

ECONOMIC OUTLOOK

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SUMMARY AND KEY ASSUMPTIONS

- ✧ Amid rising global uncertainty, Alberta's economy performed relatively well in 2011. Employment growth of 3.8% led all provinces, pushing down the unemployment rate by one full percentage point to an average of 5.5%. Investment in the natural resource sector, broad based job gains and stronger consumer spending contributed to an estimated 3.5% expansion of Alberta's economy in 2011.
- ✧ Elevated oil prices are expected to encourage continued investment in the energy sector, driving up employment, incomes and exports. Economic growth is forecast to strengthen to 3.8% in 2012 and 2013 before averaging 3% in 2014 and 2015.
- ✧ Alberta is not immune to global risks, which remain elevated due to uncertainty around the Eurozone debt crisis. An escalation in the crisis could result in the global economy slowing further, and may strain the global financial system. Moreover, a slowdown in the emerging markets would undermine demand for commodities, putting downward pressure on oil prices.

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2010-11 Actual	2011-12 Estimates	2012-13	2013-14	2014-15
Prices					
Crude Oil Price					
WTI (US\$/bbl)	83.38	96.25	99.25	106.25	108.25
Alberta Wellhead (Cdn\$/bbl) ^a	73.57	89.27	90.18	96.94	99.04
WCS @ Hardisty (Cdn\$/bbl)	66.70	77.98	83.28	91.23	92.94
Natural Gas Price					
Alberta Reference Price (Cdn\$/GJ)	3.28	3.11	3.00	3.50	4.25
Production					
Conventional crude oil (000s barrels/day)	464	492	524	529	515
Raw bitumen (000s barrels/day)	1,614	1,788	2,045	2,208	2,402
Natural gas (billions of cubic feet)	4,530	4,327	4,085	3,888	3,734
Interest rates					
3-month Canada treasury bills (per cent)	0.75	0.95	1.00	1.70	3.25
10-year Canada bonds (per cent)	3.20	2.55	2.80	3.40	4.25
Exchange Rate (US¢/Cdn\$)	98.4	100.3	98.6	99.0	99.0
Calendar Year Assumptions	2011 Actual	2012	2013	2014	2015
Gross Domestic Product					
Nominal (millions of dollars)	286,552 ^b	306,657	330,377	352,443	372,047
per cent change	8.7 ^b	7.0	7.7	6.7	5.6
Real (millions of 2002 dollars)	189,622 ^b	196,913	204,470	210,588	216,883
per cent change	3.5 ^b	3.8	3.8	3.0	3.0
Other Indicators					
Employment (thousands)	2,094	2,151	2,200	2,246	2,288
per cent change	3.8	2.7	2.3	2.1	1.9
Unemployment rate (per cent)	5.5	4.9	4.6	4.3	4.0
Average Weekly Earnings (per cent change)	4.7 ^b	4.2	4.1	4.1	4.2
Personal Income (per cent change)	6.9 ^b	6.2	6.0	6.3	6.2
Corporate Profits (per cent change)	15.0 ^b	11.8	17.5	8.4	1.7
Housing starts (number of units)	25,704	28,200	30,600	30,300	30,300
Alberta Consumer Price Index (per cent change)	2.4	2.5	2.3	2.3	2.3
Population (thousands)	3,779	3,848	3,919	3,990	4,061
per cent change	1.6	1.8	1.8	1.8	1.8

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

^b Alberta Finance estimate.

ECONOMIC OUTLOOK 2012–15

GLOBAL ECONOMY ENCOUNTERS STRONG HEADWINDS

- ◆ Global economic growth is moderating in the face of strong headwinds coming from serious debt problems in advanced economies and signs of a slowdown in emerging markets. The global economy is projected to decelerate to around 3% growth in 2012 after an estimated gain of almost 4% in 2011.
- ◆ The US economy is growing at a modest pace. Investment and exports are contributing to the expansion, although a retrenching public sector and the latter stages of household deleveraging are expected to keep US growth near 2% in 2012. Over the medium term, fiscal restraint should hold growth slightly below the historical average, at around 2.5%, despite improvements in employment, consumer spending, and the housing sector.
- ◆ In the Eurozone, the debt crisis has deepened since the summer of 2011, reflecting investor anxiety over the fiscal sustainability of the region. The crisis has taken an economic toll, and there are indications that the Eurozone is in a recession. Fiscal austerity measures will exert further downward pressure on demand, constraining recovery efforts.
- ◆ With advanced economies bogged down by debt, emerging economies are picking up the slack and propping up global demand. Yet even emerging markets are not immune to a global slowdown. Growth moderated somewhat toward the end of 2011 in response to monetary tightening and headwinds from Europe. However, emerging markets have already started to ease monetary conditions, measures that should aid global growth and support commodity prices moving forward.
- ◆ Canada has weathered the difficult global economic climate relatively well, having replaced both the jobs and output lost during the Great Recession. However, the Canadian economy faces some challenges. The strong Canadian dollar, which is expected to remain near parity with the US greenback through 2015, and slower global growth will continue to weigh on Canadian exporters. Moreover, household debt has increased on the back of low interest rates, and will restrain consumer spending and housing activity going forward. Overall, Canada's economy is expected to expand by a moderate 2.0% in 2012 and 2.7% per year over the medium term.

ALBERTA POWERS THROUGH ECONOMIC STORM

- ◆ Alberta's economy is growing briskly despite a slowdown in the global economy and escalation of the Eurozone debt crisis. Economic growth in the province is forecast at a solid 3.8% in 2012 on the heels of an estimated 3.5% gain in 2011.
- ◆ Aided by rising demand in emerging markets, oil prices are expected to average US\$96.25 per barrel in 2011/12, and to rise to just under US\$110 per barrel over the forecast period. The strength in oil prices, along with rock bottom interest rates, buoyed investment in both the conventional and non-conventional oil sectors in 2011. Oil exports are expected to expand at a double digit pace in 2012 and to make a strong contribution to Alberta's growth throughout the forecast period.
- ◆ Natural gas activity is on a much different path than that of oil. With US shale gas supplies continuing to flood the North American market, gas prices are expected to remain soft at C\$3.11/ GJ in 2011/12. The price outlook remains weak and declines in Alberta's natural gas production are forecast to continue.
- ◆ Non-energy business investment is also expected to pick up in 2012 and to grow over the forecast period on the back of increasing economic activity in the province and low interest rates.
- ◆ Manufacturers saw shipments approach their pre-recession peak in late 2011 and are forecast to experience further annual gains through 2015.
- ◆ Global agricultural prices increased in 2011 and are expected to remain strong over the forecast horizon, along with agricultural exports.
- ◆ As economic activity continues to expand in Alberta, inflation is expected to rise to 2.5% in 2012 and remain above 2% per year over the forecast period.

ALBERTA'S JOB MARKET RIDES WAVE OF GROWTH

- ◆ Alberta had the strongest job growth in the country in 2011. Employment expanded by an impressive 3.8%, driven by new full-time, private sector positions and broad-based gains across most sectors. The momentum from 2011 is expected to carry over into this year, with employment growth forecast to be 2.7% in 2012 before averaging about 2% annually over the medium term.

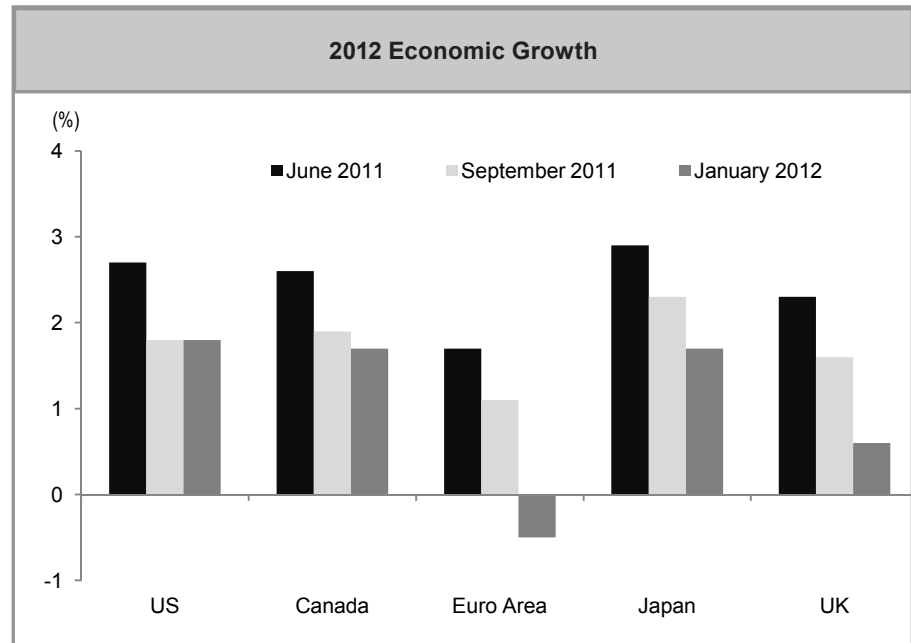
- ◆ Employment gains have pushed down the unemployment rate below 5%, a sharp improvement from the recessionary peak of 7.6%. The unemployment rate is forecast to dip to 4% by 2015, leading to general shortages of labour and upward pressure on wages.
- ◆ Attracted by new job opportunities and high wages, net migration is expected to pick up. After experiencing net outflows of interprovincial migrants in 2010, Alberta gained 13,700 people from other provinces in 2011. Overall net migration, both international and interprovincial, is expected to increase in 2012 and 2013 before stabilizing to around 40,000 per year over the remainder of the forecast period. As a result, population growth is expected to rise to 1.8% annually through 2015.
- ◆ Increasing migration, declines in rental vacancy rates and continued low interest rates bode well for Alberta's housing sector. While falling overall in 2011, housing starts picked up near the end of last year and are expected to strengthen in 2012 before reaching 30,000 per year over the medium term.
- ◆ Alberta consumers are lining up at the tills, spurred on by solid income and job gains. Real consumer spending is expected to remain strong, above 3.5% annual growth over the medium term, helping to sustain Alberta's economic expansion.

CLOUDS OF UNCERTAINTY LOOM

- ◆ Uncertainty over the resolution of the European debt crisis has contributed to recurring cycles of volatility in financial markets, higher bond yields in some heavily indebted economies and declines in consumer and business confidence. These factors will continue to undermine global economic growth.
- ◆ Emerging markets have thus far been able to sustain global growth and commodity prices; however, risks exist. Economic growth slowed in China and India in the second half of 2011 and a further cooling would hurt world growth prospects.
- ◆ As an economy heavily reliant on trade and commodities, Alberta remains vulnerable to downturns in global economic activity as well as financial and currency market instability.

The International Monetary Fund (IMF) downgraded its forecast for world economic growth twice in the past six months. Sovereign debt concerns and market uncertainty have dampened the global economic outlook. Advanced economies are projected to be a drag on global growth, growing at or below 2% in 2011 and 2012. The downward growth adjustments reflect heightened uncertainty, which has weakened business and consumer confidence.

Global economic outlook deteriorates

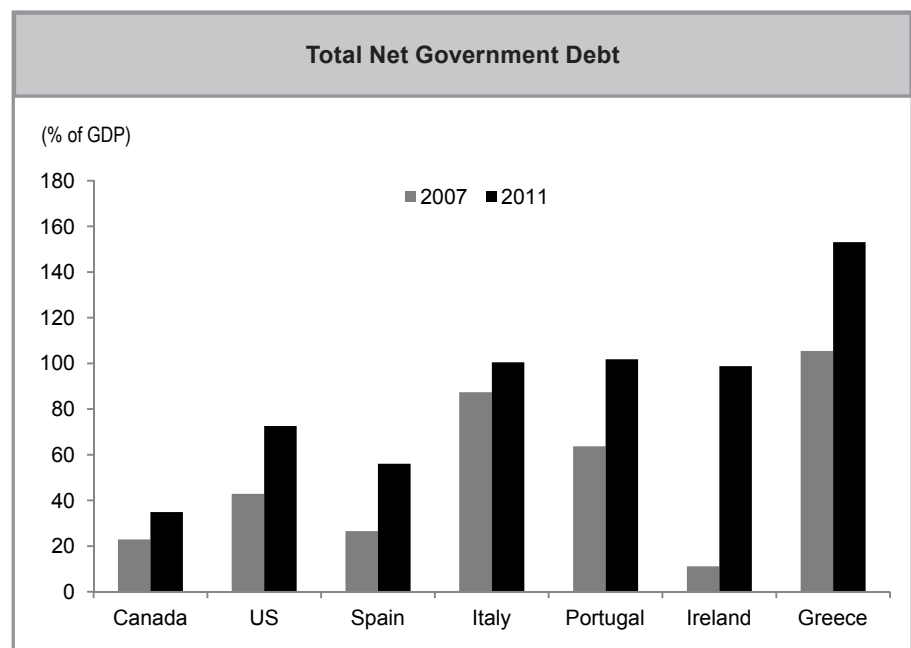


Source: International Monetary Fund

In the aftermath of the Great Recession, debt levels rose across the Eurozone. Meanwhile, the capacity to pay off this debt, through growth in the economy, has diminished.

