

Alberta Economic Outlook Q1 2014

Prepared by ATB Financial Economics and Research Group
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Global Overview

The fourth quarter of 2013 brought increased confidence to global financial markets as situations in Europe and the United States continued to show modest yet important improvements.

European GDP growth picked up moderately, particularly in the United Kingdom. While there is still concern about the long term solvency of some banks and governments in the Mediterranean region—including an expectation that Greece will require another cash injection from the EU—there is now less fear of a fission of the political union than there was a year earlier.

In the United States, Congress surprised markets by coming to an early compromise solution on the federal budget. This was notable because it relieves the nervousness about another debt ceiling deadline and potential closure of the government, which loomed in early 2014. Also, the Fed announced a very gradual start to its monetary tapering—and rather than spooking markets, it caused a rally in both markets and confidence.

Canada's economy posted weak growth in the second quarter of 2013, although growth appears to have picked up in the third and fourth quarters. Lagging exports are still a concern, and the job market in central Canada has been stagnant. However, a much softer Canadian dollar and a sense that interest rates will remain low for a longer period of time should inject a bit of life into the national economy in 2014.

The Bank of Canada, in its two most recent Fixed Announcement Date press releases, has dropped its previously consistent “upward bias” on rates. With its new neutral position, the Bank of Canada is signaling that interest rates are unlikely to be rising any time in the foreseeable future.

Alberta Overview:

Alberta's economy has been generally stable throughout 2013, despite persistently weak natural gas prices and some volatility in oil prices.

The most current projection by the ATB Financial Economics and Research group is unchanged from the last Economic Outlook; the forecast is for real GDP growth of 2.9 per cent in 2013, and 3.5 per cent in 2014.

Oil and Gas

North American crude oil prices (West Texas Intermediate) have fluctuated between \$US 90-100 per barrel in the fourth quarter, rising and falling on various news reports from the Middle East—which have tended to push prices higher—and news reports about weaker growth in China—which have tended to push prices lower.

Looking into the first quarter of 2014, more volatility is expected. The first few days of the year started with a run on oil prices, sliding down from close to \$US 100 to just above \$94 dollars. A lower-than-expected drawdown of oil inventory in the U.S. was largely responsible.

Natural gas prices had peaked above \$4.30 mmBtu in late December due to extreme cold weather in the U.S. mid-west and a significant drawdown in gas inventory. However, weather related factors are temporary, and with the availability of shale gas still quickly able to add supply, North American gas prices are not expected to stay above \$4.00 for long.

Despite the oil price fluctuations and disappointing gas prices, Alberta's energy sector remains in reasonably 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.

Without question, the most significant issue in early 2014 will be the expected announcement from The White House on the Keystone XL pipeline. While it is still too difficult to know with certainty the outcome, a third rail explosion and fire in North Dakota (following similar accidents in Alabama and Quebec) will weigh on the decision makers.

Agriculture

Bumper crops were reported in much of the province, and overall a new record for cash receipts was set in 2013. This year should see another solid year for cash receipts, even if prices and/or growing conditions are somewhat lower.

Livestock prices for cattle have generally stabilized and remained at fairly good levels through the summer and fall of 2013. Hog prices, however, have been somewhat more volatile. Alberta livestock farmers continue to struggle with country of origin labelling (COOL) legislation in the U.S., which has acted to restrict exports of live animals and processed meat.

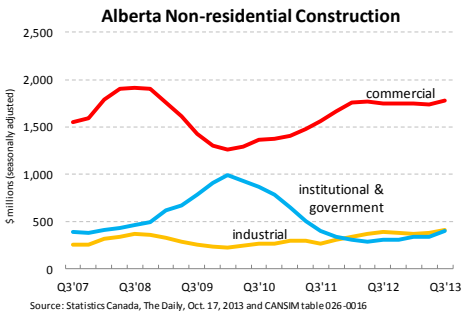
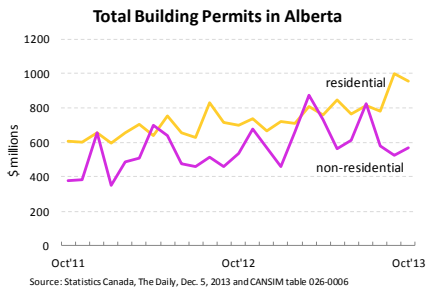
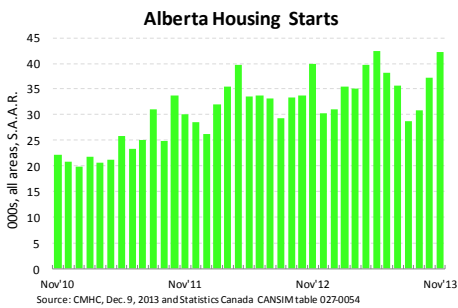
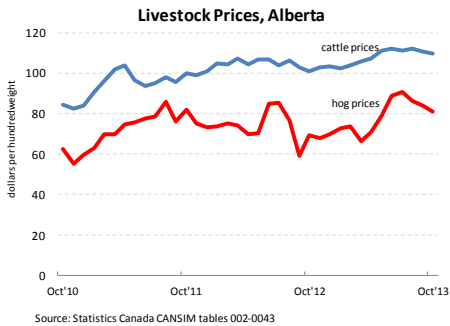
Construction and Real Estate

