

Information Bulletin

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ATB FINANCIAL BUSINESS SENTIMENTS INDEX™

WHERE IS THE ALBERTA ECONOMY GOING?
2009 QUARTER 1

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Methodology

These Indexes are based on responses to a telephone survey of business firms, equally distributed between North and South Alberta, in key driving sectors of the economy. The Q1 2009 survey sampled 410 firms between November 17th and December 4th, 2008. Figures in parentheses are the number of respondents from each sector or region included in the sample.

The distribution of respondents by sector is as follows:

- oil and gas exploration and development (69)
- construction (67)
- manufacturing (68)
- transportation and warehousing (68)
- wholesaling (69)
- professional and technical services (69)

The geographical distribution of respondents is as follows:

- North Alberta excluding Edmonton/Red Deer (69)
- Edmonton/Red Deer (136)
- South Alberta excluding Calgary (69)
- Calgary (136)

North Alberta is comprised of North Alberta and Edmonton/Red Deer. South Alberta is comprised of South Alberta and Calgary.

The ATB Financial Business Sentiments Index™, the Activity 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. Combine the weighted 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%.

We are continuing the process, started last quarter, of **seasonal adjusting** the data. For the first time, the indicators for each sector have been seasonally adjusted. This data was developed using the X-12-ARIMA program, created by the United States Census Bureau. This is the 13th installment of the indexes and a minimum of 12

data points are required for seasonal adjustment. As such, our confidence in the seasonally adjusted results will grow as more quarters are added to the database.

Where is the Alberta Economy Going?¹

Business Sentiments Index™ Q1 2009	Business Activity Index Q4 2008	Business Hiring Index Q1 2009
99.7 ▼	85.5 ▼	105.8 ▼

Quarterly Highlights

For the first time, the Business Sentiments Index™ stands below 100. This suggests that firms expect little change in the coming quarter, that is, neither expansion or contraction.

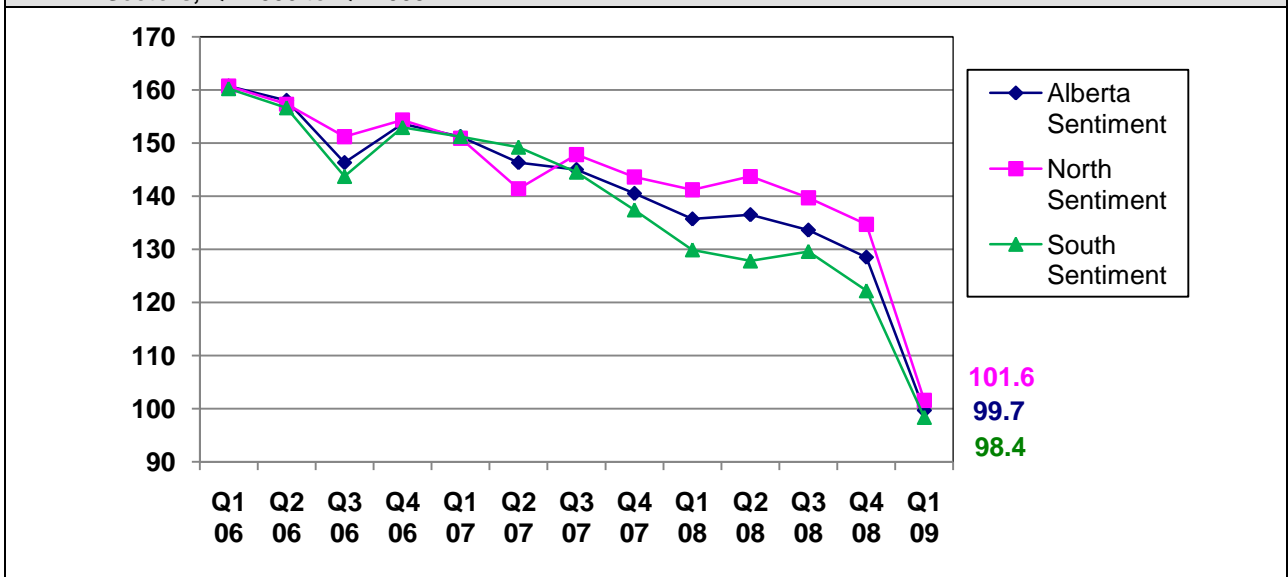
The Hiring Index is the only of the three quarters to suggest growth, but even here the outlook is of a neutral quarter. The Business Activity Index dropped about 25 points in response to global economic uncertainty, though the BSI™ suggests activity should level off in the next quarter.

Feature Figure

The seasonally adjusted ATB Financial Business Sentiments Index™ (BSI) stands at 99.7 for Q1 2009. This compares with 128.5 in Q4 2008, 135.7 in Q1 2007 and 160.7 in Q1 2006.

The spread between the Sentiment in the North and in the South is small, indicating that expectations are uniform across the province.

1. ATB Financial *Business Sentiments Index*™ by Provincial Region: Seasonally Adjusted
All Sectors, Q1 2006 to Q1 2009



Source: WCER

¹ Please see Appendix A for data tables. Please contact the Western Centre for Economic Research if more detail is required.

Provincial Borders No Insulation for Alberta Economy

After almost seventeen years of continuous economic expansion that has seen output and population grow by multiples, the Alberta economy shows evidence of not merely slowing, but of entering recession. Provincial borders cannot insulate from a financial catastrophe that rivals the Great Depression and has generated massive international uncertainty.

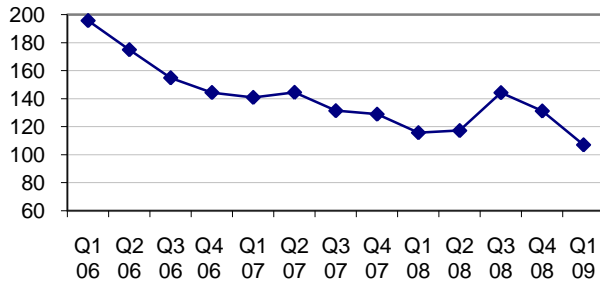
Some may attribute current economic conditions in the province to the precipitate decline in crude oil prices and that is undoubtedly a contributing factor. However, the financial crisis, including the decline in equity markets, has created a sense of not knowing what is coming next, has slashed household wealth and has forced businesses to curtail spending in attempts to strengthen their balance sheets. The consequence will be reduced consumer and investment spending and reduced employment opportunities.

Our just completed survey of some 400 Alberta businesses clarifies how these events have permeated the Alberta economy. The majority indicated that for the October-December quarter they recorded either no change or declines in their business. More significantly this net negative growth was experienced across virtually all sectors of the economy surveyed. In looking ahead to the first few months of 2009, these businesses, after accounting for seasonal factors, generally expect no growth in their sales.

