

WEEKLY ECONOMIC BULLETIN

ATB Financial[®]

Senior Economist Todd Hirsch
Economist Dan Sumner

October 9, 2009

- **Canada and Alberta add jobs**
- **Trade balance falls**
- **Service sector sentiment rises in US**
- **Credit conditions tighter in the third quarter**

Employment Up!

The first full week of October has been stellar for Canadian equity markets, commodities, and the Canadian dollar. And topping off the week comes a very upbeat labour market report.

In September, Alberta's economy added 3,000 new jobs, marking the first time since the spring of this year the balance was positive. Canada added nearly 31,000 jobs, more than three times the consensus forecast of 10,000 jobs.

Alberta's unemployment rate fell from 7.4% to 7.1%, the first drop since last October (see graph). The national rate fell from 8.7% to 8.4%.

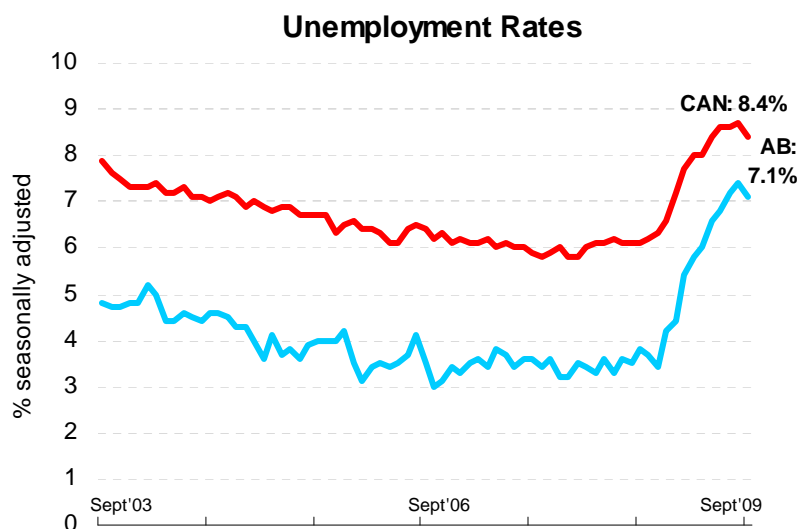
One of the most remarkable developments in Alberta's employment market is the shift towards full-time employment. In September, there was a jump of 14,700 full-time jobs, which was mostly offset by a loss of 11,700 part-time jobs. That swing reverses a trend

in Alberta which had seen employment moving towards the *part-time* category. It's decidedly good news for workers who may prefer to be working full-time, but have only been able to find part-time positions.

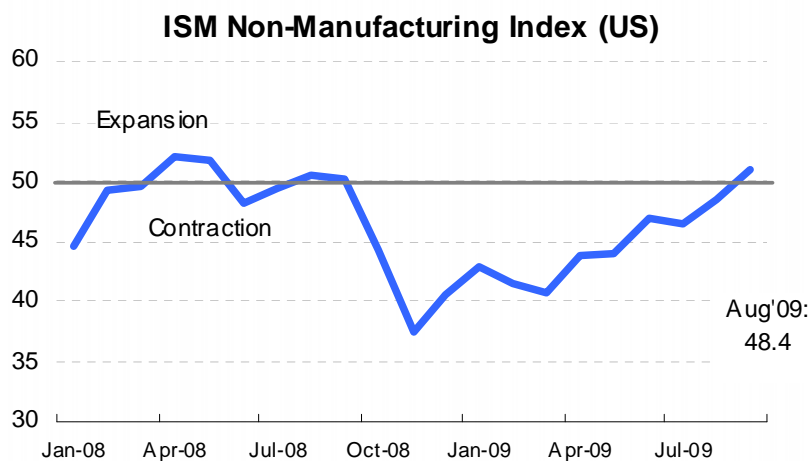
The Canadian dollar reacted to the good jobs report, jumping by over ½ a cent within the first few minutes of trading. The loonie is now trading in the range of \$US 0.955.

