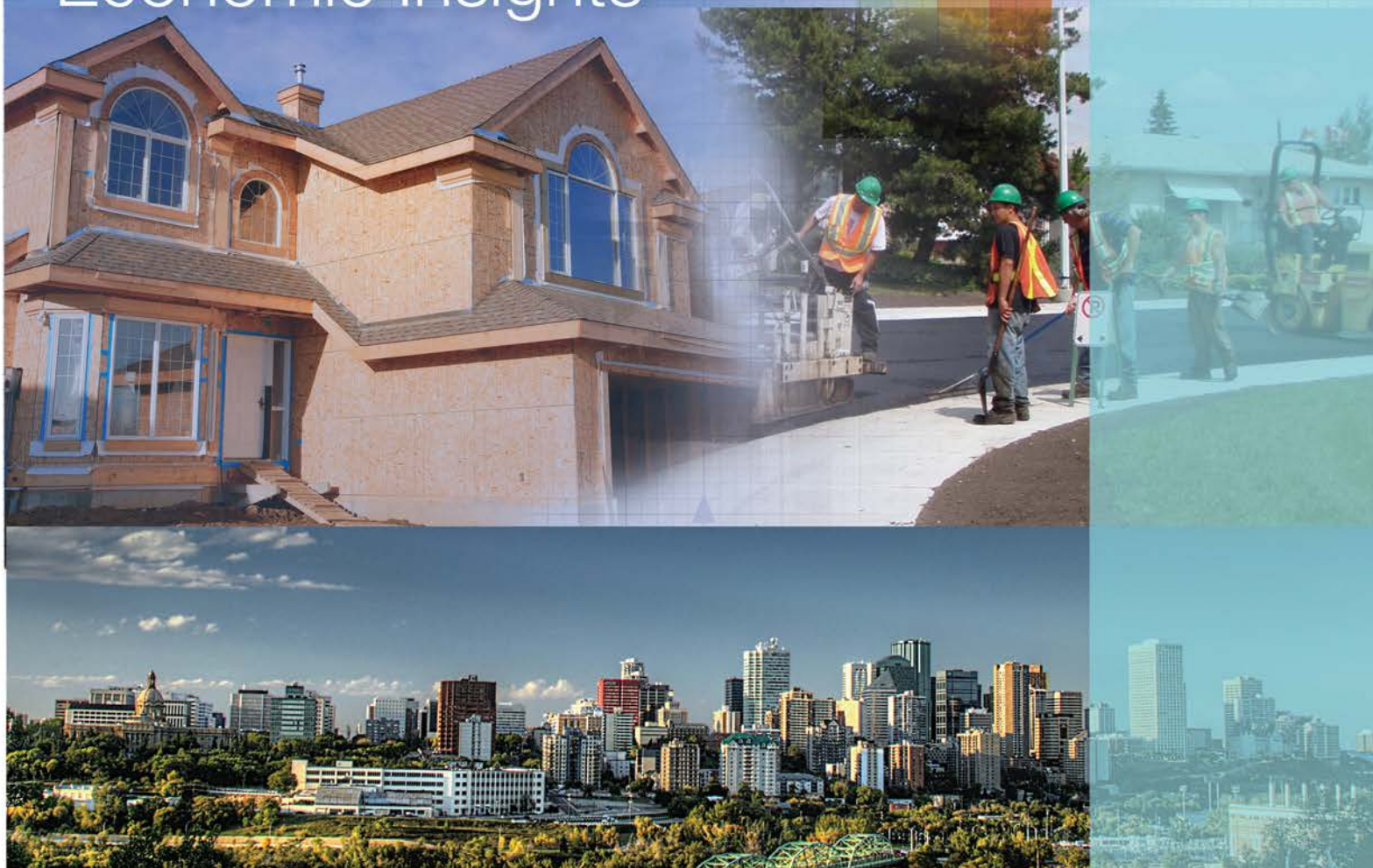


Economic Outlook

October 2016

Economic Insights



Overview

The impact of dramatically lower oil prices on the Edmonton economy is now clear as the City saw growth slow sharply in the third quarter of 2016. Real Gross Domestic Product (GDP) for 2016 is now estimated to be in the range of -0.4% for the City. However, average weekly wages have continued to improve as job losses have been concentrated in relatively low paid positions. This has sustained disposable income in spite of recent reduced employment levels and, along with continuing population growth, has helped to moderate reductions in housing, retail and personal services expenditures.

In 2017, growth will pick up noticeably to the range of 1.8% as the Provincial and City economies begin to recover, assuming energy prices continue to improve. However, growth rates will be very modest when compared to those experienced between 2010 and 2014.

Restrained growth prospects for the global economy and continuing uncertainty as to OPEC production levels will mean energy prices will be highly volatile. While prices are expected to improve over the remainder of 2016 and into 2017 there is considerable downside risk with respect to energy prices with negative implications for the outlook for both Edmonton and Alberta.

