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WESTERN ECONOMIC EXPECTATIONS SURVEY: MARCH, 2010

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Introduction

The online Western Economic Expectations survey solicits views on the future economic performance of the western provinces and the country from over 2,000 economists and financial analysts who are closest to the working details of the Western Canadian economy.

The survey covers people who use economics in their work, in universities and colleges, industry associations, economic development agencies, the private sector and the public service across Western Canada.

The survey is conducted through a partnership between Alberta's two premier economic and policy research centres, the Canada West Foundation in Calgary and the Western Centre for Economic Research at the University of Alberta's School of Business in Edmonton. It is the only survey that solicits economic views from people in all four western provinces.

The survey is conducted electronically three times a year with the results released in October, February and June.

In addition to economic expectations, each survey explores a timely economic issue such as the impact of the economic stimulus package, protectionism or expansion in international trade, or environmental protection. Each survey also includes one open-ended question such as "What products or services from Western Canada hold the greatest future potential for exporting to other countries over the next ten years?"

The results are publicized in Information Bulletins and through a series of news releases following each survey. The results will provide public policy practitioners with useful information about how Western Canadians view their economic prospects and current economic policy issues.

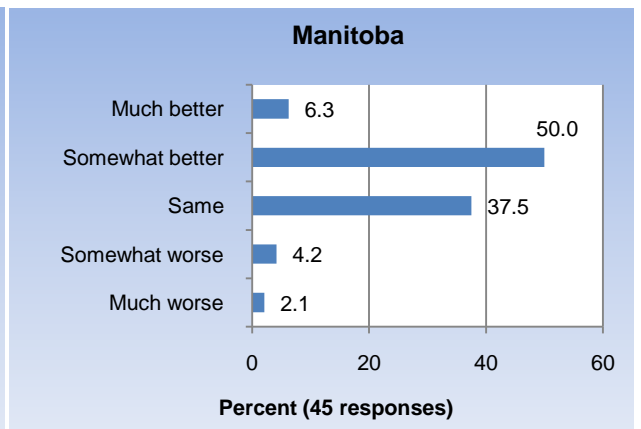
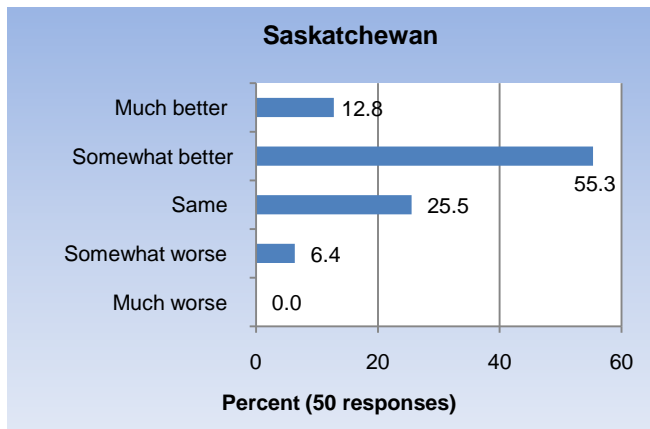
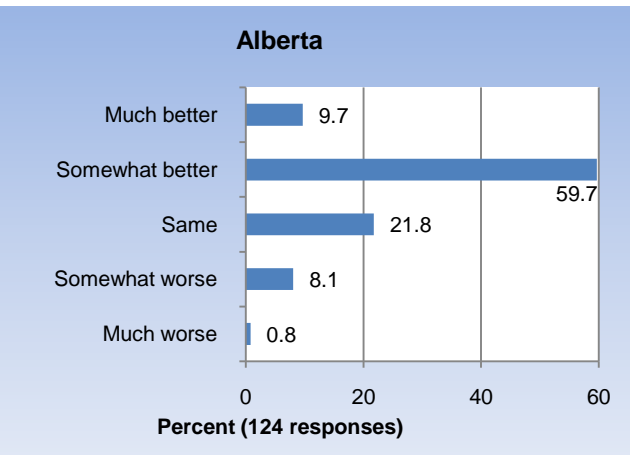
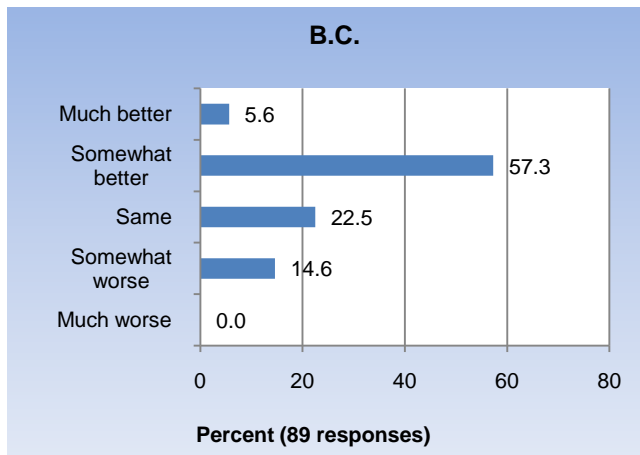
Results

In this installment, fielded from January 25th to February 12th, 2010, 314 out of a total of 2175 potential respondents completed the survey, providing a response rate of approximately 14%. Provincially, 91 (29.1%) responses are from British Columbia, 124 (39.6%) are from Alberta, 47 (15.0%) are from Saskatchewan, and 50 (16.0%) are from Manitoba. The remaining respondent was from another province. While the majority of responses are from persons residing in major Western Canadian cities, many smaller municipalities and rural towns are also represented in the survey.

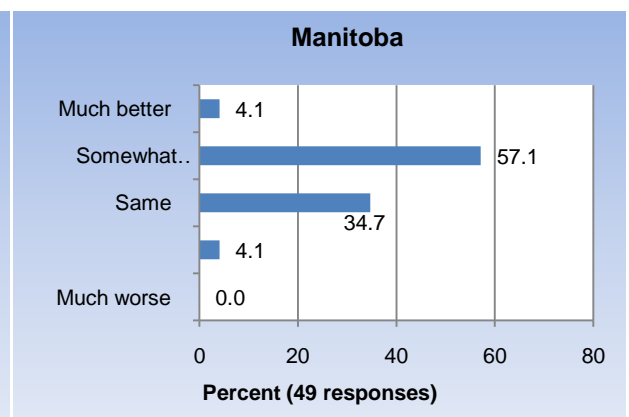
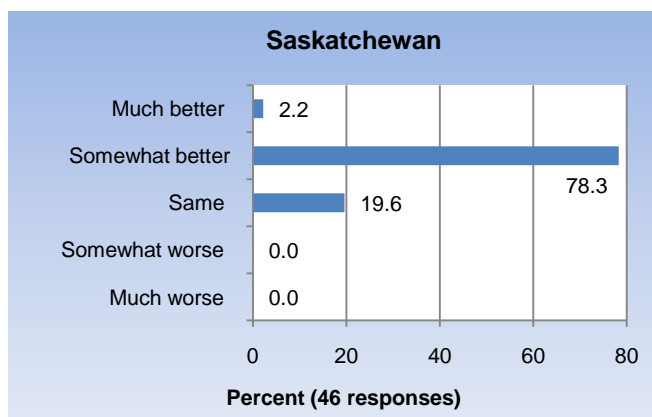
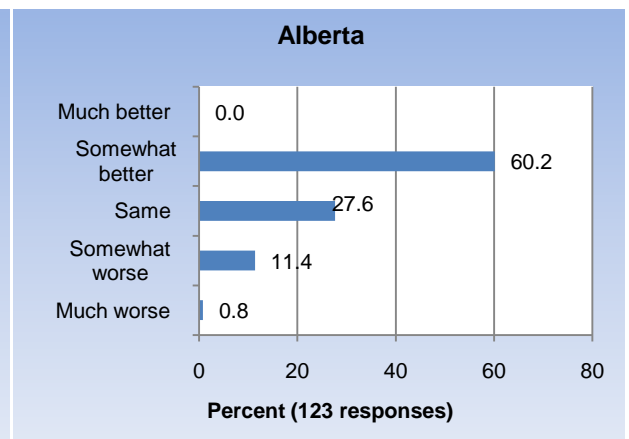
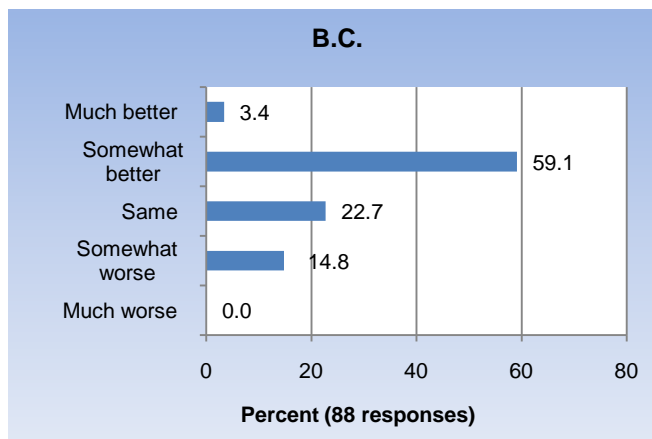
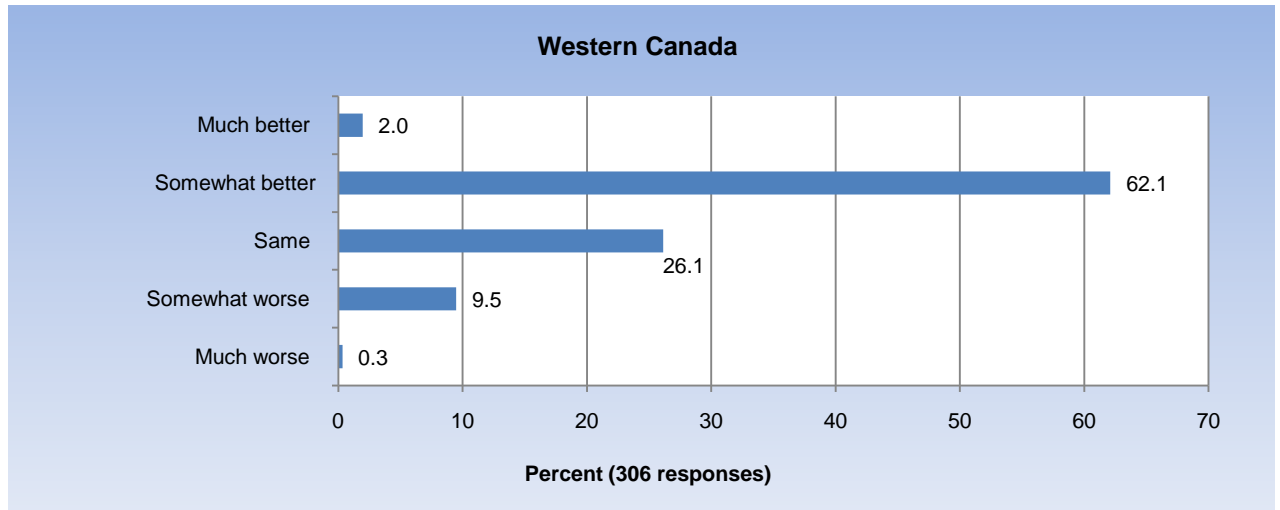
The results of this survey reflect the economic expectations of a diverse array of sectors, characteristic of the Western Canadian

demographic. 35.3% of respondents are currently self-employed or in the private sector, 20.8% are government employees, and 16.7% are employed in universities or colleges. Persons working for Industry Associations/NGO constitute 7.7% of responses, while the non-profit sector and retirees make up 12.8% and 2.2% of respondents, respectively. 4.5% of the responses are from persons employed in other sectors. Each respondent was asked a series of questions about Western Canadian's economic expectations.

