

LABOUR ECONOMIC MONITOR



MAY, 2008

Introduction

These are odd times in Alberta. With oil prices on the spot market topping \$130/barrel and natural gas prices on the uptrend, you'd expect the public mood to be giddy with delight. After all, when oil rose past \$50/barrel back in March of 2005, the politicians and the business press were ecstatic. Shouldn't we all be twice or three times as ecstatic now? High energy prices are what put the fizz in Alberta's economy and if oil was still down at \$30/barrel, we wouldn't be watching the current stampede for oil sands leases.

So why aren't Albertans swinging from the chandeliers, and ordering up more champagne? Well, there's an old Leonard Cohen song called "Everybody Knows" that talks about the unpleasant realities that everyone is familiar with, but that nobody wants to talk about. So what are the things Albertans know that they don't really care to discuss?

- Everybody knows that this is an economic bubble and that such bubbles always burst in the end.
- Everybody knows that our conventional oil stocks are well past their peak, as are our reserves of cheap, easily accessed natural gas.
- Everybody knows that once the oil sands construction phase is over, the number of jobs and economic spin off created by this industry will collapse.
- Everybody knows that, no matter how many extra billions of dollars in royalty revenues the government gets from these inflated prices, we somehow won't be able to afford to properly fund our schools or our hospitals.
- Everybody knows that, even while we're surfing the crest of the oil/construction boom, we can't or won't commit the resources needed to provide decent care for our elders or decent shelter for the homeless.
- Everybody knows that, for years now, the government has been using energy revenues to finance tax cuts, and that when energy revenues start to decline, we'll face a fiscal crunch of historic proportions.

That's what Albertans know in their heart of hearts and that's why the mood in the province is subdued, even in the midst of the current boom. The party's still going on, but somehow the fun is leaking out of it.

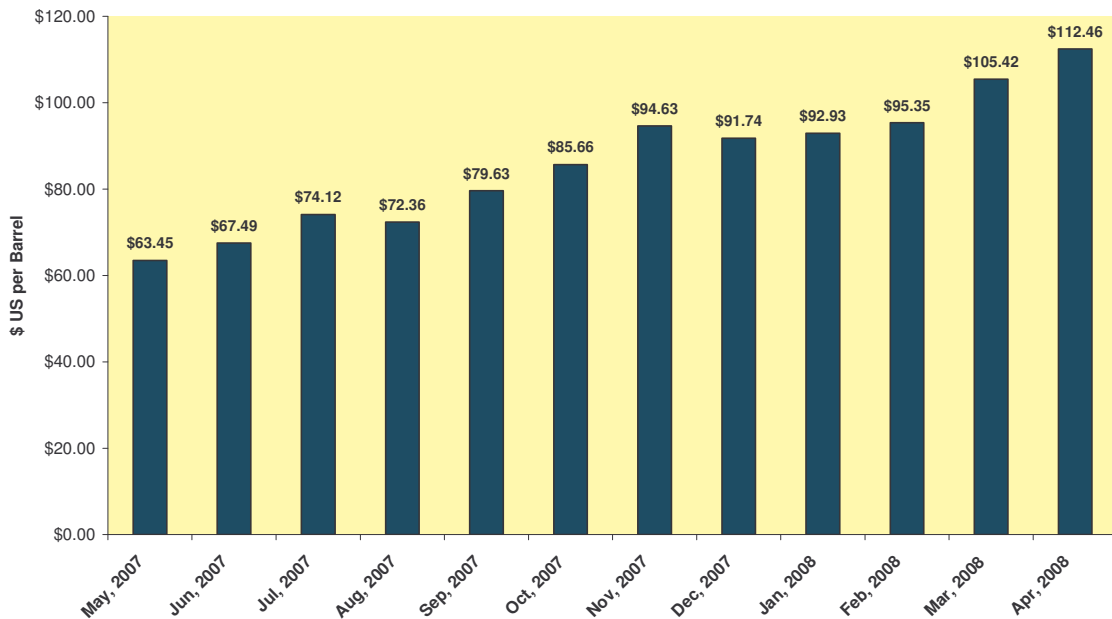
As for the current boom and when it will end? That, nobody knows.

