The Impact of Oil Price Shocks on the Canadian Provincial Unemployment
by
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Abstract

Extensive research exists linking positive oil price shocks with economic slowdowns. In recent years, oil price has been on the rise, reaching an unprecedented high of $150/bbl in 2008. This has resulted in growth in the oil producing sectors of Canada, especially in the province of Alberta and may also have contributed to the strengthening of the Canadian dollar. There has been a debate in Canada as to whether the oil price shocks, and any resulting exchange rate appreciation, have contributed to lowered production and employment in the manufacturing sector of Ontario and Quebec, as would be implied by a combination of Dutch Disease and labor market rigidities. In order to address this question carefully, this paper uses impulse response functions from a structural Vector to regression (VAR) model to examine the impact of the oil shocks on the Canadian exchange rate and the unemployment levels of the Canadian provinces, using monthly data from January 1980 until May 2012.