

Economic Trends

October 2023

Activity in the province has been resilient in the face of higher interest rates, prices, and headwinds from a slowdown in the global economy. While slower global demand is weighing on exports, agriculture and energy sector output continues to be strong. Private sector investment is gaining some momentum and there are signs of relief for Alberta's tight housing market, with residential construction picking up. However, rising costs continue to pose a challenge to both consumers and businesses. Consumer confidence has pulled back sharply, with Albertans appearing to put the brakes on spending. Higher costs and concerns over waning demand are also dampening small business sentiment in the province.

Weakness in China and Europe

Although global economic activity has held up better than expected so far this year, a considerable divergence in growth across major economies has emerged. China's economic momentum slowed significantly in the second quarter of 2023 as the ongoing crisis in the property sector weighed on domestic demand (Chart 1). China's industrial production and exports also declined amid slowing global demand. While growth accelerated in the third quarter 2023, China's economy is forecast to expand less in 2023 than previously anticipated. This weakness has also weighed on the manufacturing activity and exports in the European Union, particularly in Germany. In contrast, U.S. real GDP growth has

KEY INDICATORS (AS OF OCTOBER 31, 2023)

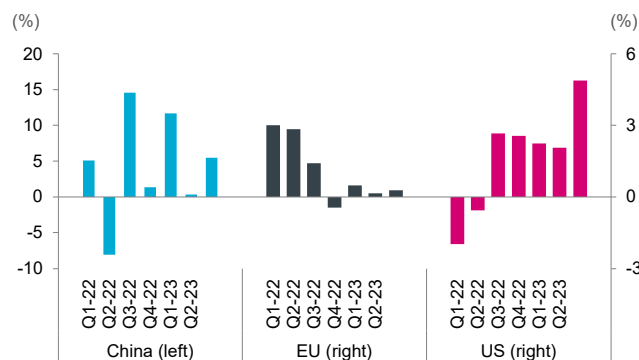
Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	Jul	0.9%	-4.0 p.p.
Employment (thousands)	Sep	2,449	+2.8%
Unemployment Rate	Sep	5.7%	0.3 p.p.
CPI Inflation (unadjusted)	Sep	3.7%	-2.5 p.p.
Retail Sales	Aug	\$8.5 B	+2.3%
Housing Starts (annualized)	Sep	49,095	19.9%
Rigs Drilling (unadjusted)	Sep	139	-10.6%
Manufacturing Shipments	Aug	\$8.7 B	-3.3%
Exports (unadjusted)	Aug	\$15.2 B	-19.7%

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

exceeded expectations, accelerating to an annualized pace of 4.9% in the third quarter. Residential investment bounced back, while consumer spending sped up with tightness in the labour market offsetting headwinds from higher interest rates. Meanwhile, Canadian real GDP was flat in the Q2 2023 due to a combination of transitory events, such as wildfires and strikes in the public sector, and tighter financial conditions.

CHART 1: GROWTH HAS SLOWED IN THE EU AND CHINA

Quarter-over-quarter annualized growth



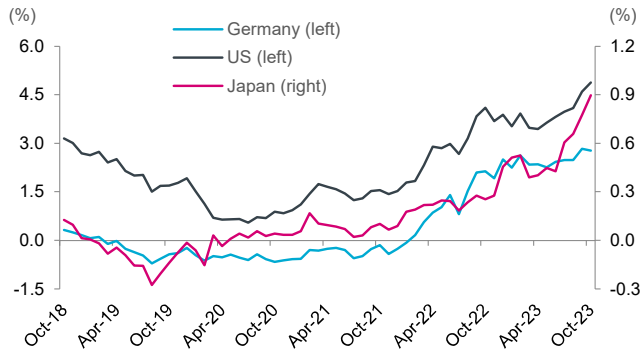
Sources: China National Bureau of Statistics, Statistical Office of the European Communities, Bureau of Economic Analysis and Haver Analytics

Long-term interest rates surge

Bond market expectations have shifted dramatically over the last few months. Long-term yields have surged in most advanced economies, reflecting a shift to "higher for longer" sentiment (Chart 2). In the U.S., the yield on the 10-year Treasury note has soared amid a string of better-than-expected economic indicators, which has led the U.S. Federal Reserve to project slower monetary easing next year. More recently, increased concerns over growing U.S. debt issuance and mounting federal deficits have pushed the 10-year U.S. Treasury yield to 5% for the first time since July 2007. In Europe, stubbornly high inflation has led to expectations that the ECB will keep policy rates higher for longer despite a slowing economy. Meanwhile, Japan's 10-year government bond yield surged in response to growing expectations that its policy interest rate will turn positive, as indicated by Bank of Japan's recent decision to raise the cap on long-term yields to 1.0% from 0.5%.

