



Gaining Altitude

Manitoba Economic Profile and Forecast

Western Economy Project Report No. 7

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WESTERN ECONOMY PROJECT

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1. Introduction

It has been said that Manitoba is the microcosm of the nation. Its prairie landscape in the southern part of the province mimics that of Alberta and Saskatchewan. Mighty rivers and vast hydro resources in the north liken it to Quebec or British Columbia. Its mix of manufacturing and mining resembles Ontario. It is one of the more bilingual provinces, mirroring New Brunswick. It is the only prairie province with a salt water port. It is western, eastern, prairie, maritime, grassland, lake country, tundra, urban, and rural all at the same time.

In population, Manitoba ranks 5th out of the 10 provinces. In economic size, 5th again. In geographic area—6th. Of the twenty largest cities in Canada, Winnipeg is in the middle. It is even physically in the middle of the country. In many respects, Manitoba is the typical Canadian province.

Economically, Manitoba is the most diversified of the western provinces. As a result, it does not enjoy the booms brought on by high commodity prices, nor does it suffer the busts when they fall. Its mix of agriculture, manufacturing, natural resources, and high-tech research and development is, like its geography, a reflection of the broader Canadian economy.

Real economic growth in Manitoba will accelerate slightly in 2005 and 2006. But despite its economic diversity—or perhaps because of it—Manitoba will continue to lag well behind the other western provinces in real economic growth this year and next. Growth this year is likely to be around 2.5%, and 2.8% in 2006.

Most of the growth in the province will be focused in Winnipeg. According to the Conference Board of Canada, the services sector will bolster Winnipeg's economy in 2005. Stronger personal income and population growth will propel consumer spending. Real GDP growth for the city is forecast to come in at 2.7% in 2005.

2. Agriculture

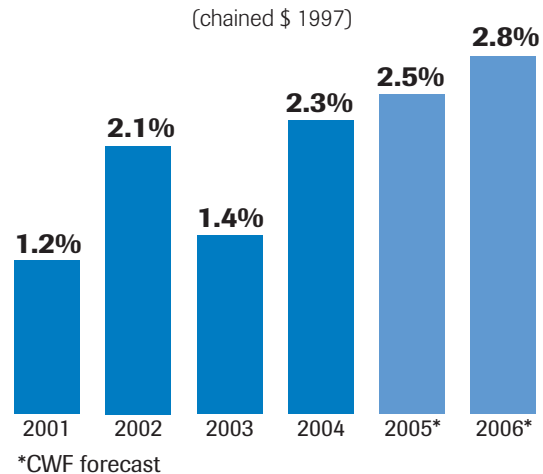
Widespread flooding during the summer of 2005 reduced or eliminated crops in the Red River Valley and Interlake regions of northeastern Manitoba. Over 1.5 million acres were hit severely by the floods; for any crops that did manage to survive, the average yield will be only about one-third of normal.

However, crop conditions in the southwestern parts of the province enjoyed average or slightly above average yields. This accounts for roughly two-thirds of the productive farmland in the province, and production here will offset much of the losses due to floods in the east.

The potato crop—a major cash crop in Manitoba—will be quite good, while edible bean yield will be below average. Soybeans, which tolerate higher levels of water, may approach close to average yields, and sunflowers have withstood the stress surprisingly well.

Obviously, the floods in the eastern parts of the province have left the water table quite high. Next year's crop situation will depend

