



THE OWL

FOCUSED ON
ALBERTA'S ECONOMY



Mark Parsons, ATB ECONOMICS | December 8, 2023

The Weekly Wrap: The interest rate waiting game

In this week's ATB Economics Weekly Wrap...

- Bank of Canada - Home at 5
- Energy gains - oil and gas activity picks up
- Oil prices fall, shrug off OPEC announcement
- Building up - construction intentions improve
- Food prices - staying high, but moderating
- U.S. labour market - refusing to quit

- Interesting Fact: Calgary and Edmonton are cleantech ecosystems to watch
- Chart of the Week: A wider gap between Calgary and Edmonton home prices

The first full week of December was interesting in lots of ways but did little to shift what we expect to see next year: more progress towards the 2% inflation target and the beginning of rate cuts against a backdrop of a sluggish national economy and a softening labour market.

Home at 5 - for now

The light at the end of the tunnel is in sight, but we'll have to wait longer for the Bank of Canada to gather more evidence that the disinflationary trend holds up. For many borrowers, waiting can be the hardest part. Our current forecast is that the Bank starts cutting its policy rate mid next year.

It came as no surprise. The Bank held its policy rate at 5%, and painted its most reassuring picture in some time that inflation is heading down the path to its 2% target.

It was the same decision as October, but with a change in tone. Gone was the October language on inflation risks increasing. There was stronger language that the economy “is” reducing price pressures, and that it’s happening “broadly.” And the economy is “no longer in excess demand” (in the October statement, the economy was “approaching balance”).

The Bank referenced that oil prices were \$10 per barrel lower than it assumed in October. This is noteworthy as “about half” of the Bank’s upward revision to 2024 inflation was oil price related. If oil prices stay on their current path, this would be

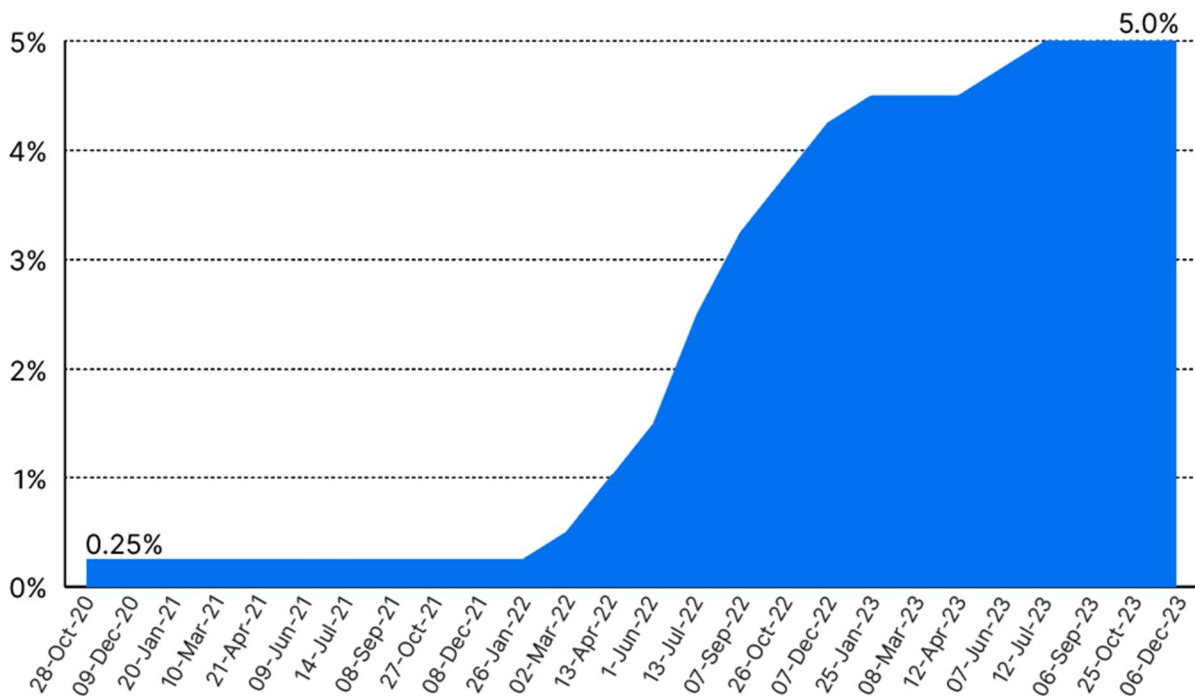
one source of downward revision to their inflation projection. We await (with much anticipation) the Bank's new outlook in January.

