



Holding Steady

Manitoba Economic Profile and Forecast

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WESTERN CANADA'S ECONOMY

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1. Overview

As western Canada’s most diversified provincial economy, Manitoba fared rather well in 2005 and 2006. Despite a high Canadian dollar, high energy prices, a slowing US economy, and interprovincial out-migration, the province continues to post modest yet consistent growth as measured by real GDP expansion. In 2005, the provincial economy grew by 2.7%.

The primary engine of growth in the province at the moment is the high level of construction activity. Residential and non-residential construction activity was very strong throughout 2005 and 2006, and is expected to remain steady into next year. Food processing, grain and oilseed production, mining, and hydro developments are expected to contribute to economic growth in 2007.

Figure 1

Real GDP Growth (chained 1997 dollars)

	2002	2003	2004	2005	Canada West Foundation Forecasts	
					2006	2007
Manitoba	1.6%	1.3%	2.5%	2.7%	2.9%	3.2%

Source: Statistics Canada, The Daily, November 8, 2006. Forecasts for 2006 and 2007: Canada West Foundation.

Yet despite the steady GDP growth, Manitoba’s economy is growing at rates below the national average, and at rates significantly below those posted in Saskatchewan, Alberta and BC.

The most significant problem facing the economy is a shortage of labour. In a recent survey, 41% of Manitoba business leaders indicated that labour shortages are the most serious challenge they currently face¹. Tied to the labour shortage problem is the high level of interprovincial out-migration that Manitoba is suffering. More than 9,000 people left the province for Alberta alone over the past year. Out-migration is being more than offset by gains in international immigration, but overall population growth is very weak.

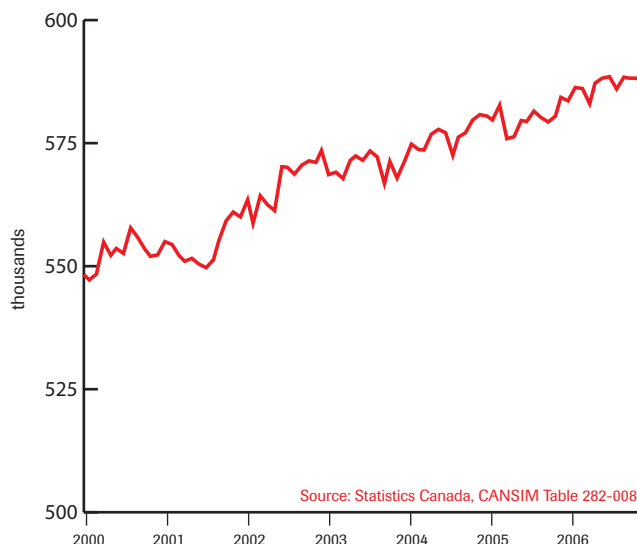
The Canada West Foundation forecasts that Manitoba’s economic growth in 2006 will be steady at around 2.9%, with a modest acceleration to 3.2% in 2007. An easing of the value of the Canadian dollar should help manufacturers and exporters in the province, and major non-residential construction projects

will add to overall economic demand. Skyrocketing costs and housing shortages in Alberta could help stem out-migration from Manitoba.

2. Employment and Wages

Figure 2

Employment in MB (seasonally adjusted)



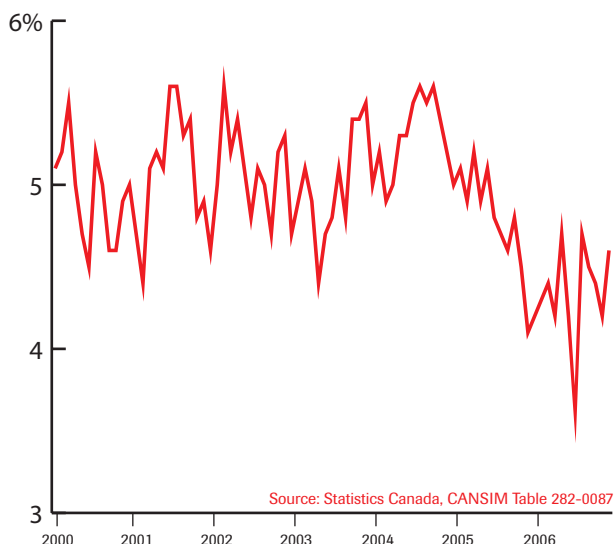
Manitoba’s employment situation has continued to improve steadily over the past five years, posting an increase of 7% from July 2001 to September 2006. While the pace of employment creation has not been at the level posted in Alberta or British Columbia, it has generally kept pace with the national average.

