

Information Bulletin

NUMBER 97· JANUARY 2007

ATB FINANCIAL
BUSINESS SENTIMENTS INDEX™
HOW IS THE ALBERTA ECONOMY DOING?
2007 QUARTER 1

*By Edward J. Chambers and Matthew Nichols
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]-

ISSN 1912-6205

ISBN 978-1-55195-940-5 (2007, quarter 1)

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

How Is The Alberta Economy Doing?.....	1
Methodology.....	1
ATB Financial Business Sentiments Index™	2
<i>Activity Levels in Q4 2006</i>	3
Industry Sector Sentiment.....	4
The Job Market	5
More on Industry Sectors.....	6
<i>Oil and Gas</i>	6
<i>Construction</i>	6
<i>Manufacturing</i>	9
<i>Professional and Technical Services</i>	10
<i>Wholesale</i>	11
<i>Transport/Warehousing</i>	11

How Is The Alberta Economy Doing?

- The **ATB Financial Business Sentiments Index™** finds that the Alberta economy will display strong growth in the first quarter of 2007.
- While strong, the growth will moderate slightly from levels attained in 2006.
- Moderation in growth will be evident in both Northern and Southern Alberta.
- Demand for labour will remain strong with slightly lower levels due to seasonality.

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 (72)
- construction (70)
- manufacturing (70)
- transportation and warehousing (70)
- wholesaling (70)
- professional and technical services (71)

The Q4 2006 survey sampled 423 firms. 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 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.

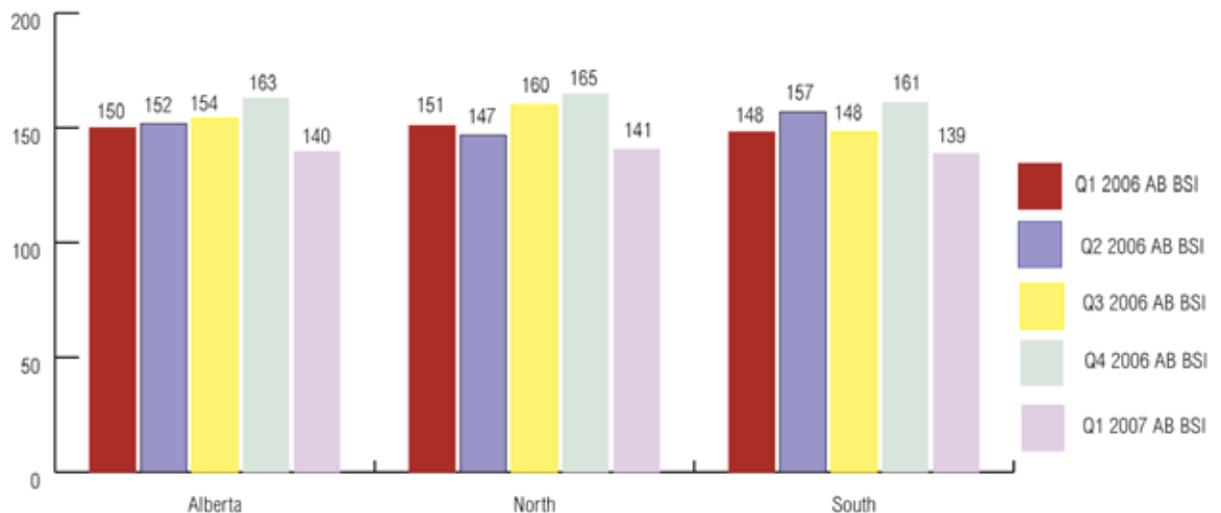
The higher the value of the Index, the stronger is the sentiment for expansion. The ceiling value of the index is 200 (all respondents expect increase) and the floor value is zero (all respondents expect a decrease). The sample has a margin of error of plus or minus 5%.

ATB Financial Business Sentiments Index™

The **ATB Financial Business Sentiments Index™** finds that the Alberta economy will display strong growth in the first quarter of 2007. The growth, while strong, will moderate slightly from the levels attained in 2006. That moderation in growth will be evident in both Northern and Southern Alberta.

The ATB Financial Business Sentiments Index™ for Q1 2007 is somewhat lower than that recorded for Q4 and other quarters of 2006. The Index for Q1 2007 stands at 140.2 compared with a level of 163.1 in Q4 2006. A majority of Alberta firms, both in the North and South of the province, will expect increased sales in the coming quarter with expectations of improved business evident across all sectors. Figure 1 (below) provides a comparison of the Index for Alberta, the North and the South for all quarters of 2006 and the first quarter of 2007.

