Economic Trends

April 2024

Alberta's economy is advancing as expanding capacity and population growth overwhelm some headwinds. Output from oil producers and food manufacturers continues to rise, benefiting from increasing production and takeaway capacity. This is outweighing some temporary weakness in primary agriculture and natural gas. With an improving global outlook, external risks are easing and oil prices have strengthened. Residential construction is booming and spending on staples remains strong, but rapid population growth is putting pressure on Alberta's housing market. In addition, high interest rates and stubborn inflation continue to weigh on consumer sentiment and spending on major purchases.

U.S. boosts global outlook

The outlook for the global economy continues to improve. The International Monetary Fund (IMF) upgraded its forecast for global growth by 0.1 percentage point to 3.2% in 2024. At the same time, the Bank of Canada lifted its 2024 global growth forecast from 2.5% in the January Monetary Report to 2.8% in April. The upward revisions reflect stronger-than-expected growth in the U.S. Growth in the Euro Area is expected to improve but remain weak, while China's economy is forecast to slow this year but remain strong.

Global manufacturing turning a corner

Global manufacturing conditions are picking up after prolonged weakness. The global PMI has indicated expansion since January, following 16 consecutive months of contraction. Factory output is gaining momentum as demand for manufactured goods rebounds. Global trade has stabilized as supply delays and shipping costs started to ebb following the spike from the breakout of the Red Sea conflict. The strength is being led by the U.S., China, and other large emerging economies, whereas activity continues to be weak in Europe.

Oil prices on the rise

Oil prices have picked up after trending down in the last quarter of 2023. West Texas Intermediate rose from US$73.85/bbl in January to average US$77.32/bbl in the first quarter of the year and has traded above US$80.00/bbl for most of the past six weeks. Prices have increased as the outlook for global growth and oil demand has improved. This has brought supply concerns to the forefront associated with the conflict in the Middle East, Russia's war on Ukraine, and the extension of voluntary production cuts by OPEC+ members.

KEY INDICATORS (AS OF APRIL 30, 2024)

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	Feb	1.3%	-1.2 p.p.
Employment (thousands)	Mar	2,527	+3.4%
Unemployment Rate	Mar	6.3%	+0.6 p.p.
CPI Inflation (unadjusted)	Mar	3.5%	+0.2 p.p.
Retail Sales	Feb	$8.4 B	-2.1%
Housing Starts (annualized)	Mar	39,916	+51%
Rigs Drilling (unadjusted)	Mar	145	-5.4%
Manufacturing Shipments	Feb	$8.8 B	+1%
Exports (unadjusted)	Feb	$13.5 B	-2.1%

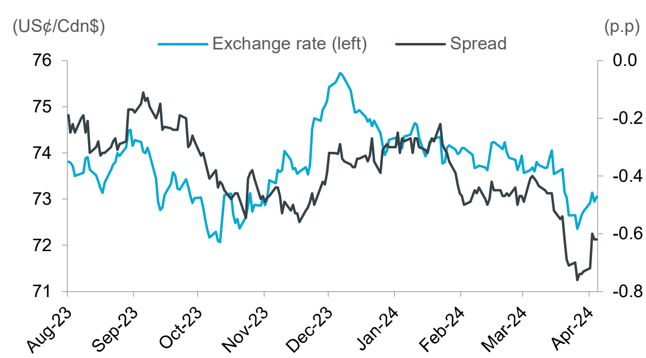
Sources: Alberta Treasury Board and Finance, Statistics Canada, CAOEC, CMHC and Haver Analytics, p.p.= percentage points and B=billions.

Canadian dollar weakens

The Canadian dollar (Cdn) started the year on a soft note despite the recent surge in oil and commodity prices. After averaging US¢74.49/Cdn$ in January, the Loonie fell to US¢74.07/Cdn$ in February and declined further to US¢73.86/Cdn$ in March. The Loonie's lacklustre performance against the USD is mostly driven by the larger gap in short-term interest rates between the two countries (Chart 1). The US-Canada

CHART 1: LOONIE DOWN ON WIDER SHORT-TERM BOND SPREADS

Exchange rate and the difference between 2-year government bond yields, U.S. less Canadian (spread)



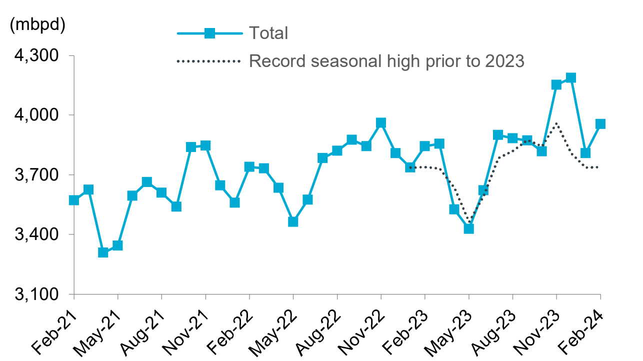
Sources: Bank of Canada, U.S. Treasury, Haver Analytics yield spread on 2-year government bonds widened since late March as a recent string of hotter-than-expected inflation and jobs data in the U.S. increased the likelihood that the Federal Reserve will keep its policy rate higher for longer and diverge from the Bank of Canada policy path.

