

Economic spotlight

GDP by expenditure

Rapid expansion supported by strong growth income

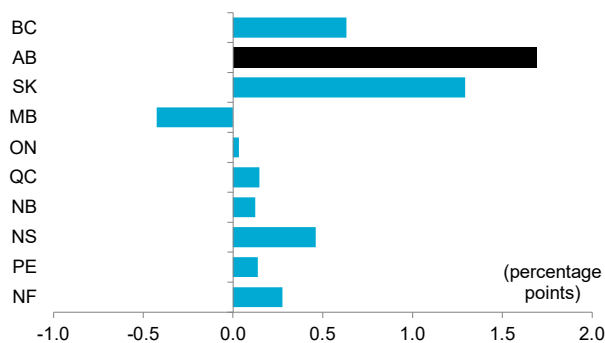
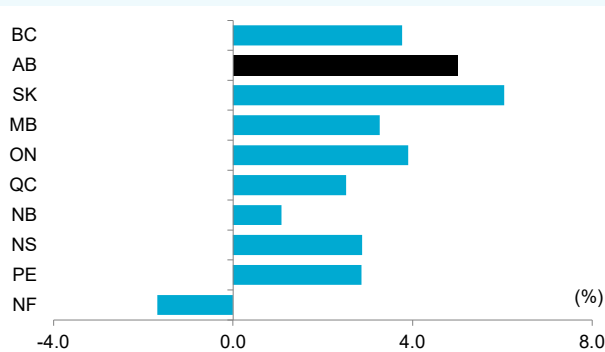
Alberta's economic expansion maintained strong momentum in 2022. Real gross domestic product (GDP) by expenditure surged 5.0% as strong commodity prices and income gains supported economic activity. Household incomes and consumption surged ahead, with spending on services fully recovering from the pandemic. At the same time, higher exports and profits supported strong growth in investment in non-residential structures and machinery & equipment. However, higher interest rates and prices restrained business investment, while household consumption of goods and residential investment were muted. This spotlight provides more insights into the factors of economic growth in 2022.

Robust growth in Alberta

Alberta's real GDP by expenditure grew 5.0% in 2022, the second highest among provinces and accelerating from last year's rate of 4.6%. Alberta's outperformance was largely due to strong growth in exports and business investment. Alberta businesses increased investment in structures, machinery & equipment and intellectual property. Combined growth in business investment lifted Alberta's GDP by 1.7 percentage points, significantly more than all other provinces.

CHART 1: ALBERTA RANKED SECOND IN GROWTH WITH STRONG GAINS IN BUSINESS INVESTMENT

Real GDP by expenditure growth by province (2022)



Sources: Statistics Canada, Haver Analytics

TABLE 1: WIDESPREAD IMPROVEMENTS

Alberta's real GDP by Expenditure by major component

	2022		
	Change (%)	Contributions to Growth	Change since 2019 (%)
Real GDP	5.0	5.0	1.2
Consumption	3.1	1.8	1.7
Household	3.4	1.4	1.2
Durables	-2.6	-0.1	-2.5
Semi-Durables	2.8	0.1	6.3
Non-Durables	-1.1	-0.1	0.2
Services	6.9	1.6	2.0
Non-profit	2.1	0.0	-2.7
Government	2.6	0.4	3.4
Investment	7.8	1.8	2.5
Private Business	8.0	1.6	3.6
Residential	-1.3	-0.1	15.8
Non-Residential Structures	10.6	1.0	3.2
Machinery and Equipment	15.9	0.5	-8.2
Intellectual Property	11.8	0.2	5.7
Non-Profit	2.7	0.0	9.5
Government	6.2	0.2	-6.1
Change in Inventories	-	1.6	-
Farm	-	1.1	-
Non-Farm	-	0.5	-
Net Trade	-	-0.2	-
Exports	4.6	3.0	3.0
Less Imports	7.0	3.2	5.9
Domestic Demand	4.5	3.6	2.0

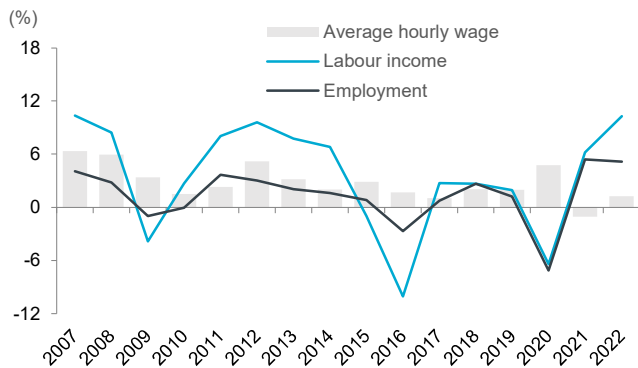
Sources: Statistics Canada, Haver Analytics

Strong gains in household income...

