Q2
2011

Calgary & Region Economic Update

2011

CALGARY ECONOMIC DEVELOPMENT

THE CITY OF CALGARY
CHIEF FINANCIAL OFFICER'S DEPARTMENT

Introduction

The City of Calgary monitors and forecasts economic activity in Calgary and the region throughout the year. Corporate Economics reports on these activities through the Economic Outlook at the end of each quarter. The Economic Update provides an analysis of changes in key economic indicators for the Calgary area in recent quarters.

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Completed July 2011

Forecast

Calgary Economy

The Calgary economy is still recovering and therefore most economic indicators are below their pre-recession peaks. Building activity has remained relatively subdued as the economy still experiences some spare capacity. The section that follows provides a brief discussion of a selected number of economic indicators for Calgary and the world outside its borders.

Labour Market

- The economic recession resulted in employment losses in 2009 and 2010. The resumption of economic growth in 2011 and an increased demand for labour should result in the economy recouping all of its job losses between Q4 2011 to Q1 2012.
- The labour force participation rate was estimated at 76.4 per cent in 2006 and increased gradually to 76.8 per cent by 2008 before declining to 74.6 per cent in 2010 and should fall further to 73.8 per cent in 2011.
- The onset of the recession in 2008 and 2009 caused labour force growth to exceed employment growth and this pushed the unemployment rate up to 6.6 percent in 2009 and 7.0 per cent in 2010 from 3.3 per cent in 2008. The return of job growth in 2011 should cause the unemployment rate to drop from 7.0 per cent.

Inflation

- The 12 month moving average inflation rate as at May 2011 for the consumer price index was estimated at 1.13 per cent for May 2011, the last month for which data is available. If present trends continue, consumer price inflation rate should exceed 2.5 per cent by December 2011.
- Increased employment levels and lower unemployment rates from the second half of 2011 forward should result in increased competition among employers for available workers and should exert upward pressure on wage inflation rates.
- Slower economic growth from 2006 onward resulted in a reduction in the demand for housing and caused house prices to grow at a slower pace or to decline. The rebound in economic growth in 2011 should result in a firming in demand and stabilization in house prices.

Investment Intentions

- Total building permit values trend downwards from $5.6 billion in 2007 to $2.9 billion in 2010. Higher vacancy rates in both residential and non-residential markets reduced the demand for new space and this contributed to the reduction in building permit values. Total building permit values in 2011 should increase above 2010 values in response to increased investment spending in the non-residential sector.

World Outside of Calgary

Alberta

- Investment activity in the non-conventional oil sector is expected to drive the Alberta economy in 2011. Statistics Canada estimates that investment intentions should increase by 15.2 per cent in 2011. Consequently, the provincial economy should expand by 3.8 per cent in 2011, up from 3.6 per cent a year earlier.
- Crude oil price is expected to average US$100/bbl in 2011, up from US$79/bbl last year. Higher crude oil prices should lead to increased cash flow and therefore increase business investment.
- North American natural gas prices are expected to remain weak in response to increased shale gas production and stagnant demand for natural gas from a slow growing U.S. economy. Natural gas prices are projected to average $4/GJ in 2011, unchanged from 2010.

Canada

- The Canadian economic growth has slowed in recent months in response to a weakening U.S. economy and reduced spending by Canadian households. Increased capital investment by the private sector, especially in Alberta, should provide an offset to reduced consumer expenditures.
- Real personal expenditure in Canada reached an all time high of $852 billion, after the recent trough of $805 billion in Q2 2009. Business investments in the fixed capital formations also recovered from the low of $225 billion in Q3 2009, to $264 billion in Q1 2011. The current level of investment spending is still lower than pre-recession peak of $279 billion in Q1 2008.

U.S.

- Economic activities continued to increase in the U.S., albeit at a moderate pace. Excess production capacities in the economy is placing a downward pressure on wages and prices.
- The actual real GDP levels in the U.S. were lower than their potentials in the past three years. The gap between the actual and the potential real GDP was $769 billion in 2010, or 5 per cent of the $13 trillion actual real GDP.

World

- The global economic expansion continues on track in the first half of 2011, despite the shocks of the disasters in Japan and the political turmoil in the Middle East and North Africa (MENA) earlier this year. The two-speed economic recovery that began in 2009 still continues in 2011, with emerging markets growing about three times faster than developed markets.
- The world economy is expected to grow by 4 per cent in 2011. Earlier fears of a double-dip recession have not materialized. While there are no shortages of headwinds, we believe the recovery continues to be robust as global business confidence improves.

Forecast Risks

The forecast risks have increased significantly since the last quarter's report and these are tied to events outside of Canada.

Lifting Factors ⟷ **Dragging Factors**

Consumer Sector

Lifting Factors:
- Increasing employment

Dragging Factors:
- Falling house prices
- Rising interest rates
- High consumer debt levels

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Business Sector

Lifting Factors:
- Rising oil prices
- Low interest rates

Dragging Factors:
- Depressed natural gas prices
- Sagging consumer and business confidences
- Low housing starts
- Low non-residential construction
- Rising interest rates

+

Government Sector

Dragging Factors:
- Budget deficit
- Reduction in government spending

+

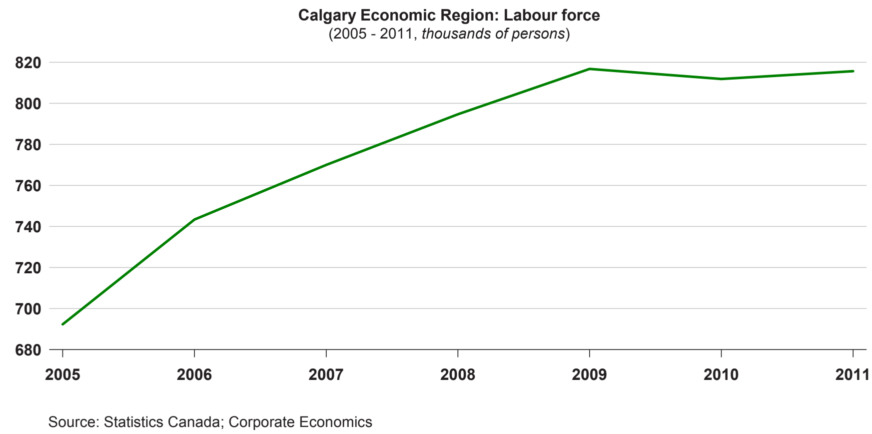
World outside Alberta

Lifting Factors:
- Strong growth in the emerging economies
- Confidence in the developed world revives prompting a stronger rebound in demand

Dragging Factors:
- U.S. economy grows below its potential growth rate
- The BRIC economies experience weaker growth
- The developed economies experience significantly weaker growth
- Some EuroZone members default on their sovereign debt
- The global economy becomes significantly protectionist

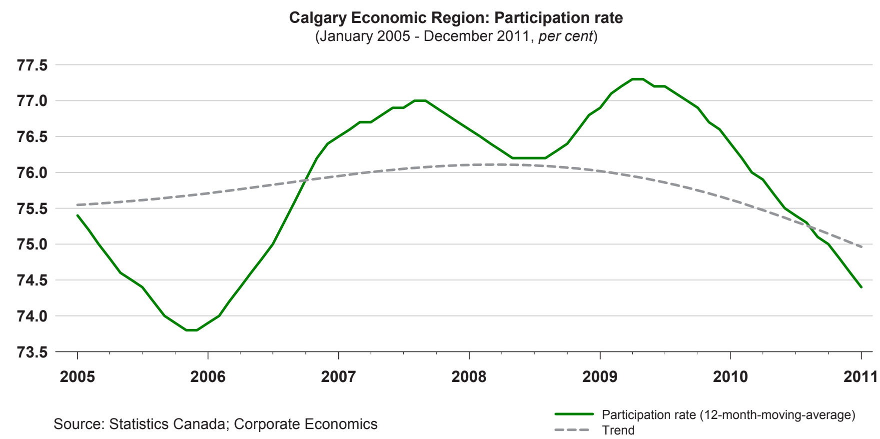
Labour Force

In 2011, the Calgary Economic Region's labour force is expected to recoup most of the losses suffered in the recession as job growth resumes, net migration becomes positive and the labour force participation rate stabilizes. This is a change from 2010 when the total labour force contracted as job seekers became discouraged and withdrew from the labour force in response to reduced job prospects.



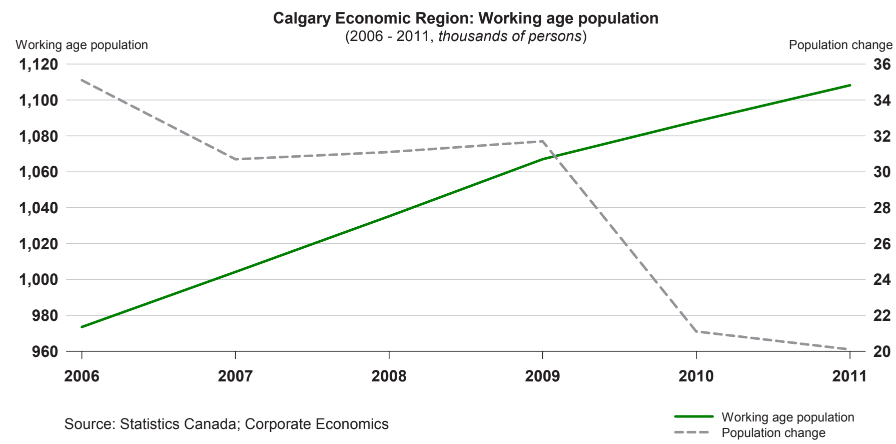
The labour force participation rate was estimated at 76.4 per cent in 2006 and increased gradually to 76.8 per cent by 2008 before declining to 74.6 per cent in 2010 and should fall further to 73.8 per cent in 2011.

Changes to the labour force participation rate are influenced by job seekers perceptions on finding work. A weak job market generally contributes to a lower participation rate as people withdraw from job search as they are discouraged by reduced expectation of finding work. For example, the labour force participation rate fell below its long-term trend in 2010 and 2011 as individuals withdrew from the labour force in response to poor job prospects.

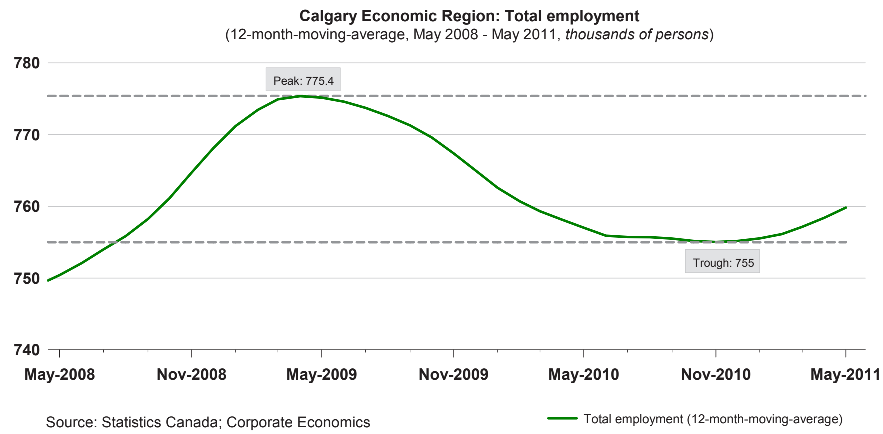


The working age population averaged 973,500 persons in 2006 and increased to 1,088,100 persons in 2010 and should reach 1,107,500 in 2011. The working age population grew with a lag above trend between 2006 and 2009 in response to strong job creation and a large influx of migrants and by 2010 the rate of population growth fell as economic growth weakened.

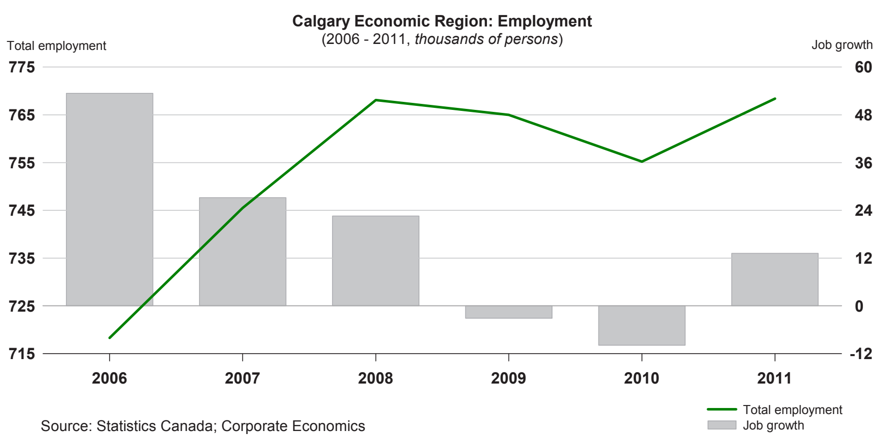
The working age population is defined as the population between the ages of 15 to 64. The working age population therefore changes in response to population aging, net migration and deaths.



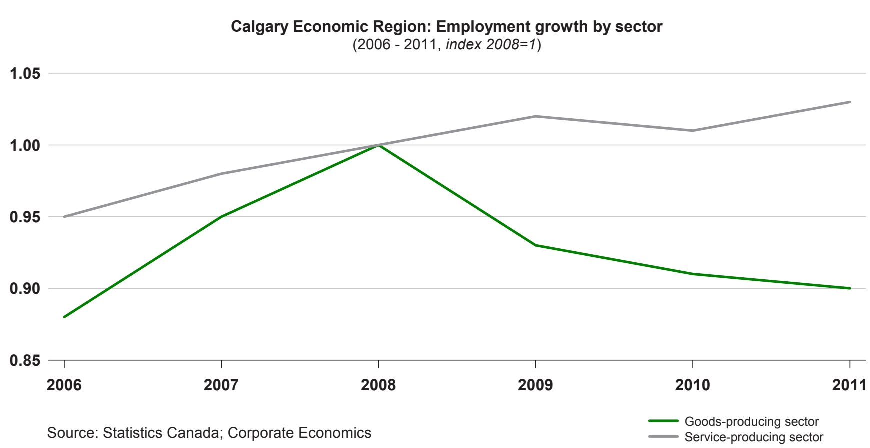
Employment



Total employment in the Calgary Economic Region contracted for a nineteen month period, which extended from April 2009 to November 2010, and it is estimated that there was a net job loss of 20,000 positions.



Total employment averaged 718,300 persons in 2006 and increased to 768,100 persons in 2008, in response to a growing economy. The economic recession resulted in employment losses in 2009 and 2010. The resumption of economic growth in 2011 and an increased demand for labour should result in the economy recouping all of its job losses between Q4 2011 to Q1 2012.

