

Alberta Snapshot

A Quarterly Economic Update ▶▶▶ **Summer 2022**

PRODUCED BY THE BUSINESS COUNCIL OF ALBERTA

Executive Summary

Alberta's strong recovery continues. According to forecasts, the province is on track to regain 2014 levels of economic activity this year, though there is more to the story.

Once the weakest labour market and economy, Alberta now shows the most private sector employment growth of any province and an inflow of revenues due to high commodity prices. Furthermore, over the past few months, hiring has increased across a range of industries—well beyond the energy sector and those directly impacted by restrictions. The majority of businesses plan to further up their staffing as well.

This is more than a return to the province's weak economy of 2019: there has been a broad improvement in unemployment and participation among nearly all demographic groups for which data are available. Encouragingly, though wage growth has trailed other provinces since COVID, there are signs it may be finally starting to pick up.

That said, this is not the boom of 2014. We are not seeing the kinds of investment or entrepreneurial activity as in the past. Capital investment in the energy sector remains at a mere 30% of what we might have seen back then, and business investment across Canada remains modest. Meanwhile, startup activity is low, with ~1,400 fewer businesses operating in the province than pre-COVID.

As well, like the rest of the world, inflation and labour shortages continue to be key roadblocks. With unemployment low and the workforce ageing, Alberta's excess capacity is waning, meaning businesses will need to attract individuals from elsewhere or invest in productivity enhancements to meet consumer demand. Further, not only has inflation hit Albertans harder due to lower wage growth, but the resulting higher interest rates could also pose a challenge: as Albertans have jumped on the house buying party, the cost of servicing their accumulated debt could weigh more heavily on Albertans.

Highlights

1

Alberta shows the strongest private-sector growth of large provinces, increasing employment 3.1% versus pre-COVID, and showing the least “crowding out” by the public sector.

**2**

High energy prices are pouring money into energy businesses and the province but just 39% of the industry’s cashflow is expected to be spent on capital investment compared with 149% at similar prices in 2013.

**3**

The impact of inflation and its painful medicine of higher interest rates could hurt Albertans disproportionately.

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

Alberta's strengthening labour market since COVID by demographic

Index of...	Unemployment *		Labour engagement	
	Official	Broad	Participation	Employment
15 - 24				
Female	↑ 120	↓ 100	↑ 103	↑ 106
Male	↑ 131	↑ 143	↑ 104	↑ 110
25 - 54				
Female	↑ 146	↑ 140	↑ 101	↑ 104
Male	↑ 131	↑ 143	↓ 99	↑ 101
55+				
Female	↑ 156	↑ 155	↓ 96	↓ 100
Male	↑ 118	↑ 135	↓ 86	↓ 87

 Improvement
 Decline

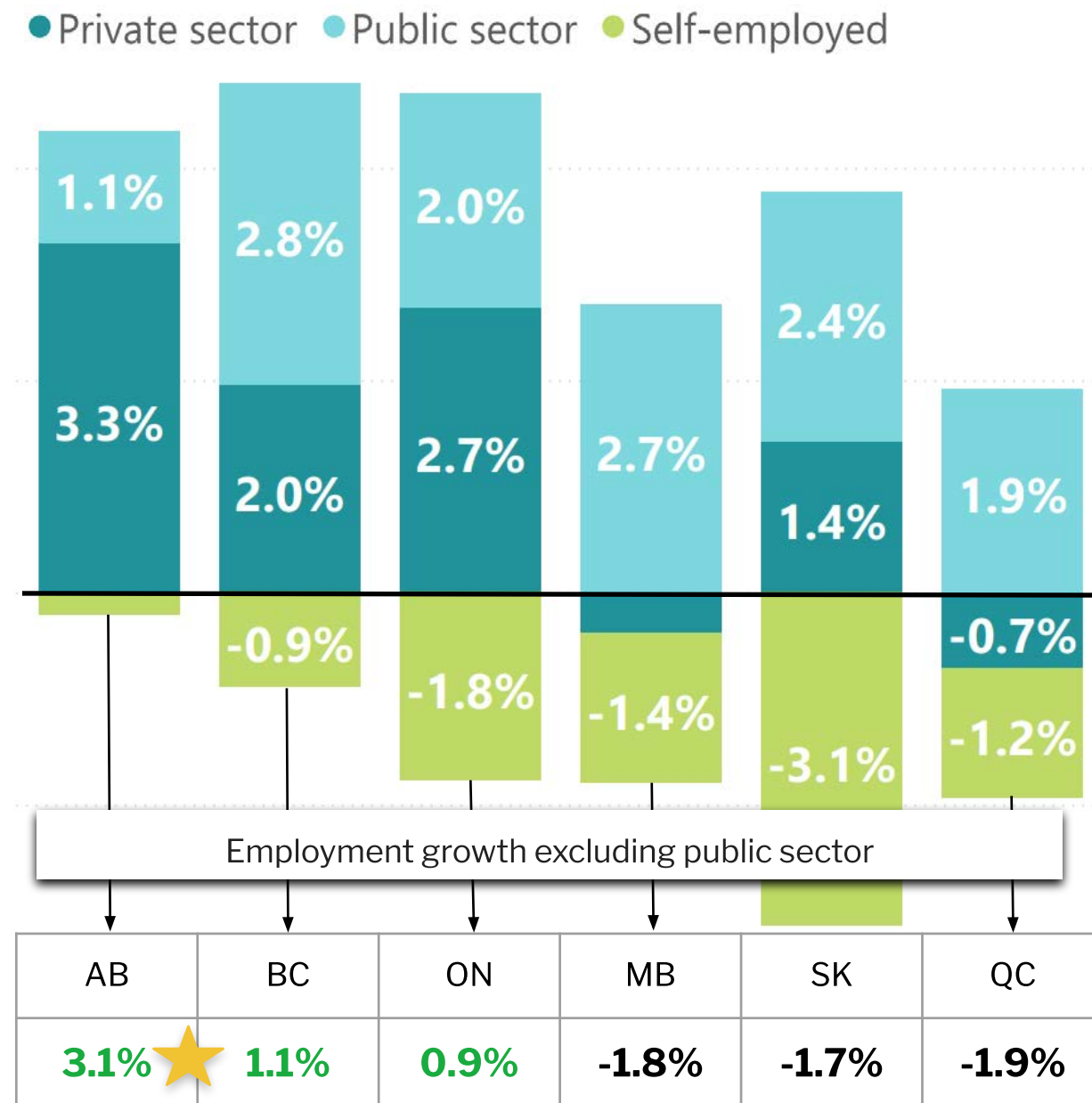
► Alberta's labour market is stronger than it's been in years

Doubling the gains of the previous quarter, about 46,000 more Albertans are working than in March. This leaves the unemployment rate at 4.9%, a rate not seen in over 5 years. Furthermore, the recent uptick in hiring was across a broad range of industries: e.g., professional services, transportation, and finance. Overall, the stronger labour market has benefited men and women of all ages. The only group less likely to be working is older men.

Source: Statistics Canada. June 2022 compared to February 2020. Table: 14-10-0288-01 and 14-10-0077-01.

*Official rate of unemployment is the standard commonly reported measure. Broad unemployment is a more comprehensive measure which includes discouraged workers.