The unemployment rate has been in the range of 4.0% to 4.5% for over a year—well below the national average—and briefly hit 3.6% in June of 2006.

The average weekly earnings of payroll employees for September was \$685.50 (seasonally adjusted), compared to the national average of \$749.69. The average weekly earnings of the first nine months of 2006, compared with the average for the same period in 2005, grew by only 2.0%. This puts Manitoba in a unique situation in western Canada. Its average weekly wages are the lowest among the four provinces (nearly \$130 a week

Figure 3

Unemployment in MB (seasonally adjusted)



lower than in Alberta); as well, Manitoba’s rate of growth so far this year is well below those rates posted in Saskatchewan (+4.0%), BC (+4.1%), and Alberta (+4.7%).

Hourly wage increases in Manitoba were greatest in sales and service positions (+6.9%) and health occupations (+6.5%). Over the same period, wages in the natural resources sector fell 8.7%.

The low wages and slow rates of increases could be one reason why the province continues to lose many people to other parts of the country (particularly points West) and why so many employers in the province are complaining of labour shortages. Despite the generally lower costs of living in Manitoba compared to BC or Alberta, the province is likely to continue to lose labour until wages rise to more competitive rates.

Figure 4

Average Weekly Earnings, Western Provinces

	Sept. 2005	Sept. 2006	Year-to-date change First 9 months of 2006 over same period of 2005
	\$	\$	%
Manitoba	661.86	685.50	2.0
Saskatchewan	675.08	695.68	4.0
Alberta	777.64	812.30	4.7
British Columbia	727.68	741.97	4.1

Source: Statistics Canada, The Daily, Nov. 29, 2006 and CANSIM Table 281-0023 and 281-0046

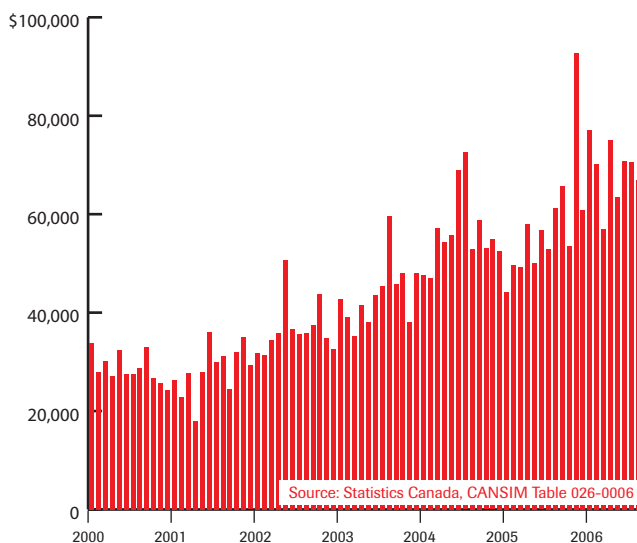
3. Construction

Residential housing starts in the province have been very strong in 2006. According to the Canada Mortgage and Housing Corporation, total housing starts in Winnipeg (Census Metropolitan Area) are forecast to reach 2,750 units this year, up 6.3% from 2,586 in 2005. It will also be the fourth consecutive year that housing starts have exceeded 2,400 units—far above the 1990-2000 average. The CHMC is forecasting starts in 2007 to reach 2,800 units in Winnipeg, a gain of 1.8%.

