

# Alberta Economic Outlook - December 2019

ATB Financial's Alberta Economic Outlook is prepared by ATB Economics and released quarterly. While effort has been taken to ensure the accuracy of the information and analysis herein, it should not be construed as financial advice. For more information on Alberta's economy, visit [atb.com](http://atb.com).

## Challenging times: Alberta's economy in 2020

The last year of the decade has been challenging for Alberta's economy with real GDP forecast to grow by just 0.4 per cent in 2019. Economic conditions in the province have been weak enough that the final number may even be negative, but we won't know for sure until Statistics Canada publishes the final numbers later next year.

Alberta's growth continues to be stymied by a lack of oil pipeline capacity. The oil transportation bottleneck and uncertainty around its resolution have made companies and investors reluctant to finance additional exploration and production. The lack of pipeline capacity also helped precipitate an oil price crash at the end of 2018 that prompted the province to limit production. Capital spending in the oil and gas extraction sector is expected to be down in 2019 by 55.4 per cent compared to the peak in 2014.

At 0.9 per cent, Alberta's growth is forecast to be higher in 2020 than it was this year, but will still be well below the 20-year average of 2.8 per cent. Real GDP growth is forecast to be stronger in 2021, reaching 2.1 per cent. The timing of increased investment in oil exploration and production is a key variable in this regard. Other forecasts anticipate that spending will increase in 2020 while our forecast assumes that concern over when new egress capacity will actually come online will keep investment soft over the short-term. As a result, even though oil production and exports will likely rise next year, the boost to GDP will not be enough to overcome sluggishness in other areas until investment levels improve in 2021.

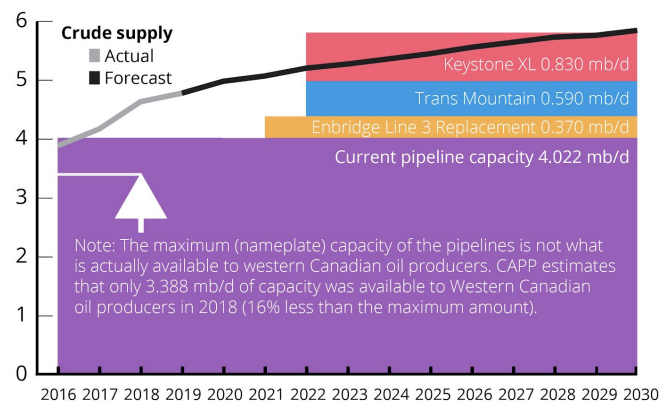
A cold winter and low storage levels could push up the price of Alberta's natural gas over the next few months, but this will not be enough to change the underlying low-growth dynamic in the sector.

Given oil and gas made up 27.6 per cent of Alberta's real GDP in 2018, the challenges facing the sector have had—and will continue to have—a negative ripple effect on the provincial economy overall. We can see this in the retail sector, construction sector and the labour market.

| Key indicators                         | 2018 | ATB forecast |      |      |
|--|------|--------------|------|------|
|  |      | 2019         | 2020 | 2021 |
| Real GDP (annual % change)             | 1.6  | 0.4          | 0.9  | 2.1  |
| Consumer Price Index (annual % change) | 2.4  | 1.8          | 2.0  | 1.9  |
| Unemployment rate (annual average %)   | 6.6  | 6.9          | 6.9  | 6.7  |
| Employment (annual % change)           | 1.9  | 0.5          | 1.1  | 1.5  |
| Annual housing starts (000s)           | 26.1 | 23.8         | 24.7 | 25.7 |

## Western Canadian oil supply versus maximum pipeline capacity

Millions of barrels per day (mb/d)



Source: Canadian Association of Petroleum Producers (CAPP)

## Retail sales in Alberta

Monthly, \$, billions, seasonally adjusted



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

**Retail sales** in September were off by 2.7 per cent (\$187 million) compared to September 2018 with year-over-year sales down in seven of the first nine months of 2019. It's unlikely that retail sales will improve over the short-term as consumers hold back due to high levels of personal debt, unemployment, and concerns over the general state of the economy.

In the **construction** sector, residential activity picked up in the third quarter, but both residential and non-residential construction spending remains lower than in previous years. The value of building permits issued by municipalities also rallied in the third quarter, but was still below historical levels.

Alberta's **labour market** continues to struggle to create enough jobs to make a significant dent in the provincial unemployment rate. The number of jobs in the province was down 0.8 per cent in November compared to a year earlier. The unemployment rate was 7.2 per cent in November—up from 6.2 per cent 12 months earlier and still well above the national rate of 5.9 per cent.

