

Medicine Hat Economic Report card Q3 2019

**Prepared for the City of Medicine Hat
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Executive Summary

In 2018 Medicine Hat Census Agglomeration (CA) annual employment dropped below 2015 levels to 35,700 or 10.8% from 2017. While this trend continued into the first half of 2019, Q3 2019 saw a remarkable turn of events with year over year increases of 4,700 in July and 4,300 in September, while August 2019 was even with August 2018. Year-to-date employment is now only 400 persons behind September 2018 levels and has the potential of surpassing 2018 annual figure given a strong final quarter of 2019. In addition, a number of other positive developments did occur in Q3 2019:

- Economic Region (ER), which includes Lethbridge, employment growth was positive in Agriculture, Manufacturing, Retail and Wholesale Trade, Educational services, Health care, and Accommodation and food services.
- Year to date semi-detached housing starts were up 16.7% and row starts were up 5.9% in Q3 2019.
- Q3 2019 City of Medicine Hat industrial building permits are up 151.7% and institutional and governmental permits increased by 92.2% over Q3 2018.
- 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	Sept 2018	Sept 2019	Chg	%Chg	Sept 2018 ytd	Sept 2019 ytd	Chg	%Chg
Employment	35,000	39,300	4,300	12.3%	36,233	35,833	-400	-1.1%
Unemployment	1,900	5,600	3,700	194.7%	2,500	4,022	1,522	60.9%
Unemployment Rate (%)	5.1	12.5	7.4	145.1%	6.4	10.0	3.7	57.5%
Participation Rate (%)	59.4	69.5	10.1	17.0%	63.7	62.2	-1.4	-2.2%
Employment Rate (%)	56.4	60.8	4.4	7.8%	59.6	56.0	-3.6	-6.0%

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

Table 3: Medicine Hat/Lethbridge ER Employment by Industry

Indicator	Sept 2018	Sept 2019	Chg	%Chg	Sept 2018 ytd	Sept 2019 ytd	Chg	%Chg
Employment Agriculture	11,500	12,900	1,400	12.2%	10,544	11,122	578	5.5%
Employment Resource Extraction	8,400	6,100	-2,300	-27.4%	7,544	5,578	-1,967	-26.1%
Employment Construction	19,100	13,300	-5,800	-30.4%	15,800	13,033	-2,767	-17.5%
Employment Manufacturing	9,700	12,800	3,100	32.0%	10,444	12,433	1,989	19.0%
Employment Trade	18,700	20,400	1,700	9.1%	19,278	21,011	1,733	9.0%
Employment Transportation and warehousing	8,200	6,900	-1,300	-15.9%	7,633	6,478	-1,156	-15.1%
Employment Finance, insurance, real estate and leasing	5,100	4,500	-600	-11.8%	5,467	5,433	-33	-0.6%
Employment Professional, scientific and technical services	5,600	4,900	-700	-12.5%	6,367	6,278	-89	-1.4%
Employment Business, building and other support services	3,400	4,400	1,000	29.4%	4,611	3,667	-944	-20.5%
Employment Educational services	9,900	11,600	1,700	17.2%	9,933	10,944	1,011	10.2%
Employment Health care and social assistance	18,400	21,700	3,300	17.9%	18,944	21,178	2,233	11.8%
Employment Information, culture and recreation	4,900	3,500	-1,400	-28.6%	4,733	2,967	-1,767	-37.3%
Employment Accommodation and food services	11,400	9,600	-1,800	-15.8%	9,344	9,389	44	0.5%
Employment Other services	6,700	6,300	-400	-6.0%	6,811	5,433	-1,378	-20.2%
Employment Public administration	4,800	5,800	1,000	20.8%	6,156	5,256	-900	-14.6%

Table 4: Medicine Hat CA Housing Starts

Indicator	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%

Data below is for the City of Medicine Hat

Table 5: City of Medicine Hat Building Permits

Indicator	Sept 2018	Sept 2019	Chg	%Chg	Sept 2018 ytd	Sept 2019 ytd	Chg	%Chg
Building Permits Total (\$000s)	7,076	10,298	3,222	45.5%	90,204	76,522	-13,682	-15.2%
Building Permits Residential (\$000s)	1,999	1,283	-716	-35.8%	39,319	20,045	-19,274	-49.0%
Building Permits Industrial (\$000s)	2,514	1,870	-644	-26%	3,655	9,198	5,543	151.7%

