

# Economic Trends

April 2023

Global economic activity continues to be resilient despite higher interest rates. Employment gains remain robust in many countries, and recent surveys indicate that the service sector is expanding. Meanwhile, inflation has moderated in most countries, and although core inflation is still elevated, the pace of interest hikes has slowed. In Alberta, momentum has continued. Employment gains accelerated in the first quarter as surging migration supported hiring. Robust population growth and growing momentum in the labour market are propping up retail sales and the housing market. Energy sector activity remains strong, and even though lower prices are weighing on the value of business output and construction spending, the level of activity remains solid.

## Services sector buoys activity

An expansion in the services sector is propping up global economic activity. The global composite Purchasing Managers Index (PMI) improved to a nine-month high of 53.4 in March, the fourth consecutive monthly increase. The index was also above 50 for the second month in a row, signalling expansion. Growth was largely driven by the services sector, while manufacturing activity continued to decline but at a slower pace. Despite tentative signs of improvement, the outlook for the global economy remains muted as the impact of higher inflation and interest rates continues working its way through the economy. The International Monetary Fund (IMF) is expecting global growth to slow to 2.8% this year, one of the weakest years of growth outside 2020 (COVID) and 2009 (The Great Recession). Growth is expected to rise to 3% in 2024 but remain below its historical average.

## Monetary tightening slowing

After unprecedented rate hikes last year, many central banks have slowed or paused their monetary tightening in response to cooling inflation (Chart 1). The Bank of Canada (BoC) held its policy rate at 4.5% in the last two meetings following a 25 basis points (bps) rate hike in January. Meanwhile, the U.S. Federal Reserve is continuing to raise rates, but at smaller increments (25 bps) after outsized rate increases last year. Despite the moderation in pace, many central banks are reiterating that persistent core inflation means interest rates need to stay restrictive for longer.

## Strength in the energy sector

Activity in Alberta's energy sector continues at a strong pace. The momentum in drilling has extended into 2023, with the number of rigs drilling up 8% year-over-year (y/y) in March

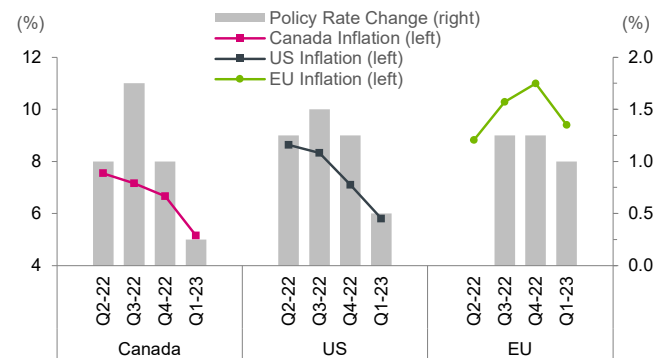
## KEY INDICATORS (AS OF APRIL 30, 2023)

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	Feb	2.5%	-3.2 p.p.
Employment (thousands)	Mar	2,445	+4.0%
Unemployment Rate	Mar	5.7%	-0.5 p.p.
CPI Inflation (unadjusted)	Mar	3.3%	-3.2 p.p.
Retail Sales	Feb	\$8.5 B	+8.6%
Housing Starts (annualized)	Mar	26,843	-16.3%
Rigs Drilling (unadjusted)	Mar	154	+8.1%
Manufacturing Shipments	Feb	\$8.8 B	+1.5%
Exports (unadjusted)	Feb	\$13.9 B	+1.9%

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

## CHART 1: FEWER INTEREST RATE HIKES AS INFLATION SLOWS

Quarterly average inflation (y/y) and change in target rates



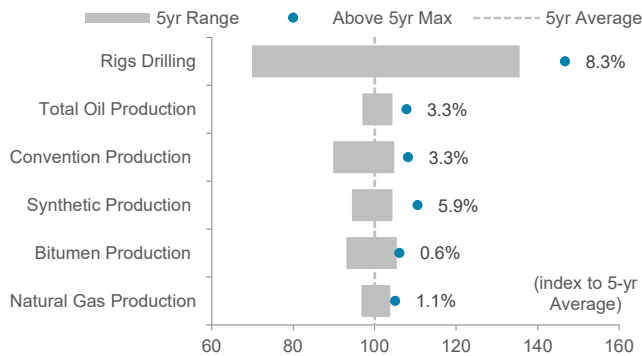
Sources: Federal Reserve, European Central Bank, BoC, BLS, EUROSTAT, Statistics Canada and Haver Analytics

