



City of Edmonton

Q4 2020 Economic Update

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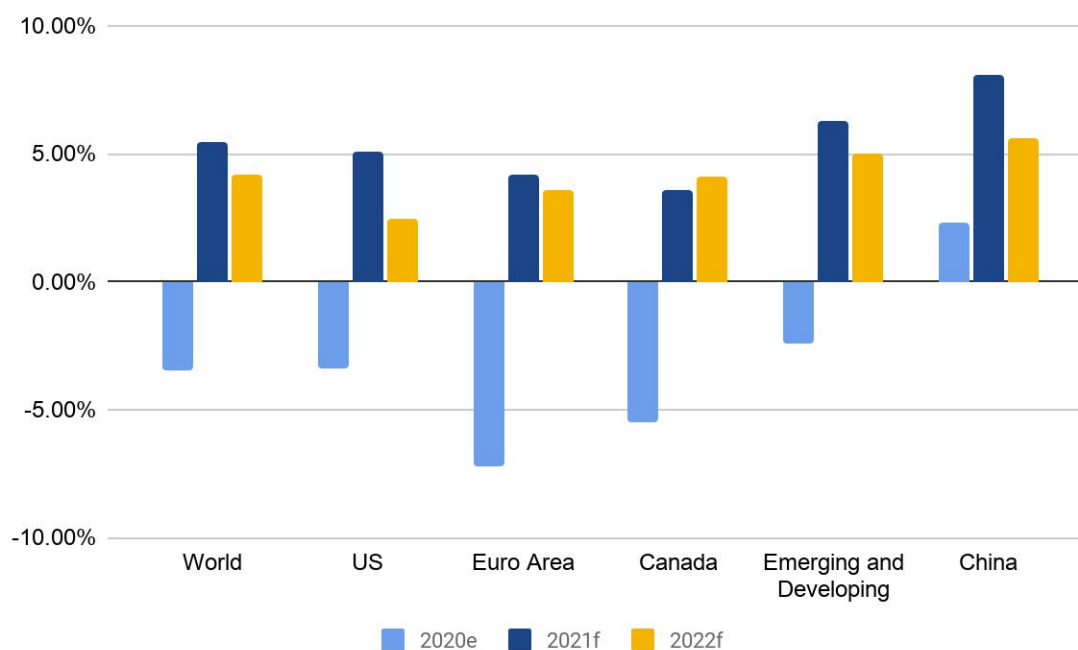
1. Overview

Along with supportive government and monetary policies, recent news of COVID-19 vaccinations have improved the global economic outlook for 2021. The progress of vaccine distribution in Edmonton will be an important variable in the city's economic performance in 2021. In the fourth quarter of 2020, the provincial government introduced additional public health measures to respond to rising case counts. However, employers in the Edmonton region appear to be adapting. Employment in the Edmonton region improved in Q4 2020, albeit unevenly across sectors and job type. Construction activity showed some improvements overall, with a strong performance in quarterly housing starts and increases to residential building permit values; though non-residential construction intentions appear to still be struggling.

2. International and National Outlooks

According to the International Monetary Fund's (IMF) latest world economic outlook¹, the global economy contracted by an estimated 3.5 per cent in 2020, an improvement from their October 2020 outlook when the contraction was expected to be 4.4 per cent. The outlook for the global economy improved throughout 2020 as policy actions supported economic activity, both in offsetting some of the significant negative impacts of the pandemic and charting the course for an economic recovery in some countries. The IMF expects the global economy to grow by 5.5 per cent in 2021, followed by growth of 4.2 per cent in 2022. Though growth is expected over the next two years, the IMF noted that the economic performance across countries will be uneven due to uncertainty and dependency on factors like "access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis". Figure 1 below shows the IMF's growth rates in different economies.

¹[The International Monetary Fund, January 2021 World Economic Outlook](#)

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

Source: International Monetary Fund's January 2021 World Economic Outlook

The Canadian economy was estimated to have contracted by 5.5 per cent in 2020 according to the Bank of Canada's January 2021 Monetary Policy Report². A resurgence in case counts and more restrictive public health measures that were introduced in other parts of the country in Q4 2020 are expected to weigh on Q1 2021 activity. However, Canada's economic performance is expected to improve with positive growth projected for both 2021 and 2022. Progress towards broad COVID-19 immunity both globally and domestically is expected to increase consumption over the medium term, and to help to restore business confidence.

