



The MHCA celebrates another year of achievements and successes at Awards Breakfast, AGM & Chairman's Gala

On Friday, November 20, 2016, at the RBC Convention Centre in Winnipeg, the Manitoba Heavy Construction Association (MHCA) celebrated 2015 as another year achievements and successes at the Association's Awards Breakfast & Annual General Meeting (AGM).

The MHCA Awards Breakfast and AGM kicked off the morning with an upbeat and prospective overview of the province's core infrastructure investment strategies, enabled by the 1 per cent dedicated increase to the PST.

Construction activities increased roughly 44 per cent through 2013-2014, and a further 10 per cent in 2014-2015. With the program being extended to a full 10-year period, the commitment exceeds \$10 billion. Moreover, the Minister referenced in a supportive manner the six organizing principles championed by the MHCA as the foundation upon which the investment decisions are being made by the province.

The listed presentations then followed: Minister Ashton presented four MIT Project Awards - see following; MHCA Chair Derek Walker presented MHCA Membership Awards; and Barry Brown presented a Gold Seal Certification Award.

The keynote speaker was Winnipeg Free Press columnist Dan Lett. His engaging presentation covered a number of key policy areas all underpinned by a simple question: *what do we want from government and how are we prepared to pay for it?*

Continued on Pages 2-4

WORKSAFELY MHCATM

In This Edition:

The MHCA celebrates another year of achievements and successes at Awards Breakfast, AGM & Chairman's Gala	1-5
MHCA welcomes its newest member!	5
CCA congratulates Mowat Centre on report addressing Canada's infrastructure gap	6
News Release: Average WCB Assessment Rates set to drop in 2016	7-8
The MHCA invites you to attend the upcoming Breakfast with the Leaders series - see dates and registration information	10
WORKSAFELY TM Training Schedule	15
WORKSAFELY TM Safety Tips: Ice Safety	16
The Gravity of Free-Falling Prices	17

Afterwards, Derek Walker, MHCA Chair, presented an overview of MHCA 2015 achievements, including:

- The development and launch of two new programs, the Heavy Equipment Operator Certificate (HEOC) program and e-COR;
- Advocated for fair and balanced government policy in support of workplace safety;
- Promoted sustainable budgeting and principle-based planning for core infrastructure investments;
- Advocated for early tendering and timely contract awards;
- Supported sustainable practices in support of the aggregate industry;
- Successfully persuaded Winnipeg's City Council to maintain the private/public sector balance in the contracting for and delivery of municipal snow removal services; and
- Championed the importance of Trade Transportation & Prosperity on national, provincial and municipal levels.

The MHCA AGM followed and featured a number of important presentations including WORKSAFELY Program priorities, financial overview and 2016 Priorities as presented by MHCA President Chris Lorenc. Those included:

- Promote global trade, transportation & prosperity as a lead priority
- Continue advocacy in support for a New Fiscal Deal between the City of Winnipeg and the Province of Manitoba.
- MHCA's six organizing principles for sustained strategic investments will continue to be advocated, namely: permanent; Focus on economic growth investments; embrace innovation in design, construction, maintenance and rehabilitation; Harness partnerships with the private sector; Transparent dedication of revenue streams to purpose; and Mandatory transparent public reviews for accountability and adjustment.
- Work with the Western Canada Roadbuilders and Heavy Construction Association (WCR&HCA) and Canadian Construction Association (CCA) to ensure that national infrastructure programs invest in trade-enabling infrastructure - road, rail, air & marine – to support economic growth, jobs and revenues that ultimately fund our quality of life programs;
- Promote multi-lateral government harmonization of infrastructure investment strategies to benefit economic growth;
- Press Winnipeg to improve its procurement, design allocation, early tender and timely contract awards to accelerate and improve delivery of its infrastructure program;
- Support a Manitoba Aboriginal engagement
- Support WORKSAFELY™ Education and Training and its mandate for achieving workplace safety excellence;
- Improve communication and messaging strategies to influence our key audiences, namely government, media, the public
- Continue our Groundbreaking presence, profile and impact on the development of public policy;

The Members then elected two new members to the MHCA Board - Greg McKee, SMS Equipment and Dennis Cruise, Bituminex - and in the process extended thanks to retiring Board members Mickey Stanley, Toromont CAT, and Calvin Edie, Edie Construction.

