

State of the Economy

Calgary Semi-Annual Economic Review

December 2008

Overview

Three economists went out hunting, and came across a large deer. The first economist fired, but missed, by a meter to the left. The second economist fired, but also missed, by a meter to the right. The third economist didn't fire, but shouted in triumph, "We got it! We got it!"

That is about the only humour on the economy these days and pretty much how any economist feels trying to accurately forecast conditions and performance in this economic climate.

It is likely that the current economic climate, ushered in earnest as of September 15, 2008, is the worst economic situation since the Great Depression. Markets have fallen, currencies have lost value, individuals have lost jobs and savings, companies have been bought and sold, billions of dollars of investments have been cut back or shelved, people have lost much sleep, and moods have darkened. All this in just 90 days.

At the Calgary Economic Outlook lunch, ironically held on September 15 of this year, the Calgary 2009 outlook theme was "Mind over Matter." The concept was that with the slower economy, albeit not as slow then as it is now, the psychology of the apparent slowdown had potential to drag things down further. The current economic climate is a significant slowdown, not only in Calgary but globally. Negative news on stock markets, jobless figures and financial turmoil has the overwhelming potential to make continued economic challenges a self-fulfilling prophecy. While current economic conditions test even the most optimistic of people, it is important to keep a level head during these times, recognize that it is challenging, make adjustments and be ready for the turnaround.

The Calgary Economic Development State of the Economy for the second half of 2008 shows a different picture of not only Calgary, but of the global economy. This special report will attempt to shed some light on the current economic situation. Given the pace, magnitude and uncertainty of the current situation, no one has definitive answers. This report will share insights into the state of Calgary's economy in the context of what has, is and may happen in the global economy.

The report will work to profile insights around the questions that typically arise: how did we get here, what are the impacts, and how long will this last? While answers and certainties are a rare currency in these times, history does tell us that we will weather this storm, some better than others.

It is also a time when it is even more imperative to ensure long-term plans and strategies are in place and are the focus of investment, so that when we do emerge, we are well positioned for the turnaround.

The Ghost of Christmas Past - How did we get here?

A timely analogy to the current economic situation is the Dickens classic “A Christmas Carol.” We have at the present time, much like Ebenezer Scrooge, a rather unique ability to look back and see how we created our current state, look at the present day impacts, and peer into the future and speculate on what our world would look like should we not make adjustments. The global Jacob Marley is urging us to do things differently, our three spirits have visited us, and now it is up to us to decide what path we choose in the future.

Ebenezer Scrooge is visited by the first of three spirits on his fateful Christmas Eve. The first, the Ghost of Christmas Past, takes him on a journey back to times past, showing him actions and decisions that have helped shape the present, and are bound to lead to a certain future.

The Ghost of Christmas Past shows us that the stage for the current economic situation was set by under-regulated lending practices in the U.S. and a global credit bubble. This credit bubble was created by excessively expansionary monetary policy, ultimately keeping interest rates too low post 2001, and by the significant purchase of US Treasuries by authorities in China and the Middle East.

Many people around the world, but particularly in the U.S., borrowed heavily against their home values, and mortgages were extended to those who should not have qualified under traditional lending. These investments were securitized, optioned, derivativized and distributed around the world, landing on the balance sheets of virtually every global bank, mutual fund company, hedge fund, and therefore investment portfolio in the developed world. When housing values in the U.S. ran out of steam, the proverbial economic train went off the tracks.

For Calgary, is this the 1980’s all over again? Hopefully not. The 1980’s brought about a significant downturn in Calgary that was in many ways a lone fought battle. Economic tools now are greater than they were nearly thirty years ago, and the rest of the world is in the same boat as we are. Inflation rates are also well below what they were in the 1980’s, and interest rates are far different than the near 20 per cent that they were during that period. While deflation is evident in a number of areas, the rapid deflation and number of bankruptcies experienced in the 1980’s are not evident at the present time.

The Ghost of Christmas Present - How has Calgary fared?

After a torturous journey through his past, Scrooge is visited by the Ghost of Christmas Present. He is taken on a journey of how the world around him is affected by his actions and the impacts on things larger than himself. Our Ghost of Christmas Present shows us that the global economy has been hit hard and that Calgary, despite being a strong location to weather the storm, has been hit hard as well.

