

# Alberta Economic Outlook Q3 2014

Prepared by ATB Financial Economics & Research Group  
July 4<sup>th</sup>, 2014

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A greater level of stability has returned to the global and North American economies, which is propelling growth in Alberta going into the second half of 2014.

The most current projection by the ATB Financial Economics and Research group is unchanged from the last Economic Outlook. The expectation for real GDP growth in 2014 is 3.6 per cent, with slight moderation in the following two years.

**KEY RESULTS:**

- Alberta to lead provinces with real GDP expansion of 3.6% this year
- Labour market remaining balanced with 4.5% unemployment
- Stronger oil and natural gas prices will support continued investment in energy
- Housing starts are stable and residential market appears to be balanced
- In-migration will continue to lead to population growth

	Year			
	2013	2014	2015	2016
<b>Real GDP</b>	<b>3.9</b>	<b>3.6</b>	<b>3.3</b>	<b>2.0</b>
<b>Consumer Price Index (annual % change)</b>	1.3	1.3	1.8	1.9
<b>Unemployment Rate</b>	4.6	4.5	4.5	4.9
<b>Employment (% chg.)</b>	2.9	3.7	2.1	1.1
<b>Population (millions)</b>	4.007	4.126	4.225	4.315

**Global Overview**

Building on the strength and market calm during the first half of 2014, the global economy continues to stabilize and show better economic results. However, geopolitical tensions have not abated, leading to potential for disruptions and loss of economic confidence in the coming months.

Tensions between Russia and Ukraine have subsided somewhat (at least with respect to media attention), which has helped ease concerns in Europe. Still, economic sanctions against Russia by Europe and other G7 countries remain in place and could intensify in the second half of the year if progress is not made in resolving the conflicts. Forecasts for Russia’s economy, in the meantime, have been reduced sharply and much investment has either halted or been pulled out.

Renewed violence and tensions in Iraq have flared up again, which has lifted global oil prices. While that is positive for Alberta, rising energy prices are negative for the fledgling economic recovery (especially in Europe).

The United States suffered a small economic contraction in the first quarter of the year, but most economic indicators in the second quarter suggest that this slowdown was temporary, the result of an unusually difficult winter. Federal Reserve Chair Janet Yellen has continued to steadily curtail the program of asset purchases and has raised the prospect of interest rates rising sooner than previously expected.

Equity markets in both Canada and the United States have been reaching record highs in June, which has helped bolster consumer confidence—particularly in the U.S.

Canada’s economy continued to struggle in Q1, held back by persistent weakness in exports, business investment and the labour market. A gain of 0.5 per cent in January was followed by slower growth in February and March.

The Bank of Canada continues with a “neutral” position on interest rates, but rising inflation in Canada suggests the Bank will soon have to shift back to an “upward bias” on borrowing costs. The national inflation figure stands at 2.0 per cent—the target of the Bank—and has been rising steadily in recent months.



## Alberta: Sector Overviews

### Oil and Gas

North American crude oil prices (West Texas Intermediate) have strengthened in recent weeks, mostly due to domestic tensions in Iraq as well as continued concern in Russia and Crimea. Prices are above the \$US 105-mark.

The differential between the U.S. dollar benchmark WTI and the Western Canadian Select Blend (WCSB) price has continued to rise and fall over the first quarter, with a high of \$C 28 discount in early March but falling to \$C 20-22 by late spring. During the last week of June 2014, the differential was just above \$C 22.

Looking into Q3, both WTI prices and the differential are likely to continue with the usual level of volatility. However, prices should remain at levels supportive of continued investments in oilsands, conventional and unconventional oil.

After peaking briefly above \$US 6.00 mmBtu in February, Henry Hub natural gas prices have settled back to the mid-\$4.00 range. Natural gas prices are likely to remain above the extremely low levels of the last few years, and could perhaps trend higher in the second half of 2014. That should provide a bit of welcomed relief to Alberta producers.

Overall, Alberta's energy sector remains in good shape. Oilsands development have not slowed in any material way, and activity in the Fort McMurray region continues to drive much of the provinces overall industrial investment.

Energy transportation remains an issue. In June, the federal government gave its approval for the construction of the Northern Gateway pipeline to Kitimat. However, most industry observers believe that despite this approval, construction will be held up for many years due to court challenges by opponents of the project. And on June 26, the Supreme Court ruled that aboriginal groups have legitimate land claims that can extend far beyond their treaty territories. This ruling was somewhat unexpected, and could weaken pipeline companies' negotiating positions.

