



Pink Slips Continue to Flood Canada's Oil Industry

Description

The past few months have been awful for workers in Canada's oil industry. A flood of pink slips has flowed out of the industry as thousands of jobs have been lost due to the continued weakness in the oil price. Top U.S. independent oil company **ConocoPhillips** ([NYSE: COP](#)) recently slashed 7% of its Canadian workforce to cut costs and to improve its profitability in the country. Meanwhile, **Talisman Energy Inc.** ([TSX:TLM](#))([NYSE:TLM](#)) and **Athabasca Oil Corp** ([TSX:ATH](#)) also recently announced mass layoffs as they joined peers like **Suncor Energy Inc** ([TSX:SU](#))([NYSE:SU](#)) and **Cenovus Energy Inc** ([TSX:CVE](#))([NYSE:CVE](#)) in cutting industry jobs.

What goes up must come down

Energy related jobs in Canada had been growing steadily until the most recent downturn. For example, in the 12 months before oil prices started to tumble last summer oil-rich Alberta added 81,800 jobs to Canada's economy, while the rest of the country lost 9,500 jobs. This meant Alberta was solely responsible for employment growth over that year. Unfortunately, that tide quickly turned once the price of oil took a tumble.

Now, oil companies are shedding thousands of jobs, which could trickle down to the rest of the economy. In the past week alone ConocoPhillips announced it was cutting 7% of its Canadian workforce, or about 200 jobs, while Talisman Energy announced that it was cutting 10-15% of its workforce, or 150-200 of its Calgary head office jobs. These cuts add to the mounting job losses in the industry that could continue to pile up as oil companies adjust to lower prices.

The cuts keep coming

ConocoPhillips and joint venture partner Cenovus Energy decided to halt all future expansion phases of their oil sands expansion projects at Christian Lake and Foster Creek after expansions are complete later this year. To make matters worse, ConocoPhillips also decided to halt future exploration and appraisal drilling at the company's promising Duvernay and Montney shale prospects until prices improved. Because of this, the company didn't need as many workers in the country and therefore cut staff. Meanwhile, with the expansion of Cenovus' joint venture with ConocoPhillips on hold, as well as

development of its own wholly-owned oil sands projects and other drilling projects in the country, Cenovus cut its workforce by 15% earlier this year, while also suspending employee salary increases for those lucky enough to still have a job.

Smaller producers have been even harder hit by the downturn. Athabasca Oil, which has been under tremendous pressure to cut costs, announced this past week that it will cut its head office workforce by 50% from the level it started with last year. Those cuts are expected to save the company \$60 million a year and help align costs to the current weak oil-price environment.

These more recent cuts are just a continuation of the job losses the industry has experienced since the start of the year. Suncor Energy was among the first to make deep cuts, as the company cut 1,000 jobs in mid-January. In addition to those cuts, the company put a freeze on overall hiring for all positions not critical to operations and safety. This is despite the fact that Suncor has one of the strongest balance sheets in Canada and is well positioned to weather the current oil-price storm. The company and its peers don't want to dig themselves into a financial hole, as there's no telling how long the oil price will remain low.

Investor takeaway

Weak oil prices in Canada are really starting to have an impact on the country. The oil industry had been the country's real jobs growth engine, but that engine has stalled out. Now, thousands of jobs are being lost with more to come if the price of oil doesn't improve. These cuts, however, will help producers to better align their costs to current oil prices, which should boost cash flow in the years ahead once oil prices turn around.

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:COP (ConocoPhillips)
2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CVE (Cenovus Energy Inc.)
5. TSX:SU (Suncor Energy Inc.)

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