and at the highest seasonal level since 2014. The strength in drilling activity over the last year has supported gains in conventional oil production, which rose to its highest level since mid-2018 in February. Meanwhile, efforts to increase efficiencies, debottlenecking and modest expansions have also lifted non-conventional production (Chart 2). Bitumen

output has continued at seasonal record levels, while synthetic production has rebounded following multiple outages and maintenance issues. Production of natural gas and natural gas liquids has also been strong. Conventional gas well production, which accounts for most of the overall natural gas production in the province, was up 3.4% y/y to 11 billion cubic meters in March.

**CHART 2: ALL MEASURES OF ENERGY OUTPUT ABOVE 5-YR RANGE**

Measures of energy output indexed to 5-year average



Sources: CDAO, AER, Treasury Board and Finance

**Prices weighing on business output**

After expanding rapidly last year, the value of Alberta’s exports and manufacturing shipments has moderated over the past several months. The recent pullback is almost entirely due to falling price levels, as the volume of exports and shipments has held relatively steady. Lower prices for oil and energy products account for a significant portion of the decline. Energy exports are down 34% from the August 2022 peak, and manufacturing shipments of petroleum and coal products have pulled back and were lower than a year ago in February. The value of non-energy output has also been pulled down by lower prices. The weakness has been concentrated in basic & industrial chemicals and forestry & building materials, which have seen the largest price declines. After reaching a record high in October, the value of Alberta’s non-energy exports has declined. Manufacturing sales excluding petroleum and coal products have also eased, with year-over-year growth falling from 26% in 2022 to nearly 4% in February.

**Construction spending moderating**

Spending on non-residential building construction appears to be easing in line with moderating costs. Seasonally adjusted private (commercial and industrial) non-residential building

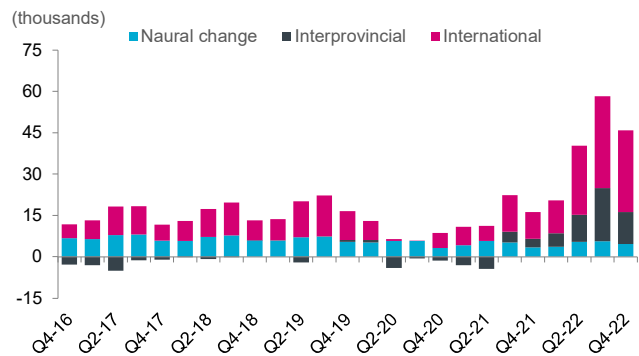
investment in Alberta grew around 5% year-over-year in February, a sharp moderation from last year’s double-digit gains. Investment fell for the fourth consecutive month and was down 1.4% from its recent high in October 2022. The moderation in year-over-year growth comes as growth in construction costs have decelerated. Non-residential building construction costs in the province rose 8.6% year-over-year in the fourth quarter of 2022, the slowest annual pace since the fourth quarter of 2021. Quarterly growth also decelerated to 0.8%. Despite the moderation, construction costs remain significantly higher than pre-COVID 2019 levels.

**Alberta’s population is surging**

Alberta’s population continues to expand at a rapid pace. As of January 1st, Alberta’s population was 4,647,178, up 45,864 or 1.0% from the beginning of October. This was the largest fourth quarter growth since 1980. The increase was led by surging international migration (29,680) (Chart 3) and boosted by near-record net inflows of non-permanent residents (21,020). Alberta also continued to attract Canadians from other provinces, posting the largest net interprovincial gain of all provinces/territories in the fourth quarter (11,534). With the surging migration and the highest natural growth rate among the provinces, Alberta’s quarterly population growth continued to lead the country.