CHART 2: LONG-TERM YIELDS SOARING IN MAJOR ECONOMIES

Yields on 10-year government bonds, End of Period



Sources: Deutsche Bundesbank, U.S. Treasury, Ministry of Finance Japan and Haver Analytics

Oil prices bounce back

Global oil prices recovered in the third quarter of 2023 after moving lower in the first half of the year. Weakness in global demand and slower-than-expected growth in China pulled the WTI oil price down to average US\$74.95/bbl (-26% year-to-date or YTD) through June. WTI has since rebounded to an average of US\$82.26/bbl in the third quarter. The rally has been supported by Saudi Arabia and Russia's extension of their voluntary supply cuts and lower crude oil stocks in the U.S. With the Israel-Hamas conflict adding to uncertainty, WTI has become even more volatile but has remained above US\$80/bbl.

Energy sector well positioned for growth.

Alberta's energy sector output is getting back on track after temporary setbacks. Non-conventional oil production has fully recovered in July following an abnormally large maintenance period. Conventional oil production has also bounced back from its recent low in May, when wildfires impacted activity, and is up 6% YTD. Despite the temporary pullback, volumes of both light and heavy oil exports have remained strong and are up 3.7% and 3.3% YTD, respectively. Although wildfires dampened natural gas production in the spring, export volumes are up 32% YTD. The growth in production and exports reflects the strong increase in drilling activity last year and rising number of wells coming online. The average number of rigs drilling has remained at solid levels this year just slightly below last year's levels.

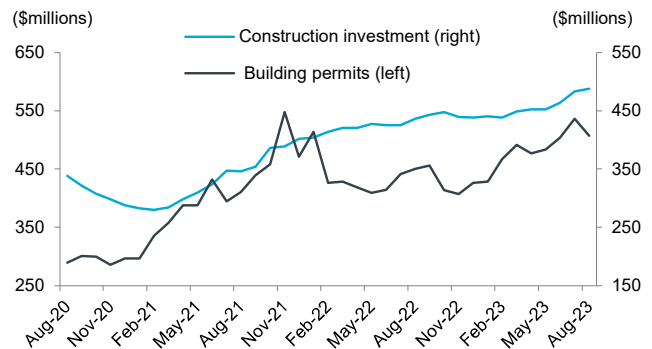
Improvement in private building investment

With many new projects announced in the province over the last year, investment in non-residential building construction is finally gaining some momentum. Total investment increased for the third month in a row in August, led by private sector (commercial and industrial buildings) investment (Chart 3).

The latter has accelerated after making modest gains in the first five months of the year and is up 6.9% YTD through August. The improvement is the result of a jump in investment in recreation facilities and factories, and ongoing growth in spending on warehouses. Non-residential building permits – a leading indicator of activity – have also improved this year. They were up 7.6% YTD, led by a surge in industrial permits (+41% YTD) and strong growth in commercial permits (+11% YTD).

CHART 3: PICKUP IN PRIVATE NON-RESIDENTIAL CONSTRUCTION

Investment and building permits for commercial and industrial buildings



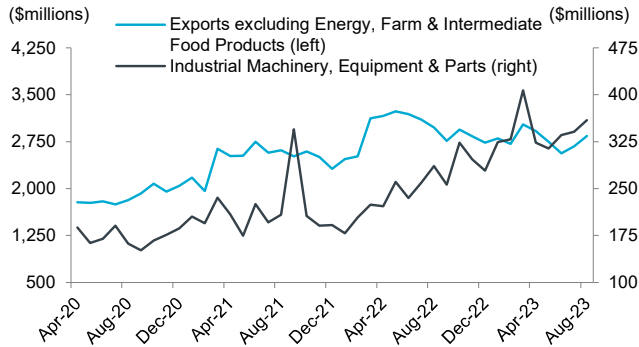
Sources: Statistics Canada and Haver Analytics

Ag, Energy, M&E propping up output

Even though export volumes of oil and agriculture products have remained strong, the value of Alberta's business output has trended lower since peaking in 2022. While lower commodity prices have played a significant role, weaker demand has also been a factor. There have been broad-based declines in many categories, most notably metal ores & non-metallic minerals, forestry products & building & package materials, and basic & industrial chemical, plastic & rubber products. One bright spot is machinery and equipment (M&E) exports, which have surged 14% over the last three months and were up 26% year-over-year (y/y) in August (Chart 4). The recent strength is a continuation of a trend that started in early 2022 and is also seen in wholesale trade, where M&E has made strong gains over the last two years and was up 16% YTD in August. Sales of machinery manufacturing are also at their highest level since late 2014 and are up 26% YTD. This, along with strong output in agriculture and energy sectors, has partially offset the weakness in other categories. Overall exports are down 17% YTD and manufacturing shipments down 3.3% YTD.

