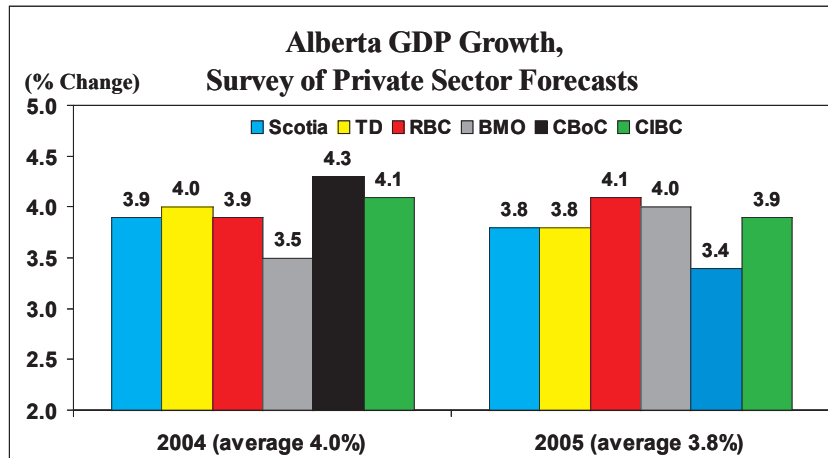




## ECONOMIC UPDATE, OCTOBER 2004

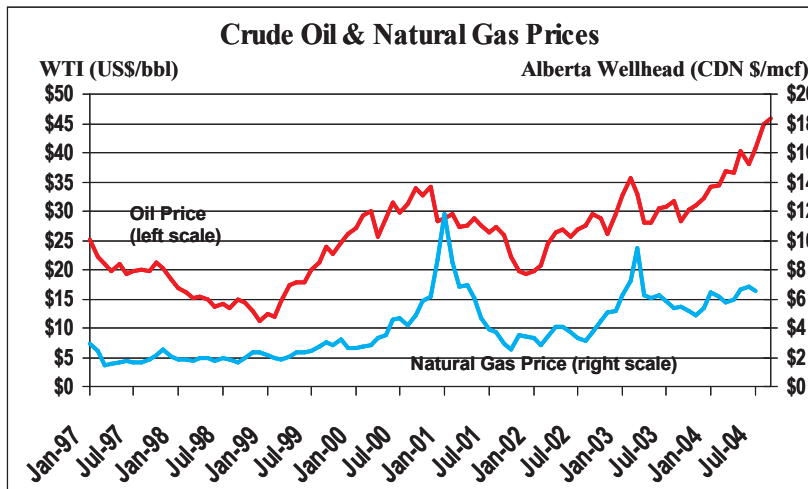
**Alberta**

## ALBERTA PROJECTED TO LEAD IN GROWTH IN 2004



- Spurred by high energy prices and strong global growth, the Alberta economy is on track for a strong performance in 2004.
- Private sector forecasters expect Alberta to lead all provinces in economic growth this year. A recent survey of forecasters suggests that Alberta's growth will be around 4% in 2004.
- Higher than expected energy prices are the main reason for the exceptionally high economic growth forecast for 2004. These prices have contributed to higher growth in corporate and personal incomes, and higher consumer spending. Combined, these factors are expected to add about one percentage point to Alberta's real economic growth in 2004.
- In October 2004, Standard and Poor's cited the strong economy when reaffirming Alberta's status as the only province with a AAA credit rating.

