

The word "Alberta" is written in a white, cursive script font. To the right of the word is a small white square icon. The background is a blue banner with a geometric pattern of overlapping lines and shapes.

2016–17 Second Quarter
Fiscal Update and Economic
Statement

November 2016



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***NOTE:** Pending determination of the appropriate accounting treatment, obligations associated with the coal transition agreements announced November 24, 2016, are not reflected in this report.*

Amounts presented in tables may not add to totals due to rounding.



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SECOND QUARTER FISCAL AND ECONOMIC OVERVIEW

The historic collapse in global oil prices continues to have a profound impact on Alberta's finances. The deficit is now projected at \$10.8 billion, a slight decrease of \$78 million from the *First Quarter Fiscal Update*.

The forecast West Texas Intermediate oil price is maintained at US\$45/bbl, in line with the first quarter but slightly higher than the US\$42/bbl forecast at *Budget* (Figure 1).

As a measure of prudence, the risk adjustment remains at the *Budget 2016* amount of \$700 million to account for ongoing uncertainty in global oil markets.

Although real GDP is expected to decline by 2.8% in 2016 – in part due to the Wood Buffalo wildfire – there are signs that Alberta's economy is stabilizing:

- Many indicators of business activity have stabilized – including drilling activity, manufacturing shipments, oil production.
- Despite high unemployment, Alberta added 25,000 jobs during the last three months.

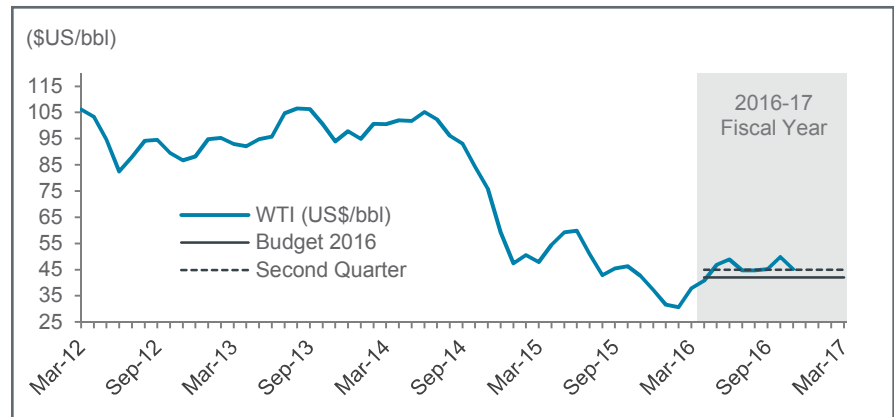
Alberta's real GDP is expected to post a modest recovery in 2017, growing by 2.3%, buoyed by a rebound in oil prices and production, public investment in infrastructure, and reconstruction in Fort McMurray. (Figure 2). The labour market is expected to slowly improve, with employment growth of 1.2% forecast.

Albertans still have the highest average weekly earnings in Canada, however incomes in the province have been affected by the collapse in oil prices. Nominal GDP, a broad measure of income, is forecast to decline almost 5% this year after falling over 12% in 2015. Corporate profits have been hit the hardest but household incomes have also declined.

Strong fundamentals will contribute to Alberta's recovery: the lowest overall tax burden among the provinces, an abundance of resources, high levels of private sector investment and labour force participation, and a young, skilled and educated workforce.

FIGURE 1: OIL PRICE

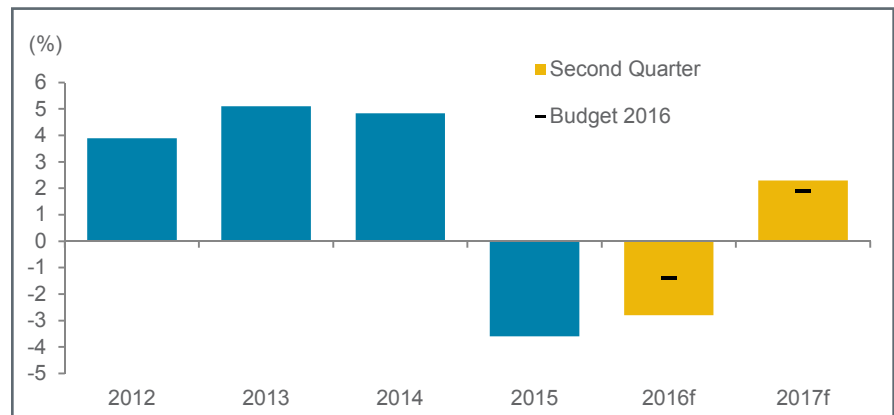
WTI Price Forecast for 2016-17



Source: Alberta Energy

FIGURE 2: ALBERTA ECONOMIC OUTLOOK

Real GDP Growth



Source: Alberta Treasury Board & Finance, f-forecast

2016-17 SECOND QUARTER FISCAL UPDATE

Fiscal Plan Highlights

A **deficit** of \$10.8 billion is forecast for 2016-17, \$449 million higher than estimated in *Budget 2016*.

The fiscal impact of the Wood Buffalo wildfire is estimated at \$520 million: \$647 million in Disaster Recovery Program expense, a \$300 million reduction to revenue, primarily corporate income tax, partially offset by \$427 million in federal assistance (\$25 million lower than first quarter).

Revenue is forecast to be \$42.7 billion, \$1.3 billion higher than estimated.

