

Economic Trends

April 2022

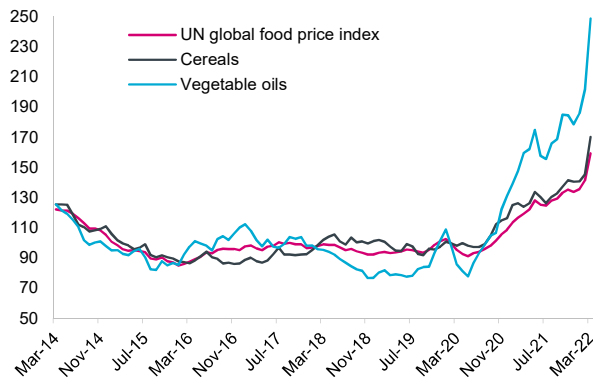
Momentum has been solid for the Alberta economy amidst the backdrop of high uncertainty and volatility in the global economy following Russia’s invasion of Ukraine. High export prices are supporting business activity in the province and housing market has set a torrid pace to start the year. However, businesses and consumers are facing soaring inflation. Spending on consumer goods continues to moderate. Alberta’s labour market has improved, but the recovery continues to be uneven and participation lags.

War in Ukraine pushes commodity prices higher

Commodity prices have soared since Russia’s invasion of Ukraine and the sweeping economic and financial sanctions against Russia that followed. Although prices have been on the rise since last year, the acceleration was most notable for commodities where Ukraine and Russia are major exporters—energy, grains, vegetable oils and fertilizers. Global oil price benchmarks have appreciated since February 24 amid fears of global supply crunch, causing prices of gasoline and diesel fuel to soar. Natural gas prices around the world jumped to multi-year highs, in part contributing to higher electricity costs. Trade disruptions in the Black Sea region have sent shocks through

CHART 1: GLOBALLY, CEREALS AND VEGETABLE OILS DROVE OVERALL FOOD PRICE INCREASE IN MARCH

United Nations’ (UN) global food price index (index, 2014-2016=100)



Source: Food and Agriculture Organization of the United Nations

KEY INDICATORS

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	Feb	5.1%	4.2 p.p.
Employment (thousands)	Mar	2,322	+4.3%
Unemployment Rate	Mar	6.5%	-2.5 p.p.
CPI Inflation (unadjusted)	Mar	6.5%	+4.6 p.p.
Retail Sales	Feb	\$7.5 B	+1.3%
Housing Starts (annualized)	Mar	31,915	9.7%
Rigs Drilling (unadjusted)	Mar	142	93.5%
Manufacturing Shipments	Feb	\$8.4 B	32.7%
Exports (unadjusted)	Feb	\$13.6 B	+44.1%

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

agricultural markets. The United Nation’s Food Prices Index—which tracks prices for the world’s most-traded food commodities—jumped 13% month-over-month (m/m) in March, led by new all-time high prices for vegetable oils and cereals (Chart 1). In Canada, prices of chemical fertilizers and potash also jumped.

Central banks respond to rising inflation

Escalating commodity prices have led to broader and more persistent price pressures. Consumer inflation picked up in the U.S. (+8.5% in March), Canada (+6.7%) and Euro zone (+7.4%). In response, central banks have begun to tighten monetary policy. The U.S. Federal Reserve raised its key interest rate by 25 basis points (bps) in March, the first increase since the pandemic began, and hinted at larger hikes ahead. To keep inflationary expectations anchored, the Bank of Canada (BoC) has already increased its key policy rate twice this year, with the latest and more aggressive hike of 50 bps in April. Meanwhile, the European Central Bank maintained its rate unchanged at 0% as the war is expected to have a bigger economic drag in Europe. War-induced price pressures have complicated the trade-offs central banks face between containing inflation and safeguarding growth.

Global recovery downgraded

After gaining momentum earlier this year, global growth has been downgraded amid the conflict in Europe and recent lockdowns in key manufacturing and trade hubs in China. The International Monetary Fund (IMF) projects the global economy to expand 3.6% in 2022, down from 4.4% projected in January. The IMF is forecasting severe GDP contractions for Ukraine and Russia as well as worldwide disruptions to commodity markets, trade and financial flows. Meanwhile, the Canadian economic outlook remains robust due to limited direct trade and financial ties with the two countries. The BoC has revised up the national GDP growth to 4.2% in 2022 but down to 3.2% in 2023 as it expects elevated prices, disruptions to both trade and financial flows to persist.

