

# Alberta Economic Outlook

August 2018

Prepared by ATB Financial,  
Economics & Research



*ATB Financial's Alberta Economic Outlook summarizes the province's current economic landscape to provide insight into our economy.*

## Introduction

Alberta's economy continues to move forward in the second half of 2018. Still shaking off the effects of the 2015-16 recession, it has been a long but steady climb higher. However, the pace of growth continues to frustrate many Albertans, particularly those who are struggling in the job market. Employment has risen over the last year, but the rate of improvement has been slow and unsteady.

The global economy has shown resilience, particularly given the heightened trade tensions between the US, China and other nations. This growth has been a benefit to Alberta as it has supported global oil prices. However, the healthy state of the global economy cannot be guaranteed — and if trade tensions worsen, a slowdown is almost inevitable.

The Canadian economy has also performed well in 2018, prompting the Bank of Canada to raise interest rates in July for the third time in a year. A strong inflation report for July almost guarantees at least one more rate increase this year.

Against this backdrop, Alberta can expect steady but sluggish improvements. Trade relations with the US — particularly their uncertainty and unpredictability — pose the biggest risk.

**ATB Financial is forecasting real GDP growth of 2.6 per cent this year and 2.2 per cent in 2019.**

### Key Findings

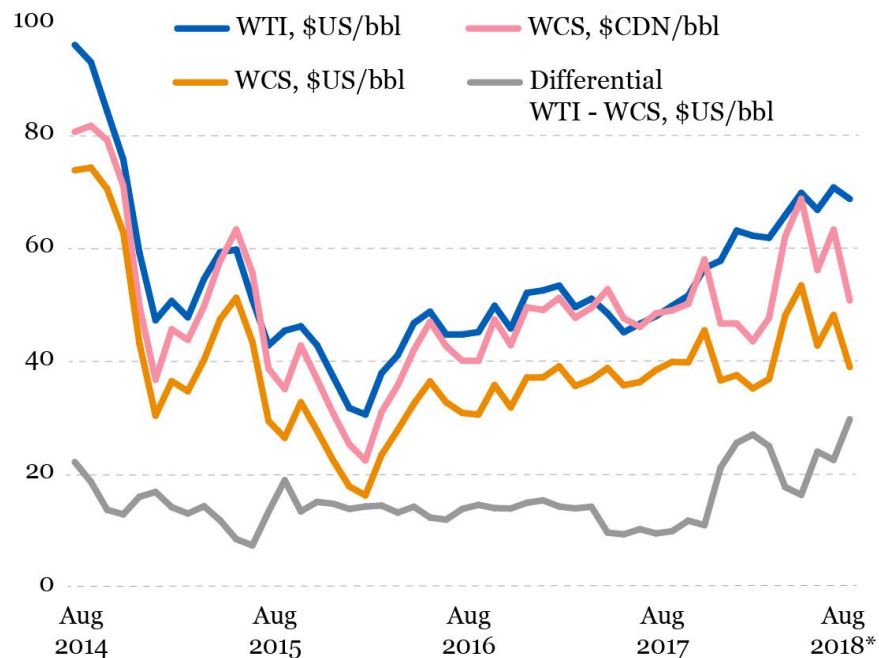
- Interprovincial migration has returned to positive
- Oil prices stable, but differential a challenge
- Pipeline transportation remains a concern
- Employment is growing, but slowly and full-time jobs have yet to surpass the peak reached in January 2015
- Deteriorating trade relations with the US pose a risk to Canada and Alberta
- Retail, wholesale and manufacturing sales are up over last year, highlighting the momentum that has been building in the provincial economy

	2017	2018	2019	2020
<b>Real GDP growth (annual % change)</b>	4.9	2.6	2.2	2.1
<b>Consumer price index (annual % change)</b>	2.1	2.6	2.3	2.0
<b>Unemployment rate (annual average %)</b>	7.9	6.4	6.1	5.8
<b>Employment (annual % change)</b>	1.0	2.0	1.9	1.7
<b>Housing starts (000s)</b>	29.3	27.6	26.8	26.1

## Oil and gas

Rising demand for oil has kept the benchmark WTI price above \$60 a barrel in 2018. Even though the Organization of Petroleum Exporting Countries (OPEC) and its allies have halted the production cuts put in place in 2016, political and economic unrest in Venezuela and US sanctions against Iran have helped stabilize prices.

