



Strength in Diversity

Manitoba's Economic Prospects Into 2005

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BUILDING THE NEW WEST

This research report is part of the Canada West Foundation's ***Building the New West (BNW) Project*** – a multi-year research and public consultation initiative focused on the strategic positioning of western Canada within the global economy. Five key priorities emerged from an extensive research and consultation process and provide a framework for the ***Building the New West Project***:

- The West must create the tools to attract, retain, and build HUMAN CAPITAL;
- The West must continue ECONOMIC DIVERSIFICATION;
- The West must strengthen its TRANSPORTATION INFRASTRUCTURE;
- The West must promote the global competitiveness of its MAJOR CITIES; and
- The West must develop new ways of facilitating REGIONAL COORDINATION.

To learn more about the ***BNW Project***, please visit the Canada West Foundation website (www.cwf.ca).

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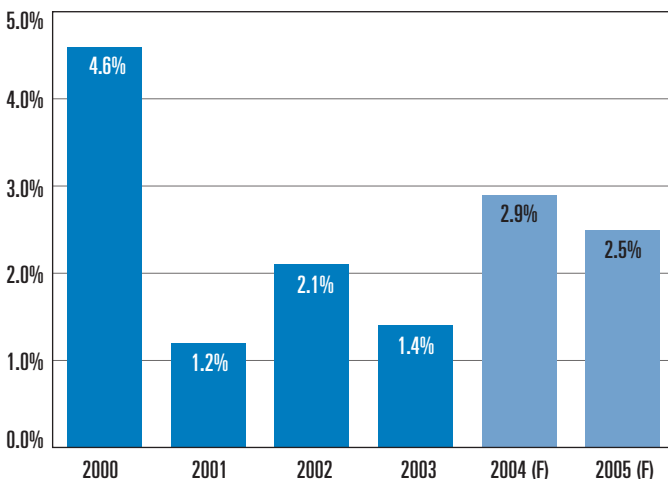
INTRODUCTION

The strength of Manitoba’s economy lies in its diversity. Unlike the other three more resource-dependent provinces in western Canada, Manitoba has fostered a good mix of agriculture, manufacturing, financial services, mining, and biotechnology research and development.

The benefit of this diversity is that the province is generally immune to deep recession or prolonged downturn. Regardless of the prevailing national and international economic conditions, there are always at least a few pistons of Manitoba’s economy that are able to power the province forward. The downside to such diversity – if it can indeed be considered a down side – is that the province does not enjoy the booms brought on by high resource prices, such as the boom currently being enjoyed in Alberta. Manitoba’s economy typically proceeds at a fairly moderate rate of growth.

This year has brought strong gains to Manitoba’s biotech and pharmaceuticals, food processing, non-residential construction, and base metals sectors. A strong turn-around has been posted in aerospace and transportation manufacturing. Agriculture has had a fair year, while housing construction has slowed somewhat coming off very high growth years in 2002 and 2003. Exports from the province have rebounded very strongly in 2004, with growth exceeding 10% during the first seven months of the year compared to the same period in 2003. The Canada West Foundation is expecting real GDP growth for Manitoba of 2.9% in 2004 (Figure 1).

FIGURE 1: Real GDP Growth in Manitoba, 2000-2005(F)
(Annual % Growth of Real GDP at Market Prices in Chained \$ 1997)



SOURCE: 2000-2003 are from Statistics Canada. 2004 and 2005 are CWF forecasts.

The provincial economy is expected to continue moderate growth in 2005. Strong growth in biotech and “life sciences” industries, resurgence in aerospace activity, and major non-residential construction projects will power the economy. Any progress on lifting the ban on Canadian cattle exports to the US will also contribute to growth. Dark spots on the horizon include uncertainty around a US Department of Commerce imposition of anti-dumping duties on live hogs, the future of base metal prices, land use policies of the provincial government, a higher valued Canadian dollar, higher interest rates, and the continual loss of garment manufacturing to lower-cost offshore sites. Growth in 2005 is forecast at 2.5%.

