

May 31, 2007

To: Mayor Stephen Mandel
Office of the Mayor

Members of Council
Office of the Councillors

Members of Senior Management Team

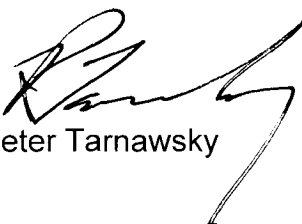
From: Peter Tarnawsky
General Manager

Subject: Edmonton Socio-Economic Outlook, 2007 to 2012

The following are the highlights of the Edmonton Socio-Economic Outlook Report (2007-2012) which provides a forecast of major economic and social indicators for the years 2007 to 2012. Led by our Chief Corporate Economist Paul Tsounis, this forecast is the product of a collaborative effort between the City Forecast Committee, staff from the Planning and Development and Community Services Departments, and from Edmonton Economic Development Corporation.

An informal presentation on the economic outlook is being planned by my office over the next few weeks for your information and to allow for questions and discussion (you will be contacted shortly). A bound hard copy will be distributed to you during the session or by inter-departmental mail if you are not able to attend the presentation.

For further information on the forecast, you can contact Paul Tsounis, Chief Corporate Economist (496-6070), Robert Higgins for population and demographic information (496-6069), or Marc Lachance for information on the social outlook (944-0445).


Peter Tarnawsky

Economic Outlook

Economic Growth

High energy prices, strong consumer spending, economic spin-offs from activity in northern Alberta and over \$40 billion in proposed regional projects will keep economic conditions strong in the Edmonton Census Metropolitan Area (CMA) over the next five years. A lack of affordable and available housing, rising construction costs and tight labour market conditions will make it difficult for industry and the government sector to keep up with demand. Consequently, economic growth is expected to increase from 5.5 per cent in 2006 to 5.8 per cent in 2007, but decelerate slightly to four per cent by 2010. Growth will pick up to 4.5% per year in 2011 and 2012 on the heels of increased construction activity on new petrochemical facilities in the Edmonton CMA, and increased government spending on transportation and infrastructure initiatives. Edmonton's average annual economic growth rate of 4.6% over the forecast period will be almost double the average annual long run growth rate of 2.5%.

Housing Market

Strong economic conditions in Edmonton will keep home selling prices high and apartment vacancy rates low over the next five years. Accordingly, new home construction activity will remain strong throughout the forecast period, led by new condominium construction due to their relative affordability compared to single family homes. However, tight labour market conditions and rising construction and materials costs will make it challenging for developers and builders to keep up with demand. As a result, total housing starts in the Edmonton CMA are expected to reach 14,600 in 2007, 13,900 in 2008, and average 13,200 units per year for the remainder of the forecast period.

Population Growth

Strong economic conditions and plentiful jobs will keep population growth strong throughout the forecast period. Around 70 per cent of the total growth will come from net migration, which is expected to average 16,600 persons per year – double historical annual averages of 8,000 persons. However, a lack of affordable and available housing, increased economic growth in eastern Canada and continued growth in British Columbia will soften net migration growth slightly after 2008. The population of the Edmonton CMA is expected to grow by 107,000 between 2007 and 2012 (10 per cent growth) and reach 1.2 million by 2012, while the city of Edmonton's population is expected to grow by 70,000 (10 per cent growth) and reach 830,000 over the same time period.

Labour Market

Due to robust population and labour force growth between 2005 and 2006, and increased participation rates of people in the younger age category, employment will

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grow by a strong five per cent (or 28,000 positions) in 2007, and average a healthy 2.5% growth rate per year on the heels of strong economic conditions. However, putting a lid on employment growth will be a lack of affordable and available housing, which will prevent some people from moving to Edmonton. Higher paying positions in manufacturing and construction throughout Alberta will lure people away from certain service sector positions in Edmonton, which will also hinder employment growth.

Consumer Prices and Construction Costs

After increasing by 3.5 per cent in 2006, the Edmonton consumer price index (CPI), measured by Statistics Canada, is expected to increase by five per cent in 2007 and an additional 5% in 2008 on the heels of rising gasoline prices, increased home carrying costs and higher labour costs brought on by strong economic growth. The CPI is expected to average four percent per year for the remainder of the forecast period as strong economic conditions persist. After increasing by near-record levels of 11.6 per cent in 2006, the non-residential construction price index, also measured by Statistics Canada, will increase by 20 per cent in 2007 and 16 per cent in 2008, led by high energy and commodity prices and high labour costs. This also signals that cost escalations in capital programs will continue throughout the forecast period.

