

# Economic Trends

Alberta's labour market continues to adjust amid a pickup in population growth. Modest job gains so far this year have been underpinned by continued rotation to full-time work. The unemployment rate has come down to a two-year low. Year-over-year growth in goods exports has moderated from last year's pace but remains solid, with non-energy exports providing some lift. A record level of farm cash receipts in 2017 bodes well for the agricultural sector, while direct international visits into Alberta are boosting the tourism sector. This month's inFocus is the first of a three-part series exploring the province's most recent recession and recovery.

## Alberta Household Sector

### Population growth picking up

Alberta's population continues to grow at a faster rate. It rose to 4,334,025 as of April 1, 2018, an increase of 15,253 (+0.35%) from the previous quarter. On a year-over-year (y/y) basis, growth accelerated from a low of 1.2% in the same quarter last year to 1.4% as net interprovincial migration continued to pick up. Alberta's population growth

## Key Indicators

Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	April	+2.3%	-2.2 p.p.
Employment (thousands)	May	2,326	+1.6%
Unemployment Rate	May	6.2%	-1.6p.p.
CPI Inflation (unadjusted)	May	2.6%	+1.4 p.p.
Retail Sales	April	\$6.8 B	+2.2%
Housing Starts (annualized)	May	36,471	+11.7%
Rigs Drilling (unadjusted)	May	67	+9.1%
Manufacturing Shipments	April	\$5.8 B	-2.4%
Exports (unadjusted)	April	\$9.0 B	+9.4%

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

was bolstered by the strongest natural increase among the provinces and a substantial amount of net international migration.

### Underlying labour market strength

The labour market continues to improve despite modest gains in headline employment. Though the economy has added only 5,800 jobs since the

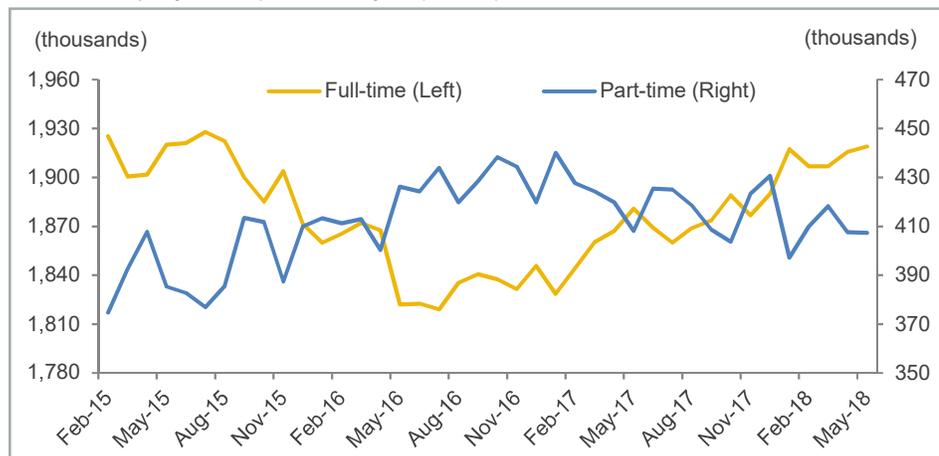
beginning of the year, full-time positions have increased by more than 29,000 (Chart 1). The number of unfilled jobs is also on the rise while unemployment and the number of employment insurance beneficiaries have dropped significantly. The unemployment rate has made a dramatic improvement, falling to a two-and-a-half-year low of 6.2% in May.

### Resale housing market adjusting

Home sales in the province appear to be levelling off as the initial impact of new mortgage rules on activity is starting to fade. While sales have stabilized at lower levels after slumping in the first quarter, new listings continued to move higher. Hence, the number of months of inventory jumped to a seven-year high of 8.0 in May. The average resale house price fell to a two-year low of \$383,905. However, this appears to be partly due to higher mortgage rates and stricter borrowing rules shifting buyers to lower priced homes. Adjusted for quality, house prices as measured by the MLS composite price index inched up in Calgary and Edmonton.

**Chart 1: Modest job gains driven by continued rotation to full-time work**

Alberta employment (seasonally adjusted)



**Source:** Statistics Canada

## Alberta Business Sector

### Non-energy sales buoy merchandise exports

Merchandise exports remain solid despite wild swings earlier in the year. The value of goods exports was up 6.3% year-to-date (YTD) in April. Though energy exports eased from January's three-year high, they were up 5.7% YTD. Building off a 26% surge in March, exports of non-energy products reached a record level in April (Chart 2). Growth so far this year has been bolstered by stronger volumes of chemical and agricultural exports, while higher lumber prices have boosted exports of forestry products. With the recent growth, the share of non-energy has grown for three consecutive months and accounted for a third of Alberta's international exports in April.