- Resource revenue has increased a net \$760 million to \$2.1 billion, mainly from a higher oil price forecast, lower light-heavy differential, lower natural gas producer costs and higher well productivity, partly offset by a higher US-Canadian dollar exchange rate and lower natural gas prices.
- The West Texas Intermediate oil price forecast has increased from budget by US\$3 to \$45 per barrel. Fiscal year-to-date (November 24), prices have averaged US\$45.90. The light-heavy differential forecast has declined by US\$0.89 to \$14.32. The natural gas Alberta Reference Price forecast has decreased 30 cents, to Cdn\$2.10 per gigajoule, and the exchange rate forecast has increased by 3.5 cents, to 77 US¢/Cdn\$.
- Personal income tax revenue has increased \$174 million from budget, to \$11.6 billion, due to a positive \$519 million prior-years' adjustment (higher 2015 assessment data means 2014-15 and 2015-16 revenue was under-reported), partly offset by a net \$345 million decrease from lower household income growth.
- Corporate income tax revenue is forecast at \$3.4 billion, a decrease of \$877 million from *Budget 2016*,

due mainly to lower-than-expected 2015-16 revenue, the weak economy and the Wood Buffalo wildfire.

- Federal transfers are estimated at \$7.9 billion, \$593 million higher than budget. The increase comprises \$427 million in Wood Buffalo wildfire assistance, \$100 million for public transit, water/wastewater and social housing infrastructure, and net \$66 million mainly for agriculture insurance premiums, social housing and employment programs for persons with disabilities.
- Investment income is now forecast at \$2.7 billion, \$601 million higher than the *Budget 2016* estimate, due mainly to stronger-than-expected Canadian and global equity markets.
- Total revenue from other sources is forecast at \$15 billion, \$13 million higher than budget. An increase of \$248 million in Other revenue, mainly from higher Climate Change and Emissions Management Fund compliance payments, and recoveries of drug and other health care costs from third parties, is offset by a net \$235 million reduction, primarily from decreased tax revenue due to lower-than-expected fuel and tobacco consumption.

Expense is forecast at \$52.8 billion, \$1.7 billion higher than *Budget 2016*.

- Operating expense is forecast at \$44.9 billion, \$519 million higher than *Budget 2016*. This includes increases of \$260 million for physician compensation and drug costs; \$100 million for income support and people with disabilities programs; a net \$78 million primarily for student loan provisions, small brewer grants, livestock indemnities, non-cash environmental liabilities and social

housing programs funded by federal transfers; and removal of the negative \$250 million in budgeted in-year savings. These are partly offset by \$169 million in net in-year savings.

- Disaster assistance of \$1.3 billion is forecast, \$1.1 billion higher than budget, including \$647 million for the Wood Buffalo DRP, \$369 million for wildfire-fighting costs and \$222 million for agriculture indemnities, partly offset by a net \$9 million reduction in 2013 Alberta flood assistance and removal of the \$200 million unallocated disaster assistance included in the budget.
- Capital grants of \$2.5 billion are \$171 million higher than budget, mainly due to increased federal funding and re-allocations from capital investment.
- Other expense totals \$4.1 billion, \$3 million lower than budget, comprising \$36 million in amortization savings and \$5 million lower Capital Plan debt servicing costs, offset by \$33 million in higher general debt servicing costs.

Capital Plan is forecast at \$8.4 billion, \$104 million lower than budget. Capital grants are \$171 million higher, while capital investment is \$275 million lower, mainly due to re-profiling of school and health facility projects to future years and re-allocations to capital grants.

Direct borrowing for the Fiscal Plan is forecast on March 31, 2017 to be \$6.4 billion, \$1 billion higher than budget, due to final 2015-16 results (a net \$863 million reduction to the Contingency Account balance) and the revised 2016-17 forecast (a net \$183 million). Further information is provided on page 9.

FISCAL PLAN SUMMARY

(millions of dollars)

Income Statement

	Fiscal Year			Change from Budget
	2015-16	2016-17		
	Actual	Budget ^a	Forecast	
Revenue				
Income tax revenue	15,552	15,730	15,027	(703)
Other tax revenue	5,168	6,037	5,829	(208)
Non-renewable resource revenue	2,789	1,364	2,124	760
Other revenue	18,991	18,304	19,718	1,414
Total Revenue	42,500	41,435	42,698	1,263
Expense				
Operating expense (net of in-year savings)	43,189	44,094	44,650	556
Climate Leadership Plan operating expense	-	325	288	(37)
Disaster assistance (with operating 2013 flood support)	563	246	629	383
Wood Buffalo Disaster Recovery Program	-	-	647	647
Capital grants (including 2013 flood support)	1,911	2,288	2,459	171
Climate Leadership Plan Capital Plan	-	5	5	-
Amortization / inventory consumption / disposal losses	3,131	3,208	3,172	(36)
General debt servicing costs	330	367	400	33
Capital Plan debt servicing costs	446	629	624	(5)
Pension provisions	(630)	(65)	(65)	-
Total Expense	48,942	51,097	52,809	1,712
Risk Adjustment	-	(700)	(700)	-
Surplus / (Deficit)	(6,442)	(10,362)	(10,811)	(449)

Capital Plan

Capital grants	1,911	2,288	2,459	171
Capital investment	4,647	6,188	5,913	(275)
Climate Leadership Plan (capital grants)	-	5	5	-
Total Capital Plan	6,558	8,481	8,377	(104)

