State of the Manitoba Economy

REPORT • 2002-2003

by Paul Phillips

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Overview

Uncertainty has been the catchword describing most prognoses of the prospects for the Manitoba economy in 2003 after its somewhat lacklustre performance in 2002. The reasons for both the slowdown in 2002 and the uncertain prospects for 2003 rest on poor performance, past and projected, of the American economy which was the engine of growth for the world economy in the years leading up the US recession, which began in April 2001 and was followed by the terrorist attacks of September 11th 2001 and the subsequent American led invasion of Iraq in April 2003.

Compounding the effect of these events on Canadian export markets in the United States were the outbreak of SARS (Severe Acute Respiratory Syndrome) in the Toronto region, which severely restricted tourism and trade to the region and to Canada generally, and the discovery of BSE ('mad-cow disease') in one animal in Alberta which led to the closure of the cattle and beef market in the US and Japan to Canadian producers. Furthermore, in 2003 the Canadian dollar began a quite amazing runup in its value relative to the US dollar, producing a marked decrease in Canadian price-competitiveness, made worse by increased Ameri-

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can protectionism and subsidization of its agricultural sector. The effect of all of these was to severely restrict the free movement of goods and services across the border and to reduce demand for transport and transportation, a significant factor in the financial difficulties of Air Canada and other bus and charter carriers.

Manitoba did perform better in 2002 than it did the previous year and actually surpassed its real growth in 2000, the last year before the US recession.

Manitoba is sensitive to any restrictions at the American border and to any slowdown in the American economy since, in 2002, exports represented 26 percent of Manitoba's Gross Domestic Product (GDP) and 82 per cent of Manitoba's exports went to the United States. In short, Manitoba exported 21 percent of its GDP to the US in 2002, down a half percentage point from the figure in 2001. Though the US came out of its recession by the end of 2001, its recovery has been slow and uncertain and its growth insufficient to lower unemployment or to raise wages – what some economists call a "workers' recession." This, combined with the other factors mentioned above, has acted as a damper on Manitoba's growth in 2002 and clouded the outlook for economic growth in 2003.

Nevertheless, Manitoba did perform better in 2002 than it did the previous year and actually surpassed its real growth in 2000, the last year before the US recession.

The Canadian economy as a whole has performed much better than the American over the last couple of years. One reason was the overvalued American dollar which played havoc with its manufacturing industry. However, this has begun to change as the American dollar has depreciated by 15 or more percent against most major currencies, including the Canadian Loonie, since the beginning of 2003. The reasons for the decline in the US dollar are not hard to find, not least the repeated decreases in US interest rates not matched by its major trading partners and the huge trade deficits and the resulting rising accumulated global debts which has made the US the worlds greatest international debtor. Other factors include the ballooning budget deficit, overcapacity and the threat of deflation, and the overall weakness of the American economic recovery.

The decline in the American dollar, of course, is just the reverse side of the Loonie's rise, 17 percent in the first half of 2003. The fact that, despite the weakening Canadian economy compounded by the SARS and BSE outbreaks, the Bank of Canada has followed the opposite monetary policy of increasing interest rates, a result of its adherence to a discredited economic doctrine (known as NAIRU), and has only served to weaken the Canadian economy. The effect of the diverging interest rates is to inflate the value of the Loonie relative to the US dollar discouraging Canadian exports and encouraging competing imports. The net effect is a damper on the Canadian economy and one of the major factors in an increasingly pessimistic outlook for Canadian growth in 2003.

Real GDP Growth, Manitoba, 2000-02

Year	Growth in Real GDP (%)
2002	3.1
2001	1.5
2000	3.0

As a result, economic forecasters have been revising their projections sharply downward in recent months. After the dismal second quarter, the Conference Board of Canada knocked down its 2003 growth forecast by 30 percent, from a projected growth rate of 2.7 percent to 1.9 percent. Although the negative effects of the SARS outbreak and the BSE infection are thought to be temporary, the weak performance of the American economy and the rise in the value of the Loonie are not, and will be a drag on the Canadian economy for the foreseeable future. Past forecasts of an improvement in the US economy in the second half of 2003 are increasingly being called into question, particularly after the May unemployment rates were released at mid-year. Unemployment in that month shot up by 0.3 percent and, perhaps more troubling in the long run, the number of manufacturing jobs continued a decline that has gone on for 37 months and has resulted in the destruction of 2.6 million jobs since the peak of the US boom in 2000.

