

HOUSING MARKET INSIGHT

Saskatchewan



CANADA MORTGAGE AND HOUSING CORPORATION

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"The structure of Alberta's economy makes it vulnerable to oil price shocks which can cause considerable swings in the economy and housing market."



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Prairie economies respond differently to oil price shock

The large components of GDP vary by province. Economic shocks will impact each Prairie province differently. The structure of Alberta's economy, and to a lesser extent Saskatchewan, make these two provinces vulnerable to an oil price shock. Manitoba's economy, which is more diversified with a relatively smaller oil and gas industry tends not to experience large swings in its GDP like Alberta and Saskatchewan. Large changes to investment impact employment and housing demand. Low oil prices have reduced investment in this industry decreasing housing demand and creating housing market conditions that favour buyers in Alberta and Saskatchewan.

The provinces of Alberta, Saskatchewan and Manitoba combine to form the Prairie region. While these provinces compose a region, each has its own provincial economic drivers and uniqueness. Given the same economic shock, in this case the sharp decline in the price of oil, each province's economy will respond differently and will generate a variation in economic growth that influences the conditions of local housing markets. The following outlines some of the major economic differences in the three Prairie provinces and how and the recent oil shock has impacted economic growth and housing market activity.

The change in Gross Domestic Product (GDP) is a commonly used measure of economic growth. Reviewing the major GDP components (consumption, investment, government expenditures and net exports) and their respective proportions to overall GDP reveals major differences between the three provinces. These differences help to explain how each of these economies have responded to the recent oil price shock.

Figure 1

Sectors of Economy Relative to Real GDP

	Alberta	Saskatchewan	Manitoba
Personal Expenditure on Goods and Services	41.9%	49.2%	56.9%
Business Capital Formation - Investment	30.5%	29.8%	16.7%
Government Current and Capital Spending	18.2%	23.7%	31.9%
Energy Exports Relative to Total Exports in 2015*	67.6%	23.3%	7.4%

Source: Statistics Canada, CANSIM Table 384-0038 five year average 2010 to 2014, *Table 228-0060

Investment is an important aspect of economic growth and varies between province by relative size and industry. Business investment relative to real GDP is approximately 30.5 per cent for Alberta, 29.8 per cent for Saskatchewan, and a much lower 16.7 per cent for Manitoba.¹ Given the relative size of these proportions, changes to business investment will cause wider swings to the economies of Alberta and Saskatchewan than to Manitoba.

In Alberta, investment related to energy represents more than half of all its business investment, and is dominated by oil sands investment. Hence, a large portion of Alberta's expenditures are dependent on oil prices. Over the past year and a half, oil and natural gas companies responded to low energy prices by reducing investment and payroll expenditures, all contributing to an economic contraction in Alberta.

Conversely, business investment is a smaller proportion of Manitoba's GDP. When investment is reduced in Manitoba, the impact on GDP is certainly negative but does not carry the same weight as in Alberta. Manitoba's economy is also more diversified than Alberta: the oil and gas industry is a considerably smaller component of Manitoba's economy, and there is no dominate industry,

like energy in Alberta, where large changes in investment can cause an accelerated contraction or boom in the economy.

In Saskatchewan, oil and gas is important but there are no billion dollar oil sands projects. However, Saskatchewan does have billion dollar potash and to a lesser extent uranium projects. In the current economic environment of low oil and gas, potash, and uranium prices, Saskatchewan is experiencing a substantial contraction of capital expenditures in these industries causing its economic growth to slow.

Consumer spending is a large part of the Prairie economy, but here too there is variation between provinces. Consumer spending relative to real GDP was approximately 41.9 per cent for Alberta, 49.2 per cent for Saskatchewan, and 56.9 per cent for Manitoba.² Consumer spending tends to be relatively stable, increasing with income and population growth and trending higher over time. Consumer spending tends to decrease during periods of economic uncertainty such as during a recession when job losses reduce income and cause some consumers to reduce their spending. Moreover, a review of historical data since 1982 shows that declines in personal expenditures on goods and services tend to be much less than

declines experienced in business investment during an economic downturn.³ This implies that, during an economic downturn, those economies based on the more stable consumer sector, such as Manitoba, will tend to experience less downside volatility than economies driven more by investment, such as Alberta.

Another way to see how low oil prices have impacted the Prairie Provinces is by reviewing the weights of exports. Through six months of 2016, energy exports from Alberta represented 62.3 per cent of all exports from Alberta, compared to over 75 per cent in 2014 when the value of energy exports peaked at around \$91.3 billion.⁴ In 2015, the value of energy exports in Alberta decreased by over 31 per cent from 2014, and at midyear 2016 it was down another 29 per cent. In Saskatchewan, energy exports also peaked in 2014 at almost \$13.5 billion; this represented approximately 38 per cent of all exports from Saskatchewan. In 2015, energy exports from Saskatchewan decreased 43.7 per cent and have declined another 53.3 per cent at midyear 2016. In Manitoba, energy exports which include electricity also peaked in 2014 at \$1.4 billion; however, this represented less than 11 per cent of all Manitoba exports. Manitoba's total exports are close to the level of

last year's despite its energy exports being down over 20 per cent at midyear 2016. The more diversified exports from Manitoba have offset the decline in the value of energy exports. This cannot be said for Alberta or Saskatchewan.