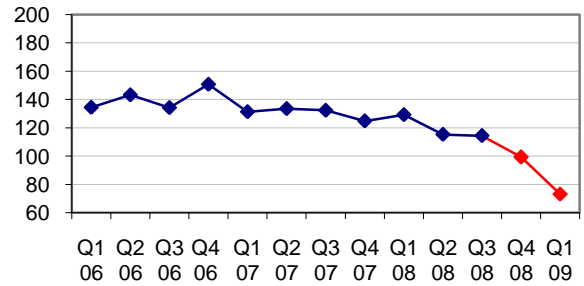
Our survey also gets a sense of longer-term expectations, and these suggest that the whole of 2009 will be a very challenging one for the economy. A slight majority of respondents expect that a year from now their sales will have either remained at, or decreased from, current levels. The implications are for a much cooler labour market, one that in recent years has been badly overheated.

Business Sentiment Indexes – Sector Analysis – Seasonally Adjusted

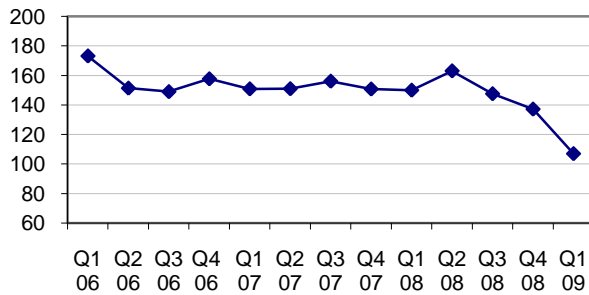
2. Oil & Gas Sector
All Regions, Q1 2006 to Q1 2009



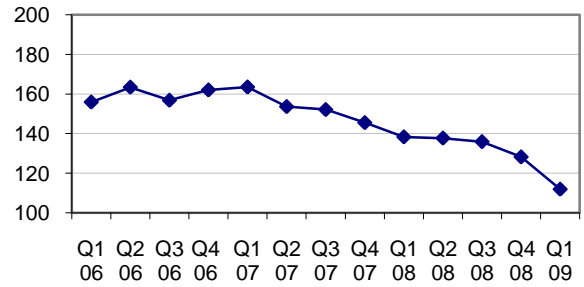
3. Construction Sector
All Regions, Q1 2006 to Q1 2009



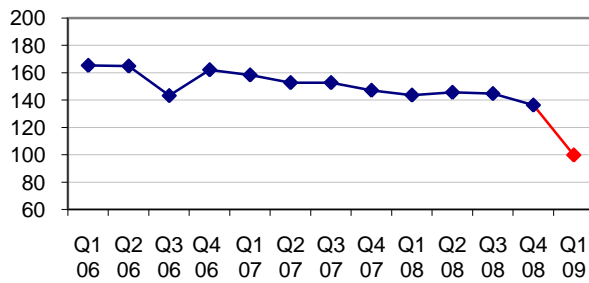
4. Manufacturing Sector
All Regions, Q1 2006 to Q1 2009



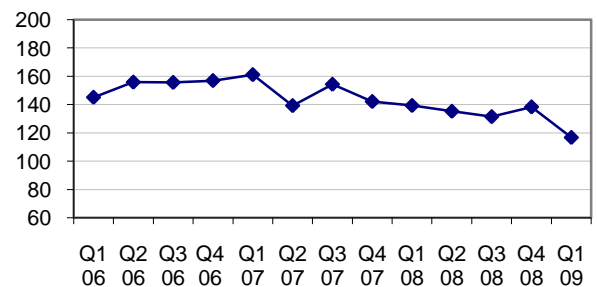
5. Professional & Technical Services Sector
All Regions, Q1 2006 to Q1 2009



6. Transportation & Warehousing Sector
All Regions, Q1 2006 to Q1 2009



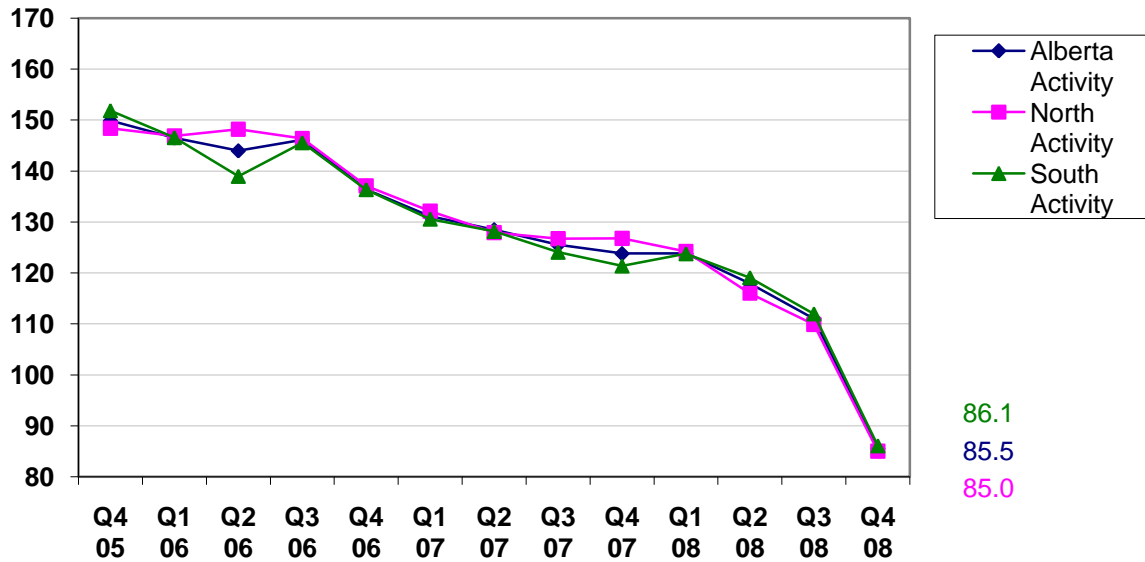
7. Wholesale Sector
All Regions, Q1 2006 to Q1 2009



Source: WCER

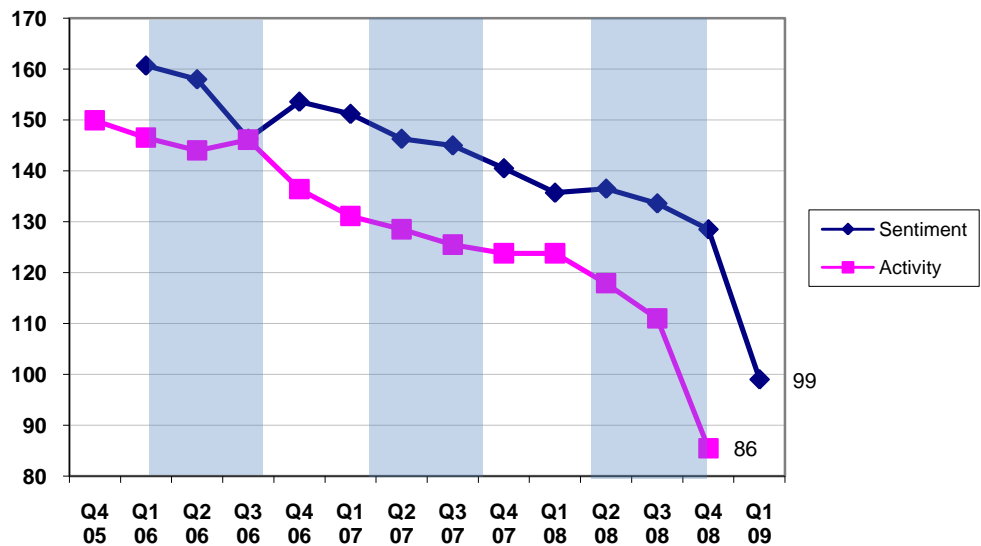
Business Activity Index

8. Business Activity Index by Region, Seasonally Adjusted
Q4 2005 to Q4 2008



Source: WCER

9. Business Activity Index vs. Business Sentiments Index™: Seasonally Adjusted
All Regions, All Sectors, Q4 2005 to Q1 2009

