



City of Edmonton

Mid-Year 2023 Economic Update

City of Edmonton Corporate Economics

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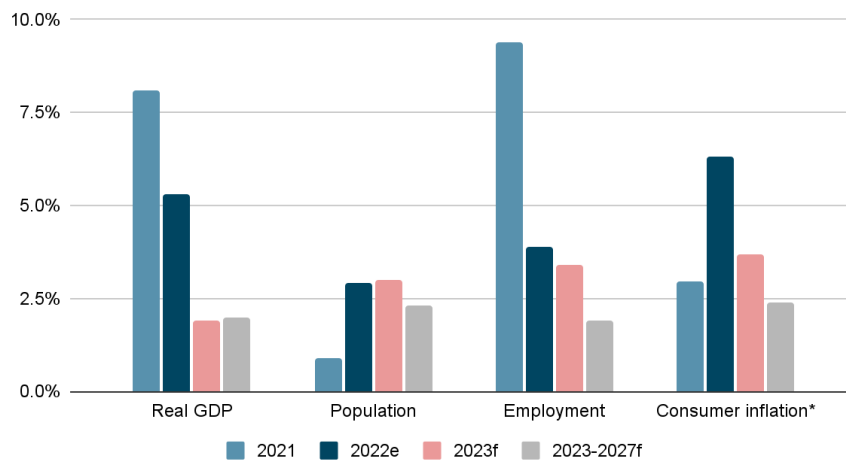
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Over the first half (H1) of 2023, the performance of key economic indicators suggest relatively strong economic activity in Edmonton and the census metropolitan area (CMA), with in-migration likely playing a large role. Recent quarterly population reports for Canada and Alberta suggest that population inflows to Edmonton and the region may be even stronger in 2023 than anticipated in the City's spring long-term economic outlook, which considered developments in the broader economy since the fall 2022 update. Highlights from the spring outlook were:

- After growing an estimated 5.3 per cent in 2022, real GDP in Edmonton was forecast to grow 1.9 per cent in 2023, and average 2.0 per cent annually between 2023 and 2027. Among industry sectors, real GDP growth rates were expected to be strongest in the agriculture, accommodation and food services, and educational services sectors in 2023.
- Reports on quarterly population estimates and the components of population change at the national and provincial levels since mid-2022 suggested that migration inflows for Edmonton and the CMA may be stronger than the fall 2022 outlook. As a result, the City's population growth and net migration forecasts for Edmonton and the CMA were revised upward, starting with the 2022-23 population change.
- Population growth was expected to support economic growth through higher household consumption in 2023 and over the medium-term. As well, higher net in-migration has the potential to bring more balanced conditions to the labour market by increasing the supply of available labour.
- In 2023, consumer inflation in the CMA was forecast to average 3.7 per cent. Over the next five years, consumer inflation was forecast to average 2.4 per cent.

Growth Forecast, Select Indicators - Edmonton



Sources: Statistics Canada, Alberta Treasury Board and Finance, City of Edmonton, and Stokes Economics; Note: "e" = estimate; "f" = forecast; * signifies an Edmonton CMA-level indicator.

Overview

Positive net migration can be beneficial to economic growth by adding more consumers of goods and services, including housing, as well as potentially boosting the working age population, depending on the age composition of newcomers to Edmonton. While Edmonton CMA retail sales from January to May 2023 grew almost seven per cent year-over-year, it is difficult to tell whether this growth is being driven by an increase in consumers, inflation, or both, as sales are only available in current dollars. New housing construction and sales activity in the Edmonton region's existing home market have softened so far in 2023, but media, public and industry observations and comments suggest that rental demand has been on the rise. On the labour front, estimated growth in the Edmonton CMA working age population (i.e., those aged 15 years and older) has been picking up in recent quarters and reached an annualized rate of 4.2 per cent in Q2 2023, which is its strongest growth rate since comparable data became available in 2007. Details of developments in the regional labour market, inflation, and residential construction over H1 of 2023 are provided below.

