

April 9, 2009

## **Edmonton Chamber of Commerce reaction to Provincial Budget 2009: An optimistic, high risk budget!**

Provincial Budget 2009 has an underlying theme of optimism, accompanied by a number of high-risk elements that need to be dealt with in a timely manner in order to bring about a feeling of confidence within the Edmonton business community.

More than 85 per cent of respondents in a recent survey of Edmonton Chamber of Commerce members expect the Alberta economy will remain stronger than the Canadian economy, further noting that an optimistic look into the future was needed during these uncertain times.

Certainly the government, with this budget, has followed through with optimism. It is being shown by an increase in operating expenditures which is in-line with population growth and inflation, and which will contribute to needed stimulus for the economy.

“More optimism is shown by the continuation of significant infrastructure spending that will create jobs and help buoy consumer confidence. Consumer confidence is the most important issue facing us,” said Joanne Beaton, chair of the Edmonton Chamber of Commerce.

From a business perspective we are pleased the government is staying the course with previously announced measures to increase the small business qualifying threshold to \$500,000, but there is very little new in the budget that is specifically targeted for business.

Dipping into the Sustainability Fund, as opposed to cutting jobs and infrastructure expenditures or raising taxes, is using the fund in exactly the way it was intended – a practice the Chamber has been promoting for many years.

However, the budget is not without the following risks, which weigh heavy on the minds of many within the business community:

- Increased spending in a time of such precipitous decline in revenues is risky business and there is not enough in this budget to show that they have made every effort to reduce controllable spending.
- Nearly 19 per cent of government revenues are dependant on income from non-renewable resources. The budget's natural resource price

projections of \$55.50 for oil this year, rising to \$72.50 by 2011-12, and natural gas at \$5.50 rising to \$6.75, are based on increased demand from global economic recovery and that is something that is out of the Alberta government's control.

- Similarly, nearly 35 per cent of budgeted revenues are dependant on income taxes. If infrastructure spending does not create enough jobs to off-set the current trend in declining employment and business activity then income tax revenue as a source of income is at significant risk.
- There is also significant risk of reduced revenues if the Canadian dollar moves closer to par with the U.S. dollar than currently forecasted in this budget.
- If the current recession is prolonged and natural resource prices do not rebound, and if infrastructure stimulus fails to create jobs and subsequent income tax revenues, the Sustainability Fund will be drawn down to the point of exhaustion before recovery occurs.
- Transparency and accountability are also concerns especially since the Sustainability Fund has now been amalgamated with the Capital Fund, and all other sustainability pools that are available. The concern is that the majority of the fund will be diverted to support government operations at the expense of infrastructure spending.
- A projected \$2 billion revenue shortfall for fiscal 2010-11 adds further uncertainty to the business environment. Not only is there uncertainty about how those funds will be raised, but if provincial revenue forecasts from royalties and income taxes are incorrect the shortfall could be accelerated to an unmanageable level. That situation could result in significant debt, and or, future tax increases to balance the budget.
- Being right in assuming natural resource prices will rebound is also a risk. In that event, the likelihood of government reducing its dependence on revenues from natural resources is very low. The risk – a boom and bust budget cycle as usual.

**Bottom line:** This is a catch-your-breath budget and only time will tell if it will work. The government needs to provide assurances that it will be nimble and act quickly in the event the turnaround it is expecting does not materialize.

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