2022 was a good year for Alberta households. Household income in Alberta increased 6.5% to a record high of \$286.7 billion, with robust growth in both labour and non-labour income. Despite sluggish wage growth, labour income surged (+10%) at its fastest pace since 2006 on the back of strong gains in employment (+5.2% in 2022) and hours worked (+4.6%). The gains in labour income were partially offset by lower government transfers, which continued to fall as pandemic support programs ended and unemployment fell with the improving labour market (Chart 2).

CHART 2: STRONG EMPLOYMENT GROWTH DRIVES HIGHER LABOUR INCOME

Labour Income, employment and hourly wage growth

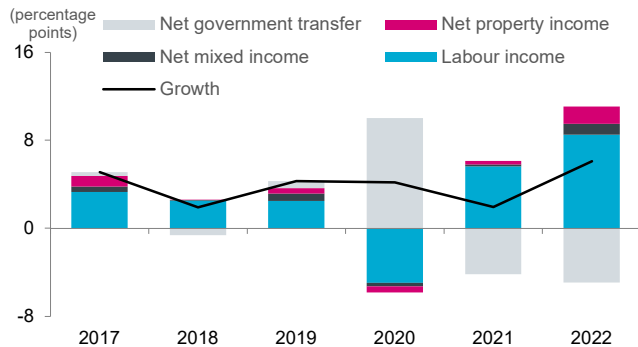


Sources: Statistics Canada, Haver Analytics

Independent business owners who were not incorporated are included in households and also experienced significant income growth in 2022. Net mixed income jumped (+7.9%), with gains in both farm and non-farm income. Rising food commodity prices, along with a blockbuster year for agriculture (including livestock) following drought conditions in 2021, boosted farm income last year. Meanwhile, improving economic activity and higher interest rates also resulted in

CHART 3: DISPOSABLE INCOME GROWTH ACCELERATES

Contributions to disposable income growth



Sources: Statistics Canada, Haver Analytics

an increase in net property income as rising dividends and interest payments received offset the increase in interest paid on mortgage and non-mortgage debt (Chart 3).

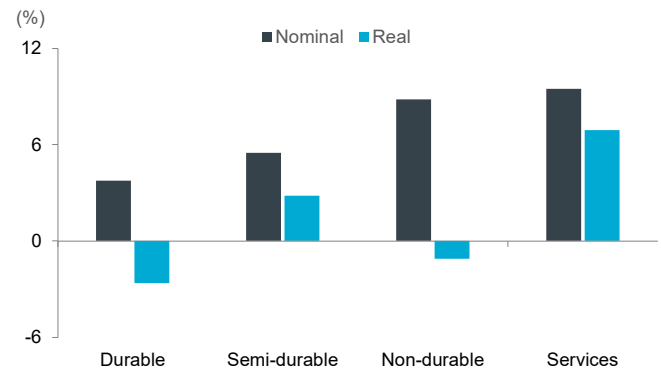
...boost consumer spending

With strong income gains, household spending surged in 2022. Household expenditure on goods and services increased by 8.3% to \$177.6 billion as normal economic activity resumed following COVID. However, much of the increase in nominal spending was due to higher prices (Chart 4). In real (inflation-adjusted) terms, growth in real household expenditure slowed from 4.7% in 2021 to 3.4% in 2022.

The growth in real consumption was almost entirely due to spending on services, which fully recovered to pre-COVID levels. Real consumption of services surged 6.9%, led by recoveries in accommodation & food services (+19%), transportation expenses (+8.7%), and recreation & cultural expenses (+6.5%). In contrast, real goods consumption fell 0.9% as product shortages, rising inflation and interest rates weighed on demand for non-durable and durable goods. In response to accelerating inflation, the Bank of Canada increased its overnight target rate by 375 basis points between March and December 2022.