Private sector employment growth since COVID



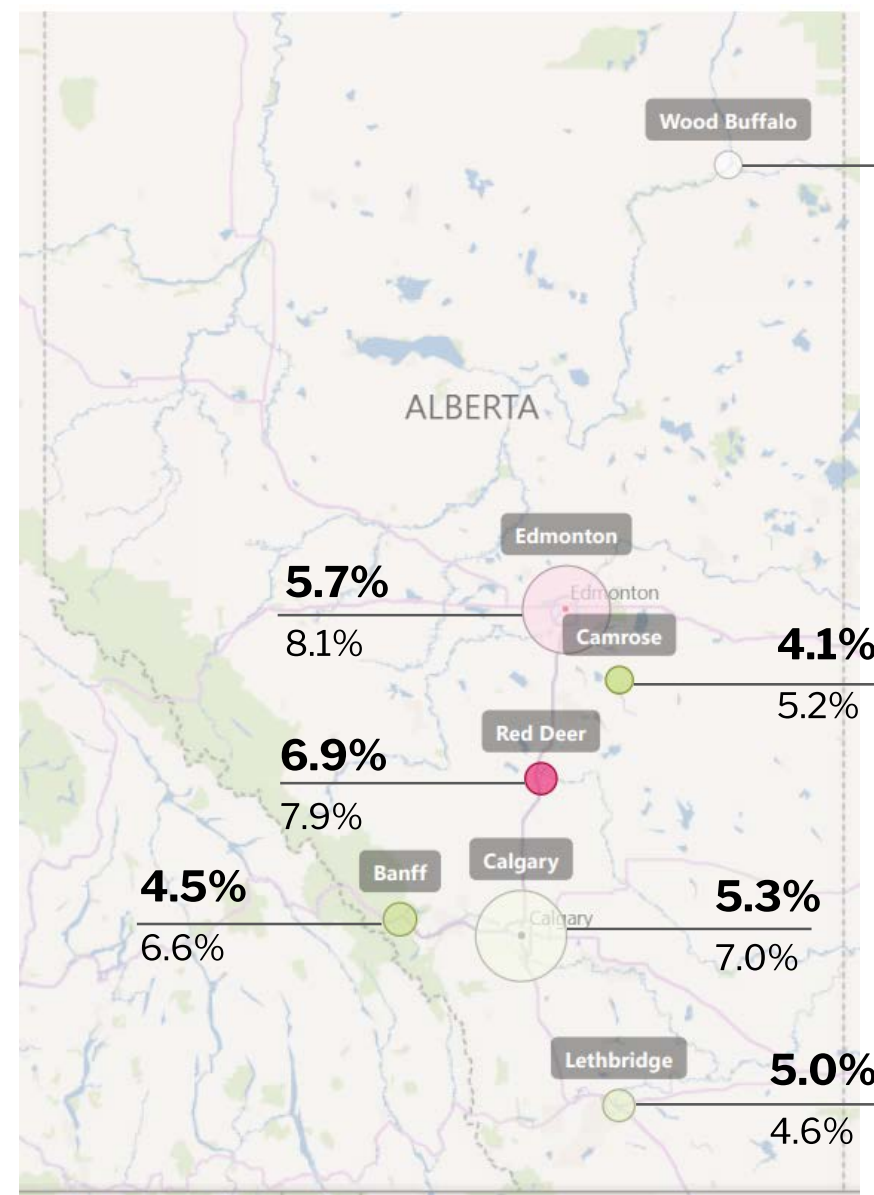
Source: Statistics Canada. June 2022 compared to February 2020. Table: 14-10-0288-01, own calculation

Building Better

Work in Alberta

- **The province's recovery is driven by the private sector**
 In fact, the province leads the nation in private sector jobs growth. Since March, the private sector (including self-employment) has added 26k jobs, while public sector jobs are up by 19k. This is in stark contrast with other provinces where the growth of the public sector since COVID could be “crowding out” other business as the two compete for workers and capital. Private sector job growth also indicates a stronger economic recovery.

Unemployment across Alberta



5.5% most recent rate

5.4% pre-COVID rate

Bubble colour based on unemployment rate

Bubble size based on number unemployed

Building Better

Work in Alberta

► However, not all regions have shared equally in this improvement

Due to less growth in the public sector, and a weaker economy pre-pandemic, Alberta has more people on the sidelines than in other provinces and thus more room for growth. For instance, a more comprehensive definition of unemployment, used to measure labour market “underutilization,” is still ~30% higher in Alberta than other large provinces while the number who have been out of work for more than a year is more than double.

Source: Statistics Canada. Table: 14-10-0387-01, cities listed include full “economic region” which may be broader than the individual city, see description via [Statistics Canada](#)

