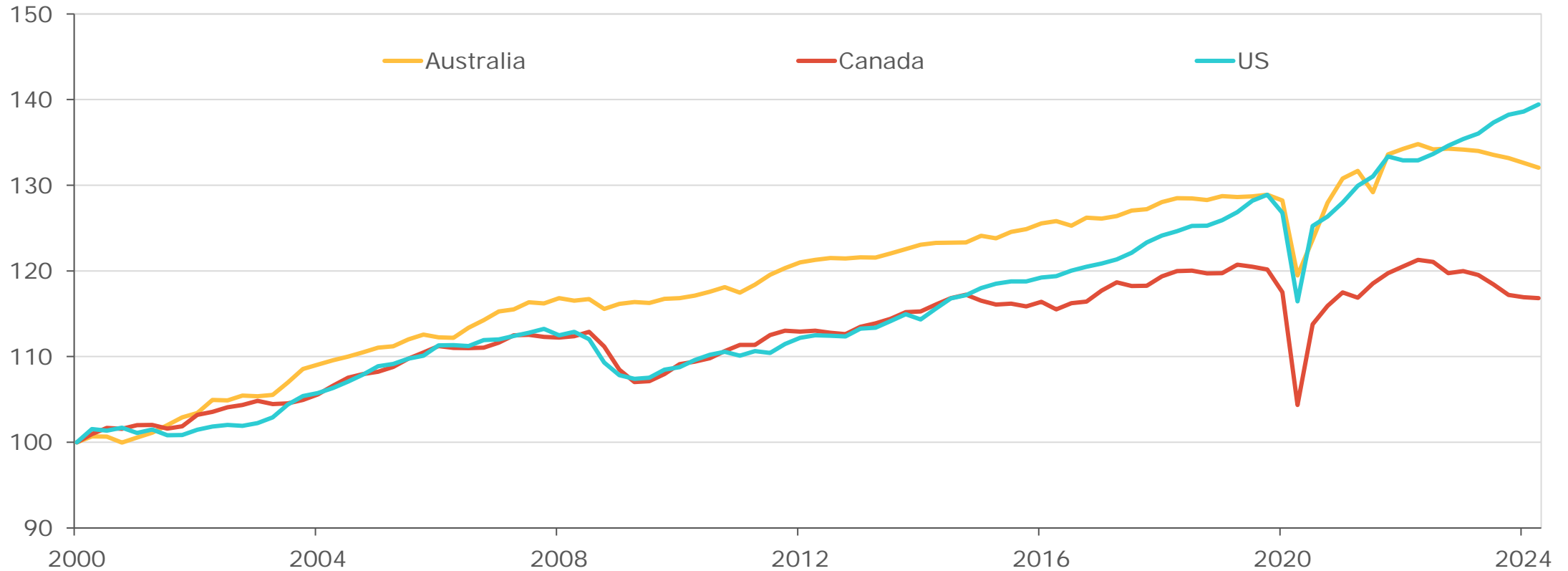


The “Me-cession”

Canada is falling behind

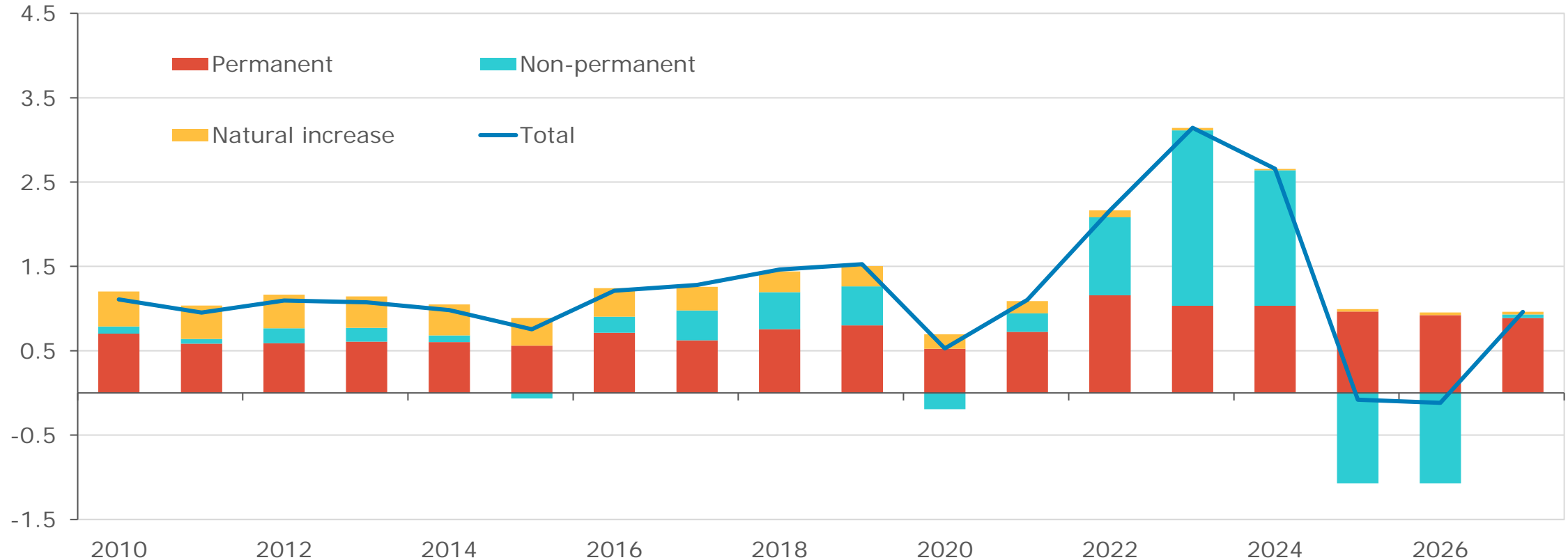
GDP per Capita (index: 2000=100)



- Canada has underperformed the US, especially since 2015.
- The US is clearly diverging against most countries since the pandemic

Strongest population growth in decades, but...

Population growth - Canada (%)

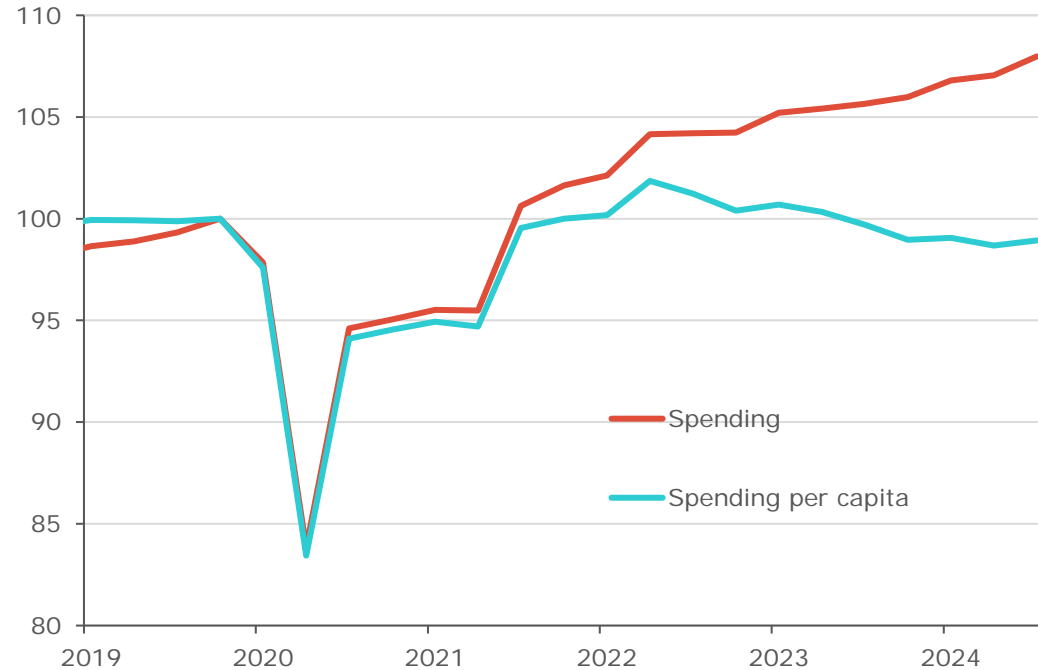


- Canada's population increased by 1.27 million over the past 12 months (205,000 in Alberta).
- The lower immigration target will dramatically slow population growth in 2025 and 2026, if fully implemented.

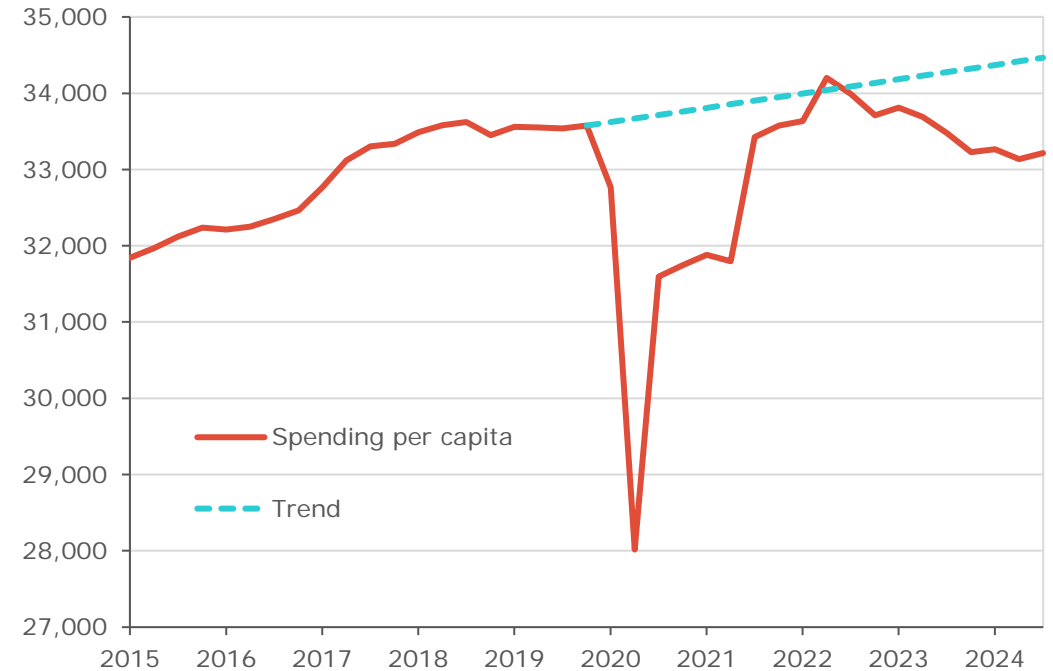
Source: Statistics Canada, Alberta Central

Spending more collectively, but less individually

Consumer spending: aggregate vs per capita



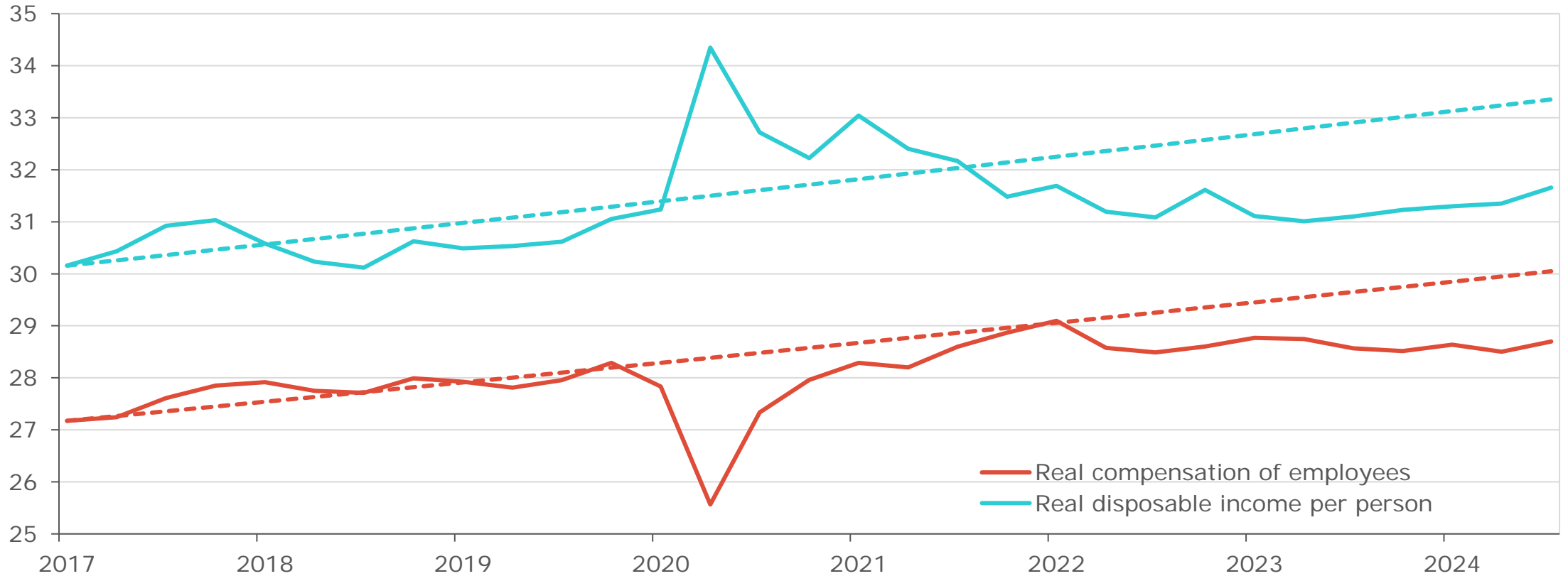
Spending per capita vs trend



- Spending per capita is about 2.5% below their pre-pandemic level and are about 4.5% below where they should be.
- Hence, consumers are reducing their spending as they would do during a mild recession.

Purchasing power is stagnating

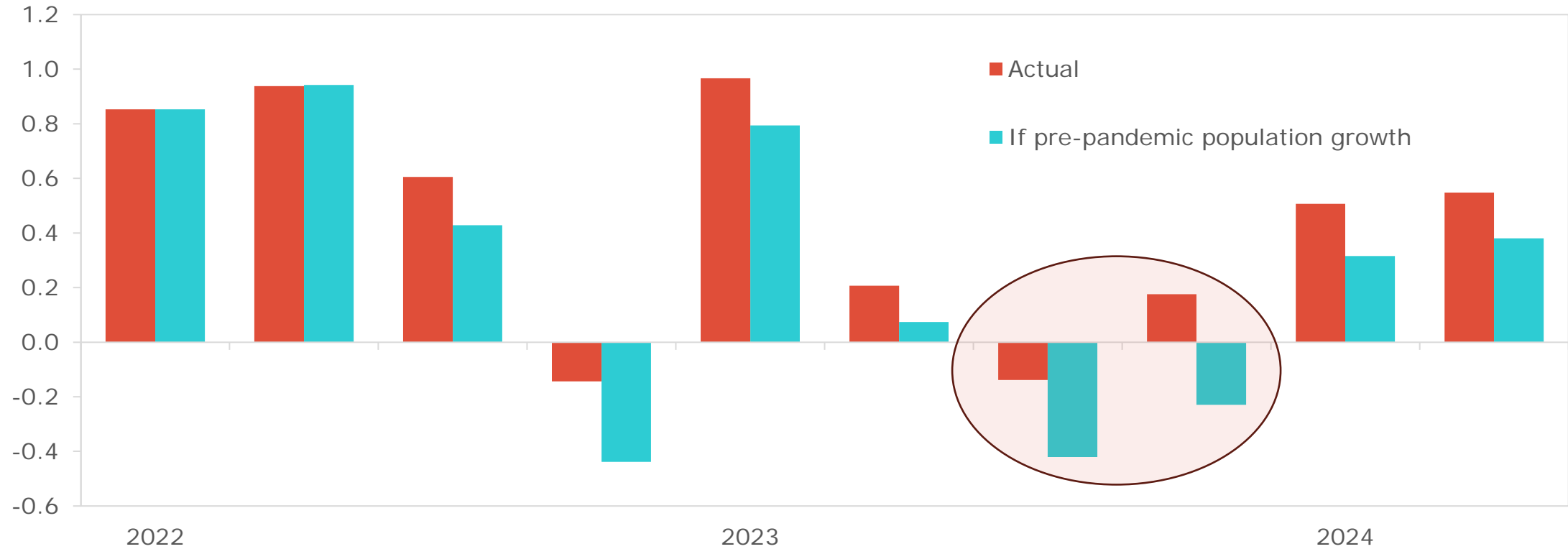
'000 C\$



- Canadian's purchasing power is about 5% lower than where it should be, as measured by real disposable income per capita.

