

# Information Bulletin

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ATB FINANCIAL  
BUSINESS SENTIMENTS INDEX  
HOW IS THE ALBERTA ECONOMY DOING?  
2006 QUARTER 3

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## How Is The Alberta Economy Doing?

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- The ATB Financial Business Sentiments Index™ finds that the Alberta economy will continue its strong growth in the coming quarter.
- A substantial majority of Alberta firms anticipate increased sales during the quarter with Northern Alberta leading the way.
- All sectors will participate with sentiment particularly strong in the energy industry.
- The ATB Financial *Index of Hiring Intentions* indicates that these favourable business sentiments will be accompanied by a strong job market as most firms plan to increase their employment levels.

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## Methodology

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These Indexes are based on responses to a telephone survey of 411 business firms, equally distributed between North and South Alberta, in key driving sectors of the economy:

- oil and gas exploration and development (62)
- agriculture (42)
- construction (63)
- manufacturing (73)
- transportation and warehousing (63)
- wholesaling (63)
- professional and technical services (62)

Figures in parentheses are the number of respondents from each sector included in the sample.

The survey questions adapt to the circumstances of each sector. They are basic and simple to understand. The survey instrument is included in *Information Bulletin 88 ATB Financial Alberta Business Sentiments Index* and can be found on line at [www.bus.ualberta.ca/wcer](http://www.bus.ualberta.ca/wcer)

The *Business Sentiments Index* and the *Hiring Intentions Index* are constructed as follows:

- take the difference between the percentage of positive and negative responses to questions about current and future sales and employment requirements i.e. (percent stating 'increase' minus percent stating 'decrease').
- convert the results to an index measure, i.e. add 100 to the percentage difference.
- assign weights to the index of responses from each sector to obtain a composite index.

- To interpret the results:
- growth in the economy if the index is greater than 100.
- an economy in neutral if the index is at 100.
- decline in the economy if the index is below 100.

The higher the value of the Index the stronger is the sentiment for expansion. The ceiling value of the index is 200 (all respondents expect increase) and the floor value is zero (all respondents expect a decrease).

The sample has a margin of error of plus or minus 5%.

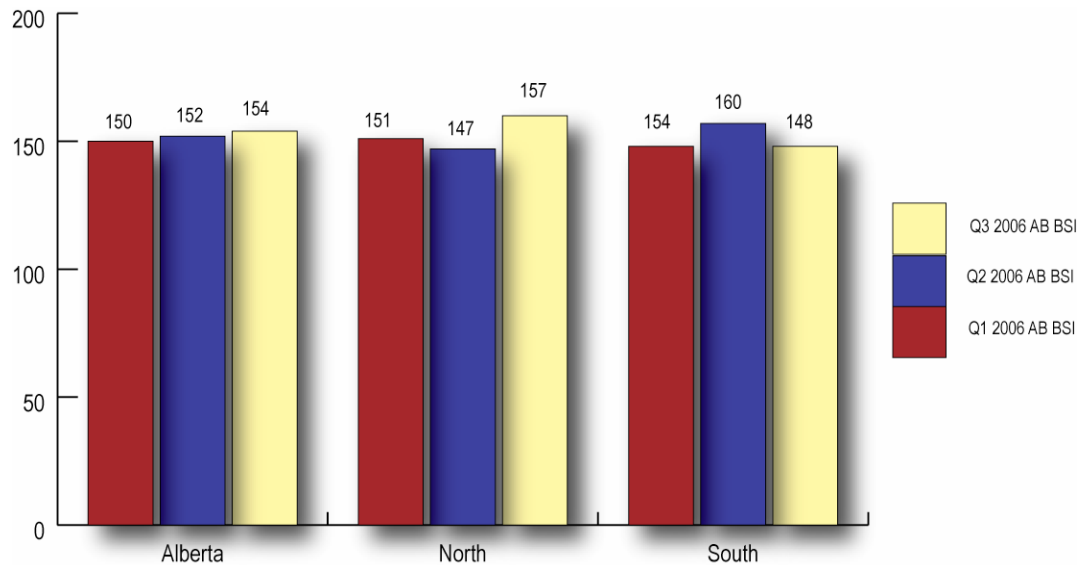
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### ATB Financial Business Sentiments Index™

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For Q3 2006, the Index value is 153.8 compared with 152.1 for Q2 2006. A comparison of index results for Q3, Q2, and Q1 2006 for the province, Northern Alberta and Southern Alberta are found in Figure 1 below. The results show the consistency of business sentiments found across Alberta businesses in 2006 with the strongest of a generally strong outlook for Q3 apparent in Northern Alberta.

**Figure 1. Comparison of the ATB Financial Business Sentiments Index: Q1, Q2, Q3 2006**



Activity in the economy is assessed by responses to our question about the firms' sales experience during the prior quarter. A comparison of the *Business Sentiment Index*<sup>TM</sup> for Q3 2006 with inferred Q4 2005, and Q1, Q2 2006 activity levels regionally and for the province are shown in Figure 2 (below). The results indicate the very positive sentiment of business operators in the upcoming quarter.