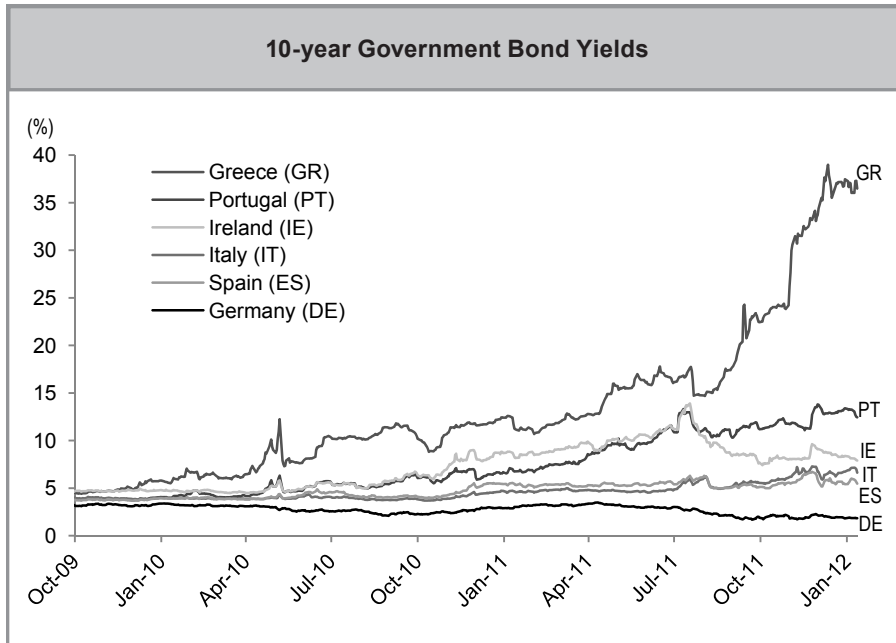
Consequently, investors have become increasingly skeptical about government's ability to pay back excess levels of debt. The crisis has spread from Greece to the core of the Eurozone, including Spain and Italy. European leaders continue to grapple with solutions to the crisis.

Eurozone debt crisis escalates



Source: International Monetary Fund

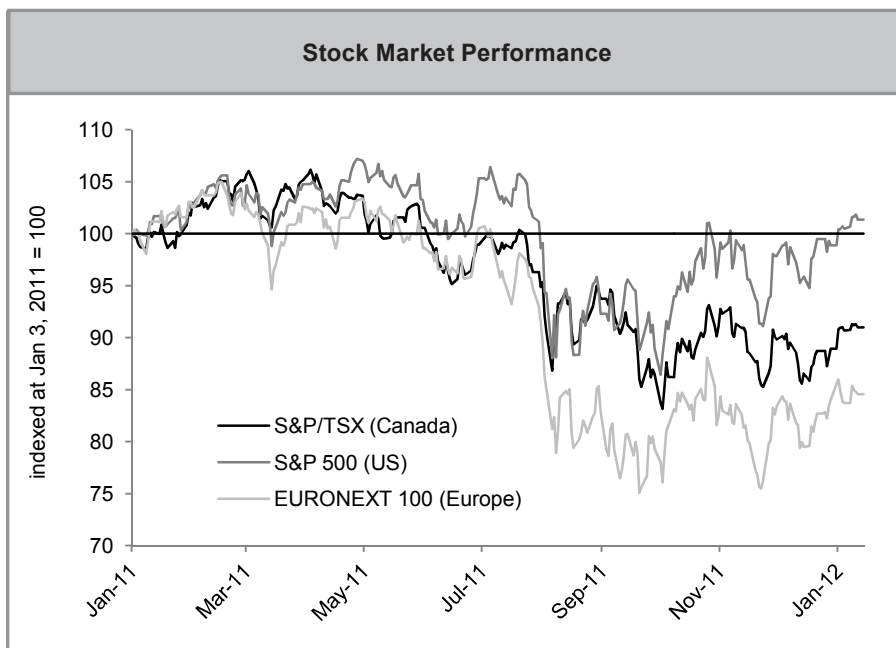
Uncertainty translates into rising bond yields



Source: Thompson Reuters

Interest rates have risen on government bonds in many European countries as investors price in the rising risk of default. Higher interest rates create a vicious cycle, making it even more difficult for governments to fund fiscal deficits and service their debts. While the European Central Bank has provided liquidity to European banks in an effort to ensure financial stability, underlying debt problems remain.

Equity markets decline

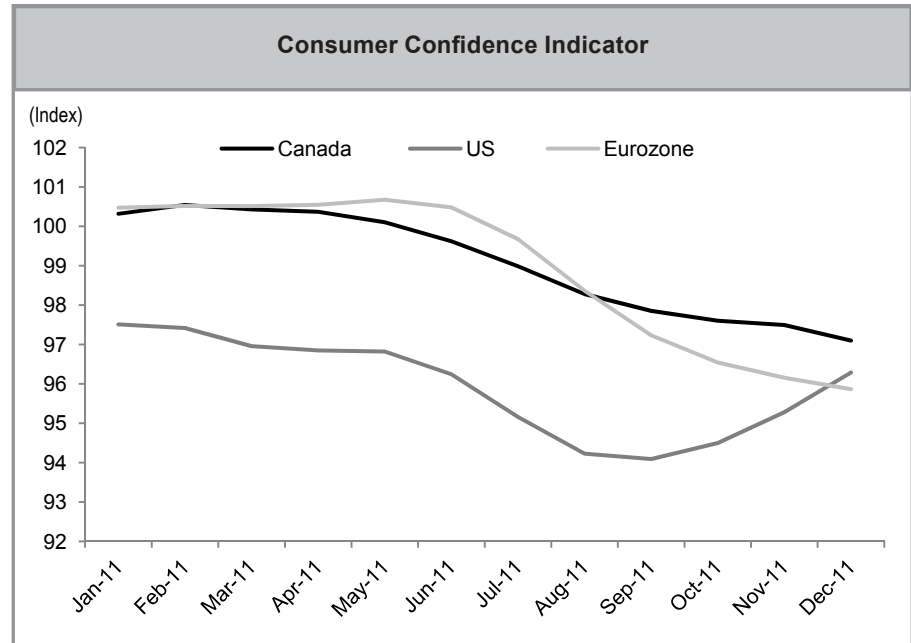


Source: Thompson Reuters

After a fairly strong start in 2011, the sovereign debt crisis triggered a broad based retrenchment from risk-taking in equity markets as investors feared the return of a liquidity crunch similar to the financial crisis of 2008-2009. Markets plunged in August across the board, offsetting much of the gains in the previous year. The uncertainty and volatility exhibited by equity markets have discouraged risk taking in the private sector and undermined business investment and job creation.

Consumer confidence deteriorates

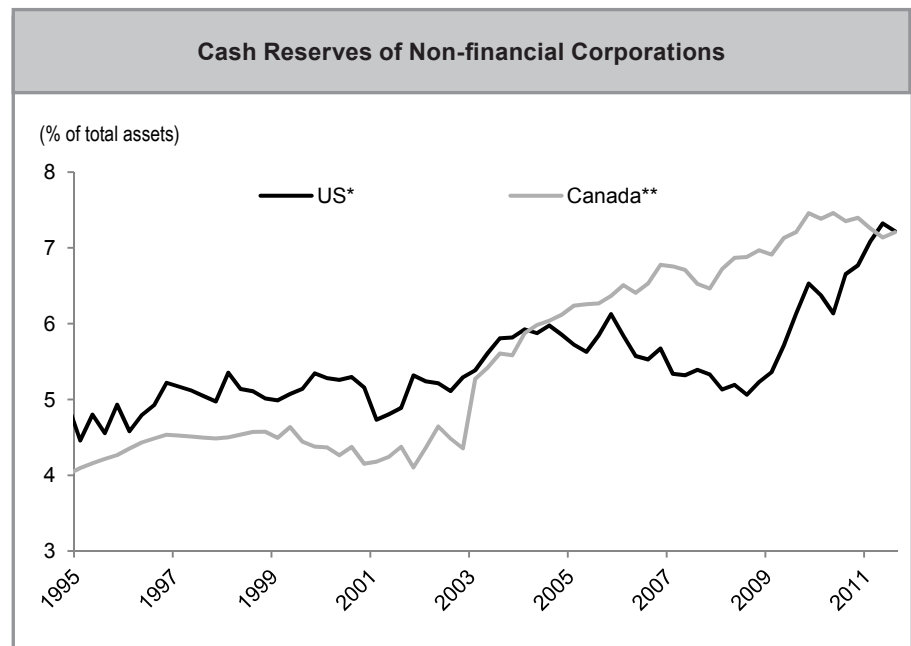
Uncertainty around the economic outlook has led to a retrenchment in consumer confidence. Weaker confidence keeps businesses from investing and consumers out of the stores, delaying a much needed handoff from government to consumer demand. Across advanced economies, consumer confidence slid in 2011, although it has improved in the US in recent months.



Source: Organization for Economic Cooperation and Development

With so much uncertainty, businesses are hoarding cash

Corporations, despite solid balance sheets, have become reluctant to invest or add to payrolls. Cash is king, as liquid asset holdings among non-financial US companies soared to over 7% of assets, from a pre-recession average of around 5%. Business investment is a key component to filling the gap left by the withdrawal of government spending.

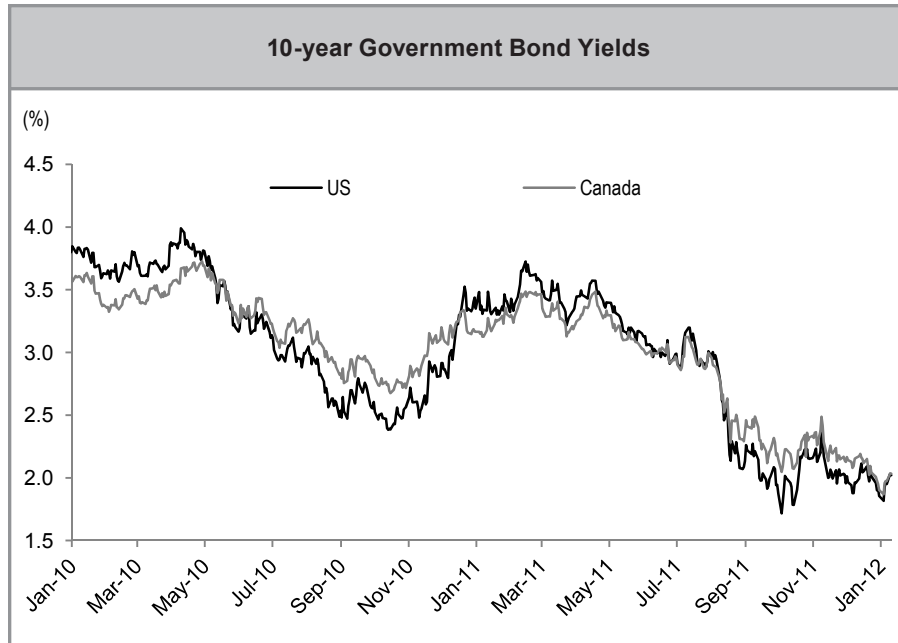


Sources: US Federal Reserve Board and Statistics Canada

* Liquid Assets-to-Total Asset ratio

** Cash & Deposits-to-Total Asset ratio

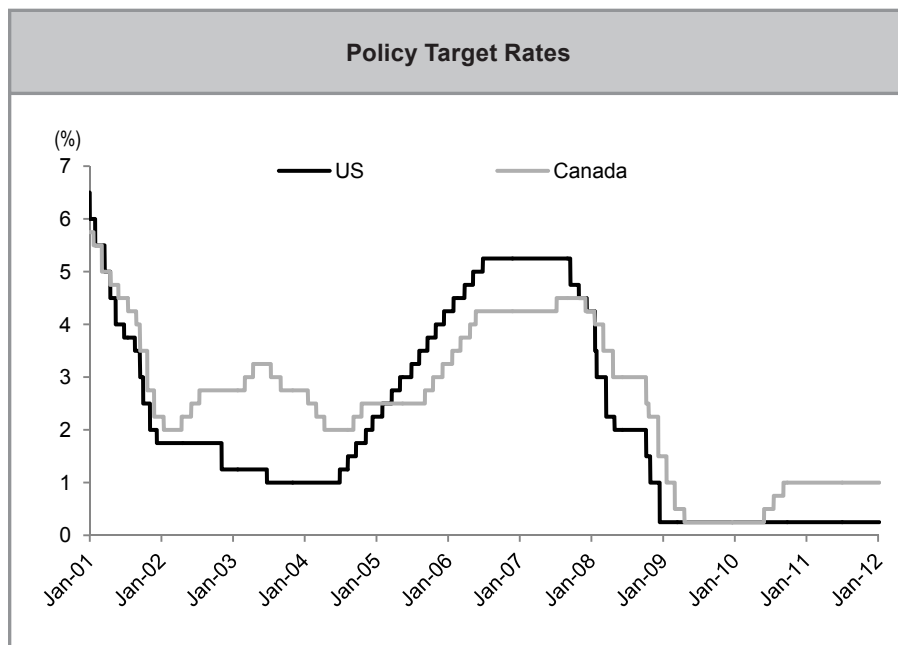
Uncertainty causes flight to safety



Source: Bloomberg

Uncertainty around the Eurozone crisis has triggered a flight to safety, as investors move their money away from risky assets and into the safety of higher quality bonds. As a result, government bond yields in the US and Canada have retreated to record lows, reducing debt servicing costs for these countries.

