

SPOTLIGHT:
Chemical Products
in Alberta

FEATURE:
Income
Distribution: The
Sun Shines For All

OPINION:
Competitiveness in the
West

CanadaWest
FOUNDATION

Our Vision
A dynamic and prosperous West in a
strong Canada.

Our Mission
A leading source of strategic insight,
conducting and communicating non-
partisan economic and public policy
research of importance to the four
western provinces and all Canadians.

CURRENTS Western Canada's Monthly Economic Bulletin

Vol. 2009, No. 6 a **CanadaWest** Foundation publication

Monthly Economic Highlights

Statistics Canada announced that the Canadian economy contracted 1.4% in the first quarter of 2009 following the 0.9% setback at the end of 2008. Business investment fell at the fastest rate since 1982, with a sharp drop in

spending on machinery and equipment (-11%). An 8.7% drop in exports was another main contributor to the decline.

In May, the Canadian economy lost 42,000 jobs and the unemployment

rate jumped to 8.4%, the highest level in 11 years. Employment in the West bucked the trend, with job growth in every province, especially Manitoba (+3,900) and Saskatchewan (+3,100). However, a rise in the number of job seekers pushed the Alberta and BC

unemployment rates up to 6.6% and 7.6% respectively. The last time the unemployment rate was this high in Alberta was 1996.

A number of other indicators carried grim news as well. Retail trade dropped for the second consecutive month in March in both BC (-1.4%) and Alberta (-1.8%). Alberta retail sales were at their lowest level in three years. There were also large decreases in wholesale trade, especially in Saskatchewan (-7.4%). Manufacturing sales in Alberta dropped 5.0%, reflecting lower demand for oil and gas field machinery.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,259	1,994	523	608	16,832	May
% change	0.1	0.0	0.6	0.6	-0.2	
Unemployment rate (%)	7.6	6.6	4.9	4.9	8.4	May
change in percentage points	0.2	0.6	-0.1	0.3	0.4	
Participation rate (%)	66.1	74.8	70.7	69.4	67.5	May
Average weekly earnings (\$)	802.27	971.07	801.99	773.47	824.98	March
% change	1.6	0.6	0.4	0.8	0.5	
Inflation						
Consumer Price Index (% change)*	0.3	-0.7	0.6	0.9	0.4	April
Economic Activity						
Housing starts (000s)**	11.7	12.4	2.9	3.1	117.6	April
% change	-1.7	4.2	38.1	-11.4	-19.7	
Retail trade (\$M)	4,266	4,567	1,161	1,199	33,865	March
% change	-1.4	-1.8	0.1	-0.6	0.3	
Wholesale trade (\$M)	3,836	5,124	1,425	1,169	40,512	March
% change	-4.3	-3.5	-7.4	3.3	-0.6	
Manufacturing sales (\$M)	2,755	4,721	899	1,297	41,429	March
% change	1.4	-5.0	-3.2	3.7	-2.7	

* Compared to same month in the previous year. ** Annual rate (monthly figures are multiplied by 12 to reflect annual levels).
Unless otherwise noted, data are seasonally adjusted and percent change is from previous period. Source: Statistics Canada, Canada Mortgage and Housing Corp.

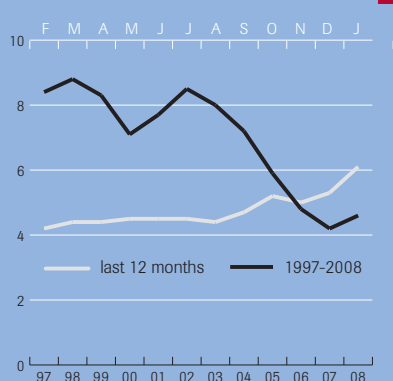
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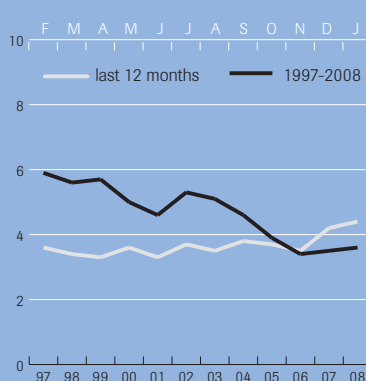
Unemployment Rate (%)