AGRICULTURE

Manitoba has a diversified agricultural sector with a wide mix of grains, oilseeds, specialty crops, and livestock farming (Figure 2). While total agriculture makes up only 4%-5% of total provincial GDP, the broader agricultural economy – including farm inputs, services to agricultural clients, and food processing – accounts for 12%-15% of the economy. In Manitoba, one of every eight dollars of GDP is associated with the agricultural sector.

FIGURE 2: Manitoba Cash Receipts by Commodity
(2003 in \$ millions)

	Dollar Amount of Cash Receipts	% of Total Receipts
Wheat	\$ 451.7	14.0%
Oilseeds	623.6	19.3%
Specialty Forage	224.9	6.9%
Vegetables	204.5	6.3%
Hogs	754.4	23.3%
Cattle	344.7	10.7%
Poultry and Eggs	153.7	4.7%
Dairy	174.4	5.4%
Other	305.8	9.4%
Total Market Receipts	\$ 3,237.7	100.0%

SOURCE: Statistics Canada.

CROP FARMING

Crop conditions in 2004 were average to good with yields being near their five-year average in most areas. A killing frost in early October ended the growing season for crops through most of the province, but warm and dry conditions in the middle of the month allowed for almost all of the crops to be harvested. The trade-off will be between the reduced quality due to the frost and the high yield because of the dry harvesting conditions.

Statistics Canada's recent forecast for crop yield and production indicates that Manitoba's wheat production will be down from last year, but up from 2001 and 2002. Barley and canola production will be close to that or somewhat greater than production in the last few years (Figure 3).

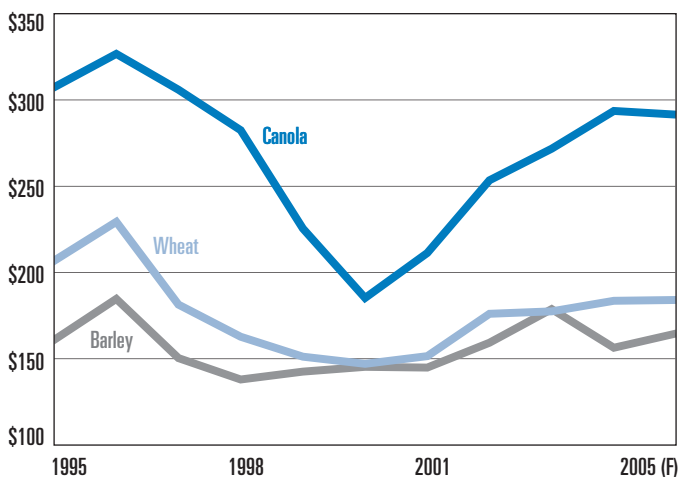
FIGURE 3: Manitoba Crop Yields and Production
(2000-2004 Forecast)

	2000	2001	2002	2003	2004 (F)
WHEAT					
Average Yield (kg/ha)	2,700.0	2,200.0	2,400.0	3,000.0	2,800.0
Production (000 T)	4,266.0	3,430.6	3,355.2	4,162.5	3,597.7
BARLEY					
Average Yield (kg/ha)	3,400.0	2,800.0	2,900.2	3,400.0	3,400.0
Production (000 T)	1,622.0	1,234.5	1,175.7	1,371.7	1,393.4
CANOLA					
Average Yield (kg/ha)	1,600.0	1,500.0	1,700.0	1,700.0	1,500.0
Production (000 T)	1,487.8	1,134.0	1,451.5	1,735.0	1,598.9

SOURCE: Statistics Canada. 2004 forecast based on September 1-14 survey released October 6, 2004.

Grain prices have risen somewhat from the lows of the early 2000s, and are expected to remain fairly stable in 2005. According to TD Economics Commodity Price Report, the benchmark price for wheat is expected to average \$US 184/tonne this year and next – a level not seen since 1997. Similar increases are forecast for canola (Figure 4).