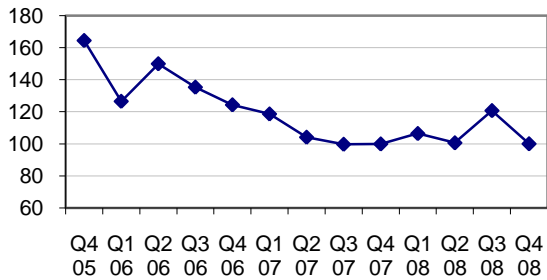


Source: WCER

Business Activity Index – Sector Analysis – Seasonally Adjusted

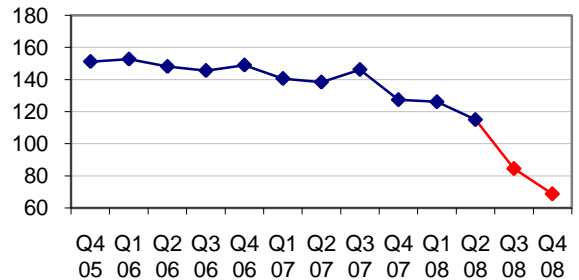
10. Oil & Gas Sector

All Regions, Q4 2005 to Q4 2008



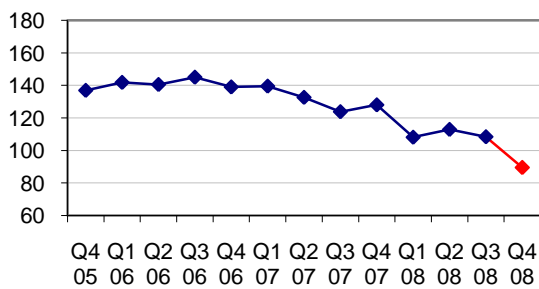
11. Construction Sector

All Regions, Q4 2005 to Q4 2008



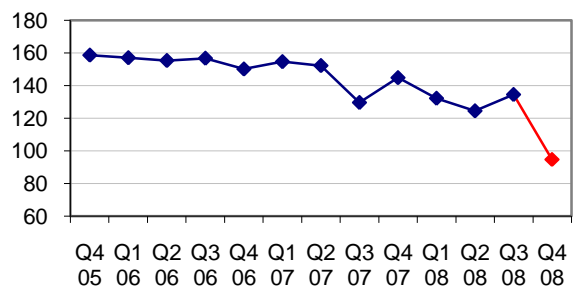
12. Manufacturing Sector

All Regions, Q4 2005 to Q4 2008



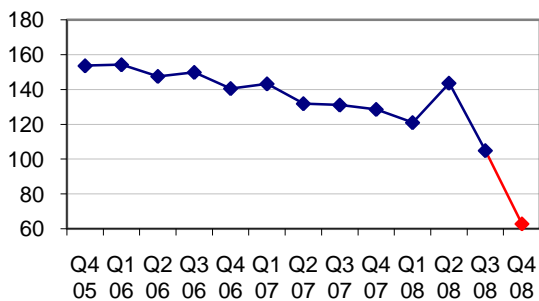
13. Professional & Technical Services Sector

