

Economic Trends

The recovery in the Alberta economy has lasted well into the new year, despite moderation in some areas. Population growth has picked up amid ongoing strength in the labour market. Employment in the first quarter exceeded pre-recession levels and the unemployment rate declined markedly. Alberta's manufacturing sales have been rising, continuing a trend that began in mid-2016. There were some pockets of softness in the economy, such as a modest cooling in the housing market and continued weakness in non-residential investment. This month's *inFocus* looks at the role the energy sector plays in the economy.

Household Sector

Population growth improves

Alberta's population growth continues to pick up, supported by net inflows of inter-provincial migrants. After dipping to a 23-year low in the second quarter of 2017, the year-over-year (y/y) growth in population increased to 1.4% in the fourth quarter, up from 1.3% y/y in the previous quarter. Net interprovincial migration stayed positive for the second quarter in a row, a turnaround from two years of outflows. Alberta's population growth was also boosted by the highest

Key Indicators

Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	February	+2.5%	+0.3 p.p.
Employment (thousands)	March	2,325	+1.8%
Unemployment Rate	March	6.3%	-2.0 p.p.
CPI Inflation (unadjusted)	March	2.3%	+0.9 p.p.
Retail Sales	February	\$6.7 B	+0.7%
Housing Starts (annualized)	March	26,972	-22.6%
Rigs Drilling (unadjusted)	March	142	-4.0%
Manufacturing Shipments	February	\$6.2 B	+8.7%
Exports (unadjusted)	February	\$7.9 B	-3.0%

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

rate of natural increase among provinces and solid international migration.

Self-employment boosts job gains

A marked increase in self-employment has helped to sustain job growth into the new year. Since November, self-employment has increased by 34,000, accounting for all of the job gains over the last four months. This is a shift from the latter part of 2017, which saw significant

private-sector business hiring. As a result, employment increased 0.6% in the first quarter. Employment has expanded in six of the last seven quarters (Chart 1), leading to a dramatic decline in the unemployment rate, which has fallen from the recession peak of 9.0% to 6.3% in March. This is the lowest unemployment rate since August 2015.

Housing market cools

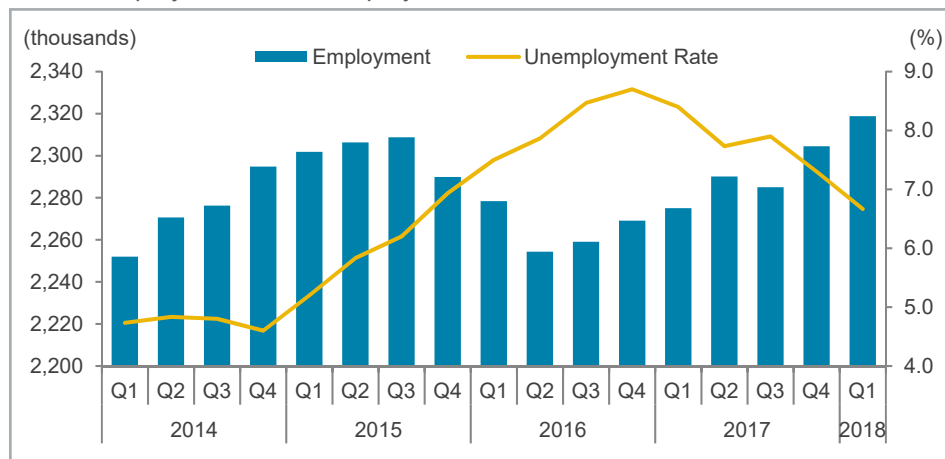
Activity in Alberta's housing market has declined in the first quarter of 2018. Home sales fell for the third consecutive month in March. This followed a flurry of activity prior to the new mortgage rules taking effect, which pushed sales to a three-year high in December. The pace of housing construction also slowed, with housing starts easing to a six-quarter low. The slowdown was most pronounced in single-unit starts and in the Wood Buffalo region, where rebuilding boosted activity in 2017. A glut of rental units and high inventory overhang continues to keep a lid on multi-unit starts.

