Economic Trends

March 2024

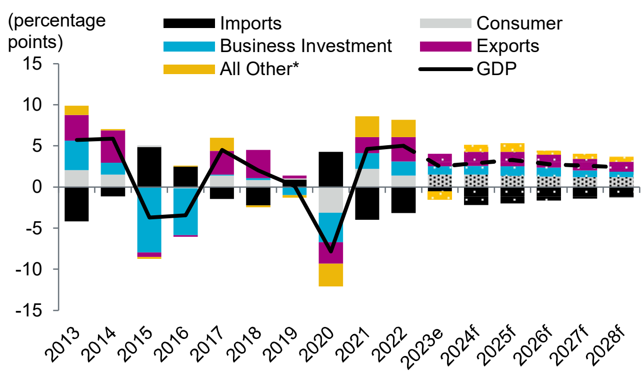
This month's Economic Trends is taken from the [Economic Outlook Chapter](#) of Budget 2024, released on February 29, 2024.

Overview

Alberta's economy is forging ahead as headwinds from high interest rates and rising prices gradually fade. Growth is slowing in many jurisdictions, but Alberta's economy is expected to buck the trend. Growth in real gross domestic product (GDP) is forecast to accelerate to 2.9 per cent this year after an estimated 2.5 per cent increase in 2023 (Chart 1). Positive business sentiment is driving investment intentions across many sectors, despite heightened uncertainty. While lacklustre global growth and last year's drought conditions are expected to weigh on exports in 2024, increased export capacity and favourable oil prices are boosting prospects for Alberta's energy sector. Alberta's exceptional population growth is increasing demand for housing and supporting spending in the province, but the impact of high interest rates and prices continues to weigh on consumer sentiment. Easing interest rates in the second half of this year should provide some relief to consumers and businesses.

CHART 1: BROAD-BASED EXPANSION IN ALBERTA'S ECONOMY

Contribution to change in Alberta real GDP by expenditure



Sources: Statistics Canada, Haver Analytics and Alberta Treasury Board and Finance; e-estimate, f-forecast

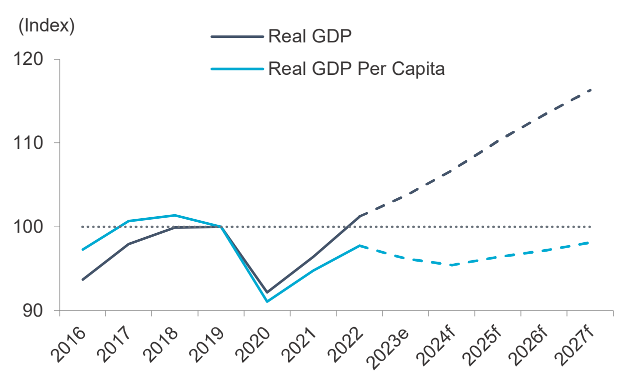
* Includes government spending, residential construction investment, non-profit institution spending and inventories

Real GDP growth is forecast to accelerate to 3.3 per cent next year before moderating to an average of 2.7 per cent in 2026 and 2027. While exports will remain a key driver of growth, business investment will gain momentum and account for a greater share of the economy. Large-scale investments across many industries will not only increase Alberta's productive capacity, but also help diversify and decarbonize the economy over the medium term. Meanwhile, growth in consumer spending and residential construction will be driven by a combination of lower interest rates, strengthening consumer sentiment and a robust labour market. Solid fundamentals – including strong population growth, a relatively young population, favourable cost of living and high wages – will also support Alberta's economic expansion.

Alberta is well-positioned to remain Canada's economic engine, but the province is facing challenges. Geopolitical risks, including uncertainty stemming from proposed federal emissions reduction policies, are preventing Alberta's economy from reaching its full potential and holding back investment and productivity gains, not just in the province but across the country. While real GDP is forecast to expand in 2024, it will lag behind Alberta's exceptional population growth. Real GDP per capita will rebound in 2025 but remain lower than pre-COVID levels through the medium term (Chart 2).

CHART 2: REAL GDP PER CAPITA FALLING BEHIND

Alberta real GDP and real GDP per capita, indexed to 2019



Sources: Statistics Canada, Haver Analytics and Alberta Treasury Board and Finance; e-estimate, f-forecast

Global economy

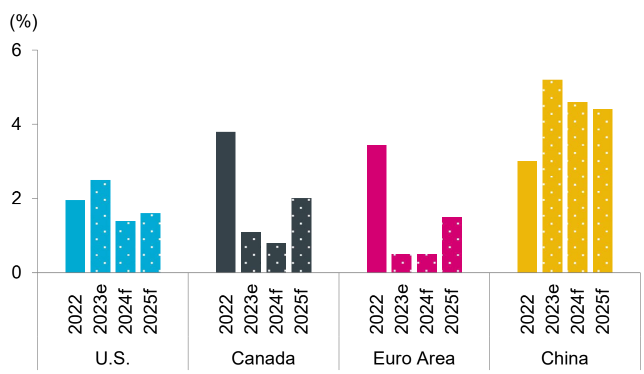
Lacklustre and uneven global growth

Global economic activity will remain tepid in the first half of this year before improving modestly as the impacts of high interest rates fade and financial conditions ease further. The International Monetary Fund is projecting global growth of just over three per cent in 2024 and 2025, roughly the same as last year's pace, but still weaker than the 2000-2019 average of 3.8 per cent. With global price pressures coming down significantly, policy rates have peaked in advanced economies. An improvement in activity in the second half of this year is expected to support an upturn in global trade and industrial production. However, trade disruptions arising from conflict in the Middle East have added to economic uncertainty and upside risks to inflation.

Among advanced economies, the U.S. has been remarkably resilient to higher interest rates and is expected to lead growth in 2024 (Chart 3). Domestic demand has expanded at a solid clip and the labour market remains tight. Nonetheless, growth is still forecast to slow as high interest rates, lower household savings and tighter fiscal policy weigh on consumer spending and business investment. Headwinds from high energy prices and inflation will continue to weigh on activity in the euro area and growth is expected to remain weak this year. The region's economy is forecast to improve further in 2025 as the effects of monetary easing take hold, although relatively high energy costs and low productivity growth will likely restrain overall economic prospects.

