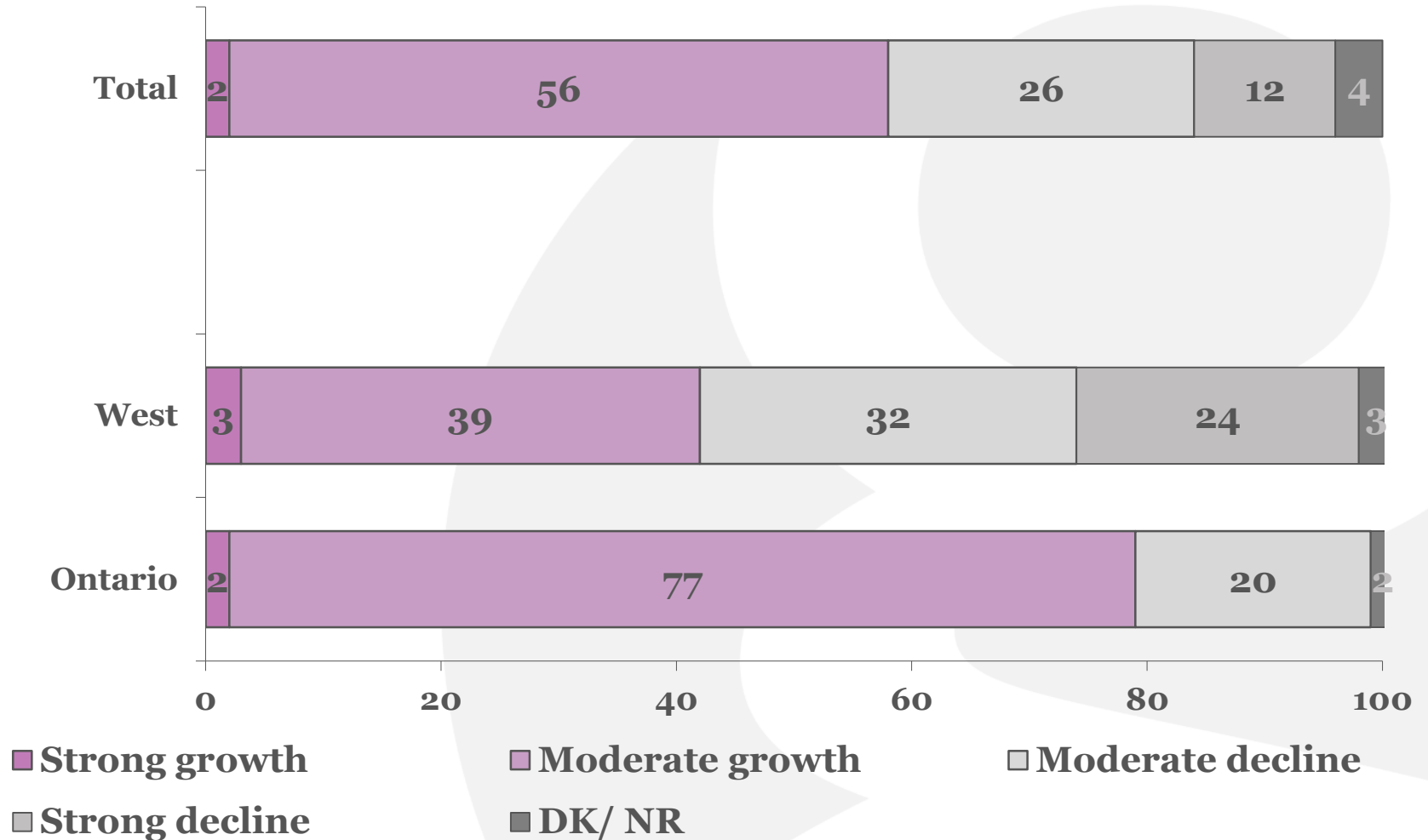
“What are your expectations for the **Canadian** economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)





Expectations of Provincial Economies

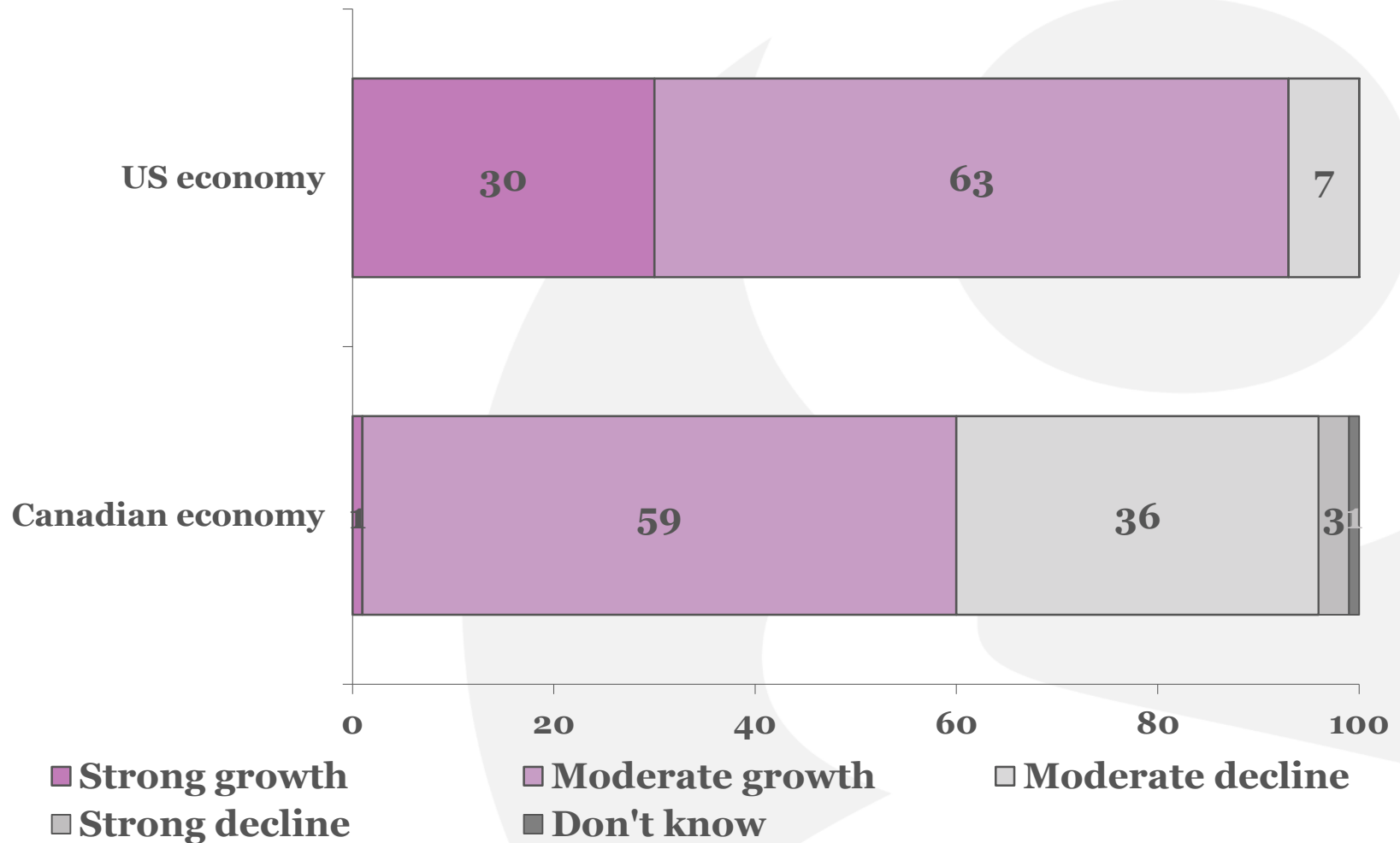
“And what are your expectations for the economy of the province where you are located - strong growth, moderate growth, moderate decline or strong decline?”





Expectations of the Canadian and US Economies

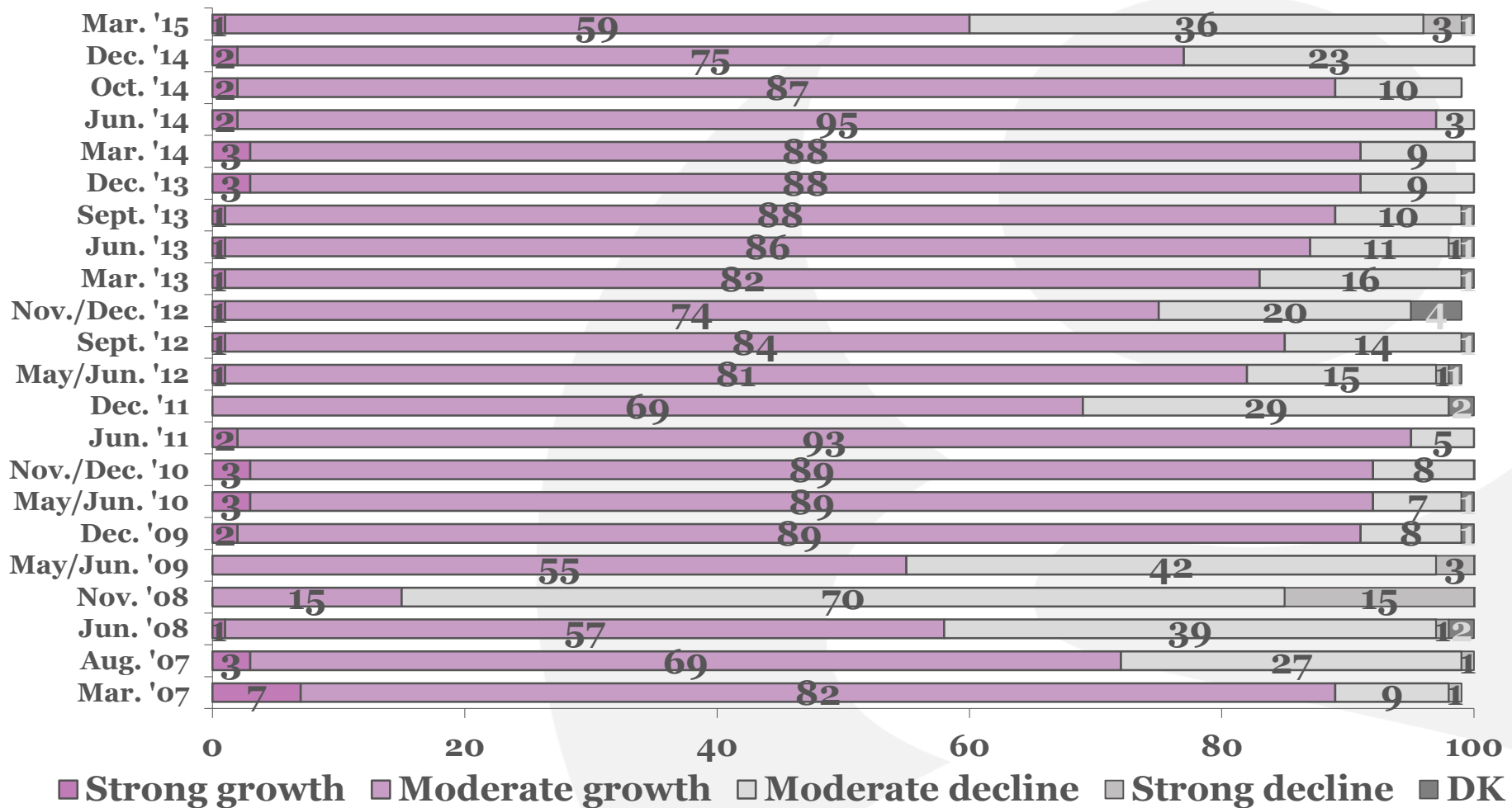
“What are your expectations for the **U.S. /Canadian** economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)





