City of Edmonton Mid-Year 2022 Economic Update

Following estimated growth of 8.8 per cent in 2021, real gross domestic product (GDP) in Edmonton is forecast to grow by five per cent in 2022 through the City of Edmonton’s latest long-term forecast update. This growth rate represents an upward revision from the November 2021 forecast, and reflects expectations for Edmonton’s economic recovery from the impacts of the COVID-19 pandemic to carry over into 2022. The economic recovery is estimated to have had a more pronounced impact on real GDP growth in 2021 given the significant pullback in economic activity in 2020. A recovery to 2019 (pre-pandemic) levels is still expected by the end of 2022, but the pace of growth in subsequent years is predicted to continue moderating on an annual basis, as indicated in Figure 1 below. Slower population growth and headwinds to residential investment are two factors holding back real GDP growth rate expectations over the medium term.

Figure 1. Edmonton real GDP growth rates

Source: City of Edmonton and Stokes Economics, May 2022 forecast update; “r” denotes a revision, “e” denotes an estimate, and “f” denotes a forecast.

Over the first half (H1) of 2022, the performance of some economic indicators for Edmonton and the region suggested that economic activity gained momentum. Notable developments were the pace of regional employment growth picking up and the unemployment rate dropping below six per cent. Prices have been on the rise, particularly for energy, with the pace of growth accelerating since the start of 2022. While there has been some economic benefit to the Edmonton region with high crude oil prices benefitting petroleum manufacturing sales, higher prices are weighing on consumer and business sentiment. The Bank of Canada’s latest consumer and business surveys suggest that inflation expectations are drifting higher, which could present a longer term challenge for the Bank of Canada to
bring inflation back to its target rate of two per cent. On July 13, 2022, the Bank of Canada announced a 100 basis point (one percentage point) increase to its policy interest rate, bringing the rate to 2.5 per cent (note: the rate was 0.25 per cent at the start of 2022). The Bank of Canada has increased its policy rate four times starting in March 2022 to address excess demand in the Canadian economy and bring inflation closer to its target of two per cent.

Rising interest rates are expected to help to dampen demand in the economy. Based on price trends since the start of the year, it is clear why tighter monetary policy is necessary. However, the pace and extent of interest rate increases may make it difficult for the Bank of Canada to achieve a “soft landing,” which refers to an outcome where economic growth slows down without entering into a recession. This presents a downside risk to the City of Edmonton’s May 2022 forecast for real GDP growth for Edmonton and the region, particularly as it pertains to household consumption and business investment. A summary of forecast indicators from the May 2022 update can be found here. Details on the performance of select economic indicators can be found below.

Regional labour market sees gains in the first half of 2022

The regional labour market’s performance has been relatively solid, with an additional 8,900 individuals added to payrolls on a seasonally adjusted basis in the Edmonton census metropolitan area (CMA) from December 2021 to June 2022. The region’s labour force also expanded over that time period, though that expansion was outpaced by employment gains, putting downward pressure on the region’s unemployment rate, which averaged 5.9 per cent in Q2. On a year-to-date basis, unadjusted regional employment as of June 2022 was almost five per cent higher compared to H1 2021, and 2.5 per cent compared to H1 2019. Both full- and part-time employment in H1 2022 saw gains over both time period comparisons, though growth in part-time work was proportionally stronger relative to H1 2019.

Employment growth in H1 2022 (both year-over-year and compared to H1 2019) was mostly reflective of service sector gains, particularly in the health care and social assistance, professional services, and trade sectors. In contrast, the recovery in employment in some goods-producing sectors appears to be more challenged by labour shortages, which have become a major obstacle in the ability to attract and retain employees. The region’s manufacturing sector has been performing quite well though, with year-to-date June 2022 employment higher both year-over-year and compared to H1 2019.
The regional labour market is expected to perform relatively well in 2022, though at an aggregate level. There is growing concern that rising interest rates and high inflation could slow the pace of economic activity moving forward, which could be a drag on the region’s short-term growth prospects as household and business expenditures adjust. In addition, there has been a shift in the region’s labour force, with proportionally fewer labour market participants in all age groups except for those between 15 and 24 years of age (see Figure 2).