## RECORD HIGH ENERGY PRICES DRIVE INDUSTRY ACTIVITY

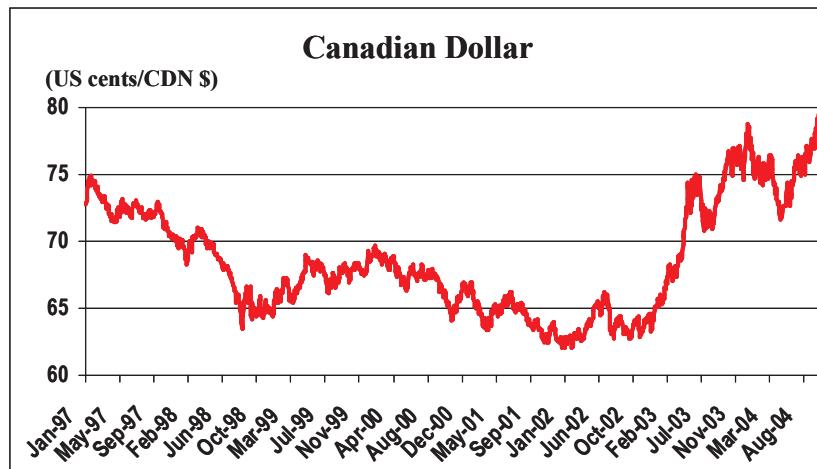


- In 2004, energy prices have been running at or near record levels, with the price of oil recently reaching an all-time high of over US\$50 per barrel. Strong global demand, from China in particular, has outpaced growth in world production. Fears regarding supply disruptions in Iraq, Nigeria and Russia have also put upward pressure on oil prices. To date in 2004-05, oil has been averaging more than \$40 per barrel, up from just over \$30 in 2003-04.
- Higher oil prices have also placed upward pressure on substitute energy sources, including natural gas. Natural gas prices have averaged over \$6 per mcf year-to-date, compared to about \$4 the previous year.

## THE ECONOMIC AND FISCAL IMPACTS OF HIGH OIL PRICES

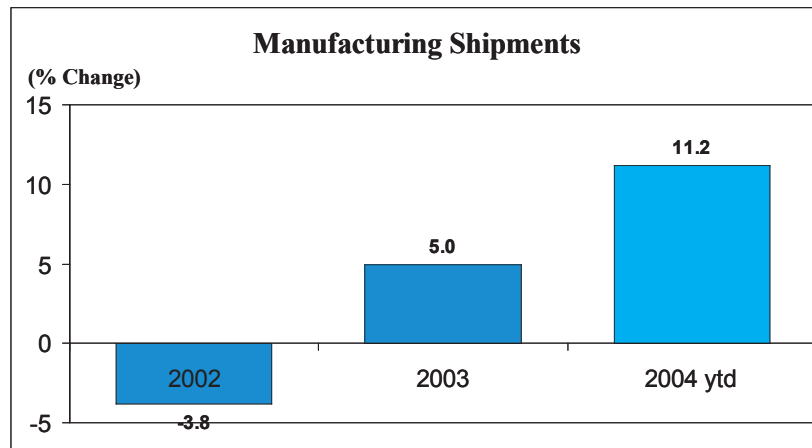
- For Alberta, the economic and fiscal impacts of high oil prices, while certainly positive, are not as substantial as they have been in the past due to the changing composition of Alberta's oil production and the increasing diversification of the Alberta economy.
- Over the past few decades, Alberta's oil production has changed dramatically, with lower-cost conventional oil being increasingly replaced by higher-cost production from oil sands. Conventional oil has fallen from 74% of total production a decade ago to under 43% today.
- As a result of declining conventional production and declining average well productivity, the Alberta government's oil royalties have dropped significantly over the past two decades. For example, 20 years ago (in 1984-85), the price of oil averaged under \$29 and the Alberta government received over \$2.9 billion in royalties from conventional oil. In 2003-04, with oil prices averaging over \$31, Alberta's conventional oil royalties were less than \$1 billion (total royalties from oil, including oil sands, were \$1.27 billion in 2003-04).
- Natural gas prices are of considerably greater importance to Alberta government revenues. Actual figures for 2003-04 show natural gas royalties accounted for 71% of total non-renewable resource revenues, while conventional oil royalties accounted for only 13%.
- The Alberta economy's growing diversification has lessened the impact of developments in the energy sector. While the energy sector is still vitally important to Alberta's economy, it constitutes a significantly smaller share of our economy than it did two decades ago. In 1985, the energy sector accounted for 36% of Alberta's Gross Domestic Product. By 2002 (the most recent year for which comparable data are available), this figure had declined to 22% of GDP.

