Market View
Economics and Strategy

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Why so angry (in Canada's Prairies)?

By Warren Lovely

To judge from recent surveys/polling, the mood has turned a little dark in Canada, nowhere more so than in the prairie provinces. Why is the average Albertan, Saskatchewanian or Manitoban so testy? There are more than a few irritants one could point to, some longer standing, some of the more nouveau variety. No question, runaway inflation is an increasingly pressing concern, even if that's hardly unique to this region.

We're not making light of affordability pressures. How could you with inflation where it is? Nor would we trivialize the apparent dissatisfaction/political alienation felt in parts of Western Canada. In a democratic society, sentiment always bears close scrutiny. Mood swings can and do influence political outcomes and the resulting policy stance pursued by governments of the day. These are extraordinary times. So yes, we're paying *very* close attention to public opinion/sentiment, not just in the prairies but all across the country.

Notwithstanding the scent of potential political risk, there's still a lot to like (and to be happy about) in the prairies against an uncertain geopolitical backdrop characterized by mounting energy and food insecurity. Particularly in Alberta and Saskatchewan, GDP growth has absolutely skyrocketed, making a relatively rich region even richer by national standards. Labour markets are firm. On balance, hiring intentions remain positive, which combined with a slew of existing job vacancies hints at solid wage prospects. True, commodity prices have come off their highs but in our base case view should nonetheless remain at a level supportive of marginal business investment.

We still like the economic risk profile in the prairies, characterized as it is by much greater leverage to natural resources/agriculture. Looked at another way, there's been less reliance on housing and household debt, certainly versus the provinces that bookend the prairies (British Columbia and Ontario). Housing affordability hasn't eroded nearly as badly, so it's perhaps less-than-surprising that the unfolding correction in housing markets—brought about by aggressive policy rate tightening—has been much less dramatic. Expect that trend to continue.

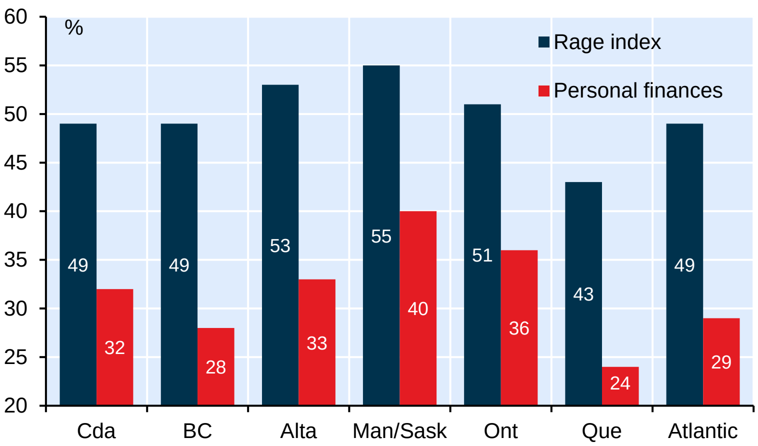
Fiscal results continue to turn heads in the best way possible. Alberta's recent Q1 update was one of the more astounding fiscal revisions we can recall, even if markets seemingly took the good news in stride. Resource leverage means fiscal volatility, but we continue to view *all* provincial debt as lower-beta relative to corporate credit. As it stands, there's no shortage of budgetary leeway for select provincial governments to ease affordability pressures. Significant measures have been rolled out, and more are likely. It's likewise safe to assume that PM Trudeau will take action at the national level. A related cabinet huddle has been scheduled ahead of an important fall legislative session.

In the same way that the feds have excess fiscal capacity, we count Alberta and Saskatchewan (along with Quebec) as provinces in a fiscally sustainable position longer term. While we're on the subject of the long-term outlook, consider the population growth expected to arrive in the prairies over the coming decades. That's fundamental fuel for economic growth, supporting the outlook for consumption/housing and by extension government revenue. It means these provinces—already relatively younger than the national average—will age at a slower rate than others. Long-term bond investors may wish to take note.

There's more to it, as the string of images on the following pages tries to make clear. We won't make the mistake of telling anyone how they should feel, but maybe there's relatively less to be angry about in the prairies after all? Surely there are tougher places to be in what remains a topsy-turvy world. Call it a case of perception not necessarily fully reflecting reality. Make no mistake, resource-leveraged provinces would be at risk if the global economy enters a painful/serious recession. But even with rate hikes having come on faster than most thought possible (ourselves included), we still see scope to avert a deep and dark economic turn for the worse.