**Figure 2. Business Sentiments Indexes Q3 2006 and Business Activity Indexes Q1 2005 and Q1, Q2 2006**

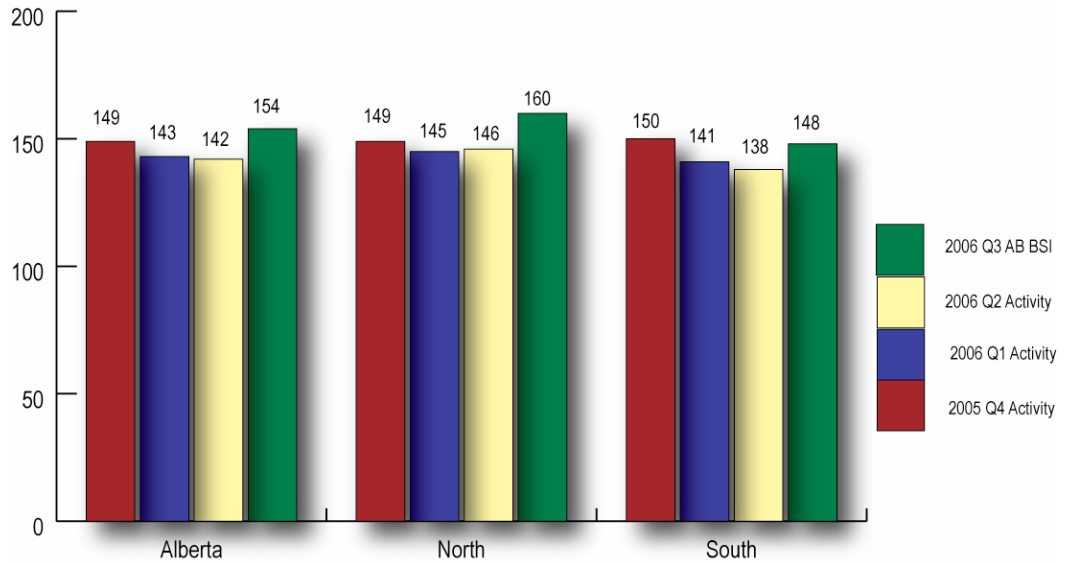
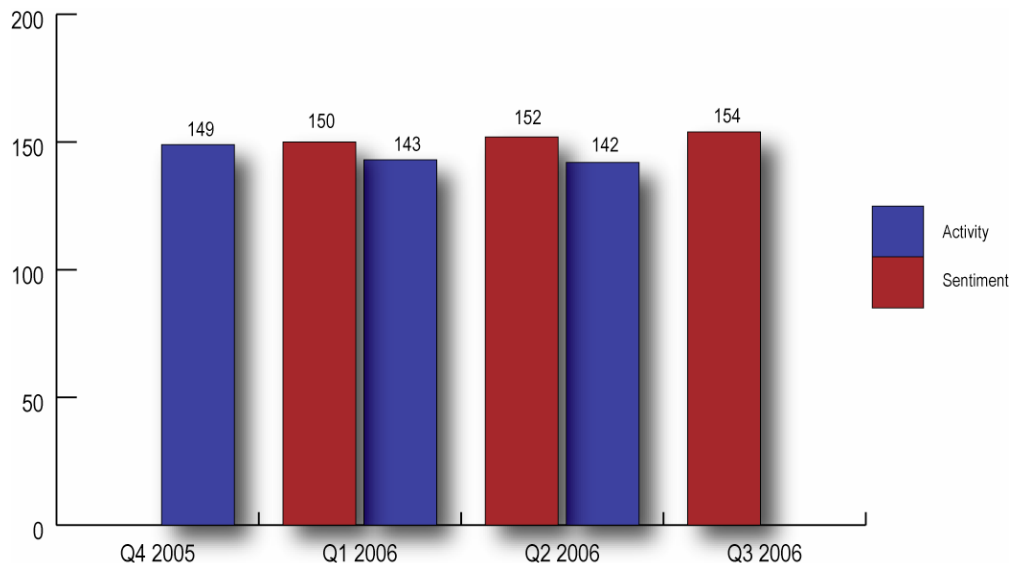


Figure 3 (below) compares the *Business Sentiment Index*<sup>TM</sup> for Q1, Q2, Q3 2006 with Indexes of Activity of Q4 2005 and Q1, Q2 2006 for the province as a whole. The Figure suggests that in Q1 and Q2 2006, the periods for which the comparison is valid, the *Business Sentiments Index*<sup>TM</sup> tended to overestimate activity levels. We will continue to monitor this relationship for evidence of a pattern.

**Figure 3: Comparison of Business Sentiment and Business Activity Indexes**



## Industry Sector Sentiment

Figure 4 (below) provides a comparison of Q3 2006 non agricultural Business Sentiments, with those for Q1 and Q2 2006. In Q3 2006, as in the three previous quarters, the results indicate a very positive set of anticipations across all sectors. Most notable is the renewed strength in the oil and gas sector.

