



June 26, 2013

ECONOMIC AND FISCAL IMPACTS OF FLOODING IN ALBERTA

- While the purpose of this commentary is to provide a preliminary economic and fiscal impact assessment of the recent severe flooding in Calgary and other parts of Alberta, we acknowledge that much of the costs – notably loss of life and human suffering – cannot be priced.
- Natural disasters tend to share the same pattern of disrupting economic activity in the short term. However, as the recovery begins – typically in short order – a large part of the losses to production, spending and labour hours are quickly recouped. And, somewhat paradoxically, the significant rebuilding that follows often provides a net boost to economic growth partly reflecting the way gross domestic product (GDP) is calculated.

Tumble in June activity to be recouped beginning in July

- Although it remains too early to pinpoint the exact hit to economic activity in June, we estimate that the disruptions subtracted roughly \$500 million–\$1.5 billion in economic activity in June – an amount that equates to between 0.2%–0.5% of Alberta real GDP and 0.03%–0.09% of Canadian real GDP.
- With Calgary right at the centre of this crisis, industries that are likely to be hit the hardest are on the service side, including retail and wholesale trade. In addition, damage to transportation infrastructure, such as the Trans Canada highway and rail system, will weigh on transportation services and manufacturing. Utilities output will also be severely impacted. While employees of oil and gas producers headquartered in Calgary have been affected, energy production in the province (which accounts for 29% of real GDP) has suffered only minor setbacks during the crisis.
- With water levels now receding, the economy is expected to bounce back strongly beginning in July. One near-term economic wildcard surrounds the fortunes of this year's Calgary Stampede which typically adds a significant \$300-\$400 million per year to the Alberta economy. While the event is expected to go ahead as planned in early July, the damage inflicted by the flooding to, for example, the City's hotels may leave a mark on this year's attendance. Increased support from Calgary's residents could offset the impact of lower tourism activity.
- With summer upon us, rebuilding of the damaged infrastructure is likely to begin in relatively short order, providing a boost to the Calgary and Alberta economies. Early estimates that have been banded about peg the damage to assets around \$3-\$5 billion (1.0–1.7% of Alberta GDP), of which as much as 25% could be uninsured. We assume that the lion's share of this lost asset base will be replaced, with the work effort beginning in the second half of 2013. It is important to note that in terms of economic growth accounting, damages to physical assets do not have a direct negative effect on GDP. However, the reconstruction process that follows does provide a boost to GDP. Moreover, the damage estimates may not include associated labour costs, which could point to a greater impact of

stimulus spending than implied by the loss estimates alone.

- A risk to both the timing of spending and cost of rebuilding relates to the supply of available labour. Alberta exhibits one of the tightest labour markets in the country, with an unemployment rate of 4.8% in May. As a result, the surge in hiring within the construction sector could lead to timing delays and drive up labour costs. Greater inflationary upward pressure may arise as a result. Recruiting from other provinces and abroad could help to mitigate this risk.
- In addition, the Alberta government has announced that it has approved \$1 billion in disaster relief, with the funding to be used to support people who have been forced from their homes, as well as to run relief centres and start rebuilding infrastructure. The federal government will contribute to this disaster relief effort likely in the range of \$300-500 million if we compare cheques given in past flooding episodes.

TD Economics to revise up Alberta growth forecasts

- While not all of the losses in service sector activity are likely to be fully made up, we anticipate that any losses are likely to be offset this year by reconstruction activity and public spending. As such, we would be inclined to revise up our 2013 real GDP growth forecast to nearly 3%, compared to our April estimate of 2.5%.
- For 2014, our revised tracking now is in the range of 3.5-3.7%. In April, our forecast for next year was 3.3%.

Rainy day fund could help to mitigate impact on the Province's budget balance

- The Premier has indicated that the province will not meet its balanced budget target due to the unforeseen spending. Recall that the government had targeted deficits of around \$2 billion in fiscal 2013-14, followed by a surplus of about \$500 million in fiscal 2014-15.
- It remains uncertain whether the hit to the coffers owing to the emergency recovery funding will be partially offset by savings in other areas. Furthermore, the province has \$700 million in funding set aside in a Contingency Account for fiscal 2013-14 that it could draw on to help absorb the additional spending required. In any event, Alberta continues to enjoy one of the strongest fiscal positions among the provincial governments, so financial markets are unlikely to be phased by any moderate deterioration in the budget position.

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