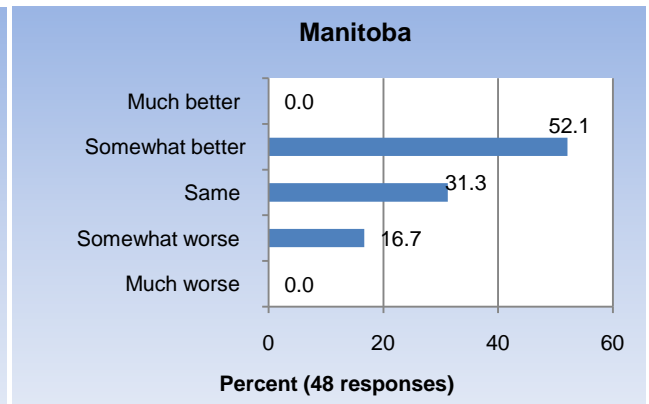
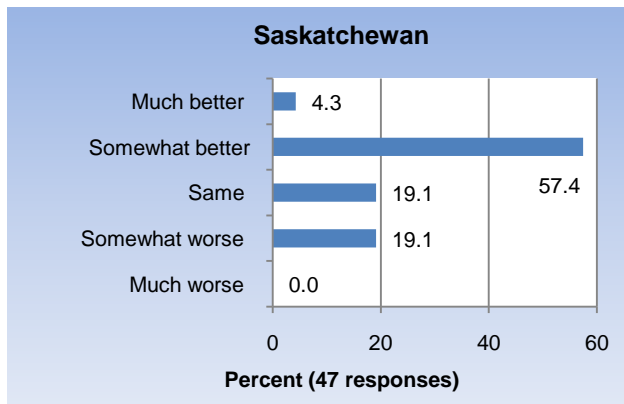
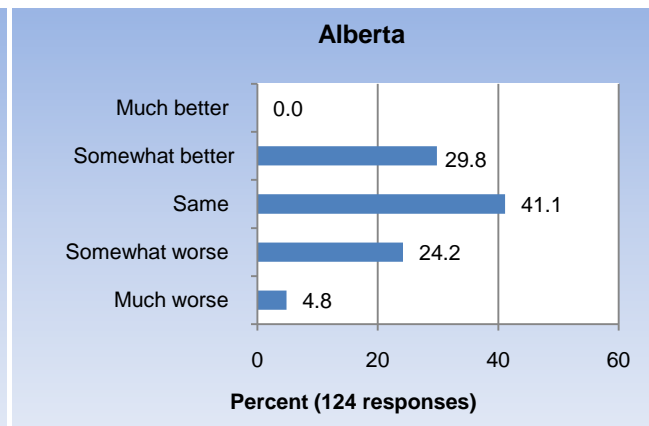
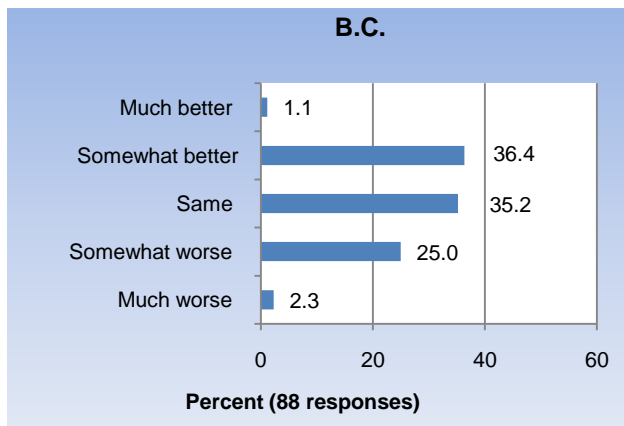
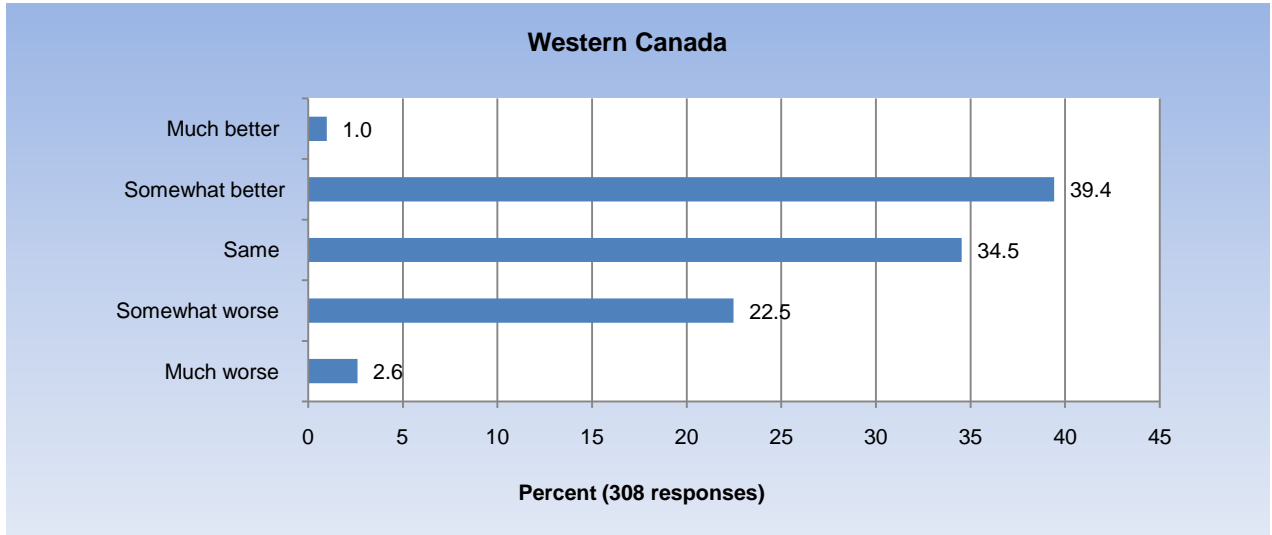
Q: How do you expect your province's economy to perform over the next six months?



