State of the Manitoba Economy

REPORT • 2001-2002

by Paul Phillips

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Overview

Manitoba is a small, open economy. Exports comprised 27 percent of provincial GDP in 2001, of which 80 percent were accounted for by exports to the United States, or 21 percent of Manitoba's GDP (Manitoba Department of Finance, 2002). Moreover, Manitoba's economy has become increasingly dependent on trade with the United States throughout the 1990s, reflecting the impact of the Canada-United States Free Trade Agreement and the North American Free Trade Agreement. Thus, the economic fortunes of the province are heavily tied to the health of our export industries, and more specifically to the health of the US economy.

It is no surprise, therefore, that the recession in the US that began officially, according to the National Bureau of Economic Research (NBER), in March of 2001, had a pronounced negative effect on Manitoba's economic growth in 2001, in particular in the last three quarters of the year. This is reflected in the annual growth rates.

Year	Growth in Real GDP (%)
2000	3.0
2001	1.6

The recession was well underway long before the terrorist attacks in New York on September 11, 2001, though the attacks do appear to have intensified, at least temporarily, the downturn in the US, particularly in the airline, travel and tour-

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ism related industries. This had a negative, though probably limited, direct impact on Manitoba's manufacturing industry, specifically the transportation equipment sector, which is the second most important manufacturing sector in the province, accounting for 13 percent of manufacturing shipments in 2000. Manufacturing was the second most important export industry — behind only agriculture — accounting for 12 percent of the province's exports in 2000. In the first four months of 2002, the airline industry has recovered strongly, suggesting that the effects of September 11 may have been only temporary.

Not all economists, particularly in Europe, are convinced that the US recovery is secure

In fact, there are growing indications that the US is coming out of its recession and is headed for healthy growth in the second half of 2002. This suggests some ambiguity in the effect of the terrorist attacks. The response to September 11 was a military mobilization in the United States that prompted an increase in government expenditures of around 10 percent and of military expenditures of approximately 13 percent. This has resulted in the American government moving from a substantial fiscal surplus to a deficit finance situation. Combined with low interest rates, which have prompted a housing and construction boom, and the purchase of consumer durables, in particular automobiles, and tax cuts for upper-income earners and business, the result has been a strong Keynesian stimulus to the economy, apparently sufficient to bring an end to the recession, at least temporarily.[1] As many economists have pointed out, however, had the tax cuts been skewed toward the lower income or been replaced with targetted government expenditures, the stimulative effect would have been considerably greater.

Not all economists, particularly in Europe, are convinced that the US recovery is secure. They point to the continuing high debt load of consumers and corporations and the persistent trade deficit that is adding close to $30 billion (US) each month to US international indebtedness. Added to that is the fact that prices-to-incomes ratios in the stock market are still high by historic standards, reflecting both the poor earnings (profits) of many if not most corporations, including most of the 'blue chip' giants, and the continued market overvaluation of stocks. In short, there is still plenty of air in the stock market bubble. Combined with excess industrial capacity not only in the US but also generally through the world including China, Japan and Asia, this has led to investment continuing to fall. It is improbable, sceptics note, that a sustained recovery can take place without both strong consumer demand growth (which is limited by the existing level of consumer debt), and a significant recovery in profit-led investment (which is limited by corporate debt and poor earnings.)

The persistent US trade deficit can largely be attributed to the high value of the US dollar on international exchange markets. This high value, which has resulted in a flood of imports into the US and a barrier to what have become non-competitive American exports, has severely undermined a number of politically powerful American industries, most notably on the Canadian horizon, softwood lumber, steel and agriculture. This has prompted the American administration to adopt an increasingly protectionist stance, one that is beginning to threaten the global trading system. Up to now, only the protectionism manifest in the softwood lumber duties has had a direct effect on Canada. Manitoba, although not a major exporter of lumber to the United States, is still affected indirectly because of the depressing effect on Canadian lumber prices including those of lumber produced in The Pas. However, should current protectionist measures introduced by the United States turn into a more general trade war, neither Canada nor Manitoba will escape the economic fallout.

Whether or not any of these more gloomy forecasts come to pass, most economists, including the heads of the American Federal Reserve System (Alan Greenspan) and of the Bank of Canada (David Dodge), are relatively cautious about how robust the upward cycle will be, at least for the next couple of quarters. Most seem to agree that the growth rate will not be fast enough to absorb the rising labour force and that unemployment rates will continue to rise perhaps by as much as another percentage point.