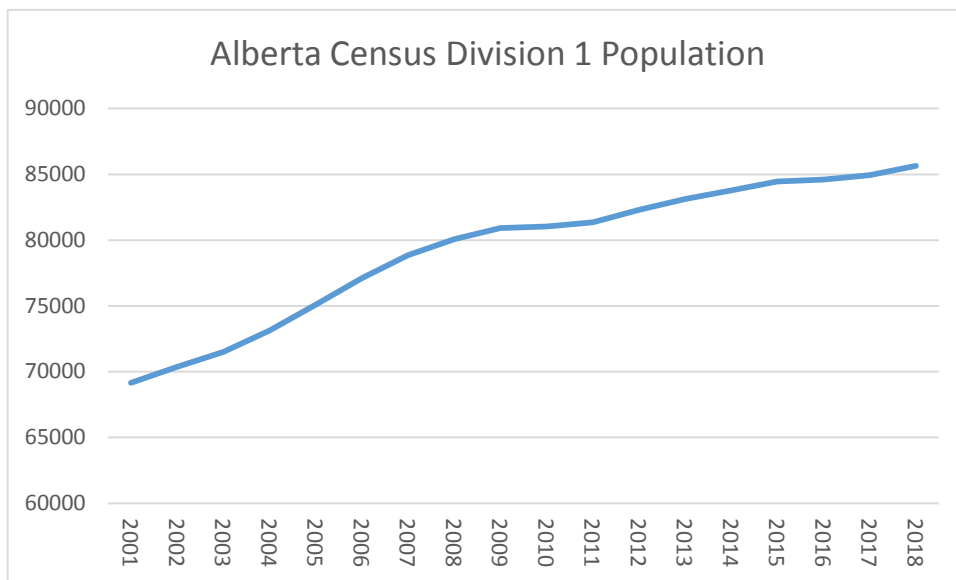
Indicator	Sept 2018	Sept 2019	Chg	%Chg	Sept 2018 ytd	Sept 2019 ytd	Chg	%Chg
Building Permits Commercial (\$000s)	1,484	6,316	4,832	325.6%	34,463	22,746	-11,717	-34.0%
Building Permits Institutional and governmental (\$000s)	1,079	829	-250	-23.2%	12,767	24,533	11,766	92.2%

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. 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 versus 352 persons or 0.4% between July 1, 2016 and July 1, 2017. Historically, 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 advance the in population growth rate has been is 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 in 2016/2017 to 386 in 2017/2018. All other components of population growth (births, death, and returning immigrants) 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 negative since 2013/2014.

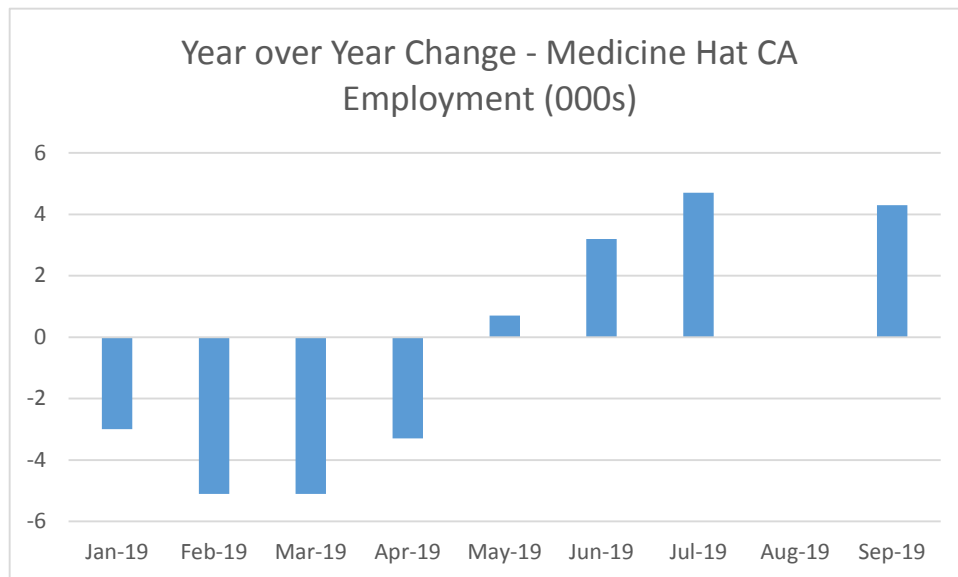
Table 6: Alberta Census Division 1 Components of Population Growth

