

Economic spotlight

2021: Alberta economy year in review

The Alberta economy bounced back strongly in 2021 from the depths of the downturn caused by the dual shock of the COVID-19 pandemic and the collapse in oil prices in 2020. The Alberta Activity Index—a measure of provincial economic activity—grew 8.9% in 2021, with all sectors of the economy rebounding. Exports led the recovery, propelled by oil production, which rose to a new record high amid strong demand and prices. Significant progress on vaccinations enabled the reopening of the economy in the summer, although the Delta-driven fourth wave and re-introduction of targeted public health measures in the fall temporarily weighed on activity. This Spotlight highlights some of the key trends that shaped the provincial economy last year.

Petroleum demand recovery outpaces supply

The oil market continued rebalancing in 2021 after a significant decline in demand due to COVID-19 in 2020. Global petroleum demand rebounded strongly early in the year, underpinned by a solid pickup in the global economy. Momentum slowed in the second half amid the reintroduction of public health measures, particularly in Europe and the U.S., where COVID-19 cases and hospitalizations rose sharply due to the spread of the Delta and Omicron variants. Even so, global demand recovered to pre-pandemic levels in December (Chart 1). On an annual basis, it averaged

96.9 million barrels per day (bpd) in 2021, an improvement from the 2020 low but 3.4% below 2019. On the supply side, OPEC countries began to slowly ramp up output in response to the improvement in global demand, although some members could not meet their production quotas. Coupled with weather-induced challenges in February 2021, U.S. oil producers were also slow to increase production. Overall, global petroleum supply averaged 95.5 million bpd in 2021, 4.9% below pre-pandemic (2019) levels.

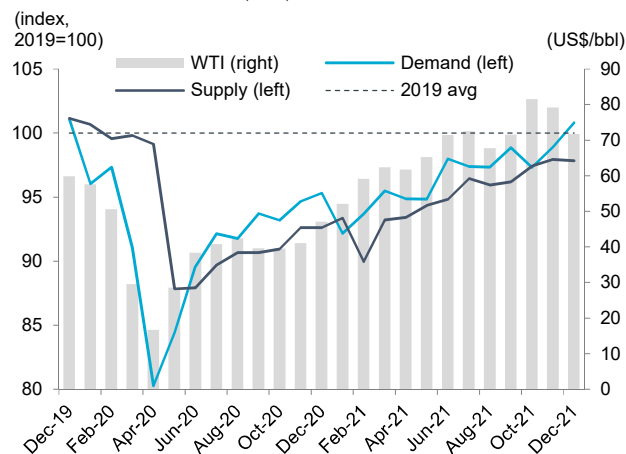
Oil prices propel to multi-year highs

With the recovery in global petroleum demand ahead of supply, global oil prices surged to multi-year highs last year. West Texas Intermediate (WTI) averaged US\$68 per barrel (bbl) in 2021, the highest annual average since oil prices crashed in 2014. It reached a peak of US\$81 per bbl in October before settling at slightly over US\$70 per bbl in December. At the same time, the differential between WTI and Western Canadian Select (WCS) remained within pipeline transportation costs. It averaged US\$13 per barrel in 2021, wider than in 2019 when mandatory production cuts were in place. Export pipeline capacity was bolstered by the completion of Enbridge's Line 93 (previously Line 3 replacement pipeline project). Sufficient pipeline capacity led to a decline in volumes of crude oil transported by rail to an average of over 145 thousand bpd in 2021, the lowest since 2017.

Strong global oil prices, along with a narrow differential, lifted the WCS price to an average of almost US\$55 per bbl, the highest since 2014 (Chart 2). However, these elevated returns were slightly tempered by a stronger Canadian dollar, which averaged 79.8 US cents per C\$ in 2021 on the back of strong commodity prices.

CHART 1: RECOVERY IN DEMAND AHEAD OF SUPPLY SUPPORTED OIL PRICES IN 2021

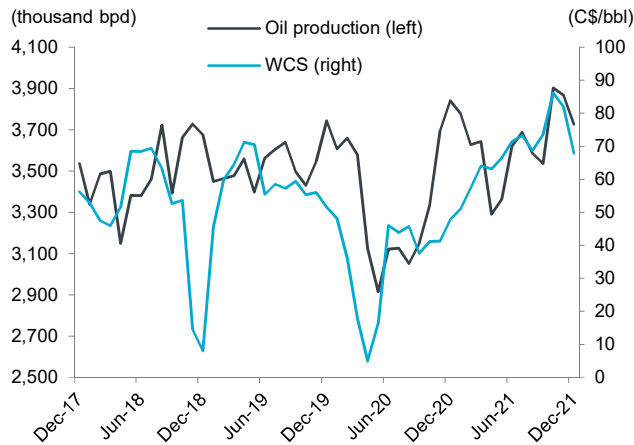
Global petroleum demand and supply, indexed to 2019 average, and West Texas Intermediate (WTI)



