

Economic Report Card

Quarter 2 2018



Invest Medicine Hat Q2 2018 Economic Report Card

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Executive Summary

Reversing gains through 2017, the first two 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 Manufacturing (1183), Wholesale and retail Trade (83), Transport/warehousing (2233), Finance, insurance, real estate and leasing (50), Business/Building services (967), Educational services (333), Information, culture, and recreation (1817), and Public administration (1617). Notable in the employment by industry data was a year-over-year (June 2018 compared to June 2017) 5,100 or 39.8% increase in construction employment.
- 2017 population increased by 0.1%.
- Second quarter total housing starts increased substantially relative to the first quarter of 2017 (23 units or 48.9%). Residential construction in the first two quarters of 2018 saw single starts rise by 8.6%, row starts by 100%, and apartments by 300%.

Medicine Hat Census Agglomeration

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	June 2017	June 2018	Chg	%Chg	June 2017 ytd	June 2018 ytd	Chg	%Chg
Employment	42,200	34,400	-7,800	-18.5%	42,667	36,517	-6,150	-14.4%
Unemployment	2,000	1,800	-200	-10.0%	3,033	2,750	-283	-9.3%
Unemployment Rate (%)	4.5	5.0	0.5	11.1%	6.6	6.9	0.3	4.5%
Participation Rate (%)	67.9	60.8	-7.1	-10.5%	69.2	65.0	-4.2	-6.0%
Employment Rate (%)	64.8	57.8	-7.0	-10.8%	64.5	60.5	-4.1	-6.3%

Medicine Hat/Lethbridge Economic Region (ER)

Indicator	June 2017	June 2018	Chg	%Chg	June 2017 ytd	June 2018 ytd	Chg	%Chg
Employment Agriculture	15,700	11,100	-4,600	-29.3%	13,233	10,017	-3,217	-24.3%
Employment Resource Extraction	8,200	7,100	-1,100	-13.4%	7,400	7,250	-150	-2.0%
Employment Construction	12,800	17,900	5,100	39.8%	14,467	14,417	-50	-0.3%
Employment Manufacturing	9,700	9,500	-200	-2.1%	9,567	10,750	1,183	12.4%
Employment Trade	21,100	17,400	-3,700	-17.5%	19,800	19,883	83	0.4%
Employment Transportation and warehousing	7,400	8,800	1,400	18.9%	5,150	7,383	2,233	43.4%
Employment Finance, insurance, real estate and leasing	4,300	5,500	1,200	27.9%	5,567	5,617	50	0.9%

Employment Professional, scientific and technical services	6,300	5,800	-500	-7.9%	6,467	6,400	-67	-1.0%
Employment Business, building and other support services	3,700	4,200	500	13.5%	4,200	5,167	967	23.0%
Employment Educational services	10,400	11,000	600	5.8%	9,583	9,917	333	3.5%
Employment Health care and social assistance	23,900	19,400	-4,500	-18.8%	22,800	19,083	-3,717	-16.3%
Employment Information, culture and recreation	2,000	5,600	3,600	180.0%	2,667	4,483	1,817	68.1%
Employment Accommodation and food services	7,900	9,600	1,700	21.5%	11,083	8,267	-2,817	-25.4%
Employment Other services	6,500	6,400	-100	-1.5%	7,200	7,033	-167	-2.3%
Employment Public administration	6,000	5,600	-400	-6.7%	5,033	6,650	1,617	32.1%

Medicine Hat Census Agglomeration (CA)

Indicator	June 2017	June 2018	Chg	%Chg	June 2017 ytd	June 2018 ytd	Chg	%Chg
Housing Starts Total (Units)	13	21	8	61.5%	47	70	23	48.9%
Housing Starts Single (Units)	11	13	2	18.2%	35	38	3	8.6%
Housing Starts Semi-detached (Units)	2	0	-2	-100.0%	8	2	-6	-75.0%

Housing Starts Row (Units)	0	4	4	100.0%	0	14	14	100.0%
Housing Starts Apartment and other types (Units)	0	4	4	100.0%	4	16	12	300.0%

City of Medicine Hat

Indicator	June 2017	June 2018	Chg	%Chg	June 2017 ytd	June 2018 ytd	Chg	%Chg
Building Permits Total (\$000s)	9,148	11,205	2,057	22.5%	83,302	55,869	-27,433	-32.9%
Building Permits Residential (\$000s)	4,376	2,855	-1,521	-34.8%	15,447	25,880	10,433	67.5%
Building Permits Industrial (\$000s)	2,400	258	-2,142	-89.3%	3,642	609	-3,033	-83.3%
Building Permits Commercial (\$000s)	2,306	5,543	3,237	140.4%	36,066	19,576	-16,490	-45.7%
Building Permits Institutional and governmental (\$000s)	66	2,549	2,483	3762.1%	28,147	9,804	-18,343	-65.2%

