

ECONOMIC OUTLOOK



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Economic Outlook

Solid Growth for Alberta in 1998

After an exceptionally strong performance in 1997, Alberta's economy grew 3.1% in 1998 despite a twelve-year low in oil prices and sharp declines in other commodity prices, particularly in agriculture. Alberta continued to post solid gains in output last year because of our increasingly diversified economy. Strength in construction, transportation, business services and high technology industries resulted in broadly based employment gains. Alberta's booming labour market attracted record numbers of interprovincial migrants. The box below outlines some of the key highlights of 1998.

1998 in Review

- ◆ Alberta's real Gross Domestic Product is estimated to have increased by 3.1% in 1998. Because of the drop in oil prices, however, the value of Alberta's output rose only 0.3%.
- ◆ Oil prices declined from almost US\$23 per barrel in October 1997 to just under US\$11 per barrel in December 1998. As a result, rig activity was down 29% from its peak in 1997 and corporate profits fell in the energy sector. Non-energy investment, however, appears to have held up well, with the value of total non-residential building permits up 43%.
- ◆ Alberta's increasingly diversified economy created 57,100 new jobs. Broad-based gains came from the construction, business services, communications, retail trade and transportation sectors. Total employment grew 3.9%, the strongest increase in Canada. The pace of employment growth slowed in the fourth quarter, however, and the sharp drop in the Help Wanted Index suggests that employment growth is likely to continue slowing in 1999.
- ◆ Alberta's unemployment rate averaged 5.7% in 1998, the lowest since 1981, and well below the national unemployment rate of 8.3%.
- ◆ Average weekly earnings per worker increased by 2.3% in 1998 to \$614.58. The rate of growth was almost double the national average.
- ◆ A booming labour market attracted a record total of 46,787 new people to Alberta from other provinces in the year ending June 30, 1998. As a result, Alberta's population rose by 2.7% in 1998, the fastest in Canada.
- ◆ Strong population and employment growth helped boost retail sales 4.8% in 1998, compared to 4.3% growth for Canada overall. Alberta continues to have the highest level of retail sales per capita. Sales have been flat, however, since the summer of 1998.
- ◆ After growing by 42% in 1997, Alberta's housing starts grew by 15% in 1998, the fastest growth among the provinces. At 27,122 units, housing starts were at their highest annual level since 1981.

"The key to Alberta's economic resilience is diversification, which has occurred across a broad range of industries."

- Chief Economist,
Scotiabank

Asia Dominates the Global Outlook

Although Alberta's economy is faring relatively well, the fallout from the Asian crisis continues to dominate the global outlook. The crisis deepened and spread over the course of 1998, with Russia effectively defaulting on its foreign debt in August and Brazil going to the International Monetary Fund for a bailout in the fall. This has led to a series of downward revisions to growth forecasts for the global economy over the past year.

The crisis also unsettled financial markets. The Canadian dollar, which had fallen in response to low commodity prices, hit record lows in August as Russia's problems triggered a worldwide flight to quality, in particular, to U.S. dollar assets. The Bank of Canada reacted to the weakness in the Canadian dollar by raising short-term interest rates. These increases have since been largely unwound in the wake of interest rate cuts by the U.S. Federal Reserve, which were intended to calm financial markets and allay concerns of a global credit crunch.

Overall global prospects remain weak because of the ongoing recession in Japan, the problems in emerging markets, and financial market volatility. The outlook for the United States, Canada and Europe remains relatively good, however, although growth is expected to slow somewhat.

The U.S. economy is entering its ninth year of economic expansion. Growth is expected to moderate slightly to about 3.5% in 1999 from 3.9% in 1998. Weak export markets are expected to dampen manufacturing activity and investment.

The strength of the household sector continues to surprise economists, and could be further fuelled by recent record highs in the stock market. On the other hand, a major stock market correction and further fallout from the crisis in Latin America could weaken growth in the United States.

Low commodity prices and somewhat lower growth in its major trading partners are expected to reduce Canada's growth to 2.4% in 1999 from around 3% in 1998. Both the Organization for Economic Co-operation and Development and the International Monetary Fund expect Canada to have one of the fastest growth rates among the major industrialized countries in 1999.

Commodity Price Outlook Remains Weak

Anaemic global growth has been the major factor behind the ongoing weakness in world commodity prices, and the effects are expected to continue in 1999. In addition, oil prices have been weakened by OPEC's lack of cohesion and current high inventory levels.

Oil prices dropped steadily from their peak of US\$22.76 per barrel in October 1997 and finally bottomed out at US\$10.72 per barrel on December 10, 1998. Prices have since recovered slightly and oil was trading around the US\$12.50 per barrel mark in late February. Oil prices are forecast to average US\$13.50 per barrel for 1998-99 and 1999-2000, and then to recover gradually. While this is much weaker

The OECD and the IMF forecast Canada's economic growth to be among the fastest in the G-7 in 1999.

than the oil price forecast in the 1998 budget, a lower-than-expected Canadian dollar has offset some of the effects of lower U.S. dollar oil world prices.

Natural gas prices strengthened in 1998 and are expected to advance slightly again in 1999. Completion of the Northern Border and TransCanada pipeline expansions at the end of 1998 has allowed Alberta prices to converge with the higher prices prevailing in U.S. markets. The Alliance project, which is expected to come onstream in late 2000, will provide another boost to exports. Increased supplies of Canadian gas in the U.S. market are expected to lead to downward pressure on U.S. gas prices in 2000-01, which is expected to result in a small decline in Alberta prices.

Agriculture turned in a mixed performance in 1998. Wheat prices were down sharply from their 1996 peak, but the impact on farm incomes was partly offset by the strong performance of other crops, particularly canola. As a result, total crop farm cash receipts were down an estimated 7.5% in 1998. In the livestock sector, the impact of the collapse in hog prices on farm incomes was more than offset by gains in cattle receipts. For the industry as a whole, total farm cash receipts reached \$6.29 billion in 1998, down 1.3% from 1997. This is the third highest level on record, and second only to Ontario among the provinces.

Alberta Growth in 1999 Slower But Solid

Despite its greater exposure to low oil prices, Alberta is expected to grow at the same rate in 1999 as Canada, about 2.4%. Growth will be led by rising natural gas sales to the United States because of increased pipeline capacity. Non-oil and gas related investment is expected to remain healthy, while the positive effects of reduced taxes on disposable income should help maintain strength in consumer spending.

The Alberta GDP deflator, the broadest measure of Alberta output prices, declined an estimated 2.7% in 1998, largely as a result of the 30% decline in U.S. dollar world oil prices. With world oil prices expected to stabilize in 1999, Alberta output prices are expected to grow by a modest 1.7%, although the aggregate price level will remain below its average 1997 level. Growth in the nominal value of Alberta's output is forecast at 4.2%.

The Alberta economy is expected to create an additional 29,000 new jobs in 1999, an increase of 1.9%. The strongest sectors are expected to be business services and construction. Growth in the labour force, however, is expected to outpace employment growth because of continued strong interprovincial migration. The unemployment rate is thus projected to rise slightly to 6%. As growth slows in Canada, the national unemployment rate is also expected to rise slightly to 8.2% from its current level of 7.8%.

Growth in pre-tax personal income is expected to slow from 5.0% in 1998 to 3.9% in 1999 because of slower employment and wage growth. With the complete elimination of the 3% federal surtax on July 1, and federal and provincial increases in the basic exemption, after-tax personal income is expected to grow by 4.6% in 1999. The tax cuts, along with continued net in-migration and low interest rates,

"The (Conference) Board's numbers reflect the fact that business investment will drive growth in this province in the coming years."

**- Dean of Business,
University of
Alberta**

are expected to lead to growth in nominal consumer spending of about 3.8% as the savings rate rises to more normal levels. Residential construction is also expected to slow from near-record levels, with housing starts in Alberta falling by 9.3% to 24,600 units.

Continued low oil prices are expected to dampen growth in real business investment to around 3% in 1999, down from an estimated 4.8% in 1998. Although spending on conventional oil exploration and development will fall, the effects will be partially offset by continued high levels of spending on non-conventional oil projects, which are driven by the need to reduce costs and replace supply. Strong natural gas prices will also help moderate the decline in drilling activity. Total oil and gas investment is thus expected to fall by 5.1% in 1999, after dropping an estimated 13.5% in 1998.

Business investment will also be supported by several non-energy-related projects in the petrochemical (\$2.8 billion proposed) and forestry (\$1.2 billion proposed) sectors, as well as a significant amount of institutional, industrial and commercial construction activity currently underway. Non-residential building permits were up 43% in 1998, led by an 82% rise in commercial building permits and a 52% rise in institutional permits. Growth in real non-energy business investment is nonetheless expected to moderate from an estimated 30% in 1998 to around 11% in 1999.

For 1999, prospects for Alberta's agricultural sector are expected to improve, with continued growth in the cattle sector, and a moderate recovery for grains and hogs. Total farm cash receipts are expected to be slightly higher than in 1998.

The performance of the manufacturing sector was mixed in 1998. Investment within the sector was strong, buoyed by the expansion of petrochemical facilities. Real manufacturing exports were weak, however, due to low prices for petrochemicals and pulp and paper products, as well as reduced energy sector activity. This sector is expected to rebound in 1999, with real exports increasing 3.6%.

Investment and Trade Expected to Rebound over the Medium Term

Growth is expected to strengthen over the medium term, led by investment and exports. Over the medium-term, energy investment is expected to rebound to an average growth rate of 5.7% per year as oil prices recover. High levels of non-energy related investment should continue, with growth averaging 5.6% over the medium term. This will generate construction jobs over the next several years, as well as permanent jobs when production starts up. Exports should be boosted by production from newly completed oilsands, petrochemical plants and pipeline facilities.

Despite the current weakness in oil prices, plans to invest over \$21 billion to develop new oil sands projects and expand existing facilities over the next 5 to 10 years have been announced. Technological improvements and the generic provincial royalty regime for new oilsands projects have been major factors underlying this unprecedented increase in planned oil sands investment. In

Alberta "has genuinely taken advantage of the free trade agreement to obtain strong international footholds."

- Director
Western Centre for
Economic Research
University of
Alberta

addition, the anticipated increase in bitumen and synthetic crude oil production is expected to require expanded pipeline infrastructure to new markets. Pipeline projects totalling over \$6 billion have also been proposed.

As a result, oil and gas exports are expected to rise significantly over the forecast period. Production of bitumen and synthetic crude oil is expected to increase by over 40% over the next four years, more than offsetting anticipated declines in Alberta's conventional oil production. By 2002, non-conventional sources are expected to account for over 50% of Alberta's oil production. Oil exports are expected to increase 10% in 2002, when the additional synthetic production comes onstream. Natural gas exports are expected to increase by about 6% in 2001, as additional pipeline capacity becomes available.