Factors That Could Affect the Outlook

Despite the anticipated strong economic outlook, there are several risks inherent in our economy that could dramatically affect our economic and population projections:

- An increase (decrease) in the supply of affordable housing, and/or softening (escalating) home selling prices, will allow more (less) skilled labour to move to Edmonton to take advantage of the strong economy. This will help loosen (tighten) Edmonton's labour market, and lower (increase) construction and labour costs.
- A stronger (weaker) United States economy will help keep global energy demand conditions strong (weak) and keep energy investment in oil sands related projects high (low).
- Rising (falling) gasoline prices and rising (falling) national inflation rates may force the Bank of Canada to raise (lower) interest rates, which could hamper (improve) investment activity and increase (decrease) home carrying costs for households.
- Government policies geared towards environmental protection (Kyoto) could also have a profound impact on Alberta's energy industry, resulting in the possible delay or cancellation of several proposed oil sands upgraders planned for the Edmonton region.
- Appropriate land use planning (residential and industrial) through increased co-operation between municipalities within the Edmonton region and the government of Alberta will result in the efficient allocation of labour, goods and services throughout the Edmonton region and help reduce construction and labour costs.
- A large, unexpected fall in oil prices would hamper oil sands investment in Alberta, and have negative implications on other sectors of the economy.

Social Outlook

Tremendous growth is expected in Edmonton's population over the next five years. This growth is accentuated by a mini baby-boom and higher levels of provincial and international immigration. However, the anticipated increase in Edmonton's population in the forecast period will be centered on the mature and elderly segments of the population, with the number of people over the age of 50 expected to increase by 70,000 people compared with an increase of 60,000 people for those under 50. Social issues and implications for Edmonton include the following:

- The demographic shift is expected to affect the provision of school services in areas with a declining population of young children. Three more schools (High Park, Newton and Mount Pleasant) are scheduled to be closed in 2007.
- Edmonton, as is the case with the rest of Canada, has a high proportion of immigrants within the population. Many of these immigrants come without knowledge of the English language, and will therefore need additional support. The City of Edmonton has created an Office of Diversity and Inclusion to address these issues.
- An aboriginal population between 55,000 and 60,000 can be expected by the end of this forecast period. The aboriginal population is generally younger, with higher level of unemployment and poverty than the rest of the population.
- The nature of families continues to change moving into this forecast period. In 2005, 138 same sex marriages were recorded in Alberta. Alberta's divorce rate was the second highest among provinces in Canada for 2003/2004. Furthermore, a 2005 study found that families are spending an average of 44 fewer minutes together than their counterparts did almost twenty years ago.
- Edmonton's Emergency Medical Services (EMS) is working with Capital Health on several initiatives to mitigate the challenges associated with extended off-load delays at hospitals. Paramedics spent an average of 52 minutes per incident at hospitals in 2006.
- Overall crime in the City has decreased, and despite some high profile violent crimes, Edmonton is an increasingly safer city. Police Chief Mike Boyd introduced 8 key crime indicators with a reduction target of 14%; 6 of the 8 have been reduced in a short period of time.
- Drug charges have remained fairly consistent since 2001. The Province is focused on reducing the use of methamphetamine (Crystal Meth). One major step was a reclassification of pseudoephedrine, a main ingredient for Crystal Meth, to being available only behind the pharmacy counter.