Figure 1: Comparison of the ATB Financial Business Sentiments Index: Q1 2007 and All Quarters 2006



Source: WCER

Activity Levels in Q4 2006

Activity in the economy is assessed by responses to our questions about sales during the prior quarter. Estimated activity levels for Q4 2005, and the four quarters of 2006, for the province and for the northern and southern regions are shown in Figure 2 (below). The results indicate a moderation in the high levels of activity. It is likely that seasonal factors explain some of the moderation in activity between Q3 2006 and Q4 2006. However, the moderation is evident if Q4 2006 is compared with activity levels in Q4 2005.

Figure 2. Comparison of Business Activity Indexes: Q4 2005 and All Quarters 2006

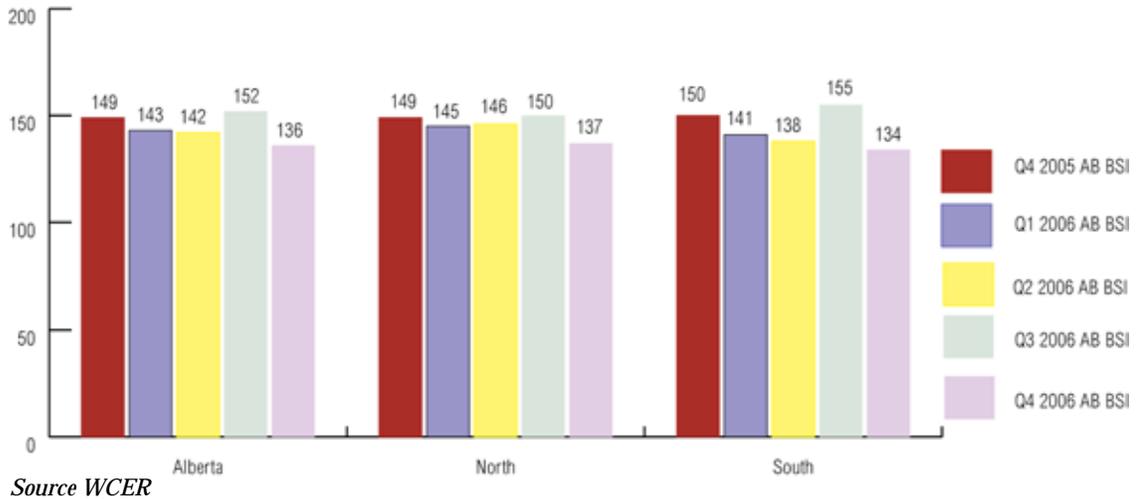
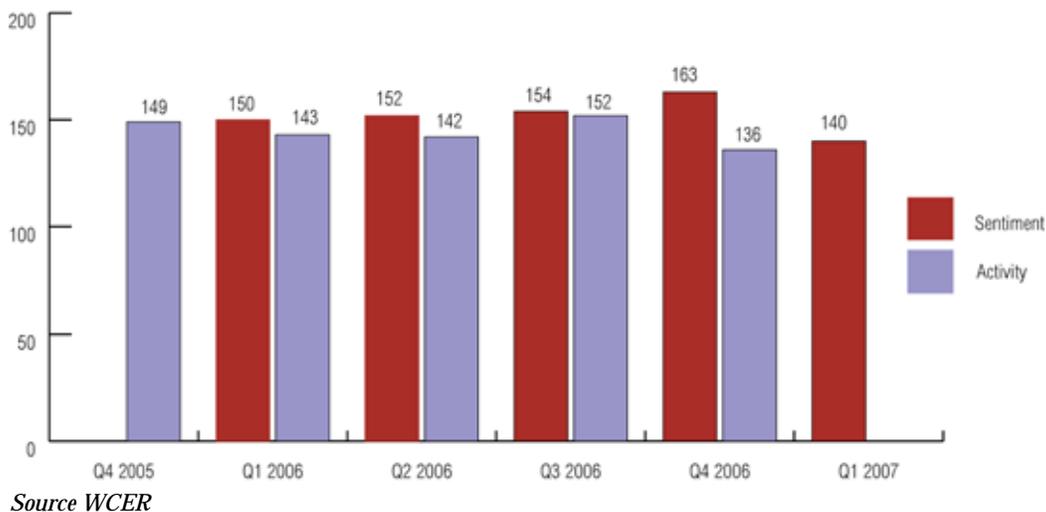


Figure 3 (below) compares, for the province as whole, the ATB Financial Business Sentiments Index™ for Q1, 2, 3 and 4 of 2006 and Q1 2007 with the Indexes of Activity for Q4 2005, and all quarters of 2006. The Figure suggests that in Q1, Q 2, and Q4, three of the periods for which the comparison is valid, the BSI tended to overestimate activity levels. This is especially true in Q4 possibly suggesting unrealistic expectations on the part of respondents in a 'boom' environment.

