

ECONOMIC STATEMENT

Alberta was on the path to recovery. After more than five years of economic stagnation and a downturn in the energy sector, this government had a plan to address its fiscal challenges and spur economic growth.

There were a number of hopeful indicators in early 2020. Amid easing production constraints and increased takeaway capacity, the energy sector was showing signs of recovery. In the first two months of the year, rig drilling grew 14% and oil production was up 6% compared to the same period last year. Exports also rebounded 19%. Housing market activity continued to improve from the weakness of early 2019, with home sales and residential construction investment up 8% and 9.2%, respectively. Non-residential building permits in the private sector, a leading indicator of construction activity, also rose 8%. With this growth in business sector activity, employment was poised to turn the corner in 2020.

Alberta's return to balance in 2022-23 was based on modest spending restraint and a conservative forecast for economic growth. Oil prices were expected to stay below historic levels, with Alberta's dependency on resource revenues well below previous budget plans.

In March 2020, the world changed. The COVID-19 pandemic, combined with the collapse in global oil prices, resulted in the most severe contraction of economic activity and jobs since the Great Depression. The following indicators provide an illustration of the immediate impacts of this crisis on the Alberta economy.

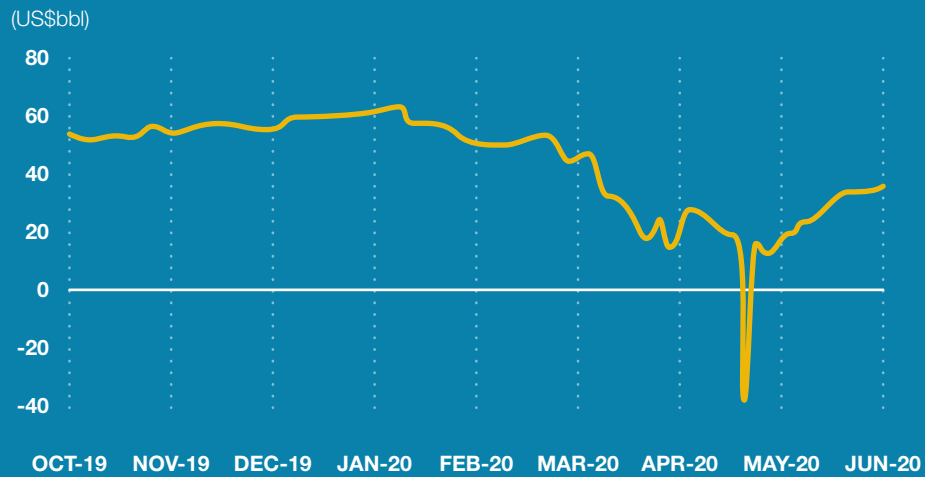
Oil prices

As the pandemic caused a severe contraction in economic activity and oil demand, global oil prices plunged. In late April, West Texas Intermediate (WTI) briefly saw negative prices for the first time in history. It has since recovered to above US\$35 per barrel.

Oil demand is slowly improving as many countries around the world begin to reopen their economies. OPEC and allied nations continue to restrain supply, hoping to encourage stability in energy markets hard hit by the pandemic and the resulting global economic crisis.

Even with the improvement, however, WTI remains down 38% compared to the start of the year.

