

Information Bulletin

NUMBER 125 • JUNE 2009

ATB FINANCIAL BUSINESS SENTIMENTS INDEX™

WHERE IS THE ALBERTA ECONOMY GOING?
2009 QUARTER 3

*By Edward J. Chambers and Williams J. Shaw
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.business.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 978-1-55195-967-2 (2009, quarter 3 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

Contents	iii
Methodology	1
Where is the Alberta Economy Going?	3
Business Sentiment Index.....	4
Business Activity Index	5
Business Hiring Intentions	7
Comparison of BSI, BAI and BHI.....	9
More on Industry Sectors	10
Oil & Gas.....	10
Construction	10
Manufacturing	13
Wholesaling.....	14
Additional Questions.....	15
Appendix A – Data Tables	17

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 Q3 2009 survey sampled 408 firms between June 1st and June 14th, 2009. 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 (67)
- construction (67)
- manufacturing (69)
- transportation and warehousing (70)
- wholesaling (67)
- professional and technical services (68)

The geographical distribution of respondents is as follows:

- North Alberta excluding Edmonton/Red Deer (67)
- Edmonton/Red Deer (137)
- South Alberta excluding Calgary (69)
- Calgary (135)

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 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 15th 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?¹

Business Sentiments Index™ Q3 2009	Business Activity Index Q2 2009	Business Hiring Index Q3 2009
107.0 ▲	72.8 ▲	103.7 ▲

Quarterly Highlights

This quarter's Business Sentiments Index™ of 107.0 is a slight improvement over the level of 99.5 last quarter.

The decline in the Business Activity Index has slowed over the last quarter, now standing at 72.8. This compares with a level of 65.5 last quarter. The Business Hiring Index of 103.7 suggests almost no change from the previous quarter, when the index stood at 100.9. The numbers suggest a positive outlook appears to be returning to the Alberta business world.

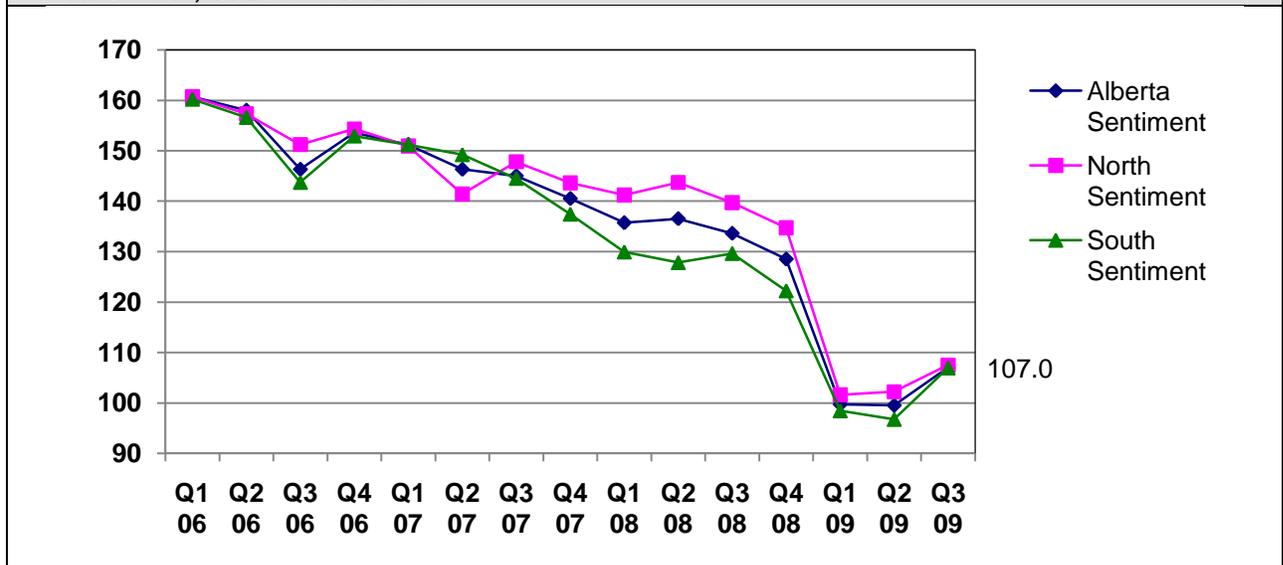
Feature Figure

The seasonally adjusted ATB Financial Business Sentiments Index™ (BSI) stands at 107.0 for Q3 2009. This compares with 99.5 in Q2 2009, 133.6 in Q3 2008, 145.0 in Q3 2007 and 146.3 in Q3 2006.

The spread between the Sentiment in the North (107.5) and in the South (106.9) is small, indicating that expectations are uniform across the province.

For more information on individual sectors, see Figures 2-7 below.

1. ATB Financial *Business Sentiments Index*™ by Provincial Region: Seasonally Adjusted
All Sectors, Q1 2006 to Q3 2009

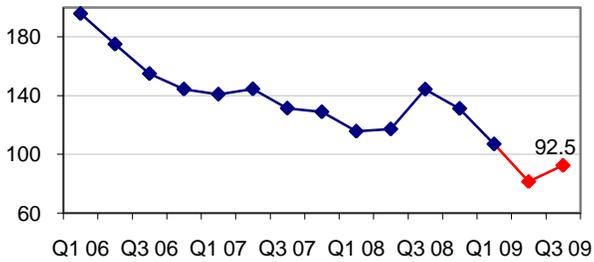


Source: WCER

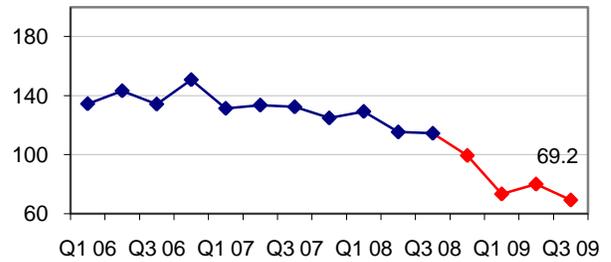
¹ See Appendix A for data tables. Contact the Western Centre for Economic Research if more detail is required.

