

OIL MARKET RECOVERY

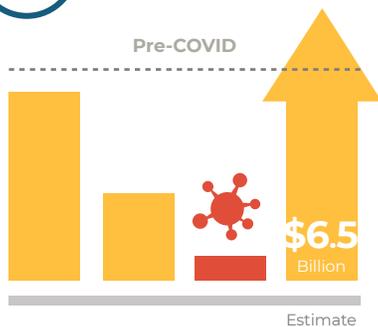
Both production and prices have bottomed out and recovered sharply.

As a result, we estimate that the value of oil production in Alberta is back above its pre-COVID level at an estimated C\$6.5bn.

A robust oil sector will provide broad support for the Alberta economy via higher income and high business and household confidence.

The industry has defied most of the predictions made in mid-2020.

However, the long-term structural challenges to the sector remain and the wave of consolidation is likely to continue in an effort to reduce cost and improve profitability.



LABOUR MARKET

Alberta's labour market has proved more resilient during the second wave of the pandemic than in the rest of the country. As a result, the province is no longer underperforming on many measures.

Despite overall gains in employment, employment in hard-to-distance sectors, younger workers and women have been held back.

Alberta continues to have the second highest unemployment rate amongst Canadian provinces.



Unemployment rate

9.0%

Q1 Quarterly Economic Summary 2021

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

THERE IS SOME LIGHT AT THE END OF THE COVID-19 PANDEMIC TUNNEL.

A second wave of infection in late 2020 led to the re-impositions of restrictions. However, economic activity is more robust than initially expected.

While activity in the hard-to-distance sectors is being held back, it is clear that the rest of the economy has adapted to the containment measures leading to only a marginal impact on those sectors.

Despite a slow start, the gradual immunization of the population will lead to a rebound in economic activity the second half of the year, as many restrictions can finally be lifted.

HOUSING MARKET

After concerns regarding the outlook in 2020, the housing market is booming nationally and in the province.

The level of monthly housing transactions in Alberta is at its highest since 2007. Pent-up demand, low interest rates, higher disposable income and changes in housing preference are the main drivers.

Demand is more robust than the increase in new listings, leading to shortages in some markets and to the biggest house price increase in Alberta since the collapse of oil prices in 2015.

The housing market is expected to remain strong in 2021. Nevertheless, some cooling should be expected.

HOUSEHOLDS

The housing market boom and continued solid performance of the equity market are leading to strong gains in household wealth.

However, household debt is also increasing at a rapid pace, pushed higher by rapid increases in mortgage debt.

Nevertheless, despite the continued rise in household debt, **the debt-to-income ratio and the debt-service ratio remain lower than before the pandemic** due to the higher disposable income.

Households have accumulated sizeable savings during the pandemic, estimated

at \$120bn. Whether they spend their savings will have an important impact on the economy in 2021.



RISING INTEREST RATES

Canadian yields have increased sharply in recent weeks.

Increased optimism regarding the economic outlook and the prospect of continued fiscal stimulus.

Both aspects are leading to investors revising their inflation expectations with "reflation," an acceleration in inflation, becoming a common view.

So far, the impact on lending rates has been muted, with a marginal increase in mortgage rates.

As the economic recovery gathers speed in the second half of the year and investors' confidence in the outlook continues to firm up, we should expect further rises in lending rates. However, with the Bank of Canada expected to increase its policy rate only in late-2022, any increase this year will be subdued.