FISCAL PLAN

ECONOMIC OUTLOOK

ANNEX

The Alberta
JOBS PLAN

BUDGET 2016

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ECONOMIC OUTLOOK

ANNEX

KEY ENERGY AND ECONOMIC ASSUMPTIONS

Fiscal Year Assumptions	2014-15 Actuals	2015-16 Forecast	2016-17	2017-18	2018-19
Crude Oil Prices[a]					
WTI (US$/bbl)	80.48	45.00	42.00	54.00	64.00
Light-Heavy Differential (US$/bbl)	17.30	13.40	15.20	17.50	18.50
WCS @ Hardisty (Cdn$/bbl)	70.78	41.00	36.40	48.30	59.00
Natural Gas Price[a]					
Alberta Reference Price (Cdn$/GJ)	3.51	2.30	2.40	2.80	3.00
Production					
Conventional Crude Oil (000s barrels/day)	586	529	524	506	489
Raw Bitumen (000s barrels/day)	2,330	2,403	2,668	2,890	3,151
Natural Gas (billions of cubic feet/day)	13.1	13.3	13.1	12.7	12.4
Interest Rates					
3-month Canada Treasury Bills (%)	0.85	0.49	0.54	0.93	1.49
10-year Canada Bonds (%)	1.98	1.53	1.79	2.38	2.91
Exchange Rate (US¢/Cdn$)[a]	88.0	76.0	73.5	75.5	77.5

Calendar Year Assumptions	2014 Actuals	2015 Estimates	2016	2017	2018	2019
Gross Domestic Product						
Nominal (billions of dollars)	375.8	333.1[b]	318.7	344.0	372.3	396.3
% change	9.1	-11.4[b]	-4.3	8.0	8.2	6.4
Real (billions of 2007 dollars)	320.1	315.3[b]	311.0	316.9	325.8	334.8
% change	4.8	-1.5[b]	-1.4	1.9	2.8	2.7
Other Indicators						
Employment (thousands)	2,275	2,302	2,263	2,283	2,330	2,375
% change	2.2	1.2	-1.7	0.9	2.1	1.9
Unemployment Rate (%)	4.7	6.0	8.0	7.5	6.5	5.8
Average Weekly Earnings (% change)	3.7	-0.3	-0.6	1.0	2.1	2.9
Primary Household Income (% change)	6.7	0.3[b]	-1.4	2.4	4.2	4.7
Net Corporate Operating Surplus (% change)	17.0	-51.9[b]	-18.0	48.6	32.9	15.7
Housing Starts (thousands of units)	40.6	37.5	22.2	19.4	20.1	23.6
Alberta Consumer Price Index (% change)	2.6	1.1	1.5	1.7	2.1	1.9
Retail Sales (% change)	7.5	-3.4	-3.4	1.1	3.8	4.6
Population (thousands)	4,121	4,196	4,247	4,287	4,343	4,406
% change	2.8	1.8	1.2	1.0	1.3	1.4
Net Migration (thousands)	80.3	42.0	16.4	7.2	23.1	31.0

[a] Forecasts have been rounded

[b] Alberta Treasury Board and Finance estimate.

Fiscal Sensitivities to Key Assumptions, 2016–17[a]

(millions of dollars)

	Change	Net Impact (2016-17)
Oil Price (WTI US$/bbl)	-$1.00	-130
Light/Heavy Oil Price Differential	+$1.00	-70
Natural Gas Price (Cdn$/GJ)	-10 Cents	-25
Exchange Rate (US¢/Cdn$)	+ 1 Cent	-85
Interest Rates	+1%	-230
Primary Household Income	-1%	-170

[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 lease sales.

ECONOMIC OUTLOOK 2016–19

LOW OIL PRICES PROLONG DOWNTURN

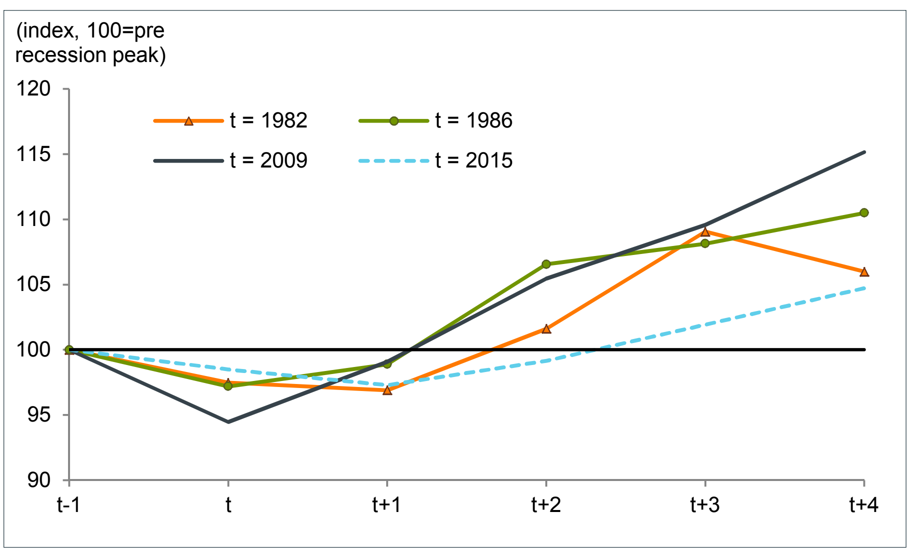
The Alberta economy is experiencing a severe oil price shock. Oil prices have fallen more than 70% since June 2014, one of the largest declines on record. As a result, the downturn will be deeper and longer than previously expected. After contracting in 2015, real GDP is forecast to decline again in 2016 by 1.4%. Nominal GDP, a broad income measure, is forecast to fall by $57 billion between 2014 and 2016 and not return to pre-recession levels until 2019. The large income shock and softening outlook for oil prices mean that the recovery is forecast to be weak compared to past downturns (Chart 1).

Business investment is expected to decline again this year. Weakness in the energy sector is feeding through the economy, causing activity to slow in many other sectors, including construction and manufacturing. As companies reduce costs, the labour market is expected to deteriorate further, leading to a decline in migration. Households are responding by cutting back on spending.

Despite the drag from lower oil prices, there are several factors that remain supportive of growth. Industries will benefit from weaker cost pressures and better labour availability. Alberta's population will continue to grow, albeit at a slower pace. Despite recent declines, average incomes are expected to remain well above the national average. Oil sands production will continue to expand in the near term, supporting exports. A solid US economy and weaker Canadian dollar will lift export-focused industries like agriculture, manufacturing and forestry. *Budget 2016* growth measures will also support economic activity. Enhanced infrastructure spending will provide stimulus during the downturn, while spending on public services will be maintained.

Chart 1: A longer recovery for Alberta's economy

Downturns in Alberta Real GDP Since 1980



Sources: Statistics Canada and Alberta Treasury Board and Finance

For the first time since 1982-83, Alberta real GDP is expected to fall for a second-straight year in 2016. The recovery is forecast to be slower than in previous downturns as the Alberta economy adjusts to an extended period of low oil prices.

GLOBAL ECONOMY

The impact of current low oil prices highlights the influence that external market conditions have on Alberta's trade and commodity driven economy. Though prospects for the global economy have moderated, growth is expected to improve after slipping in 2015. Lower growth in China will continue to weigh on the recovery for commodity prices and contribute to volatility. Oil prices will improve, but are forecast to remain significantly below prices seen in recent years.

GLOBAL GROWTH PROSPECTS SUBDUED

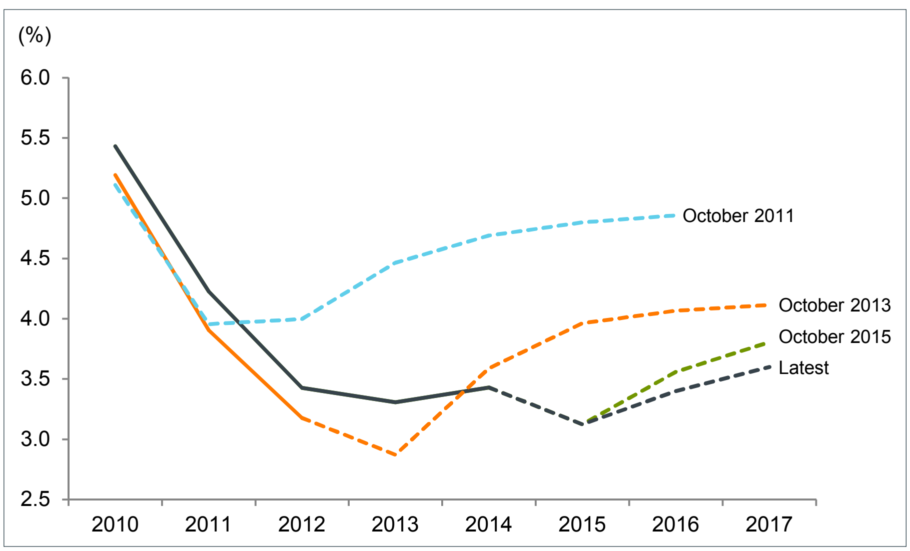
Global economic growth is expected to gradually improve after disappointing in 2015 due to a host of challenges (Chart 2). Most developed economies are expected to pick up, while many developing economies, led by China, are showing signs of slowing. Overall, global GDP growth of 3.4% is expected in 2016, up from 2015. Last year's slowdown reduced global industrial production and trade, undercutting the demand for raw materials and metals. This pushed down prices for nickel, copper and iron ore. Oil exporting countries, including Canada, were especially hard hit by the decline in oil prices.

US ECONOMY ON TRACK

The US, Alberta's largest trading partner, continues to stand out among advanced economies. A markedly improved employment situation and robust domestic demand are expected to support forecasted growth of around 2.5% in 2016 and over the medium term. Employment growth, stronger business and consumer confidence, falling debt to income ratios and growing demand for housing will enable American consumers to keep the US economy on track. Challenges still remain, though. Industrial production continues to lag, mainly due to declines in the oil and gas sector. In addition, the rise of the US dollar over the past two years has weighed on exports and kept inflation below target.