CHART 1: OIL PRICES REBOUND FROM LOWS, BUT STILL DOWN

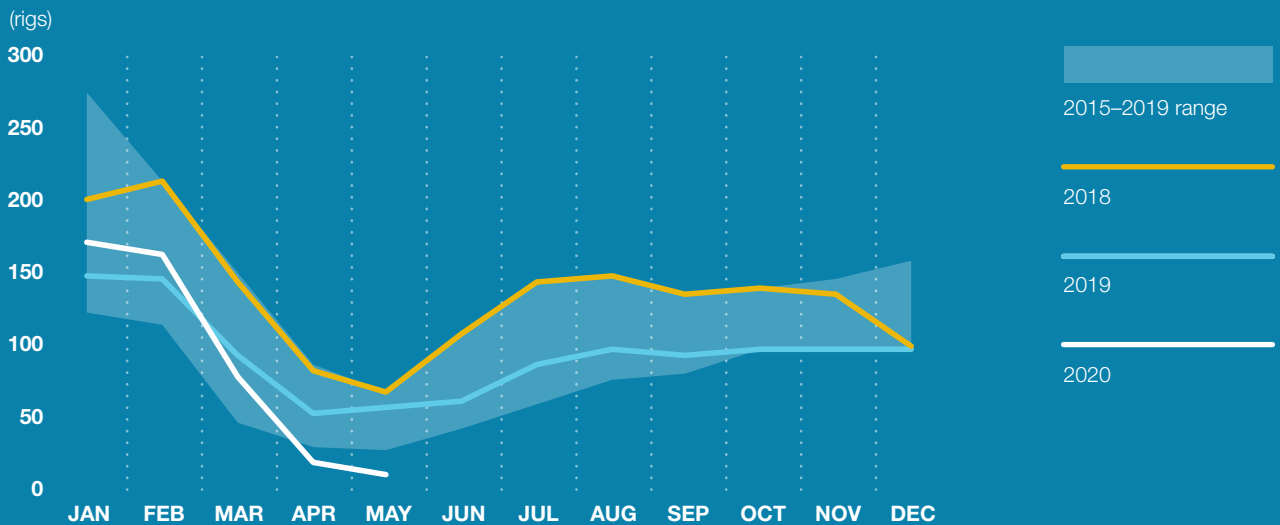


Sources: U.S. Energy Information Administration, CME Group. Last observation is June 3, 2020

Energy investment and production

The collapse in global oil prices led to a sharp pullback in energy investment and production shut-ins in Alberta. The year started strong, with oil production rising 5% in the first quarter. In May, drilling activity tumbled to its lowest level in over three decades. Oil production is estimated to have declined by about one million barrels per day in the second quarter, which represents roughly 25% of production.

CHART 2: DRILLING ACTIVITY PLUNGES



Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

Business activity

Business activity outside the energy sector has also declined in the province. Manufacturing shipments and exports have retreated sharply since February. The value of non - residential building permits in the private sector, a leading indicator of construction activity, fell 25 % between February and April to the lowest level in almost a decade, driven primarily by a slowdown in commercial activity.

CHART 3: EXPORTS AND MANUFACTURING SHIPMENTS HAVE PULLED BACK SHARPLY

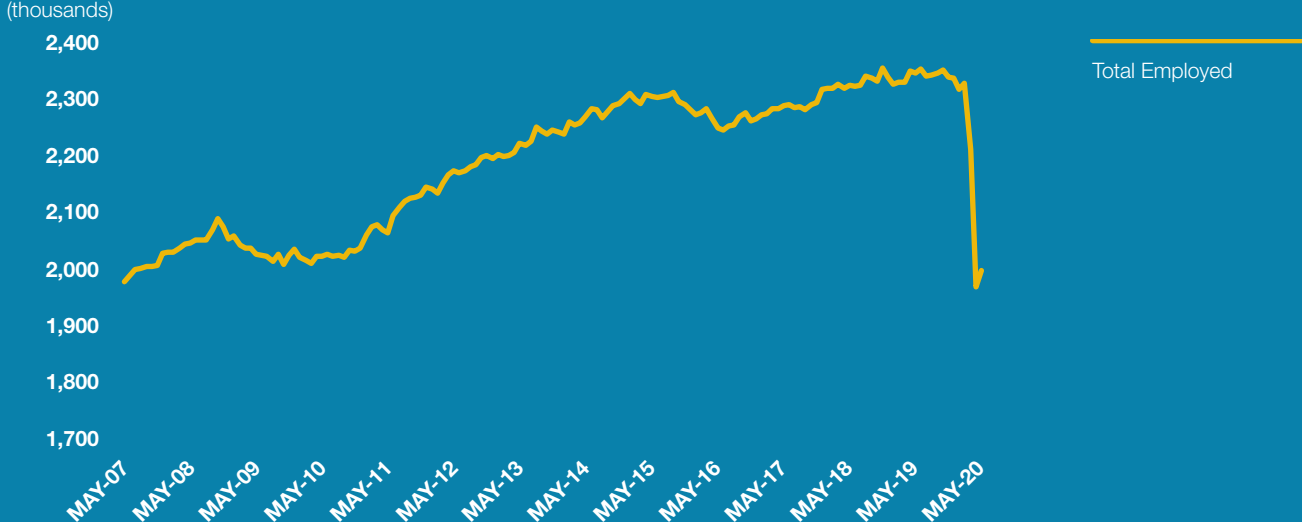


Source: Statistics Canada.

Labour market

Labour market conditions have deteriorated significantly. Over the last three months, Alberta's economy lost more than 330,000 jobs and saw widespread declines across most industries. To put it into perspective, this amounts to the number of jobs added to the province over the last decade.

