

City of Edmonton Q3 2022 Economic Update

The performance of certain economic indicators in Edmonton and the region between Q2 and Q3 2022 suggest that the economy is still doing reasonably well. However, rising interest rates and persistently high inflation are adding to financial pressures on households and businesses, some of which are still recovering from the impacts of the COVID-19 pandemic. Moving forward, this further increases the risk of economic growth slowing down.

Outlooks for the global and Canadian economies have weakened, particularly for 2023. According to the latest projections from the International Monetary Fund (IMF)¹ and the Bank of Canada² (summarised in Table 1), persistently strong and broadening price pressures and tightening financial conditions (via rising interest rates) were key factors cited by both organizations for any downward revisions to their global and Canadian real gross domestic product (GDP) growth projections since their July 2022 outlooks.

Table 1. Real GDP growth projections - October and July 2022*

	IMF		Bank of Canada	
	2022f	2023f	2022f	2023f
World	3.2% (3.2%)	2.7% (2.9%)	3.2% (3.3%)	1.6% (2.0%)
Canada	3.3% (3.4%)	1.5% (1.8%)	3.3% (3.5%)	0.9% (1.8%)

*July 2022 projections are noted in parentheses.

Persistently strong price pressures and tighter financial conditions are not only weighing on growth expectations, but are considered downside risks, especially since both factors are still playing out in the broader economy. It is also unclear as to when price pressures will ease to more stable rates of growth, and when, in the case of Canada, the Bank of Canada will hold off on further monetary policy tightening. These factors are related, and the impact of each on economic growth are being exacerbated by geopolitical developments like Russia's invasion of Ukraine, which lifted prices for some food and energy commodities, and COVID-19 lockdowns and property market challenges in China, which is increasing worries that global supply side constraints may take more time to fully resolve. High inflation then accelerated the pace of interest rate hikes by the Bank of Canada and the US Federal Reserve to bring inflation back to its target range in each jurisdiction. Since March 2022, the Bank of Canada has increased its policy interest rate target six times; the policy interest rate target rose from 0.25 per cent to 3.75 per cent as of October 26, 2022.

¹imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022

²bankofcanada.ca/2022/10/mpr-2022-10-26/

Price and interest rate developments are impacting Canadian households and businesses. Higher prices affect household spending decisions, with priority given to necessities, though for businesses, higher input costs can be passed onto consumers. Rising interest rates discourage borrowing, and can increase debt repayment amounts. This reduces spending in the economy and should help to ease inflationary pressures coming from domestic sources. Based on the most recent Bank of Canada Business Outlook Survey³ and Canadian Survey of Consumer Expectations⁴, inflation expectations over the next one to two years remain high for both consumers and businesses. Consumer confidence is weaker due to perceptions that wage growth is not keeping pace with consumer inflation, and credit conditions are tightening. Business confidence has softened, though remains generally positive. While Canadian businesses are expecting price growth to moderate, many respondents identified labour costs as being a continued source of upward pressure on their output price expectations.

Employment growth slows down in Q3 2022

According to Statistics Canada's Labour Force Survey (LFS)^{5 6}, seasonally adjusted employment in the Edmonton census metropolitan area (CMA) gained 1,600 individuals in Q3 since Q2. This represents a material slowdown from a quarter-over-quarter gain of 19,300 individuals from Q1 to Q2. A modest employment gain combined with a reduction in the region's labour force between Q2 and Q3 moved the unemployment rate lower to 4.8 per cent in Q3 from 5.9 per cent in Q2.

On a year-over-year basis, there were 35,400 more individuals employed in full-time positions in Q3 2022 compared to Q3 2021, while part-time employment declined. Across sectors, employment in Q3 saw notable year-over-year gains, largely for full-time positions, in the following sectors: health care and social assistance; manufacturing; other services; and forestry, fishing, mining, oil and gas. In contrast, employment in Q3 saw notable reductions on a year-over-year basis in the educational services and accommodation and food services sectors.

