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Report on the Manitoba Economy 2011

Fletcher Baragar

Canadian Centre for Policy Alternatives–Manitoba

Author

Fletcher Baragar is an Associate Professor in the Department of Economics, University of Manitoba and a CCPA–Mb. research associate.

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Report on the Manitoba Economy 2011

I. Introduction

The economic crisis — a crisis which first gripped credit markets in August 2007 and which, by the fall of 2008, had carried the industrialized economies to the brink of a massive financial meltdown — has ushered in a global economic slowdown. Many countries, both rich and poor, found themselves in the midst of a recession while trillions of dollars of financial wealth evaporated. In North America, the United States was especially hard hit, but Canada also incurred substantial costs imposed by this latest round of economic reckoning.

The advent of the recession in Canada is clearly discernable in the tale told by the conventional economic indicators. Over the 2004 to 2007 period, the yearly increases in real gross domestic product (GDP)¹ consistently ranged between 2.5% and 3.1%. For 2008, however, the annual increase was just 0.5%. In the last quarter of 2008, real growth was negative. The economy continued to shrink in both the 1st and 2nd quarters of 2009, and the Canadian recession was officially confirmed. Despite a return to positive growth in the 3rd quarter of 2009, real GDP was still 3.4% below the level attained just 12 months earlier.² On the job front, the adverse effects of the recession is stark. Between October 2008 and October 2009, employment levels had dropped by about 400,000, and the unemployment rate rose from 6.3% to 8.6%.³

Economic downturns, however, just like economic expansions, unfold very unevenly across local, national and international terrain. In the period marked by the current crisis Manitoba, by national standards and also in comparison with the economic performance of the United States, has fared reasonably well. In 2008, real GDP in Manitoba increased almost 2%, which, as illustrated in Chart 1 (next page), was significantly better than that for the country as a whole. In 2009, real GDP growth in Manitoba dropped to zero, but Canadian GDP fell almost 2.8%. Nevertheless, as the 2008-09 slowdown in growth would suggest, the crisis has affected the provincial economy. This report, then, in its examination of the recent performance of the Manitoba economy, gives particular attention to the substantive effects of the crisis on the Manitoba economy, and identifies some of the more immediate challenges that these economic developments have produced.

The outline of this report is as follows. Section II looks at the Manitoba macroeconomy. The demand-side components of provincial GDP are examined through the respective expenditures of the household, business, and government sectors, and also by the province's trade balance as reflected in its exports and imports. Section III focuses explicitly on the provincial labour market. Section IV considers the provincial economy on an industry-by-industry basis. A brief summary and conclusion then follows.

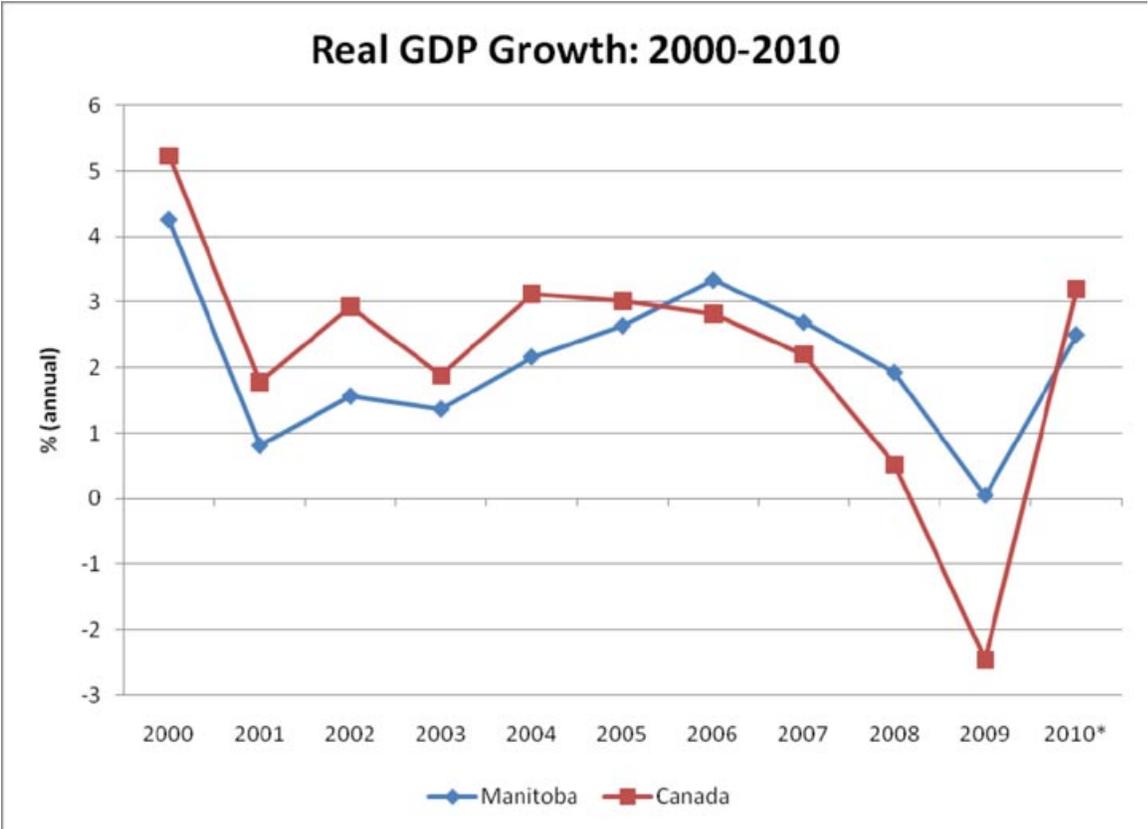
II. The Manitoba Macroeconomy

The data illustrated in Chart 1 shows that after the slowdown in 2001, annual growth rates for the Manitoba economy basically followed an upward trajectory for the next five years. In 2006, growth exceeded 3% annually – a rate which could be described as strong, though not spectacular. This growth reflects, in part, the economic boom that was rippling through the Western Canadian economy, and it is significant that the growth rates of Manitoba and the West were rising while, after 2004, that of Canada as a whole were beginning to slip downwards. The deepening of the economic crisis in 2008 put an emphatic end to the boom in the West. Alberta and British Columbia actually experienced negative growth in 2008, which stands in stark contrast to growth rates

of 6.1% (Alberta) and 4.4% (BC) that were achieved as recently as 2006.

The Manitoba economy tends not to experience the intoxicating ascents associated with boom economies but, by the same token, the province is able to avoid the sharp but sobering consequences that result when the boom goes bust. Cyclical fluctuations continue to be a feature of the Manitoba economy, but these fluctuations tend to be decidedly less pronounced than those experienced by the other Western provinces.⁴ Furthermore, in comparison with other recent recessions, Manitoba has this time been holding up rather well. Even with virtually no real growth in 2009, this was still a much better macroeconomic performance

Chart 1



Source: Statistics Canada, CANSIM series v15855432 and v15855804, and Statistics Canada, Statistics by Subject -Economic Accounts - Gross Domestic Product, available at <<http://www5.statcan.gc.ca/subject-sujet/theme-theme.action?pid=3764&lang=eng&more=0>>.

than the 3.3% decrease in real GDP that the province sustained in 1991 recession, or the 2.63% drop in GDP that occurred in 1982. Thus there are grounds for suggesting that even within the province, cyclical fluctuations have been moderated and that economic growth rates have become more stable. Nevertheless, the business cycle is a long way from being an historical curiosity. Fluctuations remain. They still pose economic challenges for Manitobans, and, within the province, the costs of adjustment are very unequally distributed.

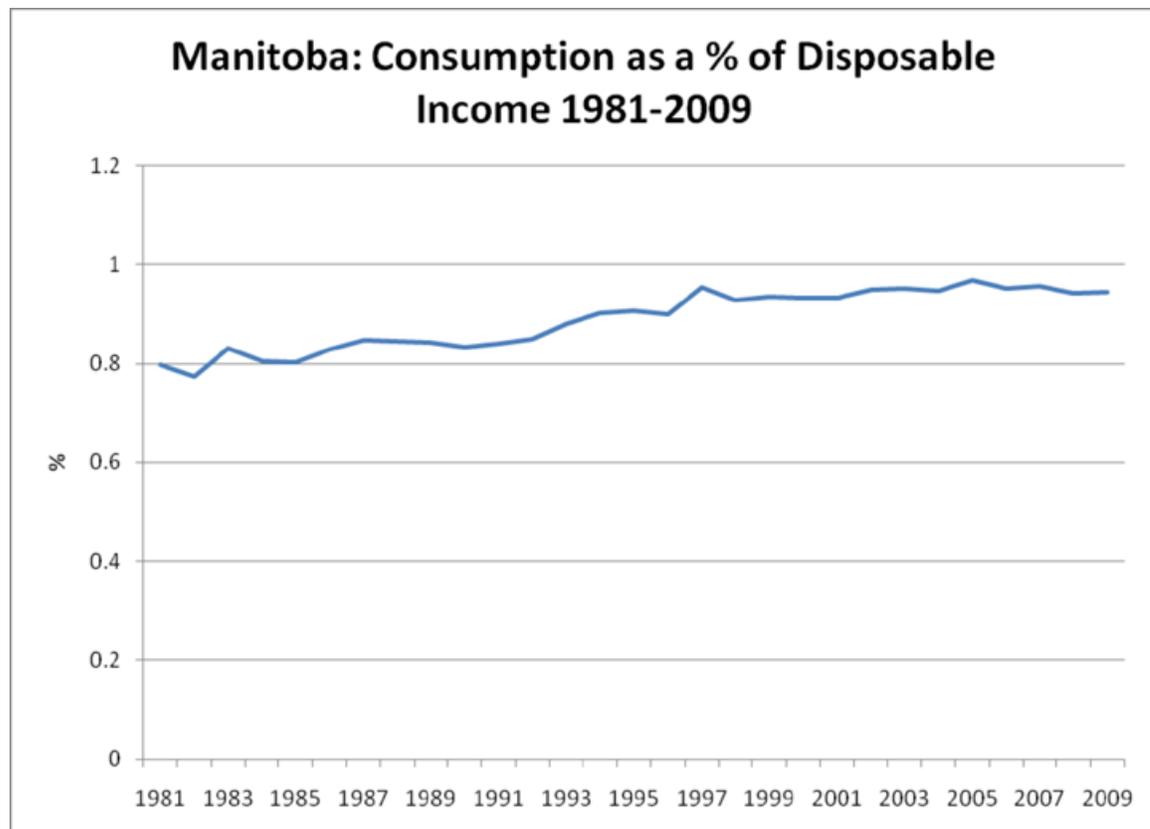
Consumer spending

In 2009, consumption expenditures in Manitoba amounted to \$27.4 billion (measured in 2002 dollars). That constitutes 66% of provincial GDP. The 2009 level of consumption spending was up about 1.6% from 2008 levels, but the rate of growth of consumption was slowing

down, having grown 3.7% in 2008 and 5.1% in 2007.⁵ Nevertheless, the 2009 growth rate still exceeded the rate of GDP growth. Indeed, growth rates for consumption that exceed those for GDP have pretty much been the norm in Manitoba since 2001. The gap between these growth rates widened appreciably in 2007 and 2008 and was maintained in 2009. This indicates that consumer spending has been one of the leading forces driving the growth of the Manitoba economy. Much of this strength in consumer spending is directly the result of rising incomes.

The primary determinant of the level of consumer spending is the amount of disposable income (personal after tax income) available to households. Disposable income in Manitoba grew at more than 6% per year in 2006, 2007 and 2008 but slowed down to 2.5% in 2009 with the economic slowdown.⁶ These

Chart 2



Source: Statistics Canada, CANSIM II, series v691678 and v691690.

figures are not adjusted for inflation, but with annual inflation measured by the Consumer Price Index (CPI) holding steady around the 2% mark and then dropping below 1% in 2009, this disposable income growth denotes substantial increases in household purchasing power. During this period, Manitoba consumers have been spending about 95% of their disposable income. As shown in Chart 2, this high ratio is the culmination of a rising trend that extends over the last 25 years. The economic forces underlying this trend are complex, but the recent high consumption-disposable income ratios have been generated in part by the presence of low interest rates, rising household wealth and high levels of consumer confidence. Up to 2008, the growing provincial economy and high employment levels (see section III of this Report) have acted to fuel the growth of personal income. These influences have interacted in a positive manner in raising the levels of consumer confidence, thereby inducing an increased willingness to spend, and, concomitantly, a willingness to borrow in order to help finance this spending. Furthermore, the growing economy has acted to raise housing prices. This raises homeowner's wealth and many households, encouraged by financial institutions seeking new borrowers, were able to utilize this home-based equity to obtain new and extended lines of credit. Finally, this period coincided with surging stock markets, both nationally and internationally, so the financial wealth of many households, especially those in the upper income brackets, and those who have invested in private pension plans, escalated dramatically.⁷

The positive effects of these economic forces on consumption spending in Manitoba were noted in the 2007 Report on the Manitoba Economy,⁸ but that report also raised concerns about the sustainability of the growth rate of this major component of demand. As it turned out, the recent crisis has seriously eroded some of the pillars supporting this

robust consumer activity. For example, the crisis hit equity markets hard. The TSX index sustained major losses after reaching its peak of 14,715 in May of 2008. By February 2009, the decimated index had been reduced to 8,123. It took two full years for the TSX to recoup its crisis-induced losses. In February 2011, the index stood at 14,136, only 4% lower than its pre-crisis monthly high, but even that rebound has not been sustained: renewed decline in the ensuing months brought the index down to 12,946 for July 2011.⁹ Secondly, as noted above, economic growth evaporated in 2009 and that put the brakes on employment growth. Finally, the cumulative effects of a virtually incessant flow of bad economic news on the national and international stage following the financial panic of September-October 2008 accentuated the erosion of consumer confidence. On their own, these factors could be expected to reverse the lengthy expansion of consumer spending in the province. There have, however, been some powerful countervailing forces at work.

One prominent counterforce that has operated to the benefit of consumers is the level of interest rates. As noted above, much of the surge in consumer spending in recent years has been supported by the extension of consumer credit. Consumer debt carries with it the obligation on the part of consumers to make regular interest payments on the debt, and these payments come out of household income. Discretionary household income is consequently quite sensitive to interest rate changes. Homeowners with variable rate mortgages are especially vulnerable, but even those with fixed rate mortgages must pay attention to new interest rate levels when the moment for mortgage renewal arrives. Similarly with other forms of consumer credit. Ironically, from the vantage point of many consumers, the outbreak and severity of the financial crisis has delivered some benefits. Central banks, desperate to keep credit flowing and

to provide some stimulus in the face of falling global demand, reversed the anti-inflationary upward drift in interest rates that was evident back in 2007. By the summer of 2007, the Bank of Canada had put an end to rate increases, and began reducing rates in December of that year. A series of rate cuts were initiated in early 2008, and then, as the financial crisis reached its climax, further rounds of rate reductions were implemented. For consumers, the “prime rate”, which stood at 6.25% back in November 2007, had been driven down to 2.25% by the spring of 2009, and remained at that historically low level until June 2010. Marginal increases in the summer of 2010 raised the prime rate to 3.0%, but it has remained at this relatively low level throughout the last part of 2010 and on through to the summer of 2011. Similarly, although less dramatically, the conventional 5-year mortgage rate had fallen from 7.5% in December of 2007 to 5.5% in December 2009, and then fluctuated around this level throughout 2010 and the first half of 2011.¹⁰

Some elements of fiscal policy have also operated to the advantage of consumers. These are most visible in recent federal budgets. For example, the federal government reduced the GST a full percentage point, bringing it down to 5% effective January 1, 2008. As part of the stimulus package in the 2009 Budget, the Home Renovation Tax Credit (HRTC) offered non-refundable tax credits for improvements to consumer’s homes, condos or cottages. The same budget increased from \$20,000 to \$25,000 the amount that individuals are able to withdraw from their RRSPs to help finance the buying or building of a home.¹¹

These particular interest rate reductions and stimulative tax measures have supported the housing market. In Manitoba, these factors along with the fact that employment levels avoided the sharp downward adjustment that plagued many other parts of the country contributed to the continuation of an overall up-

ward movement of housing prices. Canadian Mortgage and Housing Corporation (CMHC) has reported that for Winnipeg, despite the global financial crisis, the housing collapse in the US, the Canadian recession and the 2009 zero real growth for Manitoba, resale prices for existing homes still rose 5.3% in 2009. In 2010, existing home prices in the city increased 10.3%, a return to the double-digit increases that were the norm in the 2003 to 2008 period.¹² This housing price increase, and especially an increase that exceeds the rate of inflation, helps maintain and even augment the wealth of homeowners. This in turn reduced the perceived imperative for homeowners to reign in present consumption and in fact, facilitates further increases in spending by enabling them to utilize their home equity to extend their borrowing.

Finally, the erosion of consumer confidence and the pessimism associated with a sharp economic downturn appears, for Manitobans at least, to have reversed itself over the course of 2009. The Probe Research/Jory Capital surveys indicate that the degree of concern Manitobans have about losing their jobs or facing an unwanted reduction in hours has been falling since March of 2009. The firm’s December 2009 survey also noted that an increased number of Manitobans believe that their family’s financial situation actually improved over the course of the year.¹³ In another recent survey, PRA Inc. reported that the index of consumer confidence in Manitoba experienced its “largest annual upward gain” since 2000.¹⁴ These improvements seem to have continued in 2010 and 2011. For example, although the Conference Board of Canada’s monthly index of consumer confidence does not give an individual index for Manitoba, its index for the prairie region has consumer confidence up in 2010 relative to 2009, and up a further 5% in the first half to 2011.¹⁵

The final statistics for consumer spending in 2010 were not available at the time of writing, but, as the analysis above suggests,

stronger underlying fundamentals point to real increases in consumer spending at a pace greater than that recorded in 2009. Continued strength in this sector has helped moderate the immediate effects on the Manitoba economy of the national and international economic downturn. The concern about the sustainability of consumer spending (and especially the rate of growth of this spending) that was noted in the 2007 Report has not entirely dissipated. For example, mortgage arrears, as a percentage of total mortgages, are very low in Manitoba (about 0.27% as of August 2009), but this rate did incur a substantial increase over the rate that prevailed a year earlier (about 0.2% in August 2008).¹⁶ This is to be expected in the midst of a period of zero real GDP growth, although the rise in arrears is not reassuring given the fact that it occurred during a period when interest rates were falling. The return to growth in 2010, however, eases the pressure underlying the increase in mortgage arrears. Of potentially greater impact is the possibility of a rise in interest and borrowing rates. The drop of interest rates to their unprecedented low levels has encouraged borrowing and spending. These rates will not fall further, and there was considerable discussion among forecasters throughout 2010 about just how much those rates can be expected to rise, and when. Rising rates would compel some adjustment on the part of households who have accumulated debt and allowed their debt/disposable income ratios to rise. However, nationally, inflation rates remain relatively stable and well within the Bank of Canada's target band. As of mid-2011, the more immediate macro-economic concern nationally is the slow GDP growth of the Canadian economy in the first half of 2011. This national concern along with low and stable inflation rates will reduce the likelihood of significant interest rate increases at least for the remainder of 2011. This is good news for Manitoba consumers. Furthermore, recent analysis by the TD Bank concluded that a "Household debt crisis is not in the making

for any region" in Canada. However, of the 7 regions (the Atlantic provinces and the other 6 provinces), Manitoba households emerged as being the least vulnerable financially. Furthermore, the study concluded that the measure of financial vulnerability for Manitoba households has not only been falling since 2008, but that it is well below its own historical average, based on calculations extending back to 1999.¹⁷ Consumer bankruptcies in the province were down 18.4% in 2010, and had fallen a further 24.6% in the first 4 months of 2011.¹⁸ Thus, for the short term at least, consumer spending in the province looks to be strong and poised for moderate growth.

Business investment

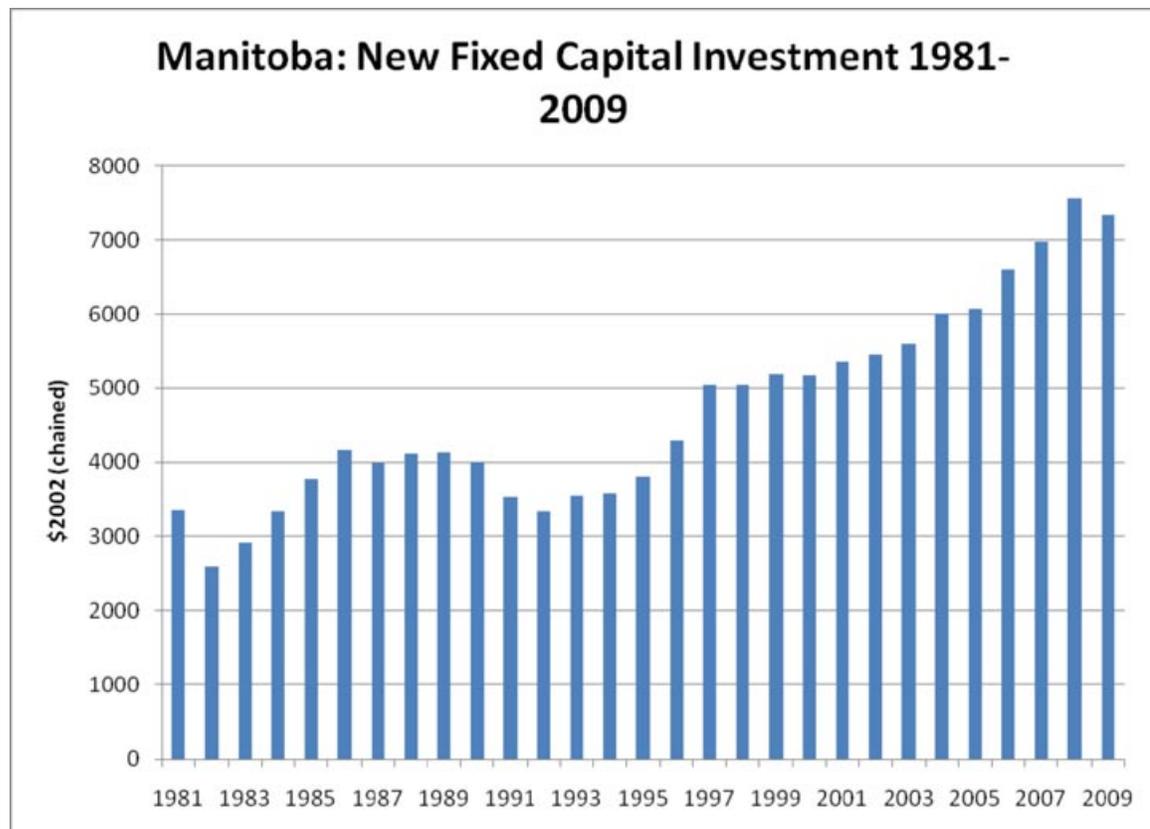
Fixed capital formation (investment in fixed capital) by the business sector¹⁹ in the Manitoba economy totaled \$7.3 billion (2002 dollars) in 2009. This investment covers investment expenditures in residential construction, in non-residential construction, and business expenditures on machinery and equipment. Investment is known to be a very volatile component of GDP. One of the aspects of its volatility is the rough correlation of investment growth rates with the ups and downs of the business cycle.²⁰ That cyclicity is evident in Chart 3. The strong growth of the Manitoba economy prior to 2009 is correlated with substantial increases in investment expenditures, with investment rising 8.5%, 5.7% and 8.6% in 2006, 2007 and 2008, respectively. In 2009, real investment fell 3%, and the economy's GDP growth rate dropped to zero. With the recovery in 2010, indicators show that investment is up again. Data from Statistics Canada comparable to that used for Chart 3 was not available at the time of writing, but Statistics Canada data on "preliminary-actual" investment for 2010, and on "investment intentions" for 2011, provide a useful substitute. These latter StatsCan figures are in current dollars (as opposed to real 2002 dollars) and thus have not

been adjusted for inflation. These figures have total investment in the province up 10.4% in 2010, and a further albeit much more modest increase of 1.1% in 2011.²¹ Even allowing for the real drop in investment in 2009, the very robust growth in investment expenditures in Manitoba in recent years has boosted the share of fixed capital investment to provincial GDP. The business investment-GDP ratio reached 18.6% in 2008. In 2009, that ratio had dropped to 17.4%, but this is still 2 percentage points higher than the ratio of a decade ago.²²

Of the \$7.34 billion of fixed capital investment expenditures made in the business sector in Manitoba in 2009, \$1.84 billion, or roughly 25%, took the form of residential construction. Residential construction had been expanding at a consistently robust pace ever since 2000, and in the first half of the decade annual growth rates in the neighbourhood of 8% to

10% were achieved. This robust expansion was interrupted in 2008, as the annual growth rate fell from 5.7% (2007) to just under 2.4%, a development which undoubtedly reflected in part the growing economic crisis and the onset of the global recession. The close association of residential investment with the business cycle, was even more emphatically displayed in 2009. In its Fall 2010 report on the Winnipeg housing market, the CMHC stated that new housing starts — which covers both single-detached as well as multiple family dwellings — were down 33% (from 3,009 units in 2008 to 2,033 in 2009) in 2009.²³ For the province as a whole, the real (inflation-adjusted) value of investment in residential construction fell 3.7% in 2009.²⁴ The pronounced procyclical character of residential investment is equally apparent with the rebound in this sector in 2010. In Winnipeg, for example, after the sharp decrease of 2009, new housing starts surged in 2010,

Chart 3



Source: Statistics Canada, CANSIM II, series V15855789.

reaching 3,244 units — an increase of almost 60%. CMHC forecasts for 2011 show a slight decrease (down 2.1%) but the number of starts are still expected to exceed the 2008 level.²⁵

Business investment in machinery and equipment took a real hit during the crisis and economic slowdown. In 2008, the value of spending on machinery and equipment was down 2.1% from 2007 levels, but the real effects of the crisis asserted themselves in 2009, with a whopping 22% decrease.²⁶ This to a large extent reflects the uncertainty that the international crisis had on private businesses. In the face of such heightened uncertainty, many businesses adopted a wait-and-see strategy with respect to additional investments and upgrades in their productive machinery and equipment. For some other firms, the financial dimensions of the crisis would have made it more difficult to obtain financing for equipment additions and upgrades, and of course some firms were simply unable to withstand the disruption in markets and contraction of demand, ultimately resulting in the termination of their own productive operations. These factors, taken as a whole, underlie the \$22.2 billion (2002 dollars) fall in machinery and equipment spending by Manitoba businesses in 2008 and 2009. As economic conditions stabilized and then improved, investment in machinery and equipment revived. Statistics Canada reports that actual and intended expenditures on machinery and equipment in Manitoba increased (in current dollars) 5.6% in 2010 and an anticipated 7.9% in 2011. For manufacturers, 2011 intentions indicate a rise in machinery and equipment expenditures of close to 30%.²⁷ Note that, with the exception of 2008 and 2009, business investment in machinery and equipment has been quite robust in the period from 2004 to 2011. This has also coincided with a substantial appreciation of the Canadian dollar vis-à-vis the US dollar. The higher Canadian dollar tends to increase the price of Canadian products relative to foreign goods and services which adversely

affects the competitiveness of Canadian producers. However, much of the machinery and equipment used in Canadian production is imported, and the rising value of the Canadian dollar reduces the cost of these imports. Furthermore, since the appreciating Canadian dollar makes our own exports more expensive internationally, firms have a strong incentive to offset this by finding new ways to reduce unit costs through productivity improvements. Investing in new machinery and equipment is one means through which these productivity gains could potentially be realized.

Investment in non-residential structures followed a very different trajectory. As the economic crisis erupted with force and as the recession gripped the Canadian and other G-7 economies, non-residential construction in Manitoba surged upwards. In 2008, non-residential construction was valued at \$2.18 billion (2002 dollars), which exceeds the 2007 level by 30%. In 2009, a further real increase of almost 16% was realized.²⁸ This different trajectory, which in 2008 and 2009 was markedly “counter-cyclical”, is the result of distinctive features that characterize this component of investment. The sharp year-to-year variations that can occur in this category of investment spending reflect the “lumpiness” of major construction projects. The initiation or ratcheting up of just a handful of large projects can boost the yearly figures, and the completion of such projects can subsequently drive the totals down. For 2008, relatively large non-residential construction projects included the new terminal for the Richardson International Airport in Winnipeg, the Manitoba portion of the Keystone oil pipeline project, and the new Manitoba Hydro office building in Winnipeg.²⁹ The continuation of a number of investment projects, including the airport and Hydro building, from 2008 into 2009 is an important factor contributing to the carry-over of these relatively high investment levels in the province.