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

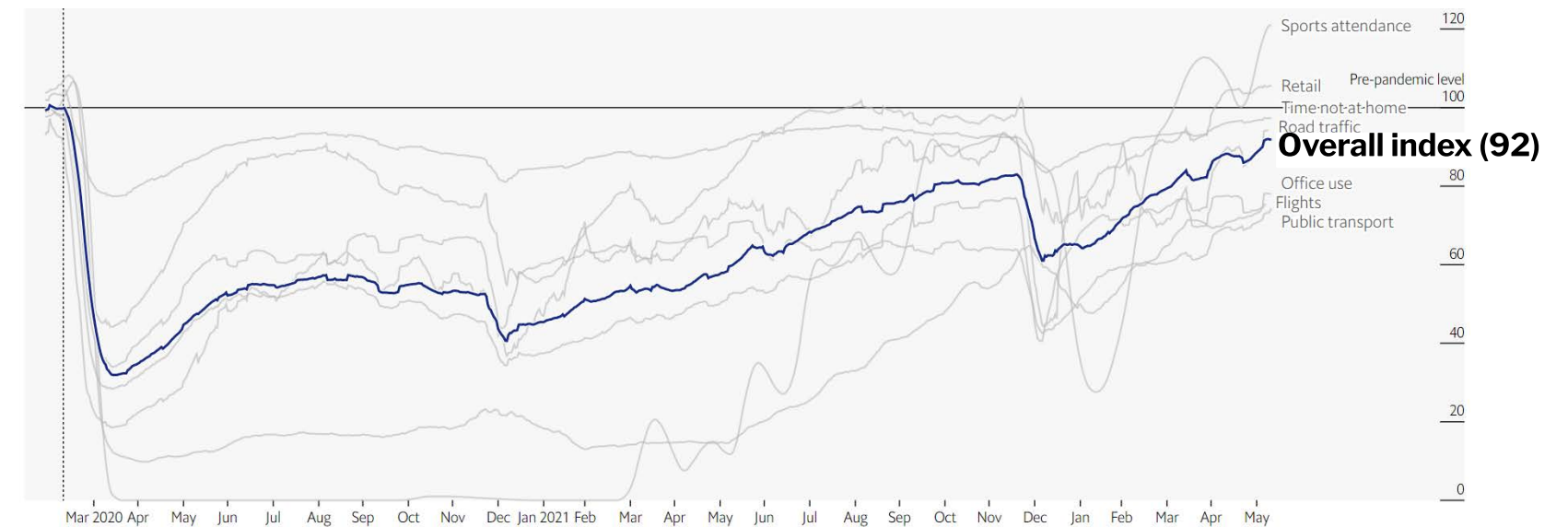
People in Alberta

► Canadians and Albertans are getting out and about but this could change

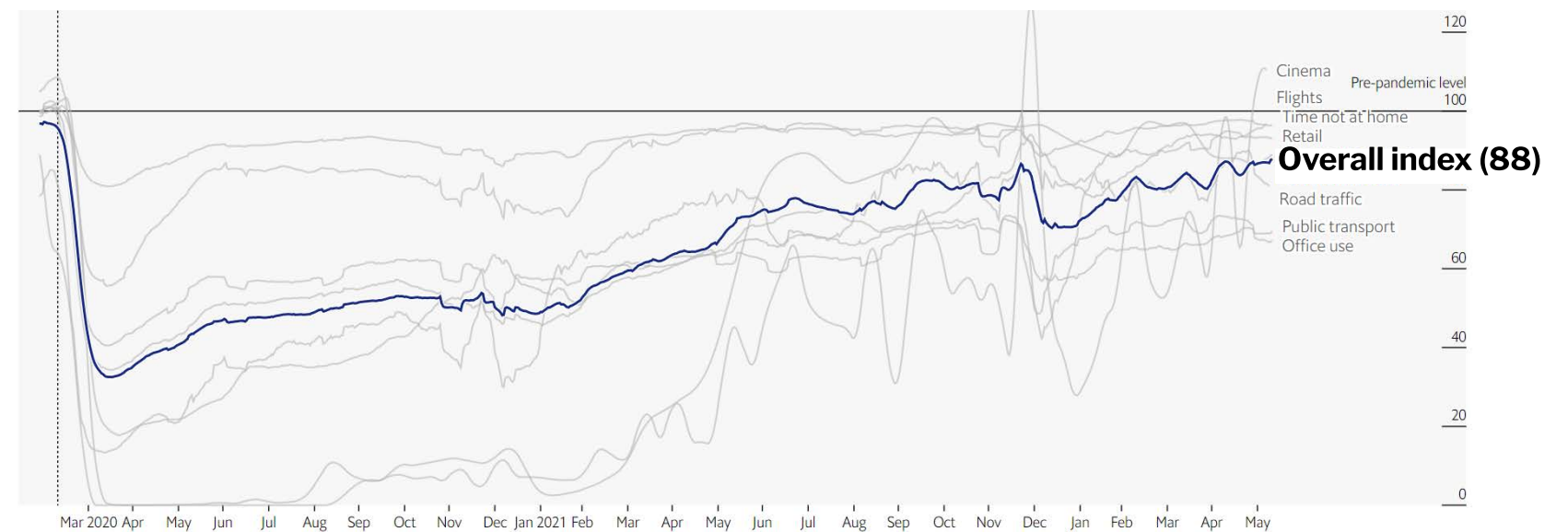
Canada now ranks higher than the US in The Economist's "normalcy index" as public transit, office use, and road traffic resume in Canada but are beginning to decline again or have leveled off in the US. Canadians—and Albertans—are out shopping more than before the pandemic. While concerns of COVID may be fading, the recent trend in the US could be a precursor for Canada as price increases for things like gas and hotels put a damper on commuting into the office, trips to the mall, and holidays away.

Index of pre-pandemic normalcy

Canada



United States



Source: The Economist, data updated weekly through July 10, 2022

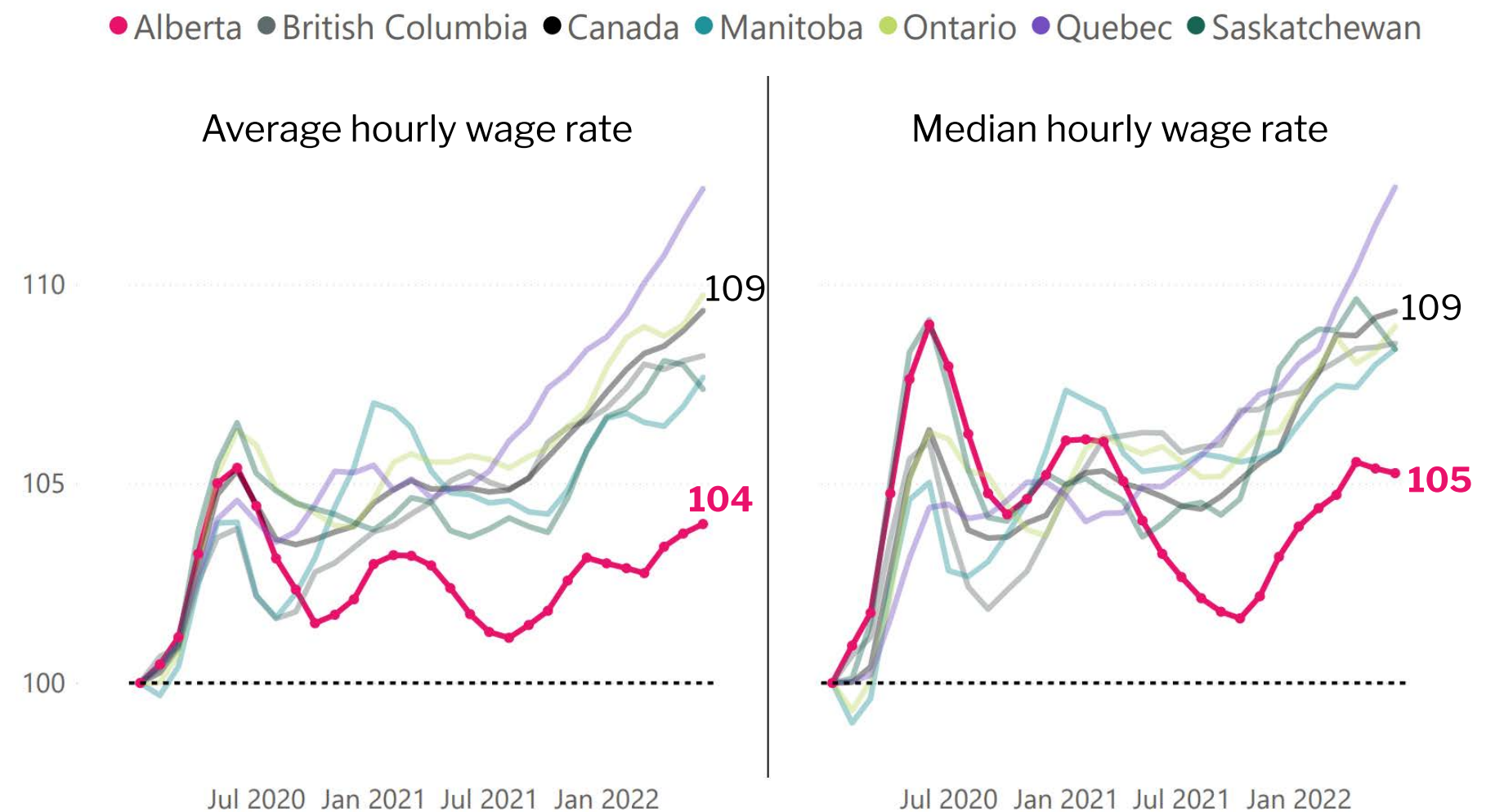
Making a Life

People in Alberta

► Inflation is taking a bite out of wages

The top concern among Canadians is inflation. Albertans, however, are not only facing higher prices but are also seeing little increase in wages. While prices have increased 10% since COVID, wages have increased just 4-5%—well below many other provinces, though it has improved some over the last few months. As more consumers expect higher inflation to last, they plan to cut spending. Meanwhile, businesses expect inflation to become a focal point in wage negotiations, especially in restaurants and hotels, and manufacturing industries.

Wage growth since COVID



Source: Statistics Canada, Table: 14-10-0063-01 for median and hourly wages, own calculation of 3 month rolling average, data through June 2022