**CHART 3: STRONG MIGRATION BOOSTING POPULATION**

Alberta’s net interprovincial, international migration



Sources: Statistics Canada and Haver Analytics

**Consumer activity holding up**

Consumer activity remains solid in the province despite higher interest rates. Retail sales have increased in four of the five previous months and were up 8.6% y/y. Restaurant sales continue to move higher and hit an all-time high in January. While both have been boosted by higher prices, estimates of real spending are also up in 2023. Alberta’s resale housing



market is also holding steady, with sales and average resale prices staying above pre-COVID levels. While the strength in consumer activity is being supported by Alberta's strong population growth and labour market, consumer sentiment is also improving with cooling inflation and interest rates leveling off.

### Services continue to lead job gains

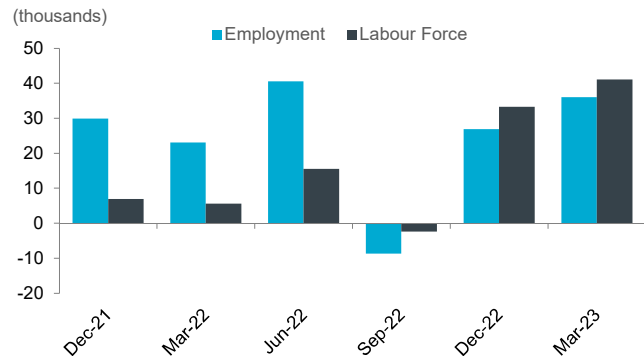
Employment in the province has gained momentum. In the first three months of the year, employment increased by 36,000, up from the 27,000 gains in the last three months of 2022. The acceleration was largely due to the continuing strength in the services sector, with health care, transportation & warehousing, finance, insurance & leasing, and professional, scientific & technical services reaching new highs. Professional, scientific & technical services was particularly strong, accounting for about three quarters of the service sector gains over the last year. The ongoing strength in the service sector has been joined by an improvement in the goods sector. Employment in the sector increased after reaching 11-month lows in November 2022, led by gains in the manufacturing sector, which exceeded pre-COVID levels for the first in February.

### More Albertans joining the labour force

Alberta's strong employment prospects are drawing more people into the labour market. From December to March, the province's labour force surged by 41,100 (+1.6%) the largest percentage increase since March 2007 (Chart 4). This was propped up by Alberta's staggering population growth and a steady participation rate, which averaged 70.1% in Q1, up from 69.5% in the previous quarter. Even with more people entering the work force, the unemployment rate improved from 6% in January to 5.7% in March as employment growth began catching up to the swelling labour force. In addition, there were still roughly 94,000 job vacancies in February, well above pre-COVID levels.

### CHART 4: LABOUR MARKET BUILDING MOMENTUM

3-month change in employment and labour force



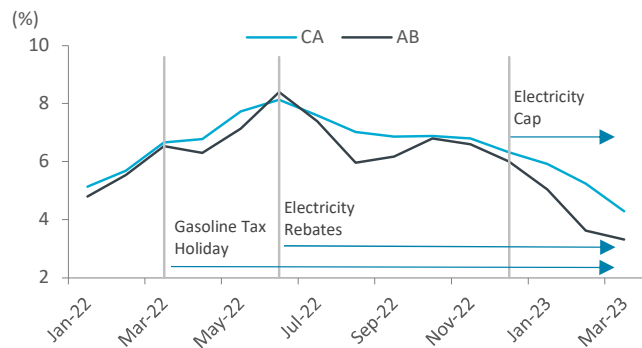
Sources: Statistics Canada and Haver Analytics

### Lower energy prices helping to cool inflation

Consumer inflation in Alberta continues to fall. After peaking at 8.4% in June 2022, inflation has slowed in seven of the last nine months to 3.3% in March. The significant slowdown is largely due to lower energy prices, reflecting both base-year effects and the impact of the province's affordability measures. Retail prices for both gasoline and natural gas were significantly lower than a year ago. The pause in the collection of the provincial fuel tax last in April 2022 also contributed to the y/y decline. Meanwhile, the electricity rebate program and rate cap more than offset higher electricity prices so far in 2023. Food inflation has also slowed (from 10% y/y in December to 8.4% y/y in March), as the monthly increases have moderated from the large gains seen in 2022. Core inflation (all items except food and energy) has cooled but remains elevated, exceeding headline inflation in the first quarter.

### CHART 5: AFFORDABILITY MEASURES MODERATING INFLATION

Headline inflation rate



Sources: Statistics Canada and Haver Analytics

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