Greater Edmonton
Economic Outlook - 2006

April 2006

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INTRODUCTION

Welcome to the Greater Edmonton Economic Outlook 2006 report. Edmonton Economic Development Corp. publishes this report annually to provide Greater Edmonton businesses with valuable market intelligence.

Data has been gathered from many different expert sources for this report including Alberta Economic Development, Bank of Montreal, Conference Board of Canada, Edmonton Socio-Economic Outlook, RBC Financial Group, Scotiabank, and TD Financial Group.

The first section (pages 5-13) examines the growth drivers that have propelled the Greater Edmonton economy over the past decade. The second section (pages 14-22) looks at economic indicators and projections for the future, and the third section (pages 23-36) explores challenges to help identify key priorities for the region.

The Economic Outlook report is available in both Microsoft Word and PowerPoint formast. Both can be downloaded from www.edmonton.com/statistics. A detailed appendix is also available.

Edmonton Economic Development Corp. is a not-for-profit company owned by the City of Edmonton that is responsible for regional economic development, regional tourism marketing, management of the the Shaw Conference Centre and management of Edmonton Research Park.

EXECUTIVE SUMMARY

Driven by rising energy prices, phenomenal investment in the oilsands, strong construction activity, growth in personal income, and strong consumer spending, Greater Edmonton has had a decade of strong economic growth – the greatest of any Canadian city in the past five years. With oil and gas prices expected to decline, but still remain at historically high levels, and with $85.7 billion in major projects planned for Northern Alberta, future growth prospects are very solid. GDP growth is expected to average about 3% over the next five years.

During the forecast period the population of Greater Edmonton is projected to increase by approximately 12,000 persons per year. Notwithstanding this increase, the unemployment rate is projected to continue to decline, from 4.7% in 2005 to 3.9 % in 2010. Personal income is projected to increase by more than 4% annually.

Interest rates are expected to dampen new housing construction, but it is still expected to average about 8,000 new units a year during the forecast period.

The downside risk to the forecast is a labour shortage. Greater Edmonton has absorbed its surplus labour over the past decade. To achieve the potential offered by the planned oilsands investment, Greater Edmonton employment will probably need to increase by about 12,000 persons per year.

Increasing net migration will be a critical priority both by attracting more persons and retaining those that already are here. To cope in the tight labour market, improvements in labour productivity will become even more important.

In conclusion, if Greater Edmonton successfully deals with its labour shortages it has the potential to lead the country in economic growth during the next five years.

GUIDE TO CHARTS AND TABLES

Data from many different parties have been referenced in creating this Outlook. The following abbreviations are used in tables and charts to refer to the data from specific organizations:

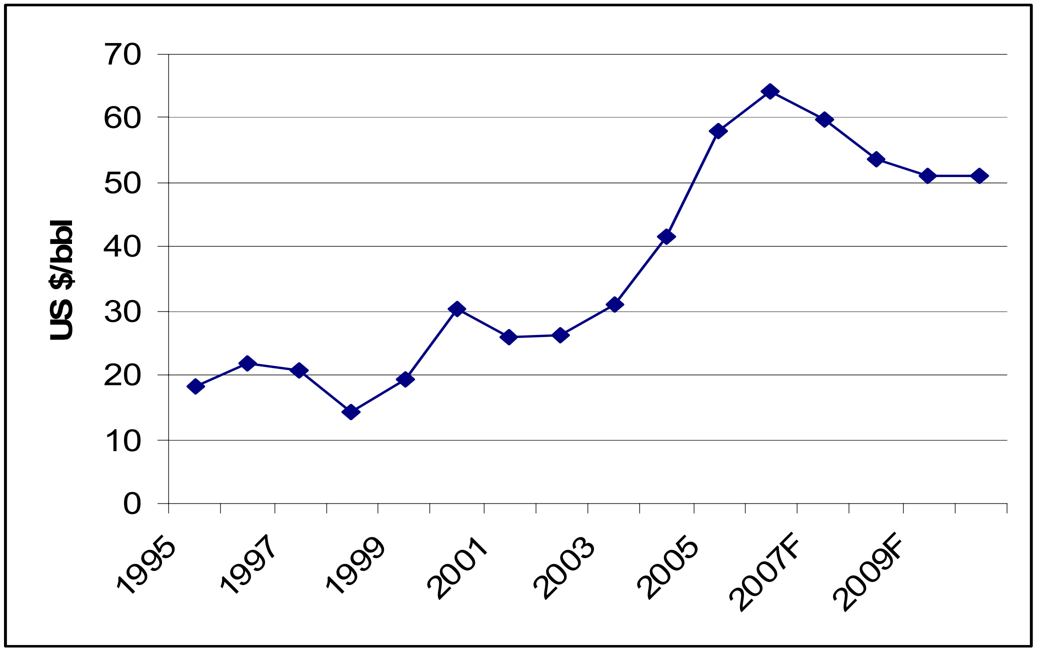
RBC = RBC Financial Group
Scotia = Scotiabank
BMO = Bank of Montreal
TD = TD Bank Financial Group
CBOC = Conference Board of Canada
AED = Alberta Economic Development
ESEO = Edmonton Socio-Economic Outlook

GREATER EDMONTON'S ECONOMIC GROWTH DRIVERS

1. **Rising energy prices**
2. **Oilsands development**
3. **Strong construction activity**
4. **Growth in personal income**
5. **Strong consumer spending**

Greater Edmonton's decade of strong growth is the result of many factors. Understanding the role that these factors played in the past provides good insights into the challenges and opportunities facing Greater Edmonton in the future. We therefore begin this forward Outlook by first looking back at eight significant drivers of Greater Edmonton's recent success.

