Economic Trends

November 2024

This month's Economic Trends is taken from the [Economic Update] section of the 2024-25 Second Quarter Fiscal Update and Economic Statement, released on November 21, 2024.

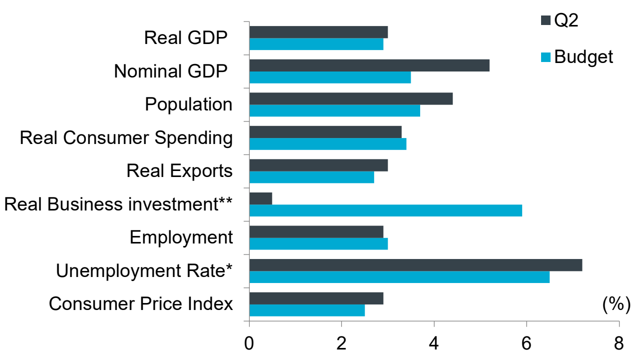
Overview

Alberta's economic outlook remains solid, although risks are rising. The energy sector continues to drive growth in business activity and output on the back of increased pipeline capacity. Alberta's exceptionally strong population growth is also boosting residential construction activity, while easing price pressures and falling interest rates are providing some relief to households. However, demand concerns are weighing on global oil prices. Rising protectionism and geopolitical tensions heighten risks to the global economy.

After moderating to 2.3 per cent in 2023, growth in Alberta's real gross domestic product (GDP) is expected to accelerate to 3.0 per cent this year. This is 0.3 percentage points (ppts) lower than the first quarter but still slightly higher than budget (Chart 1). The downward revision from the first quarter reflects weaker-than-expected business investment in industries outside the oil & gas sector and more cautious consumer spending. Despite solid headline growth, real GDP per capita is forecast to decline this year before improving in 2025.

CHART 1: ALBERTA'S ECONOMIC EXPANSION ON TRACK

Year-over-year growth in key economic indicators, 2024



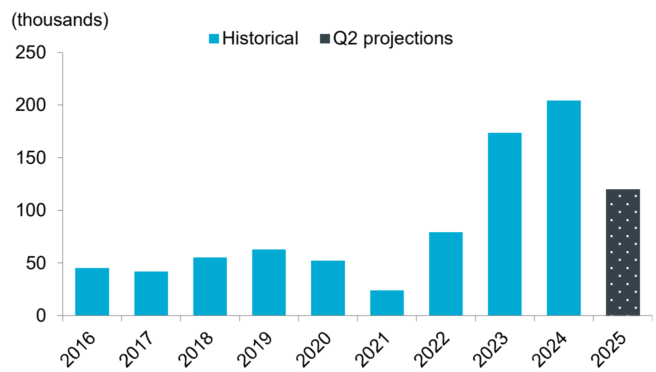
Source: Alberta Treasury Board and Finance; *Unemployment rate is forecasted level, **Investment in Plant & Equipment.

Alberta's labour market continues to struggle with the rapid increase in the population. While employment is expected to grow at a solid pace of 2.9 per cent this year, it will trail behind the expansion in the labour force. As a result, the unemployment rate is forecast to average 7.2 per cent this year, higher than first quarter and budget expectations.

Next year, real GDP growth is forecast to moderate but remain solid at 2.7 per cent. Population growth is set to slow to 2.5 per cent in the 2025 census year, reflecting the impact of the federal government's targets on immigration and non-permanent residents (Chart 2). While lower population growth will be drag on consumer spending, it should provide some relief to Alberta's tight housing market and help dampen shelter inflation. However, the labour market will take some time to adjust to the slower population growth. With job growth slowing to 2.1 per cent next year, the unemployment rate is expected to rise to 7.4 per cent.

CHART 2: ALBERTA'S POPULATION WILL GROW NEXT YEAR, BUT AT A SLOWER PACE

Annual change in population by census year, historical and forecast



Sources: Statistics Canada, Haver Analytics and Alberta Treasury Board and Finance.

