

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

City of Edmonton

Q2 2020 Economic Update

Office of the Chief Economist

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Key Takeaways

- With the COVID-19 pandemic, Edmonton's economy is now expected to contract by 5.7 percent in 2020, followed by growth of 3.9 percent as the economy pivots to recovery mode.
- The labour market in Edmonton is anticipated to lose about 30,000 positions in 2020, a revision of about -40,000 from the fall 2019 forecast.
- Risks to the outlook for Edmonton are more weighted on the downside with a protracted and uneven road ahead for recovery. A return to pre-COVID levels is not expected until 2022.

1. Introduction

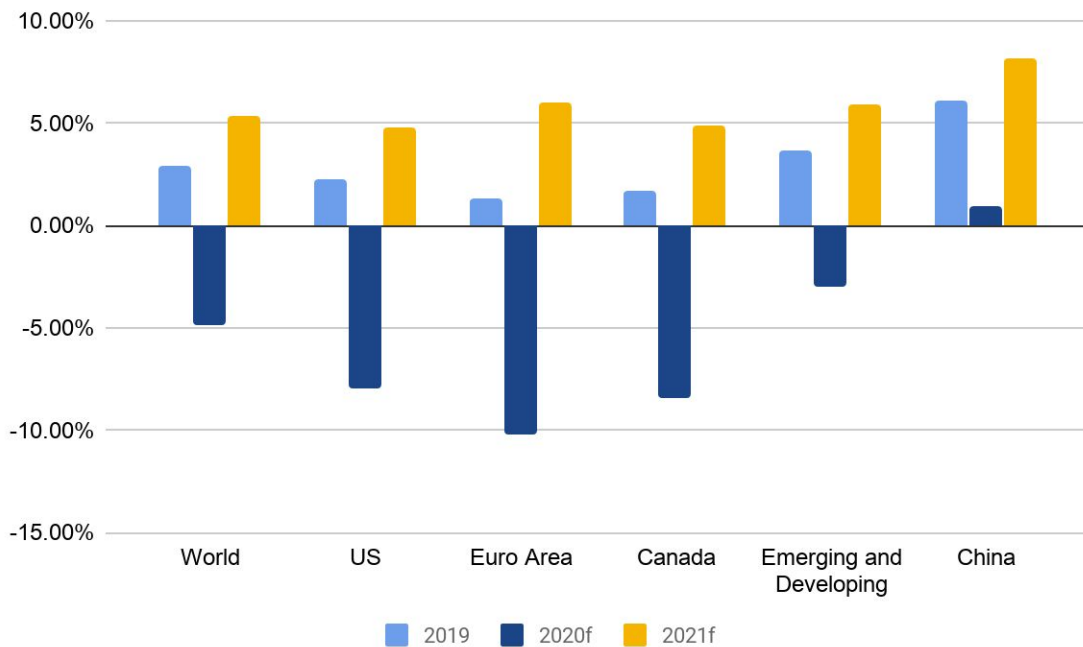
The COVID-19 pandemic has presented health, economic, and social challenges that have impacted economies worldwide in an unprecedented way. Over the course of the last 15 years, Canada's economy has encountered three major shocks: the global financial crisis (2007-08), the 2014-15 oil price shock, and now the COVID-19 pandemic. Of these events, the pandemic is having the largest impact. Physical distancing measures introduced in March 2020 to contain the spread of the virus and the temporary economic shut-in that followed have impacted economic activity for both households and businesses. The Government of Alberta's [staged relaunch strategy](#) came into effect on May 14, 2020. At the time of writing, the province is in stage 2 of this strategy.

The City of Edmonton's Chief Economist's Office updates its forecast for Edmonton and the Edmonton census metropolitan area (CMA) twice a year, in the spring and the fall. The City's fall 2019 forecast called for a modest improvement in economic growth and employment for Edmonton and the region, particularly in the manufacturing and construction sectors. However, the spring 2020 forecast was updated to consider the negative fallout of the pandemic on Edmonton's and the region's economies and the downside risks associated with economic recovery in the short- to medium-term. Even though the spring update considers the negative impact of the pandemic, the full economic impact on Edmonton and the region remains unknown due to a lag in the release of data and a lack of details in monthly data releases. Economic data are being closely monitored and will shape the City's expectations of the region's and Edmonton's post-COVID economic recovery in the fall 2020 forecast update.