Balance Sheet

	At March 31			Change from 2016
	2016	2017		
	Actual	Budget ^b	Forecast	
Financial Assets				
Heritage Fund, endowment and other funds	19,262	19,615	19,689	427
Contingency Account	3,625	-	-	(3,625)
Self-supporting lending organizations	20,204	21,349	21,169	965
Capital Plan financing account	1,892	129	-	(1,892)
Other financial assets (including SUCH sector)	19,042	20,355	20,170	1,128
Total Financial Assets	64,025	61,448	61,028	(2,997)
Liabilities				
Liabilities for capital projects	19,040	24,180	23,834	4,794
Debt for pre-1992 Teachers' Pension Plan	944	944	944	-
Direct borrowing for the Fiscal Plan	-	5,369	6,415	6,415
Self-supporting lending organizations	17,941	18,790	18,714	773
Other liabilities (including SUCH sector)	11,653	11,765	10,873	(780)
Pension liabilities	10,566	10,501	10,501	(65)
Total Liabilities	60,144	71,549	71,281	11,137
Net Financial Assets	3,881	(10,101)	(10,253)	(14,134)
Capital / other non-financial assets	47,311	51,157	50,872	3,561
Spent deferred capital contributions	(2,650)	(2,876)	(2,888)	(238)
Net Assets	48,542	38,180	37,731	(10,811)
Change in Net Assets (before adjustments)	(6,442)	(10,362)	(10,811)	

^a Budget revenue has been increased by \$59 million due to an accounting policy change made in the 2015-16 Government of Alberta Annual Report: donations to SUCH sector entities for endowments are now reported as revenue on the income statement instead of as adjustments to net assets on the balance sheet.

^b Budget numbers have been restated to reflect 2015-16 actual results.

REVENUE*(millions of dollars)*

	Fiscal Year			Change from Budget
	2015-16 Actual	2016-17 Budget	2016-17 Forecast	
Income Taxes				
Personal income tax	11,357	11,405	11,579	174
Corporate income tax	4,195	4,325	3,448	(877)
	15,552	15,730	15,027	(703)
Other Taxes				
Education property tax	2,255	2,414	2,414	-
Fuel tax	1,370	1,469	1,389	(80)
Tobacco tax	980	1,139	1,041	(98)
Insurance taxes	403	590	588	(2)
Carbon levy	-	274	248	(26)
Freehold mineral rights tax	79	71	73	2
Tourism levy	81	80	76	(4)
	5,168	6,037	5,829	(208)
Non-Renewable Resource Revenue				
Bitumen royalty	1,223	656	1,099	443
Crude oil royalty	689	333	421	88
Natural gas and by-products royalty	493	151	326	175
Bonuses and sales of Crown leases	203	95	137	42
Rentals and fees / coal royalty	181	129	141	12
	2,789	1,364	2,124	760
Transfers from Government of Canada				
Canada Health Transfer	4,014	4,223	4,201	(22)
Canada Social Transfer	1,516	1,563	1,558	(5)
Direct transfers to SUCH sector / Alberta Innovates Corp.	404	500	501	1
Agriculture support programs	308	300	339	39
Infrastructure support	267	282	382	100
Labour market agreements	177	178	188	10
Other (includes \$427 million for Wood Buffalo wildfire)	456	232	702	470
	7,142	7,278	7,871	593
Investment Income				
Alberta Heritage Savings Trust Fund	1,388	1,185	1,732	547
Endowment funds	347	256	330	74
Alberta Capital Finance Authority	184	157	178	21
Agriculture Financial Services Corporation	132	137	137	-
Other (includes SUCH sector / Contingency Account)	493	380	339	(41)
	2,544	2,115	2,716	601
Net Income from Government Business Enterprises				
AGLC – Gaming / lottery	1,553	1,451	1,428	(23)
AGLC – Liquor	856	868	879	11
Alberta Treasury Branches	108	27	27	-
Other – CUDGCo / APMC	53	70	59	(11)
	2,570	2,416	2,393	(23)
Premiums, Fees and Licences				
Post-secondary institution tuition fees	1,158	1,157	1,157	-
Health / school board fees and charges	702	711	697	(14)
Motor vehicle licences	517	528	505	(23)
Crop, hail and livestock insurance premiums	299	301	360	59
Energy industry levies	303	303	303	-
Land titles	80	79	72	(7)
Other (includes land and grazing, health benefits premiums)	515	570	551	(19)
	3,574	3,649	3,645	(4)
Other				
SUCH sector sales, rentals and services	971	950	983	33
SUCH sector fundraising, donations and gifts	738	627	631	4
AIMCo investment management charges	267	307	307	-
Fines and penalties	256	209	210	1
Refunds of expense	358	140	197	57
Climate change and emissions management	200	101	214	113
Miscellaneous	371	512	552	40
	3,161	2,846	3,094	248
Total Revenue	42,500	41,435	42,698	1,263

OPERATING EXPENSE BY MINISTRY*(millions of dollars)*

	Fiscal Year			Change from Budget
	2015-16	2016-17		
	Actual	Budget	Forecast	
Advanced Education	5,214	5,392	5,360	(32)
Agriculture and Forestry	989	1,036	1,056	20
Culture and Tourism	289	285	294	9
Economic Development and Trade	243	337	333	(4)
Education	7,553	7,544	7,507	(37)
Energy	549	549	539	(10)
Environment and Parks	388	403	411	8
Executive Council	25	27	26	(1)
Health	18,506	18,959	19,219	260
Human Services	4,154	4,388	4,488	100
Indigenous Relations	175	183	183	-
Infrastructure	491	496	493	(3)
Justice and Solicitor General	1,348	1,337	1,340	3
Labour	188	210	210	-
Municipal Affairs	246	262	259	(3)
Seniors and Housing	559	576	588	12
Service Alberta	240	251	247	(4)
Status of Women	1	8	7	(1)
Transportation	462	471	464	(7)
Treasury Board and Finance	1,432	1,505	1,500	(5)
Legislative Assembly	132	125	126	1
In-year savings	-	(250)	-	250
Climate Leadership Plan:				
Environment and Parks	-	230	193	(37)
Treasury Board and Finance	-	95	95	-
Total Operating Expense	43,189	44,419	44,938	519