Figure 1:
Real Manitoba GDP at Market Prices
Annual % Growth



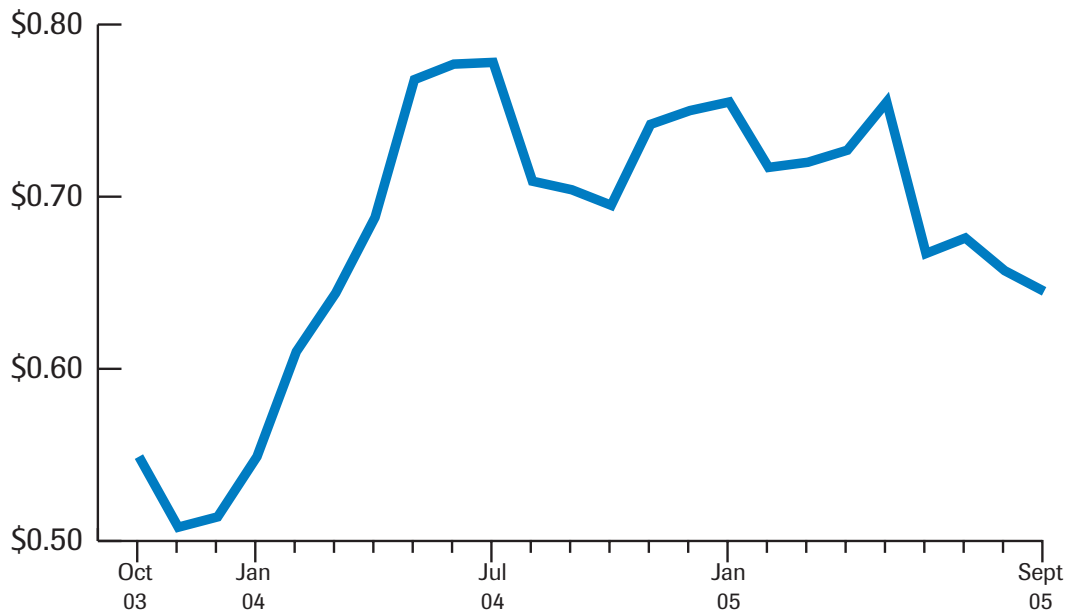
Source: Statistics Canada, and CWF forecast

Figure 2: Manitoba Farm Cash Receipts

	2000	2001	2002	2003	2004	Jan-June 2004	Jan-June 2005	% change
Total crop receipts	1,313	1,519	1,918	1,700	1,780	1,012	708	-30.1
Total livestock receipts	1,551	1,800	1,716	1,561	1,668	736	845	14.7
Cattle	367	467	451	285	208	82	158	91.3
Calves	117	106	105	56	58	8	9	17.4
Hogs	670	806	719	763	937	428	458	7.1
Total receipts, direct payments	287	382	219	308	459	220	362	64.7
Total farm cash receipts	3,151	3,701	3,853	3,570	3,907	1,969	1,915	-2.7
Total receipts, annual % change		17.5	4.1	-7.4	9.4	--	--	--

Source: Statistics Canada

**Figure 3:
Hog Prices, October 2003 - September 2005**



Source: TD Economics, TD Commodity Price Report July 13, 2005.
(Prices: live/lean, Chicago Mercantile Exchange, near month, closing, \$US cents/lb)

Figure 4: Yields and Production of Manitoba Crops, 1995-2005 (forecast)

	1999	2000	2001	2002	2003	2004	2005
Average Yield (kgs per hectare)							
All Wheat	2,500	2,700	2,200	2,400	3,000	3,000	2,200
Oats	2,900	2,900	2,300	2,500	3,000	3,300	1,800
Barley	3,000	3,400	2,800	2,900	3,400	3,700	2,500
Canola	1,700	1,600	1,500	1,700	1,800	1,700	1,300
Production (000s tonnes)							
All Wheat	3,900	4,266	3,431	3,355	4,163	3,877	2,499
Oats	854	1,016	748	1,018	1,095	904	416
Barley	1,215	1,622	1,235	1,176	1,372	1,367	701
Canola	1,708	1,488	1,134	1,452	1,769	1,788	1,161

Source: Statistics Canada, The Daily, Oct. 5, 2005 (based on survey of Sept.15, 2005)

on moisture conditions through the winter and spring. If there is above average moisture, the likelihood will increase for another year of flooding.