Nevertheless, for the private sector, the recession and financial crisis still had an adverse effect insofar as its nonresidential construction expenditures were exposed to many of the same considerations that negatively affected its machinery and equipment spending. In its survey of investment intentions for 2009, Statistics Canada reports that the private sector planned to cut its spending in Manitoba on non-residential construction as well as on machinery and equipment.³⁰ In Statistics Canada's 2011 survey, the private sector reported intentions to continue to lower its non-residential construction investment, with (nominal) drops of 14.5% and 2.4% for 2010 and 2011 respectively.³¹ This private sector decline, however, was more than offset by expanded public sector investment. Large projects for 2009 include the completion of the Red River Floodway expansion, construction of Manitoba Hydro's Wuskwatim hydro-power generating station, and the initiation of construction of the Canadian Museum for Human Rights.³² Overall, Statistics Canada's survey of investment intentions has public investment in non-residential structures rising in 2009 (up almost 6% in nominal dollars³³). In 2010, the increase (again in current dollars) was over 41%, and although further increases were not anticipated for 2011, the 2010 level was expected to be maintained.³⁴ Overall, this public sector component of investment expenditure, some of which is directly linked to various stimulus programs, constitutes a very timely boost to provincial demand.

Government expenditures

In Manitoba, expenditures by all levels of government on final goods and services in 2009 came to \$10.2 billion (2002 dollars) or 24.2% of provincial GDP. The \$9.83 billion figure is up 2.7% from 2008. As a share of GDP government expenditures had stayed remarkably constant over a period stretching back to 1997.³⁵ The economic crisis, however, has altered the economic environment. At local, provincial and

national levels, the deteriorating economic performance has eroded what previously had been strong flows of public revenues, while the concomitant demand for government services and assistance has increased. As a result, the fiscal positions of all levels of government have come under increased pressures. Fiscal balances forecast at the time of release of the various budgets for fiscal 2008-09 suffered dramatic downward revisions, and a bleaker fiscal reality constituted the backdrop for the 2009-10 fiscal year.

Fortunately, the change in fortune of the economy also produced a change in attitudes, with the result that the notion that governments could and should play an active role in the endeavour to stabilize an economy undergoing financial and macroeconomic upheavals now garnered wider acceptance. A corollary of this was that governments were allowed far greater leeway with respect to their overall fiscal stance. A deficit, and even multi-year deficits, were no longer beyond the pale of serious economic and political consideration.

At the federal level, the new approach to fiscal policy was evident in the January Budget 2009. Despite falling revenues, the government planned to increase program spending by \$22 billion in fiscal 2009-10 and another \$6.5 billion in 2010-11. Much of this increase is in the form of transfer payments, rather than expenditures on goods and services, but significant for the latter was the commitment of \$12 billion of new funding for infrastructure spending and \$7.5 billion for specific sectors, regions and groups across the country.³⁶ In many cases, access to these funds required matching commitments from provincial and local levels of government, but funds became increasingly available throughout 2009. In the December economic update, Ottawa reported that Manitoba had received, or had initiated, funding for 214 projects, valued at \$339 million, from the federal Infrastructure Stimulus Fund. Additional funds were targeted for

First Nations communities. These include \$7.2 million for a water and waste treatment project for the Pinaymootang First Nation, and a commitment to provide \$75 million over 2 years for housing in these communities. Of the latter sum, approximately one third had been either spent or initiated by late 2009.³⁷

The fiscal stance that the provincial government presented in its own Budget on March 25, 2009, was decidedly more modest than that of federal government. In general, this is in line with the fact that the fiscal capacities of the provinces in Canada are more limited than the federal government. Provinces are more vulnerable to unexpected and exogenous economic shocks and tend to be more constrained in their ability to obtain credit on favourable terms. However, the less ambitious fiscal plan delivered in the Manitoba Budget also reflects the fact that in early 2009, the Manitoba economy was performing much better than the Canadian economy as a whole, and that therefore the need for a robust stimulus package was not as pressing. The Budget itself called for an increase in program spending for fiscal 2009-10 of only 2.2% in nominal terms, which constitutes an increase of \$226 million. The government was able to deliver another deficit-free fiscal year by drawing \$110 million from the fiscal stabilization fund.

As the year unfolded, however, the fiscal plan of the March Budget sustained severe damage. Spring flooding and the H1N1 crisis (\$41 million and \$109 million, respectively³⁸) necessitated additional emergency funds, while the economic slowdown was eating away at the province's revenue sources.³⁹ With the release of the Quarterly Financial Report in December, core government expenditures for the 2009-2010 fiscal year were now expected to be \$377 million more than estimated in the March Budget and the province was now projecting a summary deficit of \$592 million.⁴⁰ The positive aspect of this revision is that the overall fiscal stance became much more

stimulative. Additional funds beyond those identified in the Budget were not, however, allocated to public sector capital investment. Total capital investment over the first half of the fiscal year (ending September 30, 2009) was \$285 million (current 2009 dollars), and the forecast for the full 2009-2010 fiscal year is \$691 million. This is almost \$63 million below what was forecast in the Budget, which suggests some internal reallocation and possibly also some unexpected savings resulting from lower construction costs, courtesy of the economic slowdown. Nevertheless, even with the revision, this total capital investment constitutes a huge increase (47%) over the \$470 million spent in 2008-2009.

The new fiscal reality and the need for economic stimulus rather than fiscal retrenchment was encapsulated in Budget 2010, delivered on March 23, 2010. The plan for 2010-11 was for a further 1.6% increase in total expenditures, followed by another 2.27% increase for 2011-12. As a result, total expenditures as a percentage of provincial GDP was projected to rise from 24.5 in 2008-09 to 26.0% in 2009-10 and 25.4% in 2010-11. Included in the expenditures for 2010-11 were infrastructure investments of just under \$1.8 billion. The summary budget deficit, now estimated at \$555 million for 2009-10, was projected to decrease slightly to \$545 million in 2010-11, and then to \$448 million in 2011-12, followed by 2 years of more substantial reductions and then a return to a surplus position in 2014-15.⁴¹ Manitoba Budget 2011 reaffirmed this fiscal strategy, although the forecast for the 2011-12 deficit was reduced marginally to \$438 million. Infrastructure investments were again an important part of the government's expenditure plans with commitments for 2011-12 roughly equal in value (i.e., just under \$1.8 billion) to those authorized in the previous year's budget.⁴²

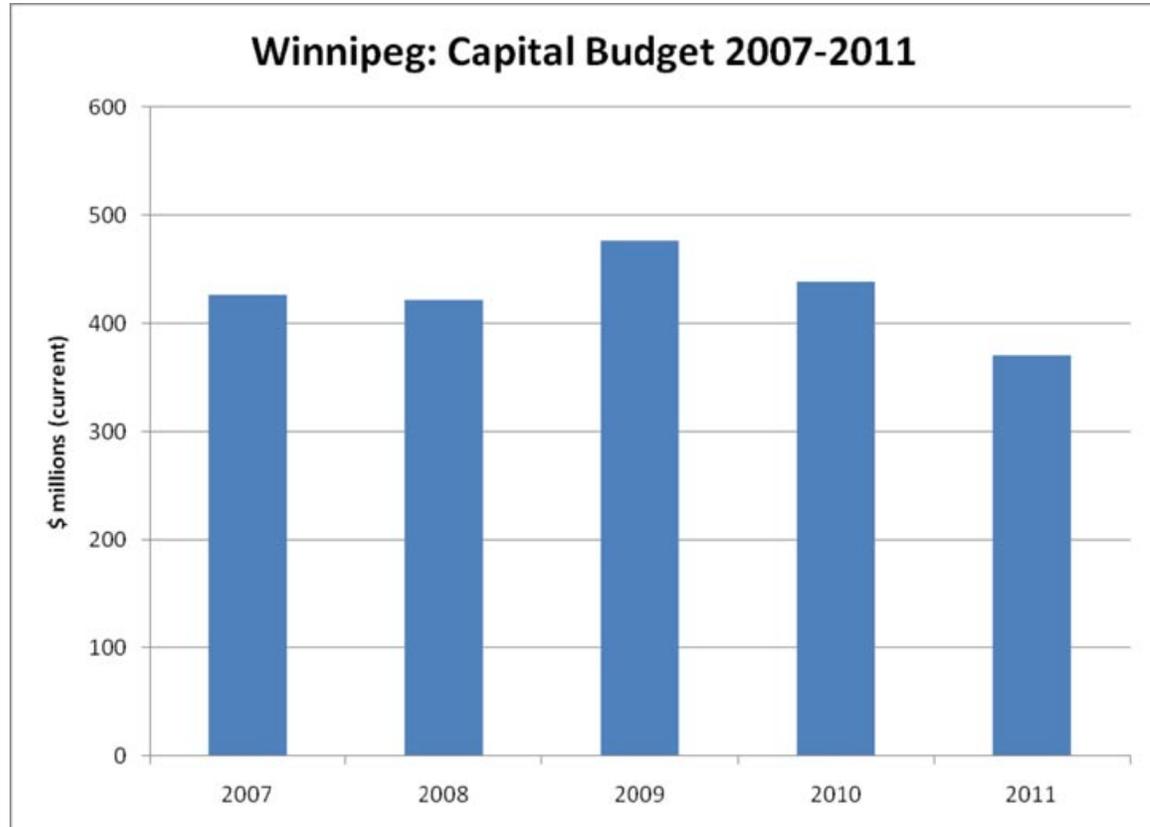
At the local and municipal level, governments face tighter fiscal constraints and as a result their ability to use their budgets to

effect a noticeable economic stimulus during a slowdown is correspondingly much more limited. At this level, at least for the operating portion of the budgets, deficits are ruled out. More flexibility is available in the capital budgets where debt finance and multi-year amortization are standard practice. Considerable discretion can be exercised in the timing and sequencing of new capital projects, and often capital expenditure decisions at the local level are explicit responses to initiatives and incentives offered by their provincial and national counterparts.

The discretionary element is evident in the 2009 Adopted Capital Budget for the City of Winnipeg, and also in its 2010 Preliminary Capital Budget.⁴³ For the city, total capital expenditures in 2009 of \$476.4 million were authorized, of which \$101.5 million were

tagged for public works. Just under \$150 million of the aggregate total necessitated taking on new debt. A good portion (\$138 million) of the 2009 budget was directed towards funding for the South West Rapid Transit Corridor, an expenditure which relied significantly on support from other levels of government. Especially noteworthy, however, was the large increase in total authorized expenditures in 2009 relative to 2008, but also notable was the fact that much of this increase was only temporary (see Chart 4). The 2009 increase was supported by a strong increase in federal funding (from \$20.5 million in 2008 to \$60 million), and from increased access to funds in the Canadian Strategic Infrastructure Fund (24.2 million, up from \$5.2 million in 2008), but also by significantly increased reliance on new borrowing (an increase from \$40.7 million in 2008 to 105.7 million). Federal and provincial

Chart 4



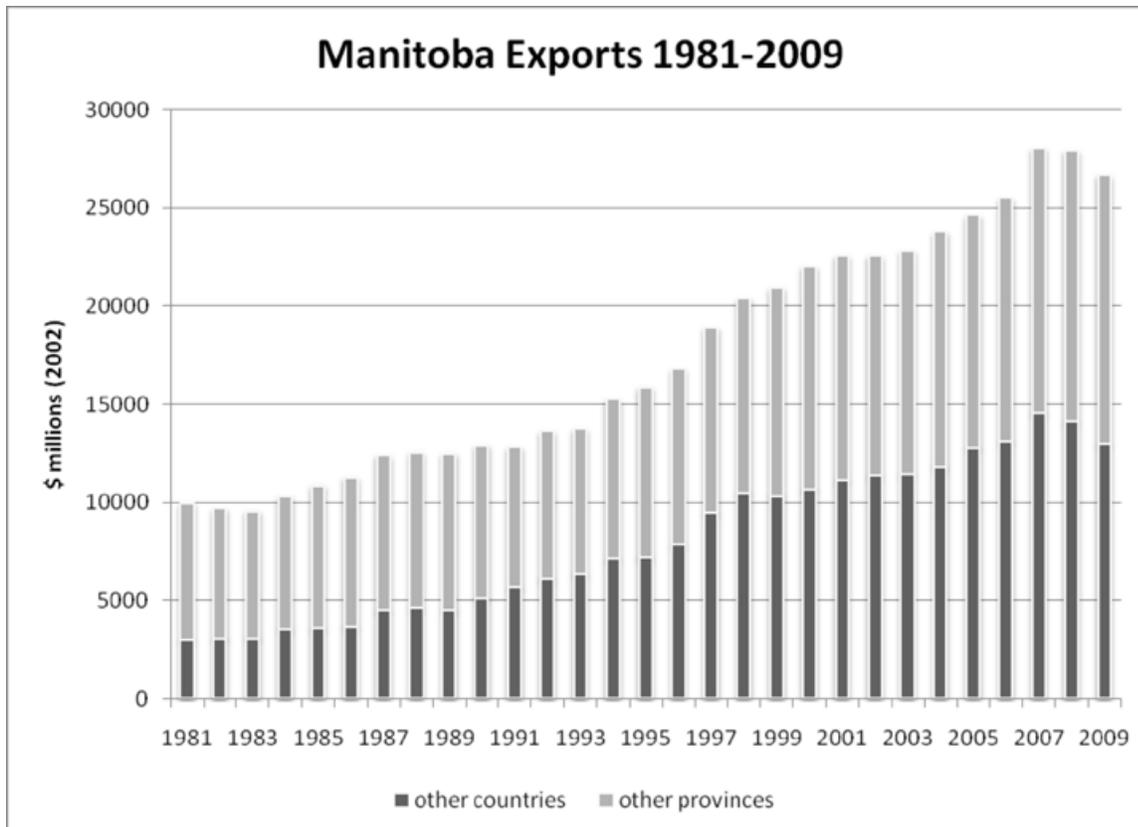
Source: City of Winnipeg, 2007 Adopted Capital Budget, 2008 Adopted Capital Budget, 2009 Adopted Capital Budget, 2011 Adopted Capital Budget.

funding, and debt finance was expected to increase further in 2010, despite the fall in the overall level of capital spending. The rise in 2009 reflects again the impact of federally announced (and to a lesser extent, provincially announced) fiscal stimulus programs and the city was willing to incur increased borrowing in order to take advantage of and participate in these programs. By 2011, as the economy improved and federal stimulus programs were curtailed, planned capital spending by the city was more restrained. The 2011 Adopted Capital Budget authorized expenditures of only \$370 million, the lowest total since 2006. Additional borrowing of \$78.9 million was still required for 2011, but although this was higher than the pre-crisis 2008 borrowing requirements, the 2011 borrowing requirements, if realized, would nevertheless be 25% lower than in 2009.⁴⁴

The story regarding the operating budget is much more prosaic. Expenditures for 2009 were large (\$789 million), but this constituted only a 2.7% increase over the 2008 level, and these figures are also not inflation adjusted.⁴⁵ For 2010 and 2011, the operating budget came in at \$817.7 million and \$847.3 million, respectively, but nominal increases of this magnitude (3.6% and 3.7%) are small once inflation (3.1% in Manitoba from July 2010 to July 2011)⁴⁶ and population growth (1.5% in 2010)⁴⁷ are accounted for.

Piecing together the commitments and projections of the different levels of government, overall government spending increased substantially in 2009 in both nominal and real terms. Furthermore, given the lack of growth in real GDP in 2009, the government share of aggregate provincial expenditures, which as noted above reached 24.2% of provincial GDP,

Chart 5



Source: Statistics Canada, CANSIM II series v15855797 and V15855798.

exceeded the 23.2% share it contributed in 2008. In light of the larger economic crisis, this rising share is appropriate. In tilting against the prevailing economic winds, this enhanced public sector spending helped mitigate the contractionary forces pressuring the economy in late 2008 and throughout 2009. In a time of recession and weakening private sector confidence, public sector strength acts not to “crowd out” private spending, but in fact helps to stabilize it and potentially even encourage further private sector commitments. Notwithstanding the return of large public deficits at the federal and provincial levels, plans for maintaining an enhanced volume of spending by this important sector of the provincial (and national) economy are a vital component of the program for economic recovery.

Exports and imports

The Manitoba economy experienced strong export growth from 2004 into 2007, but that trend was reversed in 2008 and negative export growth was even more pronounced in 2009 (see Chart 5). With the decrease, provincial exports of final goods and services for 2009 were valued at \$26.7 billion (in 2002 dollars).

It is important to keep the 2009 export figures in context. Export growth in 2007 exceeded 6.2%, and even with the fall in 2008 and 2009, the value of exports for 2009 were still the 3rd-highest ever achieved by the province. Nevertheless, exports are one of the crucial channels through which national and international economic conditions affect the local economy. Thus, the reduced export figures for 2009 mark the deepening of the economic crisis. As other economies around the world slow down, the market for Manitoba products inevitably weakens. As Chart 5 indicates, Manitoba exports to destinations within Canada held up reasonably well (they actually increased 2.4% in 2008), but exports to other countries dropped by 3.1% in 2008,

and almost 8% in 2009, which is by far the largest percentage drop recorded in since the beginning of this data set in 1981.

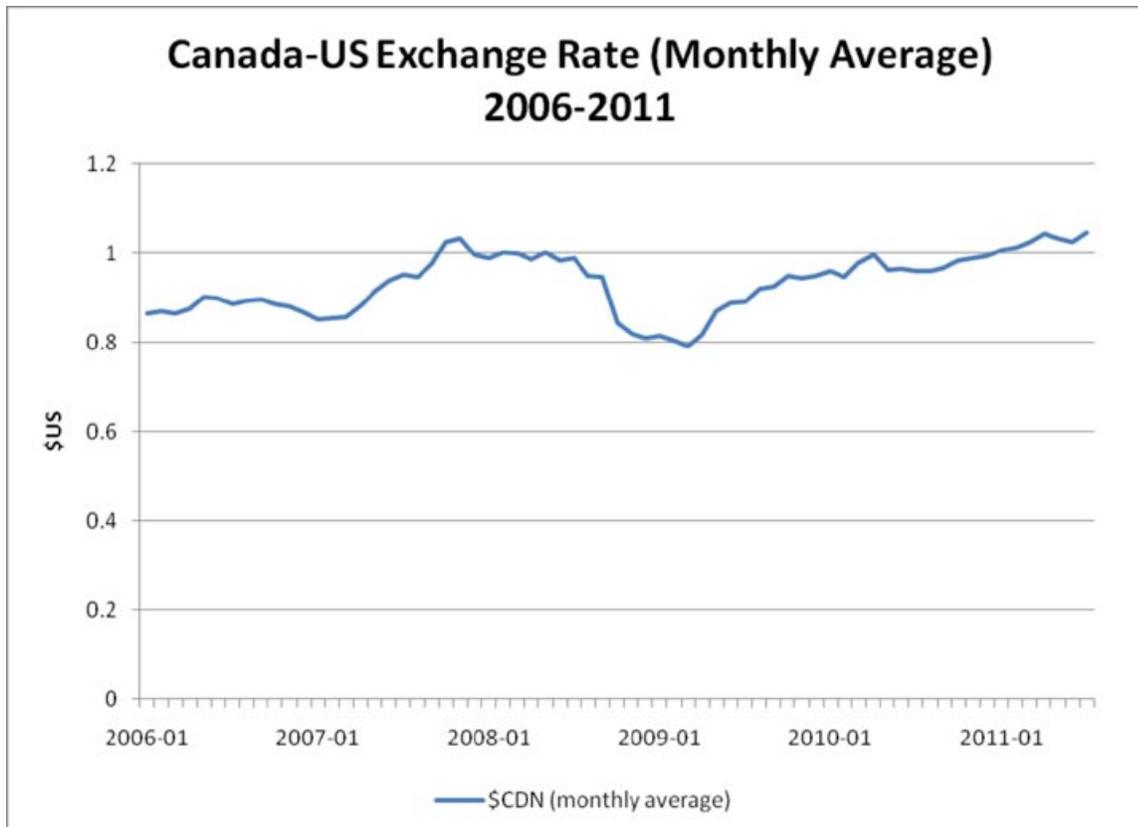
The recession and global slowdown is the primary factor causing the reversal of fortunes for Manitoba exporters. Our major international market is the United States, and their economy has been especially hard hit by the crisis. Real GDP growth in the US was negative in the 1st, 3rd and 4th quarters of 2008, and the US contraction continued on through the first half of 2009.⁴⁸ Other international markets were also adversely affected. For the global economy, the IMF reported a reduction in the growth of global real GDP from 5% in 2007 to 3% in 2008 to a forecasted -0.52% in 2009.⁴⁹ For Manitoba exporters, the weakened US market hit manufacturers and hydro sales especially hard. The global slowdown, on the other hand, adversely affected global commodity prices. As noted in more detail in section IV of this report, the drop in commodity prices occurred in mid- to late 2008, and this major price adjustment slashed the value of exports from many agricultural and other primary commodity producers in the province. Finally, to compound these difficulties, exchange rate movements worked to the disadvantage of provincial exporters. Most significant is the Canada-US exchange rate. After averaging about \$0.88US in 2006 and then falling slightly in early 2007, over the next six months the Canadian dollar gained considerably vis-à-vis its US counterpart (see Chart 6, next page). In October and November of that year, the dollar traded above parity (averaging \$1.03US for November 2007). For the next 8 months, the dollar hovered around parity with the US, and domestic exporters started to feel the squeeze. Strong global commodity prices were part of the reason for this exchange rate rise (Canada is a major exporter of primary commodities, such as oil natural gas, potash, nickel, wheat and other grains), and for some Manitoba commodity producers the high prices more

than offset the deleterious effects of the high exchange rate. The fall in commodity prices in mid and late 2008 stripped away this cushion. It also, however, contributed to a pronounced depreciation of the dollar in the last third of 2008. But this was a period when the financial crisis was at its height, and the fallout was no longer confined primarily to US financial markets. In these circumstances, international investors were not at all sure just which national repository was the safest place to deposit their financial wealth. The US financial markets, in the aggregate, suddenly looked no worse than many others. The net financial outflow from the US dropped and to some extent even reversed itself, thereby supporting the US dollar globally and contributing to its appreciation relative to the Canadian dollar.

By early 2009, the Canadian dollar had plunged to less than \$0.80US. However, the

return of some relative stability in international financial markets once again made other non-US outlets for financial capital attractive, and demand for the US dollar weakened. As a result, the Canadian dollar rebounded. Aided by some recovery in commodity prices, the Canadian dollar surpassed the \$0.90US mark by late summer. By mid-January 2010, it was again trading in the \$0.96US to \$0.97US range, and a year later it had broken par. Thus the respite offered to exporters from a weaker domestic currency proved to be fleeting. The new reality of a dollar above parity with US seems to be a salient feature of the present conjuncture. The adjustment that began in 2008 and was reflected in a drop in Manitoba exports to other countries and which also marked the province's export performance in 2009, will have continued throughout 2010 and into 2011. World economic growth has rebounded from the contraction of 2009. The IMF

Chart 6



Source: Statistics Canada, CANSIM II, series v37426.

reported 5% growth for 2010 and its April 2011 forecast anticipates 4.4% growth for 2011.⁵⁰ This is a positive development for Manitoba exporters, especially in light of the fact that in recent years, the proportion of provincial exports shipped to countries other than the United States has been rising.⁵¹ However, the major export market remains the US, which is the destination for approximately two-thirds of Manitoba's international exports, and the economic recovery in the US is lagging behind that of the rest of the world. After a reasonably strong recovery in 2010, with real GDP expanding 3%, the US economy slowed down substantially in the first half of 2011.⁵² This will dampen the ability of the export sector to recapture the strong increases in sales that it enjoyed prior to 2008. As a result, the export sector is unlikely to be leading the economic recovery in Manitoba in 2011.

The effects of the crisis are also apparent on the import side, and interesting here is how the uneven national and international impact of the crisis has affected the level and composition of Manitoba's imports. The strength of the Manitoba economy prior to the crisis of 2008, and especially the relative strength of consumer spending, acted to continue to fuel import growth. An extremely high percentage of consumer goods, and a high percentage of the investment goods purchased by Manitobans are produced outside the province. Robust growth in consumer spending in 2006 and 2007, noted above, and strong business expenditures on machinery and equipment in 2007 were major contributors to the rising level of imports in Manitoba. In 2006, the value of imports (after accounting for inflation) rose 7.4%. In 2007, imports increased another 11.3% and especially notable was the rise in imports from other countries, which were up 14.7%. With the arrival of the economic crisis in 2008 and the attendant cooling off of consumption spending and especially the decrease in business investment in machinery and equipment,

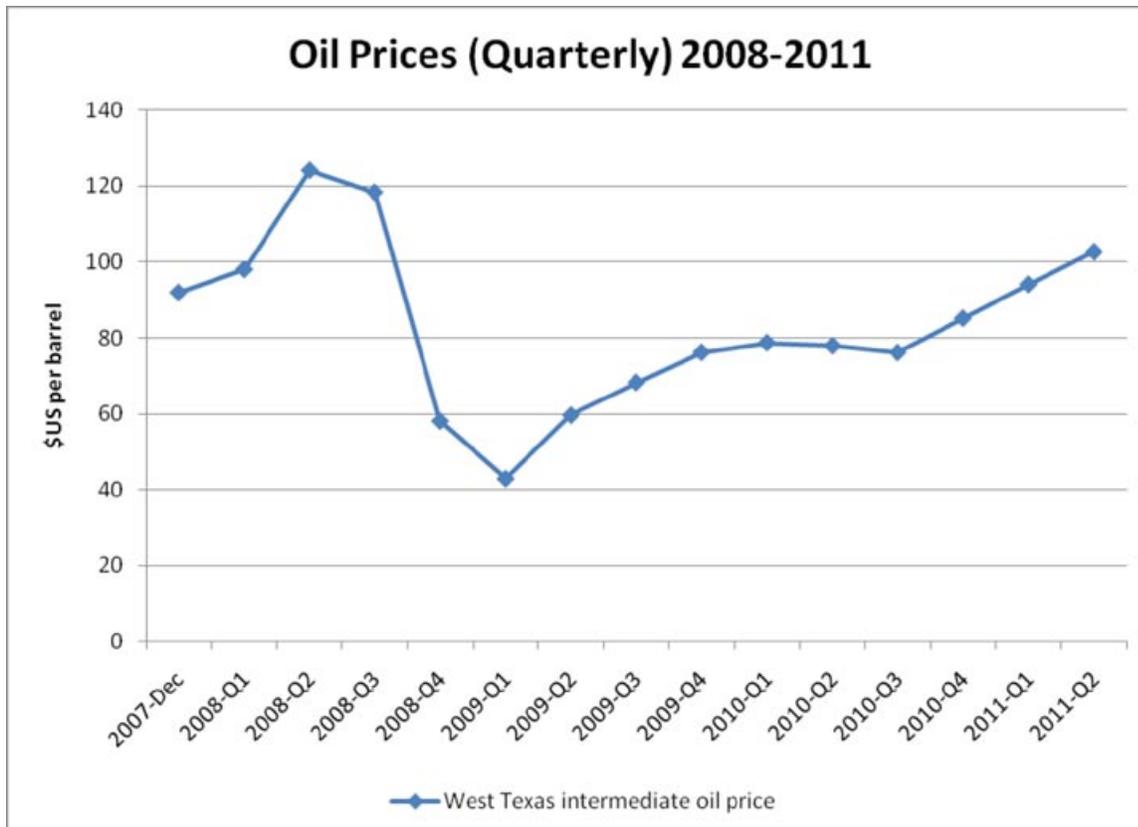
import growth fell to below 2%. In 2009, as real consumption growth was extremely low (1.6%) and machinery and equipment investment collapsed, imports dropped 6.4%. Comparable data for 2010 was not available at the time of writing, but the combination of renewed growth in consumer spending and an appreciating exchange rate can be expected to halt the slide and contribute towards renewed import growth. However, continued weakness of machinery and equipment investment will constrain overall import growth. Nevertheless, despite the significant decline in 2009, and very modest growth recorded in 2008 and likely for 2010 as well, imports as a percentage of provincial GDP are well above their historic average: that percentage was 45% in 1981, 50% in 1991, 64% in 2001 and reached a modern-era peak of 77% in 2007. Despite the tumble in 2009, imports as a percentage of provincial GDP was still over 70% in 2009.⁵³ This high ratio, its impressive rise over the last 30 years, and the corresponding rise in the province's export-to-GDP ratio (from 40% in 1981 to more than 63% since 2005) mark the increasingly "open" character⁵⁴ of the Manitoba economy.

