



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

# **RECENT OIL PRICE CHANGES: SELECTED CANADIAN IMPACTS**

## **Report of the Standing Committee on Finance**

**James Rajotte  
Chair**

**JUNE 2015**

**41st PARLIAMENT, SECOND SESSION**

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# **THE STANDING COMMITTEE ON FINANCE**

has the honour to present its

## **TWELFTH REPORT**

Pursuant to its mandate under Standing Order 108(2), the Committee has studied the Impact of Low Oil Prices on the Canadian Economy and has agreed to report the following:





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# **RECENT OIL PRICE CHANGES: SELECTED CANADIAN IMPACTS**

## **CHAPTER 1 – INTRODUCTION**

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On 10 March 2015, the House of Commons Standing Committee on Finance started a study on the impact of lower oil prices on the Canadian economy. Over the course of three hearings, the Committee heard from 20 organizations and four individuals.

Chapters Two through Four of this report provide background information and witnesses' views on global oil production and prices, the general global and Canadian economic impacts of falling oil prices, and other Canadian impacts of oil price declines, respectively. Chapter Five provides witnesses' proposals for federal action to help mitigate the negative impacts of lower oil prices on the Canadian economy.



# CHAPTER 2 – GLOBAL OIL PRODUCTION AND PRICES

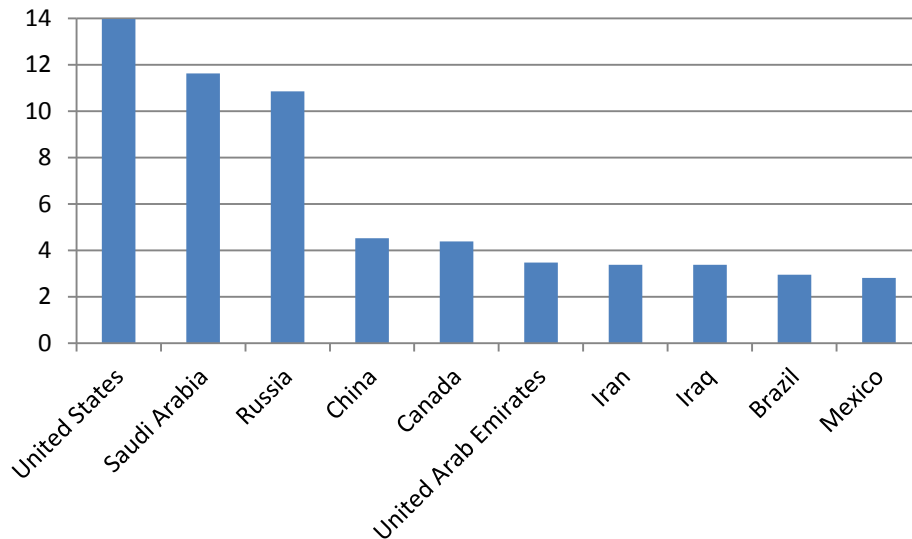
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## A. Background

The term “oil production” is generally interpreted to include production of the following: crude oil, condensates and natural gas liquids; other hydrocarbons, such as synthetic crude oil and mineral oils; and petroleum products, such as refinery gas, ethane, liquefied petroleum gas, aviation gasoline, motor gasoline, jet fuels and kerosene. According to the [International Energy Agency](#), global oil supply is forecasted to expand by 5.2 million barrels per day by 2020.

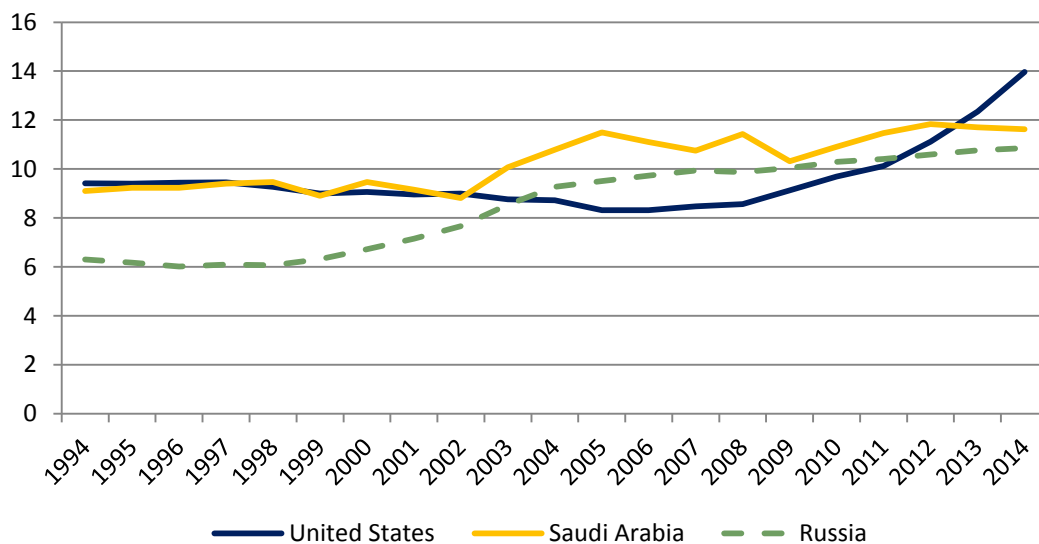
Figure 1 shows the top 10 oil producing countries in the world in 2014; Canada ranked fifth in the world. According to Figure 2, in recent years, oil production in the United States has increased at a higher rate than in Saudi Arabia and Russia.

**Figure 1 – Top 10 Oil Producing Countries, 2014  
(millions of barrels per day)**



Source: Figure prepared using information from: United States Energy Information Administration, *Countries, Overview*, [Oil Production](#).

**Figure 2 – Oil Production, Selected Countries, 1994–2014  
(millions of barrels per day)**



Source: Figure prepared using information from: United States Energy Information Administration, *Countries, Overview*, [Oil Production](#).

The price of a barrel of oil is based on its quality; quality characteristics include the ease with which the oil can be refined into gasoline, and the cost of delivery. The two most popular benchmarks for comparing the quality of oil extracted in a particular region are West Texas Intermediate (WTI) crude oil and Brent crude oil from the North Sea, while the benchmark for heavy crude oil in Canada is Western Canadian Select (WCS). Spot prices for WTI crude oil and Brent crude oil, or the price for immediate delivery of a barrel of oil, are the most widely quoted prices for oil. Spot prices for WTI crude oil and Brent crude oil are based on contracts traded at the New York Mercantile Exchange and the Intercontinental Exchange (ICE) respectively, while WCS spot prices are based on contracts traded at the Chicago Mercantile Exchange.

After four years of relatively stable and high prices, the price for a barrel of Brent crude oil fell by roughly 60% from its June 2014 high of more than US\$115 per barrel to less than US\$46 in January 2015; the price of a barrel of WTI crude oil declined by 59% over that period.

## **B. Witnesses' Views**

### **1. Prices**

A number of the Committee's witnesses commented on volatility in the price of oil. The [Canadian Association of Petroleum Producers](#) noted that volatility in commodity prices is the norm rather than the exception, and that the oil and gas sector has experienced periods of high and low prices in the last several decades. [Suncor Energy Inc.](#) indicated that short-term volatility in the price of a barrel of crude oil has been

greater in recent months than has been the case in the last three or four years. [Jean-Thomas Bernard](#), who appeared as an individual, indicated that crude oil prices were unusually high over the 2010 to 2014 period, and were comparable to the prices that existed during the oil shock in 1979. While acknowledging its existence, the [Alberta Federation of Labour](#) felt that the volatility in the price of oil does not constitute a crisis or an emergency, and that the inflation-adjusted average price of a barrel of oil over the last 40 years has been \$50.

[Packers Plus Energy Services](#) highlighted that the price difference between a barrel of WTI crude oil and a barrel of Brent crude oil has been volatile since the differential was first observed in 2009.

The [Canadian Fuels Association](#) explained that the difference between the price of crude oil and the retail price of gasoline reflects three components: the refiners' margin; the retailers' margin; and taxes. It also commented that the recent decline in the retail price of gasoline has not changed the margins of refiners and retailers; that said, there was a downward trend in the refiners' margin over the past 2.5 years, while the retailers' margins increased slightly over that period. While its view is that the retail price of gasoline reflects the change in the price of a barrel of crude oil, the [Canadian Automobile Association's](#) opinion is that the changing price of crude oil has not been proportionately reflected in Canadian retail gasoline prices.

As well, the [Canadian Fuels Association](#) identified several influences on the retail price of gasoline in Canada, including: the futures market for crude oil; crude oil and gasoline inventories; seasonal weather effects on refineries; short-term maintenance of refineries; and U.S. exports of gasoline.

In speaking about regional differences in the retail price of gasoline, the [Canadian Association of Petroleum Producers](#) commented that the price in Eastern Canada is based on the price of Brent crude oil, while that in Western Canada is based on WTI crude oil.

## **2. Production**

[Packer Plus Energy Services](#) spoke to the Committee about global oil production, noting that 94.5 million barrels per day are produced and 93.0 million barrels per day are consumed, resulting in an oversupply. [Wade Locke](#), who appeared as an individual, pointed out that an oversupply of 1% to 2% in global oil production caused a 60% decline in the price of crude oil. The [C.D. Howe Institute](#) and [RBC Financial Group](#) stated that the recent decrease in the price of crude oil reflects excess global supply, although weaker global economic growth may also play a role. The [C.D. Howe Institute](#) also said that excess supply could be due to Russia and Iran having to produce more oil in order to maintain government revenues when the price of oil falls.

In noting the importance of oil produced in the Organization of the Petroleum Exporting Countries (OPEC), [Packer Plus Energy Services](#) said that Canada has replaced Saudi Arabia as the top oil exporter to the United States. [Andrew Leach](#), who appeared as an individual, indicated that Saudi Arabia's global market power in relation to oil has been

eroded by shale oil producers that are able to increase production quickly in response to high crude oil prices. [RBC Financial Group](#) suggested that Saudi Arabia's recent decision not to reduce its oil production is a consequence of that country trying to reduce the market share of some of the higher-cost producers within and outside of OPEC.

