

Information Bulletin

NUMBER 112 • APRIL 2008

ATB FINANCIAL BUSINESS SENTIMENTS INDEX™

WHERE IS THE ALBERTA ECONOMY GOING? 2008 QUARTER 2

*By Edward J. Chambers and Nigel Fish
Western Centre for Economic Research
University of Alberta*

**School of Business
University of Alberta**



**Western Centre for Economic Research
University of Alberta
Edmonton, Alberta
www.bus.ualberta.ca/wcer**

with support from: The George M. Cormie Endowment

Library and Archives Canada Cataloguing in Publication

ATB Financial business sentiments index : how is the Alberta economy doing.

(Information bulletin)

Quarterly.

[2006, quarter 1]-

Issue 2007, quarter 4 has subtitle: where is the Alberta economy going?

ISSN 1912-3205 ISBN 978-1-55195-962-7 (2008, quarter 2 issue)

1. Business forecasting--Alberta--Periodicals. 2. Industrial surveys--Alberta--Periodicals. 3. Economic forecasting--Alberta--Periodicals. 4. Alberta--Economic conditions--1991- --Periodicals. I. ATB Financial II. University of Alberta. Western Centre for Economic Research III. Series: Information bulletin (University of Alberta. Western Centre for Economic Research)

HC117.A4A82

338.097123'05

C2006-906896-8

Contents

Methodology	1
Where is the Alberta Economy Going?	2
Business Sentiment Indexes – Sector Analysis	4
Business Activity Index	5
Business Activity Index – Sector Analysis	6
Business Hiring Intentions	7
Business Hiring Intentions – Sector Analysis	8
More on Industry Sectors	9
Oil & Gas	9
Construction	9
Construction Sector Bottlenecks.....	10
Manufacturing	11
Professional and Technical Service	12
Transportation/Warehousing	12
Wholesalers	12
Appendix A – Data Tables	13

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 Q2 2008 survey sampled 406 firms between February 25 and March 17, 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 (67)
- construction (67)
- manufacturing (70)
- transportation and warehousing (67)
- wholesaling (67)
- professional and technical services (68)

The geographical distribution of respondents is as follows:

- North Alberta excluding Edmonton (67)
- Edmonton/Red Deer (139)
- South excluding Calgary (67)
- Calgary (133)

The ATB Financial 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.
- 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%.

Where is the Alberta Economy Going?¹

Business Sentiments Index™ Q2 2008	Business Activity Index Q1 2008	Business Hiring Index Q2 2008
130.5 ▲	120.4 ▼	132.6 ▲

Quarterly Highlights

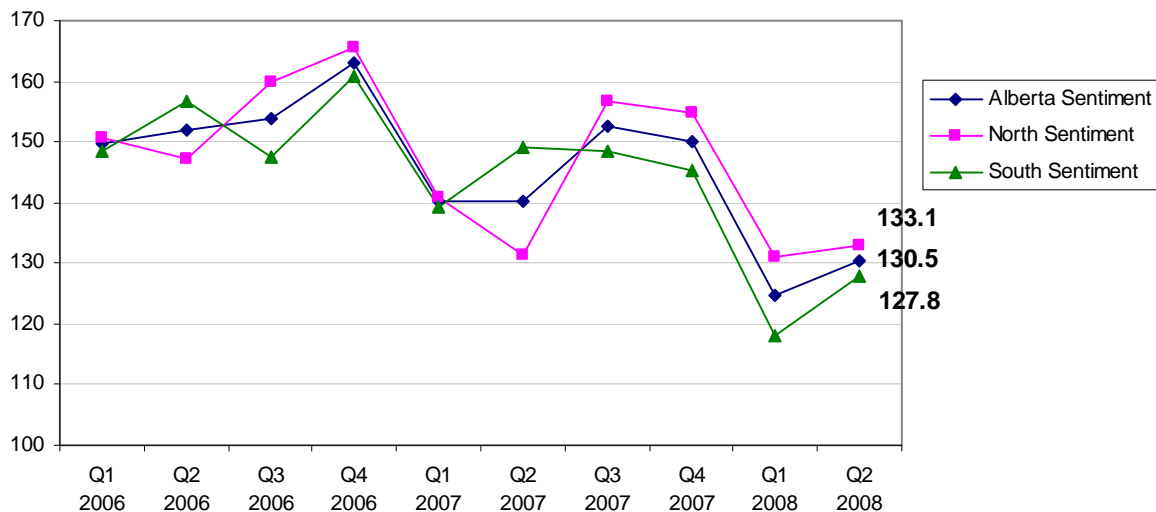
The current survey has some good news. The results offer further confirmation that the Alberta economy is returning to more sustainable levels of growth consistent with the longer run experience of the past fifteen years.

However, the oil and gas sector fell to an index of 74. This is the first time in ten quarters that any of the sector indices has fallen below 100, which indicates sentiment is more negative than positive.

Feature Figure

The ATB Financial Business Sentiments Index (BSI) stands at 130.5 for Q2/2008. This compares with a level of 124.7 in Q1 2008, 152.0 in Q2 2006 and 140.3 in Q2 2007. For Q2 2008 the spread between the BSI of 133 for Northern Alberta compared with 128 for Southern Alberta continues a pattern that first became evident in Q3 2007.