**Figure 4. Business Sentiments Sector Indexes: Q1, Q2, Q3 2006**

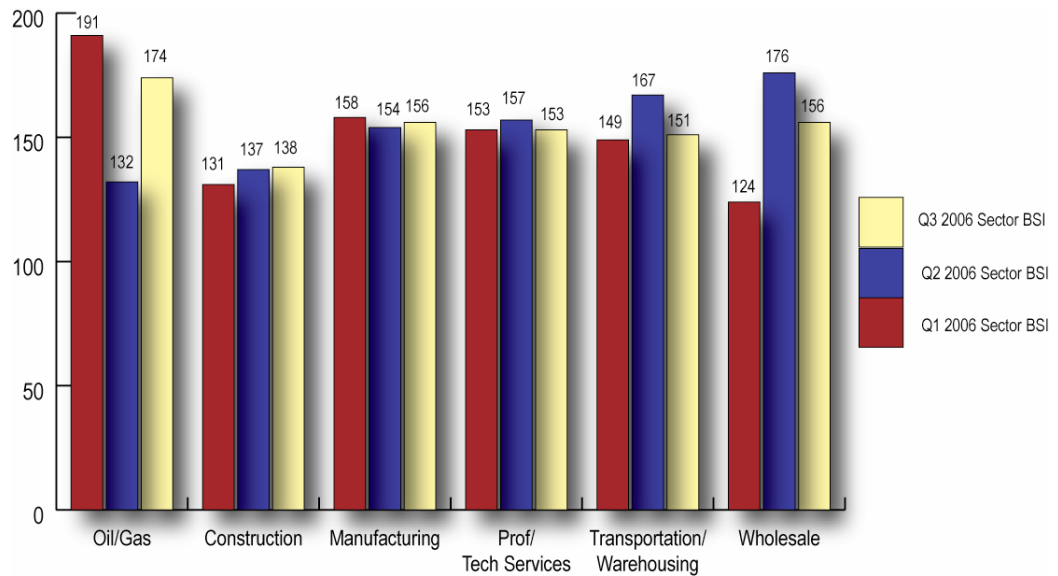
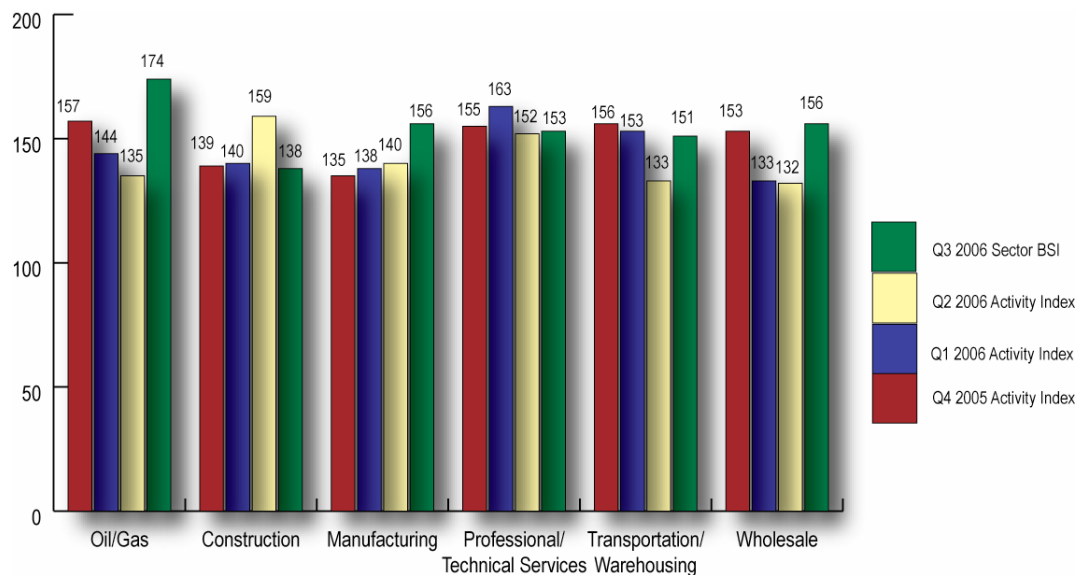


Figure 5 is a comparison of previous quarter activity levels with Business Sentiments Sector Indexes for Q3 2006. More detailed evaluation of industry conditions, including those in agriculture, are in the final section of this Bulletin.

**Figure 5. Business Activity Sector Indexes Q1 2006, Q2 2006 and Business Sector Indexes Q3 2006**





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## The Job Market

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Respondents are also surveyed about their hiring intentions. The ATB Financial *Index of Hiring Intentions*, shown in Figure 6 below, stands at 142 for Q3, approximately the same as the level of the Index in Q2. The strength of the job market is evident throughout the province.

