CALGARY ECONOMIC DEVELOPMENT

Calgary Heart of the New West

2009 Calgary Economic Outlook

Revised

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Introduction

Is anyone confused? The economic landscape continues to show unprecedented change and negative impact. Speculations as to recovery and turnaround vary greatly and cover a wide range of perspectives – as the old joke goes, you can line every economist up end to end and you will never reach a conclusion.

Calgary Economic Development has revised its 2009 forecast, originally delivered September 15, 2008, to reflect the changing and deteriorating conditions economically around the globe and here in Calgary.

Continued tight credit markets, further job shedding in Canada and around the world from some of the globe's largest corporations, and persistent depressed commodity prices have resulted in a less optimistic view of Calgary's economic performance for 2009.

The View from Calgary

The sentiment in Calgary is mixed. Most conversations in Calgary focus on the significance and the speed at which this economic downturn was ushered in, and the pace with which cuts to spending and employment have ensued. Some of us are feeling rather gloomy – we have lost value in our investments, homes, even our jobs.

Lone wolves encourage us to think positively, that the can-do spirit and the togetherness that Calgarians display will help to get us through these difficult times. These are exceptional individuals, but as more and more announcements of layoffs permeate dinner and cocktail party discussion, the harder it is to remain optimistic.

So how is Calgary doing? From a strictly data perspective, Calgary is holding up relatively well – so far. Unemployment still remains very low – essentially at "full employment" – with the local unemployment rate at 4.1 per cent. Indications of a healthy performance is little salve however to an individual who has recently lost their job.

Inflation in Calgary is well in hand, coming in at 1.5 per cent in January 2009, on a year over year basis; this is down from highs of over 5 per cent through the past few years. This is a result of deflation in the housing, gasoline and consumer segments.

The slower side of the data picture is the real estate market. With January 2009 building permit values at only 40 per cent of the same time in 2008, the construction year is off to a slow start. This is a result of difficulty and increased cost accessing financing for new projects, and the significant slowdown in the housing market. Taking up some slack in the construction segment however, may be a potential rise in new governmental, institutional and infrastructure building activity as a result of stimuli from various levels of government.

The Calgary housing market continues to bear the brunt of an oversupply condition, with numerous homes still on the market, putting downward pressure on house prices. There is still plenty of supply to be worked through the market, which will serve to keep new housing starts at bay for 2009 until demand and inventory levels warrant a rise in new housing construction.

The data shows a generally well performing economy, all things considered. However word on the street and discussion around water coolers, dinner tables and board rooms is that times are very challenging – demand is down; prices are down; credit is difficult to access; and no one is spending. Can we afford this new project; can we afford to keep staff; can we afford to lose staff; all key questions being asked in Calgary. Overall the data is lagging behind sentiment and mood in Calgary.

Looking Ahead in Calgary

It is likely going to get worse before it gets better. With Q4 and annual report figures for many local based companies to be issued in the coming weeks, spring thaw in the oil patch and the realization that the global economy is not going to turnaround with gusto by summer, further layoffs and capital expenditure cuts are most certain to be experienced in Calgary. It is likely that for Calgary, we will not begin to feel the full impacts of the economic conditions until at least the end of Q2.

What will determine so much of our economic position and health in these times are energy prices. Should they remain depressed for some time, it will continue to eliminate incentive and possibility for new capital investment, ultimately having full value chain employment repercussions. Alberta's relatively high marginal cost of extraction, coupled with a royalty regime that places Alberta in a less competitive stature compared to other provinces and states, will require that conditions turn around significantly before Alberta and Calgary will again see heady growth in its key sector.

Things are difficult right now yes. Some of our friends and neighbours are being laid off, creating significant stress within the community on families and service providers trying to help those in need. The non-profit and charitable sectors are hurting due to a downturn in donations, revenues and reduced capital bases for foundations. Demands on those organizations are growing, as more and more Calgarians face stress and strain as a result of a slower economy, job loss or other affects. Business is slower. Prices are down. And the end does not feel like it is near.

This economic situation is ultimately due to the loss of confidence. It is a lack of confidence in the current state of the economy, prices, markets, jobs and the future overall that keeps fueling sell offs in markets and hammering commodity prices. Economic recovery will be driven by a return of confidence, which will be achieved when we begin to see a stemming of the losses that seem to be an everyday occurrence.

So where does a restoration of confidence begin? Primarily with stabilization of U.S. house prices. That should be the beginning. From there, it builds across a number of areas – job markets, stock markets, commodity prices etc. – and spurs us to not covet thy closed wallet so much and begin to spend and invest appropriately.

