



August 26, 2009

Lower natural gas prices drive deficit higher

Province to further reduce costs of government, offset shortfall by withdrawal from Sustainability Fund

First Quarter Fiscal Highlights

- **Revenue for 2009-10 is forecast at \$29.6 billion, a decrease of \$2.1 billion from budget**
- **Expense for 2009-10 is forecast at \$36.4 billion, an increase of \$72 million from budget; the increase is mainly for disaster and emergency funding**
- **Deficit for 2009-10 is forecast at \$6.9 billion, an increase of \$2.2 billion from budget**
- **Cost savings target doubled from \$215 million to \$430 million**

*Edmonton...*The Alberta government will further reduce the cost of government, while still providing the services Albertans need, in order to deal with a larger-than-forecast deficit.

Finance and Enterprise Minister Iris Evans released the province's 2009-10 First Quarter Fiscal Update, showing a deficit \$2.2 billion higher than forecast in Budget 2009. The increase in the deficit is due mainly to weaker-than-forecast natural gas prices, a higher Canadian dollar and other declining revenue. Alberta's deficit is now forecast to be \$6.9 billion for 2009-10.

"Global economic turmoil is deeper and more sustained and natural gas prices remain far lower than originally forecast, and the result is a higher deficit than we predicted," said Evans. "Government has a plan to deal with this, and part of that involves better managing our spending."

In Budget 2009, government committed to finding \$215 million in cost savings this year. With a larger deficit than forecast, government has doubled that target to \$430 million. As part of its cost savings plans, government has instituted a hiring freeze and is cutting discretionary and low-priority spending. Details of specific cost savings will be identified at second quarter.

Government will draw on the \$17-billion Sustainability Fund to offset the higher-than-expected deficit. The Sustainability Fund was created to protect the government's program and infrastructure spending plans from unexpected drops in revenue and from the costs of emergencies and disasters.

Evans noted Alberta is staying the course on its four-point plan to return the province to prosperity and balanced budgets. The plan includes:

- keeping a close eye on government spending,
- drawing down our savings in the Sustainability Fund to protect the programs and

- services Albertans depend on,
- continuing to invest in public infrastructure to support jobs and the economy, and
- promoting the province to a global market, while working to reduce the costs of doing business.

“It will take time for our fiscal situation to recover,” Evans said. “But with savings to draw upon, and one of the most tax-competitive regimes in North America, Alberta remains in a better position than other jurisdictions through this period of global economic weakness.”

Revenue in 2009-10 is forecast to be \$29.6 billion, a \$2.1 billion decrease from budget, primarily due to lower royalties from natural gas and a \$532-million drop in personal income taxes. Total energy revenue is down \$2.1 billion from budget. Investment income is forecast to increase \$760 million on the strength of better-than-expected equity markets.

Expense is forecast to be \$72 million higher than budget, due mainly to increased disaster and emergency funding for fighting forest fires, municipal wildfire assistance and combating mountain pine beetles; and to higher capital grants, partially offset by federal transfers.

Summary (\$ millions)

	Budget 2009-10	1st Quarter Forecast	Change from Budget
Revenue	\$31,661	\$29,570	(\$2,091)
Non-Renewable Resource Revenue	\$5,903	\$3,851	(\$2,052)
Total Expense	\$36,375	\$36,447	\$72
Operating Expense	\$31,244	\$31,077	(\$167)
Surplus (Deficit)	(\$4,714)	(\$6,877)	(\$2,163)
Sustainability Fund withdrawal	\$4,714	\$6,877	(\$2,163)
Oil Price (WTI US\$/bbl)	\$55.50	\$61.00	\$5.50
Natural Gas Price (Cdn\$/GJ)	\$5.50	\$3.75	(\$1.75)
Exchange Rate (US¢/Cdn\$)	83.50	89.4	5.9

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Backgrounder: Alberta’s Economic Outlook

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Alberta's Economic Outlook

There are increasing signs that the global economic recession is nearing an end. Economic growth is expected to resume in the second half of 2009 in Canada and the US. Growth has accelerated in China and India, while growth has resumed in Japan, France and Germany. Inflation remains well contained, and interest rates are at historically low levels.