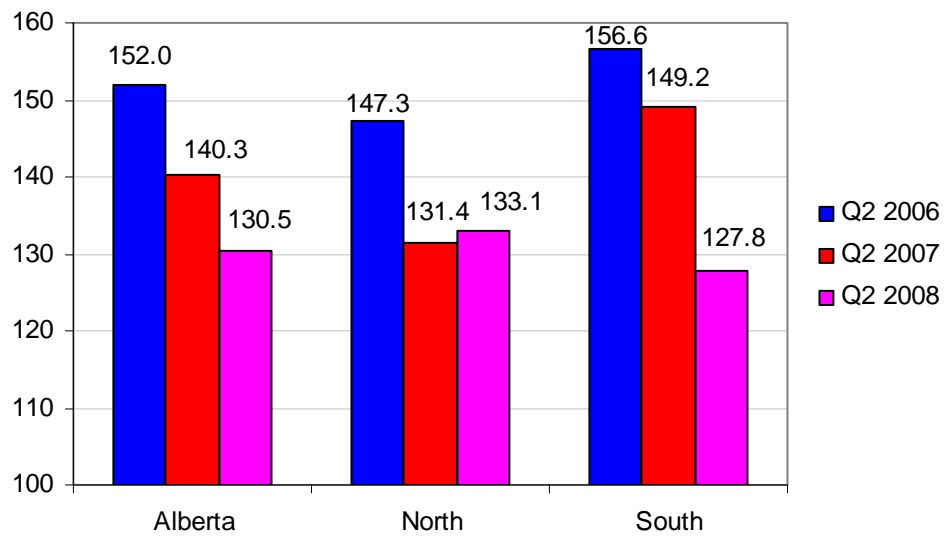
1. ATB Financial Business Sentiments Index™ by Provincial Region, All Quarters Q1 2006 to Q2 2008, All Sectors



Source: WCER

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

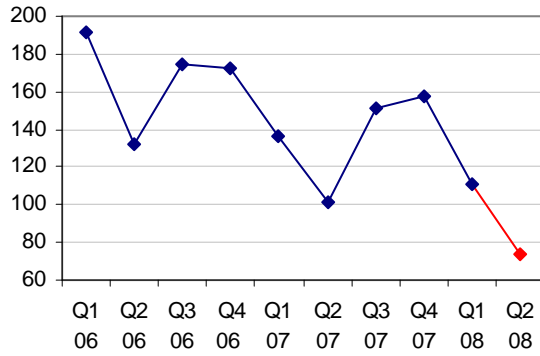
**2. ATB Financial Business Sentiments Index™ by Provincial Region,
Quarter 2 of 2006/2007/2008, All Sectors**



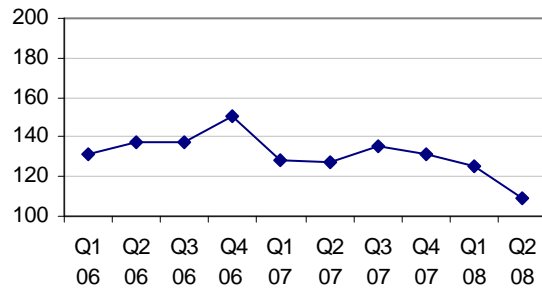
Source: WCER

Business Sentiment Indexes – Sector Analysis

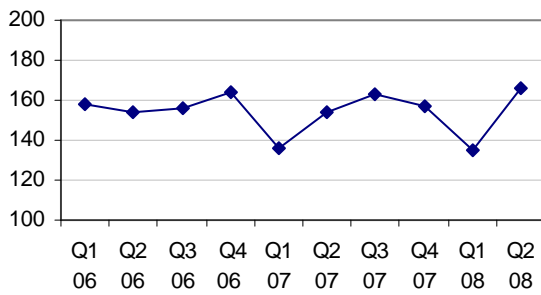
3. Oil & Gas Sector
All Regions, All Quarters Q1 2006 to Q2 2008



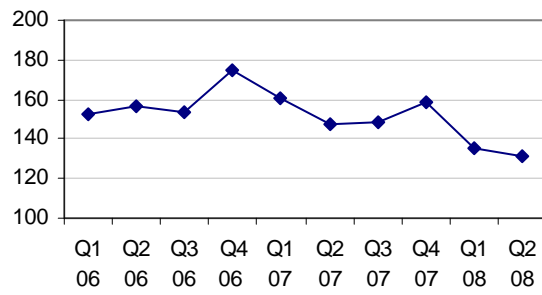
4. Construction Sector
All Regions, All Quarters Q1 2006 to Q2 2008



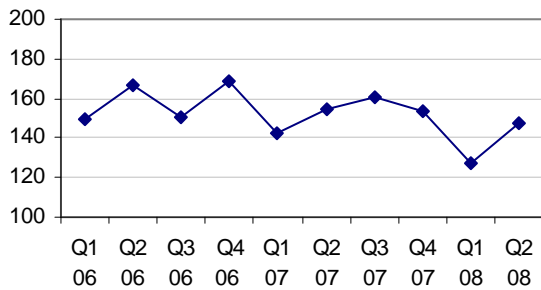
5. Manufacturing Sector
All Regions, All Quarters Q1 2006 to Q2 2008



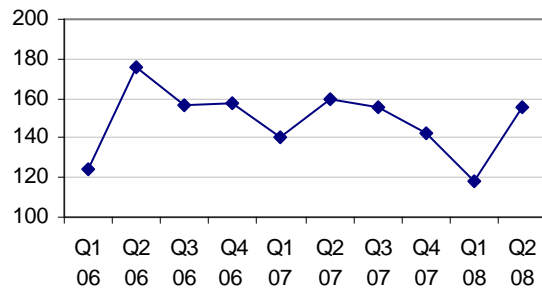
6. Professional & Technical Services Sector
All Regions, All Quarters Q1 2006 to Q2 2008