### Monthly oil prices



Source: Alberta Energy, US Energy Information Administration, Altacorp  
 WTI=West Texas Intermediate; WCS=Western Canadian Select; \*estimate

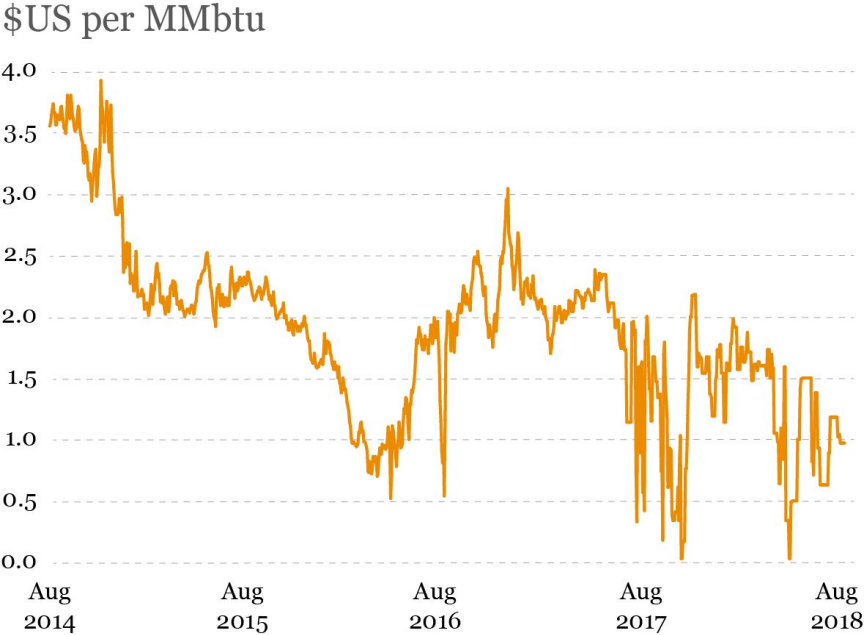
Since the time of ATB Financial’s last *Alberta Economic Outlook* in May, the price of a barrel of WTI has stayed around \$US 65-70 per barrel. The benchmark price for Alberta producers, Western Canadian Select (WCS) has been a little more volatile, hovering between \$US 40-50. The differential between the two blends currently sits around \$US 30.

Since not much has changed in terms of pricing, ATB’s assumptions for both WTI and WCS are unchanged from the previous outlook. ATB is forecasting that WTI will average around \$US 66 per barrel in 2018 and that WCS will average \$US 42 per barrel.

The same risks that were outlined in ATB’s May *Alberta Economic Outlook* linger. The first risk to oil’s price over the second half of the year remains rising global supplies. Field production data from the Energy Information Agency (EIA) show that a record 11 million barrels of oil per day were produced in the US in mid-July. That’s 17 per cent higher than the same time last year and more than double the amount of oil that was produced when oil reached \$US 109 per barrel in 2014. Higher US production levels and the removal of OPEC’s production cuts have yet to cause significant turbulence in oil prices but the risk that oversupply will push prices down remains.

Although there is some progress on pipelines and the nationalization of the TransMountain pipeline project, uncertainty over adequate oil transportation infrastructure continues to hang over Alberta’s oil industry. The uncertainty and transportation limitations have continued to affect Canadian crude prices (WCS) negatively, restrain energy investment in the province and

### Daily natural gas prices, AECO



Source: Bloomberg, Altacorp

## Daily natural gas prices, Henry Hub \$US per MMBtu



Source: US Energy Information Administration

prevent market diversification. Even though oil production continues to grow domestically and abroad, investment spending in Alberta's oil industry is expected to be flat this year and in the years ahead.

Over the first half of 2018, Alberta's benchmark price for natural gas (AECO spot) has failed to gather any momentum. So far in 2018, the price has hovered between a low of \$US 0.04 in May and \$US 1.20/MMBtu more recently. Despite the warm summer that much of North America has endured, lower natural gas prices continue to be the direct result of greater natural gas production, particularly in the US. When it comes to natural gas prices, the second half of 2018 will likely mimic the first half of the year. Natural gas prices are anticipated to average slightly below \$US 1.60/mmBTU (AECO) and the North American benchmark (Henry Hub) to average around \$US 2.80/MMBt this year.

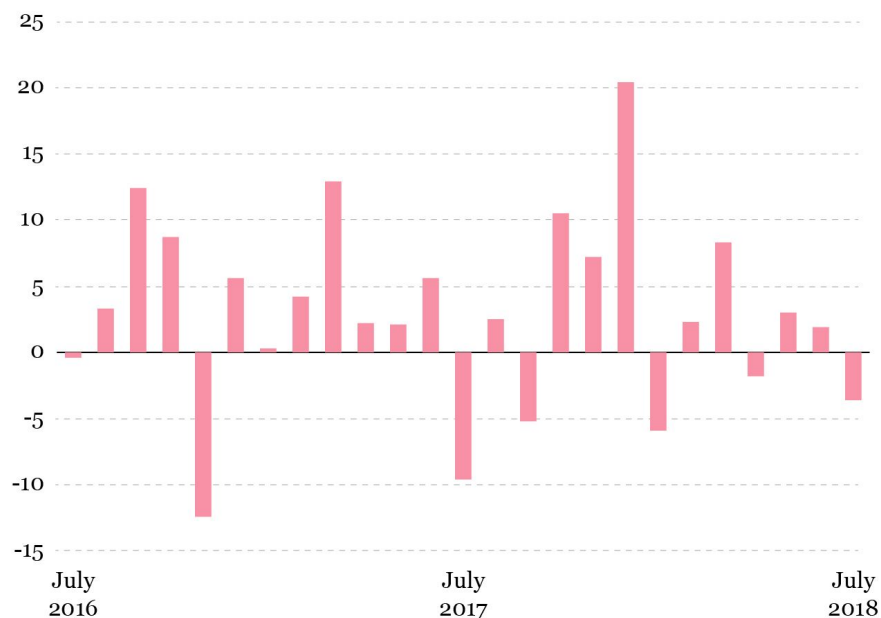
## Labour market

The monthly job reports from Statistics Canada continue to show improvement, albeit slowly and haltingly. Even though the pace of growth has been frustrating for thousands of Albertans still looking for work, the province's job market is growing once again.

