ECONOMIC OUTLOOK

TABLE OF CONTENTS

ECONOMIC OUTLOOK

ANNEX

✧ ECONOMIC OUTLOOK

ALBERTA'S ECONOMY POWERS AHEAD

Alberta's economic expansion is expected to accelerate to 3.7% in 2014 after gaining momentum through 2013. One of Canada's main economic engines is firing on all cylinders as Alberta's business, household and government sectors all contribute to growth in Gross Domestic Product (GDP). Alberta's robust outlook builds on an estimated 3.3% expansion in 2013, the fourth straight year above 3%, outperforming Canada and US economic growth (Chart 1).

A key driver of Alberta's growth is the energy industry, which is poised to see large gains as oil sands production ramps up. The manufacturing industry is expected to strengthen as global growth picks up, increasing exports in 2014. The agriculture industry is also expected to expand through the forecast period, building on a very strong production year in 2013.

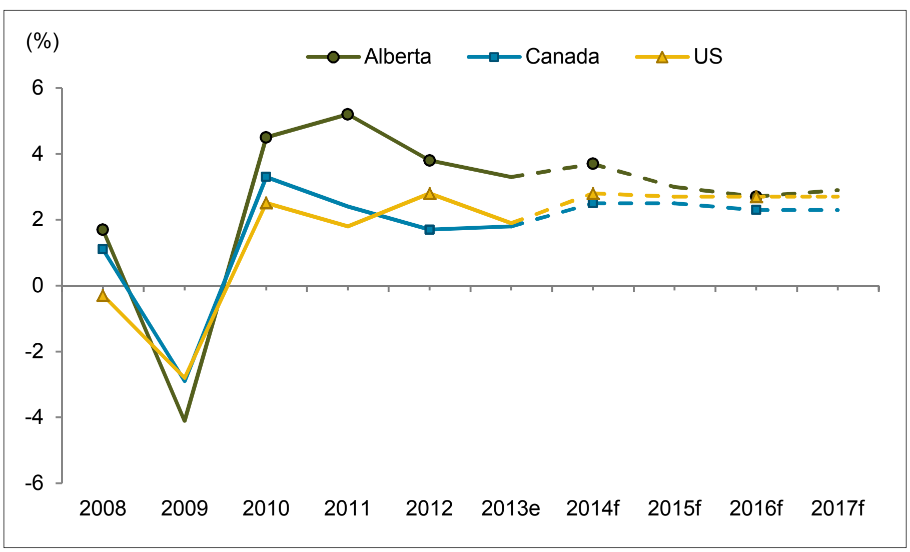
New migrants have provided Alberta with a much-needed source of labour, and have helped the economy grow at a solid rate without bumping into major labour supply constraints and cost pressures. Migration, while forecast to moderate from record levels, will continue to support a strong housing market and further gains in consumer spending in Alberta over the forecast period.

The southern Alberta floods are a key reason why economic growth for 2014 is now stronger than forecast at *Budget 2013*. Rebuilding of damaged property and capital is expected to bolster GDP and employment growth while also adding to inflation. The net impact on real GDP is estimated at 0.4 percentage points in 2013. The impact will approximately double in 2014, as reconstruction comes into full force, before fading in 2015 and beyond.

Alberta's economy has posted exceptionally strong growth since the recession, especially when compared with other advanced economies. Growth is expected to stay elevated at 3.7% in 2014 before moving closer to its historic trend of around 3% over the medium term.

Chart 1: Alberta economy continues to outperform

Real Gross Domestic Product (GDP) Growth



Sources: Statistics Canada, International Monetary Fund and Alberta Treasury Board and Finance

BUSINESS SECTOR: PRODUCTION RAMPS UP

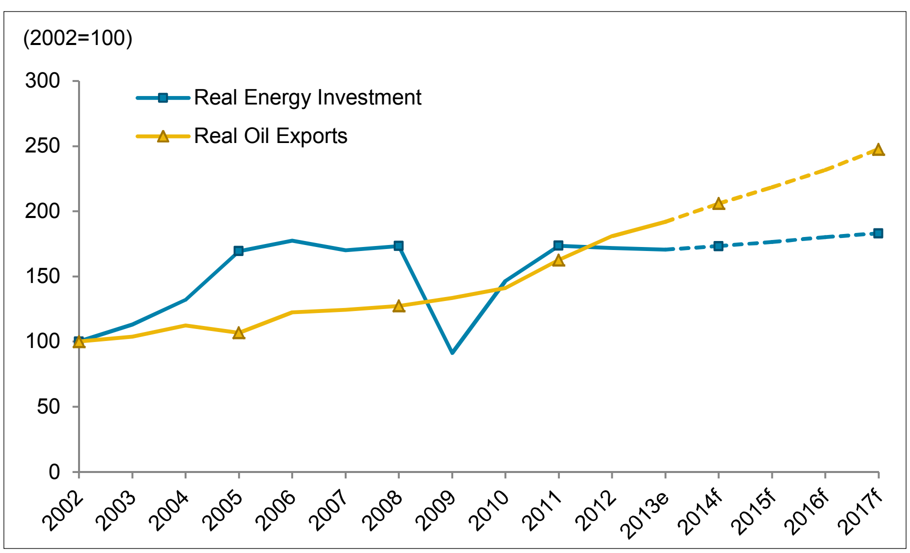
Alberta's business sector has gained strength heading into 2014 with output accelerating in the second half of 2013. With global growth picking up, prospects remain strong in the short to medium term. Across the board, there are few signs of weakness, with oil and gas, manufacturing, and agriculture expected to see continued growth.

Prospects for Alberta's oil industry, the largest single industry in Alberta, remain strong. Some of the uncertainty that weighed on oil producers in late 2012 and early 2013 has lifted. Global economic prospects have improved (see page 94) and rail has helped alleviate transportation constraints. More recently, oil industry revenue is expected to be bolstered by a weaker Canadian dollar, now forecast at US¢ 91/$Cdn over the forecast period. Based on improved conditions, some projects that were put on hold are now proceeding, such as the Fort Hills mining project.

Growth in the oil industry will become more production-driven as a result of years of large-scale investments in the oil sands. As more projects shift from the construction phase to production, oil exports are expected to ramp up and drive Alberta's economic growth (Chart 2). Real oil exports are expected to expand at an average rate of nearly 7% a year over the next five years, compared with about 2% growth for energy investment. Despite the shift to production, investment will remain elevated as new projects proceed and large amounts of existing capital are sustained. In the conventional oil industry, horizontal drilling and fracturing technologies have lifted Alberta's production higher in every year since 2011, reversing a 40-year downward trend. Only modest gains in conventional oil exports are expected, but there is upside risk; Alberta has tight oil reserves, such as the Duvernay formation, that remain largely unexploited.

Chart 2: Oil sands shifts into production mode

Alberta Energy Investment and Oil Exports ($2007 chained)



Sources: Statistics Canada and Alberta Treasury Board and Finance

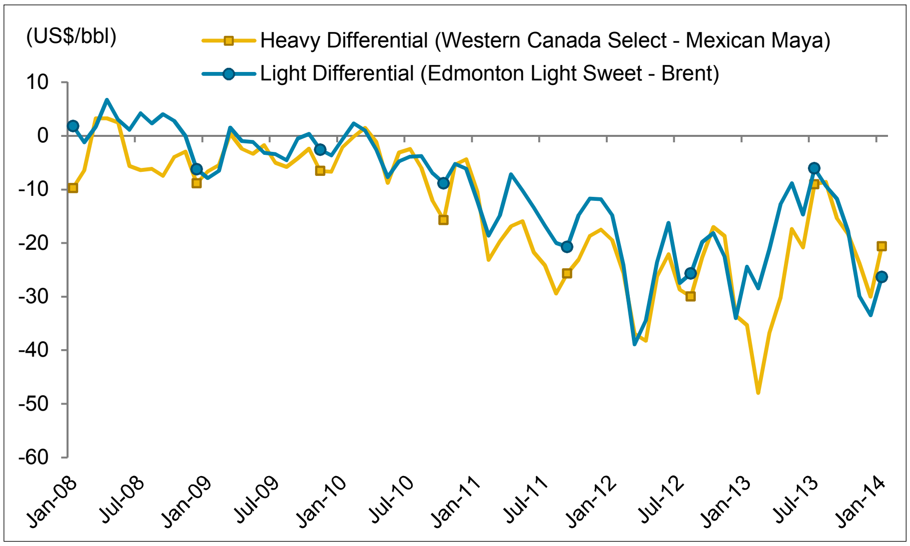
Massive spending on oil sands projects over the last 10 years is now translating into sharply higher oil production and exports.

Despite a strong production outlook, access to markets remains a critical issue. Rising Alberta crude production continues to compete with surging US shale oil production for limited pipeline capacity. Now that new pipeline projects have helped clear inventories at Cushing, Oklahoma, the bottleneck has shifted to Alberta. Consequently, the price of oil produced in Alberta continues to sell at a larger-than-normal discount to similar quality crudes sold internationally (Chart 3). Large price differentials continue to make investments in rail

With limited pipeline access to international markets, Alberta crude sells at a sharp discount to similar quality international crudes. These differentials will persist unless more takeaway capacity from Alberta is added.