7. Transportation & Warehousing Sector
All Regions, All Quarters Q1 2006 to Q2 2008



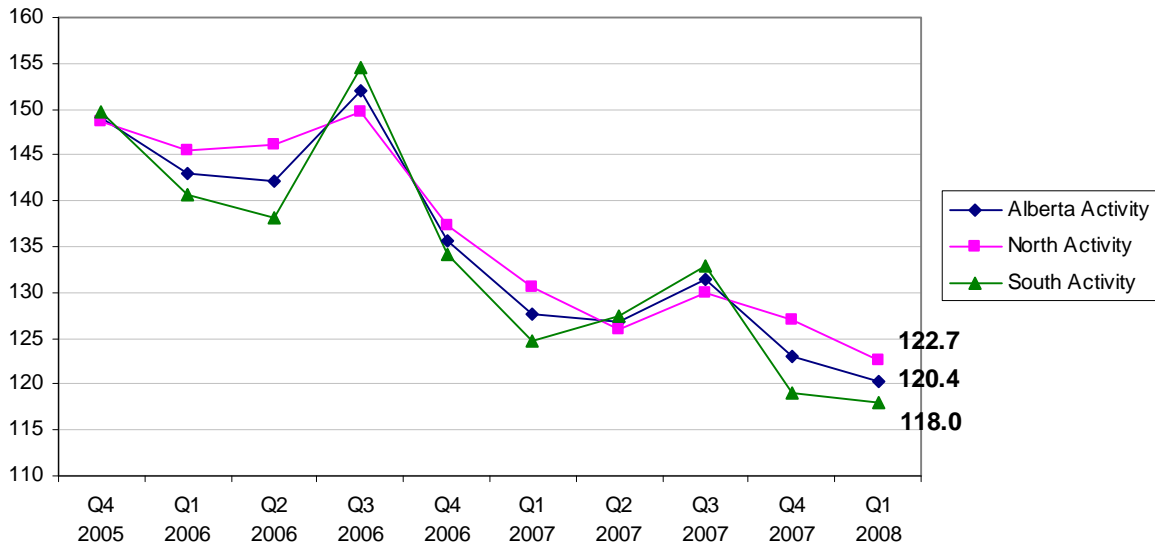
8. Wholesale Sector
All Regions, All Quarters Q1 2006 to Q2 2008



Source: WCER

Business Activity Index

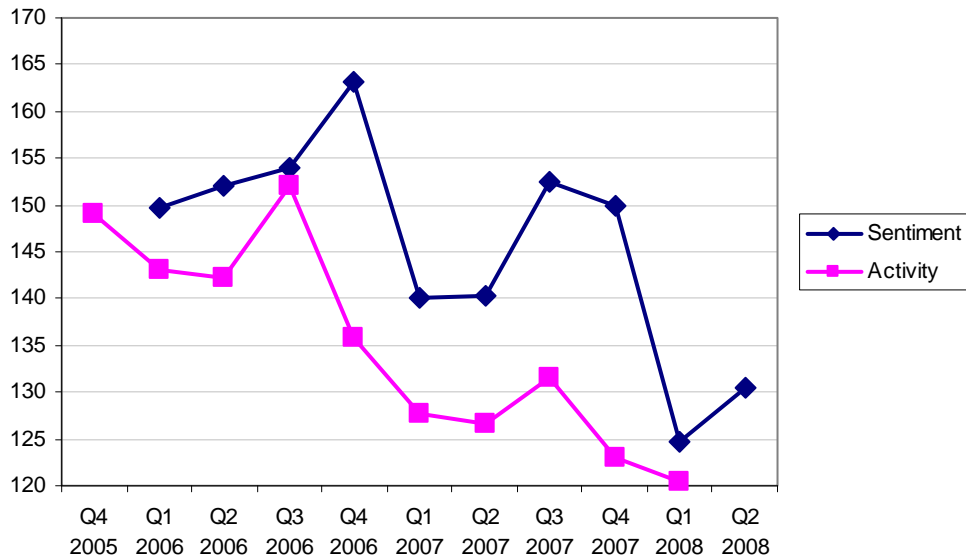
9. Business Activity Index by Region, All Quarters Q4 2005 to Q1 2008, All Sectors



Confirmation of moderation in economic growth is apparent in the Business Activity Index which measures the rate of growth in business activity in the quarter just ending. The BAI was 120 in Q1 2008. This compares with 128 in Q1 2007 and 143 in Q1 2006. The moderation was also reflected in retail sales as reported by the Statistics Canada monthly survey.

