Edmonton's Current Economic Trends and 5-Year Forecast

Participants

1. City Forecast Committee
    - Representatives of each department, agencies and commissions
2. External Forecast Committee
    - Representatives of industry, other government sectors:
        - Richard Goatcher (CMHC)
        - Greg Christenson (Edmonton Chamber of Commerce, Christenson Developments)
        - Larry Anderson (Mancap Group)
        - Ken Williamson (VP Colliers)
        - Laurie Scott (UDI)
        - Mike Wo, EEDC
        - …7 others from the government of Albera, industry.

How Did I Do for 2007?

	Previous Forecast for 2007	Predicted direction (up/down) from 2006	Actual	Actual Direction
Unemployment Rate	3.7%	Down	3.8%	Up
Total Housing Starts (City)	9,300	Down	8,894	down
Total Housing Starts (CMA)	13,600	Down	14,888	up
Inflation Rate	3.5%	Up	5%*	Up
Non Residential Construction Price Index	9.4%	Down	20%*	Up
Net Migration	13,600	Down	20,000*	Up

* Estimate for 2007

Key Issues From Last Year's Presentation

1. Limited inventory in 2006 and high prices in housing market could impact population growth in 2007
2. High construction costs/consumer prices could impact construction/consumer spending in 2007
3. The U.S. economy could tank from weak housing market

Recent Key Economic Drivers for Edmonton

1. High Energy Prices
   - From US$18/bbl in 1995 to around US$90/bbl today
2. Strong Oil Sands Investment
   - From $1.3B 1995 to its current level of over $17B
3. Low Interest Rates
   - From 15% in 1990 to current levels of 6%

A decade of Substantial Growth

1. **Strong labour market:**
   - Unemployment Rate: From 6.8% (early 90’s) to current rate of 4%
   - 117,000 new jobs created (11,600 per year)
2. **Strong Housing Market:**
   - 66,000 new homes built (avg of 9,000/yr in last 4 years – 6,000/yr last 10 years)
   - Single family home prices up 190% (34% in 2006)
3. **Strong Consumer Spending**
   - Growth has averaged 4% per year since 1996
   - Represents 50% of total economic activity
4. **Strong Economic Output**
   - Economic growth has averaged 4% per year (long run average: 2.5%)
   - From $33 billion in total output in 1999 to $45 billion in 2006 (average annual growth of $1.7 billion per year)

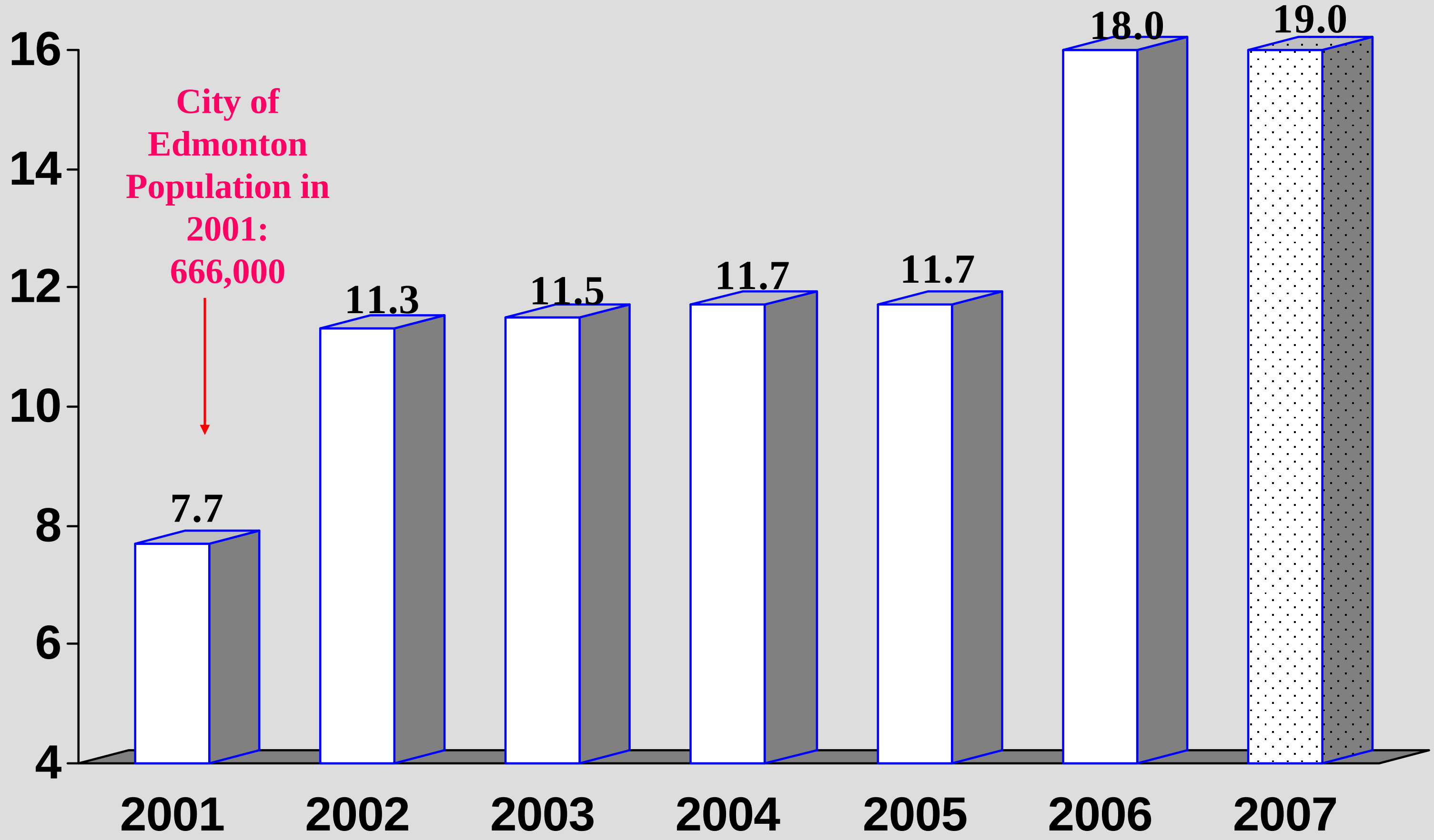
Strong Population Growth

City of Edmonton Annual Change in Population

(Thousands)

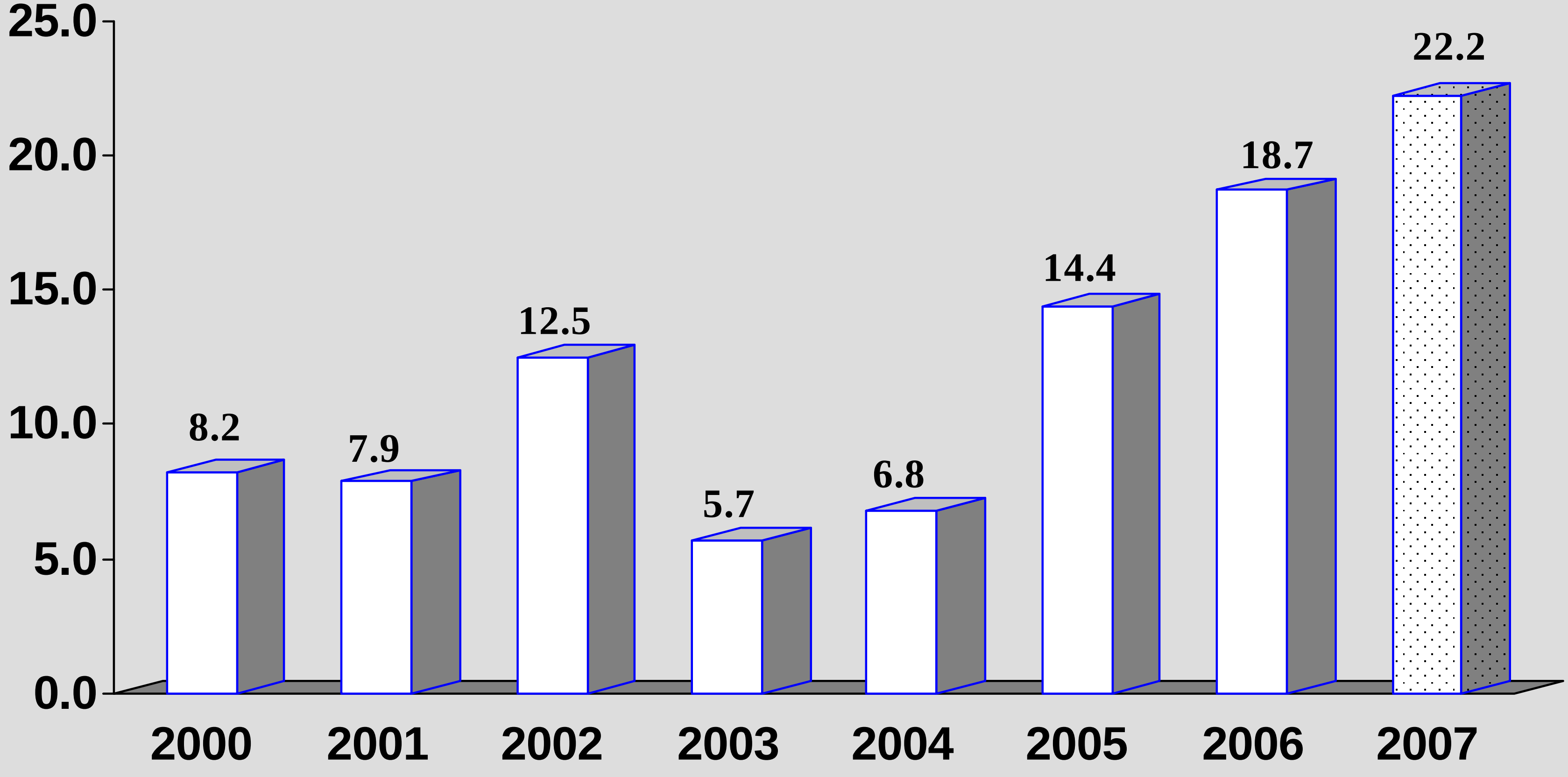
City of Edmonton Population in 2006: 730,372 (742,000 post censal estimate)

