Economic Trends

There's some renewed momentum in Alberta's economy. Job growth has picked up on the back of strong private sector hiring. Population growth also continues to accelerate, while home sales have been improving. On the business side, higher prices and growing production have lifted manufacturing shipments and energy exports closer to pre-recession levels. Meanwhile, rising energy prices are keeping consumer inflation elevated. This month's InFocus looks at the resurgence of crude by rail.

Key Indicators

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	July	+2.4%	-3.8 p.p.
Employment (thousands)	September	2,338	+2.4%
Unemployment Rate	September	7.0%	-0.08 p.p.
CPI Inflation (unadjusted)	August	3.1%	+2.0 p.p.
Retail Sales	July	$6.9 B	+3.1%
Housing Starts (annualized)	September	22,295	23.7%
Rigs Drilling (unadjusted)	September	134	+5.1%
Manufacturing Shipments	July	$6.6 B	+13.7%
Exports (unadjusted)	August	$10.9 B	+34.2%

Source: Alberta Treasury Board and Finance, Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Household Sector

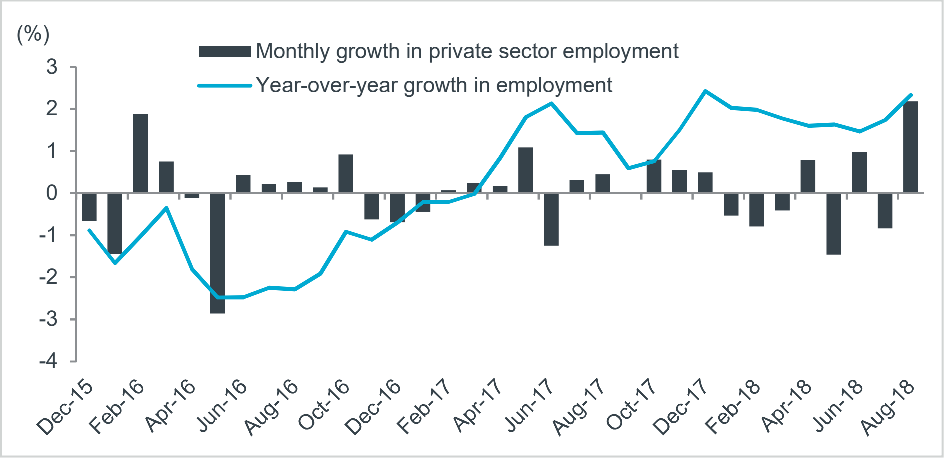
Population growth picking up

Alberta's population continues to grow at a faster rate. It increased to 4,307,110 as of July 1, 2018, adding 18,783 people (+0.44%) from the previous quarter. On a year-over-year (y/y) basis, growth accelerated from a low of 1.1% in the same quarter last year to 1.5%, the strongest growth in three years. Alberta's population growth continues to be bolstered by substantial net international migration and the strongest natural growth rate among provinces. Net inflows of interprovincial migrants also contributed to the growth.

Employment growth accelerates

Job growth in the province has picked up following moderation in the first half of the year. With 16,200 jobs added in August, the year-over-year employment growth accelerated to 2.3%, lifted by a surge in private sector hiring (Chart 1). Private sector employment, which has lagged overall employment growth so far this year, posted its strongest monthly gain in seven years. Meanwhile, self-employment has pulled back following large increases earlier in the year. Despite the strong employment gain, the unemployment rate remains elevated at 6.7% on higher labour force participation rate.

Chart 1: Employment growth surges with large gain in private sector jobs
Year-over-year growth in employment and monthly growth in private sector employment



Source: Statistics Canada

Housing sales back on track

The resale housing market continues to improve. Home sales increased for the fourth month in a row in August following a slump in the first quarter due mainly to mortgage rule changes. Sales in nearly all regions have returned to 2017 levels with the exception of Calgary, where sales remain muted following strong gains in early 2017. Nationally, sales have rebounded in a similar fashion. Meanwhile, new listings have come down from recent highs.

Energy prices keep inflation high

Consumer prices continue to move higher, lifted by rising energy prices. Significantly higher gasoline and electricity prices pushed inflation to a four-year high of 3.5% in July before pulling back to 3.1% in August. Core inflation (excluding food and energy) has also accelerated to 2.2% in August from just around 1% in January. This has been largely driven by a pickup in service inflation amid rising transportation costs, mortgage interest rates, and food purchased from restaurants.

Business Sector

Manufacturing sales build momentum

Higher prices are supporting manufacturing shipments, which are gathering strength. Factory sales have surged since April to near pre-recession levels, lifting year-over-year growth to 13.7% in July and year-to-date growth to 6.5%. Petroleum and coal products are leading the way, bolstered by higher prices and a ramp up in production at refineries following maintenance-related shutdowns. Food manufacturing sales have risen to new highs, while wood and paper products remained close to record levels due to higher prices and strong demand. Primary metal shipments have also gained ground, partly reflecting US tariffs on steel and aluminum.