2. International, National and Provincial Outlooks

According to the International Monetary Fund's (IMF) June 2020 World Economic Outlook Update¹, the global economy is estimated to contract by 4.9 percent in 2020 and then grow by 5.4 percent in the following year. Compared to the April 2020 forecast, the IMF's first outlook that considered the economic impact of the pandemic, growth expectations were downgraded further, largely due to the pandemic having a more severe negative impact on the global economy than previously anticipated. The IMF's June 2020 forecast for Canada calls for a contraction of 8.4 percent in 2020, followed by growth of 4.9 percent in 2021.

Figure 1. IMF June 2020 World Economic Outlook, real GDP growth rates



Source: International Monetary Fund's June 2020 World Economic Outlook

There is a great deal of uncertainty with all economic outlooks available, with many forecasters adjusting their expectations more frequently than usual. The economic toll of the pandemic will depend on factors including the effectiveness of containment measures and how long economies are effectively shut-in. At the same time, growth expectations following this economic fallout are contingent on factors like the pathway of the pandemic, the intensity and effectiveness of containment efforts, the extent of supply disruptions and the tightening of global financial market conditions. These factors are very difficult to predict, which adds additional uncertainty to an already heightened climate. In addition, the impacts

¹ For additional information on developments in the global economy see the [International Monetary Fund, World Economic Outlook Update](#)

of changes in consumer spending patterns, behaviours (e.g. avoiding public spaces), and confidence need to be considered related to economic recovery. The speed and depth of government responses have been critical to recovery, especially direct financial supports to households (e.g. [Canada Emergency Response Benefit](#)) and businesses (e.g. [Canada Emergency Wage Subsidy](#)). However, these supports cannot continue forever, leaving uncertainty about the implications will be on the economy and subsequent recovery path once these supports end.

Because of the currently elevated levels of uncertainty, the Bank of Canada opted to focus on a central scenario for economic growth in their July 2020 Monetary Policy Report as opposed to a projection. In this scenario, the Canadian economy is expected to contract by 7.8 percent in 2020. Based on the Bank's growth expectations under this central scenario, the Canadian economy will not return to pre-COVID levels until 2022².

The economic impact of the pandemic on resource-based provinces is arguably more pessimistic across Canadian provinces due to low and volatile oil prices. Stokes Economics' April 2020 forecast for the Alberta economy, which was used to inform the economic outlook for Edmonton and the region, called for a 6.7 percent contraction in real GDP in 2020, followed by growth of 4.7 percent in 2021. There is a wide range of predictions for Alberta's economy in 2020 across Canada's five largest banks with the depth of economic contraction ranging from 7 to 10.1 percent. Other outlooks agree that Alberta will be hit hard this year but the degree of the net negative impact, much like at the national level, varies across outlooks. Either way, the contraction in 2020 is expected to be sharp, about equivalent to the 2015/16 recession but rolled into a much shorter time frame.