1. RISING OIL PRICES

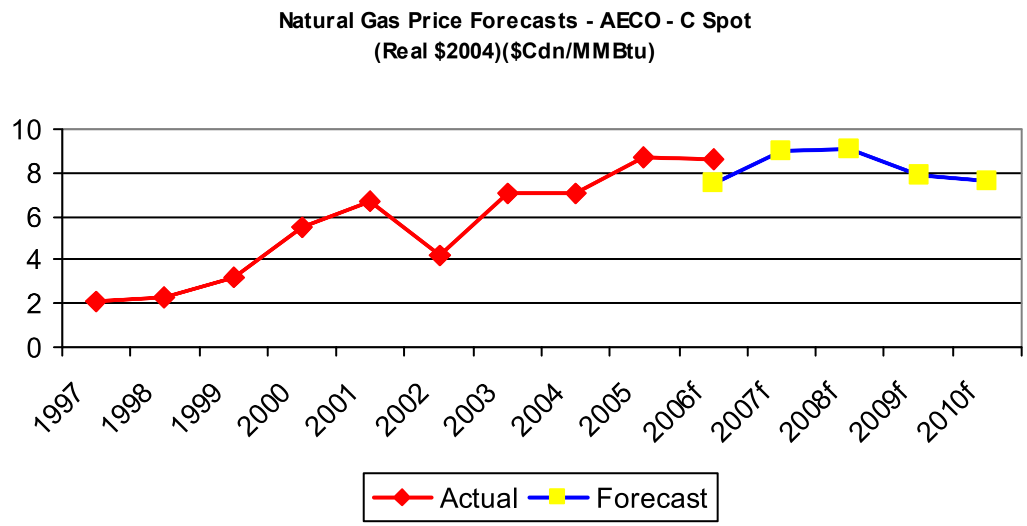


In 2003, the forecast was for oil prices to gradually decline in 2004, reflecting the elimination of the premium paid in 2003 – as a result of the Iraq war – and expected increases in production. However, several factors, including: increases in global demand, brought on by the industrial growth in China and India; a low level of reserves; an inability to greatly increase production in the short term; lagging investment in the development of new reserves; natural disturbances like hurricane Katrina; and continuing worry over the terrorism threat, contributed to a continued rise in the price of oil.

It is projected that during the period of this forecast oil prices will fall. Nevertheless, the prices are not expected to fall below $50 US per barrel.

The high oil prices have increased the viability of oilsands projects and have spurred increased drilling activity both of which have been a major contributor to Edmonton's growth.

1. RISING GAS PRICES



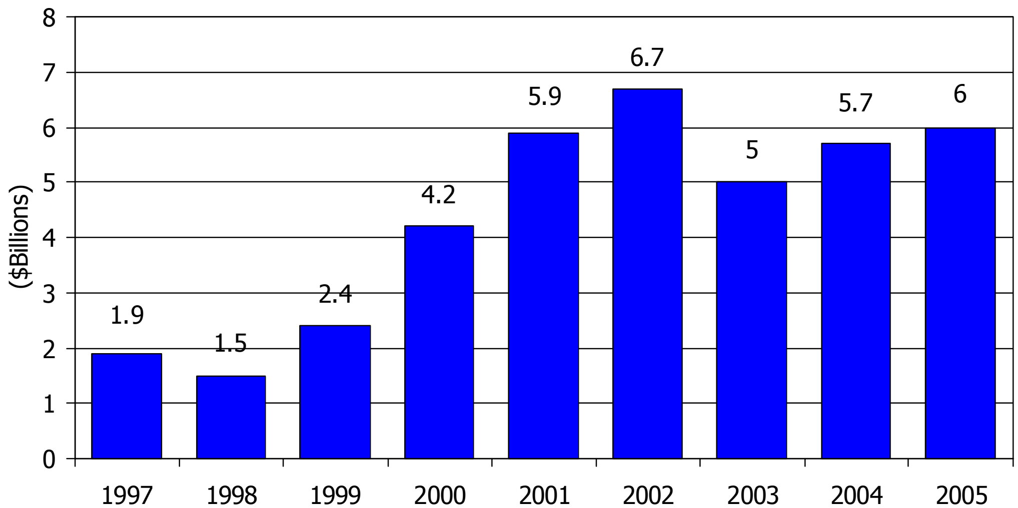
Natural gas prices are projected to stay at historically high levels for the following reasons:

- strong economic growth in North America that translates into high demand
- reliance on natural gas for electricity generation – switching of these plants to other energy sources takes time and considerable investment
- a decrease in the discovery of new natural gas fields which is constraining supply
- very high oil prices which discourages switching from gas to oil.

It is expected that in the medium-term prices will fall back to lower levels once the shut-in northern gas fields in Alaska and the Northwest Territories are brought on-stream with the construction of one or more pipelines.

High gas prices have both positive and negative impacts on the Greater Edmonton economy. On a positive side it spurs increased drilling activity and provides funding for greater provincial government investment in programs and infrastructure. On the negative side, it greatly increases heat and electricity costs for Greater Edmonton business, eroding our cost advantage.

2. OILSANDS INVESTMENT EXPENDITURE FORECAST

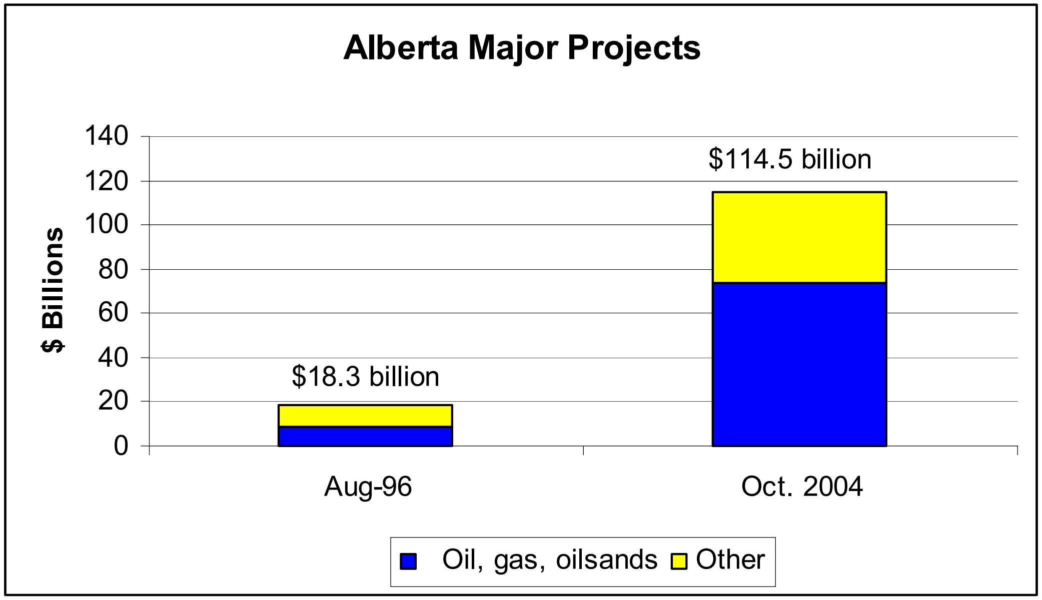


1996 was a pivotal year for Greater Edmonton as it marked the signing of a new agreement that reduced provincial royalties on oilsands output to 1% of revenues, until such time as project development costs had been paid off. With this new royalty regime in place development of the oilsands ramped up.