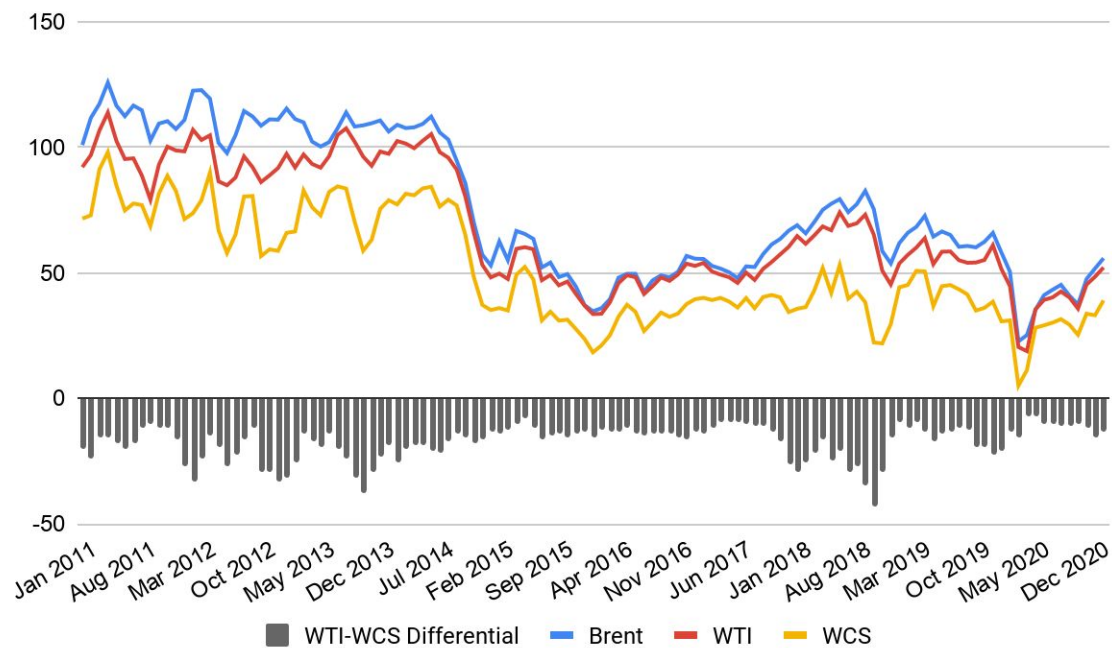
3. Oil Prices

The oil and gas sector is an important part of the Edmonton region's economy. Oil prices provide insight into market conditions that would influence investment and production decisions. Oil prices were supported through Q4 2020 by news of vaccine approvals, which improved economic recovery prospects. The news helped to regain some of the ground lost when oil prices collapsed in spring 2020. The average price in December 2020 per barrel of Western Canadian Select (the benchmark price for Alberta producers) was US \$33.17; for West Texas Intermediate (the North American benchmark), prices averaged US \$48.52 per

² [Bank of Canada, January 2021 Monetary Policy Report](#)

barrel and for Brent (the international benchmark), the average price per barrel was US \$51.80. Average prices for all three commodities saw improvements in December 2020 relative to September (as indicated in Figure 2).

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 per cent 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, averaged 1.7 per cent in December 2020, and 1.7 per cent overall in 2020, both lower than the midpoint of the Bank's target range of one to three per cent. As indicated in Table 1, both short- and long-term rates are expected to remain relatively low, with gradual improvements in predicted bond yields through to 2024.

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

		Canada Bond Yield	
		5-Year	10-Year
Actual	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
	2020	0.39	0.68
Forward	2021	0.49	0.86
	2022	0.61	0.99
	2023	0.75	1.10
	2024	0.91	1.20

Rates for December 31 of each year.

