



the gandalf group

The 42nd Quarterly C-Suite Survey: Government Stimulus, Carbon Pricing, The Impact of the Low Dollar and Market Conditions on Business

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- ❑ Methodology: telephone interviews with 161 C-Suite executives from ROB1000 companies between February 18th and March 14th, 2016.
- ❑ This quarter's survey asked the C-Suite about:
 - The state of the Canadian economy
 - Support for federal government deficits, stimulus
 - Policies that could promote growth, productivity
 - Support for climate change initiatives, carbon pricing & phasing out fossil fuels
 - The effects of the weak Canadian Dollar and low commodity prices
 - Changes companies have made to their business plans
 - Cuts to staffing, capital spending



- ❑ There is little expectation of a US recession. Yet the Canadian economic outlook remains weak in comparison to the outlook for the US.
 - While the low dollar has helped most companies, low commodities and energy prices have hurt more.
 - Most in the C-Suite say market conditions are forcing them to change strategic/corporate plans.
 - 37% have reduced their staffing levels and many more have cut capital and operating expenditures.

- ❑ Most in the C-Suite support the federal government's plan to run deficits and fund infrastructure.

- ❑ However, few strongly support the plan to run deficits; and executives whose companies and sectors are hurting most are in fact less supportive of the government's approach.
 - Resources executives are far more focused on commodities prices as well as any policies that support access to markets for energy, pipelines, regulations around mining and exploration. Accordingly those that do not expect the economy to grow in 2016 are less likely to support the government's approach to deficits.
 - Those who do believe the economy will grow are more supportive of deficits and stimulus. Many may be dissatisfied with the sluggish economic growth forecast for Canada while being more confident in the capacity of governments to support deficits. They may also be more likely than those in oil & gas to see stimulus as something that could assist economic conditions from their perspective.



- ❑ Infrastructure spending remains a top of mind priority for many in the C-Suite. Yet many want to see something more if government is introducing measures to boost economic growth. They want to see a combination of:
 - Infrastructure along with...
 - Skills/training initiatives
 - Tax cuts/reform
 - Support for innovation/R&D, or
 - Access to markets for resources.

- ❑ Most in the C-Suite support commitments to reduce the reliance on fossil fuels and invest in clean technologies that can reduce carbon emissions.

- ❑ The C-Suite is deeply divided over whether aggressive carbon pricing policies or a targeted phase-out fossil fuels are appropriate.
 - Nearly half do not believe the economy can support phasing out carbon by 2100.



Low Commodity & Oil Prices' Impact on Business

- ❑ Most companies - 65% - have been negatively impacted by falling commodity and energy prices.
 - This includes a majority in the financial or services sectors as well as resources companies.

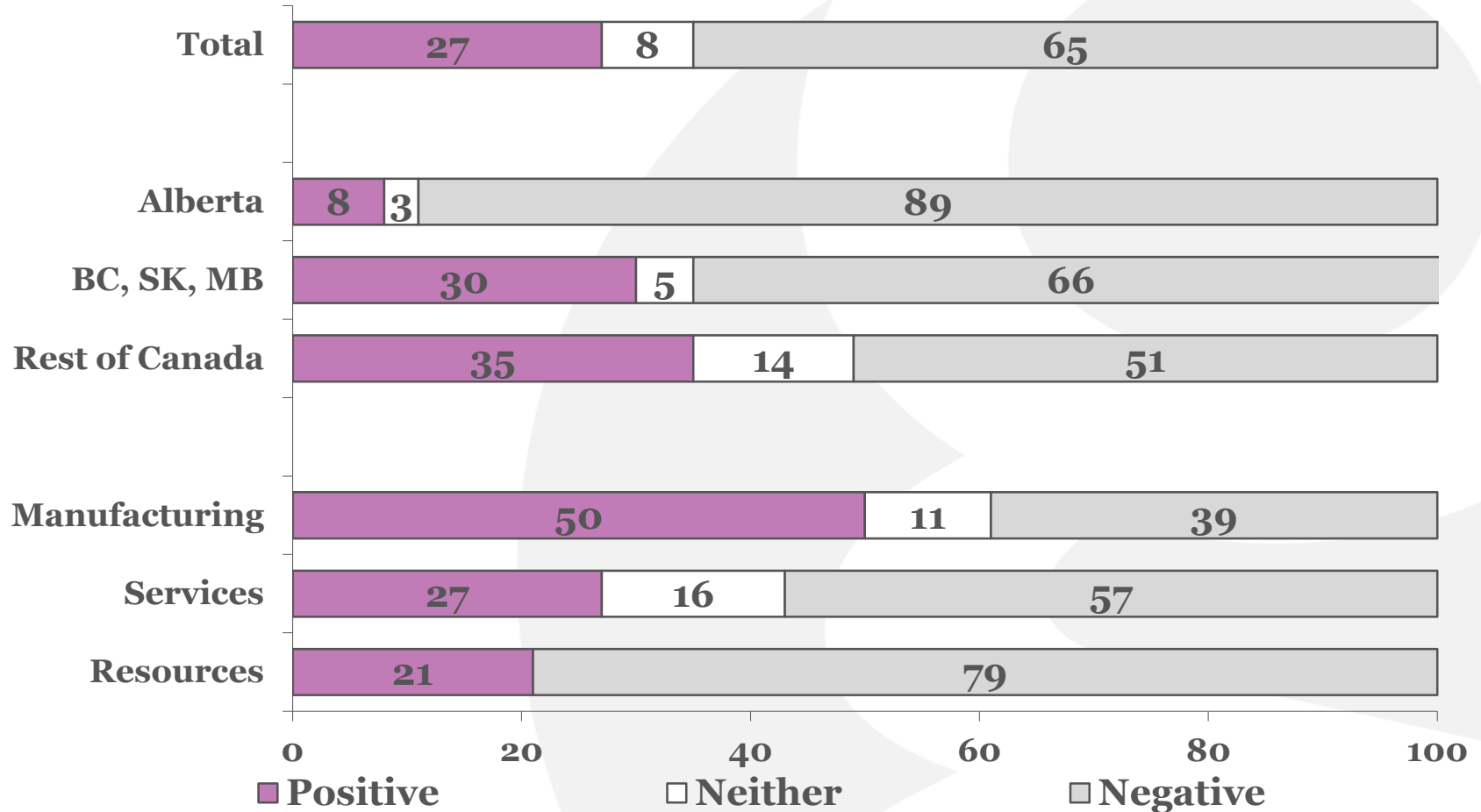
- ❑ Most companies have either changed their strategic or corporate plans because of market conditions or are likely to do so.
 - 45% have done so.
 - 14% are likely to do so.

- ❑ Nearly four in ten have cut personnel and a third have cut capital spending. One in five have done both.
 - 28% have cut operational or other expenditures.
 - 33% have reduced capital spending.
 - 37% said they have cut personnel.
 - Roughly half of those layoffs are with Alberta companies. Most ROB1000 companies in Alberta have cut capital spending and cut personnel.



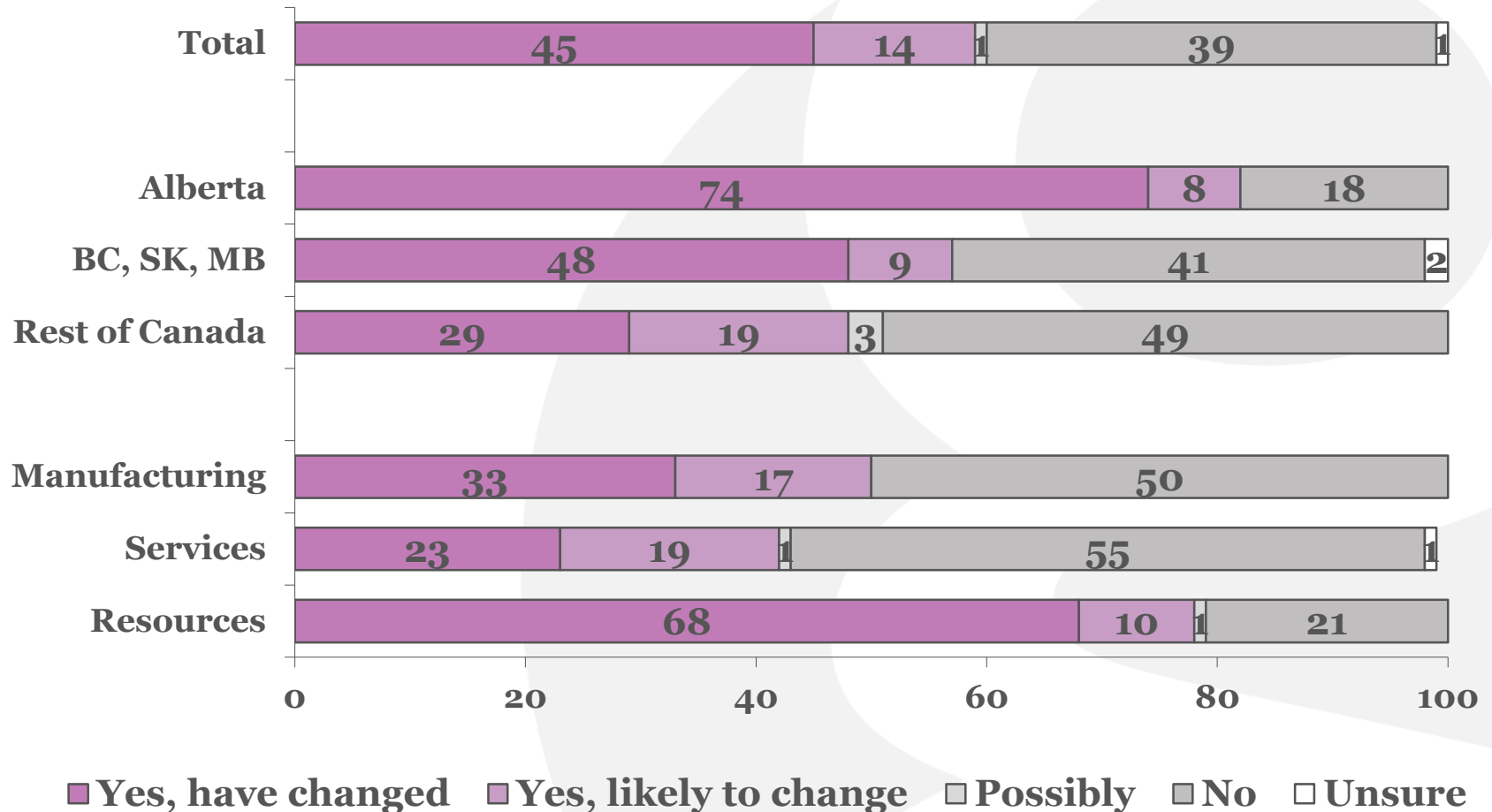
Impact of Commodities & Oil Prices

Is the drop in prices for commodities and oil over the last two years having or likely to have a positive or negative impact on your business?





