

# Oil price drop triggers sharp decline in Canadian economy

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**2 June 2015**

Canada's economic output (GDP) fell 0.6 percent in the first quarter of 2015, its largest contraction in six years, Statistics Canada reported last Friday. The last time such a sharp contraction occurred was in the second quarter of 2009, the height of the global financial meltdown.

The figures took all economists by surprise. According to a survey carried out prior to the announcement, economists had reckoned growth would come in at around 0.3 percent for the quarter. The Bank of Canada still maintains the economy will pick up in the remainder of 2015, believing that low energy prices will enable manufacturing and other export industries to enjoy growth.

A significant contributor to Canada's negative growth was the economic contraction announced the same day in the US, where the economy shrank by 0.7 percent during the first quarter. The US is the main destination for Canadian exports, which were down by over 1 percent for the quarter. Imports also declined.

Bank of Canada Governor Stephen Poloz justified his decision earlier last week to hold interest rates at 0.75 percent by citing hopes that a pickup in the US economy later in the year would boost growth in Canada.

The drop in business investment was even more pronounced, falling by 9.7 percent. Mining, quarrying, and oil and gas investment saw an annualized drop of 11 percent. Mining and oil and gas extraction was down 30 percent.

Meanwhile, activity in the financial sector continued to rise, reflecting the international trend which has seen companies turn to myriad forms of speculation and increased payouts to shareholders in the form of dividends and share buy-backs, rather than investment in productive activity.

Canada's economy was hit hard by the decline in oil prices last summer. The crisis in the oil industry has already resulted in thousands of layoffs in the country's

main oil-producing regions, but the worst is likely still to come.

A study by the Petroleum Labour Market Information (PetroLMI) division of Enform published in May predicted that 185,000 jobs could go across the oil and gas sector and supporting industries. This would equate to approximately 25 percent of the 720,000 jobs in Canada that were dependent on oil and gas either directly or indirectly in 2014.

Around two-thirds of these layoffs would take place in Alberta, Canada's largest oil-producing province, the study predicted. A further 20,000 would go in British Columbia and 14,000 in Ontario. In all, oil companies have announced over \$30 billion in expenditure reductions for this year.

Significantly, the study predicted that the impact on the oil and gas industry would be much greater and more long-lasting than in 2008-09, when energy companies slashed investment by 39 percent. In 2009, this contributed minus 1.5 percent to Canada's GDP. "The outlook for 2016 and beyond is still uncertain, and there are no indications that the industry will recover as quickly in 2016 as it did in 2010," PetroLMI wrote in the study.

Faced with such a bleak outlook, oil industry figures have stepped up pressure on Alberta's newly-elected New Democratic Party (NDP) government to lay out its plans for a review of the royalties paid by oil firms and its broader policy towards the energy sector. Canadian Natural Resources Limited (CNRL), the country's largest oil producer, announced last Wednesday that it is putting new investment plans on hold and is cancelling an investors' conference later this month that was to provide details on future projects.

In comments on the CNRL move, Jeremy McCrea, managing director of institutional research at AltaCorp Capital, stated, "There is legitimate concern. If a company has a budget and they are looking at the economics of a

well, and there is some uncertainty what the (royalty) rate is, there is a higher level of risk ... and so if they can have less risk in other jurisdictions, that is where the capital will be deployed.”

The oil companies are kicking at an open door. The NDP has repeatedly emphasized its readiness to collaborate closely with the industry and reassured investors that no steps will be taken that undermine their core interests.

Premier Rachel Notley announced that her government would not present its first budget until the fall, allowing it the time to coordinate its policies with the oil industry and big business as a whole. Notley has already stressed that she has been in close telephone consultation with oil company executives.

Speaking after the new government’s first cabinet meeting last Wednesday, Notley remarked on concerns expressed by industry about policy changes: “In order to deal with these issues, we’re going to take a thoughtful, considered, intelligent approach to moving forward and we are going to do it with a great deal of consultation and a great deal of dialogue and they’re not going to be surprised by anything.”

At the same press appearance, Notley claimed that the province’s financial position was much worse than she and her party colleagues had previously thought. She warned that this would affect some election promises. This is an unmistakable sign that the trade union-supported NDP government is preparing to unveil further attacks on workers in the name of financial stability and balancing the budget.

The Canadian Association of Petroleum Producers (CAPP) has expressed its full confidence in its ability to work closely with the NDP. “I think we share the same goal as the Alberta government right now and that’s keeping Albertans working,” stated Jeff Gaulin, communications vice president at CAPP. “We’re in this together and I think at the end of the day that if we recognize that it’s a very delicate and challenging time, we’ll make smart decisions about what policies are needed to keep the industry attractive.”

For years, the NDP has criticized the oil companies for their unwillingness to conduct more of their refining operations in Alberta and other oil-producing provinces.

Notley raised this again in the wake of her victory, commenting in a television interview that it was necessary to go beyond Albertans being “drawers of water and hewers of wood.” “Let’s make sure that we have more upgraded product and more upgrading here because the

higher up the supply chain you get, the more a drop in oil prices helps those higher up in the supply chain,” she commented.

The nationalist framework of her outlook was made even more explicit in her remarks on the Keystone-XL pipeline, which she opposed on the basis of national interest rather than the adverse environmental consequences the project would have. “My concern about Keystone as it’s currently thought out, and of course, it doesn’t need to be exactly what it is right now, is that it’s going to ship a lot of jobs south of here,” she said.

The logical conclusion to reach from such comments is that the NDP government is preparing to offer big business additional incentives to encourage investment and activity in the province based on increased profits and lower wages so as to undercut locations in the United States.

The Alberta government’s determination to establish a close working relationship with big oil is not merely aimed at winning over the provincial ruling elite. At the federal level, the NDP is entering an election campaign with the polls showing that it has a chance of forming the next government in Ottawa, either as part of a coalition or on its own.

The NDP is therefore intent on demonstrating to the Canadian ruling elite that it would be a dependable instrument in enforcing its interests. Under conditions of a deteriorating Canadian economy, global economic slump and increased tensions between the major powers, this will inevitably mean a continuation and intensification of the austerity policies pursued by the Conservative Harper government at home and the assertion of Canadian imperialist interests abroad through military interventions and war.



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