

Economic Trends

June 2023

Alberta's economy continues to be resilient despite lower commodity prices and higher interest rates. While wildfires and other factors have temporarily weighed on the energy sector, the business environment in the province remains positive. In particular, the agriculture sector has been a source of strength, benefitting from robust global demand and last year's strong crop production. Lower commodity prices are helping to alleviate inflationary pressures for consumers and employment continues to advance, albeit at a more moderate pace. Strong fundamentals are supporting a pickup in housing market activity, particularly in Calgary. Globally, a stronger-than-expected performance among major economies has led to upward revisions to the outlook for 2023, as well as diverging monetary policy across countries.

Major economies stronger-than-expected

While global growth has slowed, activity in many major economies continues to be resilient. Real GDP in the first quarter of 2023 grew at an annualized pace of 2.0% and 3.1% for U.S. and Canada respectively, exceeding expectations. Growth in both countries was boosted by tight labour markets and strong consumer expenditure on durable goods and services, which overwhelmed weakening investment in residential structures. In Europe, although real GDP contracted for the second quarter in a row, fixed capital investment improved. With growth in the first quarter stronger than anticipated, many forecasters have upgraded their outlook for 2023. The OECD updated its most recent global economic growth for 2023 and 2024 to 2.7% and 2.9% – marginally better than its March forecast but a significant improvement from last November's estimates.

Commodity prices on the decline

Global commodity prices have pulled back significantly over the last 12 months. After surging with the onset of the Russian-Ukraine conflict, commodity prices experienced a sharp downturn throughout the second half of 2022. This trend persisted during the initial five months of 2023. As a result, the S&P GSCI total return index was down 19% year-over-year (y/y) in May. The declines were broad-based, with major indices including energy, agriculture & livestock, and industrial metals, all significantly lower than last year (Chart 1). Lower commodity prices are starting to work their way into the supply chain, with producer prices down significantly from their mid-2022 peak. These declines have also helped alleviate price pressures for consumer goods.

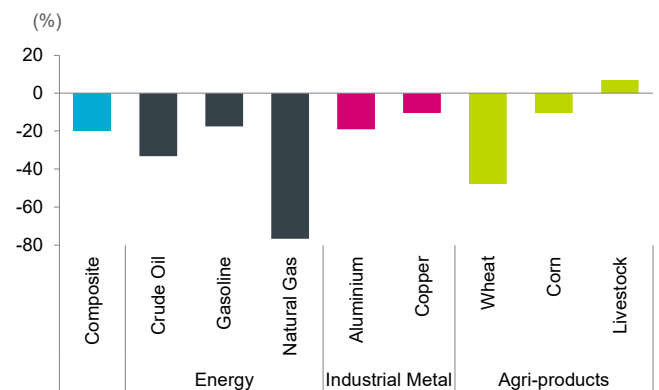
KEY INDICATORS (AS OF JUNE 30, 2023)

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	Apr	0.3%	-5.4 p.p.
Employment (thousands)	May	2,447	+2.8%
Unemployment Rate	May	5.7%	+0.5 p.p.
CPI Inflation (unadjusted)	May	3.1%	-4.0 p.p.
Retail Sales	Apr	\$8.4 B	+5.7%
Housing Starts (annualized)	May	37,104	-20.5%
Rigs Drilling (unadjusted)	May	78	-11.3%
Manufacturing Shipments	Apr	\$9.0 B	-4.9%
Exports (unadjusted)	Apr	\$13.6 B	-18.5%

Sources: Alberta Treasury Board and Finance, Statistics Canada, CAOEC, CMHC and Haver Analytics, p.p.= percentage points and B=billions.

CHART 1: BROAD-BASED DECLINE IN COMMODITY PRICES

Year-over-year change in major commodity prices (May-2023)



Sources: S&P and Haver Analytics

Diverging monetary policies

Following a period of synchronized rate hikes, central bank policies are changing direction. While central banks in the E.U., U.K., and Australia continued hiking in June, the U.S. Federal Reserve held its key interest rate unchanged. Meanwhile, the Bank of Canada tightened after pausing since January. On the other side of the Pacific, Japan has held the

