

And now we wait: Inflation and interest rates remain the big economic stories of 2023

To paraphrase Yogi Berra, it might feel like déjà vu all over again in 2023 as the main economic stories continue to be above-target inflation and the elevated interest rates aimed at reducing it. Alberta's relatively strong economic growth in the face of these challenges will also continue to make headlines.

Inflation expected to ease, but slowly

The highest inflation in decades has led the Bank of Canada to raise its trendsetting policy interest rate from 0.25% to 4.5% in less than a year. The policy rate has not been this high since 2007.

The pace of consumer price growth in Canada has come down from the peak reached in June 2022 when the Consumer Price Index hit 8.1%. But, assuming higher interest rates do what they are intended to do and geopolitical events such as the ongoing war in Ukraine do not cause new price spikes, it will likely take until 2024 before inflation returns to its target range.

No pain, no gain

In the meantime, the negative economic consequences of higher borrowing costs will work their way through the economy in 2023. There are signs that Canada may avoid slipping into recession as a result, but this is a low bar. Whether it is a hard or soft landing, a slower economy is the pain needed to achieve the gain associated with a lower inflation rate.

Alberta has a better boat

The Alberta economy can't avoid the rough economic waters, but strong performance in its natural resource and agricultural sectors combined with the population boost this is providing will enable it to navigate them better than other jurisdictions.

In this context, Alberta's real GDP growth is forecast to fall from an estimated 5.0% last year to 2.6% in 2023 and 2.3% in 2024. Downside risks to this forecast include additional economic disruptions related to the Russian invasion of Ukraine, a sudden and sustained drop in oil and gas prices, and the potential for interest rates to rise even higher if inflation stays sticky.

Oil patch doing well

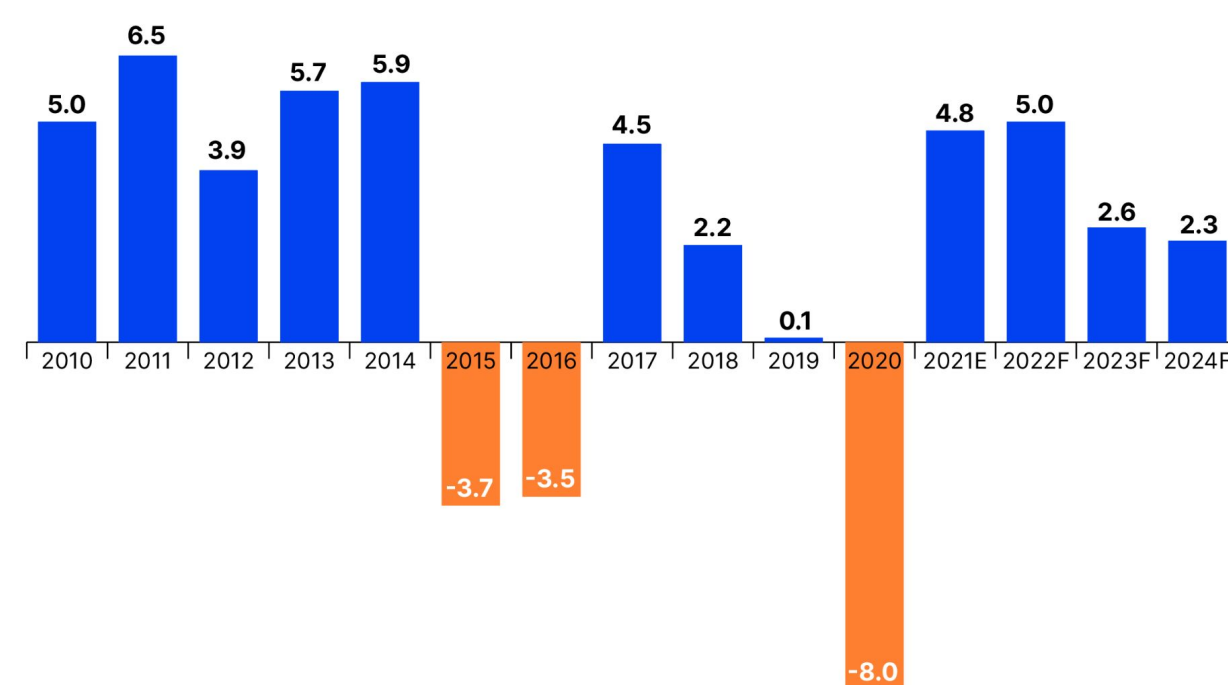
Alberta is producing more crude oil than ever, oil prices are forecast to remain strong compared to the five-year average set prior to the pandemic, and the expected completion of the Trans Mountain Expansion Project later in the year will add much-needed egress capacity for Alberta crude.

