

Medicine Hat Economic Report card Q2 2019

**Prepared for the City of Medicine Hat
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Executive Summary

Medicine Hat Census Agglomeration (CA) annual 2018 employment dropped below 2015 levels to 35,700 or 10.8% from 2017. This trend is continuing so far in 2019, although at a slower rate, with Q2 CA employment year to date dropping 2,100 or 5.8% in over Q2 2018. Q2 2019 employment is now close to 2012 annual employment (34,900). Despite this setback a number of positive developments did occur in Q2 2019:

- Economic Region (ER), which includes Lethbridge, employment growth was positive in Agriculture, Manufacturing, Wholesale and retail trade, Finance, insurance, real estate and leasing, Professional, scientific, and technical services, Educational services, Health care, and Accommodation and food services in Q2 2019.
- Semi-detached housing starts are up 300% (6 units) from Q2 2018.
- Q2 2019 City of Medicine Hat industrial building permits are up 386% over Q2 2018 and institutional/governmental building permits are up 132.2% over the same time period.
- Alberta Census Division 1 population (the bulk of which is Medicine Hat) continued to increase in 2018. The rate of increase in 2018 was almost twice the growth rate experienced in 2017. 2018 population was up 0.8% or 696 persons from 84,948 on July 1, 2017 to 85,644 on July 1, 2018.

Data below is for the Medicine Hat Census Agglomeration (CA)

Table 1: Medicine Hat CA Key Indicators Annual (2018 vs 2017) Comparison

Indicator	2017	2018	Chg	%Chg
Population (persons) July 1	84,948	85,644	696	0.8%
Net Migration (persons)	122	487	365	299.2%
Indicator	2017	2018	Chg	%Chg
Employment	40,000	35,700	-4,300	-10.8%
Unemployment	2,600	2,300	-300	-11.5%
Unemployment Rate (%)	6.1	6.1	0.0	0.0%
Participation Rate (%)	66.4	61.4	-5.0	-7.5%
Employment Rate (%)	62.3	57.7	-4.6	-7.4%

Table 2: Medicine Hat CA Monthly Labour Force Indicators

Indicator	June 2018	June 2019	Chg	%Chg	June 2018 ytd	June 2019 ytd	Chg	%Chg
Employment	34,400	37,600	3,200	9.3%	36,517	34,417	-2,100	-5.8%
Unemployment	1,800	4,400	2,600	144.4%	2,750	3,967	1,217	44.2%
Unemployment Rate (%)	5.0	10.5	5.5	110.0%	6.9	10.3	3.4	49.2%
Participation Rate (%)	60.8	64.9	4.1	6.7%	65.0	60.0	-5.0	-7.7%
Employment Rate (%)	57.8	58.1	0.3	0.5%	60.5	53.8	-6.7	-11.1%

Data below is for the combined Medicine Hat/Lethbridge Economic Region (ER)

Table 3: Medicine Hat/Lethbridge ER Employment by Industry

Indicator	June 2018	June 2019	Chg	%Chg	June 2018 ytd	June 2019 ytd	Chg	%Chg
Employment Agriculture	11,100	10,800	-300	-2.7%	10,017	10,500	483	4.8%

Indicator	June 2018	June 2019	Chg	%Chg	June 2018 ytd	June 2019 ytd	Chg	%Chg
Employment Resource Extraction	7,100	5,300	-1,800	-25.4%	7,250	5,300	-1,950	-26.9%
Employment Construction	17,900	13,500	-4,400	-24.6%	14,417	12,467	-1,950	-13.5%
Employment Manufacturing	9,500	11,500	2,000	21.1%	10,750	12,783	2,033	18.9%
Employment Trade	17,400	21,900	4,500	25.9%	19,883	21,067	1,183	6.0%
Employment Transportation and warehousing	8,800	7,900	-900	-10.2%	7,383	5,967	-1,417	-19.2%
Employment Finance, insurance, real estate and leasing	5,500	5,400	-100	-1.8%	5,617	5,867	250	4.5%
Employment Professional, scientific and technical services	5,800	5,600	-200	-3.4%	6,400	6,833	433	6.8%
Employment Business, building and other support services	4,200	3,400	-800	-19.0%	5,167	3,517	-1,650	-31.9%
Employment Educational services	11,000	12,200	1,200	10.9%	9,917	10,317	400	4.0%
Employment Health care and social assistance	19,400	23,400	4,000	20.6%	19,083	20,500	1,417	7.4%
Employment Information, culture and recreation	5,600	3,100	-2,500	-44.6%	4,483	2,717	-1,767	-39.4%
Employment Accommodation and food services	9,600	8,800	-800	-8.3%	8,267	9,183	917	11.1%
Employment Other services	6,400	4,500	-1,900	-29.7%	7,033	5,400	-1,633	-23.2%
Employment Public administration	5,600	5,600	0	0.0%	6,650	5,183	-1,467	-22.1%