FIGURE 4: Crop Prices
(1995-2005 Forecast in \$US/tonne)



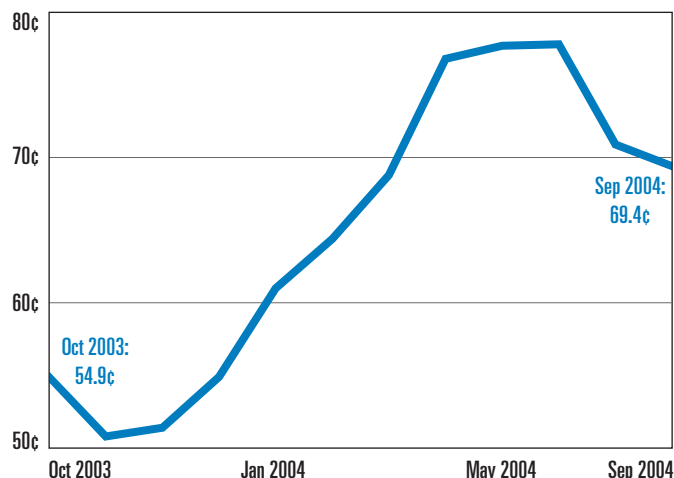
SOURCES: Wheat: Canadian Wheat Board (historic). Barley and Canola: Canadian Grain Commission (historic). Years 2004 and 2005 are TD Economics forecasts. Pricing Units for Wheat: Can., St. Lawr., CWSR, 13.5%, \$US/tonne. Pricing Units for Canola: WCE cash, 1 Can. Vancouver, \$US/tonne. Pricing Units for Barley: Malting, CWB, Spec. Select GR, Thunder Bay, \$US/tonne.

If these prices are sustained and crop yields and quality are at least average, it could translate into a well-needed boost in income for crop farmers.

LIVESTOCK

Even before the outbreak of BSE, livestock farming in Manitoba was weighted more heavily in favour of hog farming. The growth of hog farming over the past decade in the province has been very strong, and in 2003 total receipts were \$754 million. Due to some softness of price over the past few years, the total inventory of hogs in the province has remained fairly flat. However, prices have risen over 2004 (Figure 5), which may lead to an increase over the next year.

FIGURE 5: Hog Prices
(October 2003-September 2004, in ¢US/lb)



SOURCE: TD Economics, TC Commodity Price Report September 28, 2004. (Prices: live/lean, Chicago Mercantile Exchange, near month, closing, ¢US/lb.)

The hog and pork sector in Manitoba will be affected by new trade action taken in the United States. On October 15th, the USDA announced a preliminary 14.06% antidumping duty to be imposed on Canadian live swine exported into the US. Manitoba producers will have to pay approximately \$24 on a slaughter hog (and about \$7 on a weanling) in duty. This could total as much as \$50 million annually. Last year, exports of live hogs from Manitoba totaled \$276 million – most of which went to the US.

The US International Trade Commission will issue its injury determination in mid-April. If it finds no injury to American producers, the duty will be eliminated and bonds collected in the meantime will be refunded. The final tariff will be announced in February or March of next year.

In the short-term, the import duty on live hogs could cause some shift in Manitoba's hog and pork industry towards increased slaughtering and packing activity in the province and elsewhere in Canada.

Cattle farming, as with elsewhere in Canada, remains mired in the uncertainty of the ongoing ban of live cattle imports into the US. Farm cash receipts for the cattle and beef industry were \$560 million in 2002, but fell to \$345 million last year; in the first six months of 2004, receipts were only \$83 million. It is difficult to say when the import ban will be lifted from live cattle, but until that point there is little optimism in the cattle sector for a recovery in prices or receipts. If the ban is lifted in 2005, there will be a sharp rebound expected for cattle ranchers.

MINING and BASE METALS

Mining activity in the province accounted for \$770 million in 2003. While small relative to total provincial GDP, it is an especially significant sector for many northern Manitoba communities that are reliant on mining and smelting operations.

