

State of the Economy

Calgary Semi-Annual Economic Review

June 2009

Overview

The Semi-Annual State of the Calgary Economy for the first half of 2009 reflects a story of a local economy that was leading the nation, and was at the upper limits of pretty much every economic indicator. But enter a global economic downturn, and the local economy has been hit by the impact of a variety of global conditions. It has felt like a very long fall back to earth.

This report aims to provide an overview of the economic conditions locally, as well as globally, and to give insight into the state of economic performance. It will also highlight the results of recent Calgary Economic Development initiatives in the labour force development realm through the CalgaryWorks program, specifically activities in workforce adjustments.

How is Calgary's Economy Doing?

Calgary has been negatively impacted by the global economic downturn, as has every other centre around the world. Global demand for energy commodities has been reduced to the point of overall negative growth, resulting in prices dropping from the highs of 2008. As a result, Calgary energy companies have had to make the difficult decisions to cut capital expenditure, and have seen a dramatic drop in demand and revenues. This has resulted in a reduction in employment in the oil and gas sector, as well as employment along the entire value chain of energy including finance, legal, consulting and products and services. All of this has had a significant ripple effect throughout the whole economy, particularly in the labour market.

Calgary Labour Market Overview

Calgary has seen a dramatic rise in unemployment – from the three per cent range a year ago to now 6.6 per cent for the month of May 2009. Cast your mind back to May of 1997, for it was then that we last had an unemployment rate at this level. A total of 52,200 Calgarians were unemployed as of May 2009, and there has been an 187 per cent increase in the number of Employment Insurance beneficiaries as of March. Year over year employment growth has turned negative at -0.6 per cent – in other words, there are fewer people employed in May 2009 than there were in May 2008. Despite all of this, May's average weekly earnings for Alberta have risen an astonishing 5 per cent year over year.

These are significant and rapid negative impacts to the Calgary labour market. Job changes and losses are always difficult for the individuals affected and their families. The loss of jobs in the economy represents, to some degree, a loss of stability, income and overall economic health and well being. And we cannot underestimate what that has done to the individuals impacted and the pressures growing on the social infrastructure as a result.

Interestingly however, behind every statistic is a broader story. Some of the labour market data shows that:

While.....	Calgary actually has.....
Calgary's unemployment rate has risen to 6.6 per cent, the highest since May 1997,	An unemployment rate that puts it in the top half of Canadian cities, and is well below the national average of 8.7 per cent.
Calgary's employment growth year over year has turned negative, to -0.6 per cent,	A better employment position than the national average of -1.8 per cent and still has the highest labour force participation rate in any major centre in Canada at 76.3 per cent.
EI claims have risen a dramatic 187 per cent as of March from the same time last year,	The second lowest proportion of its labour force receiving EI benefits among major Canadian centres, behind Ottawa. This also highlights the problem however that Calgary and Alberta face much stiffer requirements to access EI benefits and that only an estimated 30 per cent of applicants actually receive EI support. A change at the Federal Government level is desperately needed in Calgary.

The table above shows, generally, that while the labour market has been negatively impacted in Calgary, Calgary is still faring better when compared to the balance of the country.

Calgary Non-Labour Market Overview

From a non-labour market perspective, we have seen a variety of impacts to Calgary as a result of this continued economic malaise:

- Housing starts YTD for May 2009 are down 78.6 per cent from the same time in 2008, largely a reflection of a virtual disappearance of non-single detached starts.
- Building permit values YTD for April 2009 are down 51.4 per cent compared to the same time last year, reflecting a great degree of softening in both the residential and non-residential components.
- Downtown office demand continues to soften as absorption remained negative for Q1 2009, reflecting a significant return of space to the market in sub-lease state. This has driven the overall downtown vacancy rate to 6.9 per cent.

- Bankruptcies in Calgary have increased 81 per cent from Q1 08 to Q1 09, all of that attributed to consumer bankruptcies, as there has been a decline in business bankruptcies over the same period.
- Mortgages in arrears in Alberta have grown nearly 130 per cent March 2009 over 2008, but only represent 0.5 per cent of outstanding mortgages in Alberta.
- Inflation locally has in fact turned to deflation, at -0.3 per cent year over year as of April, as the measure of the current price index is being valued against very high oil prices 12 months ago. Calgary will likely experience a few further months of official deflation until we hit August figures when oil prices retreated in 2008. The deflation being experienced right now is solely a result of energy costs now compared to last year, and does not represent a broad based deflationary environment.