Table 4: Medicine Hat CA Housing Starts

Indicator	June 2018	June 2019	Chg	%Chg	June 2018 ytd	June 2019 ytd	Chg	%Chg
Housing Starts Total (Units)	21	7	-14	-66.7%	70	34	-36	-51.4%
Housing Starts Single (Units)	13	3	-10	-76.9%	38	16	-22	-57.9%
Housing Starts Semi-detached (Units)	0	4	4	100.0%	2	8	6	300.0%
Housing Starts Row (Units)	4	0	-4	-100.0%	14	6	-8	-57.1%
Housing Starts Apartment and other types (Units)	4	0	-4	-100.0%	16	4	-12	-75.0%

Data below is for the City of Medicine Hat

Table 5: City of Medicine Hat Building Permits

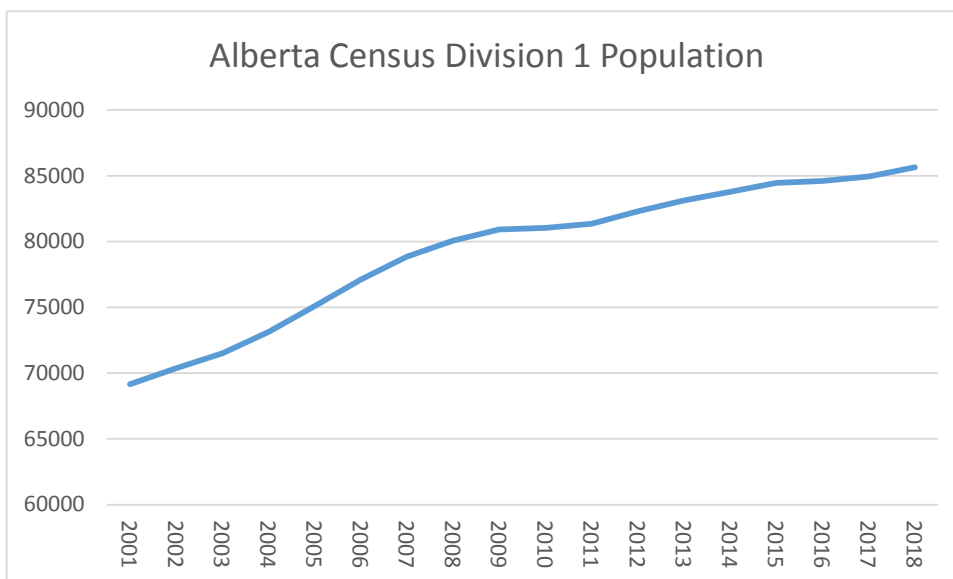
Indicator	June 2018	June 2019	Chg	%Chg	June 2018 ytd	June 2019 ytd	Chg	%Chg
Building Permits Total (\$000s)	11,205	3,662	-7,543	-67.3%	55,869	44,771	-11,098	-19.9%
Building Permits Residential (\$000s)	2,855	2,025	-830	-29.1%	25,880	12,634	-13,246	-51.2%
Building Permits Industrial (\$000s)	258	687	429	166%	609	2,960	2,351	386.0%
Building Permits Commercial (\$000s)	5,543	100	-5,443	-98.2%	19,576	6,410	-13,166	-67.3%
Building Permits Institutional and governmental (\$000s)	2,549	850	-1,699	-66.7%	9,804	22,767	12,963	132.2%

Sources: Statistics Canada Tables 026-0007, 027-0034, 17-10-0139-01, 17-10-0140-01, 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) continued to increase in 2018 with the rate of increase in 2018 almost twice the growth rate experienced in 2017. 2018 population was up 0.8% or 696 persons from 84,948 on July 1, 2017 to 85,644 on July 1, 2018 versus 352 persons or 0.4% between July 1, 2016 and July 1, 2017. By way of comparison, the average annual Census Division rate of growth from 2001 to 2018 was 1.3%, with a short-lived peak at 2.7% in 2005. The next Census Division population release for 2019 will be in February, 2020.



