

A bust...without an ensuing boom

Our outlook for Alberta's economy remains cautious, as we forecast growth to remain subdued in 2016 following a contraction in economic activity (real GDP growth forecast of -1.3%) in 2015. Fiscal support should help to counter some of the headwinds facing the province, albeit only slightly, with recently announced stimulus measures by the Alberta government underlying our revision to 2016 real GDP growth (to 0.9% from 0.6% in the September outlook). The situation remains fluid, however, as the recovery in growth conditions in 2016 and into 2017 is premised on a modest strengthening in crude oil prices; in the absence of which, the anemic economic environment could persist.

Weakness permeating through non-energy sectors...

The protracted period of crude oil prices at low levels is having a more meaningful downward effect on private domestic demand later in 2015 than was evident earlier in the year. Retail sales recorded an accelerating pace of decline during 2015 and led by pronounced declines in sales of motor vehicles and at gasoline stations (together account for more than 40% of nominal retail sales). Weakness intensified in the province's housing markets with existing home sales plunging from year-ago levels in Calgary and Edmonton (down 36.4% and 16.5%, respectively in October). Supply response in these markets helped to contain price weakness; however, with home sales expected to remain anemic in 2016, overall home prices in the province are likely to be in negative territory in 2016.

...with employment declines expected to persist

Private-sector hiring has fallen sharply year to date in November 2015 with further weakness expected as firms continue to face cost pressures. Total employment in the province has dipped only modestly below year-ago levels, as public-sector hiring has largely absorbed the excess slack; however, as the unsustainable pace of growth in this sector diminishes, overall employment declines are set to dominate in 2016. As a result, further upward pressure on the province's unemployment rate is expected to materialize. We forecast Alberta's unemployment rate to rise to average 6.9% in 2016, thereby surpassing the national average for the first time since 1988.

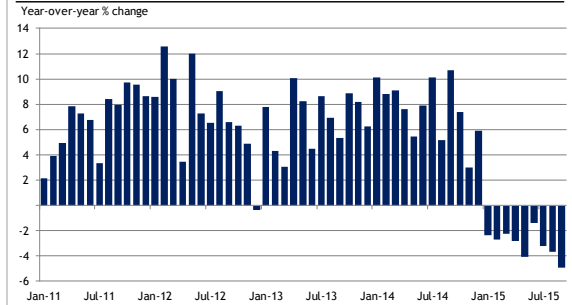
Oil production to remain resilient

Oil sands producers continued to churn out supply in 2015, thereby contributing to total crude production rising 6.7% year to date in August 2015 and above levels recorded during the same period in 2014. Looking ahead, as a number of large-scale projects ramp up production, oil sands output is poised to rise further in 2016. Future production in the province will be tied to a Climate Leadership Plan that was released in late November 2015. The details of this announcement cleared some of the uncertainty looming over the province's energy sector and included a carbon price of \$20/tonne to be placed on emissions coming into effect January 1, 2017 before rising to \$30/tonne the year thereafter.

Fiscal stimulus to provide some support

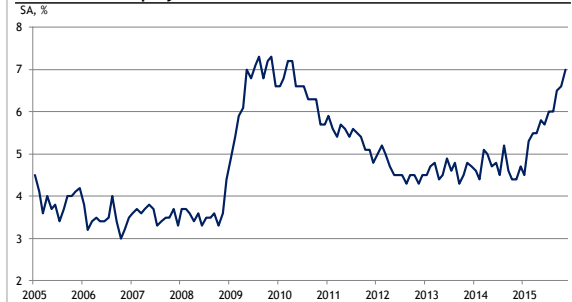
The Alberta government tackled the harsh economic realities facing the province with the release of its provincial 2015 budget on October 27, 2015. A record budgetary shortfall of \$6.1 billion is projected for 2015-16 because non-renewable resource revenues are bearing the brunt of the oil price shock. Infrastructure spending to the tune of \$34 billion is planned for a five-year period and is expected to provide an incremental boost to economic activity beginning in 2016 and 2017.

Alberta : Retail sales



Source: Statistics Canada, RBC Economics Research

Alberta : Unemployment rate



Source: Statistics Canada, RBC Economics Research

Alberta forecast at a glance

	% change unless otherwise indicated					
	2012	2013	2014	2015F	2016F	2017F
Real GDP	3.9	5.1	4.8	-1.3	0.9	2.7
Nominal GDP	4.3	10.2	9.1	-8.8	5.2	7.5
Employment	3.5	2.5	2.2	1.3	-1.1	1.6
Unemployment rate (%)	4.6	4.6	4.7	5.9	6.9	5.7
Retail sales	7.0	6.9	7.5	-3.1	1.3	3.2
Housing starts (units)	33,396	36,011	40,590	37,100	29,300	32,500
Consumer price index	1.1	1.4	2.6	1.1	1.8	1.7

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