

Budget Paper A

ECONOMIC REVIEW AND OUTLOOK

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Manitoba 

ECONOMIC REVIEW AND OUTLOOK

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■ INTRODUCTION

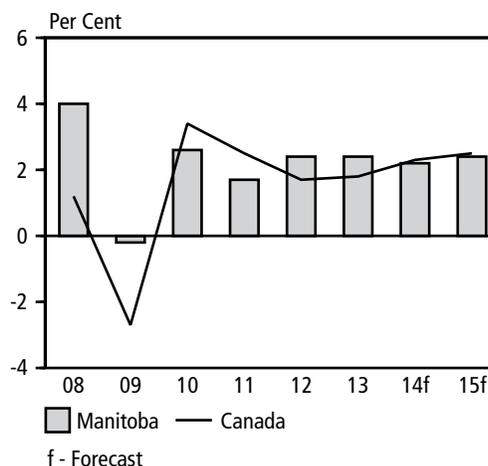
Steady Economic Growth in an Uncertain Global Environment

The Manitoba economy has remained steady in an uncertain global economic climate. Through the post-recession period, the high level of industrial diversity, and a balance between domestic demand and export sales have provided Manitoba with modest and stable economic growth. In 2013, the provincial economic growth was supported by strength in agriculture, housing construction and oil extraction, and offset by moderation in manufacturing. Jobs and capital investments in the private sector have supported consistent growth in the economy.

Global economic growth, on the other hand, has now entered a new phase. Fiscal stimulus and accommodative monetary policies in advanced economies are being unwound. Households, businesses and governments are mending balance sheets and thereby moderating demand for goods and services. This transition has kept the euro area in recession over the past two years. Growth is slower than anticipated in the U.S. and China. This transition has also raised caution and lowered the near-term outlook for global growth.

Downside risks posed by Asia's slowing growth will be balanced by upside risks associated with an improving U.S. economy. Manitoba's real Gross Domestic Product (GDP) is expected to expand by 2.2% in 2014, largely unchanged from the Budget 2013 forecast of 2.3%. Growth is expected to improve to 2.4% in 2015.

Real GDP Growth, Manitoba and Canada



Sources: Manitoba Bureau of Statistics, Statistics Canada, Manitoba Finance, survey of economic forecasters

■ INTERNATIONAL AND CANADIAN ECONOMIC DEVELOPMENTS

Five years after the Great Recession, global economic conditions remain tenuous with emerging market economies slowing and advanced economies gradually improving. As a result, the dynamics of co-ordinated low-interest rate policy among Central Banks that supported the world economy for the past six years continues in most countries, including Canada.

The U.S. economy has been experiencing the slowest post-recessionary recovery since World War II. Fiscal consolidation by federal and state legislators continues to dampen near-term growth. Over the last four years, government investments and expenditures have declined in 12 of the last 16 quarters.

Real GDP Growth, 2008 to 2015f

	2008	2009	2010	2011	2012	2013f	2014f	2015f
	Annual Percentage Change							
Canada	1.2	-2.7	3.4	2.5	1.7	2.0	2.3	2.5
U.S.	-0.3	-2.8	2.5	1.8	2.8	1.9	2.8	3.0
China	9.6	9.2	10.4	9.3	7.7	7.7	7.5	7.3
Euro Area	0.4	-4.4	2.0	1.5	-0.7	-0.4	1.0	1.4
World	2.7	-0.4	5.2	3.9	3.1	3.0	3.7	3.9

f - Forecast

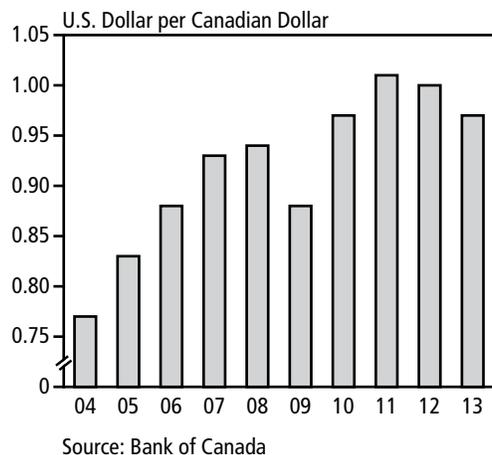
Sources: International Monetary Fund, Manitoba Finance, survey of economic forecasters