Global growth holding up but risks rising

The outlook for the global economy remains constructive, underpinned by moderating inflation and falling interest rates, but risks are on the rise. The International Monetary Fund (IMF) still anticipates global growth at 3.2 per cent in 2024 and 2025, unchanged from April. The U.S. economy is expected to outperform developed countries, with the IMF increasing its real GDP growth forecast to 2.8 and 2.2 per cent for 2024 and 2025, respectively. Growth in the Euro Area is expected to pick up to around 1.2 per cent over the forecast horizon but remains soft, weighed down by weakness in manufacturing activity. However, the ongoing slump in the property sector and weakness in consumer spending are anticipated to keep China's growth subdued below 5 per cent. In the U.S., there are concerns that rising fiscal deficits, higher tariffs and restrictive immigration policies could stoke inflationary pressures and weigh on broader global economic activity.

Uncertainties related to more protectionist trade policies and escalating geopolitical tensions are increasing and pose significant risks to the outlook.

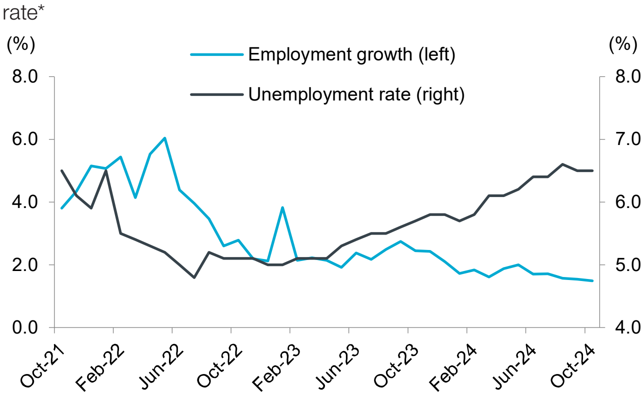
Canadian economy losing momentum

The Canadian economy is shifting into a lower gear. While real GDP growth held up better than expected in the first half of the year, recent indicators point to slower momentum for the rest of 2024. Job gains have also softened, with year-over-year (y/y) employment growth declining to 1.5 per cent in October – the slowest rate post-COVID (Chart 3). Canadian real GDP growth is now expected to decelerate to 1.1 per cent this year before rising to 1.7 per cent in 2025. The federal government is projecting that the 2025-2027 Immigration Levels Plan targets will result in a population decline of 0.2 per cent in 2025 and 2026 calendar years. This poses downside risks to Canada's real GDP growth next year.

With inflation back to the two per cent target and economic activity softening, the Bank of Canada (BoC) has accelerated the pace of interest rate cuts. The BoC lowered its policy rate by an outsized 0.5 percentage points in October – the fourth consecutive reduction since June – which brings the policy rate to 3.75 per cent. Diverging interest rates between Canada and the U.S., along with slower Canadian economic growth relative to the U.S., has weighed on the Loonie. It is now forecast to average US¢73.30/Cdn$ in 2024-25, lower than expected in the first quarter and budget.

CHART 3: CANADA'S LABOUR MARKET IS SOFTENING

Year-over-year growth in Canadian employment and the employment rate*



Sources: Statistics Canada and Haver Analytics; *seasonally adjusted

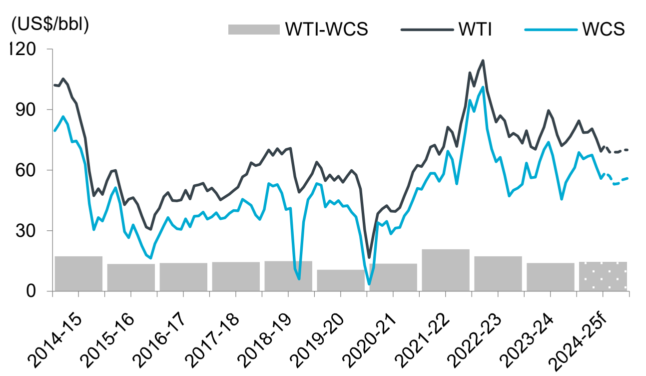
Oil price volatility continues

Oil prices have fluctuated considerably since the first quarter update. Despite a tight supply-demand balance, the West Texas Intermediate (WTI) oil price has oscillated below US$70 per barrel (/bbl) since September on concerns over Chinese demand and increased risks to the global economy (Chart 4). A recent decision by OPEC+ to delay plans to increase output has helped to allay fears of oversupply. However, geopolitical risks, including the potential escalation of the conflict in the Middle East that could reduce supply in the near term, are adding to the volatility in prices. WTI is now forecast to average US$74.00/bbl in 2024-25, same as budget but US$2.50/bbl lower than the first quarter.

