

## WEEKLY COMMENTARY

# Canada's Narrowing Oil Price Discount Is Good News for Alberta's Finances

By Marc Desormeaux, Principal Economist

Voters head to the polls in Canada's largest oil-producing province later this month amid a multi-year roller coaster ride in crude values. The pandemic and a Russian–Saudi price war undid the gains accrued following the commodity price correction that began in 2014. That famously resulted in West Texas Intermediate (WTI) trading negative on April 20, 2020. Then fears of supply disruptions following Russia's invasion of Ukraine drove oil prices well above US\$100 per barrel. After that, expectations of a global slowdown pushed WTI into the low 60s in March 2023, though defensive production cuts by the Organization of Petroleum Exporting Countries (OPEC) briefly buoyed prices. And late last year, the Western Canada Select (WCS) to WTI differential blew out to almost US\$30 per barrel. That was the widest gap since 2018, when severe pipeline bottlenecks led to a record discount between the two benchmarks.

This volatility comes as public finances are historically sensitive to crude values. As we noted in our [preview](#) and [analysis](#) of Alberta's 2023 budget, this reflects two factors. One is that many oil sands projects have now recouped their initial capital costs and are subject to higher royalty rates, which are based in part on WTI prices. The other is that more and more of Alberta's output is heavy sour crude, whose prices track WCS values. Both these trends look likely to continue in the coming years. Alongside the high- and low-price scenarios presented in [Budget 2023](#), this suggests higher levels of price sensitivity going forward.

Our [May 2023 forecast](#) assumed WTI would average just over US\$77 per barrel in fiscal year 2023–24 (FY2024), less than the Alberta government projection of US\$79.50 per barrel. With a record net fiscal impact of \$630M per dollar of WTI, that small discrepancy alone would be enough to halve the healthy \$2.4B surplus penciled in for this fiscal year. There's also downside risk

on this front. As we [previously highlighted](#), any erosion of global economic conditions or volatility in financial markets beyond our baseline projections could hit the key crude benchmark hard.

In our base case WTI projection, Alberta will likely be one of the strongest-performing provincial economies again this year. Mid- 70s oil should still broadly support energy industry profitability. The province is also benefiting from surging population growth, a relatively affordable housing market and major project activity in other sectors.

The good news for provincial coffers is that WCS prices are faring much better than expected to begin this fiscal year. Last year's WCS blowout primarily reflected refinery outages and greater heavy crude availability in the key US Gulf Coast region following the release from the Strategic Petroleum Reserve. The end of outages and announcements that the Biden administration will now replenish America's emergency crude stockpiles have since narrowed the light–heavy oil price differential to less than US\$13 per barrel. With the Alberta government projecting a US\$19.50 per barrel gap for FY2024 and a record sensitivity estimate of \$600M per barrel, even a US\$15 discount would be more than enough to offset the drag from US\$75 WTI. The differential should get help later this year when the Trans Mountain pipeline extension comes online, though achieving production targets will depend on swift recovery from wildfire-induced shutdowns.

So, with a provincial election just over a week away, Alberta still looks to be on firm fiscal footing. But price volatility is likely to remain in place in the coming months, and myriad economic risks dot the economic landscape. In the shorter term, these risks include the possibility of global recession and how households respond to sharply higher interest rates. In the longer run, they include the climate transition and an aging population.

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Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com) • [desjardins.com/economics](https://desjardins.com/economics)

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The best use for Alberta's surplus is a discussion for another commentary, though it is a question that should continue to be front of mind for voters and policymakers. But one thing is certain: this will be a pivotal election in Wildrose Country.