Alberta's manufacturing sector will continue to be a major contributor to the Alberta economy over the medium term. Growth in new manufacturing investment is expected to slow from the current rapid pace, reflecting the completion of several projects by 2000. The completed projects, however, will lead to an average of 4% annual growth in exports of value-added products over the medium term. The increase in value-added exports is expected to come from sectors such as advanced technology products, food processing, forest products, and petrochemicals.

In addition to the \$500 million in tax cuts implemented since 1993, this budget announces a major re-structuring of Alberta's personal income tax system, which will continue to strengthen the Alberta Advantage. Restructuring the personal income tax system will have far-reaching effects on economic performance over the medium term as the changes are phased in. Reducing personal tax rates increases the returns from working and encourages more people to enter the labour force. It will help Alberta attract and retain highly skilled, highly mobile workers who might otherwise be tempted to move to lower tax jurisdictions, particularly in the United States. International experience also suggests that countries with lower tax rates tend to grow more quickly.

Alberta's low unemployment rate relative to Canada's will also continue to attract job seekers from other provinces. The new Albertans will need housing and consumer goods and services. Their spending will encourage business to expand and create more jobs.

All this will translate into solid economic growth over the medium term. The Alberta economy is forecast to grow by an average of about 4% per year between 2000 and 2002. Growth is expected to approach 5% in 2002 when the new tax plan is fully phased in, due to the combined effects of the tax cuts, increased production of non-conventional oil, and a strong rebound in energy investment. Employment over this period is expected to grow by an average of 2.4% per year.

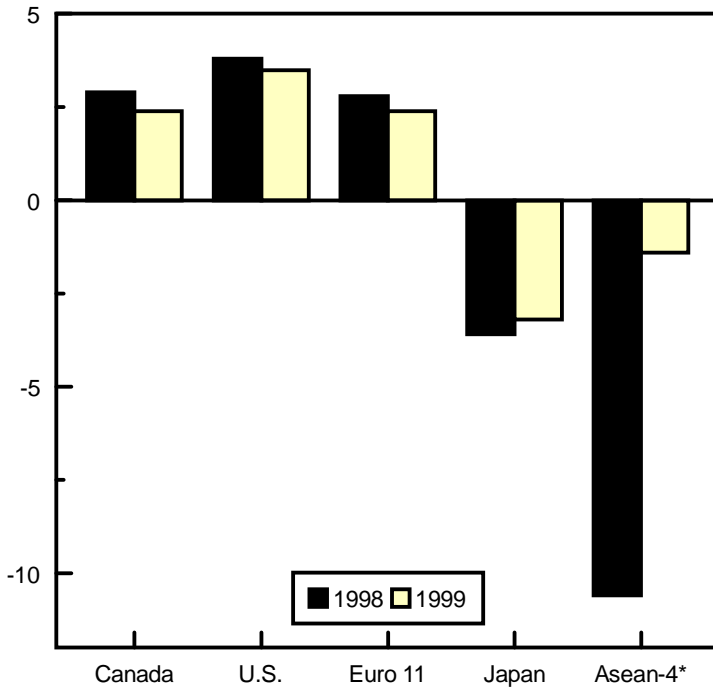
Tables are provided at the end of this section that set out Treasury's economic assumptions and benchmarks them to private sector forecasts. The Alberta government's economic growth forecast for 1999 is somewhat above the private sector average, as it takes into account recent budget initiatives by the federal and Alberta governments and the unexpected strength of the U.S. economy at the end of 1998.

"We see Alberta's economy as being one of the top performers in Canada...That comes in spite of the downturn in oil prices and reflects the fact that the province's economic fundamentals are very, very strong."

- Senior Vice President, Investment Dealers Association of Canada

Fall Out From Asia Continues

Real Gross Domestic Product (per cent change)



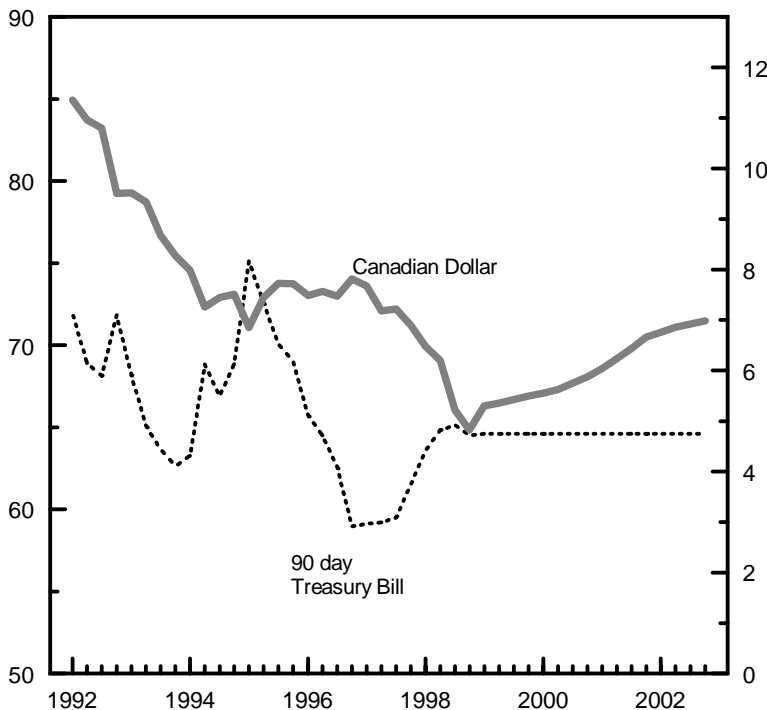
Source: Standard & Poor's DRI, IMF and Alberta Treasury
 * Asean-4 includes Malaysia, Thailand, Indonesia and the Philippines

- ◆ Although Alberta has fared quite well, the fallout from the Asian crisis continues to dominate the global outlook.
- ◆ Deep recessions in Japan and Southeast Asia have weakened the global demand for commodities and put downward pressure on prices.
- ◆ Although growth is expected to slow in Europe and North America, the outlook remains generally favourable because of the strong momentum in the United States.
- ◆ Trade is vital to Alberta's economy. Fortunately, most of our exports go to the rest of Canada and the United States.

Canadian Dollar Expected to Recover

(U.S. cents/Cdn\$)

(per cent)



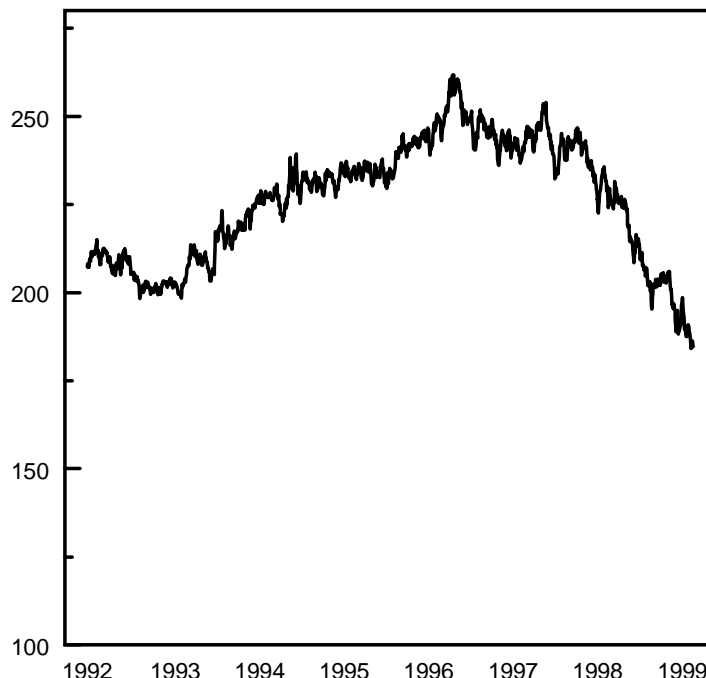
Source: Bank of Canada and Alberta Treasury

- ◆ Despite the spillover effects of the Asian crisis on world financial markets, Canadian interest rates have remained relatively low because of Canada's sound fundamentals – low inflation and success in eliminating federal and most provincial government deficits.
- ◆ Good fundamentals are also expected to lead to a stronger Canadian dollar as global growth picks up and oil prices recover.

Commodity Prices Have Dropped

CRB Futures Index (1967=100)

- ◆ With the sharp slowdown in world output growth that began in Southeast Asia in 1997, global commodity prices have dropped.
- ◆ Commodity prices are unlikely to recover significantly until global output growth strengthens in 2000.

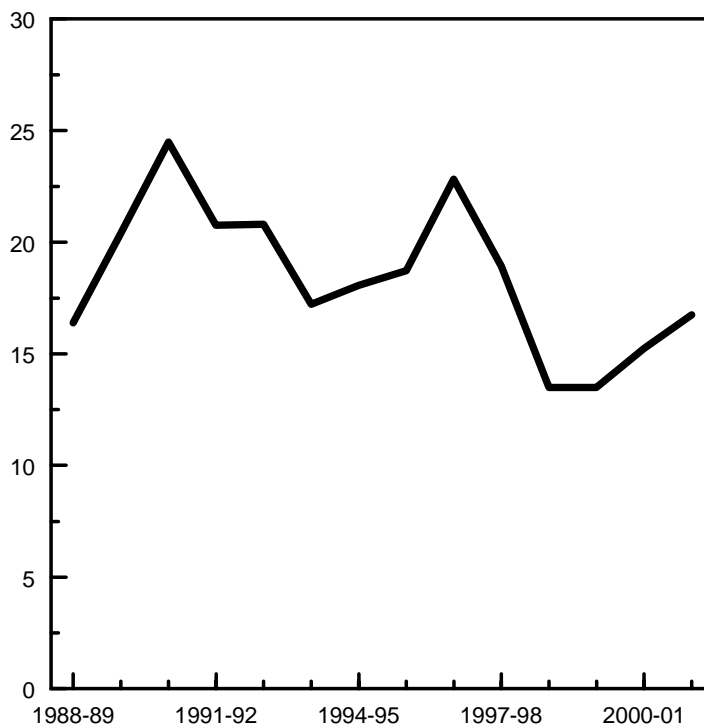


Includes energy, grains, oilseed, livestock, industrials, precious metals, cocoa, coffee, orange juice and sugar
Source: Bridge/Commodity Research Bureau

Oil Prices Lower in 1998

WTI Oil Price (US\$/bbl)