Source: Statistics Canada

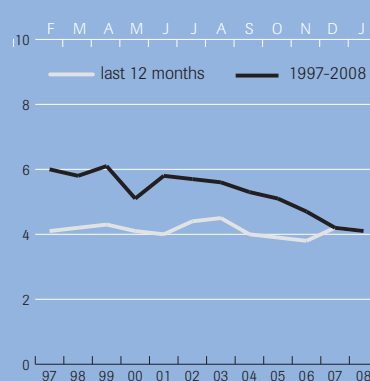
British Columbia



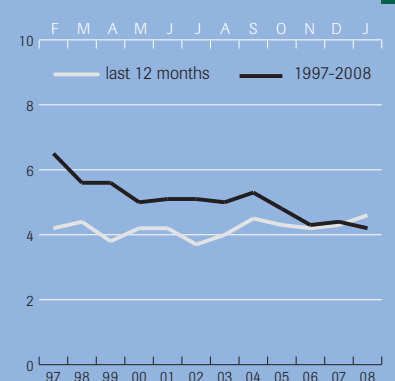
Alberta



Saskatchewan



Manitoba



INCOME DISTRIBUTION: The Sun Shines For All

Did you know?

- ➔ More than half (55%) of the West's Aboriginal population lives in urban centres.
- ➔ In 2006, one Manitoban adult of working age out of five had less than grade 12 education. This adds up to 138,000 people, an improvement of 22% compared to 178,000 people in 2003.
- ➔ Over half of Alberta is covered by forest. More than 60% of this area is commercially productive.
- ➔ Saskatchewan is the world's largest exporter of green lentils and chickpeas.
- ➔ Average life expectancy in BC is 80.6 years—the highest in the country and one year longer than the national average.
- ➔ A truck crosses the Canada-US border every two and a half seconds.

Canada's western provinces have led national economic growth over the last decade. Statistics Canada recently released data on income by family, which sheds interesting light on how those years of prosperity played out in each province.

At \$75,300 in 2007, Alberta has the highest median after-tax income (for families of two or more) among all provinces and stands a solid 22% above the national average of \$61,800. BC is above as well, but barely so. Saskatchewan and Manitoba are roughly 5% below the Canadian level.

Median family after-tax income rose 23% nationally from 1997 to 2007 (after adjusting for inflation). Income in Alberta jumped 38% over that period, well ahead of Saskatchewan (+31%), Manitoba (+22%) and BC (+19%).

However, averages hide information about extremes. If only a small group of individuals benefits from the additional income by becoming extremely rich, the overall gain for society is mediocre at best. Going beyond mere averages, what do the income data tell us about the way the spoils of economic expansion were shared?

If the 13 million families in Canada were ranked from highest-earning to lowest-earning, the 20% richest ones at the head of the line-up (or, technically speaking, the highest quintile) earned 46.3% of total adjusted market income in 2007, while the 20% at the end of the line (the lowest quintile) earned only 3.8% of the total. Provincial data for the West more or less reflect the national story.