DISASTER / EMERGENCY ASSISTANCE EXPENSE*(millions of dollars)*

	Fiscal Year			Change from Budget
	2015-16	2016-17		
	Actual	Budget	Forecast	
Agriculture and Forestry - wildfires	387	-	369	369
Agriculture and Forestry - agriculture indemnities	141	-	222	222
Municipal Affairs - Wood Buffalo wildfire / MD of Opportunity 2015 wildfire	3	-	648	648
Unallocated	-	200	-	(200)
Total	530	200	1,239	1,039
2013 Alberta flood assistance:				
Environment and Parks	11	7	16	9
Indigenous Relations	6	7	6	(1)
Infrastructure	7	22	7	(15)
Culture and Tourism / Human Services / Municipal Affairs	10	11	8	(3)
Total 2013 Alberta flood assistance	33	46	37	(9)
Total Disaster / Emergency Assistance	563	246	1,276	1,030

INVENTORY CONSUMPTION EXPENSE*(millions of dollars)*

	Fiscal Year			Change from Budget
	2015-16	2016-17		
	Actual	Budget	Forecast	
Health	846	754	754	-
Infrastructure	3	14	14	-
Service Alberta	14	8	8	-
Transportation	43	50	50	-
Other (Agriculture and Forestry / Culture and Tourism / Seniors and Housing)	5	2	2	-
Total Inventory Consumption Expense	911	828	828	-

CAPITAL AMORTIZATION EXPENSE

(millions of dollars)

	Fiscal Year			Change from Budget
	2015-16	2016-17		
	Actual	Budget	Forecast	
Advanced Education	486	503	503	-
Agriculture and Forestry	25	29	29	-
Culture and Tourism	3	3	3	-
Economic Development and Trade	5	5	5	-
Education	331	362	358	(4)
Energy	23	20	20	-
Environment and Parks	42	44	44	-
Health	608	605	587	(18)
Human Services	11	7	7	-
Infrastructure	103	119	119	-
Justice and Solicitor General	12	59	44	(15)
Labour	2	1	1	-
Municipal Affairs	2	3	3	-
Seniors and Housing	33	38	40	2
Service Alberta	36	42	41	(1)
Transportation	474	514	514	-
Treasury Board and Finance	18	21	21	-
Legislative Assembly	4	4	4	-
Total Amortization Expense	2,217	2,379	2,343	(36)

DEBT SERVICING COSTS

(millions of dollars)

	Fiscal Year			Change from Budget
	2015-16	2016-17		
	Actual	Budget	Forecast	
General				
Advanced Education – post-secondary institutions	41	43	43	-
Agriculture and Forestry – Agriculture Financial Services Corporation	68	72	72	-
Education – school boards	10	10	10	-
Health – Alberta Health Services	15	17	17	-
Seniors and Housing – Alberta Social Housing Corporation	8	6	6	-
Treasury Board and Finance – Alberta Capital Finance Authority / other	188	219	252	33
Total general debt servicing costs	330	367	400	33
Capital Plan				
Education – Alberta Schools Alternative Procurement P3s	30	29	29	-
Transportation – ring road P3	71	83	83	-
Treasury Board and Finance – direct borrowing	345	517	512	(5)
Total Capital Plan debt servicing costs	446	629	624	(5)
Total Debt Servicing Costs	776	996	1,024	28

INVENTORY ACQUISITION

(millions of dollars)

	Fiscal Year			Change from Budget
	2015-16	2016-17		
	Actual	Budget	Forecast	
Health	843	756	756	-
Infrastructure	13	3	3	-
Service Alberta	14	8	8	-
Transportation	44	50	50	-
Other (Agriculture and Forestry / Culture and Tourism)	2	2	2	-
Total Inventory Acquisition	915	819	819	-

CONTINGENCY ACCOUNT*(millions of dollars)*

	Fiscal Year			Change from Budget
	2015-16	2016-17		
	Actual	Budget	Forecast	
Balance at Start of Year	6,529	3,793	3,625	(168)
Surplus / (Deficit)	(6,442)	(10,362)	(10,811)	(449)
Cash Adjustments (negative = cash requirement; positive = cash source)				
SUCH / Alberta Innovates own-source revenue / expense	563	156	410	254
Pension provisions (non-cash expense)	(630)	(65)	(65)	-
Net deferred capital contribution adjustment (excluding SUCH)	73	186	198	12
Retained income of funds, agencies and accounts:				
Alberta Heritage Savings Trust Fund inflation-proofing	(209)	(243)	(243)	-
Alberta Treasury Branches	(108)	(27)	(27)	-
Agriculture Financial Services Corporation	(149)	(296)	(191)	105
Endowment funds	(179)	(77)	(151)	(74)
Alberta Social Housing Corporation	(17)	54	38	(16)
Alberta Capital Finance Authority	(56)	(52)	(56)	(4)
Climate Change and Emissions Management Fund	(194)	119	(32)	(151)
Carbon Levy account	-	(119)	(95)	24
Other	(88)	(77)	(69)	8
Energy royalties (difference between accrued revenue and cash)	60	(50)	(62)	(12)
Student loans	(362)	(341)	(471)	(130)
Other cash adjustments	309	(445)	(282)	163
2013 Alberta flood assistance revenue / expense	(86)	(121)	(100)	21
2016 Wood Buffalo wildfire revenue / expense	-	-	105	105
Inventory acquisition	(127)	(127)	(127)	-
Inventory consumption (non-cash expense)	125	135	135	-
Capital Plan (excluding SUCH sector) cash sources / (requirements):				
Capital investment	(3,888)	(5,237)	(5,046)	191
Amortization / book value of disposals (non-cash expense)	849	935	922	(13)
Withdrawal from / (deposit to) Capital Plan financing account	(1,892)	1,763	1,892	129
Direct borrowing for the Capital Plan	7,016	5,035	4,686	(349)
Alternative financing (P3s – public-private partnerships)	143	145	148	3
Current principal repayments (P3s)	(41)	(51)	(51)	-
Surplus / (Deficit) plus net cash adjustments	(5,330)	(9,162)	(9,345)	(183)
Cash from prior-year final results	1,731	-	(695)	(695)
Cash to be transferred next year	695	-	-	-
Direct borrowing for the Fiscal Plan	-	5,369	6,415	1,046
Balance at End of Year	3,625	-	-	-

