



ALBERTA'S ECONOMY SET TO GROW BUT FACING SIGNIFICANT DOWNSIDE RISKS: RBC ECONOMICS

TORONTO, March 12, 2015 — Alberta's economy is expected to grow at an anaemic pace in 2015, as persistent energy sector weakness and an unfolding spill over into consumer confidence prompted RBC to revise its 2015 real GDP forecast significantly lower – to 0.6 per cent from 2.8 per cent forecasted in December. According to the latest [Provincial Outlook](#) released today, RBC expects growth will pick up slightly to 1.1 per cent in 2016.

“Alberta saw a dramatic turn of events in recent months, as it became clear that the steep drop in crude oil prices since mid 2014 would have profound adverse repercussions for the province's energy sector,” said Craig Wright, senior vice-president and chief economist, RBC. “The initial position of strength in the economy is likely sufficient to keep the province in growth territory in 2015 though the risks of a recession can't be dismissed.”

Widespread capital spending cutbacks announced by energy firms since late last year highlight the direct hit that the low oil price environment will have on investment in Alberta this year, RBC says.

“Accounting for a quarter of economic activity in the province, a sharp drop in non-residential business investment is expected to cut more than 1.5 percentage points directly off Alberta's economic growth in 2015,” said Wright.

RBC says lingering price uncertainty is also expected to have a clear negative impact on drilling activity in the province, though producers are expected to continue to generate non-conventional production as an increasing number of new and expanded projects come online.

In addition, very strong job creation in recent years is likely to stall in 2015 as recently announced layoffs by energy firms come into effect. The province's labour markets have not yet shown signs of cracking, although weaker employment prospects are reducing the incentives for prospective workers to relocate to the province from other regions of the country.

“Sustained weakness of this magnitude in migration trends will certainly result in substantial slowing in population growth in 2015,” added Wright.

Widespread deterioration in Alberta's consumer confidence is most evident in the potential boom-bust scenario currently being played out in the province's housing market, RBC says. A cumulative 35 per cent plunge in existing home sales in December 2014 and January 2015 accompanied the inventory of homes on the market surging to the highest level since 2008.

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“With little to bolster consumer confidence in the near-term, we anticipate sharply lower housing resale activity overall this year, which will set the stage for price declines. Sharp deterioration in fiscal conditions could also have ripple effects on household confidence in 2015,” added Wright.

RBC notes the Alberta Premier has cautioned that a period of fiscal restraint is imminent and revenue boosting initiatives, including tax hikes, are likely to accompany significant program spending cuts as the province deals with an estimated \$7 billion budget shortfall in the 2015/2016 fiscal year.

The RBC Economics Provincial Outlook assesses the provinces according to economic growth, employment growth, unemployment rates, retail sales, housing starts and consumer price indices. The full report and provincial details are available online as of 8 a.m. ET today at rbc.com/economics/economic-reports/provincial-economic-forecasts.html.

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