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Oil jitters on Canada's campaign trail

Simon Doyle in Ottawa

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Susan Jaksich has a sharp sense of the economic jitters that will frame Canada's general election this year as the real estate agent plies her trade in Edmonton.

The western city is home to many of the workers drawn to the oil sands of Alberta when soaring crude prices made the high-cost resource economically viable. But the oil price slide has sparked thousands of job lay-offs, slower home sales, and forecasts that the former boom province may head into recession.

"The realtors are starting to panic because of all . . . the news," said Ms Jaksich.

Canadian home sales fell 3.1 per cent in January from December as consumer confidence slipped in energy-rich Alberta and Saskatchewan, according to the Canadian Real Estate Association. Energy sector slowdowns in the two provinces and Newfoundland and Labrador are creating ripple effects across Canada — not least in Ottawa where political leaders are preparing for an October 19 election.

Prime Minister Stephen Harper, the leader of the Conservative party who is seeking a fourth mandate, faces a stiff challenge from Justin Trudeau, the popular leader of the Liberal party and son of former prime minister Pierre Trudeau.

Mr Trudeau has led Mr Harper in opinion polls since winning the Liberal party leadership in early 2013. The Liberals and Conservatives are now neck and neck with 34 per cent and 33 per cent, respectively, according to ThreeHundredEight.com, a website that averages opinion surveys.

Amid expectations that the election will be one of the closest in years, Mr Harper wants to be seen as the leader who brought Canada through the global financial crisis and balanced the federal budget.

But the fall in the oil price — from a high of \$107 a barrel for benchmark West Texas Intermediate last summer to under \$50 — has hit earnings in Alberta, prompting companies to cut capital spending, leave rigs idle and make workers redundant. The government recently said that the energy sector in Alberta, home to the world's third-largest crude oil reserves, lost 13,000 jobs from September through January.

“People are very nervous,” said Naheed Nenshi, mayor of Calgary in Alberta, while pointing out that the city economy was still growing and that its unemployment rate fell in January. “There are a lot of people feeling a lot of pain.”

Keith McGrath, a municipal councillor in Alberta, said he had noticed fewer contract workers in the oil sands hub of Fort McMurray. “We won't see as many transient workers fly in and fly out,” he said.

Canada's central bank last month responded to the falling oil price and signs of deflationary risk by cutting its benchmark interest rate to 0.75 per cent from 1 per cent. Bond traders are pricing in another rate cut to 0.5 per cent in March or April.

If crude remains in the region of \$50 a barrel, it will eliminate the government's projected 2015 surplus of C\$1.9bn (\$1.5bn), according to TD Economics. Mr Harper has delayed the 2015 federal budget until at least April because of the oil price plunge.

So far, there are no signs that the economy has helped or hurt the candidates. But Greg Lyle, managing director of Innovative Research, a polling firm, said the negative signs would actually help Mr Harper.

“These are . . . tough issues that need tough leadership,” said Mr Lyle. “They add up to a job description that the Conservatives believe Stephen Harper is much better for than Justin Trudeau.”

Mr Harper argues that the economy is sufficiently strong to withstand the impact of lower oil prices.

“It's obviously significant for the Canadian economy . . . but the oil industry isn't remotely the entire Canadian economy,” he said last month.

People are very nervous. There are a lot of people feeling a lot of pain

- Naheed Nenshi, mayor of Calgary

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However, to bolster the economy, Mr Harper is seeking more free trade agreements and wants to diversify export markets for Canadian natural resources.

His administration supports new oil pipelines from Alberta, including TransCanada Corp's Energy East route to ports and refineries in eastern Canada and its controversial Keystone XL pipeline to the US Gulf Coast.

On Tuesday, US President Barack Obama vetoed a congressional bill that would have approved Keystone. While Mr Trudeau supports both pipelines, he recently proposed a national carbon pricing scheme that drew a clear line on energy policy between the candidates.

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