Economic Trends

The Alberta economy is maintaining momentum despite moderation in some parts of the economy. The labour market has stabilized after making substantial gains in the second half of 2017. While growth in retail sales has softened, housing starts have picked up. On the business side, conventional crude oil production is ramping up while exports and manufacturing shipments have regained some ground after suffering from temporary setbacks earlier in the year. This month's inFocus discusses the recovery in Alberta's real GDP by industry in 2017.

Key Indicators

Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	March	+2.1%	-3.5 p.p.
Employment (thousands)	April	2,323	+1.6%
Unemployment Rate	April	6.7%	-1.2 p.p.
CPI Inflation (unadjusted)	April	2.3%	+0.6 p.p.
Retail Sales	March	$6.8 B	+2.5%
Housing Starts (annualized)	April	29,695	-5.2%
Rigs Drilling (unadjusted)	April	80	-5.3%
Manufacturing Shipments	March	$6.2 B	+5.2%
Exports (unadjusted)	March	$9.1 B	-1.4%

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

Alberta Household Sector

Goods sector boosts employment

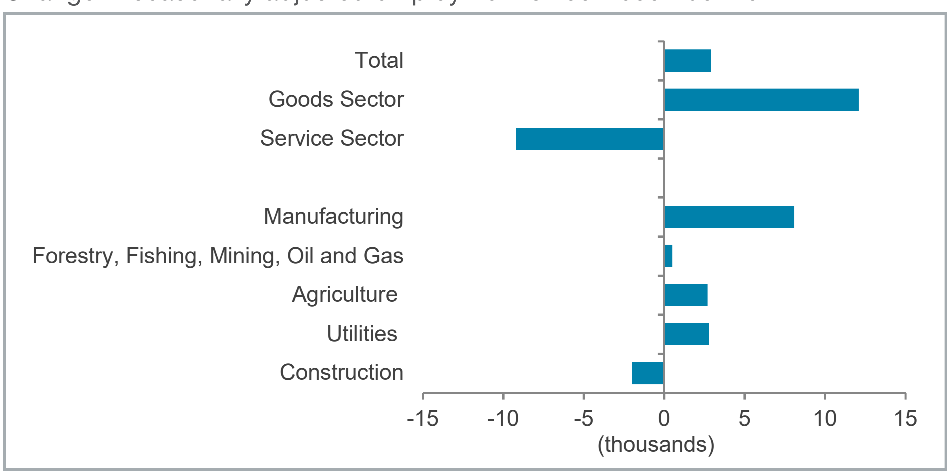
Alberta's labour market is being supported by strong job gains in the goods sector. Goods sector employment has expanded by over 12,000 so far this year and has accounted for all the job gains, led by an outsized increase in manufacturing (Chart 1). Despite headline employment pausing, solid back-to-back increases lifted employment in the goods sector to the highest level since December 2015. In contrast, service sector employment eased after reaching a record peak in February. Year-to-date, overall employment has increased by 1.8%.

Earnings hold on to gains

Average weekly earnings (AWE) remained relatively steady after advancing substantially in the second half of 2017, with a pickup in the services sector offsetting some weakness in the goods sector. In the first quarter of 2018, service sector AWE advanced 3%, supported by solid increases in retail trade and management of companies, which reached new highs. While earnings in the construction and manufacturing sector increased, goods sectors AWE was held back by a reversal in mining, oil and gas earnings in March. Year-to-date, overall earnings were up over 3%.

Chart 1: Employment gains concentrated in the goods sectors

Change in seasonally adjusted employment since December 2017



Source: Statistics Canada

Renewed interest in apartment construction

Residential developers are building more multi-unit buildings which is lifting overall housing starts. After slumping at the beginning of the year, starts rebounded to over 29,000 units (annualized) in April. This was mainly due to rising apartment starts, which reached a five-month high in April. In addition, building permits for multi-unit dwellings, an indicator of future activity, rose to the highest level since October 2016. This resurgence has occurred amid a glut of completed and unsold apartment units in Calgary and Edmonton. In contrast, the number of single-family starts has slowed and unsold units have grown.