**Daily Crude Oil Price, WTI**



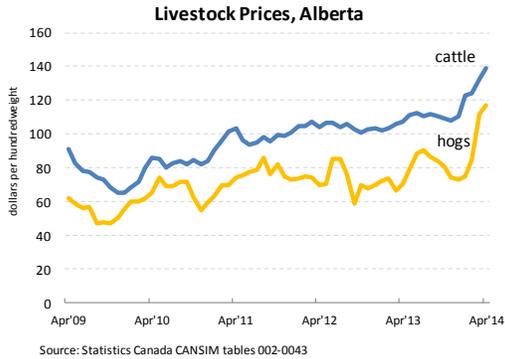
Source: U.S. Energy Information Administration (EIA)

**Daily Natural Gas Price, Henry Hub**



Source: U.S. Energy Information Administration (EIA)

## Agriculture



Livestock farmers in Alberta are set to have a very strong year on the revenue side, although higher feed and input costs are always a concern. Hog prices have soared in the first half of 2014, prompted by the outbreak of the PEDv virus in the U.S. which has significantly reduced hog supply in North America. In June, Alberta hog farmers were receiving \$2.33/kilogram—up from about \$1.60/k in February.

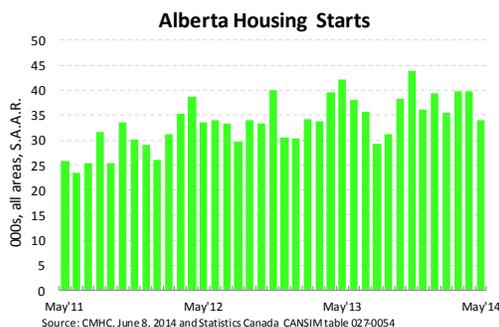
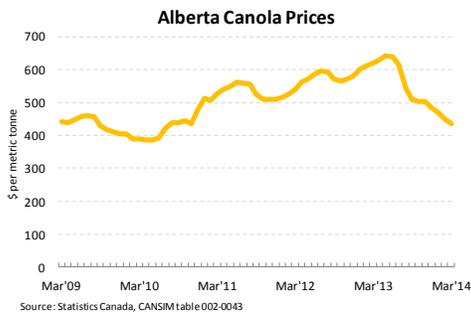
Cattle prices have also been rising on strong demand and reduced herds over the last few years.

Grain and oilseed prices have eased back from their extreme highs, but have remained relatively good.

A significant issue for crop farmers this year has been the inability for the railways to place hopper cars at grain elevators across the prairies. This has resulted in the elevator system being overstocked with grain and unable to accept deliveries from farmers.

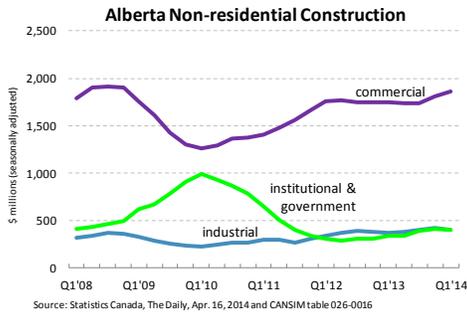
A port strike in Vancouver exacerbated the situation by creating even more backlog at the docks and making it more difficult for grain cars to unload. By June, however, most of the extreme backlog has been resolved and grain is now starting to move normally.

Growing conditions throughout most of Alberta are showing more than sufficient moisture—and in some areas, continued rain will start to become a serious impediment to crop development. Many crops are somewhat behind. Warm and drier conditions in July are required.

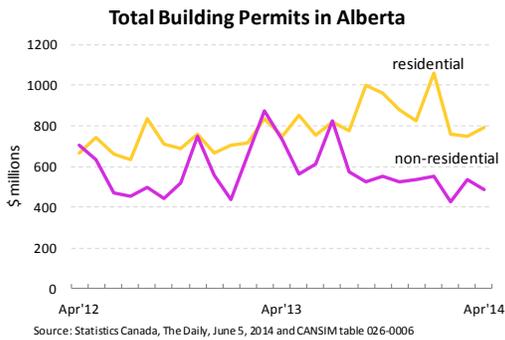


## Construction and Real Estate

Housing starts stumbled a bit in May, falling to an annualized rate of 34,000 (seasonally adjusted). However, some moderation in the number of new homes being put on the market could be helpful. Even with the small slowdown in May, overall construction is up 6.2 per cent in the last twelve months compared to the previous twelve month period.

