

# 2009 Economic Update

# Economic Update: February 2009

## ***Global recession***

- *The global credit crunch became a full blown financial crisis in the fall of 2008. The US recession, which began in December 2007, deepened in late 2008 and is expected to linger through most of 2009 despite the massive fiscal and monetary stimulus by US authorities.*
- *The International Monetary Fund is now forecasting a global recession this year as other major developed economies, including Canada, have followed the US into recession. The global economy is expected to recover in 2010.*

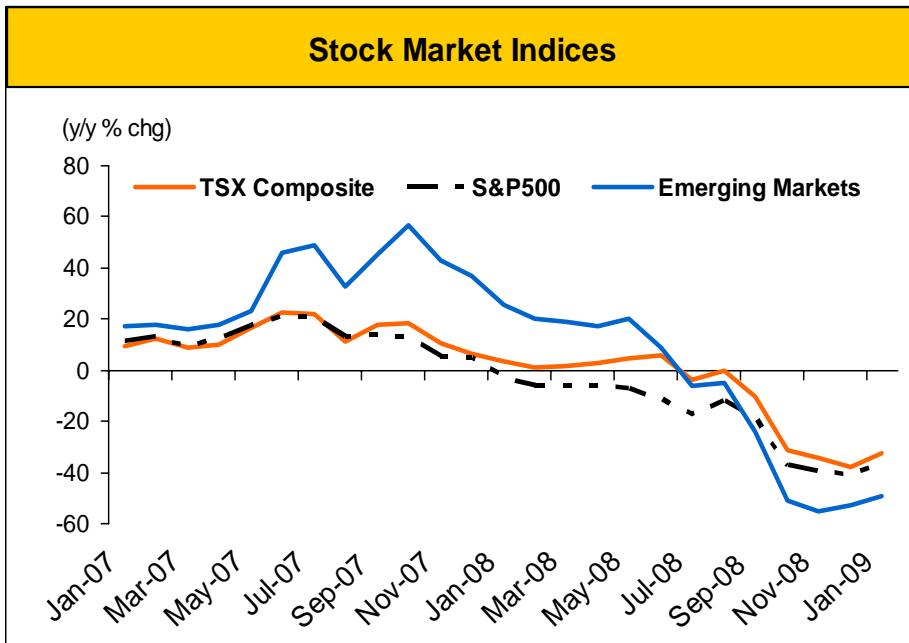
## ***Energy prices pull back***

- *Both oil and natural gas prices dropped sharply in the fall of 2008 as the global economic outlook deteriorated. Oil prices have fallen from a record high of US\$147 per barrel in July 2008 to around US\$35. Natural gas prices have also slipped.*
- *The sharp drop in energy prices and tight credit conditions led companies to slash planned capital spending in 2009, including deferrals of major oil sands projects and cancellations of upgraders.*

## ***Alberta economy facing recession in 2009***

- *High energy prices helped cushion the effects of the US recession and financial crisis for much of 2008, keeping Alberta's economic growth at an estimated 1.5%.*
- *Alberta's economy is expected to contract by 2% in 2009, due to the sharp cutbacks in business investment. The recession is expected to lead to about 15,000 lost jobs and an increase in the unemployment rate to an average of 5.8% in 2009.*
- *Alberta's economic performance is expected to improve as the global economy recovers.*