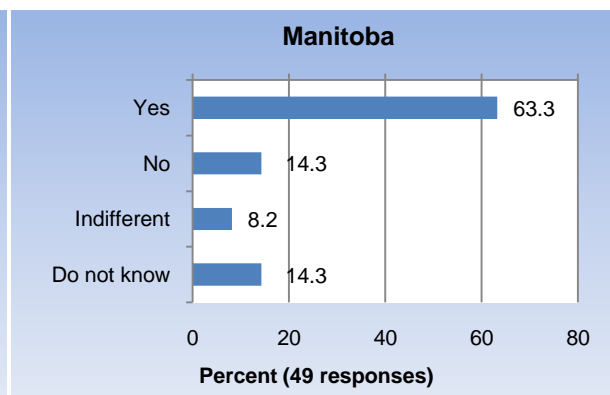
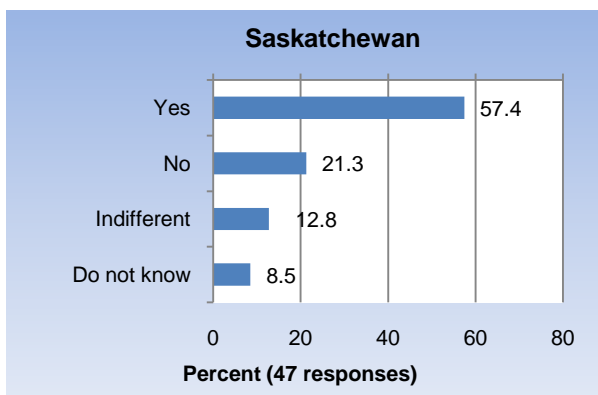
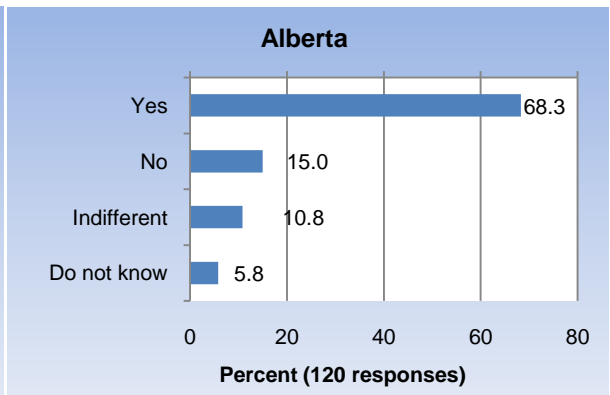
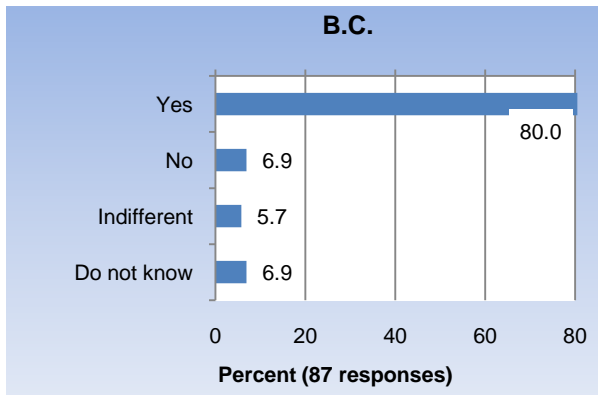
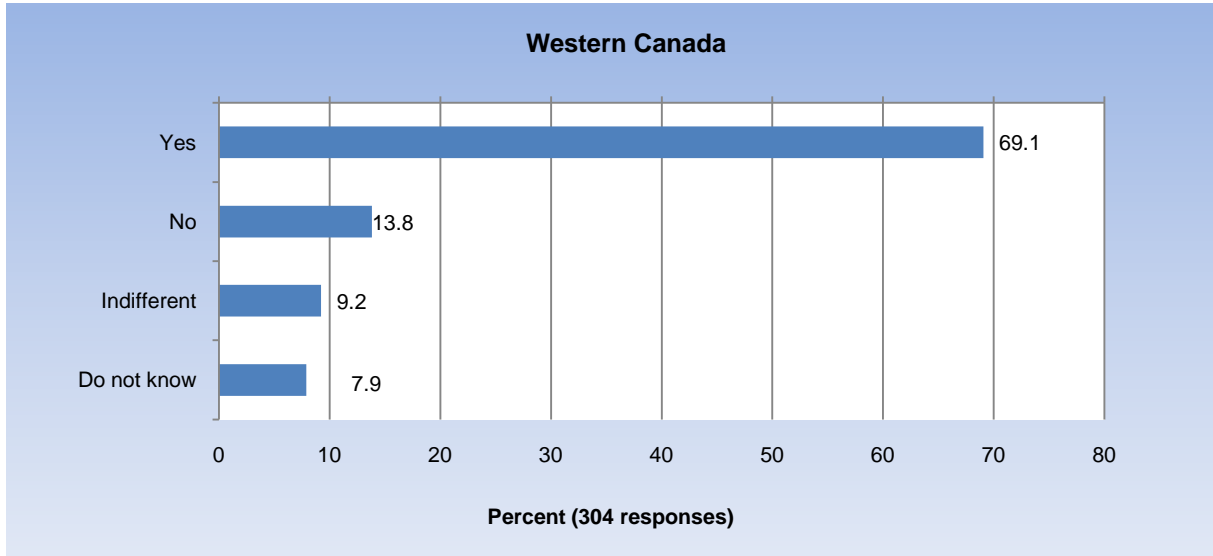
Q: How do you expect the Canadian economy to perform over the next six months?



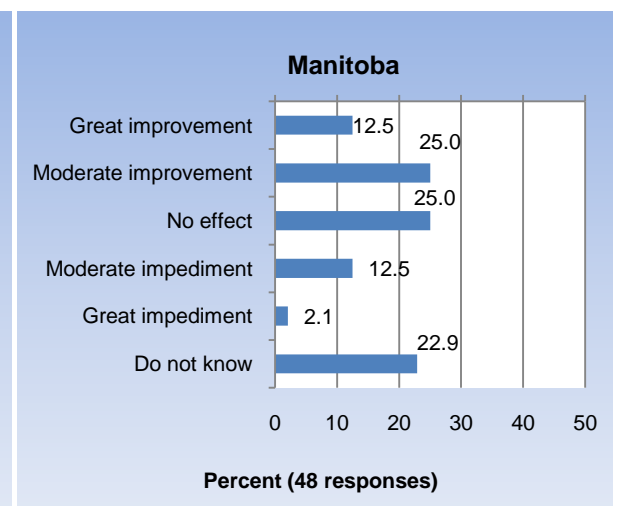
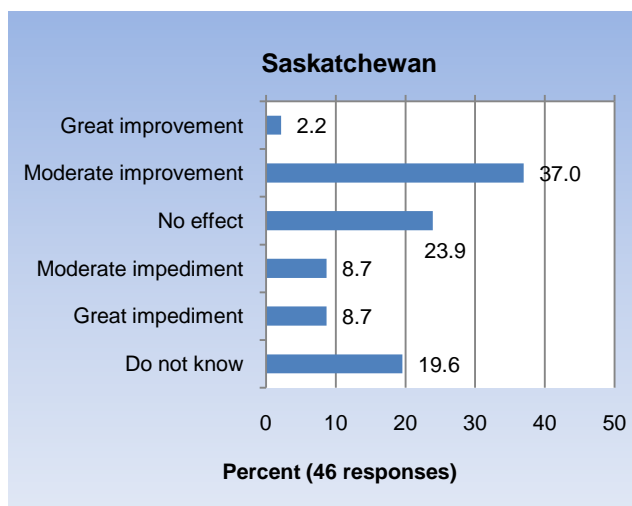
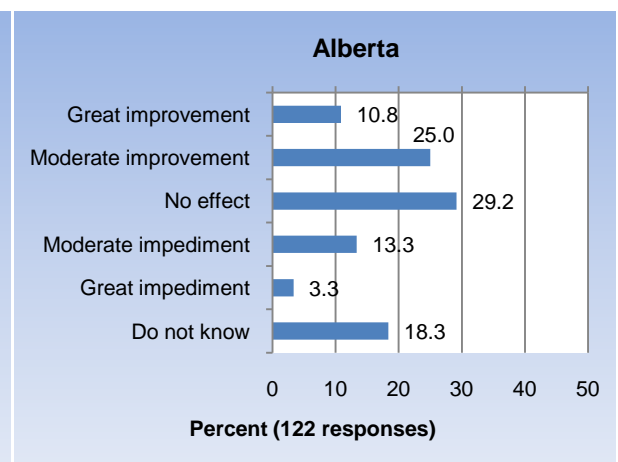
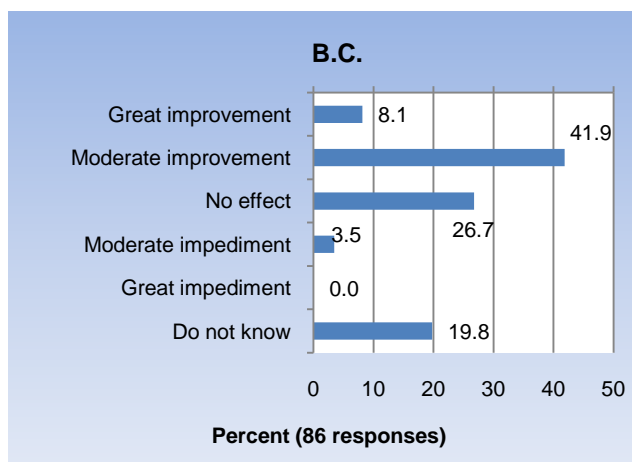
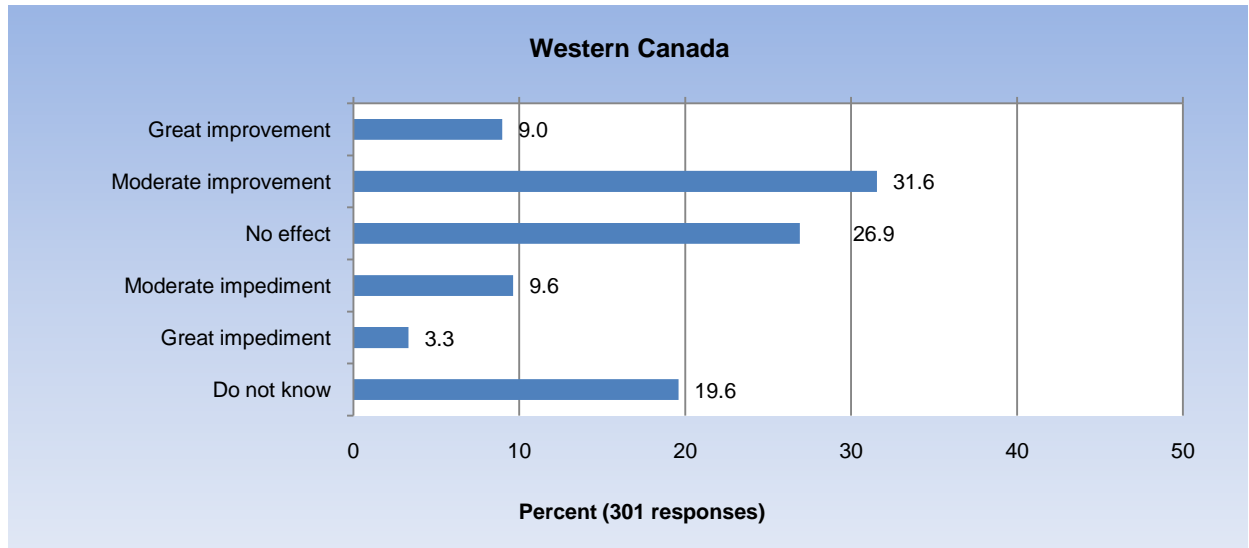
Q: How do you expect the US economy to perform over the next six months?



