

ECONOMIC RESEARCH AND STRATEGY



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Alberta First Quarter Update – Commodities provide a major boost to the near-term outlook

The Ministry of Treasury Board and Finance published today the [First Quarter Fiscal Update](#), revealing a \$7.8B deficit (2.2% of GDP) projected for FY 2021-22, less than half of the \$18.2B deficit forecast included in the February 2021 Budget. This positive revision builds on the lower-than-expected \$16.9B deficit registered in FY 2020-21, as revealed in the public accounts published in June. Upward revisions to revenue sources virtually explain all of today's significant improvement to the bottom line.

First, higher-than-budgeted commodity prices adds an additional \$6.9B in non-renewable resource revenue, more than our July 2021 *provincial monitor* [estimate](#). Alberta now forecasts WTI oil prices to average US\$66/bbl in FY 2021-22, US\$20 more than Budget 2021, adding \$6.2B in bitumen and crude oil royalties. The government's fiscal year forecast matches our own and assumes a moderation in WTI and WSC oil prices during the second half of this year. The OPEC+ agreement to increase by 0.4M bbl/day its production on a monthly basis starting in August, until a complete phase out of its 5.8M bbl/day pandemic-related cuts, will lead to a significant supply increase by the end of this year (+2.4M bbl/day or +2.5% of total forecast demand in 2021). Despite the U.S. administration call to OPEC+ for further increase in oil output, market participants widely believe that the cartel will not alter its plan at the September 1st meeting. Increased oil supply, compounded to the downward revision in annual demand due to the coronavirus delta variant, should put a lid on prices this year without threatening Alberta's realistic royalty forecast. Upward revisions to natural gas prices, from \$2.6/GJ to \$3.0/GJ also generate a sizeable \$713M resource revenue boost in the First Quarter Update. Total non-renewable resource revenue is now forecast at \$9.8B, more than 3 times last year record-low tally.

Second, the general economic outlook in the first quarter improved significantly relative to Budget 2021. Real GDP growth in 2021 is now projected at 6.7%, up from 4.8%, and still below our 7.7% *provincial monitor* forecast. Household spending has been strong and supported by the vaccination campaign and the reopening this summer. Strong international demand for non-energy commodities in the first half of the year also supported manufacturing and exports, notably food and lumber. Overall, improved momentum boosts personal and corporate income tax by \$649M and \$591M in FY 2021-22, respectively. However, important risks remain. Alberta's 12+ vaccination rate stood at 69.7% in late-August, one of the lowest percentages among Canadian provinces. While the full reopening of the economy by mid-August could provide another boost to economic growth, a significant fourth wave led by the highly contagious delta variant could force the province to resume restrictions this fall. Third, transfers from the government of Canada, including a \$531M CHT increase, are revised up by \$1.5B, to \$11.7B. Fourth, positive equity investment return boosted net income from the Alberta Heritage Fund.

No major expenditure revisions occurred in the first quarter. Regular program expenditures are essentially unchanged (-\$47M) to \$57.2B. The Alberta government increases its COVID-19 operating recovery funding by \$1.1B and its emergency and disaster contingency by \$400M, partly offsetting a \$915M allocation of previously funded contingencies.



Combining these elements, the government revises down borrowing requirements from \$22.5B to \$16.6, of which \$4.2B had been completed as of last Friday.

Today's update put the Alberta government in a better fiscal position, among the top economic and fiscal provincial outperformers this year. Budget 2021 forecasted an \$8.0B deficit (2.0% of GDP) for FY 2023-24. Clearly, these targets will be exceeded by a wide margin in Budget 2022, if oil prices remain near their proposed forecast range. With rigorous spending objectives, the government could be in a position to table a medium-term realistic path to balance next winter, reassuring investors and credit agencies about its debt sustainability. Nonetheless, economic diversification remains an important issue in the long run. The government notes today that "the rate of change in the economic outlook and government revenue once again displays the volatility faced by Alberta, the need for economic diversification (...)". Top CEOs in the province recently joined forces to create a task force for long-term economic diversification, retaining talents and attracting investments, a step in the right direction.

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