To sum up, a much more reassuring statement from the Bank, but nowhere close to declaring victory. The Bank kept its prepared to hike warning alive: "Governing Council is still concerned about risks to the outlook for inflation and remains prepared to raise the policy rate further if needed."

For more insights on the rate decision, check out the ATB Financial Markets quick take.

Bank of Canada Policy Interest Rate

As of announcement dates



Source: Bank of Canada

Oil and gas activity picks up

Alberta's oil production rebounded following spring disruptions, boosting exports in the

back half of the year. Meanwhile capital investment in the sector has risen at a solid rate this year, helping Alberta's economy counter the interest rate headwinds.

The wildfires and maintenance lowered oil and gas production in the province over the spring and early summer. Since then, output has come back briskly, pushing up exports in Alberta and across Canada. In October, exports of crude oil and bitumen rose to a 12-month high of \$12.7 billion in Canada, accounting for 19.4% of the nation's merchandise exports (customs basis).

The ramp up in oil production and refinery maintenance in the U.S. has weighed on prices for Alberta's heavy crude. The light-heavy differential has widened to more than \$US20 per barrel in the last two months. The differential is expected to narrow next year with the Trans Mountain Expansion pipeline scheduled to be in full service in the second half of 2024.

On the **investment** side, national oil and gas capital expenditures were up 20% year-to-date through the third quarter. We had penciled in a gain of 12% for Alberta in our September forecast, which may prove conservative. Looking ahead, the Canadian Association of Energy Contractors forecasts wells drilled to increase by 8.4% in 2024, with activity picking up in the second half of next year.

Oil prices slip despite OPEC announcement

The WTI benchmark closed below US\$70 per barrel on both Wednesday and Thursday for the first time since July with the average in November down by almost 10% compared to October.

Oil prices have declined in recent weeks on reports of rising non-OPEC supplies and demand fears, particularly out of China. The market is also skeptical about compliance to recently announced voluntary OPEC cuts of 2.2 million barrels per day through the

first quarter of 2024. The Middle East War has yet to move oil prices materially higher as the conflict has not spread more broadly and with little disruption to production.

Daily oil prices, Jan 3, 2023 - Dec 7, 2023

WTI, US\$/bbl, daily closing price, NYMEX front-month futures contract



Source: BNNBloomberg.ca

Intending to build more

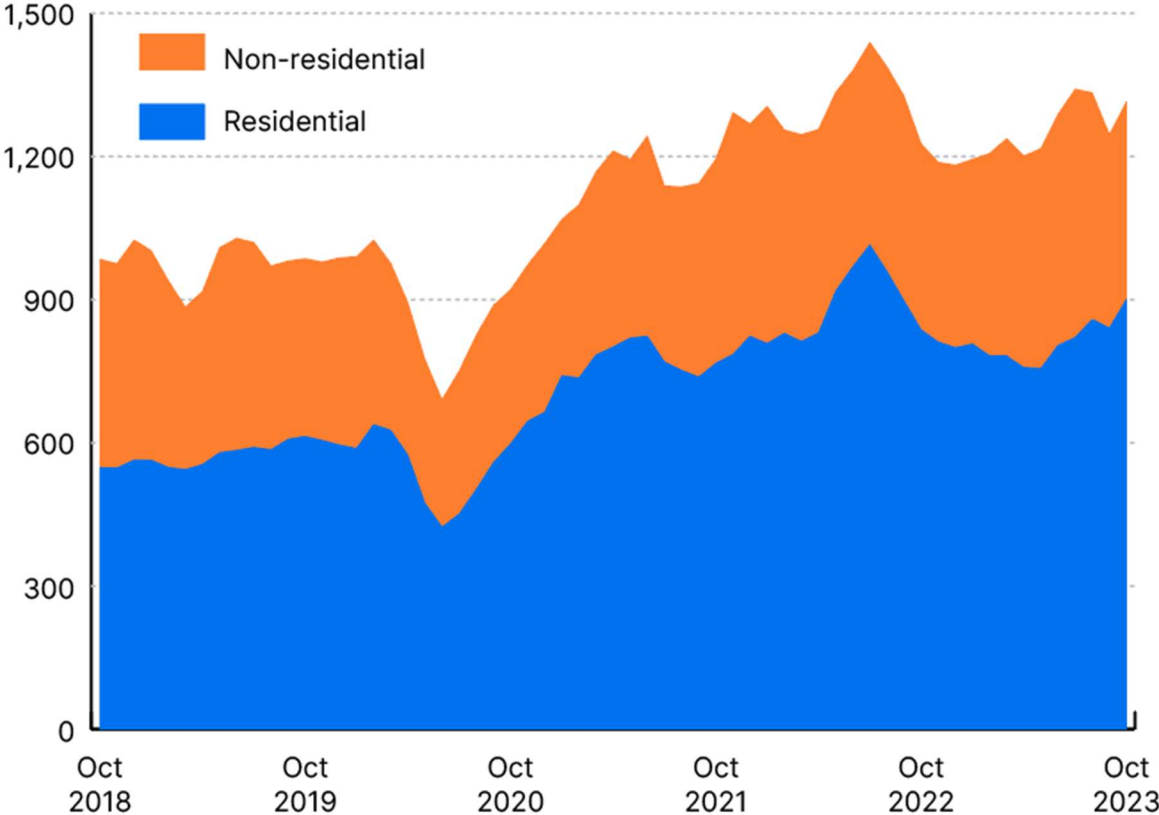
Construction intentions and housing starts are trending in the right direction, but still running behind the population.