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
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.

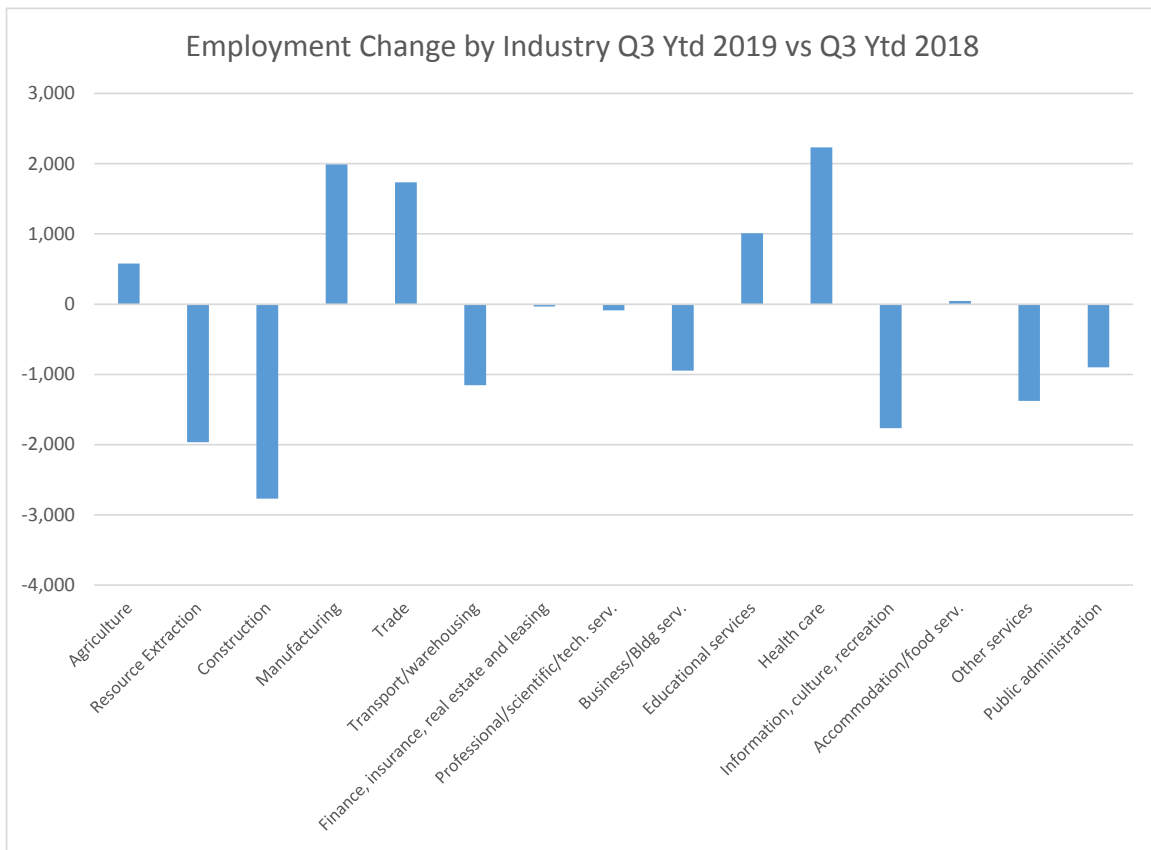
2017 saw a complete reversal of the job losses experienced in 2015 and 2016. However, this trend reversed itself in 2018 and into the first half of 2019 with Q2 CA employment year to date dropping 2,100 or 5.8% in over Q2 2018. However, Q3 2019 saw a remarkable turn of events with year over year increases of 4,700 in July and 4,300 in September, while August 2019 was even with August 2018. Year-to-date employment is now only 400 persons behind September 2018 levels and has the potential of surpassing 2018 annual figure given a strong final quarter of 2019.