City population grew by 83,000 (11,500 or 1.7% per year) since 2001



Edmonton CMA Total Net Migration

(thousands)

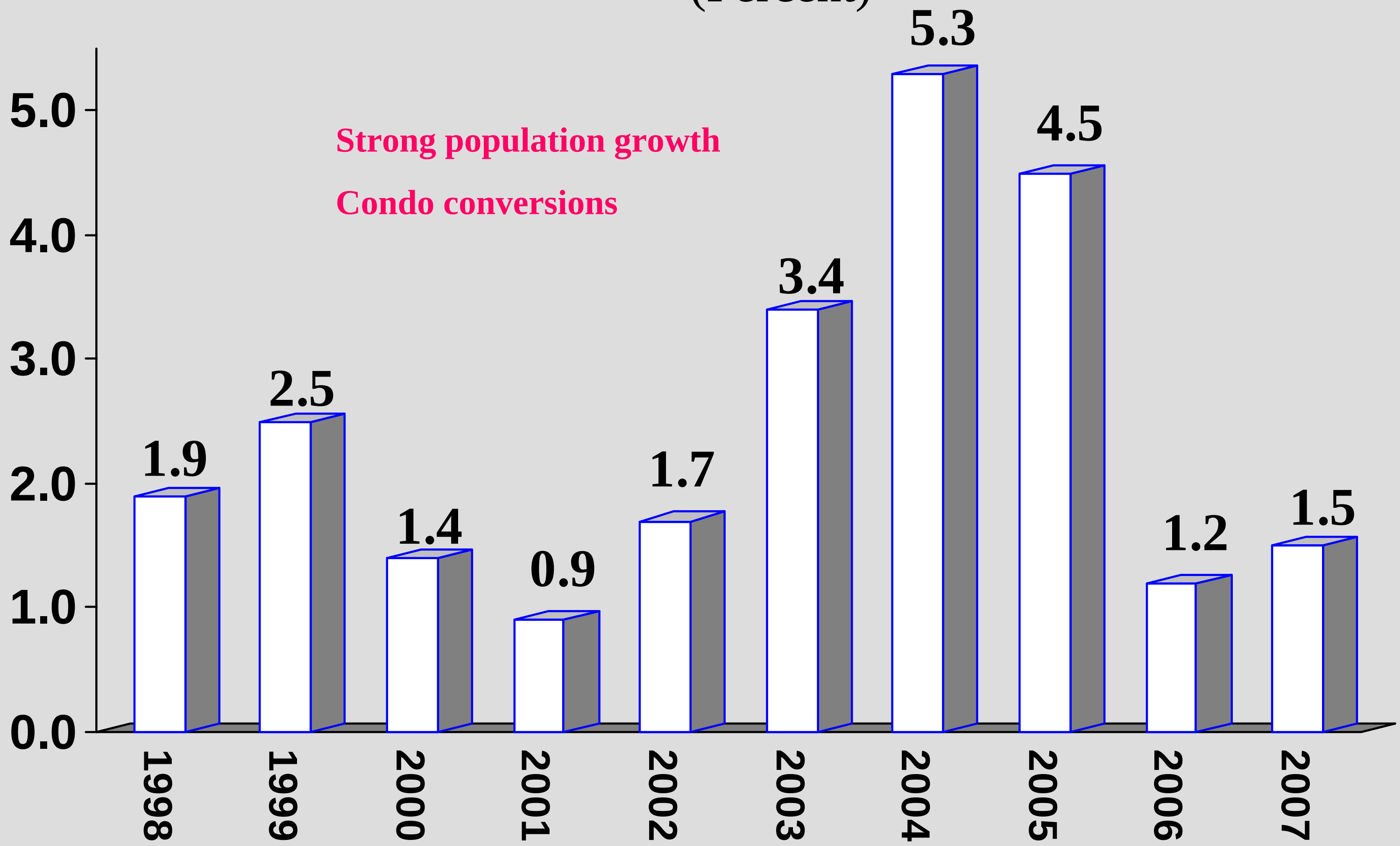


Source: Statistics Canada

Vacancies Plummeting

City of Edmonton Apartment Vacancy Rate

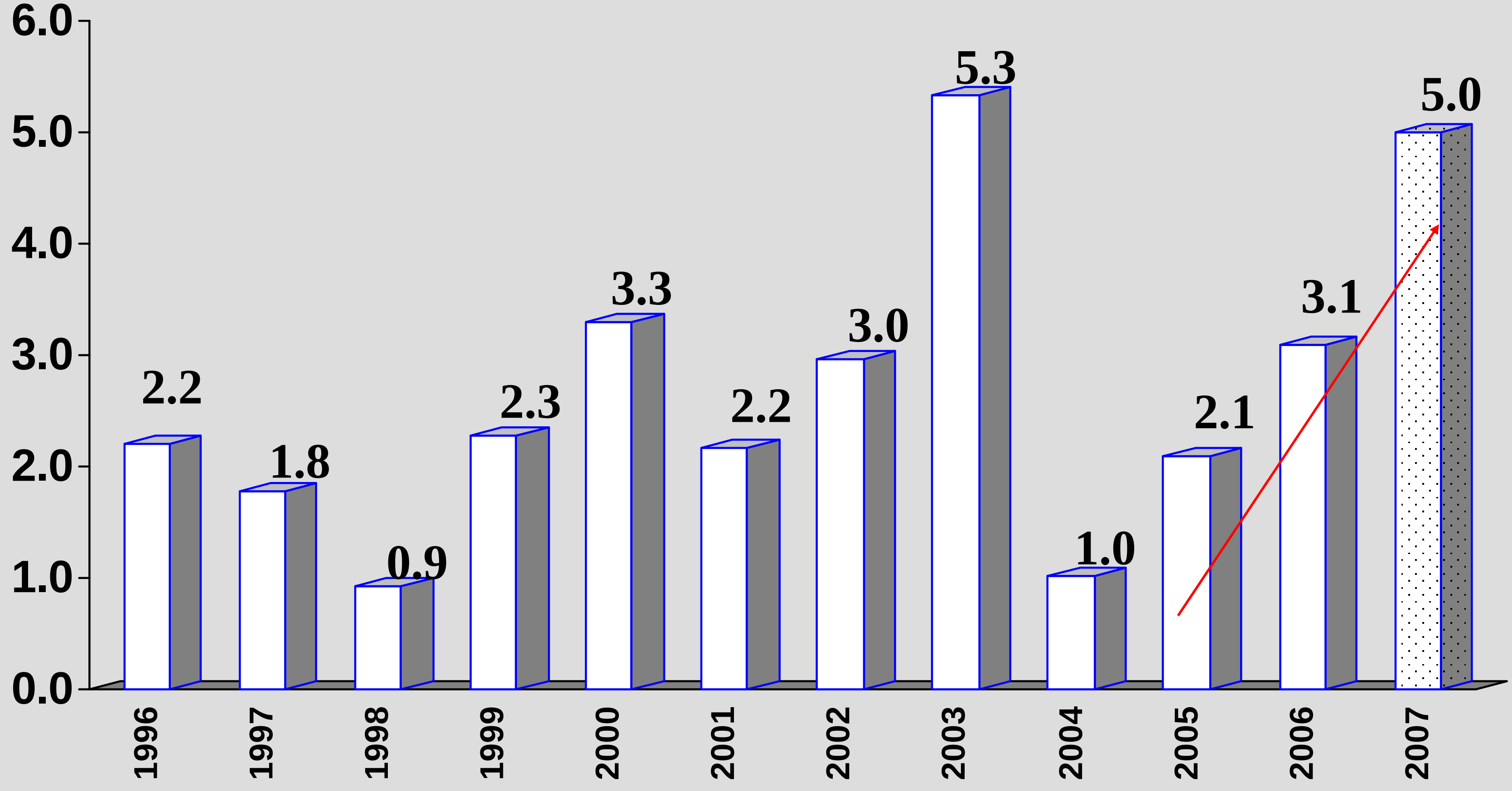
(Percent)



