



# THE OWL

FOCUSED ON  
ALBERTA'S ECONOMY



Mark Parsons, ATB ECONOMICS | December 22, 2023

## That's a Wrap!

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What a year! 2023 brought rising interest rates, elevated inflation, geopolitical turmoil, surging population growth, just to name a few themes.

Cycling metaphors were used frequently by ATB economics this year (perhaps overdone?). OK, one more time (this year)... to counter headwinds, road cyclists group together in tight formations, known as a peloton. Research suggests that drafting off your teammates can lower the drag by up to 40%! While Alberta's economy slowed in 2023 and felt the effects of inflation and higher borrowing costs, a number of "peloton" forces helped Alberta's economy draft through the headwinds: surging population growth, a revitalized oil and gas sector, and emerging growth areas like hydrogen, biofuels, and technology.

With only one month to go, employment is up 3.5% year-to-date vs. 2.5% nationally. We estimate real GDP growth of 2.7% in 2023 compared to 1.2% in Canada, and forecast that this outperformance will continue into next year.

A special shout out to Tommy Petty, who helped us describe the lagged impacts of higher interest rates with his song 'The Waiting'. And to Gordon Lightfoot for writing a song, 'Alberta Bound', that is so fitting for Alberta's current boom in interprovincial in-migration.

In our final ATB Economics Wrap of the year, we take a look back at some of the key themes for Alberta's economy in 2023. A briefer (and snazzier) summary was recently posted on Instagram and LinkedIn.

We end this year with a thank you to our Owl subscribers. We appreciate the valuable input we receive from our readers, as we strive to provide timely and relevant insights on Alberta's economy. We welcome your suggestions for next year. You can drop us a note at [theowl@atb.com](mailto:theowl@atb.com).

All the best to you and your family this holiday season. We look forward to connecting with you next year when we return on January 3, 2024!

-Rob, Sid and Mark (the ATB Economics team)

## **Alberta's economy in 2023 - Wrapped in 7 Stories**

### **1. The inflation battle**

In the words of Yogi Berra, it was déjà vu all over again as the Bank of Canada entered the second year of its rate hiking cycle to fight inflation.

Fortunately, unlike the rapid rise we witnessed in 2022, overall inflation was on a downward trend this year.

But even though inflation was falling, it didn't necessarily feel like it. That's because prices are so much higher today than when the inflation rate first started to take off in late 2021. The

Consumer Price Index in Alberta was 13.6% higher in November 2023 than in January 2021 (14.9% higher nationally).

However, if your job is to get inflation back to 2%, it is progress. Bank of Canada officials will take some comfort entering the holidays with a national inflation rate of 3.1% (November) compared to the 5.9% in January they returned to last year. In Alberta, inflation was higher than normal, but lower than the national average: 3.3% year-to-date through November vs 3.9% in Canada.

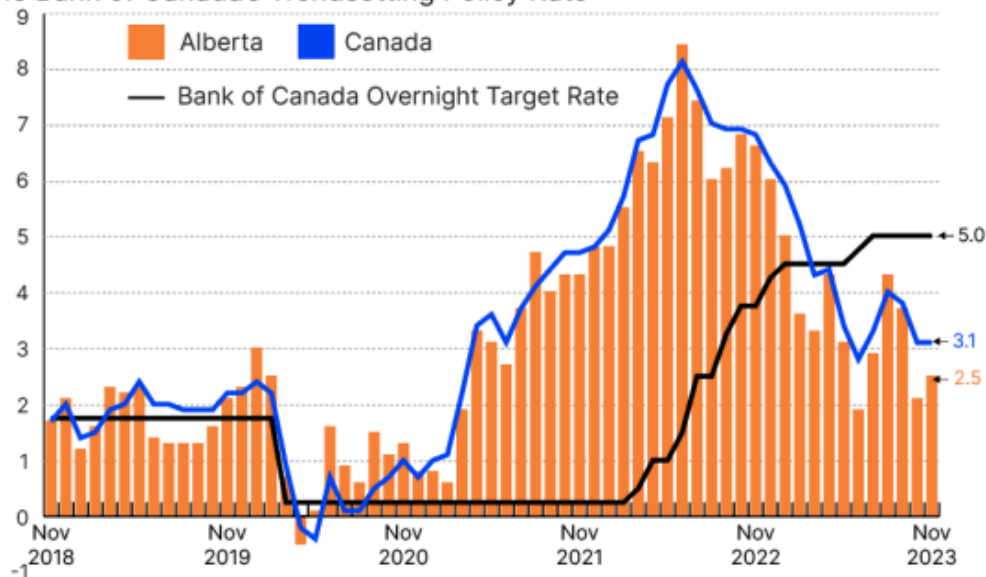
The Bank cranked up its policy rate to a 22-year high of 5% this year in the most aggressive tightening campaign since the early 1990s. While 2023 was the year the rate peaked (at least we think it has peaked), most of the hikes actually occurred in 2022 - only 0.75 basis points of the 4.75 point hike occurred this year.

