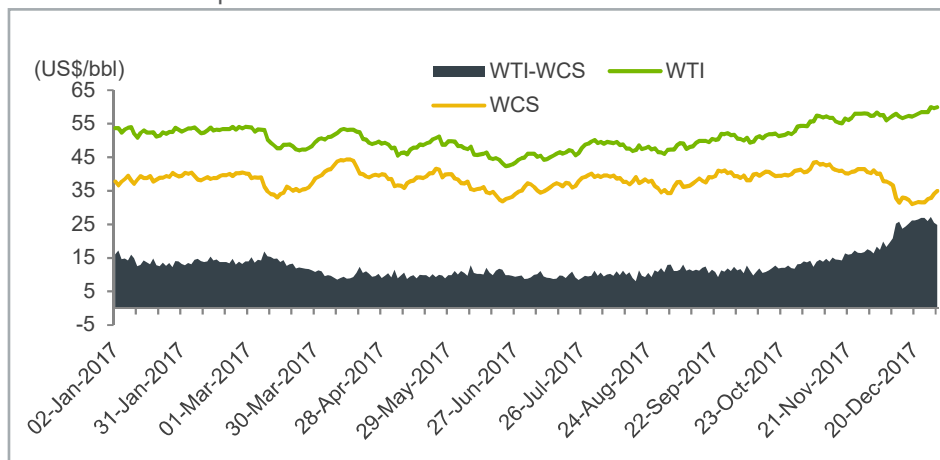


Economic Spotlight

A Year in Review: Post-recession Liftoff

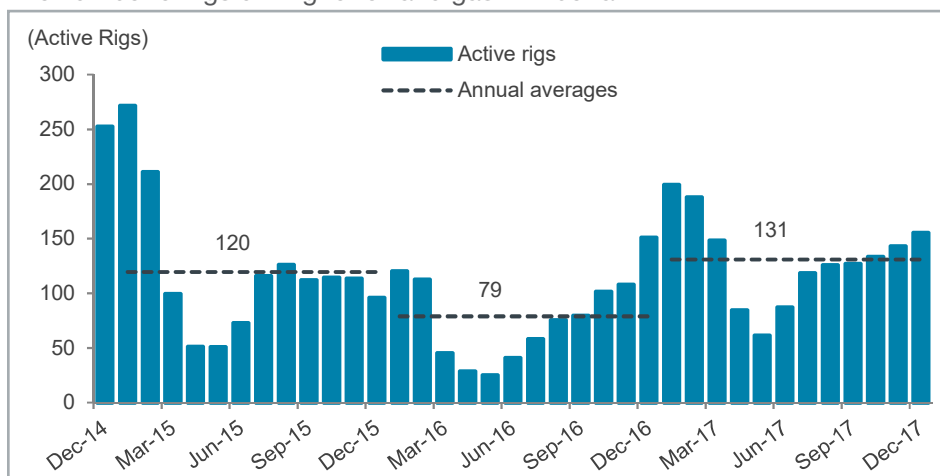
There was a resurgence in provincial economic activity in 2017, following a two-year recession made worse by the devastation of the 2016 Fort McMurray wildfires. Provincial real GDP rose an estimated 4.5% in 2017. While originally driven by improvements in the energy sector, spillovers culminated in a broad-based recovery, with additional support coming from rebuilding efforts in Fort McMurray. From business output to household spending, much of the economy improved throughout the year. Job creation picked up, although slack remained in some segments of the labour market. Bucking the good-news trend, private sector non-residential construction activity remained weak throughout the year.

