

# Economic Trends

Business output in Alberta continues to pick up amid higher oil prices, growing oil production and robust growth in the US. The value of goods exports is approaching pre-recession levels, while resale housing activity is improving after weakness earlier in the year. Steady job gains have also led to a steady improvement in the unemployment rate. However, solid business activity has yet to translate into renewed construction spending in the private sector, which continues to lag.

## Alberta Household Sector

### Goods sector lifts employment

Alberta's labour market continues to advance, albeit at a more sedate pace. Job gains have moderated, with the province adding an average of 1,300 jobs a month in the first half of the year, compared with an average monthly gain of 4,600 overall in 2017. While goods sector employment continues to move higher, the pace of hiring in the service sector has slowed after expanding throughout the recession.

## Key Indicators

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	May	+2.9%	-7.0 p.p.
Employment (thousands)	June	2,328	+1.5%
Unemployment Rate	June	6.5%	-1.0 p.p.
CPI Inflation (unadjusted)	June	2.8%	+2.3 p.p.
Retail Sales	May	\$7.0 B	+3.7%
Housing Starts (annualized)	June	26,137	-15.9%
Rigs Drilling (unadjusted)	June	106	+21.2%
Manufacturing Shipments	May	\$6.3 B	+3.3%
Exports (unadjusted)	May	\$10.2 B	+15.3%

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

With modest job gains and the participation rate coming down, the unemployment rate has averaged about 6.4% in the first half of 2018 following a dramatic drop in the second half of 2017.

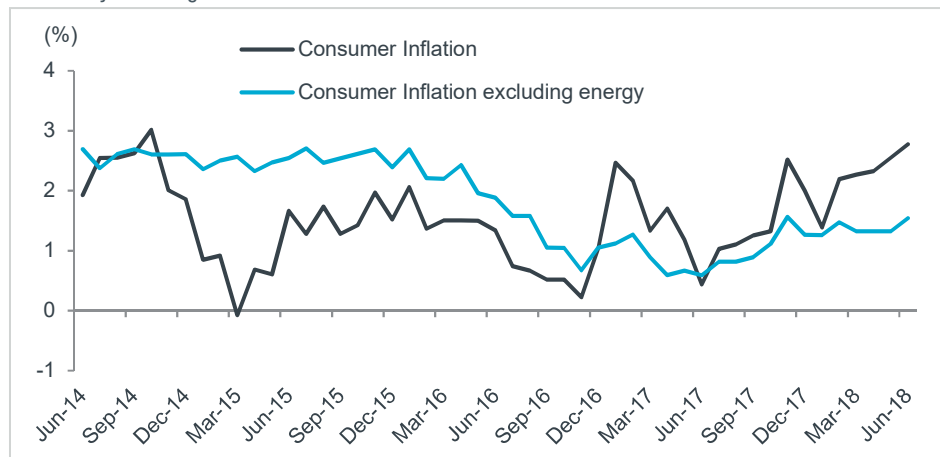
### Resale activity improving

The resale housing market is showing signs of improvement. Both home sales (+2.8%) and the average resale price (+1.3%) ticked up for

the second month in a row in June. The improvements came on the heels of slumping sales and prices in the first four months of 2018, spurred by mortgage rule changes that took effect in January. The recent improvement has been led by Calgary, while sales in Edmonton and the rest of the province have been relatively flat. Even with activity picking up, housing inventories remain elevated.

## Chart 1: Rising energy prices lifting consumer inflation

Year-over-year change in Consumer Price Index



Source: Statistics Canada

## Energy prices drive inflation higher

Consumer inflation has accelerated with higher energy prices. Alberta's inflation rate rose to 2.8% in June, the highest level since October 2014. The increase has been driven by gasoline prices, which have surged over the last twelve months from about \$0.90/liter to more than \$1.25/liter in June and were just below the 2008 highs. Electricity prices have also risen and are up more than 23% from a year ago. Excluding energy, inflation remains contained at 1.5% (Chart 1).