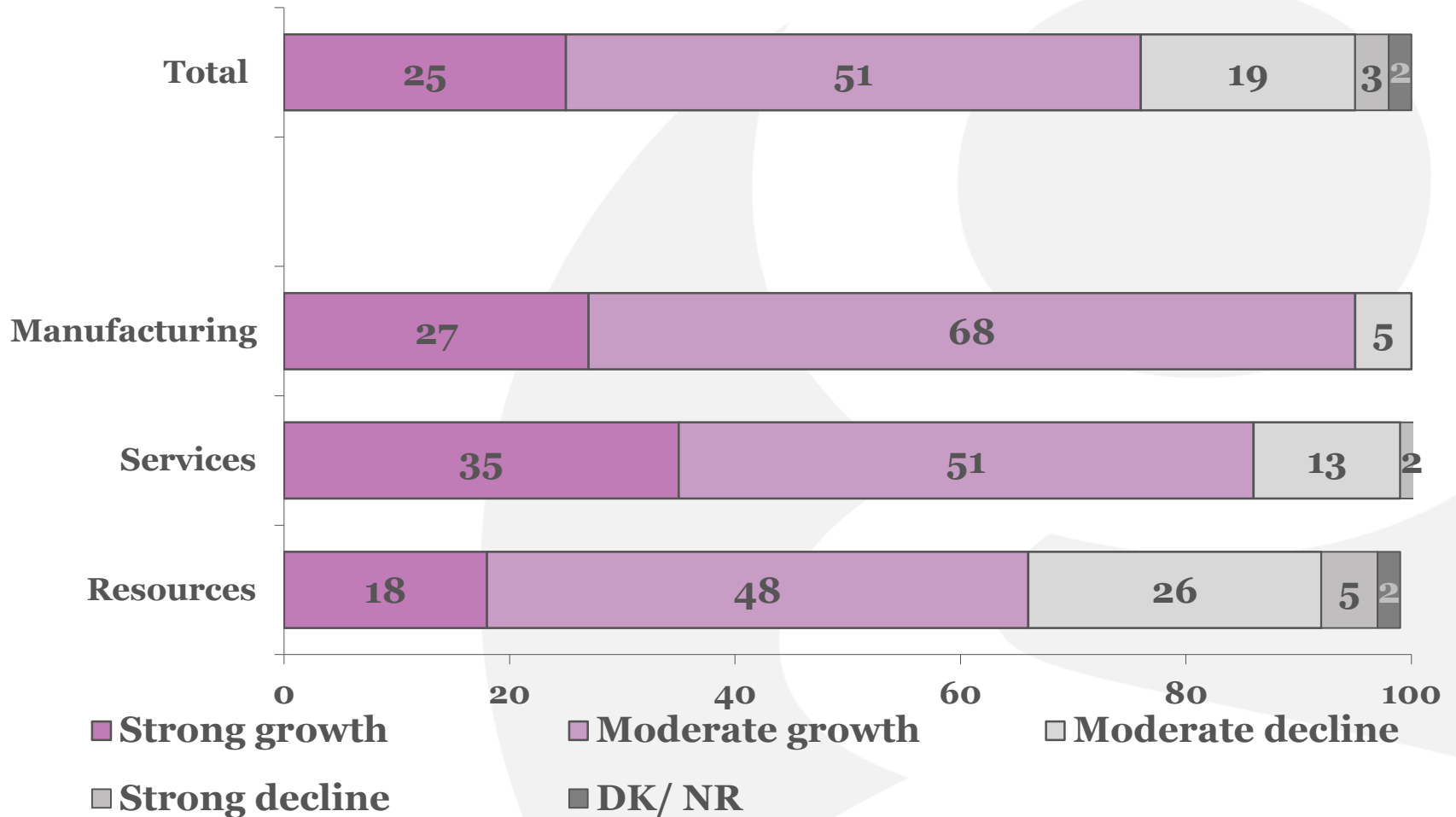
Projections For The Canadian Economy

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





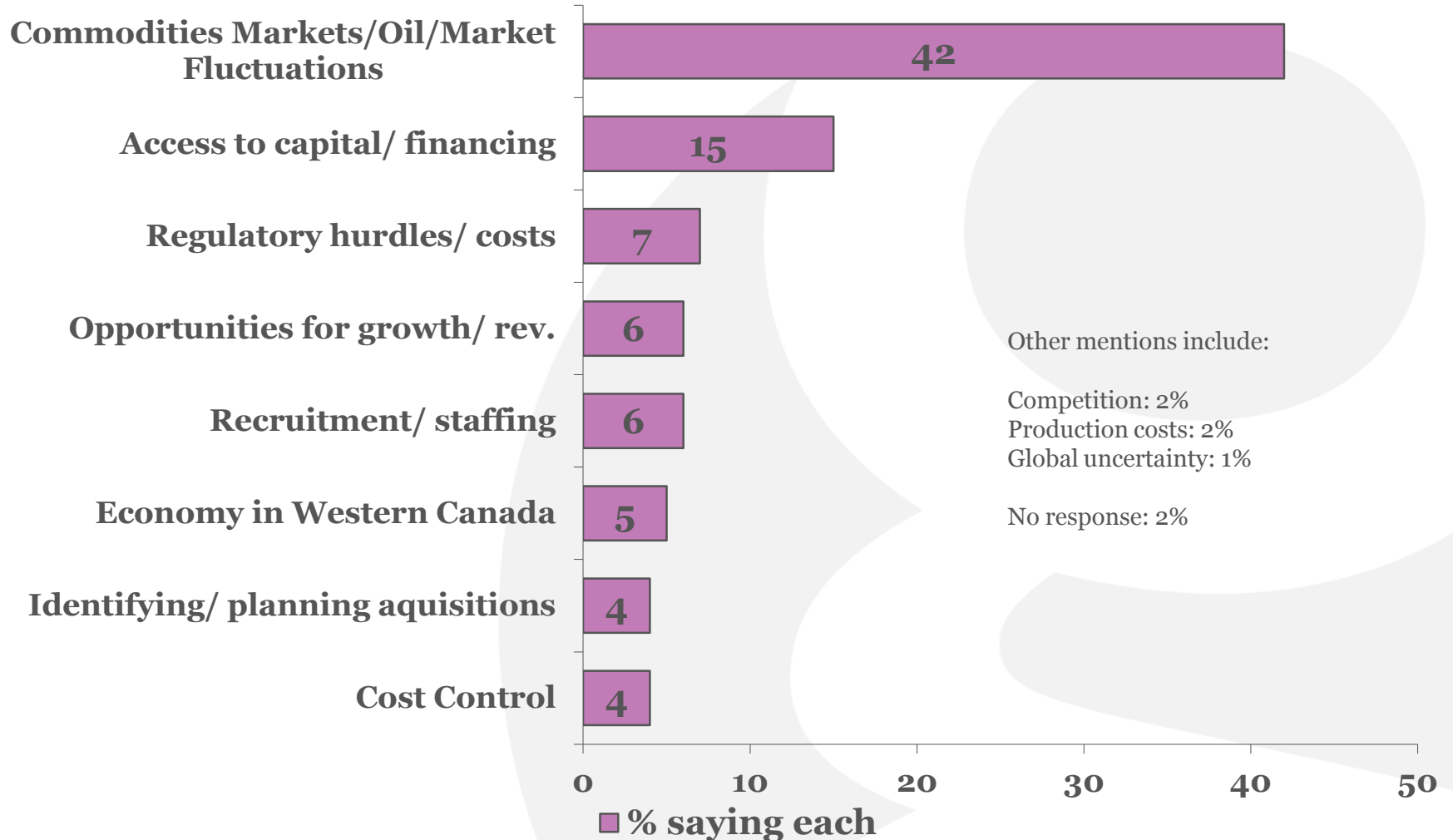
“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)





Biggest Challenges for Companies

“What is the biggest challenge facing your company right now?” (Open ended)





- ❑ The consensus prediction for oil prices in 2015 is in the range of \$50 and \$70 a barrel.

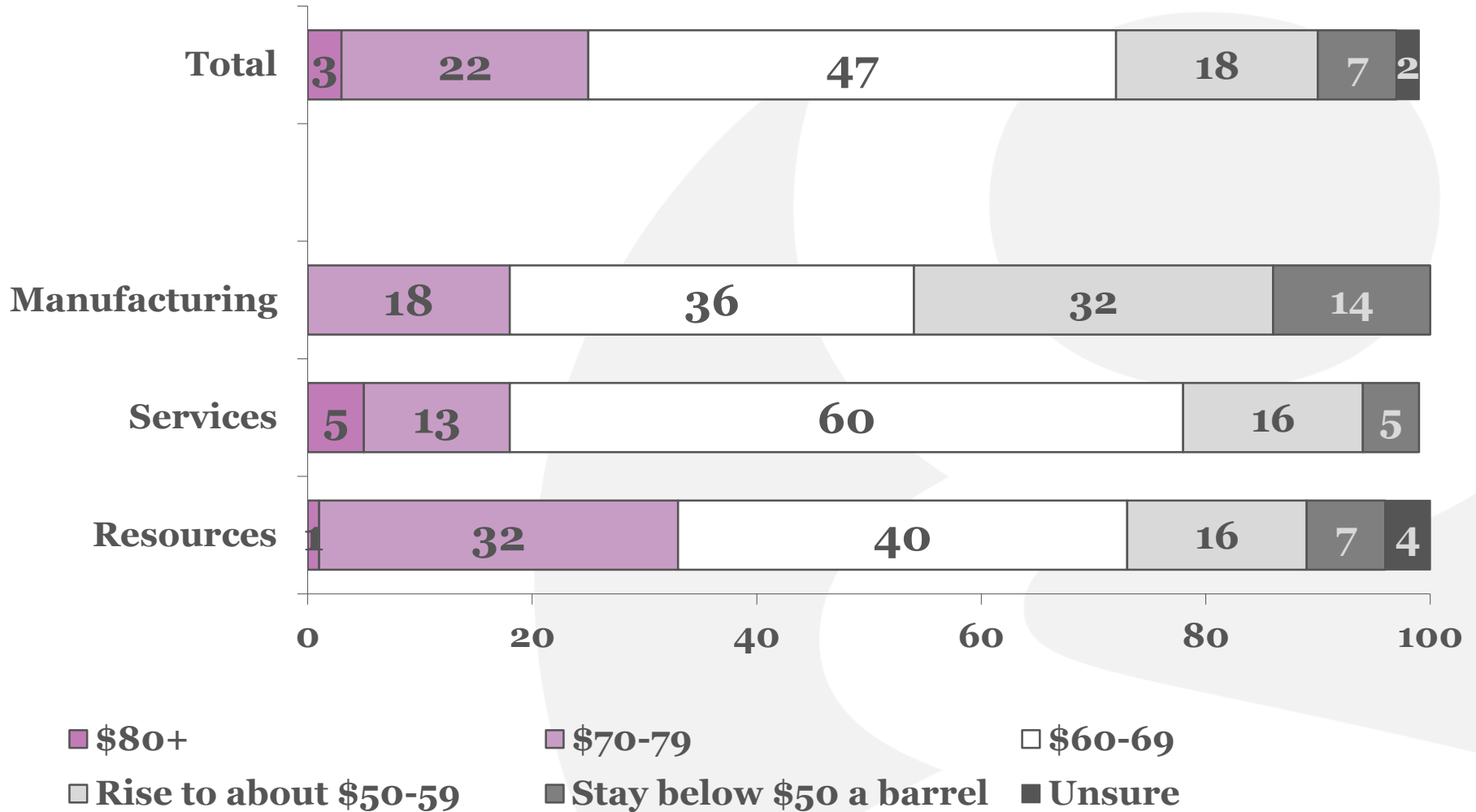
- ❑ Almost none see oil reaching or settling in at \$80 by the end of 2015.

- ❑ Few executives see cheaper oil as a net benefit for the economy.
 - Ontario executives are no more likely than Western counterparts to see cheap oil as a benefit to the national economy.
 - However, many Ontario executives see cheaper oil as a somewhat positive development for their **companies**.