The [Alberta Federation of Labour](#) and the [Canadian Association of Petroleum Producers](#) highlighted that new production technologies in the natural gas sector resulted in a long-term decline in the price of natural gas, and suggested that similar technologies in the oil sector have led to a decrease in the price of oil.

Regarding the global demand for energy, the [Canadian Association of Petroleum Producers](#) stated that world demand is increasing by 1% per year, or 1 million barrels per day on an annual basis; this increased demand is concentrated in Asia and Africa.

In its [submission](#) to the Committee, the Canadian Association of Petroleum Producers indicated that, in 2014, its member companies produced 3.5 million barrels of oil per day. The [Canadian Fuels Association](#) stated that 2 million barrels of oil per day are refined in Canada; 1.6 million barrels are sold in Canada and the remaining barrels are exported, largely to the United States. [It](#) also noted that increased oil production and refining in North America reduced the profit margin on gasoline in January 2015.

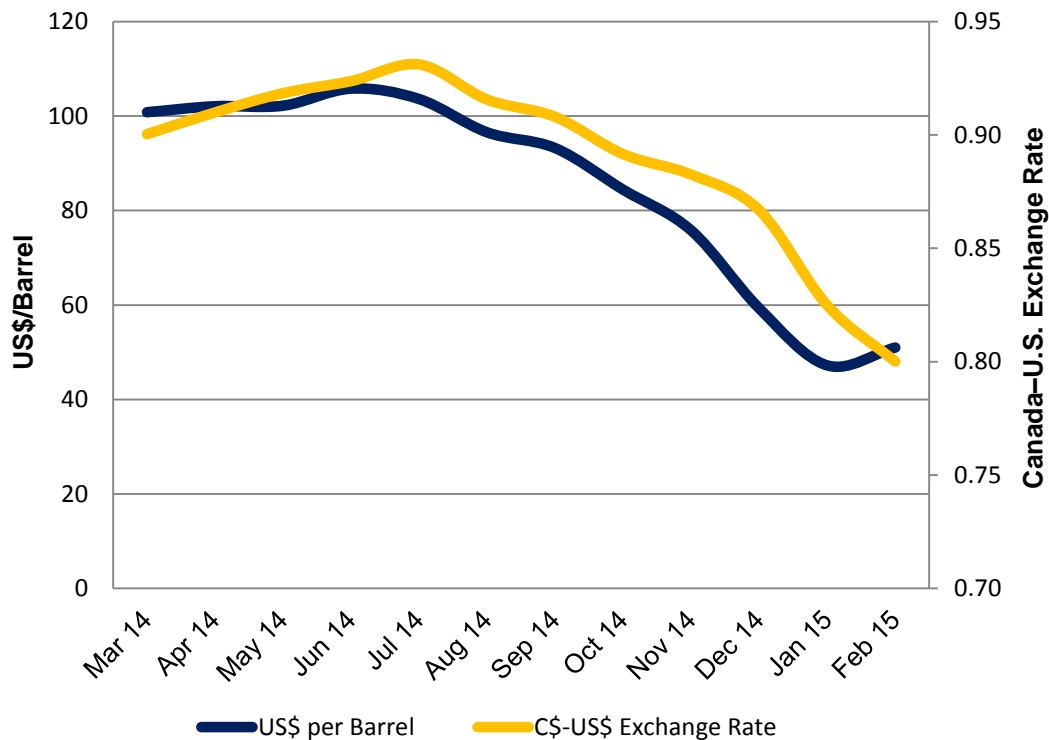


# CHAPTER 3 – GENERAL GLOBAL AND CANADA ECONOMIC IMPACTS OF FALLING OIL PRICES

## A. Background

According to U.S. [Energy Information Administration](#) data on spot prices, in June 2014, international crude oil prices began to decline sharply. As shown in Figure 3, WTI crude oil – the North American benchmark for light sweet crude oil – was trading at US\$50 per barrel in February 2015, down from US\$105 per barrel in June 2014. Over the same period, and as presented in Figure 3, [Bank of Canada](#) data show that the Canada-U.S. exchange rate has declined. In June 2014, on average, C\$1.00 was equivalent to US\$0.924; in February 2015, the average US\$0.80, which represents a 13.4% decline over the period.

**Figure 3 – Crude Oil Prices and the Exchange Rate Between the Canadian Dollar and the U.S. Dollar, March 2014–February 2015 (monthly)**



Note: Crude oil prices are West Texas Intermediate (WTI) spot prices free on board (FOB) at Cushing, Oklahoma.

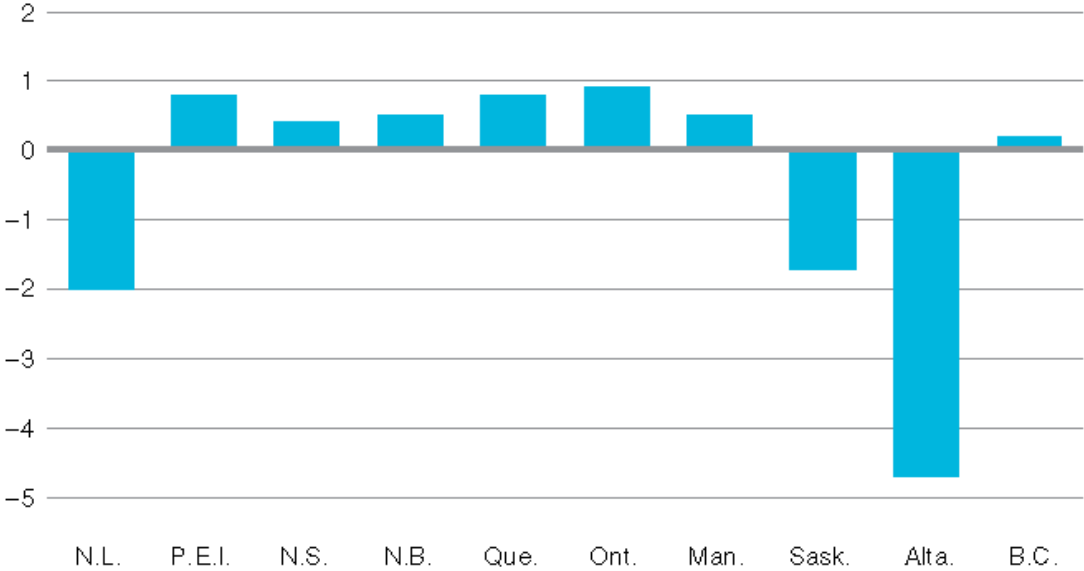
Sources: Figure prepared using information obtained from: U.S. Energy Information Administration, Petroleum & Other Liquids, "[Spot Prices](#)," Data; and Bank of Canada, "[Monthly Average Exchange Rates: 10-Year Lookup](#)," at closing.

As Canada is a major producer and net exporter of oil, the negative effects of the decline in oil prices are being felt to a greater extent in the country’s provinces that produce oil, including Alberta, Saskatchewan, and Newfoundland and Labrador; in particular, drilling, investment and hiring intentions have declined. Businesses that provide goods and services to the oil sector are also being negatively affected by the fall in oil prices, and some of these businesses are located in provinces that do not produce oil.

In January 2015, a Bank of Canada [report](#) indicated that – over the next year – economic activity may shift towards export-oriented firms and manufacturers, as a majority of firms in non-oil sectors were expecting to increase their hiring and were planning further investments in manufacturing production.

A January 2015 [report](#) by the Conference Board of Canada estimated that lower oil prices will reduce Canada’s real gross domestic product (GDP) by 0.4% in 2015. Figure 4 provides a provincial breakdown of the expected reductions or increases.

**Figure 4 – Percentage-Point Impact on Real Gross Domestic Product of a 40% Reduction in Crude Oil Prices in 2015, by Province**



Source: Conference Board of Canada, [Regional Shake Up: The Impact of Lower Oil Prices on Canada’s Economy](#), January 2015.

## B. Witnesses' Views

Witnesses spoke to the Committee about the effect of lower oil prices on the Canadian economy. [RBC Financial Group](#) and the [C.D. Howe Institute](#) stated that the overall immediate effect of lower oil prices on the Canadian economy will be negative, and that positive effects are likely in the medium and long terms. [RBC Financial Group](#) also stated that, in the short term, nominal GDP will decrease and corporate profits will be lower; in the medium and long terms, exports from – and capital investment in – sectors other than oil and gas, such as manufacturing, will increase.

Like [Unifor](#) and [Canadian Manufacturers & Exporters](#), the [Bank of Canada](#) stated that – while the Canadian economy is worse off in general, lower oil prices will increase Canadian households' disposable income, everything else remaining the same; in making this assessment, the Bank considered the reduction in aggregate real business incomes and supply chain effects across sectors that are linked to oil and gas extraction. In the [Bank of Canada](#)'s view, lower retail gasoline prices will lead to increased savings for consumers and non-oil-related businesses that export; moreover, lower operating costs for firms that use oil as an input will lead to higher production, investment and profits. According to the [Automotive Parts Manufacturers' Association](#), everything else remaining the same, a lower Canadian exchange rate as a result of lower oil prices increases the cost of imported goods, such as machinery and equipment; Canadian producers often purchase U.S.-made machinery and equipment.

The [Bank of Canada](#), the [Canadian Labour Congress](#) and [Canadian Manufacturers & Exporters](#) indicated that, in general, the rapid fall in oil prices between June 2014 and February 2015 will have negative effects on the Canadian economy for the first six months of 2015. The [Bank of Canada](#) noted that, even though real GDP grew by 2.4% in the fourth quarter of 2014, the real incomes of Canadian businesses fell due to the loss of purchasing power as lower global oil prices reduced the value of Canadian oil exports. As well, the [Bank](#) estimated that business investment in the oil and gas sector is about one third of total Canadian business investment, and is anticipated to fall by about 30% in 2015. Philip Cross, who appeared as an individual, expressed a similar view in his [submission](#) to the Committee.