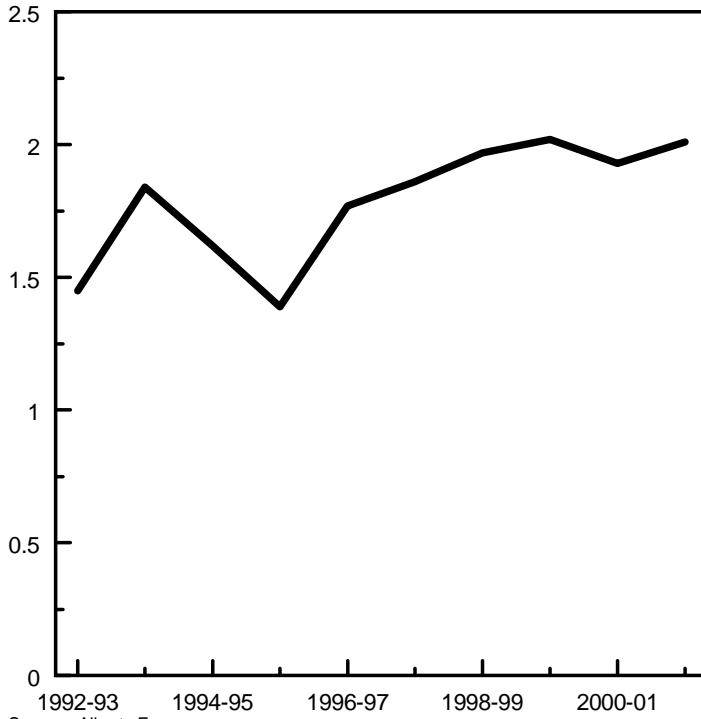
- ◆ Oil prices have been hit hard, falling from almost US\$23 per barrel in late 1997 to a recent low of just under US\$11 per barrel, their lowest level in the past 12 years.
- ◆ In addition to the slowdown in global demand, oil prices have been hurt by the lack of cohesion among OPEC producers and continued uncertainties over Iraqi production.
- ◆ These factors are likely to keep prices low in the near future. Oil prices are expected to average US\$13.50 per barrel in the 1999-2000 fiscal year, the same as in 1998-99.
- ◆ Prices are expected to recover slowly over the forecast period to US\$16.75 per barrel by 2001-02.



Source: Alberta Energy

Natural Gas Prices Strengthen

Alberta Reference Price (Cdn\$/mcf)



Source: Alberta Energy

- ◆ Natural gas prices have been relatively strong despite the overall weakness in commodity prices.
- ◆ With the recent expansion of pipeline capacity and the rising exports to the United States, the Alberta Reference price for natural gas is expected to remain strong, averaging about \$2.00 per mcf over the forecast period.

Rig Activity

(number of rigs drilling)



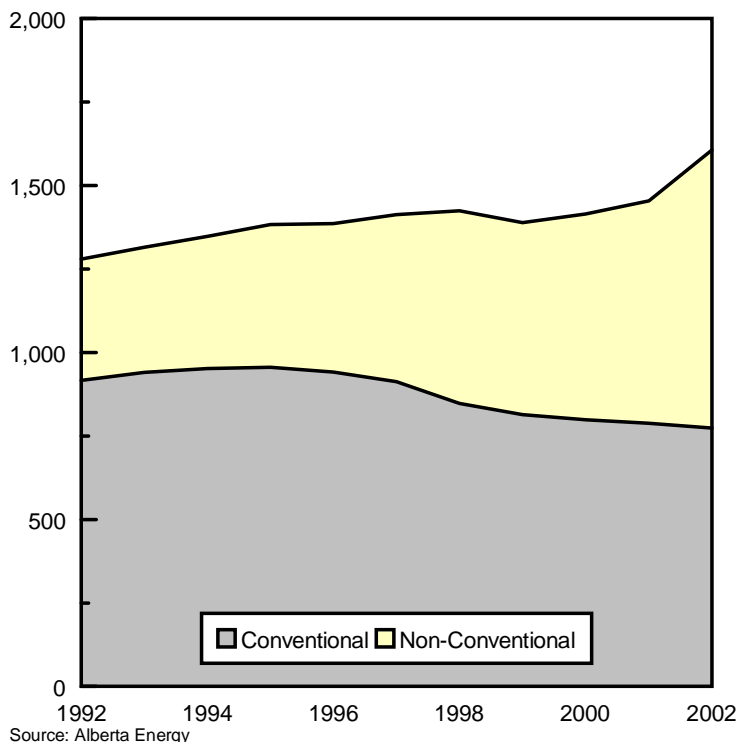
Source: Alberta Energy

- ◆ The number of rigs drilling in Alberta declined by 29% in 1998 to 218 rigs, reflecting a sharp drop in oil drilling. This was still similar, though, to the average number of rigs drilling over the 1994-1996 period.
- ◆ Companies have shifted their focus to drilling for natural gas as rising natural gas prices and new pipeline capacity have made gas more attractive.
- ◆ However, the increase in gas-directed drilling has not offset oil-related declines.

Non-Conventional Oil Output Growing

(thousands of barrels per day)

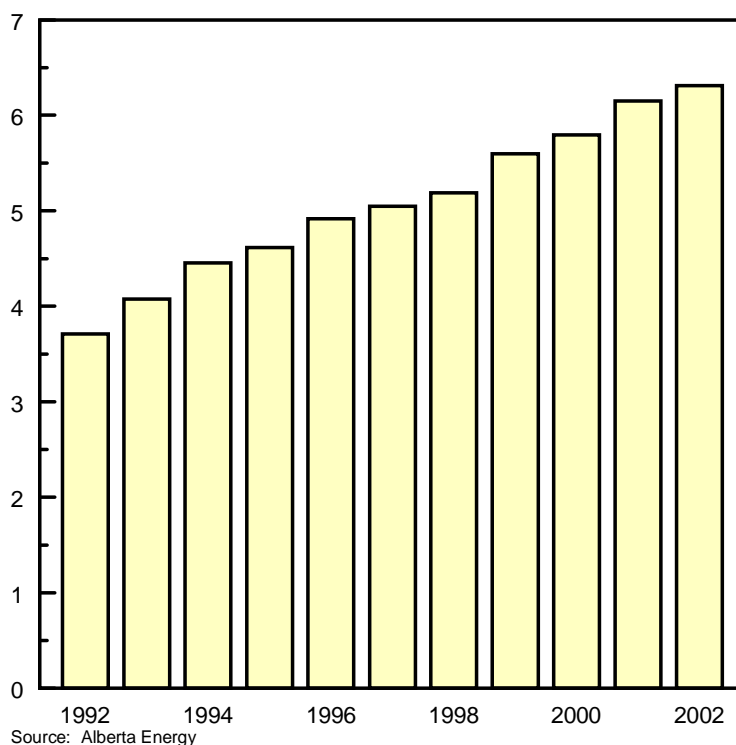
- ◆ Investment in non-conventional oil projects is expected to proceed despite low prices since new technologies can significantly reduce operating costs. Companies must also invest in order to maintain production.
- ◆ Syncrude and Suncor expansion plans should boost total oil production by 10% in 2002 when projects are completed.
- ◆ Total oil production is forecast to fall by 2.5% in 1999, mainly due to the fall in conventional oil production. It is expected to grow over the 2000-2002 period because of rising non-conventional oil production.



Gas Sales Climb

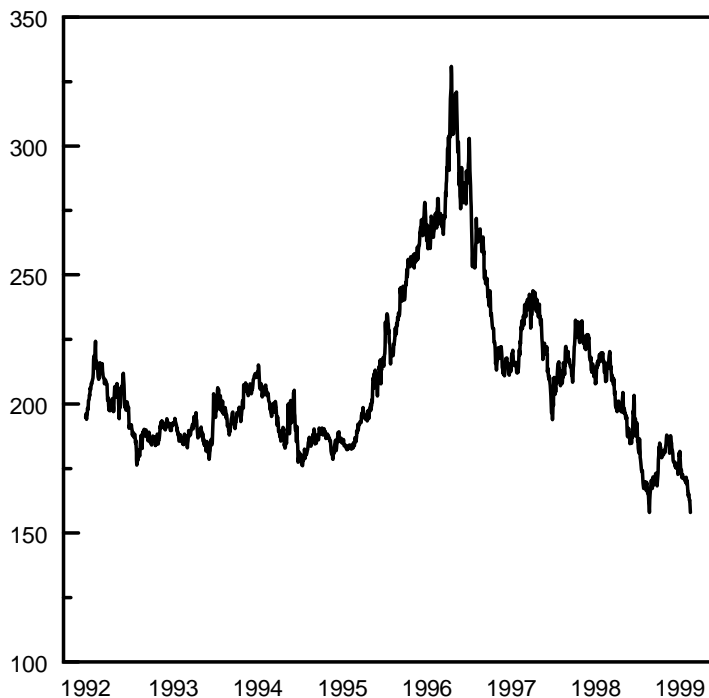
(trillions of cubic feet)

- ◆ In 1998, Alberta natural gas sales increased by an estimated 2.8%. The increase was led by a 5.9% increase to other Canadian provinces. Exports to the United States increased by 2.5%, but sales in Alberta declined marginally, reflecting mild winter weather in 1998.
- ◆ In 1999, total gas sales are expected to rise by 7.9% as completion of the Northern Border and TransCanada pipeline expansions in late 1998 boost gas exports to the United States.
- ◆ Over the medium term, natural gas sales are expected to remain strong, rising by an average of about 4% per year. The 1.3 bcf per day Alliance pipeline is expected to come onstream in late 2000.



Grain Prices Soft

CRB Grain Futures Index (1967=100)

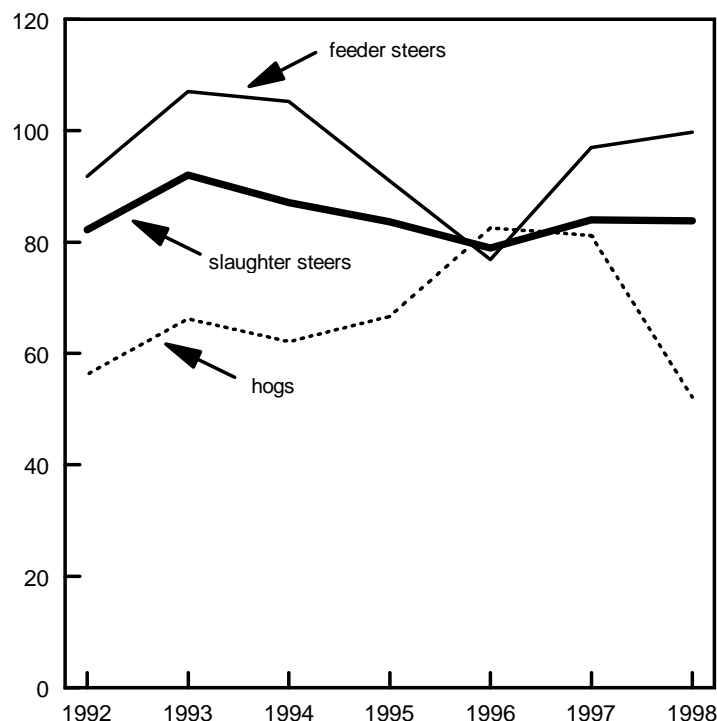


Includes wheat, soybeans and corn
Source: Bridge/Commodity Research Bureau

- ◆ Grain prices have declined sharply since their peak in 1996, reflecting weaker global demand (especially in South East Asia) and higher global output.
- ◆ Total farm cash receipts from crops declined 7.5% in 1998, as the impact of lower wheat prices was partially offset by the strong performance of other crops, particularly canola.
- ◆ Over the medium term, rising world demand is expected to firm up grain prices, despite increased supply.