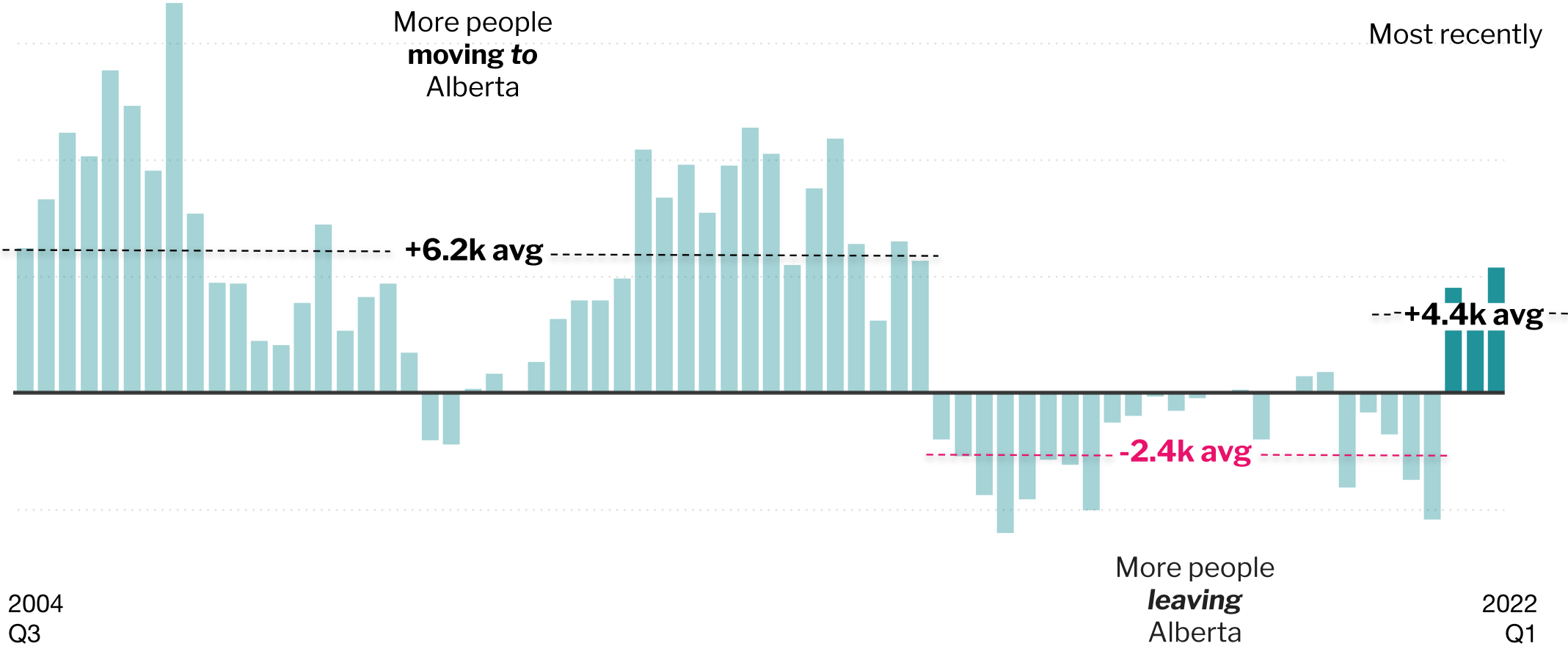
Making a Life

People in Alberta

► **Despite weaker wage growth, Alberta shows an edge in attracting people**

Whether due to job opportunities, more affordable housing, or other quality of life factors, more Canadians are choosing to call Alberta home. Since last July, more people have planted roots in the province than the number that has packed their bags for elsewhere. This could bode well for Alberta businesses in the competition for labour as 78% of Alberta businesses report shortages restricting their ability to meet demand.

Net interprovincial moves to/from Alberta



Source: Statistics Canada, Table: 17-10-0020-01, quarterly net inter-provincial migration, own calculation: number moving to - number leaving Alberta

Creating Prosperity

Business in Alberta

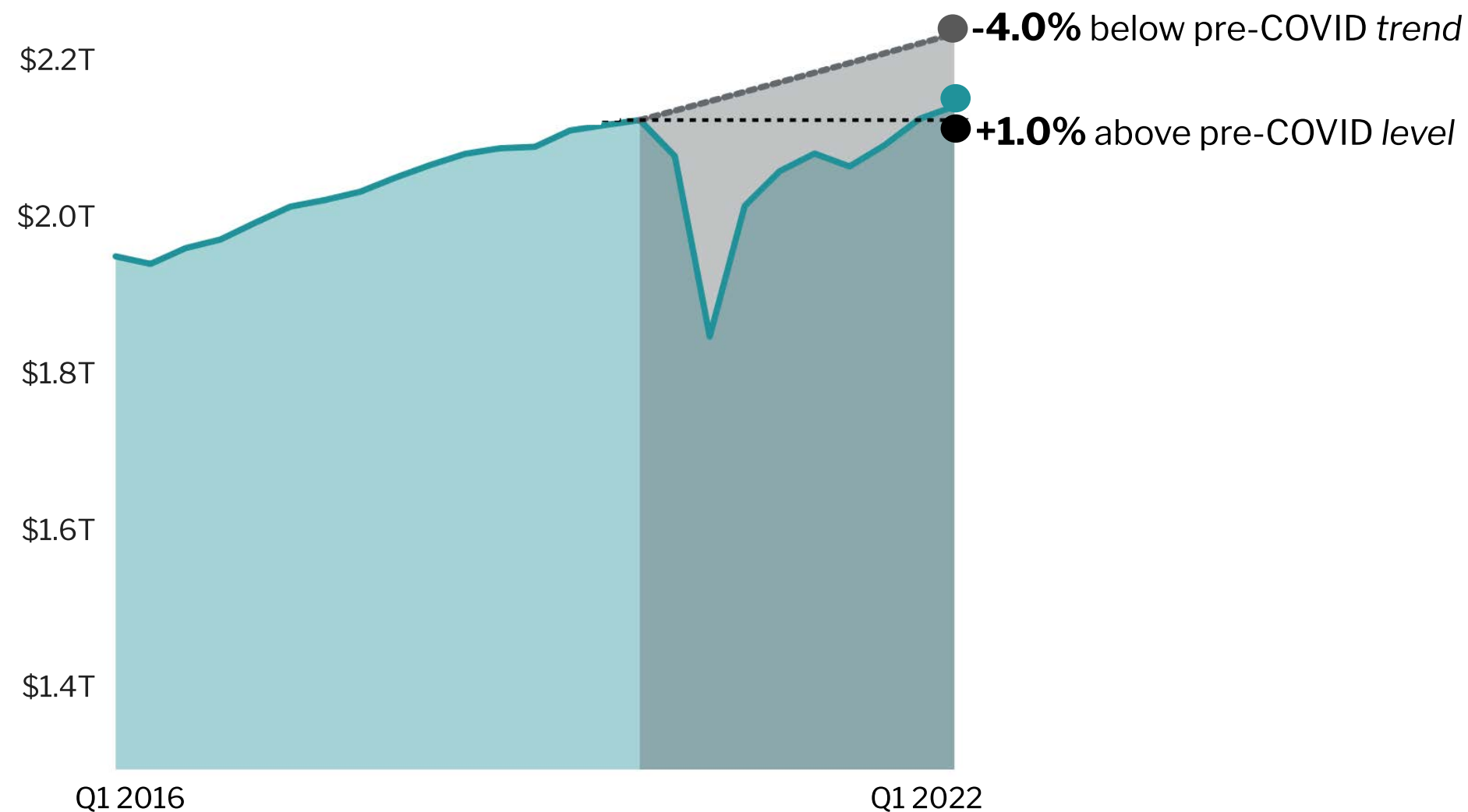


The health of the business sector is central to economic prosperity. Businesses create jobs, opportunities, and growth. By so doing, they generate tax revenue that supports social spending. When businesses do well, Albertans do well.

Creating Prosperity

Business in Alberta

Canada GDP compared with pre-COVID



Source: Statistics Canada, Table: 36-10-0104-01, own calculation of pre-COVID trend

