Economic spotlight

2023: Alberta economy year-in-review

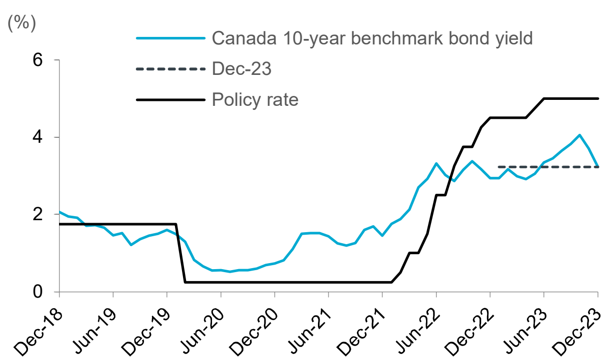
Following two years of robust post-pandemic recovery, Alberta's economy grew at a more moderate pace in 2023. Oil prices eased from 2022 highs but remained solid, supporting drilling activity, oil production and investment in the energy sector. Strong gains in agri-food products and machinery and equipment also contributed to business output. However, households continued to face headwinds. While strong population growth supported residential construction activity and consumer spending, rising interest rates and high inflation weighed on sentiment and per capita spending. Meanwhile, the labour market had another strong year, with employment gain keeping pace with the expansion in the labour force and wages picking up. This Spotlight highlights the key trends that shaped the provincial economy last year.

Interest rates peak

Interest rates peaked last year as central banks slowed and stopped interest rate hikes. After three 25 basis point rate hikes, the Bank of Canada (BoC) has held its policy rate at 5.0% since July 2023 (Chart 1). Similarly, the U.S. Federal Reserve has held the federal funds rate at 5.25%-5.50% since last July after four rate hikes earlier in the year. While central banks' policy rates have stabilized, longer-term interest rates, such as the yields on 10-year government bonds, continued to increase until mid-October. They started falling back to rates similar to the start of the year in anticipation of easing financial conditions.

CHART 1: POLICY AND LONG-TERM INTEREST RATES PEAK

Target interest rate and Canada's 10-year bond yied



Sources: Bank of Canada, Haver Analytics

Oil prices find support

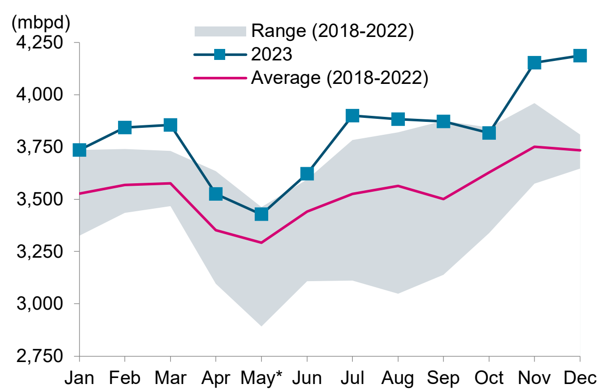
Global oil prices eased in 2023 but remained volatile after geopolitical tensions sent prices significantly higher in 2022. West Texas Intermediate (WTI) oil price averaged slightly below US$78/bbl in 2023, down significantly from roughly US$95/bbl the previous year when the onset of the Russia-Ukraine conflict propelled prices. Demand concerns kept a lid on prices in the first half of the year, although the extension of voluntary oil production cuts by Saudi Arabia and Russia buoyed prices in the third quarter. Prices were also supported into the fall as the Israel-Hamas conflict raised more concerns over the supply of crude oil. However, with growing U.S. production, these supply concerns faded, and WTI slipped back towards $70/bbl by the end of the year. Despite easing in 2023, WTI reached the third-highest annual average since 2014.

Oil producers geared up in 2023

Oil producers ramped up in preparation for increased market access and growing domestic demand. By the end of 2023, oil production hit over 4 million barrels per day (bpd) (Chart 2). For the year, it averaged a new annual record of 3.8 million bpd, an increase of 2.3%. Production increased in all types of oil, and total output hit seasonal records in eight of the twelve months despite a significant amount of maintenance in the oil sands in the spring and fall. The gains came as producers continued to focus on existing operations and optimizing production. Drilling activity moderated by 4.0% and investment in oil and gas extraction held steady after increasing 31% in 2022.