The entire Calgary economy has been impacted and is in a recession. The energy sector is facing low demand and prices still too low to spur new investment. The manufacturing sector is facing declining global demand, and now a rising Canadian dollar. The construction sector is facing a dramatic slowdown in building activity in Calgary across both residential and non-residential. All sectors are finding it harder to access debt and credit, or if they can, it has become much more expensive money.

The Community Impact

Amongst the impacts occurring in the community, perhaps none are being felt as strongly as those in the social infrastructure and human services sector. While Calgary still has a relatively low unemployment rate compared to the nation, 52,200 Calgarians have found themselves unemployed as of May. Combine unemployment with losses in personal wealth and net worth and you have a recipe for significant stress and strain in the community.

The United Way of Calgary and Area recently completed a Resiliency Report to assess the impact of the economic downturn on Calgarians and agencies, and to identify strategic solutions. The report found that there has been a dramatic increase in demand, more complex demand, however limited resources to cope with the rise in demand. In other words, more Calgarians are finding themselves struggling in this economic environment and they aren't getting the help that they need, when they need it.

As we experience impacts such as the Calgary Interfaith Foodbank experiencing 44 per cent increase in new clients, a tripling of owner surrenders to the Calgary Humane Society, and a 300 per cent increase in calls to the Calgary Women's Emergency Shelter, it is evident that the impacts of the economic downturn in Calgary go beyond the unemployment rate into social challenges and growing needs for support and change to ensure that Calgarians can get through this difficult period. Resources within the community will need to be re-aligned in the short-term to address this increase in demand.

Is There a Silver Lining?

It is often easier to look at the negatives than the positives. It is admittedly harder to find the positives in a recession. But there is a common refrain from businesses and organizations that is being heard during this downturn: rebalancing.

Many organizations, whether they are private, public or voluntary were all being run off their feet for the past few years with the pace of economic activity. Organizations were hiring for the sake of getting a body in the job, not necessarily the right fit.

The downturn has enabled many organizations to rebalance; get the right people in the right roles and get the HR complement back to a more sustainable level. Many firms have been able to address some HR issues associated with new hires, and with the unemployment rate higher than a year ago, there is potential for firms to have a greater pool of people to choose from in making a strategic hire.

Green Shoots?

In case it is hard to determine how I view the current conditions in Calgary, ultimately I find myself trying to be a pragmatist. I recognize that there has been a wide variety of significant and negative impacts in the community as a result of the economic downturn. I also recognize that compared to other Canadian centres, and to Calgary's past, we are fairing okay. Our fortunes will rise again, with a rising global demand for energy, and therefore a rising set of energy prices.

But the one wagon that I cannot jump on is that of recovery or "green shoots." I have a significant fear that we are setting ourselves up for another terrible fall if we actually think we are on the road to meaningful and lasting economic recovery. It is simply too early; the statistics don't actually show recovery and we could be in for future trouble if we act too quickly. Just because we are hungry and our dinner *looks* cooked, it doesn't mean that it actually *is* cooked. In this case, our economy isn't fully cooked yet. Consider that:

- There is still an estimated \$4 trillion of toxic assets sitting on balance sheets around the world, according to the International Monetary Fund. These have very few places to go. At one point these assets will have to be written down, sold or somehow dealt with. Any way you slice it, there is still bound to be further turmoil in the financial services sector.
- Some of the profits that many financial services companies and institutions in the U.S. are making are largely through money provided under the TARP or through proceeds from selling toxic assets to the Federal government in the U.S. In other words: not their own money.

- Governments have acquired large stakes in domestic automakers. When governments are direct owners of companies, it suggests that things aren't really all that positive.
- Economic indicators have yet to show much positive position, let alone any consistent trend of positive position. Much of what is being viewed as recovery is based on bad news not being as bad as expected. That doesn't make it good news.
- It will get worse before it gets better - there is likely still more to come. Peter Hall, Chief Economist at EDC, rightly pointed to five waves in the economic downturn. The fifth, which is perhaps just beginning to emerge and will likely continue for some time, is the impact on the financial services sector as a result of job losses, such as increased defaults on loans, credit lines and mortgages.
- While LIBOR has come down dramatically since September and the TED spread has narrowed, The Bank of Canada Senior Loan Officer Survey for Q1 2009 still shows that Canada's financial institutions are in lending tightening mode, particularly in the pricing. Therefore, money is harder to get than it has been in over 10 years, and it is costing more.
- Virtually every business confidence survey, including The Bank of Canada and other local surveys, is indicating that economic conditions are still poor and not likely to get better by the end of 2009.

There is just too much going on that shows continued weakness in global and local markets to be able to talk about recovery yet.

