



City of Edmonton

Q3 2020 Economic Update

Office of the Chief Economist

Felicia Mutheardy, Chief Corporate Economist (Acting)
Financial and Corporate Services
(780) 496-6144

For media inquiries:

Matt Pretty, Communications Advisor
Financial and Corporate Services
(780) 442-0970

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1. Introduction

The COVID-19 pandemic has continued to affect economic activity in the Edmonton region in Q3 2020. Though stage 2 of the provincial relaunch strategy has allowed businesses to continue operating, many are facing the challenges of service reductions and adapting to accommodate health measures. Measures allowing some operations have helped the labour market in its recovery: employment gains from Q2 2020 are 53,200, bringing the unemployment rate down to 12.6 percent from 15.7 percent. However, without a medical solution to the virus, there is no end in sight to the pandemic's health and economic toll. Uncertainty will weigh on Edmonton and the region's economic recovery paths, especially with rising case counts in the Edmonton health zone in fall 2020. Based on the City of Edmonton's spring 2020 forecast, pre-COVID output levels are not expected until 2022, though downside risks to the recovery of factors such as net in-migration and consumer and business confidence could affect the timeline of Edmonton's economic recovery.

2. International, National and Provincial Outlooks

In its October 2020 update¹, the International Monetary Fund (IMF) slightly improved its outlook for the global economy compared to June 2020. The IMF now expects the global economy to contract by 4.4 percent in 2020 (compared to 4.9 percent in June) and then to grow 5.2 percent in 2021. The IMF's October 2020 forecast for Canada improved compared to June, predicting a contraction of 7.1 percent instead of 8.4 percent followed by growth of 5.2 percent in 2021.

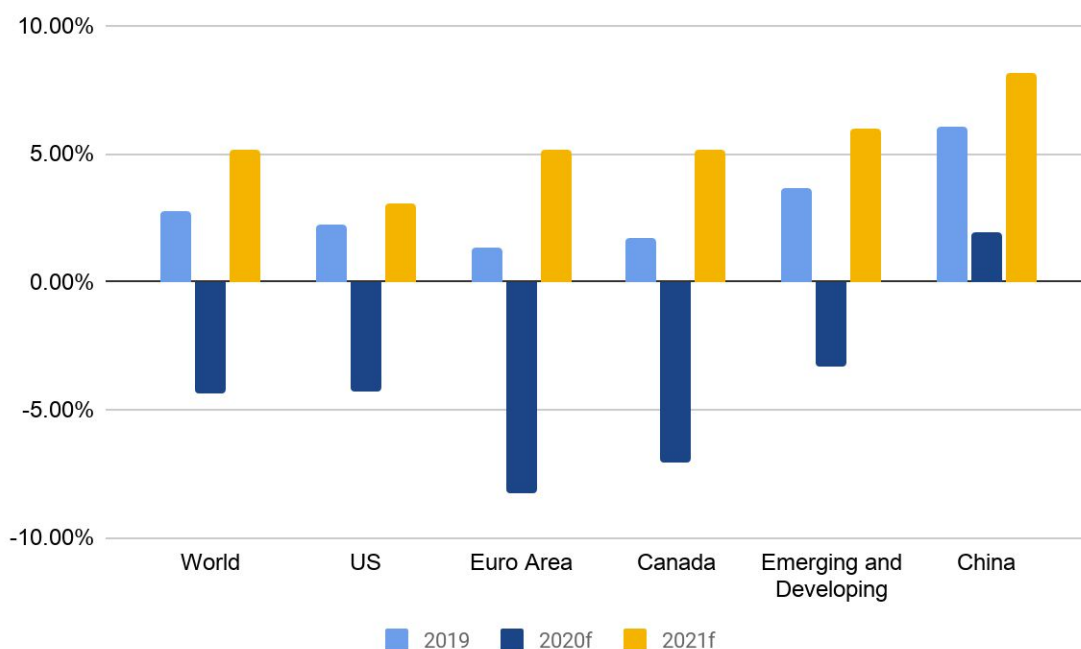
The IMF cited positive surprises in economic activity, as reopening plans across the globe came into effect, as one factor in upgrading its global outlook. Another factor was the high level of fiscal and monetary policy support, including direct financial transfers, asset purchases, loans and credit guarantees. There were positive surprises in consumer spending and a faster-than-expected normalization in overall economic activity than anticipated in the June report for some economies, resulting in lifted expectations for output in 2020. Economic activity in China, in particular, was strong, which partially offset the IMF's significant forecast downgrade for India in 2020, within the broader scope of emerging and developing Asian economies.

