EDMONTON'S ECONOMIC OUTLOOK

Edmonton's current context parallels that of Alberta and Canada overall - fully recovered from the downturn of 2008 and 2009 and now in the midst of a new expansion. Employment growth has been very strong across the Edmonton Region drawing down the unemployment rate to a level of 4.9% in March 2014. At just about the 5% rate, the potential for more broad-based shortages and consequent upward pressure on wages exists.

GLOBAL CONTEXT

Despite upward signs, a continuing high level of uncertainty in the global environment poses risk locally. Internationally, economic recovery has been more uneven and hesitant than that seen in Canada and particularly in the Western provinces. Within this context, the prospects for Edmonton's economic growth remain strong.

However with relatively soft conditions in the US and the rest of Canada, the probability of an unsustainable boom comparable to that seen between 2004 and 2008 is very low. The City will feel the effects of recent developments through a changed outlook for oil prices, inflation, interest rates and the Canadian dollar.

DEVELOPMENTS IN THE ENERGY SECTOR

The recovery of oil prices after 2009 has been the key factor in Edmonton's growth over the past four years. Oil prices were at or near five-year highs during most of 2013. This encouraged investment in both conventional oil and oil sands developments providing a strong stimulus for manufacturing, logistics and professional services such as engineering in Edmonton.

Natural gas prices have also been greatly impacted by changes in the external market, remaining well below 2008 and 2009 levels. A continuing rapid increase in supply, resulting from shale gas developments in both Canada and the US is now being offset by growing demand particularly for power generation in the US. While activity in Alberta's natural gas sector was relatively muted during 2013, firmer prices should provide some support to increased drilling and production.

NEAR TERM OUTLOOK

The City has recently experienced the fastest employment growth among Canada's large metropolitan areas. Consequently, unemployment has fallen even as the city attracted record numbers of migrants. The overwhelming share of this growth has been in full time highly skilled jobs in manufacturing, construction, logistics and professional and scientific services.

Relatively robust conditions in the labour market will stimulate continued migration to Edmonton boosting overall population growth and new household formation. The arrival of newcomers has already pushed down Edmonton's rental vacancy rate to 1%. Nonetheless, growth in housing prices and sales have been modest compared to other markets such as Calgary in part because new housing starts rose dramatically over 2012 and 2013. New home construction activity will moderate over the next 4 years at levels that remain above historical averages.

Increases in employment opportunities represent the potential for labour and skill shortages and the prospect of related inflationary impacts. To date, however, Edmonton's inflation rate, as measured by the Consumer Price Index, was slightly above 2.0% on an annual basis in January of 2014. These conditions are unlikely to persist, however, as a tight housing market and increased competition for labour will likely boost inflation rates beyond the 2.0 % range over the next several years.

Given solid economic prospects anticipated to 2018, population growth in Edmonton is anticipated to exceed the national average expanding at a rate of approximately 2% annually. While this upward growth will help offset labour challenges, it will also place higher demands on the City for services and the capital investments needed to support those services, including for infrastructure to support higher employment and economic output levels.

One positive near term factor coming out of the recent slowing of global recovery is the prospect of continuing low interest rates. Expectations in the first half of 2013 were that the Bank of Canada and US Federal Reserve would start to move up interest rates in the last half the year. Slower growth in the US and Canada suggest that there will be only very modest interest rate increases beginning in 2015.

TEN-YEAR OUTLOOK

Across Canada, longer-term employment growth is expected to slow as the impacts of an aging workforce are felt. Edmonton, with a relatively young demographic, will outperform Canada and continue to attract migrants as the economy grows at faster pace then the rest of Canada. Consequently, the City will have to continue to address growth in population related service and structure requirements, while migrating some of its infrastructure investment to serve the needs of its own, expanding senior demographic.

The backdrop for investment in the period to 2024 is one in which increased inflationary impacts are forecast. This is despite expectations that consumer inflation will lean toward the national average, targeted at 2% by the Bank of Canada. The Non-residential Construction Price Index (NRCPI) will range between 4.5% and 5.0% each year for the next 3 years. The Non-residential Construction Price Index will then shrink to an average of about 1% per year for 2017 and 2018 as large energy related construction projects in the Edmonton region are completed.

In terms of City Capital impacts, however, real economic growth is expected to average 3.4% per year. Project related costs experienced by the city will can be expected to rise at or above 3% per year on average as growth in labour and material costs are felt in tandem across Capital budgets.

Interest rates beyond 2017 are expected to stabilize well above current rates, meaning the City should anticipate a long term upward trend in interest-related expenses. While most of the upward adjustment in interest rates will occur between late 2014 to early 2017, beyond 2014, impacts of slumping savings rates and continuing pressure on government budgets will cause interest rates to trend higher beyond 2017, with rates expected to be up by an additional 100 points by 2023.

After very strong growth in 2012 and 2013, population in the City should expand at 2.1% to 2018. Beyond 2018, population growth will slow modestly, averaging about 2.0% per year out to 2024. This relatively modest growth in population will cap rates of new household formation and, along with a return to more traditional mortgage costs, limit the demand for housing units. As a result, while continuing to grow at modest levels - housing starts should average slightly about 11,000 units per year from 2015 to 2024.

Inflation levels beyond 2018 are expected to be moderate, yielding an average annual increase in consumer inflation (CPI) of about 2% between 2018 and 2024.

Table 1: City of Edmonton's Projected Average Annual Growth Rate by Key Indicators:

Key Indicators	**Annual Growth (3-year) 2015-18**	**Annual Growth (10-year) 2015-24**
Real Economic Output	3.6%	3.4%
Population	2.1%	2.0%
Employment	2.4%	2.3%
Consumer Price Index	1.6%	2.0%
Housing Starts - Units	10,400	11,000