

## **Operating context**

### **Economic Overview**

Having weathered the acute decline in economic activity during the COVID-19 pandemic, and then experiencing unexpectedly strong growth in recovery, the Prairies economy now enters a period of moderated economic growth characterized by tight financial conditions and geopolitical uncertainty.

Global economic growth will likely decline with the tightening of global monetary conditions. Growth forecasts have been revised downward in countries and regions such as the United States, China, and Europe, which are important to Prairies trade. Further, global imbalance in demand and supply in energy, agriculture, and fertilizer markets are expected to bolster commodity prices and growth in the Prairies resource sectors in 2023.

The Prairie provinces are expected to outperform most of Canada for a second straight year, but at a sharply slower pace compared to last year. Saskatchewan is expected to lead all provinces in economic growth at a modest 1.9%, and Alberta is expected to rank second at 1.8%, while Manitoba is expected to rank fifth at 1.0%.<sup>1</sup>

### **Challenges**

Inflation globally has softened, but is expected to remain high in the near-term compared to recent years. Credit conditions have become more restrictive. Following a series of interest rate hikes in 2022, businesses face tighter terms and conditions for financing.

Businesses continue to face widespread labour market pressures. Softening demand is expected to reduce the intensity of labour shortages, yet structural changes in the Prairies, such as aging population and shifting employment preferences, could make it harder to find workers with requisite skills and experience. Out of all regions in Canada, Prairies firms have the highest expectation that labour costs will increase.<sup>2</sup>

Commodity-driven growth in the Prairies will be uneven across the economy. While the natural resource sectors will lead growth in the Prairies, consumer-dependent sectors could be exposed to declining household spending and purchasing power.

The global economy is also continuing to transition towards a sustainable, low-carbon energy future. Adapting to this economic reality will present challenges for the Prairies, but will also present new opportunities.

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<sup>1</sup> 2022 Real GDP forecasts are based on an average of growth rates published by RBC, TD, Scotiabank, and BMO.

<sup>2</sup> Bank of Canada. Business Outlook Survey—Fourth Quarter of 2022

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### **Opportunities**

Despite facing many economic challenges, the Prairies has an abundance of resources, assets, and skills, necessary to thrive. The region continues to demonstrate resilience, determination, and innovation to meet the tests of a shifting economy and climate change.

Resources, both traditional and emerging, remain one of the region's biggest strengths. The Prairies account for nearly 80 per cent of the country's energy exports, almost two thirds of raw and intermediate food exports, and over half of metal ores and related mineral exports.<sup>3</sup>

However, potential extends well beyond resources into a diverse and growing economy including, clean technology, value-added agriculture, life and health sciences, digital technology, and advanced manufacturing.

The Prairies is also home to a young, entrepreneurial and skilled workforce that represents an indispensable asset to an economy that is transforming.

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<sup>3</sup> Statistics Canada international merchandise trade (Table 12-10-0119-01), by province, by North American Product Classification System (NAPCS)