Energy prices drive inflation

Energy prices have pushed up inflation in Alberta. They increased by 6.0% in the first quarter. In March, year-over-year

Chart 1: Employment continues to advance into the recovery

Alberta employment and unemployment rate



Source: Statistics Canada

consumer price inflation was 2.3%, marking a four-month high. Growth in energy prices accelerated as gasoline prices hit a three-year high, while electricity prices have risen steadily since reaching a multi-year low in November 2016. While headline inflation moved higher, core inflation (which excludes food and energy) remained modest at 1.3%, dampened by subdued growth in durable and semi-durable goods.

Business Sector

Seasonal factors weigh on exports

Transportation problems, seasonal and temporary factors contributed to a substantial decline in exports in February. Exports fell by 22%, the largest decline in almost 15 years. This was largely the result of a 26% decline in energy exports, mainly due to seasonal factors. Energy exports tend to fall in February by an average of 15%, mostly because there are fewer days, but also because US refiners are doing maintenance to switch to summertime production. In addition to seasonal factors, energy exports were also pulled lower by a synthetic crude outage and a sharp decline in natural gas exports, which fell back to September levels after surging in January due to exceptionally cold weather in the US. Cold weather posed problems for the rail network in Western Canada as well, leading to a 35% decline in farm and food exports.

Non-durables drive growth in shipments

Rising shipments of non-durable products are propelling manufacturing activity in Alberta. Sales of petroleum and coal products have increased steadily since mid-2017, buoyed by rising prices and higher utilization rates at Alberta refineries. This, along with improvements in chemical prices, pushed shipments of non-durables goods near 2014 highs. Conversely, durable-goods industries have had a relatively weak start to the year. Shipments of fabricated metals and machinery continue to hold onto the gains made in the first half of 2017. However, wood products have pulled back from the all-time high in October. As a result, durables industries are lending less support to factory sales growth in the province. Overall manufacturing sales have grown by 25% over two years and recovered 70% of recessionary losses.

Private sector construction activity lagging

Non-residential construction activity continues to languish in the province, largely dragged down by ongoing weakness in commercial and industrial spending. Investment in commercial building construction dipped to a seven-year low in the first quarter of 2018, weighed down by elevated commercial real estate vacancies. Industrial spending also remained weak despite a slight uptick in the first quarter. Regionally, private spending in Calgary continued to fall while Edmonton returned

to more normal levels following the completion of Rogers Place. With construction ramping up at a new hospital in Calgary, the weakness in private sector construction spending was offset by elevated governmental and institutional spending (Chart 2).

Outside Alberta

WTI reaches three-year high

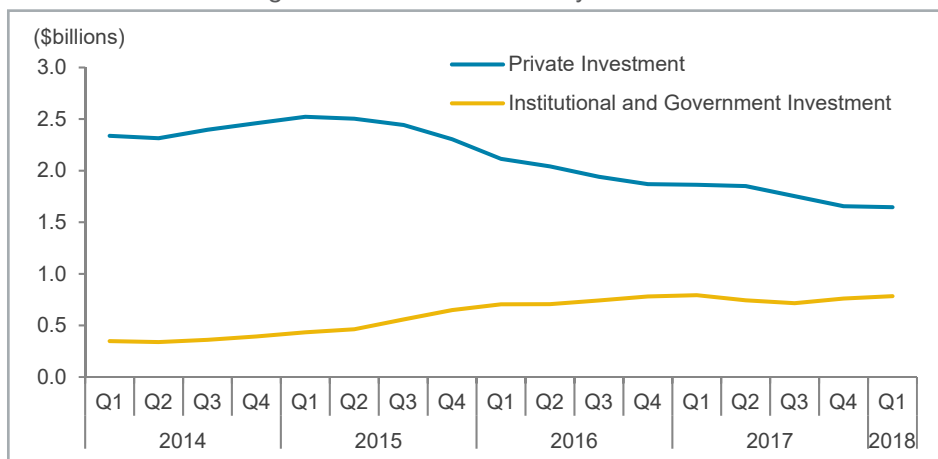
Oil prices have gained ground to date in 2018. Mounting supply-side risks arising from renewed US sanctions against Iran and falling production in Venezuela have pushed WTI to a near three-year high of almost US\$70/barrel. This is the first time WTI has threatened the seventy dollar mark since December 2014. Oil prices have been rising more or less steadily since mid-2017, supported by continued supply restraint by OPEC and Russia and robust global demand. The Canadian heavy oil benchmark, Western Canadian Select, also passed a new benchmark in April by breaching US\$50/bbl for the first time since April 2015. A higher WTI price and a narrower differential contributed to the increase. Western Canada is currently restrained by its pipeline takeaway capacity and Alberta heavy crudes continue to face a larger-than-normal discount.