Based on aggregate estimates, particularly the unemployment rate, Edmonton's regional labour market appears to be faring relatively well. However, the pace of employment growth has slowed down significantly and there remains room to recover in both the region's

³bankofcanada.ca/2022/10/business-outlook-survey-third-quarter-of-2022

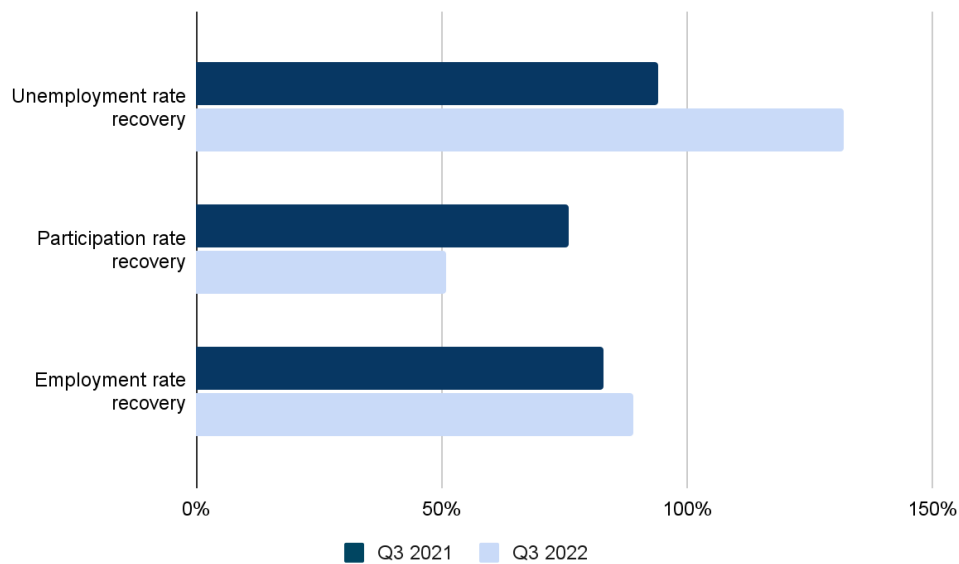
⁴bankofcanada.ca/2022/10/canadian-survey-of-consumer-expectations-third-quarter-of-2022

⁵www150.statcan.gc.ca/n1/daily-quotidien/221007/dq221007a-eng.htm

⁶ As LFS estimates for the Edmonton CMA are three-month moving averages, estimates for the last month in a quarter are used to represent the entire quarter. For example, March estimates would be representative of Q1.

participation rate, which measures the share of the working age population that is either employed or actively seeking work, and employment rate, which measures the share of the working population that is with a job. As illustrated in Figure 1, the region's unemployment rate has more than recovered from the COVID-19 pandemic effects still present in 2021, but that has not been the case for the participation and employment rates.

Figure 1. Select indicators for measuring the Edmonton CMA labour market recovery



Source: Statistics Canada; calculations by City of Edmonton

Note: Each indicator's progress is calculated by comparing its referenced quarterly value to its crisis trough and a benchmark value, which is its 2019 annual average. Progress of 50 per cent, as an example, implies that the indicator has recovered half of its trough-benchmark distance.

Since the region's labour market began to recover, there has been an acceleration in workers aged 65 years and over withdrawing from the labour market, which makes it more challenging for both the participation and employment rates to fully recover, simply based on how each rate is calculated. For youths and those considered to be in their prime working age (i.e., 25 to 54 years), labour market indicators suggest improving conditions with employment gains, and recoveries in participation and employment rates.

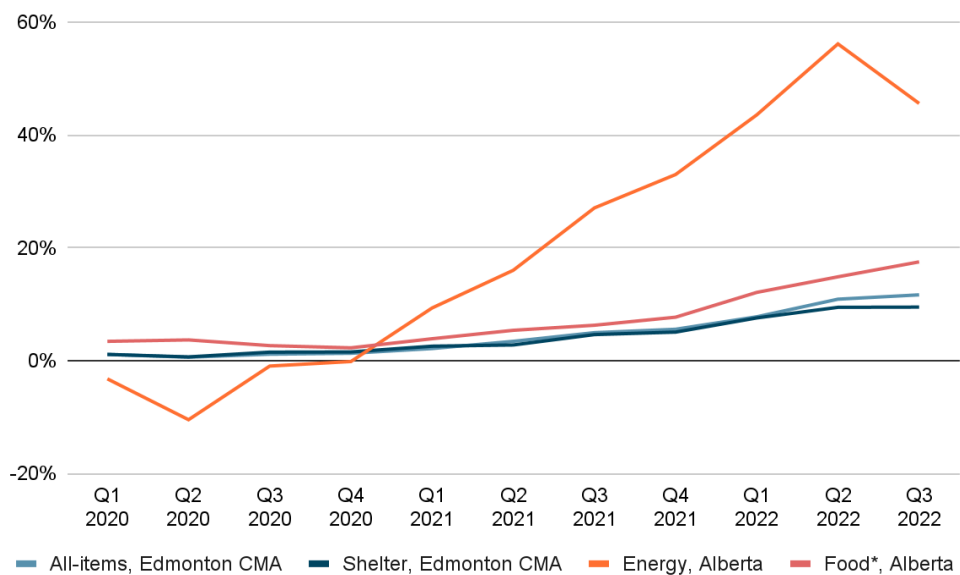
Consumer inflation decelerates in Q3, but remains high

