



Alberta Snapshot

A Quarterly Economic Update ▶▶▶ **Summer 2023**

PRODUCED BY THE BUSINESS COUNCIL OF ALBERTA

Executive Summary

Alberta's economy continues to move forward even as significant challenges mount.

After lagging for years, Alberta's labour market is now in line with the rest of Canada. And, as the national market begins to show cracks, Alberta's is set to overcome it.

Alberta businesses continue to have a positive outlook. Retail sales and industries supported by population growth are growing with the influx of people; temporary residents are helping to fill labour shortages; and commodity prices for energy and agriculture—though they have settled—are expected to remain at profitable levels.

There is encouraging news for the province's future growth, too. Businesses report plans to increase investment; the province is becoming a leader in venture capital attraction; and export capacity is set to grow with the Trans Mountain expansion in early 2024.

However, consumers face challenges as wages have generally failed to keep pace with prices.

Though Albertans have had a reprieve from high inflation due to policy support via the Affordability Action Plan, most support has ended and housing costs are rising. As interest rates rise, so too have insolvencies. In fact, more Albertans perceive the economy to be worsening.

And there are some real challenges on the horizon. In Canada, the only thing driving economic growth is a huge spike in the population. Globally, supply chains show excess capacity for the first time since COVID and the growth outlook is below historic trend levels. Even in Alberta, despite its relative strength, aggregate measures of economic activity point to slowing growth, too.

The biggest problem globally is inflation—which remains too high—and the expected course of action to combat price growth. Central banks (including the Bank of Canada in its recent announcement) continue to slow the economy with higher and higher interest rates. But core inflation is proving “sticky.”

As we've mentioned previously, while lower inflation would be good news for all Canadians, higher interest rates and a slowing economy is a serious risk for Alberta businesses and Albertans.

Highlights

1

With inflation high and wage growth low until recently—and now high interest rates—Albertans' finances have taken a hit. Consumers have begun to cut back on spending and insolvencies are edging up.



2

Nationally and globally, the economy is showing signs of cooling and, for the first time since COVID, supply chains have excess capacity. As central banks indicate further interest rate increases, this slowdown is likely to continue.



3

For now, Alberta's labour market remains strong, businesses continue to invest, and population growth is fueling local demand and jobs. But economic momentum may be waning.

Building Better

Work in Alberta



Building better is about work opportunities—those available, emerging, or lost. Access to work is a signal of financial and personal opportunity for individual Albertans, a sign of business health, and a gauge of current economic activity in the province.

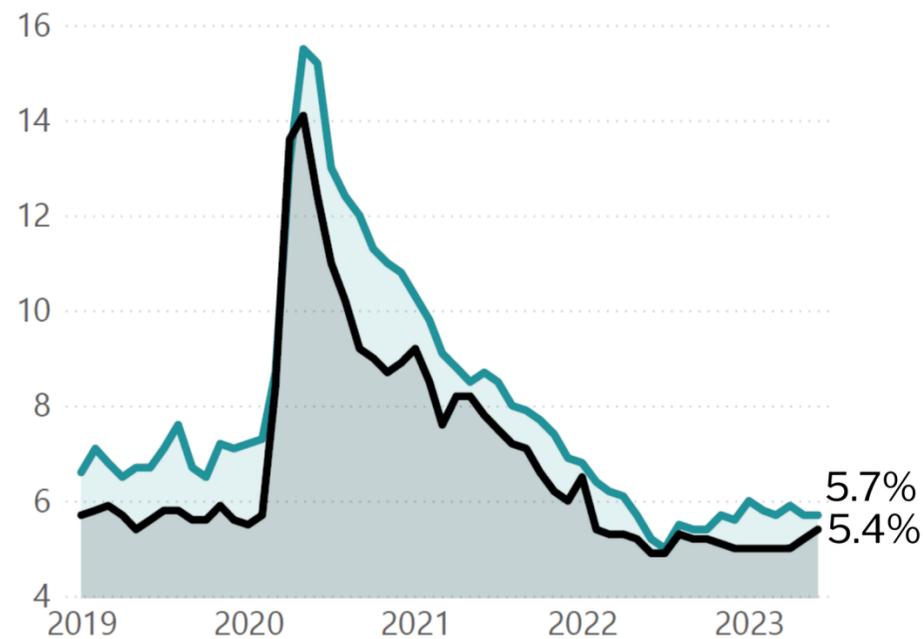
Building Better

Work in Alberta

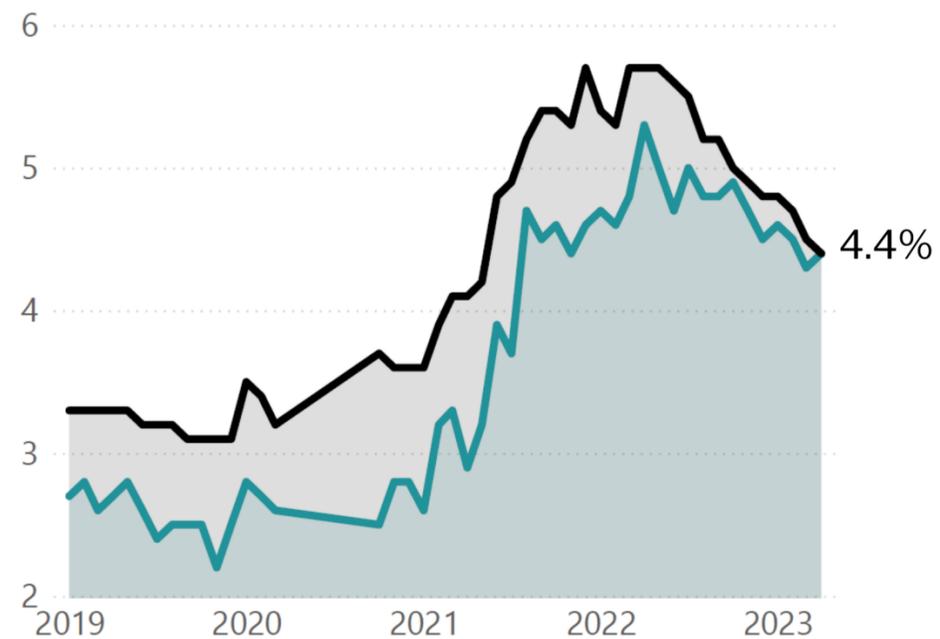
The labour market

● Alberta ● Canada

Unemployment rate



Job vacancy rate



► **The labour market in Alberta shows continued strength**

In fact, it has closed a longstanding gap with the national average. The number of job vacancies has continued to shrink from the historic high of 108k (5.3%) last April to 94k (4.4%) most recently. However, the labour market is still tight: unemployment remains at 5.7% and businesses plan to increase staffing. In contrast, nationally, job vacancies have fallen much harder, and the rate of unemployment is edging up.