Consumer Prices Rising

City of Edmonton Consumer Price Index

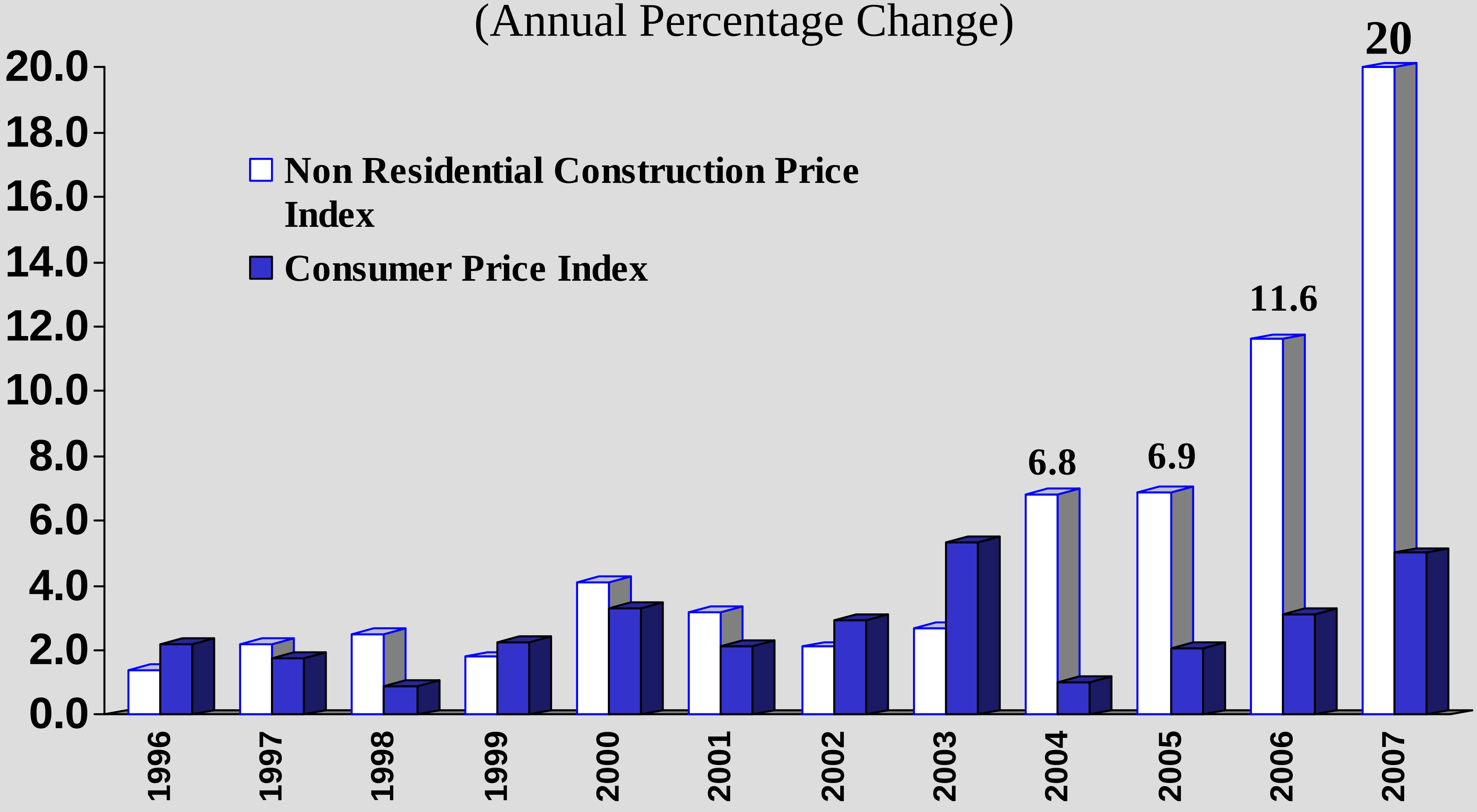
(Annual Percentage Change)



Contractors Selling Price Rising Faster

Non Residential Construction Price Index

(Annual Percentage Change)



Key Issues Over the Past Few Years:

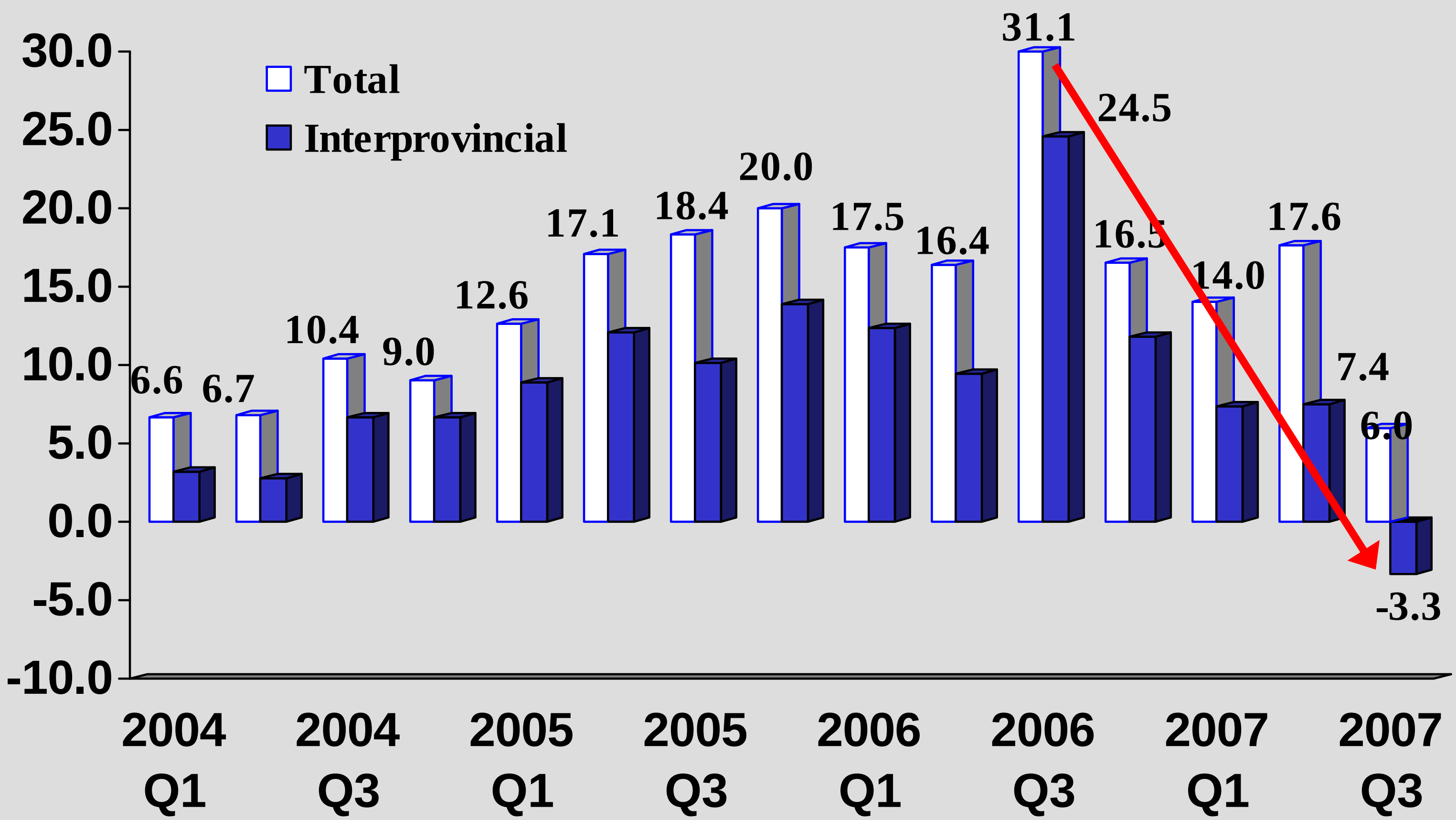
1. Lack of Affordable and Available Housing
2. Rising Consumer Prices/Construction Costs
3. Tight Labour Markets

What is Happening Right Now?

Housing Situation Impacting Population Growth?

Alberta Quarterly Total Net Migration

(thousands)