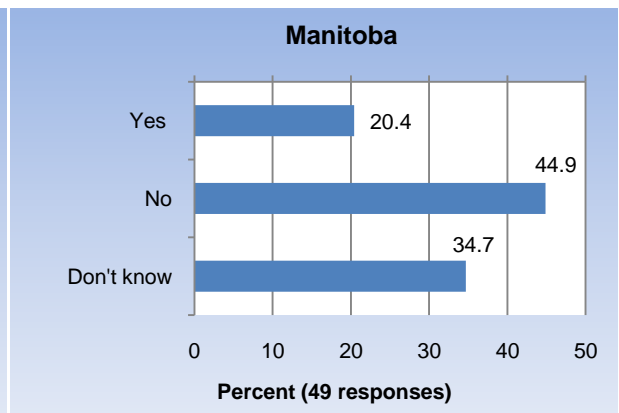
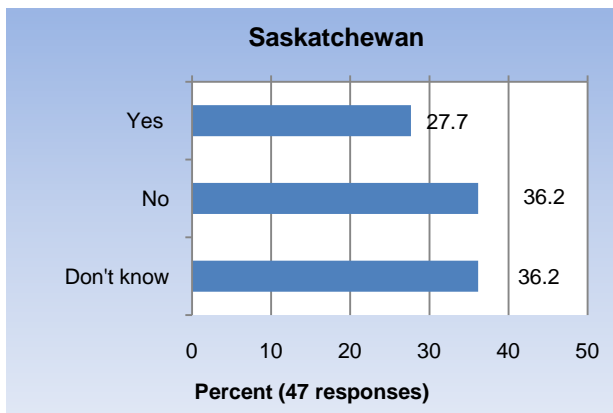
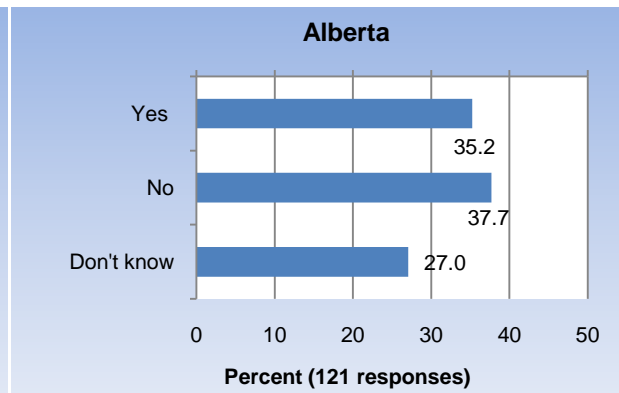
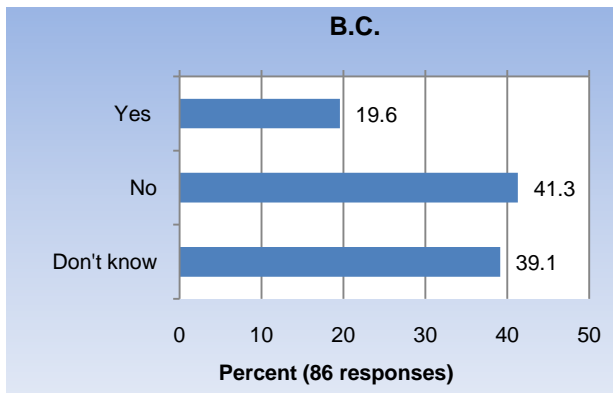
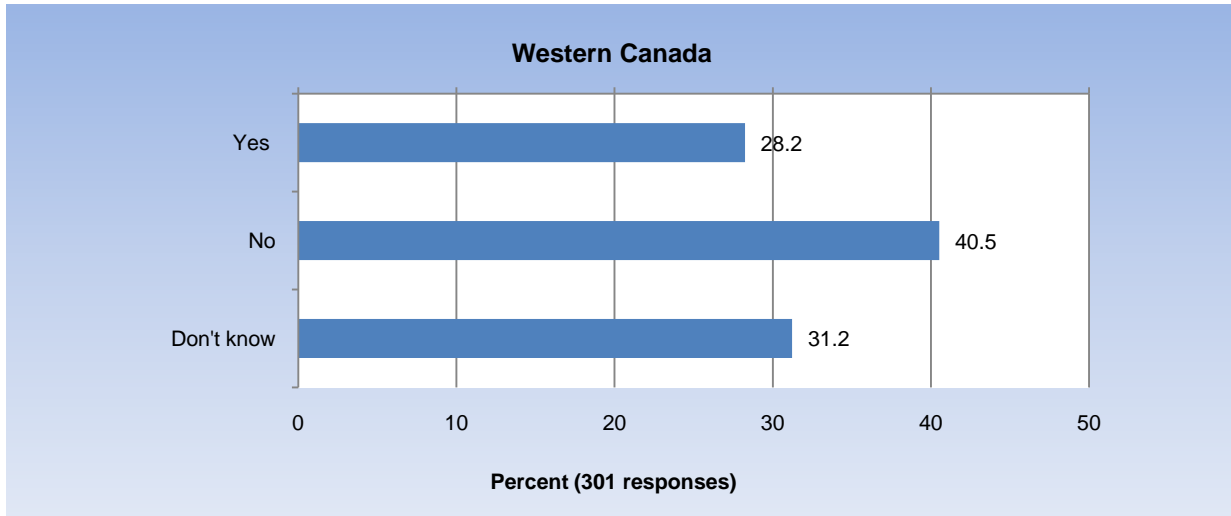
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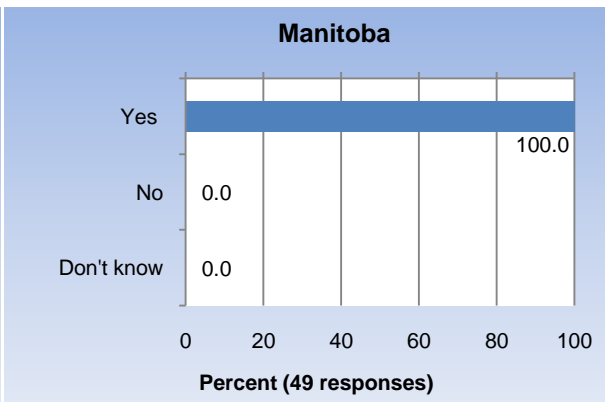
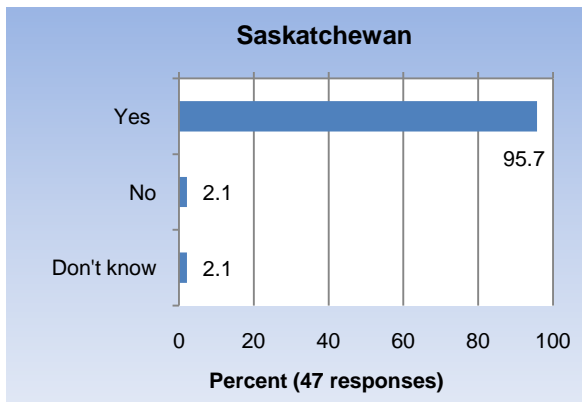
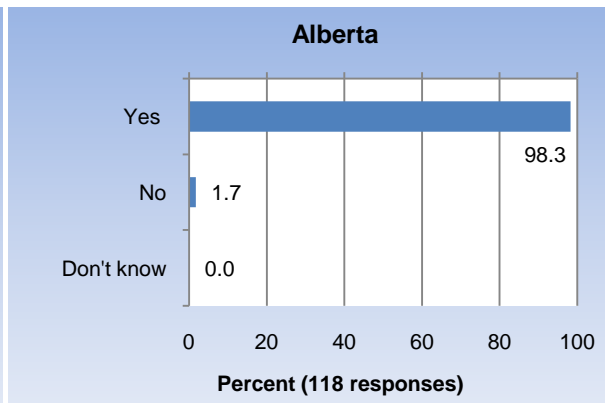
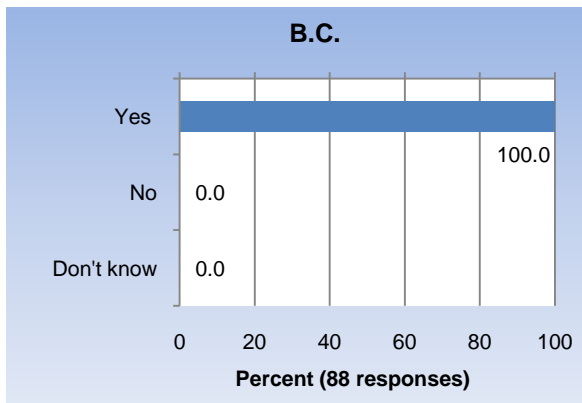
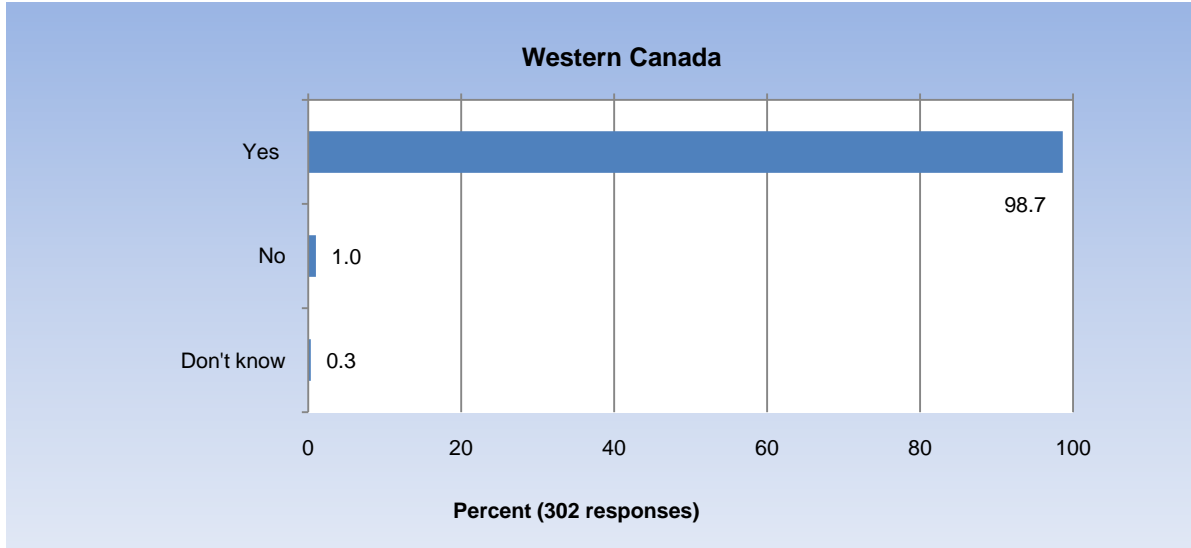
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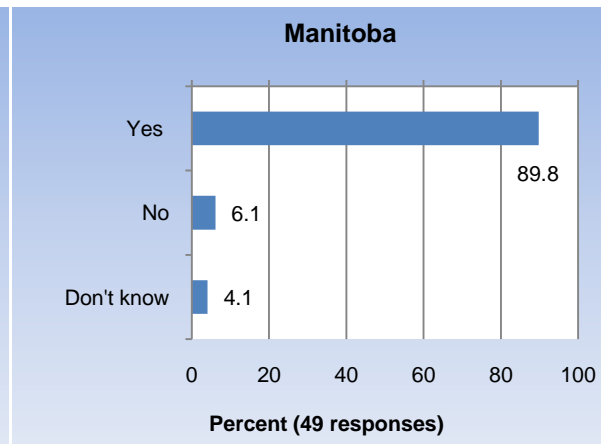
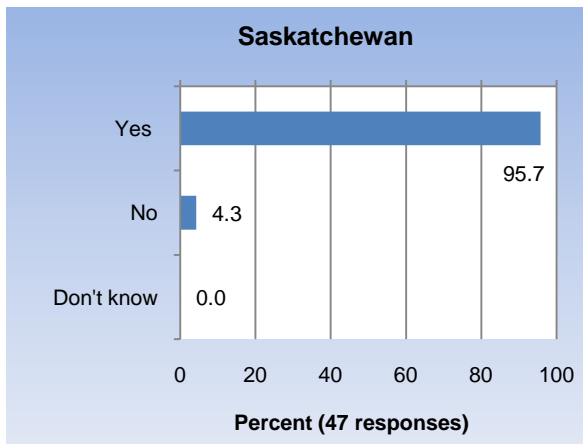
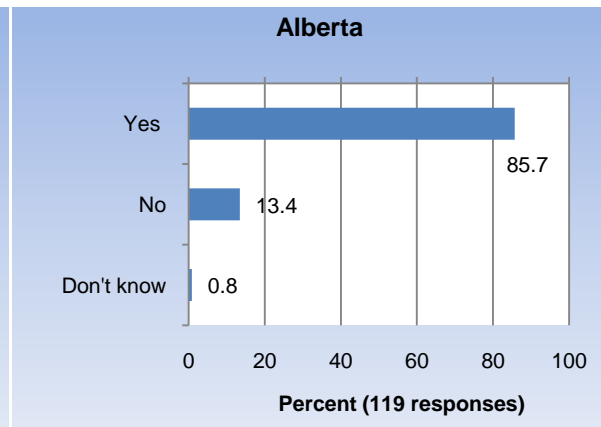