- ❑ Forty-one percent of companies have taken specific initiatives in light of the drop in oil and energy prices: e.g. reducing capital expenditures, layoffs and salary roll-backs.
 - 12% of all companies sampled have reduced capital spending
 - 16% have either laid off staff, closed some operations, reduced work weeks, or frozen or reduced pay and benefits



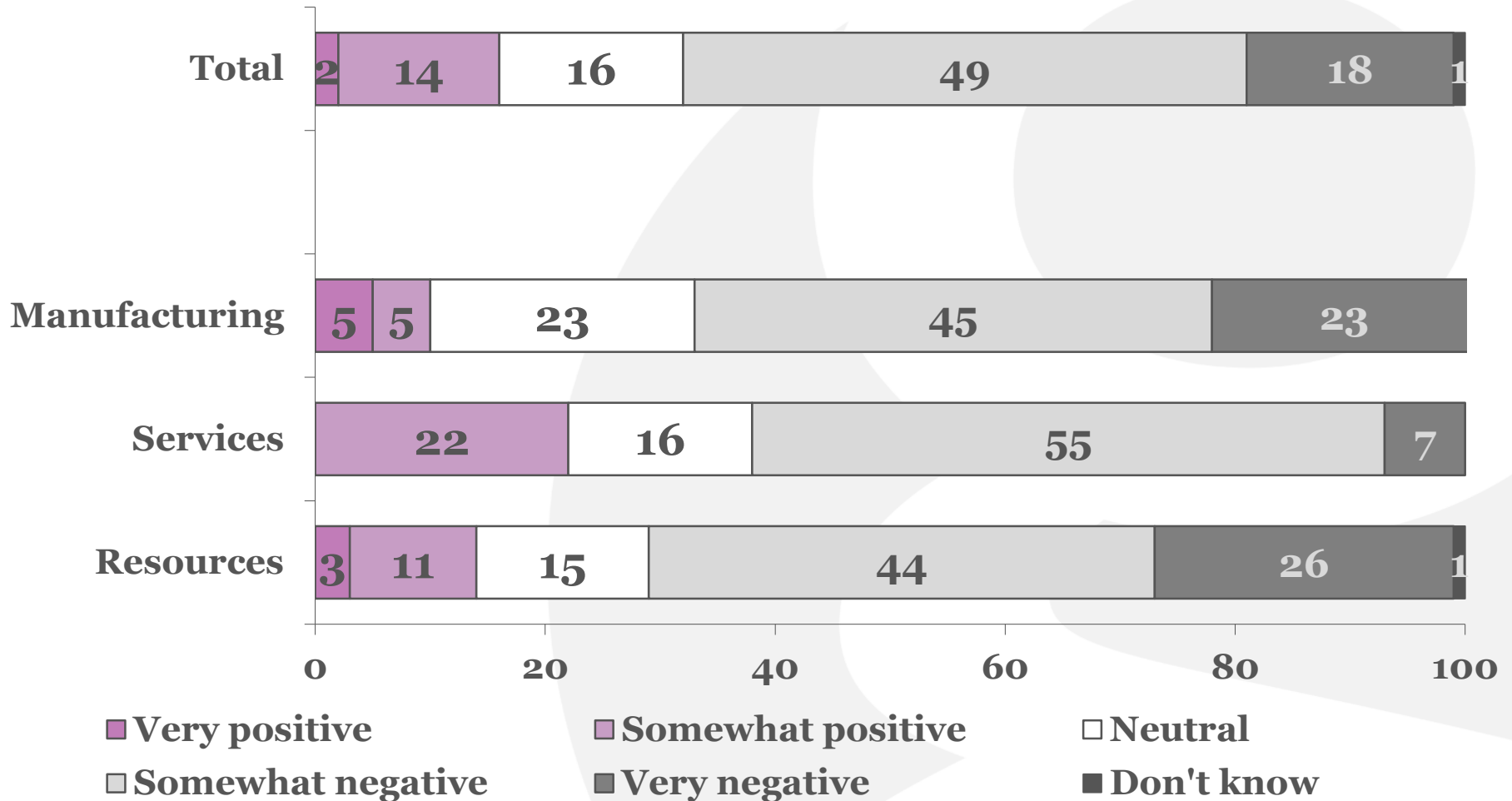
“By the end of 2015 what do you predict will be the price of North American crude oil in dollars per barrel? Is it more likely to stay below \$50 a barrel, rise to about \$50-\$59, \$60-\$69, \$70-\$79, \$80 to \$89, or \$90 and above?”





Impact of Lower Oil Prices in 2015 on Canadian Economy

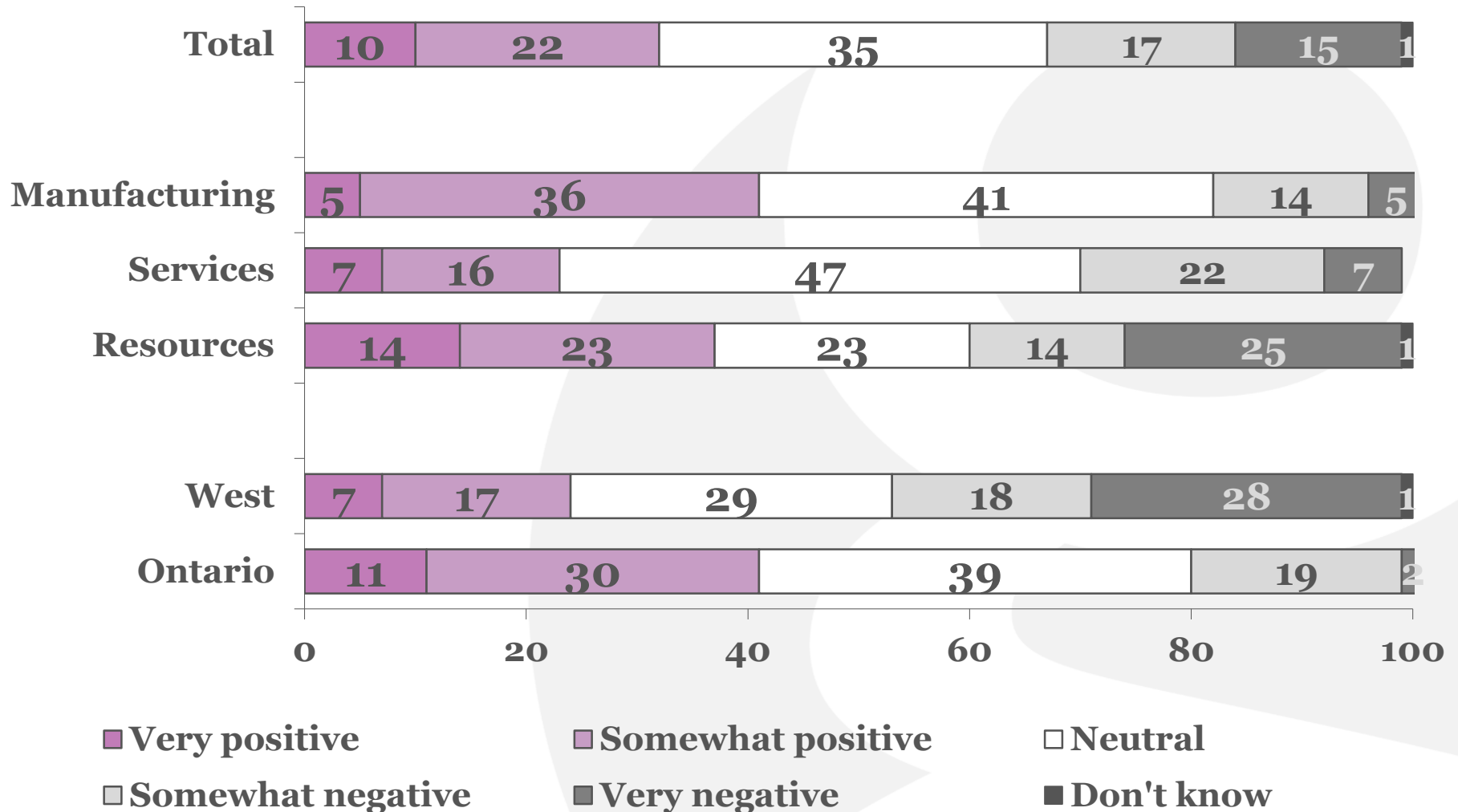
“The Conference Board of Canada is forecasting that oil prices will reach \$60 a barrel by the end of the year, up from \$50 earlier this year and down from over \$100 last year. Do you think the net impact of lower oil prices in 2015 on the Canadian economy will be positive, negative, or neutral?”





Impact of Lower Oil Prices on Company

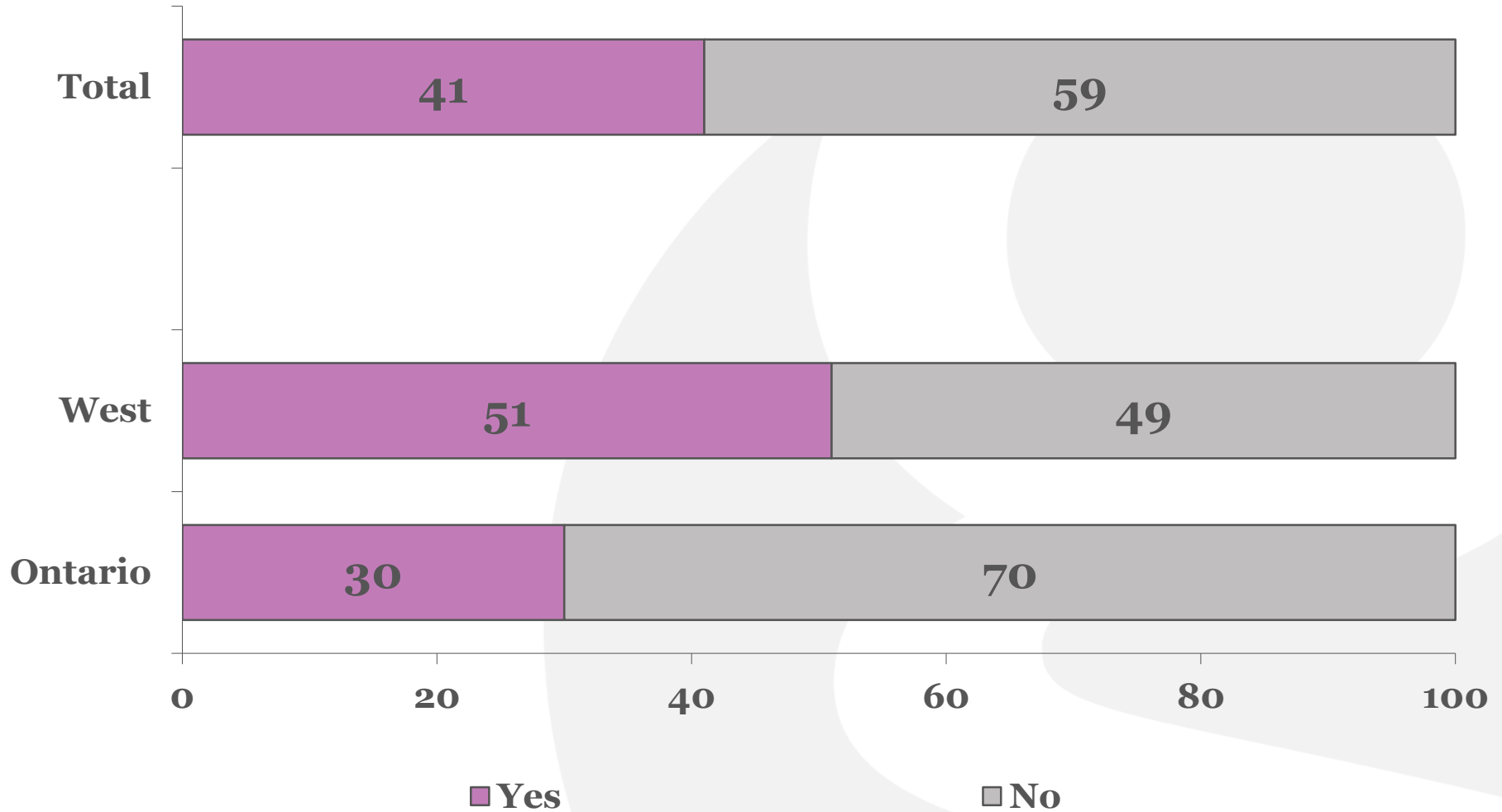
“And what would the net impact of lower oil prices at \$60 a barrel through 2015 be for your company?”





Initiatives in Response to Drop in Oil and Energy Prices

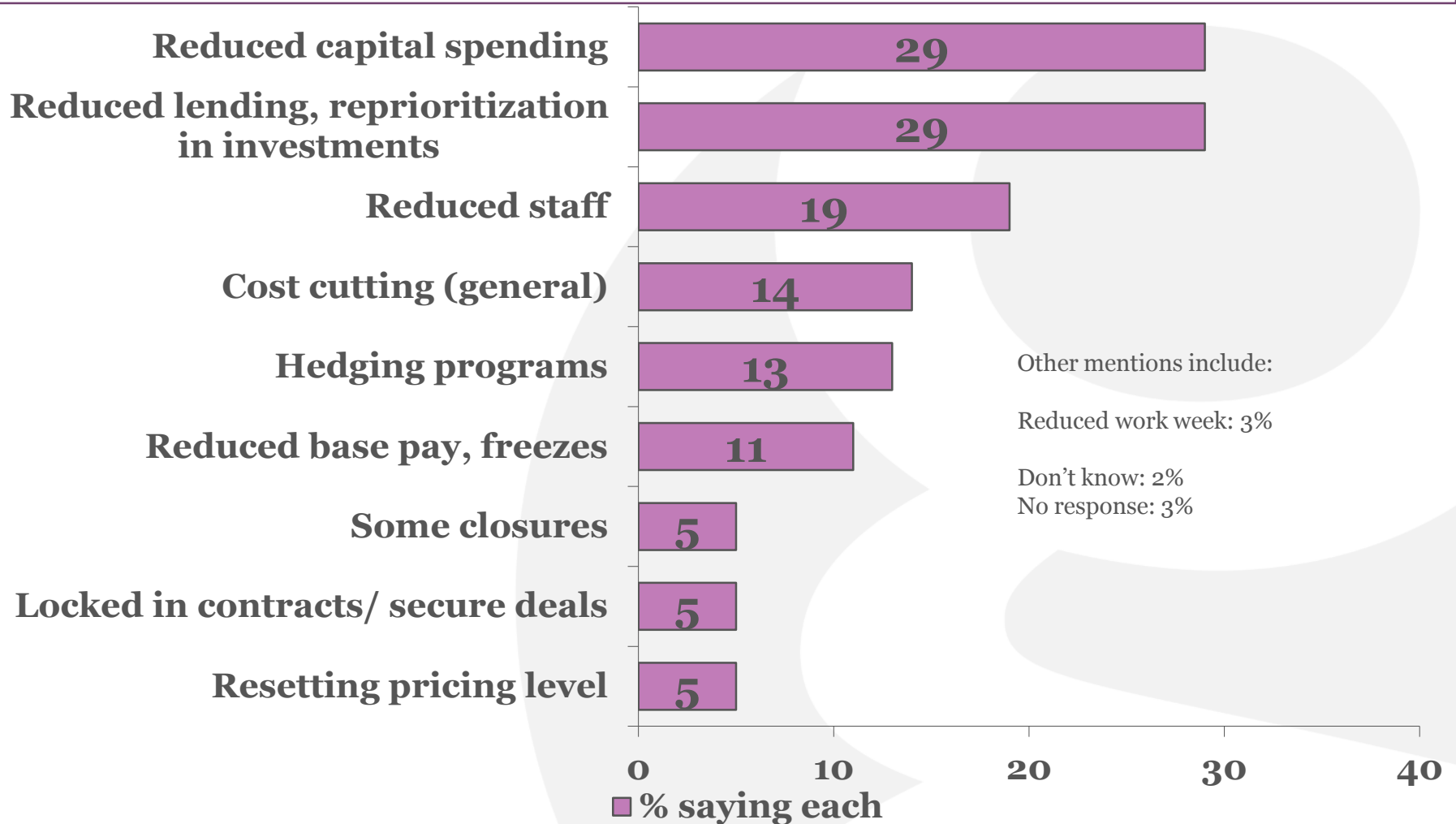
“Has your company taken specific initiatives in light of the drop in oil and energy prices?”





