

Mid Year

Economic Update



Key Economic Assumptions*

Fiscal Year Assumptions	2005-06	2006-07	2007-08	2008-09	
	Actual	Actual	Actual	Budget	Update
Prices					
Crude Oil Price					
WTI (US\$/bbl)	59.97	64.89	82.25	78.00	119.25
Alberta Wellhead (Cdn\$/bbl) ^a	59.50	63.34	73.80	69.97	109.19
Bitumen @ Edmonton (Cdn\$/bbl) ^b	33.52	39.86	43.72	38.90	67.28
Natural Gas Price					
Alberta Reference Price (Cdn\$/GJ)	8.29	5.94	5.92	6.75	8.50
Production					
Conventional crude oil (000's barrels/day)	567	537	520	506	500
Non-conventional crude oil (000's barrels/day)	1,019	1,201	1,257	1,671	1,513
Natural gas (billions of cubic feet)	5,271	5,271	5,103	4,915	4,918
Interest rates					
3-month Canada treasury bills (%)	2.98	4.14	3.84	2.50	2.55
10-year Canada bonds (%)	4.04	4.20	4.18	3.50	3.75
Exchange Rate (US¢/Cdn\$)	83.9	87.9	97.1	98.8	98.8
<hr/>					
Calendar Year Assumptions					
	2006	2007	2008		
	Actual	Actual	Budget	Update	
Gross Domestic Product					
Nominal (millions of dollars)	240,025	259,941	282,889	306,060	
% change	8.0	8.3	9.0	17.7	
Real (millions of 2002 dollars)	183,372	189,470	194,302	194,359	
% change	6.6	3.3	2.9	2.6	
Other Indicators					
Employment (thousands)	1,871	1,959	2,014	2,016	
% change	4.8	4.7	2.8	2.9	
Unemployment rate (%)	3.4	3.5	3.6	3.6	
Average weekly earnings (% change)	4.9	4.5	4.7	5.2	
Personal income (% change)	12.0	10.0	8.2	8.3	
Corporate profits (% change)	-0.5	6.4	10.5	39.6	
Housing starts (number of units)	48,962	48,336	43,800	32,200	
Alberta Consumer Price Index (% change)	3.9	5.0	3.4	3.9	
Population (thousands)	3,371	3,474	3,542	3,536	
% change	2.7	3.1	2.0	1.8	

* Historical data has been revised to reflect Statistics Canada data releases since the Budget.

^a Refers to the average price per barrel of Alberta light, medium and heavy oil.

^b The bitumen price is an estimate prepared by Alberta Energy of the price at Edmonton and is not an actual market price.

Mid Year Economic Update

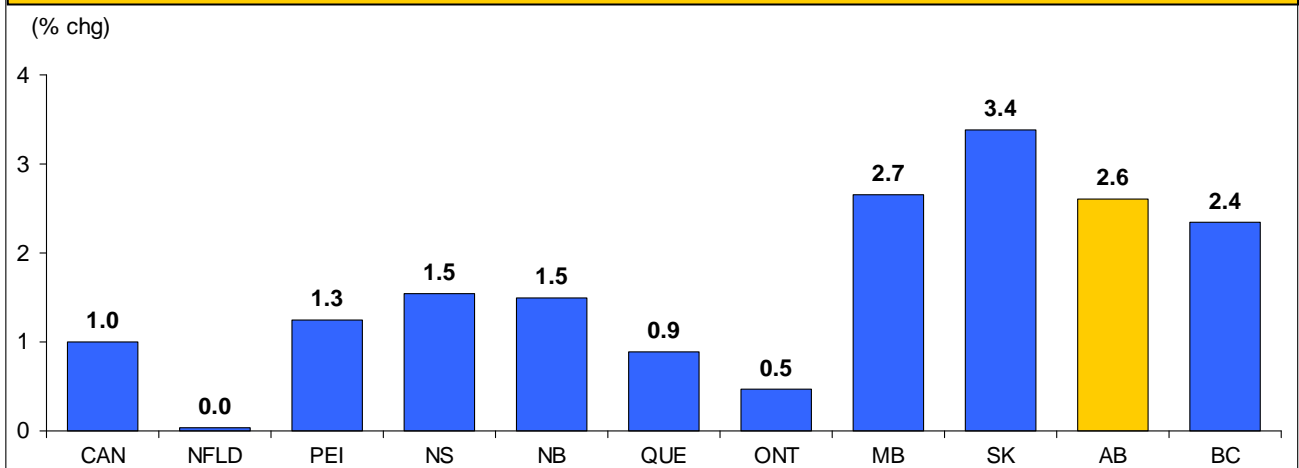
External environment: slowing global growth and rising inflationary pressures

- The world economy is being negatively affected by the U.S. economic slump, unsettled global financial markets and high commodity prices. Canada's economic growth is now forecast at 1% in 2008 compared to 1.8% in the Budget. Strong growth in emerging markets is expected to keep overall global growth in the range of 3.5% to 4% in 2008.
- Rising food and energy prices are boosting inflationary pressures around the world. The high Canadian dollar helped insulate Canadians from rising commodity prices last year, but the effects are dissipating. The Bank of Canada, like other central banks, is concerned about inflation pressures and has stopped cutting interest rates despite the global economic slowdown.

Alberta faring well

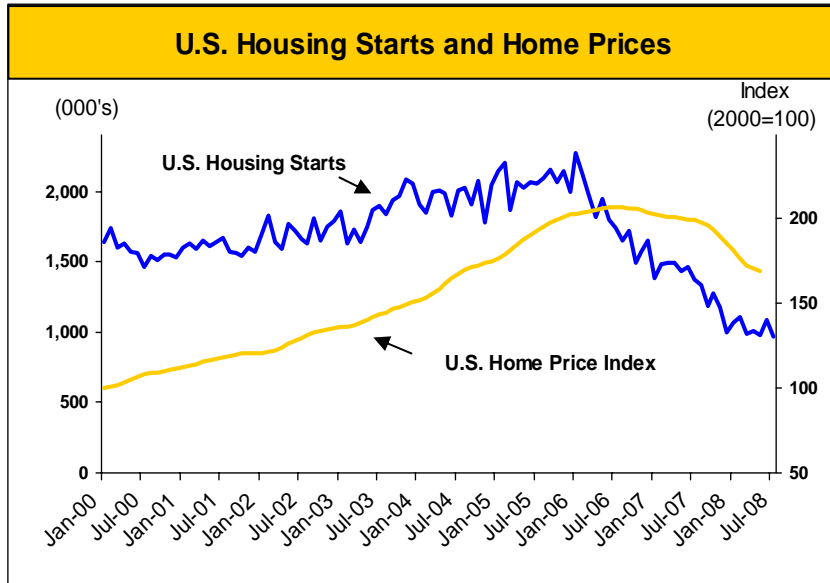
- Alberta's economic growth moderated to 3.3% in 2007, after growing at an unsustainable pace of almost 6% between 2004 and 2006. Alberta's real GDP growth is now expected to be 2.6% in 2008, compared to the budget forecast of 2.9% because of developments in the housing market, and temporary declines in non-conventional oil production in the first half of 2008. The expected rebound in oil production next year is likely to boost economic growth in 2009.
- The Alberta labour market remains strong. Employment is up 3% through July, compared to a 1.9% increase for Canada as a whole. Alberta's economy is essentially at full employment. The unemployment rate has averaged 3.6% so far this year, the lowest among the provinces.
- Higher than expected energy prices have raised the forecast growth in nominal GDP to 17.7% from 9% in the Budget.
- The revised forecast for real GDP growth of 2.6% in 2008 is similar to various private sector forecasts, which call for Alberta's economic growth to rebound to over 3% on average between 2009 and 2011.