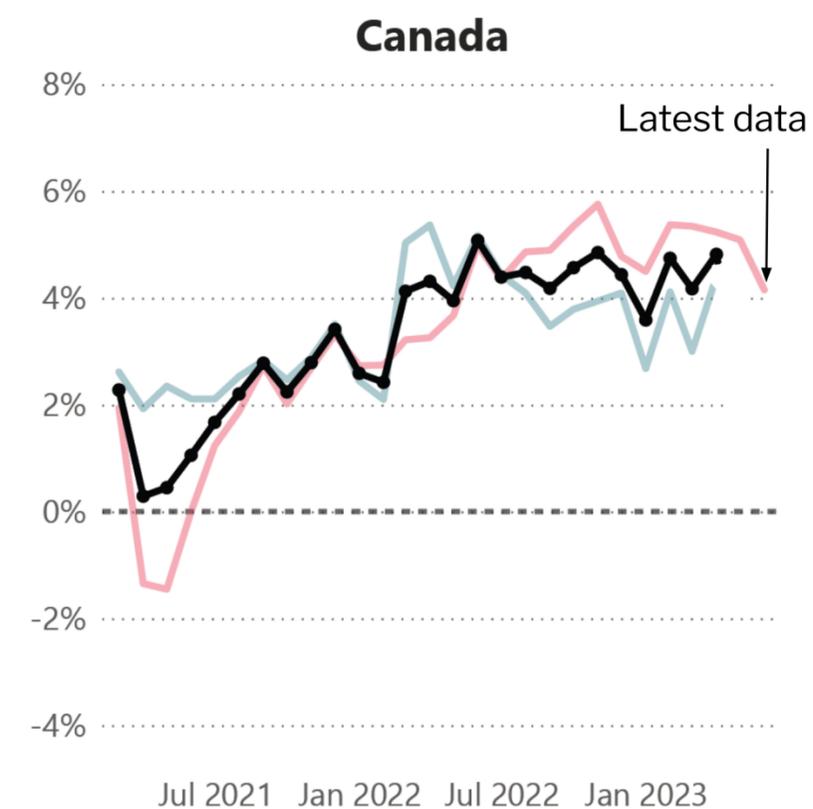
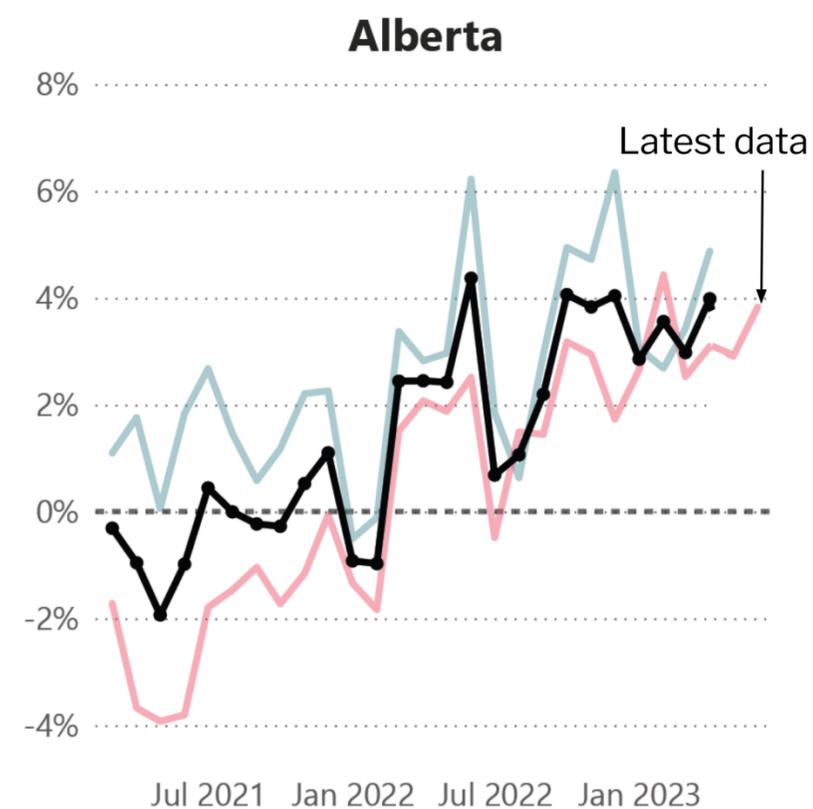
Source: Statistics Canada, Table 14-10-0287-01 (seasonally adjusted) and Table 14-10-0432-01 (seasonally adjusted), data through June 2023 for unemployment and April 2023 for job vacancies

Building Better

Work in Alberta

Measures of wage growth

● SEPH ● LFS ● AVERAGE



Source: Statistics Canada, Table: 14-10-02223-01 (seasonally adjusted) and Table 14-10-0213-01, fixed weighted index of average hourly earnings

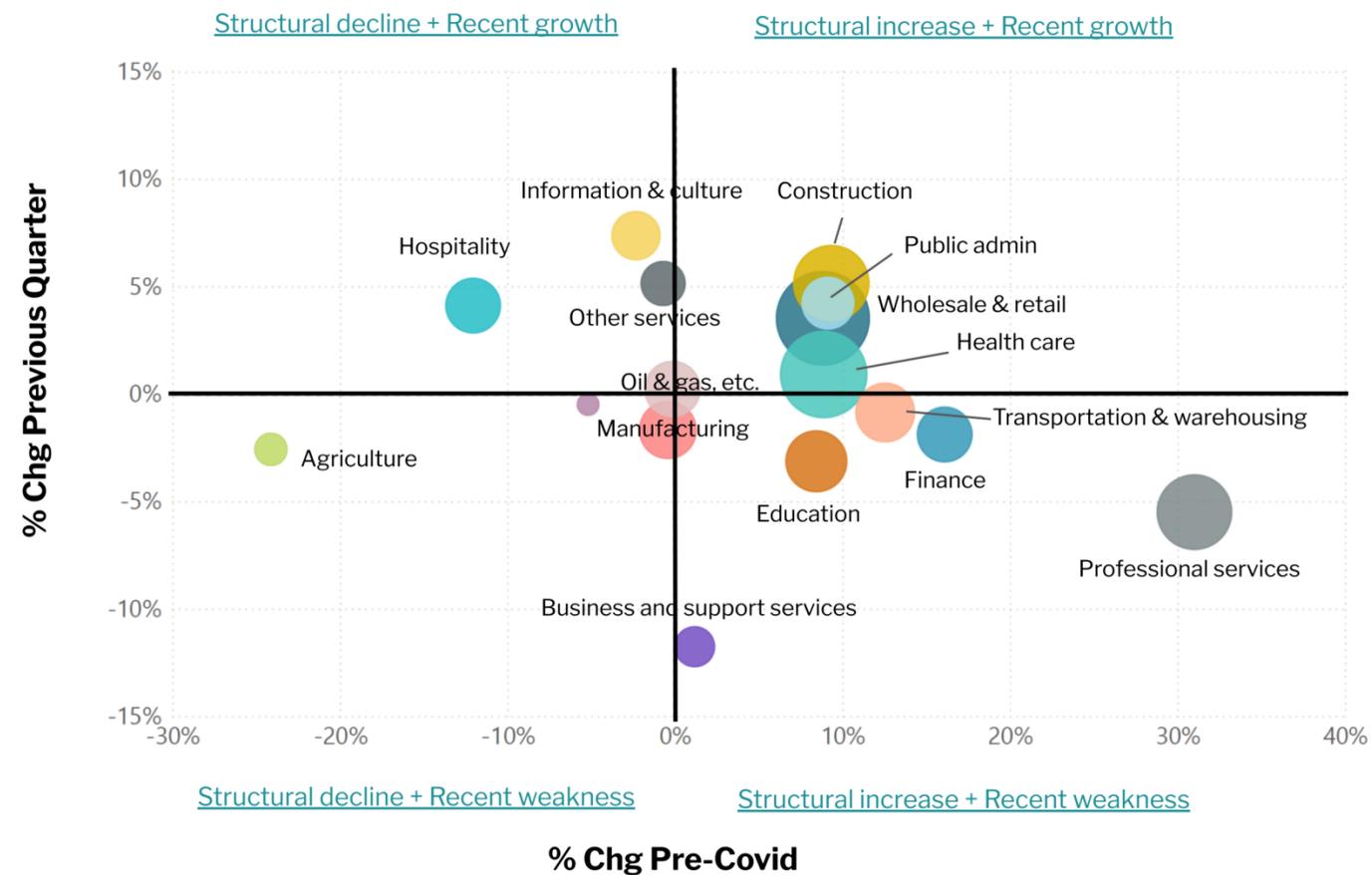
► And wage growth could be on the horizon

Likewise, just as wage growth slows nationally (from 5.1% to 4.2%, over the last month, according to the Labour Force Survey), it is warming up in Alberta (from 2.9% to 3.8%). This uptick was also seen in other datasets, specifically the Survey of Employment, Payroll, and Hours (SEPH). As inflation declines to 3.1% most recently, wage growth is outpacing inflation for the first time in years. If it persists, it will be a reprieve for Albertans who have been disproportionately struggling financially compared to other Canadians.

Building Better

Work in Alberta

Employment growth by industry in Alberta



Source: Statistics Canada, Table: 14-10-0355-01 (seasonally adjusted)

► **Employment growth is shifting to locally driven industries**

Since last quarter, the biggest powerhouse of jobs gains and wage growth post-COVID—Professional Services—has seen a moderate decline in staffing (-6%). Likewise, Alberta’s export-oriented industries (agriculture, oil & gas, manufacturing) have also not seen recent jobs growth. Instead, jobs gains have come in industries more closely related to the domestic market (e.g., hospitality, retail, and construction). As such, Alberta’s record-setting population growth is a likely driver of the province’s more recent jobs growth.