From a real estate perspective, both the office and industrial markets continue to show signs of weak demand as a result of challenging economic conditions locally. Virtually no new space has been commenced since September 2008, and both markets are seeing vacancy rates rise. With space in both segments currently under construction and sublease space coming back to market, there appears little rationale for additional new space to be launched in the near future. There is anecdotal information that some commercial real estate companies are seeing greater inquiries lately but until that translates into deals and shovels, it is still just tire kicking.

Recent gains in the TSX, oil price and Canadian dollar are again markets responding to speculation. There has not been anything broad based or meaningful in terms of recovery in Calgary. Data still shows negative trending in the majority of local indicators, while few global indicators show any positive trending that is based on solid economic recovery.

Oil prices are rising on currency fluctuations and reports of a return to some increased manufacturing activity in China. However, this is manufacturing capacity to support growing domestic demand, not global. The International Energy Agency (IEA) is still forecasting a decline in global oil demand for 2009, led by a drastic pull-back in demand from developing and non-OECD countries. Oil inventories in the U.S. are still at maximums with rumours of tankers afloat with no on-land storage capacity. Oil price has also been reacting to bad news not being as bad as expected; not a very sound reasoning for long-term stable upward trending in oil prices. Fundamentally, there appears to be little rationale for oil prices to be continuing to trend upward. Based on demand principles, the stability of the run up in oil prices is questionable, and has been demonstrating a pull back from the peak of low US\$70's experienced the week of June 8.

The rising Canadian dollar has been creating a headwind for the energy sector, for a rising Canadian dollar offsets the benefits of price growth as prices are settled in U.S. dollars. A higher dollar also hurts export oriented companies, specifically in manufacturing, as well as those that rely on a lower currency value, such as tourism and film and television production.

Natural gas prices remain extremely low at the present time; too low for new investment, exploration, healthy government revenues, or for local hiring. North American storage is at above average levels, and new supply has grown substantially with the increase in shale gas finds. None of this bodes well for upward pricing movement.

Compounding this challenge is that with many gas pricing hedges expiring in October, if prices don't rise sufficiently by then, there will be continued low levels of activity in the natural gas sector in Alberta for some time, and perhaps even further cuts to spending and jobs. It would appear that given current market dynamics, to see an improvement in the natural gas segment, all we can do is hope, rather cruelly, that it is a freezing cold winter on the eastern seaboard.

Overall, when it comes to determining how our economy is positioned and performing, it is important that we not be alarmist or dooms-dayers. For while 6.6 per cent of the labour force isn't working, 93.4 per cent still is. And while mortgages in arrears rose 129 per cent in Alberta as of March year over year, that only represents 0.5% of the outstanding mortgages in Alberta. But we shouldn't be hallucinatory either. Just because the TSX passed 10,000, doesn't mean that the line at the food bank isn't growing. So what do we need to be? Let's be realistic.

Recovery

Recovery is going to happen. When, no one knows. Balance sheet recessions, like the one we are in, have proven historically to be longer and slower to recover. It might take another 6, 12 or 18 months before we can truly say that the worst might be behind us. And when it does, it likely will be a slow, steady recovery that will look incredibly modest. In the long-term however, more modest growth rates might become the new norm, and ultimately be what we need to keep us honest.

As stated in the December *State of the Economy for 2008*, a recovery will only be meaningful when we restore confidence. Confidence is a difficult thing to measure and quantify. Does bad news that wasn't as bad as expected build confidence, true confidence? Not really. Solid confidence will come when we actually see good news, good results and a trend of consistent good results.

As individuals, companies and governments, let's set realistic benchmarks that determine recovery and indicate whether we have set forth on a genuine path. This might look something like multiple quarters of stability or growth in key indicators; reductions in the demands on our social infrastructure and agencies; resolution to balance sheet related matters among financial institutions; governments not needing to flow billions of dollars to, or take ownership positions in, ailing companies; a demonstration of the private sector to get back into spending and investing their own money; and for capital markets to make ready and realistic access to the funds needed to invest and grow.

In light of these types of measures, it would appear that we are some time away from meaningful recovery globally and locally. When it will happen is anyone's guess, therefore we should be prepared for, and ready to address, continued recessionary conditions in all their shapes and forms and the associated impacts at the organizational and community level.

Upward Peripheral Vision

In this economic downturn, it is very easy to put our head down, look only at the present needs and change course to meet the immediate needs we have. However, ensuring that we exercise "upward peripheral vision", the ability to see the horizon, the long-term and the distance while still focusing on the issues in front of us, is critical to ensuring that we will be on the right road. Don't forget the long-term and the strategy. Don't lose your focus.