2008 Real GDP Growth Forecasts



Source: Alberta Finance and Enterprise, various financial institutions and forecasting agencies

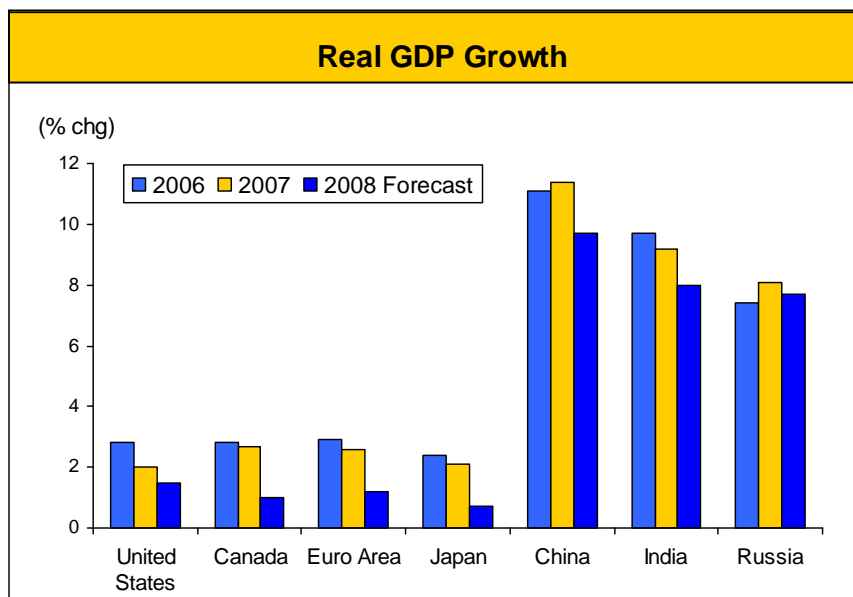
U.S. growth hit by housing slump



Sources: U.S. Department of Housing and Urban Development and S&P/Case-Shiller Home Price Index

The ongoing U.S. housing slump is not only dragging down U.S. growth, but also resulting in large write-downs by global financial institutions and tight global credit conditions. Healthy export growth and tax rebates helped the U.S. economy expand faster than expected in the first half of 2008. With growth slowing sharply in the second half of 2008 as the tax stimulus fades, U.S. growth is expected to average 1.5% in 2008.

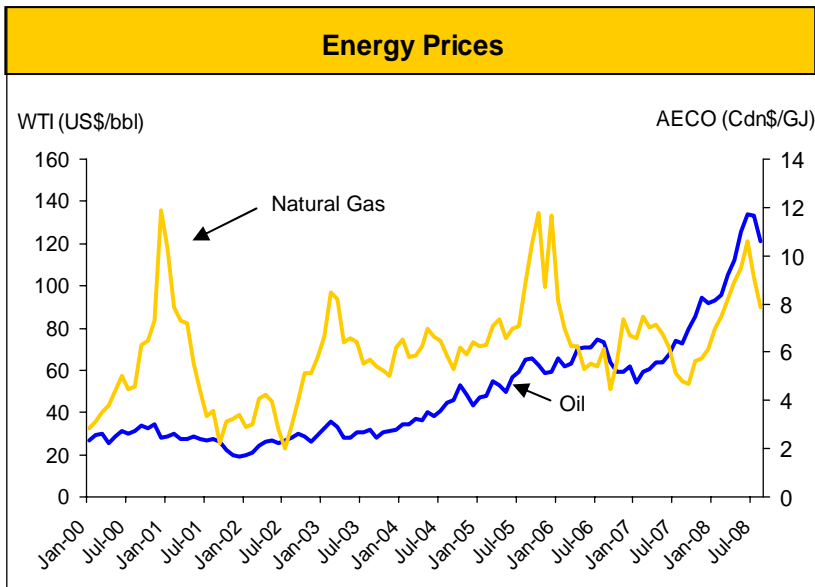
Emerging markets still leading growth



Sources: International Monetary Fund and Alberta Finance and Enterprise

Growth in Canada, Europe and Japan has slowed sharply in 2008 in response to tight credit markets and the U.S. slump; the possibility of a technical recession has risen. Canada's economic growth is forecast to slow to around 1% in 2008 from 2.7% in 2007. Overall global economic growth, however, is expected to slow from 5.0% in 2007 to 3.5%-4% in 2008 because of strong growth in emerging markets such as China, India and Russia.

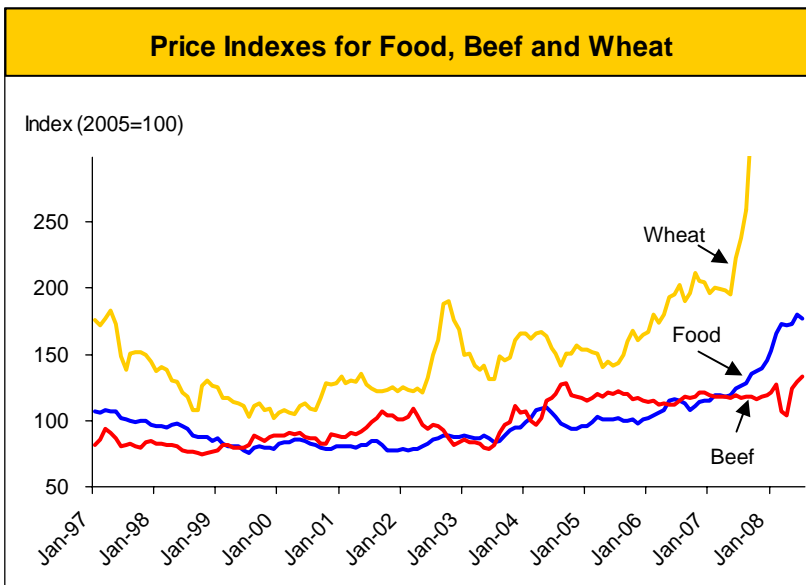
High energy prices



Source: Alberta Energy

Oil prices surged to a record close of US\$145/bbl in mid-July before falling back to around US\$115 in mid-August. Some analysts argue that prices are being driven by rising demand from emerging markets and limited production increases. Others argue that the increase is due to a speculative bubble. The forecast for world oil prices in 2008-09 has increased to US\$119.25/bbl from US\$78 in Budget 2008, while the natural gas price forecast has increased to C\$8.50/GJ from C\$6.75/GJ.

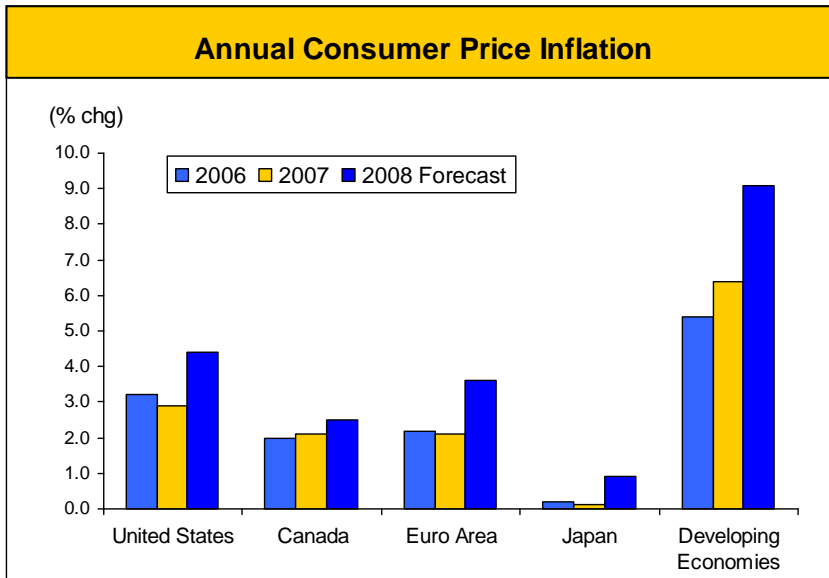
Escalating global food prices



Source: International Monetary Fund

Global food prices have also surged over the last year, increasing by 54% since the beginning of 2007 due to the run-up in grain prices. Strong demand growth from emerging markets, increased biofuel production and reduced supply caused by droughts helped boost wheat prices to record levels in early 2008. Although wheat prices have fallen back since February, they are still up by 67% since the beginning of 2007. Livestock prices have been relatively flat, however.