Macro-economic impacts

One can lament the origins, faults and causes of the global economic situation, but essentially it boils down to two key losses: liquidity and confidence. Money is not flowing freely at all in the economy, and if it does it carries a far larger cost. We have lost confidence in so many things – regulators, governments, rating agencies, financial analysis, risk assessment and investments. Only when these two losses are restored, will any meaningful economic recovery occur.

Typically in history, there has been some safe haven – a country, a currency, a commodity – something that gave investors a place to weather the storm. There is no such harbour in this storm. Nowhere is unaffected. No investment is safe or immune.

The impacts of the current economic situation are widespread. Virtually every developed economy has been hit. Financial markets have plummeted – the S+P/TSX Composite was down 49 per cent from highs experienced in the past year. Currencies all around the world have been impacted negatively, largely a result of a surging US dollar which gained from the repatriation of investment dollars from abroad. The Canadian dollar dropped from above parity to sub-US\$0.80.

The US government moved first and fastest with its Troubled Assets Relief Program (TARP) which included \$700 billion of relief and other economic measures. The Government of Canada moved to bring confidence and liquidity back to the Canadian economy, offering to purchase pools of CMHC backed mortgages, as well as insure short-term inter-bank loans. A variety of other governmental actions have been taken around the world, including a G-7 agreement on coordinated policy actions and currency agreements to cool off surging currencies such as the US dollar and Japanese yen, and bolster sagging currencies, which is pretty much every other one on the planet. Many banks around the world have been nationalized, but most notably in Iceland and the Benelux nations.

Central banks around the world are working feverishly to rebuild confidence and inject liquidity back into the global economy – trying to inject the oil that greases the economic engine. The Bank of Canada has been part of that united front, and has brought the overnight rate down to 1.50 per cent and has committed to injecting \$65 billion of liquidity by the end of 2008.

In short, governments around the world have been working to use the tools they have at their disposal, in varying levels and amounts, in an effort to stem the economic downfall to something that will preserve as much wealth and liquidity as possible. But in light of the current climate, it seems that traditional measures, at times, have had limited effects, and that this economic situation is bent on unraveling at its own pace and has proven to be immune to traditional tools of economic and monetary policy makers.

The LIBOR-OIS spread is a measure of the rate at which banks lend money to each other, and is a measure for that flow of funds, reflecting risk and some return on the money. On September 12, 2008 the LIBOR-OIS spread was 87 basis points. On October 10, 2008 it reached a high of 364 basis points and as of December 5, 2008 it was 186 basis points. Generally accepted views are that liquidity will have begun to free up when it reaches 100-120 basis points. The LIBOR-OIS spread has retreated from its high, but there is still a long way to go before liquidity flows freely in the global economy.

Crucial to the performance and health of the Calgary and Alberta economies, commodities have been hit hard during the past 90 days. Oil prices have plummeted, from a high of US\$147 per barrel for West Texas Intermediate (WTI), dropping to a four-year low of US\$40.81 per barrel on Friday December 6.

Natural gas, a generally larger component and more important commodity to the Alberta economy despite being less reflected in the media, has dropped from a high of \$10.60/GJ AECO, to close at \$6.32/GJ on Friday December 6. The drop in natural gas has been far less pronounced and significant than oil, however it is still well below the rate at which drilling is economical. Ultimately, Alberta's economic engine is facing a significant number of challenges which will be discussed in more detail below.

A sidebar on oil

For the past decade, the energy sector has been enjoying the benefits of significant investment, increasing prices and healthy profits. The engine of Calgary and Alberta's economies has been performing well. Over time, the industry has been facing a host of challenges such as changes to the trust model, rising costs, limited labour supply, negative public opinion on oil sands, and a new royalty framework. Now with plummeting oil prices and a global economic slump, the energy sector faces a perfect storm.

Calgary's economic engine is being tested at the present time. With commodity prices at low levels not seen in nearly half a decade and below long-term breakeven for oil sands investments, coupled with sagging demand and continued high costs, activity in the energy sector has been cut back drastically. Mood and sentiment in the sector is very low.

This reduced activity in the energy sector impacts other sectors as well. Virtually every major energy sector player has cut back on capital expenditure for 2009 in response to higher costs and inability to finance major new projects. This has a trickle down effect

on other sectors such as engineering and design, legal and accounting, oil field services, construction and manufacturing. The true inter-relationship of the energy sector to so many other sectors in Calgary is being demonstrated at the present time.