Labour Market

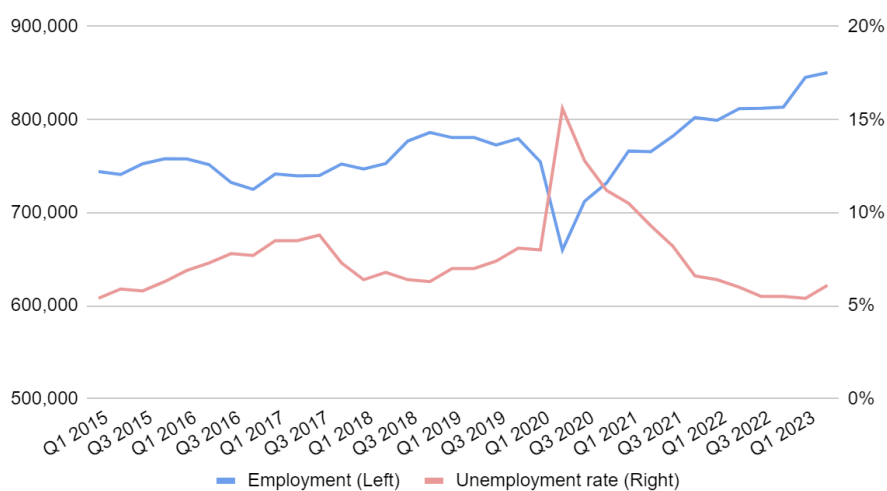
Seasonally adjusted estimates of the region's working age population indicate there was a pronounced pick-up in growth starting in the second half of 2022. In 2023, the Edmonton CMA's working age population was estimated to have grown 2.4 per cent by Q2. Quarterly growth reached its strongest level in Q2 since comparable data became available in 2006. Over the first half of 2023, the region's participation rate moved higher, rising to 70.8 per

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cent from 68.9 per cent in Q4 2022. This resulted in labour force growth of 5.2 per cent by Q2 2023, which more than doubled working age population growth. Labour force growth also outpaced employment growth in the Edmonton CMA over H1; employment rose 4.5 per cent from Q4 2022 to Q2 2023. On balance, the regional unemployment rate moved higher to 6.1 per cent by Q2 2023 from 5.5 per cent in Q4 2022. Unadjusted employment estimates suggest year-over-year growth in H1 2023 has been concentrated in full-time work and largely driven by service sector gains (+38,850), particularly in the professional services, trade and warehousing, and trade sectors. Goods sector employment also saw growth, but was primarily reflective of construction sector gains, and at 6,850 was modest compared to the services sector.

Employment and Unemployment - Edmonton CMA



Source: Statistics Canada, seasonally adjusted

The spring Edmonton CMA forecast was revised to reflect more moderate employment growth in response to economic headwinds in 2023, including higher interest rates and stubbornly high inflation. Employment in the Edmonton CMA was forecast to grow 3.3 per cent in 2023, and average annual growth of 1.9 per cent between 2023 and 2027. The region's labour force was expected to continue to grow generally in line with employment growth in 2023 and over the 2023-27 period. The unemployment rate was expected to average 5.9 per cent in 2023, and average 6.0 per cent between 2023 and 2027. However, for the year so far through H1, labour force and employment growth are significantly stronger than the growth forecast from the spring outlook, which presents an upside risk for 2023.

Consumer Inflation

Inflationary pressures for consumer goods and services have been coming down in the Edmonton CMA over H1 2023. Annualized consumer inflation, as calculated based on year-over-year changes in Statistics Canada's Consumer Price Index (CPI) for the Edmonton

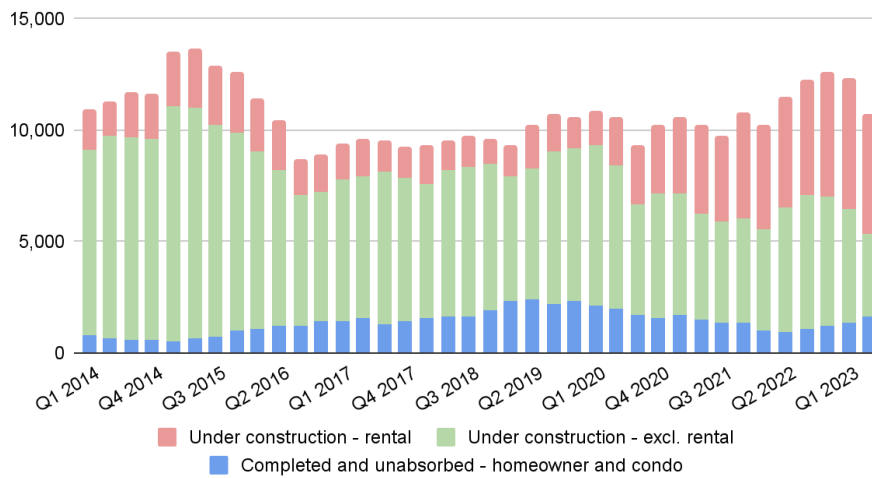
CMA, decelerated throughout H1, largely due to lower natural gas and gasoline prices compared to the same period in 2022. In June 2023, annualized consumer inflation dropped below two per cent for the first time since March 2021. The CPI includes a measure for shelter price inflation in the Edmonton CMA, which includes rented and owned accommodation, as well as utilities. Shelter price inflation was 4.5 per cent annualized in June 2023. This was down from 7.2 per cent in June 2022, but up from the 0.1 per cent annualized shelter inflation observed in February 2023, a six-year low. Annualized price growth for rented accommodation was 4.0 per cent in June 2023, its strongest growth in two years. For owned accommodation, prices rose 6.5 per cent year-over-year in June.