The prospect of continuing weakness in the US economy is compounded by the fact that American authorities are running out of tools to stimulate their economy. The Federal Reserve has reduced its base interest rate to a mere 1 percent which has contributed to shoring up the auto and housing industries but is having little effect on investment and consumption. In any case, consumption is increasingly constrained by the runup of average consumer debt by around 10 percent in the last two years and by a third since the beginning of the boom and stock market bubble in 1993. There is little more the Fed can do – perhaps another half-percentage point decrease – but Japanese experience indicates that even zero percent interest rates will not stimulate the economy in the face of lack of aggregate demand and worldwide excess productive capacity which translates into weak corporate profits.

Nor has the US government much fiscal room to stimulate the economy. Already, the American government is amassing massive deficits, largely as a result of a huge increase in military expenditures and decreased taxes. Neither of these, however, have done much to stimulate the economy. The Bush tax cuts, past and proposed, have gone primarily to the wealthy who have a low propensity to spend on additional domestically produced consumer goods. The upper income segment of the US population, in any case, was the group that amassed the most consumer debt during the boom and spent much of their increased paper-wealth arising from the stock market bubble as if it were income. The collapse of the bubble has eroded much of the paper-wealth leaving a debt overhang and a reluctance to continue spending at rates comparable to the boom years. At the same time, average and low income earners have gained little from the tax cuts while their wages have been stagnant or falling, particularly as de-unionization of the economy continues. Given the past runup in their consumer debt, average consumers are unable or unwilling to further increase their spending.

The fall in the value of the US dollar in theory should provide some stimulus to the American economy by reducing imports and increasing exports, but for a number of reasons this has not happened and is not likely to have the expected effect. The reasons are complex but two are most significant. One of the biggest exporters to the US is China, but the Chinese Yuan is currently tied to the US dollar such that, as the dollar goes down, so does the Yuan. Furthermore, as the Chinese currency is devalued, it takes away markets from other countries, particularly in east Asia, thereby depressing their economies and forcing them to cut back on imports from the United States. The second reason is that the rise in the value of most other countries currencies relative to the United States has a depressing impact on their economies, including Canada's. As our economies slow, our demand for US goods and services declines, thereby reducing American exports. Furthermore, as foreign holdings of US debt lose value due to the decline in the US dollar's value, foreign wealth declines, further constraining their economies.[1]

Unless the US ban on Canadian cattle exports is lifted very soon, the provincial livestock industry will encounter major losses

None of this is good news for Manitoba as a consequence of the province's export dependence on the American market. Nevertheless, forecasters have been somewhat more bullish for the province than the above might indicate. As of mid-June, a survey of independent forecasters projected a 2003 nominal growth rate for Manitoba of 4.2 percent, or 3.0 percent in real terms, very little changed from the 2002 rate. (Manitoba Department of Finance, June 2002)

It was on growth projections in this range that the spring Budget of the Manitoba Government was based. However, this rate looks increasingly suspect as forecasts for the Canadian economy fall and the American economy weakens. Further, unless the US ban on Canadian cattle exports is lifted very soon, the provincial livestock industry will encounter major losses dragging down the value of agricultural output. In short, if provincial growth does fall significantly from the projected rates, the Province may find itself in a difficult fiscal position. A more detailed, sector by sector analysis of the strengths and weaknesses of the Manitoba economy should give us a clearer picture of the current state of the provincial economy.

The Public Sector and Fiscal Constraints[2]

Whether in response to the ongoing economic uncertainty or reflecting timidity in the face of opposition demands for neoliberal tax and social service cuts and an imminent election , Manitoba's NDP government's 2003 spring budget opted to 'stay the course', neither increasing public sector spending significantly or introducing new or expanded social programs, nor in delaying or eliminating previously promised tax cuts. Indeed, program spending in fiscal year 2002-03 as a percentage of provincial GDP was still less than in the last, pre-election year of the previous Conservative government. As Ian Hudson has noted, "in terms of program spending, the NDP have hardly been profligate. Indeed, by this measure, the NDP have left the size of the public sector virtually unchanged relative to the rest of the economy after it had increased noticeably in the final year of the Conservative administration." (Alternative Provincial Budget, 2003)

At the same time, own-source revenues (excluding transfers from the federal government and Manitoba Hydro) have declined by about 1 percent of GDP over the last two years as a result of both the ailing, slow growth economy, but also because of modest tax cuts totalling a cumulative $120 million per year since the NDP government was elected. These cuts were justified as necessary to remain competitive with Alberta and British Columbia where regressive tax cuts were 'financed' by major cuts to social services and the use of flat rate medicare premiums. However, provincial taxes in Manitoba remain much more progressive than those in both British Columbia and Alberta. Factoring in medicare premiums, a family in Manitoba earning $50,000 per year would pay significantly less provincial taxes than it would in British Columbia and marginally more than in Alberta. However, the greater progressivity of Manitoba's tax structure is indicated where the tax advantage of Alberta widens and BC's moves from a higher tax to a lower tax relative to Manitoba at higher levels of family income.

