

Exchange Rates

**Bank of Canada Should Not Raise Rates Wednesday;
Ideal Loonie Is U.S. \$ 0.86, But Likely Value Will Be U.S. \$.93;
Rising Loonie Not Likely to Trigger Recession But
Rise Appears to Have Harmed Some Businesses;
Bank of Canada Governor Earns High Scores Despite Worries**

**BDO Dunwoody CEO/Business Leader Poll
by COMPAS in the Financial Post
for Publication May 23, 2006**



**COMPAS Inc.
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1.0. Introduction

Almost three-quarters of the COMPAS CEO/business-leader panel want the Bank of Canada not to raise interest rates tomorrow (Wednesday May 24). Half say they want the dollar to decline “gradually” or “sharply.” This is the highest number calling for depreciation since COMPAS started asking the question in November, 2003. Then, the dollar was worth U.S.\$0.75. On Friday it closed at U.S.\$0.89.

The panel believes that the idea rate for the Loonie is U.S. \$ 0.86 but expects it to nonetheless rise to U.S. \$.93 within a year.

About a third perceive the rising dollar as harming their businesses, in some cases severely. “I expect that my company will go out of business in two or three years if the exchange rate is not lowered,” writes one executive. “[Allowing the dollar to rise] is desperate and irresponsible of the Bank of Canada. Will [Bank of Canada governor David] Dodge wake up before it is too late?” By contrast, other panelists consider complaints about exchange rates as poor excuses for low productivity.

A plurality do not expect that the high dollar will drive the economy into recession. Forty-three per cent of panelists do not believe the dollar will trigger a recession; 24% do.

Despite concern about the rising loonie, Bank of Canada Governor David Dodge continues to earn very high performance scores.

There is lower support today for adopting the U.S. dollar than there has been over the past five years. Seventy per cent say Canada should not seriously consider the idea, compared with 46% who rejected giving it thought in November of 2001. Then 54% wanted to think it over; today 29% do.

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



2.0. Do Not Raise Rates, Loonie Should Ideally Lose Value

By an almost three-to-one margin, business panelists do not want the Bank of Canada to raise rates tomorrow (May 23, 2006), as shown in table 2A. Seventy-two per cent of respondents say the Bank should “definitely” or “probably” not announce a rate hike; 26% say “probably” or “definitely”.

“The Bank of Canada governor David Dodge has been too quick to follow the U.S. policy to raise interest rates,” says one CEO. “Our economy as a whole is quite strong with only marginal inflation pressures. Let’s try a made-in-Canada policy for once and not mitigate inflation threats in advance of occurrence.”

Panelists do not wish rates to be raised in part because they already perceive the Canadian dollar as overvalued. They consider its ideal value to be U.S. \$.86 (table 2B), which is lower than its value last week but higher than the panel’s ideal values over the last 2-3 years.

Most respondents want any change in exchange rates to be gradual. By a 2:1 margin, they would prefer such change to involve a decline rather than a rise in value, as shown in table 2C.

Table 2A: Should the Bank of Canada raise interest rates tomorrow?

	%
Definitely	4
Probably	22
Probably not	34
Definitely not	38
Don’t know or no opinion	2



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Table 2B: What is the ideal value of the Canadian dollar relative to the U.S. dollar for business?

	MEAN	DNK
May 2006	0.86	5
October 2005	0.81	6
November 2004	0.83	1
November 2003	0.79	3

Table 2C: When considering your business sector, would you like to see the Canadian dollar...[ROTATE POLES]

	MAY 2006	OCT. 2005	NOV. 2004	NOV. 2003
Rise up sharply	2	2	4	7
Edge up gradually	25	29	29	38
Remain about the same	18	23	29	28
Decline gradually	35	27	27	17
Drop down sharply	14	10	9	6
DNK	7	9	3	4



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3.0. Expected Exchange Rates—U.S. \$.93 within a Year

Panelists expect the Canadian dollars to rise incrementally this month, over the remainder of the year, and going into 2007, as shown in tables 3A and B.

Table 3A: What do you forecast will be the value of the Canadian dollar in U.S. currency at...

	MEAN	DNK
The end of the month	0.91	1
The end of the year	0.92	1

Table 2.5B: What do you forecast will be the value of the Canadian dollar in U.S. currency in one year?