In the end, we have to be realistic with a side salad of optimism. Should we be confident in Calgary – yes, in a measured and realistic way. We are faring much better than other places and we are extremely well positioned for when things turn around. And history tells us that things will turn around. This is not the first economic downturn, nor will it be the last. It is critical to keep that in perspective, and to remain optimistic for the future. The only outstanding question, the million dollar question, is when will the turnaround happen?

Calgary and Canada are well positioned to come through this situation better than many other cities and countries. We are making significant investments in our city and our country to be competitive when things turn around.

Demographics alone will see us move back to strong labour shortages when the economy picks up, so those recently laid off will likely find good demand for their services when the economy is back on the rise. Finally, we are a global energy centre. The world will need an increasing amount of energy as the economy picks up. We will be well positioned to see economic gains as a result of that – it is just the wait that will be incredibly painful.

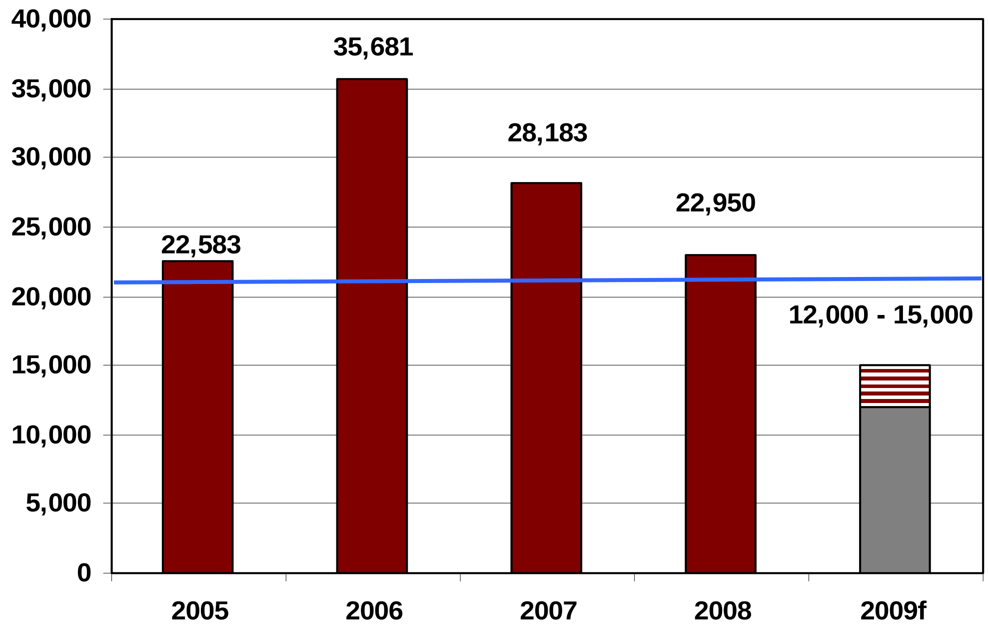
The ride shall be rough during this downturn. We should all be prepared for that, and expect that it will be here for at least another 12 months. Times are challenging, yes. But we are a city of great energy; literally and figuratively. That energy will keep the fires burning and the lights shining in even our darkest hour.

Economic Indicator Forecast Revisions

Population

With the economic slowdown affecting all areas of Canada, including Calgary, it is unlikely that migration will be significant anywhere in Canada for 2009. Few locations offer better job prospects than others, and the costs of moving in a time when savings and debt repayment are priorities is unlikely. Additionally, Calgary's higher housing prices also serve to make a move challenging for households coming from less expensive housing markets.

In 2009, expect net natural addition to continue at the 8,000 to 9,000 level, and net inmigration to be between 3,000 and 7,000 people, for a total population growth forecast of 12,000 to 15,000 for 2009, representing an upper end growth rate of 1.44 per cent over 2008.