A recession without strong population growth

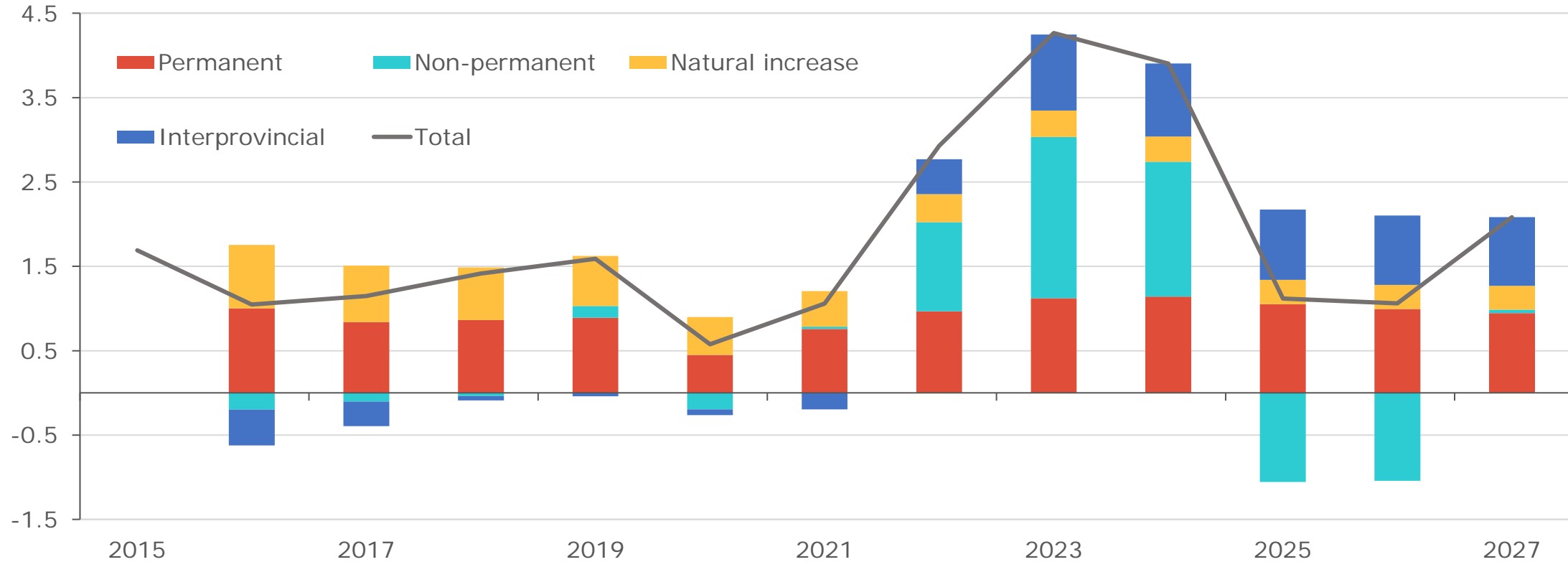
Q-o-Q GDP growth %



- If we assume population grew at pre-pandemic pace, population would be about 2.5% lower (about 1mn)
- Without the increase in population, the economy would have been in a recession in late 2023.

Strongest population growth in decades, but...

Population growth - Alberta (%)

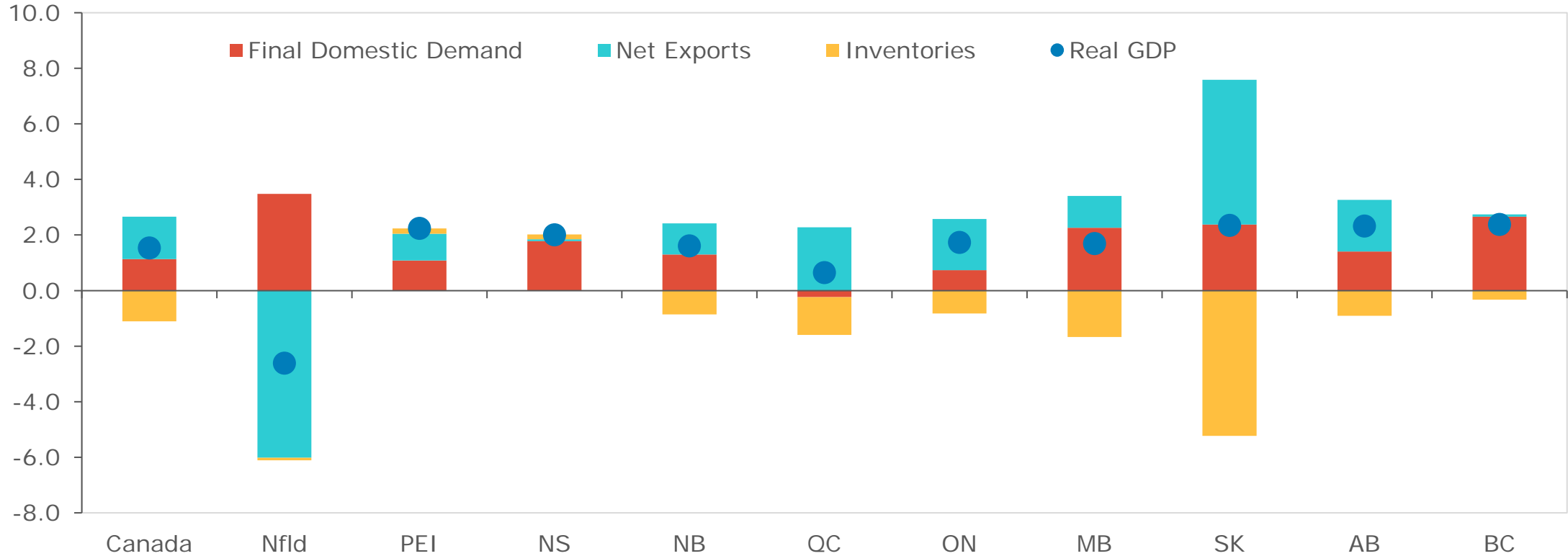


- Alberta's population increased by 205,000 over the past 12 months.
- How weak population growth is over the next two years will depend on interprovincial migration.

Source: Statistics Canada, Alberta Central

Almost all provinces saw robust growth in 2023

2023 GDP growth %

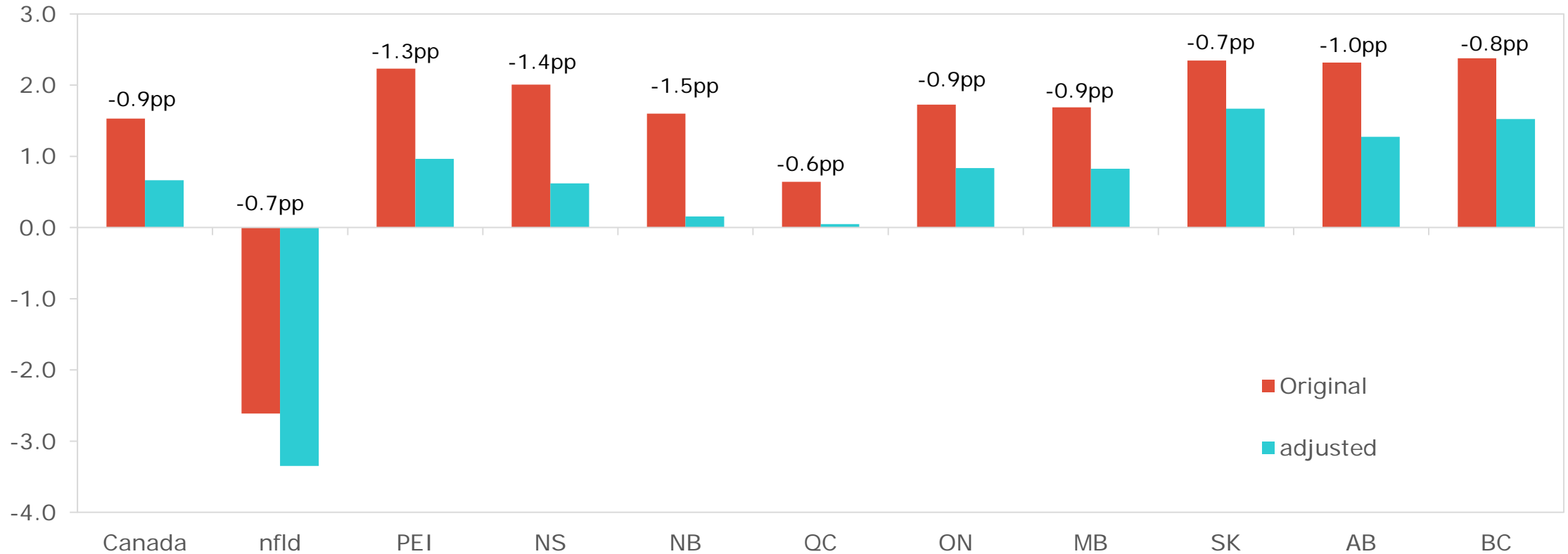


- Robust growth in most provinces in 2023.
- Net exports were an important source of growth. Domestic demand was also strong, thanks to high population growth.

Source: Statistics Canada, Alberta Central

Some regions are more affected than others

2023 GDP growth %

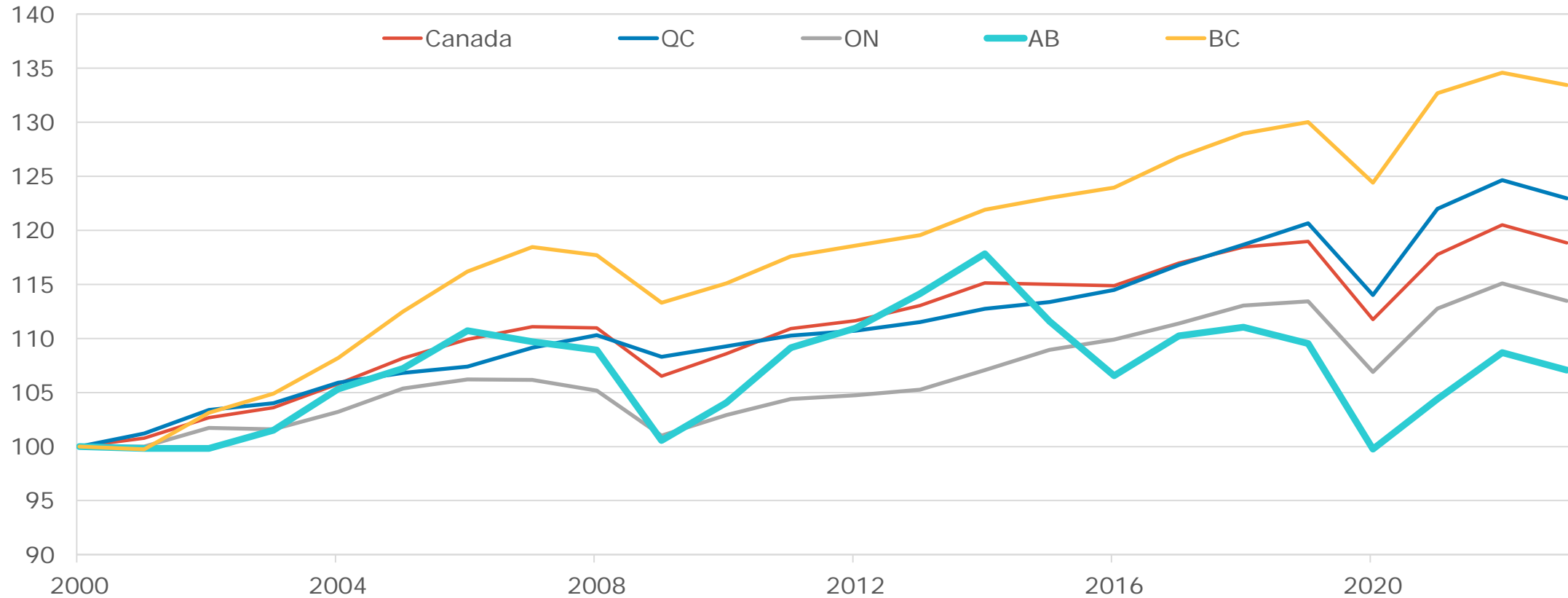


- If we assume population grew at pre-pandemic pace, growth would be much weaker in every provinces, especially Atlantic Canada. Alberta remains of the top performers.
- Some provinces would have had a recession in 2023.