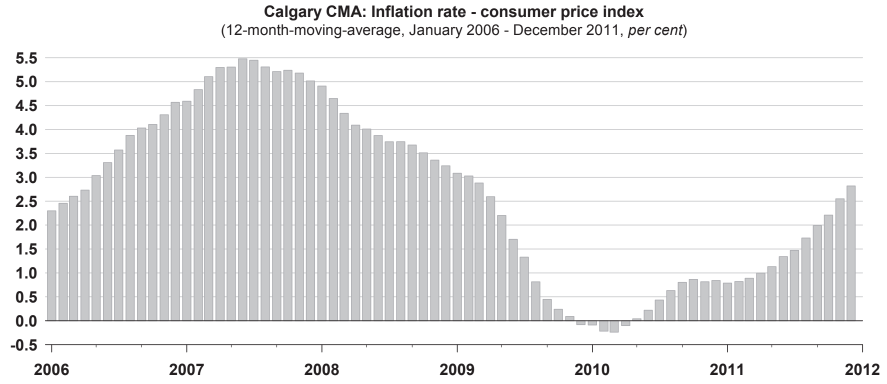


Total employment in the goods producing sector increased between 2006 and 2008 and from the 2008 peak, it declined in 2009 and 2010 and should also experience net job losses in 2011. Service sector employment grew steadily between 2006 and 2009 before declining in 2010. The labour force data shows that the service sector is leading the job recovery in the Calgary Economic Region and that total service employment in 2011 is expected to be higher than its 2009 level.

The unemployment rate fluctuated between 3.25 per cent and 3.4 per cent over the 2006 to 2008 period, as employment growth exceeded labour force growth. The onset of the recession in 2008 and 2009 caused labour force growth to exceed employment growth and this pushed the unemployment rate up to 6.6 percent in 2009 and 7.0 per cent in 2010. The return of job growth in 2011 should cause the unemployment rate to drop from 7.0 per cent.

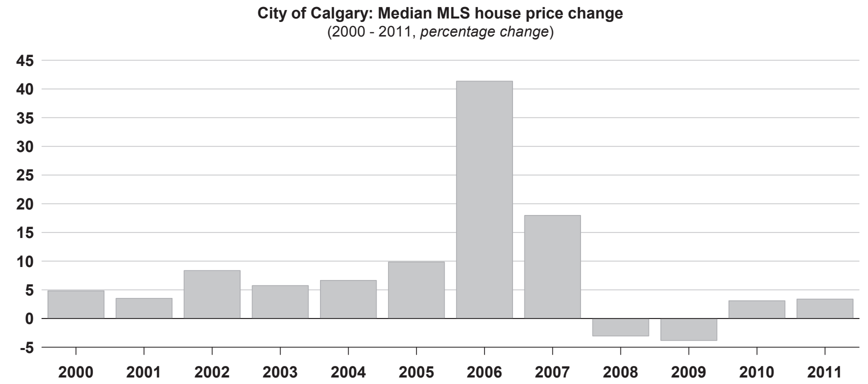
Prices

The inflation rate, 12-month-moving-average, for the consumer price index is estimated at 1.13 per cent for May 2011, the last month for which data is available. If present trends continue, consumer price inflation rate should be above 2.5 per cent by December 2011.



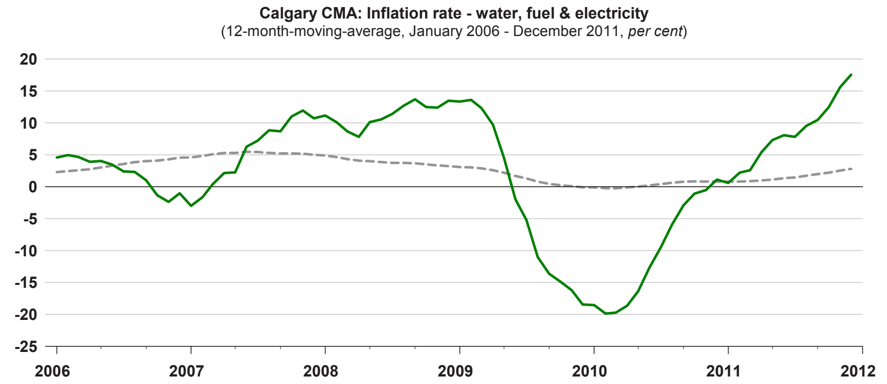
Source: Statistics Canada; Corporate Economics

Consumer price inflation is expected to trend upwards over the rest of the year as shelter costs increase. Shelter cost account for about 30 per cent of the consumer basket and therefore should have a significant impact on changes to the overall inflation rate. Higher house prices and mortgage rates over the rest of 2011 should drive shelter costs higher.



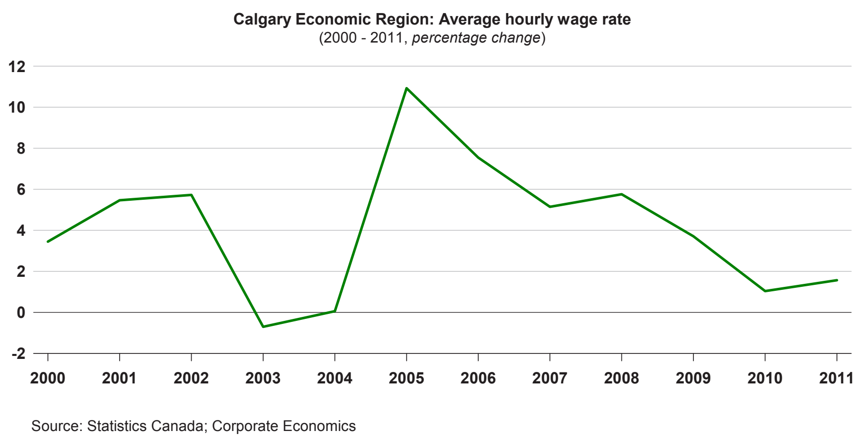
Source: Calgary Real Estate Board; Corporate Economics

Relatively higher energy prices in the second half of 2011 should contribute to increased fuel and electricity costs and result in higher consumer inflation rates in 2011.



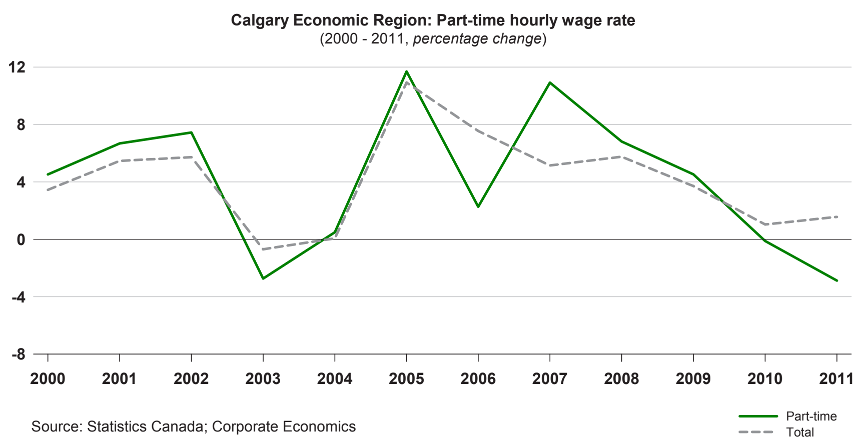
Source: Statistics Canada; Corporate Economics

Wage Inflation

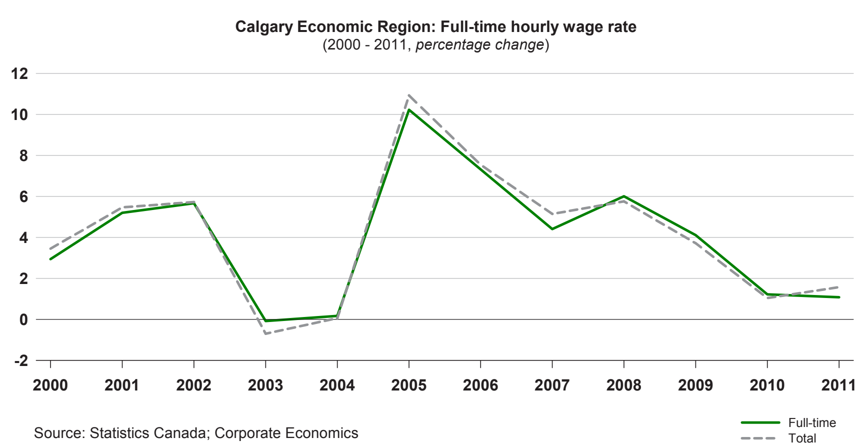


Increased employment levels and lower unemployment rates from the second half of 2011 forward should result in increased competition among employers for available workers and should exert upward pressure on wage inflation rates.

The wage inflation rate was lower in 2009 (3.7 per cent) and 2010 (1.0 per cent) compared to 2005 (10.9 per cent) and 2006 (7.6 per cent). Higher unemployment rates in 2009 and 2010 resulted in increased competition among job seekers for available jobs and this pushed the wage inflation rate lower. Also, employers had the bargaining power to offer lower or zero wage increases to workers.



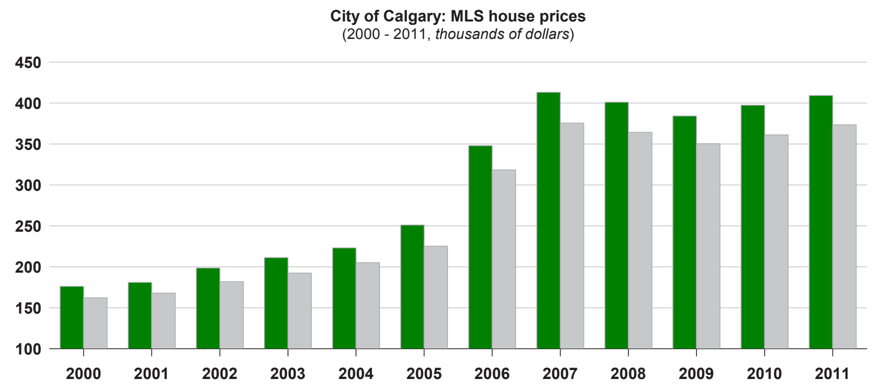
Wage increases for part-time workers are not expected to recover for the rest of 2011. The demand for workers is expected to shift from part-time to full time workers as the economic recovery gains momentum. Employers would require employees to work longer hours to increase output. This shift in demand from part-time to full-time employment would be reflected in relatively lower wage increases for part-time workers.



The demand for full-time workers should grow over the remainder of 2011, in response to increased economic activity. This should result in relatively higher wage inflation rates for full-time workers as they are asked to worker longer hours and employers increase the demand for full-time employees.

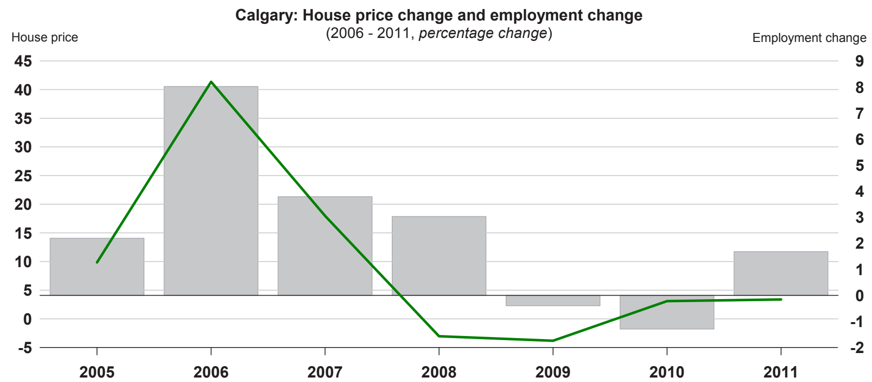
Housing Market

House price inflation rates were driven by robust population growth in the last decade. Robust job creation drove the unemployment rate to extremely low levels and this resulted in an inflow of migrants to Calgary and caused the population growth rate to increase. Higher population growth increased the demand for housing.



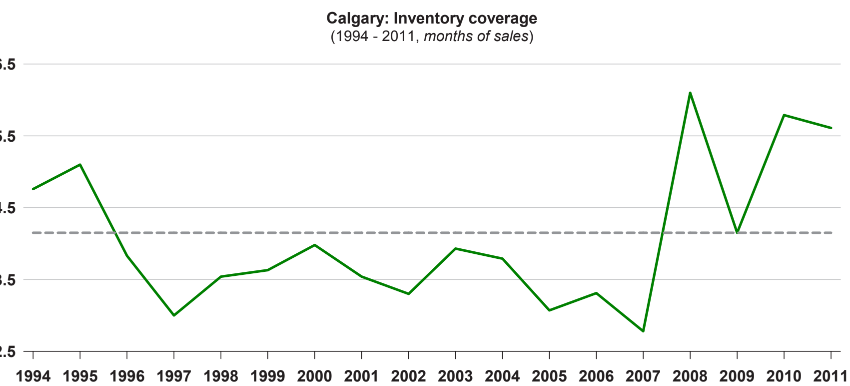
Source: Calgary Real Estate Board; Corporate Economics

Slower economic growth from 2006 onward resulted in a reduction in the demand for housing and caused house prices to grow at a slower pace or to decline. The rebound in economic growth in 2011 should result in a firming in demand and stabilization in house prices.



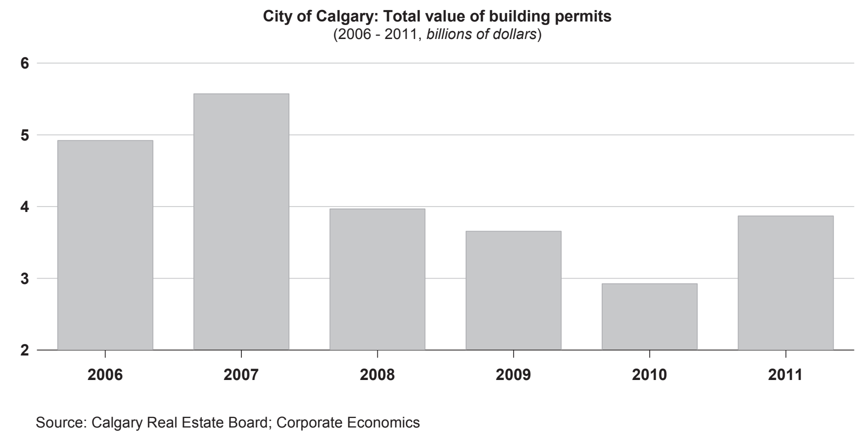
Source: Calgary Real Estate Board; Statistics Canada; Corporate Economics

Weak population growth has resulted in a sharp decrease in the rate of household formation and therefore a reduction in the demand for re-sale and new housing. Consequently, house price inflation should remain modest for the rest of 2011.