Source: WCER

10. Business Activity Index vs. Business Sentiments Index™ All Regions, All Quarters Q4 2005 to Q1 2008, All Sectors

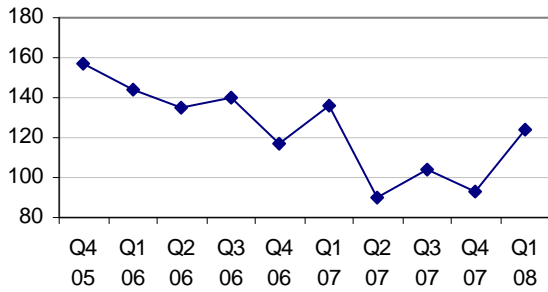


Source: WCER

Business Activity Index – Sector Analysis

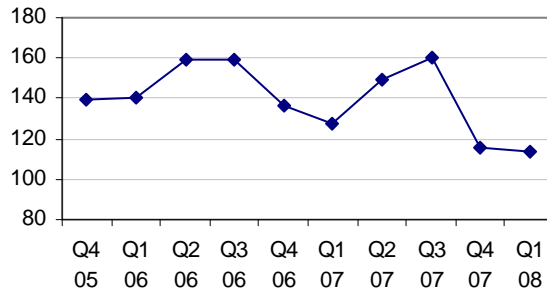
11. Oil & Gas Sector

All Regions, All Quarters Q4 2005 to Q1 2008



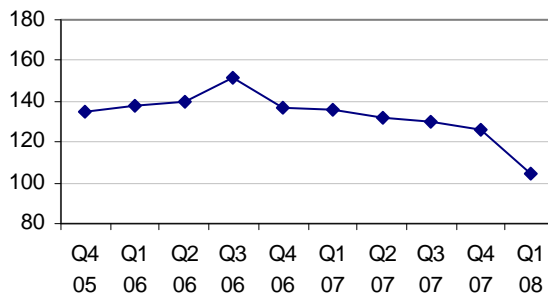
12. Construction Sector

All Regions All Quarters Q4 2005 to Q1 2008



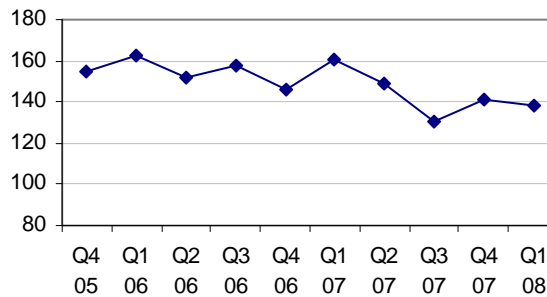
13. Manufacturing Sector

All Regions All Quarters Q4 2005 to Q1 2008



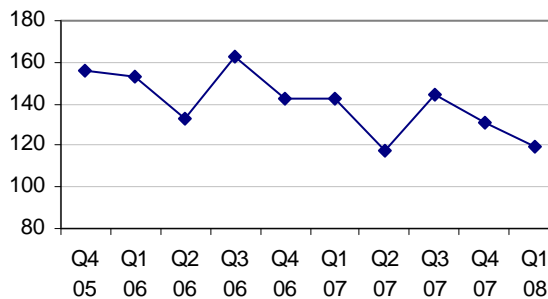
14. Professional & Technical Services Sector

All Regions, All Quarters Q4 2005 to Q1 2008



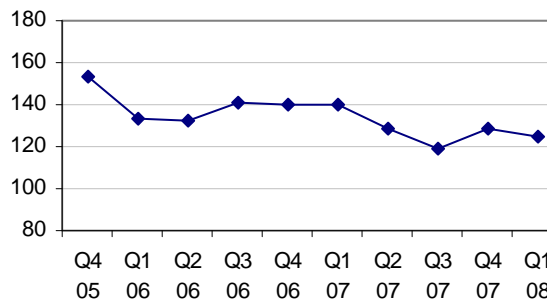
15. Transportation & Warehousing Sector

All Regions, All Quarters Q4 2005 to Q1 2008



16. Wholesale Sector

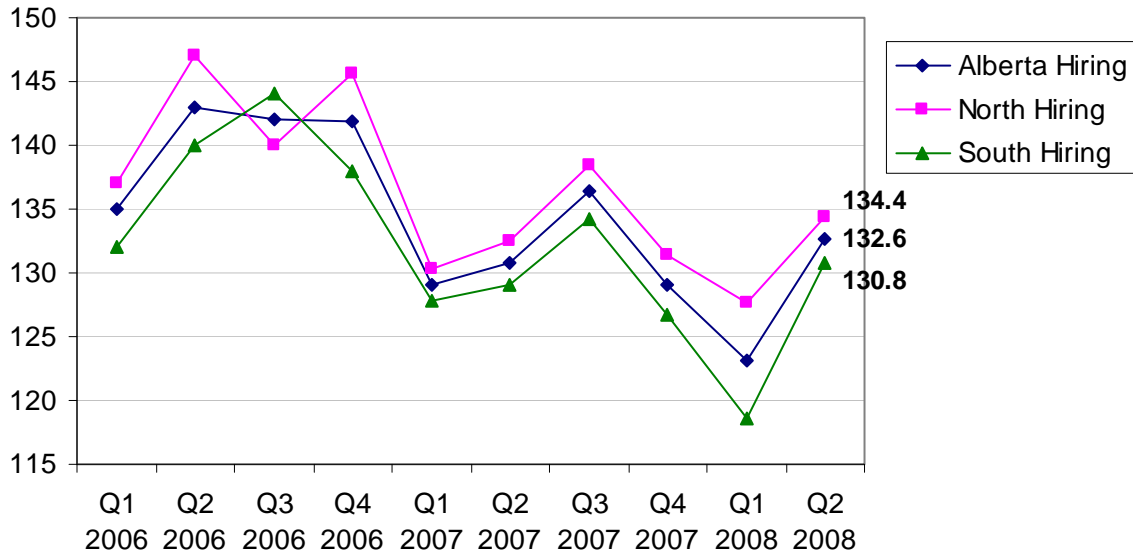
All Regions, All Quarters Q4 2005 to Q1 2008



Source: WCER

Business Hiring Intentions

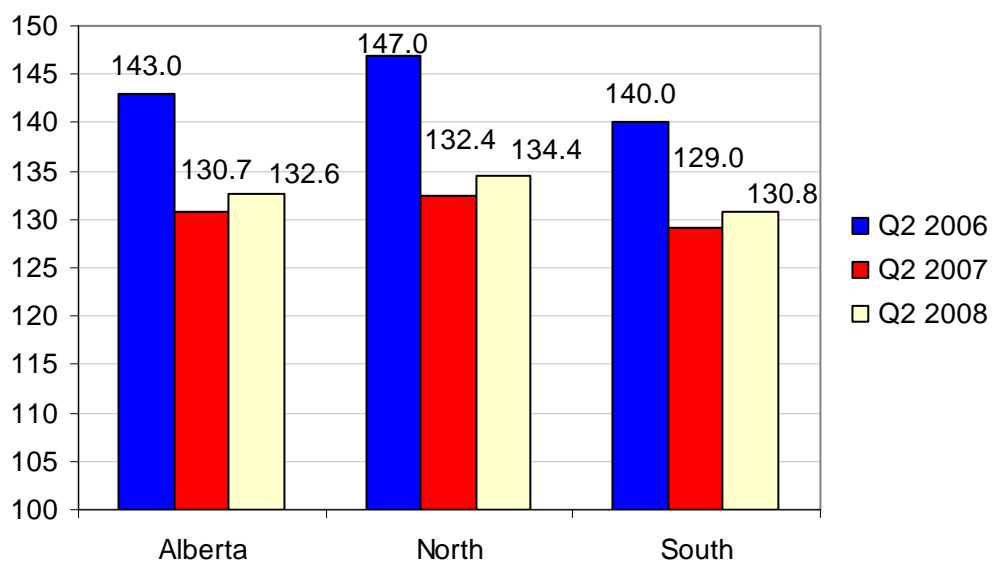
17. Business Hiring Intentions by Region, All Sectors, All Quarters Q1 2006 to Q2 2008



The Alberta Business Index of Hiring Intentions (BHI) measures the anticipated rate of growth in job offerings. There is evidence of increased hiring intentions across all sectors except manufacturing where intentions remained stable. This aggregate increase is consistent with hiring intentions of the second quarters of 2006 and 2007.