Chart 3: Pipeline constraints hurt Alberta oil prices

Alberta Oil Prices Relative to International Benchmarks

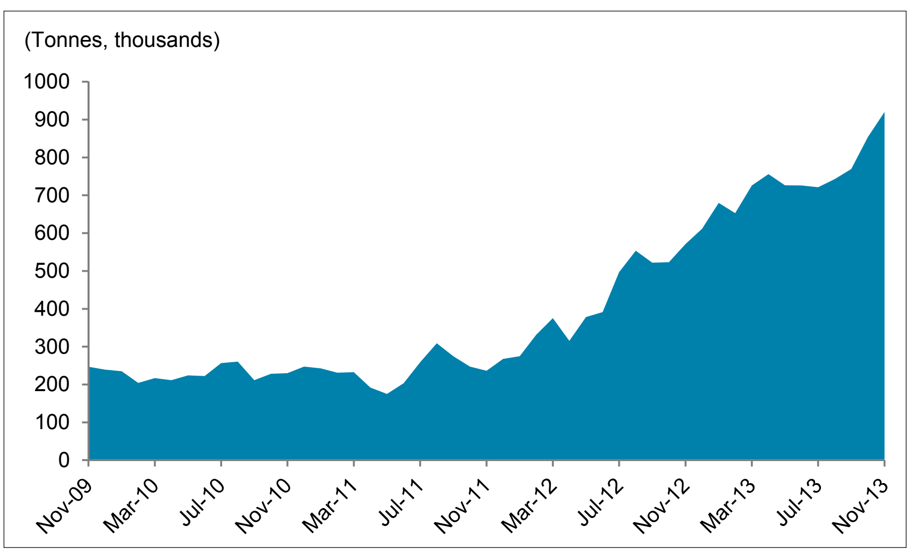


Source: Alberta Energy

Large price differentials have made investments in rail infrastructure economically viable. Rail shipments of crude products from Western Canada have risen more than three-fold since the beginning of 2012, and are expected to rise further over the forecast period.

Chart 4: Oil price differentials encourage movement by rail

Western Canadian Rail Shipments of Crude Petroleum



Source: Statistics Canada

capacity worthwhile since it allows producers to receive higher prices in international markets. As a result, crude-by-rail volumes have surged over the last two years (Chart 4). With several new crude oil rail loading facilities planned for 2014, these volumes will continue to increase.

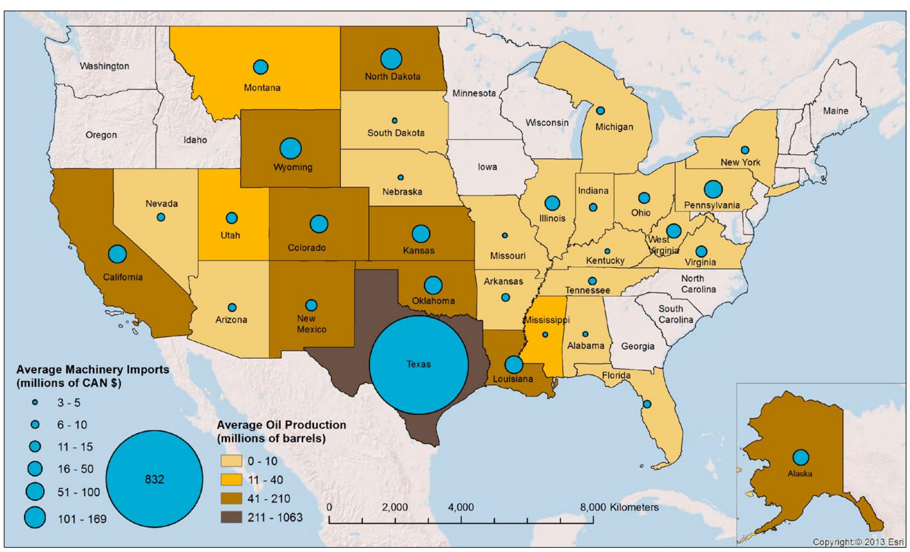
In contrast to the oil patch, drilling for natural gas is expected to remain at historically low levels, resulting in further declines in gas exports over the forecast horizon. A glut of US shale gas supply has kept prices well below historic norms, notwithstanding recent increases caused by cold weather. While demand is expected to remain strong amid planned Liquefied Natural Gas (LNG) terminals and a movement from coal to natural gas power generation in North America, supply is plentiful and can come onstream at a relatively low cost.

Alberta's manufacturing industry is expected to benefit from an improving global economy as well as continued strength in demand for energy-related products over the forecast period. A weaker outlook for the Canadian dollar will also contribute to growth by boosting export revenue. Overall, real manufacturing exports are expected to increase by just over 2% a year between 2014 and 2017.

The forecast growth for manufacturing builds on recent success. In 2013, Alberta accounted for 13% of Canada's manufacturing shipments, up from 8.5% ten years prior. Alberta's comparative strength in energy has played an important role; sales of oil-and gas-related machinery have been trending higher, with much of the growth related to a resurgence in oil production in the US (Chart 5). Machinery exports to the US have nearly tripled over the last ten years due to stronger demand in oil-producing states and are expected to post further gains as US energy production continues to increase.

Chart 5: US oil expansion benefits Alberta machinery manufacturers

Imports of Alberta Machinery and Oil Production by US State*



Alberta machinery exports have been propelled by a resurging US oil industry. The top five oil-producing states accounted for about two-thirds of Alberta's machinery exports to the US between 2010 and 2013.

Sources: Statistics Canada, Energy Information Administration, and Alberta Treasury Board and Finance

* 2010 to 2013 average

Investment in rail loading for crude, combined with the need to move rising volumes of goods from the manufacturing, agriculture, and forestry sectors, will lead to strong growth in the transportation industry over the forecast period.

With the US housing market improving, Alberta's lumber industry is expected to build on its recent gains. Lumber producers in Alberta have been resilient, with mills staying open during the recession and capturing a larger share of the Canadian market during the recovery. Alberta is the only province where lumber production has surpassed pre-recession levels.

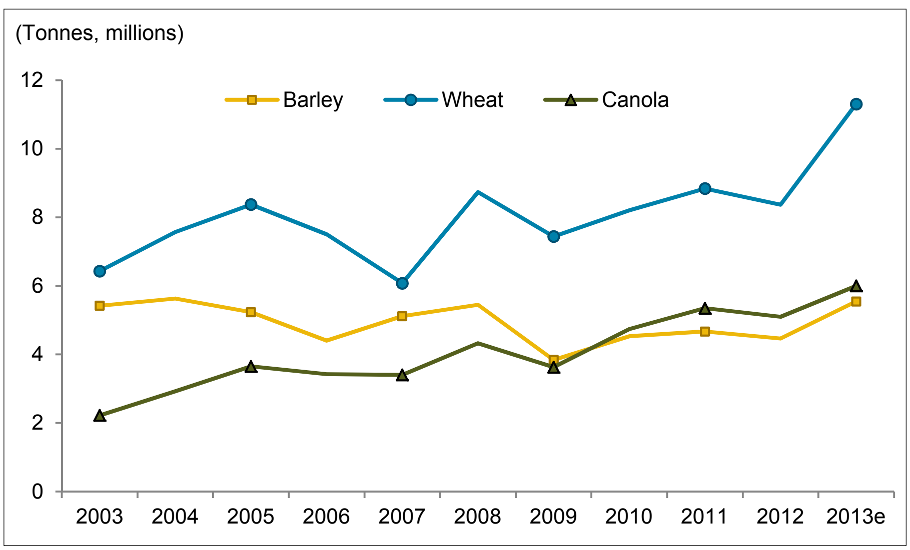
In the agriculture industry, grain production is expected to level off in 2014 after last year's bumper crop pushed canola and wheat volumes to record heights (Chart 6). Livestock markets are expected to perform well in 2014, with producers benefiting from lower feed costs and higher live animal prices. Farmers are facing logistical challenges exporting the bumper crop, increasing the need for on-farm storage of grains. The accumulation of grain inventories likely added significantly to Canada's and Alberta's real GDP growth in 2013. Much of last year's inventories will become this year's exports, contributing to further gains in Alberta's exports. Beyond 2014, the agriculture industry's future growth will depend on its ability to expand and ship into high-growth or high-value markets and through further improvements in productivity and supply chain efficiency.

As production ramps up in the business sector, corporate profits are expected to rise. Net corporate operating surplus, a measure of corporate profits, is

Another strong growing season led to record production of wheat and canola in Alberta.

Chart 6: Bumper crop pushes production to new heights

Alberta Crop Production



Source: Statistics Canada

forecast to grow by an average rate of about 7% per year over the forecast period. This will bring the share of provincial income attributable to corporate profits just below its historic average of 20% by 2017. Rising export volumes will be a driver of profits, as will a weaker dollar in 2014. Offsetting factors include higher transportation costs stemming from an increased reliance on crude-by-rail, and higher import prices resulting from a lower Canadian dollar.

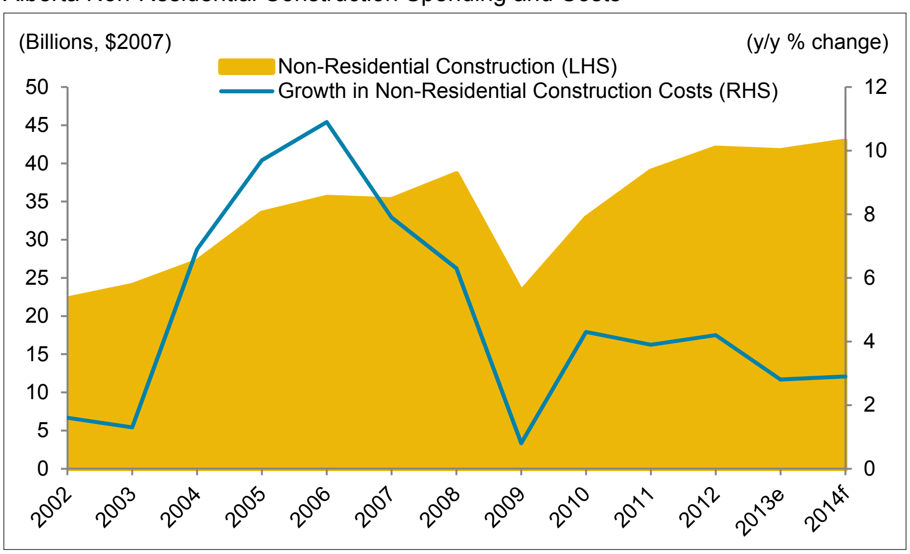
Alberta's fast-growing economy and population will buoy the construction industry over the forecast period. Real business investment in non-residential construction is expected to accelerate to about 3.0% growth this year, before averaging about 2.5% over the remainder of the forecast horizon. The forecast for stronger growth is supported by building permits, a leading indicator of future construction activity. Last year, non-residential building permits hit a record level, rising 18% over 2012.