# What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, Francis Généreux, Principal Economist, Marc-Antoine Dumont, Economist and Maëlle Boulais-Préseault, Economist

TUESDAY, May 23 - 10:00

<b>April</b>	
Consensus	660,000
Desjardins	710,000
<b>March</b>	<b>683,000</b>

FRIDAY, May 26 - 8:30

<b>April</b>	<b>m/m</b>
Consensus	0.4%
Desjardins	0.6%
<b>March</b>	<b>0.0%</b>

FRIDAY, May 26 - 8:30

<b>April</b>	<b>m/m</b>
Consensus	-1.0%
Desjardins	-1.8%
<b>March</b>	<b>3.2%</b>

TUESDAY, May 23 - 4:00

<b>May</b>	
Consensus	53.5
<b>April</b>	<b>54.1</b>

WEDNESDAY, May 24 - 2:00

<b>April</b>	<b>y/y</b>
Consensus	8.2%
<b>March</b>	<b>10.1%</b>

## UNITED STATES

**New home sales (April)** – After falling 3.9% in February, sales of new single-family homes surged 9.3% in March, resuming the uptrend we’ve seen since last fall. Sales likely rose again in April. Building permits for single-family homes increased for the third month in a row in April, adding 3.2%. Mortgage applications for home purchases have also continued to edge up, and the home builder confidence survey is gradually improving. All in all, we expect sales to come in at 710,000 units.

**Consumer spending (April)** – After stellar monthly growth of 1.4% in January, consumer spending fell 0.2% in February and was flat in March (0.0%). However, it was likely up again in April. New vehicle sales surged 7.2% last month, and although the 0.6% increase in retail sales excluding motor vehicles and gasoline was weaker than expected, it’s still a positive factor for consumer spending, particularly for durable goods in real terms. However, a drop in energy consumption following March’s spike will limit growth in real spending on services. Overall, real consumer spending is projected to have risen 0.3%. Nominal consumption will also benefit from an expected 0.3% increase in the Personal Consumption Expenditures deflator.

**Durable goods orders (April)** – Durable goods orders dipped in January and February before rebounding 3.2% in March. Much of this volatility is due to the transportation sector, especially aerospace. On the heels of a 78.3% surge in nondefense aircraft orders in March, we expect a substantial decline in April’s print. This is also what Boeing’s figures suggest. However, this will be partly offset by higher automotive sector orders. We’re expecting a modest 0.2% increase excluding transportation and a 1.8% drop in durable goods orders overall.


## OVERSEAS


**Eurozone: PMI (May – preliminary)** – Economic growth in the eurozone in early 2023 was weaker than the improving PMIs suggested. While the PMIs have surged since bottoming out last year, especially over the early months of 2023, this wasn’t reflected in real GDP, which rose just 0.1% in the first quarter. The recent rise in the PMIs has primarily come from the services-producing sector, while manufacturing PMIs have been weaker in recent months. We’ll see whether this recent trend continues in May.

**United Kingdom: Consumer Price Index (April)** – In March, the UK was the only major economy where headline inflation was still above 10.0%. While it has come down from October’s peak of 11.1%, progress on reining in inflation has been slower than in other countries. At 6.2%, core inflation remains sticky too. Preliminary data for April will provide more information on UK price trends.

# Economic Indicators

## Week of May 22 to 26, 2023

Day	Time	Indicator	Period	Consensus		Previous reading	
<b>UNITED STATES</b>							
<b>MONDAY 22</b>	8:30	Speech by Federal Reserve Bank of St. Louis President J. Bullard					
	11:05	Speech by Federal Reserve Bank of Atlanta President R. Bostic and by Federal Reserve Bank of Richmond President T. Barkin					
<b>TUESDAY 23</b>	9:00	Speech by Federal Reserve Bank of Dallas President L. Logan					
	10:00	New home sales (ann. rate)	April	660,000	710,000	683,000	
<b>WEDNESDAY 24</b>	14:00	Release of the Federal Reserve's meeting minutes					
<b>THURSDAY 25</b>	8:30	Initial unemployment claims	May 15–19	250,000	247,000	242,000	
	8:30	Real GDP – second estimate (ann. rate)	Q1	1.1%	1.1%	1.1%	
<b>FRIDAY 26</b>	8:30	Personal income (m/m)	April	0.4%	0.6%	0.3%	
	8:30	Personal consumption expenditures (m/m)	April	0.4%	0.6%	0.0%	
	8:30	Personal consumption expenditures deflator	Total (m/m)	April	0.3%	0.3%	0.1%
			Excluding food and energy (m/m)	April	0.3%	0.3%	0.3%
			Total (y/y)	April	4.3%	4.2%	4.2%
			Excluding food and energy (y/y)	April	4.6%	4.6%	4.6%
	8:30	Goods trade balance – preliminary (US\$B)	April	-85.6	-84.8	-84.6	
	8:30	Retail inventories (m/m)	April	n/a	n/a	0.7%	
	8:30	Wholesale inventories – preliminary (m/m)	April	n/a	n/a	0.0%	
	8:30	Durable goods orders (m/m)	April	-1.0%	-1.8%	3.2%	
10:00	University of Michigan consumer sentiment index – final	May	58.0	57.7	57.7		
<b>CANADA</b>							
<b>MONDAY 22</b>	---	Markets closed (Victoria Day)					
<b>TUESDAY 23</b>	8:30	Industrial product price index (m/m)	April	0.2%	0.0%	0.1%	
	8:30	Raw materials price index (m/m)	April	0.6%	2.2%	-1.7%	
<b>WEDNESDAY 24</b>	---	---					
<b>THURSDAY 25</b>	---	---					
<b>FRIDAY 26</b>	---	---					