CHART 2: OIL PRODUCTION REMAINS STRONG THROUGHOUT THE YEAR

Monthly crude oil production



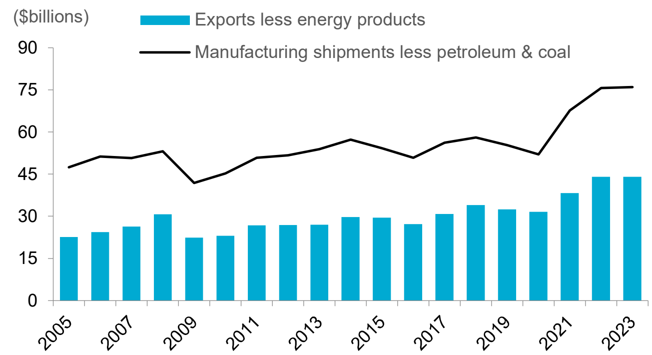
Source: Alberta Energy Regulator

Prices weigh on output

The value of business output fell as lower prices offset growth in production. Exports declined 15% as the value of energy exports dropped 19%, outweighing robust gains in other sectors. Sales of manufactured goods also fell (-3.9%) in 2023 as lower commodity prices weighed on petroleum and coal shipments (-15%). In contrast, the value of non-energy business output held steady. The value of exports was essentially unchanged (+0.2%) as strong gains in machinery and equipment (+34%) and agriculture products (+12%) offset lower sales of forestry products and chemicals. Meanwhile, manufacturing sales excluding petroleum and coal ticked slightly up on broad-based gains across durable goods industries (Chart 3).

CHART 3: VALUE OF NON-ENERGY OUTPUT HOLDS STEADY

Value of Alberta's exports and manufacturing shipments



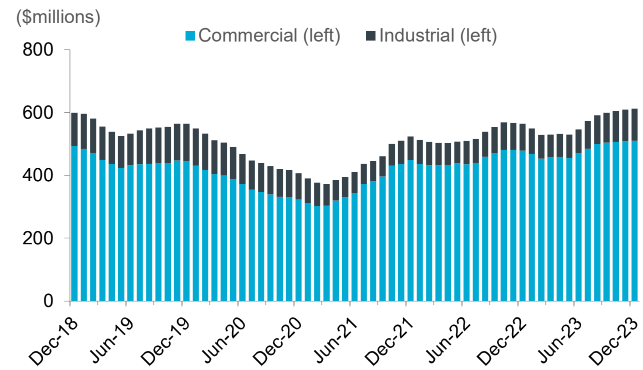
Sources: Statistics Canada, Haver Analytics

Private investment gains momentum

Business investment outside the oil and gas extraction industry picked up speed in 2023. After being cautious in the first half of the year, private non-residential investment surged in the summer. Investment in industrial buildings took off with strength in Lethbridge and outside of the four Census Metropolitan Areas (CMAs) and was up 10% in 2023. Investment in commercial buildings also gained ground (+6.7%) as spending on office buildings increased after three years of declines and investment in warehousing remained strong. With solid gains in commercial and industrial buildings, total private investment in non-residential structures increased 7.2%, the highest level in 7 years (Chart 4).

CHART 4: INVESTMENT IN PRIVATE NON-RESIDENTIAL STRUCTURES PICKS UP

Investment in non-residential structures, by type



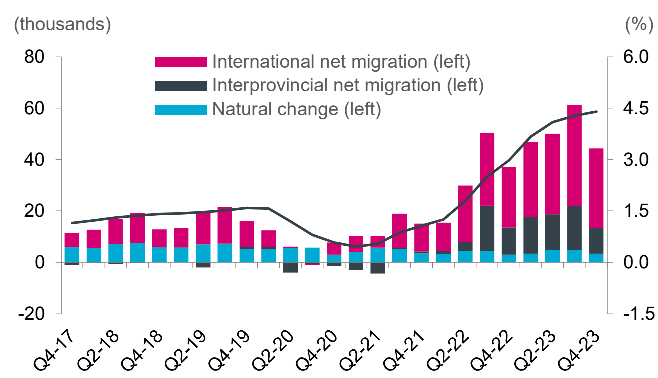
Sources: Statistics Canada, Haver Analytics