A. Global and North American Developments

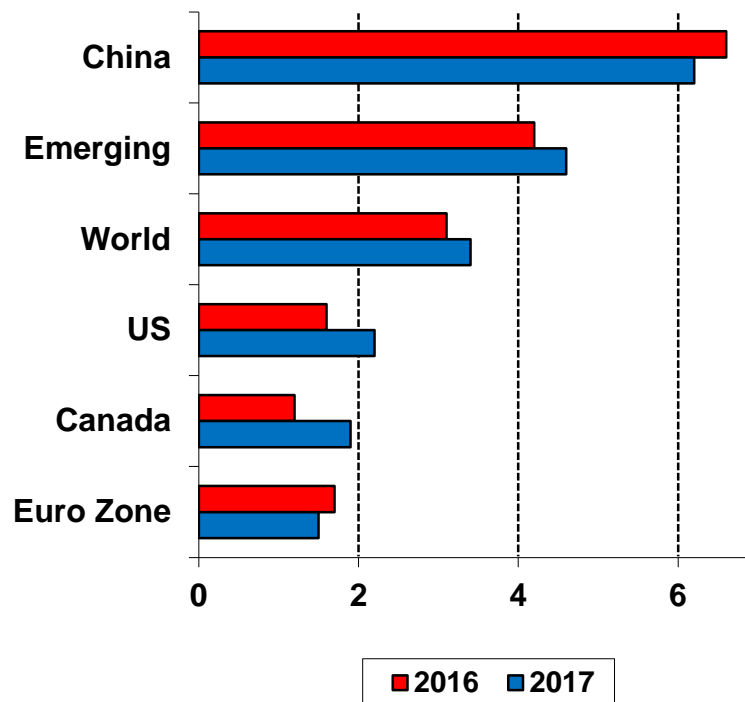
Global economic growth moved forward at a slightly stronger pace in the second and third quarters of 2016. After a very poor start to 2016 conditions in the US improved in the third quarter and are expected to remain relatively robust over the remainder of 2016. Better export growth and stronger business investment particularly will underpin higher US growth.

In spite of risks arising from Britain's proposed exit from the European Union (Brexit), economic activity in the Euro Zone held up well in third quarter of 2016. Lower energy prices and modest but steady employment growth helped to boost investment and consumer spending. However, the uncertainty as Brexit negotiations are initiated in 2017 and ongoing concerns about European financial institutions will limit growth in 2017.

Emerging markets were sluggish during the first half of 2016 as ongoing issues in China, Brazil, South Africa and Russia limited expansion during the opening months of the year. Financial and housing market conditions in China appear to have stabilized suggesting growth will hold up at about 6.7% for 2016. However, with continuing low commodity prices, improvement in other key emerging markets is unlikely until 2017.

The International Monetary Fund expects the global economy to grow at 3.1% in 2016 – unchanged from the forecast provided in the June 2016 World Economic Outlook update report. (See figure 1) Global growth will rise in 2017 to 3.4% as the advanced countries accelerate and emerging economy see more robust growth.¹

Figure 1 - Percent Real GDP Growth



Source: International Monetary Fund

After a sharp downturn in the second quarter resulting from the Fort McMurray fires and oil sands shut down, growth in Canada rebounded in the third quarter of 2016. For 2016 as a whole, economic growth will be an anemic annualized rate of about 1.1%². With better conditions in the US and improved exports 2017 should be a better year for Canada with growth in the 2.2% range.

Prospects for Alberta in 2016 remain poor with all commentators calling for a continued contraction in province as levels of activity in the energy, manufacturing and construction sectors continues to fall. However, the rate at which GDP contracts in the province will ease from 4% recorded in 2015 to approximately 2% in 2016. Relatively modest positive growth in the 2% range is

¹ For additional information on developments in the global economy see the *International Monetary Fund World Economic Outlook Update October 2016* at: <http://www.imf.org/external/pubs/ft/weo/2016/02/index.htm>

² For additional information on developments in the Canadian economy see Bank of Canada *Monetary Policy Report – October 2016* at: <http://www.bankofcanada.ca/2016/10/mpr-2016-10-19/>.

expected to return to Alberta in 2017 as oil prices recover to the \$US 50 to \$55 range and rebuilding in Fort McMurray gains momentum.³