Car sales a drag on retail spending

New vehicle sales have softened after being a source of strength in retail trade last year. New vehicle sales were down 2.9% through March, dragged down by fewer car sales (-13.7%) which have trended lower since early 2015. This has pulled down the market share of this segment to a historic low of 16%. Meanwhile, truck sales were virtually unchanged from near record levels after making substantial gains in the first half of last year. With new vehicle sales softening, the year-over-year (y/y) growth in overall retail sales have eased to 1.9% in the first quarter of the year, down from growth of over 7% in 2017.

Alberta Business Sector

Resurgence in conventional production

Conventional crude oil production continues to increase, building on the gains made in the latter half of 2017. It has risen 12% since August 2017, hitting an almost three-year high of 557,000 barrels per day (bpd) in March. The majority of the growth has been in light and medium oils, with support from condensate. Growth in conventional crude oil reflects a resurgence in drilling activity. Metres drilled for conventional oil have increased to the upper range of pre-recession levels and were up 30% through February.

Rail bottlenecks starting to ease

Rail transportation issues that have adversely affected Western Canadian exporters are starting to subside. Railway carloadings originating from Western Canada bounced back in March (+29% m/m) following a large drop in February. Shipments of most major commodities saw an improvement, with crude-by-rail exports jumping to a near three-year high of 171,000 bpd (+27% m/m). However, shipments of some commodities remained lower than year-ago levels, suggesting that the backlog will take some time to fully clear. Rail capacity during the winter months was challenged by cold weather and heavy demand arising from growing crude oil production and a stronger-than-expected grain harvest in the prairies.

Business output remains solid amid temporary setbacks

Business activity in the province is picking up after being affected by railway disruptions and other temporary issues earlier in the year. Merchandise exports rebounded sharply in March, lifted by a jump in agriculture (+49.3% m/m) and forestry products (+19.7% m/m) as well as a pickup in energy exports. Widespread gains across most sectors also enabled manufacturing shipments to regain some ground after dipping in February, bringing the value of shipments closer to post-recession highs. Manufacturing sales and exports were up by 7.5% and 4.2% through the first quarter of the year, respectively.

Chart 2: Exports and manufacturing shipments regain some ground
Alberta manufacturing shipments and merchandise exports

Source: Statistics Canada

Outside Alberta

Canadian resale housing activity slowing

Canada's resale housing market had a slow start to the year, reflecting the impact of tighter mortgage rules and higher interest rates. National home sales fell in the last four months, bringing the decline to 22% relative to the December 2017 peak. Home sales surged in the last quarter of 2017, largely in anticipation of new mortgage rules that took effect in January. While the weakness was widespread across the country, it was mostly felt in Ontario and British Columbia. These two provinces, which are two of the largest housing markets, accounted for almost 80% of the decline in national home sales since the December peak.

Interest rate hikes on pause

The Bank of Canada (BoC) has remained on the sidelines since raising its policy interest rate in January. The BoC has held rates steady due to concerns about elevated household debt, a softening housing market, and uncertainties surrounding US trade policies. However, with core inflation moving closer to the 2 per cent target and the Canadian economy evolving as expected, the BoC has signaled that rate hikes will be warranted but at a gradual pace.

Contact

Kathleen Macaspac 780.427.8841

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Alberta 2017 economic rebound

The Alberta economy began to recover in 2017 following a two-year recession made worse by the devastation of the 2016 Fort McMurray wildfires. Alberta real GDP by industry grew 4.9%, recovering about 60% of losses experienced during the downturn. While gains were broad-based across sectors, a rebound in the energy sector drove the recovery (Table 1).

Energy sector leads the recovery

On the back of improving global energy prices, Alberta's energy sector grew markedly in 2017. Conventional oil and gas activity rebounded from recessionary levels, as the number of rigs drilling for oil and gas in the province surged 66%. Oil sands production also bounced back, following major outages in the wake of the 2016 Fort McMurray wildfires. As a result, real GDP in oil and gas extraction and support activities for oil and gas posted strong gains in 2017, more than recouping recessionary losses and accounting for about half of Alberta's growth.

