

Investment & Growth

What you need to know

- Alberta was by far the largest generator of capital in Canada until 2014. Since then, it has fallen by nearly 50%.
- That decline was almost entirely in resource industries. There has been no increase elsewhere to make up the difference.
- Alberta has also lost ground in terms of its share of Canada's R&D spending.
- Alberta is still relatively entrepreneurial but some entrepreneurship may be more necessity- than opportunity-driven and scaling remains a weak spot.

Reason for optimism

Though a large decline from previous highs, Alberta continues to be a big spender on capital in the form of machinery and equipment relative to other provinces.

Cause for concern

Alberta needs to expand its thinking of the role of capital beyond traditional, physical capital and emphasize innovation, intellectual property, and startups to drive growth.

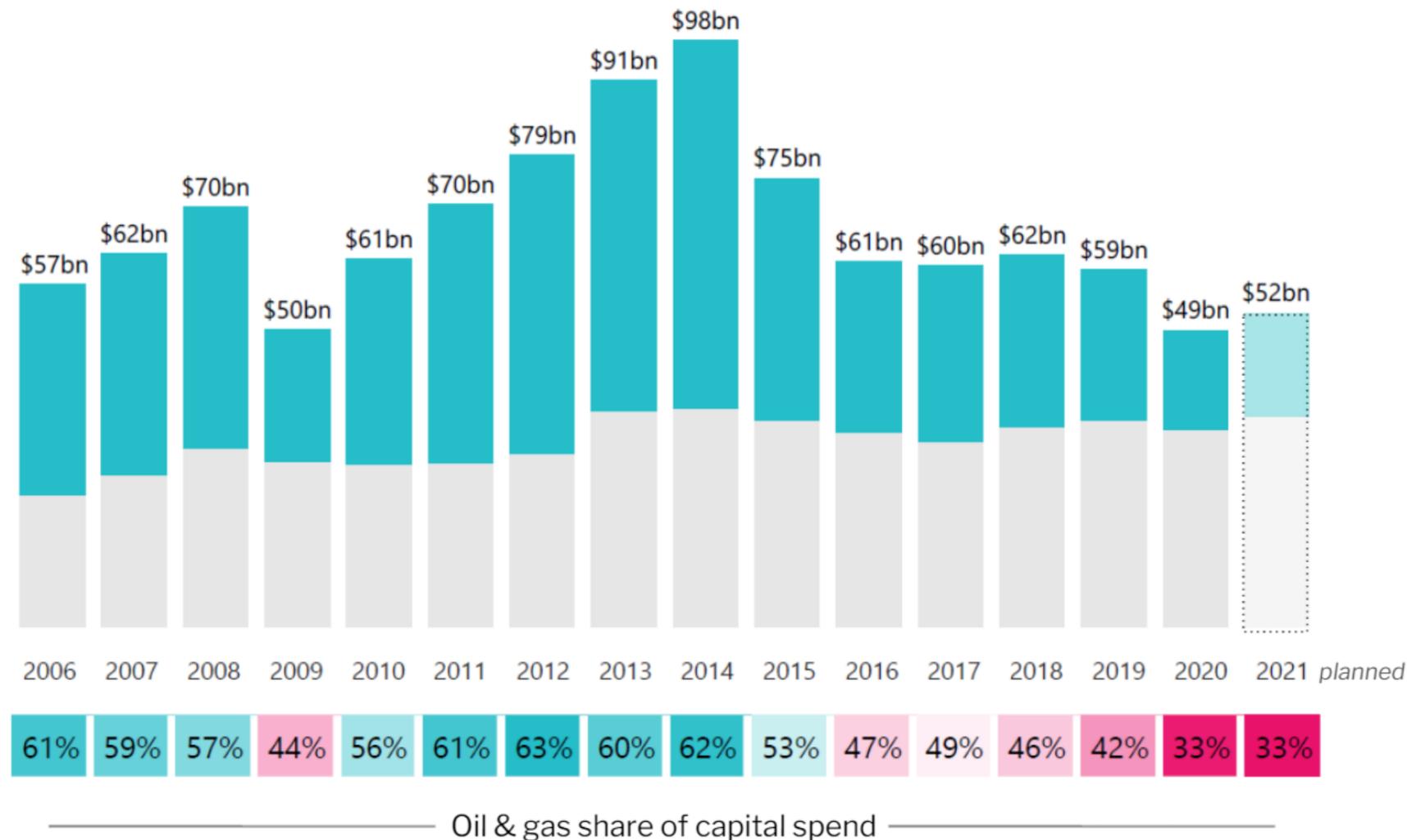


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Alberta's non-residential capital expenditures, 2006 - 2021