Initiatives in Reaction to Drop in Oil and Energy Prices

“What initiatives are those?” Among those who have taken initiatives in light of cheaper oil; n=63 (Open-ended – multiple mentions accepted)



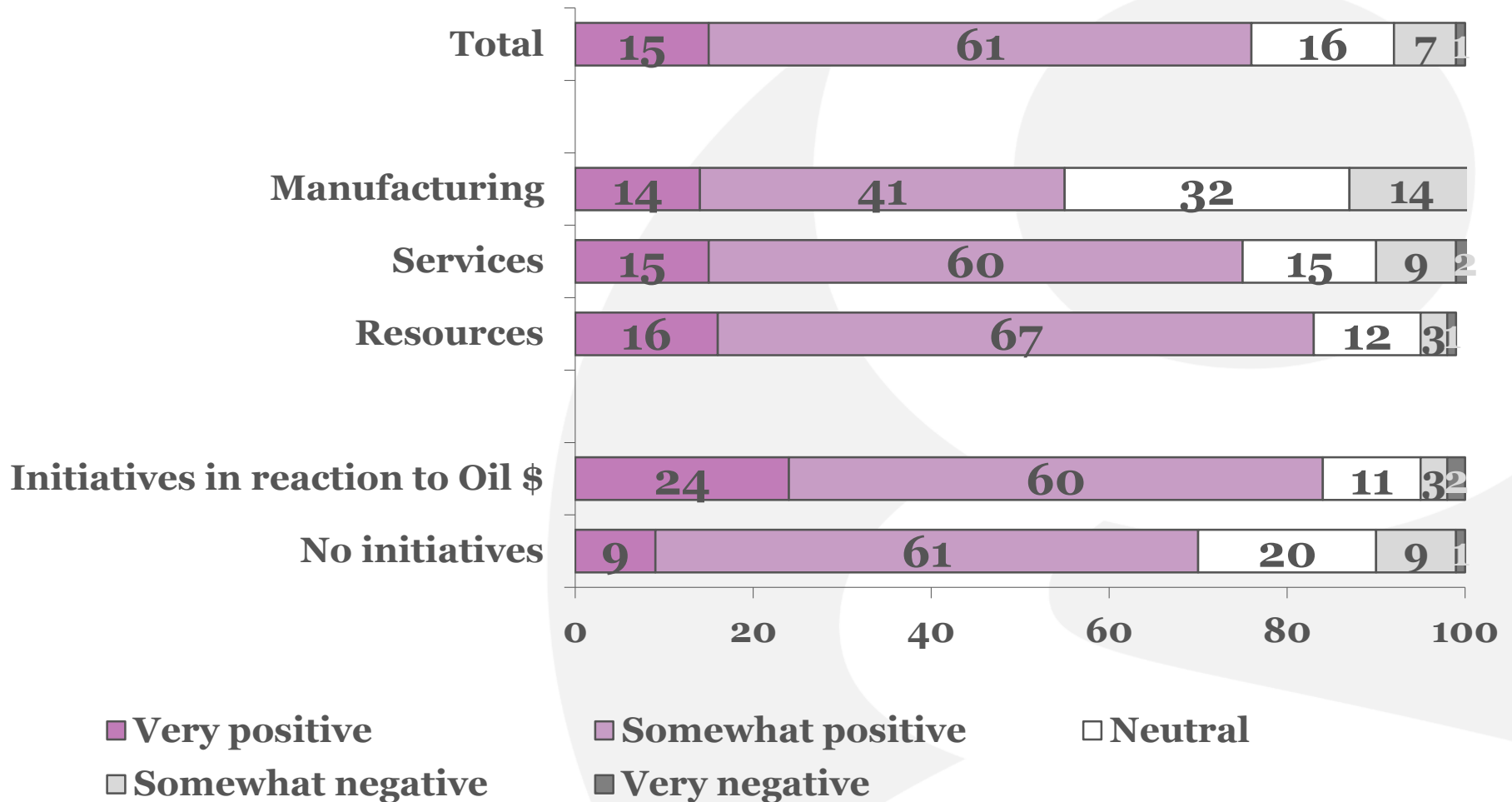


- ❑ In contrast to the impact of cheaper oil, a clear majority said a lower valuation of the Canadian dollar in 2015 would be a positive for the Canadian economy (i.e. ~80 cents US).
- ❑ Forty-nine percent of the C-Suite said a low-dollar in 2015 would be a positive for their companies.
- ❑ Fewer than half would favour a dollar priced at higher than 90 cents US in terms of their companies' best interests.
- ❑ Thirty-eight percent have taken action in light of the drop in the loonie.
 - *“Hedging our money, our business is more in US Dollars”, “hedging foreign currency”, “owning USD to increase cash reserves. Foreign exchange, we sell in USD, operate in CAD and take the spread.”*
 - *“Manufacturers in Canada increasing their sales to the US”, “higher exports to US companies”*
 - *“We have moved our manufacturing back to Canada from the US”*



~\$.80 Canadian Dollar Positive for Economy

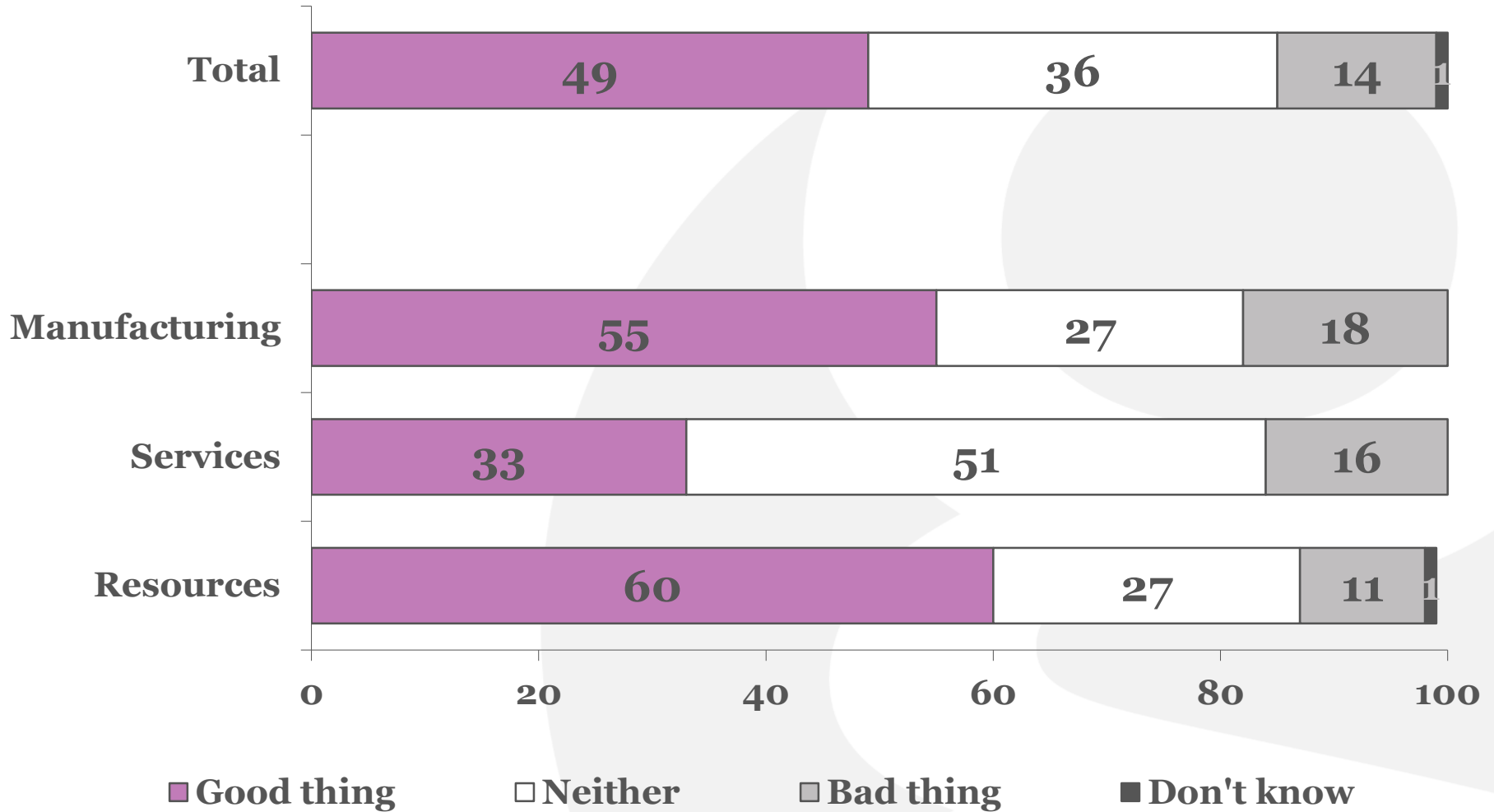
“The Canadian dollar has fallen 15 per cent against the U.S. dollar since last July. If the value of the Canadian dollar stayed at around 80 cents US till the end of 2015, do you think the net impact on the Canadian economy will be positive, negative, or neutral?”





~\$.80 Canadian Dollar Net Positive for C-Suite Companies

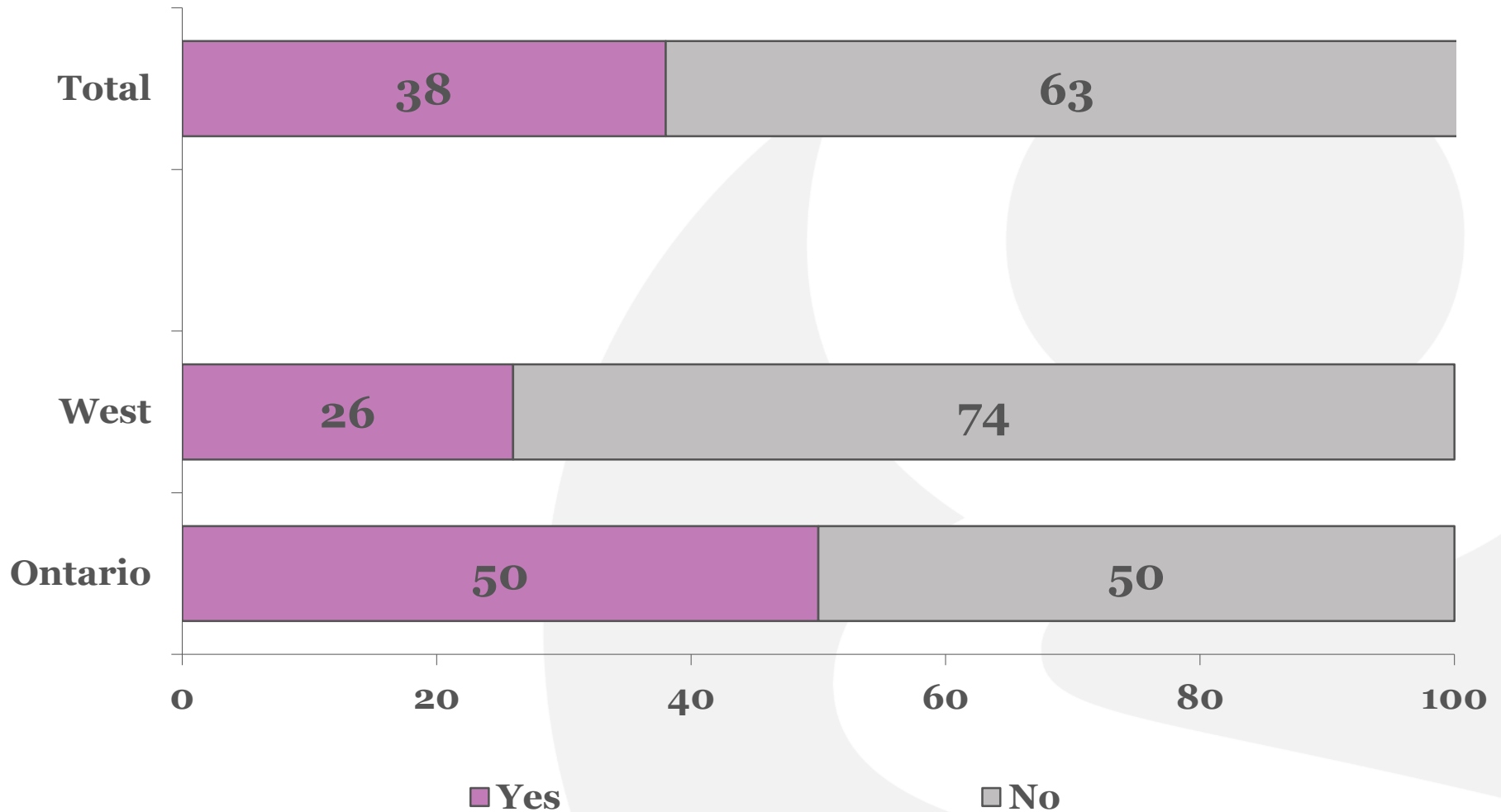
“Would a dollar at about 80 cents US through 2015 be a good thing or a bad thing for your company or neither?”