The uptick in population growth has been the result of a surge in inter-provincial net migration which advanced from -95 in 2016/2017 to 163 in 2017/2018 and a small increase in international in-migration (immigration) from 366 in 2016/2017 to 386 in 2017/2018. All other components of population growth showed little change between 2016/2017 and 2017/2018, with the exception of net non-permanent residents. Net intra-provincial migration (migration from other parts of the province) has remained stubbornly negative since 2013/2014.

Table 6: Alberta Census Division 1 Components of Population Growth

Components of population growth (Statistics Canada 17-10-0139-01)	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Births	1069	1103	1019	997	1001
Deaths	725	728	751	767	792
Immigrants	252	318	534	366	386
Emigrants	147	61	112	84	84
Returning emigrants	59	104	87	121	122
Net temporary emigration	35	16	27	20	21

Components of population growth (Statistics Canada 17-10-0139-01)	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Births	1069	1103	1019	997	1001
Deaths	725	728	751	767	792
Net interprovincial migration	348	296	-221	-95	163
Net intra-provincial migration	-309	-228	-274	-219	-219
Net non-permanent residents	144	-102	-126	53	140

Labour Market

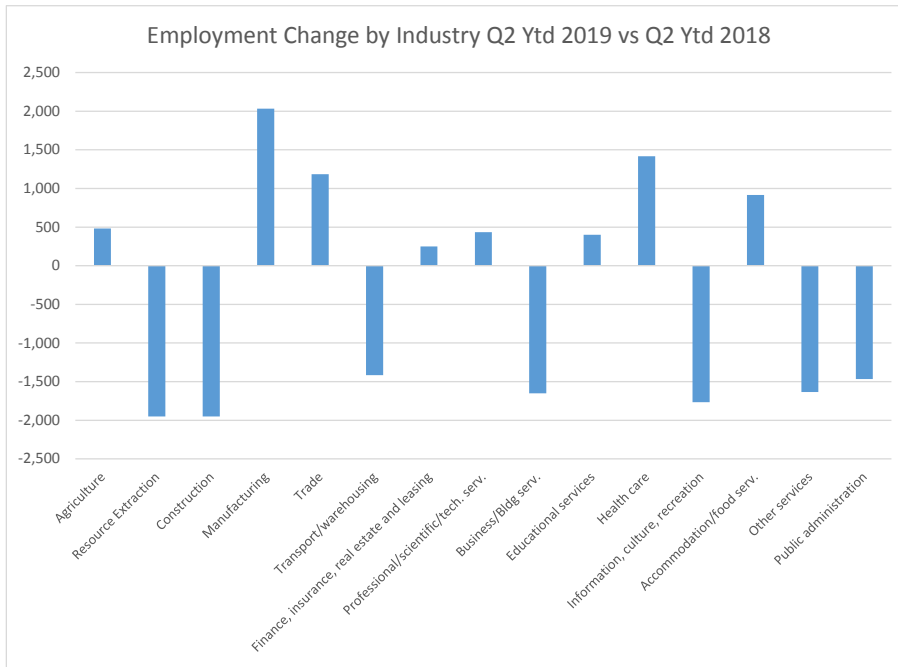
Note that only total summary monthly and annual labour market indicators are available for the Medicine Hat Census Agglomeration (CA). Monthly industry detail are available only for the Lethbridge-Medicine Hat Economic Region (ER). These are shown as 3 month moving averages and seasonally unadjusted.

2017 saw a complete reversal of the job losses experienced in 2015 and 2016. However, this trend reversed itself in 2018 and into the first half of 2019. Medicine Hat CA annual 2018 employment dropped below 2015 levels to 35,700 or 10.8% from 2017. This trend is continuing so far in 2019, although at a slower rate, with Q2 CA employment year to date dropping 2,100 or 5.8% in over Q2 2018. Q2 2019 employment is now close to 2012 annual employment (34,900).