Source: Statistics Canada, Alberta Central

Alberta is underperforming

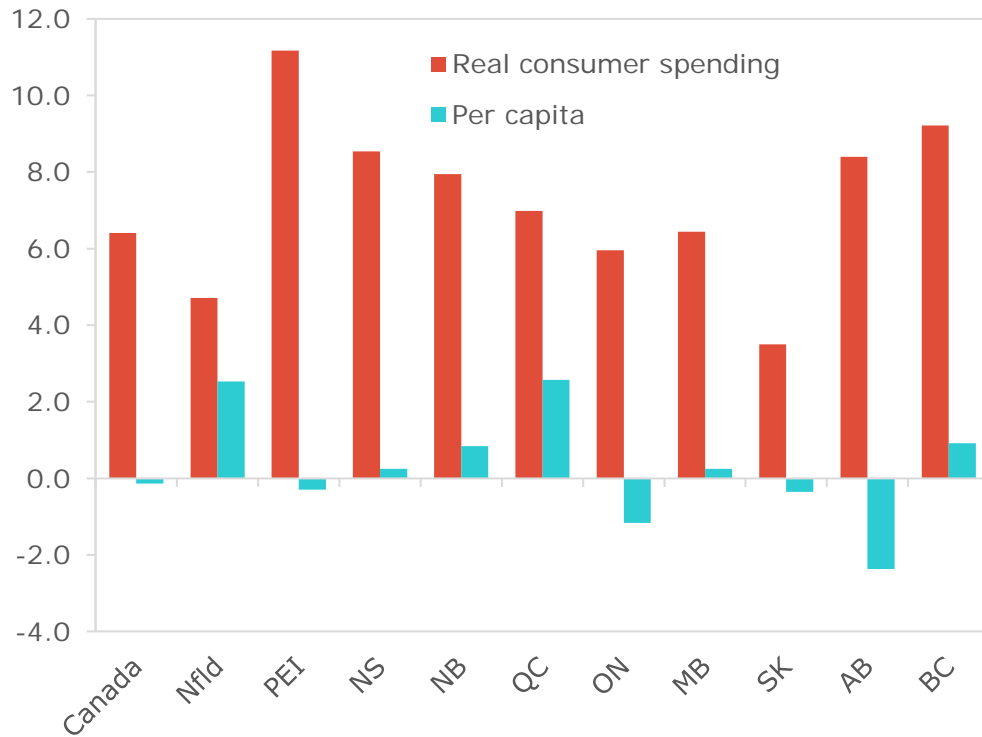
GDP per Capita (index: 2000=100)



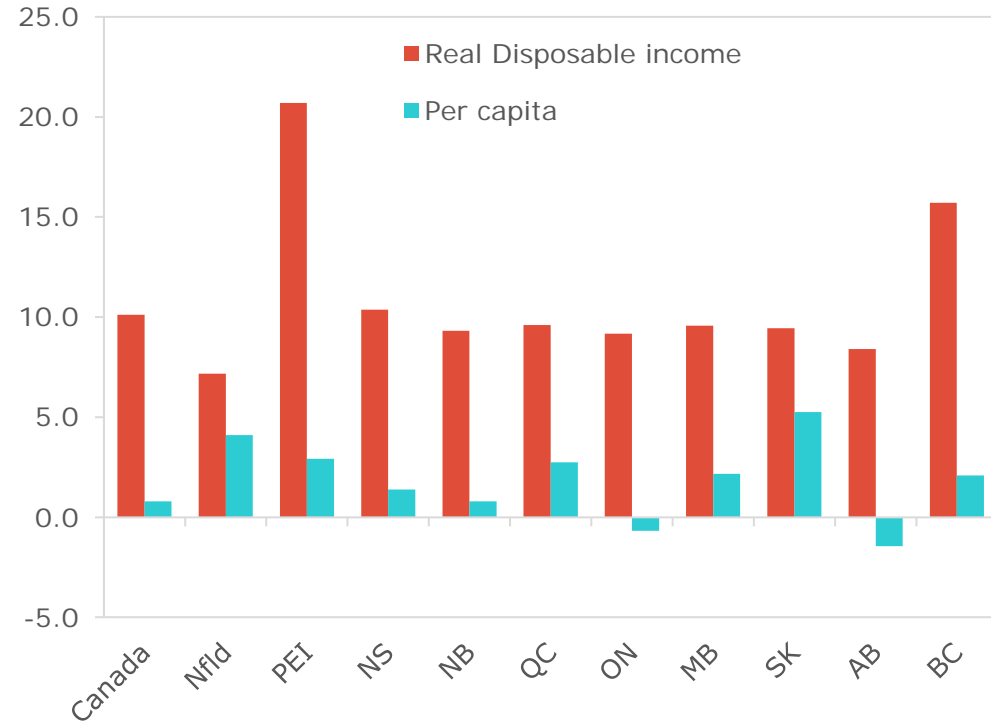
- Alberta still has the highest GDP per capita, but it is roughly unchanged from 2004, after peaking in 2014.

Alberta is underperforming

Real household spending (% change since 2019)



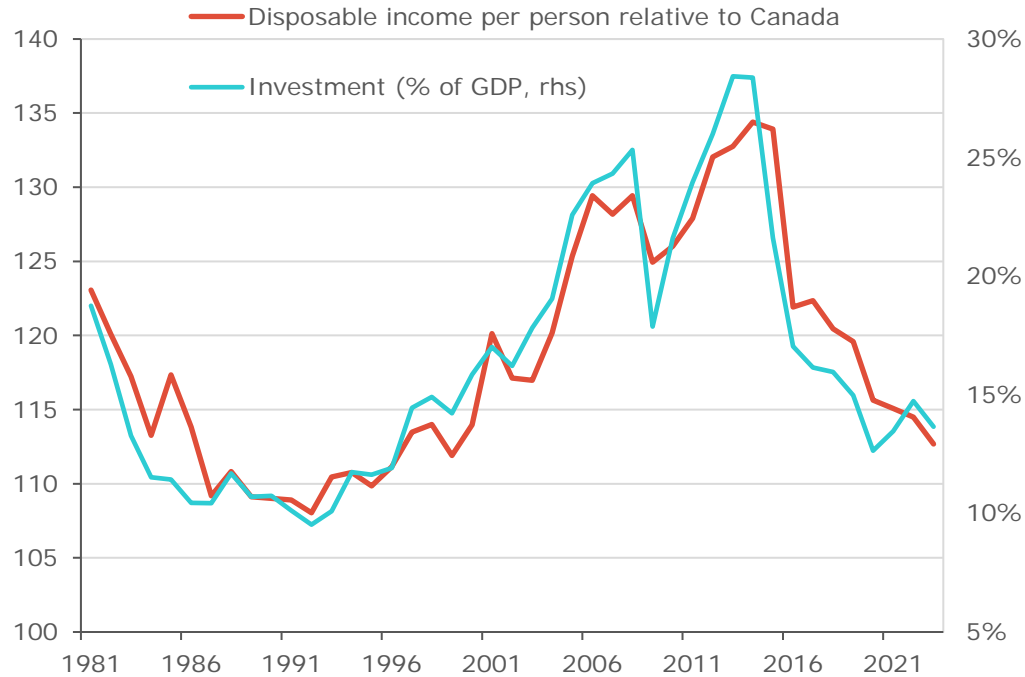
Real disposable income (% change since 2019)



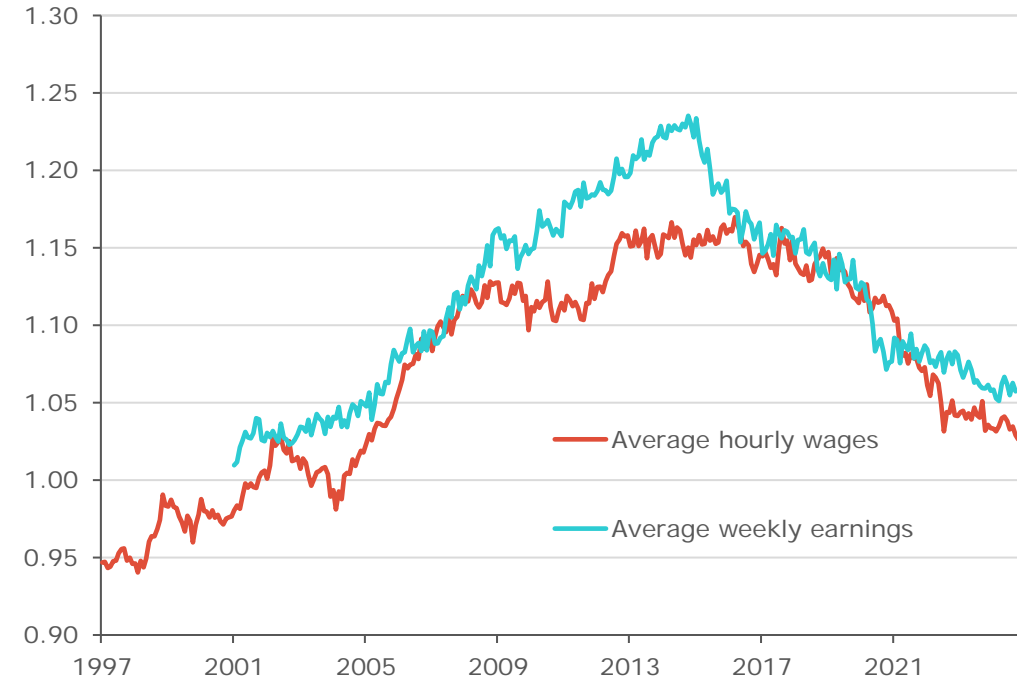
- Alberta's per capita performance has underperformed the rest of the country.
- Both income per capita and spending per capita are lower than pre-pandemic.

Continued post-boom adjustment

GDP per capita



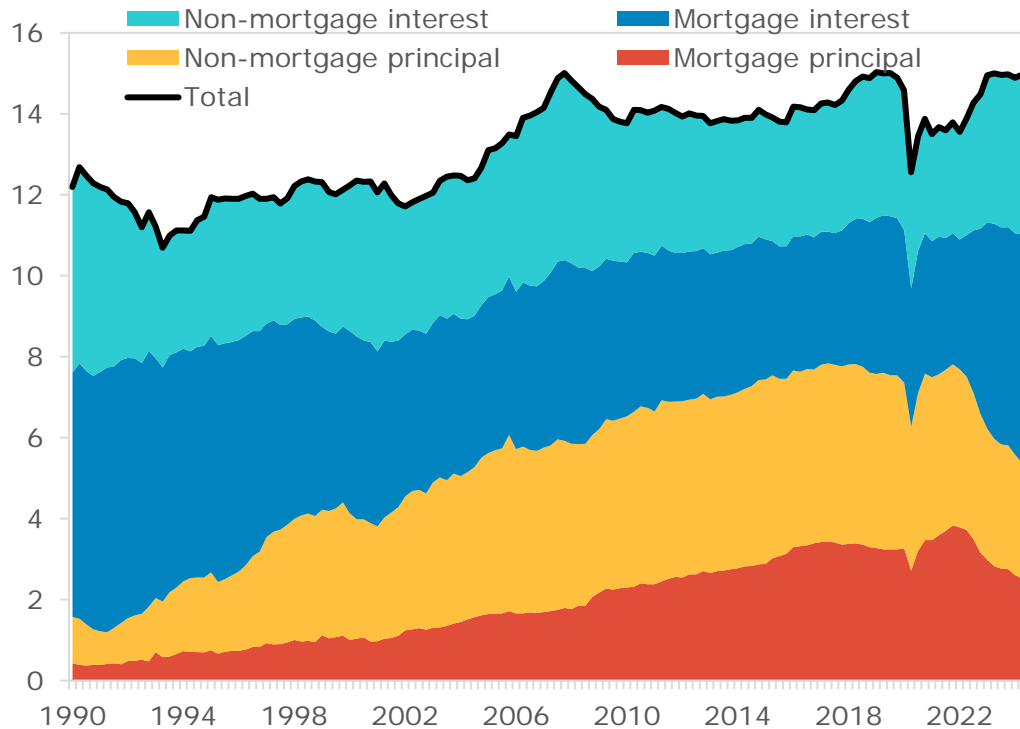
Alberta wages relative to Canada (%)



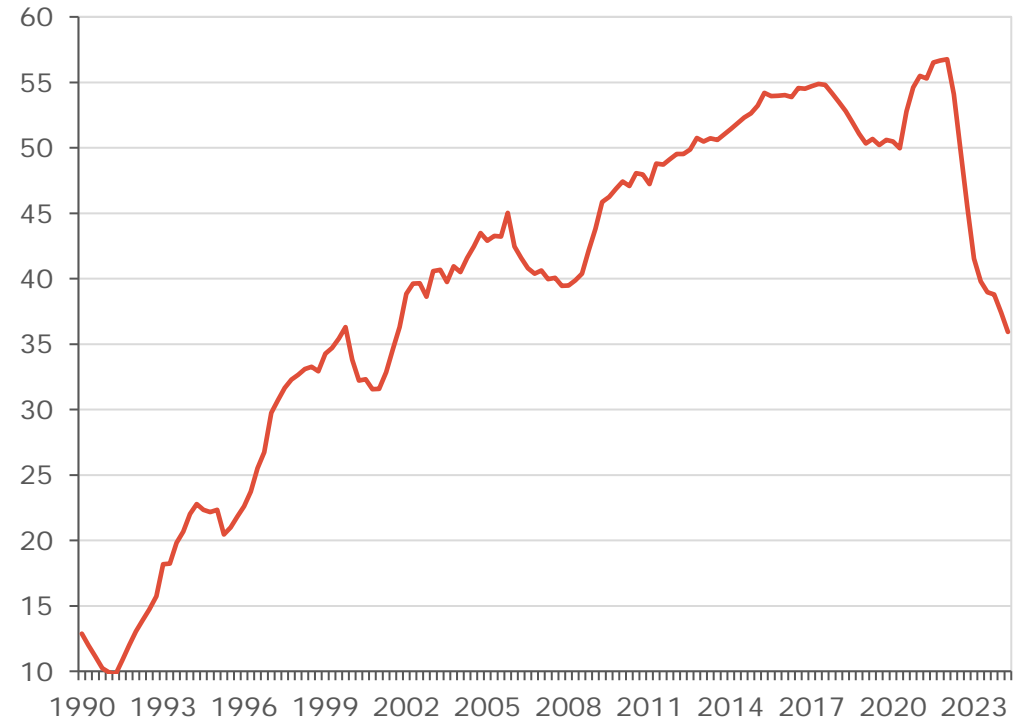
- The investment cycle is what drove Alberta's prosperity until the bust of 2015.
- Alberta's wage and income has underperformed the rest of the country in recent years. As a result, Alberta's wage advantage is disappearing.

Canadians are adjusting to higher rates

Debt-service ratio (%)



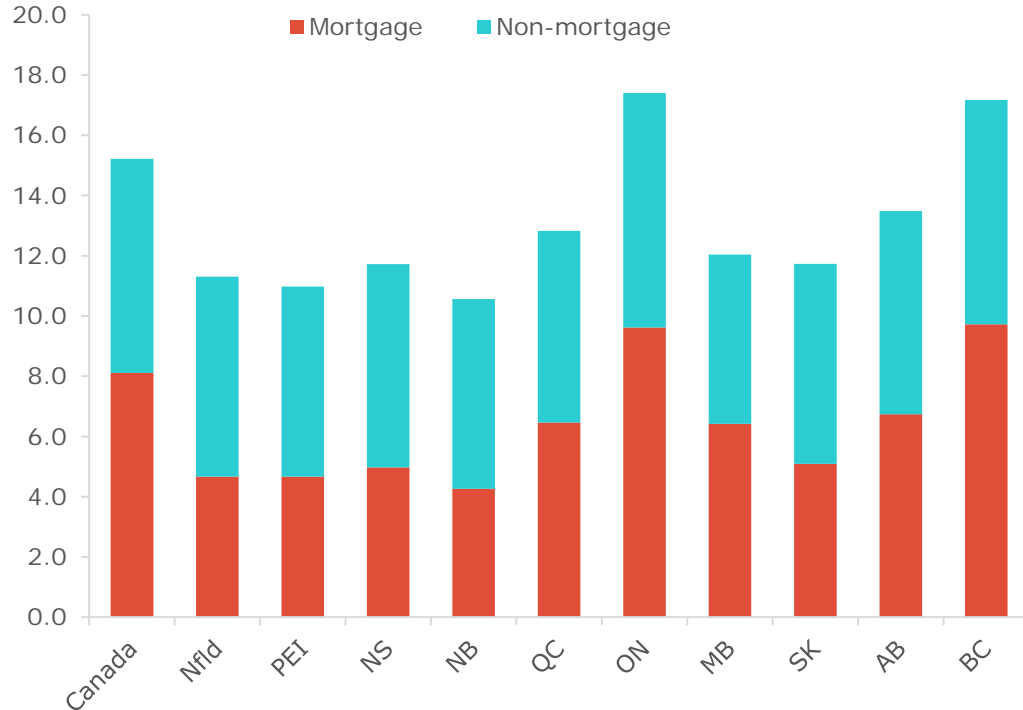
Share of payment going to principal



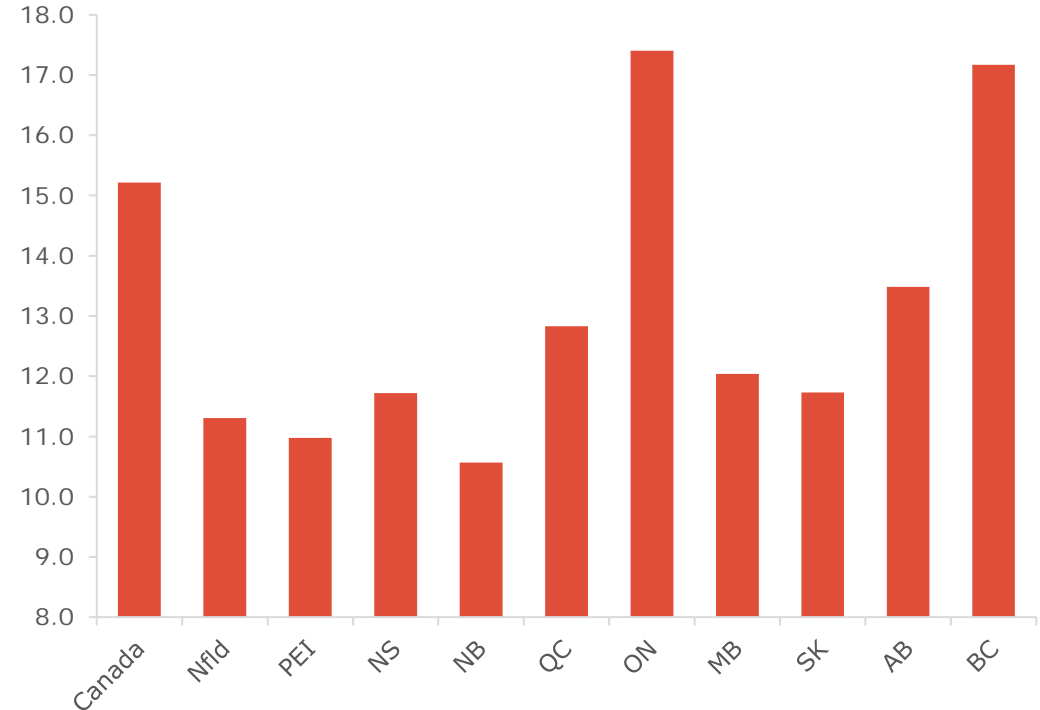
- Despite the high debt level and the jump in interest rates, the debt-service ratio has remained relatively stable.
- However, its composition has changed, with a small proportion of debt payments going to the principal.