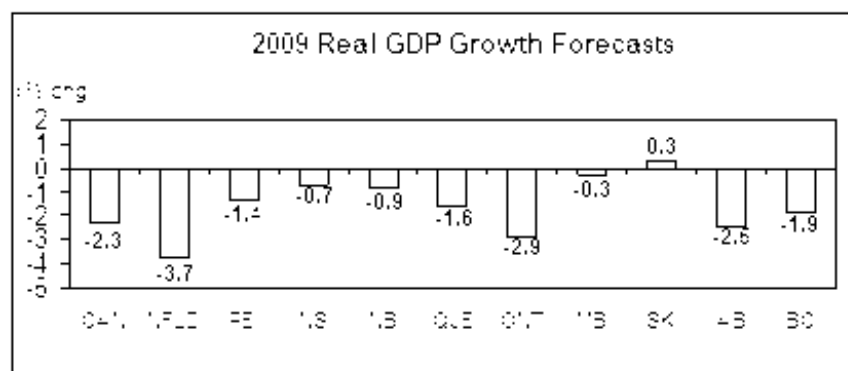
Economic forecast

- Alberta's economy is expected to contract 2.5 per cent in 2009, after shrinking 0.2 per cent in 2008. This is weaker than the 2.0 per cent forecast in Budget 2009, due mainly to significantly weaker housing starts and consumer spending in the first half of the year.
- Economic recovery is expected to be stronger in 2010 than forecast at Budget 2009, with anticipated growth of 2.2 per cent, compared to the budget forecast of 1.8 per cent growth.

Employment forecast

- Alberta employment in 2009 is now forecast to average 1,991,000 over the year, down 22,000 (1.1 per cent) from the 2008 average of 2,013,000. This is a larger decline than the 15,000 forecast at budget.
- The unemployment rate forecast for Alberta has been revised to 6.6 per cent, up from 5.8 per cent in Budget 2009, because of stronger labour force growth reflecting higher-than-expected interprovincial migration.

Given strong flows of interprovincial migrants, Alberta's population growth is projected to be 2.4 per cent, compared to Budget 2009 forecast of 1.9 per cent. Labour income is forecast to grow by 2.5 per cent. Both of these factors should support the recovery in the housing market and consumer spending in the short term.



Source: Alberta Finance and Enterprise, various financial institutions and forecasting agencies

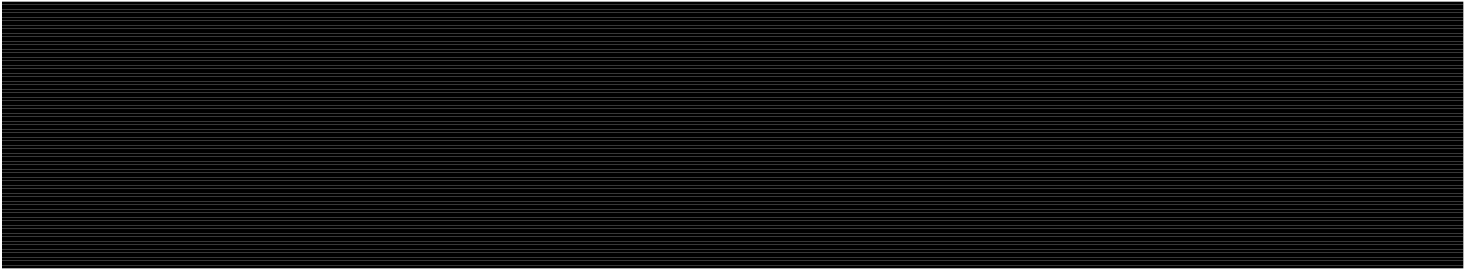
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Heritage Fund forecast to earn \$1.3 billion this year

The Alberta Heritage Savings Trust Fund earned more than \$730 million dollars in the first quarter of 2009-10, and is now expected to earn \$1.3 billion over the course of the year - nearly double the \$711 million forecast at budget.

“The Heritage Fund felt the effects of the stock market crash last year, as did many other funds,” said Finance and Enterprise Minister Iris Evans. “We expected the fund to turn around when the markets did, and that’s what we’re seeing, with some impressive results over the last few months.”

The fund’s investments earned \$1.058 billion over the first quarter, for a return of 7.6 per cent, compared to a return of 0.6 per cent for the same period last year. Of this, \$730 million will be transferred to the province’s General Revenue Fund to support priority government programs.

The remaining \$328 million represents an increase in unrealized portfolio gains, which is the profit that would be made if the assets involved were sold at current prices. This amount is retained in the Heritage Fund, boosting its value to \$14.3 billion as of June 30.

The Heritage Fund exceeded its benchmarks in bonds, foreign equities, Canadian equities, hedge funds and money market securities. Canadian equities, which comprise 15.8 per cent of the fund’s investment portfolio, had the highest return of all asset classes, earning 22.9 per cent compared to the benchmark of 20.0 per cent.

The Heritage Fund is invested with the intention of providing a solid long-term rate of return of 5.5 per cent after inflation. This includes a fairly well-known, industry standard return of 4.5 per cent after inflation, plus an additional one per cent return to be achieved through active management of portfolios.

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