Will this be enough to finish the job? Nothing is certain, but we think the Bank is done.

Governor Macklem recently raised the possibility of getting “close” to the 2% target by the end of next year. Expect the Bank to proceed cautiously - we have penciled in the first rate cut in June next year.

## Inflation and Interest Rates

Year-over-year % change in the Consumer Price Index and the Bank of Canada's Trendsetting Policy Rate



Source: Statistics Canada Table 18-10-0004-01, The Bank of Canada and ATB Economics

## 2. Setting demographic records

Population was also the talk of the town in 2023, as Alberta broke a number of demographic records.

Alberta added a record 184,400 people last year\* —the equivalent of Airdrie and Red Deer - and surpassed the previous record set in 2013 by a whopping 77,800 residents.

What's even more remarkable is that the gains came from every angle.

- Record net interprovincial migration of 56,200
- Record net international migration of over 112,500
- Natural increase (births minus deaths) of 15,600—not a record, but the highest natural increase in absolute terms of any province (even Ontario).

It's the first point—people coming from other provinces—that separates Alberta from the provincial pack. Every other province and territory lost people to other parts of the country in 2023 with the exception of the Atlantic provinces (Atlantic Canada's combined gain from interprovincial migration was 17,600).

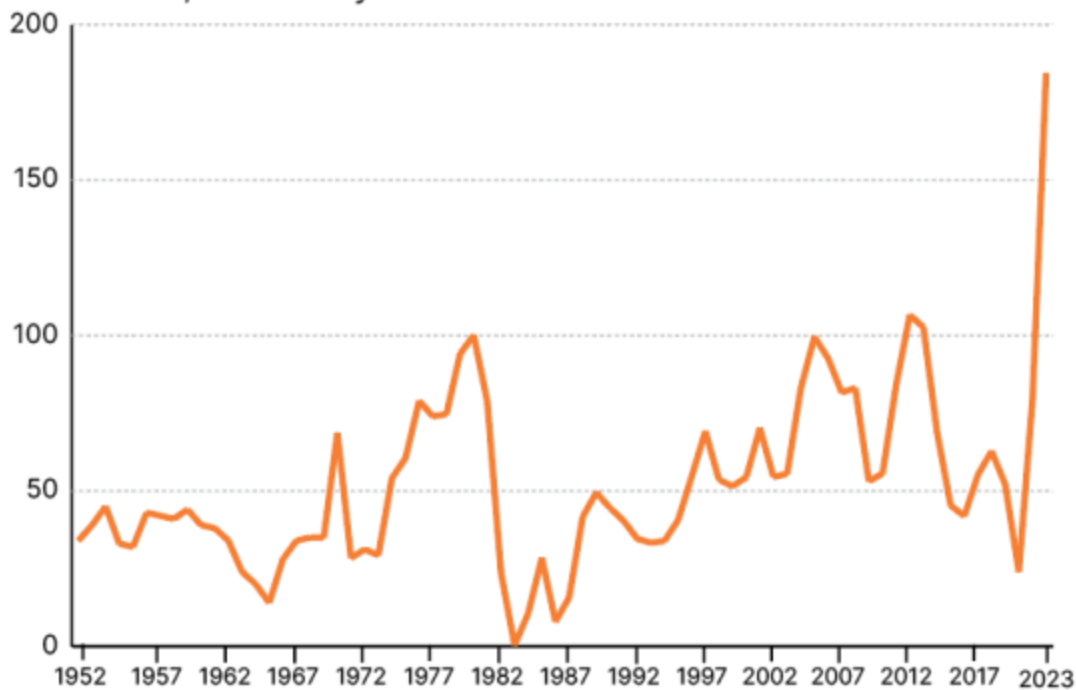
Overall, strong interprovincial inflows pushed Alberta's population growth well above the national average this year (4.1% vs. 3.0% nationally).