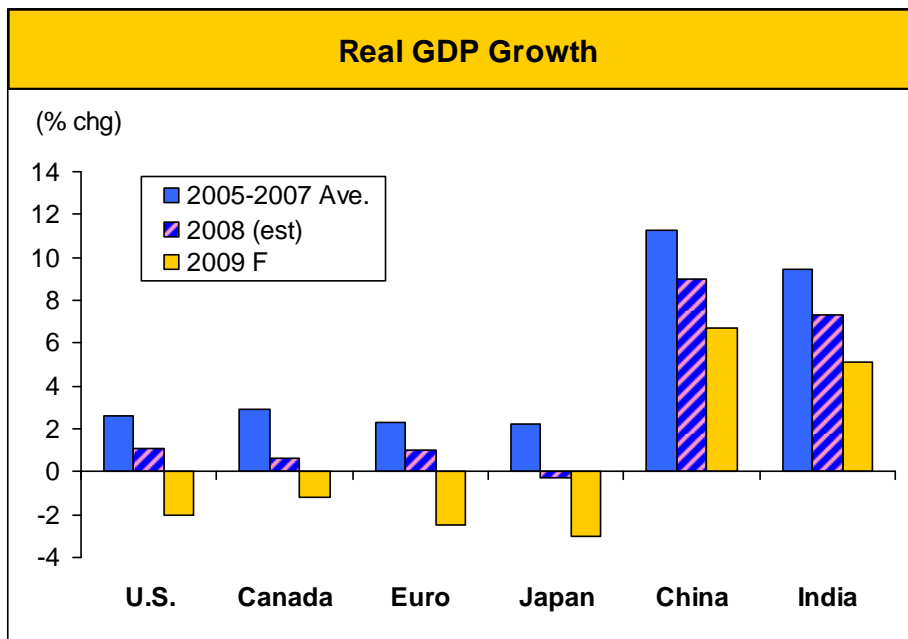
## Credit crunch turns into a global financial crisis



Source: Yahoo Finance

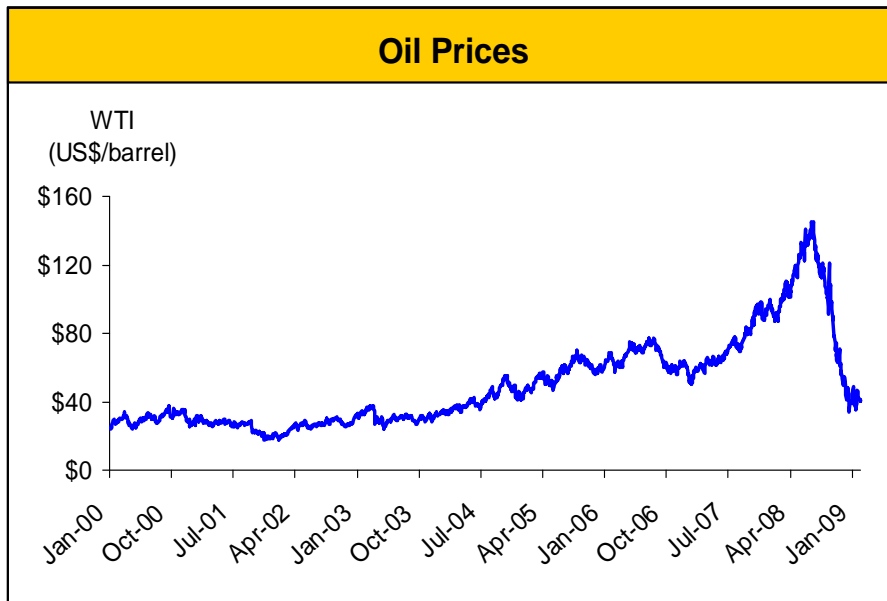
The credit crunch that originated with the subprime mortgage meltdown in the United States turned into a full-blown global financial crisis in September 2008. The failure and near-failure of several large financial institutions in the United States and Europe shook investor confidence and sent equity prices crashing across the globe.

## A global economic recession



The credit crisis has triggered a global economic recession. Major developed countries like the US, Japan and Europe are officially in recession. Despite its strong financial system, historically low interest rates and the federal fiscal stimulus, the Canadian economy is expected to shrink by 1.2% in 2009. Growth in emerging markets has also slowed significantly.