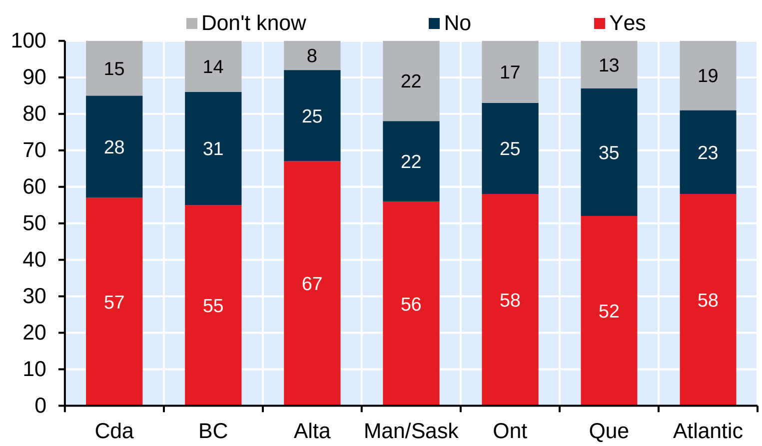
The prairie provinces pose for a socioeconomic-fiscal close-up

Chart 1: Pollara's 'Rage Index' highest in Prairies (lowest in Que)
Pollara 'Rage Index': Share of respondents who feel annoyed/angry



Source: NBF, Pollara Strategic Insights (survey conducted 25-Jul to 2-Aug)

Chart 2: Two-thirds of Albertans see economy in recession
Share of responses to "Do you believe Canada is currently in recession?" (%)

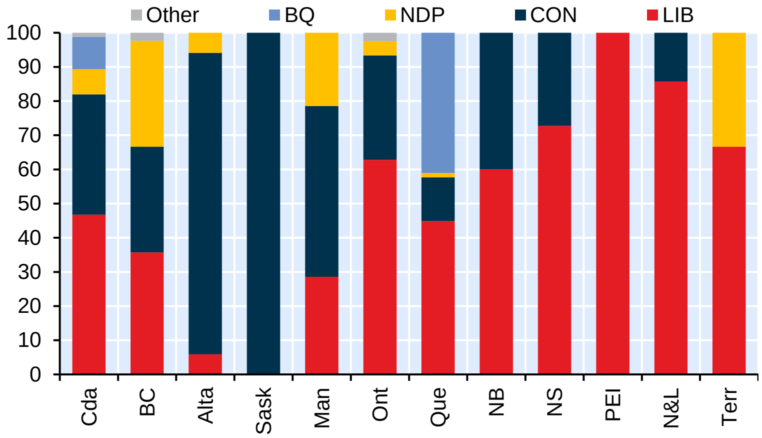


Source: NBF, Leger (survey conducted 5-Aug to 7-Aug)

'Rage' or least anger and annoyance appears to be greatest in the prairies. In some cases that might reflect a personal financial situation, even if these provinces have been making serious contributions to Canada's economic recovery. Despite registering exceptional GDP growth, two-thirds of Albertans believe Canada is already in recession, a more dire and polarized outlook than elsewhere.

Chart 3: Federal elections show entrenched regional discord

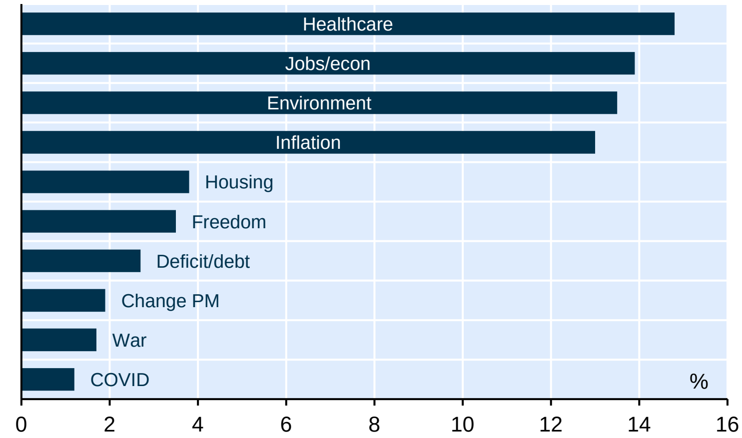
Current distribution of federal seats by political party & province (%)



Source: NBF, Parliament of Canada

Chart 4: Inflation not the *only* issue (as COVID takes a back seat)

Top 10 national issues for Canadians

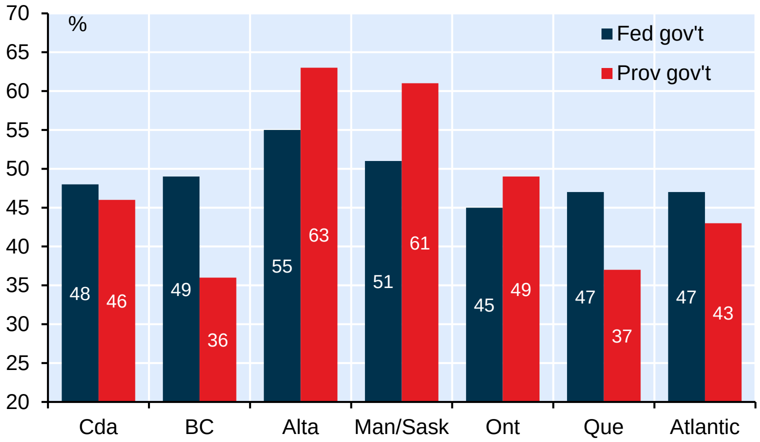


Source: NBF, Nanos (weekly tracking ending 26-Aug)

It would be tempting to blame the feds for much of the current level of dissatisfaction. Based on seat counts, relatively few in the prairies presumably see their interests championed by the ruling Liberal party. When it comes to national issues, healthcare remains a top concern. The provinces have their differences, but extra federal cash for healthcare is one thing they all agree is a pressing concern.