Source: WCER

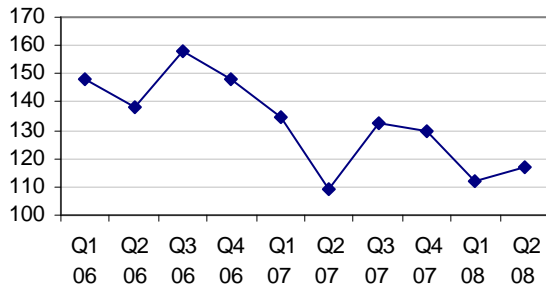
18. Business Hiring Intentions Q2 2006, Q2 2007 and Q2 2008 by Region, All Sectors



Business Hiring Intentions – Sector Analysis

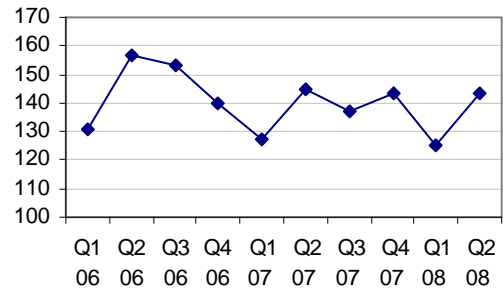
19. Oil & Gas Sector

All Regions, All Quarters Q1 2006 to Q2 2008



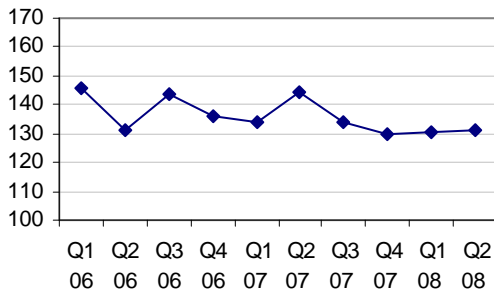
20. Construction Sector

All Regions, All Quarters Q1 2006 to Q2 2008



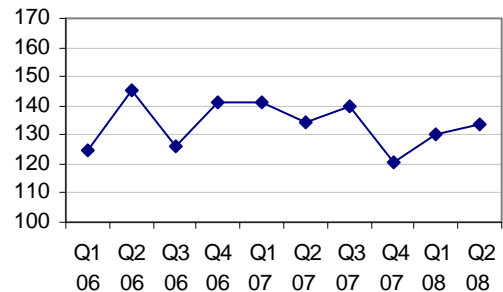
21. Manufacturing Sector

All Regions, All Quarters Q1 2006 to Q2 2008



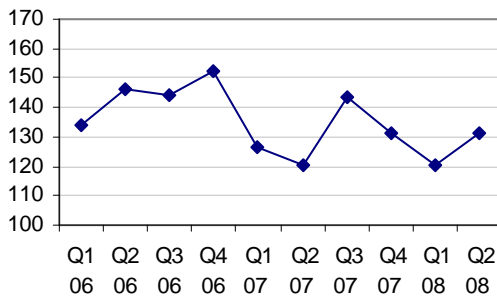
22. Professional & Technical Services Sector

All Regions, All Quarters Q1 2006 to Q2 2008



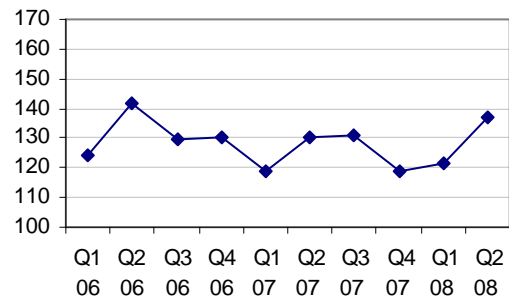
23. Transportation & Warehousing Sector

All Regions, All Quarters Q1 2006 to Q2 2008



24. Wholesale Sector

All Regions, All Quarters Q1 2006 to Q2 2008



More on Industry Sectors

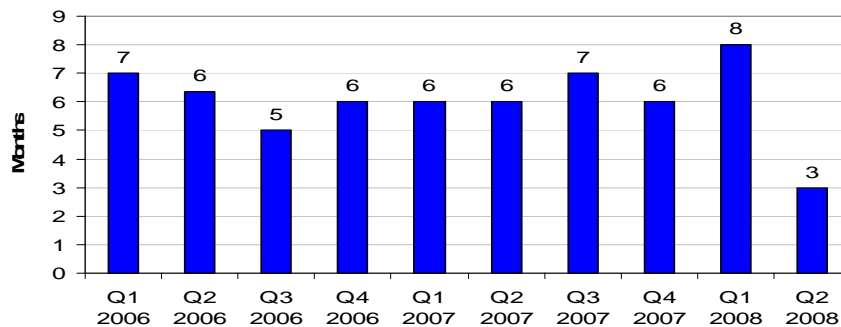
Oil & Gas

Of the 67 respondents, 43% experienced an increase in activity over the past quarter and 19% a decrease. This compares with the previous survey where 28% experienced increased activity and 35% indicated that their activity had decreased. In the coming Q2 2008, 26% expect an increase in activity and 52% a decrease. With respect to hiring intentions, some 53% of respondents indicated there would be no change in employment in the coming quarter. 32% of respondents indicated they would add employees while 15% indicated there would be a decrease in employment.

Construction

Of the 67 respondents in Construction, 36% indicated that their activity had increased in the past three months and 22% indicated that their activity levels had decreased. This is a near identical situation from the previous quarter when 36% indicated increased activity and 21% indicated decreased levels of activity. 26% indicated that their current contract work was more than sufficient while 17% indicated that it was insufficient. Some 55% indicated that they planned to increase employment in the coming quarter while 32% planned no change in employment. 12% planned to have fewer workers in the coming quarter. The figure below indicates that, assuming normal working hours, one-half of the respondents have at least three months work in hand or already under contract – the lowest level since the survey began. Further, 16% of respondents had a backlog of six month's work and 11% had a backlog of one year to two years of work.