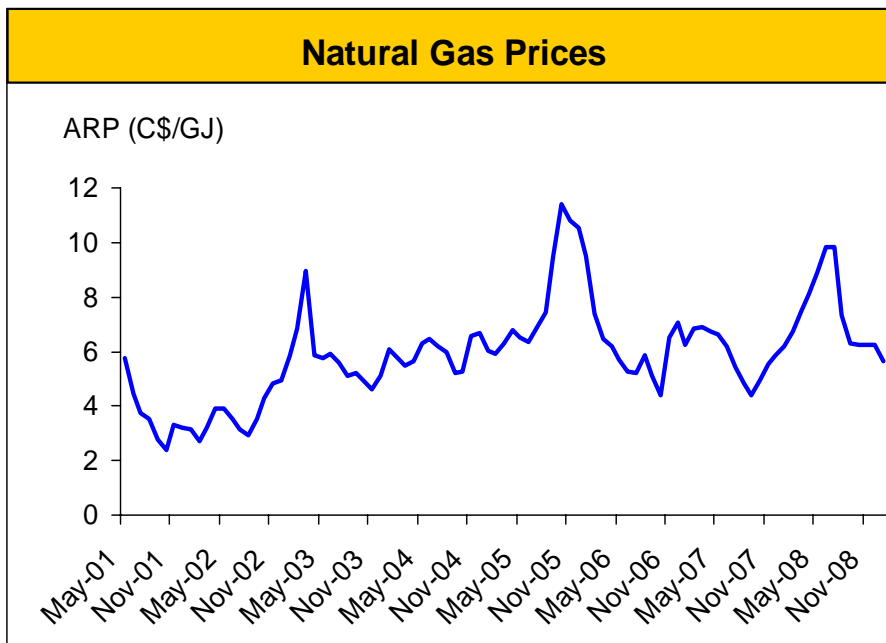
## Rollercoaster oil prices



Source: Alberta Energy

*A weakening US dollar and strong growth in emerging markets pushed up oil prices to a record high of US\$147 per barrel in July 2008. Since then, weakening global growth and falling oil demand dragged down oil prices, which are currently around US\$35. The current global economic uncertainty is expected to keep oil prices volatile.*

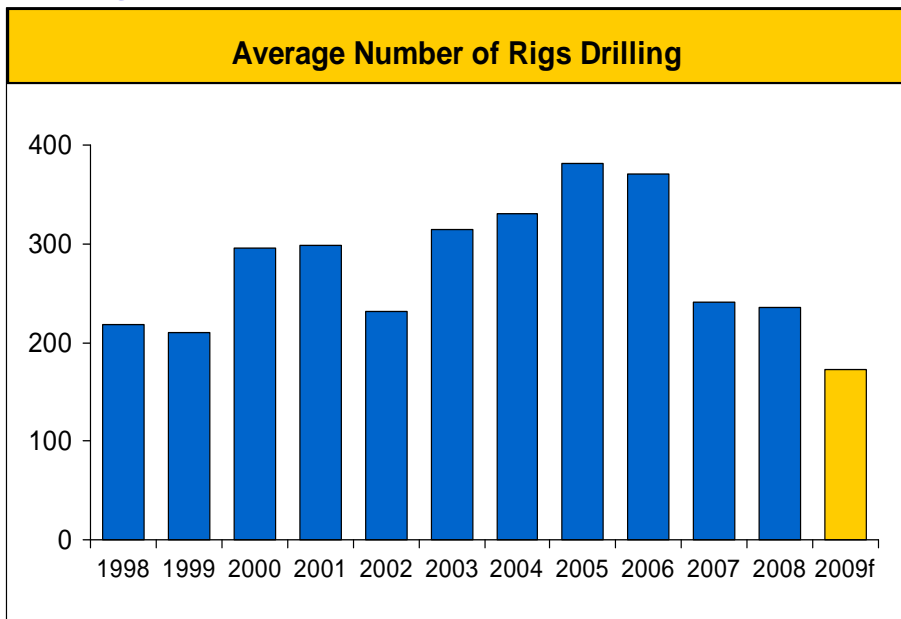
## Natural gas price recovery cut short



Source: Alberta Energy

*After a weak run in 2007, natural gas prices began to recover in early 2008. However, the recovery was halted in mid 2008 by plunging oil prices, the US recession and rising US gas production. Although the Alberta Reference Price peaked at C\$9.84 per gigajoule in July, it has since fallen to an estimated C\$5.67 per gigajoule in January.*