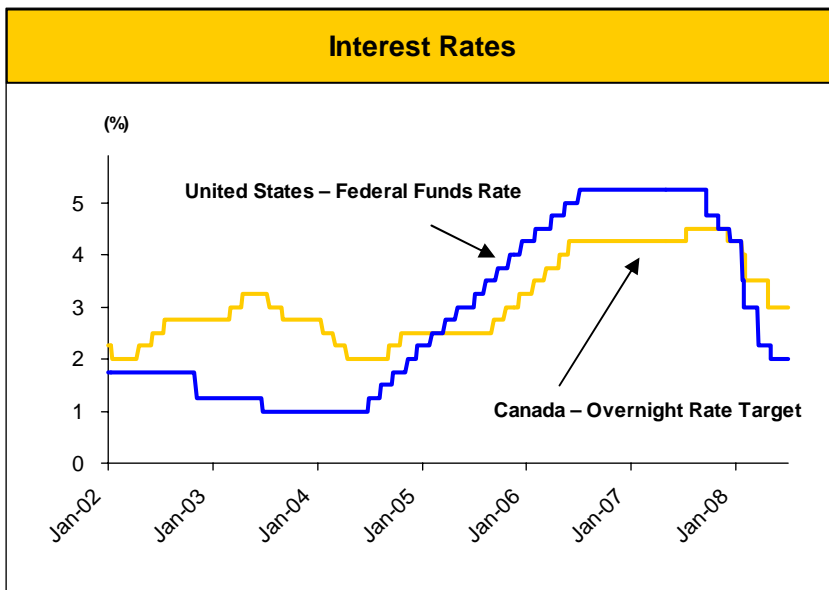
Rising global inflation ...



Sources: Organization for Economic Co-Operation and Development and various financial institutions

Rising energy and food prices have put significant upward pressures on global inflation, particularly in emerging markets where they make up a greater portion of consumer spending. Although the strong dollar helped mitigate Canada from rising global commodity prices, Canada's inflation rate rose from 1.4% in March to 3.4% in July mainly because of rising gasoline prices.

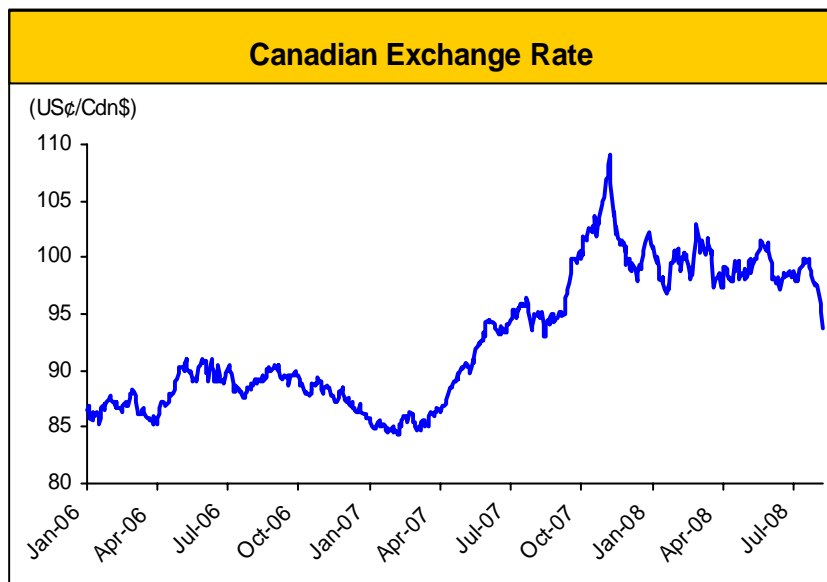
... worries central banks



Sources: Bank of Canada and the U.S. Federal Reserve

Major central banks are concerned about rising inflationary pressures. Central banks in the United States, the United Kingdom and Canada had cut interest rates dramatically in late 2007 because of the turmoil in global financial markets and weakening growth prospects. The U.S. Federal Reserve and the Bank of Canada have put interest rates on hold, and indicated that rates may have to rise if inflationary pressures continue.

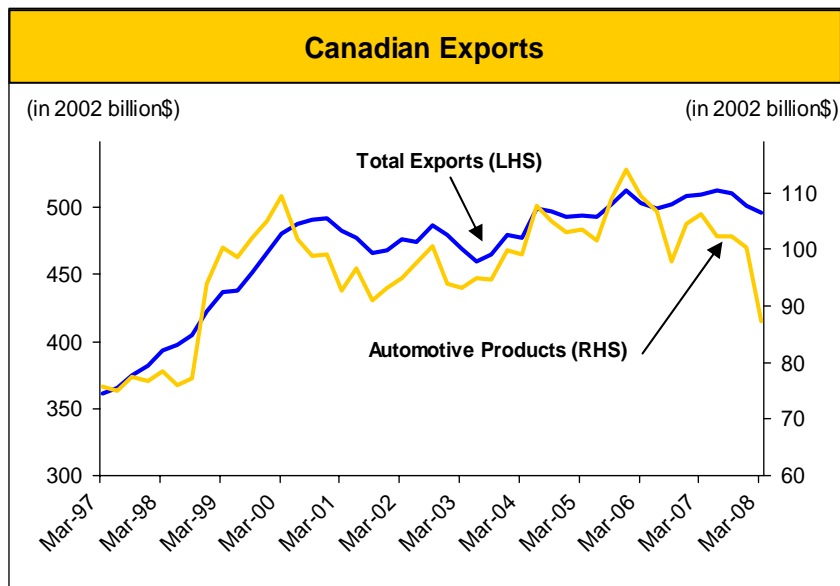
The Canadian dollar remains strong ...



In 2007, rising commodity prices helped drive up the Canadian dollar against a weak U.S. currency. After reaching an intra-day trading high of US\$1.10 in early November 2007, the loonie hovered around parity until early August when it fell to around US94 cents as the U.S. dollar began to strengthen against major currencies.

Source: Bank of Canada

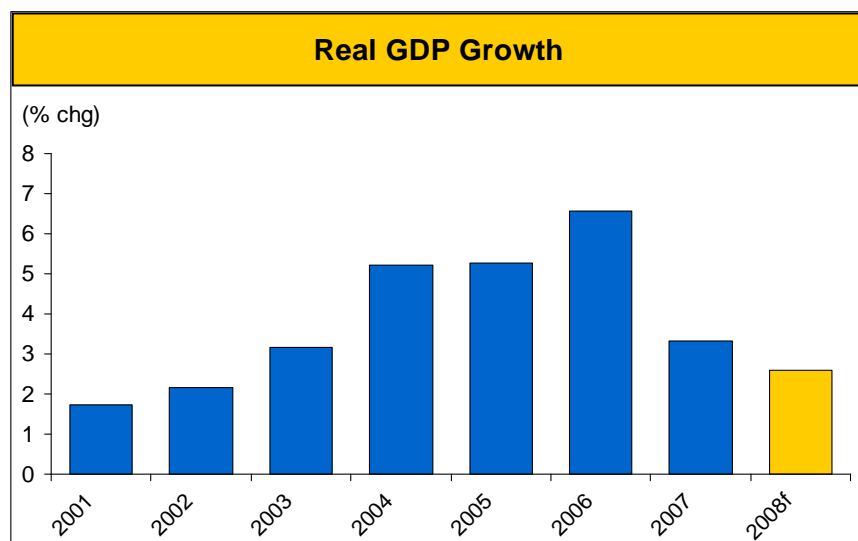
...and Canadian exports weak



The strong Canadian dollar has put significant pressure on Canadian exporters, which are also under pressure from the U.S. slowdown. In the first quarter of 2008, total exports were down 2.6% compared to the same quarter in 2007. Exports of automotive products were particularly hard hit, dropping 17.8% in real terms.