Initiatives in Reaction to Drop in \$CAD

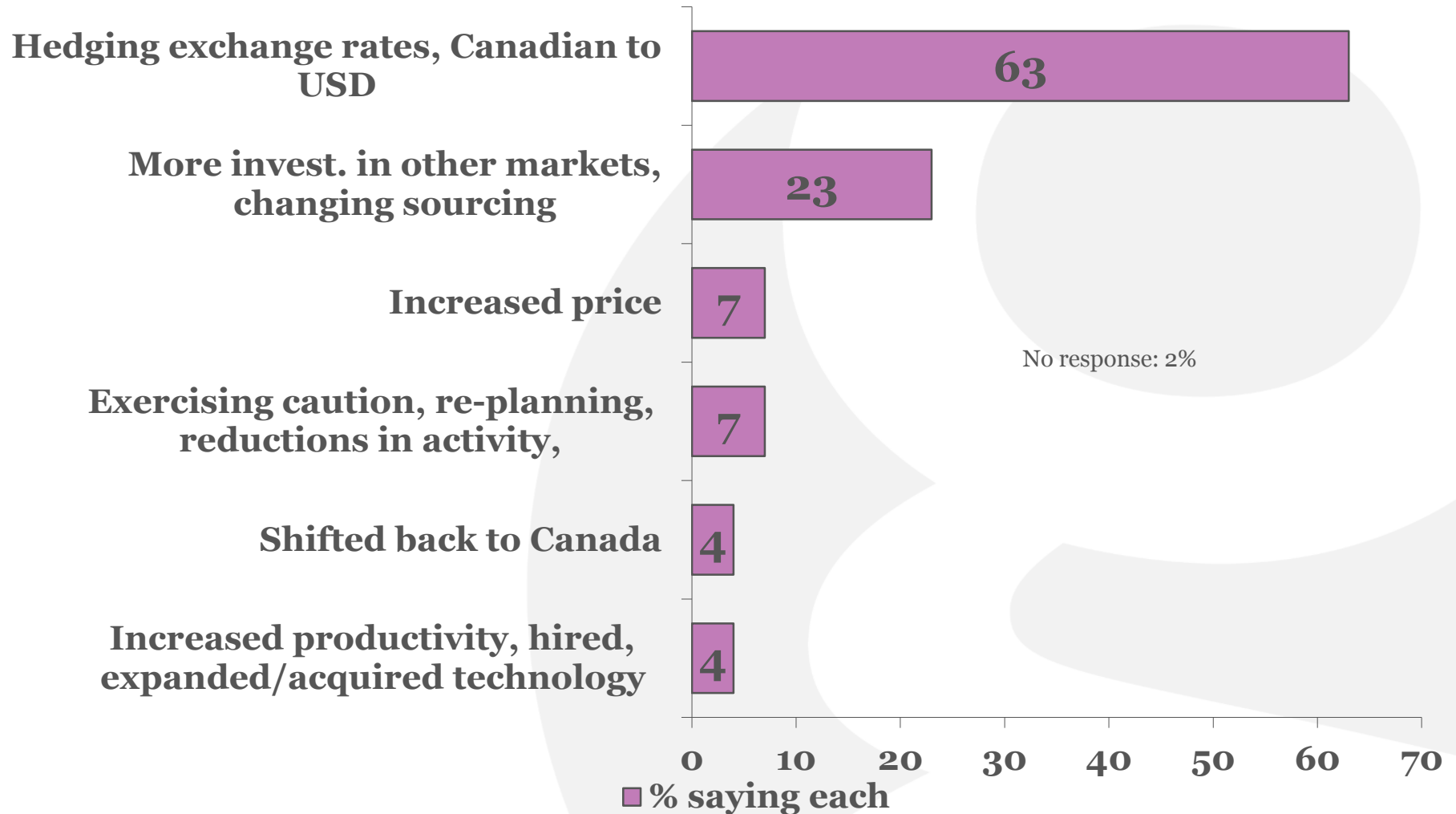
“Has your company taken specific initiatives in light of the drop in the value of the Canadian dollar?”





Initiatives in Reaction to Drop in \$CAD

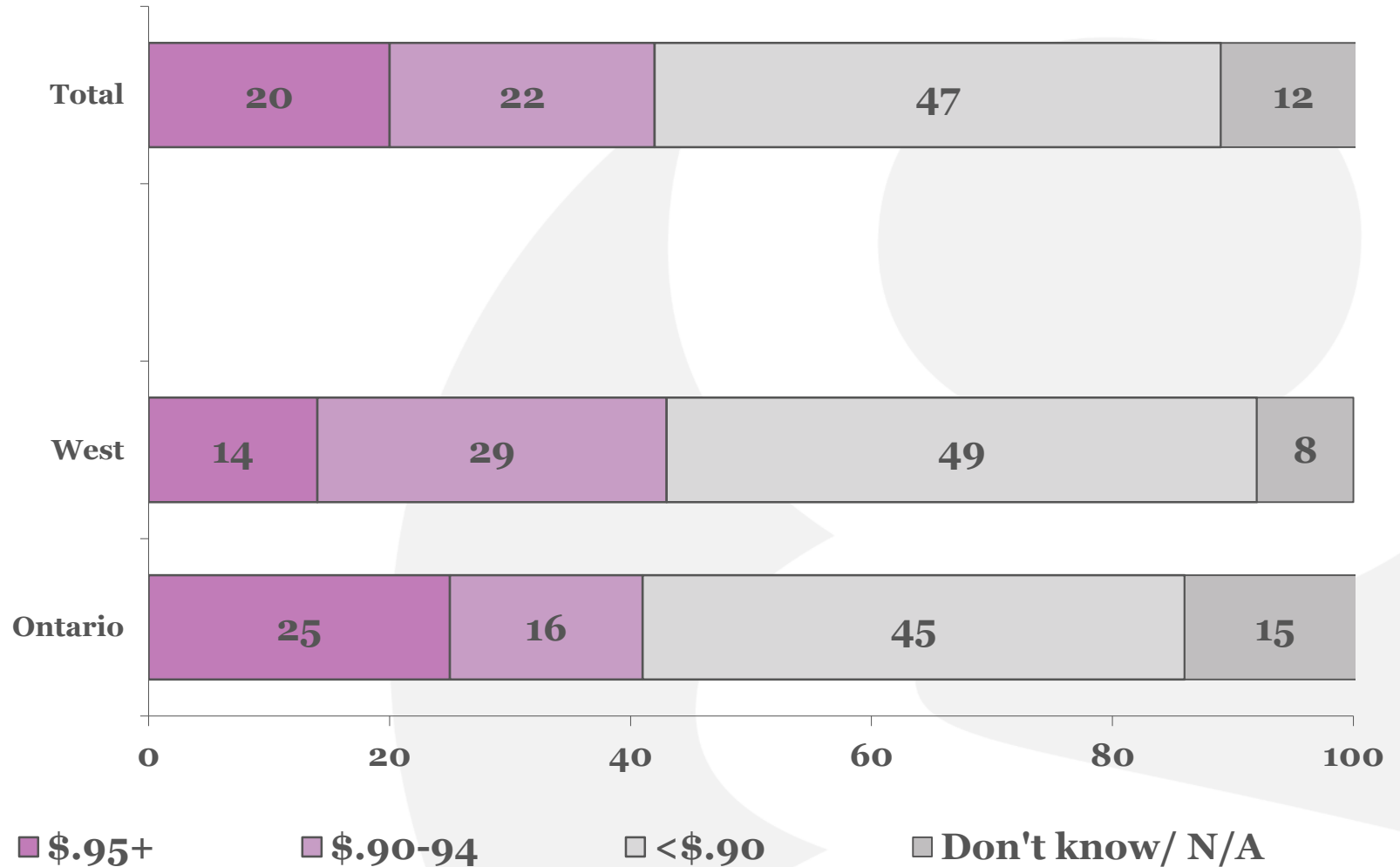
“What initiatives are those?” **Among those who have initiatives; n=57** (Open-ended – multiple mentions accepted)





Ideal Dollar Value for Companies

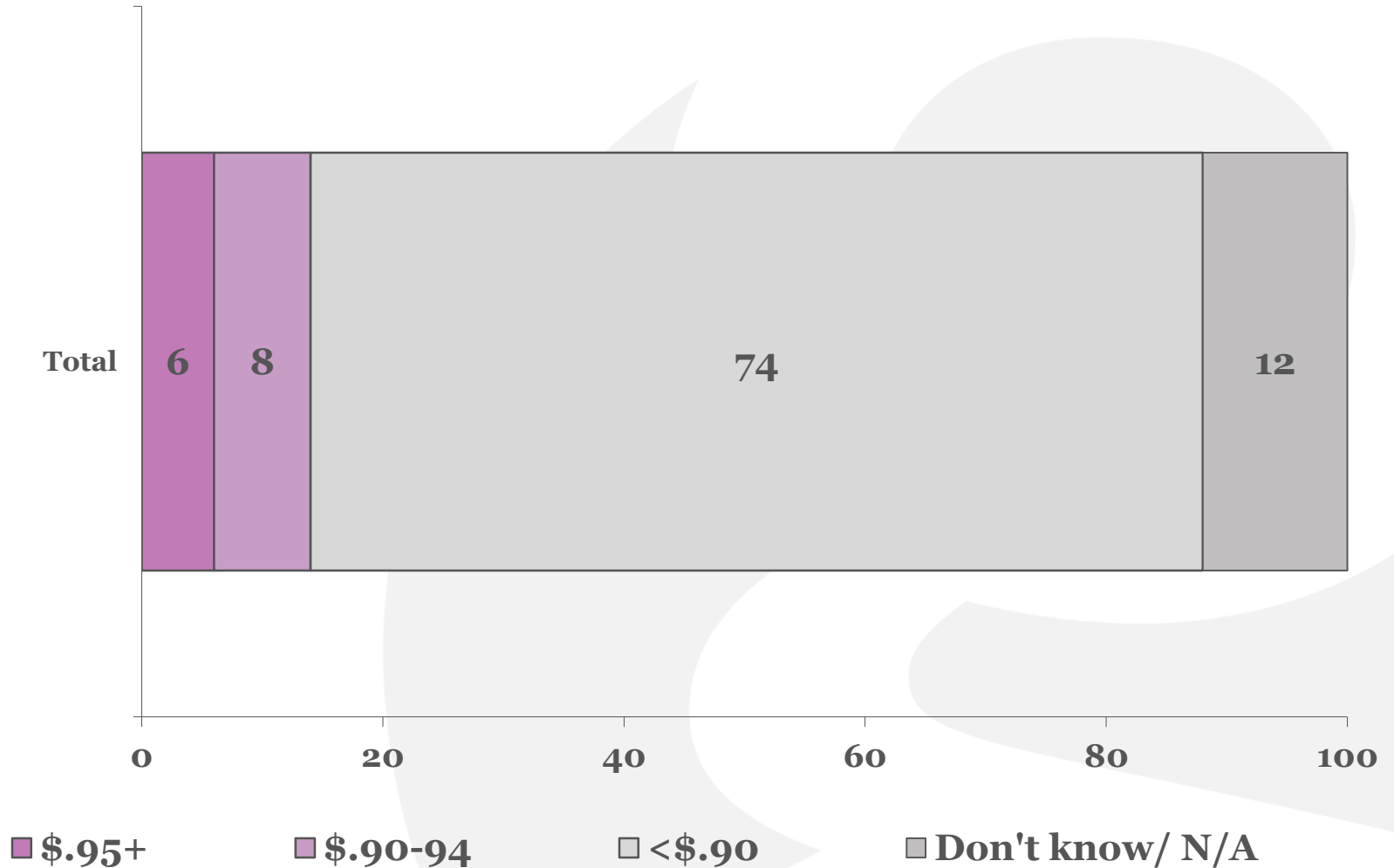
“Thinking specifically of your company, what would be the optimal value of the Canadian dollar against the US dollar?”