Production of nickel – the most significant base metal mined in the province at \$492 million – increased in value by 22% last year as a result of higher production volumes and a 21% increase in average price (*Figure 6*). The value of copper produced in Manitoba declined by 27% to \$70.3 million due to lower production volumes. Similarly, the value of zinc produced in Manitoba fell by 18% to \$96.7 million. Copper and zinc make up approximately 8% and 11% (respectively) of provincial mineral production. Despite a 5% increase in price, gold production also slipped last year. The lower level of production resulted in total value mined falling by 25% to \$65 million.

In 2004, base metal prices have been extremely healthy which has increased production volumes, production value, and exploration in the province. Two major mining companies – Hudson Bay Mining and Smelting in Flin Flon, and INCO in Thompson – are responsible for most of the province's mining activity. Hudson Bay Mining and Smelting closed its Ruttan copper and zinc mine in Leaf Rapids in 2002, but remains active at its 777 mine and smelting operations in Flin Flon.

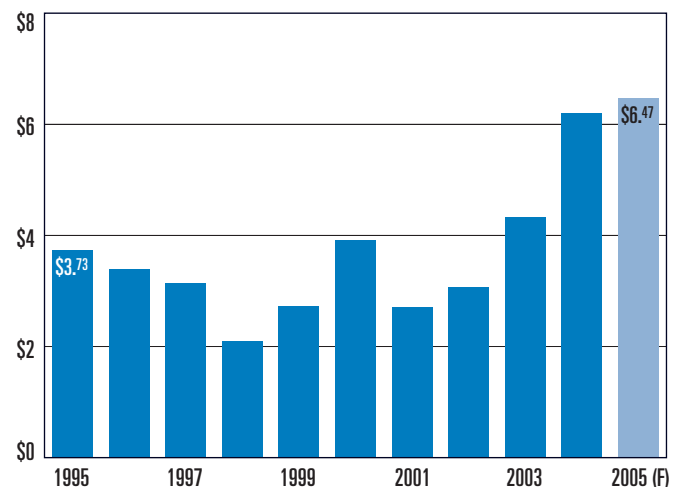
The provincial government's Mineral Exploration Assistance Program (MEAP) provides financial assistance for non-fuel mineral exploration in Manitoba. The MEAP program is

designed to increase exploration and to stimulate activities that may lead to the development of new mines and industrial mineral deposits. The provincial government announced in September 2004 that a total of 50 new exploration projects proposed by 37 companies will benefit from \$1.1 million in assistance from MEAP.

While the MEAP program has been a benefit to the mining industry, the provincial government's land use policies have been much less beneficial to the mining industry. There are particular issues with intended land use policy east of Lake Winnipeg that are causing uncertainty within the industry. Competing policies with regards to environmental protection and preservation of parklands and heritage rivers has led to confusion and uncertainty amongst mining sector interests. Until there is greater certainty to the province's intended land use policy, mining exploration will doubtlessly be held back.

One of the most pressing issues going into 2005 for Manitoba's mining sector is energy, both with regards to hydro-power and fuel prices. Manitoba Hydro is currently reviewing its pricing policies; if hydro prices were to rise to rates similar to those in Alberta, much of the competitive advantage of Manitoba's base metal smelters would be diminished. Also, high transportation costs due to high crude oil prices could also weaken the cost comparisons of the provinces smelters that are geographically remote.

FIGURE 6: Nickel Prices
(1995-2005 Forecast, in \$US/lb)



SOURCE: TD Economics, TD Commodity Price Report, September 28, 2004. Prices are from the London Metal Exchange.

BIOTECHNOLOGY and PHARMACEUTICALS

Despite having only 4% of the national population, Manitoba is home to 8% of the country's biotech industry, and a growing proportion of pharmaceutical research, manufacturing and distribution. Winnipeg has emerged as a major national and international centre for cardiovascular sciences, biodiagnostics, medical imaging equipment, plasma development, biopharmaceuticals, and infectious diseases.

According to the provincial government, Manitoba is home to 37 life sciences companies employing approximately 1,700 employees. Of these, seven companies account for about half of the employed persons in the sector. These companies are complemented by several research and development establishments employing 1,800 people. In total, the sector employs close to 3,500 Manitobans.

