

ECONOMIC OUTLOOK

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SUMMARY AND KEY ASSUMPTIONS

- ✧ Alberta's economic recovery in 2010 was stronger than initially expected. Despite real GDP growth estimated at 3.5%, weakness early in the year meant employment was down 0.4% in 2010, and the unemployment rate averaged 6.5%. Led by a strong oil sector, Alberta's economy is expected to shift from recovery to expansion in 2011 with growth of 3.3%.
- ✧ Economic growth is forecast to average 3.2% between 2012 and 2014, a sustainable pace of growth that should keep inflation in check and employment growth near 2%. By 2014, Alberta's unemployment rate is expected to be down to 4.5%.
- ✧ Risks to the global economy remain unusually high as many major developed economies grapple with high government debt levels and ongoing structural problems in the financial sector. Growth leaders in emerging markets, on the other hand, must deal with rising inflation pressures and the need to re-align the value of their currency with the US dollar.

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2009-10 Actual	2010-11 Estimates	2011-12	2012-13	2013-14
Prices					
Crude Oil Price					
WTI (US\$/bbl)	70.71	81.45	89.40	95.50	95.75
Alberta Wellhead (Cdn\$/bbl) ^a	68.92	72.45	79.43	84.91	84.85
WCS @ Hardisty (Cdn\$/bbl)	61.52	64.38	72.02	78.32	80.17
Natural Gas Price					
Alberta Reference Price (Cdn\$/GJ)	3.58	3.26	3.45	4.05	5.00
Production					
Conventional crude oil (000s barrels/day)	449	471	484	470	459
Raw bitumen (000s barrels/day)	1,493	1,631	1,850	2,119	2,357
Natural gas (billions of cubic feet)	4,752	4,464	4,055	3,745	3,513
Interest rates					
3-month Canada treasury bills (per cent)	0.22	0.75	1.75	3.00	3.75
10-year Canada bonds (per cent)	3.38	3.15	3.65	4.25	4.75
Exchange Rate (US¢/Cdn\$)	91.95	97.96	98.38	98.00	98.00
Calendar Year Assumptions	2010 Actual	2011	2012	2013	2014
Gross Domestic Product					
Nominal (millions of dollars)	271,648 ^b	290,839	313,813	334,121	356,074
per cent change	9.9 ^b	7.1	7.9	6.5	6.6
Real (millions of 2002 dollars)	184,417 ^b	190,462	196,594	203,015	209,346
per cent change	3.5 ^b	3.3	3.2	3.3	3.1
Other Indicators					
Employment (thousands)	2,017	2,058	2,100	2,137	2,174
per cent change	-0.4	2.0	2.0	1.8	1.7
Unemployment rate (per cent)	6.5	5.5	5.0	4.8	4.5
Average Weekly Earnings (per cent change)	4.4 ^b	4.2	4.1	4.0	3.8
Personal Income (per cent change)	3.9 ^b	5.9	6.3	6.6	6.4
Corporate Profits (per cent change)	42.8 ^b	10.0	16.6	7.2	8.5
Housing starts (number of units)	27,088	26,200	28,400	29,000	29,400
Alberta Consumer Price Index (per cent change)	1.0	1.9	2.3	2.2	2.2
Population (thousands)	3,721	3,778	3,840	3,904	3,970
per cent change	1.4	1.5	1.6	1.7	1.7

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

^b Alberta Finance and Enterprise estimate.

ECONOMIC OUTLOOK 2011–14

WORLD ECONOMIC GROWTH IS A 2-LANE HIGHWAY ...

- ◆ The world economic recovery was firmly established in 2010, with global GDP growth rebounding to an estimated 5.0% in response to the exceptionally supportive policy environment. While world GDP growth is forecast to continue at a solid 4.4% in 2011, very different trajectories are underpinning that growth.

Developed World

- ◆ The developed world is in the ‘slow lane’, although the Euro-zone and North America face different challenges. Collectively the developed world economies are expected to have sluggish growth.
- ◆ Recovery in the US housing and labour markets has remained elusive and lackluster private demand has led US policy makers to maintain exceptionally easy monetary and fiscal policies. While this will support growth in the near term, the US government will eventually need to address the debt created by its supportive fiscal policy, which will temper growth.
- ◆ In contrast, Canada’s economy has recovered virtually all the jobs lost in the ‘great recession’, and enjoyed a strong rebound in the housing market. Going forward, growth is likely to be more restrained as elevated household debt levels weigh on consumer spending and a high Canadian dollar dampens Canadian exports.

Developing World

- ◆ The developing world is expected to remain in the ‘fast lane’ due to growth leaders such as China, India, and Brazil.
- ◆ Many emerging economies have already moved to more restrictive monetary and fiscal policies to restrain growth because of rising inflation.
- ◆ These economies, traditionally driven by export oriented growth, need look no further than their own domestic markets to support continued expansion.

MAKING LANE CHANGES DIFFICULT ...

- ◆ To support growth, interest rates are being kept low in developed countries, but are rising in emerging economies as these countries try to rein in inflation and prevent asset price bubbles.

- ◆ China has been reluctant to allow its yuan to appreciate rapidly. The yuan, which has been tied to the US dollar, has contributed to China's large and growing trade surplus with the US. Without a successful resolution to currency market tensions, rising trade protectionism poses a risk to global economic growth.
- ◆ Currency markets have also been battered as Europe has lurched from one sovereign debt crisis to the next, throwing credit and currency markets into turmoil. While bail-outs have worked so far, the Euro-zone and the euro itself remain vulnerable.
- ◆ Although the rapid economic expansion in the developing world has provided a strong boost to commodity prices, volatility has remained high as fears over world growth can quickly undercut prices.
- ◆ This level of volatility and uncertainty has a negative impact on businesses who prefer to a more stable investment climate.

ALBERTA CRUISES ON OIL PRICE STRENGTH ...

- ◆ Oil prices have been strong and are expected to average US\$81.45 per barrel in 2010-11, rising to US\$95.75 by 2013-14.
- ◆ On the back of these strong oil prices, investment has rebounded in Alberta in both oil sands and conventional oil. Robust investment and increasing oil exports are expected to drive Alberta's economic growth through the forecast period.
- ◆ Natural gas, an important sector in Alberta, remains weak due to increased competition from shale gas deposits located near major US markets. Although natural gas prices are expected to recover from their current lows to C\$5.00 per gigajoule by 2013-14, this remains well below the levels prevailing in recent years. The weak price outlook will weigh on natural gas investment and exports.
- ◆ Outside the oil sector, business investment remained weak in 2010. Non-energy investment is expected to gradually pick up going forward, as other sectors of the economy strengthen.
- ◆ Alberta's manufacturing shipments, particularly petroleum and coal related, were strong in 2010. Manufacturing exports are expected to continue gaining strength as the global economy moves into expansion mode.

THE ALBERTA LABOUR MARKET HITCHES A RIDE ...

- ◆ Employment growth is forecast to improve significantly in 2011, following a small decline in 2010. Strong employment growth is expected to continue through the forecast period, and average just under 2% through 2014.
- ◆ The unemployment rate is expected to average 5.5% in 2011 and drop to 4.5% by 2014. This could lead to some labour shortages in specific high growth industries and occupations.
- ◆ Growth in average weekly earnings in Alberta has recently picked up, partly because of a significant increase in the length of the average work week. While further increases in weekly hours are likely to be more subdued, real wages will continue to rise in Alberta.
- ◆ Although international and interprovincial migration are expected to strengthen as Alberta's labour market picks up, overall migration is not likely to return to the exceptional levels prevailing during the boom. Alberta's housing market is thus forecast to remain healthy, but not return to the exceptionally high levels of the boom years.
- ◆ Consumer spending in Alberta had a strong year in 2010. That strength, on the back of employment and wages gains, is expected to remain a robust contributor to Alberta's growth.

ALBERTA'S ECONOMY EXPOSED TO EXTERNAL TURMOIL AS THE WORLD ECONOMY HAS NO 'SPARE TIRE'

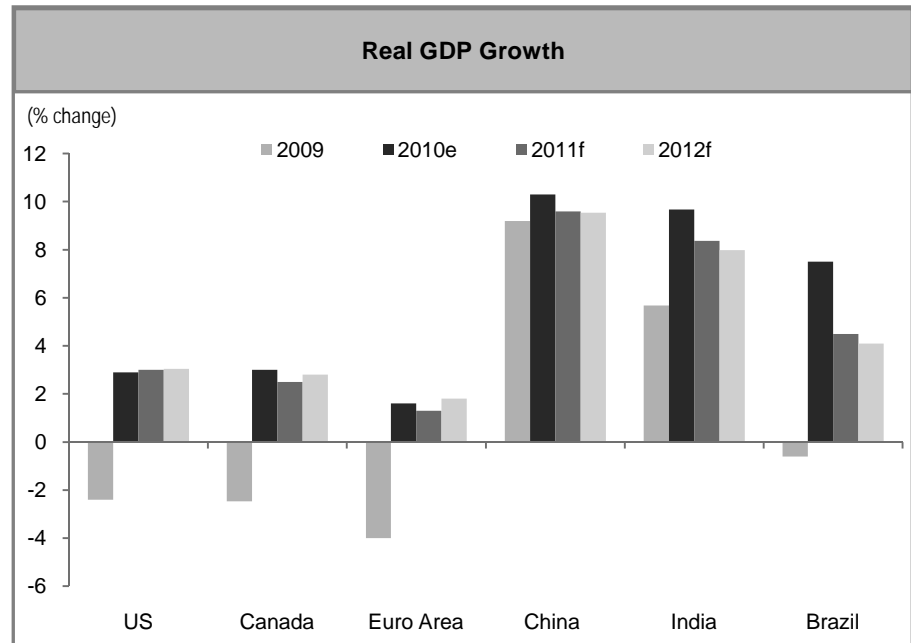
- ◆ Although Alberta's economic growth is forecast at a robust 3.3% in 2011, and to average a healthy 3.2% over the medium term, there are significant risks to the outlook.
- ◆ Alberta's economic growth is largely driven by oil-related activity, particularly in the oil sands. This type of concentrated, commodity-based mega-project driven growth leaves the province particularly vulnerable to external turmoil in currency, credit and commodity markets.
- ◆ The US, Japan and key parts of Europe continue to struggle with structural problems in their financial sectors, high levels of public debt, and sluggish labour markets. The challenge in these countries is how to reduce government deficits and raise interest rates to more normal levels without jeopardizing their continued economic expansion.
- ◆ In contrast, growth leaders in major emerging markets such as China, India, and Brazil are facing rising inflation and in some cases, upward pressure on their currencies. Efforts by major emerging markets to restrain inflation could slow economic growth unduly and adversely impact commodity prices. Policy makers around the globe must walk a fine line.

After contracting in 2009 for the first time since the Second World War, the global economy bounced back in 2010, with unexpectedly strong growth estimated at 5.0%.

This was driven by the strong performance in emerging economies and exceptionally supportive monetary and fiscal policies.

Global growth moderated in the second half of 2010, restrained by sovereign debt crises in Europe and a weak US labour market. While the global economic expansion is well-established, risks remain.

Unbalanced Global Growth

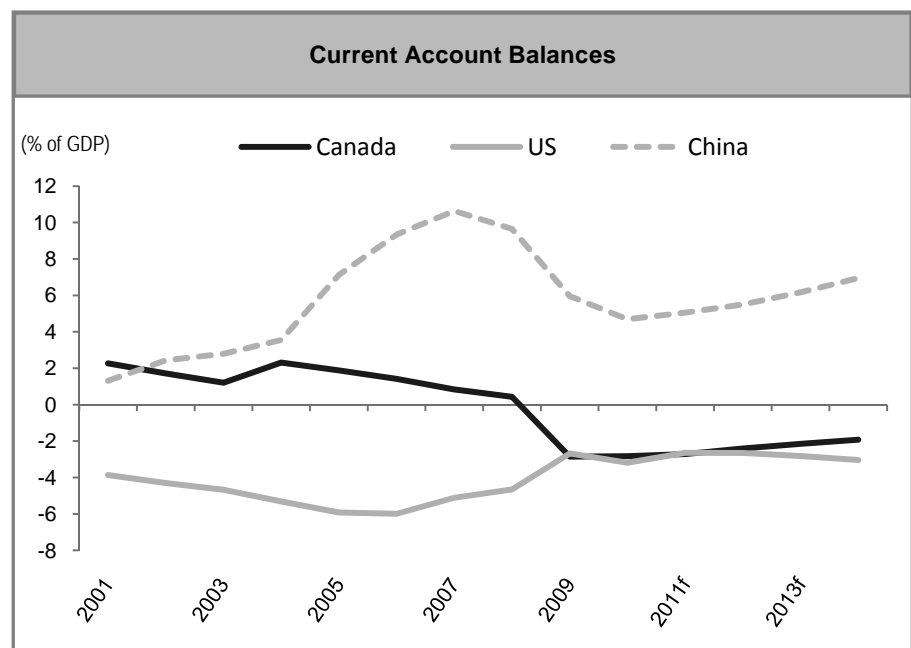


Sources: Statistics Canada, US Bureau of Economic Analysis, International Monetary Fund and Alberta Finance and Enterprise.

Note: References to 'e' indicate an estimate for that year, 'f' indicates forecast years.