Slightly more than half of Manitoba's imports are from other countries. In addition to consumer and business investment spending, the strength of the Canadian dollar enhanced the global purchasing power of Manitobans, and this enhancement found an outlet in the increased flow of foreign produced goods and services to Manitoba. As noted above, the return of the dollar to a level above parity with the US dollar will help sustain the share of total expenditures that are met by international imports. Imports into Manitoba from other provinces, however, provide a very different story. For consumer and investment goods, many Canadian producers have to compete with foreign producers, and the recent appreciation of the Canadian dollar has worked to the competitive advantage of the latter. In general this should lead

to a decreasing share of Manitoba imports originating from other provinces. However, petroleum products comprise a major share of expenditures of Manitoban households, businesses and governments, and most of our consumption of oil and natural gas products is reliant on imports from other provinces (i.e., Alberta and Saskatchewan). Demand for these products tend to be quite price inelastic, meaning that the total expenditure incurred by the purchaser rises and falls in line with the price of the product. Prices for oil and natural gas rose sharply in the first half of 2008, but these prices collapsed even more precipitously with the outbreak of the crisis in the last third of the year.⁵⁵ In the 1st quarter of 2009, oil prices on average were approximately 35% of their peak average from the 2nd quarter of 2008 (See Chart 7). For natural gas the collapse was even greater: prices in the 3rd quarter of 2009 averaged only 28% of the April-to-June

average of the previous year. These fossil fuel price drops are a major element contributing to the reduced import bill for the province in 2009. Chart 7 shows that oil prices underwent a partial recovery in the last 3 quarters of 2009, and then posted further substantive gains in late 2010 and in the first 6 months of 2011. Oil prices on average were lower over the summer months than they were earlier in the year, but with oil trading around \$84(US) per barrel in late August 2011, its 2011 prices are, on average, well above those for 2010 and 2009. This will add to the province's 2011 import bill.⁵⁶ Natural gas prices also recovered somewhat in the last quarter of 2009, rising from their 3rd quarter trough of \$3.17 (US) per mmbtu to \$4.36 (US) per mmbtu, but since that time the longer term price trend has been relatively flat. By late August 2011, the price was just over the \$4.00 (US) per mmbtu mark.⁵⁷

Chart 7



Source: TD Bank Financial Group, Quarterly Commodity Price Report, July 14, 2011.

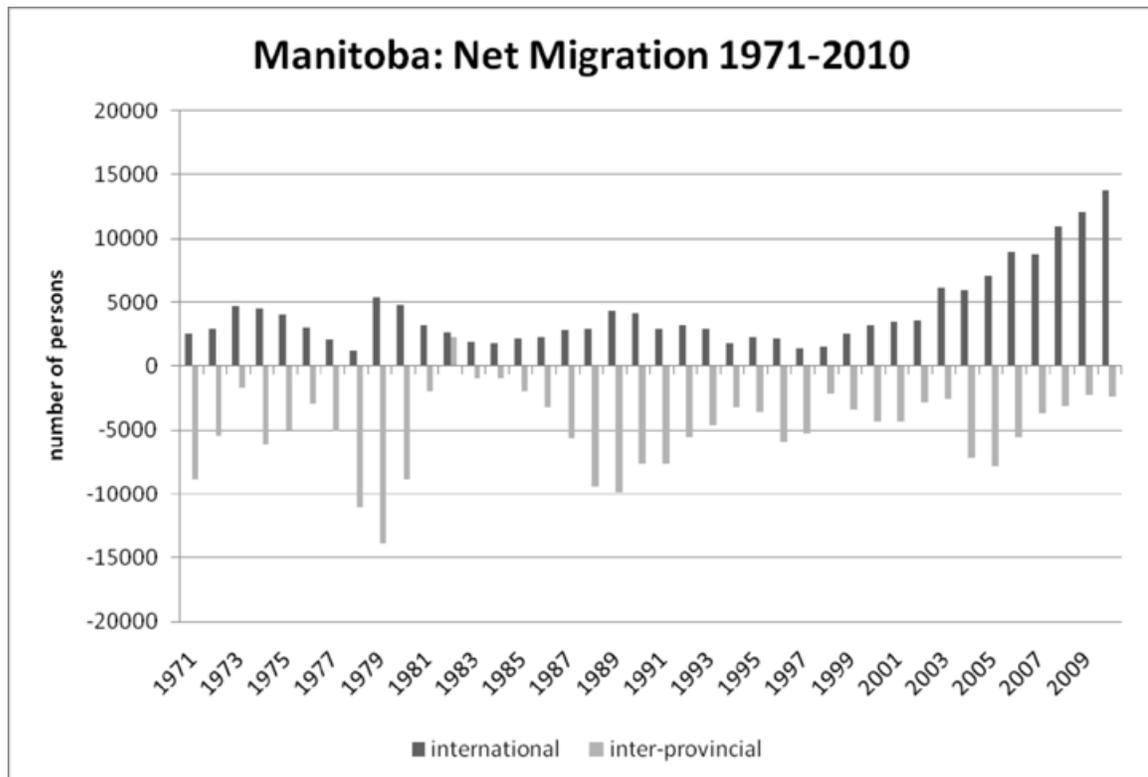
III. The Labour Market

As of April 2011, Manitoba's population was estimated to have reached 1,246,396, an increase of 1.3% from a year earlier.⁵⁸ This year-to-year increase equals that of the April 2009 to April 2010. It exceeds the 1% population growth rate registered in 2007-08 and 2008-09, and is well above the 0.4% and 0.7% growth rates that prevailed in 2005-06 and 2006-07, respectively. Natural increase of the resident population is positive (approximately 5,600 in 2010⁵⁹), but this is not the key explanation of the recent increase in population growth rates. The answer instead is to be found in net migration to the province. Net migration, which is simply the difference between the total number of immigrants to the province less the total number of emigrants, can be broken down into 2 separate categories: international migration and interprovincial migration. Chart 8 shows that, for Manitoba, net international migration

is historically positive, but that, with only one exception over the last 48 years, net interprovincial migration has been negative.

International net migration levels have been rising for more than a full decade. Estimates from Statistics Canada suggest over 15,700 international immigrants came to Manitoba between April 2010 and April 2011, which would be the highest immigration flow since 1946.⁶⁰ Much of this recent success is attributed to the Provincial Nominee Program (PNP). That program, which "selects and nominates for immigration skilled workers and their families most likely to settle in Manitoba"⁶¹ attracted 10,148 new immigrants to the province in 2009.⁶² That constitutes 75% of the total number of new international immigrants for the year. The success of PNP has not been confined to mere augmentation of the numbers

Chart 8



Source: Statistics Canada, CANSIM II, series v391111, v391140 and v29768554, and Government of Manitoba, Department of Finance, "Manitoba Economic Highlights, June 15 2011".

of immigrants: a recent study showed that 85% of the nominees were working 3 months after landing in Manitoba, that 89% of these workers had permanent jobs, and that 95% of the nominees do not plan to move on out of the province, at least in the near future.⁶³ The program is a key element in the government's stated objective to raise the flow of new international arrivals to 20,000 per year. However, the program operates through authorization of the federal government which allocates to the province a number of certificates that allow entry to the immigrant workers. The media has reported indications that Ottawa may be inclined to cap the number of certificates allocated to Manitoba at or near the 2010 level, although The Province is hoping to have its allocation raised.⁶⁴

As shown in Chart 8, the deficit in interprovincial migration has diminished noticeably since 2005. This is due to the relative improvement in the Manitoba economy vis-à-vis other provinces. Rising unemployment rates in Ontario have reduced the pull exerted by that province on Manitobans. The pull from Alberta and BC intensified with the booming western economy prior to 2008, and Saskatchewan's boom and subsequent reclassification as a "have" province had collectively combined to raise the net outflow of Manitobans to the high levels recorded for the 2004-2006 period. But 2007 was a good year for the provincial economy, and by the middle of 2008, the boom enjoyed by Manitoba's western associates had receded. The severe contraction of the Alberta and Saskatchewan economies in 2009 in conjunction with the labour market distress in Ontario helped reduce the net interprovincial outflow from Manitoba to its lowest levels in 25 years.

The growing population has increased the labour force in the province. As of July 2011, Manitoba's population aged 15 years and over was 954,300. From this group, 659,500 were identified as being in the labour force, giving a

labour force participation rate of 69.1%, which is the 3rd highest in Canada.⁶⁵ The labour force is composed of individuals who are classified as either employed or unemployed. For July 2011, 37,600 Manitobans were identified as being unemployed, and the unemployment rate for the province stood at 5.7%.

Within the province, the geographical distribution of labour, linked to the distribution of jobs, shapes the overall distribution of the population. Winnipeg is of course the core of the provincial economy, being home to approximately 60% of the potential labour force (aged 15 years and over).⁶⁶ In 2010, the potential labour force in Winnipeg reached 562,100 persons, up 1.5% from 2009, and up 11.3% from 2000, reflecting a decade of modest but relatively steady growth. Although less populous, the southeastern and south central regions of the province have been growing much more energetically. In 2009 and 2010, the potential labour force in south central Manitoba grew 2.5% and 2.2%, respectively, and in the south eastern region, the annual increase for those same years was 2.3%. Over the last decade, these two regions increased the numbers of possible labour force participants by 16.4 % and 21.2%, respectively. By way of contrast, the parkland and northern region was experiencing a net decrease with the population in the 15± cohort falling 8.3% since 2000.

There is, not surprisingly, a strong correlation between these regional population levels and regional employment. For example, employment in southeast Manitoba reached 54,900 in 2010, which constitutes an increase of more than 23% over a 10-year span.⁶⁷ A number of factors have contributed to the growing economic strength of this area of the province. Productive agricultural land offers a good foundation, but economic development and growth has been aided by good land transportation links, strong community ties, and financial institutions, such as the Steinbach

Credit Union, which effectively mobilize local savings for loans and investments within the regional economy.

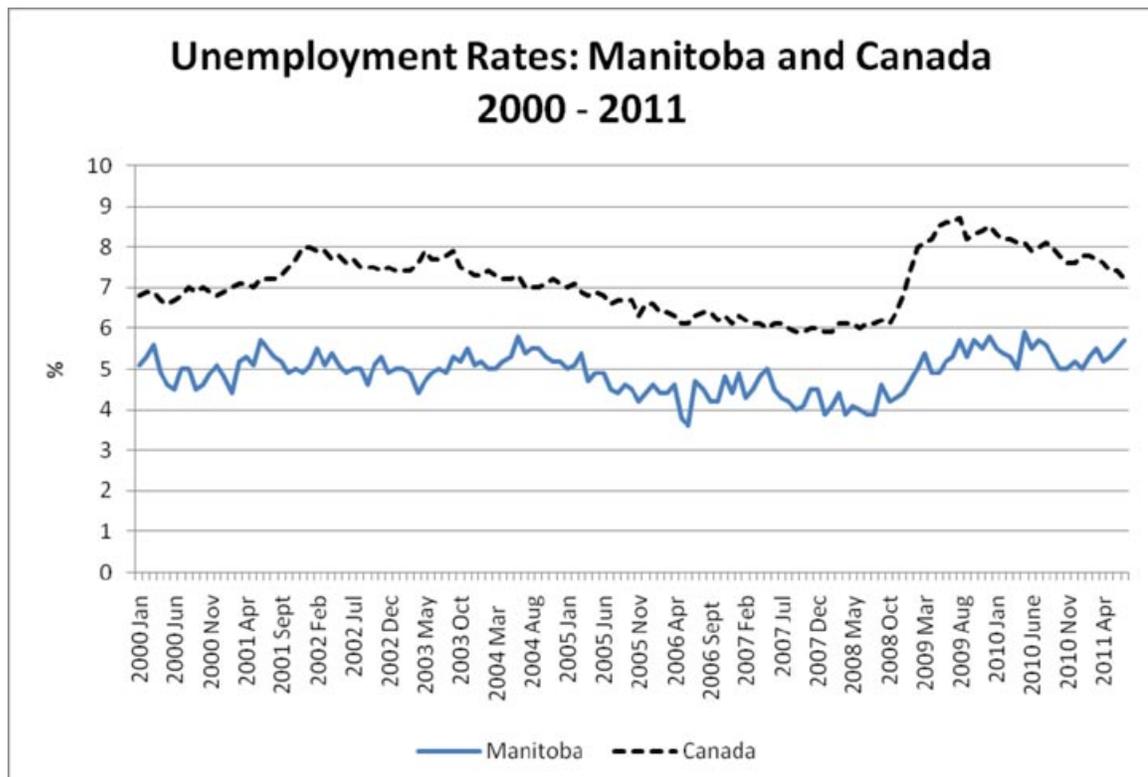
The challenges of economic development in the north are quite different. The vast thinly populated terrain in conjunction with its appreciable distance from the regional metropole (Winnipeg) emphasizes the premium placed on an efficient and low cost transportation network, on the one hand, and the importance of local networks within communities of the region, on the other. A notable portion of the resource base has, historically, been exploited extensively through externally-driven extraction of staples, and this particular form of capitalist development carried a bias which, in northern Manitoba, worked against the development and strengthening of community economic networks and also against investment in non-staple related transportation, communication and other infrastructure. Employment prospects consequently depended heavily on

construction in the staple producing and exporting sectors, and in staple production itself. New investment, while often quite substantial, tended to be increasingly capital intensive, with the result that, when export prices are reasonably good, value added from the region can be quite high, but medium to long term employment markedly more limited. The statistics on employment in the parkland and northern region of the province reflect these realities. There are significant fluctuations on a short term (i.e., 1- to 3-year) basis, but the long term trend is clear: the region employed 41,800 people in 1989, 10 years later that number had dropped to 39,800, and in 2010, despite regaining some of the jobs lost in 2009, employment in the region averaged only 39,600.⁶⁸

Unemployment

As illustrated in Chart 9, unemployment rates in Manitoba are up noticeably from the historically low rates that prevailed throughout

Chart 9



Source: Statistics Canada, CANSIM II, series v2064138 and v2062815.

most of 2008. The rise in the unemployment rate from 4.3% in December of 2008 to 5.8% in October 2009 provides a clear indication of the penetration of the global economic crisis into the Manitoba economy. However, a comparison of the Manitoba unemployment rates with those for Canada provides some perspective on Manitoba's performance during the recent period of economic upheaval and distress. As the chart indicates, unemployment rates in Manitoba have long been lower than the Canadian average. The gap in recent years has averaged around 2 percentage points. The early indications of the crisis, marked by the seizing up of the market for asset backed commercial paper in August 2007, had no appreciable effect on the downward trend of unemployment rates in either Canada or Manitoba. The worsening US economy, the collapse of international commodity prices and then the financial panic of the autumn of 2008 and its immediate aftermath, however, adversely affected producers, constrained the rate of new hiring and precipitated job losses. The Canadian labour market was hit hard and reacted quickly by laying off workers, and unemployment rates jumped upwards. The impact in Manitoba was less severe and more protracted. Consequently the gap between the respective unemployment rates widened to more than 3 percentage points over the spring and summer of 2009. The muted but somewhat delayed impact of the crisis in Manitoba is a major reason why the relatively

strong rebound in employment growth in the rest of Canada, which resulted in a lowering of the national unemployment rate beginning in late 2009, was not replicated in Manitoba. Nevertheless, as shown in Chart 9, even with the slight rise in provincial unemployment rates that occurred between June and July 2011, current rates have not moved much beyond the enviably low rates that the province has enjoyed since the turn of the century, and the gap between the Manitoba rate and the higher national rate compares favourably with the gap that prevailed in the years immediately prior to the arrival of the national economic contraction of late 2008. Even at the July 2011 rate of 5.7%, Manitoba's unemployment rate is the 3rd lowest among the provinces.

There is some regional variation in the intensity of unemployment within the province, as shown in Table 1. The table also shows that the adverse effect of the crisis on employment resulted in a rise in 2009 unemployment rates in all regions. This increase in unemployment rates has varied across the regions, but the data suggests that, on a regional basis at least, the gap between the high unemployment and low unemployment areas is not especially pronounced, nor does it appear to be chronic. The inter-regional migration of people that was mentioned above undoubtedly plays an equilibrating role here. Finally, it should be noted that these intra-provincial regional variations in unemployment rates are much

Table 1: Regional Unemployment Rates (%) 2007-2010

Region	2007	2008	2009	2010
Southeast Manitoba	4.2	4.2	5.6	5.3
South Central Manitoba	3.4	3.9	4.2	3.4
Southwest Manitoba	4.1	2.8	4.3	3.8
North Central Manitoba	3.1	3.8	4.7	4.8
Winnipeg	4.8	4.5	5.5	5.9
Interlake	3.4	3.8	4.6	4.6
Parkland and North	4.2	4.1	5.4	5.5
Manitoba	4.4	4.2	5.2	5.4

Source: Statistics Canada, CANSIM II, series v234958 to v2341964 and v2341992.

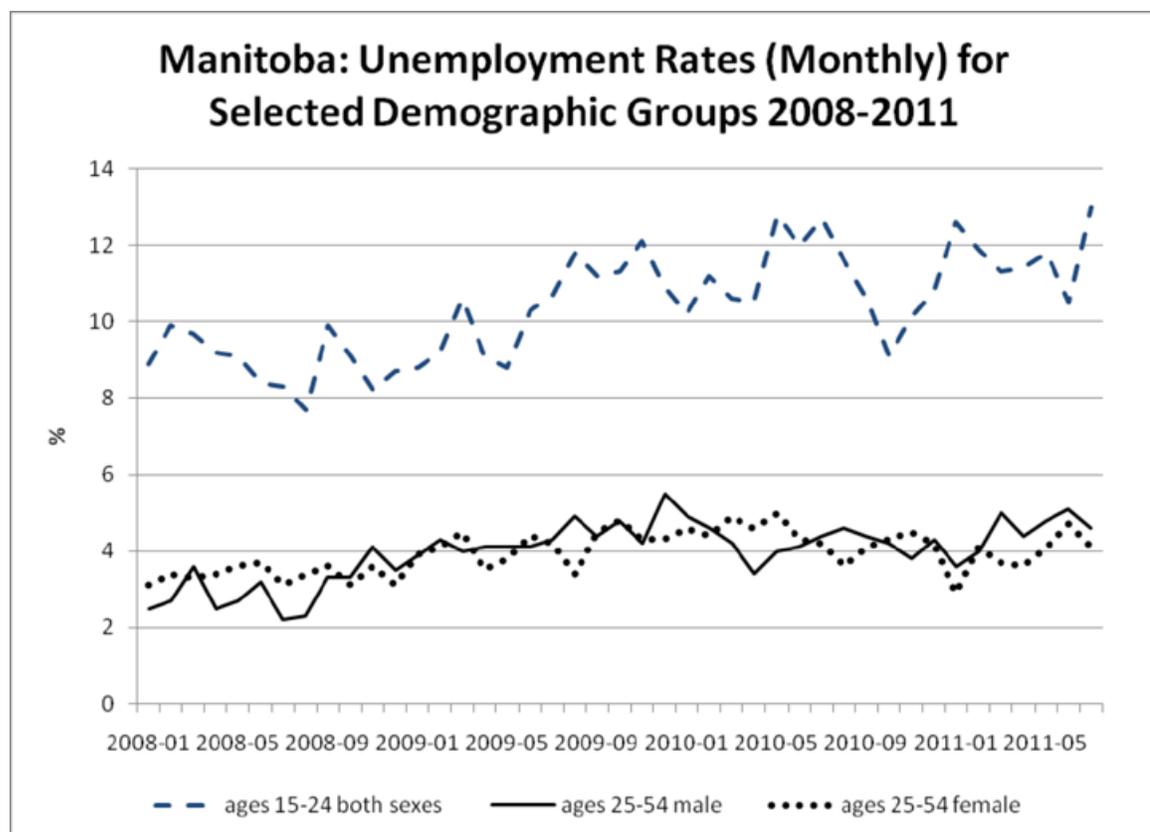
narrower than are the rate variations between Manitoba and the other provinces.

The incidence of unemployment is not spread evenly among the different demographic groups that comprise the provincial labour force. Youth, defined as persons 15 to 24 years of age, historically have had higher rates of unemployment than the labour force as a whole. As shown in Chart 10, youth unemployment rates, which were already high, moved up sharply as the effects of the economic downturn hit the Manitoba labour market in mid-2009. This widening of the gap between the unemployment rates for youth, on the one hand, and rates for the rest of the labour force, on the other, reflects the fact that not only do young workers tend to have less seniority than older workers, but also that youth disproportionately hold jobs that can be created or terminated by employers at a quicker and less costly rate. Consequently,

workers in the 15-24 age group are likely to be among the first to encounter and bear the costs of adjustment to changing economic conditions. With the onset of a recession, they are especially exposed, but this group also stands to be among the early beneficiaries of a recovery. Manitoba avoided a recession, but the absence of economic growth in 2009 manifested itself in a reduction of youth employment: employment for the 15-24 age group fell from 106,500 in December of 2008 to 97,600 in December 2009.⁶⁹ The return to economic growth in 2010 halted the slide in youth employment, but it has not on the whole been strong enough to push youth employment levels back to their 2008 levels. As of July 2011, youth employment still stood below just 100,000, and the reported youth unemployment rate of 13%⁷⁰ is the highest monthly rate since May 1996.

Workers in the 25 to 54 age group have the highest rates of labour force participa-

Chart 10



Source: Statistics Canada, CANSIM II, series v2064165, v2064282 and v2064291.

tion. Compared to younger workers, they are also less exposed to cyclical fluctuations in economic conditions, but the economic slowdown has raised unemployment rates for these workers as well. Within this group, the initial slowdown-induced rise in unemployment had been slightly more pronounced for male workers. As indicated in Chart 10, male unemployment rates for this age group tended to be slightly lower than that of their female counterparts prior to the arrival of the crisis the fall of 2008 in Manitoba, but by the fall of 2009 male unemployment rates were higher. Since the end of 2009, male unemployment rates for workers in the 25-54 category have, on average, continued to be slightly higher than corresponding female rates, but the differences in rates vary monthly and, overall, these differences are not large. More significant is that over the 2010 to mid-2011 period, there has been neither a discernable upward nor downward trend in unemployment rates. Finally, these rates for the 25-54 age group need to be kept in perspective: first, Manitoba has consistently been one of the three provinces with the lowest rates in the country, and, secondly, at less than 5% the 2010 and 2011 monthly unemployment rates for the 25-54 age group lie well below the average rate that the province experienced back in the 1980s and 1990s.

Hours and earnings

The unemployment rate, of course, captures only a part of the adjustments made by workers to changing macroeconomic conditions. In the face of declining demand and pressure to reduce production levels, the number of hours worked by existing employees can be pared down, and part-time jobs can to some extent substitute for full-time employment. Labour market statistics confirm that this was a feature of the recent economic downturn. Between December 2008 and December 2009, when total employment in the province fell by 0.8%, full-time employment dropped by 1.6%

(a reduction of 8,100 full-time workers) while part-time employment increased by 2.6% (an increase of 2,200 part-time workers).⁷¹ This aggregate shift from full-time to part-time moderates the fluctuations in the unemployment rate, but it is important to recognize that the net reduction in hours imply, in general, a reduction in earnings on the part of workers and their families. The appeal of part-time work may be very real for many Manitobans, and may depend on personal preferences, lifestyle and other obligations. But many work part-time because they are unable to land full-time employment.

The ability of firms to adjust work hours in lieu of layoffs has been enhanced by the federal government's work-share program. The program, which was enhanced in the January 2009 budget, allows firms to reduce work hours by 20% to 60%, but at the same time to help them retain their workforce (and avoid losing skilled and experienced workers) by permitting the workers involved in the reduction to collect employment insurance benefits.⁷² A number of Manitoba employers have utilized the program, notably manufacturers such as Boeing Canada, Monarch Industries, Gerdau Ameristeel MRM and Buhler Industries.⁷³

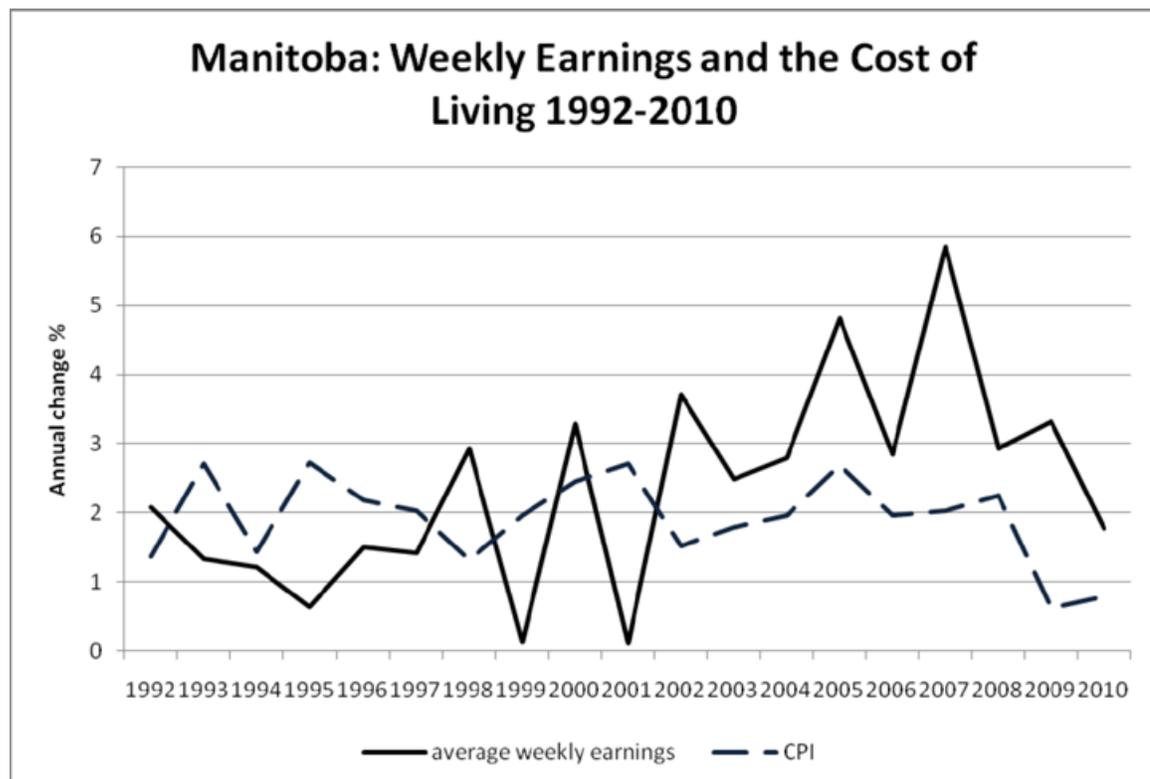
Stronger economic performance over the last 3 quarters of 2010 and the first half of 2011 has, however, reversed the relative growth of part-time work. Between March 2010 and July 2011, full-time employment in the province rose from 492,800 to 506,700 (an increase of 2.8% over the 16 month interval). Part-time employment exhibited fluctuations over this same period, but the 16-month trend was downwards. In March 2010, part-time employment stood at 122,100. In June 2011, it was down slightly to 121,500. A further and substantial decrease brought the part-time level down to 115,200.⁷⁴

In labour markets, wages and salaries generally respond incrementally and very

belatedly to changing demand and supply conditions. Data for Manitoba illustrates this general tendency quite well. The decade of the 1990s was a time of relatively high unemployment. The unemployment rate averaged 9.3% in 1992 and 1993, and thereafter gradually decreased to 5.6% in 1998 and 1999, and then to 5% in 2000. As shown in Chart 11, over this period, average weekly earnings of Manitoba employees struggled to keep pace with inflation, and the value of workers' paycheques seemed quite insensitive to the lowering of the unemployment rate. It was only by 2002 that employee earnings began to realize the benefits of improved labour market conditions. These material benefits continued to accumulate until the intrusion of the crisis in 2008. Specifically, when Manitoba unemployment rates drift down below the 5% mark and into the 4% range, it would be accurate to infer that there is very little slack overall in the provincial labour market. For much of this

decade, some subsectors of the market, such as the market for skilled trades, experienced a degree of excess demand. As a result, wage rates and weekly earnings were rising, and the 2002-2008 period can be viewed as a relatively favourable time for Manitoba workers. However, the economic downturn subsequently pushed unemployment rates well above the 5% mark. This higher unemployment level weakened those economic forces that were pushing up workers' earnings, and the upward trend in the rate of earnings increases underwent a sharp reversal. However, the recession that hit the national and international economies helped drive what were already low inflation rates even lower. In Manitoba, the annual rate of increase in the consumer price index (CPI) dropped below 1% in 2009, and remained below that mark in 2010 as well. As a result, workers' real purchasing power, on average, continued to rise. Extension of this real increase into 2011, however, is more

Chart 11



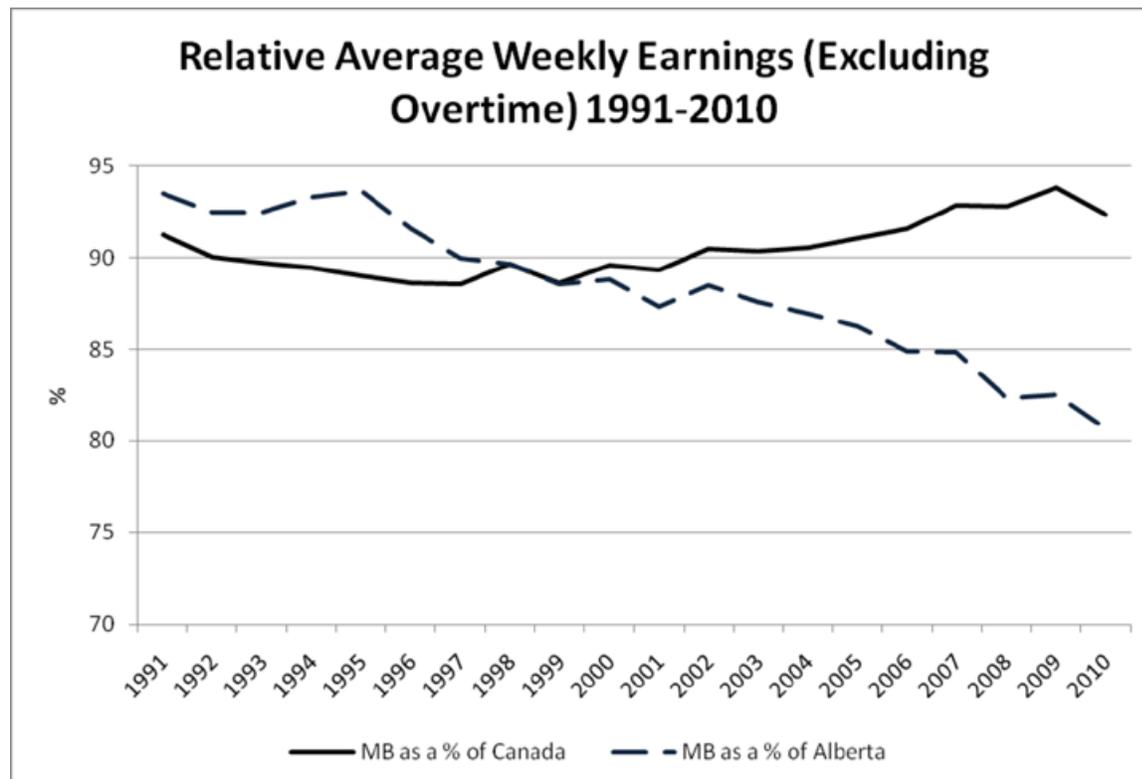
Source: Statistics Canada, CANSIM II, series v1797484 and v41694353.

problematic. With unemployment well above the 5% mark, employers are likely to better resist pressure for a continuation (much less an acceleration) of the rate of nominal wage increases. Meanwhile, the extremely low CPI inflation rates of 2009 and 2010 are not likely to prevail for 2011. In July 2011, the CPI for Manitoba was up 3.1% from its level 12 months earlier,⁷⁵ and some private sector forecasts have the 2011 Manitoba CPI rising in the 2.4% to 2.6% range.⁷⁶ As a result, for 2011, further gains for labour, at least in terms of real earnings, will be harder to come by. The struggle for many may well be one that strives to consolidate recent improvements in earnings while seeking improvements along non-pecuniary lines.

