ECONOMIC COMMENTARY

Oil Sands Projects drive Alberta's Investment Growth

March 13, 2014

Highlights:

Capital investment has been the largest contributor to Alberta's economic growth since the mid nineties. In 2013, total investment grew by an estimated 8.6%, in part due to surging oil sands investment. For 2014, investment is not expected to be a major driver of economic growth as energy investment growth moderates.

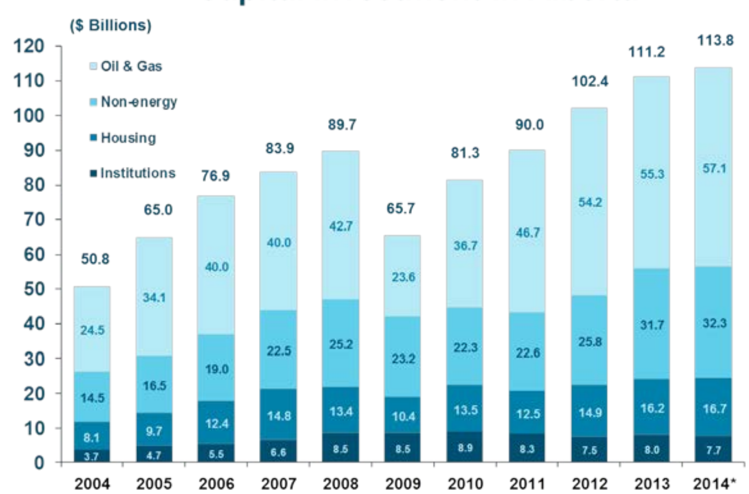
Government

Of the three largest components of Alberta's Gross Domestic Product (GDP), household consumption, international exports and gross fixed capital formation (or capital investment), investment has had the largest impact on Alberta's economic performance since the mid nineties. Whereas in the 1980's and early 1990's international exports drove the Alberta economy, between 1996 and 2008, capital investment accounted for 70% of Alberta's overall GDP growth, and investment was also by far the largest contributor to Alberta's large GDP decline in 2009 and its subsequent recovery. In fact, between 2009 and 2012 capital investment accounted for about three-quarters of Alberta's total GDP growth.

Statistics Canada has recently released preliminary investment estimates for 2013 and investment intentions for 2014, based on its private and public investment survey that was conducted between October 2013 and January 2014. Investment includes spending on both structures and on machinery and equipment.

The new estimates suggest that investment again provided a major boost to the Alberta economy in 2013, with the actual value (not adjusted for cost inflation) rising 8.6% to $111.2 billion. In 2012, investment surged 13.7%. However, in 2014 investment is expected to rise only 2.4% to $113.8 billion. When adjusting for cost inflation, the investment contribution to 2014 GDP growth is expected to be very weak or even slightly negative.

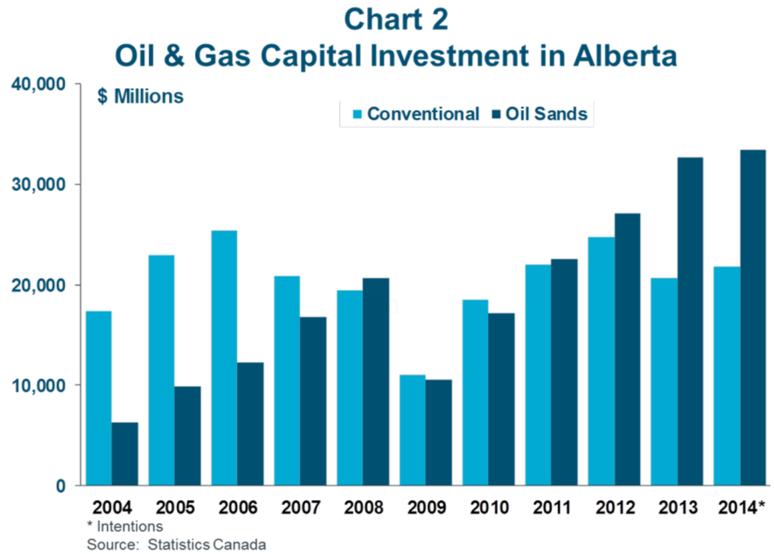
Chart 1
Capital Investment In Alberta



* Intentions
Source: Statistics Canada

During Alberta's first investment boom, which lasted from 1996 to 2008, the value of capital investment spending quadrupled. Oil and gas prices rose strongly over that period which led to surging investment in the energy sector, especially in the oil sands. Oil sands investment was also impacted by technological breakthroughs, such as the Steam-Assisted Gravity Drainage process. The wealth effects of higher energy prices also spilled over onto other sectors, such as residential housing, transportation (especially pipelines) and public institutions (especially provincial government, education and healthcare).

