

## CANADA

### Canadian oil production should keep rising

Investment in Canada's oil sector has plunged in the last few quarters as oil prices fell well below levels required for long-term profitability for a number of projects, sometimes even below their variable costs. The potential for a steep drop in Canadian oil output could therefore be a concern.

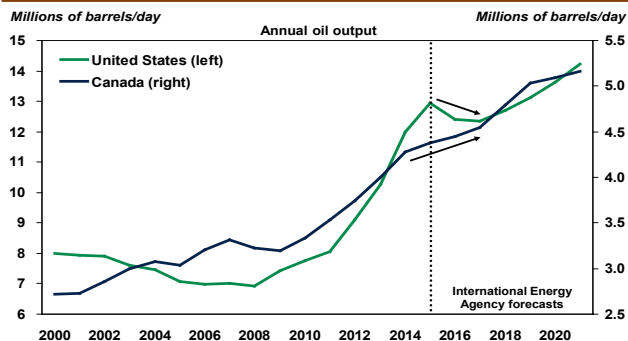
Such a decline has begun in the United States, even though operating costs there are significantly lower than they are in Canada. U.S. crude output had hit a cyclical peak of around 9.7 mbd (millions of barrels per day) in April 2015, and recently fell around 9.1 mbd. The downtrend will persist in the quarters to come; the Energy Information Administration expects U.S. oil output to be just 8.2 mbd on average in 2017. The International Energy Agency (IEA) is calling for a similar trend into 2017, followed by a rebound in U.S. output on an upswing by oil prices.

Canadian production will follow a different trend, and should continue to rise. The IEA's latest medium-term outlooks thus call for Canadian oil production to gradually go from 4.36 mbd in 2015 to 5.16 mbd in 2021, for a rise of about 18%.

The very different evolution of U.S. and Canadian oil output in the near term is a reflection of the type of fields operated on either side of the border. The U.S. industry's recent gains primarily come from shale oil. Such fields produce a lot of oil quickly, but tend to be rapidly depleted. New drilling is therefore needed to increase or even maintain oil production.

Conversely, much of the increase in Canadian production comes from the oil sands, which require heavy investment over a long period, but then produce oil for several decades. Moreover, it is quite costly to temporarily suspend oil sand operations, which seems to be contributing to the current resilience. The progressive commissioning of several already launched projects should keep boosting Canadian output over the years to come. However, the current tumble

#### Unlike the outlook for the United States, Canadian oil production will keep trending up



Sources: International Energy Agency and Desjardins, Economic Studies

in investment will have negative impacts on Canadian output over the longer range; the IEA recently warned that Canadian production could stagnate once the projects underway are completed.

**Implications:** The tumble in oil prices should keep the brakes on Canada's economic growth. However, oil production and exports should continue to advance in the next few quarters. In this context, a lot of ink could still be spilled over the issues of transporting Western oil and building new pipelines.

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