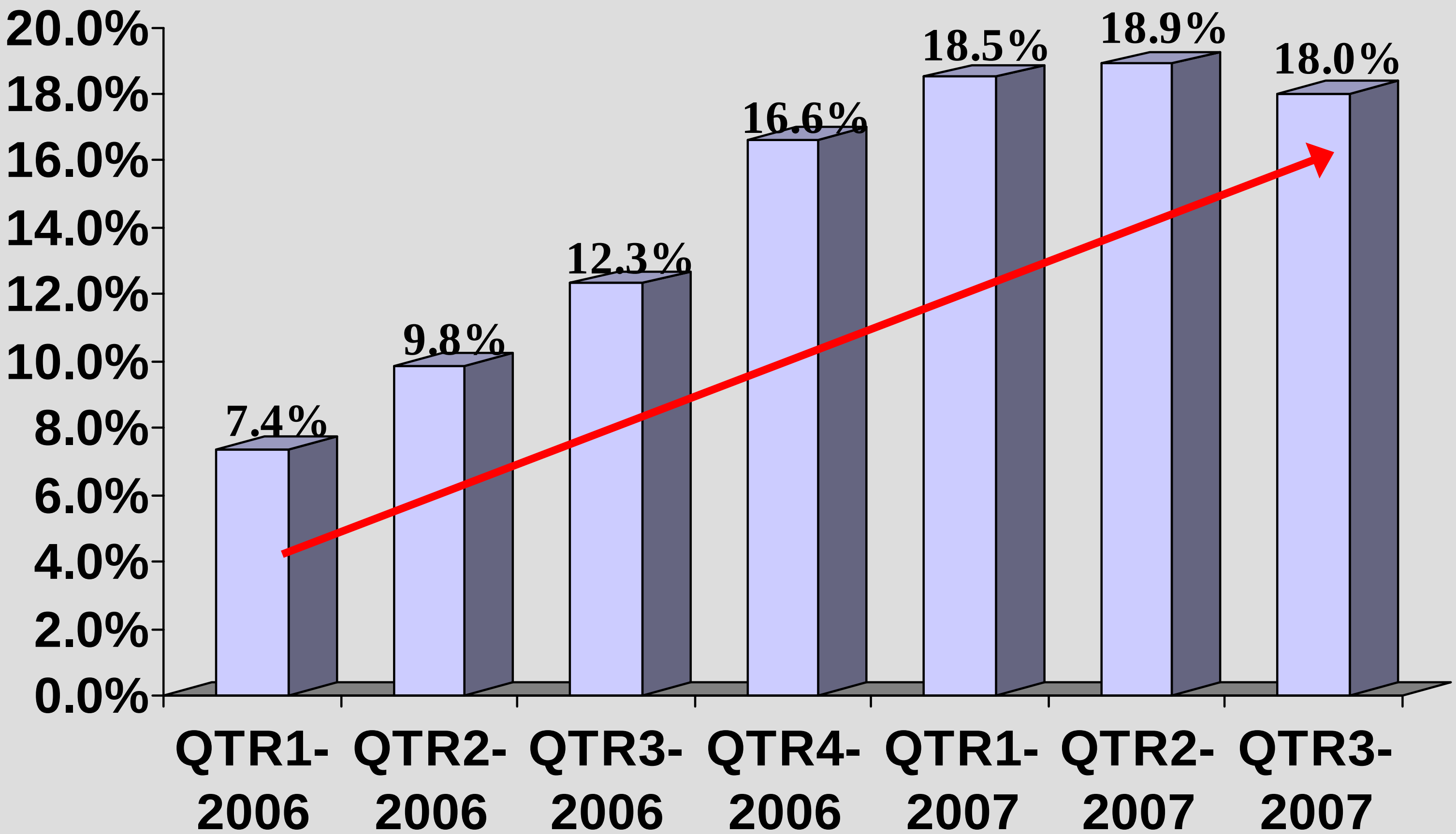


Source: Statistics Canada

Contractor's Selling Prices Continue Upward

Non Residential Construction Price Index – year over year increase

(Percent)

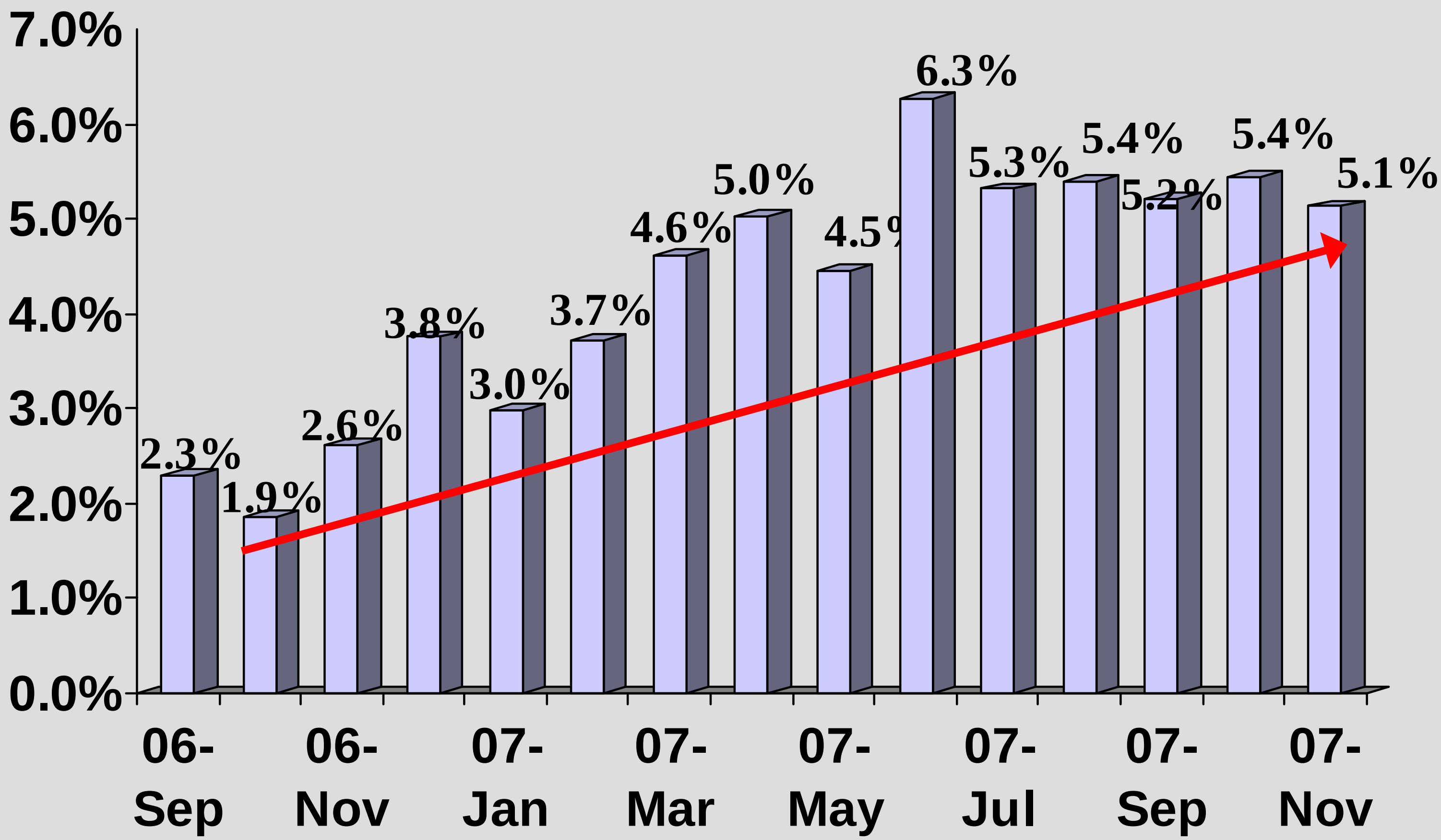


Source: Statistics Canada

Inflation on the Rise So Far in 2007

Consumer Price Index – year over year increase

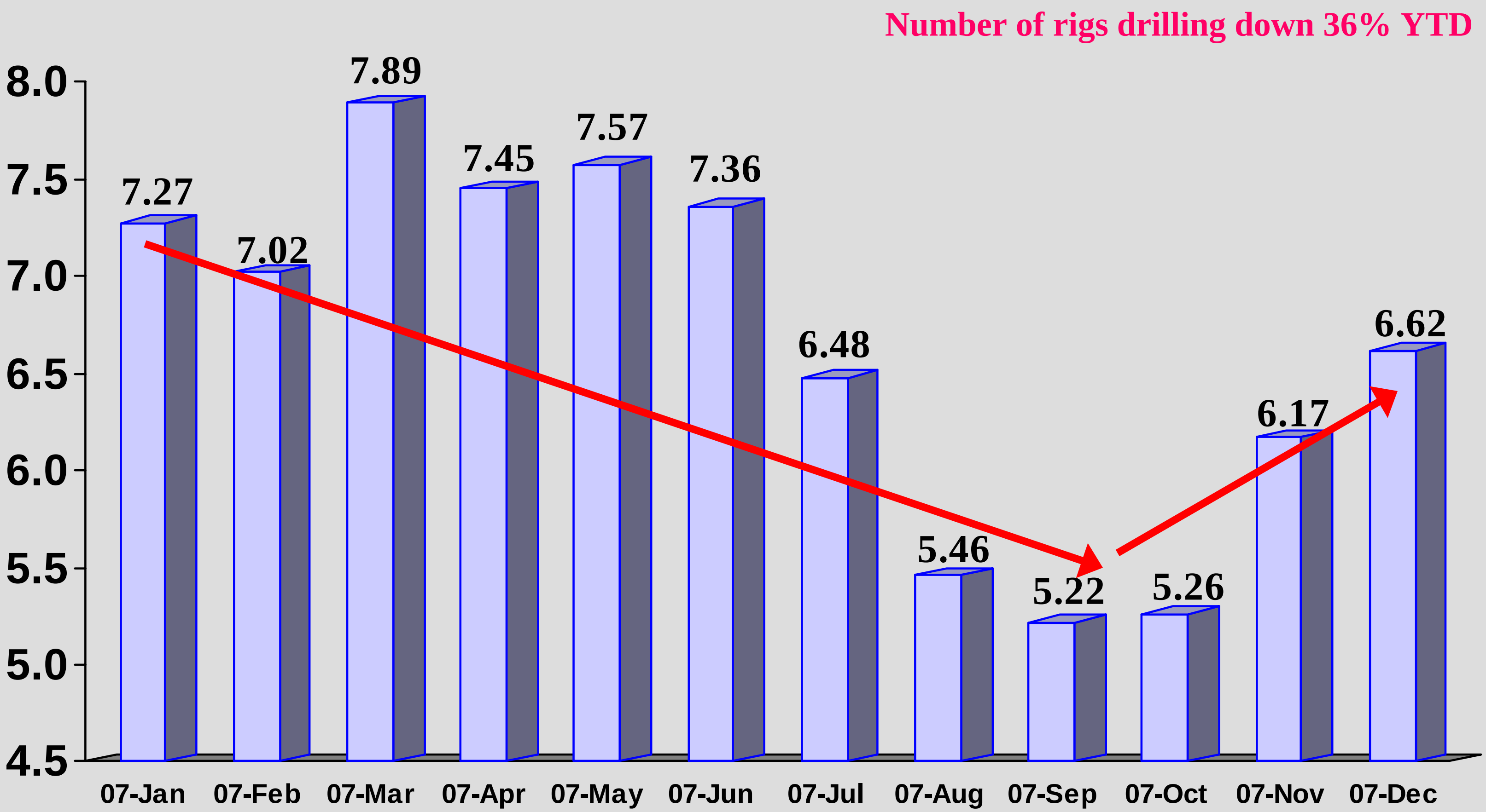
(Percent)