CHART 4: EMPLOYMENT SINKS TO LOWEST LEVEL SINCE EARLY 2007

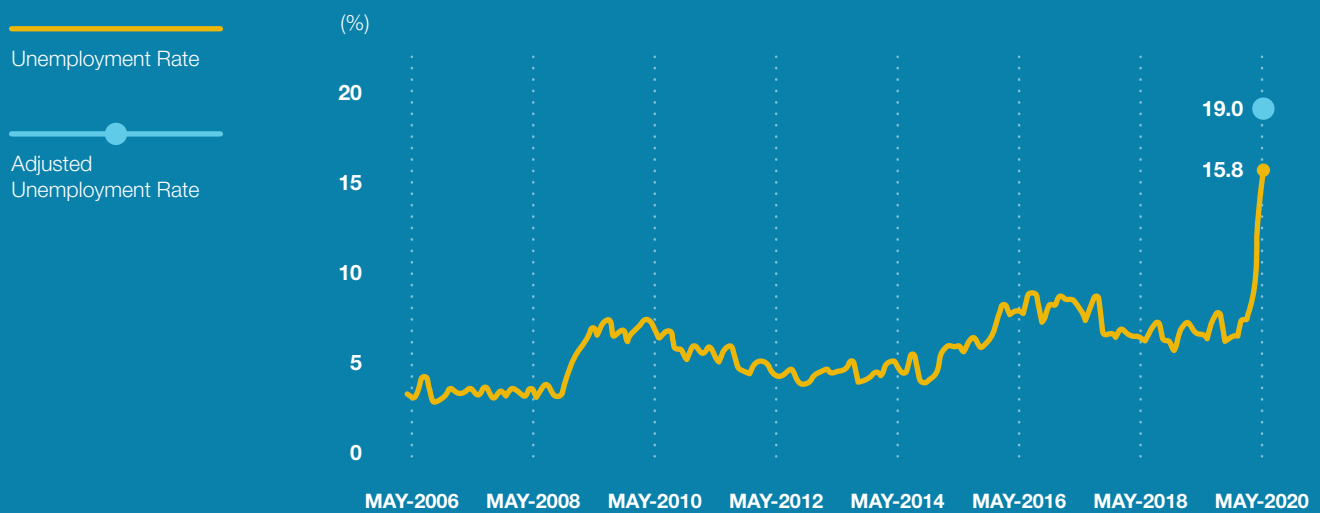


Source: Statistics Canada.

Unemployment

In May, the unemployment rate soared to 15.5% — the highest on record. However, that rate was tempered by an upsurge in the number of people leaving the labour force. If these people were counted as unemployed, the unemployment rate would be much higher at 19%.

CHART 5: UNEMPLOYMENT RATE AT A RECORD PEAK



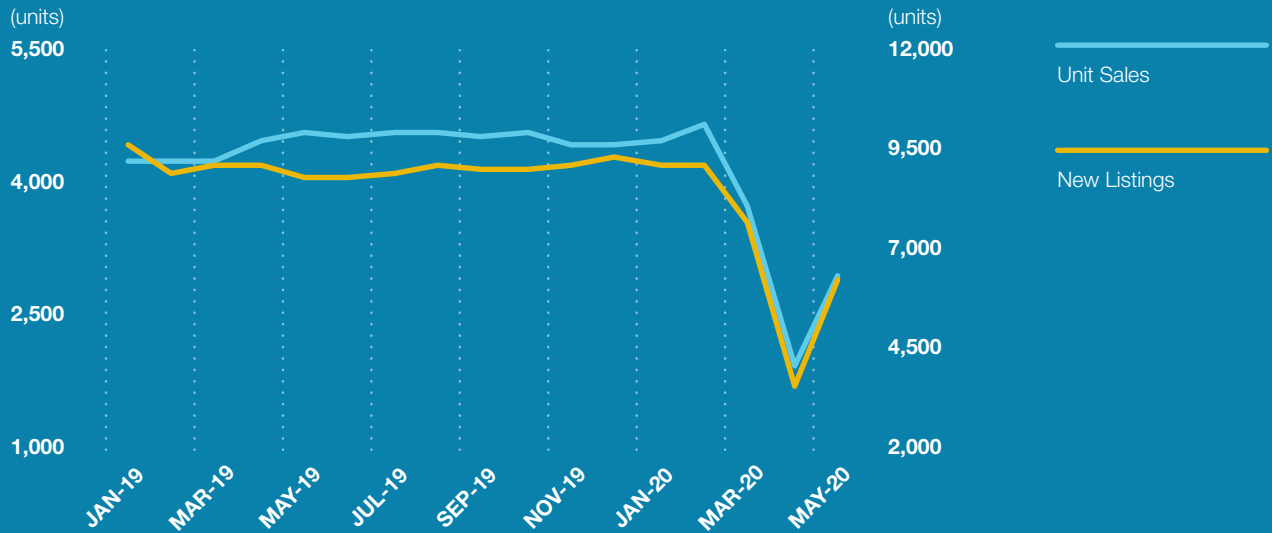
Source: Statistics Canada and Alberta Treasury Board and Finance. Adjusted unemployment rate assumed the labour force was unchanged since February and all those leaving the labour force became unemployed

Housing market

Weak consumer sentiment and a downturn in the labour market have hit housing market activity and consumer spending hard. Despite a bounce back in May, home sales remain down 37 per cent from February levels.

Retail sales also fell 30% in March amid widespread business closures and limited store operations.

CHART 6: ACTIVITY IN RESELL HOUSING MARKET SEIZES UP



Source: The Canadian Real Estate Association