**Figure 6. Comparison of Index of Hiring Intentions: Q1, Q2, Q3 2006**

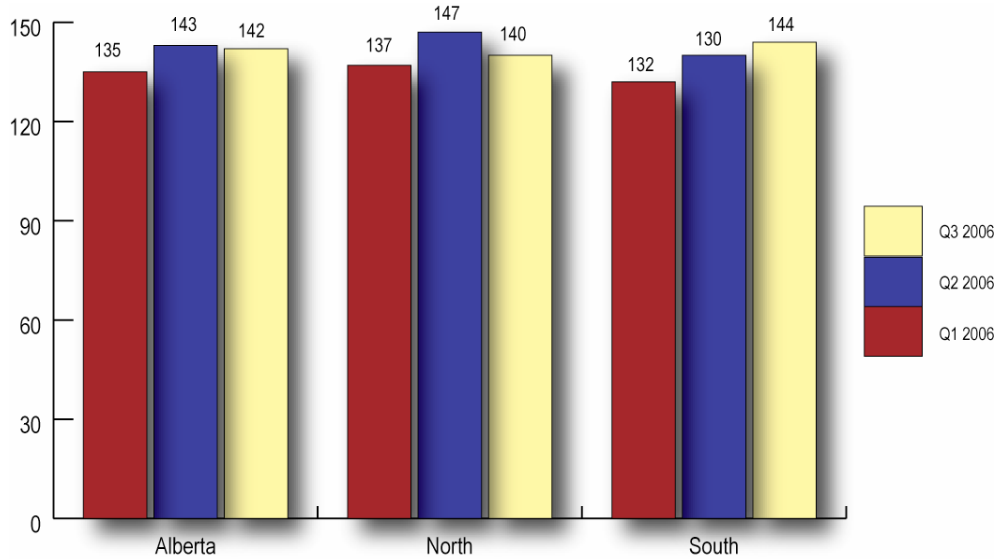
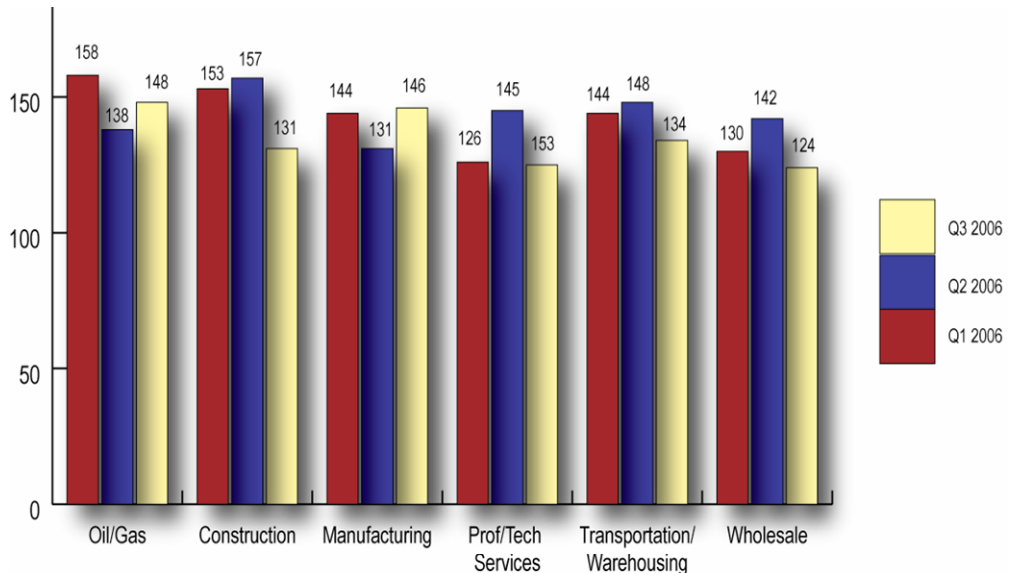


Figure 7 (below) depicts the ATB Financial Index of Hiring Intentions by non-agricultural sector. These imply increased job opportunities across the sectors, with the results particularly strong for energy and construction. Manufacturing and transportation/warehousing also display relatively strong demand.

**Figure 7. Index of Hiring Intentions by Non Agricultural Sector: Q1, Q2, Q3 2006**



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## More on Industry Sectors

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### Agriculture

The 42 farm operator respondents were asked about current prices received for their products and their product price expectations in the coming quarter. Estimates of current quarter prices for the three-quarters from Q4 2005 to Q2 2006 are in Figure 8 (below). The results indicate some improvement from Q1 2006 but are still well below the price change experiences of Q4 2005.