Chart 5: Anger extends beyond feds to provincial leadership

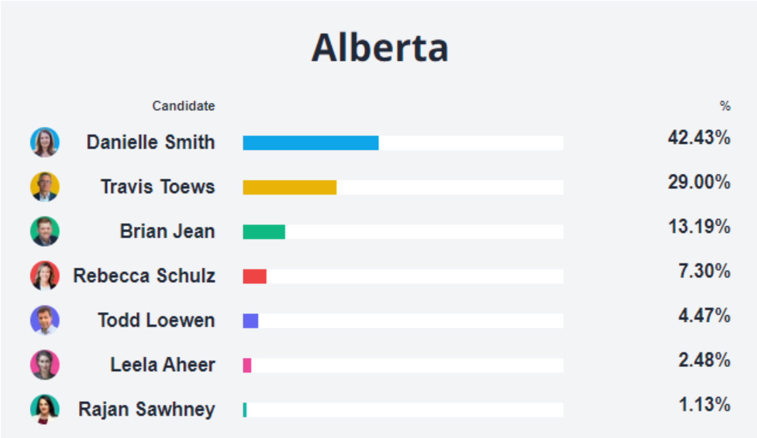
Share annoyed/angry with federal & provincial government



Source: NBF, Pollara Strategic Insights (survey conducted 25-Jul to 2-Aug)

Chart 6: UCP race in Alberta worth watching

Voting intentions for UCP leadership race (First round ballot)

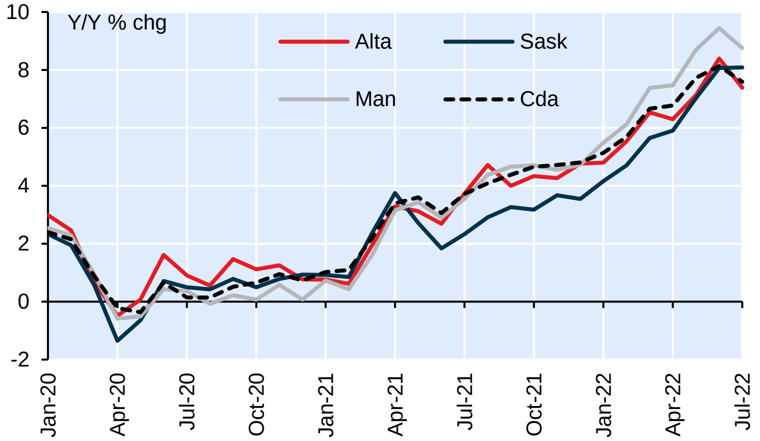


Source: NBF, Mainstreet Research (survey conducted 4-Aug to 27-Aug)

Interestingly, it seems those in the prairies are even more angry/annoyed with their provincial government. The provincial leadership is about to change in Alberta. Campaign rhetoric suggests the UCP race could have potential implications for federal-provincial relations. (Aside: Quebeckers appear much more satisfied with their government, pointing to a CAQ re-election in October.)