CHART 3: U.S. OUTPERFORMING OTHER ADVANCED ECONOMIES THIS YEAR

Actual and forecast of real GDP growth



Sources: U.S. Bureau of Economic Analysis, Statistics Canada, Statistical Office of the European Communities, China National Bureau of Statistics, Haver Analytics and Alberta Treasury Board and Finance; e-estimate, f-forecast

Emerging market and developing economies are expected to see growth holding steady in 2024 and 2025. Growth in India is expected to remain robust due to resilience in domestic demand. In contrast, China is projected to see its slowest expansion in over three decades outside the pandemic years. This reflects the drag from the ongoing property sector downturn, weak consumer sentiment and subdued export demand. Monetary and fiscal stimulus measures, however, will lend some support to growth.

Subdued growth in the Canadian economy

The impacts of tighter monetary policy over the last two years are expected to hit the Canadian economy harder this year. Growth stalled in the middle of 2023 as higher interest rates dampened consumer spending and business investment, while weakness in global demand restrained exports. This trend is expected to carry into 2024. Canadian real GDP growth is forecast to slow from an estimated 1.1 per cent in 2023 to 0.8 per cent in 2024 (Chart 4). Strong population growth is driving housing demand and residential investment, but with households renewing their mortgages at higher rates and labour income growth moderating, consumer spending is anticipated to be anemic this year. Business investment and exports are also expected to be sluggish through the first half of 2024, in line with gloomy business sentiment and slower growth in the U.S. economy. The unemployment rate is projected to rise from an average of 5.4 per cent in 2023 to 6.3 per cent this year as the pace of hiring continues to lag population growth. Real GDP growth is forecast to pick up to around two per cent in 2025, reflecting a rebound in consumer spending and housing market activity from easing monetary policy.

CHART 4: MOMENTUM IS SLOWING IN THE CANADIAN ECONOMY

Year-over-year growth in Canadian real GDP, quarterly (actual) and annual (forecast)

Sources: Statistics Canada, Haver Analytics and Alberta Treasury Board and Finance; f-forecast

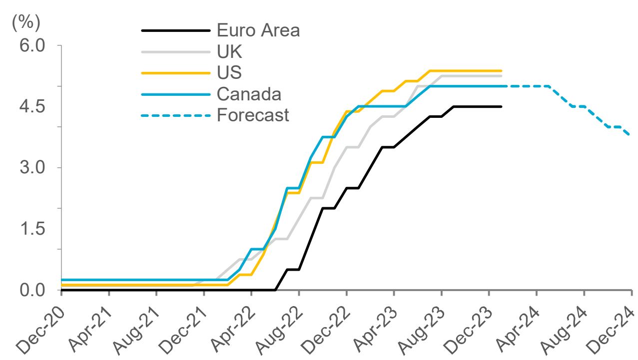
A weaker Canadian economy relative to the U.S. will continue to weigh on the Canadian dollar, particularly in the first half of this year. As economic activity improves in the second half of the year, the loonie is forecast to strengthen from an average of US¢74.10/Cdn$ in 2023-24 to US¢75.90/Cdn$ in 2024-25. The Canadian dollar is expected to rise over the medium term, reaching US¢79.70/Cdn$ by 2026-27.

Central banks pivoting to rate cuts

Slower growth and waning global price pressures are setting the stage for central banks to gradually begin lowering target interest rates. In Canada, inflation remains sticky in some categories such as shelter costs, which reflects tightness in the housing sector. Nonetheless, the Bank of Canada (BoC) is expected to start cutting its key policy rate in June (Chart 5). The European Central Bank is also expected to begin unwinding its monetary policy this year given economic weakness and slower inflation in the euro area. Slowing inflation has boosted market expectations that the U.S. Federal Reserve will cut interest rates earlier than previously anticipated in the Fall of 2023. The U.S. Federal Reserve has indicated that it will proceed with monetary easing at a cautious pace, with the possibility of three 25-basis point rate cuts this year.

CHART 5: BANK OF CANADA TO BEGIN RATE CUTS IN JUNE

Benchmark interest rates in selected economies*



Sources: U.S. Federal Reserve, Bank of England, European Central Bank, Bank of Canada, Haver Analytics and Alberta Treasury Board and Finance
* U.S. is the midpoint of the federal funds target rate, Euro area is the main refinancing rate

Financial conditions are already improving with impending rate cuts. This has contributed to a pullback in U.S. and Canadian long-term government bond yields from their October highs. While declining policy rates are expected to shore up activity in the second half of 2024, they are not expected to return to pre-pandemic levels over the forecast horizon.

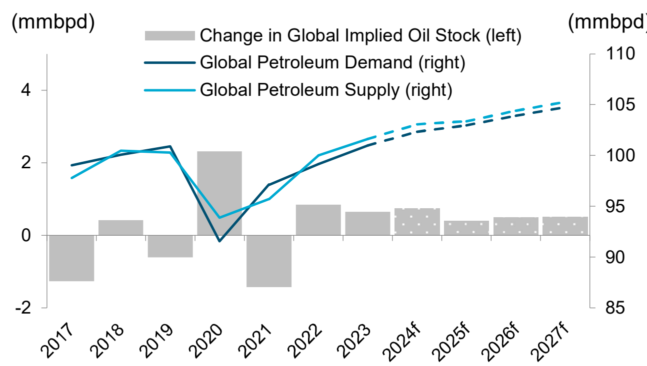
Global oil prices to soften

Ample global supply and slower global demand are expected to move the global oil market into a modest surplus this year and keep a lid on prices. While the extension of voluntary production cuts by the Organization of Petroleum Export Countries and its allies (OPEC+) will support prices, additional production will come from non-OPEC countries, including the U.S. and Guyana. Global petroleum demand is forecast to rise at a slower rate this year amid lacklustre growth in the global economy. Rising tensions and trade disruptions in the Middle East are adding to the volatility in global oil prices, although demand concerns are helping to dampen the impact. WTI is forecast to average US$74.00/bbl in 2024-25, down from US$76.50 in 2023-24.