CHART 4: SERVICES CONSUMPTION LEADS HOUSEHOLD SPENDING GROWTH

Household consumption growth by major categories, 2022



Sources: Statistics Canada, Haver Analytics

Soaring profitability and exports

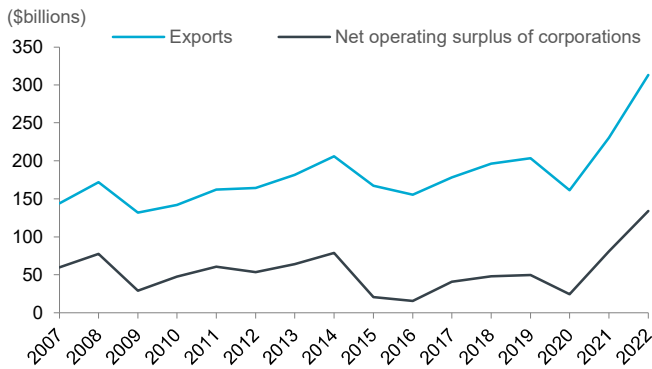
Like households and sole proprietors, corporations also had a banner year in 2022. Net corporate operating surplus – a measure of corporate profits – surged (+66%) to an all-time high of \$134 billion (Chart 5). Profitability was boosted by strong demand and higher prices for energy and agricultural commodities (including processed products). Commodity prices soared as recovering demand was met with supply uncertainty arising from the conflict in Ukraine and economic sanctions against Russia.



The value of exports also climbed in 2022 on the back of higher prices and increased demand for goods outside the province. Nominal exports rose 36.0% to \$313.2 billion, boosted by oil (+50.0%) and natural gas (+76%). Services exports (+17.5%) also accelerated as international travel services bounced back with less stringent COVID-19 restrictions, and growth in interprovincial travel services remained strong. Meanwhile, manufacturing exports continued to increase.

CHART 5: PROFITS AND EXPORTS SOAR

Net operating surplus and value of all exports



Sources: Statistics Canada, Haver Analytics

Strong demand for Alberta exports

While much of the nominal gain was price related, demand for Alberta’s goods and services was also strong. In real terms, exports rose 4.6% to \$196.4 billion. The gain was led by an increase in natural gas exports (+13%) as natural gas production rose to its highest annual level since 2010, and demand for North American gas from Europe surged. Robust demand also propelled the volume of crude oil exports to rise 3.1% last year. Export volume of crops (+3.6%) also improved amid strong demand and increased production with better growing conditions. Demand for travel services (+44%) also rebounded but was still well below pre-pandemic levels. Despite strong export demand, strong growth in imports weighed on net exports, which fell in 2022.

Construction costs elevated

Construction costs grew at a rapid pace in 2022 amid elevated input costs, labour shortages and supply chain challenges. The non-residential construction deflator increased 9.7% in 2022, the largest annual gain since 2006. Higher prices for structural steel, metal fabrication and concrete put significant pressure on the cost of both non-residential buildings and machinery & equipment (+6.8%). Meanwhile, growth in the residential construction deflator eased from its record high in 2021 but was still elevated at 14% in 2022. Although falling lumber prices dampened growth in residential construction costs in the second half of

the year, prices for other materials continued to see significant year-over-year increases.

Robust but restrained growth in investment

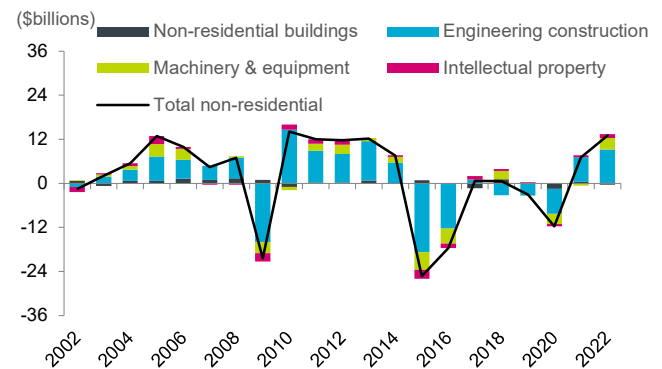
Even with higher costs across the board, strong corporate profits propelled business investment in 2022. Alberta’s nominal business investment increased by \$11.7 billion or 21% to \$66.9 billion, the highest since 2015. In real terms, business investment grew 11%. With back-to-back solid annual gains, it was roughly back at 2019 levels.

On an industry basis, the increase in nominal business investment was led by the oil & gas extraction sector. Combined, the oil and gas industry (including support activities) invested \$28.5 billion in Alberta in 2022, an increase of 40% from 2021 and accounted for 43% of the total private investment made in the province. Conventional oil & gas investment led the way with \$15.6 billion (+48%), while non-conventional oil extraction investment reached \$12.1 billion (+32%). Meanwhile, growth in investment in other industries was more moderate, increasing 10% but reaching an all-time high of \$38.4 billion in 2022.

