

# Provincial Pulse

February 3, 2006

## Alberta Profile — Economic View

### Let the good times flow

The rapid expansion of the Athabaskan oil sands will keep Alberta at the top of the provincial growth ladder again in 2006. Oil and gas prices should remain close to historically high levels given strong global demand, thereby continuing to fuel Alberta's boom.

### Black gold

Alberta's conventional oil reserves may be declining, but heavy oil production has taken up the slack. The province's total output of crude is projected to triple to over 2.7 million barrels per day by 2015, catapulting Alberta from the eighth largest daily producer of oil in the world to fifth place in only 10 years. These projections are sensitive to fluctuations in energy prices, but oil would have to drop towards US\$30/bbl before production became significantly affected.

For the first eight months of 2005, Alberta's crude oil output fell by 6.6%. This drop was the result of prolonged production delays at two major producers, and not due to decreasing flow rates. Although these problems will likely pull down full-year production figures, 2006 should see materially higher output levels. Natural gas production has been slowing since 2000, but a number of significant new discoveries, along with brightening prospects for coal bed methane extraction, are indications that production may begin to stabilize and even rise.

### Developing the oil sands

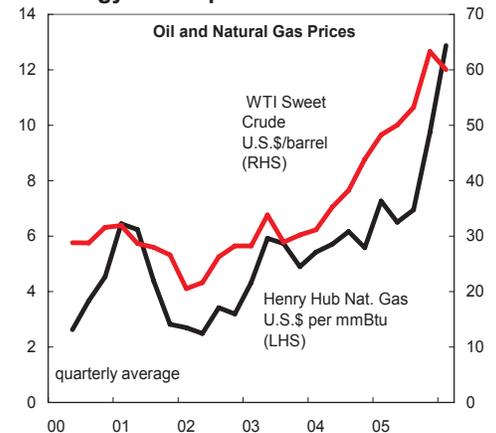
The Alberta Government's official list of major capital projects - which includes projects that are either recently completed, under construction or proposed to start within two years - lists 1,148 ventures with a combined market value of \$123 billion. Only 4% (48) of these projects are direct oil sands investments, but they account for roughly 60% of all project spending. With increased output from the oil sands, pipeline companies are racing to find new transport routes for Canadian petroleum. The government lists 29 separate pipeline projects (not including water pipelines) valued at more than \$5 billion. Work has already begun on a pipeline that will transport heavy oil from Alberta to refineries in the U.S. Midwest, and another one that will connect Fort McMurray to Edmonton. Two other Fort McMurray-to-Edmonton pipeline projects are also nearing final approval.

### Spreading the wealth

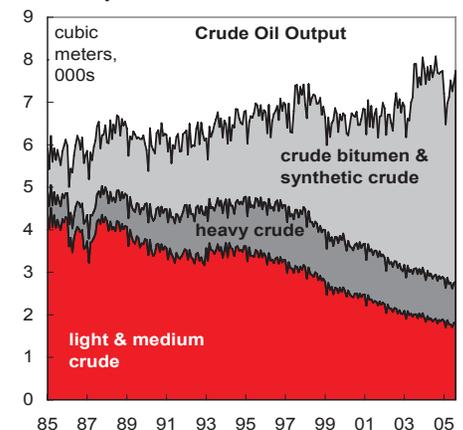
Oil and gas extraction accounted for over 13% of Alberta's economic output in 2004, but the overall economic impact of the oil patch is much wider. As energy projects continue to attract billions of dollars in domestic and international investment, the service companies, wholesalers, construction firms and manufacturers that cater to

Alberta			
Population 2004 (mn):	3.2	(+1.4% y/y)	
Nom. GDP 2004 (bn):	\$187	(15% of national)	
Economic Outlook			
y/y % change unless otherwise noted			
Alberta			
	04	05f	06f
Real GDP	4.3	4.6	4.8
Employment	2.3	1.6	2.1
Unemployment Rate (%)	4.6	3.9	3.7
Housing Starts (000s)	36	41	37
Canada			
Real GDP	2.8	2.9	2.8
Employment	1.8	1.4	1.3
Unemployment Rate (%)	7.2	6.7	6.6
Housing Starts (000s)	233	225	200

### High prices light the fire under energy development



### Conventional production falls, total production climbs



these projects also benefit. Alberta's investment in machinery & equipment has grown at an average annual rate of 11% over the last decade. Wholesale trade is up 16% in the year to November and manufacturing shipments are expanding almost three times faster than the national trend. Retail sales, which should get an added boost in early 2006 as a result of the \$400 "Alberta 2005 Resource Rebate" promised to every resident of the province, have increased 12% in 2005. Particular strength is evident in sales of big-ticket items, including motor vehicles (19% y/y) and furniture & electronics (18% y/y).