Table 1: Broad-based economic rebound

Alberta real GDP by major industries

	2015-16		2017	
	cumulative change (%)	cumulative contribution to change (percentage points)	change (%)	contribution to change (percentage points)
All industries	**-7.4**	**-7.4**	**4.9**	**4.9**
Agriculture, forestry, fishing and hunting	9.4	0.1	1.9	0.0
Mining, quarrying, and oil and gas extraction	-8.5	-1.7	13.3	2.4
Utilities	-8.7	-0.1	10.1	0.1
Construction	-29.1	-3.9	-0.7	-0.1
Manufacturing	-13.2	-0.9	8.1	0.5
Wholesale trade	-18.3	-0.9	10.1	0.4
Retail trade	-4.5	-0.2	5.8	0.3
Transportation and warehousing	0.2	0.0	6.6	0.3
Information and cultural industries	-0.5	0.0	-0.3	0.0
Finance and insurance	9.1	0.3	1.7	0.1
Real estate and rental and leasing	3.8	0.4	3.9	0.5
Professional, scientific and technical services	-15.8	-0.9	0.0	0.0
Management of companies and enterprises	-3.9	0.0	-5.4	0.0
Administrative and support, waste management and remediation services	-4.8	-0.1	-0.5	0.0
Educational services	5.4	0.2	1.4	0.1
Health care and social assistance	7.0	0.4	2.2	0.1
Arts, entertainment and recreation	4.7	0.0	3.1	0.0
Accommodation and food services	-7.3	-0.2	0.8	0.0
Other services (except public administration)	-7.2	-0.2	0.3	0.0
Public administration	4.5	0.2	1.8	0.1

Sources: Statistics Canada and Alberta Treasury Board and Finance

Energy output lifts related sectors

The robust energy sector recovery supported output in closely related sectors. Increased shipments of energy products and machinery and equipment — much of which are energy related — spearheaded growth in the manufacturing sector. Similarly, expanded petroleum product and machinery and equipment wholesaling led growth in the wholesale trade sector.

Spillovers ripple through economy

More sectors joined the recovery throughout the year as momentum spread beyond energy-related output. Broad-based gains across non-energy-related products complemented energy-

What is GDP by Industry?

Gross Domestic Product (GDP) by Industry measures the value of output generated by an industry less the value of intermediate inputs purchased from other industries. GDP is sometimes referred to as "value added" as it captures how much value is being added over and above what is used as input. The sum of each industry's GDP yields the GDP for the overall economy.

Alberta's 2017 provincial accounts estimate of GDP, which breaks down GDP by expenditure category and income type, will be released in November. While this estimate differs slightly from total GDP by Industry, growth in the two series track closely over time.

related growth in the manufacturing and wholesale trade industries. Among non-energy-related industries, growth in 15 out of 17 manufacturing industries and six out of seven wholesale industries contributed to the recovery. As business activity picked up, motor vehicle and gasoline sales drove growth in the retail trade sector. Meanwhile, improving consumer sentiment encouraged broader retail activity. Gains in the energy, manufacturing, wholesale and retail sectors spilled over into broad-based growth in the transportation and warehousing sector, with output increasing in eight out of nine industries.

Residential construction upswing

Residential construction real GDP gained back about 15% of peak-to-trough losses in 2017. Renewed consumer spending and widlfire-related residential rebuilding efforts in Fort McMurray facilitated the rebound, as the number of housing starts in the province increased 20% from 2016.

Good year for finance and real estate industries

Output in the FIRE (finance, insurance and real estate) services sector defied the downturn, continuing to grow in 2015 and 2016. In 2017, the industry benefited further from increased consumer spending and residential construction, as well as a boost in housing resales as home buyers moved to get out ahead of anticipated 2018 lending and monetary policy tightening. FIRE real GDP increased 3.3% in 2017, higher than the average annual growth of 2.6% during the recession.

