# Economic Spotlight

## 2020: A Year in Review

The Alberta economy is emerging from the depths of the downturn caused by the dual shock of the COVID-19 pandemic and the collapse in oil prices. Health measures and travel restrictions introduced around the world and in Alberta early in 2020 led to an unprecedented decline in provincial economic activity. The Alberta Activity Index (AAX), an indicator of provincial economic activity, dropped to a nine-year low in May. Since then, the recovery has been led by households, as indicators like retail spending and housing construction have rebounded more strongly than anticipated. This Spotlight highlights some of the key trends that shaped the Alberta economy in 2020.

### Downturn unique in Alberta's history

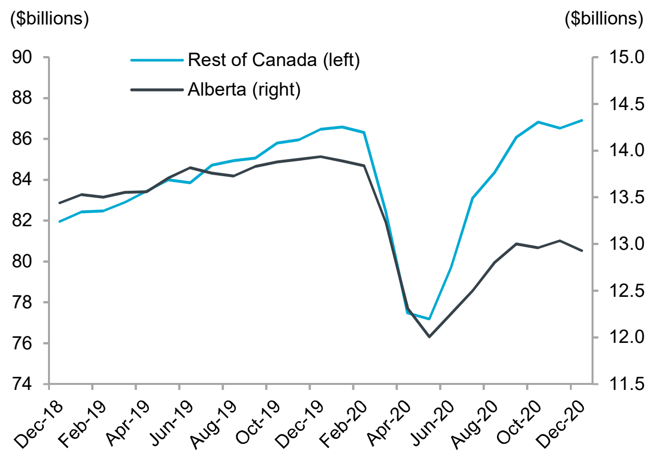
In 2020, the Alberta economy was confronted with an unprecedented crisis from the dual shock of the COVID-19 pandemic and the collapse in oil prices. The services sector, which was more resilient in prior recessions, was hit particularly hard during the pandemic with the introduction of public health measures. At the same time, the collapse in oil prices led to a sharp pullback in business sentiment, energy investment and oil production. Given the province's additional exposure to the oil price shock, Alberta was impacted much more than other provinces. The COVID-19 crisis also dealt a major setback to the Alberta economy that was still recouping from the 2015-16 recession and market access challenges in late 2018 and 2019. This has resulted in the longest recovery from a downturn on record.

### Battered labour market sees modest recovery

Given the impact of the pandemic on the services sector, Alberta's labour market went through an unprecedented downturn in 2020. Following the introduction of pandemic-related lockdowns across the province in March, employment declined by 337,000 between February and April and the unemployment rate spiked to a never-seen-before 15.8% in June. As the economy reopened, employment picked up in the second half of the year. By year-end, Alberta regained over two-thirds of the jobs lost earlier in the year and employment finished 2020 down 6.6% from 2019. Driven largely by job losses among youth that are often employed in high-contact services industries, the unemployment rate averaged 11.4% in 2020. This was tempered by a decline in the provincial labour force, as some people chose not to look for jobs after being laid off due to the pandemic.

**CHART 1. LABOUR INCOME HIT HARDER IN ALBERTA**

Compensation of employees (seasonally adjusted)




Sources: Statistics Canada and Haver Analytics

### Government support cushions blow on household incomes

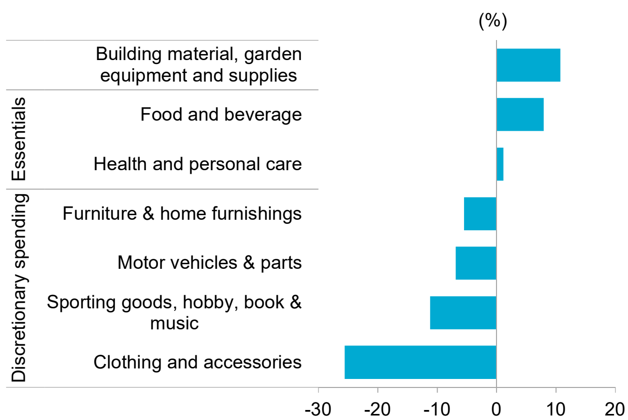
Labour income, which captures the combined impact of employment, wages and hours worked, fell 6% in Alberta in 2020. Despite less severe public health measures implemented relative to other provinces, the recovery in labour income has been more muted in Alberta versus the rest of Canada (Chart 1) because of the dual impact of the pandemic and the collapse in oil prices. Government income support programs, however, cushioned the blow on household incomes. The reduced spending on services is also expected to raise Alberta's household saving rate last year.