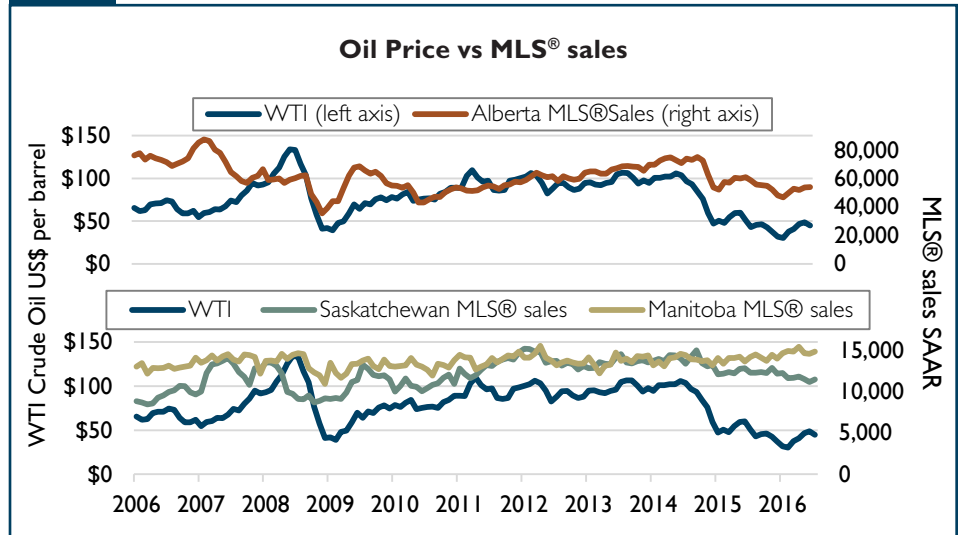
There is also significant differences between the provinces with respect to the value of government expenditures. Government spending relative to the real GDP has averaged approximately 18.2 per cent in Alberta, 23.7 per cent in Saskatchewan, and 31.9 per cent in Manitoba.⁵ Government spending tends to rise with time, driven to some extent by population growth, capital investment and spending on goods and providing services. The larger government sector in Manitoba tends to be a stabilizer for its economy. In Alberta, expansionary fiscal policy is stimulating pockets of the economy, but due to the relatively small size of the government sector, it alone will not be able to mitigate the impact of the oil price shock. In other words, Alberta's substantial government debt financed spending will not be enough to offset the contraction experienced in the consumer, business investment, and export sectors.

The following section will provide a brief update on housing market conditions in the Prairie region.⁶

Low oil prices impact Alberta and Saskatchewan housing markets, less so in Manitoba

In Alberta, after declining 21 per cent in 2015 to 56,477 units, MLS® sales have declined another 11 per cent through seven months of 2016. Low energy prices have reduced employment and this has contributed to lower housing market activity. Most of Alberta's major urban centres are exhibiting market

Figure 2



Source: Statistics Canada, CREA, Seasonally Adjusted at Annual Rate (SAAR)

conditions that favour the buyer. Alberta's two largest urban centres, Calgary and Edmonton, have both experienced a lower level of resale transactions and downward pressure on prices.⁷ At the provincial level, after declining 2.1 per cent in 2015 compared to 2014, Alberta's average MLS® price has declined a further 0.7 per cent during year-to-date July 2016 compared to the same period in 2015.

A lower level of demand for housing has also reduced new home construction. In Alberta, housing starts in urban centres amounted to 12,590 units, year-to-date July 2016, representing a decline of over 40 per cent as compared to a year earlier. Inventories have been trending higher and builders are responding by reducing housing starts. At the end of July 2016, the inventory of completed and unsold units stood at 5,168 units, up 67 per cent from July 2015.