Livestock Sector Mixed

(Cdn\$ per 100 lbs)



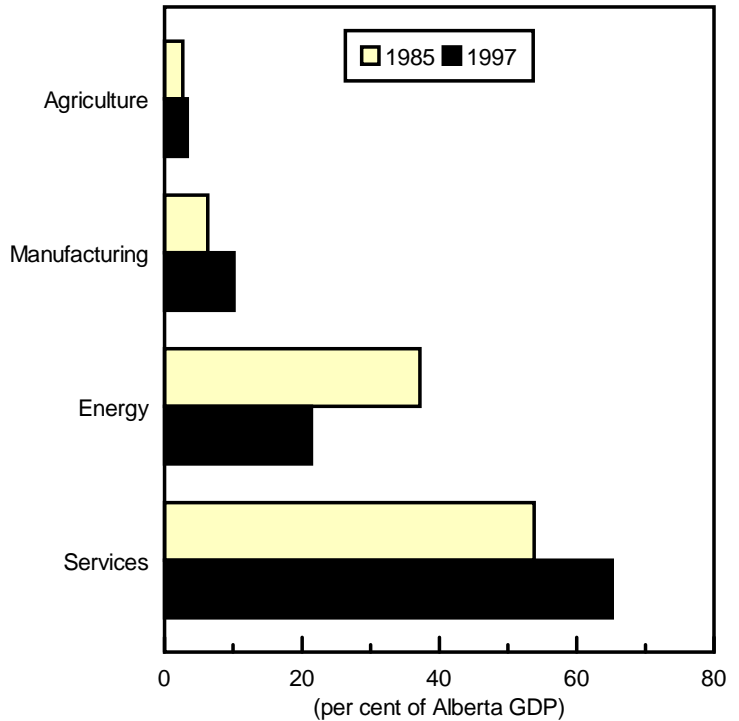
Source: Alberta Agriculture, Food and Rural Development

- ◆ Despite the collapse in hog prices, farm cash receipts for livestock are estimated to have risen 1.9% in 1998 because of strong gains in the cattle sector.
- ◆ Overall farm cash receipts are estimated at \$6.29 billion in 1998, down 1.3% from 1997. This is 2.7% below the record set in 1996, and second only to Ontario among the provinces.

- ◆ Increasing diversification has made the Alberta economy less dependent on commodities than it was in the 1970s and early 1980s. The manufacturing and services sectors have gained considerably.
- ◆ The share of agriculture in the economy has not changed much since the mid-1980s. The energy sector has dropped significantly.

Diversification in Alberta Proceeds

Nominal GDP by Industry

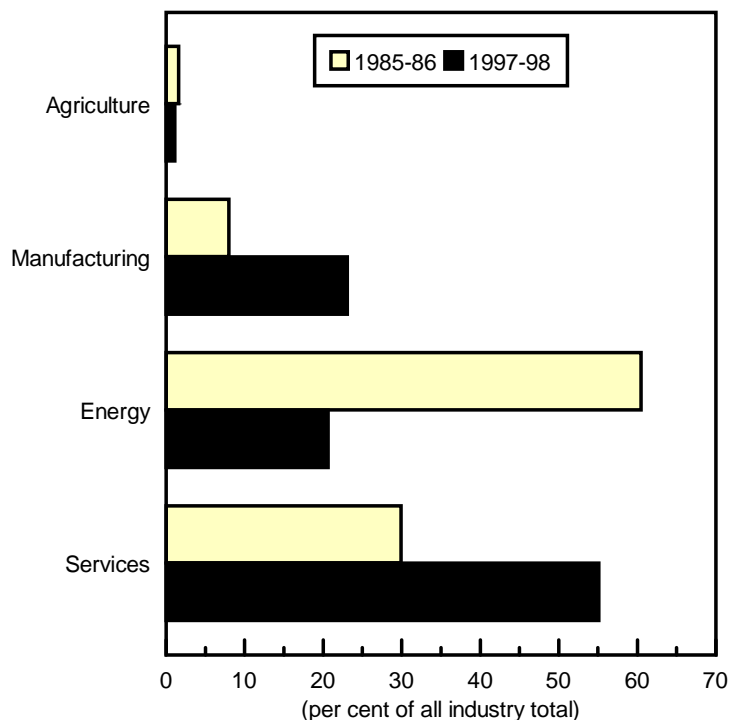


Source: Alberta Treasury

- ◆ The growing importance of manufacturing and services is also reflected in their rising share of corporate income tax payments.
- ◆ Corporate income tax paid by the manufacturing sector has increased from under 10% to over 20% of the total.
- ◆ The share of the energy sector has declined from 60% of the total to 20%.
- ◆ The service sector has almost doubled its share of the total corporate income tax paid from 30% to 55%.
- ◆ Since the service sector tends to be more stable, provincial corporate income tax revenue should become more stable over time.

Tax Revenue Diversifies Even More

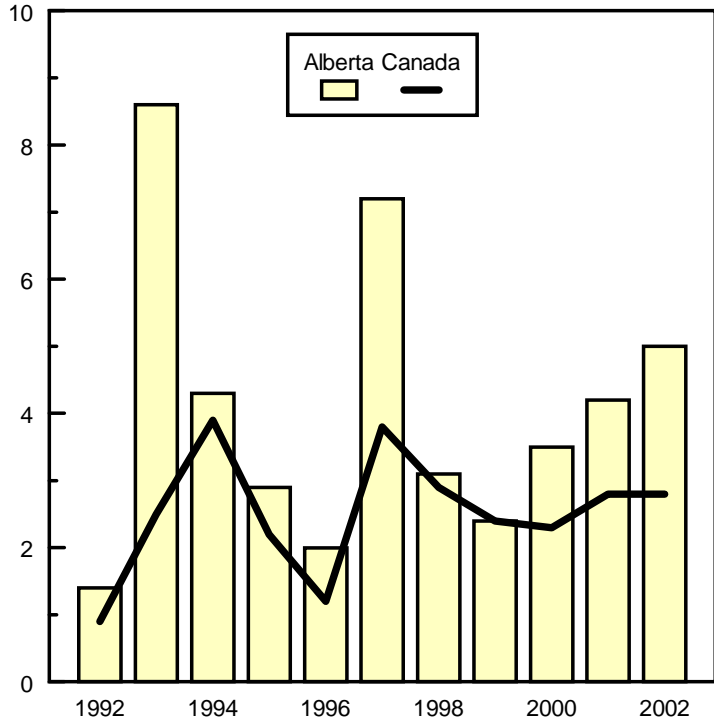
Corporate Income Tax Paid by Industry



Source: Alberta Treasury

Healthy Economic Growth for Alberta

Real Gross Domestic Product (per cent change)

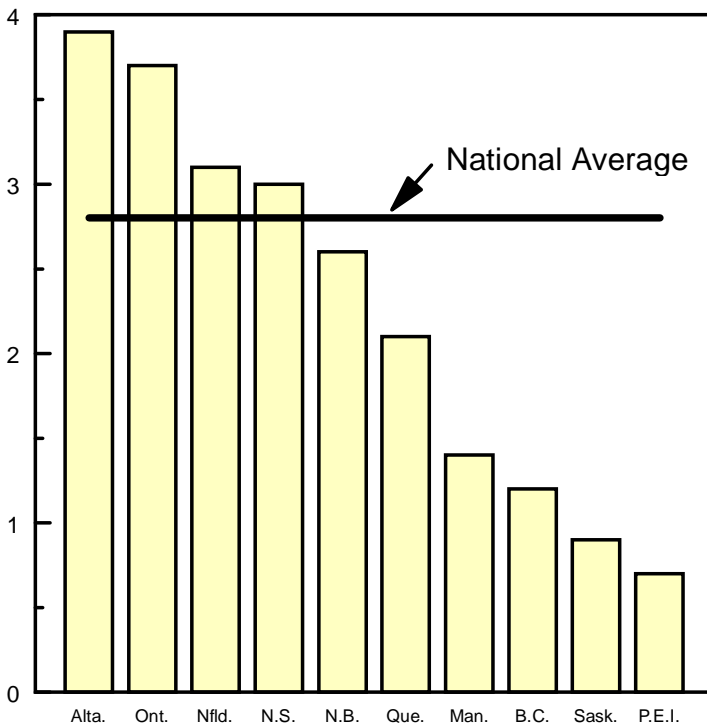


Source: Statistics Canada and Alberta Treasury

- ◆ Alberta's increased diversification contributed to a healthy 3.1% growth in 1998, similar to the rate for Canada as a whole.
- ◆ In 1999, continued weakness in the oil patch and slower growth in major markets are expected to moderate Alberta's growth to 2.4%, the same as the national rate.
- ◆ The main sources of strength are expected to be natural gas exports, boosted by increased pipeline capacity and continued healthy non-energy investment. Lower taxes should maintain strength in consumer spending.
- ◆ The average private sector forecast is for Alberta to grow by 2.1% in 1999. The forecasts range from a low of 1.2% to a high of 2.8%.

Best Job Growth in 1998

(per cent change in annual employment)



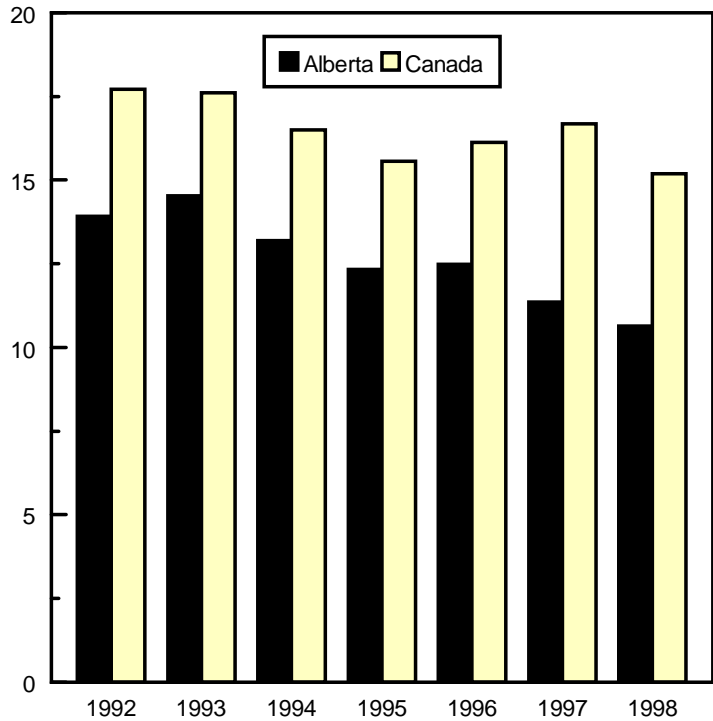
Source: Statistics Canada

- ◆ In 1998, Alberta employment increased by 57,100 jobs, or 3.9%, well above the national average of 2.8%. Alberta led the country in employment growth in 1998.
- ◆ Alberta, with 9.6% of Canada's population, created 15% of Canada's jobs in 1998.
- ◆ In December 1998, a record 1.533 million Albertans were employed. Almost 80% of these jobs were full-time.

