

Economic Trends

Business activity in the province remains solid, with ongoing gains in exports and manufacturing shipments. Private sector construction spending is also improving, driven by a recovery in industrial investment. However, ongoing pipeline bottlenecks remain a significant headwind. On the household side, renewed strength in private sector employment and widespread gains have bolstered earnings. Although, consumer spending is being hampered by rising interest rates and a pick-up in inflation.

Household Sector

Renewed strength in private sector

Employment continued to advance in the third quarter, underpinned by a shift in the composition of job gains. The province added 8,500 jobs quarter-over-quarter (q/q) as private sector employment surged to a three-year high in September (+15,900 q/q) while self-employment pulled back (-2,800 q/q). This was a shift from the first half of 2018

Key Indicators

| Indicator | Latest Month | Value | Change year-over-year (y/y) |
|-------------------------------------|--------------|----------|-----------------------------|
| Alberta Activity Index (y/y growth) | August | +3.9% | -1.4 p.p. |
| Employment (thousands) | September | 2,338 | +2.4% |
| Unemployment Rate | September | 7.0% | -0.8 p.p. |
| CPI Inflation (unadjusted) | September | 3.0% | +1.7 p.p. |
| Retail Sales | August | \$6.9 B | +3.2% |
| Housing Starts (annualized) | September | 22,295 | -23.6% |
| Rigs Drilling (unadjusted) | September | 134 | +5.1% |
| Manufacturing Shipments | August | \$6.6 B | +12.4% |
| Exports (unadjusted) | August | \$10.9 B | +34.2% |

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

when the recovery in private sector employment stalled and self-employment drove most of the gains. The rotation to full-time work also took a pause in the third quarter, with gains in part-time offsetting losses in full-time positions. With the labour force increasing, the unemployment rate reversed course, returning to its January 2018 level of 7.0% in September.

Widespread gains lift earnings

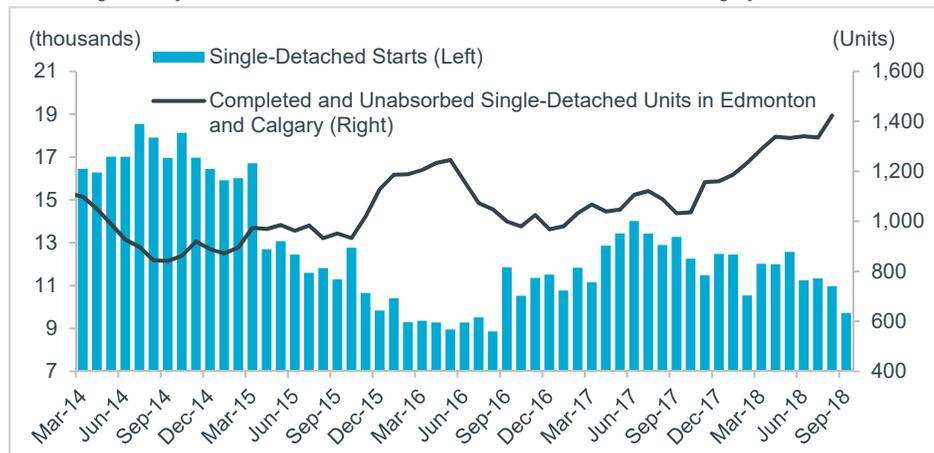
Average weekly earnings in the province have moved higher since May after being relatively flat in the first half of 2018. Broad-based gains lifted earnings in the service sector to a new high of almost \$1,040 in August, with management of companies, and finance and insurance rebounding from recent lows. This was further bolstered by retail and accommodation and food services, where earnings reached all-time highs on the back of double-digit annual growth. At the same time, earnings in the mining, oil and gas sector improved by 3.0% in the last two months following weakness in the second quarter of 2018. Year-to-date (YTD), earnings are up 2.7% through August.

Single-family a drag on activity

Housing starts have softened due to a pronounced slowdown in single-family units. Large swings in the apartment segment have resulted in spikes in headline housing starts

Chart 1: Single-family starts are slowing amid rising inventories

SAAR* single-family starts in urban centres and inventories in Edmonton and Calgary



Source: Canadian Mortgage Housing Corporation

*Seasonally adjusted at annual rates

and masked a sharp slowdown in single-family units. The latter has been declining since May and dipped to a two-year low of about 9,700 units in urban centres in September (Chart 1). Rising interest rates and tighter mortgage rules have dampened demand for single-family homes. This, along with elevated inventories in both the new and resale market, has kept a lid on housing starts. With the weakness in single-family units, overall housing starts are down 3.6% YTD.