Advances in the unemployment rate and the number of unemployed is not necessarily all bad news. In tandem with a slowing in the rate of increase in those of labour force age not in the

labour force suggests that Medicine Hat residents have returned to actively job seeking in the face of growing employment prospects.

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 1,967 positions in Q3 2019 with over supply and a lack of pipeline capacity having a softening Western Canadian oil and energy prices. Average year to date Q3 ER employment was up in Agriculture (578), Manufacturing (1,989), Retail and Wholesale Trade (1,733), Educational services (1,011), Health care (2,233), and Accommodation and food services (44). During the same time, Construction (-2,767), Transportation and warehousing (-1,156), Finance, insurance, real estate and leasing (-33), Professional, scientific, technical services (-89), Business and building services (-944), Information, culture, recreation (-1,767), other services (-1,378), and Public administration (-900) 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, education and health care procurement. In addition, employers have a larger available labour pool, actively seeking employment, to hire from without necessarily putting 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.

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 78% from 314 units to 69 units in Q3 2019. Single detached starts in Medicine Hat in Q3 2019 were down 46.8% from the same time period in 2018. Further compounding these losses were apartment units, down 219 units or 98.2% while noting that July 2018 was boosted by 143 apartment starts. Despite this, small gains were observed in semi-detached units which were up 16.7% or 2 units and row units, up 5.9% or 1 unit.

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 Q3) building permits in the City were down 15.2% over the same time period in 2018 (up from -30.3% in Q1 2019) with decreases observed in residential (-49%) and commercial (-34%). During the same time period, institutional and governmental permits increased by 92.2% and industrial permits were up by 151.7%, benefitting from the Aurora cannabis project.

Location Quotient Analysis

The Location Quotient is a commonly utilized economic base analysis method to determine the economic “base” of a region. Basic industries are those exporting from the region and bringing wealth from outside, while non-basic (or service) industries support basic industries. The Location Quotient calculation compares the local economy to a reference economy, in the process attempting to identify specializations in the local economy. The location quotient is based upon a calculated ratio between the local economy and the economy of some reference unit.

Location quotients can be calculated for all industries to determine whether or not the local economy has a greater share of each industry than expected when compared to a reference economy.

For example, suppose a local economy has 5% of its workforce in computer manufacturing and the national economy has only 0.05% of its workforce in computer manufacturing. This technique assumes that the local economy would have that same percentage of its workers in the computer manufacturing industry to serve its local needs for computers. Any employment over and above the expected percentage (in this case 0.05%) is therefore considered to consist of base sector jobs because these workers are assumed to be exporting their goods and services to non-local areas. If the percentages had been identical or if the local percentage had been less than the reference percentage, then it could be concluded that the local area has no basic sector employment for that industry. Consequently, the area can only, at best, meet their local demand and not export these goods and services.

The formula for computing location quotients can be written as:

$$LQ = \frac{e_i/e}{E_i/E}$$

Where:

e_i = Local employment in industry i

e = Total local employment

E_i = Reference area employment in industry i

E = Total reference area employment

It is assumed that the base year is identical in all of the above variables.