What does all of this mean for the health of the Manitoba economy? Prior to the emergence of economic indicators suggesting that the American economy had begun to expand again in 2002 and that the Canadian economy had not in fact actually experienced a recession, the consensus of economic forecasters was that Manitoba's real economic growth in 2002 would be 1.5 percent, little changed from 2001 and very similar to Canada's 2001 rate of 1.4 percent. However, in the first two months of 2002, the real growth rate in Manitoba has been estimated at 1.7 percent (Economic Indicators, www.mb.gov.ca/Finance/) and, if projections of faster growth rates in the second half of the year prove to be true, then Manitoba's real growth may exceed, perhaps significantly, these early projections. If so, the difficult fiscal situation that the Manitoba government has found itself in (see below) may not prove to be quite as bad as it now appears. Still, recent growth is a marked comedown from the average rate over the previous five years, 1996-2000, of approximately 3 percent, or double last year's rate.

Obviously, any forecast for the provincial economy for 2002 must take into account expectations for the United States for the coming year. The uncertainty engendered by the high US debt overhang, continued low corporate earnings, and the potential rise in protectionism can only raise uncertainties about the near future course of the provincial economy. The threat of increased protectionism will remain particularly acute at least until the Congressional elections slated for this fall in the US.

Other uncertainties that cloud the provincial outlook are provincial and federal fiscal and budgetary policies, the possibility of drought in the coming crop year, and the Bank of Canada's monetary policy in the event of an upturn in the national economy. The Governor of the Bank of Canada raised the Bank's short-term rate by a quarter point to 2.25 percent. He has hinted that he may begin raising interest rates by as early as mid-year should the economy begin to expand at a more rapid rate. While the experience with Canada's monetary policy over the last decade strongly indicates that such a course of action would be inappropriate and counterproductive, the Bank's continuing obsession with (non-existing) inflation gives little confidence that common sense will prevail and interest rates maintained at current low, growth-stimulating level.

What happens at the aggregate economy level in Manitoba, of course, depends on what happens in the major sectors, public and private, of the provincial economy. The following is a more sector-specific report and analysis.

There is still plenty of air in the stock market bubble

The Public Sector and the Fiscal Crunch[2]

After a quite significant withering away of the public sector by the previous Conservative government, the NDP has attempted to steer a very careful course through some turbulent fiscal waters. With all other Western provinces making substantial tax reductions, the NDP government felt compelled to follow suit with a modest three year tax reduction. However, the decline in tax revenue from the cuts was exacerbated by the recent reduction in real economic growth, from 3 percent in 2000 to 1.6 percent in 2001. As a result, the provinces's third quarter financial report predicted a shortfall in corporate and individual income taxes of $175 million for 2001-02 from what it had anticipated in the budget. This has been made worse by the recent discovery of an ongoing overpayment of transfers by the federal government to the province that will now have to be repaid. The question remains undecided at this point as to whether the province will have to pay this money back and/or whether a proposed lifting of the ceiling on tax equalization payments from Ottawa will compensate.

Despite a quite modest increase in total spending, declining taxation revenue would have resulted in a deficit in excess of $100 million for the 2001-02 fiscal year, if the government had not announced in the 2002-2003 budget plans to take a dividend from Manitoba Hydro profits, totalling $288 million over three years. More than half of this amount — $150 million — has been applied to the 2001-2002 fiscal year. As a result, the government is projecting a positive balance of $25

Province of Manitoba Revenues and Expenditures 2000-2003

	2000/01 Actual	2001/02 3rd Q Est	% Change 00/01-01/02	2002/03 Budget	% Change 01/02-02/03
Operating Revenue Revenue					
Own Source	4643	4690	1.01%	4579	-2.37%
From FSF	0	0		93	
Fed Transfers	2091	2210		2362	
Total Revenue	6752	6900	2.19%	7034	1.94%
Expenditure					
Total	6615	6779	2.48%	6928	2.20%
o/w debt costs	511	391		368	
Debt and pension repayment	96	96		96	
Surplus/Deficit	**41**	**25**		**10**	
surplus after FSF Transfer					

million for that year. The Hydro draw allows the government to meet the commitments of the balanced budget legislation without the budgetd $60 million draw from the fiscal stabilization fund (FSF).