Canadians are adjusting to higher rates

Debt to disposable income (%)



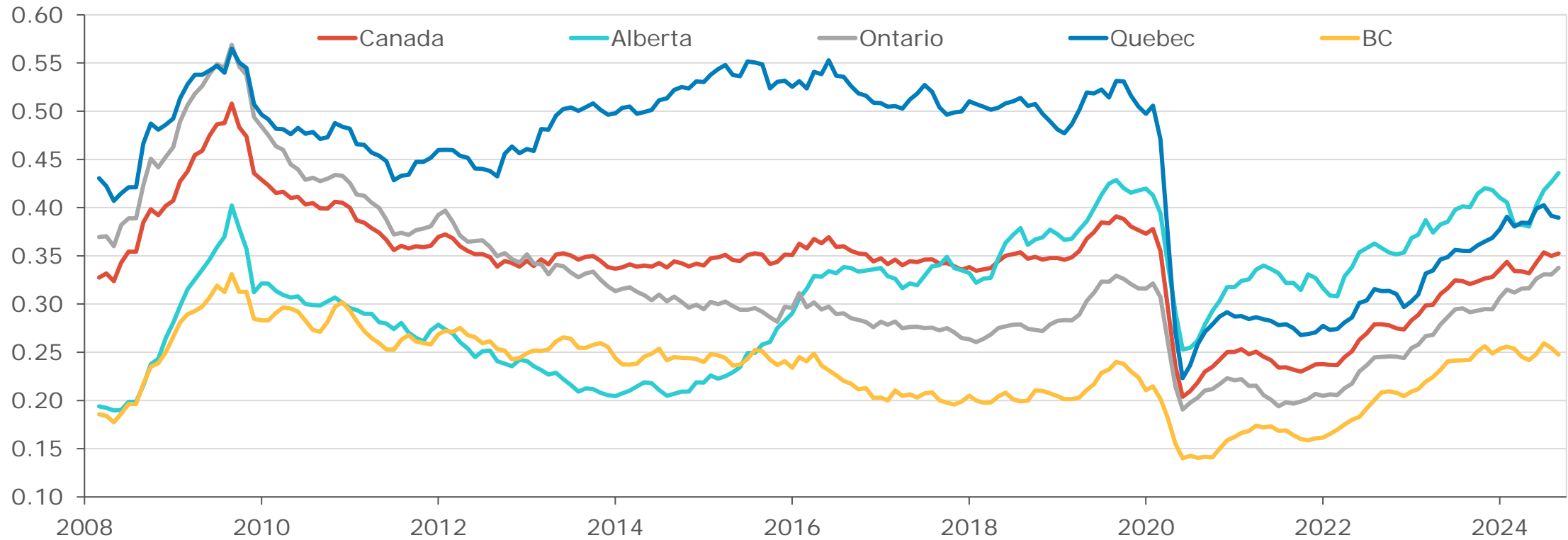
Debt-service ratio (%)



- Albertans are the third most indebted households in Canada, making them sensitive to higher interest rates
- The share of non-mortgage debt has decreased in recent years, hence a smaller share is at fixed rates

Insolvencies are rising fast

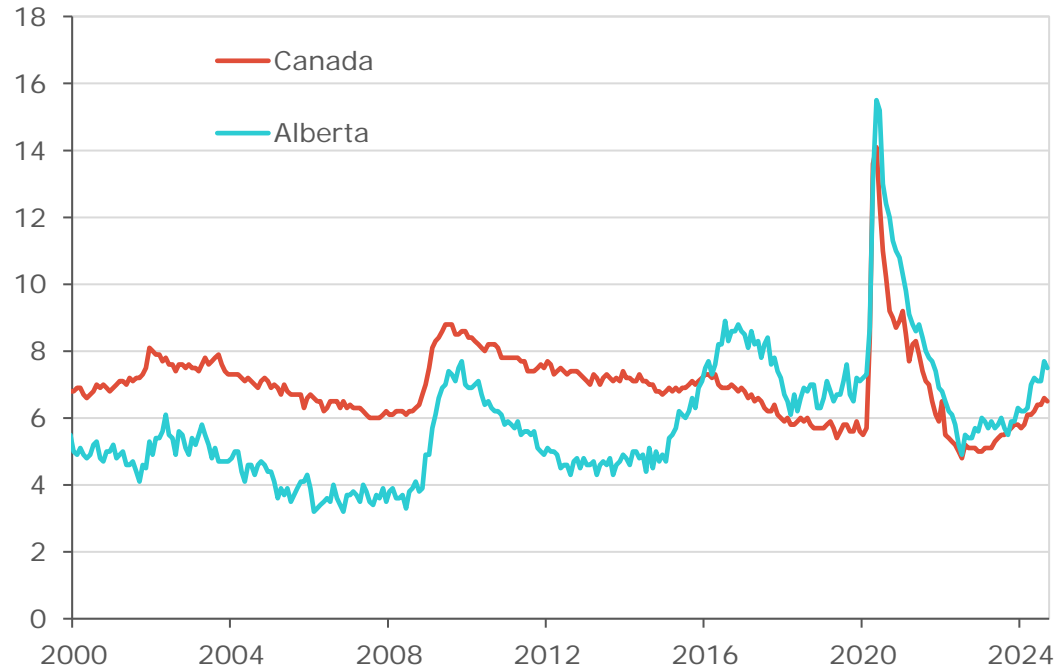
Consumer insolvency rate (per 1000 person)



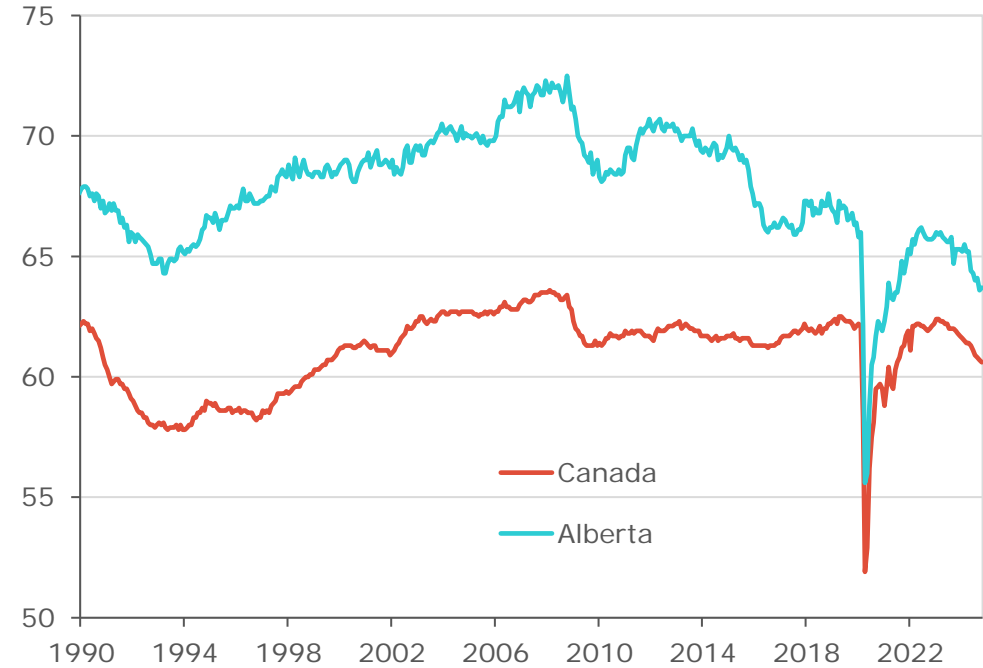
- Alberta's insolvency rate is at a record high and amongst the highest

Soft or hard landing? The labour market will decide

Unemployment rate (%)



Employment rate (%)

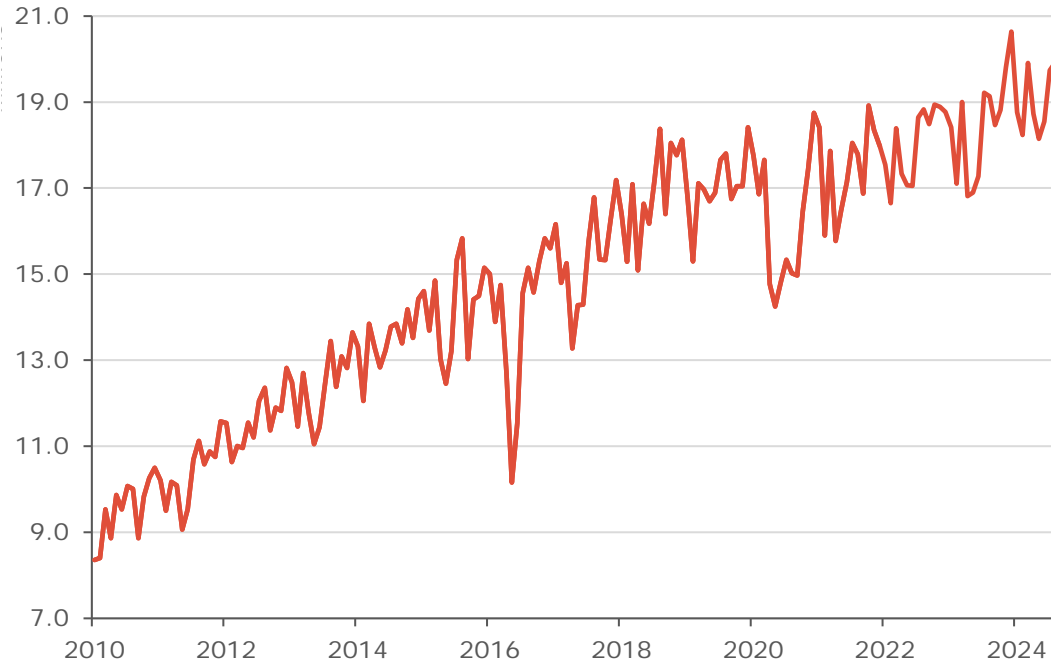


- Job creations has remained robust, even though weaker than population growth, leading to a rise in the unemployment rate.
- Hiring is weakening, suggesting that job growth will be weak in the coming months. However, there are no signs that layoffs will pick up, just that hiring may stagnate.

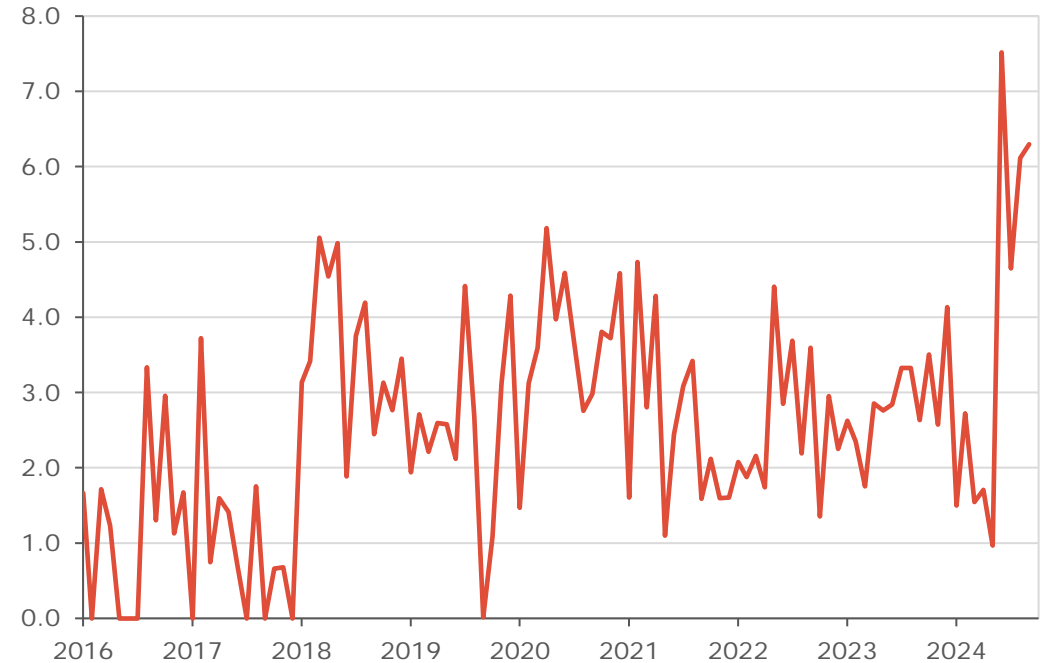
Source: Statistics Canada, Alberta Central

Oil sector a big source of growth

Production volume (m³)

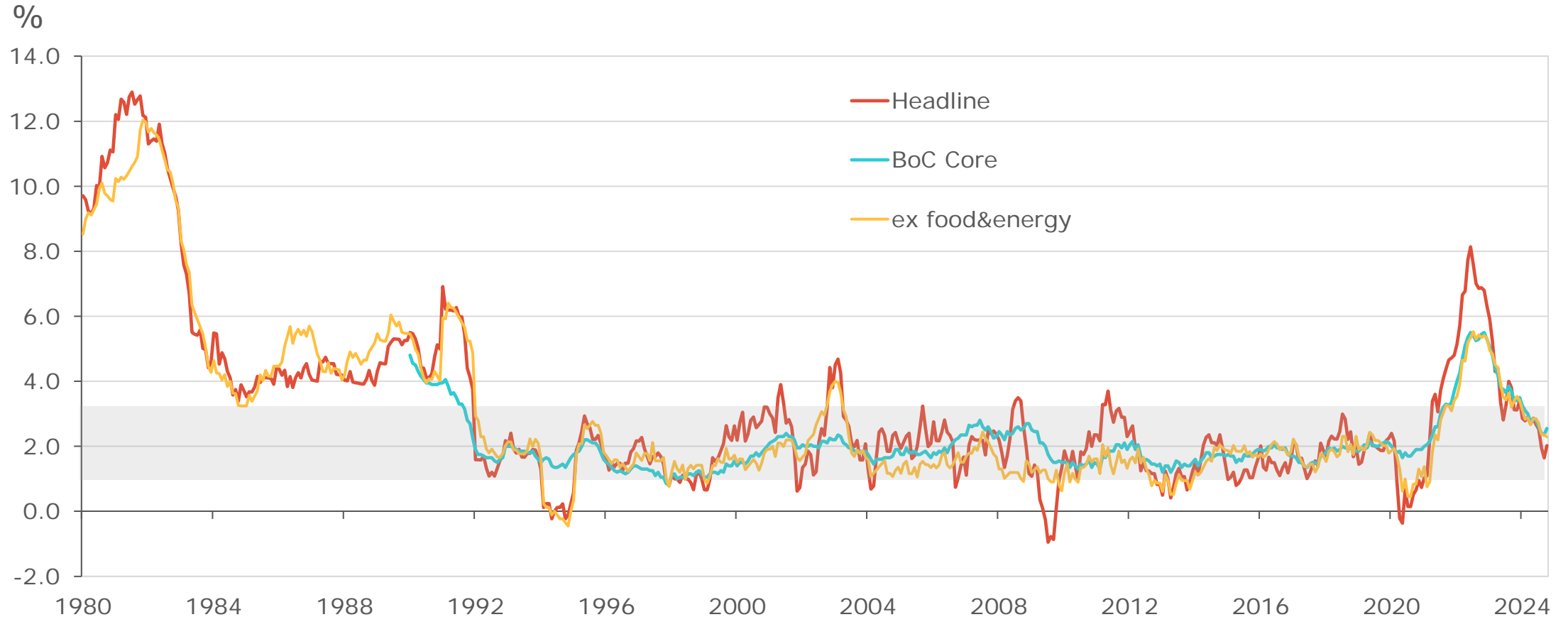


Share of non-US oil exports (%)



- Oil production averaged about \$11bn a month in 2024, about 80% higher than the best month in 2014.
- Rising prices and production volumes are leading to close to record oil revenues.