The absolutely tremendous economic success of this agreement is clearly revealed by the fact that the original estimate was for $5.7 billion to be invested in the oilsands over 25 years, an estimate that was quickly quadrupled to $21 billion over 25 years. Even that new forecast has missed the mark, with investment now estimated to be $40 billion through 2005.
Another $45 billion worth of projects are forecasted to be completed by 2010, with new projects being announced on a regular basis.

In the above chart the light coloured bars represent the value of proposed projects while the dark bars represent an estimate of the announced projects that are likely to be completed within the identified timeframe.

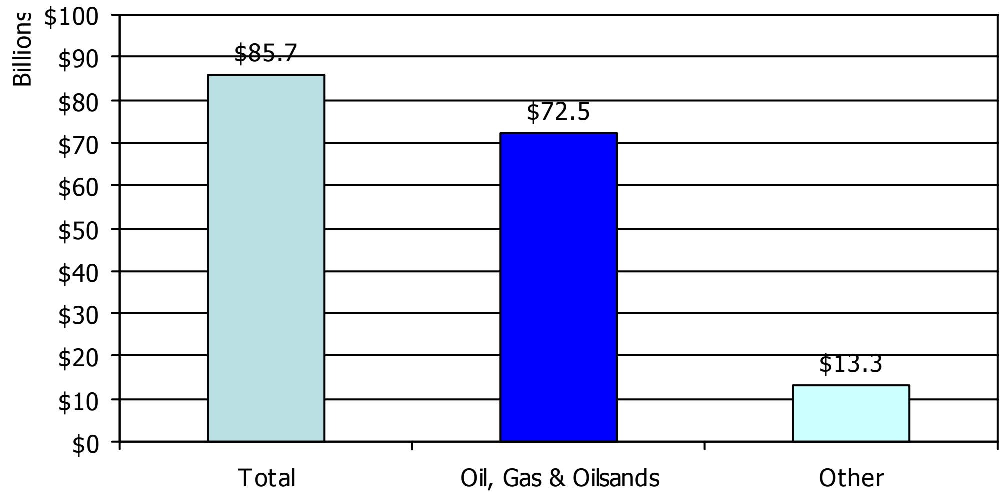
3. Strong Construction Activity



While the oil, gas, and oilsands sector accounts for the majority of capital investment in Alberta, it has also created a favourable climate for other capital investment. As a result the value of planned capital investment in October 2005 is six times greater than it was a decade earlier.

As a result of this investment the construction sector has seen its share of Greater Edmonton employment increase from 5.8% in 1995 to 9.1% in 2005.

3. Major Projects in Northern Alberta

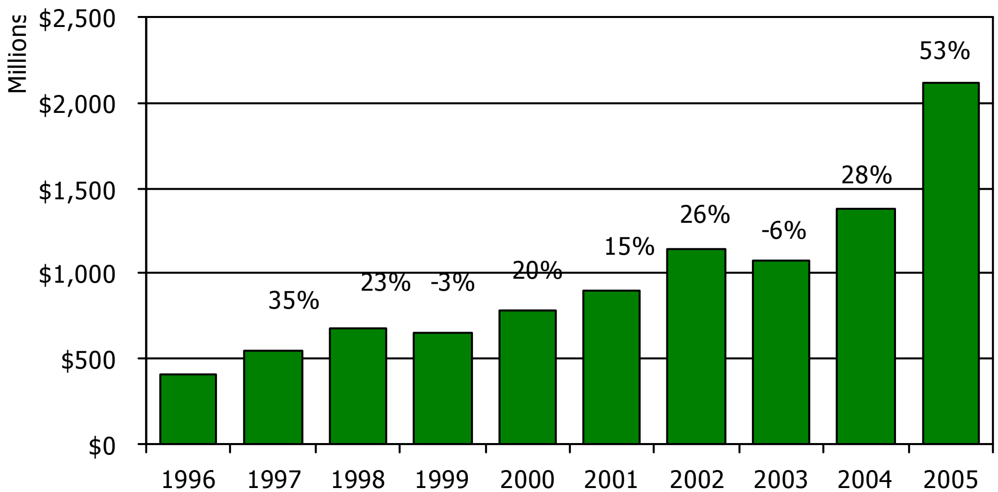


Of the $114.5 billion in major construction projects identified by AED, $85.7 billion worth (75%) are located within northern Alberta (Red Deer north).

Oil, gas, and oilsands projects account for 85% of the value of these projects.

This includes the construction of open-pit and in-site mining operations and upgraders for turning the bitumen into lighter oil that can be refined. There is also considerable investment planned in pipelines to transport both bitumen and refined products.

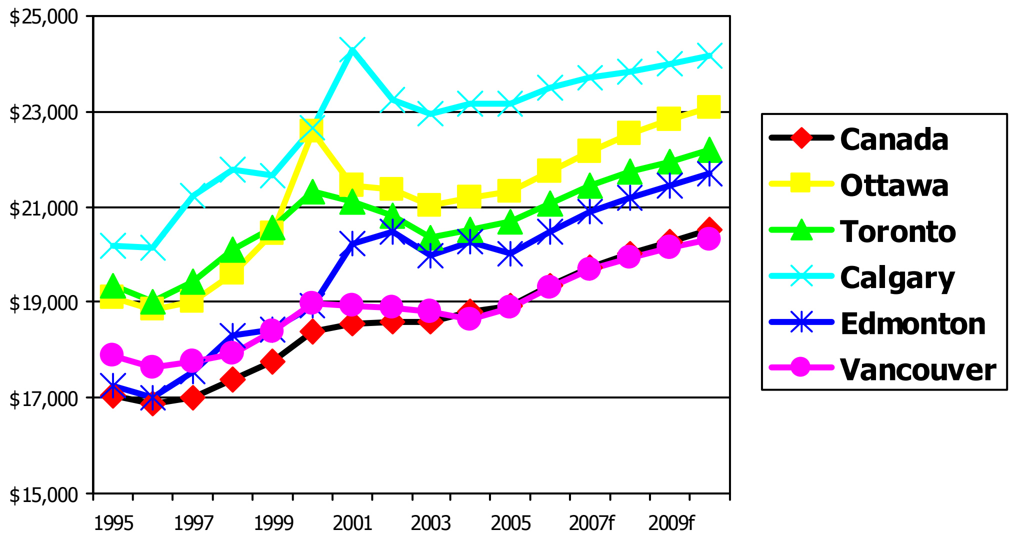
3. City of Edmonton Building Permits Value



Residential building permits increased in value from $834 million in 2004 to $1.3 billion in 2005. Institutional building permits also contributed to the overall growth, more than doubling in value in 2005

For the first time the value of building permits issued by the City of Edmonton exceeded $2 billion in 2005. This was the result of an increase of more than 50% in 2005. What makes this all the more remarkable is the fact that the value of building permits rose by more than 15% in seven of the previous nine years.