Making a Life

People in Alberta

Making a life is about Alberta being an attractive and affordable place to call home. Low living costs, debt, and poverty, combined with economic opportunity, are signs of shared prosperity—which will encourage young adults to stay in the province and prospective Albertans to move here.



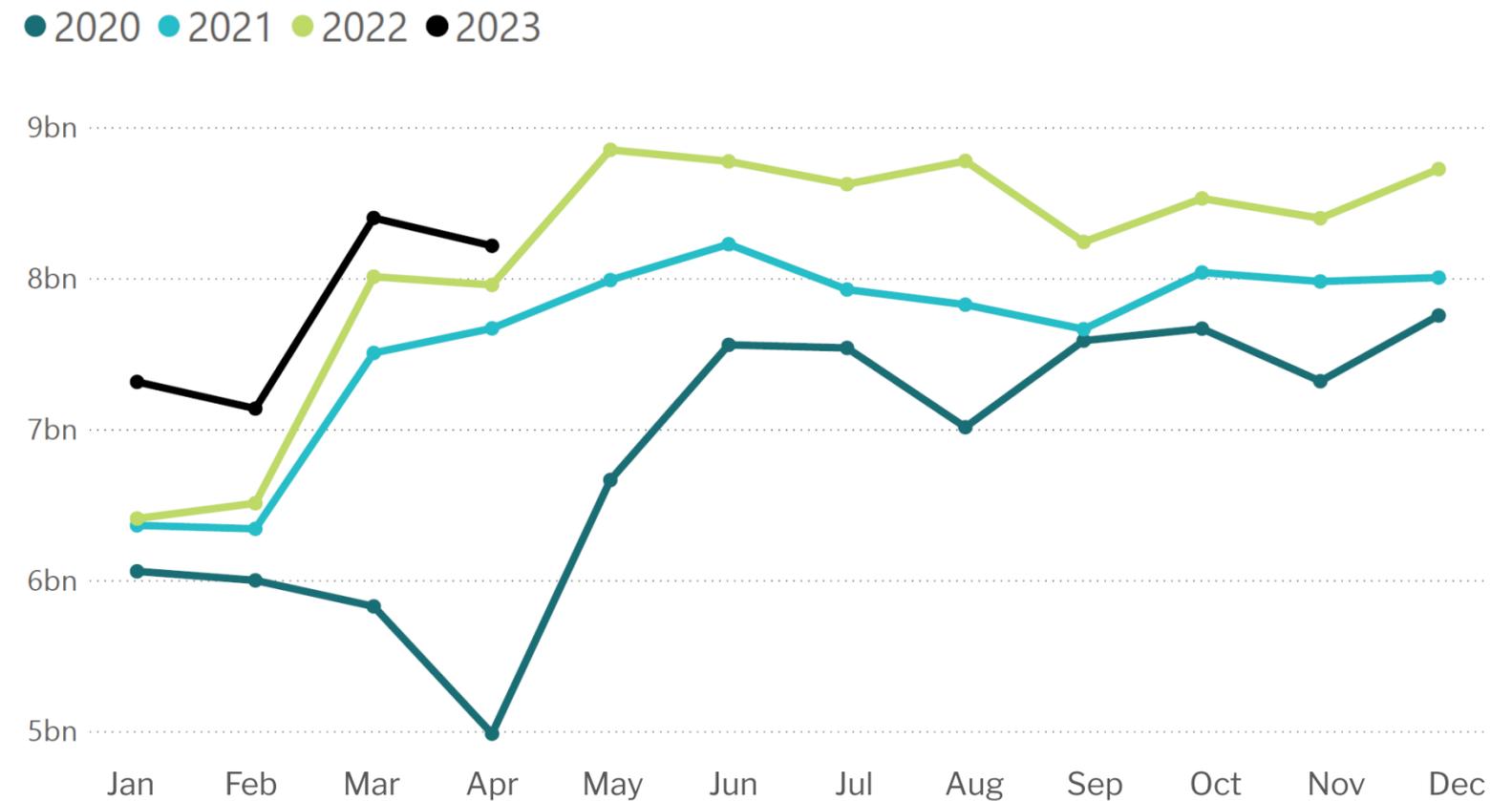
Making a Life

People in Alberta

► **Consumer spending in Alberta is higher overall but individual consumers are cutting back**

Despite higher interest rates and declining real wages (at least, until recently), retail sales have remained high, supporting local business. Spending has declined 2.2% since last month but is still 3.3% above last year's levels. However, higher sales does not mean individual Albertans are buying more. Over this time, the province's population grew 4.5% and prices stayed about the same. As such, this leaves spending per person relatively flat (-1.2%). And, with rising prices, consumers are actually buying less.

Alberta retail sales



Source: Statistics Canada, Table: 20-10-0056-01 (unadjusted for seasonality)

Making a Life

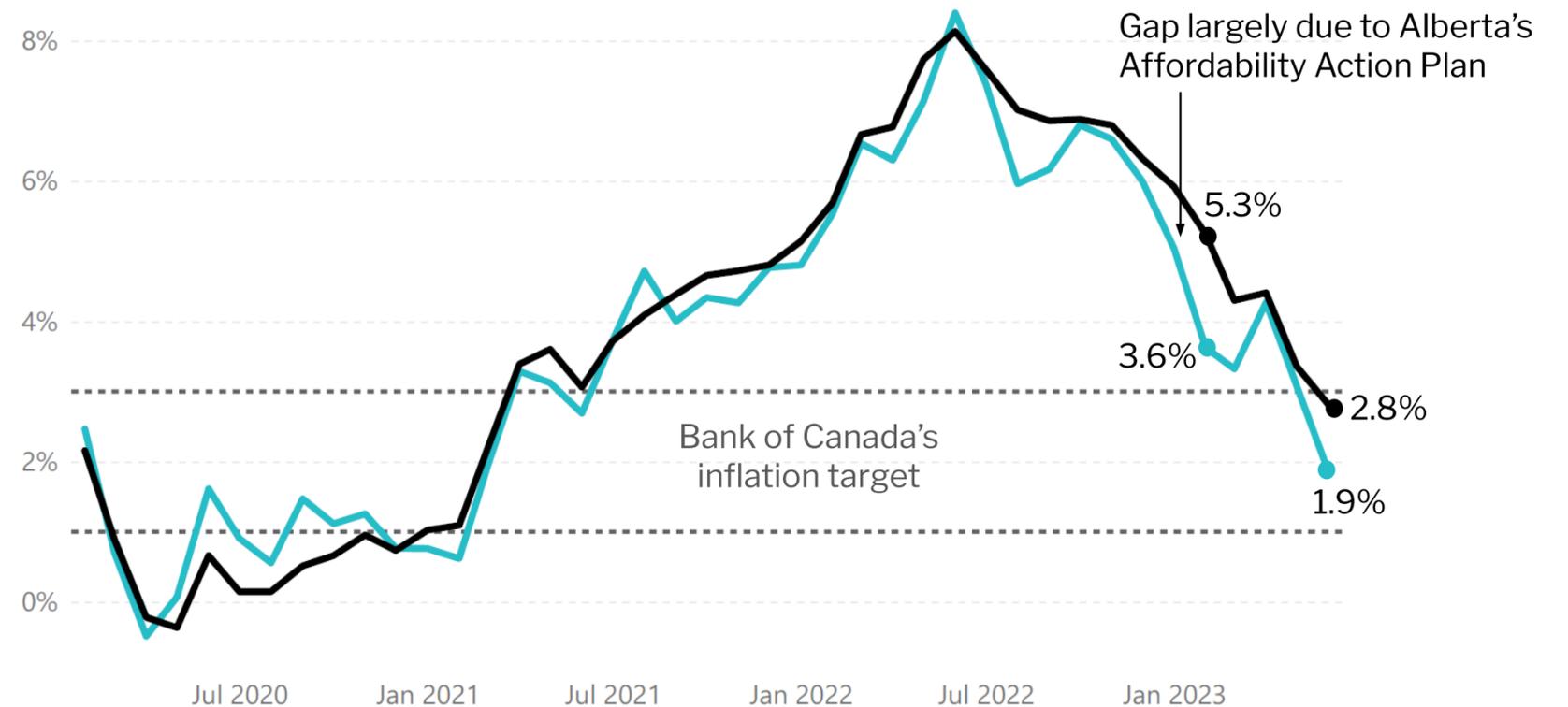
People in Alberta

► **Inflation is moderating but is set to remain elevated**

The most recent drop in headline inflation was large, especially in Alberta due to a steep decline from the high energy prices a year ago. But this is unlikely to persist as energy price drops level off and one of the most generous policy measures—rebates on electricity bills—has ended. According to Janet Brown Opinion Research, inflation remains the biggest concern of Albertans (behind only health care) and the Bank of Canada now expects a sustained return to 2% not to come until the middle of 2025 (two quarters later than thought in April).