Notwithstanding the relative progressivity of Manitoba's tax system, the cuts in taxes in Manitoba have gone disproportionately to the middle and upper income groups while the lowest income groups have seen little or no gain on either the tax front or from increased expenditures on social programs that benefit the poor. Such increased program spending that has occurred has largely favoured health and education which benefit middle income families in particular.

However, the tax cuts have served to reinforce the precariousness of the province's fiscal position and has made it potentially vulnerable to lower rates of economic activity than predicted when the budget was introduced. This is a situation similar to the province's precarious fiscal position detailed in last years *State of the Economy Report*. However, the fiscal position of the province was buttressed by two sources of income in 2002, a $150 million transfer from the profits of Manitoba Hydro and increased federal transfers to help repair the health care system from the federal and provincial funding cutbacks of the 1990s. The province is transferring a further $50 million from Hydro for fiscal year 2003-4 and major increases in medicare funding have been promised by the federal government.

Total Provincial Taxes 2003 Family of Four

	$50,000	$75,000
Manitoba	$3,309	$6,985
Alberta	$2,913	$5,275
British Columbia	$4,199	$6,385

Nevertheless, these sources of income are not as secure as was anticipated earlier in the year. The federal minister of finance has already suggested that if the slowdown in the Canadian economy threatens the projected federal fiscal surplus, the promised medicare funding transfers may be reduced. The Hydro transfer is probably more secure but the size of Hydro profits from which the funds are transferred is dependent on export sales, not on domestic Manitoba sales, and therefore, depend on sales primarily to the United States.[3] Export sales in 2002 were down 18 percent from their peak in 2001 when the US faced a shortage of electricity and waterflows in Manitoba were high. The decrease in export sales has been attributed to low waterflows in 2002 and a shortage of surplus electricity for export. However, if the models of global warming are correct, Manitoba may see a long term decline in waterflows which could jeopardize export surpluses and, therefore, profits for transfer to the province.

The 2002 fiscal position was also enhanced by the fall in interest rates which reduced public debt financing costs by $177 million between the fiscal years 200/01 and 2002/03. [Hudson, 2003] Although the moves by the Bank of Canada to increase interest rates in Canada appear to have been put on hold because of the deteriorating economic situation across the nation, we can expect that the Bank will resume its destructive rate increases as soon as the economy shows signs of expansion at a rate that will see real wages rise.

Economic uncertainty creates a precarious fiscal position for the province only because of the province's own 'balanced budget' legislation which not only requires the province to balance its budgets annually, but also to maintain a fiscal stabilization fund at 5% of provincial expenditures and to pay down the public debt by $75 million annually. In addition, the government has committed to paying a further $21 million to fund the past unfunded pension liability. This creates a $96 million draw on provincial revenues unrelated to program expenditures. However, the government has used the leeway provided in the legislation to direct $75 million to paying down the pension obligation, and $21 million to paying down the provincial debt. The problem is, that if declining economic growth reduces government revenues significantly, the balanced budget legislation will force the government to cut program expenditures, further eroding social programs, particularly those directed at the lower income population. This will not only further depress the economy but will undermine programs designed to improve Manitoba's long-term competitiveness, particularly in training and education.

Agriculture

Manitoba largely escaped the drought that plagued the other prairie provinces last year. As a result, farm income from crops were up sharply. However, this was largely offset by declines in the livestock sector and by major cuts to government support payments with the result that farm cash receipts in 2002 rose only 3.7 % from their 2001 level. A more complete picture by principle agricultural sectors is given in the table on the following page.

Estimated acreage seeded in 2003 for major crops has fallen slightly from 2002 except for canola which is up sharply, probably in response to the 35.2 % surge in the value of oilseed production in 2002. Percentage changes in 2003 are estimated as follows:

Wheat	— 2 %
Oats and Barley	— 5%
Canola	+ 14%
Peas and Beans	— 38%
Total Crops Seeded	— 1%

Source: Manitoba Agriculture and Food

Potatoes are not included in the seeded acreage report. However, plantings of potatoes are estimated to have risen approximately 11 to 14 % in 2003 from the year previous in response to increased demand for processing potatoes by the new Simplot potato processing plant. The total number of potato producers, however, is estimated to have increased only by 4, from 126 in 2002 to 130 in 2003.[4]

Manitoba did not suffer from the drought that devastated much of Alberta and Saskatchewan which, along with a recovery in grain prices, explains why Manitoba's farm income from crops increased by almost 24 percent in 2002. However, this was offset by sharply lower prices for cattle and hogs such that livestock income was down over 3 percent. Government stabilization, crop insurance, disaster and other payments were also down by over 40 percent, largely due to improved weather conditions in the province.