The addition of jobs for both Canada and Alberta is very encouraging, yet it is only one month of data – too soon to call it a trend.

Employment data are lagging indicators, meaning that they tend to react to an improvement in the economy with a lag of 4-6 months. But with the national economy posting some growth in June, the positive employment numbers in September seem to be kicking in right on time.



Source: Statistics Canada, The Daily, October 9, 2009



Source: Institute for Supply Management, Oct. 3, 2009

US Service Sector Shows Tepid Signs of Life

The US service sector expanded for the first time since the recession hit in the third quarter of 2008, according to the Institute for Supply Management's Non-Manufacturing Report on Business. The bellwether index for the service sector advanced to 50.9 in September, up 2.5 points from August. It was also well ahead of a consensus of economists' expectations. (An index of 50 is mid-point between contraction and expansion). Despite the fact that service based industries are typically less affected by economic fluctuations than their industrial counterparts, the recovery in the US service sector has lagged behind that in manufacturing largely as a result of weakness in US household spending. This week's report may finally signal that some of that weakness is waning.

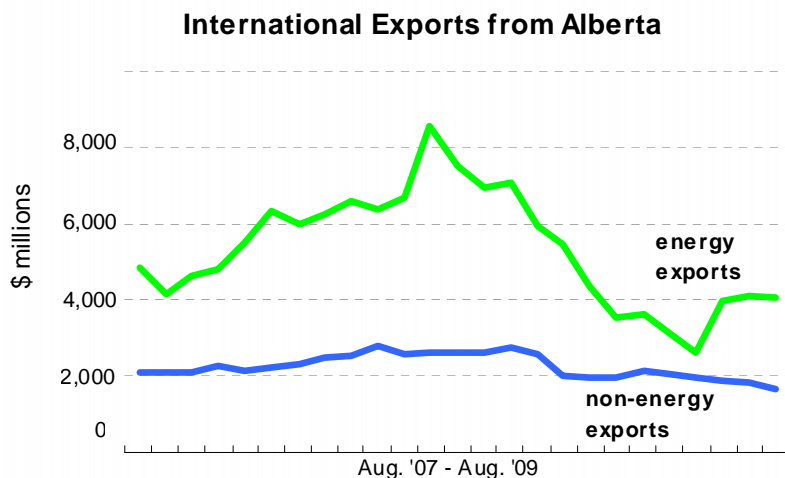
Canadian Businesses Perk Up

According to a survey of small- and medium-sized enterprises by the Canadian Federation of Independent Businesses (CFIB), companies are feeling more optimistic about their future sales prospects. The CFIB Business Barometer rose to 68.7 in September, the highest it has been since the first quarter of 2007 as capital investment drove sentiment higher in goods producing industries. Sentiment in

Ontario experienced the biggest boost with the barometer rising to 70.3, while Alberta businesses remained somewhat subdued with barometer reading of 65.4.

Machinery and Equipment orders Drag Down Exports

Alberta companies exported \$5.8 billion worth of merchandise in August, a 2.6% fall from July, as non-energy exports fell 6.5% during the month. Statistics Canada noted in its press release that, although exports fell at the national level in every major category, lower machinery and equipment sales accounted for the lions share of the monthly decline. Considering that Alberta firms manufacture a lot of specialized energy sector machinery, it's quite likely that lower sales in this category weighed on non-energy exports. Alberta energy exports also fell slightly during the month (-2.6%), probably a result of lower natural gas prices, which spent most of the late summer month south of the \$4.00/mmBtu mark. Despite the decline in overall exports, Alberta firms purchased



Source: Statistics Canada CANSIM, Oct. 9, 2009

more goods from abroad and imports climbed nearly 5% during the month. The unfavorable swing in both imports and exports put pressure on Alberta's trade surplus, which fell nearly 5% to \$4.45 billion.

