

Economic Trends

June 2022

Alberta's economy remains on solid footing even as the global economy is losing momentum. Surging energy prices and robust global demand are supporting a pickup in Alberta's energy sector, while business sentiment is holding up, bucking the national trend. Alberta's labour market has also gained strength, although employment in some sectors continues to lag. However, rising costs and interest rates are starting to impact consumers in the province. Activity in the resale housing market is slowing on the back of higher interest rates. Elevated inflation and a shift in consumer spending towards services are also weighing on retail sales. Globally, persistently high inflation and aggressive monetary tightening have raised concerns about a sharp slowdown in the global economy.

Canada steady as global economic outlook weakens

The global economic outlook has deteriorated amid persistently high inflation and more aggressive monetary policy tightening around the world. Most forecasters are still expecting the global economy to grow this year, but at a much slower pace. Recent forecasts by OECD and the World Bank are now projecting global growth to decelerate from 6% in 2021 to around 3% in 2022. However, Canada is expected to be better positioned to weather the headwinds this year compared to other advanced countries (Chart 1), largely owing to the benefits of higher commodity prices and relatively limited economic ties with Europe. Significantly tighter financial conditions and heightened concerns about a sharp slowdown in the global economy have increased volatility in equity and commodity markets.

Loonie decouples from oil prices

The Canadian dollar has moved very little against the U.S. dollar despite soaring oil prices in the wake of the Russia-Ukraine war. While West Texas Intermediate (WTI) – the North American benchmark oil price – has surged above US\$100 per barrel since late February, the Loonie has been fairly stable, staying below 80 US cents for most of the time period. This is in contrast to the oil price boom in 2010-2014, when the Canadian dollar appreciated significantly and held above 90 US cents. Increased global demand for the safe-haven U.S. dollar has offset the impact of the sharp rise in oil and commodity prices. In contrast, the Canadian dollar has strengthened against most other major currencies.

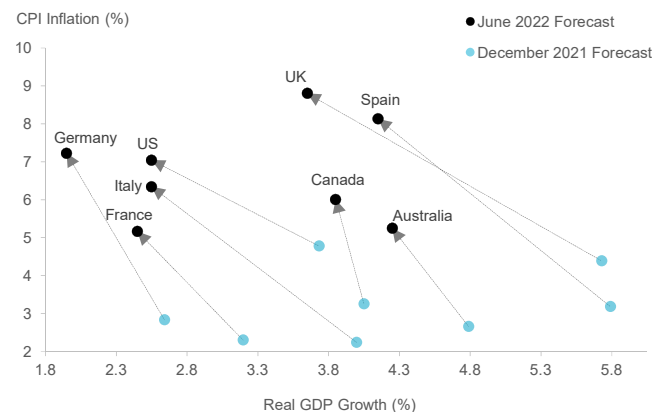
KEY INDICATORS

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	Apr	6.6%	-12.9 p.p.
Employment (thousands)	May	2,366	+6.6%
Unemployment Rate	May	5.3%	-3.1 p.p.
CPI Inflation (unadjusted)	May	7.1%	+4.0 p.p.
Retail Sales	Apr	\$7.7 B	+3.6%
Housing Starts (annualized)	May	46,456	+28.5%
Rigs Drilling (unadjusted)	June	126	+57.7%
Manufacturing Shipments	Apr	\$9.5 B	+37.6%
Exports (unadjusted)	Apr	\$16.9 B	+67.0%

