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The 39th Quarterly C-Suite Survey: Infrastructure & The Future for Canada's Industrial Sectors

June 22, 2015

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- ❑ This is the 39th edition of the C-Suite Quarterly Survey
- ❑ The survey is 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 .
- ❑ Methodology: telephone interviews with 153 C-Suite executives from ROB1000 companies between May 20 & June 10, 2015.
- ❑ This survey quarter's survey asked about:
 - Infrastructure & Needed Investments in Canada's Major Cities
 - Industrial Sectors Poised for Growth & Which Sectors Need Help To Do So
 - Reaction to the Alberta Election
 - Updates to Economic Outlook



- ❑ There is near consensus that our national economy is dependent on too few industries and relies too much on Alberta. In the energy sector, renewable energy and natural gas are industries that will likely increase in importance in the next decade, and are deserving of public support.
- ❑ While our current industrial mix will lead to economic growth, the C-Suite wants us to focus less on resources and invest in technology intensive sectors like pharma & biotech, clean tech, aerospace and ICT.
- ❑ The C-Suite believes governments are spending too little on infrastructure, and in particular should invest more in road networks and public transit. Executives whose businesses would benefit from public transit are the most supportive of infrastructure investment, but the case is so strong that a majority support short-term deficit spending to fund infrastructure.

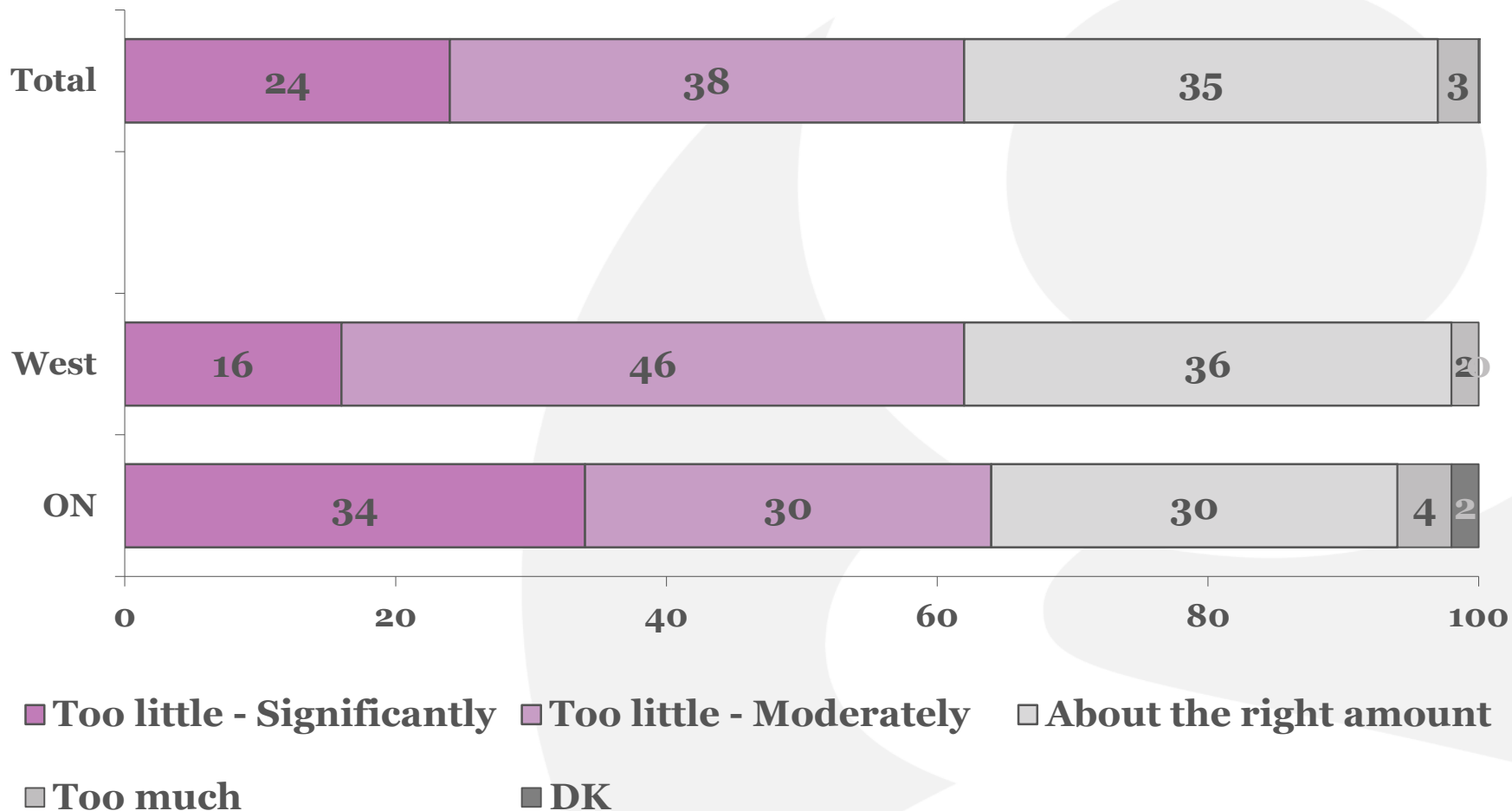


- ❑ The C-Suite is strongly supportive of infrastructure investments.
- ❑ Most believe that governments are underfunding this priority.
 - One third of Ontario executives think we are significantly underfunding infrastructure.
- ❑ The majority said that airports, electrical grids and telecommunications networks in Canada's major cities rate well when it comes to infrastructure.
- ❑ Few feel the same when it comes to highways, roads and transit.
- ❑ Those who believe roads and public transit are in poor condition are also more likely to say infrastructure spending is too low.



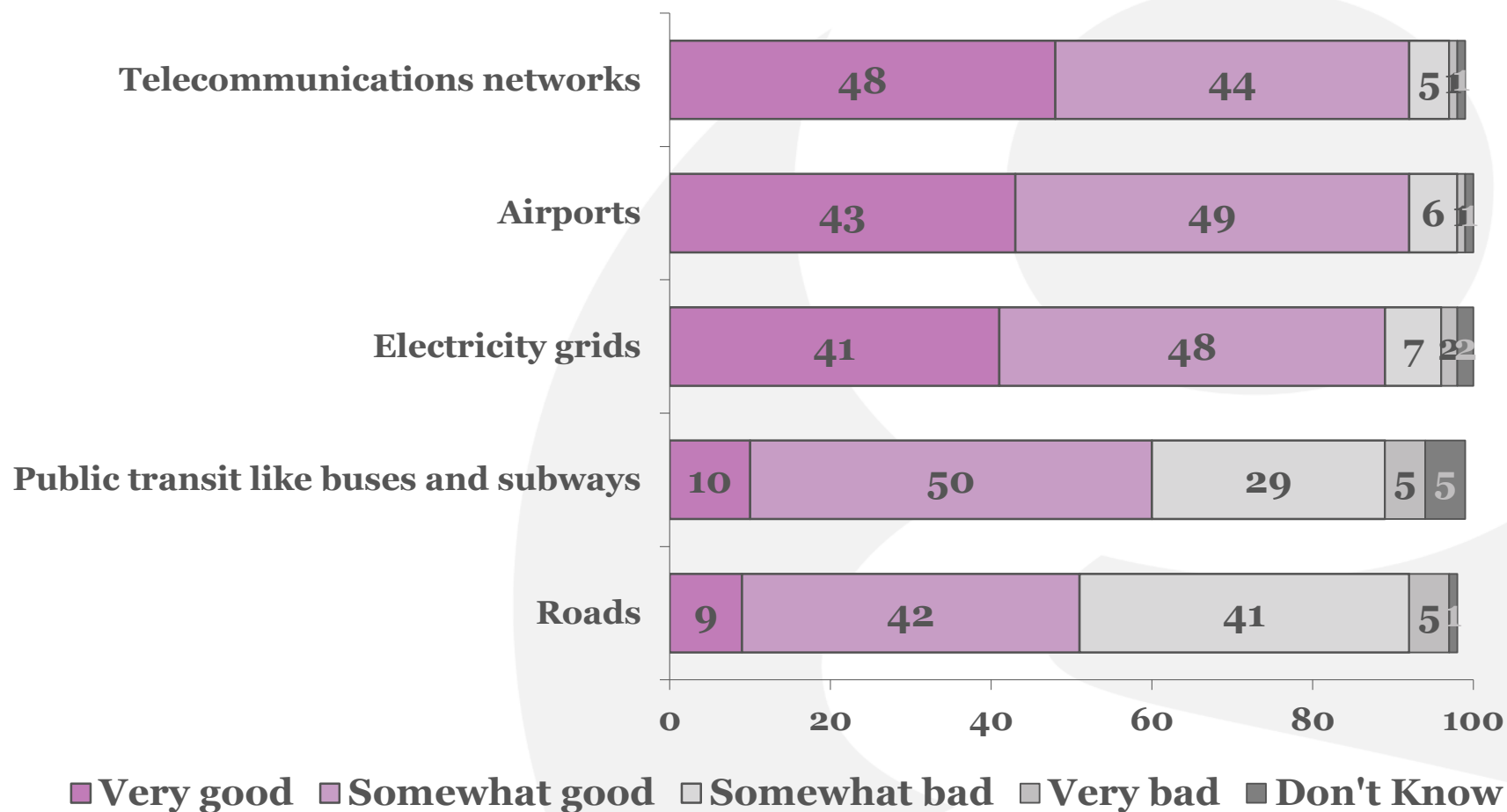
Infrastructure Spending

“Are Canadian governments spending: too much, or too little or about the right amount of money on public infrastructure?”
[IF TOO LITTLE] “Would that be significantly underfunded or moderately underfunded?” (n=153)





“Thinking of major Canadian cities in which you most frequently do business, how would you rate the state of public infrastructure of those cities and communities?” (n=153)





- ❑ There is majority support for a range of investments but the top of mind concern relates to roads and transportation.
- ❑ Most of the C-Suite believes their businesses would be helped if investments and improvements were made to roads, bridges, transit, highway infrastructure and reducing traffic congestion.
- ❑ 52% said their businesses would benefit if Canada's major cities invested in "better public transit."
- ❑ Most of the C-Suite supports short-term government deficits to help fund capital investments in such infrastructure.

