

# Alberta Economic Outlook

May 2018

Prepared by ATB Financial,  
Economics & Research



# ATB Financial's Alberta Economic Outlook

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Economics and Research, ATB Financial

Released four times a year, ATB Financial's *Alberta Economic Outlook* summarizes the province's current economic landscape to give us an idea of what the future may hold for our economy.

### Overview

Alberta's economy is once again expanding and is gradually improving after a downturn which saw the province's output shrink by nearly eight per cent. Still, ongoing unemployment and lower pay continue to trouble thousands of Albertans. And even though West Texas Intermediate (WTI) recently hit \$US70 a barrel, flat investment and transportation concerns are hampering optimism in Alberta's energy sector

Despite all of this, things are looking up statistically. At 4.9 per cent, Alberta's growth was the fastest in the country last year. And most of the major economic indicators are moving in the right direction this year.

But while the data are improving, the changing nature of the economy has led to some pessimism. Both sentiment and empirical evidence must be considered in judging the state of Alberta's economy. Weighing both, it's clear that the province's economy is indeed expanding, but in new ways—and at a more moderate pace than many Albertans are used to. For those people who are still without jobs and facing financial hardship as a result of the downturn, it continues to be a tough time, despite what the data are telling us.

ATB Financial's economic forecast is calling for real GDP growth of 2.7 per cent this year and 2.3 per cent in 2019.

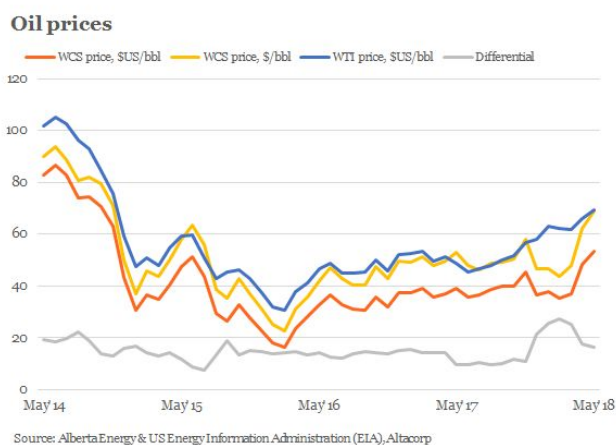
#### Key Findings:

- Net interprovincial migration is expected to return to positive in 2018
- Oil prices are higher than last year, while concerns about pipeline projects weigh on energy investment
- Employment is growing but at a slow rate
- Residential building permits are stable, the inventory of homes on the market is also rising
- Non-residential construction activity is down due to a glut of recently completed commercial projects
- Real GDP growth in 2018 of 2.7 per cent, led by non-energy sectors

	2017	2018	2019	2020
<b>Real GDP growth (annual (% change))</b>	4.9	2.7	2.3	2.3
<b>Consumer price index (annual % change)</b>	1.6	2.0	1.8	1.7
<b>Unemployment rate (%)</b>	7.8	6.4	6.1	5.7
<b>Employment (annual % change)</b>	1.0	2.0	2.0	1.9
<b>Housing starts (000s)</b>	29.3	26.6	26.0	27.2

## Oil and gas

Rebalancing in energy markets has continued throughout the first few months of the year. Increasing demand, expansions in industrial production across the globe and overall improving global growth have helped reduce inventories and boost prices for all grades of oil including bitumen blends from Alberta. Continued production cuts from the Organization of Petroleum Exporting Countries (OPEC) members and their allies, as well as instability in the Middle East, have also helped temper global supplies and strengthen prices.



Since the time of ATB Financial’s last *Alberta Economic Outlook* (February 2018), the price of a barrel of WTI has increased from about \$US 64 per barrel to above \$US 70 per barrel. Western Canadian Select (WCS)—the benchmark price Alberta producers receive—averaged around \$US 37 per barrel but has since improved to around \$47 per barrel. Increased crude shipments by rail and improving demand have boosted Canadian crude prices and narrowed the WCS to WTI differential by about 40 per cent. The differential currently hovers around \$US 19.

These developments have led us to revise our assumptions upward for WTI and WCS. In 2018, it’s anticipated that WTI will average around \$US 65 per barrel and that WCS will average \$US 42 per barrel.