In spite of the decline, the U.S. employment situation has improved, with three years of consecutive monthly gains in jobs. The unemployment rate fell to 6.6% in January 2014, the lowest in five years. The gain in the labour market has strengthened household finances and is supporting a recovery in housing and auto sales. The energy sector is also adding to the positive momentum. The rapid increase in North Dakota oil extraction has propelled the U.S. into a major oil producer. At its current pace of growth, by 2015 the U.S. could become the world's largest oil producer, surpassing Russia. The International Monetary Fund (IMF) is projecting 2.8% growth for the U.S. economy in 2014 and 3.0% growth in 2015.

The consistent gradual improvement in the economy has prompted the U.S. Federal Reserve to wind down some of its stimulus monetary policy action. The Federal Reserve has reduced its monthly injection of capital into the economy (bond-buying program termed Quantitative Easing III) from \$85 billion to \$65 billion, and will continue to reduce it in a measured fashion over the medium term. Given the precarious nature of the economic recovery, the Federal Reserve is proceeding cautiously on any changes to the trend setting interest rate.

The U.S. is Manitoba's largest international trading partner, accounting for 67% of foreign sales. Despite the slow recovery of the U.S. economy, Manitoba's exports to the U.S. increased by 11.4% in 2013, the second highest among provinces. This increase followed 7.9% growth in 2012.

Canada-U.S. Exchange Rate



China, the world's second-largest economy, and Manitoba's second-largest foreign trading partner is in a transition. From primarily being driven by the export sector over the last decade, China is increasingly being driven by an expansion of its domestic sector (household, business and government spending). Since the rebalancing phase is gradual, economic growth is expected to continue to moderate over the long term.

Partly due to the transition, China is experiencing the slowest level of growth since 1999. The IMF estimated 7.7% real GDP growth in 2013 and is projecting 7.5% growth in 2014. Currently, China's local government debt and increasing property values pose a downside risk for economic and financial market stability.

The euro area continues to be mired in anemic economic conditions. Fiscal consolidation, tight credit markets, extended household and corporate balance sheets, and declining labour markets have kept the area in recession over the last two years. However, growth did resume in

the second quarter of 2013 and confidence is building in the core countries (Germany and France), and stabilizing in the periphery (Greece, Portugal and Spain). Economic activity in the region is expected to proceed slowly, with the unemployment rate still climbing in 2013. According to the IMF, real GDP in the euro area contracted 0.7% in 2012 and 0.4% in 2013, and is expected to increase by 1.0% in 2014.

Growth in Canada has softened in conjunction with global economic conditions. The export sector has progressively decelerated over the past three years as demand for commodities and manufactured products have diminished. Domestic spending is being restrained by the uncertain economic environment. Businesses, despite having strong balance sheets, are waiting for sustained growth in exports and local sales before significantly increasing capital investments and employment. Consumers and governments are held back by financial circumstances, thereby moderating expenditures. In real GDP terms, growth slowed to 1.7% in 2012 and expanded by 2.0% in 2013.

Aligned with the overall economic activity, the Canadian labour market has been steady with employment increasing 1.3% in 2013 and 1.2% in 2012. The unemployment rate declined last year, to a five-year low of 7.1%, but remains well above the pre-recession low of 6.0% (2007). Commodity prices stayed relatively flat in 2013, but remain at historically elevated levels. According to the Bank of Canada's commodity price index, prices increased 1.2% in 2013, supported by fish (16.9%), forestry (11.6%) and energy (5.8%) prices. Metals and minerals prices fell by 16.0%, while agriculture prices declined 4.1%.

