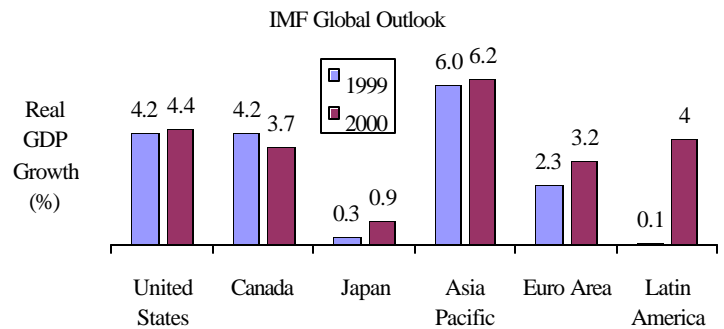


GLOBAL ECONOMIC OUTLOOK

I. OVERVIEW

The global economy staged a remarkable turnaround during the past year. The International Monetary Fund's (IMF) World Economic Outlook for 2000 estimates the world economy's growth rate for 1999 at 3.3%, up from its 2.2% prediction at the end of 1998. The global growth rate is expected to rise to 4.5% in 2000. The outlook is optimistic for all of the world's economic regions with the exception of some countries experiencing internal difficulties, especially transition economies in Europe, Latin America and the former Soviet Union. The main risk to this rosy outlook is a sharp slowdown in the United States.



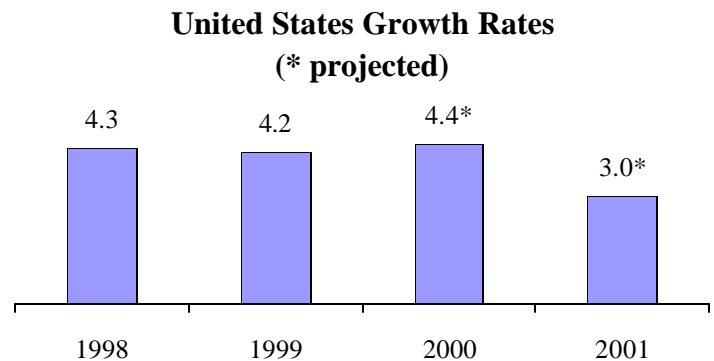
Source: International Monetary Fund April 2000

II. GLOBAL OUTLOOK

The world economy has rebounded dramatically from the 1997-98 slowdown caused by the Asian financial crisis and the subsequent turbulence in financial markets around the world. North America, the emerging economies of Asia, the Euro area, and Latin America account for much of the stronger world growth expected in 2000. The recovery in global activity has been accompanied by a more than doubling of oil prices since early 1999.

United States

The longest recorded expansion in the United States is expected to continue in 2000. Preliminary estimates indicate that the economy grew at an annualized rate of 5.4% during the first quarter of 2000. Inflationary pressures continue to grow as excess demand strains the production capacity of the economy. In response, the U.S. Federal Reserve has pushed up interest rates to slow growth and weaken inflationary pressures. Monetary authorities raised rates by 25 basis points in February and March, and by 50 basis points in mid-



Source: International Monetary Fund April 2000

May.

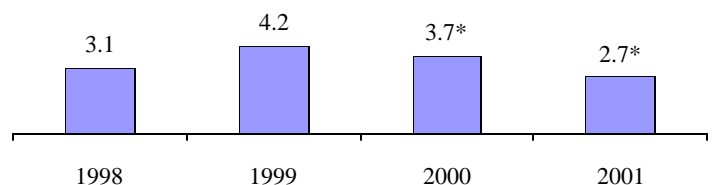
Excessive borrowing, both internal and external, is a growing concern for the U.S. economy. Private borrowing is at a post-war record high and the U.S. current account deficit reached a record level in 1999 and is expected to worsen in 2000. The U.S. economy is vulnerable to the eventual reversal of these imbalances.

Canada

Stronger than expected domestic and external demand have bolstered growth prospects for the Canadian economy. Growth is expected to be between 4.0% and 4.5% in 2000, but could possibly reach 5.0%. Current private sector consensus is for a growth rate of 4.1%, higher than the IMF's prediction of 3.7%. Given the price pressure that will likely accompany Canada's vigorous economic activity, core inflation

(excluding food, energy and the effect of changes in indirect taxes) is expected to rise to 2.0%. This falls in the middle of the Bank of Canada's inflation target range. Private sector forecasters predict that energy prices will boost the headline CPI inflation rate to 2.3%. It should approach the core inflation rate in 2001 if energy prices are stable. Unemployment reached an 18-year low in 1999 and has fallen further to 6.8% in April of 2000. It is expected to remain in the 6.6-6.8% range on average in 2000. So far this year employment growth has remained strong. In April, employment in Canada was up 2.9% from a year earlier. Because of low unemployment and strong economic growth, the Bank of Canada has matched recent U.S. interest rate increases and will likely continue to do so this year.