In addition, advances in the number of individuals of labour force age that are not in the labour force (working or actively seeking employment) are problematic, signifying a “discouraged worker effect”. The number of individuals of labour force age that are not in the labour force was 20,400 as of Q2 2017, 21,100 as of Q2 2018, and 25,600 as of Q2 2019. A discouraged worker is a person of legal employment age who is not actively seeking employment or who has not found employment after long-term unemployment, but who would prefer to be working. This is usually because an individual has given up looking, hence the term “discouraged”. A decline in the participation rate (number of individuals either employed or seeking employment divided by the population of labour force age) is also problematic.

The drop in oil prices, beginning in the second half of 2014, is continuing to impact resource employment in 2019. ER resource extraction employment dropped by 1,950 positions in Q2 2019 with a lack of pipeline capacity having a dampening effect on Western Canadian oil and energy prices.

Average year to date Q2 ER employment was up in Agriculture (483), Manufacturing (2,033), Retail and Wholesale Trade (1,183), Finance, insurance, real estate and leasing (250), Professional, scientific, technical services (433), Educational services (400), Health care (1,417), and Accommodation and food services (917) over the same time period in 2018. During the same time, Construction (-1,950), Transportation and warehousing (-1,417), Business and building services (-1,650), Information, culture, recreation (-1,767), Other services (-1,633), and Public administration (-1,467) saw losses.



Despite declining overall employment and other weak indicators, the implications for business are not entirely bleak. Other regional business opportunities remain in agriculture, manufacturing, wholesale and retail trade, finance, insurance, and real estate, education and health care procurement, and accommodation and food services. In addition, without necessarily competing with wages paid in other regions and industries, employers have a larger available labour pool to hire from.

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.

While total starts were up substantially in 2018 relative to 2017 (206 units or 147.1%), residential construction so far in 2019 saw total starts drop by 51.4% from 70 units to 34 units in Q2 2019. Single detached starts in Medicine Hat in Q2 2019 were down 57.9% from the same time period in 2018, row starts were down 57.1%, and apartments were down 75%. The only bright spot was semi-detached units which were up 300% from 2 units as of Q2 2018 to 8 units as of Q2 2019.

City of Medicine Hat building permits, a leading indicator of construction activity, are seeing a similar growth profile to residential starts. Total year-to-date (2019 Q2) building permits in the City were down 19.9% over the same time period in 2018 (up from -30.3% in Q1 2019) with decreases observed in residential (-51.2%) and commercial (-67.3%). During the same time period, institutional and governmental permits increased by 132.2% and industrial permits were up by 386%, benefitting from the Aurora cannabis project.

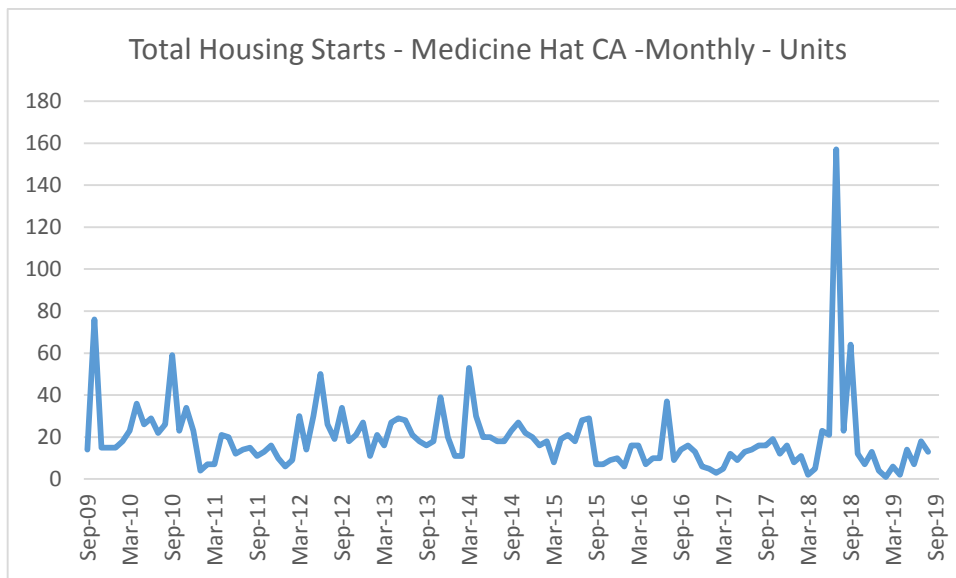
Medicine Hat New Housing Market

New housing starts are a powerful indicator of a region's economic health. This one indicator has a significant multiplier effect through the economy and is 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 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.