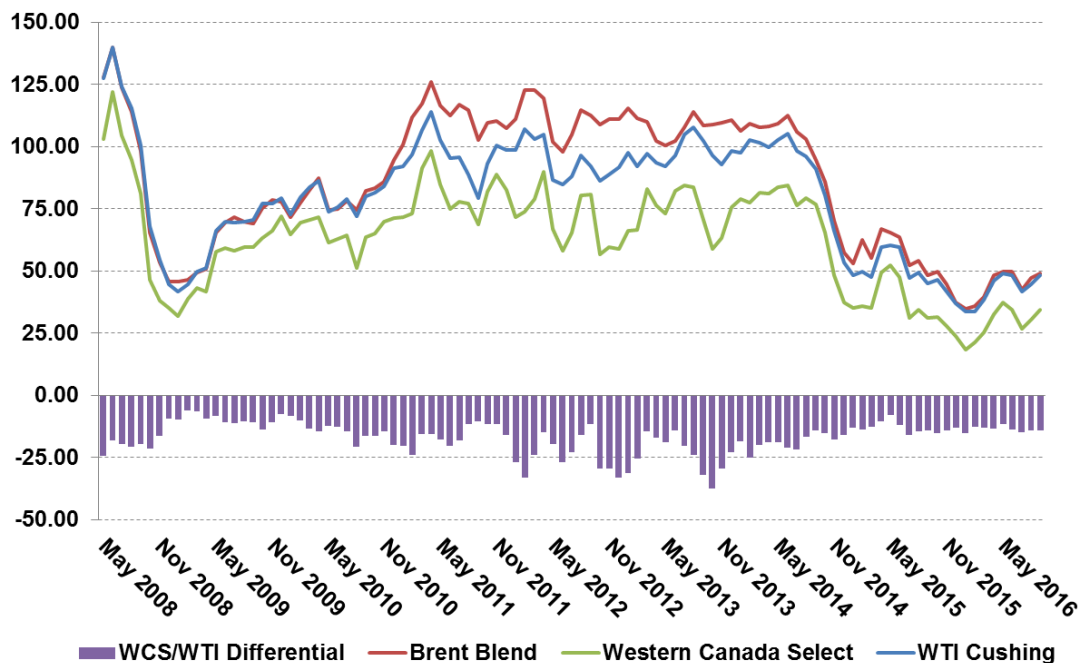
Energy Prices

After bottoming below \$30.00 per barrel in February 2016, the US benchmark oil price (West Texas Intermediate or WTI) has made a significant recovery reaching approximately \$50 per barrel in late October. As can be seen from Figure 2, the downturn in oil prices since mid-2014 lasted longer and the recovery has been more modest than that of 2008 to 2010.

This 'lower for longer' trend reflects the difference in key factors behind lower oil prices. The collapse in 2008 was driven by a demand shock as the global economy went into recession. Prices recovered as soon as economic activity picked up. Since mid-2014 oil prices have fallen due to excess supply. Adjusting supply to meet demand is a much more difficult and time consuming process. Hence, while energy prices will improve, the profile of the recovery will be much longer and potentially very volatile.

The implication for Edmonton and Alberta is that investment activity in the energy sector will be muted resulting in modest growth prospects over the medium term.

Figure 2 - Oil prices \$ US per Barrel



Source: Bloomberg

³ For additional information on the outlook for the Alberta Economy see ATB Financial Alberta Economic Outlook Q3 at: <http://www.atb.com/SiteCollectionDocuments/About/Q32016Outlook.pdf>.

B. Current Developments in the City and region

As noted above, the Edmonton economy slowed sharply in the second quarter of 2016. This reduction in activity was evident in the main economic indicators of employment, inflation, housing starts and building permits. Each of these is discussed in greater detail in the following sections. The appendix provides data for a wider variety of indicators.

Employment in Metro Edmonton

Employment in the Edmonton Census Metropolitan Area for the third quarter of 2016 was down year over year with particularly sharp losses in construction and manufacturing (see Figure 3). Good job gains in retail, public administration and education only partially offset these losses. As a result, Edmonton's unemployment rate stood at 7.7% in September 2016.

To date the reduction in employment experienced in Edmonton has not impacted average wages and salaries. However if job losses continue higher levels of unemployment will begin to depress wages and further undercut consumer spending. At 7.7% Edmonton's unemployment rate is now well above the national average of 7%. This will reduce net migration as individuals pursue employment opportunities outside of Alberta. International and intra-provincial migration along with natural population growth will result in slow but steady population increases for Edmonton.

Lower employment levels have led to rising vacancy rates for both industrial and commercial space in the Edmonton region. Industrial vacancy across the Edmonton region stood at 5% in the third quarter up from the 1% to 2% rates typical of recent years⁴. Most of the increases in vacant industrial space occurred in the Nisku – Leduc area. Industrial vacancy was also up in the northwest and southern areas of the City as well.

Commercial vacancy across Edmonton stood at 14.5% in the third quarter up from the 12% rate recorded for 2015⁵. Much of this rise was the result of higher vacancies in suburban areas where vacancy was 16.4%. As well higher rates of vacancy were recorded for B and C class buildings. Major additions of new A class space in the downtown core will tend to boost vacancy rates in 2017.

