



True North in  
Canadian public policy

# Commentary

January 2019

MLI LABOUR MARKET REPORT FOR Q4, 2018

## Storm clouds on the horizon: Record low prices for Alberta oil will affect Canadian employment figures

Philip Cross

### Overview

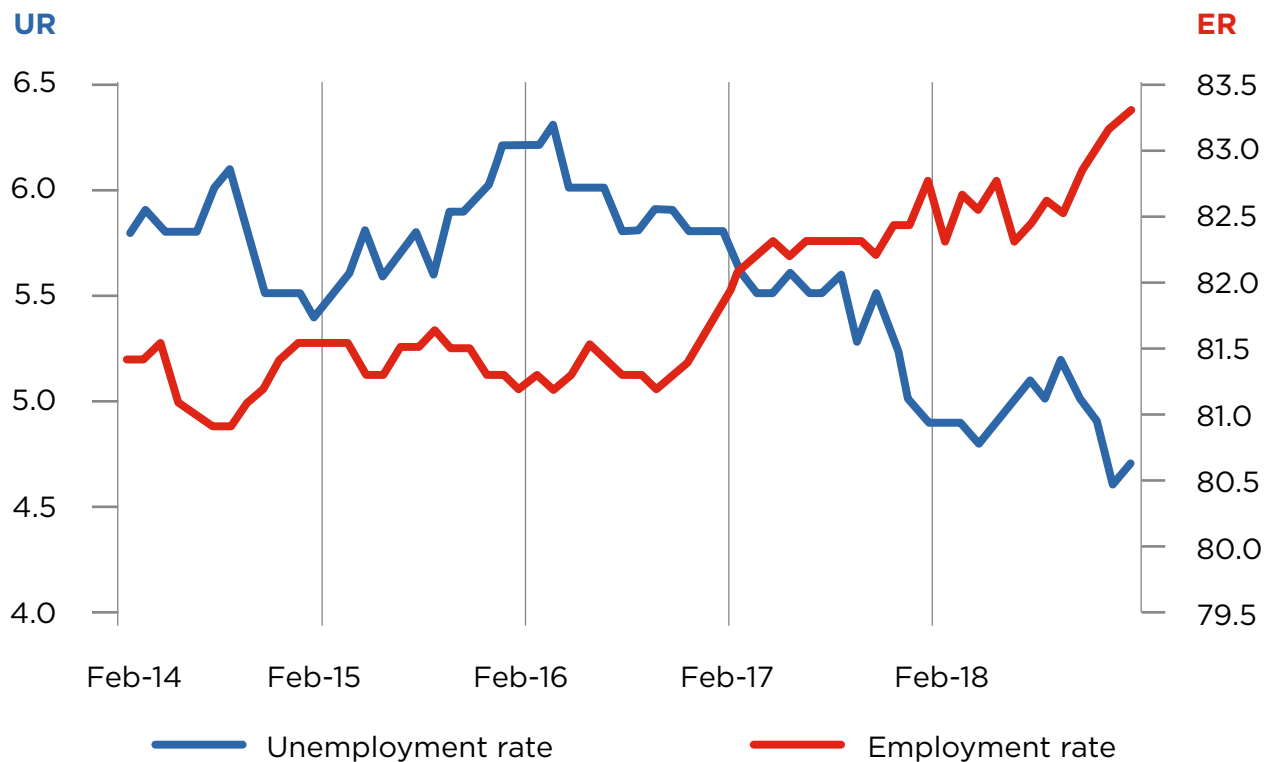
Canada's employment rate rose by 0.5 percent in the fourth quarter. This increase, along with a 0.3 percent gain in GDP in October, is indicative of sustained economic growth. However, the leading indicators of the economy have softened, notably commodity prices and global stock markets that saw a marked sell-off in December. Record low prices for Alberta's oil will affect all of Canada, as energy is our leading export and 7.5 percent of Alberta's labour force comes from outside the province, by far the most in Canada.

### Introduction

The increase in employment outstripped population growth among adults between 25 and 54 years old. As a result, the employment rate for prime-aged adults jumped from 82.6 percent in the third quarter to 83.2 percent in the fourth, the first significant increase since early 2017 (see Chart 1). Meanwhile, the unemployment rate fell from 5.1 percent to 4.7 percent. Job growth over the twelve months of 2018 was 0.9 percent, a considerable slowdown from 2.3 percent in 2017.