Strong prices drive energy sector activity

Surging energy prices and robust global demand is supporting activity in the Alberta's energy sector. The rigs drilling count has exceeded 2019 levels so far this year and almost reached a five-year high in March. With drilling activity ramping up since the latter half of 2021, conventional oil production was up 10% year-to-date (YTD) through February. Despite the pickup, the recovery in conventional output is lagging behind non-conventional as producers maintain capital discipline, with labour shortages creating additional challenges. Similarly, methane production grew 5.1% YTD as natural gas prices jumped 39%. The value of energy exports (+73%) and manufacturing shipments of energy products (+64%) have also soared this year, largely driven by strong export prices.

Rising commodity prices lift non-energy output

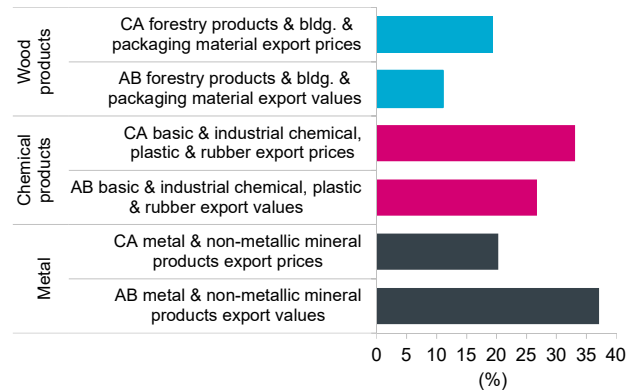
Alberta's non-energy business output is back on the upward trend after its retreat from the March 2021 high, led by weakness in intermediate food products. With the rebound in the first two months of the year, the value of non-energy goods exports rose 12% YTD amid high export prices for chemical, wood and metal & non-metallic mineral products (Chart 2). Meanwhile, the higher value of consumer goods and metal ores was mainly driven by higher export volumes, while prices also contributed. Non-energy factory sales have posted outsized gains in recent months. While volumes have supported these gains, rising industrial product prices pushed Alberta's total manufacturing shipments to record highs in February (+30% YTD), surpassing the May 2021 peak.

Broad-based increase in input costs

While soaring commodity prices are boosting activity in the province, they are also pushing up costs. Producer prices are growing at an accelerating pace across a wide range of commodities. In the first quarter (Q1), prices paid by Canadian manufacturers for raw materials jumped 13% compared to Q4 2021 and 35% year-over-year (y/y), driven by energy products, crops, logs and pulpwood. Rising costs for raw materials added to higher cost of imported goods, with the

CHART 2: HIGH COMMODITY PRICES BOOST ALBERTA'S NON-ENERGY EXPORT SALES

Year-to-date (Jan-Feb) change in select Alberta domestic exports and Canadian export prices, 2022 vs. 2021



Sources: Statistics Canada and Haver Analytics

national imports price index up 12% YTD through February. This is translating into higher input costs for many industries, including petrochemicals, agriculture, and construction. High prices of construction materials have already lifted the new house price index (+13% YTD) and homeowners' replacement costs, pushing up home prices and rental rates. Surging input costs put pressure on business margins, presenting a risk to output across value-added industries in the province.

Commercial drives non-residential construction

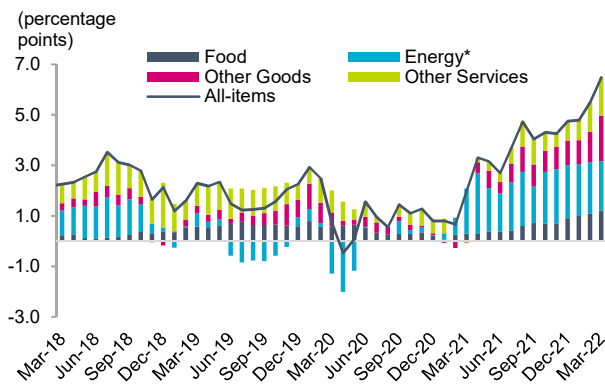
After bottoming out in early 2021, investment in non-residential building construction has been on a slow upward trend. Despite elevated input costs, the real value of non-residential investment rose 7.4% YTD through February, driven by commercial investment (+21%) amid strong demand for warehouses, particularly in Calgary. Momentum in commercial building permits (+62% YTD) suggests that this trend will continue in the near term. At the same time, industrial investment has plateaued as growth in transportation and utilities offset declines in factories, plants and agriculture. In contrast, institutional and governmental spending has retreated this year following a strong increase in 2021.