As a result, oil and gas extraction sector capital investment, while not as high as it was during periods of intense expansion, has bounced back from recent lows and will provide a welcome boost to the provincial economy this year and next.

Key indicators			Forecast	
	2021	2022	2023	2024
Real GDP (annual % change)	4.8	5.0	2.6	2.3
Employment (annual % change)	5.4	5.2	1.7	1.8
Unemployment rate (annual average %)	8.6	5.8	5.9	5.8
Retail sales (annual % change)	11.5	6.3	4.9	5.6
Annual housing starts (000s)	31.9	36.5	32.8	31.5
Consumer Price Index (annual % change)	3.2	6.4	3.9	2.3

Annual % change in Alberta's real GDP

Chained (2012) dollars

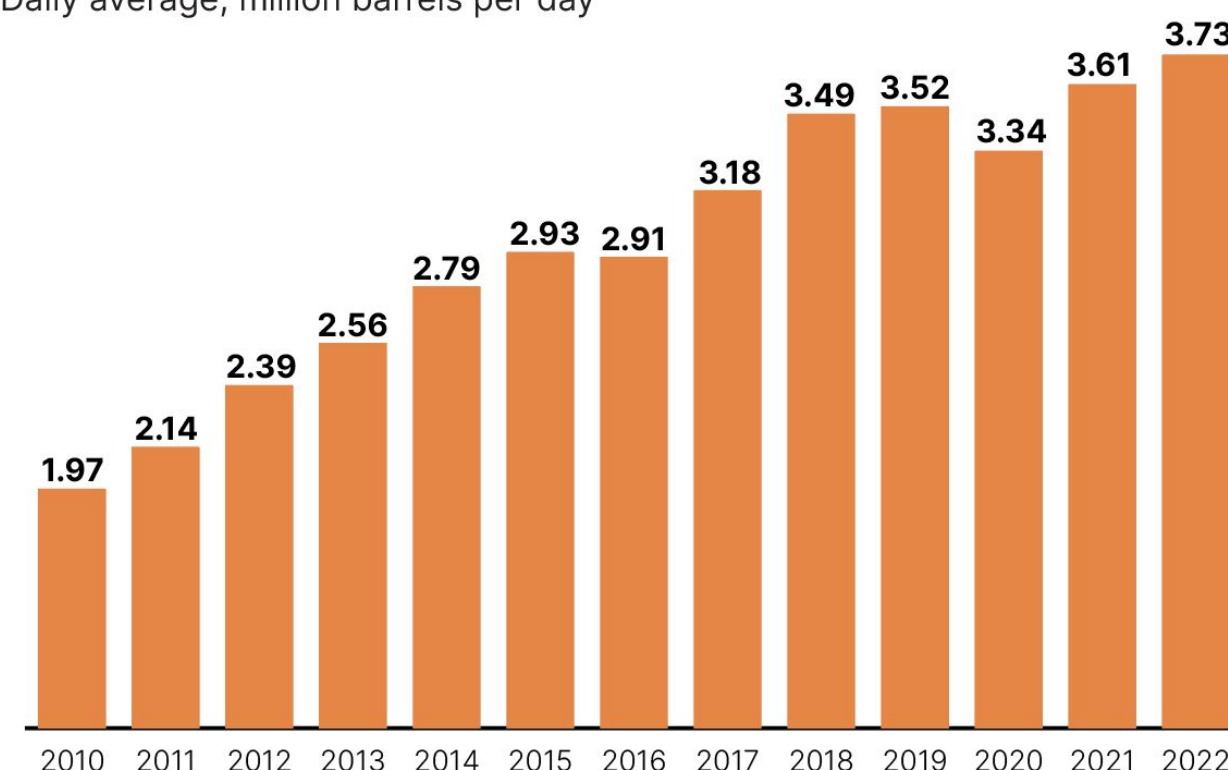


F=forecast

Source: Statistics Canada Table 36-10-0222-01 and ATB Economics

Annual crude oil production in Alberta

Daily average, million barrels per day



Source: Alberta Energy Regulator and ATB Economics

Some, but not much, loosening of the labour market

We are expecting some loosening of 2022's tight labour market as the dampening effects of higher interest rates bite. At the same time, filling vacant positions created by labour shortages will help support employment growth and keep the unemployment rate from spiking as it typically would during a period of elevated interest rates.