**Figure 8. Current Commodity Prices, Agriculture Sector: Q4 2005 and Q1, Q2 2006**

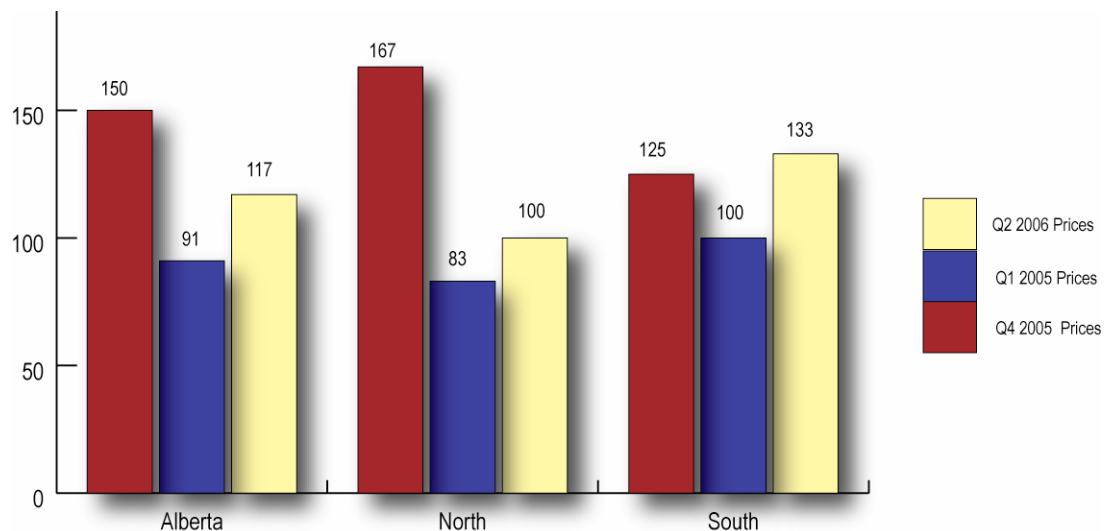
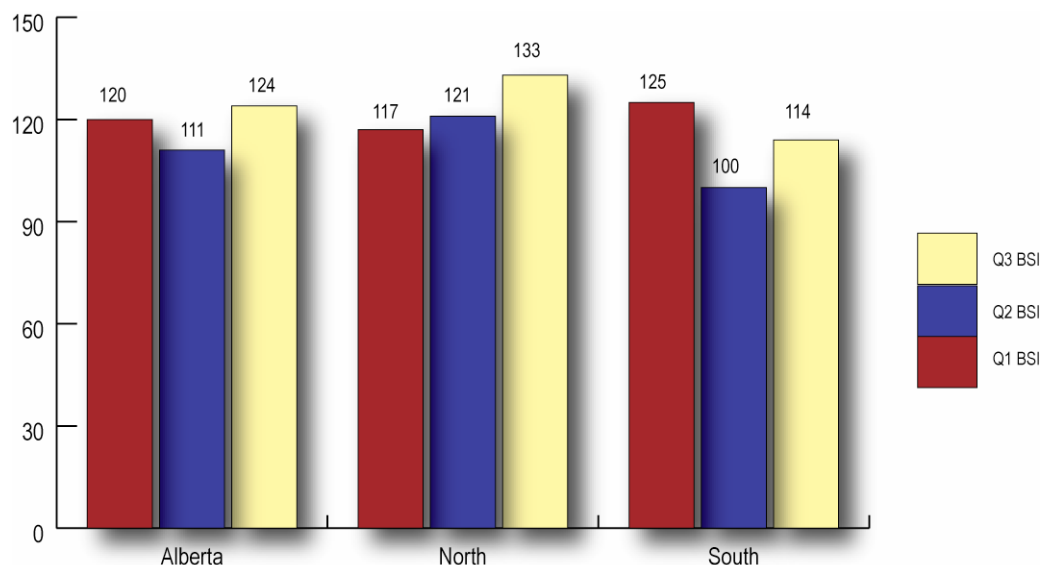


Figure 9 shows the price sentiment indexes for Q1, Q2, Q3 2006. The results indicate improved price sentiment in Q3 over Q2, largely attributable to the responses from Northern Alberta.

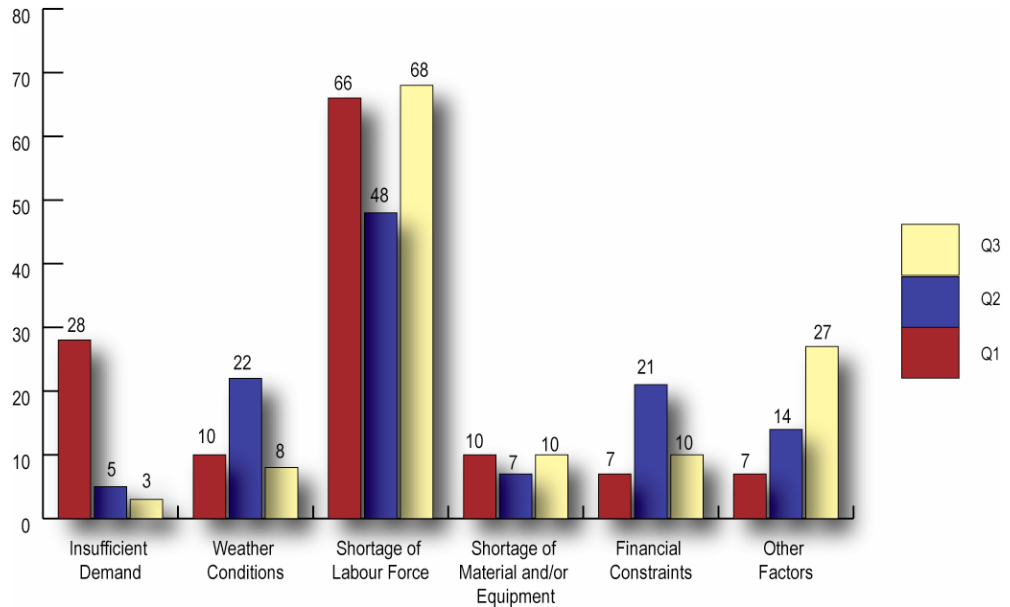
**Figure 9: Agriculture Price Sentiment Indexes: Q1, Q2, Q3 2006**



## Construction

Demand pressures on the industry are clearly evident in the survey. About three-fifths of respondents experienced increased activity over the past quarter. Figure 10 summarizes responses to survey questions about factors limiting business activity that were encountered in the previous two quarters and the current quarter.

