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ATB FINANCIAL BUSINESS SENTIMENTS INDEX™

WHERE IS THE ALBERTA ECONOMY GOING? 2007 QUARTER 2

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Where is the Alberta Economy Going?

- The **ATB Financial Business Sentiments Index™** predicts a continuing strong Alberta economy in the second quarter of 2007.
- While strong, the growth will moderate slightly from levels attained in 2006.
- The job market remains strong but at a slightly lower level than a year ago.
- The positive sentiment and increase in job opportunities is most strongly evident in South Alberta, largely due to earlier seasonal change.
- There is a leveling off of exploration activity in the oil and gas sector.

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:

- oil and gas exploration and development (67)
- construction (68)
- manufacturing (70)
- transportation and warehousing (71)
- wholesaling (70)
- professional and technical services (72)

The Q2 2007 survey sampled 418 firms. Figures in parentheses are the number of respondents from each sector included in the sample.

The geographical distribution of respondents is as follows:

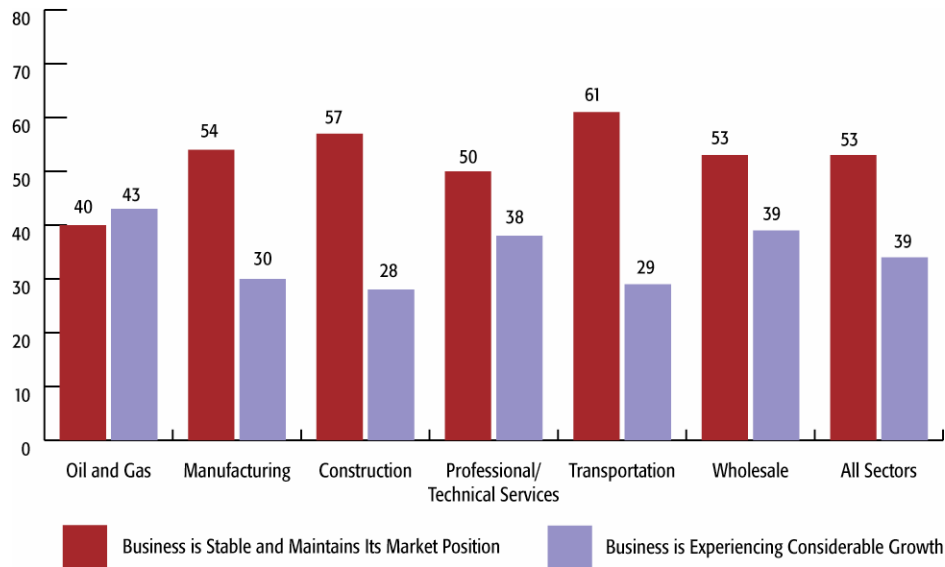
- North Alberta excluding Edmonton (71)
- Edmonton/Red Deer (140)
- South excluding Calgary (70)
- Calgary (137)

Respondents were asked to describe their business situation as one of the following:

- in a beginning or start-up phase (2.9%)
- experiencing considerable growth (34.2%)
- stable and maintaining market position (52.4%)
- ready to transfer to a new owner or successor (6.9%)
- winding down or reducing the size of operations (3.1%)

Just under 87% of the sample assesses their position as one of considerable growth or of stability and holding market position. The distribution of these responses by industry sector is shown in Figure 1 below.

Figure 1. Business Situation of Respondents by Industry Sector



Source: WCER

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 No. 88, ATB Financial Alberta Business Sentiments Index* and can be found on line at: www.bus.ualberta.ca/wcer

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.
- 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.

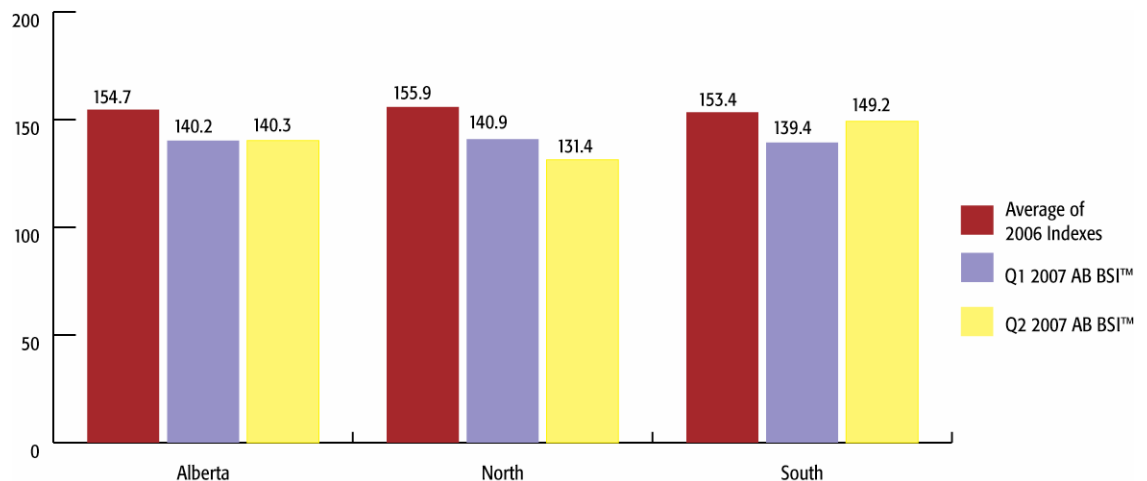
The higher the value of the Index, the stronger is the sentiment for expansion. The ceiling value of the index is 200 (all respondents expect increase) and the floor value is zero (all respondents expect a decrease).