2016-17 FINANCING REQUIREMENTS^a*(millions of dollars)*

	First 6 months of 2016-17			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2015-16	2016-17		
				Actual	Budget	Forecast	
Financing Requirements / Completed to Date							
Direct borrowing for capital purposes	2,518	4,083	1,566	7,016	5,035	4,686	(349)
Direct borrowing for the Fiscal Plan	2,685	1,585	(1,100)	-	5,369	6,415	1,046
Term debt borrowing for provincial corporations ^b :							
Agriculture Financial Services Corporation	187	101	(86)	182	373	373	-
Alberta Capital Finance Authority	795	1,161	366	1,402	1,590	1,590	-
Alberta Petroleum Marketing Commission	166	-	(166)	-	331	331	-
Alberta Treasury Branches	725	505	(220)	295	1,450	1,450	-
Total Financing Requirements / Completed to Date	7,074	7,435	361	8,895	14,148	14,845	697

^a Since September 30 2016, additional debt has been issued for Capital / Fiscal Plan purposes (Cdn\$2,441 million) and for Agriculture Financial Services Corporation (Cdn\$95 million).

^b Gross borrowing requirements for provincial corporations. Include amounts of maturing debt being re-financed.

Capital Plan Highlights

2016-17 Capital Plan spending is forecast to be \$8.4 billion, a decrease of \$104 million from *Budget 2016*.

Increases of \$100 million in federal infrastructure funding, for transit, water/wastewater, housing and other projects, and a net of \$98 million in various other projects, mainly 2013 Alberta flood projects carried forward

from 2015-16, are more than offset by \$302 million in school, health and carbon capture and storage projects re-profiled to future years. Funding of a net \$54 million for continuing care facilities is from unallocated capital investment included in budget.

Direct borrowing for the Capital Plan is forecast to be \$4.7 billion, a

decrease of \$349 million from budget, primarily due to additional borrowing and lower-than-forecast spending in 2015-16, and lower spending in 2016-17.

Cash received for capital purposes has increased by \$104 million, due primarily to new federal infrastructure programs.

CAPITAL PLAN SUMMARY

(millions of dollars)

By Ministry	Fiscal Year			Change from Budget
	2015-16 Actual	2016-17 Budget	2016-17 Forecast	
Advanced Education	767	966	971	5
Agriculture and Forestry	50	51	53	2
Culture and Tourism	40	48	48	-
Economic Development and Trade	5	9	9	-
Education	1,060	1,900	1,685	(215)
Energy	176	215	175	(40)
Environment and Parks	40	51	50	(1)
Health	712	958	905	(53)
Human Services	6	5	6	1
Indigenous Relations	18	3	3	-
Infrastructure	232	372	384	12
Justice and Solicitor General	54	39	43	4
Labour	3	1	1	-
Municipal Affairs	1,142	1,503	1,488	(15)
Seniors and Housing	93	289	294	5
Service Alberta	41	105	110	5
Transportation	1,906	1,670	1,781	111
Treasury Board and Finance	22	21	23	2
Legislative Assembly	1	1	1	-
2013 Alberta flood assistance:				
Environment and Parks	110	204	256	52
Infrastructure	5	11	12	1
Municipal Affairs	17	14	14	-
Transportation	59	42	56	14
Other (Education / Health)	-	-	5	5
Climate Leadership Plan – Environment and Parks	-	5	5	-
Total Capital Plan	6,558	8,481	8,377	(104)
Capital Plan Financing				
Cash received / assets donated for capital purposes	405	554	658	104
Retained income of funds and agencies	95	121	121	-
SUCH sector self-financed	759	858	867	9
Climate Leadership Plan	-	5	5	-
Book value of capital asset disposals	32	-	-	-
Alternative financing (P3s)	143	145	148	3
Direct borrowing	7,016	5,035	4,686	(349)
Capital Plan financing account withdrawal / (deposit)	(1,892)	1,763	1,892	129
Total Capital Plan Financing	6,558	8,481	8,377	(104)

ECONOMIC OUTLOOK

Signs of Stability Emerge in Alberta's Economy

The economy is showing signs of stabilizing more than two years after oil prices began their descent. Many major economic indicators are leveling off and business output is slowly improving. This improvement is expected to carry into 2017, leading to a modest recovery. Real GDP is forecast to increase by 2.3% (Figure 1), slightly lower than at the *First Quarter Update*, but higher than the 1.9% expected at *Budget*. The recovery will be bolstered by an uplift in oil prices, ongoing public sector infrastructure spending,

Fort McMurray reconstruction and an associated rebound in oil production.