CHART 4: STRONG GROWTH IN M&E OFFSETTING WEAKNESS IN OTHER CATEGORIES

Year-over-year growth in Alberta's exports by category



Sources: Statistics Canada and Haver Analytics

Labour market remains solid

Momentum is slowing in Alberta's labour market but job prospects remain strong. September's abnormally big decline in employment (-37,800) followed several months of large gains that added over 78,000 jobs over the first 8 months of the year. Even with the monthly decline, employment was up 3.4% through three quarters. The unemployment rate has held steady at 5.7%, a nine-month low and well below pre-COVID levels, and Alberta's employment rate is still the highest among the provinces (64.5%). Wages have also accelerated in recent months and were up 5.7% y/y in September. While job vacancies have pulled back in three of the last four months, they remain high.

Record population growth

Alberta's population continued to expand at a rapid pace in the second quarter of 2023. Between April 1st and July 1st, Alberta's population grew by 50,061, or 1.1%, the highest

second-quarter population growth on record. International migration (31,371) contributed the most to this rapid growth, boosted by a record increase in non-permanent residents (17,736). Meanwhile, Canadians from around the country also continued to move to Alberta, with a net interprovincial of 13,926. Over the last twelve months, the province's population expanded by 184,000, or 4.1%, the highest annual growth rate since 1981 (Chart 5).

Housing market tight

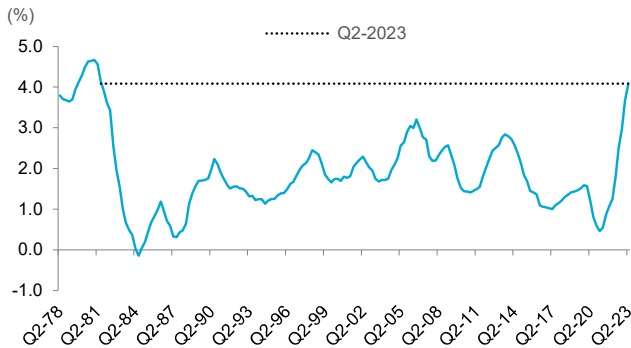
Alberta's population growth has led to tightening in the province's housing market this year. Rental vacancy rates have declined from around 5.0% to 2.1% in Edmonton and 1.5% in Calgary. At the same time, the number of completed and unabsorbed new dwellings has trended down in Edmonton and remained at historically low levels in Calgary. Sales activity in the resale market across the province has recently reached elevated levels only seen during early 2007 and the COVID recovery. The strong sales have brought months of inventory to a historic low. With the limited supply, prices have increased. Despite higher mortgage rates, Alberta's benchmark home price index was 5.8% year-over-year in September, while rent for multi-family rentals increased in both Calgary (+11% y/y) and Edmonton (+5.7% y/y) in the third quarter.

Housing costs are rising

While headline consumer inflation has cooled substantially in 2023, housing costs are accelerating. Shelter inflation has been on the rise since February and surged to a 15-year high in August as rising mortgage interest costs have been joined by surging rent and electricity prices. Mortgage rates have been on the rise for more than a year. This, along with higher prices for homes, have led to a significant increase in mortgage interest cost for borrowers with variable rate mortgages or those renewing their mortgages. Meanwhile, rents have increased for eight consecutive months and were

CHART 5: POPULATION GROWTH AT A 40 YEAR HIGH

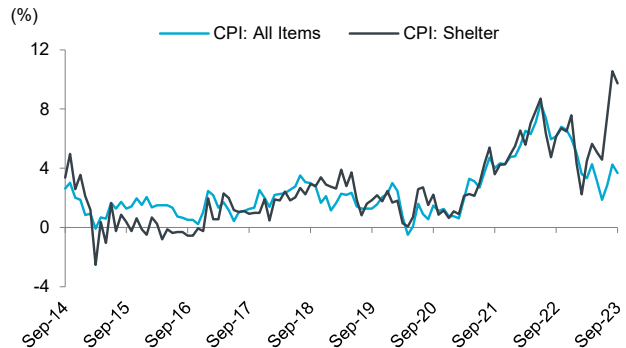
Year-over-year growth in Alberta's population