Energy Prices

In its 2008 budget the Stelmach government assumed a crude oil price of \$78.00/barrel in this fiscal year. That's always possible, depending on developments in the world economy: a serious downturn in the U.S. and/or China could depress markets drastically. On the other hand, if the U.S. decides to bomb another country in the Middle East, prices could go through the roof.

For now, however, the market is buoyant. Over the last six months, the price of benchmark West Texas Intermediate Crude Oil has averaged \$98.76/barrel, and so far the trend is upward.

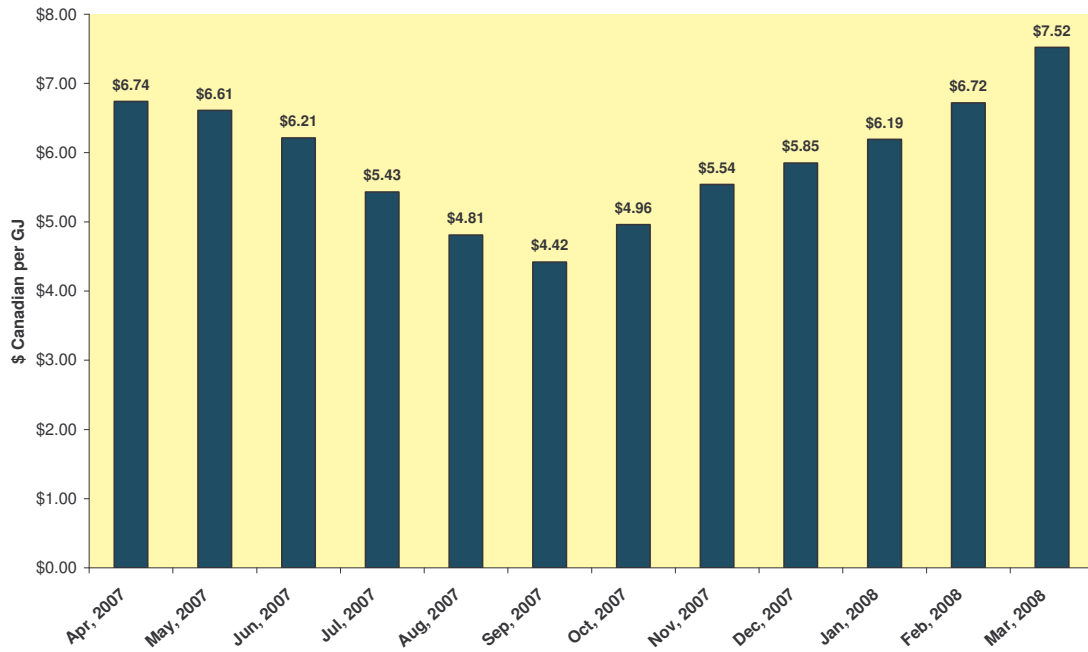
Monthly Oil Prices
(Cushing, Oklahoma Crude Oil Future Contract)



Natural gas prices have shown signs of steady recovery since they bottomed out last September, and both industry and consumer groups are forecasting higher prices to come. Direct Energy Regulated Services is proposing to double the price it charges Northern Alberta consumers this summer. While this proposal hasn't yet been approved by the Alberta Utilities Commission, it is likely to win such approval (this is Alberta, after all, and energy companies generally get their way).

