

**The Ascent of the Loonie and Decline of Manufacturing:
A Global Attack on U.S. Dollar That Canada Can Do Little About;
McGuinty Wrong to Pressure Harper;
Main Solution to Cut Corporate Taxes;
Loonie Will Decline**

**BDO Dunwoody CEO/Business Leader Poll
by COMPAS in *Canadian Business* Magazine
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1.0 Introduction

Faced with the rapid ascent of the Canadian dollar, the COMPAS panel of CEOs and business leaders was a range of questions about why it is happening, what should be done, what the loonie will be worth, and what it should be worth.

The panel believes that

- The rise of the loonie is largely beyond Canadian control;
- Ontario Premier Dalton McGuinty was misguided in seeking to pressure the Prime Minister to influence Bank of Canada interest rates;
- A decline of interest rates would nonetheless help moderate the rise of the loonie but the most effective action to help Canadian manufacturers would be a fall in corporate tax rates;
- The ideal exchange rate would involve a fall of the Canadian dollar to 91 cents U.S. but panelists forecast that the actual value will be U.S. \$ 1.03 at the end of 2007 and U.S. \$ 0.98 in November, 2008.

These are the key findings from the current web-survey of the panel of CEOs and business leaders undertaken for *Canadian Business* under sponsorship of BDO Dunwoody LLP.



2.0 The Forecast and Ideal Values of the Loonie

Panelists anticipate that the loonie will ultimately fall to just under an American dollar, as shown in table 2a, while the ideal value, they believe, is U.S. 0.91, as shown in table 2b.

Table 2a: (Q1) The Canadian dollar was worth about U.S. \$1.06 at the end of the week. This is up from about 86 cents U.S. at the beginning of the year. Please give your prediction of what it will be worth... (rounded to the nearest cent)

	Nov 2007		July 2007		May 2006	
	Mean	DNK	Mean	DNK	Mean	DNK
At the end of the month	1.04	5	0.95	2	0.91	1
At the end of the year	1.03	5	0.96	2	0.92	1
One year from today ¹	0.98	5	0.96	3	-	-

Table 2b: (Q2) What is the ideal value of the Canadian dollar relative to the U.S. dollar for business? (rounded to the nearest cent)

	Mean	DNK
November 2007	0.91	4
July 2007	0.87	2
May 2006	0.86	5
October 2005	0.81	6
November 2004	0.83	1
November 2003	0.79	3

¹ New Question in July and November 2007



3.0. What Canadian Government Can Do—Relatively Little

From their answers to four questions about the potential influence of Canadian governments, it is apparent that panelists see the exchange rate problem as mainly a global assault on the U.S. dollar, about which Canada can do little, as shown in tables 3a and b. They see Premier McGuinty’s request of Prime Minister Harper as inappropriate given the formal independence of the Bank of Canada. They nonetheless believe that a drop in interest rates would help moderate the rise of the loonie.

Table 3a: Agreement (7) with Some Opinions²

	Mean	7	6	5	4	3	2	1	DNK
The rise of the loonie is caused almost entirely by global pressure against the U.S. dollar, about which Canada can do almost nothing effective	5.2	21	26	29	8	8	6	3	0
The Ontario Premier was wrong to ask the Prime Minister to pressure the Bank of Canada, which should remain non-political for the sake of the country and our	4.9	32	22	13	6	5	13	10	0

² (Q3) Ontario Premier McGuinty asked Prime Minister Harper to encourage the Bank of Canada to lower interest rates in order to lower the value of the Canadian dollar. Spokespersons for the C.D. Howe Institute and the Royal Bank said that global pressure is weakening the U.S. dollar and there is nothing that Canada can do about this. On a 7 point agreement scale where 7 means strongly agree and 1 strongly disagree, how much do you agree with the following opinions... RANDOMIZE



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	Mean	7	6	5	4	3	2	1	DNK
economy									
Cutting interest rates sharply would stop the loonie from rising in value and might well moderate its value	4.6	14	17	26	17	8	13	4	1

Table 3b: (Q4) The rise of the loonie has been adding to longstanding global economic pressures on Canadian manufacturers. On a 7 point scale where 7 means a lot and 1 means essentially nothing, how much could our federal and provincial governments do to assist and protect Canadian manufacturing?

Mean	7	6	5	4	3	2	1	DNK
4.5	12	13	25	20	15	11	2	1

4.0. What Canadian Government Can Do—Lower Corporate Taxes

Asked to recommend what our governments could or should do, panelists recommend above all a drop in corporate taxes, as shown in table 4. The following verbatims provide a nuanced sense of some of the diversity of their opinions:

What the governments of Ontario and the Federal government should do and could do is to "Harmonize PST and GST". This would strengthen small business by removing some of the integrative synergies some bigger



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companies exploit by not having to pay internal PST on transactions. It would also help larger companies although not as much.

A bit reminiscent of the 1981 government liquidity crisis that drove the Canadian interest rates to 20% as we competed with USA and Europe for investment [dollars] and protection of our currency. Nobody seems to be making the possible early connection of that era with the current events ... USA may have to increase rates to stem outflow of [dollars]. Then the global race to hold investment capital starts again.

Although the drop in the U.S. dollar is due to U.S. economic causes, this does NOT absolve the government of Canada from protecting its vital manufacturing industries and halting our present drift back to a resource only based economy. Twenty percent of medium sized German manufacturing is selling to China. We are missing the boats - even the slow ones.

Canadian manufacturing is threatened. Don't let interest rates go any higher; some lowering of mortgage rates could help.

Harper's new tax plan looks good.

Pressure on the U.S. dollar is reminiscent of the period of the dollar "as good as gold" in the 1970's. The economic cost of the Viet-Nam war is akin to the cost of the Iraq war today. U.S. debt is surpassing the historic cap of 9 trillion dollars, which will have an inevitable impact on exchange rates unless there is a change in the world situation or U.S. policy

The Canadian dollar has been under-valued for decades, particularly in light of our broad resource base. Canadian



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manufactures have been complacent and, to varying degrees, have relied upon protectionism. The bubble was bound to burst sooner or later.

Unions have been responsible, by no short measure, for exacerbating the situation by demanding higher, inappropriate wages and benefits in many manufacturing sectors while being uncooperative in accepting the introduction of automation and other forms of cost-effective production technologies.

The current value of the dollar, although hurting certain sectors, is a much needed boost in confidence which should lead to better productivity.

The Ontario government has done absolutely nothing but make it more difficult to do business in the province and more costly- taxes, regulation and energy, but somehow they figure the problem is only the Bank of Canada. A nice mirror would be useful for them at this time-because if they look into it they will see one of the major sources of the problem.

The real issue is how bad the US economy is going to get before it hits bottom.



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Table 4: (Q5) What should or could our governments do to assist Canadian manufacturers? (open-ended question)

	%
Lower or cut corporate tax rates	50
Lower or cut interest rates	13
Reduce red tape/regulations	8
Encourage productivity and efficiency	6
Lower the value of the Canadian Dollar	3
Nothing	14
Other	8

5.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted November 12 – 14, 2007. 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 147 are deemed accurate to within approximately 8.1 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D and Tamara Gottlieb.