Business Sentiment Indexes – Sector Analysis – Seasonally Adjusted

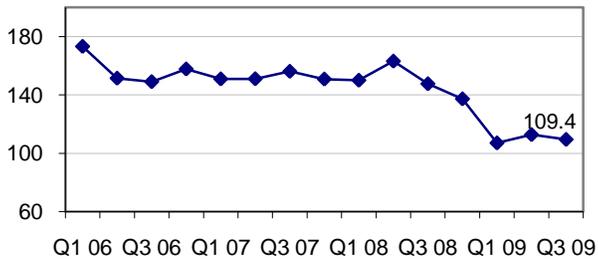
2. Oil & Gas Sector
All Regions, Q1 2006 to Q3 2009



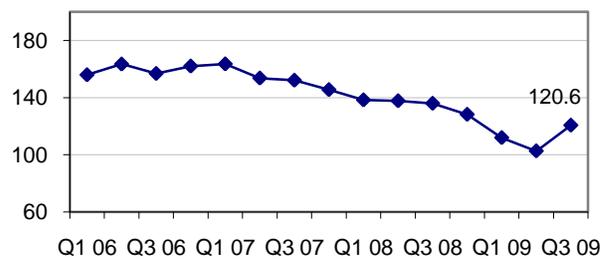
3. Construction Sector
All Regions, Q1 2006 to Q3 2009



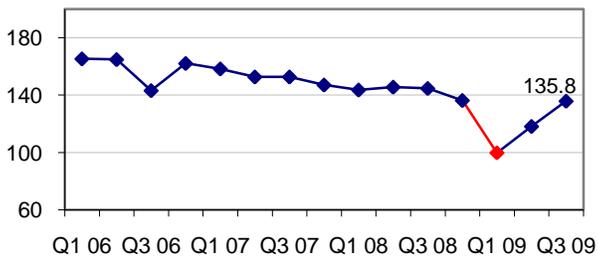
4. Manufacturing Sector
All Regions, Q1 2006 to Q3 2009



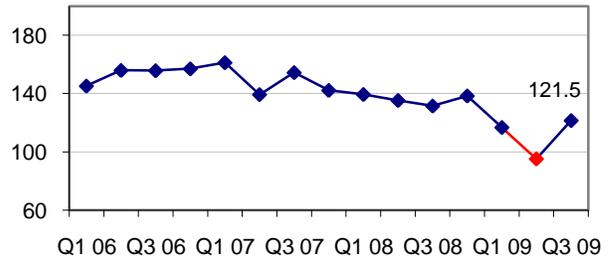
5. Professional & Technical Services Sector
All Regions, Q1 2006 to Q3 2009



6. Transportation & Warehousing Sector
All Regions, Q1 2006 to Q3 2009



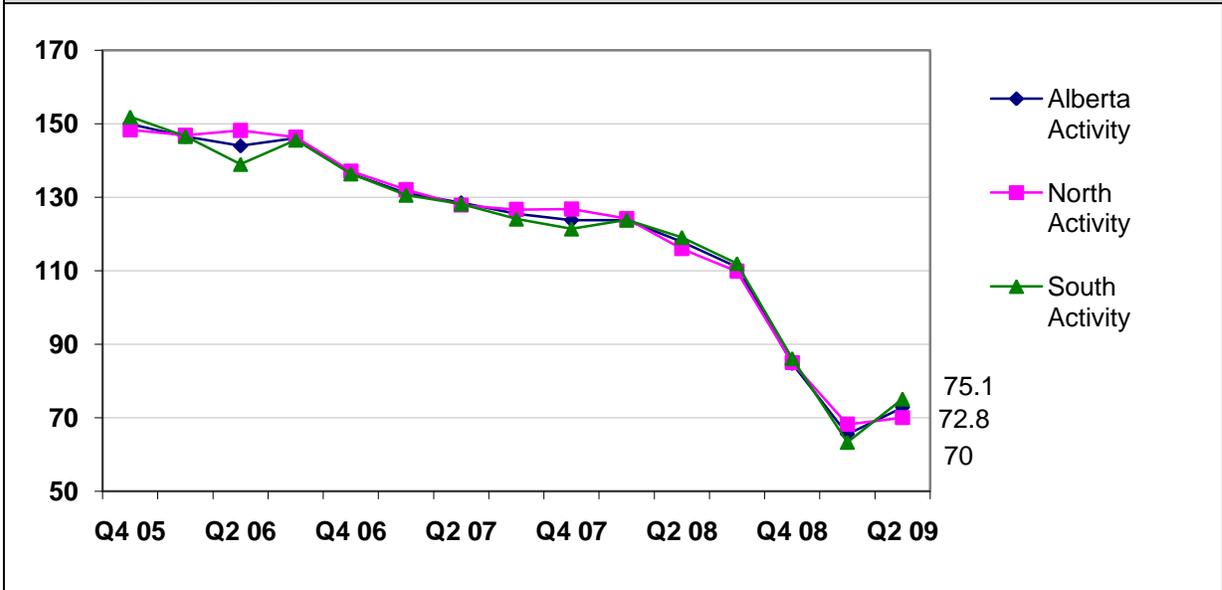
7. Wholesale Sector
All Regions, Q1 2006 to Q3 2009



Source: WCER

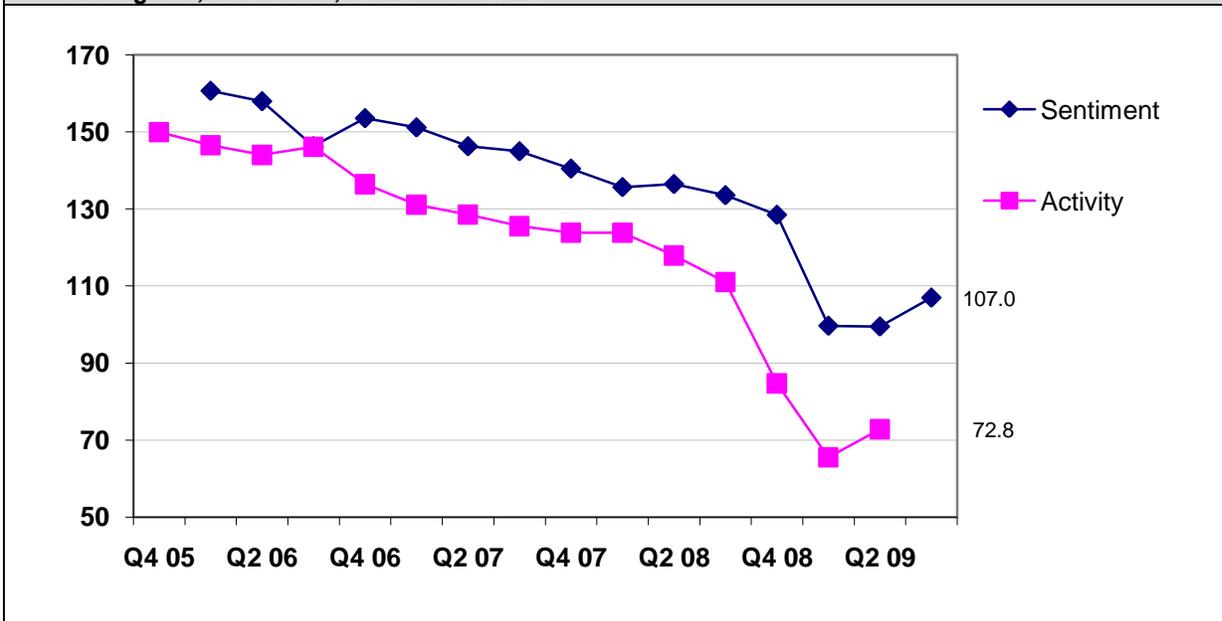
Business Activity Index – Seasonally Adjusted