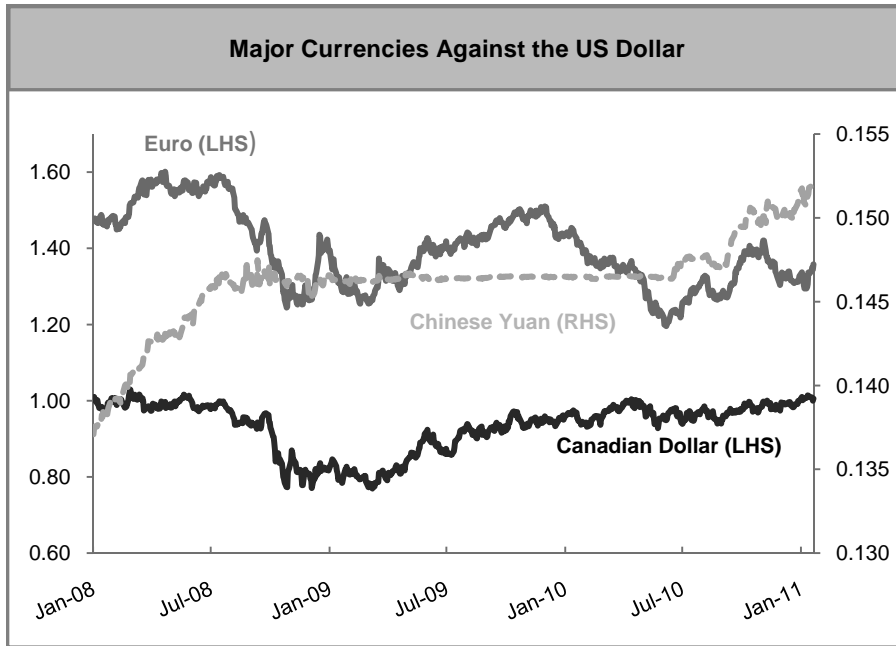
Large trade imbalances, particularly between the US and China, are increasing protectionist pressures, posing a key risk to a sustained global economic recovery. Emerging and developing economies, the key drivers of global economic growth, have traditionally relied on exports to grow their economies. Shifting to domestic consumption in these countries would help reduce global trade imbalances and tensions.

Trade Imbalances Increase Protectionist Pressures



Source: International Monetary Fund, World Economic Outlook, October 2010.

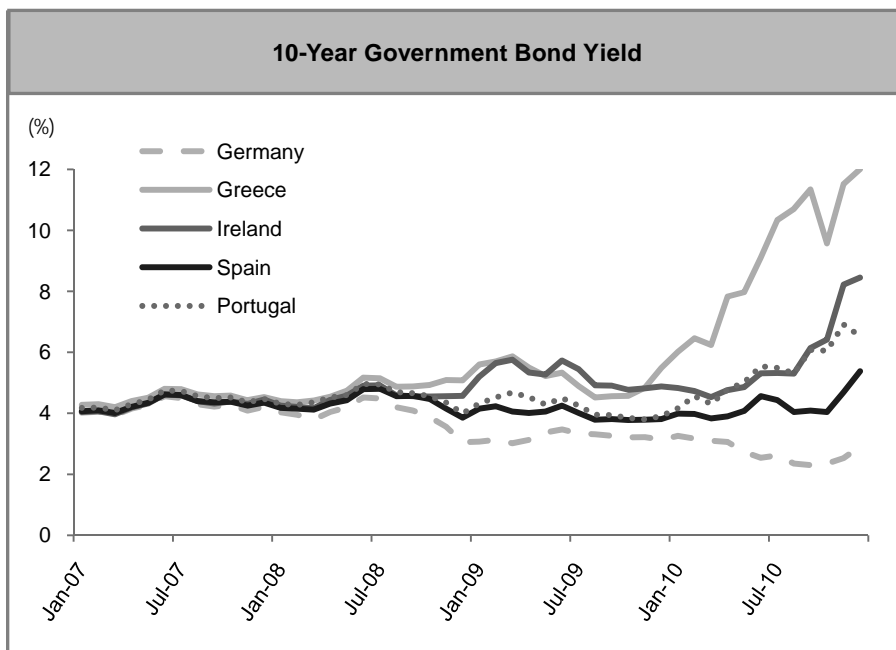
Currency Valuations Causing Tension



Source: US Federal Reserve Board. (Note: RHS- right-hand side, LHS- left-hand side)

Although the Chinese yuan was allowed to appreciate modestly prior to the 2008 global financial crisis, it remained unchanged against the US dollar until mid-2010, when the Chinese government allowed a small appreciation in response to international pressure. In 2010, the Canadian dollar traded between US93 cents and parity, appreciating with rising commodity prices and falling when financial market jitters sent investors to the safe haven of the US greenback. The Canadian dollar is expected to remain near parity over the forecast period.

Sovereign Debt Worries Credit Markets

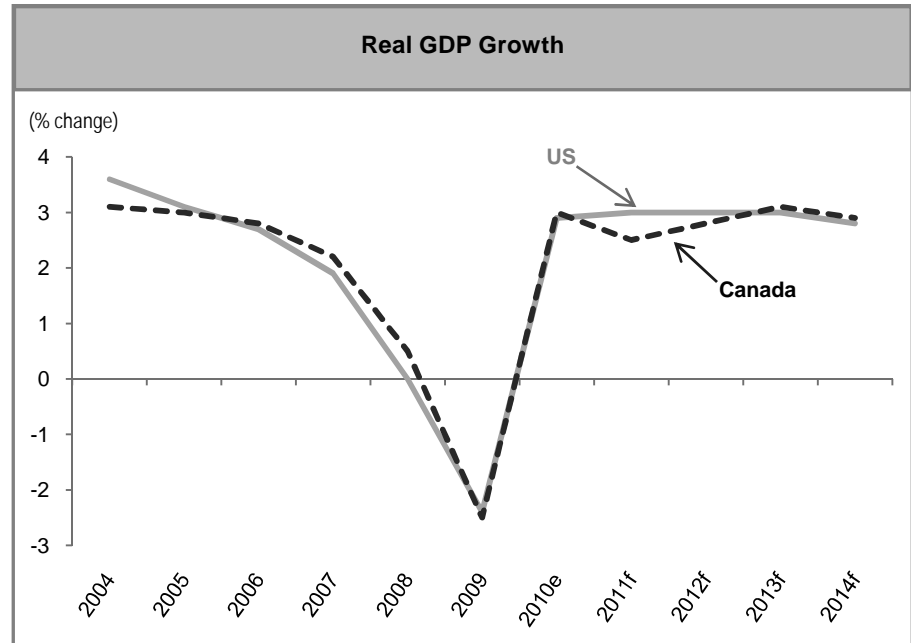


Source: European Central Bank.

Government debt jumped in most advanced economies in 2009 due to reduced tax revenues and increased government spending to support the economy. The worsening debt situation led to sovereign debt crises in Greece and Ireland in 2010. Although the bail out packages created by the International Monetary Fund and rest of the Euro-zone helped stabilize the euro, financial markets remain on edge and are closely watching developments in Spain and Portugal.

In contrast to the US, Canadian financial institutions maintained strong balance sheets during the financial crisis and Canada's housing and labour markets have bounced back. Nonetheless, a weak trade performance kept Canada's overall economic growth similar to that of the US. Due to the headwinds posed by the strong Canadian dollar and rising consumer debt, economic growth in Canada is expected to remain very similar to that in the US over the forecast period.

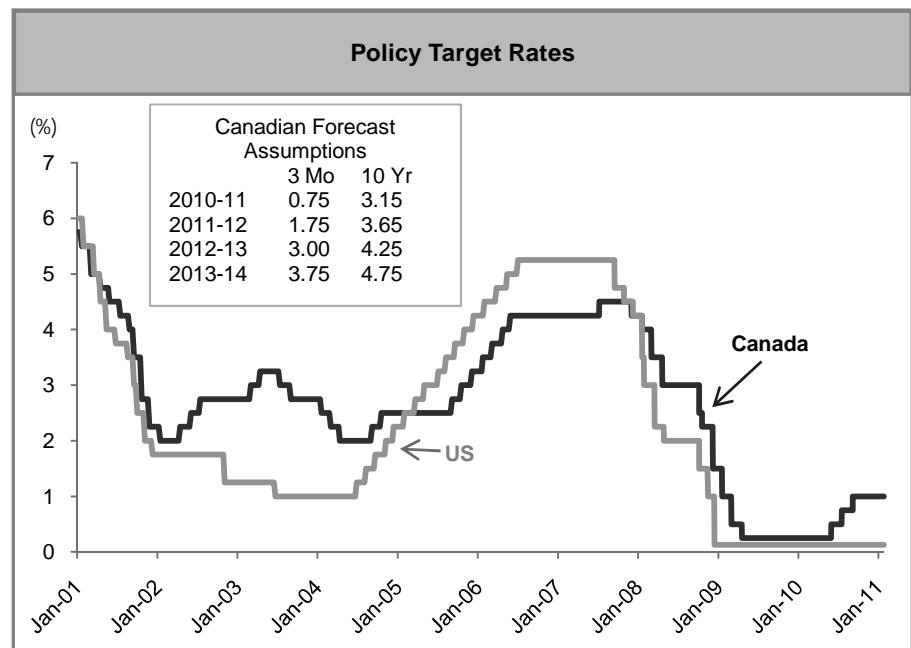
Modest North American Growth



Sources: Statistics Canada, US Bureau of Economic Analysis and Alberta Finance and Enterprise.

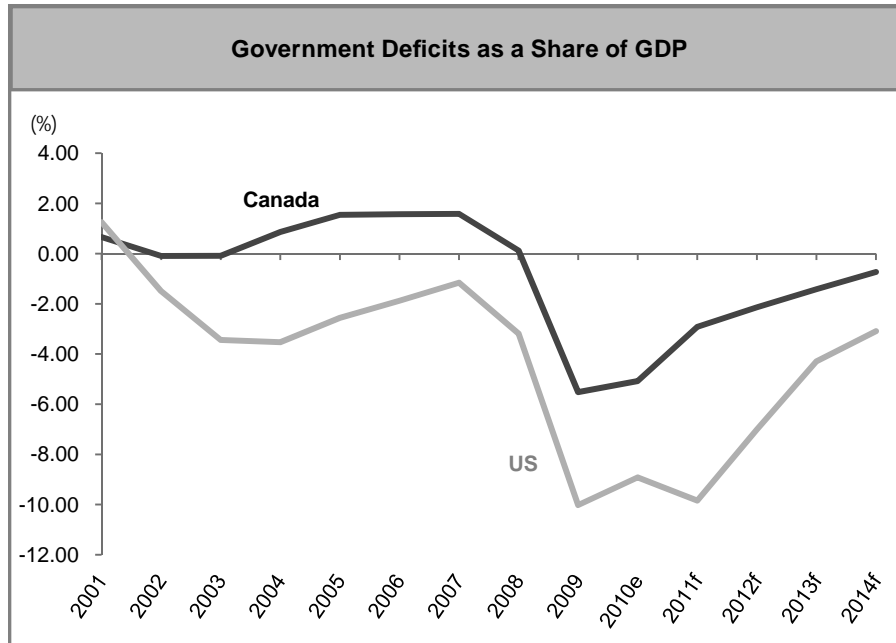
The massive monetary stimulus provided during the credit crisis remains largely intact. Slowing economic growth and rising uncertainty forced the Bank of Canada to move to the sidelines in the summer of 2010 following its initial attempts at normalizing interest rates. Meanwhile, the US Federal Reserve Board has kept interest rates unchanged and resorted to a second round of quantitative easing (QE2) in response to continued high unemployment. As the economy improves, both the Bank of Canada and the US Federal Reserve Board are expected to normalize rates, which will temper growth.

Rock Bottom Interest Rates



Sources: Bank of Canada and US Federal Reserve Board.

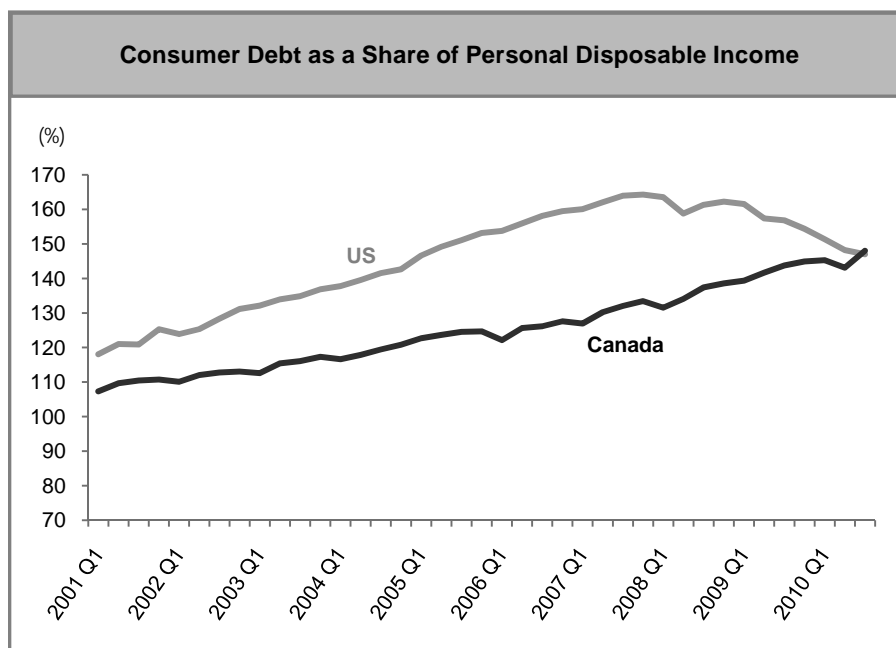
Government Spending Restraint Looming



Source: International Monetary Fund, World Economic Outlook, October 2010.