Moreover, the [Bank of Canada](#), [Canadian Manufacturers & Exporters](#) and the [Canadian Steel Producers Association](#) suggested that, as nearly one third of the goods and services purchased by Alberta's oil sands sector are sourced from other provinces, economic activity in certain sectors – mainly manufacturing and construction – will be negatively affected across Canada because of supply chains. [Encana Corporation](#) said that 2,300 suppliers throughout Canada support the oil and gas sector, and that oil price shocks are felt immediately throughout the supply chain. [Canadian Manufacturers & Exporters](#) estimated that, if lower oil prices continue, manufacturing production will decline by about \$12 billion each year starting in 2015.

Based on a recent survey of its membership, the [Canadian Automobile Association](#) noted that perceptions about the impacts of lower oil prices on the Canadian economy differ based on a person's location. For example, [it](#) said that, among survey respondents,

two thirds of Albertans felt that declining oil prices will have a significant negative effect on the Canadian economy over the longer term; this view was shared by no more than 40% of the population elsewhere in Canada. Further, [its](#) survey found that, while a number of forecasting groups expected lower oil prices to exist through to 2016, most of the Canadians it surveyed expected that oil prices will begin to increase by the fall of 2015; Wade Locke expressed a similar view in his [submission](#) to the Committee. The [Canadian Automobile Association](#) suggested that the gap in perception between forecasting groups and the general population regarding the effects of oil prices on Canadian economic performance may narrow over time if lower oil prices exist throughout 2015.

The [Bank of Canada](#) and [Unifor](#) commented that lower oil prices are mainly the result of abundant global supply, which is stimulating economic activity in the United States. In particular, the [Bank](#) said that the decline in oil prices since 2014 will raise U.S. GDP by about one percentage point by the end of 2016. [It](#) stated that, in the longer term, the low relative value of the Canadian dollar will improve the competitiveness of production in Canada, especially in the manufacturing sector. Moreover, [it](#) mentioned that, because of increased U.S. economic activity, Canada's manufacturing sector should expect further increases in its exports to the United States.

Regarding the impact of lower oil prices on government revenue, [Philip Cross](#) mentioned that the fall in oil prices should not require the federal government to re-evaluate its fiscal policy, as the revenue impacts will be minimal. [Wade Locke](#) noted that reductions in provincial revenue will affect future equalization payments; in particular, payments to provinces with relatively weaker economies will be reduced.

The [Regional Municipality of Wood Buffalo](#) said that the decline in oil prices has not yet affected the daily activities of residents within the region, although residents intended to limit future spending; the region includes Fort McMurray. [It](#) also mentioned that, in January 2015, the use of the region's food banks was 75% higher than a year earlier; use was expected to be higher still in February 2015.

# CHAPTER 4 – OTHER CANADIAN IMPACTS OF FALLING OIL PRICES

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## A. Price Levels and Exchange Rates

### 1. Background

A January 2015 [report](#) by the Bank of Canada stated that the depreciation in the value of the Canadian dollar from June 2014 to February 2015 caused the price of imported goods to rise over that period, and core inflation was 0.2 to 0.3 percentage points higher during the second half of 2014 than would have been the case had the depreciation not occurred. It highlighted that this increase in core inflation was offset by two factors that exerted downward pressure on prices and limited net growth in core inflation over the same period: excess capacity in the economy and competition in the retail sector. The report projected that the impact of the depreciation on core inflation will gradually disappear in 2016, and that core inflation will remain slightly below the 2.0% target until the end of 2016.

As explained in a 2012 Bank of Canada [backgrounder](#), Canada's exchange rate is affected by a number of domestic factors, including the following:

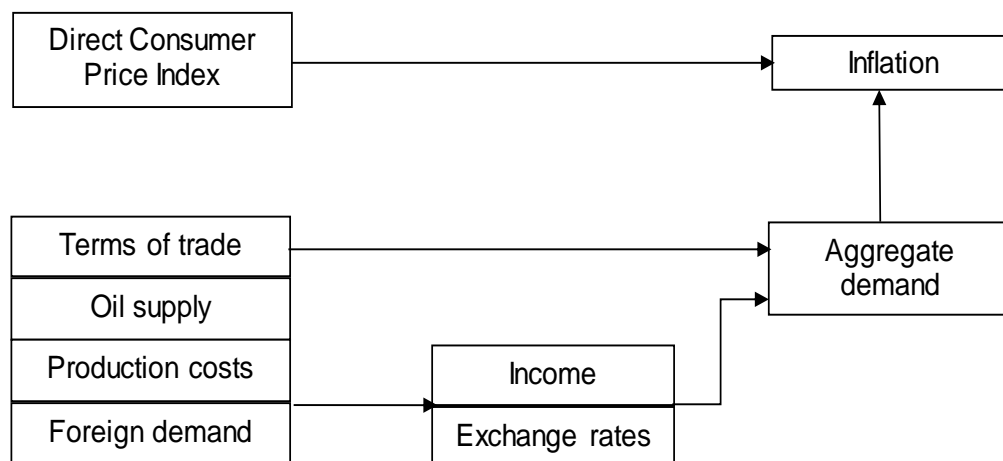
- the relative performance of the Canadian economy;
- the difference between interest rates in Canada and other countries;
- the difference between inflation rates in Canada and other countries; and
- the flow of goods, services and investment income between Canada and other countries.

It is also affected by a number of external factors, including the following:

- the world price for commodities;
- the global economic growth rate; and
- global economic stability.

Figure 5 summarizes the relationship between the global price of oil and the Canadian economy through five main channels, and shows the link to Canadian income, exchange rates and inflation.

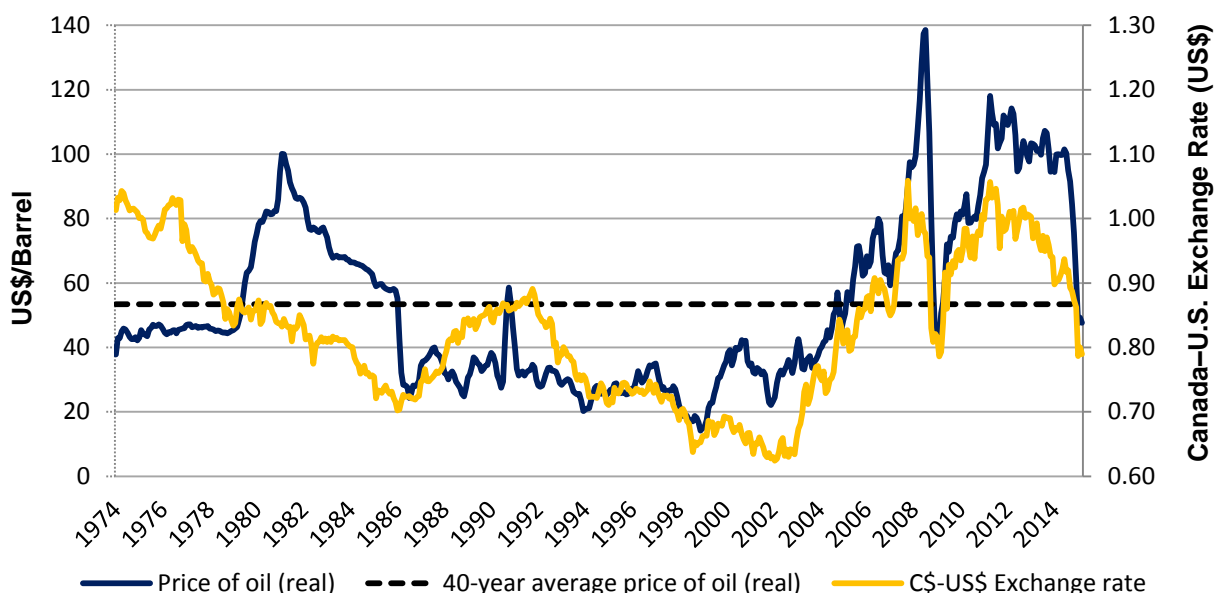
**Figure 5 – Relationship between Global Oil Prices and the Canadian Economy**



Source: Figure prepared using information obtained from: Bank of Canada, [Monetary Policy Report](#), January 2015.

According to the Bank of Canada's 2012 [backgrounder](#), and as illustrated in Figure 6, the world price for commodities – including oil – is the main determinant of the relative value of the Canadian dollar over the long term. According to a January 2015 [report](#) by the Bank of Canada, the recent decrease in the exchange rate between the Canadian and U.S. dollars is mainly the result of reduced oil export revenues and business investment in Canada's oil sector.

**Figure 6 – U.S. dollar price of oil in real (March 2015) dollars and Canada–U.S. exchange rate (monthly; January 1974–March 2015)**



Note: “Price of oil” is U.S. Crude Oil Composite Acquisition Cost by Refiners, expressed in real (March 2015) U.S. dollars based on the U.S. Consumer Price Index for All Urban Consumers.

Sources: Figure prepared using information obtained from: U.S. Energy Information Administration, Petroleum & Other Liquids, “[U.S. crude oil composite acquisition cost by refiners](#),” Data; U.S. Bureau of Labour Statistics, “[Consumer Price Index – All Urban Consumers, U.S. All Items](#),” Data Tools: Top Picks; and Statistics Canada, Table 176-0064, “[Foreign exchange rates, Bank of Canada \(monthly\)](#),” at closing, in U.S. dollars (CANSIM database).

As indicated in the Bank of Canada’s January 2015 [report](#), as these business investments in the oil sector are partly financed by foreign capital, the result has been a reduction in the net inflow of foreign capital into Canada over the past year; together with lower oil export revenues, this reduction in foreign capital has led to a depreciation in the value of the Canadian dollar. Business investment in Canada’s oil sector has also been affected by this depreciation, as inputs imported from the United States have become relatively more expensive.