Thinking about your company's planning over the next 3 to 5 years, have recent economic conditions over the last 12 months led your company to change its strategic or corporate plan or are they likely to lead to a change?





Reactions to Market Volatility

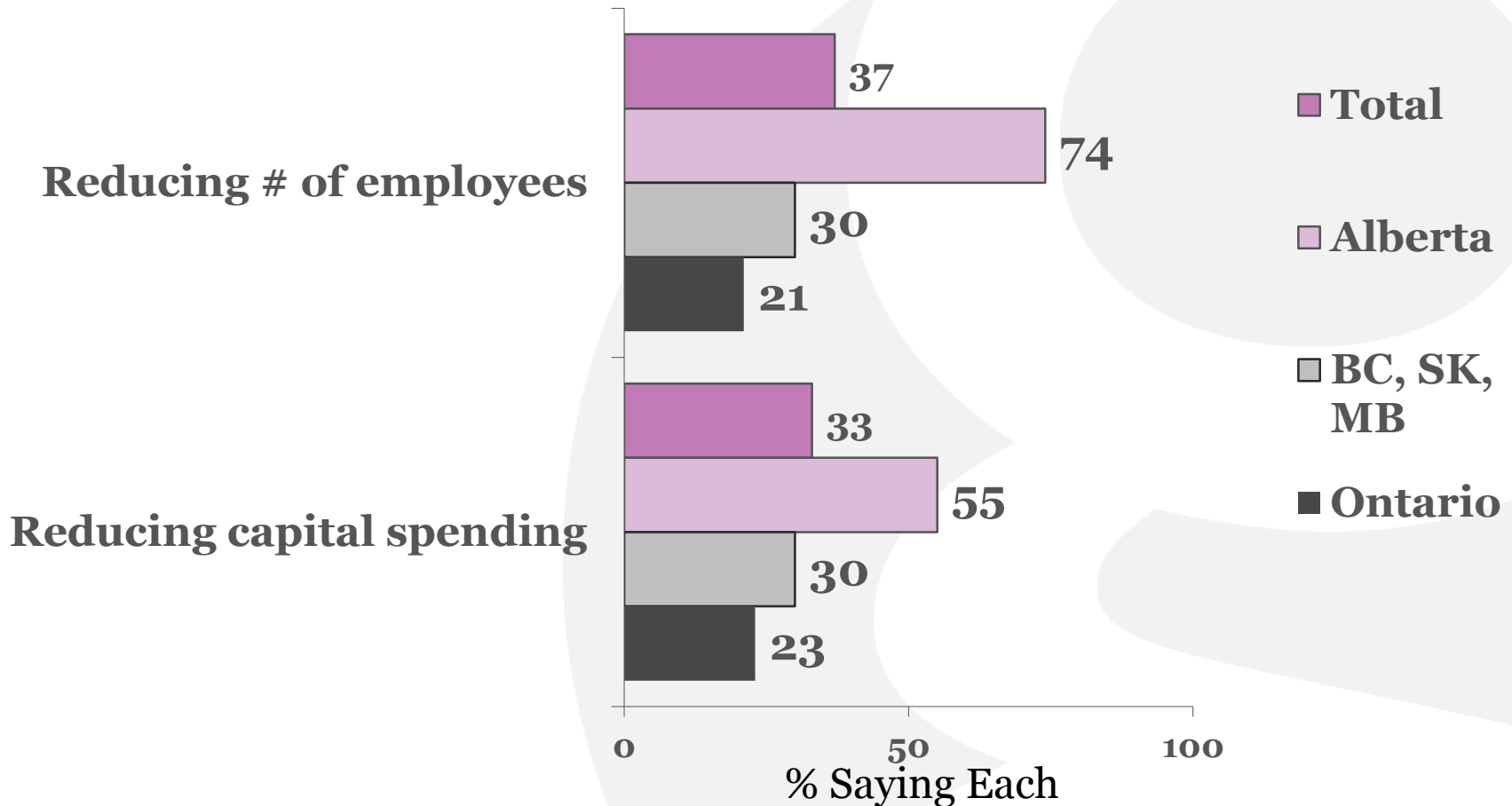
Recent market volatility, the depreciation of the dollar and low commodities prices have led some companies to make changes to planned capital expenditures, financing, staffing, or other aspects of planning and expenditures. What are some of the most important changes your company may have initiated in light of recent market conditions?





Reactions to Market Volatility

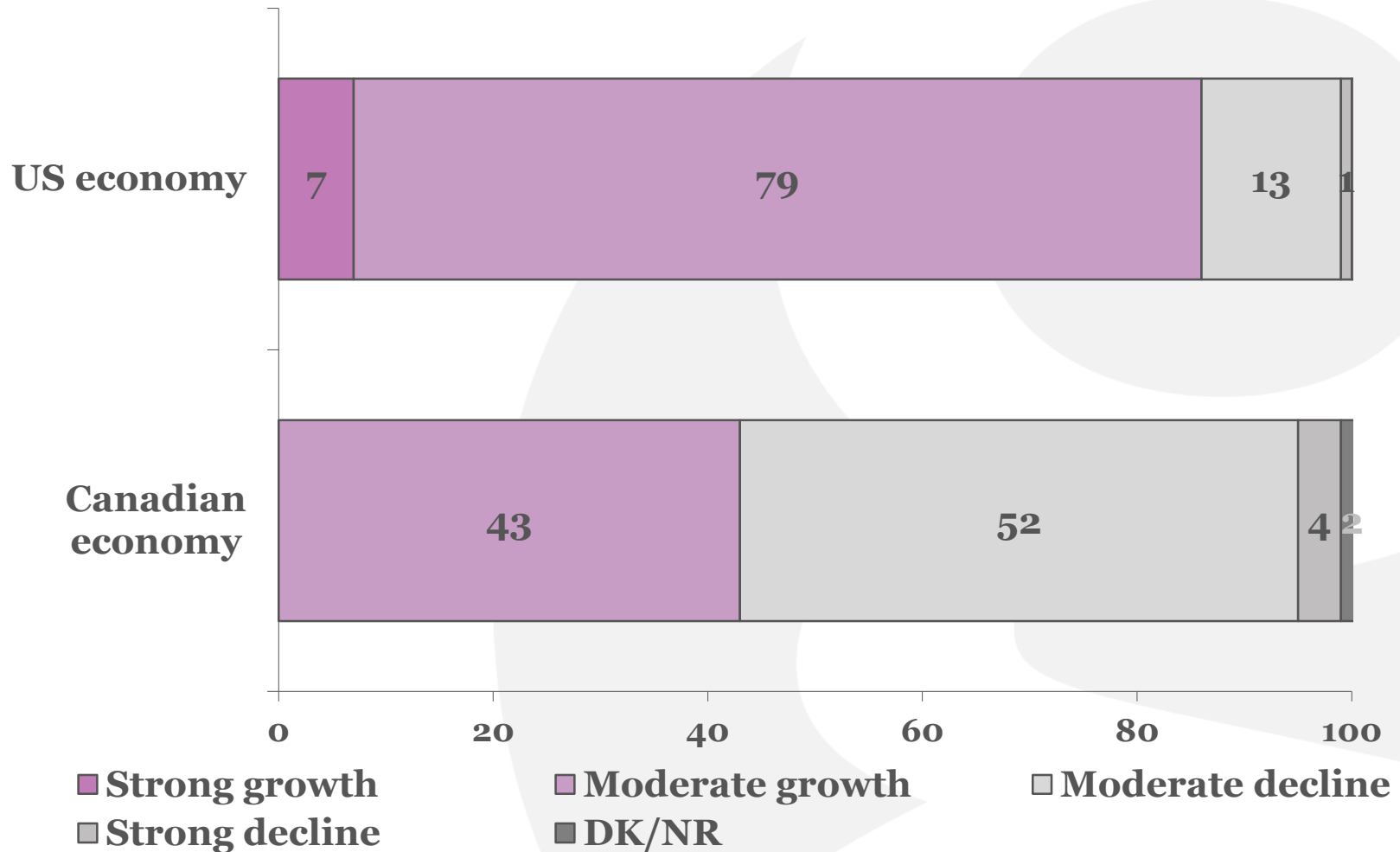
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Expectations of the Canadian and US Economies

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)