Additional egress capacity from the Trans Mountain Pipeline Expansion (TMX) is helping to strengthen and stabilize Alberta's heavy oil prices, particularly during periods when the differential typically widens. Higher demand for heavier crude grades has also contributed to a narrower light-heavy differential so far this year. The light-heavy differential is expected to average US$14.00/bbl 2024-25, US$0.40 and US$2.00 narrower than the first quarter and budget forecasts, respectively. This, along with a weaker Canadian dollar, has helped to offset the impact of lower WTI prices. As a result, Western Canadian Select (WCS) price is expected to be higher. It is forecast to average Cdn$81.80/bbl in 2024-25, Cdn$5.00 higher than budget.

CHART 4: DEMAND CONCERNS TO WEIGH ON NEAR-TERM OUTLOOK FOR WTI

Oil prices



Source: Alberta Energy and Alberta Treasury Board and Finance; f-forecast

Natural gas prices subdued

Natural gas prices in Western Canada remain under pressure. AECO, the Western Canadian natural gas price benchmark, has held mostly below Cdn$1 per gigajoule (/GJ) since the spring. Robust production, coupled with weaker demand, has led to a build-up in storage inventories. The Alberta Reference Price (ARP) is now forecast to average Cdn$1.20/GJ in

2024-25, down from Cdn$1.80/GJ in the first quarter and $2.90/GJ in budget. Looking ahead, the completion of LNG Canada's Phase 1 in 2025 is anticipated to improve market access for Western Canadian natural gas, providing an outlet for production in the region and potentially supporting price stability over the long term. This expanded export capacity will enable Western Canadian producers to access new international markets, particularly in Asia, where demand for LNG is expected to remain strong.

Oil key driver of output and investment

Despite the recent volatility in oil prices, Alberta's energy sector continues to drive growth in business activity and output. Rigs drilling held up throughout the spring break period and advanced 8.9 per cent y/y in October to a five-year seasonal high. Although oil production dipped temporarily due in part to maintenance activities, it has risen 4.5 per cent year-to-date (YTD). The completion of TMX in early May has boosted Alberta's takeaway capacity and improved access to the U.S. West Coast and Asian markets for Alberta's crude. Strong production levels and inventory drawdowns are expected to lift oil export volumes by 5.0 per cent this year, exceeding the first quarter and budget forecasts of 4.5 and 3.0 per cent, respectively. Growth is projected to ease to 2.7 per cent next year, in line with a more moderate increase in Alberta's oil production, which is forecast to surpass 4.0 million barrels per day (bpd) in 2025.

Natural gas, however, remains a weak spot. Some producers have deferred activity or shut in production in response to low prices, which is weighing on natural gas output. Next year, natural gas production is expected to bounce back as prices partially recover.

Investment in the oil and gas extraction sector is forecast to rise 9.2 per cent in 2024 and 6.4 per cent in 2025, on the back of expanded pipeline capacity. Growing bitumen production is expected to lift sustaining capital in the non-conventional sector, while strategic spending remains focused on small-scale expansions and optimization projects.

Non energy output slow to pick up

Weakness in agriculture and manufacturing products continues to weigh on business output. The value of non-energy goods exports has pulled back sharply from its recent high and is down 3.1 per cent YTD through September. While the decline so far this year has been largely driven by farm, fishing & intermediate food products, other categories such as chemicals and industrial machinery & equipment have also contributed to the weakness. Similarly, manufacturing sales have fallen to its lowest level since August 2023 and are down 2.3 per cent YTD, reflecting declines in both durable and non-durable goods. These have been partly offset by higher shipments of food manufacturing and wood products, which continue to benefit from Alberta's rapid population growth and booming residential construction activity.