While all commodities and stocks are being massively re-valued in light of rising discount rates, massive institutional selling and dropping global demand, if there is a commodity that is being overly punished it is oil.

The current economic climate, and ultimately oil pricing, is creating a dangerous future scenario for oil prices. At the current price, there is little investment in new supply, and in fact OPEC is likely to implement a cut to production. Investments are being trimmed drastically on new supply – billions of dollars in Alberta alone – impacting future supply growth. With limited supply growth occurring in the world, a dangerous condition is being set for when global economies turn around and global oil demand grows at a more robust pace.

Conditions may exist in the next few years where global demand growth outstrips supply capacity, pushing oil prices up significantly. Therefore, once the global economy turns around, it is likely that we could see oil prices move sharply upwards, creating favourable conditions for Calgary's energy sector, but also creating significant inflation and challenges to rebounding economies.

It is speculated that Canada's and Calgary's economies will pick up strongly once energy prices rebound, however it is uncertain whether that success will be short or long lived, given global responses to rising oil prices and a potentially highly inflationary environment. With the speed and magnitude of the drop in oil prices and the impacts that has had on supply capacity, we risk an economic whipsaw effect whose end point and equilibrium is unknown.

Calgary

Calgary's Ghost of Christmas Present seems to be a somewhat dual personality for the message is different looking at the data vs. talking with individuals and businesses.

Given the lag in data, and the fact that we are barely 90 days into the economic situation, the data shows a still relatively healthy and strong performing Calgary economy over 2008. This is not surprising given that there were 3 quarters of relatively healthy performance and only this last quarter of significant downturn. Some results, which are analyzed in more detail later on in this report show that:

- Employment grew 4.9 per cent year over year as of November, with Calgary accounting for virtually 63 per cent of Alberta's job growth over that period;
- Calgary's unemployment rate rose slightly to 3.6 per cent in November, up from 3.1 per cent a year ago, still a very low unemployment rate and considered "full employment";
- The inflation rate in Calgary dropped from a high of 5.1 per cent in 2007 down to a much more manageable 2.6 per cent year over year as of October;
- Major project value jumped 37.7 per cent year over year to \$33.2 billion as of November.

These results can be attributed to the fact that many firms have yet to fully feel or execute on the impacts of the economic situation. Many employers are working hard to do what they can without having to resort to layoffs or other more significant measures. Additionally, many firms recognize that despite the current economic conditions, labour is still a key business issue, and that many don't want to lose key staff at this time, as they know they won't get them back.

While limited new construction activity is taking place outside of government funded infrastructure, there is still a very significant volume of construction activity underway in Calgary in the commercial, industrial, infrastructure and institutional segments that will last for another two to three years before completion.

Data does show that Calgary's economy is slowing, including a significantly slower residential real estate and construction market, and overall building permit activity, however the residential market was in decline due to over supply well before September 15, and the reduction in the number of "mega projects" such as The Bow in 2008 compared to 2007 was expected to bring about a reduction to overall building permit values.

However, heading out on the street and talking to individuals, corporations and organizations tells a far more negative picture than the data.

Individual Calgarians have expressed a variety of perspectives, but most consistently:

- Concerns over job and income stability as a result of publicized and actual layoffs;
- Lower household net worth for those households with investments and retirement plans;
- Reduced retail expenditures, particularly for larger ticket items such as electronics, furniture, automobiles and appliances;
- Greater purchasing power as a result of lower gas prices, and to some degree, housing prices;
- Limited to positive financial impact for households of low or modest income that did not have investments or retirement plans, including a feeling of a lower cost of living due to lower gas prices, significant sales due to Christmas shopping and dropping house prices;
- More competition in finding work due to increased unemployment and slack in the workforce, as well as fewer firms hiring as a result of a slower economy;
- Continued demand for top performers in the workplace.

