

ECONOMIC POLICY TRENDS

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THE EFFECT OF ALBERTA'S RECESSION ON CANADA'S NATIONAL ECONOMY, 2014 TO 2019

Large oil price declines starting in 2014 led to severe recessions in Canada's oil producing provinces. As the largest economy among them, Alberta's recession had particularly large implications for Canada's overall economy.

What would Canada's economic growth and unemployment have been if Alberta's recession didn't happen? We can never know precisely, but one informative approach is to imagine if Alberta growth kept pace with neighboring British Columbia from January 2015 onwards, but all others grew at their observed levels. This builds on prior work by [Kneebone \(2014\)](#) who finds Canada's unemployment rate would have been much higher in 2014 were it not for robust growth in Alberta.

From 2014 onwards, if Alberta employment rates improved by the same amount as BC's, then I estimate Canada's national unemployment rate would be 4.9% or 0.8 percentage points below its August 2019 rate of 5.7%. This is a significant drop, and is illustrated in the top figure.

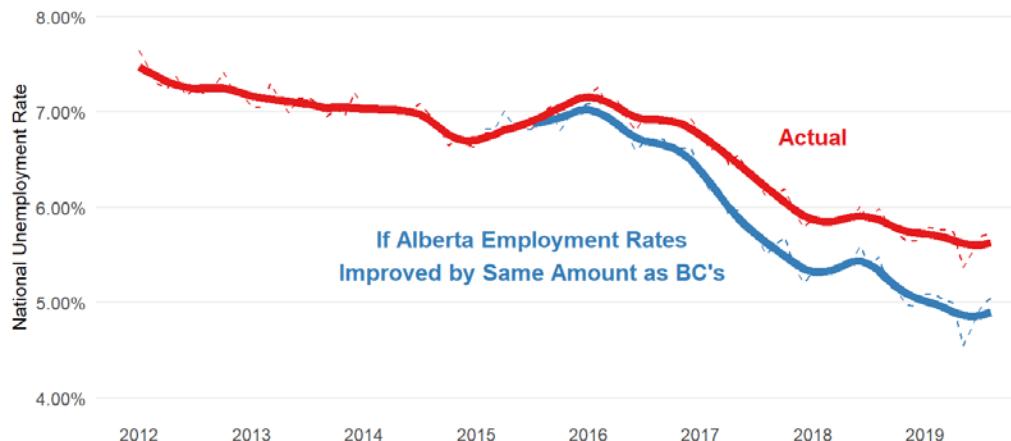
Had Alberta's economic growth remained strong, Canada's economy would be roughly \$130 billion (5.7%) larger, its unemployment rate would be 0.8 percentage points lower, and the federal deficit nearly \$13 billion smaller.

In terms of GDP, combining Statistics Canada data with Conference Board forecasts, I find that if Alberta's economy kept pace with British Columbia's then national real GDP would be 2.6% higher today. This is similar to the 2% loss forecast by Bank of Canada analysis in 2016. In nominal terms, the bottom figure illustrates that this represents over \$130 billion per year (or 5.7%) in foregone value. Based on Budget 2019 sensitivities, a 2.6% real GDP boost could shrink the federal deficit by nearly \$13 billion.

These are but illustrative estimates to provide a sense of scale. Many other things would change if Alberta growth were stronger, such as higher Bank of Canada rates. But one thing is certain: Canada's economy is tightly interconnected, and shocks to one region spill over to others through trade, labour markets, and federal finances. The economic health of each province matters for Canada as a whole.

Canadian Unemployment if Alberta Employment Rates Grew as in BC

Source: Own calculations from Statistics Canada data tables 14-10-0287. Solid line is the trend-cycle estimate. Note: Counterfactual Alberta employment growth after January 2015 matches the observed change in BC employment rates by age group. Looking at employment rate changes is more robust to interprovincial migration than employment levels.



Canadian Nominal GDP if Alberta GDP Growth Matched BC's

Source: Own calculations from Statistics Canada data table 36-10-0222 (2012-2017) and the Conference Board (2018 and 2019). In current dollars. Note: Counterfactual Alberta growth from 2015 onwards matches nominal GDP growth in British Columbia.