It is, of course, quite acceptable, indeed desirable, economic policy to run a deficit during recessionary times.[3] The real problem the government was facing — and to which the Hydro draw represented the solution — was not so much a possible deficit for the 2001-2002 budget year, but the fact that the province is in something of a fiscal straightjacket of its own making. Running deficits to stimulate the economy is only possible if the government actually manages to save money in the good times. Despite the balanced budget rhetoric of both the Conservative and NDP governments, only in the 2000-01 budget was a surplus actually recorded. In all of the previous years, which were boom times for the province, money was withdrawn from the FSF in order to finance deficits. In 1998-99 $155 million was removed and in 1999-00 another $174 million dollars was needed to transform a deficit into an accounting surplus. This kind of accounting has more similarities to Enron's than it has with sound economic policy.

In fact, the only reason that there is any money at all in the FSF is from the money made from the sale of Manitoba Telephone Service. The Conservative government sold the Crown Corporation and used the income from the sale to cover its continuing deficits. This created the fiction of balanced budgets.

Drawing down the FSF would not have overly severe consequences if the balanced budget legislation did not prevent the province from running a deficit in any one year. The decision to draw from Hydro, while a welcome one, is only a short-term remedy to the province's cash crunch. There is still reason to believe that in the near future Manitoba will face increased revenue pressures. Instead of cutting budgets to deal with these pressures, the NDP should instead consider eliminating the balanced budget legislation. Not only would this allow the province to run a deficit during a recession, but it would also free up $75 million that the balanced budget legislation mandates must be spent to pay down the debt each year.

Cutting budgets would be politically and economically dangerous for the NDP government. Economically, cutting government expenditures in an economic recession is about the worst policy option available. It serves only to deepen and prolong the economic downturn, and at an enormous social cost. (Nobel Laureate in economics Joseph Stiglitz, has made this point repeatedly in criticizing the policies of public sector retrenchment recommended by the IMF to deal with recessions such as the one that resulted in the recent economic collapse of Argentina.)

Politically, the NDP government would face an equally daunting challenge if it attempts to decrease government expenditures. It was elected on a campaign platform that called for restoring the health care system and the education system, the two largest departmental items in the provincial budget, to a level of service that prevailed before the savage government cuts of the mid-1990s. Since its election, the NDP have found the problem of restoring these social services more difficult and more expensive than originally thought. Recent or expected increases to teachers' and nurses' salaries reflect years of previous public sector cutbacks and the need to catch up in order to maintain a trained labour force. Any cutbacks in government expenditures in these areas (and without cuts in these areas, there is little scope for significant decreases in government spending) will likely undermine the political support of the very voters that put the NDP in power.

The obvious rational choices for the government would be to repeal the balanced budget legislation and/or to postpone proposed tax cuts and avoid additional future tax cuts.

Agriculture

The state of the agricultural economy in Manitoba is mixed and uncertain. In the past year, drought in some regions and excessive spring water in others have played havoc with some grain and field crops, many already suffering from low world prices. Extremely low winter snowfalls and insufficient moisture reserves for spring germination poses the prospect of widespread drought in 2002, a result many believe is a consequence of climate change and, therefore, a potential continuing challenge to the province's agricultural industry. However, if the long term forecasts for the region this summer are correct and above normal precipitation does fall, the situation may not be as bad as present conditions would suggest, although, given the low levels of soil moisture and the minimal snow pack, even above normal precipitation is unlikely to produce anything more than, at best, an average crop.

It is quite acceptable, indeed desirable, economic policy to run a deficit during recessionary times

On the other hand, continuing growth in the livestock sector, in particular in hog production, and relatively buoyant livestock prices have to some extent compensated for the depressed state of the grain and oilseed segments of the industry. However, opposition from environmentalists and other rural residents to a continued expansion of industrial hog operations threatens to slow down, if not stop, the growth in livestock production. Further, if the drought situation does not ease and water supplies remain low and pastures do not rejuvenate, the beef cattle industry will be in jeopardy.

