

Economic Trends

September 2022

Ongoing geopolitical disruptions and aggressive interest rate hikes around the world are creating significant headwinds for the global economy. Oil and other commodity prices have pulled back from elevated levels amid slowing global growth. Alberta's economy is well-positioned after a rapid expansion in the first half of 2022. Energy sector activity continues to be strong and businesses remain cautiously optimistic. However, there are signs of slowing momentum. Lower prices are weighing on the value of Alberta's output. Employment levelled off in the summer following solid gains in the first half of the year, even with tight labour market conditions. Consumer activity has also softened but remains stable, buoyed by large migration flows into the province. Alberta's housing market is also getting a boost from the expanding population and is faring better than other provinces.

Global interest rates rising rapidly

Central banks in the U.S., Canada, Europe and parts of Asia are ramping up their policy rates in response to high inflation. With supersized rate hikes in July and September, the U.S. Federal Reserve and the Bank of Canada have increased their policy rates by 300 basis points since March – the fastest pace since the 1980s. Central banks in Europe – including the European Central Bank and the Bank of England – have also started to respond with urgency and larger rate hikes to rein in soaring inflation (Chart 1). The global wave of aggressive monetary tightening has contributed to further deterioration in sentiment and raised concerns about a slowdown in the global economy, which in turn has led to sharp declines in asset and commodity prices in recent weeks.

PMI signals near term slowdown

Growth in global manufacturing activity continues to decelerate against a backdrop of elevated inflation and rising interest rates. The Global Manufacturing Purchasing Manager Index (PMI) dipped further in August to its lowest level since June 2020, but was still slightly above 50. This indicates that activity continued to grow, albeit at a slower pace. While the PMIs suggest that manufacturing activity rose modestly in U.S. and Japan, they indicate that many major economies, including the E.U., China and Canada, saw a contraction in August. The PMI's sub-components also pointed to a slowdown in industrial activity in the near term, with new orders declining at a faster rate and inventory continuing to rise amid weaker-than-expected sales.

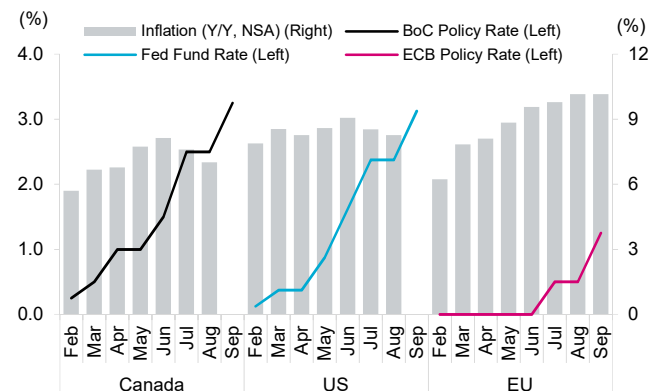
KEY INDICATORS

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	Jul	5.7%	-3.7 p.p.
Employment (thousands)	Aug	2,362	+5.1%
Unemployment Rate	Aug	5.4%	-2.5 p.p.
CPI Inflation (unadjusted)	Aug	6%	+1.2 p.p.
Retail Sales	Jul	\$8 B	+9.9%
Housing Starts (annualized)	Aug	33,586	+8.5%
Rigs Drilling (unadjusted)	Aug	155	+37.8%
Manufacturing Shipments	Jul	\$9.1 B	+26.3%
Exports (unadjusted)	Jul	\$18.6 B	+59.6%

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

CHART 1: CENTRAL BANK RAMPING UP INTEREST RATES AS INFLATION REMAINS ELEVATED

End of period policy rates and monthly inflation rate



Sources: Bank of Canada, Federal Reserve Board, European Central Bank, Statistics Canada, Bureau of Labor Statistics, Haver Analytics



Oil prices pull back

Oil prices have fallen significantly over the last four months. After peaking at over US\$120/barrel (bbl) in June, West Texas Intermediate (WTI) has consistently declined and is now trading around US\$80/bbl. Demand has been weaker than expected due to slowing industrial activity, rolling lockdowns and housing market troubles in China, and lower-than-expected gasoline consumption throughout summer in the U.S. Ongoing concerns about weaker economic growth and lower demand are currently outweighing tight supply.