Our forecast has Alberta's annual unemployment rate rising just slightly from 5.8% in 2022 to 5.9% in 2023 before returning to 5.8% in 2024. Employment in Alberta will rise over this period, but at a more modest rate than it did last year with labour shortages continuing to present challenges to employers.

Population growth to continue

Population growth is another reason for Alberta's relatively strong economic forecast. Net interprovincial migration into Alberta during the third quarter of 2022 hit its highest level since 1980. The third quarter also witnessed the largest net gain from international migration (new immigrants and temporary residents) since at least 1971. Ongoing population growth will support activity across a range of sectors including housing and retail while also helping to ease (though not eliminate) labour shortages.

Agriculture is coming off a good year

Although offset to some degree by higher operating costs, Alberta's agriculture sector benefited from better growing conditions and record-setting prices last year and should continue to be a solid contributor to the province's economic performance in 2023.

Other sectors that are poised for growth include petrochemicals, transportation and logistics, alternative energy, carbon capture, tourism, and a wide range of creative industries.

Housing market will slow but remain resilient

Although we expect housing starts in Alberta to slow in 2023 after a strong performance last year, the forecast is still 13.5% higher than the five-year average set prior to the pandemic.

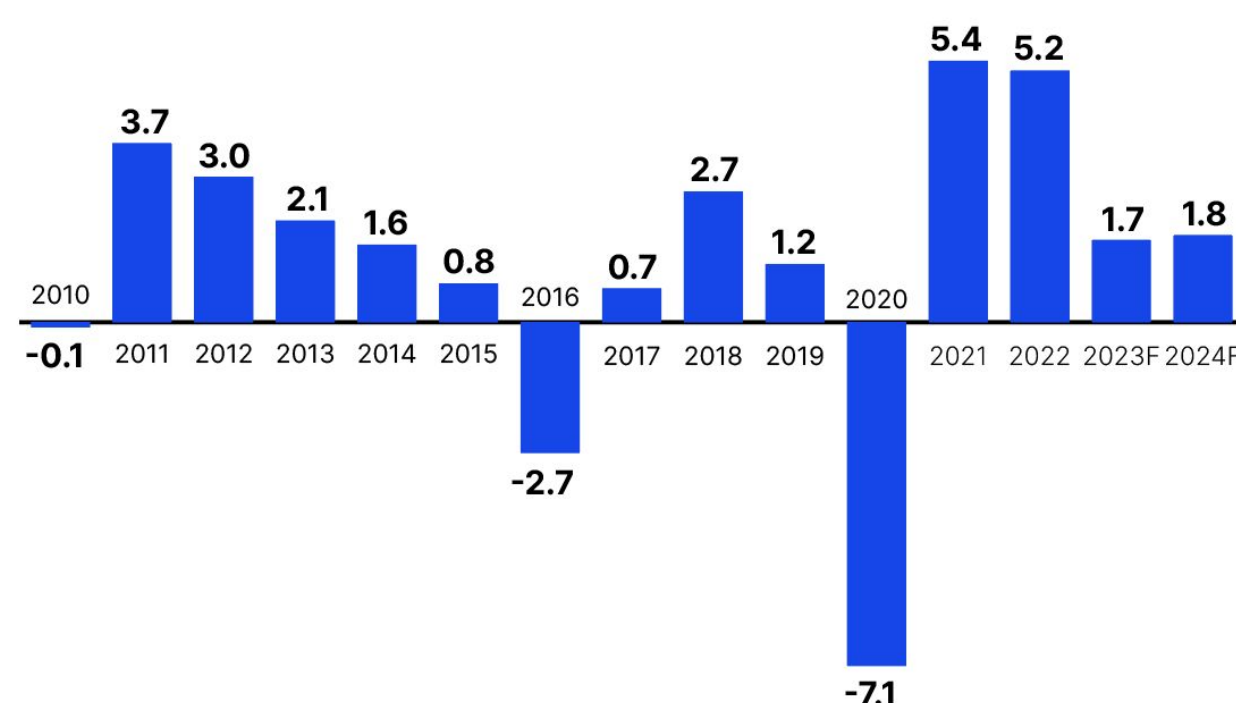
Benchmark house prices have started to come down in Alberta, but the decrease is expected to be less dramatic than in markets that experienced rapid price escalation.