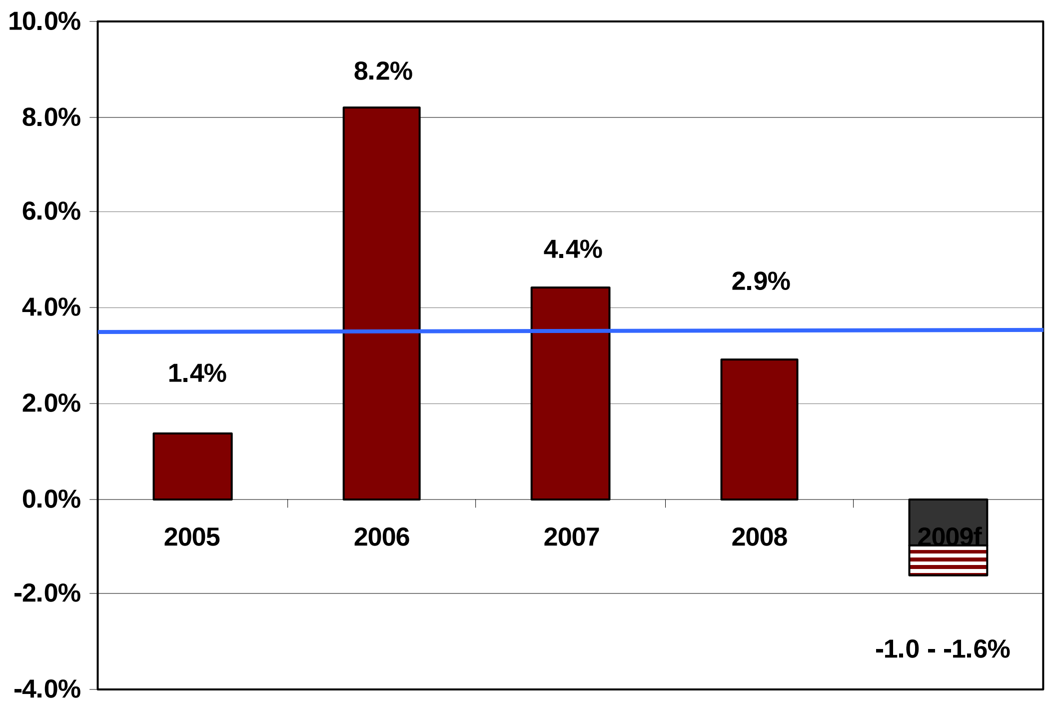


Source: *City of Calgary Civic Census, CED*

Employment Growth

With slower population growth, and continued job losses in Calgary, it is forecast that Calgary's employment will contract in 2009, despite coming off three very strong years. Labour force growth is expected to keep pace with population growth, as more people remain actively working, or looking for work, in this economic slowdown.

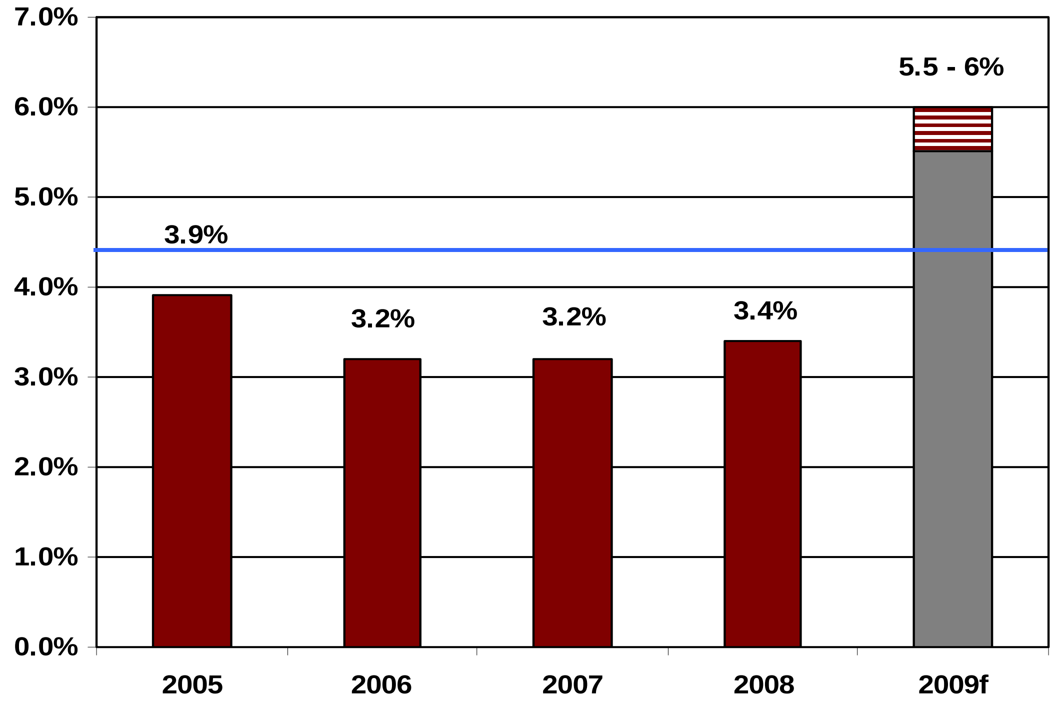
In 2009, employment in Calgary is forecast to contract between 1.0 and 1.6 per cent.