Total cash receipts in the province are down by about 3% in the first six months of this year, which is more reflective of 2004 crop production. Crop cash receipts are down 30%. Offsetting this is a 15% increase in livestock cash receipts, primarily because of the re-opening of the US border to live cattle and calf exports. Direct payments from the provincial and federal governments under a variety of support and insurance programs were also up significantly (+65%) in the first half of the year.

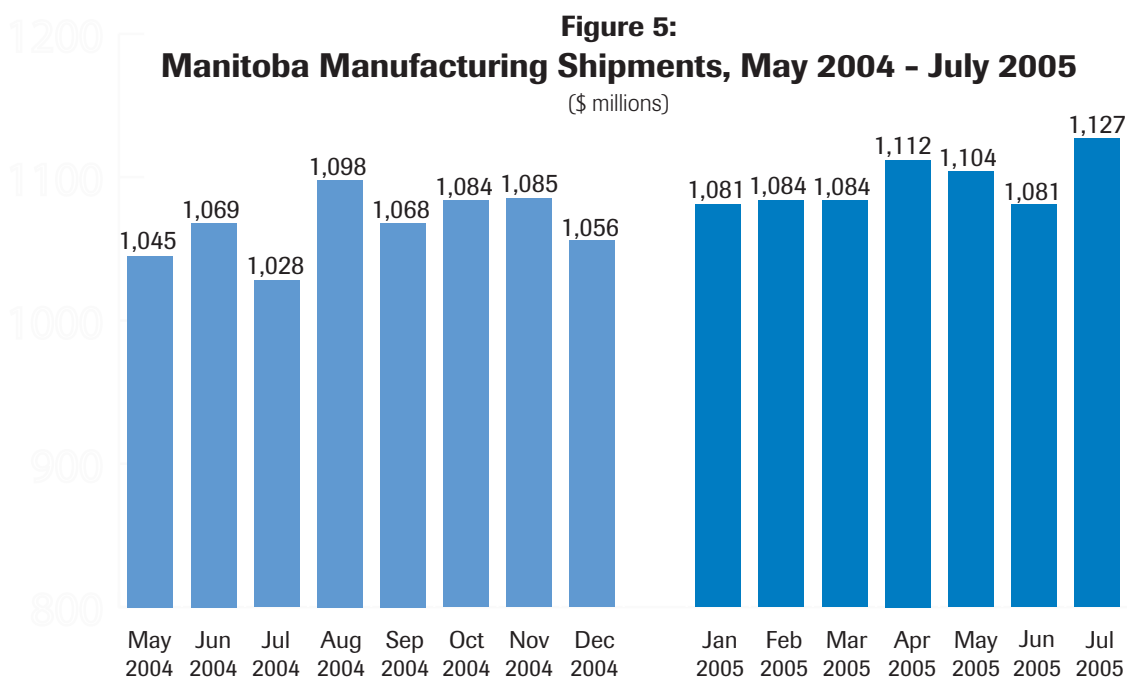
Cash receipts from hog farming in 2004 showed a year-over-year increase of 23%. Over the first half of 2005, hog receipts are up another 7%. Manitoba's hog farming sector now accounts for nearly a quarter of total agricultural income in the province. Prices had been quite strong throughout the first half of the year, although they fell somewhat during the summer. The general outlook for hog farming in Manitoba remains positive. Prices should continue to remain strong, lifted by healthy demand in the US and abroad (particularly China). Also, feed grain prices are low due to a glut of corn in the US, which will keep producer costs under control.

3. Aerospace Manufacturing

Manitoba's aerospace sector accounts for 20% of total manufacturing in the province. Four large companies anchor aerospace activity in Winnipeg: Standard Aero, Magellan Aerospace (Bristol), Boeing, and Air Canada Technical Services. Several small and medium-sized companies complement the large four, providing a range of parts manufacturing, engine repair and overhaul, fabrication, and composites (non-metal) parts.

As with elsewhere globally, Manitoba's aerospace industry was already declining somewhat prior to September 11, 2001; the slump was made much worse after the 9/11 incident. Commercial air carriers were facing an extremely difficult environment and, as a result, aircraft sales were extremely weak. This slump in aerospace manufacturing lasted for most of 2002 and 2003, but turned around with strong growth of 4%-5% in 2004.