Government investment is also expected to rise at a faster rate in 2014 as the province builds infrastructure for Alberta's surging population, and rebuilds following the flood.

Construction costs are expected to pick up slightly in 2014 as a weaker dollar raises the price of imports. However, despite strong construction activity, the overall rate of cost escalation is expected to remain subdued, especially compared with the 2004-2008 period (Chart 7). A weak global inflation environment and continued inflows of migrants, which help keep wage pressures contained, will moderate gains in construction costs.

Chart 7: Construction cost escalation remains subdued

Alberta Non-Residential Construction Spending and Costs



Sources: Statistics Canada and Alberta Treasury Board and Finance

Despite strong levels of construction activity, cost escalation has been contained.

HOUSEHOLD SECTOR: HOUSING MARKET SPURRED BY POPULATION GROWTH

A recent influx of migrants will continue to make their way into the housing market in 2014, supporting further gains in residential investment. Spending by households will continue to add materially to Alberta's expansion, though growth rates are expected to moderate over the medium term, consistent with a normalization of population and employment gains.

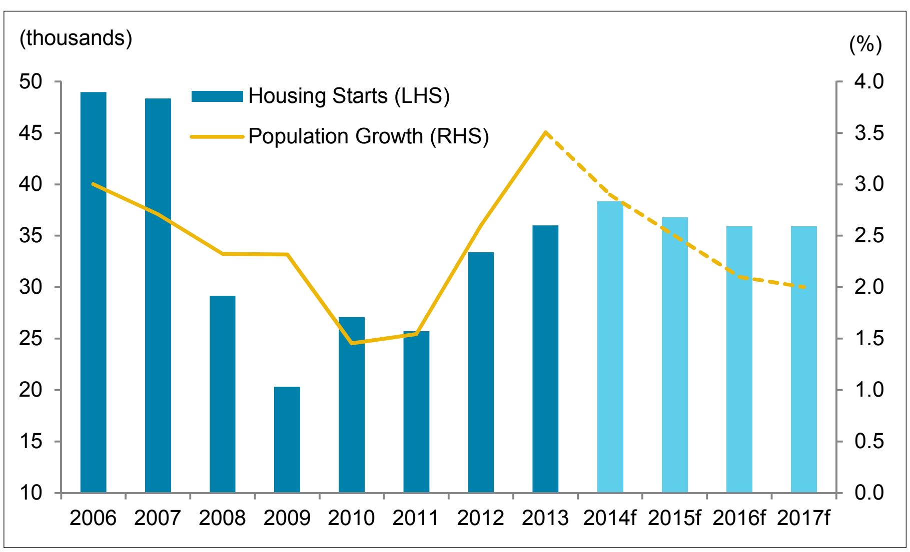
Alberta's housing market has been gaining steam, and is forecast to strengthen further in 2014 at a time when the national housing market is expected to slow. After rising in 2013, housing starts are forecast to increase further to 38,300 in 2014 (Chart 8). Residential investment is expected to expand in real terms by 5.6% in 2014, adding significantly to Alberta's economic growth. A recent tightening in the housing market is a signal of future strength for home construction: rental vacancy rates have fallen, the sales-to-listings ratio has moved firmly into seller's territory, and the supply of newly completed unoccupied homes in Calgary and Edmonton is trending lower.

The housing market will continue to be driven primarily by in-migration. Net migration has soared (Chart 9), with Alberta adding a record 105,200 people from other provinces and countries in 2013. People are coming to pursue job opportunities as reflected by the high concentration of younger, working-age adults in the migrant population (Chart 10). The transitioning of young migrants from rental accommodation into home ownership will lend strength to residential construction in the province. Housing affordability should also support housing demand going forward as Alberta households on average continue to spend a much smaller share of their income on home ownership

Alberta is forecast to see housing starts improve for the third straight year in 2014 as migrants enter the housing market and the labour market remains strong.

Chart 8: More housing needed as population expands

Alberta Housing Starts and Population Growth

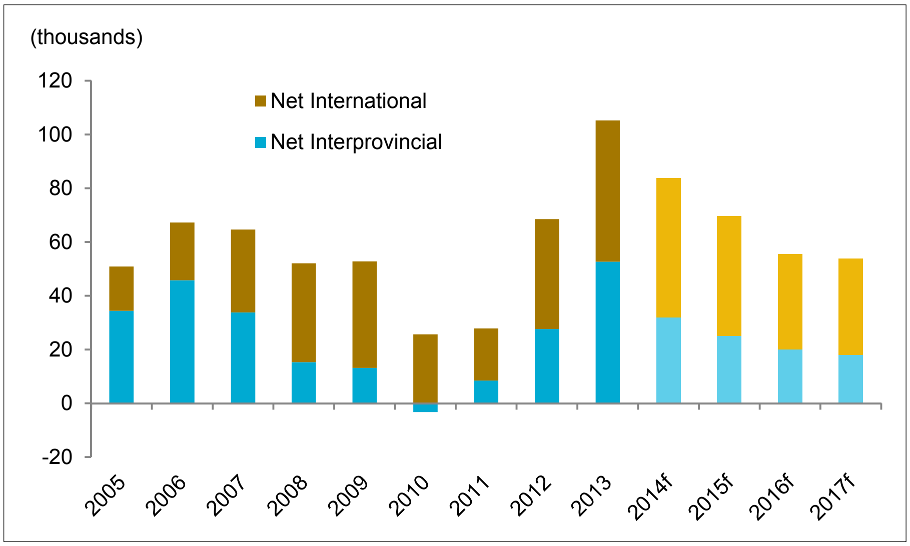


Sources: Statistics Canada and Alberta Treasury Board and Finance costs than the Canadian average. Finally, reconstruction of homes damaged by the southern Alberta floods is expected to provide further strength to residential investment in the province this year and next.

Net migration is forecast to remain high over the outlook, but will normalize more in line with historic levels, with an increasing share of international migrants. After spiking by 3.5% in 2013, the largest increase since 1981,

Chart 9: Net migration to moderate from record high

Alberta Net Migration by Source*

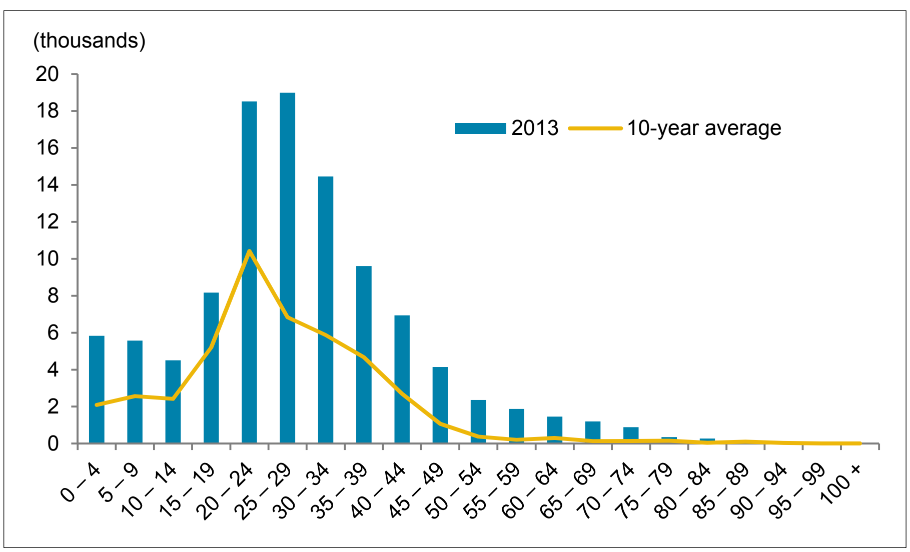


Sources: Statistics Canada and Alberta Treasury Board and Finance
* By census year

A record 105,200 net migrants joined the province in 2013. As migration returns to more normal levels, so too will population growth.

Chart 10: Young adults coming to Alberta for job opportunities

Alberta Net Migration by Age Cohort*



Source: Statistics Canada
* By census year

About half of net migrants last year were young adults between the ages of 20 to 34. This age group has high rates of labour force participation, and many of these adults are likely to be first-time homeowners in Alberta.

Alberta's population growth is forecast to ease to a still-strong 2.9% in 2014 before gradually moving to 2.0% by 2017.

With the housing market strengthening, owned accommodation costs and rents are expected to continue to add to inflation in Alberta (Chart 11). Alberta's inflation rate is expected to rise from only 1.4% in 2013 to 2.2% in 2014 before averaging 2.0% over the medium term. A weaker dollar, which raises import prices, will also put upward pressure on inflation. Outside of shelter, however, inflation is expected to remain subdued, reflecting a lack of global inflationary pressures going forward and moderate wage growth.

Alberta is expected to see another strong year of employment growth in 2014 at 2.6%, building on the momentum from 2013 (Chart 12). Alberta sustained high levels of job growth, creating 5,700 jobs per month on average during 2013 compared with a monthly gain of only 2,600 in the rest of Canada. Despite an elevated rate of job creation, Alberta still holds about one-fifth of all job vacancies in Canada, pointing to further gains ahead. Beyond 2014, employment growth is expected to average 1.8% per year over the medium term, consistent with a more moderate pace of economic growth.