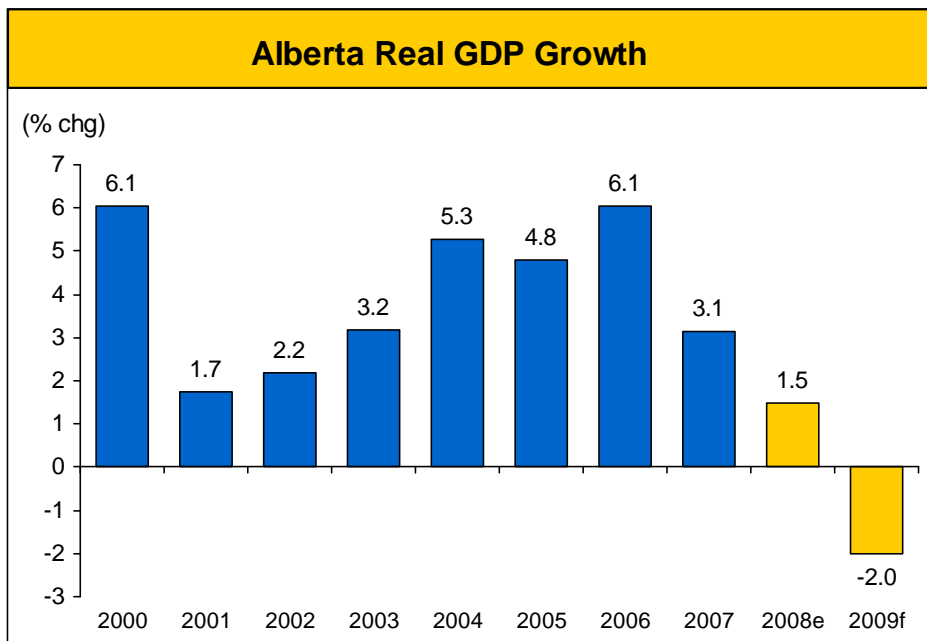
## Energy investment slumps



Although conventional drilling activity in Alberta had begun to recover in the summer of 2008, by the end of 2008, the sharp fall in energy prices and tight credit conditions had depressed activity. Drilling activity is expected to drop by 27% in 2009. Investment in non-conventional energy is expected to drop by 50% according to a recent forecast by the Canadian Association of Petroleum Producers.

Source: Canadian Association of Oilwell Drilling Contractors and Alberta Finance and Enterprise

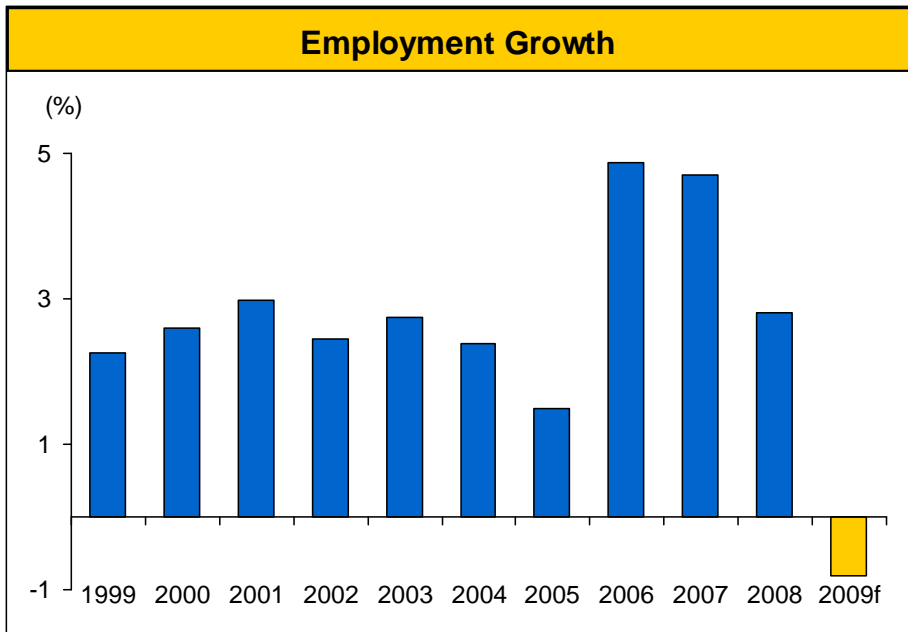
## ... and Alberta faces a recession



Since business investment accounts for about a quarter of the economy, Alberta's economy is expected to contract by 2.0% in 2009. This follows several years of exceptionally rapid growth, which was driven by the investment boom in the energy sector.

