

Economic Trends

April 2021

Alberta's economy showed resilience in early 2021 in spite of rising COVID-19 cases. Consumer confidence improved alongside the labour market, propelling housing and consumer spending. Business output continued to recover, but private non-residential investment remained lacklustre. Globally, expectations for the world economy have improved, but the third COVID-19 wave remains a headwind.

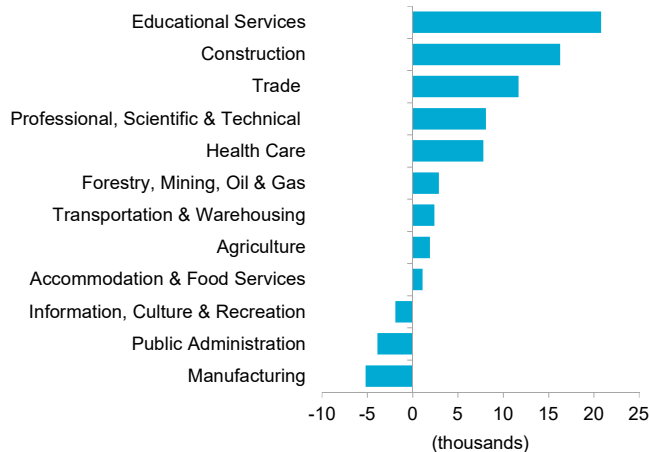
HOUSEHOLD SECTOR

Labour market improves

Alberta's labour market gathered momentum ahead of the third wave, but still has a ways to go. On a seasonally adjusted basis, the province added nearly 75,000 jobs between December 2020 and March 2021, reflecting broad-based gains. After slowing in late 2020, the services sector regained ground with strong hiring among essential services—in health care and education. Wholesale and retail jobs returned amid easing public health measures. Goods sector employment also picked up, led by construction, which benefitted from solid residential construction activity. However, some pockets of weakness remain (Chart 1). Manufacturing jobs continue to lag behind the recovery, reflecting muted activity outside of major manufacturing subsectors and continuing outbreaks at meat processing plants. Ongoing travel restrictions and health measures

CHART 1: BROAD EMPLOYMENT GAINS BUT POCKETS OF WEAKNESS REMAIN

Change in Alberta's seasonally adjusted employment, March 2021 vs. Dec 2020



Sources: Statistics Canada and Haver Analytics

KEY INDICATORS

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	Feb	-0.4%	-2.4 p.p.
Employment (thousands)	Mar	2,235	+3.3%
Unemployment Rate	Mar	9.1%	0.0 p.p.
CPI Inflation (unadjusted)	Mar	1.9%	+1.2 p.p.
Retail Sales	Feb	\$7.4 B	+10.0%
Housing Starts (annualized)	Mar	28,835	-12.2%
Rigs Drilling (unadjusted)	Mar	73	-3.2%
Manufacturing Shipments	Feb	\$6.1 B	-2.3%
Exports (unadjusted)	Feb	\$9.4 B	+6.4%

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

also continue to impact tourism-related sectors such as information and culture. While the unemployment rate declined to 9.1% in March, the lowest since the pandemic started, it remains the third highest among provinces. Labour underutilization also declined but remained above pre-pandemic levels.

Tighter conditions lift house prices

Alberta's housing market continued to strengthen in the first quarter of 2021. Low mortgage rates, savings and improved confidence in the outlook for personal finances have made housing upgrades affordable for either move-ups or first-time homebuyers, while the pandemic has shifted homebuyers' preferences towards bigger spaces. Home resales reached 7,758 units in March, the highest level on record. With growth across all home price ranges, sales of \$400,000-\$600,000 houses saw the biggest upswing, particularly in Calgary. As the increase in new listings failed to keep up with soaring demand, the months of inventory dropped to its lowest level since 2007 and average resale prices in larger cities posted strong growth. In the residential construction market, strong homebuilding activity coupled with rising costs for construction materials and supply chain delays lifted the house-only component of new home prices up 1.9% year-over-year (y/y) in the first quarter of 2021.

