Quarterly Economic Update
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Economic Forecasting and Analysis

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Overview

Employment in the Edmonton census metropolitan area (CMA) saw relatively strong growth in the latter half of the 2010s, recovering all jobs lost following the 2014 drop in oil prices by mid-2018. Employment growth in Edmonton for 2019 was modest, with gains of 1.1 per cent overall compared to 2018. Real gross domestic product (GDP) growth for 2019 was estimated to be in the range of 0.5 per cent for the city of Edmonton. This is expected to increase to the range of 1.4 per cent in 2020.

Average weekly wages in the Edmonton CMA were relatively unchanged in Q4 2019 on a year-over-year basis, reflecting weakness in full-time employment compared to previous quarters in 2019. Inflation, as measured by the Consumer Price Index (CPI), averaged two per cent during Q4 2019. After adjusting wages for inflation, average weekly wages in Q4 2019 were 2.3 per cent lower year-over-year.

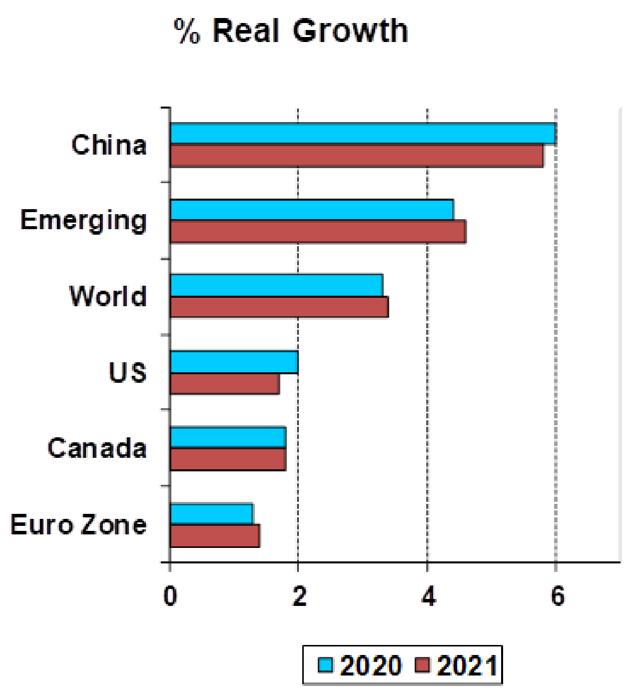
Growth in 2020 is expected to marginally improve as the economies of the province and the city continue to recover; this is assuming West Texas Intermediate (WTI, the North American benchmark oil price) holds within the $US 50 – $US 60 range. Growth rates, however, will be very modest when compared to those experienced between 2010 and 2014.

Downgraded growth prospects for the global economy and continuing uncertainty as to the expansion of energy export infrastructure will mean that Canadian energy prices are likely to be volatile in 2020. Despite improvements in prices in the fourth quarter of 2019, there are downside risks with respect to the energy prices that Alberta producers receive. This could have negative implications on the economic outlook for the city of Edmonton, Edmonton CMA and the province of Alberta.

Global and North American Developments

According to the International Monetary Fund's (IMF) January 2020 World Economic Outlook Update[1], the global economy is estimated to have grown by 2.9 per cent in 2019. Compared to the October 2019 forecast, growth expectations were downgraded, largely due to more subdued growth predicted for India's economy. The IMF cited trade policy uncertainty and geopolitical tensions as factors that weighed on global economic activity in 2019. However, the IMF also noted the continuation of easing monetary policy in several economies during the second half of 2019, which should provide more support to a recovery in global activity in 2020. The IMF forecasts global growth in 2020 to be in the range of 3.3 per cent, followed by growth of 3.4 per cent in 2021 (see Figure 1).

Figure 1 – Percent Real GDP Growth



Source: International Monetary Fund, January 2020

After solid growth in 2018 of 1.9 per cent and surprisingly strong growth in the second quarter of 2019, the Canadian economy is estimated to have slowed to a pace of approximately 1.6 per cent growth in 2019, according to the Bank of Canada[2] (BoC).

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[1] For additional information on developments in the global economy see the International Monetary Fund, *World Economic Outlook Update* https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020
[2] For additional information on developments in the Canadian economy see Bank of Canada, *Monetary Policy Report – January 2020* at https://www.bankofcanada.ca/2020/01/mpr-2020-01-22/

Canadian growth is expected to hold at 1.6 per cent in 2020, supported by strengthening domestic demand.