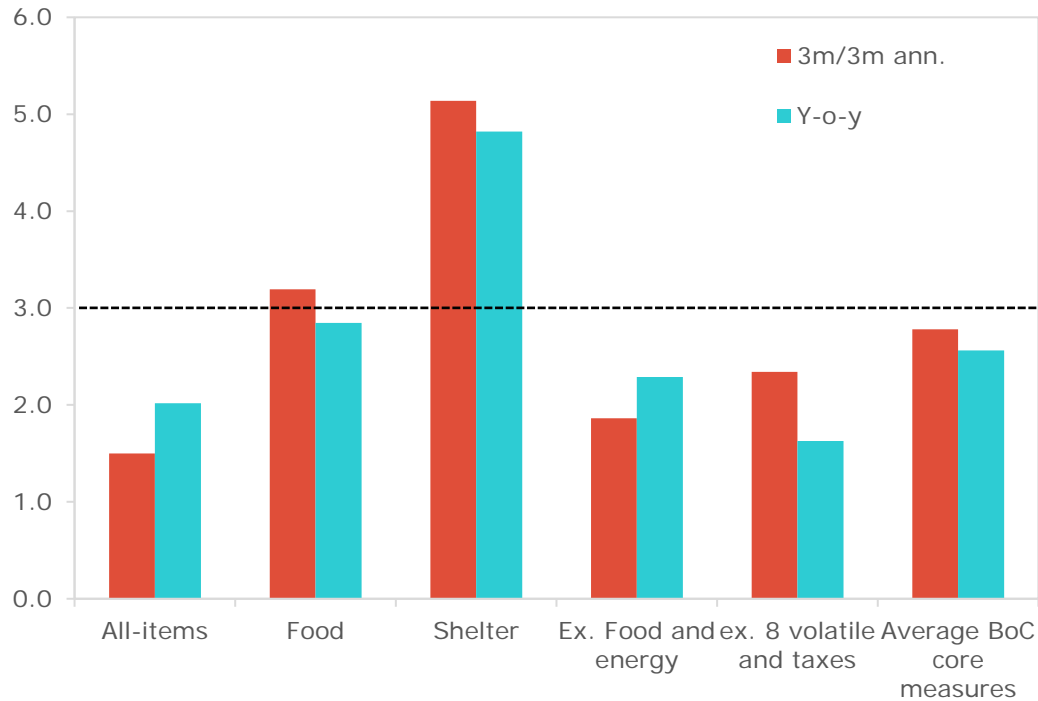
Inflation less of a concern for the BoC



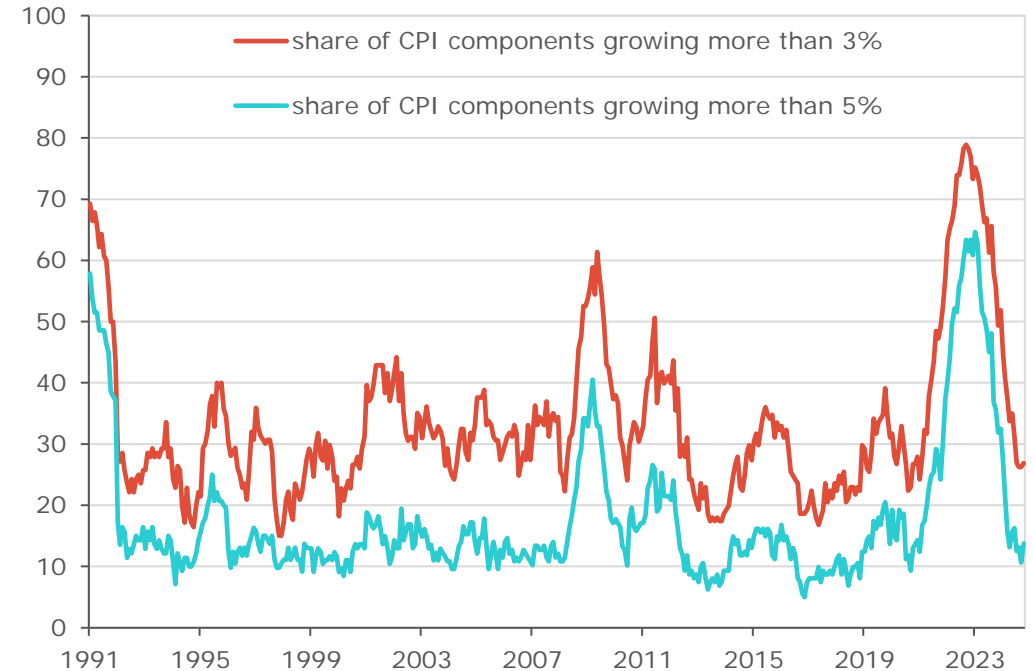
- Inflation peaked at 8.1% in July 2022 and in the bottom half of the target at 1.6%
- Various measures of core inflation are also within the BoC's target at around 2.35% on average

What is the BoC focusing on?

Inflation momentum (% 3m/3m ann.)

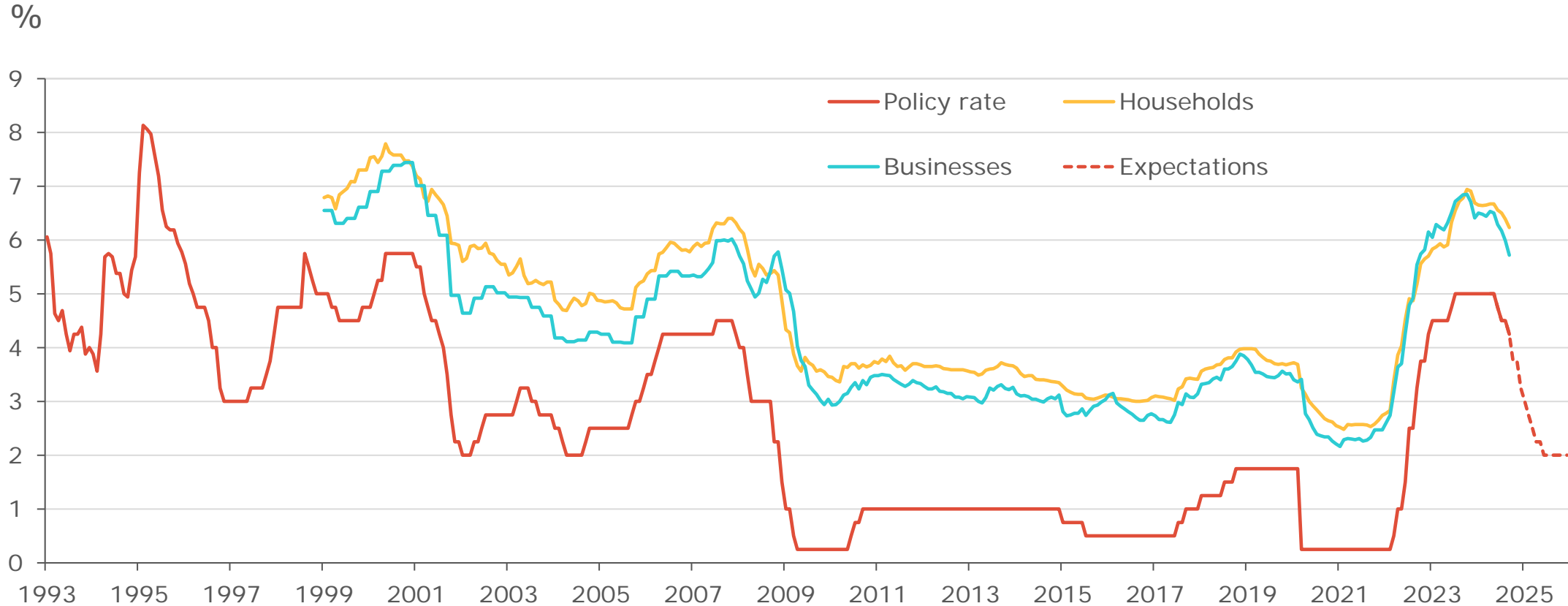


Breadth of inflationary pressures



- Inflation momentum, as measured by the 3-month on 3-month annualized change in prices, suggests price pressures remain contained..
- The broadness of inflation is in line with historical norms and should be less of a concern for the BoC.

Where's the terminal rate?

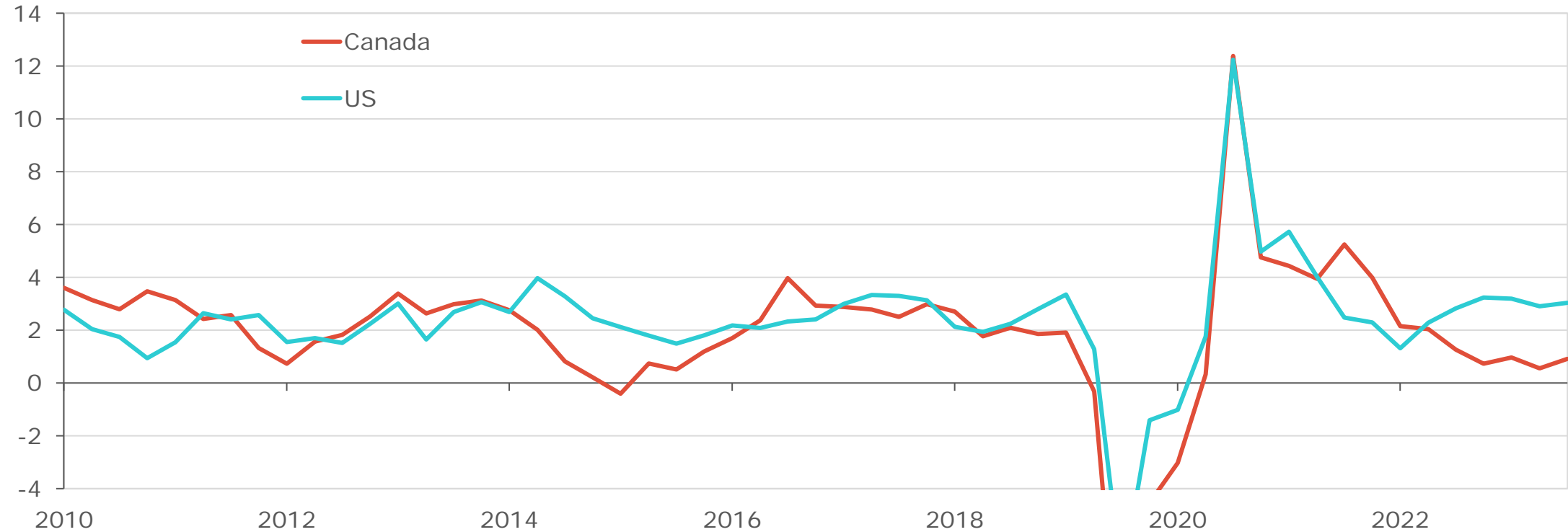


- While the BoC estimate the neutral rate to be between 2.25% and 3.25% in the medium term, it is likely lower
- The drop in population growth will be a significant drag on rates in 2025

US outperformance

Stronger growth in the US

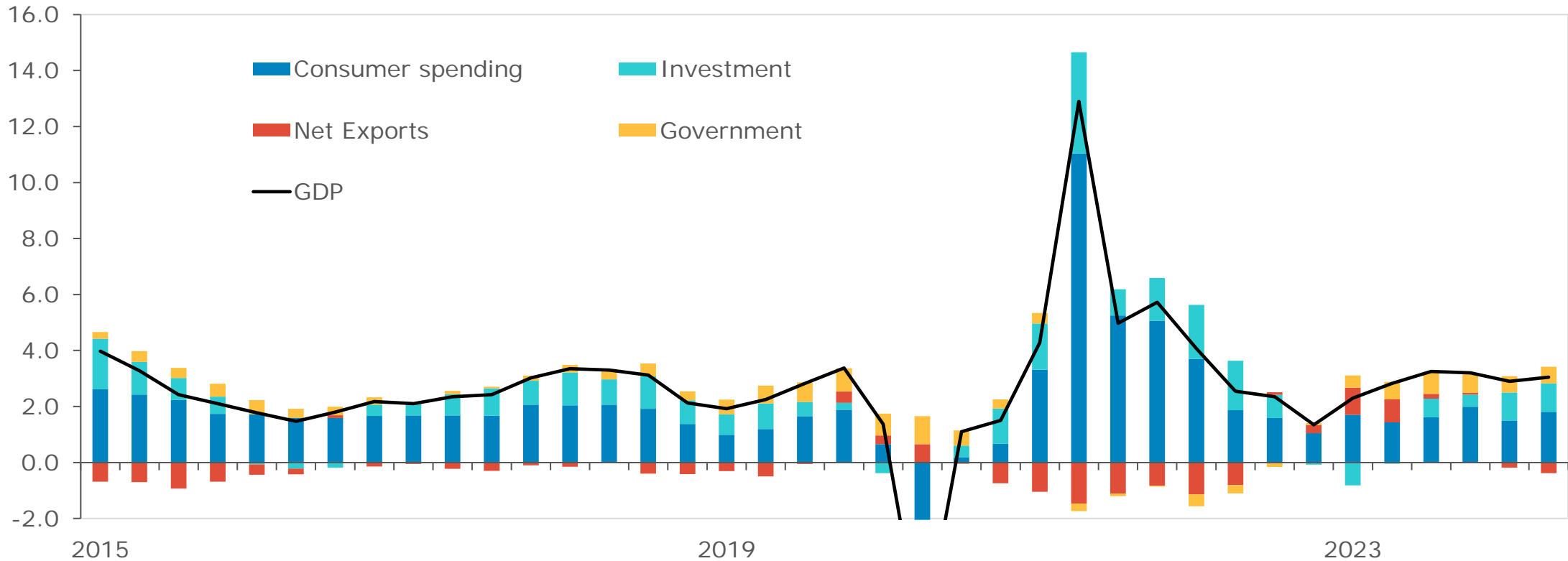
GDP % y-o-y



- The US economy has outperformed Canada over the past two years.