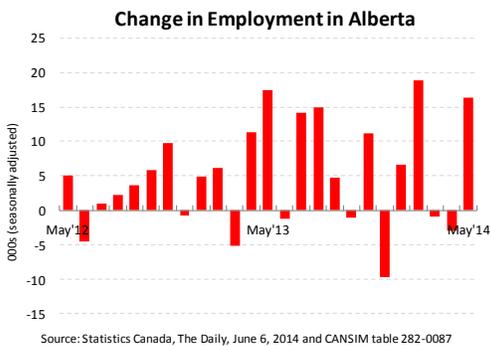


Housing construction in Alberta remains a key driver of the provincial economy, not only because of the direct spending and employment created, but also because of the strong indirect induced spending (eg., furniture, flooring, etc). Steady immigration from other parts of Canada and internationally has added to demand for housing. As well, the still-favourable mortgage lending rates have supported new purchases.



Spending on non-residential construction was up marginally in the first quarter of 2014 at \$2.66 billion. That was led by an increase in commercial project, many of them office complexes in downtown Calgary. Over the last twelve months, total non-residential construction spending in Alberta is up 5.4 per cent compared to the previous twelve month period.

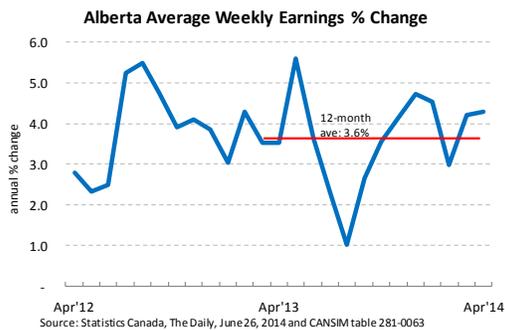
The third quarter of 2014 is shaping up to remain positive for construction activity, even if activity is somewhat below last year. Building permits in April—both for residential and non-residential—have stabilized at levels close to their 24-month averages.



### Labour Market

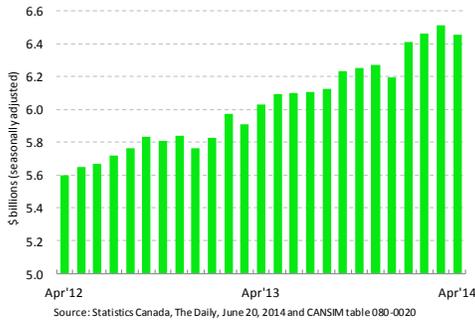
Alberta's job market remains the strongest in Canada, adding 16,400 jobs in May and over 71,000 in the last twelve months alone. That accounts for a large majority of total employment gains in the country (+85,500) over that period.

The unemployment rate in May stood at 4.6 per cent, close to the middle point of a balanced job market. The ATB Financial forecast is for the unemployment rate to average 4.5 per cent this year.

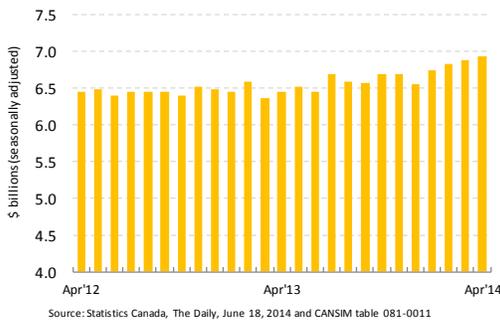


Paycheques of Alberta employees rose to another record high in April as companies and businesses feel the pressure of labour shortages. The average weekly earnings of employees in the province rose to \$1,141.70 in April, up 4.3 per cent from a year ago. That figure includes overtime pay and is calculated before taxes and other deductions. Nationally, average weekly earnings rose to \$932, an annual increase of 3.3 per cent.

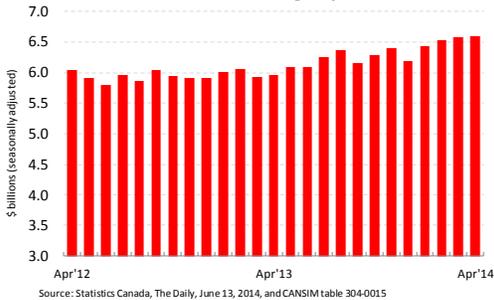
**Alberta Retail Sales**



**Alberta Wholesale Trade**



**Alberta Manufacturing Shipments**



## Retail, Wholesale and Manufacturing

Alberta retailers are experiencing another very strong year so far in 2014, despite a small pull-back in sales in April when retail sales totalled \$6.46 billion (seasonally adjusted). That is up 7.8 per cent in the last twelve months (year-over-year).

