


The logo for the City of Edmonton, featuring the word "Edmonton" in white text on a blue rectangular background.

Edmonton

A photograph of the Edmonton skyline at night, featuring the illuminated arch of the Peace Bridge and various city buildings.

City of Edmonton

Fall 2022 Forecast Update

City of Edmonton Corporate Economics

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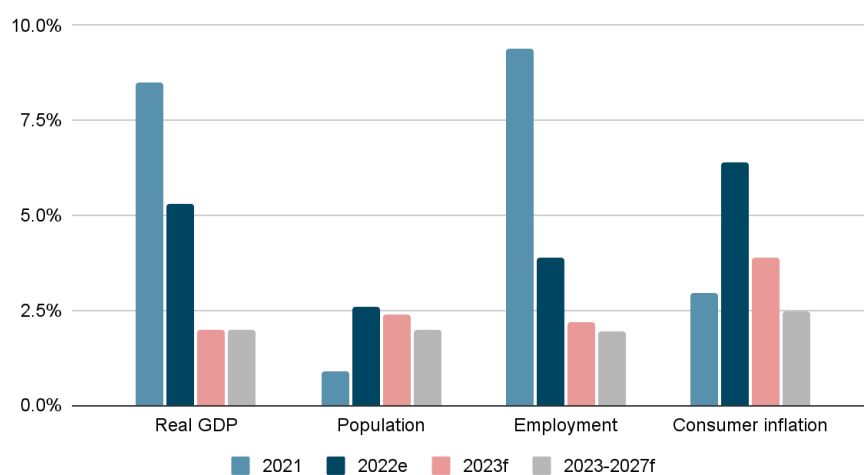
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The global macroeconomic environment continues to be highly uncertain, with concerns of recession globally and nationally in 2023 casting pessimistic sentiments on economic prospects. The Russia invasion of Ukraine in early 2022 resulted in significant price pressures on some energy and food commodities, piling additional pressures on global supply chains already experiencing disruptions related to the Covid-19 pandemic. Crude oil and natural gas prices, in particular, rose quickly over a number of months of 2022, which was a factor pushing consumer inflation higher across many jurisdictions, including the Edmonton census metropolitan area (CMA). In response to high inflation, the Bank of Canada increased its monetary policy interest rate target seven times in 2022, from 0.25 per cent to 4.25 per cent as of December 7, 2022. This, in combination with the persistently high inflation, is putting financial strain on households and businesses.

The City of Edmonton's fall 2022 forecast update for Edmonton and the region incorporates macroeconomic developments over the first three quarters of 2022 and reflects updated assumptions on economic growth prospects that have been counterbalanced by emerging headwinds. Economic activity in Edmonton continued to recover from the pandemic's impacts in 2022. Real gross domestic product (GDP) in Edmonton is projected to have recovered to its pre-pandemic level by the end of 2022. Following projected growth of 5.3 per cent in 2022, real GDP in Edmonton is forecast to grow by two per cent in 2023, and on average annually between 2023 and 2027. Population growth is expected to support economic growth in 2023 and over the medium term as stronger than expected migration in-flows normalise to pre-pandemic levels. In 2023, the construction, agriculture, accommodation and food services, and utilities sectors are expected to see comparatively stronger real GDP growth rates.

Growth Forecast, Select Indicators - Edmonton



Sources: Alberta Treasury Board and Finance, City of Edmonton, and Stokes Economics;

Note: "e" = estimate; "f" = forecast.

Labour Market

The forecast for the Edmonton CMA's labour market was revised to reflect more moderate employment growth in response to economic headwinds in 2023, including higher interest rates and stubbornly high inflation. Employment in the Edmonton CMA is forecast to grow 2.1 per cent in 2023, and average annual growth of 1.9 per cent between 2023 and 2027. The region's labour force is expected to continue to grow generally in-line with employment growth in 2023 and over the 2023-27 period. The unemployment rate is expected to average 6.1 per cent in 2023, and average 5.9 per cent between 2023 and 2027.

