Alberta Economic Update

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UofA School of Business –
Panel on Alberta’s Energy Economy
October 7, 2015
Lower oil prices hit the economy

Real GDP growth

Source: Statistics Canada and Alberta Treasury Board and Finance (August First Quarter Update)
### 2009 vs. 2015

<table>
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<th>Conditions</th>
<th>2009</th>
<th>2015</th>
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<td>Oil markets</td>
<td>Poor</td>
<td>Poor</td>
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<tr>
<td>Alberta energy sector</td>
<td>Poor</td>
<td>Moderate</td>
</tr>
<tr>
<td>Global economy</td>
<td>Poor</td>
<td>Good</td>
</tr>
<tr>
<td>US Economy</td>
<td>Poor</td>
<td>Good</td>
</tr>
<tr>
<td>Alberta non-energy sectors</td>
<td>Poor</td>
<td>Good</td>
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</tbody>
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**Other differences:**
- The drop in gas contributed significantly to the 2009 downturn.
- Stock market collapse in 2008/09 had a massive wealth effect.
- Very poor financing conditions in 2009.
- Housing was already correcting heading into 2009.
- Far less capital was sunk in the oil sands in 2009.
Labour market lags oil prices

Monthly Alberta employment growth and WTI price

Source: Statistics Canada and Energy Information Administration
Why has employment been so resilient?

Alberta employment growth, December 2014 to August 2015

Source: Statistics Canada, Labour Force Survey
Large “shadow population” in Alberta

Interprovincial employees (IPEs) by province or territory of origin and total in-migrants

Source: Statistics Canada and Alberta Treasury Board and Finance
Some of the labour market adjustment likely from “Fly-in/Fly-out” workers

Change in employment, December 2014 to July 2015

(Thousands)

Atlantic Canada

Survey of Employment, Payroll and Hours

Labour Force Survey

Alberta

Source: Statistics Canada
Housing playing catch-up

Monthly completed & unabsorbed housing

Source: Canada Mortgage and Housing Corporation
Edmonton’s resale market has held up relatively well

Alberta existing home sales indexed to October 2014

Source: Canadian Real Estate Association
People keep moving to Alberta

Net population movement for Alberta (April 1 to June 30, 2015)

Source: Statistics Canada
Alberta’s wage gap widens

Average Weekly Earnings, Gap between Alberta and other Provinces

Source: Statistics Canada and Alberta Treasury Board and Finance
*Weighted based on employment shares
ECONOMIC OUTLOOK

The Alberta economy is being hit by low oil prices. Real GDP is now expected to decrease by 0.9% in 2015, down one percentage point from the March forecast. The revision stems from weaker-than-expected household consumption, investment and exports (Figure 1). The downturn is forecast to be more pronounced than previously expected, with weakness carrying into 2016. Lower oil in 2016 is now forecast to be 1.3%, down 0.4 percentage points from the previous forecast.

External conditions have weakened since March with another flare-up in the Greek crisis and the severe stock market crash and currency devaluation in China. This has weighed on oil prices and heightened uncertainty about the outlook for the Alberta economy. Canada's economy has also slowed substantially since the oil price drop.

Business Sector

Oil prices remain depressed

After modestly around US$60/bbl for most of the second quarter of 2015, WTI has once again weakened below US$50/bbl. The forecast for WTI remains near the March forecast for this fiscal year. The tight-heavy oil price differential has narrowed this year, as strong demand for heavy oil, increased supply shortages and increased market access have supported higher oil prices. While the differential has widened again recently due to refinery disruptions, these effects are expected to be temporary. The 2015-16 WTI-SCS differential forecast has been adjusted down to US$15/bbl.

The outlook for natural gas prices has moderated, with the Alberta Reference Price expected to average $2.46/Mcf since 2015-16.

Oil investment down sharply

The sharp decline in oil prices has substantially reduced capital spending in the energy sector. Oil and gas investment is expected to fall over 10% in 2015, with weakness carrying into 2016. Conventional investment has been hit especially hard. Rig activity has declined about 50% through the first seven months of 2015. As a result, the 2015 forecast for conventional investment has been revised lower. Oil sands investment is expected to fall by less than conventional, as projects started prior to the price drop continue to move ahead. Outside the energy sector, non-residential construction activity has held up, supported by institutional and government building. Overall, non-residential investment is forecast to fall 18% in 2015, about 2 percentage points lower than expected in March.

