

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

City of Edmonton

November 2021 Forecast Update

City of Edmonton Corporate Economics

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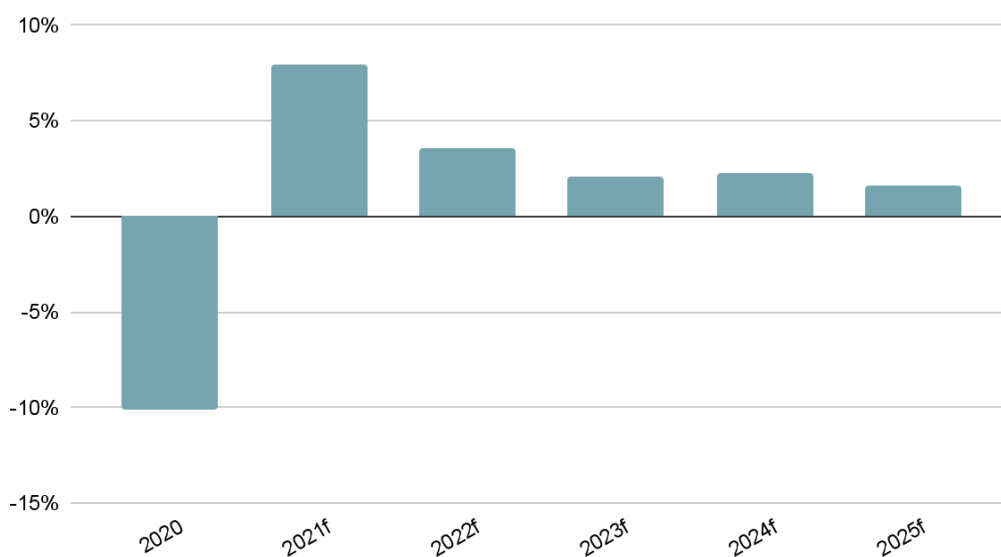
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Stronger than expected rebound lifts 2021 growth rate

Developments since the start of 2021 have confirmed that Edmonton's economic recovery is well underway. Business conditions have been improving, as indicated by Statistics Canada's Real-time Business Conditions Index for Edmonton, which even reached a new peak in August 2021. This suggests that businesses have been resilient and adapted their operations even through new rounds of provincial health restrictions that have been enacted in response to the third and fourth waves of the pandemic. It is worth noting that higher vaccinations and the Restriction Exemption Program have helped to prevent new health restrictions from being as economically impactful compared to the first round of restrictions when the pandemic set in.

After contracting by 10.1 per cent in 2020, real gross domestic product in Edmonton is now projected to grow by 7.9 per cent in 2021. This represents an upward revision from the City of Edmonton's spring 2021 forecast of seven per cent growth in 2021, and is supported by a much stronger and faster rebound in the regional labour market¹ and growth in residential investment. A return to pre-pandemic output levels is expected by the end of 2022. The rate of growth for 2022 was downgraded slightly from 3.8 per cent in the spring forecast to 3.6 per cent in the November 2021 update based on the risk of pandemic-related challenges affecting short-term output growth expectations, like supply chain disruptions.

Edmonton Real GDP Growth



Source: City of Edmonton and Stokes Economics; forecast (f)

¹ As Edmonton's share of regional employment has historically been around 70 per cent, its labour market trends are assumed to broadly follow regional labour market trends.

It will take some time for economic activity to normalise as the pandemic is not yet in the rearview mirror. However, there have been significant improvements in economic conditions compared to one year ago, which have provided businesses and households with increased confidence to resume activity levels to some extent. One reassuring signal on household consumption has been through retail trade sales in the Edmonton census metropolitan area (CMA). After being concentrated in a select handful of subsectors due to the nature of public health restrictions in 2020, sales volumes over the first three quarters of 2021 have not only been gaining year-over-year, but across a wider range of retail trade subsectors.