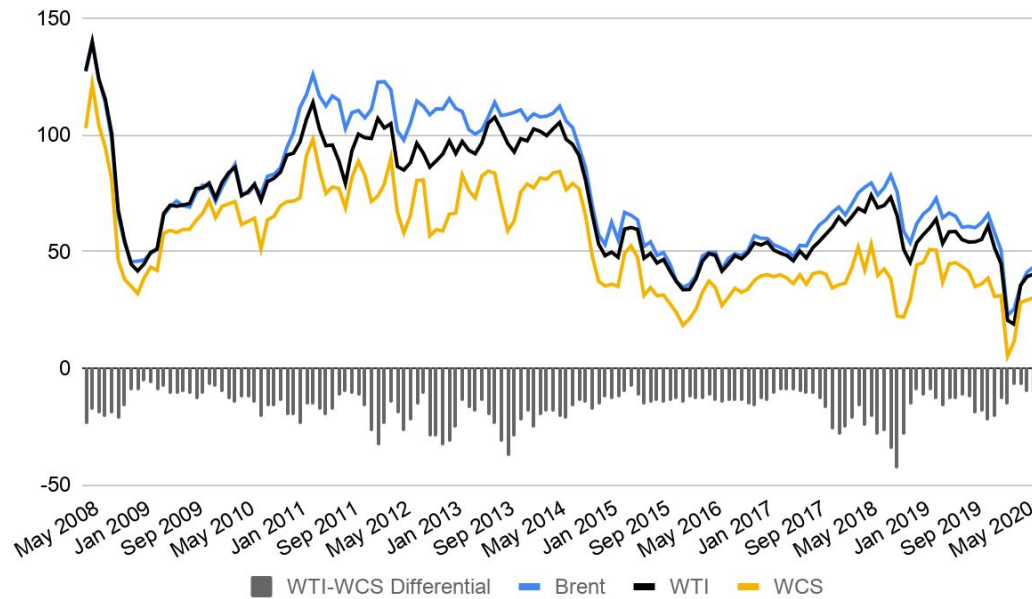
3. Energy Prices

Less consumer spending has reduced the demand for oil, especially considering travel advisories in place that discourage non-essential travel and advise to stay at home as much as possible. In addition, a brief price war between Russia and Saudi Arabia in March and April 2020 resulted in expectations that additional supply would be added onto the market, driving down oil prices. Oil prices suffered, with the price of West Texas Intermediate, the North American benchmark price, sinking from an average of US\$61.06/bbl (per barrel) in December 2019 to US\$18.84/bbl in April 2020. Western Canadian Select, the price that Alberta oil producers receive, dropped from an average of US\$38.57/bbl in December 2019 to US\$5.08/bbl in March 2020. In July, the average price of Western Canadian Select had

² [Bank of Canada's July 2020 Monetary Policy Report](#)

partially recovered to US\$30.19/bbl, whereas WTI was US\$40.27/bbl per barrel. It is important to note that production cuts played a part in this price recovery. Given that the mining, quarrying, and oil and gas extraction sector accounted for 16.2 percent of Alberta's economy in 2019, the low price of oil and sustained low price for natural gas present an additional challenge to the province's economic recovery post-COVID.

Figure 2. Oil Prices, USD



Source: Bloomberg

4. Interest Rates

Prior to the COVID-19 pandemic, the BoC maintained a rate target of 1.75 percent since 2018. The Bank of Canada lowered its target rate by 50 basis points three times in response to COVID-19's impact on the Canadian economy as well as the sharp drop in oil prices. In the Bank of Canada's July 2020 Monetary Policy Report, the Bank indicated that it will keep rates low until the economy is back at full capacity and inflation is closer to the two percent target, with the intention of providing Canadians confidence that rates will remain low for a while. Consequently, short-term interest rates are unlikely to rise for the foreseeable future. Long-term interest rates are expected to be much lower, with forward markets anticipating a very gradual increase in long-term rates beginning in 2021 from very low levels in 2020 (see Table 1).

Table 1. Canadian Interest Rates

		Canada Bond Yield	
		5-Year	10-Year
Actual	2009	2.77	3.61
	2010	2.42	3.12
	2011	1.28	1.94
	2012	1.38	1.80
	2013	1.94	2.76
	2014	1.34	1.79
	2015	0.73	1.39
	2016	1.11	1.72
	2017	1.87	2.05
	2018	1.89	1.97
	2019	1.69	1.70
Forward	2020	0.35	0.56
	2021	0.39	0.65
	2022	0.46	0.75
	2023	0.55	0.84

Rates for December 31 of each year.