8. Business Activity Index by Region Q4 2005 to Q2 2009



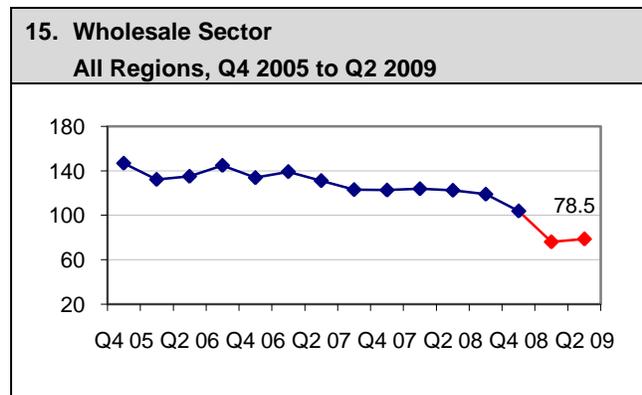
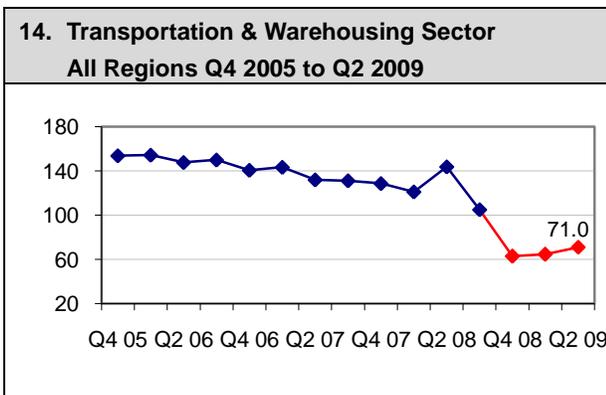
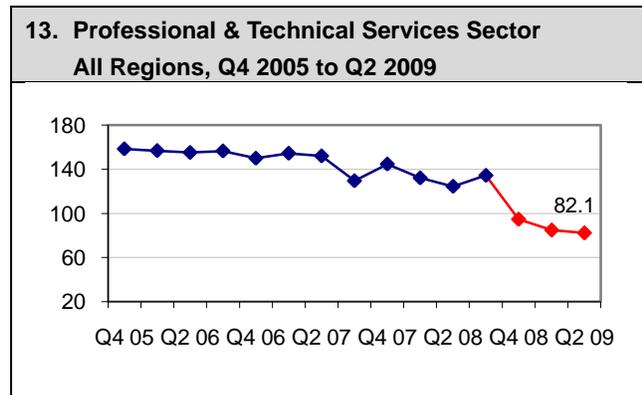
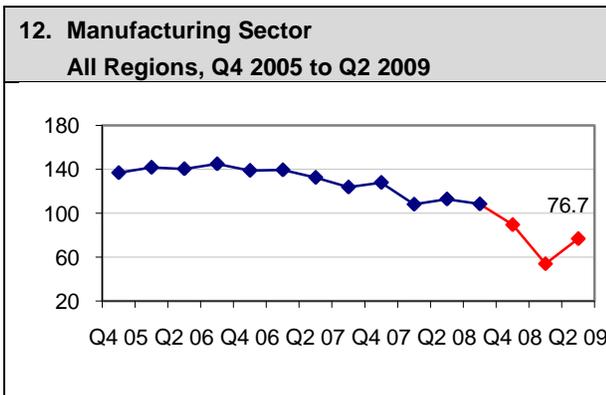
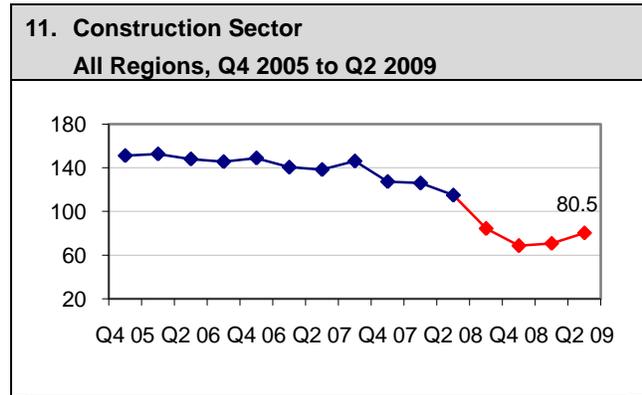
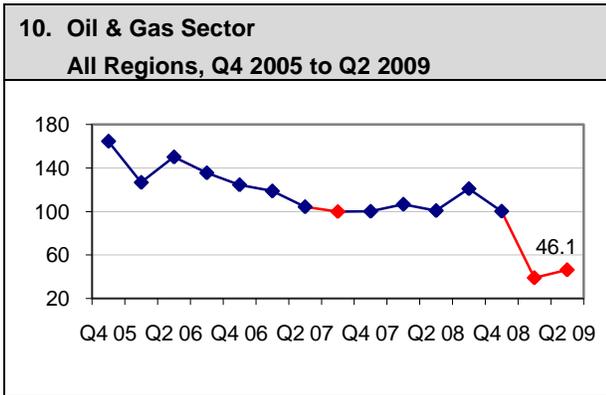
Source: WCER