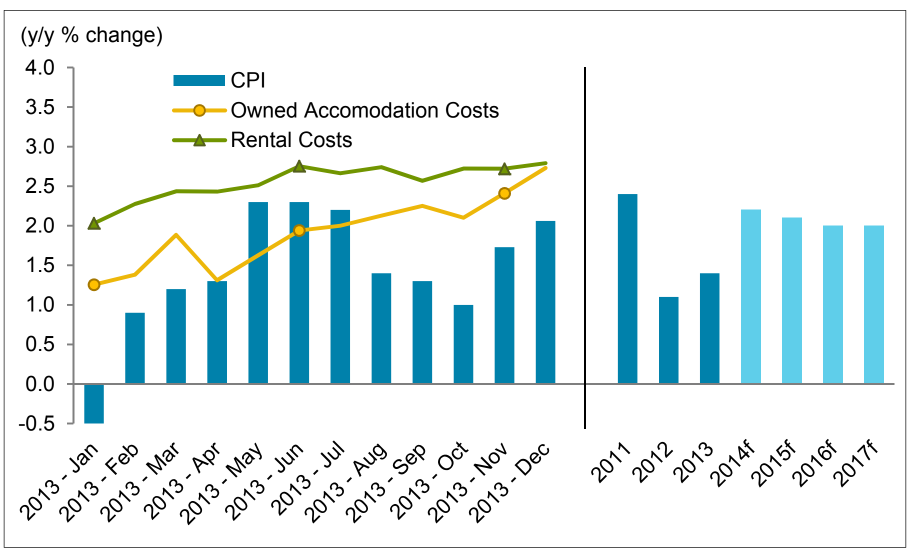
As employment growth moderates, so too will household income. Primary household income growth is expected to ease from 7.1% in 2013 to 6.7% in 2014 before averaging 5.8% per year over the medium term.

The unemployment rate is forecast at 4.4% in 2014 as migrants continue to help fill the province's job requirements, edging down to 4.3% over the medium term. The recent influx of migrants has added to the province's labour force and filled job vacancies, preventing the unemployment rate from falling further and keeping wage pressures at bay.

Inflation has remained modest despite rising pressure from shelter costs. After two years of subdued readings, inflation is expected to return to above 2.0% in 2014.

Chart 11: Shelter costs pick up, but overall inflation subdued

Alberta Consumer Price Index (CPI) and Selected Sub-Components

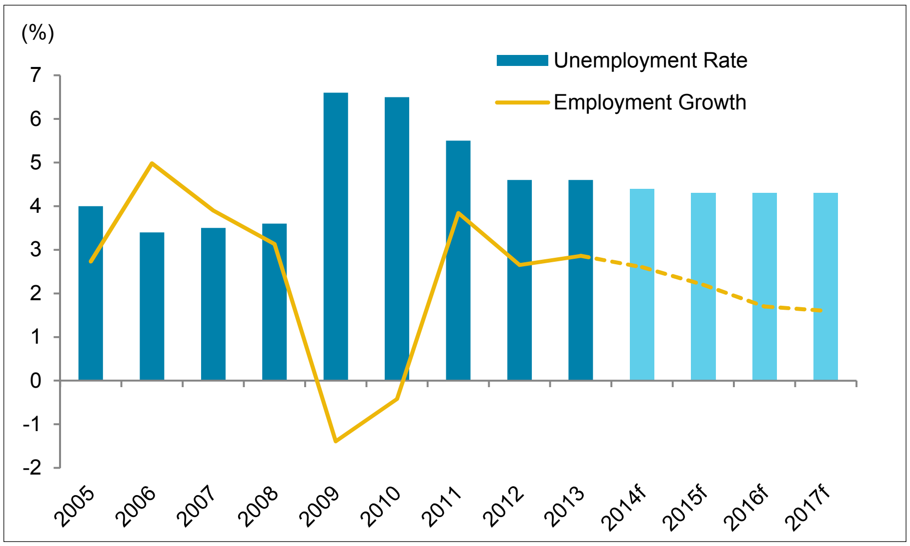


Sources: Statistics Canada and Alberta Treasury Board and Finance

Real consumer spending will remain strong, but growth is expected to moderate to 4.0% in 2014 (Chart 13) as job and population gains decelerate. Weaker growth in vehicle spending is also expected to contribute to the moderation. Spending on vehicles, a highly volatile component, has been persistently strong in Alberta. Part of the 2013 jump in vehicle sales was likely fueled by flood-damaged vehicles being replaced, which is a temporary effect.

Chart 12: Employment growth to moderate

Alberta Annual Unemployment and Employment Growth Rate

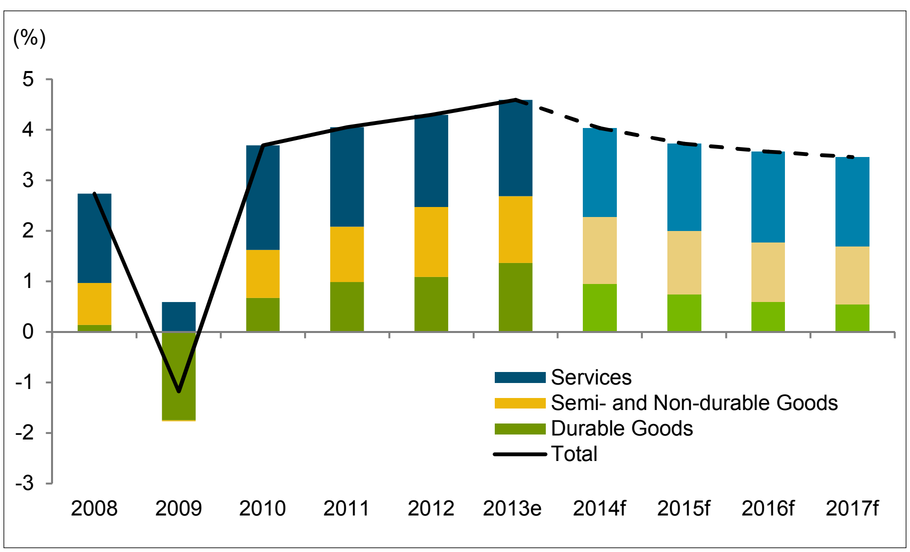


Sources: Statistics Canada and Alberta Treasury Board and Finance

Alberta's unemployment rate has stayed fairly steady despite exceptionally strong employment growth as new migrants have joined Alberta's labour force.

Chart 13: Household spending helps fuel expansion

Real Growth in Household Consumption by Component



Sources: Statistics Canada and Alberta Treasury Board and Finance

Consumer spending growth will remain strong, building on solid gains in 2012 and 2013. Spending on durables, namely vehicles, is expected to grow at more sustainable rates in 2014 and beyond.

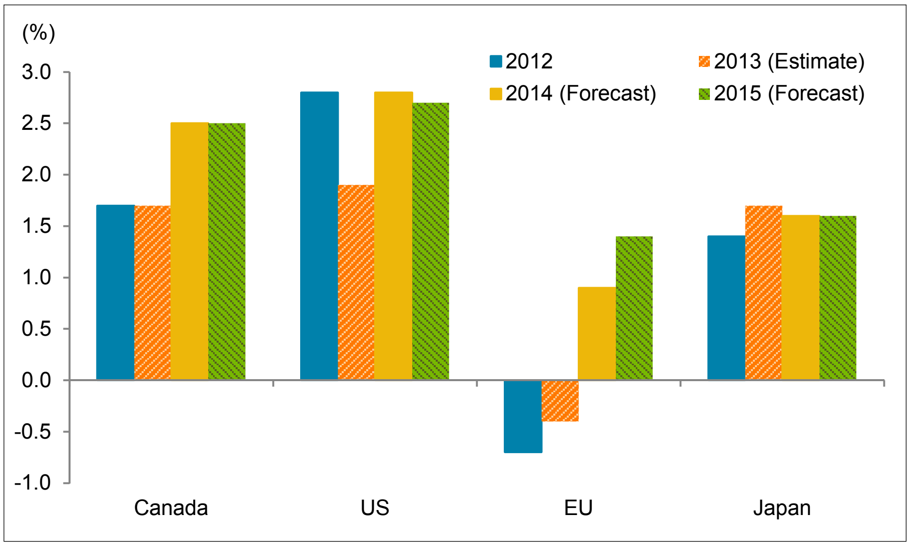
GLOBAL ECONOMY

The global economy is expected to expand by 3.7% in 2014. This is up 0.7 percentage points from 2013 as stronger growth in advanced economies fills the gap left by more sustainable growth in emerging markets (Chart 14). Global economic growth gained a foothold in 2013. Growth in the US has maintained strength despite policy uncertainty and fiscal drag. The Eurozone eased its way out of recession, but growth has been distributed unevenly, and unemployment rates remain alarmingly high in many Eurozone countries. Emerging market growth trended downward again in 2013, but appears to have stabilized and is expected to increase slightly in 2014.

Real GDP growth has increased throughout much of the advanced world. This trend should continue in 2014.