Source: Statistics Canada and Alberta Finance and Enterprise

## Employment declines

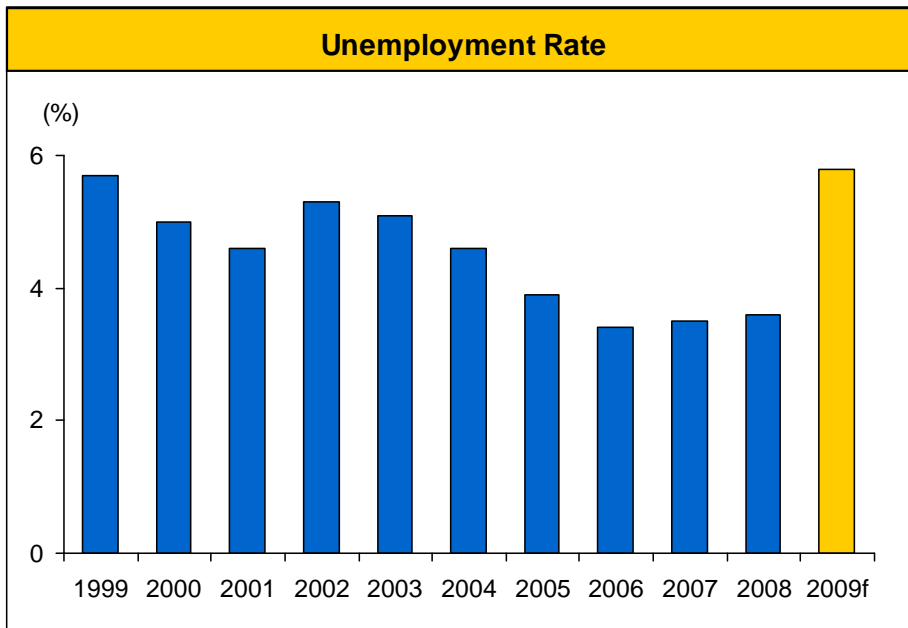


Source: Statistics Canada and Alberta Finance and Enterprise

*After the exceptional growth of previous years, job growth in Alberta moderated to 2.8% in 2008 as the economy created almost 54,000 jobs. This was the fastest growth among the provinces.*

*Employment in Alberta is expected to fall by 15,000 or 0.8% in 2009 in response to adverse global economic conditions and lower energy prices.*

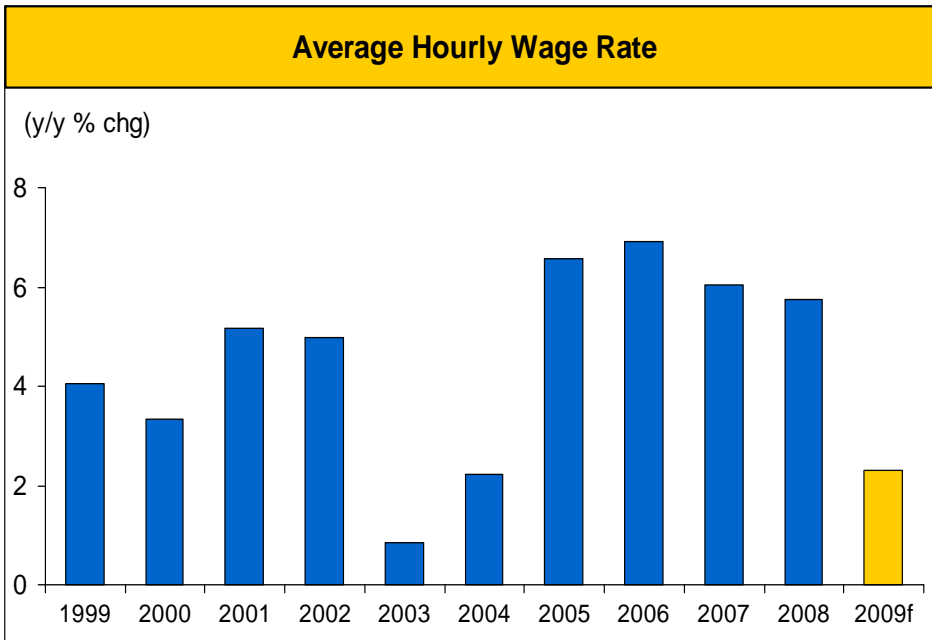
## Unemployment rate climbs



Source: Statistics Canada and Alberta Finance and Enterprise

*Labour shortages remained an issue in 2008, as Alberta's unemployment rate averaged 3.6%, the lowest among the provinces. Alberta's unemployment rate is expected to reach 5.8% in 2009. This is similar to the levels prevailing in the late 1990s prior to the beginning of the recent economic boom.*