4. Personal Disposable Income per Capita (1992$)

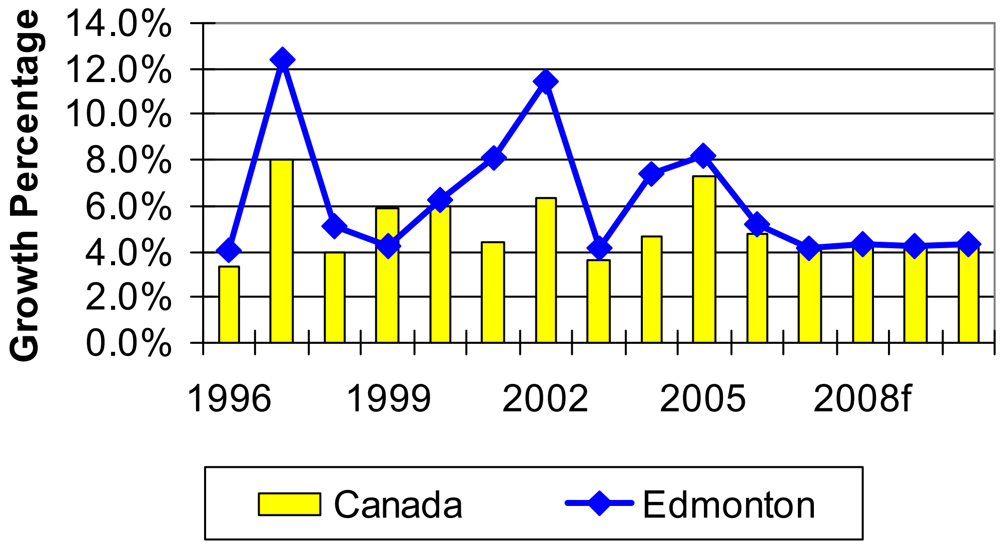


First, labour shortages in Edmonton during the forecast period will increase wages and thus the income per capita. Second, if successful in realizing increases in net migration, Edmonton is likely to experience economic growth greater than projected. This growth should continue the recent pattern of increasing disposable income.

The growth in personal income in Alberta in the past decade has been substantial, and much stronger than that seen in other major cities outside of Alberta. As a result, personal disposable income in Greater Edmonton is now greater than for Canada overall, has passed Vancouver, and has almost caught up to Toronto.

The Conference Board is projecting a status-quo scenario during the forecast period. This projection may be conservative for two reasons.

5. Retail Sales Growth



Growth in retail sales in Greater Edmonton has exceeded the Canadian average growth in seven of the past ten years. Retail sales in Greater Edmonton in 2005 were 90% greater than in 1996. By comparison, retail sales in Canada only grew by 63% during this period. Calgary was the only Canadian city to experience a higher rate of growth in retail sales in the past decade.

The wholesale and retail trade sector is an important contributor to the Greater Edmonton economy, accounting for approximately 13% of GDP and 18% of employment. With low unemployment fueling consumer confidence, with rising incomes proving disposable income, and interest rates still at historically low levels, the fundamentals are in place for the retail and wholesale sector to do well during the forecast period.

The Conference Board is projecting retail sales in Greater Edmonton to slow over the next five years. Higher interest rates are expected to contribute to this, as would a slow down of housing starts (fewer homes to furnish). However, if wages rise rapidly because of labour shortages, retail and wholesale sales could be higher than projected.

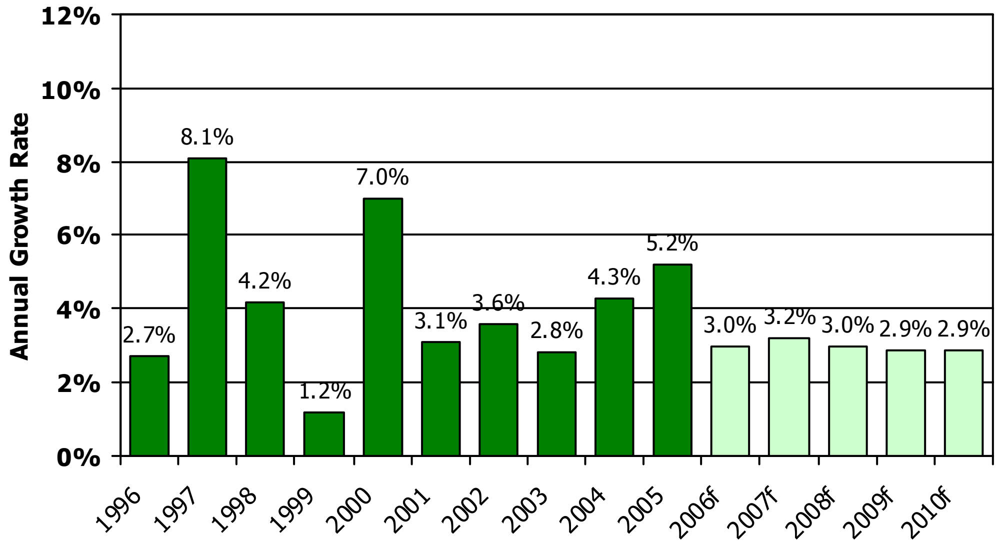
The retail sector is likely to experience real challenges in attracting needed labour. As a consequence expect this sector to be aggressive in adopting new technology – eg. self-serve checkouts – and to revisit policies such as extended hours of operation.

EDMONTON FUTURE PROJECTIONS – KEY ECONOMIC INDICATORS

- **GDP**
- **Population**
- **Unemployment Rate**
- **Inflation**
- **Housing Starts**

This section of the Outlook explores the prospects for Greater Edmonton over the next five years by examining the expected movement in several key economic indicators.