Source: Statistics Canada

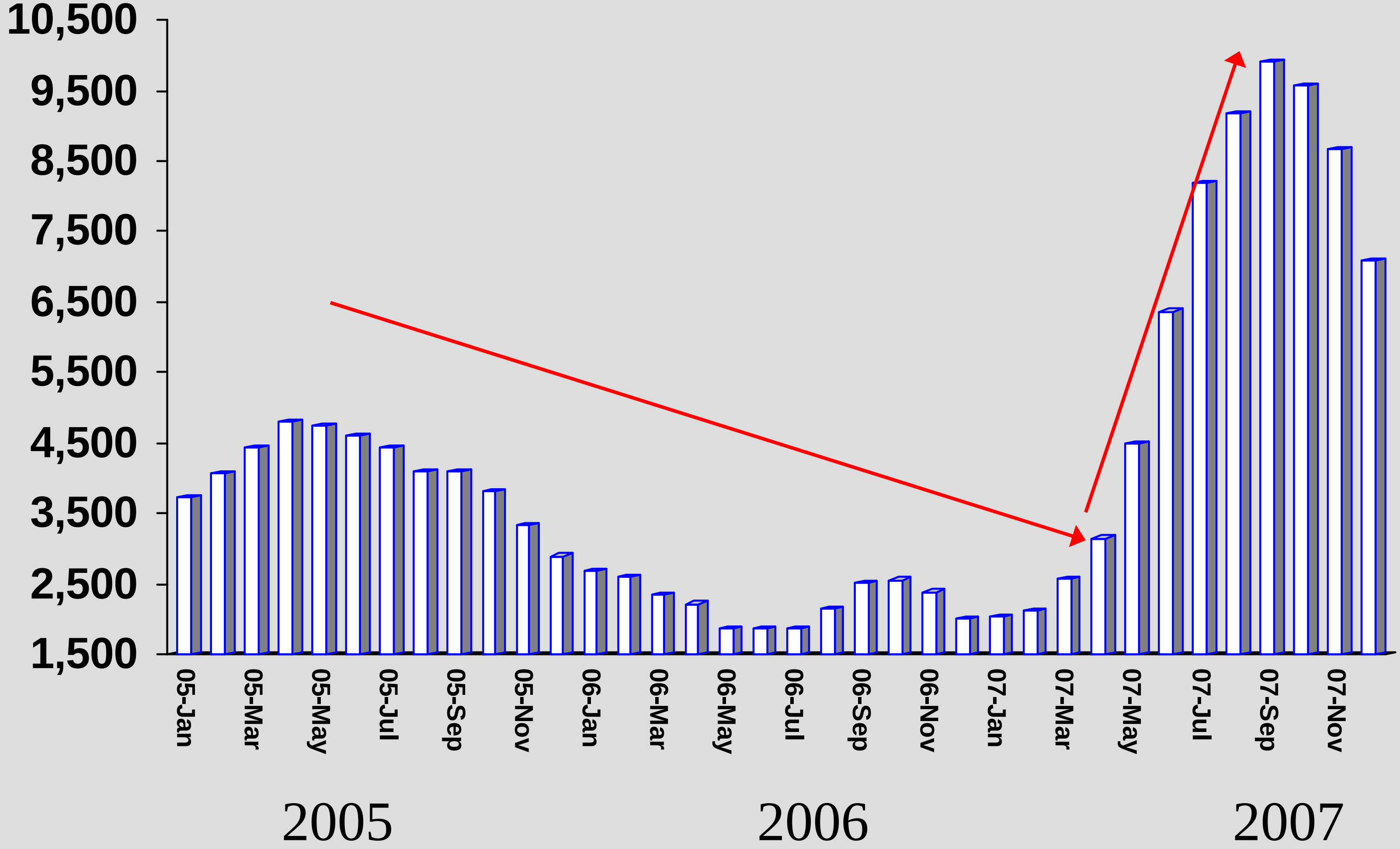
Natural Gas Prices Weak

Alberta AECO Spot Prices ($/GJ)



