

# Economics

## Winners and Losers of Cheap Crude

Thanks to technology and a \$100 per barrel exploration incentive, there is now oil everywhere. The glut has forced prices below \$50 per barrel and on the horizon, triple digit prices are now years in the distance. The extraordinary collapse in the price of oil has changed the economic landscape. However, there are both winners and losers when it comes to cheap crude.

Canada's economic engine is exports, where oil is more than a big player. Its importance was recently punctuated, to the Bank of Canada's surprise, with a slash of its trend setting rate. In Alberta, new investment and exploration is being postponed, while the government is scrambling to shore up a gigantic budget sinkhole, and workers fear for their livelihoods. At home in BC, the mood is

less morose. Our exposure to the down-cycle is more limited and more nuanced.

Since oil production is minute in BC, the negative impact is largely confined to our ties with Alberta. The oil patch supply chain of goods and services will suffer, as will those households that earn their living in the Alberta energy sector. In addition, BC's recreation real estate markets, traditionally favoured by Albertans, will see sales wane. However, the slump may push some to cash out now and retire to BC.

While disruptive and sometimes tragic to those affected, the net result of lower oil prices is positive for the province. The big beneficiaries are consumers and retailers. Lower gas prices are immediately felt by consumers and all those extra loonies at

the end of the week will largely be spent at BC stores. Lower oil prices mean a weaker exchange rate and even more business for BC retailers as cross-border shopping makes much less sense. Tourism will also get an unexpected boost as US households get a 20 per cent currency discount and British Columbians take more summer staycations.

While these impacts aren't exhaustive, they do illustrate that there are both winners and losers. On the whole, British Columbians will be the beneficiaries of the supply glut, with consumers and businesses benefiting from cheap oil, increased consumption and a lower cost of borrowing.