The labour market provides a great example. Right now, unemployment in Calgary is rising by the month. The issue of labour shortages seems a distant memory for many and one that receives the odd chuckle and scoff when mentioned. But keep in mind, that while some baby boomers near retirement may stay in the workforce out of necessity because they lost a portion of retirement savings, the fact of the matter is that technically, 30% of our workforce will vanish over the next 20 years. And we don't have enough people to back fill those jobs. Hard to think of now, but labour strategies for the coming 10, 15 and 20 years need to be in process NOW, not once the economic downturn is over. That will be too late.

Climate change and energy use is another great example. Sustainable and renewable energies are not hot topics right now given the relatively low price of oil compared to a year ago. But let's face it; whether it is the outcome of Copenhagen in December, new legislation and regulation imposed by our largest customer – the U.S., or whether after global oil demand returns we again begin to see triple digit oil prices, something is likely

to trigger us back into focusing on carbon reductions and sustainable and renewable energies. No one can predict exactly when that will be, but isn't now a good time to at least be talking, thinking and strategizing about it instead of doing what we as humans do all the time; wait till the last minute and panic, reacting more out of crisis than strategy?

Upward peripheral vision should be the new business buzz term – the one that everyone talks about. Okay, that's wishful thinking. But while we are currently trying to keep our companies successful, vibrant and in Canada, and our citizens employed, housed and engaged, let's not forget to address and invest in long-term strategies that will make Calgary and Canada leaders in areas such as labour attractiveness, vibrant communities, climate change, poverty reduction, and health.

Looking Ahead

Yes, Calgary is in a recession. But most developed cities around the world are as well. It is almost a certainty that Calgary will continue to be in a recession for the balance of 2009. It will likely be well into 2010 before we can determine whether we are on the road to meaningful recovery. It will be meaningful and stable recovery in both oil and gas prices to levels that spur new hiring and expenditure that will lead to a recovery locally.

So as a community, as an organization or as an individual, we should all prepare for further economic malaise, and ensure that we have plans in place, resources available to the greatest extent possible, and that we are applying our upward peripheral vision to make sure we pick the right road to recovery.

Consumer Price Index / Inflation

From April 2008 to April 2009, prices paid by Calgarians for goods and services, as measured by the Consumer Price Index (CPI) basket, decreased by 0.3 per cent. Over this same period, the shelter component of the CPI (which accounts for roughly one quarter of the consumer's basket of goods and services), decreased by 2.2 per cent, while the price of water, fuel and electricity decreased by 20.3 per cent.

The rationale behind the deflation experienced in April is the contrast of oil and gas prices now to a year ago when they were beginning their rise to peak levels. Expect deflation to continue for a few more months before returning to modest inflation likely post August or September. Deflation at the present time is not reflective of overall economic deflation in Calgary but merely a reflection of energy prices.

Indicator	April	Dec	April	YTD Change	YOY Change
Calgary CMA	2009	2008	2008	% (Inflation)	% (Inflation)
CPI (2002=100)	120.8	121.8	121.2	-1.0 -0.8%	-0.4 -0.3%

Average Hourly Wage Rate (Alberta)

The demand for labour in Alberta has slowed as a result of the global recession. The unemployment rate for Alberta was 6.5 per cent for May 2009, with 20,000 jobs lost in Alberta between May 2008 and May 2009. The slowing labour market in Alberta has had little impact on the province's average hourly wages however, which increased 5.0 per cent from May 2008 to May 2009, to \$24.40 an hour.

Employment

Employment has slowed dramatically in 2009. Calgary's economy lost 22,900 jobs since December 2008, a decline of 3.0 per cent. Total employment was estimated at 744,000 in May 2009, down 0.6 per cent from 748,800 a year prior. Calgary accounted for 24.0 per cent of the job losses in Alberta, on a year-over-year basis.

Unemployment Rate

Calgary's unemployment rate has more than doubled since this time last year, with an unemployment rate of 6.6 per cent in May 2009, compared to a rate of 3.0 per cent in May 2008. This rate reflects the decrease in labour demand in Calgary, a result of the global economic recession.

Employment by Industry

The services-producing industries led the way in job creation in Calgary, adding 9,300 jobs since December 2008, a 1.7 per cent increase, while the goods-producing sector lost 32,300 jobs, a 15.0 per cent decrease over the same period. Since May 2008, across both the goods-producing and services-producing sectors, the major drivers in terms of job gains were Information, Culture and Recreation (7,600), Education (7,500), and Business, Building and Other Support Services (5,800). The sectors with major job losses in the same period were Trade (-9,800), Professional, Scientific and Technical Services (-8,400), and Health Care and Social Assistance (-6,900).

