

Economic spotlight

Service sector leads growth in 2023

2023 GDP by industry

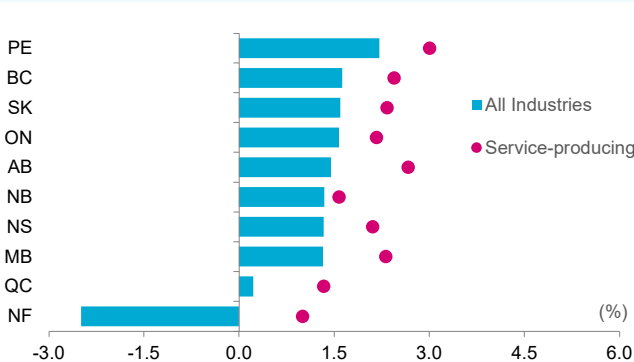
The Alberta economy continued to grow in 2023, but at a much slower pace after two years of post-COVID recovery in 2021 and 2022. Alberta's real GDP by industry increased by 1.5%. The service sector led the way, supported by Alberta's surging population. In contrast, the goods sector stalled, weighed down by lower construction output and weak agriculture production. Growth was also held back by muted gains in industries providing discretionary services, and overall economic growth failed to keep up with the strong population gains. This resulted in a decline in per capita GDP. The spotlight explores the result of Alberta's GDP by industry in 2023.

Service sector buoys growth across provinces

With the exception of Newfoundland and Labrador, all provinces recorded growth in real GDP by industry in 2023 (Chart 1). Strong population growth boosted demand for services, while output in the goods sector was muted or outright declining. The weakness in the goods sector across the country was partly due to the lower output in the construction sector and, in particular, residential construction. The latter was down in every province, with six reporting double-digit declines amid higher borrowing costs. While Alberta's residential construction sector fared better than other provinces with the resurgence in housing market in the second half of the year, its non-residential and engineering construction industries were disproportionately weak. Meanwhile, drought conditions in the prairie provinces also weighed on the agriculture sector and slowed growth in Manitoba, Saskatchewan, and Alberta. With the weakness in the construction and agriculture sectors, Alberta's real GDP growth was fifth amongst the provinces despite having the strongest population growth. Even so, Alberta was the third largest contributor to Canada's economic growth in 2023, after Ontario and B.C.

CHART 1: ALBERTA RANKED FIFTH IN GROWTH

Real GDP by industry growth, by province (2023)



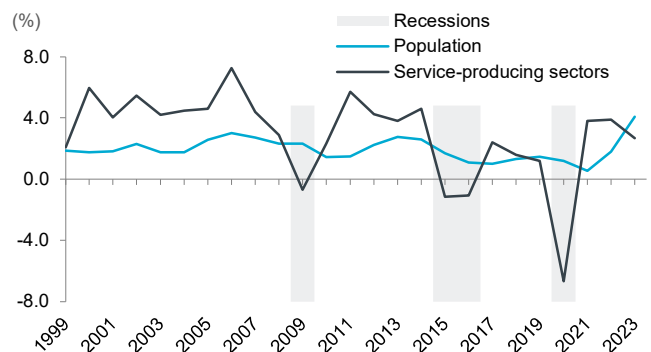
Sources: Statistics Canada, Haver Analytics

Service sector expands with the population

Strong population growth boosted output in Alberta's service-producing industries. They expanded 2.7% to reach a new high in 2023 on the back of widespread gains. Fourteen out of fifteen main industry groups advanced, with twelve growing faster than the overall economy. Industries that provide services directly to households led the way, benefitting from a growing population. Meanwhile, the recovery in travel also boosted output in industries closely tied to tourism. Conversely, growth was muted in industries providing discretionary services to businesses and households. Like other provinces, growth in Alberta's service sector output was impacted by higher interest rates and prices and failed to keep pace with the increase in population, something that rarely happens outside of recessions (Chart 2).