The Q2 2007 results have a margin of error of plus or minus 4.5%.

ATB Financial *Business Sentiments Index*TM

For Q2 2007 the Index is 140.3, the same level as in Q1 2007. Figure 2 and Figure 3 (below) show a 2006 four quarter average of 154.7 and a level of 152.1 in Q2 2006. The Figures present a different picture for the two parts of the province. Where in Q1 2007 the ATB Financial Business Sentiments IndexTM was approximately the same in the North and the South, the coming quarter conditions, though still strong in the North, will be more expansionary in the South.

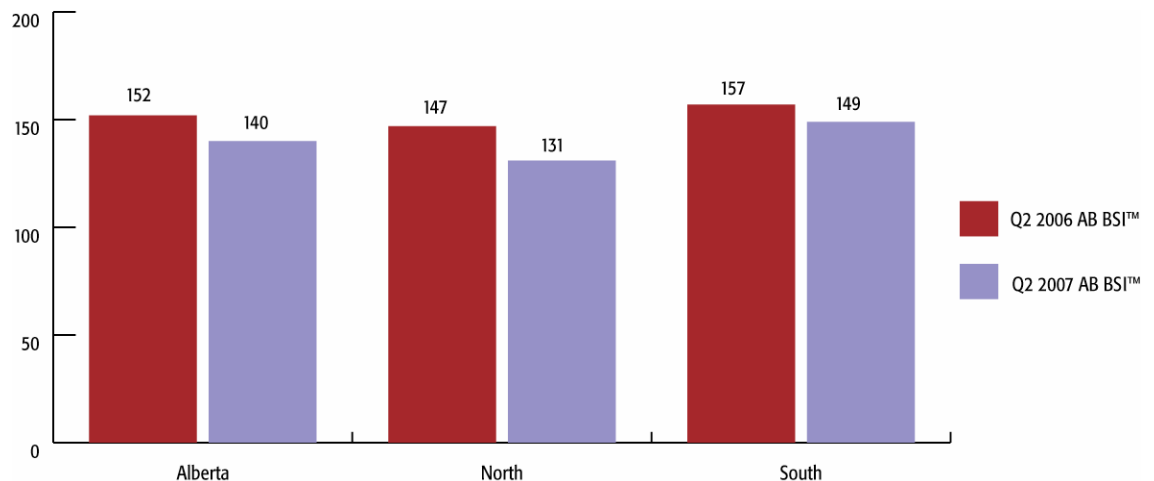
Figure 2. Regional Comparison of the ATB Financial Business Sentiments IndexTM: All Quarters 2006, Q1 2007 and Q2 2007



Source: WCER

The new BSI of 140 compares with the 152 in the comparable quarter last year. However, note that the BSI for the South in Q2 2006, like that for Q2 2007, was stronger than that in the North. This could well be a seasonal phenomenon.

Figure 3. Regional Comparison of the ATB Financial Business Sentiments IndexTM: Q2 2006 and Q2 2007

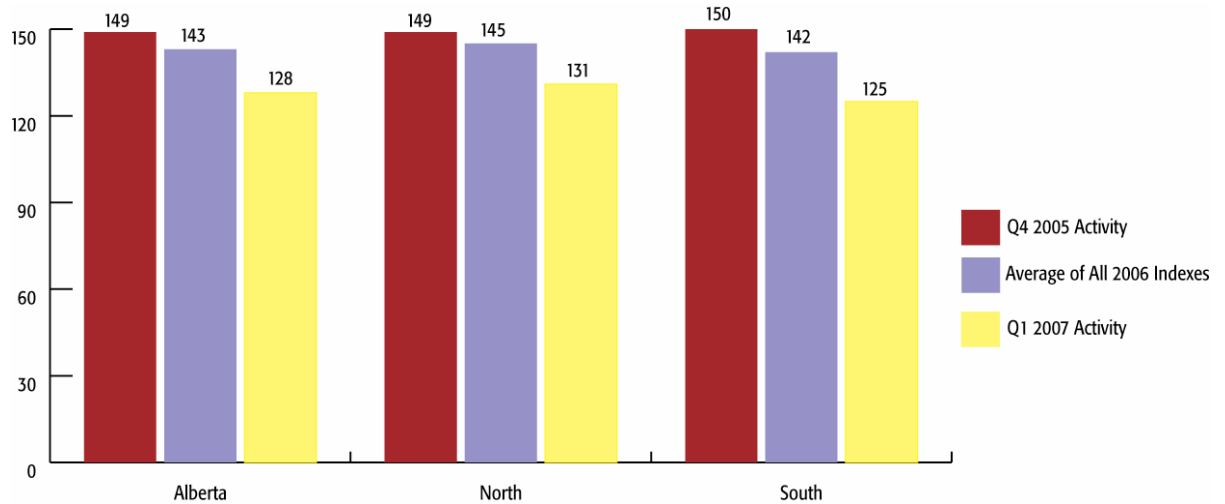


Source: WCER

Activity Levels

We assess activity in the economy by responses to our question about sales experience during the prior quarter. Figure 4 (below) compares the results for Q1 2007 with the quarterly average for 2006 and Q4 2005. There is an indication of a significant deceleration from 2006 average levels.