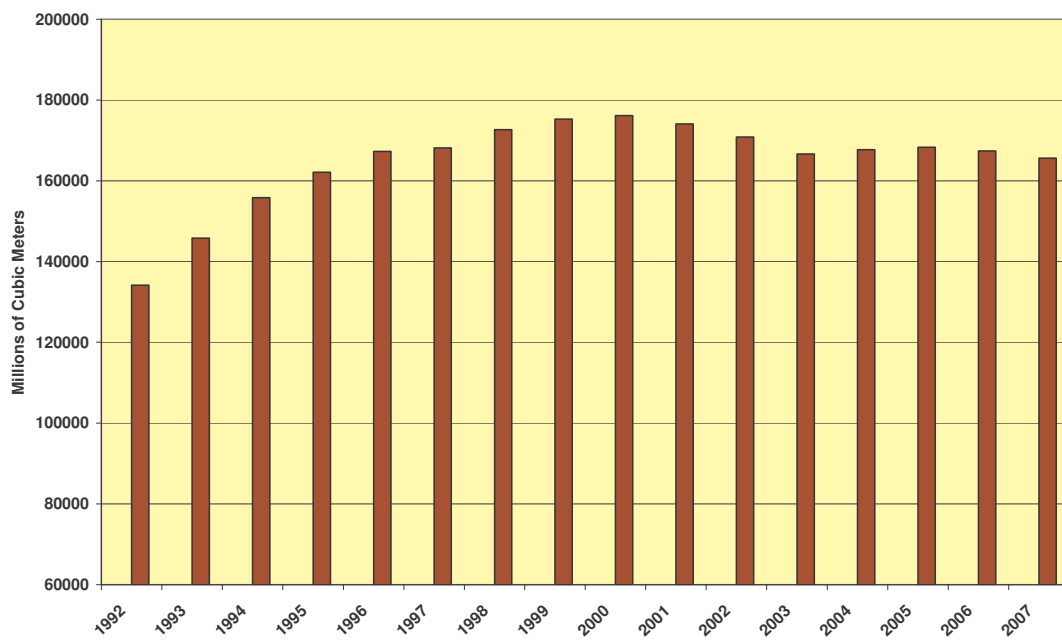
As always, ordinary Albertans are caught in the middle: higher gas prices mean more revenue for the government, and more exploration activity. On the other hand, we're all consumers of natural gas (either directly or indirectly), and the proposed price of \$13.00 per gigajoule could cause serious economic problems when winter hits.

Monthly Natural Gas Reference Prices, Alberta



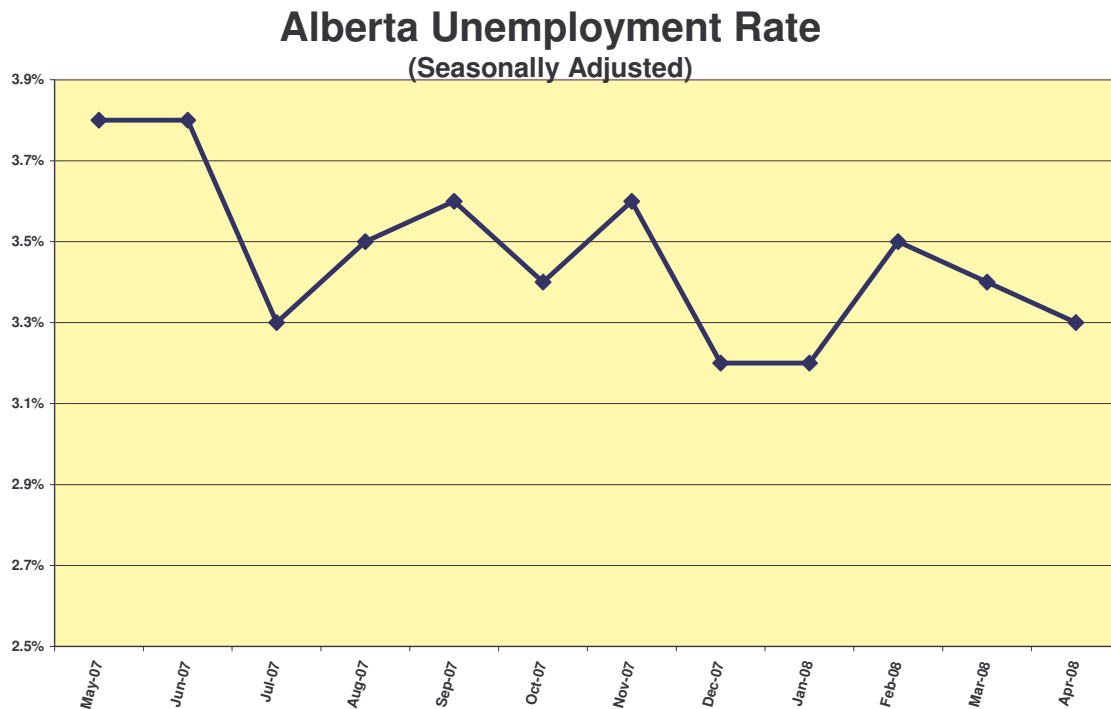
The economic benefits of higher gas prices will be eroded, however, by the continued decline in production in the province.