CHART 2: GROWTH IN SERVICE SECTOR FALLS BELOW POPULATION GROWTH

Annual growth



Sources: Statistics Canada, Haver Analytics

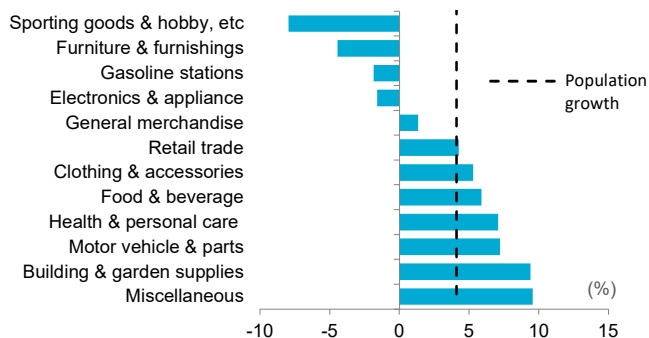
Strength in the retail sector

The strong population growth supported an expansion in the retail industry. After muted gains in 2022, the retail sector jumped 4.3% in 2023. The growth was strongest at stores that provided everyday items, such as food and

beverage (+5.9%), health and personal care (+7.1%), clothing and clothing accessories (+5.3%), and miscellaneous store retailers (which include used merchandise and pet stores) (+9.8%). With the exception of food and beverage stores, output in these sectors reached new highs. General merchandise retailers, which include department stores, warehouse clubs and dollar stores, posted modest growth but also posted a new high, likely reflecting growing sales of food products. Growth was further supported by motor vehicle and parts dealers (+7.2%), which rebounded on the back of improved supply chains and inventories, as well as ongoing strength in building material & garden equipment dealers (+9.4%) (Chart 3). Meanwhile, retailers that provide more discretionary items, such as sporting goods & hobby stores, furniture & home furnishings stores, and electronics & appliance stores, struggled last year.

CHART 3: RETAIL TRADE BOOSTED BY POPULATION GROWTH

Annual growth in real GDP in the retail sector, 2023



Sources: Statistics Canada, Haver Analytics

Travel recovery continues

Travel-related service industries continued to recover in 2023. Air transportation (+30%), transit, ground passenger & scenic and sightseeing transportation (+18%), travel arrangements & reservation services (+4.5%), and travelers' accommodations (+7.5%) all made significant gains. Despite the strong growth, output remained significantly below the 2019 level in these industries (Chart 4) that were hit hard during COVID. Meanwhile, the recovery in travel and robust population gains propelled output in food services & drinking places to grow 7.8%, surpassing 2019 levels.

TABLE 1: AGRICULTURE AND CONSTRUCTION WEIGH ON GDP

Alberta real GDP by major industries

	2023	
	Change (%)	Contribution to change (percentage points)
All industries	1.5	1.5
Agriculture, forestry, fishing and hunting	-12.6	-0.3
Mining, quarrying and oil and gas extraction	2.3	0.5
Utilities	0.0	0.0
Construction	-5.3	-0.4
Manufacturing	2.1	0.2
Wholesale trade	2.6	0.1
Retail trade	4.3	0.2
Transportation and warehousing	3.5	0.2
Information and cultural industries	1.8	0.0
Finance and insurance	0.9	0.0
Real estate and rental and leasing	1.8	0.2
Professional, scientific and technical services	1.8	0.1
Management of companies and enterprises	-33.0	0.0
Administrative and support, waste management and remediation services	0.7	0.0
Educational services	2.6	0.1
Health care and social assistance	3.7	0.2
Arts, entertainment and recreation	7.1	0.0
Accommodation and food services	6.6	0.1
Other services (except public administration)	3.2	0.1
Public administration	3.3	0.2

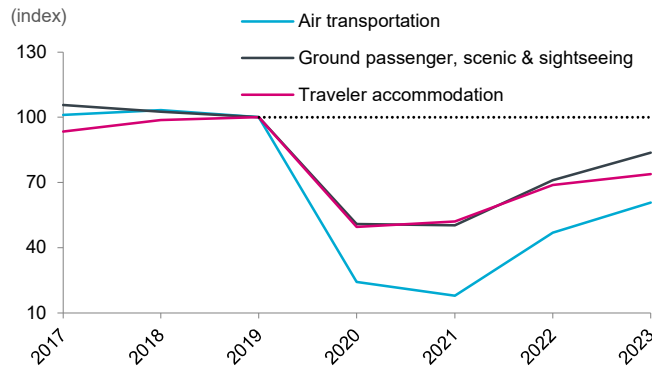
Sources: Statistics Canada, Alberta Treasury Board and Finance, and Haver Analytics

What is GDP by Industry?

Gross Domestic Product (GDP) by Industry is the difference between the value of output generated by an industry and the value of intermediate inputs purchased from other industries. GDP by industry is sometimes referred to as "value added" as it captures how much value is being added over and above what is used as input. The sum of each industry's GDP yields the GDP for the overall economy. Alberta's 2023 provincial accounts estimate of GDP, which breaks down GDP by expenditure category and income type, will be released in November. While this estimate differs slightly from total GDP by Industry, growth in the two series track closely over time.