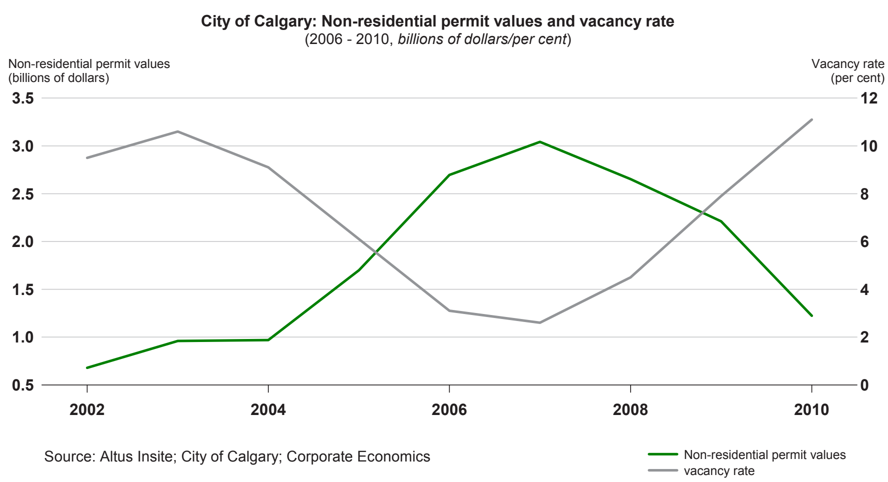


Source: Calgary Real Estate Board; Corporate Economics

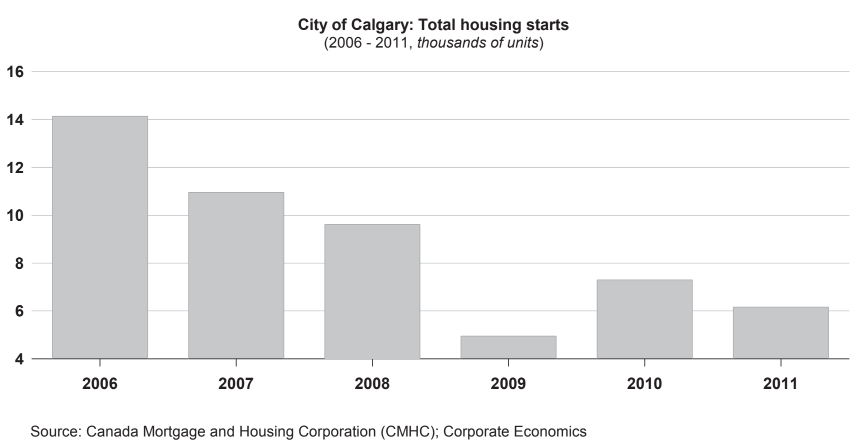
Building Permits



Total building permit values trended downwards from $5.6 billion in 2007 to $2.9 billion in 2010. Higher vacancy rates in both residential and non-residential markets reduced the demand for new space and this contributed to the reduction in building permit values. Total building permit values is estimated to increase above 2010 values in response to increased investment spending in the non-residential sector.



Higher vacancy rates in the non residential sector drove investment intentions lower in 2010. The rebound in 2011 comes mainly from spending on a $0.6 billion construction project by the Calgary International Airport.

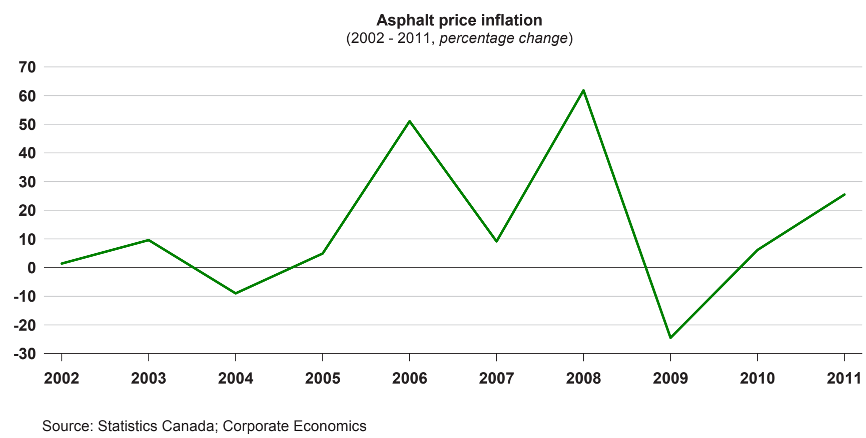


Weaker demand for new house construction acted as a drag on building permit values. In the early part of the last decade, housing starts grew above household formation rates and contributed to an increase in residential vacancy rates.

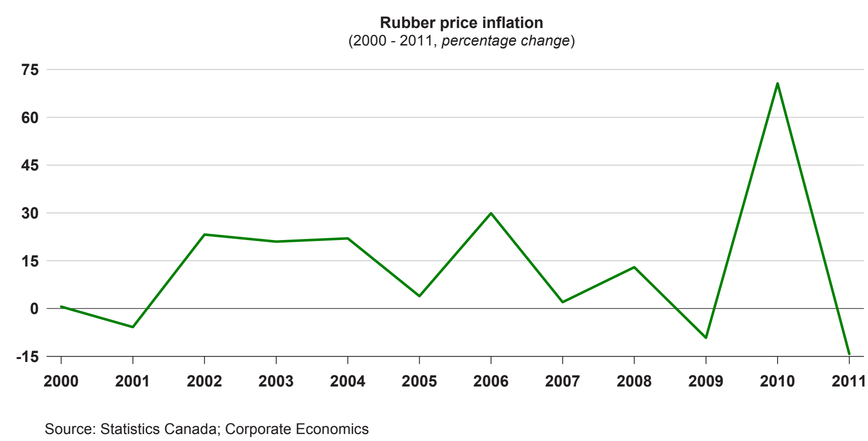
Commodity Prices

Steel markets remain soft. Demand for ships and containers remains in the doldrums while some demand for vehicle frames has increased slightly on advances in India and China. However, growth projections in these markets have softened lately while the outlook for iron and steel prices is less than average increases compared to other commodities over the short and intermediate term.

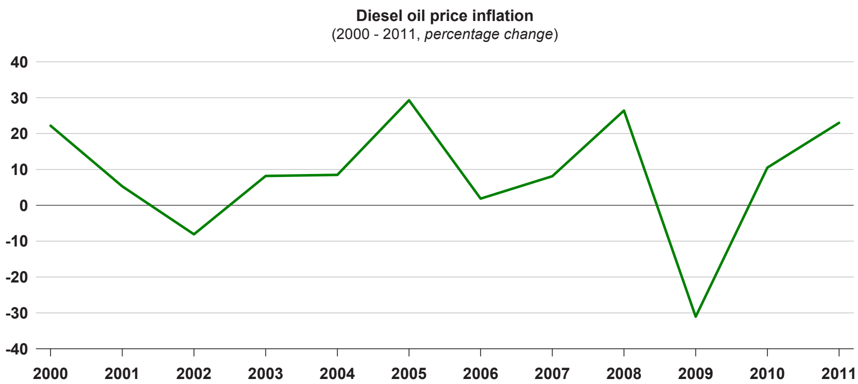
Asphalt prices increased in the first half of 2011 as a result of rapid increases in oil prices. As oil prices soften in the latter half of the year and as more Ft. McMurray production comes on-line asphalt prices are still expected to soften both over the short and intermediate term.



Rapid increases in rubber prices in 2010 were the result of unusually bad weather and high oil prices. 2011 saw slightly better weather and increased production on record profits. Even so, price declines so far this year have not been as dramatic as expected on higher than anticipated oil prices. As oil prices soften over the rest of the year rubber prices are expected to soften more followed by a return to more stable 3-5% price increases over the forecast horizon.

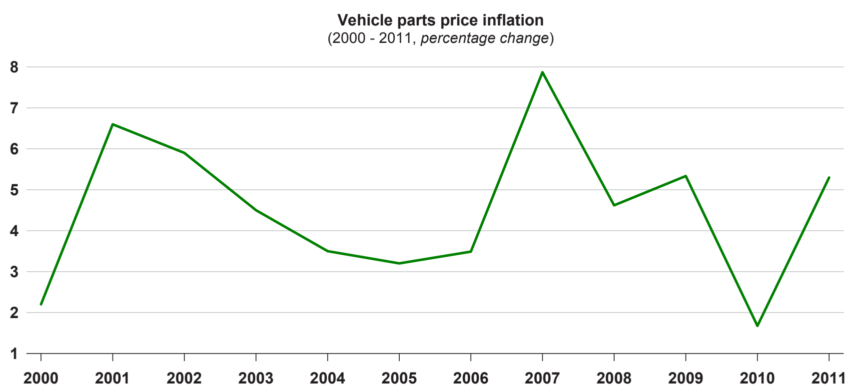


Commodity Prices



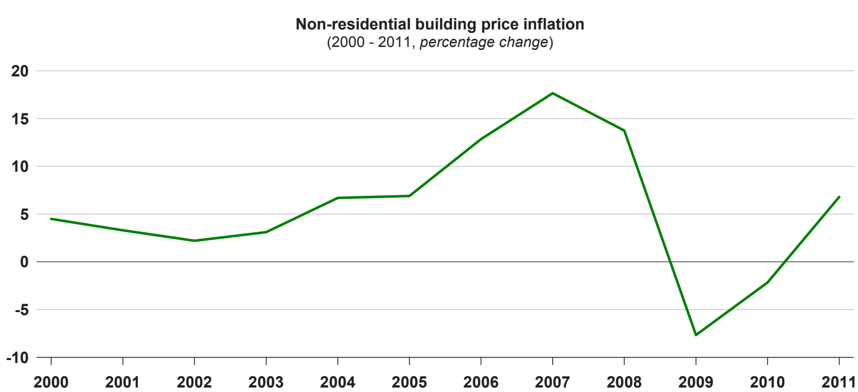
Source: Statistics Canada; Corporate Economics

Rising oil prices caused fuel price spikes across North America earlier this summer. Softening growth projections in the U.S. and China are softening oil prices with the expectation that fuel prices have spiked for 2011 and will slowly abate over the rest of the year.



Source: Statistics Canada; Corporate Economics

The nuclear disaster at the Fukushima plant caused some supply chain disruptions which are still impacting vehicle parts supply in Canada. As plants outside Japan spin up their production – likely next year - price pressures should subside.



Source: Statistics Canada; Corporate Economics

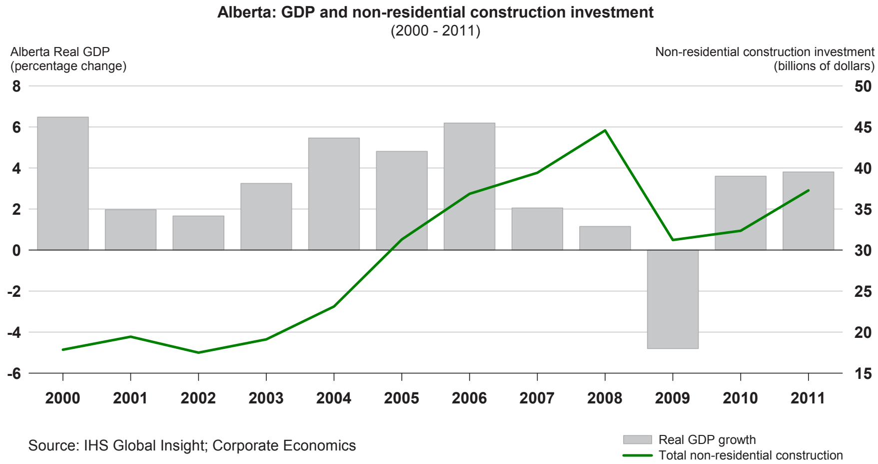
The U.S. dollar continues to slide causing increased oil prices and increased value of the Canadian dollar. As long as they both go up at the same time Calgary non-residential building prices remain stable. However, softening in the US economy is causing the Canadian dollar to rise less quickly than oil prices. The result is increasing pressure on non residential building prices in Calgary.

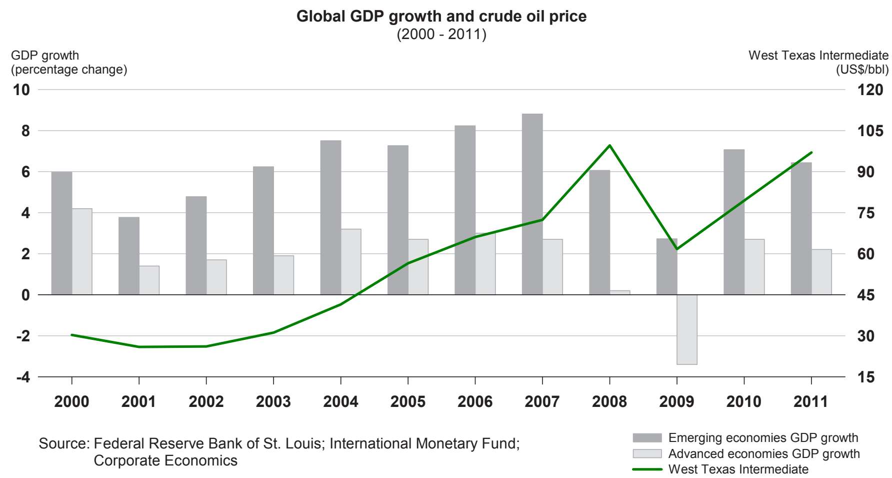
In Alberta, the economic recovery appears to be continuing at a moderate pace, albeit at a rate that is uneven across sectors. The energy sector is expected to be the growth engine in the province. Activity in the oil sands and extraction of unconventional oil resources is now accelerating and attracting higher investment. The rapid rise in oil prices is expected to increase investment spending by 15.2 per cent n 2011 and cause Alberta's GDP to grow by 3.8 per cent, up from 3.6 per cent a year earlier.