The dearth of Christmas cards, and corporate parties and gifting is not the only indicator of a more tempered and negative confidence amongst business. Most companies and organizations have felt the impact in one form or another, with the most notable and consistent being:

- Lower or no profit – as a result of lower prices for commodities and less global demand;
- Higher costs despite an economic slowdown – higher wage and input costs generally remain, making operations even more difficult under a reduced demand and pricing scenario;
- Reduced revenues as a result of reduced charitable giving to non-profits and registered charities;
- Increased expenses for non-profits and registered charities assisting those in need as a result of increase in demand for services;
- Lower corporate value as a result of eroded stock prices;
- Increased difficulty and cost accessing credit;
- Reduction or elimination of new capital spending, largely a reflection of high costs and inability or cost accessing credit;
- Reduced work volume, and potential necessary layoffs, as a result of a decrease in work (i.e., reduction of engineering projects as a result of cuts to oil sands expenditure);
- Hiring freezes;
- Lower export activity as a result of reduced global demand;

- Merger and acquisition activity in the oil patch amongst firms of all sizes, particularly junior companies that can no longer finance their growth and expansion through credit.

Therefore, for individual, company and organization alike, the current economic situation is challenging. Significantly challenging. For even the greatest optimist, current prices, conditions, performance and news are a great test to their resolve.

Overall what does this mean for Calgary? What will the impacts be to the community overall when we look at it from a high level? First, this will be remembered as a significant economic event. 2008 will be remembered, sadly, for more than the year the Stamps won the Grey Cup. Calgary is currently in a period of significant economic slowdown.

Calgary households are facing, generally, a lower cost of living, which is positive. However, many have seen erosion to their net worth. There is, sadly, a potential for increased incidence of social impacts such as unemployment, homelessness and poverty associated with a sudden and significant economic downturn for those not prepared. Demand for social assistance and service delivery has no doubt increased during the past 90 days.

Calgary businesses are greatly challenged through lower demand, prices, projects, and higher costs. This is truly a time when very few, if any, businesses are not struggling and feeling the pain of a convergence of negative business conditions. The current economic climate will most likely work through and eliminate business models, practices, staffing and companies that were built around an unsustainable level of business, rising prices and expectations. Confidence, one of the key losses of this time, will continue to be low now and into the foreseeable future. For there is little happening at the present time to bring about a return of confidence.

Despite all these factors, Calgary, Alberta and Canada are all generally good locations to weather the storm. This may seem counter-intuitive given our economic strength is oil and gas, and they are being negatively impacted, however at some point, the global economy will turn around and with that will come a rise in the demand for energy. At the end of the day, Alberta has what the world wants. In addition, Calgary has a very strong labour force – educated, highly skilled, highly paid and healthy demand. Calgary is a head office city, and those typically weather storms better than branch-plant locations. The number and magnitude of major capital projects underway and expected to last for two to three years is significant. Finally, Canada has the most stable and solid banking system in the world, an accolade recently bestowed upon us by the International Monetary Fund.

The Road to Recovery

What does recovery require? Ingredients for a recovery are varied but they all serve to return liquidity and confidence to the economy and to individuals. The return of confidence and liquidity are critical. They are truly the most important ingredients. But they will be outcomes of a variety of other conditions.

First and foremost, recovery requires the stabilization of US housing values. Second, it requires reduced volatility in the stock markets. Individual Americans need to gain a sense of stability so that they can rebuild – rebuild their net worth through housing and other investments. Once this occurs, greater confidence will be restored. When confidence and stability are restored, so will liquidity.

Confidence is difficult to forecast and difficult to measure. No one move or action can bring it about. It is psychological. It is a feeling. A scary notion to blend economics and feelings, but it is essential for meaningful recovery. And it isn't something that can be fabricated. This time, it will have to be real to have long lasting effect. And that is critical to global recovery.

When consumers and businesses begin spending again, albeit potentially in a different model using limited credit to do so, demand for global goods and services will once again rise. With that should come a return to slow global economic growth. Business and consumer expenditure growth, manifest through a return of demand for exports, will be key to China's growth. Europe will need to find a sustainable solution to economic growth beyond housing markets, which have dragged down the economies of Britain, Spain, Ireland and Portugal. At the present time, Germany shows the best prospects for economic recovery in the EU.

The key question is "when?" The answer is, no one knows. We will only know that we have advanced down the path of economic recovery when it is firmly in our rear view mirror. Many chief economists feel that recovery is still years away and that when the decline turns around to recovery, it will be a slow one.

It is likely that the global economy, and therefore Calgary, will be in a protracted period of slowdown for the next four to six quarters, with recovery happening very slowly in and after 2010. This is a result of the time it will take to rebuild financial stability, confidence and liquidity. This is also a result of the fact that from a macroeconomic perspective, the worst may not be over. Full downstream impacts of the current economic situation may still take another quarter or two to work through the economy.

