

# Information Bulletin

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## ATB FINANCIAL BUSINESS SENTIMENTS INDEX™

### WHERE IS THE ALBERTA ECONOMY GOING? 2010 QUARTER 2

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## Methodology

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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 2010 survey sampled 413 firms between February 22<sup>nd</sup> and March 5<sup>th</sup>, 2010. The survey was conducted by the Population Research Laboratory at the University of Alberta. 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 (68)
- construction (68)
- manufacturing (71)
- 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 (70)
- Calgary (138)

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 is 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 of **seasonally adjusting** the data. The seasonal adjustment was done using the X-12-ARIMA program, created by the United States Census Bureau. This is the 18<sup>th</sup> 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. There are some sections, however, for which seasonal adjustment is not possible. In these instances, it has been noted that the data is unadjusted.

## Where is the Alberta Economy Going?<sup>1</sup>

Business Sentiments Index™ Q2 2010	Business Activity Index Q1 2010	Business Hiring Index Q2 2010
141.8 ▲	121.0 ▲	119.2 ▲

### Quarterly Highlights

This quarter's Business Sentiments Index™ of 141.8 shows continued optimism of Alberta entrepreneurs.

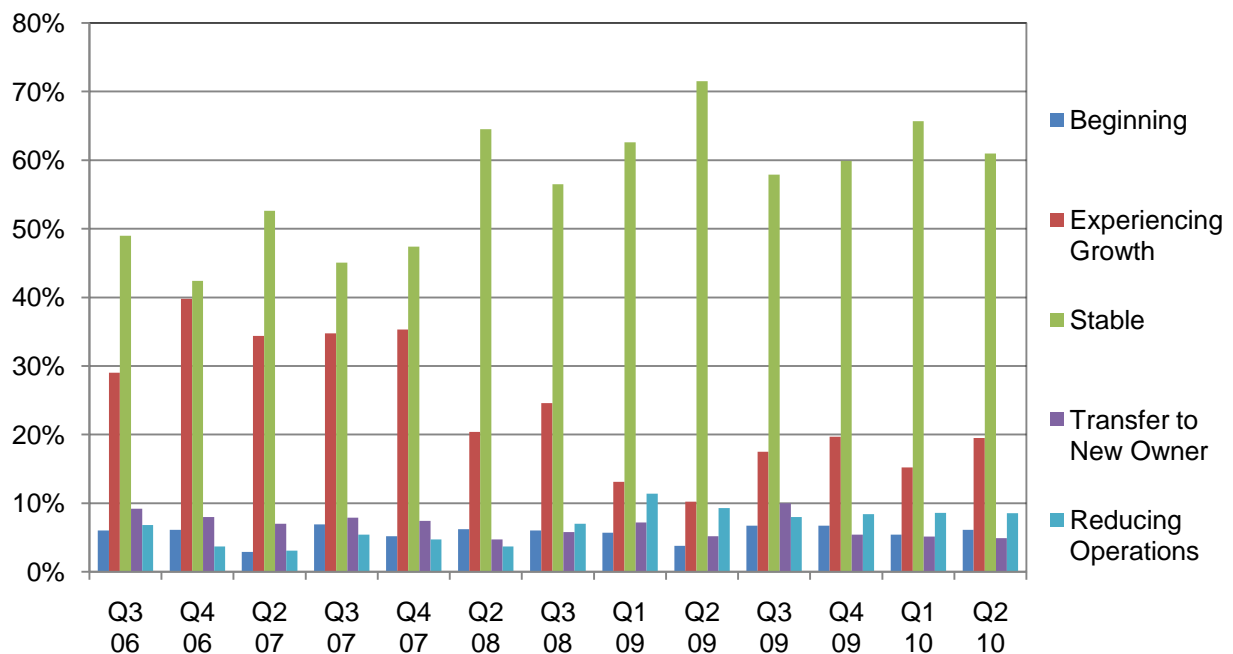
The substantial increase (8.6%) in the Business Activity Index, standing at 121.0, shows that the Alberta economy is emerging from the economic downturn. This compares with a level of 111.4 last quarter, but is still below pre-recession levels.

The Business Hiring Index of 119.2 is a slight improvement over the last quarter, when the index stood at 117.4.

### Feature Figure

For the second quarter of 2010, 61% of Alberta firms surveyed expect their business situation to be stable, while another 20% expect to experience growth. The dip in the number of firms experiencing growth as a result of the recent economic downturn is clearly evident. However, in Alberta's "boom and bust" economy, the persistently high number of respondents whose business situation was and/or is stable is a welcome sight and bodes well for the province.

### 1. Thinking of the next couple of years, which of the following best describes your business situation? Would you say that you are...?



<sup>1</sup> See Appendix A for data tables. Contact the Western Centre for Economic Research if more detail is required.

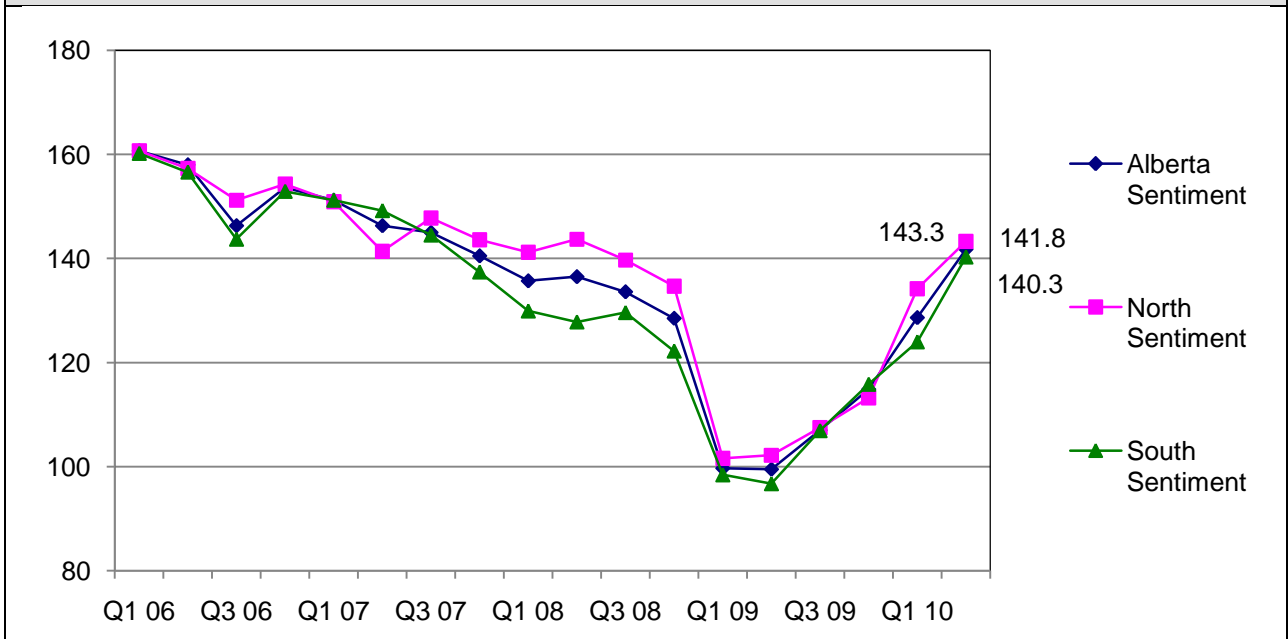
## Outlook for the Next Quarter and for Next Year

The seasonally adjusted ATB Financial Business Sentiments Index™ (BSI) stands at 141.8 for Q2 2010. This compares with 99.5 in Q2 2009, 136.5 in Q2 2008, 135.7 in 146.3 Q2 2007, and 158.0 in Q2 2006.

The spread between the Sentiment in the North (143.3) and in the South (140.3) has decreased over the last quarter, but still indicates slightly higher expectations in the North of the province.