9. Business Activity Index vs. Business Sentiments Index™: All Regions, All Sectors, Q4 2005 to Q3 2009



Source: WCER

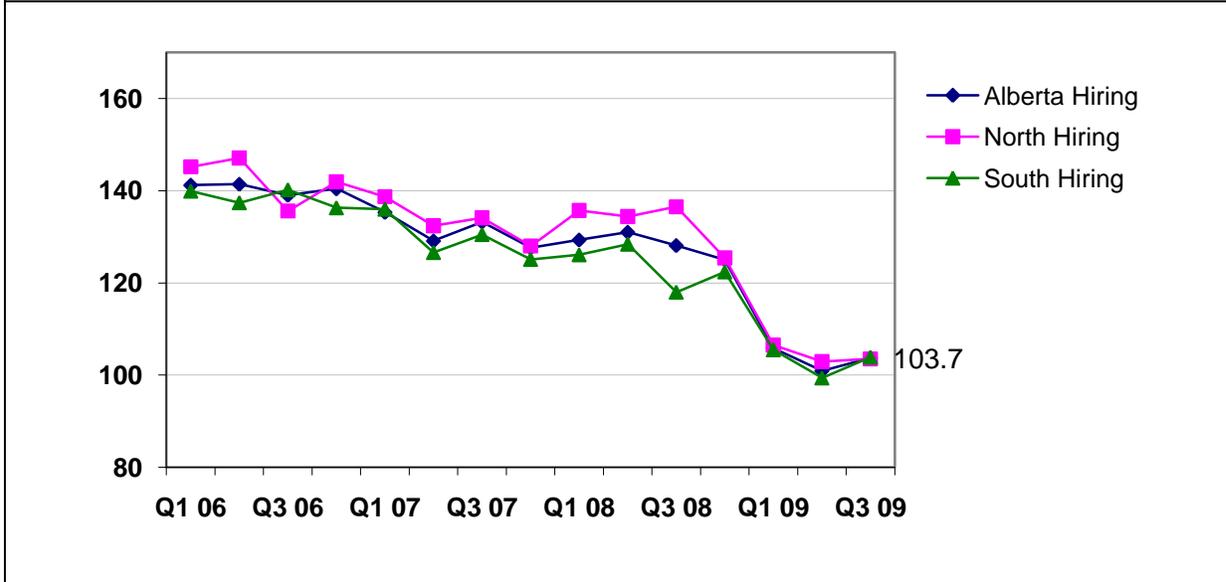
Business Activity Index – Sector Analysis – Seasonally Adjusted



Source: WCER

Business Hiring Intentions – Seasonally Adjusted

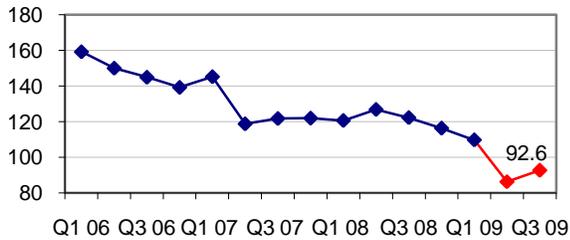
16. Business Hiring Intentions by Region
All Sectors, Q1 2006 to Q3 2009



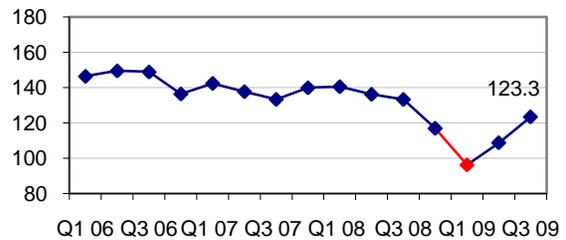
Source: WCER

Business Hiring Intentions – Sector Analysis – Seasonally Adjusted

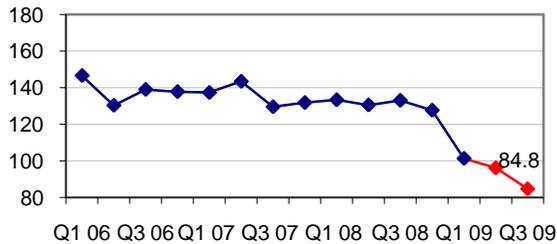
17. Oil & Gas Sector
All Regions, Q1 2006 to Q3 2009



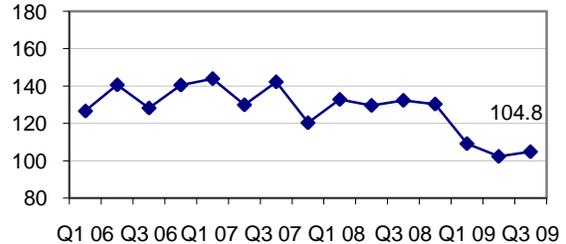
18. Construction Sector
All Regions, Q1 2006 to Q3 2009



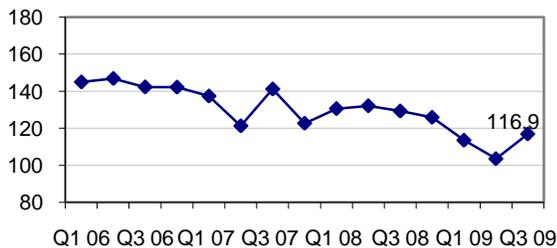
19. Manufacturing Sector
All Regions, Q1 2006 to Q3 2009



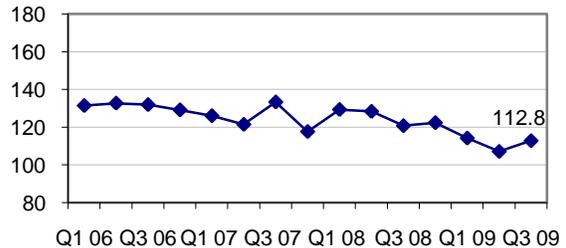
20. Professional & Technical Services Sector
All Regions, Q1 2006 to Q3 2009



21. Transportation & Warehousing Sector
All Regions, Q1 2006 to Q3 2009



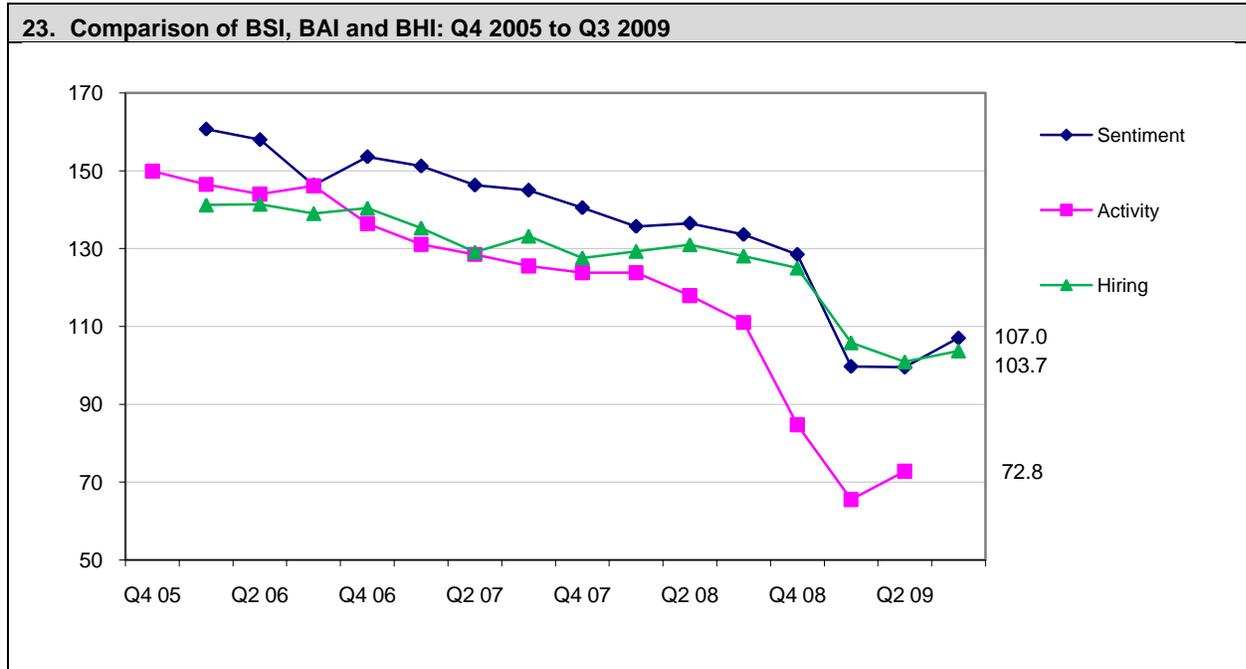
22. Wholesale Sector
All Regions, Q1 2006 to Q3 2009



