Q2 2017: Edmonton's renewed employment growth and low inflation help sustain economy

August 4, 2017

After a very sharp decline in Q3 2016, employment in the Edmonton Census Metropolitan Area (CMA) stabilized in the first half of 2017 and began to expand. However, average weekly wages have eased as the number of hours worked fell and employment in some high-paying sectors, such as manufacturing and construction, declined. With renewed employment growth and very low inflation, disposable income across the Edmonton region will improve, helping to sustain activity in the housing, retail and personal services sectors. As a result, Real Gross Domestic Product (GDP) for 2017 in Edmonton is estimated to be in the range of 1.8%.

In 2018, economic growth should pick up noticeably to the range of 2.5% as the economies of Alberta and Edmonton continue to recover—assuming North American benchmark oil prices return to US$50-55 range. These growth rates, however, will be very modest when compared to the 3.5 to 4.0%% rates experienced between 2010 and 2014.

Moderate growth prospects for the global economy and continuing uncertainty as to OPEC and U.S. oil production levels will mean that energy prices are likely to remain highly volatile. While prices are expected to improve during 2017 and into 2018, a considerable downside risk with respect to energy prices could have negative implications on the economic outlook for Edmonton and Alberta.

Global and North American developments

In the first half of 2017, global economic growth moved forward at a slightly stronger pace.

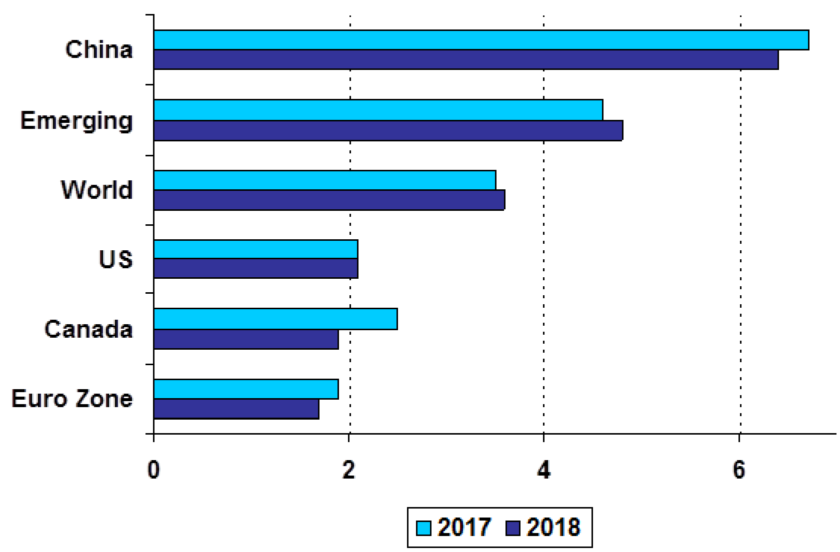
In the United States, housing, income and employment levels continued to rise. Increased export and stronger business investments will form a strong basis for U.S. economic growth that is expected to remain relatively robust into 2018. The new U.S. administration has indicated it wants to sharply reduce corporate income taxes and boost infrastructure spending. If these policies are implemented, U.S. economic growth in 2017 could exceed current expectations.

In spite of risks arising from Britain's proposed exit from the European Union (Brexit), economic activity in the Euro Zone held up well in the first half of 2017. Decreased energy prices and modest but steady employment growth helped boost investment and consumer spending. However, the uncertainty as Brexit negotiations unfold over the remainder of this year and into

2018 as well as ongoing concerns about European financial institutions will limit growth in 2017 to about 1.9%.

After a poor start to 2017, emerging market economies were stronger in Q2 2017 as China, Brazil, South Africa and Russia all grew at slightly faster than expected rates. Financial and housing market conditions in China appear to have stabilized with growth now expected to come in at 6.7% for 2017. However, with continuing low commodity prices, performance in other key emerging markets is unlikely to improve significantly until later in 2017.

The International Monetary Fund expects the global economy to grow at 3.5% in 2017– unchanged from the April 2017 World Economic Outlook report (see the "Percent Real GDP Growth" chart). Global growth will rise in 2018 to 3.6% as the advanced countries accelerate and emerging economies see more robust growth. [1]



Percent Real GDP Growth. *Source: International Monetary Fund*

After a sharp downturn in Q2 2016 resulting from the Fort McMurray fires and oilsands shutdown, growth in Canada rebounded in the remainder of 2016. For 2017 as a whole, economic growth in the country will be at a very respectable annualized rate of about 2.7%.[2]

Prospects for Alberta are improving, with all commentators calling for a recovery in 2017 as levels of activity in the energy, manufacturing and construction sectors expand.[3] Growth for 2017 is expected to be at 2.4% and at 2.5% in 2018.

