



City of Edmonton

Q3 2021 Economic Update

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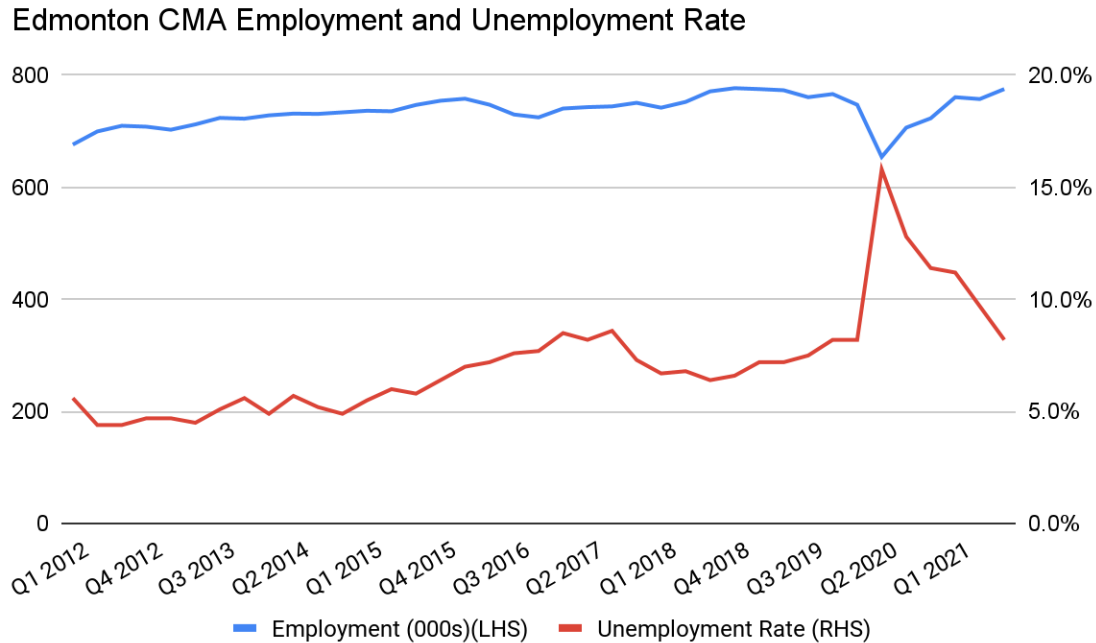
Edmonton's economic recovery is gaining momentum, but the path to recovery is rarely a straight line

Over the course of Q3 2021, economic data confirmed that Edmonton's economic recovery was gaining momentum. One indication is how quickly the regional labour market is rebounding, with employment levels in Q3 above pre-pandemic levels and the unemployment rate very close to where it was pre-pandemic. Business conditions, through Statistics Canada's Real-time Business Conditions Index (RTBCI) for Edmonton, saw significant improvement over the third quarter, reaching a new peak in August 2021. This suggests that business conditions initially responded well to the Government of Alberta's "Open for Summer" plan, which lifted most public health restrictions on July 1. However, Edmonton's RTBCI experienced a pullback towards the end of the quarter, which corresponded with new provincial public health restrictions that came into effect on September 20. The new restrictions were in response to rising COVID-19 case counts and hospitalizations, though were less restrictive on economic activity than past public health measures. Higher vaccination rates were a large reason why the provincial government did not implement restrictions as economically impactful as compared to at the start of the pandemic.

Looking ahead, the economic environment remains uncertain. The pandemic's impacts on global supply chains and transportation networks are more persistent than initially anticipated, affecting the availability and pricing of some materials and finished goods. The pandemic is also affecting gasoline and natural gas prices. An imbalance between global demand and supply is driving these prices higher, with price pressures expected to stay elevated at least over the near term. These developments pose a downside risk to economic output. The good news is that the inflationary effects of these developments are expected to start easing in 2022.

Labour market conditions improve in Q3

Regional labour market conditions saw a marked improvement in Q3 2021 compared to Q2. Seasonally adjusted employment in the Edmonton census metropolitan area (CMA) rose on a month-over-month basis for every month in Q3, even surpassing pre-pandemic employment levels by August 2021. The region's labour force also expanded, though at a much slower rate than employment growth, which pushed down the regional unemployment rate from 9.7 per cent in Q2 to 8.2 per cent in Q3, within 0.2 percentage points of its pre-pandemic rate of 8 per cent.



Source: Statistics Canada (Q1: March, Q2: June, Q3: September, and Q4: December), seasonally adjusted. Series ends in Q3 2021.

The regional labour market's rebound has been impressive. In the City of Edmonton's spring 2021 forecast, a return to pre-pandemic employment levels was not anticipated until around 2022. However, unadjusted employment data indicate that the recovery has been uneven across sectors and job types. Q3 employment levels were still lower year-over-year compared to 2019¹ for some sectors, with larger gaps emerging for many goods-producing sectors, including construction and manufacturing.

Monthly part-time employment estimates have seen consistent improvements since March 2021 compared to corresponding months in 2019. Improving employment levels in some services-producing sectors where it is difficult to maintain physical distance and that typically hire more part-time workers, such as accommodation and food services and trade, can help explain this. Full-time employment has been slower to recover, though employment levels are improving with gaps consistently narrowing in monthly estimates in Q3 2021 compared to 2019.

