

Economic spotlight

2022: Alberta economy year in review

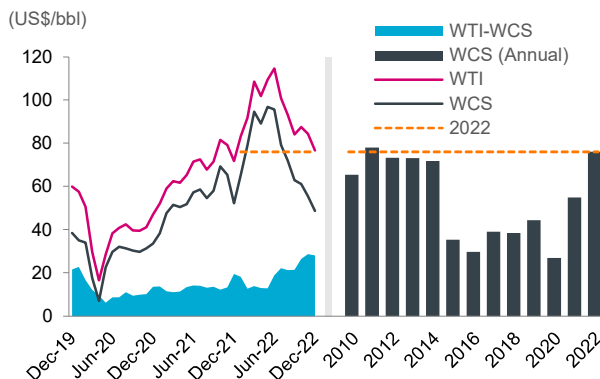
Alberta's economy remained solid in 2022, buoyed by strong energy and commodity prices. The Alberta Activity Index – a measure of provincial economic activity – grew 5.6%, with all sectors of the economy experiencing growth. High oil and commodity prices pushed business costs higher, but along with strong demand, also lifted business output. The labour market remained tight, and the solid employment and record-high population gains boosted Alberta's housing market. However, elevated inflation and rising interest rates weighed on household spending. This Spotlight highlights the key trends that shaped the provincial economy last year.

Oil prices surge

Oil prices entered 2022 on a strong footing and remained robust amid global volatility. They surged to multi-year highs following Russia's invasion of Ukraine in late February. West Texas Intermediate (WTI) reached a peak of almost US\$115 per barrel (bbl) in June before pulling back as concerns of slowing global growth became more entrenched (Chart 1). WTI settled just slightly under US\$77/bbl in December, roughly the same as the previous year. However, with the strength early in the year, WTI averaged slightly below US\$95/bbl in 2022, the highest annual average since 2013.

CHART 1: OIL PRICES SOFTENED BUT REMAINED STRONG

Oil prices



Sources: Energy Information Administration/CME Group, Kalibrate Canada Inc/Haver Analytics

Differential widens

The discount between WTI and the Western Canadian Select (WCS) oil price widened significantly in the second half of 2022. While there was sufficient egress from the province, the combination of lower demand and more supply of heavy oil weighed on WCS. Demand for Alberta's heavy oil fell with both planned and unplanned refinery outages in the U.S. Supply

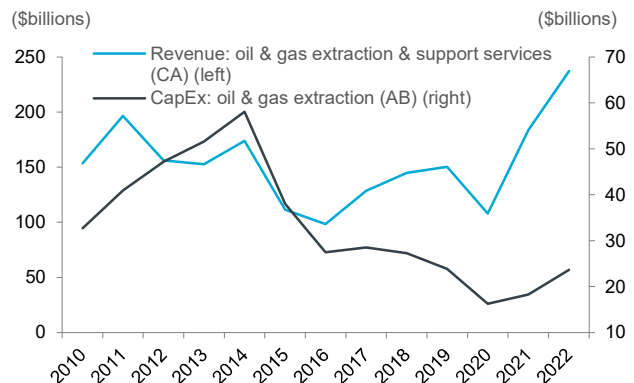
also increased with the release of heavy oil barrels from the U.S. Strategic Petroleum Reserve (SPR). The global glut of high sulphur fuel oil, higher cost of processing heavy oil due to runup in natural gas prices and a rebound in Western Canadian oil production pushed the light-heavy differential from slightly below US\$13/bbl in late spring to above US\$28/bbl at the year end. Despite these pressures, strong global oil prices lifted the WCS price to an average of US\$76/bbl, the highest since 2011.

Strong drilling and investment

Near all-time high oil prices lifted output and activity in the energy sector last year. Drilling activity in the province picked up, and as of April 2022, persistently stayed at the highest monthly levels since 2014. Investment in oil & gas extraction jumped by 29% in 2022 after a 13% gain in 2021. While producers were investing significantly more compared to 2021, the level of investment remained well below 2014 levels (Chart 2). Energy producers continued to reinvest a much smaller share of their cash flow into expanding production. They remained focused on paying down debt to improve their balance sheets and increasing shareholder returns after years of struggling with weak prices and market access constraints.