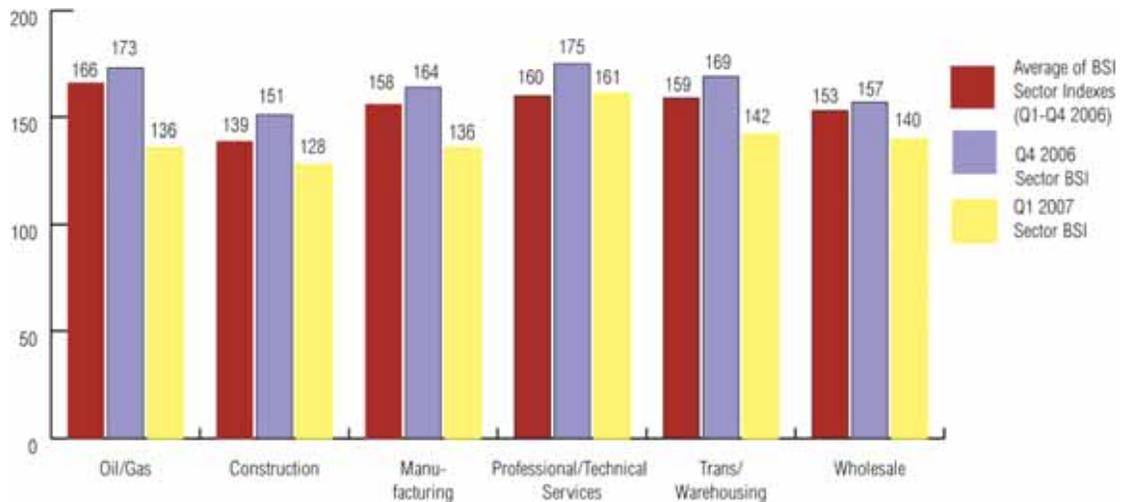
Figure 3. ATB Financial Business Sentiments Index™ and Business Activity Indexes



Industry Sector Sentiment

Figure 4 (below) provides a comparison of sector Business Sentiments Indexes for Q1 2007 with two comparisons: (a) the average for the four quarters of 2006, and (b) for Q4 2006. In Q1 2007, the results indicate a moderation of anticipated business growth across all sectors. The moderation in all sectors save professional and technical services is quite evident.

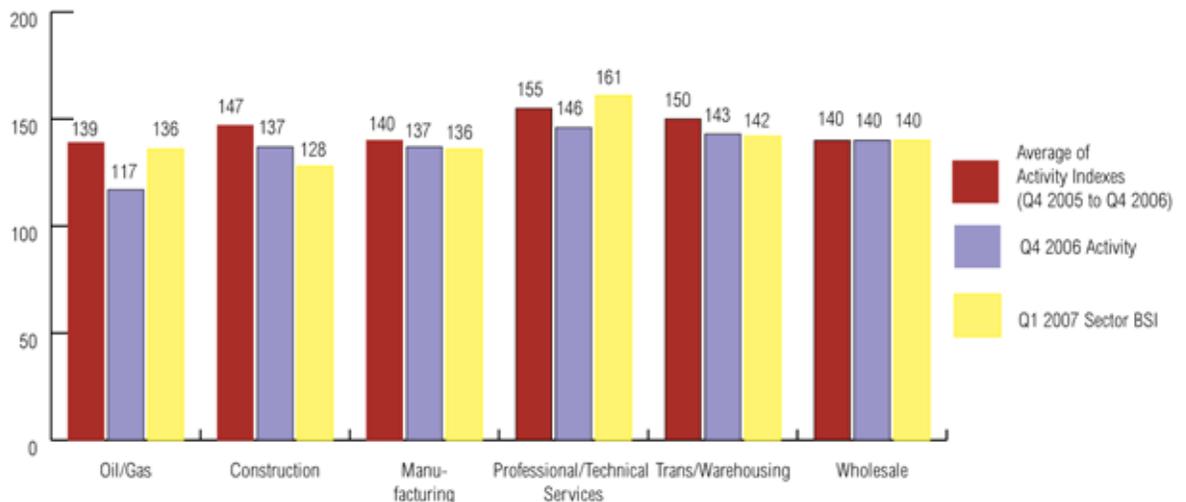
Figure 4. Business Sentiments Sector Indexes: Q1 2007 and All Quarters 2006



Source WCER

Figure 5 (below) shows industry business activity indexes. The comparisons for Q4 2006 are with (a) reports for Q3 2006 and (b) the average for the previous four quarters. There is a very healthy level of activity in all sectors although it has generally ameliorated slightly in Q4 2006 over the year.