The modest growth in commodity prices coupled with slower economic growth has put downward pressure on the Canadian currency. At the same time, the U.S. dollar is strengthening as investors are attracted to the rising long-term bond yields in the U.S. The net effect has resulted in a depreciation of the Canadian dollar relative to the U.S. dollar, from \$1.022 U.S. in September 2012 to \$0.904 U.S. in February 2014. The increase in the U.S. dollar has a mixed outcome on the economy, it increases the cost of imported goods and services, and lowers the price of Canadian exports. The latter should benefit Canadian manufacturers as their products are becoming cheaper for international clients.

With cautious optimism in the underlying momentum in the U.S. and Europe, and sustained demand from Asia, real GDP in Canada is projected to increase by 2.3% in 2014 and by 2.5% in 2015. The labour market is expected to remain stable, while the unemployment rate is forecast to gradually fall to 6.6% by 2015. Excess capacity in the Canadian economy should constrain consumer price increases to 1.6% in 2014 and 1.9% in 2015, compared to 0.9% in 2013. With subdued inflationary pressure and modest economic growth, the Bank of Canada has announced it expects to keep its interest rate policy unchanged in 2014.

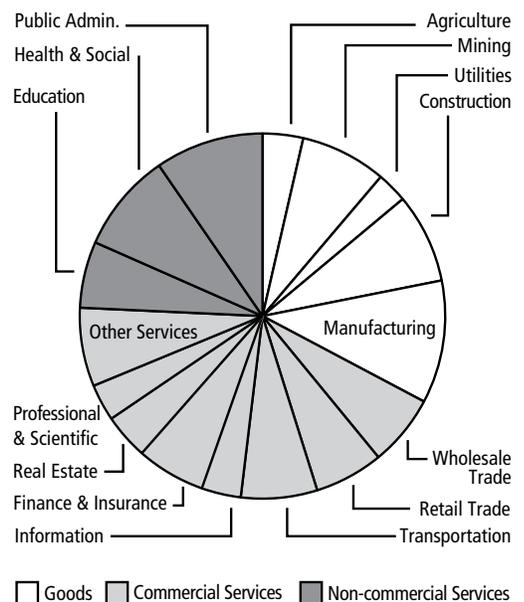
■ MANITOBA ECONOMY

Manitoba is among the most diversified economies in Canada. It has a broad industrial base dominated by medium-sized industries all contributing relatively equally to the overall economy. The province has 11 industries each accounting for over 5% of the economic production, with manufacturing the largest at 10%.

The balance in industrial production has provided a stable and sustainable environment over the long term. Manitoba has averaged 2.4% annual growth in real GDP terms in the past 20 years. Measured by annual fluctuation in economic activity, the province is the most stable in Canada. During the last recession, for example, the economy remained virtually flat, contracting 0.2% in 2009, compared to the national decline of 2.7%. Since 2008, and in the face of global economic uncertainty, Manitoba has averaged 1.8% growth, the second highest among provinces.

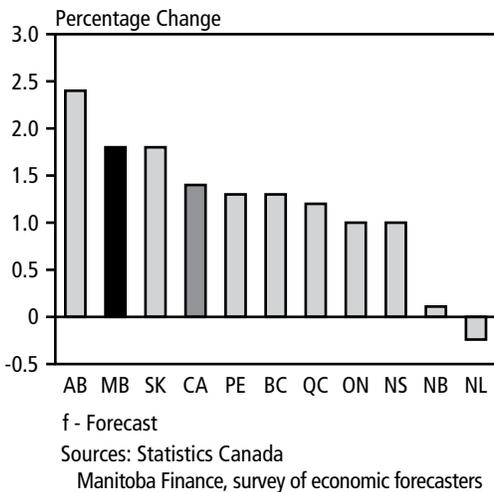
According to the preliminary estimates from Manitoba Bureau of Statistics, the province's real GDP expanded by 2.4% in 2013. Supported by increased business investments in residential and non-residential construction, and an increase in consumer spending, domestic demand accelerated to 2.8% in 2013. The recovery in crop production in 2012 and the record harvest last summer contributed to a sharp rebound in exports.