Source: Statistics Canada

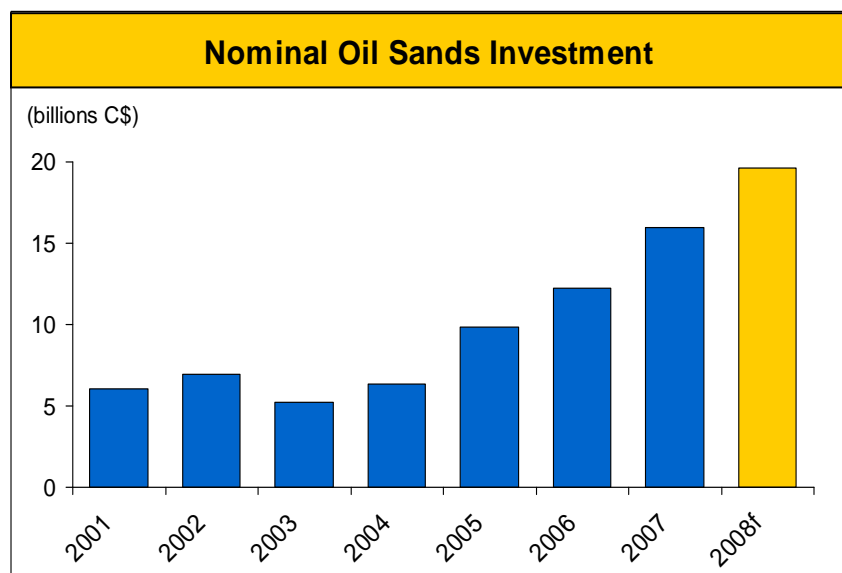
Alberta's economic growth moderating



Source: Statistics Canada and Alberta Finance and Enterprise

Alberta's annual real GDP growth averaged 5.7% between 2004 and 2006. Despite high oil prices, real GDP growth moderated to 3.3% in 2007 and is expected to be 2.6% in 2008, compared to the budget forecast of 2.9%. The housing market has come off record highs more quickly than initially expected, and non-conventional oil production unexpectedly declined in the first half of the year due to temporary problems.

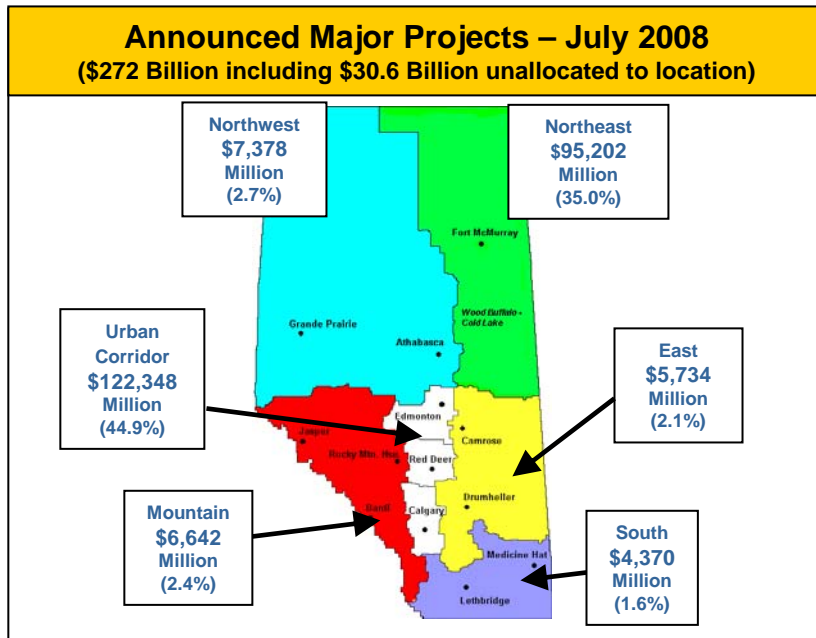
Oil sands investment a key driver



Source: Statistics Canada

The rapid expansion in oil sands investment has been a major growth driver in Alberta in recent years. According to Statistics Canada, oil sands investment will reach almost \$19.7 billion in 2008, the highest on record.

Major investment projects localized

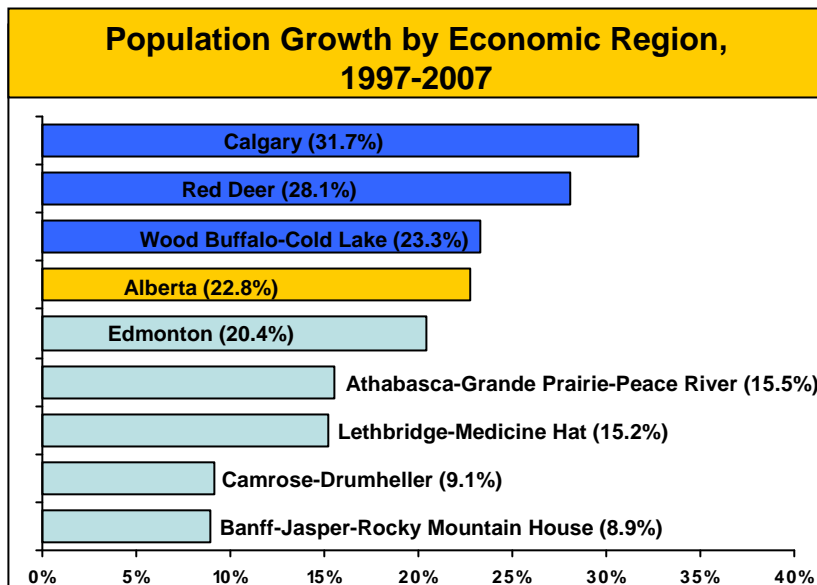


Source: Alberta Finance and Enterprise

In July 2008, the value of major Alberta projects was \$272.2 billion, with the energy sector accounting for almost 64% of the total. This is up from 49.9% in 1998.

Although the majority of these construction projects were in the Edmonton-Calgary corridor (44.9%), Wood Buffalo accounted for 35% of the major investment projects despite having only 3.6% of Alberta's population.

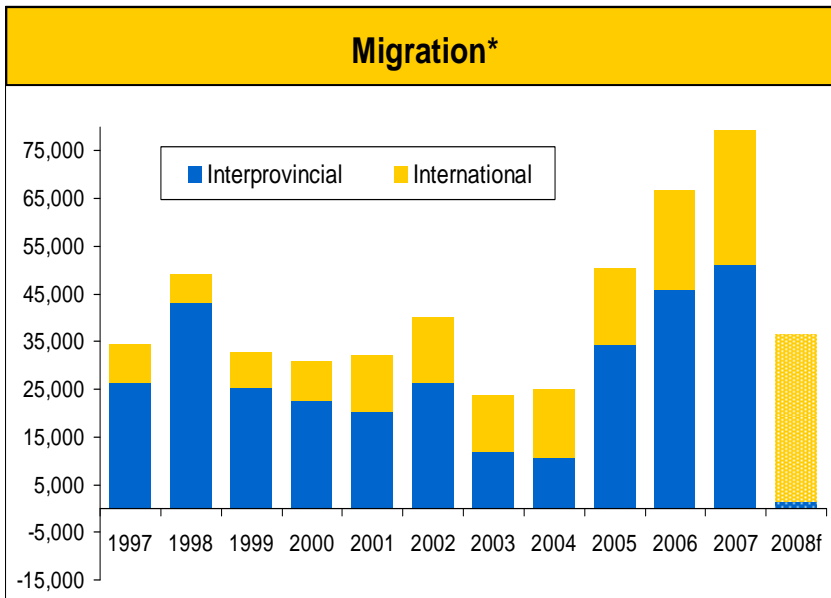
Regional population growth varies



Alberta's population grew by almost 23% between 1997 and 2007. Calgary led the economic regions in overall population growth, although Wood Buffalo had the fastest growth among census divisions with a 48.2% increase. Overall population growth was weakest in the Rocky Mountain region. Annual population growth peaked at 3.1% in the 2007 census year as net migration reached record highs.

