Q2 Economic Update

April - June 2024

Introduction

SREDA Quarterly Economic Update series delves into various factors of the local economy, analyzing trends in inflation employment, housing, business activity and other critical areas that shape the economic landscape of the Saskatoon Region.

In Q2 2024, the Saskatoon Region economy showed resilience and growth with a 2.8% GDP increase, surpassing the national average. Key takeaways from the market data include:

1. Slowing inflation pressures contribute to economic growth, supported by the Bank of Canada's gradual normalization of interest rates.

2.Labour market stability fosters strong job creation, stability in unemployment rates and high workforce engagement.

3.Supply challenges continue to drive housing prices to new heights, returning back to pandemic levels.

4.Despite high household debt, the Saskatoon Region drives consumer spending in Canada.

5.Robust non-residential investments in infrastructure and industrial developments driving growth in the Saskatoon Region.

Total Real GDP	Employment	Unemployment Rate
$25.661B	201,500	5.3%
2.8% change from Q2 2023	3.4% change from Q2 2023	0.6 PP change from Q2 2023

Median Sales Price	Home Inventory	New Vehicle Sales
$384,500	857	591.6
9.2% change from Q2 2023	22.0% change from Q2 2023	25.5% change from Q2 2023

**Q2 2024 data only includes April and May*

1. Slowing inflation pressures contribute to economic growth, supported by the Bank of Canada's gradual normalization of interest rates.

- Interest rate cuts of 25 basis points in June and July have led to inflationary pressures easing, adding to the expectation of economic activities further stabilizing, making borrowing more accessible and stimulating investment in key sectors. Overall, inflation in the Saskatoon Region has declined to 1.6% in Q2, down from 2.1% in Q1.

- To assess what's driving the decline, we analyze provincial CPI data by item, including:

  - **Food:** Overall, food inflation fell to 3.3%, with prices at grocery stores rising by 2.4%, while restaurant food prices remain elevated at 5.4%, emphasizing the possible heightened operational costs that restaurants are encountering.

  - **Shelter:** Illustrating a similar story to food inflation, the cost of shelter continues to trend lower at 3.6%, with utilities driving this decrease. Water, fuel and electricity costs fell by 5.8%, whereas owned and rented accommodation remained high, at 5.2% and 8.1%, respectively. Additionally, while all other inflation items have seen lower inflation from the previous quarter, rented accommodation continues to trend higher.

  - **Gasoline:** While gasoline prices rise across Canada, prices in Saskatchewan and Manitoba continues to contribute to the decline in overall inflation, falling 2.1% in the latest quarter.

Overall, GDP is estimated to have grown by 2.8%, driven by a 10.3% increase in the primary and utilities sectors. This growth is further supported by gains in the services sector, with educational services up 3.4% and food and accommodation up 5.2%.

2. Labour market stability fosters strong job creation, stability in unemployment rates and high workforce engagement.

- SREDA's latest Q2 Labour Force Analysis reported the Saskatoon Region's labour force characteristics as having remarkable stability, consistently performing at or near the top in many metrics compared to Canada's major CMAs.

  - **Population Growth:** The Conference Board of Canada forecasts an increase of 3.5% in population growth, the second-lowest in the last two years of robust growth, averaging 4.5%. This growth has been reflected in the working-age population growing by 4.5%, outpacing job creation and contributing to a slight decline in participation and employment rates.

  - **Participation Rate:** Despite a drop from its top position, the Saskatoon Region maintains a strong labour force participation rate of 70.4%, indicating high workforce engagement and relatively healthy labour market. This decline is attributed to a fast-growing population, leading to more individuals entering the labour force than new jobs created.

  - **Unemployment Rate:** The Region's unemployment rate has seen a marginal increase, rising by 0.1% to 5.3%. Compared to Saskatchewan and Regina, the Saskatoon Region boasts lower unemployment rates by 0.2% and 1.5%, respectively, underscoring its robust job market and economic stability.

  - **Employment Growth:** Job creation remains strong, with a growth rate of 4.2%, driven by positive employment trends in sectors, including Manufacturing (+38.5%), Information Culture and Recreation (+24.5%), Mining (+16.1%), and Professional Scientific and Technical Services (+15.8%). Moreover, Statistics Canada's latest job vacancy report indicates a 7.7% decline in job vacancies in the Region, reflecting strong employer demand.

The Saskatoon Region's labour market stability, characterized by strong job creation, stable unemployment rates, and high workforce engagement, calls attention to its competitive standing among Canada's major CMAs, supported by steady population growth and thriving employment sectors.

3. Supply challenges continue to drive housing prices to new heights, returning back to pandemic levels.

- **Median Sales Price:** Median home sale prices in the Saskatoon Region reached $390,667, a 9.1% increase from a year ago, a level not seen since housing demand boomed in 2021. Moreover, this marks three consecutive increases, averaging an 8.4% jump in home prices sold each quarter. The increases are attributed to supply constraints and strong housing demand, placing pressure on affordability and the rental market.

- **Home Sales:** The Saskatoon Region saw 1,877 homes sold, an 8.1% increase from a year ago, reflecting the significant demand by buyers as interest rates begin to normalize.

- **Inventory:** Inventory levels fell 23.3% to 1,059 homes on the market from a year ago, emphasizing the significant demand and supply constraints in the housing market. Before the housing boom in 2021, 5-year inventory levels averaged 2,304.

