



Inflation of Commodities

Crude Oil

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Team 2 – Final Report

APS1049 - Management Consulting for Engineers

University of Toronto

1. Executive Summary:

Price Waterhouse Cooper (PWC) is a multinational professional services network of organizations that operate as partnerships under the PwC name. Professionals at PwC regularly monitor industry trends and concerns in order to better understand the challenges that clients confront and create tailored business solutions that fit their objectives and best help them achieve success. One such challenge is the inflation of commodities, which impacts the supply and demand of the commodity for companies that use it. This report examines the idea of assessing commodity prices and how inflation has affected supply and demand for companies who use it. The project required to analyze how companies utilize this product, the percentage of their overall costs, and the impact inflation will have on the company.

The analysis was started by selecting the commodity of **Crude Oil** from the Oil and Gas sector because oil and gas production is an important contributor to the Canadian economy and Oil prices play a significant role in influencing inflation. A large increase in oil costs will result in increased inflation. As of May, Canada's official inflation rate was around 7.7%, but if energy prices were excluded, it would have been around 5.5%.

The next stage of the project was to conduct an analysis of how the changes in crude oil prices affect the Canadian market/Economy as well as the **Canadian currency** (i.e., the Canadian dollar) and the effect of oil prices on other countries' currencies.

Following that, extensive background research was performed on how fluctuations in crude oil prices affect the Canadian market/economy, as well as the Canadian currency (i.e., the Canadian dollar), and the effect of oil prices on the currencies of other nations. Imperial Oil Limited was chosen as the company to drive forward our project in order to understand the impacts of inflation on a particular company. Projections were done to indicate how imperial oil revenue has been affected by inflation, expense, and net production cost, and trends were highlighted to foreshow the impact of inflation and multiple factors that affect a company's revenue.

The next obvious step was to investigate the primary factors that have affected and influenced crude oil prices throughout history. There were **four main factors** investigated that generally affect the supply and pricing of crude oil globally. The factors are an Increase in demand wherein the Price of Crude Oil increases due to an increase in demand and a decrease in supply, and the next major factor is inflation. Ideally, demand decreases with an increase in inflation due to less purchasing power for the given commodity, leading to lower revenue. The third factor is the decrease in demand. A decrease in demand and the failure of an entity to recognize this in advance can cause the entity huge sums of losses as production would not have been changed and the workforce management would not have been changed as well. This is essentially known as the production losses in general terms.

After carefully analyzing the factors affecting crude oil pricing and factors revolving around this industry, naturally, inferences were made, and potential recommendations were devised to help strengthen the client to face the challenges. These recommendations can be implemented throughout the client site to minimize the risk of inflation and harness the full potential of the company.