Alberta Natural Gas Production



Unemployment

Unemployment in the province remains extremely low, with the rate for April declining to 3.3%. This means the provincial economy is continuing to create jobs at a faster rate than the labour force is growing.

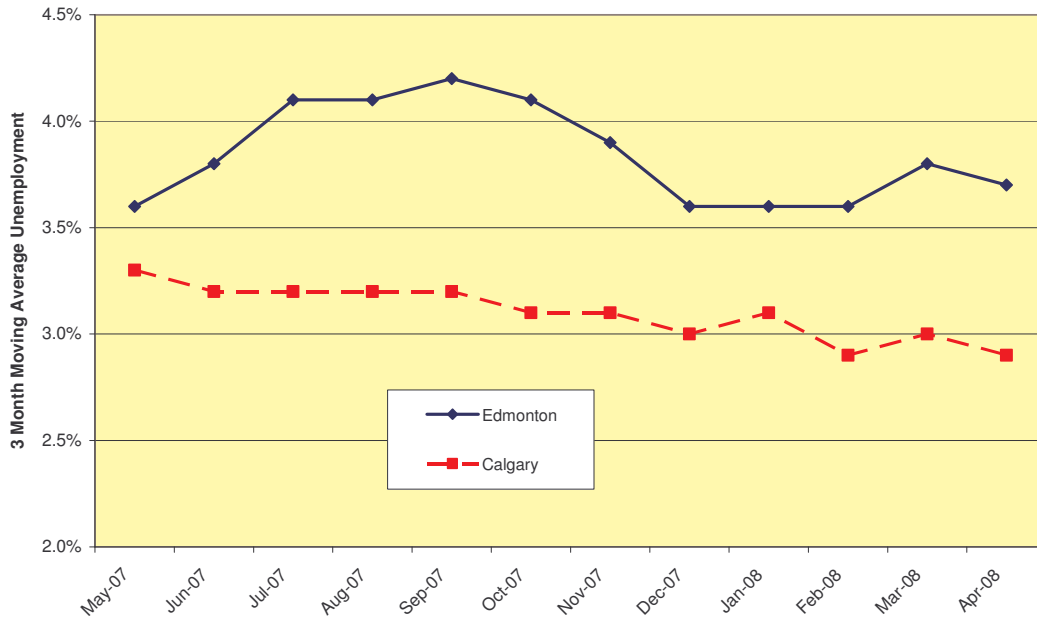


Alberta's population continued to grow during the last quarter of 2007, but most of this growth came from international immigration and natural increase. In terms of migration inside Canada, our province actually had a net outflow of population with the rest of Canada, except for Ontario and Quebec. That's a striking reversal of the trend for the last fifteen years. For most of that time, our population has been fed by people from other parts of Canada coming here to find work. It appears that with regional economies in other parts of the country showing stronger growth, people who moved here in the past are leaving the province to escape the high cost of living (and particularly the high cost of housing).

The labour market in Calgary continues to be tighter than in Edmonton. Unemployment in Calgary has been trending downward for the last year and is most recently at an extremely low 2.9%. In Edmonton, the rate has bounced around a bit during the same period, but in April was just 3.7%.