● Mining, quarrying, and oil & gas extraction ● All other industries



- From 2000 to 2014, business capital expenditures in Alberta grew at a much faster rate than the national average: an average of 7% per year, compared with 4%.
- Roughly 60% of capital spending took place in the resource industry.
- Since then, FDI in resources fell and along with it capital expenditures. Oil and gas now accounts for just 30 - 40% of capital spending.
- Though other industries now account for a larger share, their spending has not noticeably increased since 2014.
- Since 2014, investment has decreased 6% annually in Alberta, while it increased 2% nationally.

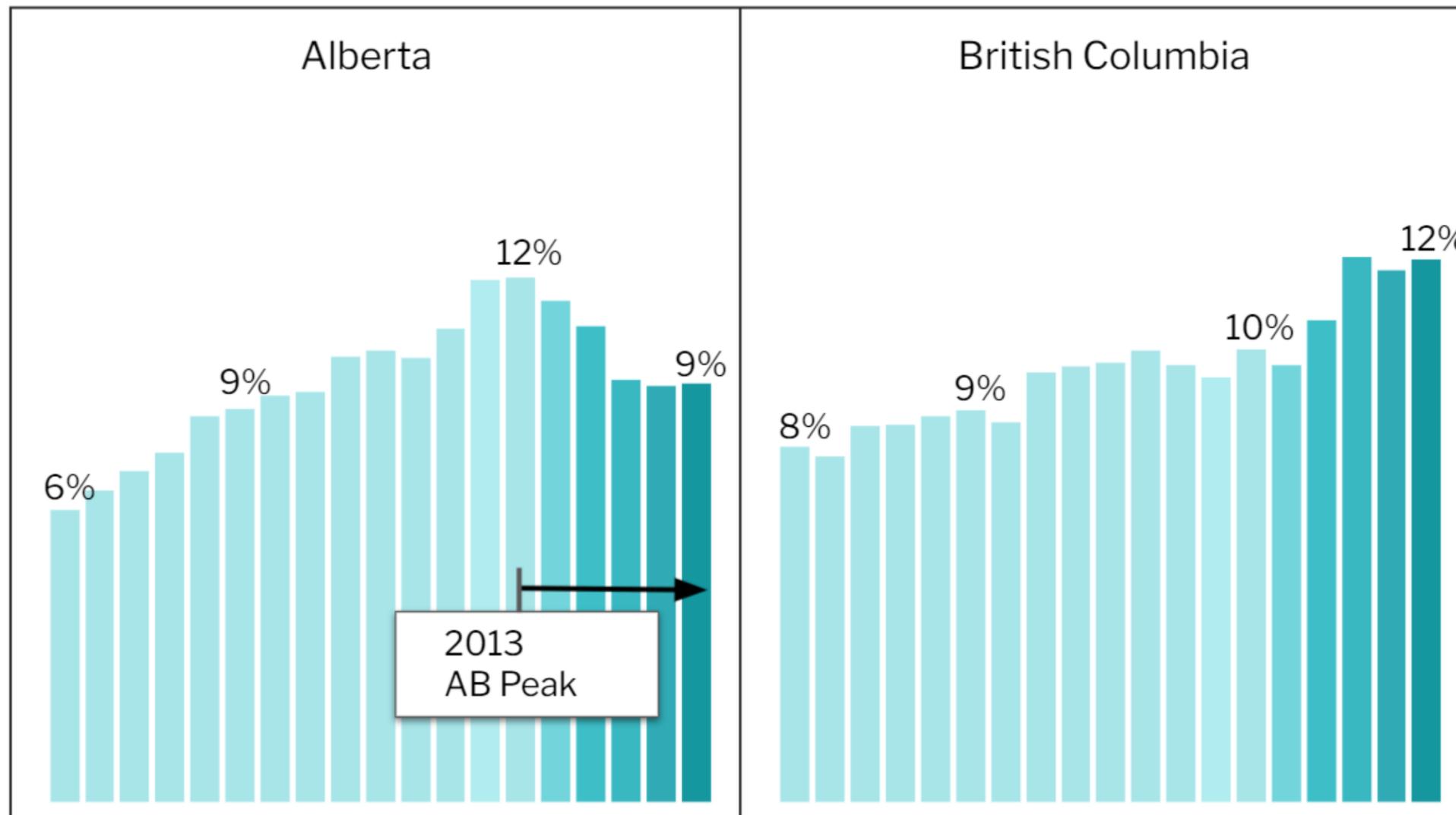
Source: Statistics Canada



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Share of total national R&D expenditure, 2000 - 2018



- Alberta has also lost share of Canada's R&D spending: from 12% to 9%. Meanwhile, BC has increased its share of national R&D.
- BC saw the nominal value of R&D increase by 36% from 2014 to 2018, while in Alberta it fell by 8.6%.
- Alberta was the only province—except for SK—where research and development spending fell over that period.

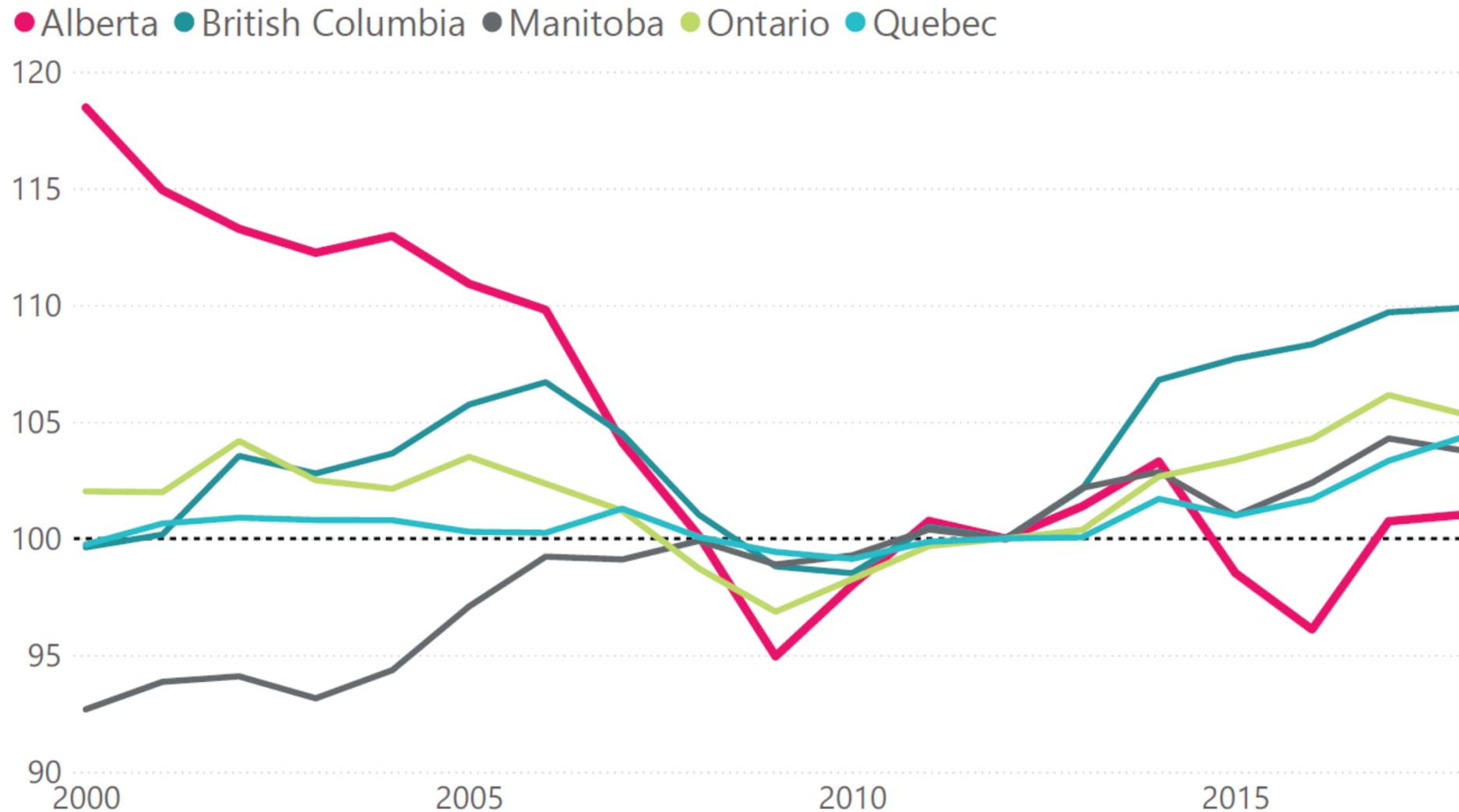
Source: Statistics Canada. Inclusive of all funders and all sectors, including government R&D spending or funding