Chart 1: Muted benefit of oil price appreciation for Alberta
WTI and WCS oil prices and differential



Sources: Kent Group Limited/Haver Analytics, Financial Times

Chart 2: More rigs drilling in the province
The number of rigs drilling for oil and gas in Alberta



Source: Canadian Association of Oilwell Drilling Contractors

Oil prices climb

Benchmark oil prices have continually improved since the price of West Texas Intermediate (WTI) hit a trough of US\$26/barrel (bbl) in February 2016. Improvements accelerated toward the end of 2017 as the global oil market became more balanced. The global oil supply glut tapered off on production cut reaffirmations from OPEC, as well as a drawdown of global crude oil inventories. Meanwhile, global oil demand improved as industrial activity picked up in what the International Monetary Fund (IMF) called the broadest synchronized global growth since 2010. As a result, the price of WTI finished 2017 near US\$60/bbl. However, the benefit for the Alberta industry was muted as pipeline and rail bottlenecks stifled the price of Western Canadian Select (WCS). The benchmark for Alberta oil sands crude was trading at a discount of nearly US\$30/bbl to WTI by the end of the year (Chart 1).

Energy sector comeback

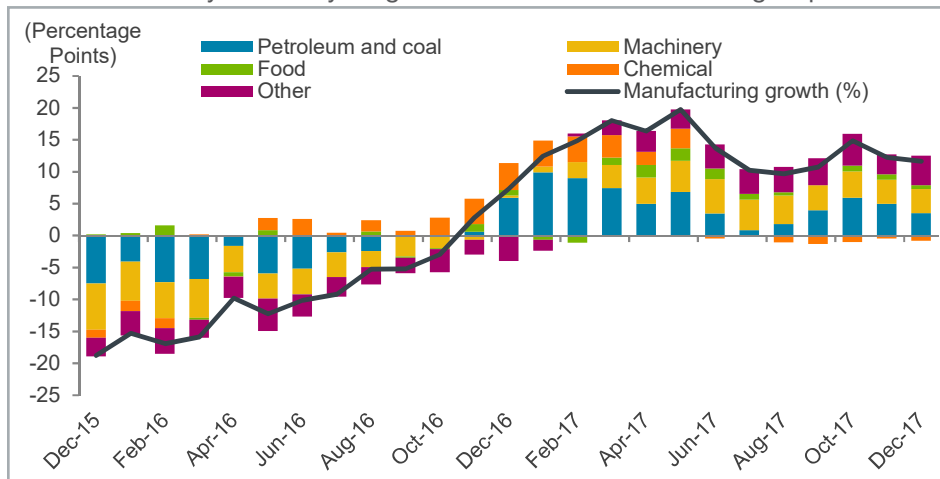
On the back of improving energy prices, the energy sector improved markedly in 2017. Conventional oil and gas activity picked up from recessionary levels, with the number of rigs drilling for oil and gas in the province 66% higher than the year prior (Chart 2). 2017 also saw a resurgence in oil production, which had been suppressed by weaker energy prices and the Fort McMurray wildfires. Production ramped up despite various outages, including a severe fire at Syncrude's Mildred Lake oil sands facility in March and a smaller fire in July, and routine maintenance-related oil sands facility shutdowns in the fall. Stronger oil production helped to boost Alberta's energy exports, which grew by 35%.

Broad-based industry strength

Momentum from the energy sector spread to other industries throughout the year. A pickup in non-energy exports complemented the rebound in energy exports, helping overall exports to regain over two-thirds of recessionary losses to hit \$9.1 billion by year-end. Alberta's manufacturing sector played a significant role in the recovery, with shipments hitting a three-year high at year-end. Gains were broad-based throughout the year with all industries picking up from recessionary levels (Chart 3). Robust energy-product shipments and machinery shipments—which are predominantly energy-related—led the charge, accounting for about two-thirds of 2017 manufacturing shipment growth. Manufacturing shipments of non-energy-related products also improved substantially. Strong lumber prices fueled the forestry sector, while resumption of a Balzac beef packing plant boosted agri-foods production and petrochemical output rose as the Joffre polyethylene plant expansion began.