Source: Statistics Canada and Alberta Finance and Enterprise

Slowing migration

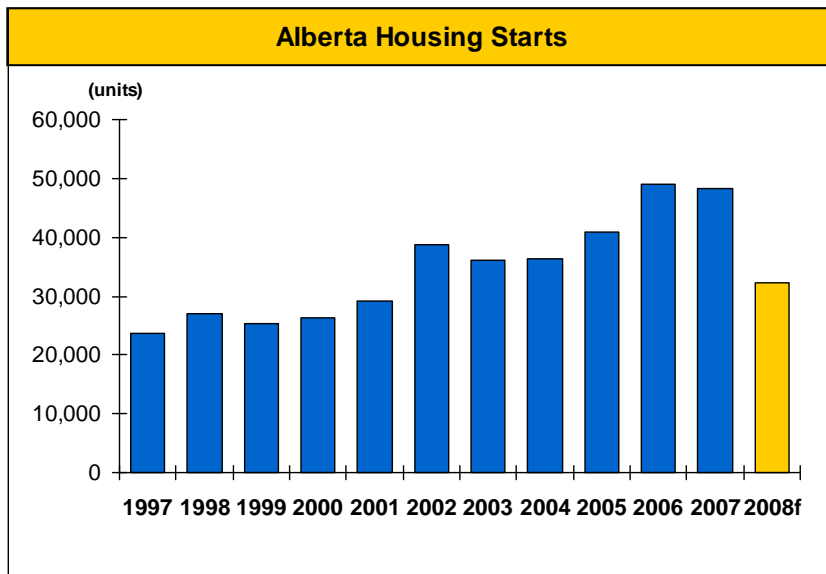


*based on census year: July 1st of the previous year to June 30th of the current year

Source: Statistics Canada and Alberta Finance and Enterprise

Although international migration remains at record highs, the slowdown in net interprovincial migration is expected to slow overall population growth for the 2008 census year to 1.8%, down slightly from its 10-year average of 2.1%. Net interprovincial migration has dropped since mid-2007 as economic growth strengthened in other provinces, particularly Saskatchewan and British Columbia.

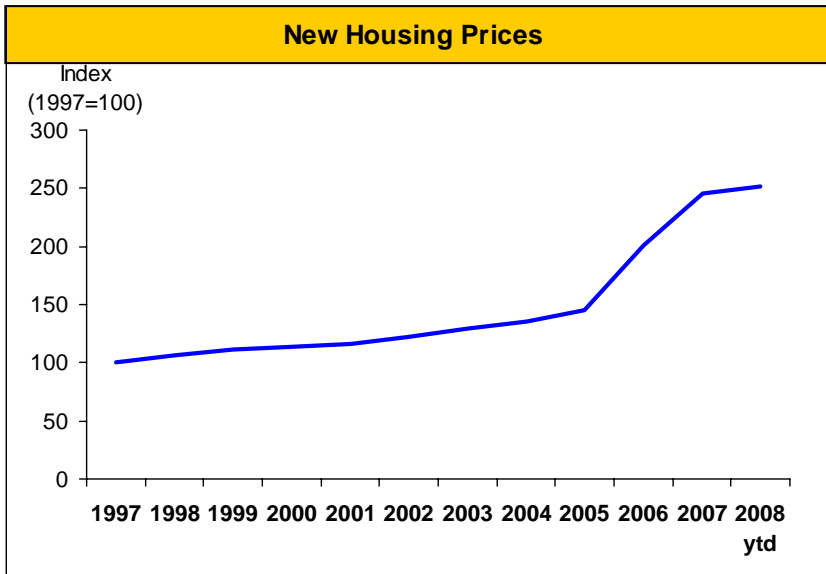
... reduces housing starts



Source: Canada Mortgage and Housing Corp., Alberta Finance and Enterprise

With the slow down in net migration, housing starts have fallen off more sharply in Alberta than in the rest of Canada this year. Housing starts are now expected to total 32,200 in 2008, similar to their average level over the 1997 to 2007 period.

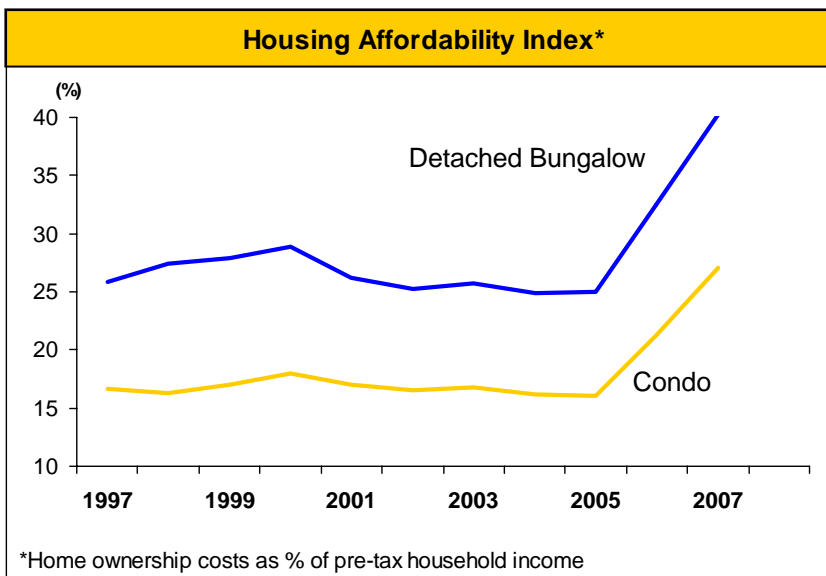
Moderating house prices



Source: Statistics Canada

House prices surged in 2006 and 2007 in response to record housing starts and net migration to the province. Prices remain elevated, but have receded slightly from record levels in Calgary and Edmonton. In June 2008, new house prices in Calgary were 1.7% below their peak in March 2008, while new house prices in Edmonton were 5.7% below their December 2007 peak. For Alberta as a whole, new house prices were up 5.9% in the first half of 2008.

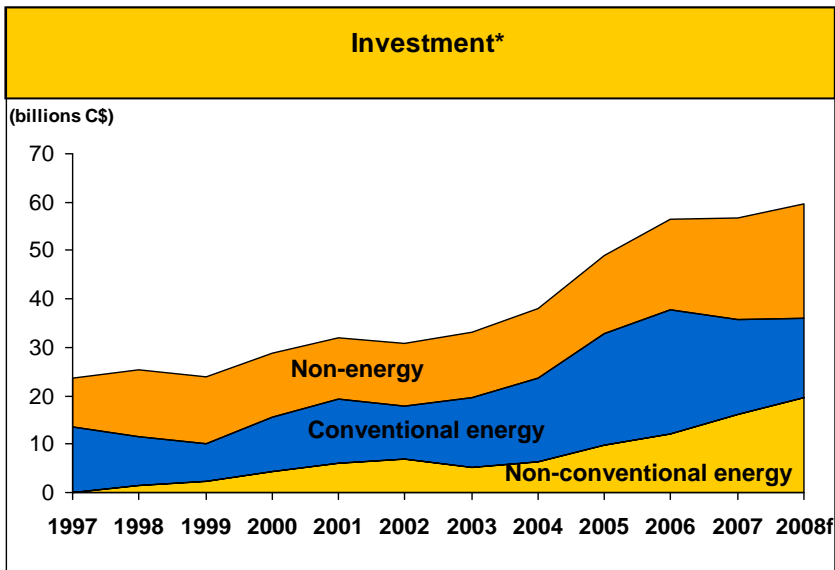
... should improve affordability



Source: Royal Bank of Canada

Housing affordability is largely determined by movements in interest rates and house prices. The recent run-up in Alberta house prices has pushed up mortgage carrying costs and eroded affordability. In the fourth quarter of 2007, the average proportion of household income required to cover housing costs rose to 42.6% for a detached bungalow, the highest after British Columbia.