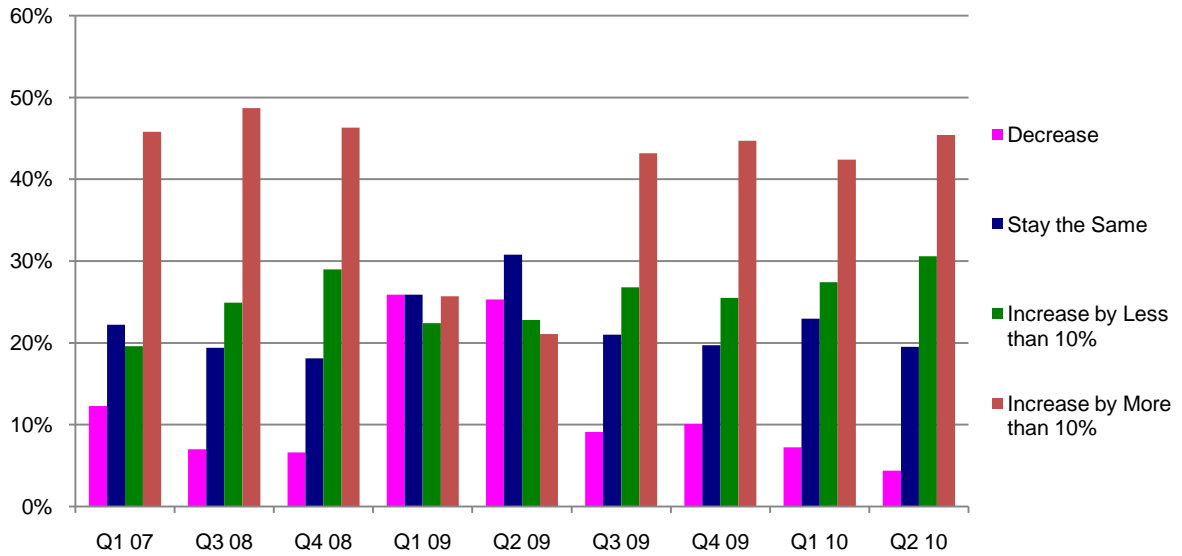
For more information on individual sectors, see Figures 5-10 below.

### 2. ATB Financial Business Sentiments Index™ by Provincial Region: Seasonally Adjusted All Sectors, Q1 2006 to Q2 2010



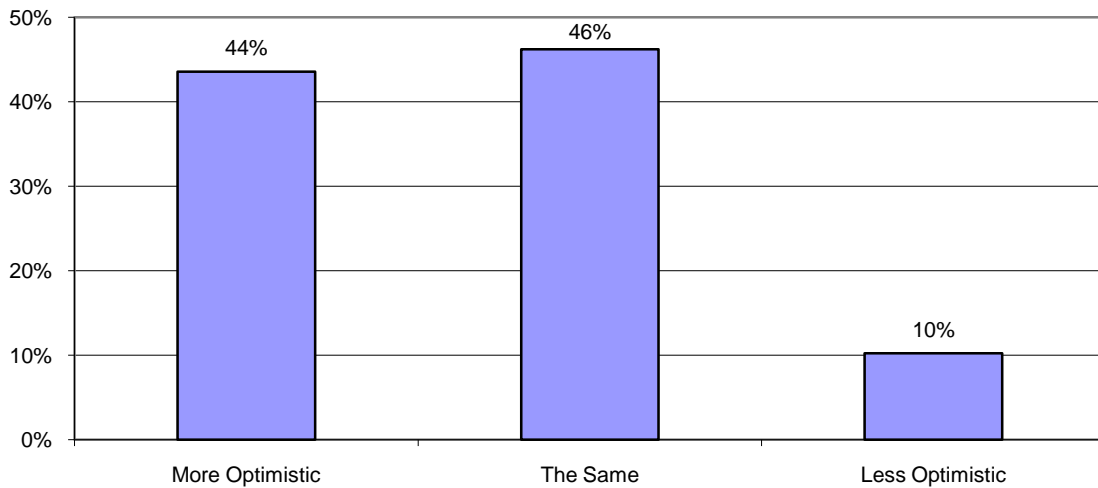
Source: WCER

**3. How do you expect your business activity to develop over the next 12 months? (Unadjusted)**



Source: WCER

**4 How does this prediction differ from a prediction you would have made 3 months ago?**



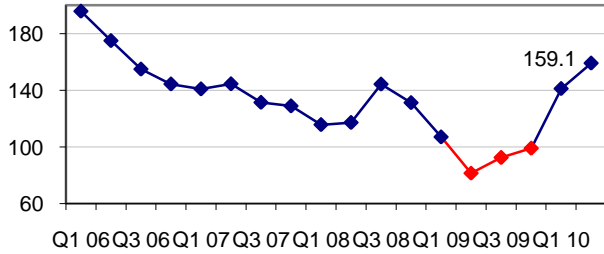
Source: WCER



**Business Sentiment Indexes – Sector Analysis – Seasonally Adjusted**

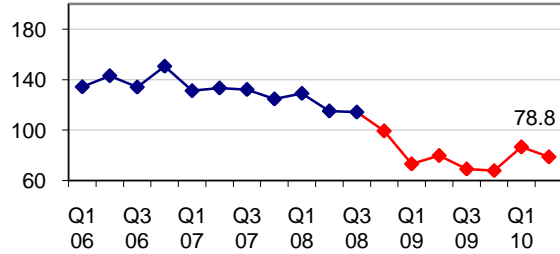
**5. Oil & Gas Sector**

All Regions, Q1 2006 to Q2 2010



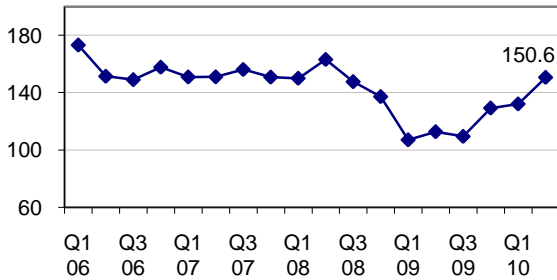
**6. Construction Sector**

All Regions, Q1 2006 to Q2 2010



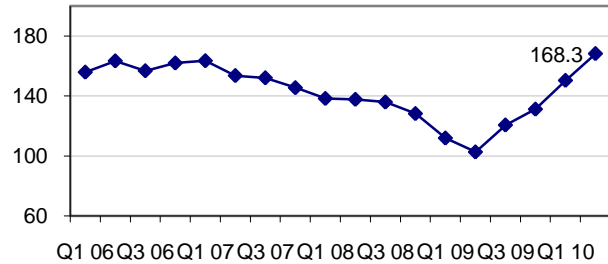
**7. Manufacturing Sector**

All Regions, Q1 2006 to Q2 2010



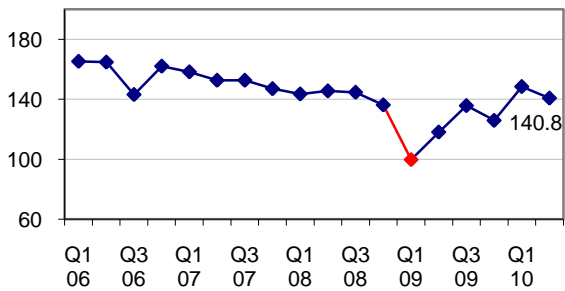
**8. Professional & Technical Services Sector**

All Regions, Q1 2006 to Q2 2010



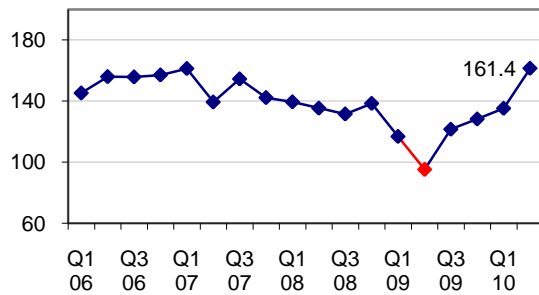
**9. Transportation & Warehousing Sector**