## Alberta Business Sector

### Broad-based strength in business activity

Business output in the province has bounced back following temporary softness earlier in the year. Growing oil production and higher oil prices pushed the value of energy exports close to a three-year high of \$7.2 billion in May. Non-energy exports are at record high levels due to broad-based gains. Sales of manufactured goods continue to be bolstered by growth in the value of petroleum and coal shipments, which rose 25% month-over-month (m/m) following seasonal refinery outages in April. Excluding petroleum and coal, shipments saw substantial gains (+3.7% m/m) led by wood, paper, and food products. In particular, the forestry sector continues to be supported by robust demand and higher prices. Wholesale trade also jumped in May to overtake the previous high set in October 2014.

### Resurgence in crude by rail

With crude oil production exceeding pipeline takeaway capacity, oil producers have increasingly utilized railcars to transport their output to refinery markets across North America. Exports of crude by rail set a new record of nearly 199 thousand barrels per day (bpd) in May, up over 50% from last year (Chart 2). While the US Midwest remains Alberta's main export market, crude by rail exports to the US Gulf Coast (USGC) jumped in the last two months to reach a record high of in May. Despite the surge, crude by rail volumes remain quite modest in relation to Alberta's total production of nearly 3.4 million bpd.

### Ongoing weakness in private sector non-residential construction spending

Solid business activity in the province has yet to translate into renewed construction spending in the private sector. Investment in non-residential building construction continues to be weighed down by weakness in commercial structures, which has fallen to the lowest level since the third quarter of 2010. Elevated commercial real estate vacancy rates, especially in Calgary, are weighing on commercial spending. Industrial sector investment appears to have turned the corner, as it rose in the last two quarters on the back of exceptionally strong gains in Edmonton. Meanwhile, institutional and

governmental building investment has eased somewhat but continues to be elevated. Non-residential building investment was down 9.2% through the first two quarters of the year.

## Outside Alberta

### US economy outperforms

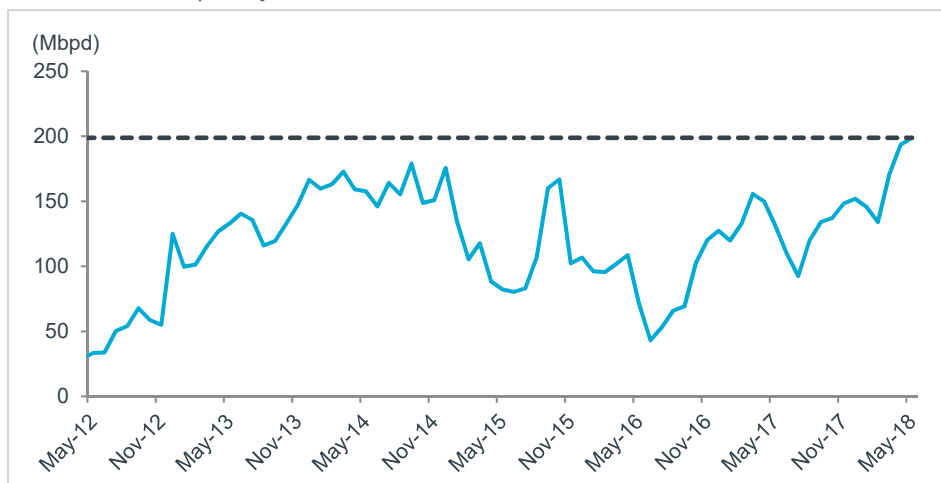
After a relatively modest start to the year, the US economy regained momentum in the second quarter of 2018. US real GDP grew at an annualized rate of 4.1%, reflecting robust growth in consumer spending, business investment and exports. In contrast, while growth in many advanced and emerging market economies remains solid, it has slowed, pointing to a less synchronized global expansion. This divergence has emerged amid rising US interest rates, stronger oil prices and increased trade uncertainties.

### Currencies weaken against USD

The strength of the US economy vis-à-vis other economies and a faster pace of monetary tightening in the US have contributed to the strengthening of the US dollar. The trade-weighted exchange rate for the US dollar has appreciated over 5.5% since mid-April. In contrast, currencies in some advanced and emerging markets have been under pressure recently, largely reflecting the impact of widespread geopolitical and trade-related uncertainties and significant repatriation of corporate profits to the US. The Chinese yuan dropped roughly 8.8%, while the euro fell in excess of 5% between March and July. The loonie has also fallen 3.0% against the US dollar since April, despite the strength in oil prices.

**Chart 2: Crude by rail exports surge to record high**

Canadian crude oil exports by rail



Source: National Energy Board

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