

Alberta: 2019–20 Outlook

AWAITING A NEW BUDGET AMID PROLONGED RECOVERY

Worse-than-anticipated conditions—anchored in oil and gas investment but spread somewhat beyond that industry—have prompted a further downward revision to Alberta's 2019 growth forecast. Firms have scaled back capital outlays in response to uncertainty vis-à-vis insufficient pipeline transportation capacity, a trend reflected in May active drilling rigs' plunge to the second-lowest-ever recorded level for that month. Province-wide retail and automobile purchases have slowed substantially versus last year, as has homebuilding activity, though home sales in major cities look to have bottomed out.

Markets continue to adjust to government-mandated oil production cuts put in place to alleviate the differential between the Western Canada Select (WCS) price and the West Texas Intermediate (WTI) benchmark. In response to the policy, WCS prices have risen beyond the level consistent with transportation costs, which has made rail transport uneconomical and crimped oil exports. While this should prompt further relaxation of output caps as the year progresses, with the Line 3 pipeline delayed, and completion of the TransMountain pipeline unlikely until at least 2022, sustainable supply-demand balance in the oil patch—and a more stable investment climate—looks to be at least a few years off.

We now expect Alberta to recuperate its 7.4%, 2015–16 output contraction by 2020 rather than later this year, but the province should skirt recession in 2019. Diversification away from oil and gas remains a key long-term challenge, but after a two-year, 7% expansion over 2017–18—more than any other jurisdiction—the energy sector exerts a smaller influence on the economy as a whole—both for output and jobs—than it did in the lead-up to the last downturn. Unlike in past downturns, full-time hiring continues in manufacturing and in much of the services sector. Alberta also continues to draw skilled newcomers and migrants from other provinces, albeit at a more subdued pace than during the last oil price boom.

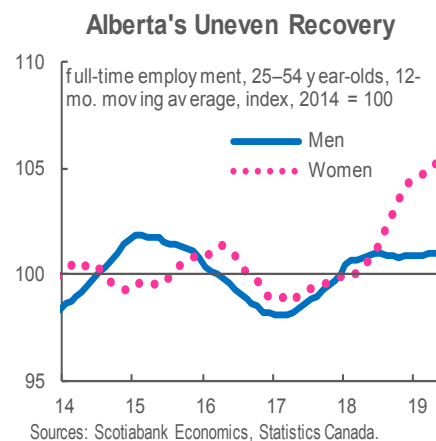
Nevertheless, there is no question that some segments of the population are feeling pain during the Alberta economy's ongoing transition towards more services-oriented growth. Full-time employment for prime-working age men has yet to fully recover from the 2015–16 downturn (chart), and there is evidence that younger, rural, and less educated workers have not realized the same benefits as other workers during the expansion and upswing in job creation witnessed since 2017.

Motivated in part by these challenges, the new government's first budget—to be tabled this fall—promises a fundamental shift in fiscal policy. To spur investment, the corporate income tax rate will be reduced by 4 ppts—to 8%—over four years. Program spending will be held flat through FY23 to balance the books by that year, with previously planned infrastructure outlay increases likely to be throttled back. We support the focus on investment attraction and cost control, but factors such as a more competitive US shale patch mean that a return to 2010–14 conditions is unlikely.

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Alberta % change except where noted				
Economic Conditions	17	18e	19f	20f
Real GDP	4.4	2.3	0.5	2.5
Nominal GDP	10.0	4.5	1.3	4.6
Employment	1.0	1.9	1.0	1.0
Unemployment Rate, %	7.8	6.6	6.7	6.8
Housing Starts, 000s	29	26	26	30
Fiscal Situation	FY18	FY19	FY20	
Budget Balance, % of GDP	-2.4	-2.0	-2.2	
Net Debt, % of GDP*	5.8	7.9	10.7	
Nom. GDP fctst: Scotiabank Economics. Sources: Scotiabank Economics, Statistics Canada, CMHC, Alberta Finance.				



