

Alberta Economic Outlook March 18, 2021

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On the mend: Alberta's economy in 2021

With vaccines in play, Alberta's economy will make up a large portion of the ground it lost last year due to the pandemic and oil price crash. ATB is forecasting real GDP growth of 4.1% in 2021 followed by 2.6% in 2022. At this pace, Alberta's annual economic output will surpass its pre-pandemic level in 2023.

The forecast assumes that the pandemic will be largely quelled in Canada by the fall and that a staged reopening of the provincial economy will take place between now and then. The forecast also assumes that U.S. and global demand for oil will continue to recover and that OPEC+ producers will maintain limits on the amount of supply they add to the market.

A K-shaped recovery

The economic recovery in Alberta will, as in other places, be uneven across sectors and income groups. A large number of business closures in 2021 (on top of the losses last year) is a possibility. It also remains to be seen how many jobs lost during the pandemic will return. While our forecast anticipates employment growth of 3.9% in 2021, the total number of jobs in the province will still be below the pre-pandemic level. This, combined with new entrants into the labour force, will keep the average annual unemployment rate relatively high in 2021.

This points to what is likely to be a K-shaped recovery. The upper branch of the K will be higher-wage workers who didn't lose their jobs during the pandemic. Pent-up demand among this group will provide a boost to consumer spending. The lower branch will be formed by workers who either return to low-wage employment or remain out of work because their former employers have permanently closed or require fewer staff. While the post-pandemic period may feel like the Roaring 20s to some, it will be challenging for many others.

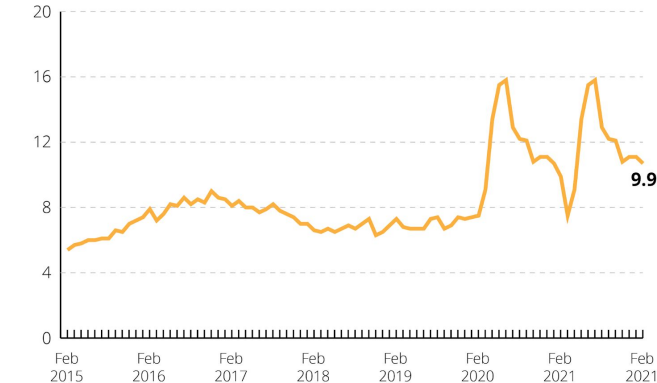
Oil and gas

After a rough 2020 that saw Alberta's oil production fall by 5.1%, the West Texas Intermediate (WTI) crude benchmark post its lowest annual average in 17 years and President Joe Biden cancel the Keystone XL pipeline, 2021 is expected to be much better for the province's oil patch. Production surpassed pre-pandemic levels in November and prices have been on the

Key indicators	2020	ATB forecast		
		2021	2022	2023
Real GDP (annual % change)	-7.1	4.1	2.6	2.2
Employment (annual % change)	-6.6	3.9	2.8	2.1
Unemployment rate (annual average %)	11.4	10.1	9.5	8.6
Consumer Price Index (annual % change)	1.1	2.0	1.7	1.6
Annual housing starts (000s)	24.0	22.7	22.7	22.5

Alberta's unemployment rate

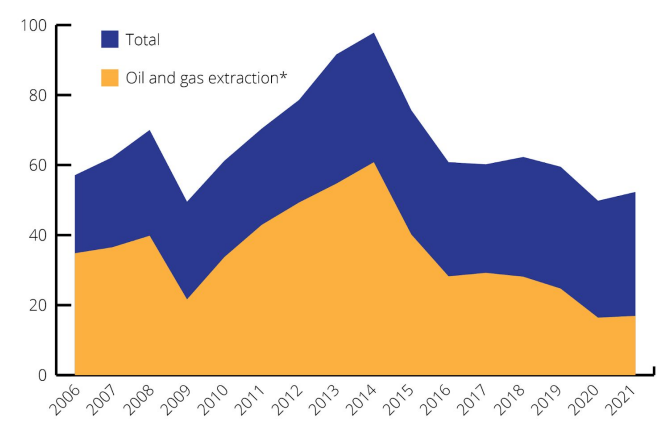
% , monthly, seasonally adjusted



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

Annual capital spending in Alberta

\$, billion



*Includes NAICS codes 211 and 213 Source: Statistics Canada Table 34-10-0035-01

upswing over the first three months of the year. According to Statistics Canada, capital spending in the oil and gas extraction sector in 2021 is expected to be 3.0% (\$0.5 billion) higher than in 2020, but will still be 31.5% (\$7.8 billion) below where it was in 2019. We might, however, see some additional capital spending if oil prices continue to beat expectations. Prices are contingent upon a wide range of variables including the success of global vaccination efforts and the durability of the OPEC+ oil supply limits. Our GDP forecast assumes WTI will average US\$51 per barrel this year.

