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An analysis of the latest economic data

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# Alberta to Curtail Oil Production

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Alberta Premier Notley announced on Sunday that the **provincial government has ordered oil producers to cut production** by 8.7%, or 325,000 bpd, as of January 2019. The cuts are expected to be rolled back to about 1/3rd of the size by the spring. Here is a quick look at the impact on growth, policy and government finances:

***Impact on the Canadian economy:*** The hit to GDP will be upwards of 2% annualized, but we had already built in production cuts of about 120,000 bpd in Q4, as previously announced by various companies, so the actual impact on Q1 should be a bit less (more like 1¼%-to-1½% in Q1, annualized). Either way it will put a serious dent in the GDP forecast to start 2019, with our **Q1 growth estimate chopped to 0.7% a.r., from 2% previously**. The expected rebound in production later in the year should contain the full-year 2019 GDP impact and potentially lift 2020 slightly, depending on timing. Indeed, we currently assume that production comes back online through the rest of 2019 and cuts are expected to fully unwind by the end of the year. As such, **our forecast for 2019 GDP growth is now 1.8%, down 0.2 ppts, while 2020 is now 1.7%, up 0.1 ppts**. Overall, this is a modest downgrade to the growth call but there's plenty of uncertainty heading into next year.

***Bank of Canada impact:*** The Bank's growth forecast will be affected, but the drop in production is expected to be temporary and therefore **shouldn't have a big impact on policy**. But we may find out their preliminary thoughts this week, with the Bank of Canada policy announcement due Wednesday and an economic update speech from Governor Poloz on Thursday. No rate hike is expected this week, but there's uncertainty around the tone the Bank will take. The BoC was particularly upbeat in October, but with oil prices since falling sharply, the Fed sounding a bit more dovish, and the Q3 GDP details on the soft side, a more cautious tone is expected. The market will be watching for clues to the potential for a January hike, which is currently about 70% priced.

***Impact on Alberta:*** We've now **cut our 2019 real GDP growth forecast for Alberta to 1.2%**, down from an expected 2.4% clip in 2018—we recently had a forecast as high as 2.5% for next year. We had already assumed that capital spending budgets would be scaled back next year given the weak price environment, but the production cut adds a new layer of downside. That said**, a few factors temper the negative tone:** The deflator will likely run a bit stronger given a better price environment; the temporary nature of the cuts probably doesn't have the same multiplier effect (on jobs, spending, etc.) as permanents cuts; and the energy sector has already cut operating costs in recent years, improving its ability to sustain through a lower price environment. Finally, insofar as the production cut lifts prices, sentiment could actually improve in Alberta as a result of today's measures.

***Government finances:*** We'll reiterate that the **federal government** doesn't collect royalties from the energy sector, but is instead impacted by economic growth and prices through general corporate and personal tax receipts. That said, our revised growth forecast could lead to modest downside of about $2 billion in FY19/20 versus the fall update—that would be covered by the $3 billion contingency, and could very well be offset by higher oil prices. For **Alberta**, a $1 change in the WCS differential adds roughly $210 million to revenues. As such, if production cuts prove to speed up the narrowing of the differential (presumably the elasticity is strongly positive), the Province could come out clean or slightly ahead following today's measures.