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

CHART 1: REAL GDP GROWTH EXPECTED TO BE SLOWER, INFLATION HIGHER IN ADVANCED ECONOMIES

2022 real GDP growth and CPI* inflation forecast, selected countries



Sources: OECD Economic Outlook, June 2022

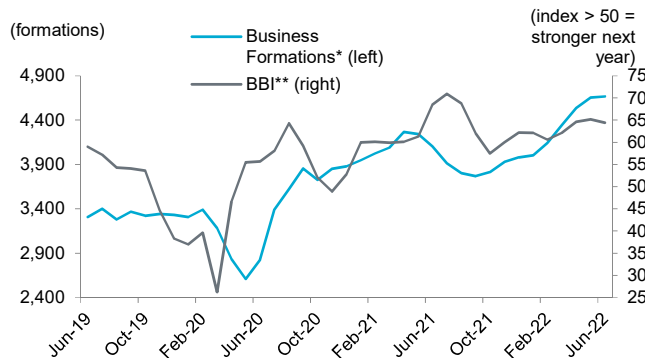
* Consumer price index

Solid activity underpins business optimism

Business sentiment in Alberta continues to outperform the national level despite a recent dip. Alberta's Business Barometer Index (BBI), a measure of small business confidence, eased in June for the long-term outlook after hitting a nine-month high in the prior month. Despite the retreat, it held above the levels seen earlier in the year. This is in contrast to the national BBI which has retreated sharply to its lowest reading since January. Similarly, the short-term outlook was steady in Alberta while the national level continued to pull back. Solid business sentiment in Alberta has been accompanied by a pickup in business activity. Statistics Canada's Real-Time Local Business Conditions Index – an experimental statistic to measure business activity in real time – has increased in Edmonton and Calgary, with a notable spike in May. This outperformed all other Canadian cities within the sample, except in Quebec. Spurred by rising business confidence since the start of the year, Alberta incorporations were up 6.8% year-to-date (YTD) through June and reached a historical peak (Chart 2).

CHART 2: INCORPORATIONS RISE AS BUSINESS SENTIMENT IMPROVES

Alberta business formations and Business Barometer Index (BBI)



Sources: Corporate Registry System (CORES) and Canadian Federation of Independent Business

* Business formations based on 3-month moving average, seasonally adjusted

** BBI based on 2-month moving average, seasonally adjusted

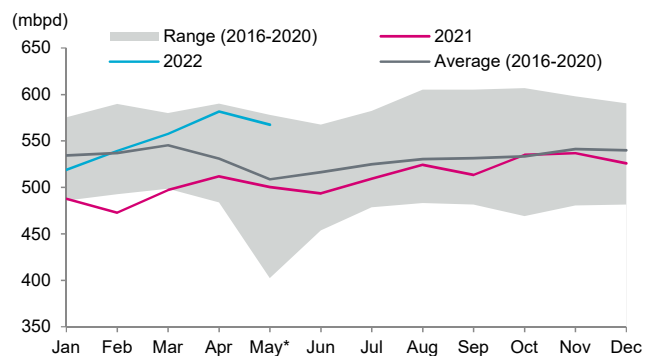
Conventional oil activity ramps up

Surging energy prices and robust global demand are supporting a significant pickup in Alberta's energy sector activity. Rig counts have been at an eight-year high since March, building on the robust gains in the second half of 2021. Strong drilling activity has also translated to a ramp up in conventional oil production (Chart 3). Despite the recent pullback, conventional oil production was up 5.2% between February and May 2022 and is just 1.8% shy of its pre-pandemic level in May 2019. The increase has been concentrated in light crudes, which accounts for majority of

Alberta's conventional oil output. The differential between Mixed Sweet Blend – Western Canada's benchmark price for conventional light crude – and West Texas Intermediate has narrowed significantly since February, supporting production of light grades that have low sulphur content. In contrast, soaring natural gas prices likely prompted a shift in U.S. refinery demand, as high sulphur heavier crudes require more natural gas for processing which became more expensive. This appears to be weighing on the differential for heavy crudes.

CHART 3: CONVENTIONAL OIL OUTPUT NEAR FIVE-YEAR HIGH

Monthly conventional oil production



Source: Alberta Energy Regulator

* Fort McMurray wildfires occurred in May 2016

Volumes drive import gains

Higher activity in Alberta is spurring an upsurge of imports into the province. The nominal value of imports rebounded strongly after hitting a low in February and reached an all-time high in April. Roughly half of the gains so far this year can be attributed to higher volumes, led by machinery, vehicles & other equipment, as well as motor vehicles & parts. Industrial machinery also saw an outsized increase amid a strong pickup in drilling activity in the province. Some of the volume gains also came from importing several more expensive aircrafts and helicopters, which likely constituted a one-off purchase rather than a trend. YTD, overall real merchandise imports in the province were up 17% through April, compared to only 0.6% for real merchandise exports. In contrast to imports, the increase in the value of exports has been solely driven by higher prices.