Short-term outlook remains robust

The global economy is expected to maintain momentum in 2018, but downside risks have risen for the medium-term outlook. The International Monetary Fund is forecasting 3.9% global growth in both 2018 and 2019, largely buoyed by robust US expansion, continued growth in emerging Asian economies and a modest rebound for commodity exporters. Global growth is expected to soften in the medium-term, as weak productivity and population aging restrain growth in advanced economies and growth moderates in China. Downside concerns include financial risks associated with rising interest rates and a shift towards protectionist policies, which could disrupt trade and investment.

Chart 2: Institutional cushioning weak private construction spending

Non-residential building construction in Alberta by sector



Source: Statistics Canada

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inFocus

Energy's contribution to the economy

The energy sector plays a pivotal role in the national economy. Alberta and other energy-producing provinces make a significant contribution to investment, exports, incomes and consumption. Other provinces also benefit from a strong energy sector. This inFocus explores the energy sector's economic and fiscal contributions.

Canada's energy sector

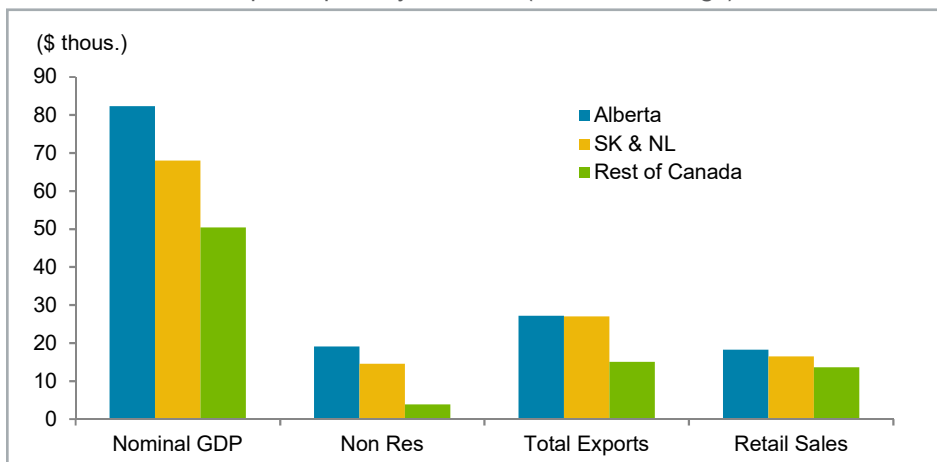
Home to a diverse abundance of energy resources, Canada is the sixth largest energy producer and fourth largest oil producer in the world. Energy production is highly capital intensive and, over the last decade, energy investment has accounted for over 30% of the country's total private-sector investment. Energy products account for about one-fifth of Canada's total exports. The country has the largest

trade surplus in energy products out of all product categories and is the world's fifth largest net energy exporter. Even after the collapse in oil prices, the energy sector represented just under 7% of the national economy in 2016. Other industries, like construction, provided inputs into the energy sector that added another 3% to nominal GDP.

Canada's mining, oil and gas industry offers the highest average earnings of any industry and employed almost 200,000 people in 2017. Average weekly earnings in the mining, oil and gas industry were over one thousand dollars higher than the national average. The outsized investment, exports and earnings in the oil and gas industries disproportionately increase its impact on the economy, as compared to other industries. For example, the transportation equipment manufacturing industry employed about as many workers as the energy sector but its contribution to national GDP was less than one-third that of the energy sector.

