

JULY - AUGUST 2004



CITY OF EDMONTON

Monthly Economic Review

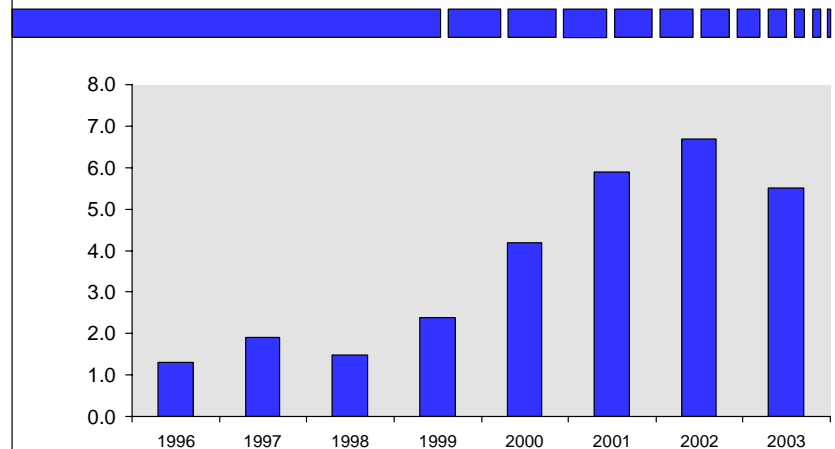
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Oil Sands Impact on the Edmonton Economy

Oil sands development has been an important contributor to Alberta's thriving economy during the past decade, not to mention an important factor in Edmonton's recent economic growth. Total investment in oil sands initiatives have increased from \$1.3 billion in 1996 to a high of \$6.7 billion in 2002, a 415% increase.

Capital Spending - Oil Sands (\$ Billions)



Source: Canadian Association of Petroleum Producers

This publication is prepared monthly by the Corporate Planning & Policy Section, Planning & Policy Services Branch, Planning & Development Department, City of Edmonton

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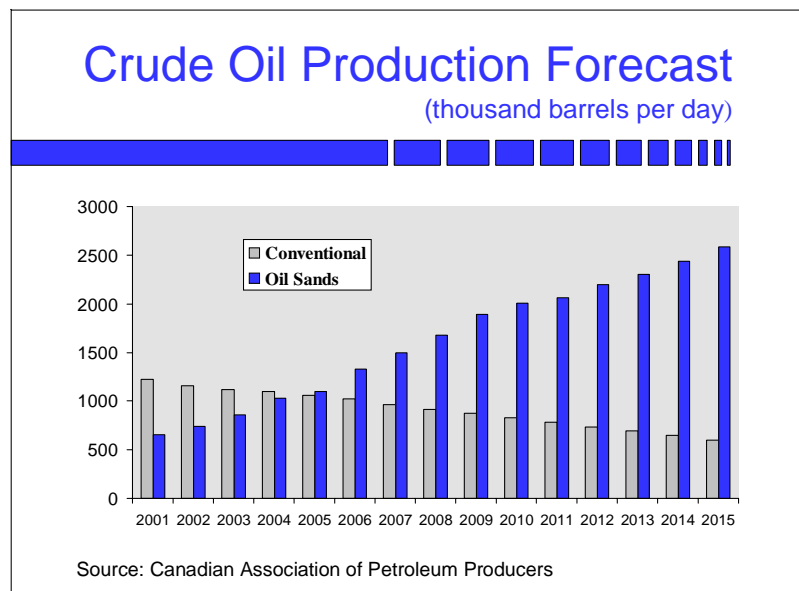
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Production in oil sands has also increased substantially, rising from 444,000 barrels a day in 1996 to 778,000 barrels a day in 2003, a 75% increase. The Canadian Association of Petroleum Producers (CAPP) expects production to increase as high as 2.6 million barrels a day by 2015. This increase in oil sands production is important in maintaining total crude oil production in Alberta for the future, as it is expected that conventional oil supplies are expected to decline. CAPP anticipates that production in conventional oil will fall from its current level of 1.1 million barrels a day to 600,000 barrels a day by 2015.

How much of an impact will oil sands investment have on the Edmonton economy in the near future? The results below are from a study conducted by our economics group, which used various modeling techniques to arrive at an impact assessment, with comparisons made to the Socio-Economic Outlook (the Spring Outlook) prepared in March 2004 by the City Forecast Committee. To measure the economic impact, various oil sands projects in the Edmonton region, along with a majority of those in the Fort McMurray, Grande Prairie-Peace River, Camrose-Drumheller regions, that were used in our forecasting model to conduct the Spring Outlook, were eliminated from our forecasting models to measure the impact that this industry has on our economy.