Oil production continues to set seasonal records

Alberta's oil sector continues to produce at record seasonal levels in anticipation of the commencement of the Trans Mountain Expansion (TMX). Alberta's oil production increased in February, with both conventional and non-conventional oil setting a new record for production in the month of February (Chart 2). Over the last four months, production has consistently hit new seasonal highs as producers ramped up production in anticipation of the completion of the TMX. TMX began commercial operations on May 1st, effectively tripling the capacity of the Trans Mountain pipeline system to 890,000 barrels per day (bpd). There has also been a reduction in the WCS-WTI differential over the past few months in anticipation of the commercial launch of TMX and the recent spring maintenance in oil sands facilities, which has temporarily limited the supply of heavy oil.

CHART 2: OIL PRODUCTION CONTINUES TO MAKE NEW SEASONAL HIGHS

Alberta's total oil production



Sources: Statistics Canada, Haver Analytics

Temporary headwinds for natural gas

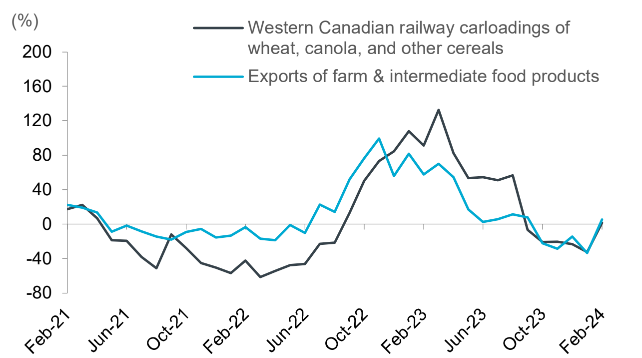
In contrast to oil, weak demand and lower prices are weighing on the natural gas sector. Although production has been steady, the value of Alberta's natural gas exports has plunged 36% so far this year. The weakness comes as the milder-than-expected winter in the northern hemisphere resulted in a significant drop in demand in the U.S. and from abroad and a reduction in LNG exports. Above-average inventories have weighed on the Henry Hub price, which has fallen from over $3.50/MMbtu in November to below $2.00/MMbtu. Similarly, Alberta's AECO price has plummeted below C$1.00/GJ, a stark contrast to its 2022 price of C$4.78/GJ.

Primary agriculture weighing on output

The agriculture sector is weighing on growth after being a source of strength for much of 2023. The reversal in performance is largely due to the less favourable growing conditions in 2023 compared with 2022. Crop yields declined in 2023, and the lower production has been working its way through the supply chain. Western Canadian railway carloadings of grains started declining on a year-over-year (y/y) basis in September, which weighed on Alberta's agriculture and farming exports in the fourth quarter of 2023 (-23% y/y). These declines have continued into 2024, with Alberta's farm, fishing, & intermediate food products exports (-16% year-to-date or YTD) and Western Canadian agriculture and food rail carloadings (-8.9% YTD) failing to match last year's strong levels (Chart 3). The muted agricultural activity and lower crop receipts have led to lower sales at wholesalers of agricultural supplies (-8.6% YTD).