The following is a more detailed sector by sector assessment of the state of Manitoba agriculture.[4]

Field Crops

Manitoba's crop receipts over the past few years have fallen considerably, particularly because of the steady decline in world wheat prices over the past half decade. Wheat and oilseed prices peaked in 1996 and have been depressed since. There is little prospect of a significant turnaround in prices from their current levels. A number of reasons for this pessimistic forecast include the fact that a number of new small exporters (Kazakhstan, Ukraine, Poland, India and others) have entered the market and now account for approximately 20 percent of world wheat trade.

Secondly, there appears no immediate prospect for any diminution in the government subsidies provided to American and European producers. As Daryl Kraft has noted, "Oilseed prices continue to be under pressure with increasing larger harvests in Brazil and the United States. Since 1996 US soybean production has grown in response to relatively higher support prices [subsidies]."[5]

The level of oligopoly control of the food chain and of the agricultural supplies chain … means that farmers' bargaining power in the market has, if anything, been reduced

Third, as the National Farmers Union has maintained, the level of oligopoly control of the food chain and of the agricultural supplies chain has not only remained high but has increased in the last couple of years, particularly with the demise of the wheat pools. This means that farmers' bargaining power in the market has, if anything, been reduced.

The result of low farm incomes has been a rapid reduction in the number of farms, particularly small farms in Manitoba in recent years as well as increased reliance on government transfers to maintain farm income. In the two years after grain prices began their most recent decline in 1977, the number of Manitoba farms fell by almost 8 percent. In 2000, government transfers represented 9 percent of farm income. Farm cash receipts for crops did increase in 2001 reversing a trend since 1997 but this was almost entirely the result of increased government transfers.

Livestock

The bright spot in Manitoba's agricultural picture is livestock, receipts from which have risen around 50 percent, by a total revenue increase of $650 million to over $1.8 billion, between 1997 and 2001. Though some of this growth has come from increased prices and moderate increases in cattle sales, the main growth impetus has been in hog production which has expanded at a fairly steady rate of around 5 percent per year over the past one and a half decades. However, this growth may be expected to slow, not only due to the increasing opposition to construction of large scale industrial hog operations, but also to rising prices of feed grains (relative to the other prairie provinces and the norther US states) as Manitoba has now become a net importer of feed grains. The threat of drought, therefore, also would have negative impacts on hog production as well as cattle production if it significantly reduces feed grain production not only in the province but also in the surrounding region with the resulting rise in feed grain prices. Drought could also trigger massive sales of breeding stock in Saskatchewan and Alberta that would decrease prices in the short run but could result in a significant long runup in prices.

Specialty Crops

If the weather co-operates, the outlook for specialty crops is perhaps more promising, though they represent a fairly modest segment of the agricultural industry. Potatoes is the largest specialty crop accounting for just over three percent of Manitoba farm income in 2000 followed by pulses (beans, peas and lentils) at 2.7. Manitoba's competitive advantage is in edible beans. All other crops, excluding grain and oilseeds, comprised a further 6.1 percent (See Table).

Potato prices remain reasonable while "the edible black bean spot price reached an all time high for last years crop and the current edible bean contract prices for this fall have risen slightly above the contract prices of last year."[6] The potato market is likely to strengthen if the proposed new potato processing plant goes ahead at Portage la Prairie. Again, however, this plant poses a number of environmental problems that have not been adequately addressed at this point. On the other hand, Manitoba's competitive advantage in potatoes, edible beans, and forage production could well be strengthened in the event of a North American drought.

Supply Managed Sectors

The supply-managed sectors (dairy and poultry) were responsible for just over 9 percent of agricultural output in 2000. While prices are generally maintained through supply control at levels that

Manitoba Farm Receipts: 2000, by Product (%)

Crop Production		Livestock Production	
Wheat	14.2	Cattle and Calves	16.0
Oilseeds	10.9	Hogs	21.6
Coarse/Feed Grains	3.7	Dairy	4.9
Potatoes	3.1	Poultry and Eggs	4.2
Pulses	2.7	All Other	3.5
All Other	6.1	Total Livestock	50.2
Total Crops	40.7	Transfers	9.1

Source: Statistics Canada, *Agriculture Economic Statistics,* May 2001 (21-603UPE)

are aimed at covering costs and returning a reasonable income to the producer, farm income is more directly affected in the short run by the level of demand. As Kraft has noted, "chicken sales were affected adversely by September 11th – fewer conventions, flights and hotel meals. Inventory is high and production has been scaled back until the stocks return to tolerable levels."[7] Demand for dairy products is secure but stagnant.