What is the prospect for 2003? In his October 2002 agricultural outlook presentation to the Manitoba Association of Business Economists', University of Manitoba agricultural economist, Brian Oleson, noted that the surge in grain prices resulted from the drought conditions in a number of major grain areas including Canada, the United States and Australia. The low level of stocks suggests that good prices should continue into the current crop year. Prices in the first four months of 2003 support this suggestion.

On the other hand, cattle herd liquidation in

Manitoba Farm Cash Receipts and Farm Product Price Indexes: 2001-2003

Farm Cash Receipts

Principle Farm Sector	2001 $(000s)	%	2002 $(000s)	%	2003 (4 months) $(000s)	%
Wheat (incl. Durum)	586.3	15.9	630.2	16.5	—	
Oats and Barley	189.6	5.1	209.6	5.5	—	
Canola	363.8	9.9	483.6	12.6	—	
Potatoes	131.3	3.7	135.5	3.5	—	
Peas, Beans and Lentils	64.4	1.7	82.2	2.1	—	
Total Crops	1,530.8	41.5	1,891.0	49.4	—	14.8
Cattle and Calves	578.5	15.7	555.7	14.5	—	
Hogs	765.7	20.7	714.5	18.7	—	
Dairy	158.0	4.3	163.9	4.3	—	
Total Livestock	1,778.4	48.2	1,717.5	44.9	—	0.4
Government Payments	382.1	10.4	219.0	5.7	—	-0.5
Total Farm Receipts	3,691.3	100.0	3,827.4	100.0	—	7.1

Farm Product Price Indexes (1997 = 100)

	2001	2002	2003
Total	96.5	100.9	103.6
Crops	87.6	104.6	109.2
Livestock	108.6	98.0	98.5

(— denotes not available)

Source: Statistics Canada, *Farm Cash Receipts*, SC 21-011-XIE; *Farm Product Price Index*, SC 21-007-XIB

Saskatchewan and Alberta because of the drought depressed cattle prices in 2002 and, with the return of decent weather conditions, prices were expected to recover. This was before the discovery of the single case of BSE (mad-cow disease) in Alberta which closed the export market for Canadian cattle and beef. The Manitoba industry is particularly vulnerable to the border closure because there is virtually no beef slaughter or meatpacking capacity in the province which means that most cattle have to be exported. As Janet Honey, market analyst for Manitoba Agriculture and Food notes, at mid-2003 Manitoba had "about 35,000 finished cattle which need to be slaughtered, but no place to go!" In 2002, the province had exported 207,300 cattle (finished steers and heifers and cull cows and bulls) and, quite simply with "such a small slaughter industry here, ... there is no slaughter space for such large numbers."[5] The impact on the industry has been devastating, depressing prices and forcing farmers to continue feeding finished and cull cattle because there is simply no market to sell to. Even if the border is re-opened in the near future, which is still uncertain, income from the cattle industry which provided almost 15 percent of farm cash receipts last year will almost certainly be down considerable. Net income will be even more depressed.

The biggest livestock industry in Manitoba, however, is hogs, which over the last couple of years has accounted for around a fifth of all farm receipts and over two-fifths of all livestock receipts. In 2002, receipts were down 10.2 % because of depressed hog prices, down an average across Canada of almost 20 percent in 2002 from the previous year. They have not recovered in the first four months of 2003 which does not bode well for livestock receipts in Manitoba for 2003.

None of this takes account of the effect of the rise in the value of the Canadian dollar on farm incomes because both livestock and crop exports are priced in American dollars. Therefore, the rise in the Loonie means, in general, lower Canadian dollar receipts. At the same time, it means lower Canadian dollar costs for imported feed corn and other grains, chemicals, fertilizers, machinery and other inputs. Net, however, the higher exchange rate is estimated to reduce the net cash income from Manitoba's agricultural exports by approximately 10-15 percent depending on what the average exchange rate turns out to be over the whole 2003 year.[6] (It was $US 0.637 in 2002.) This has also been made worse by the implementation by the US of a small duty on Canadian wheat which the US claims, incorrectly, is to offset the subsidy to Canadian farmers from the Canadian Wheat Board. In fact, of course, no subsidy exists as has been shown in repeated studies. In short, it is one more instance (along with the increase in and extension of farm subsidies, the implementation of steel and softwood lumber duties) of escalating protectionism in the United States despite its rhetoric of free trade.

One longer term factor pertaining to Manitoba agriculture and further diversification, but one which is not likely to have much effect this year or in the near future, is the development and construction of the $25 million Functional Foods and Nutraceuticals Institute at the University of Manitoba. The impact of the research and development institute on the future demand for specialty crops is a great unknown, but the potential exists to create demand for new crops in the long run.