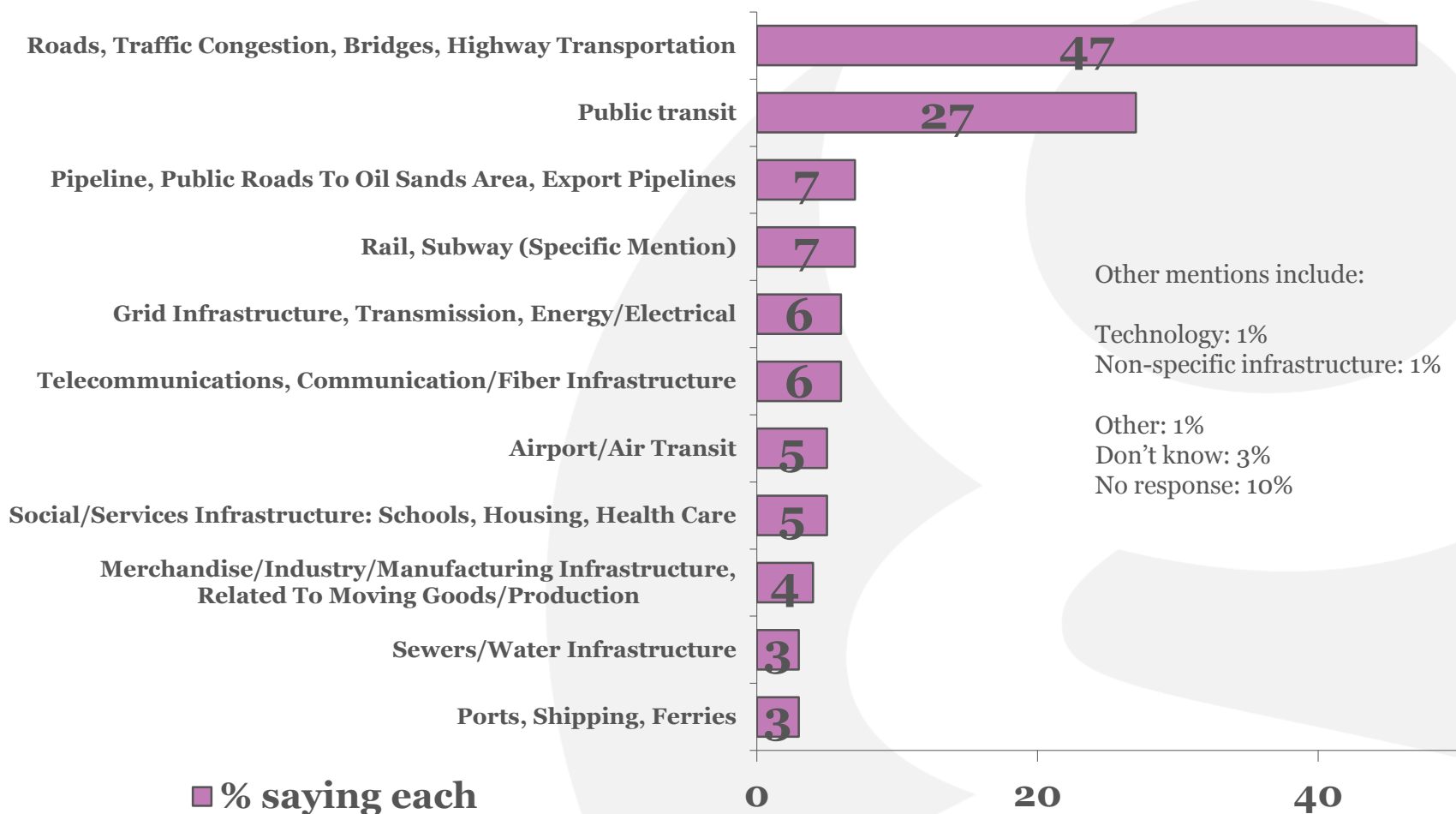


- ❑ Executives who said their company would benefit from public transit investments were more likely to say the public transit and roads in cities they do business in are bad.
 - Those that said their company would not benefit from public transit are more likely to say we are spending the right amount on transit.
- ❑ Alberta stands out as the only major region where most executives said their company would not benefit from better public transit.
- ❑ Support for deficit spending to fund infrastructure was consistent across the country and across all sectors.



What Investment Would Help Cos.?

“What kinds of public infrastructure investments and improvements would help your company the most?” (% saying each – open ended – n=153)

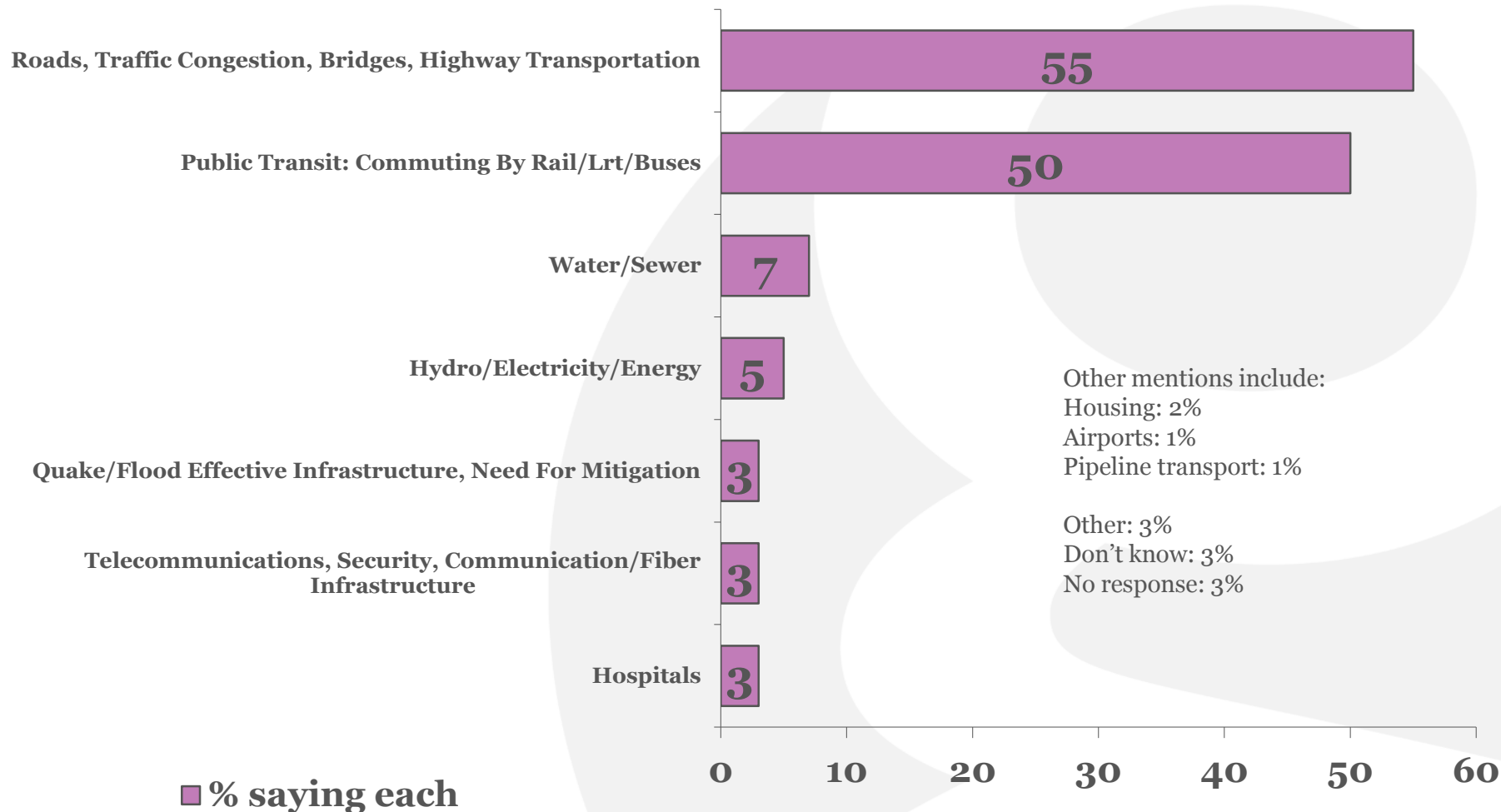




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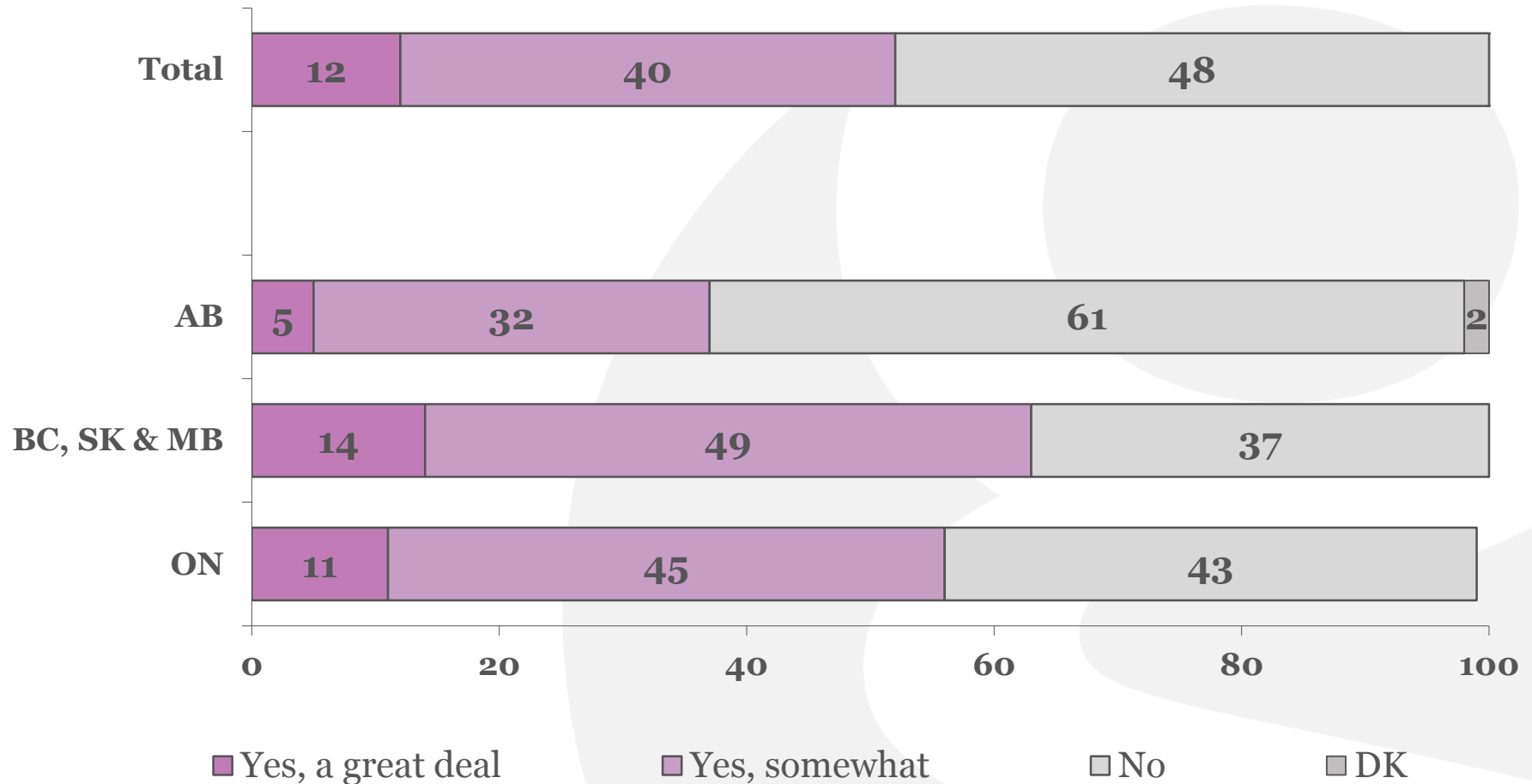
Infrastructure Investments Needed For Cities

“Are there specific public infrastructure investments and improvements that Canada's major cities need the most? If so what types of projects would they be?” (% saying each – open ended – n=153)





“If Canada's major cities invested in better public transit, would your business benefit?” (n=153)