As well, rising unemployment resulted in a sharp rise in personal bankruptcies in the first quarter of 2016. While still elevated, the number of individual insolvencies leveled off in the second quarter. Business insolvencies are much more volatile quarter to quarter and no clear trend is apparent. Business

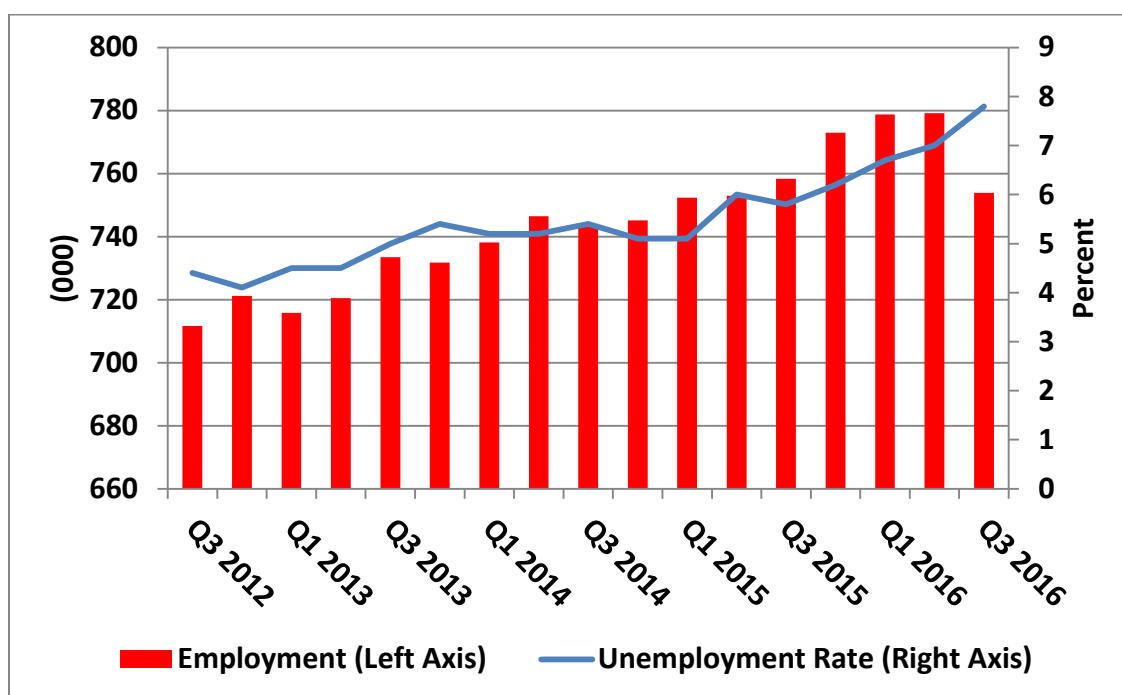
⁴ For additional background see *CBRE Market View Edmonton Industrial* at: <http://www.cbre.ca/EN/o/edmonton/Pages/market-reports.aspx>.

⁵ For additional background see *CBRE Market View Edmonton Commercial* at: <http://www.cbre.ca/EN/o/edmonton/Pages/market-reports.aspx>.

insolvencies were up 13% in the second quarter of 2016 when compared the second quarter of 2015.

Looking forward, employment growth in Edmonton will return over the remainder of 2016. As the available labour force will be increasing at a rate very close to that of new job creation, the unemployment rate will be held in the range of 7.5% to 8.0% in the coming months. Continuing employment growth in 2017 will slowly bring the unemployment rate down to 7.0% to 7.5% for the year.

