LAURENTIAN BANK

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Alberta Second Quarter Update — Bigger Fiscal Surplus in the Cards

The First Quarter Update released last August was in line with Budget 2023 expectations of a modest $2.4B surplus for FY 2023-24. In contrast, the Second Quarter Update unveiled on November 30th shows an improvement in public finances. The surplus is now projected at a moderate $5.5B (1.2% of NGDP), or $3.2B above Budget 2023.

Multiple positive developments drove total revenues up by $3.6B versus the budget to $74.3B. First, three oil projects have entered a post-payout phase after recovering initial costs, resulting in energy companies paying more royalties to the Province. Favorable WTI prices and a narrower heavy-light (WTI-WCS) spread have also contributed. OPEC+ has reached a preliminary agreement to deepen oil cuts by more than 1M barrels per day early next year, although cuts are in part involuntary. The Second Quarter Update assumes WTI prices will average US$79 per barrel in FY 2023-24. In addition, personal income taxation revenues are revised up by $0.9B, thanks to very strong full-time employment gains poised to increase total employment by 3.3% this year.

Expenses are only up $0.5B versus budget, to $68.8B. The pace of spending growth is kept on a very tight lid considering CPI inflation is still running high and population is up 4% year-over-year as of 2023Q3. This surge in population is fueled by young international immigrants and young Canadians relocating from B.C. and Ontario. The only big cost overrun comes from climate shocks, namely wildfires and financial support for livestock producers that have faced tough, dry weather conditions. Accordingly, disaster and emergency costs total $1.2B in FY 2023-24, offset by the utilization of the contingency ($1.4B). Unfortunately, the adverse impact of climate shocks on fiscal performances is a growing theme, as market participants also observed with the B.C. and Saskatchewan's fiscal updates released earlier this week.

The 2023 Alberta Budget, released last February, introduced new legislation that made the government significantly more fiscally conservative compared to other provinces. For instance, the legislation requires using half of the surpluses for debt reduction. Accordingly, a large debt repayment of $3.2B is projected for FY 2023-24. Another big amount of $1.6B will be dedicated to the Alberta Fund, poised to have a balance of $2B by the end of FY 2024-25. The Alberta Fund can be used only for one-time spending initiatives rather than permanent spending, or to pay down public debt further. Furthermore, there is still $1.6B available in cash for FY 2023-24, liquidity that could be used in the short run to fund new initiatives or reduce borrowing requirements. Debt maturities are low this year ($7.5B) and next ($6B), before jumping in FY 2024-25 ($13.2B).

In summary, the recent round of provincial fiscal updates has brought more often negative news than positive developments. However, Alberta stands out from the pack in a very positive way. Real GDP growth this year is more than double the national average. Unemployment remains stable, unlike moderate increases seen elsewhere. Resale housing market conditions in Calgary are still tight, as opposed to being in buyers' territory like in Toronto or balanced in Vancouver and Montreal.

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