The strong residential market in Manitoba can also be seen in Statistics Canada’s building permit data. The total value of provincial residential building permits issued has averaged \$60-\$70 million per month for the last year. This compares favourably with the averages of \$20-\$30 million per month during the first few years of this decade.

Figure 5

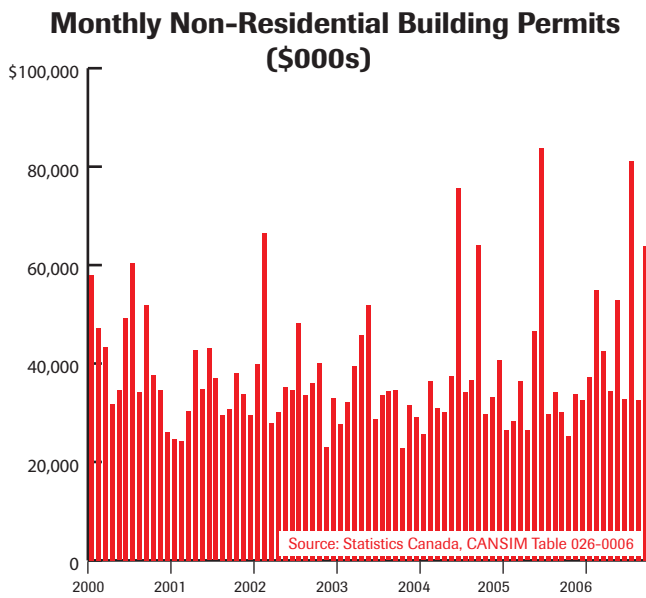
Monthly Residential Building Permits (\$000s)



The tight housing market is reflected in rising prices. In its fall 2006 Housing Market Outlook, the CHMC reports that prices in Winnipeg’s resale market have risen steadily from \$122,000 for MLS listings in 2004, to \$155,000 in 2006. Another 8.4% increase in resale housing prices is expected in 2007. New single-family home prices in Winnipeg are expected to rise to \$300,000 in 2007, up from an average of \$232,000 in 2004.

Non-residential building permits are also keeping Manitoba's construction sector very active. Major non-residential projects currently underway include Manitoba Hydro's new downtown head office building, the Smartpark expansions at the University of Manitoba, construction work underway on the floodway expansion, and the new Winnipeg International Airport terminal (scheduled for 2009).

Figure 6



4. Hydroelectricity

Virtually all the province's electricity is generated by hydropower, with 5,000 megawatts of installed capacity. In 2005, Manitoba was Canada's largest exporter of electricity to the US, accounting for half of the country's net electricity exports.

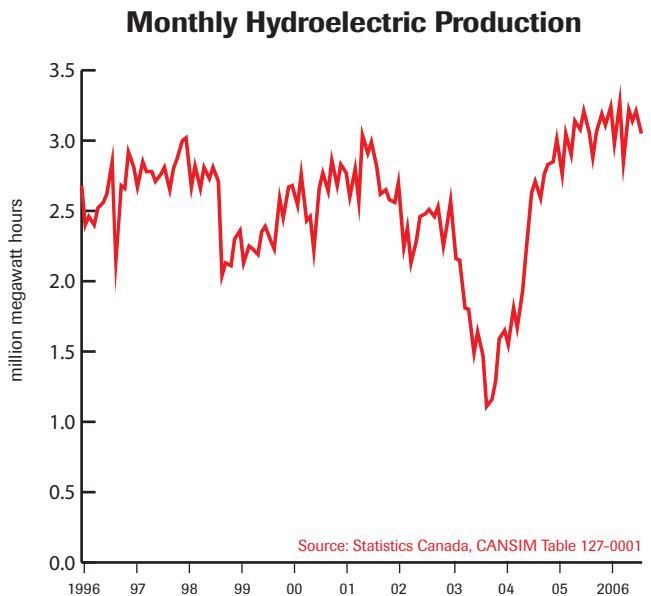
Production in 2005 and 2006 has been well above the province's 10-year average. Three new northern generating stations—with a combined potential investment exceeding \$10 billion (including transmission)—would add over 2,000 megawatts of generating capacity and bring over two decades of major project construction to northern Manitoba.