Still, risks remain with respect to oil prices. The first risk is rising global supply as oil in the US continues to be pumped at record levels. Recent field production data from the Energy Information Agency (EIA) show that a record 10.6 million barrels of oil per day were produced

in the US in mid-April—18 per cent higher than the same time last year and 25 per cent higher than when oil reached \$US 108 per barrel in 2014. Higher US production levels and any efforts to reduce or remove the OPEC cuts currently in place could prove detrimental to the price of oil. Mounting US supply is the primary reason oil prices will be contained over the medium-term.

As well, questions about new sanctions on Iran have heightened the uncertainty about global supply. At the time of this writing, oil prices are volatile on speculation as to when and how these sanctions will be imposed by US President Trump.

The third risk strikes closer to home: the ongoing political opposition to the transportation of Alberta bitumen and the impasse that legal challenges have created. Despite the support of the TransMountain Pipeline expansion by the federal government, opposition on the part of the BC government is creating lengthy and costly delays. Uncertainty and instability surrounding the project have negatively affected Canadian crude prices (WCS), dampened future energy investment in the province and prevented market diversification to Asian markets.

A resolution of the pipeline weighs slightly in Alberta’s favour, but the length of time it will take to settle lawsuits and start the project will worry potential investors. As a result, new investment in Alberta’s oilsands could waver and lose traction this year and in the years ahead.

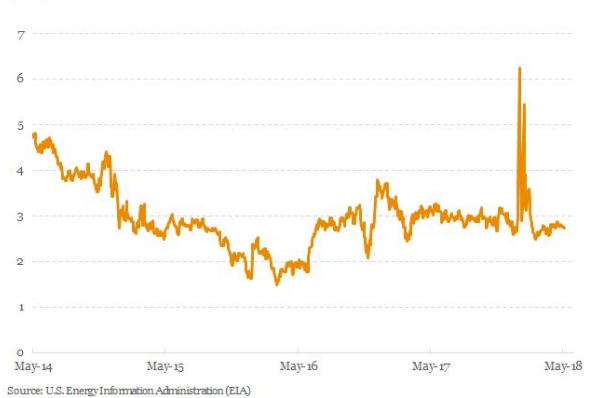
Despite the risks around supply levels and transportation, some energy-related projects have been announced in Alberta this year. However, given the current price environment and political landscape, it’s doubtful that there will be many more new projects added in 2018. As a result, growth in energy investment within Alberta’s oil industry is expected to be flat.

Over the first four and a half months of the year, the Alberta benchmark natural gas price (AECO spot) has failed to pick up steam. So far in 2018, the price has hovered between a low of \$US 0.04 in May and \$US 1.90/MMBtu. Despite the lengthy and rough winter that the province endured, lower natural gas prices continue to be the direct result of higher inventories. As well, gas pipeline bottlenecks and capacity constraints have created added challenges.

**Daily natural gas price, AECO**  
\$US per MMBtu



**Daily natural gas price, Henry Hub**  
\$US per MMBtu



Recently there have been significant draws to inventories in the United States, but these have failed to prop up natural gas prices.

Natural gas prices are anticipated to average slightly below \$US 1.80/mmBTU (AECO) and the North American benchmark (Henry Hub) to average around \$US 2.90/MMBt this year.

## Labour market

In April, the total number of jobs in the province fell a bit, dropping 1,800 from March. However, there was a surge in full-time jobs (+8,900) which was more than offset by a decline in part-time positions (-10,700). While this left fewer people without jobs overall, it does suggest better quality, full-time jobs are coming back.

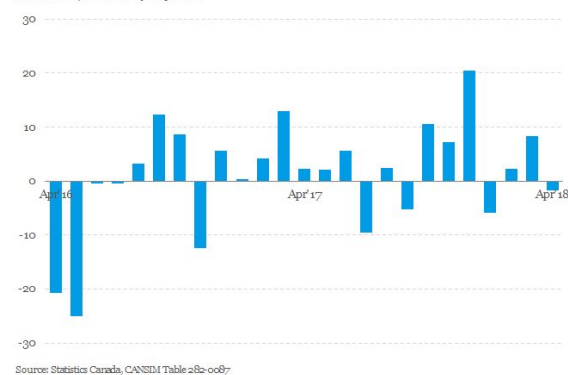
The unemployment rate picked back up to 6.7 per cent, an increase of four-tenths of a percentage point from the previous month. This remains the highest rate of unemployment in the country outside of Atlantic Canada.

