



ALBERTA'S ECONOMY TO CONTRACT IN 2015 AMID WHIRLWIND CHANGES: RBC ECONOMICS

TORONTO, June 3, 2015 — The oil price rout buffeting capital spending in Alberta's energy sector prompted RBC to downwardly revise its real GDP forecast for the province, according to the latest [Provincial Outlook](#) released today. RBC forecasts real GDP will contract by 1.0 per cent in 2015 on account of swift and considerable capital spending cuts. A gradual recovery in energy prices is expected to contribute to a turnaround in 2016 with a growth forecast of 1.7 per cent.

Still, RBC notes that earlier signs of Albertans' plummeting confidence have largely abated with a stabilizing housing market and fairly consistent employment levels.

"Alberta's energy sector continues to bear the brunt of the drop in oil prices, but the broader effects have yet to be felt fully and the resilience of Alberta's non-energy sectors will likely come under more intense pressure in the coming months," said Craig Wright, senior vice-president and chief economist, RBC. "Despite the negative outturn in the provincial economy in 2015, we believe a gradual recovery in energy prices will contribute to a turnaround in 2016."

RBC notes that low crude oil prices have put a painful squeeze on oil and gas firms causing them to implement significant cost-cutting measures. The prospect of policy changes at the provincial level was added to the mix following the New Democratic Party's landslide provincial election victory in early May. Proposed changes to corporate income taxes and the review of the province's non-renewable resource royalty regime are likely prompting firms to await clarity on the new government's policy directions.

Moreover, RBC says recent oil sands closures in response to forest fires could aggravate these challenging conditions. Amidst the instability, however, crude bitumen production continued to surge during the first few months of this year as producers churned out the strongest output year-to-date in more than a decade, reflecting an increasing number of new oil sands projects and expansions coming online.

Despite overall employment statistics showing a positive growth trend in the province, there are indications that downward pressure is emerging in the goods producing sectors – 14,000 jobs have been lost so far in 2015. Largely absorbing this slack, public sector hiring has kept overall employment above year-ago levels.

"A steady rise in the labour force outpaced the hiring gains, resulting in an unemployment rate that jumped to a near four-year high of 5.5 per cent in March and April," added Wright. "There is concern that an even sharper spike in unemployment could come in the months ahead as the number of Albertans filing initial employment insurance claims surged to a six-year high this spring."

Alberta's home sales picked have recently picked up from the depths they reached during the winter months.

"New listings reversed much of the uncertainty-driven surge recorded late last year, suggesting that confidence in the housing market is returning. However, the market remains vulnerable to further turmoil should the province's employment situation deteriorate," added Wright.

Given historically low activity year-to-date, RBC projects home resales will fall significantly on an annual basis in 2015. Weakness will also affect new home building as housing starts are forecasted to drop from 41,600 units in 2014 to 31,200 units in 2015.

The RBC Economics Provincial Outlook assesses the provinces according to economic growth, employment growth, unemployment rates, retail sales, housing starts and consumer price indices. The full report and provincial details are available online as of 8 a.m. ET today at rbc.com/economics/economic-reports/provincial-economic-forecasts.html.

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