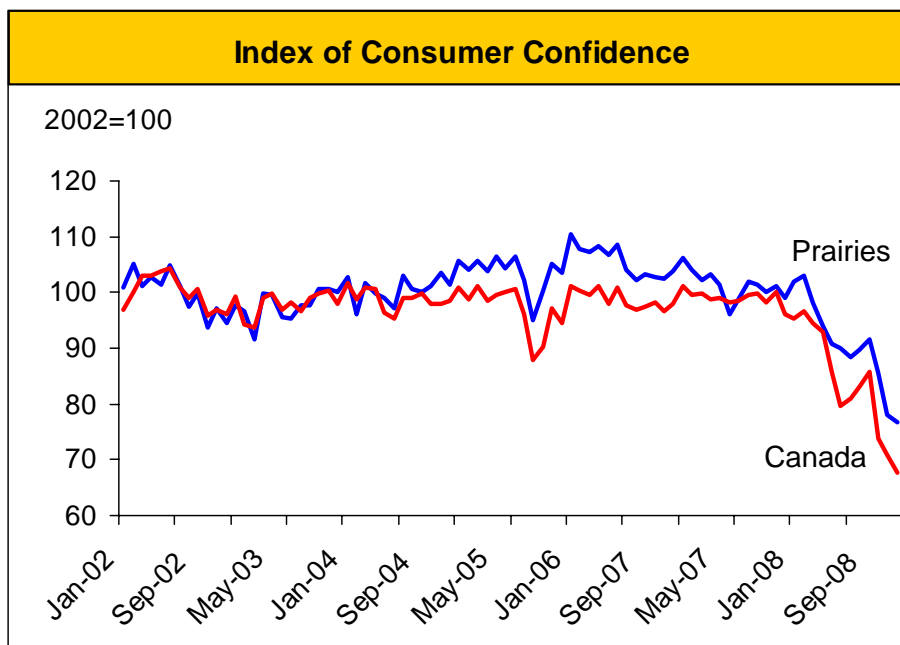
## Wage growth expected to moderate



Source: Statistics Canada and Alberta Finance and Enterprise

*With labour shortages easing, growth in average hourly wages is forecast to moderate to 2.3% in 2009. This is down from the unsustainably rapid increases of around 6% over the past four years.*