Source: *Statistics Canada, CED*

Unemployment Rate

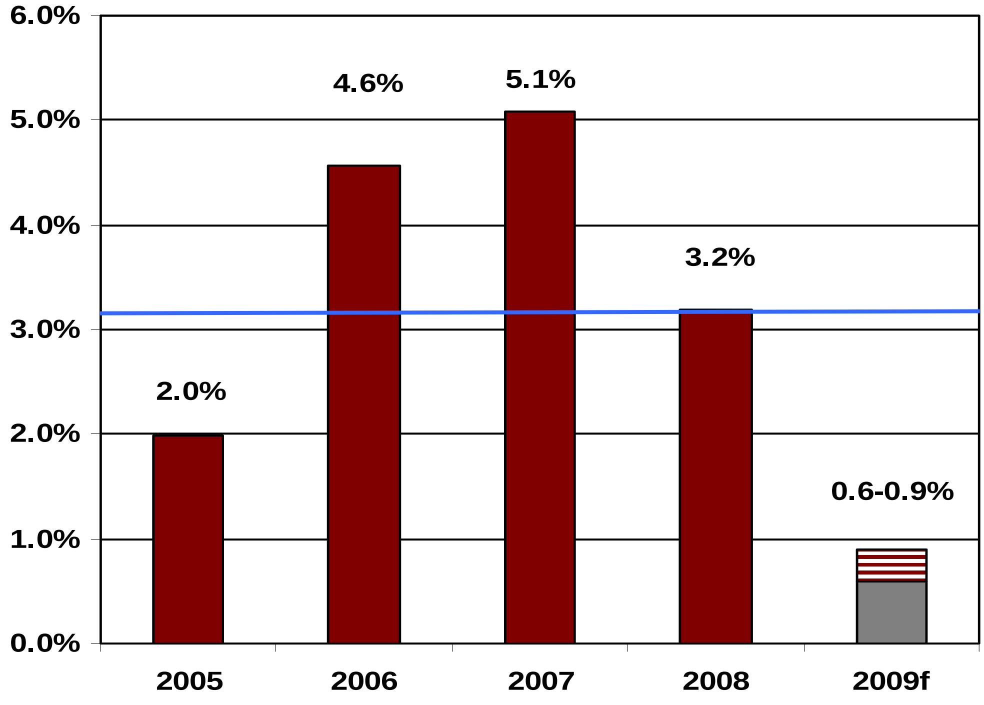
With some job losses already experienced in January 2009, and more expected as companies make decisions post spring thaw and annual reports, the unemployment rate in Calgary is forecast to rise to an annual average of between 5.5 and 6.0 per cent.



Source: *Statistics Canada, CED*

Inflation

With inflation coming in at 1.5 per cent for January, previous concerns of inflation in Calgary are a matter of history – for now. Inflation is expected to be 0.5 per cent nationally for 2009, but with Calgary's relatively stronger performing economy and higher purchasing power, the Calgary inflation rate for 2009 is forecast at 0.6 to 0.9 per cent.