Source: WCER

Comparison of BSI, BAI and BHI – Seasonally Adjusted

Figure 23 shows a seasonally adjusted comparison of the three indicators since the inception of the BSI survey in 2006. The figure shows respondents generally have higher expectations (BSI) for their business activity compared to what actually occurs (BAI). The figure also shows that since Q2 2008 the Sentiment and Hiring indices have followed very similar patterns.



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 Q3 2009, 41% of respondents expect an increase in business, while 30% expect a decrease.
- 19% of respondents expect to increase employment in Q3 2009, while 18% expect to decrease employment and 63% expect no change in employment in Q3 2009.
- 10% of respondents indicated activity levels increased in Q2 2008, while 72% indicated activity levels decreased.

Construction

- 43% of all respondents experienced a decrease in activity in Q2 2009, while 34% of respondents experienced an increase in activity.
- 33% of respondents expect to increase employment over the next quarter, while only 3% expect to decrease employment over the next quarter.
- 9% of respondents expect business activity to increase in Q3 2009, while 37% expect business activity to decrease in Q3 2009.

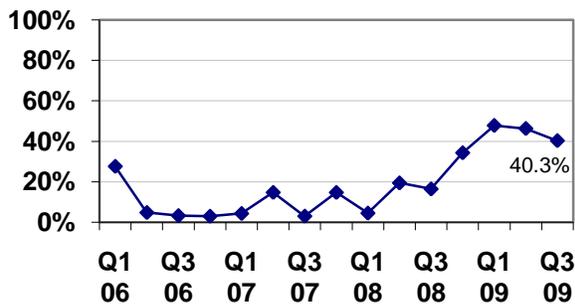
Our survey also asks about potential bottlenecks in the construction industry including: shortage of labour, weather conditions, insufficient demand, shortages of construction material or equipment, financial constraints, land availability, and other factors. Insufficient demand remains the largest potential bottleneck for the construction industry, reflecting the general downturn in building activity, though this has declined over the last two quarters. An increasing number of firms are also reporting 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 24 through 29.

Figure 30 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 2.5 months work on hand, therefore remaining in line with both Q1 2009 and Q2 2009. 10% of firms responded that they had one year or more of work on their books.

Construction Sector Bottlenecks

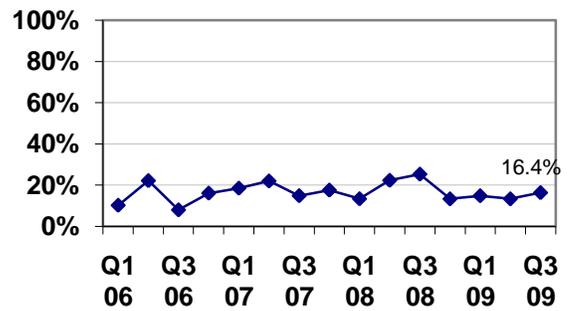
24. Insufficient Demand

All Regions, Q1 2006 to Q3 2009



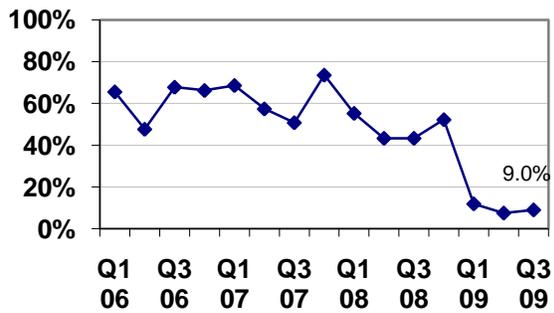
25. Weather Conditions

All Regions, Q1 2006 to Q3 2009



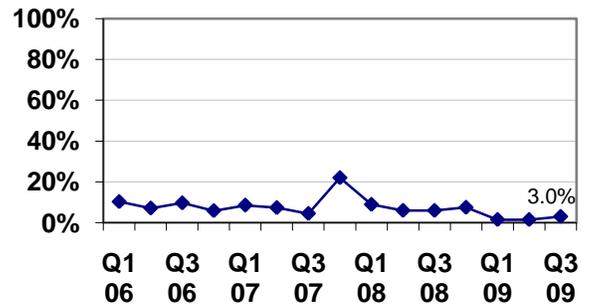
26. Shortage of Labour

All Regions, Q1 2006 to Q3 2009



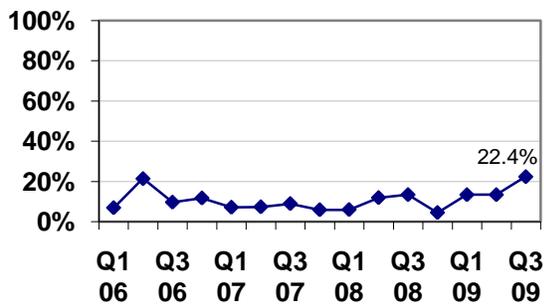
27. Shortage of Material and/or Equipment