Agriculture directly contributes 4 percent or slightly less of total output in the Manitoba economy, less than a third the share accounted for by manufacturing (14 percent in 2000). However, industry GDP figures under-represent the importance of agriculture to the provincial economy. For one thing, though agriculture may represent only 4 percent of gross output, it accounts for almost 20 percent of the province's exports while food and beverage manufactures made from Manitoba agricultural output contributes a further 9.4 percent (2000 figures). In short, almost a third of Manitoba's exports originate in the agricultural sector. Food and beverage products, in fact, account for over a quarter of the value of manufacturing shipments in 2000. To this impact must also be added agriculture's demands not only for manufactured goods but also for services, including personal, commercial, government, transportation and financial services, in addition to trade and construction.

Manufacturing

Despite the continuing importance of agriculture to the provincial economy, however, manufacturing has replaced it for some years now as the most important goods-producing industry. On average, between 1991 and 1999, agriculture accounted for but 3.4 percent of provincial GDP, compared with 12 percent for manufacturing – though, as noted above, at least a quarter of that 12 percent, and probably significantly more (farm machinery, chemicals, and transport equipment) is agriculture dependent.

In fact, manufacturing is relatively diverse in Manitoba and accounted for some two-thirds of the province's exports in 2000. Though food products accounted for just over a quarter of manufacturing shipments in that year, at least six other manufacturing industry sectors accounted for 5 or more percent of manufacturing shipments, ranging from transportation equipment (13 percent) to machinery (9 percent), and fabricated metal products (7 percent) to wood products (6 percent) and chemicals and furniture (5 percent each). Other significant sectors include printing, plastics, clothing, and electrical products with shares ranging from 2 to 4 percent. In short, the manufacturing sector is diversified, not only in product line but also geographically. 'Rural' south eastern Manitoba (Steinbeck, Winkler, Altona) has become a centre for publishing, window and door and recreation vehicle manufacture while Portage (potato processing) and Brandon (meat packing) are centres for agricultural processing. However, given relatively low wages and difficult working conditions, the Maple Leaf meat packing plant in Brandon has had difficulty in recruiting and retaining a labour force. This has led the company to bring in what are virtually 'indentured, guest workers' from Mexico to fill the jobs that Canadian residents have been reluctant to take.

If a number of things happen, the manufacturing industry in Manitoba should remain healthy. There are, however, big 'ifs.'

The immediate prospects for manufacturing, like the provincial economy and the economic climate in general, are somewhat uncertain at this time, spring 2002. As noted previously, exports to our dominant market, the US, depend on the steady recovery and improvement of the American economy but will be negatively affected by the trend toward increased US protectionism. The aerospace industry's longer-term prospects are directly tied to recovery of the airline-tourism industries which were the worst hit by the events of September 11th, 2001.

The transportation equipment and agricultural equipment industries have also been the scene not only of economic downturns, but also of major industrial disputes tied to slowdowns in their respective industries and disputes over attempts by employers to rollback the wages and benefits of their unionized workers. This has been done under the threat of moving the plants to non-union and/or low wage locations in the United States or where local governments promise large relocation subsidies. Although this has become a common employer tactic in the United States, particularly since the passage of the North American Free Trade Agreement (where Mexico is the usual threatened destination of American 'runaways'), it has not been that common, in Canada or in Manitoba, at least until recently.

Current uncertainty surrounds Motor Coach Industries (MCI), the inter-city bus manufacturing company with approximately1,300 production workers in Winnipeg and many more employed in supplying industries. After two negative votes, the workers reluctantly accepted a third 'final offer,' and consessionary contract though the company has still made its intention to remain in Winnipeg conditional on receiving what it considers adequate subsidies from the three levels of government. On the other hand, Winnipeg's other major manufacturer of transit-type busses, New Flyer Industries, successfully completed a refinancing deal that virtually ensures a period of stability and, perhaps, moderate growth over the next few years.

Thus, if the MCI situation stabilizes, the airline industry recovers, American protectionism is held in check, food processing plants are able to devise ways to avoid irreparable environmental damage and attract sufficient labour, and the North American economy continues to expand, the manufacturing industry in Manitoba should continue healthy. These are, however, big 'ifs.'