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Multifactor productivity indexed to 2012 levels, 2000 to 2018



Source: Statistics Canada.

- Alberta’s multifactor productivity was high in the early 2000s but has declined since. More recently, it increased—with cost-cutting measures post-price collapse—and is now essentially at the same level as it was in 2012, down about 14% since 2000.
- Meanwhile, over that period, other provinces generally saw an increase.
- Much of Alberta’s declining productivity is a reflection of changing commodity prices; the WTI affects the value of “output”, so as oil prices decline, so does productivity.
- However, a lack of growth in capital investment, talent, and declining R&D and innovation is limiting productivity growth in other industries.



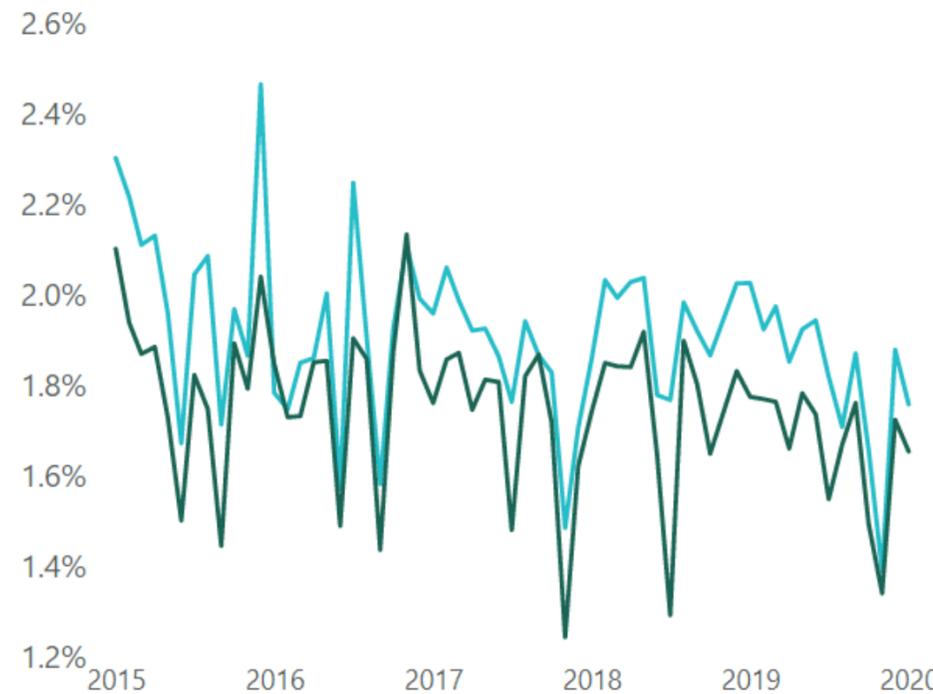
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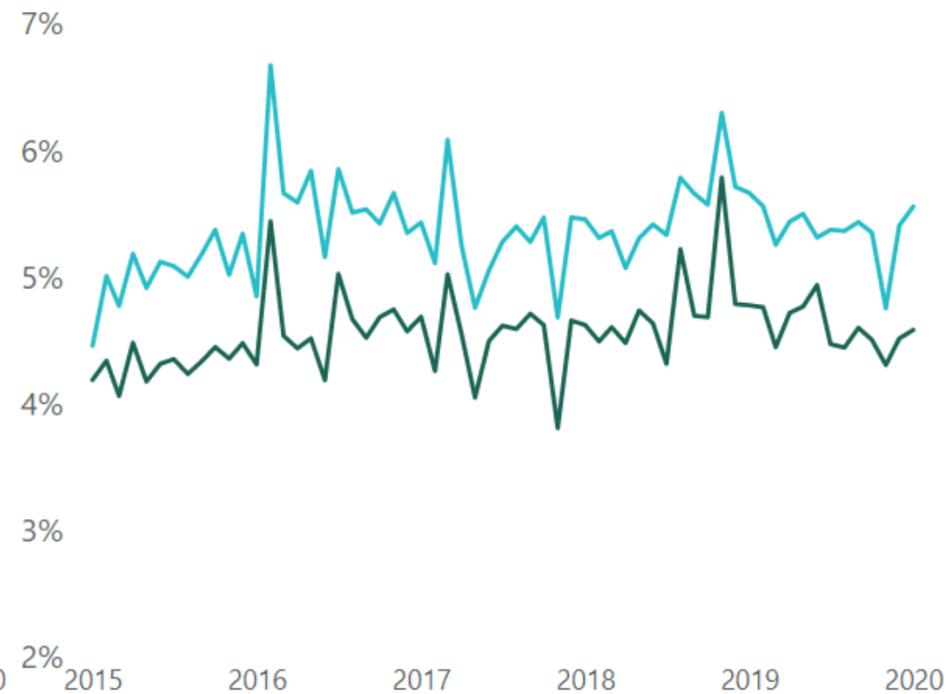
Business creation and destruction, Jan '15 to Jan '20