### Light-heavy differential remains volatile

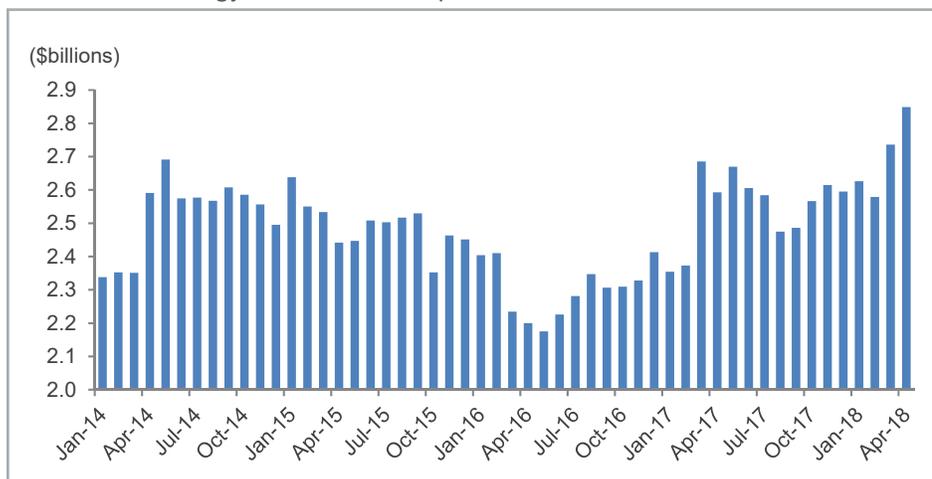
Limited pipeline and rail takeaway capacity amidst growing production in Western Canada has caused the light-heavy (WTI-WCS) differential to be particularly volatile. Following a pipeline outage in late 2017, the differential widened to a four-year high, averaging \$26/bbl in the first quarter due to insufficient rail availability to move Western Canadian crude to export markets. Production cuts and seasonal maintenance shutdowns helped to bring down the differential temporarily to US\$15/bbl by mid-May. However, a brief CP rail strike and an uptick in production following maintenance once again caused the differential to widen back above US\$20/bbl in recent weeks. This volatility in the differential is likely to persist until additional takeaway capacity becomes available.

### Farm income remains strong

Alberta farmers continue to enjoy healthy farm incomes. 2017 was a record year for net cash income, realized net income and farm cash receipts. The province's agricultural sector posted annual farm cash receipts exceeding \$14 billion for the first time, up 4.5% from 2016. The increase was fueled by solid gains in both livestock and crop market receipts plus program payments to producers. Crop receipts were a record \$6.9 billion and 3.9% above 2016, mostly driven by higher wheat and canola sales. Although farm operating costs grew to \$10.5 billion, Alberta posted the second highest net farm income in the country, with realized net income reaching a new peak of \$1.8 billion in 2017.

### Chart 2: Non-energy goods exports have risen to reach an all-time high

Value of non-energy merchandise exports in Alberta



Source: Statistics Canada

### Solid direct visits boost tourism

Alberta's tourism sector continues to get a lift from solid levels of direct international visits. Over 214,000 tourists from the US and other countries entered the province in the first four months of 2018, up 4.7% from the same period last year. Hotel occupancy rates in the first quarter were higher compared to last year in the resort-areas as well as in Edmonton and Calgary. With economic and labour market conditions improving, a growing number of Albertans are taking trips abroad. There were over 247,000 Alberta tourists (seasonally adjusted) who returned from international locations in April, the highest since October 2014 and up 17% from recessionary low levels.

### Outside Alberta

#### OPEC to raise output

OPEC and other major producers have agreed to boost production amid robust global oil demand and tightening supply. OPEC and its allies are set to increase output by up to 1 million barrels per day after an 18-month pact to restrict crude oil supply. The deal allayed market fears of a glut of oil entering the market as it would take time to ramp up production in some of the OPEC member states. WTI jumped more than US\$3/bbl on the day of the announcement to just under US\$70/bbl. Recently, WTI has been at US\$73-74/bbl.

#### US tariffs, NAFTA weigh on Loonie

The Canadian dollar is coming under pressure due to increased trade-related uncertainties. In June, the Canadian dollar fell to around US¢75/Cdn\$ after averaging almost US¢78/Cdn\$ in May. The Loonie lost ground after Canada announced that it is retaliating with dollar-for-dollar tariffs against US steel and a range of other imported products from the US starting in July.