Corporate profits decline

Lower oil prices are weighing on production and exports. Although operating costs are important drivers, Alberta's economy, the forecast for oil production has been revised lower since March. This mainly reflects reduced expectations in oil sands production and the significant slowdown in conventional drilling. In addition, weakness in the oil and gas sector has spread to other sectors of the economy. Alberta machinery manufacturing has fallen 20% since January. This can be mainly traced to declining industrial machinery and equipment manufacturing, which primarily serves the oil industry. Agricultural exports are also expected to fall in 2015 as drought conditions have adversely affected farm production. Overall, real exports are expected to grow 2.9% in 2015, down 1.3 percentage points from March. The 2016 forecast is largely unchanged at 3.4%.

ECONOMIC OUTLOOK

ANNEX

Figure 1. Contribution to Alberta real GDP growth forecast

Real GDP Household spending Residential investment Non-residential investment Government Exports Imports

Source: Alberta Treasury Board and Finance
Our Weekly and Monthly Economics Publications

http://www.finance.alberta.ca/aboutalberta/economic_outlook.html

Weekly Economic Review

Labour Market

Employment edges down

Job creation in Alberta has paused over the past two months, with employment edging slightly lower in April (2,903) following exceptionally strong growth in the second half of 2013 and early 2014. Alberta has accounted for nearly half of all the jobs created in Canada over the last year, while leading all provinces with a 3.3% increase in employment.

The unemployment rate indicates strong but balanced conditions in Alberta’s overall labour market. The unemployment rate last month dipped to 4.7%, as the labour force decline was larger than the minor job loss. Alberta’s unemployment rate has stayed in the 4.2% to 5.1% range in every month since April 2012, with cloudy inflows of immigrants helping to fill job vacancies. Alberta has the second lowest unemployment rate after Saskatchewan’s 3.4%.

The Canadian labour market continues to improve as 25,000 jobs were added last month, earning most of March’s gains. Year-over-year employment growth fell to 0.9%. Since August, Canada has added just 34,000 jobs.

International Goods Exports

Higher oil and energy exports

The value of Alberta’s international merchandise exports grew 18.6% y/y in March to $11.3 billion, driven by continued solid growth in energy products. Total energy exports grew 24.5% y/y to $8.4 billion, while the national export price of natural gas, as well as a 10.9% increase in the national export price of natural gas, as well as a 10.9% increase in

Alberta Economy

Indicators at a Glance

Weekend Economic Review

Labour Market

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infocus

The emergence of crude by rail

Given the strong outlook for crude production, pipeline bottlenecks remain a concern forAlberta’s oil producers. Rail has emerged as a quickly scalable, though more expensive, alternative to get Alberta crude to market. This infocus explores the growing significance of crude by rail, the evolution of these rail movements, and what investment and construction plans indicate about the future.

Pipeline constraints encourage investment in rail

In recent years, Alberta crude has traded at deep price discounts relative to North American and global oil price benchmarks. This reflects constraints to pipeline capacity in the face of rising North American production, resulting in oversupply in Alberta’s main market, the US Midwest (PADD 3), as well as increased price volatility from pipeline outages. New and expanded pipelines have helped clear inventories at Cushing, Oklahoma, but bottlenecks still exist in Alberta. Large price discounts have encouraged investment in rail capacity, since rail allows producers to access higher prices in alternative markets. As a result, crude-by-rail volumes have more than tripled over the last two years (Chart 1). This has helped to reduce the crude bottleneck in Alberta and support prices for Canadian crude.

Expanding the transport network

Statistics Canada reports that investment in support activities for transportation, which includes construction of new rail loading facilities, has expanded 73.6% since 2010, from $1.6 billion nationally to nearly $2.5 billion expected in 2014. Much of this comes from the construction of an estimated six new crude-by-rail loading facilities in Alberta. In addition, most of the operating terminals in Alberta will be undergoing expansions over the next two years, according to the Canadian Association of Petroleum Producers (CAPP). This will alleviate Western Canada’s rail transportation capacity from 300,000 bbls per day in 2013 to 1.5 million by the end of 2015. CAPP anticipates capacity utilization of these facilities will reach about 65% by the end of 2015.

Flexible mobility, but a higher cost

Crude-by-rail provides access to alternative markets because, unlike pipelines, rail has flexible delivery alternatives. This has enabled Alberta producers to ship away from
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