Forward rates as of January 4, 2021

Source: FWCV function on Bloomberg

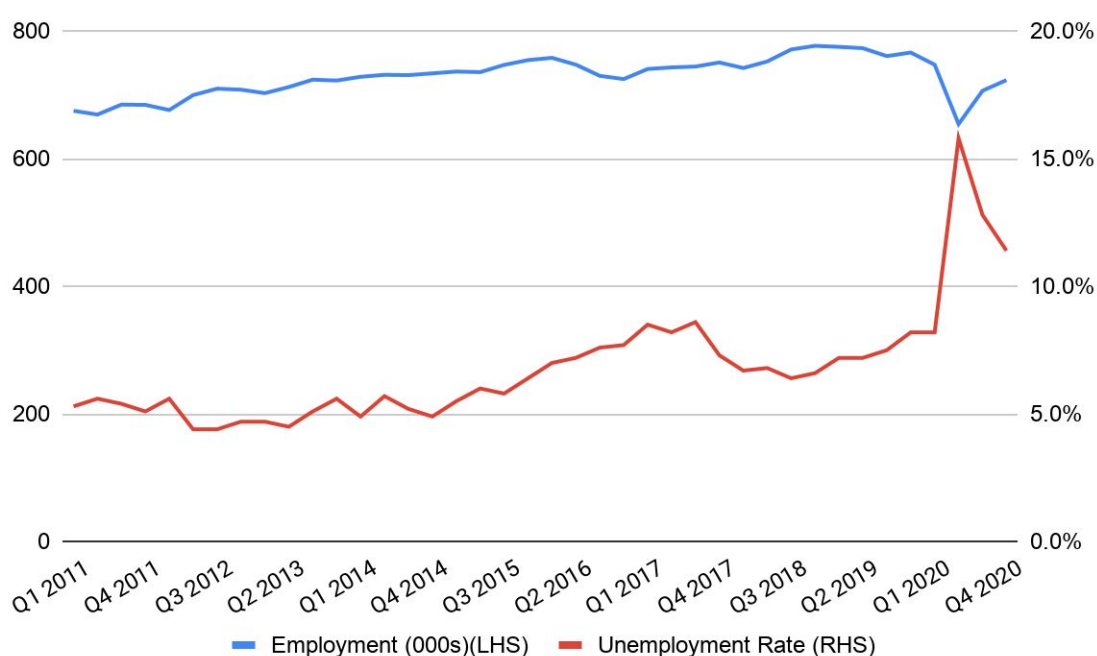
5. Q4 2020 Economic Developments in Edmonton and Region

5.1 Employment in the Edmonton CMA

Seasonally adjusted employment in the Edmonton census metropolitan area (CMA) continued its recovery in Q4 2020, with an additional 16,700 persons employed compared to Q3. The region's labour force also expanded, though that expansion was outpaced by employment growth, which lowered the unemployment rate to 11.4 per cent in Q4 from

12.8 per cent in Q3. Employment recovery continued to be more pronounced in part-time work: part-time employment in Q4 2020 was 3,200 persons higher on a year-over-year basis. Full-time employment levels were almost 47,000 persons lower year-over-year, though the deficit has noticeably improved from Q3, when levels were almost 61,000 lower year-over-year. Employment levels in a majority of sectors remained lower year-over-year, with the largest declines being in the accommodation and food services (-26,600) and manufacturing (-16,600) sectors.

Figure 3. Edmonton CMA employment level and unemployment rate



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

Note: Historical data were revised by [Statistics Canada](#) due to the rebasing of populations to reflect population counts from the 2016 Census. Revised data are available going back to 2006 for the Edmonton CMA.

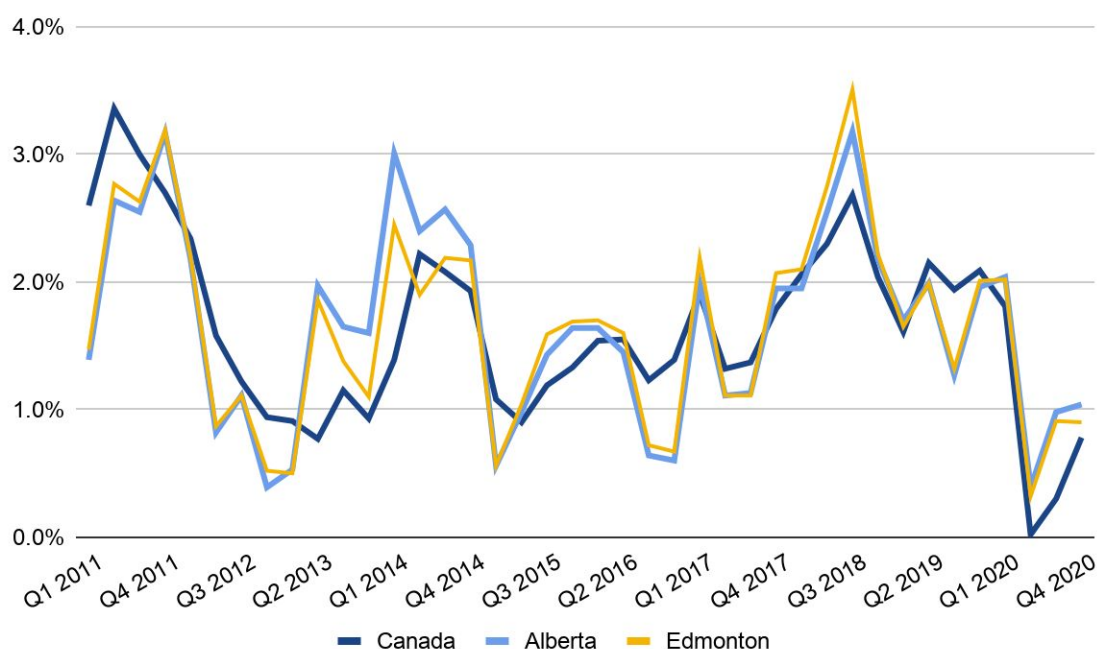
Seasonally adjusted employment has seen consistent gains on a month by month basis since June, confirming a recovery is well underway. However, the recovery has been uneven across job type (i.e., full-time and part-time work), as well as across sectors. This suggests a full recovery to pre-COVID employment levels will take some time. For 2020 as a whole, 62,200 fewer individuals were employed compared to the previous year. The region's unemployment rate averaged 12 per cent in 2020, marking a 4.5 percentage point increase from 2019, and was the highest unemployment rate across Canadian CMAs.