Home starts have reversed course since July following a sluggish first half. The improvement is also showing up in building intentions. October residential permits hit their highest level since July 2022, and are trending higher on a 3-month moving average basis. We see homebuilding picking up next year amid strong demographic demand and are now forecasting 39,100 housing starts in 2024, up from 34,500 this year. On the non-residential side, permits have been more stable this year and moved higher in October.

One limiting factor is the availability of construction workers with the industry in Alberta reporting the second highest job vacancy rate as of the second quarter (latest data).

Building permits in Alberta

\$ millions, 3-month moving average, seasonally adjusted



Source: Statistics Canada Table 34-10-0066-01 and ATB Economics

Food inflation expected to moderate

Food prices will remain high, but the rate of increase is expected to slow next year according to a new study.

Food prices have been one of the main drivers of inflation over the last two years. In Alberta, grocery prices rose 9.9% in 2022 and are up 8.4% year-to-date in 2023 (vs.

9.8% and 8.5% nationally). While prices are still very high, the rate of increase has been moderating in recent months, easing to 4.7% year-over-year in October.

According to Canada's Food Price Report 2024, a collaborative effort between several universities, food prices are expected to rise 2.5-4.5% in 2024 nationally. To cope with higher inflation, the researchers found that Canadians are decreasing the quantity of food purchased.

U.S. keeps churning out jobs

The U.S. economy continues to surprise with its resiliency. Job growth exceeded expectations in November and the unemployment rate fell.

New data released this morning by the U.S. The Bureau of Labor Statistics show U.S. nonfarm payrolls rising 199,000 last month, an improvement from the 150,000 gain in October. The increase, partly due to the return of striking auto workers, exceeded expectations. Even more significant for the Federal Reserve and its fight to tame inflation: unemployment dipped to 3.7% (vs. Bloomberg median estimate of holding steady at 3.9%) and wage growth picked up.

Despite the solid report, markets continue to price in a rate hold next week in the Fed's final decision of 2023.

Interesting Fact... In a report on cleantech startup ecosystems, Calgary and Edmonton were cited as "cleantech ecosystems to watch" in the North American region. Other cities to watch around the world include, for example, Berlin, Sydney, São Paulo, and Nairobi. Calgary also made the list of the Top 35 cleantech ecosystems in the world. Calgary, Seattle, Madrid, San Diego, and Austin were tied at 31st on the list. Silicon Valley tops the list with Vancouver in 12th spot and Toronto-Waterloo in 13th (the only other Canadian cities on the list).

Chart of the Week: Alberta housing prices on the rise

Housing prices have been relatively buoyant in Alberta during the Bank of Canada's rate hiking cycle. The MLS composite benchmark price* in Alberta has risen every single month this year through October (latest available for all cities), and stands 7.2% above 2022 levels. Canadian benchmark home prices, in contrast, have been softening since August following the June/July Bank of Canada rate hikes.