Indicator - Calgary Economic Region	May 2009	Dec 2008	May 2008	YTD Change		YOY Change	
					%		%
Average Hourly Wage Rate (\$) - Alberta	\$24.40	\$24.49	\$23.23	-\$0.09	-0.4%	\$1.17	5.0%
Employment	744,000	766,900	748,800	22,900	-3.0%	-4,800	-0.6%
Unemployment Rate (%)	6.6%	3.8%	3.0%	2.8%	-	3.6%	-
Employment by Industry							
TOTAL INDUSTRIES	744,000	766,900	748,800	22,900	-3.0%	-4,800	-0.6%
Goods-Producing Sector	183,300	215,600	191,900	32,300	15.0%	-8,600	-4.5%
Agriculture	14,100	16,300	14,300	-2,200	13.5%	-200	-1.4%
Forestry, Fishing, Mining and Oil & Gas	46,800	56,700	53,600	-9,900	17.5%	-6,800	-12.7%
Utilities	8,900	7,000	4,200	1,900	27.1%	4,700	111.9%
Construction	67,400	81,300	70,300	13,900	17.1%	-2,900	-4.1%
Manufacturing	46,200	54,400	49,600	-8,200	15.1%	-3,400	-6.9%
Services-Producing Sector	560,700	551,400	556,900	9,300	1.7%	3,800	0.7%
Trade	99,600	115,800	109,400	16,200	14.0%	-9,800	-9.0%
Transportation and Warehousing	42,300	35,500	37,200	6,800	19.2%	5,100	13.7%
Finance, Insurance, Real Estate and Leasing	50,600	48,300	51,400	2,300	4.8%	-800	-1.6%
Professional, Scientific and Technical Services	83,100	89,800	91,500	-6,700	-7.5%	-8,400	-9.2%
Business, Building and Other Support Services	31,900	27,600	26,100	4,300	15.6%	5,800	22.2%
Educational Services	47,900	45,700	40,400	2,200	4.8%	7,500	18.6%
Health Care and Social Assistance	65,200	62,800	72,100	2,400	3.8%	-6,900	-9.6%
Information, Culture and Recreation	37,300	30,400	29,700	6,900	22.7%	7,600	25.6%
Accommodation and Food Services	42,200	40,200	39,100	2,000	5.0%	3,100	7.9%
Other Services	33,800	27,400	34,500	6,400	23.4%	-700	-2.0%
Public Administration	26,700	27,900	25,600	-1,200	-4.3%	1,100	4.3%

Retail Trade

Retail Sales

Retail sales in Calgary in the first quarter of 2009 were \$21.5 billion, down 2.0 per cent from the fourth quarter of 2008. Retail sales from Q1 2008 to Q1 2009 have decreased by \$771.0 million, a 3.5 per cent drop in retail sales.

Indicator - CMA	Q1 2009	Q4 2008	Q1 2008	YTD Change		YOY Change	
					%		%
Retail Sales (\$Millions)	21,502.18	21,934.92	22,273.13	-432.7	-2.0%	-771.0	-3.5%

Construction

Housing Starts

May year-to-date cumulative total housing starts in Calgary decreased by 78.6 per cent from 7,240 in 2008, to 1,547 in 2009. A decline of 14.7 per cent was experienced in single-detached starts for the period May 2008 to May 2009, while starts for all other housing types declined by 93.1 per cent, from 5,362 in May 2008 to 372 in May 2009.

Indicator - Calgary CMA (Units)	May 2009	May 2008	YTD Cumulative		YTD YOY Change	
			2009	2008		%
Housing Starts - Total	480	1,488	1,547	7,240	-5,693	-78.6%
Housing Starts - Single-Detached	382	475	1,175	1,378	-203	-14.7%
Housing Starts - All Others	98	1,013	372	5,362	-4,990	-93.1%

Building Permits

Total annual cumulative building permit values as of April 2009 dropped drastically by 30.2 per cent, from \$1.9 billion in 2008 to \$942.2 million this year. YTD cumulative residential building permit values declined at a slightly higher rate than non-residential permits, at 59.2 per cent year-over-year. Non-residential permits declined at a year-over-year rate of 41.9 per cent.

Indicator - Calgary Economic Region	April 2009	April 2008	YTD Cumulative		YTD YOY Change	
			2009	2008		%
Total (\$Millions)	337.2	483.4	942.2	1,939.0	-996.8	-51.4%
Residential (\$Millions)	192.2	276.9	433.1	1,062.2	-629.1	-59.2%
Non-Residential (\$Millions)	145.0	206.5	509.1	876.8	-367.7	-41.9%

Major Projects

The number of major Calgary projects (\$5 million or more) has decreased by 15.5% over the past 12 months, while the total value of these projects declined by 7.8 per cent over the same period to \$30.2 billion. The project sectors with the highest value in May 2009 were Commercial/Retail (\$8.0 billion), Infrastructure (\$6.6 billion), and Institutional (\$5.1 billion). Leading developments among Calgary's major projects include The Bow office tower, Stonegate Landing retail, office and industrial development, and Calgary Health Region's Hospital for South Calgary.