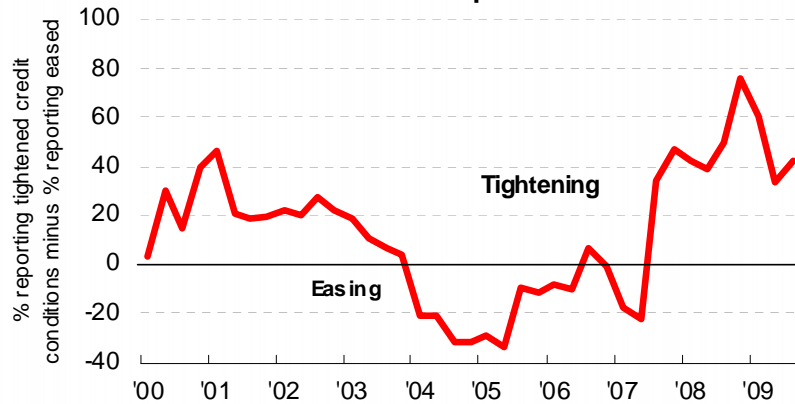
Bankruptcies Down in Canada, Flat in Alberta

The total number of Canadians filing for bankruptcy fell by 7.6% in August to 9,539, although that number was still 33.5% higher than the same time last year.

In Alberta, where the numbers of bankruptcy filings has doubled compared to 2007, 882 people claimed bankruptcy. This was barely changed from 872 in July, but down sharply from the 1,021 claims in June.

The flat reading on bankruptcy filings in August reinforces the fall in July and could be a signal that the massive month-over-month increases, which occurred throughout late 2008 and early 2009, are beginning to fizzle out. Compared to where it was a year ago, Alberta has seen the largest increase in bankruptcy filings of any province.

Senior Loan Officer Survey Balance of Opinion



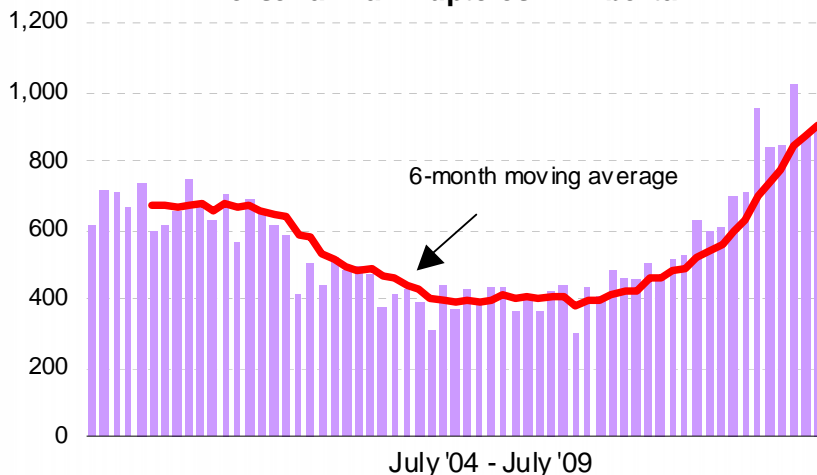
Source: Bank of Canada

Credit Conditions Still Tight

Every quarter, the Bank of Canada surveys financial institutions to ask them whether they have been tightening or loosening lending conditions. According to the most recent survey, loans are more expensive and are being granted with more strings attached compared to the second quarter.

The Senior Loan Officer Survey (SLOS) balance of opinion, which represents the number of financial institutions reporting tightening credit minus those reporting easing, rose to 42 in the third quarter of 2009, up from 33 in the second, indicating more financial institutions are tightening credit. The main culprit for the tighter conditions came primarily from the non-pricing aspects, which means primarily things like stricter covenants and higher collateral requirements that has caused credit conditions to tighten as opposed to higher interest rates.

Personal Bankruptcies in Alberta



Source: Office of the Superintendent of Bankruptcy Canada

TECHNICALLY SPEAKING

by Will Van't Veld

Don't Forget the Little Guys!

Since the global market meltdown of last fall, governments around the world have been in crisis mode, doing everything in their power to keep the economy from imploding. Billions have been spent saving the auto and forestry sectors in Canada, justifiably receiving a lot of public attention.