Mining and Minerals

The mining and mineral sector of the provincial economy contributed a modest 2 percent to the provincial economy in 2000, though once again, its contribution to exports was considerably higher at just under 8 percent. However, continuing weakness in commodity prices suggests that the province should not expect any major expansionary or employment impact from this sector. In fact, prices for nickel and copper, Manitoba's two major mining sectors, have declined fairly steadily over the last year and a half by between 25 and 50 percent.

Trade, Services, Construction and Other Industries

The Trade, Service, Public Administration and Transportation and Communications industries comprise 60 percent of the provincial economy. The utilities and construction industries add another 5 percent each. It is the stability of the former group that provides Manitoba with its reputation for relative economic stability – it never really booms in a boom, or busts in a bust. For the most part, the service and transportation sectors have been expanding at a higher than expected rate. Retail sales, for instance, rose 5.8 percent in 2001, significantly above the national rate. In part this has been fueled by rising employment and income (increased employment in 2001, 0.6 percent, increased average weekly earnings 3.5 percent) but almost certainly, it has also been augmented by additional consumer debt, continued growth of which is problematic at best. Commercial, financial and communication services have also been doing well as a result of penetration in the export market for finance, insurance and call-centre services. Indications are, however, that the potential for further expansion in these areas may be limited and local firms face increasing competition from a number of other regions of the North American economy.

Public sector employment has increased as the government has attempted to repair the health and education sectors. However, as suggested above, this is threatened by the fiscal straightjacket of the balanced budget legislation. Cutbacks in these areas could be severely damaging to the provincial economy not only to these areas themselves, but also to trade, service and other related service sectors industries.

Construction is something of an enigma. Though the value of building permits declined in 2001, the number of housing starts climbed rapidly. And despite the general economic slowdown in the last two quarters of 2001, construction and building permits have multiplied in the early months of 2002. Housing starts have climbed by 11 percent over the previous year, building permits in January shot up by 43.6 percent. Two factors would seem to account for this. One is low interest rates which have also fueled a real estate boom in both new and resale housing. The second is the economic revival and investment 'boom' underway in downtown Winnipeg. A number of major projects currently under construction include the Red River Community College complex in the Exchange District (which involves the preservation of some historic facades from the turn of the century), the construction of the state of the art, 'green,' Mountain Co-op building on Portage Avenue, and a number of other conversions and restorations of historic buildings, the construction of some infill and replacement buildings, the construction of a new Provencher Bridge and pedestrian walkway across the Red River, and the construction of a river roadway between the Forks and Fort Douglas.

Public sector employment has increased as the government has attempted to repair the health and education sectors

The most controversial of the current construction projects involves the demolition of the historic Eaton's building on Portage Avenue and its replacement by an arena/entertainment venue. Critics argue that, not only does the project result in the destruction of a building of historic value, but that it will not generate the long-run economic benefits that its proponents (including the City Mayor and the Provincial Premier) have claimed. Rather, they suggest that it will have negative effects on the long run economic health of the downtown regions. The critics claim, with considerable empirical justification, that the redevelopment of the Eaton's complex for multi- purpose use would have much greater economic returns and that the area/entertainment complex would be best located elsewhere in the downtown area. Although there remain some legal challenges to the arena project, it is likely to proceed.

History will tell if the decision was a good or bad one. Whatever the long term outcome, however, the immediate effect will likely be a continuation of the construction boom in downtown Winnipeg. This will been reinforced by the announcement that a number of 'big box' and other name retailers intend to relocate and/or expand in the city centre.

Far less controversial is the proposed construction of a new headquarters building for Manitoba Hydro at or near the confluence of Portage and Main. This is, of course, conditional on the completion of the purchase of Winnipeg Hydro by Manitoba Hydro, a purchase that has become necessary in any case by NAFTA which would prohibit Manitoba Hydro from selling wholesale power to Winnipeg Hydro at concessionary rates, as it now does. In other words, Winnipeg consumers will only be able to maintain the lowest electric power rates in North America if, and only if, Manitoba Hydro purchases Winnipeg Hydro and remains as a publicly owned utility. The construction of a downtown, high-rise, office building is, in this respect, only a secondary, though highly beneficial, bi-product.