It is likely that the entire 12 months of 2009 will look and feel similar to conditions at the present time – slow, sluggish, limited positive news on the economy and a generally low level of confidence. Therefore, 2009 will see reduced economic activity in residential construction, new commercial projects, curtailed retail expenditure, and an overall low level of economic growth.

2009 also holds potential for a variety of additional unknowns. While the world waits for Barack Obama to take the helm of the White House, views are mixed on his approach to short and medium term activities in his first term. It is apparent he will do whatever it takes to get the US out of the current economic situation, including a massive fiscal stimulus package, however increased protectionist policies may curtail the US' ability to lead the rest of world toward economic recovery.

At the time of writing, the U.S. Senate had voted down the automaker bailout plan. While it was evident that significant improvements and changes to business models needed to take place in Michigan, most economists feared the outright collapse of the sector due to not only the actual economic impacts of job losses in the auto sector and supporting industries, but also the global psychological effect of such a massively negative news story. It remains to be seen how this one will play out. Either way costs are great, and will be borne by current and future generations.

One of the greatest unknowns and risks to the economic outlook in 2009 is deflation. The risk of continued deflation may bring about additional economic challenges as people delay spending expecting prices to drop further.

Many experts agree that once we begin down the path of economic recovery, it will take time, and that it will not be a fast recovery, but a slow, steady and gradual one, potentially lasting three to five years after it has begun.

The Ghost of Christmas Future

It depends on how you look at it, but one could argue that we have already been visited by our Ghost of Christmas Future over the past number of years, as some economists, analysts and others sounded the alarm bell to the potential for economic collapse, and that we are now finding ourselves in that bleak place we were warned was looming.

Or we could view it that right now, this December, is our Ghost of Christmas Future. We are seeing major impacts of our decisions and actions, but that we are not too far gone. We can, in fact, like Scrooge awaken the next morning determined to change our ways.

What do we need to do? What do we need to pledge to the Ghosts of Christmas that we will change? It might include:

- A change to our consumption and spending patterns – not supported by so much debt and credit;
- Greater regulation and monitoring;
- Better monetary policy making that aims to ensure manageable levels of credit availability;
- A new multilateral approach to stemming current conditions, recapitalizing financial institutions and supporting global trade, which must include emerging economies;

- Re-structuring business practices and models to ensure they are structured for sustainable and more reasonable levels of activity;
- Making focused and strategic investments that will support our long-term future.

From a strategic and leadership perspective, now is not the time to be a shrinking violet and lock the vault. Governments that have pledged to support economies by making strategic investments are wise, but those stopping at traditional hard infrastructure are still basing their decisions on a world of the early to mid 1900's. We need to make investments that will set in motion a bold plan to strengthen Canada's position as a global leader.

Looking back at history, one thing is certain: things will turn around, at some point. And when they do, in developed economies, the competition for people will still be at the top of the agenda. Therefore governments should be looking at making investments that will deliver on making cities magnets for talented people and providing businesses the environment to be competitive and attract top talent.

While some hard infrastructure projects are worthwhile, they should also be viewed as ones that will support sustainability and creating attractive places to live and work. Roads and waterworks projects will not be the only ones that will make a difference in the days ahead. Investments in education, community services, and the catalysts for intellectual property and innovation will also be critical for ensuring a platform of success in the future.

When, not if, energy prices rebound, sustainability and greenhouse gases will again be a top public opinion issue. Now is the time, when labour is freer and time more plentiful, to make investments in Canada's strength in sustainable and renewable energies and technologies.

Finally, the finest investments are those that pay high yields and dividends in perpetuity. By investing in Canada's innovation and commercialization capabilities, not only can Canadians be employed now, but the ideas and solutions they develop will payoff for generations to come.

Finally, being ready to promote and market yourself when the time is right will also ensure that we have the upper hand.

While it seems rather odd that there might be a silver lining in this economic situation, there are a few that businesses can find. For example, now is an opportunity to:

- Adjust business practices to ensure they are streamlined and sustainable, including levels of employment;
- Invest in technology when good prices can likely be negotiated;
- Acquire companies that are under-valued;
- Decrease costs by going back out to tender, when conditions are more competitive for realistic pricing.