Chart 7: Runaway inflation impossible to ignore

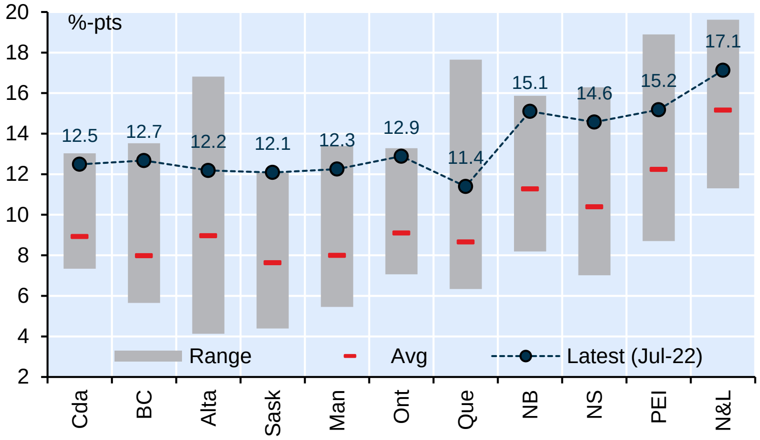
All items CPI inflation rate



Source: NBF, StatCan

Chart 8: Inflation contributes to lofty 'misery index' readings

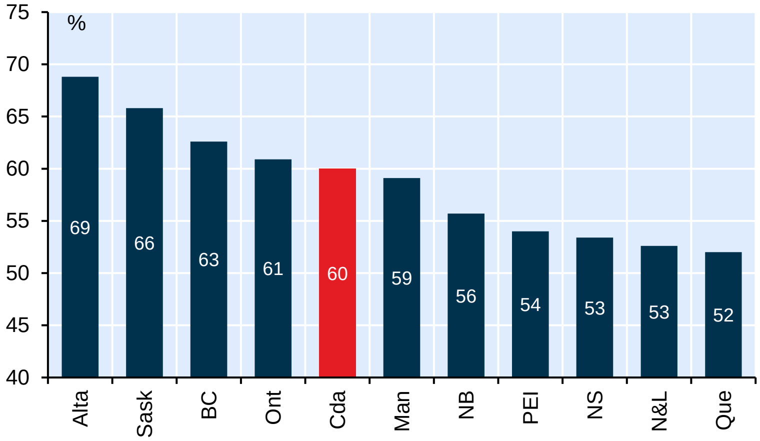
'Misery index': Unemployment rate + inflation rate, current vs. trend



Source: NBF, StatCan | Note: Range/avg based on sample from 2010 onwards

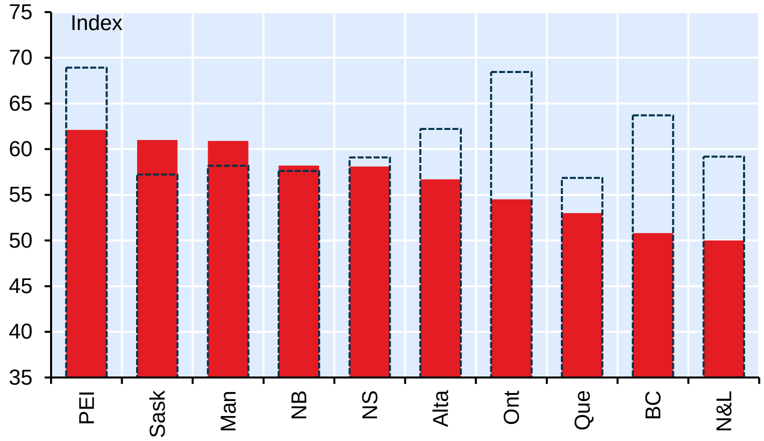
Material dissatisfaction with government is presumably entangled with pressing cost-of-living/affordability concerns. Even if jobless rates are low, sky-high inflation has contributed to 'misery index' readings that are higher than most are accustomed to. But elevated inflation, and economic 'misery', is hardly unique to the prairies. Only Quebec has a lower 'misery index' at present.

Chart 9: Inflation a noted obstacle for businesses
Share of businesses citing 'rising inflation' as near-term obstacle: 2022:Q3



Source: NBF, StatCan | Note: See related comment on latest CSBC here

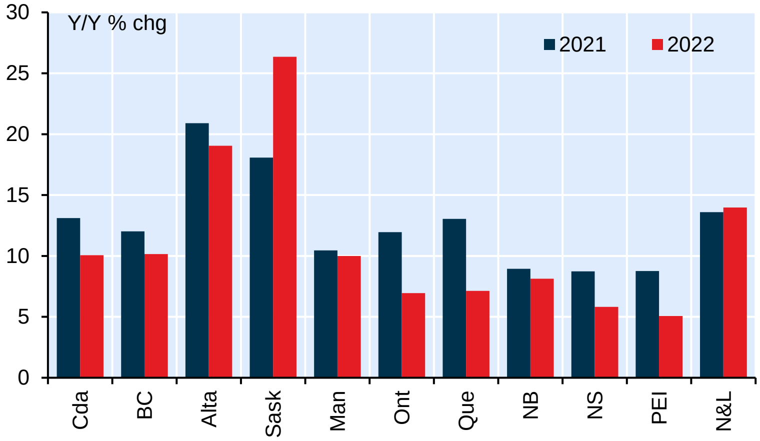
Chart 10: Yet small business confidence holding up
CFIB Business Barometer: Aug-22 vs. Dec-21