Over the medium term, Budget 2024 assumes WTI holds steady at US$74/bbl and remains above pre-pandemic levels. Growth in global petroleum demand is not expected to exceed global oil production (Chart 6).

CHART 6: MODEST SURPLUS IN OIL MARKETS IN THE COMING YEARS

Global oil supply and demand, actual and forecast



Sources: U.S. Energy Information Administration, Haver Analytics and Alberta Treasury Board and Finance calculations; f-forecast

Alberta economy

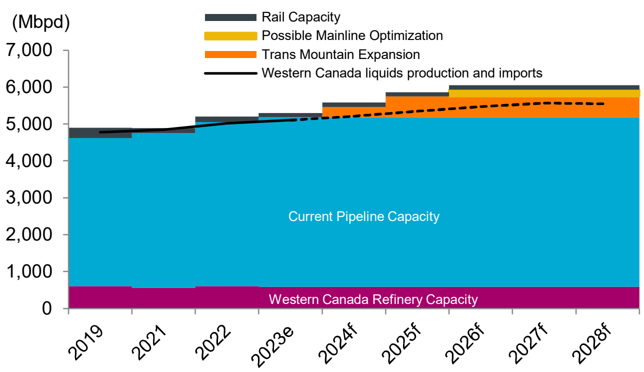
TMX completion to support Alberta oil prices

Additional pipeline capacity is poised to expand market access for Alberta oil producers and bolster Alberta oil prices. The Trans Mountain pipeline expansion (TMX) project is nearing completion and is anticipated to commence line fill in the first half of 2024. Upon completion, the expansion is set to almost triple the capacity of the Trans Mountain pipeline system to 890,000 barrels per day (bpd). This expanded capacity (Chart 7) will allow Alberta producers to increase access to global markets including Asia and the U.S. West Coast, better aligning Alberta's export capacity with rising global oil demand. This is also expected to reduce volatility and narrow the gap between WTI and Western Canadian Select (WCS) to US$16/bbl in 2024-25 before further tightening to US$14.90/bbl in 2025-26 and US$13.60/bbl in 2026-27. The reduced differential is expected to keep the WCS price above C$75/bbl throughout the forecast horizon and support revenue for Canadian heavy oil producers.

Natural gas prices in Western Canada are anticipated to rebound due to an improved supply-demand balance and increased export capacity. However, the recent softness in AECO prices, driven by weaker demand during a mild

CHART 7: TMX TO RELIEVE NEAR TERM PIPELINE CONSTRAINTS

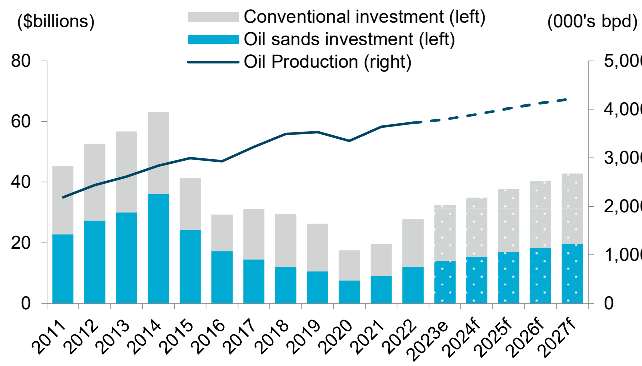
Pipeline, rail, refinery capacity and liquids volume transported in Western Canada



Sources: Canada Energy Regulator and Alberta Energy and Minerals; e-estimate, f-forecast

CHART 8: SPENDING ON OPERATIONS WILL SUPPORT PRODUCTION GROWTH

Nominal oil and gas investment and crude oil production in Alberta



Sources: Statistics Canada and Alberta Treasury Board and Finance; e-estimate, f-forecast

winter and higher inventories, is expected to persist through 2024 before prices gradually improve in 2025. The Alberta Reference Price (ARP) is forecast to average C$2.90 per gigajoule (GJ) in 2024-25, up from C$2.20/GJ in 2023-24, and to rise further to about C$3.90/GJ in 2025-26 and 2026-27. The completion of the Coastal Gas Link pipeline last year, coupled with the commencement of LNG Canada Phase 1 in 2025, will support prices and expand market access for Alberta's natural gas.

Positive outlook for oil and gas sector

There is optimism among Alberta's oil and gas producers, despite political and regulatory uncertainties from the federal government. This is in contrast to most other sectors in Canada, according to the Bank of Canada's recent Business Outlook Survey. Producers are well-positioned to increase spending this year, driven by favourable oil prices, increased export capacity and healthy balance sheets. With TMX coming into service, drilling activity is expected to maintain strong momentum in the province after reaching the second-highest level since 2014 last year. Supply growth will also come from debottlenecking, optimization and small-scale expansions. Oil sands producers are already boosting output after extensive maintenance work, driving non-conventional oil production to an all-time high in December 2023. Oil production is forecast to average nearly 3.9 million barrels per day (bpd) in 2024, an increase of more than 103,000 bpd from 2023. This will lift growth in real oil exports from an estimated 2.3 per cent in 2023 to 3.1 per cent this year. Spending on operations and optimizing production will boost oil and gas investment by 7.4 per cent (or $2.4 billion) in 2024 after increasing an estimated 17 per cent last year (Chart 8).

Rising investment will propel Alberta's oil production and exports to expand further in the coming years. Oil production is expected to grow between 2-3 per cent annually and will bring Alberta's total oil production to a record high of more than 4.2 million bpd by 2027. Rising output of natural gas and natural gas liquids (NGLs) will also add to the growth in the province's energy exports, buoyed by increased market access and growing domestic demand. The latter will increase in line with growing oil sands production, coal-to-gas conversions, and the commissioning of new gas-fired power plants. Capacity expansions in Alberta's petrochemical sector are also expected to boost in-province demand.