Consumer inflation ramps up

Albertans are not immune to globally rising prices. Broad-based price pressures have pushed Alberta's consumer inflation to a 20-year high. The headline consumer price index accelerated to 6.5% y/y in March, with energy remaining the driver since the start of the pandemic (Chart 3). Already elevated gasoline prices jumped in March following Russia's invasion of Ukraine, while natural gas and electricity retreated from seasonal highs. Food prices continued to grow steadily on the back of rising cost of inputs and

CHART 3: HEADLINE INFLATION CONTINUES TO SOAR

Contribution to Alberta's headline consumer inflation



Sources: Statistics Canada, Alberta Treasury Board and Finance calculations
* Energy includes gasoline, natural gas and electricity

transportation. Outside energy and food, prices for a wider range of commodities surged in March. Robust demand and persistent supply chain bottlenecks accelerated inflation for durables (+8.4% y/y), led by motor vehicles. Inflation in semi-durables has also picked up (+4.2% y/y) from last year's weak levels, although ongoing pandemic-related concerns that kept a lid on demand for clothing and footwear may explain the moderate price gain. The cost of services also rose (+3.3% y/y), led by homeowners' replacement cost.

Growth in goods spending moderates

Growth in consumer goods spending continues to moderate following last year's barnstorming recovery. Year-over-year growth in retail sales slowed to 1.7% in the first two months of the year and was propped up by sales at gasoline stations, partially due to rising prices. Excluding gasoline stations, sales fell 3%, with purchases at motor vehicle & parts dealers and food & beverage stores down from 2021 highs. This coincided with a jump in receipts at food services and drinking places. They were up 36% YTD through February as Albertans resumed eating out with Omicron cases subsiding and public health measures easing.

Feverish housing market activity in Q1

Alberta's housing market continued heating up at the beginning of 2022 as tight inventories and expectations of interest rate hikes spurred activity. Housing starts averaged more than 29,000 units in Q1, up 4.2% from Q1 2021. In the resale market, unit home sales hit record levels and were up almost 34%. While new listings also jumped, they failed

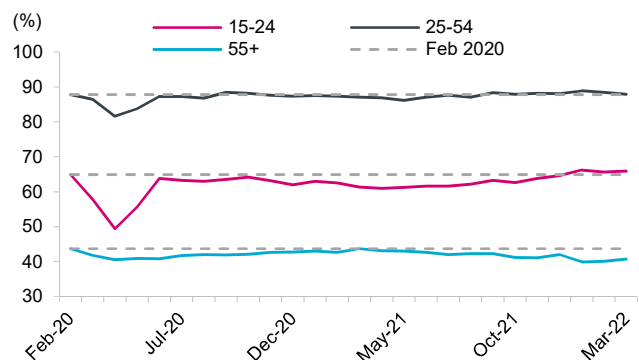
to keep up with strong demand, amplified by in-migration of people from other provinces in a search of affordable housing. As a result, average resale prices went up nearly 11%, with gains across all home price ranges, but most notably in the \$600,000-\$800,000 range in Calgary. Strong homebuilding activity, coupled with rising input costs and persistent supply chain delays, lifted new home prices up 9.9% over the same period.

Uneven labour market recovery

Alberta's labour market has improved further this year, but the recovery remains uneven. As the province added over 22,000 jobs through March, employment in some sectors—accommodation & food, other services and manufacturing—remained below pre-pandemic. The unemployment rate fell to 2018 levels while job vacancies have increased in some industries. While Alberta's employment and the unemployment rate are back to pre-pandemic levels, the labour force participation rate—the percentage of the working age population in the labour force—has been slow to recover. The participation rate improved to 69.3% in March but remained below the February 2020 level (70.4%), a result of lagging recovery for mature workers (aged 55 years and over) (Chart 4). The contraction has been more pronounced for mature men that were previously employed in agriculture, manufacturing and transportation. For mature women, the decline has been the largest in health care and social assistance.

CHART 4: PARTICIPATION RATE FOR MATURE WORKERS (55+) LAGS OVERALL RECOVERY

Participation rate in Alberta, by age, seasonally adjusted



Sources: Statistics Canada and Haver Analytics

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