Sources: Statistics Canada and Haver Analytics

CHART 6: SHELTER COSTS LIFTING INFLATION

Year-over-year growth in consumer prices



Sources: Statistics Canada and Haver Analytics



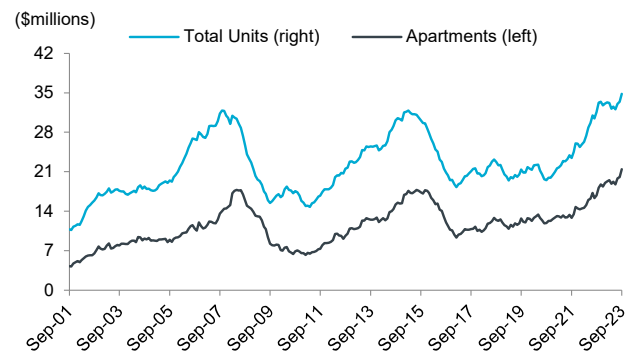
up 8.5% y/y in September, the highest growth since January 1983. At the same time, many renters and homeowners are also dealing with record-high prices for electricity. Electricity prices, as captured in the CPI index, are at record levels and were up 113% y/y September, reflecting the removal of the provincial affordability measures and strong demand. With higher mortgage rates, rent and electricity prices, shelter costs have become a major driver of headline inflation (Chart 6).

Residential construction picking up

Supply is responding to Alberta's tight housing market, with residential construction gaining momentum after turning a corner over the summer. Housing starts have surged over the past three months to reach the highest level since 2015. While single-detached housing starts continue to trend higher, the recent strength has been concentrated in apartment starts, which surged to a 15-year high (Chart 7). This strength in housing starts has been mirrored by gains in building permits. Both the value and the number of units being created within issued building permits have also picked up and remain well above pre-pandemic levels. The recent acceleration has added to gains made earlier in the year, and the total number of dwelling units under construction in Calgary and Edmonton has grown to a record high. A total of 34,859 dwelling units are under construction, with the majority being in apartments (62%). Residential construction has increased 7% since bottoming out in May.

CHART 7: APARTMENTS LEADING PICKUP IN RESIDENTIAL CONSTRUCTION

Units under construction in Edmonton and Calgary



Sources: CMHC and Haver Analytics

Consumption moderating

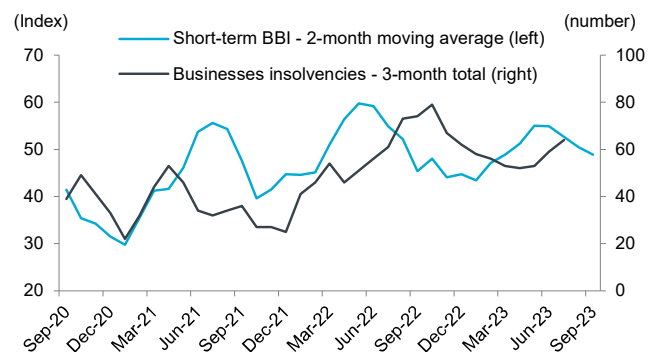
Alberta consumers are becoming more cautious. Higher costs are weighing on both consumer confidence and spending. While consumer sentiment bounced back in September, it remained lower than all other months since COVID. The easing confidence is in part due to higher interest rates and higher prices, which have lower sentiment towards making major purchases. The waning sentiment has weighed on retail sales. Despite rising prices and strong population growth, total sales have stagnated this year, and the year-over-year growth has moderated from 13% in January to 2.3% in August. While some of the slowing growth is due to lower gasoline prices, growth at motor vehicle dealers and building material & gardening equipment dealers has stalled.

Waning business confidence

After showing remarkable resilience in the first and second quarters, the business environment has started to soften in the province. Both the short- and long-term Business Barometer Index (BBI) decreased in September and October, and for the first time since November 2020, they were both below 50. This indicates expectations of weaker sales over the short and long term. The weakness in the outlook comes as small businesses are concerned about shortage of skilled labour and insufficient domestic demand. At the same time, higher prices for energy and insurance and growing tax and regulation burden are increasing operational costs. Business insolvencies also appear to be on the rise (Chart 8). The number of businesses that became insolvent exceeded 20 in June for the first time this year. In addition, Alberta's business formations edged downwards in September, taking a breather from August's record high.

CHART 8: BUSINESS CONFIDENCE EASES WHILE INSOLVENCIES RISE

Business Barometer Index (BBI) and businesses insolvencies



Source: CFIB, Statistics Canada and Haver Analytics

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Have a question? Send us an [email](#)