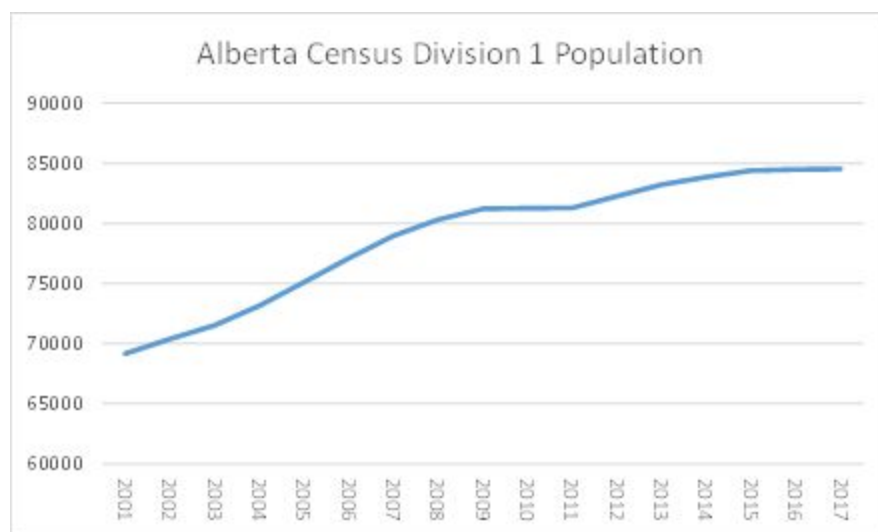
Sources: Statistics Canada Cansim Tables 027-0034, 051-0062, 051-0063, 282-0134, 282-0122, 282-0124, Special Tab 20, City of Medicine Hat

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.



Deceleration in population growth, while still positive, was largely due to a slackening in international in-migration (immigrants) which dropped from 475 in 2015/2016 to 362 in 2016/2017. With the exception of net non-permanent residents all other components of population growth were essentially unchanged between 2015/2016 and 2016/2017.

2018 components of population growth statistics will be released in February 2019.

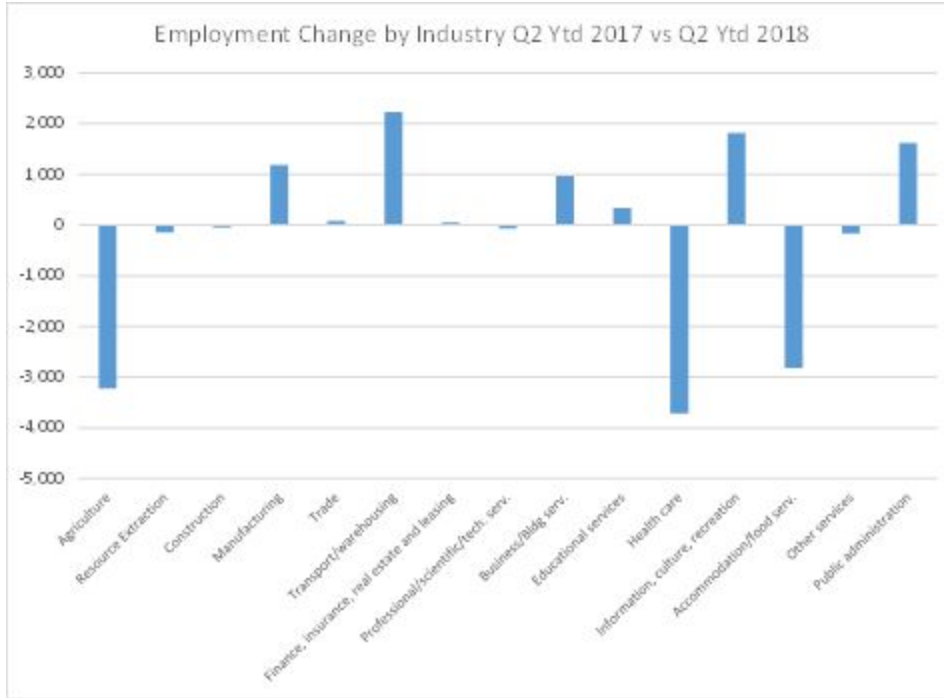
Components of population growth) Statistics Canada Table 051-0063)	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017
Births	1019	1063	1094	1111	1122
Deaths	691	743	767	792	816
Immigrants	227	279	387	475	362
Emigrants	47	149	62	106	106
Returning emigrants	108	60	106	93	93
Net temporary emigration	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

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 half of 2018 saw employment drop below 2016 levels and almost to 2011/2012 levels. Medicine Hat Census Agglomeration (CA) June 2018 year to date employment dropped by 6,150 or 14.4% 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 300 persons (average year-to-date) suggesting a “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. This, in turn, softens potential increases in the unemployment rate. The year to date average unemployment rate advanced marginally from 6.6% to 6.9%. The remainder of the loss in employment was absorbed by the drop in the participation rate from 69.2% to 65.0%.