Rising prices lifting retail sales

Retail sales in the province are being propped up by higher consumer prices. Sales have held near record levels and continue to improve over 2017 levels, with most of the increase reflecting higher gasoline prices. Excluding gasoline stations, sales have been essentially flat, weighed down by weakness in motor vehicles and parts. While overall retail sales are up 2.6% YTD through August, consumer inflation has grown at roughly the same pace, suggesting that sales have been stagnant in inflation-adjusted terms.

Business Sector

Light-heavy differential widens

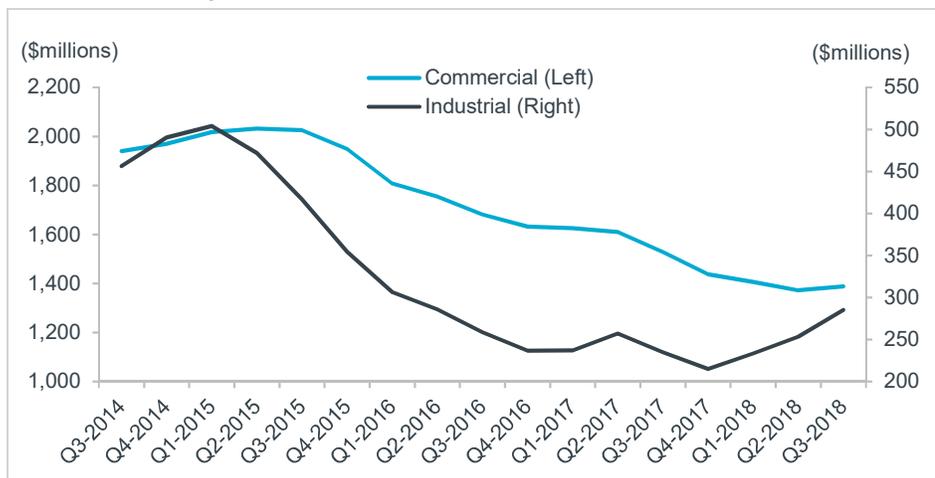
Ongoing transportation bottlenecks and temporary factors have resulted in a dramatic increase and heightened volatility in the WTI-WCS differential. The differential has been elevated through most of 2018 as rising oil production has outstripped pipeline and rail takeaway capacity, leading to a buildup of crude inventories in the province. In October, the differential increased sharply when an unusually large number of US refineries went into seasonal maintenance, particularly in the US Midwest which is the largest market for Alberta crude. This was further exacerbated by a rupture in a natural gas pipeline in BC which led to a number of unplanned refinery outages in the US Washington State. As a result, WCS prices plunged from over US\$40/bbl at the end of August to below US\$20/bbl at times in October.

Business output forges ahead

Business output in the province continues to hum along propelled by gains in both energy and non-energy products. Rising oil production and elevated oil prices have lifted the value of energy exports to more than \$7.9 billion

Chart 2: Industrial spending is improving while commercial spending has levelled off

Non-residential building construction investment in industrial and commercial sectors



Source: Statistics Canada

in August, the highest level since December 2014. Manufacturing sales were also up 12% year-over-year in August, which helped buoy non-energy exports to near record levels. Meanwhile, wholesale trade has trended higher despite the volatility in recent months.

Industrial spending leads recovery

Private sector construction spending appears to have bottomed out after nearly three years of decline. Non-residential building investment in the industrial sector grew for the third quarter in a row (Chart 2). While the two major cities saw improvement, it was led by Edmonton where spending exceeded the previous high set in 2015. Commercial spending also ticked up for the first time in more than three years. The value of commercial building permits, an indicator of future activity, has also shown promising signs, as it was up 30% YTD through August. There was also some improvement in downtown commercial vacancy rates.

Outside Alberta

Tighter financial conditions weigh on consumer confidence

Global consumer confidence eased in the past six months after surging in 2017 and the first four months of 2018. The Ipsos global consumer confidence index was 50.3 in October, down 0.4 point from May 2018. Although consumer confidence in US and China remains strong, it has remained relatively flat in Europe. Meanwhile, it declined in some emerging market economies hit hard by tightening financial conditions and falling currencies, such as Argentina and Turkey. Consumer confidence in Canada has also trended down over the last five months due to rising interest rates and slower wage growth.

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