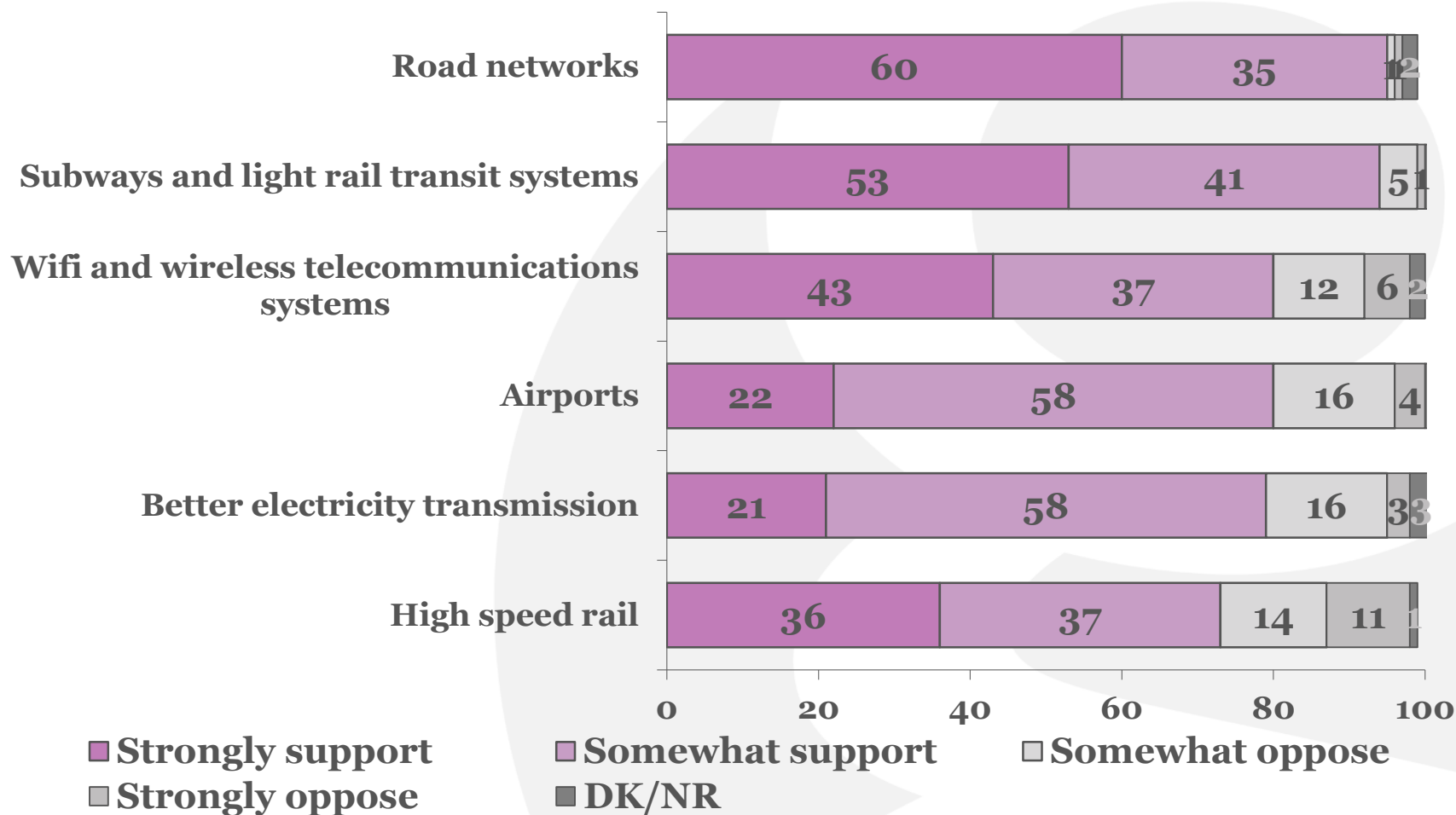




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Support for Infrastructure Investment Increases

“Now please tell me whether you would support or oppose increased investments in and improvements in infrastructure in Canada's major cities?” (n=153)

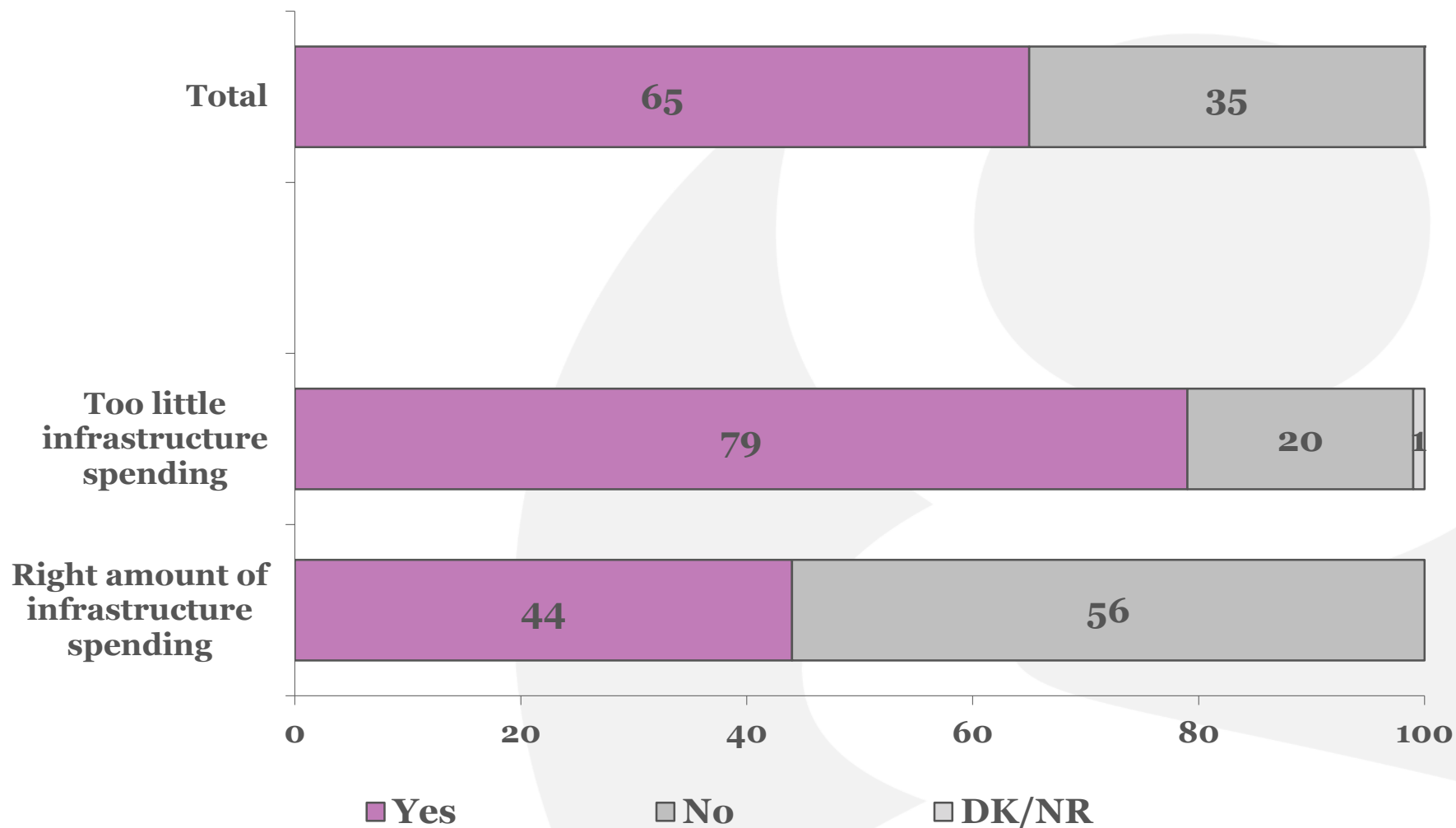




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Support For Deficits To Fund Infrastructure

“Would you support short term government deficits to fund the capital investments in such infrastructure?” (n=153)



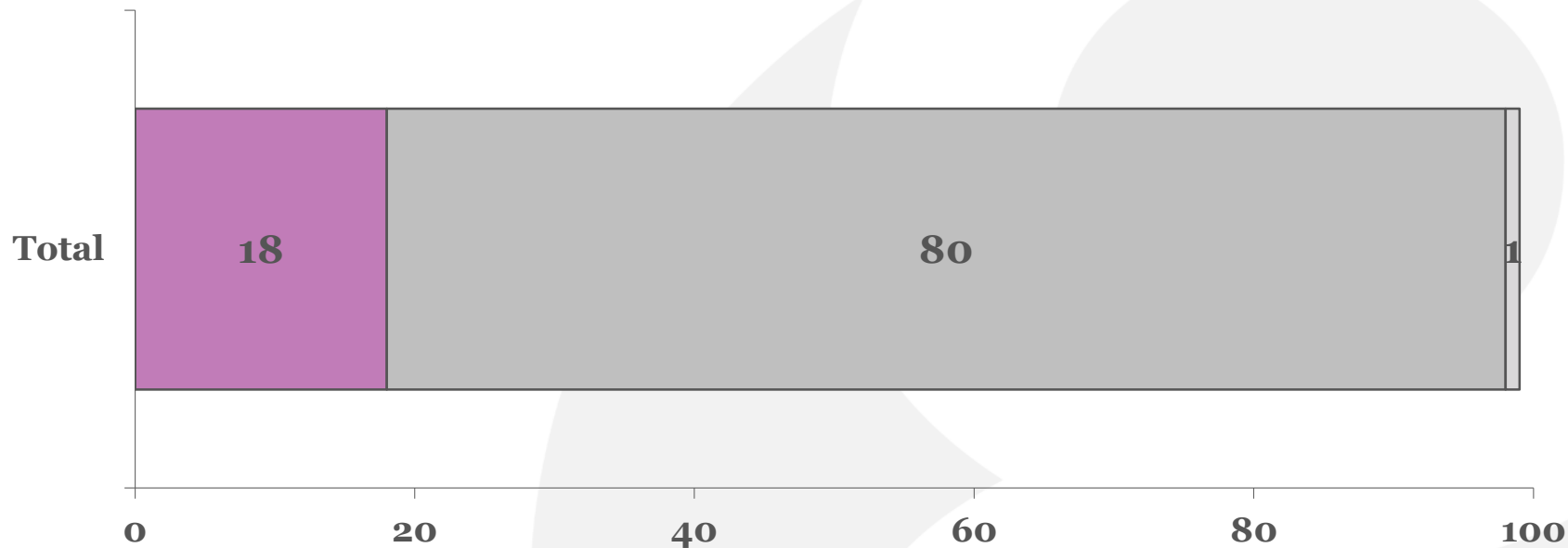


- ❑ The Canadian C-Suite faces a conundrum of sorts. A strong majority agreed that Canada's economy is too dependent on a few sectors.
 - Most agreed Canada's economic policy relies too much on Alberta's economy and its natural resources.
 - Those in the oil and gas were no less likely to say the economy was too dependent on a few sectors.
- ❑ Yet most also agreed the current mix of industrial sectors means Canada is well positioned for growth
 - The minority who believe the Canadian economy is in decline this year were less likely to agree.



