Effect of prolonged oil prices on Canada market studied

If oil prices stay in the $50 range over the next seven years, the Canadian economy will undergo an "economic shock," potentially contracting 23 percent, said **Dinara Millington**, vice president of research at the Canadian Energy Research Institute (CERI). "The low oil price environment is expected to continue for several years," she remarked. "Some analysts and central banks around the world are calling the price of $40 to $45 the new norm and (we) may not potentially see the triple-digit prices that we saw at the beginning of 2013."

"Perhaps the biggest economic change as a result of low crude oil prices in Canada has been the collapse in the Canadian exchange rate against the US dollar." — CERI study

Millington made her remarks at the Ryder Scott Canada reserves conference earlier this year. CERI's study, Study 156, analyzed two seven-year scenarios — a low case and a reference case — using a general equilibrium model to evaluate the impact of an "economic shock" on the financial system as a whole. The effects of such market elements as level of crude oil prices, level of investment, production, exchange rate and exports were evaluated.

The results of the low case of $50-plus oil prices by 2021 compared to the reference case, which calls for $73 a barrel of oil by the same year, indicate a dramatic dent in the economy. Gross domestic product (GDP) will drop almost 25 percent, wages will fall more than 22 percent and employment numbers will decrease by almost 20 percent. The forecasted oil prices used in the study were adjusted using differing US/CDN exchange rates, with a 10-percent higher rate for the reference case.

The chart on this page demonstrates the impact an extended low-price environment will have on Canada's market.

Millington pointed out that since Canada is an oil exporting country, GDP growth will slow, which will erode national income and spending power. Low oil prices will deplete Alberta more than any other province in Canada.

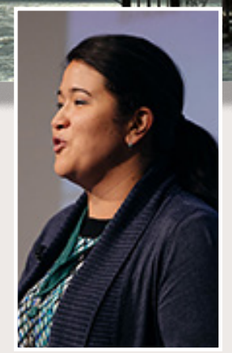
CERI estimates predict that a low-case scenario will drag down a projected $830 billion GDP more than 24 percent to $627 billion, with Alberta bearing 82 percent of the impact. This is no surprise since Alberta is the largest oil and gas producer in the country.

All top economic sectors of the province will see large declines if low-case oil prices prevail. Oil sands and conventional oil, which make up almost 50 percent of Alberta's GDP, are expected to see a drastic drop of approximately 30 percent each.

Not all is doom and gloom on a national scale. Millington said that a low Canadian dollar will boost provincial trade and manufacturing sectors in the non-energy sectors. Ontario, with its high-tech sector, will see more economic growth in the low case.

Each Canadian-dollar-per-barrel increase in the annualized price of WTI would boost Canadian national GDP by $1.7 billion on average, the study shows.

Millington's presentation and others from the Calgary conference are posted at https://www.ryderscott.com/presentations.



Dinara Millington

2015-2021	Unit of Measure	Ref.Case	Low Case	Low vs. Ref. Case	% Change
GDP Growth	Mln CDN$	830,336	626,887	($203,449)	-24.5%
Compensation	Mln CDN$	384,578	297,680	($86,898)	-22.6%
Employment	Thousand person-years	4,109	3,298	(811)	-19.7%
Federal Taxes	Mln CDN$	95,063	71,307	($23,756)	-25.0%
Provincial Taxes	Mln CDN$	58,543	45,457	($13,087)	-22.4%

RS posts price forecasts

Forecasts used in oil and gas reserves filings in Canada

Ryder Scott now posts quarterly price forecasts for oil, gas, natural gas liquids (NGLs) and sulphur through a link on the website home page at www.ryderscott.com. The table provides historical prices and future estimates of 15 U.S. and Canadian benchmarks as well as Canada-to-U.S.-dollar exchange rates.

Price forecasts are especially important in Canada where regulators allow public issuers to file reserves under future-price cases.

The Alberta Securities and Exchange Commission states that "forecast prices and costs are defined in NI 51-101 to be 'generally recognized as being a reasonable outlook on the future.'"

Major reserves evaluation consulting firms play a significant role in establishing reasonable forecast prices and costs used in filings under NI 51-101. Section 4.1 of the national instrument's Companion Policy explains that "(the ASC) would not consider that future prices or costs would satisfy … (its) requirement(s) if they fall outside the range of forecasts of comparable prices or costs used … by major independent qualified reserves evaluators or auditors."

The table lists annual benchmark commodity prices from 2006 to the latest historical prices. Forecasts reach 2033 after which no further escalation is done.

Editor's Note: Information in the table represents our estimates of future prices and other market parameters for the oil and gas industry. The information reflects our opinion of what is reasonable at that point in time. Our estimates are based on an informed interpretation of information extracted from various sources including, but not limited to, public websites of government agencies and oil and gas marketers. Our estimates are based on information available as of the effective date of the forecast. Ryder Scott accepts information from the sources as represented without independent verification. Ryder Scott accepts no responsibility for any inaccuracies in the source information.

We revise our forecasts quarterly. They are subject to material changes because of a high degree of uncertainty inherent in oil and gas price forecasting. Furthermore, material changes occurring between quarterly updates may not be reflected in our latest, published price forecast. Ryder Scott, its directors, officers, employees and/or consultants shall not be liable or otherwise held responsible for the use of the forecasts. Use of the forecasts is performed at a user's own risk and discretion.