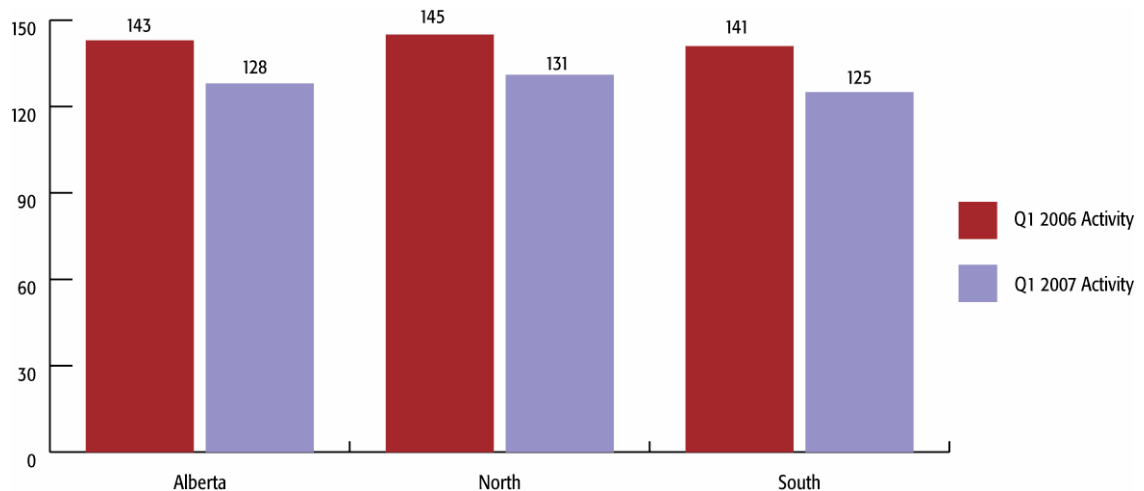
Figure 4. Business Activity Indexes: Q4 2005, All Quarters 2006 and Q1 2007



Source: WCER

Figure 5 (below) compares the Activity Indexes for Q1 2007 with the comparable Q1 2006. The deceleration is clear.

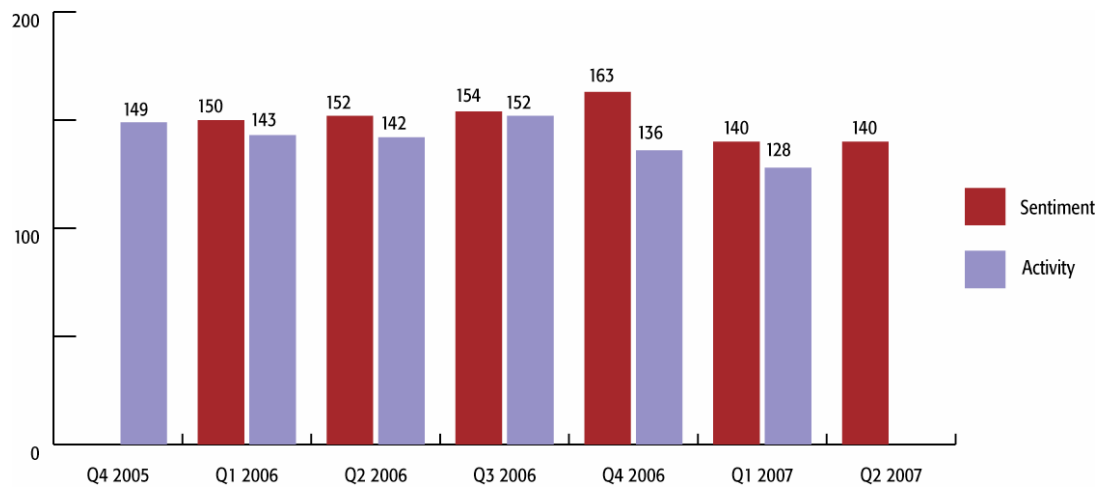
Figure 5: Comparison of Activity Indexes: Q1 2006 and Q1 2007



Source: WCER

Figure 6 (below) compares the BSI and the Activity Indexes since the inception of the survey. The results indicate that, with the exception of Q3 2006, there has been a tendency for the BSI to exceed the Activity Index. On average, this has amounted to a discrepancy of approximately 8%. The WCER view is that this can be attributed, first, to the generally optimistic outlook of Alberta business people and, second, to the difficulty of achieving targets in an environment of labour and skills shortages.