Alberta Youth Unemployment Falling

Unemployment Rate Age 15-24 (per cent)

- ◆ Alberta's youth unemployment rate has been consistently below the national average. Alberta has the lowest youth unemployment among the provinces.
- ◆ Alberta's 1998 youth unemployment rate was 10.6%, the lowest since 1981. It has been trending down since the early 1990's.
- ◆ Since 1993, Alberta youth employment has grown by a total of 34,000, or almost 16%.

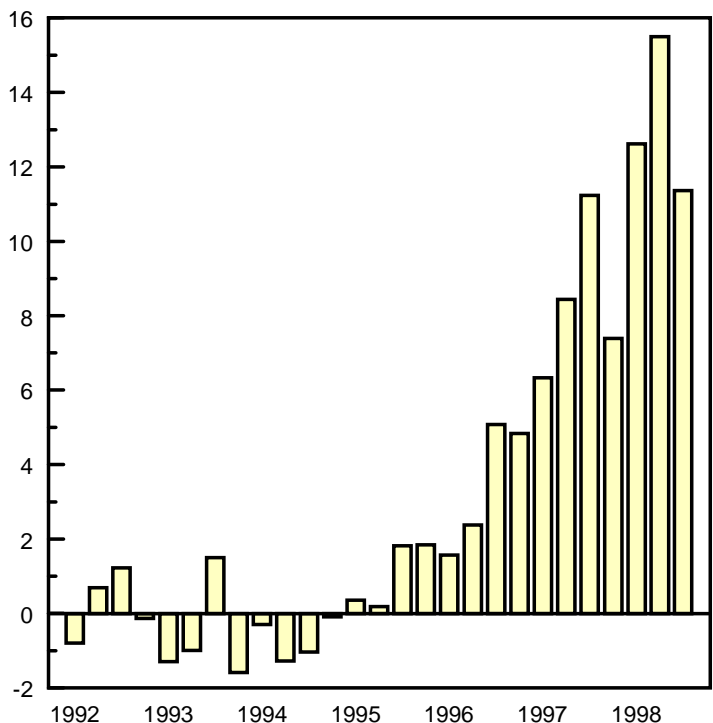


Source: Statistics Canada

Alberta The Place To Be

Alberta Net Interprovincial Migration (thousands)

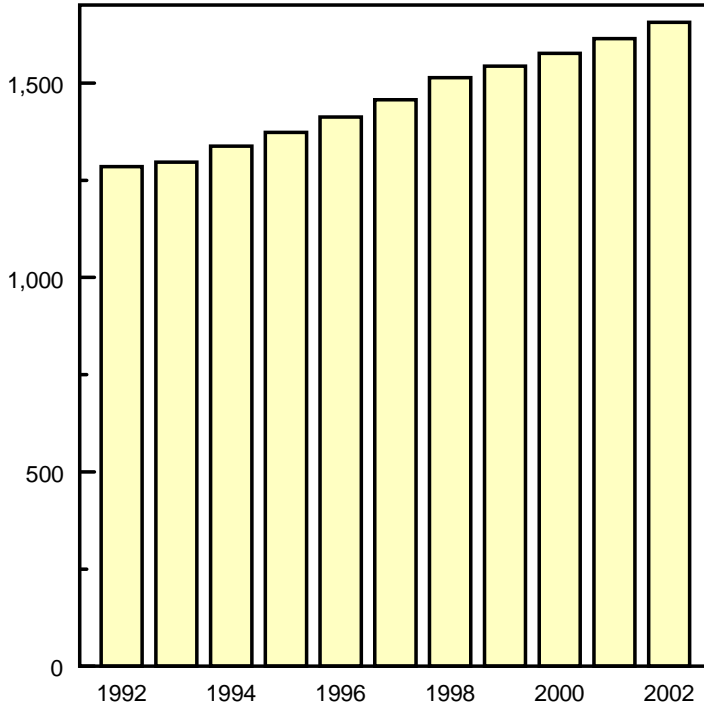
- ◆ Alberta's robust economy and low taxes have attracted increasing numbers of other Canadians to our province.
- ◆ Net interprovincial migration totalled 46,787 in the year ending June 30, 1998, the highest on record.



Source: Statistics Canada

Employment Growth Forecast to Moderate

(employment, thousands)

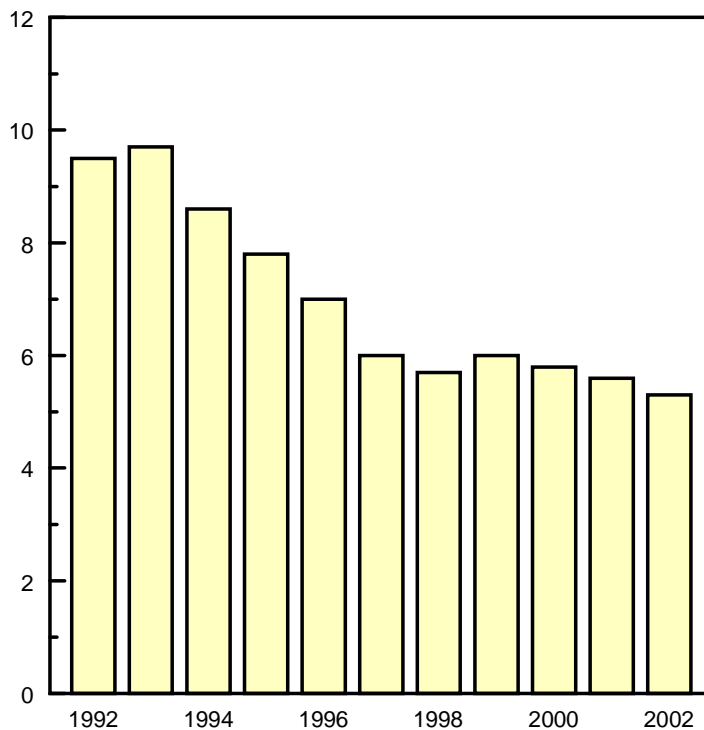


Source: Statistics Canada and Alberta Treasury

- ◆ Employment growth is expected to moderate from its exceptionally strong pace of the last few years to 1.9% in 1999, reflecting the slowdown in Alberta's economy.
- ◆ In the medium term, employment in Alberta is forecast to grow at an average rate of 2.4% per year.
- ◆ Approximately 140,000 jobs are expected to be created between the years 1998 and 2002.

Alberta's Unemployment Rate Remains Low

(per cent)



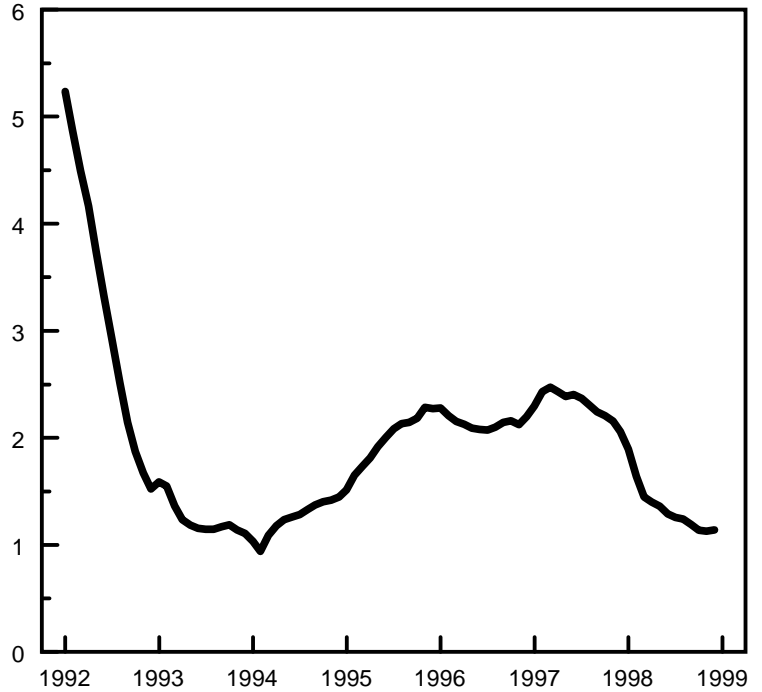
Source: Statistics Canada and Alberta Treasury

- ◆ Alberta's unemployment rate averaged 5.7% in 1998, the lowest since 1981.
- ◆ The unemployment rate is expected to rise slightly this year as employment growth slows and the labour force continues to grow. After this near term rise, the unemployment rate is expected to fall to 5.3% by 2002.
- ◆ Throughout the forecast period, Alberta's unemployment rate will be much lower than that for Canada as a whole. It is also expected to remain low by historical standards.

- ◆ Alberta's inflation, as measured by the Consumer Price Index, averaged 1.1% in 1998, slightly higher than the Canadian average of 1%.
- ◆ Inflation is expected to remain low, averaging 1.7% over the forecast period. In the short-term, the weakness in commodity prices will help keep inflation low. In the medium-term, the effects of higher commodity prices will be largely offset by a rising dollar.

Inflation to Remain Low

Alberta Consumer Price Index (per cent change)

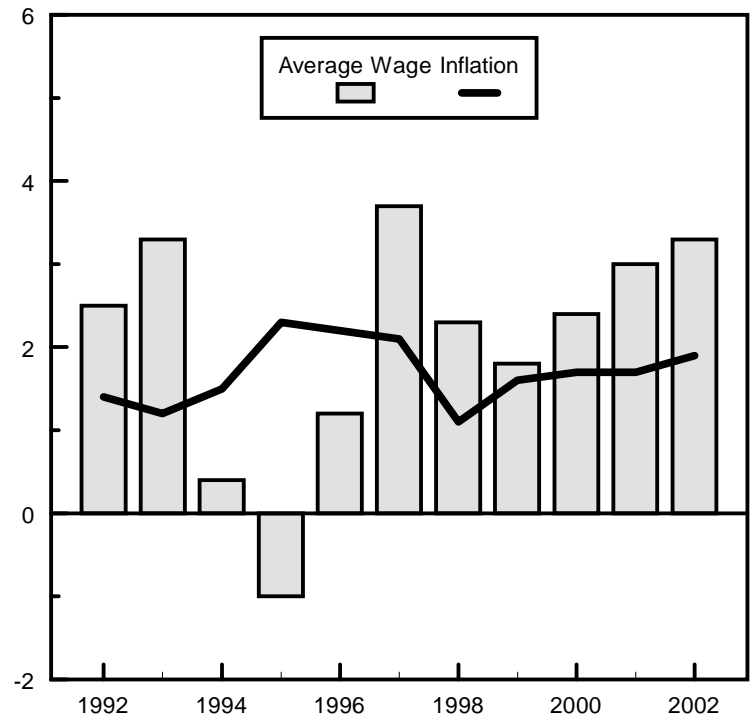


Source: Statistics Canada

- ◆ Alberta's strong labour market performance and low inflation have resulted in improvements in real wages.
- ◆ Over the 1999-2002 period, wages are forecast to increase by an average of 2.8% per year, about 1 percentage point higher than inflation.
- ◆ Growth in wage settlements has been similar in the public and private sectors since 1997.