The most advanced of the new projects is the \$1.3 billion, 200-megawatt Wuskwatim generating station on the Burntwood River, which is being developed through an innovative partnership between Manitoba Hydro and the Nisichawayasihk

Cree Nation. It is the first new dam in Manitoba in more than a decade and currently the province's largest capital project. At this point, Wuskwatim is scheduled to start producing power for export by 2010.

Further in the future, there are proposals for the \$3.75 billion, 620-megawatt Keeyask generating station on the Nelson River. The earliest date for generation from this project is 2017. The largest proposed project, the Conawapa Dam, would add 1,250 megawatts to Manitoba Hydro's generating system. It is estimated to cost \$6 billion (including transmission facilities). Construction would require approximately 8.5 years, with an earliest possible in-service date of 2019.

Figure 7

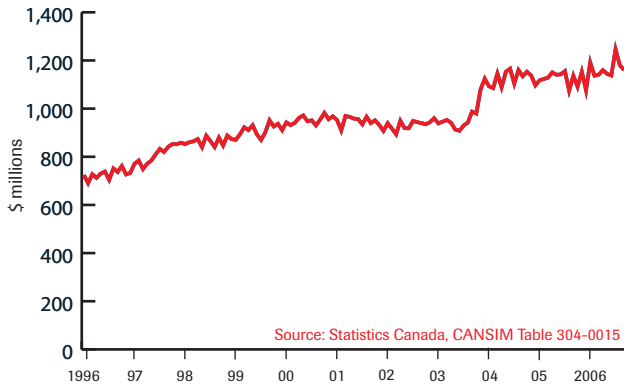


5. Manufacturing

Despite a high Canadian dollar, high energy prices, and a slowing US economy, manufacturing in the province has powered ahead over the last couple of years, topping an all-time record of just over \$1.2 billion (per month) in July of 2006. Much of the success in manufacturing has been due to the food processing industry in the province, particularly pork production. Annual food processing in 2005 totaled \$3.5 billion, with nearly half of that (\$1.4 billion) in pork processing.

Figure 8

Value of Monthly Manufacturing Shipments

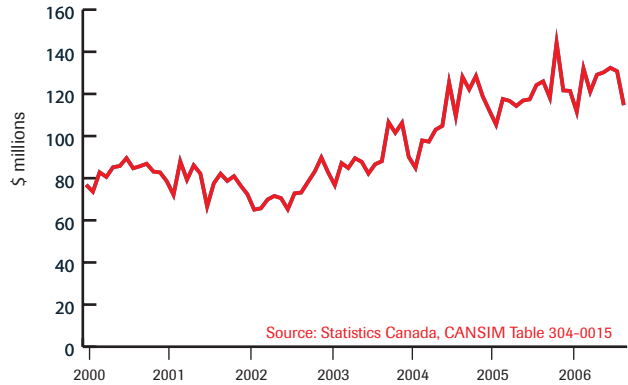


A new 300,000 square foot, \$200 million hog processing plant proposal (OlyWest) is currently in environmental hearings but is almost certain to be approved. It could directly employ up to 1,000 staff, adding to the province’s already strong hog and pork manufacturing base.

In 2005, the provincial and federal governments announced an investment of \$1.25 million in the University of Manitoba’s Richardson Centre for Functional Foods and Nutraceuticals. This funding will be directed to key technical and operations positions at the Centre over the next five years. The Centre will focus on products derived from prominent prairie crops including oats, wheat, buckwheat, canola, flax and hemp. Its presence in Winnipeg and the announcement of this funding are solidifying the city as a leader of nutraceutical research and development in Canada.

Figure 10

Value of Monthly Meat Processing Shipments



Weaker manufacturing performance has plagued Winnipeg’s aerospace engine and parts industry. Although the industry has made some gradual gains over the past few years, it remains significantly below its pre-9/11 totals. In 2005, total aerospace shipments were \$370 million, compared to \$827 million in 2000. Other manufacturing (such as motor coach production) is holding its own, although the high Canadian dollar is weighing heavily on costs and competitiveness.