Despite some improvements in 2010, governments in Canada and the US still face significant fiscal challenges as the economic recovery moves on to firmer ground. The US fiscal deficit, particularly in light of the recent compromise budget, remains unusually high and unsustainable. Returning to fiscal balance will be challenging and will pose a serious threat to growth if the restraint is not designed and timed correctly.

Consumer Spending Constrained by Debt



Sources: Statistics Canada, US Bureau of Economic Analysis and US Federal Reserve Board.

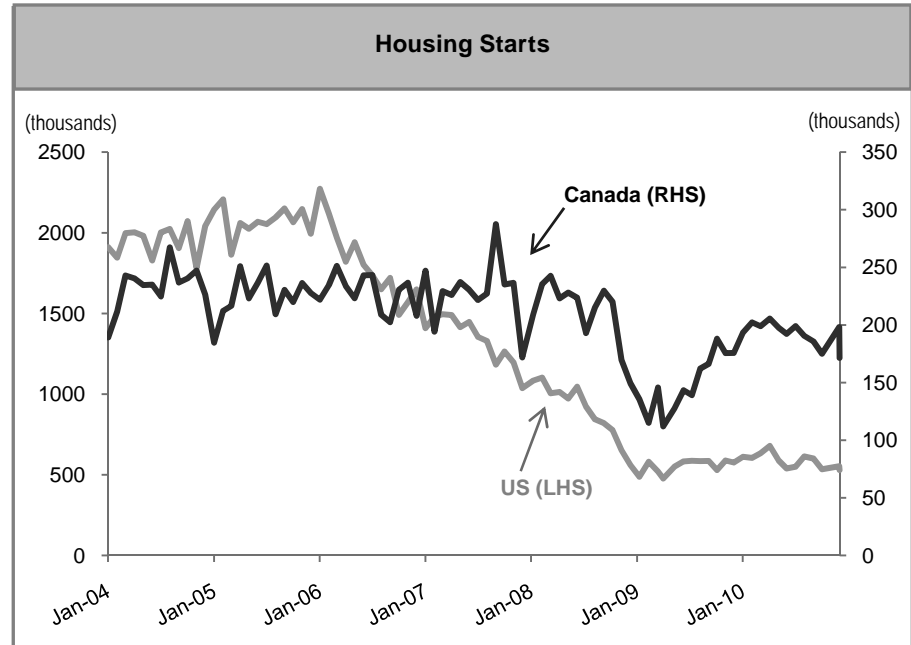
While Canadians continued to build up debt in 2010, US households constrained spending in order to improve their balance sheets. Consumer debt in Canada is now higher than in the US, raising concerns about Canadian consumers' ability to spend over the near term. The Canadian government has recently moved to tighten mortgage lending in an effort to restrain consumer debt levels.

US Housing Yet to Recover

Following a sharp downturn during the recession, Canada's housing market rebounded strongly in the second half of 2009.

The US housing market on the other hand has been weighed down by exceptionally high numbers of foreclosures and weak employment growth.

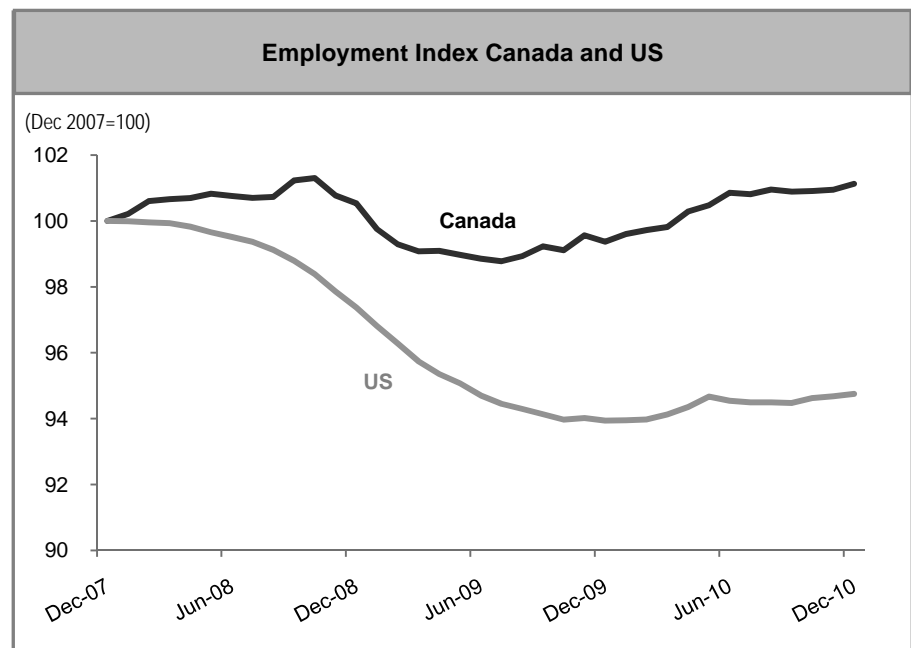
While further gains in the Canadian housing market are expected to be limited, low interest rates and pent up demand could provide a significant boost to US housing over the forecast period.



Sources: Canada Mortgage and Housing Corporation and US Census Bureau.

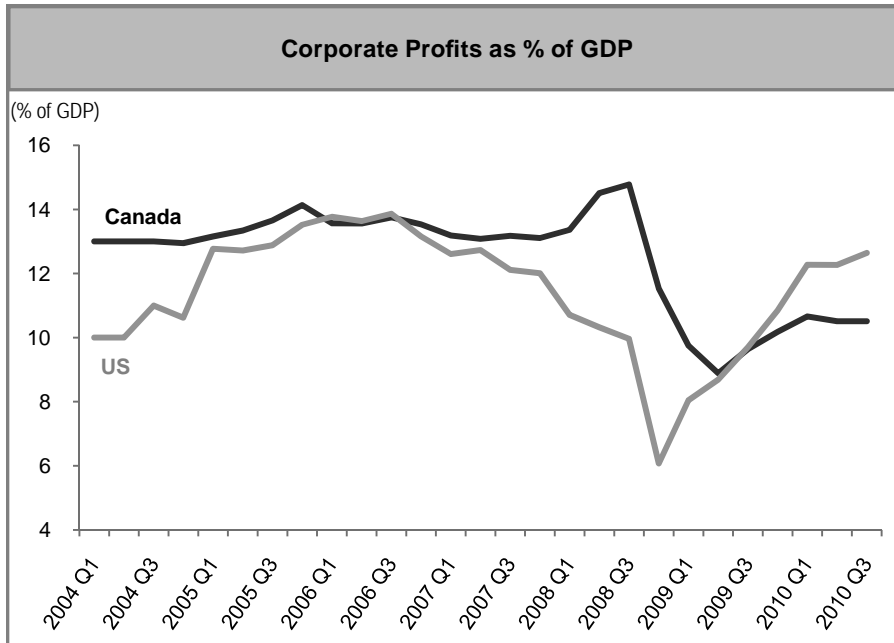
Lackluster US Labour Market

US labour markets have been much harder hit than in Canada. Job losses began sooner in the US and were more severe. The Canadian labour market began to recover in late 2009, with virtually all job losses fully recouped by December 2010. In contrast, US employment is still down over 7 million jobs from the pre-recession peak. Housing and consumer spending in the US are unlikely to recover until the economy generates jobs on a sustained basis.



Sources: Statistics Canada and US Bureau of Labour Statistics.

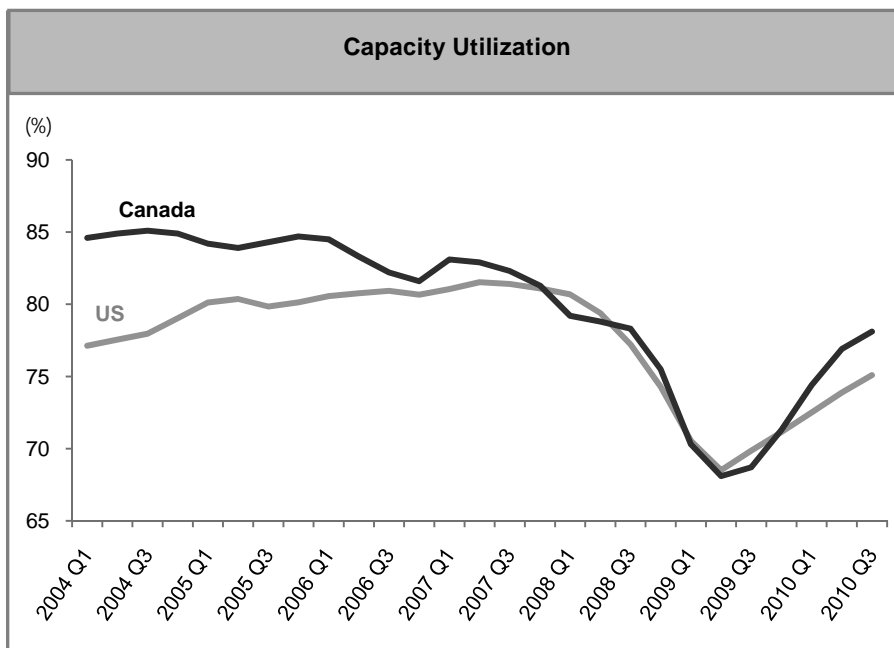
US Corporate Profits Bounce Back



Sources: US Bureau of Economic Analysis and Statistics Canada.

Despite the sharp rebound in corporate profits since the recession, US employment growth has been negligible. In fact, corporate profits have enjoyed a stronger recovery in the US than Canada, in part because of more aggressive layoffs. A sustained global economic expansion and strong commodity prices bode well for continued strength in corporate profits in both countries, and should eventually boost hiring by US firms.

Firms Operating Below Potential



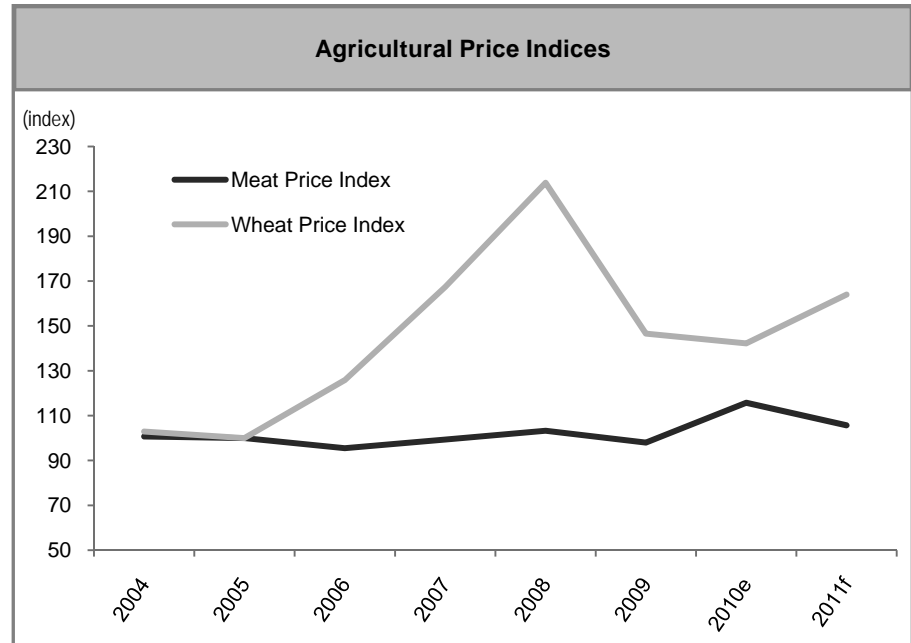
Sources: Bank of Canada and US Federal Reserve Board.

Even with the strength in corporate profits and rock bottom interest rates, firms were reluctant to expand investment significantly in 2010 in the face of continued high excess capacity. The 2010 recovery in capacity utilization rates was stronger in Canada than in the US, but capacity utilization remains significantly below pre-recession levels in both countries. As capacity utilization rates recover, companies are likely to increase employment and investment.

Rising Food Prices Putting Pressure on Inflation

Following a sharp drop in the last half of 2008, global food prices began a slow recovery in 2009 before rising higher again in 2010.

In particular, grain prices rose in the latter part of 2010 as adverse weather conditions reduced yields and some countries restricted grain exports. Meat prices experienced some gains in 2010 as the world economy recovered and meat supplies tightened.