Indicator	May 2009	Dec 2008	May 2008	YTD Change		YOY Change	
					%		%
Value (\$Millions)	30,231.2	33,249.8	32,792.5	-3,018.6	-9.1	-2,561.3	-7.8
Number	240	288	284	-48	-16.7	-44	-15.5

Real Estate

Residential

MLS Sales

May 2009 saw the first year-over-year gain in single family home sales since September 2008, however Calgary's housing market is still exhibiting signs of a very slow market.

Month-end inventories of single family homes decreased from 7,099 units in May 2008 to 3,861 units in May 2009, a decline of 45.6 per cent. Condominium inventories decreased from 3,308 units in May 2008 to 1,952 units as of November 30 2008, a drop of 41.0 per cent.

Sales of single family homes increased from 1,368 in May 2008 to 1,584 in May 2009, a 15.8 per cent growth in numbers. Sales in the condo market also increased by 13.2 per cent over the same period, with May 2009 sales of 653 units as compared to 577 units the year before.

Despite some month over month gains, year to date sales of housing units were down for both single family and condominium markets in the first five months of 2009, compared to the same period in 2008, at -17.6 per cent and -18.1 per cent respectively.

The median price of a single family home continued its downward trend in May 2009 to \$390,000, a 6.9 per cent drop in price from May 2008, when the median price was \$419,000. The median price for condominiums decreased by 10.5 per cent over the year, with the price dropping to \$255,000 in May 2009, from \$285,000 in May 2008.

Indicator	May 2009	May 2008	YTD Cumulative		YTD YOY Change	
			2009	2008		%
Single Family						
Sales	1,584	1,368	5,328	6,468	-1,140	-17.6%
Median Sale Price (\$)	\$390,000	\$419,000	\$380,000	\$420,000	-\$40,000	-9.5%
Condominium						
Sales	653	577	2,237	2,733	-496	-18.1%
Median Sale Price (\$)	\$255,000	\$285,000	\$253,000	\$290,000	-\$37,000	-12.8%

Commercial

Downtown Office

The Calgary downtown office market has been greatly impacted by the continuing global economic recession, financial market turmoil and low energy prices, resulting in virtually no demand for new downtown office space. In fact, many energy companies and engineering firms are subleasing office space as part of their cost-cutting measures reflecting a loss of project work.

The vacancy rate in the downtown market has increased by 170 bps from Q4 2008 to 6.9 per cent for Q1 2009. Aside from Class AA buildings, all other classes of buildings experienced a growth in vacancies. Class A space vacancy rates increased by 110 bps to 5.3%, while Class B vacancy space increased to 8.9 per cent from 6.2% in the fourth quarter of 2008. Both Class C and D space continue to have the highest vacancy at 14.7 per cent and 37.8 per cent respectively as a result of tenants upgrading to better quality or better located buildings in the downtown area.

Average asking lease rates have continued to remain high in Calgary's best buildings (Class AA and Class A). Net lease rates for Class B and C buildings have plummeted from Q4 2008. Many landlords have adjusted rates to reflect the current market conditions. It is anticipated that rental rates will continue to decline as vacancy rates rise and the 5.3 million square feet of space under construction is completed. Creative deal structures are emerging to compete and close transactions.

Downtown office absorption moved into negative territory for the second quarterly period, with negative 575,473 square feet of absorption in Q1 2009. This was the largest amount of office space ever to come back to the market in a single quarter since 1992. This drop in occupancy can be attributed to diminishing demand for space due to economic conditions and lower business confidence.

No new inventory has been completed in the first quarter of 2009 and inventory remains at 33,113,608 square feet. Currently, there is 5.3 million square feet of prime Class AA and A space under construction in the downtown market. In 2009, 718,500 square feet is expected to be added to the inventory. In 2010, 3.1 million square feet of new inventory is expected, with another 1.7 million square feet expected in 2011.

Indicator - Calgary	Q1 2009	Q4 2008	Q1 2008
Absorption	-575,473	-104,921	-188,103
Vacancy Rate	6.9%	5.2%	4.0%

Suburban Office

The Calgary suburban office market has experienced a significant downward adjustment due to continuing negative economic conditions. Calgary's total inventory for the suburban office market stands at 18,003,339 million square feet, with 23.3 per cent of the inventory being located in the Beltline.