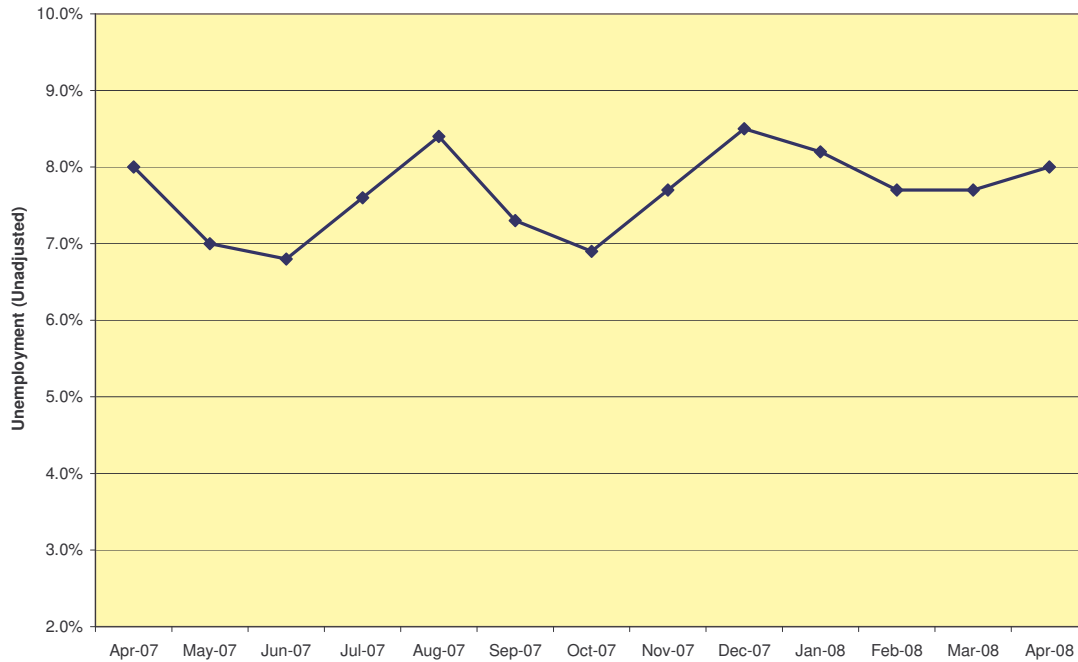
For the rest of Canada, by contrast, the April unemployment rate was 6.1%.

Regional Unemployment Rates, Edmonton and Calgary



Unfortunately the unemployment gap for Alberta’s native people remains wide. The April unemployment rate for aboriginal people living off-reserve was 8.0%.

Unemployment: Aboriginal People (Off-Reserve)



It's not that this population isn't ready to work – the labour force participation rate (the percentage of the population between ages 15 and 65 that is either employed or looking for work) is 73.8% for North American Indians living off-reserve, and 75.1% for Métis. These figures are very close to the participation rate of the province as a whole, and even higher, in the case of the Métis.

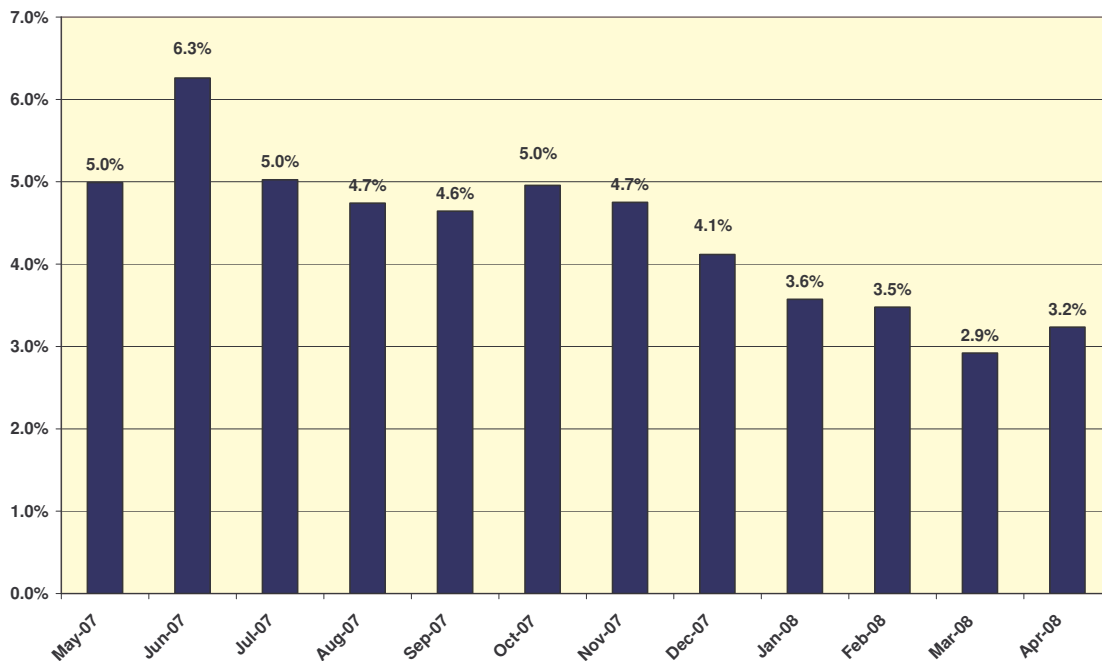
Nor can this unemployment be blamed on a lack of qualifications in this population. About three-eighths of this group (37.4%) has completed post-secondary education.