Reliance on Industrial Sectors

“Which of the two statements is closest to your own opinion about Canada's economy? Would you say:” (n=153)



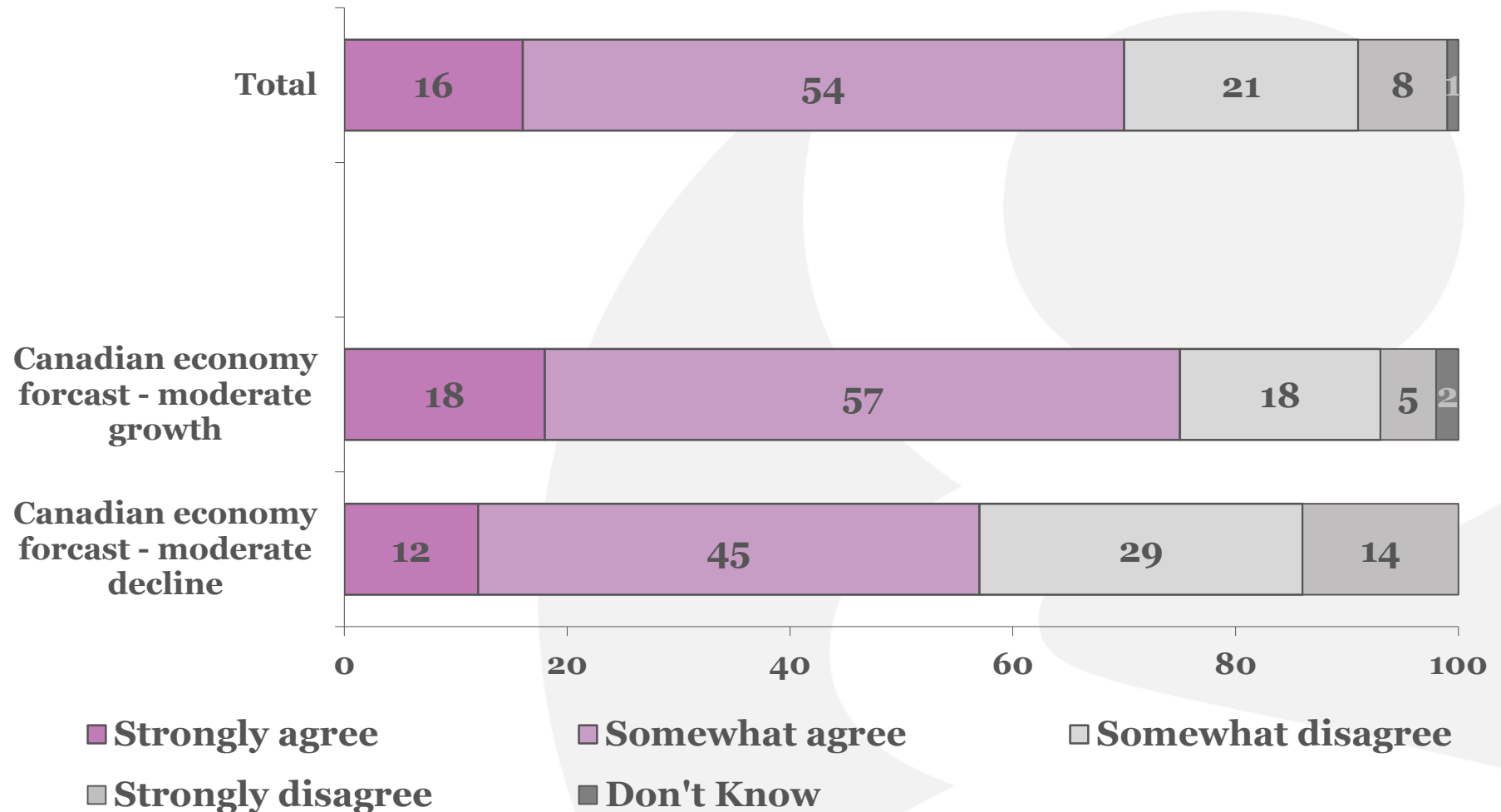
- Canada's economy currently relies on a good mix of industrial sectors
- Canada's economy is too dependent on a few industrial sectors
- DK/NR



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Most Agree Canadian Industry Well Positioned for Growth

“And would you agree or disagree with the following statement: The mix of industrial sectors that Canada's economy relies on are well positioned to grow in the next decade. Would that be strongly or somewhat agree/disagree?” (n=153)

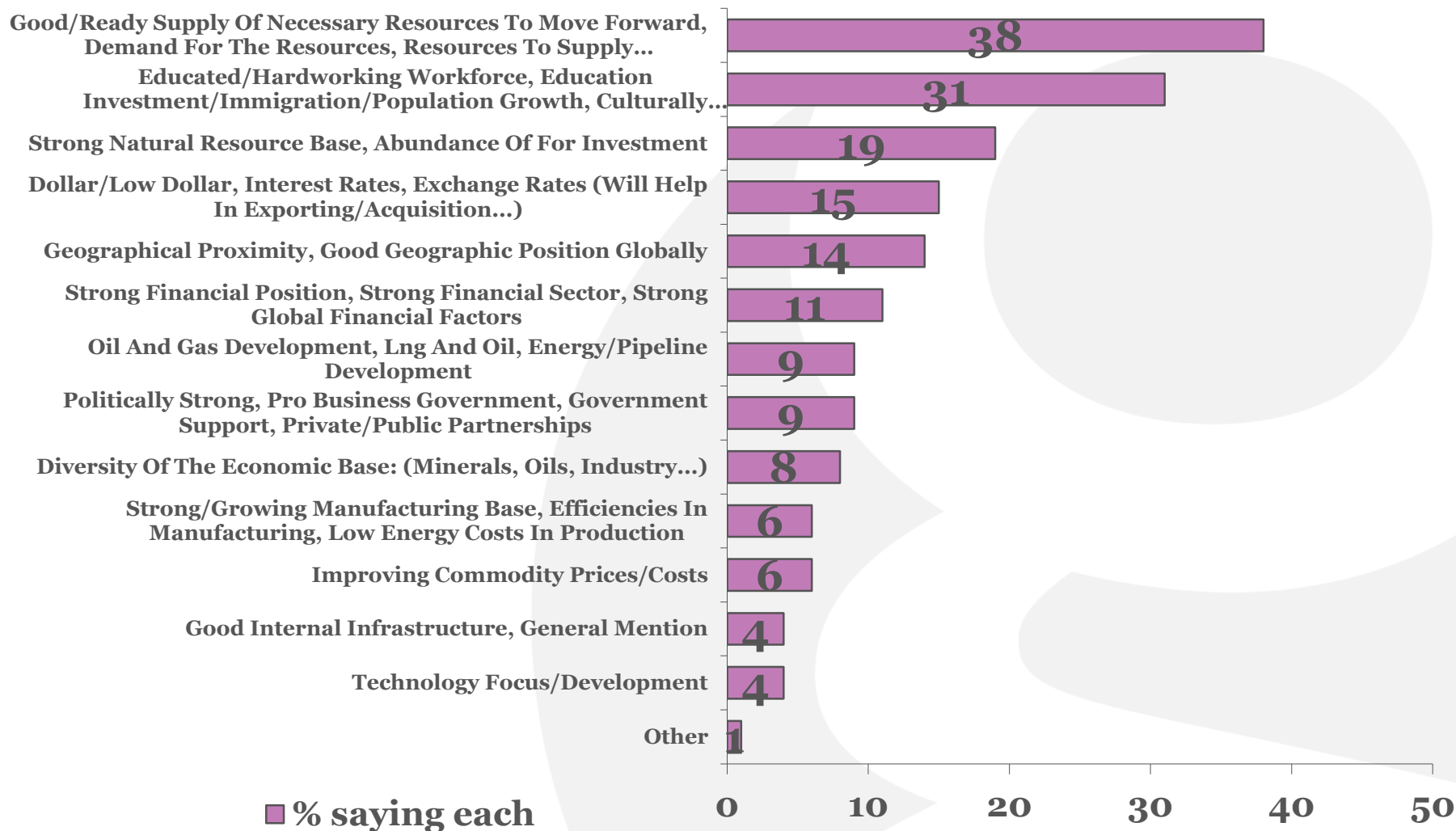




- ❑ Those who agree Canada is well positioned for growth see various advantages:
 - Above all, most in the C-Suite mention demand for Canada's natural resources as a key reason for this.
 - Three in ten mentioned the Canadian workforce. While others mentioned either our exchange rate or the strong state of Canada's finances and its financial sector.
 - Nearly half of Ontario executives said our educated and hardworking workforce is what makes our economy well positioned to grow. In contrast, half of Alberta executives credited our natural resources.



“What is it about the Canadian economy that makes it well positioned to grow in the next decade?” (n=106)



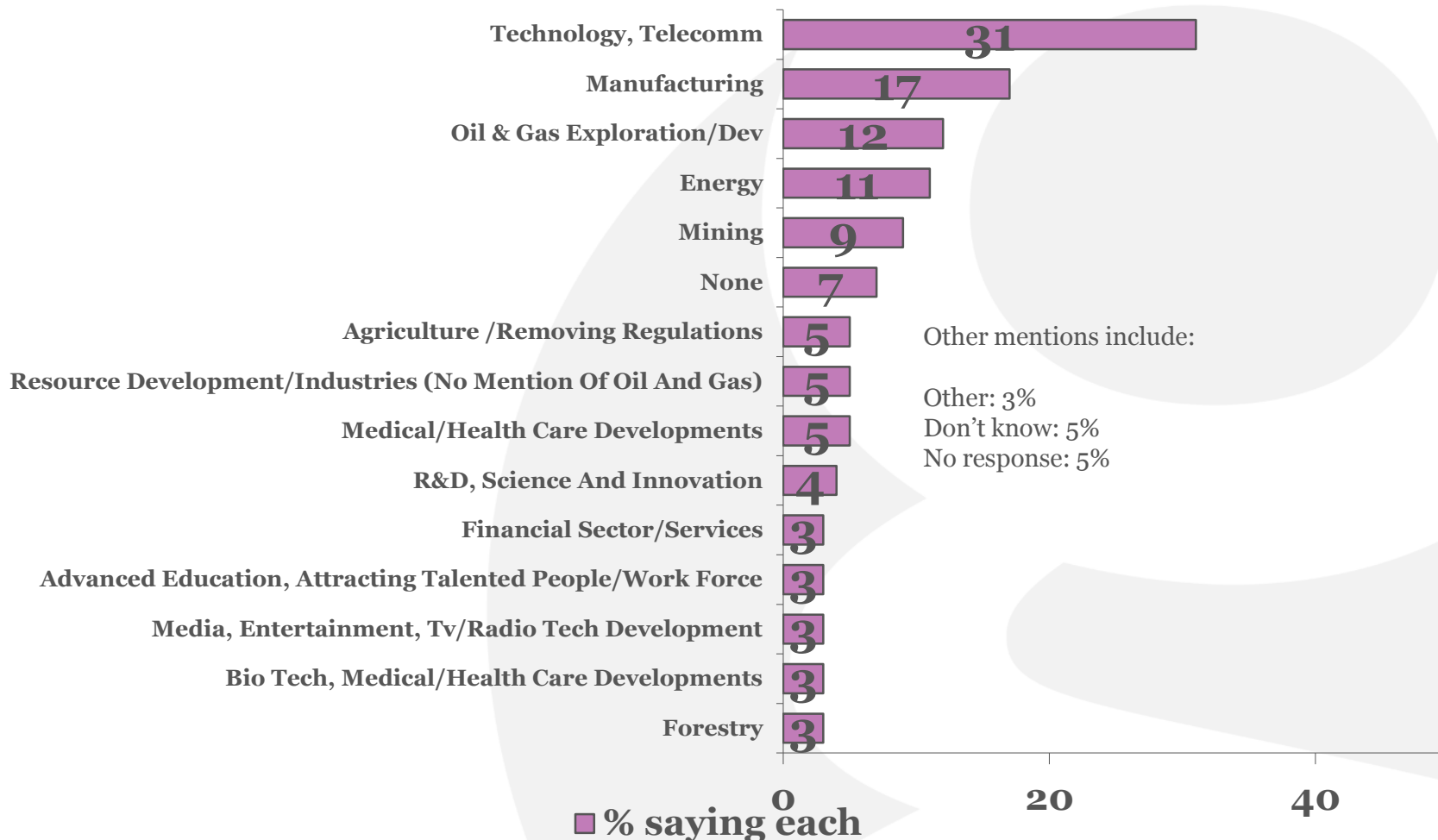


- ❑ Despite the existing advantages and long-term optimism, most are not complacent. A majority want to see some level of government support or assistance for sectors that could play an important part in Canada's economy in the future.
- ❑ Most support investments in clean energy technology, energy pipelines, computing/ICT, aerospace, pharma & biotech.
- ❑ There was less support for supporting automotive manufacturing and assembly, mining or oil refinery construction – the C-Suite is effectively divided on these with about half supporting support for these industries and many opposing such support.