The global economy is forecast to expand by 3.4% in 2016, less than expected in October.

Chart 2: Global growth has repeatedly underperformed expectations
Global Real GDP Growth Forecast by Date

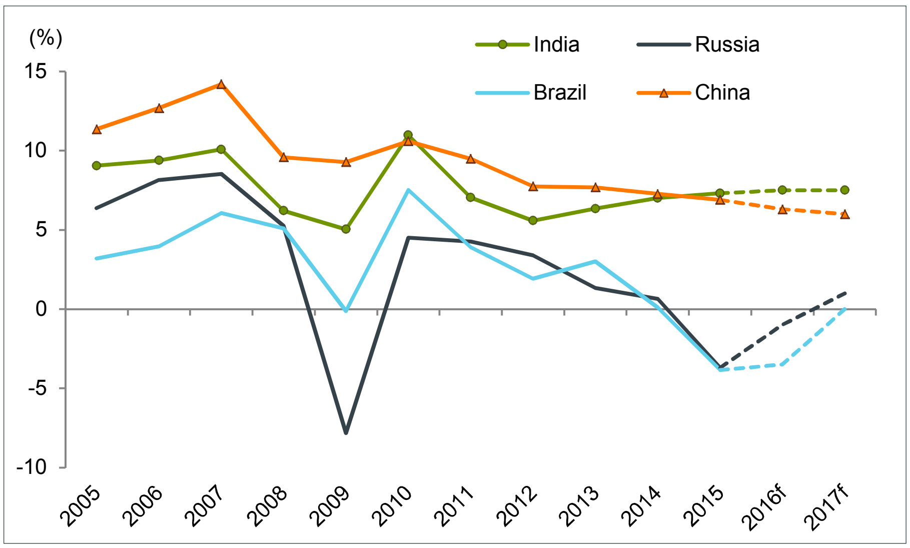


Source: International Monetary Fund

DIVERGING EMERGING MARKET GROWTH

Emerging markets are key drivers of global demand growth, especially for commodities. The outlook for emerging markets is weaker, reflecting a slowdown in China and other large emerging market economies (Chart 3). China's real GDP growth will continue to moderate to about 6% as the country transitions away from a reliance on investment and low cost manufactured exports towards domestic consumption and services. Despite the slowdown, China will remain a key driver of global economic growth and commodity demand. The oil-producing countries of Russia and Brazil have been hit hard by the decline in prices which, combined with structural challenges in those economies, will keep them in recession for the near term.

Chart 3: Commodity exporting emerging markets continue to struggle
Real GDP Growth



Source: International Monetary Fund, f-forecast

India has surpassed China in real GDP growth, while the commodity-dependent economies of Brazil and Russia will remain in recession this year.

In contrast, India and several Southeast Asian economies have seen economic growth accelerate; these economies have benefited considerably from declining fuel and raw materials costs.

Heightened uncertainty in the global economy, especially in emerging markets, suggests that volatility in financial and commodity markets will persist. China has been at the centre of several bouts of financial market volatility, most recently in early 2016, as Chinese manufacturing activity slowed and uncertainty clouded China's outlook.

WEAKER OUTLOOK FOR GLOBAL OIL PRICES

In recent years, global oil production has outpaced demand, leading to an oversupply in the global oil market. This triggered an oil price correction in mid-2014 and pushed prices to the lowest level in over a decade at the beginning of 2016.

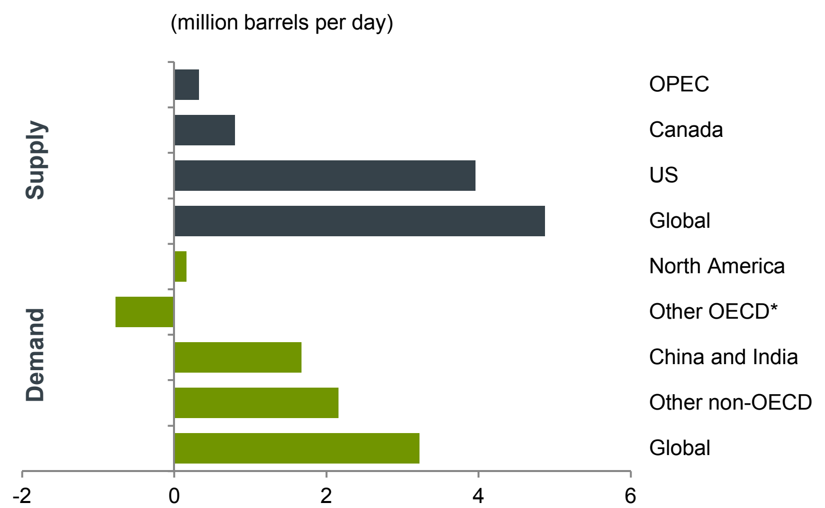
Between 2011 and 2014, global oil demand grew steadily, increasing on average 1.2% per year and reaching over 92 million barrels per day in 2014.

With OECD consumption declining slightly, this demand was driven exclusively by emerging markets, including China and India. Over the same period, global oil supply grew at a much faster rate (Chart 4). Oil production outside of OPEC increased almost 2.6% annually, mainly driven by US shale and Alberta oil sands expansions. OPEC production increased just 0.3% per year, resulting in a decline in its market share. OPEC's decision to increase production to protect its market share, rather than defend prices, led to further price declines in 2015.

North America was responsible for almost all the growth in global oil production between 2011 and 2014, leading to the current supply glut. Over the same period, emerging markets accounted for all of the growth in demand.

Chart 4: Emerging market demand met with North American supply

Change in Global Oil Supply and Demand 2011-2014



Source: US Energy Information Administration

* The Organization for Economic Co-operation and Development (OECD) represents developed countries.

As a result of lower prices, oil investment worldwide fell in 2015, with weakness carrying into 2016. The decline in spending is expected to slow production growth this year, especially in the US. This will lead to a re-balancing of the market and gradually improving oil prices. However, ample lower-cost supply from both OPEC and non-OPEC sources and uncertainty about oil demand growth, especially in emerging markets, have dampened the price outlook over the medium term. WTI is expected to average US$42/bbl in 2016-17 and increase to around US$64/bbl by 2018-19, significantly below the *Budget 2015* forecast and price levels in recent years (Chart 5).

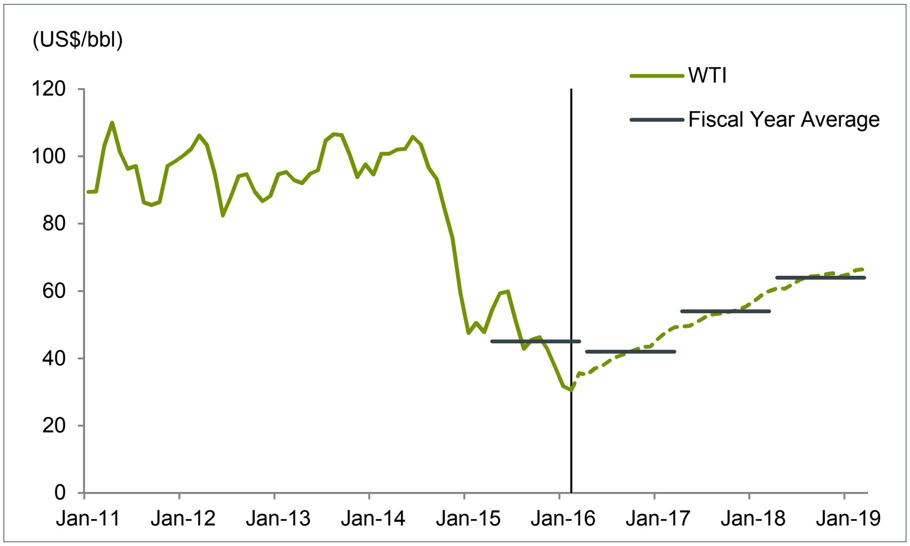
CANADIAN ECONOMY

GROWTH HIT BY LOWER OIL PRICES

Canada's economy has been hobbled by low oil prices since the beginning of 2015, and real GDP is expected to grow only 1.4% in 2016. The slowdown has been primarily due to declining investment in the oil and gas sector (Chart 6). The collapse in commodity prices has changed growth prospects across the

Chart 5: Oil prices are expected to improve as supply overhang clears

West Texas Intermediate



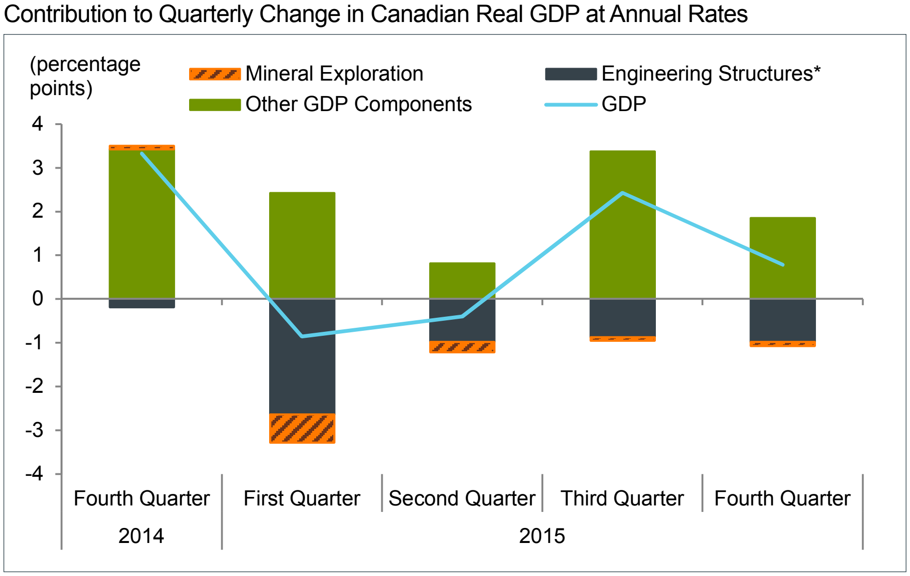
Source: Alberta Energy

Oil prices are expected to recover gradually over the forecast horizon as production slows and demand picks up.

provinces, as more resource-intensive economies have slowed significantly. The Bank of Canada estimated in the April 2015 *Monetary Policy Report* that the oil price shock has the largest impact on Alberta, Saskatchewan and Newfoundland and Labrador, but also adversely affects other provinces through trade linkages, including BC, Manitoba and Ontario. A stronger US economy and lower Canadian dollar have improved the prospects for less resource-intensive provinces, but not enough to offset the impact of low oil and other commodity prices on the Canadian economy. With the help of monetary and fiscal stimulus, growth is forecast to pick up to 2.3% in 2017 before

Chart 6: Energy-related investment weighing on the Canadian economy

Contribution to Quarterly Change in Canadian Real GDP at Annual Rates



Source: Statistics Canada

* Oil and gas is the largest component of investment in engineering structures

Sharp declines in energy investment caused Canadian real GDP to fall in each of the first two quarters of 2015. Most of this decline was in engineering structures investment, which has a large oil and gas component.

slowing slightly over the medium term. Increased access to international and coastal markets remains important to investment in the Canadian energy sector and economic growth.