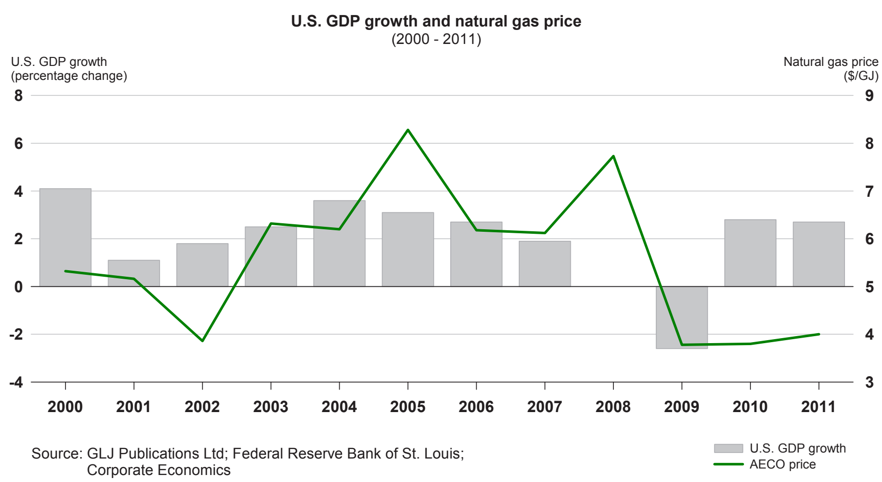
Continued economic growth in the emerging economies (EME) and supply disruptions from political instability in the Middle East and North Africa (MENA) have resulted in higher prices. Some analysts have attributed a portion of the run-up in oil prices to an accommodative U.S. monetary policy and a depreciating U.S. dollar, thereby boosting the price of crude oil. Crude oil is expected to average US$97/bbl in 2011, up from US$79/bbl last year. This price should underpin profitability for most new projects coming on line.

The increased production of shale gas and weak U.S. economic growth have combined to create a surplus on North American natural gas markets. Natural gas prices are projected to average $4/GJ in 2011.

Energy Markets & Economic Growth

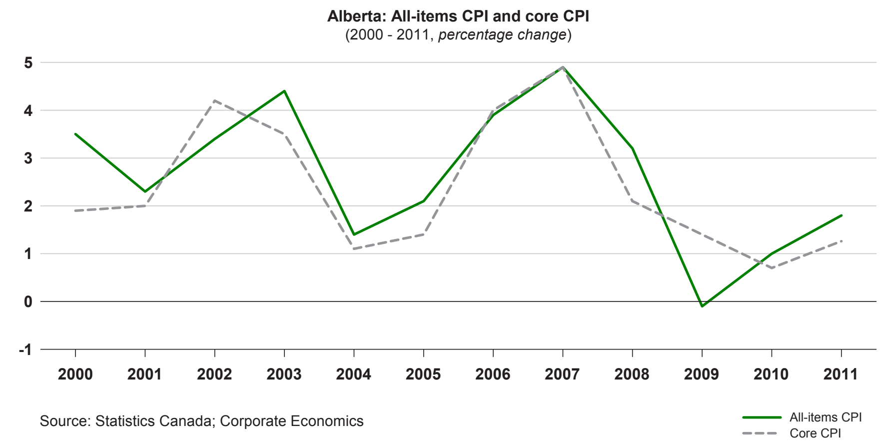




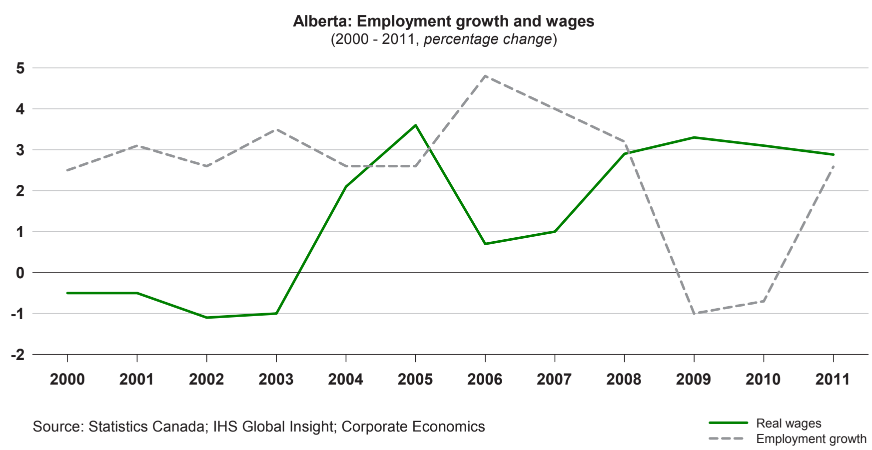


Alberta Economy

Prices and Wages



Rising food prices, particularly in emerging markets, and higher crude oil prices have put upward pressure on consumer price inflation in recent months. The all-items rate was estimated at 1.3 per cent in May 2011, up from 0.2 per cent the same time last year. The food component of the consumer basket increased by 1.6 per cent, the highest level since June 2010, while energy prices advanced by 7.7 per cent in May 2011, the largest increase since February 2009. Alberta's consumer price inflation is expected to average 1.8 per cent in 2011, up from 1 per cent in 2010.



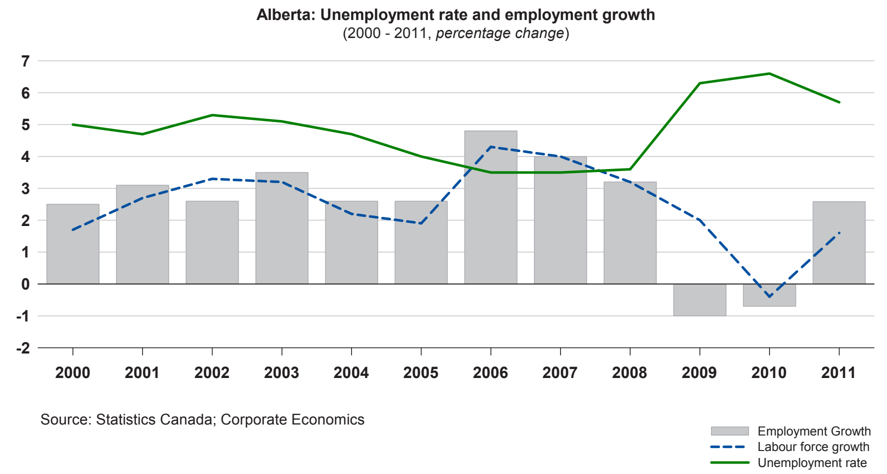
Real wages in Alberta were relatively flat in recent years due to weaker labour market conditions. The province lagged the national economy in job growth for most of 2010, but has gained momentum since February this year. With improved conditions among full-time and the higher paying segments of the Alberta job market, average weekly earnings are anticipated to post stronger growth in 2011.

In recent years, wages in Alberta grew at a faster pace than consumer prices and this trend is expected to continue in 2011. Labour income growth should continue to support retail sales growth.

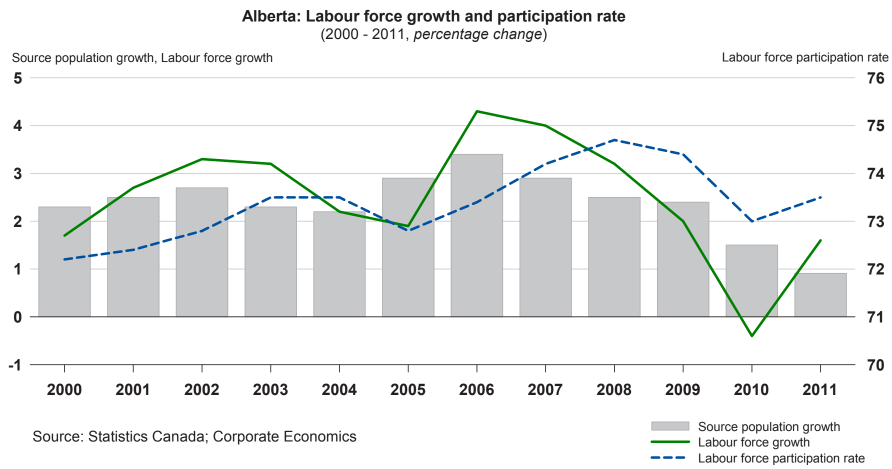
Assumption: Alberta Economy

Labour Market

In 2011, Alberta's employment is expected to grow at a faster pace than the labour force due to increased activity and push the unemployment rate down to 5.7 per cent, from 6.6 per cent in 2010. But, with more job seekers re-entering the market as economic conditions improve, the unemployment rate is expected to remain near current levels before moving lower.



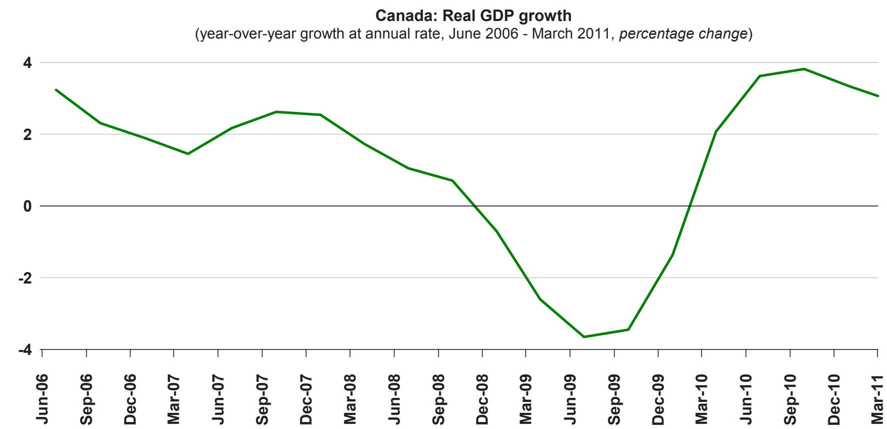
In recent years, Alberta's source population grew at a faster pace than its labour force. For example, in 2010, the source population grew at 1.5 per cent, while the labour force shrank by 0.4 per cent. This pushed the labour force participation rate down to 73 per cent, the lowest level since 2005. This rate is expected to improve slightly in 2011 as job prospects improve.



In late 2009 and early 2010, when the provincial economy was in recovery mode, employers were cautious in hiring full-time staff. Increased economic activity and lower unemployment rates should result in employers hiring more full-time employees.

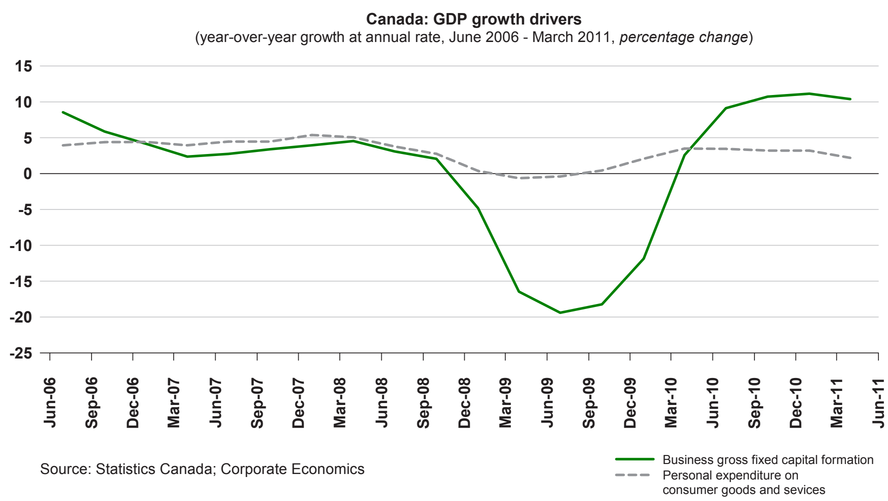
GDP Growth

Private investments and personal consumption lifted Canada out of the recession. The pace of economic activity has slowed as consumers have reign in spending as households try to improve their balance sheets.



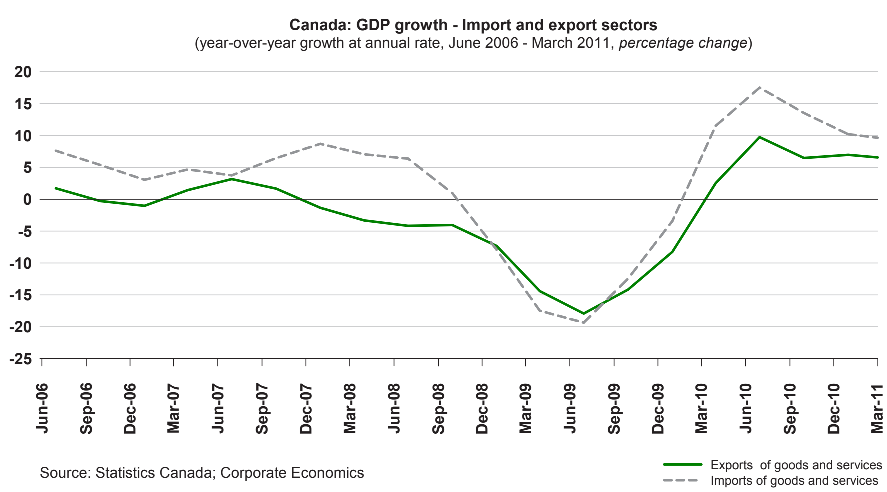
Source: Statistics Canada; Corporate Economics

Real GDP in Canada (in chained 2002 dollar) totalled $1,351 billion dollar in Q1 2011, compared to the $1,274 billion in Q2 2009. The annual growth rate of real GDP slowed to 2.9 per cent in Q1 2011, compared to the recent high of 3.8 per cent in Q3 2010.



Source: Statistics Canada; Corporate Economics

Real personal expenditure in Canada reached all time high of $852 billion, after the recent trough of $805 billion in Q2 2009. Business investments in the fixed capital formations also recovered from the low of $225 billion in Q2 2009, to $264 billion in Q1 2011. The current level of investment spending is still lower than pre-recession peak of $279 billion in Q1 2008.



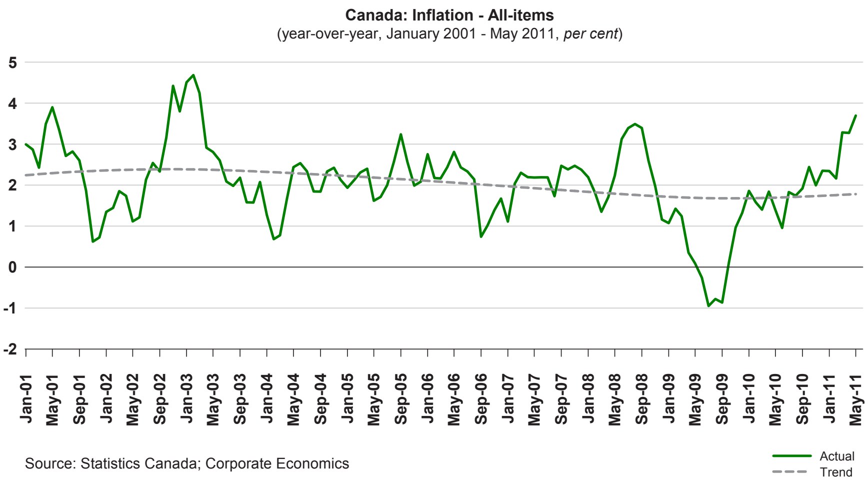
Source: Statistics Canada; Corporate Economics

Since 2005, net exports have always been an impediment to economic expansion, given the fact that increasing exports were always surpassed by increasing imports. The real dollar trade deficits increased from $4 billion in Q4 2004 to $133 billion in Q1 2011.