**25. Median No. of Month's Work Accounted for by Work in Hand or Already Under Contract
All Regions, All Quarters Q1 2006 to Q2 2008**

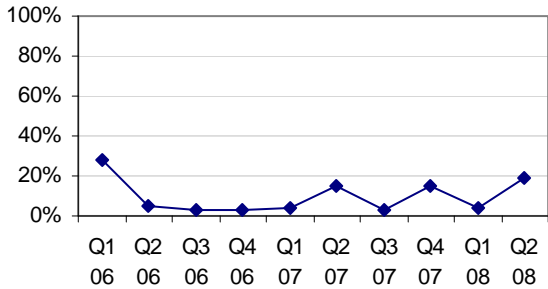


Source: WCER

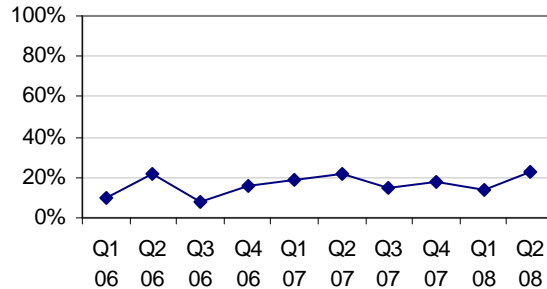
Our survey also asks about potential bottlenecks in the Construction industry including: shortage of labour, weather conditions, insufficient demand, shortages of construction material or equipment, financial constraints, land availability, and other factors. Labour shortage continues to be the main bottleneck. Other factors identified by respondents are the more sluggish conditions in the housing market and the bad weather conditions.

Construction Sector Bottlenecks

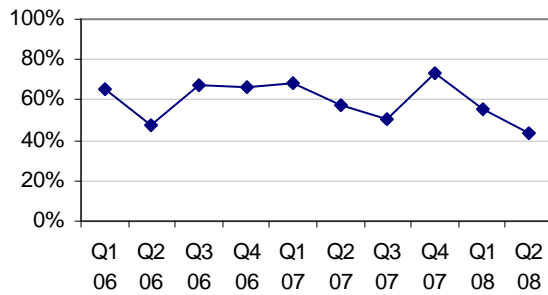
26. Insufficient Demand
All Regions, All Quarters Q1 2006 to Q2 2008



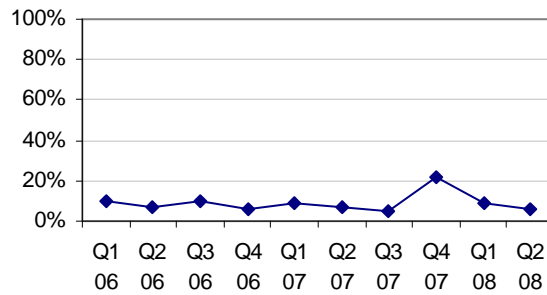
27. Weather Conditions
All Regions, All Quarters Q1 2006 to Q2 2008



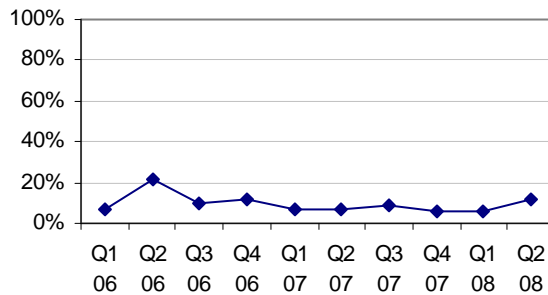
28. Shortage of Labour
All Regions, All Quarters Q1 2006 to Q2 2008



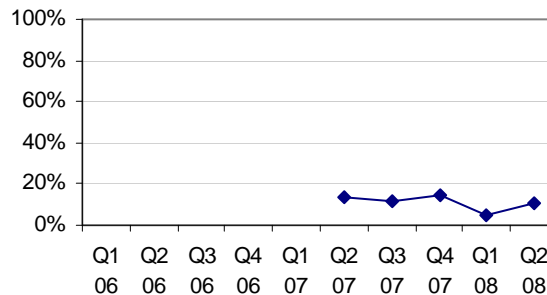
29. Shortage of Material and/or Equipment
All Regions, All Quarters Q1 2006 to Q2 2008



30. Financial Constraints
All Regions, All Quarters Q1 2006 to Q2 2008



31. Land Availability*
All Regions, All Quarters Q2 2007 to Q2 2008



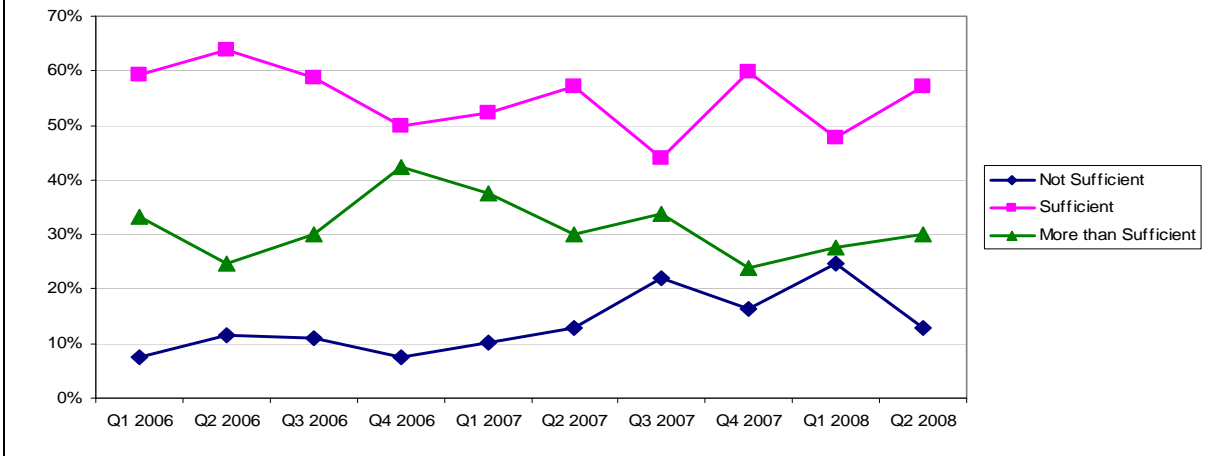
* Collection of Land Availability data began in Q2 2007