Manitoba's Life Sciences Sector

- Winnipeg's Cangene Corporation, a world leader in specialty hyper-immune plasma and biotechnology products, was recently awarded 2 contracts by the US Center for Disease Control (CDC) to develop drugs to respond to potential biological attacks.
- The National Research Council's Institute for Biodiagnostics, in Winnipeg, is the most advanced facility in Canada for studying and developing non-invasive diagnostic tools including NMR and MRI technologies.
- The Canadian Science Centre for Human and Animal Health, in Winnipeg, is the first and only global centre with level 4 bio-containment capability for the study of human and animal disease.
- The University of Manitoba's Faculty of Agricultural and Food Sciences is recognized for the leading role it played in developing canola. The Cereal Research Centre, located at the University, is Agriculture and Agri-Food Canada's lead centre for cereal genomics.

Source: Manitoba Industry, Economic Development and Mines.

Anchored by three large companies – Cangene Corporation, Biovail, and Medicure Inc. – Manitoba is well represented on the national and international pharmaceutical and biotech industry. There are also many smaller biotech research companies, major research ongoing at the University of Manitoba, and investments by the Government of Canada in health research and disease control.

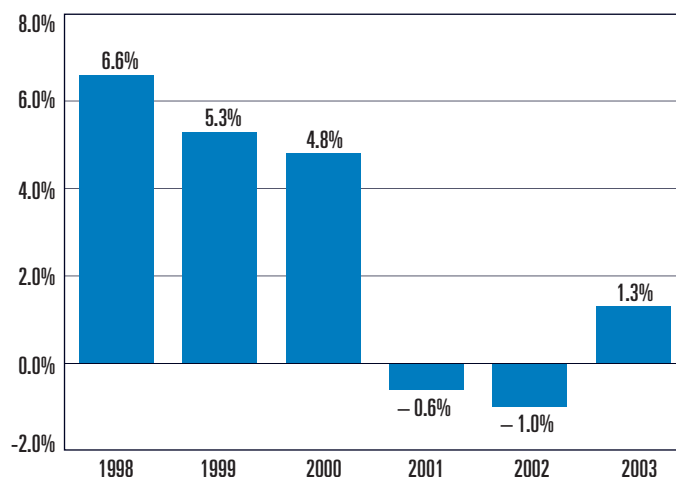
There is currently a great deal of optimism in the province's biotech sector. The critical mass of activity and knowledgeable workforce is in place, and venture capital funds are now being attracted to the investment opportunities that are being offered in Manitoba's biotech industries. The outlook for this sector is for continued growth.

MANUFACTURING

Manitoba's manufacturing sector is well-diversified. Major sectors include transportation equipment, furniture, food processing, garment manufacturing, and printing and publishing. As with all manufacturing sectors in Canada, there was a high level of anxiety in the province during 2002 and 2003 with the rapid and unprecedented rise in the value of the Canadian dollar vis-à-vis the US dollar. The fear was that the higher loonie would weaken Canada's competitive advantage and lead to a major decline in manufacturing.

This fear has largely been eased, however, as Manitoba's and Canada's manufacturers have generally performed better than expected (Figure 7).

FIGURE 7: Manitoba Manufacturing Shipments
(Annual % Change, 1998-2003)



SOURCE: Statistics Canada.

While falling in 2001 and 2002 – likely as a result of the mild US recession – shipments actually increased in 2003. In August 2004, manufacturers reported record high shipments of \$1.1 billion, up 6.6% from July and 16% from August 2003. Gains in transportation equipment and parts manufacturing led the increases.

FOOD PROCESSING

The largest of Manitoba's diversified manufacturing sector is food processing. The main manufactured food products include fresh and frozen meats, dairy, poultry, processed potatoes and vegetables, and beverages. Total food and beverage manufacturing shipments totaled approximately \$3.3 billion – roughly a tenth of the total provincial GDP. Employment is estimated at 8,500.

The industry is made up of close to 200 food and beverage manufacturers, most of which are small and medium-sized enterprises. However, Manitoba is also home to several large multinational firms such as Maple Leaf Foods, McCain Foods, Archer Daniels Midland, and J.R. Simplot.