While oil producers are spending more on operations, uncertainty about federal emissions reduction policies and their impacts are prompting companies to reinvest a smaller share of their cash flow. Companies are expected to continue expanding production and direct spending towards clean energy projects, but they are maintaining capital discipline and keeping a lid on exploration and development activities. Over the medium term, growth in nominal oil and gas extraction investment is forecast to ease, with an annual increase ranging between 6-8 per cent in the next three years.

Rising output in the energy sector will support pipeline projects connecting incremental supply from liquids-rich gas plays in western Alberta and northeastern B.C. to markets. The growing demand for pentanes plus and condensate aligns with the rising production in the oil sands, while additional pipeline capacity will supply feedstock to Alberta's expanding petrochemical sector. Pembina's Phase 8 Peace Pipeline Expansion project, a $530 million initiative, is on track for completion in 2024. This project will establish segregated pipeline service for ethane-plus and propane-plus, transporting them from the central Montney area at Gordondale, Alberta, to the Edmonton area. Similarly, NorthRiver Midstream is proposing the construction and operation of the $450 million NEBC Connector pipeline, which will transport condensate and natural gas liquids from its Highway Liquids Hub, northwest of Wonowon, British Columbia, to the Gordondale area in Alberta.

Investment diversifying

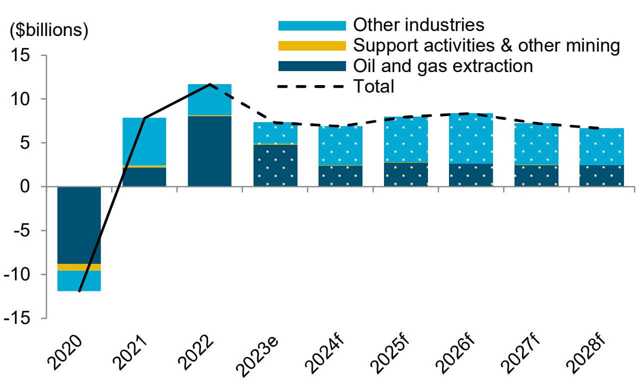
Investment is expected to gain momentum across a number of sectors in the province. In nominal terms, spending on industries outside oil and gas extraction is forecast to accelerate, growing 11 per cent (or $4.4 billion) this year and averaging around 10 per cent (or $5.2 billion) per year from 2025 to 2027. This comes after a moderation last year, when ongoing labour shortages in the construction sector, coupled with elevated borrowing costs, limited or delayed expansion plans for some companies.

Investment will be propelled by large-scale emissions reduction projects which span a variety of industries including power generation, manufacturing and transportation, warehousing and storage. Lower borrowing costs and improving demand are expected to buoy investment, particularly in the second half of the year. Growth in construction costs will also remain moderate compared to the elevated increases in 2021 and 2022. One weak spot, however, is commercial building construction, which is expected to slow this year. With the pickup in growth, investment outside the oil and gas extraction sector is forecast to reach over $60 billion by 2027 and account for the majority of the increase in business investment (Chart 9). Several carbon capture and storage (CCS) projects have also been proposed, offering significant upside potential to investment. In November 2023, the Alberta government announced the Alberta Carbon Capture Incentive Program (ACCIP) which will provide grants of 12 per cent for eligible capital project costs.

Utilities

CHART 9: BUSINESS INVESTMENT DIVERSIFYING

Change in Alberta non-residential business investment*



Sources: Statistics Canada and Haver Analytics; * Moving average

The utilities sector continues to play a key role in driving investment beyond oil and gas. Its share of total private sector investment outside oil and gas almost doubled over the past five years, increasing from under 15 per cent in 2018 to an estimated 26 per cent in 2023. The sector is poised for sustained growth in the near term. There are a dozen wind and solar energy projects currently underway in Alberta, with combined investment of approximately $4.5 billion. Additionally, several renewable projects with regulatory approval are slated to commence construction in the coming years. The expansion of renewable capacity has also spurred investments in transmission lines and battery infrastructure across the province. According to the Canadian Renewable Energy Association, Alberta contributed 92 per cent to Canada's overall growth in renewables and energy-storage capacity in 2023. The province's renewable capacity has almost doubled over the previous two years, closing out 2023 at 5.8 GW, over a quarter of Canada's renewable capacity.

Strong growth in the province's population and rising industrial activity are expected to drive demand for clean and reliable electricity. Capital Power's $1 .4 billion Genesee Power Plant conversion, set to be completed this year, will add just over 930 megawatts (MW) to the grid. Concurrently, Suncor's 800 MW cogeneration project at its oil sands base plant is scheduled to come online later this year. The province is also exploring other technologies, with some companies in the very early stages of assessing the feasibility of developing small modular nuclear reactors to supply heat and power in the oil sands sector and Alberta's electricity grid.

Manufacturing

Numerous large-scale projects are contributing to the growth and decarbonization of Alberta's manufacturing sector while fostering economic diversification. Dow Chemical recently announced plans to construct the world's first net-zero carbon emissions integrated ethylene cracker and derivatives site in Alberta's Heartland. This transformative project will triple the facility's ethylene and polyethylene capacity, with construction of the $11 .6 billion facility set to commence this year. The project is expected to generate approximately 7,000-8,000 jobs at its peak construction and sustain around 400-500 full-time jobs once operational. Construction at Air Products' $1 .6 billion hydrogen facility is also underway and is scheduled to commence operations in 2024. Heidelberg Materials is also in the planning stages for the first global full-scale carbon capture and storage cement facility, slated to be operational by late 2026.

Beyond the petrochemical sector, Alberta is attracting investment in both emerging and traditional industries. Green Impact Partners is allocating $1 .2 billion to build a bio-ethanol plant in Calgary, utilizing non-food grade waste wheat to produce renewable natural gas. This project comes on the heels of Imperial Oil's renewable diesel facility announcement, which reached final investment decision in early 2023 and remains on track to begin operations in 2025. Once completed, the $720 million plant will produce one billion liters of biofuel annually, establishing itself as the largest facility of its kind in Canada. De Havilland is progressing with its plans to construct a new aircraft manufacturing facility near Calgary.

