

Information Bulletin

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ATB FINANCIAL BUSINESS SENTIMENTS INDEX

HOW IS THE ALBERTA ECONOMY DOING?

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How Is the Alberta Economy Doing?

- The new quarterly ATB/Alberta School of Business/WCER, *Business Sentiments Index* points to a very strong economy in the coming months.
- Overall the Index displays the widespread optimism of Alberta business and indicates a continuation of the current high levels of business activity.
- The business outlook is matched by increased employment opportunities. These opportunities are measured by our *Alberta Hiring Intentions Index*.
- That strength in sales expectations and hiring intentions is evident across all parts of the province and in the key sectors covered by our survey.

Methodology

These Indexes are based on responses to a telephone survey of over 300 business firms in key driving sectors of the Alberta economy:

- oil and gas exploration and development,
- agriculture,
- construction,
- manufacturing,
- transportation and warehousing,
- wholesaling
- professional and technical services.

The survey questions adapt to the circumstances of each sector. They are basic and simple to understand. A copy of the questions and a provincial summary of responses are attached.

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.* (% stating 'increase' minus % stating 'decrease').
- convert the results to an index measure, *i.e.* add 100 to the % 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.

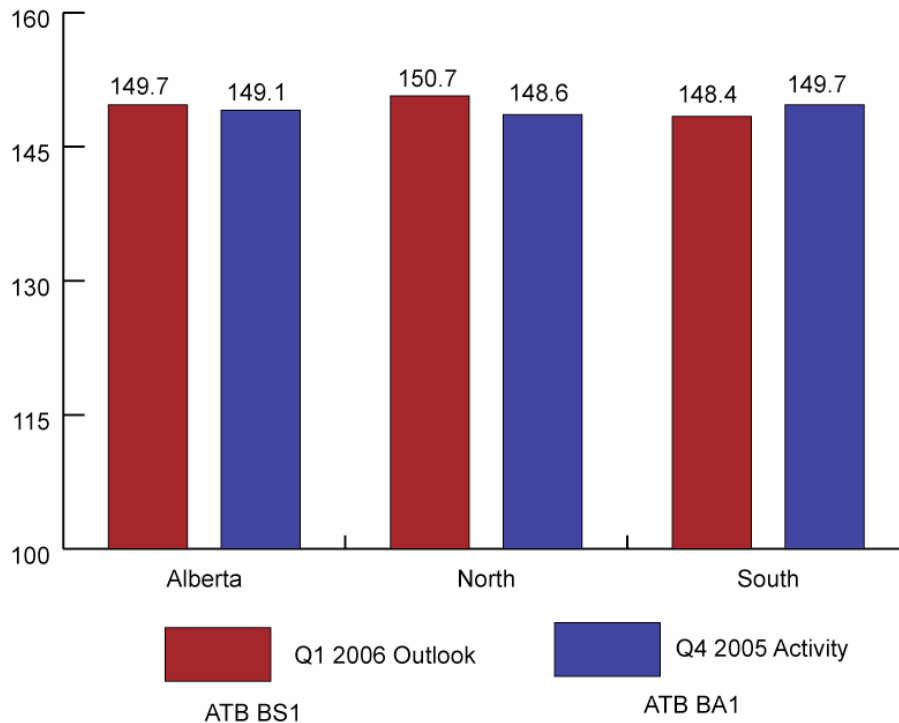
The higher the value of the Index the stronger is the sentiment for expansion. The ceiling value of the index is 200 (all respondents expect increase) and the floor value is zero (all respondents expect a decrease).

Business Sentiments Index

For the first quarter of 2006 the Alberta Business Sentiments Index stands at 149.7. This indicates an outlook of vigorous expansion. This compares with our measure of business growth in the final quarter of 2005 which stood at 149.1. The closeness of the two index measures implies that the economy will continue on its recent growth path.

A comparison of an index of growth experienced in the final quarter of 2005 with the Business Sentiments Index for the Q1 2006 is in Figure 1. The figure shows the aggregate indexes for the province together with comparable indexes for Northern and Southern Alberta. Close to identical index measures for Northern and Southern Alberta reflect that economic strength is evident throughout the province.