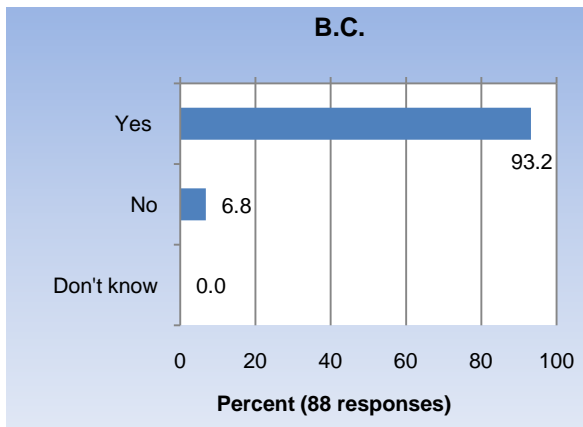
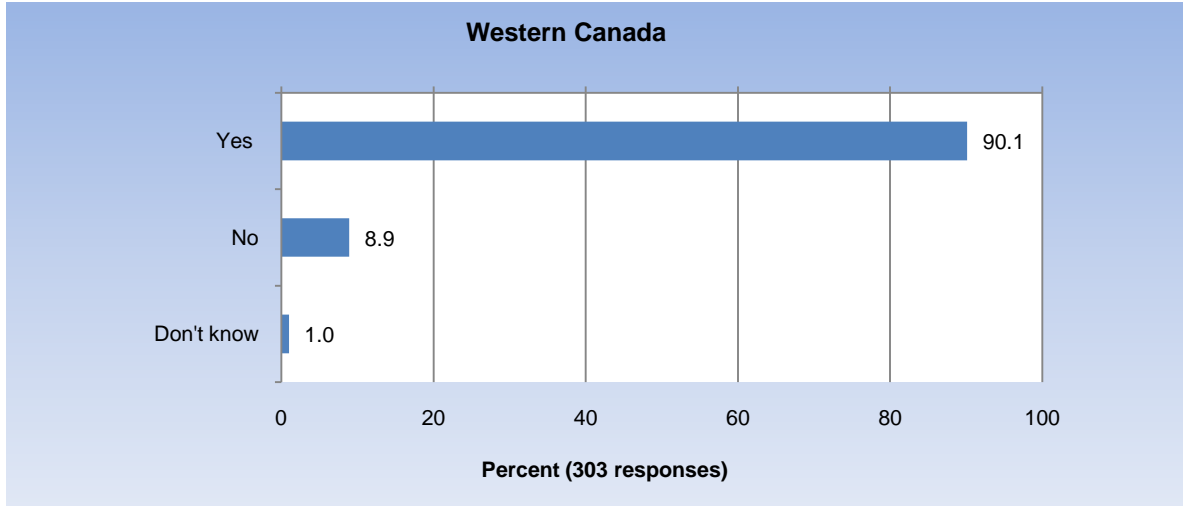
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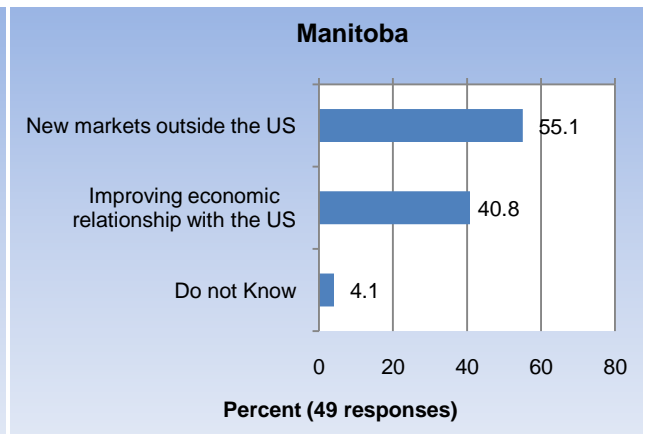
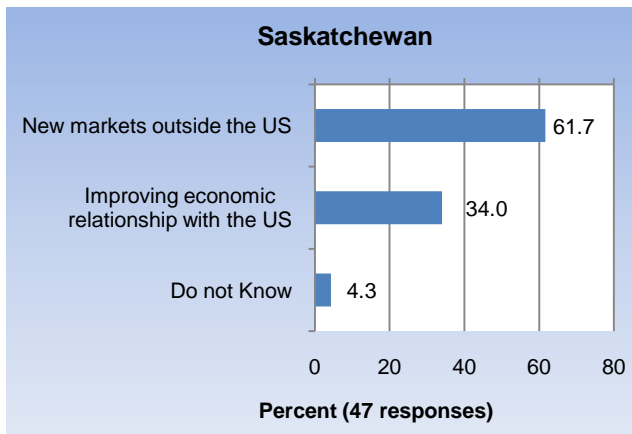
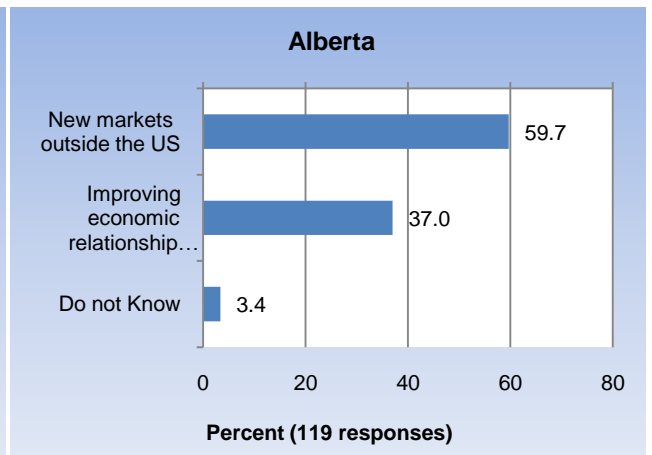
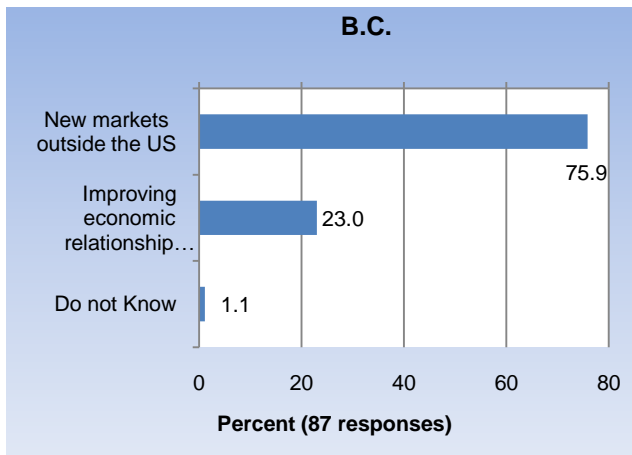
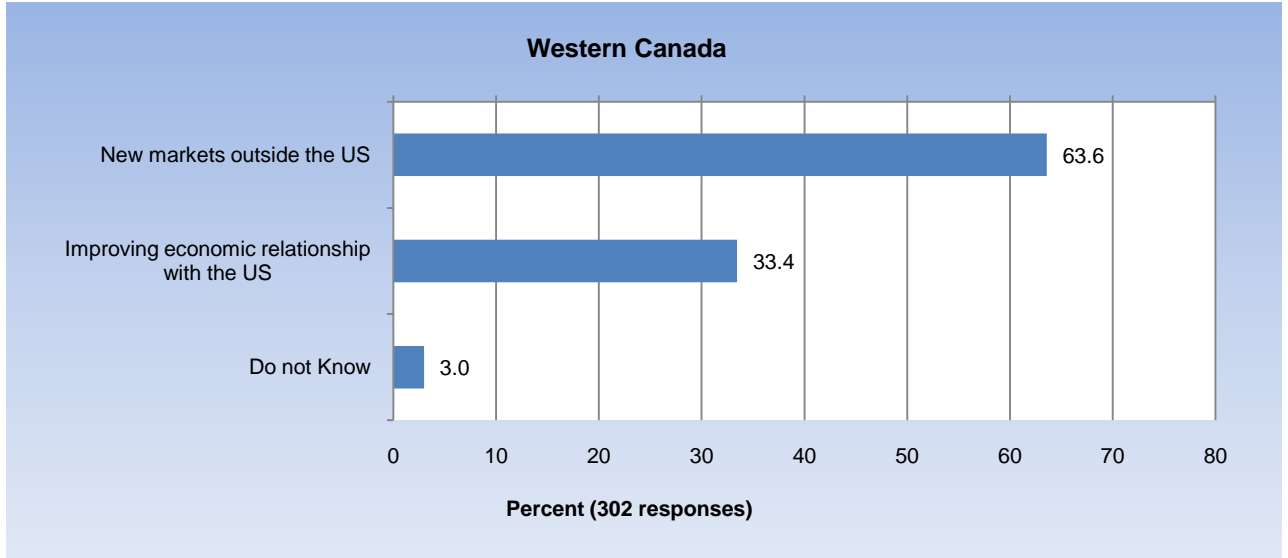
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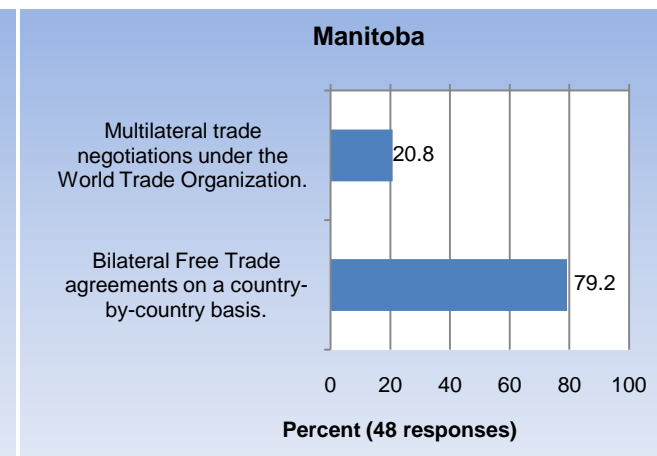
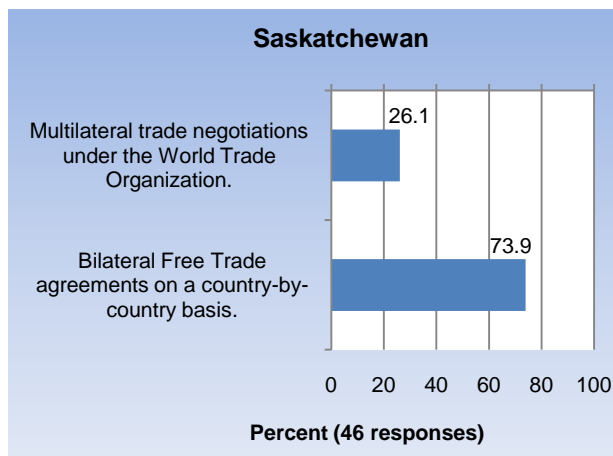
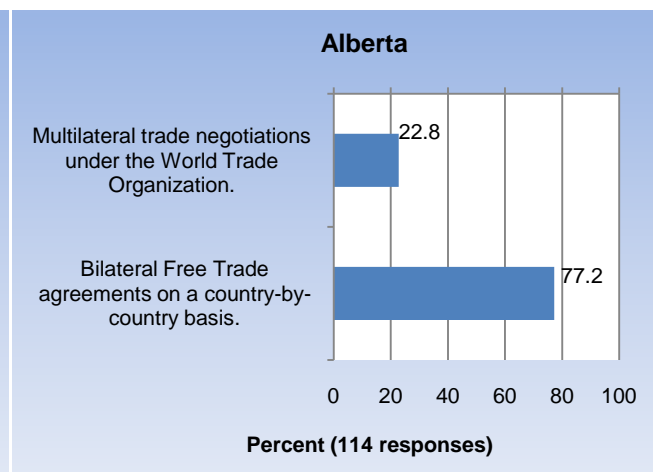
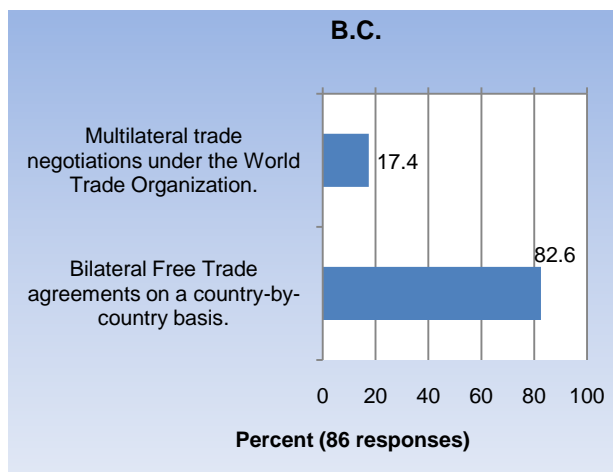
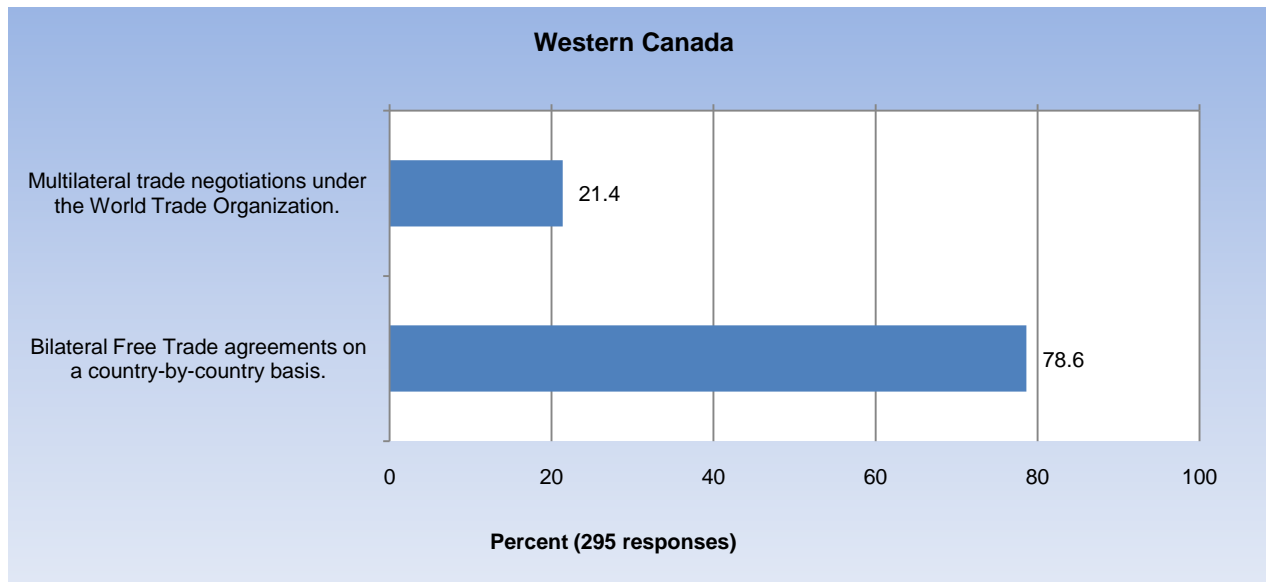
Q. Should Canada try to improve its economic relationship with the US?