Relative housing affordability is playing a more important role in this migration cycle. In 2023, Alberta drew nearly three-quarters of its interprovincial gains from B.C. and Ontario, the two most expensive housing markets. A healthy job market didn't hurt either, as Alberta employment outpaced other provinces and measures of labour tightness (unemployment rate and job vacancies) converged closer to the national average.

*\*Measured at the midpoint of the year (July 1 2023 vs. July 1 2022). All numbers rounded to nearest 100*

## Annual population growth in Alberta

Thousands, as of July 1



Source: Statistics Canada Table 17-10-0009-01 and ATB Economics

### 3. Home construction struggles to keep up

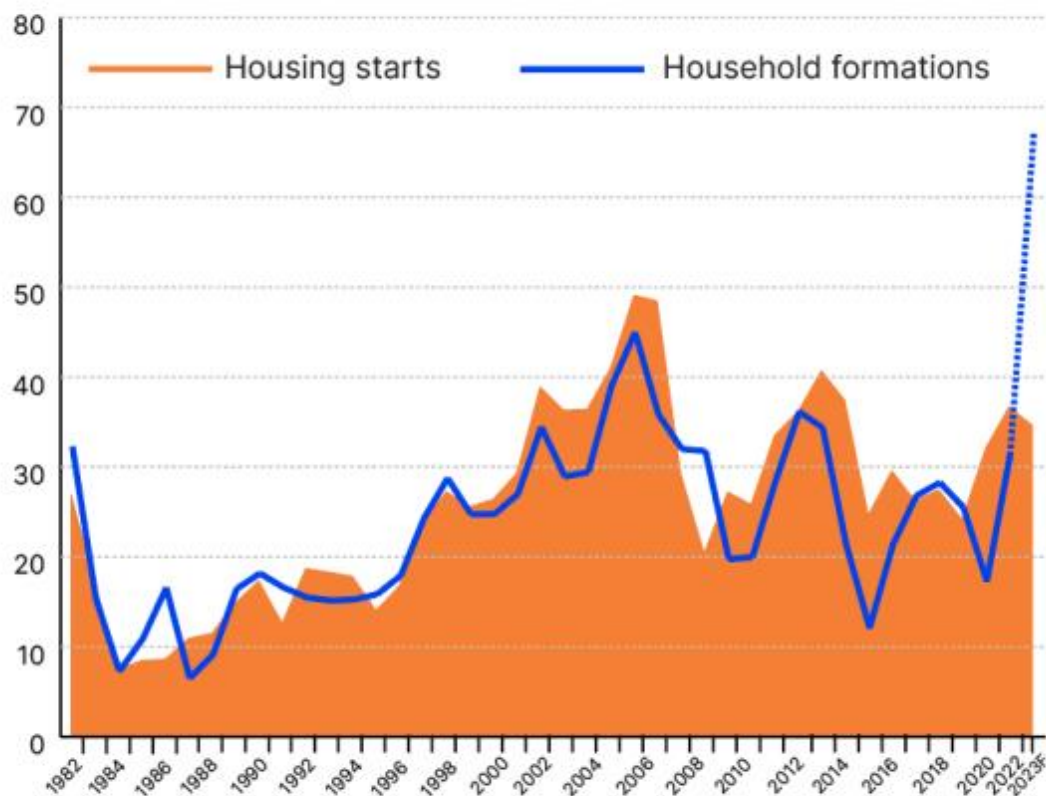
The most obvious implication of the population surge is more demand for housing.

Despite rising demand, it was a slow start to the year on the building front. In the early part of the year, housing starts fell amid rising interest rates, higher costs and labour shortages. But the back half of the year has been much better—the pace of housing starts has quickened to nearly 40,000 annually.

The improvement is welcome, but many homes still need to be built to keep up with the demographic surge. The Canada Housing and Mortgage Corporation (CMHC) puts the supply gap at 130,000 by 2030. We expect the momentum in housing starts from late 2023 to continue into next year.