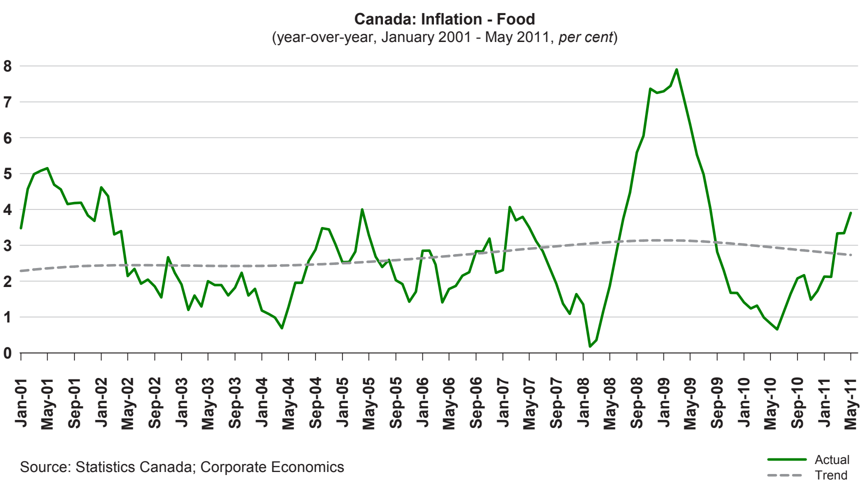
Inflation

Price inflation in Canada was up in recent months, thanks to the higher fuel (gasoline) and food prices.

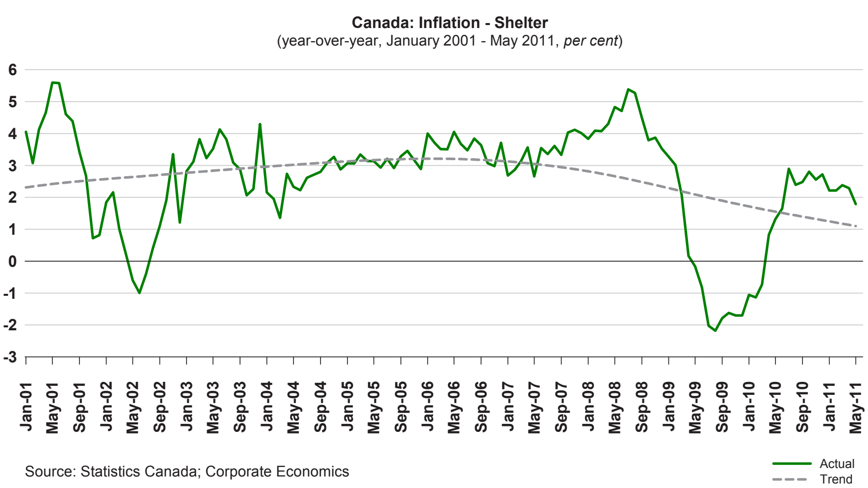
The year-over-year, all items, inflation rate in Canada was 3.7 per cent in May 2011, compared to 1.4 per cent a year ago. The Bank of Canada is resisting the pressure to hike interest rates, largely due to the increasing risks from outside the Canadian economy.



Food price inflation was 3.9 per cent in May 2011, compared to 0.8 per cent in May 2010. The strong Canadian dollar is helping to temper the import prices for food.

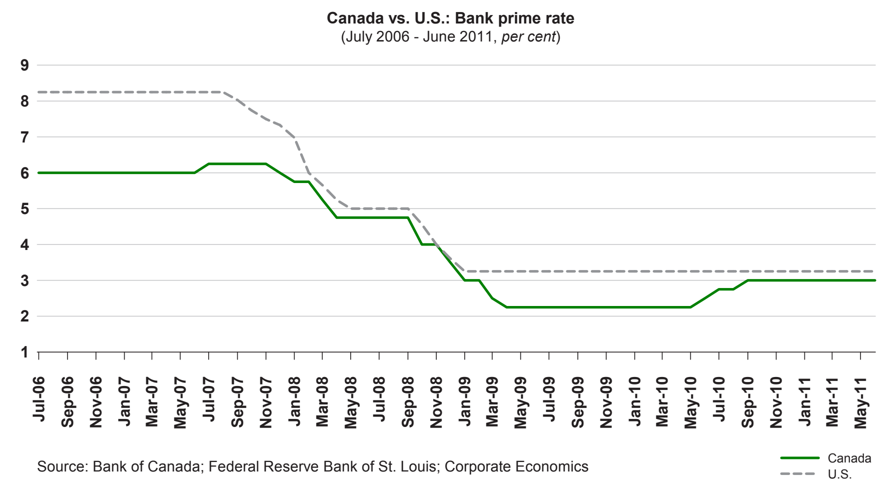


Shelter cost inflation in Canada have moderated, following a spike in house prices.

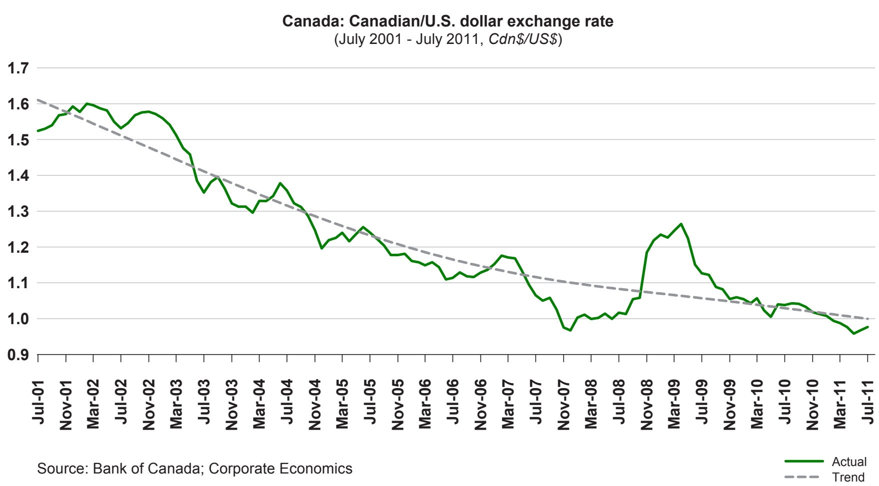


Interest Rate and Exchange Rate

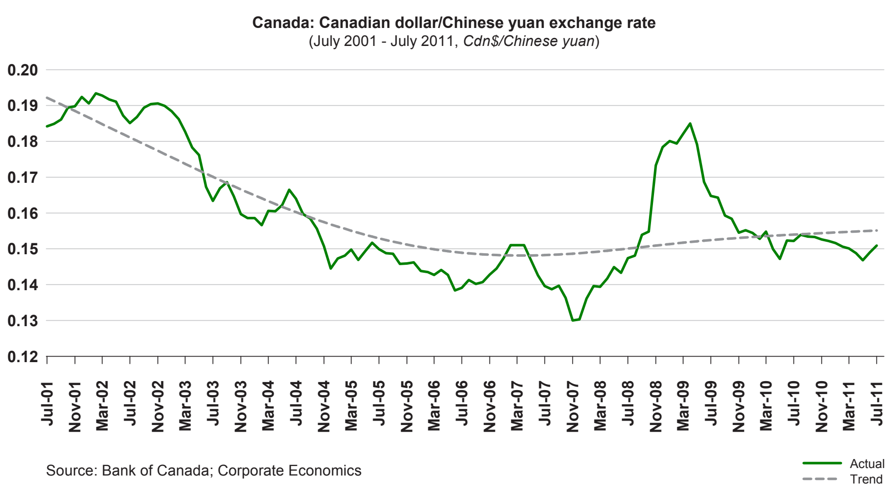
The Bank of Canada started earlier than the U.S. Fed to tighten interest rates. This along with higher commodity prices cause the Canadian dollar to appreciate above par against the U.S. dollar since February 2011.



The Canadian prime business rate was 3 per cent in June 2011, 0.25 percentage points lower than the U.S. Bank prime loan rate of 3.25 per cent. The Fed has kept its funds rate unchanged since January 2009, while The Bank of Canada started to raise interest rates in June 2010.



The Canadian dollar appreciated against the U.S. dollar in recent months, largely reflecting strong commodity prices, tighter Canadian monetary policy, and better economic and job market conditions in Canada.



In 2003, China has become Canada's second largest trading partner. The exchange rate between Canadian dollar and Chinese Yuan stabilized around 0.15 ($Can/ Chinese Yuan) since January 2010.

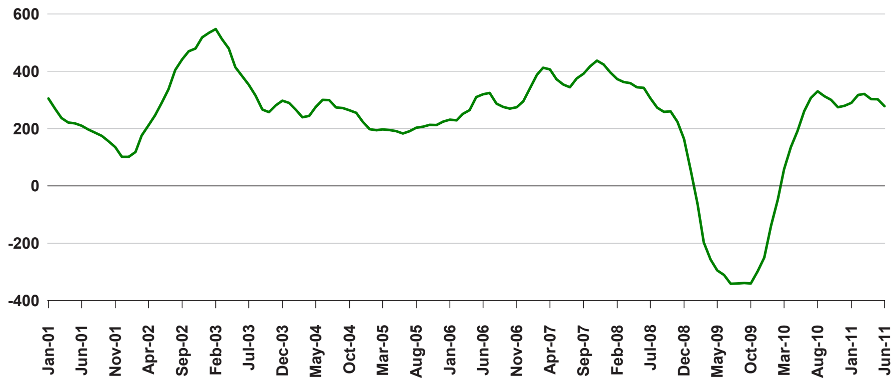
Assumption:
Canadian Economy

Employment

The labour market in Canada has fully recovered the jobs lost in the recent recession and the unemployment rate has started trending downwards. However, further improvement of the labour market in Canada is constrained by risks in the rest of the world, mainly the U.S. and European economies.

Total employment in Canada was 17.42 million in June 2011, an increase of 278,000 positions compared to the same time last year.

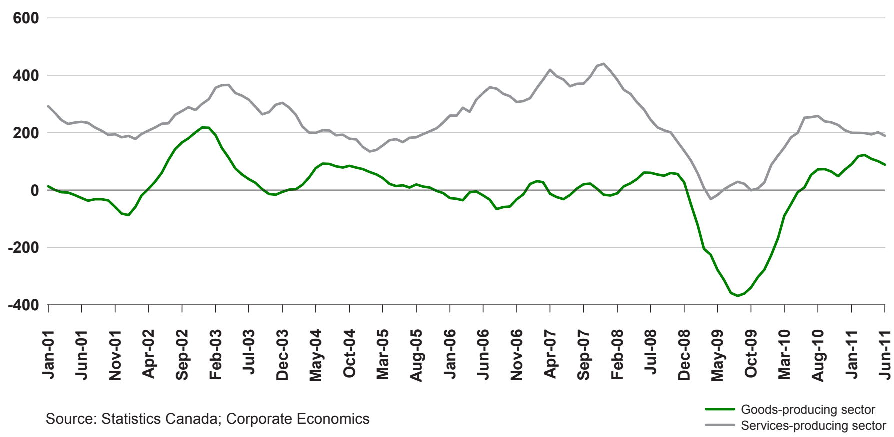
Canada: Total employment change - all industries
(January 2001 - June 2011, *thousands of persons*)



Source: Statistics Canada; Corporate Economics

The services-producing sector weathered the recession better than the goods-producing sector and is leading the job expansion. In June 2011, there were 88,800 jobs created in the goods producing sector, and 189,000 jobs added in the service-producing sector.

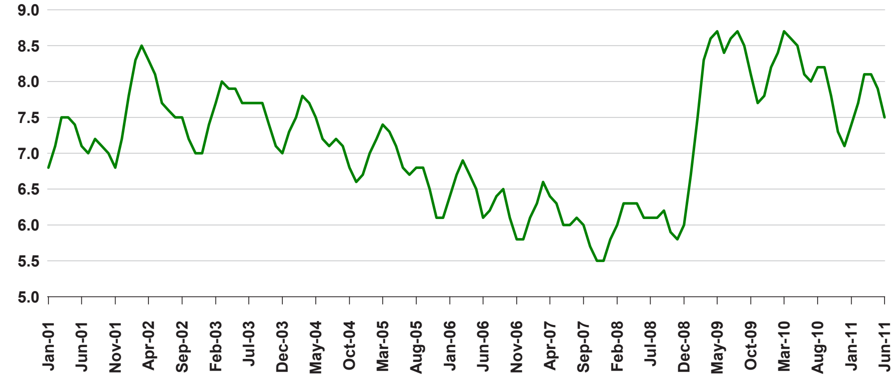
Canada: Total employment change
goods-producing sector vs. services-producing sector
(January 2001 - June 2011, *thousands of persons*)



Source: Statistics Canada; Corporate Economics

The total unemployment rate in Canada was 7.5 per cent in June 2011, down from 8.5 per cent the same time last year. The rate may reach higher in coming months, as more people are encouraged by improved job prospects to re-join the labour force.