CHART 4: TRAVEL STILL RECUPERATING

Real GDP by industry, indexed 2019=100



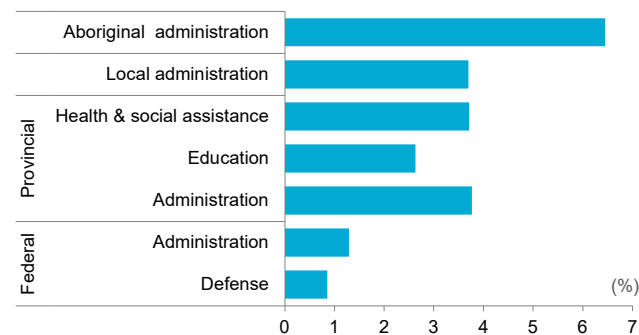
Sources: Statistics Canada, Haver Analytics

Growth in the public sector output

The strong population growth also increased demand for publicly provided services. Health care & social assistance (+3.7%), education (+2.6%), and public administration (+3.3%) all expanded. Within the public administration sector, growth was concentrated in the provincial (+3.8%) and municipal (+3.7%) governments, which are the primary providers of social services most impacted by population growth (Chart 5). Meanwhile, output gains in federal government administration (+1.3%) and defense (+0.9%) was muted.

CHART 5: PUBLIC SECTORS OUTPUT GROWS WITH POPULATION

Growth in real GDP by industry, 2023



Sources: Statistics Canada, Haver Analytics

Discretionary spending weak

Growth in many other industries providing services to households remained muted in 2023. High interest rates and persistent inflation resulted in lower disposable incomes, which in turn weighed on spending on discretionary services. Financial investment services (+0.7%) grew at the slowest pace in four years, while recreational vehicle parks, recreational camps, and rooming and boarding houses (-0.7%) declined. Even those discretionary services industries

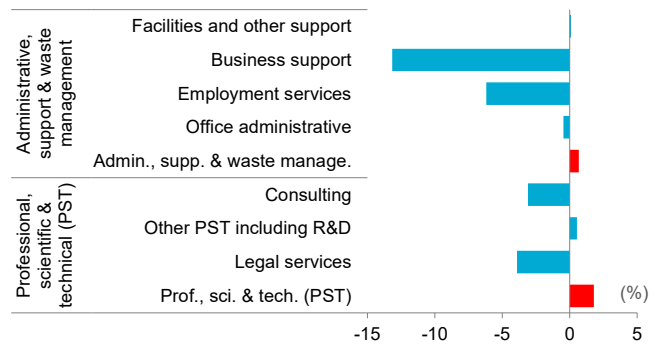
that posted strong growth in 2023 remained well below pre-COVID levels. In particular, output in the performing arts & spectator sports industry was up 8% in the year but was still down 48% from the 2019 level. Similarly, amusement and recreation saw output expand 5.8% but remain 11% below the 2019 level.

Muted growth in services supporting business activities

Many industries that support business operations struggled in 2023. The management of companies and enterprises, which includes holding companies, centralized administrative offices, corporate offices, and subsidiary management offices, plunged 33%. Growth in the professional, scientific, & technical services industry group (+1.8%) was dampened by a decline in legal services (-3.9%) and management, scientific and technical consulting services (-3.1%). Growth was also muted in the administrative and support, waste management & remediation services industry group (+0.7%) as weakness in office administrative services (-0.5%), employment services (-6.2%) and business support services (-13%) offset gains in services to buildings and dwellings (+2.0%) and waste management and remediation services (+7.0%) (Chart 6).

CHART 6: TOUGH YEAR FOR SERVICES SUPPORTING BUSINESSES

Annual growth in real GDP, 2023



Sources: Statistics Canada, Haver Analytics

Supply chain recovering

Industries in Alberta's supply chain have rebounded from the COVID disruptions. Wholesale trade (+2.5%) expanded for the third year in a row and nearly surpassed the 2014 high. The strength came from machinery (+5.3%), farm products (+27%), and motor vehicles (+2.8%), while value added at food, beverage & tobacco as well as personal & household goods wholesalers were virtually unchanged. With the strength in large and bulk commodities, rail transportation posted a similar gain (+2.5%) and approached the 2019 high. On the other hand, truck transport was essentially unchanged (+0.1%), reflecting muted growth in personal, household, food

and beverages wholesalers. Meanwhile, the warehousing and storage industry (+10%) continued to expand at a rapid pace (Chart 7).