Surging population growth

Alberta's population surged in 2023 with a record increase in non-permanent residents (Chart 5). As of July 1, Alberta's population was 4,695,290, an increase of 4.1% year-over-year (y/y), the highest growth rate since 1981. The population surge was led by a record increase in non-permanent residents (63,277 y/y), which includes students, temporary foreign workers, and Ukrainian refugees through the federal Canada-Ukraine Authorization for Emergency Travel (CUAET) program. The number of permanent immigrants also surged (49,285 y/y), and net interprovincial migration (56,245 y/y) reached an all-time high. The strong migration continued into the second half of the year, and growth accelerated further, reaching 4.4% y/y by the end of the year.

CHART 5: POPULATION GROWTH ACCELERATES WITH RECORD LEVELS OF MIGRATION

Alberta's population by component and year-over-year growth



Sources: Statistics Canada, Haver Analytics

Population growth props up spending

Alberta's surging population lifted consumer spending in 2023. Retail sales increased 4.3% in 2023, even though lower gasoline prices continued to weigh on sales at gasoline stations. Excluding sales at gasoline stations, retail sales rose 7.4%, the strongest gain since 2007. Growth was led by strong sales at motor vehicle & parts dealers as new vehicle sales bounced back (unit sales up 15%) after shortages and low inventories limited sales in 2022 and the value of sales at used car dealers surged (11% y/y). Sales at clothing & accessories, health & personal care and food & beverage stores all posted large gains supported by the strong population growth.

Spending on service was also up in 2023. The robust population growth, higher prices and the recovery in travel boosted spending at restaurants, bars, and hotels. The number of international travelers entering Canada through Alberta increased 60% and was just shy of the 2019 level. Spending on travel also increased, with both hotel occupancy rates and average daily room rates surpassing pre-COVID levels. Sales at food services and drinking places continued to grow at a strong pace (+14% y/y) last year after fully recovering in 2022 from the low COVID levels.

Housing market gains momentum

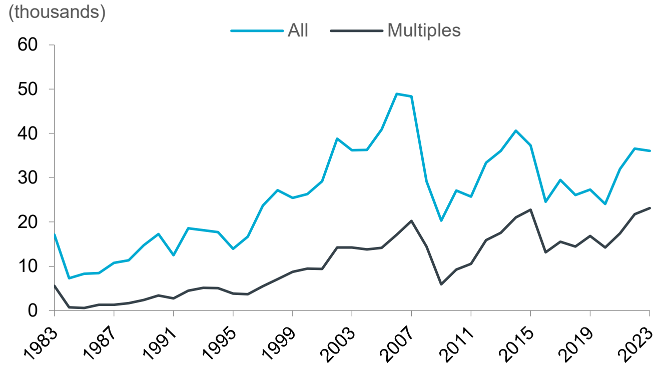
The strong population growth also led to a surge in demand for housing. After starting the year out on a soft note, sales activity in Alberta's resale housing market gained momentum. Sales activity started the year at a 30-month low in January and began to pick up as interest rate hikes moderated and more people became more comfortable with higher interest rates. On a seasonally adjusted basis, sales hovered around 7,000 per month in the second half of the year, well above pre-COVID levels and higher than all periods other than during the peak of the activity in the 2007 boom and the post-COVID surge. Despite the renewed strength in the second half, sales fell 9.1% in 2023.

Residential construction picks up

As with the resale housing market, residential construction activity gained momentum in the second half of the year with the growing demand. Housing starts surged in the summer and remained at over 40,000 since August. The strength in the second half of the year was led by multi-family dwellings (Chart 6). The growing shift to multi-family dwellings reflected an increase in demand for rental units and more affordable units found in row and apartment buildings. While housing starts remained robust, the slow start to the year due to higher interest rates, labour shortages and elevated construction costs limited growth and housing starts declined 1.4% in 2023. However, at 36,022 units, it was second strongest year since 2015.