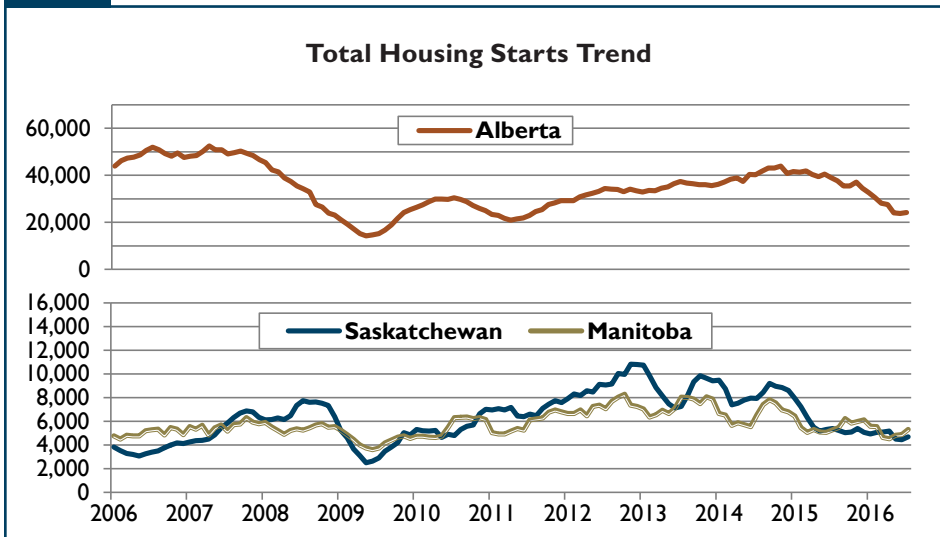
In Saskatchewan, low oil prices have also caused parts of its economy to contract and reduced housing demand. Through seven months of 2016, MLS® sales in Saskatchewan have reached 7,080 units, representing a decline of over six per cent from

the same period a year earlier. Buyers' market conditions in Saskatchewan has helped lower the year-to-date July average MLS® price by 1.6 per cent. In Saskatoon, there were 2,935 MLS® sales, representing more than a 10 per cent decline. In Regina, MLS® sales of 2,094 units after seven months was over one per cent higher compared to last year at this time. Full-time employment has been contracting in Saskatoon while some gains are being experienced in Regina.

In Saskatchewan's new home market, urban housing starts have declined 19 per cent to 2,091 units compared to year-to-date July 2015. Total housing starts in Regina and Saskatoon have both declined, by 21 and 18 per cent, respectively, mirroring the provincial decrease. New home inventories in Saskatchewan have also been rising and were approximately 14 per cent higher year-over-year in July 2016. However, the decline in housing starts this year is reducing the number of units under construction and this will eventually lower inventories.

The oil and gas industry is a smaller component of Manitoba's economy and thus the impact of low oil prices

Figure 3



Source: CMHC, Trend is six month moving average of the monthly seasonally adjusted annual rates

has not had the pervasive impact as seen in Alberta and Saskatchewan. As a result, Manitoba's housing markets are more balanced. Resale transactions in Manitoba have reached 9,057 units after seven months of 2016, an increase of over five per cent compared to the same period in 2015. The higher level of demand has supported price increases.

The average resale price in Manitoba was up 1.8 per cent through July 2016 compared to the same period in 2015.⁸ Balanced market conditions in the resale market have supported new construction. Housing starts in Manitoba's urban centres have amounted to 2,522 units, down approximately eight per cent year-over-year. However, a high level of

housing starts in the recent past has elevated the number of units under construction which were close to eight per cent higher year-over-year as of July 2016.

Conclusion

The oil price shock and low oil prices has impacted all three Prairie Provinces to varying degrees. Alberta's energy driven economy is experiencing the largest reduction of investment in the oil and gas industry causing its economy to contract. This reduction has reduced employment and helped generate housing market conditions that favour buyers in Alberta. Saskatchewan is also a commodity based economy with oil and gas being one of its important drivers. Low oil prices have caused an economic slowdown in Saskatchewan contributing to weaker housing market conditions in this province. Manitoba's economy, which is least dependent on the oil and gas industry, continues to expand, and generate balanced housing market conditions.

ENDNOTES

- ¹ Source: Statistics Canada, CANSIM Table 384-0038, used five year average from 2010 to 2014.
- ² Ibid.
- ³ Source: Statistics Canada, CANSIM Table 384-0038. Since 1982, the largest declines in real personal expenditures on goods and services, year-over-year, were for Alberta 1.3 per cent in 2009, 2.1% in Saskatchewan and 2.3 per cent in Manitoba both in 1991. The largest business investment declines were of: 29.1 per cent in Alberta in 2009, 20.5 per cent for Saskatchewan and 23.4 per cent for Manitoba, both in 1982.
- ⁴ Source: Statistics Canada, CANSIM Table 228-0060.
- ⁵ Source: Statistics Canada, CANSIM Table 384-0038, five year average includes 2010 to 2014.
- ⁶ For CMHC's most recent economic and housing market forecast, please click here. An update to this forecast is expected to be released on October 26, 2016.
- ⁷ The Teranet – National Bank House Price Index™ in July 2016 indicated a small year-over-year decline of less than one per cent in Calgary and in Edmonton. Source: <http://www.housepriceindex.ca/>.
- ⁸ The Teranet National Bank House price index for Winnipeg was up 3.8 per cent in July 2016 compared to July 2015.

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