After two months of modest job gains, Alberta experienced a net loss of 3,600 jobs in July. For the second month in a row, the labour market shed more full-time jobs than part-time positions. While there was a significant rise in the number of 18,100 part-time positions last month, it

## Change in employment, Alberta

Thousands, seasonally adjusted



Source: Statistics Canada, Table 14-10-0287-01

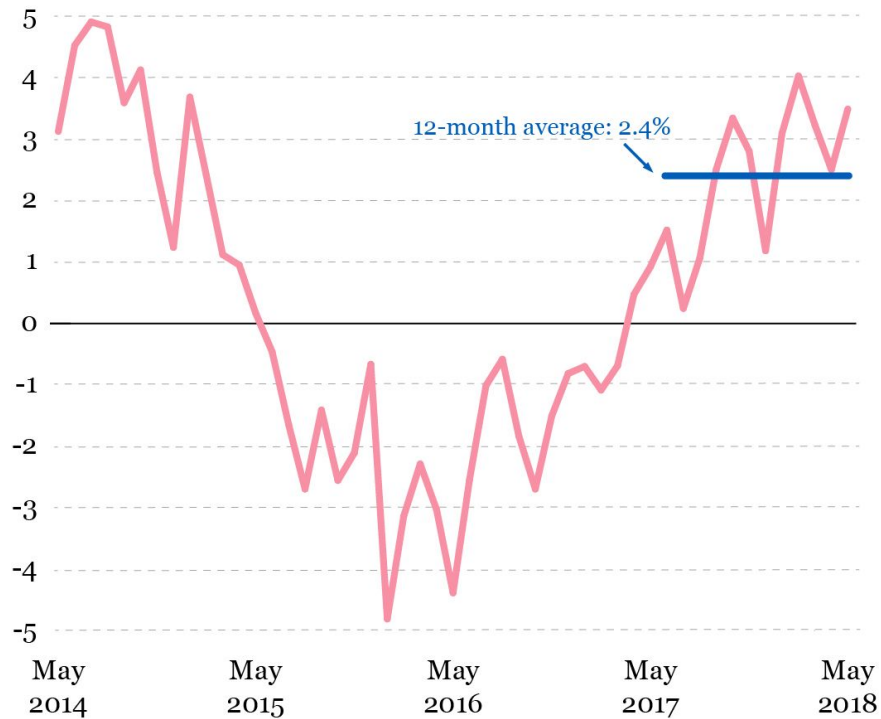
wasn't enough to offset the considerable reduction in full-time jobs (-21,700). Alberta's unemployment rate rose back up to 6.7 per cent in July from 6.5 per cent in June.

Over the last 12 months, job creation has been strong in construction, natural resources and professional, scientific and technical services—sectors hit hard by the recession two years ago. But in July, all three of these sectors saw job losses. Between June and July, professional, scientific and technical services lost 8,100 positions, construction cut 7,600 jobs and natural resources saw a reduction of 500 positions.

ATB's forecast is for the provincial unemployment rate to average 6.4 per cent this year. As the job situation in the province continues to get better, the rate is expected to fall slightly in subsequent years.

For those who have kept working or found a job since the end of the recession, wages continue to move closer to their pre-recession highs. In May, the average weekly earnings of Alberta employees was \$1,150 (adjusted for seasonality and includes overtime pay but excludes taxes). May's figure was 15 per cent above the national average of \$998 per week. As employment levels continue to improve, so too will wages.

## Average weekly earnings, Alberta Annual per cent change



Source: Statistics Canada, Table 14-10-0223-01

## Construction and real estate

Construction activity was falling faster in Alberta than in all the other provinces in the second quarter of the year. The latest data on non-residential construction investment show Alberta spent \$2.36 billion on commercial, industrial and institutional construction projects from April to the end of June, reflecting a nearly \$64 million drop from the first quarter (adjusted for seasonality and is calculated in current dollars).

The economic boom that the province experienced between 2010 and 2014, and the subsequent recession from 2015 through 2016, caused a surplus of downtown office space that has since put downward pressure on commercial construction. Because of this overbuild it's expected that non-residential activity will be flat over the next two years.

Residential construction is also expected to cool. Both Edmonton and Calgary show a rising number of new, but unsold, homes and stricter mortgage lending rules and rising borrowing rates have led to reduced sales activity and home prices. Because of this, home builders have begun scaling back. Between 2013 and 2014, Alberta built at a rate of over 100 new homes per



10,000 people annually. That was nearly double the national average as our province experienced rapid economic growth and massive inter-provincial migration. During the oil-price downturn and resulting recession, per capita housing starts in Alberta dropped dramatically and have remained just above the national average.