Startup activity

● Alberta ● Canada



Closing activity



Source: Statistics Canada, Business closing activity is calculated as the number of businesses closing as a percentage of the total number of active businesses, Business startup activity is calculated as the number of new business entrants as a percentage of the total number of active businesses

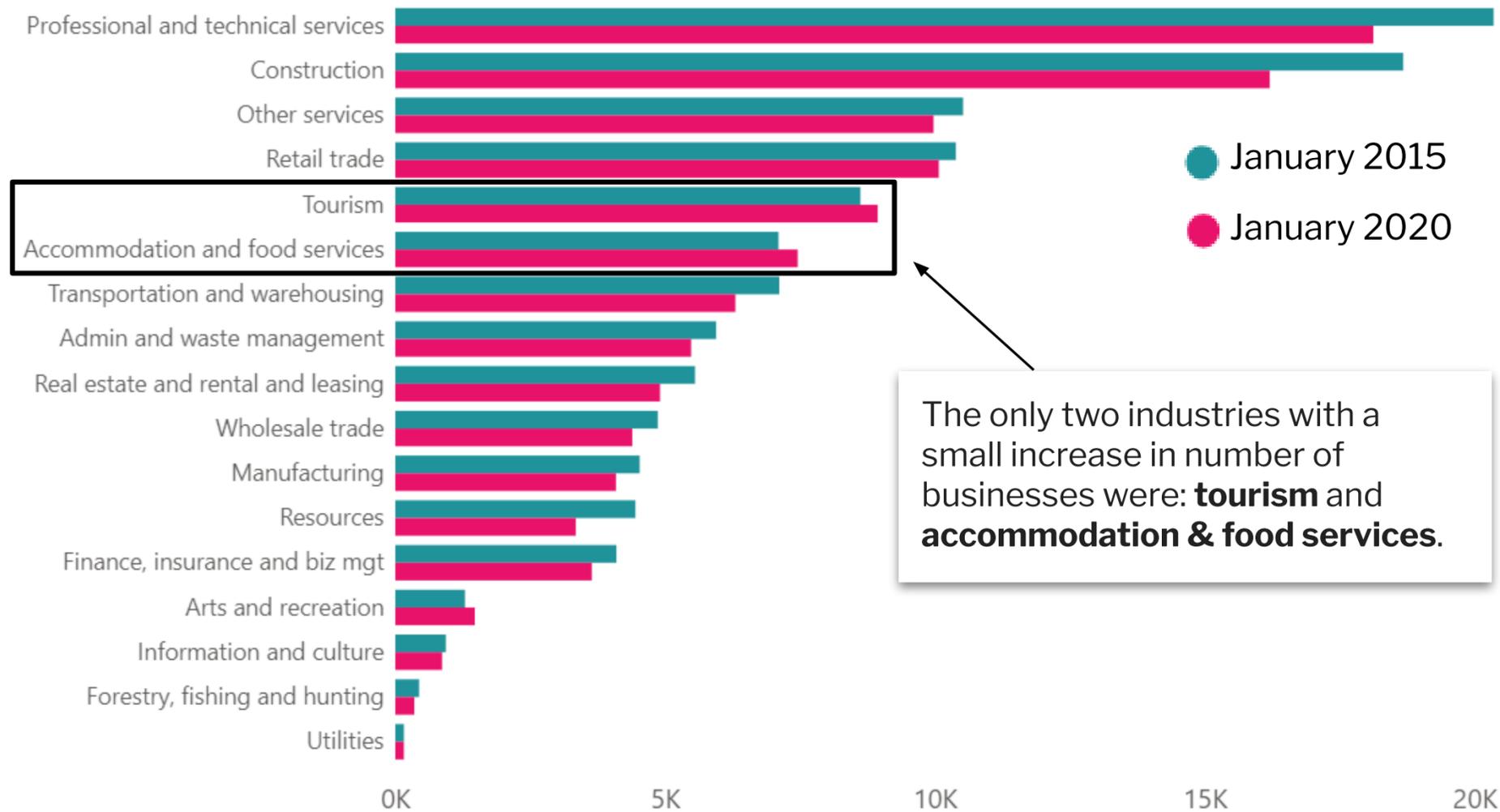
- New businesses can also help to drive economic growth.
- It is often said that Alberta is very entrepreneurial. The data somewhat corroborates this idea: startup activity has been 9% higher in Alberta, on average, over the last 5 years compared with the national average.
- Alberta also tends to see more businesses closing than the national average.
- There are a couple of possible explanations for this: it could reflect a higher tolerance to risk-taking and failure, or it could reflect a weaker economy since 2015 (data are unavailable prior to this).
- As well, this in part reflects the temporary “closing” of seasonal businesses in Alberta.



