

# Economic Trends

June 2021

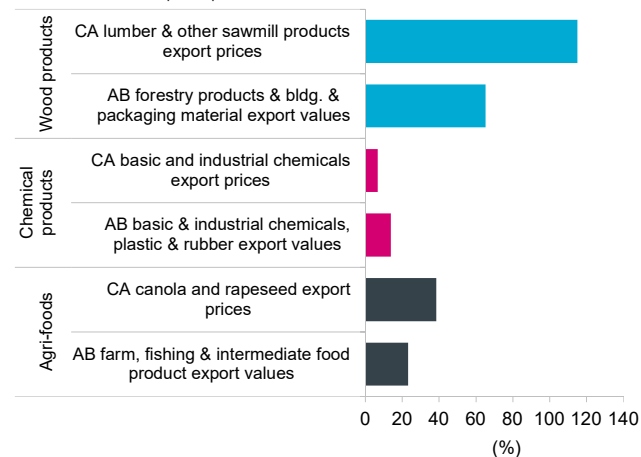
The recovery in the Alberta economy continues to make headway, with households and businesses displaying resilience despite the need to combat increased COVID-19 cases in the second quarter. Employment weathered the third COVID-19 wave on the back of momentum in the goods sector, while retail spending is benefitting from continued strength in vehicle sales. Meanwhile, higher commodity prices have propelled business output and farm incomes in Alberta as well as strengthened the Loonie.

## Employment weathered the third wave

After tighter public health measures were implemented in April and May, provincial employment remained resilient as job declines in services were partly offset by continued gains in goods. The services sector lost nearly 25,000 jobs in the last two months, with customer-facing industries bearing most of the decline. Meanwhile, goods sector employment gained further momentum (+11,500). Strong oil prices and housing demand continued to support jobs in natural resources and construction. Manufacturing jobs also started to pickup across many sub-sectors, but remained below pre-COVID levels. Overall, employment was down 13,600 from March 2021.

## CHART 1: HIGH COMMODITY PRICES BOOST ALBERTA NON-ENERGY EXPORT SALES

Year-to-date (Jan-Apr) change in select Alberta domestic exports and Canadian export prices, 2021 vs. 2020



Sources: Statistics Canada and Haver Analytics

## KEY INDICATORS

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	Apr	18.9%	33.3 p.p.
Employment (thousands)	May	2,222	+13.4%
Unemployment Rate	May	8.7%	-6.8 p.p.
CPI Inflation (unadjusted)	May	3.1%	+3.0 p.p.
Retail Sales	Apr	\$7.4 B	+53.4%
Housing Starts (annualized)	May	35,310	82.8%
Rigs Drilling (unadjusted)	May	43	367%
Manufacturing Shipments	Apr	\$6.9 B	48.4%
Exports (unadjusted)	Apr	\$10.1 B	+56%

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

## Business conditions resilient

Business conditions in Alberta have held up in spite of tighter public health measures re-introduced in early spring. The Business Barometer Index, a measure of small business confidence, has hovered around 60 since the start of the year, indicating that firms expect their business performance to be stronger in the next 12 months. Business bankruptcies have also remained low and are down 20% year-to-date (YTD) through May, in part due to ongoing government support in place. Additionally, the count of active businesses ticked up for the tenth consecutive month in March but was still below pre-pandemic levels.

## Higher commodity prices lift non-energy business output

Alberta's non-energy business output continues to soar, propelled by higher commodity prices (Chart 1). After surpassing pre-pandemic levels in December last year, exports of non-energy products gained further traction and reached a new peak early this year. Driven by high prices for lumber, canola, and basic and industrial chemical products, the value of non-energy merchandise exports jumped 22% YTD through April. Similarly, factory sales outside of petroleum and coal products have posted outsized gains in recent months. While volumes have supported these increases, rising industrial product prices pushed Alberta's total manufacturing shipments close to record highs in April and up 13% YTD.