Forward rates as of August 5, 2020

Source: FWCV function on Bloomberg

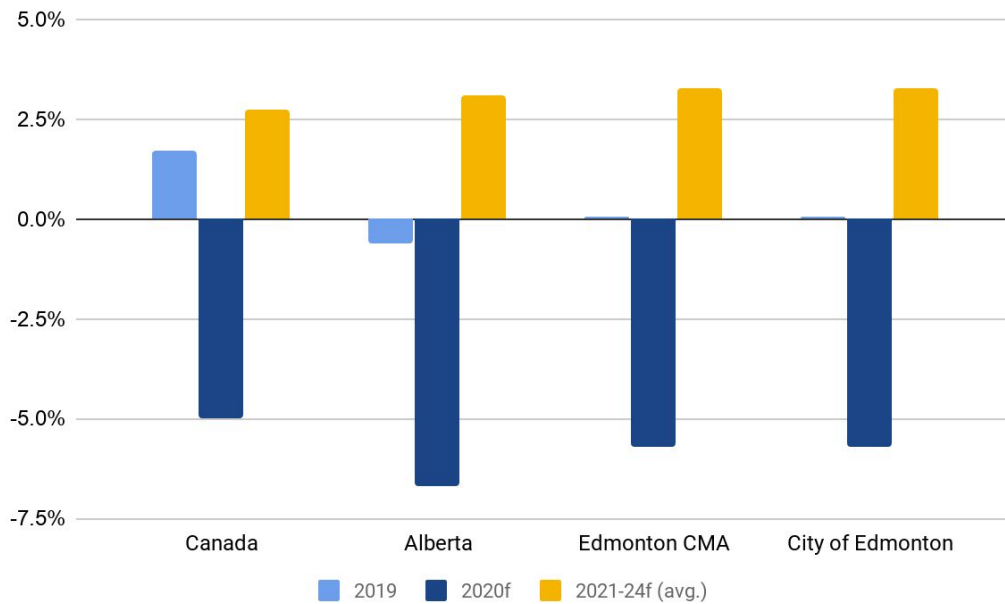
5. Economic Outlook for Edmonton and the Region

Economic growth rates for the city and the Edmonton CMA for 2020 were cut in the spring 2020 forecast update. The spring 2020 forecast calls for an economic contraction of 5.7 percent for both the city and CMA. This forecast assumes the provincial and national economies contract by 6.7 percent and five percent, respectively, in 2020. Within Edmonton, the largest relative drops in real gross domestic product (GDP) are anticipated to be in the

sectors of construction (-14.8 percent), accommodation and food services (-8.9 percent), and finance, insurance and real estate (-8.8 percent).

With the exception of health and social services, and public administration, all other sectors are expected to contract in 2020. Relative to 2019 levels, Edmonton's economy is not expected to recover from the COVID-19 pandemic until early 2022. By then, all sectors with the exception of construction, educational services and health and social services are expected to recover to 2019 levels. Between 2021 and 2024, the city's economy is expected to grow by 3.3 percent annually (see Figure 3). A summary of key forecast indicators for Edmonton and the region can be found [here](#).

Figure 3. Medium- to long-term real GDP growth (percent)