**Figure 10. Factors Limiting the Construction Sector: Q1, Q2, Q3 2006\***



\* Note: 63 firms responded. 12 firms selected no factors; 38 firms selected one factor; 13 firms selected more than one factor.

Labour shortage is the chief barrier in the industry in each quarter. Other factors have had a relatively minor influence.

Figure 11 (below) reveals construction respondents' degree of satisfaction with jobs on hand or booked. At the present time over 90% of the respondents had sufficient or more than sufficient contracts in place.

**Figure 11. Satisfaction with Jobs on Hand, Construction Sector: Q1, Q2, Q3 2006**

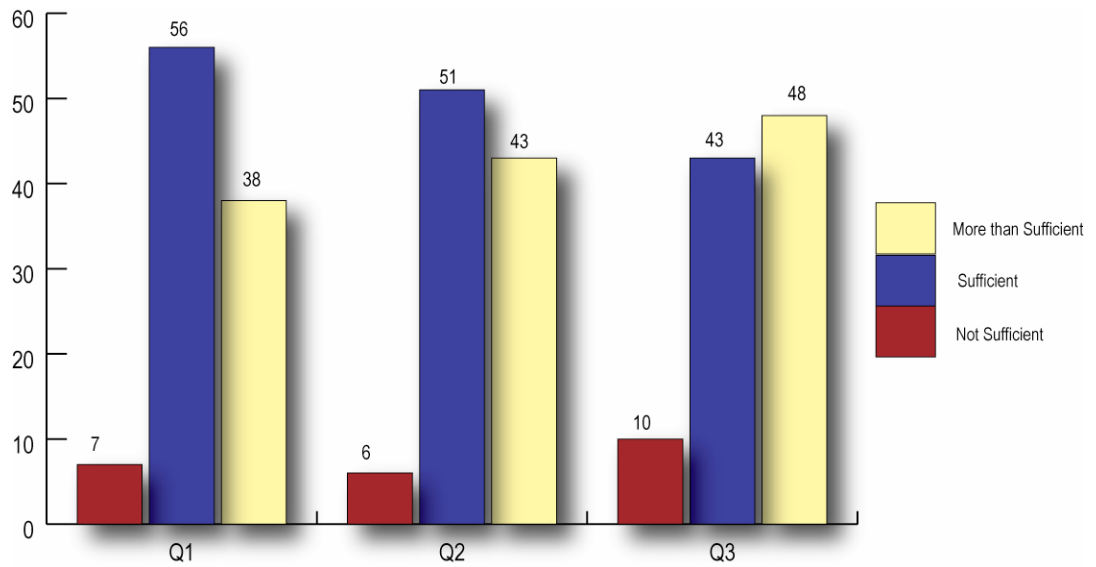


Figure 12 indicates that the average number of work months accounted for by current work or jobs in hand was 7.

**Figure 12. Average Number of Months' Work Accounted for by Work in Hand or on Order Books, Construction Sector: Q1, Q2, Q3 2006**