DOLLAR WEAKENS ON ECONOMY AND COMMODITIES

Since mid-2014, the Canadian dollar has been under pressure from lower oil prices, weaker growth prospects and interest rate cuts by the Bank of Canada. Recent strength, mainly related to a depreciating US dollar, is not expected to be sustained. The dollar is forecast to gradually appreciate to US¢77.5/Cdn$ by 2018-19, consistent with a slow improvement in oil prices.

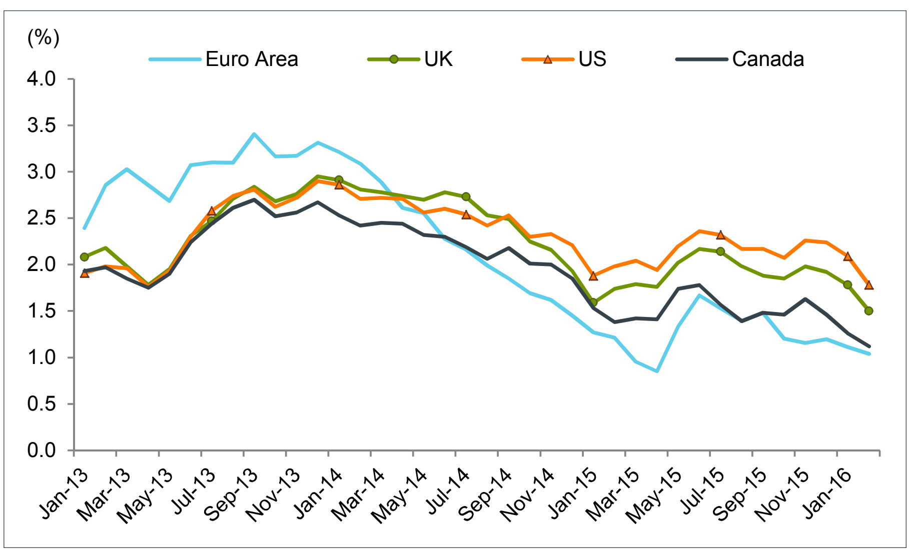
INTEREST RATES TO STAY LOW

Long-term interest rates have fallen to historic lows due to tepid growth and low inflation expectations (Chart 7). The Bank of Canada is likely to hold off on any rate increases as long as Canada's economic and inflationary outlook remains sluggish. Canadian long-term government bond yields are expected to rise modestly over the forecast period. Many other central banks are also expected to maintain accommodative monetary policy to bolster growth over the medium term. The European Central Bank recently enlarged its bond-buying program, while central banks in Japan and China are also expected to inject additional stimulus. The US Federal Reserve is proceeding cautiously on rate increases to avoid elevating stress in financial markets, given the uncertainty about global growth.

Lacklustre global growth and low inflation expectations have driven down global bond yields.

Chart 7: Long-term bond yields are near historic lows

10-Year Government Bond Yields



Source: Haver Analytics

ALBERTA ECONOMY

The Alberta economy is adjusting to the historic drop in oil prices. The recession in 2015 was caused by lower energy investment. In 2016, the effects will be more broadly felt. Momentum that supported activity in the province has faded, prompting a pullback in construction and spending. Alberta's labour market has been hit hard, and unemployment is expected to remain elevated into 2017. A gradual improvement in oil prices will support economic growth over the medium term. Exports, led by expanding oil sands production, will continue to be the main growth driver. Other sectors will benefit from improved labour availability and reduced costs, along with a weaker dollar and strengthening US economy.

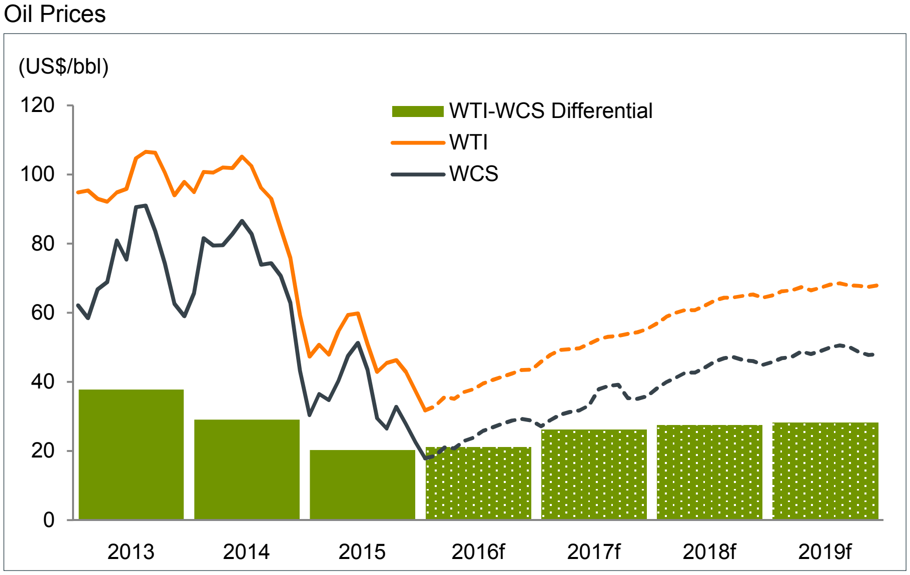
CORPORATE PROFITS HIT BY LOW PRICES

The continued slump in energy prices has hurt producers' cash flow and squeezed corporate profits. Oil and gas companies and their suppliers have been most directly impacted, but other companies' profits have also suffered from weaker activity in the province. Net corporate operating surplus, a measure of corporate profits, is expected to decline around 18% in 2016, after falling over 50% in 2015. The moderating outlook for oil prices and economic activity mean that corporate profits are not expected to return to pre-recession levels over the forecast period.

The price that Alberta producers receive for their crude has fallen sharply with the decline in WTI prices. The Alberta heavy oil benchmark WCS price fell below US$20/bbl in January 2016 to the lowest level since trading began in 2004. The light-heavy differential has remained fairly steady, and is expected to average US$15.20/bbl in 2016-17. Over the next few years, however, oil sands production is expected to rise faster than available pipeline capacity, increasing reliance on rail. This will cause the differential to widen to US$18.50/bbl by 2018-19 (Chart 8) and reduce the profitability of projects, especially given the low price environment.

Chart 8: Differential to widen due to pipeline bottlenecks

Oil Prices



Source: Alberta Energy, f-forecast

Growing oil sands production is expected to surpass pipeline capacity, leading to more extensive use of the rail network. The higher cost of rail transportation will lead to a widening of the WTI-WCS differential beginning in 2017.

North America continues to be awash in natural gas. Lower oil production in the US is expected to cause a decline in associated gas; however, continued strong growth in US shale gas production and increased cost efficiencies will maintain downward pressure on natural gas prices in North America. The Alberta Reference Price is expected to average Cdn$2.40/GJ in 2016-17 and rise to just Cdn$3.00/GJ by the end of the forecast period.

SLOW RECOVERY IN OIL AND GAS INVESTMENT

Energy producers have responded to low prices by cutting capital spending. Oil and gas investment is expected to contract by over 20% in 2016 after declining almost 37% in 2015. While it is forecast to improve over the medium term, the moderated outlook for oil prices has dampened the investment outlook (Chart 9). Companies are expected to be cautious about spending, and some consolidation within the industry is likely as firms with healthy balance sheets acquire those under financial stress.

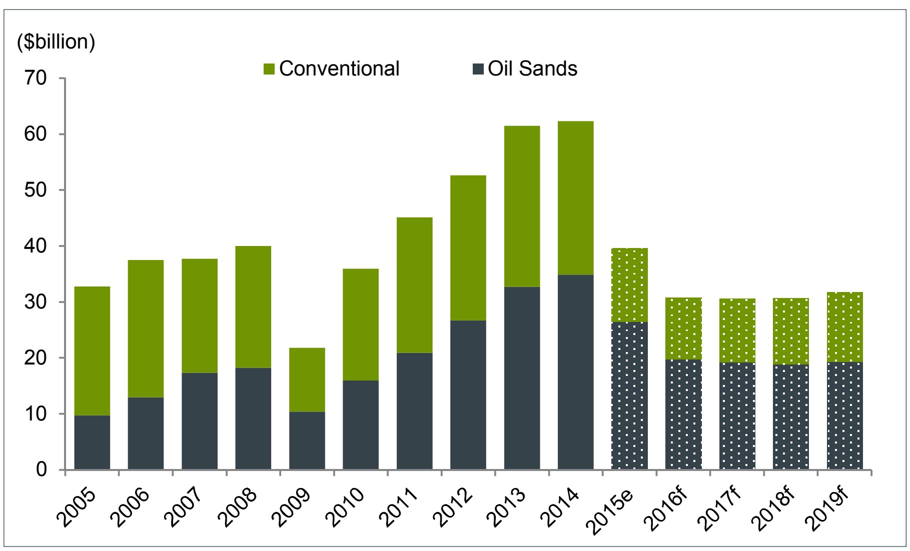
The short life cycle of conventional investment makes it more sensitive to the near-term price outlook. The renewed decline in oil prices at the end of 2015 dragged down drilling activity further in the winter months, a period when drilling normally picks up. Drilling activity through March remained over 50% below already depressed 2015 levels.

