

Information Bulletin

NUMBER 90 • APRIL 2006

ATB FINANCIAL BUSINESS SENTIMENTS INDEX™

HOW IS THE ALBERTA ECONOMY DOING?
QUARTER 2, 2006

*By Edward J. Chambers
Western Centre for Economic Research
School of Business, University of Alberta*

**School of Business
University of Alberta**



**Western Centre for Economic Research
University of Alberta
Edmonton, Alberta**

with support from: The George M. Cormie Endowment

Library and Archives Canada Cataloguing in Publication

Chambers, Edward J

ATB Financial business sentiments index : how is the Alberta economy doing? : 2006 quarter 2 / by Edward J. Chambers.

(Information bulletin ; 90)

ISBN 1-55195-922-4

1. Industries—Alberta. 2. Alberta—Economic conditions—1991-. I. University of Alberta. Western Centre for Economic Research II. ATB Financial III. Title. IV. Series: Information bulletin (University of Alberta. Western Centre for Economic Research) ; 90

HC117.A4C52 2006a

330.97123'04

C2006—901594-8

Western Centre for Economic Research
School of Business, University of Alberta
Edmonton, Alberta, Canada T6G 2R6
www.bus.ualberta.ca/wcer

Contents

How Is The Alberta Economy Doing?	1
Methodology.....	1
ATB Financial <i>Business Sentiments Index</i> TM	2
Industry Sector Sentiment.....	4
The Job Market	6
Comparison of <i>Business Sentiments Index</i> Q1 2006 with <i>Business Activity</i> Q1 2006	8
More on Industry Sectors.....	9
<i>Agriculture</i>	9
<i>Oil & Gas</i>	9
<i>Construction</i>	9
<i>Manufacturing</i>	9
<i>Professional and Technical Services</i>	9
<i>Transportation/Warehousing</i>	10
<i>Wholesalers</i>	10

How Is The Alberta Economy Doing?

- The quarterly, ATB Financial *Business Sentiments Index*TM points to a continuation of a strong economy in the coming quarter, sustaining the current high levels of economic activity.
- The ATB Financial *Business Sentiments Index*TM is compiled by the Western Centre for Economic Research (WCER), Alberta School of Business, from a survey of over 400 Alberta business firms.
- The ATB Financial *Hiring Intention Index*s, derived from the same sample survey, points a very strong job market in the coming quarter.
- The very positive business sentiment and increase in job opportunities is apparent across all parts of the province and in all key business sectors surveyed.

Methodology

These Indexes are based on responses to a telephone survey of 432 business firms, equally distributed between North and South Alberta, in key driving sectors of the economy:

- oil and gas exploration and development (61)
- agriculture (48)
- construction (63)
- manufacturing (70)
- transportation and warehousing (63)
- wholesaling (63)
- professional and technical services (64)

Figures in parentheses are the number of respondents from each sector included in the sample.

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 88 ATB Financial Business Sentiments Index*TM and can be found on line at www.bus.ualberta.ca/wcer

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.