Source: Bank of Canada, Statistics Canada, City of Edmonton and Stokes Economics

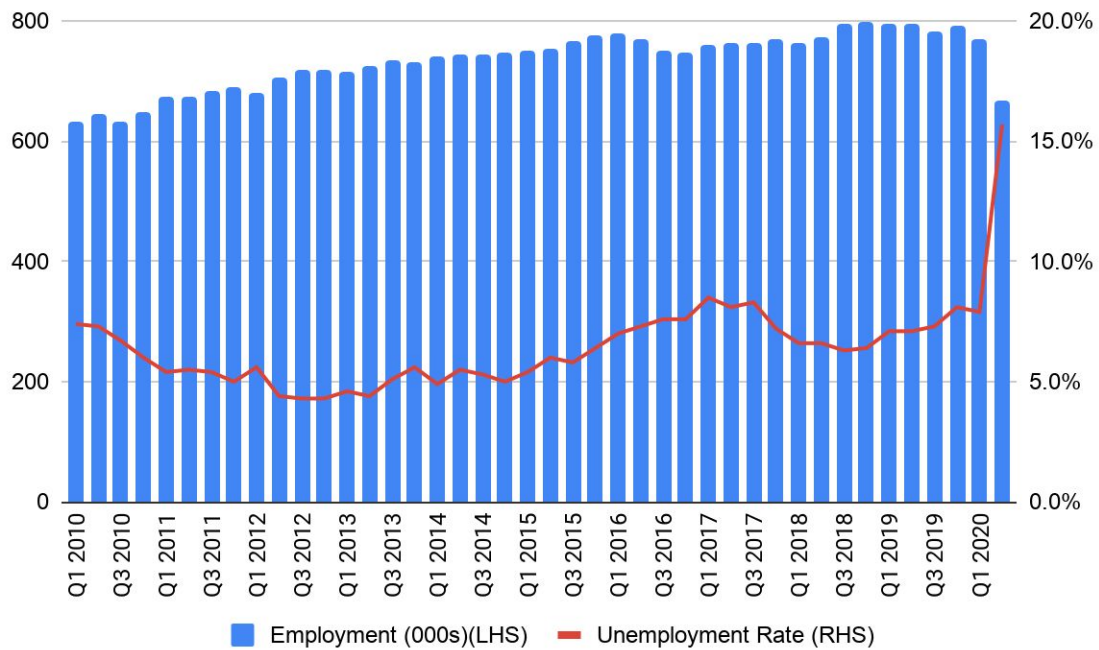
5.1 Employment in the Edmonton CMA

Monthly employment in the Edmonton CMA began to drop in March as the pandemic set in, containment measures were introduced and the local economy was effectively shut-in. The province's relaunch strategy came into effect on May 14, 2020, and labour force data reported in June and July 2020 exhibited more positive signs that a recovery was underway. However, given the severity of the pandemic's negative impact on Edmonton's labour market, the road to recovery is expected to be gradual and uneven.

It is important to note that labour force data for the Edmonton CMA are three-month moving averages due to small sample sizes for Statistics Canada's labour force survey. This presents a challenge when trying to estimate the impact of the COVID-19 pandemic on Edmonton's labour market as it unfolded over a short period of time. Between February, the month preceding the beginning of the pandemic, and May, the month in which the provincial relaunch strategy came into effect, employment in the Edmonton CMA had lost 114,100 positions, with broad-based losses across a majority of sectors. Over that same period, the region's labour force shrank by 74,900 individuals which prevented the unemployment rate from a sharper increase in the early months of the pandemic. Between February and May 2020, the unemployment rate rose from 7.8 percent to 13.6 percent.

June 2020 employment estimates in the Edmonton CMA indicated a further month-over-month shedding of positions, though the 8,000 position loss was only a fraction of what was estimated in previous months. That same month, labour force growth had turned positive which was an early indication of recovery. Labour force growth, combined with an employment loss in June, applied upward pressure on the unemployment rate. The region's unemployment rate in June was 15.7 percent, up from 7.9 percent in March and more than double the rate in February (7.8 percent). This represents the highest unemployment rate in the region since comparable data were first available in 2001.

Figure 4. Edmonton CMA employment level and unemployment rate



Source: Statistics Canada (Q1: March, Q2: June, Q3: September, and Q4: December), seasonally adjusted

In the spring update, the employment forecast for the city was revised downwards and now calls for a net loss of 30,000 positions in 2020. That represents a revision of -40,000 positions compared to the fall 2019 forecast. Employment is expected to return to 2019 levels by 2022.