While the decline in global crude oil prices has negatively affected Canada’s oil sector, exporters in non-energy sectors – such as manufacturing – have become more internationally competitive as a result of the depreciation in the value of the Canadian dollar. Along with higher foreign demand for Canadian non-energy exports, the depreciation has led to an increase in sales by non-energy sector exporters, and could lead to higher business investment in these sectors.

## 2. Witnesses' Views

Witnesses spoke about the effect of lower oil prices on inflation and economic activity, Canadian exchange rates, international competitiveness and Canadian exports, and savings and spending decisions by North American consumers.

In commenting that its monetary policy is focused on returning inflation to a 2.0% target over the medium term, the [Bank of Canada](#) mentioned that its 21 January 2015 decision to reduce the target for the overnight interest rate by one quarter of one percentage point was designed to mitigate the negative impact of falling oil prices on the Canadian economy. Like [Unifor](#), [it](#) predicted that the price of Brent crude oil is likely to remain at about US\$60 per barrel through to the end of 2016, assuming that its base case scenario is realized. Moreover, the [Bank of Canada](#) suggested that – in the absence of any monetary policy response – Canadian real GDP would have been about 1.4% lower than its baseline forecast of 2.5% by the end of 2016, and that the output gap – the difference between actual economic activity and the potential full capacity level of economic activity – would have been eliminated in 2017, rather than by the end of 2016.

[Unifor](#) noted that, in recent years, the net demand for Canadian exports decreased, while increases occurred in the price of oil, the relative value of the Canadian dollar and foreign investment. According to [Canadian Manufacturers & Exporters](#), while one half of the recent decline in oil prices can be explained by demand and supply conditions in the oil sector, the remainder is the result of a strengthening U.S. dollar relative to other currencies, as oil prices are denominated in that currency. Moreover, [it](#) said that a declining price of oil that is partly due to a strengthening U.S. dollar is a signal that the global economy has problematic financial imbalances.

Moreover, [Unifor](#) stated that the value of the Canadian dollar has appreciated against the currencies of major countries with which Canada competes in relation to manufacturing. [It](#) explained that, while oil prices declined from June 2014 to February 2015, the value of the Canadian dollar increased relative to the euro, and remained stable relative to the Japanese yen and the Mexican peso, the latter of which is the currency for a country that [it](#) indicated is the largest source of Canada's imported automotive products.

According to [Unifor](#), the most beneficial impact of lower oil prices on the Canadian economy will be the decline in the relative value of the Canadian dollar to the point where it more accurately reflects the currency's buying power relative to the country's cost of living. [It](#) suggested that this depreciation will have immediate and longer-run effects on net demand for Canadian goods and services in all tradable sectors, including manufacturing, tourism and certain services. As well, [Unifor](#) commented that a lower relative value for the Canadian dollar helps the country's petroleum and resource sectors by mitigating some of the impacts of the decline in global oil prices.

That said, [Unifor](#) and the [Forest Products Association of Canada](#) stated that the ability of a lower Canadian exchange rate to enhance international competitiveness and restore capacity in the manufacturing sector that was lost during the last decade will depend on the duration of that lower exchange rate.



[RBC Financial Group](#) expected the decline in oil prices to result in savings of \$150 billion for U.S. consumers, which it felt should lead to increased spending in other areas; consequently, Canadian exports to the United States should rise. Moreover, [it](#) said that Canadian consumers will save \$11 billion, with those savings leading to more spending.

## **B. The Oil and Gas Sector**

### **1. Background**

The recent decline in global oil prices is expected to reduce capital investments and production in Canada's oil sector. Some companies – such as [Suncor Energy Inc.](#), [Cenovus Energy](#) and [Canadian Natural Resources Limited](#) – have already announced reductions in their expected capital expenditures for 2015.

A January 2015 [report](#) by the Conference Board of Canada forecasted a 23.0% decrease from 2014 to 2015 in real business investment in capital and exploration in Canada's oil sector; declines of 6.6% in oil production and 2.7% in construction activity are expected, due mostly to significant declines in energy investment.

Moreover, according to the Conference Board's January 2015 [report](#), Alberta – which accounts for about 77.0% of Canada's total oil production – is expected to have its real GDP decline by nearly 5.0% in 2015. Saskatchewan, which accounts for approximately 13.4% of the country's oil production, is estimated to have its real GDP fall by nearly 2.0% in 2015, while the percentage for Newfoundland and Labrador – which produces roughly 6.4% of Canada's oil – is also expected to be 2.0%.

A 2015 [report](#) by the International Energy Agency stated that, in the short run, the current decline in global oil production is likely to be offset by oil companies wanting to maximize their output in order to recoup investments in existing projects. However, conventional oil projects – oil projects that do not need specialized processes for extraction and transportation – will likely experience sharp declines in production, as drilling activity occurs mostly in the winter months. As mentioned in a January 2015 [report](#) by RBC Economics, oil sands projects have high upfront capital costs and long pay-back periods, with the result that producers will likely delay new projects due to the higher oil prices that are needed to cover the significant upfront costs.

An August 2013 [report](#) by the House of Commons Standing Committee on Energy, the Environment and Natural Resources found that the decline in oil prices could also affect the transportation of oil. It stated that, as transporting oil by rail tends to be more expensive than by pipeline, lower oil prices may make it less profitable to move oil by rail; pipeline transportation services are not expected to be significantly affected by the decline in global oil prices unless these prices fall to levels that result in lower oil production.

### **2. Witnesses' Views**

Witnesses mentioned reduced capital investment in Canada's oil and gas sector, decreased Canadian oil production and methods to increase export markets for Canadian

oil. The [Canadian Association of Petroleum Producers](#) commented that expected capital investment in oil production in 2015 will decrease by one third, from the planned \$70 billion to approximately \$50 billion. [Encana Corporation](#) noted that it is reducing its capital investment in 2015 by \$700 million, \$300 million of which is in Canada, and [Suncor Energy Inc.](#) said that its capital budget for 2015 will fall by \$1 billion.

In highlighting the level of oil drilling and the number of oil rigs, the [Canadian Association of Petroleum Producers](#) stated that drilling for conventional oil has declined by more than one third since January 2015, and [Packers Plus Energy Services](#) mentioned that the number of North American oil rigs has dropped dramatically since November 2014.

Moreover, the [Canadian Association of Petroleum Producers](#) indicated that its member companies will increase oil production by 150,000 barrels of oil per day in 2015 and by 190,000 barrels per day in 2016. According to [Andrew Leach](#), the increase is likely to be less than expected if oil prices and supplies remain at their current levels.

In focusing on the effect of global oil price changes on corporate revenues, [Suncor Energy Inc.](#) explained that a \$10 per barrel change in the price of oil results in a \$1 billion change in revenues. [Andrew Leach](#) mentioned that the spot price for oil influences the cost of developing new projects, and that existing projects are viable at a lower price of oil due to the higher price of oil during their initial development.

The [Canadian Association of Petroleum Producers](#), [Encana Corporation](#) and [Suncor Energy Inc.](#) identified the need for increased market access through the construction of pipelines to transport oil and gas from Western Canada to Canada's east and west coasts. [Packers Plus Energy Services](#) suggested that Canadian oil delivered to the coast could be sold at a price that is similar to that of Brent crude oil, rather than the price of WTI crude oil, which is lower. The [Alberta Federation of Labour](#) predicted that pipelines to access new markets would not raise the price of Canadian oil, as the number of refineries in the world that can process Canadian oil produced from bitumen is limited. Similarly, [Andrew Leach](#) said that, because of additional refining costs, oil produced from bitumen would not be sold at the same price as that of Brent crude oil if it was exported.

## **C. The Renewable Fuels and Energy Generation Sector**

### **1. Background**

Biofuels from renewable sources, such as ethanol and biodiesel, can be substitutes for gasoline and diesel fuels. Ethanol is typically made from corn or wheat, while biodiesel is made from vegetable oil and animal fat. According to a Natural Resources Canada [report](#), in 2013, Canada was the world's fifth-largest biofuel producer, accounting for 2.0% of global supply.

The biofuel sector benefits from federal and provincial regulations that have established minimum renewable fuel content levels in gasoline and diesel. In particular, the [federal government](#) mandates that 5.0% of the gasoline sold in Canada, and 2.0% of diesel and heating oil, have content from renewable sources. In addition, five provinces –

British Columbia, Alberta, Saskatchewan, Manitoba and Ontario – have biofuel regulations that are similar to, or more stringent than, the federal requirements.

The supply of, and demand for, electricity are affected by population, GDP growth and industrial development. According to [Statistics Canada](#), the mining, as well as the oil and gas extraction, sectors accounted for nearly 19.0% of the total industrial use of electricity in Canada in 2013; the oil and gas extraction sector is concentrated mostly in Alberta.

## **2. Witnesses' Views**

Witnesses commented on federal mandates for ethanol and biodiesel, Canadian ethanol exports and the electricity generation sector. The [Canadian Renewable Fuels Association](#) noted that the federal mandates for blending ethanol in gasoline sources and biodiesel in diesel sources, when these are destined for retail sale, have offset the effects of the low retail demand for ethanol that has resulted from falling gasoline prices. [It](#) explained that the wholesale price of ethanol has historically been \$0.20 per litre less expensive than gasoline, resulting in retailers blending ethanol at ratios higher than the federal mandates; with falling crude oil prices, retailers have less incentive to blend at a higher level than the mandated rate.

As well, the [Canadian Renewable Fuels Association](#) highlighted that the United States has reduced its ethanol imports, which has affected the demand for Canadian ethanol.

In focusing on the long-term impact of declining oil prices on the electricity generation sector, [TransAlta Corporation](#) said that investments to renew power generation infrastructure will be more difficult to make.

## **D. The Manufacturing Sector**

### **1. General Background**

A decrease in global oil prices generally reduces the value of the Canadian dollar relative to the U.S. dollar. In turn, this depreciation affects Canada's manufacturing sector through two main channels: output prices and input costs.

