

2011 October 17

CALGARY & REGION ECONOMIC OUTLOOK 2011-2021

Today, Corporate Economics will be releasing the Calgary & Region Economic Outlook 2011-2021 report to the community. The outlook is updated on a quarterly basis.

The Economic Outlook provides an analysis of changes anticipated in key economic indicators for the Calgary area in upcoming years. It is intended to serve as an input for business planning and budgeting and long range financial planning to achieve The City's goal of financial sustainability. The City of Calgary monitors and reports on the local economy on a continuous basis. The Economic Outlook is an outcome of this process and is updated four times annually.

The Calgary Economic Outlook serves three key purposes:

1. The publication is a reference document created to support The City of Calgary in its financial and physical planning.
2. The 10-year outlook can help readers understand and adapt to change in the world outside and inside of Calgary.

The economy plays an important part in The City's financial well being. The local economy within a municipality could be represented as a system consisting of a number of interacting parts of which the municipal finance system is a component. These components are linked by material and information flows. For example, population growth creates an increase in demand for municipal services and the municipality's assessment base is increased as more residential and non-residential space is built to serve a larger population. In turn, the municipality draws on its assessment base to finance the payment for the services it provides and attracts businesses and population by the availability of services, jobs and housing.

3. The report fills an information gap on the economics end as no other publication currently provides a comprehensive analysis of the local economy. Several Canadian research institutions restrict their analyses to the Alberta economy; very few analyses and forecasts are available for the urban areas within the province.

Highlights of the report:

City of Calgary

Calgary's population is projected to increase by 164,839 persons between 2011 and 2021 or by 16,484 persons annually. The annual growth rate is estimated at 1.4 per cent over the period.

Housing starts are expected to total 6,400 units in 2011, down 900 units from 2010 as consumers were adversely affected by tighter mortgage borrowing rules. Housing starts are expected to total 7,500 units in 2012 and trend upwards to 8,000 units by 2016.

The total value of building permits is expected to range between \$3.0 and \$4.5 billion over the forecast period. Employment growth, decreasing vacancy rates for downtown offices and population growth should support demand for new non-residential and residential space.

Calgary Economic Region

The Calgary Economic Region (CER) is expected to grow by 3 per cent in 2011, up from 2.7 per cent in 2010 and -4.7 per cent in 2009. Increased economic activity in the rest of Alberta should create an increase in demand for goods and services from the CER.

Total employment is expected to reach 790,000 in 2012 and 825,000 by 2014, up from 770,000 in 2011. Employment growth should be driven by increased economic activity.

The unemployment rate is expected to average 6 per cent in 2012 and 5.5 per cent in 2014, down from 7 per cent in 2010.

The consumer inflation rate is expected to average 2.4 per cent in 2012, 2.6 per cent in 2013 and 2.2 per cent in 2014. Higher energy prices and increased accommodation costs are expected to increase consumer prices over the forecast period.

Assumptions

The Alberta economy is expected to grow by 3 per cent in 2011, down from 3.6 per cent in 2010. A strong Canadian currency and slow economic growth in the U.S. combined to constrain the rate of export growth. This constrained export sector is expected to reduce the overall growth rate in the short-term (2011-2012).

Oil prices are expected to average US\$90/bbl in 2011 and increase to US\$97/bbl by 2014. Crude oil prices are expected to grow in response to increased demand for oil from emerging economies.

Natural gas prices should increase modestly in response to slow growth in the U.S. economy and an abundant supply of natural gas from shale formation.

Canada's real GDP is expected to grow at 2.2 per cent in 2011 and 2 per cent in 2012, before returning to 2.3 per cent by 2015.

U.S. real GDP is expected to grow by 1.5 per cent this year and 1.6 per cent next year, improving to 2.3 per cent in 2013 and 2.5 per cent in 2015.

The world GDP is expected to grow at 3.7 per cent in 2011, and 3.6 per cent in 2012.

Forecast risks

Forecasts are always subject to both upside and downside risks. In this forecast, the key risks to the Calgary economy are external, and heavily weighted to the downside. Government policies to boost demand and pull the world out of economic recession had the unintended consequence of reducing the policy tools available to deal with slower growth or recession in the near-term.

In the U.S., macroeconomic data has been weak, reflected by insignificant job creation, disappointing GDP growth, flat consumer spending and a depressed housing market. More importantly, severe fiscal problems at the federal and local levels are leading to a serious retrenchment. The anaemic U.S. recovery, following the 2008/2009 recession, has contributed to the global weakness in demand for both Alberta and Calgary exports.

In contrast to most advanced economies, several such emerging economies as China, India and Brazil have external surpluses and enjoy excellent public finances. Their challenge is to control the outbreak of inflation by way of tighter monetary policy. In addition, the risk of slower growth in developed economies would have negative effects on emerging economies that rely on exports to those economies. This in turn would result in weaker demand for Alberta's and Calgary's commodities and services.

Corporate Economics is a division of The City of Calgary Chief Financial Officer's Department dedicated to monitoring and forecasting economic trends and activities throughout the year to provide reports with unique insights on how external events are impacting the local economy and local government. For more information, visit our website at www.calgary.ca/economy.