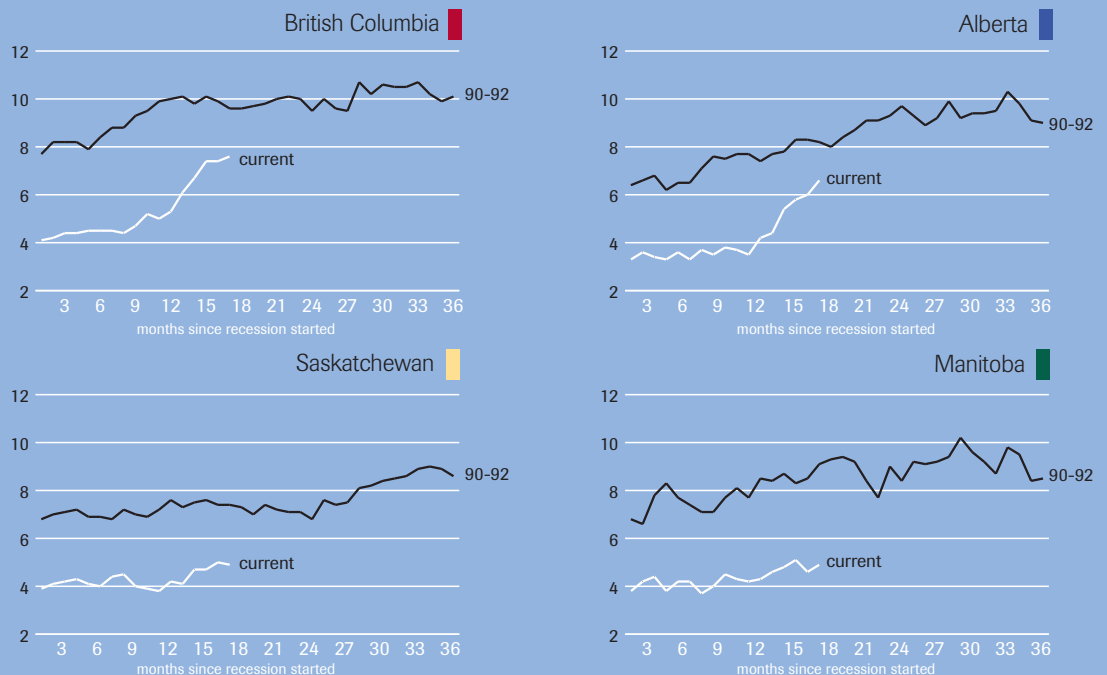
BEHIND THE NUMBERS

The recession is making unemployment rise fast in some provinces. Since its low point in January 2008, the unemployment rate is up by nearly four percentage points in BC and Alberta. Saskatchewan and Manitoba, on the other hand, are faring much better.

During the previous recession of 1990-91, unemployment rates didn't rise this fast but they took almost nine years to get back to pre-recession levels. (In comparison, the recession itself lasted just twelve months.) This time, hopefully, we will get out of this recession as fast as we got into it.

Current Rise in Unemployment Rate Compared to 1990-1992 (%)

Source: Statistics Canada



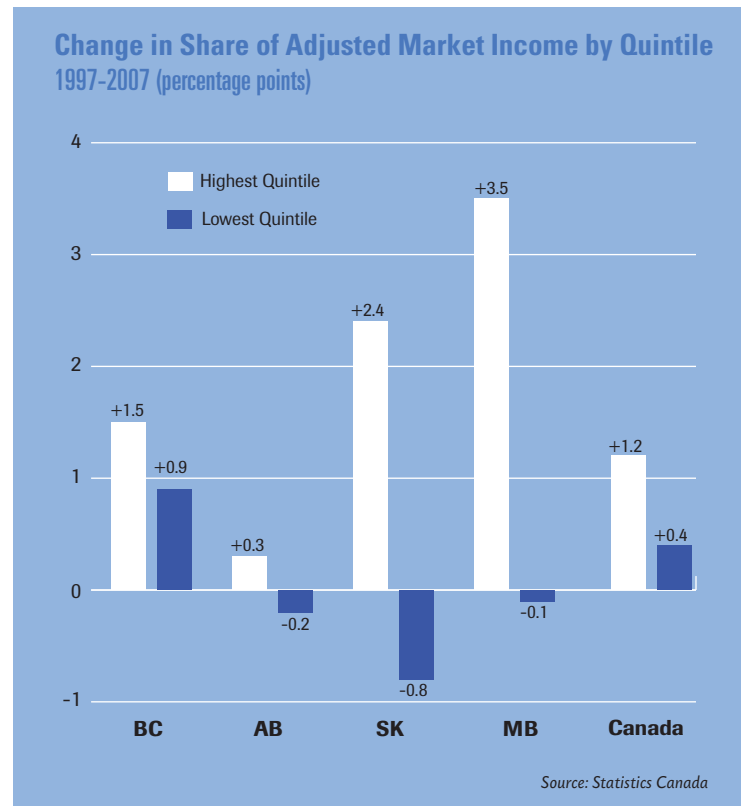


Compared to 1997 though, there is much to tell. Over that period, rich families in Manitoba and Saskatchewan got richer. Across Canada, these two were the provinces where the top quintile gained the most of the overall income available. In Manitoba the gain added up to 3.5 percentage points (from 42.2% to 45.7%), and in Saskatchewan it was 2.4 points (from 43.4% to 45.8%). In Manitoba, the gains were made at the expense of the upper middle class (the third and fourth quintile) whereas in Saskatchewan the load was more evenly spread.

At the other end of the spectrum, BC is the only western province where poor people gained ground from 1997 to 2007. The lowest quintile's share of total income went up 0.9 percentage points (from 3.3% to 4.2%), the largest national gain for this group. The second quintile made significant gains as well over that period.

Where is Alberta among all those quintiles? Answer: quite in line with the national average and remarkably stable. Over those ten years, Alberta was the province where income distribution changed the least. Relatively speaking, things didn't get better for any group, but they didn't get worse either.