Despite the improvement in the IMF's outlook, economic scarring is expected to weigh on potential supply post-COVID, to varying degrees across economies. The impact on supply will

¹[The International Monetary Fund, October 2020 World Economic Outlook](#)

depend on factors like the extent of the pandemic's damage on businesses and worker confidence. As well, data have shown that the pandemic is causing different effects than previous recessions. In previous recessions, services-producing sectors were relatively stable, whereas in this case, these sectors are being hit particularly hard, causing a disproportionate impact on underrepresented populations, including younger workers and women.

Figure 1. IMF October 2020 World Economic Outlook, real GDP growth rates



Source: International Monetary Fund's October 2020 World Economic Outlook

In the Bank of Canada's October 2020 Monetary Policy Report², the Canadian economy is projected to contract by 5.7 percent in 2020, an improvement from a projected 7.8 percent contraction in the Bank's July 2020 central scenario. The improvement is based on a stronger than expected rebound in economic activity from easing containment measures over the summer. There remains a high degree of uncertainty about Canada's economic recovery as the pandemic's future path is unknown. At the time of writing, the average rate of contraction in real gross domestic product across Canada's five largest banks was 5.6 percent in 2020, followed by an average rate of growth of 4.5 percent in 2021.

Canada's economic recovery will likely be protracted and uneven, especially without a medical solution to the virus. Export Development Canada (EDC) developed the Canadian

² [Bank of Canada, October 2020 Monetary Policy Report](#)

Economic Recovery Tracker (CERT)³ to track economic activity in Canada through a combination of 11 high-frequency indicators. On October 2, 2020, the CERT indicated that Canada's economic recovery was trending downward from estimated improvements largely throughout the summer months. EDC cited a number of factors in this decline:

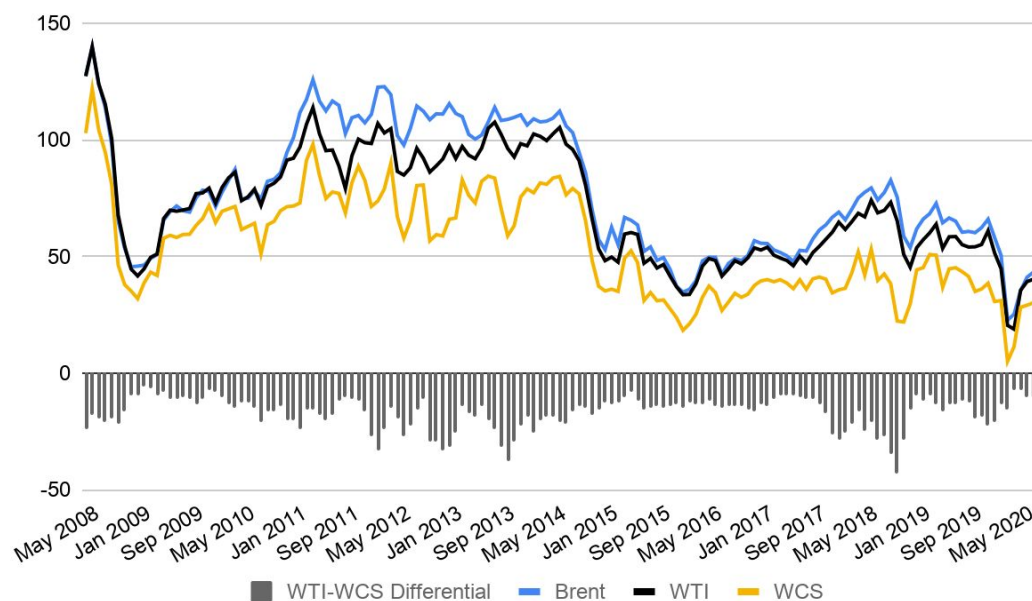
- rising weekly COVID-19 cases across the country;
- provincial reimplementations of restrictions in hotspots;
- setbacks in financial markets;
- and weaker oil prices.

According to ATB Financial's latest economic outlook, the provincial economy is expected to contract by 7.1 percent in 2020, after which positive growth is expected to return in 2021. As mentioned in the Q2 2020 Economic Update, there is a wide range of predictions on the extent of the pandemic's economic impact and on what recovery could look like. However, common across forecasts is that the impact will be more negative for non-renewable resource-based economies given the collapse in oil prices earlier this year, along with heightened uncertainty that will impact medium- to long-term growth.

3. Energy Prices

Oil prices have partially recovered since collapsing in the spring. In September, the average price per barrel of Western Canadian Select was US \$29.38; for West Texas Intermediate, prices averaged US \$40.22 per barrel and for Brent, the average price per barrel was US \$40.95. Average prices for all three commodities were lower in September compared to the previous month (as indicated in Figure 2), though marginal compared to the sharp drops earlier in the year.