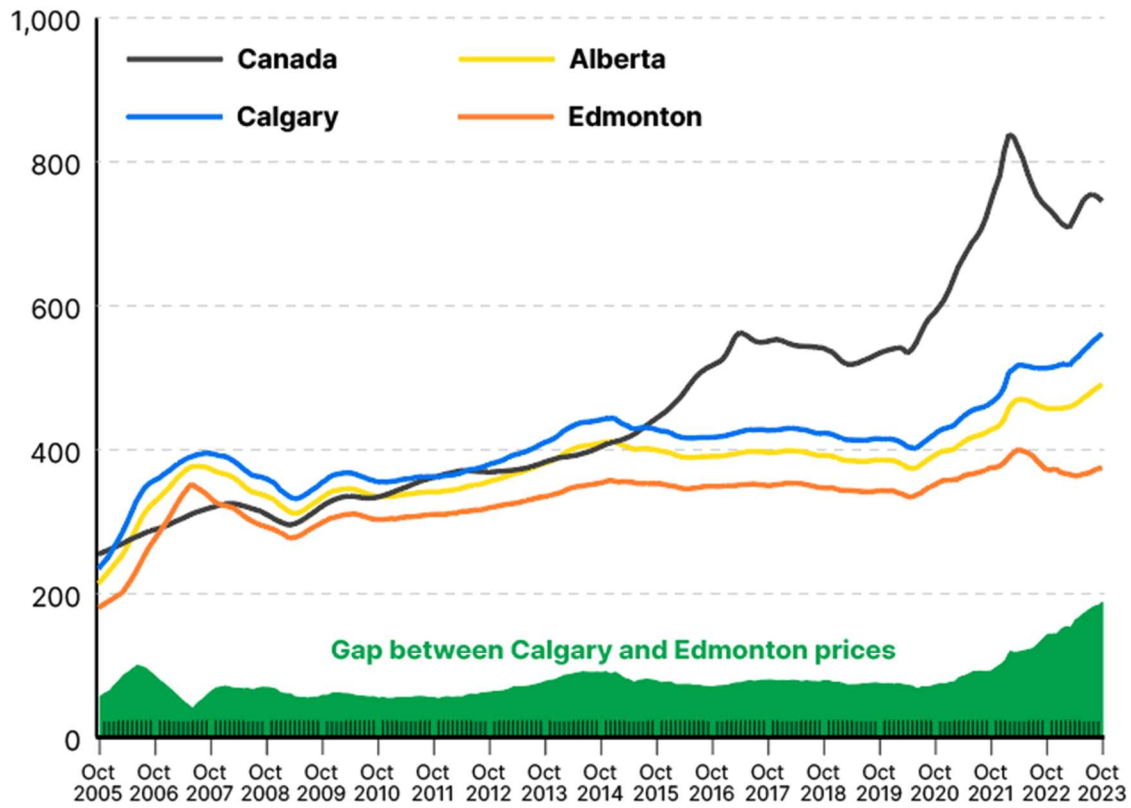
Within Alberta, Calgary has been the main driver of price gains. In fact, Calgary is the only Canadian city with over a million people in which benchmark prices have actually increased since the Bank of Canada started hiking rates in March 2022. Edmonton prices are still below peak levels, though have been trending higher since the spring. As shown in the Chart of the Week, the gap between the two markets has widened over the last two years. A tighter housing supply and strong population growth has contributed to the rise in Calgary's housing prices.

Even with these gains, both resale prices and rents remain lower, on average, than in B.C. and Ontario—the origin of the vast majority of interprovincial inflows to Alberta in recent quarters. As of October, the composite benchmark price was \$561.5K in Calgary and \$374.7K in Edmonton, compared to \$1.13M in Toronto, \$654K in Ottawa and \$1.21M in Vancouver.

**The MLS® Home Price Index (HPI) model is used to calculate benchmark prices in key Canadian markets. A "benchmark home" is one whose attributes are typical of homes traded in the area where it is located and includes single family homes, townhouse/row units and apartment units. All reported numbers are adjusted for regular seasonal variations.*

Composite benchmark resale home prices

\$ thousands, seasonally adjusted



Benchmark prices are generated by the MLS® Home Price Index model

Source: Canadian Real Estate Association