More discretionary goods spending

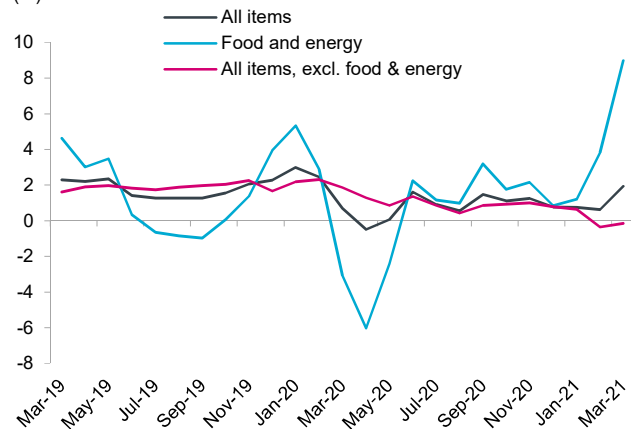
The recovery in consumer spending appears to be broadening in Alberta. The rebound in goods spending last year was contained in essentials and renovation-related categories, but with consumer confidence rebounding to pre-pandemic levels, it has started expanding to other discretionary items. Sales of motor vehicles and parts—the largest retail trade category—grew 17% y/y in February. However, sales of clothing and accessories, at gasoline stations and spending on services remain weak, reflecting pandemic-related impacts on travel, restaurants, and entertainment.

Headline inflation rises on food and energy

Consumer prices are on the rise, particularly for food and energy, but pandemic-induced weakness in other categories is keeping core inflation subdued (Chart 2). Headline inflation accelerated to 1.9% y/y in March, after staying below one percent in previous months. Energy prices surged (+29% y/y), reflecting the sharp decline in March of last year when the pandemic started and a strong pick-up in gasoline prices since December. Food prices have also risen in recent months. Excluding food and energy, core inflation remains weak, as consumers spend less on other categories amid public health measures and limited mobility.

CHART 2: FOOD AND ENERGY PROPEL HEADLINE INFLATION

Year-over-year growth in Alberta's Consumer Price Index (%)



Sources: Statistics Canada and Haver Analytics

Pandemic slows population growth

Alberta's population continued to grow at a slower pace, weighed down by rising COVID-19 cases and public health measures. It rose 0.78% year-over-year (y/y) in the fourth quarter of 2020, down from 1.65% in 2019. International migration dropped 44% y/y in the fourth quarter of 2020 amid ongoing travel restrictions, while net interprovincial outflows continued (-1,293). At the same time, a pandemic-inflicted increase in the number of deaths slowed natural increase.

Despite the slowdown, Alberta's annual population growth was the highest among provinces and above the national average (0.39%).

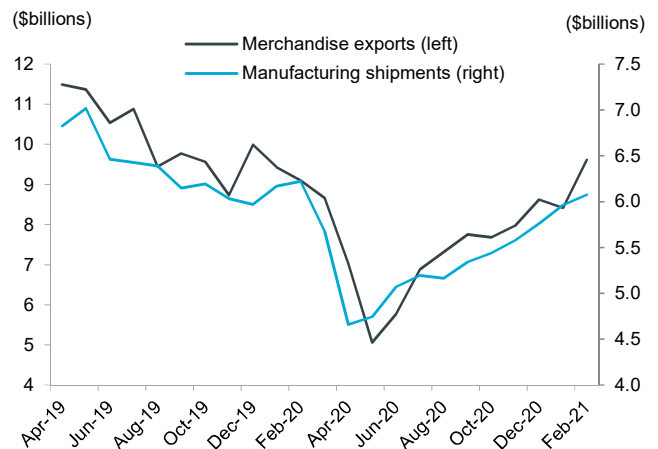
BUSINESS SECTOR

Business output recovery on track

Alberta's business output continues to recoup losses suffered from the pandemic as global demand recuperates (Chart 3). Manufacturing shipments have steadily moved higher since hitting a trough in April 2020 and have recovered over 90% of the lost sales between February and April last year. The gains have been concentrated in petroleum & coal and wood products, although chemical sales have picked up in recent months. Meanwhile, goods exports have also been recovering steadily and posted the first annual gain in twelve months in February. With rising global oil prices and petroleum demand in the U.S., energy exports led the growth. At the same time, some non-energy exports—agri-foods and forestry products—have climbed to near historic highs amid strong global demand.