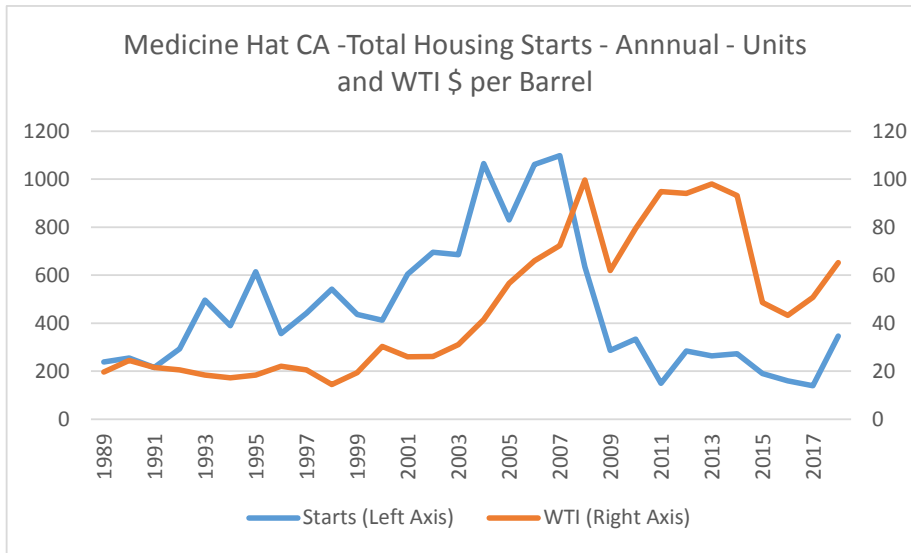
Historical Housing Starts

Medicine Hat housing starts within the last decade, although exhibiting substantial month to month variability, reached a single month peak of 157 units in July 2018 (including 143 rental units) and a recent monthly low of 1 unit in February 2019.



Source: Cansim Table 027-0048

On an annual basis, starts reached 346 units in 2018 (benefiting from rental construction) and bottomed out at 40 units in 2017. Using West Texas Intermediate (WTI) - Cushing, Oklahoma as a proxy for energy prices, Medicine Hat housing starts move roughly in the same direction as energy prices.



Source: Cansim Table 027-0048 and St. Louis Federal Reserve

2019 Year to date

Residential construction so far in 2019 saw total year to date starts drop by 78% from 314 units as of September 2018 to 69 units as of September 2019. Within starts, the sub-components which increased were semi-detached units which were up 16.7% from 12 units as of September 2018 to 14 units as of September 2019 and row units, up 5.9% or 1 unit over the same time period. However, these increases did not offset year to date declines in single starts (down 46.8% from September 2018) and apartment units (down 98.2% from September 2018). In both year to date September 2018 and September 2019 the majority of starts were in the “Homeowner” market category: 72 units in 2018 and 65 units in 2019. 2018 saw 143 rental units and 99 in the “Condo” market category versus 0 and 4 units, respectively, in 2019.

Table 7: Medicine Hat CA Housing Starts September 2018 and September 2019 Results

	Sept 2018	Sept 2019	Chg	%Chg	Sept 2018 ytd	Sept 2019 ytd	Chg	%Chg
Housing Starts Total (Units)	64	4	-60	-93.8%	314	69	-245	-78.0%
Housing Starts Single (Units)	4	4	0	0.0%	62	33	-29	-46.8%
Housing Starts Semi-detached (Units)	8	0	-8	100.0%	12	14	2	16.7%
Housing Starts Row (Units)	0	0	0	0.0%	17	18	1	5.9%
Housing Starts Apartment and other types (Units)	52	0	-52	100.0%	223	4	-219	-98.2%