Labour Market

The regional labour market has performed well in 2021 so far, with regional employment in August and September 2021 above its pre-pandemic level, as measured by total jobs filled. In September 2021, the region's unemployment rate was 8.2 per cent, which was within very close range of its February 2020 rate of eight per cent. Sectors that were hardest hit by public health restrictions over the course of 2020 like accommodation and food services began to recover over the course of the first three quarters of 2021, which helped to accelerate the recovery in part-time work.

Even though the regional labour market's rebound was stronger and faster than initially expected, the recovery remains incomplete in some areas. Across job types, full-time employment is still behind, though the gap from 2019 levels has been consistently narrowing in monthly labour force survey releases since June 2021. Across sectors, employment in some goods-producing sectors like agriculture, construction, and manufacturing as of September 2021 were lower both year-over-year and compared to 2019. Labour market uncertainties, including emerging labour shortages, pose a risk of prolonging the recovery in employment for these sectors. For the balance of 2021, regional labour market conditions are expected to hold relatively steady with growth concentrated in the services-producing sector. In 2022, regional employment levels and the unemployment rate are expected to continue to see improvements, supported by a more pronounced recovery in the goods-producing sector.

Population

Edmonton's population is expected to continue growing over the forecast horizon. The growth rate between 2020 and 2021 was lowered from 1.2 per cent in the spring 2021 forecast to 0.8 per cent. The reduced pace of growth is due to the nature of the pandemic and public health restrictions that limited migration flows, particularly for international migration and temporary residents. Population growth rates beyond 2021 through to 2025

were lifted relative to the spring 2021 forecast under the assumption that net migration will perform slightly better in the short-term to compensate for the pullback between 2020 and 2021. In subsequent years, net migration is expected to then gradually return to more normalised levels. Looking ahead, 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.

Inflation

The pandemic has been causing distortions in consumer-based inflation rates. Throughout 2020, there were significant price disruptions due to changes in consumption. For example, public health restrictions limited the need for travel, which caused a significant pullback in the demand for gasoline, leading to price drops. This resulted in suppressed growth in the Consumer Price Index (CPI) for the Edmonton CMA, including headline consumer inflation even falling into negative territory in April and May 2020. As annualised rates of inflation are calculated over a 12-month period, the disruptions observed in 2020 have led to base-year effects on inflation readings throughout a majority of months in 2021 so far. In addition, a much stronger return in demand from economies reopening has resulted in very elevated upward pressure on inflation through other pandemic-related factors like higher energy commodity prices, supply chain disruptions, and transportation bottlenecks.

The forecast for consumer inflation, based on year-over-year changes in the forecast for the Edmonton CMA CPI, was revised upward in the November 2021 update to average three per cent in 2021 and 2.8 per cent in 2022. Inflation is expected to remain elevated over the balance of 2021, followed by gradually easing price pressures throughout 2022 to a more normalised rate within the two per cent range by the end of that year. In September 2021, the annualised rate of inflation in the Edmonton region was 3.7 per cent, which brought the year-to-date 2021 average rate to 2.5 per cent.

Risks to the Outlook

Despite generally positive signals coming from economic data, there is considerable risk over the near to short-term that could impact Edmonton's economic performance. Risks over this period are largely related to the pandemic with a select few outlined as follows:

- If upward price pressures from pandemic-related supply chain disruptions, transportation bottlenecks, and global energy market imbalances persist for longer than expected, the pace of Edmonton's economic recovery could be held back through lower consumption as households and businesses make trade-offs to accommodate higher prices, and lower economic output for sectors that have to adjust to a higher cost environment.

- There has been emerging evidence of labour shortages for some sectors, like construction and manufacturing. Should these shortages persist, they could weigh on productive capacity.
- If net migration takes longer than expected to return to more normalised levels, this would slow the rate of population growth, reduce the support for housing demand, labour force growth, and household consumption.

Note: This forecast was finalised before the Omicron variant was discovered, along with the devastating flooding in British Columbia. While the impact of these two significant developments are unknown at this time, they risk complicating Edmonton's economic recovery over the short-term and warrant close monitoring.

The November 2021 forecast summary tables for Edmonton and the region can be found [here](#).