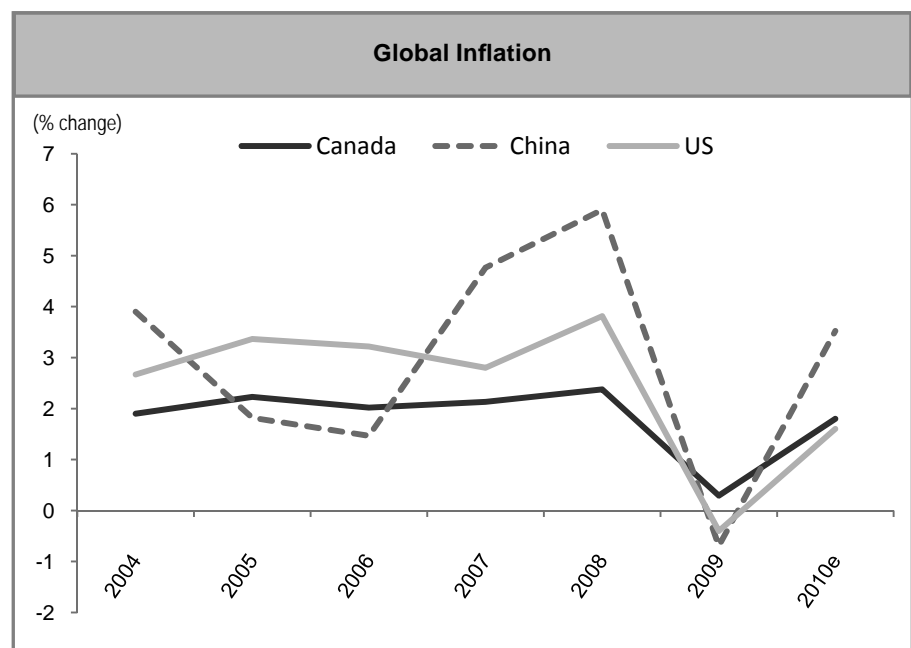
Source: International Monetary Fund, World Economic Outlook, October 2010.

Inflationary Pressures in Emerging Markets

Rising food prices, particularly in emerging markets like China, have put upward pressure on inflation.

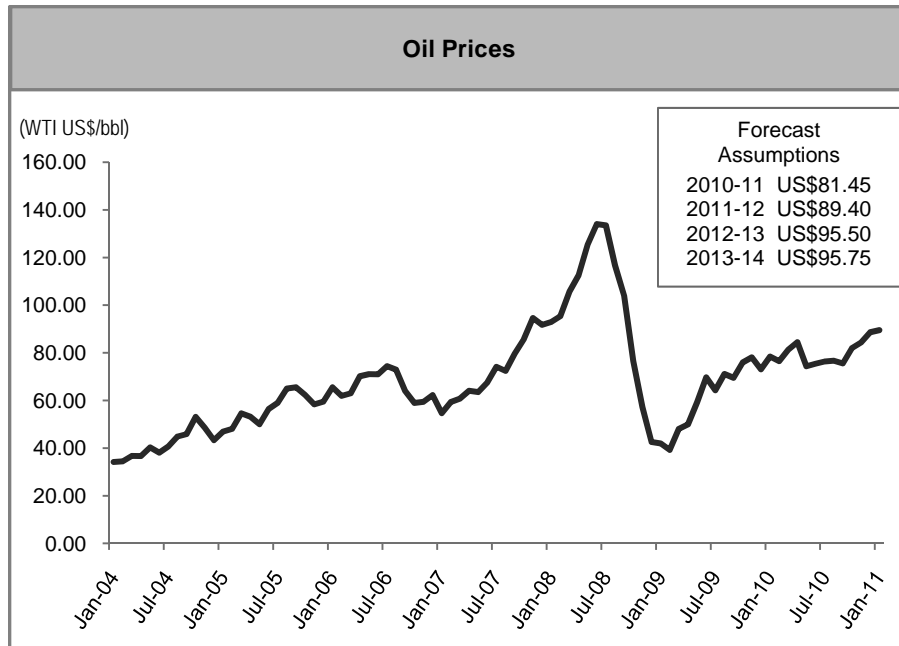
Strong economic growth and large capital inflows are adding to inflation pressures. Developing countries are thus tightening monetary policy to restrain inflation. A sharp slowdown in emerging markets could adversely affect commodity prices.

With capacity utilization rates remaining low, there is scant pressure on prices in developed countries.



Sources: International Monetary Fund, Statistics Canada and US Bureau of Economic Analysis.

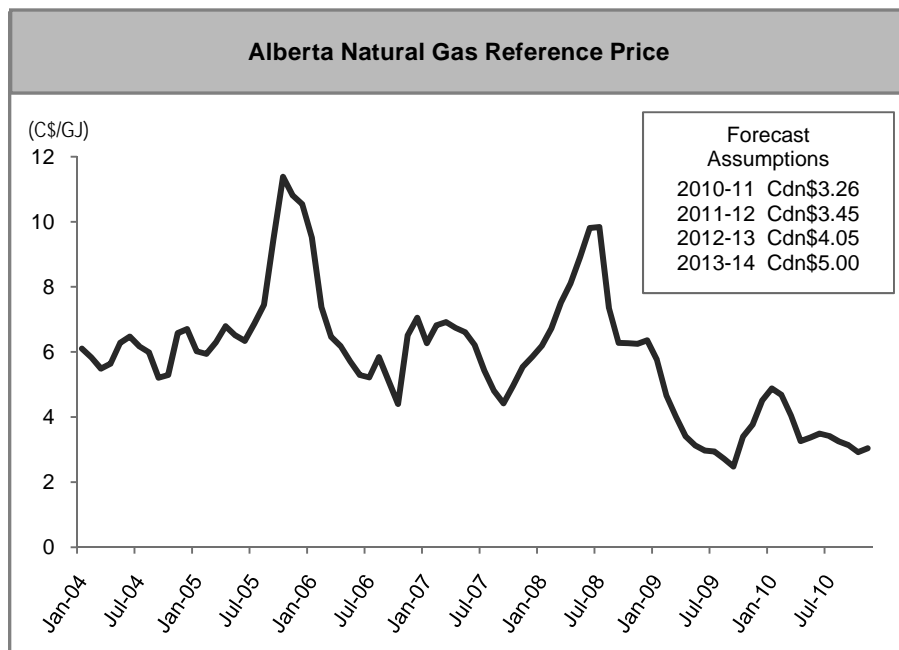
Strong Prices Lift Alberta's Oil Patch



Source: Alberta Energy.

With a recovery in global oil demand in 2010, and investors' rising appetite for commodities, oil prices have posted strong gains. Oil prices increased from an average of US\$70.71/bbl in 2009-10 to an estimated US\$81.45 in 2010-11 and are expected to reach US\$95.75 by 2013-14. Continued global economic growth, particularly in emerging markets, bodes well for oil prices. Even so, prices are likely to remain volatile due to ongoing concerns in currency and credit markets. This could be further exacerbated by political unrest in major oil-producing regions.

US Shale Supplies Weigh on Gas Prices

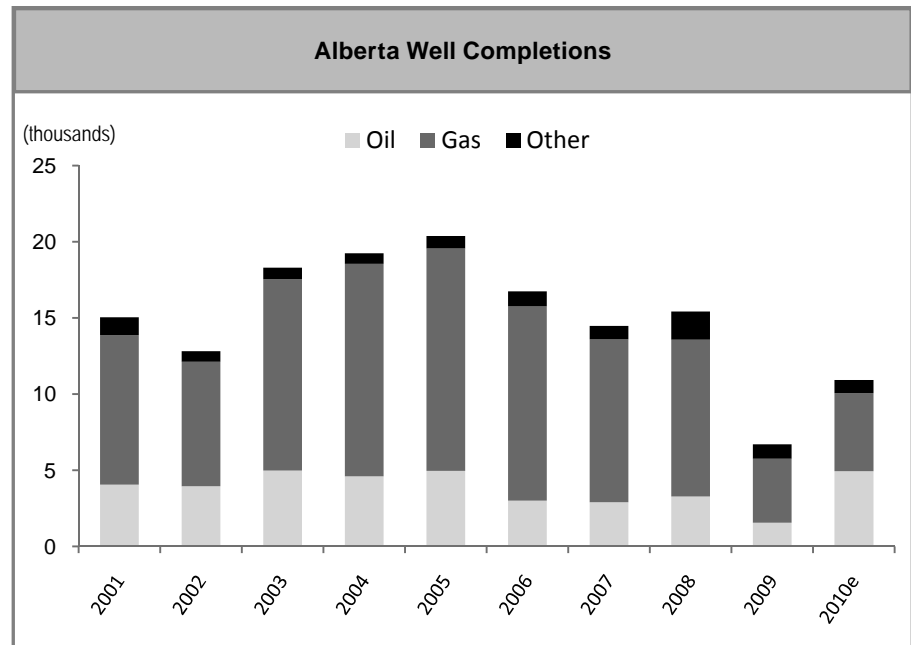


Source: Alberta Energy.

Technological breakthroughs in drilling for shale gas have led to a sharp increase in US supplies of natural gas, putting downward pressure on prices. With inventories remaining close to historical highs, natural gas prices are expected to remain weak in 2011-12. A recovery in US industrial demand and some restraint in gas supplies (as lower prices discourage drilling directed at gas) are expected to help gas prices recover in 2012-13, but they are unlikely to return to their pre-shale highs.

Drilling activity has shifted from natural gas to oil. The sharp declines in gas prices over the past few years have reduced interest in gas and increased the number of conventional and bitumen oil well completions.

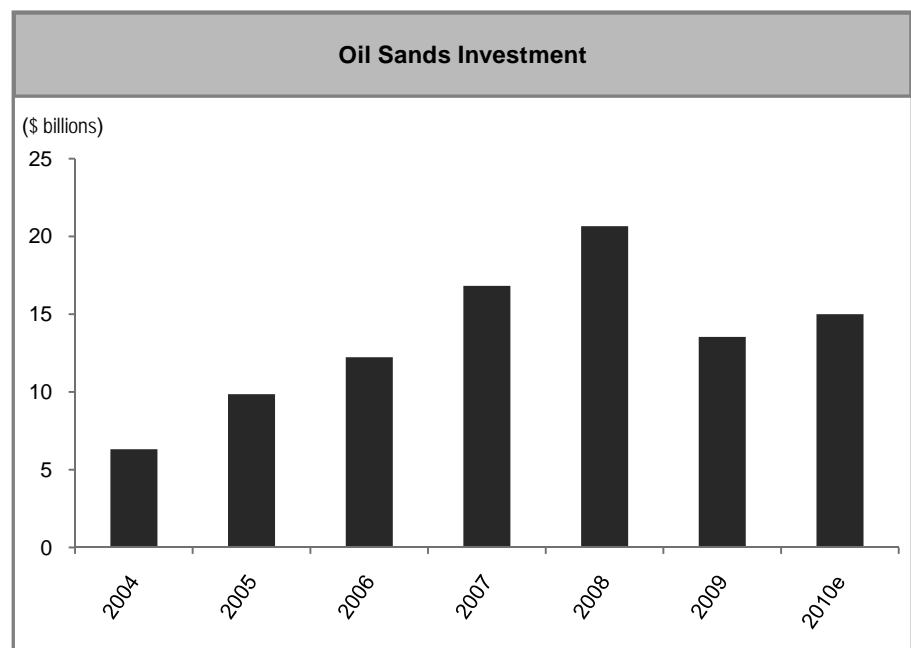
Oil Directed Activity Drives Energy Sector



Sources: Energy Resources Conservation Board and Alberta Energy.

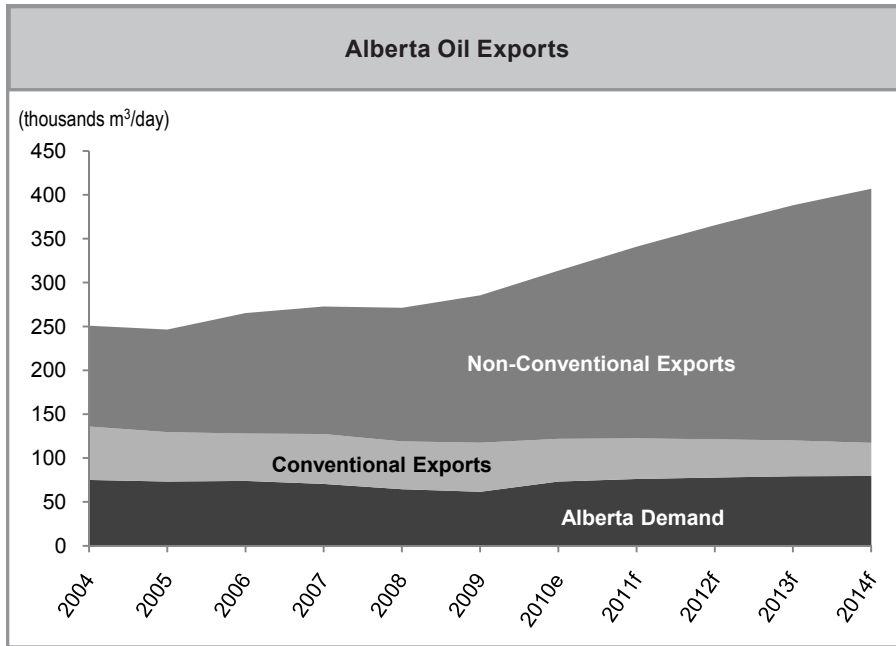
Most of the oil sands projects that were put on hold during the recent downturn received the green light in 2010. Non-conventional investment increased an estimated 11% to nearly \$15 billion in 2010. Although this is lower than the 2008 peak of over \$20 billion, it is forecast to gradually rise over the medium term. Rising oil prices and dwindling supplies of conventional oil make oil sands a sought after resource.

Oil Sands Investment Strengthens



Source: Statistics Canada.