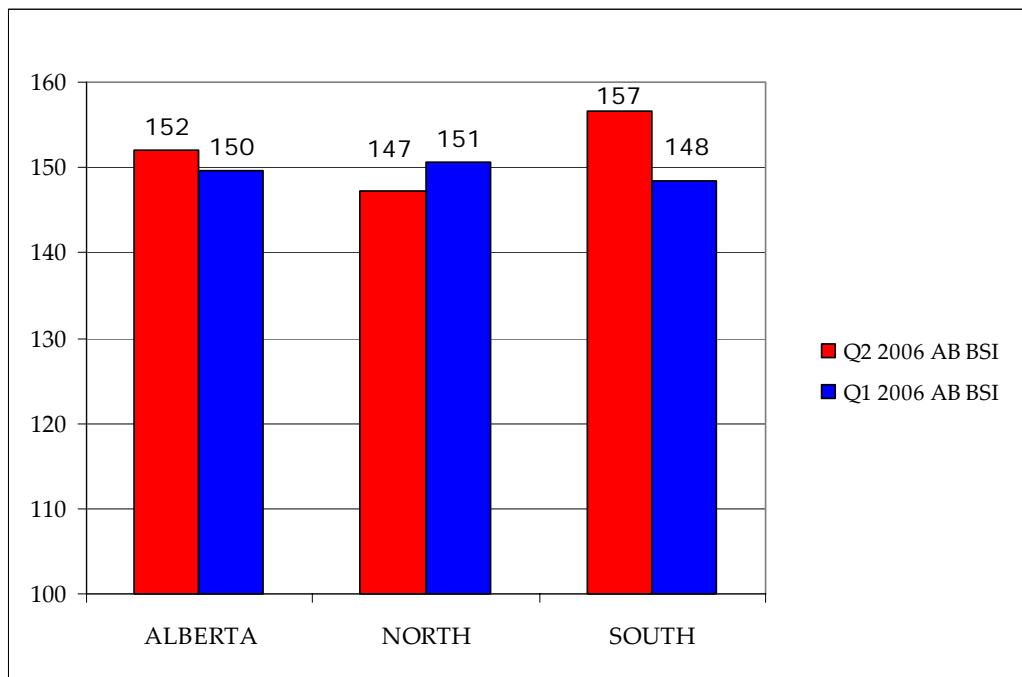
The higher the value of the Index, the stronger is the sentiment for expansion.

The ceiling value of the index is 200 (all respondents expect increase) and the floor value is zero (all respondents expect a decrease).

ATB Financial *Business Sentiments Index*TM

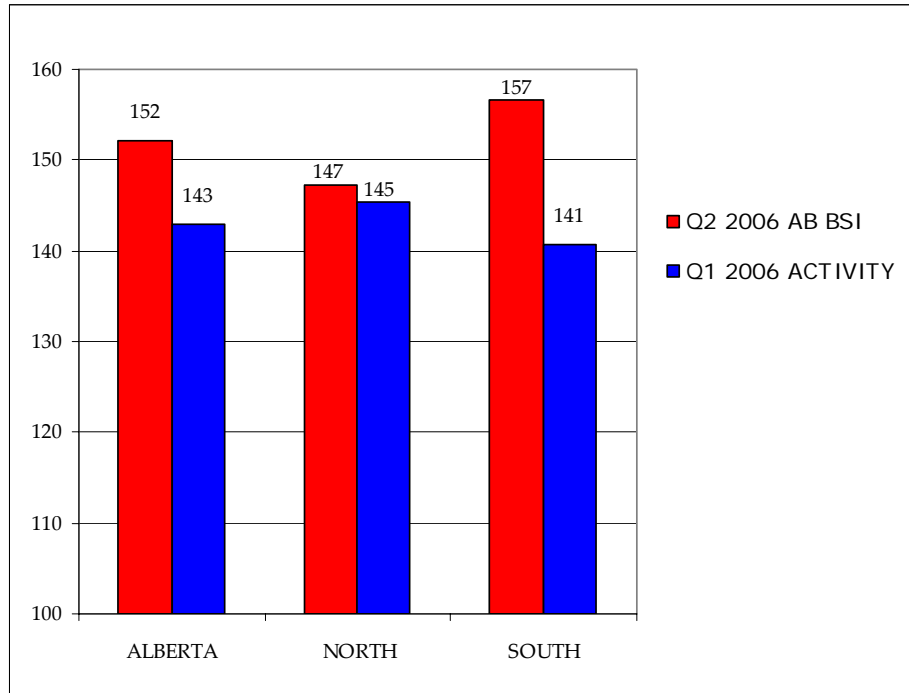
For Q2 2006 the Index value is 152.1 compared with a level of 149.7 for Q1 2006. A comparison of Q2 and Q1 Index results for the province and the two regions are found in Figure 1. The results indicate continued vigorous expansion of the Alberta economy with incremental strength evident in Southern Alberta.