Sources: U.S. Energy Information Administration, Haver Analytics

CHART 2: STRONG NETBACK PRICES SUPPORTED OIL PRODUCTION LAST YEAR

Alberta's total oil production and Western Canadian Select (WCS)



Sources: Alberta Energy Regulator, Alberta Treasury Board and Finance

Natural gas prices lift off

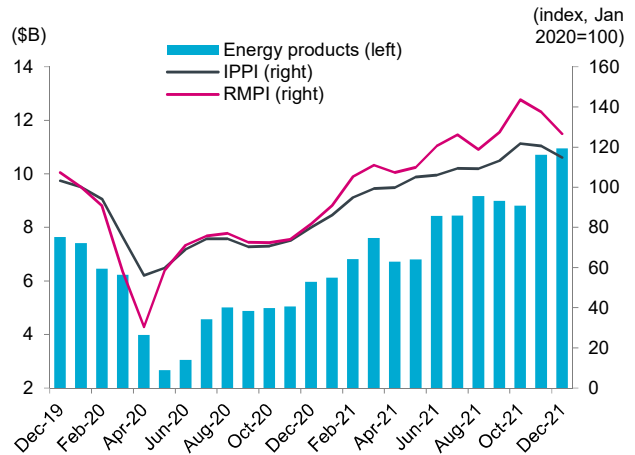
In addition to crude oil, natural gas prices strengthened last year. A solid rebound in the world economy and an accelerated transition away from emissions-intensive energy sources, such as coal, boosted demand for natural gas globally. Moreover, concerns about short-term supply constraints and low storage levels heading into the 2022 heating season caused price spikes in Europe and Asia in late 2021. Natural gas price appreciation in North America was more moderate than in other parts of the world, with the price surge in Alberta less drastic than in the U.S. Alberta's natural gas price benchmark, AECO-C, averaged C\$3.41 per GJ in 2021, a strong 61% gain from 2020 (C\$2.12 per GJ) and the highest annual level since 2014.

Energy leads recovery in business output

Strong demand and prices boosted business output and activity in the energy sector. Oil production averaged 3.6 million bpd in 2021 (+8.6% year-over-year), a historical maximum, with bitumen production (+9.4%) leading growth. Conventional output also improved, albeit at a slower pace (+3.1%), as drilling activity took time to respond to higher oil prices. After a muted start to the year, drilling activity in the province picked up and surpassed pre-pandemic (2019) levels in the second half of 2021 before returning to 2018 levels by the end of the year. Additionally, strong prices and demand for natural gas pushed production 8.0% above the 2020 level. As a result, the value of energy exports—includes exports of crude oil, natural gas and refined petroleum products—grew 65% in 2021 (Chart 3).

CHART 3: ENERGY PRODUCTS LED GROWTH IN EXPORTS IN 2021

Alberta's energy exports, raw materials price index (RMPI) and industrial product price index (IPPI)



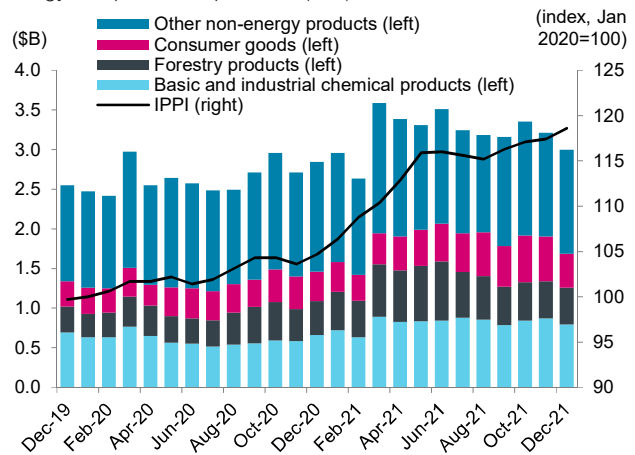
Sources: Statistics Canada, Haver Analytics

Non-energy output also increased

Business output outside the energy sector also bounced back strongly from the depressed 2020 levels. The value of non-energy exports and manufacturing sales excluding petroleum and coal products went up 21% and 25%, respectively, on the back of higher prices and demand. In particular, supply chain disruptions and rising commodity prices led to elevated costs of raw materials for many industries. Exports of basic & industrial chemicals (+35%) were propped up by strong fertilizer demand and prices, while strong demand for a wide range of commodities supported exports of consumer goods (+31%) (Chart 4).