Alberta's food manufacturing sector also remains a bright spot. McCain Foods is injecting $600 million into expanding its potato processing facility in southern Alberta, providing a boost to the province's food processing sector. In addition, Dairy Innovation West has broken ground on a $70 million milk concentration plant near Blackfalds. This first-of-its kind in Canada facility will process up to 300 million litres of milk per year to produce a range of concentrated components for dairy processors, while reducing the number of milk trucks on the road and significantly reducing transportation costs for dairy farmers. English Bay Blending & Fine Chocolates announced plans to build a $30 million food manufacturing facility in Stony Plain, creating 70 permanent and 90 construction jobs.

Commercial building construction

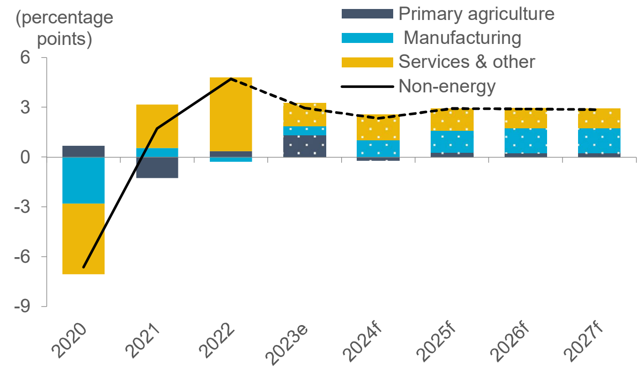
In contrast to other sectors, activity in the commercial real estate sector is expected to soften this year. Commercial building permits – a leading indicator of activity – slowed in the second half of 2023. Although vacancy rates in Calgary and Edmonton's industrial markets are still well below pre-pandemic levels, they rose last year mainly due to an influx of new supply. According to Colliers Canada, an additional 3.8 million and 1.5 million square feet of space is under construction and expected to come into the market in Calgary and Edmonton, respectively. Vacancy rates in Edmonton and Calgary's office markets have dipped but remain elevated; however, both markets saw positive net absorptions last year, buoyed by flight to quality, office-to-residential conversions and modest recovery in the energy sector.

Agriculture sector facing challenges

Primary agriculture is expected to weigh on exports this year. Crop export volumes are forecast to retreat in 2024. Crop yields were below average in 2023 due to dry weather conditions, although they came in better than expected, supported by improved crop varieties and weed control products, along with the use of moisture conserving farming practices. Warm and dry conditions in the fall also allowed farm operators to complete harvests in a timely manner. Nonetheless, lower volumes coupled with moderating prices will weigh on the value of crop exports, which is forecast to decline this year (Chart 10). The Province is actively planning for potential drought conditions that could impact agricultural production and exports in the near term.

CHART 10: PRIMARY AGRICULTURE A MILD DRAG ON EXPORTS THIS YEAR

Change in Alberta non-residential business investment*



Sources: Statistics Canada and Alberta Treasury Board and Finance; e-estimate, f-forecast

* includes investment in plant & equipment and intellectual property

The livestock sector is also grappling with challenges. Dry conditions have generally reduced water supplies, and led to poor pasture conditions and lower feedstocks for wintering cattle. Those conditions, together with historically high cattle prices in 2023, encouraged producers to market their feeders earlier and cull their cow herds more aggressively. Limited herd expansion has led to tighter cattle supplies and smaller calf crops, which are expected to dampen live cattle exports in 2024. Alberta's swine herd also remains under pressure. Tight labour markets, higher production costs and investments needed to upgrade production systems to serve consumer preferences and meet regulatory requirements are eroding margins for hog producers. Although hog prices are expected to improve in the second half of 2024, lower production and a need to sustain domestic demand will weigh on export volumes.

Manufacturing and services a source of growth

The weakness in primary agricultural products will be offset by higher manufacturing exports. A modest rebound in residential construction investment in Canada is expected to buoy wood manufacturing shipments following sharp declines in 2021 and 2022. Food manufacturing sales reached a record high in 2023 and will continue to expand with domestic and global population growth. In contrast, exports of machinery and equipment are expected to moderate from last year's elevated levels as business investment in Canada and the U.S. eases and global growth slows. Over the medium term, capacity expansions in petrochemicals, food processing and other emerging industries will propel growth in real manufacturing exports to rise from two per cent this year to around three per cent by 2027.

Real service exports are also expected to contribute to growth. They are forecast to rise 3.6 per cent in 2024 before averaging to around 2.9 per cent in the next three years. The completion of TMX and other pipeline projects will boost activity in the transportation sector, while solid prospects in the oil and gas sector and growing investment in clean energy technology will support demand for Alberta's professional, scientific and technical services. On the other hand, weaker consumer spending will likely dampen growth in travel and tourism-related services this year.

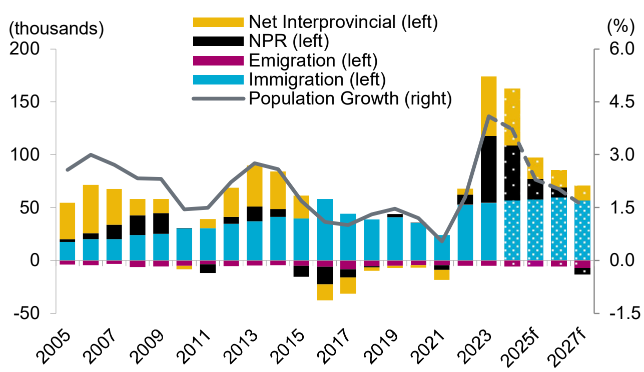
With robust growth in manufacturing and services exports, overall exports are expected to rise 2.7 per cent in 2024 before averaging 2.5 per cent in 2025 to 2027.

Strong migration bolsters population growth

Alberta is expected to continue drawing people into the province this year at a pace not seen in decades. The province's population is forecast to grow 3.7 per cent (a gain of almost 175,000 people) in the 2024 census year (Chart 11). This is slightly lower than last year's extraordinary increase of 4.1 per cent. Net international migration is expected to remain robust in 2024, bolstered by strong net inflows of non-permanent residents (NPRs) and higher national immigration targets set by the federal government. NPRs are forecast to be driven by the arrival of about 30,000 Ukrainians under the Canada-Ukraine Authorization for Emergency Travel (CUAET) program, as well as student and work permits holders. With cooler labour market conditions, Alberta is forecast to welcome more than 53,000 people from the rest of the country in 2024, slightly below last year's record of 56,000.