The waiting game

As an export-intensive economy, Alberta will be buffeted by the negative effects of slower global growth and the battle against inflation, but a boost from our natural resource and agricultural sectors combined with robust population growth will help us weather the storm and be at, or near, the top of the list of provincial economic growth this year. With that said, businesses and households will continue to feel the pain of higher prices and borrowing costs as we wait anxiously to see how effective monetary policy is at taming inflation and if geopolitical conditions will improve or get worse.

Employment growth in Alberta

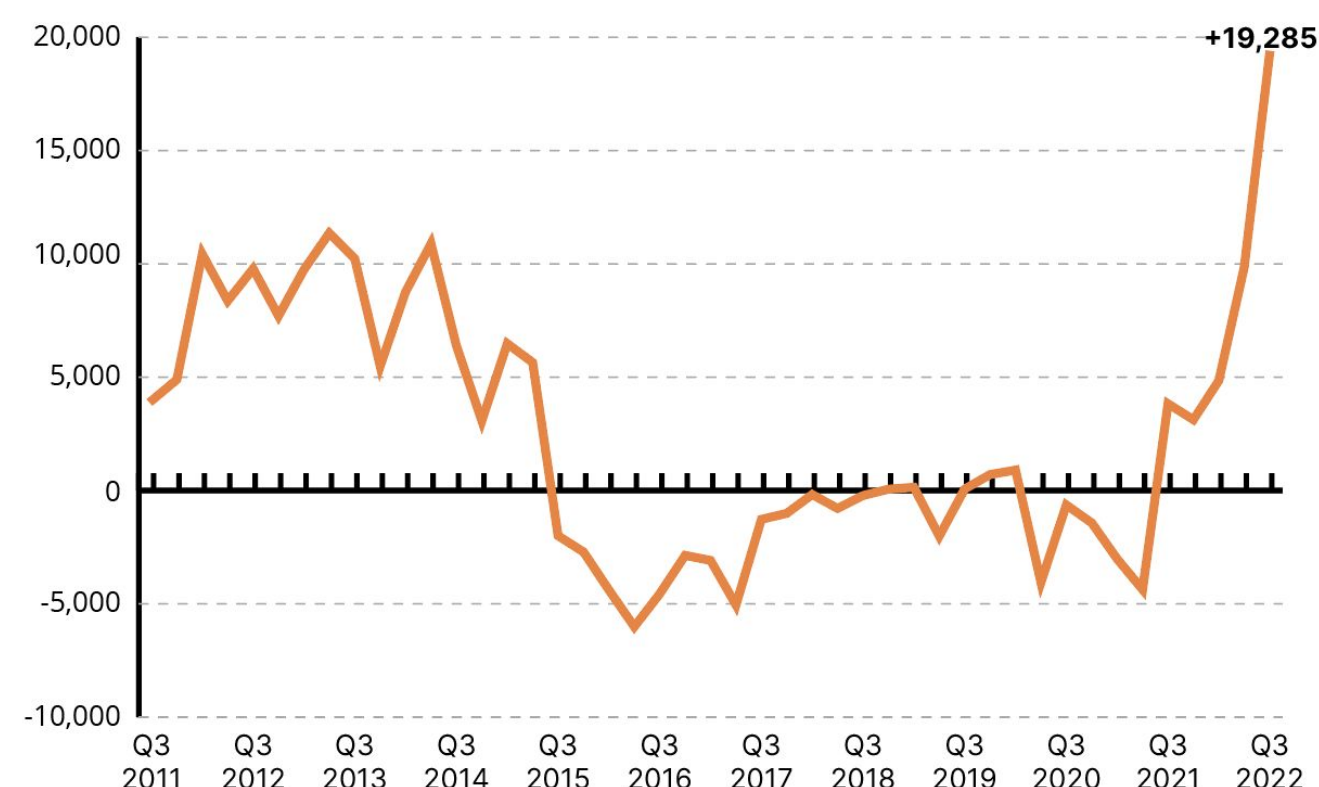
Annual % change in total employment



Source: Statistics Canada Table 14-10-0393-01 and ATB Economics (F=forecast)

