

## ALBERTA FIRST QUARTER FISCAL UPDATE

August 31, 2015

### First glimpse into Alberta's 2015/16 books

The election of Premier Notley earlier this year in Alberta trumped the March 2015 budget presented by the former PC government to leave the province to guide the 2015/16 fiscal course without a clear roadmap. The current NDP government is set to unveil their fiscal plan this October; although the first indication of how the province's fiscal situation is faring through the energy-led slump was released ahead of this plan, with the presentation of the first quarter fiscal update by Alberta Treasury Board and Finance this afternoon.

The knock-on effects of a persistently weak energy price environment, along with costs associated with the wildfires plaguing the province, are taking a toll on Alberta's fiscal situation with the deficit for 2015/16 now projected to be \$5.9 billion. This is \$0.8 billion greater than the \$5.1 shortfall projected by the previous government in March. Deterioration in the province's bottom line for FY2015/16 reflects higher-than-expected expenditures with some offset coming from stronger projected revenues.

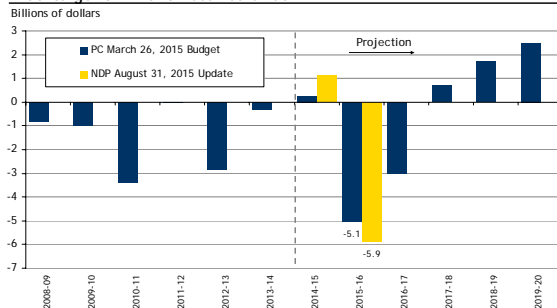
Total revenues are projected to increase by \$1.0 billion to \$44.3 billion led by an upward revision to the non-renewable resource revenue forecast (up \$710 million). A slightly higher crude oil price forecast is driving the change with a marking-to market of the WTI price through June 2015 resulting in a bump up in the 2015/16 price forecast to \$55.9/bbl from \$54.8/bbl in March. An increase in the corporate income tax rate, to 12% from 10%, that came into effect on July 1, 2015 is expected to provide a boost to income tax revenues in FY 2015/16, to the tune of \$249 million. A reversal of the previous government's Budget 2015 proposed health care levy and the introduction of a tiered personal income tax structure (effective October 1, 2015) round of the contributions to higher projected revenues for FY 2015/16.

On the other side of the ledger, expenditures in the province are set to climb relative to the Budget 2015 estimate, predominantly reflecting a reversal of Budget 2015 measures proposed by the previous Progressive Conservative government. Total expenses are projected to come in \$1.8 billion higher than the initial estimate at \$50.2 billion. Of this, \$1.4 billion is attributed to the reversal of previously proposed cuts to ministry operating expenses, as outlined in the previous government's 2015 fiscal plan. Costs associated with disaster relief are also expected to be higher reflecting unexpected events (drought conditions and wildfires) that have unfolded in the intervening period since the March estimates.

The fiscal developments released today revealed a \$1.1 billion increase in the province's Contingency account to \$3.5 billion by March 31, 2016 (relative to the \$2.4 billion estimated in the Budget 2015 documents). This account is meant to offset operational deficits and various other cash requirements. As a result, these funds may provide a buffer for provincial finances should conditions deteriorate further through the 2015/16 fiscal year.

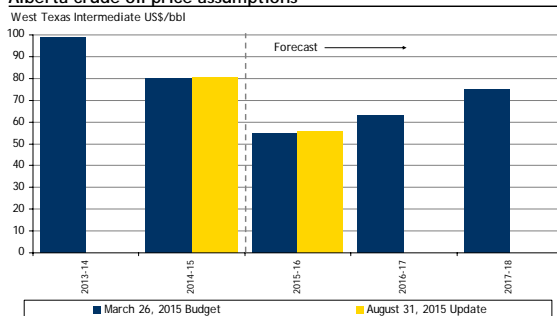
In addition to providing an update on fiscal developments, the government revised its economic growth outlook for the province with an outright contraction in activity, albeit modest, forecast for 2015. Real GDP is projected

Alberta government fiscal balance



Source: Government of Alberta Finance, RBC Economics Research  
 \*2013-14 figures onwards are presented on a consolidated basis consistent with the Alberta government's current framework

Alberta crude oil price assumptions



Source: Alberta Treasury Board and Finance, RBC Economics Research

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to decline by 0.6% in 2015 compared to a +0.4% advance projected in March. The low crude oil price environment is expected to persist with weakness lingering into 2016 and curbing the anticipated economic rebound (real activity is forecast to increase by 1.3% in 2016). Nominal GDP, the broadest indicator of the tax base, is projected to bounce back more strongly, likely setting the foundation for an overall improvement in the province's fiscal situation beyond 2015/16. Projections are not available in the quarterly update and as a result, a more robust picture of the province's fiscal outlook will be available with the release of the current government's Budget 2015 in October.

## Alberta's fiscal plan

\$ billions	Actual		PC's Budget 2015 Estimate	NDP Q1-2015 Fiscal Update
	2013-14	2014-15	2015-16	2015-16
Revenue	49.4	49.5	43.3	44.3
<i>Non-renewable resource revenue</i>	9.6	8.9	2.9	3.6
Expense	49.7	48.4	48.4	50.2
<i>Program expense</i>	49.1	47.6	47.5	49.4
<i>Debt servicing costs</i>	0.6	0.7	0.9	0.8
Surplus (deficit)	-0.3	1.1	-5.1	-5.9
Net financial assets (debt)	13.0	13.1	5.3	3.9

\*Figures are presented on a consolidated basis consistent with the Alberta government's current framework

Fiscal year assumptions	Budget				Q1 Update		RBC Forecast		
<i>(Year-over-year % change)</i>	2014	2015	2016	2017	2015	2016	2014	2015	2016
Real GDP growth	3.8	0.4	1.7	3.0	-0.6	1.3	4.4	-1.0	1.7
Nominal GDP growth	7.8	-8.1	5.7	7.4	-8.2	4.4	8.1	-8.2	8.0
Unemployment rate*	4.7	5.7	5.9	5.3	5.7	5.9	4.7	6.0	5.3
	2013-14	2014-15	2015-16	2016-17	2014-15	2015-16	2014	2015	2016
Crude oil prices - WTI US\$/bbl	99.1	79.9	54.8	62.8	80.5	55.9	93.1	56.0	72.0
Crude oil prices - WCS CDN\$/bbl	80.1	69.9	46.3	51.1	70.8	53.7			

\* %

Source: Alberta Treasury Board and Finance, RBC Economics Research

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