CHART 3: LOWER AGRICULTURE OUTPUT WEIGHING ON BUSINESS ACTIVITY

Year-over-year growth in exports and railway carloadings



Sources: Statistics Canada, Haver Analytics

Food manufacturing gaining strength

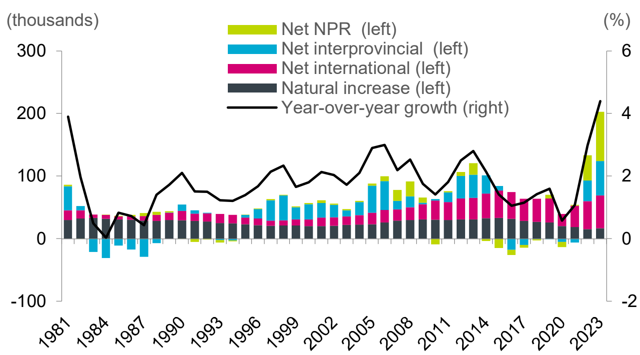
Despite some weakness in primary agriculture, Alberta's food manufacturing sector remains strong and is boosting manufacturing shipments and exports. Food manufacturing sales have been growing since July 2023 and hit an all-time high in February 2024. The strong gains reflect past expansions and the growing capacity in the sector. Cavendish Farms tripled capacity in 2019 with its $430 million plant, while Champion Pet Foods' $350 million facility came online at the start of 2020. More recently, Sofina Foods opened a new $72 million facility with expanded capacity in 2021, and More Than Protein Ingredients started operations at its $160 million facility in 2023. More expansions are underway, with factory investment up across the province and surging in Lethbridge. Industrial construction in the region is being boosted by projects such as the $600 million McCain Foods potato plant and PIP International's 150 million pea-processing plant.

Population continues to surge

Alberta's population continues to expand at a rapid rate. As of January 1, Alberta's population was 4,800,768, an increase of 44,360 residents or 0.9% from October 1, 2023. International migration (+31,037) remained the primary source of growth, led by record setting fourth-quarter number of non-permanent residents or NPRs (+18,487) (Chart 4). Alberta also continued to draw migrants from other provinces. Net interprovincial migration (+9,913) was the highest in the country for the sixth consecutive quarter. With the surging migration and the highest natural growth rate among the provinces, Alberta's quarterly population growth continued to lead the country.

CHART 4: POPULATION GROWTH SURGING WITH INTERNATIONAL MIGRATION

Calender year annual growth in population by type



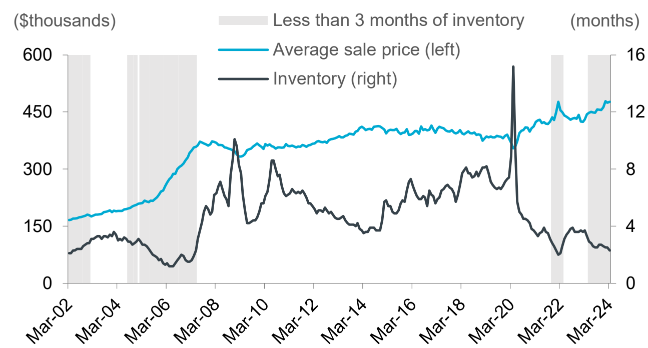
Sources: Statistics Canada, Haver Analytics

Housing market still tight

The exceptional population is driving the demand for housing in the province, which has tightened the resale market. Alberta's seasonally adjusted home sales averaged over 7,000 in the first three months of 2024, a level only seen in the pandemic rebound and in 2007 (Chart 5). On a per capita basis, Alberta's sales have been the highest among the provinces since the end of 2021. Despite the strong demand and sales, listing activity has failed to keep pace. New listings fell to 8,350 in March, the third lowest level since the pandemic. As a result, the months of inventory declined to 2.3 in March. Apart from early 2022, before the Bank of Canada started to raise interest rates, the provincial resale market hasn't been this tight since 2007. At the same time, new home inventories in Edmonton and Calgary remain at multi-year lows. This is particular for multi-family dwellings, where inventories are below 2022 levels due to strong rental demand and homebuyers shifting to lower-priced houses. With the market tightening, prices have gained momentum and Alberta's benchmark house price hit a new high every month since June 2023, growing 9.9% y/y in March.

CHART 5: MARKET TIGHTEST SINCE 2007

Average sale price and months of inventory, seasonally adjusted



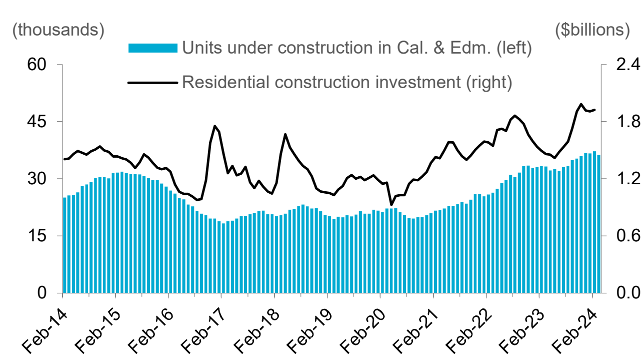
Sources: Canadian Real Estate Association, Haver Analytics

Strong momentum in residential construction

Residential construction activity is booming as home builders have responded to the tight housing market. Housing starts have surged to reach a pace not seen since early in 2008, led by strong activity in the multi-family segment. This has pushed the number of units under construction in Edmonton and Calgary to new highs, even as construction lengths have fallen. With the heightened activity, residential construction investment surged to an all-time high in the fourth quarter last year (Chart 6). This momentum has continued into 2024. February's residential building permits values reached the second highest level in seven years and were the strongest February since 1978 in the number of new dwellings permitted. This suggests ongoing strength in residential investment this year.

