Alberta Report – Gene Syvenky B Sc, MBA

Alberta continues to be the province of choice for business, transportation infrastructure and a very good economic picture. Yes the energy sector is having some challenges, yes the declining gas royalties will result in a larger than budgeted deficit, but yes, the province still has a healthy balance sheet. Do you know of any other 30 billion dollar company with no debt? Yes we need to make some tough decisions about expenditures but all of the "sky is falling mentality" is getting far too much press coverage.

The financial meltdown has changed the economic landscape all over the world. The world today is dominated by technological connectivity, globalization, and a wide diversity of cultures and interests that need to work together to be more effective. The financial system as has been dramatically revealed is globally interconnected in ways that ensure that what happens in one part of the world will impact the rest of the world. The dynamism and chaos of today's world means that adaptiveness to change is even more critical, and that slow moving bureaucracies are unlikely to be successful. The irony in the last statement is that in most cases governments have stepped in to salvage the financial system, and who is often referred to as too bureaucratic?

ABGOV has stated that capital programs are likely not to be effected by the budget cutbacks, but operating expenses are up for grabs. For our industry, this remains a welcome message, because the province still has a backlog of transportation infrastructure deficiency, and it would be ill advised and short term thinking to make any changes to the capital plan.

As an industry we have to be vigilant that we don't alienate the various levels of government we have worked very collaboratively with over the years and be very cognizant of their needs and plans for the future. In fact we need to work more closely with them than ever before. We need to come to the table with good solutions and processes so that collectively the backlog of transportation demands come to fruition.

The wild card remains the price of crude oil. I don't think anyone can accurately predict or explain the roller coaster price changes, or even tie those changes into supply and demand issues. We seem to be caught in a reality vacuum where some news raises the price and some news doesn't, but not always the same way. For our industry this specific commodity is a significant determinant of asphalt binder cost, and diesel costs, and ultimately the cost of rehab. Consumers may have noticed that the sway of retail prices does not follow to the same extend as the sway in crude prices. This means that construction costs will not go down as much as people think. As an example in Canada if the price of crude changed by ten dollars, our dollar would usually change by about 3 or 4 cents. This is not necessarily the case anymore.

The battle of inflation using the interest rates is still effective; in fact we have interest rates that most of us have not seen in our lifetime. The flip side of that is that for the folks that really need financing, even with low interest rates their financial position is such that financing is not accessible. Unemployment figures for Alberta show a rate of around 6.5%, considerably different that the last couple of years, but then what wasn't. Too often we compare to the wrong benchmarks, to establish trends. If you want to compare your business trends and financial position, compare them to 2005 and 2006, and then discuss a trend.

The Canadian dollar remains at around 94 cents, and it is expected that the central bank will pay special attention to the inflation rate before making a move on the interest rates .The Canadian inflation rate as at the close of October was at .1%, and the central bank interest rate remains at ¼ %. Based on a large body of theoretical reasoning and empirical evidence, the policies of the Bank of Canada and most other central banks are grounded in two essential propositions:

- High inflation is damaging to the economy and costly for firms and individuals.
- Central banks are unable to directly influence variables other than inflation for any *sustained* period of time.

So while the low interest rates are a blessing to those with mortgages and high debt loads, for the investment community the rates are a challenge.

In 2009 we continued improving the quality and content of information we provided to the membership. Specifically we fine tuned the Industry Tracker vehicle so that we could provide some context to the significant changes that are occurring in the costs of materials used in heavy construction and road building. One of the significant triggers to this costing is obviously global supply and demand, but also the correlation to crude oil pricing. It has been shown that road construction costs parallel crude oil pricing to a 95% reliability. It is our intent to continue with this report so that we can build a reliable data base of economic information as it relates to our industry. I believe that we need a good repository of economic data as it pertains to our industry so that planning for the future is enhanced with good reliable information.

We also continued working on our other major strategic goal and that is the need for ensuring that our industry has access to a skilled labor force. We are active partners in the Construction Workforce Strategy, and are renewing and building major alliances with educational institutions that can deliver the programs indigenous to our industry. Of significance is the work being done with Olds College and Nait. At Olds college we have participated in the development of the underground pipe layers program, and the heavy equipment operators program, both being designed for practical application and with seat time. At Nait we have reworked the RHCTP program and broke it down into 12 modules which were started in January of 2009. These modules were presented in a manner and timing that is conducive to the needs of the industry, and was very successful.