► Canada's economic recovery continues, but more slowly

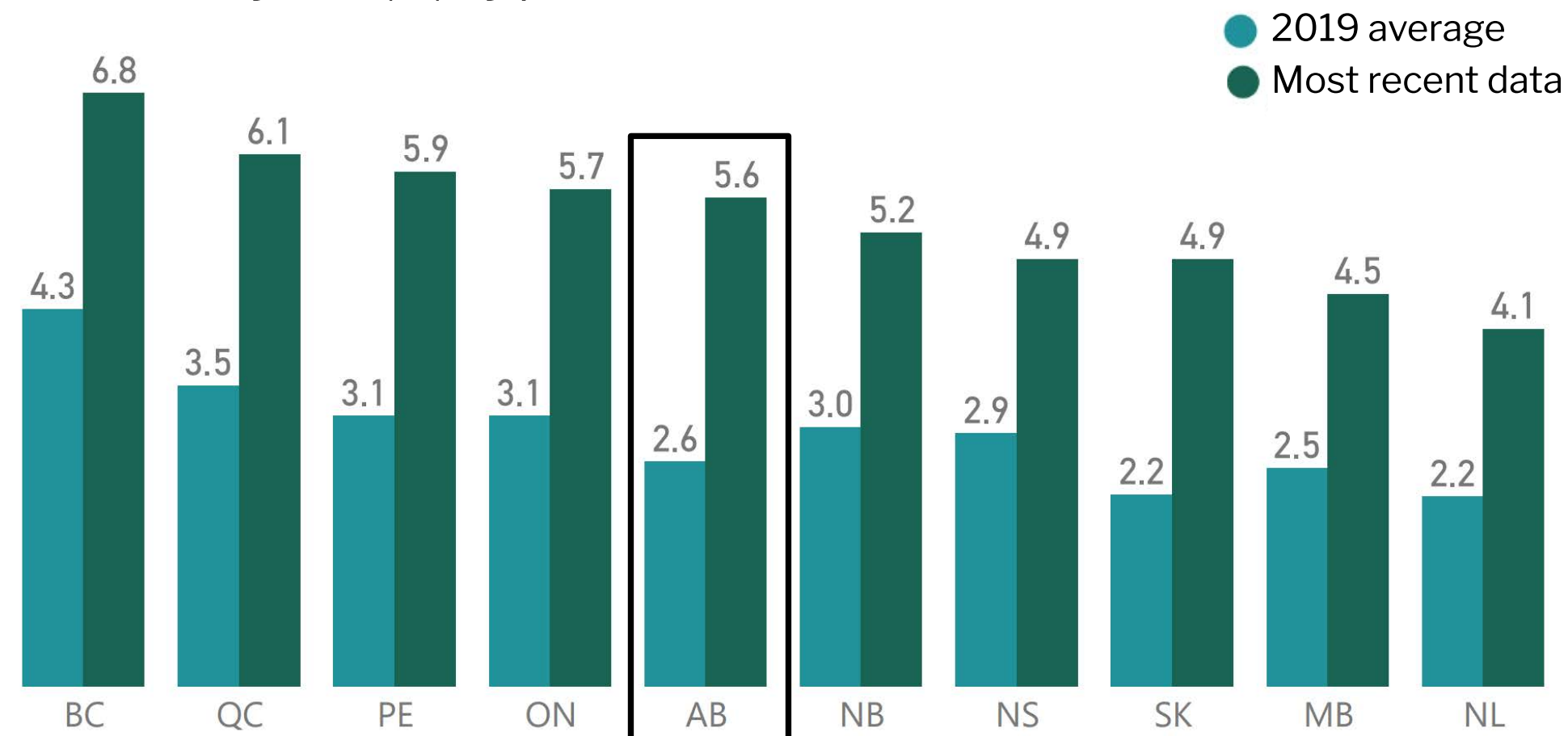
Economic growth continued in the first quarter—up 0.8% versus the previous quarter and 3% versus a year ago but still falls short of its pre-pandemic trend. Further, business investment which tends to propel future growth remains limited (up just 5% versus pre-COVID) and concentrated in the housing market. Rising interest rates are likely to throw more cold water on investment as it becomes more expensive. This, along with the ongoing consequences of inflation and shortages of labour, has led RBC to predict a moderate contraction in 2023.

Creating Prosperity

Business in Alberta

Labour market tightening

Job vacancy rate (%) by province



Source: Statistics Canada, Table: 14-10-0371-01, most recent data is April 2022

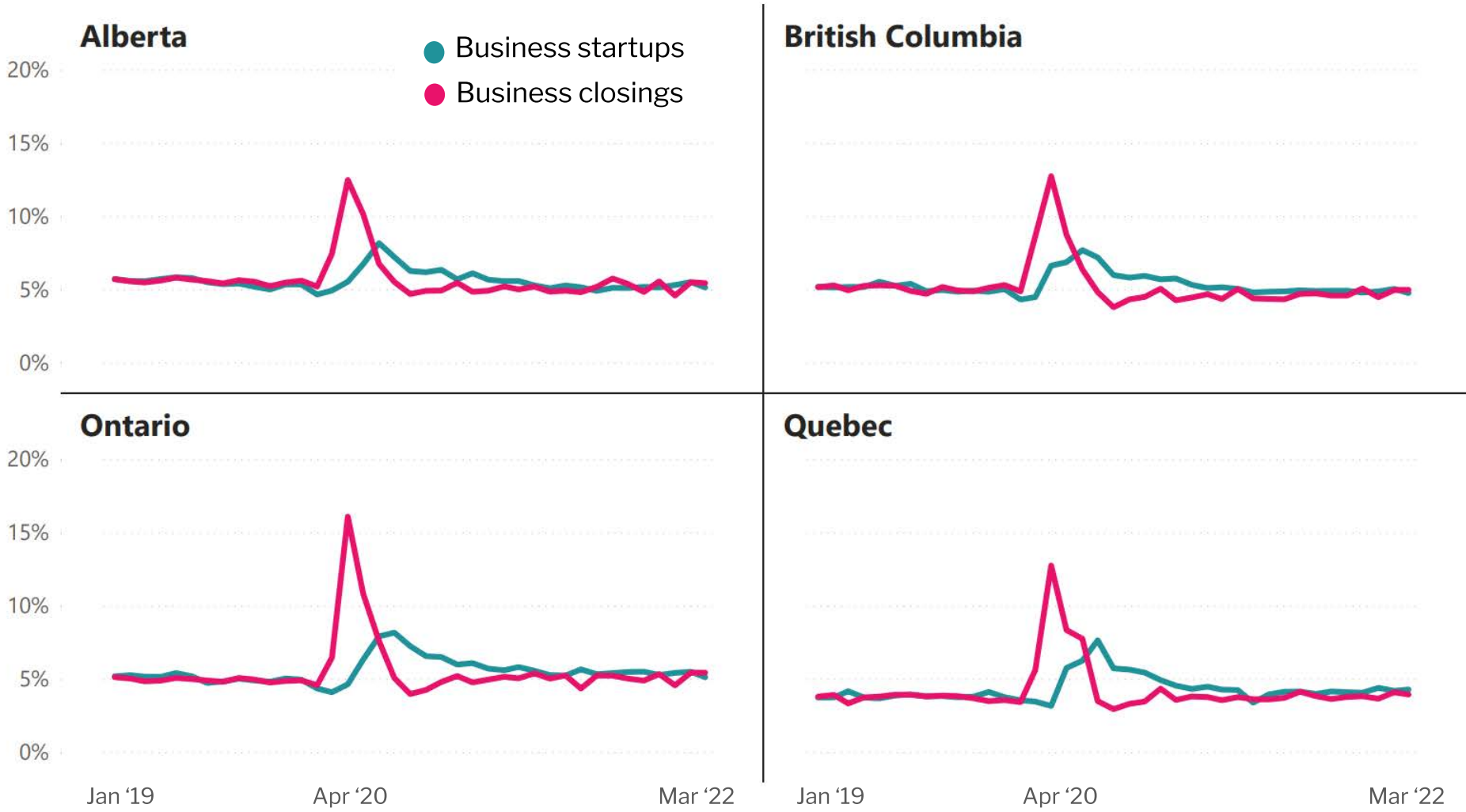
► Businesses plan to increase operations

Businesses in Canada and Alberta remain largely optimistic even as interest rates rise. Their biggest roadblock is the tightening labour market. Job vacancy rates are not only double what they were in 2019, they are a problem across the economy: 17 of 20 industries have seen an increase of >50%. Given low unemployment and an ageing workforce, many businesses report using stopgap measures like increasing employees' hours and delaying service to customers.

Creating Prosperity

Business in Alberta

Business creation



► **Though new business creation has been lacklustre**
 What we have not seen is a notable increase in startup activity—in Alberta or other large provinces. In fact, Alberta has about 1,400 fewer businesses operating across the province overall (a decline of ~1%) compared to pre-COVID, suggesting no real increase in entrepreneurial activity. Industries seeing the most doors close and the fewest open include resources; professional and technical services; and construction. Meanwhile, health care & social assistance was the only industry to see more businesses open their doors.