Provincial Forecast Summary

	(annual % change except where noted)										
Real GDP	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
2000–17	2.1	2.4	1.8	1.3	1.2	1.8	2.0	2.3	2.0	2.8	2.7
2017	3.0	0.9	3.5	1.5	1.8	2.8	2.8	3.2	2.2	4.4	3.8
2018e	1.9	-2.7	2.6	1.2	0.1	2.5	2.3	1.3	1.6	2.3	2.4
2019f	1.4	2.0	2.1	1.3	0.6	2.1	1.4	1.5	1.4	0.5	2.2
2020f	2.0	0.8	2.0	1.3	0.8	1.8	1.8	1.5	1.6	2.5	3.0
Nominal GDP											
2000–17	4.3	5.6	4.2	3.3	3.4	3.7	3.9	4.4	5.4	5.9	4.7
2017	5.6	4.3	4.8	2.9	4.3	5.0	4.1	5.4	4.8	10.0	6.9
2018e	3.6	0.5	4.6	3.2	1.9	4.2	3.5	3.1	3.8	4.5	4.4
2019f	2.7	3.0	4.1	3.0	2.2	3.2	2.6	3.3	3.3	1.3	4.2
2020f	4.2	3.9	3.9	3.3	2.5	3.7	3.7	3.3	4.0	4.6	5.7
Employment											
2000–17	1.4	0.6	1.1	0.6	0.4	1.3	1.3	1.0	1.1	2.2	1.5
2017	1.9	-3.7	3.1	0.6	0.4	2.2	1.8	1.7	-0.2	1.0	3.7
2018	1.3	0.5	3.0	1.5	0.3	0.9	1.6	0.6	0.4	1.9	1.1
2019f	2.1	1.9	1.4	2.3	0.5	1.5	2.5	1.2	1.6	1.0	3.0
2020f	1.0	0.2	0.8	0.3	0.2	0.8	1.2	0.6	0.7	1.0	1.5
Unemployment Rate (%)											
2000–17	7.1	14.3	11.1	8.8	9.5	7.9	7.0	5.1	5.0	5.3	6.5
2017	6.3	14.8	9.8	8.4	8.1	6.1	6.0	5.4	6.3	7.8	5.1
2018	5.8	13.8	9.4	7.6	8.0	5.5	5.6	6.0	6.1	6.6	4.7
2019f	5.7	11.8	9.0	6.8	8.0	5.2	5.6	5.5	5.5	6.7	4.6
2020f	5.9	11.6	9.0	6.8	8.0	5.4	5.8	5.5	5.5	6.8	4.7
Housing Starts (units, 000s)											
2000–17	200	2.5	0.8	4.3	3.4	44	72	5.2	5.2	34	29
2017	220	1.4	0.9	4.0	2.3	46	79	7.5	4.9	29	44
2018	213	1.1	1.1	4.8	2.3	47	79	7.4	3.6	26	41
2019f	202	1.0	0.9	3.9	2.1	46	69	6.8	3.2	26	44
2020f	199	1.3	0.8	3.8	2.0	41	72	6.0	4.8	30	37
Motor Vehicle Sales (units, 000s)											
2000–17	1,657	29	6	48	38	413	635	47	45	216	180
2017	2,041	33	9	59	42	453	847	62	56	245	235
2018	1,984	28	8	51	38	449	853	67	47	226	217
2019f	1,935	30	9	51	39	447	813	60	49	220	217
2020f	1,915	30	9	50	37	440	800	56	48	217	228
Budget Balances, Fiscal Year Ending March 31 (CAD mn)											
2017	-18,957	-1,148	-1	151	-117	2,361	-2,435	-789	-1,218	-10,784	2,727
2018	-18,961	-911	1	230	67	2,622	-3,672	-695	-303	-8,023	301
2019e	-11,815	-522	14	28	5	2,500	-11,700	-470	-380	-6,711	374

Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents; Quebec budget balance figures are after Generations Fund transfers.

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