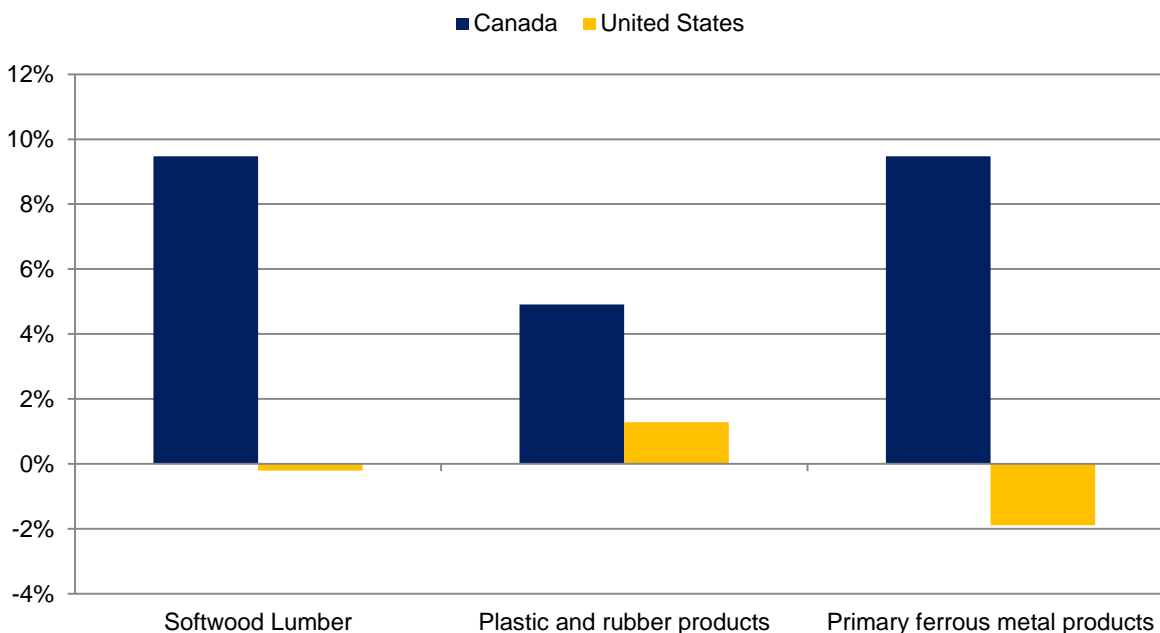
Given Canada's small size relative to the United States, which is the country's largest trading partner, Canada is generally a "price taker." According to [Industry Canada](#), almost 80.0% of the value of Canada's manufacturing exports are destined for the United States and, thus, are traded in U.S. dollars. In the short term, when exports are valued in Canadian dollars, a decrease in the Canada–U.S. exchange rate results in an increase in output prices for Canadian manufacturers that export to the United States. As noted in an August 2005 [working paper](#) by the Bank of Canada, everything else remaining the same, higher output prices lead to increased profitability for Canadian manufacturers.

The August 2005 Bank of Canada [working paper](#) found that, in the long term, a depreciation in the value of the Canadian dollar may lead Canadian manufacturers to reduce their output prices – expressed in U.S. dollars – in order to be more competitive with U.S. manufacturers. With this price competition, Canadian manufacturers could increase the value of their exports to the United States.

For Canadian manufacturers that import U.S. goods that are used as production inputs, because those imports are priced in U.S. dollars, a decrease in the Canada–U.S. exchange rate results in increased input costs for these manufacturers. Everything else remaining the same, higher input costs reduce profitability.

Some goods are both outputs and production inputs for Canadian manufacturers, such as softwood lumber, metal products and plastic products. An industrial product price index measures the change in price, applied at the factory gate, for major commodities. Figure 7 shows the increase in the industrial price, for Canada and the United States, for softwood lumber, plastic and rubber products, and primary ferrous metal products; industrial price increases were higher in Canada than in the United States from January 2013 to December 2014.

**Figure 7 – Industrial Price Increase, Canada and the United States, by Selected Product Group, January 2013–December 2014**



Sources: Figure prepared using information obtained from: Statistics Canada, [Table 329-0075](#), “Industrial product price index, by North American Product Classification System (NAPCS), monthly”; and U.S. Department of Labor, Bureau of Labor Statistics, [Producer Price Index Industry Data](#).

The share of Canadian manufacturers’ output that is exported to the United States is typically greater than the share of their inputs imported from that country; consequently,

on average, Canadian manufacturers benefit from a decline in the Canada–U.S. exchange rate. This depreciation may also result in Canada’s manufacturing sector becoming increasingly attractive for foreign direct investment from the United States.

## **2. Automotive Manufacturing**

According to [Statistics Canada](#), Canada’s automotive sector – including motor vehicles and parts manufacturing – represented more than 10.0% of all manufacturing in 2014. As a result of the recent recession, production in this sector declined as a share of total manufacturing GDP in Canada, falling from 10.7% in 2007 to 7.0% in 2009. Automotive production increased in the post-recession period, as its share of total manufacturing GDP peaked at 10.4% in 2012; in 2014, its share was about the same. In real dollar terms, GDP in Canada’s automotive sector remains below its pre-recession level; it was \$18.0 billion in 2014, down from \$19.8 billion in 2007.

Automotive production is integrated throughout North America. Most of Canada’s automotive production is exported, almost exclusively to the United States. In turn, U.S. automotive parts imports are a significant input into Canadian automotive production and exports; this characteristic distinguishes the automotive sector from most other manufacturing sectors in Canada. [Industry Canada](#) has indicated that, in 2014, Canada’s automotive exports were valued at \$66.3 billion, while the country’s automotive imports totalled \$85.4 billion; the resulting trade deficit was \$19.1 billion.

According to a May 2014 [report](#) by RBC Economics, the slow recovery in Canadian motor vehicle assembly following the recent recession reflects shifting production patterns across North America since the enactment of the *North American Free Trade Agreement*. It highlighted that Mexico’s share of North American automotive production increased from 7.0% in 1994 to 20.0% in 2011, and stated that – partly due to relatively high Canada–U.S. exchange rates following the last recession – the shift towards Mexican automotive production has intensified in recent years. While automotive sales and production in Canada are expected to increase over the next few years along with U.S. economic growth and a lower Canada–U.S. exchange rate, it noted that a planned expansion of capacity in Mexico and higher investment in the United States could further reduce Canada’s share of North American automotive production.

## **3. Steel Manufacturing**

An October 2013 [report](#) by the Canadian Steel Producers Association noted that Canada’s steel manufacturers produce about 14 million tonnes of steel each year, with annual sales of up to \$14 billion; about one third of all Canadian steel shipments are exported. According to it, while steel products – including construction materials, fabricated structures and drilling equipment – are supplied directly to wholesalers, contractors and consumers, steel manufacturers are also part of the supply chain for major Canadian industrial sectors, notably automotive, energy and construction.

#### 4. Forest Products Manufacturing

A May 2014 [report](#) by the Forest Products Association of Canada suggested that the forest products manufacturing sector generates \$19.2 billion in annual GDP, which represents about 9.2% of overall production in the manufacturing sector.

According to a May 2014 [report](#) by the Centre for the Study of Living Standards for the Forest Products Association of Canada, during the 2008–2009 recession, economic activity in the forest products sector – as measured by real GDP – fell by 19.0% and real capital investment in the sector fell by 40.0%. It noted that, although the sector’s economic activity increased from 2009 to 2012, its GDP and capital stock remain below pre-recession levels. Moreover, it stated that – beyond recent business cycle impacts and the effects of a higher Canada–U.S. exchange rate that existed until 2014 – declines in real GDP from 2000 to 2012 were caused by longer-term structural changes in the demand for forest products, including the shift towards electronic media. According to it, as of 2009, the nominal value-added share of the forest products sector in Canada’s economy reached its lowest proportion in 50 years; it was 1.1% in that year, down 3.2 percentage points from 4.3% in 1961.

The Forest Products Association of Canada’s May 2014 [report](#) also stated that gains in technology – acquired through research and development, and the replacement of outdated capital assets – supported the international competitiveness of the wood product manufacturing sector during the recovery from the recent recession, as labour productivity grew at an average annual rate of 1.7% from 2008 to 2012. Over the same period, paper manufacturing labour productivity fell by 2.3%, which limited productivity gains in the forest products sector overall.

#### 5. Witnesses’ Views

Witnesses spoke about the effects of declining global oil prices on the manufacturing sector generally, and on three subsectors in particular: automotive, steel manufacturing and forest products manufacturing.

The [Canadian Labour Congress](#) said that, in business planning, Canada’s manufacturing sector is considering a number of factors, including the following: the decline in global oil prices; geopolitics in the Middle East; economic instability in Europe; and U.S. reactions to European instability. In particular, [it](#) noted that, following a recession-induced semi-permanent loss of capacity in several manufacturing sectors that export, business investments in manufacturing and in other areas have been slow to return to previous levels. In [its](#) view, employers in the manufacturing sector will increase investment and hiring only once the Canadian economy shows sustained growth and if an exchange rate of C\$0.80 for every US\$1.00 prevails.

According to [Philip Cross](#), production in Canada’s manufacturing sector is unlikely to return to the levels in the years prior to the recent recession, because during the recession and in the years that immediately followed, manufacturers shifted from supplying exports to the United States to supplying Western Canada’s oil and gas sector.

[Unifor](#) highlighted the need to maintain diversity in the economy by maximizing value-added links between the manufacturing and the natural resource sectors. [It](#) stated that Canada should have invested more in petroleum refining over the last decade, when oil prices were higher and the oil and gas sector was more profitable. In particular, [it](#) noted that, since 2002, real GDP in petroleum refining has declined by more than 10.0% at the same time that oil and gas extraction has been rising.

According to Canadian Manufacturers & Exporters' [submission](#) to the Committee, 76.0% of Canadian manufacturers are optimistic that lower oil prices – coupled with stronger U.S. demand for Canadian manufactured goods and a lower relative value for the Canadian dollar – will increase sales, profits and employment in Canada's manufacturing sector in 2105. [It](#) also noted that Canadian manufacturing production is likely to grow by more than 5.0% from 2014 to 2015.