Source: Statistics Canada, Table: 33-10-0270-01, own calculation of new business openings and business closings as a percent of active business, data through March 2022

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.



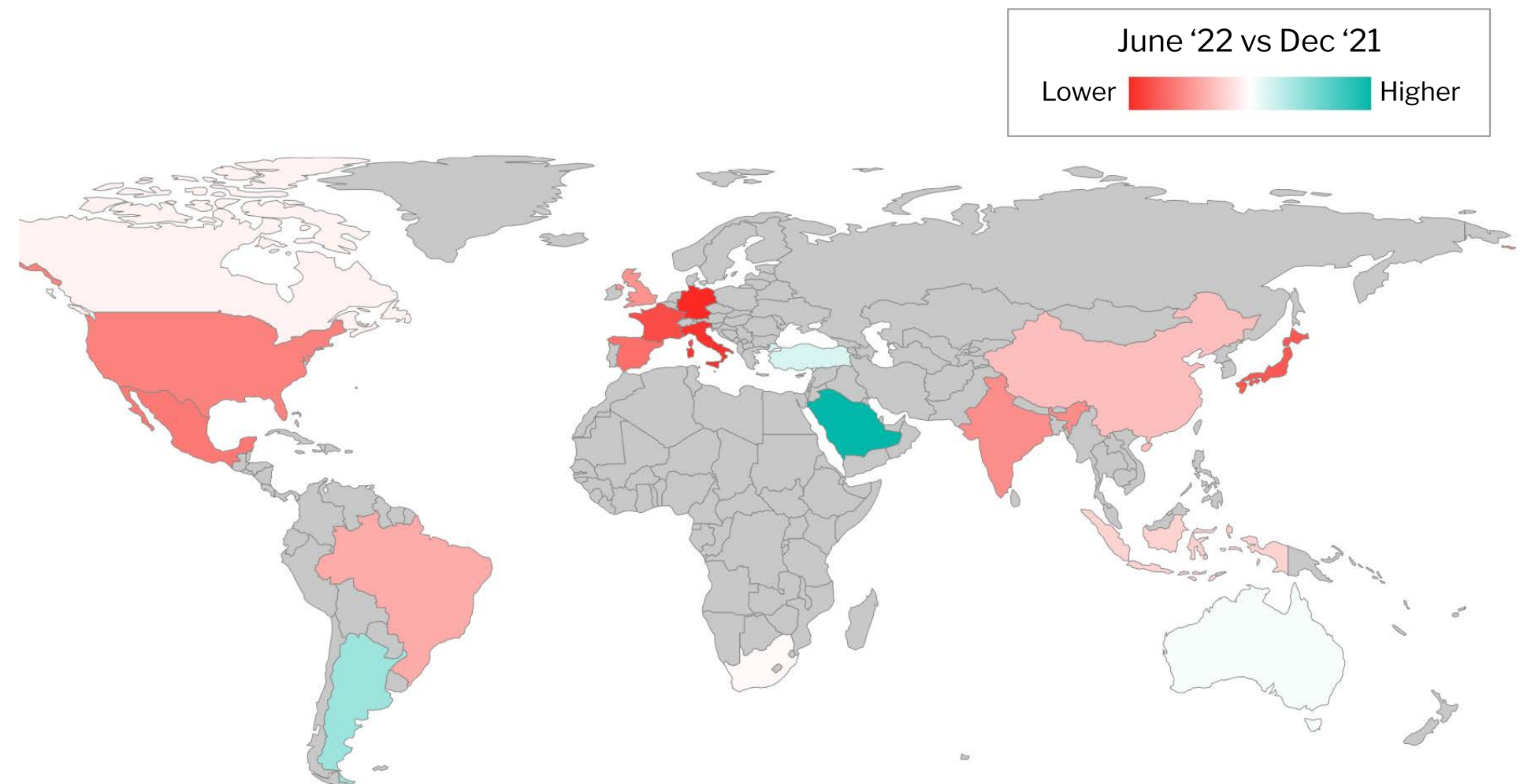
Thinking Globally

Economic Conditions

► Global prosperity is weighed down by the war in Ukraine

Similar to the interim report published in March, the OECD's June Outlook expects growth of 3% this year (versus 4.5% forecast in December) and inflation of 9% across OECD countries (double previous expectations). The main culprit is the war and the related rise in commodity prices. Countries with limited ties to Ukraine or Russia and that benefit from high resource prices, like Canada, will not fare as badly as others, bringing a focus to food and energy security.

Change in GDP growth expectations among G20 and OECD countries



Source: OECD Economic Outlook, Volume 2022 Issue 1 June

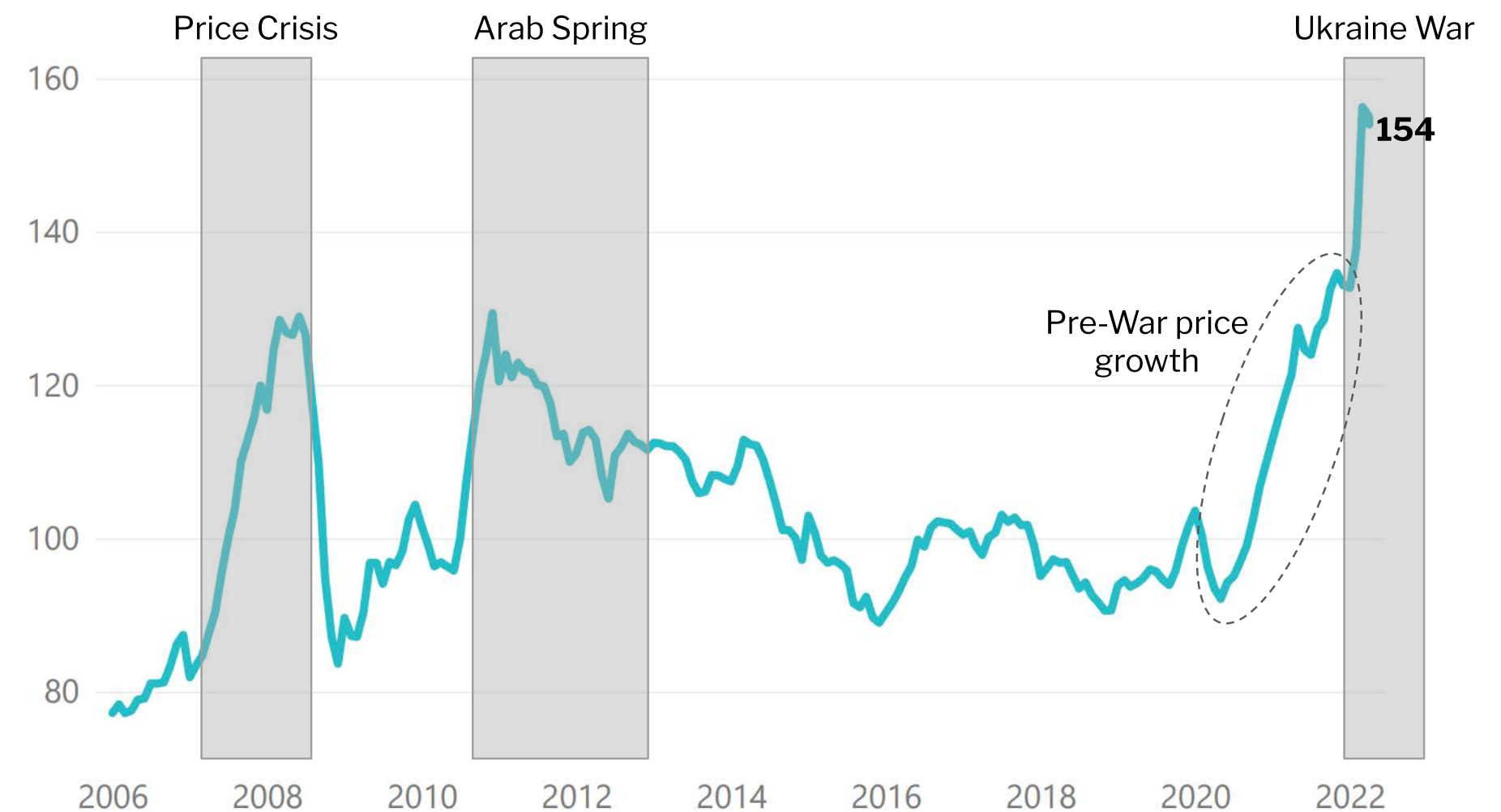
Thinking Globally

Economic Conditions

► Lower-income countries stand to be hurt the most, with global consequences

As measured by a “basket” of products, food is 29% more expensive than a year ago. Even before the war, poor growing conditions were driving food costs to levels not seen in recent history. As a result, 440M more people may not get enough to eat (a total of 1.6B) and social unrest is on the rise. Finances are limiting what governments can do: 60% of poor countries are already at risk of debt distress.

