

**Serious Risk of Dutch Disease—
Falling Traditional Exports, Rising Inflation,
Intensified Ottawa-Edmonton Conflict;
Governor Dodge Far Too Optimistic, Ottawa Gets Bad Grades**

**BDO Dunwoody/Chamber Weekly CEO/Business Leader Poll
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1.0. Introduction

The COMPAS/*FP* business panel fears that Canada may well be catching the “Dutch disease” –rising exchange rates and a decline in traditional exports as a result of a jump in the price of a commodity, in this case oil. They are concerned that Ottawa is not taking the problem seriously and give the federal government a very poor grade for its handling of the situation.

The CEOs and business leaders in the COMPAS/*FP* panel agree with only a portion of Bank of Canada Governor David Dodge’s analysis of the situation. They agree that the economy is apt to face inflation of 3% but do not agree with Dodge that high commodity prices will benefit every region or that the manufacturing sector is adjusting well.

Decided majorities fear that

- Conflict between Ottawa and Edmonton will be exacerbated
- Canada’s large export sector will be seriously harmed by the rising loonie, and
- Our large government sector will grow further as a result of windfall energy tax revenues.

Overwhelming majorities favour slashing taxes on the manufacturing sector and oppose taxing heavily the oil and gas sector for purposes of regional income redistribution.

The business panel is polarized over whether the solution to Edmonton-Ottawa discord is “a well-led, Alberta-based Conservative...government in Ottawa.”

These are the main findings from this past week’s web-survey of CEOs and business leaders conducted by COMPAS for the *Financial Post* under sponsorship of BDO Dunwoody LLP and the Canadian Chamber of Commerce.

2.0. “Dutch Disease” on Its Way—Martin Government Performing Badly

The business panel believes that the Dutch Disease is on its way, as shown in table 2A. A majority (57%) thinks that we’ve begun to catch the disease while 24% are not sure; only 19% are inclined to believe that we are not catching it. Among panellists with staunch views, those who believe that we already have it outnumber 12:1 those who think we will never get it.



Table 2A: (Q1) Economists have begun to suggest that Canada is showing signs of catching the "Dutch disease", when a country experiences sudden wealth from a jump in the price of a commodity such as oil, making its currency more expensive and traditional exports more difficult to sell. Please indicate Canada's likelihood of catching the Dutch disease on a 7 point scale where means that Canada has already begun to catch it and 1, we will never get it.

Mean	7	6	5	4	3	2	1	DNK
4.7	12	11	34	24	15	3	1	1

Table 2B: (Q5) On a 100 point school report-type scale please rate the federal government for its performance in leading public discussion of the potential Dutch disease scenarios for the economy.

Mean	DNK
31	1

The Martin government earns one of its lowest performance scores ever for failing to lead public discussion on the subject, as shown in table 2B. Respondents offered the following thoughts about the growing Dutch Disease, its restructuring impacts, and the failures of the federal government:

We are a manufacturer located in Calgary. We are already feeling the investment and human resource squeeze and "You ain't seen nothin' yet!"

The oil situation...will tip Canada back to a resource based economy, limited to a narrow sector and location. The effects will devastate small business and labour intensive manufacturing, which is the major source of jobs... We just landed a large order from China, because we are the best at what we do. We are now fighting European suppliers in U.S. markets, but machined parts made in Canada push our prices to new highs, with the ever rising Loonie, up 28% in 2.5 years. We may have to outsource parts manufacturing to China or Taiwan or Korea to survive.

If there is a drop in these commodity prices we are left vulnerable as we are then reliant on a few industries to carry us forward. A little more thought should be developed in how we will fare in the future as a result of this.

The federal government has not even tried to have this discussion of the potential for "Dutch Disease". Instead they have sought to further



alienate and infuriate Alberta and Albertans with empty rhetoric about the negative effects of Alberta's growing wealth and political prominence.

The Government really has not set policy, they have merely reacted. They have not been proactive.

I believe the general Canadian public is not aware of the major issues facing it with respect to the fundamental changes taking place in our economy.