Natural gas prices volatile

The western Canadian natural gas market has displayed increased volatility since mid-August due to pipeline restrictions and robust production levels. Alberta's natural gas benchmark price (AECO) has swung widely, reaching a high of C\$6.41/GJ and a low of negative C\$0.19/GJ. This is in contrast to the North American benchmark price, which has remained comparatively steady and elevated. The divergence reflects significant maintenance on both Nova Gas Transmission Line (NGTL) and West coast pipelines and restricted flows to the U.S. An outage at the Freeport LNG plant in Texas since June may have also reduced some demand for Canadian imports, and Alberta's monthly natural gas exports to the Midwest (-67%) and West Coast (-49%) regions in the U.S. plunged in July. In response, natural gas shipments to other Canadian provinces surged (+56%) and reached an all-time high in July. At the same time, injections into storage also increased to the third highest monthly level on record. Maintenance-related disruptions will continue into October and should subside in late fall.

Strong energy sector activity

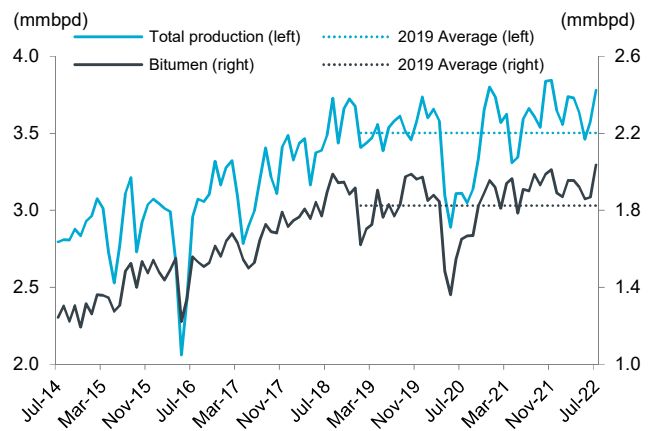
The energy sector continues to expand and maximize production despite the recent volatility in prices. Alberta's total oil production reached 3.8 million barrels per day in July, the highest level in 2022. The gain was led by bitumen production, which jumped 9.0% month-over-month (m/m) to reach an all-time high (Chart 2). Conventional production also remained strong in the month, holding at pre-COVID levels. Year-to-date (YTD) total production was up 2.5% and on pace to set a new annual record with gains in all types. Drilling activity remained robust. The number of rigs drilling increased in August to 155 and was at the highest seasonal level since 2014 for the fifth month in a row. With the eight months of solid drilling activity and gains into September, 2022 is likely to be the best year for drilling since 2014.

Crop exports temper softening prices

The value of Alberta's output appears to be easing after surging in the first half of the year. Manufacturing shipments

CHART 2: ALBERTA'S TOTAL OIL PRODUCTION REMAINS STRONG

Average daily production of total and bitumen production in Alberta



Source: Alberta Energy Regulator

have retreated from May's record levels as lower energy prices weigh on sales of petroleum and coal products. Similarly, the value of merchandise exports has moderated since hitting an all-time high in June, largely driven by a pullback in energy products. This has been partly offset by continued strength in exports of basic & industrial chemicals, as well as a rebound in farm, fishing and intermediate food products. The latter jumped in July on the back of the largest monthly increase in export volumes of wheat since the spring of 2015. The bounce back comes after depleted inventories and last year's dry weather conditions weighed on crop exports in the first half of this year. Despite the recent pullback, overall exports and manufacturing shipments were still up more than 60% and 30% YTD, respectively.

Businesses still optimistic but more cautious

Small business confidence has softened in recent months. Alberta's long-term Business Barometer Index (BBI) declined for the fourth consecutive month in September as the high cost of fuel and energy remained a top concern among small businesses. Despite the pullback, BBI remains above 50, an indication that business owners still expect their business performance to improve over the next year. Similarly, the Real-Time Local Business Conditions Index (RT-LBCI), an experimental statistic to measure business activity, has moderated in both Edmonton and Calgary for July. The number of business formations has also slowed after reaching record levels a few months ago, but was still up 16% year-over-year in August. Altogether, business sentiment indicators continue to indicate future growth at a more modest pace.