The large gain in oil and gas investment supported the surge of investment in engineering construction (+27%) and machinery & equipment (+23%) (Chart 6). Spending on intellectual property investment (+12%) also jumped after being weak in 2021. Meanwhile, investment in non-residential buildings (-5.0%) was weighed down by the weak commercial real estate market and subdued demand for office buildings, which more than offset strength in industrial and warehousing buildings.

CHART 6: STRONG RECOVERY IN ENGINEERING CONSTRUCTION

Annual change in investment



Sources: Statistics Canada, Haver Analytics

Although the increase in business investment was substantial, it was significantly smaller than the large gains in net operating surplus. Many corporations used excess profits to pay off debt, improve their balance sheets and return money



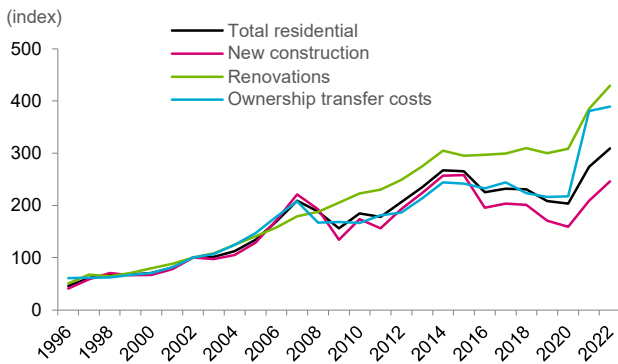
to stakeholders through dividends and share buybacks. The top five companies (by revenue) operating in Alberta paid off (net) \$14.7 billion of debt over 2021-22 and made significant distributions (including repurchase of equity) to their shareholders.

New housing construction buoys residential investment

Elevated construction costs propelled nominal investment in residential structures in 2022. The latter rose 13% to an all-time high of \$25.6 billion. Spending on renovations (+12%) and home ownership transfer costs (+2.2%) grew to reach new record levels (Chart 7). Investment in new housing construction also increased for the second year in a row (+18) but remained well below the 2015 peak.

CHART 7: SPENDING ON HOUSING AND RENOVATIONS STILL STRONG

Residential Investment type indexed to 2002

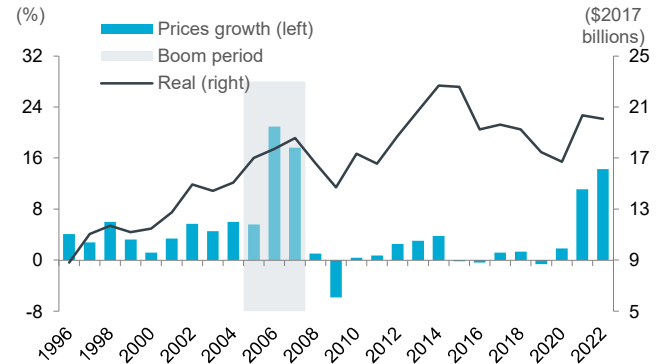


Sources: Statistics Canada, Haver Analytics

In real terms, however, residential investment eased 1.4% in 2022 after surging in 2021 (Chart 7). The weakness was largely the result of cooling resale market activity in response to rising interest rates, which weighed on ownership transfer costs (-8.4%). Real renovation spending was nearly unchanged (-1.1%) following a strong 2021, when pandemic-related restrictions and excess savings boosted household demand for renovations. Meanwhile, despite higher interest rates and labour shortages in the construction sector, activity in new housing construction held up (+1.2%) on the back of a pickup in population growth.

CHART 8: PRICES WEIGH ON REAL GROWTH

Real residential investment and annual growth in residential investment deflator



Sources: Statistics Canada, Haver Analytics

Government spending grows

While pressures related to COVID subsided, government spending rose with the growing population and price pressures. Total government expenditure (from all three levels of government: federal, provincial and municipal) in Alberta increased 8.3% to reach \$78.8 billion in 2022. Current expenditure grew at all levels of government, with provincial government spending on goods and services growing 7.3%. Meanwhile, capital investment in the province by government entities posted a significant increase for the first time since 2017. Much of the gain was related to higher prices. In real terms, total government expenditure increased by 3.1% in 2022 – as both final consumption (+2.6%) and capital expenditure (+6.2%) improved.