Source: NBF, CFIB | Note: Dotted line refers to Dec-21 reading

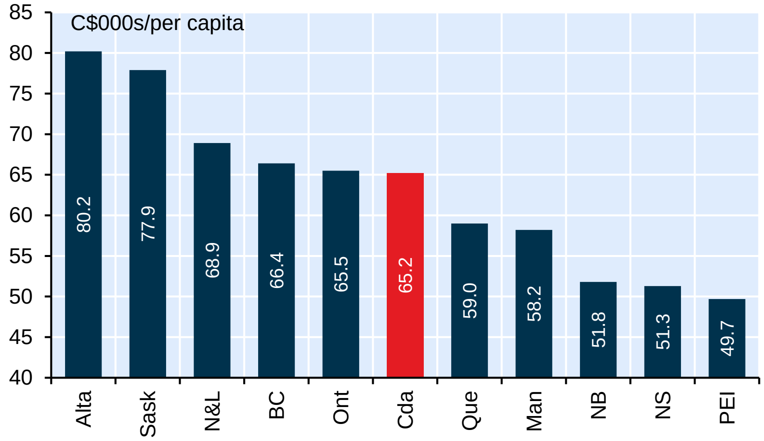
As we explored in a separate note, businesses in Alberta and Saskatchewan are flagging 'rising inflation' as one of their most pressing worries. (Here again, Quebec appears to be at the other end of the spectrum.) Note, however, that the balance of opinion on hiring and demand remains positive in the prairies. And small business sentiment is relatively strong(er) vs. the larger provinces.

Chart 11: Nominal GDP explodes higher in Alta, Sask
Nominal GDP growth: 2021 & 2022



Source: NBF | Note: Nominal GDP forecasts will be updated in Sep-22 issue of MEM

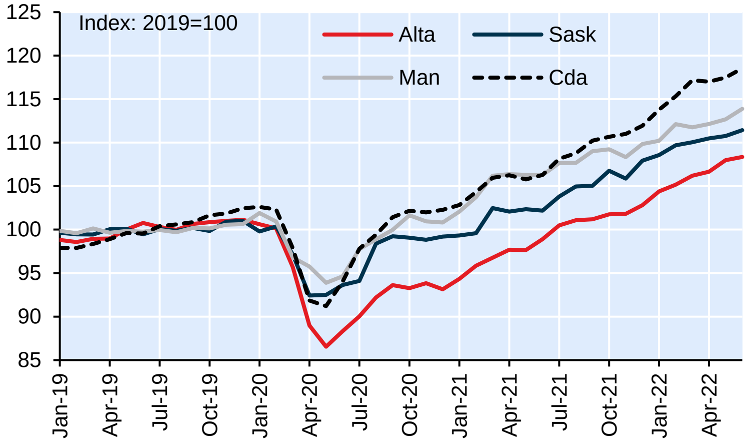
Chart 12: The 'rich' getting richer? In a sense yes
Nominal GDP per capita: 2021



Source: NBF, StatCan

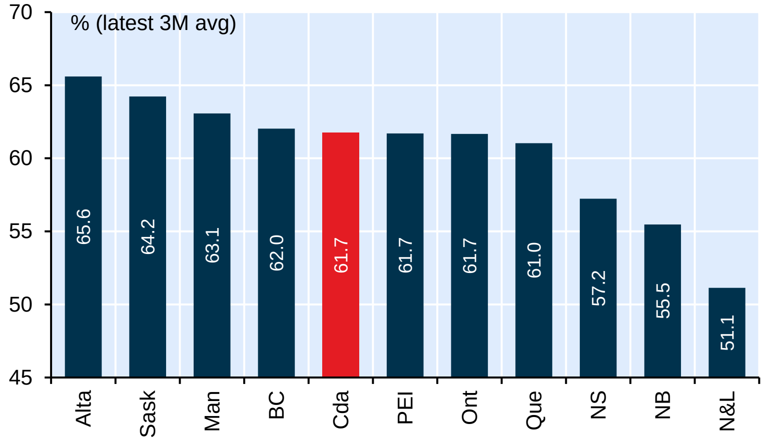
We don't want to fall victim to backwards looking analysis, now that the peak for commodity prices may be behind us, but the nominal output generated in Canada's resource-intensive jurisdictions has really been remarkable. It means nominal GDP per capita—a proxy for relative 'richness'—which always remained above-average in Alberta and Saskatchewan has advanced mightily of late.

Chart 13: Employee compensation up, but has lagged
Total employee compensation



Source: NBF, StatCan

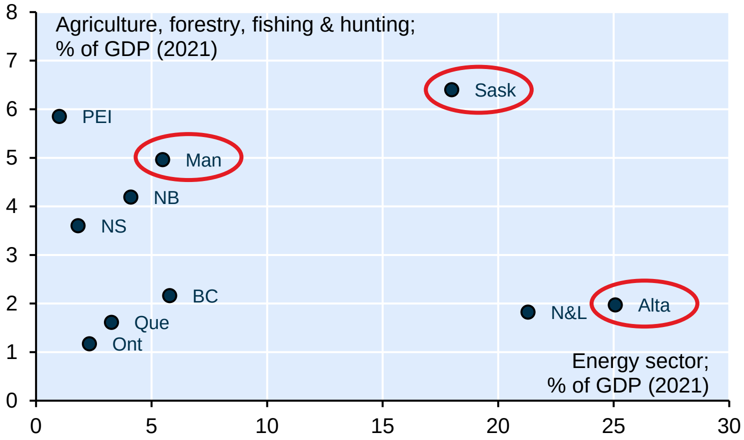
Chart 14: Labour markets remain firm
Employment rate (i.e., share of working age population employed): Jul-22