Despite the drop in CA employment, ER employment saw year-to-date gains in Manufacturing (1183), Wholesale and retail trade (83), Transport/warehousing (2233), Finance, insurance, real estate and leasing (50), Business/Building services (967), Educational services (333), Information, culture, and recreation (1817), and Public administration (1617). Notable in the employment by industry data was a year-over-year (June 2018 compared to June 2017) 5,100 or 39.8% increase in construction employment. ER employment dropped from June 2017 year to date to June 2018 year to date in Agriculture (-3,217), Resource Extraction (-150), Construction (-50), Professional, scientific and technical services (-67), Health care (-3,717), Accommodation and food services (-2,817), and Other services (-167), driving total ER employment down by 1,900 from the first 2 quarter of 2017.



The implications to local businesses of industry shifts in employment are clear. Higher energy prices positively impacted manufacturing employment in the region. Maintenance of oil prices in the \$60 USD per barrel will likely lead to more opportunities in the manufacturing sector. Other business opportunities remain in transportation and warehousing, information, culture, and recreation, business and building services, and notably in government procurement, including education. Finally, a drop in the number of unemployed and potential hiring pool may lead to upward pressure on wages.

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.

First quarter total starts are up substantially relative to the first two quarters of 2017 (23 units or 48.9%). Residential construction in the first two quarters of 2018 saw single starts rise by 8.6%, row starts by 100%, and apartments by 300%. Semi-detached starts in Medicine Hat in the first two quarters of 2018 dropped by 75% from 2017 levels.

City of Medicine Hat building permits saw a pattern counter to new home starts. Total year-to-date residential building permits in the City, a leading indicator of new construction, were down 68.8% from 2017. Permits were down in residential (-33.2%), industrial (-90.6%), commercial (-76.1%), and institutional and governmental (-76.2%).

Business Cycle Analysis

Introduction

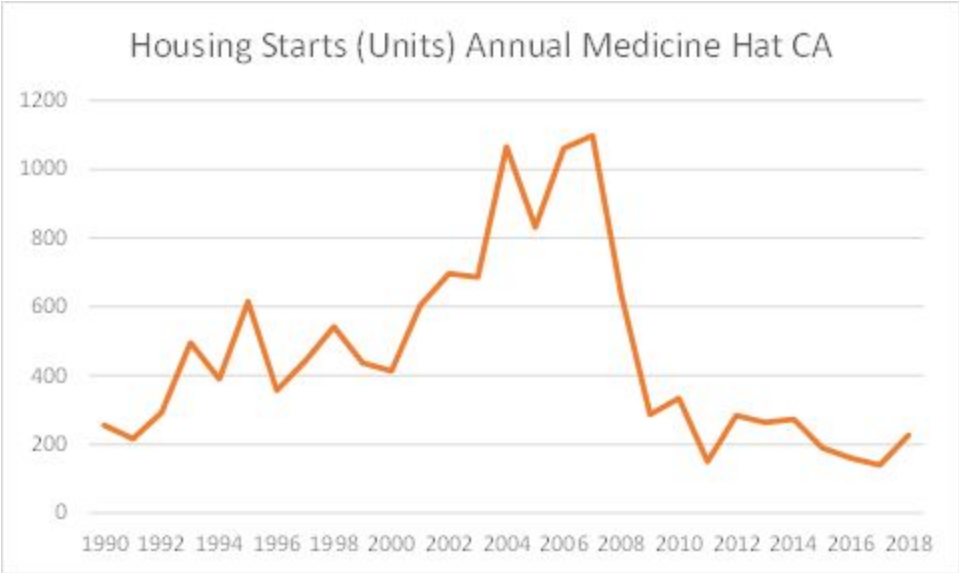
The business cycle describes the rise and fall in production output of goods and services in an economy. Business cycles are generally measured using changes in real (inflation-adjusted) gross domestic product (GDP). GDP includes output from the household, nonprofit sector, and the government sector, as well as business output. Lacking a real GDP time series for Medicine Hat, business cycle analysis will focus, instead on time series data readily available for the Region: housing starts, building permits, and employed labour force.

New Home Construction

New housing starts are a powerful indicator of a region's economic health. This new housing starts have a powerful multiplier effect through the economy and so this data point typically used to derive estimates for other consumer-based indicators; people buying new homes tend to spend money on other consumer goods such as furniture, lawn and garden supplies, and home appliances.