Monetary stimulus remains intact

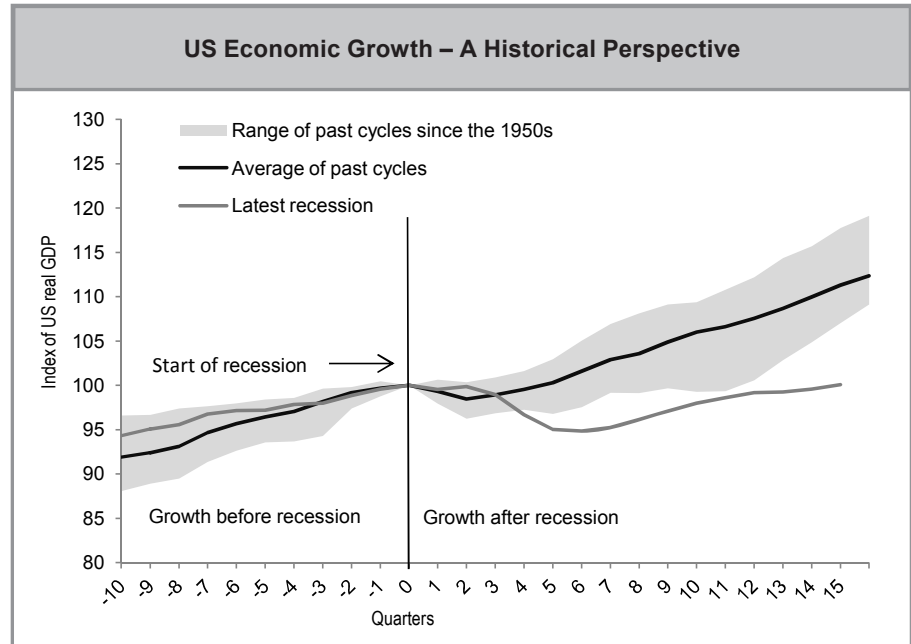


Sources: Bank of Canada and US Federal Reserve Board

Monetary policy across advanced economies remains in full stimulus mode as tepid economic growth has dampened inflation concerns. The US Federal Reserve Bank has announced its intention to keep its policy rate at “exceptionally low levels at least through late 2014.” Similarly, the Bank of Canada has decided to maintain its overnight target rate at the current 1% level. Policy rates only have one direction to head in the medium term as the economy returns to normal growth levels.

Recoveries from financial crises tend to be especially slow and fragile. The recovery from the 2008-09 financial crisis has proved no exception. In the US, output only recently recovered to pre-recession levels. Households, banks and governments all absorbed balance sheet shocks, causing the current deleveraging cycle of paying down debts. Deleveraging at the government level has yet to start, and will restrain growth in the short and medium term.

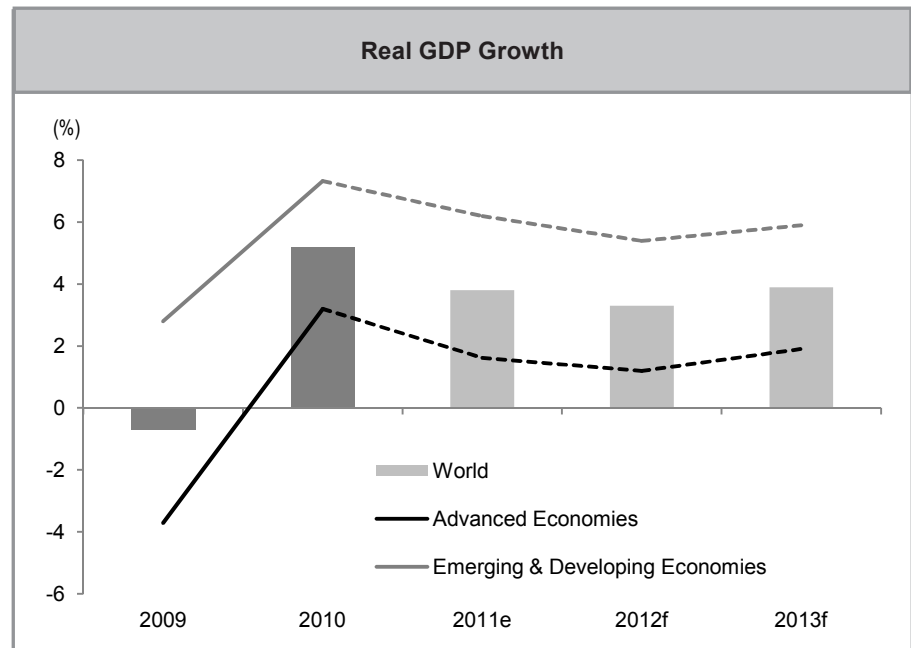
US finally enters expansion



Source: US Bureau of Economic Analysis

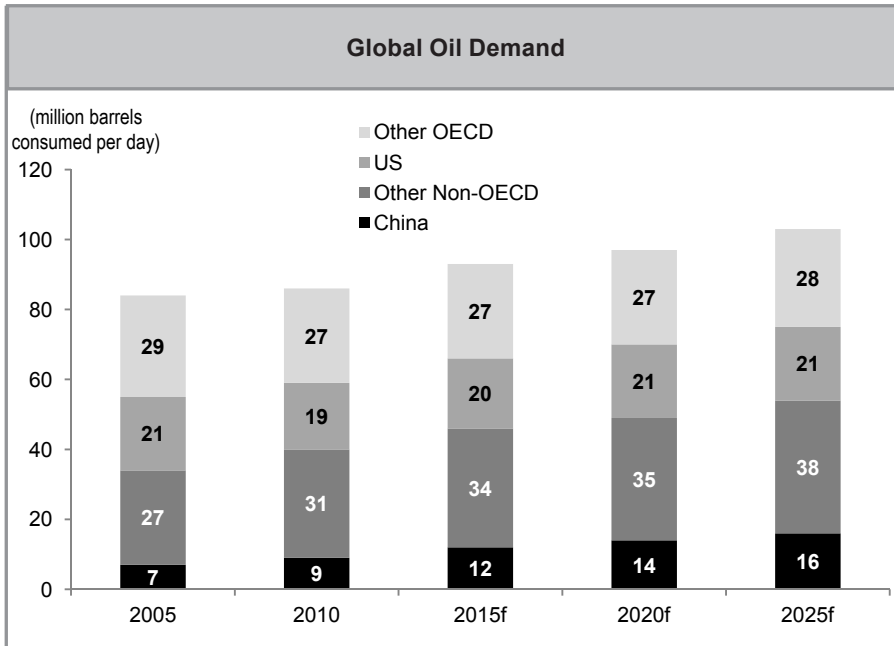
With the deterioration and uncertainty surrounding advanced economies, emerging economies remain the engine of world growth. The IMF expects emerging economies to pull up world growth this year, and their continued growth will help to sustain higher commodity prices. Growth in emerging markets has been slowing recently due to the crisis in Europe and monetary tightening in 2010 and early in 2011. However, as monetary conditions ease, growth in the developing world is expected to improve in the latter part of 2012 and through the medium term.

Emerging economies power world growth



Source: International Monetary Fund

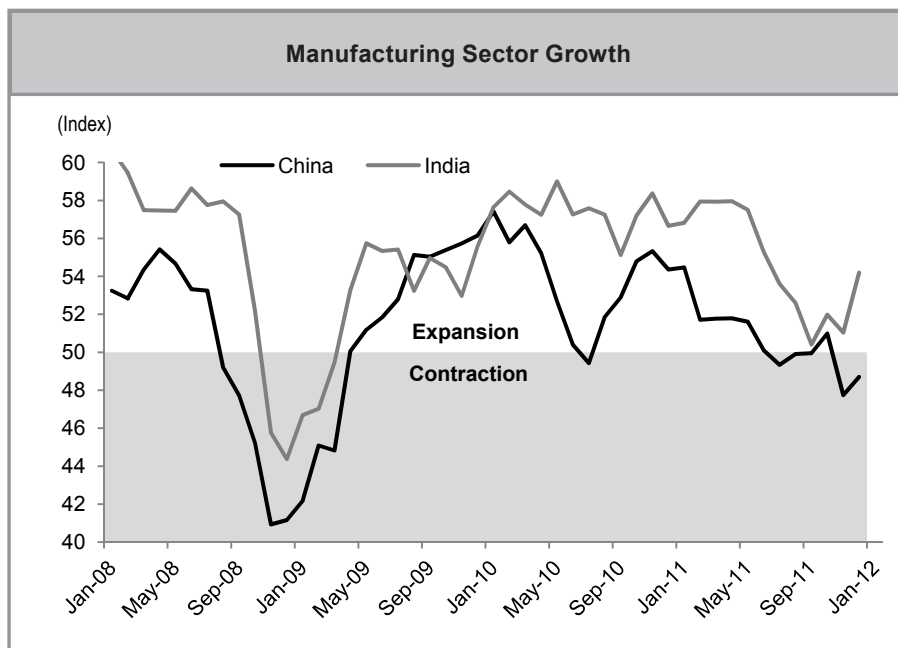
And drive growth in oil demand



Source: US Energy Information Agency

Oil consumption continued to grow in 2011, following a recovery in global oil demand in 2010. The United States will remain the largest single oil consumer in the world, with demand forecast to stay around 20 million barrels per day over the forecast horizon. In contrast, as emerging economies continue to develop, incremental growth in the demand for oil will be led by these countries. China alone is forecast to account for about 50% of the growth in oil demand over the next decade.

But even emerging markets show signs of slowing

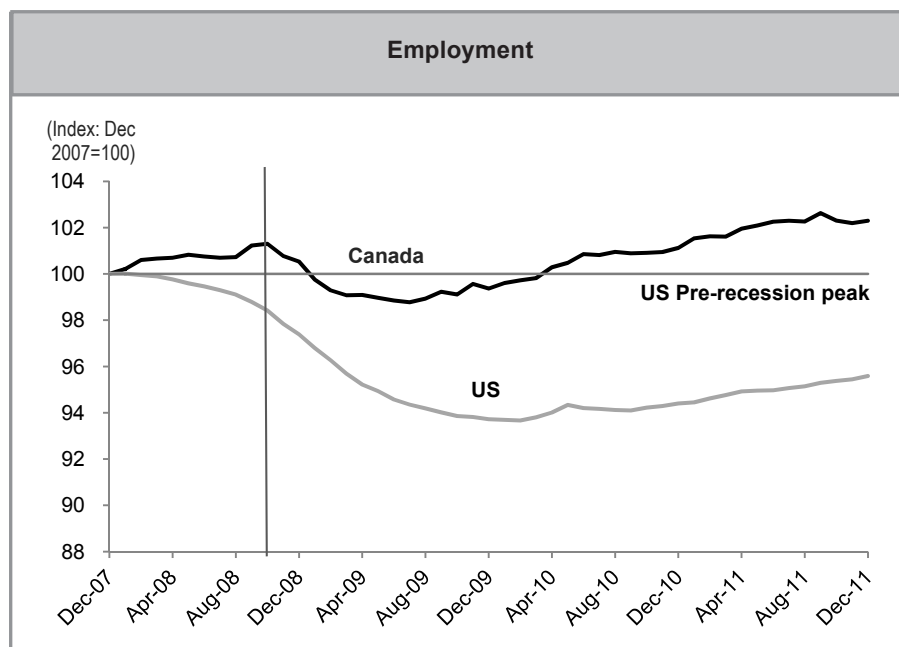


Sources: Thomson Reuters and Markit -HSBC

Emerging markets are not immune to the global slowdown. According to the Purchasing Managers' Index, China's and India's manufacturing sectors are showing signs of slowing, reflecting a moderation in global demand and monetary tightening. The Bank of China has now turned its attention away from inflation and towards boosting demand by lowering its reserve requirements. Both China and India have room to initiate new rounds of monetary easing, following almost two years of tightening.

Canada's labour market outperforms the US

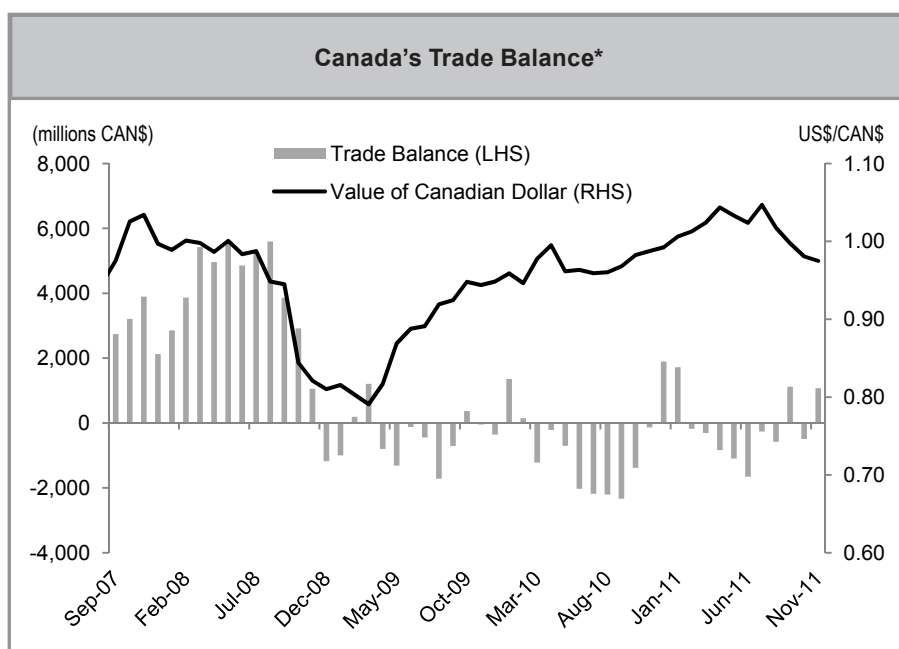
The US labour market has yet to sustain the kind of performance necessary to recoup all of the jobs lost during the recession. US employment is about 6 million jobs below its pre-recession peak. However, in recent months, unemployment claims have fallen and employment growth has gained enough momentum to start pushing down the unemployment rate. The Canadian job market, on the other hand, has replaced all of the jobs lost in the last recession, but has recently softened slightly. Nonetheless, Canada is expected to continue to create jobs in 2012.