Chart 3: Broad-based manufacturing gains

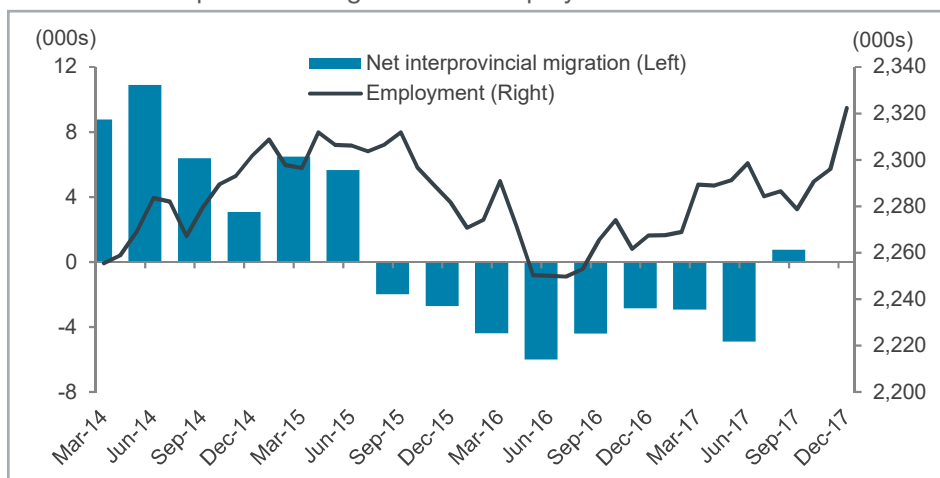
Contributions to year-over-year growth in Alberta manufacturing shipments



Source: Statistics Canada

Chart 4: Net interprovincial migration turns a corner as job growth picks up

Alberta net interprovincial migration and employment



Source: Statistics Canada

Labour market turnaround

Following modest gains early in the year, employment surged in the fourth quarter to fully recover recessionary losses by year-end. Many of the jobs recovered were in full-time work and in the high-paying goods-producing industries. Robust job growth pushed Alberta's unemployment rate down to 7.0% in December, the lowest rate in two years. With more job opportunities, especially in full-time work and high-paying industries, wages improved while Albertans worked more hours, so that average weekly earnings (AWE) edged up from recessionary levels. A healthier labour market inspired more Albertans to stay in the province, with net interprovincial migration turning positive toward the end of the year following two years of net outflows (Chart 4).

Still slack in some segments

Despite headline recovery, weakness remained in some segments of the labour market in 2017. Most notably, the construction sector failed to liftoff from recessionary levels, finishing the year about 20,000 jobs shy of pre-recessionary levels. Alberta youth also failed to find jobs at pre-recessionary rates. Job-losses continued for those aged 15 to 24, as employment fell further in 2017 adding to significant losses during the two-year recession.

Retail spending surge

Improving economic conditions drove a rebound in retail spending in 2017. Business activity picked up early in the year as momentum spread from the energy sector to other industries. This renewed business activity prompted a surge in motor-vehicle sales. Partly due to the boost from business activity, vehicle sales grew at their fastest rate since 2006, accounting for over half of the growth in retail sales throughout the year. As the year went on, a healthier labour market stimulated consumer sentiment, and broad-based retail spending pushed retail sales beyond pre-recession levels.

Fort McMurray rebuilding well underway

Better province-wide economic conditions led more Albertans to invest in new housing in 2017. Housing starts improved in both Calgary and Edmonton, mostly from single-detached home building. Furthermore, Fort McMurray residential rebuilding efforts came in ahead of schedule. The 2016 wildfire destroyed over 2,500 individual residential dwellings. Rebuilding efforts were well underway in 2017, with a record setting 1,625 housing starts in Wood Buffalo. This, along with more building activity across the province culminated in 29,457 housing starts in the province in 2017 (Chart 5).