Prospects for Alberta in 2020 are expected to moderately improve with many commentators citing increased activity in the energy, construction, and manufacturing sectors driving expansion in the province. Growth, as projected by ATB[3], is expected to be 0.9 per cent in 2020, following a lacklustre performance of 0.4 per cent growth in 2019. While global growth is boosting demand for commodities, uncertainty remains regarding oil transportation issues in Alberta. This could further dampen investment and weigh against growth prospects for both Alberta and Edmonton over 2020.

Energy Prices

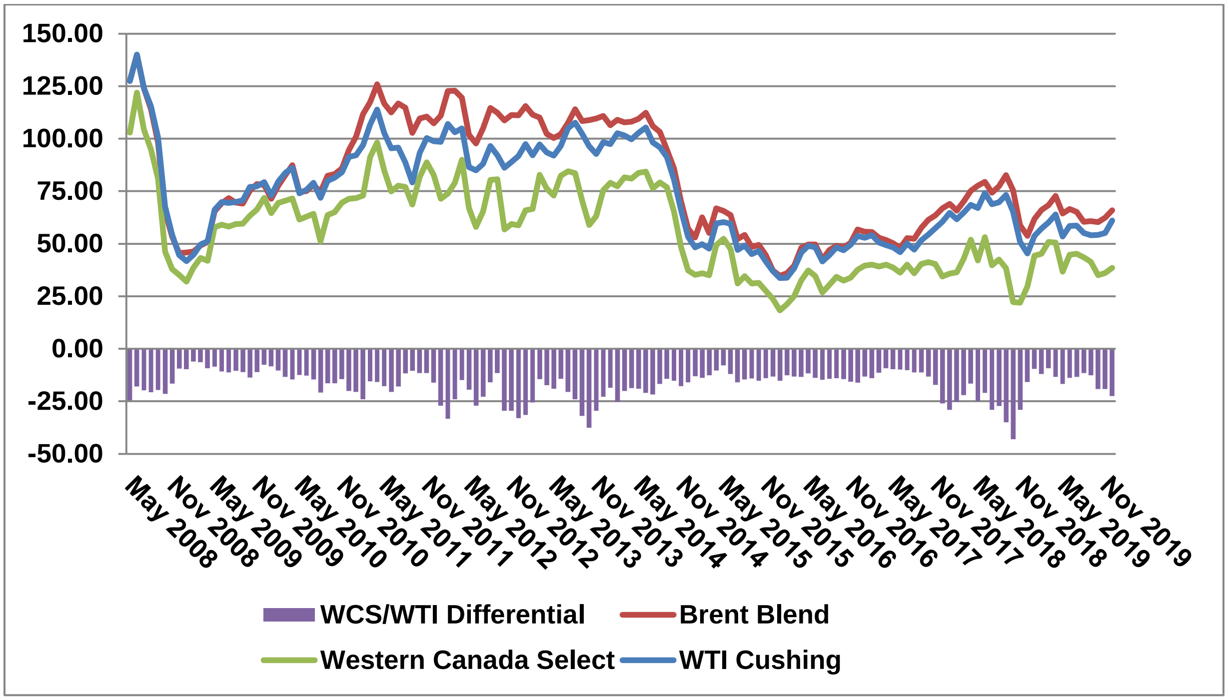
The US benchmark oil price (WTI) made a significant recovery after bottoming out below US$ 30 per barrel in February 2016, reaching almost US$ 70 per barrel in August 2018. However, with US and Canadian oil production rising, North American oil prices have retreated from mid-2018 highs and are expected to hold around the US$ 55 to US$ 60 range throughout 2020. In 2019, WTI averaged US$ 57 per barrel.

As shown in Figure 2, the discount between WTI and Western Canadian Select (WCS) – the Alberta benchmark price – widened significantly in late 2018 due to constraints in the North American pipeline system and maintenance outages at key refineries which process Alberta's oil. In response, provincial production limits were introduced at the start of 2019 which helped to reduce the differential. The limits have since eased; however, they are expected to remain in place throughout 2020. The WCS-WTI differential in Q4 2019 averaged US$ 20.24 per barrel, an almost 31 per cent reduction year-over-year. As for natural gas, Alberta prices have been depressed and very unstable as North American supplies continue to grow.