Consumer inflation

● Alberta ● Canada



Source: Statistics Canada, Table: 18-10-0004-01 (unadjusted for seasonality)

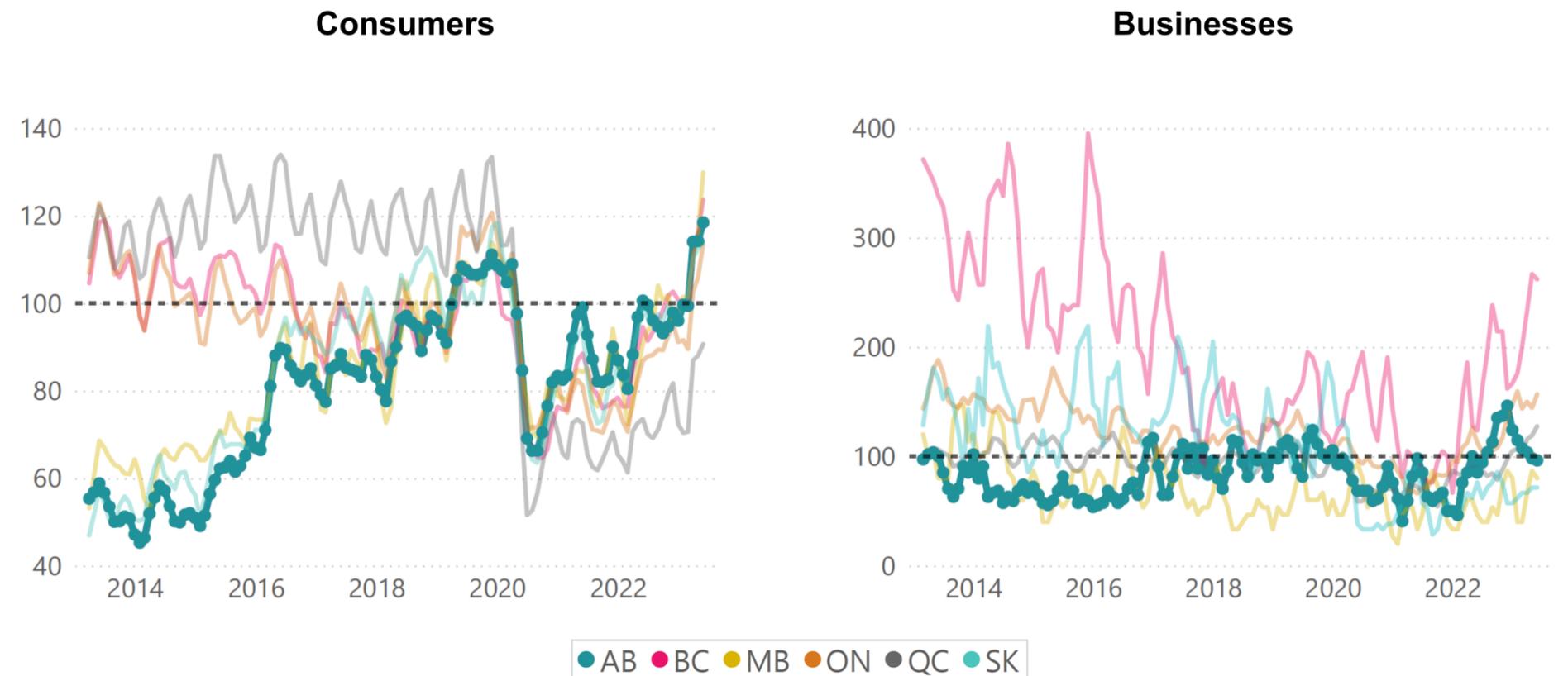
Making a Life

People in Alberta

► **Rising interest rates could hit Albertans hard**

Though policy support for inflation has helped, weak wage growth and rising interest rates (Albertans have the third highest debt-to-income ratio) have hurt household finances. As well, housing supply is failing to keep up with population growth, putting pressure on house prices (especially in Calgary) and rents (across Alberta). Insolvencies have begun to grow and are now up 18% versus January. According to Janet Brown Opinion Research, more Albertans (35%) believe the economy is getting worse than in March.

Growth in insolvencies*



Source: ISED/HAVER, own calculation of three-month rolling average indexed to December 2019 base
 *Includes both bankruptcies and proposals

Creating Prosperity

Business in Alberta



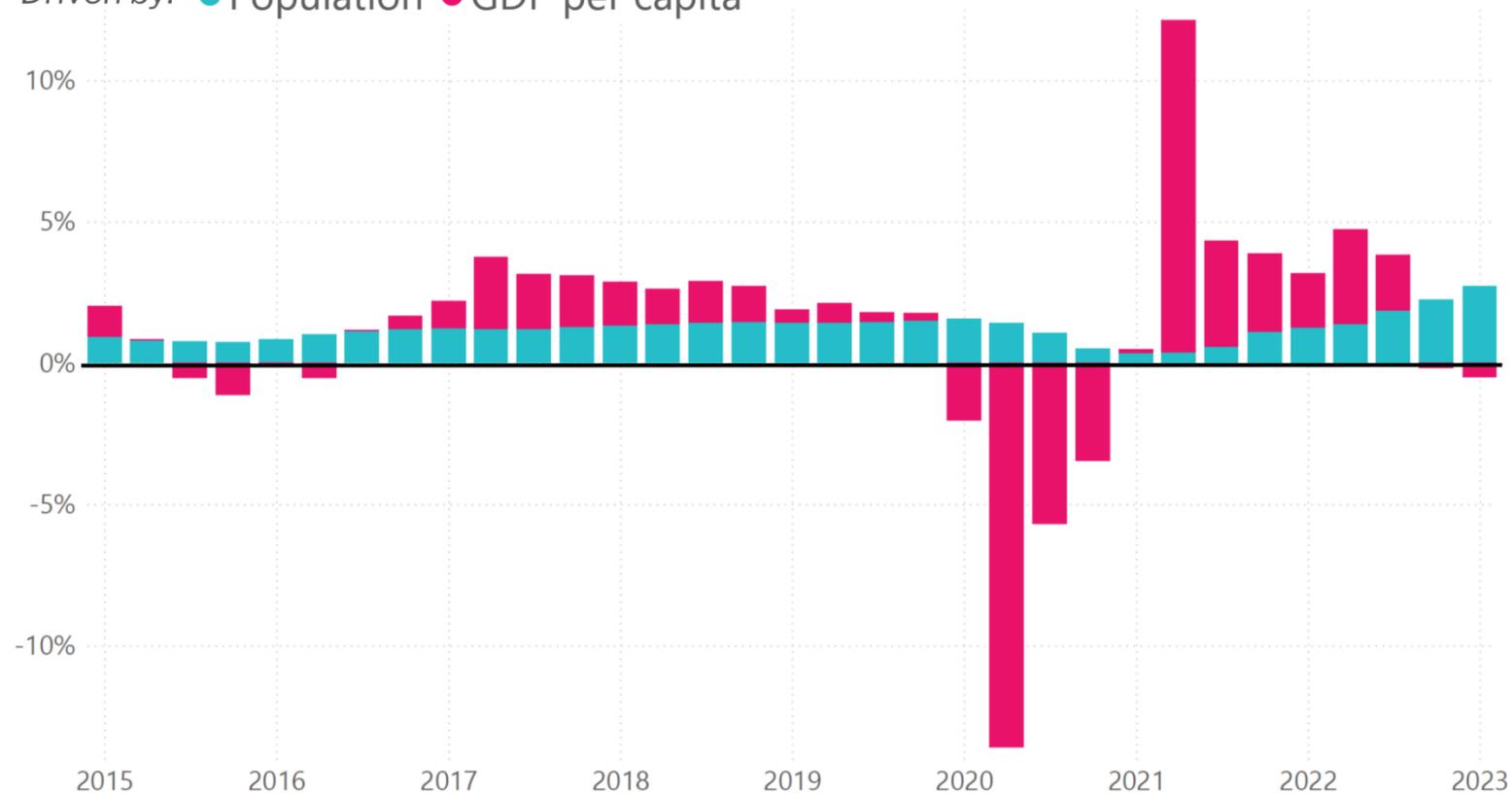
The health of the business sector is central to economic prosperity. Businesses create jobs, opportunities, and growth. By so doing, they generate tax revenue that supports social spending. When businesses do well, Albertans do well.