To ensure that Canada's manufacturing sector benefits from lower oil prices and the depreciation in the value of the Canadian dollar, [Canadian Manufacturers & Exporters](#) identified the need for manufacturers in Canada – especially small- and medium-sized businesses – to remain globally competitive by adopting three measures: new production and process technologies; improved skills training; and better collaboration with universities and colleges to provide students with more practical experience. [It](#) stated that, at present, the potential cost savings for the manufacturing sector resulting from lower oil prices – and, thereby, reduced energy input costs – will not result in significant savings. That said, [it](#) indicated that some manufacturers will experience cost savings through lower input costs for plastics, petrochemicals and refined petroleum products.

[Canadian Manufacturers & Exporters](#) also said that, to date, the trucking and rail sectors have not passed their savings resulting from lower energy costs to customers in the form of lower prices. According to [it](#), at least a portion of these cost savings are being reinvested to improve capacity and productivity, and to increase employment. [It](#) noted that recent reinvestments of profits by oil refineries to increase capacity and productivity partly explain the relatively greater decline in global oil prices than in retail gasoline prices.

In commenting on the effects of fluctuating exchange rates on capital investment in Canada's manufacturing sector, [Canadian Manufacturers & Exporters](#) stated that companies with high inventory and material costs may not be able to increase their sales to the United States immediately when there is depreciation in the value of the Canadian dollar. [It](#) said that, over time, lower exchange rates may increase investment in the manufacturing sector as these companies begin to sell more to the United States and, thus, enhance their profitability.

Regarding the automotive sector, the [Automotive Parts Manufacturers' Association](#) mentioned that – for most suppliers – about 50% to 65% of input costs are priced in U.S. dollars. That said, [it](#) noted that, during the recent period of higher Canada–U.S. exchange rates, a number of manufacturers began pricing their input costs in Canadian dollars to avoid risks resulting from exchange rate fluctuations; those manufacturers would not have benefited from the recent depreciation in the value of the Canadian dollar.

Moreover, the [Automotive Parts Manufacturers' Association](#) stated that the growth in North America's automotive sector has occurred mainly in Mexico and the U.S. southeast. [It](#) highlighted that, for 55 Canadian automotive parts manufacturing companies that have established 110 production facilities in Mexico to service the growth in automotive manufacturing in that country, there is no input cost advantage to a lower Canada–U.S. exchange rate.

The [Canadian Vehicle Manufacturers' Association](#) suggested that lower oil prices in the long term would have a mixed effect on Canada's automotive sector in terms of consumer purchases and manufacturing operations. [It](#) noted that, in general, changes in production costs in the sector take time to affect a business' outlook on its competitiveness, investment choices and decisions to pass on savings to consumers, as companies in this sector tend to make long-term commitments through business contracts with suppliers and transportation services. [It](#) mentioned, for example, that new vehicle sales in Canada in January 2015 were about 2.0% to 3.0% higher than they were in January 2014; this growth rate is about the same as what had been expected prior to the oil price declines that began in 2014.

As well, the [Canadian Vehicle Manufacturers' Association](#) stated that, despite consistent sales and automobile production in Canada, the automotive sector is beginning to experience regional differences in sales; for example, in Alberta, new vehicle sales were lower in January 2015 than in January 2014, while overall sales in Canada continued to increase. [It](#) also noted that, although reduced demand is expected in the longer term, lower oil prices have recently strengthened the sales of trucks and crossover utility vehicles in North America. [It](#) suggested that, more generally, production in Canada's automotive sector should rise as a result of lower oil prices and changes in the Canada–U.S. exchange rate, provided U.S. demand for automobiles continues to be high.

Regarding steel manufacturing, the [Canadian Steel Producers Association](#) commented that reduced capital spending in Canada's energy sector will have a direct negative impact on the demand for steel products in this country. That said, [it](#) identified some net benefits in relation to input costs resulting from lower oil prices and changes in the Canada–U.S. exchange rate, such as reduced transportation costs. [It](#) also stated that those that compete with Canada's steel manufacturers are experiencing similar production cost changes through lower oil prices; consequently, to remain competitive internationally, Canadian steel producers must become more productive.

Moreover, the [Canadian Steel Producers Association](#) said that reduced capital spending in Canada's energy sector will have a negative impact on the demand for steel products, including construction materials, fabricated structures, drilling equipment, processing plants, storage facilities, and pipelines and railcars to get Canadian oil and gas products to domestic and export markets.

Furthermore, the [Canadian Steel Producers Association](#) mentioned that, over the last decade and largely because of overcapacity in China and elsewhere, rather than investing in new North American steel plants, manufacturers decided to make productivity improvements by investing in new technologies, including environmental technologies.



To address environmental concerns, the [Canadian Steel Producers Association](#) highlighted that Canada's steel manufacturing sector is investing in technologies and equipment to comply with a range of environmental requirements, mainly provincial greenhouse gas emission regulations. [It](#) stated that, relative to other countries that have less stringent environmental regulations and enforcement protocols, Canadian steel production is more environmentally sustainable in the long term.

As well, the [Canadian Steel Producers Association](#) indicated that a January 2015 determination by the Canadian International Trade Tribunal to establish anti-dumping duties may assist in making the price of concrete reinforcing bar, or steel rebar, more affordable in the British Columbia housing sector; the duties will be applied on China, South Korea and Turkey.

Regarding forest products manufacturing, the [Forest Products Association of Canada](#) said that lower oil prices led to increased production in Canada's forest products sector in the short term because of reduced manufacturing costs and a lower Canada–U.S. exchange rate that supported exports to an expanding U.S. economy. [It](#) suggested that the value of forest product exports has grown by about 10.0% over the last year, and that longer-term growth is expected for a number of products, such as pulp, lumber, tissue and bio-products. That said, [it](#) noted that, although Canada outperforms the United States in terms of sawmill production and is the largest exporter of forestry products to countries such as China, continued investments in value-added transformation, innovation and sustainable production are required in order to remain globally competitive. In particular, [it](#) mentioned that its goal is to add \$20 billion to its current annual productive capacity of \$57 billion.

## **E. The Housing Market**

### **1. Background**

A January 2015 [report](#) by the Bank of Canada predicted that, because of lower global oil prices, Canada's housing market will be weaker in 2015 than it was in 2014. In its view, lower demand for labour in oil-producing provinces will tend to slow or reverse recent migration patterns. In particular, it suggested that ongoing shifts in migration patterns in 2015 resulting from lower oil and gas production in Western Canada are likely to reinforce reduced demand for housing in those provinces.

Forecasts of the impact of the decline in oil prices on the housing market vary, depending on the assumptions made by various organizations. For example, a February 2015 [report](#) by the Conference Board of Canada suggested that the oversupply in some cities' condominium markets and the decline in oil prices will result in a 9.1% decline in total new housing starts across Canada, with such starts falling from 189,400 units in 2014 to 171,670 units in 2015. In its estimation, oil prices will average US\$56 per barrel in 2015.

A recent [report](#) by Canada Mortgage and Housing Corporation (CMHC), which assumed an oil price of US\$60 per barrel in 2015, predicted a smaller decrease in new

housing starts than did the Conference Board of Canada. As shown in Table 1, CMHC expected that new housing starts in Canada will decline by 1.0% between 2014 and 2015 as a result of reduced starts in Alberta, Saskatchewan, and Newfoundland and Labrador; increased starts are expected in Ontario.

Unlike the forecasts by the Conference Board of Canada and CMHC, a February 2015 TD Economics [report](#) predicted that oil prices will decline to below US\$50 per barrel in early 2015 before rising to about US\$65 per barrel in 2016. In its view, and as shown in Table 1, total new housing starts – on average across Canada – will decline by 6.3% from 2014 to 2015; larger-than-average reductions are expected in Alberta, Saskatchewan and Manitoba. It also predicted that Ontario will have a reduction in year-over-year housing starts in 2015, although housing starts in Toronto are predicted to grow by 0.5%. Finally, it expected the Atlantic Provinces, other than Newfoundland and Labrador, to have more housing starts in 2015 than in 2014.

**Table 1 – Forecasts of New and Resale Home Sales and Average Resale Home Prices, Canada and by Province (% change from 2014 to 2015)**

Province	Canada Mortgage and Housing Corporation			TD Economics		
	Sales		Average Resale Price	Sales		Average Resale Price
	New	Resale		New	Resale	
Newfoundland and Labrador	-8.0	-4.9	+2.2	-2.0	-5.3	-5.6
Prince Edward Island	-7.0	-9.4	-1.5	+6.6	-6.5	-0.1
Nova Scotia	+1.4	-4.8	+0.4	+24.4	+4.2	-0.7
New Brunswick	-8.8	-4.4	-0.5	+30.7	-0.6	-0.8
Quebec	-0.8	+2.7	+1.9	-3.5	+5.9	-0.1
Ontario	+6.9	+1.8	+2.2	-1.8	+2.4	+3.0
Manitoba	+1.3	+1.6	+2.3	-20.9	-3.1	-1.9
Saskatchewan	-11.6	-1.9	+1.4	-11.2	-6.7	-3.0
Alberta	-11.3	-0.9	+1.6	-17.4	-30.6	-5.1
British Columbia	-0.2	-5.8	+1.6	-6.0	+5.9	+3.1
Total	-1.0	-0.2	+1.5	-6.3	-2.0	+1.5

Sources: Table prepared using information obtained from: Canada Mortgage and Housing Corporation, [Housing Market Outlook](#), First Quarter 2015; and TD Economics, [Regional Housing Report](#), 12 February 2015.

Both the CMHC [report](#) and the TD Economics [report](#) indicated that, although housing tends to be overpriced at the national level, supply and demand in relation to new and resale homes will continue to be relatively balanced and broadly consistent with such indicators as employment, personal disposable income, mortgage rates and population growth. In particular, along with a reallocation of economic activity toward provinces that do not produce oil, TD Economics expected more balanced supply and demand conditions for housing in cities such as Toronto, Calgary, Edmonton and Winnipeg, and reduced pressures on housing demand and pricing in Ottawa, Montreal, Quebec City, Regina and Saskatoon. As well, CMHC predicted that, despite gains in employment and earnings in major urban centres in provinces that do not produce oil, increases in home prices will limit home buying activity and affordability in those regions.