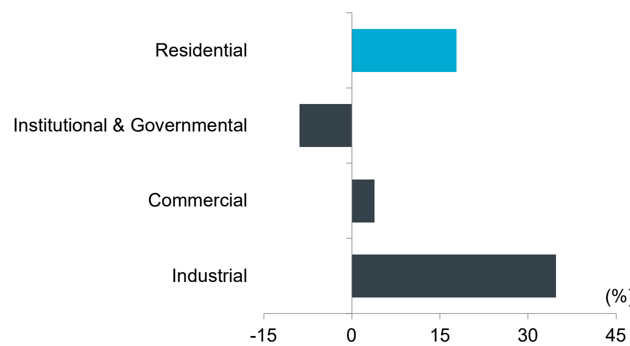
Given the YTD weakness, growth in overall real manufacturing exports has been revised down to 0.5 per cent this year before rebounding to 2.4 per cent next year. Meanwhile, growth in services exports is expected to remain solid in 2024 and 2025 on the back of expanded pipeline capacity and strong demand for Alberta's crude oil.

Industrial sector propping up investment

Non-residential investment in Alberta's private sector is being driven by strong activity in industrial building construction. Spending on industrial building has ramped up to its highest level since 2016 and is up 35 per cent YTD (Chart 5). While some of this momentum reflects higher prices, activity is also underway or ramping up in a number of major projects, such as the DOW Path2Zero project.

CHART 5: INDUSTRIAL SECTOR LEADS GROWTH IN INVESTMENT

Year-to-date growth in building construction investment



Sources: Statistics Canada and Haver Analytics

In contrast, other categories have been slow to gain momentum this year. Some major projects have either delayed or pushed back construction timelines. While business investment in machinery and equipment bounced back in the second quarter, it remains only 0.2 per cent higher YTD. Engineering construction spending has also eased from last year's high levels, due in part to many large-scale pipeline and power projects wrapping up. Commercial building investment continues to decline, as ongoing weakness in retail buildings and warehouses outweighing a pickup in office investment.

With the other categories lagging, investment outside oil and gas extraction has been revised downward and is expected to remain flat this year before rebounding by 8.8 per cent in 2025. The stronger growth next year partly reflects the impact of falling interest rates, as well as certain projects delaying construction. Investment will also get an additional boost from $3.4 billion worth of new projects that have been announced since the first quarter update, with most of the investment occurring in 2025.

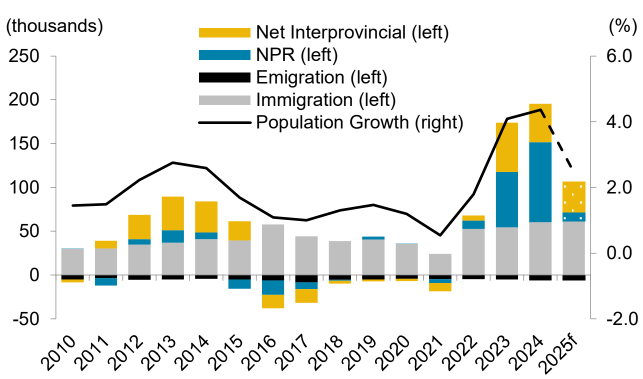
Population growth decelerating

Following two years of exceptional population gains, Alberta is expected to see population growth slow significantly in 2025. The federal government's immigration plan targets large net outflows of non-permanent residents (NPRs) and slower immigration. While Alberta is expected to be less impacted than other regions of the country, it will not be immune to this policy. The province's population is forecast to grow at 2.5 per cent in the 2025 census year, much slower than the 4.4 per cent in 2024. However, uncertainty remains regarding the implementation of the policy.

Although moderating from the exceptional highs of the last few years, population growth will continue to be supported by natural increase and migration. Net international migration in 2025 is expected to be about half of the preceding year, a result of the lower federal targets. Similarly, NPRs are expected to pull back. Alberta is forecast to see a slight net positive gain of NPRs in the 2025 census year (Chart 6) and outflows starting in 2026. Net interprovincial migration is forecast to soften from last year's record level but remain historically strong due to Alberta's continued affordability advantage. Overall, the province is forecast to add nearly 120,000 new residents in the 2025 census year.