While income measures allow us to see how fair or "equal" economic expansion can be, they only show the revenue side of things. What families do with this money matters a lot too: if Family A has a low income but spends less than it earns, while Family B has a high income but doesn't save or invest any of it, who is ahead at the end of the game is not clear.



Industry Spotlight: Chemicals in Alberta

The source of over 70,000 products ranging from auto parts to medicines to chewing gum, the chemical manufacturing industry is the largest manufacturing sector in Alberta in terms of revenue. Alberta is responsible for over one-quarter of Canada's sales of chemicals. Most of its production is exported to foreign markets, primarily to the US and the Far East.

Alberta's chemicals industry employs over 7,700 people, with one of the highest percentage of workers holding university degrees. The chemical sector is one of the top spenders in research and development in the country. The industry's production is centered on petrochemicals, which are made through the processing and reprocessing of natural gas and oil. The upgrading of energy resources makes the petrochemical industry an important source of value-added activity in the province.

Numerous large production plants can be found near Red Deer in central Alberta and in "Alberta's Industrial Heartland," a major industrial region northeast of Edmonton. Key manufacturing players include Dow Chemical Canada Inc., NOVA Chemicals, INEOS Oligomers, and Agrium Inc.



Polyethylene Film Processing at NOVA Chemicals.

photo credit: NOVA Chemicals.

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Cutting Logs or Designing Video Games?

by Robert Roach, Director of Research

If Canada is going to stay competitive in the global economy, it needs a plan that focuses limited public policy resources on a clear and finite set of goals. The private sector will do the heavy lifting, but if government doesn't have its act together, the chances of success are slim.

Governments, of course, do not have the answers. They have to get them from somewhere. Public opinion is one guide, past practices are another, but the main source of ideas is "experts" in the bureaucracy, the business sector and the research community. As a recent Canada West Foundation survey shows, however, these experts sometimes disagree about what to do.

We asked 500 people with expert knowledge of the western Canadian economy what governments should do to help ensure the region's, and by extension, the country's long-term economic competitiveness.

Despite very strong consensus around a handful of key issues such as the fundamental importance of maintaining and expanding trade and the need to invest heavily in human capital, the survey results highlight a lack of consensus regarding the region's economic game plan.

Support for environmental strategies, from reducing greenhouse gas emissions and fast-tracking alternative energy sources to greater protection of the environment and the development of green products and services, seems to knit the experts together. Digging a little deeper, however, a divide is found between those who feel that added emphasis on the green economy is an opportunity and a responsibility versus those who feel that is it an unfortunate necessity imposed on the economy by overzealous greens.

While there is a great deal of comfort around government involvement in creating the conditions in which the economy can flourish (e.g., investments in infrastructure, reducing red tape and more intergovernmental cooperation), written comments reveal two deeply divided camps regarding the appropriate role of government in the economy. On one hand, there are those who support a direct and active role for government. On the other hand, there

are those who feel very strongly that government should be as small as possible and make every effort to get out of the way of business.

These camps have deep roots in our society. The fact that expert opinion mirrors these divisions reinforces the challenge faced by governments trying to decide on a coherent and targeted game plan. Which camp do they listen to?

Perhaps the most troubling finding of the survey is not the lack of agreement among experts, but their shared anxiety about western Canada's reliance on its natural resources.

When respondents were asked to identify the region's strengths, the overwhelming answer was natural resources. When asked to identify its weaknesses, the main answer was overreliance on natural resources. When asked about external opportunities, selling natural resources tops the list and when asked about external threats, reduced demand for those resources and low cost producers dominate the answers.

This contradictory attitude toward the West's bounty of natural resources is not new. We are well aware in the West that the resource economy is a mixed blessing. It has enabled the region to become very prosperous even as its erratic and uncertain trajectory fills us with anxiety about the sustainability of that prosperity in the face of global change.

The problem is that this anxiety tends to water down the policy response. Do we continue to dance with the one that brung us and focus our economic game plan on resources? Or do we choose a new dance partner and focus on the knowledge economy?

The billion (if not trillion) dollar question is: can we do both without one (likely the shift to a "creative" economy) faltering as the other gets the bulk of our attention? Do we listen to gurus like Richard Florida or do we stick with what we know? It may not be an either/or situation, but a good game plan will definitely require some tough trade-offs between these two paths. ■

*The complete results of the expert survey can be found in the Canada West Foundation report *Raising Our Game: Results of the Going For Gold Canadian Economic Competitiveness Survey* (www.cwf.ca).*