CHART 7: SUPPLY CHAIN INDUSTRIES MOSTLY RECOVERED

Real GDP by industry, indexed 2019=100



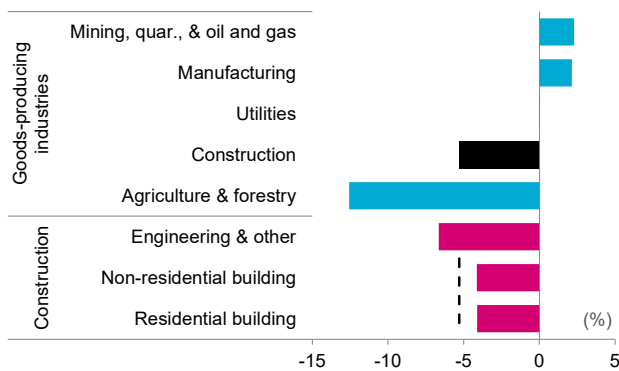
Sources: Statistics Canada, Haver Analytics

Construction weighs on the goods sector

In contrast to the service sector, the goods-producing sector dragged Alberta's GDP growth lower in 2023. Output in Alberta's goods sector fell 0.2% as declines in three industries offset gains in the other two (Chart 8). The construction sector was the largest downward contributor, declining by 5.3% in 2023. The declines were broad-based, with output in residential (-4.1%), non-residential (-4.1%), engineering (-6.8%) and repair construction (-2.6%) sectors all declining. The weakness in engineering construction was primarily due to oil and gas, which fell 10% despite solid oil prices and growing production last year. With the decline, output in oil and gas engineering construction was the third weakest level since 2009 and was also below 2019 levels.

CHART 8: BROAD WEAKNESS IN CONSTRUCTION WEIGHS ON GOODS SECTOR

Annual growth in real GDP



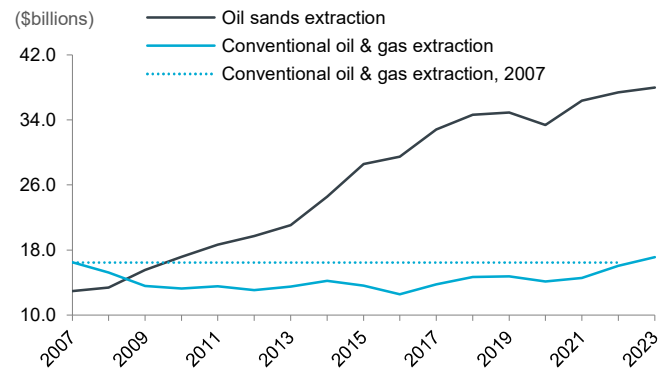
Sources: Statistics Canada, Haver Analytics

Oil and gas extraction moves ahead

Oil and gas extraction continues to be a driver of economic growth. Mining, quarrying, and oil and gas extraction (+2.3%) advanced for the third consecutive year and was the largest contributor to real GDP growth in 2023. The gain came as strength in oil and gas extraction (+3.1%) more than offset the declines in mining quarrying (-5.7%) and supporting industries (-2.8%). The strength in the oil and gas extraction industry is a continuation of a trend. The industry has consistently been a significant contributor to economic growth over the last 14 years, as the value-added production from the oil sands has increased in each year except for 2020 (Chart 9). Meanwhile, the value-added output from conventional oil and gas producers has also picked up over the last seven years and has now surpassed the 2007 levels.

CHART 9: STRONG GROWTH IN OIL SANDS

Real GDP by sector



Sources: Statistics Canada, Haver Analytics

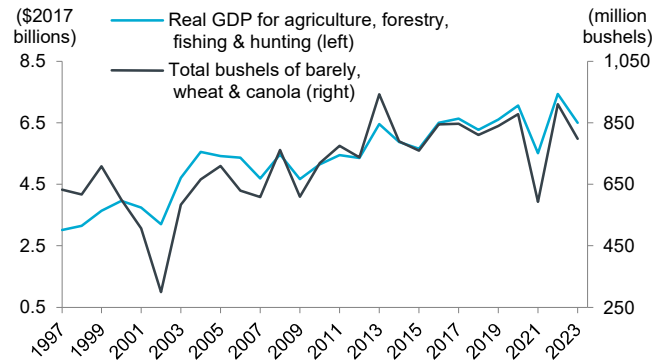
Adverse growing conditions hamper agricultural output

The agriculture, forestry, fishing & hunting industry posted the largest decline among industries. Output in the sector fell 13% after increasing 35% in the previous year (Chart 10). The sharp reversal was due to lower precipitation in the 2023 growing season. This resulted in lower yields, which weighed on crop production (-14%). Animal production also retreated (-2.8%), and support activities for crop and animal production (-11%) were dragged lower. Despite the weakness, both crop and animal production remained near record levels. Conversely, the forestry and logging industry (-12%), which also had a tough year, saw its value-added production fall back near the recent 2020 low.



