

Third Quarter

Economic Report Card

July 1 - October 31, 2018



Invest Medicine Hat Q3 2018 Economic Report Card

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Executive Summary

After seeing employment increases in 2017, the first three quarters of 2018 saw employment drop below 2016 levels. Despite this reversal, a number of positive developments occurred in the City and region:

- Economic Region (which includes Lethbridge) employment saw year to date gains in Construction (2,178), Manufacturing (267), Transport/warehousing (1,600), Finance, insurance, real estate and leasing (633), Business/Building services (600), Educational services (478), Information, culture, recreation (2,011), Other services (133), and Public administration (211). Resource employment rebounded sharply in 2017 and remains relatively flat in 2018.
- 2017 population increased by 0.1%.
- Third quarter Medicine Hat total housing starts increased substantially relative to the first 3 quarters of 2017 (221 units or 237.6%). Residential construction in the first three quarters of 2018 saw row starts rise by 14 units and apartments by 219 units.
- City of Medicine Hat residential building permits are up 63% over the first three quarters of 2017.

Medicine Hat Census Agglomeration (CA)

Indicator	2016	2017	Chg	%Chg
Population (persons) July 1	84,482	84,532	50	0.1%
Net Migration (persons)	-126	-241	-115	91.3%
Employment	38,200	40,000	1,800	4.7%
Unemployment	4,300	2,600	-1,700	-39.5%
Unemployment Rate (%)	10.1	6.1	-4.0	-39.6%

Participation Rate (%)	69.4	66.4	-3.0	-4.3%
Employment Rate (%)	62.4	62.3	-0.1	-0.2%

Indicator	Sept 2017	Sept 2018	Chg	%Chg	Sept 2017 ytd	Sept 2018 ytd	Chg	%Chg
Employment	36,500	35,000	-1,500	-4.1%	41,289	36,233	-5,056	-12.2%
Unemployment	1,900	1,900	0	0.0%	2,578	2,500	-78	-3.0%
Unemployment Rate (%)	4.9	5.1	0.2	4.1%	5.8	6.4	0.6	10.0%
Participation Rate (%)	61.0	59.4	-1.6	-2.6%	67.0	63.7	-3.3	-4.9%
Employment Rate (%)	58.0	56.4	-1.6	-2.8%	63.0	59.6	-3.4	-5.5%

Medicine Hat/Lethbridge Economic Region (ER)

Indicator	Sept 2017	Sept 2018	Chg	%Chg	Sept 2017 ytd	Sept 2018 ytd	Chg	%Chg
Employment Agriculture	15,700	11,500	-4,200	-26.8%	14,311	10,544	-3,767	-26.3%
Employment Resource Extraction	7,400	8,400	1,000	13.5%	7,678	7,544	-133	-1.7%
Employment Construction	12,700	19,100	6,400	50.4%	13,622	15,800	2,178	16.0%
Employment Manufacturing	12,400	9,700	-2,700	-21.8%	10,178	10,444	267	2.6%
Employment Trade	20,500	18,700	-1,800	-8.8%	20,056	19,278	-778	-3.9%
Employment Transportation and warehousing	7,500	8,200	700	9.3%	6,033	7,633	1,600	26.5%
Employment Finance, insurance, real estate and leasing	3,100	5,100	2,000	64.5%	4,833	5,467	633	13.1%
Employment Professional,	7,200	5,600	-1,600	-22.2%	6,567	6,367	-200	-3.0%

scientific and technical services

Employment Business, building and other support services	3,800	3,400	-400	-10.5%	4,011	4,611	600	15.0%
Employment Educational services	8,500	9,900	1,400	16.5%	9,456	9,933	478	5.1%
Employment Health care and social assistance	20,100	18,400	-1,700	-8.5%	22,456	18,944	-3,511	-15.6%
Employment Information, culture and recreation	2,800	4,900	2,100	75.0%	2,722	4,733	2,011	73.9%
Employment Accommodation and food services	7,000	11,400	4,400	62.9%	9,633	9,344	-289	-3.0%
Employment Other services	5,300	6,700	1,400	26.4%	6,678	6,811	133	2.0%
Employment Public administration	8,400	4,800	-3,600	-42.9%	5,944	6,156	211	3.6%