An appraisal of the earnings situation of Manitoba workers relative to their counterparts elsewhere in the country helps provide some context for the gains that have been realized.

Relative to Canada as a whole, Manitoba has long been a low wage/low earnings economy, and this difference is, as one would expect, even more marked when comparison is made directly with a high income province, such as Alberta. Chart 12 traces the recent movements of the average weekly earnings of Manitoba employees relative to those of Canada as a whole, and to those resident in Alberta. The fairly tight labour market in Manitoba over the last 10 years has acted to raise relative earnings in the province back up to more than 92% of the national average. The comparison with Alberta, however, underlines the effects on the labour market of the intense economic boom that characterized that economy after 2002. The termination of the Alberta boom in late 2008 pushed unemployment in Alberta up (6.7% in December 2009, up 2.5 percentage points from December 2008⁷⁷), but recovery in that province's economy has pulled the unemployment rate back down (it stood at

Chart 12



Source: Statistics Canada, CANSIM II, series v1797484, v1797801 and v1796232.

5.5% as of July 2011⁷⁸) and, as a result, the Alberta-Manitoba earnings gap is once again increasing.

It is almost a tautology to say that workers at the low end of the wage scale have very little, if any, bargaining power. For these workers, wage rates are highly dependent on existing legislation, such as that governing the minimum wage. In the last few years, the provincial government has been more emphatic in elevating the minimum wage. After years of annual increments of 25¢ per hour, 35¢, 40¢ and 50¢ per hour increases were implemented in 2006, 2007 and 2008, respectively. These increases, which in percentage terms were well above the increases in the CPI, pulled the minimum wage rate up to \$8.50 per hour. Notwithstanding the onset of the economic recession, increases continued in 2009 with a 25¢ rise effective May 1, and a further 25¢ increase on October 1, thereby pulling the hourly wage up to the \$9.00 mark.⁷⁹ These increases were of real value in delivering some increase in purchasing power to the low income stratum of the labour force, and that income boost also serves as a helpful stabiliser of consumer spending during the period of retrenchment induced by the recent economic downturn. However, for many workers for whom the minimum wage served as either an actual floor or as a comparative benchmark, the impact of the economic recession was delivered more forcefully through the curtailment of hours, as noted above. Furthermore, even at \$9.00 per hour, and working fulltime (37.5 hours

per week), the annual earnings of a minimum wage worker in Manitoba would still leave that worker well below the low income cutoff mark. For a single unattached individual, meeting the 2009 cutoff target would require wages of \$11.20 per hour.⁸⁰ On October 1, 2010, a 50¢ increase brought the minimum wage up to \$9.50, and a further 50¢ increase is scheduled for October 1, 2011.⁸¹ These increases, in percentage terms, amount to annual increases of 5.5% and 5% respectively, which exceeds the inflation rate and brings some recipients a bit closer to the (also rising) low income cutoff mark.

Approximately 38% of employees in Manitoba are covered by union contracts. At the aggregate level, this ratio has not been noticeably affected by the recent economic crisis, and in fact the relative degree of union coverage has been remarkably constant over the last decade.⁸² By way of contrast, union coverage for Canada as a whole reached only 31.5% of Canadian employees in 2010, down more than 2 full percentage points from 1997 levels.⁸³ Behind the provincial average, however, considerable disparity exists. This is especially evident in a comparison of private sector with public sector workers. In 2010, union coverage of private sector employees was only 19.2%, and this level is below the 20% to 21% range that typified the 1997-2005 period. On the other hand, public sector unionization rates remain high, with slightly more than 78% of public sector employees in the province covered by union contracts.⁸⁴

IV. The Industries

A decomposition of the Manitoba economy according to broad industrial categories is reflected in Chart 13, which presents the share of provincial GDP (for 2010) produced by each industry. This section discusses some of the distinct features of these specific industrial groups, their recent performance and the challenges that they face in the immediate future.

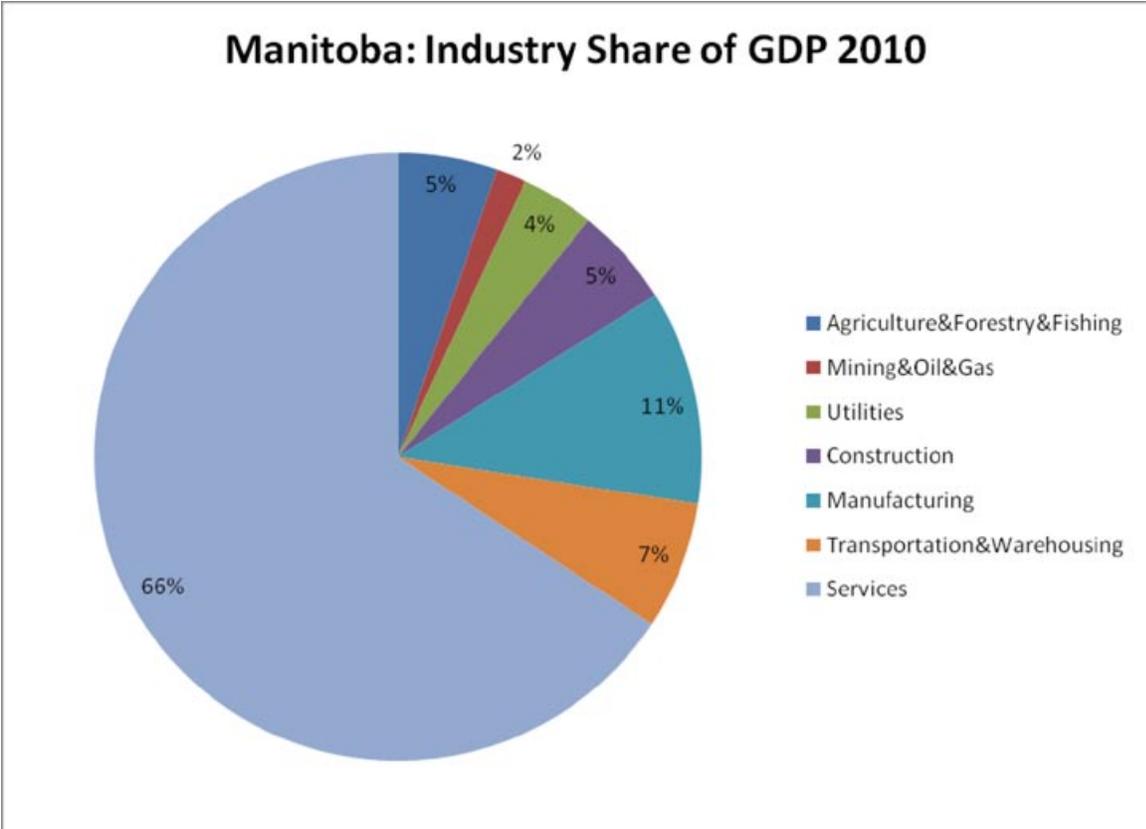
Primary Industries: Agriculture

Primary industries cover agriculture, forestry, fishing, hunting, mining and oil & gas production. In 2010, this group of industries produced about 7% of the province's GDP. Within the primary sector, agriculture is the

largest contributor, accounting for almost 5% of total provincial GDP.

Abundant supplies of fertile land have long secured for agriculture a deserved place at the very foundation of the provincial economy. The fortunes of this crucial sector vary year-to-year in part as a consequence of the vagaries of the climate, but the sector is also very sensitive to changing economic conditions. Just like the weather, the external economic environment is largely beyond the direct control of Manitoba producers, but the overall economic impact of these exogenous forces depend critically, as they do for any industry, on the economic structure, institutional arrangements and particular policy initiatives associated with the industry itself.

Chart 13



Source: Statistics Canada, CANSIM II, series v41889557, v41889558, v41889563, v41889569, v41889573, v41889583 and v41889630.

In 2010, the cash receipts accruing to Manitoba producers from crops (\$2.74 billion) exceeded receipts from livestock and livestock products (\$1.74 billion).⁸⁵ Canola was the most valuable crop in 2010, pulling in over \$1.12 billion in receipts. Wheat (excluding durum) was second in importance, with receipts worth \$556 million. These two crops alone comprise about 61% of the total receipts for all crops grown in the province, underscoring their enormous importance for the provincial economy. Potatoes (\$210 million), oats (\$135 million) and soybeans (\$92 million) are Manitoba's other substantial revenue generating crops.

With respect to livestock and livestock products, hogs and cattle dominate. Hogs receipts in 2010 were \$818 million, up almost 14% from 2009. Cattle receipts were \$392 million. Together, hogs and cattle makeup about 69.5% of receipts from livestock and livestock products. Dairy production generated \$228 million in receipts. Receipts from hen and chicken production in 2008 were \$82 million, eggs (for consumption and for hatching) generated \$63.6 million and calves \$53.4 million.

Farm revenues and incomes

Table 2 provides a breakdown of annual net farm income in Manitoba for the 2006-2010 period. As the table indicates, cash receipts increased substantially in 2007 and again in

2008, but since that time further increases have been very small: there was virtually no change in 2010 over 2009 levels, and early figures covering the first 6 months of 2011 have cash receipts slightly below their levels from the same period in 2010.⁸⁶

On the revenue side, farm income had been strengthened significantly by the very sharp increase in crop prices that occurred in late 2007 and on into the first half of 2008 (see Chart 14, next page). Deteriorating global economic conditions reduced commodity prices over the latter part of 2008 and into 2009. For Manitoba crops, the price slide lasted for close to 2 years. However, despite this slide, the crop index for June 2010 was still about 9% higher than it was prior to the price surge of 2007. Furthermore, since that time, crop prices have been moving upwards. As of May 2011, the crop index stood at 137.9, an increase of 26% in less than a year. The market situation for animal and livestock products experienced neither a sharply escalating price rise in 2007-08 nor a serious collapse in 2008-09. This index instead had been struggling to return to levels established in the early years of the decade. Strong increases, beginning in 2010, in prices for cattle and calves (a 21% increase from January 2010 to May 2011), and a resurrection of hog prices from the lows of August-September 2009 back to levels that have not really been sustained for more than a decade, have acted to push the

Table 2: Manitoba: Farm Income 2006-2010 (\$millions)

	2006	2007	2008	2009	2010
(+) Total cash receipts	3,688	4,344	4,800	4,828	4,832
(-) Operating expenses (after rebates)	3,211	3,536	3,963	3,812	3,676
(=) Net Cash Income	476	808	838	1,016	1,156
(+) Income in kind	3	3	3	3	3
(-) Depreciation	467	470	495	527	536
(=) Realized Net Income	12	341	346	492	623
(+) Value of inventory change	294	-90	490	26	-544
(=) Total Net Income	307	251	847	518	79

Source: Statistics Canada, CANSIM II, series v8692, v8695, v8699, v8702, v170074, v171312 and v171344.

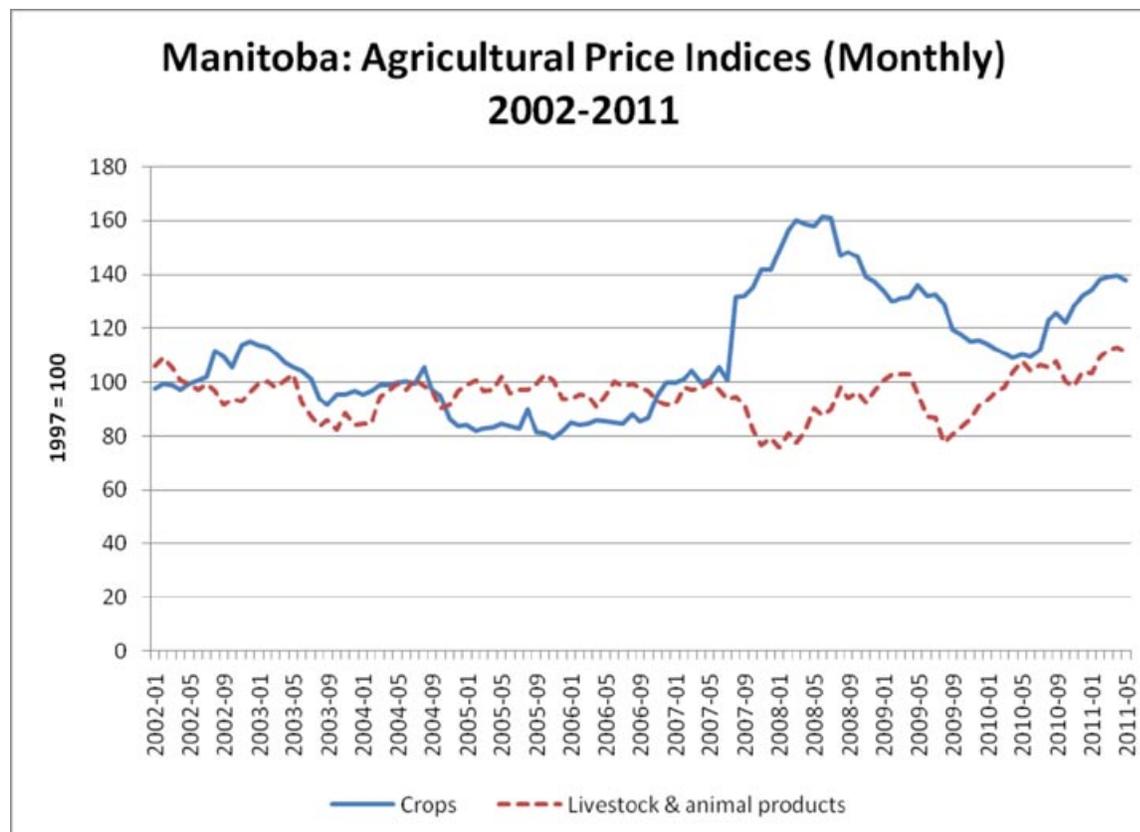
animal and livestock index up to an elevation that it had not experienced since 2001.

Fluctuations in market prices and weather-induced variations in yield generate substantial year-to-year movements in cash receipts from sales. Payments received by producers from a range of stabilization and income supplement programs help moderate the yearly variations in revenues. As indicated in Chart 15 (next page), these direct payments were especially important in partially offsetting the 2005 and 2006 fall in crop receipts. Stronger revenues in 2007 and 2008 led to a drop in direct payments to Manitoba farmers in each of those years. In 2010, payments amounted to \$349 million. For the first half of 2011, direct payments were about \$186 million. This is about \$40 higher than the amount paid out to Manitoba farmers over the equivalent period in 2010.⁸⁷ This captures to some extent

the adverse climatic conditions that affected agricultural producers in the province in 2010. Most of the reckoning from the spring 2011 floods will be reflected in payouts in the 2nd half of 2011 and on into 2012.

The wet weather and severe flooding that inundated vast tracts of agricultural land in the western part of the province, especially in the Assiniboine drainage basin, throughout the spring of 2011 has reduced seeded acreage for 2011 — approximately 2.9 million acres were unseeded in 2011, an area which is twice the previous record⁸⁸ — as well as expected yields. Statistics Canada forecasts from July 2011 estimate that Manitoba’s 2011 production of canola and wheat, its two most valuable crops, could be down 21.7% and 30.3%, respectively, from its 2010 levels.⁸⁹ Direct payments to farmers and crop insurance payments can both be expected to be higher in 2011.

Chart 14



Source: Statistics Canada, CANSIM II, series v1811660 and V1811667.

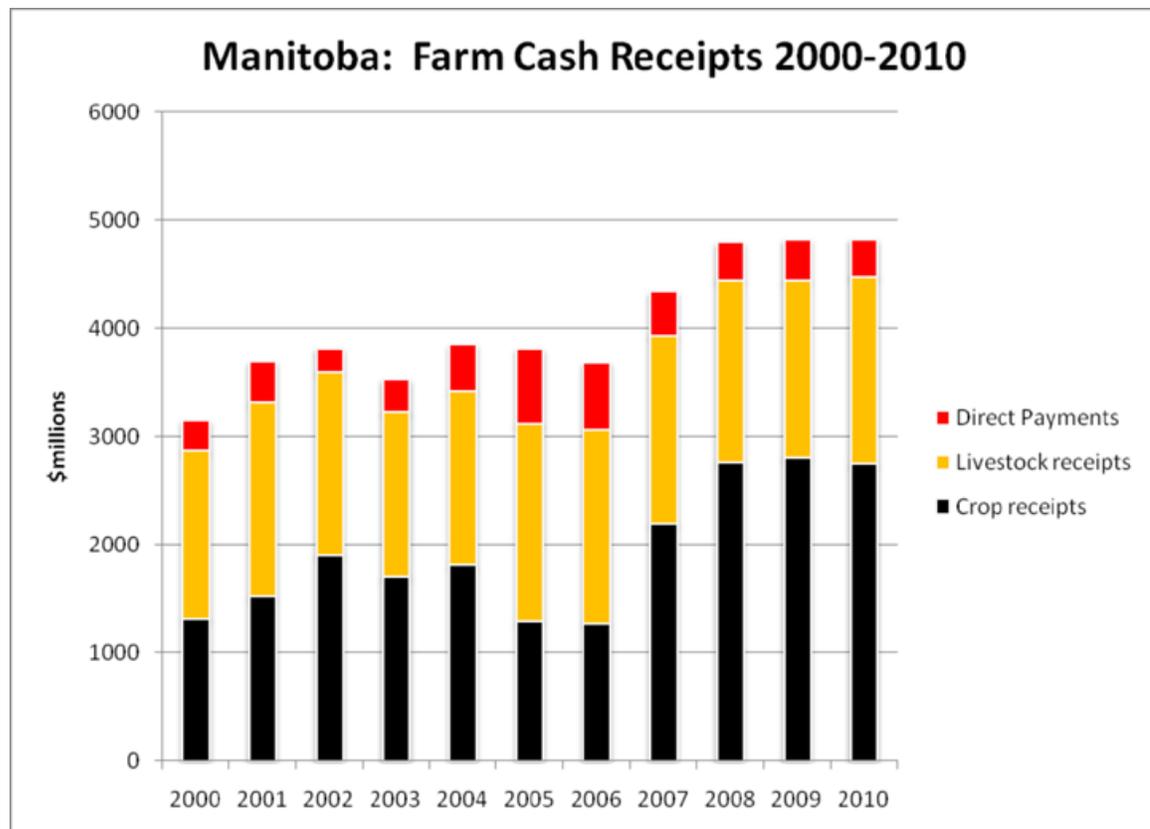
In general, fluctuations in agricultural cash receipts are not synchronized with variations on the expense side. In fact, operating expenses, even after rebates, tend to display a persistent, if not inexorable rise. As noted in Table 2, for example, the substantial increase in total cash receipts in 2008 was almost entirely absorbed by corresponding increases in operating expenses. Yearly depreciation charges also tend to rise, reflecting the increasing capital intensity of the industry as a whole. When these depreciation costs are added to the operating expenses, realized net income, despite the record level of total cash receipts, actually fell from its 2007 level.

The rising trend of operating expenses, however, was emphatically abrogated as the full impact of the global recession and crisis washed through various markets. With respect to inputs, price drops were particularly

evident for fuel and fertilizer. The collapse of energy prices and prices for other ingredients for fertilizers, such as potash, occurred in mid-to late 2008 and were essentially too late to materially affect 2008 operating costs for the majority of producers, especially crop producers. In 2009 and also in 2010, these price drops provided at least some relief for agricultural producers. Lower interest rates eased the costs of carrying existing debt, and the return of the high Canadian dollar further reduced the cost of imports from south of the border, a consideration which is especially significant with respect to the purchase of new machinery. Thus, one positive effect of the crisis may well be a period in which the seemingly perennial rise in farm operating costs may have abated.⁹⁰

The relief on the cost side is likely to be temporary, however. With the global recovery, input prices have again been moving up.

Chart 15



Source: Statistics Canada, CANSIM II, series v170075, v170110 and v170129.

Forecasts lean towards future increases, not decreases, in energy and fertilizer prices, and a similar prospect is predicted, albeit not for 2011, for interest rates. Meanwhile transportation costs, especially rail freight rates, have long been a sensitive issue for prairie farmers, and many farmers are indicating that they have yet to realize any of the benefits that have been generated through significant efficiency gains in rail transportation.⁹¹ Finally, increasing public concern with environmental issues, notably land use, with animal welfare, and, in the wake of recent worries about “mad cow disease” and the “swine flu”, with health and food safety, place more pressure on agricultural producers to adjust aspects of their production processes. These adjustments are not likely, at least in the short run, to lower production costs, or even to be cost neutral.

Farmers have been responding to these realities of agricultural economics by seeking productivity gains through more capital intensive production techniques. Rising capital intensity favours larger production units by spreading large fixed costs over high volumes of output. Larger units also carry the promise of realizing economies of scale. The effectiveness of this strategy is suggested by recent data on the number of farms in the province. As shown in Table 3, the number of farms has fallen from 21,145 in 2001 to 15,765 in 2009. A breakdown of these totals, however, show that the big reductions have been in farms with annual net operating incomes below \$100,000.

Farms with net operating income of \$100,000 or more have increased in number.

These changes in production technologies and the trend towards larger production units underlie the organizational shift within the industry as the relative importance of the “family farm” is increasingly being overshadowed by the growing presence of the corporate farm. As illustrated in Chart 16 (next page), despite the very pronounced cyclical variations, the share of agriculture value added that accrues in the form of corporate profits exhibits a rising trend over the last 2 decades, whereas the share of net returns for unincorporated operators (i.e., the family farm) has been trending downwards. Since 2003, the corporate share has exceeded that of the unincorporated operators.

Livestock: concerns and crises

As noted above, livestock and livestock products provide just over one-third (36% to 38%) of total cash receipts for Manitoba’s agricultural producers, and livestock is dominated by cattle and hogs. The fortunes of cattle and hog producers have, however, fluctuated dramatically over the course of the decade. Stability has not been the hallmark of this subsector.