All Regions, Q1 2006 to Q2 2010



**10. Wholesale Sector**

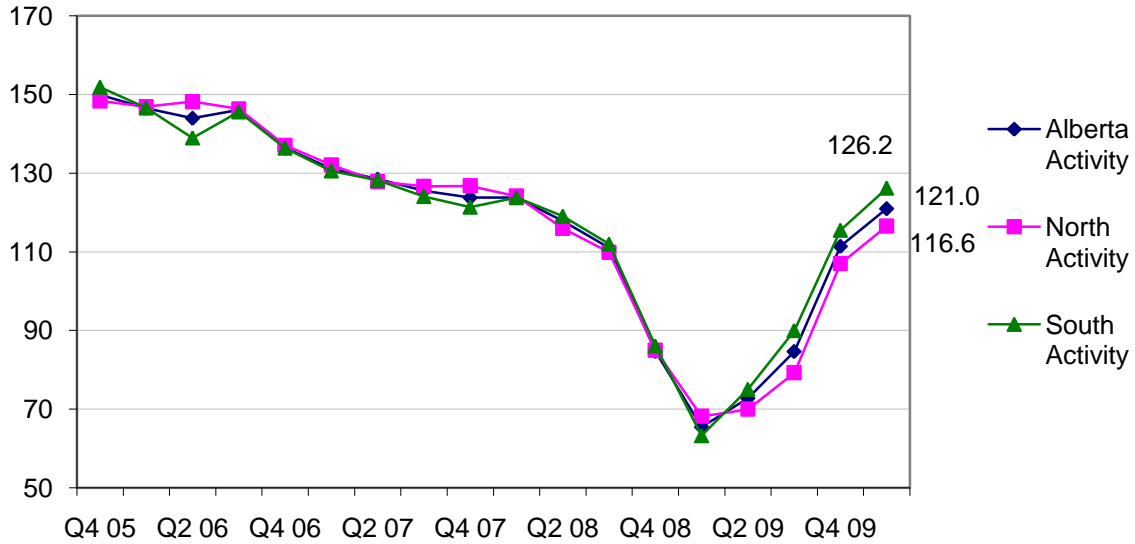
All Regions, Q1 2006 to Q2 2010



Source: WCER

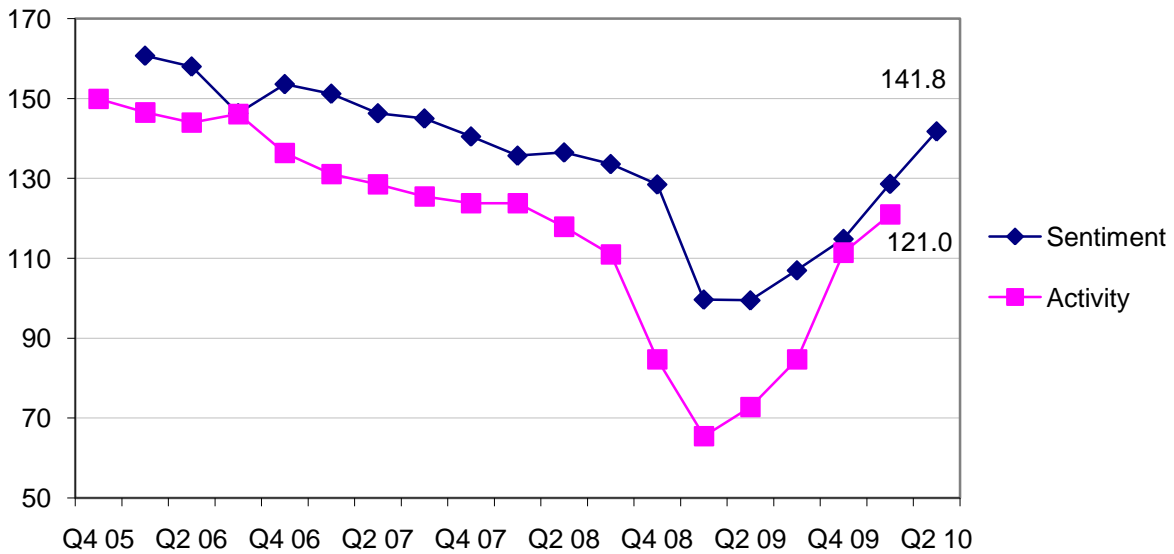
## Business Activity Index – Seasonally Adjusted

### 11. Business Activity Index by Region Q4 2005 to Q1 2010



Source: WCER

### 12. Business Activity Index vs. Business Sentiments Index™: All Regions, All Sectors, Q4 2005 to Q2 2010

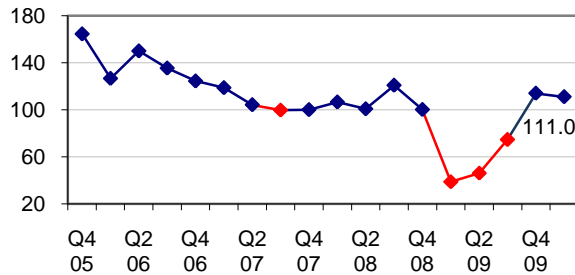


Source: WCER

## Business Activity Index – Sector Analysis – Seasonally Adjusted

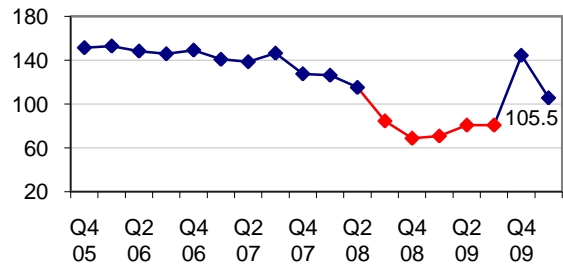
### 13. Oil & Gas Sector

All Regions, Q4 2005 to Q1 2010



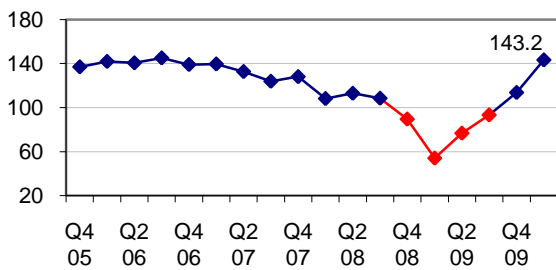
### 14. Construction Sector

All Regions, Q4 2005 to Q1 2010



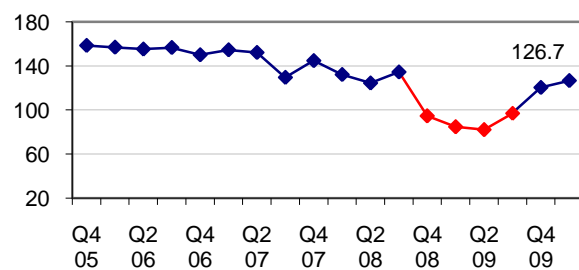
### 15. Manufacturing Sector

All Regions, Q4 2005 to Q1 2010



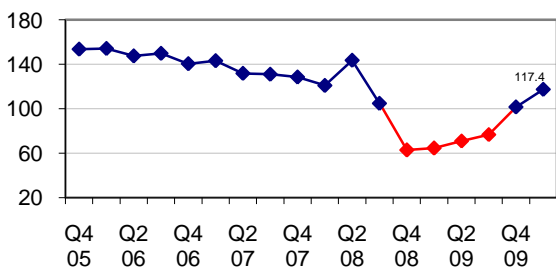
### 16. Professional & Technical Services Sector

All Regions, Q4 2005 to Q1 2010



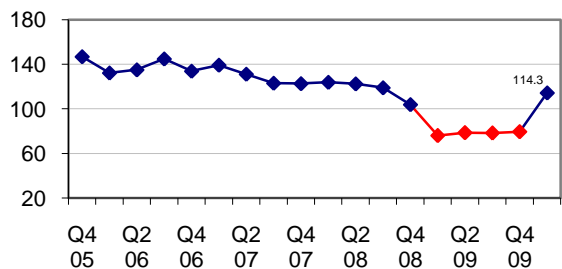
### 17. Transportation & Warehousing Sector

