What's next for Alberta's beleaguered economy?

By Todd Hirsch
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Alberta's economy was stealing headlines at the beginning of the decade for its healthy job market, soaring wages and vibrant energy sector. But over the past two years, events have conspired against the province. In the face of stubbornly low oil prices and a second consecutive year of recession, Alberta is in the worst shape it's been since the 1980s.

And as bad as it's been, the province can't seem to catch a break. Entering the second half of 2016, it was expected that Alberta's economy would show more stability – and perhaps even a bit of modest growth. However, two major events hit the province in the early summer that has once again pulled the rug out from under the economy and delayed recovery.

The first and most significant was the devastating fires in Fort McMurray in early May. Not only did they halt oil sands production for nearly a month, they sideswiped the hundreds of small and medium-sized businesses in the community of 90,000 people. Many of these businesses were already running on fumes in 2016, given the severe downturn in the energy economy. But to be forced to close for a month or two means a loss of precious revenue, which will certainly prevent many operators getting back to business as usual.

Statistics Canada did not include Wood Buffalo Region (in which the community of Fort McMurray is located) in its May and June Labour Force Surveys. It indicates that because Fort McMurray accounts for only 2 per cent of the province's population, the exclusion of the community from the survey will not have a material effect on the province's overall labour force. While that may be true, the community and region has a much larger impact economically on the province – one that is greater than the population's 2 per cent.

The second hit to Alberta is indirect, yet it could end up having a larger, long-term impact than the fires. The Brexit vote in Britain has been written about extensively. While the economic effects of this decision are difficult to predict, it could be a portent of worse things to come. If citizens in other countries start questioning their future in the EU and the world moves toward less, not more, liberalized trade, all bets are off for global economic growth forecasts. That could hit oil prices in the medium term, which in turn hit Alberta.

In the short run, Alberta is likely to see rising unemployment over the summer and into the early fall. Already at 7.9 per cent, it could crest at 8.5 per cent or even 9 per cent before Thanksgiving. The recovery in oil prices to the $45 (U.S.)-to-$50 range has been encouraging, yet it is not a sufficiently high price to stabilize the province's petroleum sector. A sustained price of closer to $60 a barrel would be needed for investment and hiring to return to the sector.

In the medium to long term, however, Alberta must figure out a way to diversify its economy. Industry knows this. The provincial government knows this. Albertans know this. Yet, the problem remains: There is no silver-bullet policy that will diversify the economy. It takes time and the right conditions.

Fortunately, Alberta has both at the moment: time and conditions. Oil prices are unlikely to rebound quickly (like they did in the previous downturn in 2010), and that will give other non-energy-sector companies the time they need to gain a foothold in the province. The conditions are right as well. Skilled labour is much more available now than it was two years ago and average earnings are coming down. Everything from office leases to industrial park rents are all being steeply discounted.

Yet, while organic economic diversity is likely to happen over the medium term, that's cold comfort for the thousands of Albertans who are out of work this summer and are facing a discouraging job market. This, too, shall pass. Alberta is at the inflection point of morphing into something new, but it won't happen overnight.

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