Closer examination of the results shows a progressive deterioration of all key economic indicators for the Edmonton region when these oil sands projects are eliminated from the model. The results also show the impact of oil sands development in the Edmonton region is significant. Edmonton GDP would fall by 1.2%, or \$485 million in 2004, and up to as much as 3%, or \$1.4 billion, by 2009. Edmonton region net-migration would fall by 47% in

2004 and a further 86% in 2005, resulting in a total loss of 37,000 migrants over the forecast period. As a result of the drop in net migration, Edmonton population would fall by as much as 3.3% by 2009. Edmonton's labour force would fall by 0.8% in 2004, and up to as much as 3.3% by 2009, while employment would fall by as much as 3.6% in 2008. Since employment would fall more aggressively than the labour force between 2004 and 2008, the effect on the unemployment rate, which is equal to the number of people unemployed as a percentage of the labour force, is more pronounced in the short run. The unemployment rate would fall by 0.7 percentage points in 2004 and by only 0.1 percentage point in 2009. Total housing starts in the Edmonton region would fall by as much as 20% in 2007, led primarily by the decline in multiple units, which would fall by as much as 30% in the same year. Total housing starts for the city of Edmonton would fall by as much as 15% in 2009.



Oil Sands Impacts on the Edmonton Economy

	2004	2005	2006	2007	2008	2009
Real GDP						
Difference (\$Millions)	-485	-880	-1,125	-1,251	-1,340	-1,431
% Difference From Base Forecast	-1.2	-2.1	-2.6	-2.8	-2.9	-3.0
Labour Force						
% Difference From Base Forecast	-0.8	-1.6	-2.3	-2.8	-3.2	-3.3
Population						
% Difference From Base Forecast	-0.5	-1.2	-1.8	-2.4	-2.9	-3.3
Employment						
% Difference From Base Forecast	-1.6	-2.3	-2.9	-3.5	-3.6	-3.4
Net In-Migration						
% Difference From Base Forecast	-47.4	-86.2	-88.6	-85.9	-72.2	-35.0
Unemployment Rate						
Difference (percentage points)	0.7	0.6	0.6	0.6	0.4	0.1
Population						
% Difference From Base Forecast	-0.5	-1.2	-1.8	-2.4	-2.9	-3.3

Oil Sands Impacts on Edmonton's Housing Market

	2004	2005	2006	2007	2008	2009
Housing Starts - City of Edmonton						
Single Units						
% Difference From Base Forecast	-1.9	-4.2	-5.9	-7.0	-7.5	-7.5
Multiple Units						
% Difference From Base Forecast	-2.9	-8.5	-16.3	-22.6	-24.6	-24.9
Total						
% Difference From Base Forecast	-2.5	-6.4	-10.7	-13.9	-15.0	-15.2
Housing Starts - Edmonton CMA						
Single Units						
% Difference From Base Forecast	-4.7	-11.2	-14.2	-14.1	-13.5	-10.7
Multiple Units						
% Difference From Base Forecast	-5.9	-17.3	-27.2	-29.7	-28.7	-22.6
Total						
% Difference From Base Forecast	-5.6	-13.8	-19.1	-19.6	-18.8	-14.9