Employment takes a breather

After the strongest start to the year since 2006, employment stalled over the summer. Over the past three months, employment eased by 4,200 after gaining almost 66,000 jobs in the first five months of the year. The slowdown was concentrated in industries impacted by higher interest rates, elevated inflation and those struggling with high levels of job vacancies. Employment in the retail & wholesale trade sector has eased after peaking in May, while the recovery in accommodation & food services and other services has lost steam. Despite headline employment losing momentum, Alberta's labour market remains tight. Job vacancies continued to grow and reached a new high in Q2, while the unemployment rate averaged 5.0% over the past three months.

Tight labour market has not translated to wage gains

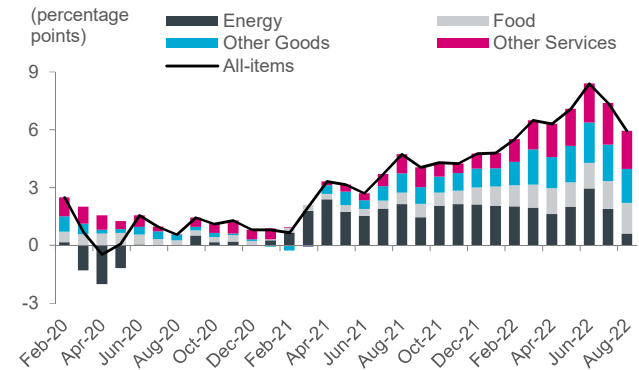
Despite the tight labour market conditions, wage growth continues to be lacklustre in Alberta. The average hourly wage in August (\$32.51) was up only 1.6% year-over-year (y/y), well below the pre-pandemic growth rate. The average wage continues to be dampened by the return of lower-paying jobs lost during the pandemic. They are also being held back as more higher-earning mature workers (55+) have left the labour force and have not returned. Despite the weak growth, average hourly wages in Alberta are still the highest among the provinces.

Headline inflation easing

Inflation is finally starting to recede after reaching a two-decade high in the spring. Alberta's headline inflation eased from 8.4% y/y in June to 6.0% y/y in August on the back of slower growth in energy prices (Chart 3). The introduction of the provincial electricity rebate in July was the main downward contributor to annual inflation. A sharp pullback in global oil prices, along with the temporary pause in the collection of the provincial fuel tax and lower gasoline retailer margins, also offered consumers additional relief. However, food prices continued to accelerate, driven by extreme weather, higher input costs, supply chain disruptions, and the war in Ukraine. Core inflation (all items except food and energy) pulled back to 4.9% y/y in August. Durable goods inflation slowed as higher interest rates and weaker consumer confidence dampened demand for some discretionary goods, while services inflation started moving lower after hitting a 14-year high in July.

CHART 3: HEADLINE INFLATION COOLS WITH LOWER ENERGY PRICES

Contribution to Alberta's headline consumer inflation



Sources: Statistics Canada and Alberta Treasury Board and Finance calculations

Consumer activity holding up

Consumer activity continues to soften but remains solid in the province. Alberta's resale housing market cooled further in the summer, but the slowdown has been mild relative to other provinces, and sales in the province are still higher than any level from 2015-2020. Housing starts have also begun to moderate from the torrid pace seen in the spring and early summer. While retail sales (excluding gasoline stations) have retreated in recent months, air travel and restaurant sales continue to pick up. The latter reached new all-time highs in June and July, reflecting higher prices and pent-up demand from the pandemic. While shifts in consumer activity have continued following COVID, overall activity has remained strong, supported by a rapidly growing population. In the second quarter of 2022, Alberta welcomed a net of 25,000 international migrants and nearly 10,000 interprovincial migrants to the province. This lifted Alberta's annual population growth to 2.2% in the 2022 census year, the fastest pace since 2014.

Contact Robert Van Blyderveen at
TBF.ERFPublications@gov.ab.ca