Growth composition

GDP % y-o-y

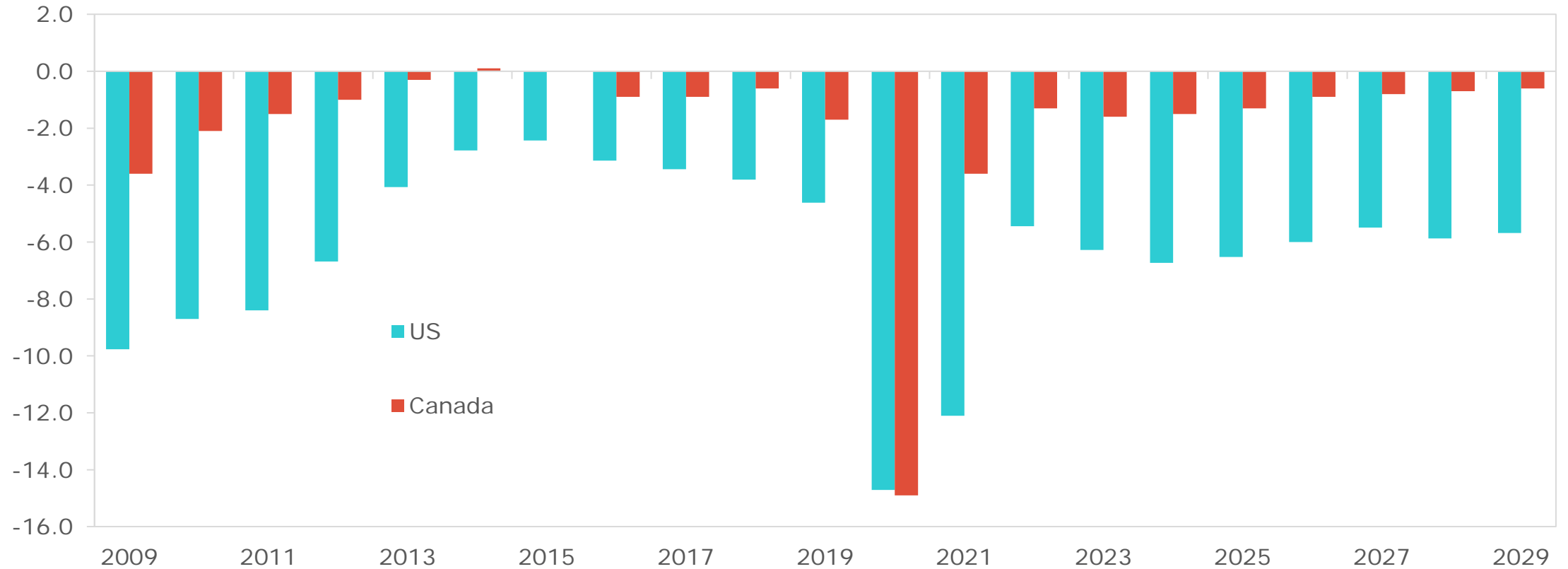


- Consumer spending is the main source of growth (60%), followed by business investment (30%) and public spending (20%). Net exports are a drag.
- The IRA and the CHIPS Act are big support to business investment

Source: BLS, Alberta Central

Government support is huge

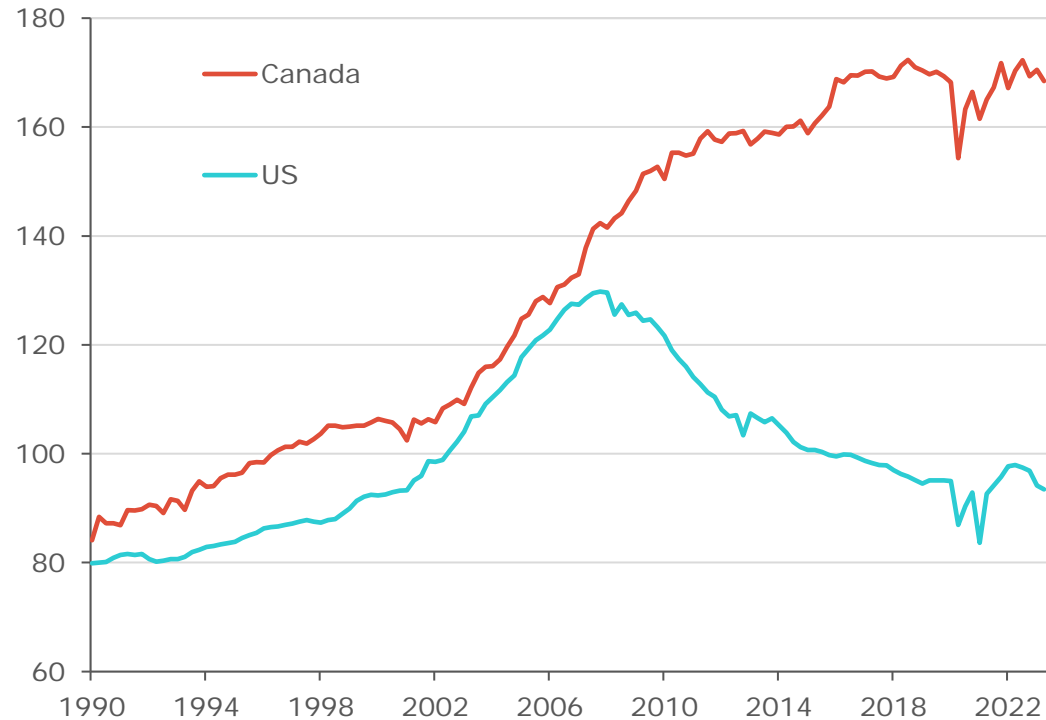
Fiscal deficit as % GDP



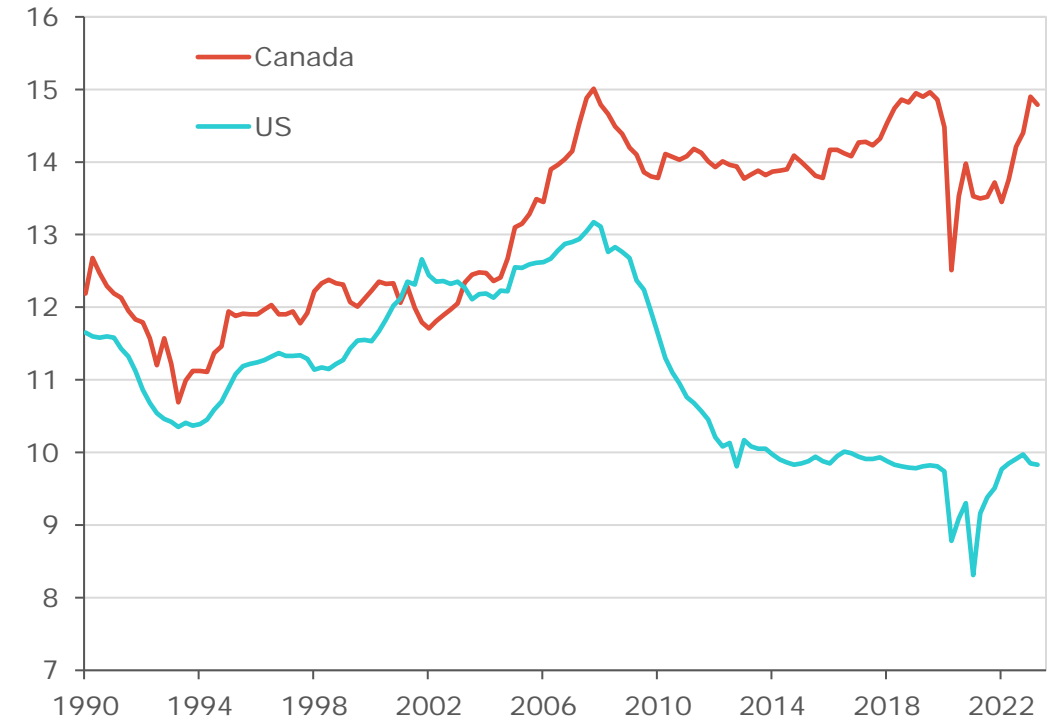
- The US fiscal deficit is about 6.7% of GDP in the US, compared to 1.5% of GDP in Canada.
- The projection does not include any of the potential policy from the Trump Administration

US consumers less vulnerable to higher interest rates

Debt-to-disposable income (%)

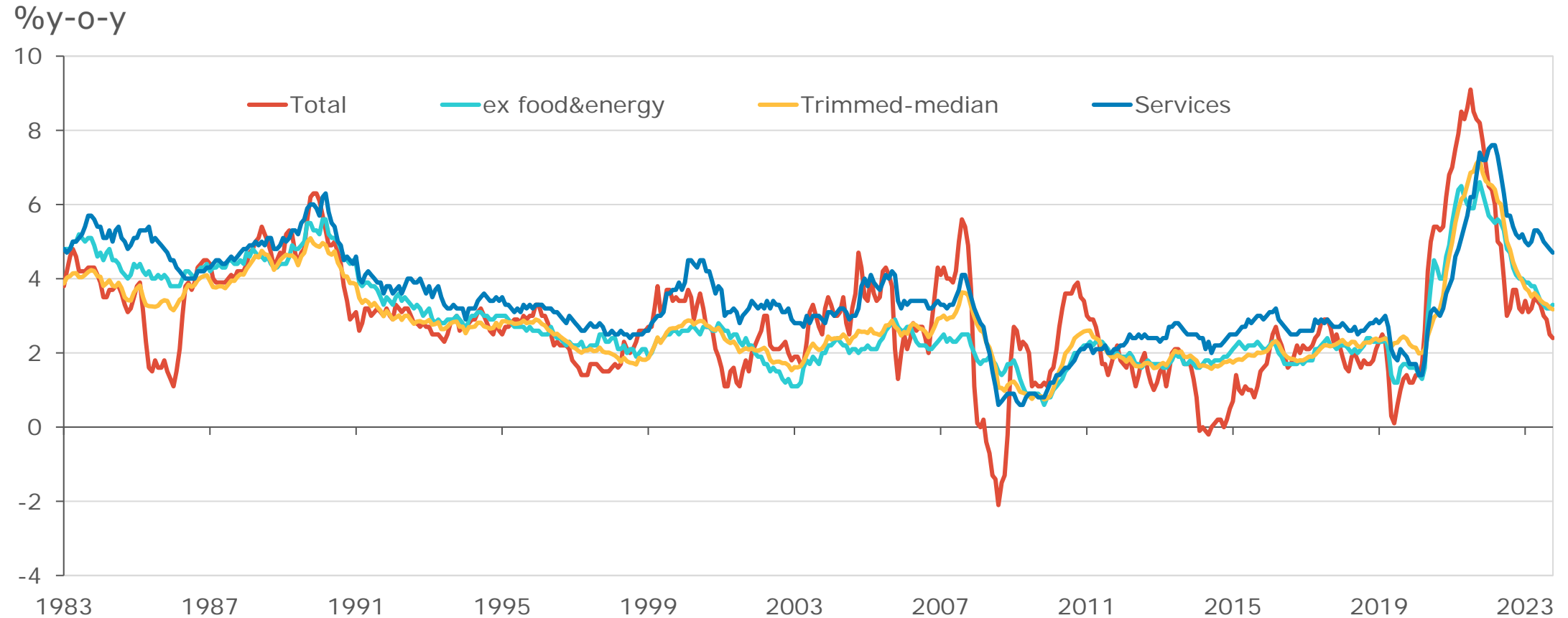


Debt-service ratio (%)



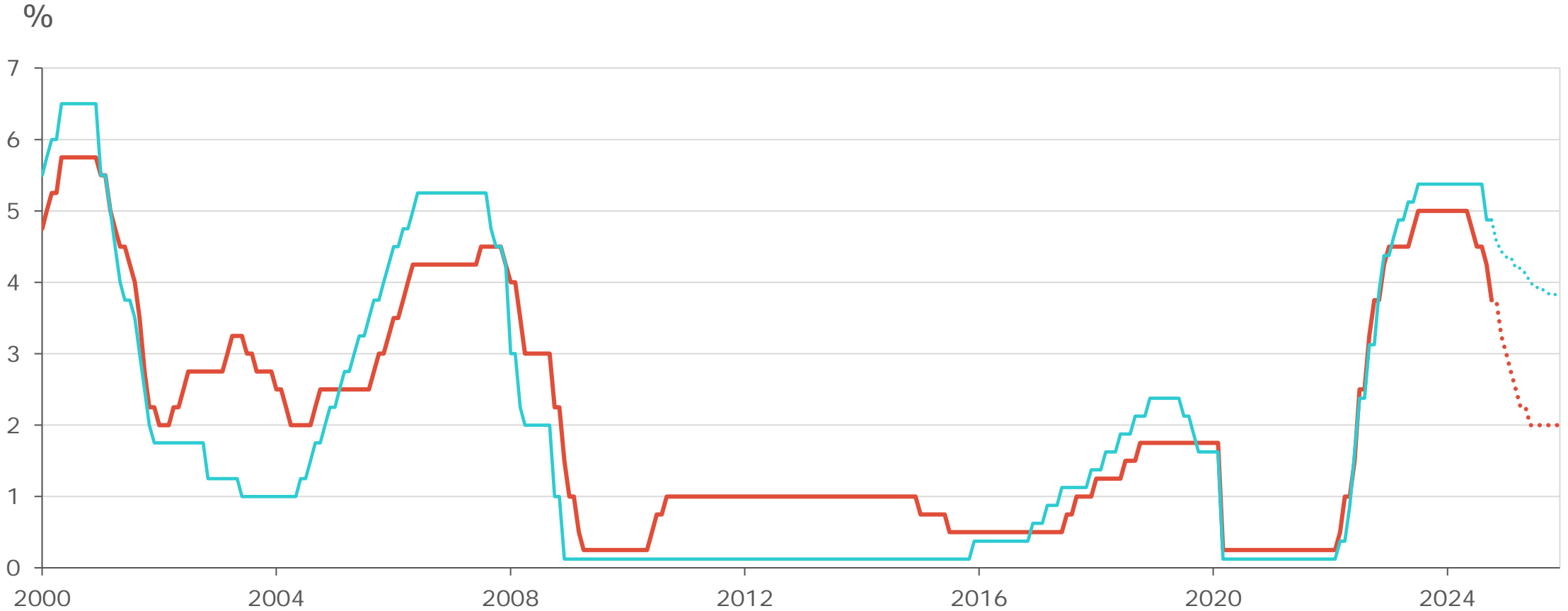
- The debt level in Canada is much higher than in the US, making the Canada economy far more sensitive to higher interest rates.

Inflation has moderated, but remain sticky



- Inflation has moderated mainly thanks to lower energy prices.
- Core inflation has been sticky in recent months, with service price inflation remaining above 4%.