Source: WCER

Manufacturing

Of the 70 manufacturing respondents, 34% indicated that their production had increased over the past quarter while 30% experienced a decrease. Some 72% anticipate further increases in production in the coming quarter up from 52% in the previous quarter and from 64% in the quarter before that. 36% plan to increase employment in the coming quarter compared with 37% in the last survey.

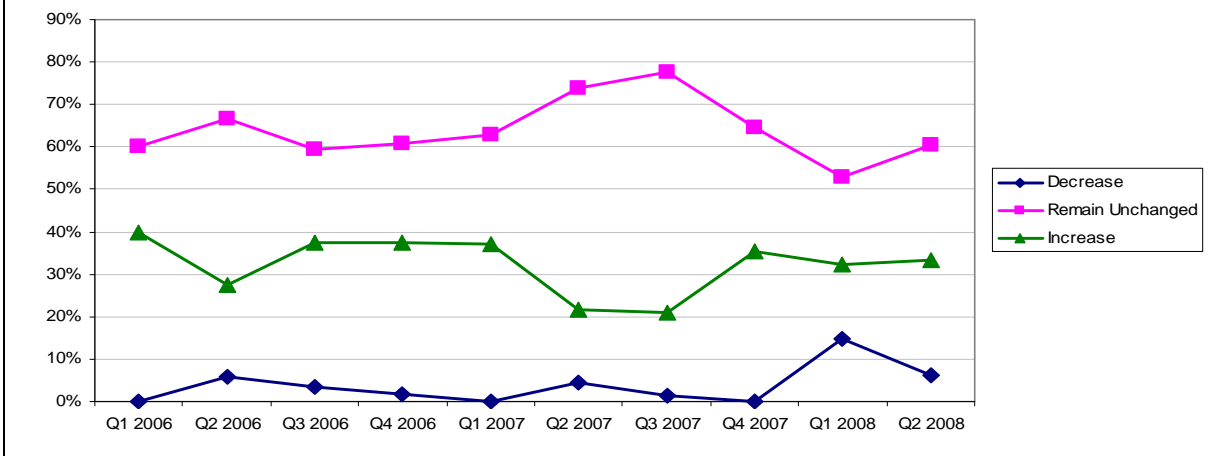
32. Orders on Hand, Manufacturing Sector, All Regions, All Quarters Q1 2006 to Q2 2008



Source: WCER

Respondents order books were varied significantly between those whose orders were more than sufficient (30%), and those with insufficient orders (13%). The remainder regarded their order books as sufficient. Some 79% regarded their current stock of finished product as adequate. For the remainder, those with more than adequate inventory offset those with less than adequate stocks. A full third of firms expect prices to increase while 6% expect prices to decrease, down from 15% last quarter.

33. Price Expectations, Manufacturing Sector, All Regions, All Quarters Q1 2006 to Q2 2008



Source: WCER

Professional and Technical Service

There were 68 respondents in this group of which 49% experienced increased demand for their services during Q1 2008, down from 54% in the previous survey. In the second quarter of 2008, 46% expect demand to increase and 38% plan to increase employment. No changes were expected by 39% and 57% of respondents respectively.

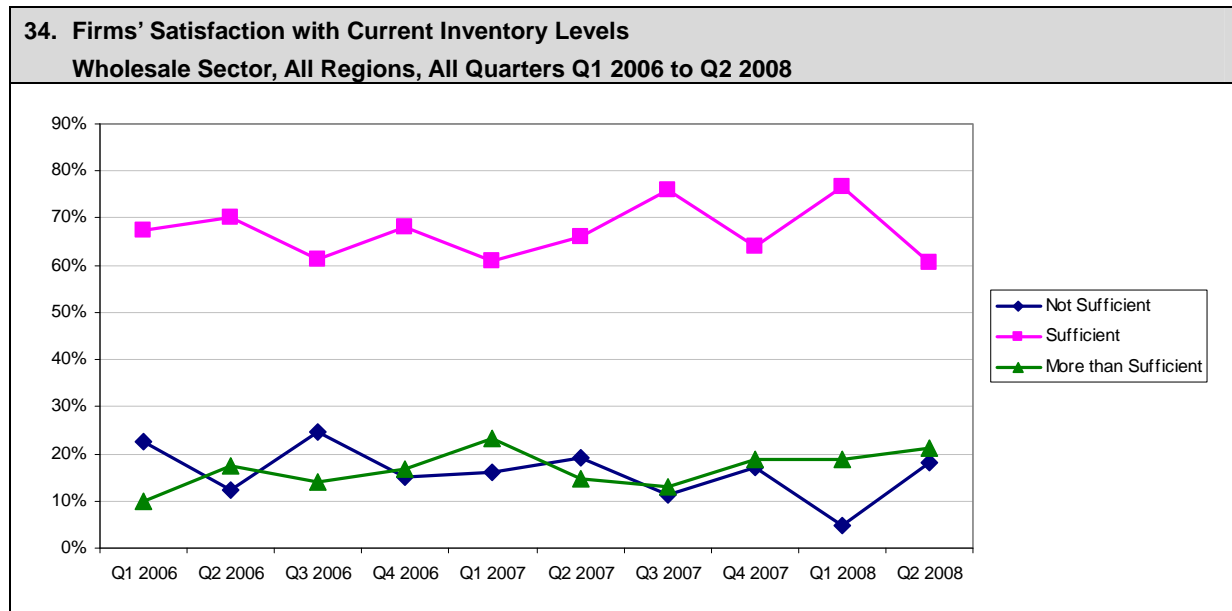
Transportation/Warehousing

Of the 67 respondents in this group, 35% experienced an increase and 15% recorded decreases in business in the current quarter. This compares with 48% who recorded increased business while 18% experienced decreases in Q4 2008. 55% expect their business to increase again in Q2 2008, while 8% expect a decrease in business. 36% of the respondents are planning to add employees while 60% plan for no change in employment.