Figure 6. Comparison of Business Sentiment Indexes™ and Activity Indexes Q4 2005, All Quarters 2006 and Q1 2007

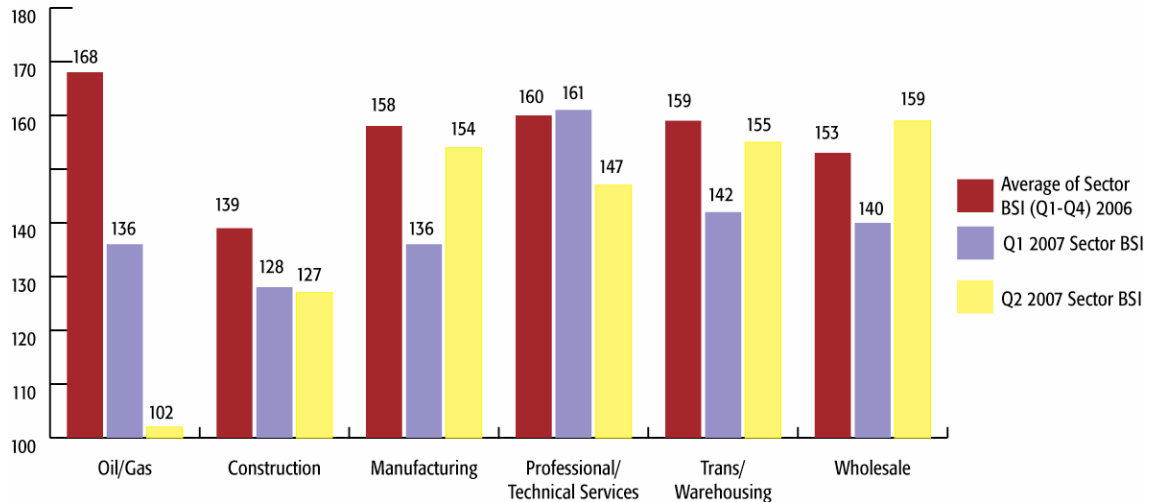


Source: WCER

Industry Sector Sentiment

Figure 7 (below) contains a comparison of industry sector sentiment for Q2 2007 with that for Q1 2007 and the average for 2006. The Figure shows that the sector BSIs have strengthened over Q1 2007 in the case of Manufacturing, Transportation/Warehousing, and Wholesaling. The Construction BSI remains unchanged. The Professional and Technical Services BSI indicates slowing of growth while the Oil and Gas BSI indicates a no growth outlook.

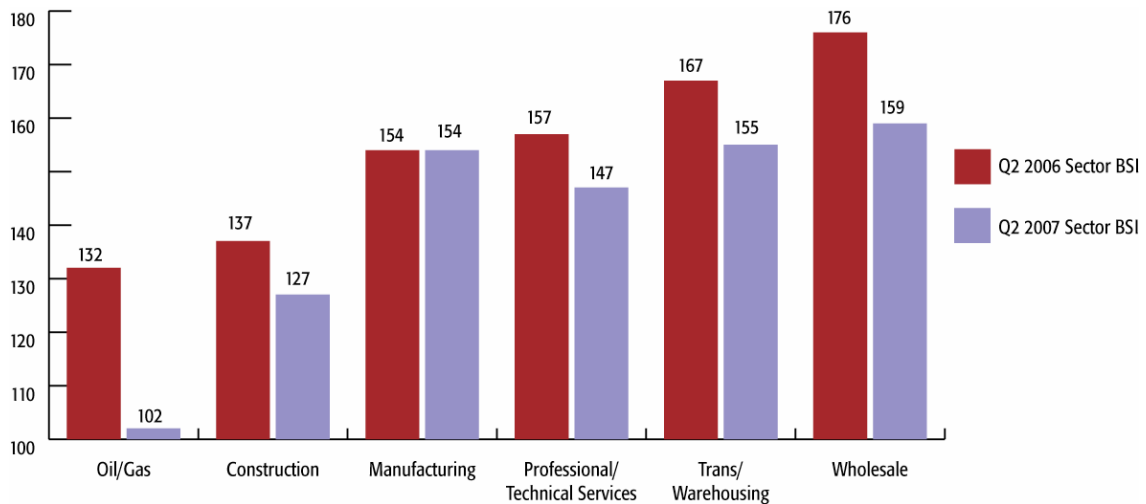
Figure 7. Business Sentiments Sector Indexes: All Quarters 2006, Q1 2007 and Q2 2007



Source: WCER

Further understanding of sector BSIs is found in Figure 8 (below) which compares Q2 2007 with Q2 2006. Here, in every instance save Manufacturing, the current BSI is below last year's comparable figure. The results, when combined with Figure 7, also suggest that the increase in Q2 2007 Wholesaling and Transportation BSI is largely seasonal.