Source: NBF, StatCan

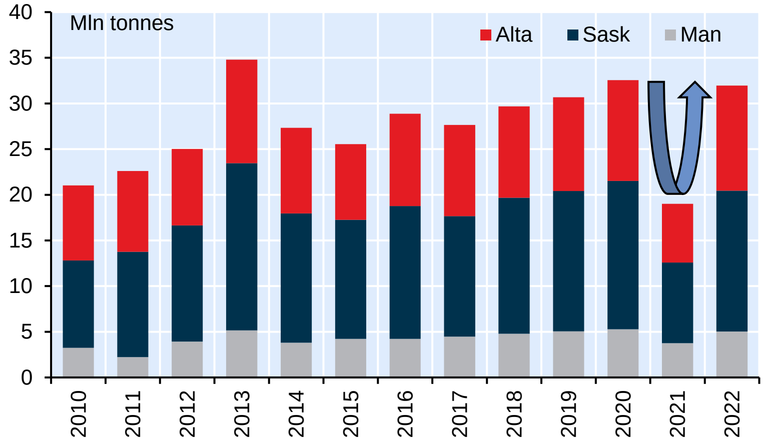
The pandemic certainly left a mark on labour markets in the prairies, and in some cases there was more slack to close up. But a legit employment recovery has been secured, with employment rates the strongest in the country (consistent with the pre-COVID trend). There are job vacancies everywhere in Canada, but one senses solid wage prospects in parts of Western Canada.

Chart 15: Leverage to energy/primary industries has paid
Share of GDP: Energy sector vs. agriculture/other primary industries



Source: NBF, StatCan

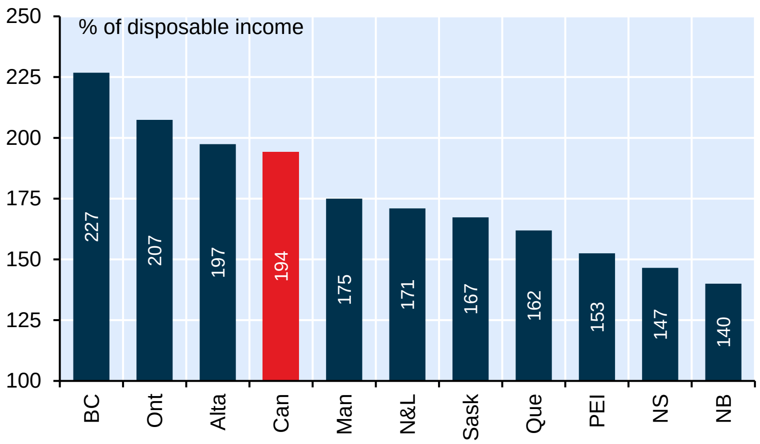
Chart 16: A bumper crop for 2022 to boot
Total annual wheat production, including estimate for 2022



Source: NBF, StatCan

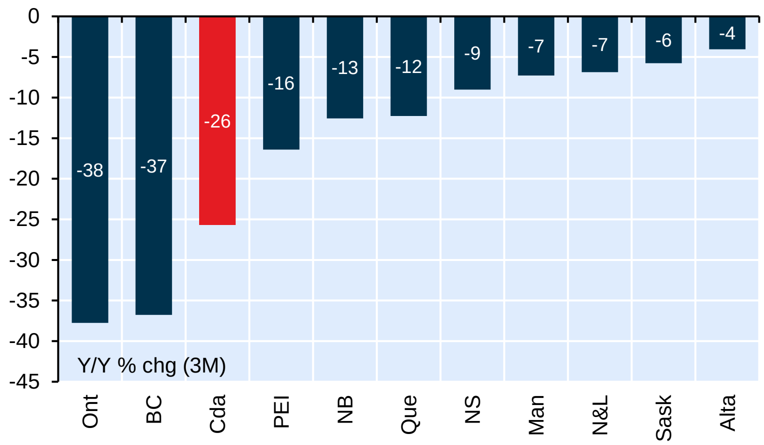
The economic model in evidence in the prairies, what with its leverage to energy and agriculture, is currently working well. Global energy and food insecurity pressures provide an opportunity for Canada to play a larger role internationally. Yes, there are energy infrastructure issues to sort of course; that's not new. As for our farmers, they look to have a bumper crop on their hands in 2022.

