

Finding a home on the range: Methodological notes and assumptions for the high and low cases

Providing an empirically-based assessment of where the Alberta economy is headed over the short-term rooted in a deep understanding of the province helps Albertans anticipate the challenges and opportunities that will affect our livelihoods. Forecasts provide a baseline against which to assess the impact of new developments and a starting point for thoughtful discussion and planning. Drawing from the world of meteorology, dark clouds may not bring rain and a blue sky may not require extra sunscreen, but it is best to be prepared.

At the same time, economic forecasts are imperfect and not the only way of getting a handle on future economic conditions. For this reason, they are best when accompanied by thoughtful observation and analysis of a broad range of information and insight.

The assignment, as we like to say at ATB Financial, is to be confident but humble. A confident forecast is one that is based on robust analysis and challenge from different perspectives. A humble forecast is one that recognizes it is subject to change and only one tool in the box when it comes to making sense of the economy.

A range of possibilities

As noted, pinpointing GDP growth to a tenth of a percentage point is a mug's game—but those tenths count because they represent actual jobs, business activity and financial outcomes. This is why forecasters try their best to get it right.

At the same time, we know that the future is uncertain. This is why it makes sense to combine that precision with a range of potential outcomes that capture both the upside and downside risks that are in play. We can't account for every possible scenario, but providing a forecast that includes a high, base and low case, combines precision with a reasonable expectation of variance.

We prepare a detailed forecast for each case for use in ATB's business planning, but have tended to focus on the base case when sharing the forecast more broadly. With this presentation of our June 2023 forecast, we are now publishing information on all three cases.

Alberta economic forecast June 2023 estimates		2023	2024
Real GDP (annual % change)	High case	4.4	3.3
	Base case	2.4	2.2
	Low case	0.6	0.9
Employment (annual % change)	High case	4.7	2.6
	Base case	2.8	1.6
	Low case	1.2	0.2
Unemployment rate (annual average %)	High case	5.1	4.6
	Base case	6.1	5.9
	Low case	7.0	7.4
Retail sales (annual % change)	High case	6.6	7.8
	Base case	3.7	5.1
	Low case	1.1	2.1
Annual housing starts (000s)	High case	37.8	44.0
	Base case	31.9	37.1
	Low case	27.0	30.1

The high case

Under our high scenario, we paint a picture where economic activity exceeds expectations in China while financial conditions improve across the United States. Meanwhile, central banks engineer a soft landing, getting inflation under control with only moderate impacts on the economy. As a result, global activity accelerates and energy prices improve ahead of the baseline.

As global economic conditions improve and oil prices climb into the US\$80-90 range, companies boost their capital expenditures. While conditions improve across the country, Alberta's relatively favourable economic position continues to attract more people from other provinces. Real GDP rises 4.4% this year while the unemployment rate falls to 5.1%.

The low case

For the low case, we imagine a scenario where financial stress worsens across global markets, China's economic recovery falters and the high cost of borrowing significantly hinders economic growth. As oil prices slide toward US\$55 per barrel, business confidence and export demand erodes in Alberta. As a result, real capital investment falls and labour market conditions weaken.

Business activity takes a hit resulting in migration outflows, which dampen retail and housing market conditions. The low scenario accounts for weaker oil production relative to our base case that could arise from lower oil prices and larger impacts from wildfires.

Real GDP grows less than 1% in 2023 and 2024. We expect the unemployment rate to rise sharply under this scenario and average 7.4% in 2024.

A robust forecasting process

ATB Economics generates its economic forecast using a macroeconomic forecasting model tailored to Alberta's economy. Our forecasts for Alberta's key economic indicators—real GDP growth, employment growth, inflation rate, unemployment rate, retail sales and housing starts—are benchmarked against the latest forecasts published by the economics groups of other private organizations.

All assumptions are, however, finalized after robust year-to-date trend analyses, third party comparisons and discussion with in-house experts (Economic Forecast Committee).

Each quarter, our forecast assumptions are benchmarked against external estimates and challenged by a broad range of in-house experts including the Alberta Economic Forecast Committee and the Loan Loss Allowance Committee.

Energy prices and investment

Our oil and gas price (WTI, WCS, AECO and Henry Hub) assumptions are calculated by averaging the forecasts prepared by GLJ, Sproule, the US Energy Information Administration and ATB Capital Markets.

For oil and gas investment in Alberta, we take into consideration the latest ATB Capital Markets research as well as other sources such as Statistics Canada's Capital and Repair Expenditures Survey and the latest information from the Alberta Energy Regulator.

Financial and global trends

The exchange rate forecasts used in our model are taken directly from ATB Capital Markets. For interest rates, we take into account the latest forecasts published by external analysts after consultation with our in-house experts.

Real GDP growth and unemployment rate forecasts for the national economy in our model are an average of the same in the latest outlooks published by other external forecasters, the Bank of Canada's latest Monetary Policy Report and the Government of Canada's latest fiscal update.

Forecasts for US, Euro Area, Chinese and Japanese GDP growth are generated by averaging the latest outlooks published by the IMF, OECD and the Bank of Canada.

Agriculture, households and demography

The latest population projections by Statistics Canada along with quarterly updates are considered for Alberta's population growth and its components. For our housing starts forecast, we analyze trends in residential activity and population flows, while also taking into account the latest information published by the Canada Mortgage and Housing Corporation (CMHC).

We also consult ATB Capital Markets for their expertise on Alberta's housing market, its agricultural sector and overall retail spending and incorporate their views in our macroeconomic forecasts assumptions.

Click [here](#) to go the full report on the June 2023 Alberta Economic Outlook.

General Disclosure

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