### Contact

[Kathleen Macaspac](#) 780.427.8841

# inFocus

## Are we there yet?

This inFocus is part 1 in a three-part series exploring the province's most recent recession and recovery. Part 1 focuses on where we are in the current recovery, while parts 2 and 3 will look at this downturn and recovery in the context of past cycles.

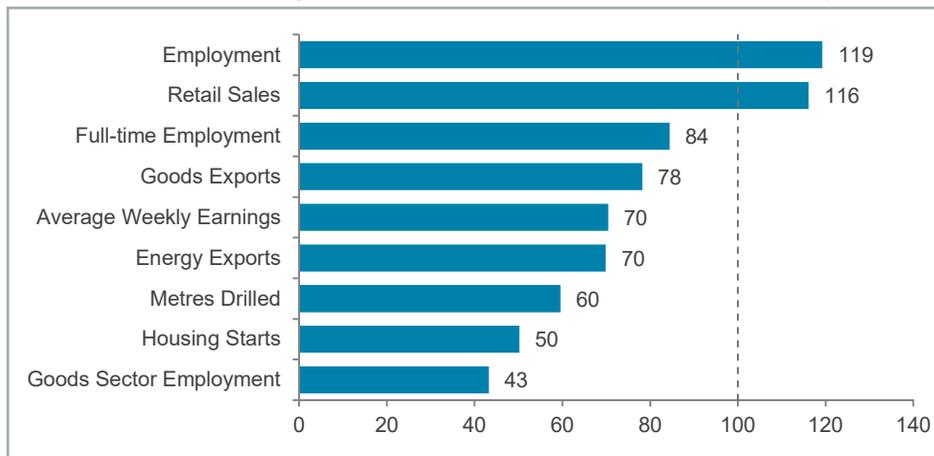
### Closing in on previous peak

Alberta's economy is two years into recovery from one of the worst recessions on record. According to the Alberta Activity Index (AAX), aggregate provincial activity has regained about 80% of peak-to-trough losses as of April. Behind the solid rebound in the headline indicator, the recovery has been uneven, with some

segments of the economy further along than others (Chart 1). While retail sales and employment are fully recovered (Chart 2), many economic indicators have further to go. Goods exports and Average Weekly Earnings (AWE) are well on their way, while goods sector employment and oil sands investment are further behind.

### Chart 1: Some indicators already recovered

% of recession losses regained to date in Alberta indicators, seasonally adjusted



Sources: Statistics Canada, Alberta Treasury Board and Finance, Alberta Energy Regulator, Canada Mortgage and Housing Corporation

### Quick recovery in retail sales

The first major economic indicator to recover its recessionary losses was retail sales, which reached new highs in May 2017. A substantial increase in sales at new vehicle dealerships spurred the rapid recovery. After two years of economic uncertainty that kept buyers on the sidelines, sales of new vehicles jumped from multi-year lows to near record levels in early 2017. Sales in other retail categories picked up in the second half of 2017 as an improving labour market boosted consumer confidence.

### Headline employment recovered

Employment surpassed its pre-recession peak in December 2017, six months after retail sales recovered. Employment has been supported by the service sector, which was mostly unaffected by the recession and continued to expand throughout 2015 and 2016. Recovered jobs have been in full-time positions. Full-time employment has regained 84% of recessionary losses.

### Chart 2: Retail sales and employment fully recovered

Alberta indicators, seasonally adjusted



Source: Statistics Canada

Though headline employment has fully recovered, many labour market indicators have not. Goods sector employment has regained just 43% of peak-to-trough losses. Construction sector employment has been particularly weak, failing to pick up from recessionary levels. While the unemployment rate has improved dramatically since peaking in November

2016, with fewer job opportunities in the goods sector, it remains well above pre-recession levels.

Ongoing slack in the labour market kept wages flat well into 2017. This, along with a slow recovery in goods sector employment, delayed the recovery in AWE. AWE didn't start to pickup until last spring (Chart 3). It has regained just over two-thirds of peak-to-trough losses.

**Exports on track**

The value of Alberta goods exports is well on its way to recovery, having regained nearly 80% of peak-to-trough losses. Energy-product exports were hit especially hard by the recession and have played an important role in the recovery (Chart 4). Strength has come from steadily rising oil production in the province as industry harnesses a wave of oil sands capital investment that took place between 2010 and 2014. A return to full capacity following the Fort McMurray wildfires reinforced the recovery.