Home Inventories At Record Levels

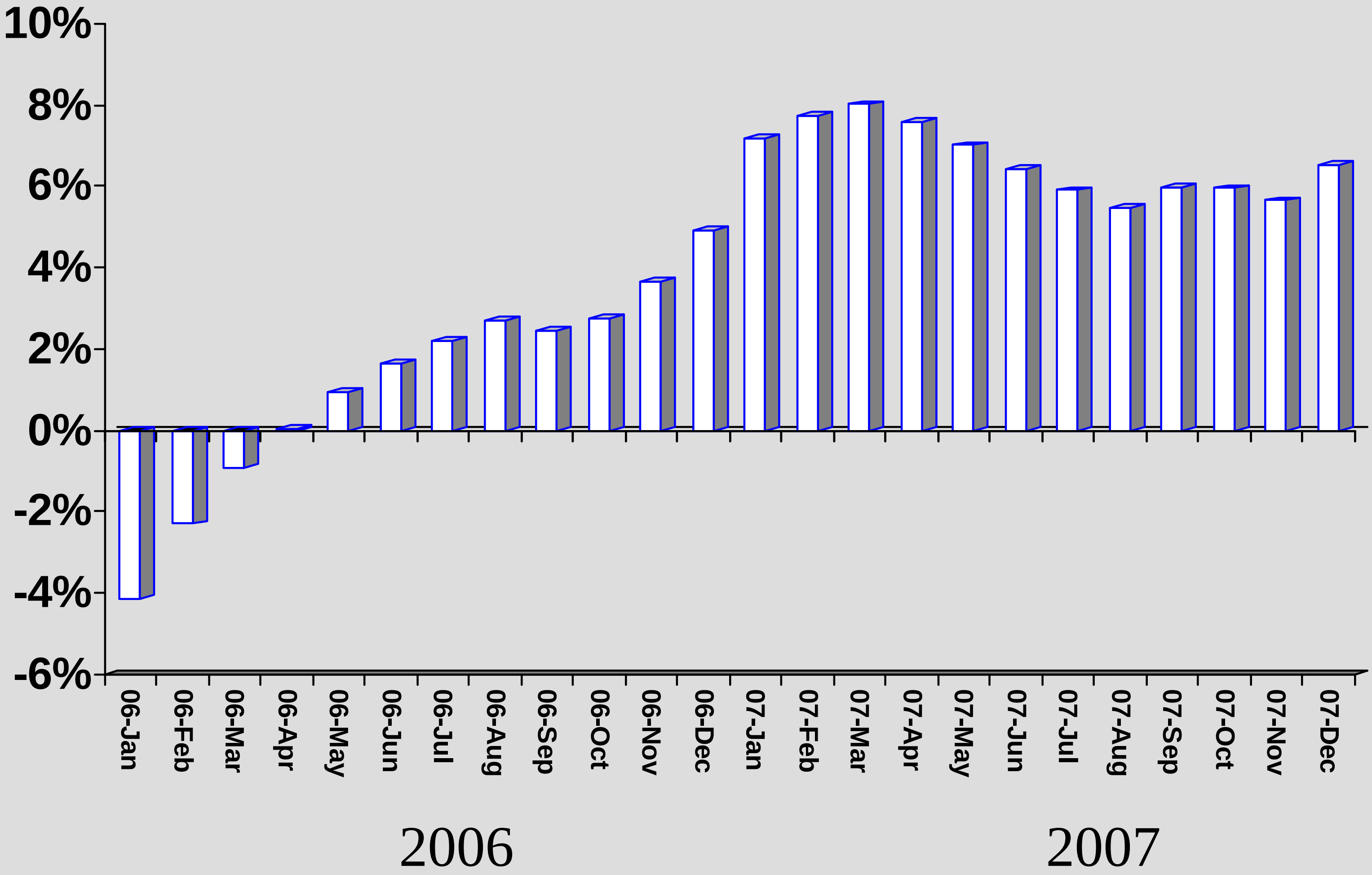
Edmonton Active Residential Listings



Source: Edmonton Real Estate Board

Employment Surging

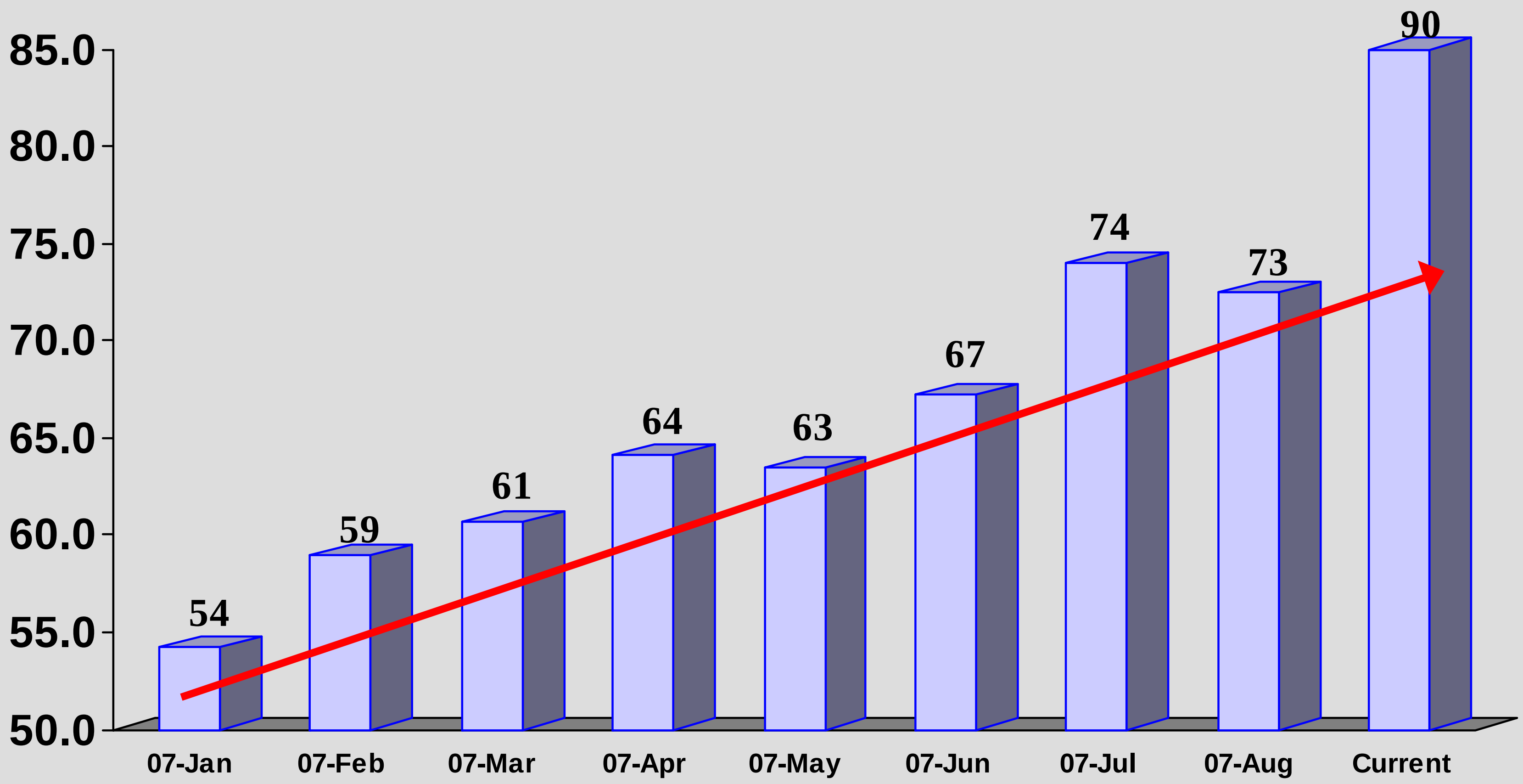
Year-Over-Year Percent Increase



Source: Statistics Canada

Oil Prices Rebounding in 2007

World Oil Price (WTI $/bbl)



2007 Snapshot

Consumer Spending (half of total economic activity):

- Edmonton CMA employment up 7%
- Alberta retail spending up 9.9%
- Alberta average weekly earnings up 4.5%
- Wages and salaries up 12.4%

Manufacturing/Primary industries (17% of total economic activity)

- Active rigs drilling down 36%

Residential Construction (12% of total economic activity):

- City single starts down 30% (Region: down 15%)
- City multiple starts up 15% (region: up 22%)
- Units under construction: 9,904 up 12% y/y

Non Residential Sector:

- Office vacancy rates at 5.1% - down from 7.3% in 2006
- Industrial vacancy rate at 1.1% - down from 1.9% in 2006

The Next 5 Years…

Softer Economic Activity in 2008:

1. Softness in natural gas industry in 2007 to spill over into 2008
2. Softer residential construction activity as market adjusts to increased inventories/lower net migration
3. Recent surge in consumer prices, home carrying costs to soften consumer spending

However, Key Economic Drivers Still In Tact:

1. Oil price outlook strong – China, non OECD growth to lead the way
2. **Over $80 billion planned in the Edmonton region (Wood Buffalo - $73 billion)**
3. High dollar = more people from Ontario?
4. U.S. Outlook stronger after 2008

Softer activity in 2008, combined with strong demand fundamentals, will position our economy to better handle influx of investment on the horizon

Edmonton's Share of the Pie is Growing

Total projects in Alberta: $140 billion (now $238 billion)

- *Fort McMurray: 42% (now 31%)*
- *Edmonton: 28% (now 34%...was around 15% in late 2005)*
- *Calgary: 14% (now 11%)*

Edmonton's proposed projects will provide permanent impacts

The Chinese Economic Factor

- Has grown by 10% per year since 1978
- Is now contributing more to global GDP growth than the U.S.
- Global share of metal/mineral demand has increased from 10% to 23% between 1990 and 2005
- Economic growth driven by domestic demand (not by exports to the U.S.)
  - 2001 U.S. recession: Chinese net exports stable
  - China's share of exports to the U.S. has fallen since 2001, increased to the E.U., emerging economies

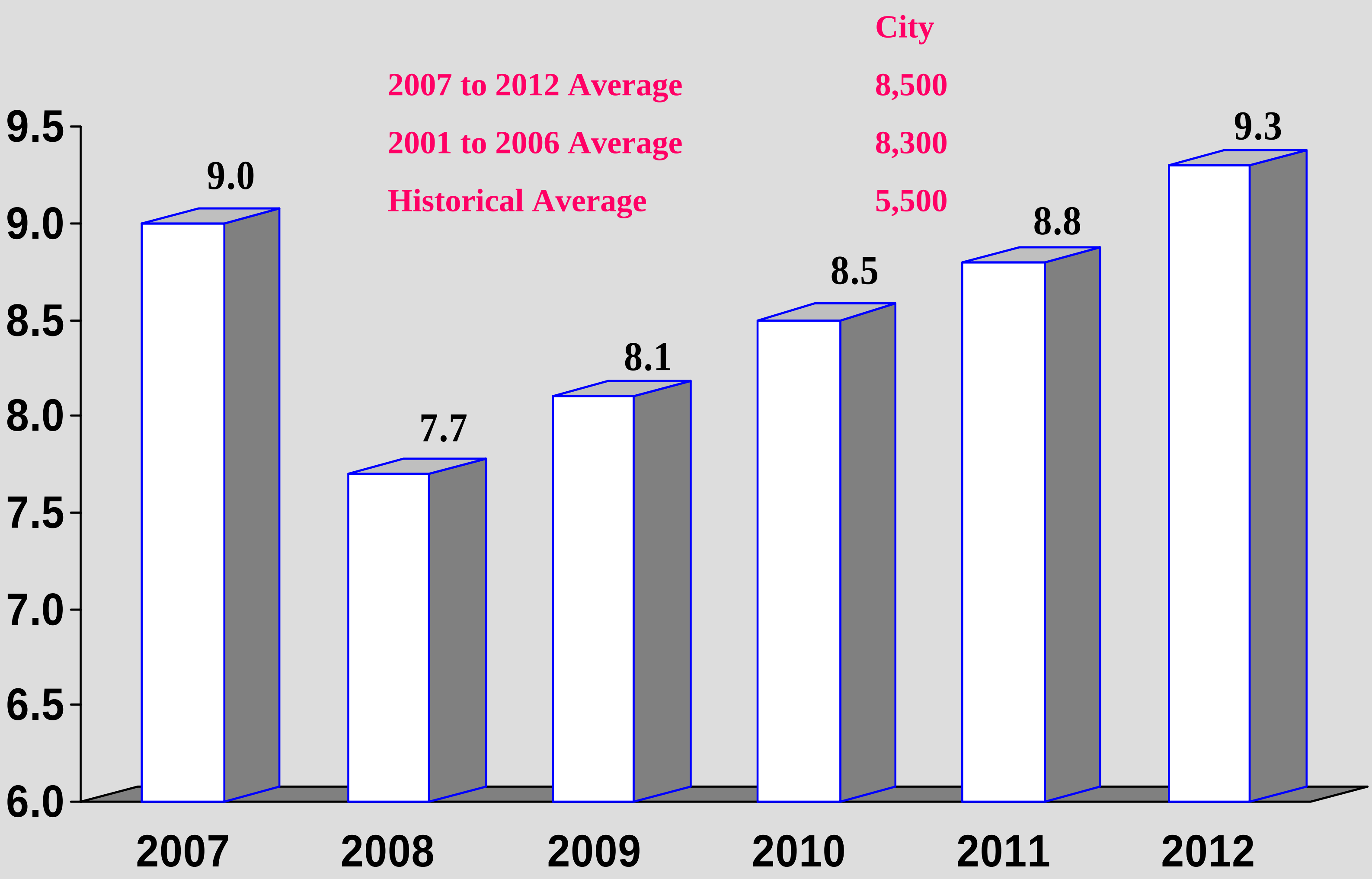
The Chinese Energy Factor

- Contributed to 70% of total growth in oil demand in 2006 (550,000 barrels/day of a total of 810,000 barrels/day)
- Share of total oil demand has increased from 3.4% in 1990 to 9% today (U.S. share at 24%) – expected to reach 13% by 2030
- Oil represents 23% of total domestic energy portfolio (coal: 69%)