Increased demand from oil sands operations and Alberta power plants, infrastructure improvements and stronger prices all bode well for Alberta's natural gas industry in 2021.

Construction and the housing market

Although down by 10.9% compared to 2018, spending on residential construction increased 2.2% last year. But, even though housing starts and residential building permits were both up in January, weak population growth and the long march to a full economic recovery are expected to limit growth.

The resale housing market is expected to build on the momentum displayed during the second half of 2020, with activity levels rising and prices increasing, albeit modestly. Non-residential construction spending was 16.2% lower in 2020 than in 2019 and non-residential building permits started the year 27.6% below where they were in January 2020.

The economic recovery should spur some improvement in non-residential construction in 2021, but ample commercial space and only a modest increase in capital investment intentions suggest spending will remain muted compared to pre-pandemic levels.

Retail, tech and agriculture

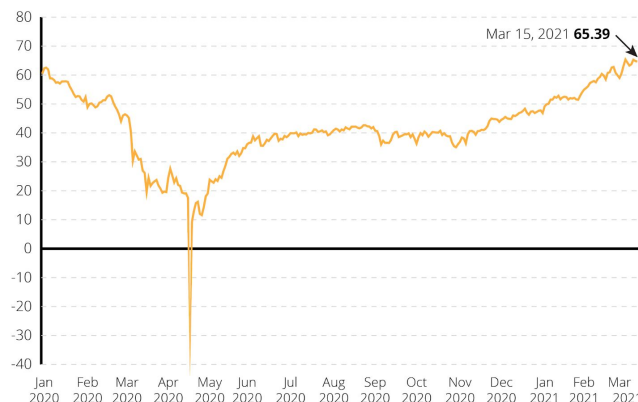
Buoyed by emergency income support, retail spending in the province held up remarkably well last year. Spending was down by 2.3% compared to 2019, but if motor vehicles and gas stations are excluded, it increased by 2.7%. Household savings accumulated during the pandemic should boost retail sales in 2021 but some of this will be offset by the end of emergency income support and ongoing unemployment.

Alberta's growing tech sector is an economic bright spot and received a boost from news that Vancouver-based mCloud Technologies Corp. is moving its head office to Calgary and Infosys has also chosen Calgary for the next phase of its expansion into Canada.

After a strong 2020, primary agriculture and agri-food are poised to continue to grow in 2021. The pandemic-related setbacks that affected the cattle industry are in the rearview mirror and the global recovery should support prices and exports. The announcement of an \$815 million upgrade to Alberta's irrigation system is a welcome development, but a lack of winter precipitation across much of the Prairies remains a concern for spring seeding conditions.

West Texas Intermediate oil prices

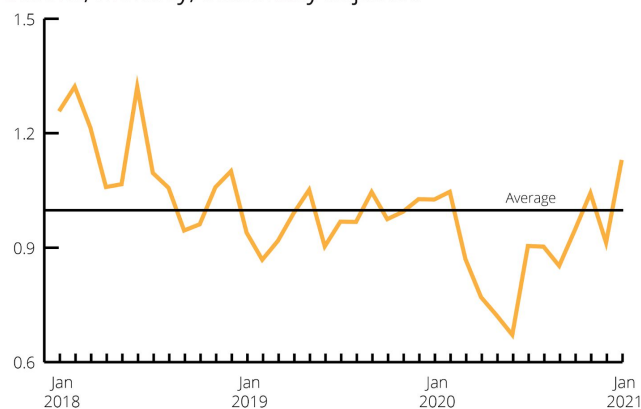
US\$/bbl, daily closing price, NYMEX front-month futures contract



Source: Bloomberg.com

Value of building permits, Alberta

\$ billions, monthly, seasonally adjusted



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