Sources: Statistics Canada and US Bureau of Labor Statistics

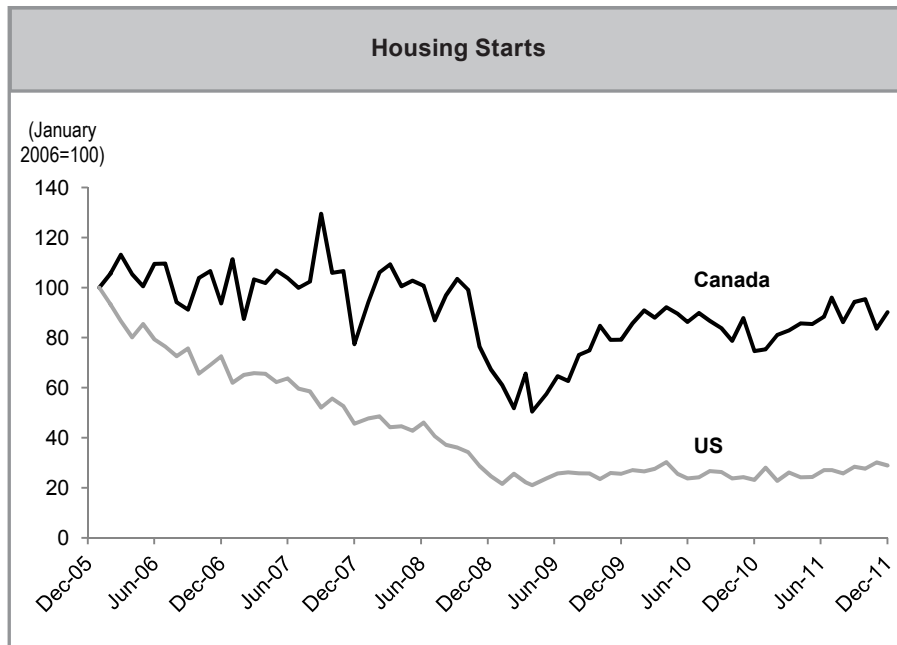
A soaring loonie impacts Canada's trade balance

Leading up to the financial crisis, Canada's economic growth benefitted greatly from a strong positive trade balance. In the post recession era, a new norm has emerged as imports regularly surpass exports. With the dollar elevated, Canadian firms have seized the opportunity to import machinery and equipment, a development that may help close the productivity gap between Canada and the US.



Sources: Statistics Canada and Bank of Canada
*Exports less imports

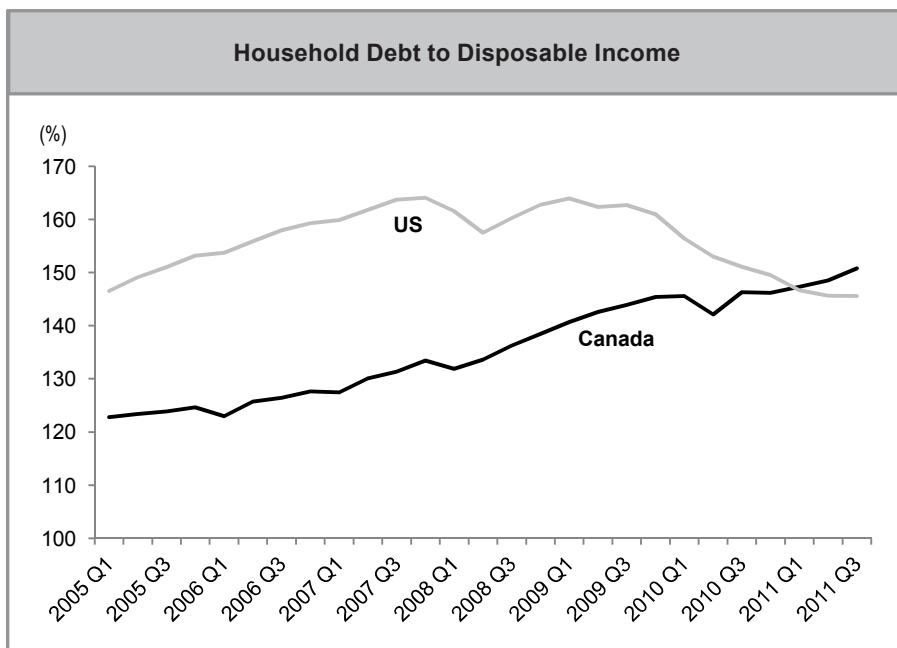
Canadians continue to invest in homes



Sources: Canada Mortgage and Housing Corporation and US Census Bureau

Canadian housing starts edged up in 2011 after a strong performance in 2010. Canada's housing market has been resilient through the downturn and recovery. By contrast, activity in the US housing market, where the recession originated, remains depressed. A rebound in housing is widely seen as key to getting the US economy back on track, and is forecast to contribute to economic growth over the medium term.

But rising household indebtedness creates risks

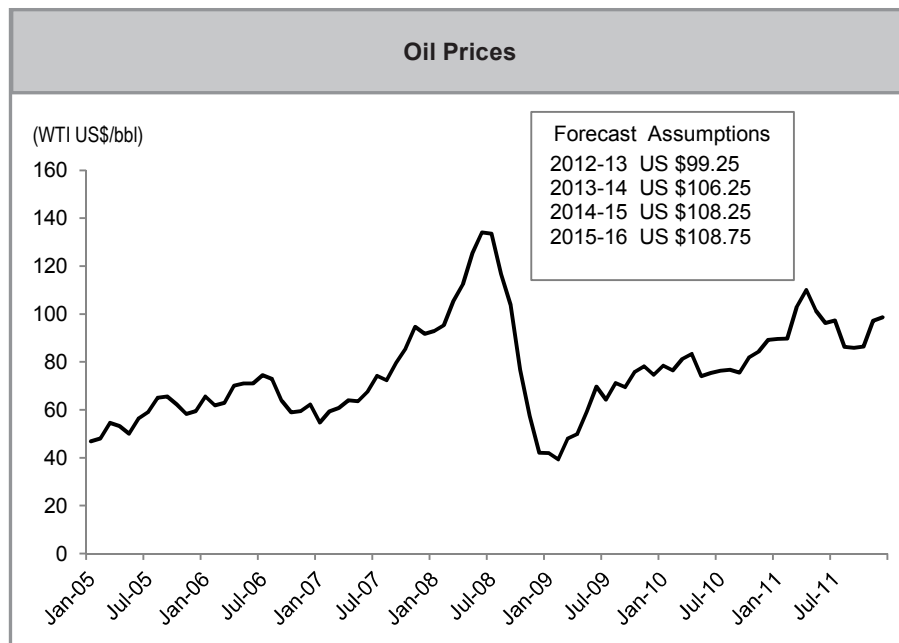


Sources: US Federal Reserve Board and Statistics Canada

While Americans have deleveraged by paying down or writing off debt, Canadians have watched their debt levels rise to record highs. This is the by-product of strong consumer spending, especially on housing, which was fueled in part by low interest rates and strong employment growth. Canadian indebtedness is likely to weigh on consumer spending and housing activity going forward. The ability to absorb interest rate increases is a risk to many indebted Canadian households.

Higher oil prices propel Alberta's energy sector

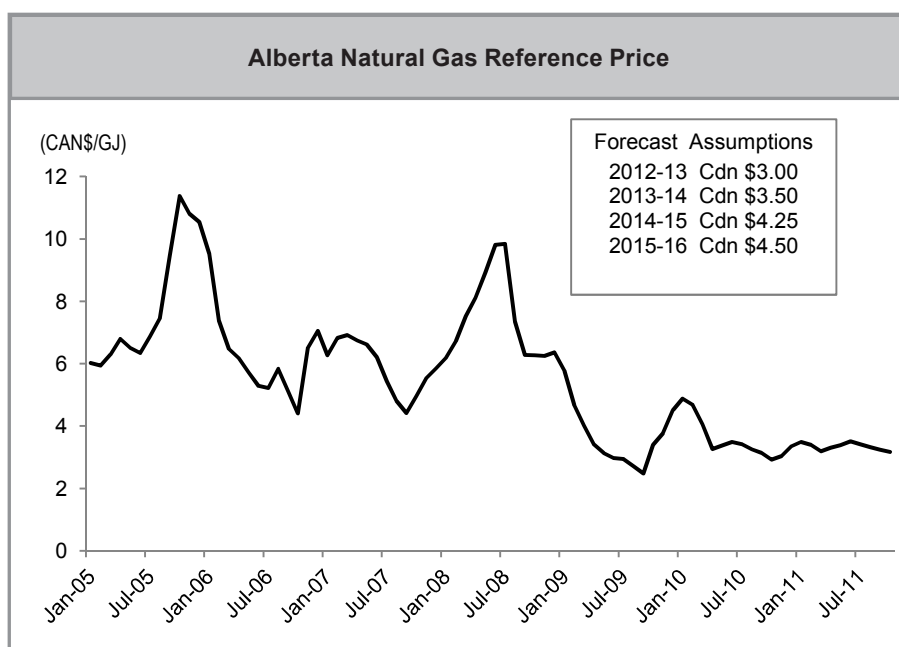
With growth in global oil demand and political unrest in the Middle East, oil prices posted strong gains in 2011. Oil prices are forecast to increase from an average of US\$83.33/bbl in 2010-11 to US\$96.25/bbl in 2011-12 and then are expected to reach US\$108.75/bbl by 2015-16. While unconventional supplies are on the rise, demand from emerging markets should keep oil prices elevated. Geopolitical uncertainty is likely to continue to impact oil prices over the forecast period.



Source: Alberta Energy

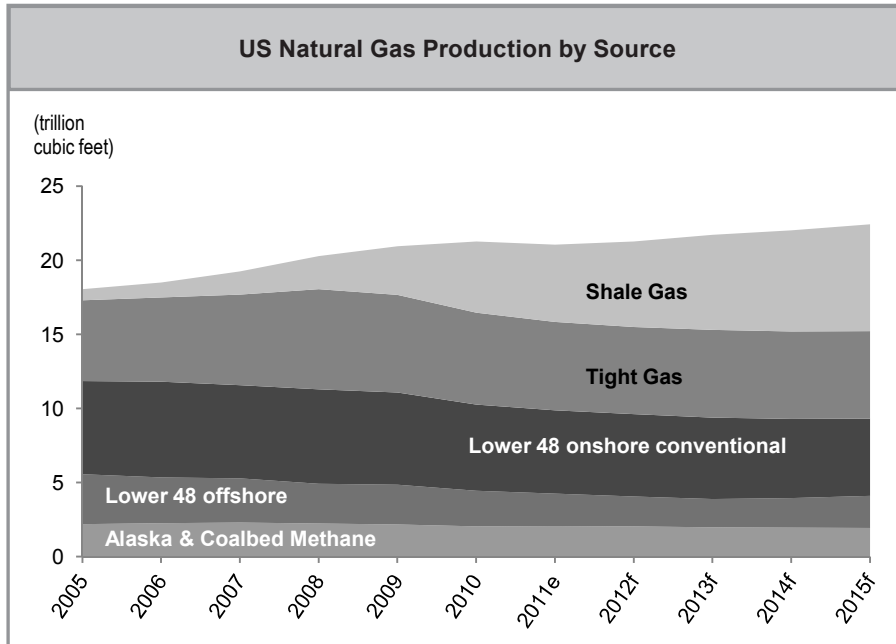
Gas prices remain weak

Increases in natural gas supply continue to put downward pressure on prices, with inventories near record levels and a warm winter underway. The Alberta natural gas reference price is forecast to average \$3.11 in 2011-12 before falling to \$3.00 in 2012/13 and then to rise gradually through the remainder of the forecast period.



Source: Alberta Energy

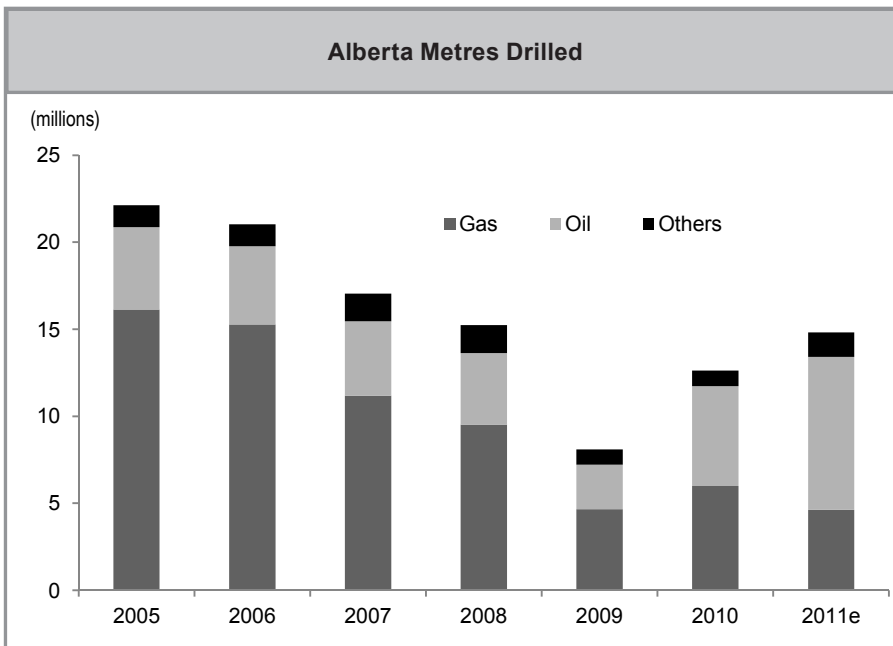
US shale gas continues to flood market



Source: US Energy Information Agency

North American gas supply is elevated due to rising US shale gas production, which has increased from 4.8 trillion cubic feet in 2010 to an estimated 5.2 trillion cubic feet in 2011. Demand has been unable to keep up with supply, resulting in storage levels well above the 5 year average and a downward trend in prices.