Figure 1. Comparison of the ATB Financial Business Sentiments IndexTM: Q2 2006 and Q1 2006



We assess activity in the economy by responses to our question about sales experience during the prior quarter. A comparison of the *Business Sentiments Indexes* for Q2 2006 with inferred Q1 2006 activity levels regionally and for the province are shown in Figure 2. The results indicate a very positive outlook on the part of business operators.

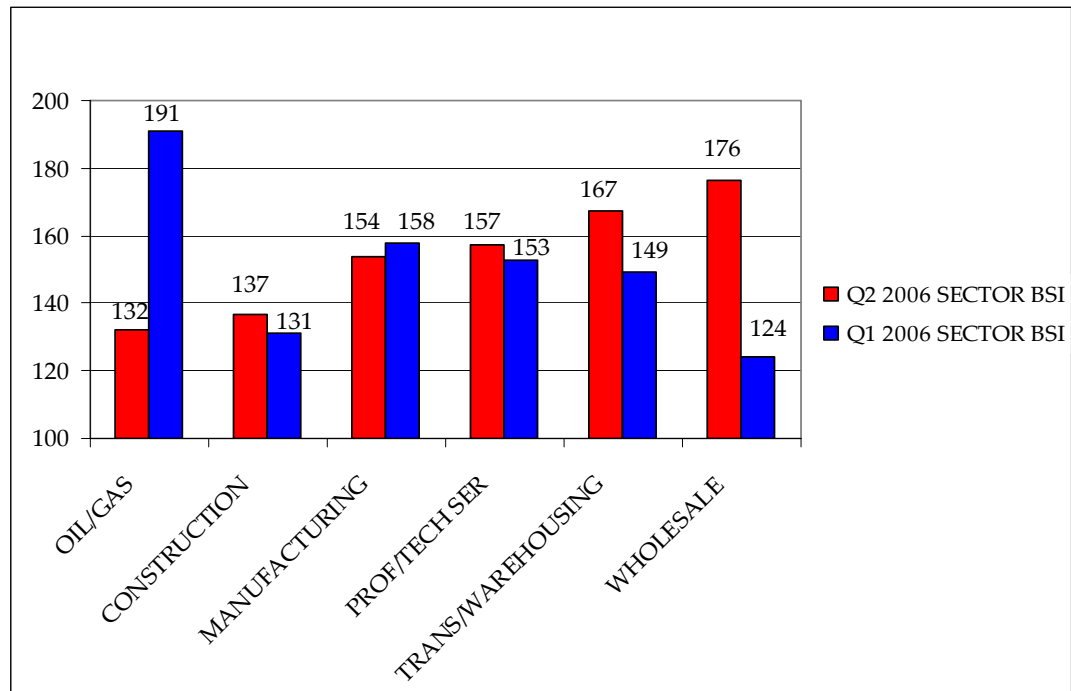
Figure 2. Business Sentiments Indexes Q2 2006 and Business Activity Indexes Q1 2006



Industry Sector Sentiment

Figure 3 shows a comparison of non agricultural sector *Business Sentiments Indexes* for Q2 2006 with those for Q1 2006. The results indicate very positive sentiments across all sectors. The principal differences between Q1 2006 and Q2 2006 are in a lower level for Oil and Gas firms and a higher level for Wholesalers.

