

Alberta Economic Outlook Q2 2014

Prepared by ATB Financial Economics and Research Group
April 9, 2014

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Contrasting with the sluggishness of the national economy, Alberta has been showing signs of modest acceleration in early 2014.

The most current projection by the ATB Financial Economics and Research group is a slight upward revision from the last Economic Outlook. The expectation for final real GDP growth in 2013 is 3.4, and the forecast for 2014 is 3.8 per cent.

KEY RESULTS:

- Alberta to lead provinces with real GDP expansion of 3.8% this year
- Labour market remaining balanced with 4.6% unemployment
- Stable oil prices & recovering natural gas prices will support energy sector
- Strong in-migration will lift retail & housing sectors
- Non-residential construction & agriculture strong contributors

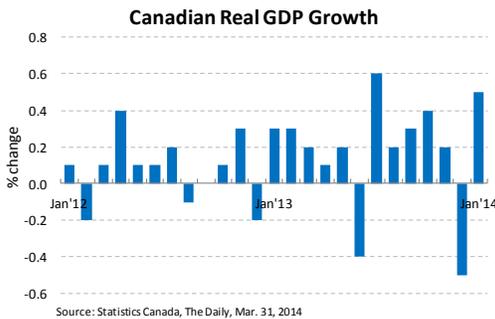
	Year			
	2012	2013	2014	2015
Real GDP	3.4	3.3	3.8	3.3
Consumer Price Index (CPI) (2002 = 100)	1.3	1.3	1.3	1.8
Unemployment Rate	4.6	4.6	4.7	4.9
Employment (% chg.)	2.7	2.8	2.6	2.1
Population (millions)	3.873	4.013	4.123	4.218

Global Overview

Building on the strength and market calm of the fourth quarter of 2013, the global economy continued to stabilize and show better economic results over the first three months of this year. Still, new tensions and worries have started to emerge which could cloud forecasts for the rest of 2014.

Tensions between Russia and Ukraine dominated the geopolitical headlines following the Sochi Winter Olympics, and the Russian annexation of Crimea has led to some troubling uncertainties. Sanctions against Russia by Europe and other G7 countries could intensify, and if trade sanctions are imposed there could be more serious economic ramifications for the EU. Forecasts for Russia's economy, in the meantime, have been reduced sharply and much investment has either halted or been pulled out.

The United States continues to lead with positive economic news, and growth for the final quarter of 2013 was revised upward to 2.6 per cent (annualized). Federal Reserve Chair Janet Yellen raised the prospect of interest rates rising in that country sooner than previously expected. However, her most recent statements at the end of March showed more restraint. She said there is "considerable slack" in the labor market and that the central bank's unprecedented accommodation will still be needed for "some time" to combat unemployment.

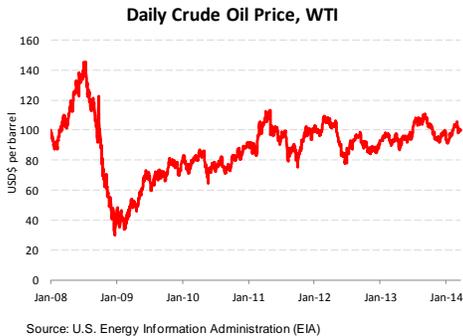


Canada's economy continued to struggle in Q1, held back by persistent weakness in exports, business investment and the labour market. A sharp 0.5 per cent contraction in December dragged down fourth quarter growth, although that was corrected by an unexpected gain of 0.5 per cent in January.

The Bank of Canada continues with a "neutral" position on interest rates, having dropped all mention of rising interest rates back in October of last year. Concern remains focussed on inflation being well below the 2 per cent target. It is unlikely that the Bank of Canada will be in a position to start raising rates until mid- to late-2015.

Alberta: Sector Overviews

Oil and Gas



North American crude oil prices (West Texas Intermediate) have been relatively stable over the last few months, fluctuating between \$US 90-105 per barrel in the first quarter. Prices above the \$100-mark in recent weeks have been the result of the tensions in Crimea and the prospect of disruptions to Russia's massive global oil supply.

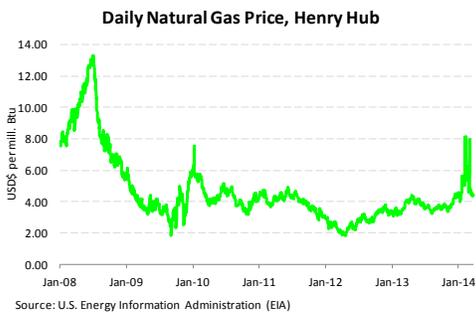
The differential between the U.S. dollar benchmark WTI and the Western Canadian Select Blend (WCSB) price has continued to rise and fall over the first quarter, with a high of \$C 28 discount in early March but falling to \$C 20 by early April.