Alberta's energy sector lifted by oil activity

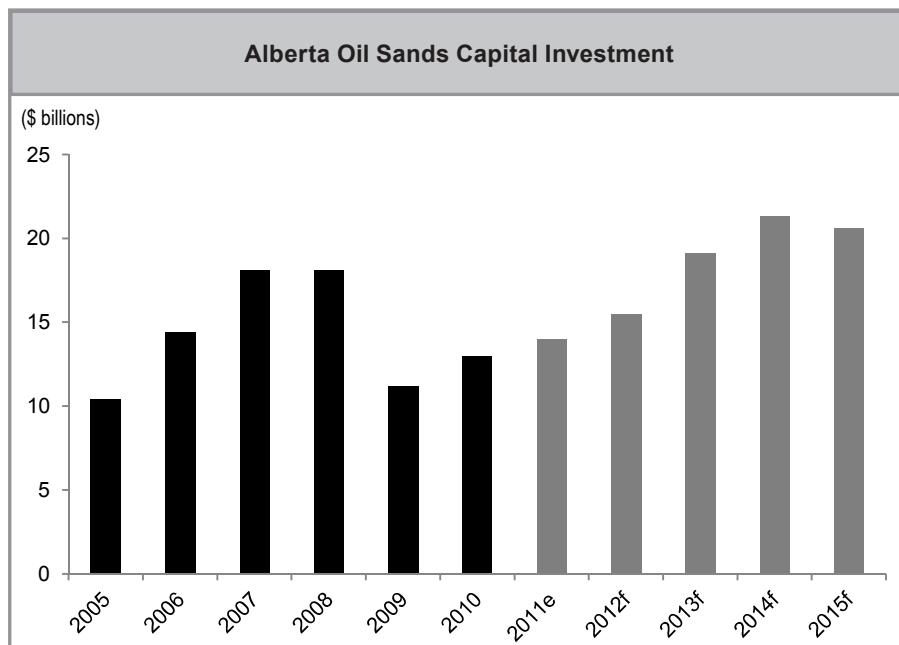


Sources: Energy Resources Conservation Board and Alberta Finance

Drilling activity rose briskly in 2011, fuelled by gains in oil related activity. The sharp decline in gas prices over the past few years, as well as higher oil prices, have shifted interest from gas to oil drilling. Crude oil and bitumen drilling has now risen from about a 20% share of metres drilled in 2005 to roughly a 60% share in 2011.

Oil sands remains a key driver

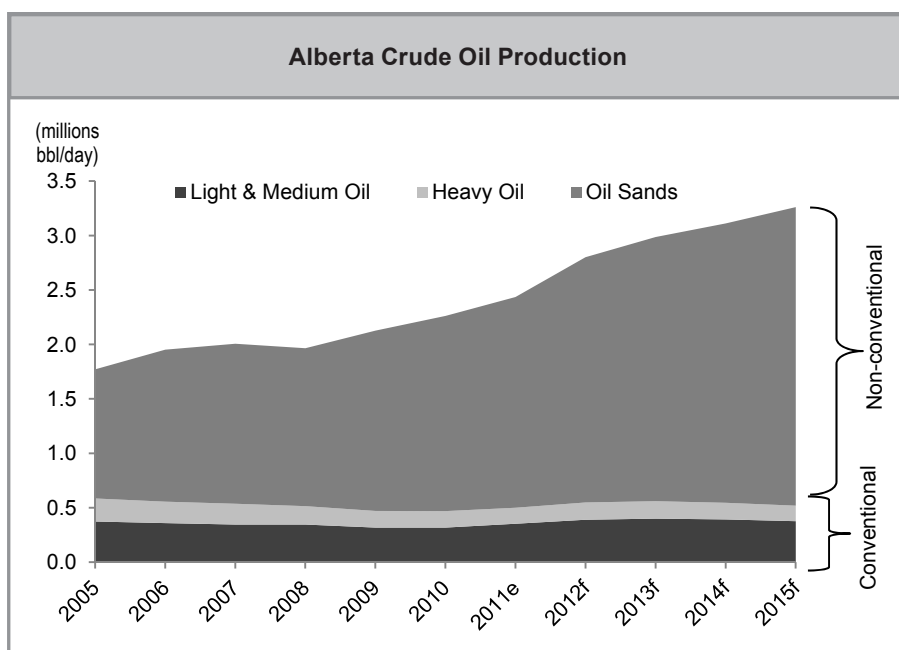
Stronger oil prices and falling supplies of conventional oil make oil sands a sought after resource. Oil sands investment increased to an estimated \$14 billion in 2011 according to The Energy Resources Conservation Board (ERCB). Investment in the oil sands will rise markedly over the medium term and is projected to surpass its 2008 peak by 2013.



Source: Energy Resources Conservation Board

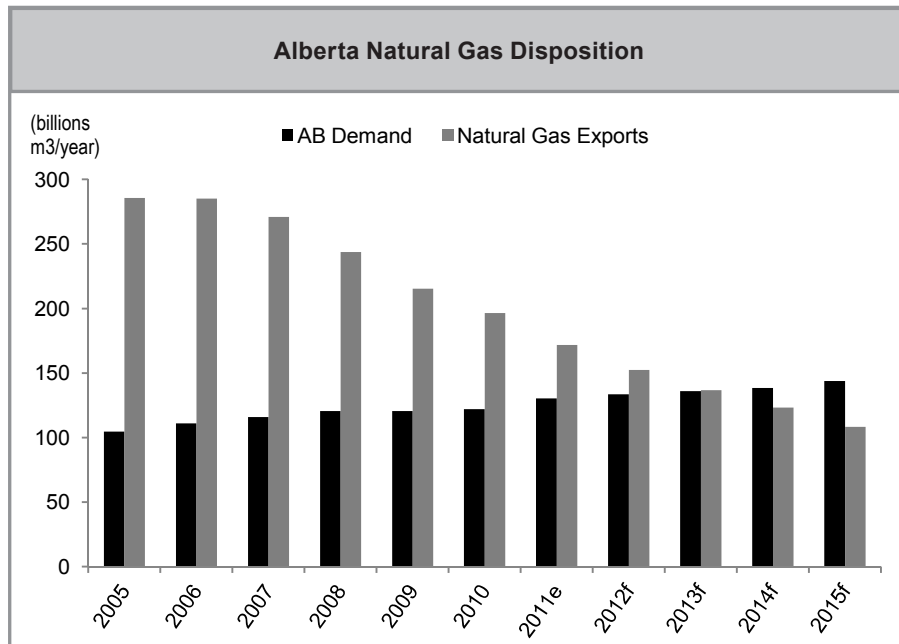
Oil production rises to new heights

Alberta oil production rose by an estimated 8% in 2011, with more than 80% of this growth coming from the oil sands. After years of declines, conventional production has staged a rally since 2010 due to the expansion of multistage fracturing techniques targeting tight oil plays in Alberta. However, with the decline in conventional oil reserves, oil sands is expected to be the province's main contributor to growth in total oil production going forward.



Source: Energy Resources Conservation Board

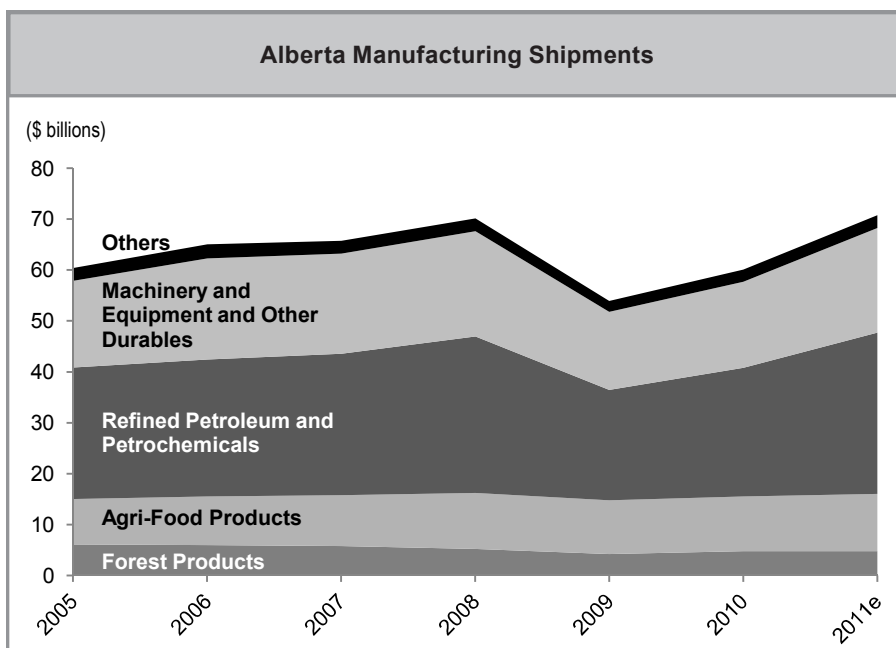
Gas exports trending down due to US supply glut



Source: Energy Resources Conservation Board

Alberta natural gas exports continue to decrease, falling an estimated 13% in 2011, as shale gas production in the US continues to displace Alberta imports. Alberta's domestic demand for natural gas is expected to grow, as expanding oil sands production depends on natural gas as a source of electricity and steam generation. Alberta demand is expected to exceed gas exports by 2013-14.

Manufacturing sales near pre-recession peak

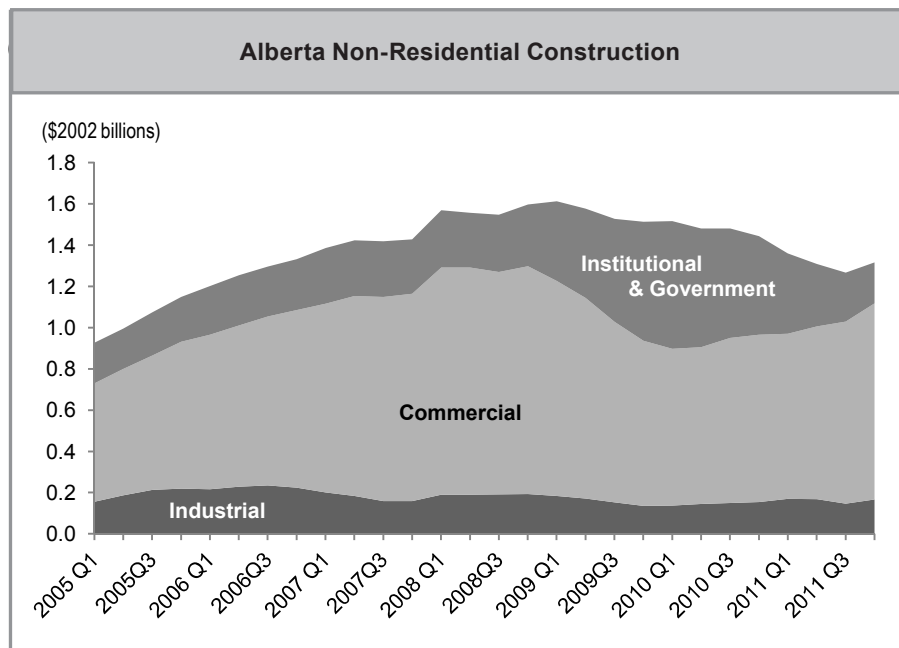


Source: Statistics Canada

Manufacturing shipments continue to recover, approaching their monthly pre-recession peak by late 2011, led by gains in petroleum and coal, petrochemical and machinery and equipment. While manufacturing companies will continue to be challenged by a strong Canadian dollar and moderate external demand, they should benefit from growth in the energy and agriculture sectors.

Non-residential investment has been held back by the institutional and government sectors, as many large capital projects were completed and not replaced with new spending. With permits up sharply over last year, 2012 is set to be a rebound year for non-residential construction.