Creating Prosperity

Business in Alberta

Canada quarterly economic growth versus year ago

Driven by: ● Population ● GDP per capita



Source: Statistics Canada Table: 36-10-0104-01, own calculation

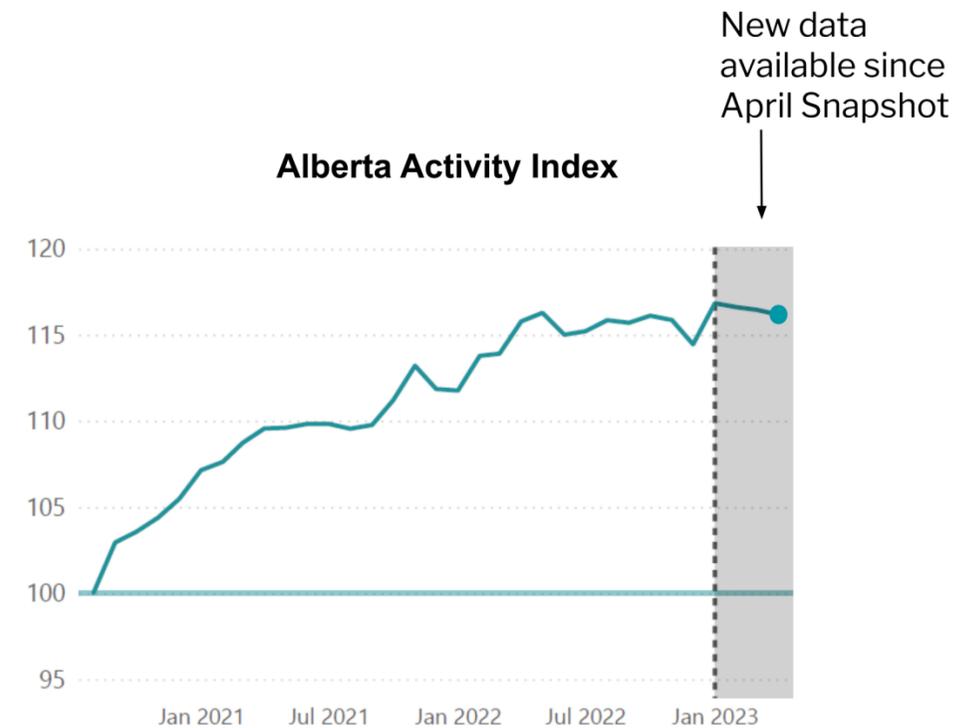
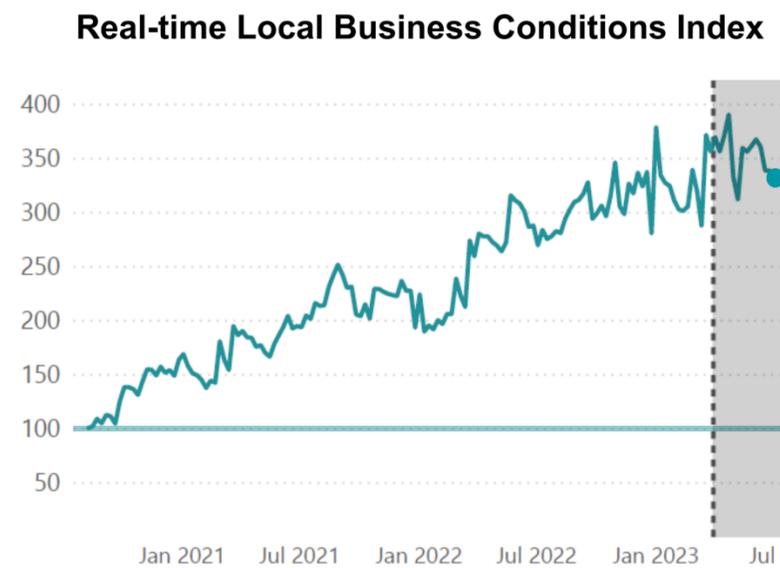
► Nationally, economic growth has already turned negative

Economic growth and consumer demand have generally been higher than the Bank of Canada expected. As a result, the Bank believes growth needs to be slowed further to tame inflation. However, this growth has been entirely driven by a spike in population. Stripping away the effect of population growth, GDP per person is already in decline as of Q4 2022. Nonetheless, the Bank raised rates again on July 12th, and expects growth to slow to just 1% in the second half of this year.

Creating Prosperity

Business in Alberta

Economic activity in Alberta



► **Growth in Alberta remains positive but may be slowing**

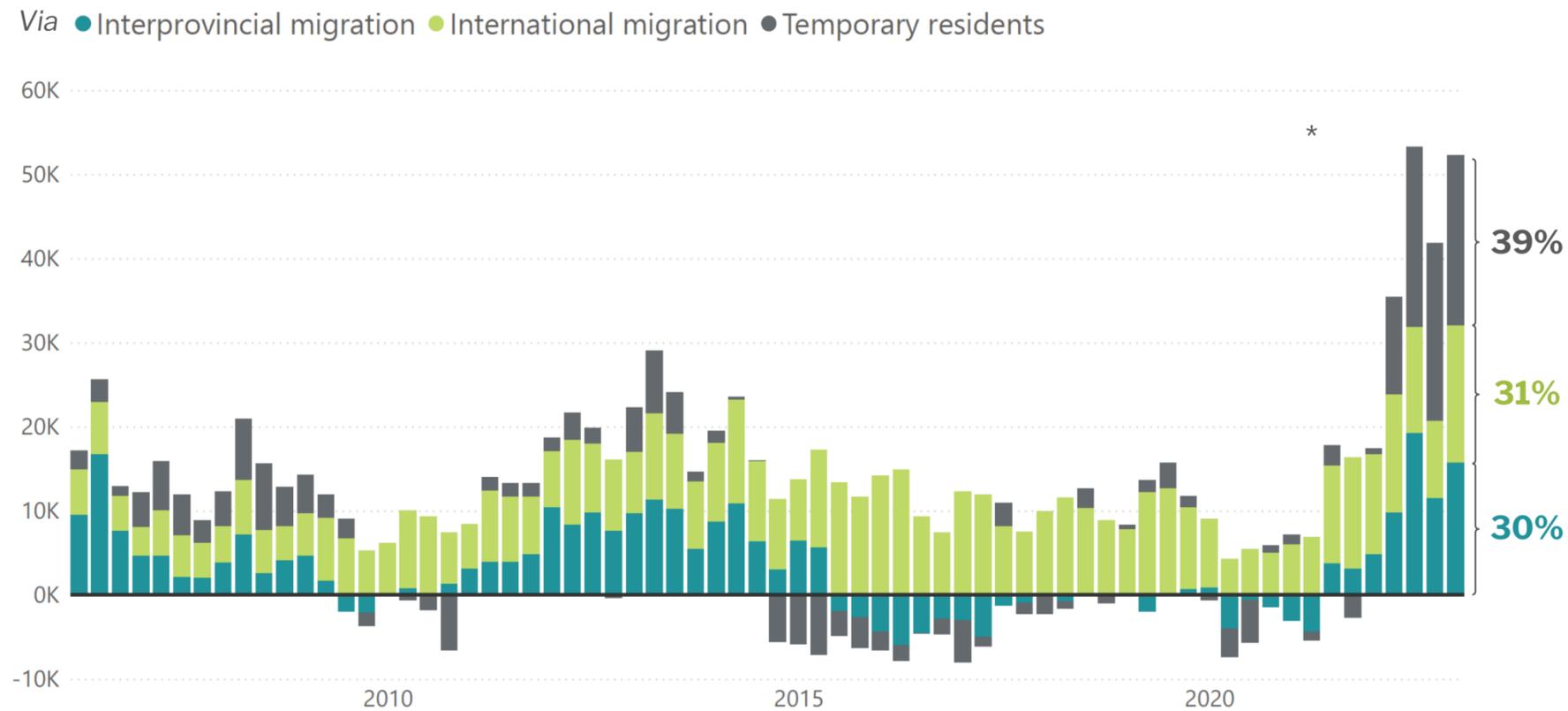
Real-time surveys suggest local business conditions remain strong but have moderated. Likewise, the Alberta Activity Index—which captures a broader range of economic activity—has dipped slightly. The main culprit was a decline in manufacturing shipments and wholesale trade. To be sure, there continue to be tailwinds: WTI, though down from last quarter, remains in the mid-\$70s a barrel, exceptional farm revenues in agriculture, and a high number of international visitors for tourism, to name a few.