Chart 17: Less housing exposure/household debt than some
Household debt-to-income ratio: 2022:Q1



Source: NBF, StatCan

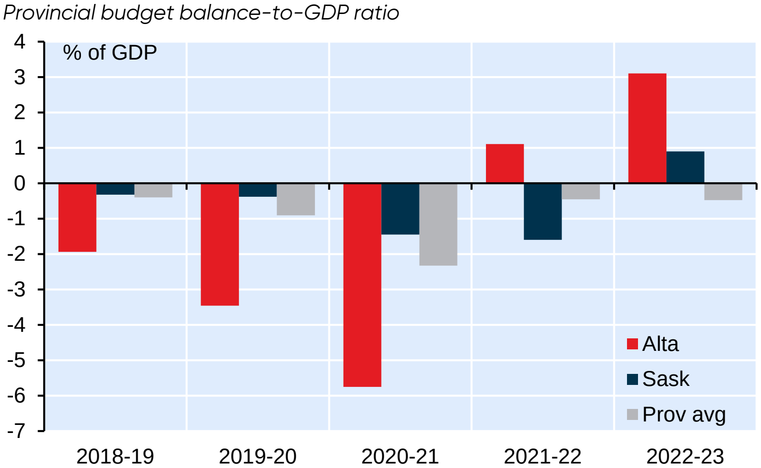
Chart 18: Housing correction so far less violent
Year-over-year growth in existing home sales: Jul-22



Source: NBF, CREA | Note: NBF's Housing Affordability Monitor is available here

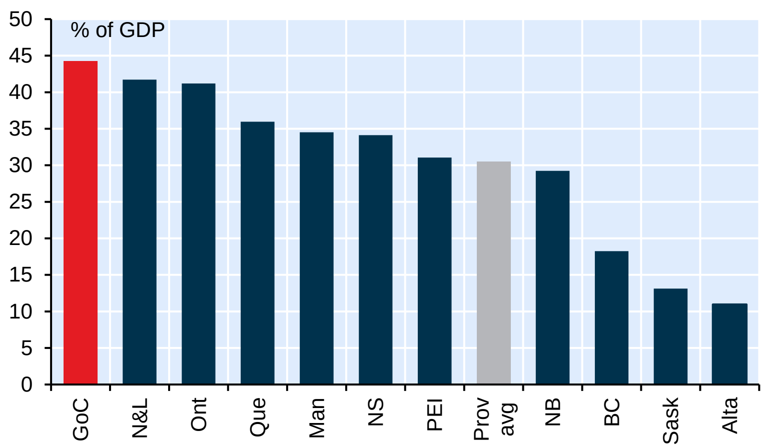
Meantime, we see less housing-related risk in the prairies than in some other parts of Canada. Household debt is perhaps a more pressing concern in Ontario and British Columbia, where real estate makes up a larger share of assets and housing has accounted for disproportionate growth. It suggests a less violent adjustment to higher mortgage rates in the prairies, which is already evident.

Chart 19: Massive fiscal turnaround as revenue floods in
Provincial budget balance-to-GDP ratio



Source: NBF, prov gov'ts | Note: Subject to change as public accounts/updates arrive

Chart 20: Notably lower net debt burdens in West
Net debt-to-GDP ratio: 2022-23

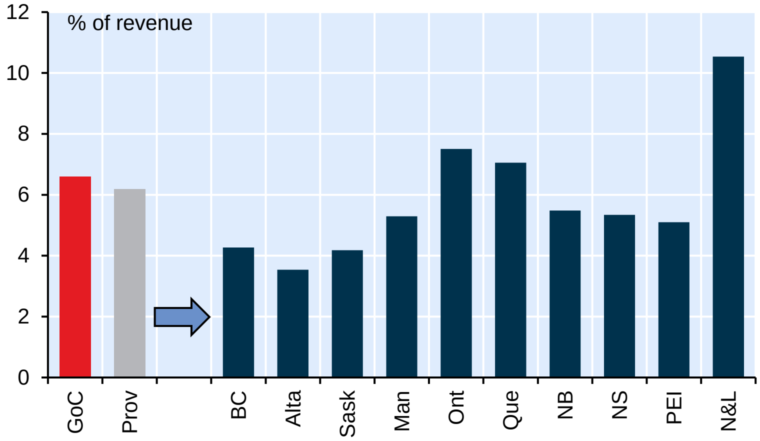


Source: NBF, fed-prov gov'ts

The fiscal side of things is no-less-important. Extraordinary revenue growth (e.g., 60% more revenue in Alberta in 2022-23 than what was once projected) has allowed for a swift budgetary recovery. In Saskatchewan and Alberta, deficits have been replaced by surpluses, with both jurisdictions pressing their net debt advantage. Excess fiscal room exists to address affordability pressures.