Using 2016 labour force by industry (the latest available) location quotients were calculated for the Medicine Hat CA and Lethbridge CMA against both Canada and Alberta. Results are presented below:

Table 7: 2016 Census Labour Force by Industry

	Medicine Hat	Lethbridge	Alberta	Canada
Total labour force population aged 15 yrs & over by Industry	40,220	63,240	2,302,940	18,672,475
Industry - NAICS2012 - not applicable	530	790	40,005	404,350
All industry categories	39,690	62,450	2,262,935	18,268,125
Agriculture; forestry; fishing and hunting	1,565	3,065	64,035	444,680
Mining; quarrying; and oil and gas extraction	2,740	1,070	142,490	271,300
Utilities	175	360	21,940	136,350
Construction	3,995	5,755	236,370	1,365,010
Manufacturing	1,760	4,950	127,535	1,596,570
Wholesale trade	1,025	1,980	80,610	665,685
Retail trade	5,110	7,965	249,880	2,110,200
Transportation and warehousing	1,705	2,365	115,295	876,050
Information and cultural industries	490	735	33,045	420,350
Finance and insurance	900	1,755	69,225	790,580
Real estate and rental and leasing	560	890	41,520	333,305
Professional; scientific and technical services	1,855	2,830	167,800	1,335,125
Management of companies and enterprises	40	60	5,560	28,795
Administrative and support; waste management and remediation services	1,225	2,385	87,350	802,420
Educational services	2,535	5,585	147,270	1,346,585
Health care and social assistance	5,160	8,565	245,875	2,138,025
Arts; entertainment and recreation	840	1,140	44,880	379,740
Accommodation and food services	3,100	4,655	153,790	1,283,725
Other services (except public administration)	2,090	2,985	105,865	814,695
Public administration	2,815	3,365	122,595	1,128,945

Source: Statistics Canada, 2016 Census of Population

Table 8: Location Quotients (LQ) Medicine Hat and Lethbridge

	Medicine Hat LQ Vs Alberta	Medicine Hat LQ Vs Canada	Lethbridge LQ Vs Alberta	Lethbridge LQ Vs Canada
Agriculture; forestry; fishing and hunting	1.40	1.63	1.74	2.04
Mining; quarrying; and oil and gas extraction	1.10	4.69	0.27	1.16
Utilities	0.46	0.60	0.60	0.78
Construction	0.97	1.36	0.89	1.24

	Medicine Hat LQ Vs Alberta	Medicine Hat LQ Vs Canada	Lethbridge LQ Vs Alberta	Lethbridge LQ Vs Canada
Manufacturing	0.79	0.51	1.41	0.92
Wholesale trade	0.73	0.71	0.89	0.88
Retail trade	1.17	1.12	1.16	1.11
Transportation and warehousing	0.85	0.90	0.75	0.80
Information and cultural industries	0.85	0.54	0.81	0.52
Finance and insurance	0.74	0.53	0.92	0.66
Real estate and rental and leasing	0.77	0.78	0.78	0.79
Professional; scientific and technical services	0.63	0.65	0.61	0.63
Management of companies and enterprises	0.41	0.64	0.39	0.62
Administrative and support; waste management and remediation services	0.80	0.71	0.99	0.88
Educational services	0.99	0.87	1.38	1.22
Health care and social assistance	1.20	1.12	1.27	1.18
Arts; entertainment and recreation	1.07	1.03	0.93	0.89
Accommodation and food services	1.15	1.12	1.10	1.07
Other services (except public administration)	1.13	1.19	1.03	1.08
Public administration	1.31	1.16	1.00	0.88

Conclusion

Based on the analysis above, Medicine Hat enjoys base sector jobs, assumed to be exporting their goods and services to non-local areas, in agriculture, resource extraction, retail trade (because Medicine Hat acts as a major retail hub for the south east region of the province), health care (a regional health care hub), arts, entertainment and recreation, accommodation and food services, other services (except public administration), and public administration.

Similarly evidence of a strong economic base in Lethbridge can be found in agriculture, manufacturing, retail, education (university), health care, accommodation and food services, and other services (except public administration).

Industries were evidence points to Medicine Hat having a competitive advantage over Lethbridge (defined as LQ greater than 1 and higher than Lethbridge) are: resource extraction, retail trade, arts, entertainment and recreation, accommodation and food services, other services (except public administration), and public administration.

The data above implies that growth opportunities may exist for the base and related industries due to the presence of an existing skilled labor pool or other resources such as suppliers, education, and/or infrastructure hubs in the region. Location quotients are also a useful tool for economic and workforce planners to use in recruiting prospective employers to areas that have concentrations of workers with transferable skills and related infrastructure.