CHART 6: HOUSING STARTS EASE BUT REMAIN AT ELEVATED LEVELS

Annual housing starts in Alberta



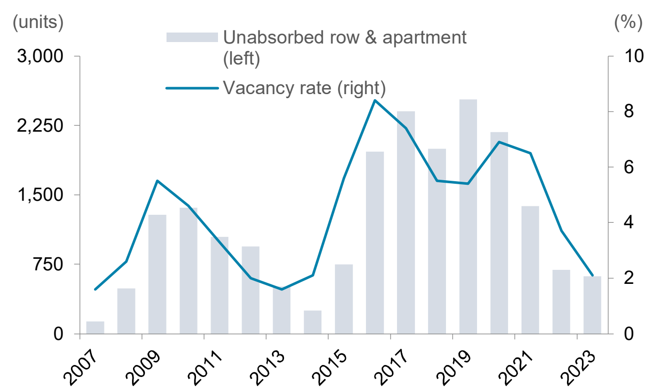
Sources: CMHC, Haver Analytics

Available housing shrinking

Despite the solid and growing levels of residential construction, supply failed to keep up with demand, and the stock of available housing declined in 2023. The impact of the surge in demand was most noticeable in the rental market. With population growth driven largely by NPR's, the demand for housing was primarily in rental units and more affordable units found in row and apartment buildings. The rental vacancy rate in Alberta's urban centres declined significantly in 2023, from 3.8% in October 2022 to 2.1% in October 2023, the lowest level in a decade. At the same time, newly completed and unabsorbed units in row and apartment buildings remained subdued at levels last seen in 2015 (Chart 7).

CHART 7: FEWER UNITS AVAILABLE IN MULTI DWELLING BUILDINGS

Rental vacancy rate and the number of completed and unabsorbed units in row & apartment buildings in Alberta



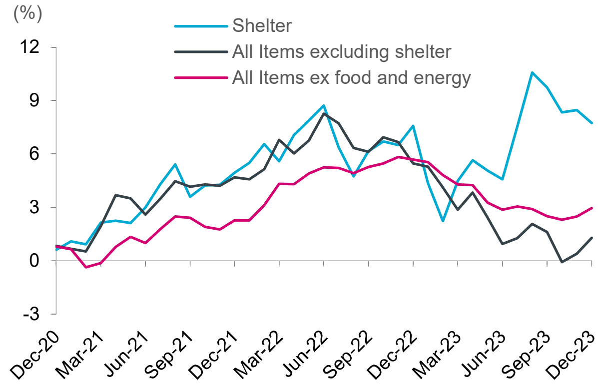
Sources: CMHC, Haver Analytics

Inflation recedes despite housing pressures

Inflation moderated in 2023 despite rising housing costs (Chart 8). Headline consumer inflation slowed from the multi-decade high of 6.5% in 2022 to 3.3% in 2023. Inflation eased last year with the decline in energy prices (-6.3%) after double-digit growth in 2022 and the slower increase in the price of goods. Disinflation in goods came as tighter financial conditions weighed on demand for discretionary items and the impact of global supply chains distribution faded. At the same time, shelter inflation picked up and partly offset the impact of both lower energy prices and goods inflation. Rental rates surged in the second half of the year as vacancies plunged. The resale housing market was also tight, and residential property prices increased. This, along with higher mortgage rates, increased the cost of homeownership (+7.7%).

CHART 8: INFLATION PULLED HIGH BY ELEVATED SHELTER COSTS

Year-over-year growth in Alberta's CPI, selected components



Sources: Statistics Canada, Haver Analytics

Another strong year of employment gains

Alberta's labour market had another strong performance in 2023. Employment continued to expand at a robust pace, with the province adding nearly 85,000 jobs (+3.6%) during the year. This strength was broad-based, with employment gains in the private and public sectors, in full-time positions, and in both the goods and services sectors.