Business investment stabilizing

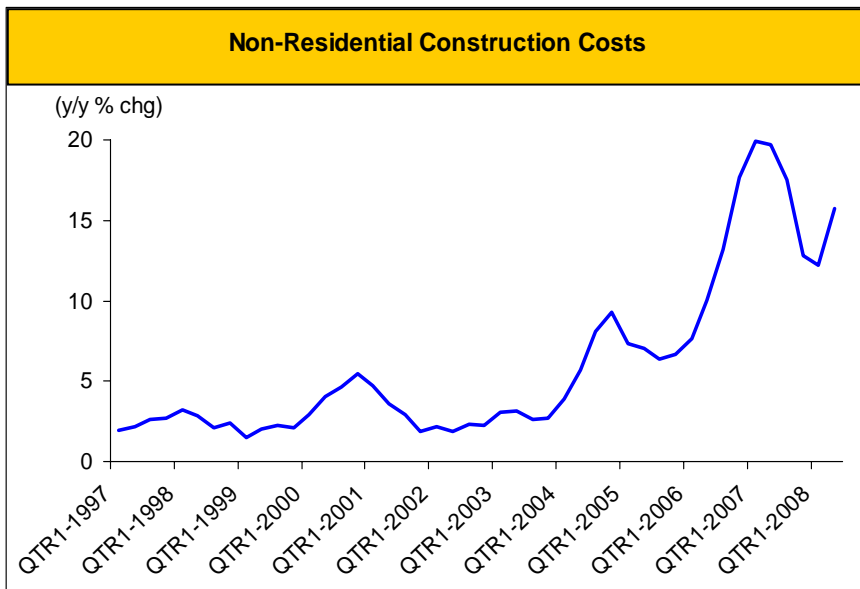


*Data for 2008 is initial intentions, 2007 is preliminary actuals

Source: Statistics Canada

Investment in oil sands is expected to reach almost \$20 billion in 2008. Despite gains in oil sands and the non-energy sector, overall business investment is expected to stabilize this year following the rapid expansion in recent years. Activity in the conventional sector began to weaken in August 2006 as natural gas prices weakened. Higher prices should help to improve the outlook for drilling activity.

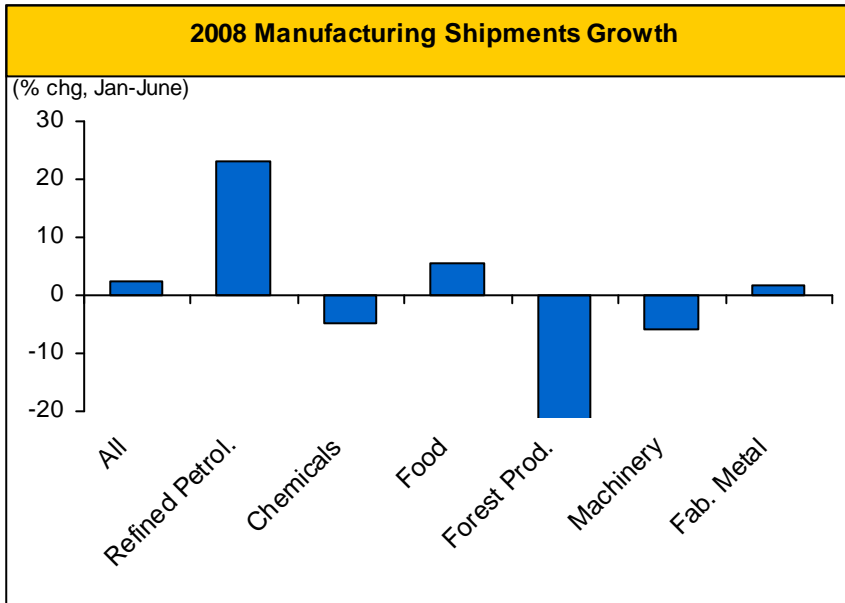
Construction costs ease somewhat



Source: Statistics Canada

Cost pressures in the construction sector appear to be easing somewhat. In the first half of 2008, non-residential construction costs in Calgary and Edmonton were up 14% year-over-year, compared to the 17.3% growth recorded in 2007.

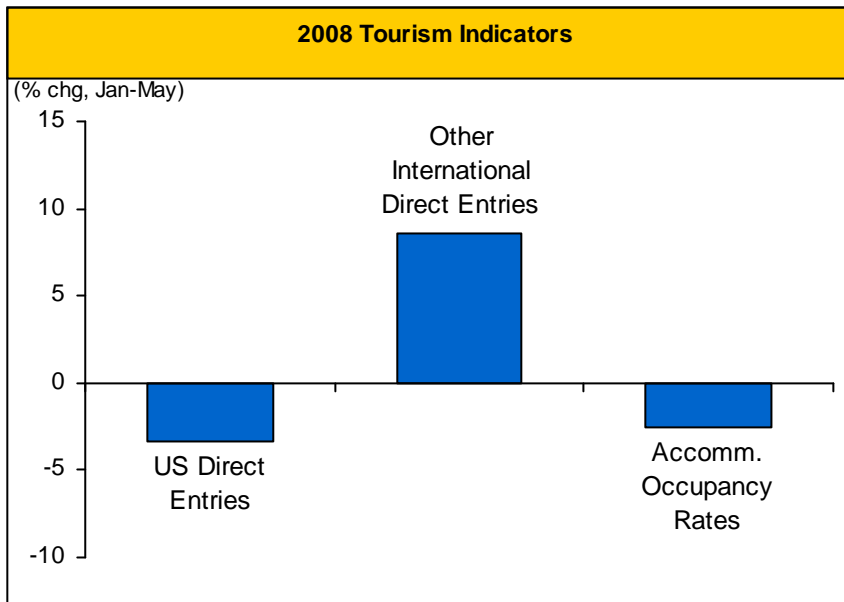
Alberta manufacturing sector struggles



Source: Statistics Canada

Growth in overall manufacturing shipments was limited to 2.4% through June due to the high dollar and slumping U.S. markets. Alberta's wood products (lumber and OSB) have been particularly hard hit. The extent to which lumber and OSB prices have fallen below cost floors is even worse than during the market collapse of the early 1980s.

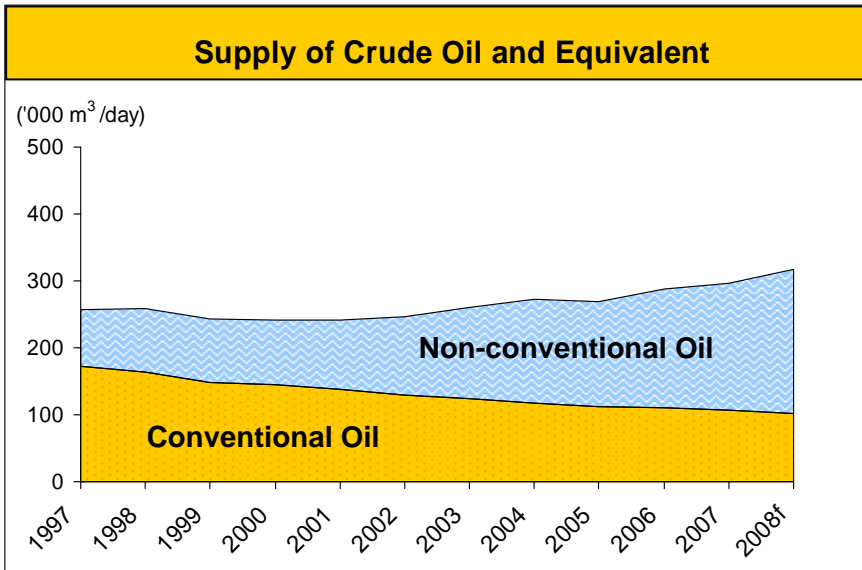
Alberta tourism industry under pressure



Source: Alberta Tourism Market Monitor

Alberta's tourism industry is seeing lower numbers of U.S. tourists because of high gasoline prices and the weak U.S. dollar. High transportation costs are also likely to adversely affect tourist visits from overseas and the rest of Canada during the peak summer season.