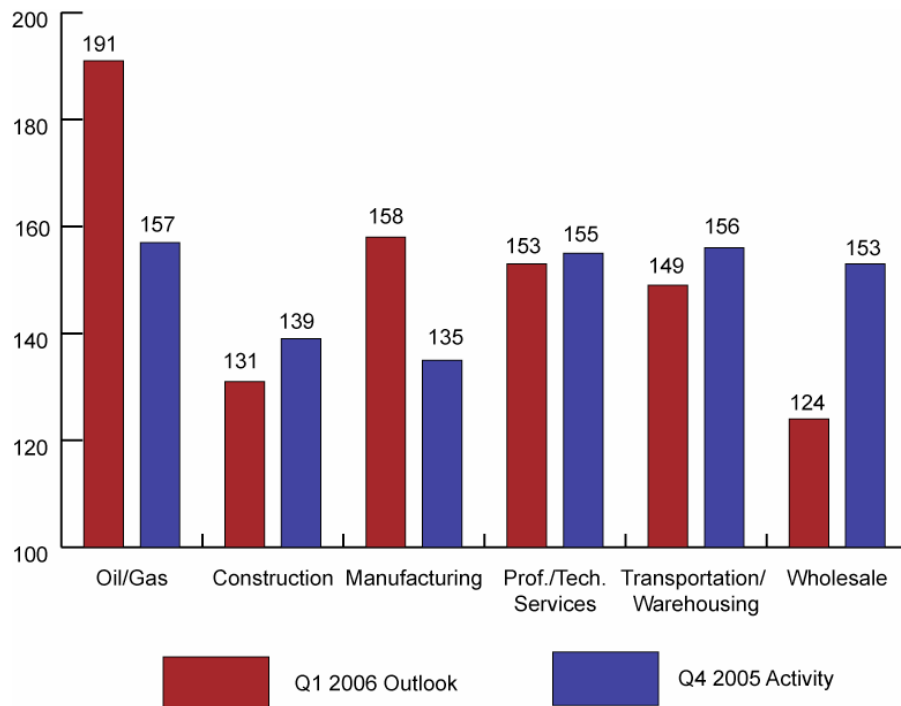
Figure 1: Comparison of the Alberta Business Sentiments Index for Q1 2006 with the Business Activity Index in Q4 2005



Sector Survey Results

Figure 2 shows a comparison of the Business Sentiments Index by sector for Q1 2006 with our Business Activity Index for Q4 2005.

Figure 2: Business Sentiments Sector Indexes Q1 2006 and Business Activity Indexes Q4 2005



There is evidence of accelerating growth in oil and gas, and manufacturing. Construction, transportation and warehousing, and professional and technical services have expectations of approximately equivalent growth experience. More modest market growth is anticipated by wholesalers.

Oil and Gas Exploration and Development

Some three-fifths of respondents indicated increased activity during the final quarter of 2005. Almost all anticipate further increases in activity in Q1 2006. For about one-half of the firms this will be reflected in additional employment.

Construction

Most respondents indicated business growth in the final quarter of 2005. A shortage of labour was the only factor selected by a majority of respondents as limiting building activity. More than one-third of the firms surveyed indicated that the orders currently on their books were more than sufficient. This compares with only 7% that regarded them as insufficient. Some 41% of respondents indicated that they planned to hire additional employees in Q1 2006. One-half of the firms had at least 6 months backlog from work in hand and for work already contracted. Just under one-half of the respondents anticipated increases in the prices that they charge.

Manufacturing

Over 90% of respondents believed their current order books to be either more than sufficient or sufficient. Most regarded their current stock of finished products to be adequate. Over the final quarter of 2005, almost half experienced increasing production. About three-fifths of respondents anticipate increased production levels in Q1 2006. Most of these indicated that they will increase employment in response. Just over one-third expect that their selling prices will increase in Q1.

Professional and Technical Services

Just over 60% experienced increased demand for services in the final quarter of 2005. A similar percentage expects increased demand in Q1 2006. Some one-third anticipates that they will increase employment in response.

Transportation and Warehousing

Three-fifths of respondents indicated that the demand for their services had increased in Q4 2005. The same proportion has an expectation that the demand will increase in Q1 2006. Slightly more than one-third of respondents indicated that they will increase their employment in Q1 2006.

Wholesale

63% experienced increased sales in the final quarter of 2005. About two-thirds regarded their present inventory holdings as sufficient for their needs. In Q1 2006, two-fifths anticipate that they will place an increased volume of orders with their suppliers. One-half expect increased sales in Q1 2006. One-third expects that in response to these higher volumes they will have more jobs available.

Agriculture

This sector is very much affected by weather conditions. Our survey asks respondents about current and expected farm prices. Most respondents indicated that prices at the farm gate increased during Q4 2005. Most respondents felt that prices would see little change in Q1 2006

Hiring Intentions Index

Respondents were also surveyed about their hiring intentions. Our *Hiring Intentions Index* stands at 134.7 for Q1 and indicates a strong labour market that fully reflects the market growth expectations of business.