- **Housing Starts:** Total housing starts fell for the second quarter, declining 32.9% from a year ago, driven by apartments and row homes declining 59.9% and 70.5%, respectively, highlighting the significant stress and impact on the affordable housing market. This decrease is slightly offset by increases in single dwelling by 19.7% and semi-detached housing by 23.5%.

- **Investment in Residential Construction (Q2 data excludes the month of June):**
  - **Total residential investment** surged 9.0% to $257.1 million from last year.

  - **Single dwelling investments** rose by 25.5%, accounting for 58.2% of total residential investment.

  - **Multi-dwelling investments** fell by 14.1%. Unadjusted data shows that the overall decrease was due to a decline in apartment investments, which fell by 8.3% to $54.6 million, and row housing investments, falling by 33.8% to $5.6 million. However, this decline was partially offset by a significant increase in double housing investments, which rose 130.6% to $5.0 million.

The housing market dynamics highlight the ongoing challenges and opportunities within the Saskatoon Region, as it grapples with supply constraints and interest rate normalization, leading to higher prices and consistent demand.

4. Despite high household debt, the Saskatoon Region drives consumer spending in Canada.

- Consumer spending in Saskatchewan has accelerated quicker than in the rest of Canada, even though the Region has higher-than-average consumer debt (excluding mortgages) of $22,558, 6.0% above than the national average. This growth in consumer spending is evident by the following:

    - **New Auto Vehicle Sales:** In Saskatchewan, new auto vehicle sales increased by 25.5% from the previous year, more than doubled the national average of 12.4%. The number of new vehicle units sold grew 18.3%, indicating rising consumer confidence in the market.

    - **Retail Trade:**
        - **Saskatchewan:** Unadjusted retail trade data shows sales growing 6.8%, third-highest in Canada, behind only Nunavut and New Brunswick, and well above the national average of 1.9%.
        - **Saskatoon Region:** Seasonally adjusted retail trade sales in the Saskatoon Region are estimated to have increased by 5.6%.

  This growth in spending reflects a high degree of consumer confidence, with major purchases like new vehicles signaling a positive medium to long term economic outlook.

5. Robust non-residential investments in infrastructure and industrial developments driving growth in the Saskatoon Region.

- Ongoing business expansion and growth in non-residential investments are fueling growth and job creation in the Saskatoon Region. Key projects include:
  - BHP's $14.1 billion Jansen Mine expansion
  - Great Western Brewery's $45 million expansion
  - Drake Meat's $45.6 million relocation
  - VIDO's expansion to become Canada's Centre for Pandemic Research
  - Warman's $15.1 arena expansion
  - Martensville's $44.5 million recreation centre
  - Saskatoon's Bus Rapid Transit (BRT) system
  - SIIT's Saskatoon Aviation Learning Centre expansion
  - Saskatoon's $134 million Central Library.

- **Investment in Non-Residential Construction (May YTD):**
  - Total non-residential investments increased 4.7%, reaching $219.0 million from the previous year, highlighted by:
    - **Industrial investments** are leading the recovery of non-residential investment back to pre-pandemic levels, showing a substantial increase of 116.2%. This growth is evident in the city's vacancy rates declining to 1.5-1.9%, according to the latest industrial reports by Colliers and ICR Commercial, indicating industry growth and a tightening market.

    - **Institutional and government investments** saw significant growth rising by 45.8%, highlighting notable investments made by educational institutions and government infrastructure projects.

    - In contrast, **commercial investments** are still below pre-pandemic levels, falling 23.6% from the previous year. Office vacancy rates are trending upwards to 13.7%, with downtown rates at 18.3% and suburban rates at 9.3%.

These developments reflect a dynamic and evolving landscape in the Saskatoon Region, highlighting the importance of strategic investments in driving regional growth. Commercial investments continue to face challenges with office vacancy rates rising, while continuous growth in infrastructure and industrial investments is fueling economic growth.

Glossary

Real GDP measures the value of the goods and services produced by an economy in a specific period, adjusted for inflation.

Population measures all the inhabitants of a particular town, area, or country.

Unemployment Rate is the number of unemployed persons expressed as a percentage of the labour force.

Employment is the number of persons who, 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.

Labour Force is the number of persons 15 years of age and over who were employed or unemployed.

Participation Rate is the the number of labour force participants expressed as a percentage of the population 15 years of age and over.

Housing Starts reflects the number of privately owned new houses (technically housing units) on which construction has been started in a given period.

Existing Home Sales reflects the number of housing units on the market and the number of housing units sold in a given period.

Median Sales Price reflects the middle value of homes sold within a specified area or dataset.

Inflation Rate is the rate of increase or decrease in prices for goods and services, in a given period of time.

Inventory is the total number of active listings available for sale in a particular market at a given time. This includes all types of properties listed for sale through the Multiple Listing Service (MLS) system.

Investment in Building Construction is the investment in residential and non-residential building construction, representing the spending value of building construction by households, enterprises and governments for buildings, excluding the value of land. The value of construction investment for a given month will be a function of the work done on units started in that month, in addition to the work done on all the other units from preceding months for which the construction would not yet be completed.

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Methodology

Our analysis is based on a combination of Statistics Canada data, the Conference Board of Canada data, national bank forecasts, industry reports, surveys, and expert commentary. We strive to present an objective and informative snapshot of the Saskatoon Region economy.

Sources

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