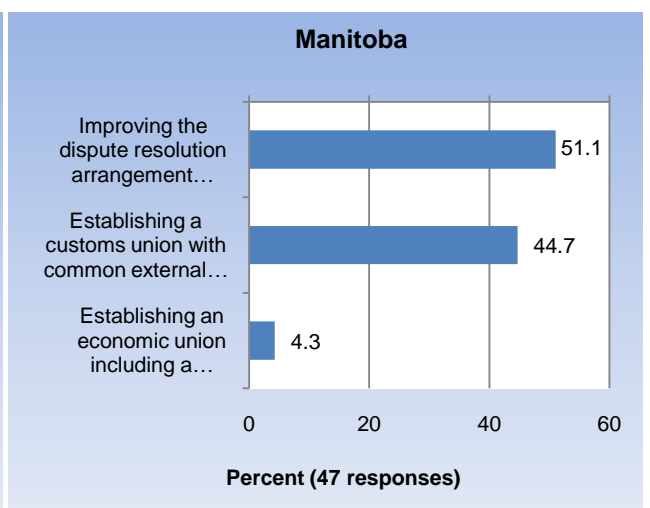
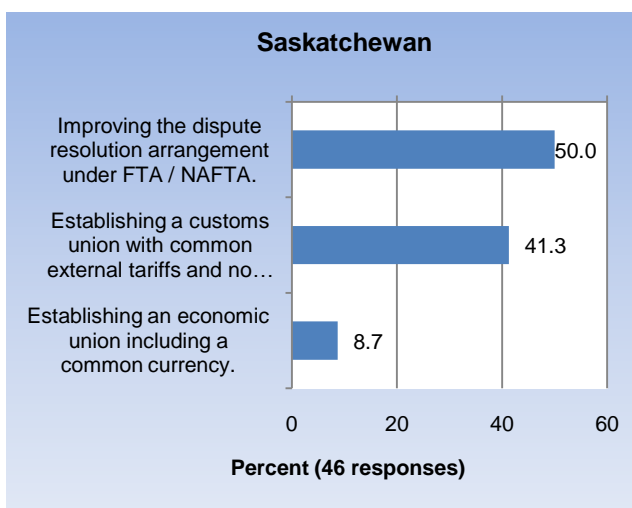
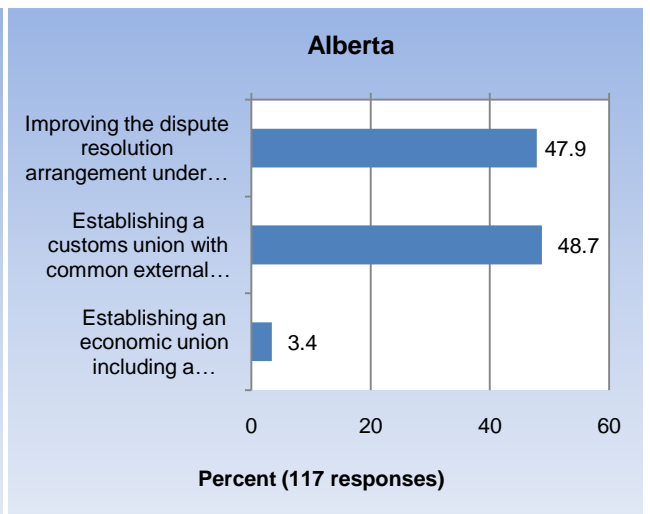
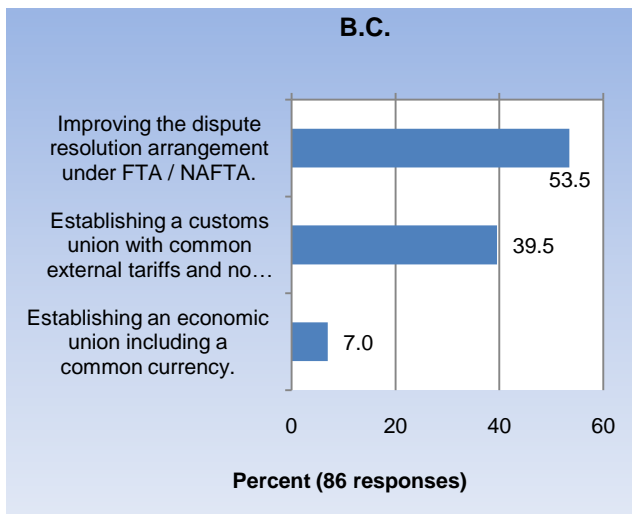
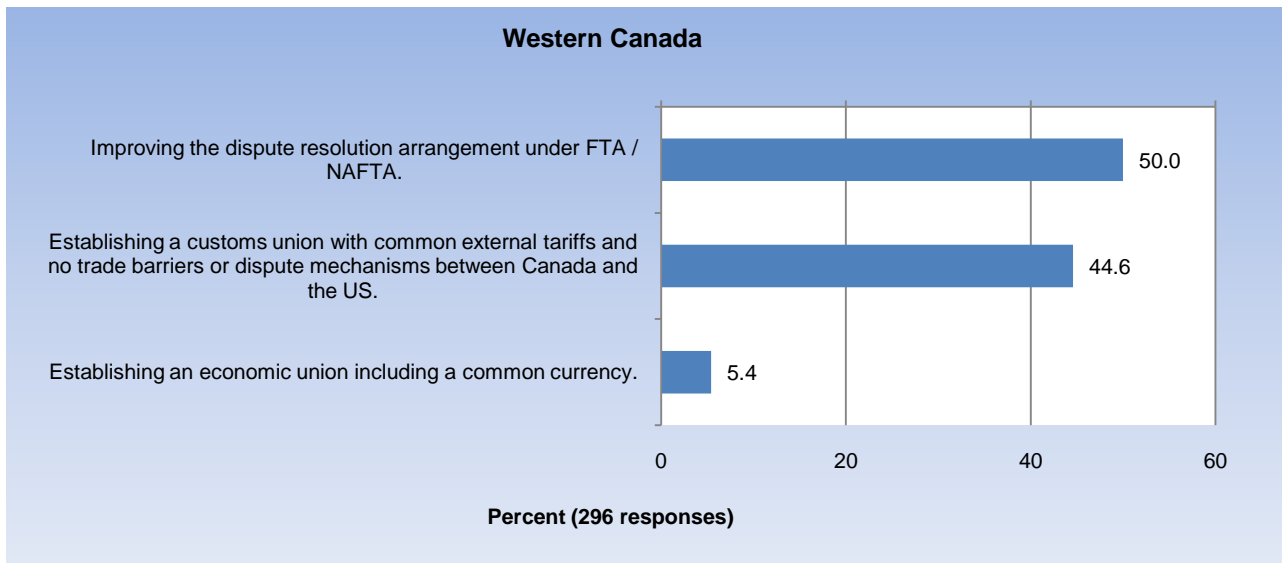
Q. Which option should be the highest priority?



