THE IMPACTS OF THE OIL PRICE COLLAPSE 0F 2014: IS IT JUST A DIFFERENT TIME OR IS IT DIFFERENT THIS TIME?

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Oil Price Collapses Past and Present

"Those who cannot remember the past are doomed to repeat it"

- The current Price drop was not the first nor the steepest
- In the past thirty years (1984-2013), five other oil price steep declines (30 percent or more) and sudden (in a six-month period), coinciding with major changes in the global economy and oil market:
    - Increase in oil supply and change in OPEC policy (1985-86); recessions (1990–91 and 2001); the Asian debt crisis (1997–98); the global financial crisis (2007–09); and 2014.

The Catalyst for Oil Price Collapse

- Understanding the factors underlying oil price shocks: Is it the supply side or demand side or both?

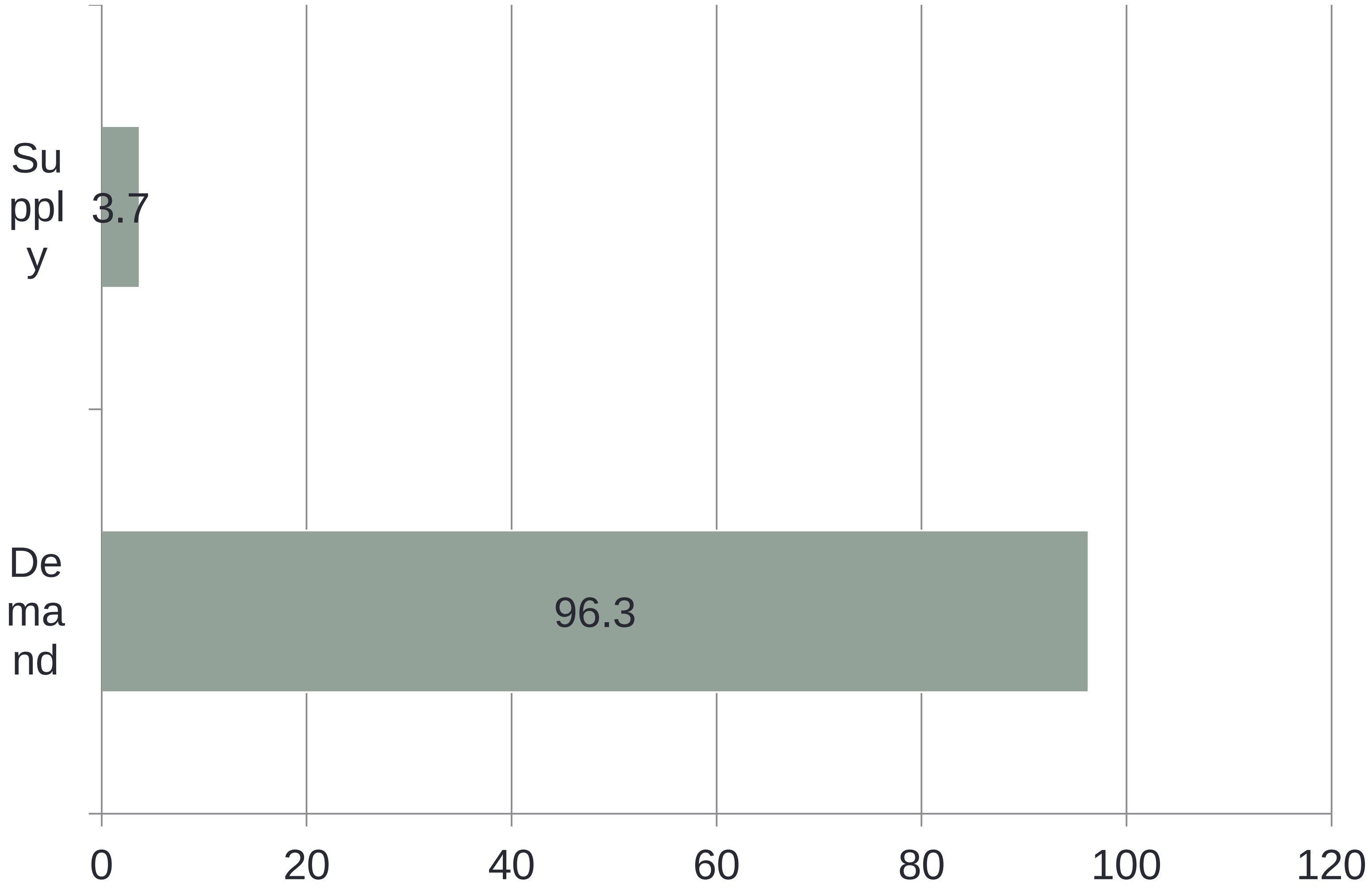
- Understanding the determinants is helpful to guiding policy responses