Figure 8. Comparison of Business Sentiments Sector Indexes: Q2 2006 and Q2 2007

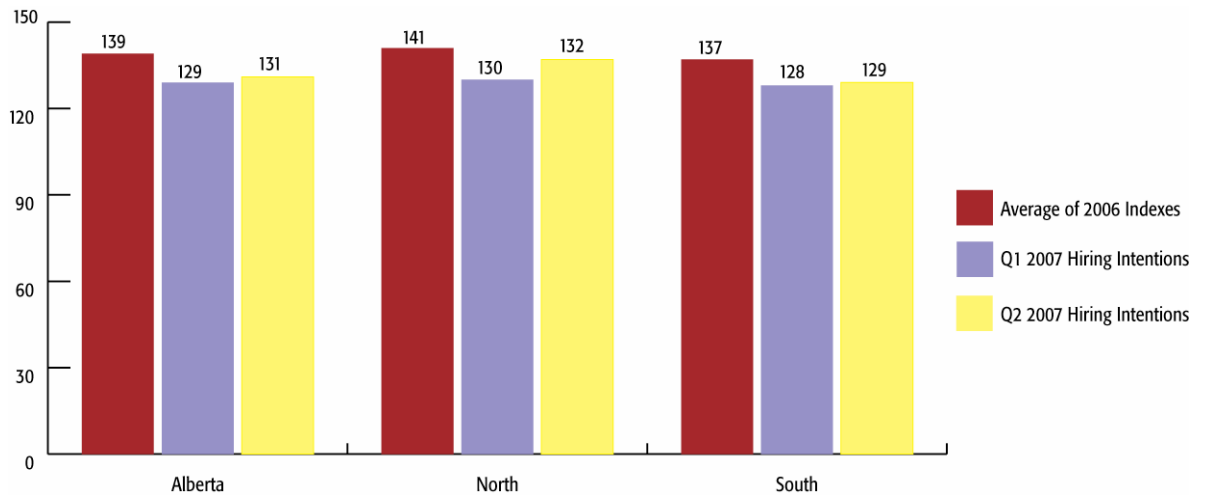


Source: WCER

The Job Market

The quarterly survey also generates information on jobs created by Alberta firms in the form of the ATB Financial Index of Hiring Intentions. This index shows that there is generally little change from Q1 of this year but a decline from the average levels of 2006. Figure 9 (below) compares the Index of Hiring Intentions for Q1 and Q2 2007 with the average quarterly level in 2006.

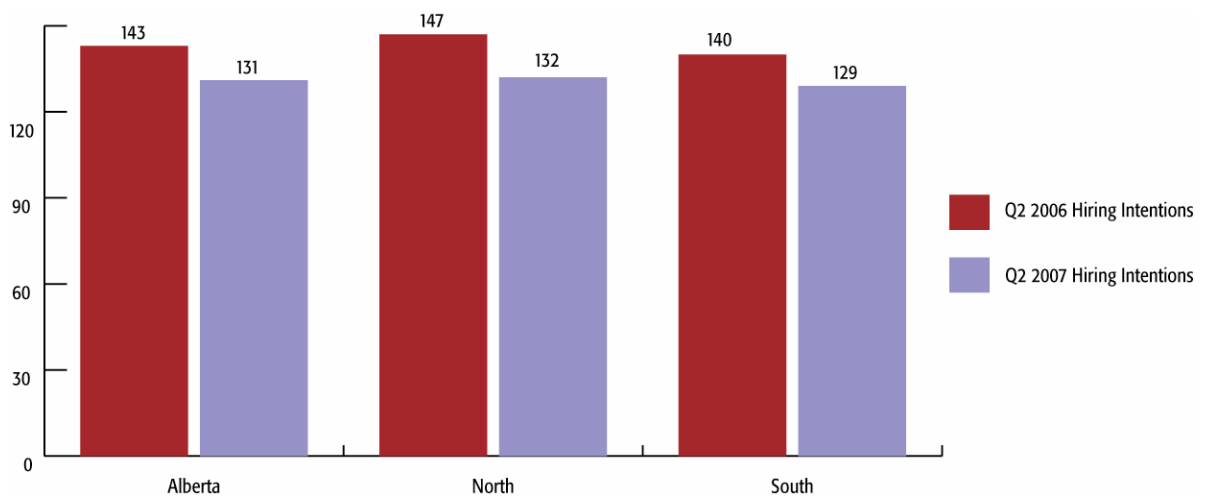
Figure 9. Comparison of ATB Financial Index of Hiring Intentions: All Quarters 2006, Q1 2007 and Q2 2007



Source: WCER

Hiring intentions are explained more fully by comparing Q2 2007 with Q2 2006 as shown in Figure 10 (below). Some deceleration is evident in what still remains a buoyant job market.