## 2. Witnesses' Views

Witnesses commented on the impact of lower oil prices on the housing market. In its [submission](#) to the Committee, the Canadian Association of Accredited Mortgage Professionals said that the net impact of lower oil prices on the housing market will be negligible, and that the impacts will primarily reflect changes in three factors: job creation; consumer confidence; and mortgage interest rates. As well, [it](#) provided a provincial perspective, noting that: in three provinces – Alberta, Saskatchewan, and Newfoundland and Labrador – the negative consequences of job losses will not be offset by low interest rates; job growth and low interest rates will increase housing sales in Ontario, Quebec, Manitoba, Nova Scotia, New Brunswick and Prince Edward Island; and the outlook is about neutral for British Columbia. Moreover, [it](#) indicated that, as reductions in mortgage interest rates as a result of falling oil prices have only been moderate, only a modest impact on the housing market should be expected.

The [Regional Municipality of Wood Buffalo](#) stated that, although it tends to have significant difficulty in securing sufficient land to keep pace with economic growth, it was able – in 2014 – to secure new land that will be used to increase the supply of housing. [It](#) mentioned that houses in the region continue to be relatively expensive, as the average price of a single detached home exceeds \$700,000; that said, housing price pressures may be reduced as layoffs in the oil sector continue to occur and more people list their homes for sale.

## F. The Labour Market

### 1. Background

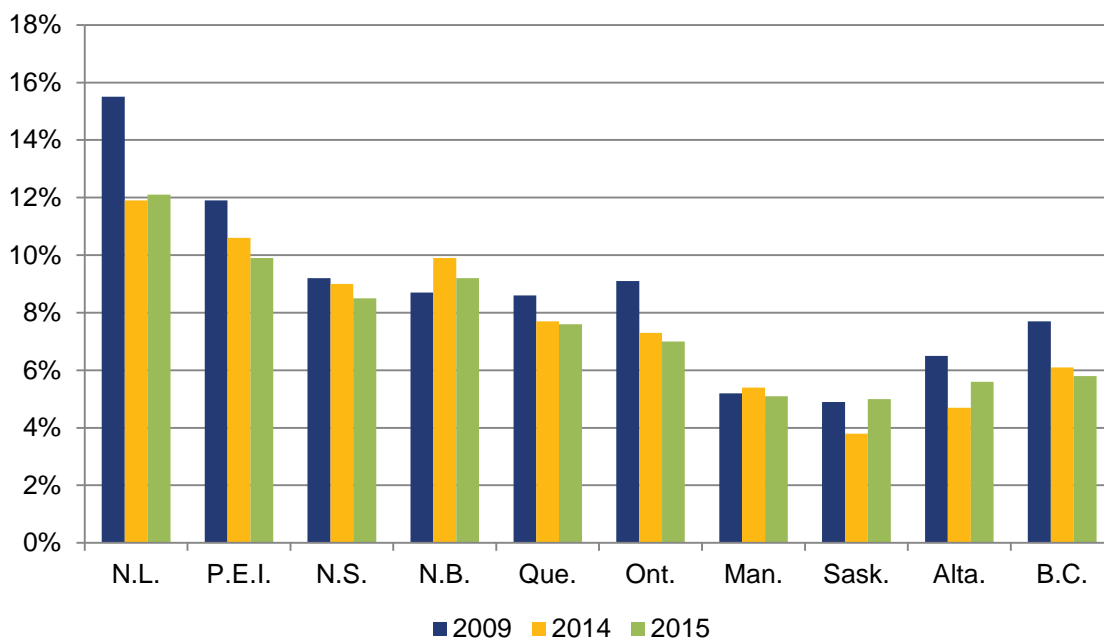
According to February 2015 [remarks](#) by the Bank of Canada's Senior Deputy Governor, in 2014, growth in industrial production exceeded its historical average as a result of higher labour productivity, rather than increased employment. In particular, it noted that monthly net job creation was about 10,000 in 2014, a figure that is about 3,500 lower than what would be consistent with labour market growth for an economy that is operating at full capacity.

When comparing the Bank of Canada's [Labour Market Indicator](#) (LMI) – which is a composite indicator that includes the official unemployment rate and other measures of labour market activity – to Statistics Canada's [unemployment rate](#), estimates of changes in the unemployment rate may have overstated the extent of improvement in the labour market in recent years. For example, while the unemployment rate decreased from 8.3% in 2009 to 6.9% in 2014, the LMI remained relatively unchanged, falling from 7.8% to 7.4% over that period. A January 2015 [report](#) by the Bank of Canada explained that several factors are keeping this broader measure of labour market “slack” above the level of the unemployment rate, including long-term unemployment that is still close to its pre-recession peak of 21 weeks, persistently low average hours worked, and a high proportion of involuntary part-time workers who would have preferred full-time work.

In commenting on other indicators of ongoing weakness in the labour market, a January 2015 [report](#) by the Bank of Canada noted that some youth aged 15 to 24 years and some prime-age workers aged 25 to 54 years have left the labour market. As well, it suggested that wage increases have moderated recently, with inflationary pressures reduced by an increase in labour productivity during 2014.

Although the Bank of Canada’s January 2015 [report](#) indicated that, on average, there continues to be excess supply in the labour market, the state of the labour market differs across provinces. As shown in Figure 8, unemployment rates are the lowest in the provinces west of Ontario, especially in Alberta and Saskatchewan, as provinces with abundant natural resource endowments – especially oil and gas – have continued to have higher-than-average demand for labour since the 2008–2009 recession. According to a February 2015 [report](#) by the Conference Board of Canada, as the economic impacts of oil price declines continue to occur, unemployment rates in 2015 are expected to be higher than in 2014 in those provinces with significant oil reserves, and to be lower in the remaining provinces.

**Figure 8 – Unemployment Rates, by Province, 2009, 2014 and 2015 (%)**



Sources: Figure prepared using information obtained from: Statistics Canada, [Table 282-0002](#), “Labour force survey estimates (LFS), by sex and detailed age group, annual,” CANSIM (database; 2009 and 2014); and Conference Board of Canada, [Provincial Outlook Executive Summary: Winter 2015](#) (forecast for 2015).

According to February 2015 [remarks](#) by the Bank of Canada’s Senior Deputy Governor, nearly one third of the goods and services purchased by Alberta’s energy sector are sourced from other provinces, including the labour services of interprovincial migrant workers. It, as well as a January 2015 Conference Board of Canada [report](#), predicted that

workers will be reallocated across sectors and regions if lower oil prices persist throughout 2015; industrial production is expected to shift away from the energy sector in Western Canada toward non-energy sectors in Eastern Canada. In particular, the Conference Board of Canada's report stated that reduced construction employment in Alberta will have an impact on the Atlantic Provinces, as "fly-in, fly-out" Atlantic Canadian workers earned about \$375 million in 2014.

The Conference Board of Canada's January 2015 [report](#) also found that the depreciation in the value of the Canadian dollar and an increase in Canadian exports are expected to increase economic activity in non-oil and gas producing provinces, albeit to varying degrees; increases in economic activity are predicted to occur mainly in Ontario, Quebec and Prince Edward Island. That said, it suggested that reduced economic activity in oil and gas-producing provinces may not be immediately and/or fully offset by increased economic activity in the non-oil and gas producing provinces. In relation to Ontario's manufacturing sector, for example, it expected that production in the automotive and automotive parts sector will increase gradually as the province makes investments designed to build industrial capacity.

In Canada, a reallocation of production from west to east may be limited due to ongoing interprovincial/interterritorial barriers to labour mobility, including differences in occupational standards and certification requirements in regulated occupations, as well as relocation costs.

## **2. Witnesses' Views**

Witnesses mentioned the effects of lower oil prices on employment, by sector and across provinces. [Canadian Manufacturers & Exporters](#) and [Unifor](#) commented that the decline in oil prices will have little net impact on national employment, as employment across Canada will increase in the non-oil and gas sectors that will benefit from lower oil prices, stronger consumer spending, a reduced Canada–U.S. exchange rate and increased economic activity in the United States. [Canadian Manufacturers & Exporters](#), the [Canadian Steel Producers Association](#) and [Unifor](#) suggested that lower oil prices will lead to immediate job losses in sectors across Canada that employ workers in oil exploration and oil drilling, and in jobs in construction and retail trade that serve the oil and gas sector.

The [Alberta Federation of Labour](#) noted that job reductions in the oil drilling and oil field services sectors will occur as lower global oil prices reduce capital investment and, thus, the sector's workforce. [Suncor Energy Inc.](#) said that it is reducing its workforce by 1,000 individuals.

As well, the [Alberta Federation of Labour](#) stated that employment in certain subsectors of the oil and gas sector – such as downstream value-added production that includes upgraders, refiners and petrochemicals – will not be affected by lower oil prices. In [its](#) view, lower oil prices and a weaker labour market make it easier to develop value-added projects, such as upgraders. [It](#) also said that the maintenance of oil facilities has led to more stable employment for individuals in construction, and [it](#) indicated that jobs for the

construction of upgraders and refiners are more long-term due to infrastructure maintenance.

[Canadian Manufacturers & Exporters](#) commented that, although the restructuring in the Canadian manufacturing sector that occurred from 2002 to 2012 resulted in increased innovation, greater investments in technology, and more effectiveness and efficiency in production processes, this restructuring process was challenging for businesses; 20,000 manufacturing operations closed and 600,000 manufacturing jobs were lost. The [Canadian Vehicle Manufacturers' Association](#) noted that the automotive sector accounted for about 40,000 of those lost jobs.

The [Forest Products Association of Canada](#) said that, partly due to falling oil prices, employers in the forest products sector have hired 8,000 workers since 2013; their goal is to create 60,000 new jobs by 2020.