Chart 1: Incomes and spending higher in energy-intensive regions

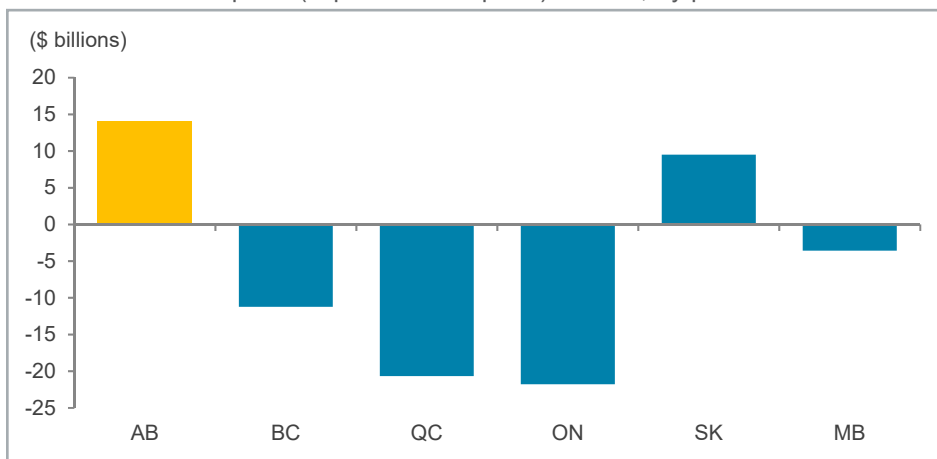
Economic indicators per capita, by indicator (2012-16 average)



Source: Statistics Canada

Chart 2: Energy exports contribute to large trade surpluses

Net international exports (exports less imports) in 2016, by province



Source: Statistics Canada

Energy exporting provinces make strong contributions

Over the last five years, Alberta, Saskatchewan and Newfoundland and Labrador accounted for the majority of Canada's crude oil production. As a result, these economies attracted 80% of the country's energy investment and almost half of total non-residential investment. They also had higher incomes, on average, than the rest of the country (Chart 1). Per capita household income in Alberta, Saskatchewan and Newfoundland and Labrador was over 30% higher than in the rest of Canada. Energy exports provide a steady cushion to the trade deficits nationally. Saskatchewan and Alberta account for 73% of Canada's total energy exports and are two of only three provinces with a trade surplus in the country (Chart 2).

Energy activity concentrated in Alberta

As the country's epicentre of all oil and gas activity, Alberta accounts for around 60% of energy production and about the same amount of the country's oil and gas investment in 2015 and 2016. High energy investment in Alberta induces investment in other industries, such as manufacturing, construction, transportation & warehousing and professional services. Alberta was home to 20% of Canada's private non-energy investment, second only to Ontario in 2016 (Chart 3).

Alberta's energy sector employed over 104,000 people in 2017, which was over half of the country's energy sector employment. Alberta's high mining, oil and gas earnings have a spillover effect on earnings in other sectors. As a result, workers in Alberta earn 18% more than elsewhere in Canada and enjoy an earnings premium in 18 out of 19 industries.

