Economic Trends

August 2024

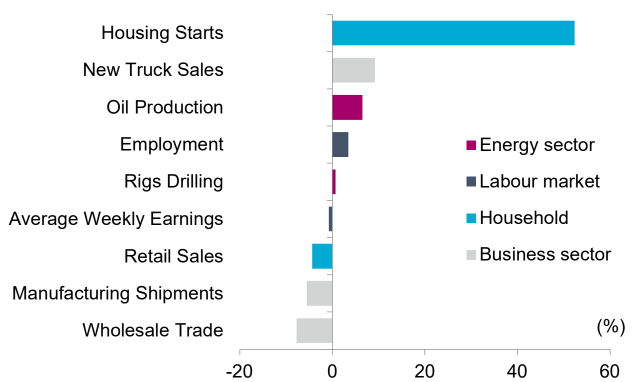
This month's Economic Trends is taken from the Economic Update section of the 2024-25 First Quarter Fiscal Update and Economic Statement, released on August 29, 2024.

Overview

Alberta's economic growth is set to pick up this year, but will lag behind the exceptional increase in the province's population. Expanding pipeline capacity and stronger-than-expected oil prices are boosting revenues and activity in the energy sector, while output from other sectors has been slow to gain momentum. Industrial investment is gaining traction and intentions have been strong. Residential construction investment is benefitting from exceptionally strong population growth (Chart 1). However, the surge in population is putting pressure on Alberta's tight housing and rental markets. This had led to accelerating shelter costs, which are propping up headline inflation. Consumer spending in the province remains anemic and continues to be the biggest drag on growth. Easing interest rates are expected to provide some relief in the second half of the year. In addition, the wildfires in Jasper will dampen activity in the tourism sector in the near term. The wildfire led to an evacuation and losses and damage in the town and surrounding area. The impacts are still being evaluated.

CHART 1: YEAR-TO-DATE STRENGTH LED BY HOUSING AND OIL PRODUCTION

Year-to-date growth in Alberta Activity Index by components, May 2024

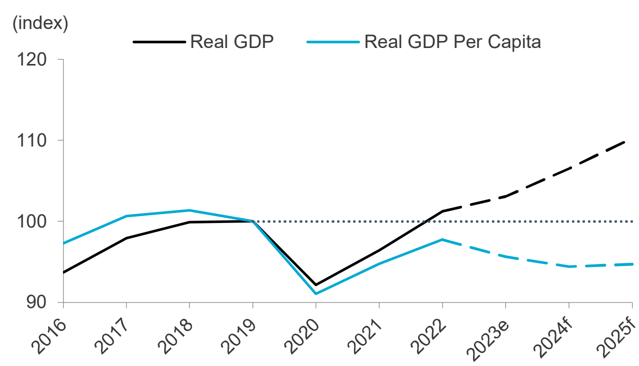


Source: Alberta Treasury Board and Finance

Alberta's real gross domestic product (GDP) is expected to rise 3.3 per cent in 2024, up 0.4 percentage points (ppts) from Budget 2024 and an acceleration from an estimated 1.8 per cent in 2023. Despite the upward revision, real GDP growth will trail behind the increase in population. As a result, real GDP per capita is forecast to decline again this year and hold steady in 2025, when real GDP growth improves to 3.5 per cent (Chart 2). This will be on the back of a pick up in business investment and the fading impact of high interest rates on consumer spending. Even so, real GDP per capita is not expected to return to 2019 levels in the short-term.

CHART 2: REAL GDP GROWTH IS MUTED RELATIVE TO POPULATION INCREASE

Alberta real GDP and real GDP per capita, indexed to 2019



Sources: Statistics Canada, Haver Analytics and Alberta Treasury Board and Finance; e-estimate, f-forecast

While the economy is expanding, Alberta's labour and housing markets are struggling to accommodate the rapid increase in population. Employment is on track to grow at a solid pace this year, but it has not kept up with the expansion in the labour force. This means that the unemployment rate is now forecast to average 7.0 per cent in 2024, an increase of 0.5 ppts from budget. It is forecast to come down next year as population growth moderates and employment catches up.