Future Of Canadian Industry

“Which, if any, industries in Canada could play a very important part in our economy in the future, but needs more support from government to do so” (% saying each – open ended – n=153)





“Which, if any, industries in Canada could play a very important part in our economy in the future, but needs more support from government to do so” (% saying each – open ended – n=153)

No help from government:

- Opposed to government picking winners.
- I believe the private economy should do this, comfortable with government support for health and education

Manufacturing:

- Manufacturing in general needs more funds for training of people.
- automotive, heavy manufacturing of any sort
- manufacturing goods, good in the east and should spread out more across all the country

High tech, telco sector:

- Clean technology the segment contributes far more in export volume than is currently acknowledged by the fed govt. detailed data is avail thru analytical advisors to show Canada is falling behind
- software development, smaller businesses, micro start ups have potential for young people. Employment for young people is a challenge.

R&D, science and innovation:

- science and technology related ones, not necessarily blackberry type but one source of innovation is support for basic scientific research that isn't around much anymore

Agriculture, removing regulations:

- The whole dairy and food production/agriculture, processing sector. Freeing the market and making it more competitive, removing rules and protective measures, Water sector. Drinking water, water fresh from lakes.

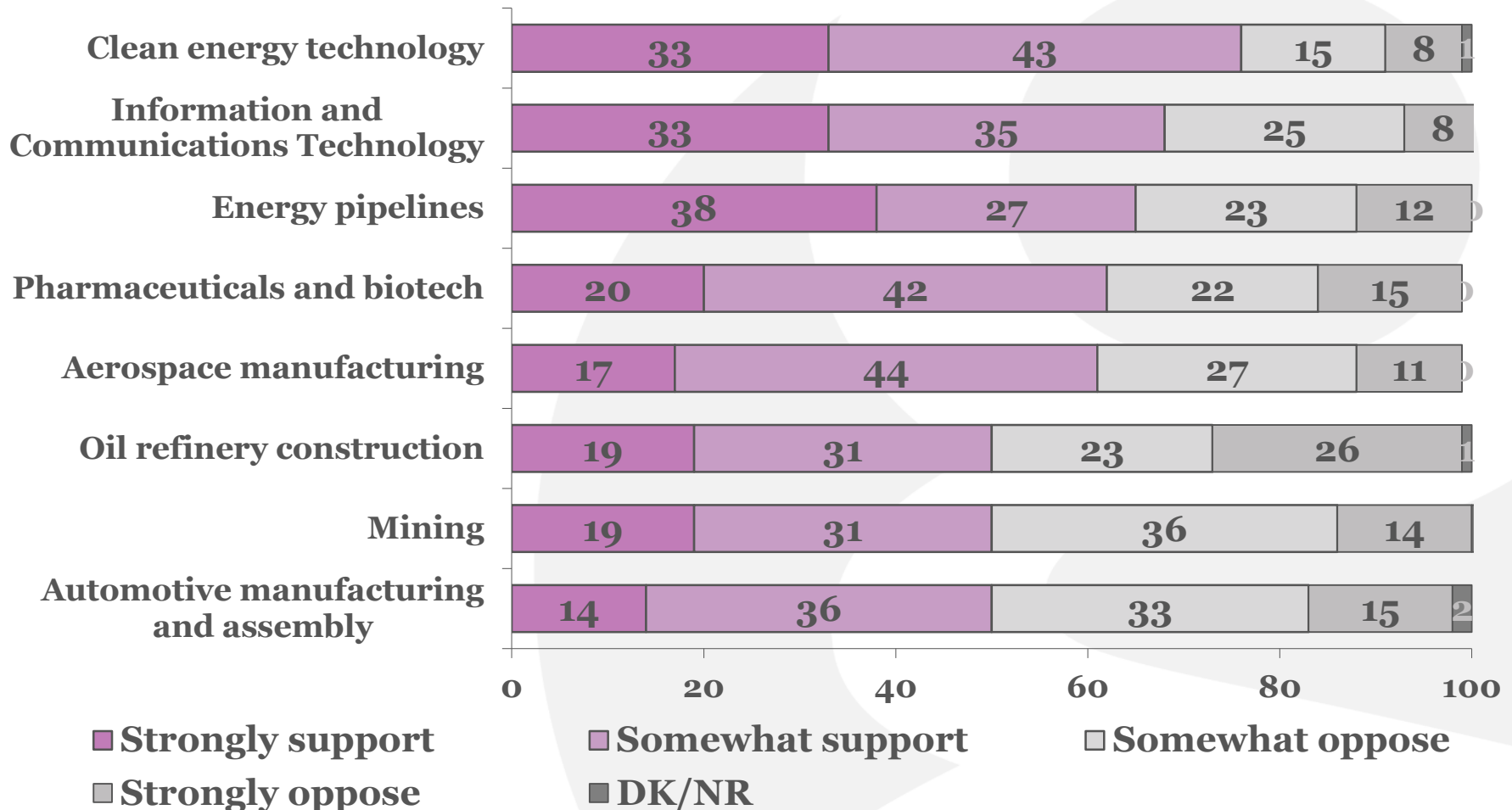
Miscellaneous:

- transportation industry specifically around the public transit infrastructure.



Support for Government Assistance

“Governments in Canada have recently announced subsidies, loans and repayable contributions to support various industrial sectors and projects. Generally speaking, would you strongly support, somewhat support, somewhat oppose or strongly oppose public financial assistance to each of the following Canadian industrial sectors or projects?” (n=153)



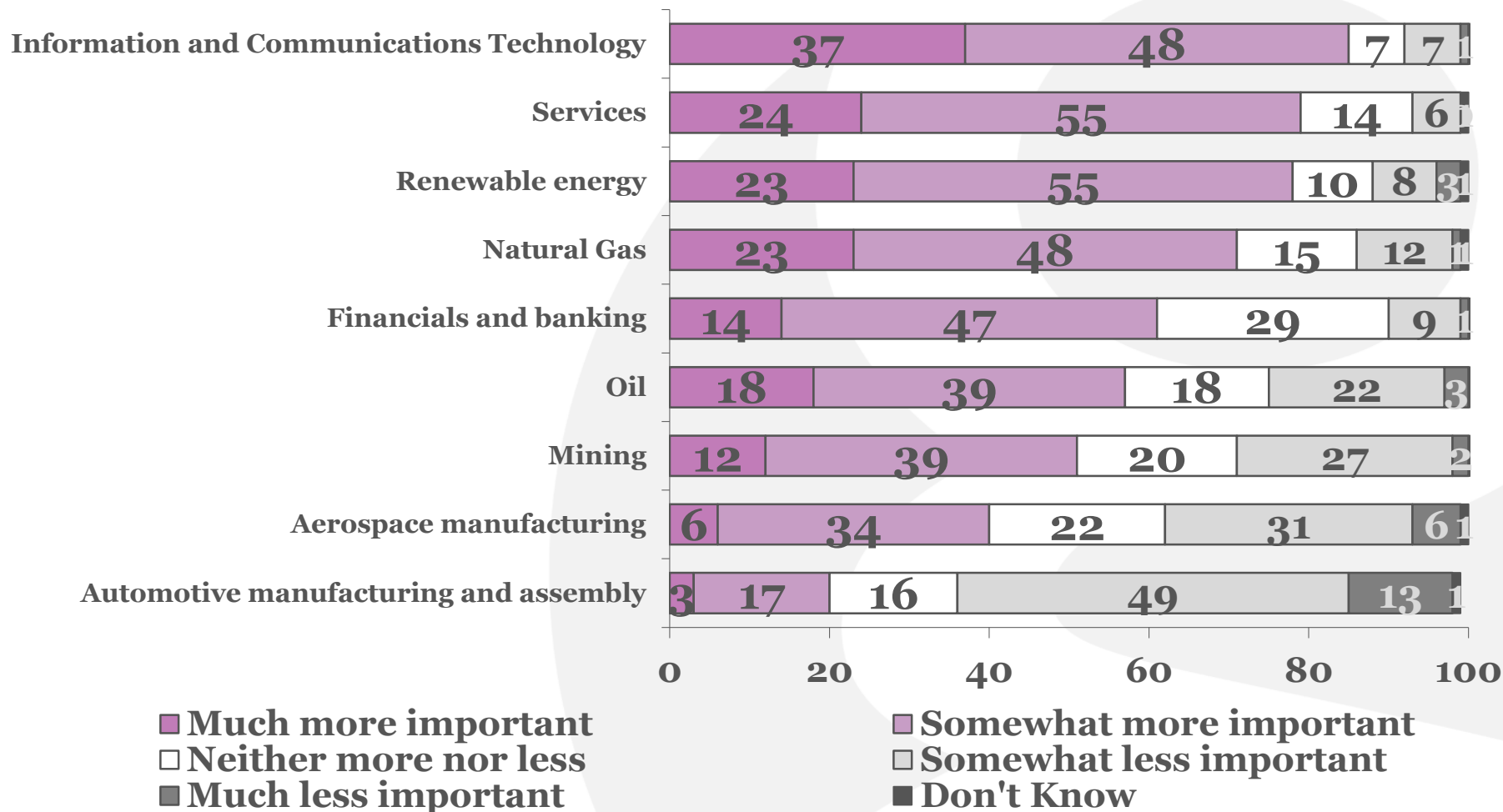


- ❑ The vast majority expects renewable energy, natural gas and the services sectors will be more important to Canada's economy in a decade.
 - Western (78%) and oil and gas (89%) executives are especially bullish about natural gas.
- ❑ Somewhat fewer expect oil, financials or mining to be more important than they are today (and to be sure, few believe they will be less important).
 - Oil and gas sector executives were confident that oil would be more important (77%), but banking sector executives were much less sure (40%).
- ❑ The increased importance of renewable energy and natural gas relative to oil suggests that the C-Suite expects changes in the energy sector in the future perhaps coming from climate change and carbon pricing.
- ❑ Finally, there is a broadly held view that the auto sector will be less important to Canada in a decade than it is today.



Importance of Industries in a Decade

“Ten years from now, do you think each of the following industries will be more or less important to Canada's economy than they are today?” (n=153)