- Macroeconomic impacts of demand driven and supply driven price movements differ and call for different policy measures for both net importing and exporting countries.

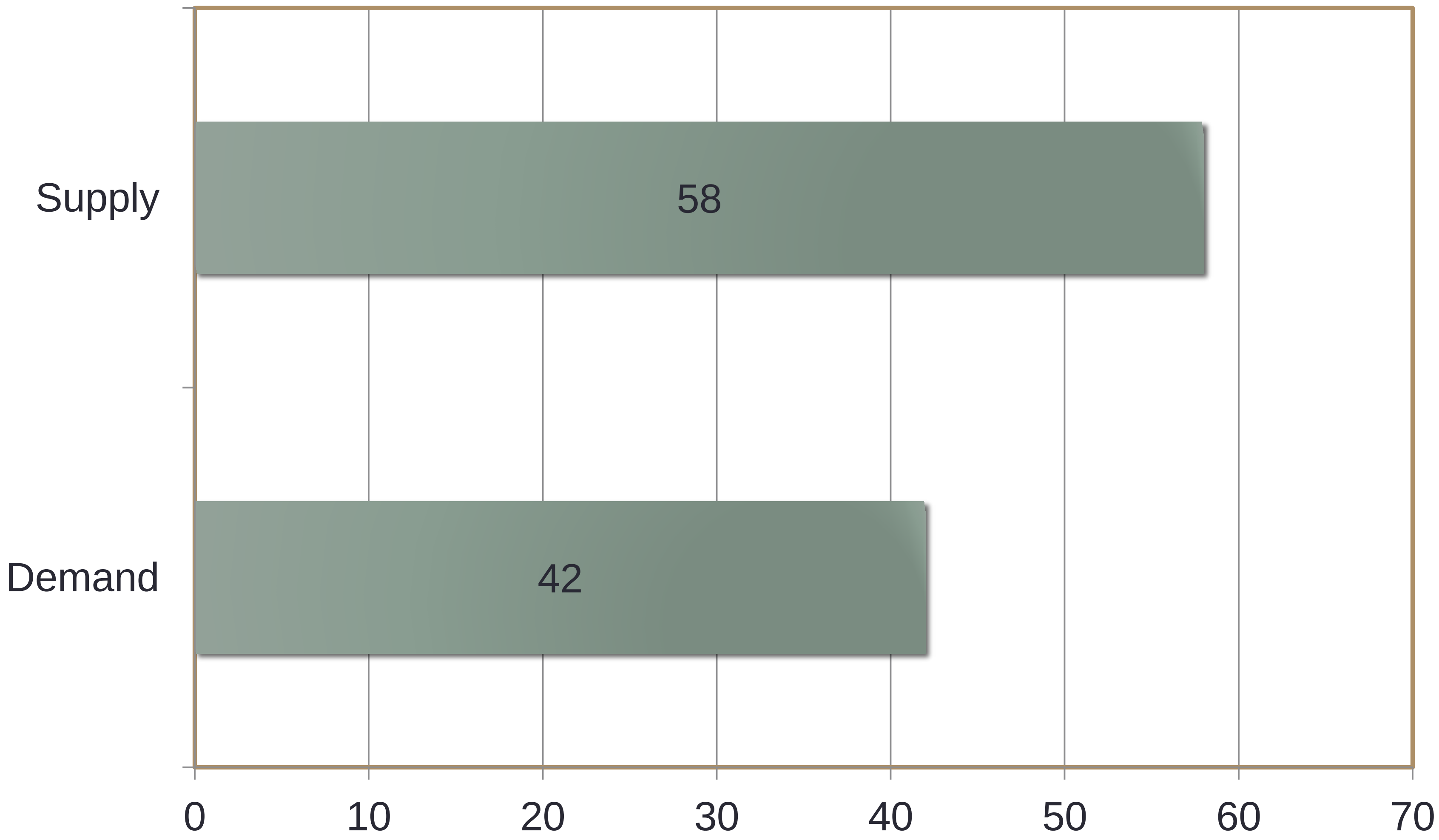
International Monetary Fund (IMF) Attribution Analysis