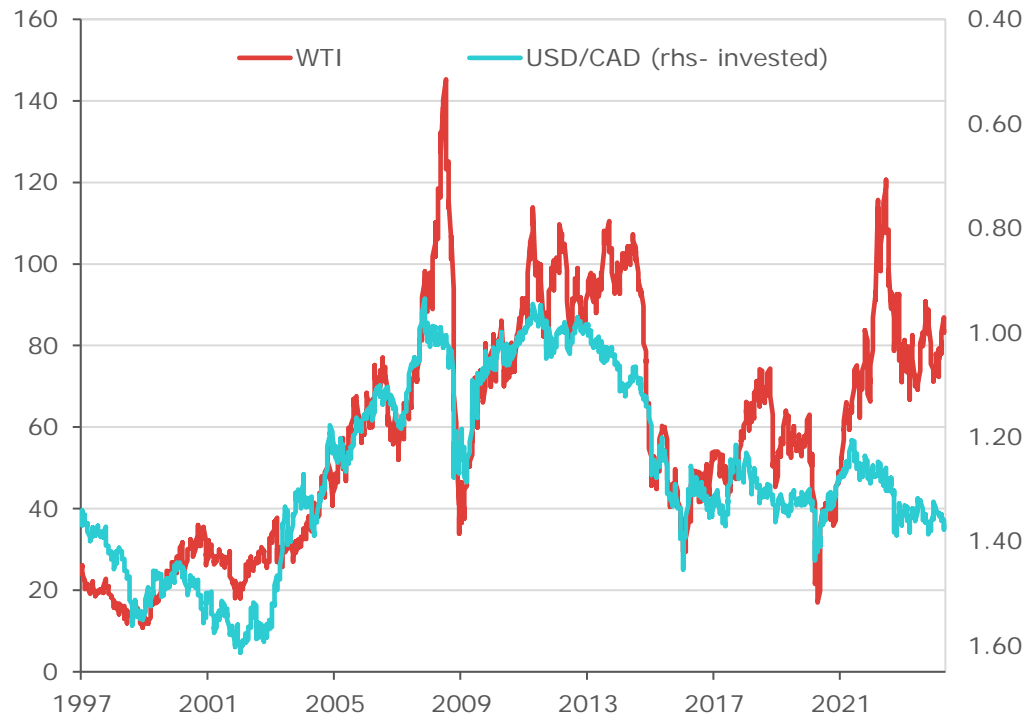
The Federal Reserve is expected to cure rates further



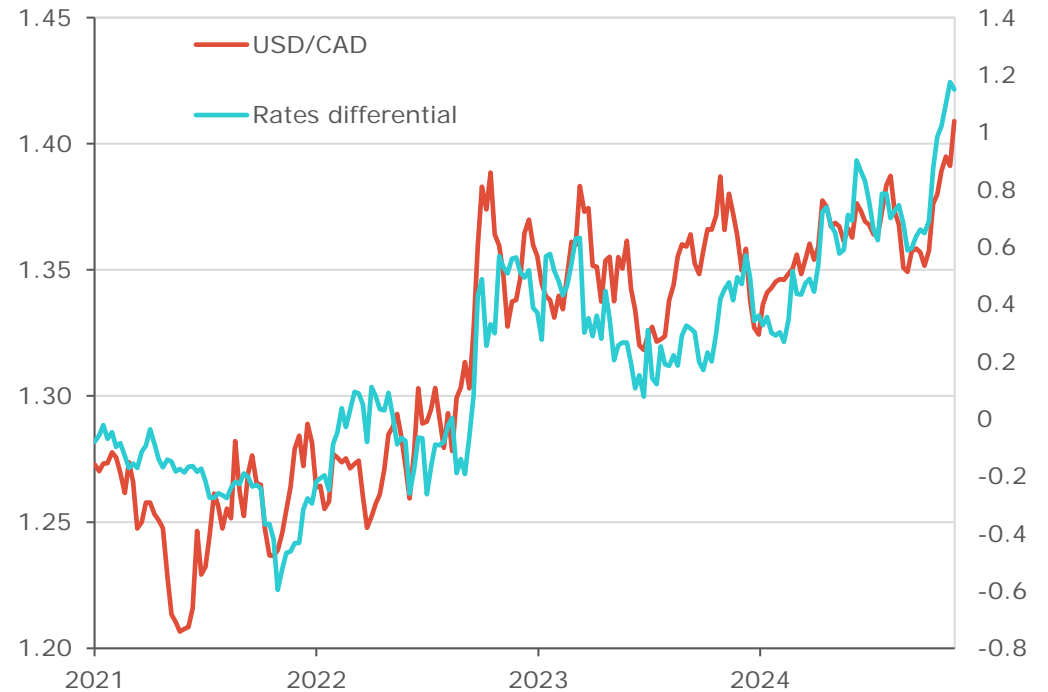
- The Federal reserve is expected to reduce its policy rate less than in the Canada
- This will lead to a widening of the rate spread between both central banks.

CAD has depreciated a lot in recent weeks

USD/CAD and WTI



CAD and rates differential



- The link between USD/CAD and oil prices broke down post-2015 despite a record oil trade surplus.
- In recent weeks, markets have reduced the amount of expected easing by the Federal Reserve.

The tariffs threat

TRUMP'S NEW TARIFFS WOULD HURT CANADA AND THE U.S.

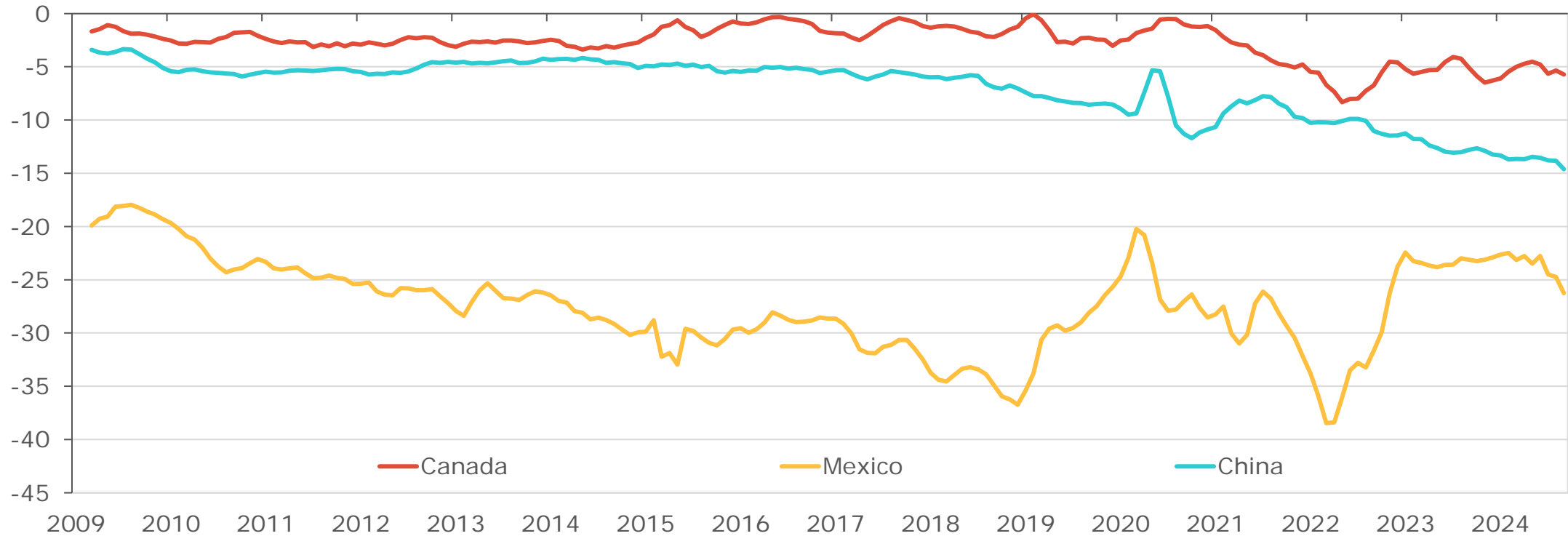
Simulated Economic Effects of a 25% Import Tariff Levied by the United States

	Real GDP shock, %	Economic cost, per person
No Retaliation		
Canada	-1.8%	\$1,300 CAD
United States	-1.0%	\$800 USD
Full Retaliation		
Canada	-2.6%	\$1,900 CAD
United States	-1.6%	\$1,300 USD

Source: Update of the BDL's *Partners in Prosperity* report.
 Note: BDL calculations using a general equilibrium model of the global economy.

Trump's trade advisors are obsessed with deficits

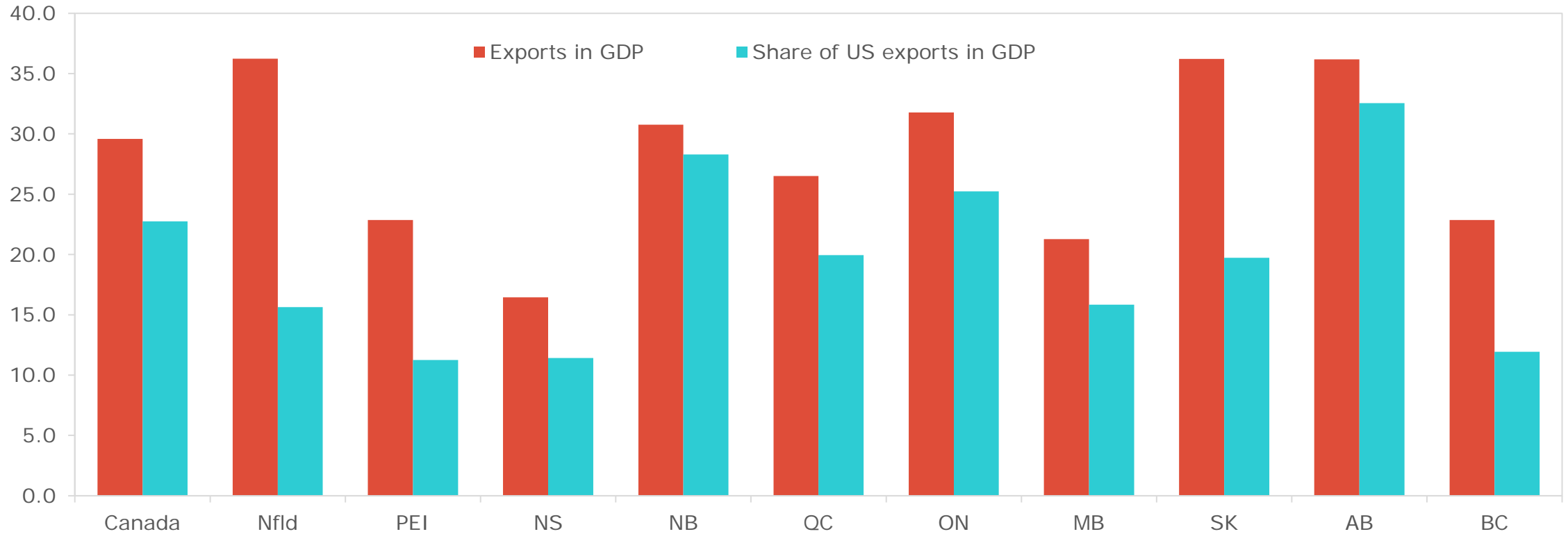
Trade deficit US\$bn



- While the US trade deficit vs Canada is not as large as versus China, it is likely seen as an irritant by the Trump Administration

Some provinces stands to lose more than others

Share of exports in GDP



- Alberta is the province with the most exposure to the US, but it is unclear how damaging tariffs would be i.e. can the US easily substitute Canadian oil imports?
- Ontario would be widely affected because of the well-integrated supply chain in manufacturing.

Source: Statistics Canada, Alberta Central

Medium term challenges

Solving housing affordability will be costly

The housing sector absorbs resources that could potentially be better used elsewhere and the weak productivity in the construction sector a big challenge

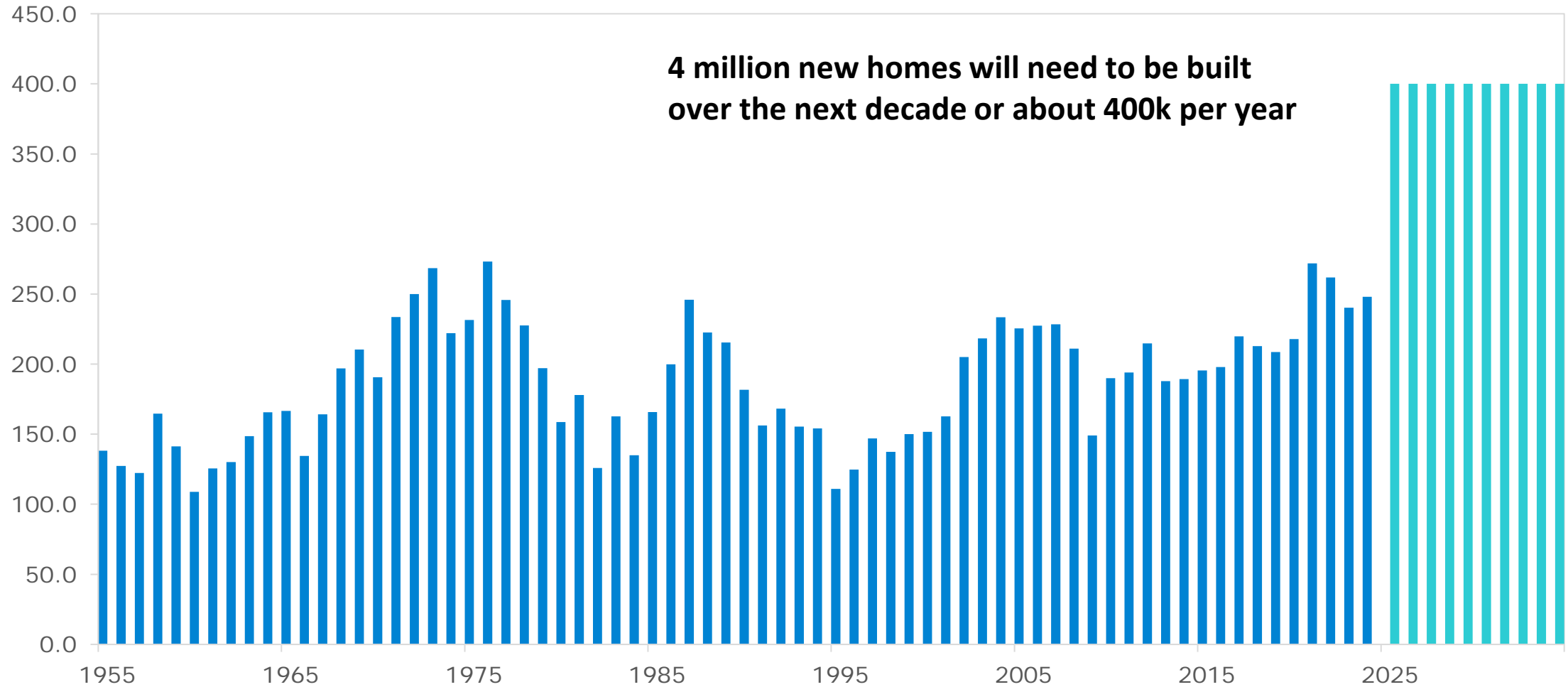
Price Tag: 4 million homes @375k each = **\$1.5 trillion**