CHART 11: POPULATION GROWTH ACCELERATES WITH SURGE IN NPRS

Annual change in the Alberta population by migration component



Sources: Statistics Canada, Haver Analytics and Alberta Treasury Board and Finance; f-forecast

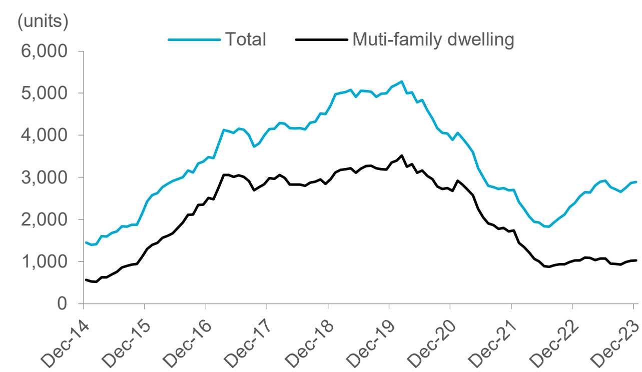
Over the medium term, interprovincial migration and NPRs are expected to retreat from elevated levels as job vacancies ease and employment growth moderates. The end of the CUAET program and federal changes to international study permits will weigh on NPR flows. On the other hand, increasing immigration targets mean that new permanent residents will continue to support growth. Natural increase will also contribute to growth, expanding from 18,000 in 2024 to about 19,800 in 2025 and 21,000 in 2026. Alberta's population is forecast to grow at 2.3 per cent next year, followed by two per cent in the 2026 and 2027 census years.

Upward momentum in residential construction

Homebuilding activity is forecast to remain brisk as housing supply continues to catch up with the increase in population. Housing starts in the province exceeded 42,000 units on an annualized basis in the fourth quarter of 2023, the strongest level since early 2015. The surge in activity was led by the multifamily segment. Inventories for apartments, semi-detached and row houses are at multi-year lows due to strong rental demand and homebuyers shifting to lower-priced houses in response to high interest rates (Chart 12). Housing starts for single-family dwellings have also risen significantly, most notably in Calgary, where they were up more than 40 per cent year-over-year in the fourth quarter of 2023. While labour constraints in the construction sector will continue to limit the pace of homebuilding, housing starts are expected to remain exceptionally strong. Starts are forecast to average over 39,000 units in 2024 and 2025 – the fastest pace since 2014 – before moderating to around 37,000 units by 2027. Policies by all levels of government to improve housing supply and affordability will also help support activity.

CHART 12: MULTI-FAMILY HOUSING INVENTORIES HOVERING AROUND 2014 LOWS

Unabsorbed units by dwelling type



Sources: Haver Analytics and Canada Mortgage and Housing Corporation

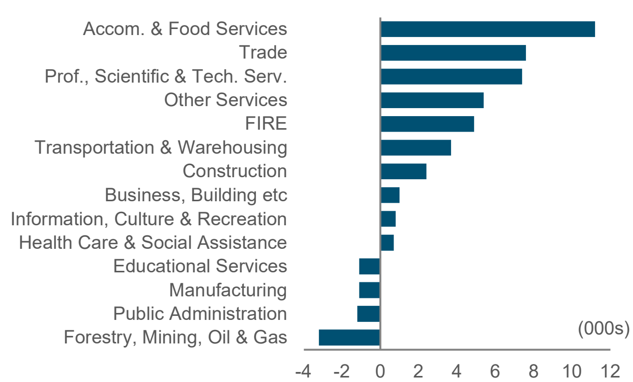
In addition to new housing construction, renovation spending and resale activity are expected to gain ground in 2024 following annual declines in the last two years. These will contribute to real residential construction investment, which is forecast to rise eight per cent this year following an estimated decline of seven per cent in 2023. Home sales should continue to pick up as lower interest rates and additional supply coming into the market encourage renters and move-up homebuyers to shift from the sidelines this year. Mortgage rates have already started to decline, partly supporting the rebound in home sales in the province and across Canada in December. The strong pace of new housing construction will buoy real residential construction investment in the province to grow five per cent in 2025 and average 3.5 per cent thereafter.

Job gains advancing

Employment in the province is set to expand further, building on the momentum in the second half of 2023. Last year, strong inflows of migration provided some relief to Alberta's tight labour market, with newcomers supporting job gains across most industries (Chart 13). Between 2021 and 2023, newly landed and non-landed immigrants (including non-permanent residents) accounted for more than half of the employment growth in some industries such as accommodation and food services; finance, insurance and real estate; and other services. While job vacancies have declined, they remain above pre-pandemic levels. This is expected to buoy employment growth at three per cent this year, which comes on the heels of last year's exceptionally strong pace of 3.6 per cent. Goods sector employment – which fully recovered to pre-pandemic levels last year – will get a boost from solid energy sector activity, a rebound in residential construction and pickup in business investment. The latter is also expected to lift employment in professional, scientific and technical services. An expanding population will support growth in consumer-related services, although the drag from weaker consumer spending will likely weigh on employment in some industries such as retail trade and accommodation and food services. Over the medium term, employment growth is forecast to slow to around two per cent by 2027, in line with a slower population growth and moderating economic activity.