## Housing starts vs. household formations, Alberta

Thousands



Source: Canada Mortgage and Housing Corporation, Statistics Canada Table 34-10-0126-01 and ATB Economics; F-forecast

### 4. Consumers start strong, finish slow

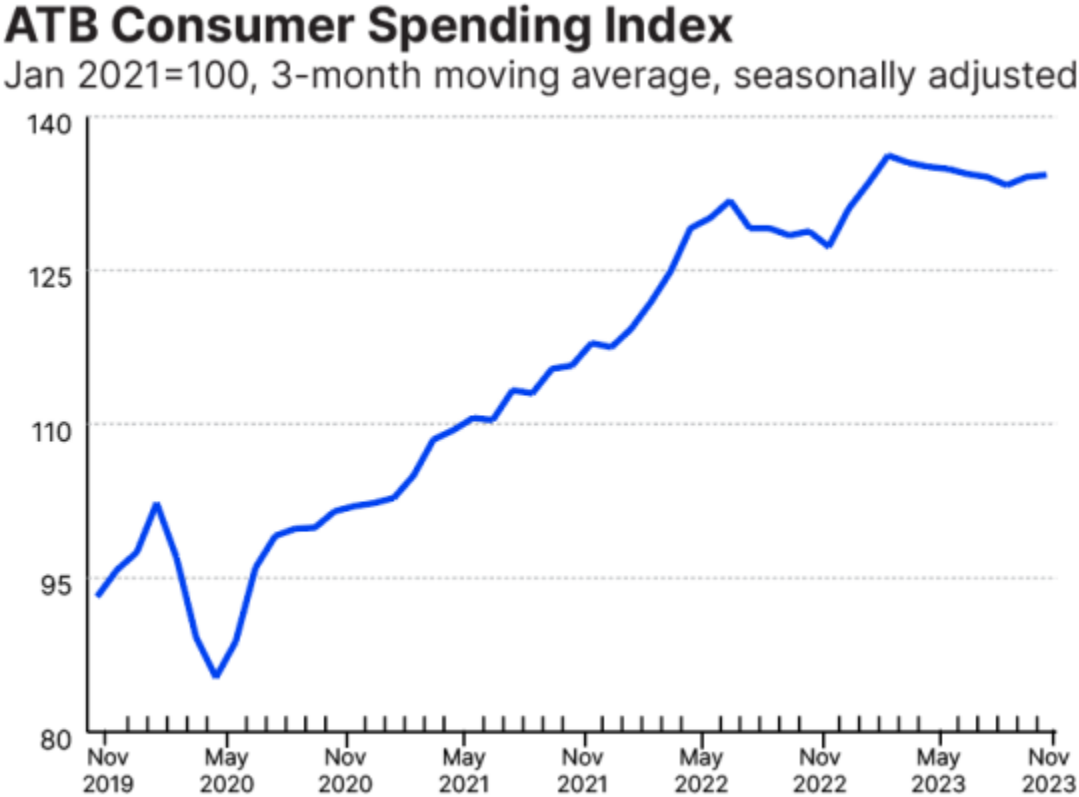
Consumers rang through the tills to start the year, but ran out steam as the year progressed. We've been warned about the lag. According to the Bank of Canada, it takes about 18-24 months for the economy to feel the full impact of interest rate hikes.

The results were somewhat predictable. Spending on big ticket items often financed with loans either slowed or edged lower, including furniture, building materials, and electronics and appliances. But auto sales kept motoring along due to pent-up demand.

Somewhat surprising, though, was the continued growth in some of the more discretionary categories. Our favourite example is sales at shoe retailers (up 24% so far this year!).

Post-pandemic effects were also on full display, as people returned to dining out. Restaurant and pub sales have outpaced grocery sales this year.

So many charts to choose from, but we'll leave you with this. It's the most timely: our own consumer spending index, representing the value of ATB consumer mastercard transactions. The index shows a jump in early 2023 and a clear leveling off trend heading into next year.