Looking into Q2, both WTI prices and the differential are likely to continue with some volatility, but are unlikely to fall to worrying levels that would impair or alter investment decisions in the short run. Prices should remain at levels acceptable to producers.

After peaking briefly above \$US 6.00 mmBtu in February, Henry Hub natural gas prices have settled back to the mid-\$4.00 range. Most of the recent spikes and relative highs in gas prices have been due to weather-related drawdowns of inventory in the U.S. mid-west. But even if prices do trend lower in the coming spring months, overall natural gas prices are likely to remain above the extremely low levels of the last few years. That should provide a bit of welcomed relief to Alberta producers.

Overall, Alberta's energy sector remains in good shape. Oilsands development have not slowed in any material way, and activity in the Fort McMurray region continues to drive much of the provinces overall industrial investment.

Energy transportation will again be a central issue facing producers in 2014. Decisions from the White House on the fate of Keystone XL have again been delayed, and at this point industry observers are suggesting that the final verdict may not come until late this year. That will keep a level of uncertainty lingering over the industry; still, there is a growing level of confidence that enough pipeline capacity will eventually receive approval.



Agriculture

Last year was a record for farm cash receipts for Alberta grain and oilseed farmers. Helped out by an exceptionally good growing season, bumper crops throughout most of the province have lifted agriculture to a leading sector in 2013.

Grain and oilseed prices have eased back from their extreme highs, but have remained relatively good. Cattle prices have shown strong levels lately, although beef and cattle exporters are still contending with the “country of origin labeling” (COOL) legislation in the United States.

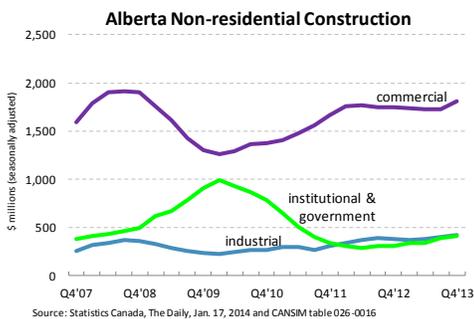
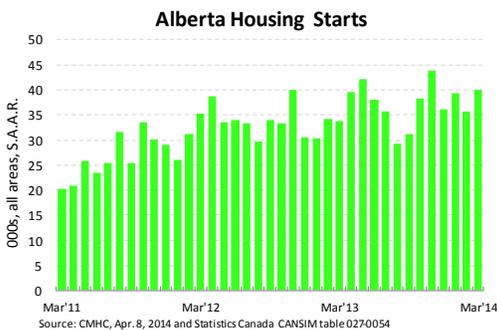
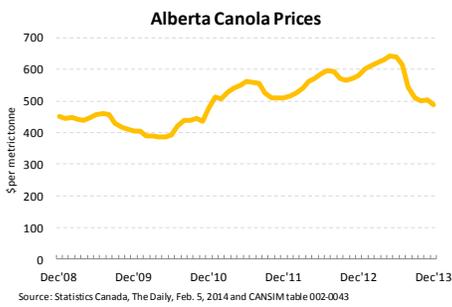
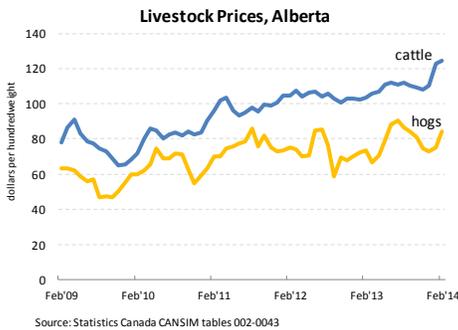
A significant issue for crop farmers this year has been the inability for the railways to place hopper cars at grain elevators across the prairies. This has resulted in the elevator system being overstocked with grain and unable to accept deliveries from farmers. That has meant farmers are not getting paid.

Reasons for the backlog in grain handling have included the volume of the 2013-14 bumper crop, some weather-related issues for the railways, and disruptions at the ports (which have delayed some of the handling and unloading of cars). Farmers have pressed the federal government, which gave directives for the railways to increase the number of grain cars to elevators. These actions will likely help ease the congestion, but it is likely farmers will still face frustrations in the coming months.