³ [Export Development Canada, Canadian Economic Recovery Tracker](#)

Figure 2. Oil Prices, USD

Source: Bloomberg

4. Interest Rates

The Bank of Canada has maintained its policy target for the overnight rate at 0.25 percent since lowering it by 50 basis points on March 27, 2020. Canada's core inflation rate, as reflected in the three measures of consumer prices tracked by the Bank of Canada, held at 1.7 per cent in September, which is lower than the midpoint of the Bank's target range of one to three per cent.

The Bank of Canada indicated in its July 2020 Monetary Policy Report⁴ that it will keep rates low until the economy is back at full capacity and inflation is closer to the two percent target. This set expectations for interest rates to remain low for the duration of the pandemic and following it for some time. As indicated in Table 1, both short- and long-term rates are expected to remain low for the foreseeable future, though, compared to August 2020 bond yield projections, forward yields have improved slightly.

⁴ [Bank of Canada, July 2020 Monetary Policy Report](#)

Table 1. Annual Canadian 5- and 10-year Bond Yield Projections

| | | Canada Bond Yield | |
|---------|------|-------------------|---------|
| | | 5-Year | 10-Year |
| Actual | 2009 | 2.77 | 3.61 |
| | 2010 | 2.42 | 3.12 |
| | 2011 | 1.28 | 1.94 |
| | 2012 | 1.38 | 1.80 |
| | 2013 | 1.94 | 2.76 |
| | 2014 | 1.34 | 1.79 |
| | 2015 | 0.73 | 1.39 |
| | 2016 | 1.11 | 1.72 |
| | 2017 | 1.87 | 2.05 |
| | 2018 | 1.89 | 1.97 |
| | 2019 | 1.69 | 1.70 |
| Forward | 2020 | 0.37 | 0.68 |
| | 2021 | 0.44 | 0.81 |
| | 2022 | 0.55 | 0.94 |
| | 2023 | 0.68 | 1.06 |

Rates for December 31 of each year.

Forward rates as of October 21, 2020

Source: FWCV function on Bloomberg

5. Q3 2020 Economic Developments in Edmonton and the Region

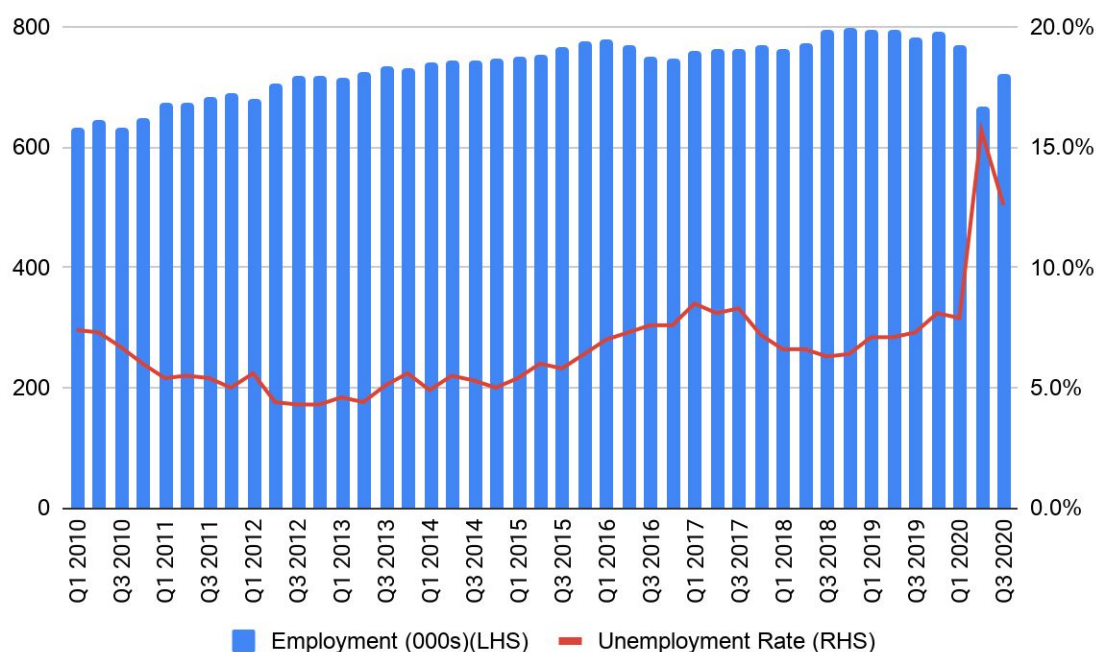
Edmonton's economy appears to be recovering from the sharp pullback in activity earlier this year due to containment measures that were in place to slow the spread of COVID-19. At the time of writing, the province was at stage 2 of the Alberta Relaunch Strategy. Since the provincial relaunch strategy was introduced and came into effect in May, there have been

gradual improvements in indicators related to the labour market, inflation, and building permits, whereas quarterly housing starts have been lower on a year-over-year basis for two consecutive periods. These indicators are discussed in greater detail below.