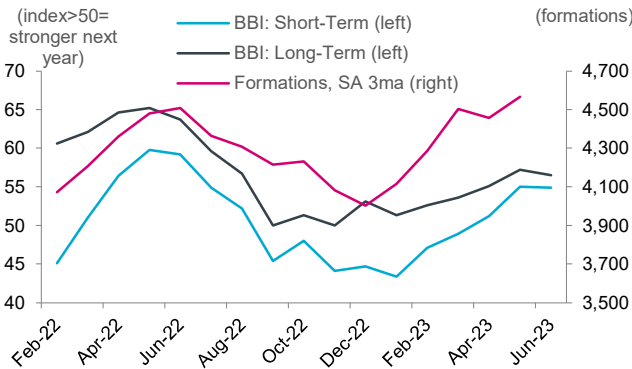
line on rates through 2022 and so far in 2023, while China started to cut rates as a part of its broader stimulus package to revive its post-COVID lockdown recovery. The diverging policy reflects significant differences in local inflation, economic growth, and potential growth.

Alberta business environment positive

Many measures of business performance and confidence point to strong business conditions in the province. The value of wholesale trade (excluding petroleum, petroleum products, and other hydrocarbons and excluding oilseed and grain), a good measure of business activity and health, is up 10.6% year-to-date (YTD). The real-time Local Business Conditions Index (RTLBCI) continues to be higher than a year ago in both Calgary and Edmonton. Meanwhile, business sentiment has been trending upward since January, with both the short-term and long-term Business Barometer Index (BBI) at their highest level since mid-2022 in May (Chart 2). With the rising optimism, more businesses are being established. Business formations in Alberta are up 4.3% YTD through the first five months of the year, and Statistics Canada estimates that the number of active businesses in Alberta has increased 0.9% over the last 12 months.

CHART 2: BUSINESS CONFIDENCE AND FORMATIONS RISING

Business barometer index (BBI) and formations



Sources: CFIB and Haver Analytics

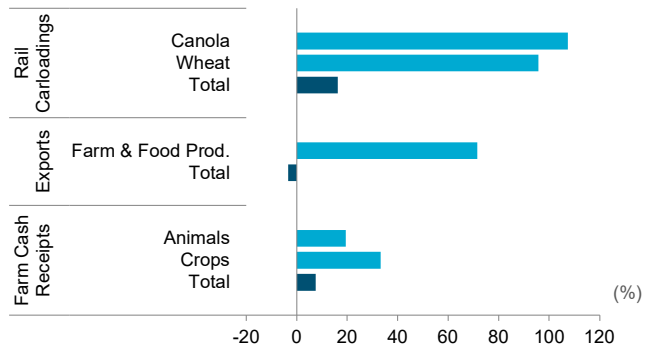
Agriculture leading growth

The agricultural sector continues to be a source of strength for the province. With a rebound in crop production in 2022 and strong global demand, the agriculture sector is pulling many indicators higher (Chart 3). Massive year-over-year gains in the number of railcars loaded with wheat and canola lifted western Canada railway carloadings to a tenth consecutive month of year-over-year growth in April. Stronger

rail shipments have translated into higher export volumes of most grains. With prices still relatively strong, the export value of farm & intermediate food products was up 72% YTD in April. The strong sales and exports of crops lifted farm cash receipts to a new record high of \$7.1 billion in the first quarter of 2023. While the agriculture sector is still benefiting from last year's rebound in crop production, there is growing concern over drought conditions in the southern regions of the province for this year's crops.

CHART 3: AG SECTOR OUTPERFORMANCE

Year-to-date change in indicator



Sources: Statistics Canada and Haver Analytics

Temporary setback in the energy sector

Temporary factors such as wildfires, seasonal weather and planned outages are weighing on the energy sector. After a strong first quarter, oil production dipped in April as planned seasonal maintenance resulted in a meaningful drop in both bitumen and synthetic production. Similarly, after posting strong year-over-year growth in the first quarter, drilling activity fell below last year's levels in April and May. While the recent weakness in drilling activity is mostly due to seasonal factors, the wildfires and temporary evacuation orders also played a role in limiting access and delaying deployments. Natural gas production also declined in the month, consistent with the seasonal slowing in demand. Despite the temporary setbacks, the energy sector remains well-positioned to take advantage of robust global demand as facilities return online and the impact of wildfires subsides.