CHART 4: HIGH COMMODITY PRICES SUPPORTED NON-ENERGY EXPORTS

Alberta's energy exports and industrial product price index, excluding energy and petroleum products (IPPI)



Sources: Statistics Canada, Haver Analytics

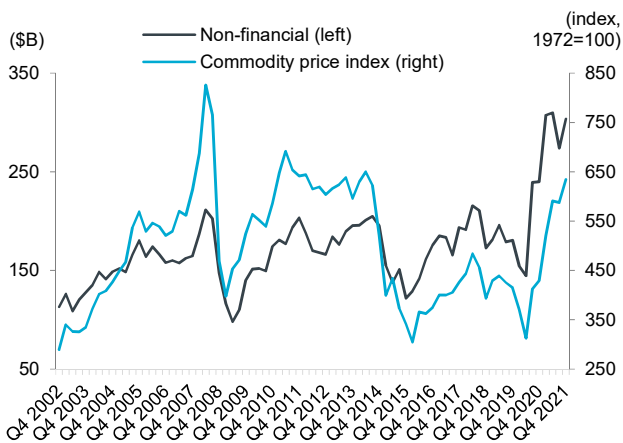
Robust homebuilding activity in North America and a rally in lumber prices, particularly in the first half of the year, boosted the value of forestry & building materials exports (+48%). Other durable goods manufacturing, such as primary metal and fabricated metals, also improved but lagged behind the recovery. Meanwhile, tight crop inventories and drought conditions in the summer weighed on primary agricultural production and farm exports (-1.5%).

Corporate profits surge

Strong economic activity and rising prices on a wide range of commodities—crude oil, lumber, copper, canola, wheat and other—boosted corporate profits last year. After two consecutive annual declines, net operating surplus for Canadian corporations rose 33% in 2021. The increase was particularly pronounced for non-financial organizations (Chart 5). In Alberta, manufacturing, finance and insurance, and oil and gas extraction led the recovery in corporate profits last year. Construction and retail trade also contributed to growth while supply chain constraints weighed on transportation and warehousing, with particular weakness in rail car loadings. Elevated cost pressures, however, squeezed margins across industries.

CHART 5: RISING COMMODITY PRICES PROPELLED PROFITS FOR CANADIAN NON-FINANCIAL CORPORATIONS

National non-financial corporate profits before taxes and Bank of Canada's commodity price index



Sources: Statistics Canada, Bank of Canada, Haver Analytics

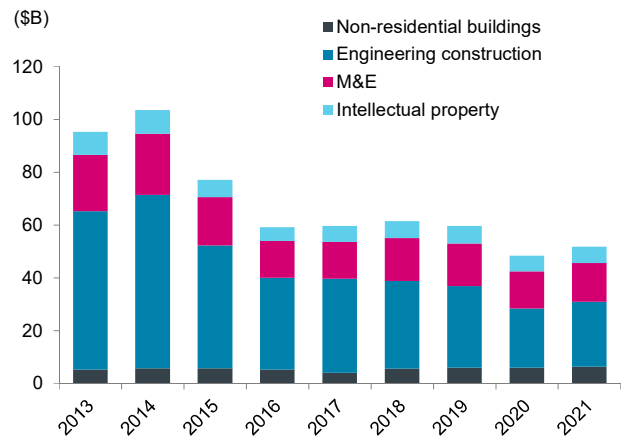
Growing momentum for non-residential investment

With higher corporate profits and sentiment improving, business investment in Alberta strengthened last year. Spending in the non-residential business sector rose 6.9% in 2021 (Chart 6). On an industry basis, investment outside the mining, oil and gas extraction sector led the recovery

and accounted for most of the increase. The utilities sector contributed the most to growth, buoyed by the construction of several major wind and solar power projects. The expansion of the Nova Gas Transmission Line (NGTL) system and Pembina pipeline, along with a pickup in construction activity in the warehousing space, also boosted capital spending in the transportation and warehousing sector. Investment in mining, oil and gas extraction sector improved but remained below 2019 levels as energy companies maintained capital discipline in expanding production capacity and invested in higher production from already existing assets rather than starting new projects.