Chart 14: It's finally getting better

Real GDP Growth



Sources: International Monetary Fund and Alberta Treasury Board and Finance

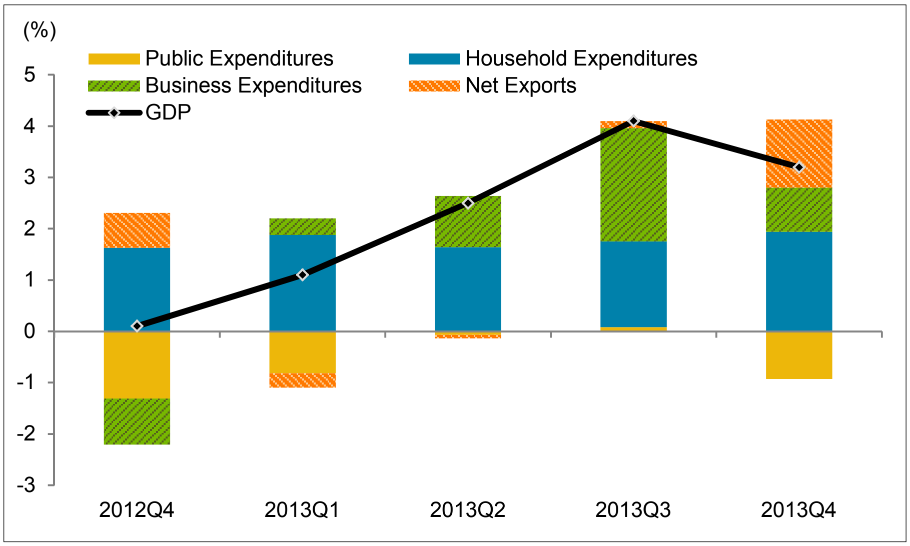
US real GDP growth is expected to rise to 2.8% in 2014 then 2.7% in 2015 as a positive feedback loop develops between asset prices, employment and private demand. Reduced government spending will be a net drag on growth in 2014, but by much less than in 2013 (Chart 15). More importantly, the US Congress agreed to both fund the government and suspend the debt ceiling until 2015, providing a hiatus from the string of fiscal battles that weighed on business and consumer confidence in 2013.

US households have uncharacteristically stayed on the sidelines for most of the recovery as balance sheets were repaired. This period of thriftiness has resulted in pent-up demand as consumers put off large expenditures until economic conditions improved. With the recovery finally underway, consumers are expected to make these postponed purchases while interest rates are still low. This has the potential to be self-reinforcing as stronger domestic demand leads to labour market improvement, which provides a further boost to demand. However, this process is not inevitable; weak December and January employment numbers plus the January decline in stock prices serve as a reminder that the US expansion remains fragile.

After contracting in 2013, the Eurozone economy is expected to grow by 0.9% in 2014 and 1.4% in 2015. The nascent Eurozone recovery, however, remains exposed to substantial downside risks. Unemployment rates are at or near record highs throughout much of southern and eastern Europe, banks are undercapitalized, and financial fragmentation has prevented credit from flowing to the periphery. Inflation has been declining in most advanced economies (Chart 16), but the risk of a deflationary spiral is more acute in Europe.

Chart 15: Strong private expenditure growth offsets fiscal contraction

Contribution to Growth of US Real GDP

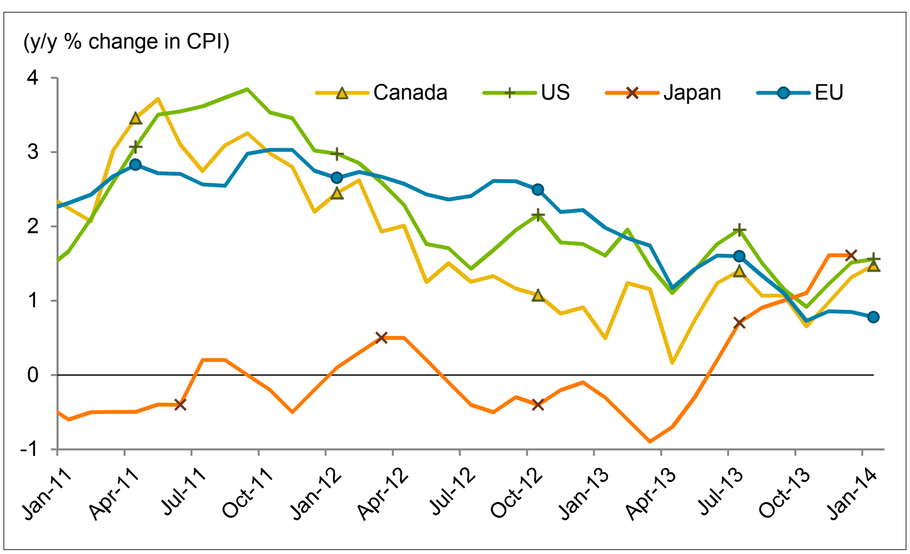


Source: US Bureau of Economic Analysis

US quarterly real GDP growth strengthened in 2013 as strong spending by businesses helped offset the effects of fiscal drag.

Chart 16: Global inflation remains subdued

Consumer Price Inflation



Source: Haver Analytics

Global inflation has been falling since 2011, except in Japan where the Bank of Japan has taken aggressive measures to increase inflation.

Japan, meanwhile, is one of few countries where inflation is rising thanks to a radical shift in monetary policy. In 2013, fiscal policy was complimentary to monetary policy, but this will not be the case in 2014 as the government has increased the value-added tax by three percentage points to combat rising levels of public debt. Growth in Japan is expected to gradually decline from 1.6% in 2014 to 1.2% in the medium term.

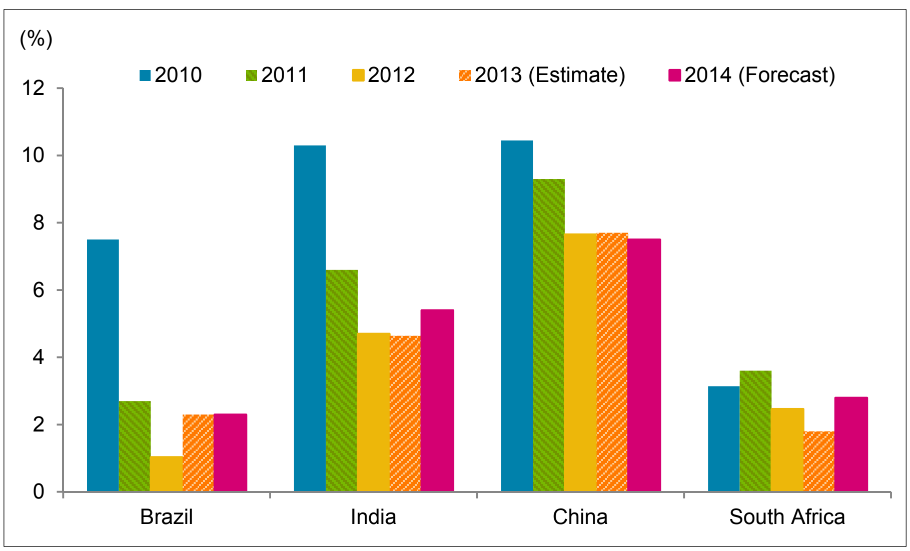
Emerging market economies (EMEs) are key to Alberta's economic outlook given their strong influence on energy demand and commodity prices. Growth in several EMEs declined substantially in 2011 and 2012, but appears to have stabilized in 2013 (Chart 17) and is expected to pick up in 2014. Elevated growth, like that in 2010, is typical in the first year following a recession, so part of the slow down reflects cyclical factors. The rest largely reflects longer term trends. As living standards in emerging markets converge with the advanced world, high growth rates become more difficult to attain.

More concerning, from the standpoint of financial stability, is the apparent vulnerability of many emerging markets to global financial shocks. In May, the US Federal Reserve suggested it would reduce large-scale asset purchases later in the year. This caused many EME currencies to depreciate, yields on government bonds to rise, and money to flow out of EME financial markets. This occurred again in January following a combination of weak Chinese manufacturing data, Turkish intervention in currency markets and devaluation of the Argentine peso. On balance, EMEs should benefit from stronger advanced economy growth; however, the possibility of a financial crisis in one or more emerging markets remains a major downside risk to the outlook.

After falling for the last two years, growth in emerging markets has stabilized. Going forward, emerging markets will benefit from stronger growth expected in advanced economies.

Chart 17: Emerging market growth is stabilizing

Real GDP Growth



Source: International Monetary Fund

CANADIAN ECONOMY

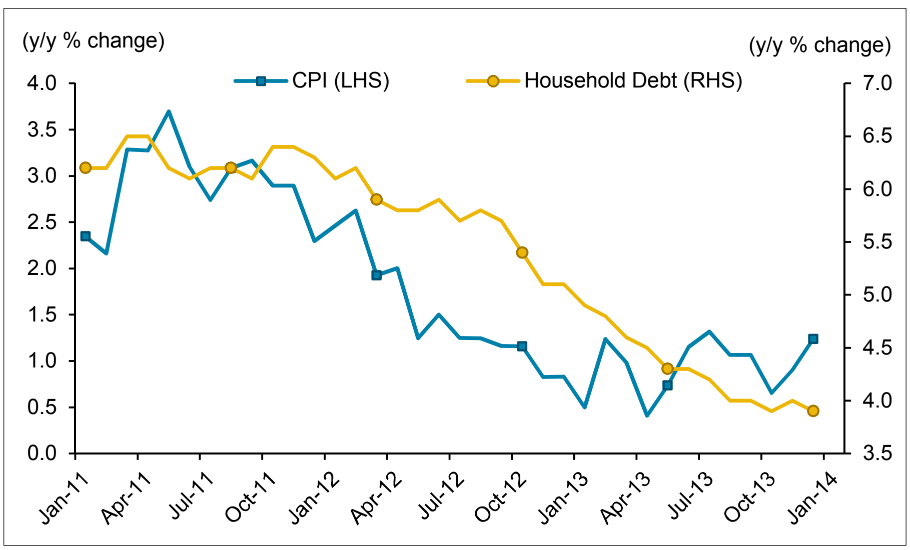
Canadian economic growth has picked up moderately in recent quarters, but continues to show signs of weakness and is expected to see only a modest improvement in 2014. Employment growth has weakened and the unemployment rate has stopped falling. This weakness and the resulting low inflation have prompted the Bank of Canada to soften its stance on interest rate increases, which has contributed to a substantial revaluing of the Canadian dollar.