Figure 3 – Employment in Metro Edmonton

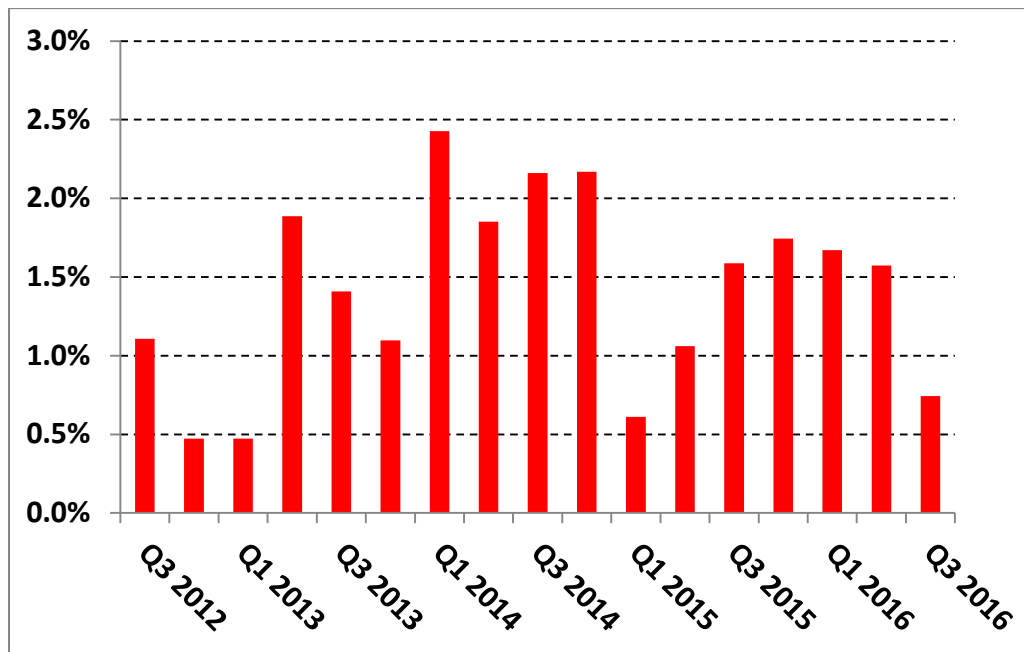


Source: Statistics Canada

Inflation in the Edmonton

Inflation as measured by the Consumer Price Index (CPI) moved lower in the third quarter of 2016 (see Figure 4). Year-over-year inflation was 0.6% in September of 2016 as lower energy and shelter costs more than balanced higher food and clothing prices. Housing costs, particularly rents, are beginning to ease and will lead to very modest inflation for the remainder of 2016. Edmonton's rental vacancy rate is in the 4.2% range - well above the recent low of 1% - causing rents to fall. While this is improving housing affordability in the rental sector it has had a negative impact on multifamily construction.

Figure 4 – Edmonton Metro Area's CPI Inflation

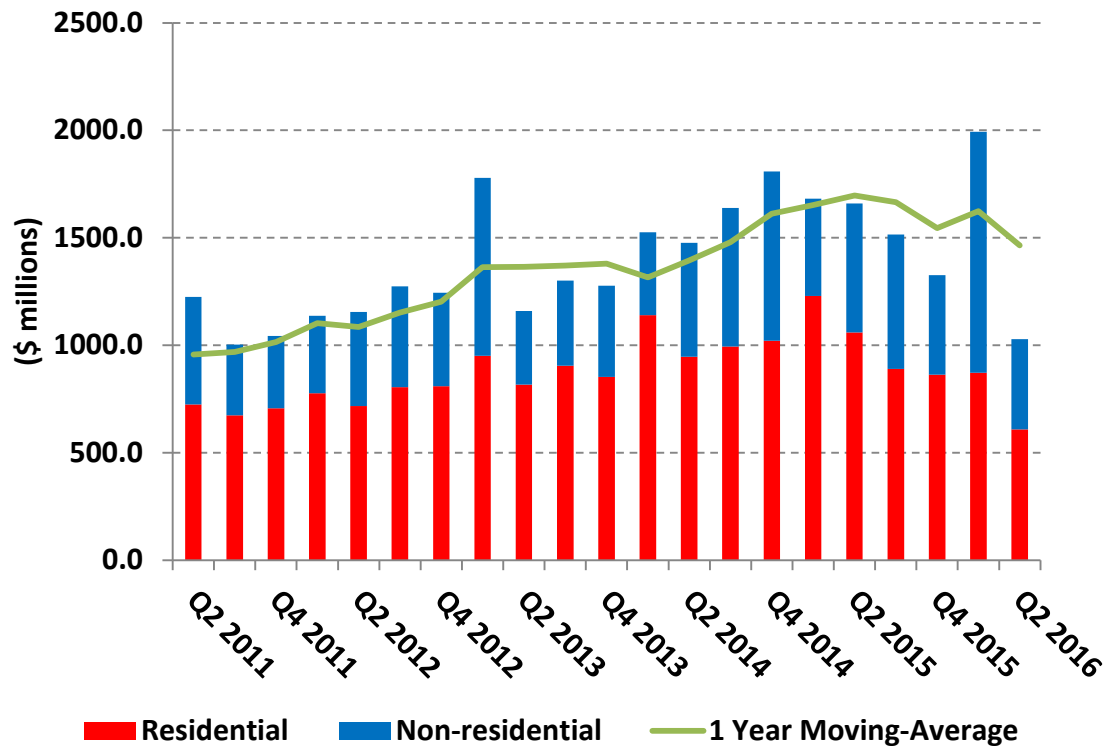


Source: Statistics Canada

Building Permits

Total building permits fell sharply in as the value of permits as both residential and non-residential values contracted. The one year moving average, which smooth's out sharp changes in quarterly results for building permit values, was also lower in the second quarter with the value of permits well below recent levels (See Figure 4). The value of building permits will remain close to second quarter levels, particularly for multi-family residential buildings, as the rental vacancy rate starts to rise over the remainder of 2016. Looking to 2017, permit values will hold at the levels recorded for Q2 2016.