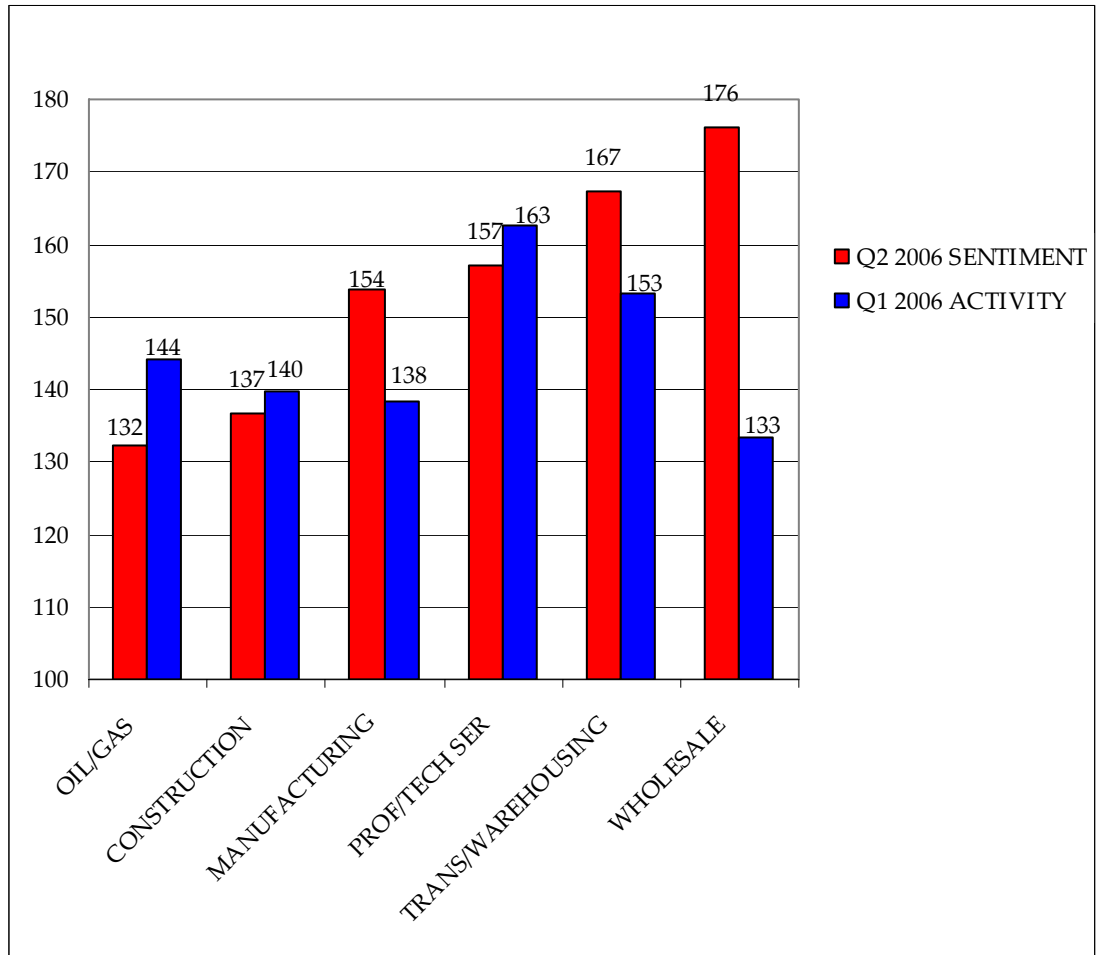
Figure 3. Comparison of *Business Sentiments Sector Indexes*: Q2 2006 and Q1 2006



A comparison of Q2 sector sentiment with inferred sector activity levels in Q1 is shown in Figure 4. This suggests further increases in activity in manufacturing, transportation and warehousing and wholesaling, and some seasonal influences on oil and gas. Little change in growth experience is anticipated in professional and technical services and construction.

More detailed evaluation of industry conditions including those in agriculture are in the final section of this Report.

Figure 4. Business Sector Sentiments Q2 2006 Compared with Business Sector Activity Q1 2006



The Job Market

Respondents are also surveyed about their hiring intentions. Our *Hiring Intentions Index* stands at 143.2 for Q2 2006 compared with 134.7 in Q1 2006. This shows a strong labour market, including the normal spring seasonal upswing, fully reflecting the market growth expectations of business. The results for the province and the regions are shown in Figure 5.