PROJECTED GDP GROWTH



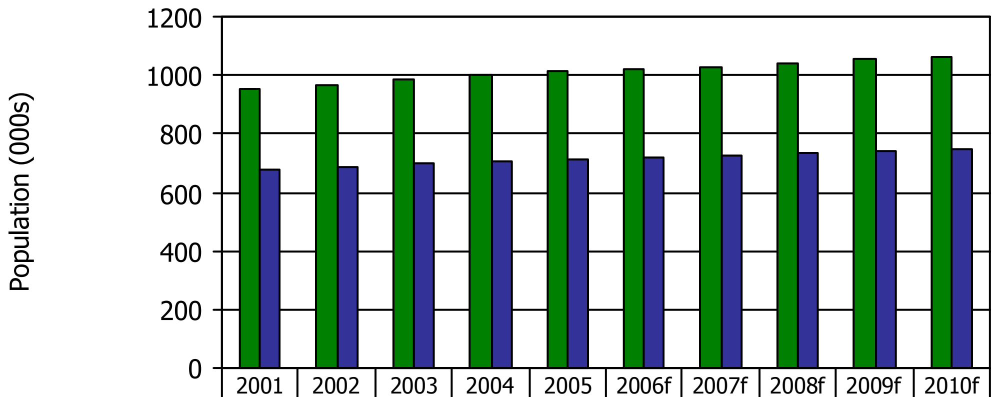
The Conference Board of Canada is projecting Greater Edmonton's economic growth to slow somewhat over the next five years, but still to average around 3% annually. As you will see in this Outlook, if Greater Edmonton can successfully address some of the challenges that it faces, challenges brought on by the past decade of superb growth, the fundamentals are in place for Greater Edmonton to exceed the forecast growth in the next five years.

The Conference Board of Canada estimates indicate that the Greater Edmonton GDP in real terms increased by 46.9% in the past decade. This ranked Greater Edmonton third in economic growth over this period, only marginally behind Toronto and Calgary. Over the last five years Greater Edmonton's economic growth has actually been the greatest of any Canadian city. This sustained growth is reflected in the following:

- +3% growth rate in 7 of the past 10 years
- Exceeded Canadian growth in 9 of past 10 years
- Exceeded AB growth in 7 of past 10 years

POPULATION GROWTH

City of Edmonton and Edmonton CMA



	2001	2002	2003	2004	2005	2006f	2007f	2008f	2009f	2010f
Edmonton CMA	954	967	985	1000	1016	1020	1031	1043	1054	1066
City of Edmonton	678	686	698	707	712	720	727	735	741	748

Greater Edmonton has an estimated population of 1,080,000 in 2005, with the City of Edmonton accounting for 712,000 of this population. The city of Edmonton has had consistent positive growth for a number of years. The growing wealth and prosperity of the region will continue to attract people.

Edmonton has also been seeing physical growth to accommodate the expanding population, especially in the south/southwest corner. The creation of the Anthony Henday ring road will facilitate the movement of the increasing population and will reduce traffic on some of the more congested routes through the city.

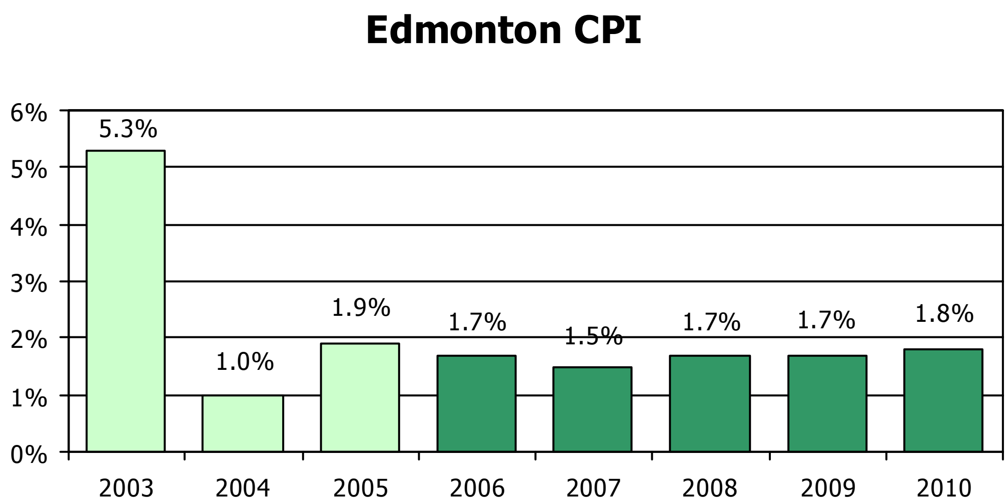
UNEMPLOYMENT RATE EDMONTON AND CANADA

This combination of low unemployment and high participation presents a challenge in achieving year-over-year economic growth. Improved productivity and/or an influx of new workers is needed.

The gap between the Canadian and Greater Edmonton unemployment rates grew substantially after development commenced on the massive oilsands projects in northeast Alberta.

This gap has made Greater Edmonton attractive to job seekers, but this advantage is eroded as the gap decreases. The unemployment level in Canada, in February 2006 was 6.4%, it's lowest level in thirty years. This low level of unemployment decreases the economic imperative to move to Edmonton in search of work.

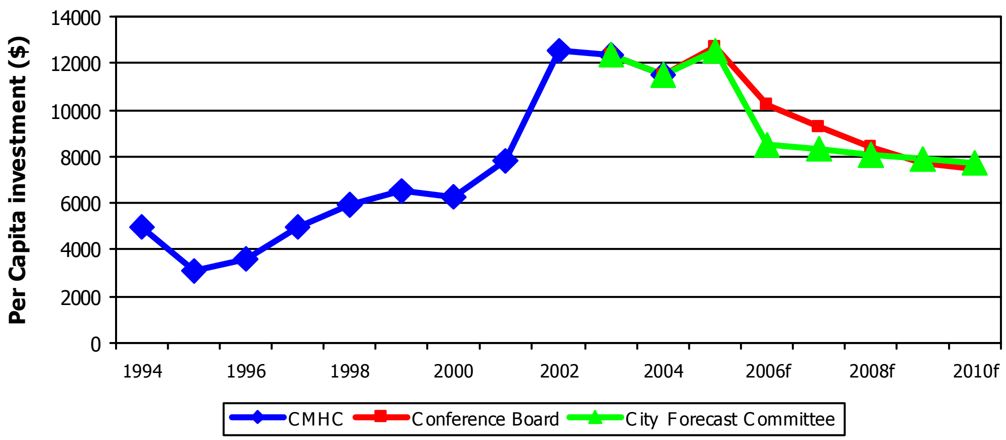
Edmonton's inflation rate is projected to remain below 2%. The biggest risk to this forecast appears to be the very tight labour market which



INFLATION

could lead to accelerating wage rates. In January 2006 the Statistics Canada Labour Force survey found that wages had increased by 5.7%. This is above the Canadian average of 3.5% but well below the Alberta average of 9.2%, and 12.3% in Calgary.