The full complement of the 2016 MHCA Board of Directors is as follows:

MHCA Executive Committee

<i>Chair</i>	Derek Walker, P.Eng., G.S.C.
<i>Vice-Chair</i>	Greg Orbanski - Also Chair, Equipment Rental Rates Committee
<i>Sec-Treasurer</i>	Nicole Chabot, G.S.C. - Also Chair, Education Training & Gold Seal Committee
<i>Immediate Past Chair</i>	Henry Borger, M.Sc., MBA - Also Chair, Winnipeg Committee
<i>At Large</i>	Jack Meseyton, G.S.C. - Also Chair, MHCA Highways Committee Bob Reidy - Also Chair, Membership Committee Barry Arnason

Committee Chairs

Pat Turner	Chair, Northern Affairs Committee
James Kaskiw	Chair, Aggregate Producers Committee
Peter Paulic	Chair, WORKSAFELY™ Committee
Michael Byrne	Chair, Events Committee

At Large

Participation at least on the following committees, but not to exclusion of others

Dennis Cruise	Member, MHCA Winnipeg Committee
Greg McKee	Member, Equipment Rental Rates Committee
Warren Sigfusson, G.S.C.	Member, Aggregate Producers Committee
Ron Duncan	Member, Education, Training & Gold Seal Committee

On Saturday, November 21, 2015 the MHCA hosted just over 700 members and guests at its annual MHCA Chairman's Gala. Everyone was wined, dined and entertained to An Evening in Black & White to celebrate the year with its Members and supporters. Just under 700 guests attended the Gala, themed, and enjoyed a delicious three-course meal, the live jazz ensemble, Groove Sound Band, and an assortment of contests and prize giveaways.

The annual Chairman's Gala will continue to be a leading event for the Association, its Members and supporters across Manitoba.

At this time, we'd like to acknowledge and thank our Awards Breakfast & AGM sponsor - **Manitoba Infrastructure & Transportation** - and to all our Chairman's Gala sponsors - **Hitrac (1974), SMS Equipment, Brandt Tractor Ltd., Lafarge Canada Inc., Toromont CAT, Aon Reed Stenhouse Inc., Canada Culvert, ELRUS Aggregate Systems, Lehigh Inland Group, Titan Environmental Containment Ltd., Mazergroup Construction Equipment** and **Westcon Equipment & Rentals Ltd.** - for your ongoing support in making this year's events another great success!

Of course none of what was achieved and remains to be pursued as priorities could be possible without the past and continued robust support of all MHCA membership to whom all thanks is extended.

The MHCA's 2015 Year in Review and 2016 Priorities reports are available on the MHCA website, www.mhca.mb.ca, under 'Top News Reports'

Award Recipients

MHCA 2015 Awards Breakfast



The winners of MIT's 2015 Project Awards are:

Category: Grading
Winner: Smook Contractors Ltd.
Project: Grade, Base, and Asphalt Surface Treatment
Tender: PTH 6 - Sasagui Rapids to 25 km north
Region: 6475 Northern region



Category: Paving
Winner: Nelson River Construction Inc.
Project: Bituminous Pavement
Tender: PTH 10 - 0.4 km East of LP Access to 0.8 km East of PR 488
Region: 6404 West Central region



Category: Special Projects
Winner: Borland Construction Inc.
Project: Asphalt Surface Treatment
Tender: PR 330 - PR 205 to 8.2 km North of PR 205
Region: 6561 South Central region



Category: Major Structures
Winner: Mid Steele Construction Ltd.
Project: Structure Rehabilitation over the Red River on PTH 23
Tender: 6372
Region: Water Management & Structures

MHCA Membership Awards

10 YEARS

Bird's Hill Gravel & Stone Ltd.
 Country Ventures Repair & Maintenance Ltd.
 Direct Traffic Ltd.
 Iron North Limited Partnership
 People First HR Services Ltd.
 Reliant Action Ltd.
 Superior Asphalt Paving Co. Ltd.
 Wabman Trucking Service Ltd.
 Wolfe Enterprises

25 YEARS

Dynamic Machine Corporation
 WD Industrial Group

35 YEARS

Centennial Gravel & Excavating Ltd.
 Lehigh Cement

40 YEARS

Atkins Underground L.P.
 Wheat City Concrete Products Ltd.