The implication for the Edmonton CMA and Alberta is that investment activity in the energy sector will be muted, resulting in limited growth prospects over the medium term, particularly for manufacturing, logistics and professional services.

[3] For additional information on the outlook for the Alberta Economy see ATB Financial, *Alberta Economic Outlook – December 2019* at: https://www.atb.com/company/news/releases/outlook-dec-2019/

Figure 2 - Oil prices, $US per Barrel



Source: Bloomberg

Interest Rates

The BoC has maintained a rate target of 1.75 per cent since 2018. Though the BoC's growth forecast of 1.6 per cent for 2020 is unchanged from their estimations for 2019, they still expect the Canadian economy to gradually strengthen in 2020, largely driven by stronger domestic demand. Consequently, short-term interest rates are unlikely to rise in the first quarter of 2020 as economic growth picks up from the slower rates observed in the last quarter of 2019.

Following a cut in 2020, long-term interest rates are expected to be flat, with forward markets anticipating a very gradual increase in long-term rates beginning in 2021 (see Table 1). In response to the US economy's rapid expansion in 2018, the US Federal Reserve Board (FED) raised its target range for the Federal Funds rate to between 2.25 per cent and 2.5 per cent. However, with the US economy slowing and concerns regarding international trade disputes, the FED has reduced its policy rate three times during 2019, including a cut in October 2019.

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	1.29	1.34
	2021	1.29	1.36
	2022	1.29	1.39
	2023	1.29	1.43

Rates for December 31 of each year.
Forward rates as of January 29, 2020.
Source: FWCV function on Bloomberg

Current Developments in the City and Edmonton CMA

The Edmonton CMA's economy slowed in every quarter of 2019. The last quarter of 2019 saw inflation and housing starts rise, while employment and building permit values declined. Each of these indicators is discussed in greater detail in the following sections. As well, consumer bankruptcies were higher in Q4 2019 year-over-year, reflecting challenging economic conditions.

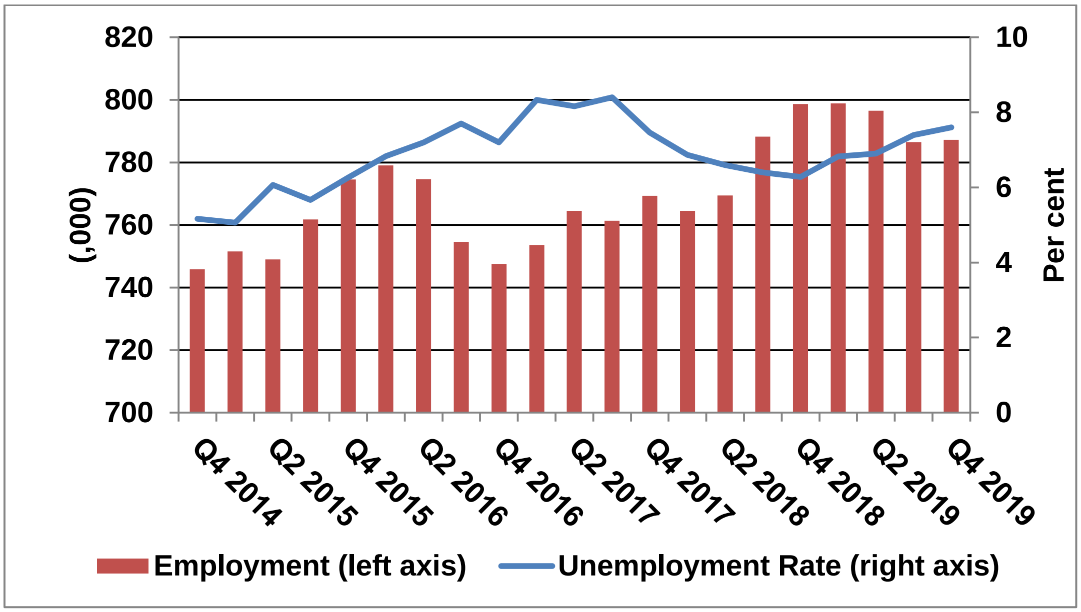
Employment in the Edmonton CMA

Employment in the Edmonton CMA was down year-over-year by approximately 11,400 positions in Q4 2019 (see Figure 3). Good gains in the trade, logistics and manufacturing sectors were more than offset by losses in public administration, business, building and other support services and educational services.

