

Avoiding Recession Contagion

Manitoba Economic Profile and Forecast

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WESTERN CANADA'S ECONOMY

Monitoring economic activity in the four western provinces is a priority for Canada West Foundation. One provincial economic profile and forecast report is produced each year for British Columbia, Alberta, Saskatchewan and Manitoba. These reports are supplemented by extensive media commentary and presentations on the western Canadian economy.

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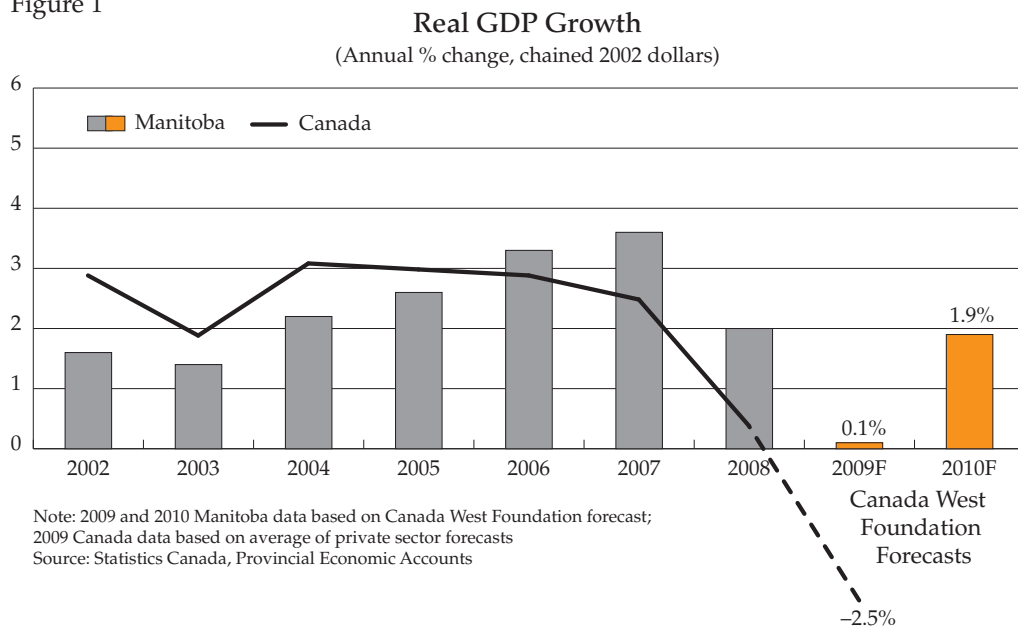
1. OVERVIEW

When we last examined Manitoba’s economic outlook at the end of 2008, the worldwide recession was in its initial stages. All we knew then was that it was going to be a big one, but we expected Manitoba to do better than most because it had reached a “sweet spot” – its diversified economy was giving the province “a degree of balance that other, faster-growing jurisdictions may come to envy at some point in the future.”

Well, that “point in the future” is now. Economic growth data for last year are nearly in the can, and it is hard not to adopt a told-you-so attitude. Just as the careful approach followed by Canada’s banking system helped it escape the global financial meltdown, the balance in Manitoba’s economy allowed it to avoid the recession contagion and, according to many analysts, stand out as the only province in Canada to post growth in 2009. Canada West Foundation estimates that Manitoba’s real GDP edged up 0.1% in 2009, and forecasts that it will grow 1.9% in 2010 (see Figure 1).

It is in times like these that Manitobans should remember that there is a benefit attached to having an unspectacular economy, with its moderate ups

Figure 1



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and downs¹. After all, who would argue against the case for getting rich at a slower pace and keeping your job, when the alternative is getting rich fast but occasionally facing sudden job losses? This is exactly what happened in 2009 in Manitoba, where despite a brutal 18% drop in international exports and an 11% decline in manufacturing shipments, there were no net job losses and the unemployment rate remained the second-lowest in Canada. Meanwhile, the rest of the country was doing far worse.

However, as Canada appears to be embarking on another period of growth, Manitoba's 2009 results do not mean that the province will be ahead of the pack in 2010 as well. The pendulum will swing back, for two reasons.

First of all, any post-recession growth usually includes some deferred spending carried over from the recession period. Therefore, the harder you fall, the more you bounce back, or as TD Bank Financial Group puts it, "not having lost much ground in terms of output and employment translates into less pent-up activity waiting to be unleashed" (TD Bank Financial Group 2009). Therefore, Manitoba's economy will not grow that much this year, simply because it didn't decline that much last year.

Second, at the risk of repeating ourselves, Manitoba's economic diversification rarely generates breakneck growth. In 2010, the main factor holding expansion back will likely be limited export growth, a reflection of the timidity of economic recovery in the US and the strength of the Canadian dollar. Most of the gains this year could very well come from a pick-up in residential construction, but that will not be enough to keep Manitoba ahead of the other provinces.