All Regions, Q4 2005 to Q4 2008



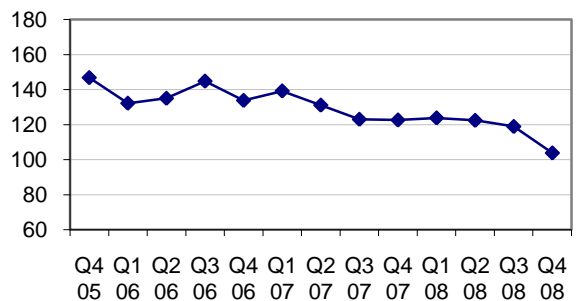
14. Transportation & Warehousing Sector

All Regions Q4 2005 to Q4 2008



15. Wholesale Sector

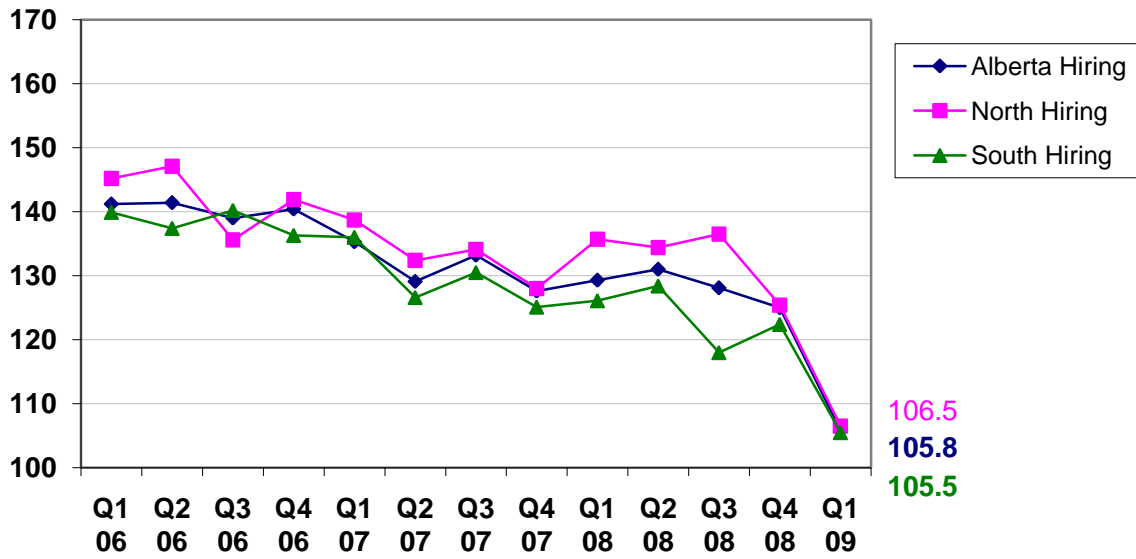
All Regions, Q4 2005 to Q4 2008



Source: WCER

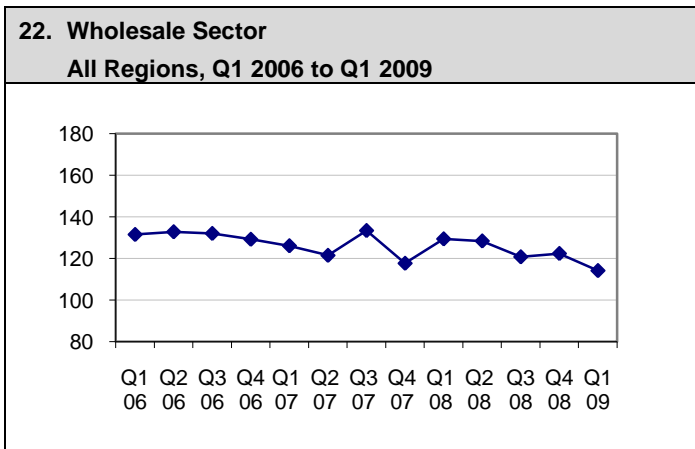
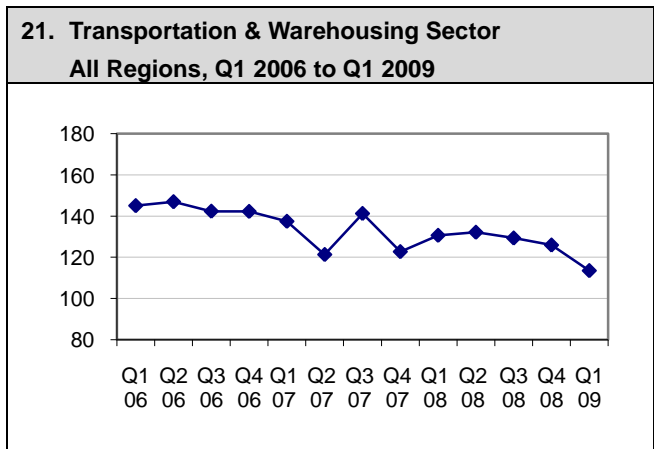
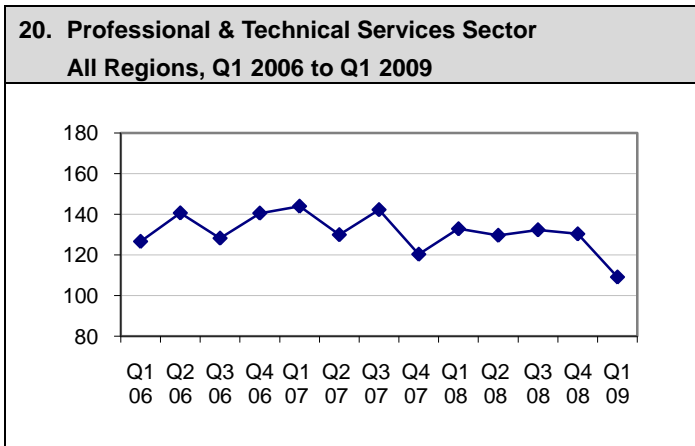
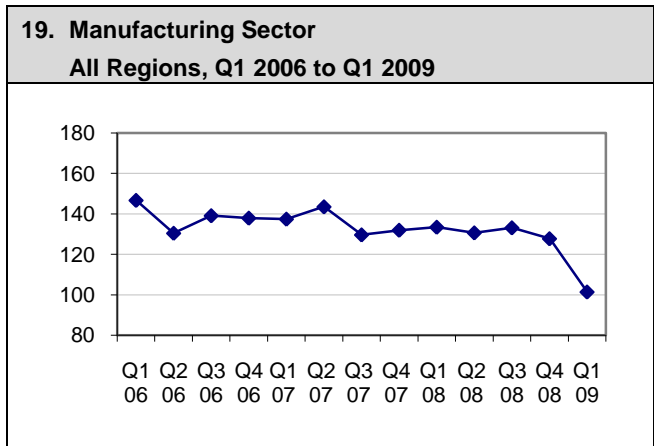
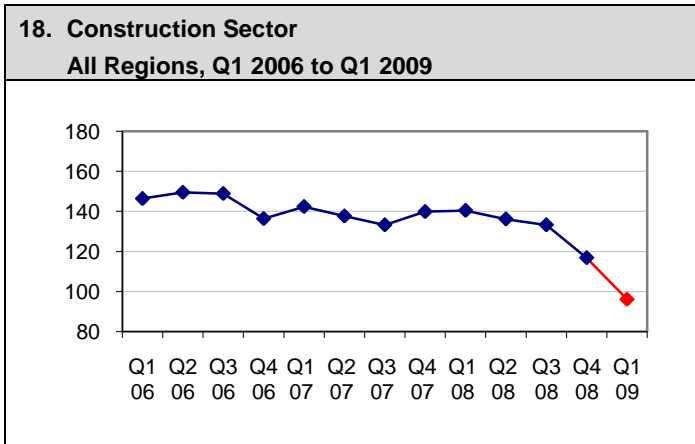
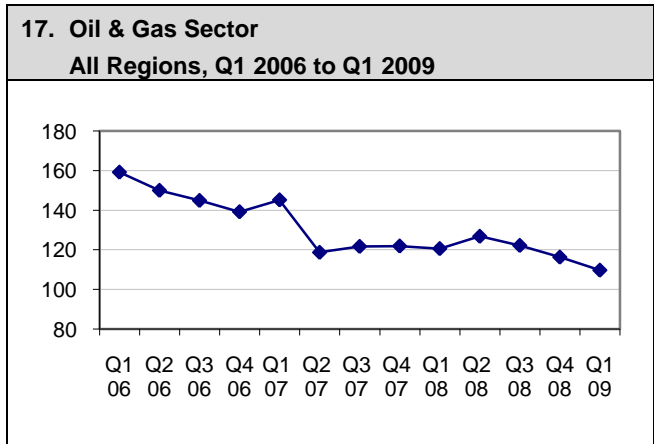
Business Hiring Intentions