Figure 5. Business Activity Sector Indexes and Business Sentiments Sector Index

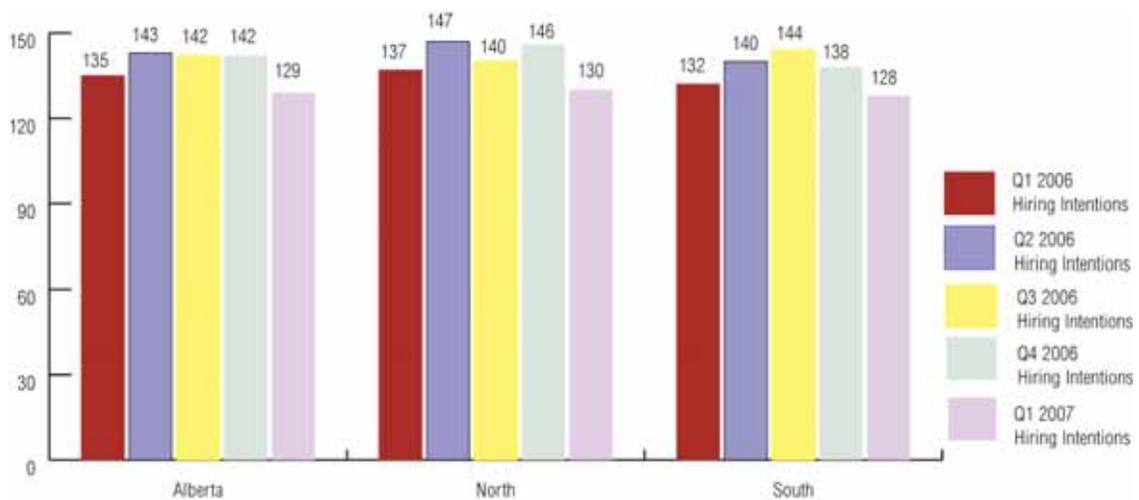


Source WCER

The Job Market

The ATB-WCER quarterly survey of over 400 Alberta business establishments also provides information on hiring intentions. For Q1 2007 the demand for labour in the province as shown in Figure 6 (below) will remain strong and only slightly different from the intentions conveyed in the Q1 2006 survey. The lower levels of hiring intentions revealed in the first quarter survey results over other quarters of the year is due to seasonality.

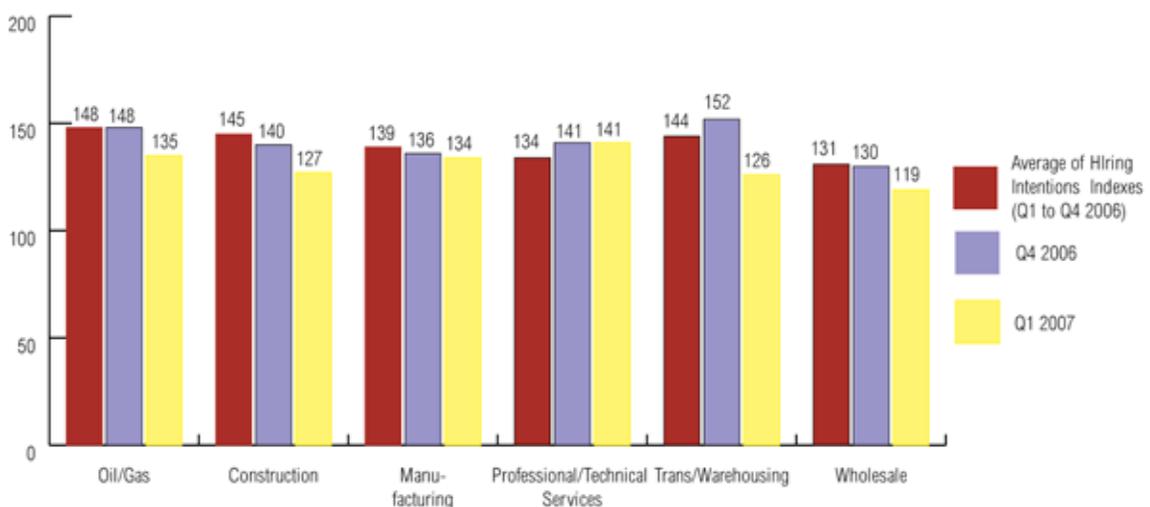
Figure 6. Comparisons of Index of Hiring: Q1 2007 and All Quarters 2006



Source WCER

Industry Sector Hiring intentions for Q1 2007 are shown in Figure 7 (below) with two comparisons: (a) with average intentions for the four quarters of 2006, and (b) with hiring intentions for Q4 2006. Intentions remain positive but are moderately lower for oil and gas, construction, transportation and warehousing, and wholesaling. For professional and technical services and manufacturing, intentions show little change.

