Economic Trends

June 2024

Alberta's economy appears to be gaining some momentum, boosted by record setting population and expanding pipeline capacity. The Alberta Activity Index jumped 2.7% in April, with broad-based gains across sectors. Sentiment has improved, but small businesses remain cautious and private investment has held steady. With the strong population growth, Alberta's housing market remains tight. However, the pace of employment growth has eased off recently, and consumers continue to show restraint. Inflation pressures are subsiding in Alberta and across the globe. Central banks have started to cut interest rates amid the slowing inflation and moderating growth.

KEY INDICATORS (AS OF JUNE 28, 2024)

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	Apr	4.1%	+4.1 p.p.
Employment (thousands)	May	2,517	+2.7%
Unemployment Rate	May	7.2%	+1.5 p.p.
CPI Inflation (unadjusted)	Apr	3.0%	0.0 p.p.
Retail Sales	May	$8.7 B	+3%
Housing Starts (annualized)	Apr	48,185	+32%
Rigs Drilling (unadjusted)	May	93	19%
Manufacturing Shipments	Apr	$8.6 B	+2.4%
Exports (unadjusted)	Apr	$15.6 B	+18%

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

U.S. economy remains solid

While overall global economic growth is softening so far this year, the U.S. economy remains resilient. Real GDP growth slowed in the first quarter of 2024 to 1.4% quarter-over-quarter (q/q) annualized from 3.4% in the fourth quarter of 2023. However, the deceleration in growth was mostly due to smaller inventory accumulation and rebound in imports, which both reflect the strong level of domestic demand. Consumer spending remained robust, and private investment accelerated during the quarter. With resilient growth, the U.S. labour market remains tight, and consumer inflation has been slower to come down compared to Canada and the Euro area. The U.S. is expected to lead all advanced countries in economic growth this year.

Monetary policies starting to diverge

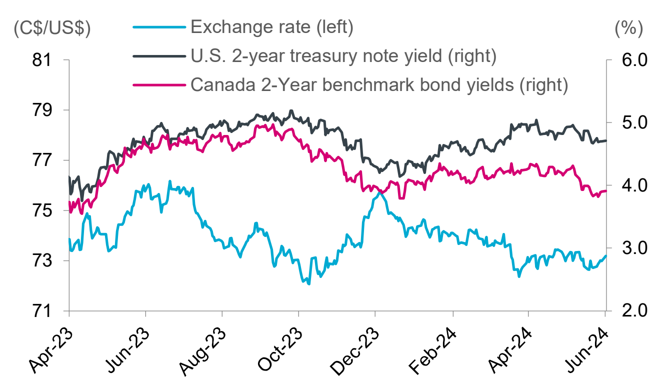
The path of monetary policy among major central banks has begun to deviate with differences in inflation and economic growth. Both the Bank of Canada (BoC) and the European Central Bank (ECB) trimmed their policy interest rates in June as inflation has moderated. In contrast, the U.S. Federal Reserve (Fed) has maintained the federal funds rate target range at 5.25% and 5.50% as inflation has been more persistent in the U.S. The divergence is likely to continue and expand as fewer rate cuts are expected from the Fed. While the difference in the policy rates has resulted in a wider spread between U.S. and Canadian short-term government bond yields, the Canadian dollar has stabilized against the U.S. dollar (Chart 1).

Alberta's business environment resilient

With the Bank of Canada cutting interest rates, small business sentiment is showing early signs of improvement in the province. In June, both the short- and long-term business barometer indices rose above 50, indicating that small businesses are optimistic about their performance in the near term. While sentiment has improved, past interest rate increases have led to increased financial stress among businesses. The number of business insolvencies (based on a 12-month running total) has moved higher and are up more than 20% YTD through April. The increase has been driven by a surge in proposals, while bankruptcies remain historically low.

CHART 1: SHORT-TERM BOND SPREADS WIDENED FURTHER

Exchange rate and 2-year government bond yields



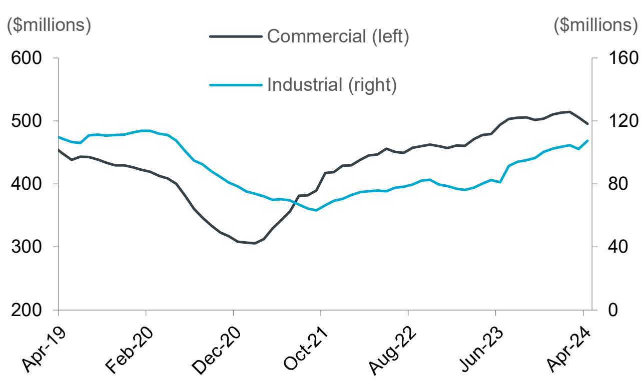
Sources: Bank of Canada, U.S. Treasury, Haver Analytics