Since the onset of the pandemic, the performance of employment by sector has been uneven, with some sectors performing stronger than others as public health measures were lifted. Employment in many service sectors, particularly accommodation and food services, rebounded much more quickly than in most goods-producing sectors in 2021. However, in 2022, with much higher commodity prices and continued strength in housing demand, employment in the oil and gas, manufacturing, and construction sectors started to gain steam. In 2023, employment growth is forecast to be strongest in the following sectors: other personal services (6.8 per cent); business, building and other support services (5.4 per cent); information, cultural, and recreation (4.3 per cent); construction (3.9 per cent); and accommodation and food services (3.3 per cent).

Inflation

In 2020, the effects of the pandemic limited consumption of goods and services, which led to weaker price growth. As economies reopened, consumer demand overwhelmingly returned, putting significant pressure on global supply chains and energy markets that had only recently been forced to adjust to a pullback in consumption. These gathering pressures translated into price pressures for consumer goods, which grew through 2021 and 2022, and recently, price pressures for consumer services. Rising prices have not been confined to consumer goods and services. A combination of increased demand for new homes, supported by low interest rates through 2020 and 2021, and supply chain disruptions that led to higher prices for materials and equipment in the construction sector have been pushing building construction prices higher in the Edmonton CMA.

The forecast for consumer inflation was revised higher for 2022 and 2023 relative to the May 2022 forecast update. After an estimated annual average rate of 6.4 per cent in 2022, consumer inflation in the Edmonton CMA is forecast to ease in 2023 to average 3.9 per cent, followed by an average of 2.1 per cent in 2024. The forecast assumes that higher interest rates will slow consumer and business demand starting in 2023 as the higher cost of

borrowing starts to become more apparent in purchasing decisions, which should help to ease price pressures.

Population

Edmonton's population is expected to continue growing, with relatively stronger growth in the short term as migration in-flows normalise to pre-pandemic levels. In recent quarters, net in-migration to Alberta has been strong, which is likely benefitting Edmonton as well. As a result, Edmonton's population growth rate forecast was lifted for 2022 and 2023, to 2.6 per cent and 2.4 per cent, respectively. Over the medium term, population growth is expected to moderate, averaging an annual rate of two per cent between 2023 and 2027. Net international migration, as well as natural increase (i.e., births minus deaths), are expected to be the most significant contributors to Edmonton's population growth.

Residential construction

Housing starts in Edmonton have outperformed expectations since the pandemic's onset, with year-over-year gains in 2020 and 2021. Lower interest rates, a growing desire for more space, and a slower response in existing home supply were factors that supported the demand for new homes. Following an estimated year-over-year gain of 26.1 per cent in 2022, a combination of higher interest rates increasing carrying costs for ownership and higher building costs are expected to weigh on new housing demand. Stronger than expected net migration may help to boost household formation and provide support for housing demand; however, on balance, annual housing starts in 2023 and over the medium term are forecast to be lower than in 2022.

Key risks to the outlook

A strong performance in 2022 put the economy on solid footing for 2023. Even though Edmonton's economy is forecast to grow in 2023 and over the medium term, there are risks that may impact Edmonton's performance. Key risks to the outlook include:

- Higher than forecast consumer inflation should any of the following occur:
 - Stronger wage increases due to employee demand for inflation compensation and/or increased competition for labour;
 - China's lifting of Covid-19 containment measures boosting the demand for goods and services globally; and/or
 - Supply chain disruptions taking longer to resolve, especially with the Russian invasion of Ukraine unresolved and the spread of Covid-19 through China as they abandon their zero-Covid policy.
- Stronger commodity prices and a corresponding stronger Alberta economy relative to other provinces could lead to more international and inter-regional migration

inflows to the city, leading to higher consumption and construction, including housing starts.

The fall 2022 forecast summary tables for Edmonton and the census metropolitan area can be found [here](#).