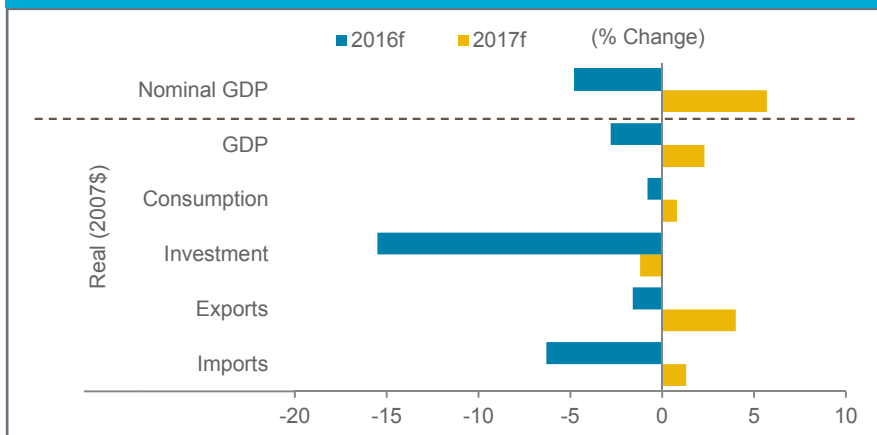
The downturn, however, has been deeper than previously expected. After falling 3.6% in 2015, real GDP is forecast to decline 2.8% in 2016, reflecting weaker activity so far this year and wildfire-related disruptions. This is a larger contraction than the 1.4% forecast at *Budget*.

Incomes in the province have been significantly impacted during the downturn. Nominal GDP, a broad measure of income, is forecast to fall an

estimated 4.8% this year after declining 12.5% in 2015. Corporate profits have taken the largest hit (Figure 2), but government revenue and household income have also dropped. In 2017, nominal GDP is forecast to expand by 5.7% but will remain below 2014 levels.

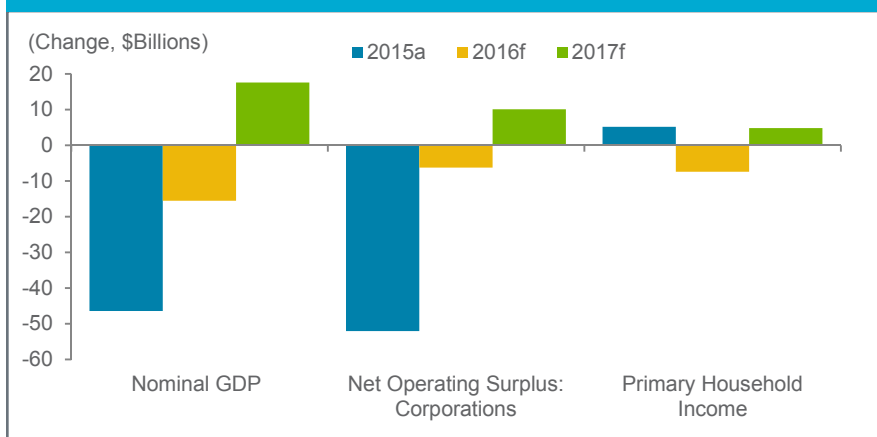
External risks have increased. Global economic growth continues to underwhelm, while events such as Brexit, the outcome of the election in the United States and turbulence in European financial markets have heightened uncertainty.

Figure 1. Key Alberta economic indicators



Source: Alberta Treasury Board and Finance, f-forecast

Figure 2. Components of Alberta nominal GDP



Sources: Statistics Canada and Alberta Treasury Board and Finance, f-forecast, a-actuals

Alberta Business Sector

Muted outlook for energy prices

Prospects of an output cut by the Organization of the Petroleum Exporting Countries (OPEC), oil supply disruptions and declines in US crude output have supported oil prices so far this year. Global oil market rebalancing has started, but crude inventories remain high. Uncertainty about demand and the timing of market rebalancing, which has moved further into 2017, are contributing to ongoing volatility in oil prices. The forecast for West Texas Intermediate is US\$45/bbl for 2016-17, US\$3/bbl higher than *Budget*, mainly due to year-to-date strength.

The outlook for natural gas prices remains soft as the North American market continues to be awash in natural gas. The Alberta Reference Price is expected to average Cdn\$2.10/GJ, lower than the *Budget* forecast of Cdn\$2.40/GJ.

Investment drags on growth

The severe oil price shock and ongoing volatility in oil prices have weakened energy investment, which is expected to be about half of 2014 levels in 2016. However, drilling activity has

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picked up in the last five months, and spending on sustaining capital will continue to support oil sands investment in 2017. Outside the energy sector, investment continues to be hampered by declining commercial and industrial spending. Building permits suggest weakness will continue into 2017 as current projects wind down. This will be partly offset by strong levels of government and institutional spending. After a decline of 23% in 2015, business investment is now forecast to recede by over 16% in 2016 and hold fairly steady in 2017.

Business output improving

After declining for much of the past two years, there are signs that business activity is starting to stabilize (Figure 3). Bitumen production appears to have recovered after outages from the wildfire and is up 6% in the first eight months of this year. Manufacturing shipments have improved since falling to a low in February, supported by refined petroleum products, chemicals, and wood products. Declines are also easing in machinery and equipment manufacturing, which suffered the most from the slowdown in energy-related activity across North America. Heading into 2017, manufacturing output is expected to pick up, supported by expansions

in petroleum manufacturing and petrochemicals. Overall, weaker-than-expected manufacturing combined with fire-related disruptions in oil production are expected to pull down Alberta's real exports by 1.6% this year. Real exports are expected to recover by 4% in 2017.

Corporate profits take a hit

The plunge in oil prices and slowdown in activity in the province have resulted in an unprecedented decline in corporate profits. After falling 69% in 2015, net operating surplus, a measure of profits, is expected to fall an additional 27% this year. As business output and oil prices improve in 2017, net operating surplus is expected to expand by around 60% but remain about a third of 2014 levels.

Alberta Household Sector

Solid population growth

Alberta's population continues to expand due to record-setting immigration and substantial natural increase. In addition, annual net outflows of interprovincial migrants for the 2016 census year were about half the level forecasted at *Budget*. Overall, 2016 census year population growth was 1.8%, leading all provinces and higher than the 1.2% *Budget* forecast.