Figure 5 - Edmonton – Value of Building Permits



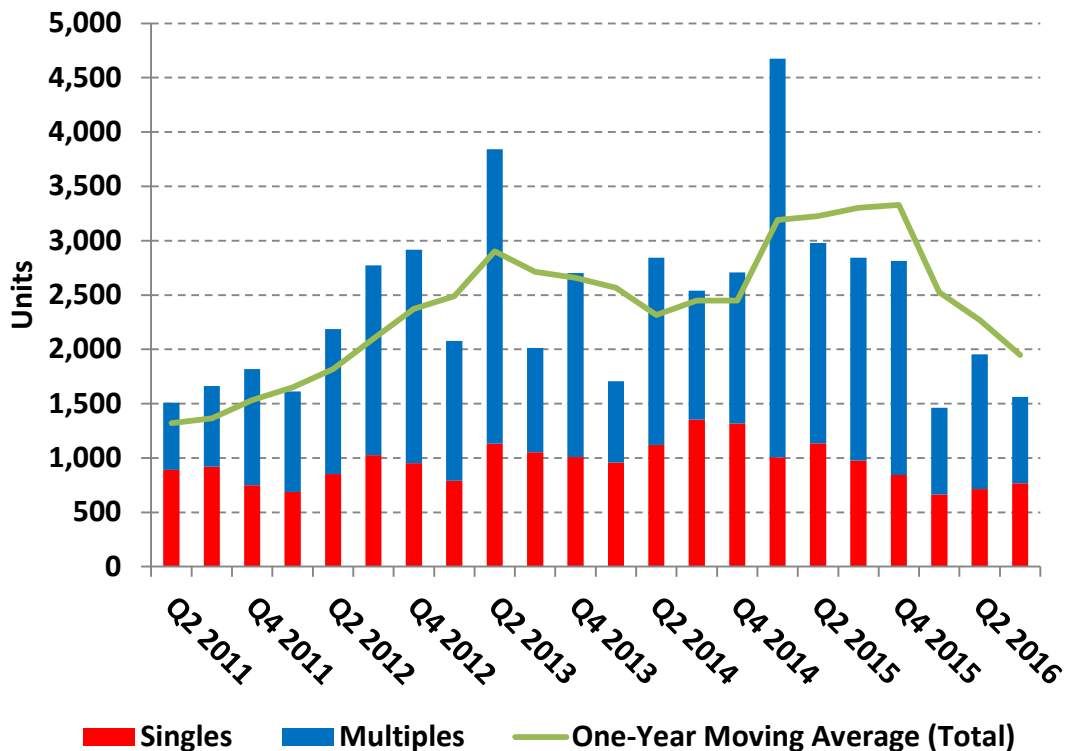
Source: Statistics Canada

Housing Starts

After extraordinarily strong multi-family housing start figures in 2015 the overall level of housings starts was down sharply during the first three quarters of 2016 (See Figure 5). As noted, rental vacancy rates in Metro Edmonton are now hovering in the 4% to 5% range, undercutting the incentive for adding to the multi-family housing stock. As well, the inventory of new and existing single family homes is moving up causing builders and developers to slow the rate of new house construction. Housing start values will remain at relatively low levels over the remainder of 2016 current rental demand gradually catches up to the stock of multi-family units and single family home sales remain soft. In 2017 housing starts will slow modestly as the number of multi-family starts continue to weaken from current low levels.

With lower levels of residential construction anticipated higher infrastructure spending by the Federal and Alberta governments will be critical to maintaining employment in the region's construction sector.