Acting as a background to this will be the post-recession fiscal reality faced by the provincial government. Manitoba starts a new decade with a new premier, but his new responsibility "may turn out to be one of those 'be careful what you wish for' triumphs" (Lett 2009). Attaining balance is hard work, and nobody said maintaining it was easy, but a premier with ten budgets under his belt could come in handy for this.

1 From 1982 to 2008, Manitoba led Canada in economic growth only twice (1984 and 1996). It was last only twice as well (1993 and 1995) but in each case the province still posted some growth.

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2. INDUSTRIAL PRODUCTION

Manufacturing

In a February 2009 issue of *The Economist*, the front page headline was unequivocal, announcing “The Collapse of Manufacturing.” In Manitoba, just like everywhere else in North America, this statement has turned true... in part. While 2009 will add up to one of the worst years on record for manufacturing, things could have been much worse had it not been for the low level in the Canada-US exchange rate over the January-May period, when the loonie hovered around 80 cents US and kept some export prospects alive. Still, after a modest advance in 2008, manufacturing sales in Manitoba plunged 11% over the first eleven months of 2009 compared to the same period in 2008 (see Figure 2).

The most significant sales decline occurred in the primary metal sector (-31.5%). Nickel processing was curtailed by reduced worldwide demand,

Figure 2

Value of Manufacturing Sales, Manitoba
(\$ millions)

	2007	2008	% chg	2008 Jan-Nov	2009 Jan-Nov	% chg
All manufacturing industries	16,168	16,378	1.3	15,143	13,488	-10.9
Food	3,634	3,710	2.1	3,405	3,354	-1.5
Primary metal	3,053	2,632	-13.8	2,474	1,694	-31.5
Transportation equipment	2,229	2,102	-5.7	1,925	1,750	-9.0
Machinery	1,100	1,428	29.7	1,310	1,341	2.4
Chemical products	821	1,116	35.8	1,029	969	-5.8
Fabricated metal	855	977	14.2	902	846	-6.2
Plastics and rubber	643	621	-3.6	578	544	-5.0
Printing	534	586	9.8	544	411	-24.6
Wood	620	579	-6.6	546	410	-24.9
Paper	447	448	0.2	413	351	-14.5
Electrical equipment	232	250	7.7	227	266	17.0
Petroleum and coal products	39	51	30.8	49	49	0.3
Other activities*	1,960	1,880	-4.1	1,791	1,549	-13.5

* Some industries are not available from Statistics Canada due to confidentiality.

Source: Statistics Canada, CANSIM Table 304-0015.

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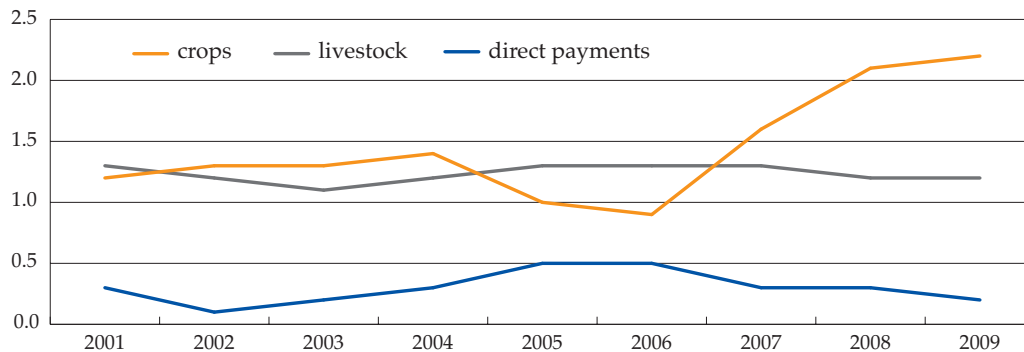
which paralleled a decline of about 25% in world prices compared to 2008 as a whole.

Transportation equipment sales dropped as well (-9.0%). Bus manufacturers faced order cancellations from major customers but many were simply postponed to 2010. Airplane parts production was hampered by delays in the development of Boeing’s 787 Dreamliner, which uses an array of part suppliers and innovative materials. The first in-flight test of this “game-changer” passenger jet finally took place in December 2009. The Dreamliner’s landing gear doors, among other parts, are composite² applications manufactured and developed in Winnipeg.

Primary Sector and Utilities

Over the last few years, market conditions in the agricultural sector have been more favourable to crop farmers than to livestock ones, with farm cash receipts for crops climbing while livestock receipts have been stagnant since 2007 (see Figure 3). From a 16% drop estimated in July, crop harvest projections for 2009 were upgraded to nearly a 10% increase for canola and a less drastic decline of 7% for wheat (Royal Bank of Canada 2009). Meanwhile, hog producers faced difficulties in spite of government support programs. The most visible obstacle is the export scare caused by the “swine flu” before the H1N1 moniker was adopted by the press. Country-of-origin labeling constraints in the US market were also an issue. Still, receipts for all of Manitoba’s farms were unchanged over the first nine months of 2009 compared to the same period in 2008, a good

Figure 3
Farm Cash Receipts (January to September), Manitoba
 (\$ billions)



Source: Statistics Canada, CANSIM Table 002-0002.