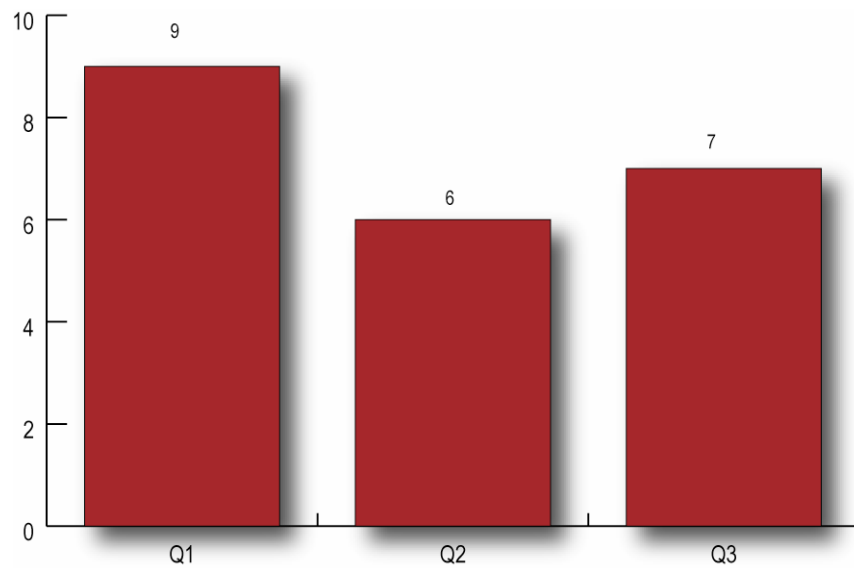
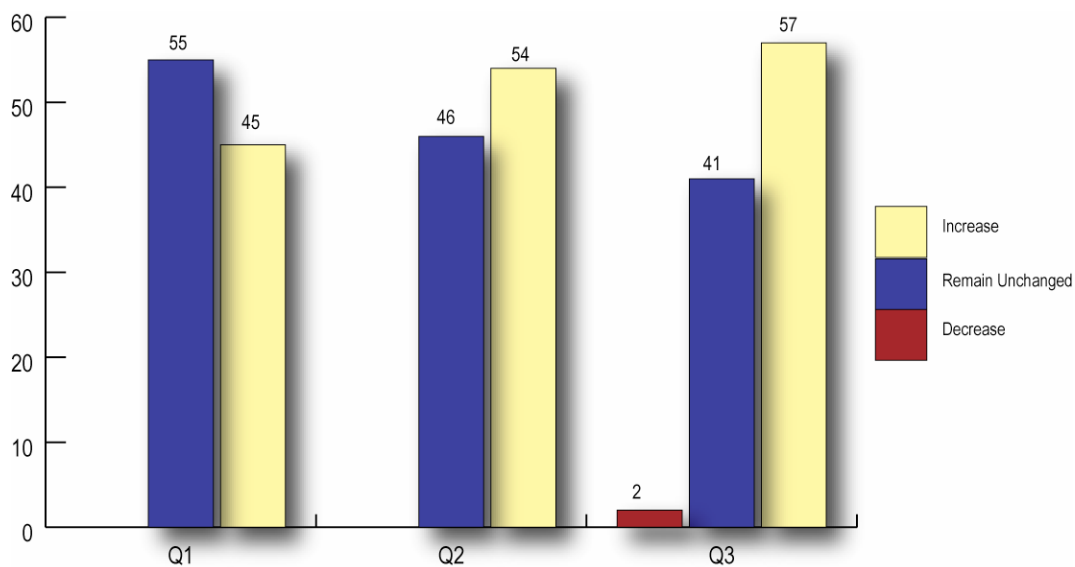


Figure 13 indicates that well over one-half of respondents expected unit construction prices to increase in the coming quarter.

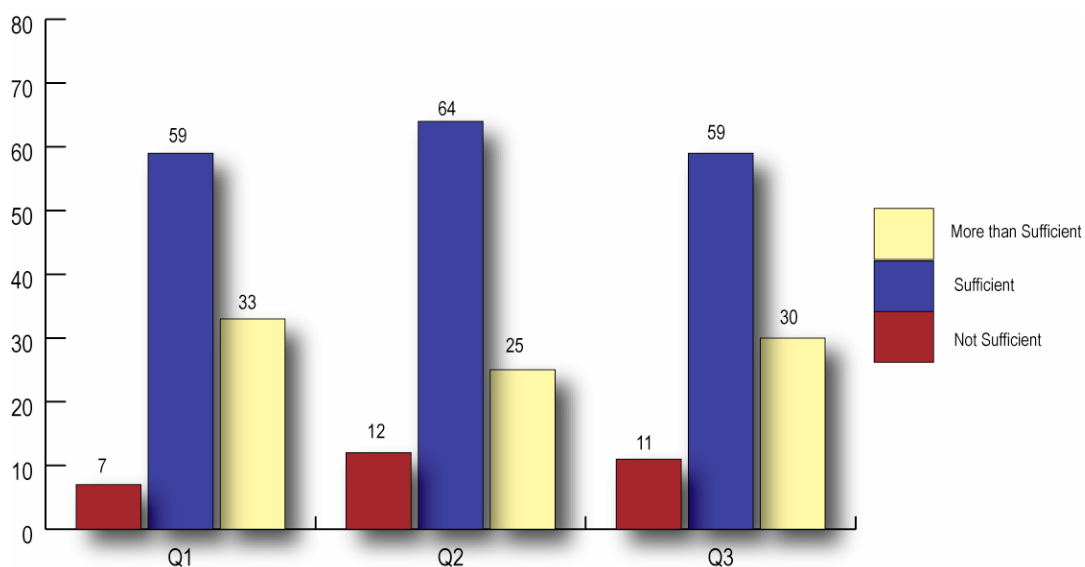
**Figure 13. Construction Price Sentiment: Q1, Q2, Q3**



### Manufacturing

One-half of the manufacturing respondents experienced increased business during the current quarter with little difference between those in the north and those in the south. About two-thirds of respondents expect that production will expand during the coming quarter and some 45% expect to increase employment. Figure 14 (below) summarizes data on manufacturers' order books with about 90% indicating that job orders are either sufficient or more than sufficient.