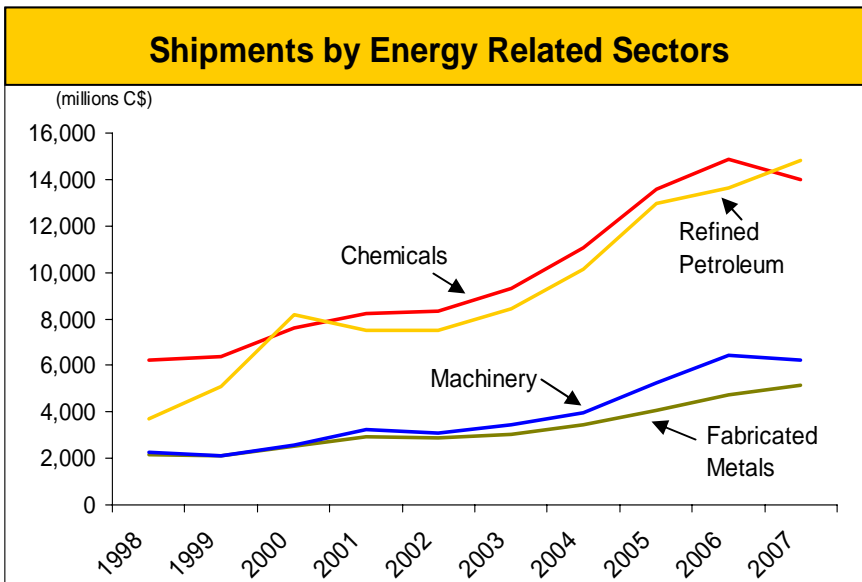
Rising oil sands production



Source: Energy Resources Conservation Board and Alberta Energy

Output from oil sands mines was down in the first half of 2008 due to upgrader maintenance, operational trouble and temporary low grade ore. As a result, oil exports are expected to be essentially flat this year, but are expected to bounce back in 2009 and provide a strong boost to overall economic growth.

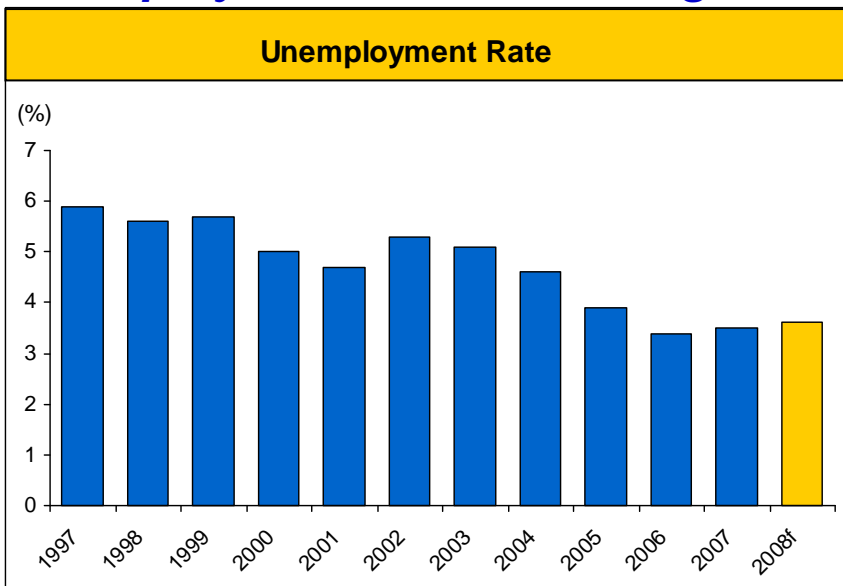
Energy-related manufacturing



Source: Statistics Canada

Alberta's energy-related sectors have done well in recent years. Although shipments of chemicals and machinery have weakened since 2006, shipments of refined petroleum products are up 23% in the first half of 2008 due to rising global prices. Demand for fabricated metals and machinery is influenced by oil sands projects and conventional oil and gas drilling activity.

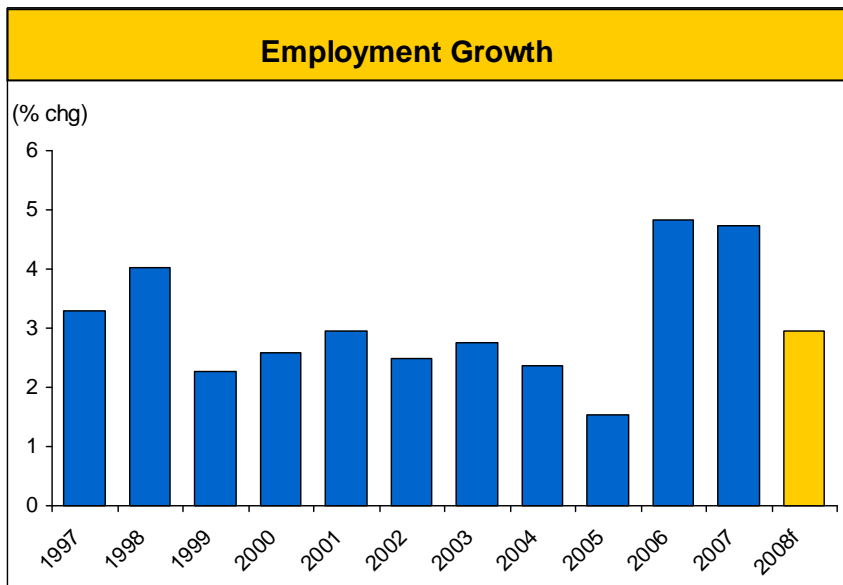
Unemployment remains near generational lows



Alberta's unemployment rate was 3.6% in July 2008, near its lowest level in 30 years and the lowest among the provinces. Alberta is essentially at full employment.

Source: Statistics Canada and Alberta Finance and Enterprise

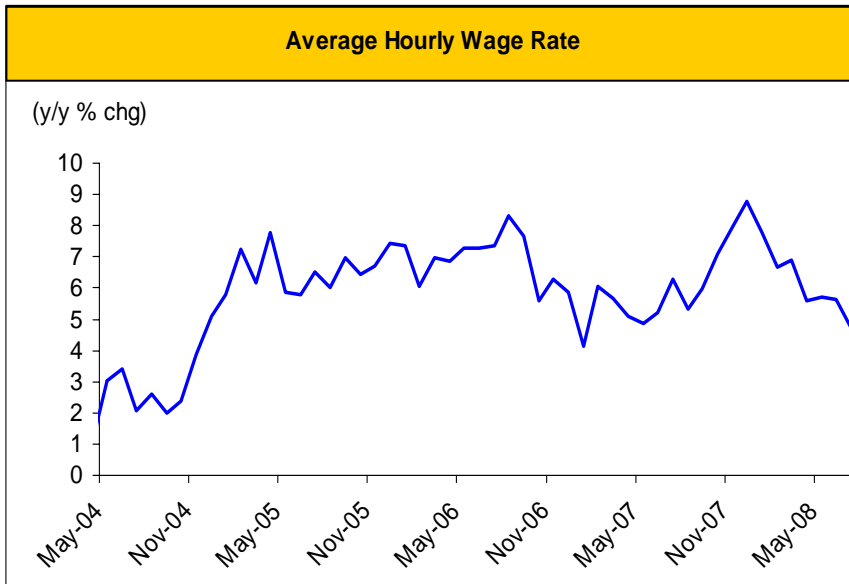
Healthy employment growth



Total employment is expected to increase by 57,000 or 2.9% in 2008. While this is slower than the exceptionally rapid growth in the past two years, it is well above the 1.9% gain in total Canadian jobs through July. The service sector, led by trade, finance and professional services, has accounted for most of the jobs created so far this year, but employment is also up in agriculture and construction.

Source: Statistics Canada

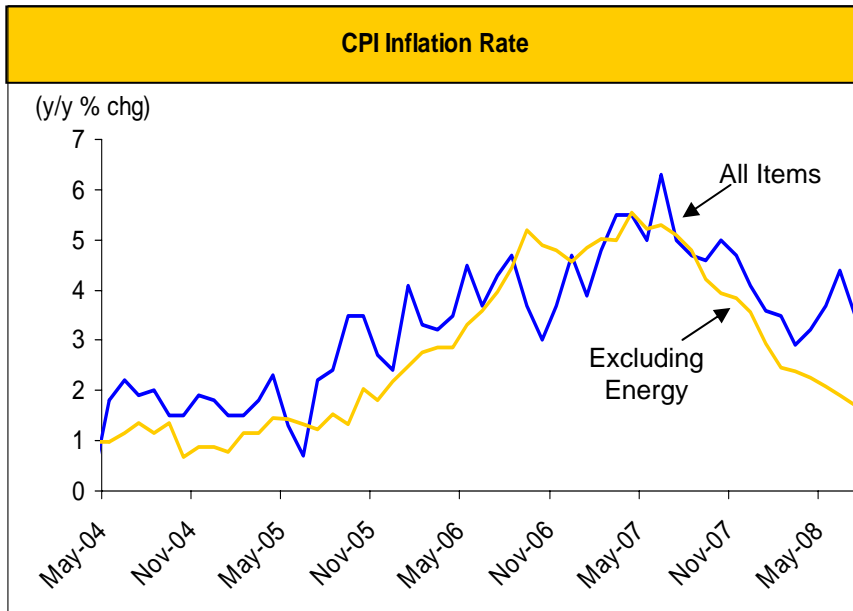
Solid wage growth



Source: Statistics Canada

With Alberta's unemployment rate remaining near generational lows, wage growth is expected to remain solid in 2008. Growth in average hourly wages has averaged 6.1% through July 2008. Average weekly earnings in Alberta are forecast to increase by 5.2% in 2008.