Looking forward, manufacturing in 2007 is likely to continue similar trends that have emerged over the past few years. Garment manufacturing is likely to contract even further, but this will be offset by gains in transportation equipment and food processing, which will continue to do well.

Figure 9

Value of Monthly Food Processing Shipments

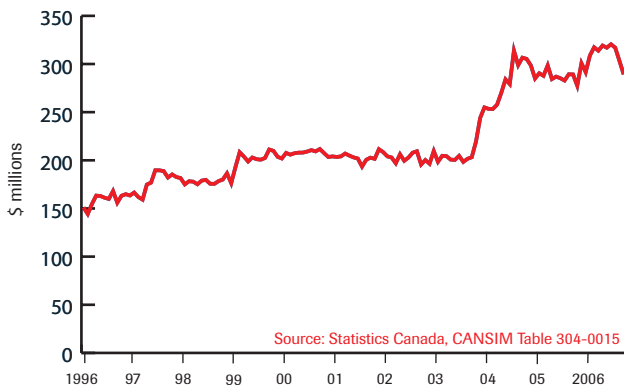
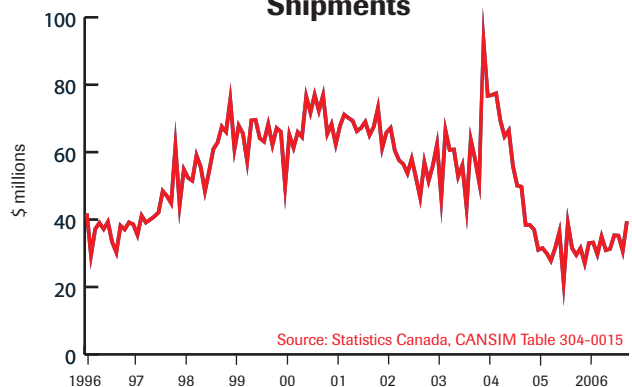


Figure 11

Value of Monthly Aerospace Manufacturing Shipments



6. Agriculture

Figure 12

Farm Cash Receipts (\$millions)

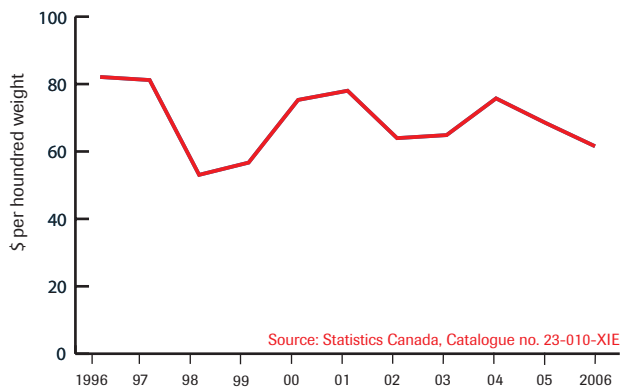
	Jan.-Sept 2005	Jan.-Sept 2006	% change
Manitoba	2,759	2,562	-7.1

Source: Statistics Canada, The Daily, November 24, 2006.

Total farm cash receipts are down 7.1% in 2006 (first three quarters over the same period in 2005), largely as a result of lower hog prices in the domestic and international markets. Statistics Canada reports that prices for Manitoba hogs averaged \$C 61.55 over the first nine months of 2006, down from a recent high of over \$C 75 in 2004. Weaker pork markets in the US, a resurgence of cattle production and beef consumption post-BSE, and a stronger Canadian dollar have been factors in the weaker prices.

Figure 13

Manitoba Hog Prices



On the grains and oilseeds side, the 2005 growing season ended on a positive note for many Manitoba farmers. The quality and yield were, on average, better than initially expected. Some crops did surprisingly well. In a few isolated regions, crop yields were disappointing due to the dry and hot conditions. Prices for wheat, barley and canola have been stronger in 2006 than they were last year, and forecasts by TD Economics suggest prices will strengthen further in 2007. The better fortunes for Manitoba crop farmers will help to offset the declines in livestock, preventing a steeper decline than the 7% drop posted over the first three quarters. Overall, agriculture income in the province for 2006 should remain fairly flat.