Engineering and commercial construction lagging

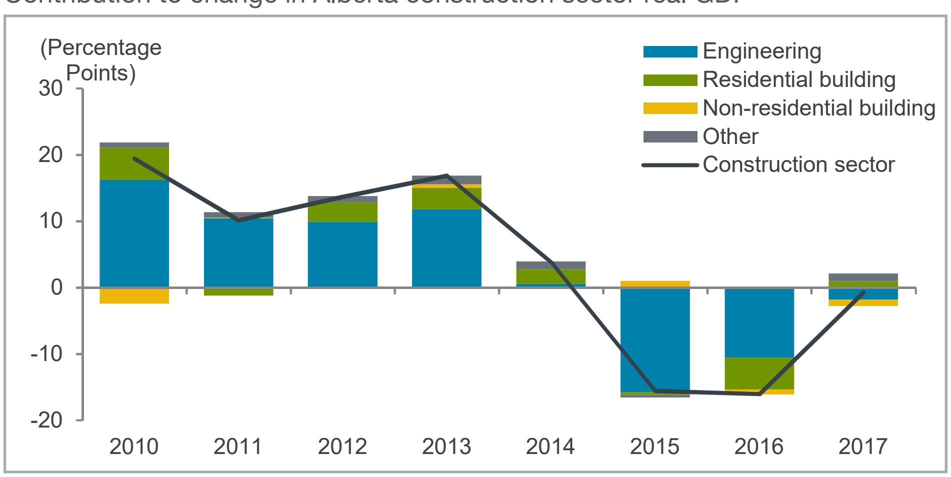
Contrary to the rebound in residential building construction, engineering and non-residential building construction remained weak throughout the year. Construction wrapped up on large oil sands projects that began before the downturn, depressing real GDP in oil and gas engineering construction industries. Since a majority of provincial engineering construction is related to oil and gas, this sector's real GDP fell for a third consecutive year, despite growth in most other types of engineering construction. Meanwhile, stubbornly high office vacancy rates — especially in Calgary — suppressed commercial building investment in the province. Losses in the commercial sector more than offset an uptick in governmental and institutional building investment so that non-residential building construction real GDP fell by 7.4% in 2017.

Declines in engineering and non-residential building construction real GDP just outweighed growth in residential building construction real GDP in 2017. As a result, after declining sharply during the recession, aggregate construction sector real GDP remained essentially flat in 2017 (Chart 1).

Alberta leads growth nationwide

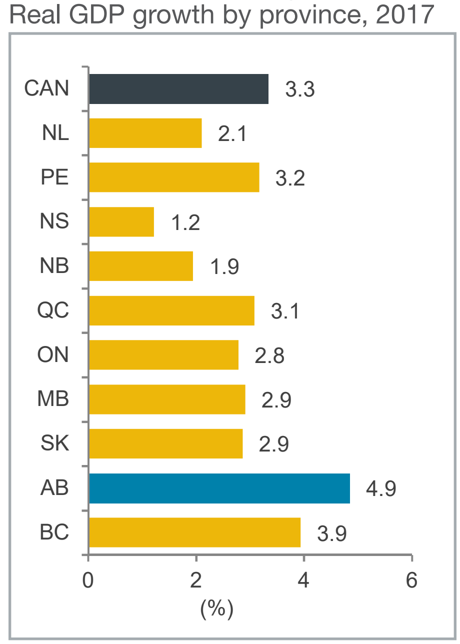
There was synchronized growth nationwide in 2017 (Chart 2). Real GDP by industry increased in every Canadian province for the first time since 2011. Alberta led the charge, thanks to the oil price recovery and economic rebound in the province. The oil price recovery also underpinned growth in the other resource-led economies of Newfoundland and Labrador and Saskatchewan. In a second year of recovery, Newfoundland and Labrador real GDP grew by 2.1%. Saskatchewan real GDP rebounded 2.9%. As a result, output in the other resource-led economies surpassed pre-recession levels. Although the economy rebounded sharply in 2017, due to the severity of the recession in Alberta, the province regained about 60% of peak-to-trough output losses.

Chart 1: Weak engineering and non-residential construction weigh on sector
Contribution to change in Alberta construction sector real GDP



Sources: Statistics Canada and Alberta Treasury Board and Finance

Chart 2: Alberta leads growth
Real GDP growth by province, 2017



Source: Statistics Canada

Contact

April Seburn 780.427.7543