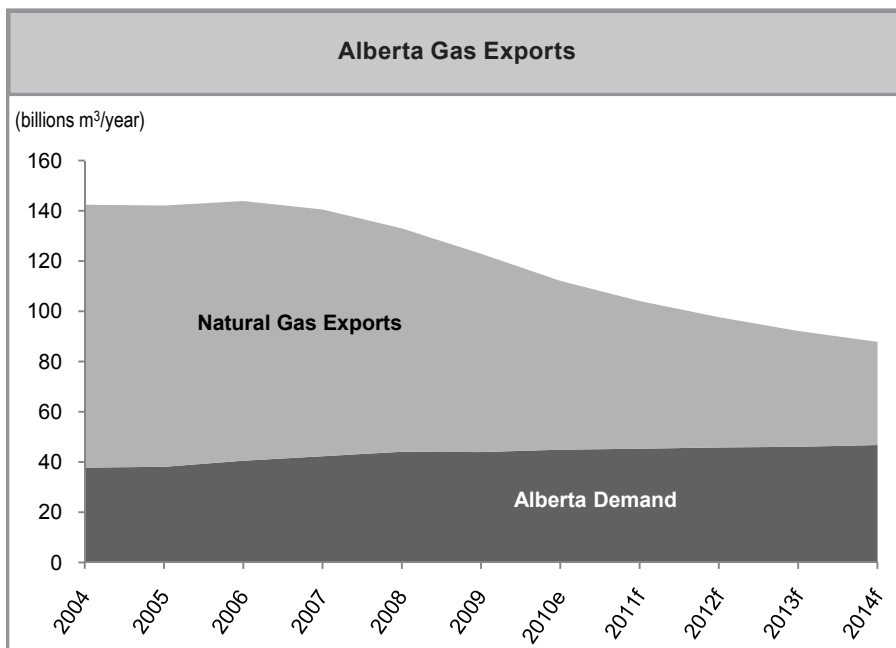
Unconventional Oil Powering Exports



The completion of several oil sands projects in recent years has contributed to a surge in Alberta's non-conventional oil production and exports. Overall, non-conventional oil exports increased by an estimated 14% in 2010. Exports of synthetic crude oil rose by around 13% and bitumen by 16%. Given a steady increase in oil sands investment, the double digit growth in exports is projected to continue over the medium term, making a significant contribution to Alberta's overall economic growth.

Sources: Alberta Energy and Energy Resources Conservation Board.

Weaker Natural Gas Exports

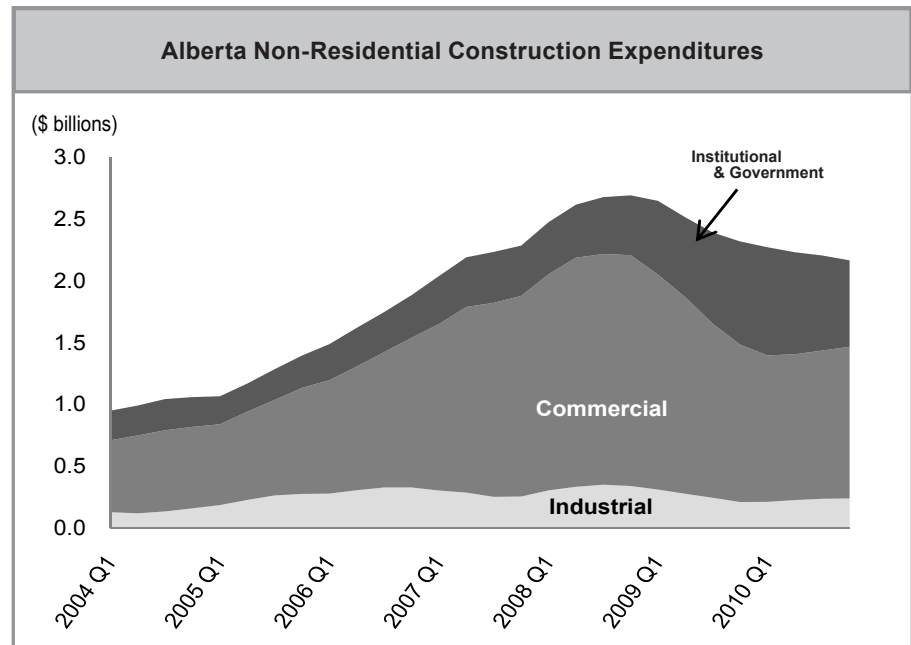


Natural gas exports have been declining since 2005 and the pace has accelerated in the past two years. Gas exports fell by an estimated 15% in 2010. Alberta natural gas exports are falling even faster than production due to rising use in oil sands production. Alberta gas exports are also constrained by rising US shale gas supplies. As a result, natural gas exports are expected to be a drag on Alberta's growth over the forecast period.

Sources: Alberta Energy and Energy Resources Conservation Board.

Outside the energy sector, non-residential construction remained weak in 2010. Industrial construction expenditures dropped 13% in 2010, following a 22% drop in 2009, while commercial construction expenditures dropped 20% after declining 18% the previous year. Growth in institutional and government non-residential construction expenditures moderated from 57% in 2009 to 13% in 2010.

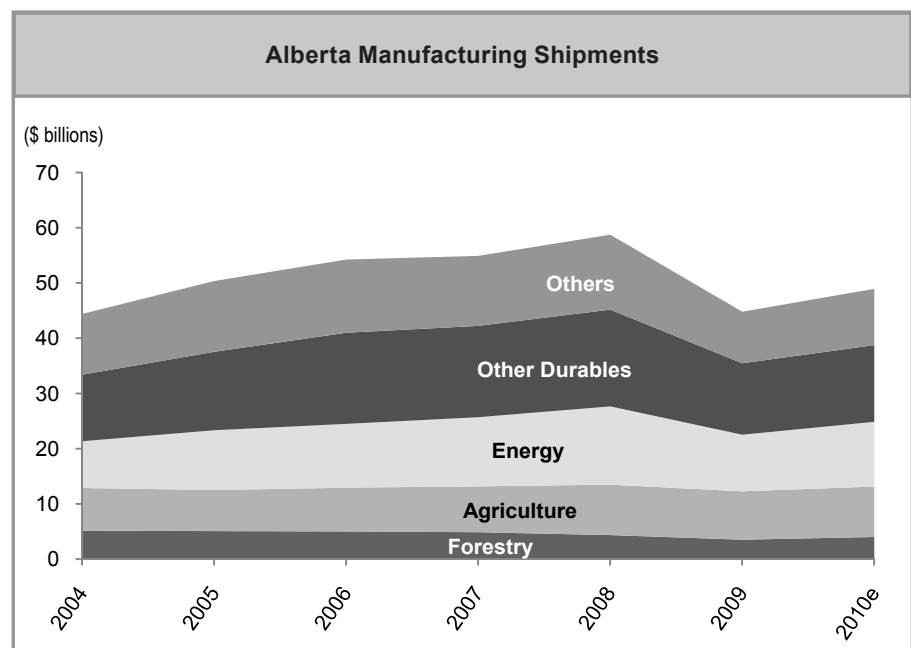
Non-Energy Investment Remains Weak



Source: Statistics Canada.

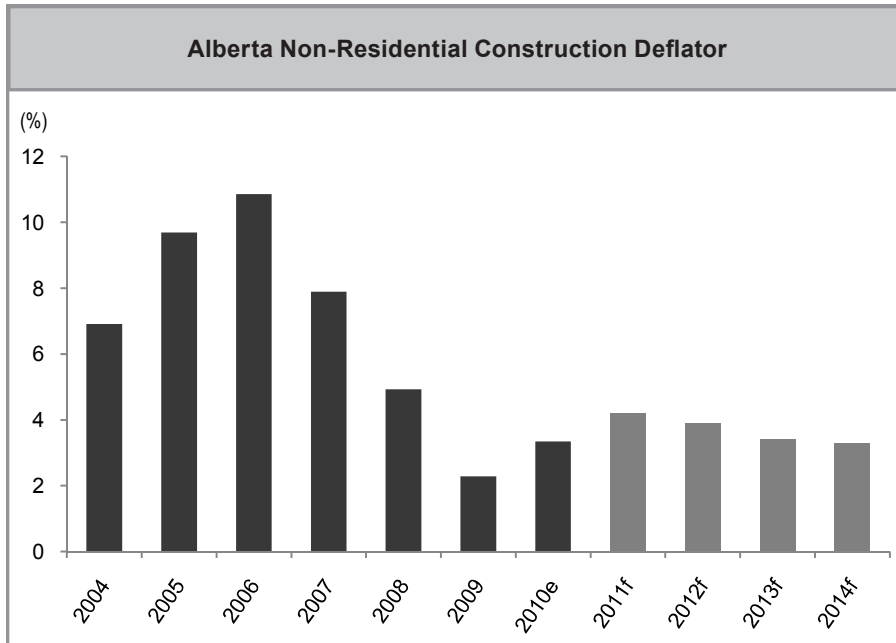
The global economic recovery along with strength in commodity and food prices helped boost Alberta's manufacturing shipments by about 10% in 2010. Petroleum and coal, petro-chemical and food products led the increase. With the exception of the food products sector, which has fully recovered losses from the 2009 downturn, most other sectors are still below pre-recession levels. Manufacturing exports are forecast to gain momentum as the global economic expansion continues.

Manufacturing Sector Strengthens



Sources: Statistics Canada and Alberta Finance and Enterprise.

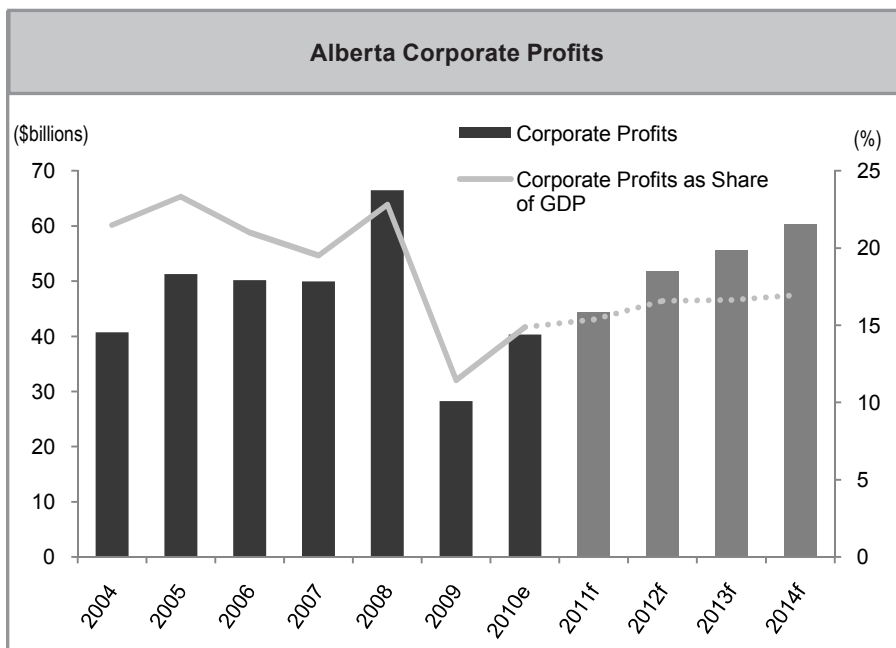
Construction Costs To Remain Moderate



Sources: Statistics Canada and Alberta Finance and Enterprise.

Overall non-residential construction costs, which escalated rapidly during the boom, increased by a modest 2.3% in 2009 as private investment fell. Growth in non-residential construction costs increased somewhat in 2010 but is forecast to remain relatively moderate over the forecast period. However, cost pressures could re-emerge if labour shortages become prevalent.

Corporate Profits Return to Normal



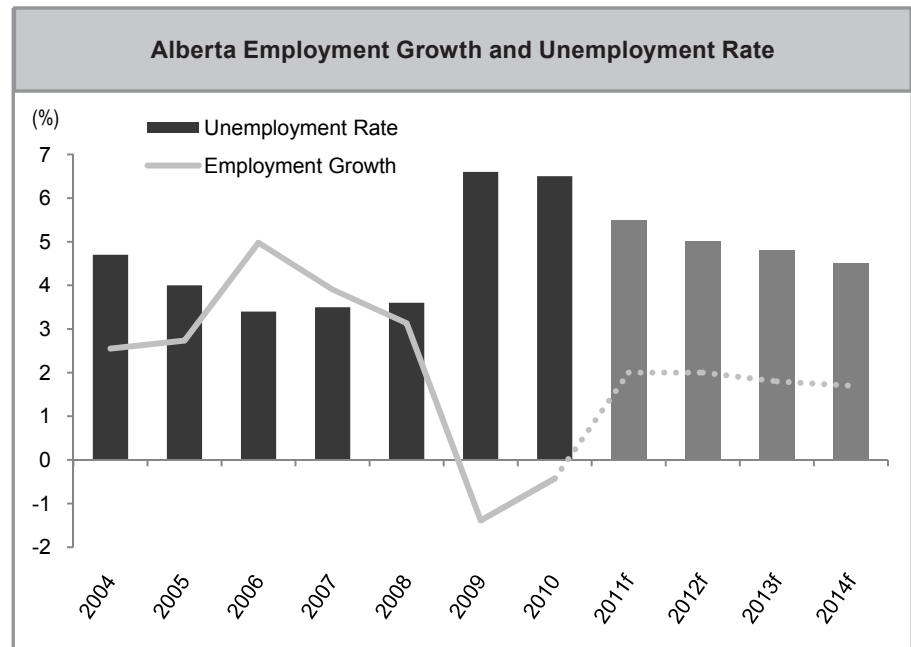
Sources: Statistics Canada and Alberta Finance and Enterprise.