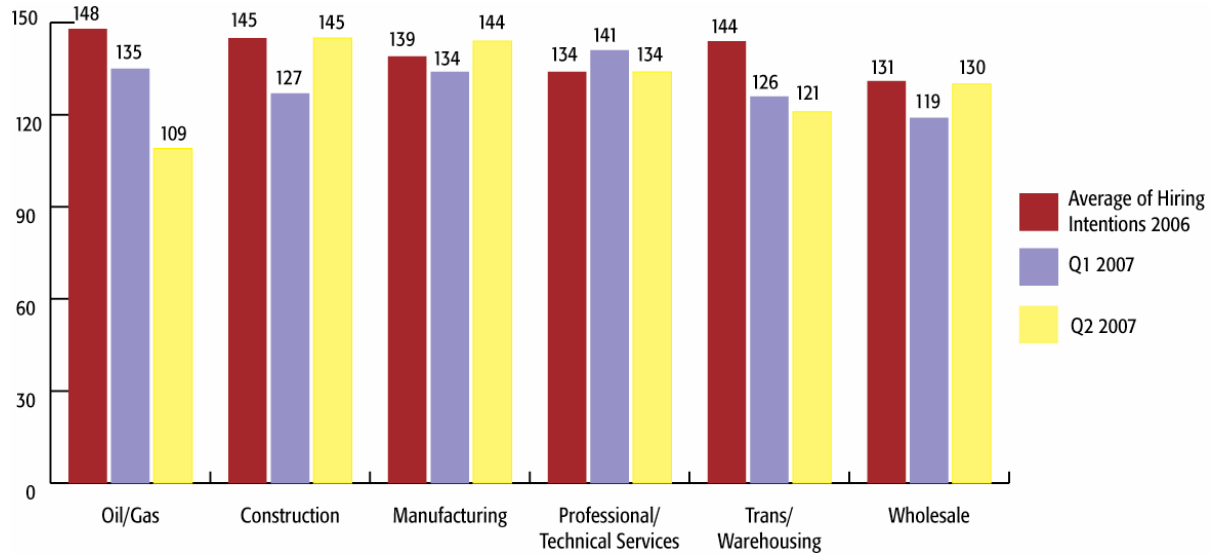
Figure 10. ATB Financial Index of Hiring Intentions: Q2 2006 and Q2 2007



Source: WCER

Figure 11 compares hiring intentions by industry sector of the first two quarters of this year and the average for 2006. The results indicate hiring intentions compared with Q1 2007 will accelerate in Construction, Manufacturing, and Wholesaling; they will decelerate in Oil and Gas, Professional and Technical Services, and Transportation. The aggregate deceleration, as revealed in Figure 11, is largely attributable to Oil and Gas, Professional and Technical Services and Transportation.

Figure 11. Comparison of Hiring Intentions by Sector: All Quarters 2006, Q1 2007 and Q2 2007



Source: WCER

More on Industry Sectors

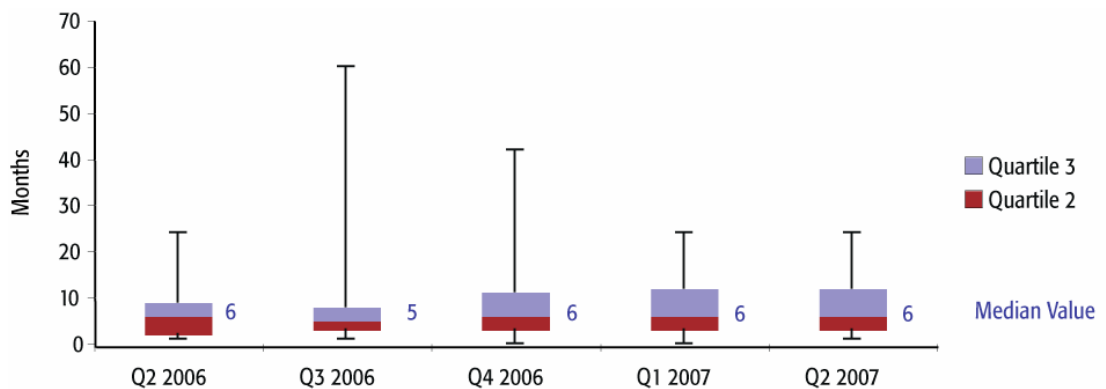
Oil & Gas

Of the 67 respondents, 39% experienced increased activity over the past three months while 36% indicated that their activity had decreased. In the coming Q2 2007, the respondents are almost equally divided between those expecting an increase, those expecting no change and those expecting a decrease. This result mirrors very closely the results of the Statistics Canada¹ recently released survey of private and public investment intentions which indicate little change in investment spending by the conventional oil and gas sector in 2007. With respect to hiring intentions, some 63% of respondents indicated there would be no change in employment in the coming quarter. 23% of respondents indicated they would add employees while 14% indicated there would be decrease in employment.

Construction

Of the 67 respondents in Construction, 43% indicated that their activity had increased in the past three months and 45% indicated that their activity levels had remained unchanged. 38% indicated that their current contract work was more than sufficient while 11% indicated that it was insufficient. Some 46% indicated that they planned to increase employment in the coming quarter while 48% planned no change in employment. Only 6% planned to have fewer workers in the coming quarter. Figure 12 (below) indicates that, assuming normal working hours, one-half of the respondents have at least six months work in hand or already under contract. Further, 29% of respondents had a backlog of one year's work.