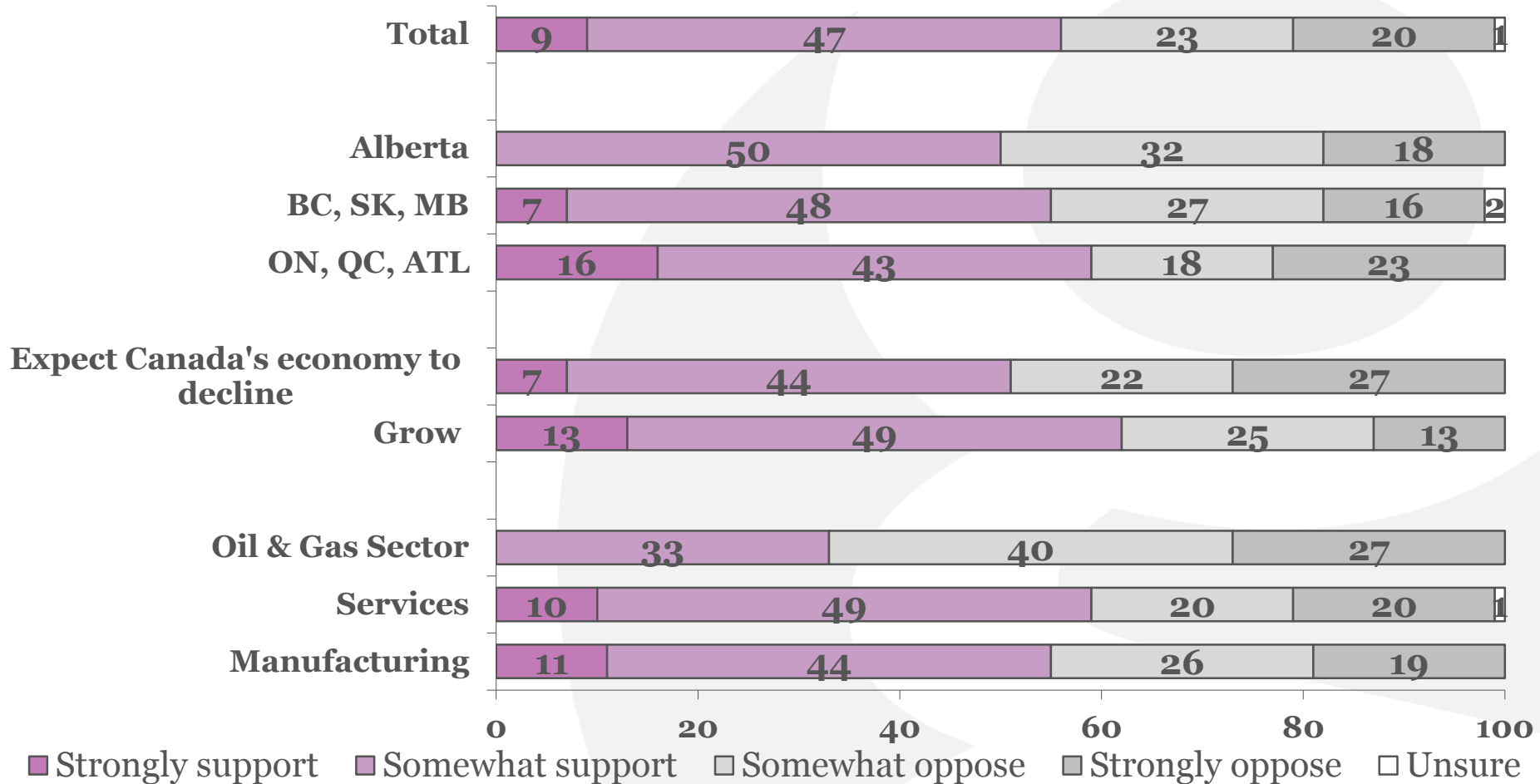




- ❑ Most in the C-Suite (56%) support the federal government's intention to run deficits over the next three years and fund new infrastructure.
- ❑ Only 9% strongly support this, suggesting caution around the kind of deficits Ottawa may be running up and for how long.
- ❑ The sector that is hurting most as well as those who don't expect Canada's economy to grow in 2016 are less supportive of deficits & stimulus.
- ❑ Those who expect the economy to grow are more supportive of deficits and stimulus.
 - Conceivably those in oil & gas know that stimulus will not assist depressed energy prices or may be more concerned about government debt in a weak economy.
 - Those who expect the economy to grow in 2016 may be more comfortable with the government's stability of revenues while still being dissatisfied with the rate of growth. Services sector companies, have been negatively impacted by low energy prices, and may see promise in stimulus spending.



Canada's new Liberal government has committed to increased infrastructure spending. It has also signaled that this spending and other measures as well as a slowing economy mean the government intends to run deficits over the next three years. Is this something you:





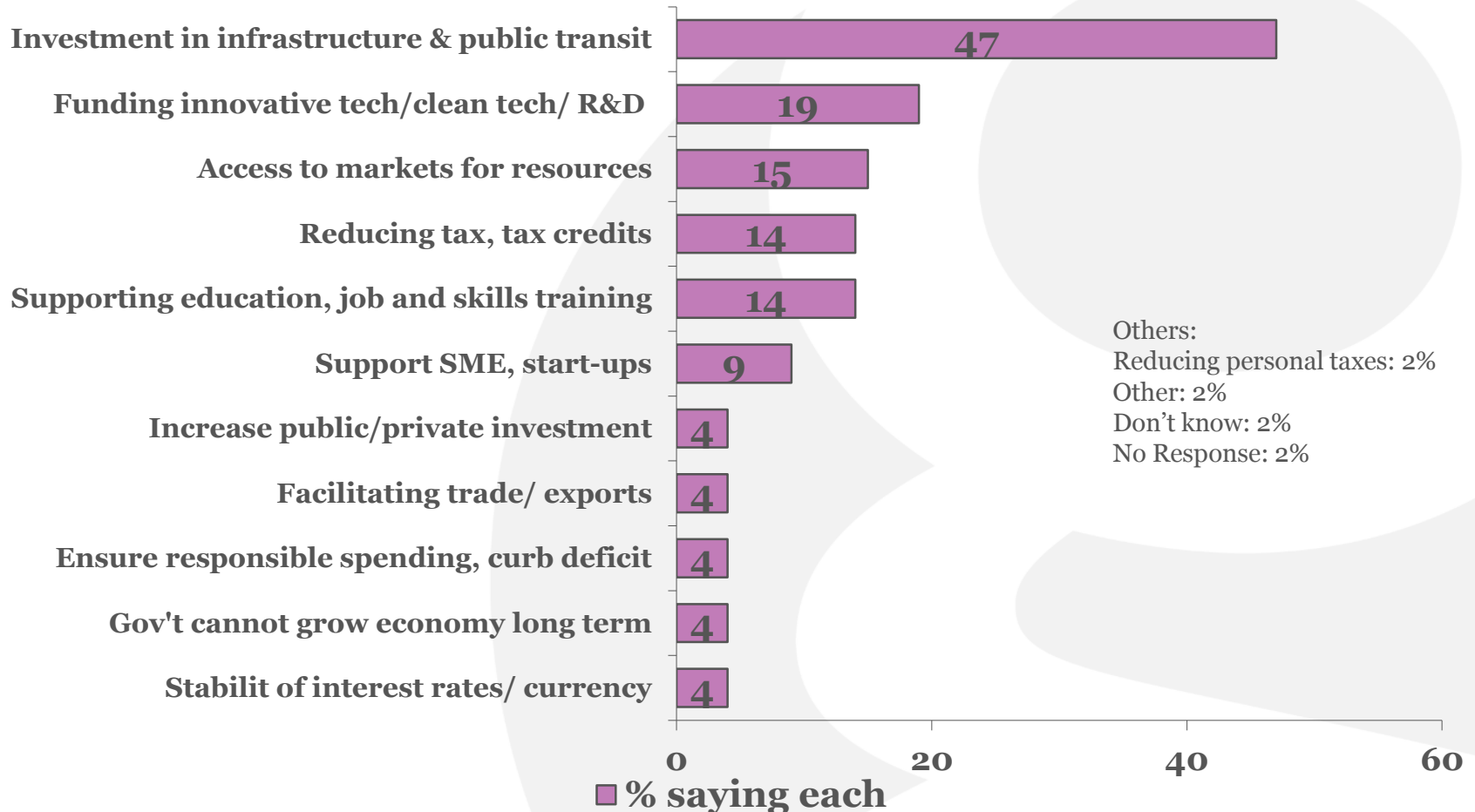
- ❑ The C-Suite believes a balanced approach is needed if the government is going to promote economic growth and productivity. Many would hope for something in addition to investments in infrastructure:
 - Support for innovation/R&D
 - Getting resources to market, pipelines
 - Education and skills training
 - Reduced taxes/tax credits

- ❑ The C-Suite cites a range of factors that hold Canada back from long-term economic growth:
 - Commodities: either depressed markets for commodities or the need for diversification away from resources
 - As well as:
 - The level of education & skills training in Canada
 - Low productivity/competitiveness
 - Taxes
 - Government intervention



How to Promote Long-term Growth

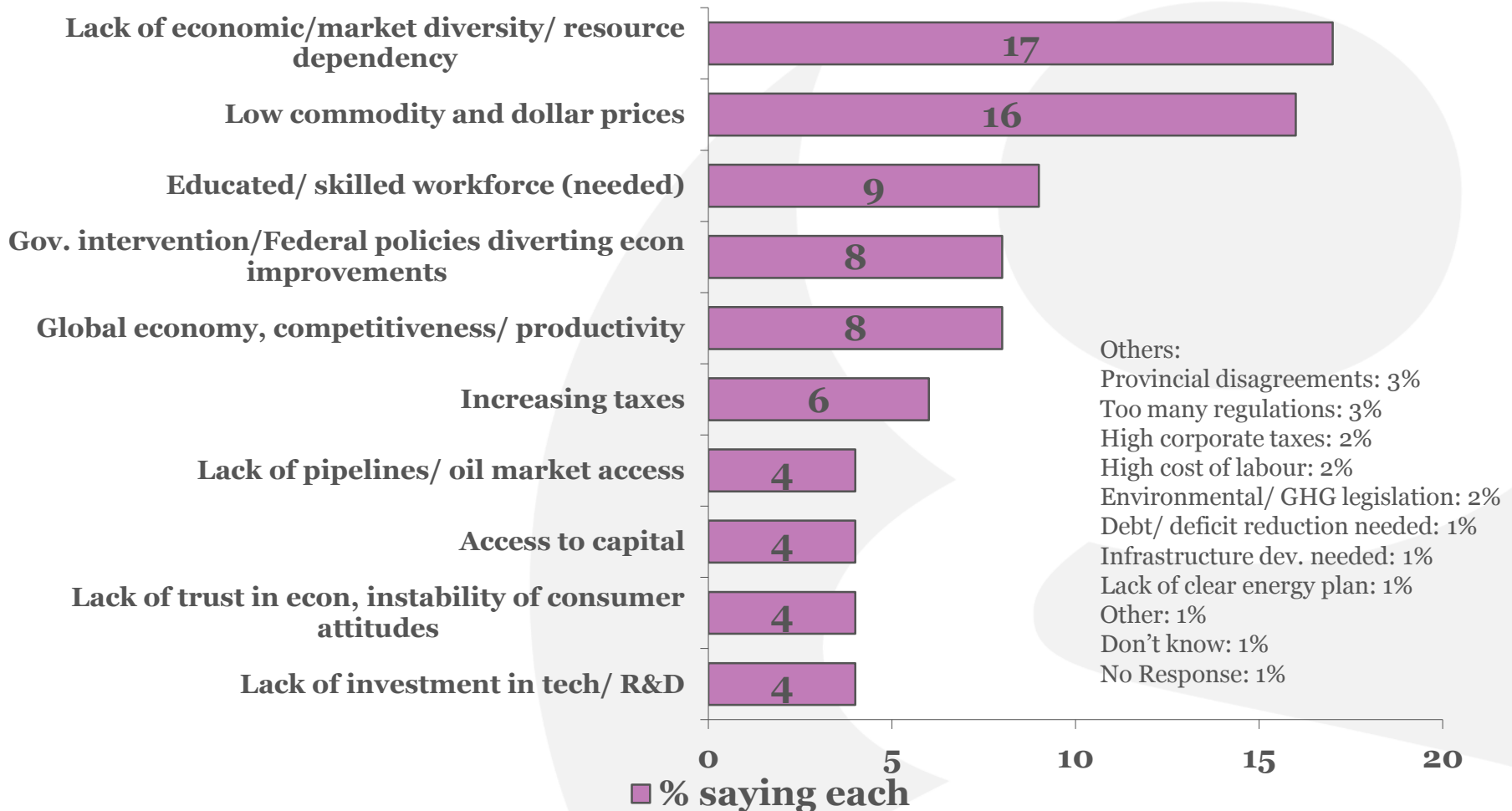
If the government does proceed with new, incremental spending to promote Long-term economic growth and productivity in Canada, what in your view would be the best approach it should take to promoting growth and productivity?