- The IMF analysis concludes that the current drop started with demand and ended with supply as triggers.
- Methodology: Track daily movements in oil prices relative to global stock prices.
- Examined 38 countries and regions.

Demand/Supply attribution July to October 2014 (%)



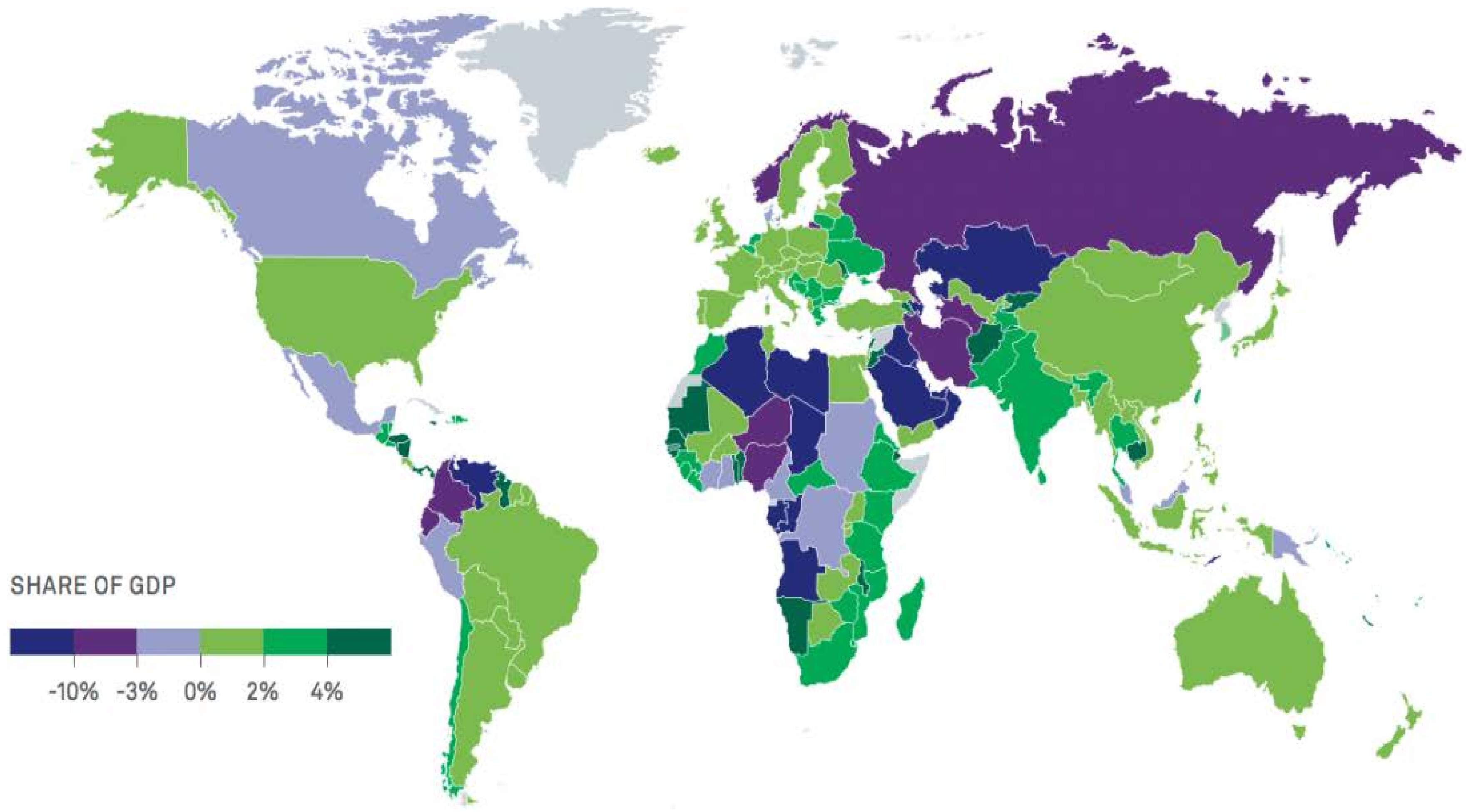
Demand/Supply Attribution October 2014-January 2015 (%)



