

Economic boom 2.0

Despite much adversity, Alberta's economy launched into its expansion phase in impressive fashion last year, giving unmistakable signs that it is booming once again. We expect boom-like conditions to persist this year and next, although this will be a much more orderly affair than the 2004–2006 boom that created severe tensions in the province. According to our calculations, real GDP growth climbed above the 4% mark in 2011 for the first time since 2006 (with an estimated rate of 4.2%), and we anticipate this pace to be largely sustained, at 3.9%, in both 2012 and 2013. Such a scenario would not put undue pressure on resources such as labour or capital in the province. Across Canada, only Saskatchewan—which in the midst of its own economic boom—will surpass Alberta in terms of growth this year and next.

Oil industry still the catalyst

It is a fact that record levels of production and investment by Alberta's oil industry are the catalyst for tremendous activity across the province. Proof that most of the provincial economy is enjoying the ride is provided by the remarkable performance in the job market last year. In all, 99,000 new jobs were created in Alberta in 2011, representing more than half the gains in Canada. Even more remarkable was that the jobs were widely distributed across industries and were entirely full-time. We expect continued strong job creation in 2012 but not at the breakneck pace of 2011. Our forecast for employment growth remains at a nation-leading rate of 3.1% this year, although this would be down from 3.8% last year. Labour market strength will maintain strong support for consumer spending in the province.

Another banner year for the oil industry

There is every indication that 2012 will be another banner year for Alberta's oil industry. Thanks to massive investments in the oil sands, unconventional oil production is rising rapidly. The National Energy Board (NEB) estimates that unconventional output in Alberta surged by more than 9% last year and forecasts that it will increase at an even faster rate (almost 16%) this year. Even conventional oil production is on an upswing again, as it rose in 2011 for the first time since 2003. The NEB projects a further increase this year. Such vibrancy on the oil side of the provincial energy sector will easily offset further expected declines in natural gas output because prices for this commodity remain weak.

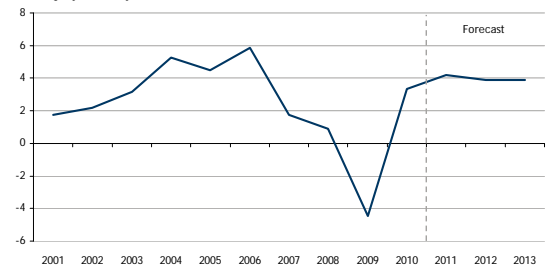
Capital investment will reach record levels in the energy sector

The massive investments in the energy sector are slated to reach yet again new heights in 2012. Statistics Canada's investment intentions survey report indicated that oil and gas extraction firms plan to spend a record \$48 billion this year on capital outlays, representing a 16.2% increase from 2011. Stronger spending on the pipeline infrastructure will further add to the total. Such colossal investment will continue to be a tremendous engine of economic activity in the province.

Strong revenues to bring provincial budget to balance by 2013-2014

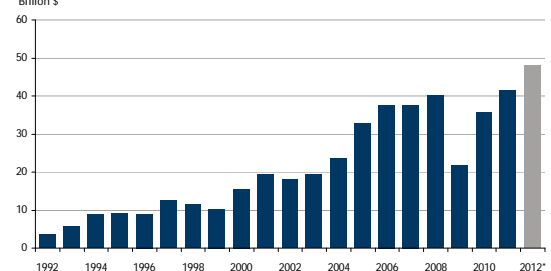
The strong performance of the oil industry and renewed interest in exploration in the province are benefiting Alberta's government. In its February 10, 2012 budget, the provincial government forecasted substantial revenue growth in the coming years thanks in large part to a surge in royalties. The provincial government expects to eliminate its deficit by 2013-2014 without the need for expenditure restraint in its fiscal plan.

Alberta real GDP
% change, year-over-year



Source: Statistics Canada, RBC Economics Research

Alberta oil & gas industry expenditures
Billion \$



Source: Statistics Canada, RBC Economics Research
*Intentions.

Alberta forecast at a glance

% change unless otherwise indicated

	2010	2011F	2012F	2013F
Real GDP	3.3	4.2	3.9	3.9
Employment	-0.4	3.8	3.1	2.5
Unemployment rate (%)	6.5	5.5	4.8	4.5
Retail sales	6.0	7.0	6.5	6.3
Housing starts (units)	27,088	25,500	30,000	32,500
Consumer price index	1.0	2.4	2.0	1.8

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