In summary, continuing higher grain prices are promising for farm incomes but this is offset to some extent by low prices for livestock compounded by the BSE case. All net export earnings are also expected to be negatively affected by the rise in the Canadian dollar exchange rate. Other uncertainties are the level of support payments from Canadian programs and the impact of rising American subsidies on export prices. However, Oleson's fall farm income summary forecast would not appear to be too far off the mark – an increase in crop incomes, a small decrease in livestock incomes and an increase in program payments.[7] Results for the first four months of 2003 are not inconsistent with this forecast. The biggest question mark probably remains how large the decrease in livestock incomes will actually turn out to be.

Manitoba has been affected by escalating protectionism in the United States despite its rhetoric of free trade

Manufacturing

As important as agriculture is to Manitoba, it is still a distant second to the manufacturing sector in terms of total output. In 2002, manufacturing accounted for 12 % of real provincial GDP compared to just 5 % for agriculture. In terms of goods production, manufacturing accounted for a third of total production, agriculture 14 %, construction 11 % and other industries combined 42 %. In 2001, manufacturing also contributed almost two thirds of Manitoba's exports, more than three times the value of agricultural exports, the second largest export industry. However, these figures are a little misleading because the leading manufacturing industry was food processing which accounted for over one quarter of the manufacturing sector's output. Moreover, in 2002, food production lead the manufacturing sector with a growth rate of 4.3 percent compared to an overall growth rate of manufacturing shipments of only 0.6 %, a third of the growth rate of Canadian shipments overall.

The low rate of overall manufacturing growth reflected difficulties in specific sectors such as transportation equipment, including bus production, as a consequence of the decline in travel and tourism following the terrorist attacks of September, 2001. Nevertheless, total exports to the United States did increase by 1 %, counter to the decline in Canadian exports to the US of 2.3 %. The leading growth industries to the US market were manufacturing industries, machinery, printing, and wood products. Exports to other countries, however, plummetted by over 18 %, though this, no doubt, reflects in part the decline in export shipments of grain due to the drought in Saskatchewan and Alberta rather than any major decline in manufacturing shipments.

What is the outlook for 2003 for the manufacturing sector? Early indications are favourable. In the first four months, manufacturing shipments rose by 3.7 % led by fabricated metals, chemicals, clothing and transportation equipment despite a modest decline in total exports. Food processing should continue to grow with new potato processing and distilling capacity. New investment in the aeronautics and pharmaceutical sectors could contribute to growth in these areas. However, two big question marks remain. What will be the effect of the rise in the Canadian dollar on Manitoba's international competitiveness in manufactures? And, will the American economy continue to stagnate or will it begin its long-promised recovery? At mid-2003, neither of these questions can be confidently answered.

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Electricity

In the long run, hydro electricity represents one of the most important potential growth industries in Manitoba although, except in the construction phase, not as a major employer. The generation of cheap electric energy contributes to the economy of the province in a number of ways. Domestic consumers gain by purchasing energy at cost. Domestic industries also gain a competitive advantage by having low energy costs. This will be particularly true if, and when, hydrogen begins to replace non-renewable hydrocarbon fuels for powering cars and other machinery. Finally, electricity has become a major export commodity. In the somewhat exceptional year of 2001, exceptional because of very high sales into a US market experiencing a shortage of energy, electricity comprised 6 percent of Manitoba's total exports. In 2002 exports did decline from this peak by 21 % due to low water levels but still represented 5 percent of total provincial exports. Moreover, as we have previously noted, the profits on these export sales are now being transmitted to the provincial government, helping to finance social programs and tax reductions. These profits are the equivalent of the royalties charged by other provinces on production of oil or natural gas or stumpage rates charged timber producers – that is, the rent return to a publicly owned natural resource. Unlike petroleum, however, hydroelectricity is a renewable source of energy and thus potentially will be capable of producing a stream of public income in perpetuity providing water levels are maintained and domestic consumption does not rise to eliminate the surplus available for export.

By 2002, the surplus available for export represented 35 % of Manitoba Hydro's sales, down from 41 % in the peak year 2001, but at about the same level as 2000. Prospective new large export sales to Ontario, however, is expected to trigger new dam, generating and transmission line construction which will raise the exportable surplus and also give economic stimulus to the rest of the provincial economy for a number of years, though not in 2003. In the first 5 months of 2003, total electricity sales were up 5.5 %, export sales up 4.5 %.

The Service Industries

The Manitoba economy is actually dominated by a service sector which is larger than the Canadian average, 72% of total output in Manitoba compared with 68 % nationally.[8] Indeed the largest industry in the province in 2002 was Finance, Insurance and Real Estate which accounted for 20 % of the province's GDP. Given the continuing acquisitions by large Manitoba based national service firms of related firms outside of the province and the resulting consolidations of head office functions in Manitoba, it is likely that this share will at least be maintained if not grow in the near future. The importance of this sizeable service sector is enhanced because it tends to be more stable over the business cycle than goods producing industries thus contributing to the province's relatively more stable economy than most other provinces in Canada.