CHART 6: BUSINESS INVESTMENT IMPROVED FROM THE 2020 LOW

Flows and stocks of fixed nonresidential business capital



Sources: Statistics Canada, Haver Analytics

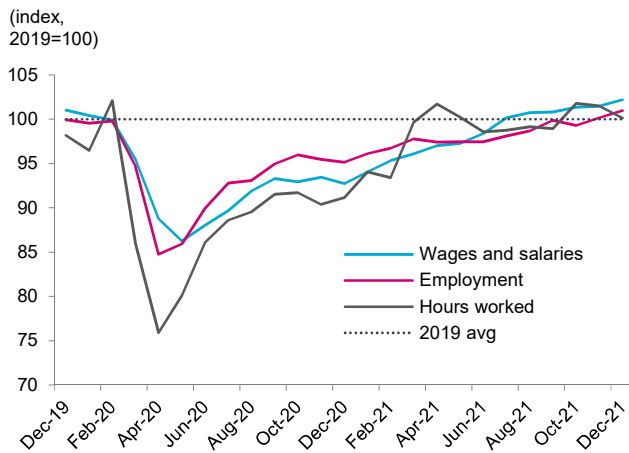
Household incomes improve

The impact of COVID-19 on Alberta's labour market continued to fade throughout last year. Households and businesses adapted to the pandemic, while public health measures became more targeted as vaccinations progressed. On an annual basis, the province added almost 110,000 jobs in 2021 and gained back all of the jobs lost during the pandemic, although the employment recovery remained uneven across industries. The unemployment rate also fell steadily throughout the year, averaging 8.7% (for more on the labour market recovery last year, please refer to [2021: Labour market year in review](#)). The return of lower-paid positions dampened growth in average weekly earnings in 2021, which slowed from 3.2% in 2020 to 2.1% in 2021. However, there was a noticeable pickup in hourly wages in the second half of the year when labour shortages intensified and job vacancies climbed, particularly among temporary employees and newly hired workers in certain industries, such as wholesale trade and construction.

Improved employment and hours worked bolstered labour income of Albertans by 6.5% last year (Chart 7). However, it remained 1.3% below pre-pandemic (2019) levels as the lagging recovery in goods sector employment kept hours worked below the 2019 levels (-1.1%). Household disposable incomes also got a lift last year from federal government income support programs, which started to wind down in the fall.

CHART 7: LABOUR INCOME IMPROVED IN 2021

Alberta's wages and salaries, employment and hours worked (seasonally adjusted), indexed to 2019 average



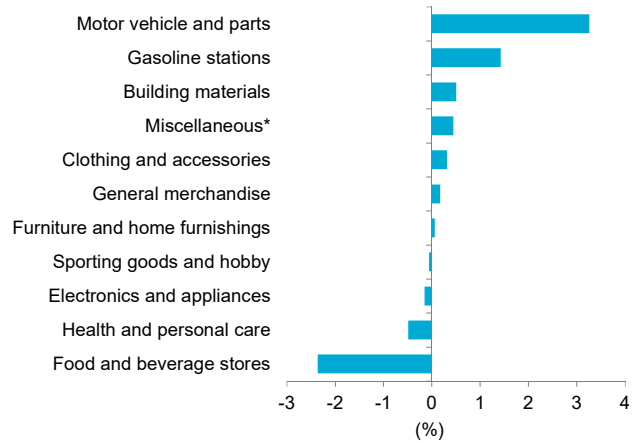
Sources: Statistics Canada, Haver Analytics

Strong recovery in goods spending

Consumer spending rebounded strongly last year, underpinned by improving consumer confidence and household incomes. The rebound was dominated by spending on goods. Although retail sales in the second half of the year moderated from the exceptionally strong gains in the first half, they rose 3.1% and reached a historical high in 2021. Sales at motor vehicle and parts dealers led growth in retail sales following strong demand for both new and used vehicles as travel restrictions eased (Chart 8). Although the number of new motor vehicles sold in Alberta last year rose 6.4%, per unit prices also increased (+4.5%) as a result of limited supply amid global supply chain disruptions. Additionally, improved vehicle traffic and rising prices of gasoline propelled sales at gasoline stations (+1.4%). Meanwhile, the value of sales at food and beverage stores retreated from the pandemic highs (-2.4%), led by lower sales at supermarkets and convenience stores after they peaked in 2020. A strong rebound in goods spending last year lifted imports into the province by 25%, 6.7% above the pre-pandemic (2019) level.