Conclusion

Desperation and despair feel like the best places to flee to at the present time, for they offer the consolation of company and commiseration. However, they are not the places that we should be headed. Our economy is slow, times are challenging, troubling and impactful yes, but all despair provides us with is a self-fulfilling prophecy and perpetuation of the current climate. While answers, optimism and good economic news are rare currency these days, a small dose of optimism can help go a long way to helping us out of this economic malaise, particularly during the holidays.

Consumer Price Index / Inflation

From October 2007 to October 2008, prices paid by Calgarians for goods and services, as measured by the Consumer Price Index (CPI) basket, rose by 2.6 per cent. Over this same period, increases in the shelter component of the CPI (which accounts for roughly one quarter of the consumer's basket of goods and services), were 4.1 per cent, with the price of water, fuel and electricity decreasing by 0.7 per cent.

Indicator	Oct	Dec	Oct	YTD Change		YOY Change	
Calgary CMA	2008	2007	2007		% (Inflation)		% (Inflation)
CPI (2002=100)	121.8	119.0	118.7	2.8	2.4%	3.1	2.6%

Labour

Average Hourly Wage Rate (Alberta)

The demand for labour in Alberta continues to be strong. The unemployment rate was 3.6 per cent for November 2008, with 57,300 jobs created in Alberta since the beginning of 2008. The current labour market in Alberta continues to exert pressure on the province's average hourly wages, which increased 5.0 per cent from November 2007 to November 2008, to \$24.48 an hour.

Employment

Employment growth in Calgary has continued at a steady pace in 2008. Calgary's economy has created 36,000 new jobs (a 4.9 per cent increase) since November 2007. Total employment was estimated at 770,000 in November 2008, up from 734,000 a year prior. Calgary accounted for 62.8 per cent of the job creation in Alberta, on a year-over-year basis.

Unemployment Rate

Calgary's unemployment rate has increased slightly in 2008, with a rate of 3.6 per cent in November 2008, compared to a rate of 3.1 per cent in November 2007. This rate reflects the growing labour force and steady employment numbers in Calgary.

Employment by Industry

The goods-producing industries led the way in job creation in Calgary this year, adding 32,700 jobs since the beginning of 2008, a 17.5 per cent increase, while the services-producing sector gained 3,300 jobs, a 0.6 per cent increase over the same period. Since the end of 2007, across both the goods-producing and services-producing sectors, the major drivers in terms of job gains were Agriculture (7,600), Manufacturing (14,600), and Educational Services (10,200). The major sectors with job losses in the same period were Business, Building and Other Support Services (-8,700), Transportation and Warehousing (-6,200) and Health Care and Social Assistance (-6,800).

Indicator - Calgary Economic Region	Nov 2008	Dec 2007	Nov 2007	YTD Change		YOY Change	
					%		%
Average Hourly Wage Rate (\$) - Alberta	24.48	23.52	23.32	0.96	4.1%	1.16	5.0%
Employment	770,000	734,000	734,000	36,000	4.9%	36,000	4.9%
Unemployment Rate (%)	3.6%	3.0%	3.1%	0.6%	-	0.5%	-
Employment by Industry							
TOTAL INDUSTRIES	770,000	734,000	734,000	36,000	4.9%	36,000	4.9%
Goods-Producing Sector	220,000	187,300	182,000	32,700	17.5%	38,000	20.9%
Agriculture	16,400	8,800	8,800	7,600	86.4%	7,600	86.4%
Forestry, Fishing, Mining and Oil & Gas	57,000	55,400	53,800	1,600	2.9%	3,200	5.9%
Utilities	7,400	5,200	5,900	2,200	42.3%	1,500	25.4%
Construction	82,800	76,200	71,400	6,600	8.7%	11,400	16.0%
Manufacturing	56,300	41,700	42,100	14,600	35.0%	14,200	33.7%
Services-Producing Sector	550,000	546,700	552,000	3,300	0.6%	-2,000	-0.4%
Trade	112,900	104,500	107,200	8,400	8.0%	5,700	5.3%
Transportation and Warehousing	36,900	43,100	45,000	-6,200	-14.4%	-8,100	-18.0%
Finance, Insurance, Real Estate and Leasing	48,500	44,100	43,200	4,400	10.0%	5,300	12.3%
Professional, Scientific and Technical Services	88,700	82,000	79,900	6,700	8.2%	8,800	11.0%
Business, Building and Other Support Services	26,300	35,000	34,300	-8,700	-24.9%	-8,000	-23.3%
Educational Services	44,200	34,000	33,800	10,200	30.0%	10,400	30.8%
Health Care and Social Assistance	62,800	69,600	70,500	-6,800	-9.8%	-7,700	-10.9%
Information, Culture and Recreation	31,200	33,500	35,600	-2,300	-6.9%	-4,400	-12.4%
Accommodation and Food Services	42,700	44,400	44,200	-1,700	-3.8%	-1,500	-3.4%
Other Services	27,600	31,900	32,600	-4,300	-13.5%	-5,000	-15.3%
Public Administration	28,300	24,800	25,800	3,500	14.1%	2,500	9.7%