In 2023, consumer inflation is forecast to average 3.7 per cent. Inflationary pressures were stronger and more persistent than expected in 2022, but annualized consumer inflation in the Edmonton CMA has been decelerating in 2023, averaging 2.9 per cent over H1. The path for inflation is uncertain as upward pressure on food, and rented and owned accommodation prices may persist. Though still elevated, food price inflation in Alberta has been gradually moderating over H1 2023, from an annualized rate of 10.5 per cent in January 2023 to a rate of 7.9 per cent in June. However, there has been stronger price growth for food purchased from stores (+9.0 per cent annualized in June 2023) compared to food purchased from restaurants (+5.8 per cent). Looking ahead, price pressures on food could remain due to the impacts of extreme weather events and labour costs. For rented accommodation, strong in-migration and high borrowing costs for ownership are factors expected to increase rental demand and may drive up prices. In addition to high borrowing costs, residential building construction prices are still elevated and could add further upward pressure on owned accommodation prices.

Residential construction

The construction of new residential homes in Edmonton and the region has slowed in 2023 through H1, compared to 2022. Housing starts in Edmonton were 32 per cent lower in H1 2023, with reductions in housing starts across all dwelling types except row housing (+11.0 per cent). Declines have been most pronounced for single and apartment units. For single homes, the inventory of newly completed and unabsorbed homes has been on the rise and is one factor expected to hold back new home construction for this type in 2023. In Q2 2023, the inventory of new single homes crossed the 1,000 threshold for the first time since comparable data became available starting in 1990. As for apartments, new home production in recent years has been strong, with construction in recent quarters shifting focus from condominiums towards rentals. As of Q2 2023, 96 per cent of apartments under construction were rentals, which is a new high since comparable historical data were made available.

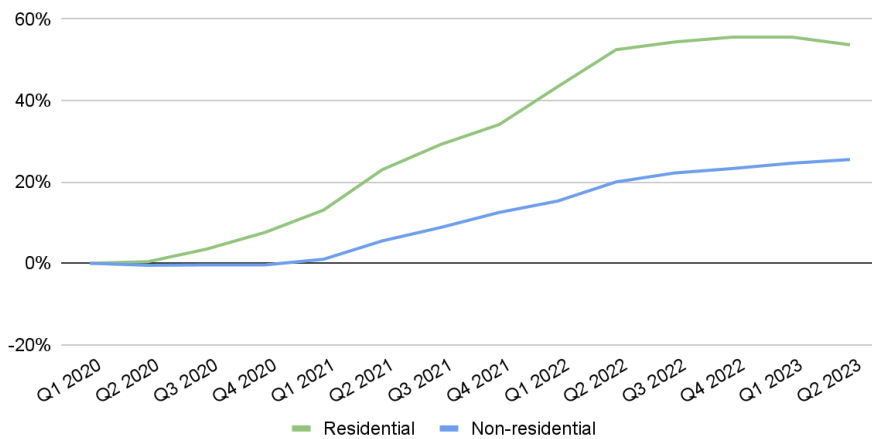
New Housing Supply - Edmonton



Source: Canada Mortgage and Housing Corporation (CMHC)

Building construction price inflation for residential and non-residential structures in the Edmonton CMA decelerated over H1. Annualized construction price inflation for residential structures slowed to 0.8 per cent in Q2 2023 from 8.5 per cent in Q1. For non-residential structures, annualized price inflation was 4.6 per cent in Q2, compared to 8.1 per cent in Q1. Despite the slowdown, the cumulative impact of price pressures over 2021 and 2022 has left building construction prices significantly higher compared to Q1 2020. For residential structures, prices rose almost 54 per cent higher over that period, while prices for non-residential building construction were almost 26 per cent higher.