50 YEARS

Hugh Munro Construction Ltd.



Gold Seal Award

Ms. Michelle Handson Hiebert, G.S.C.

Welcome new MHCA Member!

The MHCA is proud to welcome its newest member, **Marathon Drilling Co. Ltd.!**

Marathon Drilling Co. Ltd. offers the following services, including Trenchless Technologies for Heavy Civil industry, Environmental, Geotechnical & Exploration Drilling services, Mine Support services, Railway Construction services, Shotcreting and Grouting services, Concrete Scanning, Cutting and Coring services.

For more information on Marathon Drilling Co. Ltd., contact:

Tomas Kubalcik
 6847 Hiram Road
 Greely, ON K4P 1A2

T: 613-821-4800
F: 613-822-7176
E: tkubalcik@marathondrilling.com
W: www.marathondrilling.com



CCA congratulates Mowat Centre on Report Addressing Canada's Infrastructure Gap



Canadian
Construction
Association

The Canadian Construction Association congratulates the Mowat Centre: Ontario's Voice on Public Policy for its latest contribution to Canadian policy development through its report *From the Ground Up: The Role of Local Governments in Building Canada's Economic Infrastructure Network*. The Mowat Centre is the latest Canadian organization to examine the link between public infrastructure, economic competitiveness and the role of local government and provide recommendations on how best to address Canada's infrastructure gap.

Commitments by the new Liberal government to make major investments and double federal infrastructure spending provide an excellent platform to address Canada's infrastructure needs. But the Mowat Center concludes that even with higher levels of investment, it is necessary to be strategic and get the most out of each dollar spent.

The Mowat Centre advocates for an integrated infrastructure investment approach that ensures a prominent role for municipalities. Currently, there is no consistent strategy or alignment across governments in Canada to support infrastructure planning and investments. In particular, inadequate engagement with local governments — which own and manage the majority of Canada's infrastructure — is a notable gap.

Since the 1950's the federal government share has decreased to 12% of capital stock, while the municipal share has grown to 51%.

Report Excerpt

Involving all orders of government — and strong coordination among them — is critical to strategic decision-making, particularly for infrastructure projects that will likely have the greatest impact on economic growth and productivity. Effective coordination will also take advantage of the value of the private sector, as it can and will play a key role in many trade-enabling and economic infrastructure projects. This will ultimately help ensure that infrastructure is built to meet an over-arching purpose — rather than the prevailing fragmented and piecemeal approach — maximizing the impact of every dollar spent toward infrastructure and harnessing economic growth opportunities to ensure future prosperity.

To view the full report, visit www.mhca.mb.ca under 'Top News Reports'



CANADIAN CONSTRUCTION
ASSOCIATION
CANADIENNE DE LA CONSTRUCTION

**Gold Seal Certification
can help you set a
high standard - *the
Gold standard* - on a
construction project.**

Get Gold Seal Certified
goldsealcertification.com

NEWS RELEASE

WCB Communications, 333 Broadway
Winnipeg, Manitoba R3C 4W3

Tel.: 204-954-4113
Fax: 204-954-4968
www.wcb.mb.ca

For Immediate Release

November 25, 2015

Average WCB Assessment Rates Set to Drop in 2016

(WINNIPEG) – The average WCB assessment rate in Manitoba will drop to \$1.25 from \$1.30 per \$100 of assessable payroll beginning January 1, 2016, maintaining Manitoba's rate as one of the lowest rates in Canada.

The commitment of employers and workers to prevention and recovery goals and the WCB's healthy financial situation made the rate decrease possible.

"The success of prevention and return to work efforts by the WCB, workers and employers are helping to create a competitive business advantage that comes with lower assessment rates," says Winston Maharaj, WCB President and CEO. "Our effective financial stewardship has also contributed to a healthy reserve surplus, allowing us to decrease rates."

The average rate reduction will result in the WCB collecting 9 million dollars less from employers in 2016 than in 2015. Overall, nearly 40 per cent of employers will see a decrease in their assessment rate in 2016.