Figure 12. Number of Month's Work Accounted for by Work in Hand or Already Under Contract: Three Quarters of 2006, Q1 2007 and Q2 2007

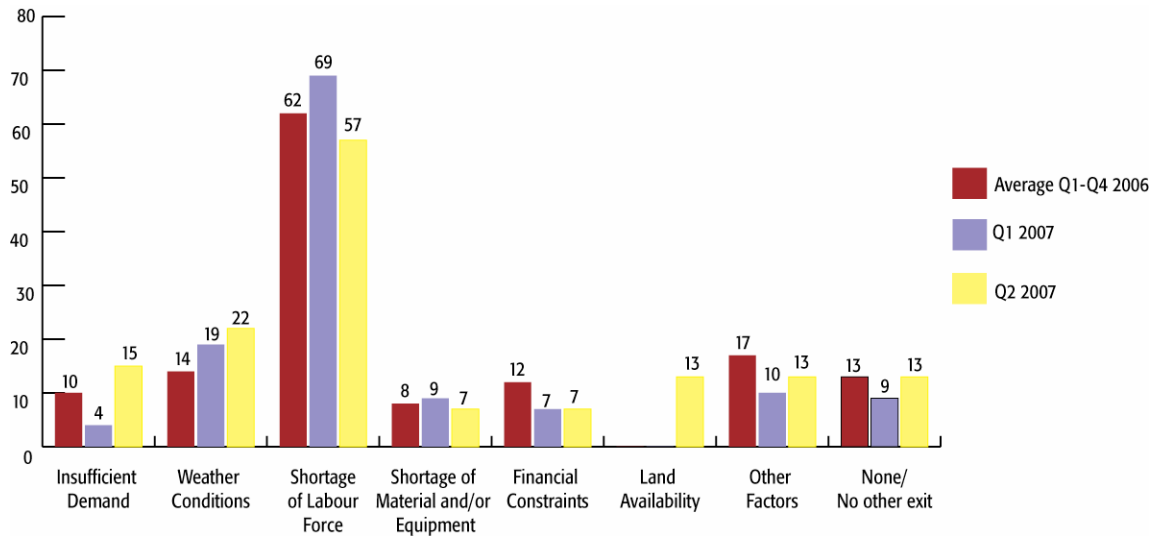


Source: WCER

¹ Statistics Canada: *The Daily* <http://www.statcan.ca/Daily/English/070228/d070228a.htm>

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. Figure 13 (below) reveals that the shortage of labour was identified as an inhibiting factor by 57% of respondents, a result that has been consistently evident throughout the surveys. Weather conditions (22%), insufficient demand (14%) and land availability (13%) were next in importance. 49% of respondents expect the prices they charge to increase in Q2 2007 while 49% expect no change in prices.

Figure 13. Factors Limiting the Construction Sector: All Quarters 2006, Q1 2007 and Q2 2007

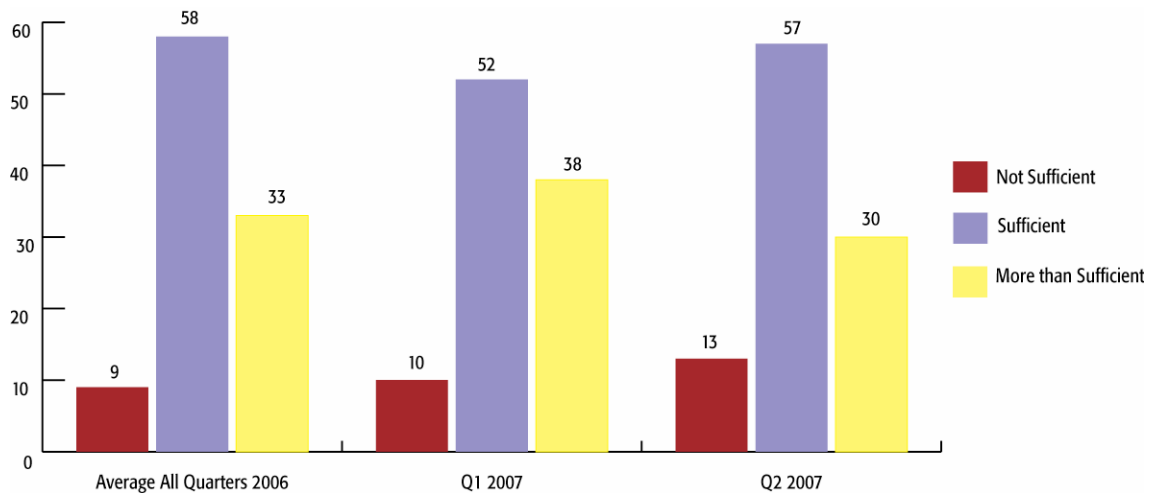


Source: WCER

Manufacturing

Some 49% of the 70 manufacturing respondents indicated that their production had increased over the past quarter. Some 64% anticipate further increases in production over the coming quarter with just over 47% planning to increase employment. With regard to orders, Figure 14 (below) shows that 30% of respondents indicated that there were more than sufficient orders while only 13% regard current orders as insufficient. 73% of respondents regard their stocks of finished products as adequate for needs.