Corporate profits in Alberta plummeted in 2009 as the decline in economic activity and commodity prices bruised companies' balance sheets. The quick recovery in oil prices restored profits somewhat in 2010. The recovery is expected to continue as stronger oil, food and manufacturing prices increase corporate profits to 18% of nominal GDP, close to their long-term average.

Employment staged a modest recovery in the latter part of 2010; however, weakness early in the year meant employment edged down 0.4%, following a 1.4% decline in 2009. Employment is now on track to grow at a strong 2% in 2011 and continue near that pace through 2014.

The unemployment rate averaged 6.5% in 2010, and is expected to fall to 5.5% in 2011 and slowly decline to 4.5% by 2014.

Labour Market Strengthening



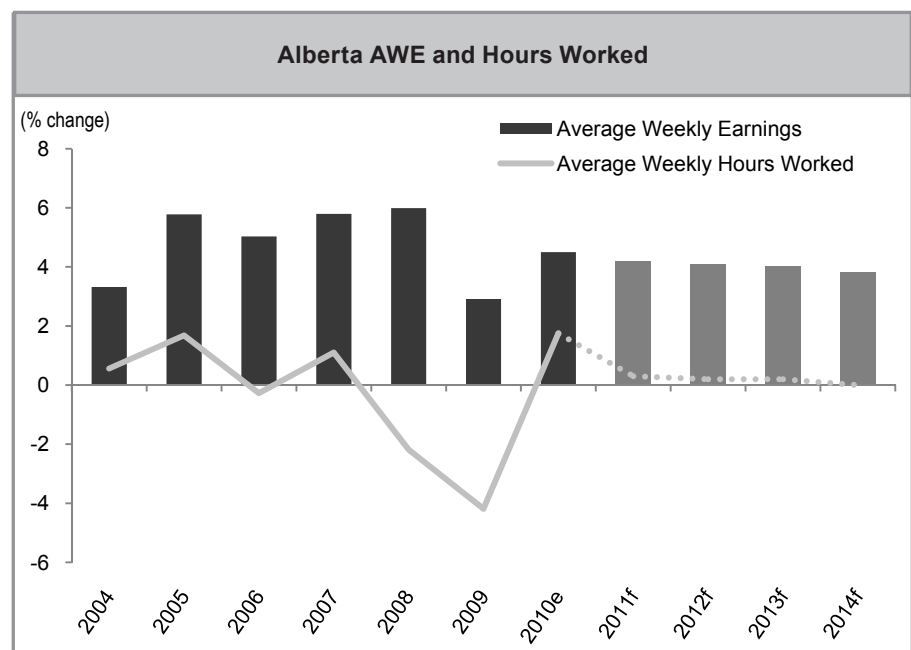
Sources: Statistics Canada and Alberta Finance and Enterprise.

Average weekly earnings grew by an estimated 4.4% in 2010, an improvement over the 2.9% increase recorded in 2009. The increase was due in part to a longer average work week.

Growth in average weekly hours is expected to remain relatively modest as employers hire new workers in lieu of increasing hours for their existing workers.

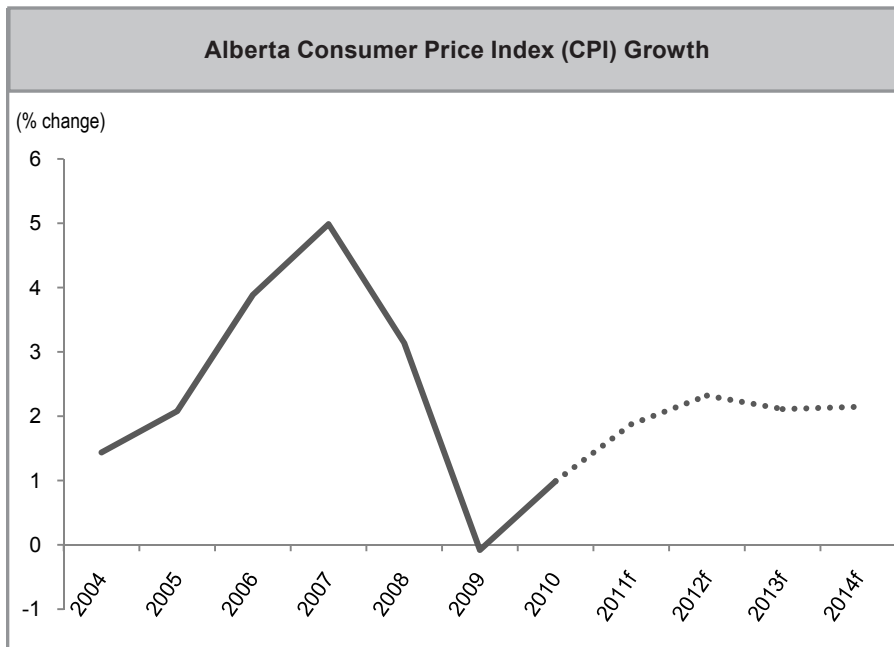
With strong growth in employment, average weekly earnings growth is expected to remain near 4% over the forecast period.

Average Weekly Earnings Influenced by Hours Worked



Sources: Statistics Canada and Alberta Finance and Enterprise.

Consumer Inflation to Remain Subdued

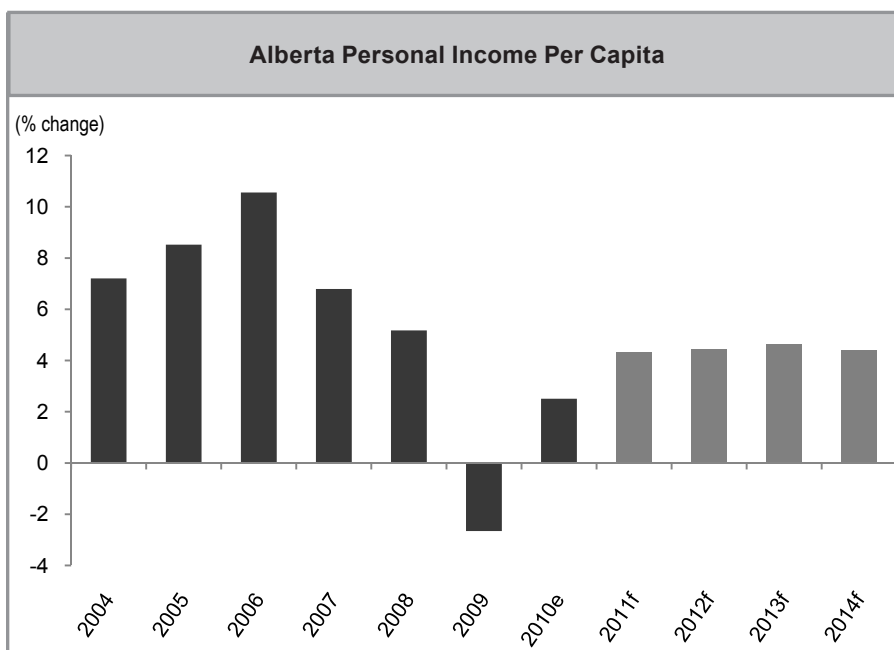


Sources: Statistics Canada and Alberta Finance and Enterprise.

Following the surge during the boom, consumer prices dropped 0.1% in 2009. Consumer prices rose 1% in 2010, well below the national average increase of 1.8%.

Over the forecast period, inflation in Alberta is expected to remain just above the national average of around 2%.

Personal Incomes Recover and Make Real Gains



Sources: Statistics Canada and Alberta Finance and Enterprise.

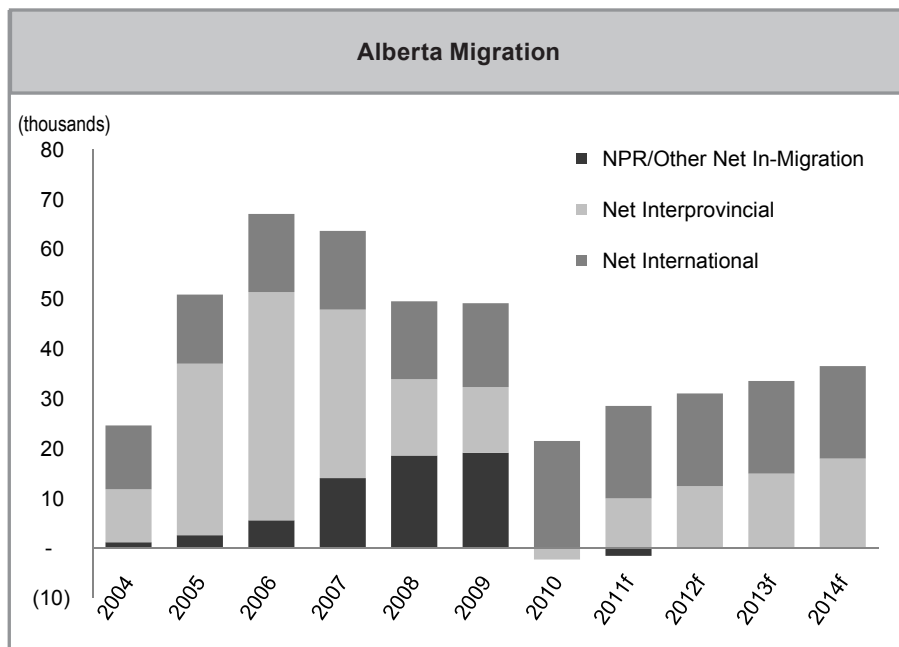
The recession hit personal incomes hard in Alberta. After suffering a 2.7% drop in 2009 (its steepest decline since the 1980s), personal income per capita in Alberta was up an estimated 2.5% in 2010.

Stronger growth in employment and wages is expected to provide a boost to labour income. Growth in personal income per capita is expected to remain around 4.5% over the forecast period.

Net interprovincial migration is forecast to recover moderately, as Alberta's labour market picks up.

International immigration, however, will likely become a more important source of migration to the province. Unlike the boom years, which saw significant inflows of non-permanent residents, non-permanent residents are expected to contribute little to population growth in the coming years as Alberta's labour market becomes more balanced.

In-Migration Strengthens



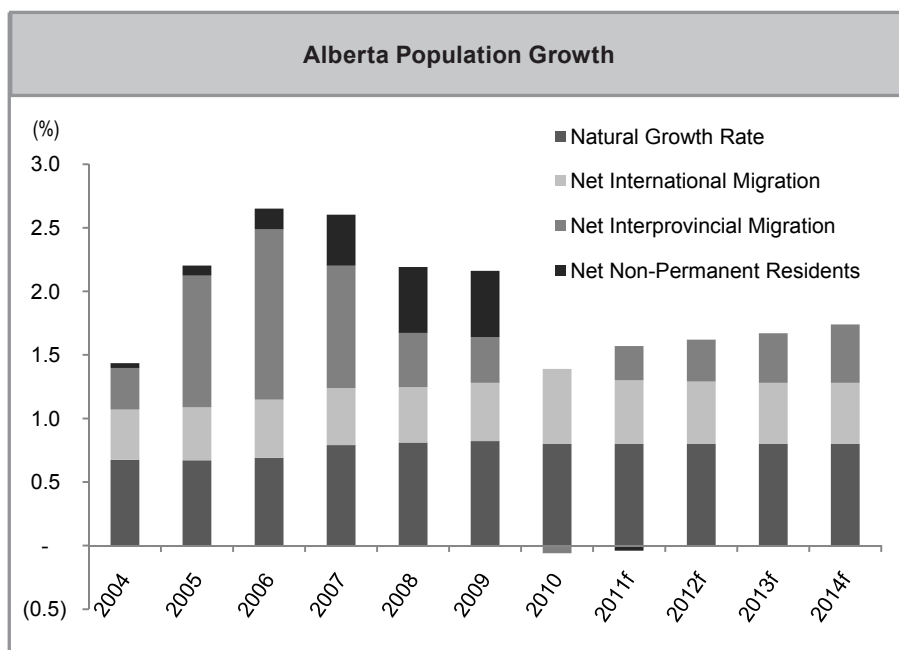
Sources: Statistics Canada and Alberta Finance and Enterprise.

Population growth in Alberta is expected to pick up slowly in the near future, but not to reach the highs witnessed in the boom years that were driven by exceptionally high in-migration.

Natural increase — the number of births less the number of deaths — is expected to form the largest component of population growth in the future, but is projected to remain relatively flat.