Obstacles to Long-term Growth

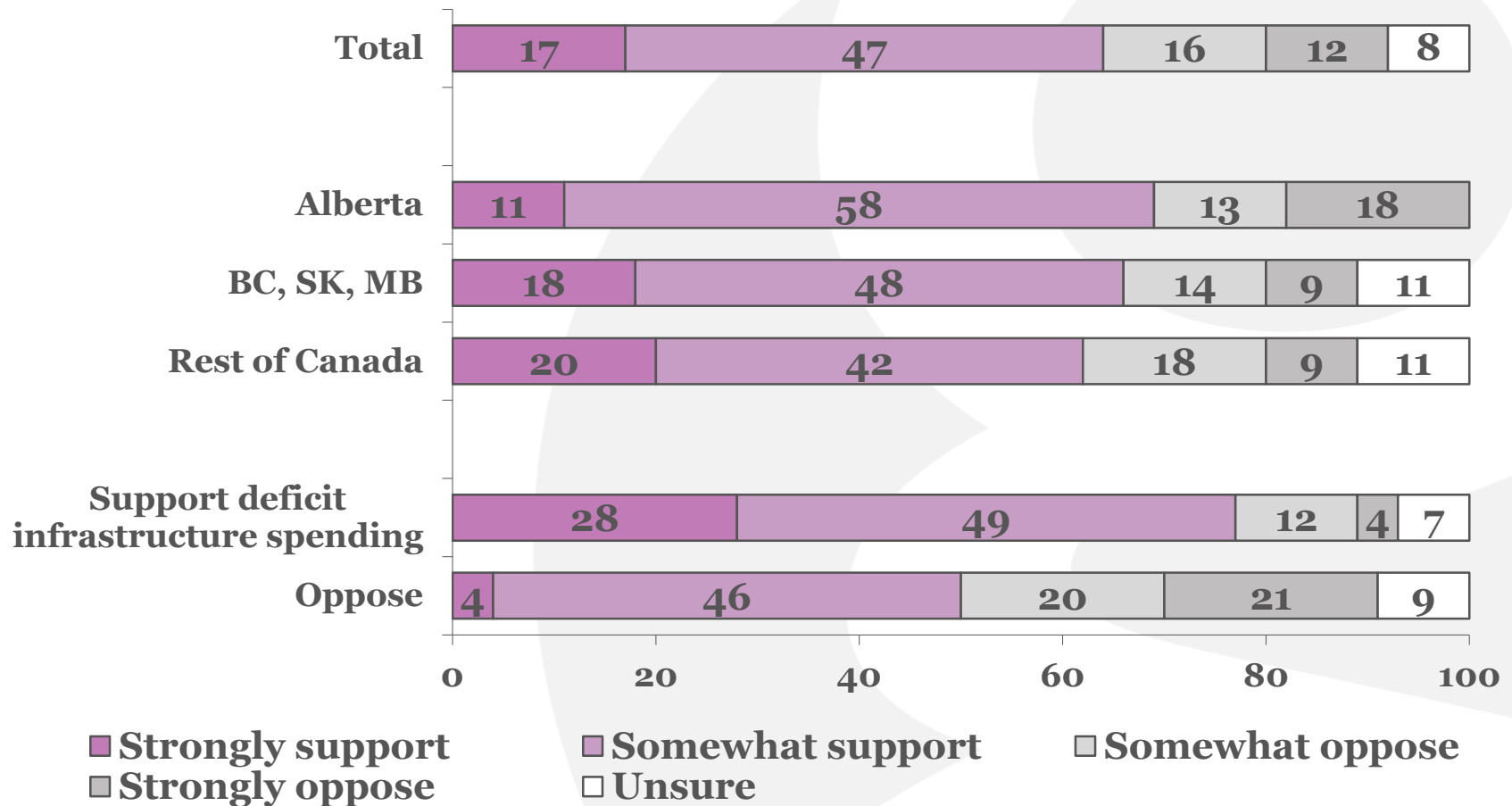
What is the single greatest obstacle to improving the prospects for long-term economic growth and productivity in Canada?





Alberta's Energy Sector Diversification Efforts

The Alberta government has proposed policies and royalty credits that would help diversify Alberta's energy sector, in part by subsidizing the development of petrochemicals and chemical manufacturing sector in the province. Would you say this plan is something you...





- ❑ Most in the C-Suite welcome policies and investments that will reduce reliance on fossil fuels and invest in innovative clean tech and clean transportation.
 - Many in the C-Suite are strongly supportive.
 - Most in Alberta 55% are generally supportive of this agenda, 45% are opposed.
 - In the rest of Canada roughly 8 in 10 are generally supportive of this.

- ❑ There is significant division in the C-Suite when it comes to aggressive proposals to reduce carbon consumption.
 - Half would support something like the US Administration's proposal to tax oil at US\$10 a barrel to support climate change initiatives. Half (49%) oppose this.
 - A clear majority in Alberta oppose this type of pricing approach.
 - In the rest of Canada a slim majority is supportive.

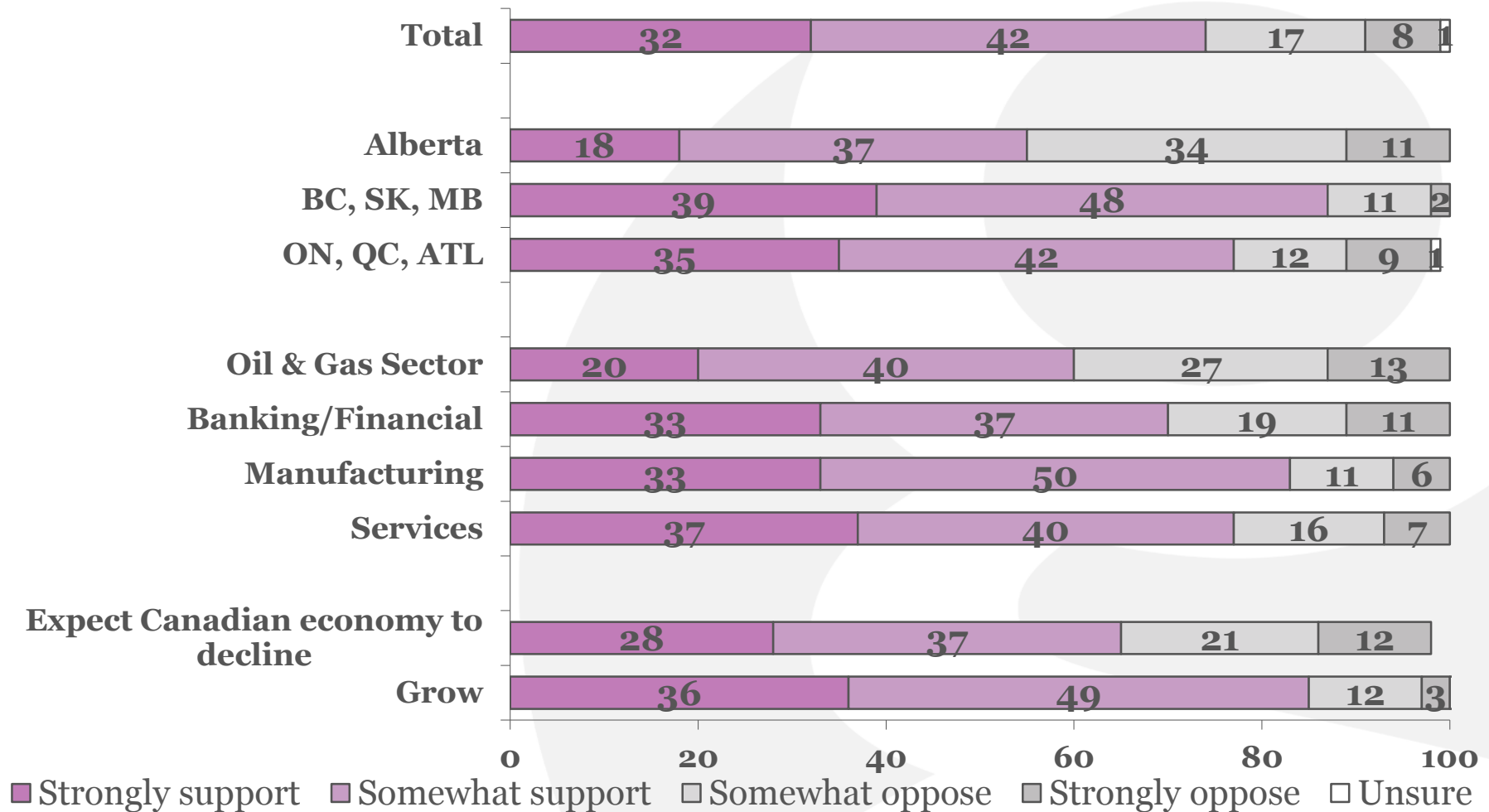
- ❑ 52% of the C-Suite believes that 2100 or sooner – the target the G7 has set – is realistic.

- ❑ 31% said any timeline to phase out carbon is inappropriate or unrealistic.



