

Economic Diversity



Noteworthy:

- From the mid 1970s to the mid 1980s Alberta's economy was less diverse than Canada's.
- The diversity of Alberta's economy was greater than that of Canada as a whole from the mid 1980s to the mid 1990s.
- In recent years, the diversity of Alberta's economy has declined.
- Although the Gross Domestic Product (GDP) in Alberta has grown steadily since 1961, the diversity of Alberta's economy relative to that of Canada has varied.
- The diversity of Alberta's economy is much less today than it was in 1971.
- In 2003, Alberta's economy was only slightly more dependent on mining and petroleum resources (22% of GDP) than it was in 1971 (18% of GDP).
- The importance of the service and knowledge-based economy has grown only marginally in importance—from 35% of the GDP in 1971 to 42% in 2003.

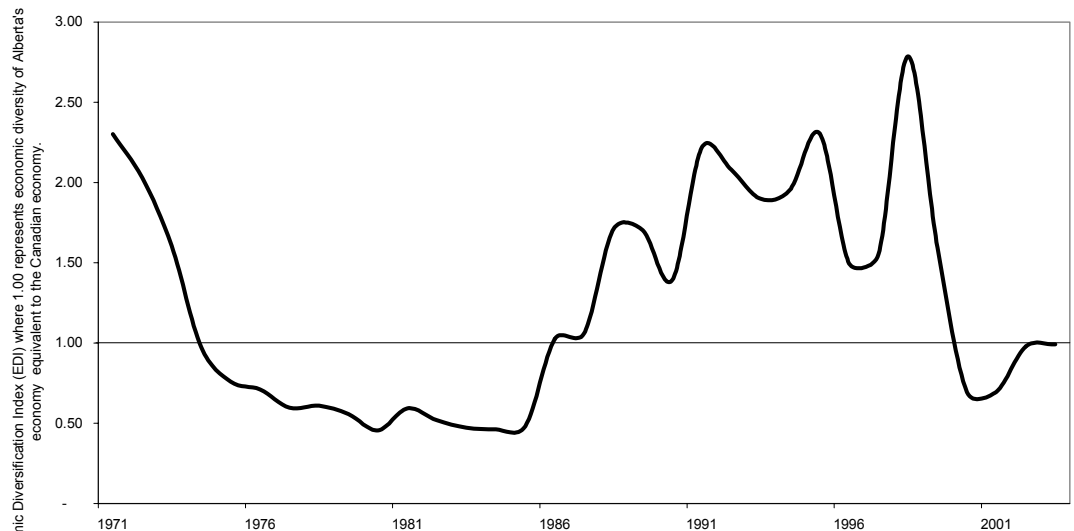
Economic Diversity in Alberta: How Much?

Measuring the diversity of Alberta's economy is critical to understanding the resiliency of the economy in the past, present and future. We developed an Economic Diversification Index (EDI) which describes the diversity of Alberta's economy relative to the diversity of the Canadian economy as a whole. The EDI compares the percent of GDP attributable to each industry in Alberta with that of

Canada. The closer Alberta's EDI is to 1.00, the more closely the distribution of GDP by industry in Alberta resembles that in Canada. The closer the index is to zero, the less diversified is Alberta's economy relative to Canada's, with one or more sectors dominating in the province. The EDI indicates that the diversity of Alberta's economy was less diverse than

Canada's from the mid 1970s to the mid 1980s. From the mid 1980s to late 1990s, it was more diverse than that of Canada. In 2000 and 2001 the diversity of Alberta's economy declined and was less than the diversity of Canada as a whole. Less diversity implies greater economic vulnerability and reduced resiliency.

