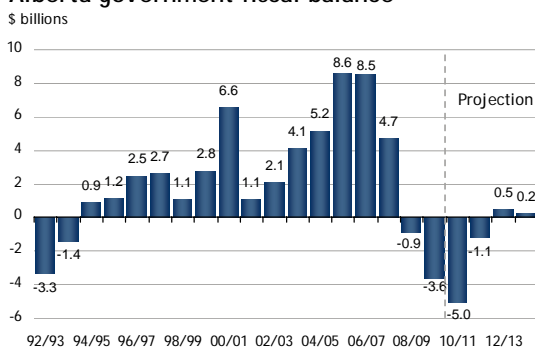


ALBERTA SECOND QUARTER FISCAL UPDATE

November 23, 2010

Alberta government fiscal balance



Source: Government of Alberta Finance, RBC Economics Research

Revenues take a hit from oil prices, tax receipts

A high exchange rate, weakened oil prices and lower-than-expected tax 2009 tax receipts have caused the Government of Alberta to revise its revenue projections downward by \$475 million since the first quarter. While decreased expenditures (down \$225 million from first quarter projections) provide some offset, the majority of this change is due to re-profiling of infrastructure spending. The net effect is a \$257 million increase in the projected deficit since the 2010-11 Budget, to a level of \$5 billion. This is similar to the \$250 million increase predicted in the first quarter. However, the substantial downward revision to tax revenues and oil royalties suggest that the economic activity in the province may be weaker than anticipated earlier this year.

The revision to the revenue projection was primarily due to lower-than-expected 2009 tax receipts. Both personal and corporate income tax projections will be substantially lower (-\$261 million and -\$310 million, respectively) than projected in the first quarter. (Corporate tax revenues will still be \$577 million higher than predicted in the budget, while personal tax revenues will be \$1.1 billion lower.) Non-renewable resource revenues have followed a similar pattern, and will be \$206 million lower than projected in the Q1 update. This change in the outlook is driven by a large decrease in projected crude oil revenues (-\$326 million) combined with a large increase in drilling stimulus initiatives (which represent an expenditure counted against resource revenues, and increased by \$788 million.) The change in crude oil revenues was primarily driven by oil prices, which are \$0.58/barrel lower than the Q1 forecast. However, bonuses and sales of Crown leases increased by \$234 from the first quarter, which maintained overall resource revenues at a level \$406 million higher than predicted in the budget.

Expenditures saw little change from the Q1 outlook. The \$534 million increase in emergency funds implemented in the first quarter was partially offset by a \$225 million decrease in capital expenditures, representing delays in planned infrastructure projects. Other operating expenditures remained similar to those projected in the budget.

Overall, this update suggests that Alberta's finances are facing a somewhat dimmer outlook for the provincial economy relative to the first quarter update. Without discretionary expenditure cuts related to Crown land leases and infrastructure spending, the deficit would have seen a much larger increase relative to Budget. While the fiscal situation in Alberta is still strong relative to other provinces, the continued strength of the Canadian dollar and lower energy prices appear to be having a negative impact on activity in the province.

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Alberta's fiscal plan

\$ billions	Actual	Budget	2nd Quarter Forecast	Budget 2010 Target	
	<u>2009-10</u>	<u>2010-11</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Revenue	35.7	34.0	34.1	37.3	40.2
Expense	36.7	38.7	39.1	38.4	39.7
Program expense	36.5	38.4	38.8	38.1	39.3
Debt servicing costs	0.2	0.3	0.3	0.4	0.4
Surplus/ (deficit) before correction	-1.0	-4.7	-5.0	-1.1	0.5

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