But flying under the radar screen has been Canada's small- and medium-sized enterprises (SMEs). They've received relatively little attention in the media, yet they have played a very important role in keeping the economy from deteriorating in 2009.

The most obvious reason why the SME sector will play an important role in supporting the economy is the sheer size of it. Companies with fewer than 50 employees account for about 20% of the province's GDP, employ about 32% of the workforce, and comprise 95.6% of all enterprises in the province. Of course, much of the demand that sustains SMEs in Alberta is generated by the oil and gas sector, but the role SMEs play in the energy sector is undeniably important.

SMEs operate in every industry in the economy, but that does not mean that they are represented proportionally across these industries. In fact, about 54% of SMEs operate in just one of four broadly defined industries (see graph). These sectors all have one thing in common: they operate mostly locally, servicing local firms and clientele. For example, a lawyer in Red Deer is unlikely to provide legal services to a client in China, nor is a car dealer in Grande Prairie likely to sell a car to a Mexican couple.

SMEs could represent the next dominoes ready to fall during major disruptions in the local economy. As local spending dries up, these local businesses really feel the pain.

There are programs in place, such as Employment Insurance, to attempt to keep dollars flowing during an economic downturn. But during major disruptions, even more is needed – meaning direct government spending.

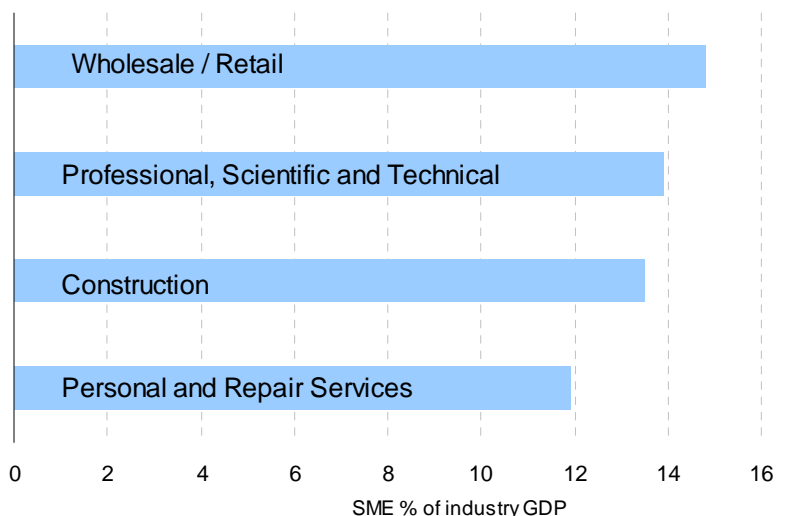
If governments are going into deficit to stimulate the economy, they will want to get the biggest bang for their deficit buck. This is at the heart of the current American debate concerning 'Buy American' legislation, which would keep foreigners from bidding on some municipal infrastructure projects. This is an extreme case of trying to keep deficit dollars domestic, as for the most part infrastructure and construction spending will remain local more than other forms of stimulus.

Aside from the direct stimulus, Canada's federal government has instructed the Business Development Bank of Canada, Export Development Canada and Industry Canada to work with the financing issues faced by SMEs resulting from the recession.

The economic downturn has negatively affected all segments of the economy and SMEs will be on the policy front line, mostly because of their vulnerability to waning demand.

The combination of their collective contribution to the GDP and the fact that they typically operate locally makes the SME sector absolutely essential in containing the recession.

SME Concentration, Alberta 2008



Source: Business Registry

ECONOMICALLY SPEAKING...

ATB Financial[®]

Senior Economist Todd Hirsch

Aussie Rules!

October 9, 2009

This week, the country of surfers, spiders and kangaroos turned some heads in the global financial markets. Australia's central bank raised interest rates. That's right, it *raised* rates... tapping on the economic brakes just as most other countries around the world are still stepping on their economic accelerators.