Source: Real-time Local Business Conditions Index via Statistics Canada, 33-10-0398-01, Alberta Activity Index via Government of Alberta, own calculation index to October 2020 (beginning of Statistics Canada series)

Creating Prosperity

Business in Alberta

Net movement into Alberta



► **Temporary residents are helping to fill labour shortages**

Though it is widely known that Alberta is attracting new residents, less well-known is that as many as 39% (nearly 75k over the year) have come from abroad specifically to fill vacant positions. Last year, in response to labour shortages, the federal government expanded the Temporary Foreign Worker program. As a result, permits increased nearly 70% above 2021 levels. In Alberta, this has been particularly important for the food and accommodations industry and tourist destinations such as Banff and Canmore.

Source: Statistics Canada Table: 17-10-0020-01 and Table 17-10-0040-01, own calculations of net movement through Q1 2023
 * Includes individuals that are a part of the Temporary Foreign Worker program as well as other work programs and individuals with study permits

Thinking Globally

Economic Conditions

Alberta is not an island in the world. Our people and businesses are affected by global factors over which they have no direct control.

Understanding and anticipating international trends is key to being resilient and adaptable.



Thinking Globally

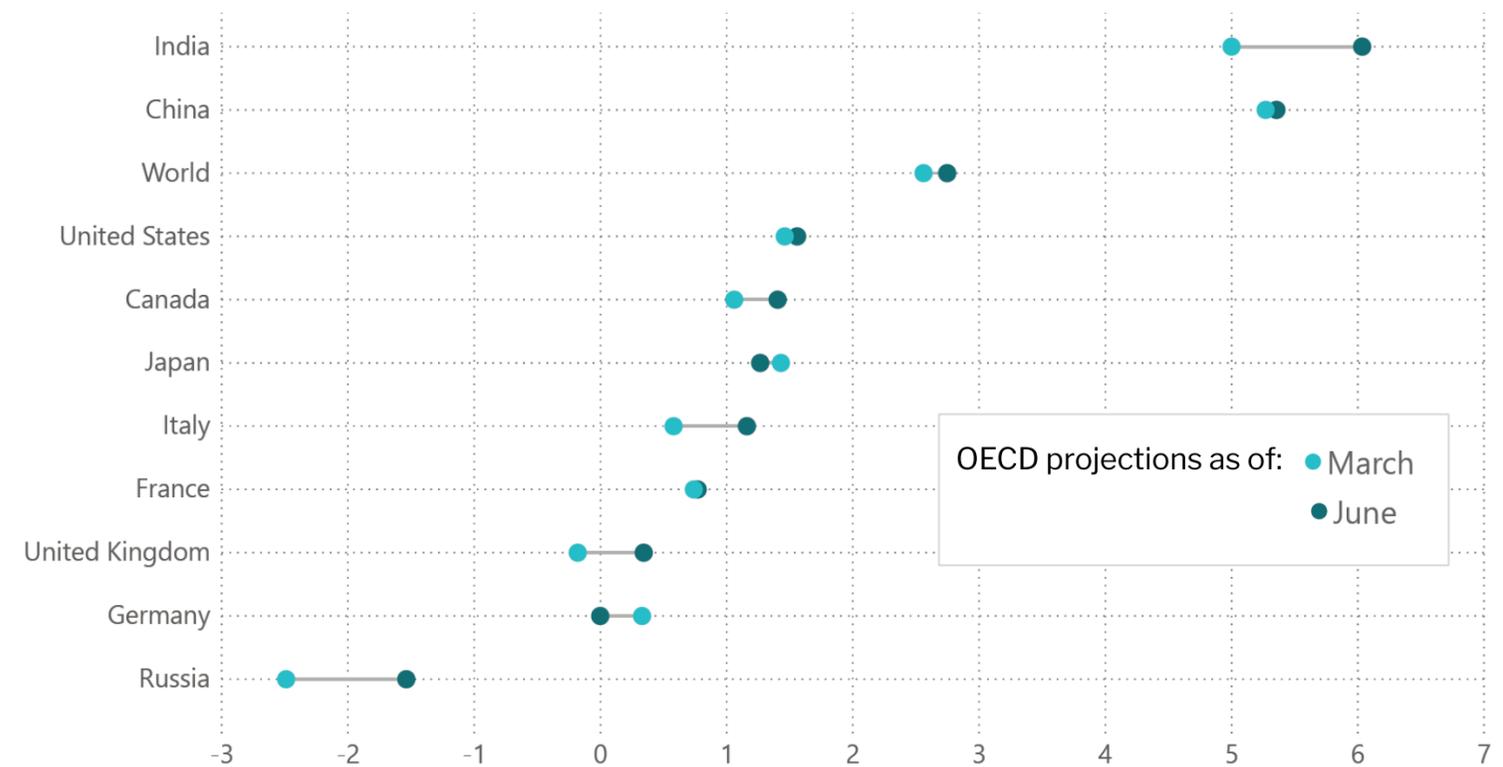
Economic Conditions

► **The global economic outlook remains weak and fragile**

Since March, the OECD’s global economic forecast has improved modestly to 2.7% but this may not hold. The improvement was mainly due to energy prices falling, easing the strain on household budgets, and China reopening earlier than expected, driving global demand. However, growth remains well below trend levels, and the lowest annual rate since the global financial crisis.

Likewise, growth expectations for most of the G7 are <2%.

Global economic projections for 2023



Source: OECD March and June Economic Outlook

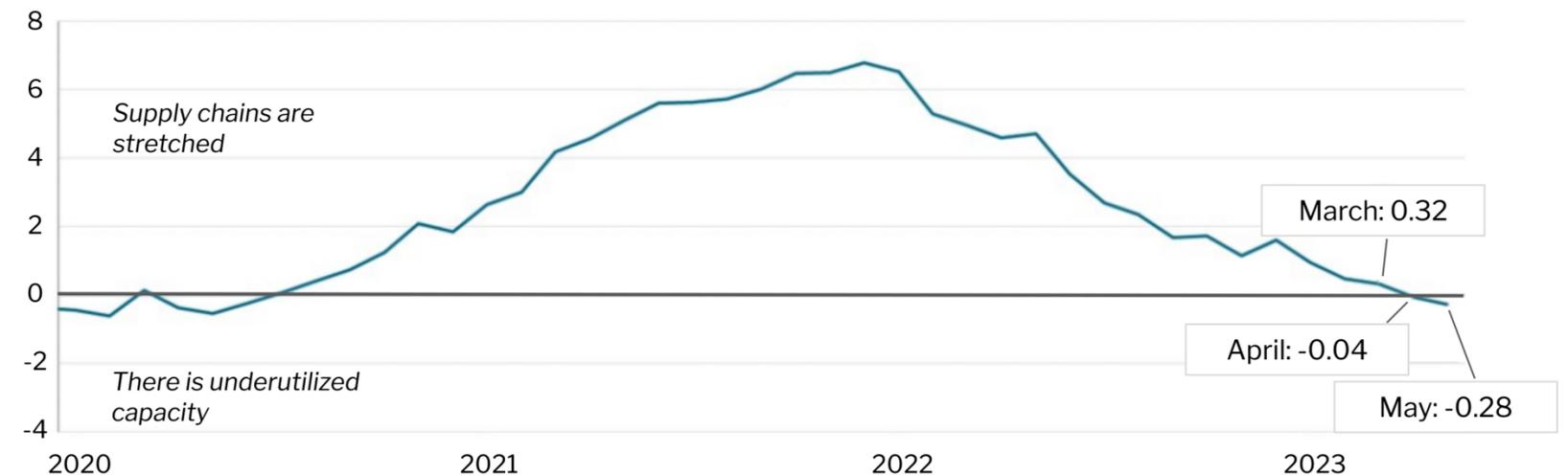
Thinking Globally

Economic Conditions

▶ **Excess capacity in supply chains could be early warning sign of a slowdown**

Since COVID, supply chains have been described as “in knots” or “gummed up” as they strained to keep up with demand. This is no longer the case. The GEP Global Supply Chain Volatility Index weighs a number of factors—inventories, backlogs, transport costs—to assess the state of supply chains. For the first time since COVID, this index suggests supply chains have spare capacity. Companies seem to be ordering less in anticipation of weaker demand.