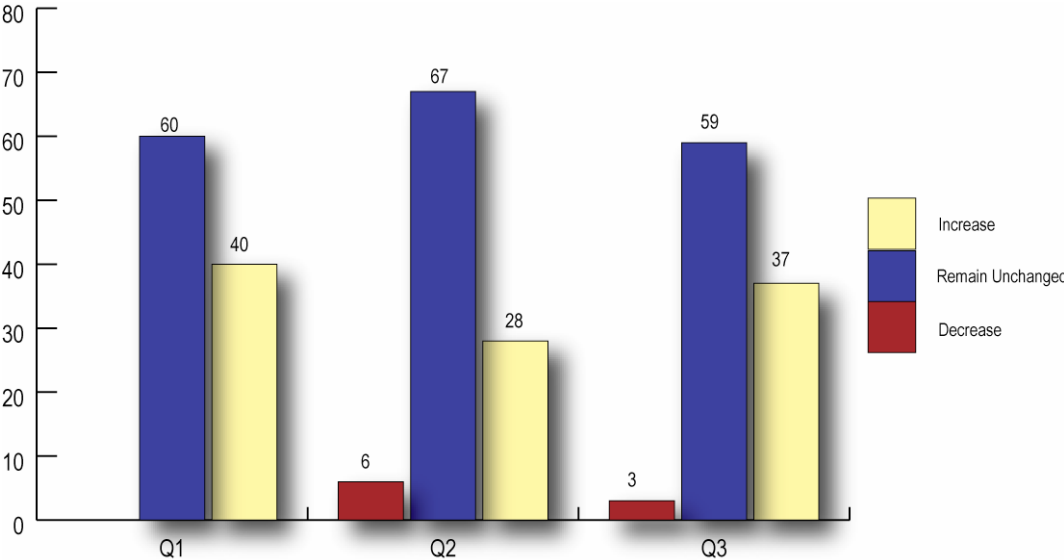
**Figure 14. Jobs on Hand, Manufacturing Sector: Q1, Q2, Q3 2006\***



\*Note: 27 firms responded for Q1; 69 for Q2; 63 for Q3.

Figure 15 (below) reveals that about three-fifths of manufacturers believe that selling price will remain unchanged in the coming quarter.

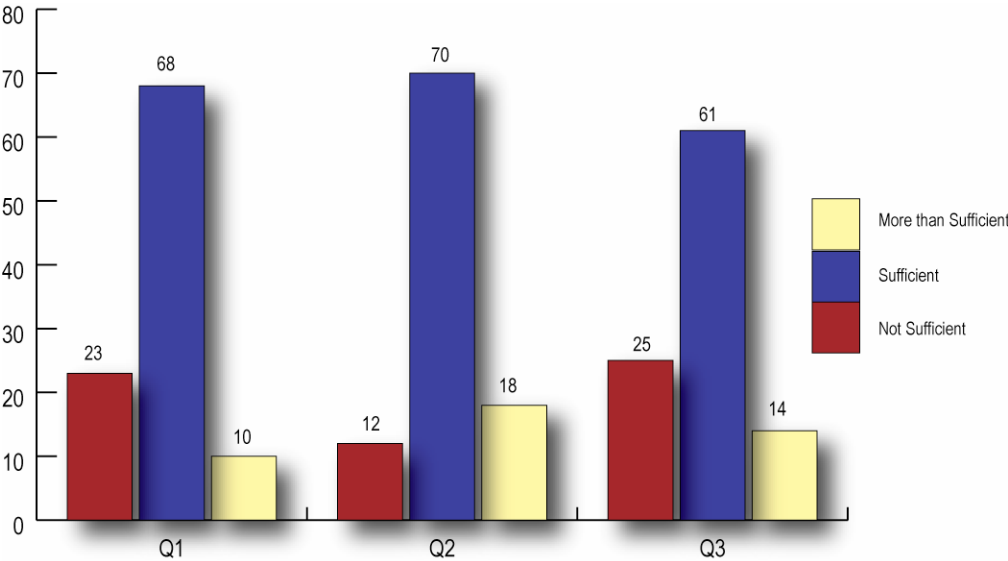
**Figure 15. Manufacturing Price Index: Q1, Q2, Q3 2006**



**Wholesalers**

Forty-six percent of wholesalers experienced increased sales volumes in the current quarter and two-thirds expect growth in the coming quarter. One-third plan on increasing employment in the coming quarter. Figure 16 indicates that 61% of respondents are satisfied with current inventory levels while one-quarter believed them less than sufficient. Slightly more than one-third (37%) expect to increase the level of their orders to suppliers in the coming quarter.

**Figure 16. Current Inventory Levels, Wholesaling Sector: Q1, Q2, Q3, 2006**



**Oil & Gas**

Just over one-half of the 62 respondents experienced increased activity over the past three months and three-quarters anticipated increased activity in the coming quarter. Approximately three-fifths of the respondents expected to increase their employment in the coming quarter.

**Professional and Technical Services**

About three-fifths of the 62 respondents experienced a growth in business during the current quarter and the same proportion anticipates increased sales in the coming quarter. One-quarter of the respondents expect to increase employment in the coming quarter.

**Transportation/Warehousing**

About three-fifths of the 63 respondents experienced both increased sales in the current quarter and expect sales to increase in the coming quarter. One-half of the respondents expect to increase employment in the coming quarter.