Edmonton CMA Cumulative Building Construction Price Inflation Since Q1 2020



Source: Statistics Canada

A combination of higher interest rates increasing carrying costs for ownership, higher building costs, and a jump in new home inventory levels is expected to weigh on single-detached construction in 2023. This is further supported by building permit data, with a 46 per cent year-over-year reduction in the number of issued permits for new single-family dwellings in H1 2023. Stronger than expected in-migration will boost household formation and increase the demand for housing, likely more for rental units than for ownership. For renters who are planning on becoming homeowners, higher costs may alter how much they can pay to enter the homeownership market or delay their plans, keeping them in the rental market for longer than anticipated.

Risks to the outlook

Edmonton's economy is forecast to grow in 2023 and over the medium-term. Two key risks that could impact the outlook are provided below.

1. Persistently strong population growth

Reports on quarterly population estimates and the components of population change at the provincial and national levels justified an upward adjustment in the City's population outlook for Edmonton and the CMA in the spring 2023 forecast update. Since that outlook was finalised, additional information was released suggesting even stronger levels of in-migration, which could lift growth beyond what is in the spring update, at least for 2023 and 2024. This development could present both upside and downside risks. Typically stronger than anticipated population growth brings additional consumers of goods and services, including housing, and potentially boosts the working age population. On the downside, however, if that unanticipated growth is sudden and exceptionally strong, which is likely currently happening in Edmonton, it could be a negative shock to the economy over the short-term, as the supply of housing and services may not have fully anticipated the scale of in-migration, translating into a sudden and strong increase in demand. As a potential consequence, if available supply in the housing market, either for purchase or for rent, cannot absorb the increase in demand there would be more competition for available units, which tends to push up prices across the city. While there are rental units currently under construction, it is difficult to time the construction and completion of new homes to sufficiently meet demand, especially if that demand is strong, unanticipated and occurs over a short period of time. These impacts are likely to be amplified in an already high price level or inflation environment, as remains the case in Edmonton.

2. Tighter borrowing conditions and financial strain on households

The forecast assumes that higher interest rates will slow consumer and business spending starting in 2023 as the increased cost of borrowing starts to become more apparent in purchasing decisions. Financial conditions continued to tighten over H1, with the Bank of Canada resuming increases to its target policy interest rate on June 7 and continuing to

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increase the rate on July 12, in response to stronger than expected economic growth nationally. The Bank of Canada may continue to increase rates or hold at current levels for an extended period of time should the national economy remain strong or resilient. This could put even more financial strain on households in Edmonton, especially households already struggling in an elevated price environment. Mortgage delinquency rates in the Edmonton CMA do not appear to be on the rise, though the same cannot be said of consumer insolvencies. In both Q1 and Q2 this year, consumer bankruptcy filings have been higher than 2022, with Q2 2023 consumer bankruptcies 30 per cent higher year-over-year.

Information Sources by Concept

Long-term economic outlook

- City of Edmonton, [Spring 2023 Forecast Summary Table](#).
- City of Edmonton, [Fall 2022 Forecast Update](#).

Demography

- Alberta Treasury Board and Finance Office of Statistics and Information, [Census Subdivision Population Estimates, July 1, 2016 to 2022, Alberta](#).

Retail sales

- Statistics Canada. [Table 20-10-0056-01 Monthly retail trade sales by province and territory \(x 1,000\)](#).

Labour and Employment

- Statistics Canada. [Table 14-10-0378-01 Labour force characteristics, three-month moving average, unadjusted for seasonality](#).
- Statistics Canada. [Table 14-10-0380-01 Labour force characteristics, three-month moving average, seasonally adjusted \(x 1,000\)](#).
- [Statistics Canada. Table 14-10-0379-01 Employment by industry, three-month moving average, unadjusted for seasonality \(x 1,000\)](#).

Prices

- Statistics Canada. [Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted](#).
- Statistics Canada. [Table 18-10-0276-01 Building construction price indexes, by type of building and division](#).

Residential construction

- CMHC Starts and Completions and Market Absorption Surveys via the [Housing Market Information Portal](#).
- City of Edmonton, [Monthly Building Permit Summary](#).

Financial conditions

- [Bank of Canada](#)
- Equifax Canada, [Mortgage and Delinquency Rate \(%\) - Canada, Provinces, and CMAs, 2012 Q4 to 2023 Q2](#).
- Office of the Superintendent of Bankruptcy, [Insolvency statistics in Canada](#).