Downward revisions to population in the previous four years mean Alberta's population estimate is fairly closely to *Budget*. Growth is forecast to slow to 1.3% in 2017, led by a net outflow of 11,000 interprovincial migrants, in line with the forecast at *Budget*.

Employment edges higher

The labour market continues to evolve as expected at *Budget*. As the downturn became more broadly based, Alberta's labour market deteriorated in the first half of 2016. Employment fell nearly 38,000 between December 2015 and July 2016, with job losses mounting in the second quarter. As a result, employment is forecast to decline 1.7% this year. More recently though, employment has started to improve. There were 25,000 jobs added between July and October (Figure 4), with almost all of the gains in the private sector. Employment is expected to continue improving in 2017 and expand by 1.2%. Despite the increase in jobs, the unemployment rate remains elevated as more people continue to look for work. The rate currently sits at 8.5% and is expected to remain above 8% for the remainder of this year. It is forecast to move down to an average of 7.8% in 2017.

Pullback in earnings

Though Alberta still has the highest hourly wage rate among the provinces, sustained economic weakness has dragged down total earnings. Reductions in overtime, declining full-time employment, and gains in part-time employment are expected to pull down average weekly hours worked by over 2% this year. As a result, average weekly earnings are expected to fall by 2.6% in 2016, a deeper contraction than projected in *Budget*. A small rebound in earnings is forecast for 2017, but growth will remain well below average earnings growth realized prior to the recession. The drop in total earnings

Figure 3. Alberta business output indicators



Source: Statistics Canada

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has cut primary household income by 3.5% in 2016. Growth will improve to 2.4% in 2017.

Consumers rein in spending

The weak labour market and lower earnings are forcing consumers to reduce spending. Through nine months of the year, retail sales have declined over 2%, with broad-based weakness across most categories. Spending on durables has been hit particularly hard as consumers curtail spending on non-essential items. Adjusted for inflation, real consumer spending is expected to decline almost 1% this year before picking up next year as employment and earnings recover.

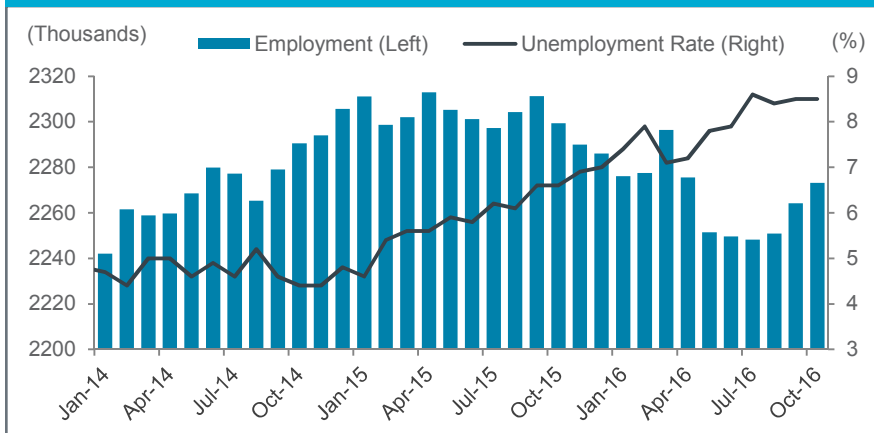
Housing activity remains weak

Weaker housing demand is weighing on residential activity in the province, but the sector is exhibiting some signs of stability. The number of housing starts and sales of existing homes remain well below pre-recession levels, while vacancy rates have gone up. However, starts and existing home sales have improved in recent months. Housing starts have been revised up slightly from *Budget* to 24,000 to reflect stronger year-to-date activity. In 2017, they are forecast to be higher-than-expected compared with *Budget*, partly due to reconstruction activity in Fort McMurray.

Costs coming down

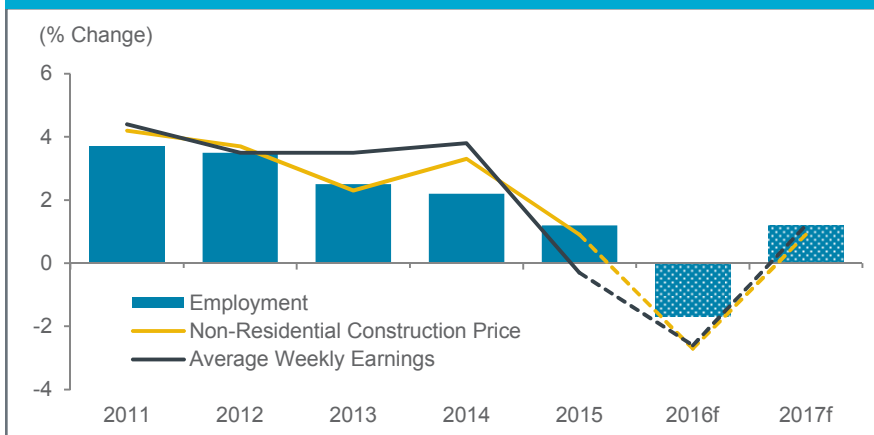
Costs in the province are moderating for businesses and consumers (Figure 5). Slower economic activity and falling labour costs have resulted in lower construction costs. Building construction costs have declined by around 3.5% since the beginning of 2015. For consumers, lower energy prices and easing shelter costs are keeping a lid on inflation. In addition, prices have declined for most discretionary consumer goods. Inflation is expected to be a muted 1.2% in 2016, lower than the 1.5% forecast at *Budget*, before picking up to 1.9% in 2017.