Eight-per-cent unemployment in this group is evidence of structural racism in the labour market, and an embarrassment to the province.

Inflation

Inflation in Alberta has been declining since last October, although it rose slightly in April to 3.2% and is well above the national inflation rate of 1.7%.

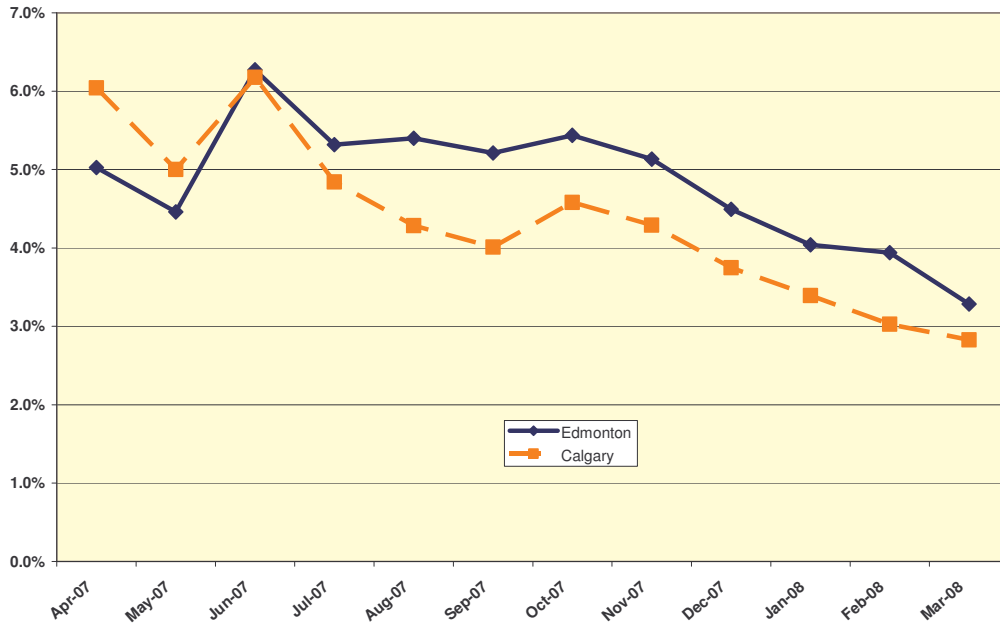
Annual Inflation Rate, Alberta



Factors tending to lower inflation are the slight downturn in the housing market and the strong performance of the Canadian dollar, which tends to lower the price of imports. There are several underlying trends, however, that could lead to increased inflation in the coming months, including higher fuel prices and lower interest rates. Despite the decreasing trend of the last six months, it would be unwise to expect lower inflation any time in the near future – rates at least slightly higher are more likely.

Inflation remains higher in Edmonton than in Calgary.

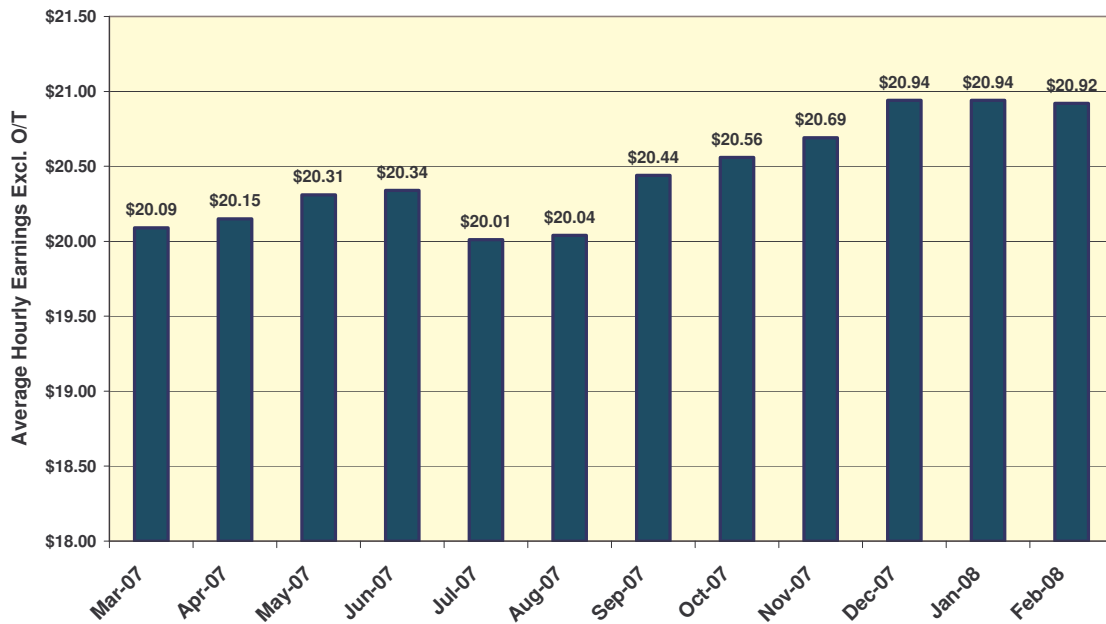
Annual Inflation Rates, Edmonton and Calgary