CHART 6: SHARP PULLBACK IN NPRS A DRAG ON POPULATION GROWTH IN 2025

Annual change in the Alberta population by migration component by census year



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

Employment gains slowing

Momentum in Alberta's labour market is shifting down after strong gains earlier in the year. The province has added more than 40,000 jobs since December 2023, but y/y growth eased to 2.4 per cent in the third quarter. This is the slowest pace post-COVID. The deceleration was widespread, with annual gains slowing in both the goods and service sectors and predominantly in full-time positions. Employment in retail & wholesale trade and professional, scientific & technical services fell y/y, while hiring in some industries was tepid. At the same time, the job finding rate has slowed and job vacancies continue to decline, although they are still above pre-COVID levels. Employment is now forecast to rise 2.9 per cent this year, slightly lower than the first quarter and budget forecast of 3.0 per cent. Despite the slowdown, employment remains solid, outpacing the national average.

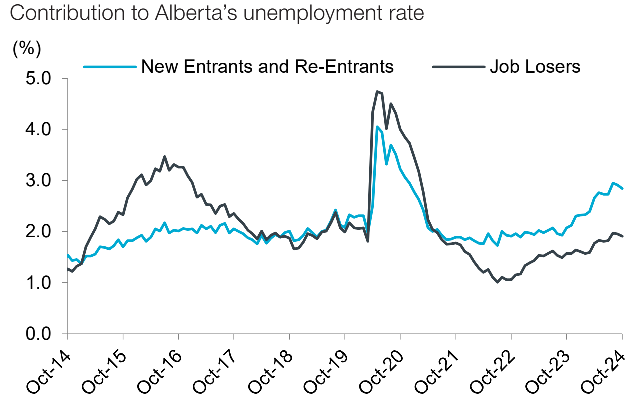
The province is expected to continue adding jobs next year, although at a much slower pace. Weaker gains in the fourth quarter, coupled with downward revisions to consumer spending and non-residential business investment in 2025, suggest that employment growth will decelerate further next year. Employment is forecast to rise 2.1 per cent in 2025, down 1.0 percentage point from the first quarter and budget.

Unemployment to stay high

Cooling labour demand and the surging population over the last few years is keeping unemployment elevated in the province. The increase in unemployment over the past year has been particularly notable among youth and less-experienced workers, although all cohorts have experienced higher unemployment rates. The rise, however, has not been driven by layoffs, but rather by more people entering the labour force who are unable to find work (Chart 7). While the unemployment rate dipped for the second consecutive month

CHART 7: UNEMPLOYMENT RATE RISING WITH NEW ENTRANTS

Contribution to Alberta's unemployment rate



Sources: Statistics Canada and Alberta Treasury Board and Finance calculations to 7.3 per cent in October, it remains high. It is now projected to average 7.2 per cent this year, up 0.2 and 0.7 percentage points from the first quarter and budget forecast, respectively.

Even with the slower population growth next year, the unemployment rate in the province is expected to rise further as the labour market takes some time to adjust. It is forecast to average 7.4 per cent in 2025, higher than the first quarter and budget. Job gains are expected to lag behind, but a decline in the labour force participation rate will take some pressure off the unemployment rate.

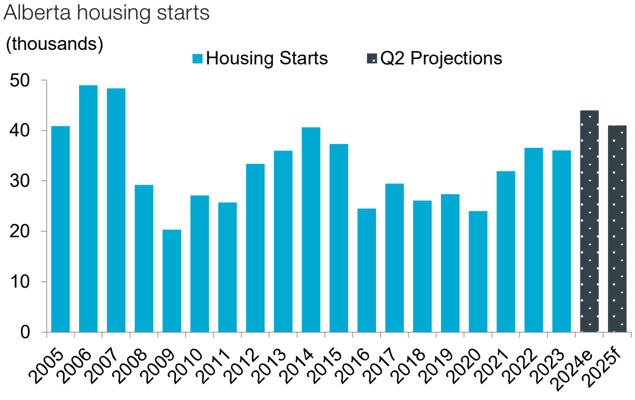
The high unemployment in the province is masking some of the imbalances in the labour market. Despite elevated unemployment, wages in the province continue to post strong gains. So far this year, average hourly wages are up 4.2 per cent, driven by the oil & gas, construction, professional & scientific services, and the finance/real estate sector. As investment ramps up in the province, demand for skilled workers is expected to keep wage growth strong next year.