Wholesalers

Of the 67 respondents in this group, 43% recorded increased business while 19% experienced decreased business in Q1 2008. For Q2 2008 71% of respondents expect increased and 15% expect decreased sales in the coming quarter. 43% expect to increase and 6% to reduce employment.

Current inventory levels are thought to be sufficient for 61% of respondents compared with 21% that believe themselves overstocked. 60% plan to place increased orders with suppliers over the coming quarter and 14% intend to decrease their order levels.



Source: WCER

Appendix A – Data Tables

Respondent Distributions by Region vs. Sector					
	North	Edmonton	Calgary	South	Total
Construction	22	15	25	5	67
Manufacturing	9	28	21	12	70
Professional & Technical	5	32	16	15	68
Transportation & Warehousing	10	19	24	14	67
Wholesale	7	24	21	15	67
Oil & Gas	14	21	26	6	67
Total	67	139	133	67	406

Business Sentiments Index by Region vs. Sector			
	North	South	All
Construction	102.7	117.2	109.1
Manufacturing	171.4	159.4	165.7
Professional & Technical	137.8	123.3	131.3
Transportation & Warehousing	146.4	148.6	147.7
Wholesale	154.8	155.9	155.4
Oil & Gas	85.3	62.5	74.2

Business Activity Index by Region vs. Sector			
	North	South	All
Construction	116.2	110.0	113.4
Manufacturing	108.1	100.0	104.3
Professional & Technical	143.2	132.3	138.2
Transportation & Warehousing	114.3	123.7	119.7
Wholesale	125.8	123.5	124.6
Oil & Gas	128.6	118.8	123.9

Business Hiring Intentions by Region vs. Sector			
	North	South	All
Construction	133.3	155.2	143.1
Manufacturing	128.6	134.4	131.3
Professional & Technical	135.1	132.3	133.8
Transportation & Warehousing	144.8	120.0	131.3
Wholesale	141.9	133.3	137.3
Oil & Gas	122.9	109.7	116.7

Business Sentiments Index by Quarter vs. Sector										
	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Construction	131	137	137.7	150.8	127.9	127.3	135.8	130.9	125.8	109.1
Manufacturing	158	154	155.7	163.6	135.7	153.6	162.7	156.7	134.8	165.7
Professional & Technical	153	157	153.2	175.0	160.6	147.2	148.5	158.5	135.4	131.3
Transportation & Warehousing	149	167	150.8	168.7	142.0	154.9	160.3	153.7	127.3	147.7
Wholesale	124	176	156.5	157.4	140.0	159.4	155.2	142.6	118.2	155.4
Oil & Gas	191	132	174.2	172.9	136.1	101.5	150.7	157.4	110.9	74.2

Business Sentiments Index by Quarter vs. Region										
	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Alberta	149.7	152.0	153.8	163.1	140.2	140.3	152.5	150.0	124.7	130.5
North	150.7	147.3	160.0	165.5	140.9	131.4	156.6	154.8	131.2	133.1
South	148.4	156.6	147.6	160.8	139.4	149.2	148.4	145.2	118.1	127.8

Business Activities Index by Quarter vs. Sector										
	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Construction	139.0	140.0	159.0	159.7	136.8	127.9	149.2	160.3	115.2	113.4
Manufacturing	135.0	138.0	139.7	151.5	137.1	135.7	131.8	130.3	126.1	104.3
Professional & Technical	155.0	163.0	151.6	158.0	146.5	160.6	148.5	130.9	141.2	138.2
Transportation & Warehousing	156.0	153.0	133.3	162.9	142.9	142.0	117.6	144.1	130.9	119.7
Wholesale	153.0	133.0	132.3	140.6	140.0	140.0	128.4	118.8	128.8	124.6
Oil & Gas	157.0	144.0	135.5	140.0	116.9	136.1	89.7	104.4	92.5	123.9

Business Activities Index by Quarter vs. Region										
	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Alberta	149.1	143.1	142.2	152.1	135.7	127.7	126.7	131.5	123.1	120.4
North	148.6	145.4	146.2	149.7	137.3	130.6	126.0	130.0	127.0	122.7
South	149.7	140.7	138.2	154.5	134.1	124.8	127.4	133.0	119.1	118.0

Business Hiring Index by Quarter vs. Sector										
	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Construction	131	157	153.3	139.7	127.1	144.7	137.3	143.3	125.4	143.1
Manufacturing	146	131	143.5	135.8	134.3	144.3	133.8	129.9	130.4	131.3
Professional & Technical	125	145	125.8	141.2	141.2	134.0	139.7	120.9	130.3	133.8
Transportation & Warehousing	134	146	144.4	152.2	126.5	120.6	143.3	131.3	120.3	131.3
Wholesale	124	142	129.5	130.4	118.6	130.0	130.9	118.8	121.7	137.3
Oil & Gas	148	138	158.1	147.8	134.7	109.2	132.8	129.4	111.9	116.7

Business Hiring Index by Quarter vs. Region										
	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Alberta	135.0	143.0	142.1	141.8	129.1	130.7	136.3	129.0	123.1	125.4
North	137.0	147.0	140.0	145.7	130.4	132.4	138.5	131.4	127.6	129.8
South	132.0	140.0	144.1	138.0	127.9	129.0	134.2	126.7	118.6	121.1