While opportunities continue to immerge for aerospace manufacturers in the province, growth for 2005 will likely be only about 2%. Program delays and a cut-back in flying time on the United States Air Force Hercules has affected service contracts with certain Winnipeg companies. Realistic growth prospects for 2006 are in the range of 2%-3%.



Source: Statistics Canada

4. Food Processing

Food processing accounts for the largest portion of Manitoba's diversified manufacturing. The main manufactured food products include fresh and frozen meats, dairy, poultry, processed potatoes and vegetables, and beverages. Annual food and beverage manufacturing shipments totaled approximately \$3.4 billion—roughly a tenth of the total provincial GDP. Employment is estimated at 8,500 people.

Manitoba is home to several large multinational firms such as Maple Leaf Foods, McCain Foods, Archer Daniels Midland, and J.R. Simplot. However, the majority of the over 200 food and beverage producers are small and medium-sized enterprises.

Manitoba is one of the largest centres in Canada for processing and packaging pork, and is home to four modern, high-throughput hog processing plants: Maple Leaf in Brandon (slaughtering and packing), two Maple Leaf plants in Winnipeg (the former Schneiders plants, both slaughtering), and the Spring Hill plant in Neepawa (slaughtering and packing). The province is also home to three world-class potato processing operations that produce frozen products for international markets. More than 2,000 Manitobans are employed in pork slaughtering and processing.

The food processing industry is also bolstered by a concentration of research and development activity in the province. Winnipeg has always been the nation's grain economy headquarters with both the Canadian Wheat Board and the Canadian Grain Commission located there. But research and development infrastructure goes well beyond these. There are three Agriculture and Agri-Food Canada Research Centres (Brandon, Winnipeg and Morden), the provincial government's Food Product Development Centre, and the National Centre for Agri-Food Research in Medicine in Winnipeg, to name a few.

The manufacturing and research of nutraceuticals and functional foods has been an expanding in Manitoba and will continue to be one of the fastest growing sectors in Manitoba over the coming year.

The provincial and federal governments, through the Agri-Food Research and Development Initiative (ARDI), have recently 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 focuses 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 in Canada's nutraceutical research and development.

5. Other Manufacturing

Winnipeg-based New Flyer Industries is North America's largest manufacturer of city transit buses, and has recently received some major orders will boost production at the Winnipeg plant. The Washington Metropolitan Area Transit Authority (WMATA) has ordered 50 GM-Hybrid powered buses from New Flyer. The 50 buses will be delivered beginning in late 2005. WMATA's order follows a major trend among North American cities investing in new heavy-duty hybrid buses. They offer greater fuel economy, dramatically lower emissions and reduced maintenance costs over conventional diesel buses.

New Flyer has also been awarded the contract to manufacture alternate-fueled transit buses to the Orange County Transportation Authority (OCTA). The base order is for 50 compressed natural gas (CNG), heavy-duty, 40-foot vehicles to be delivered in 2006, with options for 150 buses in 2007 and 177 buses in 2009.

Garment and apparel manufacturing in Winnipeg have long been pillars of the province's economic base. However, as with much of the North American garment manufacturing sector, Manitoba has been losing production and jobs to less expensive production plants in Cambodia, Vietnam and China. This trend is likely to continue, with headquarters, marketing and design activity still remaining in Winnipeg, but with more and more production migrating offshore.

6. International Exports

Manitoba's sale of exports abroad reflects the diversity that characterizes the provincial economy. No one product accounts for more than 9% of total exports (although taken as a group, agricultural products account for about 18% in 2004).

Last year, total exports topped \$10 billion for the first time. During the first half of 2005, exports were up only 1.7% compared to the same time period in 2004. Holding back the value of Manitoba's exports in 2005 is the very strong level of the Canadian dollar. Wheat exports were down, but exports of nickel and hydroelectricity were up considerably because of strong prices.