The average rate reduction will also cushion the impact on employers as the WCB transitions to a new rate model. Transition to the new rate model will be phased in over five years.

In 2016, one of the transitional changes that will be implemented is compressing the risk category range. This range dictates the highest and lowest rate an employer can pay. The compression of the risk category range creates a more collectively pooled and fair and balanced system. However, compressing the range will result in a rate increase for those employers that are at the very bottom of their rate code category range. This increase in rate buys more protection against the potential of the cost of a single claim drastically driving up premiums.

The gradual increase in the maximum assessable earnings cap also continues, with the 2016 ceiling set at \$125,000.

The Workers Compensation Board of Manitoba is a mutual workplace injury and disability insurance agency funded by employer premiums. We are here to insure and support safe and healthy work and workplaces. We put workers and employers at the centre of all we do. We provide them with valued services for injury prevention, compensation and return to health and work while maintaining system integrity.

For more information contact:

Warren Preece
Director of Communications
Workers Compensation Board of Manitoba
204-954-4113
1-855-954-4321, ext. 4113
Email: wcb@wcb.mb.ca

iMaQs

iMaQs Training by the Manitoba Mines Branch

The Manitoba Mines Branch will be offering iMaQs Training at the Manitoba Heavy Construction Association (MHCA) on December 2 and 9, 2015.

December 2 - training session, 9 a.m. - noon
December 9 - training session, 1 p.m. - 4 p.m.

The training will focus on:

- Registering online for an iMaQs account
- A walk-through of how to look for information as disposition owner and/or administrator conducting business on behalf of the company
- Submitting and editing an Exemption Certificate
- Submitting a Quarry Return
- Using iMaQs Map Viewer
- Entering and submitting an application online (Private Quarry)

This training course will include a live test system demonstration and hands-on training on how to effectively enter and search for information. Throughout the duration of the course, Mines Branch Quarry Recording Office staff will be available to answer questions and assist clients with how to use iMaQs. All course materials will be provided.

To register for the iMaQs training course, contact Christine Miller at:

MHCA
Unit 3 - 1680 Ellice Ave.
Winnipeg, MB R3H 0Z2
Phone: 204-974-1379 ex. 14
Email: christine@mhca.mb.ca

For further information on the training itself, contact the Manitoba Mines Branch:

Phone: 204-945-6528
Email: Mines_Br@gov.mb.ca





MARK YOUR CALENDARS FOR NEXT YEAR'S

EXPO NORTH

Destination: **Thompson**
February 24 & 25, 2016

EXPO SOUTH

Destination: **Winnipeg**
April 5 & 6, 2016

**EARLY BIRD
REGISTRATION
NOW AVAILABLE!**

**LEARN MORE AT
MHCA.MB.CA/EXPO**

**WORKING TOGETHER TO ACHIEVE
WORKPLACE SAFETY EXCELLENCE**



*The Manitoba Heavy Construction Association & the Manitoba Home Builders' Association
are pleased to present,*

Breakfast with the Leaders Series

Holiday Inn Winnipeg Airport Polo Park

1740 Ellice Avenue, Winnipeg, MB

Mr. Brian Pallister
Leader, PC Party
Tuesday January 19, 2016
King Edward Room

Ms. Rana Bokhari
Leader, Liberal Party
Thursday January 28, 2016
Madison Ballroom

Premier Greg Selinger
Leader, NDP
Tuesday February 23, 2016
Madison Ballroom

Areas of interest to be addressed in the presentations:

- Given the importance of growing Manitoba's economy, the relative priority the Leader would place on trade & transportation investments as part of a provincial economic growth strategy, including promoting CentrePort Canada and the Port of Churchill as key Canadian trade gateways and corridors;
- To address obvious investment need, commitment to sustaining and incrementally enhancing the projected levels of strategic investment in Manitoba's core infrastructure through the dedicated 1% of PST revenues;
- Income growth has not kept pace with the cost of housing. Address the rising cost of home ownership and decline in affordability in the Manitoba market particularly as it impacts young people;
- Projected approaches to balancing the provincial budget;
- Views on reviewing the existing provincial revenue sharing and striking a 'New Fiscal Deal' all of Manitoba's municipalities;
- With the growing importance and profile of the New West Partnership an indication of intention to join, or otherwise project Manitoba's global presence and investment promotion.

