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?Cheap? oil: a mixed blessing

WHAT COULD BE just a temporary glut on world markets has led to the price of crude oil falling about 40 per cent in recent months, to less than $60 (US) per barrel.

The collapse has led to a significant drop in retail gasoline prices but only a slight decline in the cost of a litre of diesel fuel. As a result, local consumers are paying about $1.07 for regular-grade gasoline and $1.21 for diesel, which is obviously less expensive to produce and historically was a lot cheaper than gasoline.

Out in Calgary, where you now can purchase gasoline for about 93 cents a litre, diesel is even more expensive than it is locally, with some stations charging about $1.30 and Big Oil claiming it's because weather-related demand is up and supplies are down.

The last time crude oil was selling for under $70 a barrel was in early 2007. That fall, with the price of crude having risen to about $90 a barrel, gasoline in the Toronto market was a little over $1 a litre and diesel a few cents cheaper, but the Canadian and U.S. dollars were virtually at par.

In the circumstances, it's obvious that part of the reason the current prices are above those seven years ago when crude oil cost about $20 a barrel more lies in the currency situation.

Ironically, the loonie has fallen at a time when our federal government has almost balanced its budget and the U.S. federal budget deficit in the 2014-15 fiscal year is expected to be $564 billion.

Clearly, the unexpected drop in oil prices is producing both winners and losers.

Although the ?oil patch? is definitely hurting, lower oil prices are good news for other Canadian industries. Cheaper oil means lower prices for things like electricity, transportation and heating, which are some of their biggest input costs.

A sudden break on how much it costs to make your product and bring it to market is a great shot in the arm for factory owners, who have suffered since the 2007-10 recession due in part to skyrocketing costs and diminished returns.

Those same manufacturers may also benefit from the lower value of the loonie. The Bank of Montreal recently estimated that every $10 movement in the price of oil works out to about a three-cent move in the Canadian dollar, which is great for exporters because it makes our goods look cheaper in the U.S. and overseas, which encourages them to buy more of our stuff or, in the case of the North American auto industry, to base more production in Canada.

The big unanswered question is whether, for the country as a whole, the benefits to some will offset the losses sustained by others. Only time will tell.

Among the losers are the federal government and the oil-producing provinces (especially Alberta, where it means much lower royalties and possibility a slowing or even abandonment of some oil sands projects. Governments in Ottawa and the oil-producing provinces had gotten used to the revenues that had been coming along with $100-plus oil. About a quarter of the Alberta government's annual revenue has been coming from oil.

Alberta's budget estimates were based on $97 oil, but they were far from the only ones. Saskatchewan based its budget on just under $100 a barrel. And Newfoundland had assumed oil prices would be $105 last spring, when Brent Crude was going for $115 a barrel. Today, it's under $70.

On the other hand, the Ontario and Quebec governments could be net winners if the manufacturing sectors in the two provinces start hiring in expectation of improving markets abroad.

Of course, losers will obviously include the ?snowbirds' who will find everything more expensive this winter in the ?sunny south.?

And we can expect more than a few of them to drive, rather than fly there.