With natural gas prices remaining depressed, natural gas drillers continue to target natural gas liquids (NGLs), whose prices are tied more closely to oil. Demand for condensate, which is used to dilute bitumen for transport, remains strong in the province. Drilling levels are at historic lows, but natural gas drilling technology continues to improve, resulting in metres drilled per well increasing by 17% in 2015. New well productivity is also improving, which means that production is expected to decline only moderately over the forecast period.

Over the medium term, oil sands investment will consist mainly of repair and expansion of existing facilities. Conventional investment will improve with oil prices.

Chart 9: Oil and gas investment to remain low

Alberta Oil and Gas Investment



Sources: Statistics Canada, Alberta Energy and Alberta Treasury Board and Finance, e-estimate, f-forecast

Overall, conventional investment is forecast to contract by 16% in 2016, after a pullback of over 50% in 2015. As prices improve in 2017, conventional investment is expected to begin recovering but remain well below 2014 levels.

OIL SANDS INVESTMENT SHIFTS TO SUSTAINING CAPITAL

The decline in oil sands investment has been much less pronounced compared with conventional because oil sands projects have long life cycles and those under construction already have large amounts of committed capital. With the outlook for oil prices moderating, however, oil sands investment is expected to continue slowing over the next three years. Spending will be focused on the maintenance of existing facilities and the completion of projects that were under construction prior to the price decline.

ENERGY WEAKNESS SPREADS TO OTHER SECTORS

Outside of oil and gas, non-residential construction and manufacturing are also feeling the effects of lower oil prices. Declining cost pressures and an improvement in overall activity will lend support to these sectors over the medium term.

Non-residential building construction slumped for most of 2015, despite a large increase in institution and government construction spending. After a solid first quarter, industrial and commercial building construction started to fall and the pace of the declines accelerated through the end of the year. Weakness is expected to continue in the near term, reflecting lower activity in the province and the winding down of current projects. Strong population growth in recent years has increased the need for public infrastructure, and plans by the government to bolster capital spending during the downturn will partially offset the decline in private construction in the next three years. Despite this lift, non-residential investment is expected to fall in 2016 and 2017 before picking up.

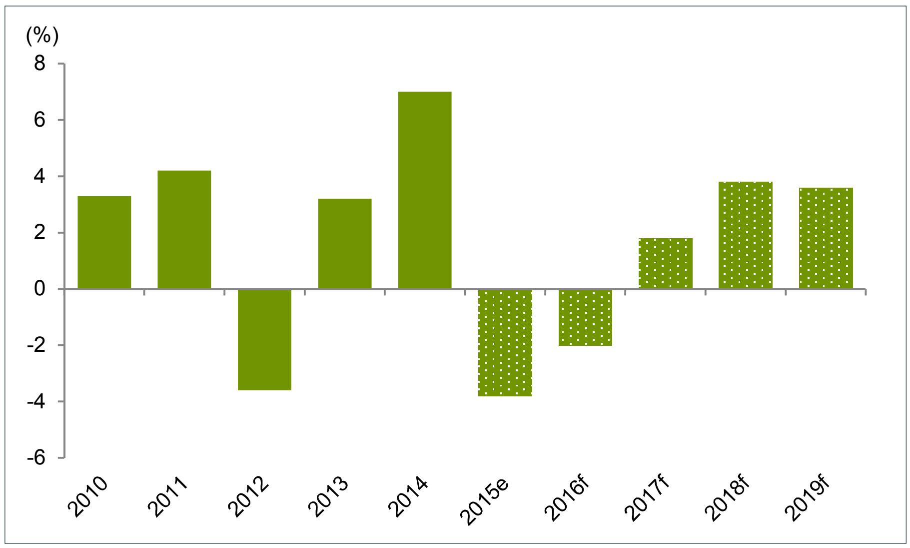
Energy-related manufacturing saw broad-based declines in 2015. Petroleum and chemical sales fell on lower prices. In addition, the downturn in drilling across North America and lacklustre performance of America's industrial sector dampened demand for Alberta made industrial machinery and equipment. Real manufacturing shipments declined over 8% in 2015 and are forecast to decline again in 2016.

Starting in 2017, however, manufacturing activity is expected to increase, which will support exports (Chart 10). Refinery capacity is set to expand substantially in 2017 with the completion of the $8.5 billion Sturgeon Refinery, which can process 50,000 barrels of oil per day. Plastics manufacturing has also benefited from increased investment, with the Joffre polyethylene plant expansion set to come online later this year. The recently announced Petroleum Diversification Program, along with lower feedstock costs, are expected to encourage development of petrochemical facilities in Alberta.

Alberta manufacturing exports have suffered as sales of oil-related machinery have declined. Going forward, investment in upstream oil and gas industries and continued strength in non-energy manufacturing will lead to a recovery.

Chart 10: Manufacturing exports to recover

Change in Alberta Real Manufacturing Exports



Source: Alberta Treasury Board and Finance, e-estimate, f-forecast

SLOWING ECONOMY HITS ALBERTA LABOUR MARKET

The plunge in oil prices and accompanying decline in investment and activity in the province have weakened Alberta's labour market. Job losses, which started to mount in the fourth quarter of 2015, are expected to continue into the first half of 2016. Annual employment is forecast to decline 1.7% after remaining fairly resilient for most of 2015. Though employment should start to recover in 2017, growth is expected to be less than 1%. Overall employment is not forecast to return to 2015 levels until 2018.

Efforts by businesses to trim labour costs have weighed on earnings. Alberta average weekly earnings declined by 0.3% in 2015, the first annual decline in 20 years. While service sector earnings remained resilient, overall earnings were pulled down from disproportionately large job losses in higher-paying goods sector industries. This weakness is expected to persist in 2016, with average weekly earnings forecast to fall an additional 0.6%. Earnings are expected to improve gradually starting in 2017 (Chart 11). With lower earnings and employment, labour income is expected to fall around 2% in 2016 before recovering in 2017 and growing 4.5% on average in 2018 and 2019.

Primary household income, a key driver of personal income tax revenues, is expected to fall in 2016 because of the decline in labour income. It is forecast to recover starting in 2017, reflecting an improvement in labour income and other sources of income (e.g. dividend and rental income).

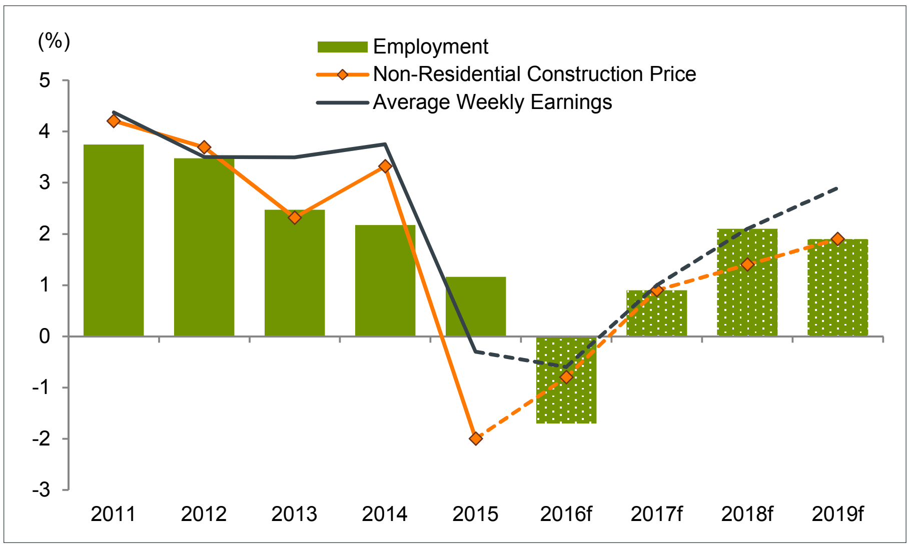
COST PRESSURES EASING

With economic activity slowing, cost pressures will continue to ease in 2016 (Chart 11). In addition to reducing labour costs, companies are seeking out price reductions from suppliers and implementing in-house cost efficiency measures, both within and outside of the energy sector. Construction costs are also coming down. In the fourth quarter of 2015, non-residential building construction prices declined 1.4% in both Edmonton and Calgary. As the economy improves in 2017, costs are likely to rise moderately.

Construction prices in Alberta fell in 2015. This was due in part to falling labour costs as businesses reduced employment and earnings.

Chart 11: Firms are cutting costs

Change in Alberta Employment, Earnings and Construction Prices



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

Lower energy prices and weaker economic activity have also kept inflation contained. They have partially offset the impact of the lower Canadian dollar, which has lifted the prices of food, appliances and other imported goods. As energy prices improve and prices remain elevated for imported goods, inflation is expected to rise to 1.5% in 2016 and average about 2% over the remainder of the forecast period.