Of Alberta's two major cities, Calgary remains the more difficult for job-seekers. Its unemployment rate sits at 8.0 per cent, while Edmonton is at 6.6 per cent.

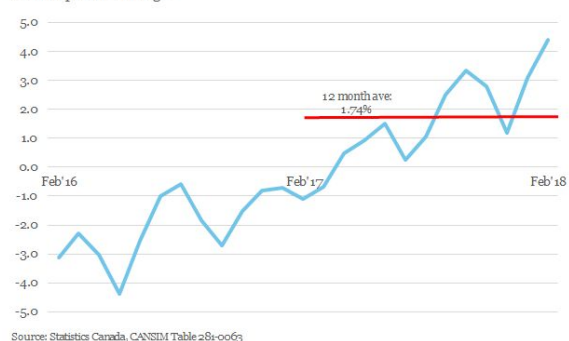
Across the province, the last 12 months have seen strong employment gains in manufacturing (+13,100), oil and gas (+11,200) and professional, scientific and technical services (+8,100). Jobs in these sectors tend to be higher paying, reinforcing the notion that good quality jobs are gradually returning. The sectors still shedding jobs over the last year include wholesale and retail trade (-5,800) and accommodation and food (-2,500).

Many more working Albertans continue to see some positive change to their paycheques. Compared to the same month last year, wages were 4.3 per cent higher in February (wage data are before taxes and include overtime pay).

**Change in employment, Alberta**  
Thousands, seasonally adjusted



**Average weekly earnings, Alberta**  
Annual per cent change



The average weekly wage in Alberta was \$1,158 in February compared to \$997 nationally (seasonally adjusted). And Alberta remains the highest among the provinces. Oil and gas workers were paid the highest among all sectors at \$2,428 per week. Wages in the sector have grown by about 11 per cent year-over-year, although total employment remains well below pre-recession levels.

## Construction and real estate

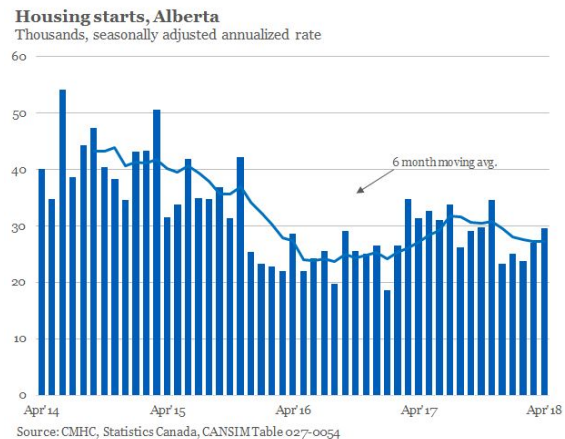
The value of total building permits in Alberta climbed to \$1.31 billion in March, an increase of more than 9 per cent compared to March of last year. The increase in permits over the last year, however, was split down the line between residential and non-residential.

Residential permits in March were \$850 million, matching the level set in February. Over the last complete 12 months, residential building permits are higher by 7.3 per cent compared to the same period a year earlier.

Non-residential construction intentions, on the other hand, are moving in the opposite direction. They did pick up a bit in March to \$460 million, but over the last 12 months total permits for non-residential projects are down 7.8 per cent compared to a year ago.

The slowdown in non-residential building isn't all that surprising considering the number of commercial projects that are already underway or nearing completion in the downtown cores of Edmonton and Calgary. Moreover, the recession of 2015-16 caused significant office vacancies in both cities that will weigh on both commercial and industrial construction projects in the medium-term.

The data on residential building permits are being reflected in actual housing starts. In April 2018, builders began construction on 29,695 homes. Over the 12 months up to April, housing starts are 12 per cent higher than the previous 12 month period.





It's unlikely that starts will reach pre-recession levels for a couple of reasons. First, the latest numbers from the Canada Mortgage and Housing Corporation (CMHC) confirm that the number of new, but unsold, homes in both Edmonton and Calgary are on the rise. In fact, in March of 2018, the number of homes without a contract to buy or sell touched near record highs (689) in Calgary. More new houses are sitting vacant in Alberta's major cities and show signs of an overbuild.