² Composites technology refers to the combination of two or more materials to develop a stronger and more durable final material. For more on composite R&D, see section 5 of this report.

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result when considering that they dropped by 4.2% nationally (Province of Manitoba 2009a).

Nickel mining slowed down just like its manufacturing counterpart did. Export markets were to blame, but in the case of the closing of Handout Crowflight’s Bucko Lake mine, so was a wrong selection of technology (Cash 2009a). There was some good news in the exploration area as Victory Nickel Inc. announced that, with capital availability, it was about to develop a project of about \$450 million at its Minago site in northern Manitoba (Cash 2009b). The economics of zinc mining were less forgiving, as low prices prompted the temporary closure of a mine in Snow Lake.

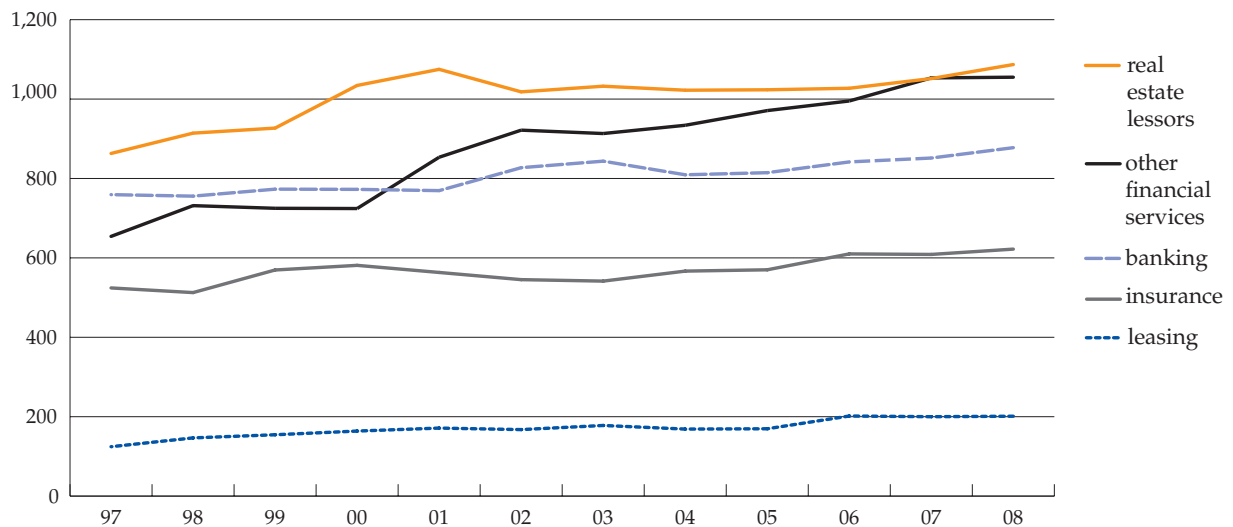
Hydro electric production is an important source of interprovincial and international exports for Manitoba. As a result of the slowdown, exports to the US were down by more than 30% over the first ten months of 2009, the worst result since 2003. Manitoba Hydro exports to over 30 other utility companies in Saskatchewan, Ontario, North Dakota and Minnesota through participation in four wholesale markets.

Financial Services

Manitoba’s financial services industry has made Winnipeg one of the largest financial centres in Canada. The city’s financial services sector

Figure 4

GDP, Manitoba, chained 2002 dollars,
(Finance, Insurance and Real Estate) (\$ millions)



Source: Statistics Canada, CANSIM table 379-0025.

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generates about \$5 billion worth of economic activity each year in areas such as banking, vehicle and equipment leasing, and wealth management (insurance, securities, mutual funds, etc.). In real GDP terms, most of the growth over the last decade took place within the latter, which falls under the “other financial services” category (see Figure 4).