**Figure 2. Change in YTD June 2022 Edmonton CMA participation rates by age group relative to YTD June 2019, percentage points**

Source: Statistics Canada

An improved participation rate for those between 15 and 24 years of age was a welcome development, as the unemployment rate for this age group saw the highest proportional increase when employment losses peaked in June 2020. Participation rates for workers aged 25 to 54 and 55 to 64 have been recovering, though participation rates appear to be lagging for males in each age group. For those 65 years and over, the reduction in the participation rate was significant, though more pronounced for males. One factor that could be contributing to this is an acceleration in retirements, whether voluntary or forced. The likelihood of those entering the labour market in this age group is low, which is adding to labour shortage concerns.

**Consumer inflation reaches an average rate of 7.2 per cent in Q2 2022**

Consumer inflation in the Edmonton CMA, as measured by year-over-year changes in Statistics Canada’s Consumer Price Index, accelerated in Q2 2022 to an average rate of 7.2
per cent from 5.5 per cent in Q1. Upward pressure on prices are coming from supply side constraints and geopolitical conflicts, namely the Russia-Ukraine war. Price pressures are not only more broad-based relative to 12 months ago, but are building up in some components, including energy, food, and shelter, according to provincial data. In the Edmonton CMA, price growth in the shelter component accelerated from 4.9 per cent in Q1 to 6.5 per cent in Q2 2022, with persistent double-digit growth in utility prices being a significant driver. Prices for owned accommodation have been on the rise, with price growth doubling from two per cent in Q1 to 4.1 per cent in Q2. Retail gasoline prices have been accelerating in the Edmonton CMA, due in large part to higher crude oil prices, and were 35 per cent higher\(^1\) on a year-over-year basis over H1 2022.

**Figure 3. Edmonton CMA annual consumer inflation**

![Graph showing annual consumer inflation in Edmonton CMA from 2013 to 2021.\(^1\)](source: Statistics Canada)

Higher interest rates are expected to dampen domestic spending, which should help to ease price pressures coming from domestic sources. However, it is worth noting that the Bank of Canada increased its consumer inflation forecast to reflect expectations that near term rates will remain high. A return to their target rate of two per cent is now expected by the end of 2024. This development adds upside risk to the City of Edmonton’s forecast for consumer inflation in the Edmonton region. As of the City of Edmonton’s May 2022 forecast update, consumer inflation was expected to average a rate of 6.2 per cent in 2022, followed by a gradual easing to 3.3 per cent in 2023. On a year-to-date basis, consumer inflation in the Edmonton CMA over the first half of 2022 averaged 6.4 per cent.

\(^1\) For regular unleaded gasoline at self service filling stations.
Surging construction prices, rising interest rates, expected to hold back housing starts

The performance of residential investment was stronger than expected in 2021 and was a key contributing factor to a faster pace of real GDP growth in 2021. Housing demand in Edmonton has performed much more strongly than initially anticipated since the onset of the pandemic, and was supported by factors like low interest rates and greater demand for space. These factors, coupled with a lagged response in existing home supply, supported growth in the number of housing starts in Edmonton on an annual basis since the onset of the pandemic. However, supply side constraints, inflationary pressures, and labour challenges have been pushing building construction costs higher for both residential and non-residential buildings in the Edmonton CMA (see Figure 4). These factors, coupled with rising interest rates, are expected to weigh on the pace of new home production.

Figure 4. Edmonton CMA Building Construction Price Index, yr/yr change

Residential investment is still expected to support growth in real GDP over the medium term, though to a lesser extent with a moderation in housing starts. A year-over-year reduction in Edmonton housing starts is expected in 2022, though the number of starts was revised up from the November 2021 forecast. Annual housing starts are expected to lower in subsequent years, narrowing the gap between housing starts and household formation.

Source: Statistics Canada