Public Investment in Clean Tech, Transit & R&D

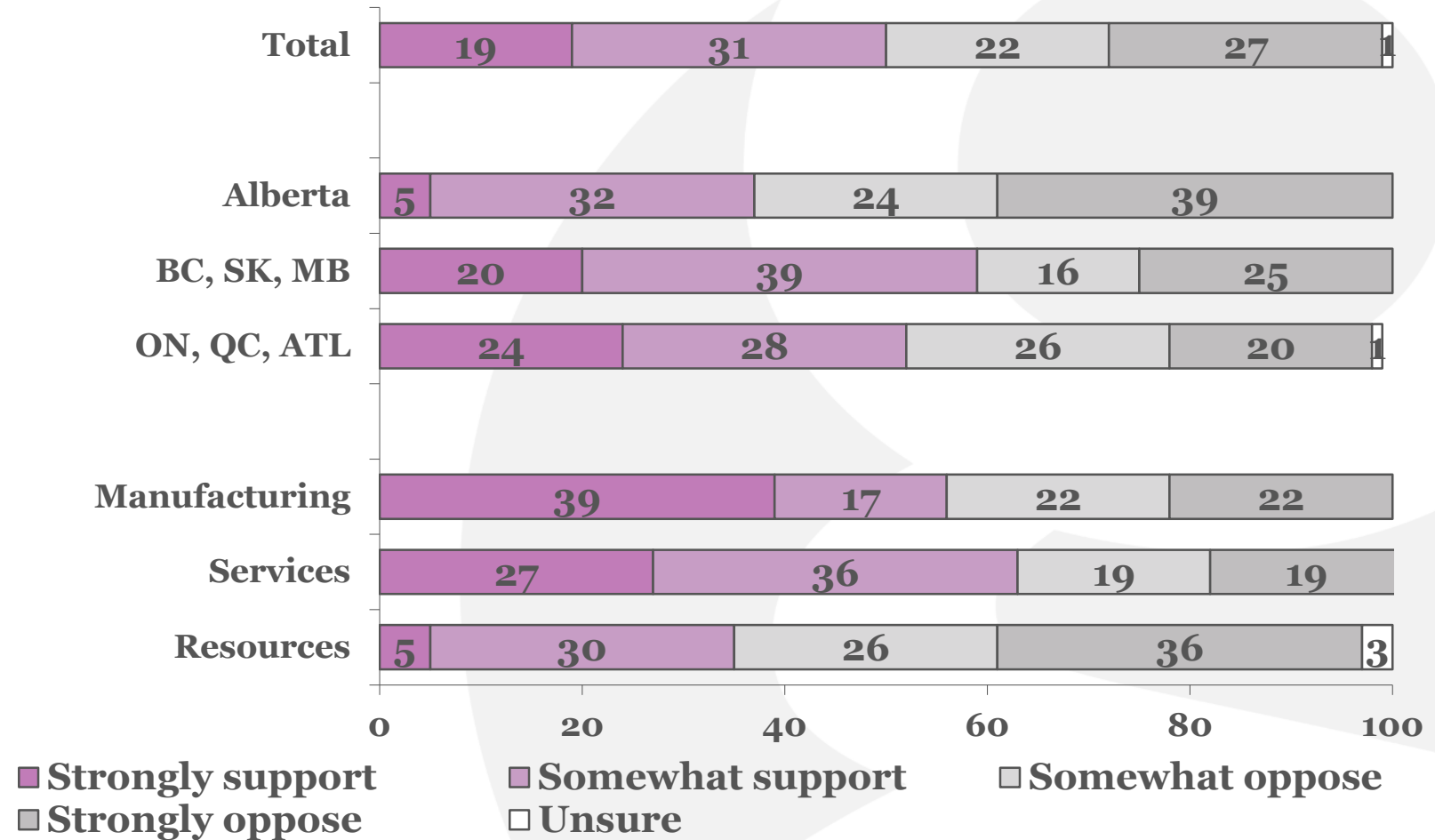
Governments in the US and Canada have proposed reducing reliance on fossil fuels by investing public money into research and development in the field of clean technologies and transit. Is this something you:





White House's \$10 a Barrel Tax for Clean Tech and Transit R&D

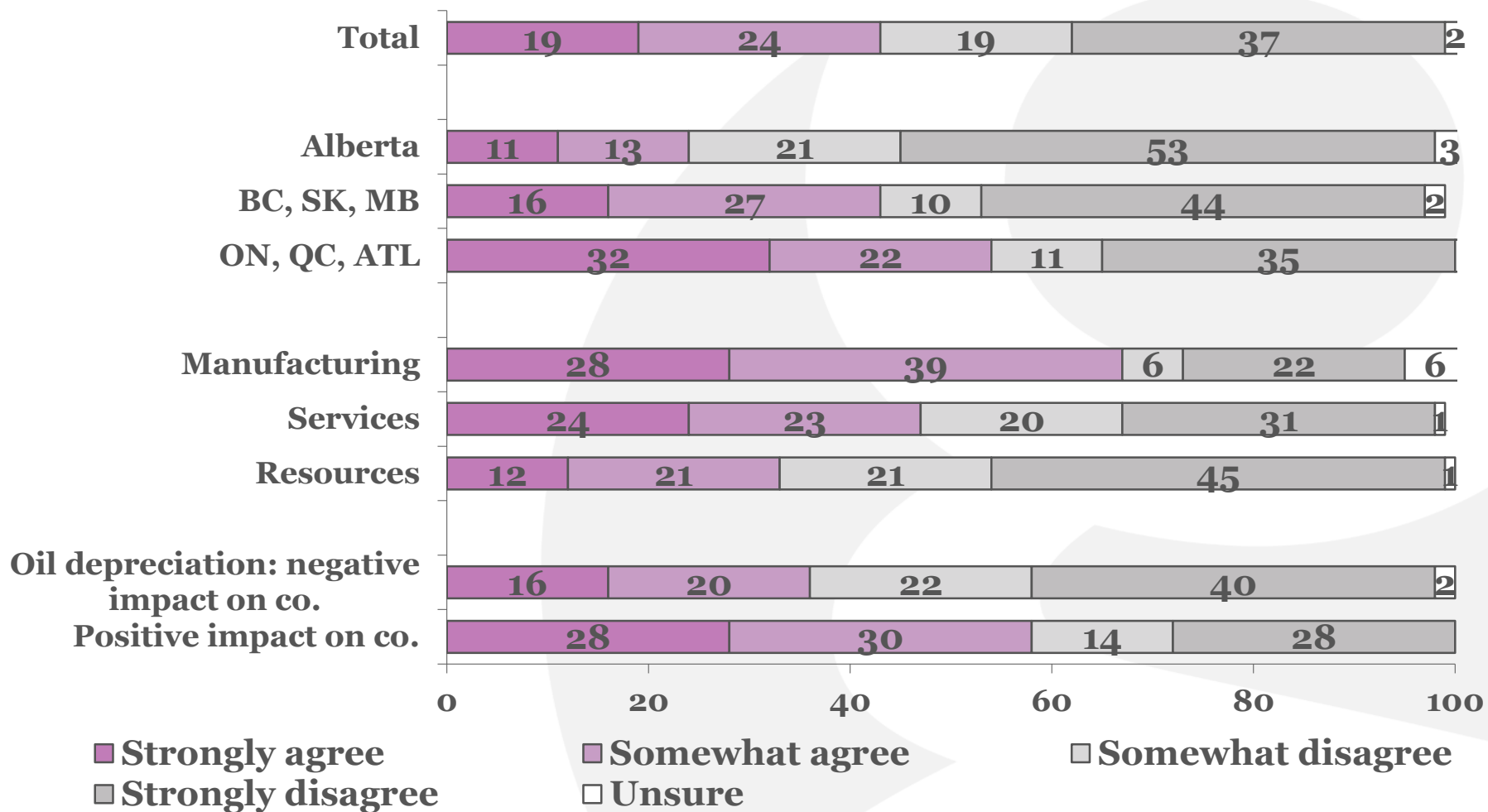
The White House recently proposed a 10-dollar a barrel tax on oil that would equate to 25 cents on a gallon of gasoline. That money would be invested in research and innovation in the field of clean technologies as well as in public transit in order to...





Elimination of Fossil Fuel Use by 2050 – Worthwhile?

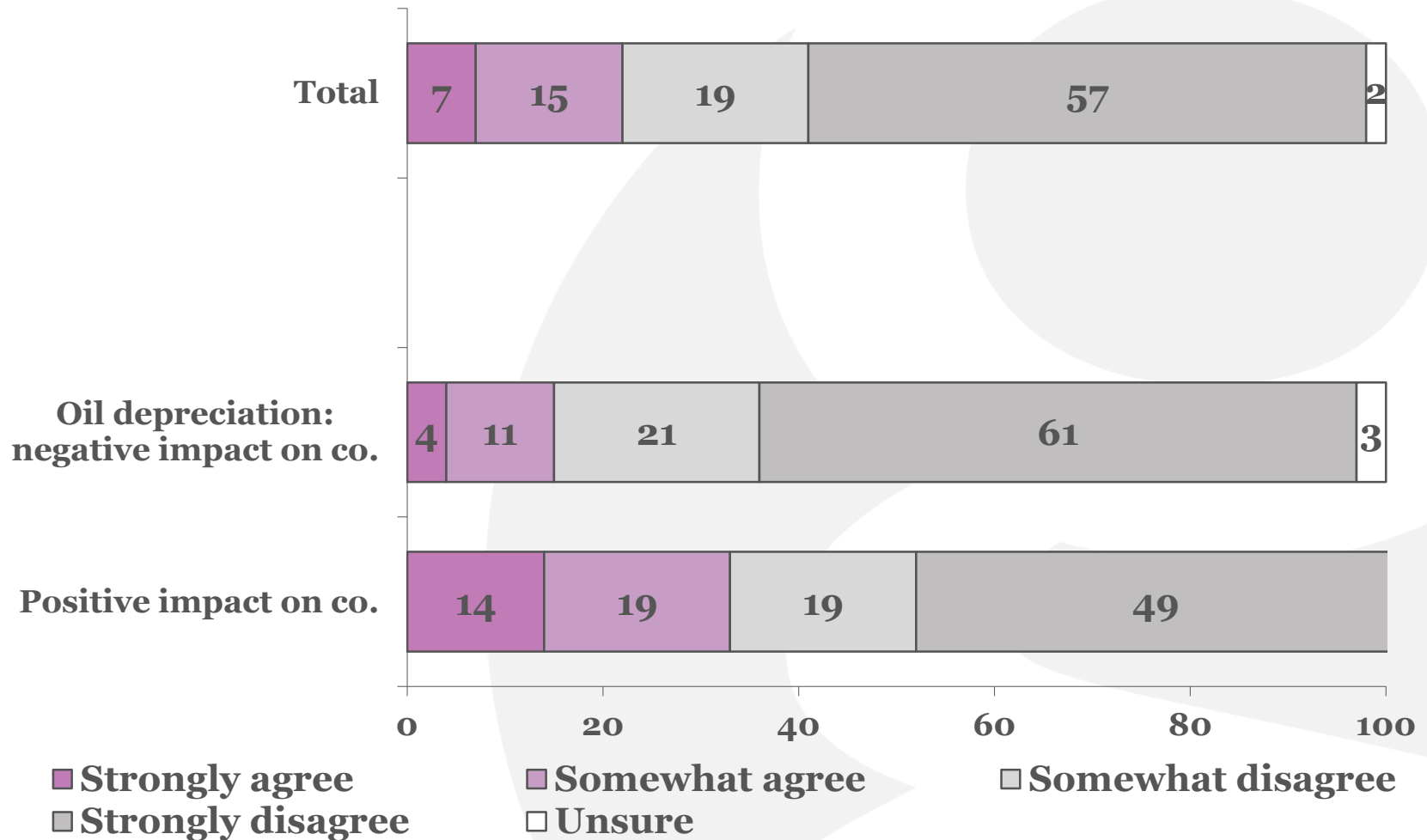
Some analysts have suggested Canada could completely eliminate the use of fossil fuels by 2050. Would you agree or disagree that this goal is worthwhile?