CHART 2: OIL AND GAS INVESTMENT MUTED RELATIVE TO CASH FLOW

Capital expenditures and revenue in the oil and gas sectors



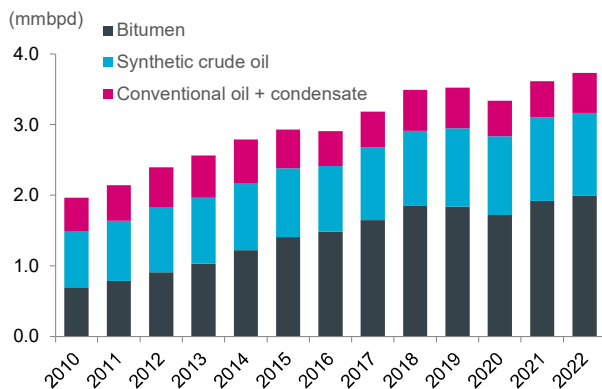
Sources: Statistics Canada, Haver Analytics

Record level of oil production

With the growth in investment, Alberta's oil production increased to a record level in 2022. Oil production grew 3.4% year-over-year to average 3.7 million barrels per day (bpd) (Chart 3). Conventional oil production (+12%) led the growth while non-conventional production also improved, albeit at a slower pace (+3.9%), as synthetic production was limited by various planned and unplanned operational issues and weather-related impacts. Meanwhile bitumen production reached a record high of almost 2.0 million bpd.

CHART 3: PRODUCTION CONTINUES TO EXPAND

Oil production in Alberta



Source: Alberta Energy Regulator

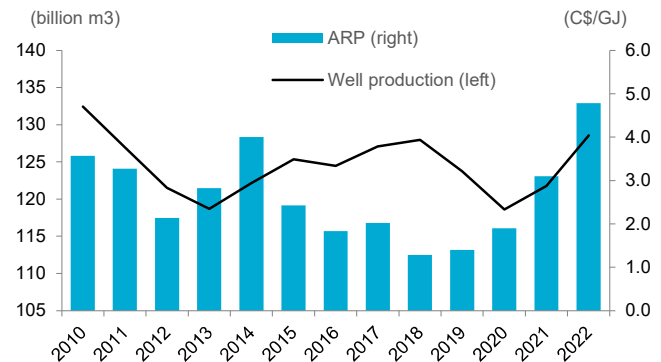
Renewed efforts in natural gas

Natural gas prices and production followed a similar pattern with higher global prices and production in 2022. The war in Ukraine and sanctions against Russia led to disruptions in global natural gas supply. This pushed the demand for ocean-transported liquefied natural gas, supplied by the U.S., which in turn lifted natural gas prices in North America. The Alberta Reference Price (ARP) averaged C\$4.78 per GJ in 2022, a strong 54% gain from 2021 and the highest annual level since 2007.

The combined effect of strong natural gas prices and robust oil and gas drilling activity propelled natural gas production in Alberta. Conventional gas well production, which accounts for most of the overall natural gas production in the province, increased 5.6% in 2022 and reached 128.5 billion m3 - the highest annual production since 2010 (Chart 4).

CHART 4: PRODUCTION AT A 12-YEAR HIGH

Natural gas production in Alberta and Alberta Reference Price (ARP)



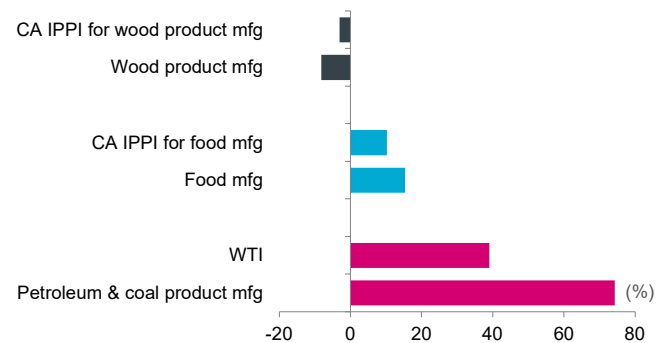
Sources: Alberta Energy Regulator, Alberta Energy