Net interprovincial migration, Alberta

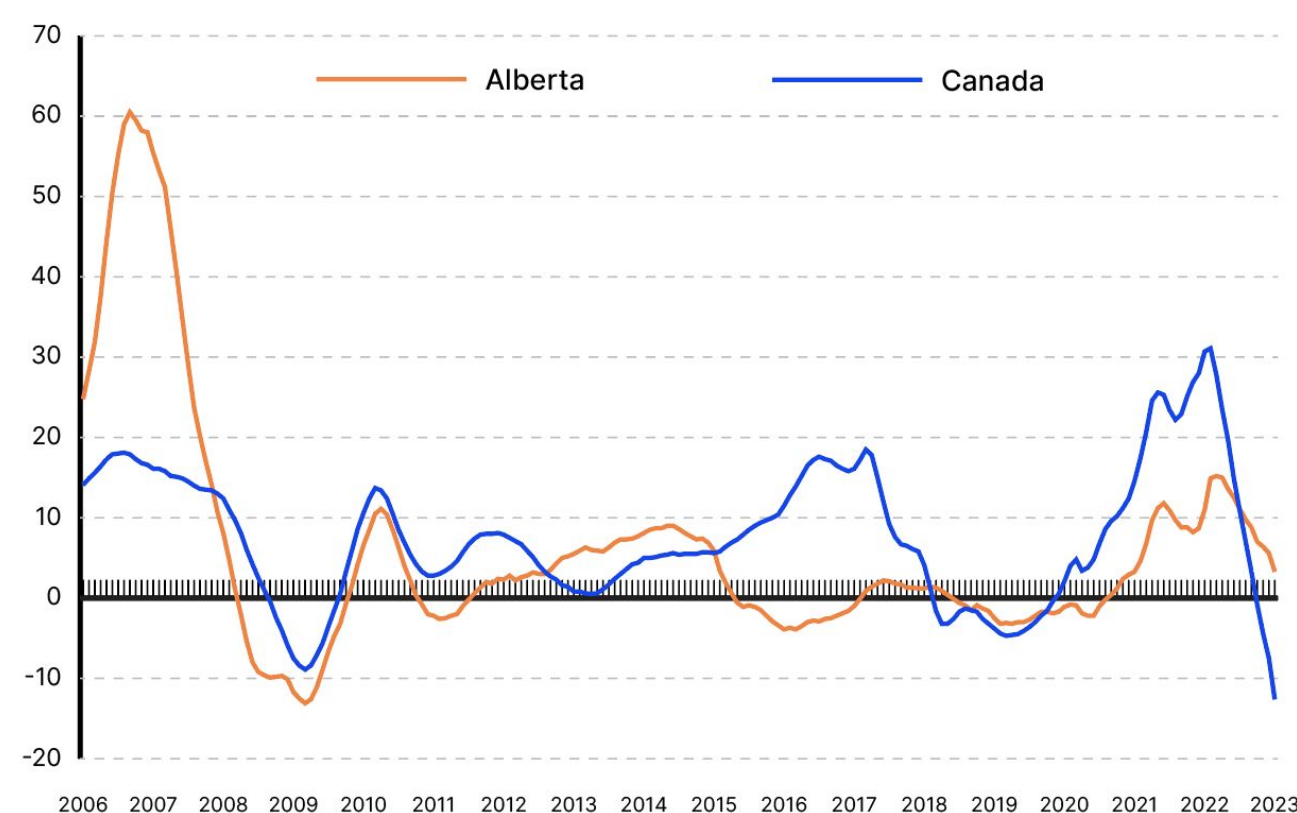
In migrants less out migrants, quarterly



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

MLS® Home Price Index

Year-over-year % change in composite benchmark



Source: Canadian Real Estate Association