Non-energy exports have bolstered the recovery. After only mild declines during the downturn, non-energy exports started improving last spring and have now surpassed its pre-recession peak. Strong lumber prices and US demand have supported the forestry sector, while capacity expansions have boosted agri-food and chemical product exports.

**Drilling comeback**

Metres drilled for oil and gas in the province have regained about 60% of peak-to-trough losses. Since bottoming out in February 2016, global benchmark oil prices have improved. As a result, conventional oil drilling activity, which is quite responsive to prices, is about two-thirds recovered. Drilling for bitumen and investment in oil sands have been slower to respond and remain subdued. This, along with low natural gas prices, has kept the recovery in drilling and energy investment in check.

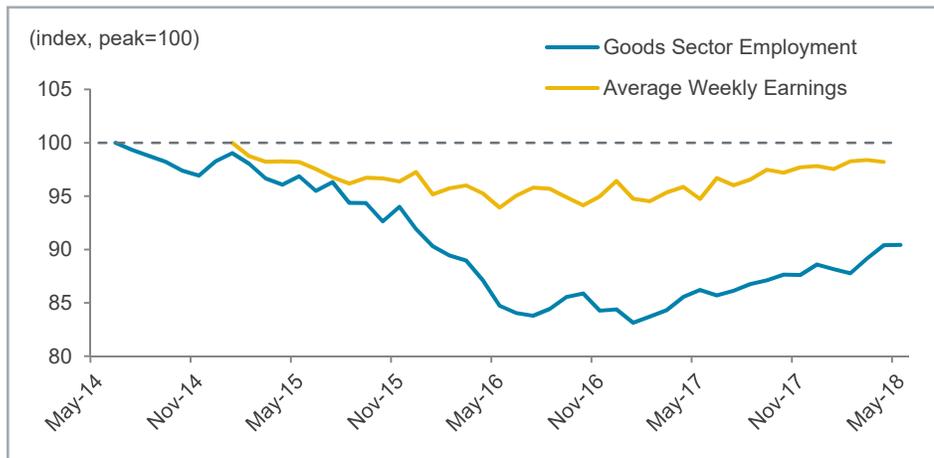
**Investment lagging**

Like oil sands investment, investment in commercial projects remains subdued. Fortunately, after providing a welcomed buffer during the recession, public sector construction spending continues to counteract weakness in other areas.

**Housing market soft**

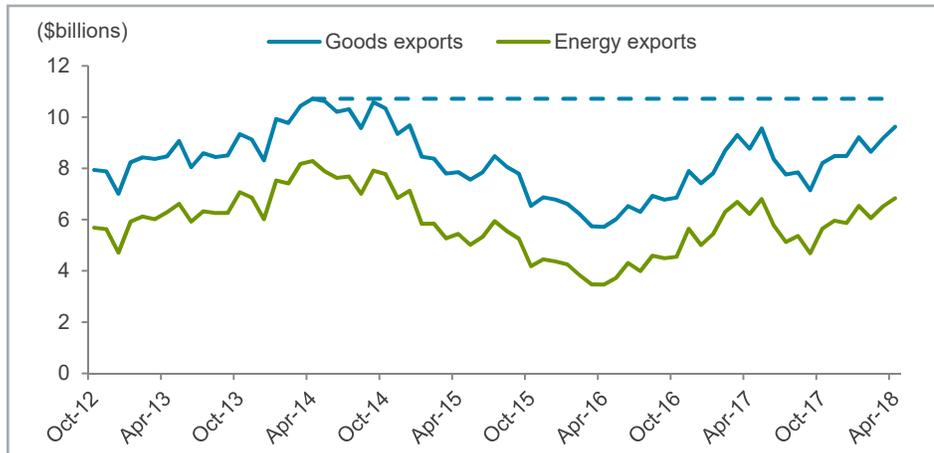
New mortgage rules and rising interest rates have dampened Alberta housing activity. Alberta housing starts have recovered just half of peak-to-trough losses, while Alberta's resale housing market remains subdued. Sales remain modest and inventories have increased to a seven-year high. The average resale price, which stayed resilient through the downturn, has weakened in recent months. Some of the weakness has been compositional, as stricter mortgage rules and rising interest rates are moving buyers to purchase smaller homes.

**Chart 3: Lagging recovery in goods sector jobs weighs on earnings**  
Alberta labour market indicators, seasonally adjusted



Source: Statistics Canada

**Chart 4: Energy exports boost recovery**  
Alberta goods exports, seasonally adjusted



Source: Statistics Canada

**Contact**

[April Seburn](#) 780.427.7543  
[Robert Van Blyderveen](#) 780.638.5628