Business output and exports boosted by prices

The value of Alberta's exports and manufacturing shipments surged to record levels in 2022. The value of manufacturing shipments rose 28%, led by petroleum and coal shipments (+74%) (Chart 5). Non-energy business output also grew at an exceptionally strong pace. The value of manufacturing sales excluding petroleum and coal products went up 14%. The broad gains in manufacturing shipments were driven by soaring prices and elevated demand.

CHART 5: PETCOAL MANUFACTURING RISES ON SOARING PRICES

Year-over-year growth in Alberta's manufacturing shipments and relevant prices



Sources: Statistics Canada, Haver Analytics
CA IPPI = Canadian Industrial Product Price Index

Exporters also benefitted from high commodity prices last year. Exports of crude oil, natural gas, and refined petroleum products grew 59%. Exports of basic & industrial chemicals (+15%) were propped up by strong fertilizer demand and record soaring prices amid sanctions on Russia and Belarus - the world's second and third largest suppliers of fertilizers. Solid homebuilding activity in the U.S. and elevated lumber prices in the first half of the year lifted the value of forestry & building materials exports (+20%). Meanwhile, exports of farm, fishing & intermediate food products were up 19% largely due to higher crop production in the season and subsequent direct impacts on exports.

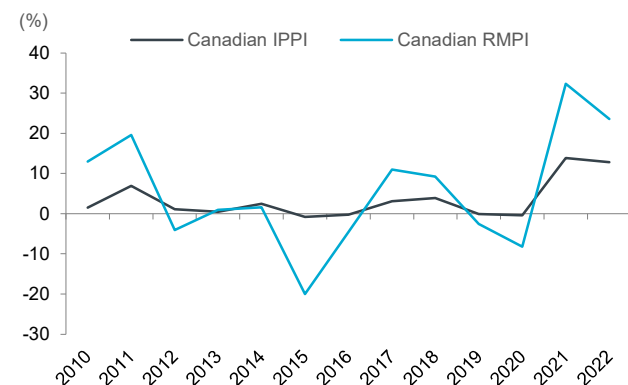
Higher export income and strong prices and output also boosted corporate profits in Alberta last year. By industry, this was led by oil and gas extraction, followed by manufacturing, real estate, and wholesale trade. After robust performance in 2021, finance and insurance saw a decline in corporate profits, partially on the back of rising interest rates.

Input costs rise with higher commodity prices

While soaring commodity prices bolstered output and profits for many businesses in Alberta, they also pushed up costs. Prices paid by Canadian manufacturers for raw materials surged 24% from already elevated 2021 levels. The rising costs for raw materials also pushed up the cost of imported goods, with the national imports price index up 14% in the year. This translated into higher input costs for manufacturers in Alberta, including petrochemical producers and food manufacturers. In turn, prices for manufactured products increased and the Canadian industrial product price index jump 13% in 2022 (Chart 6).