Construction and Real Estate

After reaching a high mark in November of last year, new residential construction pulled back a bit over the winter. But in spite of this, overall housing starts have still averaged 37,500 (annualized rate) over the last twelve months, an increase of 11 per cent over the previous twelve-month period. In March, total starts were 39,926 (seasonally adjusted at annualized rates).

Housing construction in Alberta remains a key driver of the provincial economy, not only because of the direct spending and employment created, but also because of the strong indirect induced spending (eg., furniture, flooring, etc). Steady immigration from other parts of Canada and internationally has added to demand for housing. As well, the still-favourable mortgage lending rates have supported new purchases.



Spending on non-residential construction was up marginally in the fourth quarter of 2013 at \$2.63 billion. That was led by an increase in commercial project, many of them office complexes in downtown Calgary.

Looking into the second quarter of 2014, conditions appear to remain favourable. Building permits—both for residential and non-residential—did see a sizable decrease in February of this year. However, despite that drop overall permits over the last twelve months are still higher than the preceding twelve months, especially for residential.

Commercial construction activity, however, may ease up a bit in Calgary as downtown office vacancy has edged up to around 9 per cent.

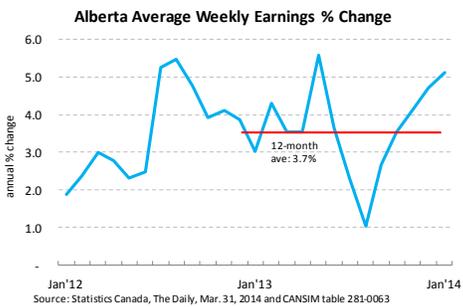
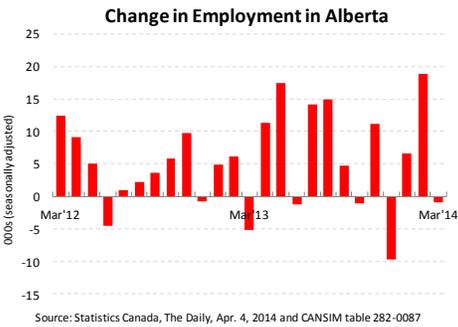
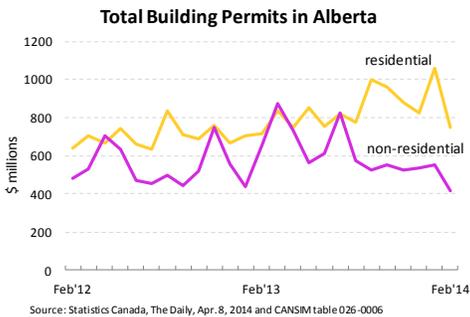
Labour Market

Alberta’s job market continues to impress with substantial gains in total employment in four of the most recent five months. In February 2014, the province added an astounding 18,800 jobs (seasonally adjusted), although that was corrected by virtually no growth in March.

Over the last twelve months, total employment is up by 86,600—an increase of 4.0 per cent. That compares with a national job growth rate of only 1.1 per cent.

The unemployment rate in March stood at 4.9 per cent, close to the middle point of a ‘balanced job market.’ The ATB Financial forecast is for the unemployment rate to average 4.6 per cent this year.

At \$1,134 average weekly earnings in January, the province remains far above the national average of \$975 (seasonally adjusted figures). Over the past twelve months, annual earnings have advanced on average by 5.1 percent—far outpacing inflation.





Retail, Wholesale and Manufacturing

With the exception of a pull-back in December, the overall trend in retail activity has been one of consistent strength. Strong consumer optimism and confidence about present and future income has led Alberta shoppers to spend liberally. Retail activity reached another record high in January of this year, topping out just above \$6.42 billion (seasonally adjusted rates). Over the last twelve months, total sales are higher by 7.1 per cent over the previous twelve-month period.

Wholesale activity in the province has been stable over the last several months, although January 2014 did see an increase over the previous two months (seasonally adjusted). Over the last twelve months, wholesale trade is up a modest 2.3 per cent over the previous twelve-month period.

Manufacturing shipments from the province have struggled since late 2011 when they were setting some record highs. In January 2014, the value of shipments was \$6.52 billion, up from September but only modestly improved over levels of the past two years.

