

COAA Best Practices Conference: The Alberta Macro Economy and Cost Competitiveness

June 17, 2011

Shaw Conference Centre

Dr. Mike Percy

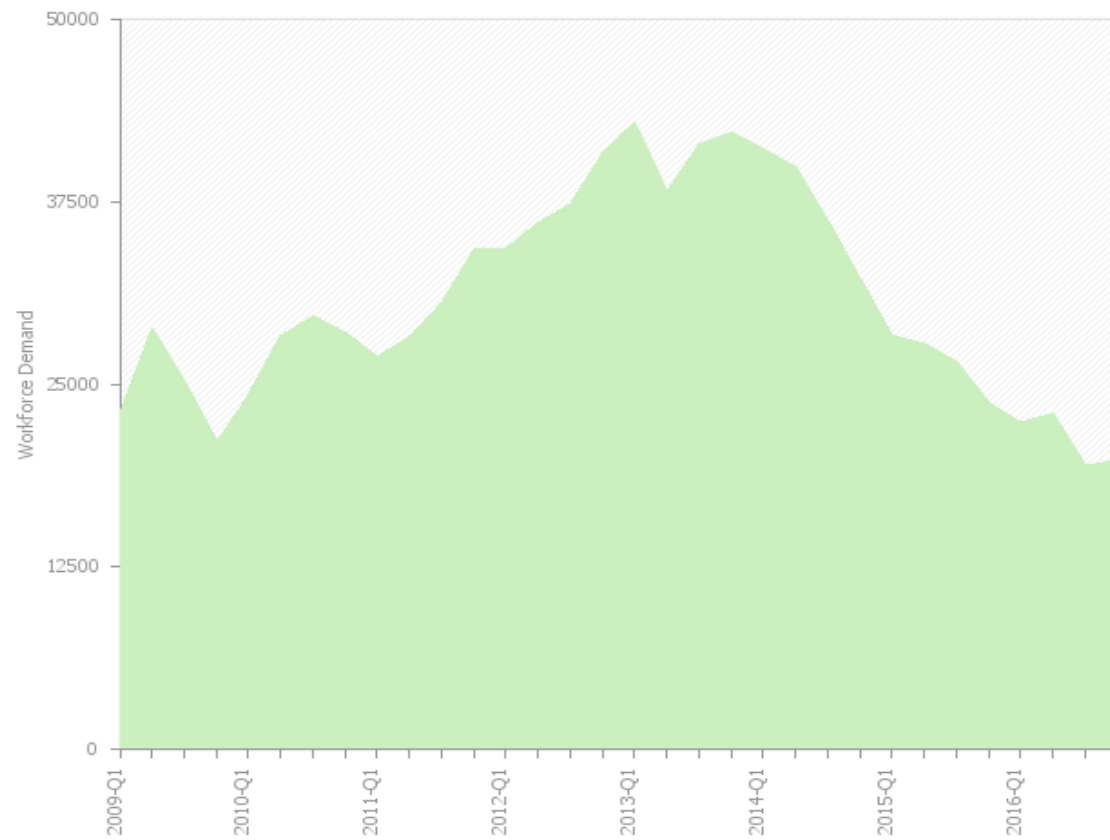
Will 2012-14 Be Any Different?

- The cost pressures and inflationary spiral anticipated with the capital investment surge in 2012-14 likely to exceed those of 2005-08


Workforce by Project

Quarterly Workforce

Aggregate Graph (Major Industrial Projects)