## Building permits, Alberta

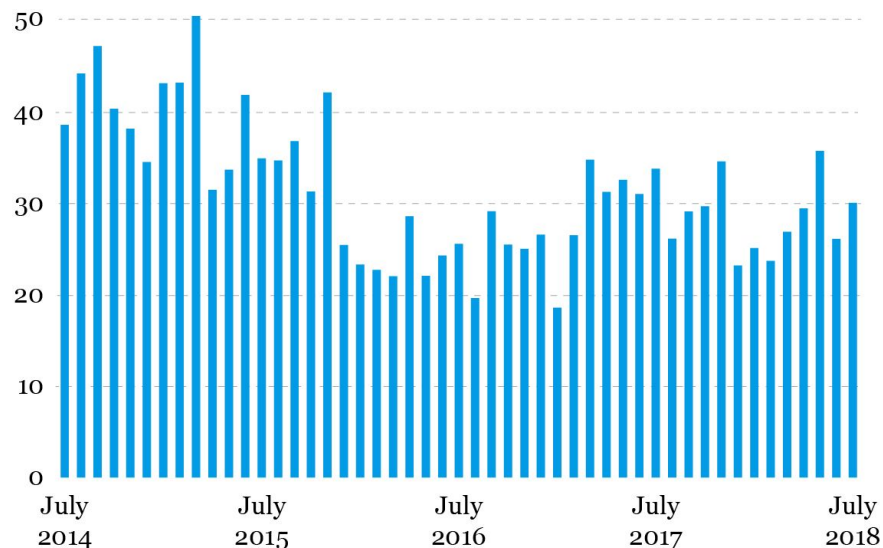
Dollars, millions



Source: Statistics Canada, Table 34-10-0066-01

## Housing starts, Alberta

Thousands, seasonally adjusted at annual rates



Source: Statistics Canada, Table 34-10-0158-01



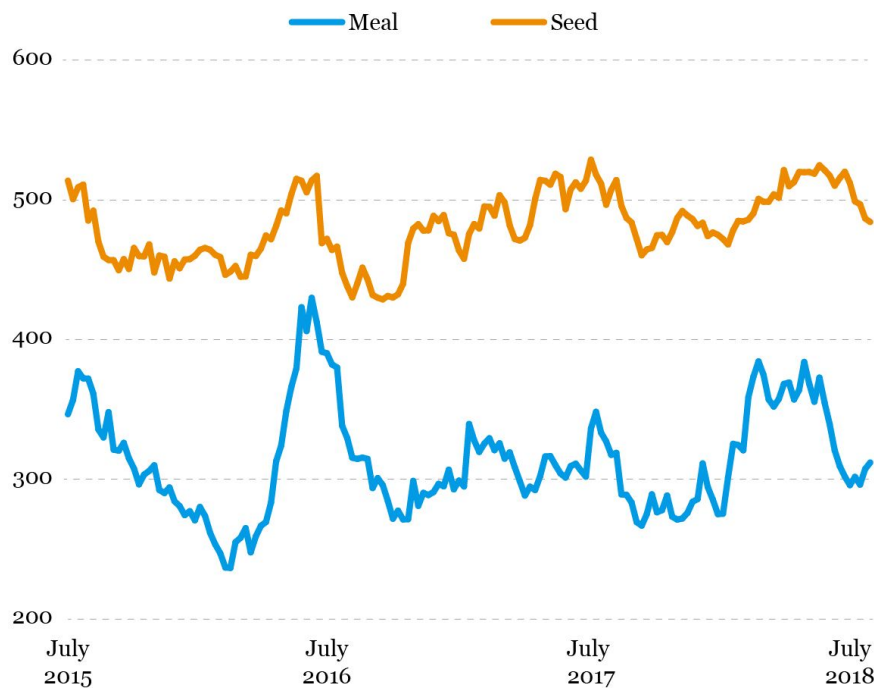
## Agriculture and forestry

Over the course of the summer, growing conditions in central and northern Alberta have been reported as good to excellent. Still, some regions of the province have not had as much luck, particularly in the south where extreme heat has created drought or near-drought conditions.

Canola prices have begun to creep lower. Canola crusher prices reached a high of \$525 per metric tonne at the end of May, but have since fallen to around \$497 per metric tonne. Wheat prices (excluding durum) are almost nine per cent higher than last year but are beginning to slide lower.