Second, residential sales activity reported through the MLS system of real estate boards in Alberta numbered 4,360 units online in March 2018. This was a decrease of 18 per cent from March 2017 and was the lowest March sales figure since 2009. On top of this, the stricter CMHC qualifying requirements and rising borrowing rates will continue to affect new housing demand.

## Agriculture and forestry

Farmers had a difficult start to spring as Alberta was blanketed with snow in April. Near the end of the month, there were reports of significant overland flooding. The long winter weather in southern Alberta also hurt some farmers, and road bans hampered the transport of livestock and feed grains in some areas.

Grain movement by rail has been slow and has had an impact on farmers' cash flow. A strike by Canadian Pacific Railway has been averted for now, but uncertainty remains around grain transportation.

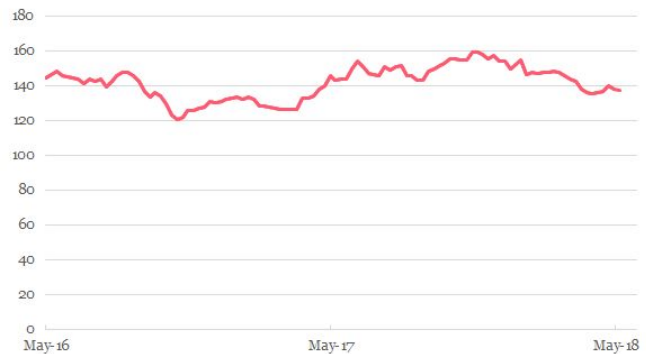
Offsetting these challenges for farmers, wheat and other grain prices have strengthened due to drier conditions in South America and the southern United States. Offsetting this optimism, prices for canola crusher have improved from where they were last year (\$500-520 per metric tonne) while wheat prices (non-durum) have improved about 10 per cent compared to a year ago.

**Canola crusher**  
Dollars per metric tonne



Source: Alberta Agriculture and Forestry, Weekly Crop Market Review

**Live cattle prices**  
\$US/Cwt



Source: Alberta Agriculture & Forestry, Weekly Livestock Market Review

May's live cattle prices have hovered around \$140 per hundredweight, around the same price as last year. 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) are 25 per cent lower from where they were last year. However, the year-to-date average is in line with last year as well (\$93.85 per 100 kg)

**Hog Prices (average sow prices and sales)**  
\$ per 100kg



Source: Agriculture and Agri-Food Canada

Many anticipate that both cattle and hog prices could soften slightly in the next few months. This softening in price will likely be due to an increasing number of cattle being added to North American herds in the early-summer.

Agriculture is likely to have another decent year in 2018. The US-China trade spat gives an opportunity to Canada to increase its share of soybeans and oilseeds with China. On the agri-foods side, there's also plenty of optimism in anticipation of cannabis' legalization this year. It will take some time to fully develop this new industry—regulation and control remain a priority among cities and the province—however, legalization has and will continue to bring in new capital and create new jobs.

**North American lumber prices\***  
Dollars per thousand board feet



Source: Random Lengths  
\* composite price is a weighted average of 15 key framing lumber prices

Canadian lumber producers remain concerned by the lack of agreement on softwood lumber exports and the high tariffs placed on lumber to the US. However, record high prices are helping offset what's been lost. North American prices for framing lumber reached a record high in March and hovered around the record in April. According to Random Lengths, a U.S.-based forest industry association, the price continued to sit around \$US 500 per thousand board feet in April. In Canadian dollars, the price was closer to \$630.

The recent surge in lumber prices is a result of the growing US economy and strong housing construction. Last year's breakdown in the Canada-US softwood lumber agreement was also a contributing factor, as well as the new tariff the US government placed on Canadian lumber. The tariff has averaged above 20 per cent, the effect of which has been to limit lumber supply and drive up costs for American home builders. Over the coming few years, the tariffs could begin to hurt Alberta producers if prices start to fall. For now, a weaker Canadian dollar and higher lumber prices are good news for forestry producers in the province.