GEP global supply chain volatility index



Source: GEP, S&P Global

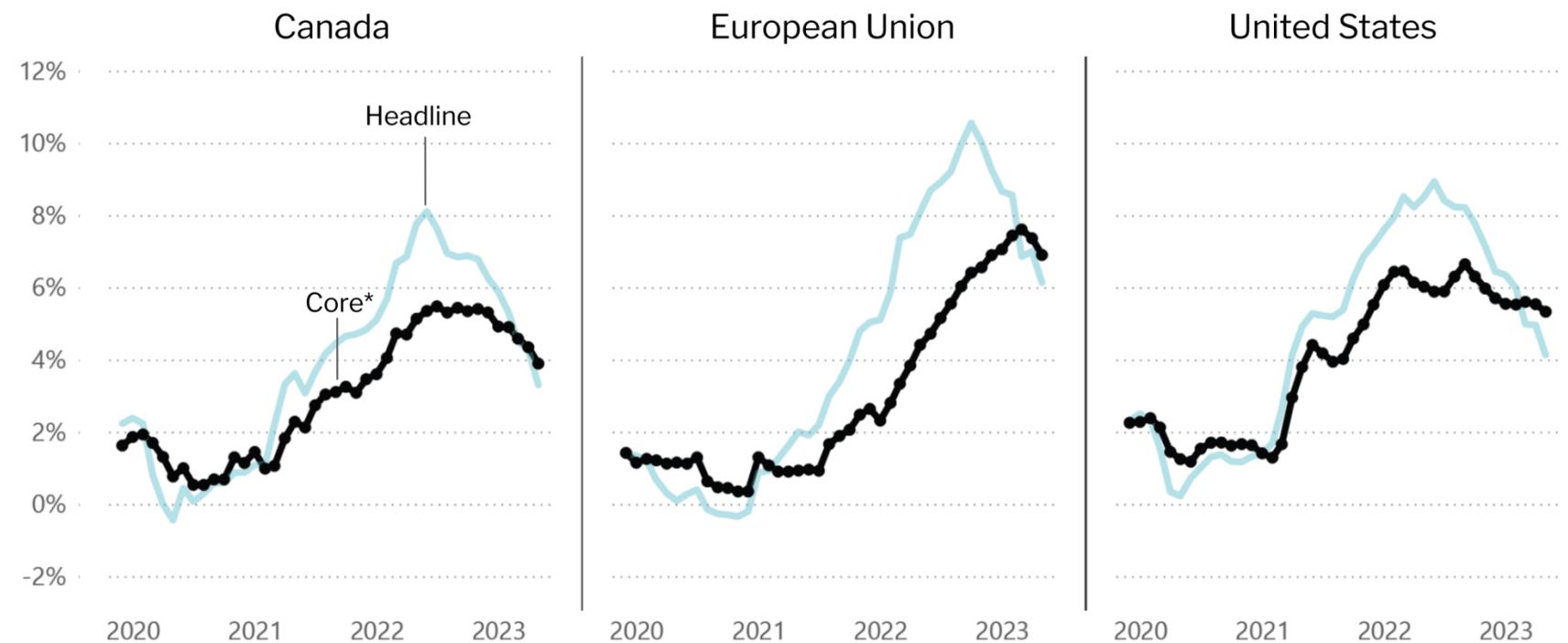
Thinking Globally

Economic Conditions

▶ **Central banks continue to feel pressure to raise rates further**

Despite the steep drop in headline inflation (largely due to energy prices), core inflation remains elevated. As such, central banks seem keen to err on the side of doing too much. They continue to raise rates or signal further increases. The challenge is, we have yet to see the full impact of interest rate increases to date. This raises the risk of an over-correction, gutting consumer demand and jobs.

Consumer price inflation



Source: ESTAT/H, BLS, StatCan, ES/H/Haver

* Core inflation excludes food and energy in Canada and US and energy and unprocessed food in EU

Building Alberta's Future

The Next Generation

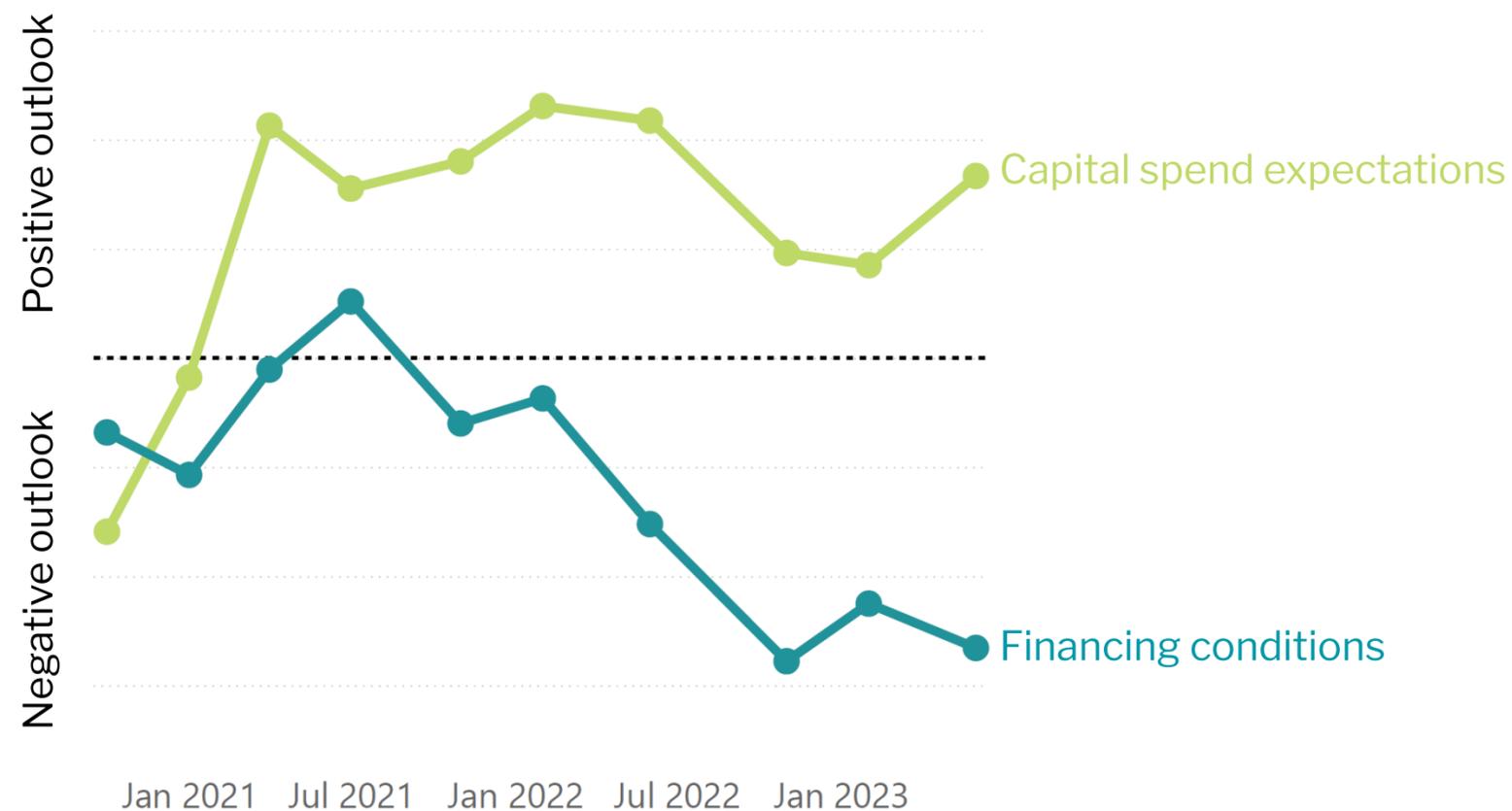


Economic prosperity isn't just about what happens today—it's about planting the seeds for the future. When Albertans see new opportunities, they will plan, invest, and take risks in creating a better tomorrow for themselves and for their province.