ANNUAL HOUSING STARTS EDMONTON CMA



The tremendous jump in the value of residential building permits translated into 13,200 housing starts in 2005, the second most annual housing starts in Greater Edmonton. This truly illustrates the current strength of the Greater Edmonton economy, and the confidence of the business community, as this high level of starts follows a five year period (2000 – 2004) in which housing starts averaged 10,106 per year. This had been more than double the average of 4,824 starts per year in the prior five years. The increase in starts in 2005 defied expectations as most forecasters had expected a decline in 2005.

The high rate of housing starts resulted in an increase in inventory and has contributed to an apartment rental vacancy rate of 4.5% in October 2005. These trends provide a marketing advantage in attracting people to Greater Edmonton. Not only can Greater Edmonton offer jobs, it is also able to offer available, affordable accommodation.

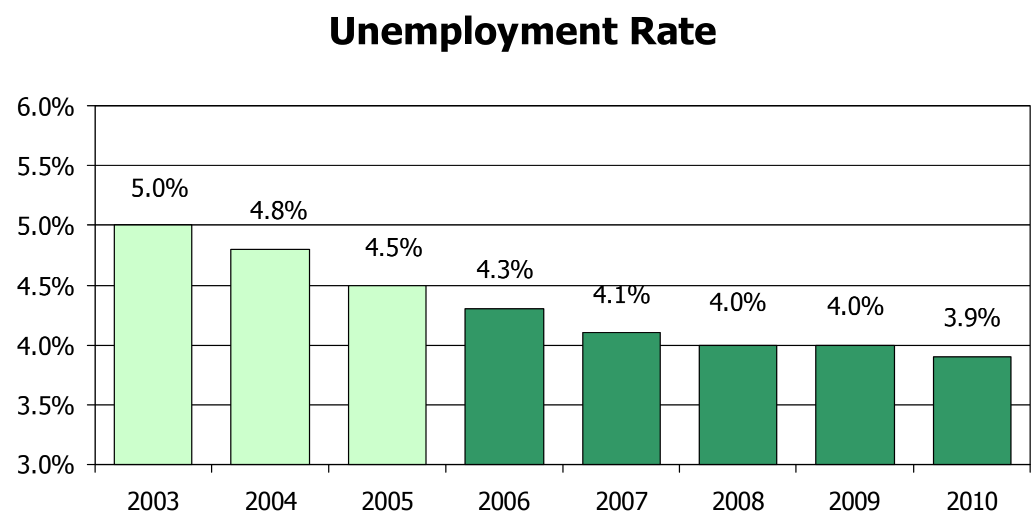
The Conference Board forecast for Edmonton is more conservative than that of the City Forecast Committee. .However, a review of the eight most recent Conference Board metropolitan forecasts reveals that it has consistently underestimated future housing starts in Edmonton.

KEY ECONOMIC INDICATORS EDMONTON CMA

	Rate of Growth (%)						
	2004	2005	2006f	2007f	2008f	2009f	2010f
Real GDP	4.3%	5.2%	3.0%	3.2%	3.0%	2.9%	2.9%
Total Employment (000s)	556	551	564	575	584	592	600
Employment Growth	3.0%	-1.0%	2.5%	1.9%	1.5%	1.4%	1.4%
Unemployment Rate (%)	4.9%	4.7%	4.3%	4.1%	4.0%	4.0%	3.9%
Personal Disposable Income	4.0%	2.5%	5.5%	4.7%	4.6%	4.2%	4.2%
Population Growth	1.1%	1.3%	1.3%	1.1%	1.1%	1.1%	1.1%
Retail Sales	7.4%	8.2%	5.2%	4.2%	4.3%	4.2%	4.3%
Housing Starts (000s)	11.5	12.7	10.2	9.3	8.4	7.7	7.5
Consumer Price Index	1.0%	1.9%	1.7%	1.5%	1.7%	1.7%	1.8%

LABOUR- THE KEY CHALLENGE

EDMONTON UNEMPLOYMENT RATE



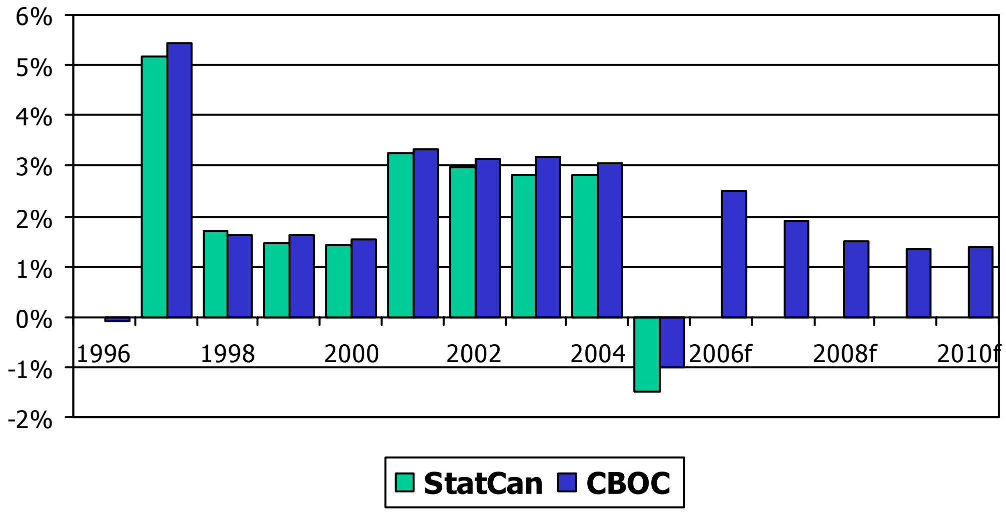
Sources: Statistics Canada, CANSIM Table 282-0053;
Conference Board of Canada, Metropolitan Outlook, Winter 2006

Through the past decade of strong economic growth the unemployment rate in Greater Edmonton has fallen from 8.3% in 1996 to 4.5% in 2005, and is projected to fall to less than 4% by 2010. Surplus labour has been used up and the Greater Edmonton marketplace is now experiencing labour shortages.

Greater Edmonton's success in achieving and exceeding the projected GDP growth will largely be determined by its success in dealing with the labour shortages. In this environment business can expect to experience escalating wage rates and greater employee turn-over as employees are hired away by competitors, and workers change industries as they move to higher paying jobs. Service sectors that employ large number of unskilled or semi-skilled workers are likely to experience the most labour shortages; business closures are likely to increase in frequency among those businesses.