Retail Trade

Retail Sales

Retail sales in Calgary in the third quarter of 2008 were \$22.3 billion, up 0.5 per cent from the beginning of the year. Retail sales from Q3 2007 to Q3 2008 have increased by \$336.3 million, a 1.5 per cent growth rate.

Indicator - CMA	Q3 2008	Q4 2007	Q3 2007	YTD Change		YOY Change	
					%		%
Retail Sales (\$Millions)	22,333.8	22,225.0	21,997.4	108.7	0.5%	336.3	1.5%

Construction

Housing Starts

Year-to date cumulative total housing starts in Calgary decreased by 14.5 per cent for 2008, from 12,904 in 2007 to 11,035 this year. A decline of 44.4 per cent was experienced in single-detached starts, while starts for all other housing types grew by 25.6 per cent, from 5,519 in 2007 to 6,931 in 2008.

Indicator - Calgary CMA (Units)	Nov 2008	Nov 2007	YTD Cumulative		YOY Change	
			2008	2007		%
Housing Starts - Total	575	776	11,035	12,904	-1,869	-14.5%
Housing Starts - Single-Detached	338	591	4,104	7,385	-3,281	-44.4%
Housing Starts - All Others	237	185	6,931	5,519	1,412	25.6%

Building Permits

Total cumulative building permit values as of October 2008 dropped substantially with a 28.5 per cent decrease, from \$6.3 billion in 2007 to \$4.5 billion this year. Residential building permit values declined at a slightly higher rate than non-residential permits, at 33.3 per cent year-over-year. Non-residential permits declined at a year-over-year rate of 23.6 per cent.

Indicator - Calgary Economic Region	Oct 2008	Oct 2007	YTD Cumulative		YOY Change	
			2008	2007		%
Total (\$Millions)	362.2	775.7	4,475.7	6,259.0	-1,783.3	-28.5%
Residential (\$Millions)	142.5	266.6	2,098.2	3,146.7	-1,048.5	-33.3%
Non-Residential (\$Millions)	219.7	509.1	2,377.5	3,112.3	-734.8	-23.6%

Major Projects

While the number of major Calgary projects (\$5 million or more) has increased by 10.3 per cent over the past 12 months, the total value of these projects has jumped by 37.7 per cent over the same period to \$33.2 billion. The project sectors with the highest value in November 2008 were Infrastructure (\$8.0 billion), Commercial/Retail (\$7.8 billion), and Institutional (\$6.2 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	Nov 2008	Dec 2007	Nov 2007	YTD Change		YOY Change	
					%		%
Value (\$Millions)	33,170.3	25,400.8	24,083.2	7,769.5	30.6%	9,087.1	37.7%
Number	289	255	262	34	13.3%	27	10.3%

Real Estate

Residential

MLS Sales

Calgary's housing market has softened, with slower activity being magnified by the current economic uncertainty being felt by consumers, and not just the typical year-end market slowdown.

Month-end inventories of single family homes increased from 4,984 in November 2007 to 5,083 in November 2008, a growth of 2.0 per cent. Condominium inventory increased from 2,196 in November 2007 to 2,399 as of November 30 2008, a growth of 9.24 per cent.

Sales of single family homes dropped to 670 in November 2008 from 1,103 in November 2007, a 39.3 per cent decrease in numbers. Sales in the more affordable condo market also dropped by 42.7 per cent over the same period, with November 2008 sales of 284 units as compared to 496 units the year before.