Elimination of Fossil Fuel Use by 2050 – Realistic?

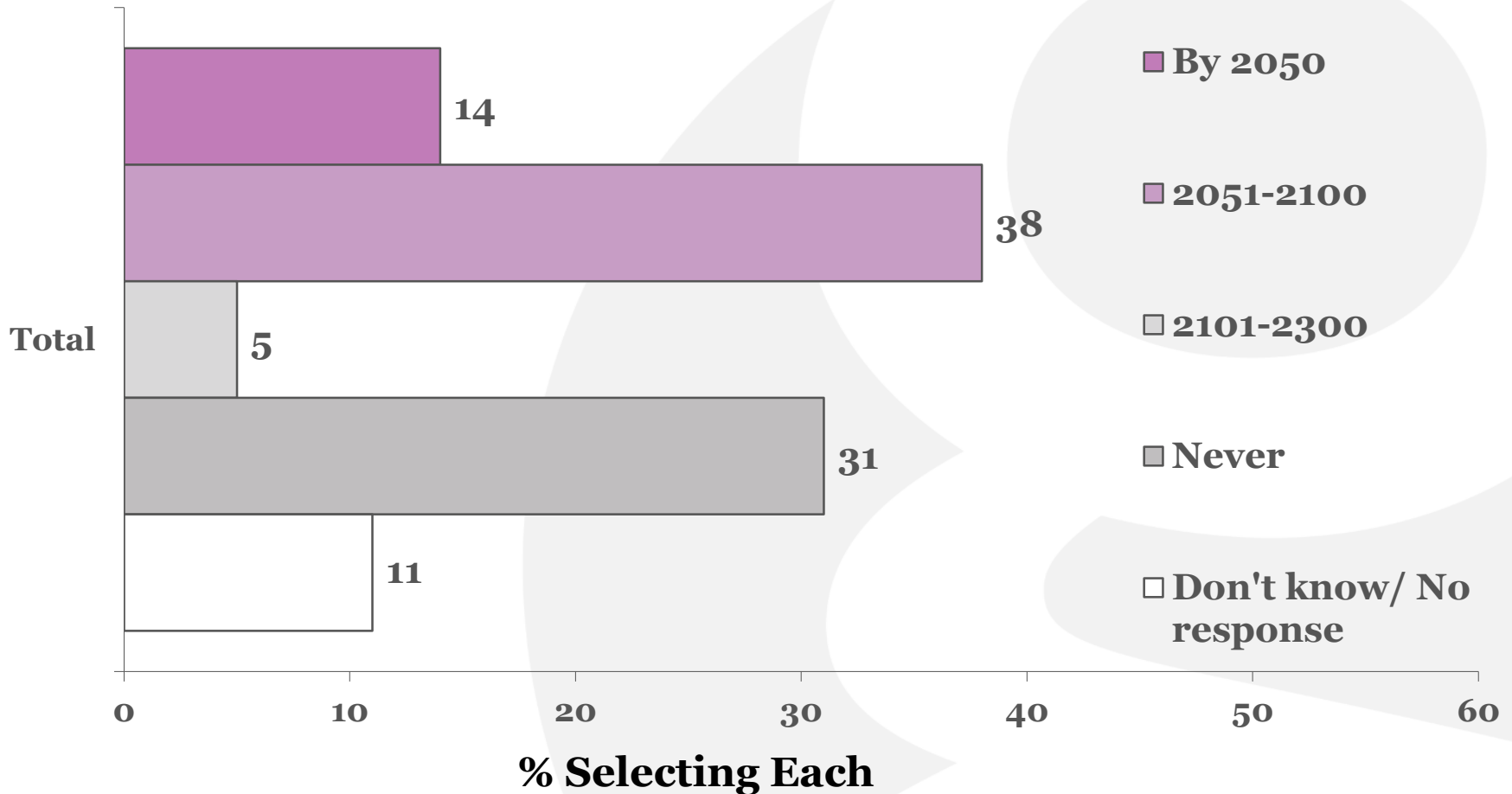
Would you agree or disagree that this goal is realistic?





Target for Elimination of Fossil Fuel Use

The G7 leaders committed last year to eliminate the use of fossil fuels by the year 2100. By what date do you think Canada could completely eliminate the use of fossil fuels?



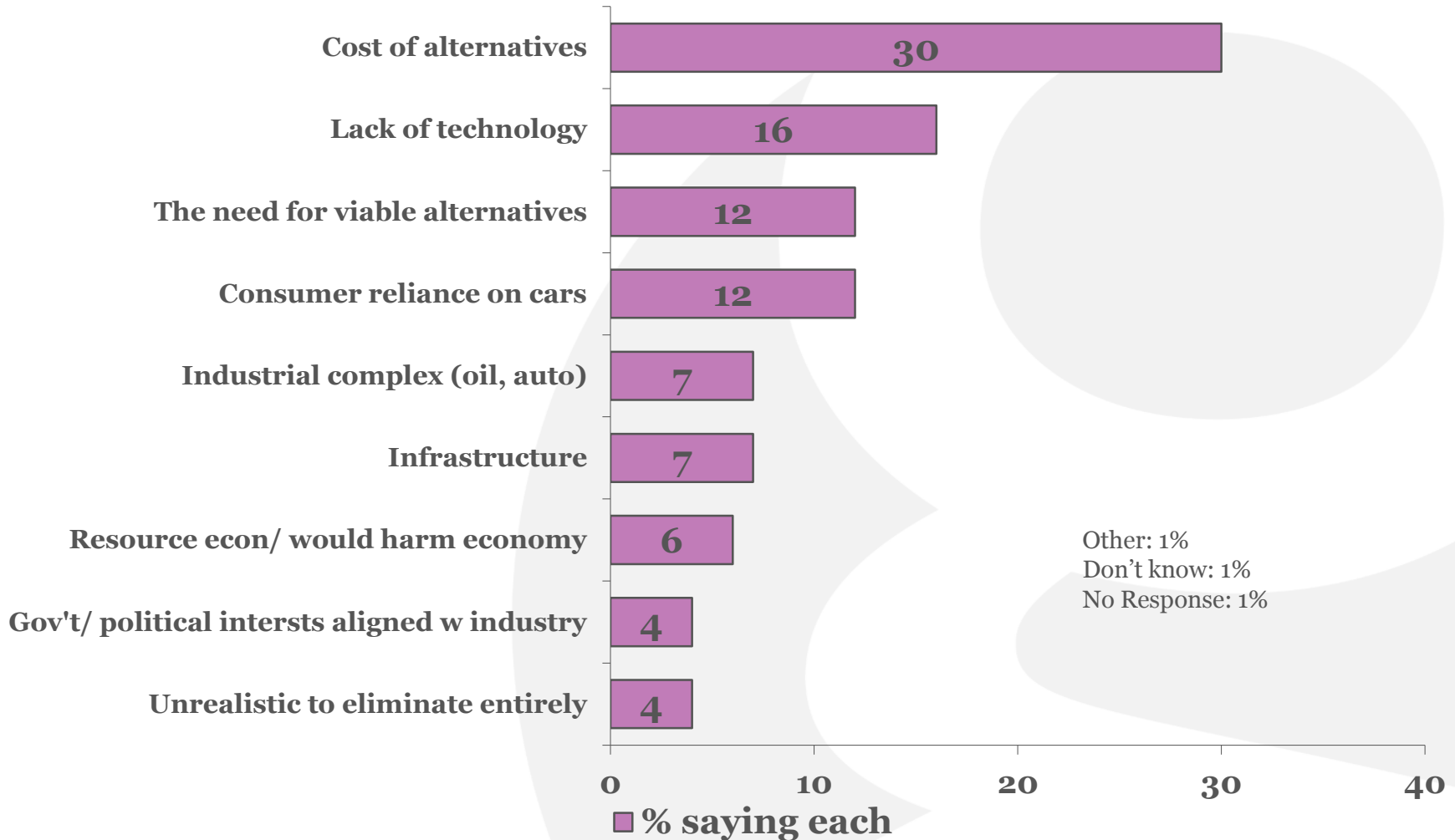


- ❑ Only 14% would suggest a target date as early as 2050 to phase out fossil fuels.
- ❑ The vast majority believe 2050 is unrealistic.
 - 43% agree it is worthwhile to *try* to phase out fossil fuels by 2050, as some have proposed – 56% think it is not.
- ❑ The C-Suite is more likely to mention economic obstacles rather than technological ones in explaining why such a 2050 timeline is out of reach.
 - 28% mention the need for new technology or viable alternatives
 - 30% mentioned cost
 - 12% mentioned consumers' reliance on current modes of transport
 - 7% mentioned the infrastructure changes that would be needed
 - 7% mentioning the oil industry itself and its influence
 - 6% mentioned the detriment to the economy and resources sector



Obstacles to Elimination of Fossil Fuel Use by 2050

What is the single greatest obstacle to the elimination of fossil fuel use by 2050?