## CANADIAN DOLLAR REACHES 11-YEAR HIGH



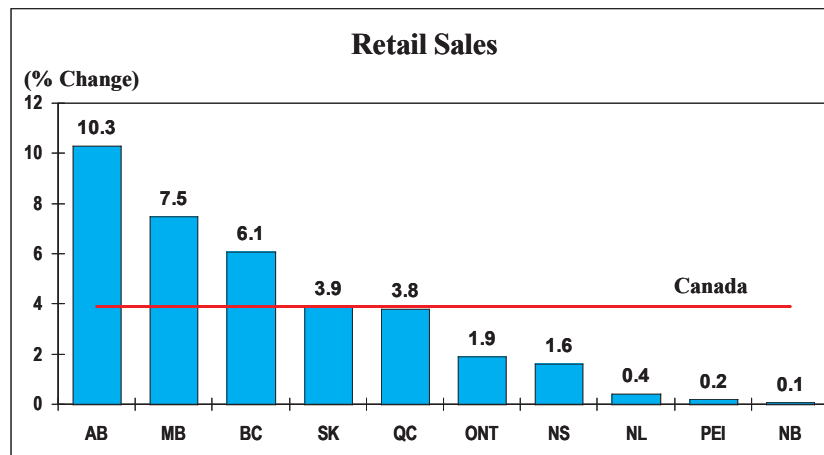
- High energy prices have contributed to the renewed rise in the Canadian dollar in recent months. The dollar recently reached an 11-year high, breaking the 80 cent mark in early October.
- Through the first nine months of 2004, the dollar averaged 75.3 cents U.S., up from an average of 63.7 cents in 2002 and 71.3 cents in 2003.
- A high Canadian dollar reduces Alberta's revenues. For each one cent increase in the Canadian dollar, the Alberta government's revenues decline by approximately \$110 million. This is due primarily to lower royalties from oil and gas, which are priced and sold in U.S. dollars.

## MANUFACTURING SECTOR GAINING MOMENTUM



- The growth of Alberta's manufacturing sector has gained momentum in 2004. Through the first seven months of 2004, Alberta's manufacturing shipments have increased by an impressive 11.2%. This is double the national growth rate of 5.6% over this period.
- Sectors experiencing strong growth in 2004 have included electrical equipment (+24.7%), machinery (+21.8%), wood products (+45.1%) and computers and electronics (+12.8%).
- These gains have occurred despite a relatively high Canadian dollar.

## ALBERTA LEADING IN RETAIL SALES

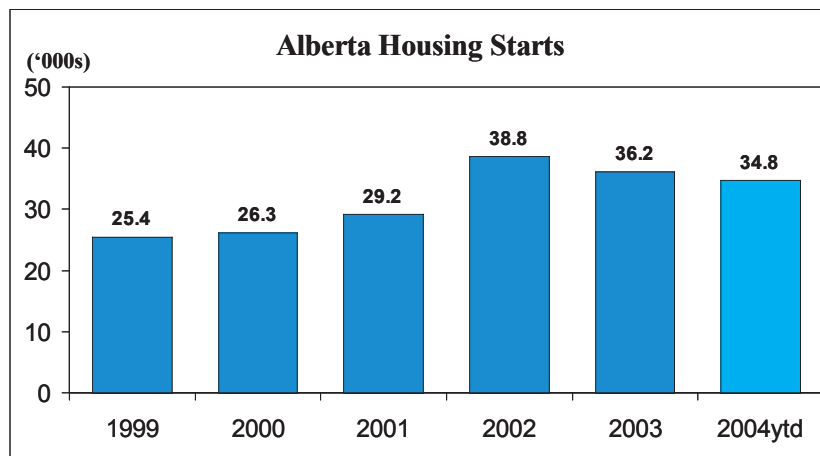


- In 2004, Albertans have enjoyed the highest income growth in Canada at 6.4%, compared to 3.7% nationally in the first half of the year.
- This rapid income growth has strengthened Alberta's already-robust consumer sector. Through the first seven months of 2004, Alberta's retail sales are up by 10.3% over 2003 levels, compared to growth of just 4.0% across Canada.
- On a per capita basis, Alberta's retail sales are by far the highest in Canada, 25% above the national average.