Consumers were also a major factor in the steady growth in 2002. Retail trade, which accounts for 6 percent of provincial GDP, increased 7.2 percent in 2002, much faster than the growth in personal disposable income of 3.9 %. Leading the sales were motor vehicles, appliances and furniture. Also up a healthy 22 % was housing starts, reflecting a national trend encouraged by low mortgage rates. In part, this consumption and housing boom was financed by a reduction in personal savings by almost 10 % over 2001. Housing starts remained buoyant in the first quarter of 2003, up 7.9 %. Retail sales are also up but at a much slower rate of 2.3 %, just half of the national rate. If consumers do respond to the current economic uncertainties by increasing savings to the higher levels of 1998-2001 (average 5.4 % of personal disposable income), this would require a 17 % increase in the 2002 saving rate which would act as a damper on retail and wholesale trade and contribute to weaker economic performance.

One of the strengths of the Manitoba economy in 2002 was the public sector, in particular the health care and education component of government program spending and in investment. Total capital investment grew 1.5 % in 2002 but most of this was accounted for by public investment, up 6.1 %. Private sector investment increased a mere 0.1 %. The leading growth areas for investment were housing (up 21.2 %), health care (up 7.5 %) and public administration (up 6.5 %). Other major capital expenditures, such as the Red River Community College building, the True North Arena, and the various research and development institutes and incubators in Winnipeg were funded in whole or in part by government money. Projected investment is expected to increase by 2.8% in 2003, again being led by public investment. As of the first five months of 2003, public investment was up 10.3 percent, with private investment trailing well behind with a increase of 0.4 %. Housing investment so far this year has remained flat despite the rise in the number of starts.

The Labour Market

Manitoba's labour market, at least on the surface, remained strong in 2002. Employment was up in 2002 by 1.6% and unemployment was the lowest in the country, averaging 5.2 % over the year. Youth unemployment was also lowest in the country, at 10.2 %, though this was an increase over the 2001 rate of 9.7 %. After a significant drop in employment in January 2003, strong job growth has returned with the unemployment rate in May decreasing to 4.5 percent while youth unemployment dropped back to 9.2 %. At the same time, employers in a number of industries are complaining about the shortage of workers, particularly those with specific industry skills.

But behind these apparently rosy labour market statistics are a number of not so favourable developments and indicators. For instance, in 2002, part-time employment increased 5.2 % whereas full time employment increased by only 0.8 %. This trend continued into 2003 where part-time job growth was almost five times the rate of full-time job growth. Furthermore, jobs were being lost in the relatively higher paying goods producing and manufacturing sectors and rising in the lower paid service industries. The strongest job growth sectors in the service industries in 2002 were dominated by the public education and health care sectors. This is indicated in the following table.

Job Growth: January 2002-January 2003
Selected Industries

	% Growth
Total	1.8
Goods-producing sector	- 6.6
Construction	- 2.8
Manufacturing	- 3.9
Service-producing sector	8.5
Trade	- 5.7
Education	2.8
Health care	4.7
Professional, scientific, technical services	0.4
Managerial and administrative support services	3.8
Accommodation and food services	2.0
Finance, insurance, real estate and leasing	- 0.3
Other services	5.2
Public administration	- 3.3

Source: Statistics Canada, *Labour Force Information* (SC 71-001) January 2003.

Early indications for 2003 are mixed about whether this trend will continue despite the stronger than expected performance of the labour market year to date. But behind these figures lies a troubling characteristic – simply, there are not enough "good" jobs being created that pay sufficiently high wages to retain even the natural increase of our educated young people. Furthermore, the inequality of wages and the extent of low wage employment remains disturbingly high despite the apparently tight labour market. This was documented in a recent *Review of Economic and Social Trends in Manitoba* by Errol Black and Todd Scarth, released in the spring of 2003 which is summarized here.[9]

Workers were divided into three groups – low wage workers who earn less than two-thirds the national median wage (the wage in the exact middle of the income distribution), high wage workers who earns twice or more the median wage, and those in the middle of the income distribution. While Manitoba has resisted the trend to even greater polarization in the 'boom' period 1997-2002 and even reduced its low wage percentage and income disparity measures slightly, the extent of low wages in Manitoba was still much higher than the Canadian average. Black and Scarth summarize:

> In Manitoba in 2002, the most recent year for which data are available, nearly one in three workers fall into the low-wage category. Fewer than one in twenty earn high wages.
>
> Women are particularly disadvantaged: 36.5 % earn low wages, compared with 25.8% of men. Approximately one in fifty Manitoba women earn high wages; for male workers that figure is approximately one in fourteen. Manitoba ranks worse than the national average in both these categories. [Black and Scarth (2003) p. 2]

One of the reasons for the rise in low wage work across North America in the last couple of decades has been the decline in union coverage. However, this is not the case in Manitoba where unionization has not declined significantly and has actually increased for the most vulnerable, the younger workers.