Figure 14

Grain and Oilseed Prices

	Wheat US\$/tonne	Barley US\$/tonne	Canola US\$/tonne
2000	147.08	145.33	185.25
2001	151.53	144.90	211.31
2002	176.07	159.31	253.45
2003	177.49	178.80	271.75
2004	186.49	155.19	283.48
2005	197.62	153.26	237.49
2006F	218.92	170.56	259.32
2007F	240.50	177.00	266.25

Source: TD Economics, Commodity Price Report, Nov.27, 2006

7. Population and Migration

Figure 15

Manitoba Population

	2003	2004	2005	2006
Population July 1	1,161,626	1,170,475	1,174,148	1,177,765
Annual % increase	0.5	0.76	0.31	0.31

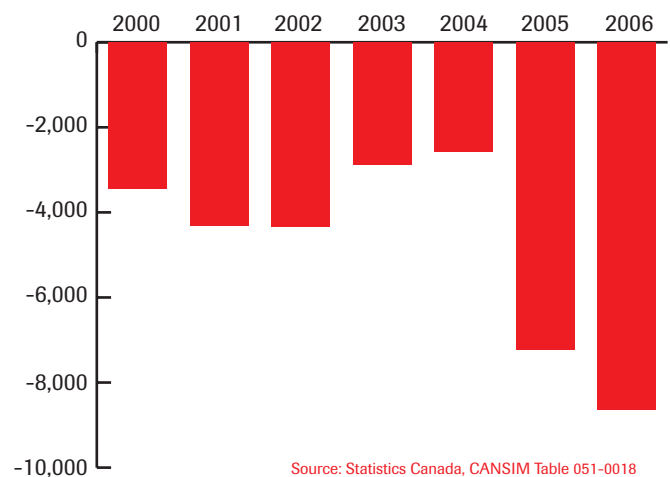
Source: Statistics Canada, The Daily, Sept. 27, 2006.

Manitoba's population has been showing steady gains over the last few years, although growth rates remain very slow and well below the national average.

Figure 16

Net Interprovincial Migration To/From MB

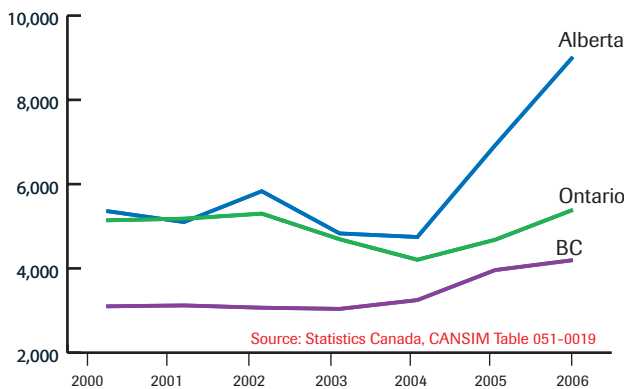
(as of July 1 for each year)



Manitoba has been suffering from a net outflow of residents to other provinces, particularly Alberta. While the net outflow stemmed somewhat in 2003 and 2004, falling to about 2,500 out-migrants per year, it increased to over 7,200 out-migrants in 2005 and 8,600 in 2006 (as of July 1 for each year). Migration from Manitoba to Alberta alone reached 9,000 in 2006, although some of this total is offset by some migration from Alberta to Manitoba.

Figure 17

Out-migration from Manitoba to Ontario, Alberta and BC



Offsetting the net outflow of interprovincial migrants, Manitoba has been very successful in attracting a growing number of international migrants. Since 2000, the province has more than doubled the number of international immigrants it welcomes annually to an expected 10,000 in 2006. This increased international immigration has boosted Manitoba’s population growth, retail sales, housing demand, employment statistics, and pool of skilled labour.