Edmonton Housing Starts Outlook

City of Edmonton Housing Starts Forecast

(X Thousand)



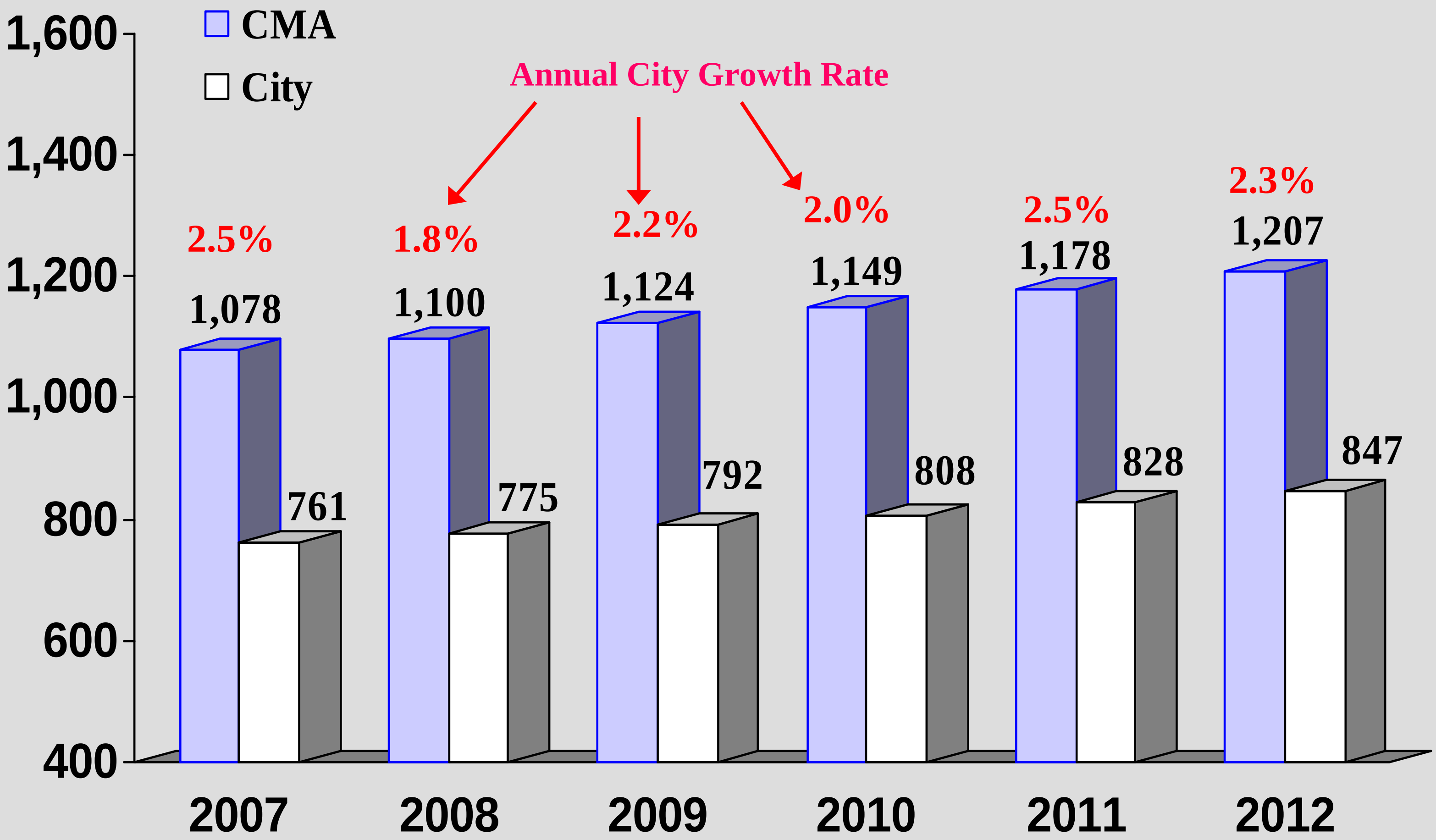
Edmonton's Total Population Outlook

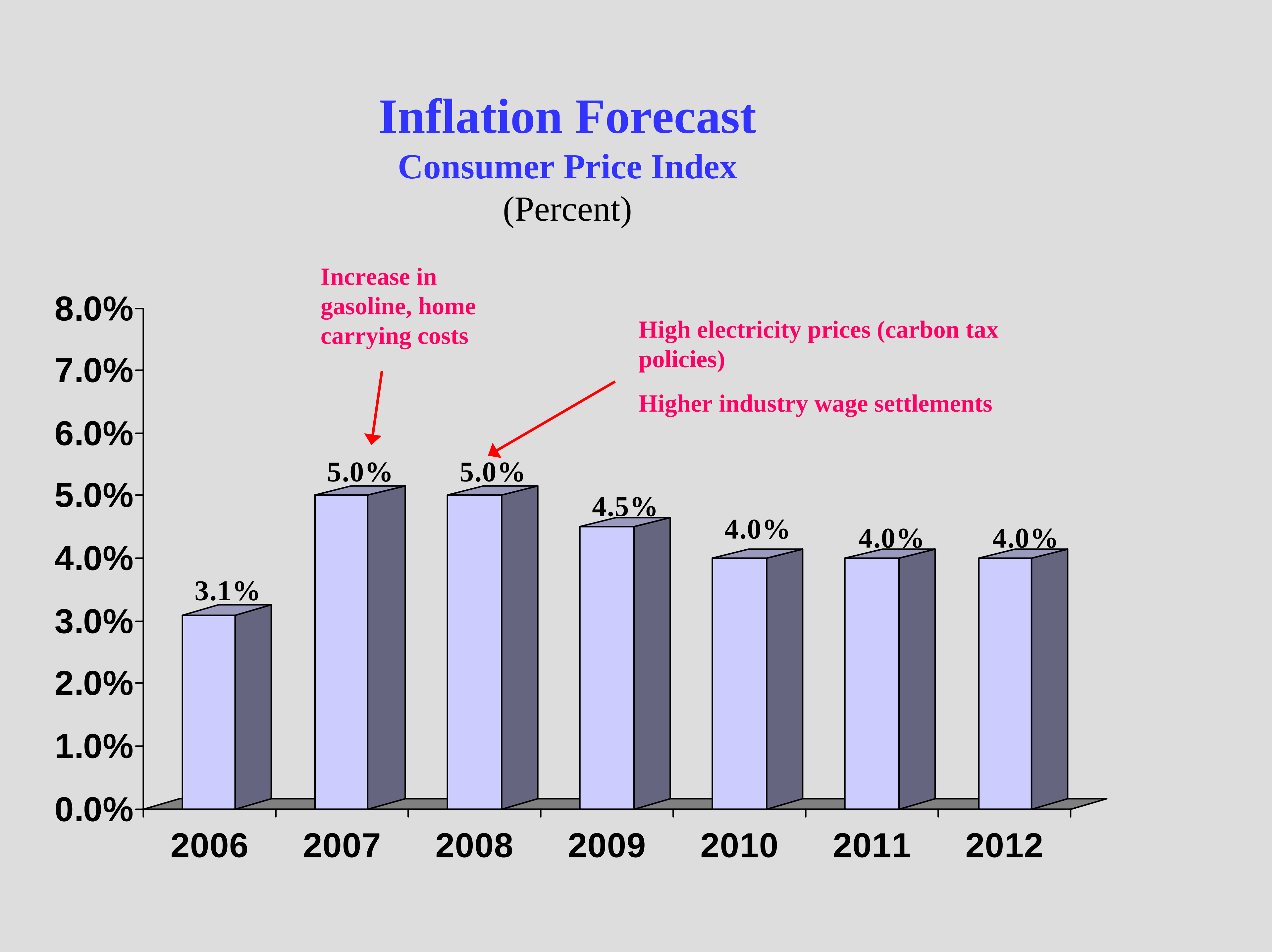
Edmonton (C.M.A.) and Edmonton (City)

(X Thousand)