Canadian real GDP growth is expected to be 2.5% in each of 2014 and 2015 before falling back to 2.3% over the medium term. Exporters will benefit from a lower Canadian dollar and an improved global economy. This effect may be dampened by ongoing competitiveness challenges in the export sector and continued weak productivity growth. Non-residential investment was essentially flat in 2013, but is expected to pick up going forward as sustained improvement in the global economy fosters business confidence. The housing market appears to have so far achieved a soft landing after a mild correction in early 2013.

Inflation in Canada has hovered around 1% since late 2012 (Chart 18). At that time the Bank of Canada was warning that it may raise interest rates to combat rising household debt. Protracted low inflation, combined with continued moderation in household debt growth, has prompted the Bank of Canada to gradually back away from a rate hike before dropping reference to higher interest rates entirely in October. Removing this tightening bias has lowered interest rate expectations as evidenced by Canadian interest rates falling against US rates (Chart 19). The change of stance at the Bank

Chart 18: Low inflation shifts the Bank of Canada's attention

Canada Inflation and Household Debt Growth



Sources: Statistics Canada and Bank of Canada

With household debt growing slower and inflation near the bottom of its target range, the Bank of Canada is shifting focus from household imbalances to inflation.

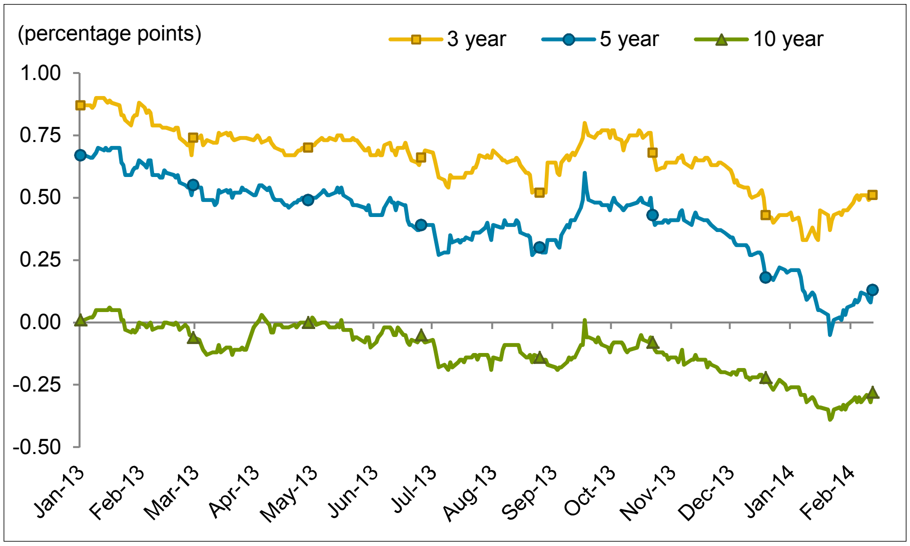
of Canada, along with a stronger US economy, caused the Canadian dollar to depreciate to a four-and-a-half-year low against the US dollar in January (Chart 20). The exchange rate is expected to remain at US¢ 91/Cdn$ for the duration of the forecast. Exchange rates are notoriously difficult to predict, and a major source of uncertainty in the outlook.

A lower Canadian dollar, coupled with stronger US growth, will boost exports in the near term, but many exporters continue to face long-term challenges. Weak export growth pre-dates the recession. Exports have been essentially flat

With the Bank of Canada expected to raise interest rates later, and the Federal Reserve sooner, the spread between Canadian and US interest rates has declined.

Chart 19: Canadian interest rate premium wanes

Spread Between Canada and US Government Bond Yields

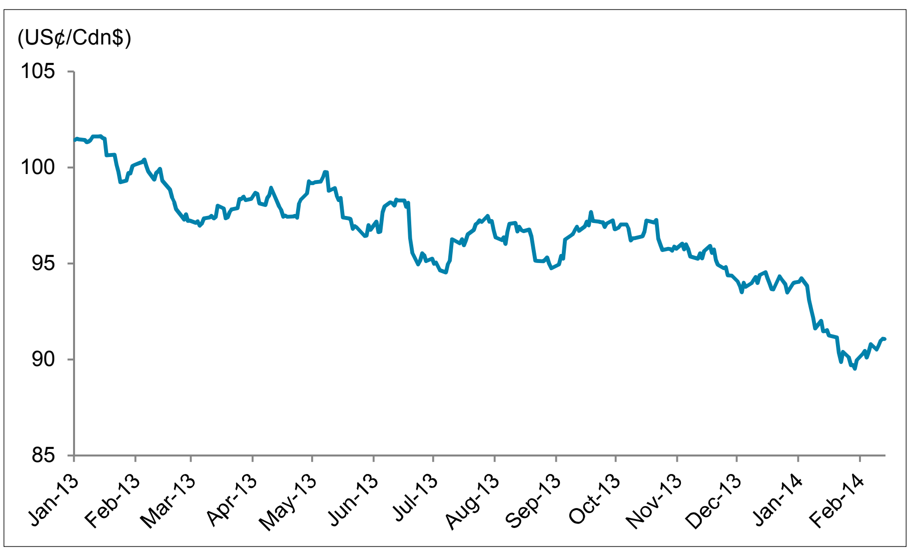


Source: Haver Analytics

Over the past year, the Canadian dollar has lost roughly 10 cents against the US dollar.

Chart 20: Canadian dollar has depreciated against the US dollar

Canada - US Exchange Rate



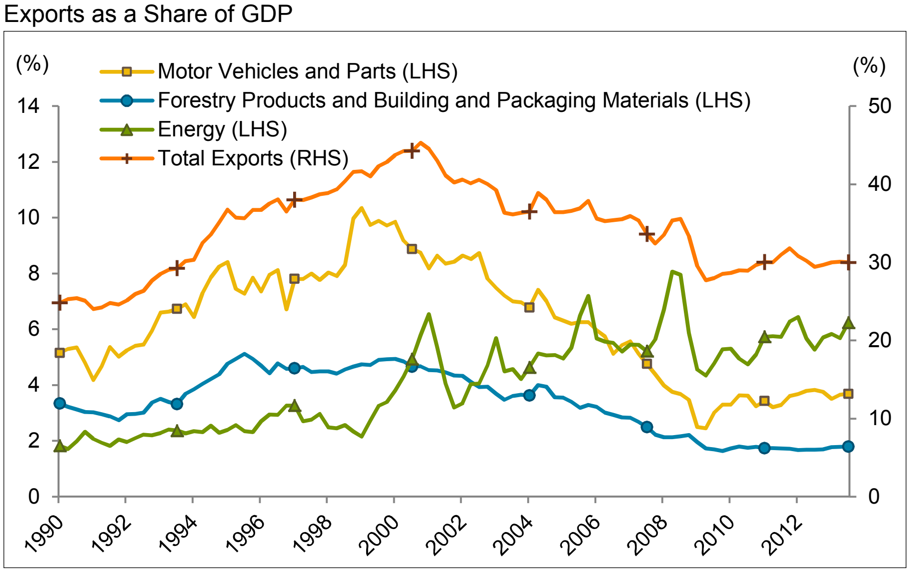
Source: Bank of Canada

since 2000 and have fallen as a share of GDP from 45% to just 30% in 2013 (Chart 21). The decline in export intensity is partly due to structural changes in the economy. Most of the decline in overall export intensity can be explained by lower exports of forestry products and motor vehicles and parts. Forestry products have declined in large part due to the collapse in the US housing market, while motor vehicle and parts exports have suffered as a result of the geographic centre of automobile production shifting away from Detroit-Windsor as auto makers seek lower costs in the southern US and Mexico.

The Canadian housing market has stabilized following a correction in 2012. Real residential investment fell in three straight quarters between the third quarter of 2012 and the first quarter of 2013 as housing starts fell by one-third between August 2012 and January 2013. Both real residential investment and housing starts have since rebounded. The correction was in part precipitated by changes made by federal regulators to mortgage insurance rules and a tightening of mortgage underwriting guidelines. The rebound in the housing market indicates that households may be pulling forward home purchases in anticipation that mortgage rates will soon start to increase. This has fed through to resale home prices, which have accelerated in recent months. Considerable uncertainty remains in the housing market due to still-elevated household debt and housing prices. Residential investment is expected to increase at a slower rate than the overall economy, bringing its share of GDP closer to historical norms.

Chart 21: Canada's export intensity has fallen

Exports as a Share of GDP



Source: Statistics Canada

As a share of GDP, exports have been falling since before the recession, down 15 percentage points from the peak in 2000, with forestry products, building and packaging materials, along with motor vehicles and parts accounting for most of the decline in export intensity.

SUMMARY

Alberta's economy gained momentum in 2013 and is expected to continue to outperform in 2014. Real GDP is forecast to accelerate to 3.7% growth in 2014, the fifth straight year above its historic trend of 3%. Stronger export and investment growth, along with flood-related reconstruction spending, will help drive Alberta's economy this year.

In the global economy, growth is expected to accelerate in 2014 as advanced economies build on strength from the second half of 2013. Greater global demand and a weaker Canadian dollar will boost demand for Canadian exports. This is expected to support slightly stronger, albeit still moderate, economic growth in Canada this year.