### Canola crusher

\$ per metric tonne



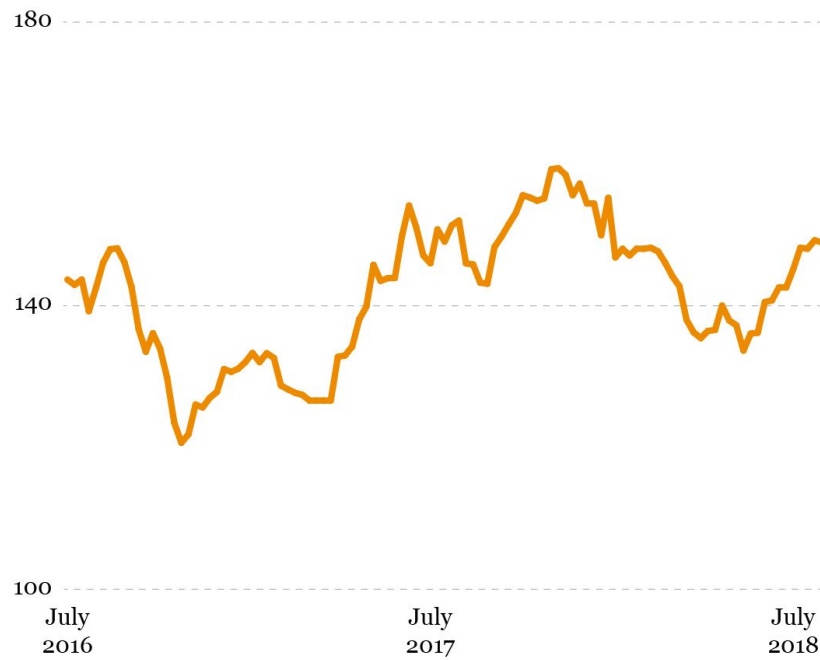
Source: Alberta Agriculture and Forestry, Weekly Crop Market Review

The looming threat of trade wars and overall poor trade negotiations over the past three months have continued to make headlines. It's still too soon to see what implications this uncertainty will bring to Alberta's agriculture industry, but tensions have exacerbated volatility in the grain markets.

Live cattle prices haven't seen much movement and have sat between \$140 per hundredweight and \$150 per hundredweight. Cattle prices continue to be well below the record highs reached in 2015 (approximately \$US 200 per hundredweight). Alberta hog prices (sow prices and sales)

## Live cattle prices

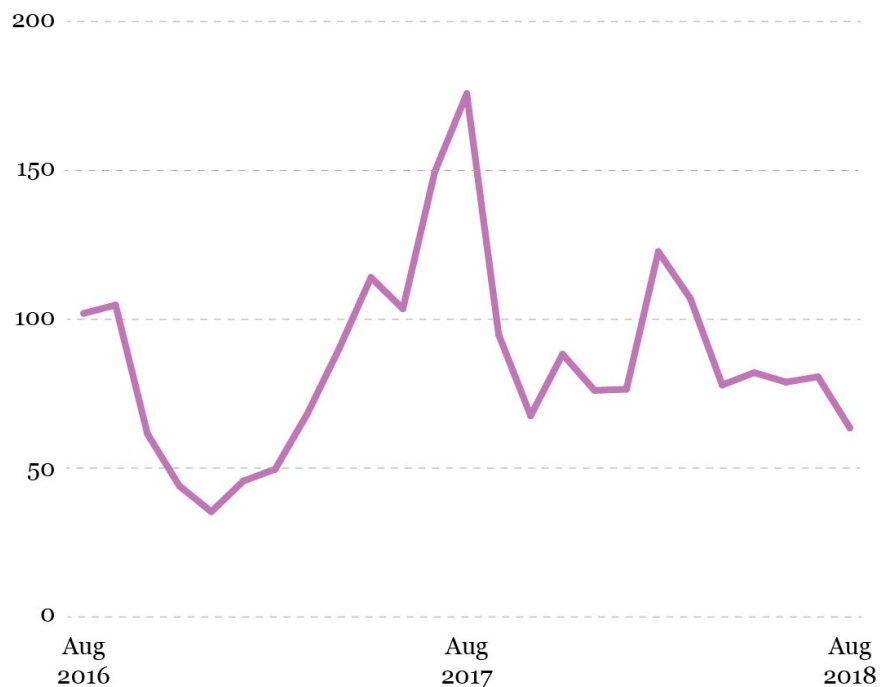
\$US per hundredweight (Cwt)