Chart 21: Interest bite more like a nibble for some

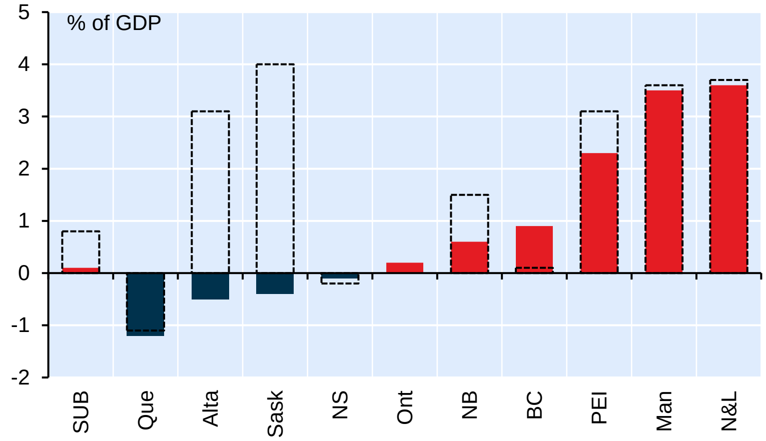
Consolidated interest bite: 2022-23



Source: NBF, fed-prov gov'ts | Note: Based on latest official forecasts, subject to chg

Chart 22: Assessing fiscal sustainability across provinces

PBO estimate of fiscal gap by individual province: 2022 (vs. 2021)

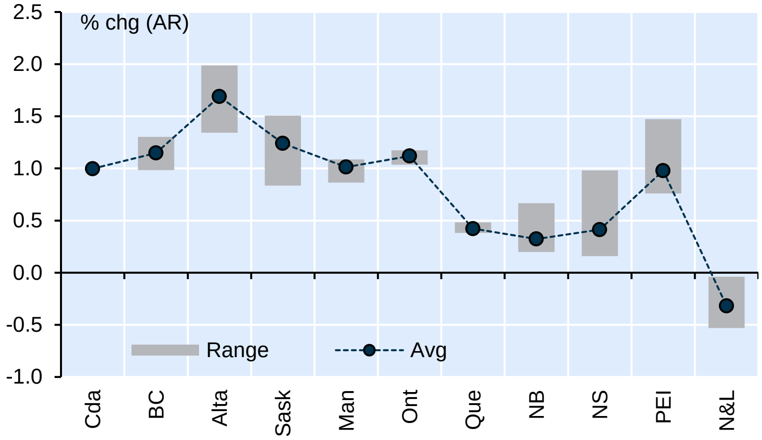


Source: NBF, PBO | Note: Dotted bars reflect PBO's assessment from 2021

With lower debt burdens comes a less painful interest bite. So while borrowing costs have moved up, there's little concern over debt affordability in Western Canada. Spreads have reacted to the improving fiscal fortunes, with Alberta once again sporting some of the lowest borrowing costs in the country. This province earned a recent upgrade, and along with Saskatchewan, is considered by the PBO to be one of the more fiscal sustainable jurisdictions in the country. (Here's another shout out to Quebec, where responsible fiscal management has been on display for some time.)

Chart 23: Superior population growth expected long-term…

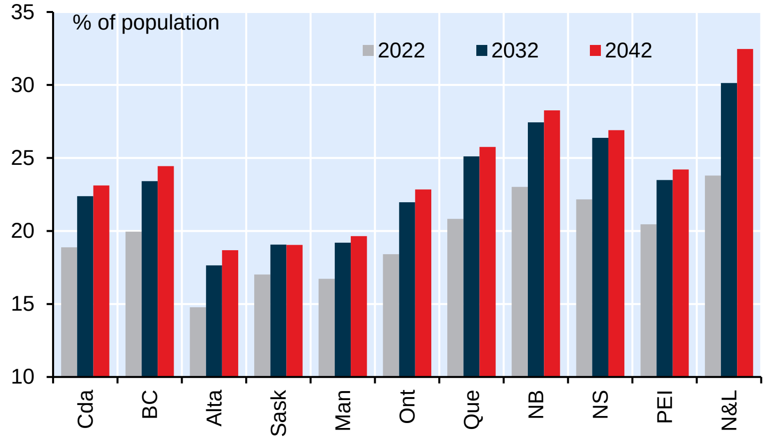
Projected population growth over coming 20 years (i.e., 2022 to 2042)



Source: NBF, StatCan | Note: Range/avg based on six medium-growth scenarios

Chart 24: … keeping populations relatively 'younger' (or less old)

Current & projected share of population aged 65+



Source: NBF, StatCan | Note: Based on avg of six medium-growth scenarios

Lest our commentary/analysis prove too short-term in nature for you, consider the longer-term demographic outlook for Canada's prairie provinces. StatCan's recent detailed population projections, which extend out more than twenty years for the provinces, are telling. There are more than a few scenarios to mull, but under most population growth looks to be relatively healthy. It means that the populations of Alberta, Saskatchewan and Manitoba are likely to remain relatively younger than other provinces. That's a non-trivial consideration given provinces have primary constitutional responsibility for funding healthcare. Relatively stronger population growth, were it to materialize, would have any number of additional economic benefits, supporting potential growth and housing demand among other things.

If you want to get into the weeds on demographics—and we invite you to—there's plenty of analysis that NBF Economics and Strategy can muster. As but one example, our colleagues Matthieu Arseneau and Alexandra Ducharme authored a recent *Special Report* on Canada's population outlook. That report can be accessed here.

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