A continuing initiative for ARHCA in 2009 was the CEO breakfasts. I travelled to five communities to hold informal feedback sessions with the membership. They have proven to be very popular and provide a great means of interaction and means of gaining valuable regional perspective and issues. In addition I get to personally meet many of the members from around the province and speak about grass roots issues as they pertain to the industry.

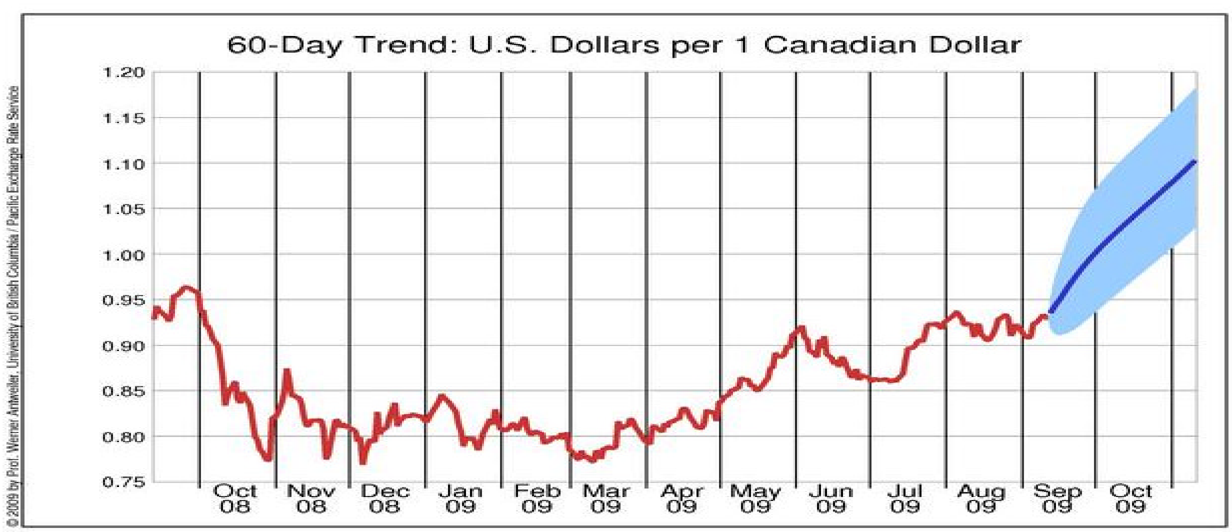
Our membership numbers continue to set new records now being 871 members!

This graph shows the number of members the association has.

2010 has the potential to be as busy as 2009, even though there is some unbalance between sectors. I think the consistent budget from AT for 2010, plus the much heralded federal infrastructure money will appear big time, to remedy a slowing sector.The other indicator worth mentioning is that construction is often a trailing indicator of economic activity, so it may too early to hoist a celebratory glass. Costs will continue to mirror in correlation to the crude oil prices, but may not be as precipitous as previous years as shown in the graph below.

As you can see from the above graph, the volatility of crude oil pricing and the challenges to refining capacity that exist in the world today make it very difficult to define and predict accurately what will happen relative to costs in construction and road building materials. At best we will monitor these trends and apprise our stakeholders and constituents on a timely basis. During 2008 & 2008 we saw the price of crude oil essentially double, prices for asphalt binder and diesel skyrocket, and then close the season last year with crude prices close to 2005 levels.

The Canadian dollar continues to hover in the low 90's, and in the words of many economists is too high and is slowing some of the rebounding of the economy. The export and import markets are impacted by this more than others.



One of the biggest factors not mentioned thus far is the Provincial budget. The word is that all ministries have to claw back some of their expenditures and history has shown that when the government retrenches, our sector does not get missed in the fallout. As the keen business people our members are I'm sure that they are experienced enough to withstand the cycles, because after all they have seen them before.

The need for an effective and efficient transportation infrastructure network remains high in the province, and the timing is also great for owners to take advantage of available capacity, reduced input costs, and a more competitive environment. Thus far capital spending by the ABGOV has not been impacted by the budget challenges the province faces, though we know and expect that operating budgets will be trimmed.

Alberta still remains a vibrant and positive environment to be in the road building and heavy construction business. Our government faces some difficult budget challenges, but with the capital budget intact, and with about 60% of the AT tenders still to come the prospects for 2010 look ok.

2010 will still work through the remnants of the stimulus packages, and with low interest rates and controlled inflation economic activity in Alberta should once again be head of the class in Canada.