Uncertainty concerning the NAFTA negotiations still lingers and is the most significant risk that weighs on Alberta's trade-dependent sectors, like agriculture. After four days of high-level talks in April, Canada, the US and Mexico have agreed to keep negotiating on NAFTA. No deal in the short-term means that uncertainty and instability will remain.

## Wholesale, retail and manufacturing

Wholesale purchases by businesses, institutions and governments continue to perform well in Alberta. Total sales reached \$6.8 billion in February. Although this is a decline of 0.6 per cent from January, sales were up 6.4 per cent from the same month a year earlier.

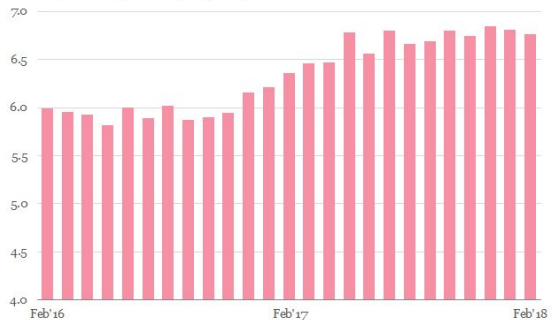
Even though wholesale trade slipped from January to February, sales in almost every sub-sector are up significantly from where they were last year. Farm products are up 87 per cent and building materials and supplies are up 10 per cent from February of last year. Food and beverage wholesaling is the only sector to register a decline over this period (-1.3 per cent).

Over the first three months of this year, retail sales have hovered near record highs. March's total is slightly off the record, with sales reaching \$6.75 billion (seasonally adjusted). Sales remain higher compared to the same month one year earlier.

On a per capita basis, Albertans continue to spend more than their provincial counterparts. In February, Alberta retail shoppers outspent the average Canadian by an average of about \$240 per month, the result of a higher employment rate, higher incomes and younger demographics. Still, spending is down on a per capita basis from pre-recession levels.

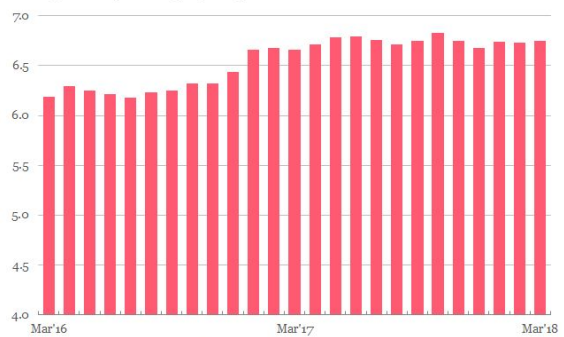
Alberta may experience some slowdown in spending as the year progresses. Annual growth

**Wholesale trade, Alberta**  
Dollars, billions (seasonally adjusted)



Source: Statistics Canada, CANSIM Table 081-0011

**Retail sales, Alberta**  
Dollars, billions (seasonally adjusted)



Source: Statistics Canada, CANSIM Table 080-0020

**Manufacturing shipments, Alberta**  
Dollars, billions (seasonally adjusted)



Source: Statistics Canada, CANSIM Table 304-0015

has slowed significantly since June 2017. As of March, sales had only increased 1.4 per cent year-over-year.

The slowdown in consumer spending will be driven by a couple of factors, including the fact that many Albertans are still without work. The province's unemployment rate was 6.7 per cent in April, much higher than Alberta is accustomed to experiencing. Additionally, higher interest rates and mounting household debt are likely to dampen spending in the short term.

The sale of manufactured goods in Alberta continues to improve and help fuel economic growth in the province. In March, total manufacturing shipments grew nearly one per cent from one month earlier and reached \$6.2 billion. Compared to March of last year, shipments from Alberta factory floors were up a little more than five per cent.

The province's manufacturing sector is taking on 2018 with plenty of momentum. Shipments in virtually all of manufacturing's subsectors remain above the previous year's levels and continue to perform strongly. Over the past six months, total manufacturing shipments have topped above \$6 billion, something last achieved in Alberta in 2014.