Global growth prospects still intact

Downside risks to the global economy have eased since budget, although the global economy is still expected to see sluggish growth this year. The International Monetary Fund is projecting the global economy to rise 3.2 per cent in 2024 and 3.3 per cent in 2025, well below the 2000-2019 average of 3.8 per cent. Global growth held up better than expected in the first half of the year, led by the surprising resilience in the U.S. economy, which expanded 2.8 per cent in the second quarter. While recent indicators, including a weaker-than-expected jobs report, stoked recession concerns in recent weeks, the U.S. economy is still poised to see a soft landing this year. Meanwhile, Canadian economic growth has picked up after stalling in the second half of last year, but is expected to trail the U.S. in 2024. Growth in the euro area is recovering but remains subdued, while China's economy continues to slow amid headwinds from ongoing challenges in the property sector.

With moderating growth and cooling inflation, some central banks are in the early stages of monetary easing. The Bank of Canada (BoC) cut its policy rate in June and July, and is expected to lower its policy rate further to reach 3.0 per cent by the end of next year. The U.S. Federal Reserve is also widely expected to begin cutting interest rates in the Fall, which will lend support to activity in the second half of 2024 and into 2025.

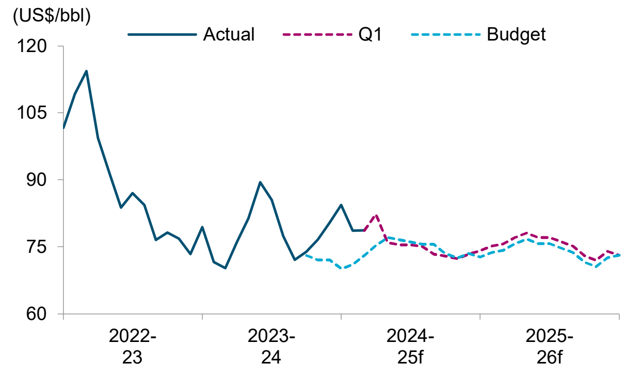
Oil prices exceeding expectations

Oil prices have held up better than expected since budget. The West Texas Intermediate (WTI) oil price averaged US$81 per barrel (/bbl) in the first four months of 2024-25, supported by an improvement in the global economic outlook and the extension of voluntary production cuts by OPEC+ members. Prices have been increasingly volatile recently amid growing concerns over slowing demand in China and the U.S., alongside heightened geopolitical tensions in the Middle East. With the strength year-to-date (YTD), WTI oil price has been revised higher to US$76.50/bbl in 2024-25, an increase of US$2.50 from budget (Chart 3). As before, this assumes that prices will be softer in the second half compared to the first half of the fiscal year.

Heavy oil prices also got a boost in the first half of 2024. The startup of the Trans Mountain pipeline expansion (TMX) in early May helped narrow the discount between WTI and Western Canadian Select (WCS) oil prices. Additionally, U.S. refineries ramping up for the summer driving season increased demand for heavy crude, further helping to narrow the differential. This was accompanied by maintenance in oil sands facilities, which temporarily reduced supply in the spring months. The differential is now expected to average US$14.40/bbl in 2024-25, US$1.60 narrower than budget.

CHART 3: OIL PRICES STRONGER THAN EXPECTED SO FAR THIS YEAR

Price of West Texas Intermediate (WTI)



Sources: Haver Analytics, Reuters and Alberta Treasury Board and Finance; f-forecast

In addition to a narrower differential and stronger WTI, exporters are also benefitting from a weaker Canadian dollar. Diverging interest rate expectations between the U.S. and Canada and a weakening Canadian economy have weighed on the Loonie. It is now forecast to average 73.70 US¢/Cdn$ in 2024-25, down from 75.9 US¢/Cdn$ at budget. This will provide an additional lift to WCS, which is now expected to be higher compared with 2023-24. It is forecast to rise to Cdn$84.30/bbl this fiscal year, an increase of Cdn$7.50/bbl from budget.