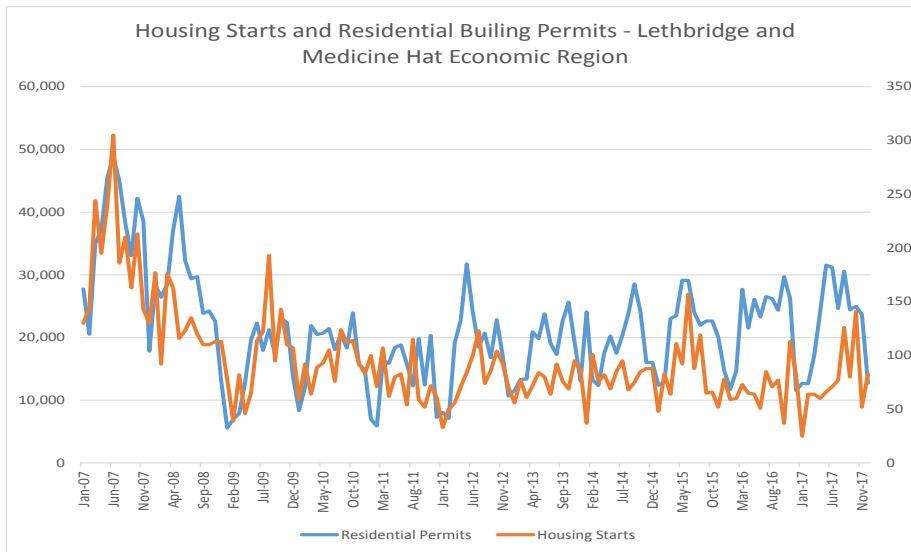
Source: Cansim Table 027-0034

Building Permit Data

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.

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 displayed graphically. Typically, a surge in starts follow a surge in residential permits 3 to 7 months later.

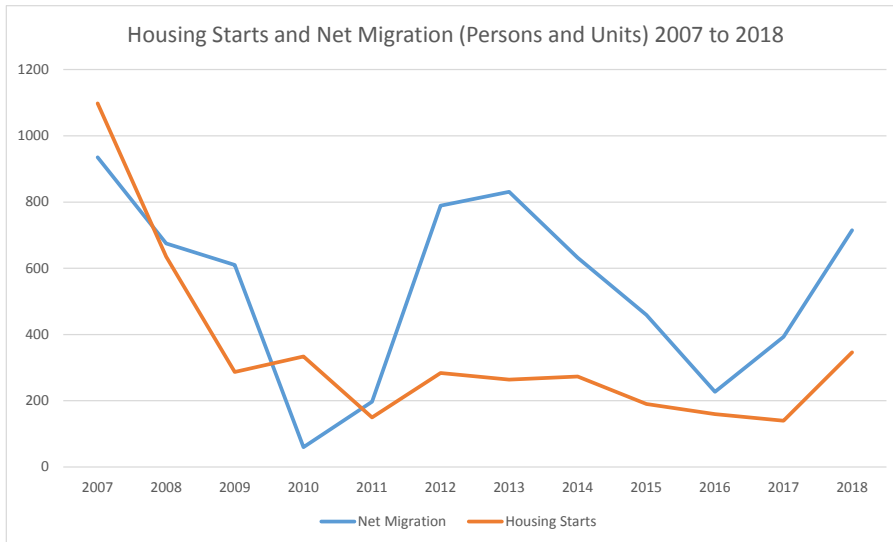


Source: Cansim Tables 027-0034 and 026-0003

With Q3 2019 year to date residential building permits almost 50% behind Q3 2018 there is little to suggest that housing starts will surge in the 4th quarters of this year.

Market Determinants and Short Term Outlook

Beyond affordability and replacement stock, population size and growth are the underlying base factors of real estate demand estimates. Largely a function of, and similar to energy prices, net migration to the region is a key driver of new housing demand. Immigration, as it impacts population growth, is dependent on net migration: incoming minus outgoing migrants. While these can be international, inter-provincial, or intra-provincial, it is clear that population growth and net migration has becoming increasingly reliant upon international in-migration.