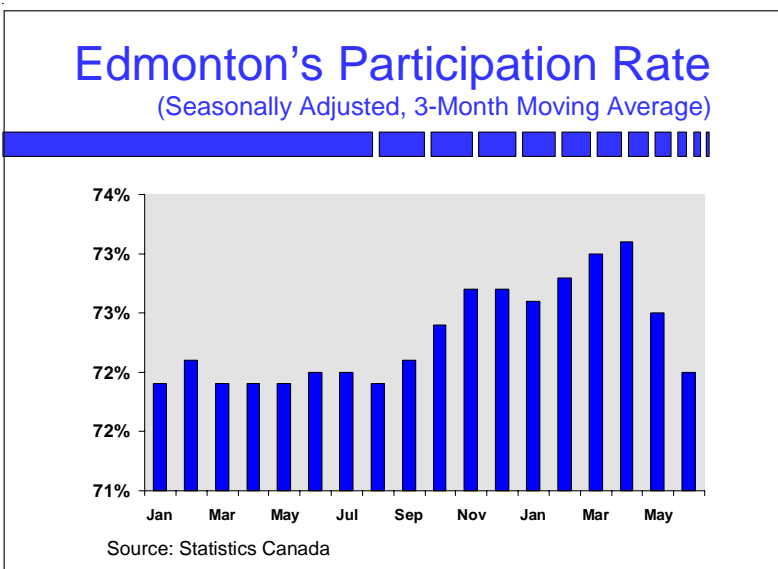
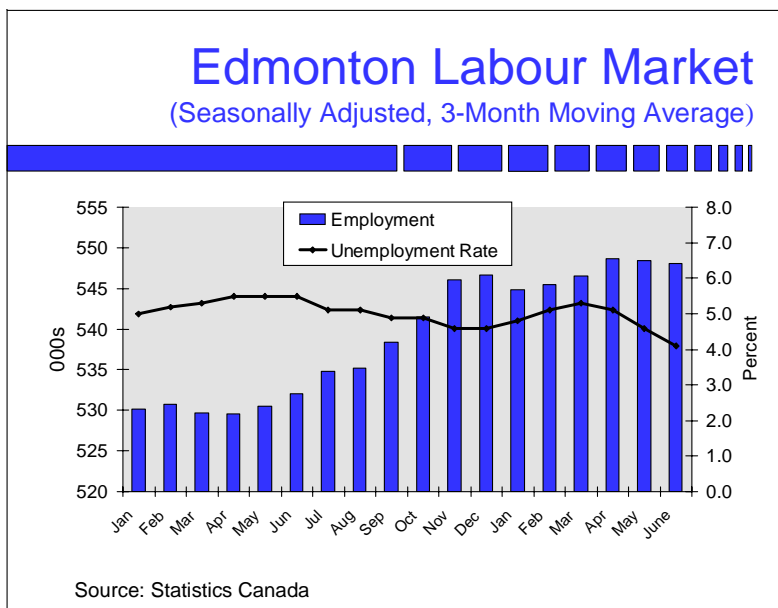
For more information, please call Paul Tsounis at (780) 496-6070.

Edmonton Labour Market – Mid Year 2004

Continued strength in the Edmonton local economy has kept employment growth strong for the first half of 2004. According to Statistics Canada, the seasonally adjusted (3-month moving average) level of employment reached 548,100 in June, up 0.6% from January and 3% higher than its level a year ago. Employment has averaged 547,000 so far this year, up 3.1% when compared with the first 6 months of 2003.

After increasing for the first three months of 2004, Edmonton’s seasonally adjusted unemployment rate has finally begun to decline, falling from its high of 5.3% in March to its current level of 4.1%, the lowest among all major Canadian cities, and one of the lowest rates in Edmonton’s history. The unemployment rate has averaged 5% for the first 6 months of 2004, down 0.3 percentage points when compared with the same time period in 2003.

Besides having strong employment growth, the main reason for the sharp decline in the unemployment rate during the second quarter is a drop in Edmonton’s participation rate, or the proportion of those over the age of 15 that are in Edmonton’s labour force (those who have a job or are actively seeking employment). Edmonton’s participation rate climbed during the first quarter, rising from 72.6% in January to 73% in March, but has since retracted to its current level of 72%. Since the unemployment rate is equal to the number of people unemployed as a percentage of the labour force, a sharp drop in the participation rate will lower the number of people in the labour force, and as a result, lower the unemployment rate.