The changing fortunes can be readily discerned by a look at what has happened to cattle and hog prices. As shown in Chart 17 (on p. 32), the relatively good cattle and calf

Table 3: Manitoba: Number of Farms Classified by Net Operating Income

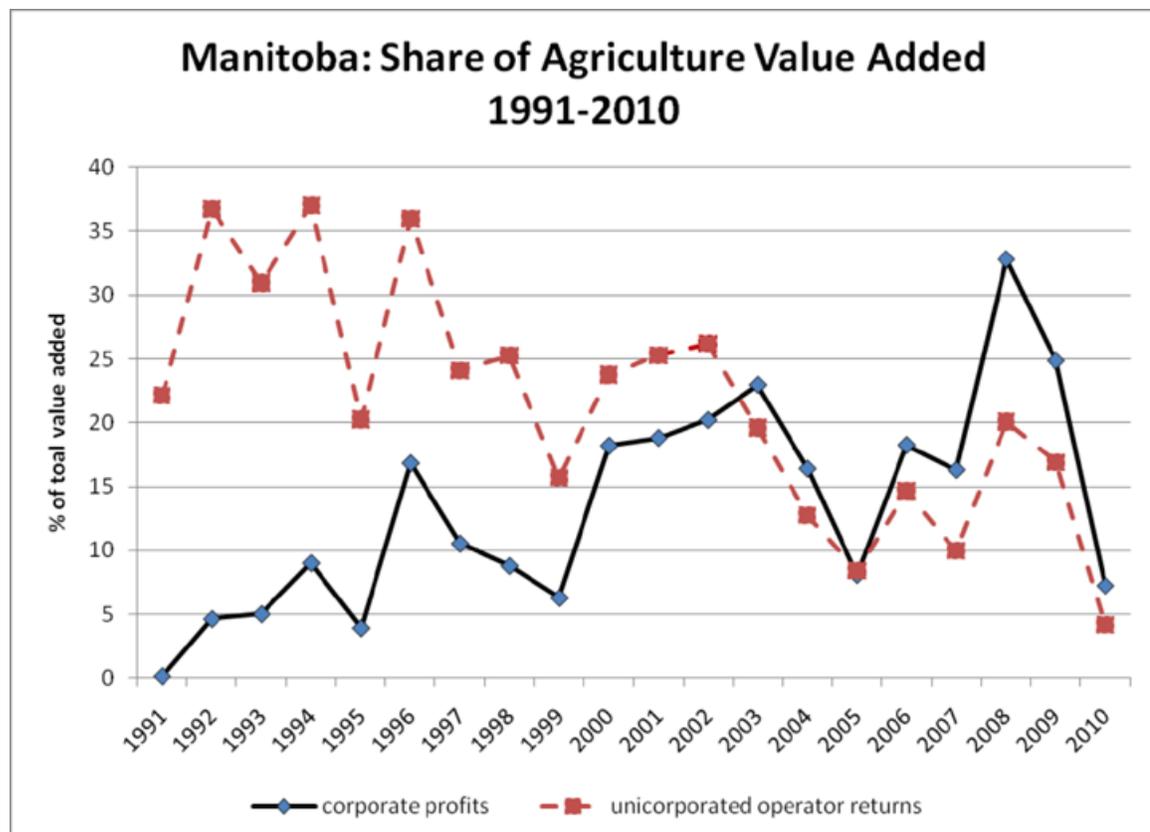
Net Operating Income	2001	2009
less than \$1	4,605	4,560
\$1 - \$24,999	8,805	4,620
\$25,000 - \$49,999	3,695	1,990
\$50,000 - \$99,999	2,520	1,960
\$100,000 and above	1,520	2,635
Total All Farms	21,145	15,765

Source: Statistics Canada, CANSIM II, series v31197281 to v31197285.

prices at the beginning of the new century collapsed with the BSE (mad cow) scare in 2003 and the consequent closing of the US border to Canadian beef exports for 2 years. Exports resumed in the second half of 2005 and prices rebounded, but from late 2006 until 2010 the trend of the cattle and calf price index had been downwards. In the export market, the latest trade irritant is the U.S. country-of-origin labeling (COOL) legislation, which came into effect October 1, 2008.⁹² As a result, the post-BSE rebound in Manitoba cattle exports has been sharply reversed, and the decrease was compounded further by weakening demand in the US incidental to the recession. International exports of Manitoba cattle, which reached 351,300 head in 2008, had been reduced to 202,900 in 2009, and then down to 164,300 in 2010. In the first half of 2011, international cattle exports totaled only 40,500 head, less than half the number for the first half of 2010.⁹³

Meanwhile, feed and operating costs continued to rise, and availability of feed in 2009 was impaired by especially dry conditions in southwestern Manitoba, and wet weather and flooding in the interlake region. Wet weather in 2010 again damaged supplies of feed, and further adjustment was inevitable. Firm local and regional demand for dairy products has supported the maintenance of the stock of dairy cattle, but beef producers were increasingly being squeezed. As a result, the size of the cattle herds in the province are shrinking. As of January 1, 2011, there were 1.16 million cattle on Manitoba farms. That is a 5% decrease over the previous 12 months, and a 22% reduction from 2006.⁹⁴ The increases in cattle prices since 2010 is encouraging, but drier fields and better and affordable supplies of feed will also be needed in order to induce replenishment of herd sizes in 2012.

Chart 16



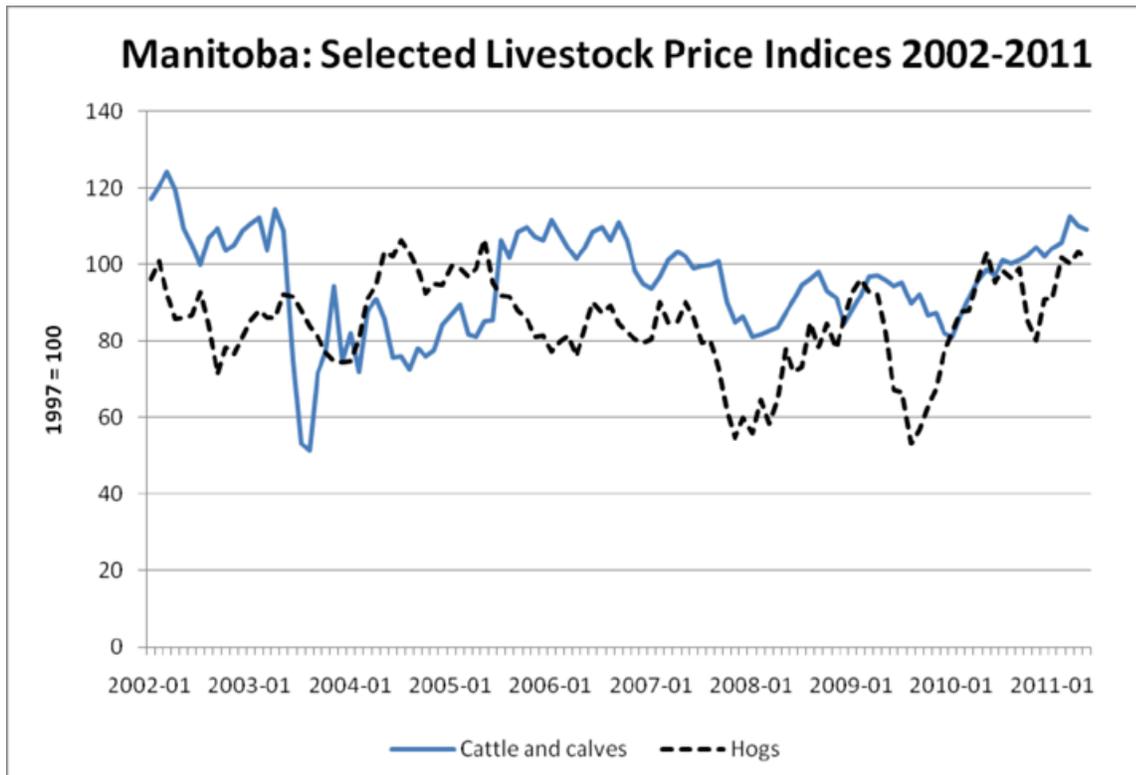
Source: Statistics Canada, CANSIM II, series v1939588, v1939592 and v1939595.

Hog production in the province expanded rapidly in the 1990s and on through the early years of the new century. The hog population on Manitoba farms rose from 1.3 million in 1991 to over 2 million animals in 1998, and was approaching the 3 million mark by mid-2006.⁹⁵ This peak, however, coincided with 2005-2006 downturn in hog prices (see Chart 17). A further precipitous price drop hit the market in late 2007, generating a crisis in the industry that was, at that time, quite distinct and separate from the crisis that was emerging in financial markets. Prices improved throughout most of 2008, but 2009 brought about another collapse, precipitated in part by weakening of markets due to the adverse effects of the recession, the consequences of the COOL regulations for the US demand for Canadian livestock, and public apprehension due to the unfortunate association of pork with the H1N1 “swine flu” outbreak. The appreciation of the Canadian dollar was also

eating away at the value of export earnings while, as was the case for cattle producers, feed costs were rising.⁹⁶

The result of these developments was an industry in crisis. Manitoba hog exports consist almost entirely of shipments to the US, and, as shown in Chart 18 (next page), the hog export volume in 2010 had fallen by more than 40% relative to its peak in 2007. With decreased exports, provincial slaughtering and processing has increased, but adjustment within the industry reduced the total hog population to 2.49 million as of October 1, 2011.⁹⁷ Industry rationalization has continued and intensified further as the effects of the crisis worked itself out at the level of the individual farm. The number of hog farms in the province continued to fall: 1,830 hog farms were reported in 2000, by 2007 that number was down to 1,140; by January 1, 2010 there were 790 hog farms, and as of July 2011, only 735 remained. On

Chart 17



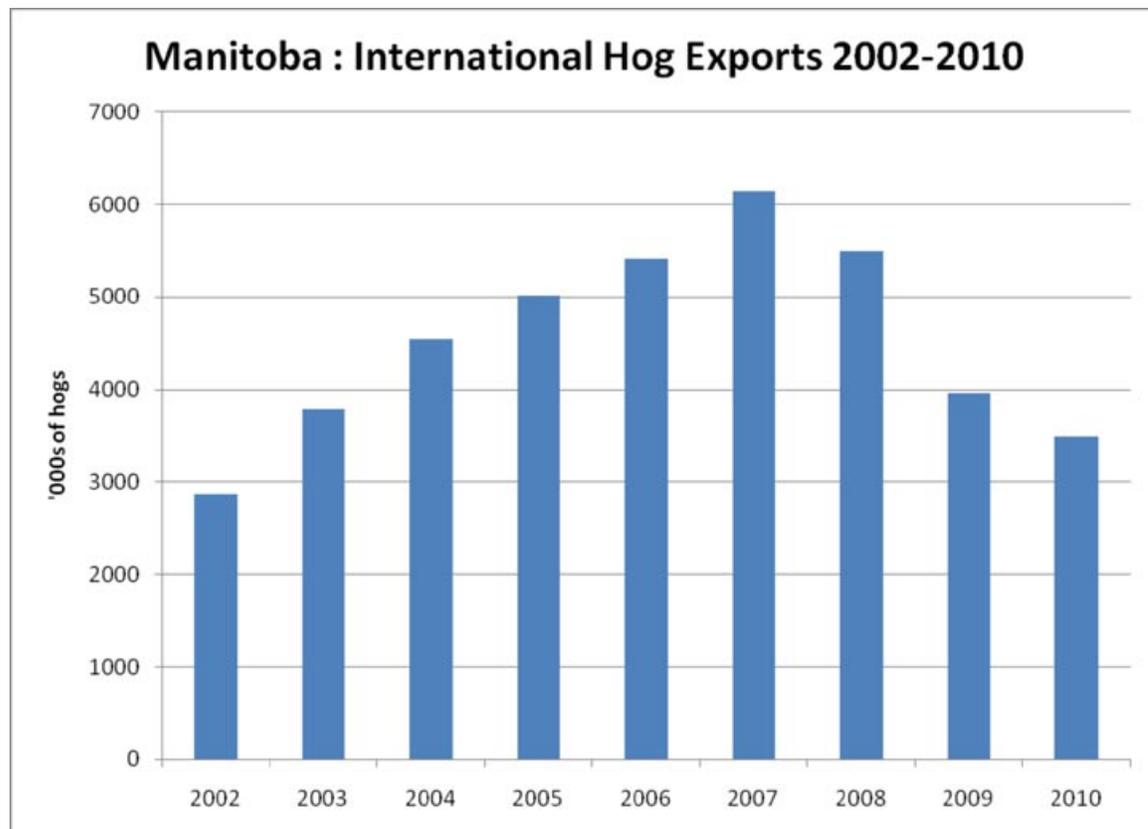
Source: Statistics Canada, CANSIM II, series v1811668 and v1811669.

the other hand, the average size of the farm increased. In 2003, Manitoba hog farms had an average of 1,799 hogs per farm. By 2007, the average was 2,596. For January 2010, it was 3,203, and as of July 1, 2011, the average had reached 3,558.

The provincial government's moratorium on new hog barns in the most intensive hog producing regions of the province has attracted considerable publicity and discussion, but it is the larger economic forces noted above that have created the conditions for the crisis that the industry is presently experiencing. Rationalization resulting in a reduction in the number of farms and increases in the number of hogs per farm is a process that is occurring across the country. In fact the reduction in the number of hog farms has been even more pronounced in the other prairie provinces, as Saskatchewan and Alberta went from 1600 and 2450 hog farms, respectively, in 2003 down to

410 and 890, respectively, in 2010. Where Manitoba is an outlier relative to the other provinces is in regard to the size of the farm. With an average of 3,558 hogs per farm (July 2011), Manitoba hog operations are substantially larger than those in other provinces. Quebec ranks 2nd in terms of hogs per farm, but their average is only 2,157. Thus the environmental concerns stemming from areas of high hog populations, i.e., the large "hog barns", is a matter of particular relevance for Manitoba production. In light of the crisis, the industry at present is retrenching rather than growing, so the moratorium is not acting as an upper constraint. However, the moratorium arguably affects the scope for further continuation of the longer term trend towards fewer but ever larger producing units. The optimal size of the industry in the province, as well as the optimal size of the producing unit, are questions that remain open.

Chart 18



Source: Statistics Canada, *Hog Statistics: Second Quarter 2011*

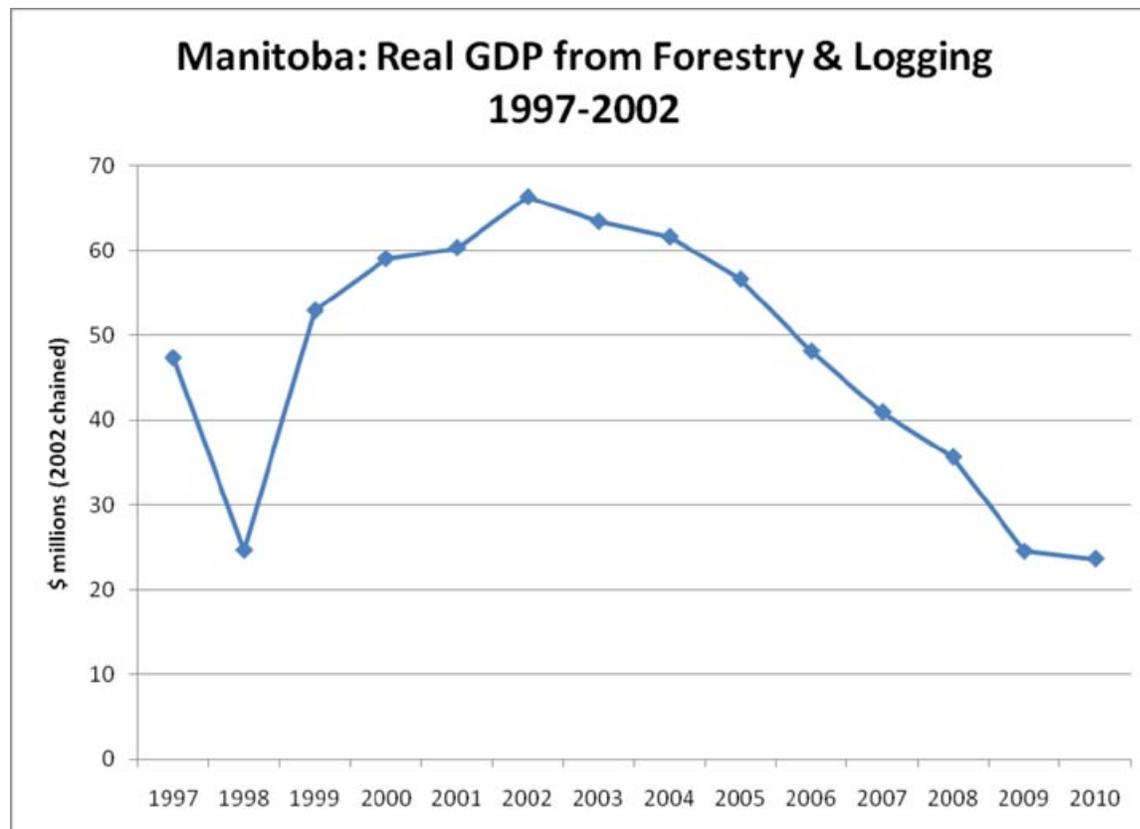
Primary Industries: Forestry and Mining and Oil & Gas

In 2010, real GDP (in 2002 dollars) from forestry and logging in the province amounted to \$23.6 million.⁹⁸ As a fraction of provincial GDP, production from forestry and logging barely registers (i.e., less than 0.01%), but the economic significance of this sector is appreciably larger due to the importance of its output as inputs for sawmills and paper production, and for the fact that, geographically, the industry is primarily situated outside both the agricultural and Winnipeg metropolitan areas of the province. Unfortunately, the forestry and forest products industries in Canada have been experiencing economic difficulties in recent years. The industry exhibits the traits of a classic staples industry with its heavy dependence on exports of raw or semi-processed materials, its sensitivity to fluctuations in the

foreign demand for its products, and also its sensitivity to the effects of technological change. In Canada, these general concerns have been compounded by U.S. initiated trade restrictions on exports of softwood lumber, the post-2002 appreciation of the Canadian dollar vis-à-vis the U.S. dollar, and the decline in the demand for paper and newsprint as newspapers, magazines and the publishing industry struggle to maintain circulation levels in the face of increasing inroads of the electronic media. Finally, the cyclical character of the industry has, in the current period, been heightened by the fact that the collapse of the U.S. housing boom precipitated the recent economic crisis and recession, and that the U.S. housing market continues to be weighted down under the oppressive pressures of debt and insolvency.

These conditions have adversely affected

Chart 19



Source: Statistics Canada, CANSIM II, series v41889560.

forestry and related industry in Manitoba. As illustrated in Chart 19, real GDP in forestry and logging in the province has been sliding downwards since 2002. Indicative of the trend was the January 2009 announcement by Tolko Industries that despite recent government grants, tax relief and wage cuts by its workers, lumber production at The Pas was being suspended and another round of layoffs were to take effect.⁹⁹ A year later, the company said that “it is confident that the operation will reopen one day, but it likely won’t happen this year.”¹⁰⁰ On the other side of the province, a similar drama was unfolding. After intermittent shutdowns throughout the first three quarters of 2009, Tembec Inc. reacted to resistance on the part of its workers to proposed wage and benefit cuts by imposing a lockout at its Pine Falls paper mill.¹⁰¹ As the labour dispute moved towards arbitration, the company announced its intention to “close the plant and put it up for sale”.¹⁰² Discussions among potential buyers continued through the winter and spring of 2010, but the reality of weak export markets and considerable excess productive capacity nationally constituted substantial economic hurdles for any proposal involving restructuring and a resumption of production. In August 2010, efforts by an employee-led group to purchase the plant were reported to have come up short, and a permanent shutdown consequently appears to be the most likely outcome.¹⁰³ For primary forestry producers, the outlook is not at all promising. The reduction in production in the manufacturing plants at The Pas and Pine Falls will reduce demand for primary forest products. As a result, real GDP in forestry and logging is unlikely to rebound in the current year.

The scenario for both mining and oil & gas production is a more positive one, but this component of the resource sector also has experienced considerable fluctuations in its fortune. For example, in 2009, real GDP from

the entire mining and oil & gas sector was \$607.4 million (in 2002 dollars). This figure is down slightly (less than 1%) from the level of the previous year (\$612.6 million) and is well below the 2006 mark of \$656.9 million. However, 2010 proved to be a much better year, and GDP in this sector soared to \$665.1 million.¹⁰⁴ Underlying these GDP numbers are commodity prices and production levels. Their effects can be better appreciated by examining mining activities separate from those of the oil and gas sector.

From 2000 to 2009, metallic mining in the province had, in terms of real GDP, been on a downward trend. In 2000, mining of metal ore produced value added (in 2002 dollars) of \$440.6 million. By 2008, GDP from this sector had dropped to \$297.1 million, and with another decrease in 2009, annual GDP stood at \$290.9 million. With the global economic recovery and rising prices in 2010, the economic performance of Manitoba’s metal mining sector correspondingly improved: real GDP rose to \$310.7 million.¹⁰⁵

Like many other staple industries, metallic mining is exposed to the vicissitudes of international commodity prices. For the most part, these prices have been adversely affected by the recession of 2008-09, but the recession-induced price declines need to be placed in a broader context. Chart 20 (next page) traces out the commodity price changes of 3 base metals — copper, nickel and zinc — of which Manitoba has been an important producer. A period of stagnant, low prices was eclipsed in late 2003 by a period of rising prices. By late 2006 and into 2007 copper and zinc concentrates were trading at prices approximately 3 times their 2002-03 value. Nickel prices continued to soar and in 2007 were 5-and-a-half times their early 2002 levels.

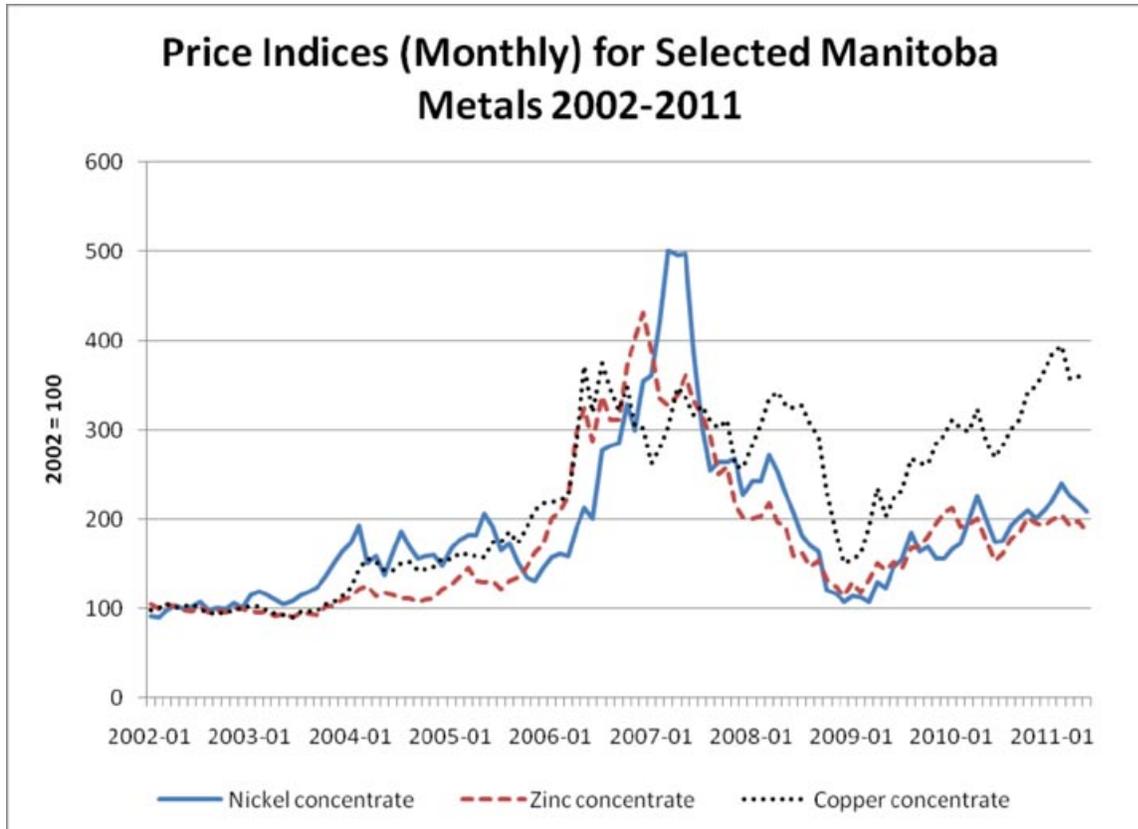
These higher prices, reflecting strong global demand that was tied to an expanding global economy, bolstered profits of produc-

ers, enhanced royalty revenue accruing to the provincial government, and unleashed a surge in new spending on mineral exploration. Annual expenditures on exploration and deposit appraisal rose from \$53 million in 2005 and 2006, to \$102.6 million in 2007 and then to \$135.8 million in 2008.¹⁰⁶ Chart 20 also shows that zinc prices were weakening by the latter half of 2007, and that the “spike” in nickel prices was finished by the fall of 2007. Nevertheless, copper and nickel prices remained strong relative to their 2002-2003 values until the full force of the financial crisis exploded in the fall of 2008. Thereafter prices tumbled, bottoming out in the winter of 2009 during the depths of the recession. Subsequent recovery in the global economy has carried prices back upwards, but, for these metals, prices did not climb back to their pre-crisis levels of late 2006 and early 2007. Lower prices, the drying up of easy access to commercial credit, and reduced

business confidence all contributed to a sharp reduction in exploration expenditures following the outbreak of the crisis. Consequently, for 2009, exploration spending by the mining industry in Manitoba is estimated to have been less than \$78 million,¹⁰⁷ a decrease of approximately 45% from 2008.

In addition to the exploration budget fluctuating prices can also directly affect production levels. In 2008, low prices induced HudBay to suspend its operations in its Chisel North zinc mine,¹⁰⁸ although some strengthening in zinc prices and the closure of the Trout Lake mine led to a subsequent announcement that Chisel North would resume production in 2010.¹⁰⁹ At Bernic Lake, Tantalum Mining Corp, citing weak global demand, announced a suspension of tantalum mining operations in 2009, thereby elimination 238 jobs.¹¹⁰ In most cases, decisions to close, suspend and

Chart 20



Source: Statistics Canada, CANSIM II, series v53434814, v53434815, and v53434817.

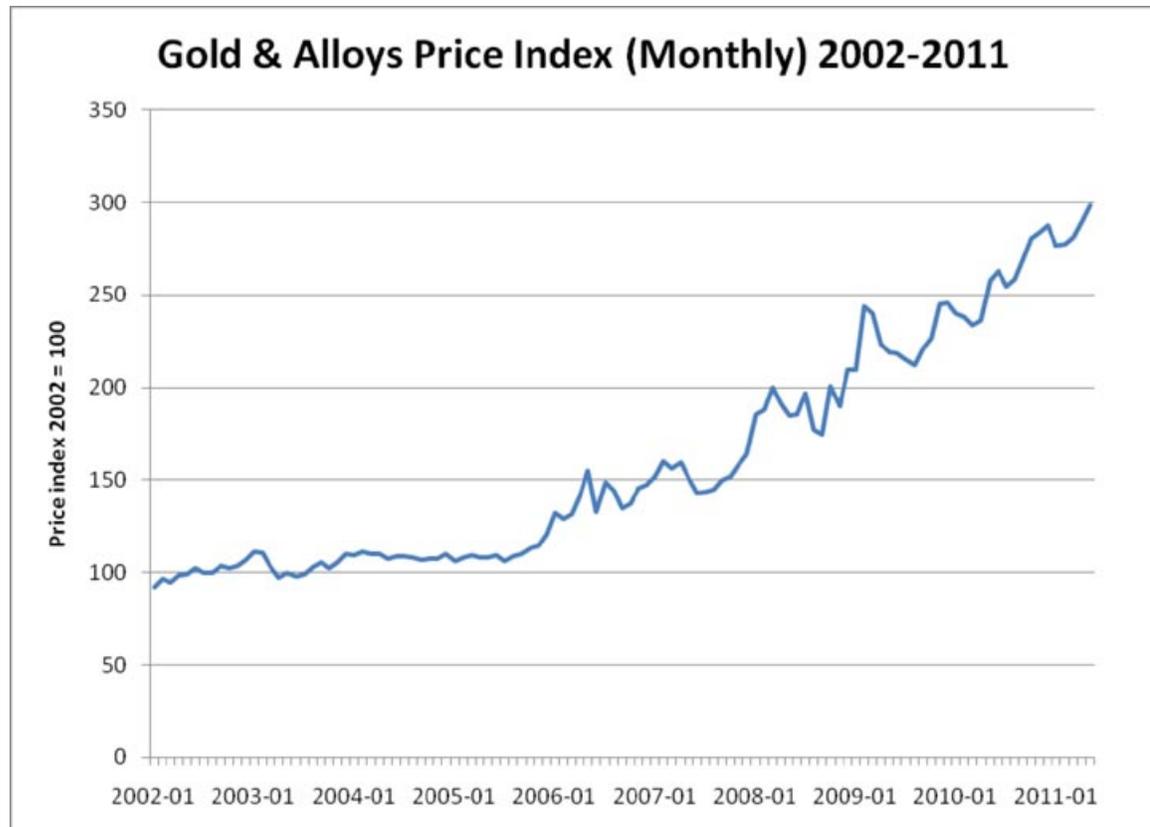
reopen individual mines are decisions made by corporations in head offices located far from the mine site, and these decisions tend to entail balancing and reallocation corporate investment and production volumes among a number of potential producing sites around the world. For Tantalum Mining, the parent corporation is Cabot Corp. located in Boston.¹¹¹ The head office of HudBay, following its merger with Skye Resources of Vancouver, is now located in Toronto.¹¹² The Brazilian owned nickel producer, Vale Inco, re-juggled its global nickel production in the wake of the 2007-08 plunge in nickel prices. This time Manitoba (Thompson) was spared as the cost of adjustment was largely borne by workers in Sudbury and Newfoundland and Labrador.¹¹³

In addition to very pronounced fluctuations in commodity demand and price, mining must

also deal with the possibility of exhaustion of (economically viable) deposits. This prospect is constantly looming on the horizon of many mining communities. HudBay's Chisel North mine is projected to exhaust its viable zinc ore deposits as soon as 2011, and even the relatively new 777 mine in Flin Flon is expected to terminate production in 2019.¹¹⁴

New mines and developments are the positive counterpart to production slow-downs, ore exhaustion, and closures. Notable is the completion in 2008 of a \$140 million new nickel mine at Bucko Lake (near Wabowden) by Crowflight Minerals, with its first shipments getting underway in 2009.¹¹⁵ HudBay is investing \$400 million (although only \$13 million was allocated for spending in 2009) to develop a zinc-copper-gold deposit at Lalor Lake.¹¹⁶

Chart 21



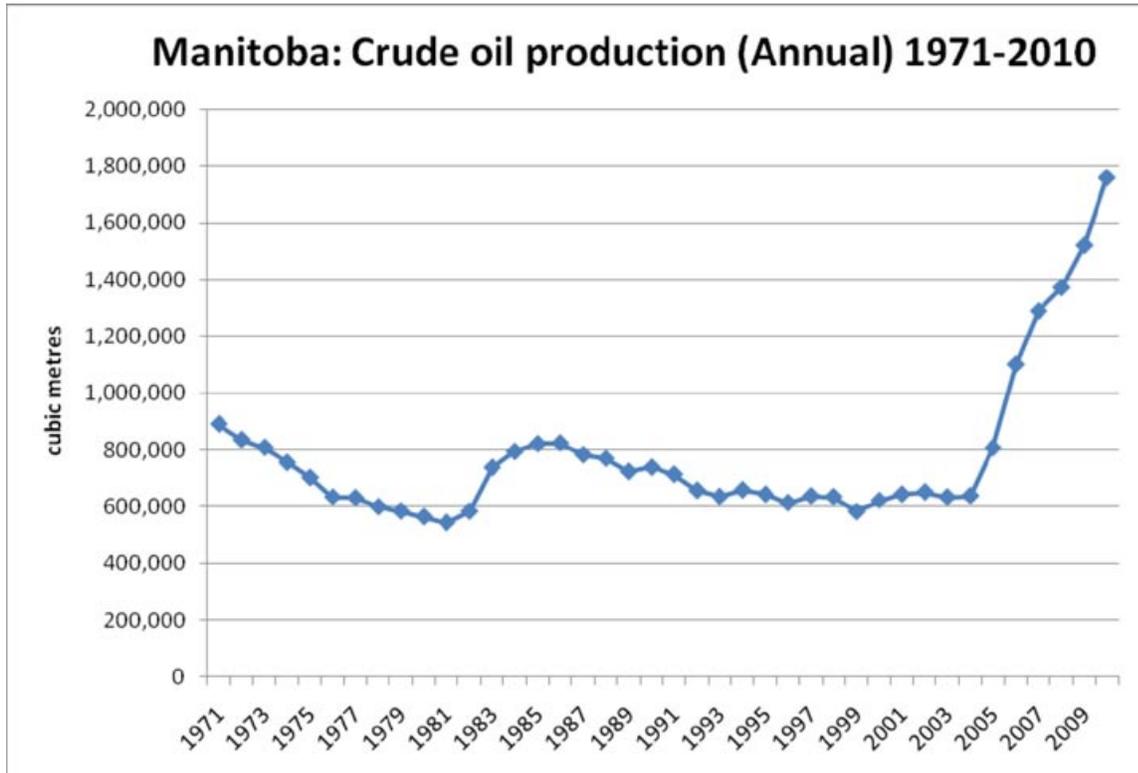
Source: Statistics Canada, CANSIM II, series v53434820.