Rising oil production lifts energy exports

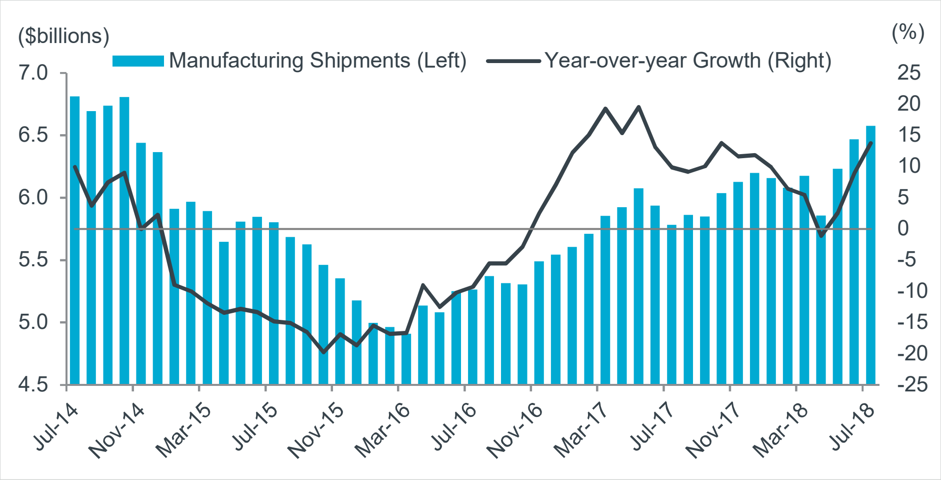
Higher oil prices and growing oil production are propelling energy exports. The value of energy exports has risen steadily since February, reaching a year-over-year growth of 48% in July. A ramp up in bitumen output, which hit a record high of 1.9 million barrels per day, combined with strong year-over-year gains in conventional light and medium oil and condensate production have driven the increase. Meanwhile, synthetic crude production has been weighed down this year by maintenance and unplanned shutdowns. In contrast, natural gas exports continue to languish as depressed prices have shifted activity away from natural gas into natural gas liquids and light oil.

Solid business activity boosts imports

Alberta's merchandise imports are surging this year on the back of strengthening business activity. The value of merchandise imports has risen 20% through the first seven months of the year, led by imports of chemicals, plastics and rubber products. Other business-related categories such as industrial machinery and electronics and electrical equipment have also started to grow. Additionally, imports of metal and non-metallic mineral products are posting strong gains, partially reflecting higher prices. Despite the surge in imports, strong export growth is keeping Alberta's trade balance significantly positive.

Chart 2: Manufacturing sales gathering momentum

Year-over-year growth and value of Alberta manufacturing shipments



Source: Statistics Canada

Outside Alberta

Tariff actions hitting global trade

Rising protectionist measures have started to weigh on global trade. Following strong gains in the past two years, global trade volumes stalled in the second quarter of the year. Exports grew at a sharply slower pace in developing countries and even fell in Latin America (-1.7% q/q) and emerging Asia (-0.7% q/q). Similarly, global manufacturing orders dipped in July to two-year lows amid slowing global demand.

EME currencies under pressure

Currencies in some emerging market economies (EMEs) remain under pressure amid heightened trade tensions and rising US interest rates. EMEs with relatively large current account and fiscal deficits and significantly large proportion of USD denominated debt are being hit particularly hard. The Argentinian peso (-52%) and the Turkish lira (-39%) collapsed since mid-January. Brazil, Russia, India and Indonesia have seen their currencies depreciate between 10%-20%, while the Chinese yuan fell around 5%. So far, the impacts of these currency depreciations have been contained.