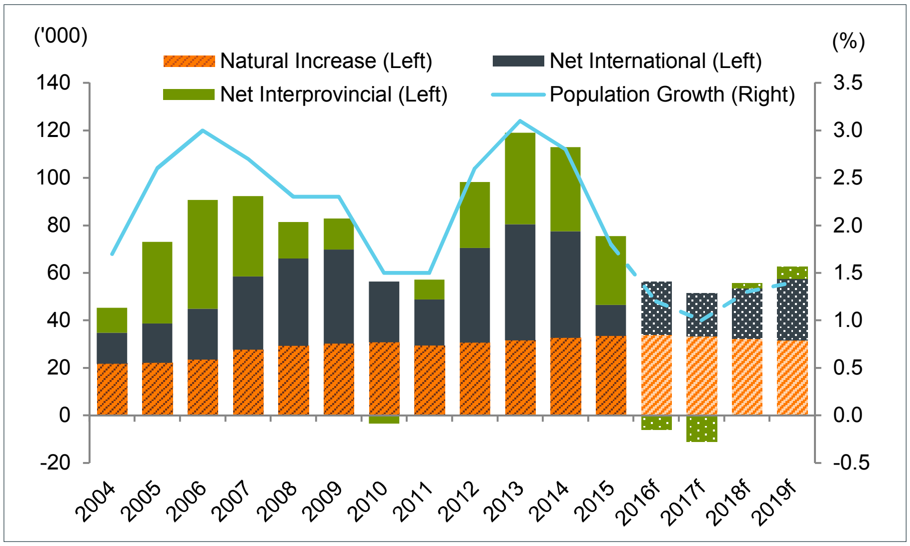
POPULATION GROWTH MODERATES

The pace of Alberta's population growth will slow as migration weakens over the next two years. Population growth is forecast to moderate to 1.2% in 2016 and 1.0% in 2017 (Chart 12). After adding almost 140,000 people from other provinces over the past five years, Alberta is expected to see a net outflow of 17,000 interprovincial migrants over 2016 and 2017 due to weaker labour conditions. Net outflows of non-permanent residents will also weigh on population growth over the next few years, mainly because of changes to the

Population growth will slow in both 2016 and 2017 due to net outflows of interprovincial migrants. Growth will be supported by robust natural increase and immigration.

Chart 12: Natural increase and immigration to drive population gains

Change in the Alberta Population by Component



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

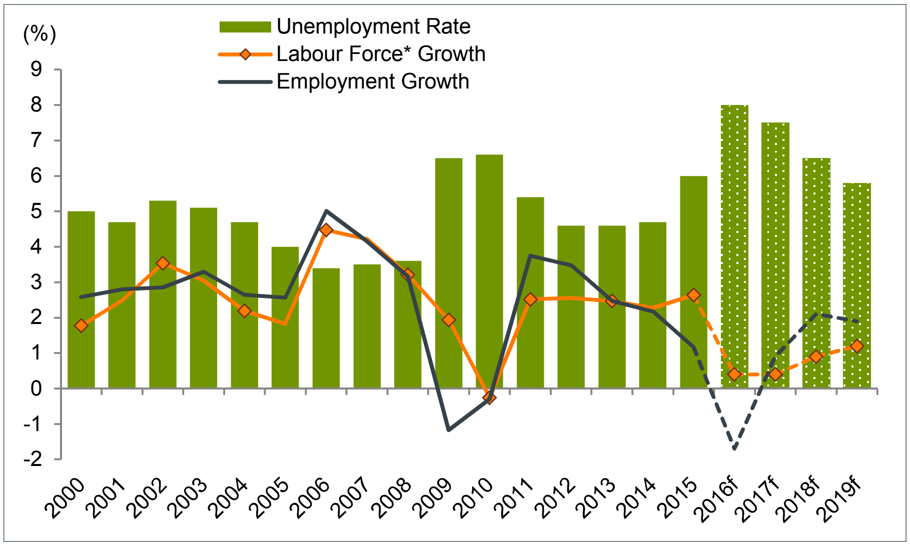
federal Temporary Foreign Worker Program (TFWP). Nevertheless, Alberta's population growth is expected to remain higher than the Canadian average over the forecast period. The arrival of large numbers of immigrants is forecast to keep overall migration positive, while natural increase will continue to provide a solid base for population expansion due to Alberta's young population. As migration picks up, population growth is forecast to increase to 1.4% by 2019.

UNEMPLOYMENT RATE TO DECLINE GRADUALLY

Despite deteriorating economic conditions and declining employment, Alberta's labour force has continued to expand. This has resulted in an increasing unemployment rate, which surpassed the national rate for the first time since 1988 and reached a 20-year high of 7.9% early this year. The unemployment rate is expected to remain elevated over the next two years, averaging 8.0% in 2016 and 7.5% in 2017.

Chart 13: Unemployment rate to decline gradually

Alberta Labour Market Indicators



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

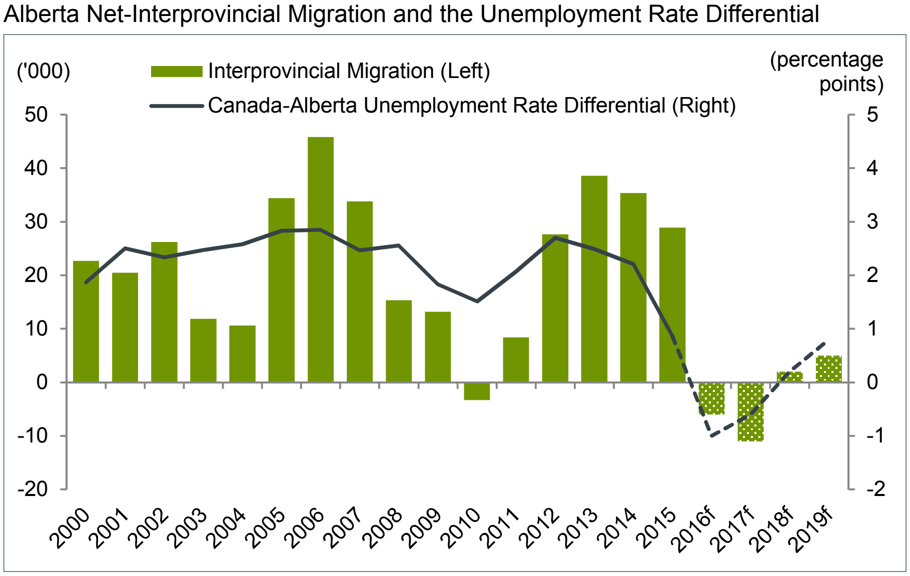
* The number of people working or looking for work.

The Alberta labour market weakened in 2015, and is expected to rebalance gradually over the projection horizon.

A combination of gradual employment growth and people leaving the labour market is expected to facilitate a steady decline in the unemployment rate to 5.8% by 2019 (Chart 13). The current high unemployment rate and improving prospects in other parts of Canada mean that more non-resident workers in the province are likely to leave, in addition to net outflows of interprovincial migrants (Chart 14). Some people may also decide to return to school for retraining and upgrading. Population aging will also encourage people to leave the labour force, as increasing numbers of baby boomers reach retirement age. The share of Alberta's population that is either working or looking for work (the labour force participation rate) is expected to fall steadily over the forecast period.

Chart 14: Labour force eases on interprovincial outflows

Alberta Net-Interprovincial Migration and the Unemployment Rate Differential



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

Interprovincial migration flows are sensitive to the relative economic prospects in Alberta and the rest of the country.

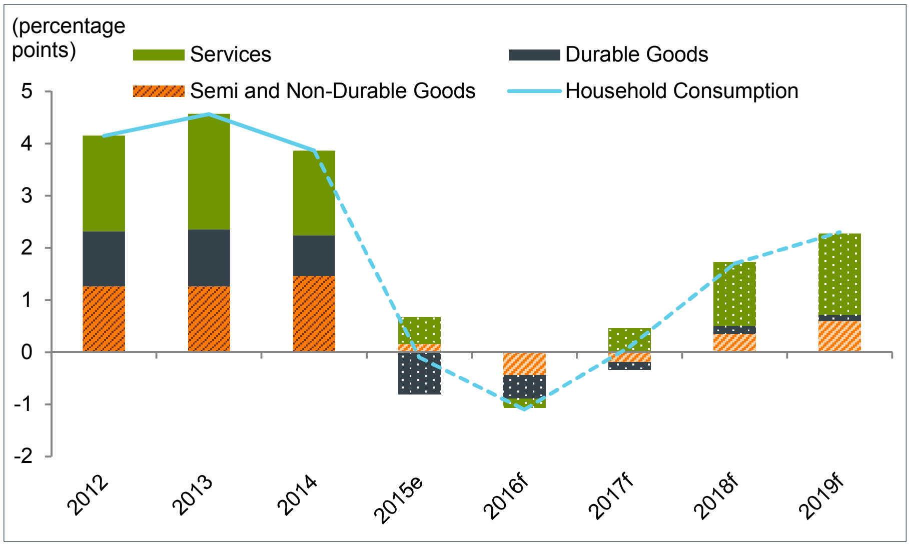
HOUSEHOLDS PULL BACK ON SPENDING

Falling incomes and uncertainty about the economy are leading consumers to pull back on spending. Retail sales declined almost 4% in 2015, with a large drop from durable goods, especially motor vehicle. Adjusted for inflation, consumer spending is forecast to decline over 1% in 2016 after falling slightly in 2015 (Chart 15). Slowing population growth will be a drag on spending in the next two years; however, Alberta's high per capita income, improving labour market and relatively low interest rates will support an improvement over the medium term. Real consumer spending is not expected to surpass 2014 levels until 2018.

Uncertainty about the economy and falling incomes have caused consumers to put off large purchases, especially automobiles. Consumer spending is expected to remain weak well into 2017.

