

Alberta Economic Outlook October 2020

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From sprint to marathon: Alberta's post-lockdown economic recovery

Despite a strong uptick in economic activity following the spring lockdown, Alberta's economy will be 7.1 per cent smaller in 2020 than it was last year. Alberta's real GDP is forecast to grow by 3.3 per cent in 2021.

Key indicators	2019	ATB forecast		
		2020	2021	2022
Real GDP (annual % change)	-0.6	-7.1	3.3	3.3
Employment (annual % change)	0.5	-7.8	2.2	3.3
Unemployment rate (annual average %)	6.9	11.4	11.0	10.0
Consumer Price Index (annual % change)	1.7	0.8	2.0	1.6
Annual housing starts (000s)	27.3	20.2	20.3	20.0

While the virus is still very much with us, and voluntary and involuntary restrictions on economic activity remain in play, jurisdictions around the world have loosened many public health restrictions. This has enabled a large amount of economic activity to resume and we have seen improvement in everything from retail sales and job numbers to international trade and manufacturing output.

However, now that the initial bounce back has taken place, it will be a long haul—a marathon rather than a sprint—before the economy catches up to where it was before the pandemic. As such, it will take until 2023 for Alberta's annual GDP to surpass its 2019 level.

Because of the steep up and down movement in GDP due to the lockdown and reopening, it helps to look at change over a two-year period. When we do this, Alberta's GDP in 2021 will be 4.0 per cent below the pre-pandemic level in 2019. By way of comparison, Alberta's GDP was 7.0 per cent smaller at the end of the 2015-16 recession than it was in 2014.

The impact of the pandemic going forward continues to be the main variable affecting the recovery. Our assumption is that a second wave of the virus will be economically disruptive, but to a lesser extent than what took place in the spring. However, if the second wave leads to another lockdown in Alberta or other places, this will push GDP lower in 2020 with the negative effects spilling over into 2021. Our forecast also assumes that an effective vaccine will not be widely available until well into 2021.

The second main variable affecting the recovery in Alberta is the state of the global oil industry. Oil prices remain soft, but have improved since the West Texas Intermediate benchmark tumbled into negative territory in April. The global demand for oil has increased as economies have reopened, but it, too, remains soft. If the agreement among the OPEC+ producers to keep supply in check holds and global demand continues its climb back to where it was, the oil output shut-in by Alberta producers will come back online, potentially before the end of the year. Crude oil and equivalents production in Alberta was 21 per cent (765,000 barrels per day) lower in May (the low point) compared to its pre-shock level in February.

It's possible that reduced capital spending on exploration and production in the global oil patch combined with rising demand could lead to a temporary shortage of supply at

West Texas Intermediate oil prices, 2020

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



Source: Bloomberg.com

some point, but current price forecasts see WTI staying below the \$50 mark next year and into 2022.

While still significant at \$16.6 billion, capital spending in Alberta's oil and gas extraction sector is expected to be 30 per cent (\$7.1 billion) below the already depressed amount spent in 2019 and 58 per cent (\$22.8 billion) below the 10-year average. Even if the global oil demand fully recovers, capital spending in Alberta is forecast to remain low in 2021 and this will continue to weigh on the many businesses and jobs that rely on it.

Labour market

The number of jobs in Alberta grew by 0.4 per cent (9,700) in August, but employment was still down by 176,900 compared to the same month last year. The pace of the recovery in the province's labour market actually slowed in August with 67,300 jobs added in July (3.2 per cent) compared to 91,600 added in June (4.6 per cent).

Alberta's labour force contracted by 0.6 per cent (16,000) in August and pushed the participation rate down to 68.6 per cent from 69.1 per cent in July. In fact, the main reason the unemployment rate fell from 12.8 per cent in July to 11.8 per cent in August was a decrease in the number of people looking for work.

Population growth

The latest estimate from the province pegs population growth in 2020 at 1.4 per cent, which is the same as the average from 2015 to 2019. Growth next year and in 2022 is projected to slow to 0.7 per cent.

International immigration has been severely hampered by the pandemic. The number of permanent residents admitted into Alberta from other countries over the second quarter of 2020 was down by 65 per cent (-8,130 people) compared to the same period last year. Arrivals slowed to just 680 in April, but climbed to 2,200 in June. The arrivals in June were, however, still 49 per cent lower than they were 12 months earlier. Interprovincial migration slipped into negative territory during the second quarter with a net outflow of over 2,700 residents to other parts of the country.

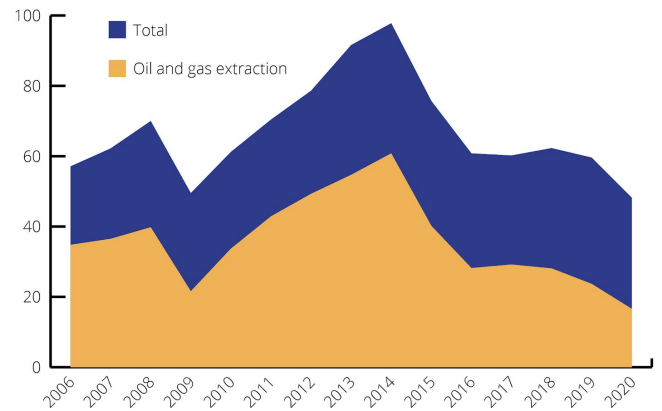
Agriculture

Although not spared by the pandemic, Alberta's agriculture and agri-food sector has performed well this year and a good harvest is expected in most parts of the province. On a year-to-date basis, total farm receipts were up by 1 per cent over the first half of 2020 compared to last year. Crop receipts were higher by 4 per cent while livestock and livestock product receipts were down by 9 per cent. Reduced meat-packing capacity due to pandemic-related closures explains the drop, with cattle receipts down by 24 per cent (\$318 million) and hog receipts down by 22 per cent (\$26 million) in the second quarter compared to the same period in 2019. Beef prices have improved with a positive outlook on demand and processing plants are at capacity and chipping away at the backlog.

Food manufacturing sales have outperformed the overall manufacturing sector. On a year-to-date basis, food manufacturing sales were up by 7 per cent as of July while total manufacturing sales were down by 17 per cent.

Annual capital spending in Alberta

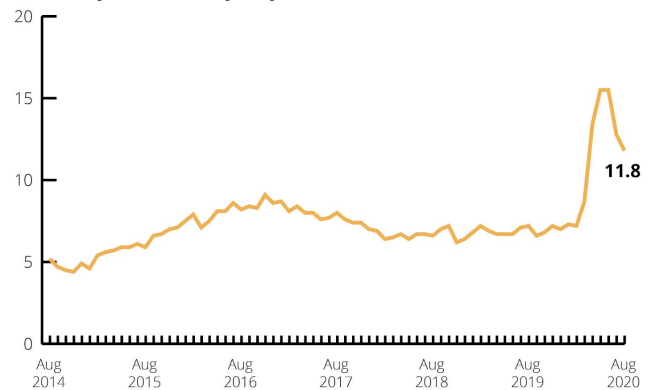
Source: Statistics Canada Table 34-10-0035-01



Source: Statistics Canada Table 34-10-0035-01

Alberta's unemployment rate

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



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