Forecast for Selected Economic Indicators									
Actual/Estimate	Forecast								
Indicator	2004	2005	2006	2007	2008	2009	2010	2011	2012
United States, Canada and Alberta									
World Oil Price (US\$/bbl) (1)	41.42	56.46	66.00	62.00	64.00	63.00	60.00	59.00	59.00
Alberta Natural Gas Price (\$/GJ) (2)	6.52	8.14	6.70	7.10	7.70	7.60	7.30	7.40	7.60
Economic Growth Rate (% change)(3)									
United States	4.2	3.5	3.3	2.4	2.8	2.8	3.0	3.0	3.0
Canada	2.9	2.9	2.7	2.4	2.8	2.8	2.8	3.0	3.0
Alberta	4.3	4.5	6.9	4.0	3.5	3.5	3.8	4.2	4.2
Prime Lending Rate (%)	4.0	4.4	5.8	5.7	5.7	5.8	5.8	5.8	5.8
Exchange Rate(US\$/Cdn\$)	0.77	0.83	0.89	0.89	0.87	0.85	0.85	0.85	0.85
Edmonton Region and City									
Net Migration - CMA(000) (4)	6.8	14.4	21.0	22.5	18.5	16.0	14.5	14.0	14.0
Natural Increase in Population - CMA(000)				5.6	5.8	6.3	6.0	6.0	6.0
Population - CMA(000) (4)	1003*	1023*	1050*	1,078	1,102	1,125	1,145	1,165	1,185
Population Growth Rate - CMA(%)	1.2	2.0	2.7	2.7	2.2	2.0	1.8	1.7	1.7
Population - City(000) (4)	712*	721*	741*	760	776	791	804	817	830
Population Growth Rate - City(%)	1.2	2.0	2.7	2.5	2.1	1.9	1.7	1.6	1.6
Economic Output - CMA(\$billions)	41.5*	42.9*	45.3*	47.9	50.3	52.3	54.4	56.9	59.4
Economic Growth Rate - CMA(%)	4.8*	3.5*	5.5*	5.8	5.0	4.0	4.0	4.5	4.5
Employment - CMA(000) (5)	554	546	561	589	611	627	641	655	668
Employment Growth Rate (%)	2.9	-1.4	2.8	5.0	3.7	2.6	2.3	2.1	2.0
New Persons Employed - CMA(000)	15.5	-8.0	15.0	28.1	21.8	15.9	14.4	13.5	13.1
Unemployment Rate - CMA(%) (5)	4.8	4.5	3.9	3.7	3.7	3.5	3.5	3.5	3.5
Inflation Rate CPI - City (%) (5)	1.0	2.1	3.1	5.0	5.0	4.5	4.0	4.0	4.0
Non-Res Construction Price (% change) (5)	6.8	6.9	11.6	20.0	16.0	13.0	11.0	11.0	11.0
Vacancy Rates (%) (6)									
Apartment (CMA, Oct)	5.3	4.5	1.0	0.5	0.5	0.5	0.5	0.5	0.5
Downtown Office (the City, Dec)	8.6	7.1	7.4	7.1	6.5	6.5	6.0	6.0	6.0
Housing Starts (Units) (8)									
City -Total	8,159	9,434	9,816	9,600	9,100	8,700	8,700	8,700	8,700
- Single Family	4,030	5,023	5,363	4,700	4,400	4,100	4,100	4,100	4,100
- Multi-Family	4,129	4,411	4,453	4,900	4,700	4,600	4,600	4,600	4,600
CMA -Total	11,488	13,294	14,970	14,600	13,900	13,200	13,200	13,200	13,200
- Single Family	6,614	7,623	9,064	8,500	8,000	7,500	7,500	7,500	7,500
- Multi-Family	4,874	5,671	5,906	6,100	5,900	5,700	5,700	5,700	5,700
Building Permit Value - City (\$million)									
Total (9)	1,604	2,111	2,306	2,250	2,100	1,950	1,950	1,950	1,950
* Estimates									
Forecast: City Forecast Committee, May 2007									
Notes:									
1. World oil prices are for West Texas intermediate crude at Cushing, Oklahoma in U.S. Dollars (Sproule and the Energy Information Administration)									
2. Natural gas prices are AECO 30-Day Spot Natural Gas Price (Can\$/GJ) from Sproule									
3. The U.S., Canada and Alberta economic growth rates are for real GDP at market price from Statistics Canada									
4. Numbers are for July 1 of previous year to June 31 of current year. Historical values from Statistics Canada. The 2006 population figures for the Edmonton CMA and the city of Edmonton are post Censal estimates									
5. Historical (actual) figures from Statistics Canada									
6. Historical apartment vacancy rates are from the Canada Mortgage and Housing Corporation. Historical office vacancy rates from CB Richard Ellis									
7. Historical average residential selling prices from the Edmonton Real Estate Board									
8. Historical housing starts data from Canada Mortgage and Housing Corporation									
9. Total building permit value contains "other" category at \$10 million per year between 2006 to 2011									

High Growth Scenario						
Indicator	2007	2008	2009	2010	2011	2012
Net Migration - CMA(000)	22.5	19.6	19.5	21.0	23.0	23.0
Population - CMA(000)	1,078	1,103	1,129	1,156	1,185	1,214
- City(000)	760	777	794	812	831	850
Economic Growth Rate - CMA(%)	5.8	5.5	4.7	4.9	4.9	4.8
Employment - CMA(000)	589	613	635	655	677	695
Employment Growth Rate (%)	5.0	4.0	3.6	3.2	3.3	2.7
New Persons Employed - CMA(000)	28.1	23.8	21.9	20.4	21.5	18.1
Edmonton Inflation Rate	5.5	5.5	4.5	4.5	4.5	4.5
Housing Starts (Units)						
CMA -Total	14,500	13,950	13,662	14,470	15,326	15,783
City -Total	9,534	9,133	9,005	9,537	10,101	10,402