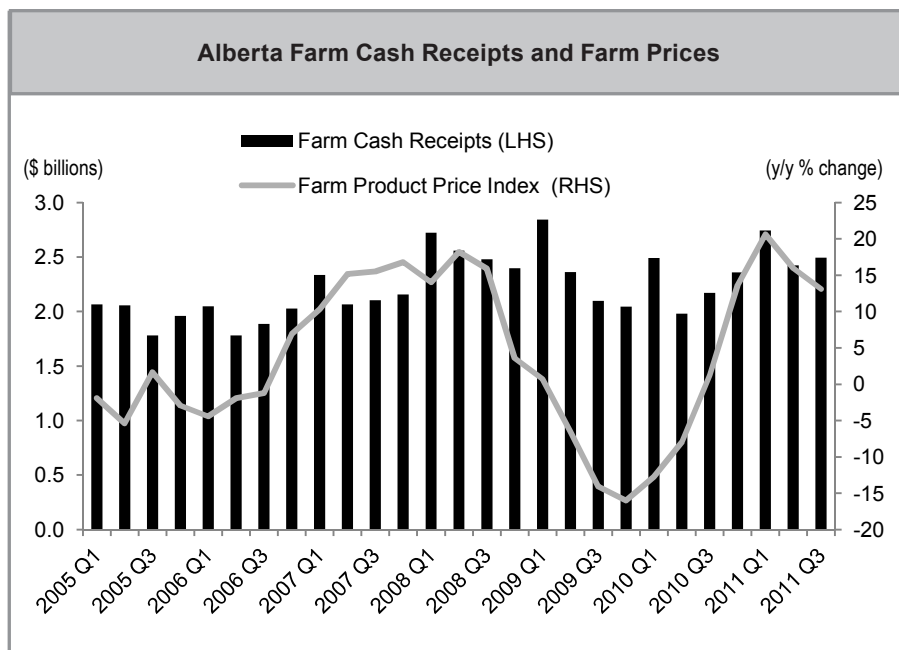
Government spending weighs on non-residential construction



Source: Statistics Canada

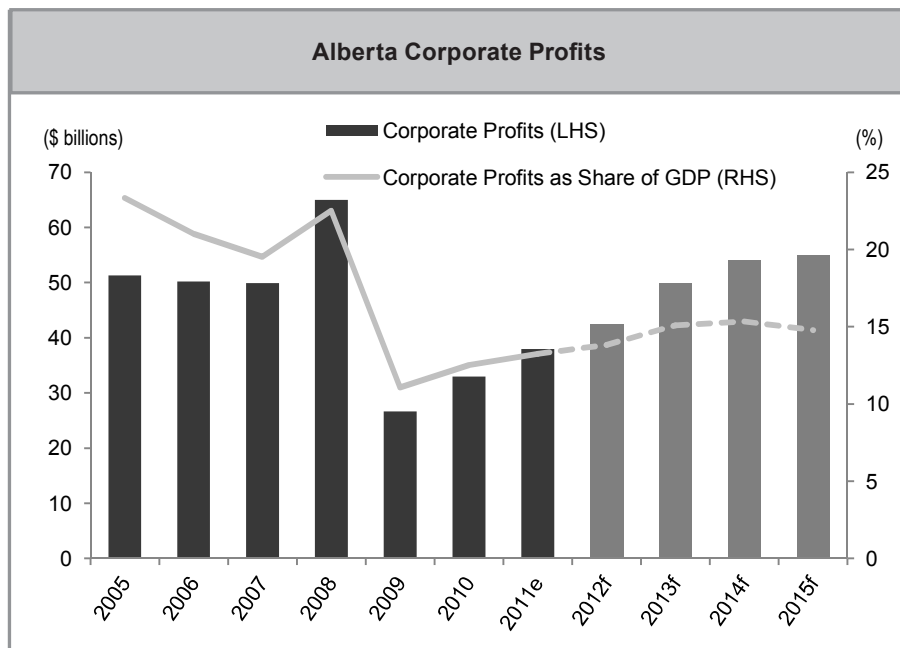
Lifted by higher agricultural prices, farm cash receipts have bounced back to gain an estimated 15% in 2011 after a slight drop in 2010. Farmers will continue to benefit from elevated prices, and agricultural exports are expected to gain strength in 2012.

Alberta farmers benefit from higher crop and livestock prices



Source: Statistics Canada

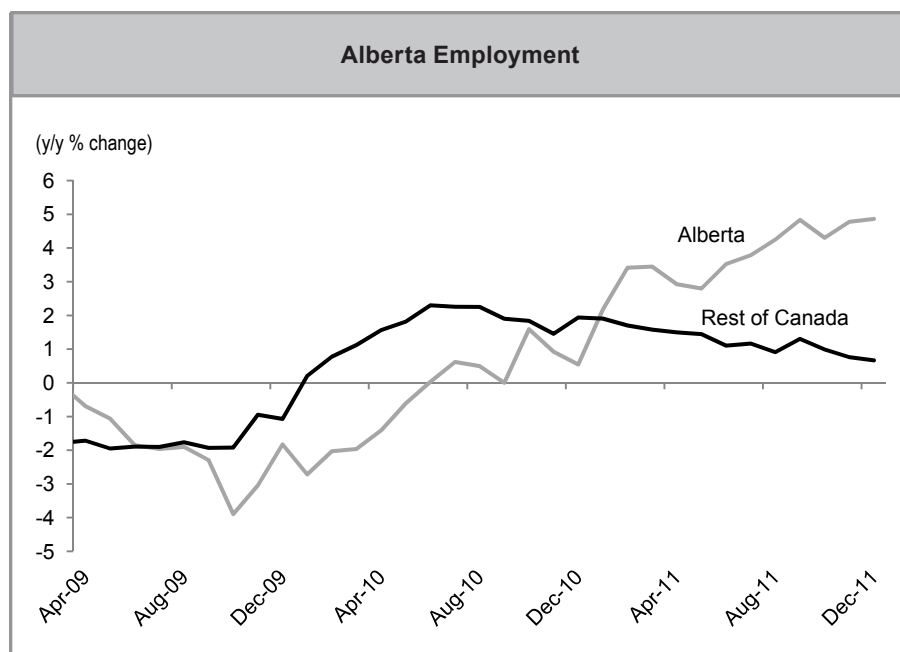
Corporate profits rebound sharply



Sources: Statistics Canada and Alberta Finance

After plummeting in 2009, corporate profits have staged an impressive rally in Alberta, lifted by stronger demand and improvements in oil, food and manufacturing prices. Corporate profits are expected to average around 15% of nominal GDP over the medium term, close to their historical average.

Alberta job creation gains momentum, bucking national trend

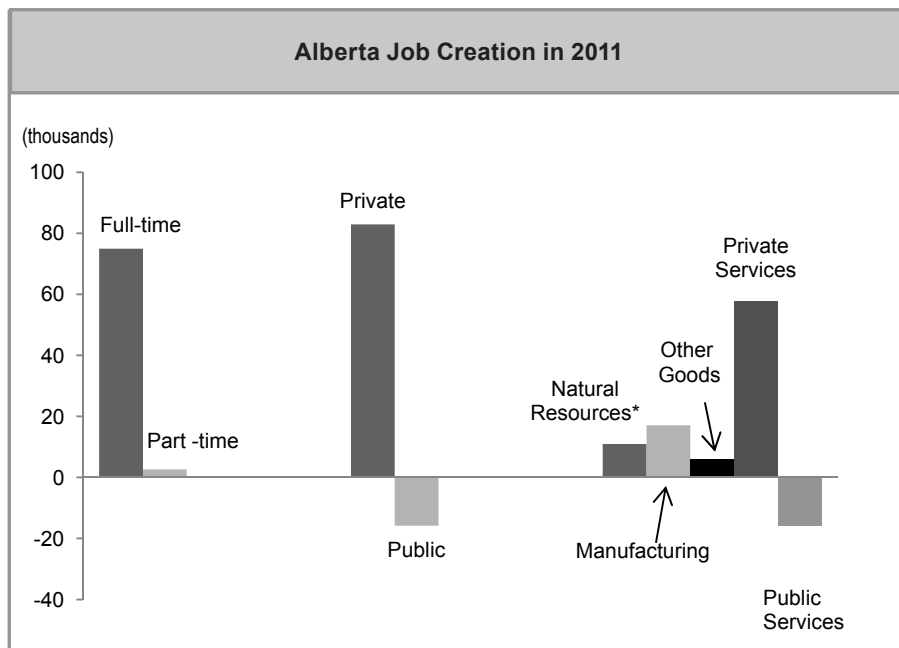


Source: Statistics Canada

As employment growth in the rest of Canada lost steam in late 2011, Alberta has bucked the softening trend and powered ahead. Average employment was up 3.8% for the year, the fastest growth in the country. In December 2011 a record 2,131,000 Albertans were working, up about 99,000 from December 2010.

Full-time, private sector positions drive overall gains

In addition to employment gains across a variety of sectors, the province has also created high quality jobs, with over 95% of the new jobs in full-time positions. Additionally, all the employment gains have been in the private sector, more than offsetting public sector losses.

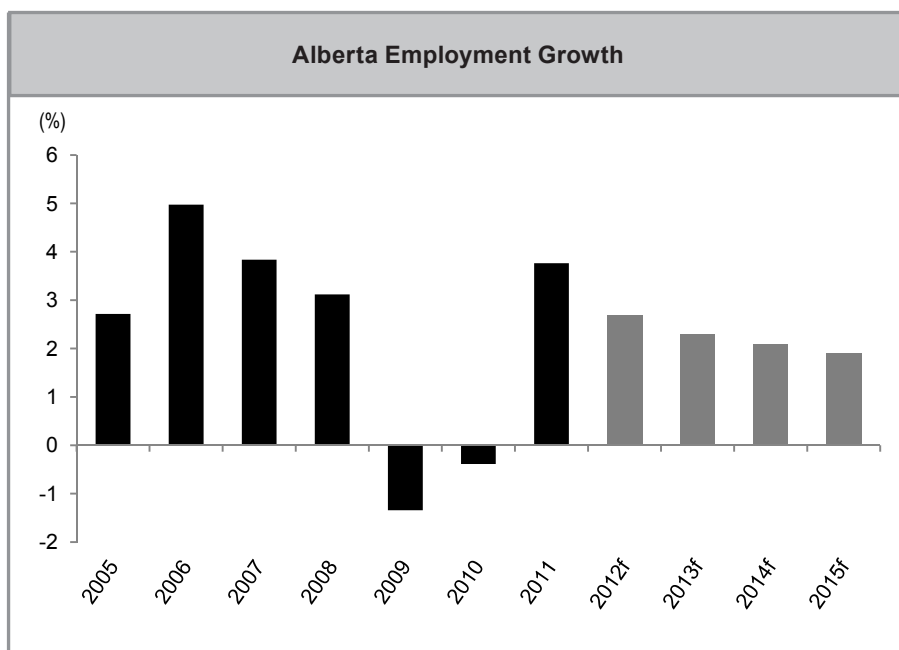


Source: Statistics Canada

* Includes forestry, fishing, mining, oil and gas

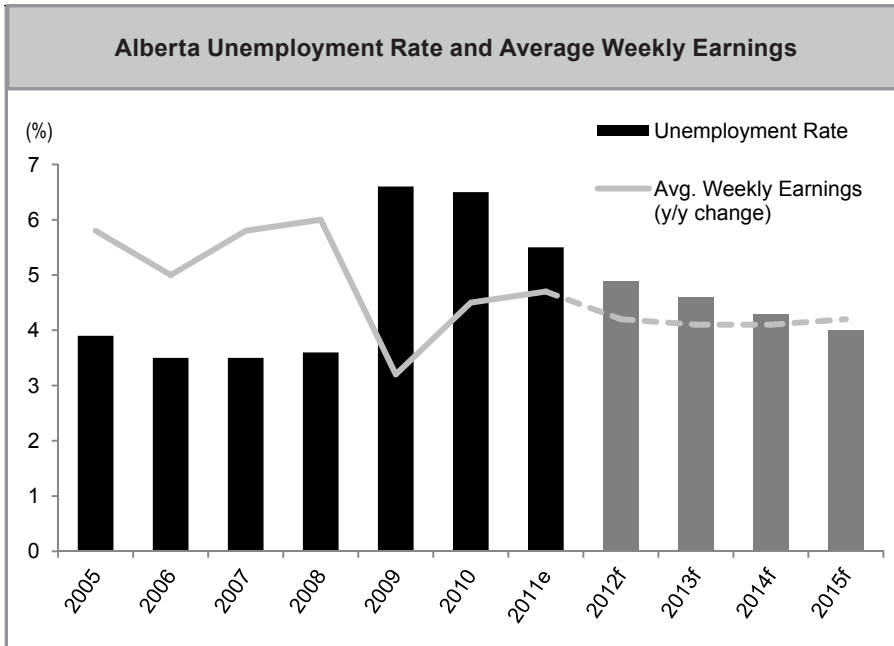
Pace of job creation to moderate, but remain strong

The momentum from Alberta's spectacular employment growth in 2011 is expected to continue into 2012, with a 2.7% increase in employment forecast. Over the medium term, job growth is expected to downshift to near 2% per year.



Sources: Statistics Canada and Alberta Finance

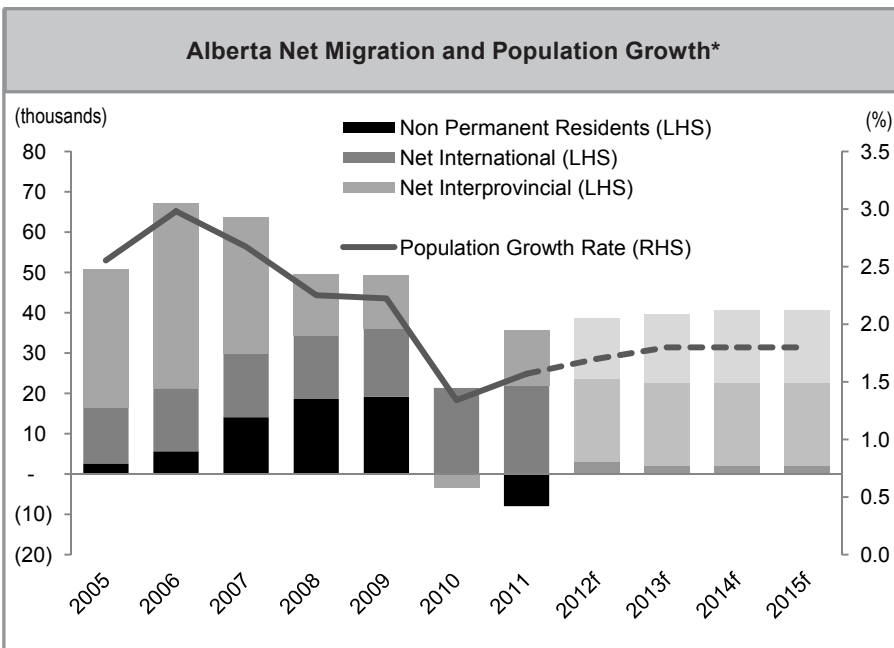
A tightening of the labour market pushes up wages



Sources: Statistics Canada and Alberta Finance

Driven by continuing job gains, the unemployment rate is expected to average 4.9% in 2012 and decline further to 4.6% by 2013. With an unemployment rate below 5% the economy will face labour shortages. Albertans earn the highest wages in the country with average weekly earnings at close to \$1,050, nearly 20% higher than the national average. As the labour market tightens, wages are expected to rise further.