Figure 5. Comparison of Hiring Intentions Index: Q2 2006 and Q1 2006

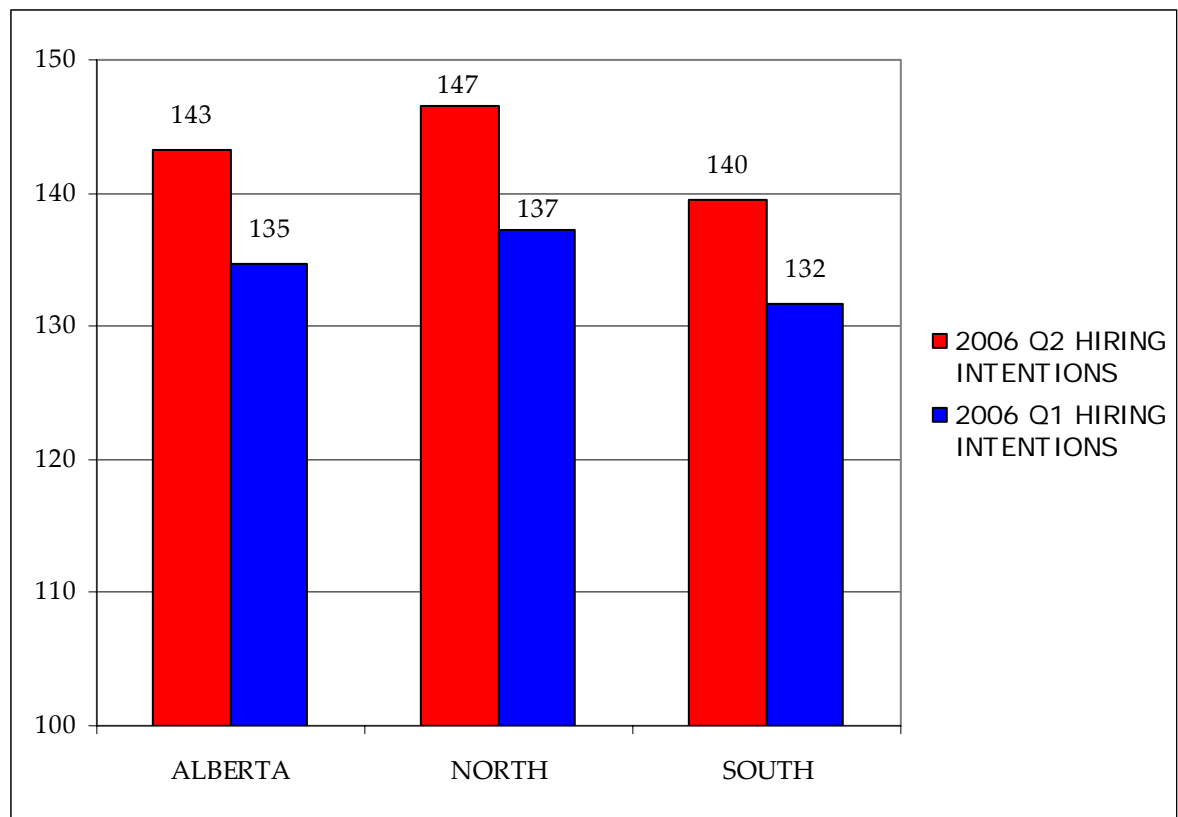
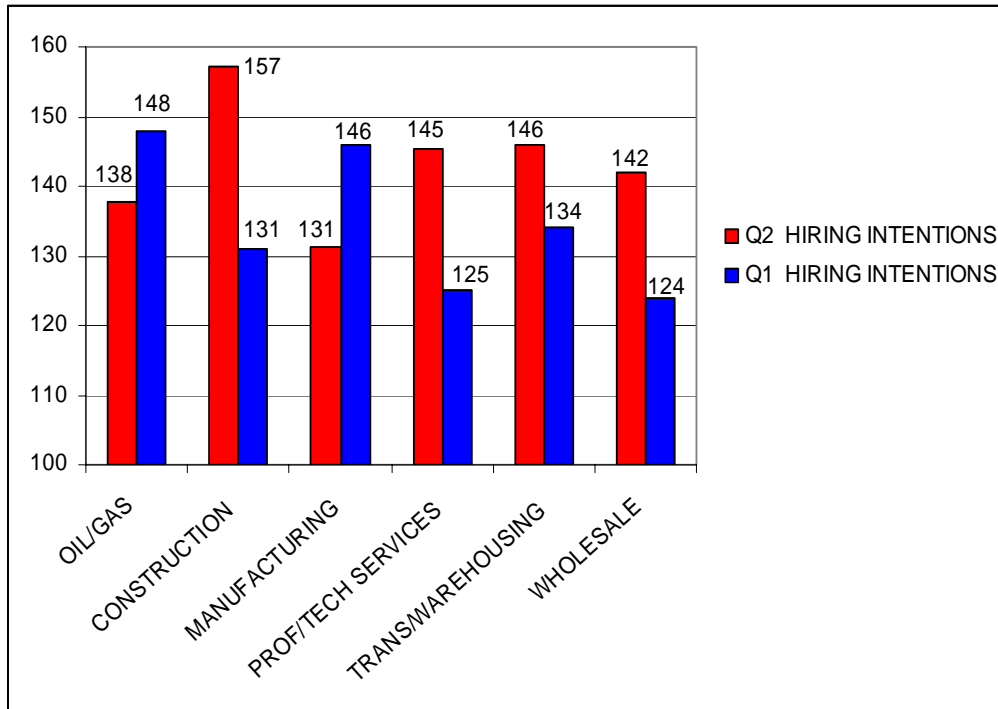