All Regions, Q1 2006 to Q3 2009



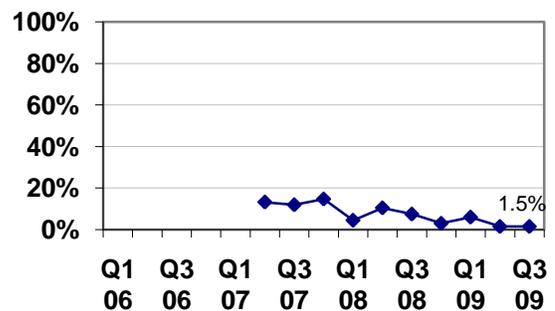
28. Financial Constraints

All Regions, Q1 2006 to Q3 2009



29. Land Availability*

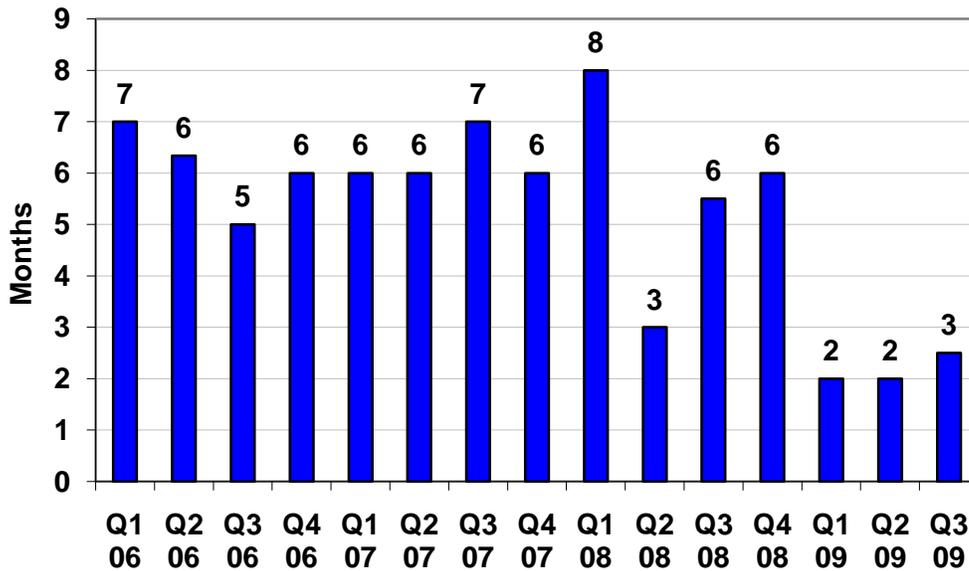
All Regions, Q2 2007 to Q3 2009



* Collection of Land Availability data began in Q2 2007

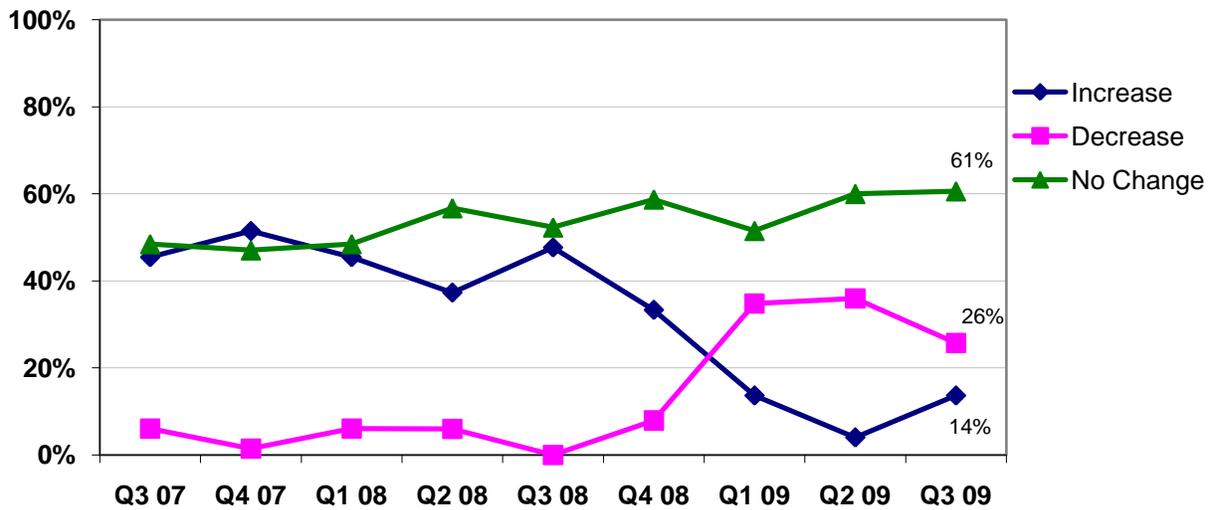
Source: WCER

30. Median No. of Month's Work Accounted for by Work in Hand or Already Under Contract
All Regions, Q1 2006 to Q3 2009



Source: WCER

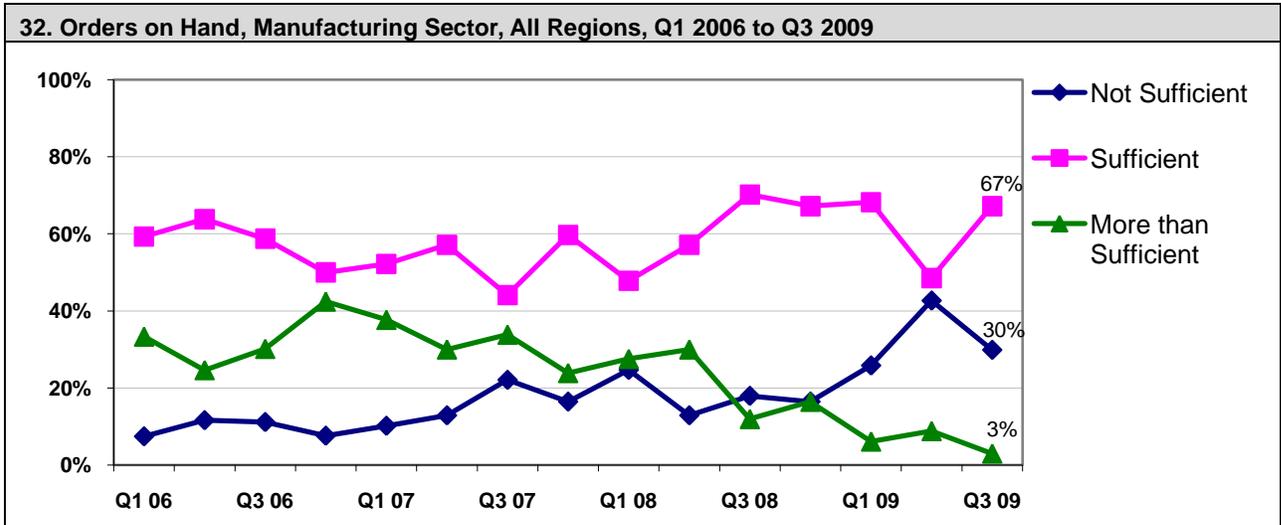
31. Pricing Expectations, Construction Sector, All Regions, Q3 2007 to Q3 2009