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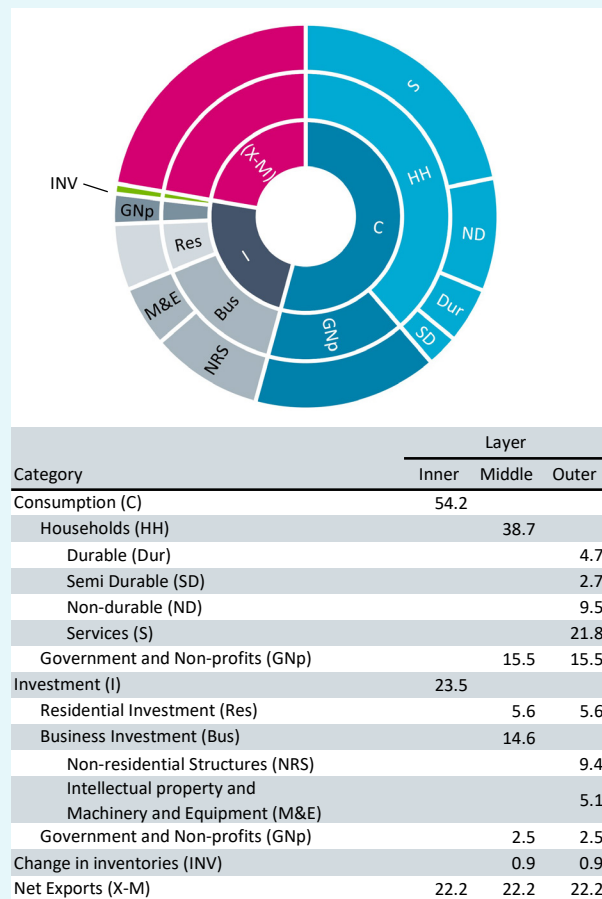


What is GDP by Expenditure?

Gross domestic product (GDP) is the estimated value of all the final goods and services produced in an economic territory during a given period. GDP can be measured using the income, expenditure, or industry approach. In principle, all three methods will produce the same summary of economic activity, while each approach provides a different perspective on the underlying factors of growth. GDP by income is the sum of all incomes generated by production, such as wages, salaries, corporate profits, and net taxes generated from production. Meanwhile, the expenditure method is the total of all the final expenditures on goods and services by households, businesses, government, and non-residents (exports), and then subtracts purchases of foreign production (imports). Since everything that is produced should have a corresponding expenditure, the income and expenditure GDP estimates are aligned and released at the same time.

CHART 9: NET EXPORTS ACCOUNT FOR A SIGNIFICANT SHARE OF NOMINAL GDP

Share of nominal GDP, 2022



Sources: Statistics Canada, Haver Analytics

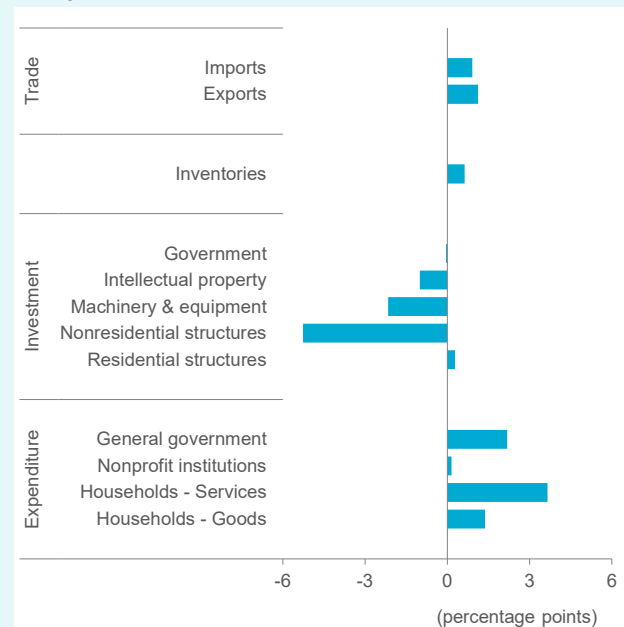
Rebasing of National Accounts

With this year's release, the estimate of real economic activity was adjusted to reflect more recent prices. This process of rebasing occurs every five years in the System of National Accounts (SNA). The rebasing is important given the continually changing economic environment as households change their consumption behaviour and new products or sectors are added. The base year for all GDP volume (real) and price estimates has been updated from 2012 to 2017. Rather than rebase all historical estimates, only those starting with the new base year (i.e., 2018 onwards) are rebased, and the rates of growth are revised accordingly.

While the rebasing results in changes to growth over the last five years, it also has implications for the size and importance of the GDP components going forward. The relative importance of a sector is determined by the size of that component in the base year, which reflects the prices during the base year. The shares of Alberta's nominal GDP components changed significantly from 2012 to 2017, with consumption experiencing the largest increase and investment the largest decline.

CHART 10: SHARE OF CONSUMPTION GAINS AS INVESTMENT FALLS

Change in share of nominal GDP from 2012 to 2017



Sources: Statistics Canada, Haver Analytics