Wages

The wages of hourly paid workers in Alberta are finally showing signs of healthy growth.

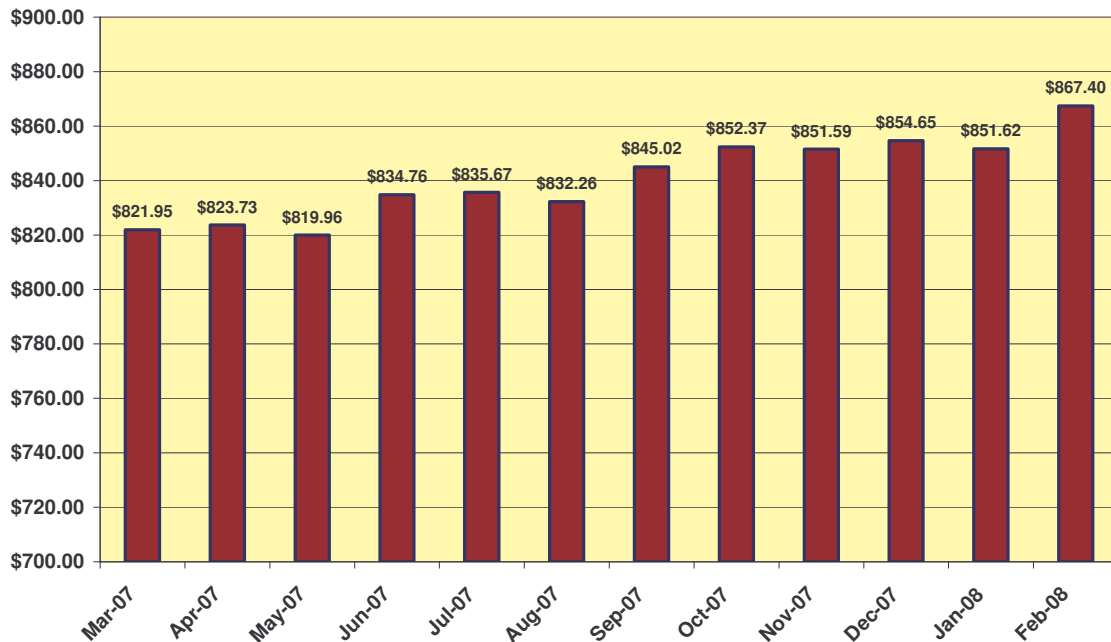
Average Hourly Earnings, Hourly Paid Employees Alberta



Over the last twelve months, wages for these workers have risen just under 5% over the previous year. This is higher than the rate of inflation and means that real wages are growing.

Average weekly earnings are also strong, with growth just half a per cent lower than hourly wages.

Alberta Average Weekly Earnings



While it's good to finally see signs of real wage growth, workers in Alberta shouldn't have had to wait this long during boom times to make these kinds of gains.

Wage Settlements

There simply aren't enough settlements reported yet this year to produce any reliable figures on negotiated wage rates. We will report on settlement trends in the next edition of the *Labour Economic Monitor*, which will appear in the fall.

Conclusion

Energy prices are up, inflation and unemployment are down and wages are growing. The economic news so far this year is good and this is a great time to be engaged in collective bargaining.