When it comes to worker rights and conditions, the NDP government seems content to remain in the middle of the provincial pack.

Despite the reconstruction boom and the general buoyancy of the Manitoba economy in 2001, capital investment is projected to decline by a minimal 1.9 percent in 2002 following a modest 3 percent increase in 2001. However, as with virtually all other aspects of the Manitoba economy, the uncertainty of the continental recovery, weather, commodity prices, and American trade policy leaves the investment prospect commensurately unclear. One potential bright side, however, is hydro development.

Utilities

Hydro remains one of the jewels in the province's crown. Led by exports to an energy-hungry United States, but also to Saskatchewan and Ontario – export sales increased by 31.4 percent in 2001 and consumed 41 percent of Manitoba Hydro's total sales, a little over eighty percent of which went to the US – electricity sales from Manitoba's generating system increased 12.6 percent last year. The previous year, utility sales increased by the healthy, though less rapid, rate of 7 percent. Assuming continued economic recovery in the US, the prospects for continuing large and lucrative sales to the American market are good.

Indeed, the lure of the US market has prompted the NDP government to seriously consider further dam construction to increase generating capacity. In this instance, the government has begun to negotiate some form of partnership arrangement with affected First Nations in order to give the aboriginal peoples some direct stake in the development and avoid the devastating social, environment and economic costs inflicted upon First Nations' peoples by the previous round of dam construction. The government, however, should be very careful to weigh the possible consequences of NAFTA in tying Manitoba's hydro industry development and future domestic power rates and availability to the potentially omnivorous US market.

The Labour Market[8]

The Canadian and Manitoba economies performed better in the last quarter of 2001 than was anticipated. As a result, both the slowdown in the rate of job creation and the increase in unemployment were less than predicted. However, despite this better than expected outcome, there was some deterioration in labour market conditions both in the country as a whole and in Manitoba.

At the national level, the rate of job creation slowed from 2.6 percent in 2000 to 1.1 percent in 2001. This slowdown was reflected in a jump in the unemployment rate to 7.2 percent in 20001 from 6.3 percent in 2000.

Unemployment worsened in the last quarter of 2001. In January, 2002 the unemployment rate stood at 7.9 percent, a full percentage point above the 6.9 percent rate posted in January 2001, and an additional 196,000 workers had joined the ranks of the unemployed (an increase of 17.6 percent).

The performance across industries was mixed, reflecting the differential impact of the economic slowdown in the US and government policies. Employment contracted significantly in four industry sectors, namely, agriculture (-11.2 percent); and professional, scientific and technical services (-2.1 percent). However, these losses in employment were more than offset by continued growth in employment in the service industries.

The Manitoba Situation

In recent years, Manitoba has, relative to other provinces, experienced robust growth in employment and low unemployment rates.

The rate of growth in employment slowed to 0.7 percent in 2001, a rate below the national

KEY LABOUR MARKET INDICATORS, CANADA AND MANITOBA						
Indicator	Manitoba			Canada		
	2001*	'02*	% change	2001*	'02*	% change
Employment (,000) Total	559	566	1.3	15,063	15,166	0.7
Full time	448	459	2.5	12,335	12,367	0.3
15-24	98	98	-0.1	2,334	2,336	0.1
Agriculture	30	31	4.7	345	306	-11.2
Non-Agricultural	529	535	1.2	14,722	14,860	0.9
Goods producing						
(excluding ag.)	112	114	1.1	3,546	3,527	-0.5
Manufacturing	72	71	-1.4	2,319	2,242	-3.3
Services	416	422	1.2	11,176	11,333	1.4
Unemployment (,000)						
Total	26.9	30.4	13.0	1,113	1,305	17.2
15-24	8.7	11.8	35.6	324	373	15.1
Unemployment Rate (%)						
Total	4.6	10.9	10.9	6.9	7.9	14.5
15-24	8.2	10.8	31.7	12.1	13.8	14.0

*Data are for January in each of the years.
Source: Statistics Canada, *Labour Force Information* (71-001-PPB)

average. In contrast to the national situation, there was a solid rebound in job creation in Manitoba in the latter part of 2001. The overall rate again moved above the national average. Moreover, and more importantly, the rate of full-time job creation was almost twice the overall rate.