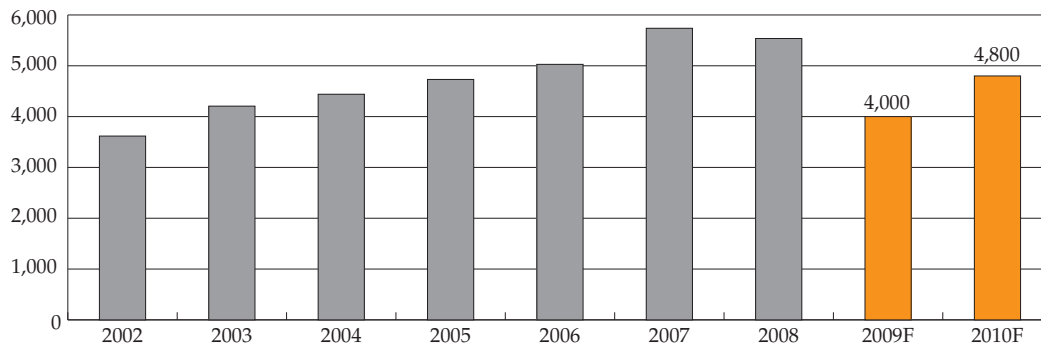
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3. CONSTRUCTION AND INVESTMENT

Manitoba’s housing market had an off-year in 2009, much like the rest of North America, but in a less dramatic way. According to Canada Mortgage and Housing Corporation (CMHC), Manitoba housing starts fell 27.8% to 4,000 units (see Figure 5). While this number was the lowest level since 2002, the drop in itself was less steep than in Saskatchewan (-47.3%), Alberta (-38.5%) or BC (-55.7%) last year. Prospects for 2010 are good for Manitoba, with an expected rebound of +20.0%, which will bring the number of starts just below the 5,000 threshold. A return to overall economic growth and strong immigration (see section 6), coupled with low inventories as a result of the 2009 slowdown, are the main reasons behind the positive 2010 growth forecast.

Home resales declined for a second consecutive year in 2009 (see Figure 6), down 5.7%. Manitoba was the only western province to post a decline in resale numbers in 2009, but this was essentially because its low point within the national slowdown was felt later than elsewhere in the West. In fact, the three other western provinces faced steep resale declines in 2008, ranging from -15% to -33%, whereas resales in Manitoba barely edged down (-2.9%). As a result, Manitoba resales in 2009 were only 8.5% below their 2007 level, with only Quebec and Newfoundland and Labrador faring better nationally over that period. As to housing prices, they will

Figure 5
Housing Starts, Manitoba, 2000-2010

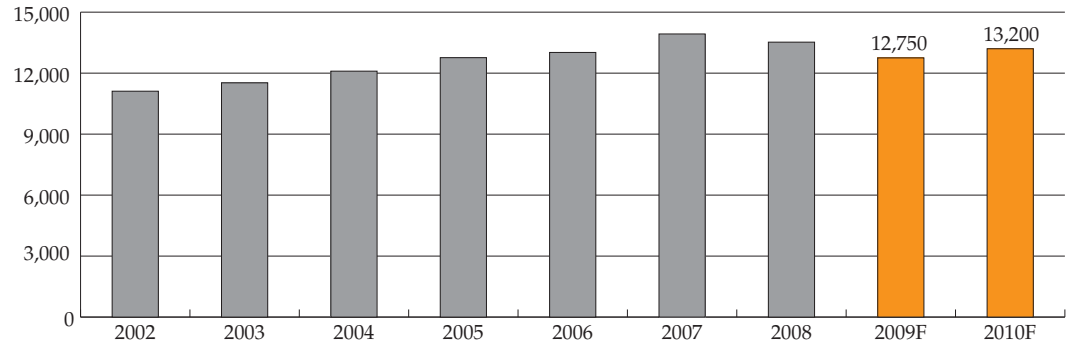


NOTE: 2009 and 2010 figures are CMHC forecasts.
Source: Canada Mortgage and Housing Corporation, *Housing Market Outlook - Canada Edition*, Fourth Quarter 2009.

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Figure 6

Residential Resales, Manitoba, 2002-2010



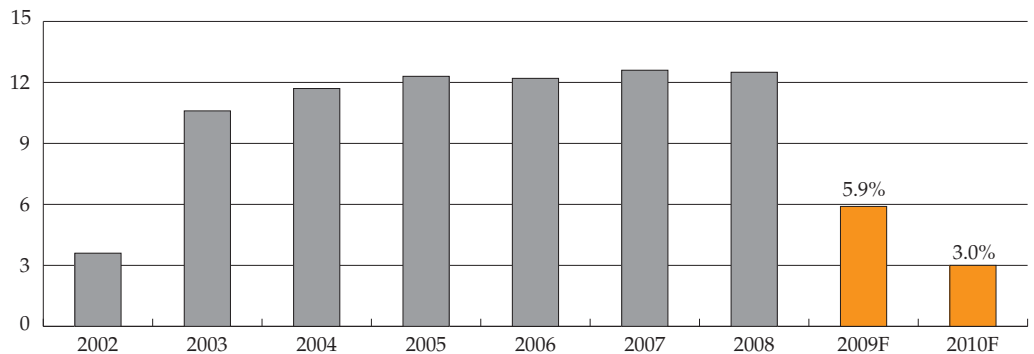
NOTE: 2009 and 2010 figures are CMHC forecasts.
 Source: Canada Mortgage and Housing Corporation, *Housing Market Outlook - Canada Edition*, Fourth Quarter 2009.

keep progressing in Manitoba through 2010, although in a considerably more moderate fashion compared to their pace over the 2003-2008 period (see Figure 7).

