

# Economic Commentary



## Alberta's oil revenues back to pre-COVID levels

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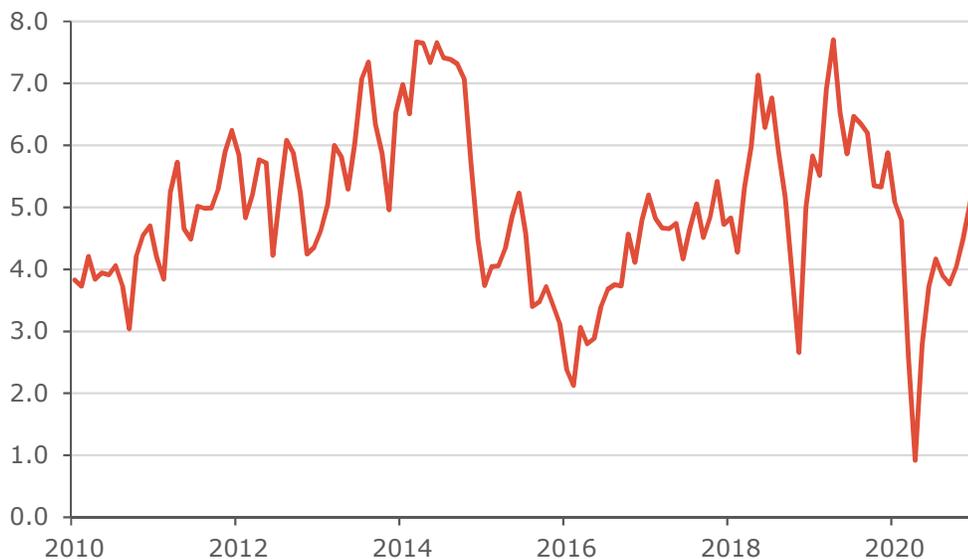
**GLOBAL AND LOCAL  
MARKET RESEARCH**

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The drop in global oil demand and the associated decline in price and production has been a major economic shock on Alberta's economy in 2020. Oil production volume declined by almost 20% between January and May 2020, while oil prices reached a low of C\$3.92 in mid-April. Since then, both production and price have bottomed out and recovered sharply. We estimate that oil production volume in January 2021 was around the level experienced at the onset of the pandemic, while the Western Canada Select reached an average of US\$38.40 during the same month. As a result, we estimate that the value of oil production in Alberta in January 2021 is back to its pre-COVID level at an estimated C\$5.6bn.

**Alberta oil production values (in C\$)**



Note: the production value is calculated using monthly production volume and the Western Canada Select in C\$. Source: Alberta Energy Regulator, Bloomberg, Alberta Central

The industry has defied most of the predictions made in mid-2020 and has reduced the likelihood of the worst-case scenario. However, it is unlikely that the long-term structural challenges will change. As such, while the short-term outlook is more positive, the sector's wave of consolidation is likely to continue in an effort to reduce cost and improve profitability.

One big positive will be on Alberta's government finances, with oil prices more than 10% above the assumptions from the Mid-year Fiscal Update and production at least 5% higher than projected. This means that royalties from oil extraction are normalizing quicker than initially thought and will lead to a positive upgrade to the revenue forecast for FY2020-21 and possibly FY2021-22 in the upcoming Budget (to be released February 25<sup>th</sup>). Similarly, this means that the deficit for both fiscal years is likely to be smaller than expected back in November, providing. Nevertheless, this does not change the fact that a solution on both the spending side and revenue side of the deficit equation is imperative for ensuring the province's long term fiscal sustainability.

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