Job losses in the Edmonton region were concentrated in full-time positions as part-time employment gained 2,900 positions year-over-year in Q4 2019. Full-time employment started to show signs of weakness in September 2019, resulting in slower growth in average weekly wages. Average weekly wages in Q4 2019 were 0.4 per cent lower year-over-year.

Employment in Edmonton is expected to grow by one per cent in 2020, with renewed growth in the professional services sector and continued growth in the manufacturing and trade sectors. However, the unemployment rate is unlikely to move much lower than the seven per cent range as employment growth will likely be closely met by growth in the region's labour force.

Figure 3 – Employment in the Edmonton CMA



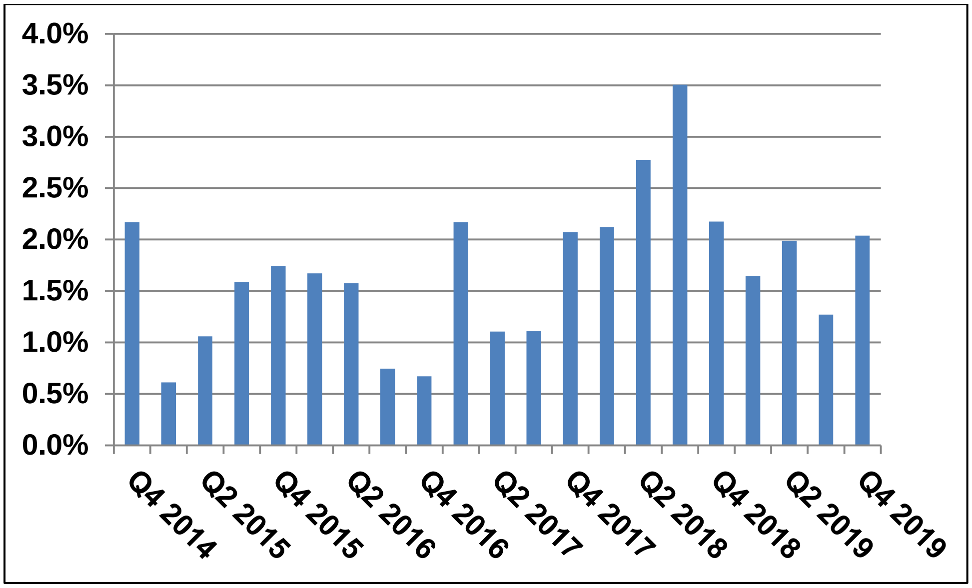
Source: Statistics Canada, Table 14-10-0294-01, seasonally adjusted

Inflation in the Edmonton CMA

Inflation, as measured by the CPI, rose to an average of two per cent in the fourth quarter of 2019 (see Figure 4) due to increased shelter costs and a late year bump in gasoline prices. Inflation finished 2019 approximately 1.7 per cent higher year-over-year, as a result of higher shelter costs, particularly for rented accommodation and water, fuel and electricity costs. Inflation in 2018 was driven higher by gasoline costs; lower costs had the opposite effect in 2019, with year-over-year monthly declines for most of the year.

Inflation in Metro Edmonton is expected to average two per cent in 2020. As labour market conditions improve, and wage growth stabilizes, a moderate level of inflation will help to support consumer spending. Upward pressures on energy costs, particularly gasoline, eased considerably for most of 2019. Energy costs are expected to keep inflation relatively stable in 2020. This includes the possibility that utilities and selected other shelter costs, along with food-related expenses, may rise.