## AGRICULTURAL SECTOR CONTINUES TO FACE CHALLENGES

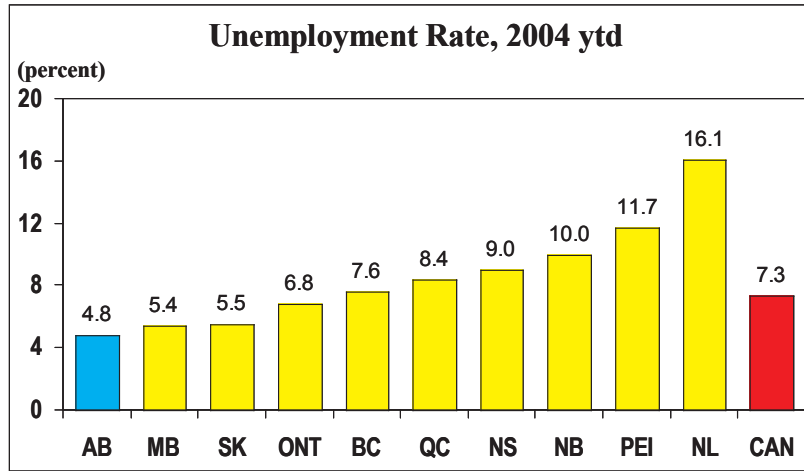
- In 2004, Alberta's agricultural sector has experienced some improvements, but continues to face some significant challenges. Through the first half of the year, total farm cash receipts were up 8.5% compared to the same period in 2003, due primarily to higher crop receipts. However, livestock receipts were down 9% through the first half of 2004, with cattle receipts declining by 14.7%, due to the ongoing economic effects of BSE.
  - Due to generally improved growing conditions, preliminary indications are that average yields for most crops will be higher in 2004 than in 2003, and above recent 10-year averages.
- However, adverse weather conditions early in the fall reduced crop quality.
- Alberta's agricultural producers continue to receive significant support through program payments, which reached a record \$1.36 billion in 2003. In September 2004, an additional \$230 million in provincial program assistance was announced, as part of a new six-point BSE recovery strategy. The strategy includes measures to address slaughter capacity, BSE surveillance, set-aside programs to deal with oversupply of cattle, and enhancements to the Canadian Agricultural Income Stabilization Program.

## HOUSING SECTOR REMAINS ROBUST



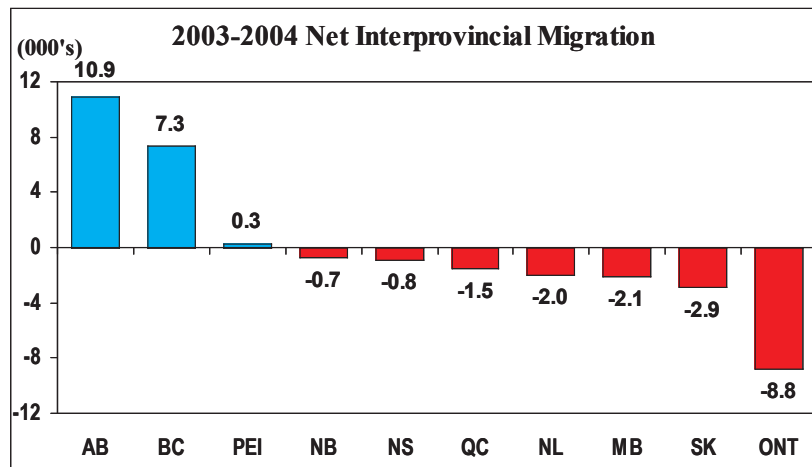
- Alberta's housing sector has remained very strong in 2004. Through the first nine months of the year, housing starts were running at an annual rate of 34,800. This is 11.7% above the most recent 5-year Alberta average of 31,162 starts.
- In September 2004, the pace of Alberta's housing starts increased to an annual rate of 37,000.

## ALBERTA MAINTAINS LOWEST UNEMPLOYMENT RATE



- In 2004, the Alberta economy has continued to create jobs at a healthy pace. Through the first nine months of the year, Alberta's employment increased by over 38,000 jobs to 1.76 million - an increase of 2.2%. In contrast, employment has grown by 1.8% in Canada and 1% in the United States.
- Alberta has the lowest unemployment rate in Canada despite experiencing the fastest population growth of any province in Canada. In September 2004, Alberta's unemployment rate stood at 4.8%. Through the first nine months of 2004, the average unemployment rate has been 4.8%, compared to an average of 5.1% for all of 2003.

## HIGHEST INTER-PROVINCIAL MIGRATION



- Due to the continued strength of the Alberta economy, Alberta remains the destination of choice for Canadians moving from other provinces.
- In 2004 - for the eighth consecutive year - Alberta has gained more net interprovincial migrants than any other province. From July 1, 2003 to June 30, 2004, Alberta had 10,902 net interprovincial migrants.
- Overall, Alberta leads all provinces with population growth of 1.4% in 2004, well above the national increase of 0.9%.

## CHALLENGES

- Alberta's exceptionally strong economic performance in 2004 also brings with it certain challenges and risks.
- Going forward, the primary risk to Alberta's growth is the inherent volatility of energy prices. With the prices of oil and natural gas at record or near-record highs, there are downside economic risks associated with a reversion in prices. Year-to-date, the average prices of both oil and natural gas have been nearly double their most recent 10-year annual averages.