	MEAN	DNK ¹
May 2006	0.93	1
October 2005	0.87	2
February 2003	0.71	0
December 2002	0.66	5
January 2002	0.65	-
November 2001	0.64	-

¹ Respondents did not have a 'DNK' option Jan. 31, 2002 or Nov. 16, 2001.



4.0. Impact on the Economy—Division of Opinion about Any Harm Done, Recession Unlikely

Most say that the rising dollar has neither helped nor harmed their business, as shown in table 4A, but a third report that the rising loonie has done harm. Expecting that some business people might lament the impact of the rising loonie on their businesses, others volunteered that they viewed such complaint as an excuse and not a legitimate concern.

“Canadian companies have got to stop using the rising Canadian dollar as a crutch for poor productivity, lack of innovation and reinvestment in capital infrastructure and employee training,” says one company president.

“If Canada is going to be competitive globally we can't rely on a weak currency. We need improved productivity to at least match that of the U.S. and dollar parity will force us to do this,” says another.

Some panelists say that the tax rates are to blame for export problems. “Canadian manufacturers face the double whammy of an export killing dollar and a crippling investment revenue tax rate. We have fiscal irresponsibility threatening our survival as a leading economy.”

Only a minority believe that the dollar's rise will push the economy into recession, as shown in table 4B. Just under a quarter hold that belief, compared to 43% who disagree.”

Table 4A: On a 5 point scale, where 1 means greatly harmed and 5 means greatly helped, how has the rise of the Canadian dollar in the last year affected sales of your own business or businesses in which you have a personal interest?

MEAN	5	4	3	2	1	DNK
2.6	4	8	53	15	18	2



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Table 4B: On a 5 point scale, where 1 means disagree strongly and 5 means agree strongly, do you think the rising dollar will drive the Canadian economy into recession?

MEAN	5	4	3	2	1	DNK
2.7	6	18	32	28	15	1

5.0. Adopting Greenback—Support at All-Time Low

Support for adopting the U.S. dollar is at its lowest level since the CEO poll was launched five years ago, as shown in table 5A. It is almost as if the value of the loonie is a key driver of attitudes—the higher its value, the lower the level of interest in replacing it.

“Adopting a common currency with the U.S. makes sense,” says one CEO. “Politically, adopting the U.S. dollar would likely never happen in Canada. And for Americans to think about adopting say a ‘NAFTA’ dollar, as the Europeans did the ‘Euro’ is dreaming in colour; so it's just idle speculation.”

Table 5A: Should Canada seriously consider adopting the U.S. dollar? [ROTATE POLES]

	MAY 2006	OCT. 2005	FEB. 2003	DEC. 2002	JAN. 2002	NOV. 2001
Definitely consider	11	14	14	21	17	26
Probably	18	29	27	28	25	28
Probably not	24	25	30	24	28	24
Definitely not	46	32	28	27	29	22
DNK/No opinion ²	1	1	2	1	-	-

² Respondents did not have a ‘DNK’ option Jan. 31, 2002 or Nov. 16, 2001.



6.0. Dodge Earns High Respect

Despite panelists' opposition to raising rates further, Bank of Canada Governor David Dodge is praised for his astute handling of monetary policy. For his handling of inflation, he earns a grade of 77%, one of the very higher performance scores ever in the COMPAS databank of performance scores (table 6A).

The Bank governor gets slightly lower marks for his handling of interest rates, 71%, and the exchange rate, 67% (table 6). The scores are essentially unchanged from their December 2004 values.

"Having met with David Dodge on more than one occasion, I feel he is doing his best to manage our economy," volunteered one company president. "His power is limited and his mandate is primarily to control inflation."

According to another panelist, "Global realities are buffeting Canada back to the role of hewers of wood and drawers of water (or oil and gas) and there is little any one of us, including David Dodge, is going to do to influence this journey. We can pretend we are in control at the national helm, but the facts contradict the delusion."

Table 6: Using a 100 point school report card type scale, what score would you give Bank of Canada governor David Dodge for his performance on the inflation rate?

PERFORMANCE ON...	DATE	MEAN	DNK
Inflation	May 2006	77	6
Interest rates	May 2006	71	6
	December 2004	73	0
Exchange rate	May 2006	67	6
	December 2004	66	0



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7.0. Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted May 17-19. 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 128 are deemed accurate to within approximately 8.7 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D and Tamara Gottlieb