Excluding energy, exports rose 5% last year, and shipments of industrial goods remain strong, pointing to the growing ability of Alberta's industry to compete on an international scale. Prospects remain less upbeat for the forestry sector, however, which is under increasing pressure as it races to harvest timber affected by the mountain pine beetle while dealing with rising costs, softwood duties and lower product prices. We expect energy prices, and therefore overall export receipts, to moderate in 2006, but forecast continued strength in overall manufacturing shipments, as well as in wholesale trade and retail sales.

### The price of success

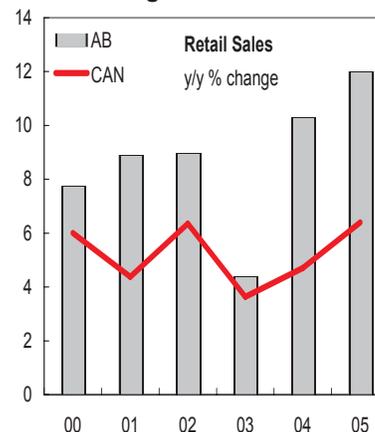
In the face of boom-like conditions, provincial inflation trends are relatively subdued, and core CPI is running in line with the national trend. Nevertheless, there are an increasing number of anecdotal reports of cost overruns in the oil patch, and price pressures are mounting in the province's labour, construction and real-estate markets. Average hourly earnings in the province rose almost 7% last year, more than double the national average of 3.2%. Alberta's labour market is tight, and getting tighter. The province's unemployment rate averaged just 3.9% in 2005, its lowest level in 24 years, and is less than 3.0% in some sectors including mining, oil & gas. Although service sector employment fell by 2.0% in 2005, employment in the goods-producing sector rose by 3%, and demand for professional, scientific and technical employees climbed by 9%.

Alberta's housing market is being propelled by strong employment and wage growth, as well as favourable demographics. Average resale values rose an estimated 12% in 2005, and new home prices increased 6% in both Edmonton and Calgary. Housing resales are up 15%, but listings are almost flat as supply continues to tighten. The residential real estate market is hot, but the non-residential market is even hotter. Non-residential building permits are up over 70% in the past 12 months, with a number of major office tower projects either under construction or in the planning stages. Alberta's population is growing faster than any province in the country (1.6% y/y), having gained more than 40,000 new net residents during the first three quarters of 2005. International immigrants still prefer to settle in Ontario and Quebec, but since 1997 Alberta has been the destination of choice for migrating Canadians.

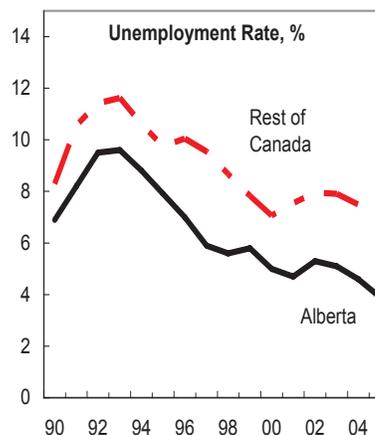
### Tough times on the farm

Through the first three quarters of 2005, Alberta's farm cash receipts fell by 2.4% y/y. Crop receipts were down, but livestock receipts rose 8.0%, mainly due to the cattle industry's continuing recovery from 2003's BSE scare. The U.S. overturned its ban on young live cattle this past July, and is expected to reverse its import ban on older live cattle by mid-2006, though uncertainties remain. At the same time, the province has boosted its domestic meat processing capacity, making it less sensitive to potential future cattle bans.

It's stronger in Alberta



Labour shortages are evident



Where's the beef?