The Supply Side of The Price Movement

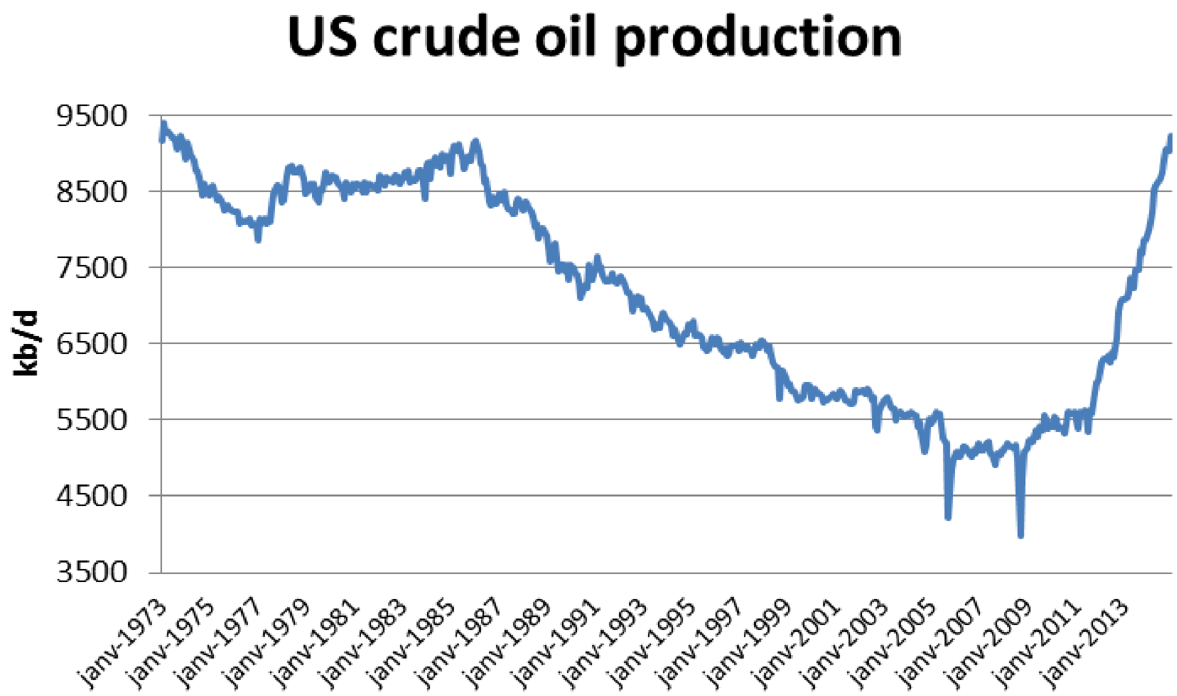
OIL SPILLOVER

Revenue Impact of $50 Oil Price Fall, 2015



Sources: BlackRock Investment Institute, EIA and IMF, January 2015. Notes: The map shows estimated revenues gained or lost from a $50 fall in the price of oil as a share of GDP. The impact is calculated by taking each country's 2013 net imports of oil, multiplying this by $50 and then translating the total into a share of 2014 GDP.