Jobs attract new wave of migrants, boosting population



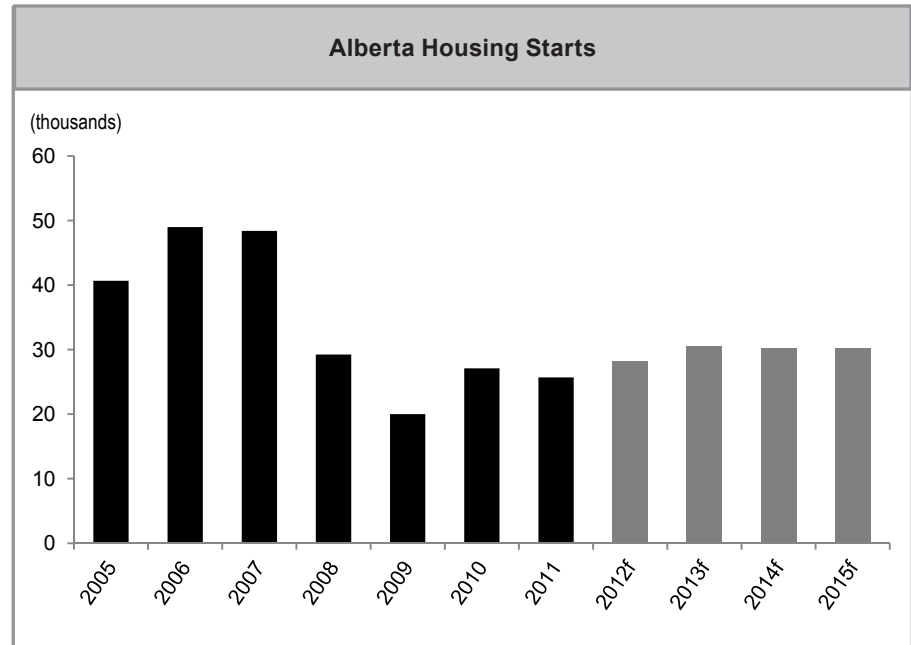
Sources: Statistics Canada and Alberta Finance

* By census year

Job opportunities are attracting new residents to Alberta. After net outflows of interprovincial migrants in 2010, Alberta once again gained people from other provinces in 2011. Alberta is expected to gain 15,000 people from other provinces in 2012, rising to 18,000 per year over the medium term. The overall population is expected to grow by 1.8% per year between 2012 and 2015, well above the national average of about 1%. Alberta is currently home to close to 3.8 million people, and this number is forecast to grow to over 4 million by 2015.

After a slow start to the year, Alberta's housing starts have picked up heading into 2012. With net inflows of new migrants, personal income gains and low interest rates, starts are forecast to rise about 2,500 units to over 28,000 in 2012 before reaching about 30,000 per year over the medium term.

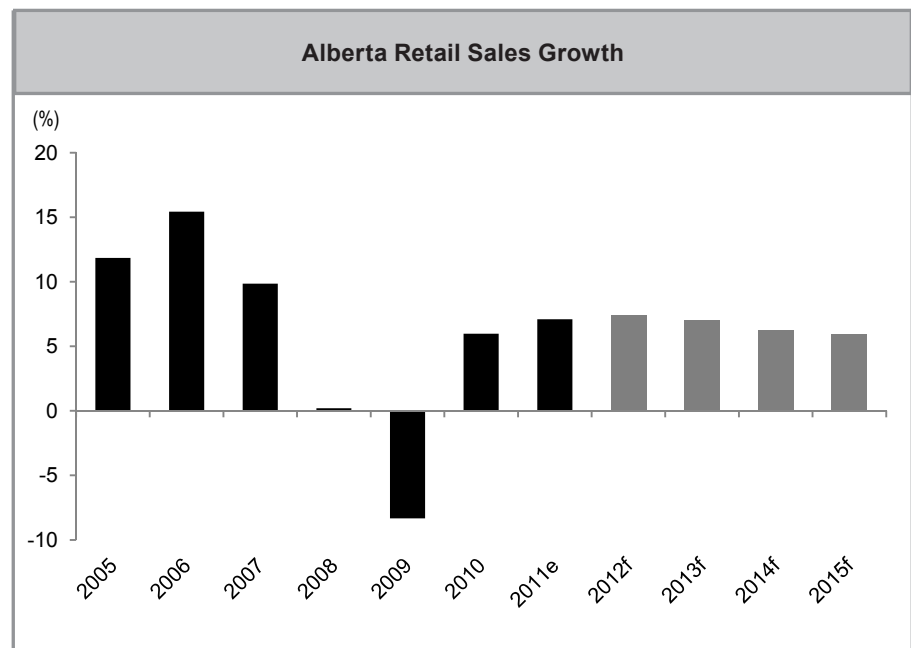
Housing market stabilizes after boom years



Sources: Canada Mortgage and Housing Corporation and Alberta Finance

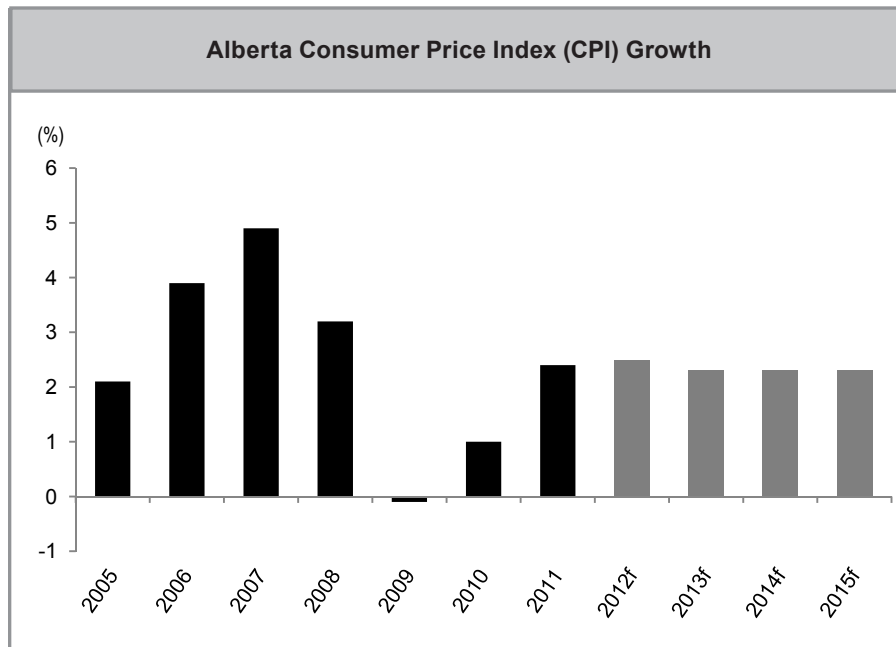
Retail sales have benefited from strong wage and employment gains, climbing by an estimated 7.1% in 2011, nearly double the national average, and the strongest growth since 2007. Albertans will continue to spend, with growth in retail sales expected to remain robust at around 6% per year through to 2015, as wages and salaries continue to rise.

Retail sales strengthen on job and income gains



Sources: Statistics Canada and Alberta Finance

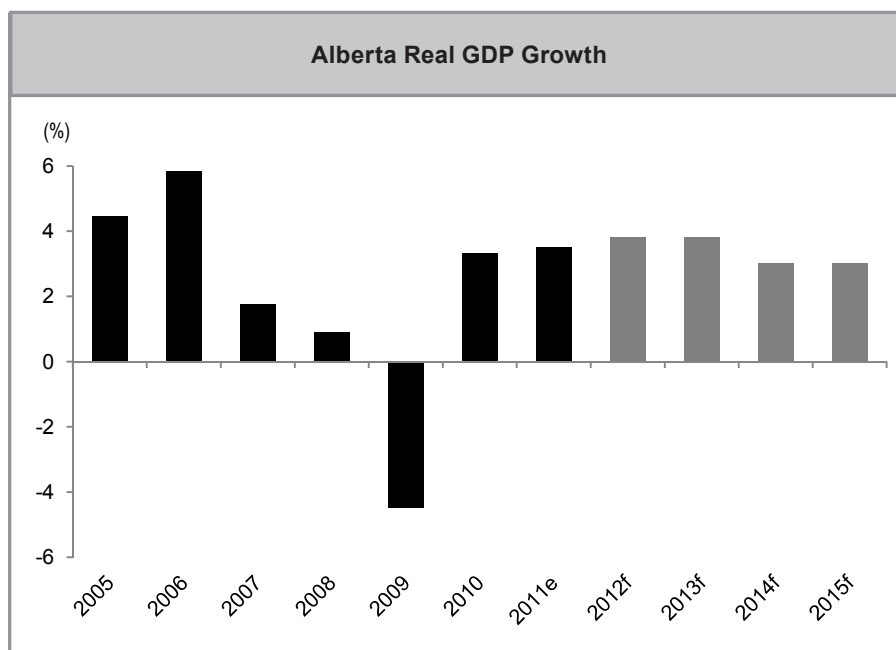
Inflation moves higher, but stays contained



Sources: Statistics Canada and Alberta Finance

The Consumer Price Index (CPI) inflation rate came in at 2.4% in 2011, up from 1.0% in the prior year. The uptick was in large part caused by a jump in electricity and energy prices. Inflation is expected to remain almost unchanged at 2.5% in 2012. Over the medium term, annual inflation is expected to come in near 2.3%, reflecting strong economic growth. However, cost pressures will remain largely contained through the forecast horizon, as global and national inflationary pressures stay muted.

Alberta's economy to post solid growth



Sources: Statistics Canada and Alberta Finance

Alberta's economy is forecast to grow by 3.8% in 2012 and 2013 after posting a 3.5% estimated gain in 2011. This solid growth is more sustainable than the highs seen in the boom years, and well above the forecast gain for both the US and Canadian economies. Investment in the oil sector, exports and consumers are expected to be the growth drivers in the province.

RISKS TO THE ECONOMIC OUTLOOK

- ✧ The small, but serious, risk of a financial crisis starting in the Eurozone could have far reaching implications for the global banking system. As witnessed in 2009, tighter financing conditions and lower oil prices could potentially put capital projects on hold.
- ✧ A severe deceleration in emerging markets could pose a risk to global economic growth. There are fears of possible asset price bubbles in China, the bursting of which could lead to problems in the Chinese banking system. Additionally, China's currency is seen to be undervalued and in a slower growth environment, currency tensions could disrupt global trade.
- ✧ The US fiscal situation also poses a risk to the outlook; too much austerity could push the US into recession, and not enough could test the patience of bondholders as they await a fiscal consolidation plan from the federal government.
- ✧ The Canadian dollar remains elevated, buoyed by high commodity prices and Canada's relatively strong economic position. An appreciation of the Canadian dollar could hurt Alberta exporters.
- ✧ Large increases in oil prices undermine global economic growth. Should supply disruptions lead to such price spikes, the global economy will suffer.
- ✧ Over the medium term, access to markets for Alberta's exports could be constrained, limiting Alberta's continued economic growth.
- ✧ A further tightening in Alberta's labour market could worsen labour shortages, driving up costs and hurting competitiveness.
- ✧ Upside risks to the outlook include stronger than forecast growth in the US and a timely resolution to the Eurozone debt crisis.

Sensitivities to Fiscal Year Assumptions, 2012–13^a

(millions of dollars)

	Change	Net Impact (2012-13)
Oil Price (WTI US\$/bbl)	-\$1.00	-223
Natural Gas Price (Cdn\$/GJ)	-10 Cents	-28
Exchange Rate (US\$/Cdn\$)	+ 1 Cent	-247
Interest Rates	+1%	-223
Personal Income	-1%	-119

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

Oil Price Benchmark

West Texas Intermediate (US\$/bbl)

Organization	2012	2013	2014	2015
National Forecasting Agencies				
Conference Board of Canada (Jan/12)	99.64	106.91	112.24	117.47
IHS Global Insight (Jan/12)	91.00	107.88	115.44	104.50
Centre for Spatial Economics (Jan/12)	91.00	95.01	99.48	103.50
Banks and Investment Dealers				
BMO Capital Markets (Dec/11)	95.00	98.00	n/a	n/a
Credit Suisse (Jan/12)	99.00	113.00	117.75	84.00
Deutsche Bank (Jan/12)	105.00	113.00	117.00	n/a
CIBC World Markets (Oct/11)	92.00	n/a	n/a	n/a
Goldman Sachs (Jan/12)	120.00	130.00	85.00	85.00
JP Morgan (Dec/11)	107.00	118.00	n/a	n/a
National Bank Financial (Jan/12)	95.00	90.00	90.00	90.00
Peters & Co. Limited (Jan/12)	102.20	99.84	95.40	95.40
RBC Capital Markets (Jan/12)	100.00	106.00	100.00	100.00
Scotiabank (Jan/12)	100.00	105.00	n/a	n/a
Toronto Dominion Bank (Dec/11)	95.00	103.75	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Jan/12)	100.25	103.75	n/a	n/a
GLJ Petroleum Consultants (Jan/12)	97.00	100.00	100.00	100.00
Sproule Associates Limited (Dec/11)	98.07	94.90	92.00	97.42
Confidential Forecasts Provided to Alberta Energy^a				
Average	99.71	105.42	110.69	111.27
High	120.00	130.00	129.50	137.75
Low	91.00	90.00	85.00	84.00
Average of All Private Forecasts	99.38	105.35	105.20	102.81
Alberta Government (calendar year)	98.71	104.52	108.07	108.46

^a The Alberta Department of Energy also surveys, on a confidential basis, private sector forecasts from CERI, PIRA, KBC, Petral, Purvin & Gertz, 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 16, 2012.