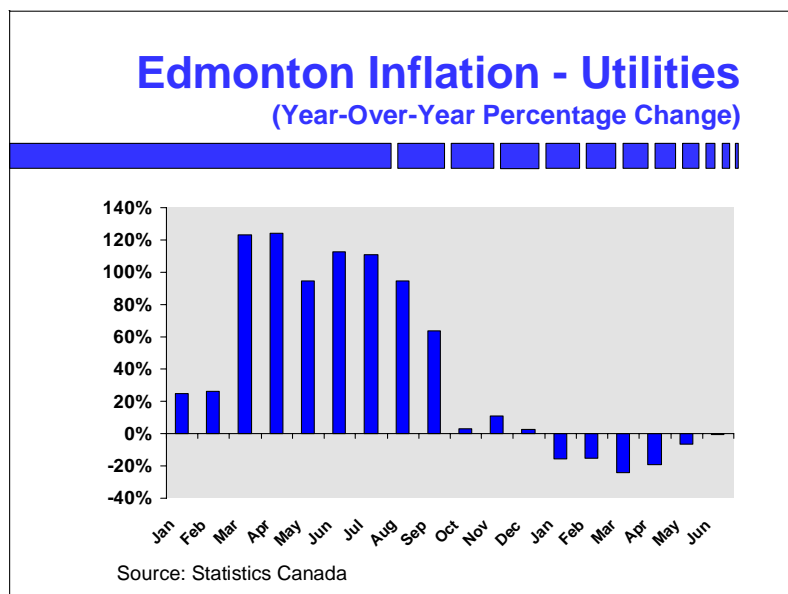
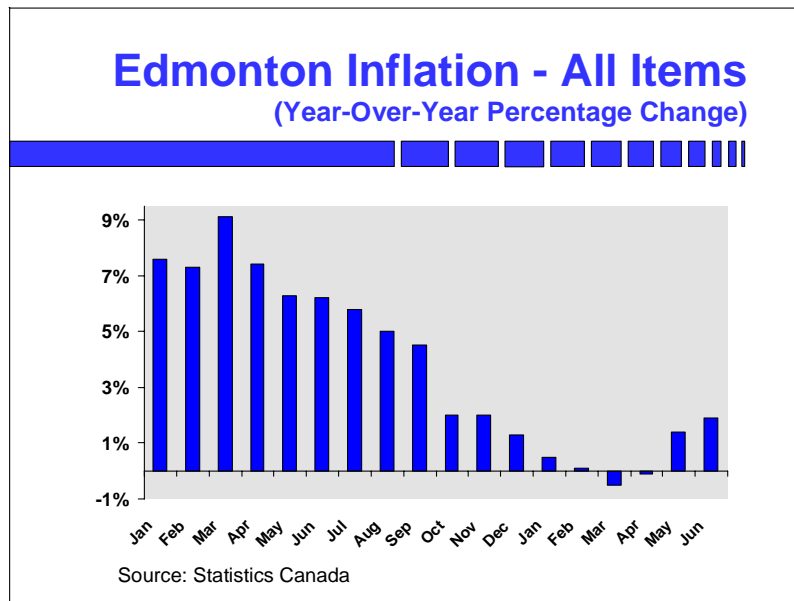


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Edmonton Inflation – First Half, 2004

After a slow start, Edmonton’s inflation rate, as measured by the Consumer Price Index has slowly begun to increase, reaching 1.9% in June, up from 1.4% in May and –0.1% in April. Despite this increase, Edmonton’s inflation rate has only averaged 0.6% higher for the first half of 2004 when compared to the same time period in 2003.

The reason for Edmonton’s low inflation so far this year is mainly attributable to lower utility costs (water, fuel and electricity), which are down 14% for the first half of 2004 when compared to the first half of 2003. However, prices for utilities have started to rebound, increasing by 15.8% between May and June – the largest single month increase since October 2002.



Average Residential Selling Prices – July 2004

Continued strength in the Edmonton housing market has kept average residential selling prices in Edmonton strong for the first seven months of 2004. According to the Edmonton Real Estate Board, the average residential selling prices for single family, condominium and rowhouse dwellings in Edmonton for the month of July was \$181,034. This is 0.75% drop from June, but is 3.3% higher from January and 8.7% higher from the same month a year ago. Contributing to the month-over-month drop in July was a 3.3% decline in each of the condominium and Duplex/row house prices. Condominiums sold, on average, for \$132,095 in July, while duplex and row houses sold on average for \$155,770. Single-family homes, on the other hand, continued their upward trend, rising by 1% in July, setting a new high at \$205,942.

The southwest sector of the city experienced the highest average selling prices for detached homes for the month of July at \$280,471, followed by the west sector at \$238,782 and the south east sector at \$194,765.

In terms of surrounding areas, St. Albert's selling price was the highest at \$254,200, followed by Sherwood Park at \$238,388 and Stony Plain at \$197,619.