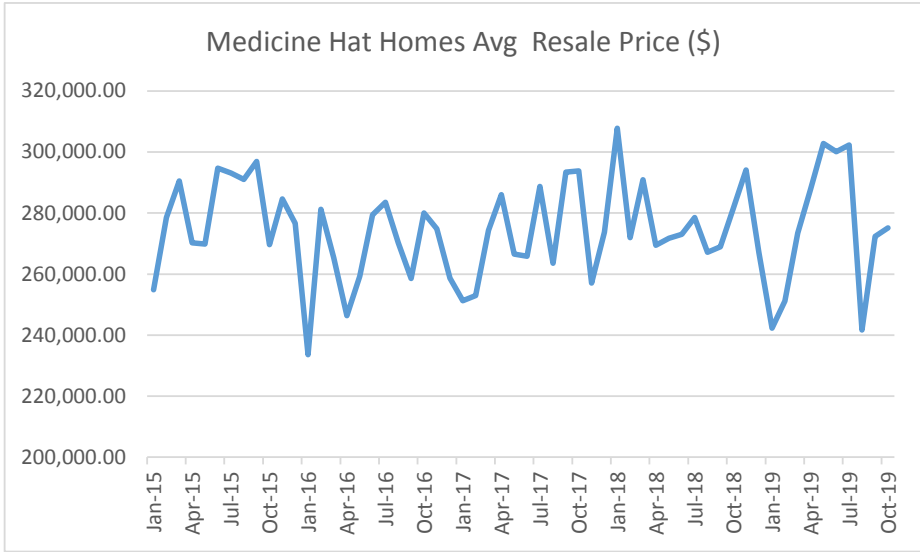
Source: Cansim Tables 027-0048 and 17-10-0136-01

International in-migration for Alberta’s Census Division 1 (the bulk of which is Medicine Hat) moved from 196 in 2001/2002 to 534 in 2015/2016 and 386 in 2017/2018 with correspondingly little international out-migration. Although driving population growth, it should be noted that the average size of an international in-migrant family is larger than the region’s average with a dampening effect on new housing demand. According to Statistics Canada’s “Recent Immigrants in Metropolitan Areas: Canada—A Comparative Profile Based on the 2001 Census”, the latest published source available, recent immigrant family/household size is 3.5 persons. This is well ahead of the Medicine Hat city average household size of 2.4 persons

The commencement of the Aurora cannabis project, with a projected 500 plus short term construction jobs and 450 long term operational jobs, is expected to spark some demand for new housing construction. However, expectations should be tempered with a current unemployed labour pool of almost 4,000 individuals. Assuming a portion of new labour demand cannot be met due to a mismatch between skills demanded and those in the available labour force, some limited in-migration will occur. Whether or not this results in new housing starts also depends on the existing re-sale home stock. According to the Medicine Hat Real Estate Board, there are 460 active listings on the Medicine Hat market as of October 31, 2019.

Of the 460 listings 21 are for single bedroom homes, 88 are 2 bedrooms, 130 are 3 bedrooms, 260 are 4 bedrooms or more with the remainder being unclassified. By architectural style, there are 24 one and a half storeys, 91 two storeys, 5 two storey splits, 2 two and one half storeys, 3 three level splits, 30 four level splits, 54 bi-levels, 177 bungalows, 37 condos, 5 duplexes, 17 mobile homes, and 9 modular homes with remainder being unclassified.

Within the resale market, monthly prices exhibit a fair degree of seasonal variability but have not strayed from the \$234,000 to \$307,000 since 2015.



Source: Townfolio, MHRB

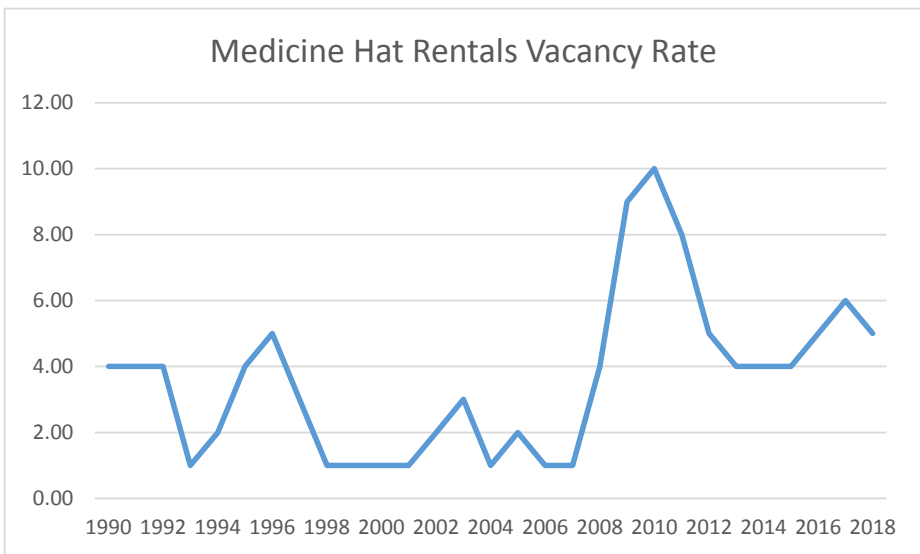
Resale prices are also in line with those of Medicine Hat and generally follow the fortunes of the energy market.