As a rule, home builders usually don't start a house unless they are fairly confident it will sell upon or before its completion. The rate of change in housing starts provides further information about in-migration, household formation, demand for homes, and the outlook for the construction industry. Trends in the housing starts data carry valuable insights into the financial health of homebuilders, mortgage lenders, and home furnishings companies. Commodity prices such as lumber are also very sensitive to housing industry trends.

Data in the chart below shows Medicine Hat CA total annual starts from 1990 to July 2018 (year-to-date).



Starts in the Medicine Hat Census Agglomeration (CA) trended upwards from 255 units in 1990 to 1098 in 2007, then dropped precipitously in response to the global financial crisis and recession reaching a low of 140 units in 2017. So far in 2018, including July data, starts are at 227 units marking a bright spot in regional economic.

Building Permits

A leading indicator is a measurable economic factor that changes before the economy starts to follow a particular pattern or trend. Building permit data is widely used as a leading indicator for the construction industry since the issuance of a building permit is one of the first steps in the construction process. Statistics Canada’s monthly Building Permits Survey collects data on the value of permits issued by Canadian municipalities for both residential and non-residential buildings, and the number of residential dwellings authorized. The City of Medicine Hat also tracks and publishes permit data.

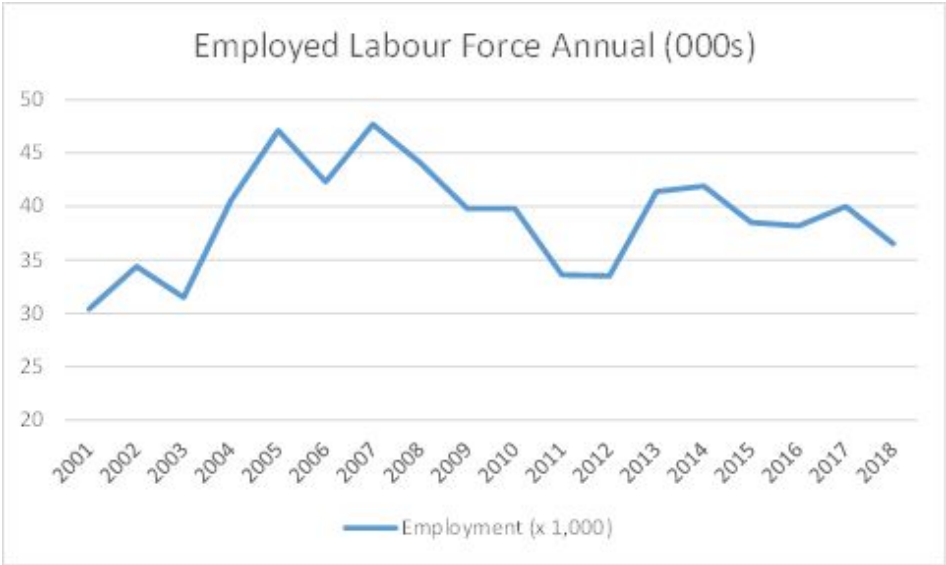
While permits are recorded in the month issued, a housing start is not recorded until the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure’s footing, or an equivalent stage where a basement will not be part of the structure. As such, a permit will precede start by a period of time influenced by a number of factors including, but not limited to weather, labour and material availability, infrastructure readiness, and financing.



The role of building permits as a leading indicator of housing starts is clearer when examining activity since January 2017. Typically, a surge in starts follow a surge in residential permits 1 month later. However, July 2018 starts data indicated the start of 143 rental units, explaining in part, the April surge in permits.

Employed Labour Force

The employed labour force is defined as the number of persons who, during the reference week, worked for pay or profit, or performed unpaid family work or had a job but were not at work due to own illness or disability, personal or family responsibilities, labour dispute, vacation, or other reason. Those persons on layoff and persons without work but who had a job to start at a definite date in the future are not considered employed. Estimates are in thousands, rounded to the nearest hundred.



Annual employment since 2001 does not provide a clear pattern of cyclical fluctuations. However, some patterns can be discerned. Employment was 30,400 in 2001 and, similar to housing starts, peaked at 47,700 in 2007, falling to a low of 33,500 in 2012. The best estimate for 2018 is that it will likely be in the range of 36,500, down from 40,000 in 2017.

The longest sustained drop in employment was 5 years from 2007 to 2012 (noting that 2009 and 2010 were both 39,800). A multi-year drop in employment after 2018 appears unlikely. Energy prices have rebounded, the new housing market is resurgent, there is the lack of global financial turmoil as in 2008, and the region is experiencing positive, albeit slowing population growth. Monthly data (below) shows that there has been modest month over month growth. In short, 2019 should see a revival in employment prospects.





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