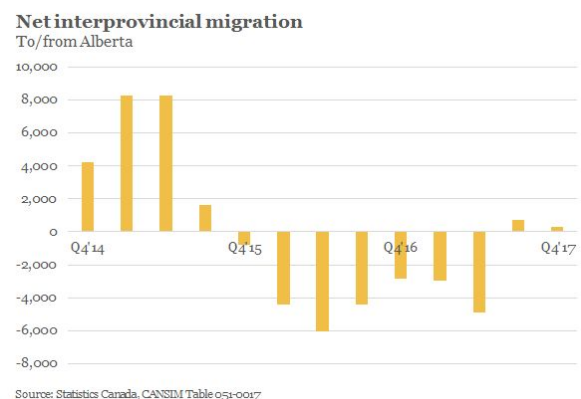
Manufacturing's strong performance over the last six months has to do with a stronger energy sector. Machinery manufacturing, for example is up almost 18 per cent from last year (as of March), and petroleum manufacturing is up by a little more than 14 per cent year-over-year (March 2018).

This year, it's expected that the manufacturing sector will help keep Alberta on track to achieving economic growth.

## Population growth

Reversing the outflow that took place in the previous eight quarters, more people from other parts of Canada chose to move to Alberta than leave in both Q3 and Q4 of 2017. The net inflow, however, was a modest 743 people in Q3 and 302 in Q4. From Q3 2015 to Q2 2017, Alberta lost over 30,000 people to other provinces.

Judging by the last two available data points, as Alberta's economy continues to gradually add jobs and gain momentum in 2018, a net interprovincial inflow of about 2,000 people is expected this year.



It's unlikely that the rate of population growth in Alberta will match the pace before the recession of 2015-16, but the province's relatively young population and the ongoing inflow of international migrants will see its population increase by about 1.6 per cent in 2018.

## US and global outlook

Alberta's merchandise exports to the United States averaged 87.6 per cent of total international exports over the last five years. The good news is that the US economy has been experiencing strong growth with most commentators forecasting real GDP increases of 2.5 per cent or more this year and next. This should help bolster demand for oil and other commodities.

The bad news is that US output is projected to slow in 2020 with some mounting risk of the US moving into recession. Also, recent tax cuts passed by Congress may lure investment away from Alberta and US protectionism may—directly or indirectly—cause significant harm to Alberta exporters.

Last year, global economic growth increased by 3.8 per cent. The International Monetary Fund's (IMF) [April 2018 forecast](#) pegs it at 3.9 per cent in both 2018 and 2019.

*“Growth this broad-based and strong has not been seen since the world's initial sharp 2010 bounce back from the financial crisis of 2008-09.”* Global growth is expected to slow after 2019.

The strong growth may spur tighter monetary policy with the higher interest rates putting additional stress on individuals, businesses and countries carrying large amounts of debt. The IMF also cites increased trade restrictions as a key risk moving forward. Overall, strong global growth in the near-term is positive for Alberta but it should prepare for somewhat leaner times over the medium-term.

## Conclusion

Moving into summer 2018, there is a disconnect between the sentiment in the province, which seems discouraged, and the economic indicators, which are generally more upbeat.

The disconnect is partially explained by the changing nature of the economy. While it is true that jobs are returning (full-time employment is up 2.6 per cent from a year ago), the composition of the labour market is changing. There are now fewer high paying jobs in the energy sector, and more people are working part-time in lower-paying sectors. This has frustrated thousands of Albertans.

The gap between sentiment and data is also being driven by a persistent belief that things will eventually return to “normal.” What we believed to be normal back in 2014 is not returning. In this sense, the economy is not recovering so much as it is evolving.

More optimistically, the changing nature of Alberta’s economy is creating new opportunities. Companies outside the energy sector are finding talented and experienced employees, albeit at lower pay than what many workers had come to expect. And green shoots of greater economic diversity are poking up. Agri-foods, tourism, high-tech business services, and transportation and logistics are showing tremendous growth and promise. It may, however, take many years before some of these diverse sectors reach greater size and maturity.

For now, however, the energy sector remains front and centre. Oil prices have improved, but pipeline uncertainties are holding back investment and muting optimism in Canada’s energy sector. It is hoped that these challenges are resolved by the summer. If there is no resolution—or worse, a negative outcome on pipeline projects—the short- and medium-term outlook for the sector will dim.

ATB Financial’s Economics and Research team is forecasting real GDP growth of 2.7 per cent in 2018, and 2.3 per cent in 2019.