RISKS TO THE ECONOMIC OUTLOOK

- Without additional takeaway capacity, Alberta oil producers will continue to face large and volatile price discounts. A higher-than-expected reliance on rail will weigh on royalties, and could impact other sectors that also rely on this mode of transport. On the upside, an immediate alleviation of transportation bottlenecks would reduce uncertainty, raise Alberta oil prices, and boost growth.
- Alberta consumer prices and wages have been contained by weak global inflation and by rising migration into Alberta. If global inflation picks up or migration slows more than expected, cost and price pressures in Alberta may return.
- The recent depreciation of the Canadian dollar highlights the unpredictability of exchange rates. Renewed inflation in Canada could put pressure on the Bank of Canada to raise interest rates, causing the Canadian dollar to appreciate and hurting export revenues.
- The emerging economies remain vulnerable to financial market shocks. Further tapering of Federal Reserve asset purchases could lead to capital outflows and precipitate a financial crisis in one or more emerging market economies. A further slowdown in these markets would weigh on commodity prices, hurting growth prospects in Alberta.
- There is upside risk to US economic growth. Renewed business and consumer confidence could lead to a surge in private spending, which combined with less fiscal drag, would lead to larger-than-expected US growth.
- Upside risks also exist in the Eurozone and emerging markets. An earlier-than-expected return to normalized growth in these economies would cause global growth to accelerate. This would put upward pressure on commodity prices, and boost investment and employment in Alberta.

KEY ENERGY AND ECONOMIC ASSUMPTIONS

Fiscal Year Assumptions	2012-13 Actual	2013-14 Estimates	2014-15	2015-16	2016-17
Prices					
Crude Oil Price					
WTI (US$/bbl)	92.07	98.16	95.22	94.86	94.80
Alberta Wellhead (Cdn$/bbl)[a]	77.39	89.42	88.02	87.61	87.89
WCS @ Hardisty (Cdn$/bbl)	68.48	78.54	77.18	76.59	78.13
Natural Gas Price					
Alberta Reference Price (Cdn$/GJ)	2.29	3.09	3.29	3.73	3.98
Production					
Conventional crude oil (000s barrels/day)	556	583	583	571	550
Raw bitumen (000s barrels/day)	1,917	2,065	2,347	2,548	2,809
Natural gas (billions of cubic feet)	4,223	4,040	3,737	3,602	3,477
Interest rates					
3-month Canada treasury bills (%)	0.96	0.95	1.00	1.30	2.00
10-year Canada bonds (%)	1.85	2.50	3.05	3.65	4.00
Exchange Rate (US¢/Cdn$)	99.9	95.1	91.0	91.0	91.0

Calendar Year Assumptions	2013	2014	2015	2016	2017
Gross Domestic Product					
Nominal (millions of dollars)	331,927[b]	352,143	368,690	386,283	406,607
% change	6.4[b]	6.1	4.7	4.8	5.3
Real (millions of 2007 dollars)	298,038[b]	308,980	318,162	326,791	336,262
% change	3.3[b]	3.7	3.0	2.7	2.9
Other Indicators					
Employment (thousands)	2,211	2,268	2,317	2,357	2,394
% change	2.9	2.6	2.2	1.7	1.6
Unemployment rate (%)	4.6	4.4	4.3	4.3	4.3
Average Weekly Earnings (% change)	3.2[b]	3.4	3.5	3.5	3.5
Primary Household Income (% change)	7.1[b]	6.7	6.2	5.8	5.5
Net Corporate Operating Surplus (% change)	9.4[b]	8.4	4.0	6.3	9.8
Housing starts (number of units)	36,011	38,300	36,800	35,900	35,900
Alberta Consumer Price Index (% change)	1.4	2.2	2.1	2.0	2.0
Retail Sales (% change)	6.6	6.7	5.6	5.2	5.2
Population (thousands)	4,025	4,140	4,242	4,330	4,416
% change	3.5	2.9	2.5	2.1	2.0
Net Migration (thousands)	105.2	83.7	69.6	55.5	53.8

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

[b] Alberta Treasury Board and Finance estimate.

✧ ANNEX

BENCHMARKING TABLES

Oil Price Benchmark

West Texas Intermediate (US$/bbl)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Nov/13)	95.25	98.67	104.33	108.58
IHS Global Insight (Jan/14)	97.86	94.64	94.89	97.31
Centre for Spatial Economics (Jan/14)	95.00	96.36	101.27	108.07
Banks and Investment Dealers				
BMO Capital Markets (Jan/14)	95.00	95.00	n/a	n/a
Credit Suisse (Jan/14)	91.75	87.50	85.00	85.00
Deutsche Bank (Dec/13)	88.75	85.00	80.00	90.00
CIBC World Markets (Dec/13)	95.00	100.00	n/a	n/a
Goldman Sachs (Dec/13)	96.50	90.00	90.00	90.00
JP Morgan (Dec/13)	91.50	85.25	80.00	80.00
Peters & Co. Limited (Jan/14)	91.92	85.23	79.27	79.27
RBC Capital Markets (Jan/14)	94.00	92.00	92.50	95.00
Scotiabank (Jan/14)	92.00	90.00	n/a	n/a
Toronto Dominion Bank (Jan/14)	95.00	98.25	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Dec/13)	96.21	93.87	93.53	96.05
GLJ Petroleum Consultants (Jan/14)	97.50	97.50	97.50	97.50
Sproule Associates Limited (Jan/14)	93.44	86.38	81.87	92.81
Confidential Forecasts Provided to Alberta Energy[a]				
Average	96.35	94.73	94.60	97.42
High	98.10	104.20	107.60	111.35
Low	88.75	85.00	79.27	79.27
Average of All Private Forecasts	94.69	92.82	91.16	94.33
Government of Alberta (calendar year)	96.35	94.73	94.60	97.42

[a] Alberta Energy also surveys, on a confidential basis, private sector forecasts from PIRA, KBC, Petral, IHS CERA and Wood Mackenzie. 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 31, 2014.

Both the Government of Alberta and the private sector underestimated the WTI oil price for 2013, by 4.0% and 3.8% respectively.

How Oil Price Forecasters Fared in *Budget 2013*

West Texas Intermediate (US$/bbl)

Organization	How did they do in *Budget 2013*?
National Forecasting Agencies (3)	92.61
Banks and Investment Dealers (10)	96.02
Industry Analysts (3)	89.72
Confidential Forecasts (7)	94.65
Average	94.28
Government of Alberta (calendar year)	94.05
Actual	97.97

Sources: Alberta Treasury Board and Finance and Alberta Energy

Natural Gas Price Benchmark

Henry Hub (US$/MMBTU)[a]

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Nov/13)	3.94	4.39	4.79	5.19
IHS Global Insight (Jan/14)	3.69	4.17	4.49	4.21
Centre for Spatial Economics (Jan/14)	3.84	3.89	4.51	4.75
Banks and Investment Dealers				
BMO Capital Markets (Jan/13)	4.10	4.50	n/a	n/a
Credit Suisse (Jan/14)	3.90	4.20	4.40	4.50
Deutsche Bank (Jan/14)	4.25	4.50	4.75	4.75
CIBC World Markets (Dec/13)	4.20	4.30	n/a	n/a
JP Morgan (Dec/13)	4.25	4.00	4.50	4.00
Peters & Co. Limited (Jan/14)	3.90	4.05	n/a	n/a
RBC Capital Markets (Jan/14)	4.17	4.07	4.14	4.14
Scotiabank (Jan/14)	4.00	4.35	5.00	5.00
Toronto Dominion Bank (Jan/14)	4.20	4.25	n/a	n/a
Goldman Sachs (Dec/13)	3.94	4.04	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Dec/13)	3.86	3.93	4.41	4.76
GLJ Petroleum Consultants (Jan/14)	4.25	4.50	4.75	5.00
Sproule Associates Limited (Jan/14)	4.28	4.14	4.12	4.92
Confidential Forecasts Provided to Alberta Energy[b]				
Average	3.69	4.06	4.46	4.61
High	4.28	4.50	5.00	5.19
Low	3.65	3.89	4.12	4.00
Average of All Private Forecasts	3.98	4.18	4.52	4.65
Government of Alberta (calendar year)	3.80	4.05	4.41	4.77

[a] The natural gas price is the US price of gas at Henry Hub in Louisiana, as this is the benchmark for natural gas prices in the rest of North America. The Government of Alberta 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 in Louisiana.

[b] Alberta Energy also surveys, on a confidential basis, private sector forecasts from PIRA, Petral, IHS 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 31, 2014.

How Natural Gas Price Forecasters Fared in *Budget 2013*

Henry Hub (US$/MMBTU)

Organization	How did they do in *Budget 2013*?
National Forecasting Agencies (3)	3.54
Banks and Investment Dealers (9)	3.65
Industry Analysts (3)	3.71
Confidential Forecasts (3)	3.92
Average	3.69
Government of Alberta (calendar year)	3.71
Actual	3.66

Sources: Alberta Treasury Board and Finance and Alberta Energy

Both the Government of Alberta and the private sector slightly overestimated natural gas prices in 2013, by 1.4% and 0.8% respectively.

Canadian Short-Term Interest Rate Benchmark

3-month Government of Canada Treasury Bills (%)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Dec/13)	1.10	1.90	2.85	3.59
IHS Global Insight (Jan/14)	0.97	1.12	2.84	4.41
Centre for Spatial Economics (Jan/14)	1.20	2.30	3.40	3.60
Banks				
BMO Capital Markets (Jan/14)	0.90	1.09	n/a	n/a
CIBC World Markets (Jan/14)	0.93	1.35	n/a	n/a
RBC Royal Bank (Jan/14)	1.10	1.85	n/a	n/a
Scotiabank (Jan/14)	0.98	1.24	n/a	n/a
Toronto Dominion Bank (Jan/14)	0.95	1.20	n/a	n/a
Laurentian Bank (Jan/14)	0.98	1.23	n/a	n/a
National Bank (Jan/14)	0.96	1.80	n/a	n/a
High	1.20	2.30	3.40	4.41
Low	0.90	1.09	2.84	3.59
Average of All Private Forecasts	1.01	1.51	3.03	3.87
Alberta Government (calendar year)	0.95	1.20	1.90	2.40

Includes forecasts finalized on or before January 31, 2014.