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Number of businesses by industry, Jan '15 versus Jan '20



The only two industries with a small increase in number of businesses were: **tourism** and **accommodation & food services**.

- More businesses in Alberta have closed than have opened over the last 5 years.
- Two industries, however, have seen more startups: tourism and accommodation and food services.
- The number of businesses in retail remains close to its pre-pandemic level, as of the latest data.
- However, tourism has since been hit hard by the pandemic and related travel restriction. As of the latest data (August 2021), the industry had 4% fewer businesses operating.
- That said, much has changed since, with travel restrictions easing across Canada and internationally, so it is too soon to say whether this will be temporary or more permanent.

Source: Statistics Canada, Active businesses



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Percentage of respondents expecting to start a business in the next 3 years, 2020 Survey



Source: survey of owner-managers, GEM Western Canada Report 2020

- Startup and entrepreneurial activity is a necessity for economic growth.
- The good news is that recent 2020 data from Global Entrepreneurship Monitor's Impact of COVID-19 on Entrepreneurship in Western Canada suggest there will be more entrepreneurship in Alberta over the next 3 years.
- The difference versus other provinces, however, is relatively marginal: 16.4% of owner-managers in Alberta expect to start a new business in the next 3 years compared with 15.1% nationally.



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Entrepreneurial motivations in Alberta in 2019

Respondents with a new or young business who said:	Percent	Index to CA
To build great wealth or a very high income	66	103
To continue a family tradition	38	86
To earn a living because jobs are scarce	69	111
To make a difference in the world	66	97

Source: TEA Motivations by Region, 2019 GEM APS survey results. TEA includes those starting a business and those running a young business (<42 months)

- Recent and emerging entrepreneurship in Alberta may be more driven by necessity than opportunity. Even as of 2019, more entrepreneurs reported scarce job opportunities as a motivating force (69% vs 62% nationally) behind starting a new business.
- Further, the pandemic has been especially challenging for Alberta entrepreneurs. About 43% report it is harder to start a business now versus pre-pandemic, compared to 31% nationally.
- Alberta entrepreneurs are also more likely to have experienced a strong negative impact on incomes (16% versus 11% nationally), they are more likely to know someone who has lost their business, and more likely to have lowered their growth expectations since last year.