Food price index



Source: The FAO Real Food Price Index (FFPI) and OECD calculations, data through May 2022

Thinking Globally

Economic Conditions

► And inflation is becoming more entrenched

After decades of low inflation across advanced economies, it has not only been high but has consistently taken consumers, businesses, and central banks by surprise. But this is changing: Canadian consumers and businesses now expect inflation to persist for at least a year or two. Though the same is playing out in other countries, Canadians seem to be especially worried, and perhaps for good reason: Canada has the highest “entrenchment score” of major economies.

Inflation-surprise index of advanced economies



Source: Citigroup and The Economist

Building Alberta's Future

The Next Generation

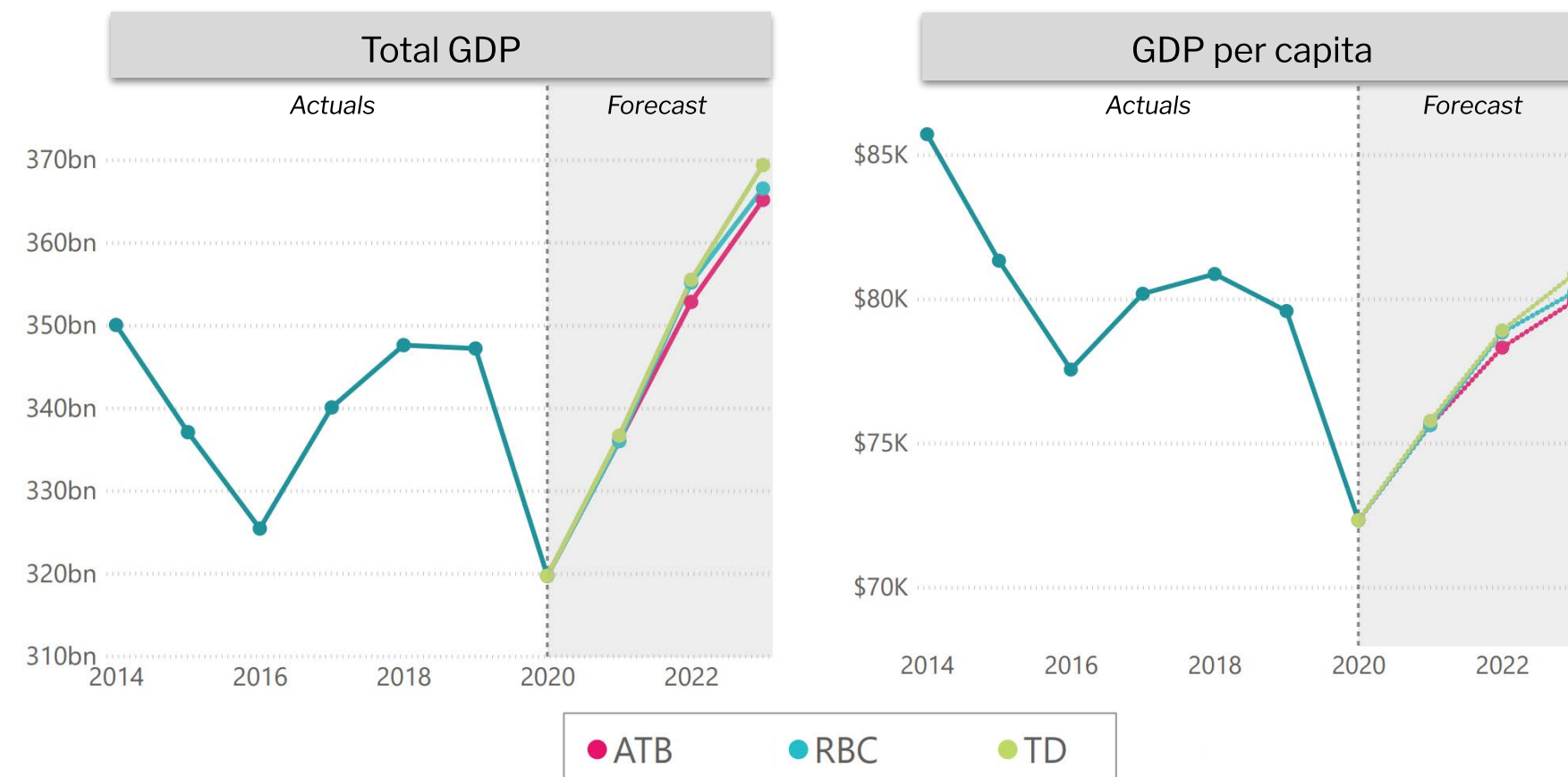


Economic prosperity isn't just about what happens today—it's about planting the seeds for the future. When Albertans see new opportunities, they will plan, invest, and take risks in creating a better tomorrow for themselves and for their province.