16. Business Hiring Intentions by Region, Seasonally Adjusted
All Sectors, Q1 2006 to Q4 2008



Source: WCER

Business Hiring Intentions – Sector Analysis – Seasonally Adjusted

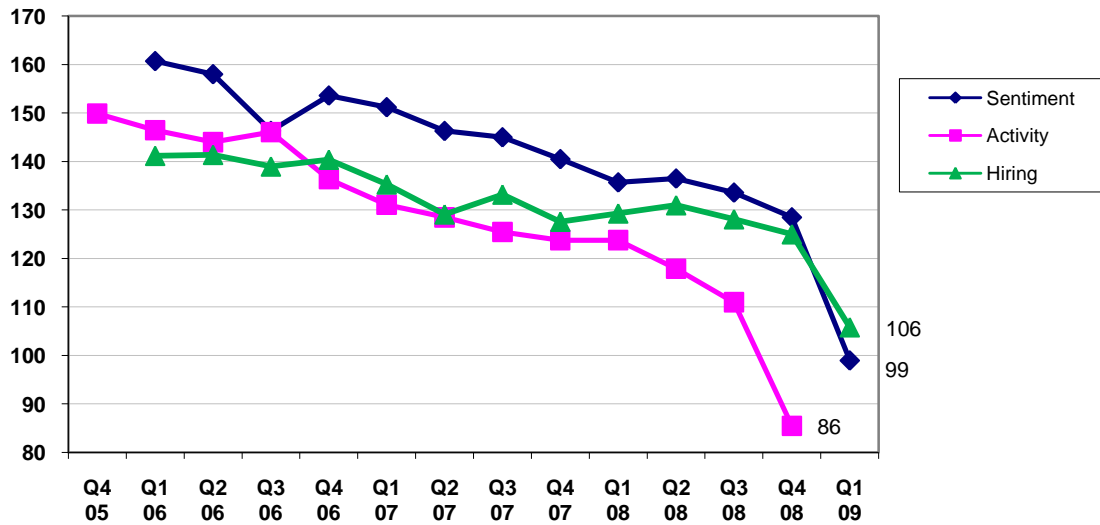


Source: WCER

Comparison of BSI, BAI and BHI

Figure 26 shows a seasonally adjusted comparison of the three indicators since the inception of the BSI survey in 2006. Respondents generally have higher expectations (BSI) for their business activity than what occurs (BAI). The precipitous drop in all three indexes suggests a neutral economy that will remain stagnant over the next quarter. For the first time, the Hiring Index is the highest of the three. However, there is only muted optimism in terms of hiring intentions.

23. Comparison of BSI, BAI and BHI: Seasonally Adjusted – Q4 2005 to Q1 2009



Source: WCER

More on Industry Sectors

Although the overall indices for each sector have been seasonally adjusted, the raw data has not. Therefore, the following data is presented in its unadjusted form.

Oil & Gas

- In the coming Q1 2009, 27% of respondents expect an increase in business, while 29% expect a decrease. Although this suggests a negative sentiments index, when seasonally adjusted the results give a positive index of 107. In either case, the results suggest neutrality.
- 18% of respondents expect to increase hiring in Q1 2009, while 16% expect to decrease hiring in Q1 2009.
- 22% of respondents indicated activity levels increased in Q4 2008, while 30% indicated activity levels decreased.

Construction

- Only 7% of respondents expect an increase in business over the next quarter, while 43% expect a decrease.
- 61% of respondents expect no change in hiring levels, while 27% expect to decrease hiring over the next quarter.
- 14% of respondents experienced increased activity in Q4 2008, compared to 53% who experienced a decrease in activity. This has produced a BAI of 69, down from 84 last quarter.

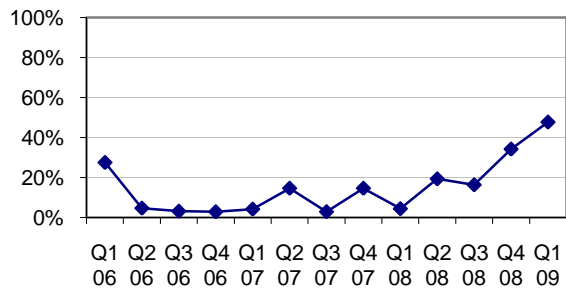
Our survey also asks about potential bottlenecks in the Construction industry including: shortage of labour, weather conditions, insufficient demand, shortages of construction material or equipment, financial constraints, land availability, and other factors. In previous quarters, the shortage of labour had been the most significant issue, but this is no longer the case. In its place, the shortage of demand has tripled over the past two quarters.

Figure 35 shows the median number of work on hand for surveyed construction firms. The results further emphasize the drastic decrease in demand for construction in Alberta. Firms surveyed for this quarter reported a median of 2 months work on hand, down from the average median of 6 months work.

Construction Sector Bottlenecks

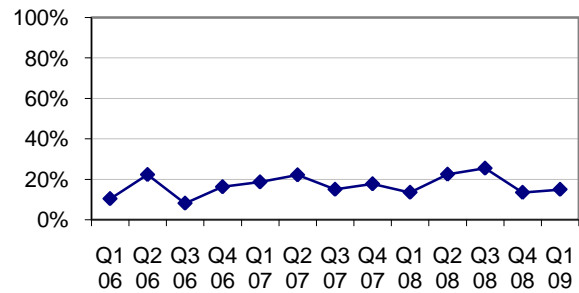
24. Insufficient Demand

All Regions, Q1 2006 to Q1 2009



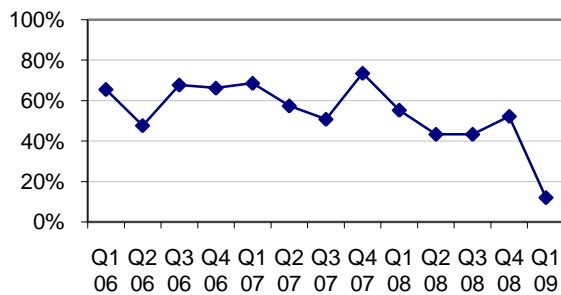
25. Weather Conditions

All Regions, Q1 2006 to Q1 2009



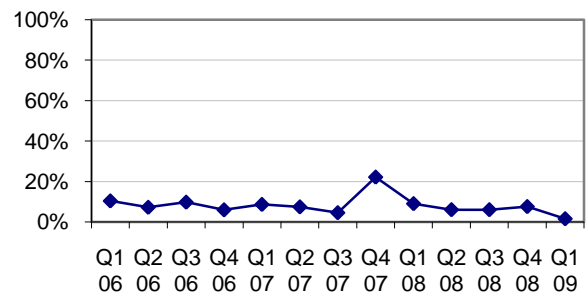
26. Shortage of Labour

All Regions, Q1 2006 to Q1 2009



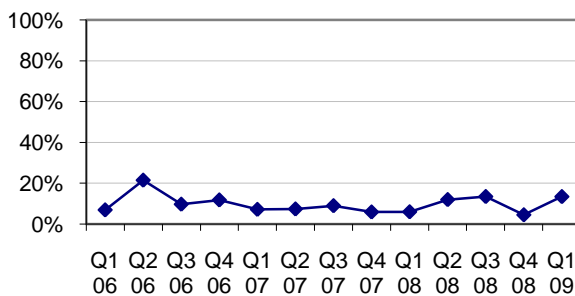
27. Shortage of Material and/or Equipment