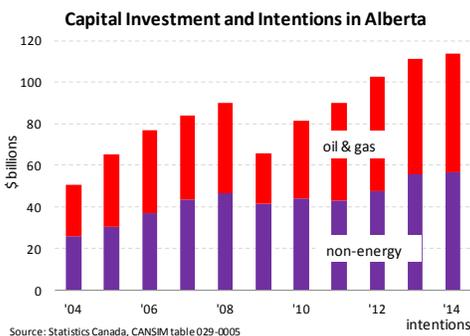
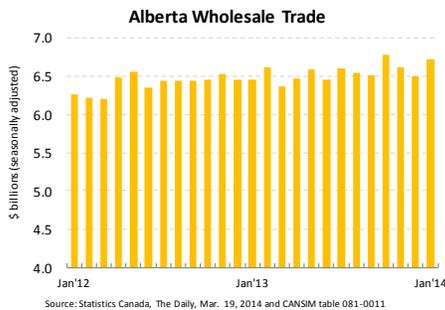
The relative flatness of manufacturing can be attributed largely to downtime at refineries for maintenance. That may be corrected in 2014 as more capacity comes on line.

Other manufacturing related to energy sector investment also saw a slight pull back through mid-2013. Anecdotal information collected suggests that metal fabricators, sheet metal producers and steel pipe manufacturers in Alberta are facing some hesitancy on the part of buyers (eg. energy producers) until there is greater certainty as to whether major pipeline projects will proceed.

Investment and Intentions

Capital and repair investment exceeded \$100 billion in Alberta in both 2012 and 2013, and according to the latest survey of investment intentions, 2014 is expected to see a new all-time record of \$114 billion.

About half of Alberta's capital and repair investment intentions this year (\$57.4 billion) is in the energy sector, on par with total investment in 2013.



Interprovincial In-Migration

Alberta is once again experiencing a strong period of interprovincial in-migration. In the fourth quarter of 2013, there was a pull-back to just over 5,600 net new migrants, but for the entire year total net migrants from other provinces was 43,161—close to the record year of 2006 and on par with last year.

This high level of interprovincial in-migration is being accompanied by very strong international in-migration as well. Every year Alberta's net international migration position increases. In recent years immigration has gone from the 20,000-25,000 range a few years ago to over 35,000 today. These factors have been a driving force for residential real estate market and retail sales in the province.

Business Optimism

“Alberta leads the country in small business optimism once again—the first time since June 2013. The index now stands at 72.7. Short-term hiring plans remain very strong, with 34 per cent of respondents planning to add to their full-time staff and only 5 per cent expecting to cut back.

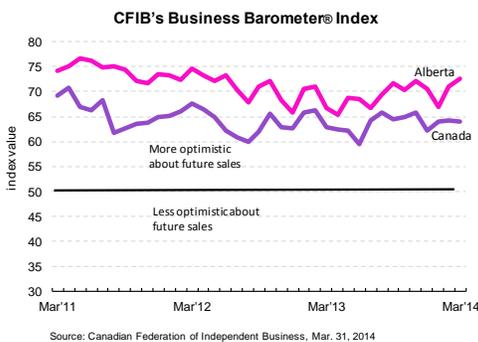
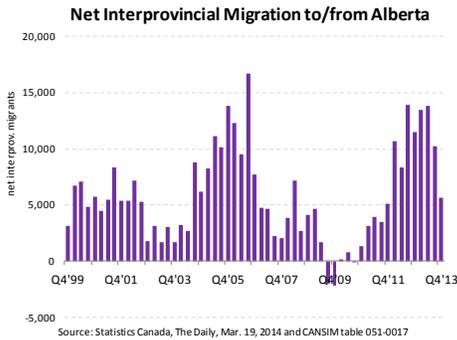
Similarly, 52 per cent of owners report that their state of business is 'good', while only 7 per cent say it is 'bad'—still one of the most positive results in the country.” (CFIB)

Summary

Alberta's economy is once again enjoying a solid year and continues to outperform the rest of Canada.

Despite the ever-present volatility in price and discounts, the energy sector will continue to see acceptable price ranges for crude oil, and improving prices for natural gas. Investments in both conventional and non-conventional energy plays are expected to remain stable and relatively strong.

The influx of new Albertans is having important impacts on the economy, from the labour market to retail sales and the housing market.



Agriculture remains a leading sector in 2014, however the difficulties of accessing railcars early this year has caused some disruptions to farmers' cash flow. Assuming these backlogs are addressed and an average crop growing season, agriculture should continue to be a strong contributor to growth in 2014.

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