Canada: Unemployment rate
(January 2001 - June 2011, *per cent*)

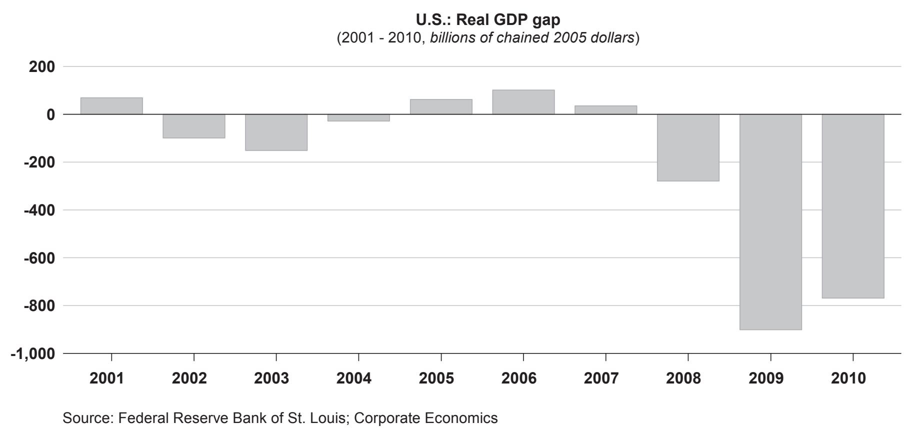


Source: Statistics Canada; Corporate Economics

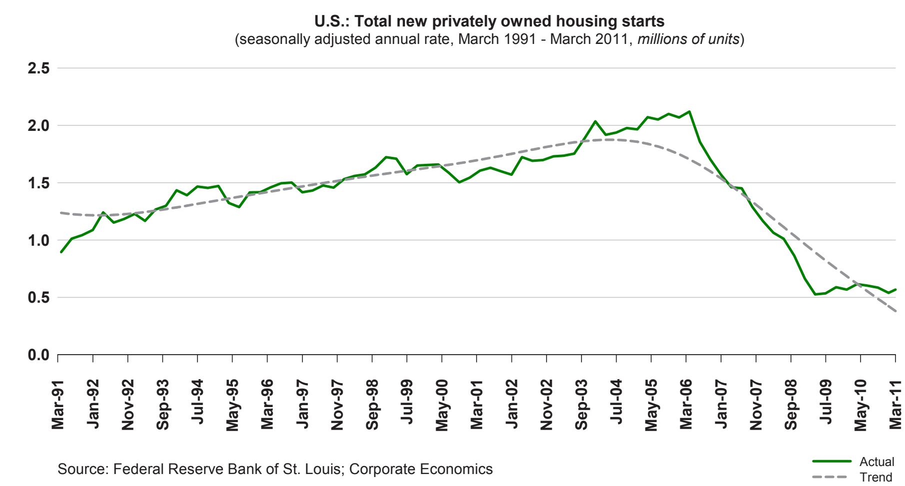
Real GDP

Economic activities continued to increase in the U.S., at a moderate pace. Excess production capacities in the economy are placing downward pressures on wages and prices.

Real GDP in the U.S. decelerated in the first quarter 2011, reflecting a sharp increase in imports, a deceleration in the personal consumptions, and a larger decrease in federal government spending.



The actual real GDP levels in the U.S. were lower than potential GDP levels in the past three years. The gap between the actual and the potential real GDP was $769 billion in 2010, or 5 per cent of the $13 trillion actual real GDP.

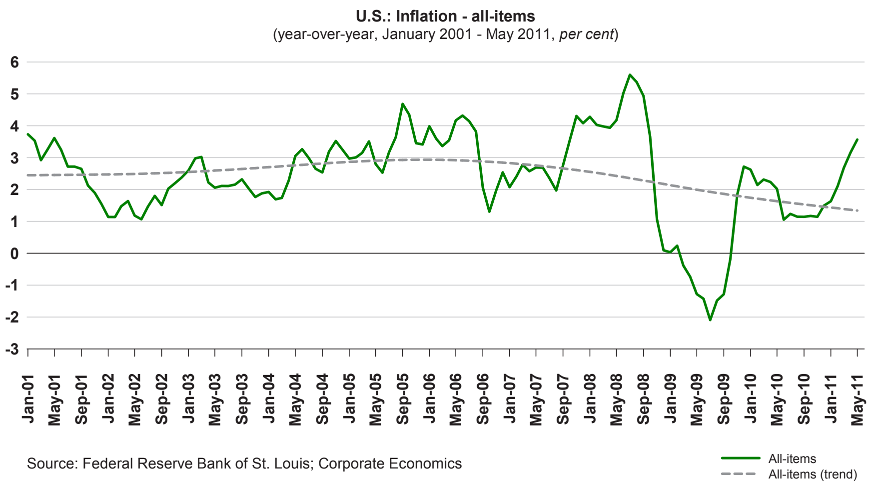


The annual rate of total housing starts in the U.S. stabilized around 500,000 units, after sharp declines since March 2006. This level of activity is much lower than the twenty year average of 1,413,000 units.

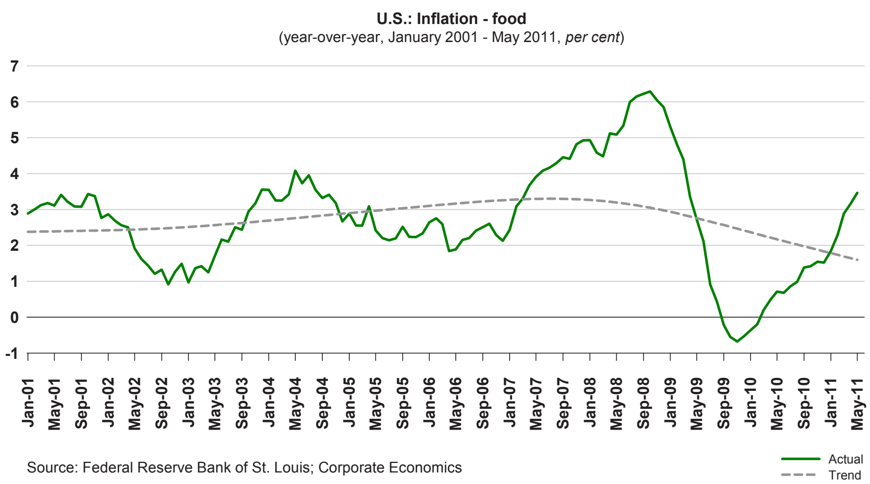
Inflation

Price inflation in the U.S. was on the rise in recent months, partly due to the surge in food and energy prices. The Fed kept the $600 billion bond-buying program to the end of June, in response to the lack of substantial job creations in the labour market. On June 22, 2011, the Fed decided against another round of quantitative easing. The fear of higher inflation played a major part in this decision.

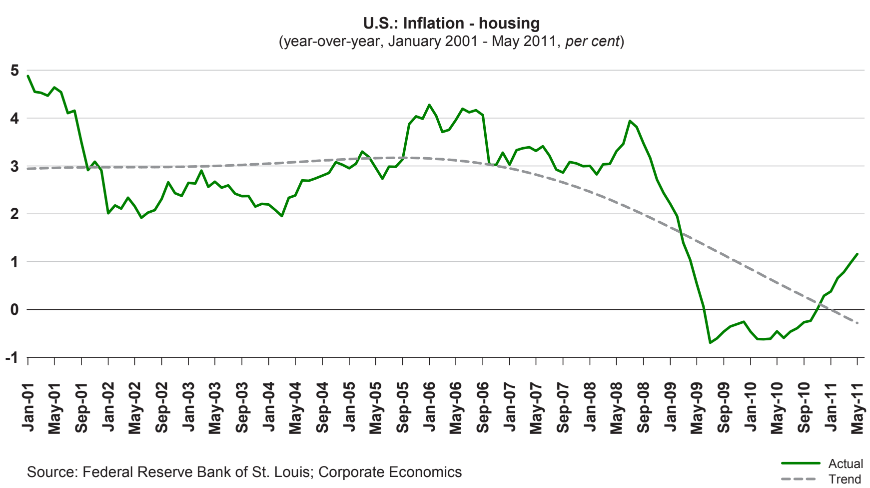
The year-over-year inflation for all items in the U.S. was 3.6 percent in May 2011, much higher than the recent low of 1.1 per cent in November 2010. Excluding food (3.5 per cent year-over-year inflation) and energy (21.5 per cent year-over-year inflation), the inflation for all other items was 1.5 per cent in May 2011.



Food price inflation contributed to the recent run-up of overall inflation in the U.S. With all major grocery store food groups (food at home) posting increase (4.4 percent inflation in May), consumers felt pinched by high prices.



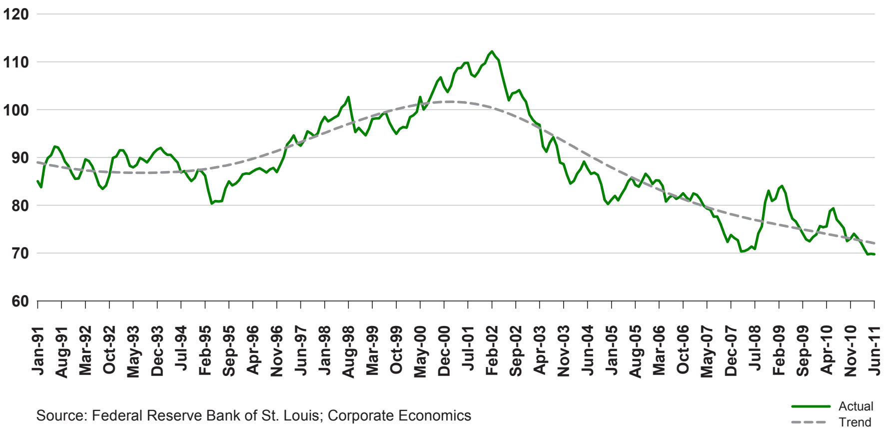
The housing price inflation in the U.S. was 1.1 per cent in May, lower than the overall price increases in the economy. This reflects a weak housing market, a market that should not cause inflation concerns in the near to medium term.



Exchange Rate

The overall weakening U.S. dollar against other major currencies was the result of high Federal debts, large U.S. trade deficits, and weak U.S. economy. However, the weak U.S. dollar helped boosting exports. Real exports of goods and services (in 2005 dollars) increased from a recent low of $1.4 trillion in first quarter 2009 to $1.7 trillion in quarter 1, 2011.

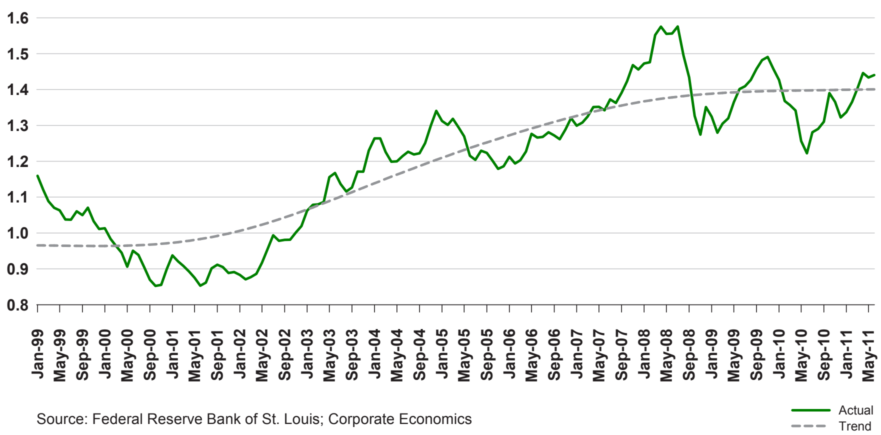
U.S.: Trade weighted exchange index - U.S. dollar vs. major currencies
(January 1991 - June 2011, *index March 1973 = 100*)



Source: Federal Reserve Bank of St. Louis; Corporate Economics

The weighted average of the foreign exchange value of the U.S. dollar against a set of major index currencies (the Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden) continued to decline in recent months. It was 70 in June 2011, compared to the twenty-year peak of 112 in February 2002.

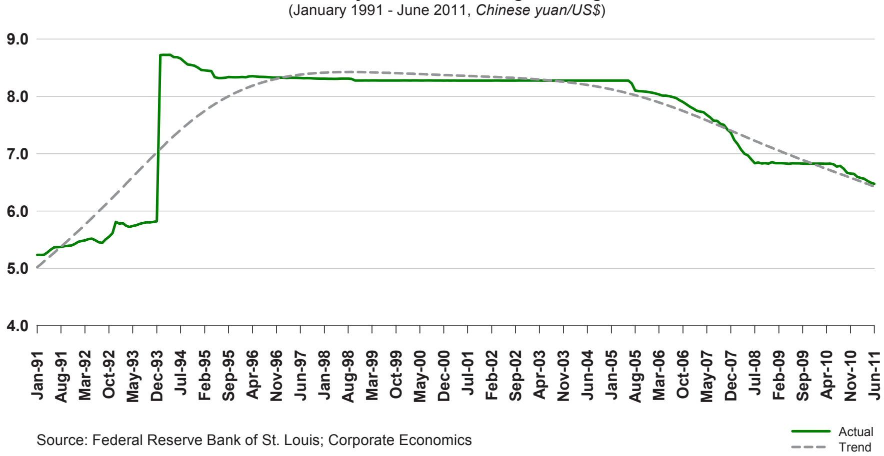
U.S.: U.S. dollar/Euro foreign exchange rate
(January 1999 - June 2011, *US$/Euro*)



Source: Federal Reserve Bank of St. Louis; Corporate Economics

The U.S. dollar depreciated against Euro in recent months. One Euro was worth 18 per cent more in June 2011 (US$1.4/Euro) than it was the same month a year ago (US$1.2/Euro).

U.S.: Chinese yuan/U.S. dollar foreign exchange rate
(January 1991 - June 2011, *Chinese yuan/US$*)



Source: Federal Reserve Bank of St. Louis; Corporate Economics

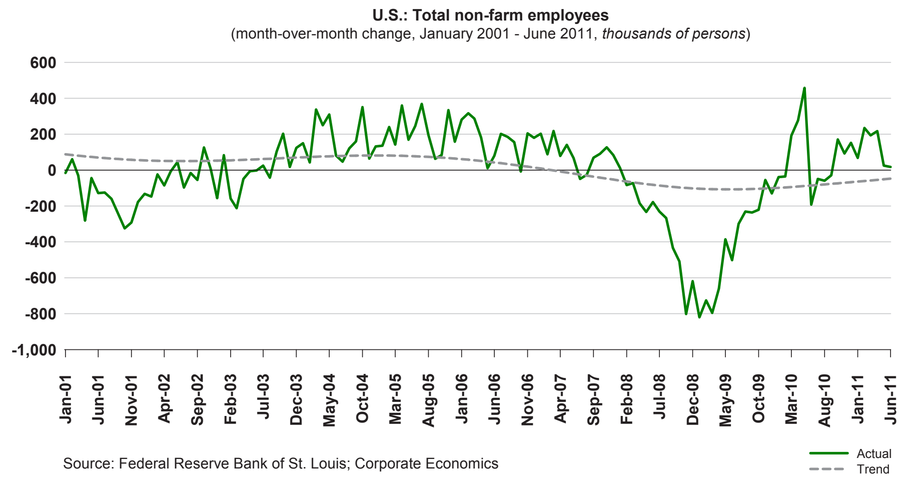
For a long period of time, Chinese Yuan was fixed to the U.S. dollar. In 2005, China adopted limited floating exchange rate policy. Since then, the U.S. dollar continued to appreciate against Chinese Yuan, which reflects the large U.S. trade deficits with China.