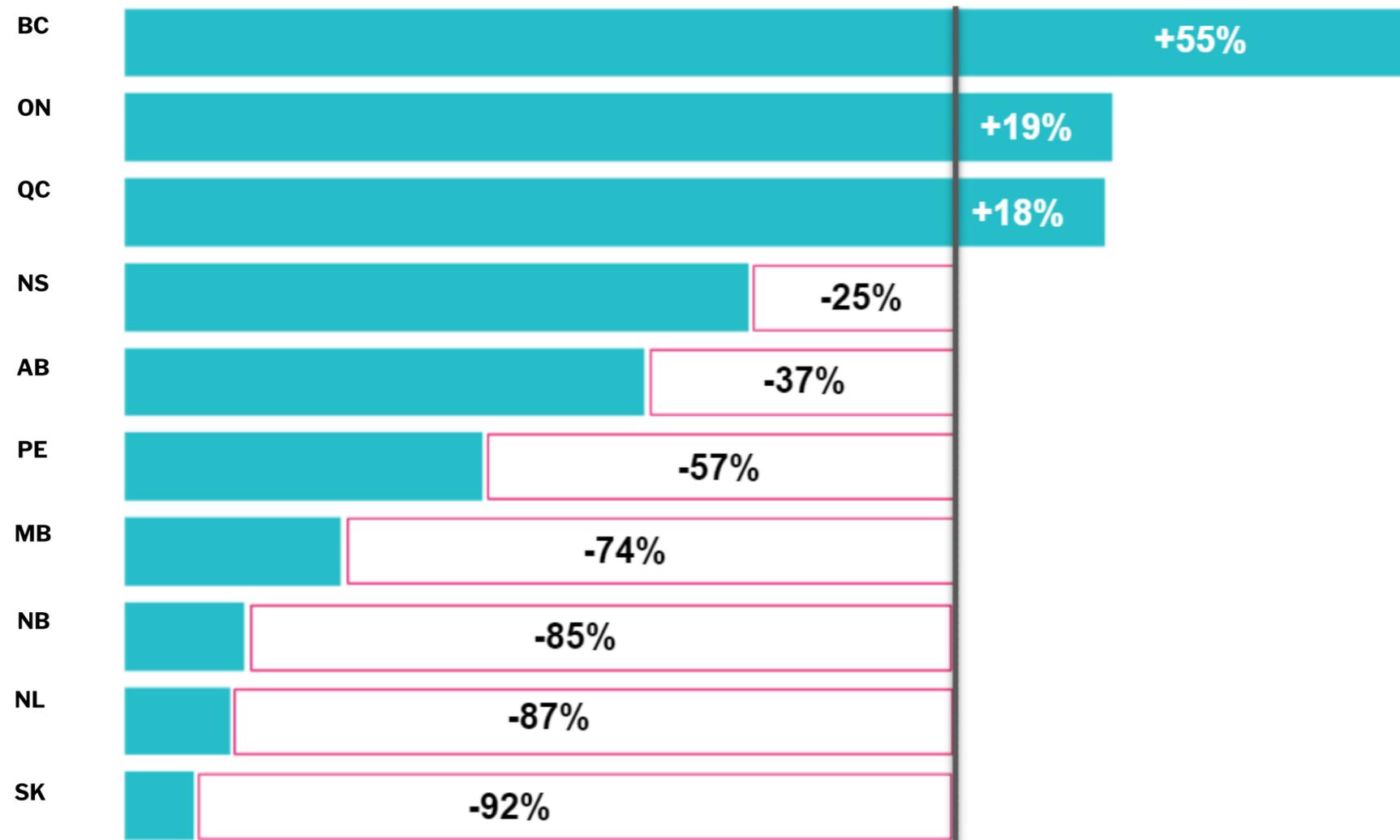


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Provincial share of venture capital dollars attracted in 2020

Indexed to share of 2020 GDP



- One good sign is 2020 was a record-setting year for venture capital (VC) attraction, doubling its 2019 record. Alberta saw 51 VC deals, representing \$455 million, an average of over \$8 million per deal.
- This was an improvement in both deal size (+53%) and number of deals (+30%) versus 2019. It also stood out across Canada as national VC declined that year.
- Even so, the province still attracts less than its fair share of VC. As of 2020, Alberta's VC funding was 37% lower than expected based on the size of its economy.
- Also of note, Calgary and Edmonton have the fewest companies "scaling" per capita (i.e. the number of firms with over \$10M of capital, relative to the population size) of any urban centres in Canada.

Source: Canadian Venture Capital Private Equity Association. Year end 2020 report