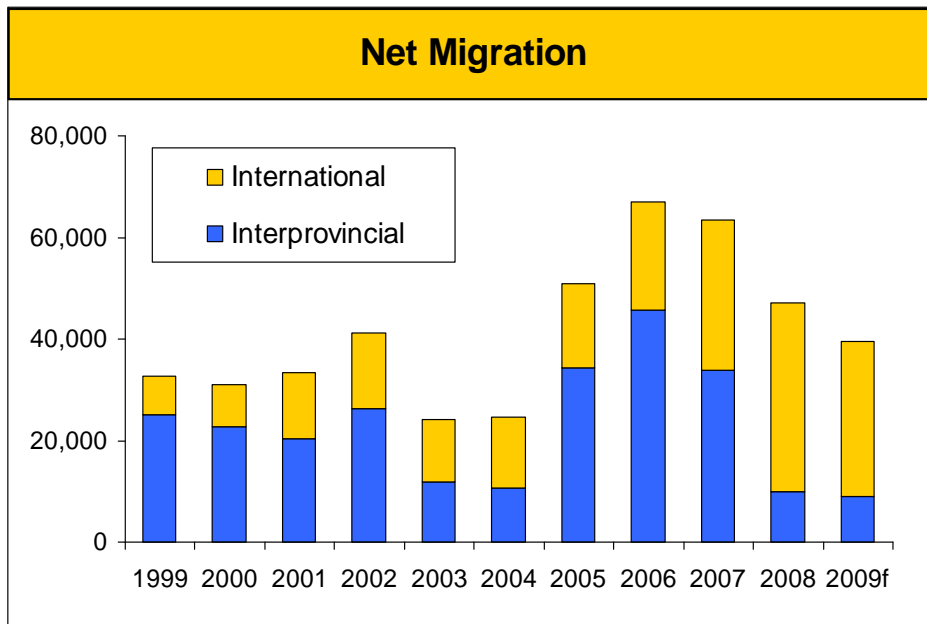
## Consumer confidence deteriorates



Source: Conference Board of Canada

*Deteriorating global economic conditions, crashing equity prices and falling house prices sapped consumer confidence in Canada. In December 2008, the index of consumer confidence in Canada fell to its lowest level since the recession in the early 1980s. Consumer confidence held up better in the Prairies.*

## Net migration slows

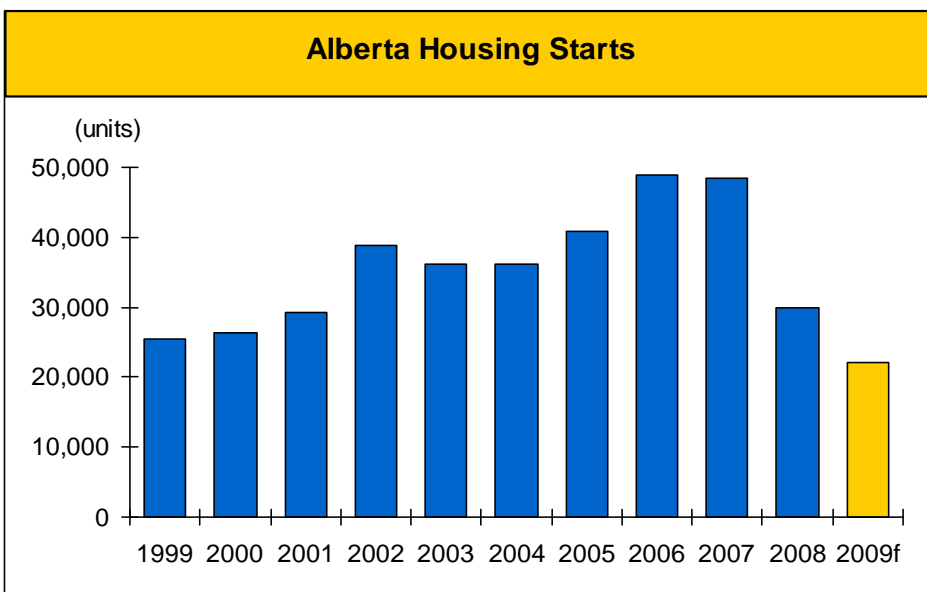


*Both international and interprovincial migration have been exceptionally strong in recent years. In 2008, however, net interprovincial migration slowed as growth strengthened in other western provinces although international migration remained at record levels. Inflows of temporary workers are expected to slow in 2009, while interprovincial migration is expected to remain largely unchanged.*