Medicine Hat Census Agglomeration (CA)

Indicator	Sept 2017	Sept 2018	Chg	%Chg	Sept 2017 ytd	Sept 2018 ytd	Chg	%Chg
Housing Starts Total (Units)	16	64	48	300.0%	93	314	221	237.6%
Housing Starts Single (Units)	16	4	-12	-75.0%	68	62	-6	-8.8%
Housing Starts Semi-detached (Units)	0	8	8	100.0%	18	12	-6	-33.3%
Housing Starts Row (Units)	0	0	0	100.0%	3	17	14	466.7%

Housing Starts Apartment and other types (Units)	0	52	52	100.0%	4	223	219	5475.0%
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City of Medicine Hat

Indicator	Sept 2017	Sept 2018	Chg	%Chg	Sept 2017 ytd	Sept 2018 ytd	Chg	%Chg
Building Permits Total (\$000s)	3,126	7,076	3,950	126.4%	100,389	90,204	-10,185	-10.1%
Building Permits Residential (\$000s)	1,930	1,999	69	3.6%	24,109	39,319	15,210	63.1%
Building Permits Industrial (\$000s)	109	2,514	2,405	2206.4%	3,788	3,655	-133	-3.5%
Building Permits Commercial (\$000s)	181	1,484	1,303	719.9%	42,428	34,463	-7,965	-18.8%
Building Permits Institutional and governmental (\$000s)	906	1,079	173	19.1%	30,064	12,767	-17,297	-57.5%

Sources: Statistics Canada Cansim Tables 027-0034, 051-0062, 051-0063, 282-0134, 282-0122, 282-0124, Special Tab 20, City of Medicine Hat

Analysis

Demographics

According to Statistics Canada, Alberta Census Division 1 population (the bulk of which is Medicine Hat) continues to increase, although at a slowing pace. 2017 population was up 0.1% or 50 persons from 84,482 on July 1, 2016 to 84,532 on July 1, 2017. Historically, the average annual Census Division rate of growth from 2001 to 2017 was 1.3%, peaking at 2.7% in 2005. The next Census Division population release for 2018 will be in February, 2019.

Source: Cansim 051-0062

Components of population growth Alberta Census Division 1	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Births	1019	1063	1094	1111	1122
Deaths	691	743	767	792	816
Immigrants	227	279	387	475	362
Emigrants	47	149	62	106	106
Returning emigrants	108	60	106	93	93
Net temporary emigration	14	36	16	28	28
Net interprovincial migration	543	348	296	-221	-223
Net intraprovincial migration	-402	-309	-228	-274	-274
Net non-permanent residents	238	115	-281	-154	-80

Source: Cansim Table 051-0063

A significant contributor to the deceleration in population growth has been a reversal of net inter-provincial migration, dropping steadily from a high of 543 in 2012/2013 to -223 in 2016/2017. During the same period international immigration surged, growing from 227 in 2012/2013 to 475 in 2015/2016 and 362 in 2016/17 with only little offsetting emigration, averaging 94 persons from 2012/2013 to 2016/2017. International migration has been the largest contributor to population growth since 2011/2012 ahead of natural increase (births less deaths).

Labour Market

Note that only total summary monthly and annual labour market indicators are available for the Medicine Hat Census Agglomeration (CA). Monthly industry detail are available only for the Lethbridge-Medicine Hat Economic Region (ER). These are shown as 3 month moving averages and seasonally unadjusted.

While 2017 saw a complete reversal of the job losses experienced in 2015 and 2016, the first three quarters of 2018 saw employment (36,200) drop below 2016 levels (38,200) and almost to 2012 levels (33,500). Medicine Hat Census Agglomeration (CA) September 2018 year to date employment dropped by 5,000 or 12% over the same period on 2017. This, however, was not met with an increase in the number of unemployed. The number of unemployed dropped by slightly less than 100 persons (average year-to-date) suggesting a modest and slackening “discouraged worker

effect”. Discouraged workers are those who want and are available to work, but have dropped out of the labor force because they believe there aren't any jobs for them.