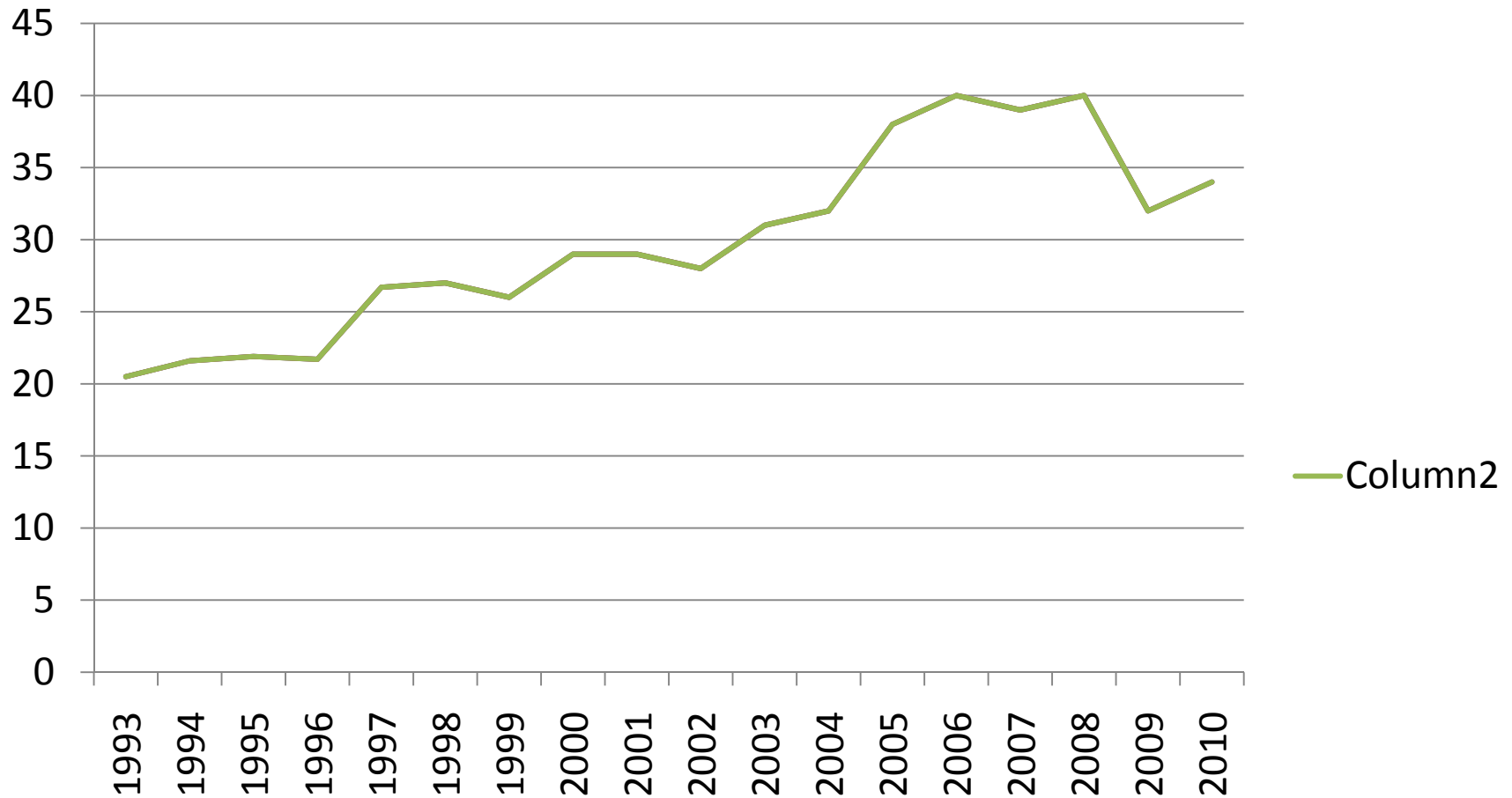
Legend

 All Projects

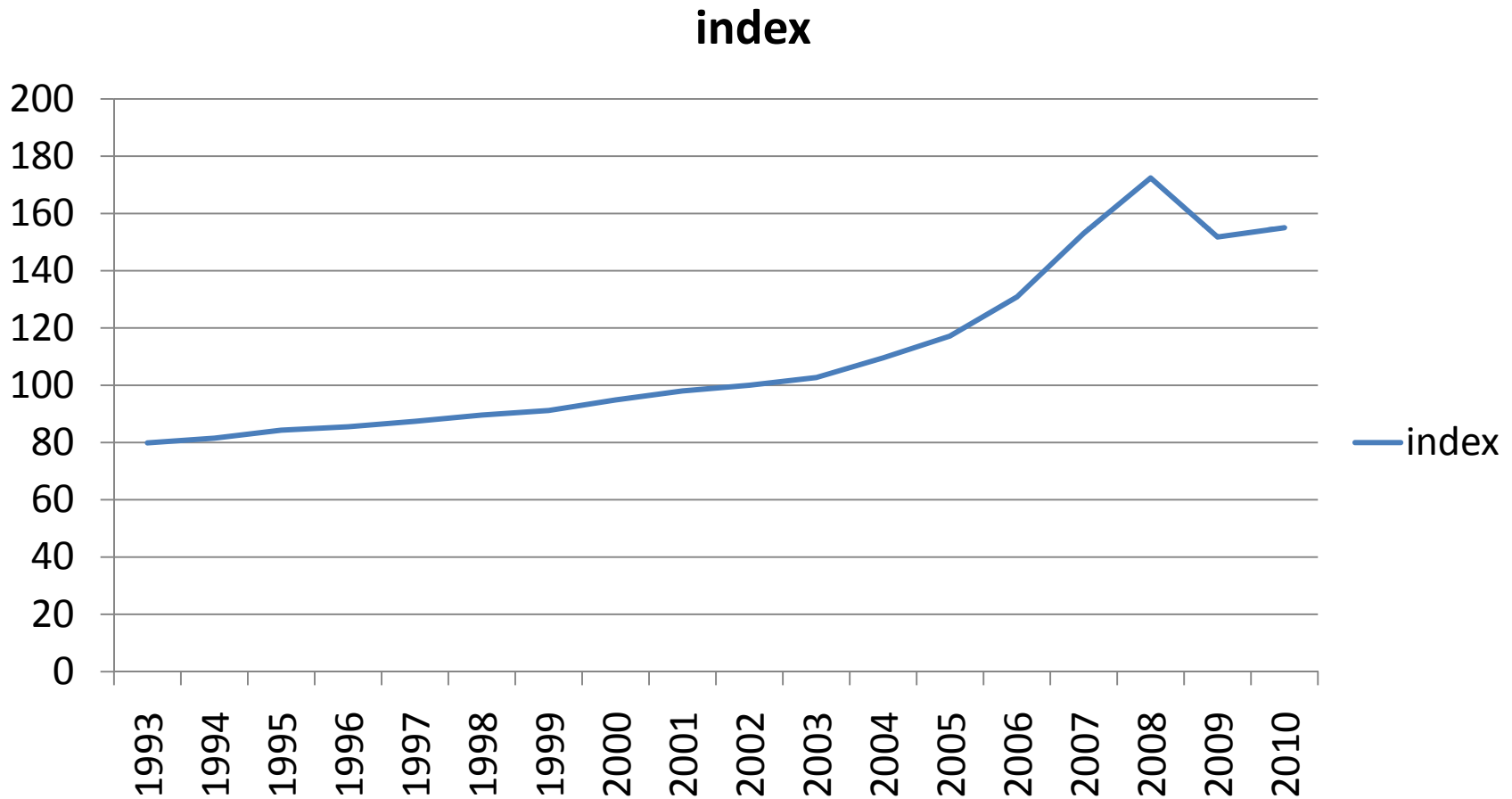
The Dynamics of Sector Booms

- In regional economies it is more than just the “Dutch Disease” during a boom
 - Positive effects from appreciation of CDN dollar by Asian demand for commodities
 - Negative effects from regional price level adjustments

Capital Investment as Share of Alberta Real GDP (\$2002)



Price Index of Non-Residential Building Construction – Edmonton CMA



Consumer Price Index Alberta (2002 = 100)

	All Items	shelter
• 2006	112.3	124.8
• 2007	117.9	140.0
• 2008	121.6	151.1
• 2009	121.5	147.4
• 2010	122.7	147.6