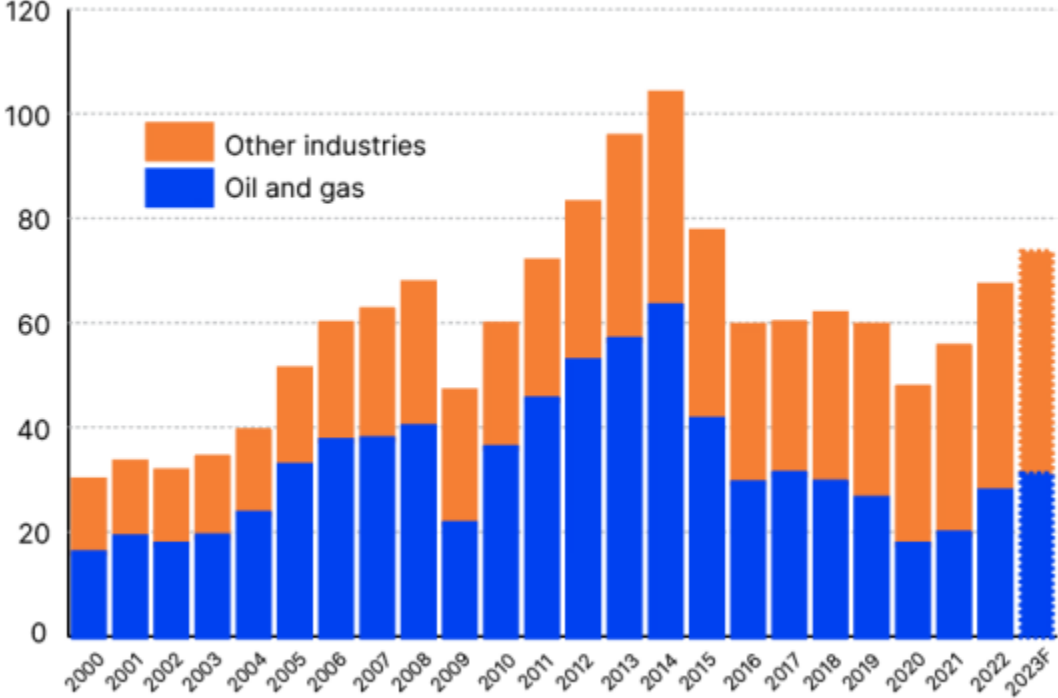
Source: ATB Economics

### 5. An Energy+ Expansion

Another year of increased oil and gas spending provided a lift to the Alberta economy in 2023. But it was broader than that. Momentum has been building on a range of lower-emissions projects linked to the energy sector. Examples include Air Product's new hydrogen facility, Imperial Oil's renewable diesel plant, and Future Energy Park which is slated to begin construction next year. Beyond energy, tourism continued to stage an impressive post-COVID comeback. Other emerging sectors include food manufacturing, aviation, critical minerals, and clean tech.

The largest of the new projects announced this year was, by far, Dow’s Path2Zero Fort Saskatchewan. It carries a cost, excluding government incentives, of \$11.5 billion with partner company investments. Beyond the sheer size, it will also be the first net-zero ethylene and derivatives facility in the world.

### Private Non-residential Investment in Alberta \$ billions, annual, by industry



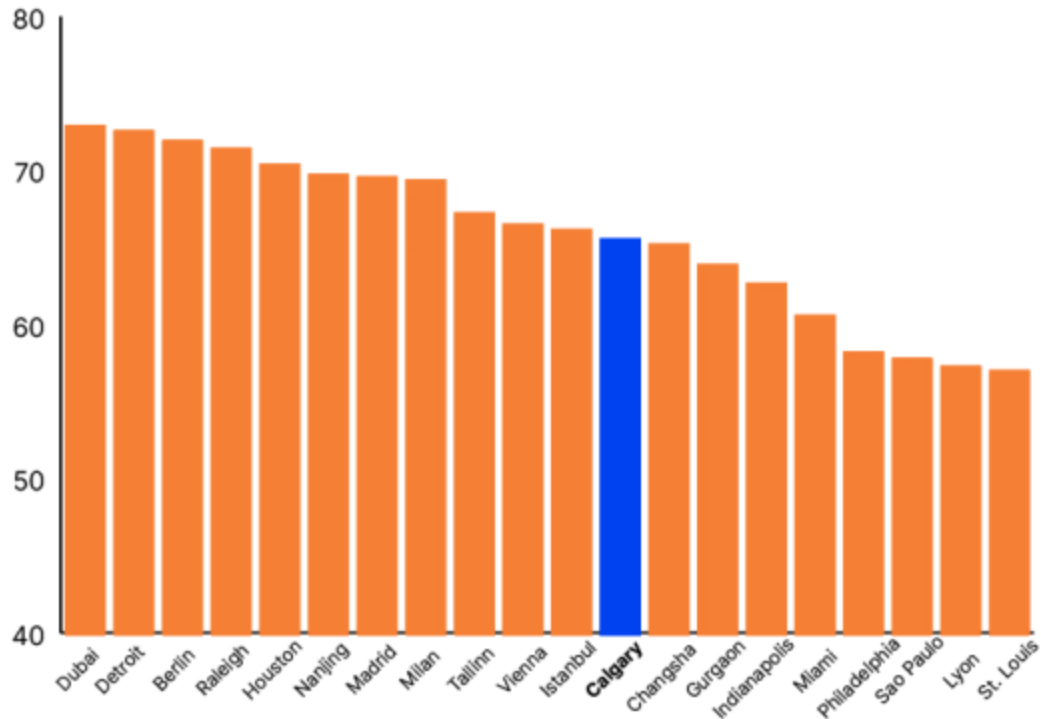
Source: Statistics Canada Table 36-10-0096 and ATB Economics; F-forecast

### 6. The rise of Alberta's tech sector

A number of reports released this year painted a clear picture of Alberta’s rapidly growing technology sector. Alberta is on track for another year of record venture capital investment; PitchBook places Calgary 12th globally among the fastest-growing venture capital ecosystem locations; CBRE puts the city second in high tech talent growth in North America; and Alberta had three of the top five companies ‘to watch’ in Deloitte’s Technology Fast 50 report.