CHART 8: MOTOR VEHICLE AND PARTS DRIVE RETAIL SALES UP

Retail sales by category, 2021 vs. 2020 per cent change



Sources: Statistics Canada, Haver Analytics

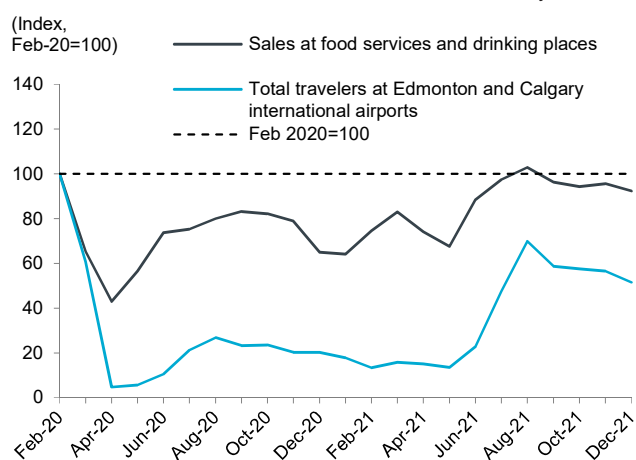
* Miscellaneous include florists, office supply stores, stationery, gift, novelty and souvenir stores, used merchandise, pet and pet supply stores, art dealers, cannabis stores, etc.

Spending on services lags

The lifting of public health measures and economic reopening over the summer prompted some consumers to start shifting their spending from goods to services. Tourism-related services—such as restaurant sales and hotel occupancy rates—rebounded strongly between May and August of 2021 (Chart 9). A resurgence of COVID-19 infections and subsequent tightening of public health measures dampened

CHART 9: TOURISM-RELATED ACTIVITY RAMPED UP IN THE SUMMER

Alberta restaurant sales and air travel, indexed to February 2020



Sources: Statistics Canada, Haver Analytics, Alberta Jobs, Economy and Innovation

*Total travelers is all air passengers, arrivals and departures

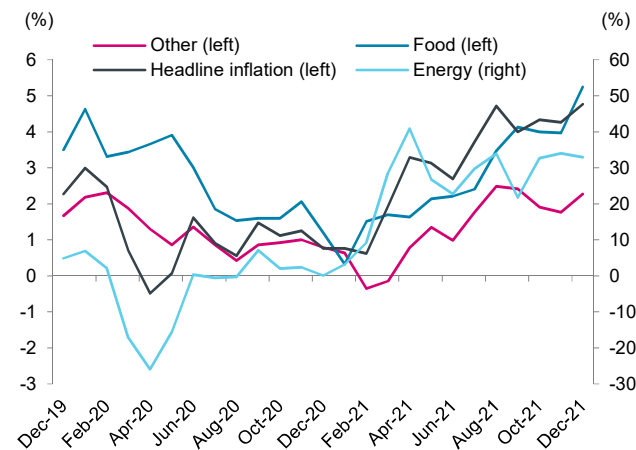
activity in the fall, although the impact has been much less than in previous waves. Sales at Alberta’s food services and drinking places rose 4.2% in 2021 but remained more than 20% below the 2019 level. The above suggests that overall spending on services remained below pre-pandemic levels.

Elevated consumer inflation

Cost pressures rose rapidly in Alberta last year, fuelled by soaring commodity prices, persistent supply bottlenecks and robust consumer demand. Labour shortages in some sectors resulted in wage pressures. Additionally, British Columbia floods drove prices for imported goods higher at the end of the year. These factors translated into higher consumer prices. Headline consumer inflation averaged 3.2% in 2021 (Chart 10), the highest annual growth in more than a decade. Energy prices in Alberta posted double-digit growth (+26%), the highest since early 1980s, a combination of both a strong bounce back in demand for energy products and depressed price levels in 2020. At the same time, food prices increased by a moderate 2.7% last year. Core inflation—excluding food and energy—also picked up. Robust demand for goods, coupled with persistent supply chain bottlenecks, boosted prices for consumer durables (+4.1%) such as motor vehicles, household appliances and furniture. This was somewhat offset by weak prices for semi-durable goods (-1.3%) as ongoing pandemic-related restrictions kept a lid on demand for clothing and footwear. Similar to 2020, services inflation remained subdued in 2021 (+1.3%) but started to pick up towards the end of the year as consumers began shifting their spending from goods to services.