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.

The food processing industry is bolstered by a concentration of research and development activity in the province. Winnipeg has always been the centre of the nation's grain economy, headquartering both the Canadian Wheat Board and the Canadian Grain Commission. But research and development infrastructure goes well beyond these examples. There are three Agriculture and Agri-Food Canada's 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.

A recent trend in Manitoba's food processing sector is in the area of nutraceuticals and functional foods, both of which are food components that provide physiological benefits or reduce

the risk of chronic disease. A functional food is similar to a conventional food, while a nutraceutical is isolated from a food and sold in dosage form. This is a rapidly growing area in consumer demand both because of an aging population and the trend towards healthier lifestyles and nutrition. Additionally, the University of Manitoba has just started construction on the new multi-million dollar Richardson Centre for Functional Foods and Nutraceuticals, a major facility that will further solidify the province's role in research.

The food processing sector in general – and nutraceuticals and functional foods in particular – is expected to be a leading economic sector in the coming year.

AEROSPACE

With approximately \$800 million in sales, Manitoba's aerospace sector accounts for 20% of total manufacturing in the province. There are approximately 4,700 employed in the sector, down from a high of over 5,500 a few years ago. Four large companies anchor aerospace activity in Winnipeg: Standard Aero, Magellan Aerospace (Bristol), Boeing, and Air Canada Technical Services. Another 15 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 in the world, 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.

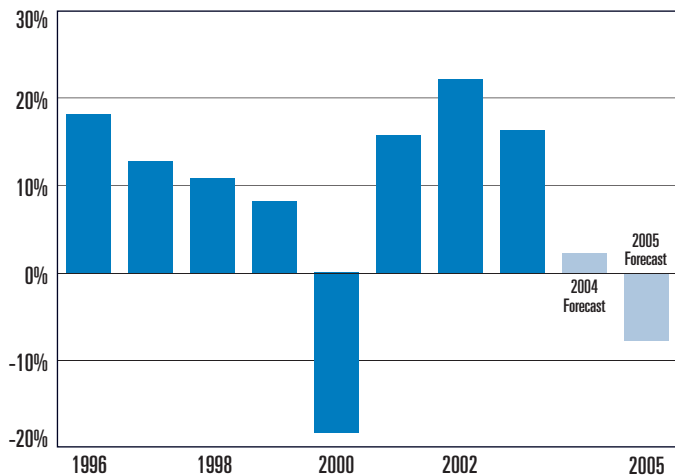
Manitoba's aerospace started to come out of the slump in the middle of 2004. One of the contributors to this revival has been the US Air Force, which has increased its contracts for service and repair as a result of American military operations. Also, there has been a noticeable increase in commercial activity during the last year. Boeing's Winnipeg plant has been selected as one of the facilities to do work on the 7E7 series, Boeing's next generation of commercial aircraft.

After several years of decline, Manitoba's aerospace industry is looking forward to an overall increase of about 5% this year, and is optimistic about additional gains in 2005.

CONSTRUCTION

Housing starts in Manitoba increased last year for the third consecutive year. Buoyed by low mortgage rates, solid job creation and good economic optimism, over 4,200 houses were built throughout the province. For 2004, the CMHC is forecasting housing starts to increase by 2.2%, but fall 7.7% in 2005 (Figure 8).

FIGURE 8: Manitoba Housing Starts
(All Areas in the Province, Annual % Change, 1996-2005 Forecast)



SOURCE: Statistics Canada and CMHC forecasts for 2004 and 2005.

Non-residential construction activity is also extremely strong currently in Winnipeg. The MTS Centre in Downtown Winnipeg – a major multi-purpose sports and entertainment facility – is scheduled to open this November. A new hotel at Winnipeg's *The Forks* also opened in 2004. Projects in 2005 and beyond include a new office tower for Manitoba Hydro, and the Richardson Centre for Functional Foods and Nutraceuticals. As well, there are plans for a Canadian Museum of Human Rights to be built. At this point, there are some private donations and funds in place but further capital commitments are required to move it from planning stage to reality.