The question remains, if the labour market has been so tight in recent years, and particularly buoyant in 2002 with the lowest unemployment rate despite participation rates rising to the second highest in Canada after Alberta, at 69.2 %, why has the incidence of low wages and income disparities remained so high? Black and Scarth pose the question this way:

> These [labour market] indicators are symptomatic of a tight labour market, a labour market characterized by labour shortages in some industries and occupations. These are precisely the sort of conditions that should result in rapid increases in wages as employers compete for available workers. However, this hasn't happened. We have heard much from employer organizations about worker shortages and predictions that things will get worse. However, there is little evidence that employers are prepared to raise wages as a means of recruiting the workers required to fill vacant jobs. On the contrary, they are insisting instead that the government cut personal income taxes to increase take home pay and support initiatives to recruit workers offshore (either as landed immigrants or indentured labourers here on worker visas) to work in Manitoba establishments. [Black and Scarth (2003) p. 3]

In part, this is the result we have already mentioned – the shift to the service sector which accounts for 76% of all employment in the province and a higher share for younger workers where three quarters were in low-paying jobs in 2002. While employment in the goods sector fell by 1.8% in 2002, employment in services grew by 2.8 %. Service jobs are, except in the public sector, less likely to be unionized and hence pay lower wages. In 2002, only 12 % of unionized workers were low paid compared to 42 % of non-unionized workers. Also, the incidence of high pay for unionized workers rose in the five year period ending in 2002 while the percentage of non-unionized workers receiving high pay fell by more than half. [Black and Scarth (2003) p. 3] It is obvious why Manitoba is unable to retain its younger population and work force given such poor employment prospects.

The modest improvement in Manitoba's relative position in Canada can be attributed in part to the relatively high level of unionization *vis a vis* most of the other provinces (Manitoba ranks third in union density in Canada) and also to the increases in the minimum wage in Manitoba which, while small – 20% over 4 years and nowhere near making up the erosion in the real level of minimum wages since the mid-seventies – was still the largest among all Canadian provinces. Nevertheless, to eliminate low wage employment in Manitoba would require the minimum wage to be raised by approximately $3.90 which would take almost 16 years (without any inflation) at the rate the government has been raising the minimum wage in recent years, $0.25 an hour. Even to raise the Manitoba minimum wage to the internationally recognized poverty level of half the median wage would take over five, inflation free, years.

Furthermore, if the government and employers really wish to induce young people to remain in the province, they must do more to provide 'good' jobs, and that means higher pay. As the Black-Scarth study indicates, this can best be achieved by promoting increased unionization and accelerating increases in minimum wages.

> The fastest growing group of people living in poverty in Manitoba are those that have some connection to the labour market – in other words, the working poor. Since a growing proportion of poor Manitobans have some connection to the labour market, government interventions into the labour market should be central to the fight against poverty. [Black and Scarth (2003) p. 4]

The problem of the growth of low wage work and the lack of 'good jobs' is compounded in the longer run in Manitoba by changing demographics, a problem highlighted in CCPA-Manitoba's 2002 Alternative Provincial Budget. This is the rapidly (in demographic terms) rising share of the population and potential labour force that is Aboriginal. The main reason is the much higher birth rate among the Aboriginal population compared to the low and falling birth rate of non-aboriginals. By 2015, it is estimated that between 20 % and 33 % of the province's potential labour force will be Aboriginal. Unfortunately, for a number of reasons, Aboriginal youth have not in the past had access to education and training sufficient to provide the skills to fill 'good jobs'. This underscores the necessity for increased investment in education, including investment in Aboriginal teachers, and in health, including investment in the training of Aboriginal health professionals, technicians and support staff. It also means reducing labour market poverty which supports a strategy of accelerated increases in minimum wages and employment for young Aboriginals in the unionized, public, social service sector – what the Alternative Provincial Budget calls a program of "strong public investment in a holistic strategy aimed at empowering Aboriginal people".[10] Though this is a longer term problem, it must be addressed sooner rather than later if the state of the Manitoba economy is to improve over the foreseeable future.