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Chart 1: Unemployment and employment rate, 25-54

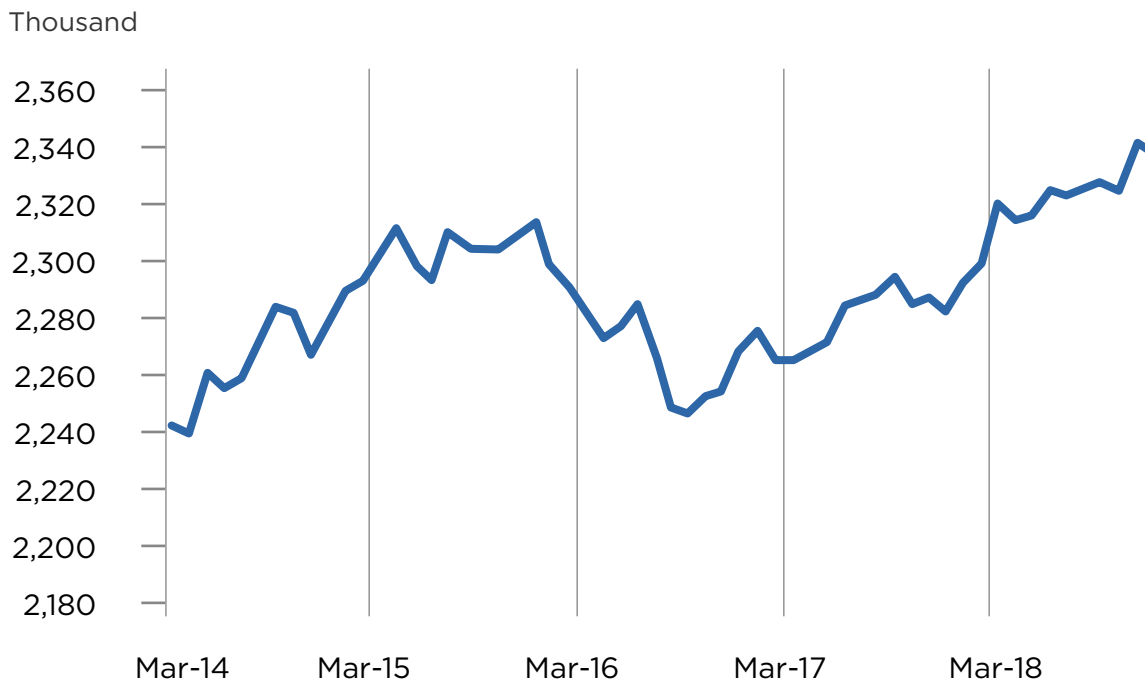


Source: Statistics Canada CANSIM Table 14-10-0287-01

The upturn in the employment rate in early 2017 reflected an improvement in overall economic growth that year. Yet there are few indications that the recent increase in the employment rate augurs a similar sustained upturn. This is reflected in the continuing slow wage growth of about 2 percent and a dip in the Macdonald-Laurier Institute's Leading Economic Indicator in October and November. The hike in fourth-quarter growth may reflect a temporary boost to business confidence from the agreement in principle on an updated free trade agreement with the US and Mexico and the election of pro-business governments in Ontario in June and in Quebec in October. The legalization of cannabis also may have given a temporary lift to some sectors of the economy.

As well, the slump in Alberta's oilpatch has not yet been reflected in its employment, which remained steady through the end of 2018. The slump in oil prices starting late in 2014 was not reflected in lower employment in Alberta until October 2015, although the still-fresh memory of severe labour shortages in 2014 may have made firms more hesitant to layoff workers at that time (see Chart 2). It is noteworthy that personal bankruptcies have begun to rise recently, notably in Alberta. The high level of household debt that Canadians have accumulated during the past decade of record low interest rates and high housing prices makes households vulnerable to an extended period of unemployment.

Chart 2: Employment in Alberta



Source: Statistics Canada CANSIM Table 14-10-0287-01

## Legalization of cannabis boosts some economic indicators more than others

Part of the disconnect between the slowing trend of the overall economy and the relative buoyancy of employment and retail sales originates in the legalization of cannabis in Canada on October 17. Some of Statistics Canada's data, notably retail sales, will show an increase in activity beginning on the day legalization took effect because it is impossible to measure legal sales before that date. For example, in the first two weeks after legalization, legal cannabis sales at retail outlets totalled \$43 million, and this likely will increase sharply over the fourth quarter as supply problems are ironed out (Statistics Canada 2018b). Meanwhile, the labour force survey estimated that there were 10,400 cannabis-related jobs in November, up from 2,500 in the spring (Statistics Canada 2018a).

However, Statistics Canada's measure of GDP will attempt to incorporate what cannabis-related activity was before October 17 in an effort to minimize the discontinuity between the size of the economy before and after legalization. Therefore the fourth quarter data will be somewhat contradictory, with certain series such as retail sales reflecting an abrupt gain due to the impact of legalization and others such as GDP minimizing the impact. However, the growth of legal cannabis is likely to be limited with little effect on the illegal market. This reflects that the price of legal cannabis of \$9.70 a gram remains far above the illegal price of \$6.51 a gram (Statistics Canada 2019).

Apart from the side-show of legalizing cannabis, the important economic developments in the fourth quarter centred around the sharp drop in the price of Alberta's oil and renewed turbulence in global financial markets.