Alberta's oil and gas activity benefits rest of Canada

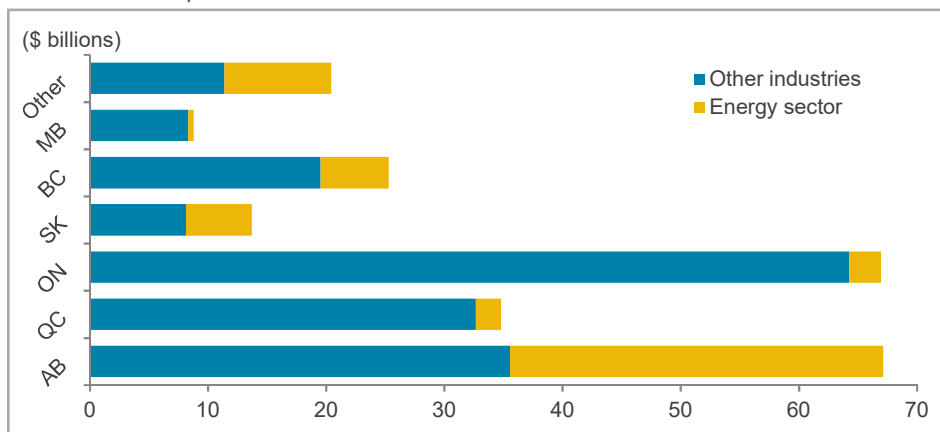
The benefits of Alberta's oil and gas industry do not stop at the border. About one-third of total goods and services purchased by Alberta's oil sands originate from other provinces. Alberta was the destination for the majority of interprovincial exports

of industrial machinery and fabricated metals in 2014¹. Although the downturn reduced demand in 2016, Alberta was still the second largest recipient of interprovincial goods and services trade in the country, after Ontario. Alberta supplied nearly 60% of mineral fuels and refined petroleum products used in the rest of Canada.

The high earnings and labour demand in Alberta's oil and gas industries have persuaded many out-of-province residents to move to Alberta. Even with net outflows over the past two years, Alberta welcomed over 300,000 people from other parts of the country between 2000 and 2017. Still more Canadians earned income in Alberta while residing in other provinces and territories. There were 146,550 inter-jurisdictional workers employed in Alberta in 2014, with combined earnings of \$7.6 billion.

Chart 3: Alberta attracts high levels of non-energy investment

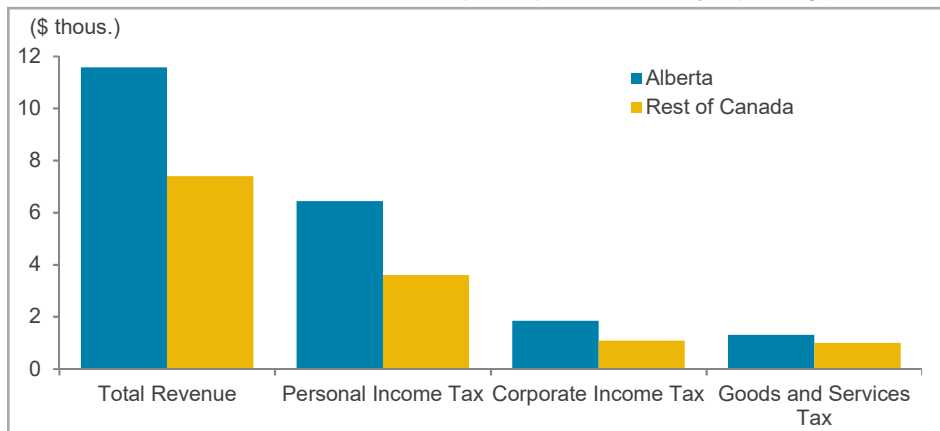
Private fixed capital investment in 2016



Source: Statistics Canada

Chart 4: Albertans pay more taxes than other Canadians

Federal Government revenues received per capita in 2016, by reporting jurisdiction



Source: Statistics Canada, CANSIM Table 384-0047

Largest fiscal contribution

Alberta is an important source of revenue for the federal government. While facing the same federal tax regime as other Canadians, Albertans pay considerably more per person due to their higher average incomes and expenditures. In 2016, Albertans paid \$49 billion to the federal government in taxes and other payments, while receiving \$27 billion in federal spending. The difference of \$22 billion amounts to \$5,148 per Albertan, making Alberta the largest net fiscal contributor in the country.

The majority of revenues from Alberta are from income taxes, driven by high incomes and Canada's progressive tax system. The average Albertan paid \$6,439 in personal income taxes in 2016 versus \$3,608 paid by the rest of the country (Chart 4). Even during the downturn of 2016, Alberta paid 30% more goods and services taxes per person than the rest of Canada.

¹ For more information see the [September 2017 inFocus: Alberta's Interprovincial Trade Flows](#).

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