CHART 6: INPUT COSTS SURGE IN 2022

Growth in Industrial and Raw Material Price Index



Sources: Statistics Canada, Haver Analytics

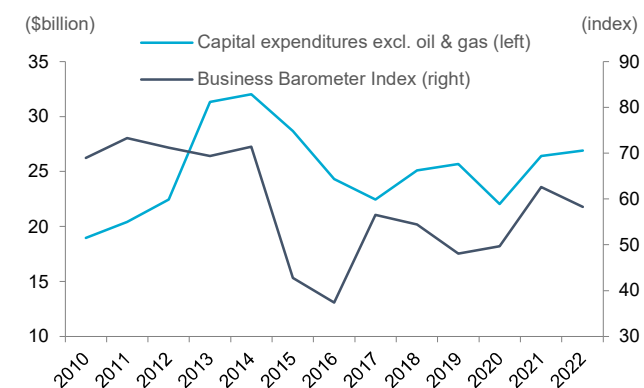
Higher prices for raw materials and industrial products increased cost pressures throughout the economy. Higher prices for base chemicals, plastics, paint, and packaging increased input cost for manufactures, while higher fertilizers and pesticides prices weighed on agriculture. Meanwhile the higher cost for fuel, parts, and machinery & equipment affected many industries including transportation and construction. While most businesses initially took the higher prices in stride, the higher input prices along with other factors such as labour shortages, rising interest rates, and slowing demand weighed on business sentiment. As a result, business confidence moderated in the second half of the year. The Canadian Federation of Independent Businesses (CFIB) business barometer index for the 12-month outlook retreated from the mid 60s early in the year to end the year around 50.

Other business investment holding up

Business investment outside the oil and gas extraction industry advanced in the year. Capital expenditures excluding oil and gas extraction increased 1.8%, to nearly \$27 billion in 2022, the highest level since 2015 (Chart 7). The strong level of investment was partly supported by higher construction costs, as the non-residential business construction price index jumped 11% in 2022. While higher construction costs weighed on investment decisions, many projects continued to progress. The strong expansion in the warehousing sector propelled spending in commercial building construction, while ongoing projects in renewable energy, utilities and pipeline transportation boosted investment in machinery & equipment and engineering construction.

CHART 7: PRIVATE BUSINESS SPENDING OUTSIDE OIL AND GAS ADVANCES

Capital expenditures and Business Barometer Index in Alberta



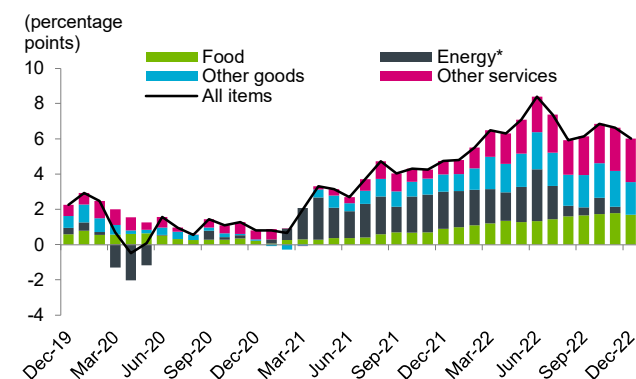
Sources: Statistics Canada, Haver Analytics

Steep consumer inflation and cost pressures

Consumer inflation soared in Alberta and around the world last year. Headline consumer inflation averaged 6.5% in 2022, the highest annual growth in four decades. Energy prices in Alberta posted double-digit growth (+21%), as higher natural gas (+30%) and gasoline (+22%) prices contributed significantly to headline inflation in the first half of the year (Chart 8). While energy inflation moderated, food inflation accelerated throughout the year, driven by elevated input prices and transportation costs. Compared to 2021, food prices were up 8.3%, the highest annual increase since 1981. Core inflation – excluding food and energy – rose 4.7% and was the highest in 15 years. Prices for durable goods spiked 6.7%, propped by the higher prices for vehicles and furniture. Services inflation also advanced (+4.4%) led by increases in homeowners' replacement costs and mortgage interest costs as interest rates climbed.

CHART 8: CONSUMER INFLATION SOARED IN 2022

Contribution to Alberta's headline consumer inflation



Sources: Statistics Canada, Alberta Treasury Board and Finance

* Energy includes gasoline, natural gas and electricity

Monetary policy ramps up

Although prices increased at historical rates in 2022, the pace of price growth slowed in the second half of the year as monetary policy efforts began to bite. In response to persistently high and broad based-price pressures, central banks around the world engaged in monetary tightening throughout last year. To keep inflationary expectations anchored, the Bank of Canada (BoC) increased its key policy rate seven times in 2022 - by 400 basis points cumulatively. As a result, slowing demand from higher interest rates coupled with easing energy prices helped cool inflation down towards the year end, especially for goods. These measures were furthered by the Alberta government's affordability measures, such as gasoline tax relief from April through October, and electricity and natural gas rebates in the second half and the last quarter of 2022, respectively. While inflation moderated from its peak in mid 2022, consumer prices remained relatively high.