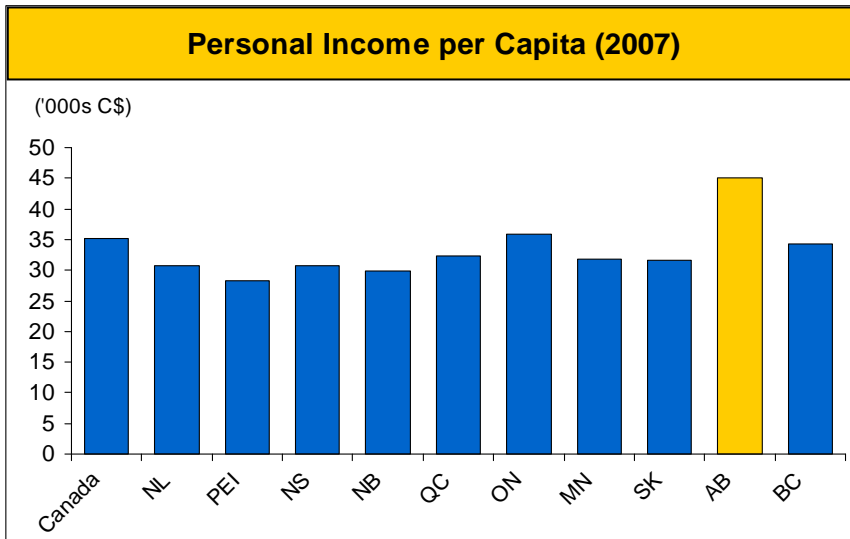
Non-energy inflation pressures easing



Source: Statistics Canada

Non-energy inflationary pressures are easing in Alberta with slower growth in house prices. As in the rest of Canada, however, rising food and energy prices have put upward pressure on Alberta's CPI inflation rate since March. Alberta's overall inflation rate was 3.5% in July; excluding energy, it was 1.7%. Nationally, inflation was 3.4% or 1.6% excluding energy.

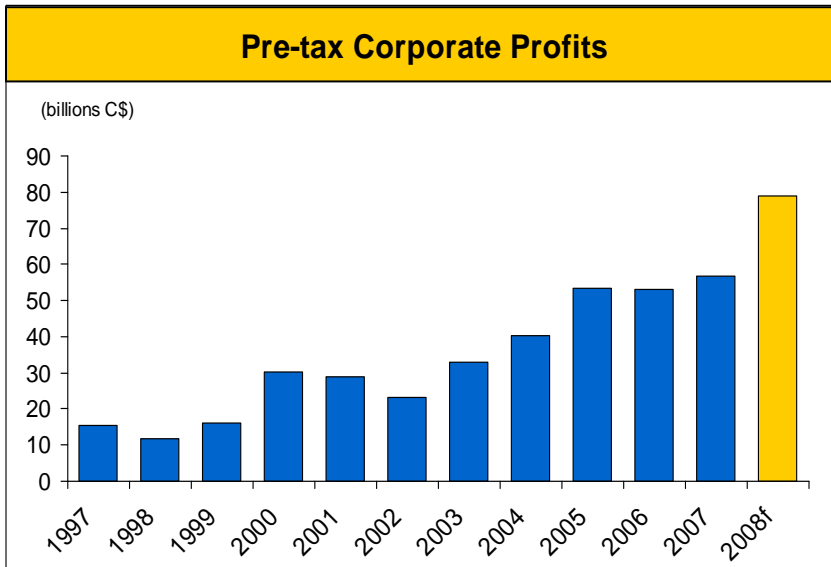
Robust personal income growth



In 2007, average personal income per capita was \$45,113 in Alberta, well above the national average of \$35,221. Strong growth in employment and wages is expected to boost average per capita incomes in Alberta by 6.4% in 2008.

Source: Statistics Canada

High energy prices push corporate profits to record levels

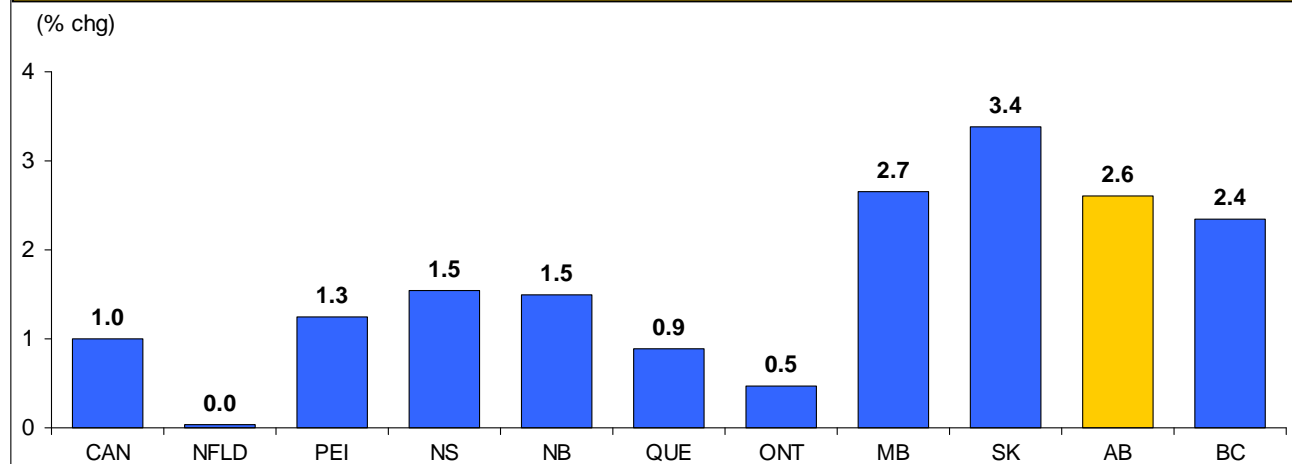


After climbing to a record level in 2007, corporate profits are expected to surge even higher in 2008 as Alberta companies reap the benefits of lofty oil prices. Profits are expected to increase by almost 40% in 2008.

Source: Statistics Canada and Alberta Finance and Enterprise

Survey of Private Sector Forecasts

2008 Real GDP Growth Forecasts



Source: Alberta Finance and Enterprise, various financial institutions and forecasting agencies

Survey of Private Forecasts – Alberta Real GDP

Organization	2008	2009	2010	2011
National Forecasting Agencies				
C4SE (Jun/08)	2.4	3.4	3.2	3.9
Conference Board of Canada (Jul/08)	2.6	3.3	n/a	n/a
Global Insight (Jul/08)	2.5	2.9	3.1	3.2
Banks				
BMO (Jul/08)	2.5	2.9	n/a	n/a
CIBC (Jun/08)	2.6	4.1	n/a	n/a
RBC (Jul/08)	3.1	3.0	n/a	n/a
Scotiabank (Jul/08)	2.5	2.9	n/a	n/a
Other				
CMHC (Aug/08)	3.0	3.4	n/a	n/a
High	3.1	4.1	3.2	3.9
Low	2.4	2.9	3.1	3.2
Average of All Private Forecasts	2.6	3.2	3.2	3.5
Alberta Finance and Enterprise	2.6			