Q. In considering the option of a new or expanded markets outside the US, what is the best way to achieve better access?



Q. What is the best way of improving our economic relationship with the US?



Economic Expectations:

The survey of Western Economic Expectations asked economic and financial analysts across Western Canada their thoughts on the western economy. Participants were first asked to weigh in on the short run future performance of their respective provincial economies. Across the four provinces, a similar constrained optimism was apparent. More than 80% of respondents believe that their provinces economic performance in the next six months will be the same as it has been in recent months, or will improve. By far and large, the greatest number of respondents chose “somewhat better” as the most appropriate performance measure, at 57.3%, 59.7%, 55.3%, and 50.0% in B.C., Alberta, Saskatchewan, and Manitoba, respectively. Saskatchewan had the highest number of respondents who believed their province’s economy would perform “much better” in the following months, at 12.8%. These results are not surprising, given that Saskatchewan, Alberta, and British Columbia, are expected to lead the economic recovery, save Ontario, with respective forecast GDP growth rates of 2.5%, 2.5%, and 3.7% in 2010, according to the Conference Board of Canada.¹ In B.C. the economic recovery is to be partially spurred by the estimated \$770 million boost to the B.C. economy from the 2010 Olympic Games. Rebounding commodity prices and the revived construction sector are current boons to the growth the West. Across the four provinces, the greatest number who thought their economic performance would stay the same in the near future was in Manitoba, at 37.5%. The projected growth rate for Manitoba, the most diversified province in the group, is the lowest among the western provinces at 2.0%.

Next, participants were asked how they expected the Canadian economy to perform over the next six months. The results were strikingly similar to the provincial expectations, save Saskatchewan. Again, across the provinces, more than 80% believed that the Canadian economy would perform the same or better in ensuing months. In Saskatchewan, this figure was 100%. In all the provinces, the majority believed economic performance would be “somewhat better” in the near future, at 59.1%, 60.2%, 78.3%, and 57.1% in B.C., Alberta, Saskatchewan, and Manitoba,

¹ Despite the fact that the projected growth rates in Alberta and Saskatchewan are forecast to be below the predicted national average growth rate of 2.8%, which is upwardly influenced by Ontario, with projected growth of 3.5% in 2010.

respectively. Less than 1.0% in all jurisdictions thought national economic performance would be “much worse.”

The outlook for provincial economies is less optimistic. Fewer respondents in all provinces thought their provincial economy would perform “much better,” especially in Alberta and Saskatchewan. Given a higher than national average estimated growth rate in B.C. for 2010, relative to most published projections, it appears some respondents in the province are weary of the pace and strength of recovery despite relatively positive forecasts.

Sentiments regarding the performance of the U.S. economy, however, were not as optimistic. For Western Canada as a whole, only 1.0% thought the US economy would perform “much better” in the next six months, while a full 25% of respondents believed U.S. economic performance would be worse than in recent months. Across all the provinces, the large majority believed that the U.S. economy would perform the “same” or “somewhat better,” (roughly 70% - 80%). These results seem to be in tune with economic growth forecasts. In February, President Obama’s budget pegged growth in 2010 at 2.7%, whereas the Canadian economy is predicted to grow between 2.8% and 2.9%, marginally outpacing our southern neighbors. Obviously, due to the highly integrated nature of our two economies, economic growth in Canada is highly dependent on that in the United States. These issues are addressed later in the survey.

Securities Market Regulation:

The recent economic downturn, which culminated in the housing market collapse in the U.S., brought financial and securities regulation, among other issues, to the forefront of the political foray. Policy reform, henceforth, became ubiquitous in the political conversation both south and north of the border. While the focus in the U.S. has been on the bundling of assets into questionable, often convoluted derivatives, potential conflicts of interests, and the lack of transparency in over-the-counter exchanges, the focus in Canada has been on national harmonization of securities regulation, with the aim of boosting investor confidence in the markets. Securities regulation has historically fallen under provincial jurisdiction. However, it is argued that overly-regulated capital markets, in which several billion dollars are traded each day in Canada, hamper foreign investment in Canada and limit the opportunities available to Canadian investors, as navigating through existing regulations is often costly and time-consuming.²

² (September, 19, 2005). *Reforming Canadian Securities Regulation*. Prepared by: Tara Gray, Economics Division and Andrew Kitching, Law and Government Division. Library of Parliament. Government of Canada.

In consideration of this, participants were asked about the possible replacement of provincial securities regulators with a national regulatory body in Canada. The overwhelming majority of respondents were in favour of this initiative. B.C. respondents were the most supportive (80%), while in Saskatchewan had the least amount of support (57.4%). For Western Canada as a whole, this figure is 69.1%.

The potential impact of a national regulator on the ability of firms in each province to raise capital was also addressed. Across all jurisdictions, the majority of respondents (roughly 60% - 70%) thought such policy reform would have either “no effect” or be a “moderate improvement.” These sentiments were the strongest in B.C. However, Alberta and Manitoba had the largest percentage respond that the creation of a national regulatory body would greatly improve their provinces firm’s ability to raise capital, at 10.8% and 12.5%, respectively.

When asked whether they believe the federal initiative infringes on provincial jurisdictions, as Alberta and Quebec have launched court challenges, the results were somewhat mixed. Not surprisingly, Alberta had the largest percentage of respondents, 35.2%, who believed a move to create a national regulatory body infringed on provincial jurisdictions. This figure was the lowest (19.6%) in B.C. Across all the provinces, however, the largest percentage of respondents believed such a policy change was not infringing. This sentiment was highest in Manitoba, at 44.9%. More than a quarter of all respondents were unsure of the constitutional legitimacy of such a policy.

The nature of federalism in Canada, with its constitutional division of powers between jurisdictions, is understandably difficult to fully comprehend, and while “some legal opinions have found that the federal government has the constitutional authority to pass comprehensive legislation regulating capital market activity within Canada,” others clearly disagree.³ Given historic regionalist tensions, these results shed an optimistic light on provincial-federal cooperation, at least in the realm of securities market regulation.

Trade:

The Honourable David Emerson, former Minister for International Trade, stated recently: “Canada always was, is now, and always will be a small trading economy... [We] are also a natural resource dominated economy [and] natural resources in our country tend to be westward biased.”⁴ This is inarguably true.

³ (September, 19, 2005). *Reforming Canadian Securities Regulation*. Prepared by: Tara Gray, Economics Division and Andrew Kitching, Law and Government Division. Library of Parliament. Government of Canada.

