

DÉJÀ VU ALL OVER AGAIN?

By Adam Legge

“Recovery Takes Hold” “Alberta Looking Up” “Sales Surge” “Canadian GDP Growth Strong in January.” Is Alberta, but more specifically Calgary, through the recession and well on its way to a meaningful recovery? Improved conditions or generally more stable conditions – yes; meaningful and sustained recovery – not quite yet. It isn’t fun to rain on the parade, but we are at risk of doing the same thing that got us into the recession in the first place – seeing only the positive signals and not looking more deeply or broadly.

Current Calgary Economic Performance

There is no doubt that things are looking more positive in Calgary these days. Oil is staging itself nicely in the US\$80 range which is creating a decent environment to spur investment, drilling and optimism. The Competitiveness Review seems to be sitting well with the industry and that has them (hopefully) more willing to invest their capital dollars in Alberta. Words traded on the street point to some renewed hiring in Calgary for oil and gas and engineering firms.

However, from a data perspective, things aren’t really showing signs of recovery. Labour market wise, the Calgary region’s unemployment rate was sitting at 7.0 per cent at the end of February – down from 7.3 per cent in January. While that might look like an improvement, data shows that there were further job losses from January to February and it was the drop in the labour force that brought about the drop in unemployment. In other words, people gave up looking for work and pulled themselves out of the race. That isn’t a positive sign.

When national inflation for February posted surging 1.6 per cent year-over-year growth, Calgary posted a tepid 0.7 per cent. Alberta vehicle sales continue to be flat and at low levels. The commercial real estate and development sectors still continue to feel the impact of high vacancy rates in office, and limited new construction for office and industrial product.

The bright star on Calgary’s skyline is the residential housing market, showing healthy growth in MLS sales, housing starts, and prices. This seems to be largely interest rate driven – at least that is the only thing that I can determine is driving housing demand because it isn’t the result of job creation.

We can at least say things generally appear to be more stable in Calgary and the significant losses and plethora of red ink are most likely behind us. But that doesn't mean we are on track for sustained recovery. There are still many risks that could slow things down in Calgary – risks that may not materialize. Regardless, it is still wise to identify and understand these risks so that we aren't caught unprepared as we were back in September 2008.

Risks

- Business Conditions and Investment
 - Conditions are not attractive for Alberta non-oil capital investment. As a result, investment is occurring elsewhere. A large E+P company increasing its spending in the U.S. does little for the Calgary economy.
 - With the renewed oilsands activity, there is risk of re-igniting cost inflation.
 - The Competitiveness Review has helped to renew confidence, but the final product must ensure that Alberta is a competitive, innovative and stable place to invest.
 - Natural gas is about US\$4 for an April contract, as of March 24. That's too low to result in Alberta investment and drilling.

- International Economics
 - The U.S. economy is still extremely fragile, and any stumbling would put downward pressure on energy prices and trade flows, both of which Calgary is extremely susceptible to.
 - Revaluation of the Chinese Yuan could slow the Chinese economy, slowing global economic recovery.
 - The value of the Loonie is creating headwind for local manufacturers, makes the oil and gas industry less profitable, and hurts tourism and the film industry. Higher interest rates in Canada will only exacerbate the value of the dollar.

I've heard some economists utter, "right now is about as good as it's going to get". I have to agree with them. Any economic recovery beyond the present time will be slow and uneven. Presently, with low interest rates, inventory rebuilding and government stimuli, there are many factors propping up economic activity. But what happens when those begin to expire? Can recovery be sustained? It can, but it will be challenging. And slow.

So what will be key to a more sustained and meaningful recovery in Calgary? Local spending and local hiring will be essential. I am cautiously optimistic, but pragmatic that there are perhaps more factors that could slow the economy down again as factors that could support its sustained growth. It doesn't appear that we have quite yet turned the corner to sustained recovery given natural gas prices, Alberta's cost structure, the state of the U.S. economy and the value of the Loonie. Let's hope these risks don't materialize but let's also be prepared for them, for a little caution and analysis can go a long way. Calgary's economic future is bright, but only if we work to avoid the pitfalls of the past.