Figure 3 shows that the positive labour market conditions are evident throughout the province with intentions slightly stronger in the North.

Figure 3: Hiring Intentions Index, Q1 2006

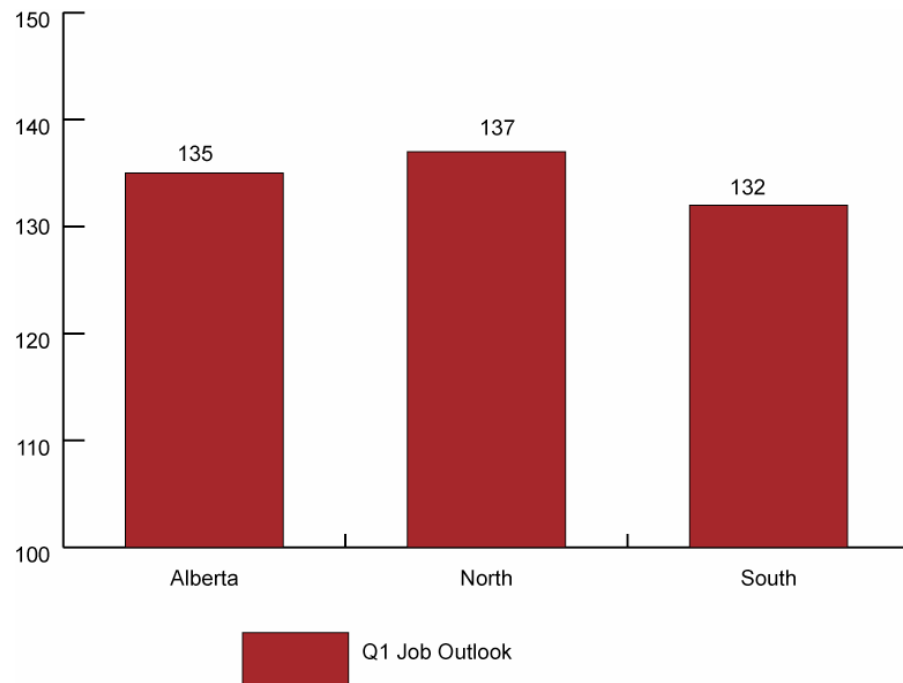
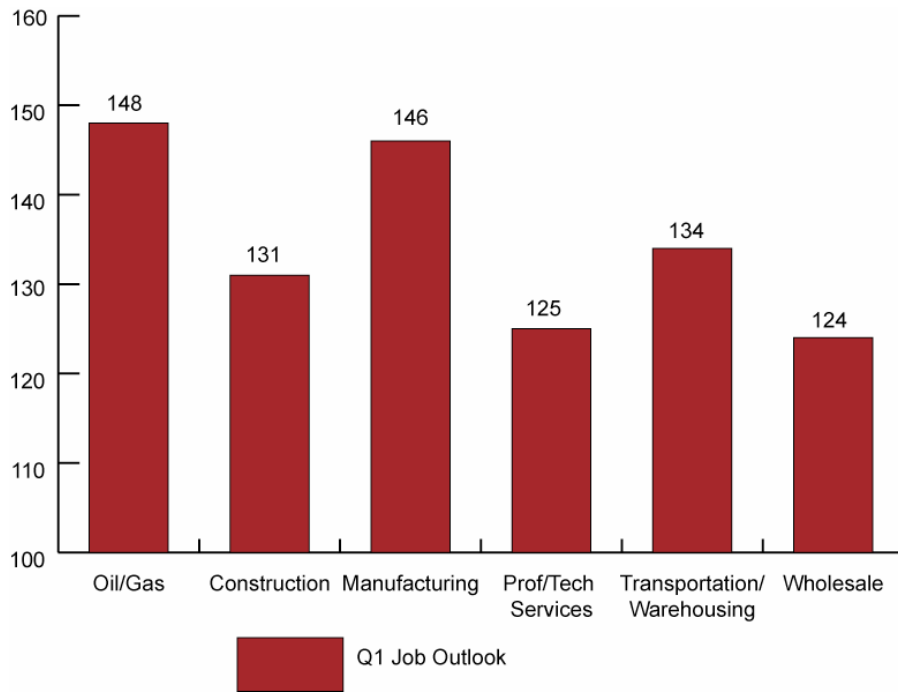


Figure 4 shows the Hiring Intentions Index by sector covered. Growth over the levels of employment recorded in Q4 2005 is expected to be strongest in oil and gas, and manufacturing and at a somewhat slower rate in wholesale trade.