Labour market tight

Alberta's labour market moved past COVID in 2022. After fully recovering from the pandemic losses late in 2021, employment continued to expand in 2022 and the province added nearly 82,000 jobs in the year. The services-producing sector led the way, contributing 95% of the total jobs gained in the year, with particularly rapid growth in the professional, scientific, and technical services (+42,200). Growth in the goods-producing sector was muted as gains in manufacturing and agriculture were partially offset by weakness in forestry, mining, oil & gas.

With the strong employment gain, the labour market tightened. The unemployment rate declined and averaged 5.8% in 2022, the lowest since 2014. Job vacancies climbed and were particularly acute in close-contact and lower paying industries, such as accommodation & food services, as employers struggled to hire into those positions post-COVID. Despite the tightness in the labour market, wage growth was subdued. Average hourly wages rose only 1.3% in 2022 to \$33.60, suppressed by compositional shifts in employment, fiscal and economic conditions, and demographic aging.

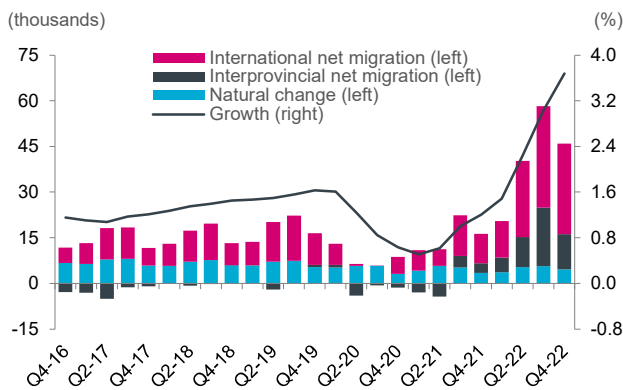
For more on the labour market recovery last year, please refer to [2022: Labour market year in review](#).

Strong population growth returns

Alberta's population grew remarkably in the 2022 census year due to significant increases in international and interprovincial migration. Population growth accelerated to 2.2% year-over-year, up sharply from 0.6% in the 2021 census year and the highest rate since 2014. Population growth continued its momentum at the beginning of 2022 and peaked in the third quarter (Chart 9), posting the highest single quarter growth rate in over 40 years. Alberta population growth led the country in third and fourth quarters of 2022, supported by record levels of international migration and extraordinarily strong interprovincial migration.

CHART 9: STRONG IN-MIGRATION IN 2022

Alberta's population (by component) and year-over-year population growth



Sources: Statistics Canada, Haver Analytics

Alberta's relatively strong economic conditions, lower cost of living, more affordable housing market, higher earnings and lower taxes attracted people into the province. Additionally, the federal Canada-Ukraine Authorization for Emergency Travel (CUAET) program for displaced by war Ukrainians provided a boost to international migration.

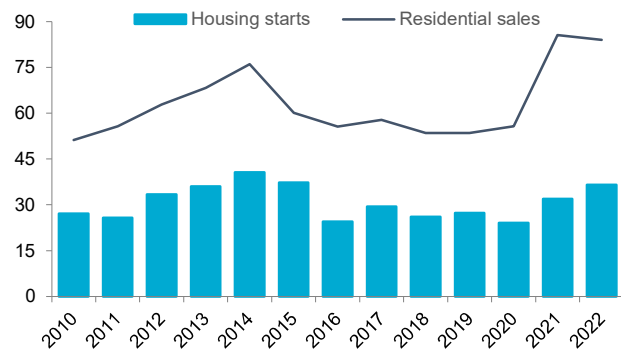
Resilient housing market activity

Alberta's housing market remained strong in 2022, supported by Alberta's solid economic fundamentals. After a frenetic start to 2022, Alberta's housing market remained resilient in the face of rapidly accelerating interest rates. After both unit sales and average resale price reached an all-time high in February, activity slowed towards the end of the year but remained above the pre-pandemic average. On an annual basis, unit sales ended up just 1.9% shy of 2021's all-time high (Chart 10) and the average resale price hit a new record, up 5.3% from 2021. The strength in the resale market was supported by the remarkable levels of in-migration and relatively affordable prices.