CHART 10: ENERGY AND FOOD COSTS PUSHED CONSUMER INFLATION HIGHER

Alberta’s consumer price index by category, year-over-year per cent change



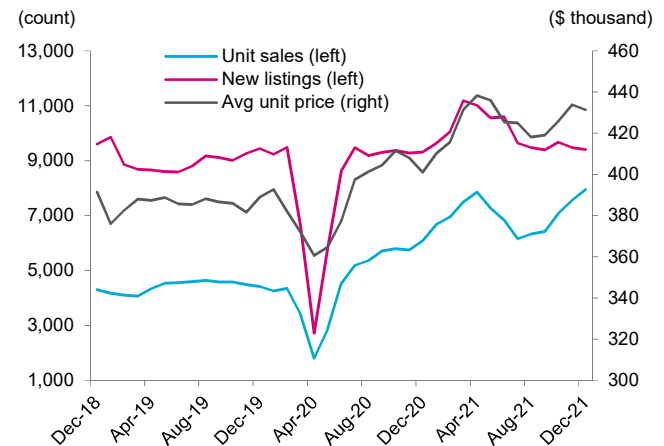
Sources: Statistics Canada, Haver Analytics

Solid housing market activity

After years of subdued activity, Alberta’s housing market finished 2021 on a strong note. Low mortgage rates, high household savings, improved consumer confidence and tight inventories all supported robust activity. Housing starts grew 33% to over 31,900 units in 2021, the highest level since 2015. With homebuyers’ preferences towards bigger spaces, the overall increase was driven by single-detached housing starts (+49%) that grew strongly in the first half of the year. Meanwhile, renovation spending eased (-5.8%) last year after a solid increase in 2020. In the resale housing market, unit home sales soared 57% to reach record level in 2021 (Chart 11). Solid demand, along with limited supply, pulled down the months of inventory—the amount of time it would take to sell current inventory—to 2.4 months in December 2021, the lowest level since mid-2007. This pushed average resale home prices higher in 2021, particularly for single-family homes. Although both Edmonton (+6.3%) and Calgary (+9.0%) saw strong increases in house prices, the pace of growth was far less than in other urban centres, including Vancouver and Toronto. House prices in Alberta’s major cities remained among the most affordable in the country.

CHART 11: STRONG DEMAND AMID LIMITED SUPPLY PUSHED HOUSE PRICES HIGHER

Alberta’s residential unit sales, new listings and average resale home prices, seasonally adjusted



Sources: Statistics Canada, Haver Analytics



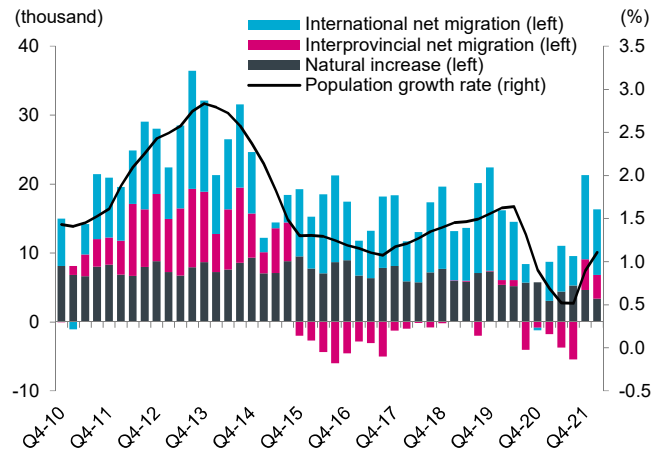
Migration turns a corner

Similar to most provinces, Alberta's population growth slowed substantially in the 2021 census year, reflecting the dual impact of the pandemic and reverberating effects of the collapse in oil prices in 2020. Population growth decelerated to 0.5% year-over-year, down sharply from 1.3% in the 2020 census year and the lowest rate since the late 1980s. Despite the annual slowdown, Alberta's population growth picked up between July and December 2021 as the impact of the pandemic subsided and economic conditions in the province improved. After six years of outflows, Alberta's net interprovincial migration was positive in the last two quarters of 2021 (Chart 12). Alberta's relatively low cost of living, more affordable housing market, higher earnings and lower taxes attracted people into the province. At the same time, immigration improved from the pandemic low as travel restrictions were lifted and processing of applications ramped up, although the proportion of immigrants to Canada choosing to live in Alberta stayed below recent averages.

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CHART 12: MORE CANADIANS MOVED TO ALBERTA THAN LEFT IT IN 2021

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



Sources: Statistics Canada, Haver Analytics