## Services a drag on household spending

Consumer spending on services was impacted severely in 2020 with business closures, the pandemic and public health measures. These dramatically reduced activity in services, such as restaurants, bars, beauty salons, fitness facilities, cinemas and other entertainment places. Meanwhile, spending on goods rebounded strongly amid shifts in household spending patterns and government income support programs. Spending increased on essentials, like food & beverages, along with home renovation-related categories, such as building materials & supplies. In contrast, spending on discretionary goods - motor vehicles, clothing, sporting goods and home furnishings - declined (Chart 2). Gasoline sales also fell sharply with travel restrictions and lower energy prices.

**CHART 2. CONSUMER SPENDING PATTERNS DIVERGE**

Annual change in select Alberta retail sales sub-categories, 2020 vs 2019




Sources: Statistics Canada and Haver Analytics

## Population growth tempered

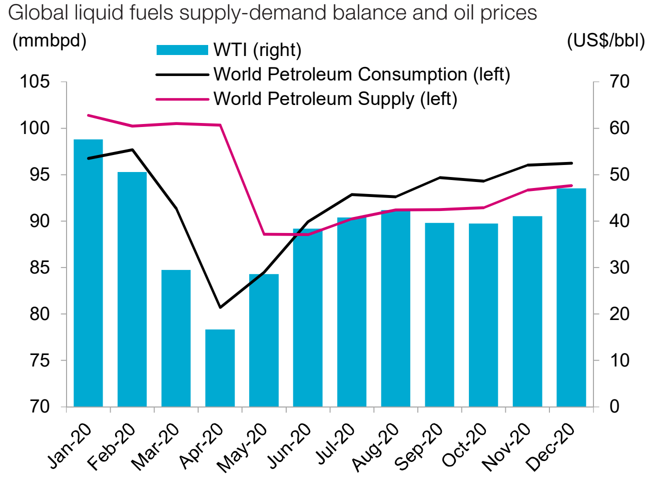
Population growth was generally robust in the 2020 census year, but this changed in the second quarter of 2020 when travel restrictions weighed heavily on migration. As a result, Alberta's population growth slowed to 1.4% in the 2020 census year, down slightly from 1.5% in 2019. The impact of the COVID-19 pandemic on international migration continued to dampen Alberta's population growth in the third quarter of 2020, while relatively high unemployment in the province has resulted in net outflows of interprovincial migrants since the second quarter. Population growth slowed to 1.0% year-over-year (y/y) in the third quarter.

## COVID hits global energy demand

The COVID-19 pandemic sent the world into a tailspin early on in 2020. With physical distancing and travel restrictions implemented around the world in order to contain the spread of the virus, global petroleum demand shrunk drastically and bottomed out in April (Chart 3). A failure of the OPEC+ members to extend their production cuts in early March led to a decline in West Texas Intermediate (WTI) from US$50.50 per barrel (bbl) in February to US$16.70 per bbl in April. The price of oil futures contracts went into negative territory for a day on April 20th for the first time in history as traders fled from the expiring May futures contracts due to lack of physical storage at Cushing, Oklahoma. Oil prices stabilized in May as OPEC+ resumed curtailing its production and global petroleum demand turned around the corner. Global demand has since rebounded, as economies around the world began to reopen, but remained below pre-COVID levels. With record crude oil inventory build-up in the first half of the year, WTI averaged US$39.40 per bbl in 2020, a 31% decline from 2019.

