



Alberta Wildfires to Weigh on Q2 GDP Growth

The tragic wildfires in Fort McMurray have destroyed more than 1,600 buildings and the human cost has been severe as over 80,000 individuals have been displaced over the past couple of days. As residents were evacuated out of the region, nearby oil sands producers began to curtail their operations, resulting in large-scale, albeit temporary, cuts to oil sands production which will deal a blow to near-term GDP growth. According to RBC Capital Markets' energy research team, the fires have impacted an estimated 0.9-1.0 million barrels/day of production or roughly 40% of total oil sands output. The situation remains fluid and uncertainty remains about how long production disruptions will persist; however, if we assume those shutdowns last for two weeks they would subtract 0.5% from May GDP. A shutdown of this duration would be in keeping with, although significantly larger than, wildfire-related shutdowns of oil sands operations in late May and early June of last year. Much of this decline in production will be reversed in subsequent months. Although the loss of oil production is likely to be the largest factor impacting monthly GDP data, the absence of evacuated residents will also limit retail sales and hours worked outside of the oil & gas production sector. Reflecting this downward hit to May GDP and allowing for a recovery in subsequent months results in our projection of Q2 annualized growth being lowered to 0.5% from the previously-projected 1.5%. The anticipated return to full production results in Q3 GDP growth rising to 3.0% from the current forecast of 2.0%. A longer shutdown of operations would result in even weaker Q2 growth with a stronger rebound in Q3. Longer-term an offset will be provided by the rebuilding of destroyed assets in the Fort McMurray area. The situation is still evolving and may require further adjustments to the forecast going forward.

GDP impact of oil production declines resulting from wildfires (estimated)

Chained 2007 dollars

Sector	% of 2015 real GDP	Fort McMurray (May 2016)			May and June 2015		
		% change in production	Duration (weeks)	GDP impact	% change in production	Duration (weeks)	GDP impact
Non-conventional Oil Extraction	2.3	-40%	2	-0.5	-10%	2	-0.1

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