## Top 20 Growth Locations - Global Venture Capital Eco-Systems Index, 2017Q3-2023Q2 5-year period



Source: Pitchbook's Q42023 Global Venture Capital Report and ATB Economics

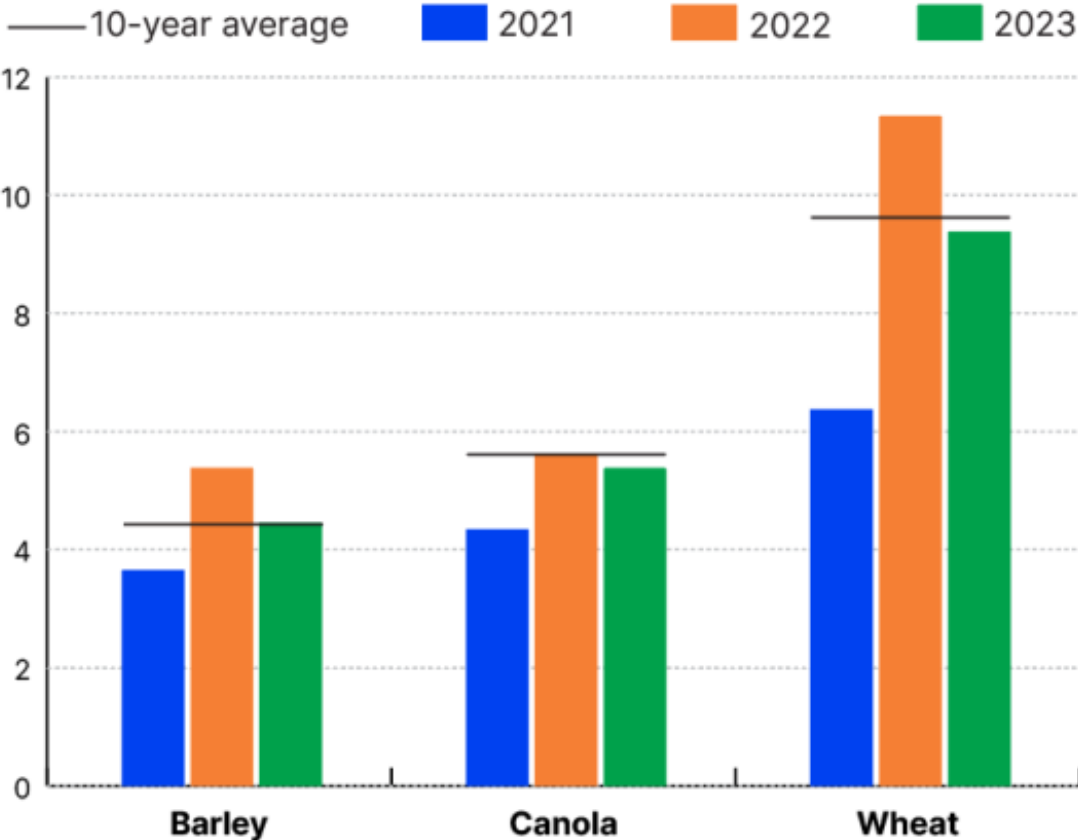
### 7) Wildfires and droughts disrupt production

In addition to the tremendous human toll, economic activity was disrupted by the Spring wildfires. Oil and gas production took a hit, with Canadian oil and gas extraction real GDP shrinking by 4.1% in May and not recovering until July.

After a record year of production, crop yields came under pressure in 2023 due to dry conditions in parts of the province (particularly southern and central Alberta). The expectation is that major crop production will decline this year, particularly for wheat and barley, but remain above the depressed levels seen in 2021. Livestock producers in drought-stricken areas were also impacted by escalating feed costs and shortages.

# Alberta crop production estimates

Millions of metric tonnes



Source: Statistics Canada Table 32-10-0359-01 and ATB Economics