HYDRO

Operating conditions for Manitoba Hydro's dams have improved significantly in 2004 compared to 2003 thanks to above normal snowfall in the southern and eastern watersheds last winter. Spring rainfall and wet conditions over the summer also contributed to the improvement in water flows. Manitoba Hydro is a key exporter for the province, and the dry conditions

over 2002 and 2003 had severely curtailed export sales over this period. The company reported a loss of \$436 million in net income in 2003-04. However, with the improved water flow conditions Manitoba Hydro is now expecting a return to electricity exports and a brighter financial outlook for the current fiscal year.

The province is currently in the planning stages for two new hydro dams:

The Wuskwatim Generating Station Project, located on the Burntwood River about 45 km southwest of Thompson, is one project currently being considered for development. The proposed plant would produce about 200 megawatts of electricity and will require less than one-half square kilometre of new land to be flooded. An environmental review has been completed and a recommendation given to proceed with the licensing process. Pending receipt of all approvals, construction of the generating station infrastructure could begin in early 2005, with electricity being brought to market by 2010 at the earliest. The project would also require the construction of transmission facilities to bring the electricity onto the provincial power grid.

Also in the planning stages is the Conawapa dam project and a new hydro transmission line from Manitoba to Ontario. The dam itself, estimated to cost close to \$5 billion, would be built on the Nelson River about 800 kilometres north of Winnipeg. If the project proceeds, it is expected to produce 1,250 megawatts of power annually (sufficient to power about 600,000 homes) and will take over a decade to complete. The governments of Manitoba and Ontario have recently nudged the project closer to reality by agreeing to jointly fund a detailed feasibility study. The project would also require funding from the federal government, and the cooperation of the province's First Nations communities.

Manitoba already produces 40% more power than it uses, most of which is exported to the United States. The Conawapa project would include a large-scale transmission line that would open up an east-west trade in electrical power, particularly to Ontario. There is also some discussion of power from this project being exported to Alberta for use in that province's massive oil sands projects.

PROVINCIAL GOVERNMENT FINANCE

Under its balanced budget legislation, the Manitoba government tabled its 2004/05 budget in April with a forecast surplus of \$3 million (after repayment to the debt/pension of \$96 million). This forecast balance was unchanged in the September update of the First Quarter results. There is not expected to be a draw upon the Fiscal Stabilization Fund this fiscal year.

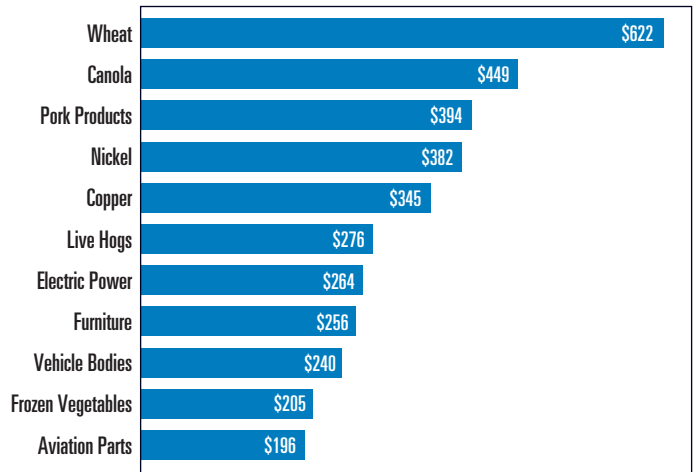
The province's debt-to-GDP ratio has fallen somewhat over the past five years. In 1998, the ratio was 23.3%; by 2003, the ratio had fallen to 18.8%, largely due to the province's economic growth. General purpose (tax supported) debt has actually fallen very little, from \$6.814 billion in 1995/96 to a forecast of \$6.37 billion in 2004/05. Offsetting this has been an increase in debt at Manitoba Hydro.

Total budgeted spending in 2004/05 is estimated at \$7.303 billion. As with most provinces, health care has grown tremendously in Manitoba and now accounts for 41.9% of total operating expenditures. Provincial revenues are estimated at \$7.571 billion, with nearly a third of this coming from federal government transfers. The government imposes a 7% sales tax, a top marginal personal income tax rate of 17.4%, and a corporate income tax rate of 15.5%. These are all in line with the average of other provinces.