Figure 5 - City of Edmonton – Housing Starts

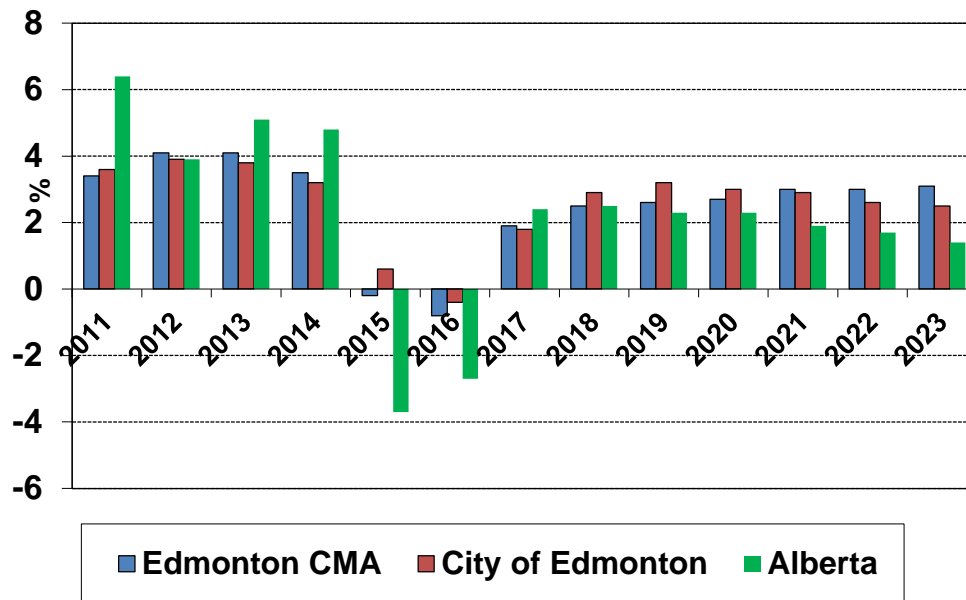


Source: Canada Mortgage and Housing Corporation

A. Medium term outlook for Edmonton the Region and Alberta

As noted above, prospects for Alberta in 2016 remain poor. However with a continuing recovery in energy prices should stabilize investment and production activity in Alberta's energy sector – at very low levels. This combined with continuing growth in other sectors of the economy including agri-food, forestry and tourism means growth should return to the province in 2017. However Alberta's GDP will expand at very modest rates when compared to the years from 2010 and 2014. Over the medium term oil prices are unlikely to reach levels necessary to stimulate large investments in the energy sector. Consequently, the provinces growth will be more in line with the Canadian average of approximately 2% per year when adjusted for inflation (see Figure 6).

Figure 6 - Percent Real GDP Growth



Source: City of Edmonton

The outlook for the City of Edmonton and the Edmonton Census Metropolitan Area are somewhat better given their relatively low direct exposure to the energy sector. The subdued growth of Alberta and the energy sector will also hold growth rates for both the City and the region well below recent strong values.

There is significant upside and downside risks to the outlook as summarized in Table 1. A key issue is the uncertainty with respect to the recovery of oil prices. While Edmonton has a relatively limited direct exposure to the energy sector when compared to the province, it does have a very strong indirect connection through its manufacturing and construction sectors as well as the fiscal situation of the province.

The Edmonton region has approximately 30% of all employment in Alberta, but about 50% of all jobs in public administration. If the province initiates cuts to expenditures or employment in an attempt to address deficits resulting low non-renewable resource revenues, the impact on Edmonton would be very negative. As of late October risk to the outlook is negative reflecting uncertainty with respect to oil prices. That is, growth rates are more likely to be lower than those presented above rather than higher.

Table 1 - Risks to the Outlook

Downside Risks	Upside Risks
Energy prices fail to improve resulting in large ongoing provincial deficits and slower activity in the energy sector	The US economy grows at a faster pace than currently forecasted boosting exports and energy prices
Consumer confidence falters resulting in further reductions in retail and housing activity	OPEC and other major oil producers succeed in limiting production resulting in a more rapid recovery of energy prices
Brexit and ongoing issues with the European banking sector cut growth in Europe and depress commodity prices	Levels of business investment in Canada are higher than expected resulting in stronger growth for Canada
Carbon taxes and emissions controls limit the medium term demand for fossil fuels undercutting investment in new production facilities	Emerging markets – particularly India and China – succeed in stimulating faster growth increasing the demand for commodities and raising prices

Source: City of Edmonton

Appendix 1 - Quarterly Economic Indicators

Office of the Chief Economist

Bankruptcies <i>Edmonton CMA</i>							
						% Change Q1 2016 to Q2 2016	% Change Q2 2015 to Q2 2016
	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016		
Business Bankruptcies (volume)	8	12	1	8	9	13%	13%
Consumer Bankruptcies (volume)	297	302	275	411	424	3%	43%

Source: Office of the Superintendent

As the regional economy slowed down over the last couple of years, businesses and consumer bankruptcies went up year-over-year with business bankruptcies increasing by 13% and consumer bankruptcies up 43%. Business bankruptcies were up by 13% from Q1 2016 to Q2 2016 while consumer bankruptcies were up by 3% as the unemployment rate in the Edmonton region goes up.

Housing Starts (units) <i>Edmonton CMA</i>							
	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	% Change Q1 2016 to Q2 2016	% Change Q2 2015 to Q2 2016
Single Family	1,598	1476	1188	878	1001	14%	-37%
Multi Family	2,238	2,683	2,363	1233	1,825	48%	-18%
Total Housing Starts	3,836	4,159	3,551	2111	2,826	34%	-26%

*Source: Canada Mortgage and
Housing Corporation (CMHC)*

The number of new single and multi-family housing units went up in in Q2 2016 by 14% and 48% respectively from Q1 2016. However, year-over-year new single and multi-family housing units were down as builders were less keen to add new homes due to high inventory of existing homes and a higher vacancy rate.

Housing Starts (units) <i>City of Edmonton</i>							
	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	% Change Q1 2016 to Q2 2016	% Change Q2 2015 to Q2 2016
Single Family	1,134	975	843	665	713	7%	-37%
Multi Family	1,846	1,868	1,971	798	1,241	56%	-33%
Housing Starts	2,980	2,843	2,814	1463	1,954	34%	-34%

*Source: Canada Mortgage and
Housing Corporation (CMHC)*

The number of new single and multi-family housing units went up in in Q2 2016 by 7% and 56% respectively from Q1 2016. However, year-over-year both new single and multi-family housing units were down as builders were less keen to add new homes due to high inventory of existing homes and a higher vacancy rate.