Assumption:
U.S. Economy

Employment

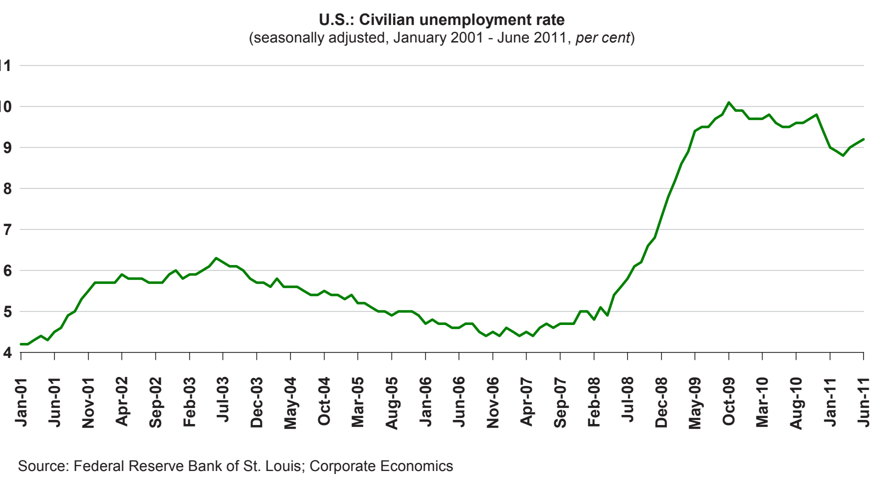
The latest labour market report in the U.S. was disappointing. Low job creations, high unemployment rate and more long-term unemployed people are the reality in today's U.S. economy, which is the reflection of excess capacities in almost all industries.

The nonfarm payroll employment (139 million) and unemployed persons (14 million) were essentially unchanged in June 2011. The civilian labour force participation rate was little changed at 64.1 per cent, while the employment-population ratio edged down by 0.2 percentage point to 58.2 per cent.



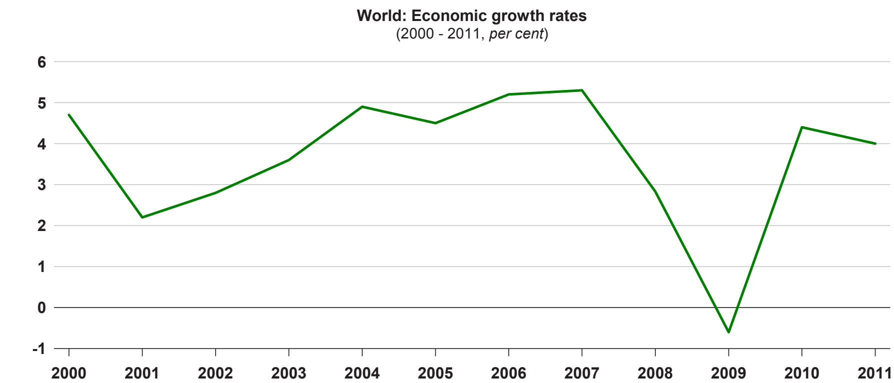
In June 2011, 6.3 million people in the U.S. were unemployed for 27 weeks and over, and they accounted for 44 per cent of the unemployed population. These long-term unemployed risk losing skills that the market requires, if they cannot find jobs in the near future. In June, 2.7 million persons in the U.S. were marginally attached to but not accounted as the labour force. Among them, 1 million were discouraged workers who were not looking for work because they believed no jobs available for them.

The unemployment rate was 9.2 per cent in the U.S. in June 2011, 3 percentage points higher than the ten-year average of 6.2 per cent. The economy needs 4.6 million new jobs to bring down the unemployment to 6.2 per cent, given current labour force growth.



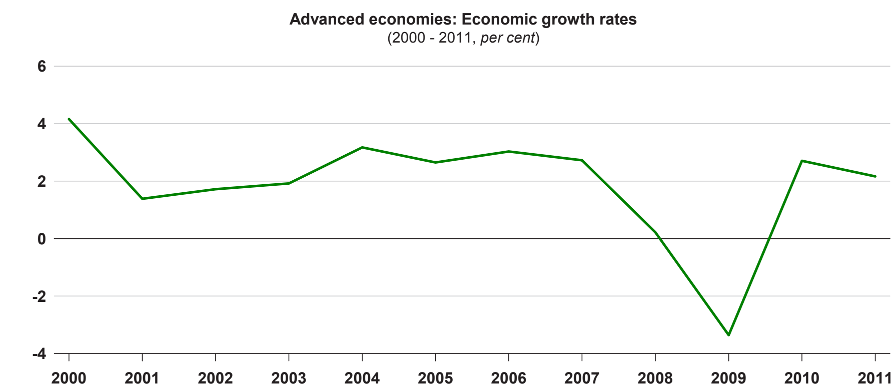
World GDP Growth

The global economic expansion continues on track in the first half of 2011, despite the shocks of the disasters in Japan and the political turmoil in the Middle East and North Africa (MENA) earlier this year. The two-speed economic recovery that began in 2009 has continued into 2011, with emerging markets growing about three times faster than developed markets.



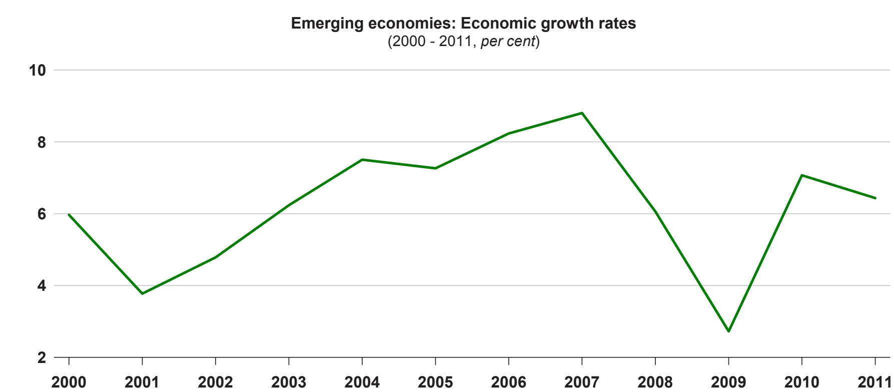
Source: International Monetary Fund (World Economic Outlook); Roubini Economic Monitor; World Bank; Corporate Economics

The world economy is expected to grow by 4 per cent in 2011. Earlier fears of a double-dip recession have not materialized. While there are no shortages of headwinds, the recovery continues to be robust as global business confidence improves.



Source: International Monetary Fund (World Economic Outlook); Roubini Economic Monitor; World Bank; Corporate Economics

In most advanced economies, output is still below potential. With the tightening of fiscal and monetary policies, output gaps are likely to stay for a while. The average growth rate for advanced economies is expected to be 2.2 per cent in 2011.



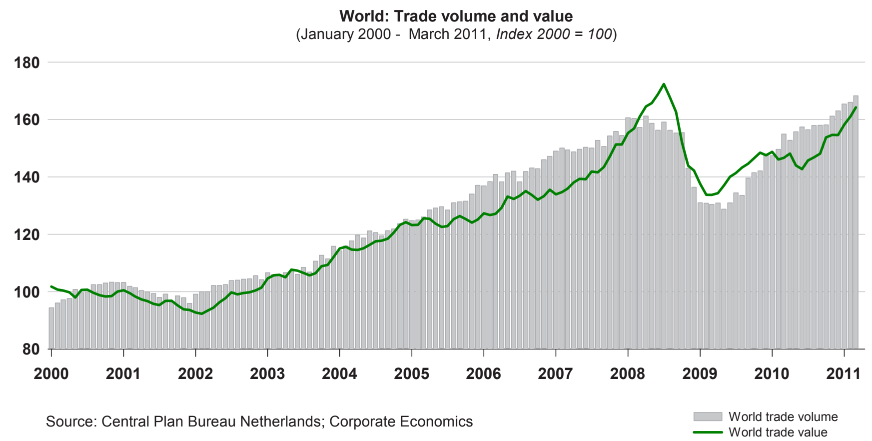
Source: International Monetary Fund (World Economic Outlook); Roubini Economic Monitor; World Bank; Corporate Economics

Emerging economies will grow 6.4 per cent in 2011. Due to the slowing external demand, growth in developing countries is likely to moderate. For developing Asia, the overall impacts of Japan's earthquake on regional growth this year should be relatively minor.

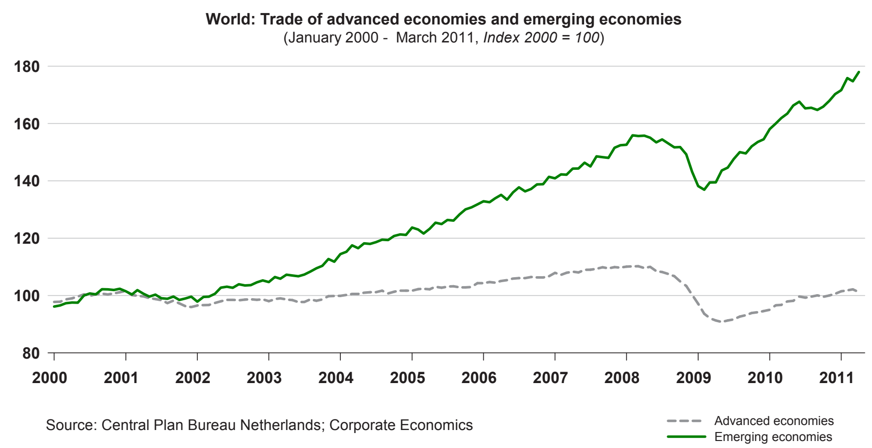
World Trade

World trade and industrial production slowed during the second half of 2010 after the restocking of business inventories. The trade volumes and values in emerging economies are back to pre-crisis levels, but advanced economies still experience the lag. In 2011, trade is expected to grow at a modest rate of 6.6 per cent.

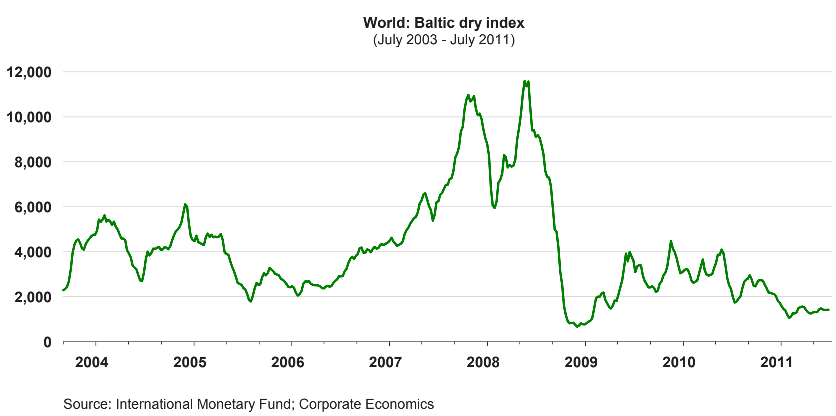
Both trade volume and value continue to increase in 2011. However, there are several factors which might hamper trade growth later this year, including rising prices of food and other primary products, the unrest in oil producing countries in the Middle East, and the disruption in supply chain caused by Japanese disaster.



Trade in emerging markets will grow at a faster rate than developed countries. According to IMF, exports will grow 6.8 per cent in advanced economies and 8.8 per cent in emerging and developing economies in 2011. Imports will grow 5.8 per cent in advanced economies, while 10.2 per cent in emerging markets.

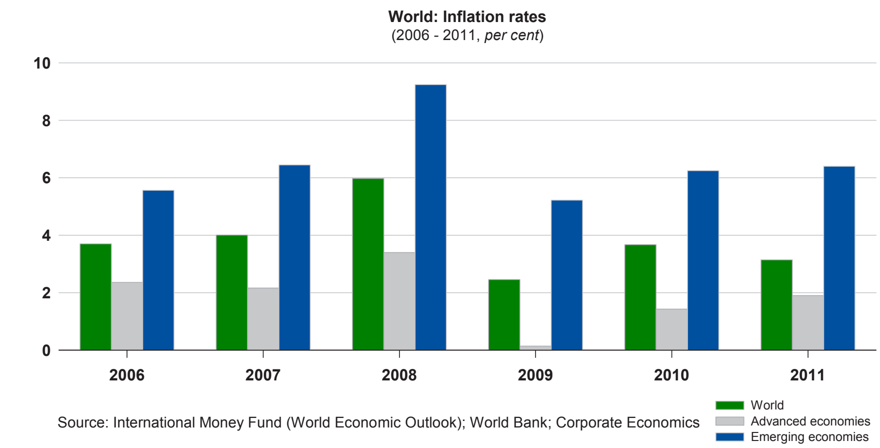


The Baltic Dry Index (BDI) is a popular financial barometer which tracks worldwide international shipping prices of various dry bulk cargoes. The BDI plunged in the 2008 economic recession and has never fully recovered. In 2011, the BDI has been stagnant, which indicates the slackness of future international trade activity.

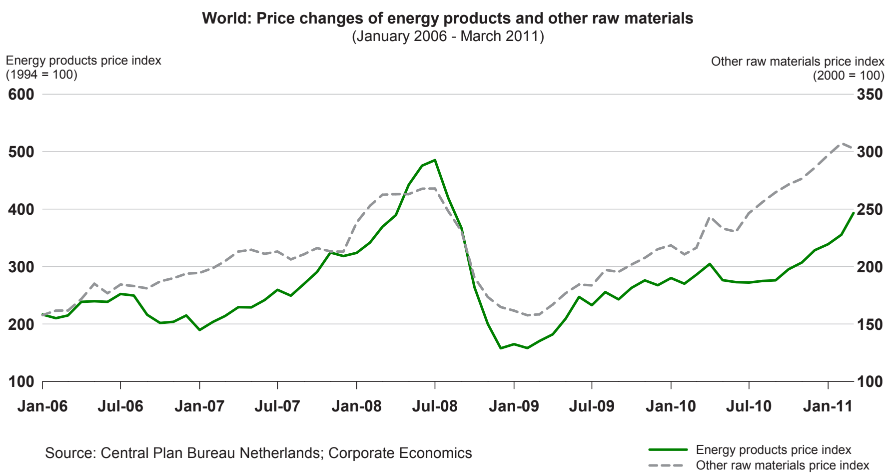


Inflation

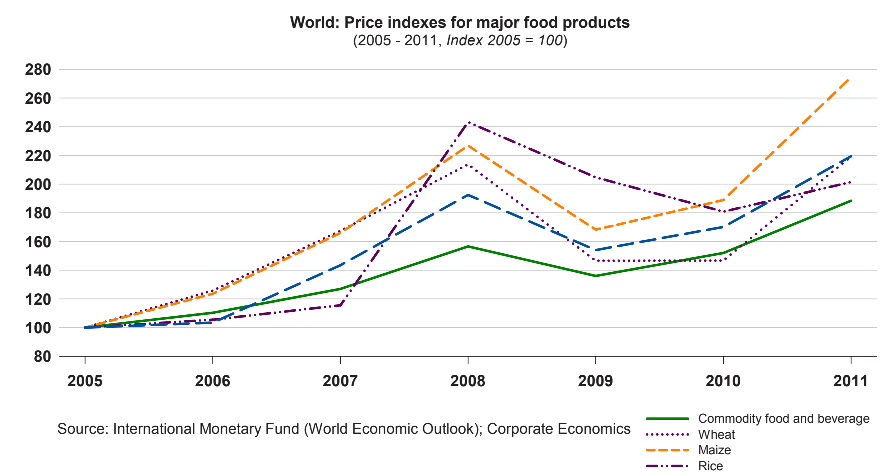
Inflationary worries have moved to center stage of world economic concern. The anxiety for policymakers is that the increasing inflation will ignite a wage and cost spiral in the medium term, and central banks will have to respond more aggressively.