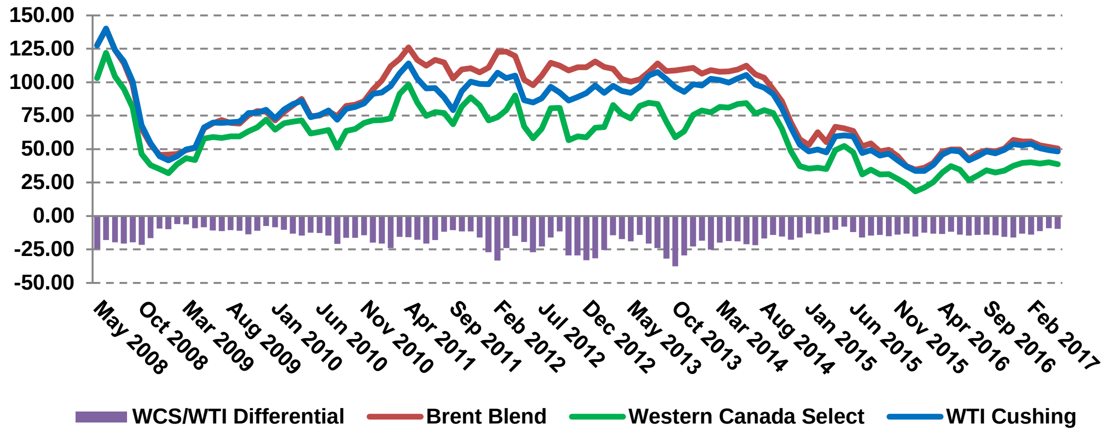
However, the start of renegotiations on the North American Free Trade Agreement increased uncertainty with respect to Canadian export performance could dampen growth prospects for both Alberta and Canada over 2017.

[1] For additional information on developments in the global economy, see the *International Monetary Fund World Economic Outlook Update*, *July 2017*

[2] For additional information on developments in the Canadian economy, see Bank of Canada *Monetary Policy Report – July 2017*.

[3] For additional information on the outlook for the Alberta Economy, see ATB *Financial Alberta Economic Outlook – May 2017*

Energy prices



Oil prices US $ per Barrel. *Source: Bloomberg*

After bottoming below US$30 per barrel in February 2016, the U.S. benchmark oil price (West Texas Intermediate or WTI) has made a significant recovery reaching approximately US$53 per barrel in late January 2017. Since then, oil prices have slipped back and are currently at the US$48 per barrel range. The downturn in oil prices since mid-2014 has been longer and the recovery more modest than that of 2008 to 2010.

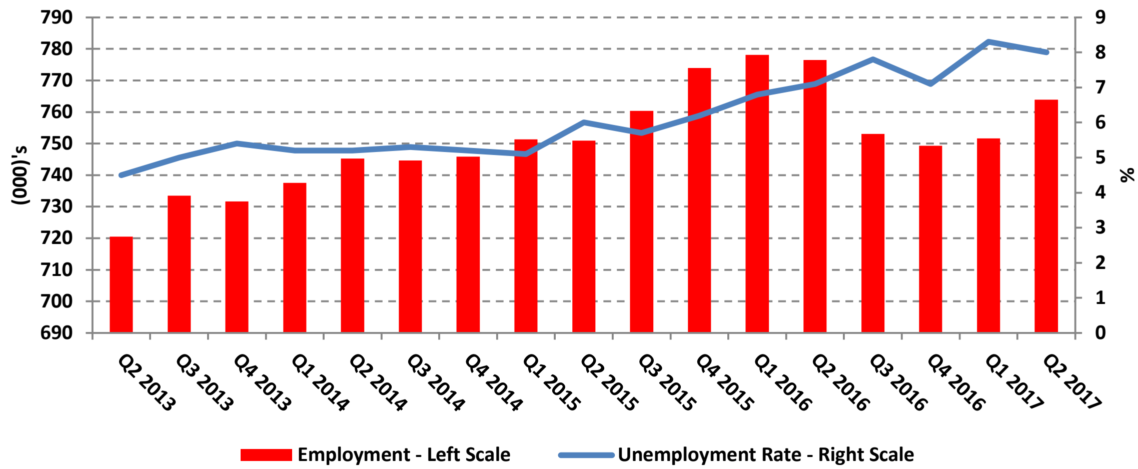
This “lower for longer” trend reflects the difference in key factors behind declined oil prices. The collapse in 2008 was driven by a demand shock as the global economy went into recession. Prices recovered as soon as economic activity picked up. Since mid-2014, oil prices have fallen due to excess supply. Adjusting to a supply shock is a much more difficult and time-consuming process than adjusting changes in demand. Therefore, while energy prices will improve, the profile of the recovery will be much longer and potentially very volatile.