The [Regional Municipality of Wood Buffalo](#) stated that the temporary foreign worker program plays a valuable role in addressing a shortage of local individuals who are willing and able to work in the hospitality and retail sectors. [It](#) also identified two particular challenges in the social, community and economic integration of temporary foreign workers: the difference in wages between foreign and domestic workers, and the higher cost of living in that region.

[Canadian Manufacturers & Exporters](#) suggested that, to some extent, it is becoming easier to find people with skilled trades training; the lack of skilled trades workers has accounted for most of the constraint on growth in Canada's manufacturing sector. In [its](#) view, there will continue to be excess demand for skilled trades workers in various sectors and regions across the country, particularly in the manufacturing sector in Eastern Canada.

[Wade Locke](#) highlighted that 4.0% of Newfoundland and Labrador's labour force is employed in the province's oil and gas sector, while 4.0% to 5.0% of the province's population moved to Alberta to work in the oil and gas sector. [He](#) suggested that layoffs in Alberta will have an immediate impact on Newfoundland and Labrador's economy, as well as on the province's revenues.





# CHAPTER 5 – PROPOSALS FOR FEDERAL ACTION TO MITIGATE NEGATIVE IMPACTS OF LOWER OIL PRICES ON THE CANADIAN ECONOMY

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Witnesses proposed a variety of measures that they believe would mitigate the negative impacts of lower oil prices on the Canadian economy. In particular, they discussed measures relating to taxes, regulations, public infrastructure, direct government support for certain sectors, monetary policy, and retail gasoline and global oil prices

## A. Taxes

According to the [Canadian Labour Congress](#) and [Canadian Manufacturers & Exporters](#), along with increased regulation of greenhouse gas emissions, tax incentives are needed to enhance business investment in equipment to increase production capacity in the manufacturing sector. They, along with the [Canadian Vehicle Manufacturers' Association](#), the [Canadian Steel Producers Association](#) and the Forest Products Association of Canada – through a [background document](#) provided to the Committee – called for a long-term extension of the temporary accelerated capital cost allowance for new investments in machinery and equipment.

While the [Canadian Labour Congress](#) thought that corporate tax rates should be increased to enable infrastructure investments by the public sector, the [Canadian Steel Producers Association](#) and the [Automotive Parts Manufacturers' Association](#) highlighted the need to maintain low corporate tax rates to attract new business and to ensure that Canada's manufacturing sector is internationally competitive.

In the view of the [Canadian Vehicle Manufacturers' Association](#), the government should create an ability for large companies to exchange unused Scientific Research and Experimental Development investment tax credits for direct funding, provided those funds would be used for new research and development projects.

[RBC Financial Group](#) requested that – to counteract the net negative effects that lower oil prices have on economic growth – the government focus on increasing productivity, especially for small- and medium-sized businesses; in its view, this goal could be achieved through tax incentives, tax reform and regulatory improvements.

## B. Regulations

In highlighting the regulatory regime for oil and gas production in Canada, [Encana Corporation](#) advocated a review of legislation and regulations to ensure a balance between environmental protection and economic competitiveness. It also mentioned that, for resource development on First Nation lands, the government must play a leadership role to improve clarity and increase shared economic prosperity through the consultation process on Aboriginal and treaty rights.

Regarding a greenhouse gas emissions policy, [Andrew Leach](#) suggested that a Canadian policy should have a clear global goal that, if implemented worldwide, would achieve that goal; for example, the global goal could be a 2° Celsius reduction in temperature.

### **C. Public Infrastructure**

The [Canadian Labour Congress](#), [Unifor](#), the [Canadian Steel Producers Association](#) and the [Regional Municipality of Wood Buffalo](#) made similar proposals for increased infrastructure investments by the public sector to counteract the negative economic impacts of lower oil prices; in their view, such investments would create domestic jobs, promote Canada's environmental goals, stimulate new private sector investment and increase productivity.

The [Canadian Labour Congress](#) suggested that, in order to attain a more desirable sectoral mix and a greater share of domestically sourced output and employment, new infrastructure investments by the public sector would require government strategies relating to trade, sectoral development and domestic procurement strategies. [It](#) stated that public procurement would increase public transit, use domestic steel, and support green technology for retrofitting houses, including through the use of Canadian forest products.

### **D. Sectoral Support**

The [Canadian Vehicle Manufacturers' Association](#) proposed that the federal government should make the Automotive Innovation Fund permanent and review the program's incentives with a view to attracting applications.

[Encana Corporation](#) suggested that a price of \$50 per barrel of crude oil is not sustainable for Canada's oil sector, and that the sector and the government must find ways for the sector to thrive and transition to a more realistic long-term price.

In a [background document](#) provided to the Committee, the Forest Products Association of Canada advocated continued government support of the Investments in Forest Industry Transformation Program. [It](#) also urged the government to provide additional support to FPIInnovations, and to bio-energy initiatives to diversify Canada's energy sector. Finally, [it](#) suggested that the government's efforts to enhance workforce skills through the Canada Job Grant, the Canada Apprentice Loan, and the Flexibility and Innovation in Apprenticeship Technical Training pilot program should continue.

[Canadian Manufacturers & Exporters](#) and the [Forest Products Association of Canada](#) mentioned that the government should pursue international trade and regulatory cooperation to improve global competitiveness; one focus should be increasing the effectiveness of regulatory enforcement measures among competing jurisdictions.

[Unifor](#) identified the need for continuing strong and proactive federal economic strategies to help sectors that it characterized as strategic; in its view, the automotive, aerospace, telecommunications equipment and tradable services, such as digital media, sectors are strategic.

In its [submission](#) to the Committee, the Canadian Renewable Fuels Association made a number of suggestions to assist the renewable fuels sector, including: an increase from 2% to 5%, by 2020, in the mandated biodiesel amount in retail diesel fuel; an exemption for cellulosic biofuels from the fuel excise tax; and the development of tax incentives, such as a tax credit or capital cost allowance, to achieve two goals: encourage the sale of fuels with higher ethanol content at retail establishments through the replacement of existing pumps, and promote new market entrants. It also advocated the creation of a biorefinery fund from the remaining funds in the Sustainable Development Technology Canada's NextGen Biofuels Fund.

## **E. Monetary Policy**

[Unifor](#) proposed that, like policies pursued in other industrialized countries, Canadian monetary policy action is needed to remove the link between changes in oil prices and exchange rate fluctuations; to that end, it suggested that the Bank of Canada should reconsider its decision to not intervene in foreign exchange markets. As well, [it](#) advocated government regulation of inflows of foreign capital that are caused by very high oil prices, particularly through a stronger mechanism for reviewing foreign direct investment in the oil sector when oil prices – and thus the Canada–U.S. exchange rate – increase.

According to the [C.D. Howe Institute](#), the Bank of Canada should be more explicit in its assessment of the recent decline in oil prices, so that the Bank's changes to its target for the overnight interest rate and the effect of these changes on inflation could be evaluated.

## **F. Retail Gasoline and Global Oil Prices**

The [Canadian Automobile Association](#) stated that, due to the lack of clarity about the absence of proportionality between changes in retail gas prices and changes in global oil prices, the impacts of changing oil prices on retail gas prices for consumers over time should be studied.



# APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p><b>Alberta Federation of Labour</b> Gil McGowan, President</p> <p><b>As an individual</b> Andrew Leach, Associate Professor, Alberta School of Business, University of Alberta</p> <p><b>Canadian Association of Petroleum Producers</b> Tim McMillan, President and Chief Executive Officer</p> <p><b>Canadian Fuels Association</b> Peter Boag, President and Chief Executive Officer</p> <p><b>Canadian Renewable Fuels Association</b> Andrea Kent, President</p> <p><b>Encana Corporation</b> Richard Dunn, Vice-President, Canadian Government Relations</p> <p><b>Packers Plus Energy Services</b> David McLellan, Senior Economist and Business Strategist</p> <p><b>Suncor Energy Inc.</b> Steve Reynish, Executive Vice-President, Strategy and Corporate Development</p> <p><b>TransAlta Corporation</b> Rob Schaefer, Executive Vice-President, Trading and Marketing</p>	2015/03/10	70
<p><b>As individuals</b> Jean-Thomas Bernard, Visiting Professor, Economics, University of Ottawa Philip Cross, Research Fellow, C.D. Howe Institute Wade Locke, Professor, Memorial University of Newfoundland</p> <p><b>C.D. Howe Institute</b> Steven Ambler, Holder, David Dodge Chair in Monetary Policy</p> <p><b>RBC Financial Group</b> Craig Wright, Senior Vice-President and Chief Economist</p>	2015/03/11	71
<p><b>Automotive Parts Manufacturers' Association</b> Flavio Volpe, President</p> <p><b>Bank of Canada</b> Rhys Mendes, Deputy Chief, Canadian Economic Analysis</p>	2015/03/12	72

Organizations and Individuals	Date	Meeting
<b>Canadian Automobile Association</b> Jeff Walker, Vice-President, Public Affairs	2015/03/12	72
<b>Canadian Labour Congress</b> Angella MacEwen, Senior Economist, Social and Economic Policy		
<b>Canadian Manufacturers and Exporters</b> Jayson Myers, President and Chief Executive Officer		
<b>Canadian Steel Producers Association</b> Ron Watkins, President		
<b>Canadian Vehicle Manufacturers' Association</b> Mark Nantais, President		
<b>Forest Products Association of Canada</b> Catherine Cobden, Executive Vice-President		
<b>Regional Municipality of Wood Buffalo</b> Melissa Blake, Mayor		
<b>Unifor</b> James Stanford, Economist		

# **APPENDIX B LIST OF BRIEFS**

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## **Organizations and Individuals**

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**Canadian Association of Accredited Mortgage Professionals**

**Canadian Association of Petroleum Producers**

**Canadian Manufacturers and Exporters**

**Canadian Renewable Fuels Association**

**Cross, Philip**

**Locke, Wade**





# REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos.70-72 and 80](#)) is tabled.

Respectfully submitted,

James Rajotte

Chair