Figure 6 contains sector hiring intentions. These imply increased job opportunities across the sectors, with the results particularly strong for construction. Q2 2006 hiring intentions exceed those for Q1 2006 in the case of all sectors except oil and gas and manufacturing. Overall the results indicate that the extremely strong labour market will continue.

Figure 6. Hiring Intentions Index by Non Agricultural Sector: Q2 2006



Comparison of *Business Sentiments Index* Q1 2006 with *Business Activity* Q1 2006

The comparison of the Business Sentiments Index Q1 2006 with Q1 2006 Activity levels by sector reveals the impact of the unusual winter weather conditions on exploration in the oil and gas sector.

Figure 7. *Business Sentiments Index* Q1 2006 and *Business Activity* Q1 2006

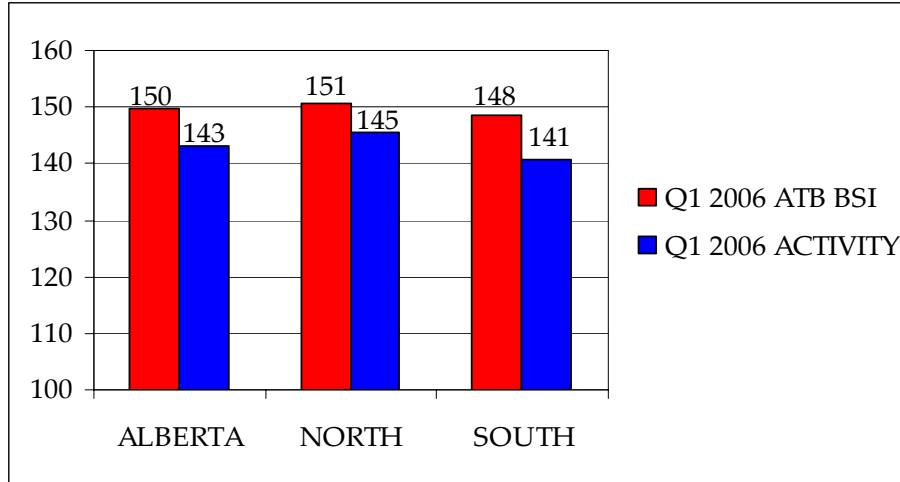
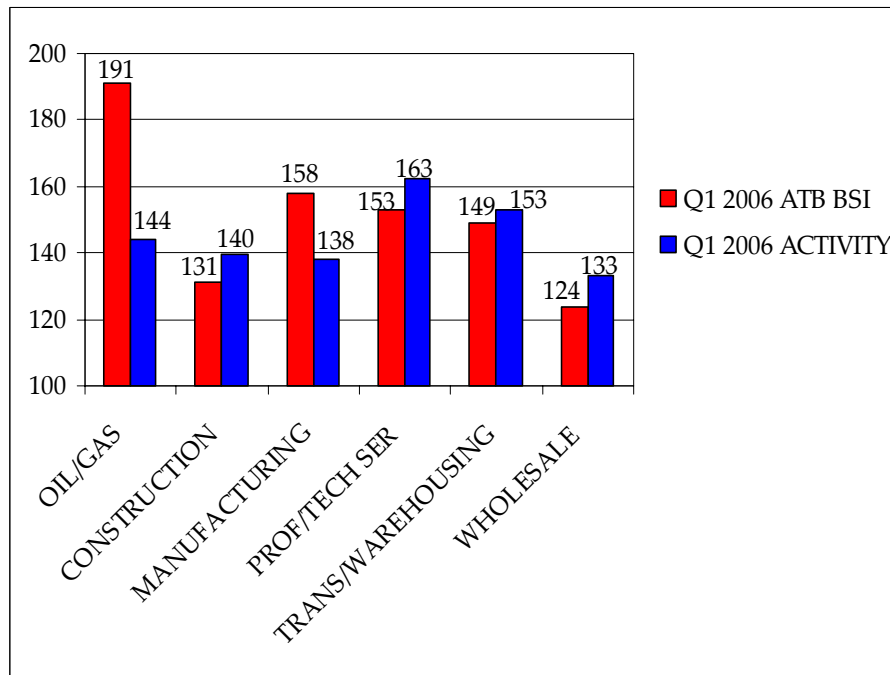