To manage these labour shortages the business community will need to increase its investment in equipment, process improvement, and training so as to improve labour productivity

EMPLOYMENT GROWTH

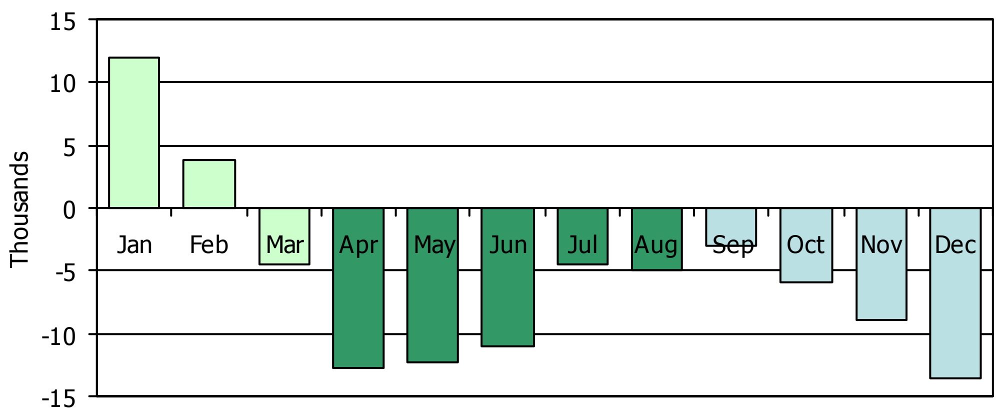


Edmonton has experienced impressive job growth since 1996. The Conference Board of Canada projects that Edmonton's above average employment growth in the first four years of this decade will give way to reduced growth in the 2005-10 period.

The 1% decline in employment in Edmonton in 2005 had not been forecast. The reason for the decline, or whether there actually was a decline, is explored in the following charts and tables.

2005 EMPLOYMENT DECLINE

Edmonton Total Employment



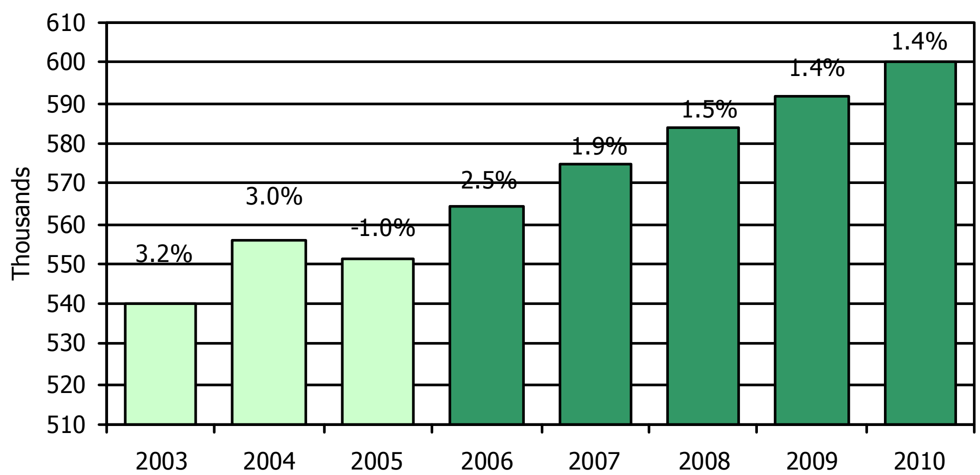
In 2005 Greater Edmonton employment began to decline in March, compared to the same month of 2004, and by the end of the year had declined by 8,000 from what it had been in 2004. The decline continued into January of 2006. Given Greater Edmonton's hot economy how can this be?

The Statistics Canada Labour Force Survey (LFS), which is the source of these employment estimates, produces estimates of labour *supply* (employment), not labour *demand* (jobs). That is because the LFS is a survey of workers not employers. In practice the terms employment and jobs have often been used interchangeably, but they are not the same thing. When unemployment is high, employment is a reasonable proxy for jobs, but not in a low unemployment/hot economy with many job vacancies, which is what we now have in Greater Edmonton.

What occurred in 2005 was the working age population increased by 13,500 but the labour force decreased by 10,000. This has been traced to a drop in the participation rate (the % of persons 15 or older who are working or actively looking for work) from 72.8% in 2004 to 70.3% in 2005. As a result, 24,000 persons voluntarily withdrew from the Greater Edmonton labour market in 2005. The participation rate fell among almost all age/sex groups in Greater Edmonton in 2005. There are many possible explanations for the decline in participation, but the bottom line is labour shortages increased.

What the employment decline really tells us is that Greater Edmonton is a great place to move to - almost a guarantee of finding a job!

EDMONTON EMPLOYMENT



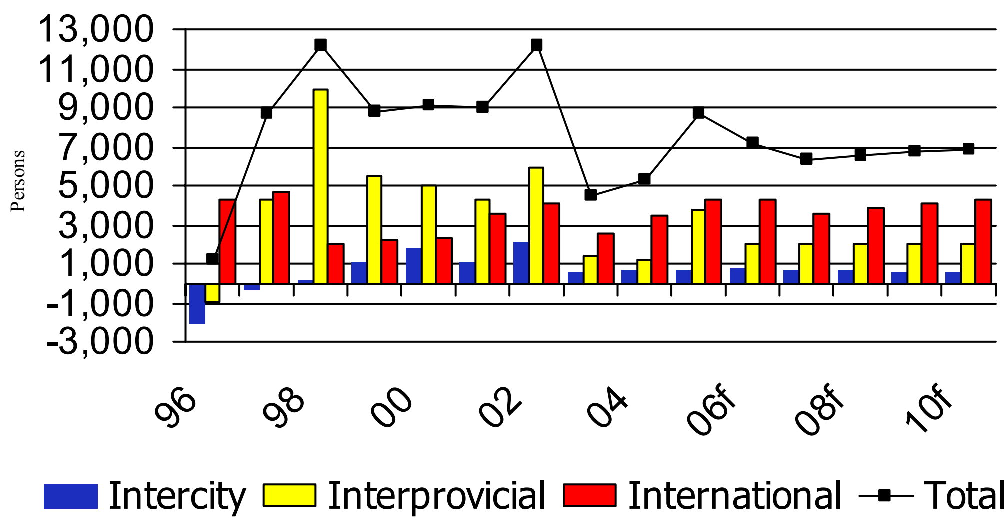
The Conference Board is forecasting steady employment growth for Greater Edmonton from 2006 to 2010; ranging from 2.5% in 2006 and declining to 1.4% in 2010. This growth translates into actual employment increases of 13,700 in 2006, 10,800 in 2007, 8,600 in 2008, and 8,000 in each of 2009 and 2010.