Companies Planning on <\$.90 Canadian Dollar

“Again with respect to your company, what valuation for the Canadian dollar are you using for planning for the coming year?”





- ❑ The C-Suite is almost evenly divided on the merits of a second rate cut this year.
 - 51% would support another cut, 44% would oppose it.
 - Support for another key lending rate cut is higher in the West than in Ontario, and higher among resources than among services companies.

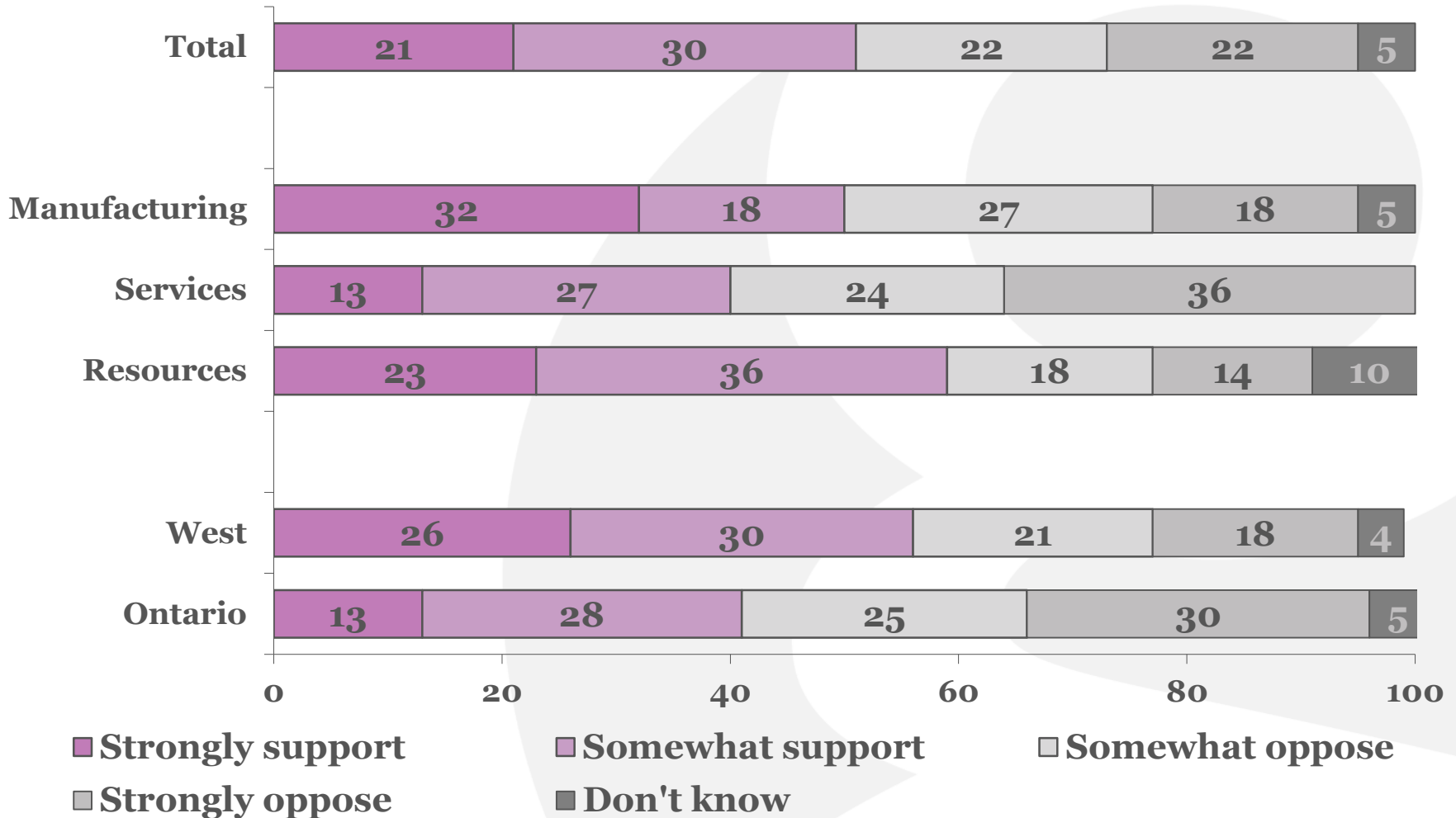
- ❑ Almost as many would support a deliberate low dollar policy by the Bank of Canada.
 - 52% would support this

- ❑ Just over half (53%) expect a housing market correction this year, but those who do are more likely to be in Western Canada, where economic growth has softened significantly already. In Ontario, most think there will not be a housing correction – 41% think there might be but there is little strong sentiment either way on this question.



Tepid Support for BoC Rate Change

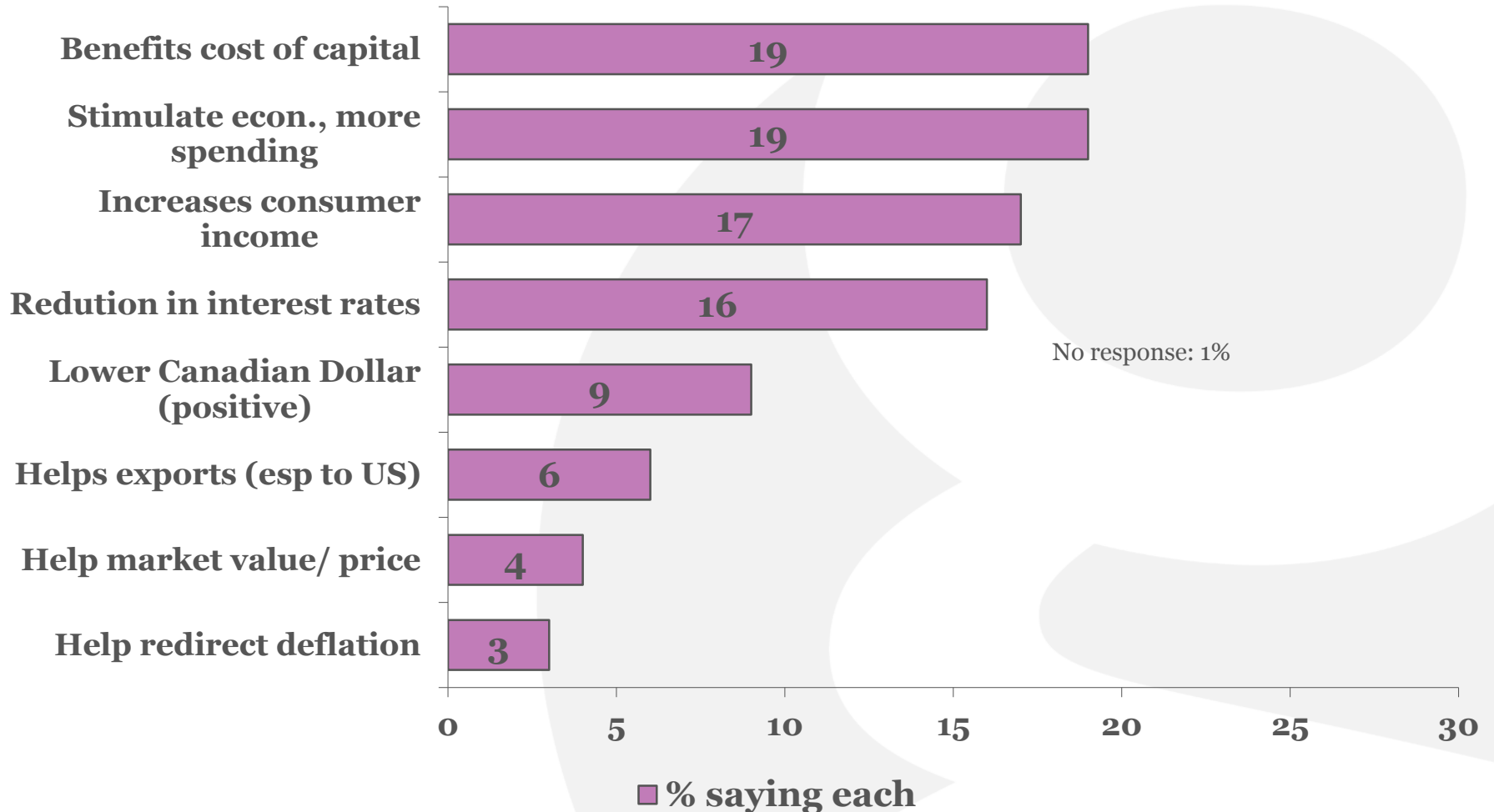
“Earlier this year the Bank of Canada cut its key lending rate from 1 per cent to point-seven-five per cent. Would you support or oppose an additional cut to lower the key lending rate to point-five percent in the next month or so?”





Positive Impacts of BoC Rate Change

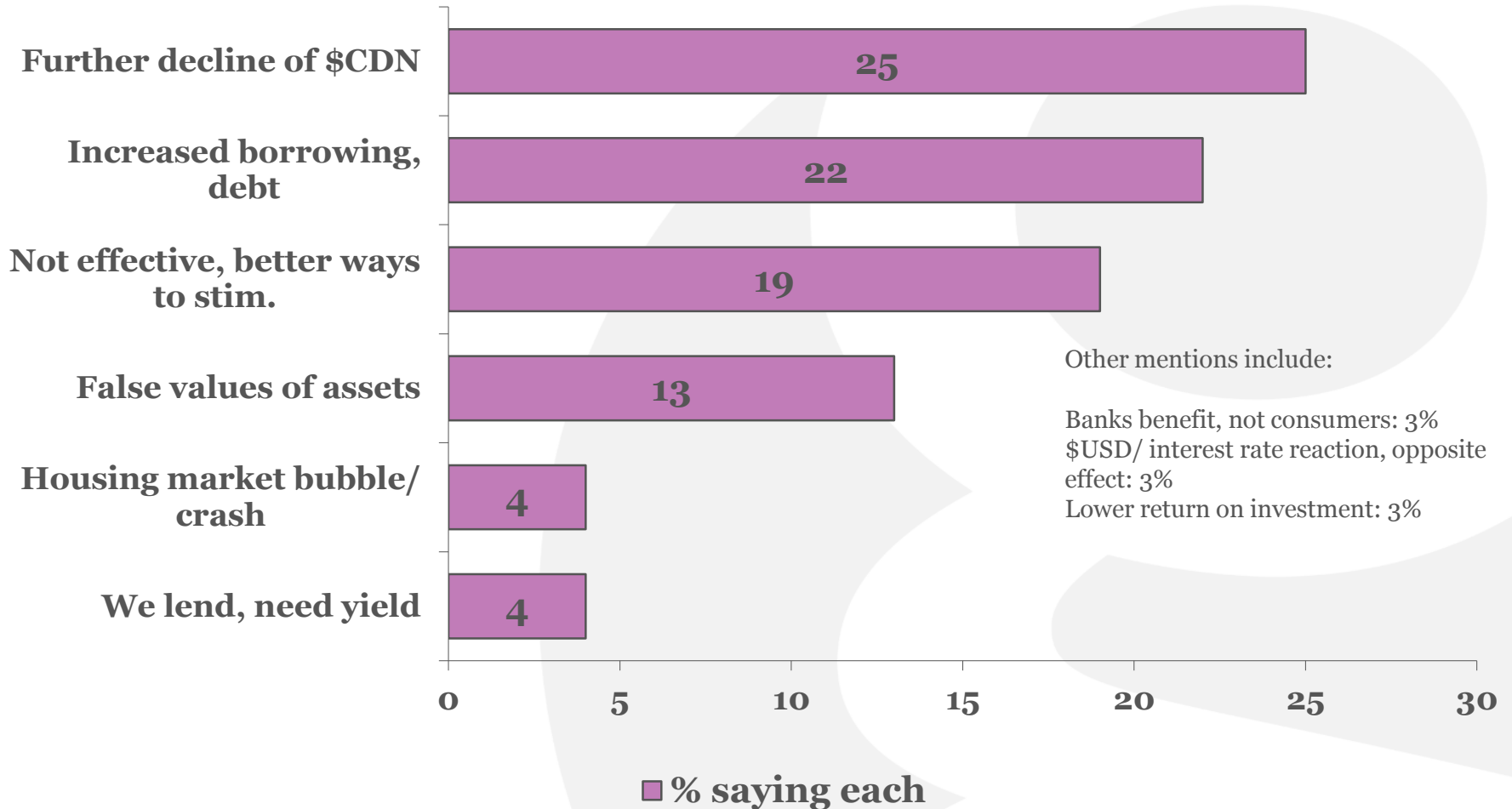
“Why do you say that – what would be the most positive impact that would result from a rate cut in your view? (Open ended)
Among those who support rate change; n=77