## Alberta Oil Prices Hit a Record Low

In November, the price Canada received for Western Canadian Select (WCS) oil fell to a record low of \$13 a barrel, below even the depths plunged during the oil price crash in 2015. This decline was largely a made-in-Canada phenomenon, as the price of West Texas Intermediate (WTI) oil remained above \$50 a barrel. As a result, the discount for Western Canadian oil from the WTI price rose from its historical average of about \$20 a barrel to over \$40 a barrel (bitumen from the oil sands always sells at a discount because it requires refining by facilities specially constructed to handle heavy oil, so these few refineries can dictate the price they are willing to pay). The combination of a growing supply of Canadian crude oil (Suncor's \$17 billion Fort Hills oil sands project opened in September) and transportation bottlenecks also depressed the price of lighter grades of Alberta oil, an unprecedented phenomenon (Bank of Canada 2019, 9).

The broader lesson is that Canada's oil is hostage to Mid-Western refinery demand since there are no pipelines to get Alberta's oil to other markets. The record discount for Alberta oil led the Alberta government to cut oil production by major producers by 8.7 percent starting on January 1 2019. This had the desired impact of removing the prospect of a continuing glut of oil, and the discount for Alberta's oil fell immediately. However, the relief to producers was transitory, as turbulence in global financial markets in December lowered the price of WTI oil itself, which fed through to WCS oil even as its discount with WTI fell.

Whether through lower prices or mandated cuts to production, the effect will be negative for investment and production in Canada's oilpatch, which is concentrated in Alberta. The Bank of Canada, for example, expects investment in oil and gas to fall 12 percent in 2019, down from projections of a 1.5 percent decline that it made back in October 2018. Investment in oil and gas had already fallen by nearly 20 percent in 2018, although that decline was more related to the completion of oil sands projects than lower oil prices. By comparison, investment in oil and gas plunged by over 30 percent during the crash of oil prices in 2015.

“Canada's oil is hostage to Mid-Western refinery demand since there are no pipelines to get Alberta's oil to other markets.”

## Over 7 percent of Alberta's workers come from other provinces

The slowdown in Alberta's economy will affect many Canadians outside of Alberta. Recently released data from Statistics Canada showed that an average of 130,000 Canadians from outside Alberta earned income from working in Alberta between 2011 and 2015, by far the most of any province as a share of employment (Statistics Canada n.d.). (Out of province workers receive a T4 tax report of earnings in one province but report a different province as their permanent residence [Davidson and Qiu 2017].)

At its peak in 2014, 7.5 percent of workers in Alberta came from outside the province. Even in absolute terms, more workers from outside the province came to Alberta in 2014 (157,705), than to Ontario (141,850) even though Ontario's employment is three times as large as Alberta's. By comparison, just over 50,000 workers came from outside the province to work in BC or Quebec in the same year. As a share of employment in 2014, out-of-province workers represented 2.3 percent of employment in Ontario, 2.5 percent in BC and 1.3 percent in Quebec. While the slump in oil demand and prices in 2015 led to a slight drop in out-of-province workers to 133,990, Alberta still had a much higher influx than any other province, and more than double its average of

66,000 people from other provinces between 2002 and 2004 when the boom in the oil sands was just getting under way.

The unusually high share of out-of-province workers in Alberta reflects a number of factors. One was the province's acute need for workers, as unemployment was low at 4.7 percent in 2014. Another was that the type of work lends itself to people temporarily coming in for several weeks of work, especially in the remote work-camps in the oil sands in Northern Alberta. Meanwhile, the high level of pay in Alberta, especially in the oil and gas industry, made it very attractive to people in other provinces (at \$2,821 a week in 2016, average weekly earnings in the oil and gas industry were the highest of any industry in Canada).

The high pay and productivity of these jobs makes it worthwhile for both employers and employees to work for short periods and then incur the transportation cost of returning home. Even Statistics Canada resorted to this tactic in 2006, when its difficulty hiring local enumerators for the Census led it to ask employees in other provinces (notably its headquarters in Ottawa) to temporarily work in Alberta to finish the Census.

## Financial Markets Tumble Late in 2018

There was heavy selling in stock markets late in 2018, with the Toronto market down 13 percent since July and the US market off 10 percent. The drop reflected a wide range of concerns about the global economy, including the mounting trade war between China and the US, the faltering prospect of a negotiated exit of Britain from the European Union, rising popular unrest in France and the resignation of Germany's long-time chancellor Angela Merkel from her role as head of the Christian Democratic Union (though she will continue to serve as German chancellor until 2021). The inexperience of the current crop of political leaders was reflected in their difficulty managing these problems.

There was also a widening of corporate credit spreads as bond yields rose, especially in the energy sector as oil prices declined (Bank of Canada 2019, 3).

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# About the Author



Philip Cross is a Munk Senior Fellow at the Macdonald-Laurier Institute. Prior to joining MLI, Mr. Cross spent 36 years at Statistics Canada specializing in macroeconomics. He was appointed Chief Economic Analyst in 2008 and was responsible for ensuring quality and coherency of all major economic statistics. During his career, he also wrote the “Current Economic Conditions” section of the Canadian Economic Observer, which provides Statistics Canada’s view of the economy. He is a frequent commentator on the economy and interpreter of Statistics Canada reports for the media and general public. He is also a member of the CD Howe Business Cycle Dating Committee.





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