CHART 10: CROP PRODUCTION WEIGHS ON AGRICULTURE

Real GDP and total bushels of major crops grown



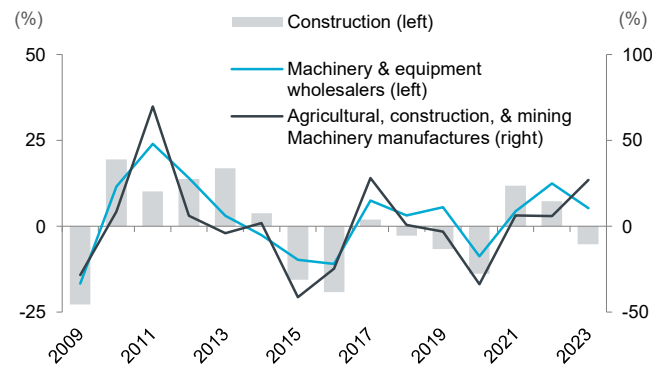
Sources: Statistics Canada, Haver Analytics

Renewed strength in machinery

Despite the weakness in the construction sector and support activities for agriculture, forestry, mining, and oil and gas extraction in the province, strong export demand (particularly in the U.S.) fueled growth in output for machinery equipment. Manufacturing of agricultural, construction and mining machinery rose at an exceptionally strong pace of 27% last year, but was still a fraction of the 2011 high (Chart 11). Meanwhile, motor vehicles & parts manufacturing and motor vehicle body & trailer manufacturing also posted large gains, although they are relatively small categories. Providers of non-automotive rental equipment also gained ground. Moreover, demand for equipment also supported machinery, equipment and supplies merchant wholesalers (+5.3%) which rose to a new high in 2023.

CHART 11: STRENGTH IN MACHINERY DESPITE WEAKNESS IN CONSTRUCTION

Growth in real GDP by industry



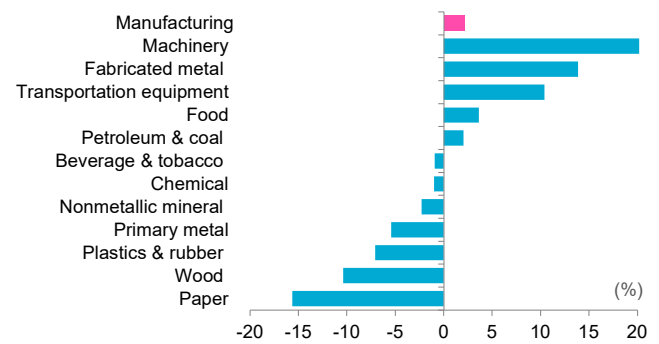
Sources: Statistics Canada, Haver Analytics

Other pockets of strength in manufacturing

Gains in food, fabricated metal products and petroleum refineries also contributed to higher output in the manufacturing sector. Despite weak investment in engineering construction, fabricated metal product, manufacturing surged 14%, with large gains in architectural and structural metals manufacturing and boiler, tank and shipping container manufacturing. Food manufacturing also continued to grow (+3.6%), led by strong value-added output from grain and oilseed milling and other food manufacturing, such as potato-based products. Meanwhile, growth accelerated at petroleum refineries but outright declined for other refined products, chemical, and plastic manufacturers. Wood and paper product manufacturers also posted a decline in 2023 (Chart 12).

CHART 12: DIVERGENCE IN THE MANUFACTURING SECTOR

Annual growth in real GDP in the manufacturing sector, 2023



Sources: Statistics Canada, Haver Analytics

No uplift in utilities

While strong population growth boosted many service industries, output in the utilities sector was unchanged. Output was flat in the utilities sector as weakness in natural gas (-1.6 %) and a mild pullback in water and sewage systems was nullified by an uptick in electricity generation and distribution (+0.3%). With strong population growth, the per capita level fell to the 3rd lowest level record since 1997.

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