7. Construction and Real Estate

Manitoba's total residential and non-residential construction activity was off slightly during the first eight months of 2005 compared to the same period in 2004. Housing construction, which accounts for just over half of the value of total building permits in Manitoba, shrank by 5.4%.

Figure 7: Building Permit Values (\$ millions)

	Jan-Aug 2004	Jan-Aug 2005	% change
Manitoba Total	757.2	747.8	-1.2
Residential	450.8	426.4	-5.4
Non-Residential	306.4	321.4	4.9

Source: Statistics Canada

Partially offsetting this decline was a gain of 4.9% in commercial and industrial building activity which is expected to continue strongly through the rest of 2005 and 2006. Included in the boom are the new headquarters of Manitoba Hydro in downtown Winnipeg, a new \$500 million terminal at the Winnipeg airport, and a \$660 million floodway project.

As well, there is the potential of a massive \$7-\$8 billion Conawapa dam project by Manitoba Hydro. A power sale agreement with Ontario is in the works, which could be announced within the next year or two. If the project goes ahead, construction will take several years to complete but will be a tremendous boost to provincial construction activity.

Housing prices in Winnipeg rose 10.9% in the third quarter of 2005 over the same period in 2004, according to a report by Royal LePage. The average two-storey home in Winnipeg was valued at \$191,571. In terms of percentage increase, the housing price increase in Winnipeg posted the fourth fastest growth rate of major cities in Canada. It topped the rates in other western Canadian cities such as Calgary (7.9%), Edmonton (9.1%) and Vancouver (8.8%).

**Figure 6:
International Exports From Manitoba** (\$ millions)

	2000	2001	2002	2003	2004
Wheat	501	675	535	613	892
Nickel	291	270	260	346	512
Canola	--	--	194	450	477
Crude Oil	443	664	757	489	401
Hydroelectricity	443	535	390	264	380
Copper	230	363	386	345	283
Potatoes	127	141	160	205	257
Buses	3	2	8	147	251
Swine	141	152	154	158	200
Airplane Parts	374	387	260	193	195
TOTAL	9,705	9,694	9,569	9,299	10,011

Source: Statistics Canada

Exports of Hydroelectricity, 2005 Year-to-Date

	Jan-July 2004	Jan-July 2005	% change
Electrical Energy (\$ 000s)	177,744	300,853	69.3%

8. Population and Employment

Manitoba's population has been showing slow but steady gains over the last few years, although at rates still below the national average.

Manitoba has been suffering from a net outflow of residents to other provinces, particularly Alberta and Ontario. While the net outflow stemmed somewhat in 2002/03 and 2003/04, falling to about 2,500 out-migrants per year, it increased to over 3,800 out-migrants in 2004/05. While migration to Alberta from Manitoba hit a high of over 6,000 during the past year, note also that migration from Alberta to Manitoba is at a recent high of over 3,600.

Offsetting the net outflow of interprovincial migrants, Manitoba has been very successful in attracting a growing number of international migrants. While still dwarfed by the number of immigrants coming to Toronto, Montreal or Vancouver, the province has nearly doubled the number of immigrants it welcomes annually since 2000 to an expected 8,500 in 2005. This increased international immigration has boosted Manitoba's population growth, retail sales, housing demand, employment statistics, and pool of skilled labour.

