



More to say on Alberta, really? Humour us...

By Warren Lovely

In case you missed it, we just penned a detailed *Market View* report exploring the perceived disenchantment in Alberta (and Canada's prairie provinces more generally). That report, complete with 24 charts, can be accessed [here](#). As it happens, a couple of fresh StatCan releases reinforced some of our key tenets. So inspired by the 'more is more' school of thought, why settle for 24 charts when you have 28. Seriously though, we're not trying for overkill, but offer this *Addendum* as a means of furthering our interest rate narrative/call.

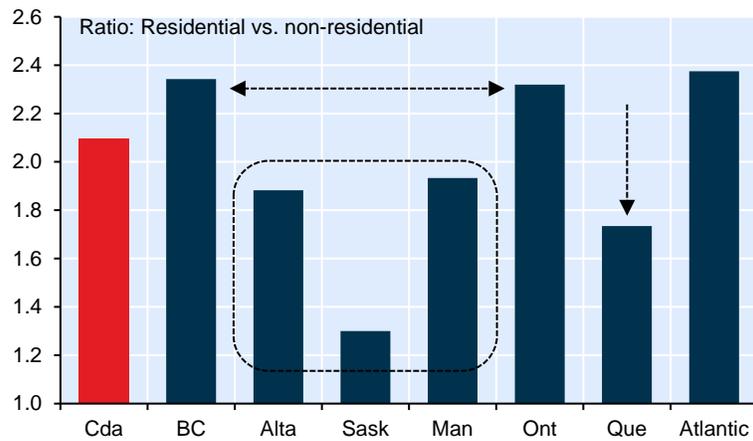
First off, fresh building permits data show a somewhat predictable/intuitive development: the value of residential permits swooned in July as rapid-fire BoC rate hikes crimp enthusiasm in Canada's outsized housing market. Non-residential permits failed to gain ground in July but are outgrowing residential values no matter what growth metric you favour. Expect this to continue. Further to our detailed note, building permit details speak to the heavier reliance on housing in Ontario and British Columbia, with the prairie provinces (and Quebec) leaning less heavily on residential construction activity vis-à-vis non-residential projects (Chart 1).

We've argued that surging national income (see explosive nominal GDP growth [here](#)) provides fuel for, among other things, business investment. This story is playing out nicely in resource-leveraged jurisdictions, as trend/smoothed non-residential permits are up 25% in Alberta on a year-over-year basis and 90%+ in Saskatchewan. Also today, StatCan's Q2 estimate of oil & gas capex advanced ~17% vs. Q1 (Chart 2).

In light of successive serious rate hikes, which may (or may not) be nearing their end, sustained offsets to faltering residential investment spending will clearly be needed if a serious downturn is to be avoided. Even if GDP growth fell a bit short of expectations in Q2, credit Canada for finding counterweights to a housing correction (Charts 3-4). We'll need to keep this up, with business investment just one area Canada will presumably lean on from here. Hint: There's a will and a way for federal and provincial governments to do perhaps a lot more. The greater the offsets to housing, the higher the BoC's terminal rate presumably goes... and the longer it stays there. The key caveat being that inflation, more than growth, is driving policy in the short-term. By the way, our detailed *BoC Preview* of the September 7th rate decision will be available [here](#).

Chart 1: Some lean on housing more than others

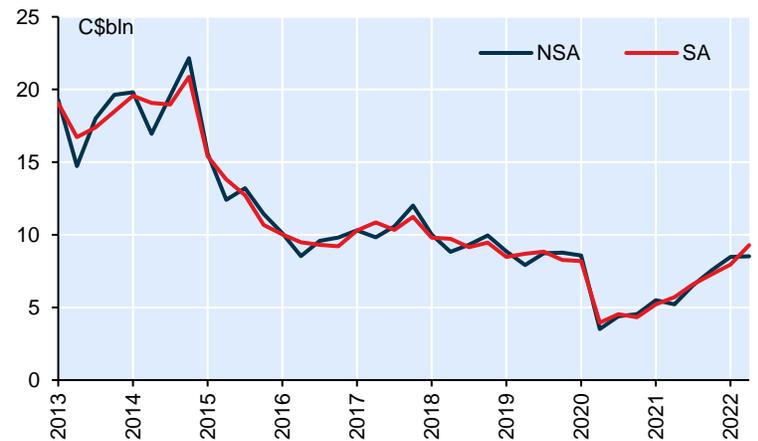
Ratio of value of building permits in recovery period (Apr-20 to Jul-22)



Source: NBF, StatCan

Chart 2: O&G capex coming back (albeit from low base)

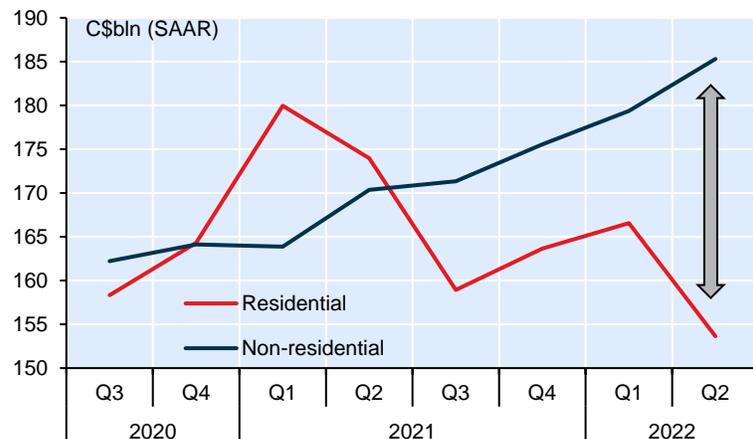
Quarterly capital spending: Oil & gas industries



Source: NBF, StatCan

Chart 3: Can Canada's economy continue to shift gears?

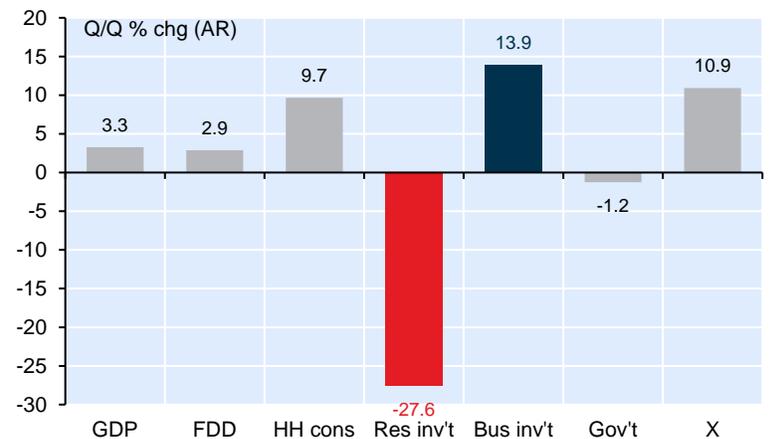
Canadian real business investment: Residential vs. non-residential



Source: NBF, StatCan

Chart 4: Offsets to housing will be needed some time yet

Canadian real GDP growth by select expenditure component: 2022:Q2



Source: NBF, StatCan | Note: Gov't combined final consumption & gross capital formation



Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Alexandra Ducharme

Economist
alexandra.ducharme@nbc.ca

Matthieu Arseneau

Deputy Chief Economist
matthieu.arseneau@nbc.ca

Daren King

Economist
daren.king@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Jocelyn Paquet

Economist
jocelyn.paquet@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich

Rates Strategist
taylor.schleich@nbc.ca

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