## Motor vehicle demand pushes prices higher

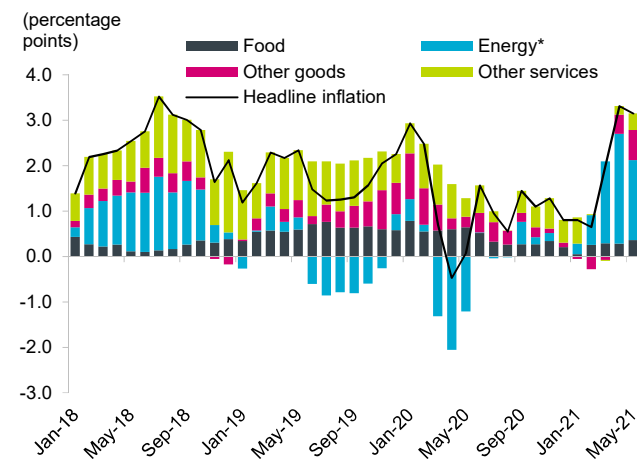
Higher sales of motor vehicles in Alberta and supply chain issues are pulling prices up. As of April YTD, the value of new motor vehicle sales stood 4.4% above the same period in 2019, pre-pandemic. The number of new trucks sold exceeded pre-pandemic levels (+1.9%), while passenger cars continued lagging (-31%). Unit prices have also risen sharply, driven up by both robust demand and supply constraints amid shortages of microchips and some vehicle parts. In particular, unit prices grew 16% YTD for passenger cars and 0.3% YTD for trucks compared to 2020. Demand for used vehicles also improved, with retail sales of used car dealers up 13% over the same period in 2019.

## Goods drive inflation, services subdued

Alberta's consumer inflation remains elevated, propped up by increasing prices for goods. Headline inflation accelerated above 3% year-over-year (y/y) in both April and May, up from just under 2% y/y earlier in the year (Chart 2). Goods inflation has increased as energy prices remain high compared to the spring 2020 low, while prices for other goods have also risen. Gains in food prices—particularly, fresh fruit—are likely seasonal. Outside of energy and food, prices of motor vehicles have grown. Meanwhile, continued slack in the services sector from ongoing public health measures and limited mobility, have kept the cost of services subdued. Homeowner's replacement costs and traveller accommodations have, however, picked up. Core inflation, which excludes food and energy prices, stood at 1.3% y/y in May.

### CHART 2: HEADLINE INFLATION REMAINS ELEVATED

Contribution to Alberta's headline consumer inflation



Sources: Statistics Canada and Alberta Treasury Board and Finance calculations; \* Energy includes gasoline, natural gas and electricity

## Farm incomes rise in 2020

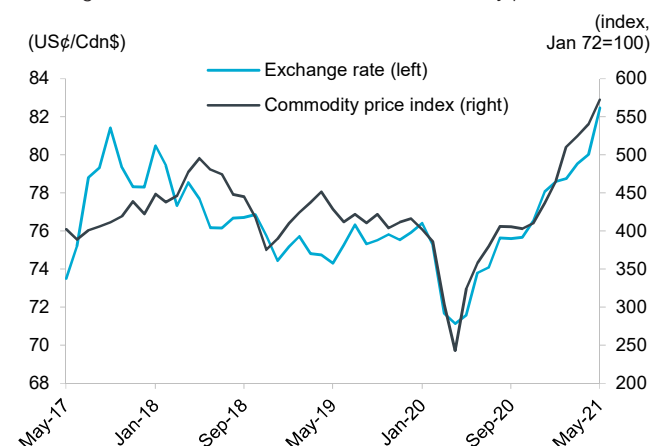
Higher cash receipts and steady operating expenses pushed net farm incomes higher in 2020. A combination of above average yields in Southern Alberta, better harvesting conditions and sufficient rail availability boosted farm incomes for canola and wheat producers. They offset a decline in livestock receipts. While operating expenses were the second highest in the country, they were almost unchanged from 2019 levels. With crop receipts at a new high, Alberta's net farm income stood at \$1.1 billion in 2020, up 46% from 2019. Alberta ranked third in both net cash income and farm cash receipts, following Ontario and Saskatchewan.

## Commodity prices push Canadian dollar up

The Canadian dollar strengthened against its U.S. counterpart in the first half of this year on the back of a surge in commodity prices (Chart 3). The Loonie has rallied more than 5% since the end of last year, hitting a six-year high of 82.47 US¢/Cdn\$ in May, and outperformed other major commodity currencies. Strong demand and prices for commodities exported by Canada—crude oil, lumber, copper, canola and wheat—have improved the national terms of trade and lifted export revenues. With commodities priced in U.S. currency, more U.S. dollars flowing into Canada have given the Loonie a boost. It has also benefited from a weaker U.S. dollar, which has come under pressure with higher-than-expected inflation in the U.S. and the Federal Reserve's more accommodative monetary policy.

### CHART 3: CANADIAN DOLLAR STRENGTHENED WITH COMMODITY PRICES

Exchange rate and the Bank of Canada's commodity price index



Sources: The Bank of Canada and Haver Analytics