Back to The Future



Impact on Canada

- The front-loaded impact of the oil price shock in Canada has contributed to a very weak first quarter, which has led to a widening of the output gap and additional downward pressure on projected inflation.

- Real GDP growth in Canada is projected to rebound in the second quarter and subsequently strengthen to average about 2 1/2 per cent on a quarterly basis until the middle of 2016. The Bank expects real GDP growth of 1.9 per cent in 2015, 2.5 per cent in 2016, and 2.0 per cent in 2017.

- Last October The Bank of Canada forecast a 2.4% growth in Q1, 2015. I April this year, Bank of Canada Governor, Stephen Poloz, stated that the actual growth was zero! But the front loading of the impacts means that the price shock is a one time thing and will be gone soon.

Impact on Canada Cont’d

- "Because we have a diversified economy, it isn't a devastating impact but it certainly made my budget more challenging when I attempted and succeeded in balancing it," Oliver said in an interview with “ (Canada's finance minister, Joe Oliver, May 13, 2015)
- The day after the minister’s statement, OECD slashed its growth forecast for the Canadian Economy to 1.5% for this year down from 2.6% it forecasted last November and 2.2% last March

Canadian Regional Impacts

- The negative net Impact on Canada’s major oil producing provinces, will be larger than the impact on the country as whole.
- For Example, in Alberta, the center of oil activity in the country, the province which has grown faster than the national average for several years, is expected to barely expand this year and may even contract.
- The province projects a budget deficit of close to C$5 billion this year and C$3 billion next year.

Canadian Regional Impacts Cont'd

- But, the provinces of Ontario an Québec (oil consumers) will benefit the most from weaker oil prices. A combination of stronger U.S. economic growth and the weaker Canadian dollar will boost demand for exports from these provinces

Canadian Regional Impacts Cont'd

- Canadian Regional Impacts vary based on the various provinces' position as a net producer or net consumer of oil. The results of a recent survey of Canadians reflects these differences:
  - Forty-six per cent said they thought it was good for the economy, while 42 per cent said they thought it was bad for the economy, and 12 per cent didn't know
  - When broken out by region, 70 per cent of Albertans thought it was bad for the economy compared with 39 per cent of Ontarians (Canada's largest oil consuming province). Only 22 per of Albertans thought it was good for the economy, compared with 49 per cent of Ontarians

Not All Impacts Will Be Negative

- The most immediate impact of oil price drop will be positive
- Lower energy prices are akin to a tax cut: consumers' real incomes and spending rises which has a multiplier effect on GDP.
- Production in non-energy sectors will benefit from reduction in production costs.
- However, these benefits may be partially offset by declining incomes in the oil sector. The lower oil prices, if they persist, will reduce investment and exploration in the oil sector. There re signs this is already happening. Several planned large oil sand projects have been delayed or cancelled.
- Lower oil prices have also contributed to a weaker Canadian dollar, benefiting Canadian exports.

Concluding Remarks

- The current oil price environment will have positive and negative impacts on all economies.

- The net effect will depend on the interaction of impacts on energy and non-energy sectors.

- Oil price spikes are self-curing: The high price encourages efficiency, innovation (a crisis is a terrible thing to waste), renewables which increase supply and reduce demand, lowering prices.

- The current oil price environment provides a rare opportunity to fix broken energy policies with least pain

Concluding Remarks Cont’d

- Bold fiscal and monetary policies can soften the effects on the overall economy

- It is Different This time: Renewables have experienced dramatic cost reductions, lower oil intensity, advances in exploration and production technologies

- Past oil price crashes were prolonged and proved detrimental to energy efficiency and renewables development. Policy needs to safeguard these accomplishments in the face of lower oil prices.

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