Table 8: Medicine Hat and Lethbridge Resale Housing Prices

	Medicine Hat	Lethbridge
2015	\$ 280,907	\$ 271,030
2016	\$ 265,923	\$ 274,007
2017	\$ 272,274	\$ 280,570
2018	\$ 278,521	\$ 272,103
2019 (ytd)	\$ 274,924	\$ 275,520

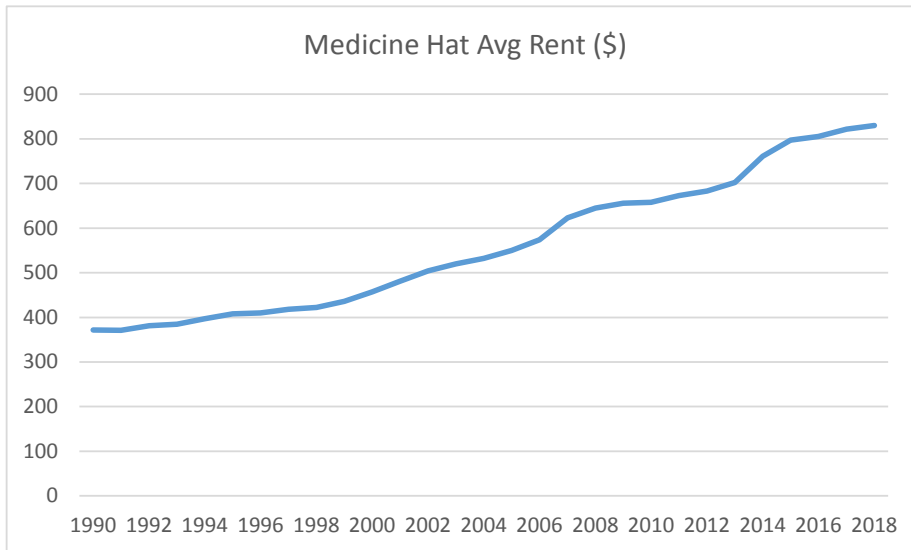
Source: MHRB, Townfolio, BILD Alberta, LDAR

In addition, vacancy rates moderated from the extremely low rates (1 to 2 percent) experienced before the 2009 energy price crash and currently sit at 5%.



Source: Townfolio

A relatively higher vacancy rate has put some moderating pressure on rent increases. The average rent for a 2 bedroom apartment sat at \$830 per month in October 2018, up from \$822 in 2017.



Source: Townfolio

With significant slack in the resale market, rental market vacancy rates well above those prior to the 2009 crash, and little upward pressure on rents, a number of options other than a new home are available to potential in-migrants. As such, the Aurora cannabis project will only have a modest upward impact on new home starts.

Implications for Business

The new home market is typically regarded as one of the first sectors to expand or contract as economic conditions rise or ebb. New home construction is a measure of consumer confidence regarding future economic prospects. Residential housing permits issued are early indicators of activity in the new home market. Every time a new home is started, construction employment rises, with a corresponding rise in construction employee income and consumer spending as new wages are spent in the local economy. When a new home is sold, it generates revenues for the home builder, real estate agent, lender, lawyer, and a further round of spending for the buyer. A new home buyer, relative to a purchaser of an existing home, will likely purchase items such as major appliances (refrigerators, washers and dryers, etc.), furniture, and landscaping, all of which represent significant opportunities for local retailers and service industries.

Barring a significant resurgence in energy prices, and the means to take these products to market, the new home market in Medicine Hat will likely remain muted over the short term. However, replacement of existing stock, senior housing, and rental still remain as opportunities