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InFocus

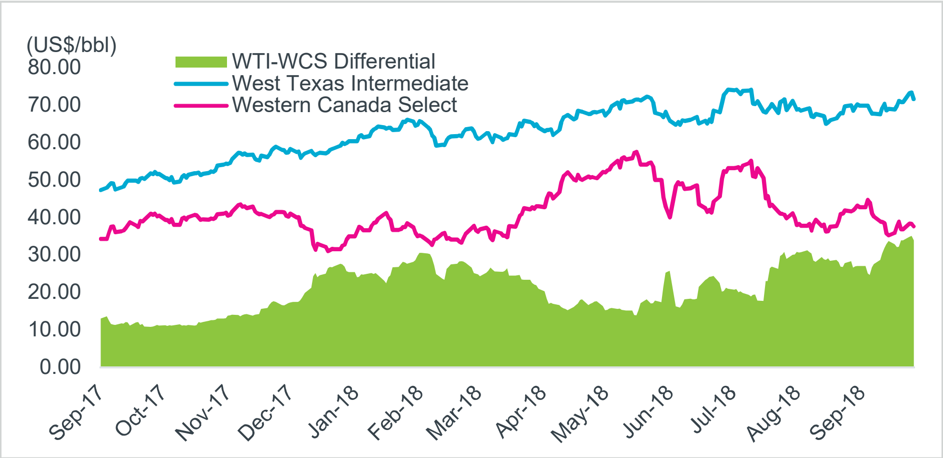
Resurgence of Crude by Rail

Canadian shipments of crude oil by rail have once again surged to record levels following a subdued period. Recently completed oil sands projects and expansions have come online. With additional production exceeding takeaway pipeline capacity out of Western Canada, this is leading producers to increasingly rely on rail to get their oil to market. This InFocus is about the return of crude by rail.

Pipeline bottlenecks widen differential

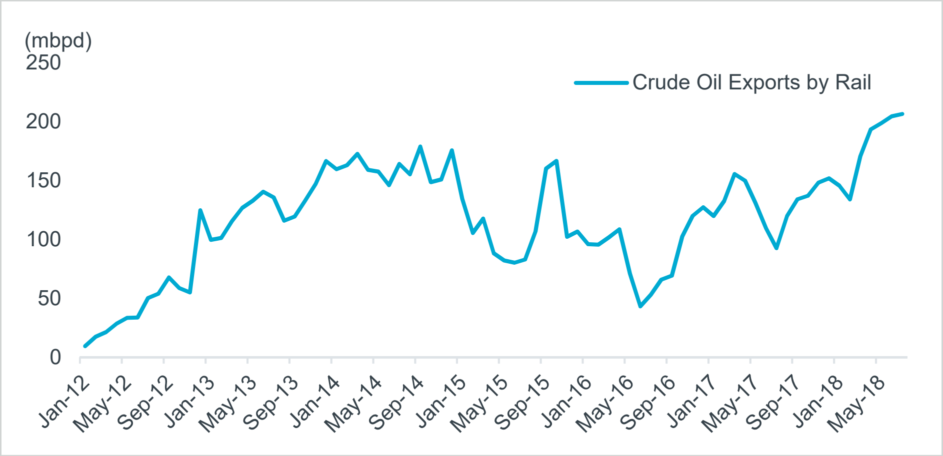
Although crude oil prices have gradually improved since the low in early 2016, Alberta producers have not fully capitalized on these gains. Expanding production from the oil sands has maxed out existing pipeline capacity out of Alberta over the past year, resulting in a wider differential between the West Texas Intermediate (WTI) benchmark crude price and the heavy Western Canada Select (WSC) blend. This differential has increased from about US$11/bbl in September 2017 to nearly US$30/bbl in September 2018 (Chart 1).

Chart 1: Pipeline bottlenecks leads to wider differential
Oil prices



Source: U.S. Energy Information Agency, Kent Group Limited/Haver Analytics

Chart 2: Crude by rail shipments surge to new heights
Canadian crude oil exports by rail



Source: National Energy Board

More barrels shipped by rail

With finite pipeline space and surging Albertan crude oil production, the wider differential has once again made it economical for producers to ship their additional barrels to market by rail. In the first six months of 2018, Canadian crude oil by rail (CBR) exports swelled by 31% compared to 2017. Since April, CBR shipments to the US have exceeded the previous peak in 2014. In June, they hit over 200 thousand barrels per day (mbpd) (Chart 2).

Rail has continental reach

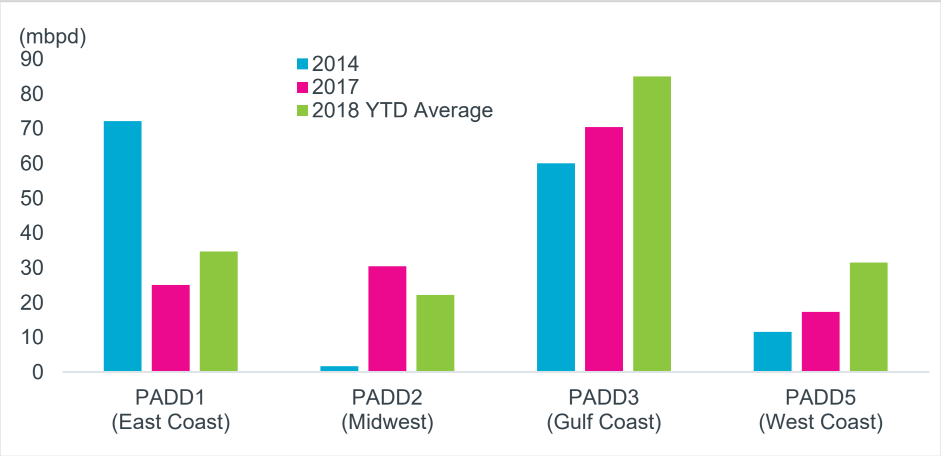
Rail lines criss-cross all of North America and can access areas that are poorly serviced by the existing pipeline network. Currently, US East and Gulf coast regions have limited pipeline access to continental North American crude oil, while the US West Coast, especially California, is nearly completely isolated. Rail offers increased access to more tidewater ports than the pipelines. As an example, in January about 250,000 barrels of Canadian crude was loaded from a train onto a ship in Portland, OR bound for Asia.