Unlike base metals, precious metals, and especially gold, have had prices rise as the financial crisis deepened. Chart 21 traces the rise in the price index of gold and gold alloys over the last 8 years. As the crisis deepened, gold prices rose, reflecting gold's historic role as an internationally recognized store of value. The chart indicates a price rise of more than 80% between August 2007 and June 2010. This has proved a bonanza for Manitoba producers. San Gold, which had taken over operations at the Rice Lake gold mine at Bissett, has, as a result of high prices and promising geological results, opened a second mine in the Bissett area in 2009 and, in the summer of 2010, announced the development of a third deposit in the region.¹¹⁷ The high price has stimulated exploration and drilling by other companies in the Bissett region (e.g. Wildcat Exploration Ltd.), as well in the Snow Lake area (Garson Gold Corporation, Copper Reef Mining Corporation, Callinan Mines Limited)

and in northeastern Manitoba (Rolling Rock Resources Corporation).¹¹⁸

Manitoba is not a producer of natural gas, but oil production, located in the southwestern Manitoba, has become an increasingly valuable industry in the provincial economy. As indicated in Chart 22, crude oil production in the province has escalated sharply since 2005. Production in 2010 was a record 1,759,000 cubic meters. As of December 2010, 2,951 wells were operating in the province. This represents a doubling of the number of producing wells since 2004,¹¹⁹ which is indicative of the heightened degree of exploration, drilling, and capital investment which has been recently been done by the industry in the province. Improved extraction methods, especially technology associated with horizontal drilling techniques, have been important factors driving this surge in production and activity,¹²⁰ especially in conjunction with a

Chart 22



Source: Canadian Association of Petroleum Producers, *Statistic Handbook*, Table 03-01B.

post-2002 backdrop of rising prices for energy, and in particular for mineral fuels.

As was indicated in Chart 7 above, international oil prices were high throughout most of 2008, but dropped sharply in the fall of that year and on into the winter of 2009 as the recession gripped the industrialized world. Global prices recovered somewhat in late 2009, held relatively steady in the \$75 to \$80 (US) per barrel range in the first half of 2010, and then initiated an ascent in late 2010 and through the first half of 2011. Although down from the \$120(US) per barrel prices that reigned in mid-2008, current prices do exceed the 2006 and 2007 average. This is positive news for the Manitoba industry (although, as noted above, not for Manitoba consumers of petroleum products). As of September 1, 2010, the average 2010 price for Manitoba produced oil (Light Sour Blend) was \$480.90 per cubic meter (\$76.42 per barrel), up from the 2009 average of \$410.74 m³ (\$65.27 p.b.). Such prices not only maintain profitability for producers, but are conducive to substantial tax and royalty flows to the province. The latter is especially important given that the profits earned by producers primarily flow out of the province.¹²¹

Utilities

Utilities in Manitoba contributed \$1.49 billion (2002 dollars) to the province's GDP in 2010. This comprised approximately 3.7% of total provincial GDP for that year.¹²² Utilities include electricity generation, transmission and distribution, natural gas distribution and waste and sewage operation. In Manitoba, most of the GDP produced by the utilities sector occurs from electricity generation, transmission and distribution (i.e., \$1.35 billion¹²³ of the sector's \$1.49 billion from 2010), and that, along with natural gas distribution, is dominated by Manitoba Hydro.

Hydraulic generating stations provide over

96% of the total electricity generated in the province. Most of the hydro electricity generated comes from plants on the Nelson River in northern Manitoba. The Nelson River stations generated 81.5% (or 28.2 billion kilowatt hours) of the total volume of electricity distributed by Manitoba Hydro over its fiscal year ending March 31, 2010. Next in importance are the smaller and older generating stations on the Winnipeg River, which collectively produced about 12.5% (4.4 billion kwh) of 2009-2010 total.¹²⁴

Hydraulic generating capacity in the province has been essentially constant since the completion of the Long Spruce generating station in 1992. As a result, the volume of power production has depended on water flows, which in turn are affected by precipitation levels across the drainage basin. Water flows were exceptionally favourable in 2005-2006, resulting in total electricity generation of 37.6 billion kwh. By way of contrast, 2003-2004 was a dry year, with production levels dropping to 19.3 billion kwh. Conditions were slightly above average in the 2007-2008 and 2008-2009 fiscal years (producing 35.4 billion kwh and 34.5 billion kwh, respectively) and were only slightly drier in 2009-10, resulting in an output of just under 34 billion kwh.¹²⁵ Manitoba Hydro supplies electricity to provincial customers, and surplus power is exported, primarily to markets in the United States. Net exports for 2009-10 amounted to 9.95 billion kwh, up slightly from the 9.59 billion kwh level of 2008-09.¹²⁶

Revenues from electricity sales depend of course on price as well as volume. The domestic electricity price is regulated by the Public Utilities Board (PUB). Export prices can be negotiated by Manitoba Hydro and prospective clients, but in practice are sensitive to the existing prices in those specific export markets. Thus Hydro, despite its size, is essentially a price taker. Therefore its revenues from electricity sales, which depend crucially

on domestic and external electricity prices, as well as on drainage-basin precipitation levels (which influence production levels) are inevitably subject to fluctuations that are largely beyond its direct control. This of course has implications for the corporation's bottom line, as well as for this sector's yearly contribution to the provincial economy.

The economic recession that followed the financial crisis of 2007-2008 was especially pronounced in the United States, and the contraction and subsequent stagnation of economic activity curbed energy demand and pushed prices downwards. For Manitoba, surplus power continued to be exported and sold, but at a much reduced price. Despite the small but positive increase in net electricity exports in 2009-10 (up about 3.7%), Hydro's revenues from export sales fell from \$623 million in 2008-09 to \$427 million on 2009-10, a decrease of 31.4%. In-province revenues on electricity operations were up \$11 million, much of which can be attributed to a PUB-sanctioned rate hike of 2.9%, but this only offsets a fraction of the effect of lower export prices.¹²⁷ It was the lower prices in export markets that was the major factor in the reduction of Hydro's net income. Net income for 2009-10 was \$163 million, down from \$266 million the previous year, and well below the windfall-like returns of 2006 (\$415 million).¹²⁸ Hydro's Quarterly Report¹²⁹ for the first quarter of fiscal 2010-11 shows a continuation of the previous year's trend. Low winter flows and early spring runoff constrained generating volume, and soft prices in export markets continued. Warm spring weather also curbed domestic energy consumption, especially for natural gas. Consequently, electricity operations registered a \$4 million loss for the quarter, and natural gas operations a loss of \$11 million. However, the Report notes that precipitation levels have increased sharply — a development which has continued on into the fall of 2010, with the result that water flows for the rest of 2010-11 can be expected to be well above average. The

tepid recovery in export markets, however, suggest that a strong rebound in export prices for hydro power is unlikely in the short run. Consequently, although Hydro is forecasting much stronger economic performance in the remaining 3 quarters of fiscal 2010-11 and a annual net income in excess of \$100 million, it does not look that it will be appreciably better than that earned in 2009-10.

The utility has, however, been active in terms of new capital investment, and these investment expenditures have played an important role in helping the province weather the negative effects of the financial crisis and economic recession. In the electricity division, annual capital expenditures — which consistently were less than \$500 million for the years 2001 through to 2006 — edged above \$600 in 2006-07, reached \$888 million in 2008-09 and then surpassed the \$1 billion mark (i.e., \$1,038 million) in 2009-10.¹³⁰ Most of these new expenditure increases are for hydraulic generation and transmission, reflecting the strategic decision to augment hydraulic generating capacity with the construction of new power dams in the north, and the associated decision to construct a new power transmission line (Bipolar III) to convey the power from the north to southern markets, and especially export markets in the United States.

Under construction at present is the Wuskwatim Generating Station on the Burntwood River. It is expected to provide 200 megawatts of additional power by the end of 2011. The cost of the project, including the requisite transmission facilities, is estimated at \$1.6 billion. Noteworthy here is the fact that this project involves a partnership between Manitoba Hydro and Nisichawayasihk Cree Nation. Even larger ventures are on the horizon, notably the Keeyask generating station, with a projected capacity of 695 megawatts, and the massive Conawapa generating project, with a projected capacity of 1,485 megawatts.¹³¹ Both of these projects would be located on the

Nelson River. Agreements, similar to that created for the Wuskwatim project, have already been reached with Hydro and the Fox Lake, York Factory, War Lake and Split Lake First Nations in regards to the Keeyask project.¹³² Preliminary work, including environmental assessments, is underway, and 2018 has been given as a possible completion date. The possible Conawapa project lies further into the future, with 2022 as a possible target for completion.¹³³ These large scale dams will necessitate enhanced transmission capability, and to that end plans are moving ahead with the Bipole III power line project. In July 2010, Hydro released its “Preliminary Preferred Route”, which lies west of Lakes Winnipegosis and Manitoba, and indicated that it was anticipating a start to construction as early as 2012, and completion in 2017.¹³⁴ Thus the scenario for the next few years is that as Wuskwatim comes on line, new projects will follow with the result that capital spending can be expected to remain at, or even exceed, the billion-dollar mark achieved in 2009-10. The increases in generating and transmission capacity once the new projects are operational will result in additional growth in the province’s utility sector over the next decade. Electricity generation can be expected to provide revenues for Hydro, its northern partners, and the provincial government. The employment effects from the capital expenditures are large, and especially so in the northern part of the province. Once in operation, however, hydro generation and transmission is a capital-intensive, not labour-intensive industry. The challenge for northern communities and workers will be how best to prepare for the post-construction phase, including the utilisation of the revenues and rents from the generating and transmission projects once they are operating.

Construction

The construction industry in Manitoba has exhibited strong growth over the last four years.

As illustrated in Chart 23, the recent increases in GDP from this sector of the economy give no indication of the economic crisis and recession that has dominated the macroeconomic arena nationally and internationally since late 2007. This is a particularly noteworthy performance because construction activity, in general, tends to be very sensitive to business cycle fluctuations in regional and national economies.

For Manitoba, continued expansion in construction partially reflects the fact that, as discussed above, the recession has exacted less of a toll in Manitoba than elsewhere. In addition, though, the Manitoba figures reflect the major role played by the public sector, including Manitoba Hydro, in expanding infrastructure and productive capacity. Major spending by Manitoba Hydro on the new Wuskwatim generating station and other initiatives, some of which were noted above, comprise a significant portion of the construction upsurge after 2006. Also of crucial importance is the larger range of bold stimulus measures initiated by various levels of government designed to counter the effects of the emerging recession. Much of the anti-recession stimulus packages have specifically involved construction activity, and the industry in Manitoba has been, and continues to be, a prime beneficiary. Prominent projects initiated by the public sector in 2009 and 2010 include Stage One of Winnipeg’s Southwest Rapid Transit Corridor (\$138 million),¹³⁵ a \$40 million new student residence at the University of Manitoba, a new science complex (\$60 million) and a building to house Continuing Education and the new business faculty (\$12 million) at the University of Winnipeg,¹³⁶ and \$72.5 million on the first segment of a road extension north from Manigotogan on the east side of Lake Winnipeg.¹³⁷

The Winnipeg Airport Authority’s massive Airport Site Redevelopment (ASR) was initiated in 2005 and, as such, was not associated with the anti-recession stimulus projects. However, total expenditures related to the

airport redevelopment, especially the new terminal building, will, by the end of 2010, have totaled \$600 million.¹³⁸ Fortuitously, the highest annual expenditures were made in 2008 (\$137.3 million) and 2009 (137.7 million), which, from a stimulus perspective, is precisely when they were needed the most. This high level of WAA spending continued in 2010 with estimated expenditures of \$140.1 million,¹³⁹ but that is expected to bring the project close to completion, so a sharp falling off of WAA construction expenditures can be anticipated for 2011.

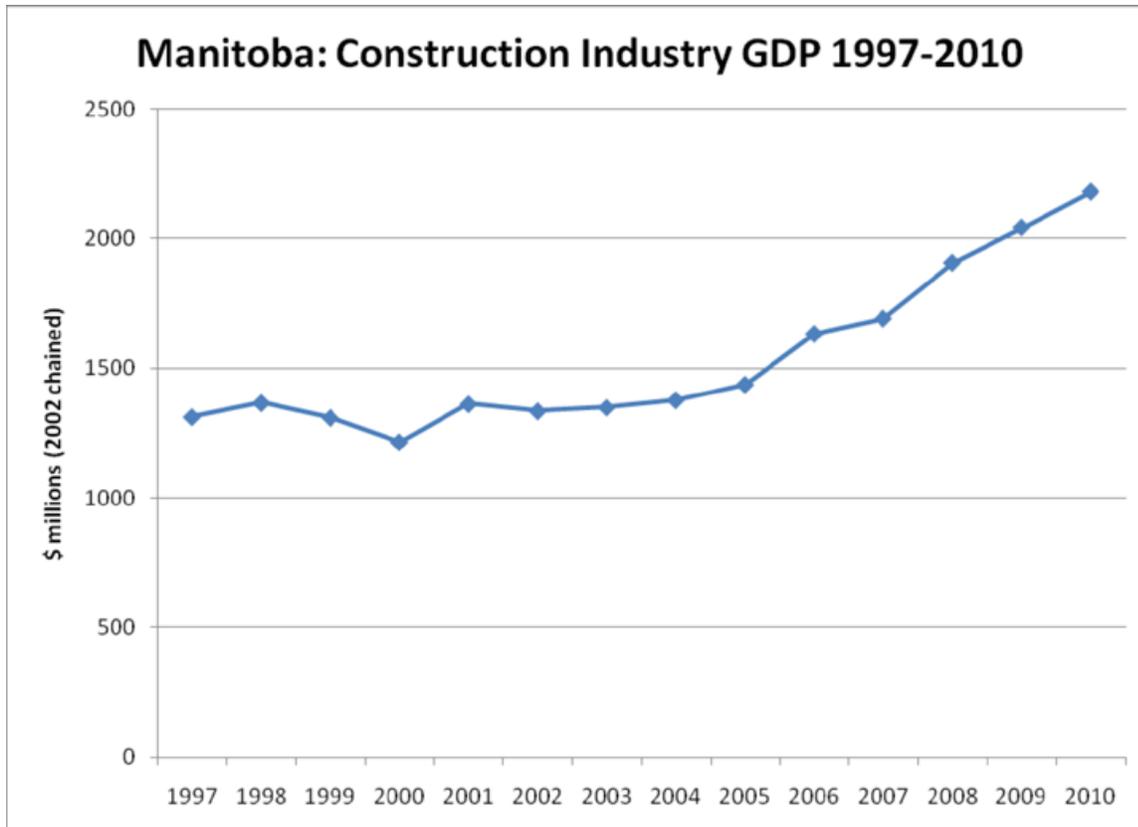
The timing, again unintentionally, was also extremely propitious with respect to the Red River Floodway Expansion. This \$665 million project got underway in 2005 and was another important contributor to the high and steady levels of activity and growth experienced by the construction industry through the 2008-

2010 era of economic crisis, recession and uncertainty. The crisis and recession years of 2008. The project was completed in 2010.

Notable also are some large construction projects that entail a mix of public and private financing. The \$265 million Museum of Human Rights saw construction begin in 2009, with an expected completion date in 2012, and the 3 levels of government have committed \$160 million towards the construction costs of the project.¹⁴⁰ Construction on a new football stadium for Winnipeg, to be located at the University of Manitoba, has just begun and will intensify in 2011. The project's price tag is currently in the vicinity of \$135 million.

Although evidence of the adverse impact of the crisis on construction activity in the province is not apparent at the level of the industry as a whole, there is evidence that residential

Chart 23



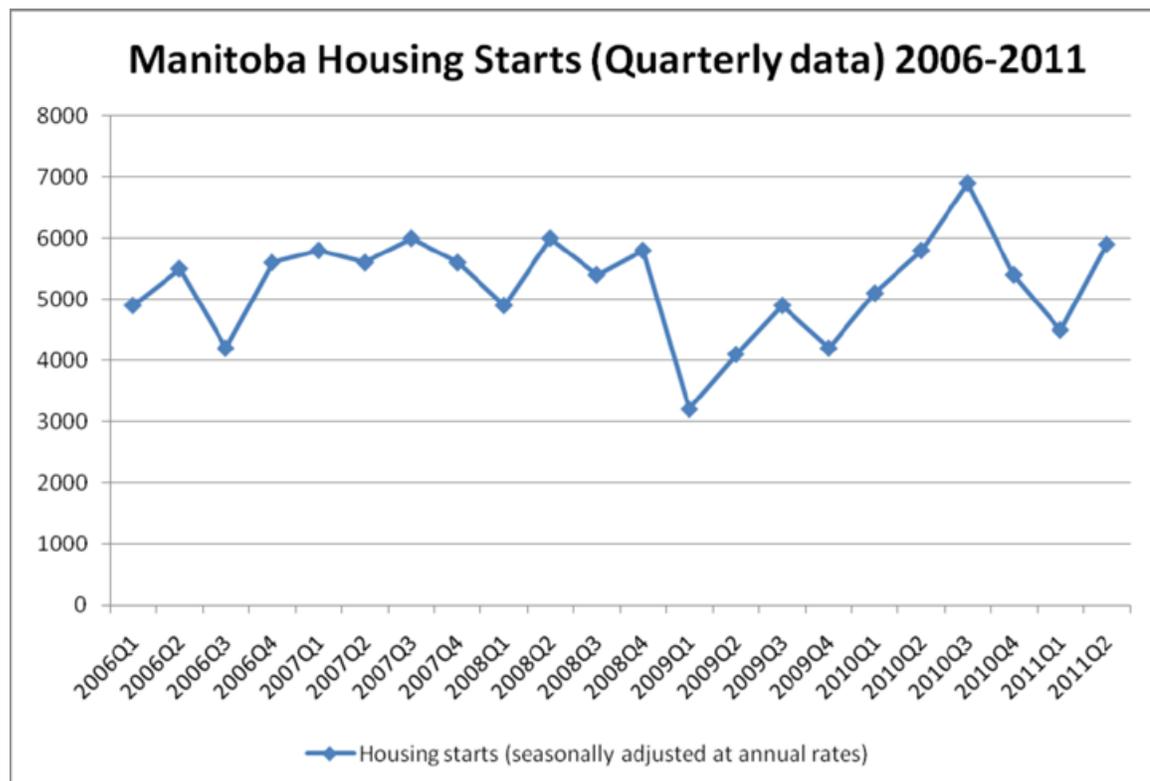
Source: Statistics Canada, CANSIM II, series v41889573.

construction was affected. As shown in Chart 24, provincial housing starts plummeted in the 1st quarter of 2009 as a direct consequence of intensification of the financial crisis in September and October of 2008. Much but not all of the decrease in housing starts was regained over the next 2 quarters, which reflect the relative resilience of the Manitoba economy, and of home buyers in particular. Low interest rates and relatively mild losses on the employment front helped support this partial rebound. In 2010 as the recession receded and confidence returned, and aided by the stimulus packages discussed above, housing starts surged, exceeding in the 3rd quarter of 2010 its pre-crisis peak. Part of this upsurge is probably due to an effort to compensate for the lower level of activity that characterized the building industry in 2009, but low interest rates, a strong willingness of financial institutions to extend greater volumes of mortgage-based credit to home buyers, and a continuation of

housing price increases across the province¹⁴¹ suggest, when taken collectively, that pre-crisis levels of housing starts (around 6000 units) can be expected to be maintained, and conceivably surpassed, in 2011.

As a result of these developments, the construction industry has effectively managed to withstand and overcome the larger national and international forces that carried economic retrenchment and recession through the leading industrialized economies. In Manitoba, employment in the construction sector continued to rise in 2007 and peaked at 26,790 in April 2008. Over the next 12 months, employment levels dropped, dipping just under the 25,000 mark in March 2009, but even this latter level was well above the figures for March 2006 and March 2007 (22,737 and 23,795, respectively). Since the summer of 2009, construction employment in the province has more or less been holding steady above the 25,500 mark.

Chart 24



Source: Statistics Canada, CANSIM II, series v52300181.

In August 2010, the industry employed 26,045 workers.¹⁴² As was noted in the Report of the Manitoba Economy: 2007, “Construction is a relatively labour intensive industry, and it also draws upon local and regional suppliers for a range of building materials and services.”¹⁴³ Thus, local construction activity has substantial local and regional spinoff effects. In other words, domestic employment and income multipliers are of some consequence. Sustained strength in this industry has, over the last few years, been an important factor contributing to the relative buoyancy of the Manitoba economy.

Manufacturing

In 2010, manufacturing industries produced 11.2% of Manitoba’s GDP, down marginally from 11.4% the previous year.¹⁴⁴ That year, 2009, was a difficult one for the province’s manufacturers. Longer term structural chang-

es, notably the rise of the service sector and the powerful growth of manufacturing activity in lower wage but increasingly technologically sophisticated emerging economies in Latin America and Asia, have been exerting pressure on manufacturers in mature industrial countries. The difficulties involved in meeting the challenges posed by these long term developments have now been compounded by the impact of the 2008-2009 recession. For Canadian manufacturers, the severity of the recession in the US adversely affected their major export market, and Canadian producers have been further disadvantaged by the recent strength of the Canadian dollar. Responses by manufacturers to these economic pressures have included efforts to contain costs and realize productivity improvements, but initiatives of this kind tend to exact a cost in terms of job creation and employment levels.

Prior to the recent crisis, Manitoba manu-

Chart 25



Source: Statistics Canada, CANSIM II, series v1596961.

factors had fared better than their national counterparts in adjusting to these larger economic forces. In the 10 years preceding the outbreak of the crisis, manufacturing in the province exhibited solid growth. Real GDP rose from \$4.10 billion in 1997 to \$4.94 billion in 2007 (measured in 2002 dollars),¹⁴⁵ which is an increase of 20%. As shown in Chart 25, employment in the industry rebounded strongly after the downturn of 1991-92 and continued to increase through the rest of the 1990s, cresting in excess of 68,000 in the last quarter of 2000. This growth was aided by a low value of the Canadian dollar. After 2000, the collapse of the dot.com boom and a rising exchange rate vis-à-vis the US dollar contributed to a mild drop in employment, but employment levels then settled around the 62,000 mark and displayed remarkable stability right up to the tumultuous financial events of September-October 2008.

The relative strength and resilience of Manitoba manufacturing prior to the fall of 2008 is reflected in Table 4, which compares manufacturing employment in the province with that for Canada as a whole. For most of the 2003-2008 period, while Manitoba manufacturing employment was holding steady, nationally the industry was shedding jobs. As indicated below, 234,000 net jobs in manufacturing disappeared in Canada between December 2003 and September 2008. The advent of the financial crisis and the drop in demand that it precipitated exacerbated the employment situation. Layoffs that are characteristic in the industry during a recessionary downturn proliferated, but, in addition, many

firms that had been struggling with the longer term forces bearing down on this sector were compelled to incur more drastic options, including bankruptcy and closure. As a result, job losses intensified. From September 2008 to April 2009, 143,000 additional net jobs were lost nation-wide in manufacturing. By September 2009, the bleeding had been halted, but employment in the industry as of September 2010 was 182,000 fewer than the level 2 years earlier.