Near-term weakness in natural gas price

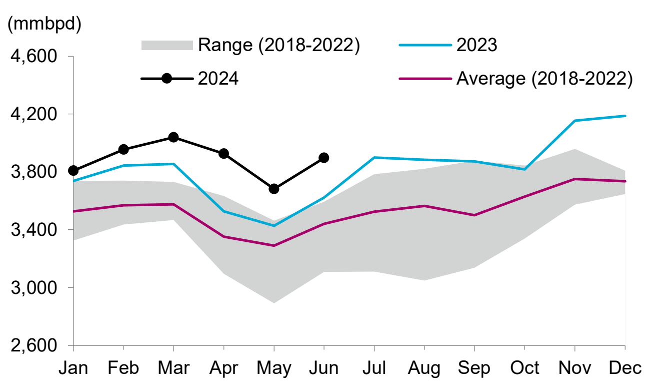
Unlike oil, the price of Western Canadian natural gas has declined since budget. A mild winter, combined with robust natural gas production in Western Canada, led to elevated inventories heading into the spring. Oversupplied market conditions have weighed on Alberta's natural gas price, with AECO plunging below C$1.00 per gigajoule (/GJ) in June. In contrast, the North American natural gas benchmark Henry Hub price held steady, resulting in a significant widening in the differential between the two hubs. The Alberta Reference Price (ARP) is now forecast to average Cdn$1.80/GJ in 2024-25, a decrease of Cdn$1.10 from budget. Prices are expected to improve later in the year as demand picks up. The commencement of LNG Canada Phase 1 in 2025 is also expected to expand market access for Western Canadian producers and support prices.

Energy sector taking the lead

Improved export capacity and solid oil prices are supporting activity and investment in the energy sector. After a slow start to the year, rigs drilling remained strong through the spring break period before surging 14 per cent year-over-year (y/y) in July. In response to TMX coming online, oil production has also consistently hit new seasonal highs in the last eight months (Chart 4). This is despite maintenance-related shutdowns at some oil sands facilities in the spring. Oil production is set to average more than 3.9 million barrels per day (bpd) in 2024, an increase of almost 116,000 bpd from 2023. Real oil exports are forecast to grow 4.5 per cent this year, up from around three per cent at budget, before moderating to 2.8 per cent in 2025. Inventory drawdowns are also expected to provide an additional boost to export volumes this year.

CHART 4: OIL PRODUCTION CONTINUES TO SET SEASONAL RECORD

Monthly oil production



Source: Alberta Energy Regulator

With the strength in activity, investment in the oil and gas extraction sector is forecast to grow 7-8 per cent annually (or around $2.4 billion) in 2024 and 2025, roughly unchanged from budget. It is the major driver of business investment this year. As in recent years, the investment response to higher oil prices is expected to remain modest as producers boost output largely through debottlenecking, optimization and small-scale expansions. Uncertainty around federal government's emissions reduction policies are also keeping a lid on investment.

Agriculture, manufacturing a drag on output

Outside the energy sector, business output has been slow to gain momentum this year. Exports of farm, fishing & intermediate food products have pulled back from last year's elevated levels and are down more than nine per cent in the first half of the year. Crop exports are being weighed down by below average crop yields in 2023 and moderating prices this year. These are partly being offset by higher sales of food manufacturing products, which have increased more than four per cent through June.

Categories such as basic & industrial chemical products and metal & non-metallic mineral products have also contributed to the decline in the value of exports so far this year. While lower prices have played a significant role, slowing demand has also been a factor. Meanwhile, exports of industrial machinery surged in July after failing to gain ground, while manufacturing sales of forestry and building products are benefitting from a rebound in residential construction.

Real manufacturing exports have been revised slightly lower this year compared to budget. In contrast, real service exports are forecast to remain solid. The loss of tourism activity in Jasper will be a drag on exports. However, the completion of TMX and other pipeline projects will boost activity in the transportation sector.