5.2. Inflation

The rate of consumer-based inflation in the Edmonton CMA, as measured by the Consumer Price Index (CPI), averaged 0.9 per cent in Q4 2020, unchanged from Q3. The region's shelter-related prices rose 0.5 per cent year-over-year in Q4, largely driven by price growth in the water, fuel and electricity component and for rented accommodation.

The Edmonton CMA's uneven shifts in consumption caused distortions in monthly inflation readings. For example, less demand for clothing, public transportation, and gasoline led to noticeable declines in prices in those components at the provincial level, which likely also applied to the region. In 2020, inflation in the Edmonton region averaged 1.1 per cent. Shelter prices were 1.2 per cent higher for the year, largely influenced by the utility price growth as noted above.

Figure 4. Consumer inflation (year-over-year per cent change)



Source: Statistics Canada

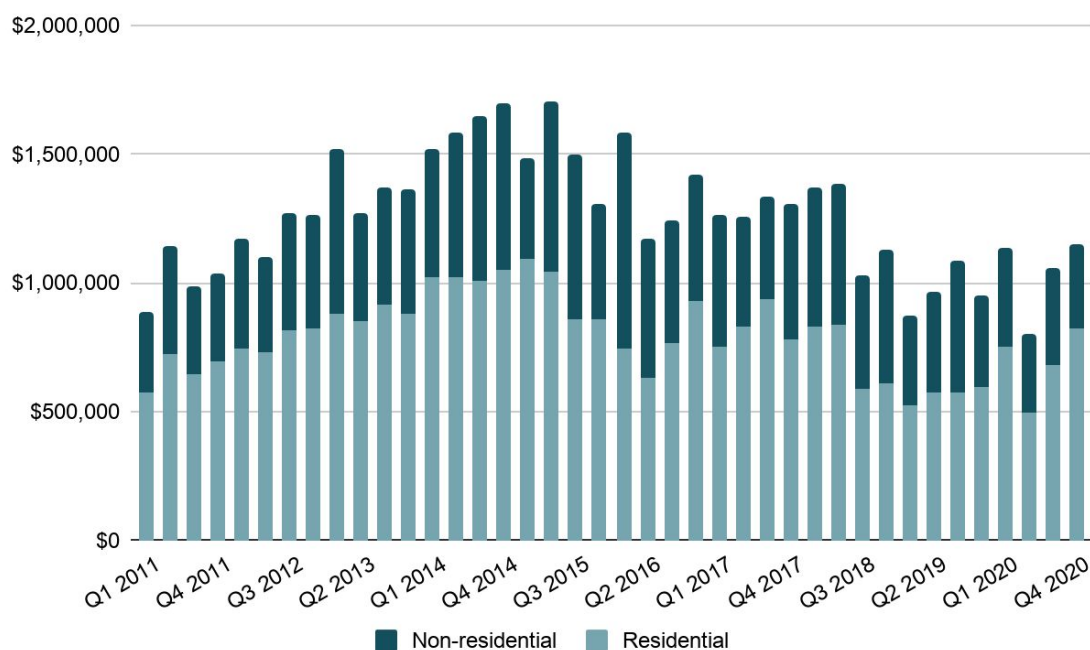
5.3. Building Permit Values

The value of building permits provides a glimpse into the performance of building construction. Building permits indicate an intent to build but do not always result in immediate construction. Building permit values in the Edmonton CMA continued to climb in Q4 2020, with a 9.2 per cent increase overall compared to Q3. Construction intentions for

residential structures saw a significant gain in Q4, whereas non-residential building permit values declined. On the residential side, both single and multiple dwelling permit values saw consecutive quarterly growth in the second half of 2020, contributing to the strong performance in housing starts in Q4. On the other hand, non-residential building permit values declined in Q4 as a quarter-over-quarter gain in commercial building permit values was more than offset by declines for the other two segments (i.e., industrial, and institutional and governmental).