Despite the drop in CA employment, ER employment saw year-to-date gains in Construction (2,178), Manufacturing (267), Transport/warehousing (1,600), Finance, insurance, real estate and leasing (633), Business/Building services (600), Educational services (478), Information, culture, recreation (2,011), Other services (133), and Public administration (211). ER employment dropped from September 2017 year to date to September 2018 year to date in Agriculture (-3,767), Resource Extraction (-133), Wholesale and retail trade (-778), Professional/scientific/technical services (-200), Health care (-3,511), and Accommodation/food services (-289). Source: Cansim 282-0124

Construction

Housing starts are available monthly for the Medicine Hat Census Agglomeration (CA). Monthly building permits by type are available for the City of Medicine Hat.

Third quarter Medicine Hat total housing starts increased substantially relative to the first 3 quarters of 2017 (221 units or 237.6%). Residential construction in the first three quarters of 2018 saw row starts rise by 14 units and apartments by 219 units. Singles and semi-detached starts each dropped by 6 units but were more than offset by increases in other categories.

City of Medicine Hat building permits saw a pattern consistent with new home starts. Total year-to-date residential building permits in the City, a leading indicator of new construction, were up 63.1% from 2017 suggesting further increases in housing starts in the remainder of 2018. Permits were down in industrial (-3.5%), commercial (-18.8%), and institutional and governmental (-57.5%) driving total permits down by 10.1%.

New Developments and the Local Labor Market

Introduction

On April 16, 2018, Aurora Cannabis Inc. announced that “Aurora Sun”, a 1.2 million square foot cannabis production facility, would be constructed on 71 acres of land that the company had acquired in Medicine Hat, Alberta. The facility will cost approximately \$120M to build and will generate 266 direct construction jobs and 64 spinoff jobs in the Medicine Hat CA over the course of construction. Once operational, the facility will employ 450 employees and generate a further 4 spinoff positions. In addition, several other new developments will add a further 185 positions in the region over 2018 and 2019.

Medicine Hat New Developments	Projected Completion	Projected New Positions
Hut 8	2018	40
Pilot Flying J	2018	40
Aurora Sun	2019	450
Whitla Wind Facility	2019	10
Marriot TownePlace Suites	2019	45
Best Western Inn and Suites	2019	50
Total		635

With the amount of employment activity created by the ongoing construction activity and future operations, it is an opportune moment to assess the impact that recent development will have on the local labour market.

Analysis

Labour supply is a complex subject and there is no single, concise way of measuring the labour supply that is applicable across all sectors, regions and industries of interest.

At present there are 1,900 (September 2018) unemployed (actively seeking work) in the Medicine Hat CA. In addition, there are 25,300 people classified as “Not in the labour force”. This refers to individuals 15 years or older who were neither employed nor unemployed (actively seeking work). A portion of these would be “discouraged workers.” Discouraged workers are those who want and are available to work, but have dropped out of the labor force because they believe there aren't any jobs for them.

Next, it is necessary to identify the population segments that are likely non-labour force participants. This typically considers three separate categories: students,

retired, and people with disability. While not comprehensive, these groups represent the most obvious categories of non-labour force participants.

Noting that there is little or no data on the disabled population, from the 25,300 it is possible to remove students (8,888 full time equivalents at Medicine Hat College), noting that this does not include high school students, and retirees (12,695 from the 2016 census, assuming all 65+ are retired), leaving a further labour pool of approximately 3,700.

In total, Aurora and other developments can draw upon a local labour pool of 5,600 (1,900 plus 3,700) for its construction and operation. Not all hires will be local, however. There is nothing to indicate that the skill sets of the available labour pool will be a perfect match for future vacancies and some in-migration of workers will occur especially for management and technical positions.

Assuming all local hires during construction, current developments the potential to temporarily drive the local unemployment rate down by 0.8 percentage points. Once operational, Aurora Sun could shave 1.2 percentage points from the local unemployment rate over the course of the facility's productive life.

Implications for Business

Construction and operation of the Aurora facility and other developments is expected to put some upward pressure on wages. It can also be expected that there will be some in-migration to fill management and technical positions representing opportunities in the housing sector. Some migration from lower paying service positions to higher paying employment will occur. However there is ample capacity within local labour supply to accommodate any vacancies created. Finally, the arrival of Aurora and other new businesses to the region should create the stimulus for those not in the labour force to enter or re-enter with a corresponding increase in the local participation rate.