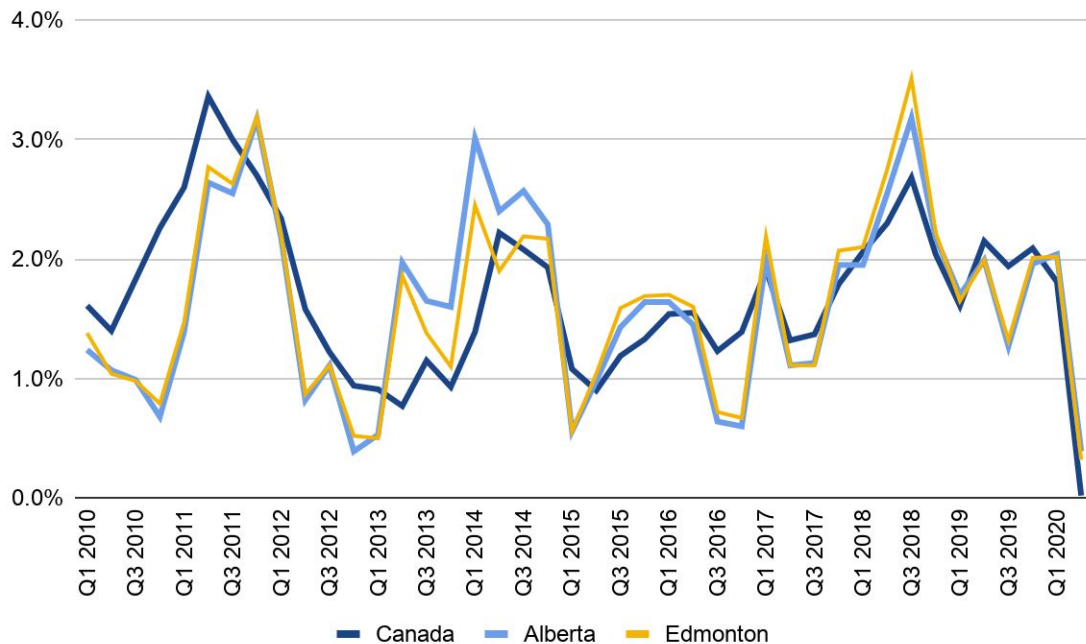
With a loss of about 30,000 positions in 2020, the city's unemployment rate is forecast to reach 11.7 percent, an increase from about 7.7 percent in 2019. The unemployment rate is forecast to drift down slowly over the next several years as the excess slack (that is, an excess of those looking for work relative to employment growth) in the labour market is absorbed as the economy grows.

Job losses are expected to be felt across the majority of sectors, though they will be more concentrated in the construction (25.5 percent of 2020 losses) and trade (21.8 percent of 2020 losses) sectors. Employment in the construction sector is expected to make a slow recovery and return to 2019 employment levels by 2024. The trade sector is anticipated to make a relatively quick recovery, with employment levels in 2021 about on par with 2019. Between 2021 and 2025, total employment is expected to grow by about 2.6 percent annually.

5.2. Inflation

Inflation in the Edmonton CMA, as measured by the Consumer Price Index (CPI), increased by 0.3 percent year-over-year in Q2 2020 (see Figure 5). The monthly rate of inflation in June returned to positive territory after two consecutive months of negative growth, which brought the quarterly average down. Low gasoline prices were one factor holding back inflation in April and May. Since details on inflation in the Edmonton CMA are limited to shelter-related components, trends that held back growth in inflation observed at the provincial level are assumed to also apply to the Edmonton region, including lower prices in the following categories due largely to changes in household consumption; household operations, furnishings and equipment; clothing and footwear; and transportation. The rate of inflation in the Edmonton CMA is expected to increase by an average of about 1.3 percent in 2020. Inflation is not expected to cross the two percent threshold for several years.

Figure 5. Consumer inflation (year-over-year percent change)