As a result, Edmonton and Alberta will see muted investment activity in the energy sector, which will result in modest growth prospects over the medium term.

Current economic developments in Edmonton and the region

The Edmonton economy slowed sharply in the second half of 2016, then stabilized and returned to growth in the first half of 2017. These trends were evident in the main economic indicators of employment, inflation, housing starts and building permits.

Employment



Employment in Metro Edmonton. *Source: Statistics Canada*

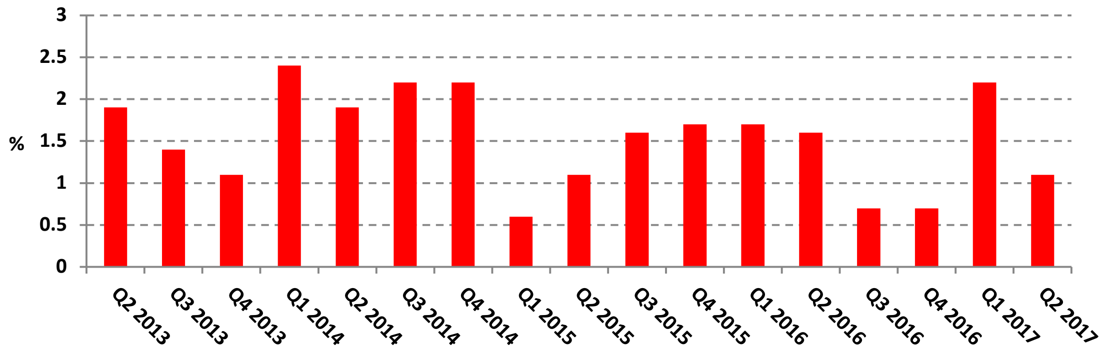
Employment in Metro Edmonton for Q2 2017 was up year over year, although still below the peak employment level reached in Q1 2016. Good gains in manufacturing, health care and education were a key factor in the stronger employment data. However, construction remained weak after significant job losses in 2016.

With higher employment in Q2 2017, the unemployment rate fell from 8.4% in March 2017 to 7.9% in June 2017. However, continuing labour force growth and a loss of 4,000 jobs in July of 2017 took the unemployment rate up to 8.5%.

To date, the reduction in employment experienced in 2016 in Metro Edmonton has not severely impacted average wages and salaries. However, if job growth stalls, higher levels of unemployment will begin to depress wages and further undercut consumer spending.

At 8.5%, Metro Edmonton's unemployment rate is now well above the national average of 6.1% and will lead to net inter-provincial out-migration as individuals pursue employment opportunities outside of Alberta. However, both intra-provincial and international migration figures remain positive for Edmonton. Hence, population in both Metro Edmonton and Alberta will continue to expand but at much slower rates then seen in recent years.