All Regions, Q1 2006 to Q1 2009



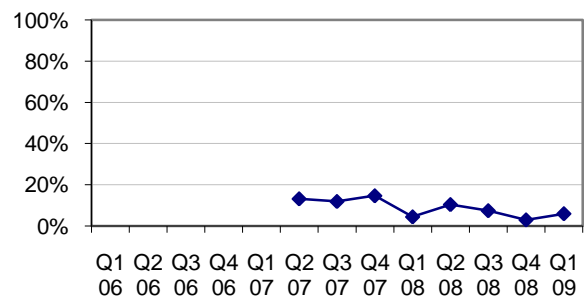
28. Financial Constraints

All Regions, Q1 2006 to Q1 2009



29. Land Availability*

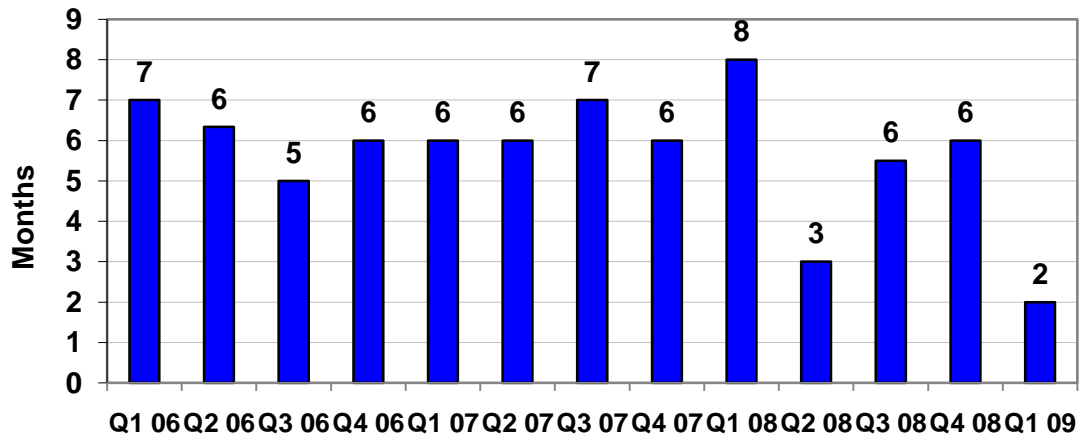
All Regions, Q2 2007 to Q1 2009



* Collection of Land Availability data began in Q2 2007

Source: WCER

**30. Median No. of Month's Work Accounted for by Work in Hand or Already Under Contract
All Regions, Q1 2006 to Q1 2009**



Source: WCER

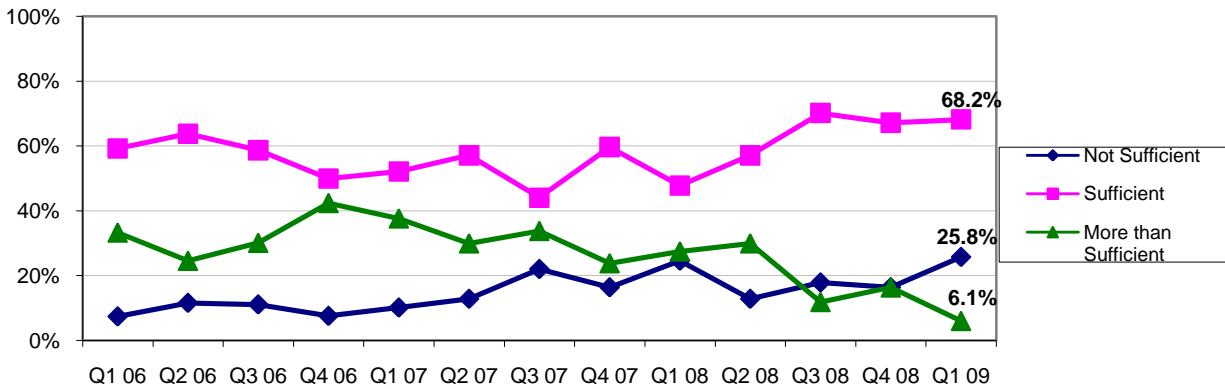
Manufacturing

- 29% of respondents expect increased production runs in Q1 2008, while 35% expect production runs will decrease.
- 16% of respondents expect to increase employment over the next quarter, while 18% expect to decrease employment.
- 27% of respondents experienced increased production in Q4 2008, while 41% experienced a decrease.
- 68% of respondents had sufficient orders on hand (Fig. 36), while for the first time there were more firms who reported insufficient order books than sufficient order books. 38% expected prices to decrease during the next quarter (Fig. 37), compared to only 1% last quarter.

Wholesaling

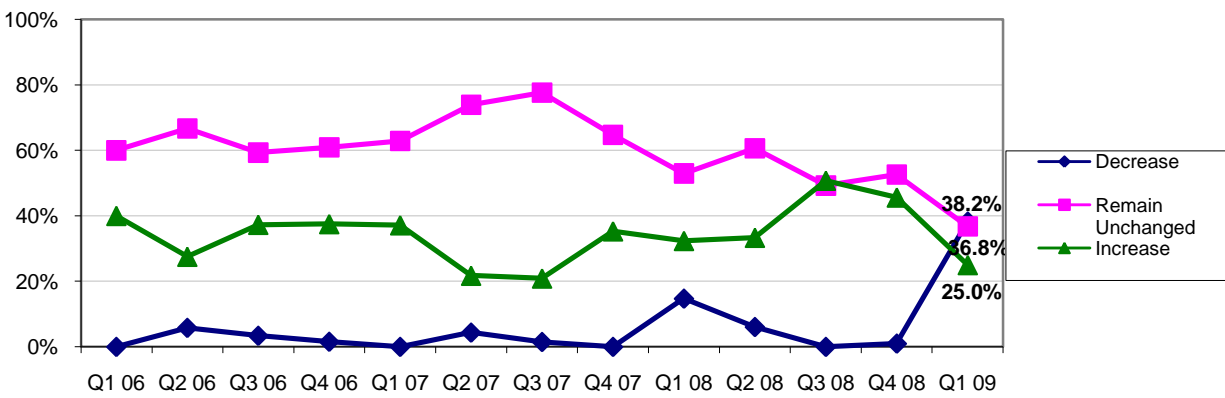
- 33% of respondents expect increased production runs in Q1 2009, while 35% expect decreased activity.
- 15% of respondents expect to increase employment over the next quarter, while 7% expect to decrease employment. The other 78% expect no change to employment.
- 29% of respondents experienced increased production in Q4 2008, while 23% experienced a decrease.
- 65% of respondents were satisfied with their inventory levels (Fig. 38).