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Average Sale Prices For Single Family, Condominiums, Duplex/Row Houses (\$)*

	July 2004	YTD
Single Family Homes	205,942	199,980
Condominiums	132,095	134,103
Duplex/Row Homes	155,770	157,822

* From the Edmonton Real Estate Board

Average Sale Prices for Detached Homes for the City of Edmonton (\$)*

	July 2004	YTD
Northwest	174,110	168,496
North Central	193,193	191,915
Northeast	153,792	158,500
Central	144,358	133,427
West	238,782	232,663
Southwest	280,471	275,395
Southeast	194,765	185,484

* From the Edmonton Real Estate Board

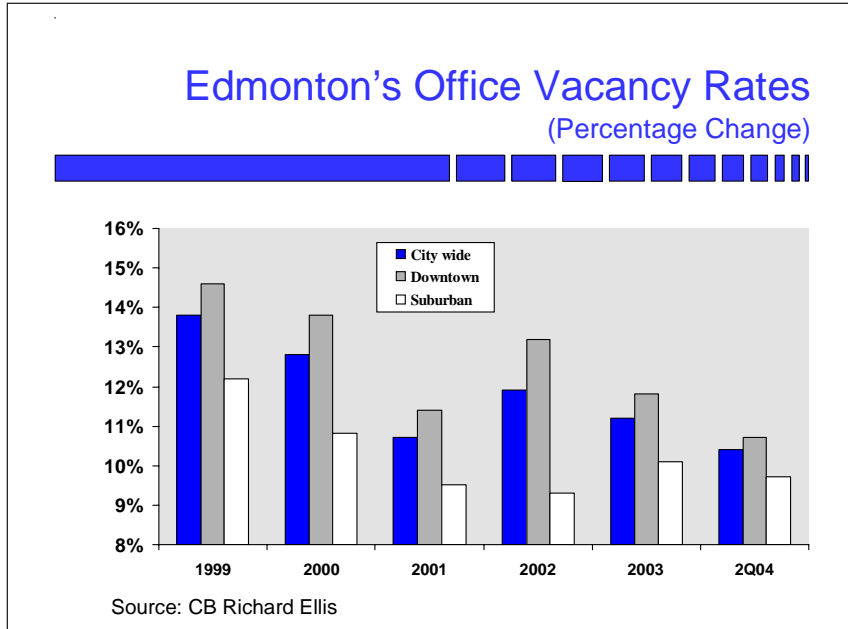
Average Sale Prices for Detached Homes in Surrounding Areas (\$)*

	July 2004	YTD
St. Albert	254,200	235,724
Sherwood Park	238,388	233,224
Leduc	187,000	179,487
Spruce Grove	194,975	184,173
Stony Plain	197,619	192,597
Morinville	151,550	157,507
Fort Saskatchewan	191,400	183,975

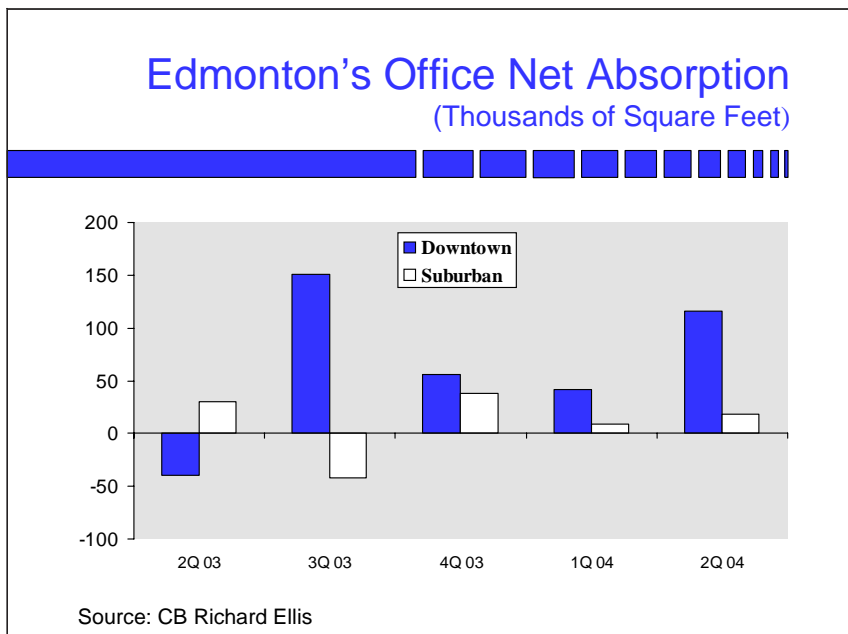
* From the Edmonton Real Estate Board

Office Vacancy Rates

According to the most recent Market View Update from CB Richard Ellis, office vacancy rates in Edmonton fell to 10.4% in the second quarter of 2004, down from 11.2% reached at the end of 2003. Both the downtown and suburban office markets contributed to the overall decline, as the downtown vacancy rate fell to 10.7% in the second quarter, down from 11.8% at the end of 2003. The suburban vacancy rate fell to 9.7%, down from 10.1% recorded at the end of 2003.