Building Alberta's Future

The Next Generation

Alberta economic forecasts



► Alberta expected to return to 2014 levels of GDP but not prosperity

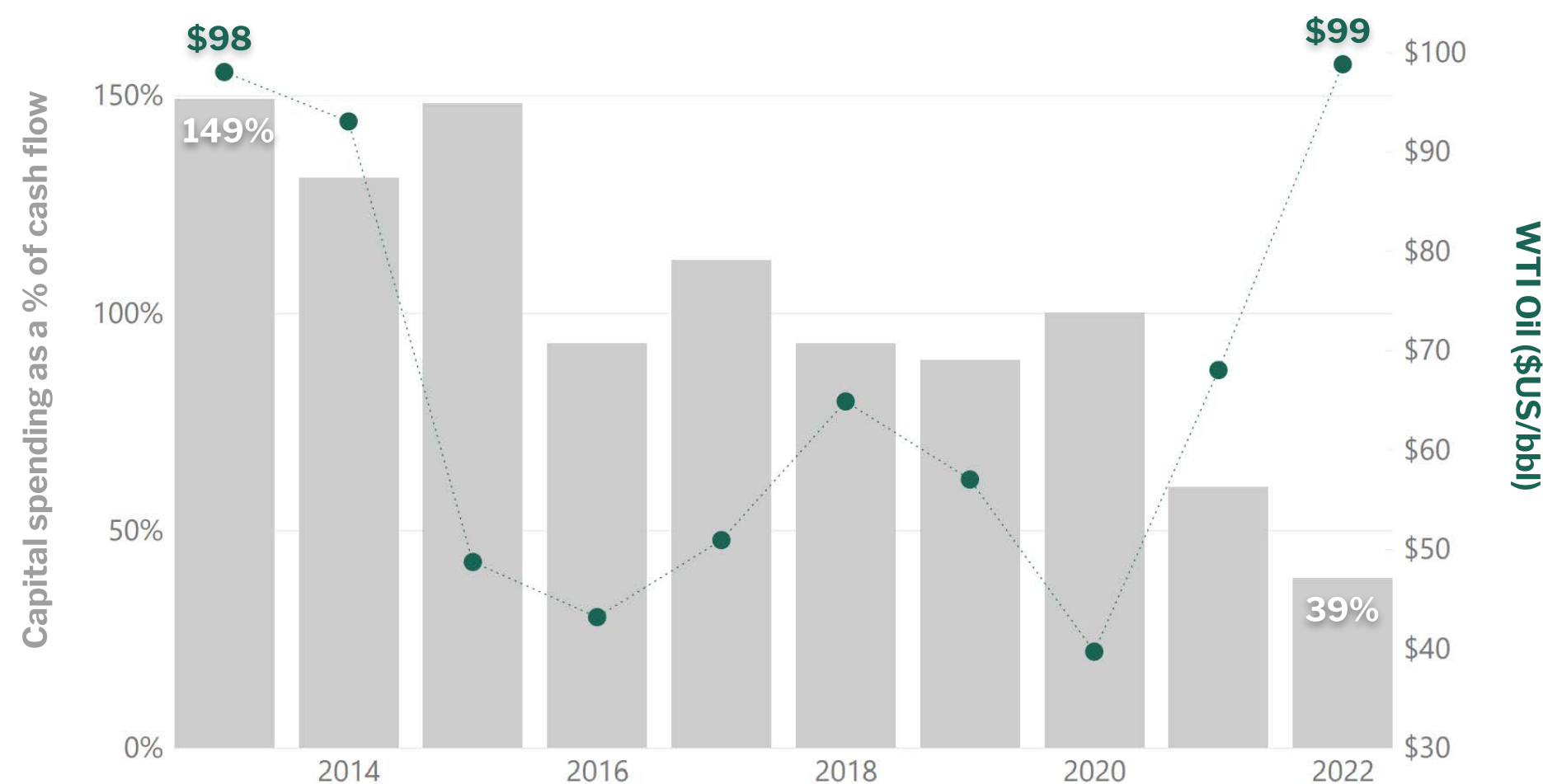
While Alberta is enjoying a strong recovery, it is important to note the difference versus previous booms. First, though all bank forecasts show Alberta surpassing 2014 levels of economic activity this year, this does not factor in population growth over that time. Per capita GDP (a proxy for income) will only reach 2019 levels by 2023, at which point they'll still lag 2014 levels by 5% or about \$5,000 per person.

Source: Statistics Canada, Table: 36-10-0222-01 and Table: 17-10-0005-01 for actuals, Alberta Population Projections, TD Provincial Economic Forecasts published March 18, 2022, ATB Alberta Economic Outlook published May 19, 2022, and RBC Provincial Economic Forecasts published June 7, 2022.

Building Alberta's Future

The Next Generation

Crude oil prices and capital spending in the energy sector



Source: Toronto-Dominion Bank, Bank of Canada and Bank of Canada calculations for capital expenditures, U.S. Energy Information Administration via Government of Alberta for WTI Oil (2022 include year-to-date through May average)

► Boom in energy is not translating to capital spending

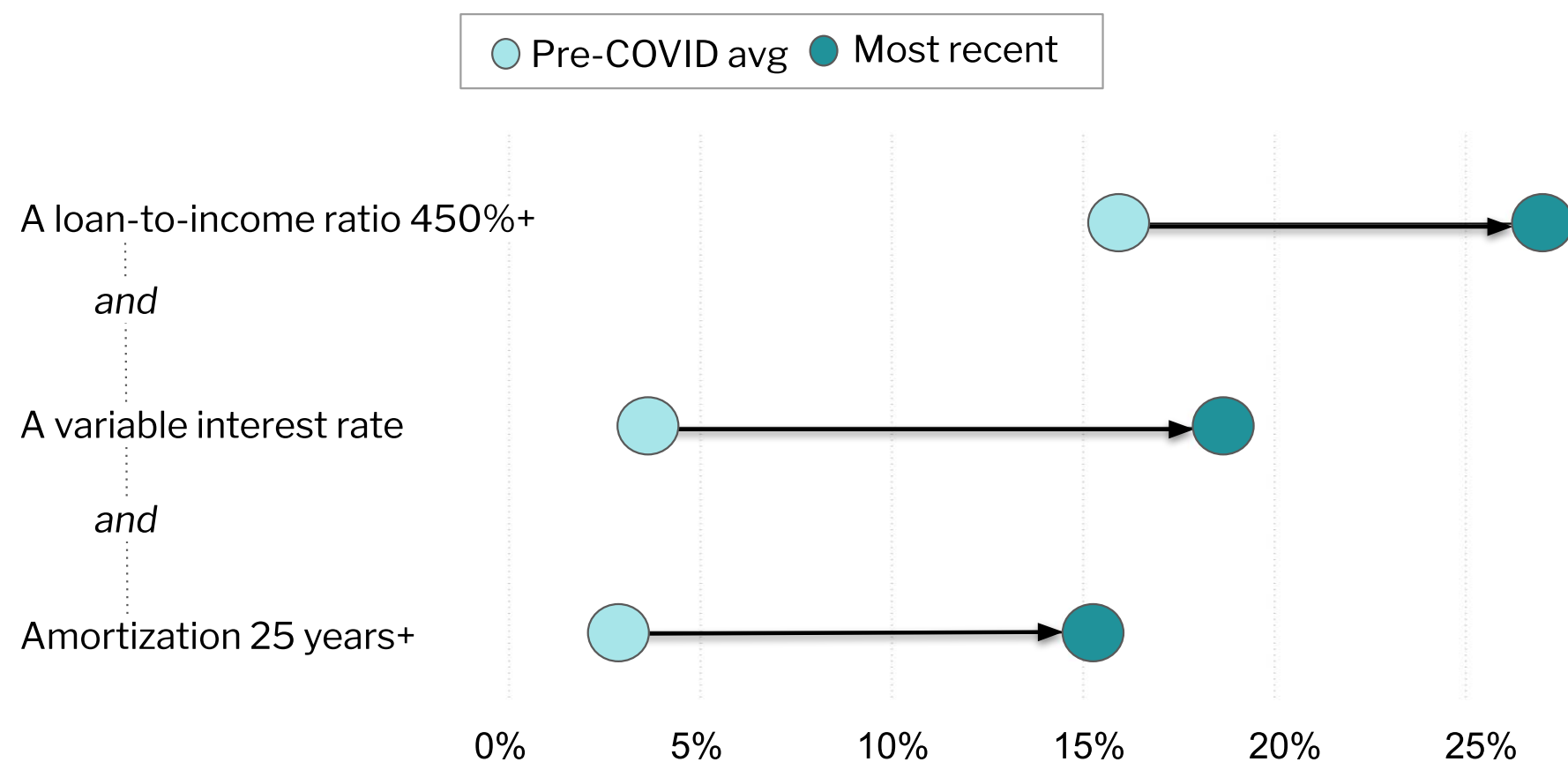
With energy prices at an 8-year high, the value of exports is high and revenues are flowing into Alberta. However, a recent survey of producers suggests businesses will not spend much of this on investment, instead prioritizing financial discipline. Only around 40% of this cash flow is being set aside to expand operations (compared with 149% at similar prices in 2013). Contributing factors include uncertainty from the low-carbon transition, adequate pipeline capacity, and competition for labour, especially in oilfield services.

Building Alberta's Future

The Next Generation

Vulnerabilities of recent home buyers in Canada

Percentage of buyers with...



Source: Data include purchases and refinancing originated by federally regulated financial institutions. Low-ratio mortgages have a loan-to-value ratio of 80% or less. Sources: Regulatory filings of Canadian banks and Bank of Canada calculations. Pre-COVID average includes 2014 - 2019, most recent is Q1 2022.

► Policies that fight inflation will be a bitter pill to swallow for many Albertans

Due to greater mortgage debt (relative to income), Canada's housing market is among the most vulnerable to the increase in interest rates intended to fight inflation. As well, recent home purchases were more likely to be made by families who could least afford it and who will feel the impact of policy changes most immediately. Though Alberta's housing market is less at risk of a painful correction, a higher debt load among Albertans could be problematic in the coming years.

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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