Figure 4: Hiring Intentions Sector Indexes Q1 2006



Appendix A: Survey Instrument

Business Indicator Telephone Survey Western Centre for Economic Research

Q: INTRO1

Hello, my name is _____ and I'm calling on behalf of the School of Business at the University of Alberta.

May I please speak to the owner or the manager?

PRESS "1" TO CONTINUE
OR
SCHEDULE CALLBACK

Q: INTRO2

We are currently conducting a study of business confidence for the Western Centre for Economic Research. Your enterprise was selected from publicly available business directories. The objective of the survey is to develop a valuable business planning tool. I would like to interview you and I am hoping that now would be a good time. The interview will take approximately 5 to 8 minutes. Did I reach you at a convenient time?

PRESS "1" TO CONTINUE
OR
SCHEDULE CALLBACK

Q: FOIP1

Before we start, I'd like to assure you that you are free not to participate for any reason, with no consequences. Any information you provide will be used only for developing an indicator of business confidence in Alberta in conformity with the Alberta Freedom of Information and Protection of Privacy (FOIPP) Act. If there are any questions that you do not wish to answer, please feel free to point these out to me and I'll go on to the next question. You, of course, have the right to end the interview at any time.

PRESS "1" TO CONTINUE

Q: FOIP2

Any information you provide in this interview will be kept confidential and anonymous and only grouped information will be reported. Data will be stored in a secure location accessible only to the investigators for a period of 5 years, after which it will be destroyed. The results will help determine public confidence in the Alberta economy.

If you have any questions about this study, you may call Mr. Stephen Janzen of the Western Centre for Economic Research at (780) 492-5633. This project has been approved by the Research Ethics Board of the Business School of the University of Alberta. Questions or concerns regarding ethical issues should be directed to the chair of the Board at researchethicsboard@bus.ualberta.ca or Chair (Dr. Royston Greenwood), Research Ethics Board, School of Business, University of Alberta, Edmonton, T6G 2R6.

PRESS "1" TO CONTINUE

SEC Quota Distributions by Sector

- if (sec = 1) skip s11 - Agriculture
- if (sec = 2) skip s21 - Construction
- if (sec = 3) skip s31 - Manufacturing
- if (sec = 4) skip s41 - Service Sector
- if (sec = 5) skip s41 - Transportation, Warehousing, Utilities
- if (sec = 6) skip s61 - Wholesale Trade
- if (sec = 7) skip s71 - Oil and Gas

REGION Quota Distributions by Region

1. Athabasca/Grande Prairie/Peace River
2. Banff/Jasper/Rocky Mountain House
3. Calgary
4. Camrose/Drumheller
5. Edmonton/Red Deer
6. Lethbridge/Medicine Hat
7. Wood Buffalo/Cold Lake/Fort McMurray

Q:S71 <Oil and Gas Sector>

How has your business activity developed over the past 3 months?

It has:

1. increased
2. remained unchanged
3. decreased

0 = No Response

8 = Don't Know

Q:S72

How do you expect your activity to develop over the next 3 months?

It will:

1. increase
2. remain unchanged
3. decrease

0 = No Response

8 = Don't Know

Q:S73

How do you expect your firm's total employment to change over the next 3 months?

It will:

1. increase
2. remain unchanged
3. decrease

0 = No Response

8 = Don't Know

Q:S31 <Manufacturing Sector only>

How has your production developed over the past 3 months?

1. increased
2. remained unchanged
3. decreased

0 = No Response

8 = Don't Know

Q:S32

Do you consider your current overall order books (jobs on hand/work coming up) to be ?

1. more than sufficient (above normal)
2. sufficient (normal for the season)
3. .not sufficient (below normal)

0 = No Response

8 = Don't Know

Q:S33

Do you consider your current stock of finished products to be ?

1. too large (above normal)
2. adequate (normal for the season)
3. too small (below normal)

0 = No Response

8 = Don't Know

Q:S34

How do you expect your production to develop over the next 3 months?

It will:

1. increase
2. remain unchanged
3. decrease

0 = No Response

8 = Don't Know

Q:S35

How do you expect your selling prices to change over the next 3 months?

They will:

1. .increase
2. .remain unchanged
3. decrease

0 = No Response

8 = Don't Know

Q:S36

How do you expect your firm's total employment to change over the next 3 months?

It will:

1. increase
2. remain unchanged
3. decrease

0 = No Response

8 = Don't Know

Q:S21 <Construction Sector only>

How has your building activity developed over the past 3 months?