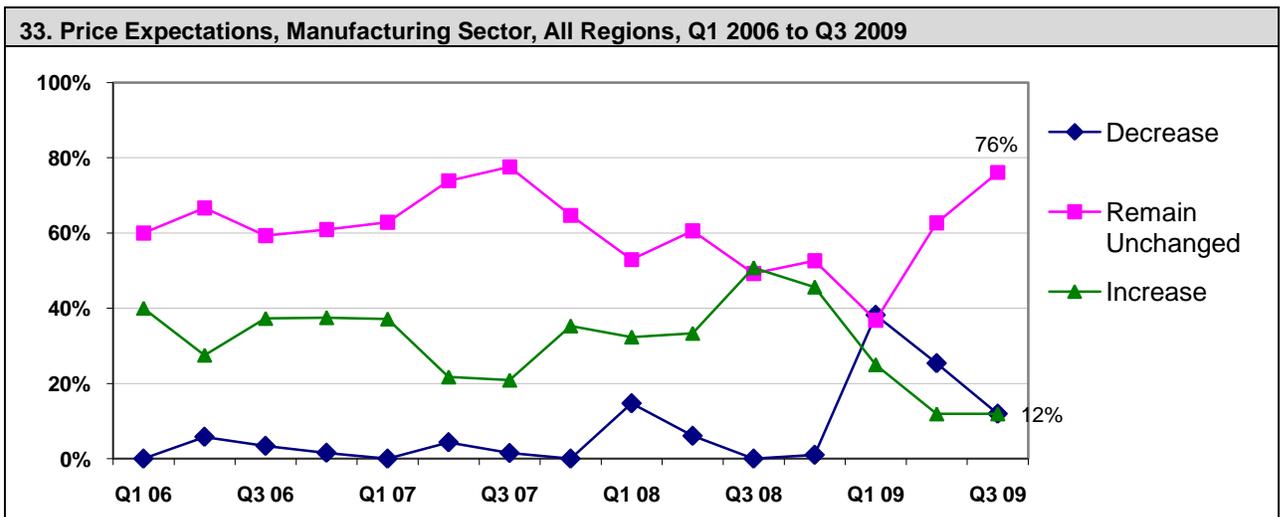
Source: WCER

Manufacturing

- 30% of respondents expect increased production runs in Q3 2009, while 15% expect production runs will decrease.
- 18% of respondents expect to increase employment over the next quarter, while 33% expect to decrease employment.
- 24% of respondents experienced increased production in Q2 2009, while 47% experienced a decrease.
- 67% of respondents had sufficient orders on hand (Fig. 32), while only 3% reported having more than sufficient orders on hand. 76% expect prices to remain as they are during the next quarter (Fig. 33), while 12% expect a decrease.



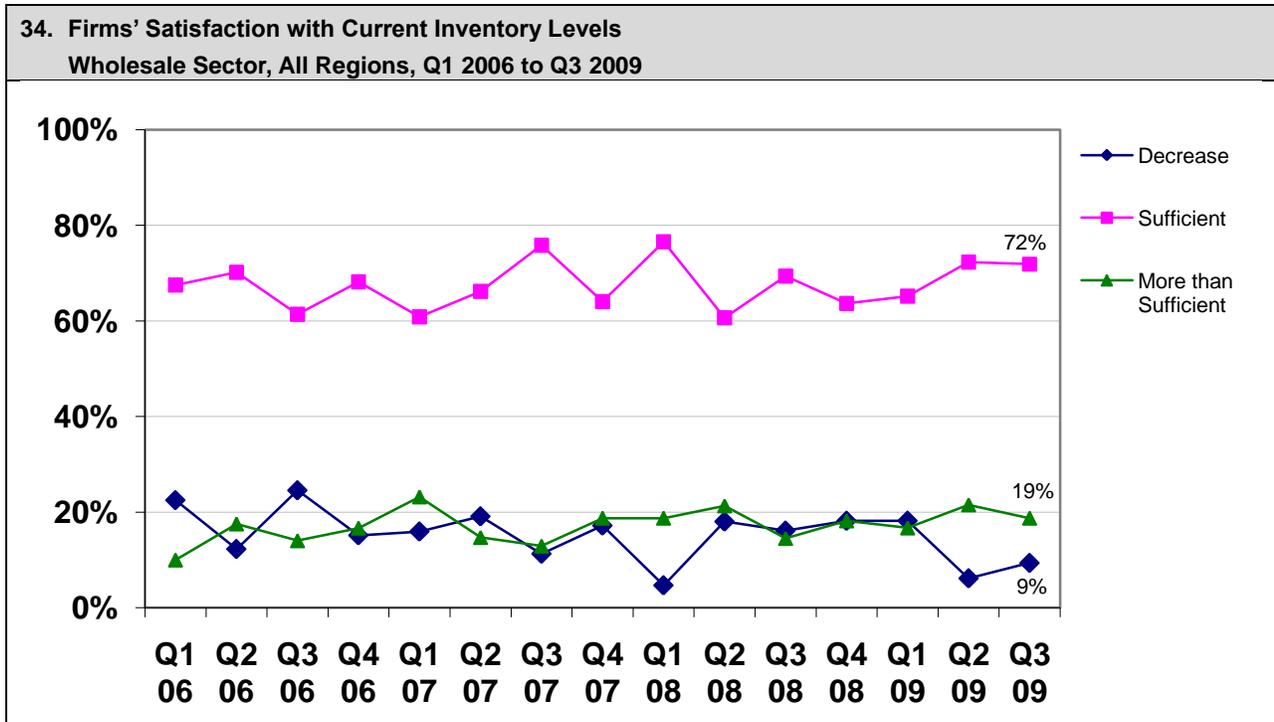
Source: WCER



Source: WCER

Wholesaling

- 37% of respondents expect increased production runs in Q2 2009, while 34% expect decreased activity.
- 24% of respondents expect to increase employment over the next quarter, while 10% expect to decrease employment.
- 18% of respondents experienced increased production in Q4 2008, while 43% experienced a decrease.
- 72% of respondents were satisfied with their inventory levels (Fig. 34).