Negative Impacts of BoC Rate Change

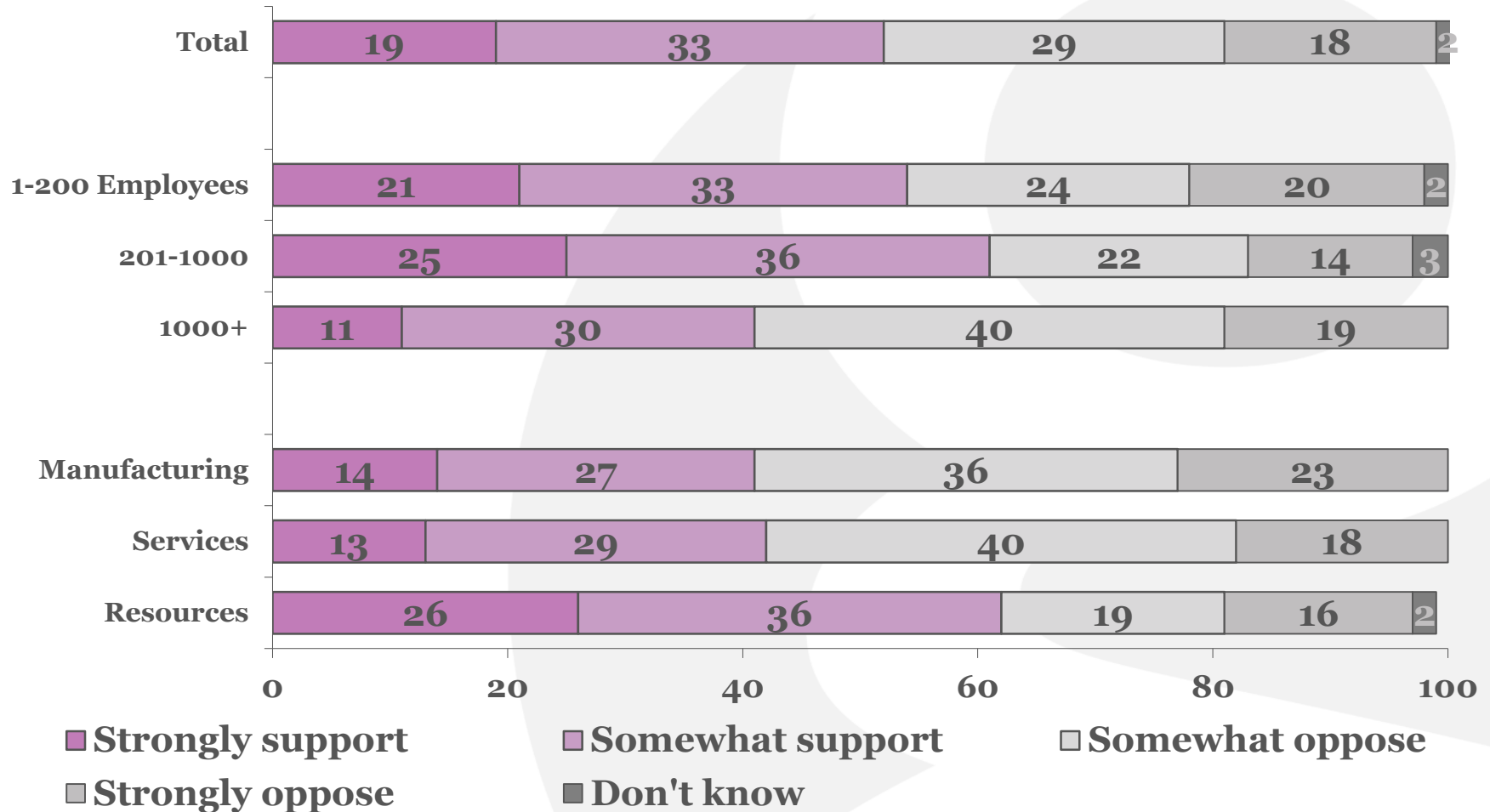
“Why do you say that – what most concerns you about the rate cut? (Open ended)
Among those who oppose rate change; n=67





Split Reaction to BoC Dollar Policy

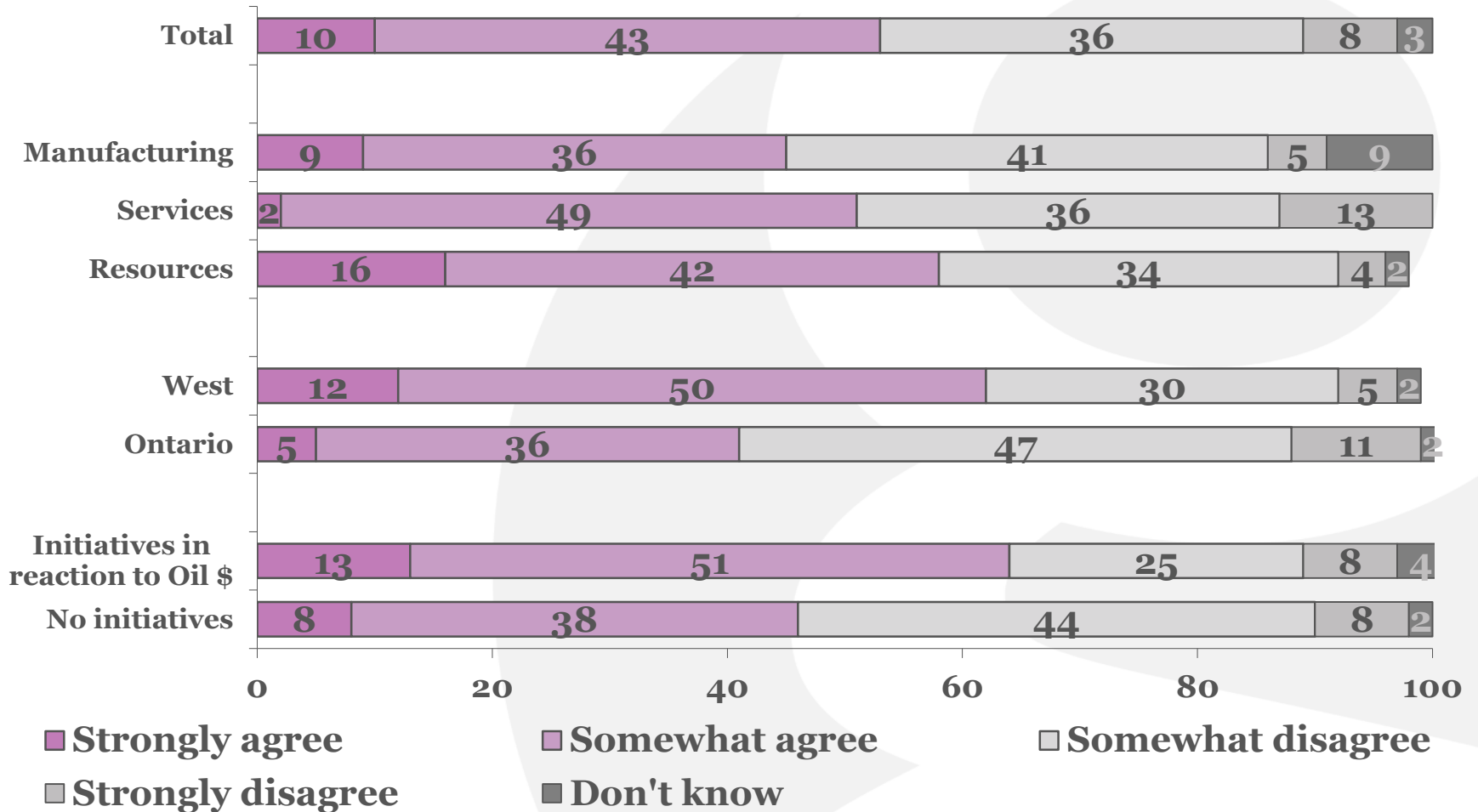
“The Governor of the Bank of Canada recently ruled out a low dollar policy. Would you support or oppose it if the Bank of Canada deliberately pursued a low dollar policy that aims to keeps its value closer to 80 cents US in 2015 than its high of over 90 cents last year?”





Half Expect Housing Market Correction in 2015

“I’m going to read some statements relating to the markets and interest rates, and I would like you to tell me if you strongly or somewhat agree, or strongly or somewhat disagree with each.”
“There will likely be a housing market correction in 2015”

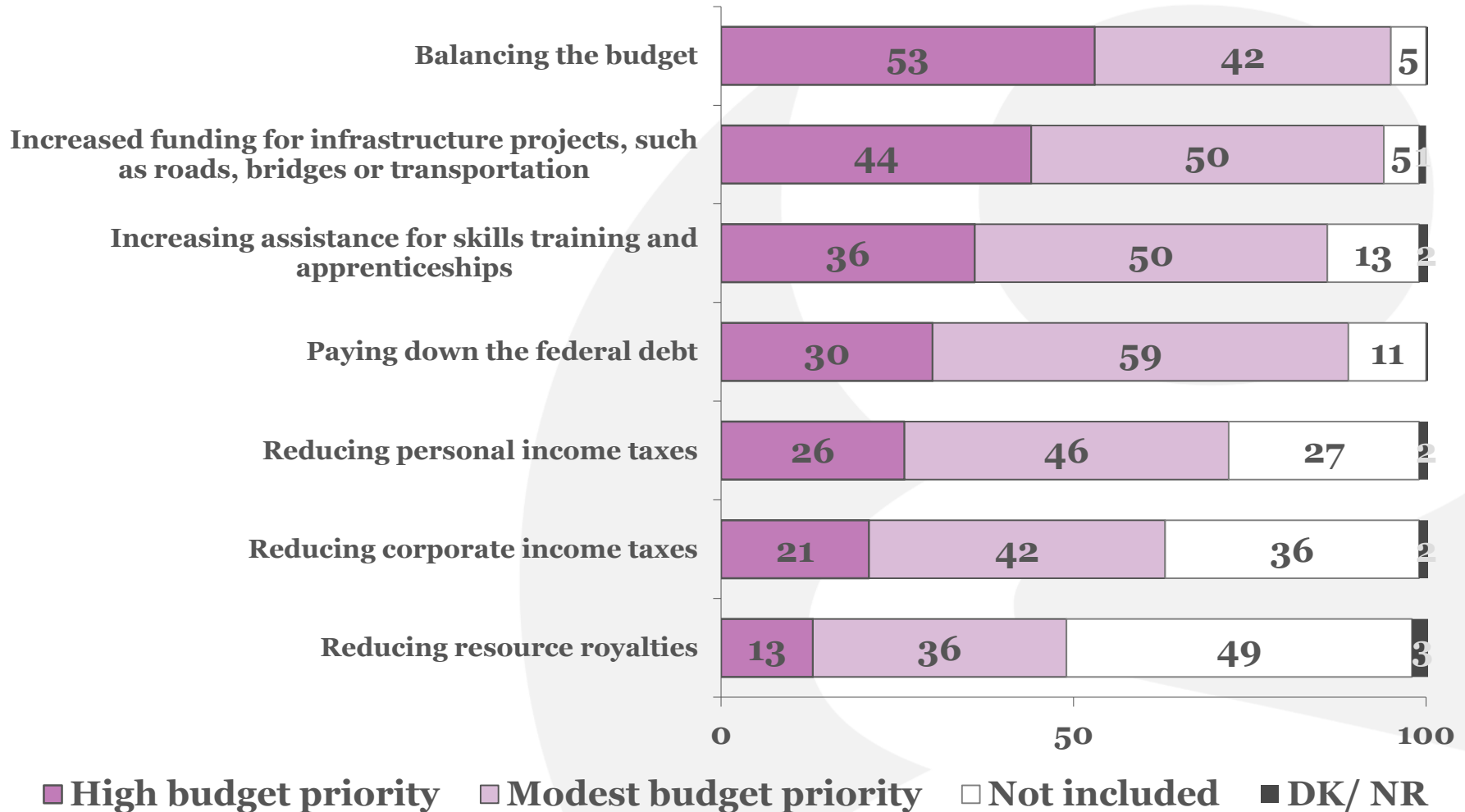




- ❑ The C-Suite thinks balancing the federal budget should be a top priority – most saying it should be a high priority.
- ❑ But some may now be of the view that government is no longer in a position to deploy surplus money: e.g. somewhat fewer (compared to the December survey) want the government to pay down debt or increase infrastructure spending.
- ❑ Of the initiatives tested, they are more likely to prioritize infrastructure spending over personal income tax cuts or debt repayment. Fewer in the C-Suite are as interested in corporate tax cuts now for their companies as compared to last December.