Figure 7. Comparison of Sector Hiring Intentions: Q1 2007 and All Quarters 2006



Source WCER

More on Industry Sectors

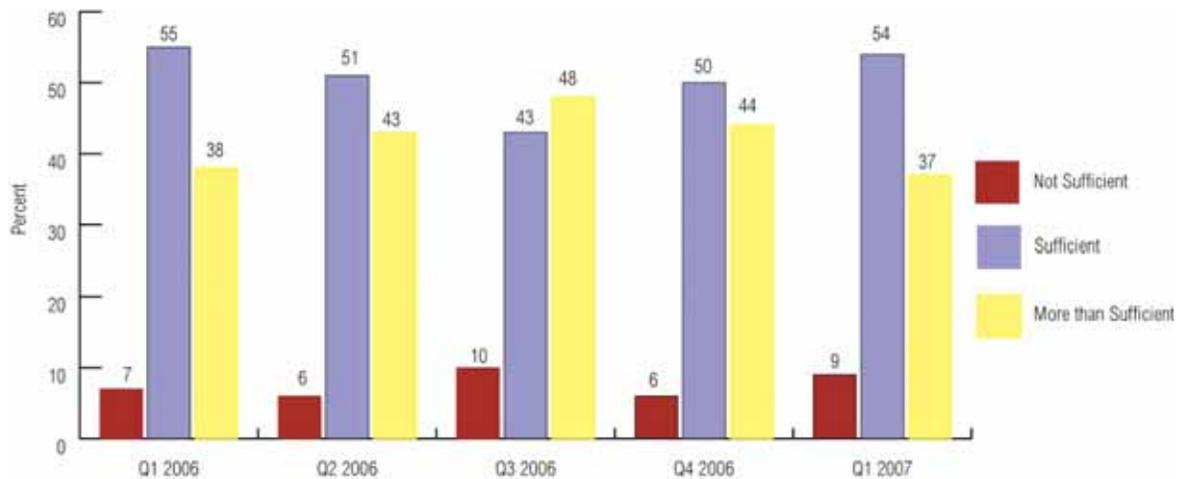
Oil and Gas

Two-fifths (39%) of respondents indicated that their activity levels had increased over the past quarter while 22% indicated a decrease. Almost one-half (47%) expected their activity levels to increase over the coming quarter while 11% expected a decrease. Just over one-third (37%) of the respondents expected to increase their employment levels in Q1 2007 while only 1 respondent expected a decrease.

Construction

Two-fifths (39%) of respondents experienced increased activity during the past quarter. Some 36% indicated that their current order books were more than sufficient relative to capacity while just over one-half (54%) considered them sufficient. For the province as a whole, 8% regarded order books to be insufficient, though in Northern Alberta 16% of respondents indicated they were insufficient. Figure 8 (below) summarizes these responses.

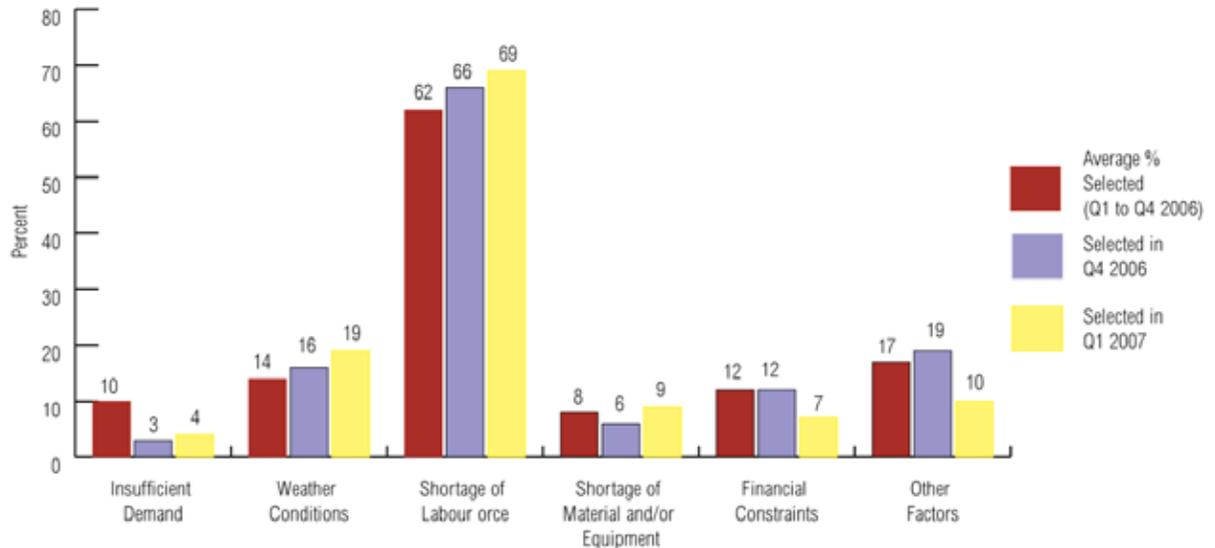
Figure 8. Satisfaction with Orders on Hand, Construction Sector: Q1 2007 and All Quarters 2006



Source WCER

Figure 9 (below) summarizes factors limiting business activity that were reported for Q1 2007. Two comparisons are made: (a) with the average reported for the four quarters of 2006, and (b) with reports from the survey covering Q4 2006. Respondents continue to be affected by the supply side condition of a labour shortage.