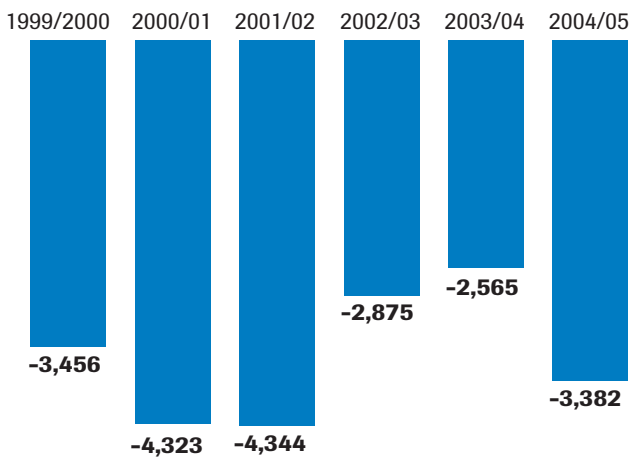
Manitoba has been a leader in Canada in using the Provincial Nominee Program (PNP), a partnership with the federal government in targeting immigrants with specific skills and expediting their immigration to the province. Over half (57%) of total international immigration during the first six months of 2005 have been nominees under the PNP. The largest percentage of Manitoba's international immigrants has come from the Philippines (16.5%); immigration has also been strong from Germany (9.5%), India (6.9%) and Korea (5.4%).

Figure 8: Manitoba's Population

	2003	2004	2005
Population (July 1)	1,161,626	1,170,229	1,177,556
Annual % change	0.5	0.7	0.6