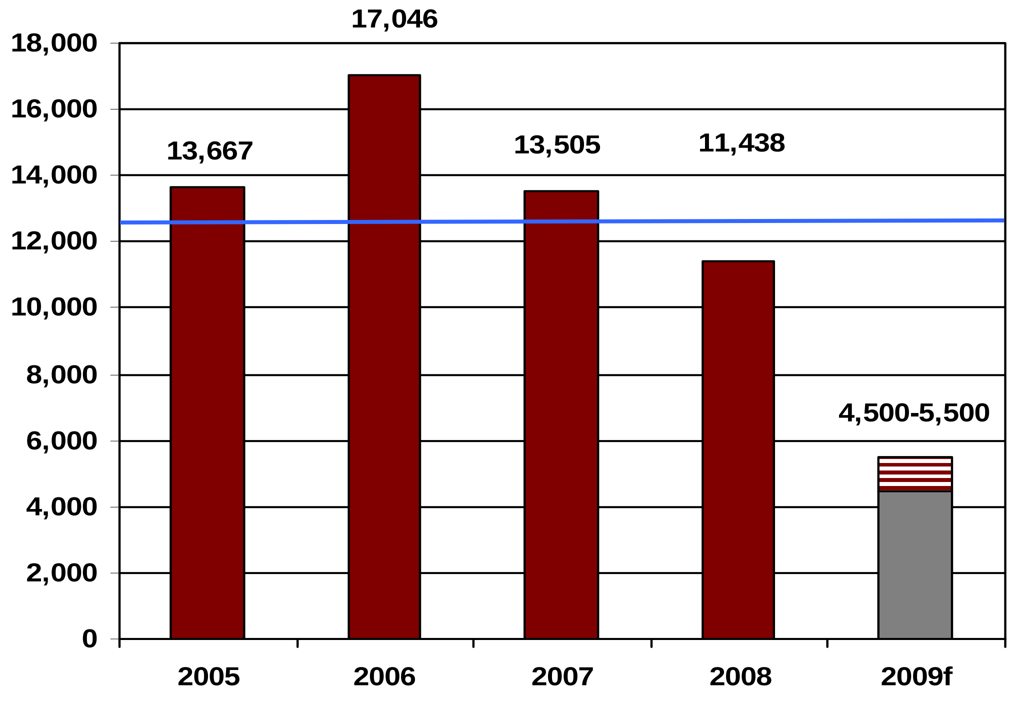
Source: *Statistics Canada, CED*

Housing Starts

With an abundant supply of resale and new housing product on the market as of the end of January, there is little need for the construction of a significant number of new housing units in Calgary. Homebuilders and developers are all competing with individual homeowners for purchasers.

Housing starts dropped 21% per cent in 2008 from 2007, showing an already slowing housing market in Calgary. With MLS listings over 9,000 units, and sales a meager 1,000 units in January 2009, there is a lot of inventory to work through before many new homes would be justified.

It is forecast that there will be between 4,500 and 5,500 housing starts in Calgary for 2009.



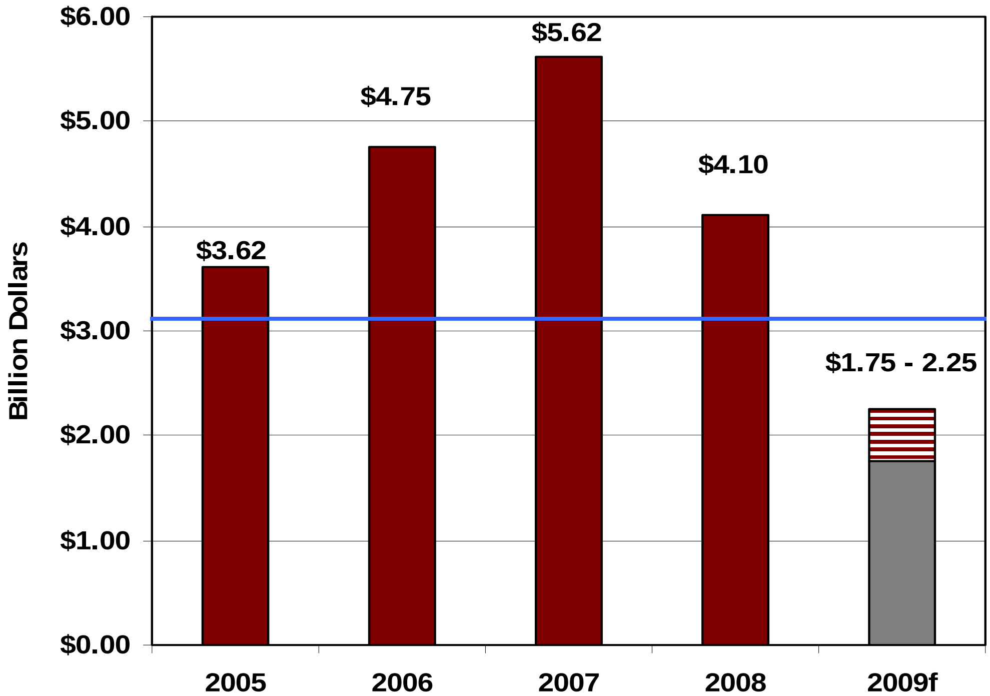
Source: *Statistics Canada, CMHC, CED*

Building Permits

2007 was a record year for building permit values in Calgary, one which saw mega projects such as 'The Bow', raise permit values to new heights. 2008 was a very strong year compared to historical averages, but came in $1.5 billion lower than 2007, at $4.1 billion. This decline was not unexpected however.