CHART 6: RESIDENTIAL CONSTRUCTION ACTIVITY REMAINS ROBUST

Units under construction and seasonally adjusted residential investment



Sources: Statistics Canada, Haver Analytics

Strong job gains continue

The province saw robust employment in the first quarter of 2024. Despite the mild pullback in March, employment grew 28,200, led by the private sector (+22,500) and full-time positions (+22,400). On an industry basis, service sector employment gained momentum on the back of broad-based gains, while the goods sector pulled back from its peak in November 2023. With the recent gains, headline employment in the province was up 3.7% y/y, the second-highest growth in the country. Alberta also accounted for nearly all of the national private-sector job gains over the last year.

Labour market conditions easing

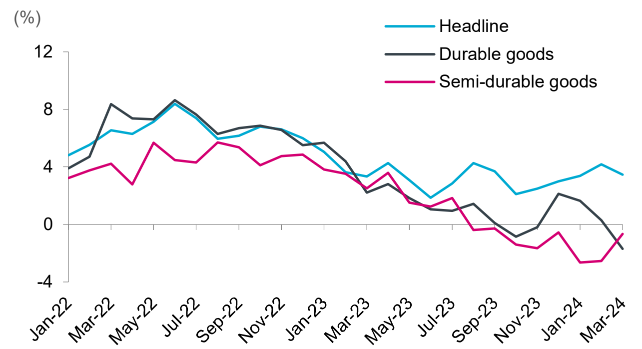
Labour market conditions continue to ease in the province despite the robust employment growth. The surge in population has enabled companies to fill positions, but has also resulted in a rapid expansion in the labour force. Year-over-year growth in Alberta's labour force topped 4% in the last three quarters, exceeding the pace of the employment gains. This has put upward pressure on the unemployment rate, which increased to 6.2% in the first quarter, up from 6.0% in the previous quarter. Despite easing labour market conditions, wage growth has picked up in the province with strong gains in construction, finance, insurance & real estate, and professional, scientific & technical services. Average hourly earnings were up 4.1% YTD in March, although they remained slower than the national earnings growth.

Underlying inflationary pressures easing

Price pressures continue to ease even as headline inflation accelerated in the first quarter. Inflation for semi-durable goods has been negative since last August, while prices for durable goods have also declined and are now lower than a year ago (Chart 7). Food inflation has also moderated from a peak of 11% y/y in November 2022 to 3.8% y/y in March. However, these trends have been overwhelmed by higher inflation in a few components in energy and shelter. Energy inflation has accelerated, with growth in electricity inflation reflecting the lower base-year effect from the province's affordability measures, while retail prices for both gasoline and natural gas advanced in the first quarter. Services inflation has also increased, due almost entirely to shelter costs, particularly for owned accommodation and rent.

CHART 7: UNDERLYING INFLATION PRESSURES EASING

Year-over-year change in Alberta's CPI, by select grouping



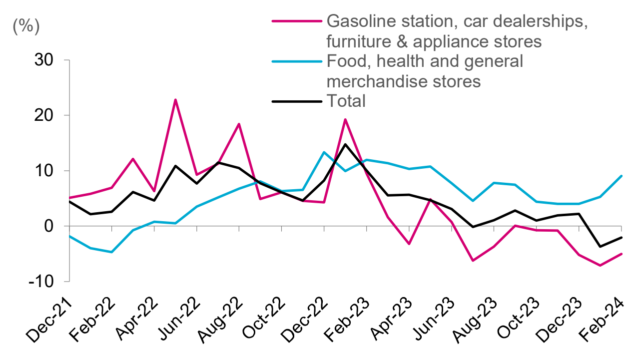
Sources: Statistics Canada, Haver Analytics

Consumers pulling back on discretionary spending

High interest rates and rising housing costs have pushed sentiment down near all-time lows, and consumers are tightening their belts on discretionary spending. Retail sales retreated in the first two months of the year and were down 2.1% y/y in February (Chart 8). However, the weak start was contained to spending at gasoline stations and on discretionary items, including motor vehicles, furniture, electronics, and appliances. Excluding these categories, sales were up 7.4% y/y in February. Strong migration into the province has fuelled sales at stores selling staple goods. Sales at food & beverage, health & personal care, and general merchandise stores have seen strong and increasing growth.

CHART 8: DISCRETIONARY SPENDING WEAK

Year-over-year growth in retail sales by selected groups



Sources: Statistics Canada, Haver Analytics

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