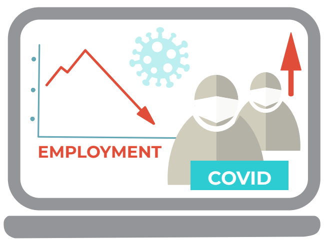
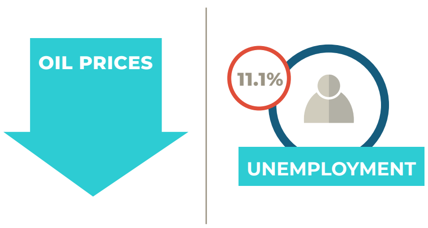
Q4 Quarterly Economic Summary

Brought to you by Alberta Central's Chief Economist Charles St-Arnaud

LABOUR MARKET

Alberta's labour market has underperformed the rest of the country during the reopening phase of the recovery. This is partly due to the added shock on the economy coming from the sharply lower oil prices.





Recently, there is increasing evidence that the rise in COVID-19 cases in the province is leading to weaker economic activity and contributing to the labour market underperformance.

In November, employment declined by 11,000, the first decline since April, pushing the unemployment rate higher to 11.1%. This contrasts with job gains in the rest of the country and a further easing in the unemployment rate.

Further increases in the unemployment rate over the next few months are likely, as the restrictions to slow the spread of COVID-19 takes a toll on economic activity.

This underperformance labour market will mean Alberta is likely to continue to lag the rest of the country in consumer spending and the housing market.

THE COVID-19 PANDEMIC WILL CONTINUE TO DOMINATE THE ECONOMIC OUTLOOK IN 2021

A strong second wave of infection is leading to more forceful restrictions. As a result, growth is likely to contract in late 2020, delaying the recovering and temporarily pushing the unemployment rate higher.

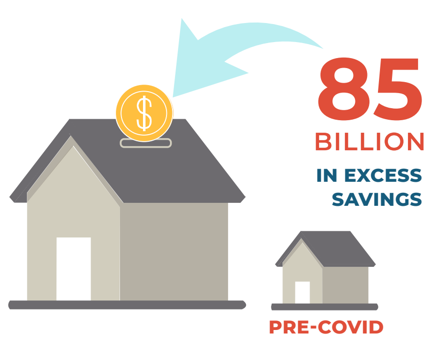
HOUSING MARKET

After a major downturn in the spring and concern regarding the outlook, the housing market is proving to be resilient and continues to rebound faster than expected nationally and provincially.

The level of housing transactions remains above their pre-COVID levels, despite some moderation in recent months. Pent-up demand, low interest rate, higher disposable income thanks to the government income-support measures and changes in housing preference continue to be the main supports.

Demand remains more robust than the increase in new listing, leading to shortages in some markets and leading to upside pressures on house prices.

We expect some cooling of the housing market in 2021, as persistently high unemployment could lead to financial strains, while would-be sellers enter the market to profit from higher prices.



HOUSEHOLDS

In aggregate, households are better off now than before the pandemic. Thanks to the government's income-support programs, **household disposable income is almost 10% higher than at the end of 2019.**

However, households are also continuing to accumulate debt, especially mortgage debt.

Nevertheless, despite the continued rise in household debt, the debt-to-income ratio remains lower than before the pandemic due to the higher disposable income. Similarly, the household debt-service ratio is also lower, thanks to higher income and the decline in interest rates.

There remains some concern regarding the impact of phasing out of government support, especially as household indebtedness continues to increase.

Households have accumulated a lot of saving during the pandemic. We estimate that Canadian households have accumulated about $85bn in excess saving during the pandemic. Whether they spend their saving during the recovery or whether they will keep it to increase their precautionary saving will have an important impact on the economy in 2021.

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