Industrial investment to gain traction

Investment is set to accelerate in 2025 after a mild pick up this year, led by the industrial sector. Non-residential building construction investment in the sector has grown more than 30 per cent YTD. Factory investment has been a major driver, with large projects such as the construction of McCain's potato processing plant, Air Products' hydrogen complex, and Imperial Oil's renewable diesel facility already underway. In comparison, commercial building investment has fallen amid ongoing weakness in office construction and slowdown in warehouse construction. Investment in private sector engineering construction has also retreated from last year's elevated levels following the completion or winding down of large-scale pipeline projects such as TMX, NGTL and Peace pipeline expansion.

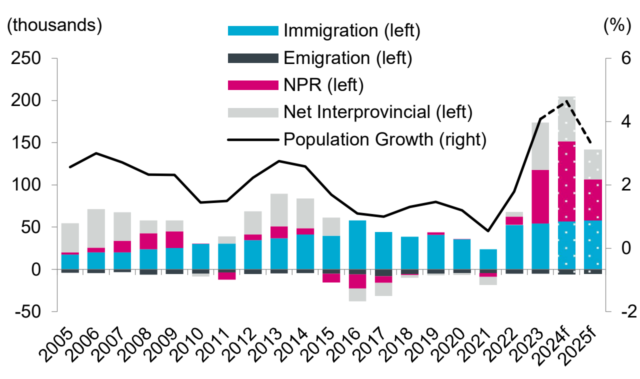
Investment outside oil and gas extraction is forecast to grow 3.0 per cent this year before ramping up to 9.0 per cent in 2025. Dow's $11.6 billion Path2Zero project is breaking ground, with construction set to ramp up next year. Investment intentions in the province remain strong, further boosting the outlook in the medium term. Among these are projects that received final investment decision in recent months are Wolf Midstream's NGL North System Phase 2, Shell Canada's Polaris carbon capture project at its Scotford refinery and chemicals complex, and the Atlas Carbon Storage Hub.

Population growth accelerates

Alberta's population is expected to grow at a much faster pace than anticipated at budget. In the first quarter of 2024, Alberta's population was up over 200,000 from a year ago, representing an increase of 4.4 per cent. This is the highest annual growth rate since 1981 for that quarter and the fastest among all provinces. Net international migration is on track to surpass last year's elevated levels, led by record arrivals of non-permanent residents (NPRs) which include temporary foreign workers, international students and refugee claimants, along with their family members. Immigrant landings have also been boosted by Alberta's rising share of national admissions. Net interprovincial migration is expected to soften from last year's record level, but remain historically strong. Alberta's population is now forecast to grow 4.6 per cent in the 2024 census year (Chart 5), up significantly from the budget forecast of 3.7 per cent and higher than 4.1 per cent seen in 2023.

CHART 5: SURGE IN NPRS ACCELERATING POPULATION GROWTH

Annual change in population by migration component



Sources: Statistics Canada, Haver Analytics and Alberta Treasury Board and Finance; e-estimate, f-forecast

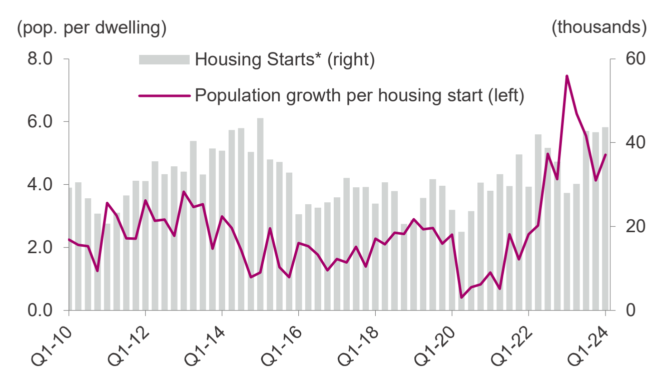
Population growth is expected to moderate to 3.2 per cent in the 2025 census year, still higher than the budget forecast of 2.7 per cent. With the upward revision, Alberta's population is now projected to be 90,000 higher by 2025 compared with budget. NPRs are expected to pull back but continue to see strong net positive inflows. This spring, the federal government announced their intention to reduce the number of international study permits and lower temporary residents to 5 per cent of the Canadian population over the next three years. In 2024-25, Alberta will receive a higher allocation of international study permits, and with Alberta's per capita share of temporary residents being currently below the federal government's target of 5 per cent, impacts from this change are expected to be modest. Larger provinces such Ontario and BC are expected to see more outsized impacts.