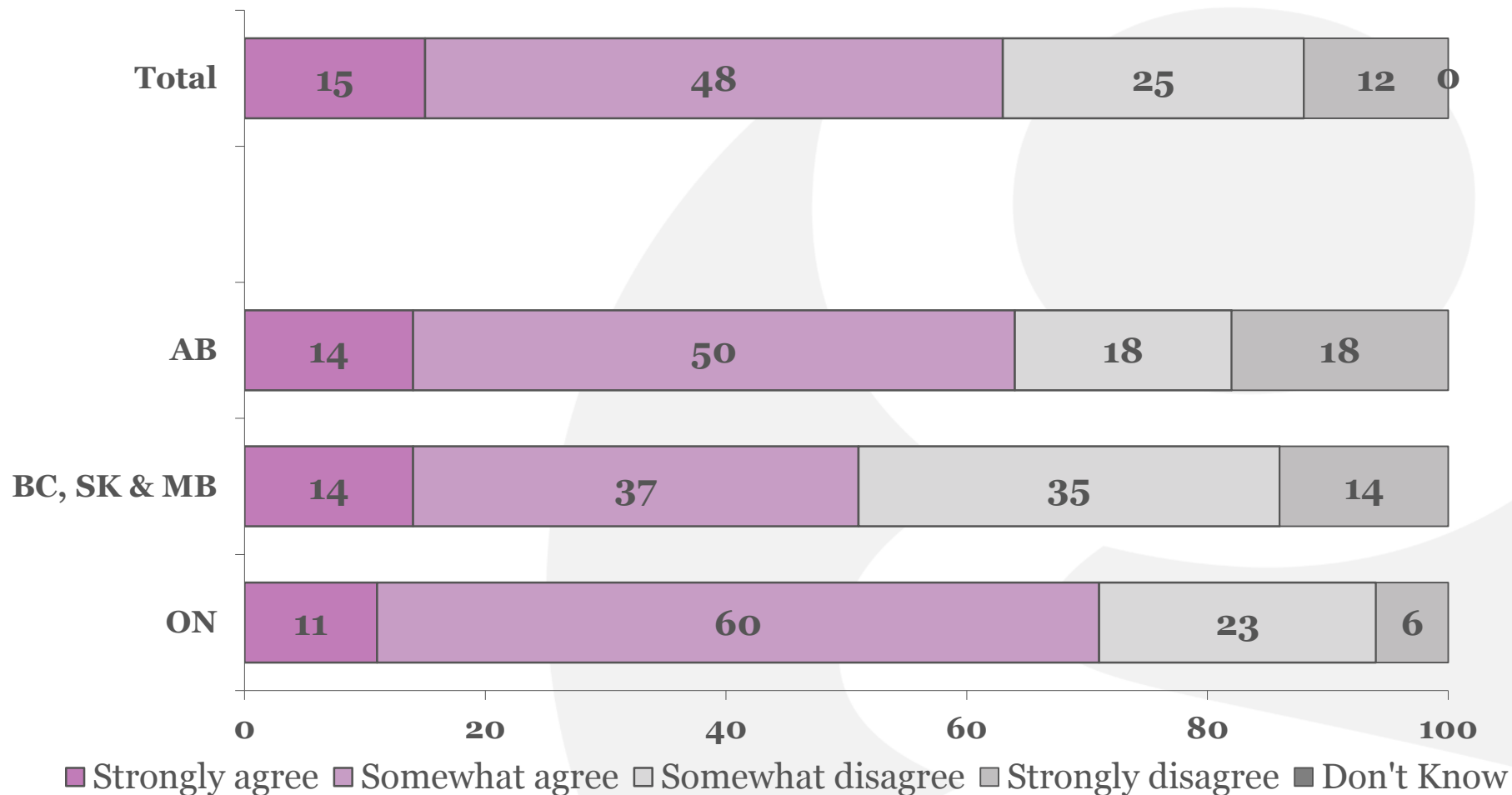


- ❑ Most of the C-Suite (63%) including about two thirds of Alberta executives agreed Canada's economy relies too much on Alberta's economy and natural resources.
- ❑ Albertan executives mostly disagree (61%) that assessments of Canada's economy and markets over-estimate the relative contribution of Alberta to the national economy. Executives from the rest of Canada and all other sectors however agree.



Overreliance on Alberta in Econ Policy

“Would you agree or disagree that Canada's economic policy relies too much on Alberta's economy and its natural resources?”
(n=153)

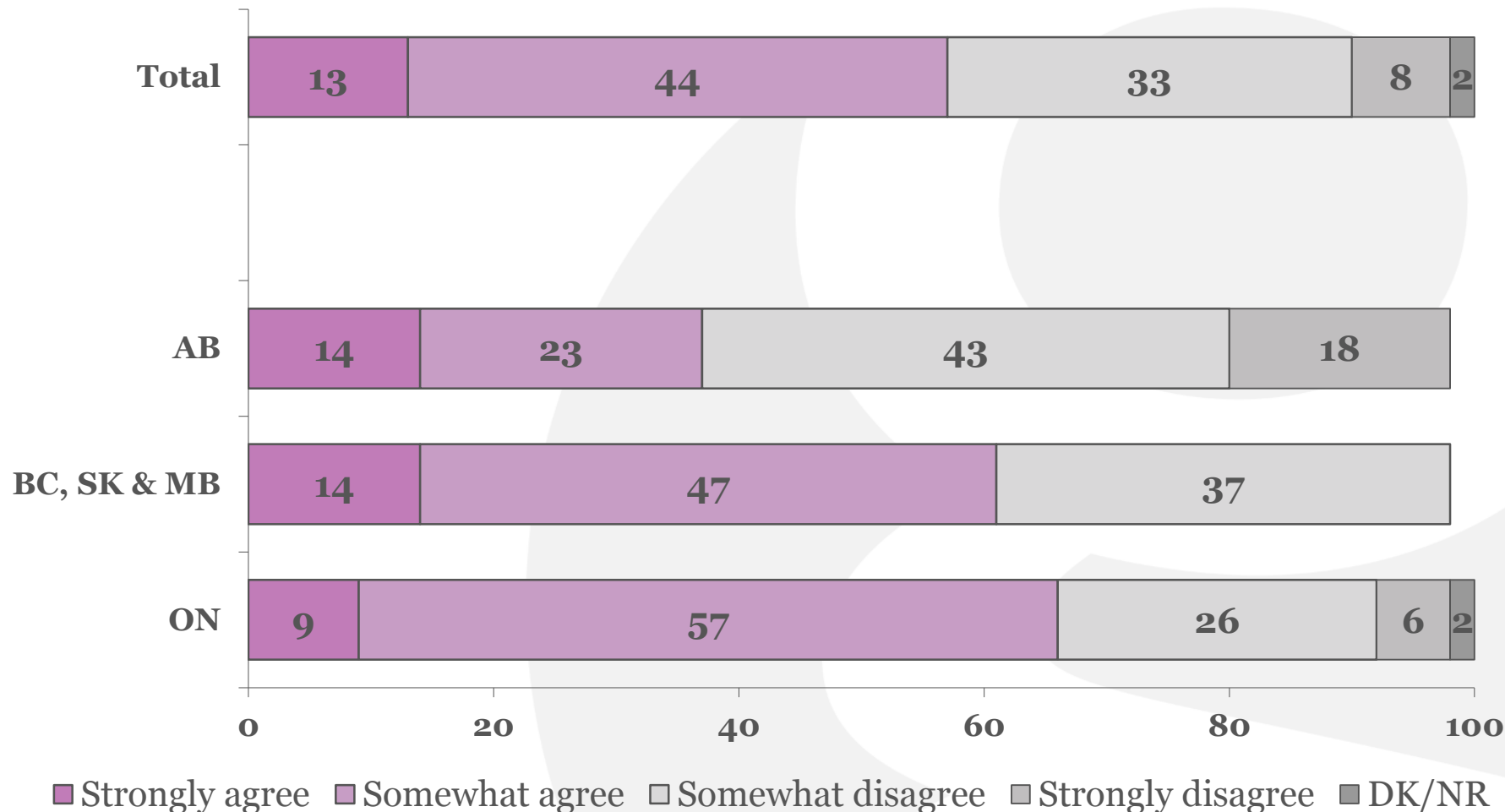




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Overestimating Alberta's Contributions to National Economy

"Would you agree or disagree that assessments of Canada's economy and markets over-estimate the relative contribution of Alberta to the national economy?" (n=153)

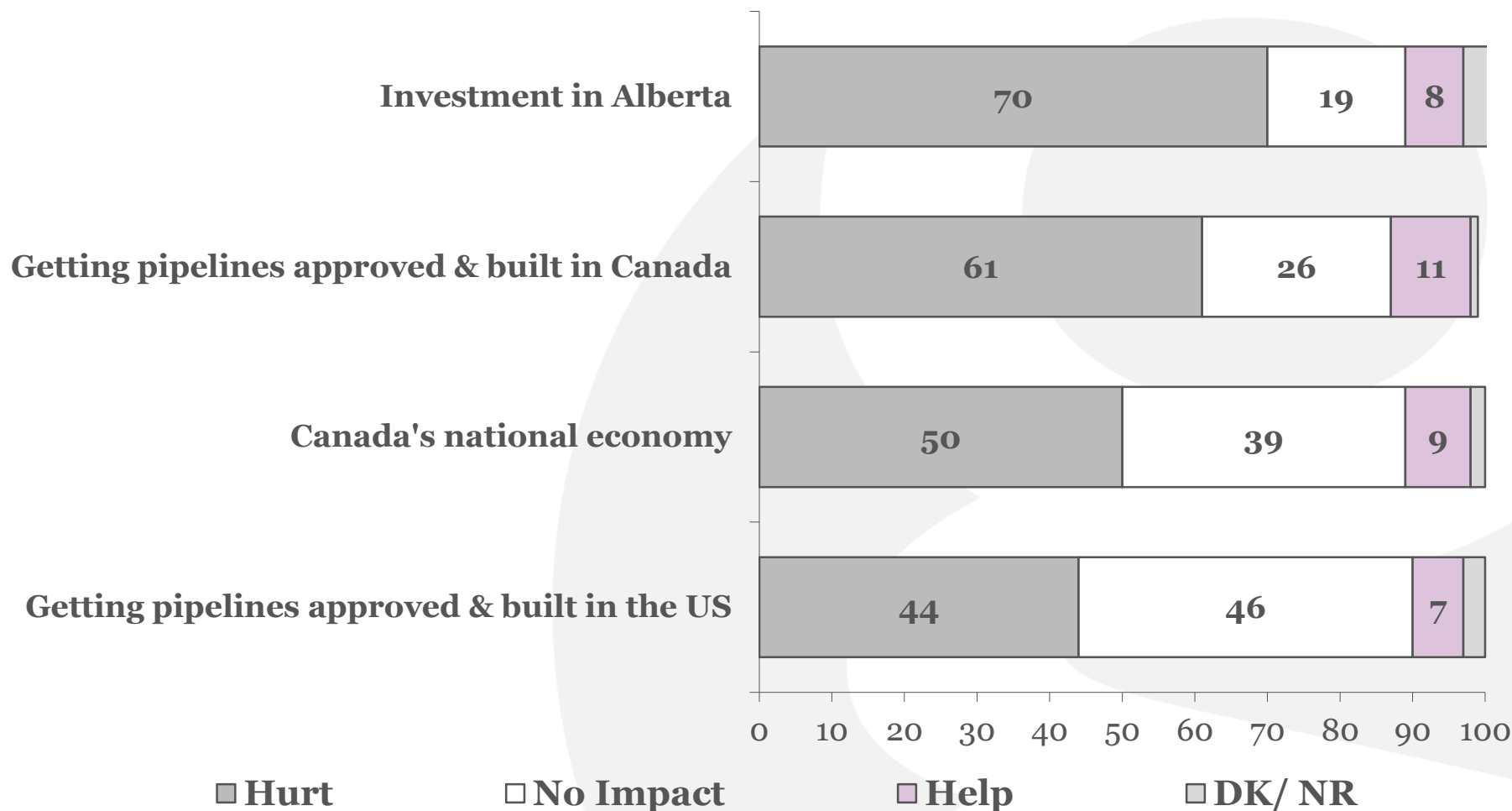




- ❑ Few in the C-Suite see upside in the election of an NDP government in Alberta. Only about one in ten think the new government's approach there could help with pipeline construction in Canada or the US. Seven in ten believe it will hurt investment in the province.
- ❑ The pessimism Albertan executives feel towards the prospects of the NDP government in Alberta are echoed by executives across the country: most say the NDP will make it more difficult to see approval of pipeline projects in Canada and the US.
- ❑ Albertan executives are especially convinced that the NDP government will hurt investment in Alberta (84%). Most (59%) also think they will hurt the national economy, oil and gas executives across Canada especially so (63%).