Alberta Economic Diversification Index (EDI), 1971 to 2003

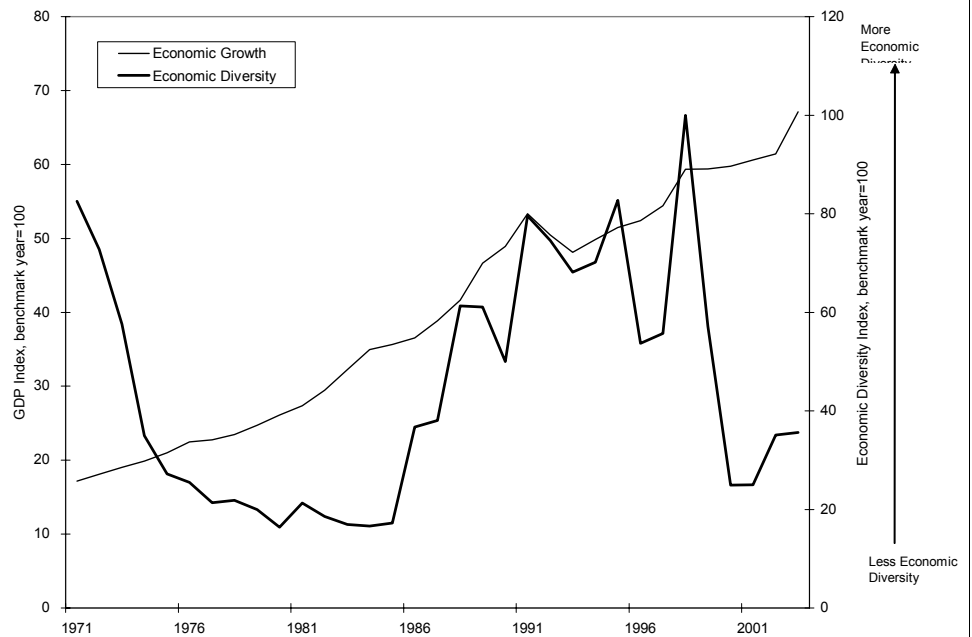


Source: Using the "Hachman Index" formula, the EDI was derived by the authors using GDP by sector data from Statistics Canada and the Alberta Economic Accounts (Alberta Treasury).

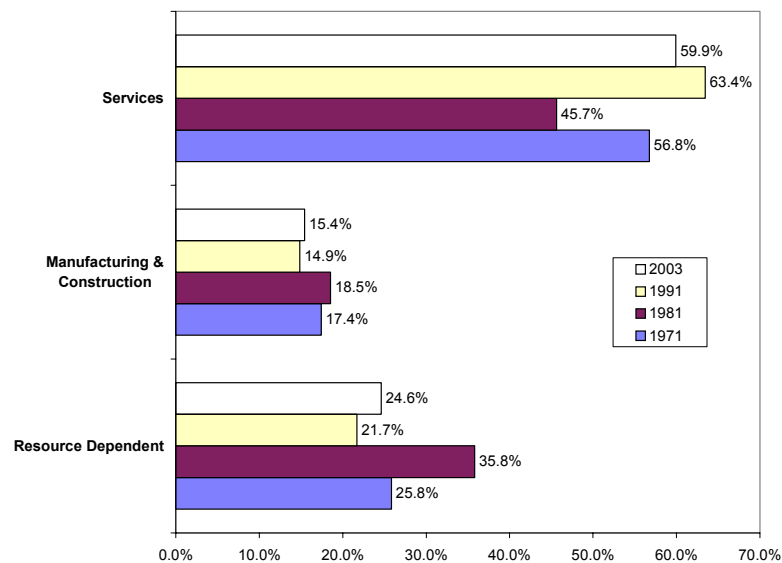
So What?

Is Alberta's economy healthier and more diverse now than in 1971? Are we on the verge of a new era in economic prosperity? That depends on your perspective. As the figure at the upper right shows, the GDP in Alberta has grown steadily since 1961, but the diversity of Alberta's economy, relative to that of Canada was substantially less in 2003 than it was in 1971. In this figure, we show the EDI as an index where the year with the highest EDI between 1971 and 2003 is set equal to 100 and changes in the EDI are measured as movement towards zero. The evidence suggests that Alberta's economy in 1971 was one of the most diverse in the past 30 years (along with 1998, 1995 and 1991). Economic diversity in Alberta, relative to Canada, was the lowest in 1980. The lower figure shows the contribution of resource-dependent industries as well as manufacturing and construction, and service industries to Alberta's GDP in 1971, 1981, 1991 and 2003. The aggregation of resource-dependent industries (agriculture and food, forest industries and petroleum and mining-based industries), manufacturing and construction, and service industries reveals that Alberta's economy was only slightly less dependent on resource-based industries in 2003 (24.6% of GDP) than it was in 1971 (25.8% of GDP). The importance of the service and knowledge-based economy grew only marginally—from 56.8% of the GDP in 1971 to 59.9% in 2003. 1981 marked a year of heavy reliance on resource dependent industries and was also a year in which the economic diversity of Alberta, relative to that of Canada, was low.

Economic Diversification on a Scale of 0 to 100 Compared with GDP: Where are we today?



Contribution to Alberta's GDP in 1971, 1981, 1991 and 2003



On a scale of 0 to 100, where 100 is the highest level of economic diversification that occurred in Alberta from 1971 to 2003, Alberta ranked 35.58 in 2003 (see figure above).

While it is not possible to place a dollar figure on the cost of having a less diversified economy than Canada as a whole, we do recognize that there are risks associated with a less diversified economy, including vulnerability to market changes and ecological implications associated with long-term resource depletion.