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are daylight saving time (GMT - 4 hours).  Desjardins Economic Studies forecast.

# Economic Indicators

## Week of May 22 to 26, 2023

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
<b>OVERSEAS</b>								
<b>MONDAY 22</b>								
Eurozone	5:00	Construction	March	n/a	n/a	2.4%	2.3%	
Eurozone	10:00	Consumer confidence – preliminary	May	-16.5		-17.5		
Japan	20:30	Composite PMI – preliminary	May	n/a		52.9		
Japan	20:30	Manufacturing PMI – preliminary	May	n/a		49.5		
Japan	20:30	Services PMI – preliminary	May	n/a		55.4		
<b>TUESDAY 23</b>								
France	3:15	Composite PMI – preliminary	May	52.0		52.4		
France	3:15	Manufacturing PMI – preliminary	May	46.0		45.6		
France	3:15	Services PMI – preliminary	May	54.0		54.6		
Germany	3:30	Composite PMI – preliminary	May	53.0		54.2		
Germany	3:30	Manufacturing PMI – preliminary	May	45.0		44.5		
Germany	3:30	Services PMI – preliminary	May	55.0		56.0		
Eurozone	4:00	Composite PMI – preliminary	May	53.5		54.1		
Eurozone	4:00	Manufacturing PMI – preliminary	May	45.8		45.8		
Eurozone	4:00	Services PMI – preliminary	May	55.7		56.2		
Eurozone	4:00	Current account (€B)	March	n/a		24.3		
Italy	4:30	Current account (€M)	March	n/a		-884		
United Kingdom	4:30	Composite PMI – preliminary	May	54.7		54.9		
United Kingdom	4:30	Manufacturing PMI – preliminary	May	48.0		47.8		
United Kingdom	4:30	Services PMI – preliminary	May	55.5		55.9		
New Zealand	22:00	Reserve Bank of New Zealand meeting	May	5.50%		5.25%		
<b>WEDNESDAY 24</b>								
United Kingdom	2:00	Consumer price index	April	0.7%	8.2%	0.8%	10.1%	
Germany	4:00	ifo Business Climate Index	May	93.0		93.6		
Germany	4:00	ifo Current Assessment Index	May	94.6		95.0		
Germany	4:00	ifo Expectations Index	May	91.6		92.2		
<b>THURSDAY 25</b>								
South Korea	---	Bank of Korea meeting	May	3.50%		3.50%		
Germany	2:00	Real GDP – final	Q1	0.0%	-0.1%	0.0%	-0.1%	
Germany	2:00	Consumer confidence	June	-23.3		-25.7		
France	2:45	Business confidence	May	101		102		
Japan	19:30	Tokyo Consumer Price Index	May		3.4%		3.5%	
<b>FRIDAY 26</b>								
France	2:45	Consumer confidence	May	84		83		
Italy	4:00	Consumer confidence	May	105.2		105.5		

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are daylight saving time (GMT - 4 hours).