More recently, there has been a recovery in the price of crude oil produced in both Canada and the United States. However, while economic activity in the upstream segment—that is, the exploration and production segment—of the industry in the United States increased with a modest recovery in crude oil prices in 2017 and 2018, investment in Canada's upstream segment continued to decline. Survey evidence, as well as reports prepared by investment analysts and portfolio managers, suggest that an unfavourable business environment in Canada compared to the environment in the United States is the main factor contributing to a diversion of upstream oil and gas investments from Canada to the United States.

Investors' expectations of the future competitiveness of the Canadian business environment compared to that of the United States should therefore exert a strong influence on corporate investment in Canada's oil and gas sector. In turn, the expectations of investors, as expressed in the financial valuations they place on publicly traded Canadian oil and gas companies relative to their US-based counterparts, provide some insights into the likely long-run investment prospects for the oil and gas industry in Canada compared to the US oil and gas industry.

Financial valuation metrics are frequently employed to identify investors' expectations about the future profitability of companies. Specifically, the market price of a company's publicly traded shares relative to measures of a company's current economic performance such as earnings and revenues is taken to reflect investors' expectations of future profitability. This study reports and
The Investment Outlook for the Canadian and US Oil and Gas Sectors: Evidence from Financial Metrics

by Steven Globerman and Joel Emes

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