5.1 Employment in the Edmonton CMA

Seasonally adjusted employment in the Edmonton census metropolitan area (CMA) began to recover in Q3 2020, gaining 53,200 workers compared to Q2. The region's seasonally adjusted unemployment rate came down from 15.7 percent in Q2 to 12.6 percent in Q3, largely due to employment growth outpacing labour force growth. Part-time employment (unadjusted for seasonal factors) is recovering faster than full-time work, with 4,500 more part-time workers on a year-over-year basis. There have been some improvements, though employment levels in many sectors still have a long recovery ahead to return to pre-COVID levels.

As noted by the IMF as a global trend, the recession has had a disproportionate impact on women and younger workers in the Edmonton CMA as well. Year-over-year employment losses for females (-37,900) were greater than for males (-24,600) in Q3. As well, the unemployment rate for females in the third quarter was higher at 13.6 percent compared to 12.3 percent for males, with a year-over-year change that almost doubled that of males. Across age cohorts, the unemployment rate for workers aged 15 to 24 years was the highest at 32.4 percent in Q3 2020, almost double that of the previous year. If this disparity in labour market conditions continues, it could weigh on Edmonton's economic recovery post-COVID, as well as pose challenges to the region's medium- to long-term labour force development.

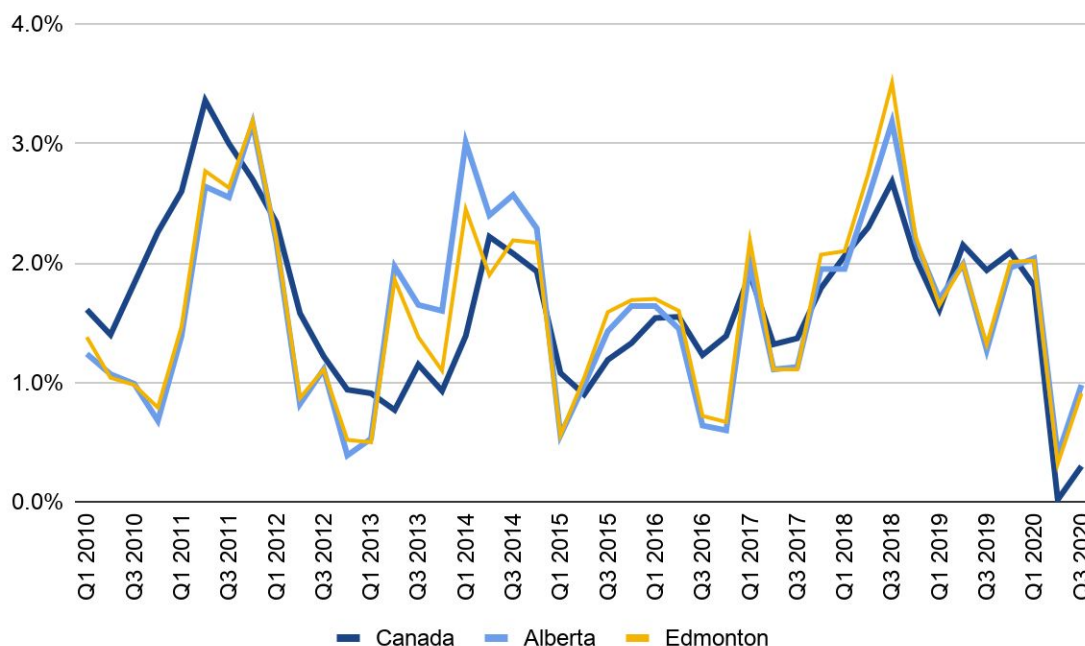
Figure 4. Edmonton CMA employment level and unemployment rate

Source: Statistics Canada (Q1: March, Q2: June, Q3: September, and Q4: December), seasonally adjusted

5.2. Inflation

The rate of consumer-based inflation in the Edmonton CMA, as measured by the Consumer Price Index (CPI), was 0.9 percent in Q3 2020, higher than a quarterly average rate of 0.3 percent in Q2. On a year-over-year basis, the region's shelter-related prices increased by two percent in Q3, largely driven by price growth in the water, fuel and electricity component. Prices related to owned accommodation saw modest growth of 0.6 percent year-over-year in the third quarter, while prices for rented accommodation increased by 1.1 percent.