Real Alberta Wage Growth

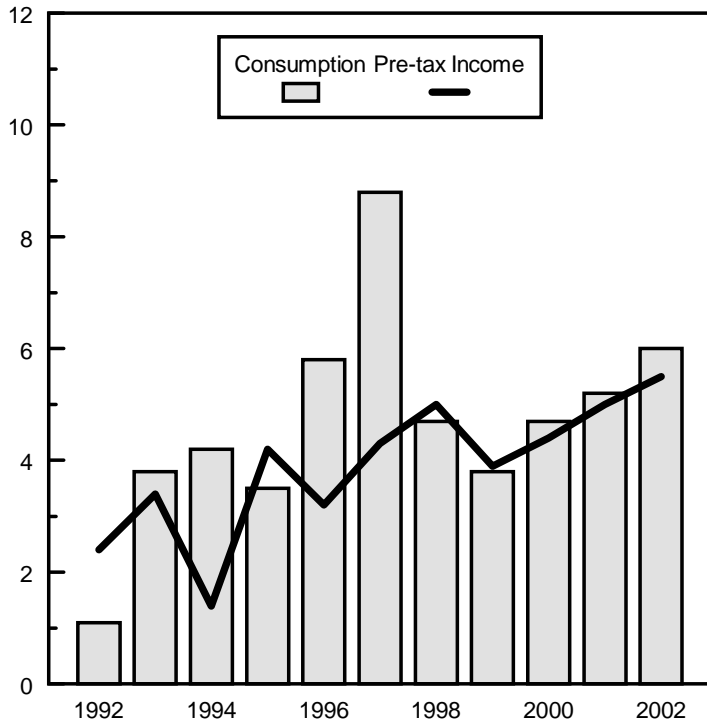
(per cent change)



Source: Statistics Canada and Alberta Treasury

Alberta Consumer Spending Robust

(per cent change)

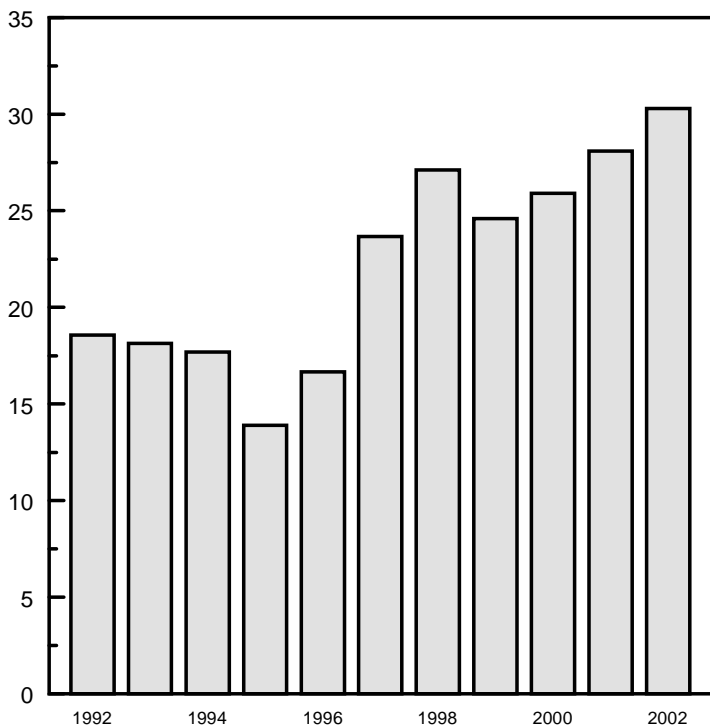


Source: Alberta Treasury

- ◆ Wage gains and strong employment growth contributed to an estimated 5% rise in total personal income in 1998. Consumer spending increased by an estimated 4.7%.
- ◆ In 1999, pre-tax personal income is expected to grow somewhat more slowly, at 3.9%.
- ◆ Provincial and federal tax cuts, however, are expected to lead to a 4.6% increase in after-tax income in 1999. Consumers are expected to increase their spending by 3.8% this year.
- ◆ Employment growth, moderate wage gains and lower taxes are expected to keep disposable income growth at 5 to 6% over the medium term. Consumer spending is expected to grow at about the same rate.

Healthy Alberta Housing Market

Alberta Housing Starts (thousands of units)



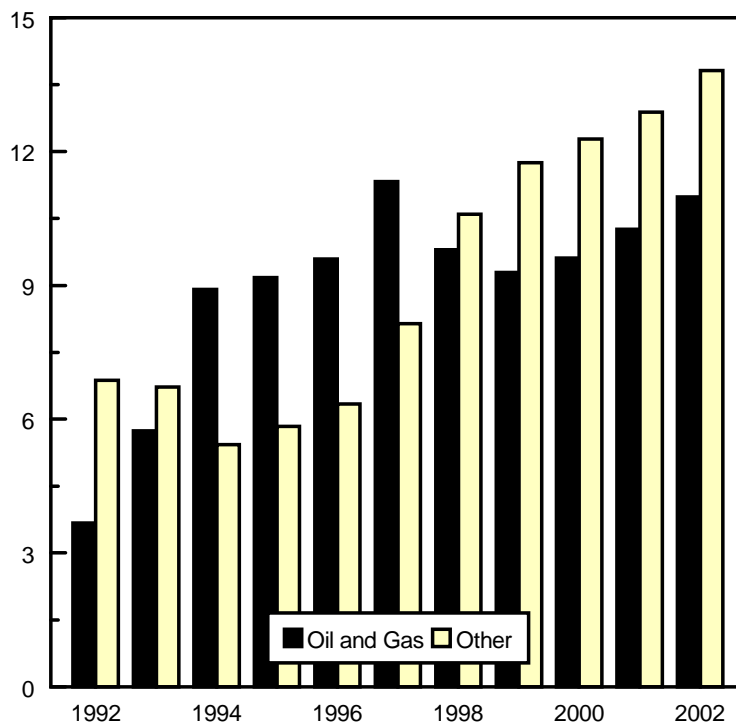
Source: CMHC and Alberta Treasury

- ◆ In 1998, housing starts in Alberta rose by 15% to 27,122. By comparison, starts at the national level fell 6.5%.
- ◆ Following three strong years of growth, housing starts in 1999 are expected to fall to 24,600 units.
- ◆ Over the medium term, housing starts in Alberta are expected to grow to over 30,000 units by 2002.
- ◆ The continued increase in population, employment and wages along with historical low interest rates account for the strength in Alberta's housing sector.

Healthy Medium Term Investment

Alberta Real Business Investment (1992\$ billions)

- ◆ Alberta's strong fundamentals and increasing diversification have created a favourable climate for business investment. In 1998, real business investment grew by an estimated 4.8%, even though investment in the oil and gas sector fell by an estimated 13.5%.
- ◆ With oil prices assumed to average US\$13.50 per barrel in 1999-2000, investment in exploration and development drilling is expected to remain weak.
- ◆ Over the 2000-2002 period, energy investment is expected to increase by almost 6% per year on average as oil prices recover.

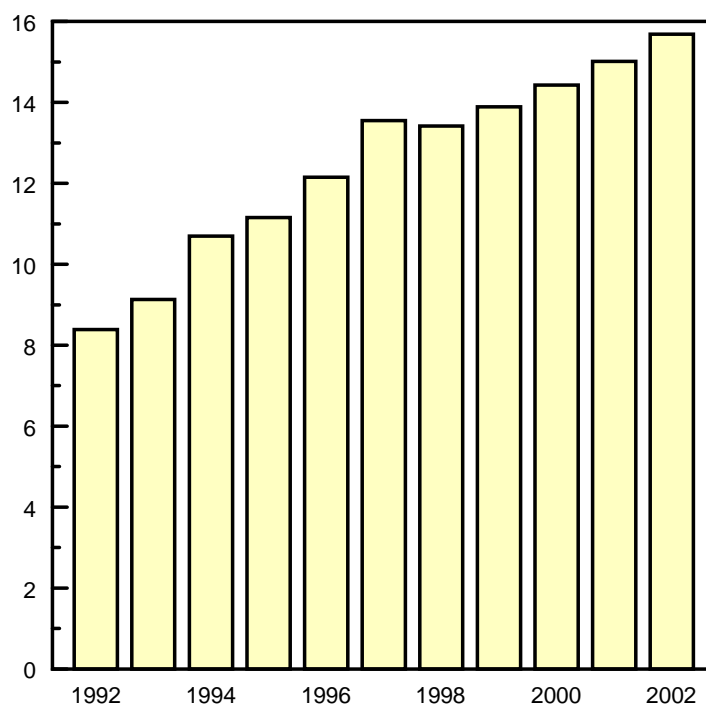


Source: Statistics Canada and Alberta Treasury

A Growing Manufacturing Sector

Alberta Real Manufacturing Exports* (1992\$ billions)

- ◆ Alberta's manufacturing sector has grown substantially since the 1980s.
- ◆ In 1998, the nominal value of shipments fell by 4%, largely due to declines in the primary metals and petroleum and coal sectors.
- ◆ Alberta had the fourth highest level of manufacturing shipments among the provinces in 1998.
- ◆ Real manufacturing exports are expected to grow by about 4% per year over the forecast period.



* includes international and interprovincial manufacturing exports

Source: Statistics Canada and Alberta Treasury

Province of Alberta

Key Energy and Economic Assumptions ^a

Fiscal Year Assumptions	1996-97 Actual	1997-98 Actual	1998-99	1999-2000	2000-01	2001-02
Prices						
Oil price						
WTI (US\$/bbl)	22.84	18.93	13.50	13.50	15.25	16.75
Alberta wellhead (Cdn\$/bbl)	27.91	22.25	16.20	15.92	18.57	19.99
Natural gas price						
Alberta wellhead (Cdn\$/mcf)	1.77	1.86	1.97	2.02	1.93	2.01
Exchange rate (US¢/Cdn\$)	73.5	72.1	66.7	66.8	67.9	70.1
Production						
Crude oil and equivalent (000's barrels/day)	1,544	1,554	1,558	1,531	1,569	1,647
Natural gas (billions of cubic feet)	4,865	5,216	5,355	5,748	5,980	6,278
Interest rates^b						
3-month Canada treasury bills	3.81	3.50	4.85	4.75	4.75	4.75
10-year Canada bonds	7.00	6.00	5.25	5.25	5.25	5.25

^a As required by the Government Accountability Act.