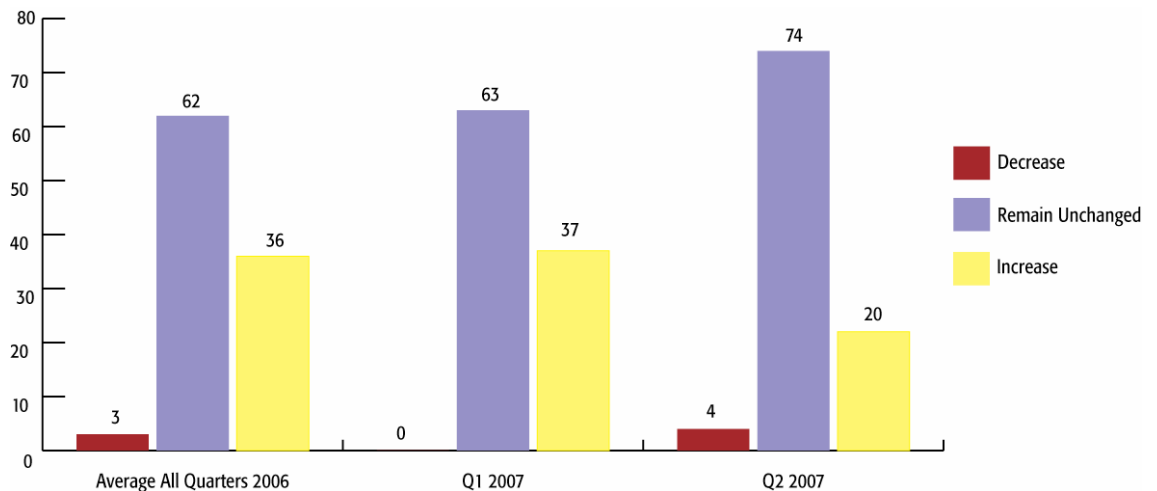
Figure 14. Orders on Hand, Manufacturing Sector: All Quarters 2006, Q1 2007 and Q2 2007



Source: WCER

Figure 15 (below) reveals that almost three-quarters of respondents expect their selling prices to remain unchanged in the coming quarter

Figure 15. Manufacturing Price Expectations: Q2 2007



Source: WCER

Professional and Technical Service

There were 72 respondents in this group of which 49% experienced increased demand for their services during Q1 2007. In the coming quarter, 56% expect demand to increase and 35% plan to increase employment. No change was expected by 36% and 63% of respondents respectively.

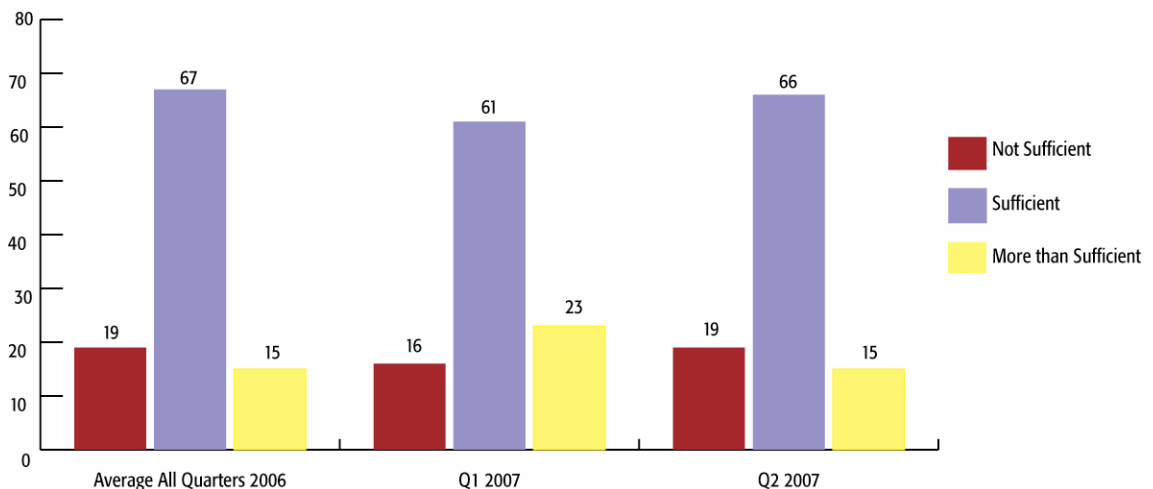
Transportation/Warehousing

Of the 70 respondents in this group, almost one-half recorded increased business while 14% experienced decreases in Q1 2007. 27% increased employment in Q1 2007. Two-thirds expect their business to increase again in Q2 2007 while 11% expect decrease in business. 40% of the respondents are planning to add employees while 51% plan for no change in employment.

Wholesalers

Of the 70 respondents in the Wholesaling group, almost one-half recorded increased sales in Q1 2007. 70% of respondents expect sales to increase again in Q2 2007 with 33% planning to increase employment. Figure 16 (below) indicates that inventory appears adequate for two-thirds of the respondents while 15% regard inventories as insufficient. 61% plan to place increased orders with suppliers in Q2 2007 while 35% will leave the level of their orders unchanged.

Figure 16. Wholesale Firms' Satisfaction with Current Inventory Levels: All Quarters 2006, Q1 2007 and Q2 2007



Source: WCER