Low Case Scenario - Cancellation/Delay of Proposed Upgraders						
Indicator	2007	2008	2009	2010	2011	2012
Net Migration - CMA(000)	18.9	11.6	5.0	0.8	-3.4	-6.2
Population - CMA(000)	1,073	1,090	1,102	1,108	1,110	1,110
- City(000)	756	768	775	778	778	777
Economic Growth Rate - CMA(%)	4.9	3.9	3.2	2.7	2.5	2.5
Employment - CMA(000)	581	595	600	603	601	601
Employment Growth Rate (%)	3.6	2.4	0.8	0.6	-0.4	0.0
New Persons Employed - CMA(000)	20.1	13.8	4.9	3.4	-2.5	0.1
Edmonton Inflation Rate	4.5	2.5	2.0	2.0	2.0	2.0
Housing Starts (Units)						
CMA -Total	13,791	12,226	10,310	9,230	8,176	7,076
City -Total	9,068	8,004	6,795	6,083	5,389	4,664

Low Case Scenario - Slowdown/Delay in Major Oil Sands Projects in Northern Alberta						
Indicator	2007	2008	2009	2010	2011	2012
Net Migration - CMA(000)	18.3	9.3	0.7	-4.2	-9.1	-13.2
Population - CMA(000)	1073	1088	1095	1096	1092	1085
- City(000)	756	766	770	770	766	760
Economic Growth Rate - CMA(%)	4.5	3.1	2.4	2.2	2.0	1.5
Employment - CMA(000)	580	590	591	591	583	579
Employment Growth Rate (%)	3.4	1.7	0.1	0.1	-1.4	-0.7
New Persons Employed - CMA(000)	19.1	9.8	0.9	0.4	-8.5	-3.9
Edmonton Inflation Rate	4.0	2.0	1.5	1.5	1.5	1.5
Housing Starts (Units)						
CMA -Total	13,711	11,813	9,344	7,829	6,511	5,078
City -Total	9,015	7,734	6,159	5,160	4,291	3,347

	2007	2008	2009	2010	2011	2012	DATE OF FORECAST
Gross Domestic Product (%)							
Edmonton Socio-Economic Outlook	5.8	5.0	4.0	4.0	4.5	4.5	May-07
Conference Board	3.7	3.6	3.6	3.5	3.4		Spring 2007
Average	4.8	4.3	3.8	3.8	4.0	4.5	
Housing Starts							
Edmonton Socio-Economic Outlook	14,600	13,900	13,200	13,200	13,200	13,200	May-07
Canada Mortgage and Housing Corporation	14,150	13,000					May-07
Conference Board	13,100	11,100	10,000	9,200	8,600		Spring 2007
Average	13,950	12,667	11,600	11,200	10,900	13,200	
Employment Growth (%)							
Edmonton Socio-Economic Outlook	5.0	3.7	2.6	2.3	2.1	2.0	May-07
Canada Mortgage and Housing Corporation	4.5	2.0					May-07
Conference Board	4.4	2.1	2.0	1.6	1.4		Spring 2007
Average	4.6	2.6	2.3	2.0	1.8	2.0	
Unemployment Rate (%)							
Edmonton Socio-Economic Outlook	3.7	3.7	3.5	3.5	3.5	3.5	May-07
Canada Mortgage and Housing Corporation	3.8	4.0					May-07
Conference Board	3.9	4.0	4.1	4.0	3.8		Spring 2007
Average	3.8	3.9	3.8	3.8	3.7	3.5	
Population Growth Rate (%)							
Edmonton Socio-Economic Outlook	2.7	2.2	2.0	1.8	1.7	1.7	May-07
Conference Board	2.4	1.7	1.6	1.5	1.4		Spring 2007
Average	2.5	2.0	1.8	1.7	1.6	1.7	
Net Migration							
Edmonton Socio-Economic Outlook	22,500	18,500	16,000	14,500	14,000	14,000	May-07
Canada Mortgage and Housing Corporation	19,000	15,500					May-07
Average	20,750	17,000	16,000	14,500	14,000	14,000	