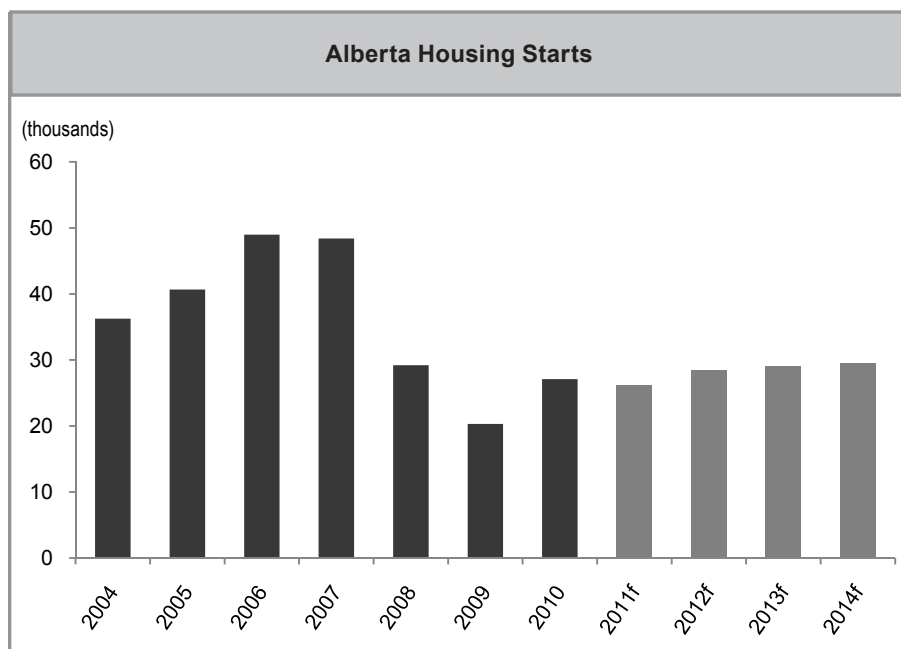
With increased in-migration over the forecast period, population growth is anticipated to reach 1.7% by 2014, up from 1.4% in 2010.

Population Growth Picks Up



Sources: Statistics Canada and Alberta Finance and Enterprise.

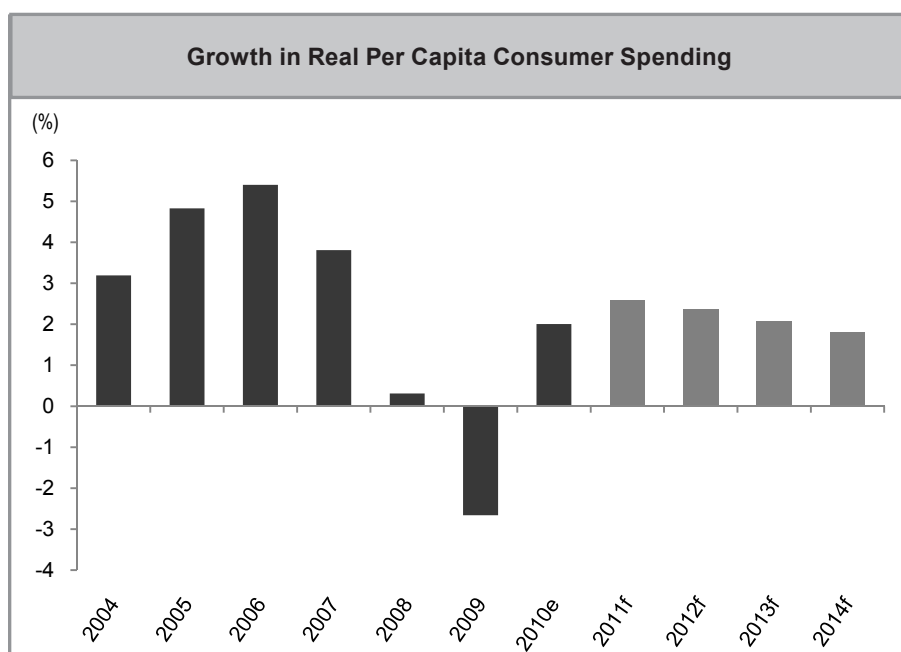
Moderate Migration Normalizes Housing Markets



Sources: Canada Mortgage and Housing Corporation and Alberta Finance and Enterprise.

Housing starts in Alberta recovered strongly in 2010, driven by an improving economy and historically low borrowing costs. Housing starts slowed in the second part of 2010 because of rising inventories, particularly in the single-detached segment. Higher interest rates and modest population growth are expected to keep housing starts growing modestly over the forecast period, in line with demographic requirements.

Alberta Consumers Recover



Sources: Statistics Canada and Alberta Finance and Enterprise.

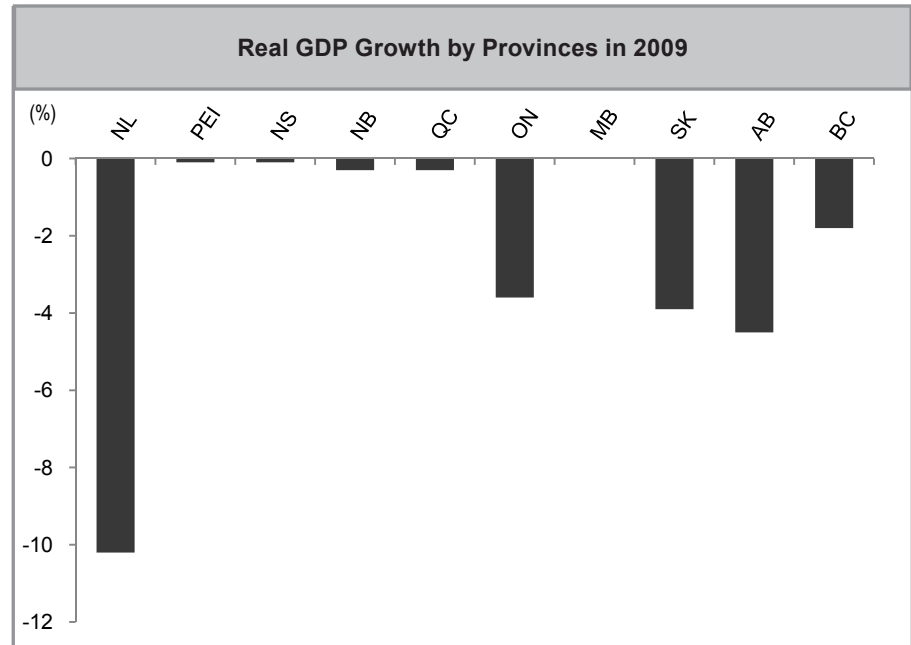
After a sharp decline in 2009, consumer spending per capita recovered in 2010. Improved consumer confidence and a strong labour market are expected to sustain growth in real per capita consumer spending over the forecast period, at an average rate of 2.3% per year.

Resource Provinces Hit Hard in 2009

Alberta, like other resource exporting provinces, was hit unexpectedly hard by the 'great recession' in 2009.

Alberta, Saskatchewan, and Newfoundland and Labrador all experienced sharp declines as commodity prices slid and trade and investment were frozen by the crisis.

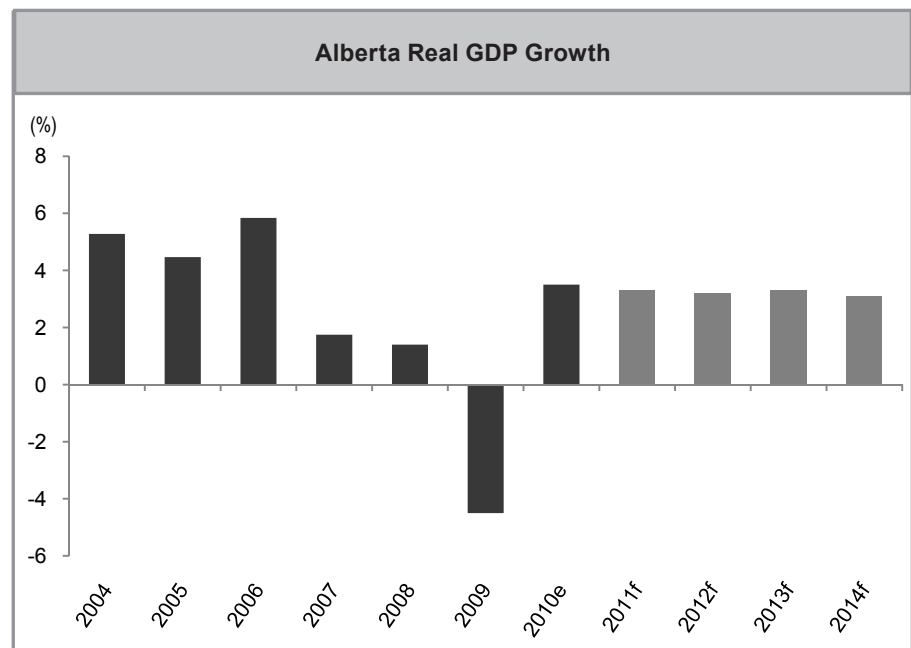
The 4.5% decline in real GDP in 2009 was Alberta's first recession since 1986 and the worst single year GDP decline on record.



Source: Statistics Canada.

Alberta Returns to Growth

Alberta's economy recovered more strongly in 2010 than initially expected, growing by an estimated 3.5%. Economic growth is forecast at 3.3% in 2011, due in large part to stronger activity in the oil sector. Economic growth is expected to remain just over 3% over the remainder of the forecast period, slower than the unsustainable pace of growth posted during the boom. Alberta's exposure to global economic developments, particularly in volatile oil markets, means that risks to the forecast remain high.



Sources: Statistics Canada and Alberta Finance and Enterprise.

ANNEX RISKS, SENSITIVITIES AND BENCHMARKING

RISKS TO THE ECONOMIC OUTLOOK

- ✧ The multi-speed nature of the global economy in 2011 and the lack of world fiscal and monetary capacity to deal with serious disruptions in most major developed economies pose the largest downside risk to Alberta's economic outlook.
- ✧ A key challenge for many developed economies, in particular the US, is how to withdraw the exceptional levels of monetary and fiscal stimulus without jeopardizing the sustainability of economic expansion now underway. Although the US decision to keep its massive fiscal and monetary stimulus in place reduces the downside risks in the short term, normalizing policy will be more challenging in the medium term.
- ✧ A rapid increase in interest rates and/or disruptions in financial and credit markets could threaten global trade and investment. The high capital intensity of Alberta's oil sands projects leaves Alberta particularly vulnerable to these shocks – as witnessed in 2009.
- ✧ Tensions in world currency markets could mean a sudden and swift appreciation in the Canadian dollar. Since Alberta's economy is currently being driven by US dollar denominated exports a rising Canadian dollar reduces revenues in this sector.
- ✧ Rapid increases in commodity prices, particularly oil, could choke off the economic recovery in the oil-importing developed world such as the US and Europe, particularly if monetary authorities attempt to reduce inflation by increasing interest rates. A sharp increase in interest rates would also add to the serious fiscal challenges faced by major developed countries.
- ✧ For Alberta, high oil prices could also lead to renewed labour shortages, driving up costs and undermining longer-term competitiveness. A sustained period of very high oil prices could also provide incentives for fuel switching, making renewable fuels economically viable alternatives to fossil-based fuels.

Sensitivities to Fiscal Year Assumptions, 2011–12^a

(millions of dollars)

	Change	Net Impact (2011-12)
Oil Price (WTI US\$/bbl)	-\$1.00	-141
Natural Gas Price (Cdn\$/GJ)	-10 Cents	-51
Exchange Rate (US¢/Cdn\$)	+ 1 Cent	-154
Interest Rates	+1%	-212
Personal Income	-1%	-115

^a Sensitivities are based on current assumptions of prices and rates and show the effect for a full 12-month period. Sensitivities can vary significantly at different price and rate levels. The energy price sensitivities do not include the potential impact of price changes on the revenue from land sales. The interest rate sensitivity has two components, an increase in cash interest income and a capital loss. When interest rates rise, bond prices go down, causing a capital loss.

Oil Price Benchmark

West Texas Intermediate (US\$/bbl)

Organization	2011	2012	2013	2014
National Forecasting Agencies				
Conference Board of Canada (Jan/11)	85.11	90.97	96.26	103.26
Global Insight (Jan/11)	88.29	95.16	99.02	102.27
Centre for Spatial Economics (Jan/11)	86.08	87.71	91.66	95.83
Banks and Investment Dealers				
BMO Capital Markets (Jan/11)	90.00	92.00	n/a	n/a
Credit Suisse (Jan/11)	85.00	85.00	80.00	80.00
Deutsche Bank (Jan/11)	96.00	98.00	95.00	97.50
CIBC World Markets (Jan/11)	80.00	85.00	n/a	n/a
Goldman Sachs (Jan/11)	100.00	110.00	85.00	85.00
JP Morgan (Dec/10)	93.00	104.00	n/a	n/a
National Bank Financial (Jan/11)	90.00	88.00	80.00	80.00
Peters & Co. Limited (Jan/11)	91.41	92.91	91.72	91.72
RBC Capital Markets (Jan/11)	87.00	90.00	85.00	85.00
Scotiabank (Jan/11)	93.00	98.00	n/a	n/a
Toronto Dominion Bank (Jan/11)	86.25	95.00	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Jan/11)	93.42	97.50	n/a	n/a
GLJ Petroleum Consultants (Jan/11)	88.00	89.00	90.00	92.00
Sproule Associates Limited (Dec/10)	88.40	89.14	88.77	88.88
Confidential Forecasts Provided to Alberta Energy^a				
Average	88.88	94.79	96.11	100.42
High	100.00	110.00	100.40	104.30
Low	80.00	85.00	80.00	80.00
Average of All Private Forecasts	89.28	93.75	91.43	93.97
Alberta Government (calendar year)	88.06	94.66	95.36	99.21

^a The Alberta Department of Energy also surveys, on a confidential basis, private sector forecasts from CERI, PIRA, KBC, Petral, Purvin & Gertz, CERA, Wood Mackenzie and Ross Smith Energy. The annual figures presented here are the average forecast prices from these sources. High/ Low forecasts may represent one of the confidential forecasts.