3.0. Dodge Too Optimistic

The business panel is deeply worried about the manifold repercussions of the Dutch Disease and finds the Bank of Canada Governor's observations unduly sanguine. The only view of his that earns majority support is his prediction of 3% inflation, as shown in table 3A. Respondents do not agree with the Governor that high commodity prices benefit all the regions of the country or that the manufacturing sector is adjusting well to the high dollar and high energy costs.

Table 3A: (Q2) Bank of Canada Governor David Dodge has expressed some opinions about Canada's situation. To what extent do you agree with each of the following positions using a 7 point scale where 7 means strongly agree and 1, the opposite. [RANDOMIZE]

	Mean	7	6	5	4	3	2	1	DNK
Canadians should be prepared to see the inflation rate increase above 3 per cent in the near future	5.1	15	33	19	15	10	3	2	4
Canada will benefit in terms of a better balance of payments and a better standard of living	4.5	7	18	24	27 w	12	7	3	2
High commodity prices benefit every region of the country because every region exports commodities	3.9	7	12	19	19	19	17	7	2
The manufacturing sector is adjusting well to the high dollar and high energy costs	3.7	2	7	27	15	25	12	10	3



Table 3B: (Q3) Using the 7 point scale, please tell me to what extent you agree (7) or don't agree (1) with the following views: [RANDOMIZE]

	Mean	7	6	5	4	3	2	1	DNK
Conflict between federal and Alberta governments will worsen as a result of war over control of the oil and gas sector and its tax base	5.4	27	27	24	7	9	2	2	0
Canada's huge export sector will be seriously harmed by a dollar that is likely to continue to rise	5.2	20	20	28	21	7	3	0	0
Canada's large government sector will inevitably grow as a result of a windfall in revenues, crowding out the productive private sector	5.0	23	23	15	14	17	4	3	1
Calgary, which already has more FP500 corporate head offices per capita than any other Canadian city, will expand more rapidly than other Canadian cities, worsening inter-city and inter-provincial rivalry	5.0	13	31	24	15	10	7	0	2
A rapid rise of the oil and gas sector will spur inflation, worsening relations between older "have" generations and younger "have-nots."	4.5	11	15	30	17	14	6	7	2
Manufacturing and technology sectors will tend to be starved of capital, which will funnel into oil and gas, government, and real estate instead	4.4	11	11	30	16	23	5	3	1

Majorities worry about increased conflict between federal and Alberta governments, that exporters will be seriously harmed by a rising loonie, that our large government sector grow, and that Canada will experience greater inflation and worsening relations



between have and have-not generations, as shown in table 3B. Panellists also believe that Calgary will outperform other cities even more than it does now.

4.0. Cut Manufacturing Taxes, Don't Tax Heavily Oil and Gas— Panel Polarized re an Alberta-Led Conservative Government

The panel is largely of one mind on taxes—slash taxes on manufacturers and do not greatly increase taxes on oil and gas, not even for regional redistribution projects, as shown in table 4. As one CEO put it, “this country does not need the regions pitted against each other. Another NEP [National Energy Program] is the LAST thing anyone needs!”

Table 4: (Q4) Assuming that the Alberta-based oil and gas sector will grow and prosper far more rapidly than the economy as a whole, please score the desirability of each of the following political scenarios using a 7 point scale where 7 means very desirable and 1, the opposite. [RANDOMIZE]

	Mean	7	6	5	4	3	2	1	DNK
The federal government should spur the manufacturing sector by slashing taxes on the sector	5.4	30	27	18	11	7	2	4	0
Liberal Ottawa should recognize the jump in the power of Alberta and seek to co-opt the province by giving its leadership a major say in federal decisions, for example by adopting the triple E Senate	4.5	20	13	19	15	12	8	10	3
A well-led, Alberta-based Conservative party should form the government in Ottawa	4.1	27	8	7	12	10	11	22	3
Ottawa should take a hardline, tax heavily the oil and gas sector, and redistribute the proceeds among the regions	2.6	4	3	12	11	13	15	41	0



Panellists, meanwhile, are divided sharply—even polarized—on whether a solution to Canada’s dilemmas is a well led, Alberta-based Conservative government in Ottawa—35% strongly for the scenario, scoring 6-7, vs. 33% strongly against, scoring 1-2.

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 September 28-30, 2005. 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 124 are deemed accurate to within approximately 8.8 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D and Tamara Gottlieb