Source: Alberta Agriculture and Forestry, Weekly Livestock Market Review

## Hog prices (monthly average)

\$ per 100kg



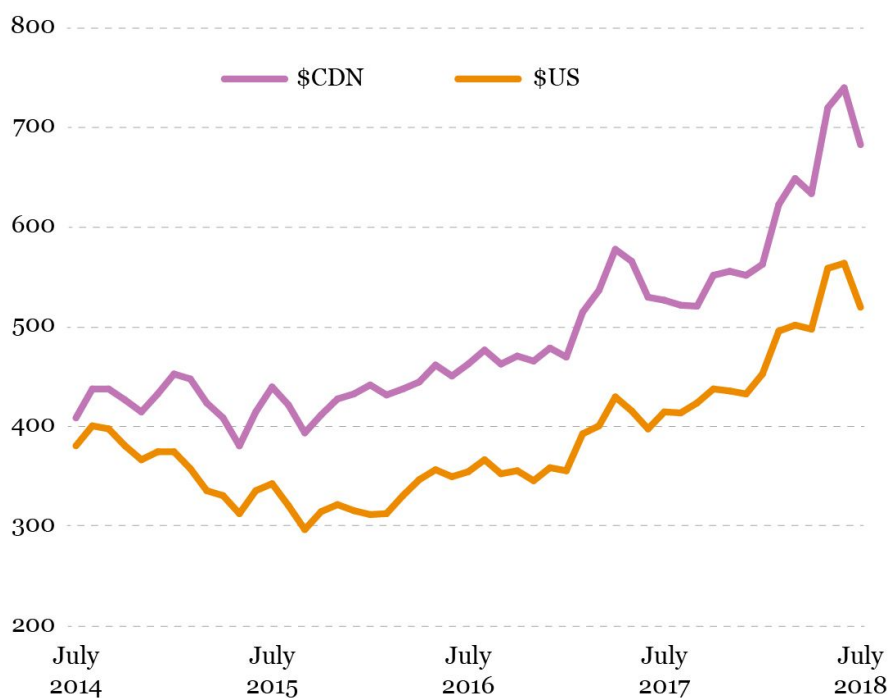
Source: Agriculture and Agri-food Canada

have also been steady since the time of ATB's last *Alberta Economic Outlook* and are 45 per cent lower from where they were last year.

Despite less favourable pricing, agriculture is still set to have a decent year in 2018. The ongoing US-China trade war continues to bring Canada the opportunity to increase its share of soybeans, oilseeds and other agricultural products exported to China. Cannabis legalization has also stirred up more optimism within agriculture (and the related category of agri-foods and biotech). Although it will take some time to develop the industry, the world's focus is on Canada and Alberta. Legalization will continue to bring in new capital and create new jobs.

## North American lumber prices

\$ per 1,000 board feet



Source: Random Lengths

Prices are a weighted average of 15 key framing lumber prices.

Despite tariffs and the uncertainty around trade, Alberta's forestry sector is operating amid record-setting prices. In July, the composite price of framing lumber in North America hit \$US 564 per thousand board feet (the composite price is a weighted average of 15 key framing lumber prices tracked by Random Lengths, a U.S.-based forest industry association). When converted in Canadian dollars, producers are receiving nearly \$750 per thousand board feet. That's the highest price on record and more than double the price at the start of the decade.

North American lumber prices are being driven higher by strong economic growth in the US and a boom in housing. It's taken nearly ten years for American home builders to recover from the Great Recession and that's driving up demand and prices for lumber.

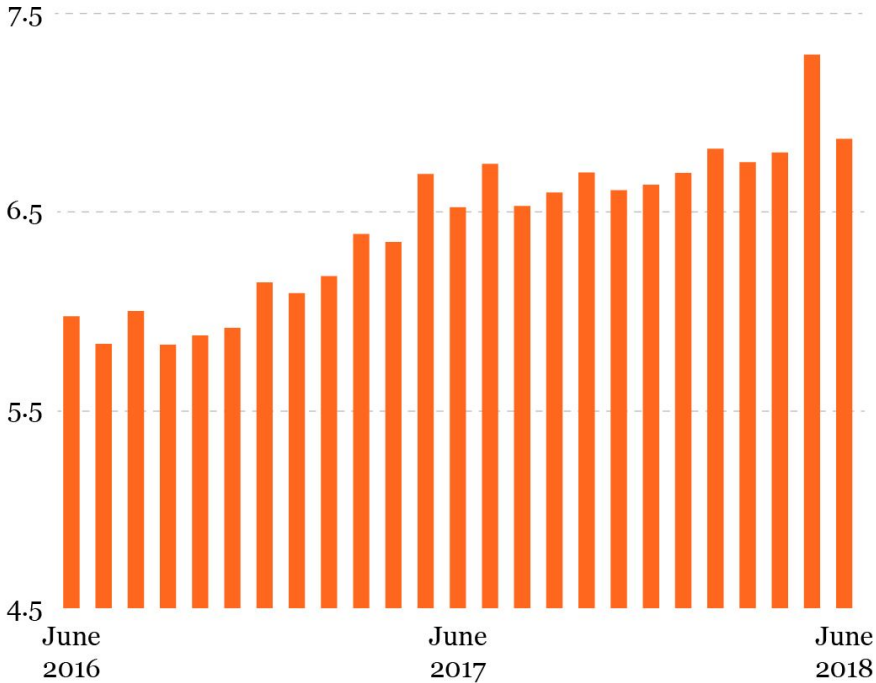
The record-setting lumber prices are welcome news for Canadian mills because other operating costs have increased. Transportation costs are higher and many are facing higher energy prices. Forestry producers are also without a renewed softwood lumber agreement with the Americans, who placed duties on Canadian lumber last year. The higher prices are compensating these higher costs and trade penalties.

A renegotiation of NAFTA and overall trade tensions are currently the most significant risks to Alberta's economy and trade-dependent sectors, like agriculture and forestry. Many representatives from Mexico and the US wanted to ratify a deal before the Mexican presidential election and before the US midterm elections, but this is unlikely. The lack of a deal this year will continue to bring uncertainty and instability over the next year or so.