Manitoba manufacturers were swept up in this economic maelstrom. Real GDP in the industry fell 3.5% in 2008 and 7.7% in 2009. Employment in the industry fell by almost 6,900 employees (11.1%) between September 2008 and April 2009, and a further 1,400 employees by September 2010. Proportionately, after September 2008 the degree of employment adjustment in the province exceeded the national average. Employment levels stabilized, however, in 2010, and, as indicated in Chart 25, that rough stability continued through the first third of 2011. The manufacturing real GDP figures for 2010 were not available at the time of writing, but, for the sector as a whole, indications are that the decline in production has bottomed out. Seasonally adjusted monthly figures for sales (shipments) of manufactured goods indicate a slight increase for the province's manufacturers in 2010: the nominal value of shipments levels for October 2010 stand 2.4% higher than the corresponding figures for October 2009.¹⁴⁶ For the first 5 months of 2011, the nominal value of shipments are up 7.8% from the same period a year earlier.¹⁴⁷

Table 4: Manufacturing Employment: Canada and Manitoba 2001-2010 ('000s, seasonally adjusted)

	Dec. 2003	Sept. 2008	Apr. 2009	Sept. 2010	Dec'03-Sept'08	% + (-)	Sept'08-Apr'09	% + (-)	Sept'08-Sept'10	% + (-)
Can.	1,888	1,654	1,511	1,467	-234	(12.4)	-143	(8.7)	-187	(11.3)
MB	61	62	55	53	0.8	1.3	-6.8	(11.1)	-8.2	(13.3)

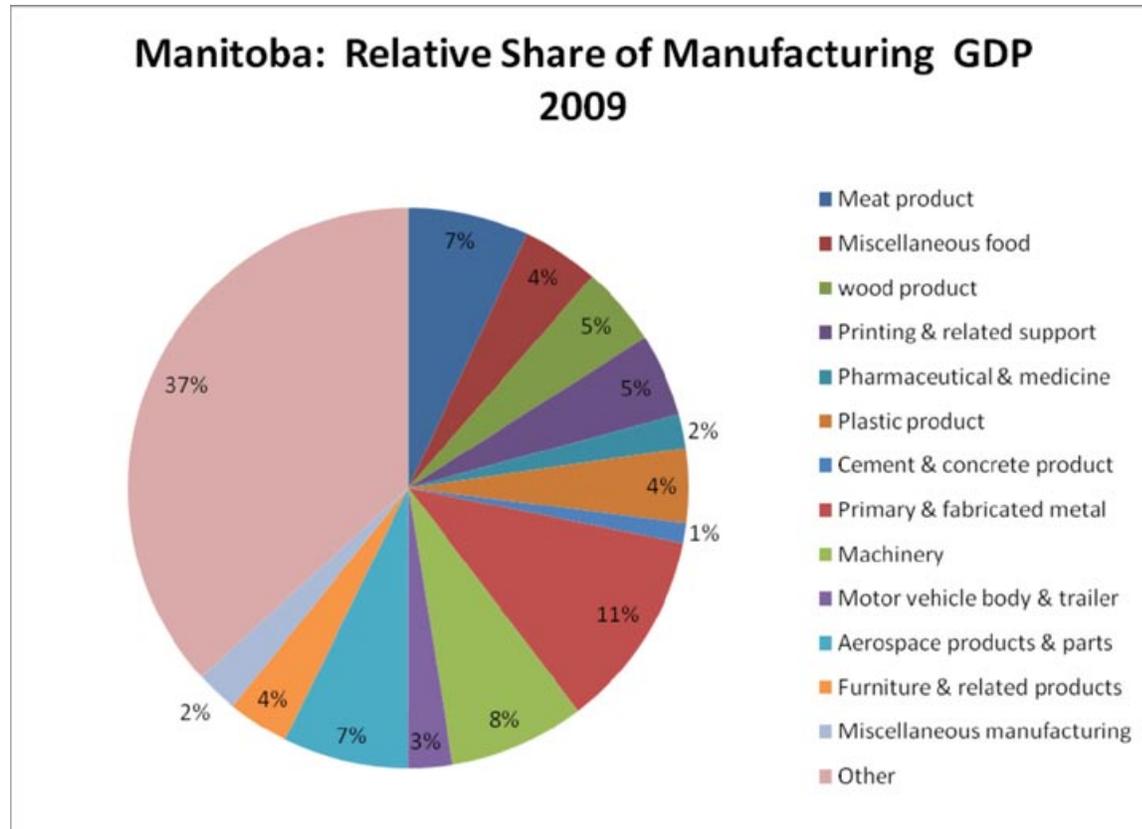
Source: Statistics Canada, CANSIM II, series v1596771 and v1596961.

Manufacturing in Manitoba is itself a relatively diverse sector. As indicated in Chart 26, no single subgroup dominates. Primary and fabricated metal product manufacturing has maintained its longstanding position as the largest manufacturing subsector (assuming that meat products and miscellaneous food are not combined into a single category), but in 2009 it still comprised only 11% of the total GDP produced by the province's manufacturers. Machinery (8%), aerospace product and parts (7%), and meat product manufacturing (7%) occupied the next tier in terms of their direct contribution to manufacturing GDP, followed by a range of sub-classifications. Diversity is widely viewed as one method of offsetting (albeit incompletely) risk and this factor comes into play with respect to the manufacturing industry in Manitoba. Notwithstanding the significant drop in manufacturing activity

in Manitoba since mid-2008, the sector's diversity has helped it weather the larger economic storm unleashed by the crisis and recession. While some subsectors were cruelly exposed to the altered macroeconomic environment, others fared rather well and actually exhibited strong growth.

In Manitoba, motor vehicle body and trailer manufacturing is dominated by bus manufacturing, with New Flyer producing urban transit buses, and Motor Coach Industries producing intercity and tour buses. The impact of the recession adversely affected both producers, especially due to falling demand in the US market. New Flyer actually entered the recession in a strong position with an optimistic outlook. Even as late as January 2009, the company reported a huge backlog of orders,¹⁴⁸ and was optimistic that stimulus spending by public authorities would include expenditures

Chart 26



Source: Statistics Canada, CANSIM II, series v41889583 to v41889627.

on public transit. Events proved otherwise, as governments, especially local and state governments in the important US export market, struggled to balance budgets in the face of declining revenues and an unwillingness to raise taxes. Deliveries and work in progress for the firm as a whole were down 10% to 15% in 2010 from 2009, and new orders in 2010 also dropped by about the same percentage.¹⁴⁹ Layoffs hit the company's Winnipeg plant in mid-2009 (130 unionized workers, as well as a smaller number of salaried employees), and late 2010 (34 employees in December 2010).¹⁵⁰ The consequences of fiscal restraint south of the border can be expected to apply to 2011 as well, but demand, especially within Canada, looks better for 2011. Flyer reported that the ratio of new orders relative to deliveries over the June 2010 to June 2011 period was 0.83,¹⁵¹ up slightly from the January-June 2010 mark of 0.75, and recently announced (June 2011) orders from Quebec and Ontario will in particular support production in the Winnipeg plant.¹⁵² Layoffs had been occurring at Motor Coach as well, reflecting the cyclical character of the MCI's inter-city and tour bus market, but the company has also undergone bankruptcy protection (2009), ownership reorganization and the subsequent purchase by a private equity firm in September 2010.¹⁵³ Production can be expected to pick up gradually once the US economy improves.

Other manufacturing sectors directly affected by the crisis and recession in the United States include aerospace and home building products. Recession-induced falls in demand for passenger aircraft, exacerbated by the 2009 strike at Boeing's Seattle assembly plant slowed demand for the aircraft components manufactured at Boeing's Winnipeg facility, resulting in layoffs and work sharing arrangements in 2009.¹⁵⁴ Aided by the global recovery and resolution of technical setbacks in the development of its 787 Dreamliner, Boeing's production levels for its 737 and 787 moved

up in 2011, with expected further increases in 2012 and beyond. As a result, in the Winnipeg plant, employment levels rebounded and, as of mid-2011, are at the plant's historic peak of 1500 workers.¹⁵⁵ For Bristol Aerospace, however, manufacturing components for military aircraft makes the company less sensitive to the fluctuations in demand associated with the business cycle, but highly exposed to the politics of the military procurement process. Early success in bidding for contracts associated with the F-35 fighter jet and the possibility of additional F-35 contracts — a possibility that seems to have been enhanced with the federal government's announcement of the F-35 as the new fighter aircraft for Canada's armed forces — have set in play a \$120 million expansion and upgrade of the company's Winnipeg production facility.¹⁵⁶

Manitoba manufactures of furniture and home building products rode the surge of demand emanating from the United States as a result of its pre-2007 housing boom. The collapse of that boom and the subsequent depressed nature of the housing market across much of the US constituted a serious blow to many Manitoba firms that were exporting to that southern market. That housing market remains depressed and Manitoba firms have had to adjust. Loewen, Steinbach's door and window manufacturer, had targeted the US luxury home market. In 2008 the company laid-off 170 workers. This was followed by the adoption of work-sharing programs, and announcements of further layoffs in May 2011. By mid-2011, its workforce was less than half the size of its pre-crisis peak.¹⁵⁷ DeFehr Furniture closed two plants (in Morden and in Winnipeg) in September 2008, with the loss of 165 jobs, followed by a move into bankruptcy protection in October 2008, and another 100 layoffs in December of that year.¹⁵⁸ Other casualties included Jeld-Wen Windows and Doors (closed in 2008 with the loss of 70 jobs), Chemcrest Architectural Products (closed in 2010 with the

loss of 50 to 60 jobs), and Niverville's Spectis Moulders, which cut its workforce from a pre-2007 peak of 130 to 90 workers in the face of a 70 per cent decline in its US sales.¹⁵⁹ Fortunately, the impact of the economic wreckage of the US housing market has been tempered by continued strength in the domestic market, and especially within Manitoba itself. In addition to sustained housing demand, home renovations have fuelled demand for furniture and building products. Renovation spending has been encouraged with the introduction of the federal government's home renovation tax credit (HRTC) program as part of the stimulus package contained in the Budget of January 2009.¹⁶⁰

Adjustment to the appreciation of the Canadian dollar relative to the US dollar necessitated additional adjustments by the province's manufacturing exporters. Some sectors are less vulnerable to this currency appreciation than are others. For example, aerospace is partially insulated due to its highly-specialized product, and other firms, such as ventilation equipment manufacturer E.H. Price, adopted similar strategies through enhanced product innovation and specialization.¹⁶¹ Building supplies and furniture exporters were especially favoured by a boom-induced increase in demand, although the collapse of that demand in the US left the industry facing the twin problems of a high dollar and the soft export market, resulting in the aforementioned layoffs and plant closings. Other strategies for adjusting to the dollar appreciation were adopted by various manufacturers. Capital investment to improve production productivity was one such strategy, and, since Manitoba is primarily a net importer of machinery and equipment, the higher dollar actually lowers the cost of these imported goods thereby making this strategy even more attractive. In addition to equipment upgrades, some companies, such as Winnipeg-based Acrylon Plastics Inc., altered their market focus to put greater emphasis on the domestic rather than the US market.¹⁶² The

fundamental realignment in operating costs brought about by a large and sustained alteration in exchange rates also induces firms to reconsider the geographic placement of their production operations. For Canadian firms, the higher dollar, *ceteris paribus*, makes the possibility of producing offshore more attractive, and it also reduces the price, as measured in Canadian dollars, of foreign productive assets and firms. Thus offshore expansion and/or relocation, as well as the acquisition of foreign producers, becomes increasingly more attractive. Winnipeg's E.H. Price again exemplifies this trend. Since 2003, it has increased the number of its US plants from 2 to 5, and more than doubled its US workforce. Production of its "high-volume 'commodity' products" has increasingly moved to the US, while its Winnipeg operations are "the hub for research and development, patenting, and software development, as well as production of key niche, custom and low-volume products."¹⁶³

Not all of the notable recent developments in the province's manufacturing sector have been driven by the economic crisis or exchange rate movements. The prominence of primary metal manufacturing in the province has historically been largely the result of large-scale smelter and refinery operations in Flin Flon and Thompson. These plants are part of the mining and processing activities of HudBay Minerals and Vale SA, respectively. Both of these firms are major multinational corporations, and their Manitoba operations are only a part of their overall global business. The recent decisions by HudBay and Vale to close their Manitoba refineries reflect the companies' rationalization of their far-flung operations. HudBay, which closed the Flin Flon smelter in 2010 with a loss of 225 jobs, stated that Flin Flon copper will subsequently be shipped offshore for refining. According to the company, the age of the smelter and the coming into effect of new environmental regulations "made continued operation of the plant impractical and uneconomic".¹⁶⁴ Vale also cited the new

environmental regulations as a contributing factor in its decision to close the Thompson nickel smelter and refinery by 2015, but the primary factor is the opening in 2012 of a new \$2.8 billion nickel processing plant at Voisey Bay. At present, nickel is shipped from Labrador to Thompson for processing, but that flow will stop once the new plant is opened, and, in 2015, the new flow will run from Thompson to Voisey Bay. The closure of the Thompson smelter and refinery will result in a loss of 500 to 600 jobs.¹⁶⁵

The loss of these primary metal manufacturing operations constitute a major instance of the lessening of the forward linkages that had developed from an export industry directly utilizing the natural resource endowment of the province (i.e. from a staple producing industry). The 2009 closure of the Tembec paper mill at Pine Falls (with a loss of 300 jobs), spurred by a depressed market for paper resulting from a combination of the recession and declining readership of newspapers and the print media,¹⁶⁶ is another instance of corporate consolidation and retrenchment, and one that severely undercuts the economic base of the affected community.

A more robust set of forward linkages, however, are evident in the food and agri-products industry. The Province states that more than 250 companies are engaged in food processing, broadly defined, making it the largest subsector within manufacturing, constituting about 25% of manufacturing shipments (worth \$4 billion) in 2010.¹⁶⁷ Here, of course, it is farming that is the primary sector base from which these links are forged. Especially prominent in the food and agri-products subsector is the hog-processing industry, which has developed in conjunction with the rapid expansion of hog farming in Manitoba that occurred between 1993 and 2003. Responding to that growth, Maple Leaf Foods opened a hog processing plant in Brandon in 1999. That plant was expanded in 2007, and further investment between 2007

and 2009 increased its capacity further. As the largest plant of its kind in Canada, 2011 employment levels exceed 2,300. The company's older Winnipeg plant employs another 850 workers and has also been expanded through \$35 million of new investment in 2007-2009.¹⁶⁸ These developments also reflect a strategy of corporate consolidation and investment, but, unlike the HudBay, Vale and Tembec cases cited above, here the corporate decisions are acting to funnel more capital and labour into Manitoba. Hog processing has also expanded in Neepawa, with the purchase in 2008 by HyLife Foods of the Springhill processing plant and subsequent investment by HyLife of \$40 million towards upgrades and expansion.¹⁶⁹ It is significant that growth in this industry, in conjunction with the demanding nature of much of the work in the plants themselves and the relatively low wages paid by the industry, necessitated further initiatives to secure labour supply. Much of the demand for workers by the Brandon and Neepawa plants has been met through international immigration, particularly from the Philippines.¹⁷⁰

The strong agricultural base has helped generate backward linkages¹⁷¹ as well. Significant players include Buhler Industries, whose products include tractors, sprayers and front end loaders, and AG Growth International, which manufactures grainhandling equipment. In addition to their Winnipeg operations, both companies have other manufacturing facilities elsewhere in Canada and in the US. A significant part of their growth has involved acquisition of other companies. Buhler itself was acquired in 2007 by Rostselmash Ltd. a Russian combine manufacturer.¹⁷² For both companies, rising agricultural commodity prices and increased sales in Eastern Europe pushed up revenues and profits in 2008 and the 1st quarter of 2009, but the financial crisis chilled credit markets in Eastern Europe and resulted in slowing sales in the months that followed.¹⁷³ For Buhler, weakening overseas sales and the rising Canadian dollar resulted

in a fall of revenues: for the fiscal year ending September 30, 2010, revenues were down 26% compared with 2009. However, the first 2 quarters of the 2010-11 fiscal year show a strong rebound in sales, which are reported to be the best in company history, and further increases in demand, particularly for tractors and sprayers, are forecast for the remainder of 2011.¹⁷⁴

Manitoba's hydro-electric generating industry has also induced the establishment and growth of backward linkages. Large power transformers are manufactured in Winnipeg by CG Power and, although the company has undergone a series of ownership and name changes, it has been supplying Manitoba Hydro for over 60 years (the company also sells to other power utilities in Canada and the US).¹⁷⁵ Employment levels at the company in mid-2011 stood at 330, but, with a need by utilities for replacement of equipment installed in the 1970s and 1980s, and in anticipation of further hydro expansion and the construction of Manitoba Hydro's Bipole III transmission line, the company is expected to grow 25 to 30 per cent in the next 5 years.¹⁷⁶

Transportation and warehousing

In 2010, transportation and warehousing activity generated 7% of the province's GDP. This sector tends to be very sensitive to fluctuations in the overall level of economic activity, and especially to the value of exports and imports. The adverse effect of the recession on shipments of manufactured products, and on the value and volume of commodity exports such as metallic minerals and agricultural products, clearly registered in terms of the measured output in the transportation and warehousing sector. Specifically, real GDP in this sector actually fell in 2008 and 2009. The sector's GDP figures for 2010, however, provided evidence of the rebound in economic activity in Manitoba and beyond, with real GDP rising 4.7%.¹⁷⁷ Employment in the sector for

2010 was just under 33,800, which was down slightly from the record 33,900 attained in the previous year.¹⁷⁸

Trucking is the primary mode of goods transportation in the province.¹⁷⁹ The 2004-2007 period of relatively strong economic growth in the province, and the significant role of exports, especially to the United States, as a component of that growth, fuelled expansion of the trucking industry in the province. Employment in trucking grew sharply, rising from 8,117 in 2005 to an unprecedented high of 9,541 in 2007.¹⁸⁰ However, with the slowdown in trade and economic activity, the industry experienced considerable overcapacity necessitating a subsequent "shrinkage" in the size of the trucking fleet of 20-to-30 per cent.¹⁸¹ The return to economic growth in 2010 has improved the fortunes for some operators in the industry. Operating revenues for 2010 are up about 10% over 2009, and, despite higher operating expenses, gross profits (calculated as the difference between operating revenues and operating expenses) jumped 27%.¹⁸² Not all have benefitted, however, as the shakedown necessitated by overcapacity plays itself out. A late casualty was Paramount Truck Lines, which shut down and was placed in receivership in mid-2011.¹⁸³ Salaries, wages and benefits for workers in the industry have improved with the upturn, with 2010 earnings up 9.4% from 2009. However, workers' earnings in the industry are quite variable, reflecting the fact that they bear a considerable portion of the adjustments, both positive and negative, that the industry experiences over the course of the business cycle. As a result, despite the increase in earnings for 2010, the total value of wages, salaries and benefits in 2010 was \$615 million, still well below the reported \$710 million received in 2006.¹⁸⁴

Future developments also hold additional promise for Manitoba truckers. Lack of year-round road access to a number of First Nation communities east of Lake Winnipeg have

made the shipments of goods to (and from) this region difficult, uncertain, and extremely expensive. Winter roads service the area but only for a limited period, usually about 4 to 5 weeks, and climate trends are making even that short period ever more tentative. The province has responded by announcing a multi-year road construction program to incrementally provide all-year road access to some of the 22 communities affected. Construction began in 2009 with an upgrade of the road to Bloodvein First Nation. Extension to Berens River is planned for 2013.¹⁸⁵ The province committed \$93 million to the project in 2010, and a further \$75 million per year for the next 15 years, but is also seeking federal financial contributions for the project.¹⁸⁶ For the trucking industry, extension of the all-weather roads network to improve the links with 40,000 people, will reduce the uncertainty and risks of the winter road system, and generate more year-round business.

A second development that could carry significant spinoffs for the trucking industry is the development of an inland port through the CentrePort Canada project. The project, located geographically on 20,000 acres near Winnipeg's James Armstrong Richardson International Airport, looks to integrate truck, rail, air and marine transportation systems. Winnipeg's "central" location would act to orient it in terms of a north-south corridor through the continent, stretching from Mexico to northern Manitoba and beyond into Nunavut. In April 2009, the provincial and federal levels of government committed \$212 million for a four-lane expressway connecting the airport, CP's Weston intermodal facility, and Winnipeg's perimeter highway, with construction expected to be completed in 2011.¹⁸⁷

CentrePort's proximity to the airport is especially significant given the importance of air cargo shipped through Winnipeg. Cargo traffic handled by the airport grew from about 100,000 tonnes in 2001 to about 156,000 tons

in 2007. Tonnage fell back in 2008, but growth was renewed in 2009 and increased another 7.5% in 2010, reaching 173,000 tonnes.¹⁸⁸

Passenger traffic at the airport peaked at 3.57 million in 2007, remained at that level in 2008, but decreased in both 2009 and 2010 to 3.37 million.¹⁸⁹ The economic crisis and recession undoubtedly had some chilling effect on the air travel plans of both business and non-business travelers, but cost and competitive factors also played a role. The rising Canadian dollar increases the cost to the passenger of flying in Canada relative to flying on an American carrier departing from an American airport. Furthermore, greater competition among carriers in the US has acted to lower fares relative to Canada, and taxes, fees and extra charges levied on air travelers are also larger in Canada.¹⁹⁰ As a result, the option for Canadians of using ground transportation to cross the border and fly out of (and later into) an American airport rather than a Canadian one becomes increasingly attractive. Indeed, in late 2010 the *Globe and Mail* reported that "the gap between Canadian and U.S. airfares has never been as large as it is now."¹⁹¹ For Manitobans, the southern ports of call that beckon are the airports of Grand Forks and Fargo. In 2009, it is estimated that 105,000 Manitobans passengers opted for the use of these US alternatives.¹⁹²

Indications are that the North is poised to play an increasingly significant part in the expansion of the transportation industry in Manitoba. Governments have long been interested in "opening up" and "developing" the North. Strong prices and rising demand for minerals have renewed interest and activity in the North from the corporate sector. Following up on these interests necessitates improving and expanding the transportation infrastructure and service. Mention has already been made of the proposed extension of all-weather roads up the east side of Lake Winnipeg, and of the northern Manitoba and

Nunavut region as northern extensions to the “Gateway” corridor associated with the CentrePort project. Winnipeg’s Exchange Income Corp. operates 4 regional airlines¹⁹³ servicing primarily Northern Manitoba, Nunavut and Northwestern Ontario. The company’s chief operating officer, Mike Rodyniuk stated “We are going to build Winnipeg into an aviation gateway to the North.”¹⁹⁴

An important part of the northern transportation network is the port of Churchill on Hudson Bay. Although lacking road access, Churchill is the terminus of the Hudson Bay Railway.¹⁹⁵ The port has deepwater capability, but the relatively short and uncertain shipping season has been a factor limiting development of the port. The impact of global warming in the arctic may work to the advantage of the port. The port serves as a base for shipping supplies to communities in Nunavut along the western shore of Hudson Bay. In 2010, 12,500 tonnes of goods were shipped from the port to Nunavut.¹⁹⁶ There is potential for growth in shipping these provisions as economic activity grows in Nunavut. However, it is international shipping that dominates the cargo moving through the port. 2010 proved to be a good year for the port. Total cargo exports reached 659,000 tonnes, up almost 130,000 tonnes (24%) from 2009, and the largest volume since the record 700,000 tonnes exported in 2000. The 2010 exports included 43,200 tonnes of canola, and 12,400 tonnes of peas, but the rest (over 603,000 tonnes) consisted of wheat and durum.¹⁹⁷ It is significant that all of this wheat was shipped by the Canadian Wheat Board (CWB), and, historically, non-CWB wheat rarely arrives in Churchill in any appreciable amount. The plan by the Conservative federal government to terminate the CWB’s role as a single desk seller of wheat threatens to reduce the flow of grain shipments through Churchill, with adverse affects not just for the port, but also for the railway which feeds it. The economics of the port of Churchill, and of the railway, are also hampered by the one-way flow of traffic:

the 659,000 tonnes of cargo exports from 2010 comprised total international shipments as cargo imports were zero. In previous years there have been some scattered imports, such as the two fertilizer shipments that arrived in 2008,¹⁹⁸ but developing inbound traffic remains a challenge.

The Service Sector¹⁹⁹

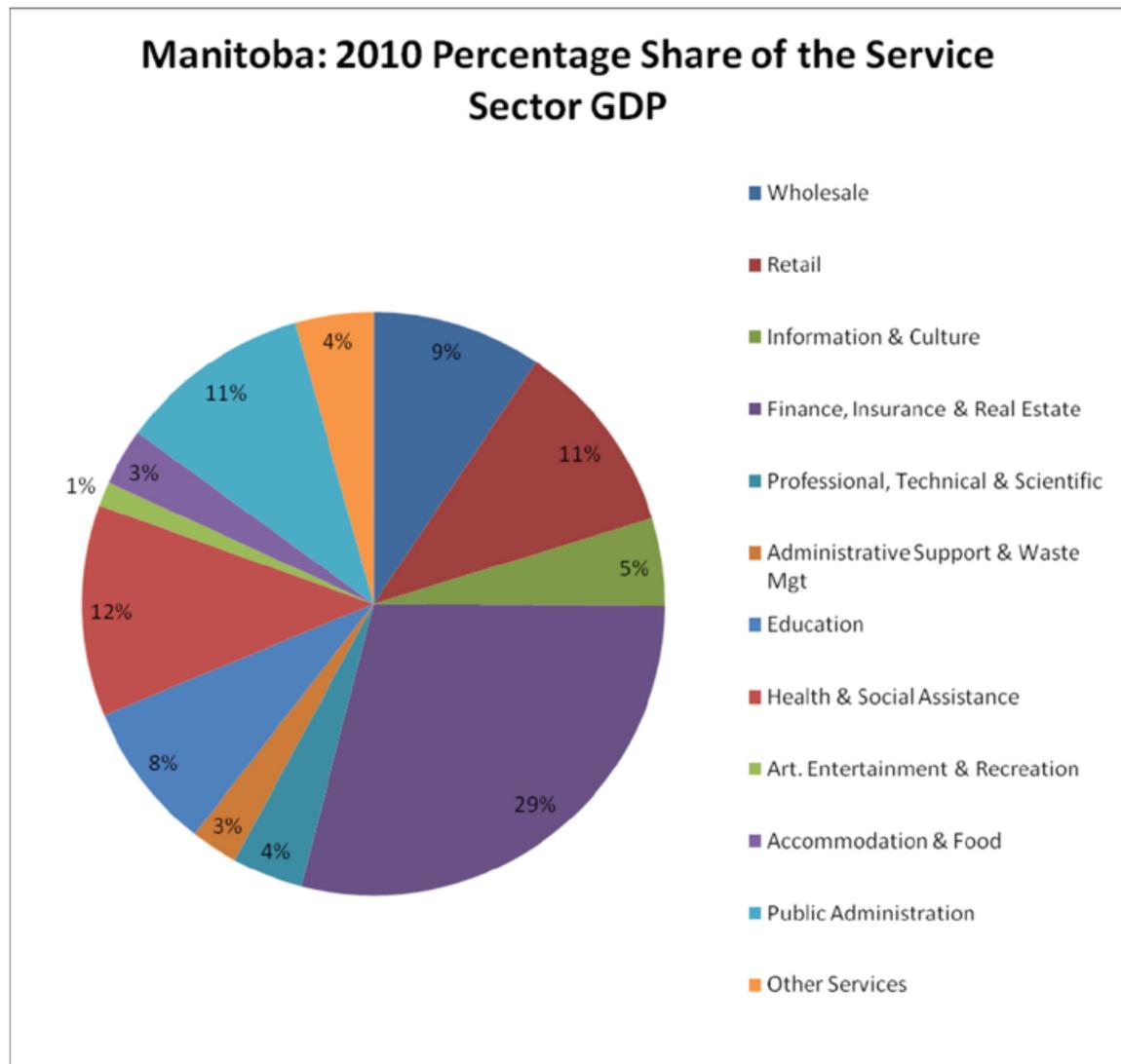
In 2010, the service sector produced 66.4% of Manitoba’s GDP and employed about 424,700 workers. The sector is not only large, it is also extremely diverse, ranging from universities to banks to the corner store. Its share of GDP has been rising, reflecting a long run trend characteristic of the evolution of advanced industrialized economies in the 20th century. The trend seems to be continuing on into the 21st century. Back in 1997, less than 63% of provincial GDP came from services.²⁰⁰

Chart 27 depicts the industry composition of the service sector in Manitoba according to standard industry classification. The largest subgroup, comprising 29% of the entire service sector, is that consisting of finance, insurance and real estate (FIRE). Internationally, this sector acquired considerable notoriety due to its leading role in the financial crisis of 2007-2009. In Manitoba, however, a look at leading indicators for this sector, such as GDP growth or employment, produces scant evidence of any sort of crisis. For example, where provincial manufacturing GDP fell 2.9% in 2008 and 7.7% in 2009, in the FIRE sector real GDP continued to increase, rising 1.8% and 2.2% in 2008 and 2009, respectively. Growth was even better in 2010, where the sector posted a 3.2% gain.²⁰¹ Within the finance industry itself, GDP from depository credit intermediaries, which includes banks and credit unions, grew 7.5%, 2.7%, 4.4% and 6.4% for the individual years 2006 to 2010, inclusive.²⁰² Growth at these rates are well above that for the provincial economy as a whole, and this expansion underscores the fact that domestic deposit receiving and

lending have been the most stable and robust sphere of operations of Canada’s banking sector. Indeed, profits from these domestic operations have helped underwrite losses from other activities, both international in scope and less traditional (and often more speculative) in nature. In Manitoba, a substantial portion — upwards of 40% — of deposit receiving and lending activity are conducted by the province’s credit unions and caisses populaires.²⁰³ These institutions, with assets of \$17.37 billion and \$866 million, respectively,²⁰⁴ specifically direct their lending activity to local

clients, which helped them stay relatively clear of the turbulence that erupted in the global markets in 2007 and 2008. Gradual consolidation in conjunction with growth is evident for credit unions, and the pace of consolidation has quickened noticeably since 2007: in 2000 there were 65 credit unions in the province, in 2007 that number had shrunk to 54, and in 2010, the number was down to 41. Growth however remains strong: assets in 2010 were up 9.5% from the previous year, and have increased at an average annual rate of 11.75% since 2000.²⁰⁵

Chart 27



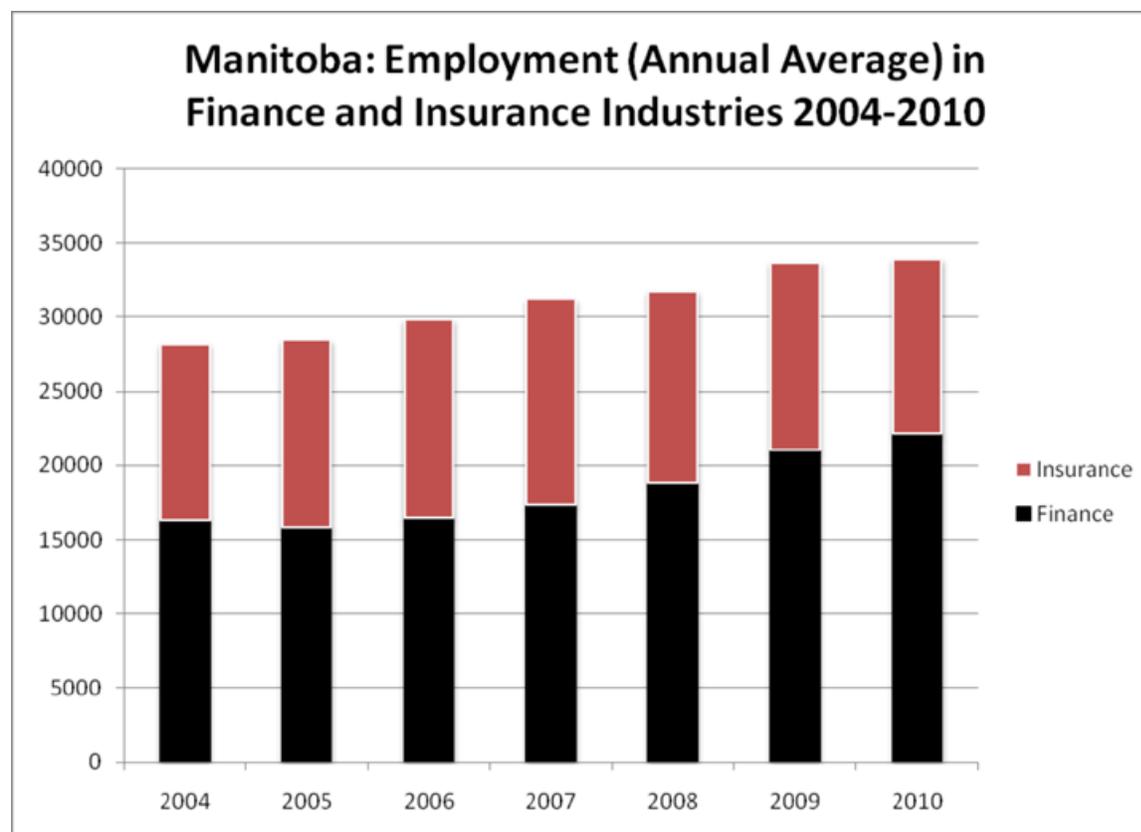
Source: Statistics Canada, CANSIM II, series V41889628, v41889629, v41889637, v41889639, v41889646, v41889647, v41889650, v41889653, v41889656, v41889657, v41889658 and v41889663.