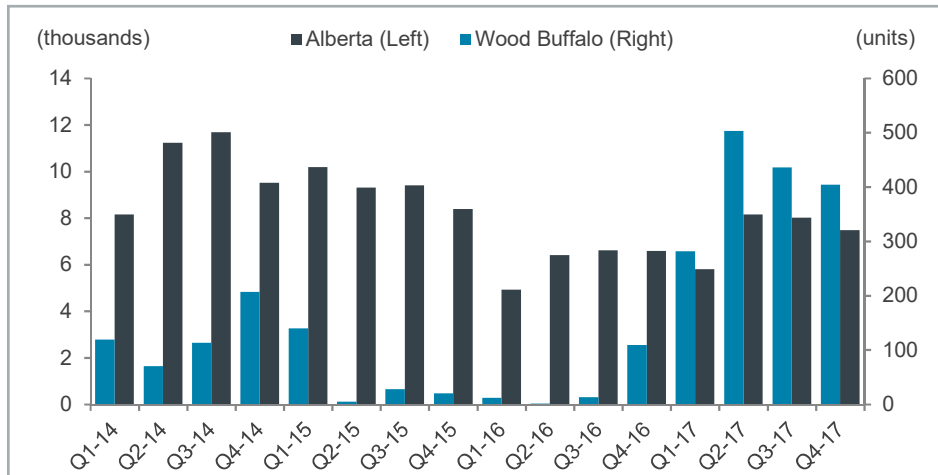
Resale housing flurry

The resale housing market was also strong in 2017, with a surge in activity toward the end of the year. Buyers were motivated to get out ahead of a national policy shift toward tighter lending practices. The Bank of Canada raised its key policy interest rate twice in 2017, once in July and again in September. Additionally, building off of

reforms implemented in October 2016, the Federal Government announced additional tightening to home buyer lending policies toward the end of 2017. Even Canadian home buyers with a 20% down payment would now have to pass a stress test ensuring that they could feasibly withstand a higher interest rate. Although announced near the end of 2017, the new policies didn't take effect until the new year. As a result, Albertans were motivated to complete sales ahead of the announced policy tightening. This led to a flurry of resale housing activity, with over 5,000 sales in December.

Chart 5: Wildfire rebuilding fuels housing starts

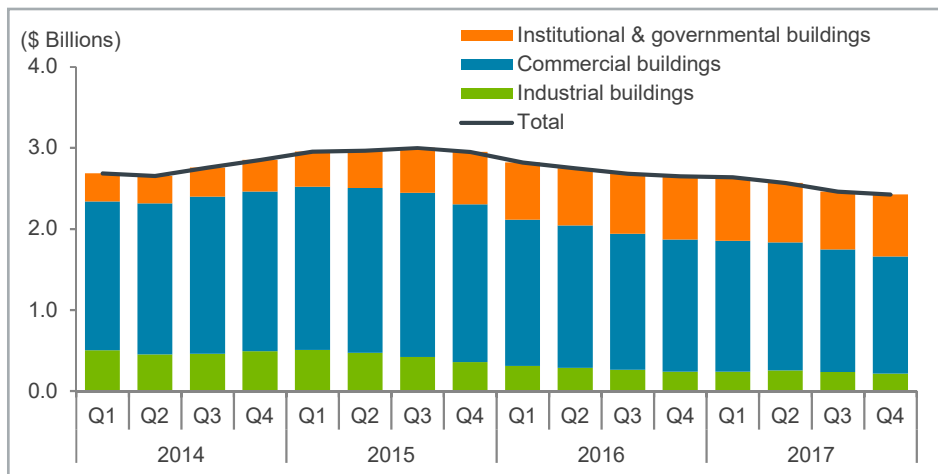
Alberta and Wood Buffalo housing starts



Source: Canada Mortgage and Housing Corporation

Chart 6: Non-residential construction sector lagging recovery

Alberta non-residential investment



Source: Statistics Canada

Non-residential investment lagging

Non-residential construction activity lagged behind the provincial economic recovery in 2017. There was about \$700 million less invested in provincial non-residential construction in 2017, following a decline of nearly \$1 billion the year before. Industrial and commercial building investment both fell from already depressed levels seen the year before, while institutional and governmental building construction picked up some of the slack (Chart 6). Construction activity wrapped up on large oil sands projects that began before the oil price decline. Notably, construction of the \$17 billion Fort Hills oil sands project drew to a close. Commercial investment was also weak. Construction of the Rogers Place Arena in Edmonton was completed in the year prior, while stubbornly high office vacancy rates—especially in Calgary—suppressed commercial building activity further. Fortunately, public sector investment maintained strength from the year before, continuing to counteract private sector weakness. The beginning of construction on the new Calgary Cancer Centre hospital was a welcome development in the fourth quarter.

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