^b For debt servicing calculations, appropriate Alberta spreads are applied to Government of Canada yields.

Calendar Year Assumptions	1997 Actual	1998	1999	2000	2001	2002
Gross Domestic Product						
Nominal (millions of dollars)	101,844	102,149	106,444	112,228	119,507	128,045
per cent change	8.3	0.3	4.2	5.4	6.5	7.1
Real (millions of 1986 dollars)	94,404	97,349	99,720	103,174	107,497	112,886
per cent change	7.2	3.1	2.4	3.5	4.2	5.0
Other Indicators						
Employment (thousands)	1,457	1,514 ^a	1,543	1,576	1,614	1,656
per cent change	3.1	3.9 ^a	1.9	2.1	2.4	2.6
Unemployment rate (per cent)	6.0	5.7 ^a	6.0	5.8	5.6	5.3
Housing starts (number of units)	23,671	27,122 ^a	24,600	25,900	28,100	30,300
Consumer Price Index (per cent change) .	2.1	1.1 ^a	1.6	1.7	1.7	1.9
Population (thousands)	2,836	2,913 ^a	2,981	3,043	3,104	3,168
per cent change	2.0	2.7 ^a	2.4	2.1	2.0	2.1

^a Actual

Sensitivities to Fiscal Year Assumptions, 1999-2000

	Sensitivities ^a (\$ millions)			
	Change	Revenue	Spending	Net Change
Oil Price (WTI US\$/bbl)	-\$1.00	-135	—	-135
Natural Gas Price (Cdn\$/mcf)	-10¢	-167	—	-167
Exchange Rate (US¢/Cdn\$)	+1¢	-63	-35	-28
Interest Rates	+1%	+5	+28	-23
Real Gross Domestic Product ^b	-1%	-88	—	-88

^a Sensitivities are based on current assumptions of prices and rates and show the impact for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The interest rate sensitivity is also affected by the timing of changes during the fiscal year.

^b Net change in income taxes and the Canada Health and Social Transfer.

Risks to the Forecast

UPSIDE RISKS

- ◆ Economic growth may be stronger than expected in the United States and the rest of Canada. The recent strong performance of the U.S. economy suggests that the long-expected slowdown may be delayed yet again. This would spillover into Canada, and would bode well for Alberta's exports.
- ◆ The global economic recovery may be earlier and stronger than anticipated, leading to a faster recovery in commodity prices. Alberta would benefit through increased energy sector activity and higher resource and taxation revenue.

DOWNSIDE RISKS

- ◆ If the United States continues to grow at an unsustainable pace, the U.S. Federal Reserve may be forced to increase interest rates to dampen inflationary pressures. This would put upward pressure on Canadian interest rates, thereby dampening economic activity in Canada and Alberta and raising debt-servicing costs for the province.
- ◆ A sharp correction in U.S. equity markets. There are concerns that the stock market in the United States is overvalued, and that a consequent correction would hurt confidence and reduce consumer spending, which has recently been the mainstay of the current expansion. Weaker economic activity in the United States would also spillover into Canada and Alberta.
- ◆ Renewed volatility in world financial markets might lead the Bank of Canada to raise interest rates to defend the value of the Canadian dollar. If sustained, this would hurt confidence, reduce economic activity and increase debt-servicing costs.
- ◆ A delayed recovery in the global economy could have a negative impact on commodity prices, which could dampen Alberta's medium term investment outlook as projects are either delayed or suspended, and drilling activity fails to recover. Alberta's fiscal position should be relatively stable given the legal requirement to have an economic cushion to help protect against the risk of lower energy prices.

Oil Price Forecast Benchmark

(West Texas Intermediate, US\$/bbl)

Organization	1999	2000	2001	2002
National Forecasting Agencies				
Conference Board of Canada (Dec/98)	11.17	12.86	15.60	17.08
Standard and Poor's DRI (Feb/99)	14.43	15.53	16.28	17.05
The WEFA Group (Jan/99)	13.62	15.43	16.35	17.34
Investment Houses				
BT Bank (Feb/99) ^a	11.48	14.04	15.56	16.46
CS First Boston (Feb/99)	15.75	17.50	20.00	n.a.
Goldman Sachs (Feb/99)	14.50	16.50	n.a.	n.a.
JP Morgan (Jan/99)	14.50	17.50	n.a.	n.a.
Lehman Brothers (Feb/99)	14.00	16.00	16.00	16.00
Peters & Co. Limited (Feb/99)	12.50	16.00	n.a.	n.a.
RBC Dominion Securities (Feb/99)	15.00	17.00	n.a.	n.a.
Industry Analysts				
ARC Financial Corporation (Feb/99)	14.50	17.00	19.00	21.00
High	15.75	17.50	20.00	21.00
Low	11.17	12.86	15.56	16.00
Average	13.77	15.94	16.97	17.49
Alberta Government (calendar year)	13.00	14.84	16.40	17.95

^a Futures price

Natural Gas Price Forecast Benchmark

Alberta Average Wellhead Gas Price (Cdn\$/mcf)

Organization	1999	2000	2001	2002
ARC Financial Corporation (Feb/99)	2.25	2.42	2.48	2.43
Gilbert Lausten Jung Associates (Jan/99)	2.25	2.25	2.25	2.30
Levesque Beaubien Geoffrion (Jan/99)	2.30	2.30	n.a.	n.a.
Merrill Lynch (Dec/99)	2.20	2.10	n.a.	n.a.
Peters & Co. Limited (Feb/99)	2.25	2.50	n.a.	n.a.
RBC Dominion Securities (Jan/99)	2.35	2.35	n.a.	n.a.
High	2.35	2.50	2.48	2.43
Low	2.20	2.10	2.25	2.30
Average	2.27	2.32	2.37	2.37
Alberta Government (calendar year)	2.02	1.91	1.96	2.02

Canadian Short-Term Interest Rate Forecast Benchmark (3-month Canadian Treasury Bills)

Organization	1999	2000	2001	2002
National Forecasting Agencies				
Conference Board of Canada (Dec/98)	4.70	5.24	6.06	5.91
Standard and Poor's DRI (Feb/99)	4.92	4.83	4.60	4.46
The WEFA Group (Dec/98)	4.57	4.92	5.02	5.02
Banks				
Bank of Montreal (Feb/99)	4.88	5.00	5.00	4.50
Canadian Imperial Bank of Commerce (Feb/99)	4.81	5.60	n.a.	n.a.
Royal Bank (Feb/99)	4.80	5.25	5.50	5.50
Scotiabank (Feb/99)	4.55	4.75	5.40	5.55
Toronto Dominion Bank (Feb/99)	4.60	4.90	n.a.	n.a.
Investment Dealers				
CIBC Wood Gundy (Jan/99)	4.56	4.93	n.a.	n.a.
Nesbitt Burns (Feb/99)	4.50	4.00	4.00	4.50
High	4.92	5.60	6.06	5.91
Low	4.50	4.00	4.00	4.46
Average	4.69	4.94	5.08	5.06
Alberta Government (calendar year)	4.75	4.75	4.75	4.75

Canadian Long-Term Interest Rate Forecast Benchmark (10-Year Government of Canada Bond Yield)

Organization	1999	2000	2001	2002
National Forecasting Agencies				
Conference Board of Canada (Dec/98)	5.31	5.88	6.49	6.50
Standard and Poor's DRI (Feb/99)	5.36	5.35	5.23	5.14
The WEFA Group (Dec/98)	5.24	5.47	5.55	5.70
Banks				
Bank of Montreal (Feb/99)	5.58	5.96	5.60	5.10
Canadian Imperial Bank of Commerce (Feb/99)	5.21	5.91	n.a.	n.a.
Royal Bank (Feb/99)	5.70	6.00	6.50	6.50
Scotiabank (Feb/99)	5.00	5.45	6.15	6.20
Toronto Dominion (Feb/99)	5.10	5.60	n.a.	n.a.
Investment Dealers				
CIBC Wood Gundy (Jan/99)	5.18	5.75	n.a.	n.a.
Nesbitt Burns (Feb/99)	4.90	4.40	4.80	5.10
High	5.70	6.00	6.50	6.50
Low	4.90	4.40	4.80	5.10
Average	5.26	5.58	5.76	5.75
Alberta Government (calendar year)	5.25	5.25	5.25	5.25

Alberta Real Gross Domestic Product Forecast Benchmark (per cent change)

Organization	1998	1999	2000	2001	2002
National Forecasting Agencies					
Conference Board of Canada (Feb/99)	2.1	1.5	2.8	3.0	3.4
Standard and Poor's DRI (Jan/99)	3.2	1.2	2.7	3.4	3.6
The WEFA Group (Jan/99)	3.8	2.2	3.0	2.7	2.6
Banks					
Bank of Montreal (Nov/98)	4.5	2.8	3.4	n.a.	n.a.
Canadian Imperial Bank of Commerce (Feb/99)	3.2	2.7	3.2	n.a.	n.a.
Royal Bank (Nov/98)	4.2	2.5	2.7	n.a.	n.a.
Scotiabank (Jan/99)	3.5	2.5	2.8	n.a.	n.a.
Toronto Dominion Bank (Jan/99)	3.6	1.7	2.7	n.a.	n.a.
Other					
Canada Mortgage and Housing Corporation (Feb/99)	3.5	2.4	2.8	n.a.	n.a.
Nesbitt Burns (Dec/98)	2.5	1.9	1.0	n.a.	n.a.
High	4.5	2.8	3.4	3.4	3.6
Low	2.1	1.2	1.0	2.7	2.6
Average	3.4	2.1	2.7	3.0	3.2
Alberta Government (calendar year)	3.1	2.4	3.5	4.2	5.0

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

Organization	1999	2000	2001	2002
National Forecasting Agencies				
Conference Board of Canada (Dec/98)	65.23	66.84	68.03	68.97
Standard and Poor's DRI (Feb/99)	67.24	67.42	68.86	70.39
The WEFA Group (Dec/98)	68.80	71.20	71.40	71.60
Banks				
Bank of Montreal (Feb/99)	66.40	66.40	68.49	70.42
Canadian Imperial Bank of Commerce (Feb/99)	66.59	67.03	n.a.	n.a.
Royal Bank (Feb/99)	70.42	71.43	72.46	73.53
Scotiabank (Feb/99)	66.80	69.50	71.00	72.00
Toronto Dominion Bank (Feb/99)	66.80	69.50	n.a.	n.a.
Investment Dealers				
CIBC Wood Gundy (Jan/99)	65.93	68.30	n.a.	n.a.
Nesbitt Burns (Feb/99)	67.30	68.50	70.00	68.00
High	70.42	71.43	72.46	73.53
Low	65.23	66.40	68.03	68.00
Average	67.15	68.61	70.03	70.70
Alberta Government (calendar year)	66.60	67.60	69.50	71.20

Tracking the Forecasts of Oil Prices

West Texas Intermediate (US\$/bbl, calendar year)

Organization	How Did They Do 1998 ^a	What They Were Saying About 1999 in Budget '98 ^b	What They Are Saying About 1999 in Budget '99 ^b
Actual	14.40		
ARC Financial Corporation	+4.10	19.25	14.50
BT Bank	+2.83	18.21	11.48
Conference Board of Canada	+4.41	19.42	11.17
CS First Boston	+5.60	18.50	15.75
Goldman Sachs	+4.10	18.50	14.50
JP Morgan	+3.37	19.00	14.50
Lehman Brothers	+4.60	19.00	14.00
Peters & Co. Limited	+4.60	19.00	12.50
RBC Dominion Securities	+3.10	18.00	15.00
Standard and Poor's DRI	+4.18	18.44	14.43
The WEFA Group	+5.91	20.93	13.62
Absolute Average	4.25	18.93	13.77
Alberta Government	+2.80	18.40	13.00

^a This compares an organization's forecast for 1998 at the time of Budget '98 to what actually happened. A minus sign indicates underestimation; a plus sign indicates overestimation.