Elevated residential construction activity

Activity in Alberta's residential construction sector is booming as home builders respond to record-setting migration and tight housing conditions. Housing starts averaged more than 45,000 units (annualized) in the first seven months of 2024, up nearly 50 per cent from the same period last year, before momentum really picked up. All categories have seen strong growth so far this year, led by the multi-family segment, which is benefitting from strong rental demand and homebuyers' shift to lower-priced homes amid high interest rates. Despite the ramp up in construction, supply continues to lag behind demand. As a result, the ratio of housing starts to population growth has climbed over the past year (Chart 6). This is well above the historical average. Stronger-than-expected population growth suggests that housing supply will need to catch up further. However, the response from the construction sector will continue to be constrained by the lack of skilled labour and high construction costs. Housing starts are now expected to average 42,500 in 2024 and 42,900 in 2025, up from the budget forecast of about 39,000 units annually.

CHART 6: HOUSING SUPPLY HAS IMPROVED BUT STILL TRAILS BEHIND DEMAND

Alberta housing starts and population per dwelling



Sources: Statistics Canada and Haver Analytics; *seasonally adjusted at annual rate

The surge in new housing construction, along with strong resale housing activity, are expected to boost growth in real residential investment to almost 14 per cent this year before moderating to around 5 per cent in 2025. Growth this year will be dampened by renovation spending, which has pulled back sharply as households curtail discretionary and big-ticket spending. With interest rates expected to fall further and consumer sentiment improving, renovation spending is poised to see a modest pickup next year.

Job gains moderating but solid

Employment is on track to expand at a solid pace. Despite a pull back in the services sector and slowing momentum in the goods sector in the second quarter, headline employment has grown at a strong clip of 3.2 per cent YTD through July. While oil & gas employment has rebounded, the slowdown in consumer spending has weighed on employment in the retail & wholesale trade and transportation & warehousing sectors. Nonetheless, Alberta's employment growth has outperformed the national average, with the province accounting for nearly all of the increase in Canada's private sector employment over the past year. With job vacancies easing and the job finding rate slowing, employment is anticipated to see more modest growth for the remainder of the year. Employment is forecast to rise 3.0 per cent in 2024, in line with budget expectations. A pick up in business investment and consumer spending should see employment grow 3.1 per cent next year.

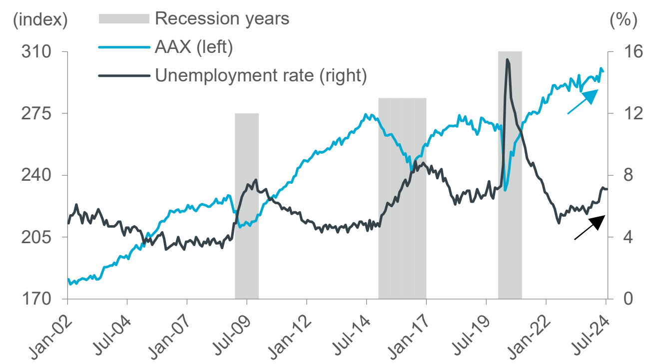
Unemployment rising sharply

The unemployment rate has climbed significantly with more people looking for work in Alberta. The labour force has grown at an exceptionally strong pace over the past year, well above the levels seen in recent population booms. This has outstripped job gains and put upward pressure on the unemployment rate, which averaged 6.7 per cent in the first seven months of the year. Moderating labour demand, combined with strong growth in labour supply, is expected to push the unemployment rate higher in the second half of the year. The rising unemployment rate also appears to be discouraging some segments of the population from looking for work. As such, the labour force participation rate has been lower-than-expected this year, which will keep the unemployment rate contained. The unemployment rate is now forecast to average 7.0 per cent for 2024, an increase of 0.5 ppts from budget. The unemployment rate is forecast to subside to 6.8 per cent next year as employment growth catches up with the increase in labour force.