Annual building permit values in the region were 7.1 per cent higher in 2020 year-over-year, primarily due to higher permit values for single and multiple dwellings, as well as institutional and governmental structures.

Figure 5. Edmonton CMA Building Permit Values (\$000s)



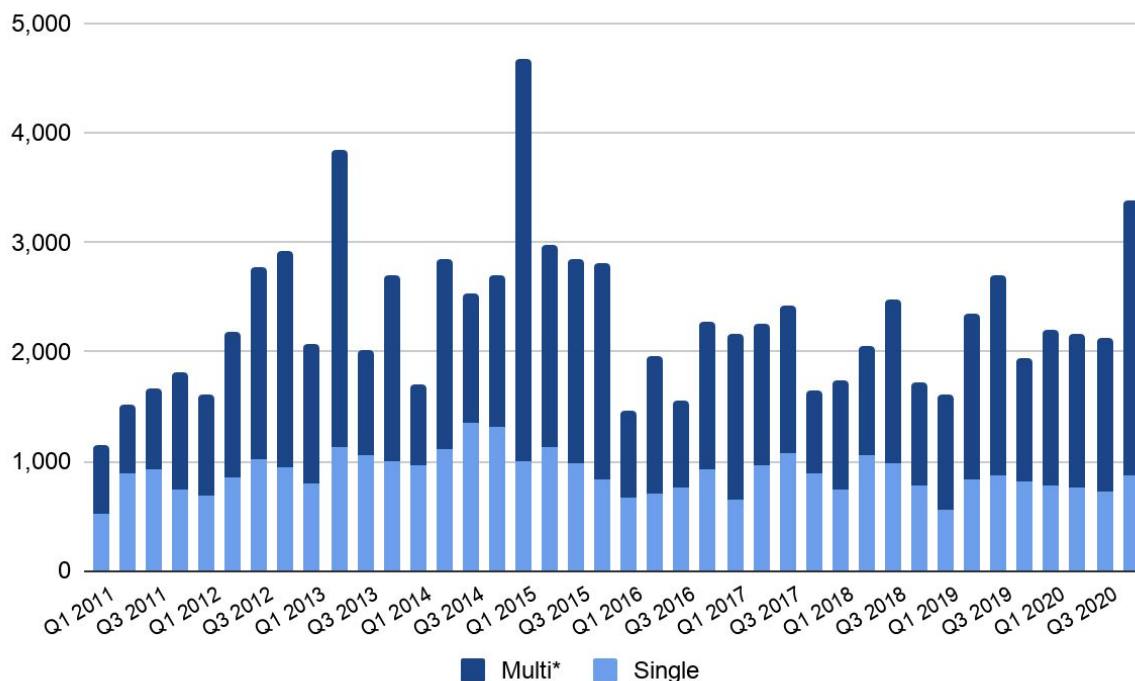
Source: Statistics Canada, seasonally adjusted

5.4. Housing Starts

In Q4 2020, Edmonton builders broke ground on 3,381 housing units, up 74 per cent year-over-year. On a year-over-year basis, single-family housing starts rose 7.1 per cent, while multi-family starts, which include semi-detached, row and apartment units, more than doubled production in Q4 2020. The jump in multi-family starts was largely due to much higher apartment starts, particularly for rental apartment units. In Q4 2020, 1,031 rental

apartment units broke ground, the strongest quarterly performance since the start of publicly released data in 1990.

Figure 6. Edmonton housing starts (units)



Source: Canada Mortgage and Housing Corporation; multi includes semi-detached, row and apartments.

Housing starts in Edmonton were much stronger than anticipated in 2020 overall, with an annual gain of almost 15 per cent year-over-year. The strongest performance across housing types was for apartment units with starts up by almost 39 per cent for the year. Excluding Q3 2020, quarterly apartment starts posted strong year-over-year gains throughout 2020. In Q4 2020, rental apartment starts accounted for almost 52 per cent of total apartment starts, and hit their highest level of production since data became publicly available. Despite hitting a quarterly record high, the rental apartment share relative to overall apartment starts was about 36 per cent, well within range of its preceding 10-year average share. Looking ahead, the demand for housing, including for new homes, is expected to soften. This is because demand fundamentals, including full-time employment, incomes and population growth, have weakened considering the COVID-19 pandemic, and may take some time to recover.