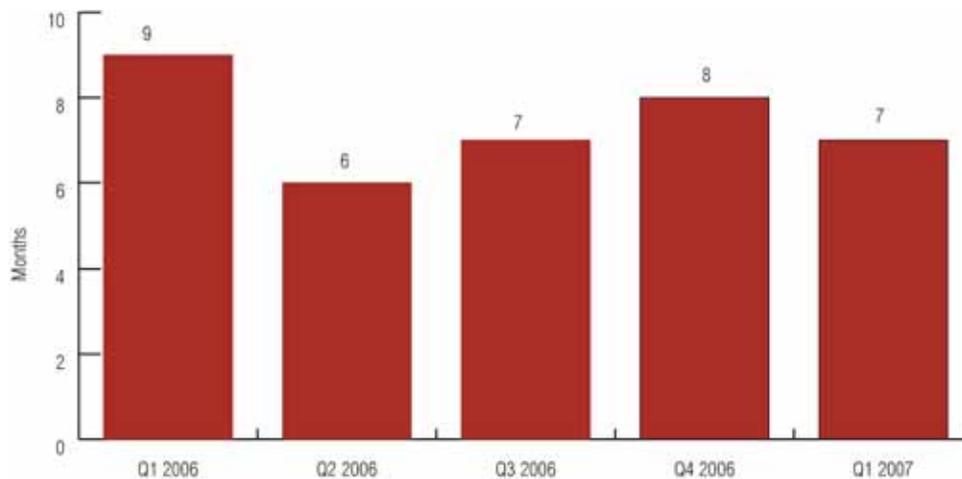
Figure 9. Factors Limiting the Construction Sector: Q1 2007 and All Quarters 2006



Source WCER

Figure 10 (below) indicates that the average number of work months accounted for current work or jobs in hand was 7, a decrease of 1 month from Q4 2006 but within the range experienced in the last year.

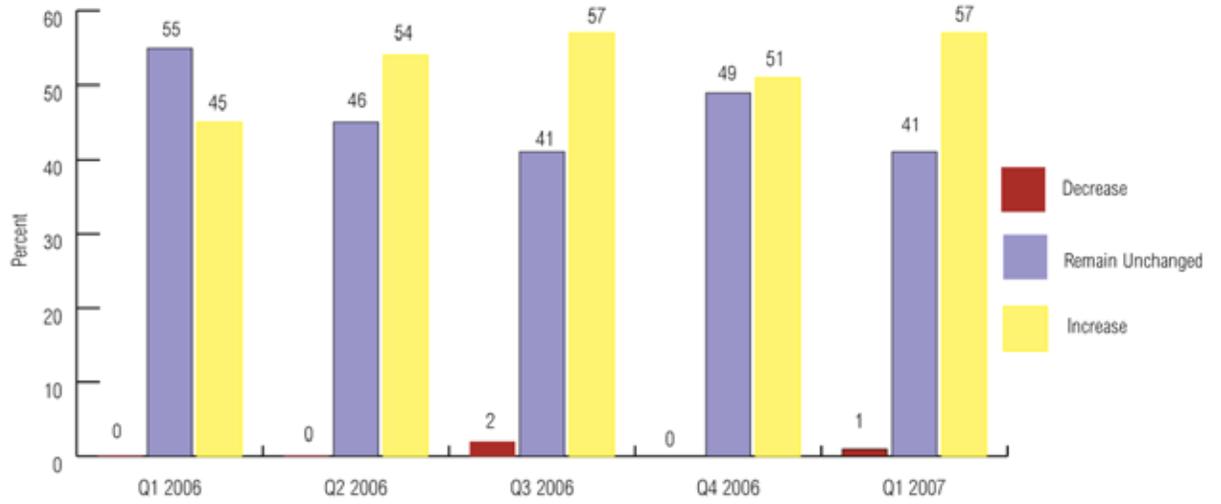
Figure 10. Average Number of Months' Work Accounted for by Work in Hand or on Order Books, Construction: Q1 2007 and All Quarters 2006



Source WCER

Figure 11 (below) indicates that cost pressures on the industry continue with more than one-half (57%) of respondents expecting unit construction prices to increase in the coming quarter, down slightly from the current quarter.