In Manitoba, the burden of adjustment to the deterioration in labour market conditions has fallen primarily on young people. Employment of individuals in the age group 15-24 has stagnated. The number of unemployed people in this age group, on the other hand, has increased by almost 36 percent; indeed, people in this age group accounted for 91 percent of the increase in the number of unemployed.

Labour Market Summary: Issues in Manitoba

Short-term prospects for the national and Manitoba economies are problematic. The general assessment is that economic growth will be reduced in 2002 from what it has been in recent years. This implies, of course, that employment growth will be similarly reduced. Therefore, unemployment may well continue to increase, and will increase if job growth is insufficient to offset the net growth in the labour force.

In Manitoba we need to be concerned about the impact of these conditions on younger people in the labour force, especially given the relative ease with which young people can migrate to other provinces.

One issue in contention is the weak commitment by the NDP government to increasing the minimum wage to a more reasonable level and to extending labour standards to agricultural workers. In the case of the minimum wage, the province did increase it by a minimal $0.25 in early 2002 and promises to do the same in 2003 but the rate still remains at least one to two dollars below the wage necessary for a full-time worker to reach the poverty line. Despite the NDP's image as a 'labour friendly' government which might be expected to lead the way when it comes to worker rights and conditions, it seems content to remain in the middle of the provincial pack.

Conclusions and Policy Implications

Though the state of the provincial economy appears to be reasonably robust in early 2002, there are a considerable number of uncertainties that make it difficult to be particularly confident that these conditions will continue. Already, there are some indications that the heady American expansion of the first quarter may be slowing. This is being compounded by renewed forecasts of interest rate increases by the US Federal Reserve and the Bank of Canada within the next few months that would threaten the housing boom in both countries, a boom which has been the main source of economic stimulation over the past 3 to 6 months. Moisture in the prairie region is still well below normal and, even if – as some long-term weather forecasts predict – Manitoba escapes the expected drought conditions this summer, spill over effects from the other provinces and neighbouring states will have a negative effect on Manitoba agriculture and on the Manitoba economy generally. As previously noted, the manufacturing sector also has its own uncertainties and sources of concern.

However, the biggest concern raised by the state of the economy is over the fiscal situation in the province. In a time of economic difficulty, reducing government expenditures on social programs and infrastructure is doubly detrimental – it depresses provincial economic activity further, thereby making the revenue problem even more difficult as taxable incomes and expenditures decrease; and it increases the costs of restoring these programs once the economy again turns up. The current difficulties and costs in recruiting nurses and other health professionals is just one legacy of the healthcare cutbacks of the mid-1990s.

Perhaps this will all become a moot point if the North American economy defies earlier predictions and continues to expand strongly and if the central bankers do not begin another round of interest rate hikes that increase government borrowing costs and cut off demand for housing and consumer durables. On the other hand, the provincial government should be prepared to suspend the balanced budget legislation and/or postpone any planned tax cuts such that it can maintain social and infrastructure spending. It makes no economic sense to employ expenditure cuts during a downturn, thereby contributing to the business cycle, rather than maintaining them to counter the downturn and to increase the growth potential of, and reduce the inflationary pressures on, the provincial economy once the business cycle turns up.

Notes

1 Louis Uchitelle, "Sharp Rise in Federal Spending May Have Helped Ease Recession," *New York Times*, March 23, 2002.

2 This section of this report is based, in large part, on files from Professor Ian Hudson, Department of Economics, University of Manitoba. He is not, however, responsible for any errors of fact or analysis contained herein.

3 See the article by Louis Uchitelle in footnote 1.

4 The following discussion is based, in large part, on materials provided by Daryl Kraft, Jim MacMillan and others in the Department of Agricultural Economics, University of Manitoba.

5 Daryl Kraft, "State of the Economy – Agriculture", memo to the author, March 8, 2002.

6 Jim MacMillan, Memo to the author, April 9, 2002; also Memo, February 1, 2002. It should be noted that Manitoba's edible bean advantage will not be affected by the proposed inclusion of pulses under the US farm bill which includes peas, lentils and chickpeas but not edible beans.

7 Daryl Kraft, "State of the Economy – Agriculture", memo to the author, March 8, 2002.

8 The section on the labour market was contributed by Errol Black, Department of Economics, University of Brandon.