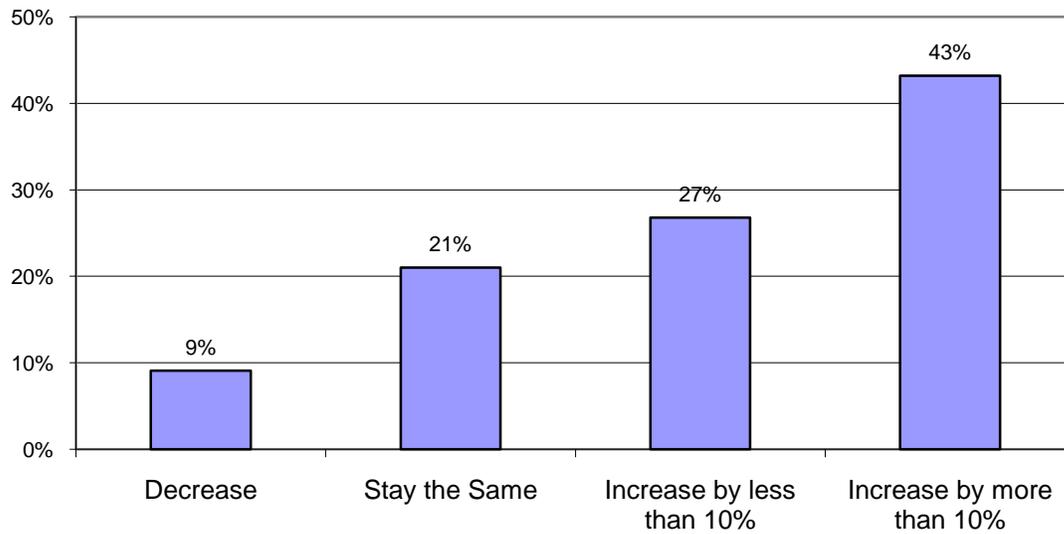


Source: WCER

Additional Questions

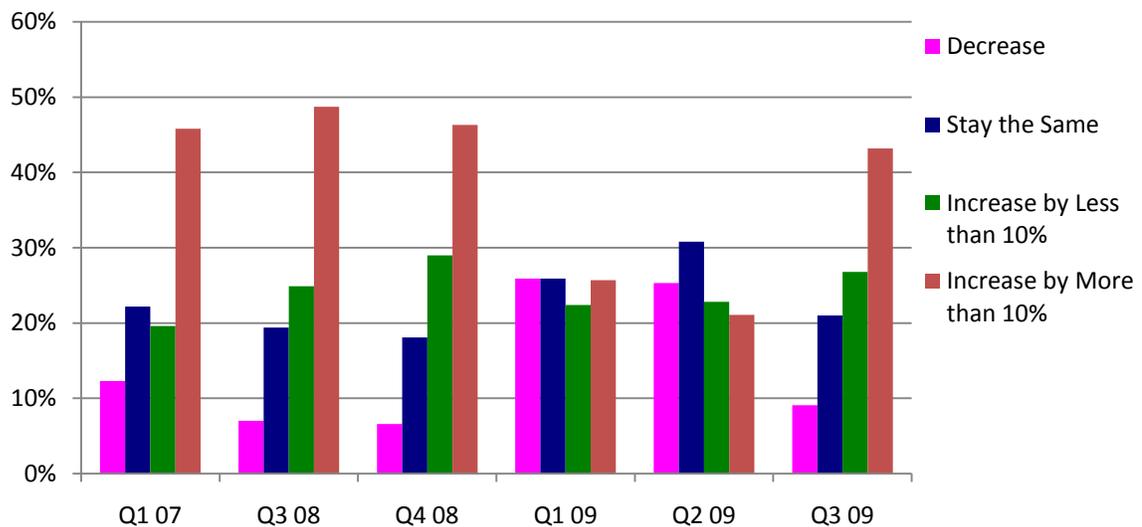
In addition to questions specific to each sector, we also included two questions for all respondents in our survey. Here are the results of those questions.

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

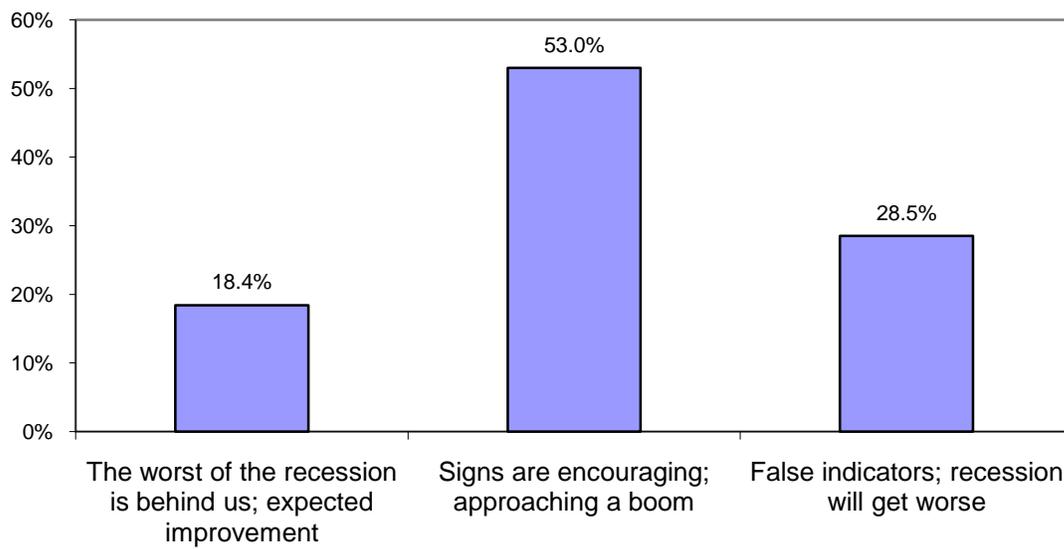


Source: WCER

36. How do you expect your business to develop over the next 12 months? All Sectors Q1 2007, Q3 2008 – Q3 2009



37. How do you interpret the recent optimism in Alberta's economy, such as rising equity markets and stabilizing home prices?



Source: WCER

Appendix A – Data Tables

Respondent Distributions by Region vs. Sector					
	North	Edmonton	Calgary	South	Total
Construction	11	14	28	14	67
Manufacturing	12	22	26	9	69
Professional & Technical	15	24	13	16	68
Transportation & Warehousing	14	28	20	8	70
Wholesale	9	24	25	9	67
Oil & Gas	6	25	23	13	67
Total	67	137	135	69	408

Business Sentiments Index by Region vs. Sector (Unadjusted)			
	North	South	All
Construction	60.0	78.6	71.6
Manufacturing	116.1	112.5	114.3
Professional & Technical	123.7	113.8	119.4
Transportation & Warehousing	145.2	150.0	147.1
Wholesale	131.3	118.8	125.0
Oil & Gas	125.8	97.1	110.6

Business Activity Index by Region vs. Sector (Unadjusted)			
	North	South	All
Construction	83.3	95.1	90.8
Manufacturing	85.3	67.6	76.5
Professional & Technical	71.8	93.1	80.9
Transportation & Warehousing	61.9	78.6	68.6
Wholesale	84.8	69.7	77.3
Oil & Gas	29.0	47.2	38.8

Business Hiring Intentions by Region vs. Sector (Unadjusted)			
	North	South	All
Construction	132.0	128.6	129.9
Manufacturing	69.7	100.0	84.8
Professional & Technical	107.9	103.4	106.0
Transportation & Warehousing	126.8	121.4	124.6
Wholesale	109.4	114.7	112.1
Oil & Gas	112.9	91.7	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	Q2 2009	Q3 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	79.9	69.2
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	112.7	109.4
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
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
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
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

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	Q2 2009	Q3 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	99.5	107.0
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	
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

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	Q2 2009	Q3 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	99.5	107.0
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
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

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	Q1 2009	Q2 2009
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
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
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
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
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
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

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	Q1 2009	Q2 2009
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
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
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

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	Q2 2009	Q3 2009
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
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
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
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
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
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

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	Q2 2009	Q3 2009
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
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
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