Wholesale activity in the province has been trending higher so far in 2014, rising to a record high of \$6.94 billion in April (seasonally adjusted). Over the last twelve months, wholesale trade is up 3.5 per cent over the previous twelve-month period.

Alberta manufacturing shipments have also been trending higher in recent months, gaining some traction after having stalled for most of 2012 and the first half of 2013. In April of this year, they rose to a new record high of \$6.59 billion—up 6.6 per cent in the last twelve months.

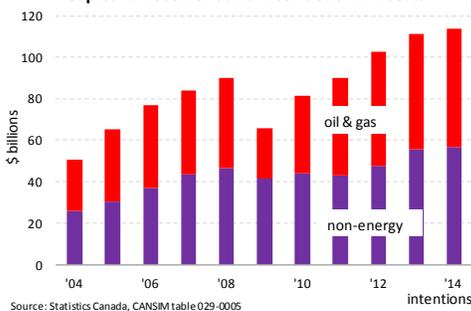
Improved manufacturing results could be the result of higher prices for refined petroleum products (i.e., gasoline) as well as stronger demand from energy producers for pipe, machinery, drilling equipment, etc.

## Investment and Intentions

Capital and repair investment exceeded \$100 billion in Alberta in both 2012 and 2013, and according to the latest survey of investment intentions, 2014 is expected to see a new all-time record of \$114 billion.

About half of Alberta's capital and repair investment intentions this year (\$57.4 billion) is in the energy sector, on par with total investment in 2013.

**Capital Investment and Intentions in Alberta**



## Interprovincial In-Migration

Alberta is once again experiencing a strong period of interprovincial in-migration. In the first quarter of 2014, there was an increase in the number of migrants from other provinces to just under 10,000. Over the last complete four quarters (Q2'13 to the end of Q1'14) the province was the destination of a net 39,300 Canadians.

This high level of interprovincial in-migration is being accompanied by very strong international in-migration as well. Every year Alberta's net international migration position increases. In recent years immigration has gone from the 20,000-25,000 range a few years ago to over 35,000 today. These factors have been a driving force for residential real estate market and retail sales in the province.

## Business Optimism

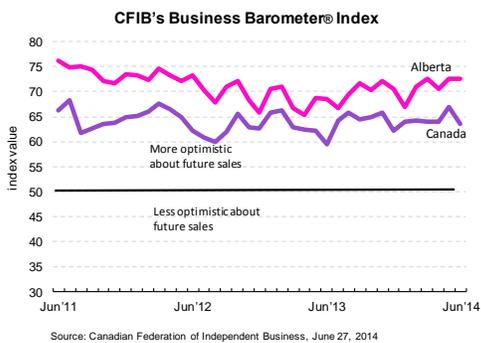
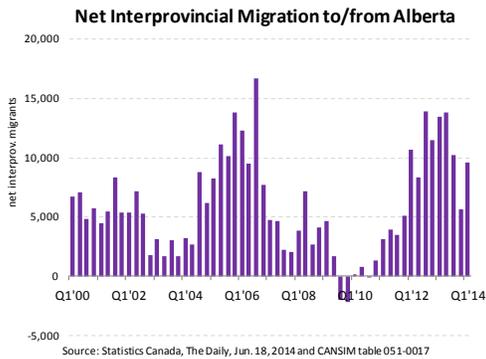
Alberta is second behind only British Columbia in small- and medium-sized business confidence. The most recent survey from the Canadian Federation of Independent Business shows the index at 72.6. (Figures above 50 suggest there is, on balance, more optimism among business owners about future sales).

Business confidence in the province has remained stable at an elevated level for more than three years.

## Summary

Alberta's economy is once again enjoying a solid year and continues to outperform the rest of Canada.

Despite the ever-present volatility in price and discounts, the energy sector will continue to see acceptable price ranges for crude oil, and improving prices for natural gas. Investments in both conventional and non-conventional energy plays are expected to remain stable and relatively strong.



The influx of new Albertans is having important impacts on the economy, from the labour market to retail sales and the housing market.

Agriculture remains a leading sector in 2014, particularly on the livestock side where record prices are boosting cash flow. For crops, growing conditions are moderate at the end of June with a bit too much moisture reported throughout much of the province. Warm and dry conditions in July are needed.

The most current projection by the ATB Financial Economics and Research group is a slight upward revision from the last Economic Outlook. The expectation for real GDP growth in 2014 is 3.6 per cent, followed by growth of 3.3 per cent next year.