EXPORTS

Of the four western provinces, Manitoba exports the least. Even Saskatchewan – with a slightly smaller provincial GDP – exports about 10% more than Manitoba. However, Manitoba's exports are much more diversified than the other provinces (Figure 9), which tend to be focused on forestry in BC, energy in Alberta, and agriculture in Saskatchewan. No single commodity accounts for more than 7% of total exports. This contrasts sharply with Alberta, where oil and gas exports account for nearly 70% of total exports. The advantage of this for Manitoba is that the export segment of its provincial GDP is much less subject to the vagaries that can affect certain industries (particularly natural resources).

FIGURE 9: Top Exports From Manitoba
(By Item in Millions of \$ Exported, 2003)

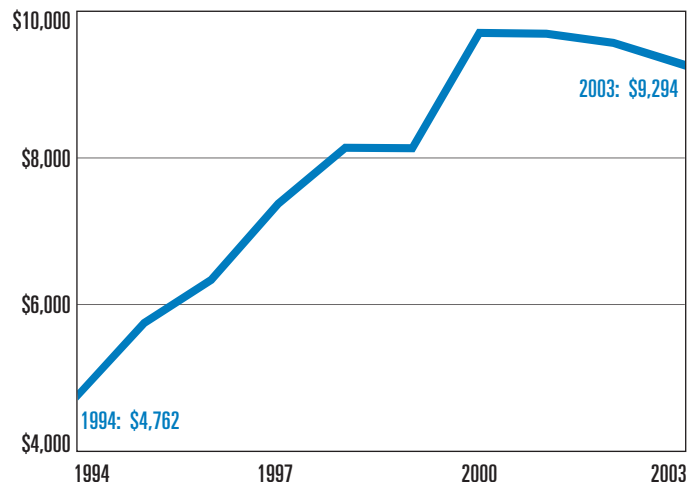


SOURCE: Industry Canada Trade Data On-Line (Statistics Canada).

Exports from Manitoba have fallen in each of the past three years from the high point of \$9.7 billion in 2000 (Figure 10). Last year, exports totaled \$9.3 billion, some 4% below the 2000 level. Of the province's major export items, the most significant drops in exports over this period have been in electrical energy and transportation parts (especially for jets). The downturn in exports over the period 2001-2003 can be blamed on the mild US recession, weak commodity production, and the rapid increase of the value of the Canadian dollar.

However, 2004 appears to be a turn-around year for exports in Manitoba. In the first seven months of the year, exports have risen by nearly 11% over the same period in 2003.

FIGURE 10: Total Manitoba Exports to All Countries
(1994-2003 in Millions of \$)



SOURCE: Industry Canada Trade Data On-Line (Statistics Canada).

Of the major export items, buses and public transportation vehicles are up 113%, wheat 103%, frozen vegetable products 63%, and nickel 61%. If the pace of export growth is sustained over the remaining five months of 2004, it will bring total exports to over \$10 billion – a record high for Manitoba.


CONCLUSION

Manitoba's economy remains well-anchored in the most diverse set of industrial sectors within western Canada. It's "no-boom, no-bust" growth pattern has served the province with moderate if unspectacular rates of GDP increase over the years.

The bio-tech and pharmaceutical sector, food processing, non-residential construction, hydro, and base metals have led

economic growth in 2004. A turn-around has been evident in aerospace and transportation manufacturing. Agriculture and housing construction have had a moderately good year.

In 2005, the economy will continue to grow but at a somewhat slower pace. Bio-tech and aerospace will both perform well, but hog production, base metal mining, and some manufacturing sectors may drag down overall expansion of the economy. As well, the economy may be slowed by the continued rise in the value of the Canadian dollar and the likelihood of higher interest rates in 2005.

The Canada West Foundation is forecasting real growth in Manitoba's gross domestic product (GDP) of 2.9% in 2004, and 2.5% in 2005. 



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