How Oil Price Forecasters Did in Budget 2011

Organization	How did they do in Budget 2011?
National Forecasting Agencies (3)	86.49
Banks and Investment Dealers (11)	90.15
Industry Analysts (3)	89.94
Confidential Forecasts (8)	88.88
Average	89.28
Alberta Government (calendar year)	88.06
Actual	95.15

Both the Government of Alberta and the private sector underestimated oil prices for 2011, by 8% and 7% respectively.

Sources: Alberta Finance and Alberta Energy.

Natural Gas Price Benchmark

Henry Hub (US\$/MMBTU)^a

Organization	2012	2013	2014	2015
National Forecasting Agencies				
Conference Board of Canada (Jan/12)	4.04	4.72	5.24	5.84
IHS Global Insight (Jan/12)	3.34	4.27	4.90	5.08
Centre for Spatial Economics (Jan/12)	4.12	4.31	4.45	4.58
Banks and Investment Dealers				
BMO Capital Markets (Dec/11)	3.80	4.25	n/a	n/a
Credit Suisse (Jan/12)	3.50	4.70	5.10	5.50
Deutsche Bank (Jan/12)	3.50	4.25	4.50	n/a
CIBC World Markets (Oct/11)	4.50	n/a	n/a	n/a
JP Morgan (Nov/11)	4.10	4.75	n/a	n/a
National Bank Financial (Jan/12)	3.25	3.75	4.50	4.50
Peters & Co. Limited (Jan/12)	3.10	3.81	4.61	4.61
RBC Capital Markets (Jan/12)	4.00	4.75	6.00	6.00
Scotiabank (Jan/12)	3.50	4.25	n/a	n/a
Toronto Dominion Bank (Dec/11)	4.00	4.50	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Jan/12)	3.53	4.14	n/a	n/a
GLJ Petroleum Consultants (Jan/12)	3.80	4.50	5.00	5.50
Sproule Associates Limited (Dec/11)	3.55	4.18	4.54	5.95
Confidential Forecasts Provided to Alberta Energy^b				
Average	3.41	3.89	4.80	5.06
High	4.50	4.75	6.00	6.00
Low	3.10	2.75	4.45	4.50
Average of All Private Forecasts	3.66	4.25	4.86	5.23
Alberta Government (calendar year)	3.62	4.20	4.99	5.39

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

^b The Alberta Department of Energy also surveys, on a confidential basis, private sector forecasts from PIRA, Petral, 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 16, 2012.

How Natural Gas Price Forecasters Did in Budget 2011

Henry Hub (US\$/MMBTU)

Both the Government of Alberta and the private sector overestimated natural gas prices for 2011, by 4% and 8% respectively.

Organization	How did they do in Budget 2011?
National Forecasting Agencies (3)	4.26
Banks and Investment Dealers (10)	4.56
Industry Analysts (3)	4.36
Confidential Forecasts (4)	4.12
Average	4.40
Alberta Government (calendar year)	4.22
Actual	4.04

Sources: Alberta Finance and Alberta Energy.

Canadian Short-Term Interest Rate Benchmark

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

Organization	2012	2013	2014	2015
National Forecasting Agencies				
Conference Board of Canada (Jan/12)	1.00	1.80	3.10	3.80
IHS Global Insight (Jan/12)	0.95	1.56	2.50	3.63
Centre for Spatial Economics (Jan/12)	1.10	1.10	2.00	2.50
Banks				
BMO Capital Markets (Jan/12)	0.82	1.22	n/a	n/a
CIBC World Markets (Dec/11)	0.93	n/a	n/a	n/a
RBC Royal Bank (Jan/12)	1.30	2.10	n/a	n/a
Scotiabank (Jan/12)	0.95	1.89	n/a	n/a
Toronto Dominion Bank (Dec/11)	0.94	1.95	n/a	n/a
Laurentian Bank (Jan/12)	0.93	n/a	n/a	n/a
High	1.30	2.10	3.10	3.80
Low	0.82	1.10	2.00	2.50
Average of All Private Forecasts	0.99	1.66	2.53	3.31
Alberta Government (calendar year)	1.00	1.40	2.75	3.25

Includes forecasts finalized on or before January 16, 2012.

Canadian Long-Term Interest Rate Benchmark

10-Year Government of Canada Bonds (per cent)

Organization	2012	2013	2014	2015
National Forecasting Agencies				
Conference Board of Canada (Jan/12)	2.00	2.40	3.20	3.90
IHS Global Insight (Jan/12)	2.48	2.99	3.73	4.75
Centre for Spatial Economics (Jan/12)	2.60	2.70	3.80	4.00
Banks				
BMO Capital Markets (Jan/12)	2.16	3.04	n/a	n/a
CIBC World Markets (Dec/11)	2.48	n/a	n/a	n/a
RBC Royal Bank (Jan/12)	2.55	3.25	n/a	n/a
Scotiabank (Jan/12)	2.36	3.15	n/a	n/a
Toronto Dominion Bank (Dec/11)	2.53	3.49	n/a	n/a
Laurentian Bank (Jan/12)	2.30	n/a	n/a	n/a
High	2.60	3.49	3.80	4.75
Low	2.00	2.40	3.20	3.90
Average of All Private Forecasts	2.38	3.00	3.58	4.22
Alberta Government (calendar year)	2.60	3.25	4.00	4.25

Includes forecasts finalized on or before January 16, 2012.

Canada / United States Exchange Rate Benchmark

(US¢/Cdn\$)

Organization	2012	2013	2014	2015
National Forecasting Agencies				
Conference Board of Canada (Jan/12)	99.4	101.8	102.9	102.0
IHS Global Insight (Jan/12)	97.6	98.2	98.9	95.8
Centre for Spatial Economics (Jan/12)	97.2	95.0	93.3	92.7
Banks				
BMO Capital Markets (Jan/12)	96.6	101.0	n/a	n/a
CIBC World Markets (Dec/11)	96.0	n/a	n/a	n/a
RBC Royal Bank (Jan/12)	100.0	n/a	n/a	n/a
Scotiabank (Jan/12)	100.0	103.0	n/a	n/a
Toronto Dominion Bank (Dec/11)	92.3	99.5	n/a	n/a
Laurentian Bank (Jan/12)	100.25	n/a	n/a	n/a
High	100.3	103.0	102.9	102.0
Low	92.3	95.0	93.3	92.7
Average of All Private Forecasts	97.7	99.8	98.4	96.8
Alberta Government (calendar year)	98.4	99.0	99.0	99.0

Includes forecasts finalized on or before January 16, 2012.

Alberta Real Gross Domestic Product Benchmark

(per cent change)

Organization	2012	2013	2014	2015
National Forecasting Agencies				
Conference Board of Canada (Oct/11)	3.6	4.5	3.7	3.3
IHS Global Insight (Jan/12)	2.7	3.2	3.7	3.5
Centre for Spatial Economics (Jan/12)	2.6	2.3	1.5	2.5
Banks				
BMO Capital Markets (Jan/12)	2.8	3.1	n/a	n/a
CIBC World Markets (Jan/12)	3.2	3.0	n/a	n/a
RBC Royal Bank (Dec/11)	3.9	3.8	n/a	n/a
Scotiabank (Jan/12)	3.1	3.3	n/a	n/a
Toronto Dominion Bank (Jan/12)	2.6	2.9	n/a	n/a
Laurentian Bank (Dec/11)	2.8	3.1	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Nov/11)	3.5	n/a	n/a	n/a
High	3.9	4.5	3.7	3.5
Low	2.6	2.3	1.5	2.5
Average of All Private Forecasts	3.1	3.2	3.0	3.1
Alberta Government (calendar year)	3.8	3.8	3.0	3.0

Includes forecasts finalized on or before January 17, 2012.

Alberta Personal Income Benchmark

(per cent change)

Organization	2012	2013	2014	2015
Conference Board of Canada (Oct/11)	6.3	5.8	5.2	5.1
IHS Global Insight (Jan/12)	4.6	5.6	6.3	5.4
Centre for Spatial Economics (Jan/12)	3.4	2.9	1.5	3.2
Toronto Dominion Bank (Jan/12)	3.6	4.5	n/a	n/a
High	6.3	5.8	6.3	5.4
Low	3.4	2.9	1.5	3.2
Average of All Private Forecasts	4.5	4.7	4.3	4.6
Alberta Government (calendar year)	6.2	6.0	6.3	6.2

Note: Total personal income is used as opposed to per capita personal income. Includes forecasts finalized on or before January 16, 2012.

Alberta Corporate Profits Benchmark

(per cent change)

Organization	2012	2013	2014	2015
Conference Board of Canada (Oct/11)	8.2	10.2	5.5	4.4
IHS Global Insight (Jan/12)	6.5	3.6	8.7	8.6
Centre for Spatial Economics (Jan/12)	3.7	10.6	9.7	7.2
Toronto Dominion Bank (Jan/12)	-9.1	0.5	n/a	n/a
High	8.2	10.6	9.7	8.6
Low	-9.1	0.5	5.5	4.4
Average of All Private Forecasts	2.3	6.2	8.0	6.7
Alberta Government (calendar year)	11.8	17.5	8.4	1.7

Includes forecasts finalized on or before January 16, 2012.

Alberta Housing Starts Benchmark

(thousands)

Organization	2012	2013	2014	2015
National Forecasting Agencies				
Conference Board of Canada (Oct/11)	28.2	29.9	30.9	30.6
IHS Global Insight (Jan/12)	27.0	26.8	27.2	26.7
Centre for Spatial Economics (Jan/12)	28.2	30.1	27.9	26.3
Banks				
BMO Capital Markets (Jan/12)	25.5	29.5	n/a	n/a
CIBC World Markets (Aug/11)	27.0	n/a	n/a	n/a
RBC Royal Bank (Dec/11)	31.0	32.0	n/a	n/a
Scotiabank (Jan/12)	26.0	28.0	n/a	n/a
Toronto Dominion Bank (Jan/12)	25.8	26.2	n/a	n/a
Laurentian Bank (Dec/11)	28.0	29.0	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Nov/11)	29.2	n/a	n/a	n/a
High	31.0	32.0	30.9	30.6
Low	25.5	26.2	27.2	26.3
Average of All Private Forecasts	27.6	28.9	28.7	27.9
Alberta Government (calendar year)	28.2	30.6	30.3	30.3

Includes forecasts finalized on or before January 16, 2012.

Alberta Employment Benchmark

(per cent change)

Organization	2012	2013	2014	2015
National Forecasting Agencies				
Conference Board of Canada (Oct/11)	3.9	2.4	2.0	1.8
IHS Global Insight (Jan/12)	2.1	1.8	1.7	1.4
Centre for Spatial Economics (Jan/12)	1.4	1.4	0.6	1.6
Banks				
BMO Capital Markets (Jan/12)	2.7	1.8	n/a	n/a
CIBC World Markets (Aug/11)	2.0	n/a	n/a	n/a
RBC Royal Bank (Dec/11)	3.1	2.5	n/a	n/a
Scotiabank (Jan/12)	2.0	1.7	n/a	n/a
Toronto Dominion Bank (Jan/12)	1.5	1.8	n/a	n/a
Laurentian Bank (Dec/11)	1.3	2.0	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Nov/11)	2.3	n/a	n/a	n/a
High	3.9	2.5	2.0	1.8
Low	1.3	1.4	0.6	1.4
Average of All Private Forecasts	2.2	1.9	1.4	1.6
Alberta Government (calendar year)	2.7	2.3	2.1	1.9

Includes forecasts finalized on or before January 16, 2012.

Alberta Unemployment Rate Benchmark

(per cent)

Organization	2012	2013	2014	2015
National Forecasting Agencies				
Conference Board of Canada (Oct/11)	5.1	4.7	4.3	4.0
IHS Global Insight (Jan/12)	5.2	4.7	4.6	4.5
Centre for Spatial Economics (Jan/12)	5.5	5.6	6.0	5.5
Banks				
BMO Capital Markets (Jan/12)	5.0	4.7	n/a	n/a
CIBC World Markets (Aug/11)	5.2	n/a	n/a	n/a
RBC Royal Bank (Dec/11)	5.0	4.7	n/a	n/a
Scotiabank (Jan/12)	5.0	4.5	n/a	n/a
Toronto Dominion Bank (Jan/12)	5.0	4.8	n/a	n/a
Laurentian Bank (Dec/11)	5.5	5.6	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Nov/11)	5.1	n/a	n/a	n/a
High	5.5	5.6	6.0	5.5
Low	5.0	4.5	4.3	4.0
Average of All Private Forecasts	5.2	4.9	5.0	4.7
Alberta Government (calendar year)	4.9	4.6	4.3	4.0

Includes forecasts finalized on or before January 16, 2012.