The value of non-residential construction projects was expected to edge down in 2009 but remain high on a historical basis (see Figure 8). While many areas of Canada eagerly anticipated big-ticket projects as a result of the federal stimulus package, Manitoba had its own, home-grown package already going before the downturn happened. As such, Manitoba Hydro’s Wuskwatim power generation project, the Red River Floodway and Winnipeg’s airport are old gifts that keep on giving to Manitoba’s economy. In the case of the airport, this public project is now joined at

Figure 7

Annual Percentage Change in Average Residential Resale Prices, Manitoba, 2002-2010 (%)

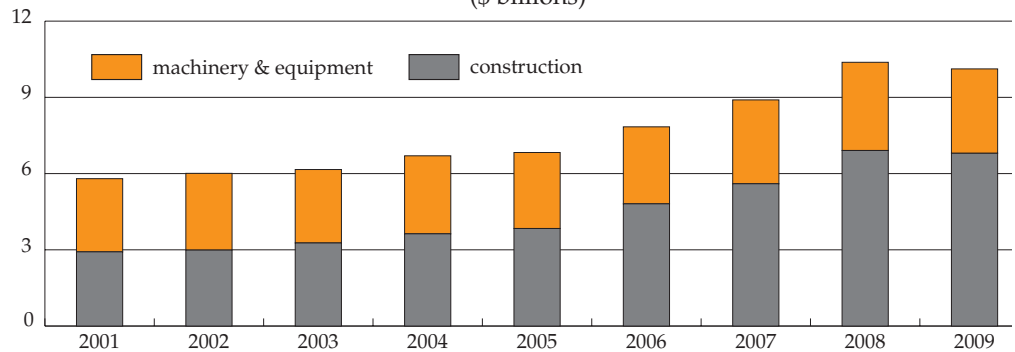


NOTE: 2009 and 2010 figures are CMHC forecasts.
 Source: Canada Mortgage and Housing Corporation, *Housing Market Outlook - Canada Edition*, Fourth Quarter 2009.

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the hip with the private sector’s CentrePort inland and intermodal port initiative. The synergy between the two has resulted in other projects, such as the \$212 million highway to connect the airport area with Winnipeg’s Perimeter Highway. This project links western Canada from east to west, with part of the funding for the new highway coming from the federal government’s Asia-Pacific Gateway and Corridor Initiative, a tongue-twister long-ago mastered by BC residents.

Figure 8
Private and Public Investment, Manitoba, 2001 to 2009
 (\$ billions)



NOTE: The value for 2008 is preliminary actual and the value for 2009 is intentions.
 Source: Statistics Canada CANSIM Table 029-0024.

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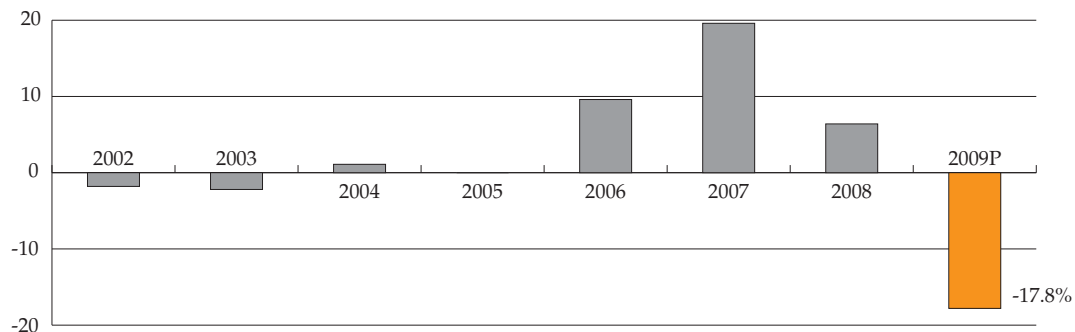
4. EXPORTS

It was not easy being an exporter in 2009. Demand dropped all over the world and protectionism reappeared like that creature we thought had been killed in a previous movie. “Canada has always been a trading nation and commerce remains the engine of economic growth,” says the new study guide for Canadian citizenship. Well, last year the engine stalled. Canada’s international exports fell 27.0% over the first eleven months of 2009, and Manitoba was caught in the downdraft with a drop of 17.8% (see Figure 9). To put this number in perspective, the average of all the other annual export declines for Manitoba (going back to 1981) is -1.5%. However, while there is not much consolation in it, other provinces fared much worse last year.