CHART 3: BUSINESS OUTPUT RECOVERS STEADILY

Alberta's merchandise exports and manufacturing shipments, seasonally adjusted



Sources: Statistics Canada and Haver Analytics

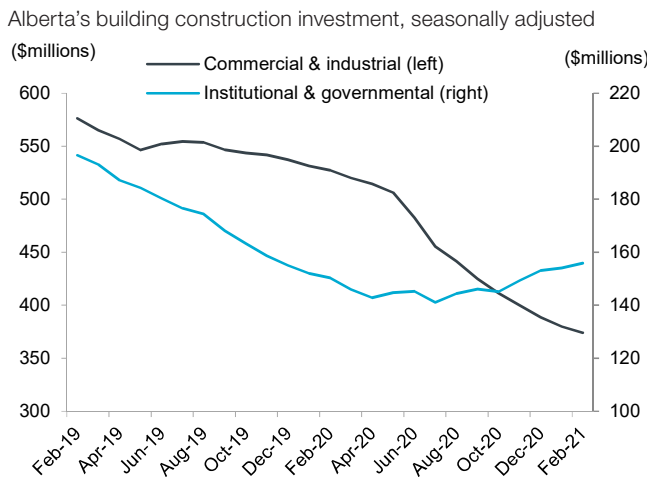
SCO drives output gains

Oil production in Alberta is almost back to pre-pandemic highs due to a speedy recovery in bitumen production. To maximize the product value in a recovering demand environment, operators are optimizing high-value synthetic crude oil (SCO) production. It accelerated and was up 10% year-to-date (YTD) through February. Conversely, conventional oil production remains weak with subdued drilling activity (-25% YTD through March) and despite oil prices almost back to pre-COVID levels. Overall, oil output in Alberta hit a historical peak in December 2020 and was up 0.7% YTD through February.

Private non-residential investment remains weak

Private investment in non-residential building construction remains near record low. Industrial investment has fallen consistently since the pandemic started, reflecting subdued construction and renovations activity across all regions in the province. The weakness in the commercial sector has been even more persistent, with construction spending down 27% YTD through February, driven by heavy declines in Calgary and Edmonton. However, there are encouraging signs of future improvement. The value of commercial building permits recorded its first annual growth in twelve months in February, propelled by an outsized gain in warehouses. The weakness in private investment has been tempered by institutional and governmental construction spending (Chart 4). The latter reached a fifteen-month high in February, buoyed by higher spending on new schools and government buildings.

CHART 4: DECLINES IN PRIVATE CONSTRUCTION TEMPERED BY GOVERNMENT SPENDING



Sources: Statistics Canada and Haver Analytics

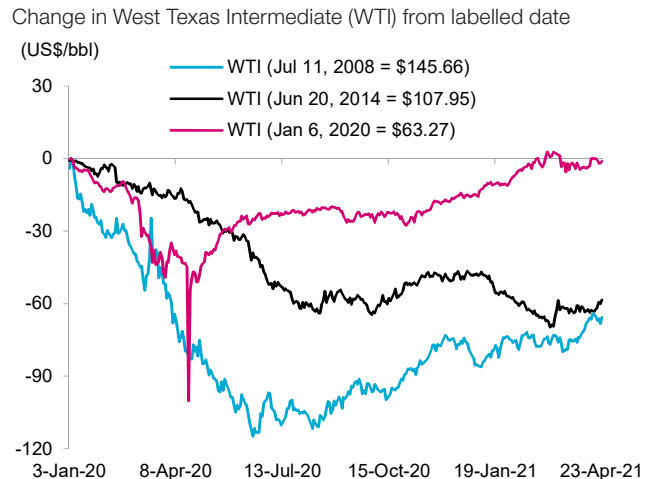
OUTSIDE ALBERTA

Global economic recovery ahead of expectations

Global economic prospects have improved amid vaccine rollouts and additional fiscal support in some economies. Despite the re-introduction of strict health measures as COVID-19 cases rise, the International Monetary Fund projects the global economy to grow 6.0% in 2021, an upgrade from its previous forecast. Although passenger travel remains subdued, global industrial production has rebounded strongly to exceed pre-pandemic levels, which, in turn, has boosted base metals prices. Global trade has been improving, although supply shortages and trade tensions remain a drag on recovery. While the Organization of the Petroleum Exporting Countries continues to manage global

oil supply, expectations on petroleum demand recovery in the U.S. and China have improved. Favourable market conditions have pushed global oil prices back to pre-pandemic levels (Chart 5), contributing to the strength of the Canadian dollar.

CHART 5: OIL PRICES HAVE RECOVERED FASTER THAN IN TWO RECENT DOWNTURNS



Sources: U.S. Energy Information Administration, CME Group and Haver Analytics

Monetary stimulus continues but loses urgency

In its latest Monetary Policy Report, the Bank of Canada (BoC) reiterated its commitment to keep policy rate on hold until economic slack is absorbed but began paring back its bond purchases. The BoC maintained its overnight target rate at a record low of 0.25%, unchanged since March 2020, recognizing that inflation is expected to rise temporarily over the next few months as a result of base-year effects. With vaccine rollouts, the Canadian economy showed resilience and the national real GDP forecast was upgraded to 6.5% in 2021. Given the improved outlook, the BoC now expects economic slack to be absorbed in the second half of 2022, earlier than previously expected. Additionally, it has started to phase out of its emergency federal government bond buying by bringing the weekly net purchases target to “up to \$3 billion”, down from “at least \$4 billion”.

Contact [Tatiana Gubanova](#) at 780.644.4366