Chart 15: Consumers reduce spending

Contribution to Per Cent Change in Alberta Real Household Consumption

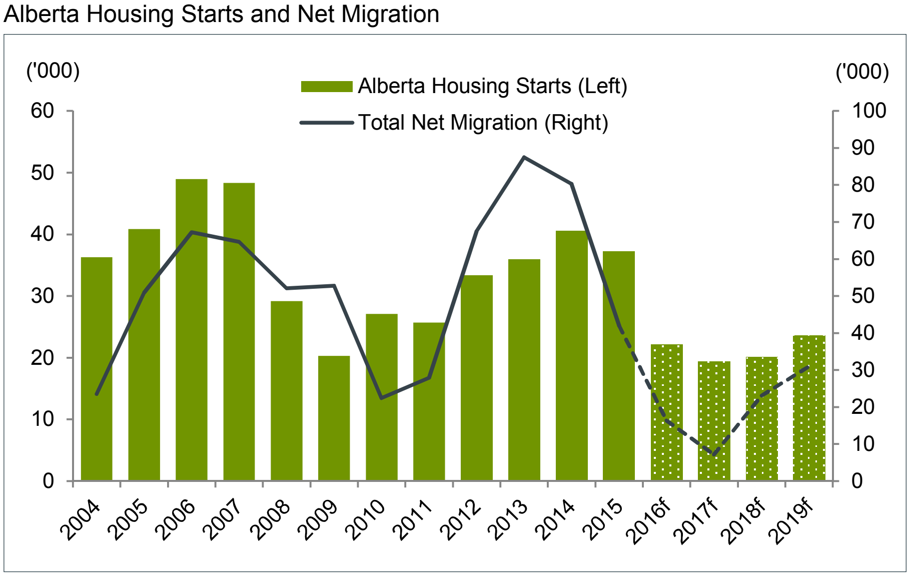


Sources: Statistics Canada and Alberta Treasury Board and Finance, e-estimate, f-forecast

Falling net migration will reduce demand for new housing in the province. Housing starts are expected to decline in both 2016 and 2017, with a gradual recovery in the medium term.

Chart 16: Falling migration weighs on housing starts

Alberta Housing Starts and Net Migration



Sources: Canada Mortgage and Housing Corporation, Statistics Canada and Alberta Treasury Board and Finance, f-forecast.

Housing starts remained robust early in 2015, which reflected the need to catch up after three years of record net migration. However, by the end of the year, housing construction slowed substantially. With declining incomes and moderating population growth, housing starts are forecast to fall to 22,200 in 2016 and 19,400 in 2017 (Chart 16). Beyond 2017, an improvement in the labour market and population growth will lead to a gradual recovery in housing starts.

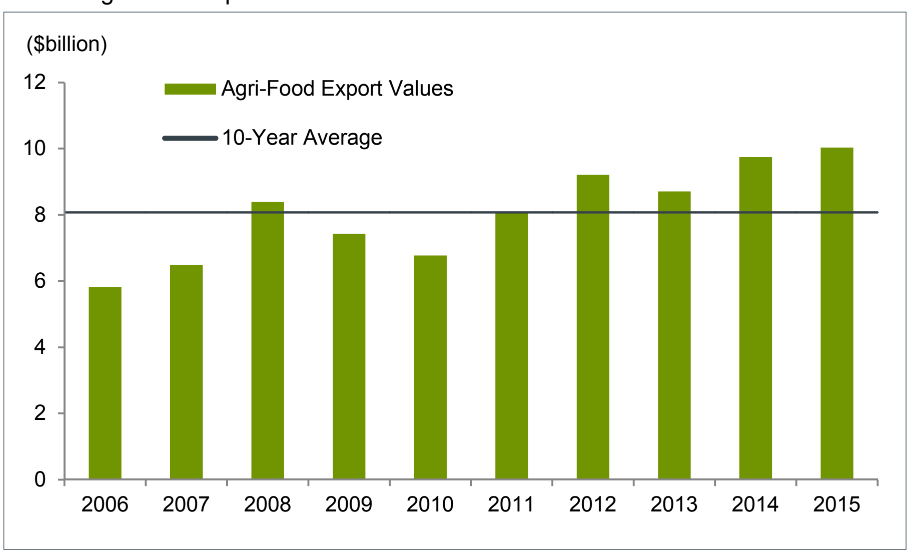
SOLID PROSPECTS IN OTHER SECTORS

Although the effects of oil prices on the economy have been far-reaching, there are some sectors that continue to show strength.

In the agriculture sector, Alberta's agri-food exports increased 3% in 2015, reaching a record $10 billion (Chart 17). Much of the increase came from value-added food manufacturing sales, a bright spot in Alberta's manufacturing sector. Expansion in food manufacturing is also increasing local demand for agriculture products. For example, the start up of a new canola crushing plant in Camrose in 2015 increased capacity for canola processing. Prospects for the agriculture sector remain encouraging beyond 2016.

Chart 17: Alberta agricultural exports have thrived

Alberta Agri-Food Export Values



Source: Statistics Canada

Exports of farm and manufactured food products continue to perform well.

The forestry sector is also expected to benefit from stronger production. Forestry product exports increased over 4% in 2015, supported by a significant increase in lumber shipments. The forestry product sector is expected to continue expanding, aided by a weaker Canadian dollar, solid US housing activity and steady demand from Asia.

The tourism sector is another sector benefiting from the weaker Canadian dollar and a strong US economy, which are boosting the appeal of vacationing in Alberta and encouraging Albertans to travel closer to home. Visits by individuals to Alberta's national parks were up over 7.5% in 2015 and occupancy rates at resorts increased to over 62%, the highest since 2007. There has been a drop off in business travel, however, with the pullback in economic activity in the province. Outside the resort areas, hotel occupancy rates are down, and business travel is expected to remain weak in 2016. Occupancy rates will pick up as overall economic activity increases.

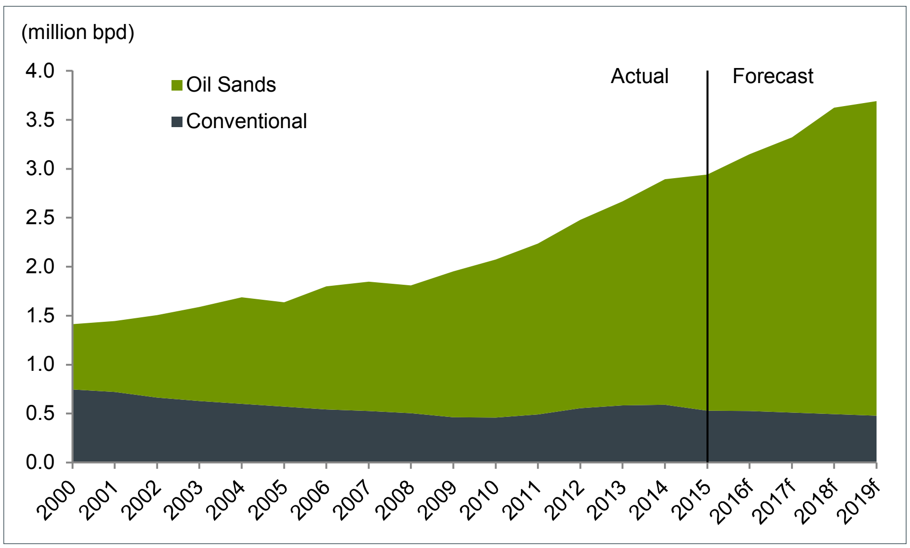
GROWING OIL PRODUCTION LIFTS EXPORTS

Oil production will continue to rise, despite lower prices. After several years of large scale investment, a ramp up of new oil sands projects led to strong growth in crude production in 2015. Gains will continue as more projects shift from construction to production. Over 500,000 barrels per day of bitumen production is forecast to come online over the next three years (Chart 18), adding significantly to Alberta's exports. Production starts to level off in 2019 because of lower investment and project delays in 2015 and 2016. Conventional oil production will continue to decline, but at 20% of Alberta's total oil production, it will have a small impact on overall production.

Oil sands production will continue to expand as more projects shift from construction to production. Conventional oil production will continue to decline.

Chart 18: Oil sands production to grow despite drop in prices

Alberta Oil Production



Source: Alberta Energy, f-forecast

MARKET ACCESS KEY TO ALBERTA'S GROWTH

The transportation and warehousing sector saw exceptional growth in recent years, with investment almost doubling to $9.2 billion between 2012 and 2015. Given the production profile of the oil sands and other sectors, there is a continuing need to build and expand the transportation infrastructure. Although many companies have invested in crude-by-rail facilities, pipeline access remains critical in a low price environment, as many producers are operating near or below project break-evens. Pipelines lower transportation costs relative to rail by about US$6-8/bbl. Additional pipeline capacity from Alberta would also improve access to international and coastal markets.

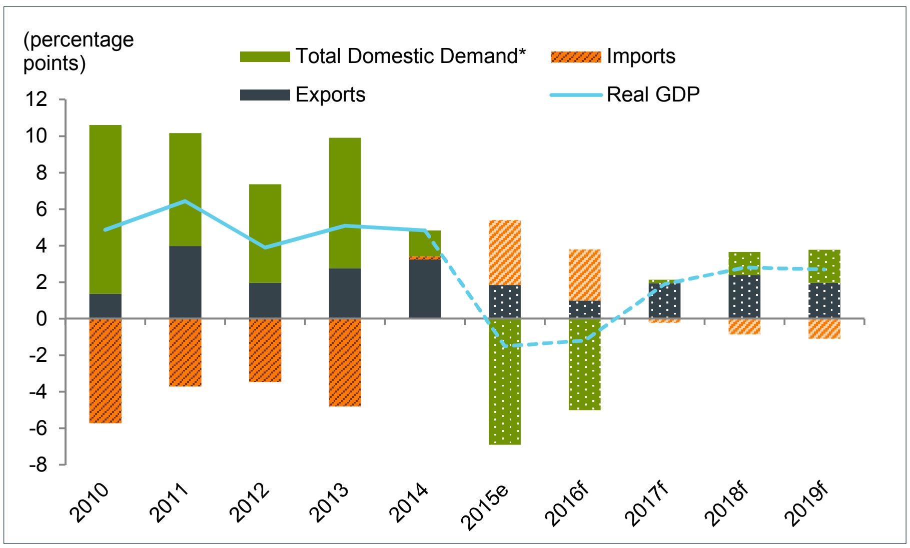
TRADE GAINS SUPPORT GROWTH

Exports are providing a needed boost to the economy. Although lower oil prices drag down the value of crude exports, export volumes continue to expand with oil sands production. Exports from other industries including agriculture, forestry, food manufacturing and services are also expected to partially offset the declines in energy-related manufacturing this year. As the Alberta economy adjusts to lower oil prices and activity picks up, exports will remain a key driver for Alberta's economy, adding around two percentage points to annual real growth over the next four years. Overall, export-oriented industries will benefit from easing cost pressures, the lower Canadian dollar and a solid US economy.