It has:

1. increased
2. remained unchanged
3. decreased

0 = No Response

8 = Don't Know

Q:S22

What main factors are currently limiting your building activity?
(Select **ALL** Apply)

- S22_1** Insufficient demand
- S22_2** Weather conditions
- S22_3** Shortage of labour force
- S22_4** Shortage of material and/or equipment
- S22_5** Financial constraints
- S22_6** Other factors _____ **[In EXCEL]** _____
- S22_7** None/No other exit

0 = Not selected
1 = Selected

Q:S23

Do you consider your current overall order books (jobs on hand/work coming up) to be ?

1. more than sufficient (above normal)
2. sufficient (normal for the season)
3. not sufficient (below normal)

0 = No Response
8 = Don't Know

Q:S24

How do you expect your firm's total employment to change over the next 3 months?

It will:

1. increase
2. remain unchanged
3. decrease

0 = No Response
8 = Don't Know

Q:S25

How do you expect the prices you charge to change over the next 3 months?

They will:

1. increase
2. remain unchanged
3. decrease

0 = No Response
8 = Don't Know

Q:S26

Assuming normal working hours, about how many months' work is accounted for by the work in hand and the work already contracted for?

Number of months: _____

1 = No Response
2 = Don't Know

Q:S41x to S45x – Service

Q:S51 to S55 – Transportation, Warehousing, Utilities

<Service Sector or Transportation, Warehousing, Utilities>

How has your business situation developed over the past 3 months?

It has:

1. increased
2. remained unchanged
3. deteriorated

0 = No Response

8 = Don't Know

Q:S42

How has demand for your company's services changed over the past 3 months?

It has:

1. increased
2. remained unchanged
3. decreased

0 = No Response

8 = Don't Know

Q:S43

How do you expect the demand for your company's services to change over the next 3 months?

It will:

1. increase
2. remain unchanged
3. decrease

0 = No Response

8 = Don't Know

Q:S44

How has your firm's total employment changed over the past 3 months?

It has:

1. increased
2. remained unchanged
3. decreased

0 = No Response

8 = Don't Know

Q:S45

How do you expect your firm's total employment to change over the next 3 months?

It will:

1. increase
2. remain unchanged
3. decrease

0 = No Response

8 = Don't Know

Q:S61 <Wholesale Trade Sector Only>

How have your sales developed over the past 3 months?

They have:

1. increased
2. remained unchanged
3. decreased

0 = No Response

8 = Don't Know

Q:S62

Do you consider the volume of stock (inventories) currently held to be ?

1. more than sufficient (above normal)
2. sufficient (normal for the season)
3. not sufficient (below normal)

0 = No Response

8 = Don't Know

Q:S63

How do you expect your orders placed with suppliers to change over the next 3 months?

They will:

1. increase
2. remain unchanged
3. decrease

0 = No Response

8 = Don't Know

Q:S64

How do you expect your sales to change over the next 3 months?

They will:

1. increase
2. remain unchanged
3. decrease

0 = No Response

8 = Don't Know

Q:S65

How do you expect your firm's total employment to change over the next 3 months?

It will:

1. increase
2. remain unchanged
3. decrease

0 = No Response

8 = Don't Know

Q:S11 <Agriculture Sector Only>

How have the prices you receive for your products changed over the past 3 months?

They have:

1. increased
2. remained unchanged
3. decreased

0 = No Response

8 = Don't Know

Q:S12

How do you expect the selling prices you receive for your key products to change over the next 3 months?

They will:

1. increase
2. remain unchanged
3. decrease

0 = No Response

8 = Don't Know

Q:S13

What are your key products? _____ *[In EXCEL]* _____

[INTERVIEWER: Please type and **SEPARATE** each key product by a comma with **NO SPACES** in between.

EXAMPLE: Vegetables,fruits,dairy]

Q:THANKS

Thank you very much for your time.

PRESS "1" TO CONTINUE

Q:DECLAR

I declare that this interview was conducted in accordance with the interviewing and sampling instructions given by the Population Research Laboratory. I agree that the content of all respondent's responses will be kept confidential.

ENTER YOUR INTERVIEWER NUMBER _____

Q:BLAST

PLEASE GO THROUGH THE QUESTIONNAIRE AGAIN FOR YOUR FINAL EDIT BEFORE RECORDING IT AS A "COMPLETED INTERVIEW".

PRESS "1" TO END

Q:TERMZ

WE HAVE INTERVIEWED ALL OF THE PEOPLE WE NEED IN THIS SERVICE AREA SO WE WON'T NEED TO INTERVIEW YOU AT THIS TIME. THANK YOU FOR YOUR TIME AND INTEREST.

PRESS "1" TO GET ANOTHER NUMBER

DATEX Date of Interview