The autopsy of Manitoba’s export losses in 2009, and most other provinces for that matter, includes some gruesome details. Suffice it to say that the main contributors to the descent were commodities, chief among them copper (-49%) and nickel (-47%). Most trade categories posted declines, although there were a few green shoots in the barren landscape as exports were up for antiserum (+124%) and agricultural machinery parts (+31%). Most analysts expect a quick turnaround in Manitoba’s export performance in 2010, even with a Canadian dollar again near parity. The province has been increasing its exports to non-US export markets, especially agricultural equipment to Russia and wheat to Iran. This diversification should help in 2010 as well.

Figure 9

International Merchandise Exports, Manitoba, 2002 to 2009
(% change from previous year)



NOTE: 2009 preliminary based on first ten months of the year
Source: Industry Canada, Trade Data Online

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5. NEW INDUSTRIES AND RESEARCH

The diversification of Manitoba's economy is also visible when it comes to the development of new industries to complement older established ones. Here are a few examples.

Manitoba is the location of Canada's largest concentration of firms focused on composites research and development (R&D), with applications in the aerospace, automotive, biomedical, and sporting goods industries, among others. This group includes Bristol Aerospace, Boeing, Air Canada, Motor Coach Industries, Acetek Composites, Carlson Engineered Composites and Faroex Ltd. The not-for-profit Composites Innovation Centre (CIC) in Winnipeg, established in 2003 to act as an anchor institute for the composites industry in Manitoba, is jointly supported by industry and government. The CIC offers consulting and testing services and has helped many companies successfully develop and market new composite products.

Also in Winnipeg, the biotechnology and life sciences sector is quickly gaining attention. Anchored by a biomedical technology cluster, life sciences-related jobs in Manitoba surged tenfold between 1989 and 2004 and now number 4,200 people. The cluster started in 1992, when the National Research Council (NRC) opened the Institute for Biodiagnostics. Through its commercialization work, the cluster has created at least five technology spin-off companies, including IMRIS Inc., which produces magnetic resonance imaging (MRI) systems.

In 2005, NRC opened the Centre for Commercialization of Biomedical Technology, which provides research facilities and innovation services for up to 40 companies and technology organizations. In the infectious disease area, the Public Health Agency of Canada, the International Centre for Infectious Diseases, and the Canadian Science Centre for Human and Animal Health all operate out of Winnipeg. Major employers in the sector include Apotex Fermentation Inc., Vita Health, Cangene Corporation, Monsanto Canada Inc., and Biovail Corporation.

This has some spillover effects, for instance the development of local architectural expertise in the specialized field of containment laboratories and mission-critical facilities for medical and other clients. One niche creates another.

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6. POPULATION

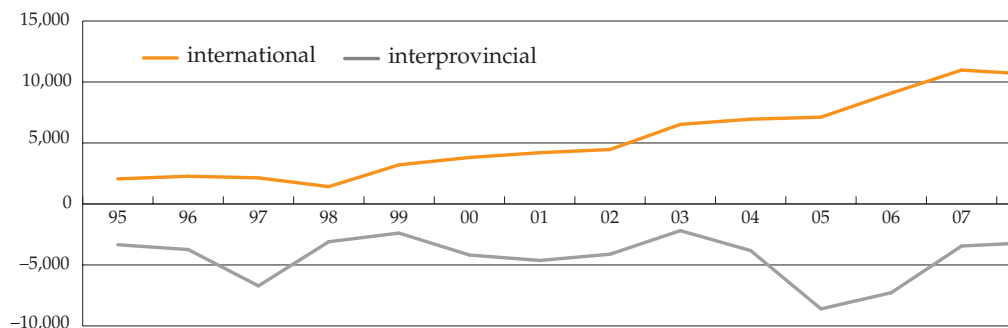
Manitoba’s population has been growing faster since 2008 after averaging half the national growth rate from 2001 to 2007. While natural population increase (births minus deaths) is edging up as a reflection of long-term demographic trends, the main source of growth is international migration and, to a lesser degree, interprovincial migration.

Net international migration to Manitoba has more than tripled over the last decade, from around 3,000 migrants at the end of the 1990s to more than 10,000 in both 2007 and 2008 (see Figure 10). This is a direct result of Manitoba’s Provincial Nominee Program (PNP), a partnership with the federal government for fast-tracking skilled immigrants. Nearly eight immigrants out of ten fall under this category in Manitoba, the leader among all provinces in terms of absolute numbers of PNP-channelled immigrants. In 2008, the Philippines were the main source of PNP immigrants with nearly 24% (Manitoba Labour and Immigration 2009). This is not over yet – projections based on data for the first three quarters of 2009 point to a further increase, up to a net level of 13,000 persons. A significant number of new immigrants have chosen to live in rural Manitoba where they constitute 1.7% of the rural population, the largest such proportion in Canada.

Net interprovincial migration has been a drain on Manitoba’s overall population number since 1984. In 2005 and 2006 in particular, the number of Manitobans moving out minus those moving in reached levels not seen since the early 1990s, mainly as a result of the Alberta boom. The migratory balance has somewhat stabilized at–3,000 after 2007.