Figure 11. Construction Price Sentiment: Q1 2007 and All Quarters 2006



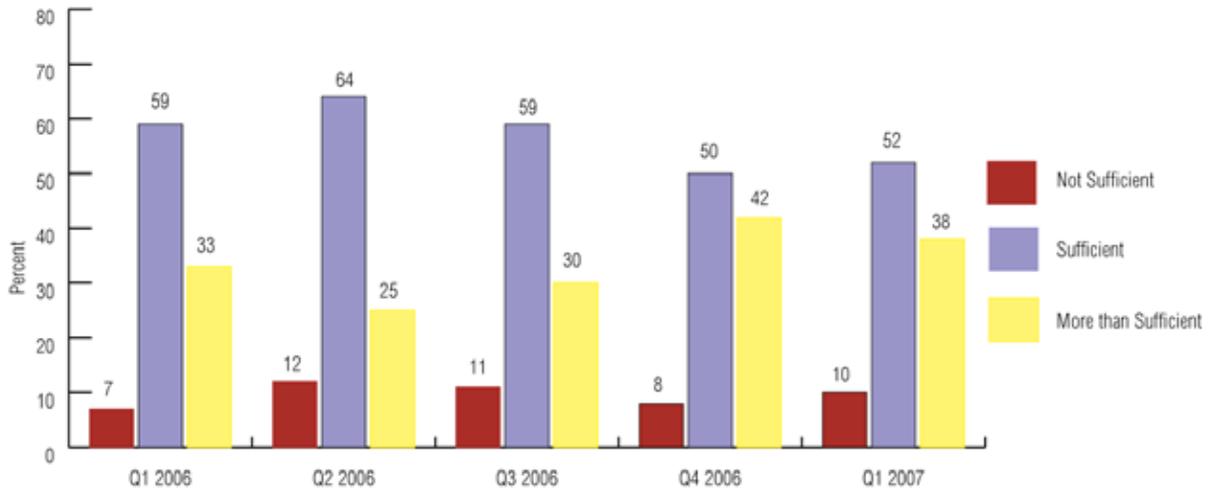
Source WCER

Manufacturing

Just over one-half (53%) of the manufacturing respondents experienced increased business during the current quarter and this was distributed equally between those in the North and the South. Some one-half of respondents expect that their production runs will increase in Q1 2007 down somewhat from the two-thirds who anticipated increases in the previous survey.

Figure 12 (below) shows that 52% of manufacturing respondents judged their current levels of orders to be sufficient, a result little changed from previous surveys.

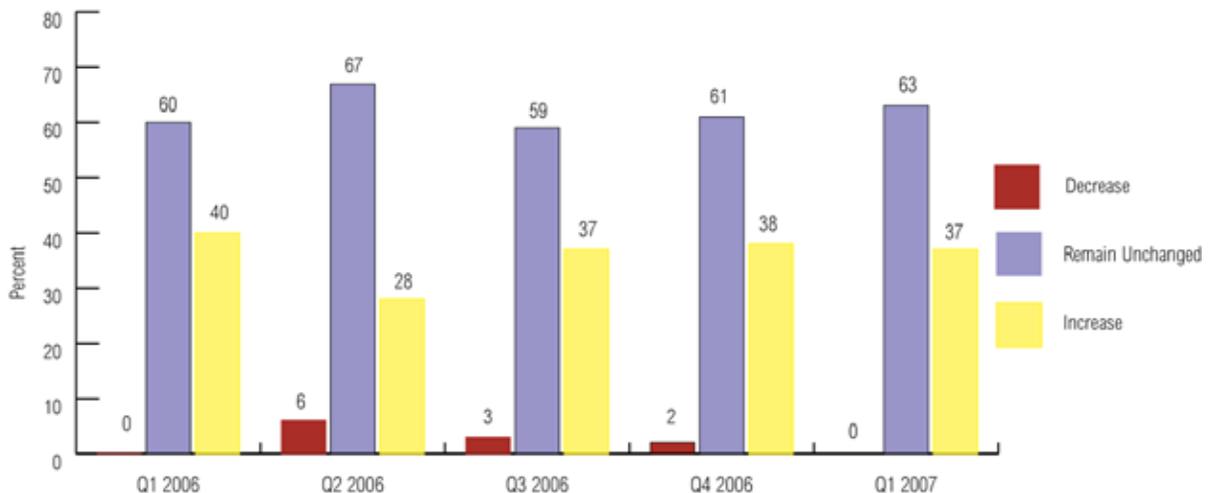
Figure 12. Orders on Hand, Manufacturing Sector: Q1 2007 and All Quarters 2006



Source WCER

Figure 13 (below) indicates that 63% of manufacturers expect prices to remain unchanged in Q1 2007 while 37% expect increases. These numbers have remained quite stable over the past year.