Inflationary pressures accelerated further in many emerging economies. In Q1 2011, China's CPI was 5.4 per cent, while in India wholesale price inflation increased by 9.0 per cent. The average inflation rate for developing countries is expected to be 6.4 per cent in 2011. In advanced economies, inflation is projected to remain at 1.9 per cent in this year. On average, the inflation rate for global market should be 3.1 per cent in 2011.



The upward inflationary trend is caused by the significant increases in energy and other commodity prices. Compared to early 2009 when the price indexes were at their bottom levels during the most recent business cycle, energy price has increased by almost 150 per cent, while other commodity prices have also climbed over 90 per cent.



Food prices are on the rise across countries. Unfavourable weather conditions in 2010 reduced grain yields and contributed to price spikes. Regional unrest earlier this year and speculations further raised the risk premium and therefore the prices paid by the consumers. Rising food prices are likely to affect the urban poor in particular, given the high share of food in their consumption baskets.

Table 1 - Selected Economic Indicators

Rest of the World, United States, Canada, Alberta, Calgary Economic Region (CER) & Calgary Census Metropolitan Area (CMA)

FORECAST UPDATED: June 2011						ESTIMATE
	2006	2007	2008	2009	2010	2011
ASSUMPTIONS						
Global Economy						
World Gross Domestic Product (annual % change)	5.2	5.3	2.8	-0.6	4.4	4.0
The United States						
U.S. Real Gross Domestic Product growth (chained 2005 dollar) (%)	2.7	1.9	0.0	-2.6	2.9	2.7
Canada						
Real Canada Gross Domestic Product growth, (chained 2002 dollar) (%)	2.8	2.2	0.7	-2.8	3.2	2.9
Prime Business Loan Rate (%)	5.8	6.1	4.7	2.4	2.6	3.3
Exchange Rate (US$/Cdn$)	0.88	0.94	0.94	0.88	0.97	1.03
Alberta						
Gross Domestic Product (%)	6.2	2.5	0.0	-2.6	3.6	3.8
Total Employment Growth (%)	4.5	4.9	2.9	-1.0	0.2	2.6
Unemployment Rate (%)	3.5	3.5	3.5	6.3	6.6	5.7
Housing Starts ('000 Units)	49.0	48.3	29.2	19.9	24.1	25.7
Inflation Rate (%)	3.9	4.9	3.2	-0.1	0.8	1.8
Crude Oil Price - WTI (US$/bbl)	66.1	72.4	99.6	62.0	79.4	97
Alberta Power Pool Prices ($/MWh)	80.5	66.9	87.4	49.5	52.3	N/A
Alberta Natural Gas Price - AECO/NIT ($/GJ)	6.2	6.1	7.7	3.8	3.8	4.0
Average Wage Rate Increase for All Industries (%)	10.3	5.5	5.2	-2.0	1.8	3.6
FORECAST						
Calgary Economic Region (CER)						
Gross Domestic Product (%)*	11.6	4.5	-0.4	-4.7	2.7	3.3
Total population**	1,188	1,230	1,251	1,296	1,338	1,352
Total Employment ('000 Persons)	718	745	768	765	755	770
Total Employment Growth (%)	8.0	3.8	3.1	-0.4	-1.3	2.0
Unemployment Rate (%)	3.4	3.2	3.3	6.3	7.0	6.5
Inflation Rate (%)	4.6	5.0	3.2	-0.1	0.8	2.5
Building Permits ($billion)	6.0	7.1	5.1	4.5	3.8	4.1
Low Forecast						*3.9*
High Forecast						*4.3*
Housing Starts ('000 Units) (CMA)	17.0	13.5	11.4	6.3	9.3	8.2
Non-Residential Building Price Inflation (%) (CMA)	12.8	17.7	13.7	-7.7	-2.2	6.8

Numbers may not add up due to rounding

* Source: Centre for Spatial Economics, Corporate Economics

** Total population, census divisions and census metropolitan areas, 2001 Census boundaries

Table 2 - Selected Indicators

City of Calgary

FORECAST COMPLETED: March 2011

						ESTIMATE
	2006	2007	2008	2009	2010	2011
DEMOGRAPHY						
Total Population ('000 Persons)	992	1,020	1,043	1,065	1,072	1,083
Total Population Growth (%)	*3.7*	*2.9*	*2.2*	*2.2*	*0.6*	*1.0*
Net Migration ('000 Persons)	25.6	17.6	12.4	12.9	0.0	4.0
REAL ESTATE						
Residential Market						
Housing Starts ('000 units)	14.1	10.9	9.6	5.0	7.3	6.4
New House Price Inflation (%)	43.6	16.2	0.7	-6.7	1.7	6.2
Total Building Permits mid point ($billions)	4.9	5.6	4.0	3.7	2.9	3.0
Low Forecast						*2.5*
High Forecast						*3.5*

Numbers may not add up due to rounding

Table 3 - Selected Commodity Prices

City of Calgary

FORECAST UPDATED: June 2011

						ESTIMATE
	2006	2007	2008	2009	2010	2011
CONSTRUCTION COMMODITIES						
Iron and steel products	-2.5	-2.3	15.7	-3.0	-0.9	3.0
Aluminum products	15.7	-5.5	-0.4	-19.8	11.1	-1.7
Wood	3.7	8.7	-3.5	11.0	-1.6	9.2
Asphalt**	51.1	9.1	61.8	-24.5	6.1	25.5
OPERATIONAL COMMODITIES						
Rubber	29.9	2.0	13.0	-9.2	70.6	-14.2
Diesel oil	1.9	8.1	26.4	-31.1	10.5	23.0
Vehicle parts	3.5	7.9	4.6	5.3	1.7	5.3

Numbers may not add up due to rounding

** Based on Ontario Ministry of Transportation Asphalt Price Index

Trade mission to China develops business links with world's second largest economy

China has just overtaken Japan as the world's second largest economy and is expected to overtake the United States by the end of the decade. The pace of economic development in China has been astounding and is compounding the need for sources of energy to fuel their growth into the future. With the U.S. economy stalled in a slower growth scenario, there is an ever increasing need to diversify Alberta's export markets and China along with other Asian economies hold much promise to fill this need.

Foreign Direct Investment (FDI) between Canada and China has grown significantly in recent years. Canadian direct investment in China reached $3.3 billion in 2009, making it the 21st largest foreign destination for Canadian investors (Statscan).

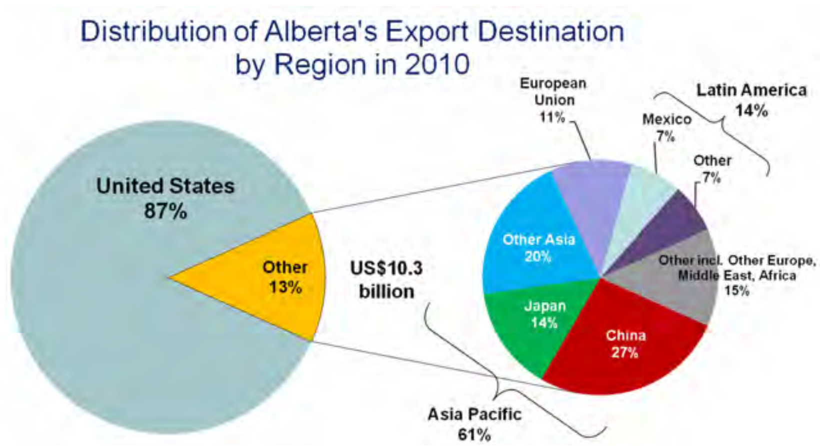
On the other side of the ledger, Chinese FDI into Canada has increased steadily over the past decade to $14.1 billion in 2010 from $12.9 billion in 2009 and $5.7 billion in 2008 (Statscan 2011/07/05). While Japan has traditionally provided the bulk of Asian direct investment stock in Canada, FDI stock from China surged more than 7,500 per cent between 2004 and 2009. The 2010 amount makes China the sixth largest source of FDI after the United States, the Netherlands, Britain, Switzerland, France and Japan.

In more local terms, over the past 18 months, primarily Calgary-based energy producers have seen more than $13 billion in investment from Chinese state-owned oil firms. Companies such as Sinopec and China National Petroleum Corp are injecting billions into the oil sands and natural gas reserves (Calgary Herald, June 6, 2011).

In order to build on the already established relationship between China and Calgary-based companies, Mayor Naheed Nenshi, with the support of Alberta Finance and Enterprise Minister Lloyd Snelgrove, led a delegation of 72 people from 42 Calgary companies to Beijing and Shanghai on what was the largest foreign delegation ever hosted by Calgary Economic Development and Tourism Calgary in May 2011.

Calgary Economic Development directed the business portion of the mission with a focus on investment, trade and business-to-business private meetings. The primary objective of the mission was to increase China's awareness of Calgary and Alberta's economic activity, particularly around the abundance of energy resources set for development over the coming decades. In less than a week, the delegation participated in more than 50 meetings and events, with one of the key events being the investment symposium. It should be noted that four of the six Calgary companies who presented have already identified real investment interest and several of them extended their stay in China to further explore these opportunities. Another highlight during the mission was a meeting with the Mayor of Beijing, a city with twenty times the population of Calgary. This was a clear indication to the delegation of the importance the Chinese are putting on Calgary as a global business centre.

By all standards the trade mission was a tremendous success and further cemented the growing trade relations between China and Calgary region companies. The economic benefits of increased trading relations between the two jurisdictions will be welcomed as Calgary and Alberta look for growth opportunities coming out of a tough economic period post-2008. If there is one thing holding back investment levels at this point it is the lack of an approved pipeline infrastructure to the west coast to carry oil and liquefied natural gas to China much more directly. That issue is currently being addressed by various levels of government but is still a substantial roadblock to increasing trade relations.



Appendix B

Inventory of Major Alberta Projects

Project Sector	Direction	Number of Projects	Value of All Projects (*$ Millions)*
Agriculture & Related	▲	10	$296.4
Biofuels	▼	12	$1,436.6
Chemicals & Petrochemicals	▲	4	$118.5
Commercial/Retail	▼	69	$8,793.0
Commercial/Retail and Residential	▼	7	$1,567.8
Forestry & Related	▲	7	$266.5
Infrastructure	▲	320	$18,897.0
Institutional	▼	127	$8,558.9
Manufacturing	▼	4	$641.0
Mining	▼	4	$445.0
Oil & Gas	▲	9	$1,742.5
Oil Sands	▼	63	$112,503.6
Other Industrial	▲	7	$1,510.5
Pipelines	▲	31	$7,583.4
Power	▼	40	$13,844.2
Residential	▼	89	$4,813.1
Telecommunications	▲	2	$656.0
Tourism/Recreation	▲	99	$4,525.9
Total		904	$188,199.9

Source: Alberta Finance & Enterprise

In July 2011, Alberta Finance & Enterprise estimated that $188.2 billion in major capital projects are either planned or underway in Alberta. Approximately seventy two per cent of these projects are in energy, mining and related sectors. The projects above $5 billion are located in the Regional Municipality of Wood Buffalo and include the following:

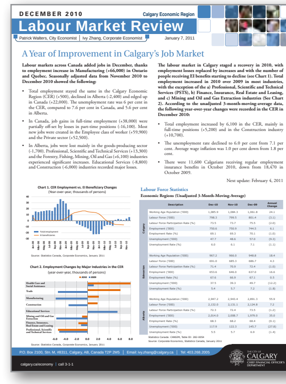
- Suncor Energy Inc./Total SA, Voyageur Oil Sands third upgrader ($11.6 billion);
- Imperial Oil Resources/ExxonMobil Canada, Kearl Lake Oil Sands Mine Phase 1 ($10.9 billion);
- Suncor Energy Inc./Total SA/Teck Cominco, Fort Hills Oil Sands Mine ($9.6 billion)
- SilverBirch Energy, Frontier Oil Sands Mine Phase 1 ($6 billion) and
- Total E&P Canada Ltd./Suncor Energy Inc., Joslyn North Mine ($6 billion).

It bears noting that the total value of projects on hold decreased from $72.4 billion in June 2010 to $21.4 billion in June 2011.

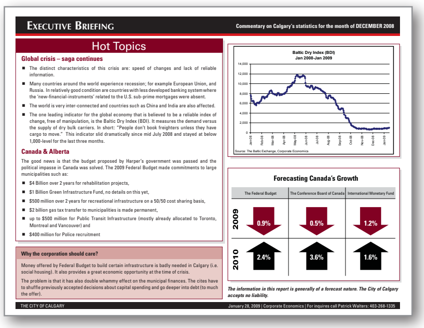
Many of our publications are available on the internet at **www.calgary.ca/economy**.

Monthly
Energy Markets and the Economy

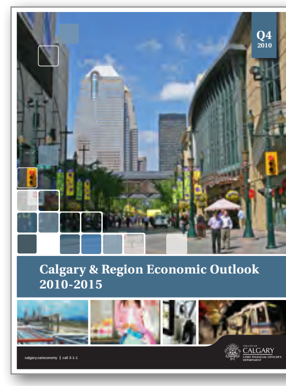
Monthly
Review of Economic Trends:
Labour Market Review



Commentary
Executive Briefing



Quarterly
Calgary and Region
Economic Outlook



Who We Are

Over the past ten years Corporate Economics has researched dozens of economic topics and developed reliable methods of forecasting and analysis. Monitoring economic trends allows us to develop unique insights on how external events are impacting the local economy and the Municipal Corporation. We provide services in four areas: forecasting, information provision, consulting and policy analysis.

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Corporate Research Analyst: Estella Scruggs

Sources:
Statistics Canada, CMHC, CREB, MLS, Bank of Canada, Conference Board of Canada, GLJ Energy Publications, The City of Calgary, Centre for Spatial Economics, Construction Sector Council, U.S. Federal Bank Reserve of St. Louis, International Monetary Fund (World Economy Outlook), World Bank, Central Plan Bureau Netherlands, and others.