^b This shows how the forecast for 1999 has changed over the last year.

Tracking the Forecasts of Alberta Real GDP

(per cent change)

Organization	How Did They Do 1997 ^{a,b}	What They Were Saying About 1998 in Budget '98 ^c	What They Are Saying About 1998 in Budget '99 ^c
Actual	7.2		
Bank of Montreal	-2.4	4.5	4.5
Canada Mortgage and Housing Corporation	-2.1	4.0	3.5
Canadian Imperial Bank of Commerce	-2.9	4.1	3.2
Conference Board of Canada	-2.6	3.4	2.1
Nesbitt Burns	-1.7	5.3	2.5
Royal Bank	-3.0	3.7	4.2
Scotiabank	-2.2	3.8	3.5
Standard and Poor's DRI	-2.5	4.2	3.2
Toronto Dominion Bank	-2.0	3.9	3.6
The WEFA Group	-2.5	2.3	3.8
Absolute Average	-2.4	3.9	3.4
Alberta Government (calendar year)	-1.7	4.6	3.1

^a This compares an organization's forecast for 1997 at the time of Budget '98 to what actually happened. A minus sign indicates underestimates and a plus sign indicates overestimates.

^b 1997 is the latest year for actual real GDP data.

^c This shows how the forecast for 1998 has changed over the last year.

Announced Major Projects Over \$100 Million

Proposed or Under Construction

Company Name	Location	Type of Project	Cost (\$millions)	Timing
OIL AND GAS				
Alberta Energy	Wabasca	In situ Bitumen Project	\$300	1997-2000
	Cold Lake/Foster Creek	SAGD Pilot Plant Expansion	\$200	1998-2000
Amoco Canada & Alberta Natural Gas Company	Empress	Natural Gas Liquids Extraction Plant	\$120	1998-1999
Amoco Canada Petroleum	Brintnell	In situ Bitumen Project	\$100	1996-2000
	Primrose and Wolf Lake	Heavy Oil Development Expansion	\$500	1998-2000
Canadian Natural Resources	Beartrap, Charlotte and Pelican Lakes	In situ Bitumen Projects	\$800	1997-2002
Centurian Gas Liquids Inc.	Express-Fort Saskatchewan	Straddle Plant and Pipeline Project	\$170	Proposed
Gulf Canada Resources	Surmont	SAGD Bitumen Project	\$1,100	1999-2005
Husky Oil	Lloydminster	Upgrader Expansion	\$500	1999-2001
Imperial Oil	Cold Lake	In situ Bitumen Plant Expansion Phases 1-10	\$250	1996-1999
	Cold Lake	In situ Bitumen Plant Expansion Phases 11-13	\$500	2002+
	Cold Lake	In situ Bitumen Plant Expansion Phases 14-15	\$300	2003+
	Sundre area	Straddle Plant and Pipeline Expansion	\$250	1999-2000
Japan Canada Oil Sands	Hangingstone	SAGD Bitumen Project	\$200	1997-2001
Koch Exploration/United Tri-Star Resources	Fort Hills	Oilsands Mining and Extraction Plant	\$1,000	1998-2005
Mobil Oil Canada	Kearl Lake	Oilsands Mine & Extraction Facility	\$1,000	2000-2003
	Kearl Lake	Bitumen Upgrader	\$1,500	2000-2003
	Bonnyville-Iron River	In situ Bitumen Plant	\$100	2005
Murphy Oil	Lindbergh	In situ Bitumen Project	\$157	1996-1999
Norcen Energy Resources	Provost and Lindbergh	In situ Bitumen Projects	\$440	1996-1999+
Pan Canadian Petroleum	Elk Point	In situ Bitumen Project	\$100	1996-2000
	Christina Lake	In situ Bitumen Project	\$370	2000-2003+
Petro Canada	Mackay River	SAGD Bitumen Project Phases 1-3	\$175	1998-2007

Announced Major Projects Over \$100 Million

Proposed or Under Construction

Company Name	Location	Type of Project	Cost (\$millions)	Timing
OIL AND GAS (continued)				
Ranger Oil Limited	Lindbergh	In situ Bitumen Expansion	\$225	1996-2000+
Shell Canada	Peace River	In situ Oilsands Expansion	\$120	1998-2002
	Strathcona County	Bitumen Upgrader	\$2,000	1999-2003
Shell Canada/BHP Minerals Canada Ltd.	Muskeg River	Oilsands Mine & Extraction Facility	\$1,300	1998-2003
Suncor	Primrose/Burnt Lake	In situ Bitumen Expansion	\$100	1999-2000
	Fort McMurray	Project Millennium	\$190	1997-2001+
	Fort McMurray	Project Millennium - Oilsands Expansion	\$2,000	1999-2001
Syncrude Canada	Fort McMurray	North Mine - Debottleneck 1	\$500	1996-1999
	Fort McMurray	Aurora Mine - Debottleneck 2	\$1,500	1998-2007
	Fort McMurray	Continuous Improvement Program	\$1,000	1997-2007
	Fort McMurray	Upgrader Expansion	\$3,000	1999-2007
PIPELINES				
Alberta Energy Company/Husky Oil Ltd.	Fort McMurray to Hardisty	Lakeland Pipeline	\$400	Proposed
AEC Pipelines Ltd.	Fort McMurray to Edmonton	Alberta Oilsands Pipeline Expansion	\$220	1999-2000
Alliance Pipeline	Fort St. John to Chicago	Natural Gas Pipeline	\$2,000	1999-2000
Amber, CNRL, Amoco, Pan Canadian & Chevron	Pelican Lake to Rainbow Pipeline	Pelican Lake Pipeline System	n/a	1997-1999
Enbridge	Alberta to Chicago	Pipeline Expansion	\$875	1997-2000
Koch/Imperial Oil/Amoco Canada	Cold Lake to Hardisty	ThickSilver Pipeline	\$250	1999-2000
Nova Gas Transmission	Throughout Alberta	Pipeline Capacity Additions	\$1,000	1999-2003
Shell Canada/BHP/BC Gas TransMountain Pipeline	Muskeg River to Strathcona County	Corridor Pipeline	\$400	2000-2002
TransCanada PipeLines	Mainline Transmission System	New Pipeline and Compression Facilities	\$405	1999-2000
Wild Rose Pipeline	Fort McMurray to Hardisty	Heavy Oil "Athabasca" Pipeline	\$475	1998-1999

Announced Major Projects Over \$100 Million

Proposed or Under Construction

Company Name	Location	Type of Project	Cost (\$millions)	Timing
PETROCHEMICALS				
Amoco Canada/Nova Chemicals	Joffre	Linear Alpha Olefins Plant	\$250	1999-2001
Nova Chemicals	Joffre	Polyethylene Plant	\$395	1998-2000
Nova and Union Carbide	Joffre	Ethylene Plant	\$1,100	1998-2000
Shell Chemicals Canada	Strathcona County	Ethylene Glycol Plant	\$375	1998-2000
TransCanada Midstream/ Suncor Energy	Fort McMurray	Suncor Hydrocarbon Liquids Conservation Project	\$164	1999-2000
Union Carbide	Prentiss	Polyethylene Plant	\$316	1998-2000
FORESTRY				
Fieldboard International	Killam	Strawboard Plant	\$140	1998-1999
Footner Forest Products	High Level	Oriented Strandboard Plant	\$150	1999-2001
Grande Alberta Paper	Grande Prairie	Lightweight Coated Paper Mill	\$900	2002-2004
COMMERCIAL AND RETAIL CONSTRUCTION				
Calgary Regional Airport Authority	Calgary	Airport Improvements	\$650	1998-2001
Camrose Developments	Edmonton	Retail Complex	\$250	1997-2002
Delcon Development Group	Edmonton	Shopping Centre/Motel Namao Centre	\$115	1998-2000
Edmonton Regional Airport Authority	Leduc	International Airport Terminal Improvements	\$270	1998-2002
Heartland Development Corp.	Airdrie	Heartland Business Centre	\$500	1998-2010
ONTREA	Calgary	Chinook Centre Expansion/Renovation	\$125	1997-1999
Stone Creek Properties	Canmore	Hotel/Resort Complex - Silvertip	\$270	1995-2015
Three Sisters Golf Resort/ Dong Ah Construction	Canmore	Hotel/Housing Complex Phase 2	\$200	1998-1999
TransCanada PipeLines	Calgary	Office Tower	\$225	1998-2001
TrizecHahn Office Properties	Calgary	Bankers Hall, West Tower	\$170	1998-2000
Resortport Development Corp.	Calgary	Horse Racing Facility, Hotel and Golf Course	\$110	1998-2001

Announced Major Projects Over \$100 Million

Proposed or Under Construction

Company Name	Location	Type of Project	Cost (\$millions)	Timing
OTHER				
Air Liquide Canada/ TransAlta Energy	Fort Saskatchewan	Co-generation Power Plant	\$100	1999-2000
Baconsfield Farms Ltd.	Edmonton Area	Hog Breeding Farm and Processing Facility	\$150	Proposed
Big Horn Cement Inc.	Rocky Mountain House	Cement Plant	\$100	1999-2000
Cardinal River Coals	Hinton	Cheviot Open-Pit Coal Mine	\$250	1999-2001
Lamb-Weston Inc.	Taber	Potato Processing Plant	\$100	1998-1999
Nova Chemicals/Epcor/ CU Power	Joffre	Cogeneration Power Plant	\$320	1998-2000
Valiant Country Place	Okotoks	Western Entertainment and Destination Facility	\$141	1997-1999
Various Irrigation Districts	Southern Alberta	Irrigation Systems/Rehabilitation	\$600	1997-2000