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Election 2011

UNSPUN

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Report on the Manitoba Economy 2011

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%. Even higher rates are forecast for 2011 and 2012, although new anxiety is churning over the European and US economies which could affect Canada and Manitoba.

Employment levels and labour force participation rates in the province remain high, and the unemployment rate is now the second lowest in the country. However, Manitoba did not emerge from the 2007-2009 period unscathed. At the height of the crisis, collapsing commodity prices hurt primary producers in the mining, agriculture and forestry sectors. 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, in Asia, Latin America and Europe, has acted to reduce the relative dependence on the US for Manitoba exporters. Over 35% of Manitoba's exports from 2010 were destined for non-US markets, compared to only 21.5% ten years ago. By way of contrast, export markets for Canada as a whole are less

diversified, with only 25.3% of exports going to non-US markets. The robust economies of many Asian and Latin American countries stand in sharp contrast to the US's, and underline the advantages for Manitoba of the broadening of its exports.

The positive role played by discretionary economic policy began with aggressive monetary policy in late 2008, and the expansionary fiscal policy ushered in with the federal budget in January 2009. These measures benefitted all provinces and lessened the severity of the crisis. The Manitoba government also injected additional fiscal stimulus, and properly allowed for substantial fiscal deficits for fiscal 2009-10 and 2010-11. Public spending, including the spending by Manitoba Hydro, maintained high levels of economic activity in the construction industry, directly sustained employment, and channelled 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 will deliver economic benefits after the construction phases wind down.

Although economic forecasts for Manitoba were, as of mid-2011, quite positive, risks and challenges remain. Commodity prices are by nature 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



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movements around that trend, both up and down, will put pressure on producers and communities that produce and transport those commodities. Commodity traders can partially protect themselves against price changes through futures markets, and our 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

The Bank of Canada has pushed interest rates to historically low levels, and rate increases do not appear imminent. Core inflation remains well within the Bank of Canada's target band, and the weak growth of the Canadian economy suggests that The Bank of Canada will stay the course.

Manitoba manufacturers, exporters, and numerous service sector producers continue to be squeezed by our dollar's rapid appreciation. 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.

These factors mentioned above - commodity prices, interest rates, exchange rates, US economic growth - are all important for the Manitoba economy, but they lie beyond Manitoba's control. Public sector activity, including fiscal policy, is, by way of contrast, an important economic lever controlled by the province. It has served the province well in terms of stabilising the economy since the outbreak of the crisis. When growth rates rebounded, debate on the appropriateness of continued fiscal stimulus 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 a return to fiscal surpluses could

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 especially given that economic growth is now faltering globally. Looking ahead, concerns will surface over federal transfer payments, the terms of which will be negotiated between Ottawa and the provinces after 2014. In light of the federal leaning towards less spending, continued stimulus at the provincial level over the medium term would be prudent. This stimulus can be adjusted downwards if a number of the above mentioned exogenous factors move improve, 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 we're presently enjoying.

Despite some very significant improvements, poverty still is far too prevalent, with high concentrations found in Winnipeg's inner city and in a number of remote communities. The task of achieving economic gains without ecological pains remains immense. 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. 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.

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