Canada Growth Rates
(* projected)



Source: International Monetary Fund April 2000

Asia-Pacific

Recovery in the Asia-Pacific region has exceeded expectations and the IMF predicts that growth will continue at 6.2% in 2000, up slightly from a growth rate of 6.0% in 1999. Many factors have contributed to the surprisingly strong performance including strong export demand, expansionary fiscal policies and low interest rates in the region. The pick up in the crisis-hit economies has been greatest in Korea and Malaysia with strong, stable turnarounds in Thailand and Indonesia.

Japan

In contrast to most other areas of the world, recovery in Japan has been slow and tentative. The IMF predicts that growth in real output will creep up from 0.3% in 1999 to 0.9% in 2000. Deflationary pressures persist despite a domestic zero interest rate policy and massive fiscal stimulation. Government and private sector debt levels remain high. Continued accommodative monetary policy will be necessary in the coming months to counteract deflationary pressures, and at some point expansionary fiscal policy will not be sustainable.

Europe

The IMF has a positive outlook for the Euro area although growth prospects are varied across member countries. The growth rate for the area is expected to rise to 3.2% in 2000 from 2.3% in 1999. Many countries are experiencing adjustment fatigue as they undertake substantial financial, structural and policy reforms to satisfy the criteria for entry into the Economic and Monetary Union. The United Kingdom is expected to experience continued healthy growth in 2000, although an unwarranted procyclical budget is expected to stimulate inflationary pressures.

Russia and the Commonwealth of Independent States (CIS)

Transition economies in the former Soviet Union are improving but prospects for individual countries depend on the extent of stabilization and restructuring in each economy. Differences are expected to widen over time. In Russia, progress has been due to growing energy exports and domestic import substitution, neither of which is a strong basis for sustainable growth. Lack of investor confidence in the region is reflected by large capital outflows. Imprudent macroeconomic policies, inflexible markets and civil strife are having a destructive effect on both investor and consumer confidence which are necessary for sustainable growth.

Latin America

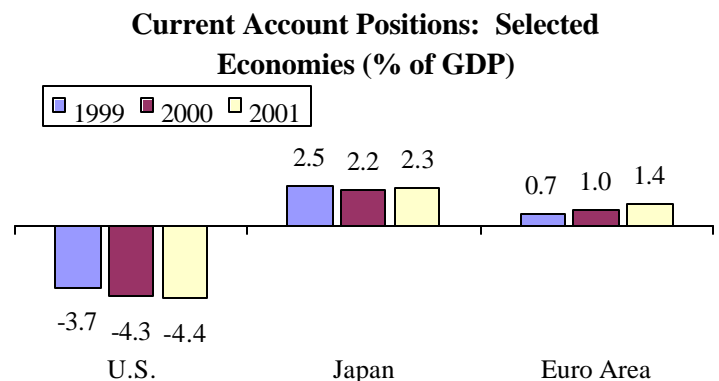
Latin America is emerging from a regional slowdown, which was marked by a sharp contraction in 1999. The recovery is being led by stronger domestic and export demand induced by widespread currency depreciation, and falling inflation and interest rates. The principal vulnerability for the region is high external financing requirements. Restrictive fiscal and monetary policies are required to improve investor confidence and further reduce the inflation rate, which is expected to be 7.7% in 2000. While prospects for 2000 are positive for the region, the performance of individual countries is expected to be diverse, due in large part to inflexible domestic policies.

Mexico held up well through the regional economic slowdown due to growing non-oil exports, private investments and domestic demand. Prudent macroeconomic policies have had a positive effect on inflation, interest rates and the exchange rate during the downturn.

II. MAJOR RISK TO GLOBAL GROWTH

The optimistic growth predictions for the world economy rest heavily on the continued strength of the U.S. economy. A sharp downturn in the U.S. could trigger a world-wide recession.

While rising interest rates pose a substantial risk to economic growth in the U.S., the country's growing external debt is also a source of concern. Currently,



Source: International Monetary Fund April 2000

the U.S. is experiencing a large and growing current account deficit as a result of excessive domestic demand. Meanwhile, Japan and the Euro area are accumulating current account surpluses as net exporters of goods and services to other parts of the world, including the U.S. The U.S. dollar has remained surprisingly strong in world currency markets due an offsetting volume of capital inflows to the U.S. from the rest of the world. A dramatic reversal of investor sentiments would sharply curtail capital flows to the U.S. and weaken the dollar. U.S. demand for exports would drop and a global downturn could ensue.

IV. IMPLICATIONS FOR ALBERTA

Improvement in the outlook for the world economy is good news for Alberta. A downturn in the U.S. economy is an ongoing concern for Alberta as it is for all of Canada; however, private sector consensus is for strong growth in Alberta in 2000.