⁴ Trade Relations Forum, held by the Western Centre for Economic Research (WCER) in the Alberta School of Business, February 10, 2010.

In 2009, 75% of Canadian exports went south of the border. For Western Canada this figure is 71%. Alberta is the most heavily dependent on the U.S. export market, with over 80% of the province exports destined for the U.S. Saskatchewan and Manitoba are relatively less dependent, with U.S. export shares of 61% and 67%, respectively. In B.C., roughly 50% of all exports are purchased by Americans. Energy exports are the largest component of US exports from each of the Western provinces and, taken together, commodities make up the lion's share of US bound exports from the West.⁵ Trade relations with our southern neighbors are thus of critical importance to the provincial economies of Western Canada. With the recent economic downturn still vivid in the minds of Canadians, a slow recovery expected, and growing government deficit and debt issues (especially in the U.S.), the contentious issues of diversification and expansion of trading relationships have become hot topics.

In light of this, participants were asked a series of questions regarding Canadian trade, and the results are not too surprising.

Across all four western provinces, almost 100% of respondents believed that Canada should pursue new export markets outside the U.S. The most popular markets were Asia, in which China and India were the most frequent responses, and Europe. Latin American markets appear to be of little priority.

Interestingly enough, when posed the question: "Should Canada try to improve its economic relationship with the U.S.?" the large majority believed that we should. As one would expect, given the results of the previous question, this sentiment was highest in Saskatchewan (95.7%). In Alberta this figure was the 'lowest' at 85.7%, and 13.4% of Alberta participants in the survey said "No". Alberta's current heavy dependence on the U.S. market is clearly not lost on the province's constituents. For Western Canada as a whole, 90.1% believed strengthened ties with the US would be beneficial.

In order to compare the relative importance of these two foreign policy options, the question of which option is more important was posed. Across the board, the majority of respondents believed that penetrating new markets outside the U.S. is more important than improving the existing economic relationship with the U.S. These sentiments were strongest in B.C. (75.9%), followed by Saskatchewan (61.7%), Alberta (59.7%), and Manitoba (55.1%), for a regional average of 63.6%. As is to be expected, B.C., the province with the lowest dependence on the U.S. export market, placed the highest importance on trade diversification. Again, the belief that Alberta should seek new and expand existing trading relationships outside the US is apparent.

⁵ Source: Trade Data Online (TDO), Industry Canada.

As a follow up, participants were further asked to choose the best way to achieve better access to foreign markets outside the U.S. Surprisingly, most (79.2% - 82.6%) replied that bilateral free trade agreements on a country-by-country basis would be more effective than multilateral trade negotiations under the World Trade Organization (WTO). As a small, open, trading economy, international bodies such as the WTO give Canada clout beyond what is due in bilateral international agreements, or as the Honourable David Emerson laments, allow us to “punch above our weight.”⁶ Conversely, such agreements are often only obtained, if ever, after long, drawn out negotiations, which can hamper the effectiveness of such a process.

Furthermore, the most effective means by which to improve Canada-U.S. relations was addressed. The options presented covered various degrees of economic integration and harmonization, ranging from enhancing the NAFTA, to establishment of a full economic union, complete with a common currency. In theme with most of the previous questions, responses varied little from province to province. Improving NAFTA was the most popular choice, with roughly 50% support. Following that was the establishment of a customs union, with common external tariffs and no internal dispute mechanisms, with support ranging from 39.5% in B.C. to 41.3%, 44.7%, and 48.7% in Saskatchewan, Manitoba, and Alberta, respectively. The relative support for this initiative stands in perfect relation to the relative dependence on the U.S. for exports, as given above. Alberta is the most dependent, followed by Manitoba, Saskatchewan, and B.C. Creation of a full economic union, in contrast, was unpopular, with a minimum of 3.4% support in Alberta and a maximum of 8.7% in Saskatchewan.

It is clear that the Western provinces know where their bread is buttered, but the desire to be as independent as possible, a central characteristic of the western psyche, still remains strong.

To end the survey, participants were asked what products or services hold the greatest future potential for exporting to other countries. As is to be expected, energy products, such as oil and natural gas, and commodities (both raw and value-added), potash, and lumber products, were the most frequent responses. Manufactured products hold relatively little potential according to this survey. Perhaps most interesting, however, is the potential exports of technology, specifically related to the energy sector and ‘green’ technologies, as well as professional, technical, and engineering services. As the shift towards a knowledge and energy, service based economy continues, domestic development and export of these products and services will be of ever increasing importance.

⁶ Trade Relations Forum, held by the Western Centre for Economic Research (WCER) in the Alberta School of Business, February, 10, 2010.

Western experts bullish on Canadian economy compared to US

Jason Brisbois (WCER), Edmonton - February 26, 2010.

Economists and financial analysts in Western Canada think Canada's economy will outperform that of the US over the next six months. The latest results from the Western Economic expectations survey show that 64% of respondents indicated the Canadian economy would perform "somewhat" or "much" better, while only 40% of respondents chose those categories for the US economy.

The electronic survey was completed by over 300 economists and financial analysts in British Columbia, Alberta, Saskatchewan and Manitoba between January 25th and February 12th.

While 2010 forecasts for GDP growth in Canada and the US vary, many do suggest that Canada will marginally outpace the US. For example, President Obama's forecast from his budget proposal unveiled in February indicated 2.7% growth, while the Bank of Canada's forecast for Canadian growth in 2010 is currently 2.9 percent.

This, however, does not explain why respondents were significantly more bullish on Canada. Jason Brisbois, Chief Economist at the Western Centre for Economic Research, suggests, "Respondents might be looking at the Canadian economy from a western perspective."

When asked in the same survey how their province's economy looks for the next six months, respondents were also very optimistic. For example, 70 % of Alberta respondents indicated their province's economy would be somewhat or much better.

The survey results are accurate within 5%, 18 times out of 20.

Economists think a national securities regulator OK despite improbable benefits

Dan Gibbons (CWF), Calgary – March 2, 2010.

Economists and financial analysts in western Canada are largely in favour of a federal initiative to replace provincial regulatory bodies with a national securities regulator but are at best cautiously optimistic about what it will mean for their province, according to the latest survey exclusively of western Canadian economic and financial analysts.

The results of the Winter 2010 Survey of Western Economic Expectations conducted jointly by Canada West Foundation and the Western Centre for Economic Research at the University of Alberta's School of Business showed that 69.1% of respondents were in favour of the federal initiative, but only 40.6% felt that it would improve their province's ability to raise capital.

The electronic survey was completed by over 300 economists and financial analysts in British Columbia, Alberta, Saskatchewan and Manitoba between January 25 and February 12. Support for the initiative was highest in British Columbia, with over eight out of ten BC respondents in favour of the national securities regulator, compared to six in Manitoba and Saskatchewan and seven in Alberta. BC also had the highest rate of people who felt the initiative would lead to greater capital, with approximately half the respondents saying it would be a great or moderate improvement.

Overall, only nine percent of respondents thought that a national regulator would be a great improvement to their province's ability to raise capital. The largest group, 31.6%, thought that it would be a moderate improvement. Just over one in 10 saw the initiative as hindering their province, with 9.6% seeing it as a moderate impediment and 3.3% as a great impediment. Far greater were the 26.9% who felt it would have no impact.

The respondents were also asked their opinion on the assertion by the governments of Quebec and Alberta that a national regulator would infringe on provincial jurisdiction. Overall 40.5% of respondents said "no," with 28.2% saying "yes" and 31.2% saying they didn't know. Alberta had the highest number of yes answers, and was the only province where "yes" was not the least frequent response, but still had more answers of "no." The second highest number of yes answers came from Saskatchewan, with Manitoba third and BC last.

Economists view customs union with the US as important, viable option

Helmut Mach (WCER), Edmonton, March 25, 2010

Economists and financial analysts in Western Canada favoured improving the dispute resolution arrangement under the NAFTA as a way of enhancing our economic relationship with the US. However, an almost equally large number considered establishing a customs union with common external tariffs between Canada and the US a desirable option. Only a very small percentage supported the further step of establishing an economic union including a common currency.

The Winter 2010 Survey of Western Economic Expectations was conducted jointly by Canada West Foundation and the Western Centre for Economic Research the University of Alberta School of Business, and completed electronically by over 300 economists and financial analysts in British Columbia, Alberta, Saskatchewan and Manitoba between January 25, and February 12, 2010. The results showed that 50% of respondents were in favour of improving the dispute resolution mechanism under NAFTA but almost 45% considered the best option to be establishing a customs union with the United States. A customs union would be a significant step beyond the NAFTA, establishing common external tariffs and eliminating all types of trade barriers between Canada and the United States, and possibly Mexico. The common perimeter approach to dealing with imports would be an integral factor. Only about 5% supported the next step of an economic union including a common currency.

Support for the customs union option was highest in Alberta with almost 49% in favour. Support for this option in other provinces ranged from 40% to 45%.

In response to other questions in the survey, almost 100% of respondents believed that Canada should pursue new export markets outside the US, while 90% also thought that Canada should try to improve its economic relationship of the US. Of the two options, 64% believed the higher priority should be seeking new markets outside the US.

This question displayed the greatest degree of discrepancy amongst provinces with almost 76% of B.C. respondents establishing this is a priority, 62% of Saskatchewan respondents, 60% of Alberta respondents, and only 55% of Manitoba respondents. Alberta and Manitoba respondents showed a larger number focusing on the priority of improving economic relationships with United States.

In considering options of new or expanded markets outside the US, 79% of respondents believed bilateral free-trade agreements on a country-by-country basis should be pursued as a priority, while only 21% advocated reliance upon multilateral trade negotiations under the World

Trade Organization. Views across the four Western provinces were relatively consistent.

The survey also provided participants the opportunity to identify products or services which will yield the greatest potential for exporting from Western Canada to other countries. As expected, energy products, such as oil natural gas and commodities (both raw and value-added), potash and lumber products were the most frequent responses. Interestingly, respondents identified the potential of significantly expanded exports of technology, particularly those related to the energy sector and green technologies, as well as professional, technical and engineering services export. As the shift towards the knowledge and energy, service based economy continues, domestic development and export of these products and services will be of ever increasing importance.