Source: Statistics Canada

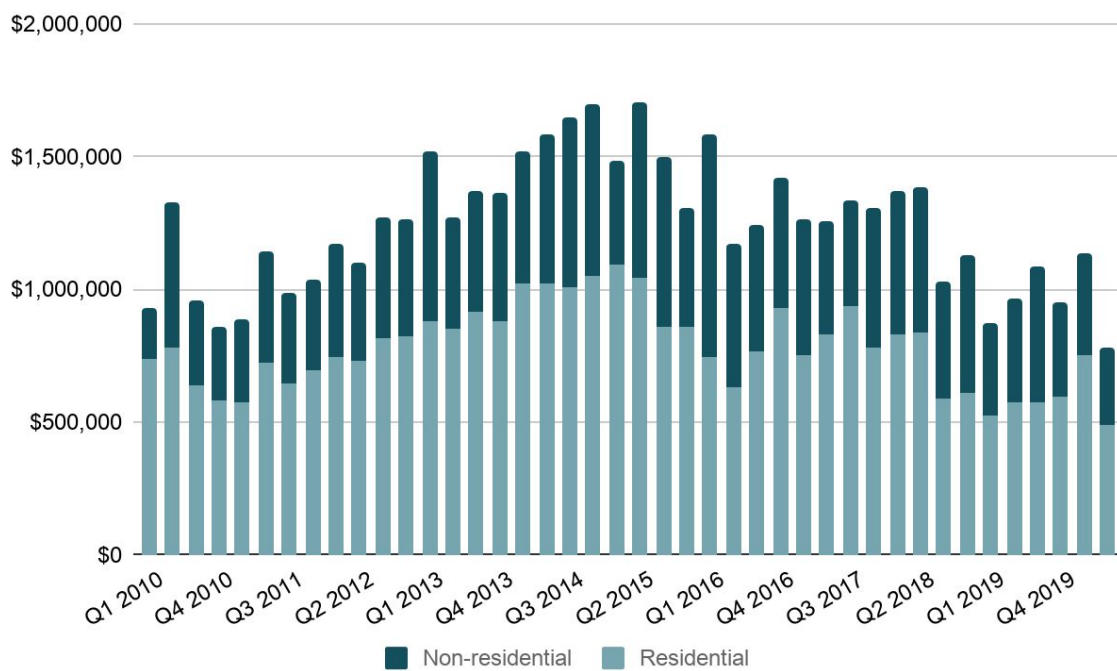
5.3. Building Permits

Construction intentions in the Edmonton CMA for both residential and non-residential structures dropped in value in Q2 2020 in response to the pandemic and containment measures. Intentions were lower in value in Q2 2020 compared to both Q1 2020 and Q2 2019. Residential and non-residential builders in the Edmonton CMA took out permits valued

at about \$782 million in Q2 2020, representing a decline of 31 percent quarter-over-quarter and almost 19 percent year-over-year (see Figure 6).

The Q2 2020 reduction in construction intentions largely reflects significant cuts in building permit values in April and May as June data suggest a bounce back, likely in response to the province’s staged relaunch plans.. Looking ahead, the outlook for construction activity in the Edmonton CMA is weaker than previously expected.

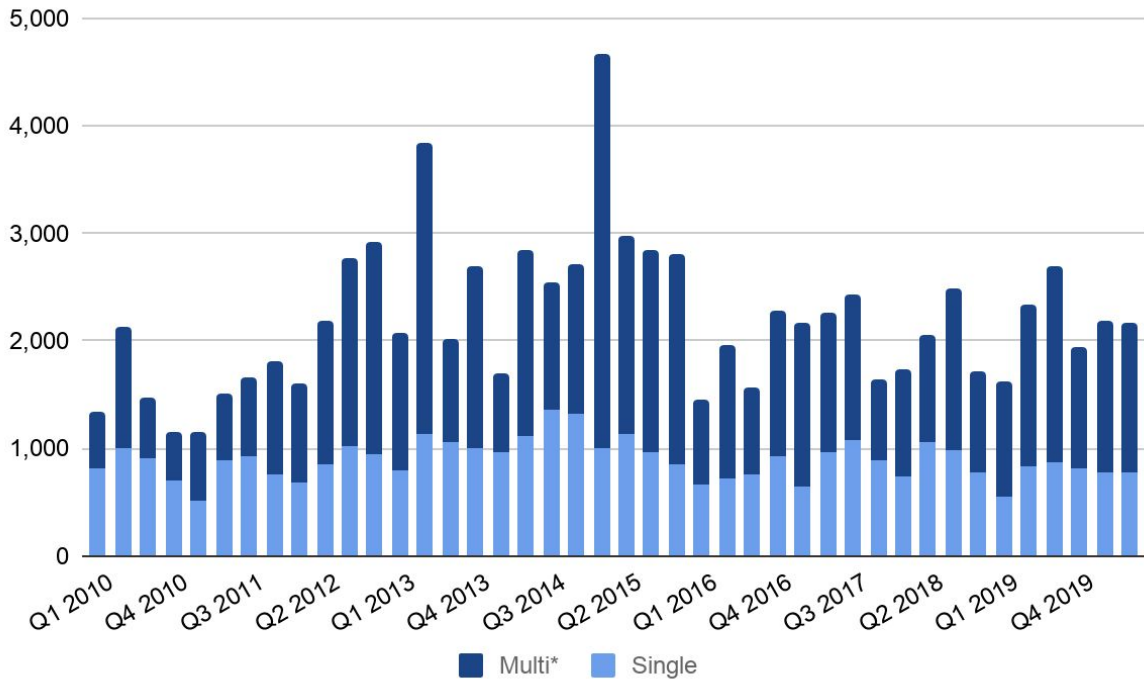
Figure 6. Edmonton CMA building permit values