Building Permits (Thousands(000s), dollars) <i>Edmonton CMA</i>							
	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	% Change Q1 2016 to Q2 2016	% Change Q2 2015 to Q2 2016
Residential	1,058,956	889,567	862,975	871,746	608,768	-30%	-43%
Industrial	43,491	52,062	45,262	51,230	48,960	-4%	13%
Commercial	404,193	428,117	267,711	905,282	231,556	-74%	-43%
Institutional	152,406	145,756	149,698	164,458	138,312	-16%	-9%

Source: Statistics Canada

Building permits in the residential sector were down from year over year and from Q1 2016 to Q2 2016. With higher levels of inventory and a rental

vacancy rate of 4.2% there are less residential development. In the non-residential sector commercial, industrial and institutional building permits were up down from Q1 2016 to Q2 2016. However, industrial building permits were up year over year.

Employment Insurance (Recipients)							
<i>Edmonton CMA</i>							
	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	% Change Q1 2016 to Q2 2016	% Change Q2 2015 to Q2 2016
	48,060	53,990	60,330	65,230	70,240	8%	46%

Source: Statistics Canada

Employment insurance is regular benefits provided to those who have lost their jobs through no fault of their own. The number of individuals receiving employment insurance has increased by 46% year over year and by 8% from Q1 2016 to Q2 2016. The increase in number of individuals claiming employment insurance is due to lay-offs in the energy sector.

Rental Vacancy Rates					
<i>Edmonton CMA</i>					
	Oct-13	Apr-14	Oct-14	Apr-15	Oct-15
	1.4%	1.4%	1.7%	2.6%	4.2%

*Source: Canada Mortgage and
Housing Corporation (CMHC)*

The number of unoccupied apartments for rent as measured by the rental vacancy rate has increased over the course of two years. In October 2013, the rental market in Edmonton was tight with a 1.4% rental vacancy rate as the number of demand for rental accommodations outpaced the supply of available rental accommodation. In October 2015, the rental vacancy rate was 4.2% as the number of individuals seeking rental accommodation went down.

Consumer Price Index (2002=100)							
<i>Edmonton CMA</i>							
	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	% Change Q1 2016 to Q2 2016	% Change Q2 2015 to Q2 2016
	133.4	134.4	134.2	133.8	135.5	1.3%	1.6%

Source: Statistics Canada

Inflation as measured by the Consumer Price Index moved higher during the second quarter of 2016. Year over year inflation increased 1.3% as lower energy costs balanced higher food and housing prices.

Non-Residential Price Index (2002=100)							
<i>Edmonton CMA</i>							
	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	% Change Q1 2016 to Q2 2016	% Change Q2 2015 to Q2 2016
	172.8	170.5	170.4	168.0	165.5	-1.5%	-4.2%

Source: Statistics Canada

The non-residential price index captures the changes in the contractors' selling price of new non-residential buildings for three class structures: commercial, industrial, and institutional. The price of new non-residential buildings decreased by 4.2% year over year and 1.5% from Q1 2016 to Q2 2016.

Labour Force <i>Edmonton CMA</i>										
	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Change Q1 2016 to Q2 2016	Change Q2 2015 to Q2 2016	% Change Q1 2016 to Q2 2016	% Change Q2 2015 to Q2 2016
Working Age Population (x 1,000)	1,090.0	1,096.6	1,104.3	1,109.8	1,113.9	1,118.7	4.8	22.1	0.4%	2.0%
Labour force (x 1,000)	792.7	801.4	804.7	823.9	835.2	837.8	2.6	36.4	0.3%	4.5%
Employment (x 1,000)	752.3	753.0	758.3	773.0	778.8	779.2	0.4	26.2	0.1%	3.5%
Full Time Employment (x 1,000)	623.3	622.6	647.4	644.1	646.5	638.5	-8	15.9	-1.2%	2.6%
Part Time Employment (x 1,000)	129.0	130.4	110.9	128.9	132.3	140.7	8.4	10.3	6.3%	7.9%
Unemployment (x 1,000)	40.4	48.4	46.3	50.8	56.5	58.5	2	10.1	3.5%	20.9%
Unemployment rate (%)	5.1	6.0	5.8	6.2	6.7	7.0	0.3	1		
Participation rate (%)	72.7	73.1	72.9	74.3	75.0	74.9	-0.1	1.8		
Employment rate (%)	69.0	68.7	68.7	69.7	69.9	69.6	-0.3	0.9		
Average Weekly Wage	\$1,060.10	\$1,097.2 ₅	\$1,112.07	\$1,102.00	\$1,106.4 ₆	\$1,130.73	\$24.28	\$33.48	2.2%	3.1%

Source: Statistics Canada

Employment in the Edmonton region went up year-over-year by 3.5% with job gains in full-time and part-time employment. However, even with good job gains the unemployment rate has continued to rise reaching 7.0% in Q2 2016 due to an increase in the working age population which increased by 2% year-over-year. The average weekly wage in Edmonton has increased year over year by 3.1%. Higher incomes will boost consumer confidence and spending.
