

**Oil and the Economy**  
**BDO Dunwoody/Chamber Weekly CEO/Business Leader Poll**  
**by COMPAS in the *Financial Post***  
**for Publication August 23, 2004**



**COMPAS Inc.**  
**Public Opinion and Customer Research**  
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## **1.0. Introduction**

The business leader panel is best described as concerned but not panicked about the impact on the economy of surging oil prices. One reason for the absence of a strong reaction may be that business leaders see governments as having a range of effective economic instruments for encouraging consumers and industry to conserve or switch to other energy sources, for stimulating more exploration for oil in North America, and for bringing expensive sources of oil closer to market as a protection in the event of a Mid-East oil crisis. The panelists certainly see the Mid-East's turmoil potential as the biggest factor driving up oil prices while they see rising demand in China and India as relatively minor factors.

If asked for advice on investment strategies, the business leaders would recommend an emphasis on real estate but are not recommending that investors remain in cash.

These are the key findings from the Financial Post/COMPAS panel survey of business leaders, conducted under the sponsorship of BDO Dunwoody LLP and the Canadian Chamber of Commerce.

## **2.0. Perception of Surging Oil Prices Derailing Economy Remains Somewhat High But Is Not Rising**

The business leader panel remains as concerned as it was in May about harm to the economy resulting from surging oil prices, as shown in table 1. Given the dramatic rise in oil prices, one might wonder why the panel is not more concerned than it is. One possibility is that business leaders are alert to a wide range of instruments available to governments for discouraging too great a dependency on Middle East oil.

As shown in table 2, there is a very strong business leader sentiment that governments ought to be using tax and other instruments to:

- Get consumers and industry off oil and onto other energy sources
- Get consumers and industry off oil and into conservation



- Encourage oil industry efforts in exploration within North America
- Get Canada's more expensive sources of oil closer to being useable in case of an oil crisis.

Intriguingly, business leaders are not especially enthusiastic about having our governments invest much effort to help Russia and Mexico bring oil to market.

Respondents were relatively direct in calling for Canada to lower its depending on Mid-East oil and find alternative solutions. A sizeable protagonist group emerged for every solution. Some saw conservation as the ultimate protection against Mid-East turmoil. As one put it, "Conservation is the best defence."

Not all business leaders are equally enthusiastic about governments' using economic levers to guide the oil industry. One respondent but his concerns this way:

Using taxes to curb oil consumption, promote exploration or to enhance security of supply is a short term ill-advised solution. Governments are consumed with 'playing politics' with tax revenues and are notoriously inefficient even when spending tax dollars on supposed noble causes. The money needs to be left in the hands of the private sector. Even government tax incentives for fuel conservation often lead to misguided efforts and create incentives to 'work the system' rather than focus on effective long lasting solutions.

Another respondent expressed the following reservation: "Using tax policy will just increase the price to industry and the consumer and will only bring about what a free market will do anyway. As supplies really dwindle and supply becomes more volatile, prices will increase to wring the last drop from the ground no matter where it is in the world. When supplies are truly low, alternate energy will be the better buy and come into its own."

*Table 1: (Q1) Some economists have been concerned that surging oil prices will impact on consumer spending, derailing the economy. On a 7-point scale where 7 means that the economy will be derailed and 1, the opposite, what is your estimate of the oil impact on the economy?*

	Mean	7	6	5	4	3	2	1	DNK
August 2004	4.5	4	17	35	18	19	4	2	1
May 2004	4.5	8	12	34	24	16	6	1	1



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	Mean	7	6	5	4	3	2	1	DNK
April 2004	4.3	3	15	30	25	15	9	1	3
April 2002	4.1	2	12	30	21	18	10	4	4

*Table 2: (Q2) The following are some opinions about what North America should be doing to protect its economy from potential oil shocks. Please use a 7-point scale where 7 means agree completely and 1, the opposite to indicate how you feel about each opinion. Canada and the U.S. should... [ROTATE]*

	Mean	7	6	5	4	3	2	1	DNK
...should use tax and other instruments to get consumers and industry off oil and onto other energy sources									
August 2004	5.2	28	23	21	9	7	5	6	1
April 2004	4.8	24	17	20	12	6	11	7	3
April 2002	4.6	20	15	19	15	8	6	11	6
...should use tax and other instruments to get consumers and industry to accelerate conservation									
August 2004	5.1	27	19	24	13	6	5	5	1
April 2004	4.9	20	22	18	17	10	6	4	3
April 2002	4.5	15	19	25	10	8	9	10	5
...should use tax and other instruments to encourage energy exploration on the continent									
August 2004	5.0	23	20	23	13	11	5	4	1
April 2004	4.9	17	22	22	19	9	4	4	3
April 2002	4.5	17	12	22	20	7	9	8	5



	Mean	7	6	5	4	3	2	1	DNK
...should use tax and other instruments to reduce dependency on oil imports from unstable parts of the world									
August 2004	4.7	16	21	23	15	4	11	8	2
April 2004	4.9	22	16	22	14	11	7	4	4
April 2002	4.5	15	20	17	14	9	9	9	7
...should use tax and other instruments to ready some of the more expensive Canadian oil sources so that they can be available in a crisis									
August 2004	4.6	13	14	29	20	8	8	5	4
April 2004	4.7	15	17	28	16	7	7	6	3
April 2002	4.2	11	11	20	23	12	9	10	5
... should be doing whatever they can to assist Russia and Mexico to get more oil on stream									
August 2004	4.0	9	11	17	23	14	16	7	4
April 2004	4.1	9	11	21	22	18	11	6	3
April 2002	4.3	10	16	21	17	10	11	9	5

### **3.0. Fear of Middle East Turmoil the Biggest Driver of Oil Prices, Oil Industry Under-Investment the Smallest Driver**

Fear of Mid-East turmoil is seen as the biggest factor driving up prices, as shown in table 3. As one respondent put it directly and simply, "We need to be independent of the Middle East." Instability in Russia, Iraq, and Venezuela are also seen as major factors. The much discussed increase in demand in China and India is seen as a less of a



factor, followed in last place by under-investment of the oil companies in shipment and refining capacity.

*Table 3: (Q3) On 7 point scale where 7 means a major factor and 1, the opposite, please estimate the importance of each of the following in driving up oil prices. [RANDOMIZE]*

	Mean	7	6	5	4	3	2	1	DNK
Fear of violence or turmoil in the Middle East	5.8	30	31	26	10	1	0	0	1
Instability in Russia, Iraq, and Venezuela	5.5	22	28	32	11	6	0	0	3
Jump in demand in China and elsewhere	5.4	23	24	28	18	2	1	1	4
Oil companies' insufficient investment in shipment and refining capacity	4.0	4	8	23	19	20	12	3	11

## 4.0. Buy Real Estate

Business leaders were asked how they would advise a young person on how to invest an inheritance. The panel remains sufficiently bullish about the economy to discourage the hypothetical new investor from staying in cash. On the other hand, respondents are sufficiently concerned about the stock market that they prioritize real estate over shares in public companies, as shown in table 4.



Table 4: (Q4) If a young person came to you for advice on where he/she should place substantial inherited assets, would you recommend... [RANDOMIZE]

	Yes	No	DNK
Buying real estate	91	6	3
Entering the stock market	54	41	6
Staying in cash	35	59	6

## 5.0. Methodology

The *National Post*/COMPAS web-survey of CEOs and leaders of small, medium, and large corporations and among executives of the local and national Chambers of Commerce was conducted August 17-19, 2004. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 160 are deemed accurate to within approximately 7.8 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D. and Tamara Gottlieb.

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