

## Alberta Q2 Update: Oiled Up

The Province of Alberta lowered its FY2009/10 deficit estimate to \$4.3 bln from \$6.9 bln projected in August and the \$4.7 bln budget forecast. The improvement from Q1 is entirely the result of stronger revenues, which have been revised up \$3.1 bln to \$32.6 bln. Resource revenues are up \$1.7 bln, while investment income (\$873 mln) and tax receipts (\$590 mln) are also higher.

The resource-revenue upgrade comes amid rising oil prices, now projected to average \$67.51 this fiscal year, up from \$61 in the Q1 update—this added \$1.3 bln. Still, resource revenues are \$346 mln below original budget projections as weak natural gas prices and drilling activity have slashed \$1.7 bln. Meantime, the improved investment income comes on the back of strong equity markets.

Total spending was revised up a modest \$503 mln to \$37.0 bln, while the capital plan was lowered \$728 mln to \$7.0 bln.

The \$4.3 bln deficit will be financed by a transfer from the Sustainability Fund, and the lower shortfall is good news for a province that has seen resource revenues vaporize in the past year-and-a-half. Still, Alberta has to find \$2 bln of “fiscal correction” in each of the next two years, and then some, to balance the budget by FY2011/12 as planned.

The Province’s borrowing requirements are \$200 mln for FY2009/10 (67% complete). ACFA plans to borrow \$2.0 bln in calendar 2009 (65% complete), while ATB Financial does not expect any more borrowing.

**The Alberta economy has suffered a difficult year** amid a sharp reduction in commodity-sector activity. The combination of falling oil (through late-2008) and natural gas prices, and a more taxing royalty regime has cut investment activity in the sector by about half in 2009, while land sales and drilling activity are both down sharply year-over-year. Real GDP will likely contract 2.4% in 2009 before rebounding a solid 3.1% in 2010.

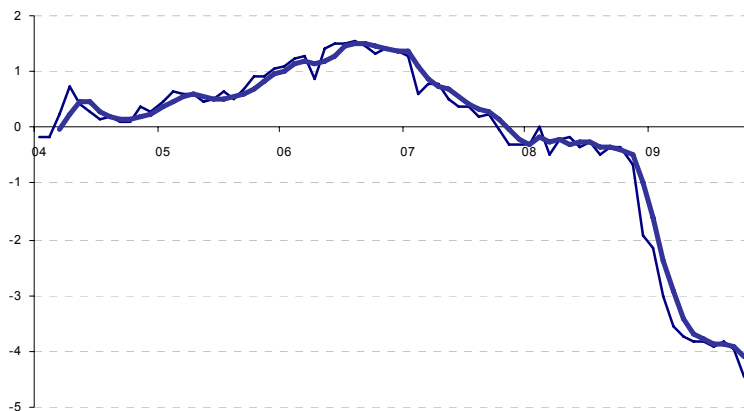
### Alberta - Q2 Fiscal Update

(FY2009/10, \$ millions)

	Q1 Forecast	Q2 Forecast	Change from Q1
Revenue	29,570	32,626	3,056
Expenditures	36,447	36,950	503
Net Revenues (surplus)	-6,877	-4,324	2,553
Oil (wrt US\$/bbl)	\$61.00	\$67.51	\$6.51
Natural Gas (cnds\$/g)	\$3.75	\$3.25	-\$0.50

### Provincial Economic Momentum Index: Alberta

(Dark line = 3-mo avg.)



\*The PEMI is an index designed to provide a single measure of economic activity. A positive index value suggests above-trend growth and a negative reading points to below-trend growth. For more, see: <http://www.bmonesbittburns.com/economics/focus/20091030/feature.pdf>

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