In addition, the pullback in spending by businesses and consumers has impacted other jurisdictions in Canada and abroad, as companies in Alberta have scaled back on imports. Rising exports and declining imports are cushioning the impact of declining investment and spending on Alberta's real GDP this year (Chart 19). Beyond 2016, exports and improving domestic demand will lead to a recovery in real GDP.

Chart 19: Alberta is transitioning to export led growth

Contribution to Alberta Real GDP Growth



Sources: Statistics Canada and Alberta Treasury Board and Finance, e-estimate, f-forecast

* Total household, business and government spending.

The impact of lower domestic demand on Alberta's GDP has been partly offset by lower imports, which impacts other jurisdictions. Continued growth in oil sands production has helped support real exports.

SUMMARY

The oil price shock continues to work through the Alberta economy. After declining by an estimated 1.5% in 2015, real GDP is expected to fall 1.4% in 2016, which will mark the first time since 1982-83 that the economy has contracted in successive years. Falling oil and gas investment is driving the decline. This has hurt oil and gas service companies and oil-related manufacturing. Weakness has spread to other sectors of the economy.

The recovery is expected to be weaker than in previous downturns as the economy enters an extended adjustment period. Falling employment and continued labour force growth caused the unemployment rate to rise to a 20-year high in early 2016. The unemployment rate will fall gradually over the next several years through a combination of slower labour force growth and moderate employment growth. There are still some pockets of strength. Oil sands production will continue to ramp up as projects currently under construction are completed and non-energy exports are benefiting from a lower dollar and a strengthening US economy.

RISKS TO THE ECONOMIC OUTLOOK

- Oil prices are forecast to improve gradually. A further drop in oil prices could arise from weakening global demand or a slow supply response to low prices. Should low prices persist or fall further, Alberta's outlook would weaken.
- Without improved market access, Alberta oil producers could see the return of large and volatile price discounts. A higher-than-expected reliance on rail will weigh on revenue and investment, and could impact other sectors that also rely on this mode of transport.
- Emerging economies remain vulnerable to financial market shocks, as concerns remain about financial stability and overall growth prospects. A further slowdown in these markets would weigh on commodity prices, hurting Alberta's growth prospects.
- Increased uncertainty about the economy could further erode consumer and business confidence, reducing spending.
- On the upside, an improvement in oil prices would improve Alberta's growth prospects. This could come from stronger global economic growth, supply outages or a move by OPEC to reduce supply and support prices.

ECONOMIC OUTLOOK

ANNEX

BENCHMARKING TABLES

Oil Price Benchmark

West Texas Intermediate (US$/bbl)

Organization	2016	2017	2018	2019
National Forecasting Agencies				
Conference Board of Canada (Feb/16)	37.06	45.29	51.11	59.02
IHS Global Insight (Jan/16)	45.12	54.71	65.71	73.69
Centre for Spatial Economics (Jan/16)	38.54	47.00	57.00	64.00
Banks and Investment Dealers				
CIBC World Markets (Jan/16)	42.00	60.00	n/a	n/a
Credit Suisse (Feb/16)	37.75	54.25	65.00	65.00
Goldman Sachs (Jan/16)	45.00	60.00	60.00	55.00
Laurentian Bank (Feb/16)	49.50	75.00	n/a	n/a
RBC Capital Markets (Jan/16)	40.28	56.53	70.00	75.00
Scotiabank (Feb/16)	37.50	42.50	n/a	n/a
Toronto Dominion Bank (Dec/15)	47.25	58.50	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Feb/16)	37.59	50.00	n/a	n/a
GLJ Petroleum Consultants (Jan/16)	44.00	52.00	58.00	64.00
Sproule Associates Limited (Dec/15)	45.00	60.00	70.00	80.00
Confidential Forecasts Provided to Alberta Energy[a]				
Average	38.00	51.00	62.00	67.00
High	49.50	75.00	75.56	83.58
Low	34.77	41.34	44.08	45.96
Average of All Private Forecasts	41.00	54.00	62.00	67.00
Government of Alberta (calendar year)	38.00	51.00	62.00	67.00

[a] Alberta Energy also surveys, on a confidential basis, private sector forecasts from PIRA, KBC, BMO Capital Markets, IHS CERA, Peters & Co. 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. The private sector average, consultant average and Government of Alberta forecasts have been rounded to the nearest dollar.

Includes forecasts finalized on or before February 3, 2016.

Both the Government of Alberta and the private sector overestimated the WTI oil price for 2015, by 5.5% and 11.8% respectively in March and by 2.5% and 8.6% respectively in October.

How Oil Price Forecasters Fared in *Budget 2015*

West Texas Intermediate (US$/bbl)

Organization (#)	How did they do in Budget 2015?
National Forecasting Agencies (3)	53.79
Banks and Investment Dealers (7)	54.23
Industry Analysts (3)	52.67
Confidential Forecasts (6)	52.00
Average	53.00
Government of Alberta (calendar year)	50.00
Actual	48.80

Sources: Alberta Energy and Alberta Treasury Board and Finance

Natural Gas Price Benchmark

Henry Hub (US$/MMBTU)[a]

Organization	2016	2017	2018	2019
National Forecasting Agencies				
Conference Board of Canada (Feb/16)	2.49	2.79	3.18	3.64
IHS Global Insight (Jan/16)	2.67	2.94	2.99	3.18
Centre for Spatial Economics (Jan/16)	2.65	3.22	3.75	4.25
Banks and Investment Dealers				
CIBC World Markets (Jan/16)	2.70	3.50	n/a	n/a
Credit Suisse (Feb/16)	2.70	3.25	3.50	3.50
Goldman Sachs (Jan/16)	2.75	3.00	3.00	3.00
RBC Capital Markets (Jan/16)	2.50	3.00	3.25	3.50
Scotiabank (Feb/16)	2.37	2.62	n/a	n/a
Toronto Dominion Bank (Dec/15)	3.00	3.44	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Feb/16)	2.64	3.22	n/a	n/a
GLJ Petroleum Consultants (Jan/16)	2.60	3.10	3.30	3.50
Sproule Associates Limited (Dec/15)	2.25	3.00	3.50	4.00
Confidential Forecasts Provided to Alberta Energy[b]				
Average	2.50	3.00	3.30	3.30
High	3.00	3.60	4.20	4.25
Low	2.24	2.24	2.90	2.94
Average of All Private Forecasts	2.60	3.10	3.30	3.50
Government of Alberta (calendar year)	2.60	3.10	3.40	3.60

[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] Alberta Energy also surveys, on a confidential basis, private sector forecasts from PIRA, Petral, IHS CERA, NYMEX 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 February 3, 2016.

How Natural Gas Price Forecasters Fared in *Budget 2015*

Henry Hub (US$/MMBTU)

Organization (#)	How did they do in Budget 2015?
National Forecasting Agencies (3)	2.93
Banks and Investment Dealers (6)	2.96
Industry Analysts (3)	2.87
Confidential Forecasts (5)	2.81
Average	2.90
Government of Alberta (calendar year)	2.80
Actual	2.63

Sources: Alberta Energy and Alberta Treasury Board and Finance

Both the Government of Alberta and the private sector slightly overestimated natural gas prices in 2015, by 16.0% and 27.0% respectively in March and by 6.5% and 10.1% respectively in October.

Canadian Short-Term Interest Rate Benchmark

3-month Government of Canada Treasury Bills (%)

Organization	2016	2017	2018	2019
National Forecasting Agencies				
Conference Board of Canada (Feb/16)	0.49	0.91	1.79	2.79
IHS Global Insight (Jan/16)	0.49	1.11	2.43	3.45
Centre for Spatial Economics (Jan/16)	0.40	1.20	1.90	2.50
Banks				
BMO Capital Markets (Mar/16)	0.30	0.42	n/a	n/a
CIBC World Markets (Mar/16)	0.45	0.54	n/a	n/a
Laurentian Bank (Feb/16)	0.40	0.45	n/a	n/a
National Bank (Feb/16)	0.46	0.51	n/a	n/a
RBC Royal Bank (Feb/16)	0.60	1.80	n/a	n/a
Scotiabank (Mar/16)	0.50	0.75	n/a	n/a
Toronto Dominion Bank (Dec/15)	0.45	0.58	n/a	n/a
High	0.60	1.80	2.43	3.45
Low	0.30	0.42	1.79	2.50
Average of All Private Forecasts	0.45	0.83	2.04	2.91
Government of Alberta (calendar year)	0.50	0.80	1.30	2.00

Includes forecasts finalized on or before March 4, 2016.

Canadian Long-Term Interest Rate Benchmark

10-Year Government of Canada Bonds (%)

Organization	2016	2017	2018	2019
National Forecasting Agencies				
Conference Board of Canada (Feb/16)	1.71	3.12	4.23	4.56
IHS Global Insight (Jan/16)	2.14	2.39	2.94	3.32
Centre for Spatial Economics (Jan/16)	1.40	2.20	3.00	3.60
Banks				
BMO Capital Markets (Mar/16)	1.29	1.71	n/a	n/a
CIBC World Markets (Mar/16)	1.43	2.21	n/a	n/a
Laurentian Bank (Feb/16)	1.56	2.20	n/a	n/a
National Bank (Feb/16)	1.46	1.95	n/a	n/a
RBC Royal Bank (Feb/16)	2.00	3.05	n/a	n/a
Scotiabank (Mar/16)	1.50	2.21	n/a	n/a
Toronto Dominion Bank (Dec/15)	1.90	2.28	n/a	n/a
High	2.14	3.12	4.23	4.56
Low	1.29	1.71	2.94	3.32
Average of All Private Forecasts	1.64	2.33	3.39	3.83
Government of Alberta (calendar year)	1.70	2.20	2.80	3.30

Includes forecasts finalized on or before March 4, 2016.