Doors Open: 7:30 am

Breakfast: 8:00 am hot breakfast will be served

Presentation: 8:15 am

Cost: \$35.00 + gst / person

RSVP: **MHCA** - Brenda Perkins at 204-947-1379 or Brenda@mhca.mb.ca

MHBA – Janet Constable at 204-925-2578 or jconstable@homebuilders.mb.ca

The *Breakfast with the Leaders* series is sponsored by
Aon Reed Stenhouse Inc.





Part of your crew.



CWB Equipment Financing gets what you do and what it takes to get things done. And because we're local, we work when and where you do. Need equipment? Make us your first call.

Call Michael, our crew leader, at 1.855.761.0060.
CWBequipment.com





Join your colleagues at the WCR&HCA Convention

Sunday, February 7 to Wednesday, February 10, 2016

Fairmont Kea Lani

Wailea Coast, Maui, Hawaii

Convention Features & Highlights Include:

- Accommodations at the Fairmont Kea Lani, Hawaii's only all-suites oceanfront resort
- Keynote speakers: The Honourable John Baird and Todd Hirsch
- An extensive social program, including four fabulous evening events
- An educational program that will address today's emerging issues and trends
- Exclusive group and kids activities offered daily
- The AON Golf Classic on the Wailea Gold Course, home of The Champions Skins Game
- 4 great days of networking and sunshine!

Don't miss your opportunity to be **"Where the West Meets"!**

For Convention & Registration information, visit www.wcrhca.org

Proudly hosted by



Hats off to our valued clients on completing
another great construction season!

THANK YOU
FOR YOUR BUSINESS



TITAN ENVIRONMENTAL CONTAINMENT
TRUST.QUALITY.VALUE

THOMPSON, MB WINTER ROADS TRAINING



Winter Roads Training will be held at the Burntwood Hotel, in the Executive Room, from **November 30 – December 4, 2015**

COR™ Leadership in Safety Excellence	November 30	For any training requests and to register, please contact: Sarah Higgins WORKSAFELY™ Training Coordinator e: sarah@mhca.mb.ca t: 204-594-9060
COR™ Principles of Health & Safety Management	December 1	
COR™ Auditor	December 2	
WHIMIS	December 3 (a.m.)	
Transportation of Dangerous Goods (TDG)	December 3 (p.m.)	
Winter Roads Training	December 4	

This training is open to anyone. Training for Aboriginal Communities building winter roads will be sponsored by Manitoba Infrastructure and Transportation

Please note that a minimum of six (6) students is required to hold the training. WORKSAFELY™ policy states cancellation must be made at least two business days in advance - otherwise, full course fee charges will apply



MANITOBA HEAVY CONSTRUCTION ASSOCIATION

p. 204-947-1379

f. 204-943-2279

w. mhca.mb.ca

ELRUS is the Manitoba dealer for Sandvik
DRILLS & TOOLING
Equipment Sales & Rentals • Parts & Service



Renowned for quality, reliability and high productivity. Every Sandvik machine is designed to give the lowest possible cost per meter drilled and a low lifecycle cost.



Perimeter Hwy 101 & Sturgeon Road North
Box 6 Group 220, RR2 Winnipeg, MB R3C 2E6
PH: 204-888-5588 • TF: 855-588-5588 • info@elrus.com





**TO REGISTER,
PLEASE CONTACT:**
Sarah Higgins
sarah@mhca.mb.ca

Training Schedule

November

Traffic Control Coordinator	Nov. 16 - 17	MHCA Office
COR™ Leadership in Safety Excellence, Thompson, MB	Nov. 30	Burntwood Hotel

December

COR™ Principles of Health & Safety Management, Thompson, MB	Dec. 1	Burntwood Hotel
COR™ Auditor, Thompson, MB	Dec. 2	Burntwood Hotel
WHMIS (1/2 day AM), Thompson, MB	Dec. 3	Burntwood Hotel
TDG (1/2 day PM), Thompson, MB	Dec. 3	Burntwood Hotel
Winter Roads, Thompson, MB	Dec. 4	Burntwood Hotel