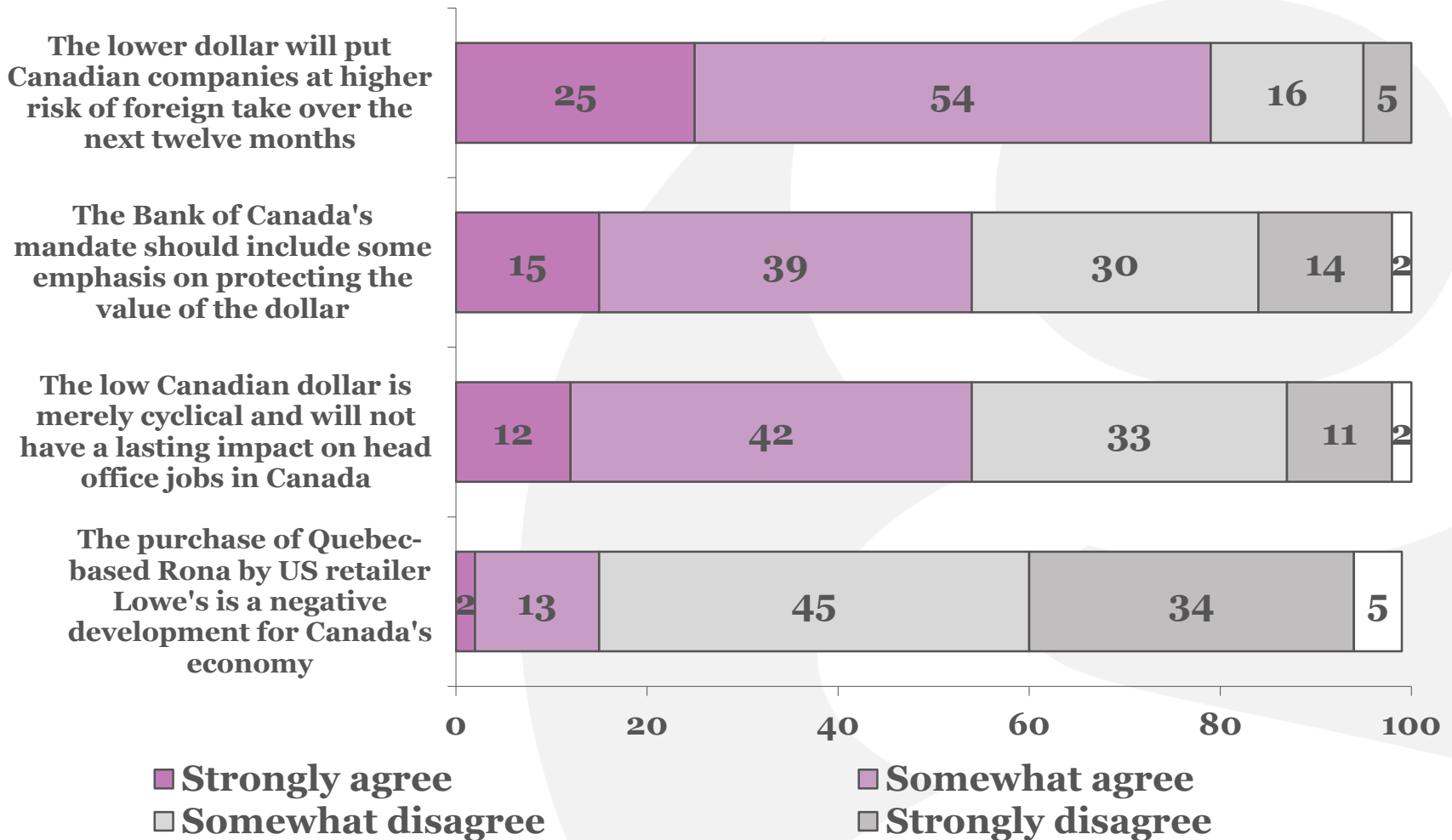




- ❑ For most companies, the depreciation of the Canadian dollar has been a positive.
- ❑ If the dollar rose to 80 cents, many (41%) said it would have a negative impact on their companies – especially resources companies.
- ❑ The vast majority agreed the lower dollar puts Canadian companies at a higher risk of foreign takeover.
- ❑ The C-Suite is split on the lasting impact it will have on head office jobs.
 - 54% believe the low dollar is cyclical and will not have a lasting impact on head office jobs in Canada – 44% disagreed.
 - Only 15% agreed the recent takeover of Rona by US-based Lowe's was a negative development for Canada's economy.
- ❑ The C-Suite was also divided on whether the Bank of Canada's mandate should include an emphasis on protecting the dollar: 54% agreed it should.

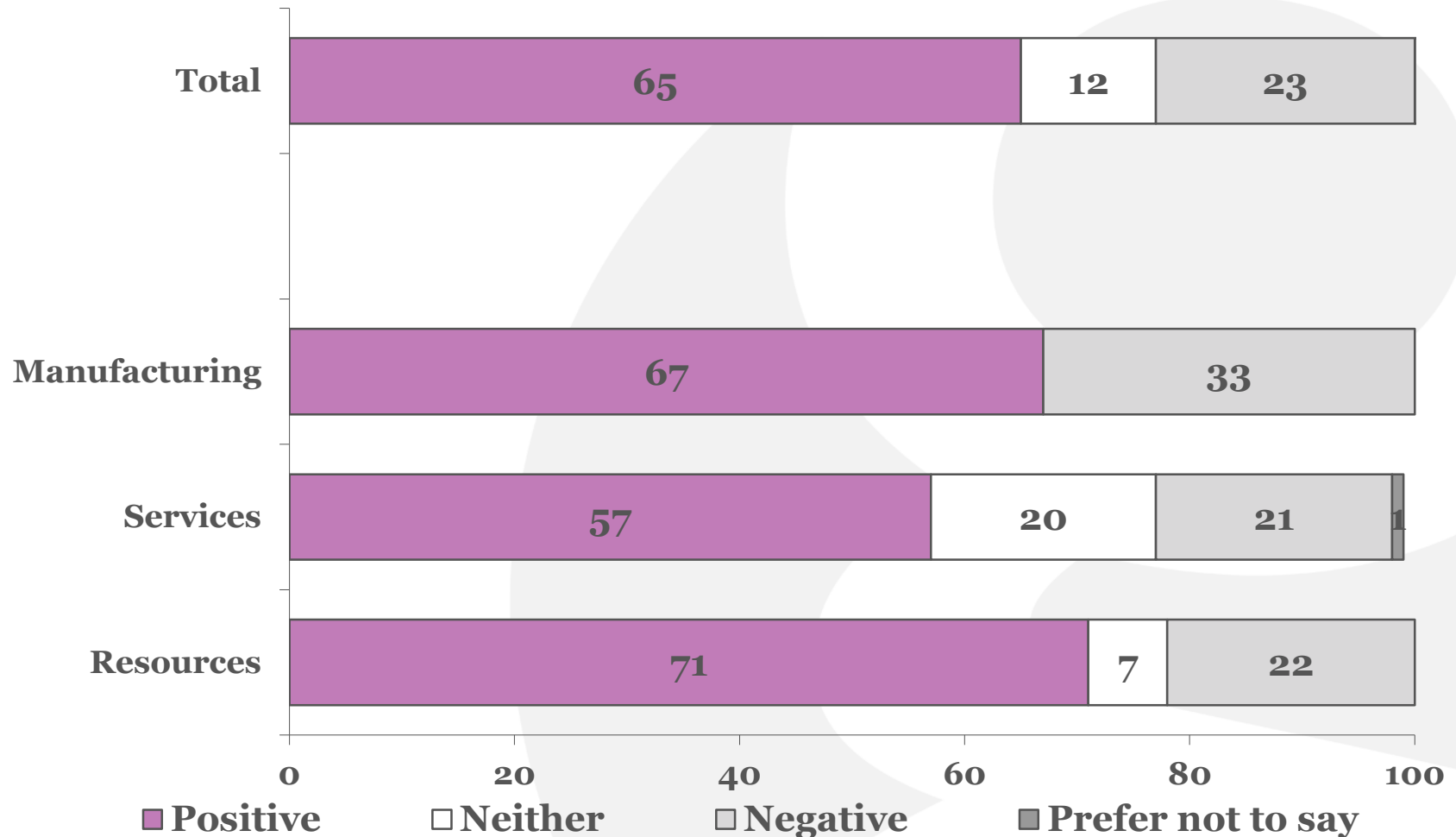


Do you agree or disagree with each of the following statements that have been made about the depreciation of the dollar?