Labour market momentum slowing

While Alberta's labour market continues to move forward, the pace of progress has slowed. After filling many job vacancies and adding 36,000 jobs in the first quarter, employment

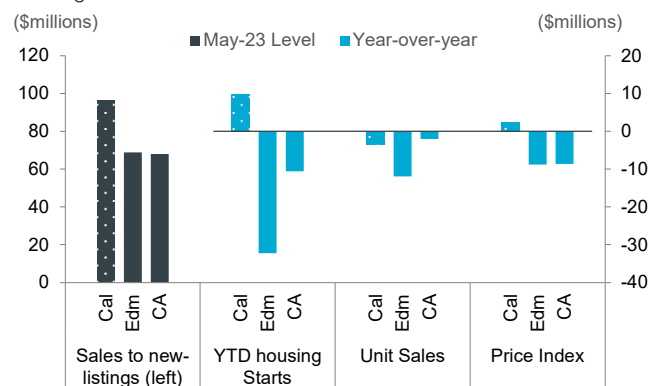
gains moderated, with only 2,000 jobs added in April and May. This was largely due to a pullback in the services sector, which retreated for the second straight month in May after a sizeable gain in March. The recent weakness has been led by professional, scientific & technical services and transportation & warehousing, which both saw significant increases in 2022. Meanwhile, growth in the labour force stalled as the participation rate eased from 70.3% in January to 69.5% in May. With weaker participation, the unemployment rate has been contained. It was down from 6.0% in January to 5.7% in May.

Calgary driving Alberta's housing market

Calgary's housing market activity is leading the province and country. Although unit sales are down from the record levels set early in 2022, they jumped to a 12-month high in May, and the market is extremely tight. Calgary's sales-to-new listing ratio in May (96.4) far exceeded the provincial and national average (67.9) and all other major cities (Chart 4). This is supporting prices, with the MLS composite price index up 2.4% y/y in the city. While sales have also picked up in Edmonton, the market remains more balanced, and the price index was down 8.8% y/y in May. This is similar to the national decline and reflects the higher interest rates. The outsized strength in Calgary's resale market is feeding into the residential construction sector and the new housing market. The number of completed and unabsorbed dwellings in Calgary (630) has declined and is near an eight-year low. This is far less than inventory levels in Edmonton (2,263) and other major cities such as Vancouver (1,401) and Montreal (1,014). Meanwhile, housing starts in Calgary are up 9.7% year-to-date (YTD), while they are down in Edmonton (-32%) and nationally (-11%). Calgary's housing market appears to be the biggest beneficiary of Alberta's and Canada's booming population growth. In the first quarter, the province's population grew a whopping 4.5% y/y.

CHART 4: CALGARY HOUSING MARKET OUTPERFORMING

Housing market indicators



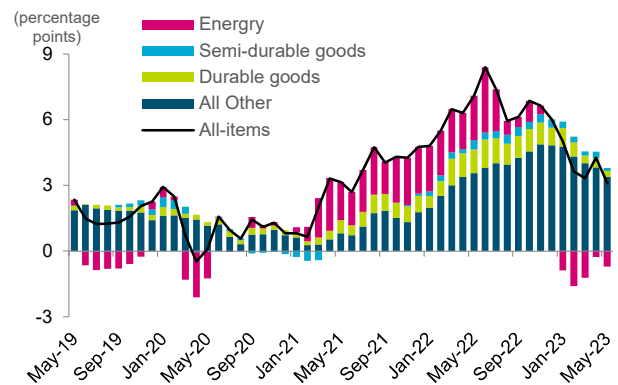
Sources: CMHC, CREA, and Haver Analytics

Inflationary pressures subsiding

Easing commodity prices are helping to bring down inflation across many jurisdictions, including the province. Lower energy prices and broad-based moderation in price growth brought Alberta's inflation rate in May to the lowest level since June 2021. This largely reflects the fading base year impacts of energy prices (Chart 5). They were down 12% from last May, when Russia's invasion of Ukraine led to a spike. In addition, price pressures are declining for most products. The annual growth in prices for durable goods (vehicles, furniture, etc.), semi-durable goods (clothing, etc.) and services have all been moderating. With the widespread easing, core inflation (all items except food and energy) fell to 3.3% in May, a 15-month low. Despite the ongoing decline, both headline and core inflation remain well above their historical averages, propped up by a few categories. Higher prices for food and the higher cost of home ownership, particularly maintenance & repairs and mortgage interest costs, have lifted inflation. Rising mortgage costs and food inflation accounted for more than two-thirds (or 2.1 percentage points) of headline inflation in May.

CHART 5: INFLATION MODERATING WITH LOWER PRICES FOR ENERGY AND GOODS

Contribution to Alberta's headline consumer inflation



Sources: Statistics Canada and Haver Analytics

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Have a question? Send us an [email](#)