Sales of housing units were down for both single family and condominium markets in the first 11 months of 2008, compared to the same period in 2007, at 26.0 per cent and 30.4 per cent respectively.

The median price of a single family home in November 2008 was \$387,300, a 5.0 per cent drop in price from November 2007, when the median price was \$407,500. Condominium prices decreased by 11.7 per cent over the year, with the median sale price dropping to \$251,800 in November 2008, from \$285,000 in November 2007.

Indicator	Nov 2008	Nov 2007	YTD Cumulative		YOY Change	
			2008	2007		%
Single Family						
Sales	670	1,103	13,011	17,592	-433	-39.3%
Median Sale Price (\$)	\$387,300	\$407,500	\$410,000	\$422,000	-\$20,200	-5.0%
Condominium						
Sales	284	496	5,457	7,844	-212	-42.7%
Median Sale Price (\$)	\$251,800	\$285,000	\$280,000	\$295,000	-\$33,200	-11.7%

Commercial

Downtown Office

The Calgary downtown office market is active and continues to be a landlord's market, with Prime 'AA' and 'A' class space in high demand. The vacancy rate in the downtown market has increased by 1.0 per cent from this time last year to 4.1 per cent, which is historically considered to be a low vacancy rate. Some observers believe landlords are in a relatively healthy position as the market copes with uncertainty.

Vacancy in the Central Core submarket decreased to 1.8 per cent as some companies expanded into prime space, creating an extreme short supply situation. Vacancies in the West End are the highest in downtown at 25.3 per cent as tenants have relocated to the suburban market due to readily available prime space as well as lower costs.

Average asking lease rates have continued to drop consistently over the past year with Q3 lease rates averaging \$35.24, with the highest rate for 'AA' class space remaining at \$54.48 per square foot.

Absorption has remained positive for the past two quarters, with 72,544 square feet of absorption in the latest quarter.

One new 'A' class building was completed in the downtown market in Q3 2008, adding 146,343 square feet. Another 5.5 million square feet of prime 'AA' and 'A' class space is currently under construction, with 70 per cent of the space under construction already preleased. Sublease options are expected to become available as tenants consider changes in workforce requirements as a result of current economic conditions.

Indicator - Calgary	Q3 2008	Q4 2007	Q3 2007
Absorption	72,954	-113,360	-98,812
Vacancy Rate	4.1%	3.4%	3.1%

Suburban Office

The Calgary suburban office market grew as three new buildings were completed in the third quarter of 2008, adding 460,051 square feet. An additional 2.9 million square feet is currently under construction with the majority of the projects being class 'A' space, spread fairly evenly across the suburbs. Calgary's total inventory for the suburban office market stands at 17.1 million square feet, with 25 per cent being located in the Beltline.

Vacancy rates increased over the year from 3.6 per cent in Q3 2007 to 5.9 per cent in Q3 2008, reflecting the new inventory added to the suburban market. Vacancy rates are expected to increase in the next few quarters due to this new inventory coming on board.

Vacancy has been rising in the 'A' class space as more completions in the suburban office market are 'A' class, and current suburban tenants are moving to 'B' and 'C' class space to save costs.

Net lease rates have fluctuated marginally over the past year, having reached a plateau with average net lease rates holding steady at \$23.08 per square foot. 'A' class rates remain higher due to higher demand for space while 'B' and 'C' class rates have declined.

Absorption in the suburban office market continues to remain positive, as it has for the past year. Net absorption for the first three quarters of 2008 was 1.1 million square feet.

Indicator - Calgary	Q3 2008	Q4 2007	Q3 2007
Absorption	436,826	55,350	341,995
Vacancy Rate	5.9%	3.8%	3.6%

Industrial

Calgary's industrial market continues to remain strong as absorption remains positive. Vacancy in the industrial market increased over the past quarter, to 1.7 per cent, and is expected to increase as new space becomes available.

Average asking lease rates have stabilized in the latest quarter, with minimal change in the rates. Overall average asking lease rates declined by \$0.04 per square foot to \$9.90.

New supply of 1.3 million square feet was added in the third quarter, while 2.1 million square feet is under construction. Absorption continues to be positive, with 1.1 million square feet of space being absorbed in Q3 2008.

Indicator - Calgary	Q3 2008	Q4 2007	Q3 2007
Absorption	1,063,570	181,928	231,408
Vacancy Rate	1.7%	0.6%	1.1%

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