### Wholesale, retail and manufacturing

Wholesale activity in Alberta was up 5.3 per cent compared to the same month last year despite contracting by 5.8 per cent between May and June. Total sales of products to businesses, institutions and governments reached \$6.9 billion in June.

### Wholesale trade, Alberta \$ billions, seasonally adjusted



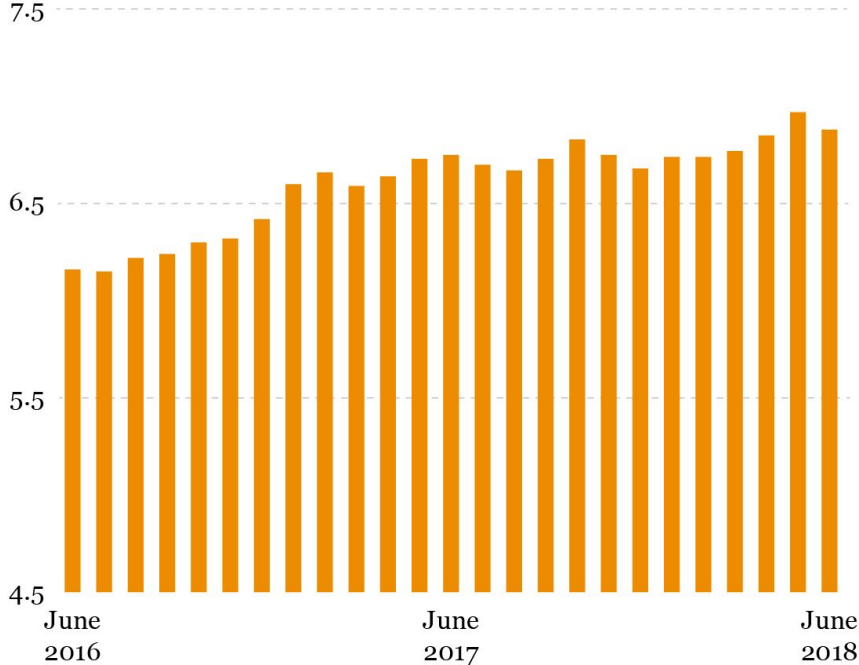
Source: Statistics Canada, Table 20-10-0074-01

The jump in May and the subsequent drop in June was due in part to a spike in the sale of agricultural supplies in May, though sales were down in six of the seven major subsectors.

Since wholesalers sell to other businesses, institutions and governments, the uptick in sales since last year points to the economic recovery taking place.

## Retail trade, Alberta

\$ billions, seasonally adjusted



Source: Statistics Canada, Table 20-10-0008-01

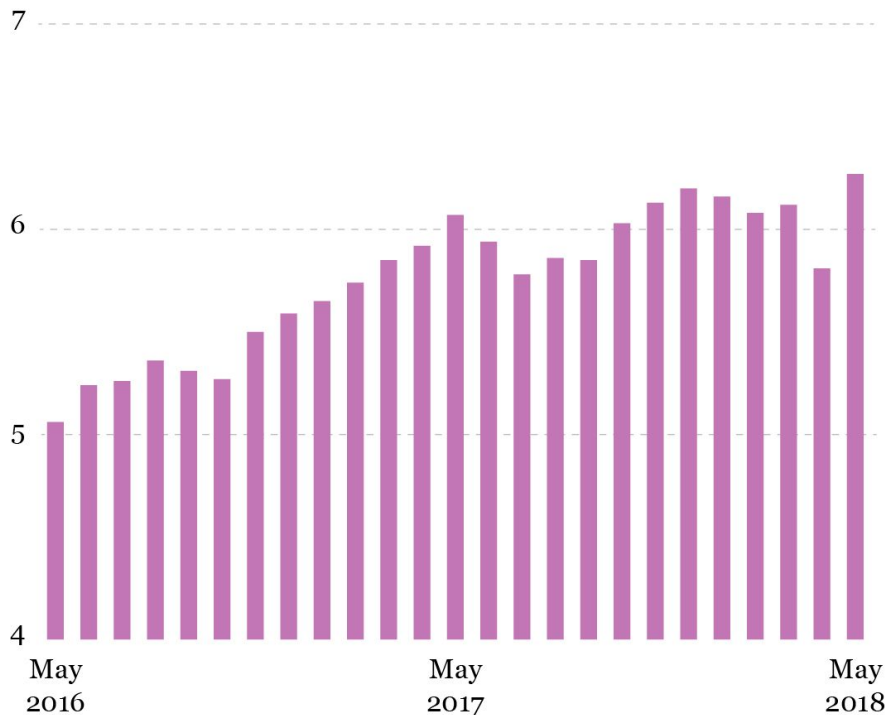
Alberta consumers have faith in the future state of our economy. In May, retail sales reached a record high (\$6.9 billion). June’s total was down 1.2 per cent from May but 2.0 per cent higher than one year ago.

Albertans continued to outspend all of their provincial peers with per capita retail sales in Alberta about \$225 higher than the national average. This difference can be explained by factors such as a higher employment rate (the percentage of the labour force that is employed) and higher wages. The difference also highlights the strength of the provincial economy, even after a significant recessionary period.