Includes forecasts finalized on or before January 28, 2011.

How Oil Price Forecasters Did in Budget 2010

West Texas Intermediate (US\$/bbl)

Organization	How did they do in Budget 2010?
National Forecasting Agencies (3)	73.74
Banks and Investment Dealers (10)	79.56
Industry Analysts (3)	79.67
Confidential Forecasts (9)	75.85
Average	77.54
Alberta Government (calendar year)	77.74
Actual	79.42

Sources: Alberta Finance and Enterprise and Alberta Energy.

Both the Government of Alberta and the private sector slightly underestimated oil prices for 2010 by under 3%.

Natural Gas Price Benchmark

Henry Hub (US\$/MMBTU)^a

Organization	2011	2012	2013	2014
National Forecasting Agencies				
Conference Board of Canada (Jan/11)	4.43	5.15	5.54	6.20
Global Insight (Jan/11)	3.97	4.89	5.40	5.29
Centre for Spatial Economics (Jan/11)	4.37	4.52	4.73	4.88
Banks and Investment Dealers				
BMO Capital Markets (Jan/11)	4.50	5.00	n/a	n/a
Credit Suisse (Jan/11)	5.25	6.00	6.50	6.50
Deutsche Bank (Jan/11)	4.31	5.25	5.50	5.75
CIBC World Markets (Jan/11)	4.75	5.50	n/a	n/a
JP Morgan (Dec/10)	4.34	5.40	n/a	n/a
National Bank Financial (Jan/11)	4.75	5.00	5.75	5.75
Peters & Co. Limited (Jan/11)	4.58	5.03	5.46	5.46
RBC Capital Markets (Jan/11)	4.50	5.50	6.00	6.00
Scotiabank (Jan/11)	4.40	4.75	n/a	n/a
Toronto Dominion Bank (Jan/11)	4.23	5.00	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Jan/11)	4.14	4.64	n/a	n/a
GLJ Petroleum Consultants (Jan/11)	4.50	5.15	5.75	6.25
Sproule Associates Limited (Dec/10)	4.44	5.01	5.32	6.80
Confidential Forecasts Provided to Alberta Energy^b				
Average	4.12	4.51	5.63	6.07
High	5.25	6.00	6.78	7.79
Low	3.94	3.47	4.73	4.88
Average of All Private Forecasts	4.40	4.99	5.60	5.93
Alberta Government (calendar year)	4.22	4.67	5.80	6.34

^a The natural gas price is the US price of gas at Henry Hub Louisiana, as this is the benchmark for natural gas prices in the rest of North America. The Alberta Government forecast in the table above is the Alberta Reference Price (used in natural gas royalty calculations) adjusted for the exchange rate and transportation costs to be equivalent to the price of Alberta natural gas at Henry Hub Louisiana.

^b The Alberta Department of Energy also surveys, on a confidential basis, private sector forecasts from PIRA, Petral, CERA and Wood McKenzie. The annual figures presented here are the average forecast prices from these sources. High/ Low forecasts may represent one of the confidential forecasts.

Includes forecasts finalized on or before January 28, 2011.

How Natural Gas Price Forecasters Did in Budget 2010

Henry Hub (US\$/MMBTU)

Both the Government of Alberta and the private sector overestimated natural gas prices for 2010, by 7% and 17% respectively.

Organization	How did they do in Budget 2010?
National Forecasting Agencies (3)	4.90
Banks and Investment Dealers (9)	5.63
Industry Analysts (3)	5.69
Confidential Forecasts (4)	4.49
Average	5.29
Alberta Government (calendar year)	4.71
Actual	4.39

Sources: Alberta Finance and Enterprise and Alberta Energy.

Canadian Short-Term Interest Rate Benchmark

3-month Government of Canada Treasury Bills (per cent)

Organization	2011	2012	2013	2014
National Forecasting Agencies				
Conference Board of Canada (Jan/11)	1.60	4.00	4.60	4.60
Global Insight (Jan/11)	1.28	2.82	3.87	4.62
Centre for Spatial Economics (Jan/11)	1.70	3.10	3.50	3.10
Banks				
BMO Capital Markets (Jan/11)	1.37	3.06	n/a	n/a
CIBC World Markets (Jan/11)	1.44	n/a	n/a	n/a
RBC Royal Bank (Jan/11)	2.05	3.60	n/a	n/a
Scotiabank (Jan/11)	1.29	2.28	n/a	n/a
Toronto Dominion Bank (Dec/10)	1.39	2.65	n/a	n/a
Laurentian Bank (Jan/11)	1.13	n/a	n/a	n/a
High	2.05	4.00	4.60	4.62
Low	1.13	2.28	3.50	3.10
Average of All Private Forecasts	1.47	3.07	3.99	4.11
Alberta Government (calendar year)	1.45	2.75	3.65	3.75

Includes forecasts finalized on or before January 28, 2011.

Canadian Long-Term Interest Rate Benchmark

10-Year Government of Canada Bonds (per cent)

Organization	2011	2012	2013	2014
National Forecasting Agencies				
Conference Board of Canada (Jan/11)	3.30	4.10	4.50	4.70
Global Insight (Jan/11)	3.43	3.68	4.78	4.92
Centre for Spatial Economics (Jan/11)	4.30	4.20	3.80	4.00
Banks				
BMO Capital Markets (Jan/11)	3.40	4.04	n/a	n/a
CIBC World Markets (Jan/11)	3.50	n/a	n/a	n/a
RBC Royal Bank (Jan/11)	3.80	4.15	n/a	n/a
Scotiabank (Jan/11)	3.34	3.76	n/a	n/a
Toronto Dominion Bank (Dec/10)	3.70	4.18	n/a	n/a
Laurentian Bank (Jan/11)	3.23	n/a	n/a	n/a
High	4.30	4.20	4.78	4.92
Low	3.23	3.68	3.80	4.00
Average of All Private Forecasts	3.55	4.01	4.36	4.54
Alberta Government (calendar year)	3.40	4.15	4.70	4.75

Includes forecasts finalized on or before January 28, 2011.

Canada/United States Exchange Rate Benchmark

(US¢/Cdn\$)

Organization	2011	2012	2013	2014
National Forecasting Agencies				
Conference Board of Canada (Jan/11)	100.1	99.4	99.5	100.2
Global Insight (Jan/11)	99.4	95.8	94.0	92.1
Centre for Spatial Economics (Jan/11)	96.9	96.1	94.4	91.9
Banks				
BMO Capital Markets (Jan/11)	101.4	101.2	n/a	n/a
CIBC World Markets (Jan/11)	97.3	n/a	n/a	n/a
RBC Royal Bank (Jan/11)	100.0	99.0	n/a	n/a
Scotiabank (Jan/11)	101.8	105.0	n/a	n/a
Toronto Dominion Bank (Dec/10)	93.3	95.5	n/a	n/a
Laurentian Bank (Jan/11)	99.4	n/a	n/a	n/a
High	101.8	105.0	99.5	100.2
Low	93.3	95.5	94.0	91.9
Average of All Private Forecasts	98.8	98.9	96.0	94.7
Alberta Government (calendar year)	98.8	98.0	98.0	98.0

Includes forecasts finalized on or before January 28, 2011.

Alberta Real Gross Domestic Product Benchmark

(per cent change)

Organization	2011	2012	2013	2014
National Forecasting Agencies				
Conference Board of Canada (Nov/10)	2.8	4.1	3.6	3.5
Global Insight (Jan/11)	3.3	3.5	3.3	3.3
Centre for Spatial Economics (Jan/11)	4.0	2.8	1.9	1.7
Banks				
BMO Capital Markets (Jan/11)	3.5	3.4	n/a	n/a
CIBC World Markets (Jan/11)	3.3	3.7	n/a	n/a
RBC Royal Bank (Jan/11)	4.3	3.8	n/a	n/a
Scotiabank (Jan/11)	3.5	3.3	n/a	n/a
Toronto Dominion Bank (Dec/10)	3.6	3.4	n/a	n/a
Laurentian Bank (Nov/10)	2.8	3.0	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Nov/10)	3.3	n/a	n/a	n/a
High	4.3	4.1	3.6	3.5
Low	2.8	2.8	1.9	1.7
Average of All Private Forecasts	3.4	3.4	2.9	2.8
Alberta Government (calendar year)	3.3	3.2	3.3	3.1

Includes forecasts finalized on or before January 28, 2011.

Alberta Personal Income Benchmark

(per cent change)

Organization	2011	2012	2013	2014
Conference Board of Canada (Nov/10)	5.3	6.5	5.7	5.4
Global Insight (Jan/11)	5.1	6.2	6.1	5.8
Centre for Spatial Economics (Jan/11)	3.6	3.3	2.1	1.9
Toronto Dominion Bank (Dec/10)	4.5	5.1	n/a	n/a
High	5.3	6.5	6.1	5.8
Low	3.6	3.3	2.1	1.9
Average of All Private Forecasts	4.6	5.3	4.6	4.4
Alberta Government (calendar year)	5.9	6.3	6.6	6.4

Note: Total personal income is used as opposed to per capita personal income.

Includes forecasts finalized on or before January 28, 2011.

Alberta Corporate Profits Benchmark

(per cent change)

Organization	2011	2012	2013	2014
Conference Board of Canada (Nov/10)	-0.1	5.7	8.0	5.7
Global Insight (Jan/11)	15.6	8.7	5.6	8.6
Centre for Spatial Economics (Jan/11)	45.9	13.2	11.0	9.4
Toronto Dominion Bank (Dec/10)	9.2	6.8	n/a	n/a
High	45.9	13.2	11.0	9.4
Low	-0.1	5.7	5.6	5.7
Average of All Private Forecasts	17.6	8.6	8.2	7.9
Alberta Government (calendar year)	10.0	16.6	7.2	8.5

Includes forecasts finalized on or before January 28, 2011.

Alberta Housing Starts Benchmark

(thousands)

Organization	2011	2012	2013	2014
National Forecasting Agencies				
Conference Board of Canada (Nov/10)	27.3	29.3	30.5	30.5
Global Insight (Jan/11)	25.5	26.4	25.2	25.2
Centre for Spatial Economics (Jan/11)	30.8	32.3	30.2	26.2
Banks				
BMO Capital Markets (Jan/11)	27.0	27.5	n/a	n/a
CIBC World Markets (Sep/10)	26.0	31.0	n/a	n/a
RBC Royal Bank (Jan/11)	28.7	33.3	n/a	n/a
Scotiabank (Jan/11)	26.0	28.0	n/a	n/a
Toronto Dominion Bank (Dec/10)	23.2	25.0	n/a	n/a
Laurentian Bank (Nov/10)	28.5	30.0	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Nov/10)	28.0	n/a	n/a	n/a
High	30.8	33.3	30.5	30.5
Low	23.2	25.0	25.2	25.2
Average of All Private Forecasts	27.1	29.2	28.6	27.3
Alberta Government (calendar year)	26.2	28.4	29.0	29.4

Includes forecasts finalized on or before January 28, 2011.

Alberta Employment Benchmark

(per cent change)

Organization	2011	2012	2013	2014
National Forecasting Agencies				
Conference Board of Canada (Nov/10)	3.0	3.2	1.9	2.1
Global Insight (Jan/11)	1.9	1.8	1.4	1.5
Centre for Spatial Economics (Jan/11)	2.3	1.7	1.3	1.3
Banks				
BMO Capital Markets (Jan/11)	1.5	1.5	n/a	n/a
CIBC World Markets (Sep/10)	2.0	2.3	n/a	n/a
RBC Royal Bank (Jan/11)	2.2	2.5	n/a	n/a
Scotiabank (Jan/11)	2.2	2.3	n/a	n/a
Toronto Dominion Bank (Dec/10)	2.3	2.0	n/a	n/a
Laurentian Bank (Nov/10)	1.9	2.0	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Nov/10)	1.9	n/a	n/a	n/a
High	3.0	3.2	1.9	2.1
Low	1.5	1.5	1.3	1.3
Average of All Private Forecasts	2.1	2.1	1.5	1.6
Alberta Government (calendar year)	2.0	2.0	1.8	1.7

Includes forecasts finalized on or before January 28, 2011.

Alberta Unemployment Rate Benchmark

(per cent)

Organization	2011	2012	2013	2014
National Forecasting Agencies				
Conference Board of Canada (Nov/10)	6.3	5.3	5.0	4.5
Global Insight (Jan/11)	6.2	6.0	5.6	5.3
Centre for Spatial Economics (Jan/11)	6.2	6.1	6.0	5.6
Banks				
BMO Capital Markets (Jan/11)	5.5	5.3	n/a	n/a
CIBC World Markets (Sep/10)	6.4	6.1	n/a	n/a
RBC Royal Bank (Jan/11)	5.6	5.3	n/a	n/a
Scotiabank (Jan/11)	5.9	5.4	n/a	n/a
Toronto Dominion Bank (Dec/10)	5.9	5.3	n/a	n/a
Laurentian Bank (Nov/10)	6.4	6.3	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Nov/10)	6.2	n/a	n/a	n/a
High	6.4	6.3	6.0	5.6
Low	5.5	5.3	5.0	4.5
Average of All Private Forecasts	6.1	5.7	5.5	5.1
Alberta Government (calendar year)	5.5	5.0	4.8	4.5

Includes forecasts finalized on or before January 28, 2011.