4 million homes @500k each = **\$2 trillion**

About 5% to 7% worth of GDP per year, double the current level

Lack of productivity hinders solving other challenges

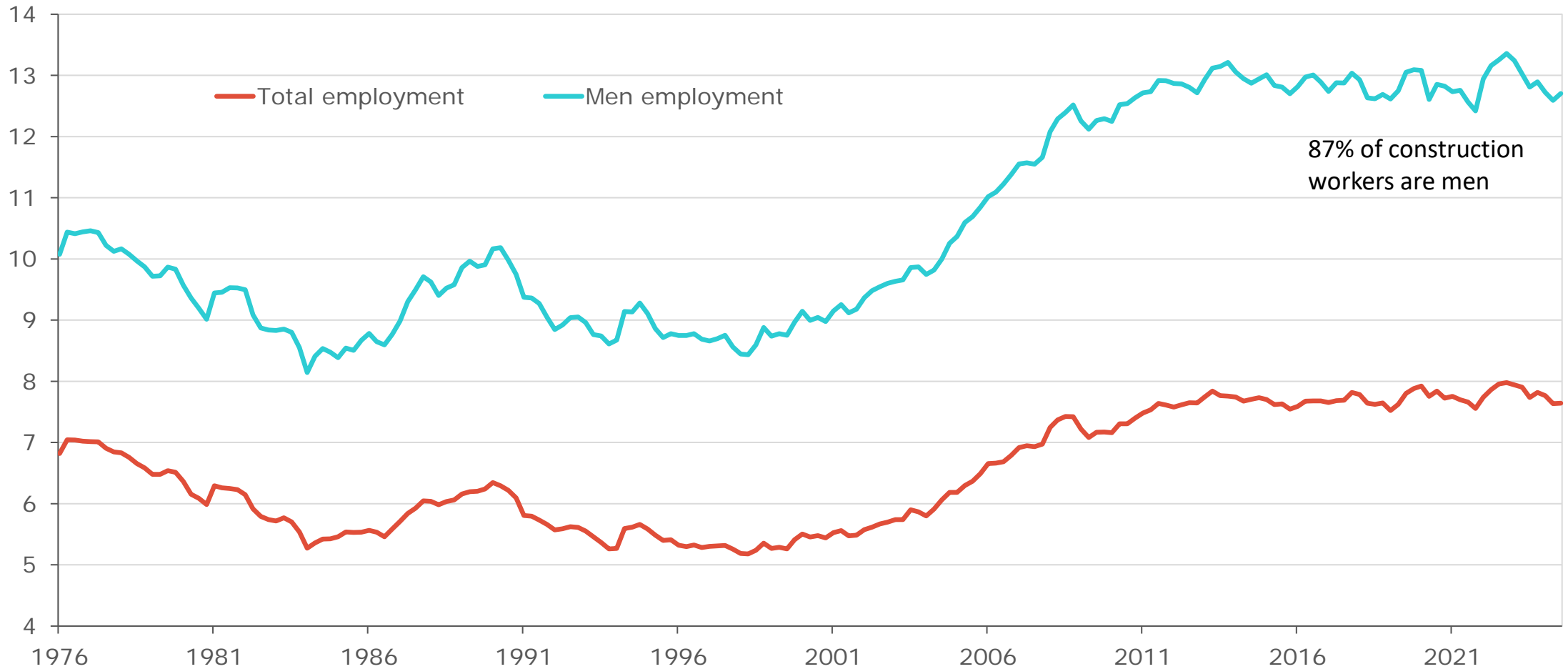
Housing starts



Source: Statistics Canada, Alberta Central

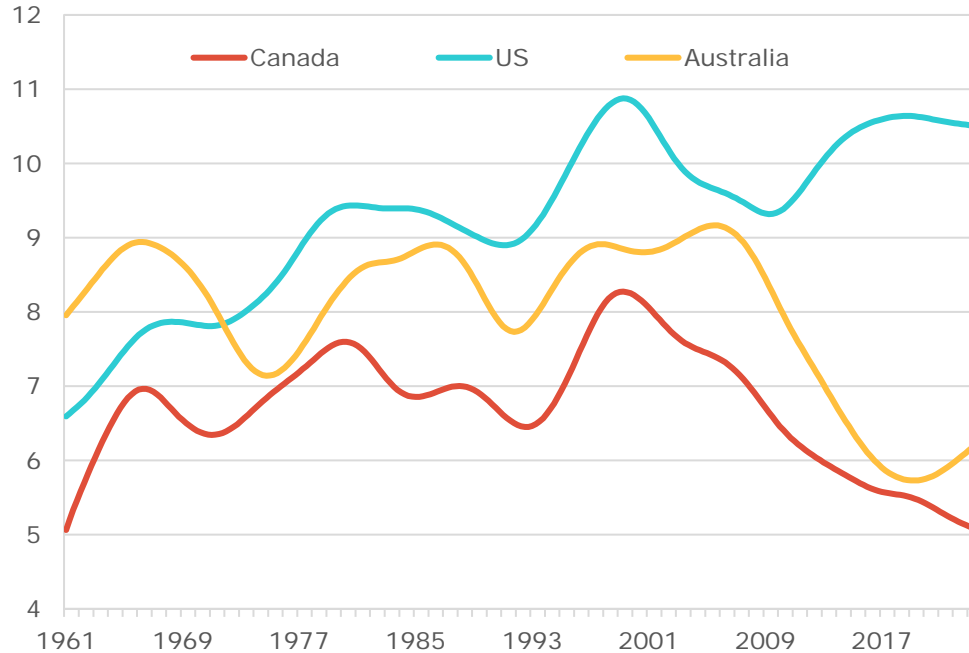
Construction never employed so many workers

Share of construction workers

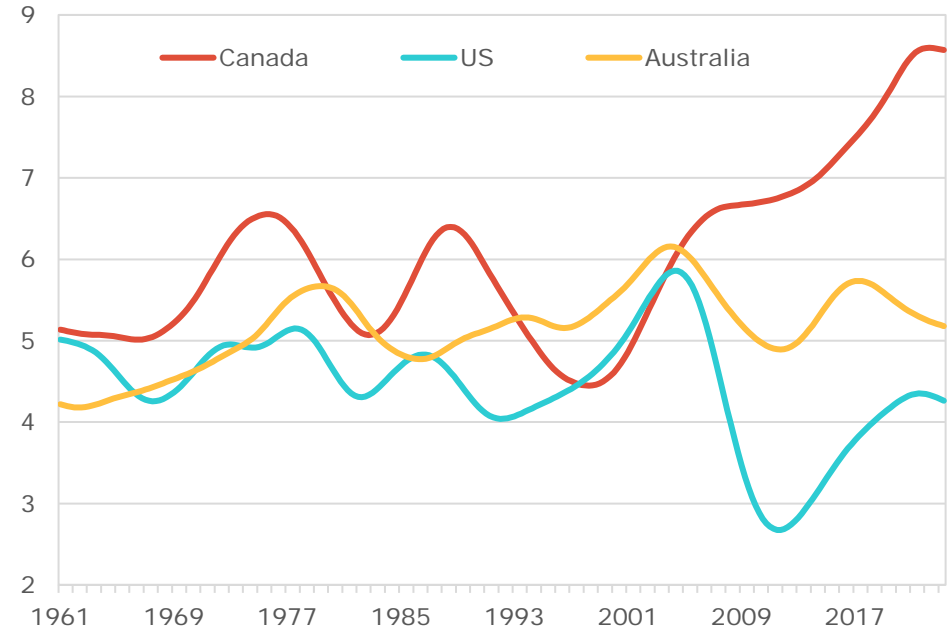


Weak productive investment

Machinery, equipment and IP (% of GDP)



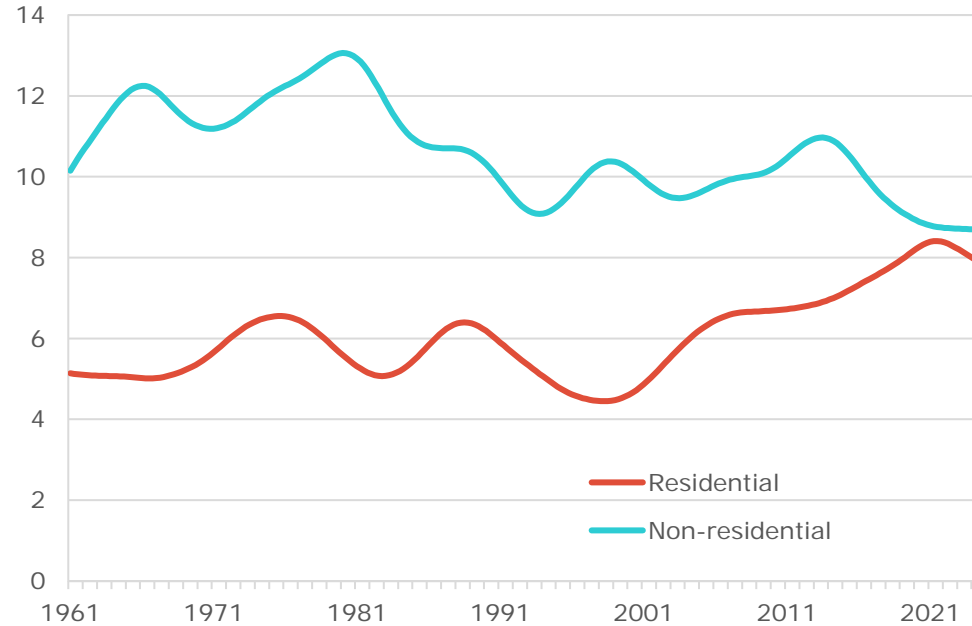
Residential investment (% of GDP)



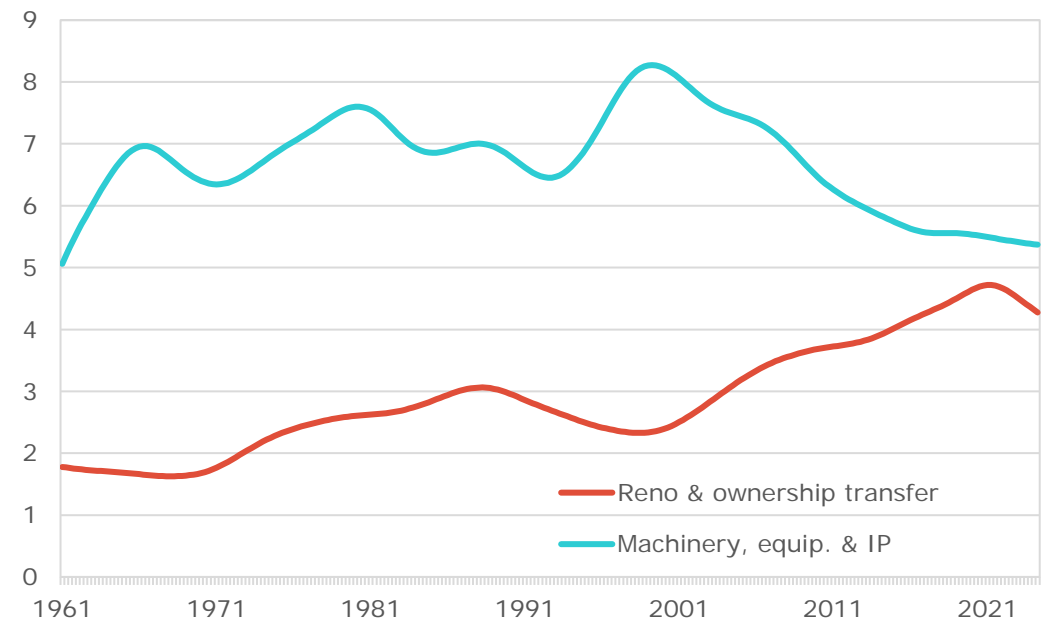
- Business investment in machinery and equipment as a share of GDP has been on a declining trend since the early 2000s. Investment in structures declined following the drop in oil & gas investment post-2015.
- Declining investment in machinery and equipment, in part, explains poor productivity performance.

Competing investment

Investment (% of GDP)



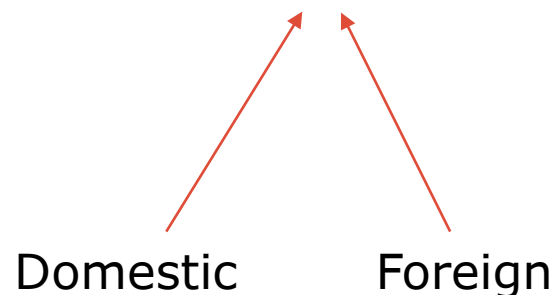
Investment (% of GDP)



- Canada is spending as much on renovation and homeownership transfer costs as on machinery, equipment and intellectual property.

Competition for scarce resources and crowding out

Saving = Investment

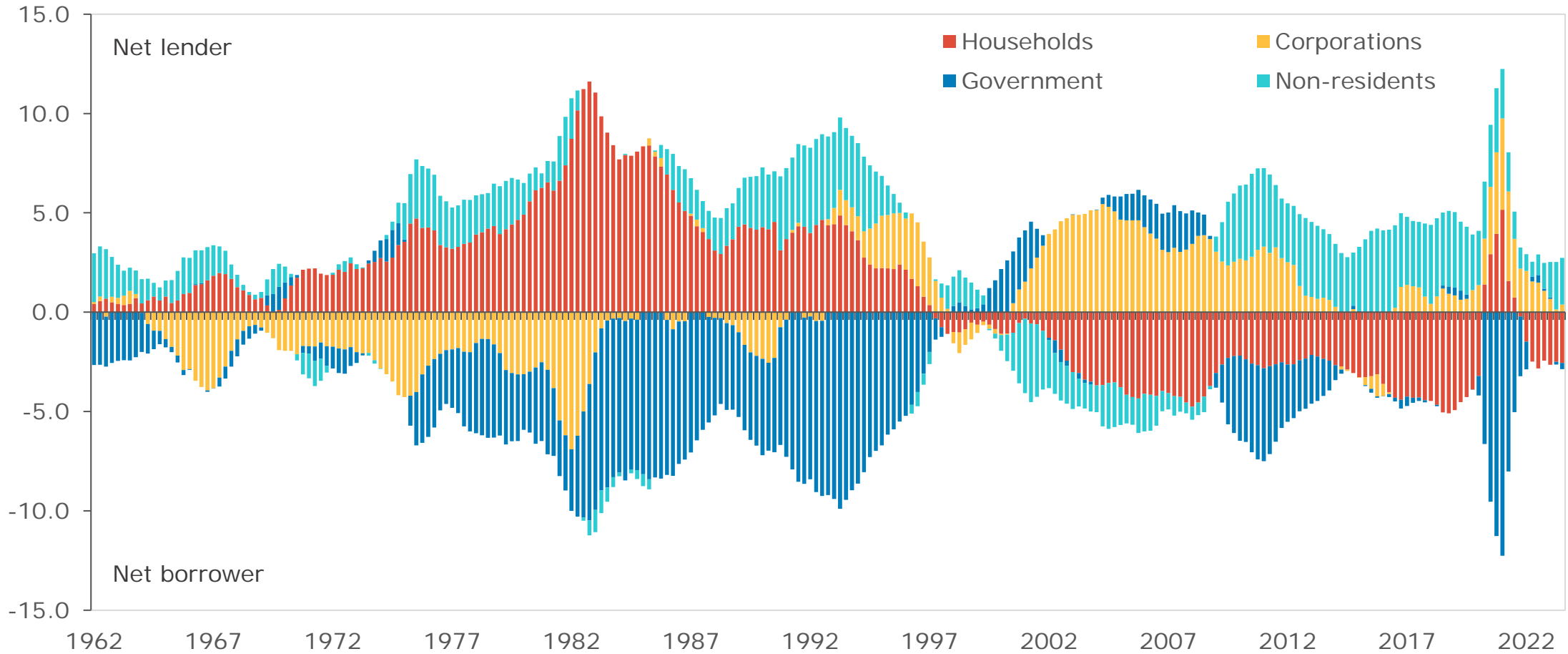


Competition for the available savings between the various needs:

- Residential
- Infrastructure
- Machinery & equipment
- R&D, IP
- Household borrowing
- Government (e.g. defence)

Net lending/borrowing

% GDP



Source: Statistics Canada, Alberta Central

Q&A

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