**CHART 3. OIL PRICES COLLAPSED AS SUPPLY EXCEEDED DEMAND**

Global liquid fuels supply-demand balance and oil prices




Sources: U.S. EIA, Wall Street Journal and Haver Analytics

## Lower production leads to narrower differential

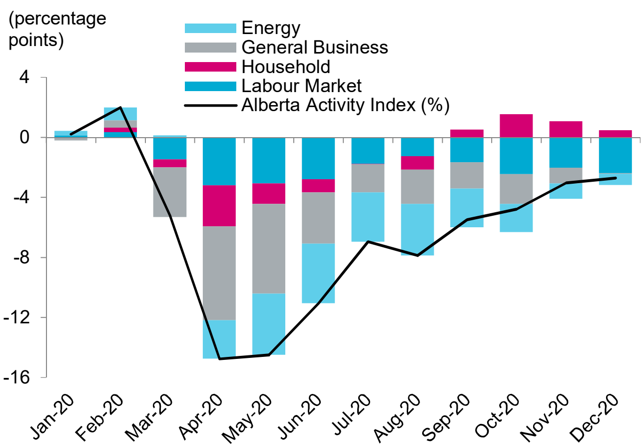
Energy companies reduced oil production in order to match shrinking demand. Total oil production in Alberta tumbled over 800,000 barrels per day (bpd) between December 2019 and May 2020, led by oil sands. With supply falling below provincial export pipeline capacity, most producers shifted to transporting oil by pipelines. This improved their netbacks and caused a staggering decline in the more expensive crude-by-rail exports, which fell from 412,000 bpd in February to 39,000 bpd in July. Consequently, the light-heavy differential narrowed from over US$23 per bbl in February to an average of around US$9 per bbl in the second half of 2020, averaging US$12.60 per bbl for the full year. However, the differential started to widen by year-end as oil production reached an all-time high in December on the back of a strong rebound in bitumen output.

## Weaker energy activity lowers investment further

Already weak business investment in the province deteriorated further in 2020 with the contraction in energy sector activity (Chart 4). Oil and gas investment is estimated to have fallen over 30% last year, adding to the 14% drop in 2019. Active drilling rigs in Alberta averaged 60 in the year, the lowest count in three decades. However, energy companies continued to make advances in minimizing production costs and improving well productivity, in order to maximize returns in the low oil price environment. Investment outside oil and gas extraction also retreated with declines in both industrial and commercial construction, but at a more moderate pace than in the energy sector.

**CHART 4: ENERGY ACTIVITY REMAINS WEAK POST PANDEMIC**

Contribution to year-over-year change in the Alberta Activity Index




Source: Alberta Treasury Board and Finance

## Agri-food and forestry bright spots for business output

Alberta's business output outside the oil and gas extraction industries was resilient in 2020, supported mainly by the agricultural sector. Favourable weather boosted crop yields, particularly in Southern Alberta, and better harvesting conditions allowed farmers to get their crops off the ground early. Despite outbreaks across several meat-processing facilities earlier in the year, manufacturing shipments of food products improved in the second half and reached a record high in December.

With health measures in place in stores and restaurants, many Albertans stocked up on food at home earlier in the year in anticipation of stricter measures. Retail and wholesale sales of food and beverage products in 2020 exceeded 2019 levels (Chart 5). Also, sufficient rail availability and strong export demand provided additional support in 2020. With the strength in food and forestry products, non-energy exports recovered swiftly to supass 2019 levels in October after falling 15% in April. These gains partially offset continued weakness in other commodities, such as industrial machinery & equipment and chemicals.

**CHART 5: FOOD SALES AND EXPORTS EXCEED 2019 LEVELS**

Annual change in select Alberta food indicators, 2020 vs 2019


Sources: Statistics Canada and Haver Analytics

## Housing market resilient

Alberta's housing market staged a remarkable recovery last year. The Bank of Canada's rate cuts, declining mortgage rates, pent-up demand and improving consumer confidence led to a swift recovery in resale activity and residential construction. Sales of residential properties fell to the lowest levels in three decades in April. This was, however, short-lived with unit sales surpassing pre-pandemic levels in June and reaching a six-year high in December. Shifted preferences among homebuyers towards bigger spaces to accommodate remote working or learning also supported the recovery. While there were fewer housing starts in 2020, a surge in renovations in the second half of the year helped push residential construction investment up 2.2% for the full year.

Contact Siddhartha Bhattacharya at 780.644.0021