All Regions Q4 2005 to Q1 2010



### 18. Wholesale Sector

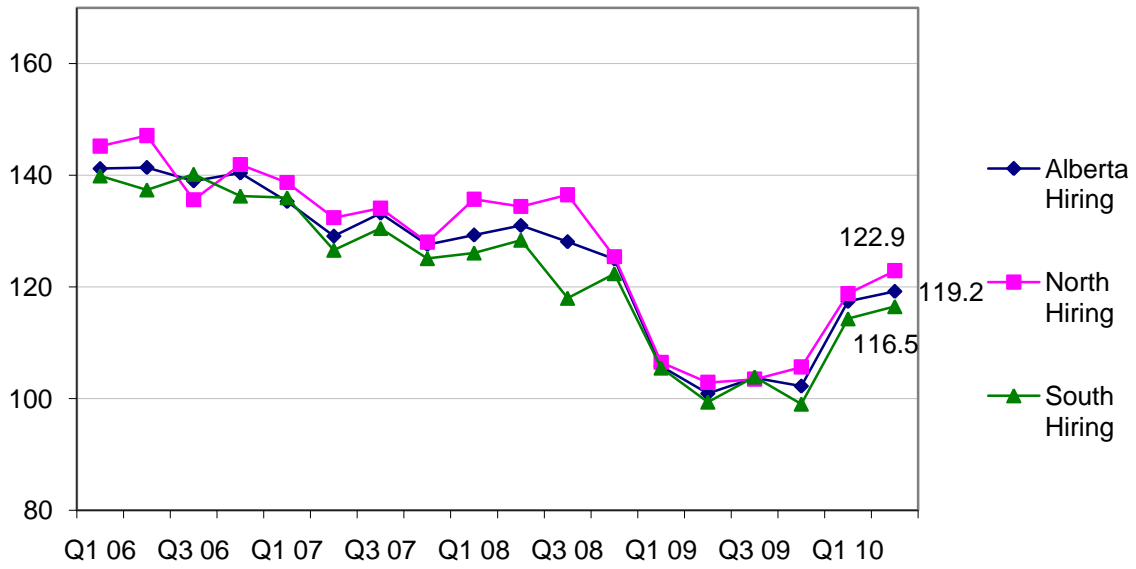
All Regions, Q4 2005 to Q1 2010



Source: WCER

## Business Hiring Intentions – Seasonally Adjusted

### 19. Business Hiring Intentions by Region All Sectors, Q1 2006 to Q2 2010

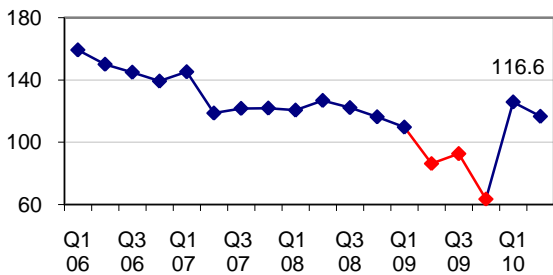


Source: WCER

## Business Hiring Intentions – Sector Analysis – Seasonally Adjusted

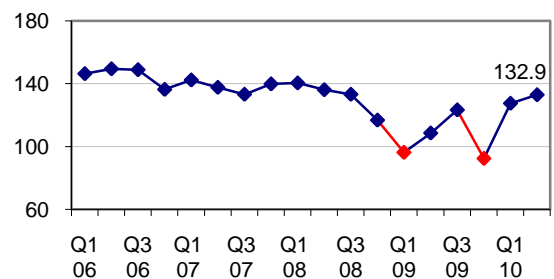
### 20. Oil & Gas Sector

All Regions, Q1 2006 to Q2 2010



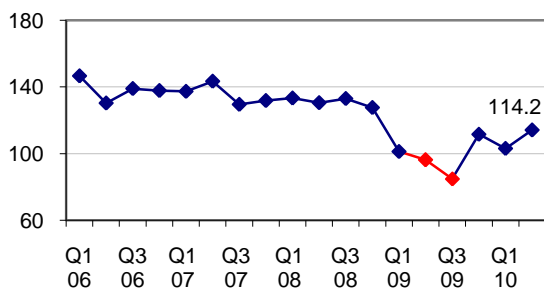
### 21. Construction Sector

All Regions, Q1 2006 to Q2 2010



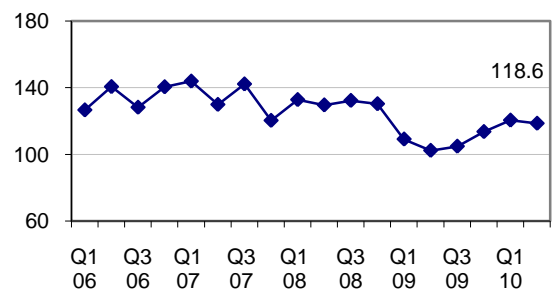
### 22. Manufacturing Sector

All Regions, Q1 2006 to Q2 2010



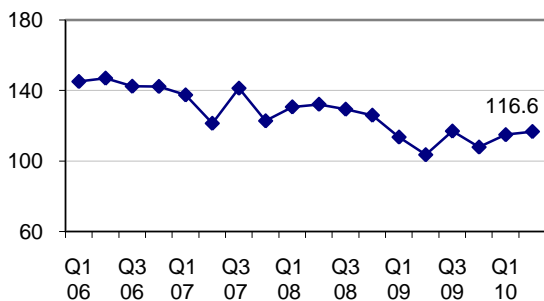
### 23. Professional & Technical Services Sector

All Regions, Q1 2006 to Q2 2010



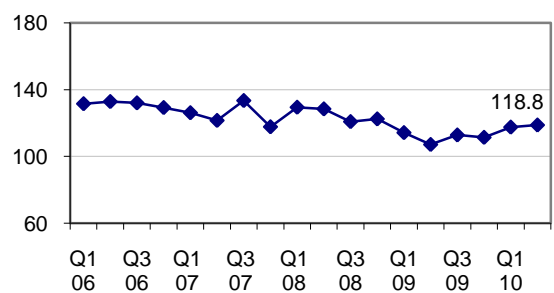
### 24. Transportation & Warehousing Sector

All Regions, Q1 2006 to Q2 2010



### 25. Wholesale Sector

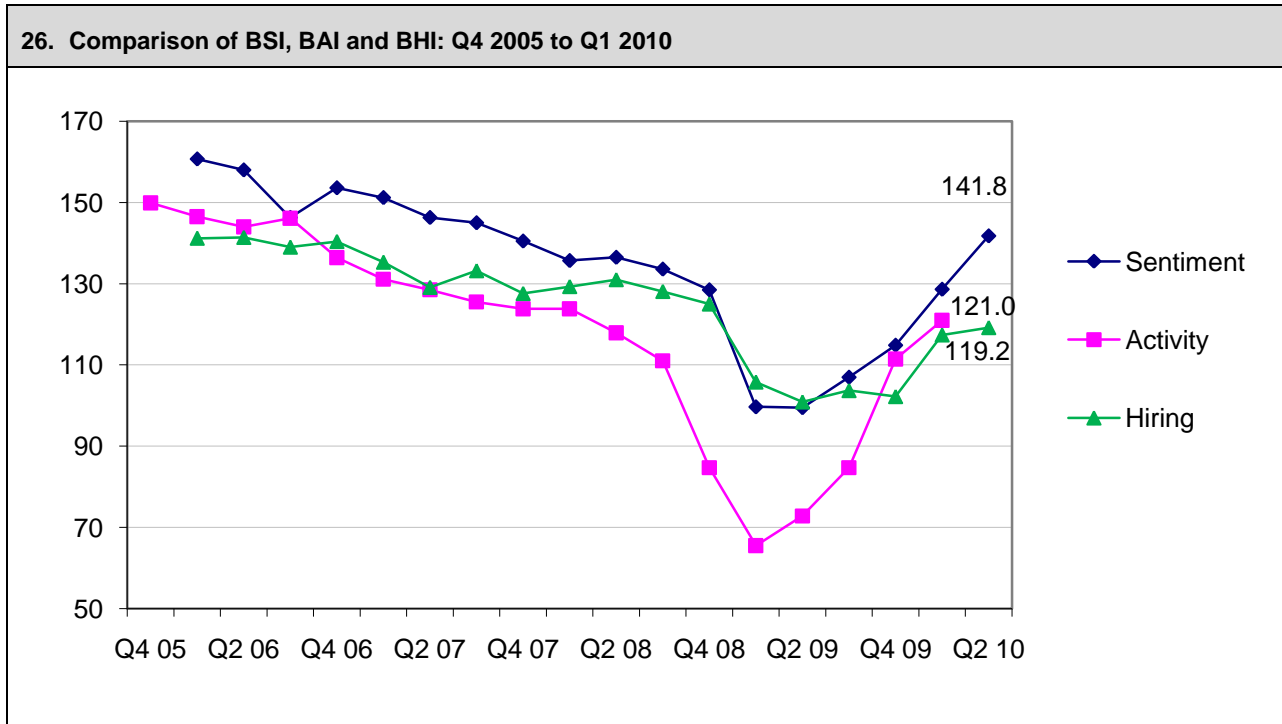
All Regions, Q1 2006 to Q2 2010



Source: WCER

## Comparison of BSI, BAI and BHI – Seasonally Adjusted

Figure 26 shows a seasonally adjusted comparison of the three indicators since the inception of the BSI survey in 2005. Respondents' expectations (BSI) for their business activity were close to the level of activity that occurred (BAI) in the first quarter of 2010.