Manitoba has been a leader in Canada in using the Provincial Nominee Program (PNP), a partnership with the federal government in targeting immigrants with specific skills and expediting their immigration to the province. Approximately two-thirds of total international immigration in 2006 were nominees under the PNP. In 2005, the largest percentage of Manitoba’s international immigrants came from the Philippines

Figure 18

International Immigration and PNP Nominees to Manitoba

	2000	2001	2002	2003	2004	2005	2006(f)
Total Immigration	4,584	4,560	4,601	6,492	7,472	8,097	10,000
PNP nominees	1,088	972	1,527	3,106	4,048	4,619	6,700

Source: Manitoba Immigration Facts, Manitoba Labour and Immigration

(22.7%); immigration has also been strong from Germany (13.7%), India (8.3%) and China (4.7%).

8. Manitoba’s Competitive Situation

Earlier in 2006, the Canadian Manufacturers and Exporters warned that Manitoba’s manufacturing sector and its 68,000 jobs could be in serious jeopardy if the Canadian dollar reaches par with the US dollar and the Manitoba government does not take drastic steps to improve the province’s competitive situation vis-à-vis taxes and regulatory environment². As well, the Winnipeg Chamber of Commerce and the Manitoba Chambers of Commerce have repeatedly called for greater personal and corporate income tax cuts in the province.

In 2006 E.H. Price, a major Winnipeg manufacturer, announced it was expanding its workforce by 200 workers at its US operations, and that it was not able to add any positions in Manitoba. The province’s high taxes and regulatory environment were cited as the primary reasons.

Yet the provincial government has cut the small business tax rate by 50%, and will be reducing it by a further 13% by January 2007. Manitoba’s corporate income tax rate has dropped from 17% in 1999 to 14.5%, and a further 0.5% cut will take effect in July 2007. The R&D tax credit has increased to 20% from 15% three years ago.

Defenders of Manitoba’s business-friendly environment also point to the fact that while provinces like Alberta do enjoy lower tax rates, these are offset by higher costs for land, utilities, health care premiums and housing. A number of recent studies have found that, when total operating costs are taken into account, it is still less expensive to do business in Winnipeg than in many other major Canadian and US cities.

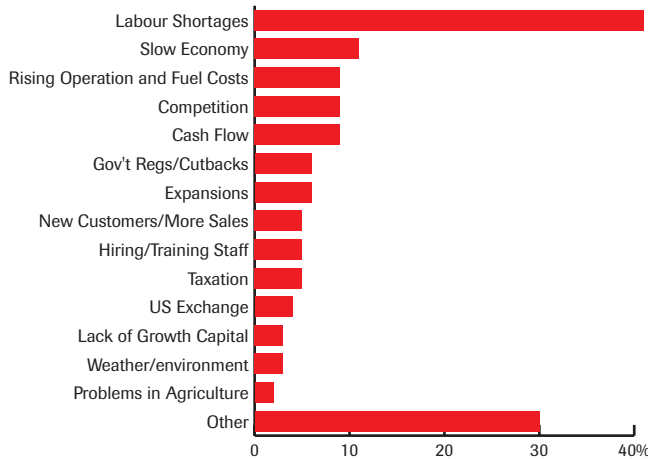
A recent survey of Manitoba’s business community³ found that the most significant challenge facing the province’s economy (noted by 41% of respondents) is the shortage of labour. Perhaps a bit surprisingly, government regulations (6%) and taxation (5%) were of far less concern to businesses. Even the challenge of the unfavourable US exchange rate was very low on the minds of Manitoba business leaders (4%).

However, when asked what must be done to attract new workers to the province, a quarter of the respondents recommended lowering taxes. And when asked what the provincial government could do to improve the overall business environment, nearly half (45%) suggested either lowering taxes in general or reducing business and payroll taxes.