Source: Statistics Canada and Alberta Finance and Enterprise

\* International includes permanent and non-permanent residents

## Housing market correction

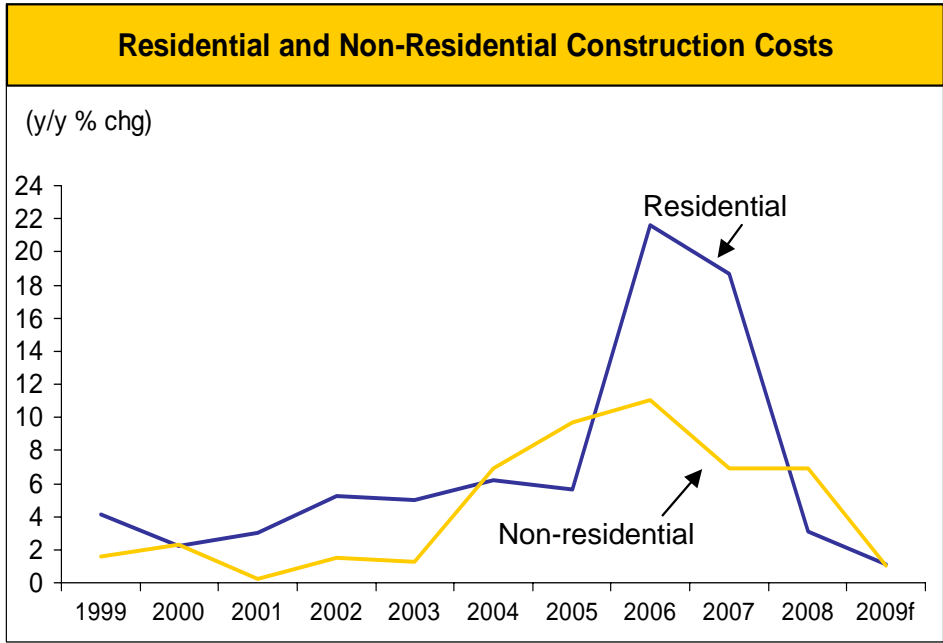


*Alberta's housing market experienced a sharp but orderly correction in 2008. Housing starts fell by nearly 40% compared to 2007. Although housing starts averaged 30,000 in 2008, they dropped to around 17,000 in January 2009. Low consumer confidence and weaker migration flows are expected to keep housing starts weak in 2009.*

Source: Canada Mortgage and Housing Corporation and Alberta Finance and Enterprise



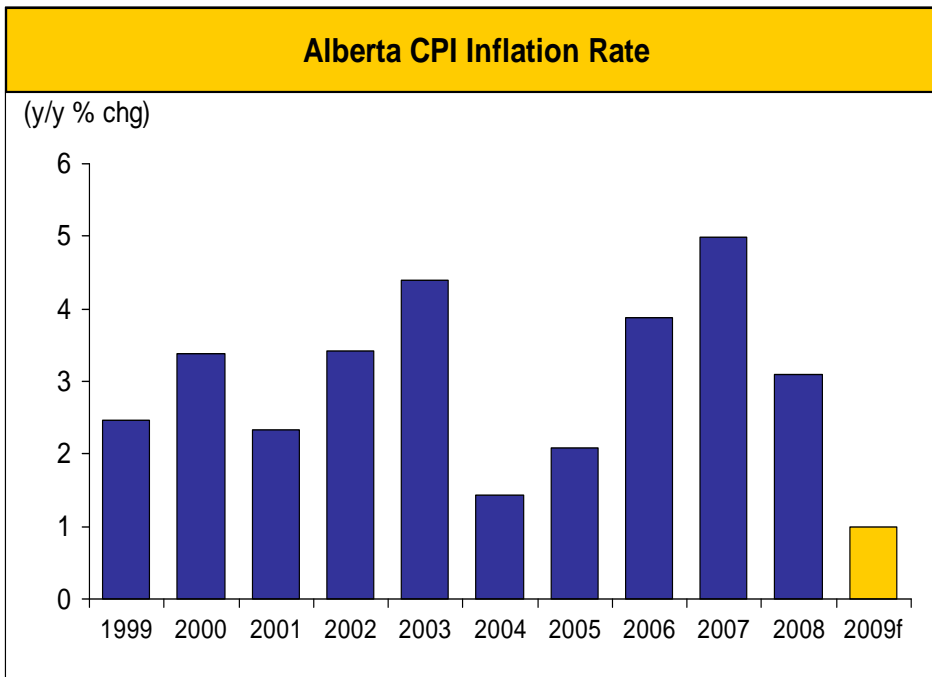
## Cost pressures expected to ease



*With raw materials prices declining and labour costs moderating, the construction cost pressures that originated during the recent boom are expected to recede.*

Source: Statistics Canada and Alberta Finance and Enterprise

## Inflation no longer a concern



*Alberta is no longer the inflation leader among provinces.*

*Alberta's inflation rate is expected to fall from 3.1% in 2008 to 1.0% in 2009. This will improve Alberta's competitiveness and help set the stage for a return to sustainable long-run growth as the global economy emerges from recession.*

Source: Statistics Canada and Alberta Finance and Enterprise