CHART 13: NEWCOMERS AN IMPORTANT SOURCE OF LABOUR SUPPLY

Change in annual employment of new and non-landed immigrants, 2021 to 2023*



Source: Statistics Canada

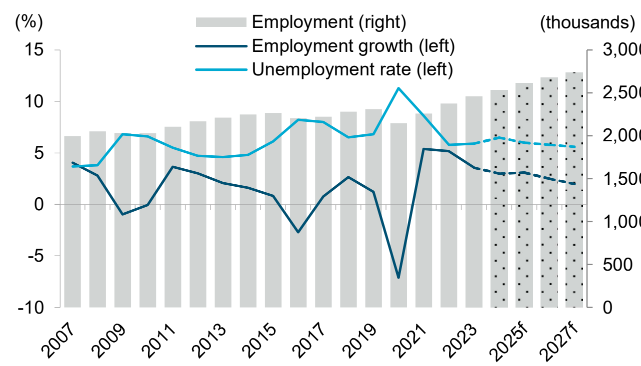
* Newly landed immigrants are defined as those who arrived in Canada in 5 years or less, while non-landed immigrants include non-permanent residents.

Labour market pressures softening

Even with the robust job gains, conditions in Alberta's labour market are anticipated to cool this year as labour supply expands at a rapid pace. More than 97,000 people are expected to join the province's labour force in 2024, a 3.7 per cent increase. This follows the 93,000 increase last year. Growth in the labour force will be underpinned by a strong expansion in the working-age population and an improvement in the labour force participation rate. This is expected to raise the unemployment rate to 6.5 per cent in 2024, up from 5.9 per cent in 2023 (Chart 14).

CHART 14: UNEMPLOYMENT RATE TO DECLINE GRADUALLY

Labour market indicators



Sources: Statistics Canada, Haver Analytics and Alberta Treasury Board and Finance; f-forecast

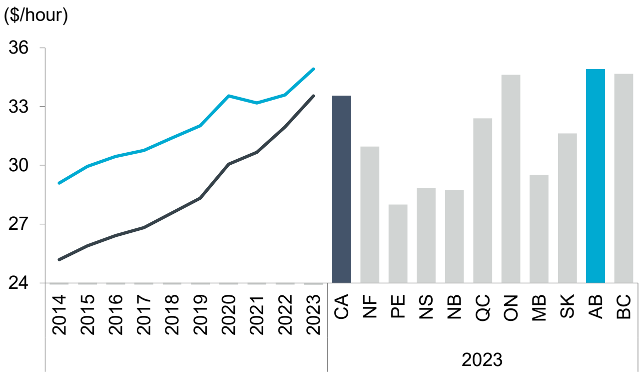
While an increase in the labour supply will make it easier for employers to fill positions, it is expected that some industries will continue to face hiring challenges. Immigrants – who are younger than their Canadian-born population – will remain a significant driver of growth in the core-aged (25-54 years old) working population and participation rate. However, they tend to face barriers in joining the workforce. In addition, skills mismatch between newcomers and what employers need means that immigrants are not readily able to fill labour shortages in some industries that face pressures from an ageing workforce or growing disengagement from youth. The issue is likely to be more acute for occupations that are regulated and require more specialized training such as skilled trades. These imbalances, however, are expected to gradually dissipate over time as the labour market adjusts.

The unemployment rate is expected to decline gradually over the medium term, reaching 5.6 per cent by 2027. The labour force will grow at a slower pace, in line with the easing population growth and participation rate. The latter is expected to resume its long-term trend as Alberta's population continues to age, given older individuals tend to participate less in the workforce.

Despite Alberta's higher unemployment rate, wages remain above the national average and other provinces, though Alberta's wage premium has narrowed since 2014 following many years of economic challenges (Chart 15). Solid growth in real wages should help industries attract and retain workers, particularly those that are facing difficulties with labour shortages.

CHART 15: ALBERTA'S WAGE PREMIUM HAS NARROWED OVER TIME

Average hourly wage



Sources: Statistics Canada and Haver Analytics

Labour drives income growth this year

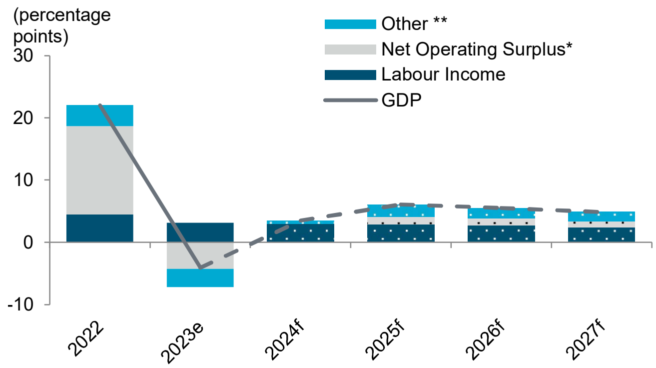
With the pickup in economic growth, nominal GDP – a broad measure of income – is expected to resume expanding this year. It is forecast to bounce back 3.5 per cent in 2024 after retreating by an estimated four per cent last year. Nominal GDP is forecast to rise at an average of 5.5 per cent per year over the medium term.

The rebound in nominal GDP will be led by primary household income, which is forecast to grow 6.7 per cent this year (Chart 16). Wage growth, along with robust job gains, will boost labour income by 6.8 per cent. Upward pressure on rents will also prop up net mixed income, although this will be partly offset by lower farm incomes and the drag from higher interest payments on net property income. Over the medium term, growth in primary household income is forecast to moderate to an average of 5.5 per cent annually.

In contrast to household incomes, lower energy prices and rising costs will weigh on corporate profits. Net operating surplus, a proxy for corporate profits, is forecast to level off this year after declining by an estimated 15 per cent in 2023. However, since the pull back comes on the heels of an exceptional recovery in 2021 and 2022, net operating surplus remains historically elevated. It is forecast to resume growth in 2025 as economic growth accelerates and cost pressures ease further.