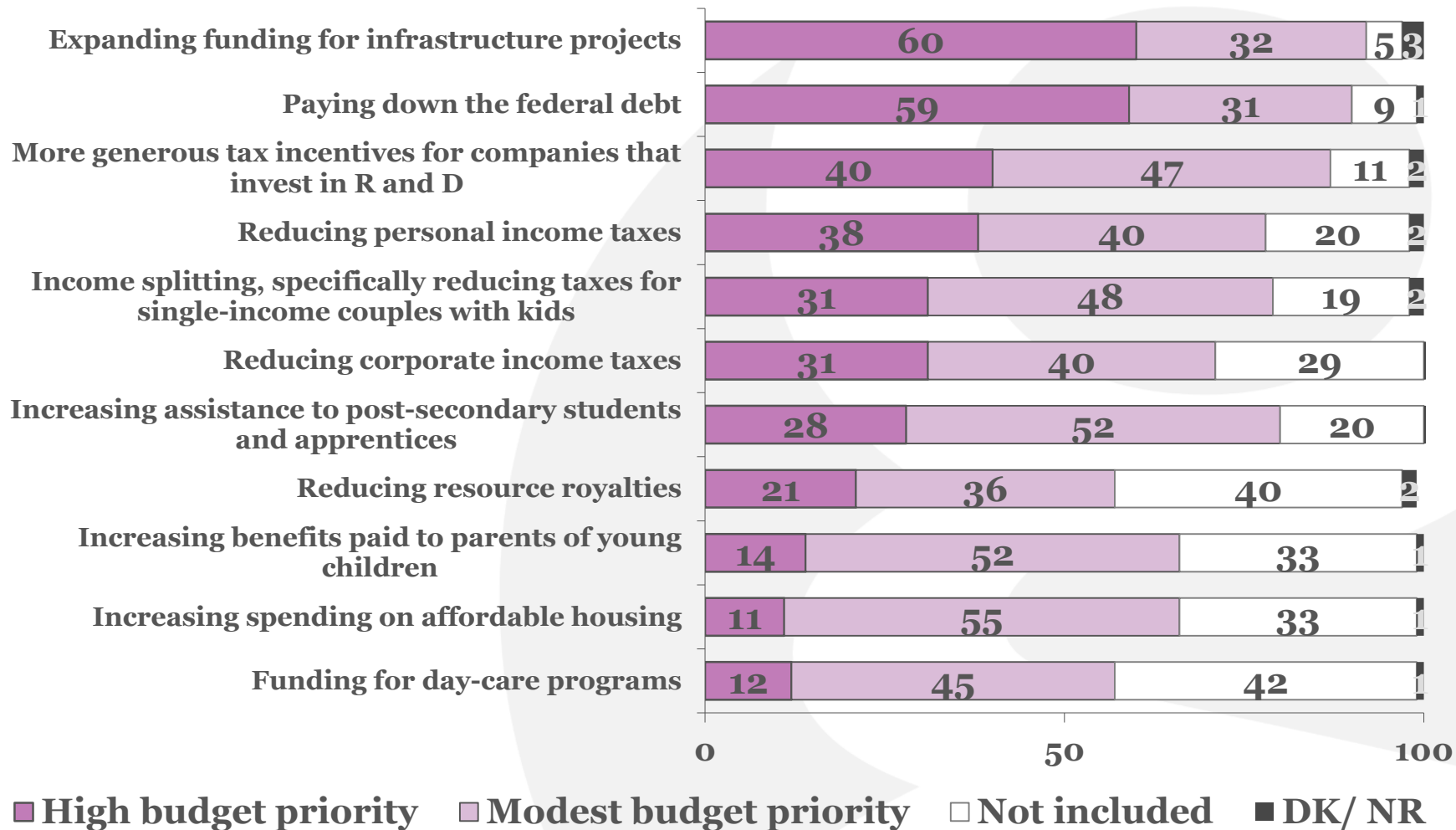


“Now thinking about the federal surplus and the government's upcoming 2015 budget, I'd like to know if you believe each of the following items should be a high budget priority, a modest budget priority or not included in a federal budget:”





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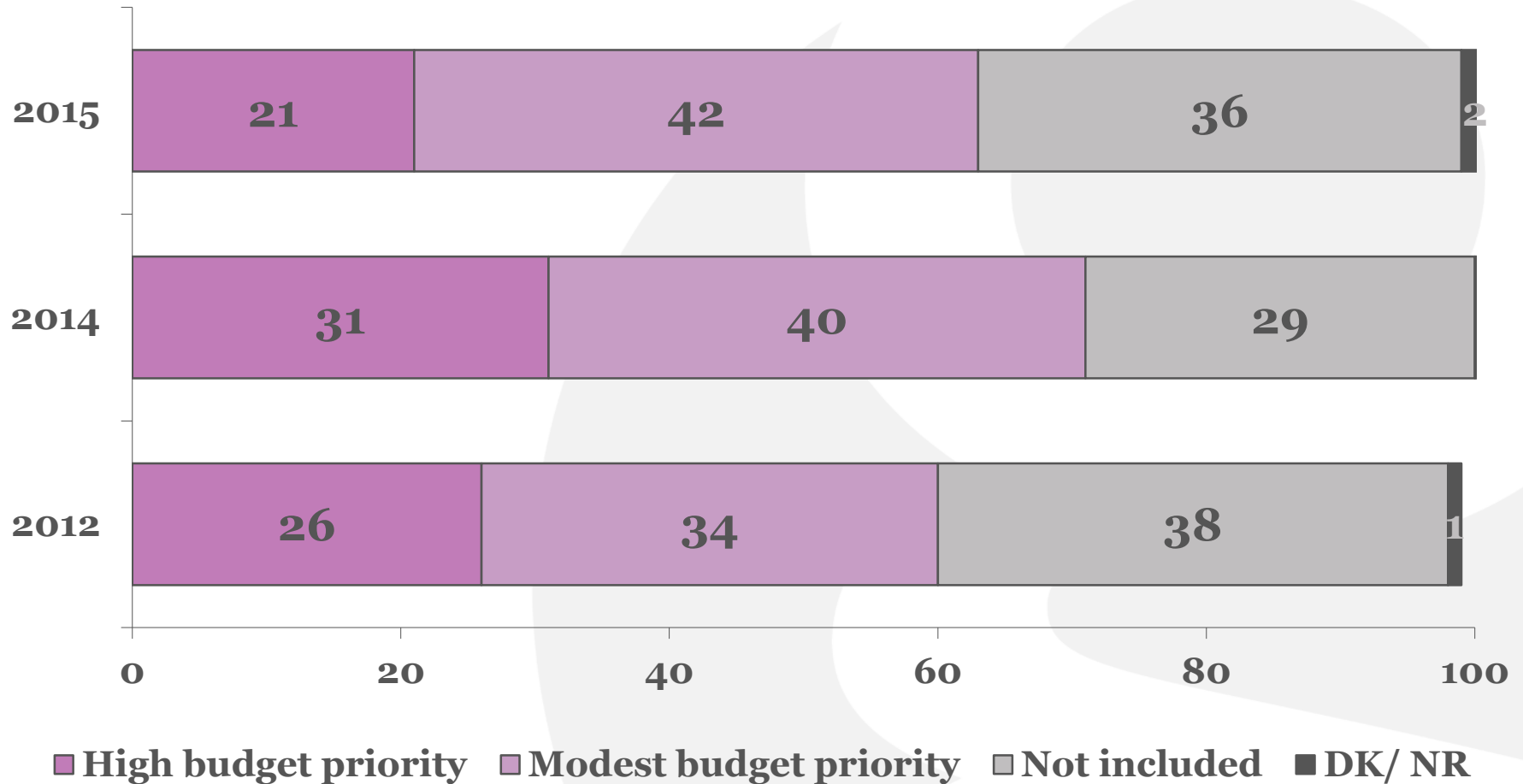




National Priorities – Corp. Tax Cuts Tracking

“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



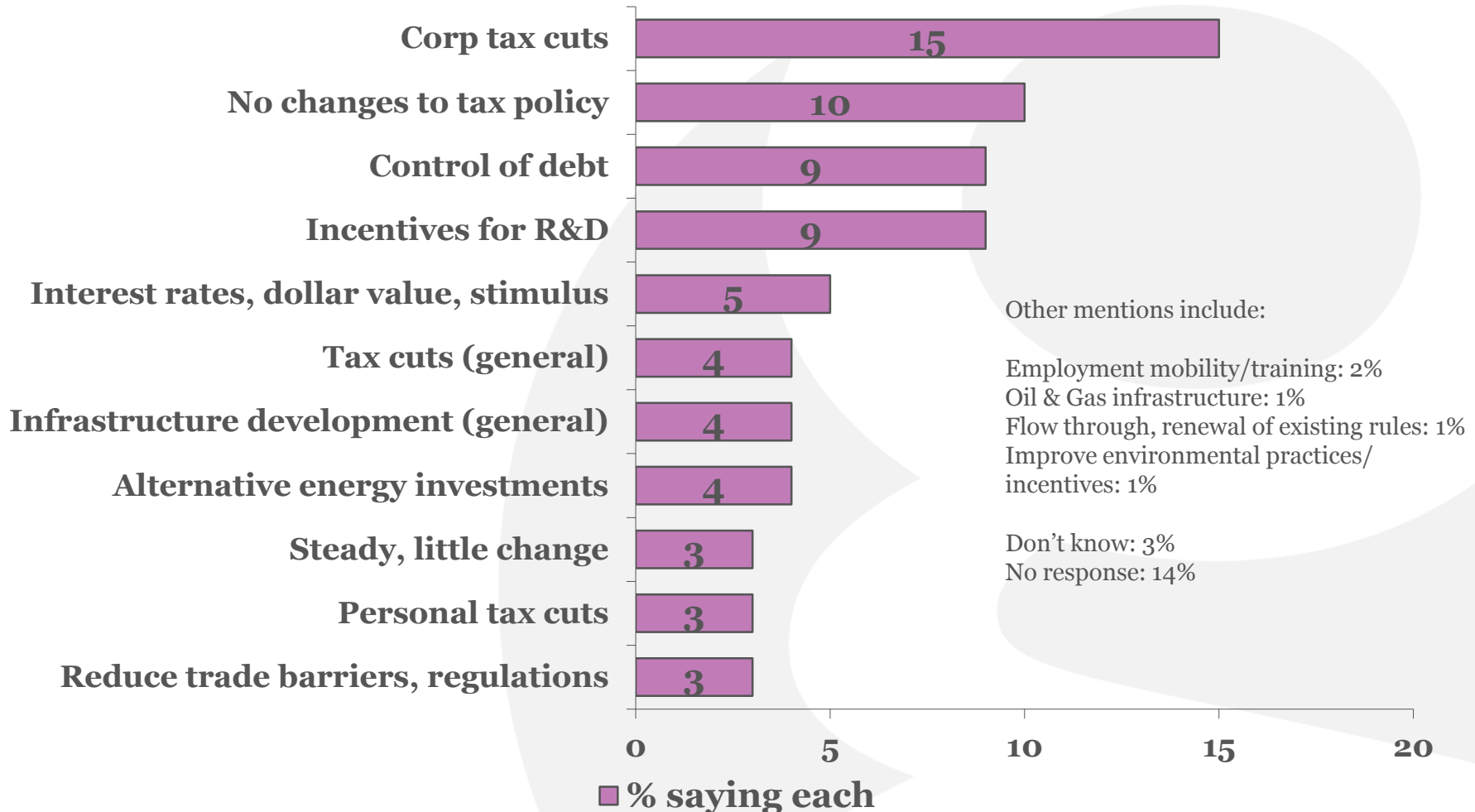


- ❑ In open ended responses, a significant number told us they are hoping the government will NOT increase taxes and stay the course in that respect.
- ❑ A few mentioned incentives for R&D spending, favourable tax treatments or flow-through shares, in addition to across the board corporate tax cuts.
- ❑ *The following slides contrast the December 2014 findings with those of this survey*



C-Suite Most Wanted Budget Items – March 2015 Survey

“The government of Canada’s 2015 budget will be introduced in April. Thinking specifically of your company, what would you most want to see included in the budget?” (Open-ended)





C-Suite's Most Wanted Budget Items/ Priorities – Dec. 2014

“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)