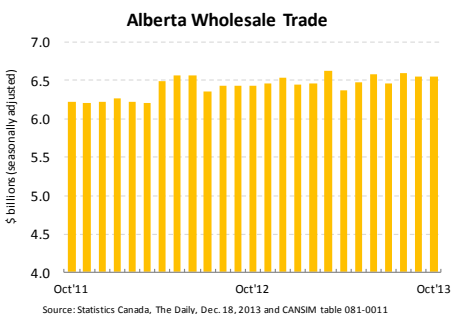
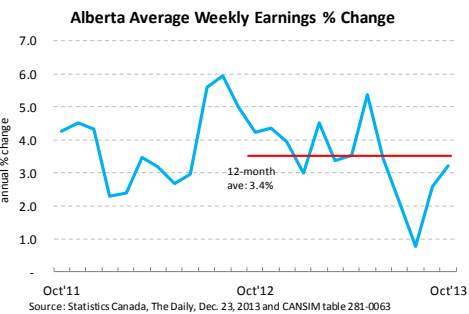
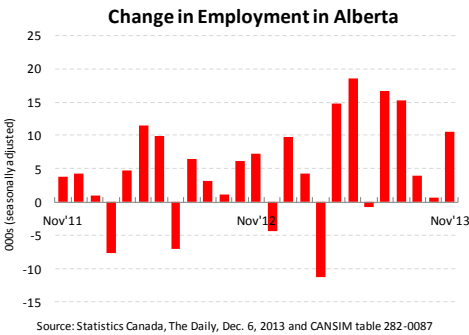
New residential construction pulled back sharply between May and August, falling to just under 27,000 (annualized rate) in the most recent month. However, by November housing starts came roaring back, hitting over 42,000 (seasonally adjusted at annualized rate) in that month.

Despite the early summertime dip, housing construction in Alberta remains a key driver of the provincial economy. Steady in-migration 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 third quarter of 2013 at \$2.58 billion; non-residential construction has been relatively stable for over a year, despite the predictable monthly ups-and-downs.

Looking into the first quarter of 2014, conditions appear to be favourable. Overall building permits—both for residential and non-residential—are higher than a year ago, especially for residential. Commercial construction, 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. As of November, total employment is up by 3.6 per cent over November of 2012. And over the last two years, the province has added on average 5,000 new net jobs per month.

The unemployment rate in November was a very balanced 4.7 per cent.

Average weekly earnings in the province remain stable, with a year-over-year gain of 3.2 per cent in October. Over the past twelve months, annual earnings have advanced on average by 3.4 percent—still well outpacing inflation.

Retail, Wholesale and Manufacturing

Retail activity reached another record high in October of 2013, topping out just above \$6.2 billion (seasonally adjusted rates). There was a very slight moderation in spending in June and July, but overall retail sales remain extremely strong.

Wholesale activity in the province has been unchanged through most of the past twelve months up to October 2013, a month which saw sales of just slightly above \$6.5 billion (seasonally adjusted).

Manufacturing shipments from the province have struggled since late 2011 when they were setting some record highs. In October 2013, the value of shipments was \$6.44 billion, up slightly from September but mostly on par with 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



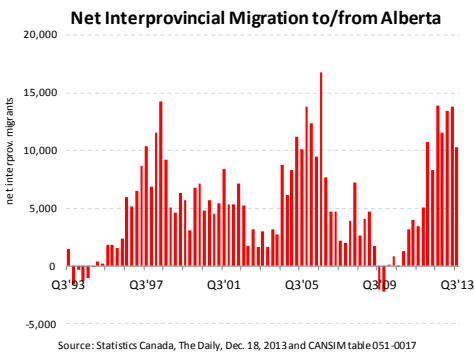
is greater certainty as to whether major pipeline projects will proceed.

Interprovincial In-Migration

Alberta is once again experiencing some of the strongest rates of interprovincial in-migration in years. In the third quarter of 2013, there was a net gain of 10,269 persons.

If the fourth quarter of 2013 sees a net gain of at least 8,800 (and the quarterly average over the last two years has been 10,900 per quarter), then 2013 will be the new record-setting year for interprovincial in-migration to Alberta, surpassing 2006 which saw a net gain of 46,239.

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.

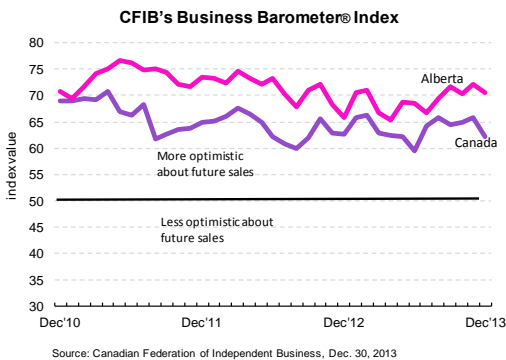


Summary

Alberta's economy is once again enjoying a solid year and (along with Saskatchewan) continues to outperform the rest of Canada. The energy sector appears to be dealing with oil price volatility, and a major slowdown in investment spending has yet to be observed – although industry players are no doubt cautious.

Increasingly Canadians, along with immigrants, are taking advantage of the better relative economic opportunities that Alberta provides. The influx of new Albertans is having important impacts on the economy, from the labour market to retail sales and the housing market.

Crop farmers in Alberta have enjoyed very favorable conditions over the past couple years – largely thanks to strong canola prices. Prices this year are decidedly weaker, but this should be offset by high crop volumes.



The world's two largest economies, the United States and the European Union, are improving, even if there remain large political risks on both continents. This will continue to support the broader macroeconomic environment, as well as help lift exports from the province.

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