Source: WCER

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## More on Industry Sectors

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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 Q2 2010, 30% of respondents expect an increase in business, while 32% expect a decrease.
- Only 18% of respondents expect to increase employment in Q2 2010, while 13% expect to decrease employment. The large majority, 69%, expect no change in employment.
- 47% of respondents indicated activity levels increased in Q1 2010, while 29% indicated activity levels decreased. This is a slight improvement over Q4 2009.

### Construction

- 36% of all respondents experienced a decrease in activity in Q1 2010, while 30% of respondents experienced an increase in activity.
- 46% of respondents expect to increase employment over the next quarter, while only 5% expect to decrease employment over the next quarter.
- Only 10% of respondents have sufficient or more than sufficient jobs on hand for Q1 2010, while 39% have insufficient jobs on hand.

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. Insufficient demand remains the largest potential bottleneck for the construction industry, reflecting the general downturn in building activity, but the number of respondents who cite this as a constraining factor has declined. A relatively large number of firms are also reporting that financial constraints to be an issue for the industry, again reflecting the current economic situation. The response levels for each potential bottleneck are available in Figures 27 through 32.

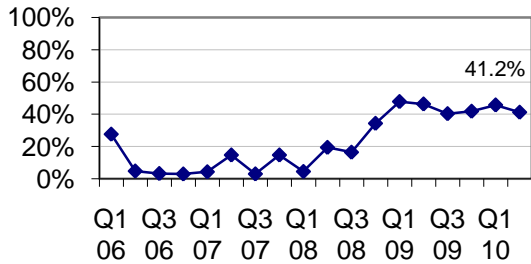
Figure 33 shows the median number of work on hand for surveyed construction firms. Firms surveyed for this quarter reported a median of 3 months work on hand, well below the levels experienced before the recession. Expectations for the coming quarter declined relative to those for Q1 2010 and activity in Q1 2010 fell markedly compared to Q4 2009. 16% of firms responded that they had one year or more of work on their books.

Figure 34 shows that over four-fifths of respondents expect prices to remain stable.

## Construction Sector Bottlenecks

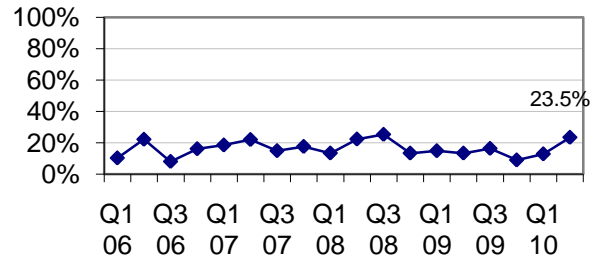
### 27. Insufficient Demand

All Regions, Q1 2006 to Q2 2010



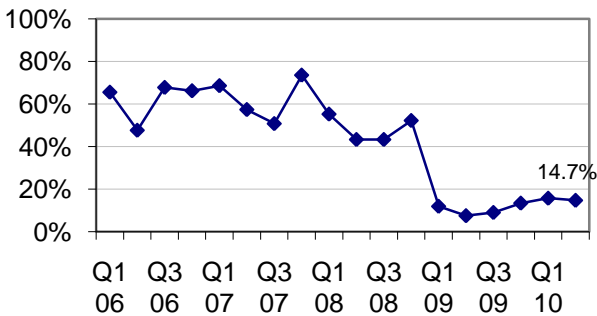
### 28. Weather Conditions

All Regions, Q1 2006 to Q2 2010



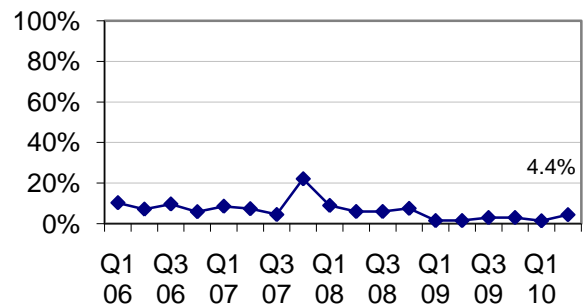
### 29. Shortage of Labour

All Regions, Q1 2006 to Q2 2010



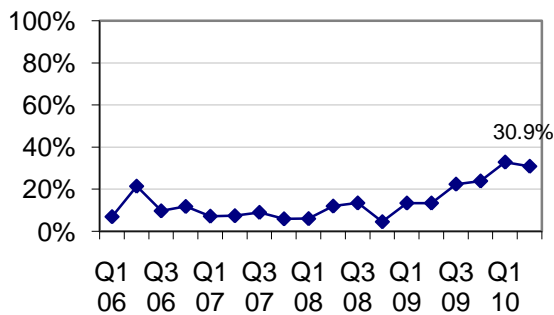
### 30. Shortage of Material and/or Equipment