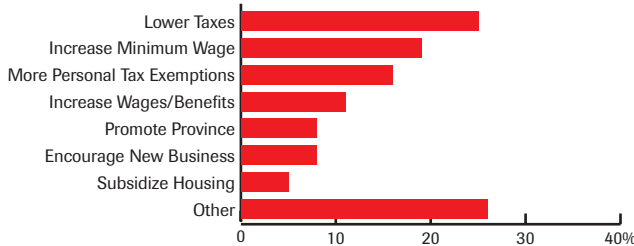
Figure 19

Manitoba Business Leaders Index

“What is the greatest challenge facing your company for the next 12 months? Are there any other challenges facing your company today?” (n=200)



“What, if anything, do you feel Manitoba must do to attract new workers to this province?” (n=200)



Source: Winnipeg Chamber of Commerce, Nov 27, 2006

In summary, it appears that there are several factors impeding business expansion in Manitoba. Higher corporate and small business taxes than in other provinces, higher personal income taxes and provincial sales taxes, the perception of an unfriendly regulatory environment, and a shortage of workers feature prominently among these challenges.

Doubtless, these factors are interrelated. The fact that 9,000 Manitobans left the province in 2006 for Alberta indicates that the labour shortages are at least partially due to high levels of taxation. Lower living expenses and housing costs in Manitoba are clearly insufficient incentive to stay for many of the people who are leaving.

Wages in Manitoba will also have to adjust in the short-term to remain competitive with the other western provinces and Ontario. The labour shortages should result in some wage increases in 2007, and perhaps the province will be able to partially “catch up” to the gains being made elsewhere. Lower

corporate taxes and provincial payroll taxes would also assist companies in offering higher wages.

9. Conclusion

Once again, it is Manitoba’s diversified economy that keeps its real GDP growth rates steady. Gains in construction activity, food processing, hydroelectric projects, crop production, and some areas of manufacturing have led to modest economic expansion in 2006. A slow down in hog production, weak wage growth, and only modest gains in aerospace manufacturing have been holding back growth this year.

The single largest challenge facing Manitoba’s economy is a shortage of labour. This has been caused almost entirely by high rates of interprovincial out-migration, which peaked at over 8,600 in the year leading up to June 30, 2006. Most of these out-migrants were attracted to Alberta, Ontario and BC, where wages and wage growth are much higher and taxes are lower. Fortunately, international immigration to Manitoba has more than offset the net interprovincial loss, which has resulted in population growth—albeit very slight growth.

If Manitoba is able to maintain and increase international immigration under the Provincial Nominee Program—and if it is able to reduce its corporate, small business, and personal income tax rates still further to levels more competitive with those in other provinces—it will greatly improve the chances of accelerating economic growth.

Also working in Manitoba’s favour in 2007 will be the escalating costs of living in Alberta. Last year alone, Manitoba lost more than 9,000 people to Alberta (offset only marginally by Albertans who moved to Manitoba). These 9,000 people were doubtless attracted by the plentiful job opportunities at wages well above those available in Manitoba. However, housing affordability and availability in Alberta has reached levels beyond the range of many new arrivals. This will help stem the flow of out-migrants from Manitoba.

The Canada West Foundation is forecasting real GDP growth rates of 2.9% in 2006, and 3.2% in 2007. [CWF](#)

¹The Winnipeg Chamber of Commerce, and Meyers Norris Penny, 4th Annual Manitoba Business Leaders Index, November 27, 2006.

²Winnipeg Free Press, Tuesday, May 30, 2006, p. B5

³The Winnipeg Chamber of Commerce, and Meyers Norris Penny, 4th Annual Manitoba Business Leaders Index, November 27, 2006.

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In 1970, the One Prairie Province Conference was held in Lethbridge, Alberta. Sponsored by the University of Lethbridge and the Lethbridge Herald, the conference received considerable attention from concerned citizens and community leaders. The consensus at the time was that research on the West (including BC and the Canadian North) should be expanded by a new organization. To fill this need, the Canada West Foundation was created under letters patent on December 31, 1970. Since that time, the Canada West Foundation has established itself as one of Canada's premier research institutes. Non-partisan, accessible research and active citizen engagement are hallmarks of the Foundation's past, present and future endeavours. These efforts are rooted in the belief that a strong West makes for a strong Canada.

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