Source: Statistics Canada, seasonally adjusted

5.4. Housing Starts

Builders in the city of Edmonton broke ground on 2,167 housing units in Q2 2020, a decline of 7.6 percent year-over-year (see Figure 7). Single-family housing starts production slowed by 8.2 percent year-over-year in Q2 2020 with double-digit year-over-year reductions in both May and June 2020. A total of 1,397 multi-family starts broke ground in Q2 2020, down 7.2 percent year-over-year. Multi-family starts include semi-detached, row and apartment units. The decline in Q2 2020 multi-family starts was primarily due to lower production for semi-detached and row units.

Figure 7. Edmonton housing starts (units)

Source: Canada Mortgage and Housing Corporation

The reduction in housing starts data in Q2 2020 indicate the response in construction activity to the COVID-19 pandemic, as well as the economic shut-in from late-March to mid-May 2020. Looking ahead, the outlook for new housing construction in the city of Edmonton has been reduced considering the COVID-19 pandemic. The spring forecast calls for housing starts to come down to about 6,000 units, representing a decline of almost 31 percent year-over-year.

It is important to note that housing starts in Edmonton were already expected to decline in 2020 due to the expectation of builders scaling back activity in order to manage their inventory. Though the full impacts of the pandemic, particularly on real estate, will take fuller shape as economic data are released in the coming months, the key drivers of housing demand such as full-time employment and income growth will be negatively affected.

6. Risks to the Economic Outlook

While the Edmonton and regional economies are expected to significantly contract in 2020, the contraction is expected to be more concentrated in the second quarter. Though economic data from June onward provide some indication that a recovery is underway, the

Edmonton city and region's economic recovery depends on a multitude of factors, many of which are difficult to predict such as how and when business and household activity will rise back to pre-COVID levels.

There is considerable downside risk to Edmonton's (both city and region) economic recovery given a heightened level of uncertainty. Risks to the outlook are concentrated in the following areas:

- Oil prices - should oil prices remain low or fall even further, this would discourage future investment in the oil and gas industry and negatively affect provincial government revenues and spending. Both would have a negative impact on recovery in sectors such as manufacturing, professional services, and the broader public service (includes the educational services, health and social services, and public administration sectors).
- Confidence - should business confidence be slow to return, employment and investment in the Edmonton area will be impacted, holding back the pace of economic recovery post-COVID. On the consumer side, a slow recovery in confidence would reduce consumer spending, impacting the services-producing sector (including trade, real estate, and personal services). If oil prices remain low, this risk is more likely to materialise as business and consumer confidence in Alberta is generally assumed to be influenced by the price of oil.
- Geopolitical tensions - the COVID-19 pandemic has raised concerns about health and safety, as well as questions related to the risks and vulnerabilities of economies due to globalisation. If relationships between Canada and other countries, including China, deteriorate, there is a risk of introducing more tariffs and/or other protectionist policies. This would negatively impact exports in Canada, Alberta and Edmonton and may apply upward pressure on the price of imported goods and services. One example is the recently announced 10 percent tariff on select Canadian aluminum products that will come into effect (again) on August 16 by the United States.