All Regions, Q1 2006 to Q2 2010



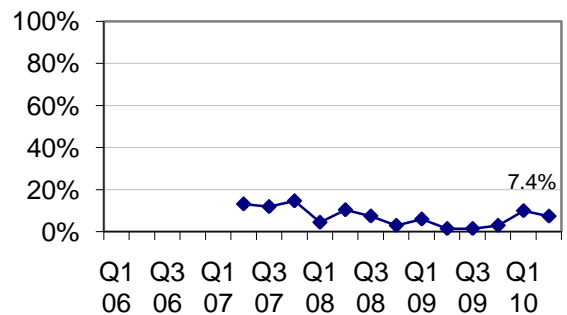
### 31. Financial Constraints

All Regions, Q1 2006 to Q2 2010



### 32. Land Availability\*

All Regions, Q2 2007 to Q2 2010

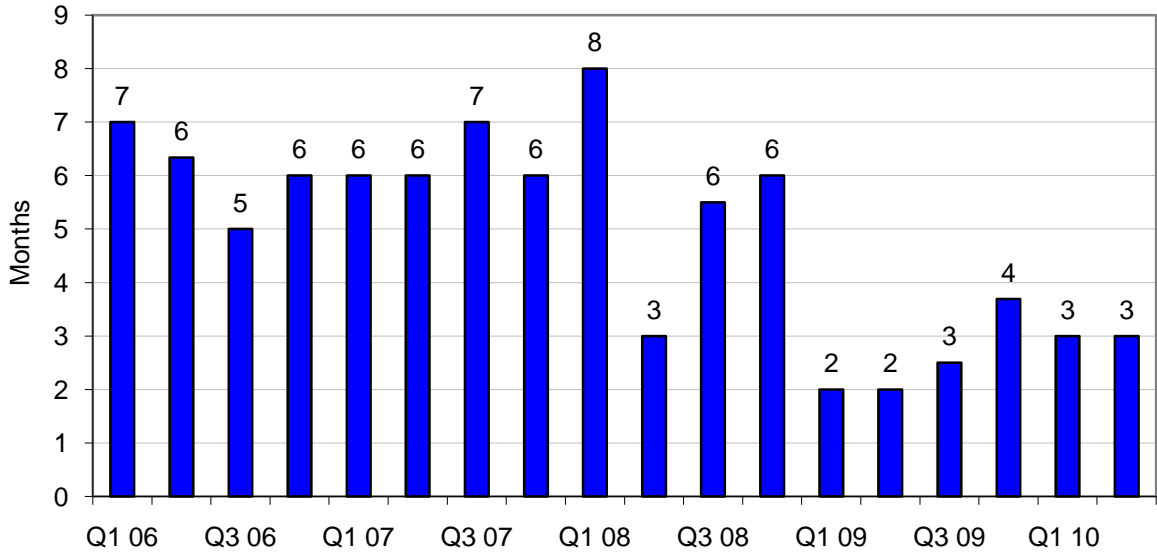


Source: WCER

\* Collection of Land Availability data began in Q2 2007

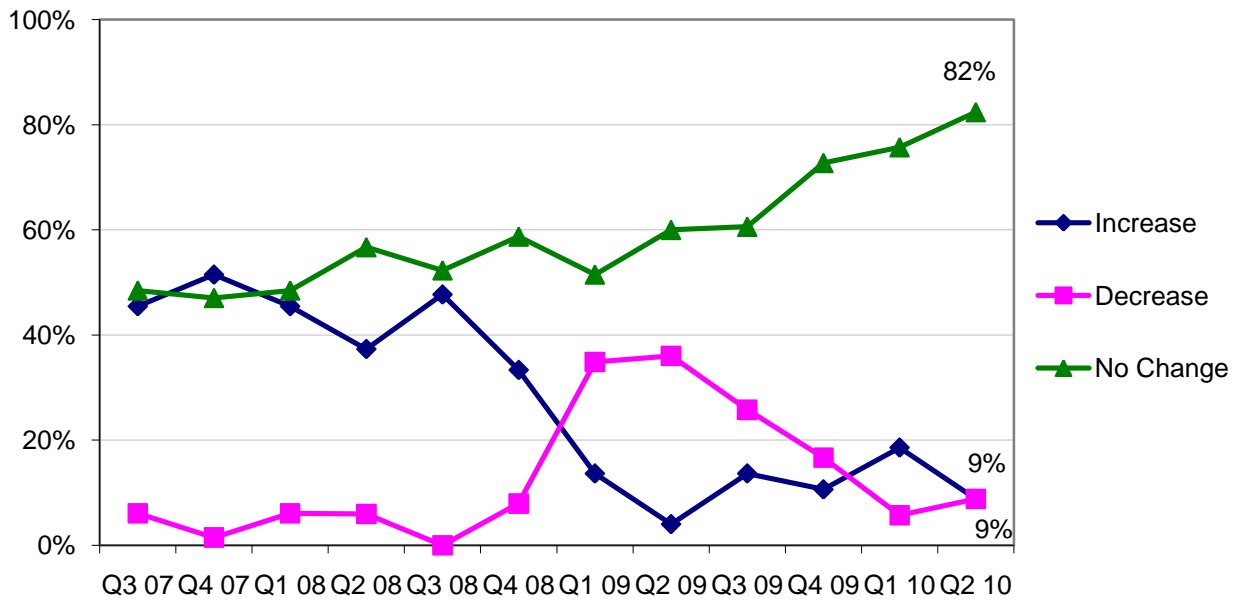


**33. Median No. of Month's Work Accounted for by Work in Hand or Already Under Contract  
All Regions, Q1 2006 to Q2 2010**



Source: WCER

**34. Pricing Expectations, Construction Sector, All Regions, Q3 2007 to Q2 2010**

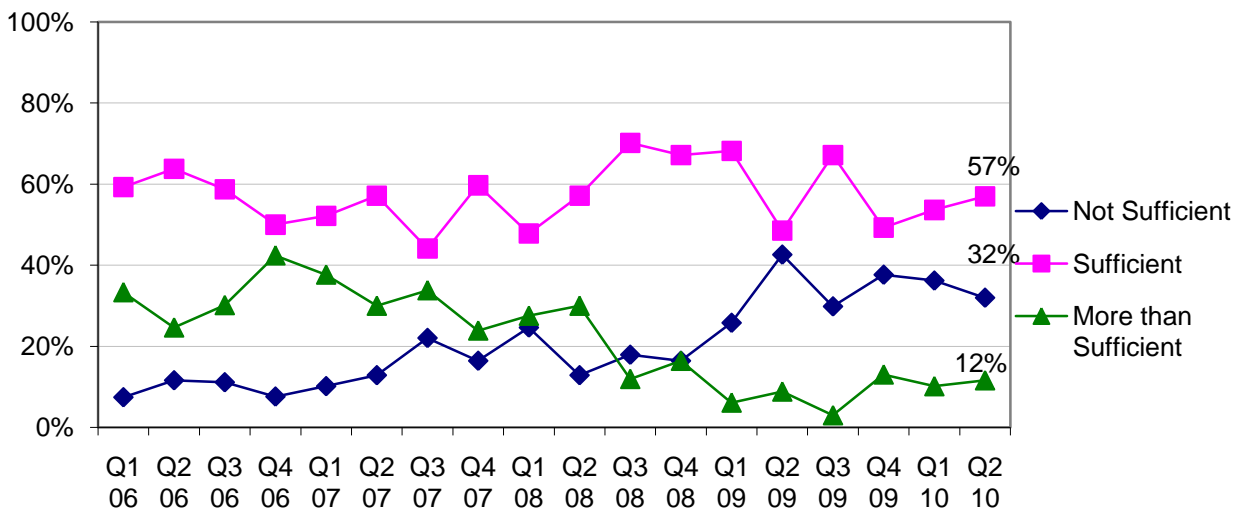


Source: WCER

### Manufacturing

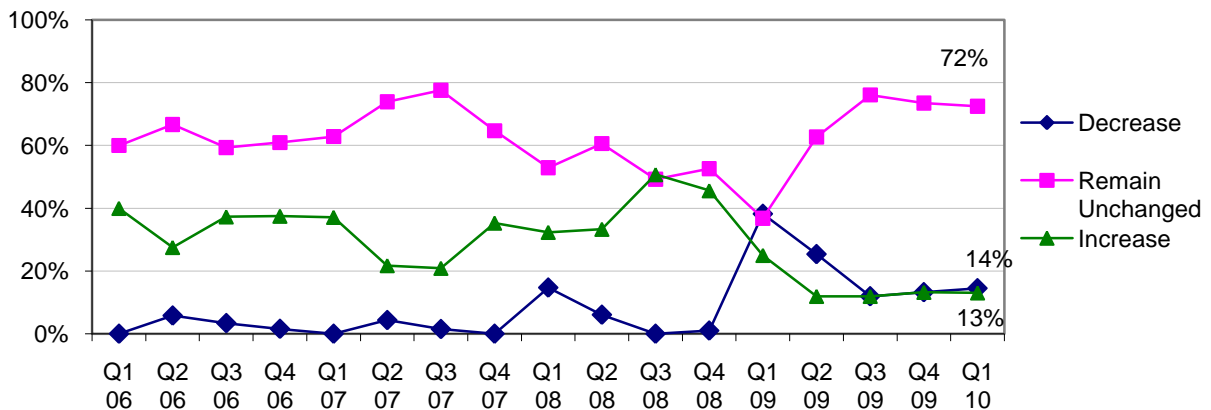
- 63% of respondents expect increased production runs in Q2 2010, while only 3% expect production runs will decrease.
- 19% of respondents expect to increase employment over the next quarter, while less than 3% expect to decrease employment.
- 47% of respondents experienced increased production in Q1 2010, while 19% experienced a decrease.
- 57% of respondents had sufficient orders on hand (Figure 35), and 12% reported having more than sufficient orders on hand. The large majority of respondents (72%) expect prices to remain as they are during the next quarter (Figure 36), while only 14% expect a decrease.

