

WEEKLY ECONOMIC REVIEW

May 26, 2006

The U.S. economy expanded at an annual pace of 5.3 per cent in the first quarter of 2006. While this growth rate was above the initial estimate of 4.8 percent, it was below most economists' (revised) forecasts.

Markets reacted positively to the GDP report, since it appeared to ease the pressure for further increases in U.S. interest rates (which had been building recently due to rising U.S. inflation).

The week also saw a stabilization in global commodity prices, after the sharp pullback experienced during the preceding week. Oil prices rose to over \$70 US per barrel, as markets focused on the approach of the U.S. summer driving and hurricane seasons. Despite the general recovery in commodity markets, natural gas prices neared a 12-month low as a report showed that U.S. natural gas inventories were 50 per cent above their five-year average level.

The Bank of Canada raised its overnight target rate by 25 basis points (0.25 percentage points), to 4.25 per cent. However, in an accompanying statement, the Bank also hinted that Canadian interest rates may remain on hold for the foreseeable future, as domestic inflationary pressures appear to be well contained.

Even with diminished prospects for future increases in Canadian interest rates, the Canadian dollar returned to above 90 cents

Cdn Dollar (C¢/US\$)		
↑	May 26, 2006	90.3¢
	May 19, 2006	89.0¢
	2006-07 YTD	88.7¢
WTI Oil \$US/bbl		
↑	May 25, 2006	\$71.32
	May 18, 2006	\$69.45
	2006-07 YTD	\$70.55
Nymex Natural Gas C\$/mcf*		
June Contract		
↓	May 26, 2006	\$6.53
	May 19, 2006	\$6.66
*Estimate based on Nymex Futures Market Price		

US this week, as currency markets focused on Canada's positive economic fundamentals and expectations of a further depreciation in the U.S. dollar globally.

Canadian farm incomes fell in 2005 to their lowest level since 2003. The drop was attributed by Statistics Canada to the effects of drought conditions in many regions and BSE-related trade restrictions. In Alberta, net farm income dropped to \$623 million (from \$1.26 billion in 2004).

Statistics Canada released a report on non-residential investment, which hit a new record high in 2005. The report stated that "Western Canada spearheaded the growth in industrial investment", with Alberta and British Columbia alone accounting for one-fifth of all investment in the Canadian manufacturing plants.

Economic Indicators Released this Week	Reference Period	Quarter/Previous Quarter	Quarter/Previous Quarter (Annualized Rate)	Quarter/Previous Year's Quarter
	1st Quarter 2006			
US GDP (\$Billions)	11,395	1.3%	5.3%	3.6%
	1st Quarter 2006			
Farm Cash Receipts (\$Millions)				
Alberta	2,084	3.9%	N/A	1.0%
Canada	9,072	-7.0%	N/A	-3.3%

Source: Statistics Canada and U.S. Bureau of Economic Analysis

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