If January figures are any indication, with residential permit values 34 per cent of the same time last year, and non-residential permit values 40 per cent of last year, 2009 looks to be a slow year for new construction activity.

With the slowdown in new housing starts, and the difficulty accessing financing for commercial projects, building permit values for 2009 are likely to be substantially lower than previous years and well below the 10-year average of $3.1 billion. Calgary building permit values for 2009 are forecast between $1.75 and $2.25 billion.



Source: *City of Calgary, CED*

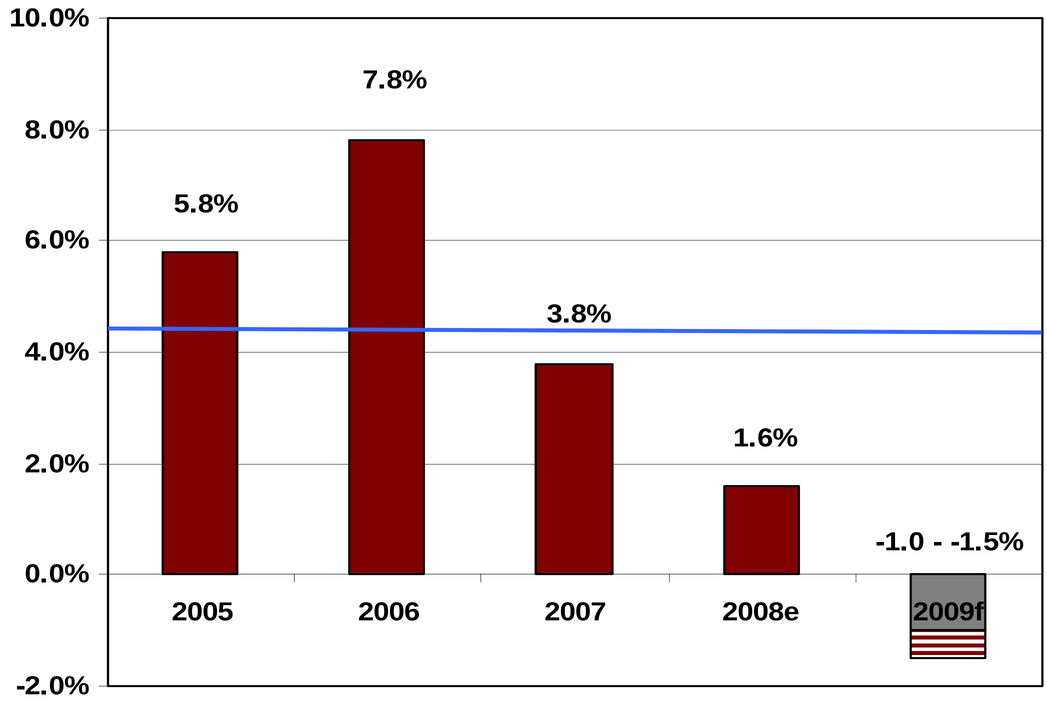
Real GDP

During the early days of this economic situation, it was unclear as to how long it would last, and how deep it would go. For a while, energy prices stood their ground, but fell to slumping confidence and building inventories. During the first few months of the economic slowdown, hopes were high that Alberta and Calgary would avoid a recession.

While 2008 real GDP figures are not yet reported, it is estimated that Calgary will avoid a recession for 2008 as a result of strong performance for the first three quarters of the year. It is estimated that the strong slowdown in the last quarter of 2008 will not be significant enough to erode the gains achieved during the first three quarters, specifically when oil prices reached record highs of US$147 per barrel. The 2008 real GDP estimate for Calgary is for growth of 1.6 per cent.

2009 will prove to be a different year however. As the continued economic situation continues to unravel, with more layoffs, continued depressed energy prices and slumping global demand for most goods and services, it is highly improbable now that Alberta and Calgary will avoid an economic contraction. In fact, given the pace of growth and economic activity in Calgary over the past few years, the contraction will feel more pronounced here in Calgary than elsewhere.

Calgary's real GDP is expected to contract in 2009, at a rate between 1.0 and 1.5 per cent.



Source: *Conference Board of Canada, CED*

Sources

- Statistics Canada
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- CB Richard Ellis
- Avison Young
- Bank of Canada
- TD Economics
- RBC Economics
- City of Calgary
- Canada Mortgage and Housing Corporation
- Conference Board of Canada

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