Within in the oil and gas sector, investment for conventional oil and gas projects rose from $8.1 billion in 1996 to $19.4 billion in 2008, while oil sands investment surged from just over $1 billion in 1996 to $20.7 billion by 2008. The oil and gas sector's share of total investment in Alberta averaged 45% over that time period. During the global recession, total investment spending fell by nearly 27%, and oil and gas investment by 45% as many previously announced large projects were put on hold. However, investment has bounced back strongly since then and by 2013 investment spending had reached new highs, as oil and gas investment has more than doubled since 2009. In 2013, oil sands investment was estimated at a record $32.7 billion, while conventional oil and gas investment came in at $20.7 billion. The oil and gas sector's share of total investment was 50% in 2013.

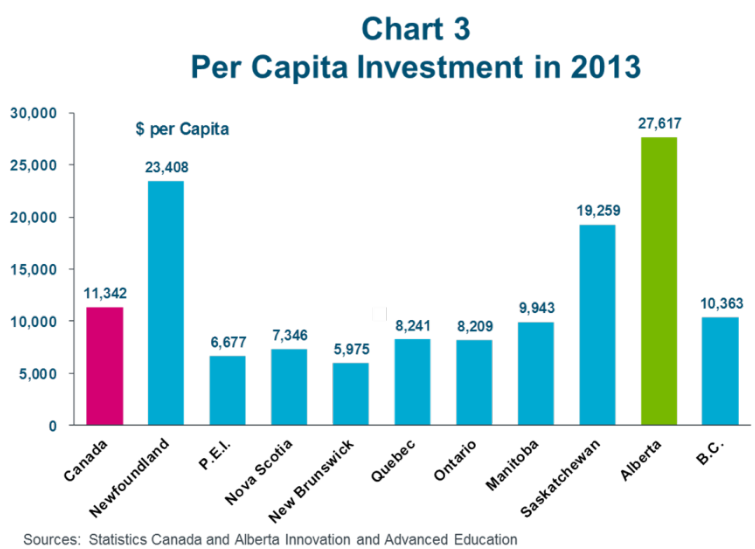


In 2013, strong growth in capital investment in Alberta was mostly the result of solid growth in:

- Oil sands (up 20%),
- Utilities (up 53% - electric power investment jumped 85%),
- Transportation and warehousing (up 37% - because of an 81% surge in pipeline investment),
- Public administration (up 19%),
- Manufacturing (up 15% - because of surging investment in refineries and fabricated metals), and
- Housing (up 9%).

Investment by the energy sector rose 1.9% to just over $55 billion, as strong growth in oil sands investment was nearly offset by a 17% decline in the conventional oil and gas sector and a 16% drop in the oil and gas services sector. In 2013, oil sands investment accounted for 29% of total Alberta investment.

Alberta accounted for 28% of total investment in Canada in 2013 and actually exceeded Ontario's investment level for the first time that year. As a result, Alberta leads all provinces on a per capita basis, with an estimated $27,717 capital investment per person, more than double the Canadian average of $11,342 per capita and 18% higher than the number two province, Newfoundland and Labrador.



The companies that were surveyed by Statistics Canada intend to spend $113.8 billion in Alberta in 2014, up from $111.2 billion in 2013. Investment by the conventional oil and gas sector is expected to rise 5.5% while oil sands investment is projected to increase by 2.3%.

Much of the expected investment growth in 2014 could come from the business services sector. The largest business services sector from an investment perspective is the transportation and warehousing sector which is dominated by pipeline investment. After growing by 37% in 2013, investment by the transportation and warehousing sector could grow another 13% in 2014 to $8.9 billion. Other strong growing service sectors are arts, entertainment and recreation (up 23% in 2014) and finance and insurance (up 9%).

Manufacturing investment is projected to rise 19% in 2014, as a result of a 51% increase for the chemicals sub-sector. The fastest growing sector in 2013, utilities, is expected to see investment decline this year by 9% and public administration by 8%. Housing investment is also expected to register a relatively weak increase of 3.1%.

In summary, Alberta continues to lead the country in per capita investment spending and has now surpassed Ontario as the number one province for investment attraction. Capital investment has been the largest driver of the Alberta economy since the mid nineties, and investment growth in turn has been largely driven by rapidly rising oil sands investment. However, investment may not provide as much of a boost to economic growth in 2014 as oil sands investment is expected to see little change.