In another sign that the 2015-16 recession is behind us, shipments of manufactured goods from Alberta reached the highest total in about three and a half years. Sales rose eight per cent to \$6.4 billion in June from May. Compared to June of last year, shipments from Alberta factory floors were up 9.2 per cent.

## Manufacturing sales, Alberta

\$ billions, seasonally adjusted



Source: Statistics Canada, Table 16-10-0048-01

Higher production of petroleum products has largely driven the growth in 2018. Lately, this has especially been the case following temporary shutdowns in April and May. A ramp-up of production at Alberta refineries, which started in May, continued into June and lifted sales by 15.4 per cent.

While much of the province's manufacturing is related to energy refining, other industries are also contributing to growth. Overall shipments will continue to take on the remainder of the year with plenty of momentum. Alberta's exposure to the steep tariffs placed on Canadian steel and aluminum from the US is quite low. Although these tariffs affect some types of manufacturing in the province, Alberta's focus is on more primary manufacturing.

Shipments from virtually all manufacturing subsectors remain above the previous year's levels and continue to perform strongly. This is good news for exports this year and in years ahead.

## Population Growth

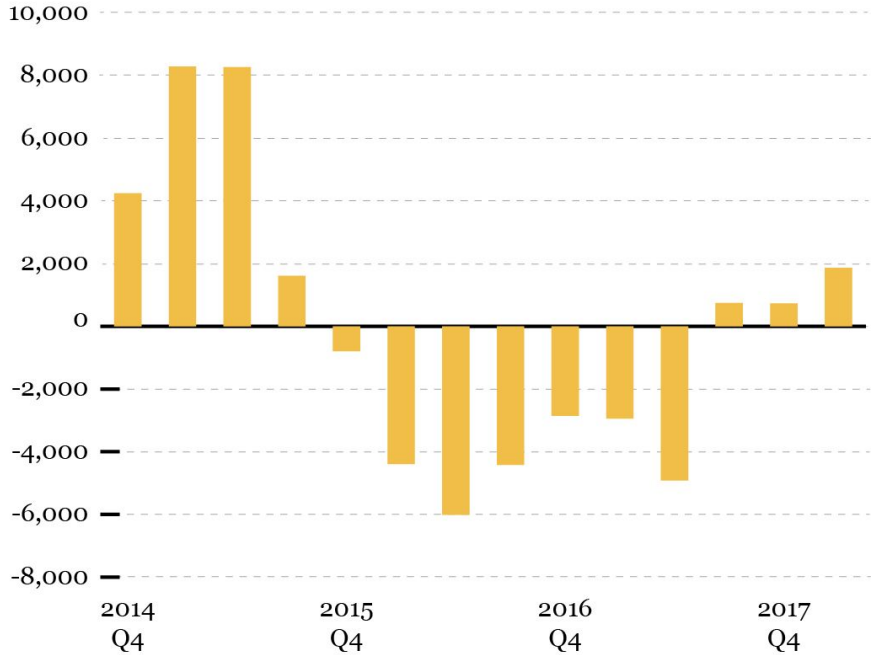
For the last three quarters, Alberta has seen a net inflow of interprovincial migrants, reversing the trend evident during the downturn. An improving labour market in the province is

beginning to once again attract workers from across the country, albeit not as many as before the recession. In the first quarter of this year, net in-migration reached nearly 1,900.

This inflow of provincial migrants is likely to continue as Alberta’s economy continues to grow. That means that the province could see a net interprovincial inflow of about 5,000 people this year.

Over time, the flow of provincial and international migrants will begin to pick up the pace. With a higher employment rate compared to most provinces, slack in the housing market, attractive wages, and housing affordability issues in Toronto and Vancouver, Alberta will likely continue to see an increase in its population from interprovincial migration over the next number of years while natural increase and international immigration will remain strong sources of population growth.

## Net interprovincial migration To/from Alberta



Source: Statistics Canada, 17-10-0020-01



## Conclusion

Moving into autumn 2018, Alberta's economy continues to improve with several key economic indicators—employment, retail trade and manufacturing sales—higher than they were last year.

Nonetheless, growth has not been rapid enough to push the unemployment rate down to pre-recession levels, and there are questions about the quality and compensation of the new jobs, especially in the energy sector.

Sectors which have taken up the baton of growth include agriculture and agrifoods, tourism, transportation and logistics, and the tech sector.

Since the last *Alberta Economic Outlook*, the only change to our analysis comes with respect to a marked deterioration in global trade relations. Not only is NAFTA in danger, but America's trade relations with China, Mexico, the EU and Turkey have worsened significantly. At the time of writing, there is little clarity as to how bad conditions will get. ATB has not substantially altered its model assumptions or forecast as projections are not based on guesses or speculation.

Still, the troubling trade situation has likely caused some Canadian and Alberta companies to take a wait-and-see approach. As a result, ATB has lowered its growth forecast by a tenth of a percentage point to 2.6 per cent this year, and 2.2 per cent in 2019.

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