Employment growth also remained positive in the FIRE sector throughout the crisis and after. However, decomposing this large sector into its 3 major components uncovers real differences. Employment in the insurance industry in Manitoba peaked in 2007 at just over 13,900 employees.²⁰⁶ As the financial crisis unfolded, employment increased nationally (from 190,500 in 2007 to 199,100 in 2009),²⁰⁷ but retrenchment and consolidation in the industry reduced the industry's provincial employment from the 2007 peak to less than 11,700 in 2010. This was not the case in finance (see Chart 28) where employment levels have risen every year since 2005, reaching a high of 22,150 in 2010, and more than offsetting the attenuation in the insurance business (see Chart 28). Employment in the real estate industry in Manitoba had actually dropped from just over 5000 in 2004 to 4700 in 2006. Thereafter, however, employment in this industry has

increased each year, and the year with the largest numerical increase (up 400) was 2009, the only year in which the provincial economy failed to grow. In 2010, employment in the real estate industry in Manitoba stood at 5,750.²⁰⁸

Average weekly earnings (excluding overtime) for employees in finance and insurance lie well above the provincial average. Insurance comes out on top here, with average weekly earnings of \$1050.31 for 2010. In finance taken as a whole, average weekly earnings for employees in credit intermediaries (e.g., banks and credit unions) were \$852.24 in 2010, nicely above the provincial average of \$768.50,²⁰⁹ but it has been the investment, securities and commodity market activities that lured both financial and intellectual capital over the last two decades. Even in Manitoba, the differential between these two branches of the financial sector shows up in a widening of

Chart 28



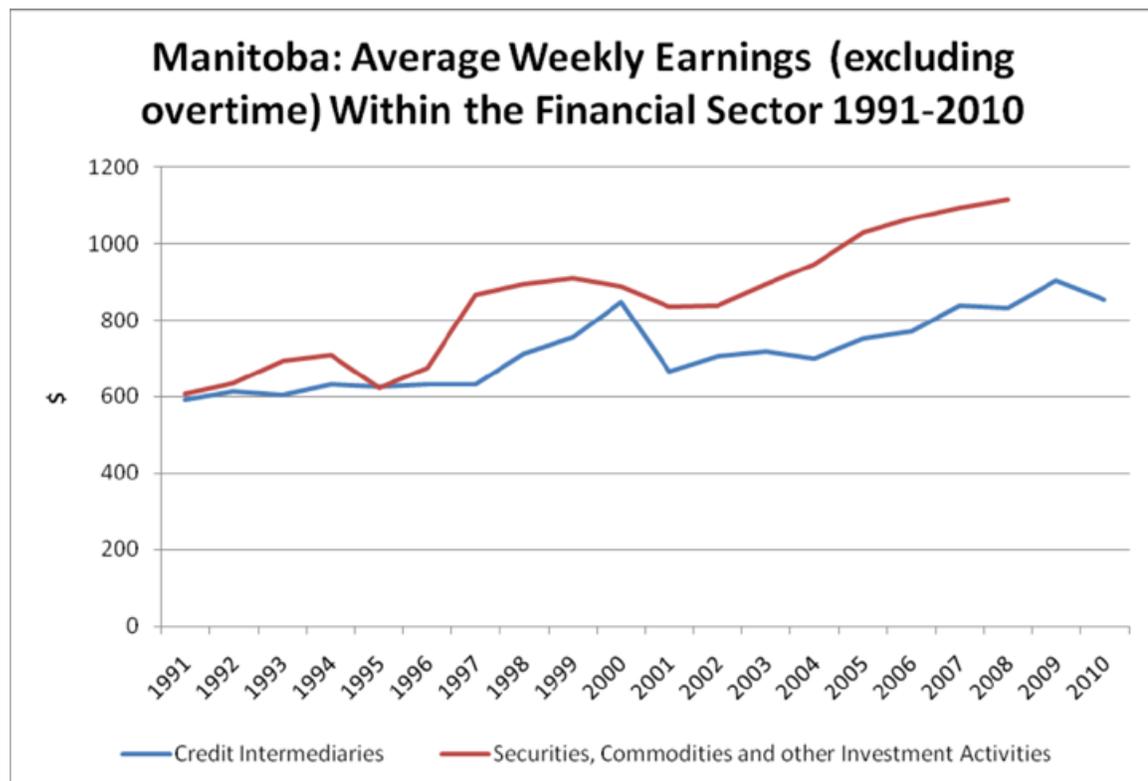
Source: Statistics Canada, CANSIM II, series v1716655 and v1716659.

the gap between earnings of their respective employees. Chart 29 traces out that evolution of earnings. Note, however, that figures are not available for the average weekly earnings in the securities, commodities and investment division after 2008. This absence of recent data leaves open for now the extent to which readjustment is occurring in this line of business in the wake of the international financial crisis and recession. Average weekly earnings in real estate are much more modest. Earnings in this sector rose by roughly \$33.00 in 2010, but that brought them only to a level of \$703.03, more than \$65.00 below the provincial average.²¹⁰

The continued strength of consumer spending in Manitoba, discussed in section II above, has propelled the continued expansion of the retail sector. Real GDP in the sector reached \$2.85 billion (\$2002). Real growth of the sector had slowed significantly in 2009 (up only 1.5% from 2008), but 2010 constituted a bit of a re-

surge as the growth rate increased to 3.4%. This rate remains well below the very strong expansion experienced by this sector over the 2000-2008 period, and especially below the 6.4% and 5.7% growth realized in 2007 and 2008.²¹¹ As noted above, the global economic crisis, the national and international economic recession, and the zero growth of the Manitoba economy in 2009 Manitoba, have acted to temper but not reverse the increase in consumer spending, and retail activity has essentially followed suit. The slowdown combined with consolidation within the sector and the constant push for productivity gains contributed to an absolute reduction of retail employment in 2009 and 2010. Employment in this sector had peaked at just under 71,000 in 2008, but in 2010 that number had shrunk to 66,275.²¹² Although this sector provides a relatively large number of jobs for Manitobans, the earnings of workers in the sector tend to be low. For example, average weekly earnings (exclud-

Chart 29



Source: Statistics Canada, CANSIM II, series v1797627 and v44310938.

ing overtime) for retail workers amounted to \$492.28 in 2010,²¹³ which is well below (approximately 64%) the provincial average. Low wages and the relative prevalence of part time work are two factors underlying the low weekly earnings.

Within the service sector, however, the lowest average weekly earnings are to be found in the food and accommodation subsector. Average weekly earnings (again excluding overtime) here were only \$304.78 in 2010.²¹⁴ Low wages and fewer hours are again contributing factors. Although not as large as retail, the food and accommodation sector is also a major provider of jobs in the provincial economy, with over 39,400 employed in 2010.²¹⁵

Business travel and tourism are crucial sources of demand for this sector, but neither of these components have fared particularly well over the last decade. The terrible events of 9/11 heightened concerns over security, especially within the United States, and precipitated a series of measures that made international border crossing for many individuals decidedly less routine. Travel was also lessened, again especially from the United States, by the recession and economic slowdown in 2001, and the slow recovery in the years immediately following. The crisis and recession of 2008-09 created the same dampening effect as the 2001-02 downturn, except with much greater force. Beginning in 2002, the Canadian dollar began its very substantial ascent relative to its US counterpart, and this appreciation raises the costs to non-residents of any visit to Canada while simultaneously makes trips by Canadian to the US increasingly attractive. Finally, public health scares, such as that associated with SARs in 2002-2003 and the H1N1 virus in 2009 further chilled the attractiveness of travel. The net effect of these multiple developments is evident in the relative absence of economic growth in the food and accommodation service sector over the last decade. Strong growth in real GDP in this

sector was achieved in 2000 and 2001, but the onset of these negative factors contributed to a reduction of sectoral GDP of 17% in 2002, followed by 5 years of stagnation. There was some positive and substantial growth in 2008 (GDP up almost 4.4%), but that came to an end as the recession deepened. In 2009, GDP in the sector was slightly negative. In 2010, a 1.4% growth rate was realized.²¹⁶ The relatively strong provincial economy will encourage business travel, and the return of the Winnipeg Jets hockey team in 2011 and the expected opening of the Canadian Museum for Human Rights in 2013 are also positive developments for the industry, but a tepid US recovery and a Canadian dollar trading above par with the US dollar are factors that mitigate against an especially strong expansion in this industry in 2011 and 2012.

In addition to its manufacturing component, Manitoba's aerospace industry also has a well established presence in the service sector. Two firms dominate aerospace services: Standard Aero, with expertise in aircraft engine maintenance, repair and overhaul, and Aveos, which in Manitoba focuses on airframe maintenance. Standard Aero has continued to have success in winning servicing contracts for engines of both military and passenger jets. Consequently, employment in its Winnipeg facility is on the rise, increasing from about 1200 in mid-2009 to about 1400 by the end of 2010, and with expectations of further increases, possibly up to 1550, in 2012.²¹⁷ Aveos, formerly Air Canada Technical Services, also has major facilities in Montreal, Toronto, Vancouver, and El Salvador, and has relied heavily on maintenance contracts from Air Canada. The company's response to changes in demand from the major Canadian carrier involves apportioning the work among its various locations. Employment levels at the company's Winnipeg facility have fluctuated in recent years: layoffs were made in the summer of 2008, recalls and new hires were announced in February 2009, another set of layoffs (involving 356 employ-

ees) were announced in March 2010.²¹⁸ As a result, in August 2011 about 420 employees worked for the company in Winnipeg, down from approximately 700 back in 2009.²¹⁹

In media and communications, a major development was the demise of CanWest Global Communications. The combination of high debt loads and the adverse effect of the recession on revenues, especially advertising revenue, proved to be too much for the Winnipeg-based media conglomerate.²²⁰ Efforts to restructure the company throughout 2009 and early 2010 were unsuccessful, and the final act unfolded in May 2010 with the purchase of Global Television and all of the company's specialty networks by Calgary-based Shaw Communications.²²¹ The demise involved the elimination of head office jobs in Winnipeg, but other Winnipeg activities of the now-defunct company, such as the newspaper division's call-centre operations with approximately 300 jobs, were retained at least for the time being.²²²

Call centers proliferated widely throughout Canada in the first half of the 1990s, and Manitoba was part of this trend. This growth in call centers, however, was short-lived. Improving technology combined with vast pools of lower wage workers with rising skill levels outside of Canada posed an increasingly effective competitive check to continued high rates of expansion within Canada. The post-2002 appreciation of the Canadian dollar undermined remaining Canadian and Manitoban cost advantages, and pressures for subsequent retrenchment within this subsector became increasingly strong. In Manitoba, this adjustment arrived with force in 2010, as Hewlett Packard announced call centre layoffs of 68 workers,²²³ and, more significantly, Convergys, the largest call center in Winnipeg, and which at one time employed approximately 2200 workers in the province, announced the closing of its Winnipeg call centre facility and the termination of 500 jobs.²²⁴ Although

in decline, call centers are far from extinct in Manitoba, but now the call centre landscape is dominated by facilities run by businesses with strong local roots or regional presences, such as MTS Allstream, Great-West Life, Manitoba Hydro, Blue Cross, RBC, and the Winnipeg's 311 call centre.²²⁵ Nevertheless, as the call centre phenomenon shows, Manitoba's relatively low wage workforce is, for some corporate planners, not low enough and is not, as a result, a very secure basis upon which to develop economic stability in general, and employment and income stability in particular.

As shown in Chart 27, large slices of the service sector in Manitoba are comprised of health and social assistance (H&SA), and education. In 2010, real GDP (\$2002 chained) in the two sectors were \$3.08 billion and \$2.16 billion, and respectively.²²⁶ Both of these sectors are major employers. In 2010, health and social assistance employed over 78,800 workers, making it the largest employer among all sectors in the province, easily outstripping retail (66,300 employees) and manufacturing (53,700 employees). Approximately 47,200 Manitobans were employed in education.²²⁷ Characteristic of both H&SA and education is the dominance of the public sector and, given its jurisdictional responsibilities, the leading role played by the province. The financial commitment of the province to health and education is strikingly apparent in the expenditure statements in the provincial budgets. In its estimates of expenditures for fiscal 2010-11, Budget 2011 reported provincial government expenditures of \$5.1 billion for Health and Healthy Living, and \$3.4 billion for Education, which amounts to 37% and 25%, respectively, of total budgetary expenditures of \$13.66 billion. Financing of these two major provincial expenditures, as well as provincial expenditures for social assistance, are greatly assisted by means of federal transfers, especially the \$953 million received in the Canada Health Transfer (CHT) and a further \$405 million from the Canada Social Transfer (CST) in fiscal 2010-11.²²⁸

Despite its size, real GDP in the H&SA sector has had minimal growth in recent years, and the 1.9% real growth posted in 2010 is the best the sector has experienced since 2004.²²⁹ On the other hand, employment has increased fairly steadily, rising more than 13% over the same period, and average weekly earnings (excluding overtime) jumped 31%.²³⁰ Note, however, that despite this very substantial increase, average weekly earnings in this sector in 2010 were still about 8% below the provincial average for all industries. Furthermore, average weekly earnings of Manitoba employees in the H&SA sector were close to 10% below their counterparts for Canada as a whole.²³¹ The increase in earnings that were realized since 2004 are not expected to be replicated in 2011 and 2012, as public sector employers have indicated their intentions to seek minimal or even zero wage and salary growth in the immediate post-crisis period. A 3.5-year deal reached in May 2010 between the Province and the Manitoba Nurses Union contained no salary increases for the first 2 years of the agreement (although the deal included an initial 2.5% lump sum payment).²³² At the time of writing, negotiations with other health care sector workers, including the Manitoba Medical Association and the Manitoba Association of Health Care Professionals, are ongoing.

Public administration comprises 11% of service sector GDP and employs over 47,300 workers. This subsector of the economy has experienced growth at the modest rate of about 1.5% annually for 2008 to 2010, inclusive.²³³ After increasing 2% in 2008, employment growth

in public administration has been limited (0.5% in 2009, and 0.2% in 2010).²³⁴ Although very modest, these increases in both real GDP and in employment in the public administration subsector, as well as those in health care, social assistance and education mentioned above, mark an eschewal of the strategy of public sector cutbacks that has been proposed and, to varying degrees, implemented in other political jurisdictions, both nationally and internationally, as a response to the increased fiscal challenges facing governments in the wake of the financial crisis, recession and slow-down. In Manitoba, the provincial government explicitly stated its commitment to maintain front line services and employment levels in its 2010 Budget. With the reemergence of budget deficits, however, the government also opted to ease the fiscal demands on its budget by endeavouring to secure negotiated wage and salary freezes for its public sector workers. A major step was made towards this objective with the 4-year agreement ratified in March 2011 with Manitoba Government and General Employees Union (MGEU). The contract, covering some 3,500 civil servants, stipulates no layoffs, zero wage increases for the first two years, and then 2.75% wage increases for the final two years.²³⁵ This is a tradeoff that is dictated more by political necessity than by underlying economic imperatives, but employment stabilisation does have the virtue of alleviating fears of job loss and income disruption, thereby contributing to the continuation of high levels of consumer confidence, as well as avoiding diminution of the flow of services those workers provide.

Conclusion

Diversity is often lauded as a desirable strategy to protect against risk. Manitoba's economy is a relatively diversified economy, and that should, in general, help protect the economy against sudden untoward economic developments both at home and abroad. Diversification tends not to be an extremely high growth and high return strategy, but insulation from frenetic booms is also insulation from precipitous busts.

The economic events that have unfolded throughout the world since 2007 have once again put this "diversification principle" to the test. An assessment of Manitoba's performance since the outbreak of the crisis gives no reason to repudiate the virtues of diversification, but it is important to stress that diversification is only part of the story. The institutional framework and the role played by discretionary public policy are also important factors that determine the larger economic outcomes. That importance has also been brought into sharp relief by recent economic events.

Manitoba avoided the worst of the damaging effects from the 2007-2009 financial crisis and economic recession. Economic growth in the province slowed to zero in 2009, but 2010 saw growth rates rebound strongly to 2.5%, and even higher rates are forecast for 2011 and 2012. Employment levels and labour force participation rates in the province remain high, and the unemployment rate continues to be among the lowest in the country. However, notwithstanding these very positive indicators, Manitoba did not emerge from the 2007-2009 period unscathed. Within the province, the economic damages incurred and the subsequent burdens of economic adjustment were widely but unevenly distributed. At the height of the crisis, collapsing commodity prices hurt a number of primary producers in Manitoba, such as mining, agriculture and forestry. But

many of these producers had benefitted from high prices in the pre-crisis period, and by 2010 most of these prices were once again on the rise. The damage to manufacturing was later but still severe, as the effects of the crisis on the key export market, the United States, sapped demand for various Manitoba producers. However, the development of alternative markets, notably in Asia, but also Latin America and Europe, have acted to reduce the relative dependence on the US for Manitoba exporters. As noted in Budget 2011, over 35% of Manitoba's exports from 2010 were destined for non-US markets. Ten years earlier, this non-US percentage was only 21.5%. By way of contrast, export destination markets for Canada as a whole are less diversified, with only 25.3% of exports going to markets other than the US.²³⁶ The robust economic growth of many leading Asian and Latin American economies stand in sharp contrast to the hesitant recovery in the US, and underline the advantages for Manitoba of the geographic broadening of its exports.

The positive role played by discretionary economic policy begins with the aggressive monetary policy initiated in the fall of 2008, and the expansionary fiscal policy ushered in with the federal government's budget in January 2009. These measures benefitted all the provinces and lessened the severity of the crisis nationally. At the provincial level, the Manitoba government also moved to inject additional fiscal stimulus, and quite properly allowed for substantial fiscal deficits for fiscal 2009-10 and 2010-11. Public spending, including the substantial spending by Manitoba Hydro, served to maintain high levels of economic activity in the construction industry, directly sustain employment, and channel stimulus dollars into activities with high local and provincial expenditure and employment multipliers. Furthermore, the

improvements to the economic infrastructure that will result from these initiatives, including hydro-electricity generating and transmission facilities, improved highways, new roads, and expansions and improvements to educational facilities, will deliver economic benefits after the construction phases wind down. Such projects can be categorized as short term gain for long term gain.

Although economic forecasts for Manitoba are, as of mid-2011, quite positive, risks and challenges remain. Commodity prices historically have proven to be volatile and, given the structure of international commodity markets, are likely to remain so. The longer term trend is likely to be a rising one, but movements around that trend, both up and down, will put pressure on producers and communities associated with the production and transport of those commodities. Commodity prices are essentially globally determined and are therefore beyond the control of local or provincial players. Commodity traders can partially protect themselves against price changes through futures markets, and a provincial economy garners some protection through diversification. For individual producers, workers and communities, however, additional supports are warranted, including income support programs, credit availability, and access to public services. Much of this is already in place and has been tried and tested, but opportunities for further innovation and expansion have not been fully exhausted.

Interest rates are also largely beyond the control of agents in the provincial economy. The Bank of Canada has pushed interest rates to historically low levels. As a result, they now really only have one direction to move, and that is upwards. However, substantive interest rate increases do not appear imminent. Core inflation remains well within the Bank of Canada's target band, and the less than robust growth of the Canadian economy suggests that encouraging the recovery, rather than cooling

inflationary pressures, will in practice deter the Bank from major rate increases in 2011.

Exchange rates are also prone to substantial movement. Adjustments have been made by Manitobans to the rise of the Canadian dollar to a level above parity with its US counterpart. Manitoba manufacturers, exporters, and numerous service sector producers continue to be squeezed by this currency appreciation and, given the relatively rapid rate of appreciation, this adjustment remains incomplete. Futures markets indicate that some further appreciation — in the neighbourhood of 4% — of the Canadian dollar is anticipated over the next 12 months. This will not ease the task of adjustment, and also acts to raise concerns about the medium term value of the currency. The adverse effects of a relatively weak US dollar for many Manitoba producers could be offset by a strong economic recovery in the US. As of mid-2011, the strong US recovery has remained elusive, and the challenges have been exacerbated by the political difficulties that country has experienced over its fiscal arrangements. It is not clear if the situation south of the border will show much real improvement in 2012.

These factors mentioned above — commodity prices, interest rates, exchange rates, US economic growth — are all important for the Manitoba economy, but are essentially exogenous factors, i.e., they lie beyond Manitoba's control. Public sector activity, including fiscal policy, and especially fiscal policy conducted at the provincial level, is, by way of contrast, an important economic lever that is amenable to provincial control. It has served the province well in terms of stabilising the economy since the outbreak of the crisis. With the rebound in growth rates, debate on the appropriateness of any continued fiscal stimulus has resurfaced. Both the federal and provincial governments had initially indicated a protracted, multi-year path to the re-establishment of fiscal surpluses. The federal government suggested in the 2011

election campaign that its journey to the land of fiscal surpluses could in fact be accelerated. This would lessen the stimulus provided by the public sector, and places greater ex ante reliance on the private sector covering any shortfall. Manitoba needs to be concerned about where the fiscal retrenchment will occur, and in particular whether or not it will affect its federal transfer payments, including the health and social transfers, the terms of which after 2014 are to be negotiated between Ottawa and the provinces. In light of the federal leaning towards some tightening of fiscal policy, continued stimulus at the provincial level over the medium term would be prudent. From the fiscal perspective, this stimulus can be adjusted downwards if a number of the above mentioned exogenous factors move favourably from the perspective of Manitoba, and/or if the private sector in the province initiates a sustained surge in investment. Too rapid a return to a position of fiscal surpluses risks the loss of some of the economic momentum the economy is presently enjoying.

Moving beyond the realm of fiscal stimulus and macroeconomic performance, there are a number of other pressing economic challenges that remain in Manitoba. Despite some very significant improvements,²³⁷ poverty still is

far too prevalent, with high concentrations found in diverse areas across the province, such as Winnipeg's inner city, on the one hand, and in a number of remote communities, on the other. The task of reconciling economic activity with the natural environment, of achieving economic gains without ecological pains, remains immense and will necessitate further adjustments across the entire range of economic activity. There is also the challenge of fashioning the economy so that it supports and embodies fundamental human and political ideals, such as broadening participation and economic decision making by the people and communities directly affected. Here too there have been some notable successes, such as the recent agreements between Manitoba Hydro and selected First Nations Communities, but the scope for further progress is as vast as the economy itself. Advance on all of these fronts has begun and has the potential to be mutually supportive. It has been shown that progress of this kind need not be dependent on preconditions such as an economy that has fully recovered from a slowdown or a crisis. Reinvigoration of the economy and a reinvigoration of the democratic process go hand in hand.

Endnotes

- 1 Gross domestic product (GDP) is the market value of all final goods and services produced in the economy for a given time period (such as a year, or a quarter of a year (3 months)). Real GDP means that the market value of those goods and services has been adjusted for inflation. Therefore, a larger GDP means that the economy is producing more goods and services. Growth in real GDP is widely used as the key measure of economic growth for an economy.
- 2 Statistics Canada, CANSIM II, series v1992067.
- 3 Statistics Canada (2009), "Canada's employment downturn." Available at <<http://www.statcan.gc.ca/daily-quotidien/091112/dq091112a-eng.htm>>. Accessed 17 December, 2009.
- 4 For example, Manitoba was the only province in the country to avoid negative real GDP growth in 2009. For the other western provinces, the 2009 real growth rates of BC, Alberta and Saskatchewan were -1.8%, -4.5% and -3.9%, respectively (Statistics Canada, Statistics by Subject -Economic Accounts - Gross Domestic Product, available at <<http://www5.statcan.gc.ca/subject-sujet/theme-theme.action?pid=3764&lang=eng&more=0>>).
- 5 Statistics Canada, CANSIM II, series v15855779.
- 6 Statistics Canada, CANSIM II series v691678.
- 7 For example, the TSX index rose from 6,569 in January 2003 to 14,714 in May 2008, which is an increase of 124% in just under five and a half years. See Statistics Canada, CANSIM II series v122620.
- 8 Fletcher Baragar, Report on the Manitoba Economy: 2007. Canadian Centre for Policy Alternatives-Manitoba, September 2007, pp.4-5.
- 9 Statistics Canada, CANSIM II, series v122620.
- 10 Statistics Canada, CANSIM II, series V122495 and v122521.
- 11 Government of Canada, Department of Finance, Budget 2007 and Budget 2009. Available at <<http://www.fin.gc.ca/access/budinfo-eng.asp>>.
- 12 Canada Mortgage and Housing Corporation, "Housing Market Outlook Winnipeg CMA," Fall 2010 and Spring 2011. Available at <<http://cmhc-schl.gc.ca>>. CMHC's forecasts for 2011 for the Winnipeg Census Metropolitan Area have prices for existing houses rising 4.5%, which is a lower rate of increase than that experienced in 2010, but still greater than the CPI-based inflation rate.
- 13 Martin Cash, "Manitobans have happy thoughts," Winnipeg Free Press, 24 December 2009.
- 14 Martin Cash, "Manitobans have happy thoughts."
- 15 Conference Board of Canada, Index of Consumer Confidence, monthly reports from October 2009 to June 2011.
- 16 Tavia Grant, "Affordability takes a hit," Globe and Mail, 26 November 2009.
- 17 Derek Burleton, "Household Debt in Canada: A Regional Perspective." Presentation made at the Canadian Economics Association Annual Meetings, Ottawa, ON, 3 June 2011. Available on the Progressive Economics Forum website at <<http://www.progressive-economics.ca/pef-canadian-economics-association/>>. Accessed 10 July 2011.
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