31. Orders on Hand, Manufacturing Sector, All Regions, Q1 2006 to Q1 2009



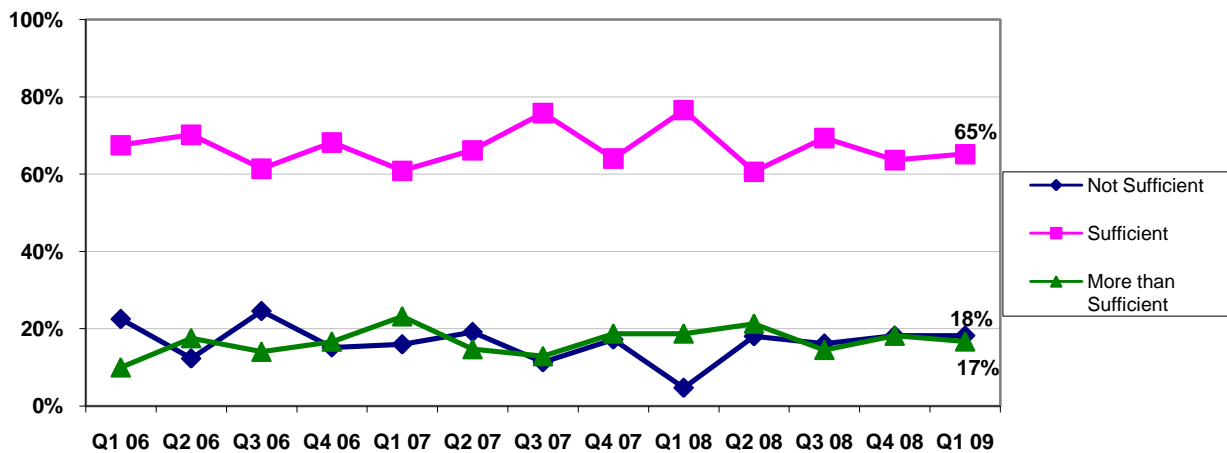
Source: WCER

32. Price Expectations, Manufacturing Sector, All Regions, Q1 2006 to Q1 2009



Source: WCER

**33. Firms' Satisfaction with Current Inventory Levels
Wholesale Sector, All Regions, Q1 2006 to Q1 2009**

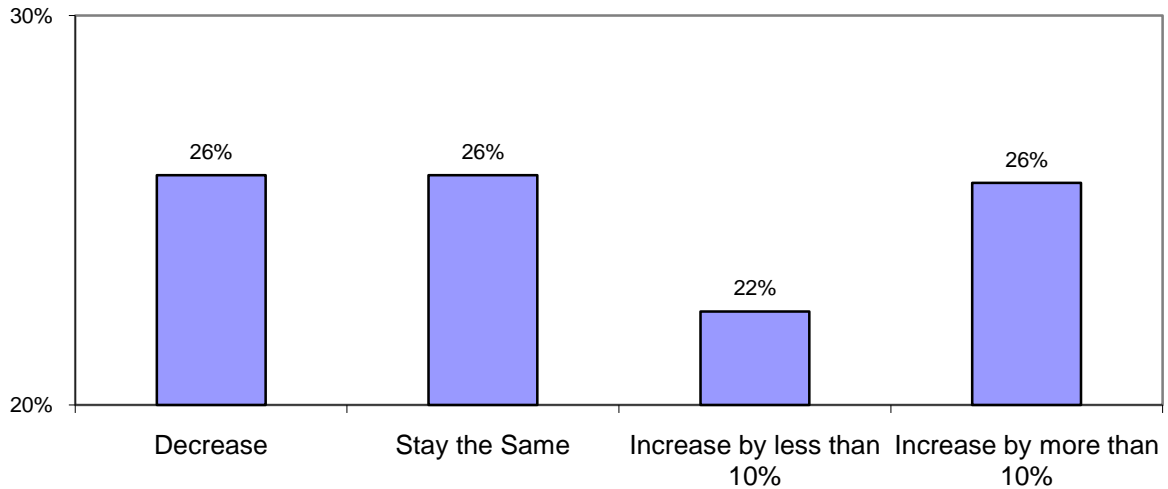


Source: WCER

Additional Questions

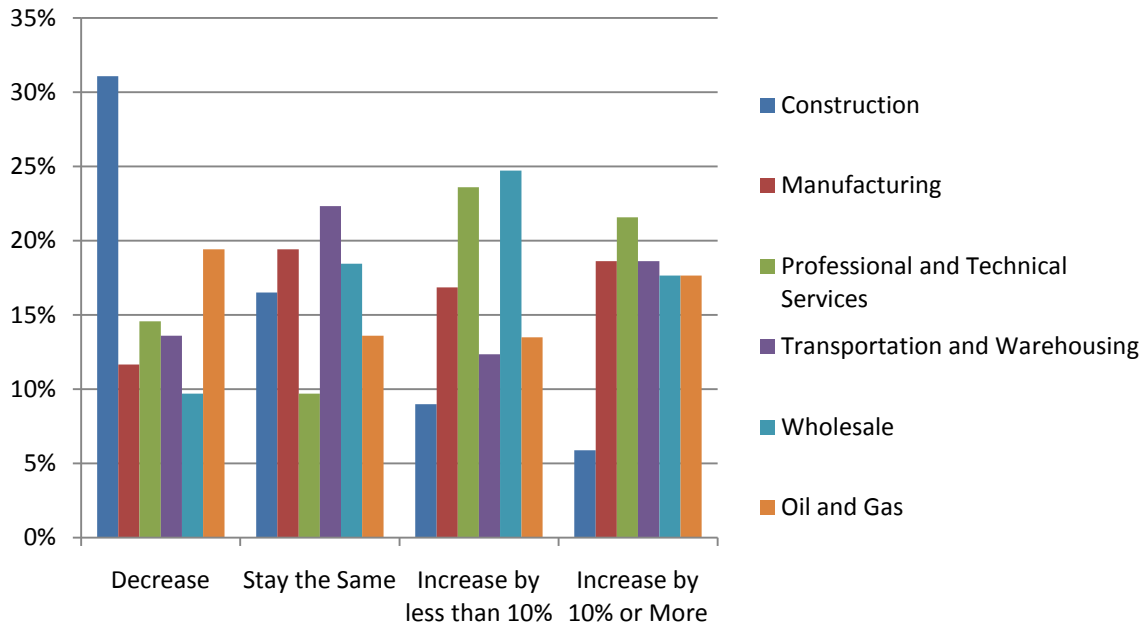
In addition to questions specific to each sector, we also included two questions for all respondents in our survey. Here are the results of those questions.

34. Expectations of Business Activity in the Next Year: All Sectors



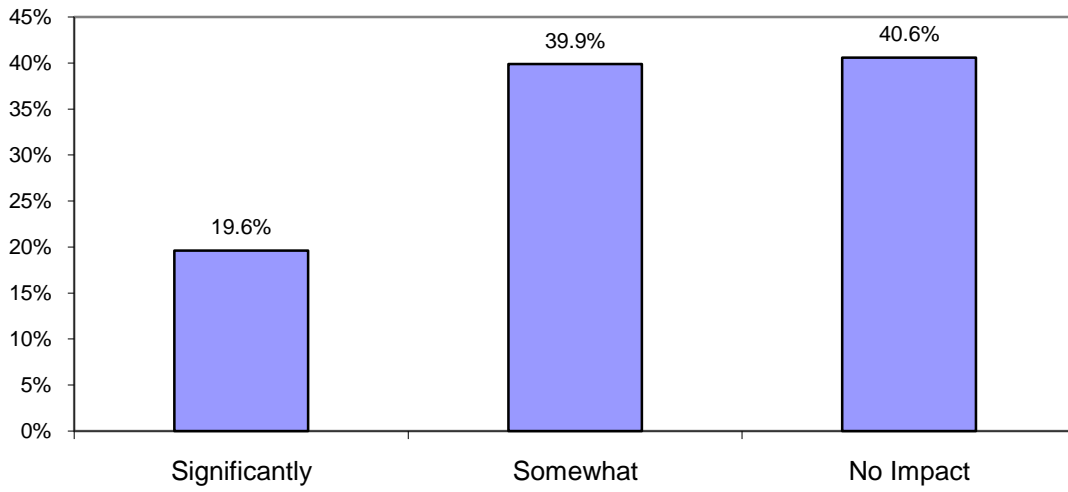
Source: WCER

35. Expectations of Business Activity in the Next Year: Breakdown by sector



Source: WCER

36. Lower gasoline prices have generally reduced transportation costs. How much would you say lower gasoline costs have benefited your business?