Private investment holding up

Non-residential investment is maintaining its pace as a growing number of industrial projects are offsetting weakness in commercial investment. Private non-residential building construction has edged a bit lower after hitting a seven year high in February. Commercial building investment has slowed as ongoing weakness in office construction has been joined by lower level of investment in warehouse construction, coinciding with the completion of Amazon's $400 million warehouse. In contrast, industrial investment rose in twelve of the past fourteen months (Chart 2). Rising factory investment is the driver of this momentum as large projects such as McCain's potato plant, Air Products' hydrogen complex, and Imperial Oil's renewable diesel facility are underway. Furthermore, DOW's Path2Zero project and CGC's wall board manufacturing plant are breaking ground, providing support for future construction investment.

CHART 2: INDUSTRIAL INVESTMENT MAINTAINING MOMENTUM

Alberta non-residential building investment



Sources: Statistics Canada, Haver Analytics

Strength in the oil sector

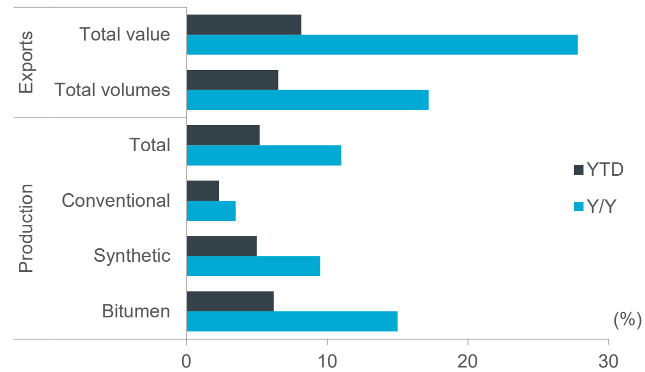
Alberta's oil production remains on an upward trajectory, bolstered by ongoing strength in drilling activity and robust exports. Alberta's total oil production edged down in April but continued to set seasonal records (Chart 3). Year-to-date (YTD) oil production was up 5.2%, as both non-conventional oil (+5.7% YTD) and conventional oil (+2.3% YTD) advanced. Robust drilling activity has supported strong oil production. Even with the spring break-up slowdown, the average number of active rigs continued to hold strong at 93 in May (+19% year-over-year or y/y). Record oil production also pushed energy exports higher even before the commencement of TMX. Energy exports started a strong year (+3.3% YTD) on the back of robust U.S. export growth.

Natural gas prices differential widens

The price of natural gas in Alberta is slumping. The western Canadian natural gas benchmark price AECO plunged over

CHART 3: STRONG GROWTH IN OIL PRODUCTION AND EXPORTS

Year-over-year (y/y) and year-to-date (YTD) growth in oil indicators"



Sources: AER, CIMT

the last six months and settled around C$0.70 per gigajoule at the end of June. At the same time, the North American natural gas benchmark Henry Hub price held steady, resulting in a large increase in the differential between the two hubs. While the differential often widens during the spring season, the increase this year has been large, as a confluence of factors resulted in oversupply conditions and a surge in inventories in Alberta. Foreign demand plunged with the mild winter, a surge in U.S. production, and the growing use of renewable energy. This happened right as Alberta producers ramped up production to make up for past disruptions and to take advantage of favourable market conditions from the ongoing conflict in Europe. The result has been a heavy discount for Alberta natural gas. The lower prices have supported export volumes while production has held up as companies continue to target lucrative liquids.

Labour market conditions continue to ease

A slower pace of employment gains is contributing to easing labour market conditions in the province. Alberta's year-over-year employment growth has slowed in the last three months, to 2.7% y/y in May, although it continues to outpace the national average. Job vacancies in the province have also pulled back for the seventh consecutive quarter. Cooling labour demand, along with rapid growth in labour supply, has pushed the unemployment rate above 7% in May. Despite the easing conditions, the pace of job creation (+3.5% YTD) and wage growth (+4.4 YTD) continue to be well above historical averages and job prospects remain solid, with the number of job vacancies still above pre-covid levels.