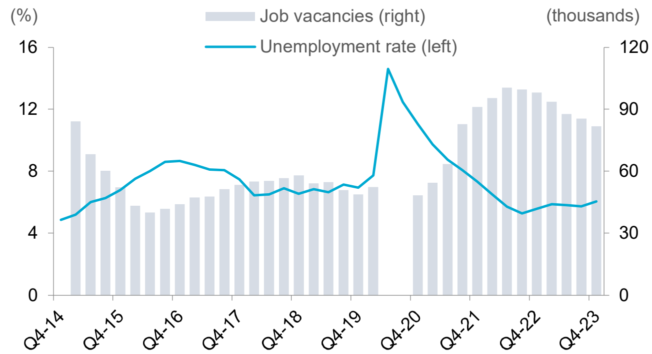
Labour market conditions ease

With the employment growth nearly matching the massive expansion in the labour force, the unemployment rate held fairly steady in 2023. The unemployment rate averaged 5.9% in 2023 after averaging 5.8% in 2022. Growth in the labour force exceeded the growth in labour demand and the number of job vacancies eased (Chart 9). However, vacancies remained above pre-pandemic levels, particularly in construction and accommodation & food services.

For more on Alberta's labour market, please refer to Economic Spotlight - 2023: Labour Market year-in-review.

CHART 9: TIGHTNESS IN THE LABOUR MARKET MODERATES

Seasonally adjusted unemployment rate and job vacancies



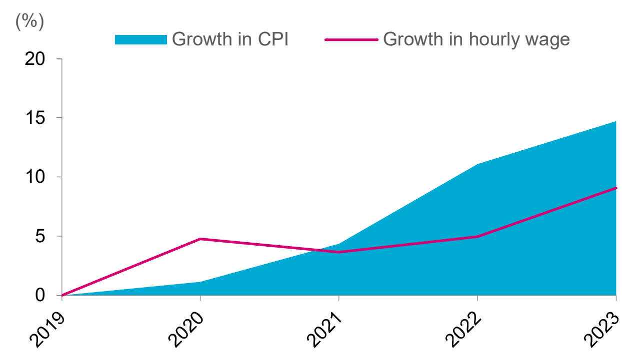
Sources: Statistics Canada, Haver Analytics

Wages regain some lost ground

The long-standing tightness in the labour market finally translated to wage gains. Average hourly wages rose 3.9% to $34.92 in 2023, after two years of muted growth. Gains were widespread, with 12 of 16 industries posting growth of more than 3%. Despite the increase, wages have yet to catch up to inflation. While consumer prices have grown 15% since 2019, average hourly wages have risen by 9% (Chart 10).

CHART 10: WAGE GROWTH ACCELERATES BUT LAGS INFLATION

Cumulative wage and consumer price growth (2019 = 100)



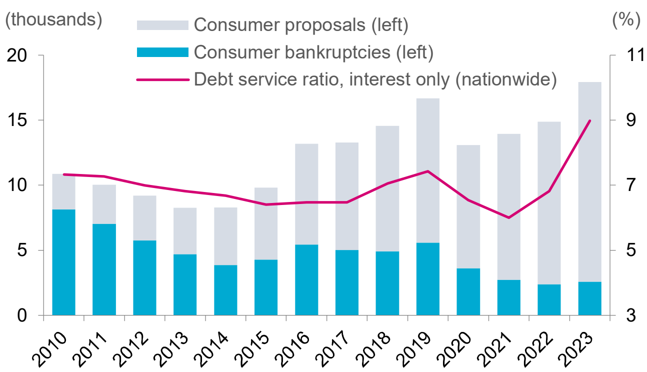
Sources: Statistics Canada, Haver Analytics

Financial stress growing

Albertans' finances deteriorated in 2023 as the impact of muted real wage growth, higher interest rates, and higher prices continued to accumulate. With household budgets being constrained, confidence remained low and consumers pulled back on their spending. While nominal spending was up in 2023, growth in real retail sales was subdued, and it declined on a per capita basis. Meanwhile, consumer credit balances continued to grow, and the number of consumer insolvencies increased significantly (+20%) to 17,921, more than in any other year (Chart 11).

CHART 11: GROWING PRESSURES ON ALBERTANS' FINANCES

Number of consumer insolvencies filed in Alberta and national debt service ratio



Sources: Statistics Canada, Haver Analytics

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