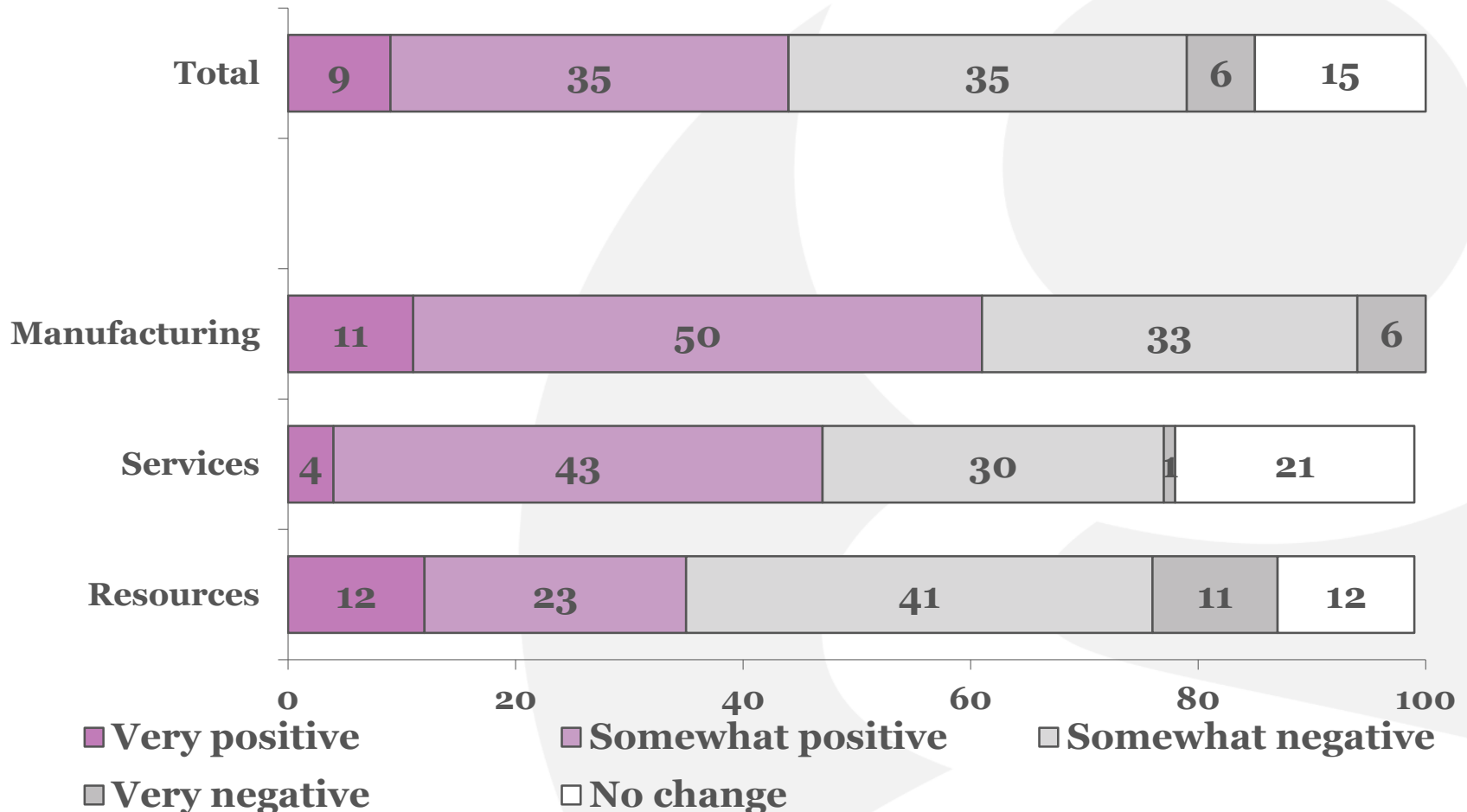


Is the depreciation of the Canadian dollar over the last year on balance having or likely to have a positive or negative impact on your business?





The depreciation of the Canadian dollar has been an important topic. If the dollar was valued at 80 cents or higher would that have a very or somewhat positive impact on your company or a very or somewhat negative impact on your company?





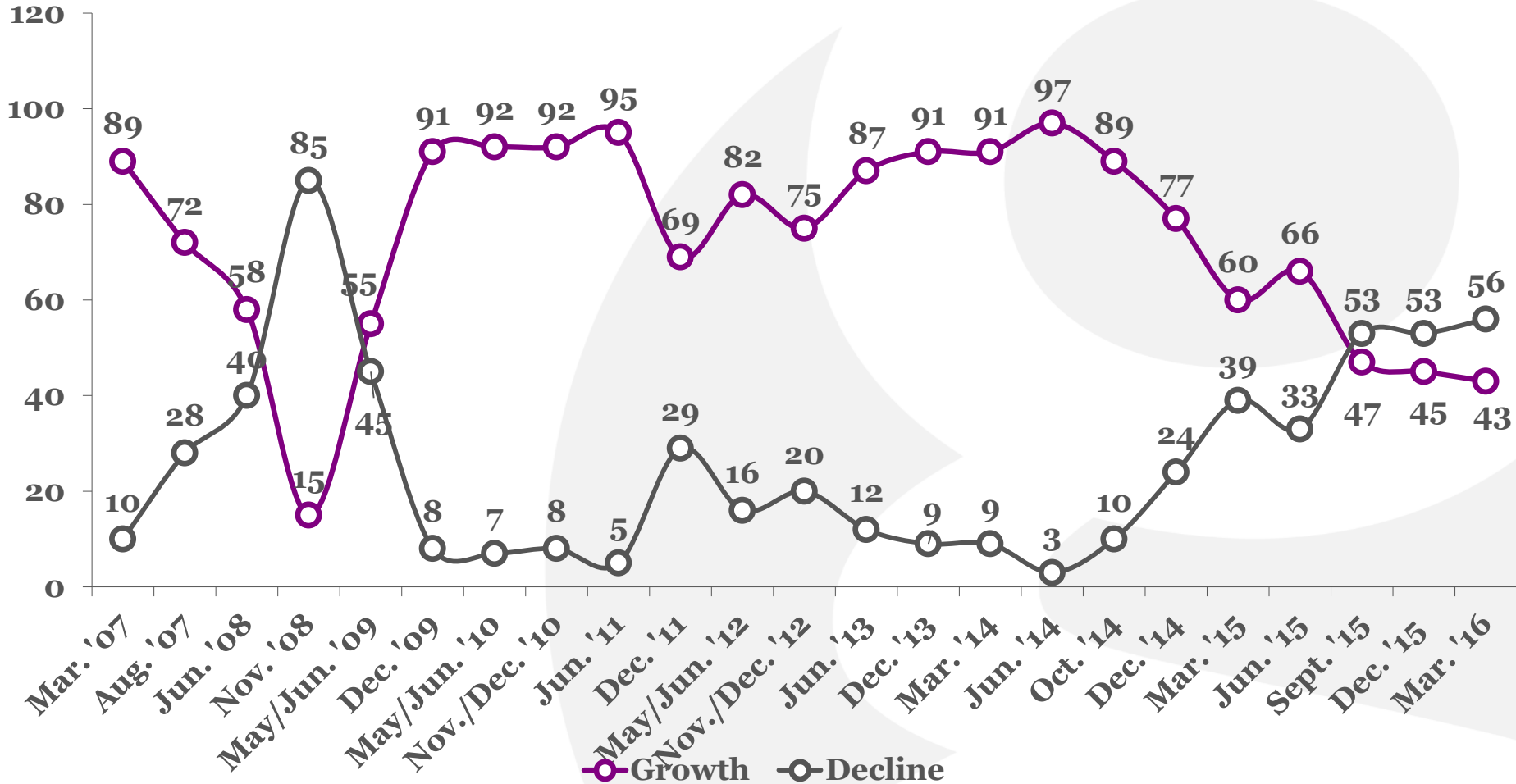
- ❑ There is little expectation of a US recession. The Canadian economy is weak but the outlook is effectively stable – no better or worse this quarter than in Sept. or Dec. 2015.
- ❑ Company outlook remains unchanged in the last 6 months; most have modestly positive outlooks for their businesses, with the weakest outlook confined mostly to the resources sector.

Projections For The Canadian Economy



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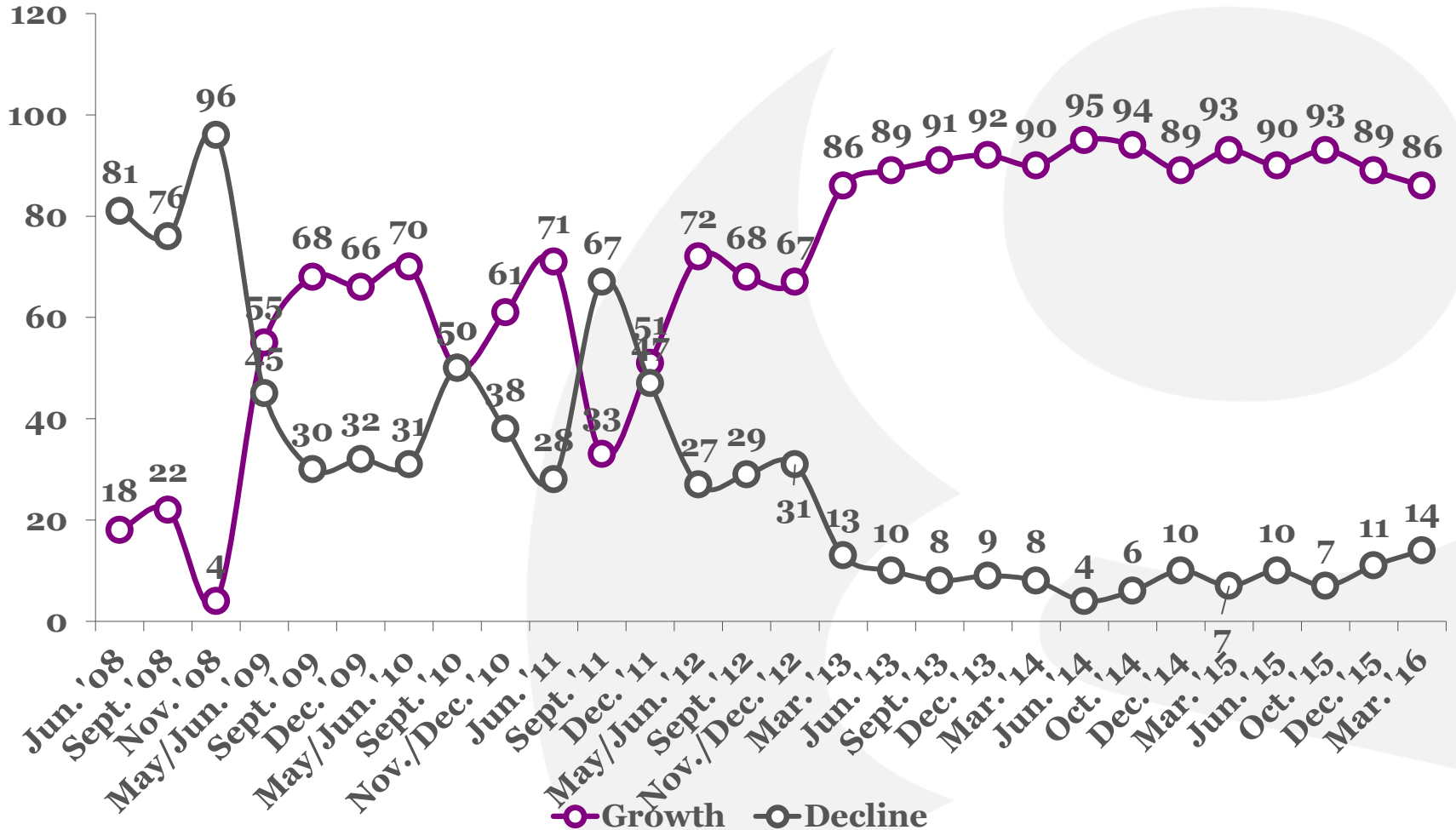
What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline? (% saying each)





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)





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