United States / Canada Exchange Rate Benchmark

(US¢/Cdn$)

Organization	2016	2017	2018	2019
National Forecasting Agencies				
Conference Board of Canada (Feb/16)	70.8	77.4	80.5	82.5
IHS Global Insight (Jan/16)	73.5	79.2	83.9	87.2
Centre for Spatial Economics (Jan/16)	73.0	75.0	76.0	76.8
Banks				
BMO Capital Markets (Mar/16)	71.6	73.9	n/a	n/a
CIBC World Markets (Mar/16)	72.8	75.3	n/a	n/a
Credit Suisse (Feb/16)	71.3	75.0	77.5	77.5
Laurentian Bank (Feb/16)	74.5	79.5	n/a	n/a
National Bank (Mar/16)	75.0	77.0	n/a	n/a
RBC Royal Bank (Feb/16)	75.2	80.0	n/a	n/a
Scotiabank (Mar/16)	72.3	76.3	n/a	n/a
Toronto Dominion Bank (Dec/15)	73.3	77.3	n/a	n/a
High	75.2	80.0	83.9	87.2
Low	70.8	73.9	76.0	76.8
Average of All Private Forecasts	73.0	76.9	79.5	81.0
Government of Alberta (calendar year)	73.0	75.0	77.0	78.0

Includes forecasts finalized on or before March 4, 2016.

Alberta Real Gross Domestic Product Benchmark

(% change)

Organization	2015	2016	2017	2018	2019
National Forecasting Agencies					
Conference Board of Canada (Feb/16)	-2.2	-1.0	1.8	2.6	2.4
IHS Global Insight (Jan/16)	-0.9	0.4	2.3	2.3	2.3
Centre for Spatial Economics (Jan/16)	-2.2	-0.8	2.1	2.5	2.2
Banks					
BMO Capital Markets (Mar/16)	-2.8	-2.3	2.1	n/a	n/a
CIBC World Markets (Mar/16)	-1.5	-1.2	1.7	n/a	n/a
Laurentian Bank (Jan/16)	-1.0	-0.6	2.2	n/a	n/a
National Bank (Feb/16)	-1.0	-2.4	1.1	n/a	n/a
RBC Royal Bank (Mar/16)	-1.8	-1.6	2.0	n/a	n/a
Scotiabank (Mar/16)	-2.0	-1.9	2.0	n/a	n/a
Toronto Dominion Bank (Jan/16)	-1.2	-0.3	1.2	n/a	n/a
Other					
Canada Mortgage and Housing Corporation (Q4/15)	-1.0	1.5	2.3	n/a	n/a
High	-0.9	1.5	2.3	2.6	2.4
Low	-2.8	-2.4	1.1	2.3	2.2
Average of All Private Forecasts	-1.6	-0.9	1.9	2.5	2.3
Government of Alberta (calendar year)	-1.5	-1.4	1.9	2.8	2.7

Includes forecasts finalized on or before March 4, 2016.

Light-Heavy Oil Price Differential Benchmark

WTI-WCS Price Differential (US$/bbl)

Organization	2016	2017	2018	2019
National Forecasting Agencies				
Conference Board of Canada (Feb/16)	12.84	12.43	12.34	12.38
Centre for Spatial Economics (Jan/16)	11.40	17.00	19.00	20.00
Banks and Industry Analysts				
Credit Suisse (Feb/16)	14.50	15.00	16.00	16.50
RBC Capital Markets (Jan/16)	10.44	13.87	14.90	16.07
GLJ Petroleum Consultants (Jan/16)	13.36	13.60	15.07	15.33
Sproule Associates Limited (Dec/15)	11.05	13.63	15.32	16.16
Confidential Forecasts Provided to Alberta Energy[a]				
Average	14.00	15.30	16.80	17.90
High	15.33	18.30	19.80	21.23
Low	10.44	11.82	12.34	12.38
Average of All Private Forecasts	13.00	14.70	16.10	16.90
Government of Alberta (calendar year)[b]	15.00	17.50	18.30	17.40

[a] Alberta Energy also surveys, on a confidential basis, private sector forecasts from IHS CERA, PIRA, Wood MacKenzie, KBC and BMO Capital Markets. The annual figures presented here are the average forecast prices from these sources. High/ Low forecasts may represent one of the confidential forecasts.

[b] Forecasts have been rounded.

Includes forecasts finalized on or before February 3, 2016.

Alberta Housing Starts Benchmark

(thousands)

Organization	2016	2017	2018	2019
National Forecasting Agencies				
Conference Board of Canada (Feb/16)	28.3	25.6	27.0	27.6
IHS Global Insight (Jan/16)	31.9	33.3	34.4	33.6
Centre for Spatial Economics (Jan/16)	29.3	27.7	27.6	30.6
Banks				
BMO Capital Markets (Mar/16)	25.0	27.5	n/a	n/a
Laurentian Bank (Jan/16)	30.0	30.0	n/a	n/a
National Bank (Feb/16)	27.6	28.0	n/a	n/a
RBC Royal Bank (Mar/16)	24.1	24.0	n/a	n/a
Scotiabank (Mar/16)	23.0	22.0	n/a	n/a
Toronto Dominion Bank (Jan/16)	30.8	27.5	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Q4/15)	29.8	30.3	n/a	n/a
High	31.9	33.3	34.4	33.6
Low	23.0	22.0	27.0	27.6
Average of All Private Forecasts	28.0	27.6	29.7	30.6
Government of Alberta (calendar year)	22.2	19.4	20.1	23.6

Includes forecasts finalized on or before March 4, 2016.

Alberta Primary Household Income Benchmark
(% change)

National Forecasting Agencies	2015	2016	2017	2018	2019
Conference Board of Canada (Feb/16)	0.5	-1.0	2.2	3.6	4.3
IHS Global Insight (Jan/16)	0.6	2.7	4.7	4.6	4.5
Centre for Spatial Economics (Jan/16)	-0.9	-4.3	2.7	3.5	4.0
High	0.6	2.7	4.7	4.6	4.5
Low	-0.9	-4.3	2.2	3.5	4.0
Average of All Private Forecasts	0.1	-0.9	3.2	3.9	4.3
Government of Alberta (calendar year)	0.3	-1.4	2.4	4.2	4.7

Includes forecasts finalized on or before March 4, 2016.

Alberta Net Corporate Operating Surplus Benchmark
(% change)

National Forecasting Agencies	2015	2016	2017	2018	2019
Conference Board of Canada (Feb/16)	-38.8	-25.6	21.0	7.7	11.3
IHS Global Insight (Jan/16)	-54.6	2.1	9.5	8.2	4.0
Centre for Spatial Economics (Jan/16)	-71.0	-31.2	51.5	90.5	35.1
High	-38.8	2.1	51.5	90.5	35.1
Low	-71.0	-31.2	9.5	7.7	4.0
Average of All Private Forecasts	-54.8	-18.2	27.3	35.5	16.8
Government of Alberta (calendar year)	-51.9	-18.0	48.6	32.9	15.7

Includes forecasts finalized on or before March 4, 2016.

Alberta Employment Benchmark
(% change)

Organization	2016	2017	2018	2019
National Forecasting Agencies				
Conference Board of Canada (Feb/16)	-1.2	0.3	1.6	1.9
IHS Global Insight (Jan/16)	0.0	1.9	1.6	1.2
Centre for Spatial Economics (Jan/16)	-0.4	1.0	1.6	1.8
Banks				
BMO Capital Markets (Mar/16)	-1.6	0.1	n/a	n/a
CIBC World Markets (Mar/16)	-2.2	0.3	n/a	n/a
Laurentian Bank (Jan/16)	-0.3	1.5	n/a	n/a
National Bank (Feb/16)	-1.5	0.6	n/a	n/a
RBC Royal Bank (Mar/16)	-1.4	1.4	n/a	n/a
Scotiabank (Mar/16)	-1.5	0.9	n/a	n/a
Toronto Dominion Bank (Jan/16)	-1.2	0.3	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Q4/15)	0.6	1.5	n/a	n/a
High	0.6	1.9	1.6	1.9
Low	-2.2	0.1	1.6	1.2
Average of All Private Forecasts	-1.0	0.9	1.6	1.6
Government of Alberta (calendar year)	-1.7	0.9	2.1	1.9

Includes forecasts finalized on or before March 4, 2016.

Alberta Unemployment Rate Benchmark

(%)

Organization	2016	2017	2018	2019
National Forecasting Agencies				
Conference Board of Canada (Feb/16)	7.4	7.0	6.1	5.3
IHS Global Insight (Jan/16)	6.5	6.1	5.7	5.4
Centre for Spatial Economics (Jan/16)	7.1	6.4	5.7	5.2
Banks				
BMO Capital Markets (Mar/16)	7.8	7.8	n/a	n/a
CIBC World Markets (Mar/16)	8.3	8.2	n/a	n/a
Laurentian Bank (Jan/16)	7.3	7.0	n/a	n/a
National Bank (Feb/16)	7.6	7.8	n/a	n/a
RBC Royal Bank (Mar/16)	7.8	7.1	n/a	n/a
Scotiabank (Mar/16)	7.5	7.2	n/a	n/a
Toronto Dominion Bank (Jan/16)	7.4	6.9	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Q4/15)	5.9	5.7	n/a	n/a
High	8.3	8.2	6.1	5.4
Low	5.9	5.7	5.7	5.2
Average of All Private Forecasts	7.3	7.0	5.8	5.3
Government of Alberta (calendar year)	8.0	7.5	6.5	5.8

Includes forecasts finalized on or before March 4, 2016.