Appendix A – Data Tables

Respondent Distributions by Region vs. Sector					
	North	Edmonton	Calgary	South	Total
Construction	6	18	36	7	67
Manufacturing	13	20	19	16	68
Professional & Technical	13	23	18	15	69
Transportation & Warehousing	13	23	20	12	68
Wholesale	11	25	24	9	69
Oil & Gas	13	27	19	10	69
Total	69	136	136	69	410

Business Sentiments Index by Region vs. Sector (Unadjusted)			
	North	South	All
Construction	58.3	67.4	64.2
Manufacturing	87.5	100.0	93.9
Professional & Technical	111.1	103.0	107.2
Transportation & Warehousing	90.9	82.9	87.5
Wholesale	111.1	84.8	98.6
Oil & Gas	102.6	92.9	98.5

Business Activity Index by Region vs. Sector (Unadjusted)			
	North	South	All
Construction	62.5	59.5	60.6
Manufacturing	97.0	75.8	86.4
Professional & Technical	97.2	84.8	91.3
Transportation & Warehousing	55.5	67.7	61.2
Wholesale	102.8	109.1	105.8
Oil & Gas	90.0	93.1	91.3

Business Hiring Intentions by Region vs. Sector (Unadjusted)			
	North	South	All
Construction	70.8	95	85.9
Manufacturing	93.75	102.9	98.5
Professional & Technical	114.3	100.0	107.4
Transportation & Warehousing	105.6	103.2	104.5
Wholesale	111.1	103.1	107.4
Oil & Gas	107.7	92.9	101.5

Business Sentiments Index by Quarter vs. Sector (Seasonally Adjusted)													
	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Construction	134.4	143.2	134.2	150.7	131.3	133.5	132.3	124.8	129.2	115.3	114.4	99.4	73.2
Manufacturing	173.2	151.4	149.0	157.7	150.9	151.0	156.1	150.8	150.0	163.1	147.6	137.2	107.0
Professional & Technical	155.9	163.4	156.8	162.0	163.5	153.6	152.1	145.5	138.3	137.7	135.9	128.2	111.9
Transportation & Warehousing	165.3	164.8	143.2	162.1	158.3	152.7	152.7	147.1	143.6	145.6	144.7	136.3	99.8
Wholesale	145.2	155.9	155.7	157.0	161.2	139.3	154.4	142.2	139.4	135.3	131.5	138.4	116.8
Oil & Gas	195.8	175.0	154.9	144.4	140.9	144.5	131.4	128.9	115.7	117.2	144.3	131.2	107.0

BSI, BAI, BHI by Quarter, (Seasonally Adjusted)														
	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
BSI	--	160.7	158	146.3	153.6	151.2	146.3	145	140.5	135.7	136.5	133.6	128.5	99.7
BAI	149.9	146.5	144	146.1	136.4	131.1	128.5	125.5	123.8	123.8	117.9	111	85.5	
BHI	--	141.2	141.4	139	140.4	135.3	129.1	133.2	127.6	129.3	131	128.1	125.0	105.8

Business Sentiments Index by Quarter vs. Region (Seasonally Adjusted)													
	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Alberta	160.7	158	146.3	153.6	151.2	146.3	145	140.5	135.7	136.5	133.6	128.5	99.7
North	160.7	157.3	151.2	154.3	150.9	141.4	147.8	143.6	141.2	143.7	139.7	134.7	101.6
South	160.2	156.6	143.7	152.9	151.2	149.2	144.5	137.4	129.9	127.8	129.6	122.2	98.4

Business Activities Index by Quarter vs. Sector (Seasonally Adjusted)													
	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Oil & Gas	164.5	126.6	150.0	135.4	124.4	118.7	104.2	99.8	100.0	106.5	100.7	120.8	100.1
Construction	151.2	152.7	148.1	145.6	149.0	140.6	138.4	146.2	127.4	126.1	115.0	84.4	68.7
Manufacturing	136.9	141.8	140.5	145.0	139.0	139.5	132.6	123.8	128.0	108.1	112.9	108.4	89.5
Professional & Technical	158.6	157.0	155.3	156.7	150.1	154.6	152.2	129.6	144.8	132.2	124.5	134.5	94.7
Transportation & Warehousing	153.6	154.2	147.5	149.8	140.5	143.2	131.8	131.0	128.5	120.9	143.6	104.8	62.8
Wholesale	146.8	132.2	135.0	144.8	133.8	139.2	131.1	123.0	122.6	123.8	122.4	118.9	103.8

Business Activities Index by Quarter vs. Region (Seasonally Adjusted)													
	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Alberta	148.4	146.9	148.2	146.4	137.1	132.1	127.9	126.7	126.8	124.2	116.0	109.9	85.0
North	151.9	146.6	139.0	145.6	136.4	130.6	128.2	124.1	121.4	123.8	119.1	112	86.1
South	149.9	146.5	144.0	146.1	136.4	131.1	128.5	125.5	123.8	123.8	117.9	111	85.5

Business Hiring Index by Quarter vs. Sector (Seasonally Adjusted)													
	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Oil & Gas	159.2	150.0	144.9	139.2	145.2	118.7	121.7	121.9	120.6	126.8	122.2	116.3	109.7
Construction	146.3	149.4	148.8	136.3	142.3	137.6	133.2	139.8	140.4	136.1	133.2	116.8	96.2
Manufacturing	146.7	130.4	139.1	137.9	137.4	143.5	129.6	131.9	133.4	130.6	133.1	127.7	101.3
Professional & Technical	126.6	140.6	128.2	140.5	143.9	129.9	142.2	120.3	132.8	129.6	132.3	130.3	109.1
Transportation & Warehousing	145.0	146.9	142.3	142.2	137.4	121.3	141.2	122.7	130.6	132.1	129.3	125.9	113.5
Wholesale	131.5	132.8	132.0	129.2	126.1	121.5	133.4	117.7	129.4	128.4	120.8	122.4	114.2

Business Hiring Index by Quarter vs. Region (Seasonally Adjusted)													
	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Alberta	141.2	141.4	139	140.4	135.3	129.1	133.2	127.6	129.3	131	128.1	125.0	105.8
North	145.2	147.1	135.6	141.9	138.7	132.4	134.1	128.0	135.7	134.4	136.5	125.4	106.5
South	139.9	137.4	140.2	136.3	136	126.6	130.5	125.1	126.1	128.4	118	122.4	105.5