January

COR™ Leadership in Safety Excellence	Jan. 11 -12	MHCA Office
COR™ Principles of Health & Safety Management	Jan. 13	MHCA Office
COR™ Auditor	Jan. 14 - 15	MHCA Office
COR™ Leadership in Safety Excellence, Brandon, MB	Jan. 11 - 12	St. John Ambulance
COR™ Principles of Health & Safety Management, Brandon, MB	Jan. 13	St. John Ambulance
COR™ Auditor, Brandon, MB	Jan. 14 - 15	St. John Ambulance
Train the Trainer	Jan. 18 - 19	MHCA Office
Flagperson (1/2 day AM)	Jan. 20	MHCA Office
Committee/Representative Training	Jan. 20	MHCA Office
WHMIS (1/2 day AM)	Jan. 21	MHCA Office
TDG (1/2 day PM)	Jan. 21	MHCA Office
Excavating and Trenching (1/2 day AM)	Jan. 22	MHCA Office
Traffic Control Coordinator	Jan. 25 - 26	MHCA Office
*Team Leader (1/2 day AM)	Jan. 28	MHCA Office
*Effective Delegation (1/2 day PM)	Jan. 28	MHCA Office

February

*Written Communication (1/2 day AM)	Feb. 11	MHCA Office
*Verbal Communication (1/2 day PM)	Feb. 11	MHCA Office
EXPO North, Thompson, MB	Feb. 24 - 25	
Held at the Thompson Regional Community Centre & University College of the North		

*Leadership Certificate Program



WORKSAFELY MHCA SAFETY TIPS

Ice Safety

The World Health Organization estimates that as many as half a million people die from falls each year. Ice isn't the only slip and fall hazard out there; however, it can easily become an obstacle/challenge in your day-to-day travels. Be safe this season, by following this list of tips and tricks to help you maneuver through the icy roads and sidewalks.

Walk Like a Penguin

Many people who live in cold climates rarely, if ever, slip and fall, because they've learned to adapt with a special walking technique: walking like a penguin. To walk like a penguin, just remember to always shift your center-of-gravity over your front facing foot instead of splitting it evenly between your feet, as illustrated below:



Treat Your Feet

Even if you know the right way to step, walking on ice is much easier if you have the proper traction. Buy a pair of good winter boots with a large tread. For even better traction, you can pick up a pair of ice cleats, such as Yaktrax or Stabilicers, for less than \$20. These easy-to-attach steel coils or spikes slip over your shoes to add gripping power on ice for better balance.

Learn to Fall

Believe it or not there's a right way to fall. Martial artists fall all the time without getting hurt, because they practice falling the right way. Knowing this technique could mean the difference between bruising only your pride and making a trip to the emergency room.

The most important thing to remember is to protect your head. Broken bones heal, but a head injury can be deadly. If you think you are going to fall, tuck your chin against your chest to prevent your head from hitting the ice or pavement. You can also cradle your arms around your head for extra protection.

By tucking your chin, you've begun the process of arching your spine. As you fall, try to fold your body into itself. This decreases the height of your fall and also redistributes the energy from your fall.

As you hit the ground, roll, like a turtle on its back, and exhale sharply. Breathing out will tense up your body, better allowing you to absorb the impact. This is one reason why martial artists shout so much.

Never try to break a fall by bracing yourself with your hand. Not only is it ineffective, it's also a sure way to break or sprain your wrist.

If you're going to fall forward, again remember to keep your head up, first and foremost. Throw your arms straight out in front of you and slap your palms flat onto the ground. Remember that you are not trying to break your fall with your arms, only to absorb the impact. Do not bend your wrists.

(Don't) Break on Through

Another winter danger is walking on frozen lakes or other bodies of water. While skating, ice fishing and other winter pastimes are traditional, it's important to know the risks. Government agencies are quick to remind ice enthusiasts that there is no such thing as 100 per cent safe ice.

It's not possible to judge the strength of ice by any single feature. Ice strength depends on a number of factors, including appearance, age, thickness, temperature, whether or not the ice is covered with snow, the depth of water under the ice, the size of the water body, water chemistry and currents, the distribution of the load on the ice, and local climatic conditions.