CMA population to grow by 130,000 between 2007 to 2012

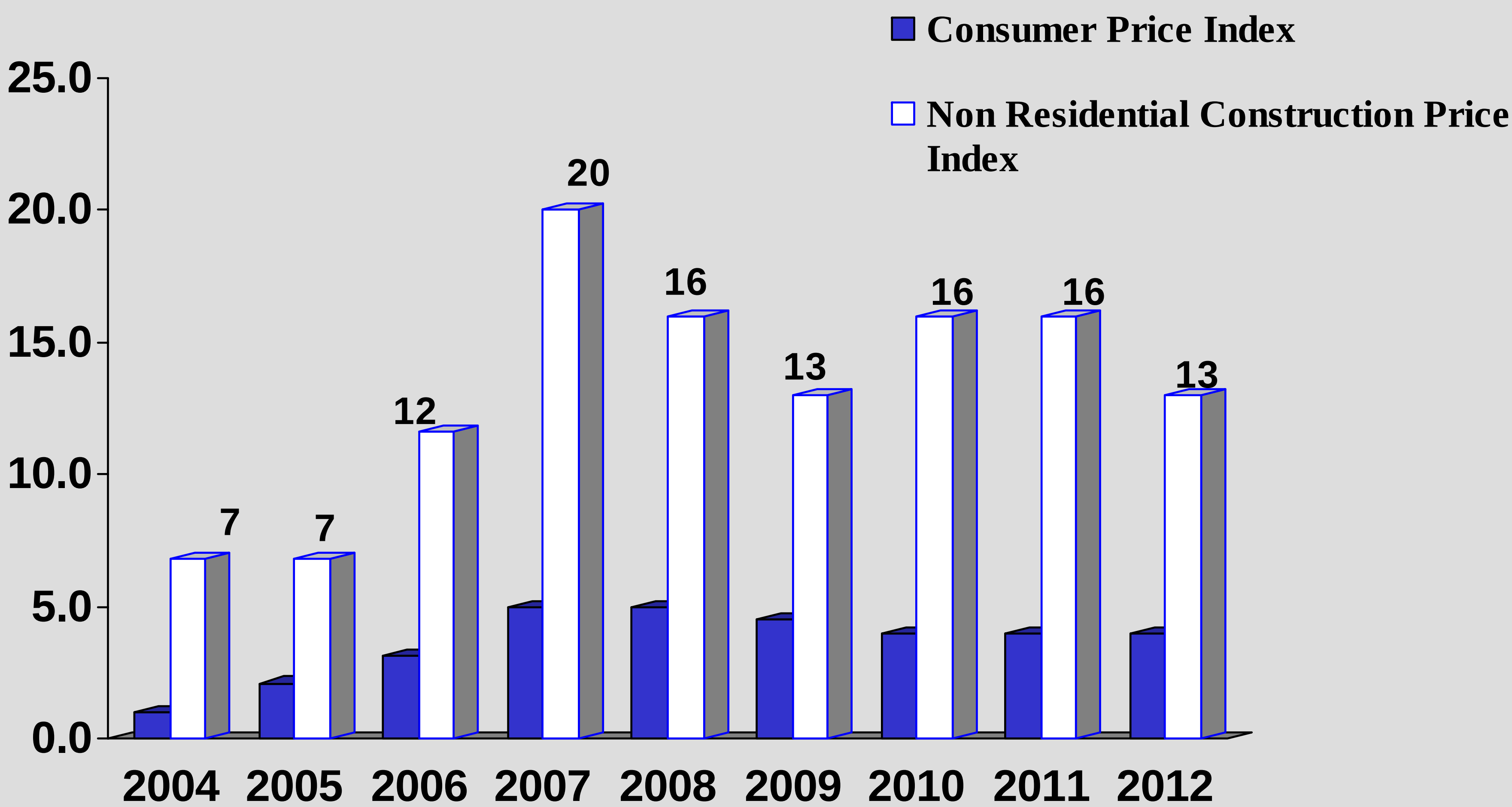
City population to grow by 86,000 between 2007 to 2012




Inflation Forecast
Consumer Price Index
(Percent)
Increase in gasoline, home carrying costs
High electricity prices (carbon tax policies)
Higher industry wage settlements
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
3.1%
5.0%
5.0%
4.5%
4.0%
4.0%
4.0%
2006
2007
2008
2009
2010
2011
2012

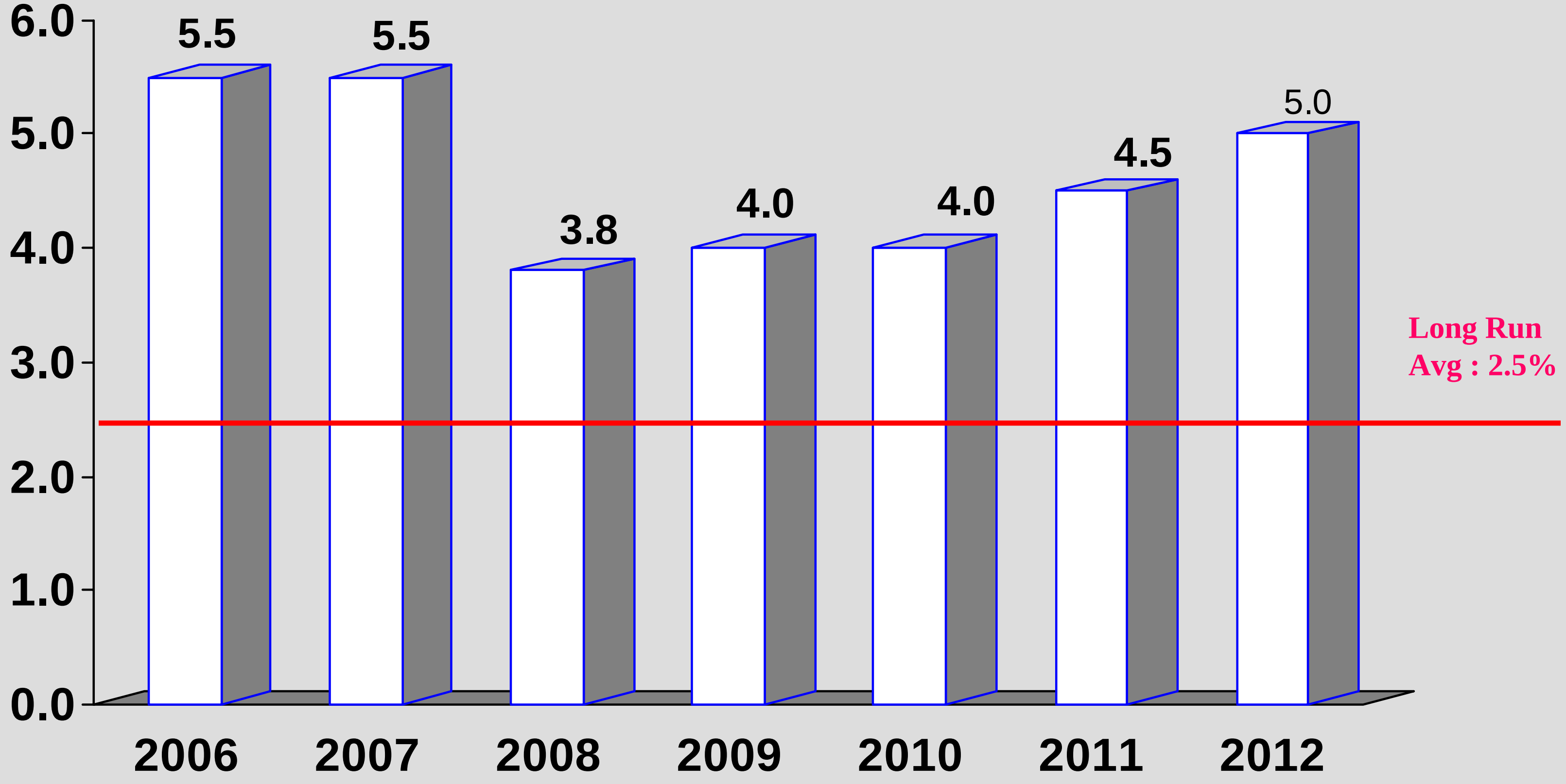
Cost Escalation Comparative Outlook

(Annual Average Percentage Change)



Edmonton Economic Growth

(Percent Change in Real GDP)



Risks to the Outlook

- Lack of affordable and available housing:
  - Will limit movement of labour into the Edmonton area
  - Contribute to tight labour market conditions – higher labour costs
- Higher construction/consumer prices
- U.S. Recession
- Royalty Review

Low Case Scenario - Cancellation/Delay of Proposed Upgraders In Edmonton

Indicator	2007 to 2012 Average
Base Case - Net Migration (000's)	22.0
Low Growth Case	6.0
Base Case - Economic Growth (%)	4.4
Low Growth Scenario	2.6
Base Case - Employment Growth Rate	3.4
Low Growth Scenario	1.6
Base Case - Inflation Rate (%)	4.4
Low Growth Scenario	2.5
Base Case - Total City Housing Starts	8,500
Low Growth Scenario	5,000

High Growth Scenario*

Indicator	2007 to 2012 Average
Base Case - Net Migration (000's)	22.0
High Growth Case	27.0
Base Case - Economic Growth (%)	4.4
High Growth Scenario	5.1
Base Case - Employment Growth Rate	3.4
High Growth Scenario	4.2
Base Case - Inflation Rate (%)	4.4
High Growth Scenario	5.0
Base Case - Total Housing Starts	8,500
High Growth Scenario	9,700

* Improved home affordability/availability, positive industry response to governments reaction to royalty review, strong rebound in U.S. economy, attaining a regional growth management plan

Key Issues From Last Year's Presentation

1. Limited inventory in 2006 and high prices in housing market could impact population growth in 2007 (it has! Provincial Net migration, housing situation)
2. High construction costs/consumer prices could impact construction/consumer spending in 2007 (rigs drilling down 36% in 2007, housing starts down, but consumer spending still strong)
3. The U.S. economy could tank from weak housing market (hasn't happened yet, but it is softening)

Questions?