Figure 10

Net Migration into Manitoba, 1995 to 2008



Source: Statistics Canada (Cansim Tables 051-0017 and 051-0037).

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7. LABOUR MARKET

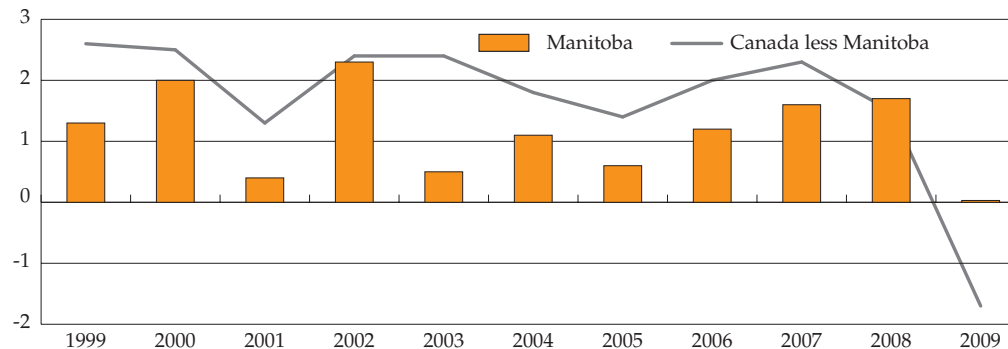
Manitoba’s employment performance in 2009 had a narrative quite similar to those of other indicators: not great compared to past results, but quite good compared to the rest of the country. In April the province even outperformed booming Saskatchewan and stood alone with the single lowest unemployment rate in the country, a feat it had not accomplished since 2004.

On the employment front (see Figure 11), while job creation was marginal in Manitoba in 2009 (200 jobs, a mere +0.03%), this was the hallmark of a successful year compared to Canada’s total loss of 277,000 jobs (-1.6%, the steepest drop since 1991). While two other provinces (New Brunswick and Saskatchewan) also posted job growth in 2009, Manitoba alone now has an uninterrupted annual job-creation sequence going back to 1993. There were some winners and losers in all the job-churning that produced this modest net growth: industries such as transportation and warehousing (+10.1%), education (+4.1%) and health care (+1.9%) made significant gains, while manufacturing (-10.5%) and agriculture (-8.0%) had less stellar performances.

In 2009 overall, Manitoba’s unemployment rate was 5.2%, second only to Saskatchewan’s 4.8% and well below Canada’s 8.6%. However, the jump

Figure 11

Employment Growth, Manitoba and Rest of Canada 1999 to 2009 (% change)



Source: Statistics Canada, CANSIM Tables 282-0002, 282-0007

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from the 2008 jobless rate (4.2%) was the most sudden for the province since 1992, during the previous recession. This goes to show that despite a small net gain in employment, difficult situations prevailed in many Manitoban families. In fact, although Manitoba led the country in economic growth in 2009, average wages increased only 2.9%, barely higher than Canada-wide growth (+2.8%). In 2007 and 2008, average wages in Manitoba had increased by 5.1% and 4.5% respectively.

Despite this, Manitoba remains a promising labour market and a very equitable one to boot: at 78%, its ratio of female-to-male wage rates is the second best in the country, just behind PEI (83%). The remarkable growth in Manitoba wage equity over the last decade is due to a faster increase in women's wages.

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8. CONSUMER SPENDING AND PRICES

As job creation slowed down in 2009, growth in labour income (the sum of wages, salaries and supplementary labour income) moderated as well (see Figure 12). The modest 1.9% gain observed over the first three quarters of 2009 compared to the same period in 2008 was the smallest increase in over 15 years. Still this was much better than the national increase of just 0.1% (Province of Manitoba 2009a).

With their income growing more slowly, Manitoba consumers spent the first half of 2009 in prudent mode, just like they had done over the last few months of 2008. As a result, retail sales are down 2.4% over the first three quarters of 2009 and are, according to Manitoba Finance, “on track for the first annual decline in retail spending since 1991.” Again, Canada-wide data portray a deeper decline, with retail sales down by 4.8% in 2009. Manitoba sales have been trending back up in the fall of 2009 as consumer confidence revived.

