Alberta: Challenging environment remains despite the rebound in oil prices

The wildfires resulting in a temporary disruption in oil production – which could top 30M barrels – and significantly affecting surrounding communities led us to revise down our real GDP growth estimate for 2016. Fortunately, oil sands production is gradually returning to normal and rebuilding efforts are beginning to take shape, reinforcing our call for moderate positive real GDP growth in 2017.

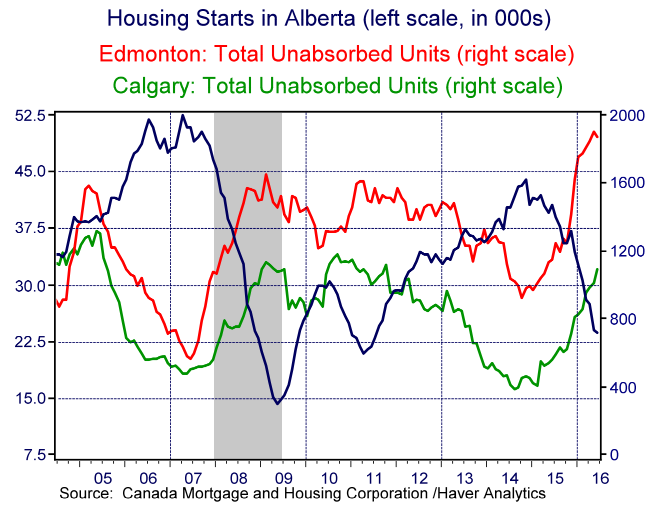
This being said, the full impact of the oil price shock has yet to be felt on the housing sector. So far, about 200K full-time jobs have been lost since the cyclical peak of December 2014, equaling the peak-to-through decline observed during the 2008-09 downturn. Unfortunately, an unemployment rate at a two-decade high level (near 8%) and increasing duration of unemployment both suggest that too many Albertans are struggling to find new jobs in the province.

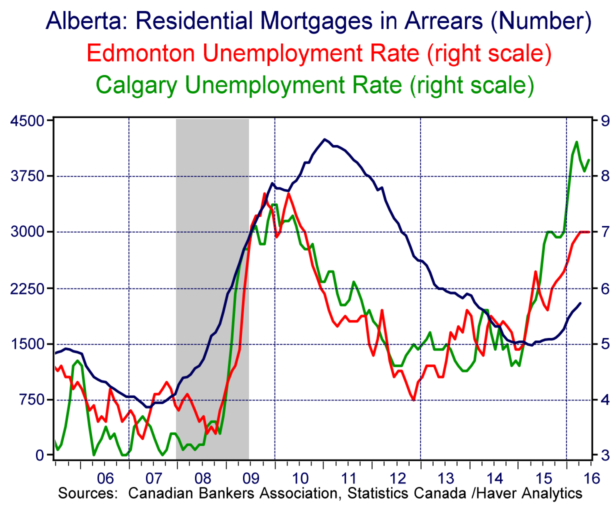
The decline in both new housing sales and resale transactions observed since late 2014 is more significant in Calgary than Edmonton, principally reflecting the larger unemployment shock in Alberta's largest city: Calgary's unemployment rate has been above the 8% mark during the first half of 2016. The steep reduction in homebuilding activity, combined with inexistent housing inventories prior to the oil shock, has prevented housing prices from falling in Calgary.

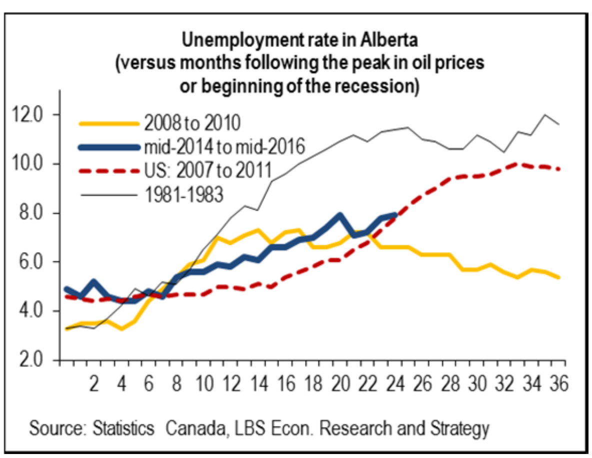
In Edmonton, the nearly 7% unemployment rate is significantly lower than in Calgary. Nonetheless, very few households are in the mood to buy, as the number of unabsorbed new single-detached homes in Edmonton is surging despite lower homebuilding activity. And while the level of new condo inventory remains low, the excessively elevated level of unabsorbed single-detached units will make it difficult to unwind condo units seen as an inferior housing option in a city where land scarcity is not a severe problem like in Vancouver and Toronto.

Looking forward, two main factors are likely to trigger more home sales and exacerbate the slack in the housing market in our view: 1- the number of residential mortgages in arrears - up 33% from a year ago but still at only half of the 2010 figure - is expected to increase further; 2- the interprovincial outflow of workers is likely to continue, as Albertans gradually find new job opportunities in B.C. and Ontario.

Finally, on the fiscal front, the shutdowns in oil sands facilities and operational costs associated to the wildfires will weigh on the budgetary balance for FY 2016-17. Fortunately, crude oil prices are above their 2016 lows and on their way to surpass the oil assumptions contained in the 2016 NDP budget. As we mentioned on several occasions in the past, our above-consensus call on crude oil prices is based on additional reduction in non-OPEC production and additional increase in global demand. With the global inventory drawdown expected to accelerate in coming quarters, we forecast WTI prices to end 2016 at US$68 per barrel and to end 2017 at US$75. In summary, the oil pendulum is swinging in the right direction for the Province of Alberta. Although the oil outlook still remains very much uncertain, there are greater chances of seeing lower-than-expected fiscal deficits than a few months ago.


Housing Starts in Alberta (left scale, in 000s)
Edmonton: Total Unabsorbed Units (right scale)
Calgary: Total Unabsorbed Units (right scale)
52.5
45.0
37.5
30.0
22.5
15.0
7.5
2000
1600
1200
800
400
0
05 06 07 08 09 10 11 12 13 14 15 16
Source: Canada Mortgage and Housing Corporation /Haver Analytics


Alberta: Residential Mortgages in Arrears (Number)
Edmonton Unemployment Rate (right scale)
Calgary Unemployment Rate (right scale)
4500
3750
3000
2250
1500
750
0
9
8
7
6
5
4
3
06 07 08 09 10 11 12 13 14 15 16
Sources: Canadian Bankers Association, Statistics Canada /Haver Analytics


Unemployment rate in Alberta
(versus months following the peak in oil prices
or beginning of the recession)
12.0
10.0
8.0
6.0
4.0
2.0
2008 to 2010
mid-2014 to mid-2016
US: 2007 to 2011
1981-1983
2 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32 34 36
Source: Statistics Canada, LBS Econ. Research and Strategy