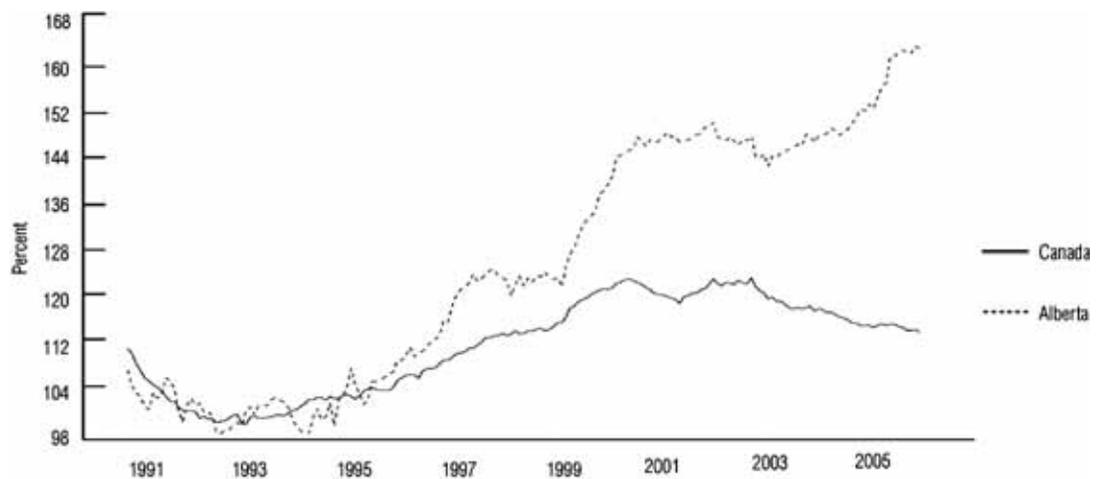
Figure 13. Manufacturing Price Index: Q1 2007 and All Quarters 2006



Source WCER

Figure 14 (below) is designed to provide some longer term perspective on Alberta manufacturing activity compared with the national situation. Figure 14 shows index numbers of monthly employment in manufacturing (1992 monthly average = 100) nationally and for Alberta. The performance of Alberta manufacturing, especially in recent years has been quite counter to the national experience. This aids in understanding the results of manufacturer responses to the survey.

Figure 14. Index of Monthly Employment in Manufacturing: National and Alberta
(1992 Monthly average = 100)



SEPH data from Statistics Canada

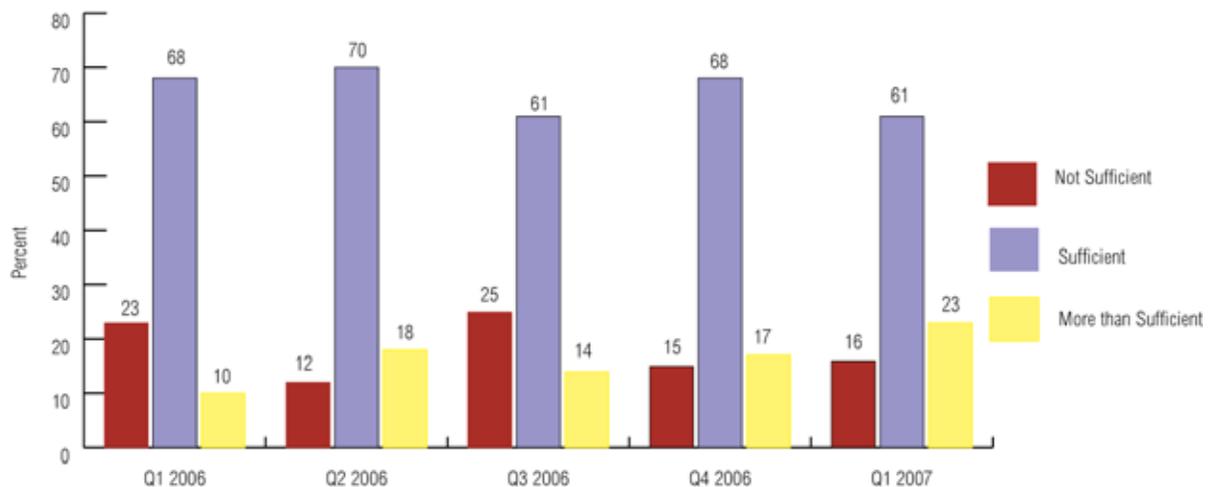
Professional and Technical Services

In the professional and technical services, 55% of respondents experienced an increase in demand for their services during the current quarter and 28% increased employment. In Q1 2007, some two-thirds of respondents expect an increase in service demand, and 45% anticipate they will increase employment.

Wholesale

Just over one-half of respondents (54%) recorded sales increases in Q4 2006 and the same percentage expects increased sales in Q1 2007. One-quarter (25%) of respondents expected to increase employment in Q1. Figure 15 (below) reveals that three fifths (61%) of respondents are satisfied with current inventory levels. Respondents with more than sufficient inventories at 23% are a somewhat larger group than in previous surveys. About one-half of wholesalers will increase orders with suppliers in the coming quarter while 21% will reduce their orders.

Figure 15. Current Inventory Levels, Wholesaling Sector: Q1 2007 and All Quarters 2006



Source WCER

Transport/Warehousing

Some 52% of respondents experienced increased demand over the past quarter but the proportion expecting an increase in Q1 2007 is lower at 32%. In Q4 2006, 32% of respondents added employees and 30% plan to increase employment in Q1 2007.