Consumer inflation in the Edmonton CMA, as measured by year-over-year changes in Statistics Canada's Consumer Price Index (CPI), decelerated from an average rate of 7.2 per cent in Q2 to 6.4 per cent in Q3 2022. Slower price growth for shelter and gasoline on a year-over-year basis contributed to the quarter-over-quarter deceleration. Despite this, inflation remained very high. On a year-to-date basis, consumer inflation in the Edmonton

CMA was running at 6.4 per cent as of Q3, which far exceeds the Bank of Canada's two per cent target for stable price growth. Provincial CPI data indicate that price pressures continue to be broad-based, with price growth in every major component of the CPI consumption basket. Prices continued to accelerate for food, with stronger price growth for food purchased in stores on a year-over-year basis in Q3 than food purchased from a restaurant. Price growth in services appears to be picking up, with growth averaging five per cent in Q3, compared to 4.3 per cent in Q2.

Even though the CPI is not intended to be a measure of the cost of living, it is apparent that the cost of living has risen substantially since the start of 2021. Food, shelter and energy are necessities, and price growth for all three components have been running high. Price growth relative to 2019 for select CPI components are shown in Figure 2. Comparatively speaking, shelter prices in the Edmonton CMA and even in Alberta have not risen as much as in other jurisdictions in Canada; the high rates of price growth largely reflect price acceleration for utilities, particularly for electricity and natural gas, which are also included in the broader energy component.

Figure 2. Price growth for select components relative to 2019



Source: Statistics Canada; calculations by City of Edmonton

The persistence of high inflation remains a challenge for the Bank of Canada, which the Bank is trying to address by more aggressively raising interest rates. In their most recent policy rate announcement, the Bank indicated that future rate increases may be necessary, but indicated that they have moved on from “front-loading” interest rates to cool the economy (i.e., moving away from large rate increases towards making adjustments).

Higher interest rates expected to cool housing demand

When COVID-19 public health measures first came into force, it was unclear how the economy would fare, including how the housing market would be impacted. Despite sudden and deep employment losses, housing demand was stronger than expected in 2020, with growth in existing home sales and housing starts. Lower interest rates played a large role in incentivising homebuyers, and activity gained momentum throughout 2021, supported by improving labour market conditions, including a recovery in full-time employment. Housing demand has been relatively resilient so far in 2022, though significant increases to borrowing rates since the start of the year are expected to have a cooling effect.

Residential real estate activity in the Greater Edmonton Area has slowed since Q2 2022, with Q3 market statistics from the Realtors Association of Edmonton⁷ suggesting balanced market conditions. In a balanced market, neither buyers nor sellers have more power, which helps to stabilise price growth as demand (via buyers) and supply (via sellers) are viewed as being close to equilibrium. According to the Canada Mortgage and Housing Corporation⁸, housing starts activity still appears to be strong, with housing starts in Q3 up 25 per cent year-over-year. Over the first three quarters of 2022, housing starts in Edmonton were almost 21 per cent higher year-over-year, with pronounced gains in apartment (+49.8 per cent) and single detached (+17.4 per cent) starts. Looking ahead, single detached and apartment units will likely account for a large share of new housing construction in Edmonton, based on City of Edmonton building permits⁹ issued between January and September 2022.

Higher interest rates have meant higher rates at which mortgage applicants are being stress-tested, which would be the greater of their mortgage contract rate plus two percentage points or 5.25 per cent. This can, in part, explain the slowdown in existing home sales. It is unlikely that new residential construction in Edmonton will continue to post strong gains as rising interest rates and elevated building construction inflation are making new homes costlier for both residential builders and homebuyers. However, predicting behaviour in the housing market can be challenging under typical conditions; it is an even greater challenge during a pandemic, as housing demand has not moved in-line with conventional indicators like full-time employment, earnings and net migration flows since the onset of the COVID-19 pandemic.

⁷realtorsofedenmonton.com/Market-Stats/Monthly-Housing-Statistics

⁸ www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/4811061/4/Edmonton%20(CY)

⁹ www.edmonton.ca/business_economy/licences_permits/monthly-building-permit-summar