The press release from the Reserve Bank of Australia was peppered with cheery notes like: "Economic conditions in Australia have been stronger than expected and measures of confidence have recovered," and "Housing credit growth has been solid and dwelling prices have risen appreciably over the past six months."

What's going on down there? Didn't they get the memo

about the global downturn?

Australia is one of only two OECD countries that didn't slip into recession in this latest global downturn. Recently, the country has posted some of the biggest job gains in two years with an increase of 41,000 jobs in September alone. The unemployment rate has fallen to 5.7%. Investment in the country has continued quite strongly, and the Australian dollar has been one of the star performers over the past few months.

Canada and Australia have a lot in common. They are both medium-

sized economies with thin populations spread across an enormous, unforgiving geography. They're both former British colonies, and Queen Elizabeth II remains the technical head of state for both countries.

Also, both Canada and Australia were in good fiscal shape going into the global downturn. Having run large surpluses for several consecutive years, the federal governments in both Ottawa and Canberra introduced stimulus programs, and both were able to tip into deficit without impairing their credit ratings.



Australia's economy is hopping along

But most importantly, both countries are significant natural resource exporters, particularly base metal mining and energy products. That makes the currencies of both countries extremely sensitive to movements in commodity prices.

The similarities, however, end there.

While Canada has focused its stimulus on shovel-ready infrastructure projects, a big part of Australia's stimulus spending was on "soft infrastructure" – things like education, innovation, science and technology. According to Justin Brown, Australia's High Commissioner to Canada, these investments in soft infrastructure have done much to lift Australia's economy, particularly as it has increased productivity and innovation in the services sector. Jobs in finance, for example, have blossomed in the past few months.

Also unlike Canada, Australia has a relatively small manufacturing sector. This has saved it much of the pain being felt in southern Ontario where mass manufacturers (like the auto sector) have been squeezed under the weight of a global recession, a strong currency, and competition with low-cost countries.

But the primary reason why Australia has come through this global recession with little more than a scraped knee is that its economy is linked much more closely to China than it is to the United States. What the US is to Canada, China is to Australia. And



The Lucky Country indeed!

after slowing only modestly in early 2009, China's economy is picking up from where it left off in 2008, heading back to double-digit growth rates. It has been importing enormous amounts of coal and iron ore – both big export products from Australia.

And according to Justin Brown, the High Commissioner who appeared as a guest this week on Canada's BNN, Australia is investing "big time" in natural gas and LNG (liquefied natural gas) plants, with an eye to cracking open the Chinese market. With the Chinese eager to (literally) clean up its act with respect to carbon emissions, they should prove to be a lucrative market for Australian natural gas.

So, with its economy on a roll, Australia's central bank raised interest rates. Could this be a true sign that the global economy has turned a corner? And will other resource-exporting countries such as Canada be next to see rate hikes?

Some currency traders seem to think so. We've seen the Canadian dollar rise by nearly 3 cents against the US greenback this week as speculators anticipate that the Bank of Canada is next in line to raise rates.

Yet it remains unlikely that our central bank has its finger on the rate hike button just yet. With Canada's export wagon hitched so tightly to the US, growth here will clearly lag that of our sister down-under. We added jobs in September, yet the unemployment rate is still well above 8%.

All this serves to remind us that Canada is still only slowly crawling out of recession, and that rate increases are still probably many months away.