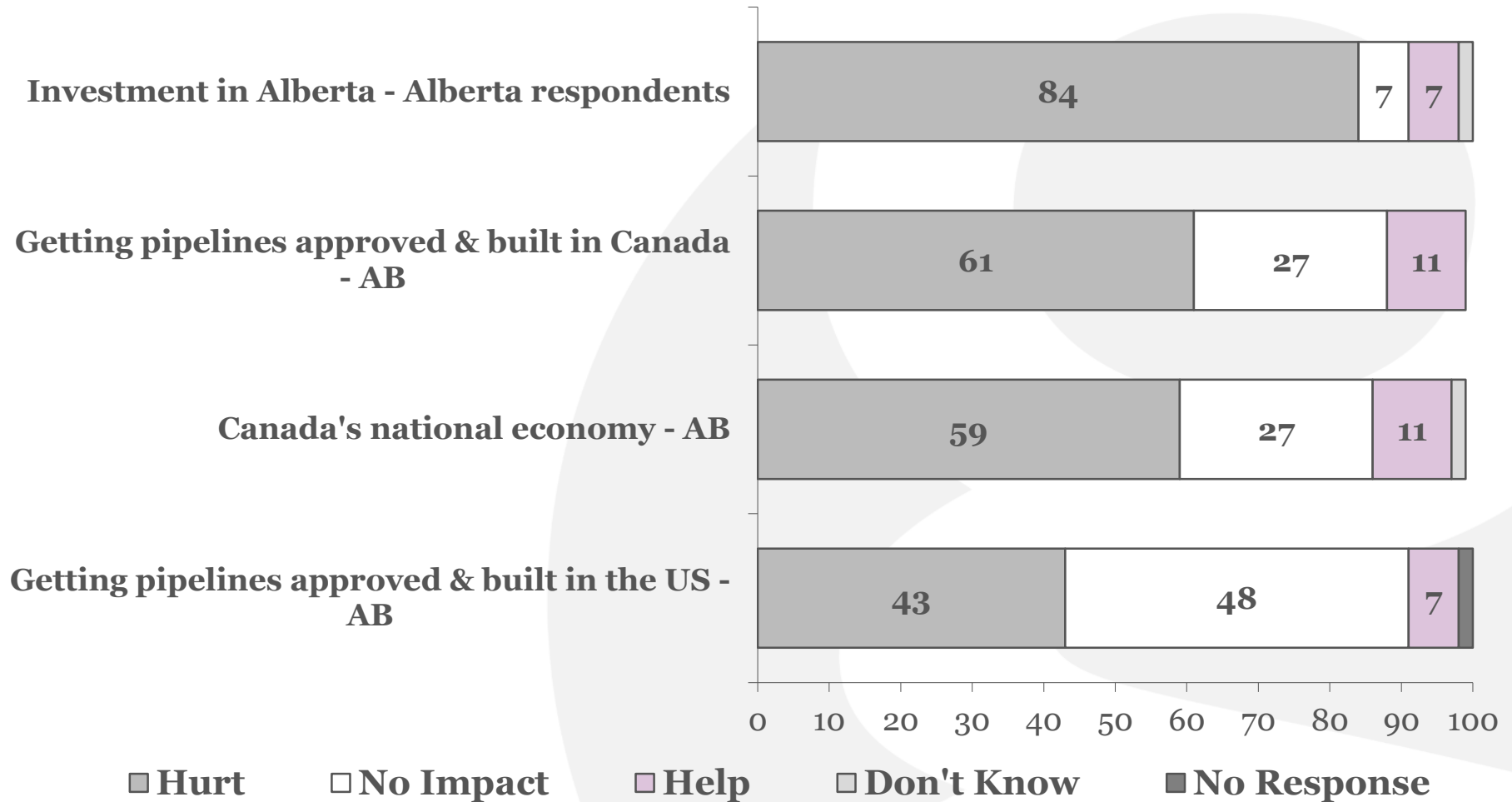
"I'm going to switch topics and ask now if you think that the election of a majority NDP government in Alberta will hurt or help each of the following things?"





NDP Government in Alberta – Alberta Only

“I’m going to switch topics and ask now if you think that the election of a majority NDP government in Alberta will hurt or help each of the following things?” (Alberta n=44)



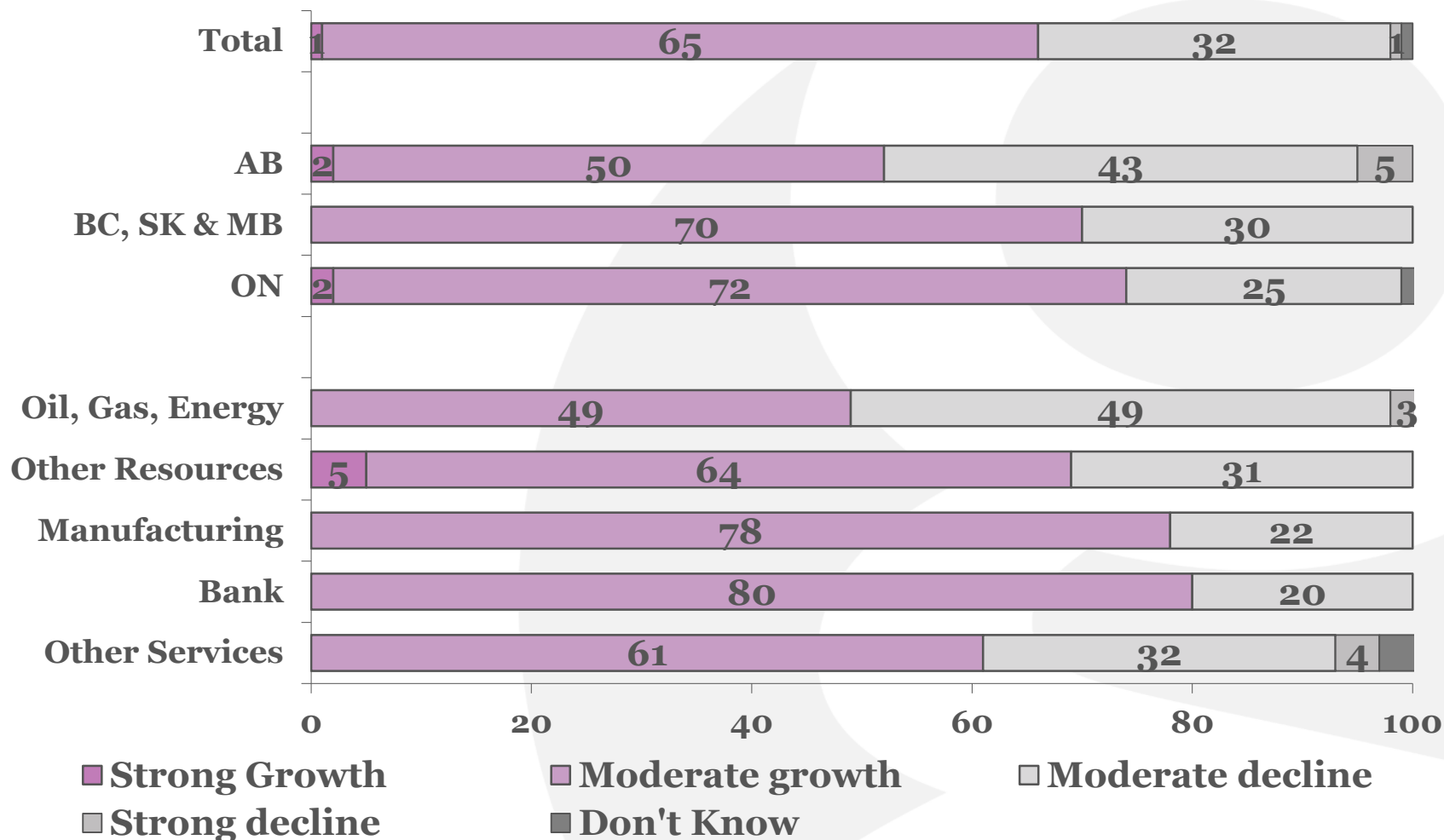


- ❑ The drop in confidence in the Canadian economy we saw in the first quarter of 2015 has halted. There has been a slight increase in fact in the proportion who expect the economy to grow over the next 12 months – 66% now forecast growth.
- ❑ The outlook among Alberta executives remains very pessimistic – only 13% expect growth over the next 12 months for the province's economy.
- ❑ In contrast, almost all expect the US economy to grow, although fewer are as bullish in predicting strong growth as compared to last quarter.



Expectations of the Canadian Economy

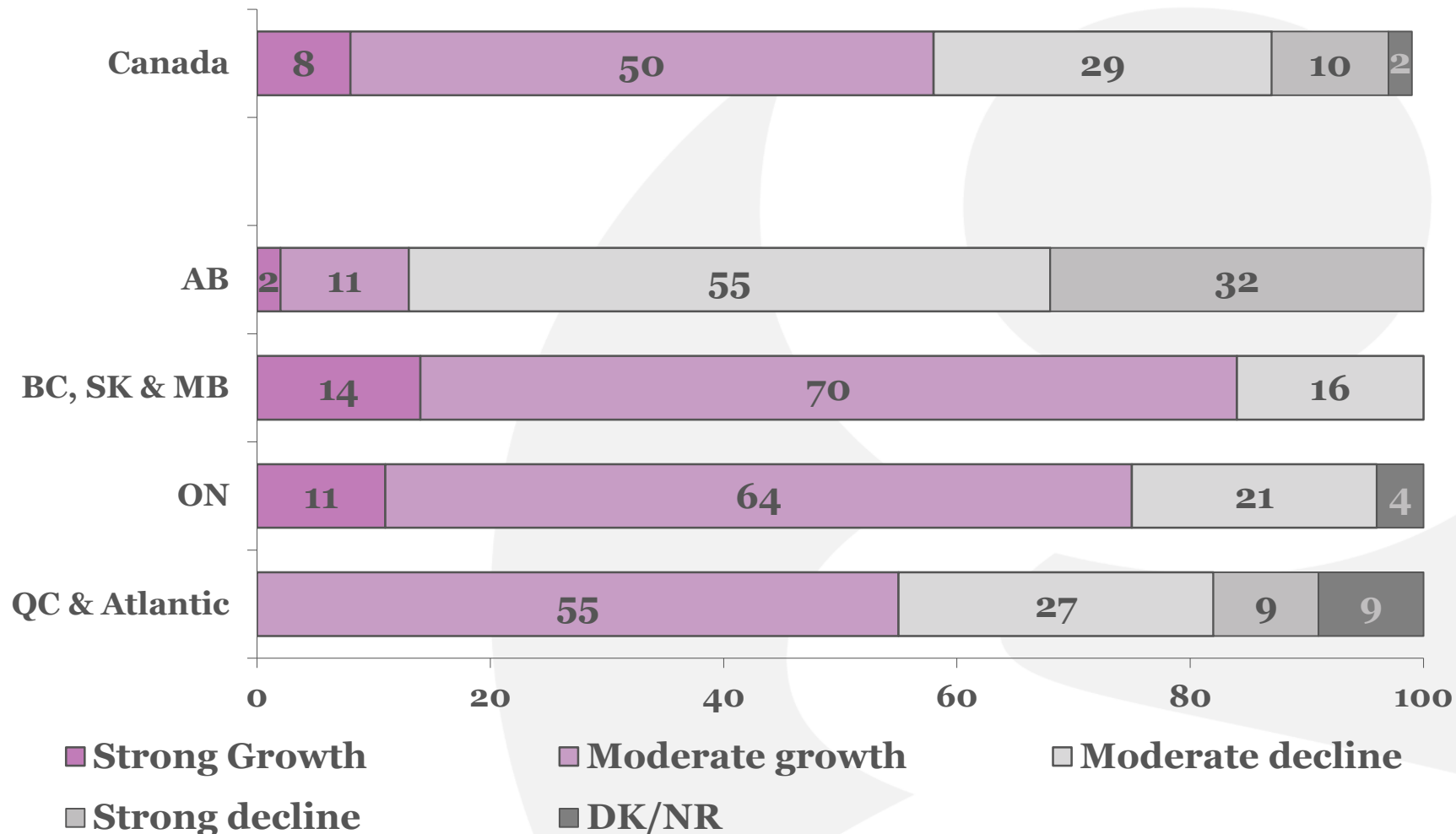
“What are your expectations for the **Canadian** economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)





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?” (% saying each)