Vacancy rates doubled over the year from 5.0 per cent in Q1 2008 to 10.3 per cent in Q1 2009. The main factor behind the increase in vacancy is an abundance of sublease availability in the market. Most of the vacant sublease space was generated by engineering tenants as they have downsized employees due to cancelled or delayed oil sands project. With 2.2 million square feet of new suburban office space under construction, and only moderate levels of pre-leasing achieved, vacancy rates are expected to continue to increase throughout 2009.

Overall suburban office average asking lease rates have decreased by nearly 9 per cent since the fourth quarter of 2008. A decrease in the demand for office space and higher vacancy rates are expected to put downward pressure on the asking rates.

The overall suburban market has experienced negative absorption levels for the first time since the fourth quarter of 2003. The impact of the global recession and energy prices has impacted the energy industry in Calgary. The impact for the suburban office market has been negative absorption of 332,217 square feet.

Indicator - Calgary	Q1 2009	Q4 2008	Q1 2008
Absorption	-332,217	159,380	188,258
Vacancy Rate	10.3%	8.1%	5.0%

Industrial

Calgary's industrial market is reacting to the changing economic environment. The market has seen an increase in vacancies, a decrease in lease rates, and flat industrial property sales.

Vacancy in the industrial market increased over the past quarter, to 3.7 per cent, and is expected to increase as new space becomes available. Availability also increased in the first quarter of 2009 to 5.0 per cent from 4.7 per cent in Q4 2008.

Average asking lease rates have decreased in all Calgary submarkets. The overall average asking lease rate declined by \$0.60 per square foot to \$8.90 from the previous quarter. Face rates are being maintained while landlords ask what it will take to sign the tenants.

New supply of 629,440 square feet was added to the industrial inventory in the first quarter of 2009, while 1.5 million square feet is under construction. Absorption climbed

from a negative 1,113,063 square feet to positive absorption, with 278,671 square feet of space being absorbed in Q1 2009.

Indicator - Calgary	Q1 2009	Q4 2008	Q1 2008
Absorption	278,671	-1,113,063	368,406
Vacancy Rate	3.7%	3.1%	1.2%

Workforce Adjustment

What a difference a year makes. Coming off record-setting peaks for employment just twelve months earlier, the unemployment rate has more than doubled and Calgary employers – along with those around the world - are talking about how to maintain jobs. As the recession has set in locally some job loss has been inevitable. However with a labour shortage fresh in their minds and in recognition of the demographic shift to come, many organizations are examining alternatives to layoffs.

Employment Outlook

According to the most recent employment outlook survey of Calgary employers completed by staffing firm Manpower inc., hiring intentions for the third quarter of 2009 are off 32 per cent from the same period in 2008. Data shows 18 per cent of employers in Calgary intend to reduce their workforce between July and September while just 12 per cent intend to hire. The balance of surveyed employers expect to maintain staffing levels (64 per cent) or are unsure of intent for Q3 (6 per cent).

For those employers considering cutting staff, there are a host of ramifications to consider as well as a number of alternatives to layoff which may be utilized.

The case for retaining the right employees can first be made by examining the demographics of many Calgary workplaces. On the whole, the labour force in Calgary is aging with more than 36 per cent of workers older than age 45. More than 1 in 9 workers in Calgary are eligible to retire within the next decade.

Figure 3 - Age Structure Change of the Labour Force, 2001-2006

Age Categories	Calgary 2001	Calgary 2006	Calgary Change	Alberta 2001	Alberta 2006	Alberta Change	Canada 2001	Canada 2006	Canada Change
15-24 Years in Age	17.3%	17.1%	-1.2%	18.3%	18.4%	0.5%	16.3%	16.1%	-1.2%
25-34 Years in Age	24%	22.9%	-4.6%	21.8%	21.1%	-3.2%	21.4%	19.9%	-7.0%
35-44 Years in Age	27.4%	23.8%	-13.1%	26.8%	22.7%	-15.3%	27.6%	24.3%	-12.0%
45-54 Years in Age	21.5%	22.9%	6.5%	21.5%	23%	7.0%	23%	24.4%	6.1%
55-64 Years in Age	8.2%	11%	34.1%	9.2%	11.8%	28.3%	9.7%	12.7%	30.9%
65 and Over	1.7%	2.3%	35.3%	2.4%	3%	25.0%	2%	2.6%	30.0%

Source: Statistics Canada, 2001 & 2006 Census of Population

Notwithstanding the job creation which will accompany economic recovery, the retirement of Baby Boomers will leave employers facing a significant loss of experience and senior talent. Decisions made today regarding which staff to retain and which to develop terms of training and professional growth opportunities will serve to position some employers well for this pending demographic shift. Or not.