Figure 12



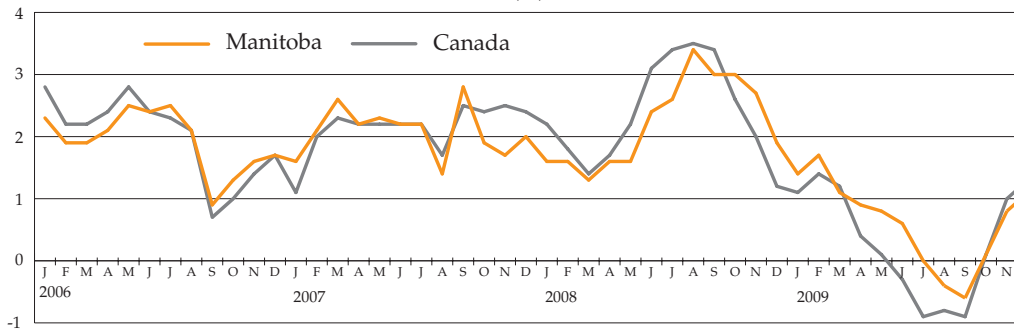
Source: Statistics Canada, CANSIM series V21645071, V1996494

According to most estimates, Manitoba consumer inflation averaged 0.8% in 2009, down significantly from 2.3% in 2008 and the lowest rate since the start of record keeping for provinces in 1979. As a guide, Canada’s inflation rate was near 0.2% in 2009, the lowest since 1955! Inflation is a measure of

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price movement, not price levels. While prices seem quite normal to the casual observer, their movement in 2009 (and more specifically, the drop in energy prices) was enough to bring inflation so low that many monthly inflation reports in 2009 featured negative inflation in some provinces, including Manitoba in August and September (see Figure 13).

Figure 13
Consumer Price Index Inflation 2006-2009, Manitoba (%)



Source: Statistics Canada, CANSIM Series V41690973, V41692055

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9. PUBLIC FINANCES

When a new premier is sworn in, there is often need for a new Minister of Finance. When the new premier *was* the Minister of Finance, and for ten years on top of that, expectations are set high for the incoming minister. Finance Minister Rosann Wowchuk would probably have preferred leaving Manitobans the gift of a surplus under the tree in late December, but too many surprises had emerged since the March budget to make this possible. No amount of gift-wrapping would have been able to hide the bad news in her mid-year update.

On the revenue side, declines in corporate taxes and delays in obtaining federal stimulus money were expected to create an annual shortfall of \$137 million in core government revenue compared to the Budget and a decline of \$173 million compared to the 2008-09 exercise's actual numbers (see Figure 14). In addition, profits at Manitoba Hydro were going to be lower than expected.

On the expenditure side, the H1N1 flu bothered Manitoba's government just as it had irritated its hog farmers, as it required an unexpected \$150 million in emergency measures. Combined with additional cost increases in health care, this added up to an increase of \$377 million in core expenditures.

As a result, where six months earlier the government was projecting a surplus of \$48 million, an expected deficit of \$592 million now looms. Even if economic conditions in the second half of the fiscal year improve

Figure 14

Provincial Revenue, Manitoba (\$ millions)

	2008-09 Actual	2009-10 Forecast	Change from 2008-09 to 2009-10
Individual Income Tax	2,455	2,383	-73
Corporation Income Tax	386	254	-132
Other Taxes	2,691	2,655	-36
Fees and other revenue	480	466	-14
Federal transfers	3,624	3,699	75
Net Income of Government Business Enterprises	534	541	7
Total	10,170	9,997	-173

Source: Province of Manitoba, 2009/10 Quarterly Financial Report (April to September 2009), Appendix I

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significantly, deficit-fighting measures will be expected in the next budget. This does not bode well for those who have been pressing for reductions in taxes, be they personal or corporate.

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10. CONCLUSION

Although Manitobans should be happy about this, many think that the “balanced” moniker has been used too often in the past when describing the province’s economy. According to them, it makes Manitoba come across as bland and boring. Well, 2009 proved that bland works: Manitoba escaped the recession, albeit barely, and compared to other Canadian provinces it did well.

The first reason for this is the obvious one, industrial diversification. Manitoba has a number of sectors which from one year to the next take turns pulling the province towards prosperity. Manufacturing and finance come at the top of the list (someone has to be) but they both manage to contribute to the province’s growth without overwhelming it.

Manitoba also benefits from significant commodity-centered industries such as crops and mining, but they do not dominate the provincial economic landscape nor hinder the provincial government’s policy range of action during the odd times when their prices decline. Low commodity prices are bad news for entrepreneurs and employees, but they don’t bring all of Manitoba down with them.

Finally, Manitoba has a solid portfolio of public projects underway. With the exception of the Red River Floodway, none of them are extraordinarily large or overpowering.

Other provinces in the West would love to be in Manitoba’s situation. Alberta, where almost one-fifth of the economy is tied to the oil and gas sector, faces both the positives and the negatives that come from having a lot of eggs in one basket. Saskatchewan last year saw potash and uranium prices go through unexpected declines, turning a potential banner year into a worrisome one. And in BC, many are saying “now what?” following the simultaneous completion of a handful of large Olympic-oriented construction projects.

While their western neighbours work hard at weighing public policy choices that will compensate for whatever balance is missing in their economy, Manitobans are starting to realize that in their case the right choice is to be happy with steady if not spectacular growth and stick to the balance that brings it. This could very well keep recession bugs away next time around, just like it did last year.

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