While the unemployment rate is expected to be elevated in the near term, labour market conditions in the province are stronger compared with previous periods of increased labour market slack. Alberta has experienced high unemployment during times of economic weakness, such as the 2015-16 downturn and COVID-19 pandemic. Rising unemployment during these years was driven by job losses and contraction in economic activity. This time, however, the increase in unemployment has been accompanied by rising output and employment gains (Chart 7). Job separation rates have been muted, which means that employers are not laying off staff. Wage growth has also been very strong so far this year.

CHART 7: UNEMPLOYMENT RISING EVEN AS ACTIVITY IS EXPANDING

Alberta Activity Index (January 1981 = 100)



Sources: Alberta Treasury Board and Finance, Statistics Canada, and Haver Analytics

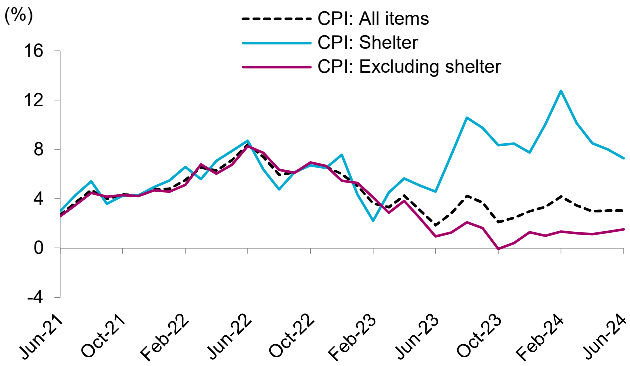
Consequently, the slack in the labour market has been uneven, with unemployment rising disproportionately among new entrants such as youth and newcomers. Newcomers, in particular, tend to face difficulties integrating into the labour market after they arrive due to a variety of factors such as credential recognition, language barriers and lack of Canadian work experience.

Inflation moderating gradually

Consumer inflation is subsiding, but at a pace slower than anticipated at budget. Broader price pressures have been moderating with outright price declines and weaker demand for durable and semi-durable goods. Muted growth in energy costs has dampened non-durable goods inflation, although rising food prices continue to be a major upward contributor. In addition, services inflation has accelerated sharply and is approaching its recent peak. The increase has been largely driven by shelter, where strong demand and tight housing market conditions are putting pressure on rents and house prices (Chart 8). Rising food and shelter prices have stalled the moderation in headline inflation in recent months. Inflation is now expected to average 3.0 per cent in 2024, up 0.5 ppts from budget, before declining to 2.3 per cent in 2025.

CHART 8: SHELTER COSTS LIFTING INFLATION

Year-over-year percentage growth in Alberta's consumer price index



Sources: Statistics Canada and Haver Analytics

Consumers holding back spending

Consumers in Alberta are tightening their belts as they continue to feel the pinch from high interest rates and surging shelter costs. Retail sales are down 1.1 per cent YTD, reflecting price declines and sluggish demand in some categories. The weakness is concentrated on spending at gasoline stations and on discretionary items such as motor vehicles, building materials & garden supplies, clothing & accessories, and furniture. In contrast, strong migration into the province is supporting spending on staple goods such as food & beverages, and health & personal care items.

The large influx of people into the province is expected to boost real consumer spending, which is forecast to rise 3.5 per cent in 2024, up 0.1 ppts from budget. On a per capita basis, however, real consumer spending is forecast to decline again this year before improving slightly in 2025. Spending on services is expected to hold up better than goods, as it benefits more from a rising population. Alberta's relatively higher savings rate, lower debt to disposable income ratio and stronger economic conditions should also provide some cushion to households. Lower interest rates and rising consumer sentiment should pave the way for per capita spending to improve in the second half of this year and through 2025.

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