Contributing to the fall in office vacancies was an increase of the level of absorption, which reached 134,400 square feet in the second quarter – the fourth consecutive quarter of positive absorption. So far this year, the downtown market has absorbed 158,000 square feet, while the suburban market has absorbed 27,500 square feet.



Both the government and financial sectors experienced declines in vacancy rates in Edmonton's downtown core. The government sector vacancy rate fell to 11.1% from 12.9% at the end of 2003, while the financial sector vacancy rate fell to 10.5% from 11.2% at year-end 2003.

The overall office market in Edmonton consists of 20.2 million square feet of space, of which 65.8%, or 13.3 million square feet, belongs in the downtown area. The financial sector consists of 8.7 million square feet, or 65.6% of the downtown office market, while the government sector consists of 4.6 million square feet, or 34.4% of the downtown market.

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Provincial Population Growth, First Quarter 2004

Canada's population increased by nearly 73,000 during the first quarter of 2004 with net migration contributing 56,300 and natural increase 16,200. Ontario's population increased by 39,000 followed by Alberta with 11,200 and Quebec with 11,000 (Figure 1). Ontario had the largest amount of net migration with 31,800 followed by Quebec with 9,300 and British Columbia with 7,400. Alberta had the highest interprovincial net migration of 3,500 followed by Manitoba with nearly 200 (Figure 2). Alberta gained population from all provinces except Manitoba, with the largest amount from Ontario (1,085) and British Columbia (930)(Figure 3).

Figure 1: Growth by Source, First Quarter, 2004

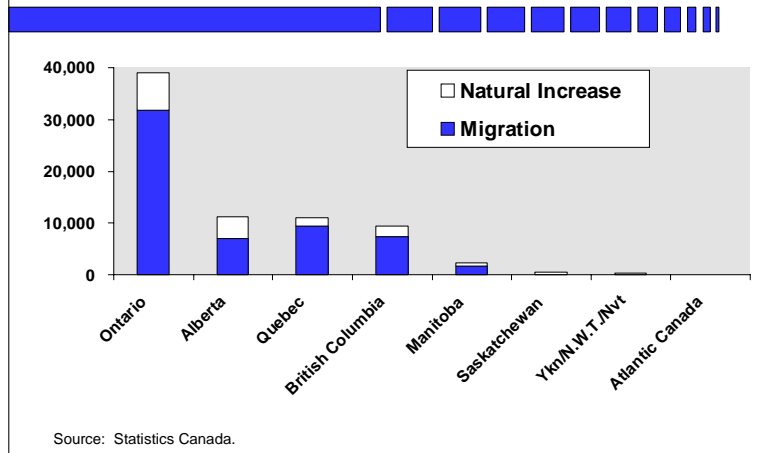


Figure 2: Migration by Source, First Quarter, 2004

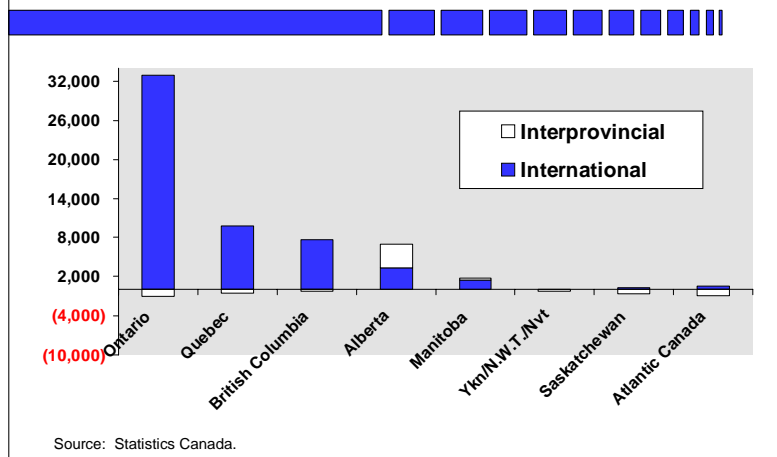


Figure 3: Alberta's Balance of Migration With Other Provinces, First Quarter 2003, 2004