Inflation

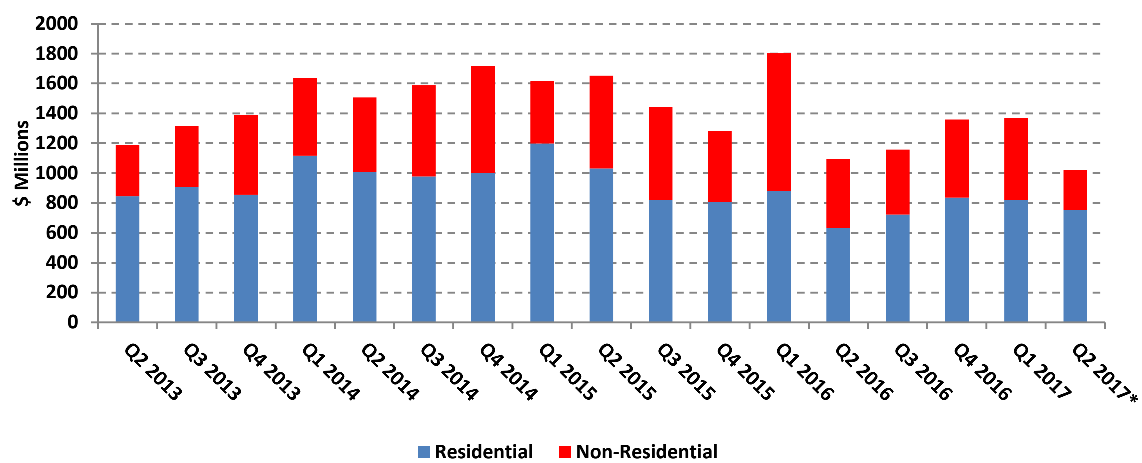


Edmonton Metro Area's CPI Inflation. *Source: Statistics Canada*

Inflation, as measured by the Consumer Price Index (CPI), was down in Q2 2017 as increases in energy-related prices eased. Year-over-year inflation was 0.4% in June of 2017. Low inflation will help preserve the real value of incomes in Edmonton and support consumer spending.

Housing costs, particularly rents, have eased considerable over the past 18 months and will keep inflation relatively low for the remainder of 2017. Edmonton's rental vacancy rate is in the 7.1% range, well above the recent low of 1%, causing rents to drop. While vacancy rates improve housing affordability in the rental sector, they have had a negative impact on multi-family housing construction.

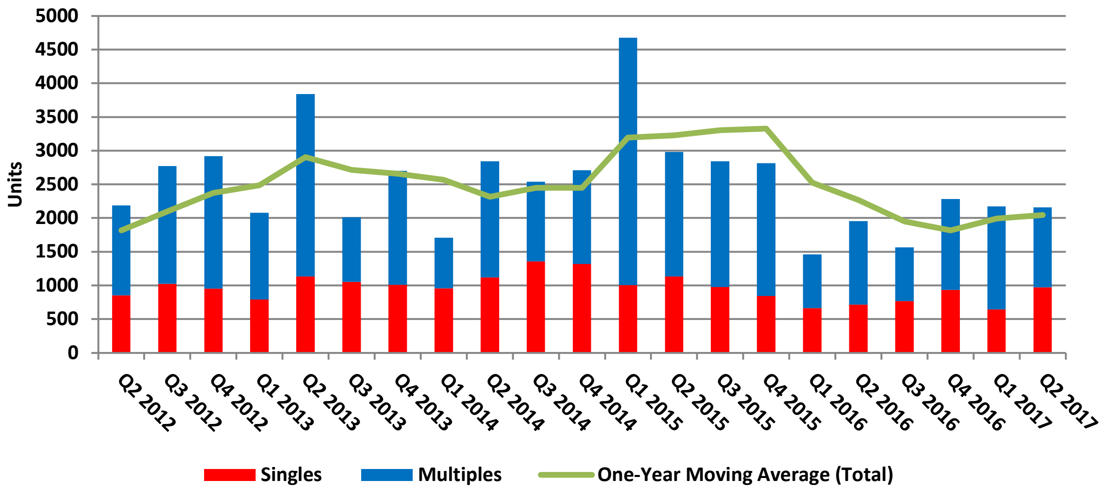
Building permits



Edmonton Metro Area's – Value of Building Permits. *Source: Statistics Canada*

A contraction in the estimated value of non-residential permits brought the total value of building permits down during Q2 2017 in the Edmonton region. Consequently, the value of permits is still well below the high levels seen in 2014 and early 2015. The value of building permits should improve over the remainder of 2017; however, values will remain modest by comparison with previous years, particularly for multi-family residential buildings.

Housing starts



City of Edmonton – Housing Starts. *Source: Canada Mortgage and Housing Corporation*

After turning sharply down in early 2016, the overall level of housing starts was up significantly in the first half of 2017. As noted above, rental vacancy rates in Metro Edmonton are now hovering above the 7% range, undercutting the incentive for adding to the multi-family housing stock. As well, the inventory of new and existing single-family homes is moving up and may cause builders and developers to slow the rate of new house construction over the remainder of 2017.

Summary

After two years of contraction in Alberta, recovery now appears to be underway. Rising employment numbers in the last two quarters combined with continuing population growth helped to steady retail, personal services and other components of both the region's and the city's economies over the first half of 2017.

Looking forward, growth will continue to improve in the province, the region and the city. Inflation adjusted gross domestic product Edmonton is expected to grow by 1.8% in 2017 and then increase to the 2.5% range in 2018.

Employment will continue to expand in the next half of 2017. However, the unemployment rate will remain relatively high as the number of new job seekers, drawn to Metro Edmonton by relatively good conditions compared to other areas in Alberta, will grow faster than the employment base.

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