**35. Orders on Hand, Manufacturing Sector, All Regions, Q1 2006 to Q2 2010**



Source: WCER

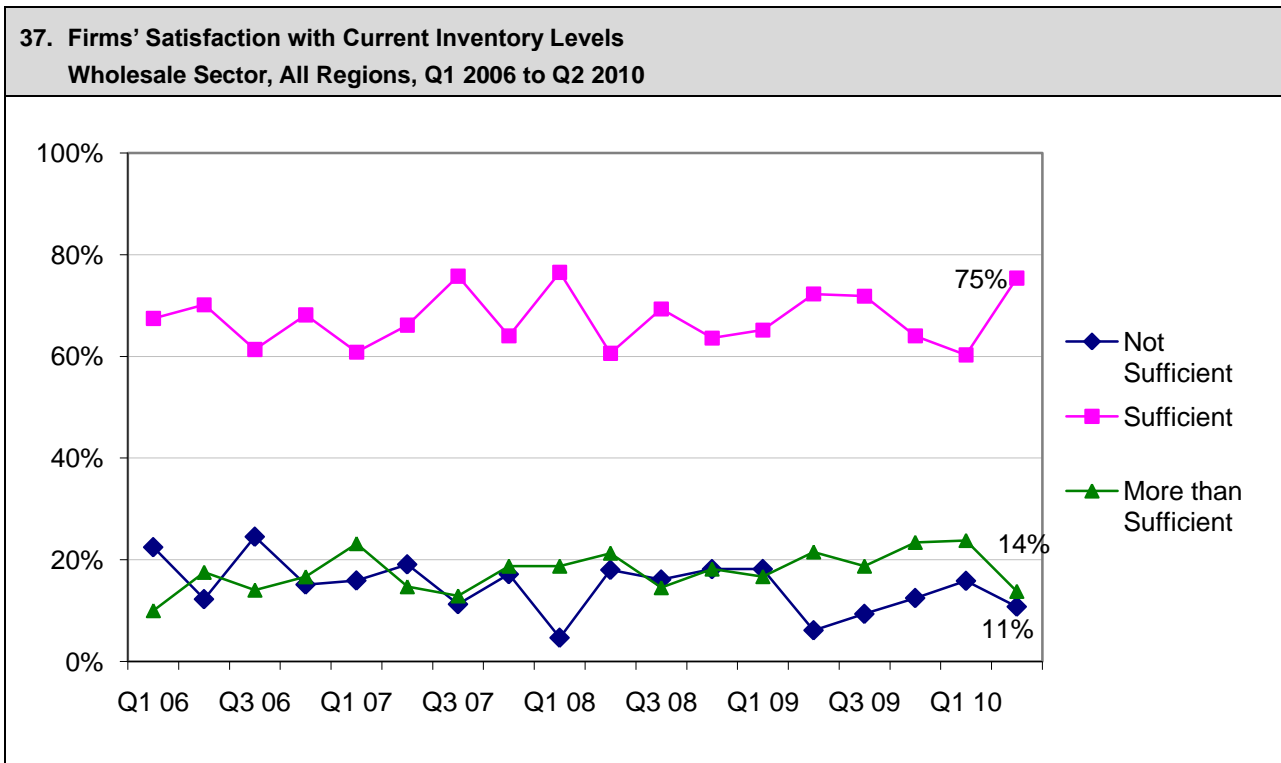
**36. Price Expectations, Manufacturing Sector, All Regions, Q1 2006 to Q1 2010**



Source: WCER

### Wholesaling

- An encouraging 78% of respondents expect increased production runs in Q2 2010, while only 3% expect decreased activity. This is a marked improvement over Q1 2010.
- 28% of respondents expect to increase employment over the next quarter, while only 3% expect to decrease employment.
- 40% of respondents experienced increased production in Q1 2010, while 27% experienced a decrease.
- Nearly 90% of respondents had sufficient or more than sufficient inventory levels (Figure 37).



Source: WCER

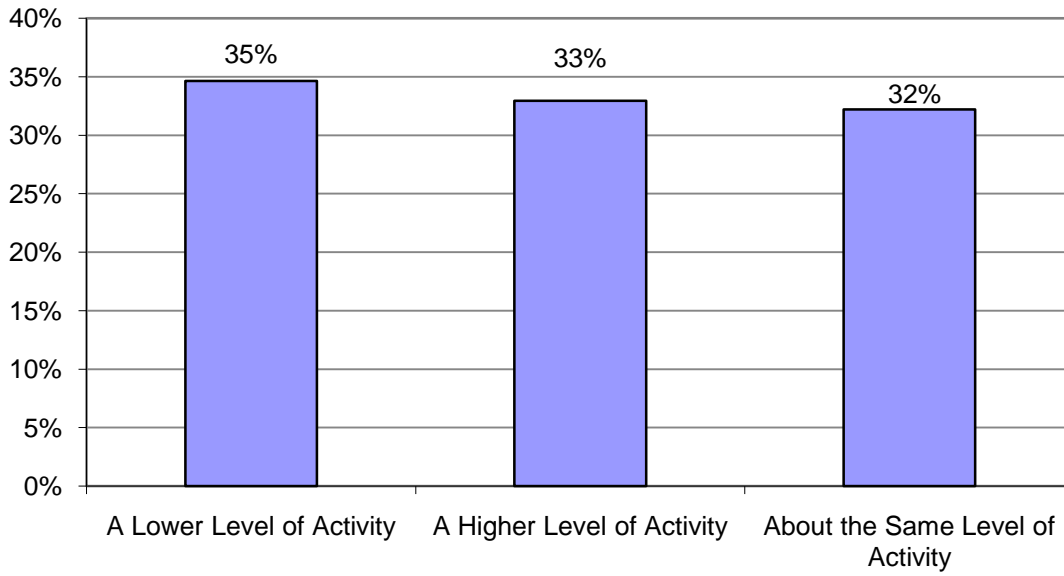
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### Additional Question

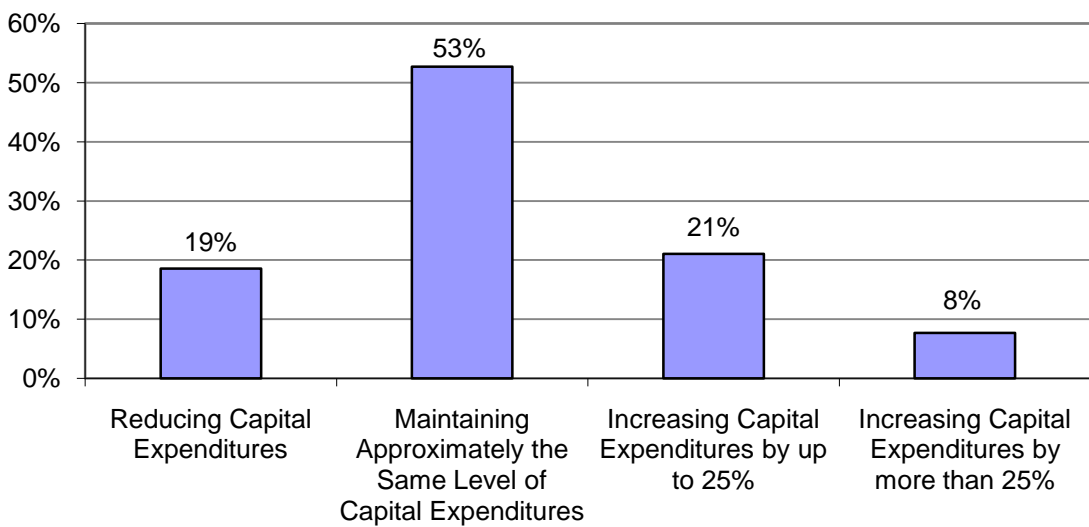
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In addition to questions specific to each sector, we asked all respondents the following questions.

#### 38. Compared to a year ago, is your company experiencing....

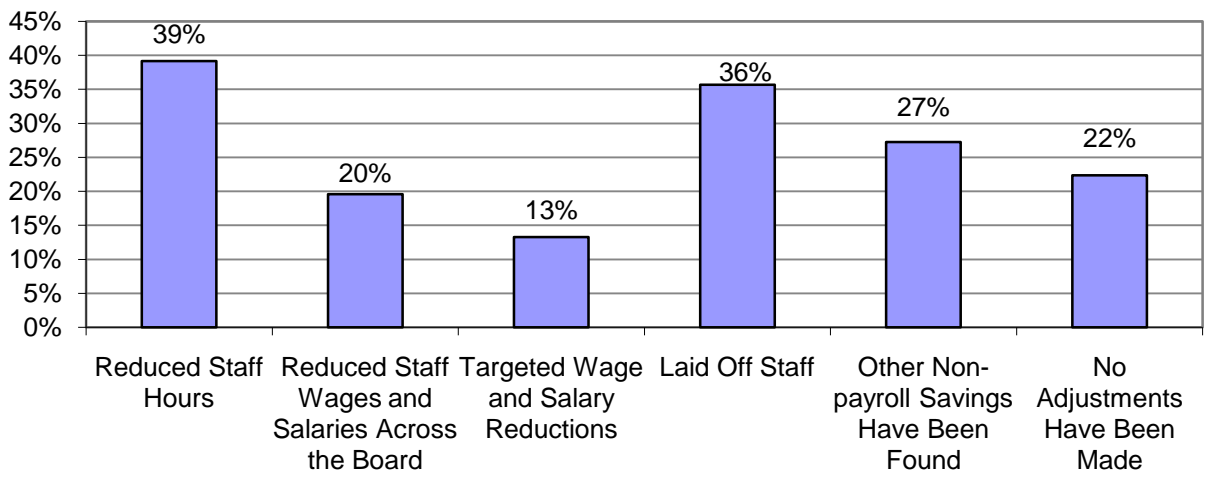


#### 39. With respect to capital spending on the physical plant, equipment or facilities, which of the following best describes your plan over the next 12 months?