Payroll positions in construction (-3.6 per cent) and oil and gas (-2.9 per cent) were down year-over-year in October for a combined loss of 9,382 jobs. The largest absolute increase was in the health care and social assistance sector with the number of jobs rising by over 15,000 (7.4 per cent). Employment growth is forecast to weaken to close out the year and improve only slightly next year. The provincial unemployment rate is forecast to remain high, averaging 6.9 per cent in 2020.

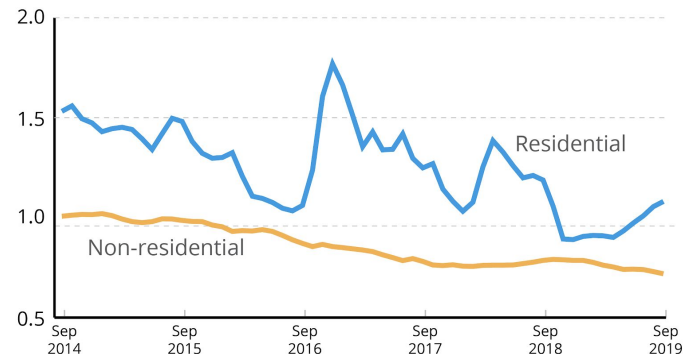
Year-to-date **manufacturing** sales were up by 0.9 per cent as of September compared to the same period in 2018, but have weakened in the third quarter. If the Canadian and U.S. economies grow as expected and global trade relations improve, shipments from Alberta's factory floors should increase modestly in 2020.

Alberta's **agriculture** sector got some good news last month when the Chinese government lifted its ban on Canadian meat. Farmers, however, still face restrictions on canola, Alberta's largest export to China. The canola ban drove crop exports down by 13.1 per cent (\$493.5 million) over the first nine months of the year and it is unclear when the restrictions will be lifted. Bad weather during the 2019 harvest coupled with subpar yields in parts of the province over the last few years and soft commodity prices will hurt farm incomes. However, food product exports—especially pork due to African Swine Flu issues in Asia—should rise in 2020.

Despite the continued challenges posed by insufficient pipeline capacity, Alberta's real GDP is forecast to grow next year. The easing of oil production limits, modest increases in pipeline capacity, an uptick in natural gas prices, a strong tourism sector, a growing tech sector, improvement in manufacturing sales, and ongoing population growth will help boost real GDP by 0.9 per cent in 2020 followed by growth of 2.1 per cent in 2021.

### Monthly building construction, Alberta

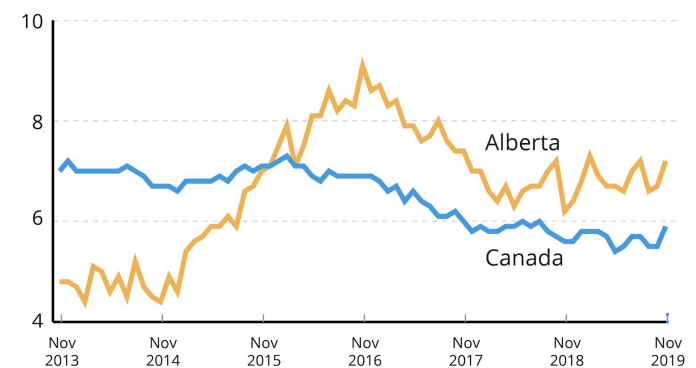
Billions of dollars of investment, seasonally adjusted



Source: Statistics Canada Table: 34-10-0175-01

### Monthly unemployment rate

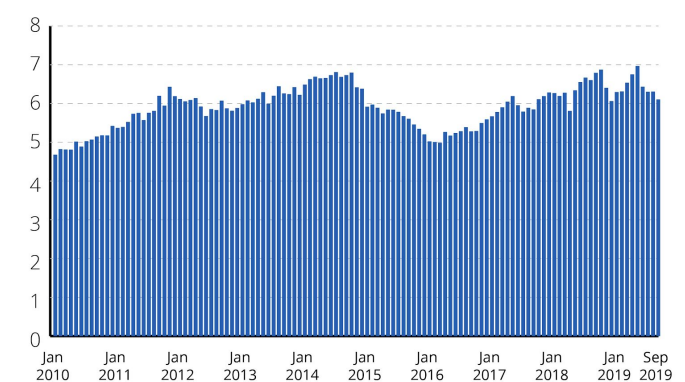
Per cent, seasonally adjusted



Source: Statistics Canada Table: 14-10-0287-011

### Monthly manufacturing sales, Alberta

\$, billions, seasonally-adjusted



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