CHART 16: LABOUR INCOME BOOSTING NOMINAL GDP THIS YEAR

Contribution to change in Alberta's nominal GDP by income



Sources: Statistics Canada and Alberta Treasury Board and Finance, e-estimate, f-forecast

* Includes net operating surplus of corporations and net mixed income

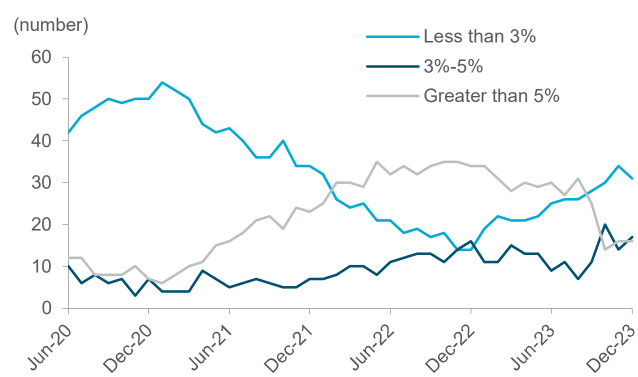
** Includes consumption of fixed capital and taxes less subsidies

Inflation to come down slowly

Consumer inflation will continue to decline in 2024, albeit at a gradual pace. While headline inflation ticked up at the end of 2023, it has trended lower over the past year as price pressures have lessened (Chart 17). Gasoline prices have pulled back since mid-2023 and are below last year's levels on the back of lower oil prices. Inflation for discretionary goods such as furniture, clothing and footwear is now below two per cent. Slower growth in consumer spending on durable and semi-durable goods will keep a lid on inflation in these categories this year. Electricity prices remain elevated compared to 2022 levels, although they have fallen sharply

CHART 17: PRICE PRESSURES ARE MODERATING AND NARROWING

Number of CPI components by annual price growth



Sources: Statistics Canada and Alberta Treasury Board and Finance calculations from the record high in September 2023. This trend is expected to continue as the province welcomes additional capacity from natural gas and renewable sources this year, which will contribute to lower electricity prices.

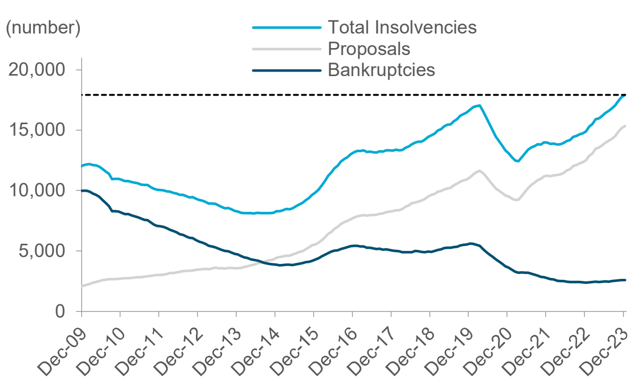
Inflation for some categories, however, remains stubborn. While shelter costs are expected to moderate this year with lower interest rates and more housing supply coming into the market, they will be slow to decline as supply issues take time to fully resolve. This will continue to put upward pressure on rents and house prices in the near term. Accelerating growth in municipal property taxes is also expected to add to shelter costs. Food inflation has moderated but remains high, with price increases for some categories such as meat products and restaurant meals still running above four per cent. Consumer inflation is forecast to average 2.5 per cent this year before returning to about two per cent over the medium term.

Consumer spending to lag amid financial pressures

Some indicators are pointing to growing financial stress among households in Alberta. While consumer bankruptcies and mortgage arrears remain extremely low in the province, consumer proposals have climbed sharply over the past year and are above pre-pandemic record highs (Chart 18). Delinquency rates for non-mortgage products have also risen. Although many homeowners with mortgages have already seen a jump in their payments (particularly those on variable-rate mortgages with variable payments), the majority have yet to face higher mortgage payments. According to the Bank of Canada, about 45 per cent of mortgages taken out before the Bank of Canada began raising its policy rate in March 2022 have already seen an increase in payments in Canada. This share is expected to climb to about 60 per cent by the end of 2024 and 80 per cent by the end of 2025.

CHART 18: CONSUMER PROPOSALS DRIVING THE SHARP RISE IN INSOLVENCIES

Number of consumer insolvencies filed per month in Alberta, by type*



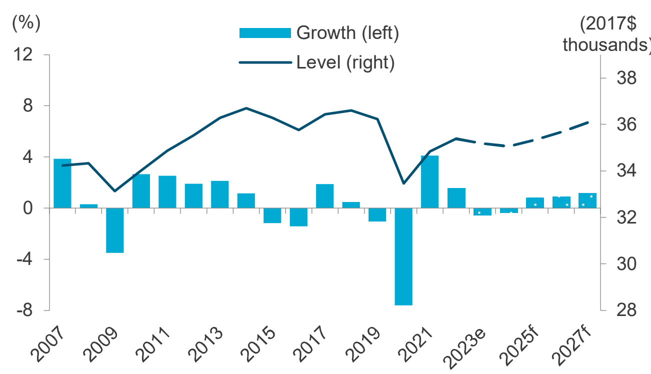
Sources: Office of the Superintendent of Bankruptcy and Haver Analytics
* based on 12-month rolling total

Albertans who will be renewing their mortgages at higher rates are also expected to divert a greater share of their income to servicing debt.

With the upcoming wave of mortgage renewals weighing on household finances and sentiment, Albertans are expected to continue tightening their belts this year. Similar to last year, strong population growth will boost aggregate real consumer spending by 3.4 per cent, while real per capita spending will contract again (Chart 19). This trend is expected to be more persistent in the first half of 2024, particularly for discretionary and interest-rate sensitive categories such as durable and semi-durable goods. However, the decline will be moderate compared with recent economic slowdowns and with other provinces. Alberta's relatively higher savings rate, lower debt to disposable income ratio and stronger economic conditions will cushion households and limit the drag on consumer spending from the lingering impact of high interest rates. In addition, services spending is anticipated to be more resilient than goods and will rise in line with population growth. Strong migration into the province will continue to boost demand for essential services such as housing, transportation, and financial, real estate and leasing services.

CHART 19: HIGHER INTEREST RATES A DRAG ON PER CAPITA CONSUMER SPENDING

Real per capita consumption in Alberta



Sources: Statistics Canada, Haver Analytics and Alberta Treasury Board and Finance; e-estimate, f-forecast

Over the medium term, real consumer spending is forecast to rise 3.1 per cent in 2025 and on average 2.8 per cent per year thereafter. With the increase in spending outpacing population growth, per capita spending is expected to rebound strongly in 2025 as interest rates decline further and the labour market gains momentum. This is a key driver for the strong real GDP growth forecast next year.

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