ALBERTA - Energy market access issues deliver a setback

Pipeline bottlenecks and soft prices add to oil and gas woes. Those woes will cause growth to decline to 1.5% in 2019 from 2.4% this year. But there is light at the end of the tunnel. An expansion in pipeline capacity bodes well for growth in 2020, with the economy bouncing back to 2.7%.

Calgary's recent decision to take a pass on the 2026 Olympic Winter Games summed up Alberta's economic mood. The final months of 2018 cast a pall on what was otherwise a year of moderate growth for the province. Growing output and transportation bottlenecks combined to push down prices for Alberta heavy crude, leading the government to order a production cut of 8.7% starting in January 2019 to clear out high inventories. The curtailment will have negative implications for 2019. We expect the pace of growth to slow to 1.5% in 2019 from 2.4% in 2018.

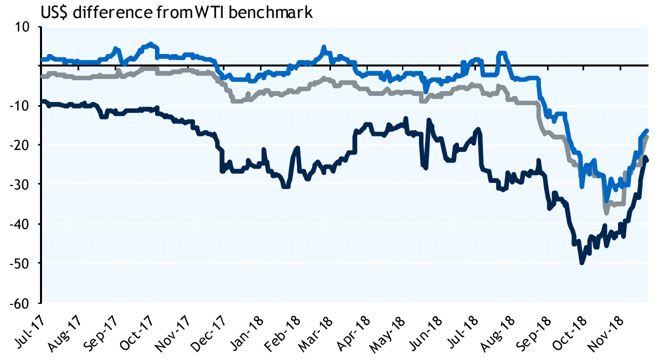
Recovery from 2014's oil-price rout hasn't been a smooth process for Alberta. The differential between the Western Canadian Select and West Texas Intermediate oil benchmarks hit record highs in the latter part of 2018 – with WCS selling for US$50 less a barrel at one point. While this was a result of several U.S. refineries shutting down temporarily for maintenance (which have since come back online), pipeline constraints continue. Rising oil production combined with transportation limitations have resulted in a buildup of inventories. Once Enbridge's Line 3 replacement is fully operational in Q1 2020, we expect these issues to diminish, and growth to re-accelerate to 2.7% that year. Until then, growth prospects aren't as bright as they used to be for the sector and the provincial economy. The oil production cut could lower GDP growth in Alberta by as much as a percentage point relative to prior assumptions. However, the impact will depend on how prices and inventories respond to the cuts.

Alberta's labour market continued to improve in 2018. Although unemployment showed some increase in the most recent data, it stands at 6.7% year to date, down more than a percentage point year-on-year. The employment rate continues to be the highest among the provinces (although it's not back to pre-recessionary highs) and average weekly earnings are up 2.6% from a year ago. Net immigration almost doubled compared to 2017, owing mostly to international migration. And after more than two years of negative net interprovincial immigration, other Canadians are finally moving to Alberta again on a net basis.

Widening oil-price differentials haven't taken a big bite out of provincial government revenues yet due to conservative expectations. But budget pressures stemming from lower oil and gas revenues have intensified, explaining why the government has taken the unusual step of curtailing production to rebalance the market and of buying railcars to address bottleneck concerns.

Western Canadian Oil Prices

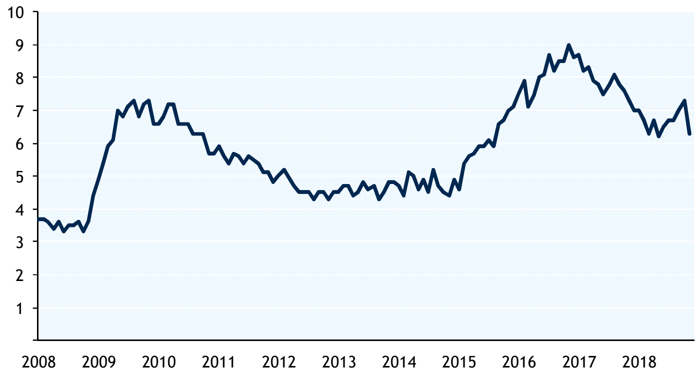
US$ difference from WTI benchmark



Source: Bloomberg, RBC Economics Research

Alberta: Unemployment rate

Seasonally adjusted, monthly, %



Source: Statistics Canada, RBC Economics Research

Alberta forecast at a glance

% change unless otherwise specified

	2016	2017	2018F	2019F	2020F
Real GDP	-4.2	4.4	2.4	1.5	2.7
Nominal GDP	-6.8	10.0	4.7	2.9	6.6
Employment	-1.6	1.0	1.9	0.9	1.4
Unemployment Rate (%)	8.1	7.8	6.7	7.0	6.7
Retail Sales	-1.1	7.1	2.7	3.7	3.9
Housing Starts (Thousands of Units)	24.5	29.5	26.8	29.0	30.0
Consumer Price Index	1.1	1.5	2.4	1.8	2.3

Ramya Muthukumaran | Economist | 416-974-7577 | ramya.muthukumaran@rbc.com