Canadian Long-Term Interest Rate Benchmark

10-Year Government of Canada Bonds (%)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Dec/13)	2.54	2.73	3.22	3.76
IHS Global Insight (Jan/14)	3.04	3.33	3.91	4.51
Centre for Spatial Economics (Jan/14)	2.80	4.20	5.00	4.90
Banks				
BMO Capital Markets (Jan/14)	2.88	3.67	n/a	n/a
CIBC World Markets (Jan/14)	2.83	3.36	n/a	n/a
RBC Royal Bank (Jan/14)	3.40	4.10	n/a	n/a
Scotiabank (Jan/14)	2.81	3.43	n/a	n/a
Toronto Dominion Bank (Jan/14)	2.99	3.40	n/a	n/a
Laurentian Bank (Jan/14)	3.13	3.60	n/a	n/a
National Bank (Jan/14)	2.96	3.64	n/a	n/a
High	3.40	4.20	5.00	4.90
Low	2.54	2.73	3.22	3.76
Average of All Private Forecasts	2.94	3.55	4.04	4.39
Government of Alberta (calendar year)	2.91	3.50	4.00	4.25

Includes forecasts finalized on or before January 31, 2014.

Canada / United States Exchange Rate Benchmark
(US¢/Cdn$)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Jan/14)	88.7	91.2	92.1	92.6
IHS Global Insight (Jan/14)	94.9	95.1	94.0	92.2
Centre for Spatial Economics (Jan/14)	93.5	93.4	93.4	92.3
Banks				
BMO Capital Markets (Jan/14)	89.5	93.7	n/a	n/a
CIBC World Markets (Jan/14)	91.3	94.5	n/a	n/a
RBC Royal Bank (Jan/14)	91.7	87.0	n/a	n/a
Scotiabank (Jan/14)	88.5	91.0	n/a	n/a
Toronto Dominion Bank (Jan/14)	87.0	88.8	n/a	n/a
Laurentian Bank (Jan/14)	91.3	94.5	n/a	n/a
National Bank (Jan/14)	91.3	94.3	n/a	n/a
High	94.9	95.1	94.0	92.6
Low	87.0	87.0	92.1	92.2
Average of All Private Forecasts	90.8	92.3	93.2	92.4
Government of Alberta (calendar year)	91.0	91.0	91.0	91.0

Includes forecasts finalized on or before January 31, 2014.

Alberta Real Gross Domestic Product Benchmark
(% change)

Organization	2013	2014	2015	2016	2017
National Forecasting Agencies					
Conference Board of Canada (Nov/13)	3.2	3.4	2.6	2.6	2.5
IHS Global Insight (Jan/14)	3.1	3.2	3.1	2.9	2.7
Centre for Spatial Economics (Jan/14)	3.4	3.9	2.7	2.9	3.4
Banks					
BMO Capital Markets (Jan/14)	3.2	3.3	3.3	n/a	n/a
CIBC World Markets (Oct/13)	2.8	3.0	n/a	n/a	n/a
RBC Royal Bank (Dec/13)	3.3	3.9	3.5	n/a	n/a
Scotiabank (Jan/14)	3.2	3.8	3.3	n/a	n/a
Toronto Dominion Bank (Jan/14)	3.3	3.3	2.8	n/a	n/a
Laurentian Bank (Jan/14)	2.8	3.1	2.9	n/a	n/a
National Bank (Jan/14)	3.4	3.1	2.8	n/a	n/a
Other					
Canada Mortgage and Housing Corporation (Oct/13)	2.1	3.1	n/a	n/a	n/a
High	3.4	3.9	3.5	2.9	3.4
Low	2.1	3.0	2.6	2.6	2.5
Average of All Private Forecasts	3.1	3.4	3.0	2.8	2.9
Government of Alberta (calendar year)	3.3	3.7	3.0	2.7	2.9

Includes forecasts finalized on or before January 31, 2014.

Light-Heavy Oil Price Differential Benchmark
(%)

Industry Analysts	2014	2015	2016	2017
GLJ Petroleum Consultants (Jan/14)	24	22	22	22
Sproule Associates Limited (Jan/14)	23	23	20	16
Confidential Forecasts Provided to Alberta Energy[a]				
Average	26	27	22	21
Average of All Private Forecasts	25	25	21	20
Government of Alberta (calendar year)	26	27	25	25

[a] Alberta Energy also surveys, on a confidential basis, private sector forecasts from KBC, IHS CERA, Peters & Co Ltd and BMO; The annual figures presented here are the average forecast prices from these sources.

Includes forecasts finalized on or before January 31, 2014.

Alberta Corporate Net Operating Surplus Benchmark
(% change)

National Forecasting Agencies	2013	2014	2015	2016	2017
Conference Board of Canada (Nov/13)	-5.6	3.2	7.0	7.1	5.2
IHS Global Insight (Jan/14)	3.1	14.5	4.2	4.1	4.0
Centre for Spatial Economics (Jan/14)	25.8	14.0	-2.7	8.8	11.1
High	25.8	14.5	7.0	8.8	11.1
Low	-5.6	3.2	-2.7	4.1	4.0
Average of All Private Forecasts	7.8	10.6	2.8	6.7	6.8
Government of Alberta (calendar year)	9.4	8.4	4.0	6.3	9.8

Includes forecasts finalized on or before January 31, 2014.

Alberta Housing Starts Benchmark
(thousands)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Nov/13)	34.6	34.9	33.6	32.9
IHS Global Insight (Jan/14)	37.1	36.0	35.1	34.8
Centre for Spatial Economics (Jan/14)	38.1	40.0	42.2	45.3
Banks				
BMO Capital Markets (Jan/14)	39.0	40.0	n/a	n/a
CIBC World Markets (Oct/13)	38.0	n/a	n/a	n/a
RBC Royal Bank (Dec/13)	36.8	34.5	n/a	n/a
Scotiabank (Jan/14)	36.0	35.0	n/a	n/a
Toronto Dominion Bank (Jan/14)	38.0	33.0	n/a	n/a
Laurentian Bank (Jan/14)	44.0	36.5	n/a	n/a
National Bank (Jan/14)	35.0	36.0	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Oct/13)	34.9	n/a	n/a	n/a
High	44.0	40.0	42.2	45.3
Low	34.6	33.0	33.6	32.9
Average of All Private Forecasts	37.4	36.2	37.0	37.7
Government of Alberta (calendar year)	38.3	36.8	35.9	35.9

Includes forecasts finalized on or before January 31, 2014.

Alberta Primary Household Income Benchmark
(% change)

National Forecasting Agencies	2013	2014	2015	2016	2017
Conference Board of Canada (Nov/13)	7.0	4.9	5.3	4.8	4.6
IHS Global Insight (Jan/14)	5.5	4.5	4.6	4.6	4.4
Centre for Spatial Economics (Jan/14)	5.5	5.3	5.0	5.3	5.5
High	7.0	5.3	5.3	5.3	5.5
Low	5.5	4.5	4.6	4.6	4.4
Average of All Private Forecasts	6.0	4.9	5.0	4.9	4.8
Government of Alberta (calendar year)	7.1	6.7	6.2	5.8	5.5

Includes forecasts finalized on or before January 31, 2014.

Alberta Employment Benchmark
(% change)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Nov/13)	2.4	2.2	1.6	1.5
IHS Global Insight (Jan/14)	2.6	2.0	1.8	1.3
Centre for Spatial Economics (Jan/14)	2.5	2.0	2.2	2.3
Banks				
BMO Capital Markets (Jan/14)	2.8	2.2	n/a	n/a
CIBC World Markets (Oct/13)	2.3	n/a	n/a	n/a
RBC Royal Bank (Dec/13)	2.4	1.8	n/a	n/a
Scotiabank (Jan/14)	2.5	2.1	n/a	n/a
Toronto Dominion Bank (Jan/14)	2.0	1.7	n/a	n/a
Laurentian Bank (Jan/14)	1.9	1.9	n/a	n/a
National Bank (Jan/14)	2.0	2.0	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Oct/13)	2.3	n/a	n/a	n/a
High	2.8	2.2	2.2	2.3
Low	1.9	1.7	1.6	1.3
Average of All Private Forecasts	2.3	2.0	1.9	1.7
Government of Alberta (calendar year)	2.6	2.2	1.7	1.6

Includes forecasts finalized on or before January 31, 2014.

Alberta Unemployment Rate Benchmark

(%)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Nov/13)	4.6	4.3	4.0	3.8
IHS Global Insight (Jan/14)	4.4	4.2	4.3	4.4
Centre for Spatial Economics (Jan/14)	4.9	5.1	4.9	4.7
Banks				
BMO Capital Markets (Jan/14)	4.6	4.2	n/a	n/a
CIBC World Markets (Oct/13)	4.2	n/a	n/a	n/a
RBC Royal Bank (Dec/13)	4.4	4.1	n/a	n/a
Scotiabank (Jan/14)	4.3	4.2	n/a	n/a
Toronto Dominion Bank (Jan/14)	4.4	4.2	n/a	n/a
Laurentian Bank (Jan/14)	4.5	4.2	n/a	n/a
National Bank (Jan/14)	4.8	4.5	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Oct/13)	4.5	n/a	n/a	n/a
High	4.9	5.1	4.9	4.7
Low	4.2	4.1	4.0	3.8
Average of All Private Forecasts	4.5	4.3	4.4	4.3
Government of Alberta (calendar year)	4.4	4.3	4.3	4.3

Includes forecasts finalized on or before January 31, 2014.