Making job reductions may also have longer-term implications for the workers a company may desire to keep. Research published in April in the *Academy of Management Journal* examined data compiled from companies vying for a spot in *Fortune* magazine's annual Best Companies to Work For. It indicates that downsizing may be so demoralizing for remaining staff that many may feel motivated to leave the job and find work elsewhere.

A 0.5-per-cent reduction of the workforce, for example, resulted in a staggering 13-per-cent increase in turnover. The layoffs, say the researchers, trigger a significant number of employees to get out.

Given the shift in local labour market conditions, Calgary Economic Development has developed a selection of workforce adjustment resources to support employers with decisions around reducing their workforce and retaining the right talent with an eye on future needs.

Alternatives to Layoff

With the demographics and the affect on “layoff survivors” top of mind, many companies in Calgary and around the globe are exploring creative alternatives to layoffs as a means of controlling costs.

Hours reductions including the move to shorter weeks and commensurate salary cuts, voluntary unpaid leaves for extended vacation, wage freezes and adjustments and reductions to overtime, bonuses and commission are all on the table. Other organizations are seeking input from staff and, as a result opting for office closures on summer Fridays, job sharing, organized programs in partnership with voluntary organizations and a shift to part-time work.

Opinions on the success of reduced work weeks as a means of reducing wage costs are divided. Quoted in the online journal *Techvibes*, Jason Fried founder of the technology company 37signals defends a four-day work week. “Fewer official working hours help squeeze the fat out of the typical work week. Once everyone has less time to get their stuff done, they respect that time even more. People become stingy with their time and that’s a good thing. They don’t waste it on things that just don’t matter. When you have fewer hours you usually spend them more wisely.”

At the same time, reports of public sector workers in California who have been legislated to take unpaid leave days each month while their workloads continue to increase illustrate the beating employee morale can take when reduced hours are poorly implemented.

For employers who have looked at homespun alternatives to layoffs, government support programs may also be an option. WorkShare is a federal program through Employment Insurance (EI), which enables companies to retain workers on a reduced-hours arrangement and allows eligible workers to access benefits. WorkShare and other EI-associated programs such as the pilot Extended Employment Insurance and Training Incentive and the Severance Investment in Training Initiative are intended to support employers in the current environment and into the future. Its recommended employers contact government as soon as lay offs are considered in order to best take advantage of these options:

http://employment.alberta.ca/hre/ets/reg/Display.asp?EntityCode=HLEVEL_1&EntityKey=9000064

The Case for Outplacement Support

When no alternative can be found to meet the needs of the both the organization and the employee and layoff is the only choice, the case of career transition services, also known as outplacement, is strong.

These services, offered by consulting and staffing firms as well as at no cost by Alberta Employment and Immigration, can equip departing employees with the job seeking skills and advice required to secure new work. At the same time, the information and support provided to employers and remaining managers and staff can help to ensure the layoffs are handled in such a way that the business' reputation can remain intact.

Maintaining Commitment

Human resources experts recently interviewed by Calgary Economic Development agreed that a focus on people and effective communication with staff during these challenging times is essential to maintaining employee engagement and commitment. Low-cost team building activities and investment in training – both best practices which have been fostered during the recent labour shortage – remain important to the top performers that organizations should be striving to maintain. Skills development may actually be more critical as many workers who remain may face a shift of or expansion in duties related to other organizational vacancies.

More information

Calgary Economic Development has recently completed a series of videos seeking advice from local human resources and operations consultants on current staffing challenges including ways to maintain employee engagement, how to effectively realign remaining staff to work to be done and the benefits of outplacement or career transition services to both workers and organizations. Check out:

<http://www.calgaryeconomicdevelopment.com/AboutCED/CEDInitiatives/RECalgaryWorks/workforceadjustmentresources.cfm>

Sources:

Academy of Management Journal
Alberta Employment and Immigration
Bank of Canada
CB Richard Ellis
Calgary Real Estate Board
Canada Mortgage and Housing Corporation
Conference Board of Canada
City of Calgary
Export Development Canada
Government of Alberta
International Energy Agency
International Monetary Fund
Manpower Inc.
Statistics Canada
Techvibes
TSX
Tristone Capital
United Way of Calgary and Area

Copyright 2009.

Calgary Economic Development provides this information in good faith. However, the aforementioned organization makes no representation, warranty or condition, statutory express or implied, take no responsibility for any errors and omissions which may be contained herein and accept no liability for any loss arising from any use or reliance in this report.