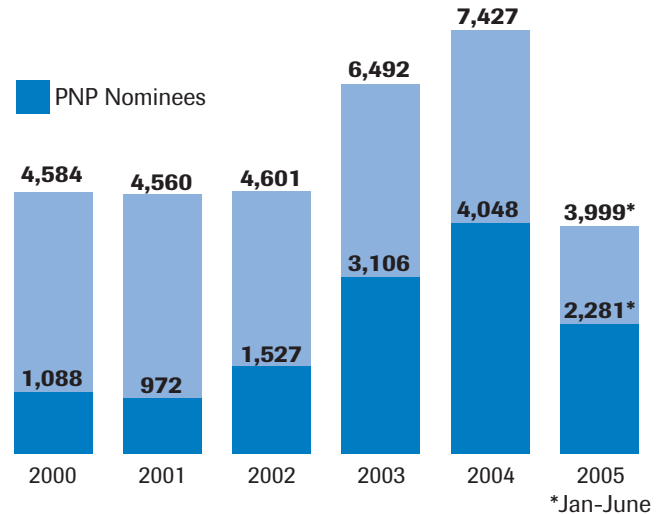
Source: Statistics Canada

Figure 9: Manitoba Net Interprovincial Migration



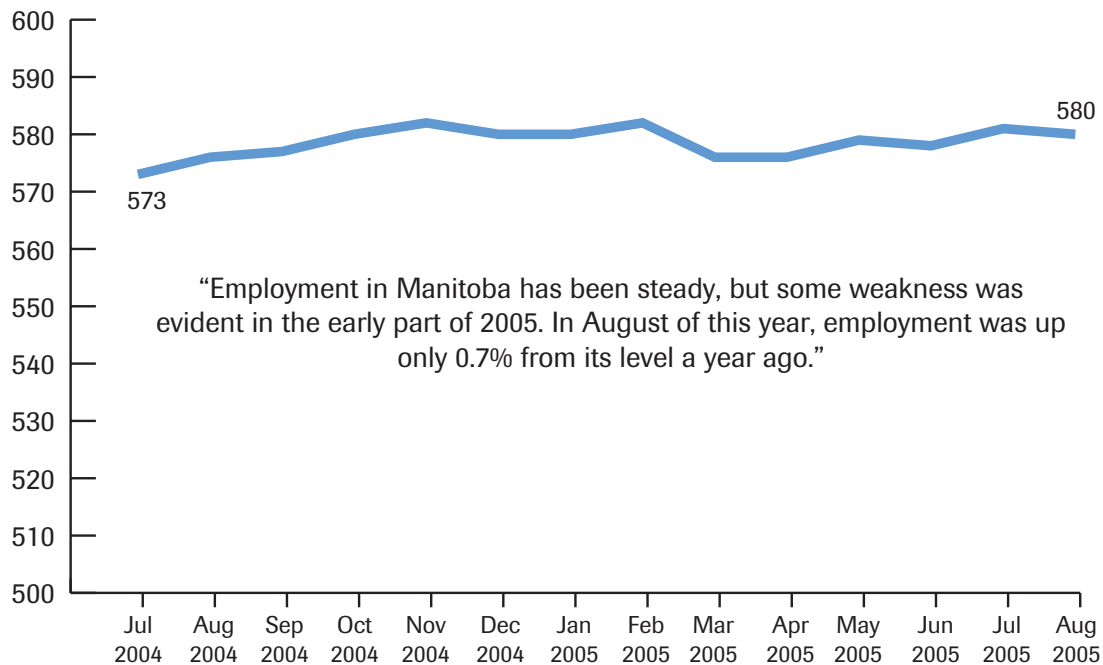
Source: Statistics Canada

Figure 10: International Immigration and PNP Nominees to Manitoba



Source: Manitoba Immigration Facts, Manitoba Immigration and Labour

Figure 11:
Employment in Manitoba (seasonally adjusted 000s)



Source: Statistics Canada

9. Public Finance

The provincial government in Manitoba had projected a slim surplus of \$3 million in its spring budget. However, the government warned in a September update that due to unanticipated emergency expenditures due to spring flooding and other unbudgeted costs, total spending will be higher than budgeted. This will mean either the surplus will be smaller than expected, or the province will not be able to contribute as much into the Fiscal Stabilization Fund this year.

Manitoba's tax environment is an issue that is frequently cited as having a negative effect on provincial economic growth. A recent study by the Chartered Accountants of Manitoba shows that the province has the lowest after-tax profits (relative to GDP), and the second highest corporate income tax rates when compared to its main competitors in Canada—BC, Alberta, Saskatchewan and Ontario. Levels of personal income taxes, capital taxes, and payroll taxes are also high. While the study recognizes that there are distinct advantages to doing business in the province—including a low cost of living and low hydroelectricity rates—the high effective tax levels are hurting the province as a place to invest.


10. Summary and Conclusion

Economic activity in Manitoba can only be described by one word: steady. With such a well-diversified range of sectors, the provincial economy does not boom—but nor does it go bust.

In 2005, growth should edge up slightly from last year. An active construction sector, strong base metal prices, a steady performance in manufacturing, and rising retail sales will help propel the economy to an expansion of 2.5% this year, and 2.8% next. In both years, the rate of growth will be somewhat short of the Canadian average.


Agriculture and farm cash receipts will remain fairly flat this year and next due to tepid commodity prices and poorer than average yields. The exception will be livestock farming, which will see gains in both hogs and cattle.


Holding back overall economic growth will be the stronger Canadian dollar and its dampening effect on exports. Many of Manitoba's major industries—agriculture, furniture and aerospace manufacturing, mining, hydro—are quite dependent on exports to the United States. While certain commodity prices will remain strong, the higher value of the Canadian dollar will lower the total income derived from sales to the US. The province's tax competitiveness will also remain an area of concern.

Overall, Manitoba's economic growth will gradually pick up speed over the next couple of years. Barring any major setbacks to agriculture or a major US recession, the outlook for Manitoba is for stable growth. The Canada West Foundation is forecasting real economic growth of 2.5% in 2005 and 2.8% in 2006. 

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Canada West Foundation announces a new western Canada-only student essay contest with \$5,000 available in prize money.





Students in the four western Canadian provinces (aged 17-30) are invited to share their thoughts on the future of the region.


How do you see the West changing?

What role do you see for yourself in the West of the future?

What is YOUR vision for the future of western Canada?

Young western Canadian residents (aged 17-30) attending (or planning to attend) a post-secondary institution in 2006-07 are eligible to earn prizes by submitting an essay before March 1, 2006. Visit the Canada West Foundation's new NEXT West Generation website at: www.cwf.ca/nextwest to download the full details and essay coversheet.

The contest grand prize includes \$2,000, a trip to Calgary to present your essay in person and the winning essay will be featured in a Canada West Foundation publication. Prizes of \$1,000 will also be awarded to the top essay from each western province.





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