Residential construction holding strong

Activity in Alberta's residential construction sector remains robust. Although housing starts have eased from their recent peak, they remain elevated and averaged nearly 49,000 units in the third quarter of 2024, the highest quarterly level since 2007. The increase has been supported by a ramp-up in hiring, with payroll employment in the residential building construction sector up more than 8.5 per cent through August. Given the YTD strength, housing starts in the province are now expected to average 44,000 units this year, exceeding the first quarter and budget expectations. This is expected to boost real residential construction investment, which is forecast to rise 12 per cent in 2024.

CHART 8: HOUSING STARTS TO HOLD ABOVE 40,000 UNITS NEXT YEAR

Alberta housing starts



Sources: Canada Mortgage and Housing Corporation, Haver Analytics and Alberta Treasury Board and Finance; f-forecast

Resale activity is cooling down from last year's blistering pace but remains strong. This reflects the supply of new homes coming online and a rotation in sales from Calgary to Edmonton. Home sales in Calgary are down slightly YTD, with higher house prices and limited inventory of lower priced homes constraining activity. In contrast, better affordability has fueled double-digit sales growth in Edmonton so far this year. With the strong gains in Edmonton and moderation in Calgary, the sales-to-new-listings ratio in Edmonton surpassed that of Calgary for the first time since March 2022, signaling tighter housing market conditions.

Next year, housing starts are forecast to continue at a robust pace of about 41,000 units as supply continues to catch up with the increase in demand from Alberta's population boom over the past few years (Chart 8). Falling interest rates are also expected to encourage homebuyers to move off the sidelines, supporting both resale and construction activity. This, combined with strong momentum in residential construction during the latter half of this year, should lift real investment to grow 4.8 per cent in 2025. Additionally, renovation spending is projected to rebound next year, fueled by lower interest rates and improving sentiment.

Broader price pressures easing

Alberta's consumer inflation continues to drift lower as price pressures moderate across many categories. With prices declining in the last two months, inflation fell below two per cent y/y in September, the slowest pace since June 2023. Energy prices plunged in the month and were down almost 11 per cent from a year ago, led by a sharp decline in gasoline prices which was partly driven by weaker oil prices. Electricity prices have also come down from last year's heightened levels. Sluggish demand is weighing on prices for durables and semi-durables, which are both lower compared to a year ago. Meanwhile, food inflation has slowed in recent months but continues to outpace headline inflation.

Inflation is now expected to average 2.9 per cent in 2024, down slightly from the first quarter update but 0.4 percentage points higher than budget. Shelter cost remain the biggest driver of inflationary pressure this year, fueled by strong growth in rent and home ownership cost. Both were up 12 per cent and 7.0 per cent y/y in September, respectively, although they have eased from their recent peaks. Shelter inflation is expected to moderate further next year as more housing supply comes into the market and lower interest rates weigh on mortgage interest cost. This, combined with lower oil prices, should dampen inflation to 2.0 per cent in 2025.

Some relief for consumers

While households continue to hold back on spending, moderating inflation and interest rate cuts are starting to provide some much-needed relief. Growth in consumer insolvencies is easing compared to the elevated pace seen earlier this year, while mortgage arrears in Alberta are down 10 per cent y/y compared with a 28 per cent increase in Canada.

There are early signs that improving confidence and past interest rate cuts are having an impact on spending. Retail sales at motor vehicles and gasoline stations still remain down, partly reflecting lower prices, but core retail sales (which exclude motor vehicles and gasoline station) appear to have bottomed out in June. They are up 2.4 per cent YTD and overall retail sales have been up on a y/y basis in four of the last five months.

Real consumer spending is now forecast to rise 3.3 per cent in 2024, down slightly from the first quarter and budget. A deceleration in population and household income growth in 2025 is expected to weigh on growth in real consumer spending, which is forecast to slow to 2.6 per cent.

The impact of interest rate cuts will take time to permeate through the economy. On a per capita basis, real consumer spending is expected to decline this year before improving in 2025. As interest rates decline further further and sentiment improves, households are expected to feel the benefits more noticeably in the latter half of next year.

Contact Catherine Rothrock at
TBF.ERFPublications@gov.ab.ca