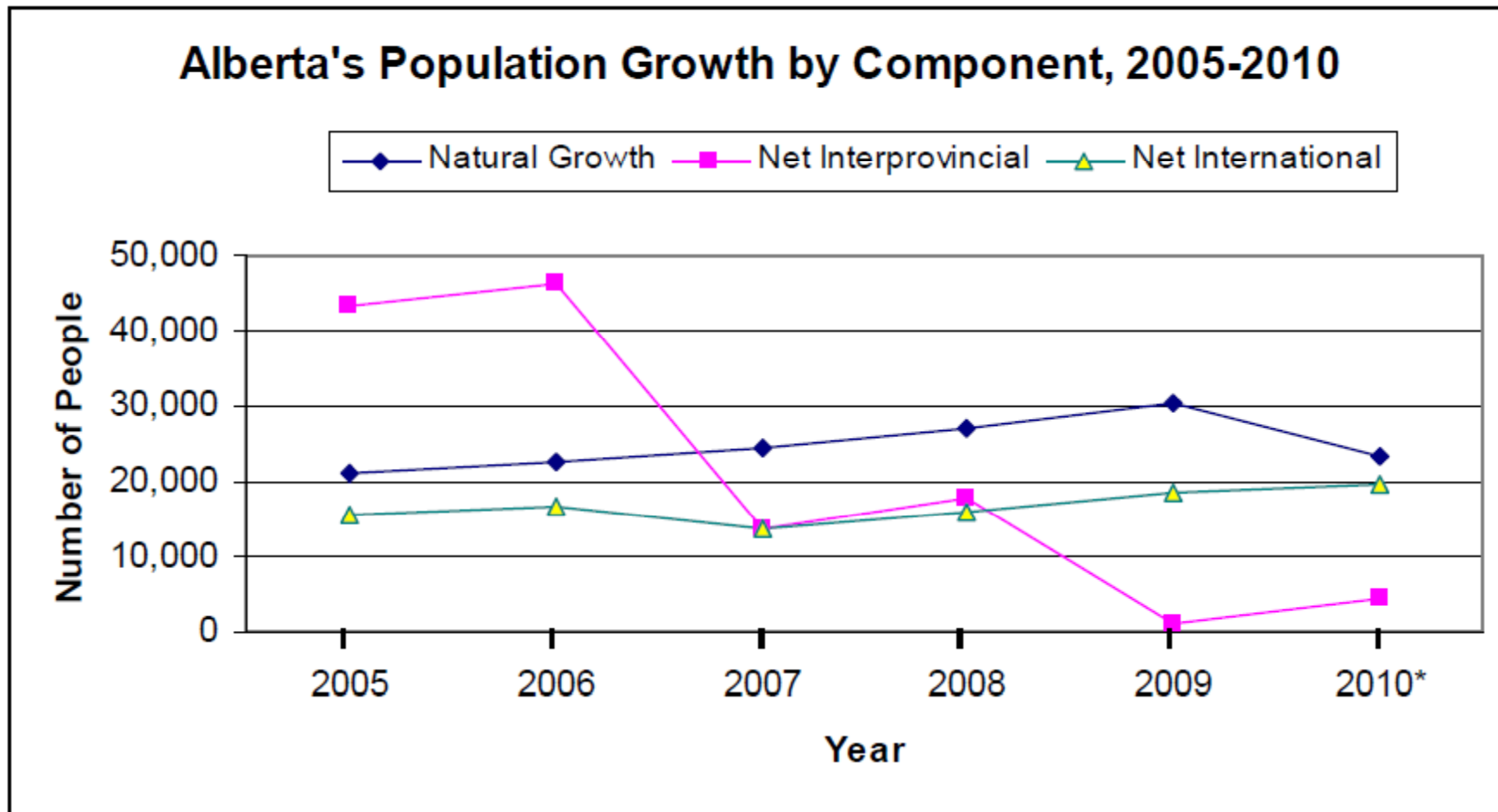
Relative Wages: Alberta/Canada

(average hourly earnings \$ for employees paid by the hour inclusive of overtime)

	Alberta	Canada	ratio
• 2002	23.9	22.0	1.09
• 2003	24.4	22.3	1.09
• 2004	24.2	22.3	1.09
• 2005	25.6	23.1	1.11
• 2006	26.9	23.8	1.13
• 2007	28.1	24.6	1.14
• 2008	30.6	26.5	1.15
• 2009	31.5	27.3	1.15
• 2010	32.6	28.0	1.16

Alberta

Components of Population Growth, 2005 - 2010



* Figures for 2010 are based on the first three quarters only

Data Source: Statistics Canada.

Prepared by: Alberta Finance and Enterprise, Economics, Demography
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Government of Alberta
Employment and Immigrat

Why Worse than 2005 – 08?

- Responsiveness of interprovincial migrant flows
- Intensity of boom – at peak 20% higher than earlier boom?
- Greater competition for skilled trades
 - Globally -Australian recruiters
 - Competing projects across Canada and in Alberta
 - Demands by operating oilsands plants
- Potential for increase in general inflation over and above factors specific to Alberta

Why Worse than 2005 - 08

- Private and public investment intentions in 2011
 - Total for Canada \$349 billion
 - Mining, oil and gas extraction \$53 billion
 - Alberta public and private -\$73.5 billion
- Edmonton CMA experienced the largest year over year (Q1-10 to Q1-11) increase in the non-residential construction building index of all CMAs at 5.5%

Mitigating Factors

- Lessons learned from 2005 -2008 by firms
 - Off-shoring
 - More comprehensive engineering
 - Modular approach
 - Staged construction
- Role of China?
- Provincial capital expenditures more countercyclical....?
- Role of Boards of Directors