Building Alberta's Future

The Next Generation

Alberta businesses' capital spend and financing outlook*



- ▶ **Alberta's investment outlook remains positive**
Despite global uncertainty, businesses remain optimistic. Importantly, they plan to increase investment, despite: 1) interest rates making it more expensive to do so; and 2) a pullback elsewhere in Canada. Of note, a few major projects underway or in proposal include: the \$31B Trans Mountain Pipeline Expansion (expected to add 590,000 barrels per day of new capacity), a \$17B Carbon Capture and Store network, and a \$10B net-zero petrochemical facility near Edmonton. Remarkably, even with those projects on the docket, investment remains below historical trends.

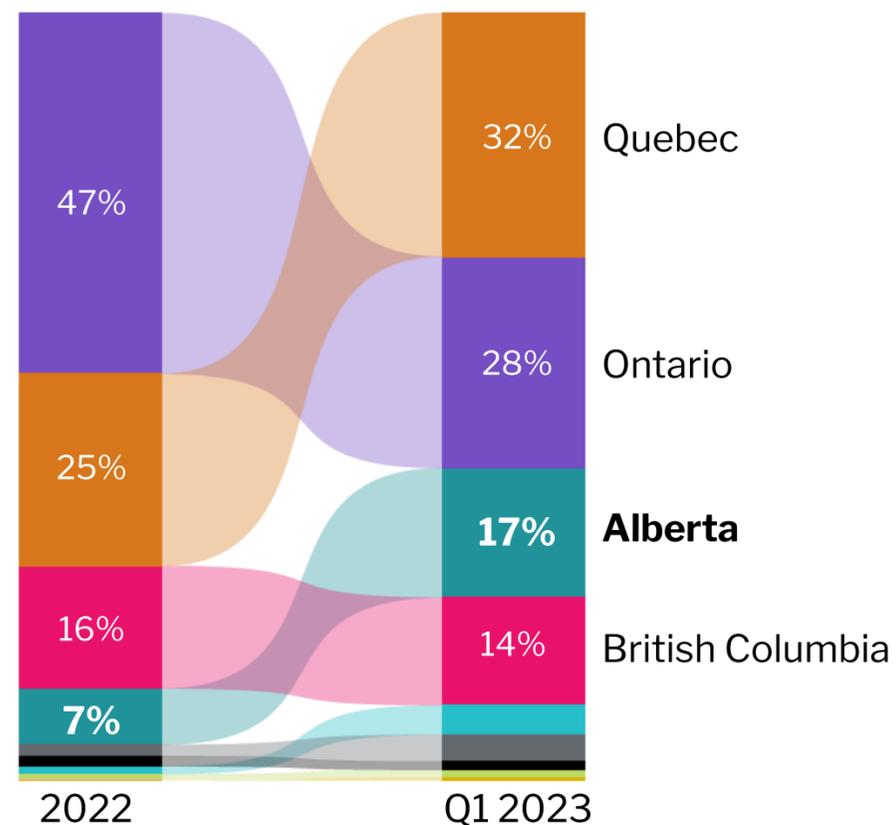
Source: Business Council of Alberta. Business Expectations Survey, through June 2023

*"Outlook" defined as the difference between businesses with a positive outlook versus those with a negative outlook

Building Alberta's Future

The Next Generation

Province's share of venture capital dollars



Source: CVCA

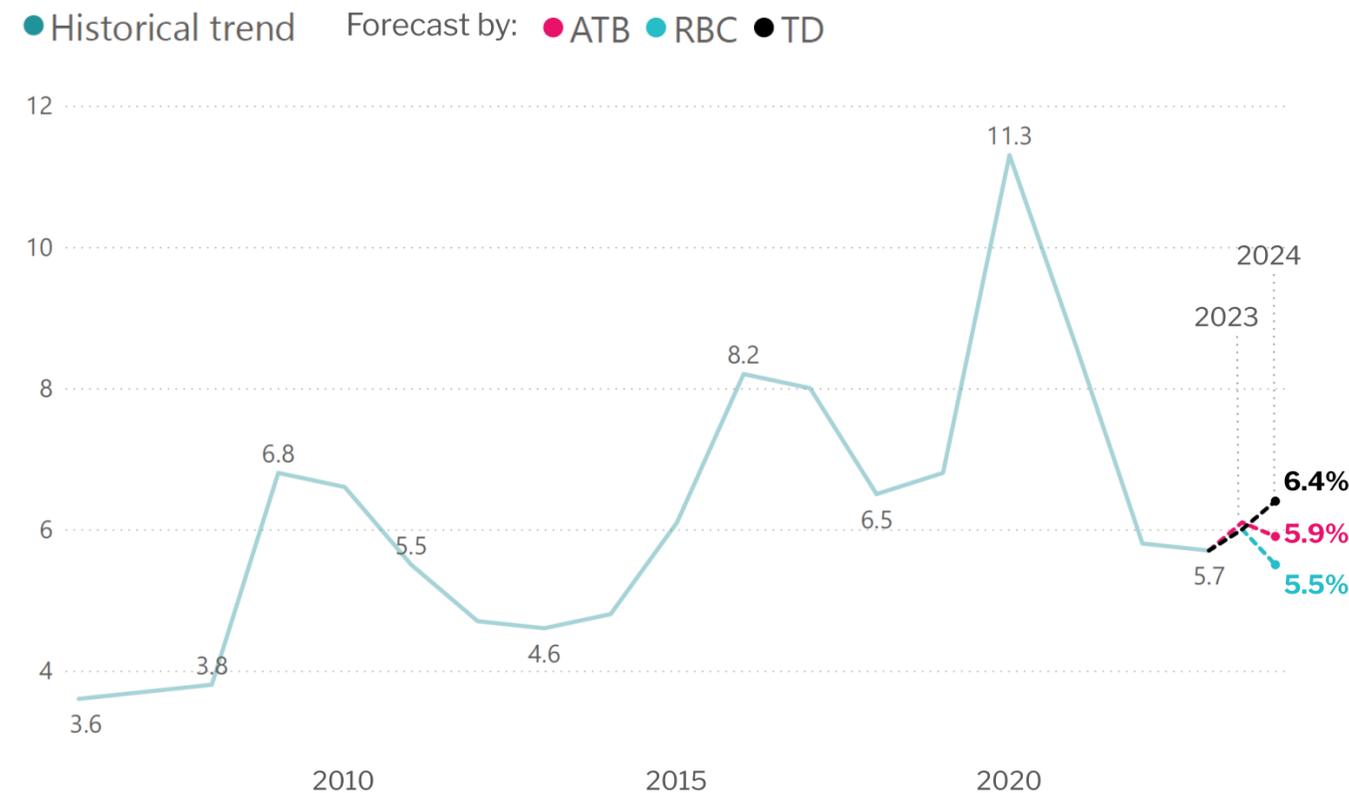
► The province is proving it can compete for Venture Capital (VC)

Alberta has not always been as strong a contender for VC attraction as other large provinces, but this is changing. In Q1, Alberta attracted 17% of VC dollars (\$200M across 16 deals). One large “megadeal” in particular brought Alberta up in the VC ranks: Edmonton-based Jobber. Looking ahead, two areas of future opportunity noted by the CVCA Q1 report are ones in which Alberta could excel based on industrial strengths: agri-tech and clean-tech.

Building Alberta's Future

The Next Generation

Unemployment trend and forecast



Source: ATB Alberta Economic Outlook (June), TD Provincial Economic Forecast (June), and RBC Provincial Outlook (June)

► **Nonetheless, opinions are mixed about Alberta's short-term future**

While the province's economy is all but set to grow larger as more people move to Alberta, whether it will grow more prosperous is less clear. This is seen in the latest bank forecasts: GDP forecasts appear strong while unemployment shows more uncertainty. The most recent forecasts show a broad range of potential outcomes by 2024 —from 5.5% unemployment, a rate similar to periods of strong growth, to 6.4%, a rate similar to the province's weaker state pre-COVID.

About the Alberta Snapshot

The *Alberta Snapshot* is a quarterly executive summary that helps you keep a pulse on what's going on in Alberta, from economic activity to business conditions to social well-being.

This report is produced by, and the property of, the Business Council of Alberta. For more information, email info@BusinessCouncilAB.com

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