Figure 8. *Business Sentiments Sector Index* Q1 2006 and *Business Sector Activity* Q1 2006



More on Industry Sectors

Agriculture

The 48 farm operator respondents were asked about current prices received for their products and their price expectations in the coming quarter. In terms of current prices, most experienced no change, but of those that did, decreases were slightly more prevalent than increases. Looking ahead, while most expected prices to remain unchanged, slightly more expected increases than decreases. The survey does not ask agricultural respondents about hiring intentions.

Oil & Gas

One half of the 61 respondents experienced increased activity over the past three months and a similar number anticipated increased activity in the coming quarter. Two-fifths of the respondents expected to increase their employment in the coming quarter. Slightly more than one half of the respondents were in Northern Alberta.

Construction

Of the 63 respondents in construction, one-half indicated that their activity had increased in the past three months, and 43% indicated that their current contract work was more than sufficient. Some 57% indicated that they planned to increase employment in the coming quarter. Assuming normal working hours, one-half of the respondents indicated that they had at least five months work in hand or already contracted for. Our survey also asks about potential bottlenecks in the industry including: shortage of labour; weather conditions; insufficient demand; shortages of construction material or equipment; financial constraints; or other factors. Shortage of labour was identified as an inhibiting factor by slightly more than one-half of respondents. Other factors were generally unimportant. One-half of respondents expect the prices they charge to increase in Q2 2006.

Manufacturing

One-half of the 70 manufacturing respondents indicated that their production had increased over the past quarter. Some 60% anticipate further increases in production over the coming quarter with just over one-third planning to increase employment. With regard to order backlogs, one-quarter of respondents indicated that they were more than sufficient while only 11% regarded them as insufficient. 70% of respondents regarded their stocks of finished products as adequate for needs.

Professional and Technical Services

There were 64 respondents in this group. Two-thirds experienced increased demand for their services during the current quarter. A similar proportion expects demand to increase again the upcoming quarter, and just under one-half plan to increase employment.

Transportation/Warehousing

Of the 63 respondents in this group almost two-thirds recorded increased business in the current quarter. Just over two-thirds expect their business to increase again in Q2 2006 with one-half of the respondents planning to add employees.

Wholesalers

Of the 63 respondents in this group one half recorded increased sales in the current quarter. Fully three-quarters of them expect sales to increase again in Q2 2006 with 43% planning to increase employment. Inventory of those surveyed appeared adequate for two-thirds of the respondents with only 15% regarding them as too large. More than two-thirds plan to place increased orders with suppliers in Q2 2006.