Figure 4 – Edmonton CMA's CPI Inflation



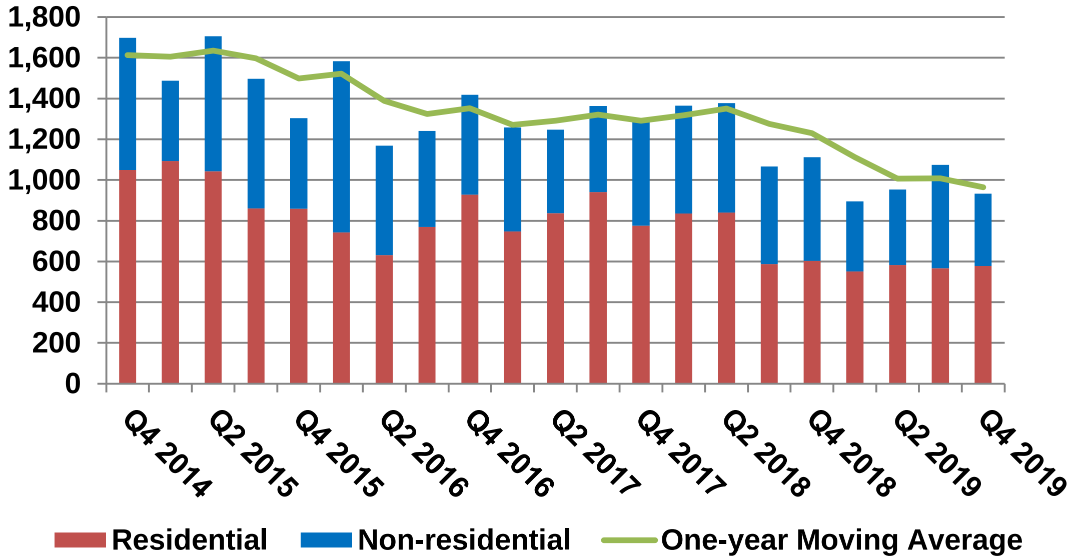
Source: Statistics Canada, Table 18-10-0004-01, not seasonally adjusted

Building Permits

Construction intentions in the Edmonton Census Metropolitan Area (CMA) for both residential and non-residential structures declined in Q4 2019, compared to both the previous quarter and Q4 2018. Reductions were concentrated in non-residential building permit values. Residential and non-residential builders in the Edmonton CMA took out permits valued at about $932 million in Q4 2019, representing a reduction of 13 per cent quarter-over-quarter and 16.2 per cent year-over-year.

Building permit values in 2019 were lower in the Edmonton CMA compared to 2018, dropping almost 22 per cent. Both residential and non-residential building permit values saw double-digit declines on a year-over-year basis in 2019. Despite the significant drop in values on an annual basis, residential building permit values appear to be reaching some stable ground based on Q4 2019 figures.

Figure 5 – Edmonton CMA's Value of Building Permits



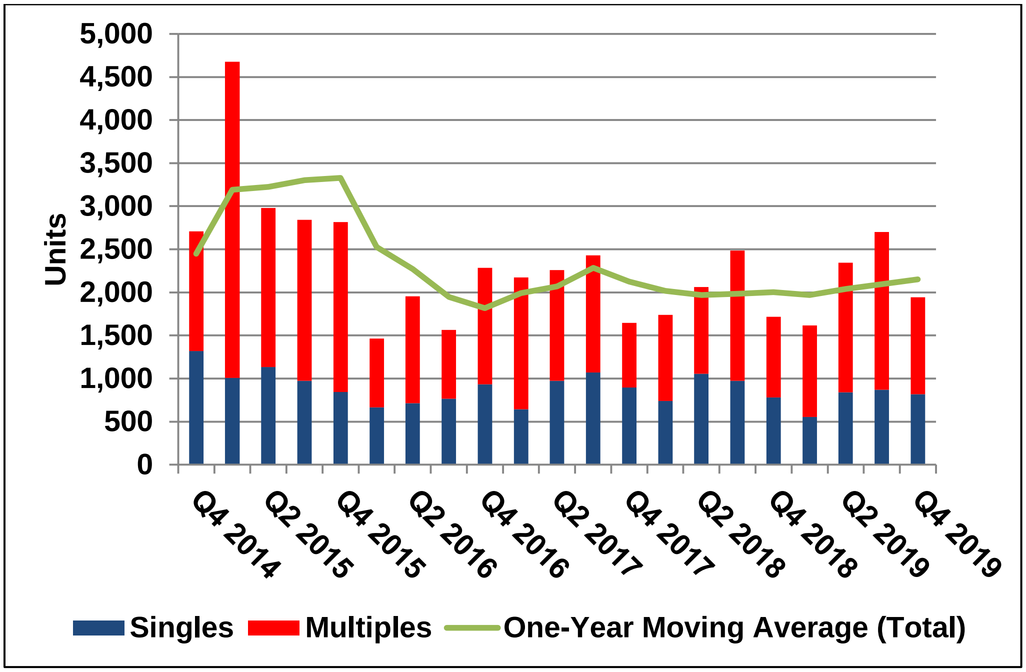
Source: Statistics Canada, Table 34-10-0066-01, seasonally adjusted

Housing Starts

Total housing starts within city limits increased in the fourth quarter of 2019 by 13.1 per cent year-over-year. On a year-over-year basis, single-family housing starts were 4.7 per cent higher in Q4 2019, a first since Q2 2018, while multi-family starts, which include semi-detached, row and apartment starts, were 20.1 per cent higher.