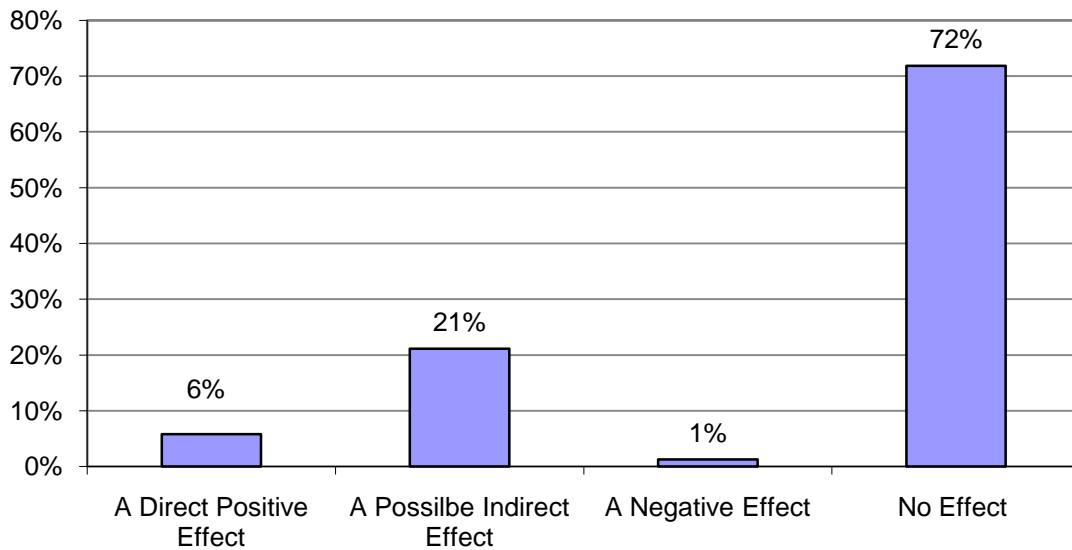


Source: WCER

**39. In response to the recent economic downturn, what adjustments have you made?**



**40. Canada has gained an exemption from the US "Buy American Act" for stimulus spending in that country. How will this affect your business?**



## Appendix A – Data Tables

<b>Respondent Distributions by Region vs. Sector</b>					
	North	Edmonton	Calgary	South	Total
Construction	15	24	20	9	68
Manufacturing	13	25	15	18	71
Professional & Technical	11	26	23	9	69
Transportation & Warehousing	9	21	31	7	68
Wholesale	9	24	25	9	69
Oil & Gas	12	16	22	18	68
Total	69	136	136	70	413

<b>Business Sentiments Index by Region vs. Sector (Unadjusted)</b>			
	North	South	All
Construction	63.2	82.6	71.6
Manufacturing	150.0	171.9	160.0
Professional & Technical	167.6	146.9	158.0
Transportation & Warehousing	123.3	150.0	138.2
Wholesale	166.7	182.9	175.0
Oil & Gas	111.5	90.0	98.5

<b>Business Activity Index by Region vs. Sector (Unadjusted)</b>			
	North	South	All
Construction	89.2	100.0	93.4
Manufacturing	137.8	118.2	128.6
Professional & Technical	136.1	118.8	127.9
Transportation & Warehousing	93.3	128.9	113.2
Wholesale	109.1	117.6	113.4
Oil & Gas	114.3	120.0	117.6

<b>Business Hiring Intentions by Region vs. Sector (Unadjusted)</b>			
	North	South	All
Construction	143.6	139.3	141.8
Manufacturing	115.8	115.6	115.7
Professional & Technical	124.3	106.3	115.9
Transportation & Warehousing	106.7	113.2	110.3
Wholesale	121.2	127.8	124.6
Oil & Gas	110.7	100.0	104.4

<b>Business Sentiments Index by Quarter vs. Sector (Seasonally Adjusted)</b>																		
	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	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
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	79.9	69.2	68.0	86.6	78.8
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	112.7	109.4	129.2	132.1	150.6
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	102.6	120.6	131.2	150.4	168.3
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	118.2	135.8	126.0	148.5	140.8
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	95.2	121.5	128.2	135.2	161.4
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	81.6	92.5	99.1	141.2	159.1

<b>BSI, BAI, BHI by Quarter, (Seasonally Adjusted)</b>																			
	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	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
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	99.5	107.0	114.9	128.6	141.8
BAI	149.9	146.5	144	146.1	136.4	131.1	128.5	125.5	123.8	123.8	117.9	111	84.7	65.5	72.8	84.7	111.7	121.0	
BHI		141.2	141.4	139	140.4	135.3	129.1	133.2	127.6	129.3	131	128.1	125	105.8	100.9	103.7	102.2	117.4	119.2

<b>Business Sentiments Index by Quarter vs. Region (Seasonally Adjusted)</b>																		
	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	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
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	99.5	107.0	114.9	128.6	141.8
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	102.2	107.5	113.2	134.2	143.3
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	96.7	106.9	115.8	124.0	140.3

<b>Business Activities Index by Quarter vs. Sector (Seasonally Adjusted)</b>																		
	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q 2007	Q 2007	Q 2007	Q 2008	Q2 2008	Q3 2008	Q4 2008	Q 2009	Q2 2009	Q3 2009	Q1 2010	Q2 2010
Oil & Gas	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	70.8	80.5	80.6	144.2	105.5
Construction	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	54.0	76.7	93.2	113.6	143.2
Manufacturing	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	84.8	82.1	97.1	120.4	126.7
Professional & Technical	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	64.5	71.0	76.8	101.6	117.4
Transportation & Warehousing	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	76.0	78.5	78.2	79.4	114.3
Wholesale	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	38.8	46.1	74.6	114.0	111.0

<b>Business Activities Index by Quarter vs. Region (Seasonally Adjusted)</b>																		
	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	Q2 2009	Q3 2009	Q1 2010	Q2 2010
Alberta	149.9	146.5	144.0	146.1	136.4	131.1	128.5	125.5	123.8	123.8	117.9	111.0	84.7	65.5	72.8	84.7	111.4	121.0
North	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	68.2	70.0	79.3	107.0	116.6
South	151.9	146.6	139.0	145.6	136.4	130.6	128.2	124.1	121.4	123.8	119.1	112.0	86.1	63.3	75.1	90.0	115.5	126.2



<b>Business Hiring Index by Quarter vs. Sector (Seasonally Adjusted)</b>																		
	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	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Oil & Gas	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	108.6	123.3	92.4	127.5	132.9
Construction	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	96.2	84.8	111.6	103.2	114.2
Manufacturing	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	102.3	104.8	113.6	120.5	118.6
Professional & Technical	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	103.5	116.9	107.8	114.9	116.6
Transportation & Warehousing	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	107.1	112.8	111.4	117.5	118.8
Wholesale	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	86.3	92.6	63.5	125.8	116.6

<b>Business Hiring Index by Quarter vs. Region (Seasonally Adjusted)</b>																		
	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	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
Alberta	141.2	141.4	139.0	140.4	135.3	129.1	133.2	127.6	129.3	131.0	128.1	125.0	105.8	100.9	103.7	102.2	117.4	119.2
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	102.9	103.5	105.7	118.8	122.9
South	139.9	137.4	140.2	136.3	136.0	126.6	130.5	125.1	126.1	128.4	118.0	122.4	105.5	99.4	103.9	99.0	114.3	116.5