By comparison, from 1997 through 2004 Greater Edmonton's annual employment growth averaged 13,700. This is substantially greater than the 9,800 projected by the Conference Board from 2006 through 2010. The projected employment growth for the 2006 – 2010 period would appear to be somewhat conservative given that the current plans are to invest $63.5 billion in oilsands projects from 2005 to 2010, which is 1.9 times what was spent from 1996 – 2004, in only 6 years rather than 9.

This suggests that over the next five years the Greater Edmonton economy will be capable of creating significantly more jobs than it will have workers to fill those jobs. This implies that in order for the oilsands projects to move forward as planned the companies may be forced to both import labour from outside of Alberta and increase their use of imports in the oilsands projects.

INCREASED MIGRATION
A KEY PRIORITY

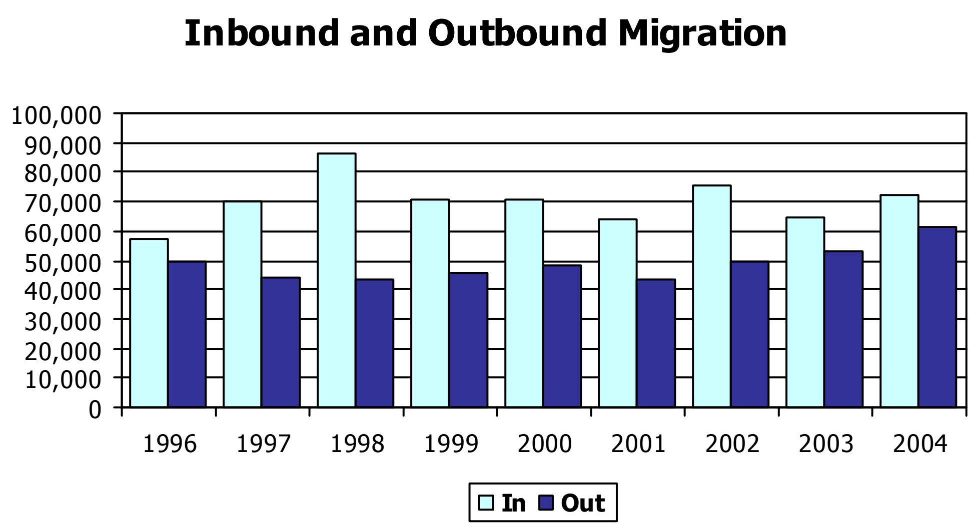
PROJECTED MIGRATION: EDMONTON



Net-migration to Greater Edmonton is projected to have increased in 2005 after slowing down in 2003 and 2004. However, it is still well below the 12,000 level achieved in 2002. Given the labour shortages that are now being experienced in Greater Edmonton, the challenge will be to increase our net-migration, attracting more than our fair share of migrants from elsewhere in Canada and from other countries.

The migration mix has changed significantly in the decade, with both the inter Alberta (inter-city) and inter-provincial share declining substantially. Part of this trend can be traced to prosperity in other provinces. British Columbia is anticipating sizeable output growth in the mining industry, with a number of new projects getting underway. Additionally, the 2010 Olympic games in Vancouver has also created new employment opportunities and has made out-migration less attractive. The number of international migrants has been fairly consistent over the past five years, but it's share of the total has increased because of declines in the other two sources (inter city/provincial).

ALBERTA TOTAL MIGRATION



Alberta's net migration could be substantially higher if the number of people leaving the province could be reduced. In fact, the number of people leaving the province increased in each year from 2001 through 2004.

Given the need for labour and the higher than average income levels why are people leaving the province?

There is no available research that provides an answer to that question. In response EEDC is undertaking a pilot project in 2006 to identify the motivations of migrants inbound and outbound from Greater Edmonton.

KEY STRATEGIES FOR MAXIMIZING FUTURE GROWTH

1. **RAMP UP PEOPLE ATTRACTION**

2. **REDUCE OUTBOUND MIGRATION**

3. **IMPROVE THE EXTERNAL IMAGE OF GREATER EDMONTON**

4. **OFFER FLEXIBLE WORK CONDITIONS TO MAINTAIN A HIGH PARTICIPATION RATE WITHIN OUR WORKFORCE**

Over the next five years Greater Edmonton should set an annual net migration goal of at least 12,000 persons. This will need to be achieved by a combination of strategies to attract more migrants and retain the workers that we now have.

Replacing negative external myths of Greater Edmonton with positive messages that project Greater Edmonton as a vibrant location with a strong economy and a good quality of life will be needed in order to achieve people attraction and retention strategies.

It is also important that Greater Edmonton maintain its labour participation rate at a high level since a decline decreases the available labour force and increases the need to increase net-migration. Our business community must find creative ways to keep workers in the labour force.

5. STAY THE COURSE ON DIVERSIFICATION

6. INTRODUCE LABOUR PRODUCTIVITY IMPROVEMENTS

7. PROVIDE A BROAD RANGE OF EDUCATIONAL OPPORTUNITIES FOR OUR YOUTH

8. DEVELOP TRAINING STATEGIES THAT WILL ENABLE WORKERS IN THE PRIMARY WORKING AGE 25-45, TO BOTH UPGRADE AND CHANGE THEIR CAREERS

The acceleration of the oilsands development beginning in the mid 1990s provided an opportunity for Greater Edmonton to reinvent itself, transitioning from an economy built on the support of traditional oil and gas exploration and development. To maintain prosperity over the long-term there remains a need to leverage the wealth from the natural resources and further diversify the Greater Edmonton economy into knowledge sectors. EEDC will remain focused on diversification, working with industry to enhance our clusters and facilitate the adoption of technology and process improvements that will improve labour productivity.

In order to meet both short-term labour needs and still facilitate diversification it will be essential that we achieve a good balance between trades/technical learning opportunities and college/university training. Our young people must have the opportunity to choose a training stream that meets there own personal interests.

GREATER EDMONTON ECONOMIC OUTLOOK - 2006

An Appendix to this Outlook provides more detailed charts and tables for many of the topics covered in this Outlook, as well as some additional topics. The Appendix can be downloaded from:

www.edmonton.com/statistics

A PowerPoint version of Outlook 2006 is available by e-mail request at:

info@edmonton.com