Housing starts in 2019 totaled 8,605 units, 7.5 per cent higher than 2018. Single-family starts were 13.3 per cent lower year-over-year in 2019, largely due to reduced production for the first three quarters of the year. Multi-family starts, on the other hand, finished 2019 24.1 per cent above 2018. The strong gain was solely due to higher apartment production, particularly for rental units. Rental apartment starts reached 1,371 in 2019, more than doubling their numbers in 2018.

Figure 6 - City of Edmonton – Housing Starts



Source: Canada Mortgage and Housing Corporation, not seasonally adjusted

Risks to the Economic Outlook

While growth at a moderate pace is expected to continue, there is considerable downside risk given current market conditions. For Edmonton, these include:

- Oil prices falling again in 2020, causing a severe slump in energy investment and provincial government revenues and spending. This would negatively impact Edmonton's manufacturing, professional services, and logistics sector, as well as the broader public sector, including health care, education, and public administration.
- Consumer confidence faltering with concerns growing over debt and an elevated unemployment rate. Edmonton's housing sector and the consumer side of the local economy would be vulnerable to a reduction in consumer spending.

Summary

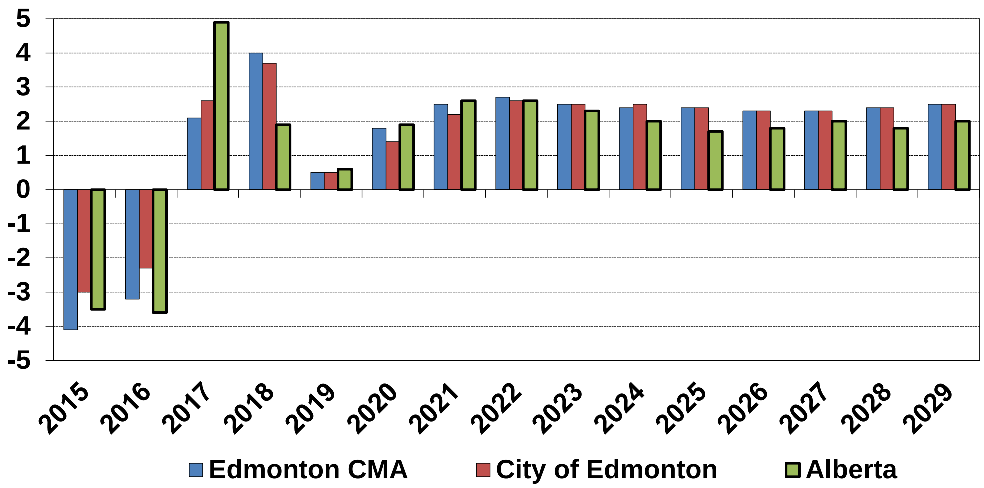
After a solid recovery in 2018, overall economic growth in Edmonton was relatively weak in 2019. However, positive wage growth, combined with continuing population growth, have helped to support retail and other components of both the region's and the city's economies.

Looking forward, growth will continue to be modest by historical standards in the province, the region, and the city. In addition, lower consumer confidence in an environment with higher unemployment and rising insolvencies could have negative implications on the housing market and the consumer side of the economy. Similarly, businesses could face challenges given moderate economic growth expectations.

Inflation-adjusted GDP in the city is estimated to be 0.5 per cent in 2019. In 2020, the city's economy is expected to modestly strengthen, reaching growth of 1.4 per cent. This will be driven by stabilization and some growth in both the manufacturing and construction sectors as the Alberta, regional, and city economies continue on a slow but steady recovery.

Employment will continue to expand in 2020, albeit modestly. The unemployment rate will remain relatively high as the Edmonton CMA's labour force will grow almost as quickly as the employment base. Over the medium term, economic growth for the city and the Edmonton region will accelerate to slightly above two per cent as presented in Figure 7. Growth for Alberta will be slightly slower than Edmonton in the medium term as a result of limited new investment in the energy sector.

Figure 7 – Real GDP Growth, %



Source: City of Edmonton, Stokes Economics