Exceptional population growth continues

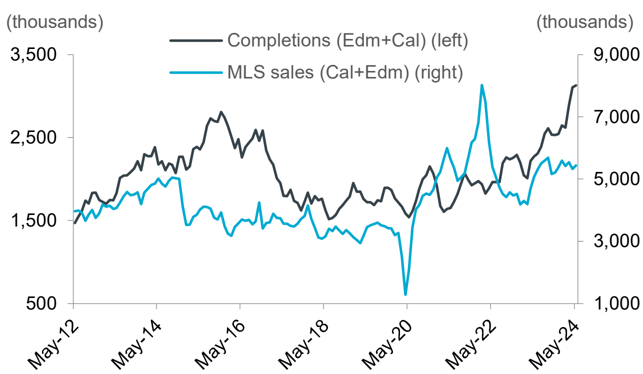
Alberta's population continues to surge. It expanded by 49,138 or 1.0% in the first quarter of 2024. International migration remained the leading source of growth, led by record setting first-quarter gains in non-permanent residents. Alberta continued to see significant migration from other provinces. Net interprovincial migration was the highest in the country for the seventh consecutive quarter. Over the past year, the province's population has expanded by over 200,000 people or 4.4%, the highest April 1 year-over-year growth rate since 1981 and the fastest among all provinces.

Strong demand keeps Alberta's housing market tight

Alberta housing market continues to be tight despite significant increases in supply. Sales of new homes have surged this year as the rapid pace of housing starts over the last 12 months has translated into a record number of completions. Over 15,000 newly built units were absorbed in Calgary and Edmonton during the first five months of the year, which represents at least 37% of total home sales in April. With the rapid absorption, the number of completed and unabsorbed units in Calgary and Edmonton declined in May after rising over the past seven months. Sales of existing homes also remain strong, and supply in the resale market remains limited, with the month's inventory at the lowest levels since 2007. Outsized population gains are expected to continue driving housing demand in the province, particularly for affordable units.

CHART 4: SURGING COMPLETIONS BEING ABSORD IN STRONG HOUSING MARKET

Completed units and MLS sales in Albeta major cities



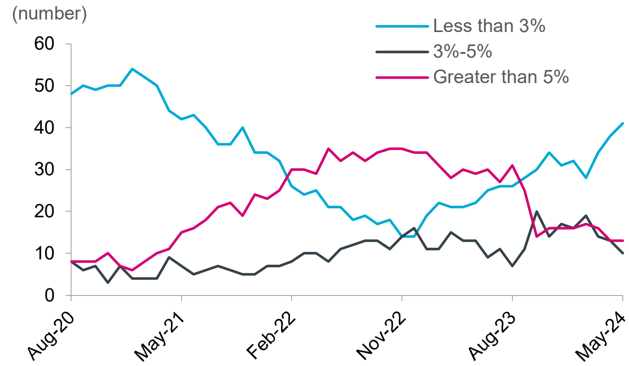
Sources: Statistics Canada, CMHC, Haver Analytics

Inflationary pressures moderating

While inflation remains elevated, underlying price pressures continue to ease. Food inflation is slowing and fell to 2.7% y/y in May, the slowest rate since July 2021. Energy inflation has also moderated with electricity prices, which were lower in May than a year ago for the first time since the affordability measures were implemented early in 2023. Deflation has also continued for both semi-durable and durable goods. Overall, the number of items with annual price growth less than 3% has increased notably over the last three months (Chart 5). Despite the easing pressure, core inflation has increased. It is being propped up by Alberta's tight housing market, which is pushing up shelter prices and inflation, particularly for owned accommodation and rent.

CHART 5: PRICE PRESSURES ARE MODERATING AND NARROWING

Number of CPI components by annual price growth



Source: Statistics Canada and Alberta Treasury Board and Finance calculations

Consumers continue to show restraint

Albertans are being cautious in the face of high prices, high interest rates and surging shelter costs. Retail sales have failed to keep pace with the population growth, and per capita sales have declined. The weakness remains contained to spending at gasoline stations and on discretionary items, including automobiles, furniture, electronics, and appliances. Excluding discretionary spending, per capita spending is holding up. The demand for staple goods reflects the magnitude and composition of Alberta's recent population growth, with solid sales at food & beverage, health & personal care, and general merchandise stores.

Residential construction takes a breather

In addition to slowing retail sales, the cautious approach by households is also weighing on residential investment. Despite a huge surge in housing starts, residential construction investment has fallen 13% since the start of the year. This is mainly due to a sharp pullback in renovation spending, which is down 15% y/y, lending further evidence to a pullback in discretionary spending. New construction investment has also dipped from record highs. However, the moderation is due to the record number of completions, as the number of building permits issued remains at record levels. Meanwhile, investment in conversions has skyrocketed this year, following strong growth in 2022 and 2023, as the number of non-residential to residential conversions doubled over the past two years.

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Have a question? Send us an email