Gulf Coast heavy refiners take 50% of all CBR

A key market for Alberta's heavy crude is the US Gulf Coast (USGC or Petroleum Administration for Defense District (PADD) 3), the second largest heavy oil market in the world. There have been a number of recent pipeline reversals from the US Midwest (PADD 2) to USGC, resulting in more oil flowing to USGC by pipeline. However, many USGC refineries continue to process CBR. CBR to this region has increased 18% in 2017 from 2014, and risen a further 13% year-to-date (YTD) in 2018.

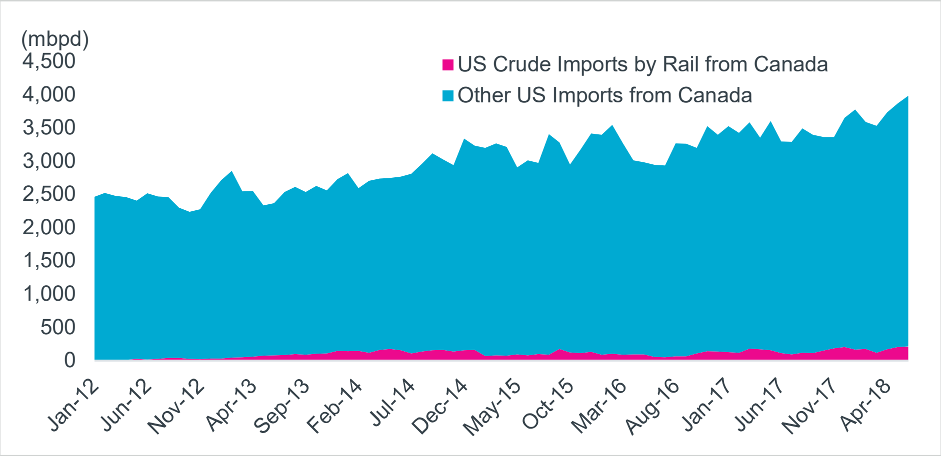
The wide differential between WCS and Mexican Maya, an international heavy crude benchmark with tidewater access, is encouraging rail shipments from Alberta to the USGC. This heavy differential essentially represents the cost of moving a heavy barrel to PADD 3 and this has averaged above US$15/bbl so far in 2018. Roughly half of CBR is destined for PADD 3, which is nearly a fifth of Canada's total exports to PADD 3. Along with rising US domestic production, growth in Canadian CBR exports has helped the USGC to replace declining Venezuelan and Mexican heavy production. USGC imports of heavy sour Mexican and Venezuelan crude have fallen by about a third since 2010, making room for Canadian heavy oil.

Chart 3: Shipments to most PADDs off the rails
US receipts by rail from Canada of crude oil, by PADD*



Source: U.S. Energy Information Agency
* Petroleum Administration for Defense District; CBR processed in PADD 4 unavailable

Chart 4: Vast majority of crude exported by pipeline
US crude imports from Canada, rail vs pipeline*



Source: U.S. Energy Information Agency; * includes deliveries from tanker and truck

Strong growth to the US West Coast

Most of the recent growth in CBR has been to the West Coast (PADD 5) (Chart 3). In the first half of 2018, CBR to PADD 5 has more than doubled the previous year, and in June hit a record high of 44 mbpd. There are several refineries in Washington State and California with CBR capacity. Shipments to PADD 2 have been solid this year. There has also been a pick-up in CBR headed to the US East Coast (PADD 1) this year, although it remained below 2014 levels. Meanwhile, the smallest US refining area, Rocky Mountain (PADD 4), has had little change in CBR shipments as demand is fulfilled by pipeline deliveries.

CBR makes up a fraction of crude shipped

Despite all the recent growth in CBR, shipments remain a small fraction of total crude oil exports (Chart 4), as well as freight moved by Canadian rail companies. There are unloading capacity constraints; not all rail terminals in the US can handle heavy oil. In addition, rail capacity constraints have been identified in terms of the availability of locomotives and crews in Western Canada. Recently there are signs of investment starting to tick upwards with Canadian rail companies announcing increased spending, oil sands producers signing long-term rail contacts and expansion work underway at one of Canada's largest CBR terminals in Hardisty, AB.

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