If the government and employers really wish to induce young people to remain in the province, they must do more to provide 'good' jobs, and that means higher pay

Conclusions and Policy Implication

The state of the Manitoba economy in the first half of 2003 appears to be relatively healthy, despite slowing growth nationally and the weakness of the province's major external market, the United States. It has further been hurt by declining tourism and transportation and loss of export markets due to the terrorist attacks, the war in Iraq, SARs, the rise in the value of the Canadian dollar, and BSE which has been devastating for the beef and cattle industry. Uncertainty abounds, particularly about the state of the US economy going into the second half of 2003. Will there be a recovery – or a 'double-dip' recession? Or just a general stagnation and continuation of the growth (or "workers'") recession? The effects on Manitoba's manufacturing exports could be significant.

It is not only the state of the Manitoba economy that is vulnerable to economic conditions in the US, directly through their effects on Manitoba's exports, and indirectly through their effects on the economy in the rest of Canada. Also at risk is the fiscal position of the Provincial government, constrained as it is by the needlessly restrictive balanced budget legislation and the government's commitment to unnecessary tax cuts and pay downs on the provincial debt. The situation has been stabilized to some extent by the transfer of Hydro's export profits to provincial revenues but this then makes the fiscal position of the province vulnerable to weather conditions throughout western Canada that determines water level flows, and to demand conditions in the United States and other provinces to which Manitoba exports surplus electricity. Conclusion of an export agreement with Ontario and the construction of additional, environmentally sensitive, generating capacity in concert with the Aboriginal peoples, would go some way to providing additional stability to Manitoba's fiscal resources as well as potentially improving the labour market and training opportunities for young Aboriginal workers.

Consumption expenditures in the province is also one of the uncertainties. While Manitobans have not acquired the level of consumer debt that threatens consumption levels in the United States,[11] savings rates have declined in 2002 and should they return to the higher levels of previous years, retail and wholesale sales could be negatively effected although the most recent moves by the Bank of Canada to reduce interest rates suggest that the Bank may finally have recognized the importance of consumption to maintaining even modest economic growth in the face of economic weakness in all the world's major markets.

The agricultural sector looked forward to a relatively good year, at least for the grain and oilseed sectors with strong markets and prices. Livestock production, which constitutes a half of the agricultural receipts, however, was facing a much less favourable situation, even before the mad cow case that has completely disrupted and devastated the beef and cattle industry. Uncertainty about when the US/Japan boycott of Canadian beef will end clouds any forecast about the state of the livestock sector in the second half of 2003.

In general, then, for the second year in a row, the catchword to describe the potential of the Manitoba economy for the next year is *uncertainty*.

1 For an excellent discussion of this whole question, see Robert Brenner, *The Boom and Bubble: The US in the World Economy* (London and New York: Verso, 1991).

2 Analysis of the Manitoba fiscal position is based on "Manitoba's Fiscal Position", notes prepared by Professor Ian Hudson, Department of Economics, University of Manitoba, for the CCPA's 2003 Alternative Provincial Budget.

3 The legislated mandate of Manitoba Hydro is to produce and sell electricity at cost to Manitobans and, hence, no profits are generated by domestic consumption. Power generated in excess of Manitoba's needs are sold at market prices to the United States and to other provinces. Profits that are made on these exports are properly the income of the owner of the utility, Manitoba. Therefore, there is no question about the appropriateness or the desirability of access to Hydro's profits, just a question of how secure these profits are in years of low water levels and decreased export demand.

4 Communication from Janet Honey, Manager, Market Analysis and Statistics, Manitoba Agriculture and Food, July 7, 2003

5 Janet Honey, Communication, July 3, 2003.

6 Janet Honey, Communication, July 3, July 7, 2003.

7 Brian Oleson, *Canadian Agricultural Outlook*, October 9, 2002. http//:www.cabe.ca/chapters/MABE/conference/mabe_ag_bo.pdf

8 These figures, presumably for 2001, are included in the presentation by Jim Hrinchishon, *The Manitoba Outlook, 2003*, to the 2002 MABE outlook conference, November 14, 2002. http//:www.cabe.ca/chapters/MABE/conference/mabe_mbec_jh.pdf

9 Errol Black and Todd Scarth, "Rising Job Tide not Lifting Low-Wage Boats", CCPA Manitoba, Spring 2003.

10 Canadian Centre for Policy Alternatives – Manitoba, *Alternative Provincial Budget 2003-04*, April 2003, p. 8.

11 Household debt as a percentage of personal disposable income in Manitoba was the lowest of all the provinces in Canada in 1999, just marginally over half compared with the bigger provinces, around 80 % for Alberta and Ontario and 115 % for British Columbia. [Hrichison (2002)] This means that the debt overhang for domestic, provincial consumers is low, though consumption cut backs in these other large provinces could reduce Manitoba's exports to them. Potentially more serious, however, would be the effect of such cutbacks on Federal government revenues and hence federal transfers to Manitoba.

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