Here are some important things to remember:

- Clear, newly formed ice is usually stronger than old ice.
- Ice seldom freezes uniformly. Ice that is a foot thick in one location may be only an inch or two thick just a few feet away.
- Ice formed over flowing water and currents is the most dangerous.
- Snow insulates ice, slows down freezing, and also adds extra weight to the surface, reducing its ability to hold more.

Remember that no matter how safe you are on the ice, it's always possible to go through. A good practice is to wear a floatation vest under your winter gear, and to keep a set of ice picks or screwdrivers on you at all times to help you climb out if you do break through. Even if you think you're strong, the weight of your soaked through winter gear can be hard to overcome, as can hypothermia, which depresses motor skills, making it difficult to get out of freezing water once you've gone in.

The Gravity of Free-Falling Prices

By Peter G Hall, Vice President and Chief Economist



What goes up must come down. What holds in physics is also true in economics, evidenced in recent commodity price plunges. Although crude oil floods the media headlines these days, similar tumbles have come to characterize other industrial commodities as well. What can Newton teach us about commodity prices?

Lots. In the lead-up to the 2008 financial crisis, the price of West Texas Intermediate (WTI) crude oil skyrocketed to USD 145 per barrel. Economic collapse felled prices to USD 30 before year-end. Then, worldwide public stimulus sparked a price surge of 270% over the next two and one-half years. Traders were convinced that supplies were tight, keeping prices high.

However, in 2014, WTI began a 65% plunge, which took it as low as \$38 in August. For its part, copper climbed from USD 0.80 a pound in January 2000, to USD 4.34 in January 2011, before slipping to USD 2.33 in August 2015. So what gives?

The massive and unprecedentedly coordinated public policy response to the crisis is an often-overlooked driver of commodity prices during the most recent cycle. Apart from the impact that fiscal stimulus had on demand, central bank asset purchases, first in the US, then in the UK, EU and Japan, injected a vast pile of liquidity into the system. Access to cheaper credit spurred emerging market growth and demand for commodities. Stock-piling became common. China's share of global consumption for commodities across the spectrum is now at least one-third of the global total. In addition, investors funneled stranded cash into commodities in a search for yield, artificially boosting prices.