Inflation in the Edmonton CMA remained relatively weak in Q3, though September 2020 data showed inflation increase that was more inline with pre-COVID historical trends. The largest contributor to Q3 price growth in the shelter component was a 7.8 percent price change related to water, fuel and electricity. Though there are limited details on changes in the CPI for the Edmonton CMA, it is possible that provincial price trends may also apply to the region, particularly a 25 per cent year-over-year increase in Q3 natural gas prices. The price of natural gas saw double-digit year-over-year increases in every month of Q3 and is likely one factor that is accelerating price growth in the water, fuel and electricity component in Edmonton.

Figure 5. Consumer inflation (year-over-year percent change)

Source: Statistics Canada

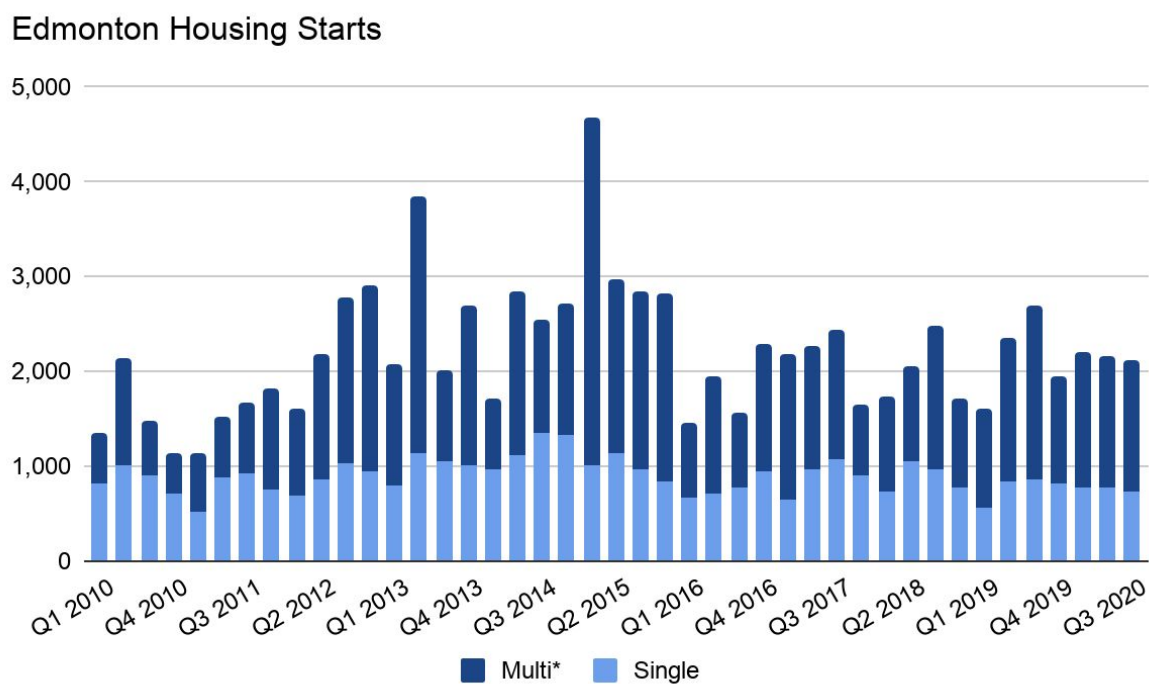
5.3. Building Permit Values

Construction intentions in the Edmonton CMA for both residential and non-residential structures were 4.2 percent higher in value for the year thus far (i.e., January to August 2020), compared to building permit values over the same period in 2019. Though data for September 2020 were not available at the time of writing, total building permit values in July and August indicated a rebound, concentrated in higher permit values for single and multiple residential dwellings, and institutional and governmental structures.

5.4. Housing Starts

Builders in the city of Edmonton broke ground on 2,167 housing units in Q2 2020, a decline of 7.6 percent year-over-year (see Figure 6). Single-family housing starts production slowed by 8.2 percent year-over-year in Q2 2020 with double-digit year-over-year reductions in both May and June 2020. A total of 1,397 multi-family starts broke ground in Q2 2020, down 7.2 percent year-over-year. Multi-family starts include semi-detached, row and apartment units. The decline in Q2 2020 multi-family starts was primarily due to lower production for semi-detached and row units.

Figure 6. Edmonton housing starts (units)



Source: Canada Mortgage and Housing Corporation