Financial Data

Interest Rates	09-Oct-09	02-Oct-09	Equity Markets	09-Oct-09	02-Oct-09	
<i>Note: Data is as of 10 a.m. MST</i>			S&P TSX Composite	11,433.01	10,890.96	
Call Loan	0.20	0.20	Dow Jones Industrial Average	9,804.48	9,453.00	
CAD Prime Rate	2.25	2.25	NASDAQ	2,130.28	2,051.61	
Fed Funds (effective)	0.130	0.130	Commodity Prices	09-Oct-09	02-Oct-09	
USD Prime Rate (base rate)	3.75	3.75	NYMEX MMBTU(USD)	4.962	4.460	
1 month schedule I Bank B.A. (bid)	0.35	0.34	Crude Oil (WTI in USD)	71.00	69.00	
3 month schedule I Bank B.A. (bid)	0.37	0.33	Gold (London A.M. in USD)	1048.20	1003.10	
1 year CAD T-Bill (bid)	0.63	0.53	Prices \$/tonne*	8-Oct-09	1-Oct-09	1 year ago
2 year CAD Bond (bid)	1.648	1.181	<i>*Average elevator bids, Edmonton, unless otherwise noted</i>			
5 year CAD Bond (bid)	2.785	2.490	Canola (crusher FOB)	374.4	368.8	403.9
2 year CAD Swap	1.6390	1.2510	Feed Barley	115.18	124.5	112.7
5 year CAD Swap	2.8940	2.5370	Oats (Red Deer)	109.17	105.08	138
Implied 2 year CAD Swap in 1 Year	3.0124	2.4769	Feed Wheat	120.5	132.05	N/A
Implied 5 year CAD Swap in 1 Year	3.6099	3.1722	Alberta direct cattle sales \$/cwt			
Exchange Rates	09-Oct-09	02-Oct-09	Steers	79.5-81.2	80.65-82.00	88.7
Canada/U.S.	1.0456	1.0834	Heifers	79.5	80.65	89.00-89.70
Canada/Euro	1.5406	1.5823	Western Hog Exchange (WHE) base cash price			
Canada/GBP	1.6660	1.7242	Index 100 hogs (\$/kg)	0.997	1.002	1.1249
Yen/Canada	85.36	81.90				

Data as of Thursday, Oct. 8, 2009

Compass Portfolio Fund Name	1 week % change	30 day % change	YTD % change	Incep (as of Sept. 30)	Compass Portfolio Fund Name	Current yield %
Compass Balanced Growth Portfolio	1.13	2.75	16.38	4.77 (12/02)	ATB Money Market Series A	0.14
Compass Balanced Portfolio	0.79	2.57	14.91	4.89 (12/02)	ATB Money Market Series I	0.24
Compass Conservative Balanced Portfolio	0.42	2.25	14.81	5.08 (12/02)		
Compass Conservative Portfolio	0.21	1.74	12.17	4.17 (12/02)		
Compass Growth Portfolio	1.61	2.95	16.64	4.25 (12/02)		
Compass Maximum Growth Portfolio	1.65	3.07	17.54	3.50 (12/02)		

Economic Data

Employed and Unemployment Rate - Alberta Regions	Employed (000s)			Unemployment Rate		National and Provincial Building Permits: Seasonally Adjusted	July '09	Aug '09	July to Aug. 09
	Oct-09	Oct-08	Change (000s)	Oct-09	Oct-08				% change
Wood Buffalo - Cold Lake	70.80	69.8	-1.0	4.6%	4.1%	Canada	4,679.7	5,016.5	7.2%
Athabasca - Grande Prairie	130.5	135.4	4.9	9.1%	5.1%	Residential	2,621.3	2,913.6	11.2%
Edmonton Region	639.4	644.6	5.2	7.7%	3.7%	Non-residential	2,058.4	2,102.9	2.2%
Red Deer Region	101.8	106.8	5.0	8.0%	4.6%	Alberta	771.6	796.1	3.2%
Banff - Jasper - Rock Mountain House	53.7	51.5	-2.2	4.4%	4.3%	Residential	426.1	542.6	27.3%
Calgary Region	757.4	770.3	12.9	6.9%	3.8%	Non-residential	345.6	253.5	-26.6%
Camrose - Drumheller	105.2	113.8	8.6	6.6%	2.6%	Calgary	266.0	246.5	-7.3%
Lethbridge - Medicine Hat	137.3	138.5	1.2	7.0%	3.0%	Edmonton	295.1	358.0	21.3%
Alberta	1,996.2	2,030.7	34.5	7.2%	3.8%				

Source: Labour Force Survey, Oct. 9 - Unadjusted 3 month moving average

More data is available at Statistics Canada, Oct. 6, 2009

ATB Financial
Where there's a way