Figure 4. Alberta labour market indicators



Source: Statistics Canada

Figure 5. Cost pressures and the Alberta labour market



Sources: Statistics Canada and Alberta Treasury Board and Finance. f-forecast

Risks to the Outlook

Risks to the Alberta economy remain elevated, reflecting uncertainty about the path of oil prices and global economic conditions:

- ◆ Weaker-than-expected global growth could dampen demand for oil, lowering oil prices. Should prices fall further, Alberta's outlook would weaken.
- ◆ If OPEC fails to reach an agreement to freeze output and oil inventories remain high, especially in the US, this could delay rebalancing of oil markets. This delay could slow Alberta's economic recovery.
- ◆ A slower-than-expected improvement in business activity in the province will dampen prospects for employment and earnings.
- ◆ On the positive side, higher than expected growth in the US or easing pipeline constraints can improve Alberta's economic prospects.

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2015-16 Actual	2016-17 6 Month Actual	2016-17 Fiscal Year	
			Budget	2nd Quarter
Prices				
Crude Oil Price				
WTI (US\$/bbl)	45.00	45.27	42.00	45.00
Light-Heavy Differential (US\$/bbl)	13.40	13.40	15.20	14.32
WCS @ Hardisty (Cdn\$/bbl)	40.86	42.20	36.40	39.84
Natural Gas Price				
Alberta Reference Price (Cdn\$/GJ)	2.21	1.51	2.40	2.10
Production				
Conventional crude oil (000s barrels/day)	508	N/A	524	459
Raw bitumen (000s barrels/day)	2,489	N/A	2,668	2,560
Natural gas (billions of cubic feet)	4,918	N/A	4,765	4,796
Interest rates				
3-month Canada treasury bills (per cent)	0.48	0.51	0.54	0.53
10-year Canada bonds (per cent)	1.47	1.17	1.79	1.30
Exchange Rate (US¢/Cdn\$)	76.3	77.1	73.5	77.0

Calendar Year Assumptions	2015 Calendar Year		2016 Calendar Year		2017 Calendar Year	
	Budget	Actual	Budget	2nd Quarter	Budget	2nd Quarter
Gross Domestic Product						
Nominal (millions of dollars)	333,069 ^a	326,433	318,677	310,895	344,040	328,523
per cent change	-11.4 ^a	-12.5	-4.3	-4.8	8.0	5.7
Real (millions of 2007 dollars)	315,253 ^a	310,640	310,992	301,923	316,901	308,783
per cent change	-1.5 ^a	-3.6	-1.4	-2.8	1.9	2.3
Other Indicators						
Employment (thousands)	2,302	2,301	2,263	2,262	2,283	2,290
per cent change	1.2	1.2	-1.7	-1.7	0.9	1.2
Unemployment rate (per cent)	6.0	6.0	8.0	8.0	7.5	7.8
Average Weekly Earnings (per cent change)	-0.3	-0.3	-0.6	-2.6	1.0	1.2
Primary Household Income (per cent change)	0.3 ^a	2.5	-1.4	-3.5	2.4	2.4
Net Corporate Operating Surplus (per cent change)	-51.9 ^a	-69.3	-18.0	-27.2	48.6	60.3
Housing starts (number of units)	37,500	37,282	22,200	24,000	19,400	23,700
Alberta Consumer Price Index (per cent change)	1.1	1.1	1.5	1.2	1.7	1.9
Population (July 1st, thousands)	4,196	4,180	4,247	4,253	4,287	4,306
per cent change	1.8	1.7	1.2	1.8	1.0	1.3

^a Alberta Treasury Board and Finance estimate.

REPORTING METHODOLOGY AND LEGISLATIVE COMPLIANCE

Method of Consolidation

The *2016-17 Second Quarter Fiscal Update and Economic Statement* reports on the same scope, using the same method of consolidation, as presented in *Budget 2016*. This is also the same scope and consolidation approach used in the Consolidated Financial Statements in the Government of Alberta Annual Report.

The results of all government departments, funds and agencies, except those designated as government business enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of provincial agencies designated as government business enterprises are included on the modified equity basis, computed in accordance with International Financial Reporting Standards applicable to those entities.

Basis of Financial Reporting

The consolidated fiscal summary reports revenue (including gains from disposal of tangible capital assets), expense (including amortization, inventory consumption, loss on disposal and write-down of tangible capital assets), and surplus / (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Transfers received for capital purposes, and donated capital assets, are recorded as “deferred capital contributions” when the cash or asset is received, and recognized in revenue over the related asset’s useful life (in effect matching the asset’s amortization expense).

Expense includes the province’s cash payments towards the unfunded pension liabilities, and the non-cash change in unfunded pension liabilities.

Debt servicing costs include interest payable, and amortization of issue costs and discounts / premiums on debt issues.

Compliance with Legislation

The *Fiscal Planning and Transparency Act* (FPTA) requires reporting to the public on the accuracy of the Fiscal Plan on or before November 30. The FPTA gives the President of Treasury Board and Minister of Finance discretion over the form of the report.

The *2016-17 Second Quarter Fiscal Update and Economic Statement* includes comparisons between the *Budget 2016* estimates and second quarter forecasts for revenue and expense (including details and categories of each); the surplus / (deficit); the Contingency Account balance and cash adjustments; a summary balance sheet; the Capital Plan; and financing (borrowing) requirements. An updated Alberta economic outlook, with associated assumptions, is also provided.

Under the FPTA, operating expense increases, excluding those for dedicated revenue-operating expense, collective bargaining or other remuneration settlements, First Nations settlements, or increases funded by reserves of school boards, post-secondary institutions or Alberta Health Services, are limited to 1% of budgeted operating expense.

The forecast provided in this report is in compliance with the requirements of the FPTA.

Alberta