CHART 10: HOUSING MARKET REMAINED STRONG IN 2022

Housing starts and MLS unit sales

(thousands)



Sources: The Canadian Real Estate Association, Canada Mortgage and Housing Corporation, Haver Analytics

Strong demand and low inventories spurred new housing construction. Annual housing starts grew 14% in 2022 to 36,544 units, driven by gains in multi-family (+25%) and single-detached (+2.0%). Meanwhile, completed & unabsorbed units – a measure of inventories in the new housing market – declined to levels not seen since 2014. Even though Alberta's housing market has fared better than other regions, house prices in Alberta's major cities remained among the most affordable in the country.

For more on Alberta's housing market, please refer to [Alberta's resilient housing market](#).

Spending on goods slows

Consumer spending on goods slowed dramatically in 2022. Persistent inflationary pressures, rapid interest rate increases, and lagging wage growth weighed on demand for discretionary and big-ticket items such as motor vehicles and renovation-related building materials. Sales at motor vehicles and parts dealers were subdued in the first part of the year as supply-chain issues, particularly for semi-conductors, kept inventories low. While inventories improved later, demand waned. On an annual basis, sales were 0.3% higher in 2022 after jumping over 16% in 2021. Spending on building materials and garden supplies grew only 1.7% in 2022 compared with a solid 13% growth in the prior year. In contrast, sales at gasoline stations (+34%) were strong, propped up by elevated prices and strong demand. Overall, retail sales were up 6.9% in 2022 – half of its growth rate in 2021. The slowdown coincided with falling consumer confidence. The recovery in consumer sentiment was short-lived, plummeting mid-summer to levels last seen early in the COVID recovery.

Surge in spending on services

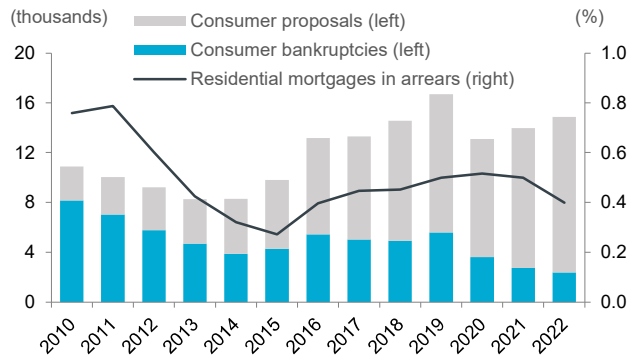
While confidence and spending on goods fell, the recovery in services from the low COVID levels continued. Spending at food services & drinking places hit an all-time high and were up 25% in 2022. Spending on travel also surged, with hotel occupancy rates and air travel rebounding from the pandemic lows. The continuing pivot back to services as consumers and businesses moved past COVID was boosted by strong population growth.

Household finances holding up

Household finances held up in the face of increasing cost and higher interest rates. The level of consumer debt and the number of consumers becoming insolvent remained muted in 2022. While the amount of personal debt (not for business or agriculture) at Chartered Banks in Alberta increased in the year, the amount was still below 2019 levels. The value of residential mortgage debt also rose in the year, but at a pace well below the increase in house prices, and mostly reflecting higher housing supply. The percentage of mortgages in arrears improved in 2022, falling from 0.47% in January to 0.36% in November. The mild change in consumer credit was also confirmed in consumer insolvencies. While consumer insolvencies increased 6.6% to 14,875 in 2022 (Chart 11), this was still less than the number in 2019, and solely due to credit proposals as the number of bankruptcies fell to an all-time low.

CHART 11: CONSUMER DEBT MUTED

Number of consumer insolvencies filed in Alberta (by type) and per cent of residential mortgages in arrears



Sources: Canadian Bankers Association, Innovation, Science and Economic Development, Haver Analytics

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