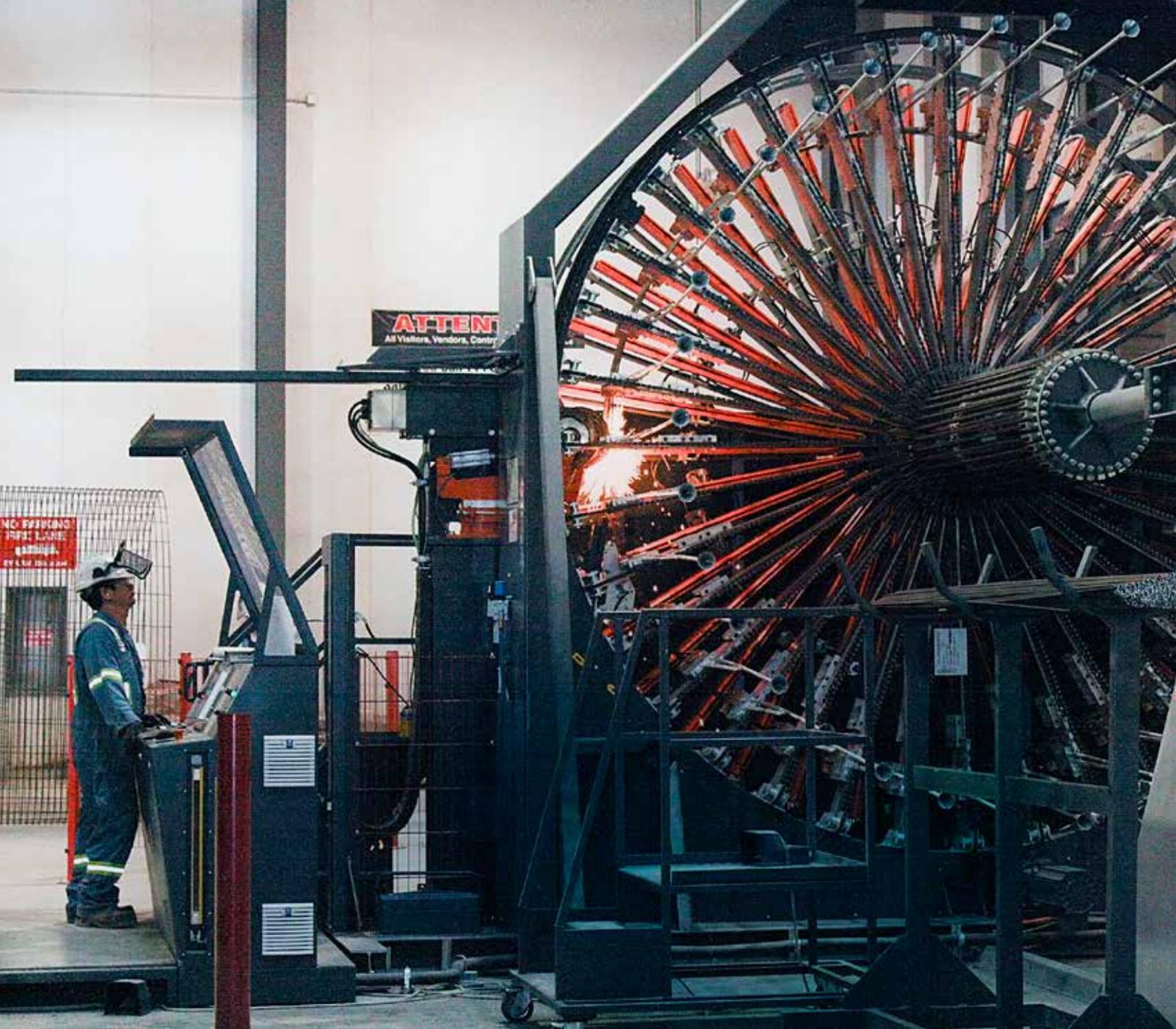
But as it's said, there's no cure for high prices quite like high prices. In 2000, US production averaged about 5.8 million barrels per day, falling to a low of 5mb/d in 2008. High prices then boosted investment, and US crude production shot skyward. In fact, by 2014, the US became the world's top crude producer, thanks to increased findings and higher well productivity. Shale oil became more economical by employing techniques similar to those developed for shale gas, lifting proved reserves to over 48 billion barrels in 2014. Horizontal rigs now drill multiple wells, some in 11-kilometre stretches. Offshore rigs have moved further out, drilling to depths of over 12 kilometres. Not to be left behind, steam technology helped Canadian crude production climb by over 1mb/d this past decade.

Natural gas production has also benefited from unconventional technologies. The US has known for years about its shale gas potential. Proven reserves in 2005 stood at 5 trillion cubic metres, but thanks to the perfecting of techniques like fracking and horizontal drilling, shale gas has become more economical. Proven reserves ballooned to 9.8 trillion cubic metres by 2014, and US production climbed from 511 to 728 billion cubic metres. Once avidly pursuing imports, the US is now seriously considering gas exports.

Meanwhile, advancements in technology have simultaneously tempered demand for energy. Universally, countries require less than one-half of a barrel of crude oil today to produce \$1,000 of GDP, compared with almost one barrel in 2000. Consequently, US consumption has slipped by about 1 million barrels per day since 2007.

On the copper side, producers seeking to cut costs have resorted to recycling. Since the metal is fully reusable, about one-third of the global copper supply is now made up of recycled material. As a result, the world has mined less than 15% of known resources to date. For their part, builders have cut the amount of copper pipe used in the average two-story North American home by 150 pounds, over the past 30 years, by substituting it with cross-linked polyethylene pipe.

The bottom line? Quantitative easing boosted commodity prices, and a consequent wave of investment, together with a surge in recovery-enhancing technology created the supply-demand imbalances that undermined prices. Consumers reacted to higher prices by conserving or substituting. At the same time, anticipation of a large-scale withdrawal of QE will shrink the liquidity that fueled the re-surge in prices. The interplay of these forces has caused prices to fall hard, from which point they'll rise modestly through the medium term.



Stay Connected >>> mhca.mb.ca