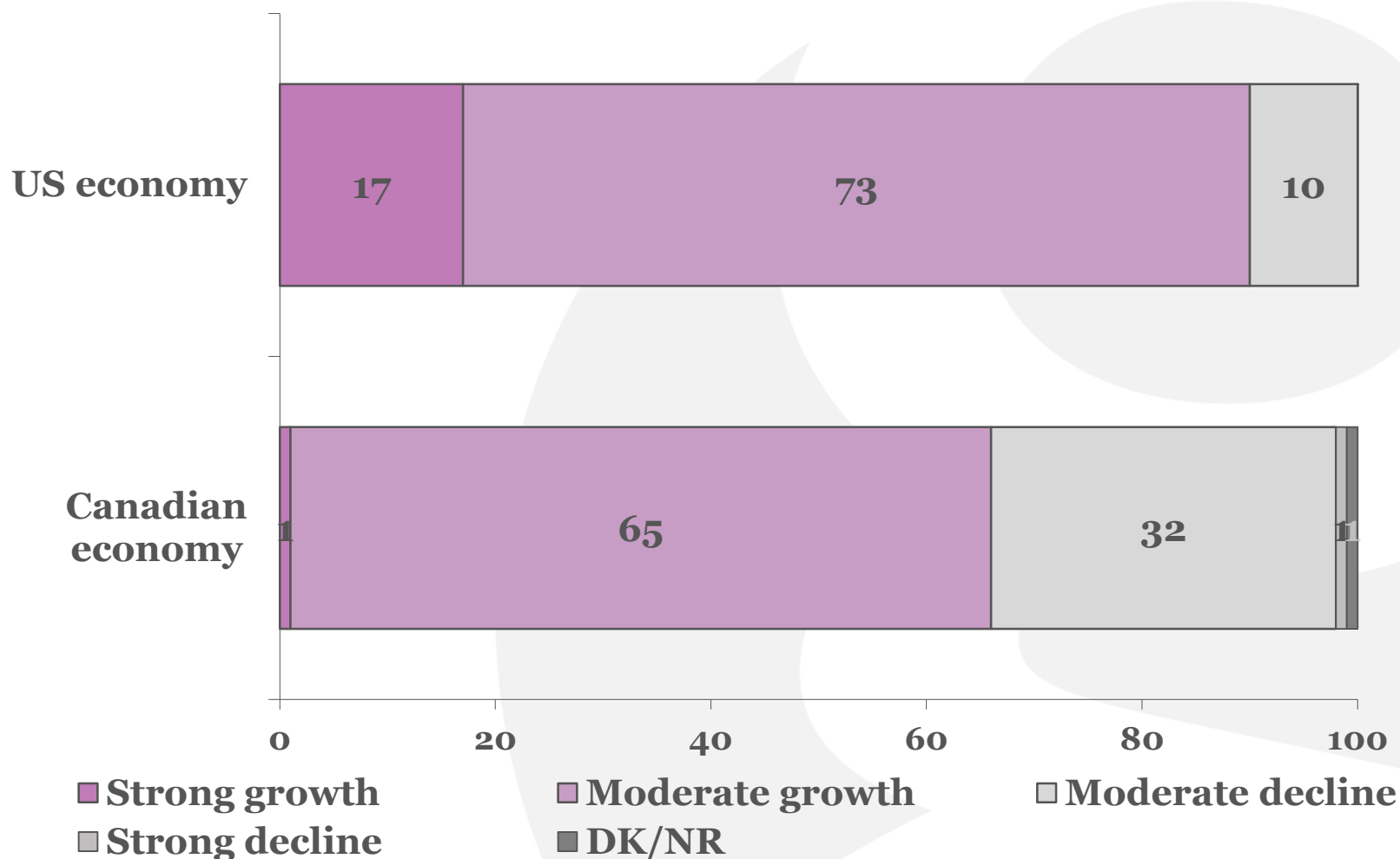




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Expectations of the Canadian and US Economies

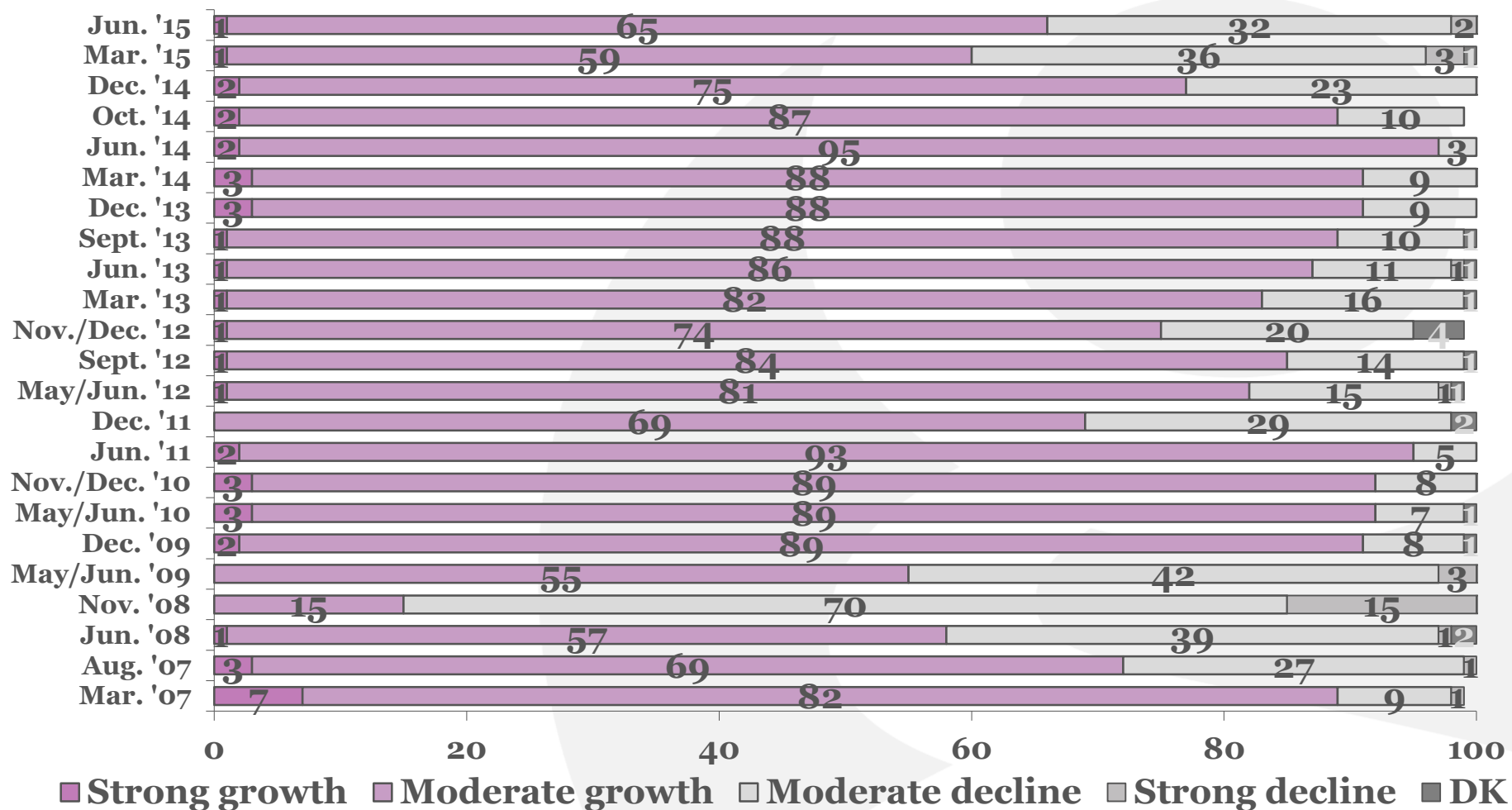
“What are your expectations for the **U.S. /Canadian** economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?” (% saying each)





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)

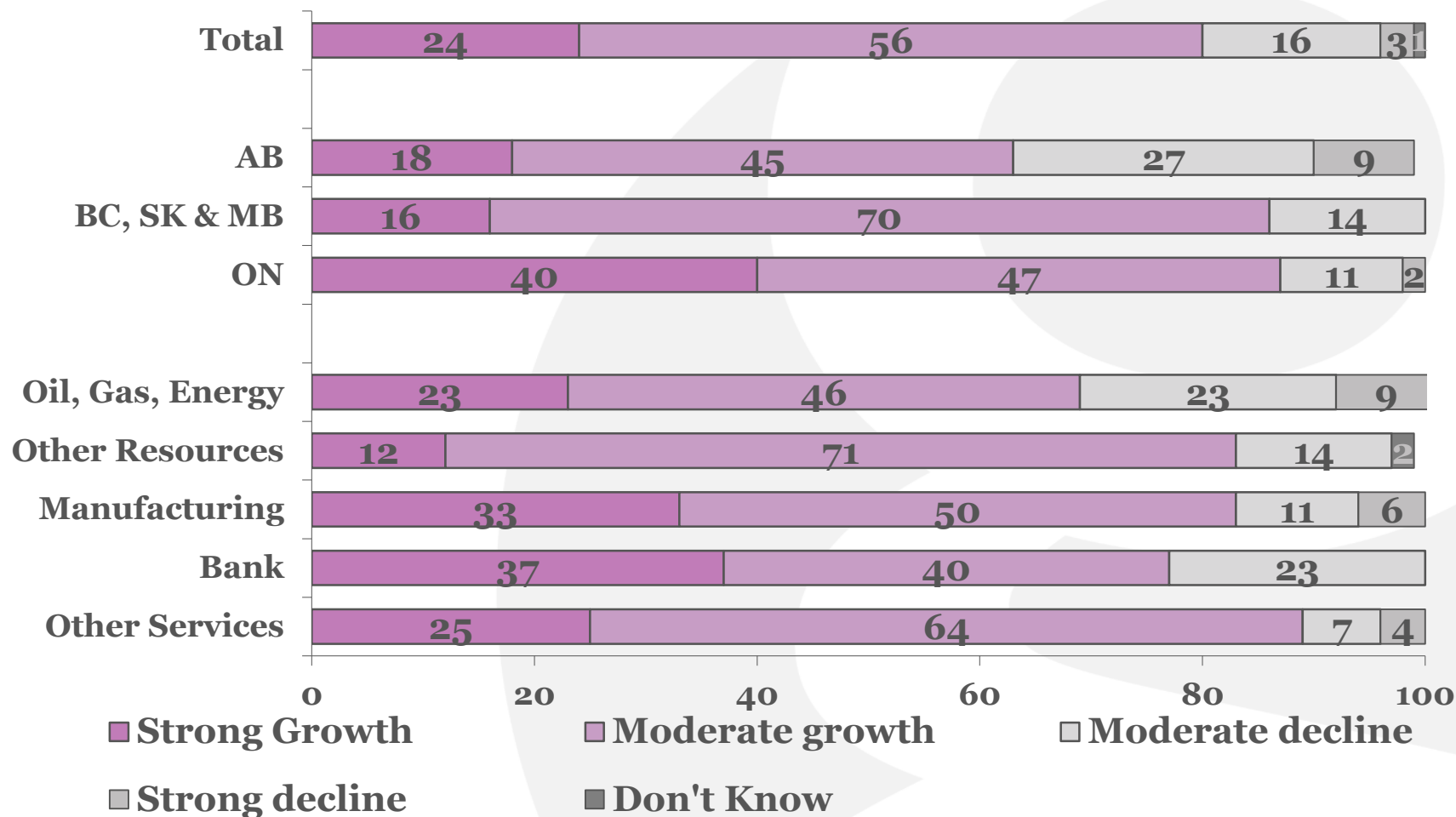




- ❑ Four in five C-Suite executives expect their company to grow over the next 12 months, stable with last quarter.
- ❑ The resources sector, and in particular the oil and gas sector continues to be the most pessimistic about their company's prospects.
- ❑ Relative to last quarter, more executives believe oil prices will settle at around \$60-69 a barrel.



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





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Few Expect Any Change In The Price of Oil By End of 2015

“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 be:...?” (n=153)