Pandemic-related factors push inflation higher in Q3

¹ Employment in the Edmonton CMA saw very significant year-over-year reductions in many months of 2020 as a result of the pandemic and public health measures introduced to slow the virus' spread. Consequently, comparisons of employment figures in 2021 against corresponding figures in 2019 are useful to gauge progress of the region's employment recovery, as year-over-year comparisons alone may overstate the strength of any employment improvements.

The annualised rate of consumer inflation in the Edmonton CMA, as measured by the Consumer Price Index (CPI), accelerated to 3.8 per cent in Q3 2021 from an average of 2.8 per cent in Q2. Price growth for the shelter component picked up in Q3, largely reflecting elevated price growth for utilities. Gasoline prices in the Edmonton region continued to see significant year-over-year price growth, due to global demand and supply imbalances for crude oil, as well as base-year effects².

Looking ahead, the Bank of Canada expects pandemic-related factors to continue putting upward pressure on inflation rates. At the national level, the Bank of Canada noted inflation could reach up to 4.75 per cent by the end of 2021 in its [October 2021 Monetary Policy Report](#), followed by a gradual drift to the two per cent range by the end of 2022 as supply chain disruptions wind down as capacity is added, and energy price pressures ease.

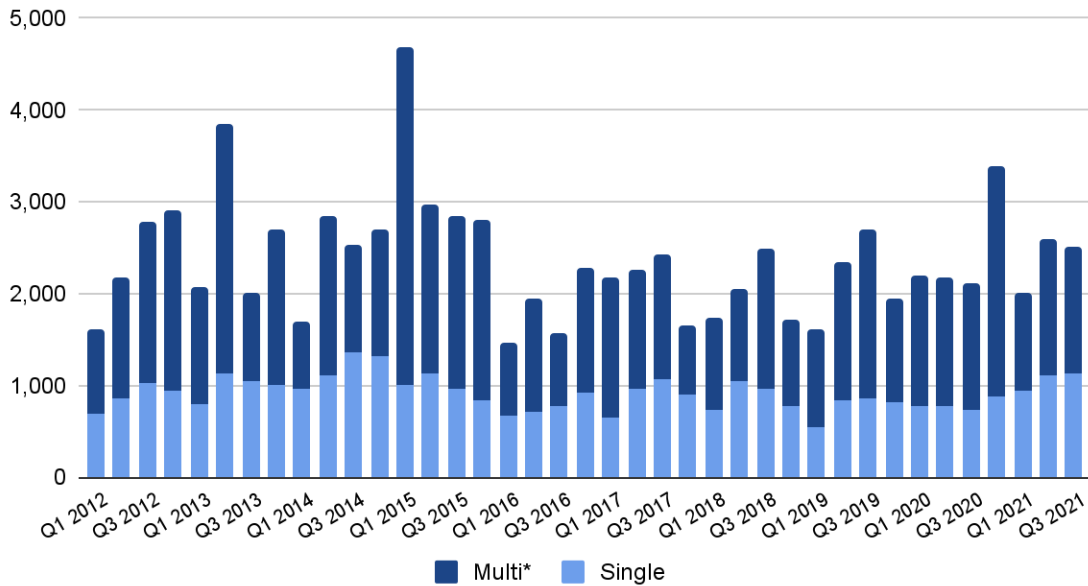
Single-detached housing starts continue to perform strongly in Edmonton

In Q3 2021, a total of 2,508 residential homes broke ground in Edmonton. This represents a year-over-year increase of 18 per cent, but a reduction of seven per cent compared to Q3 2019³. Single dwelling production picked up its pace in Q3, with a year-over-year gain of 56 per cent and a gain of 31 per cent over Q3 2019. Quarterly single dwelling starts have been consistently higher year-over-year since Q4 2020. On the other hand, multi-family starts, which include semi-detached, row, and apartment units, pulled back by almost two per cent year-over-year in Q3, largely due to fewer apartment units breaking ground.

² A base-year effect refers to the impact that price movements from 12 months earlier have on the current period's annualised rate of inflation.

³ Housing starts production in Edmonton experienced significant year-over-year pullbacks in the second and third quarters of 2020, likely reflective of the impact that the pandemic and public health restrictions had on activity levels. Relying solely on year-over-year growth rates, particularly in Q3 2021 when total housing starts in Q3 2020 saw an almost 22 per cent year-over-year reduction, could overstate the strength of new home production, which is why a comparison is made against Q3 2019.

Edmonton housing starts



Source: Canada Mortgage and Housing Corporation

The share of single dwelling starts relative to total starts has been on the rise, reaching almost 45 per cent between January and September 2021, compared to 35 per cent over the same period in 2020, and 34 per cent in 2019. The pick-up in single dwelling starts is reflective of much stronger demand for this type of home, supported by low interest rates and growing homebuyer preference for more space. However, looking ahead, the pace of construction for new single dwellings is expected to moderate as global supply chain disruptions are impacting the price and availability of construction materials.