High crop prices lift net farm income in 2021

Farmers benefited from higher prices last year. Realized net farm income in Alberta moved up in 2021 as a surge in farm cash receipts outpaced an increase in operating expenses and depreciation charges. Farm cash receipts soared to a new high (+21% y/y) as unfavourable weather conditions during the growing season and supply chain disruptions pushed prices higher for many agricultural commodities, led by grains and oilseeds. Severe drought in Western Canada also boosted direct payments to farmers (+72% y/y). At the same time, operating expenses grew (+10% y/y) propped by increased prices for key inputs such as fertilizer, fuel, and livestock feed. Poor harvest resulted in a decline in inventories, which weighed on net farm income (-62% y/y).

Services continue to lead job gains

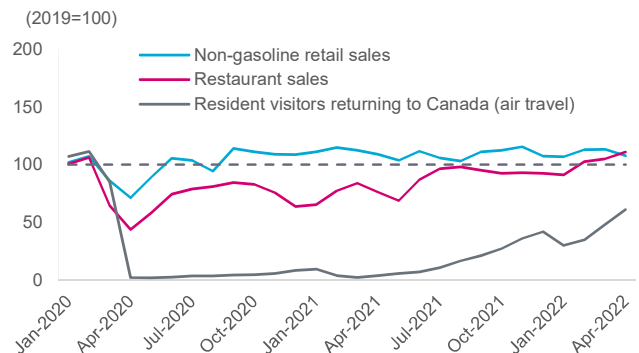
Employment in the province has gained momentum, led by the services sector. With the surge in May, headline employment has increased by nearly 66,000 since the start of the year and is up 5.3% year-to-date (YTD). About three-quarters of the gains since December have been in the services sector, led by retail & wholesale trade, both of which have recovered strongly from the pandemic lows. Employment in most close-contact industries also continues to improve, but still remains far below pre-COVID levels. Meanwhile, goods sector employment has struggled to gain momentum this year, partly due to persistent weakness in the manufacturing sector. Most of the weakness has been concentrated in durables, most notably fabricated metals, industrial machinery, as well as non-metallic mineral product manufacturing. While payroll employment in these industries has rebounded over the past year, they are lagging behind other manufacturing industries.

Services spending gathers steam

Albertans continue to pivot their spending from goods to services as the economy reopens and pandemic concerns abate. Restaurant sales have increased sharply in recent months (+33% YTD) and now exceed last year's summer peak as of April 2022. Much of the increase has been driven by spending on full-service restaurants, which has benefitted from rising consumer confidence in April and Albertans' appetite to enjoy restaurants after two years of public health measures. Air travel, another indicator of services spending, also continued to improve amid easing border restrictions (Chart 4). The number of returning Canadians via Alberta reached 152,000 in April, a marked increase from the previous two years, but still only 63% of the April 2019 pre-pandemic level. In contrast, higher prices appear to be weighing on retail sales. Excluding gasoline stations, sales have retreated and are down 1.4% YTD through April. Spending on discretionary items such as vehicles and renovation-related building materials has slowed, while grocery store sales are hovering close to recent lows amid sharply higher food prices and more people eating out.

CHART 4: SERVICES SPENDING TRENDING HIGHER WHILE RETAIL SALES EXCL. GASOLINE ARE SLOWING

Spending by category, indexed to 2019 levels



Sources: Statistics Canada and Haver Analytics

Divergence in the housing market

Alberta's housing market is showing signs of cooling down amid a rapid rise in interest rates. The slowdown has been concentrated in the resale market, where sales have pulled back for three consecutive months to 7,159 units in May. This comes on the heels of exceptionally strong activity earlier in the year, when homebuyers pulled forward demand in anticipation of rising interest rates. Conversely, housing starts have surged above 40,000 in the last two months and are up 13% YTD, with the bulk of the gains in multi-unit starts, particularly apartments (+43% YTD). Low housing inventories in both the new and resale market, coupled with a pickup in migration, are supporting homebuilding activity. With resale activity cooling down, the average resale house price in Alberta has pulled back from its February peak, while soaring input costs continue to push new home prices higher.

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