Manitoba Economy, GDP by Industry, 2013



Source: Manitoba Bureau of Statistics

Real GDP, Average Annual Growth, 2008 to 2013f



Manitoba’s labour market is balanced with employment, and the number of new workers joining the labour force growing at about the same level. This has resulted in very little movement in the unemployment rate over the last five years. The rate averaged 5.4% in 2013, the third lowest among provinces and matching the annual rate in three of the last four years.

Consumer prices in Manitoba increased by 2.2% in 2013, following a 1.6% increase in 2012. Manitoba’s inflation rate, like other jurisdictions, is well within the Bank of Canada’s inflation-control target range of 1% to 3%. In 2013, tobacco and alcohol, energy, shelter, food and household operations boosted overall consumer prices, while health and personal care, recreation, clothing and footwear, and transportation costs eased pressure on prices.

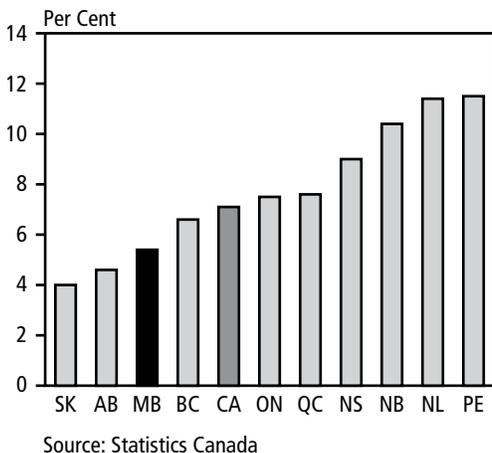
Manitoba has significantly increased its reach into the rapidly growing regions of the world by broadening its export base to Asia, underpinning economic growth. Among all provinces, Manitoba has the second-highest share of foreign exports to Asia.

Manitoba also has among the most affordable business and household-living costs in Canada, and among the lowest electricity rates in North America. The mid-continent location provides access to cost-effective transportation links and intermodal facilities for shipping commodities by road, rail, air and sea. In addition, Manitoba’s manufacturing and transportation logistics are being enhanced by CentrePort Canada, the country’s first foreign trade zone and inland port. CentrePort Canada offers investment opportunities supported by tax incentives and related services for a wide variety of business models.

Labour Market

Despite the challenging global economic situation, Manitoba’s labour market remains stable, generating a steady increase in new jobs. On an average annual basis, there were a record 633,200 workers in Manitoba in 2013. As has been the case for each of the past three years, the private sector, which accounts for 75% of all jobs in the province, was responsible for all of the gains in employment, with 6,400 new jobs created in 2013. Over the last five years, private sector employment has increased by 4.8% in Manitoba compared to 3.2% nationally. Manitoba’s private sector employment growth has also been the most stable among provinces over the past decade. In 2013, public sector employment declined by 3,300 jobs.

Unemployment Rate, 2013



Growth in Manitoba’s labour force was largely matched by an expansion in jobs, resulting in a small increase in the unemployment rate to 5.4% in 2013 from 5.3% in 2012. That placed Manitoba third best among provinces and well below the Canadian average of 7.1%. Since the Great Recession, Manitoba has had the second or third lowest unemployment rate in Canada, reflecting the stability of the labour market, regardless of global conditions.

While a number of industries saw sizeable employment gains in 2013, several of Manitoba’s largest sectors experienced a softening in the number of persons employed. The greatest gains were in agriculture (14.6%); information, culture and recreation (5.0%); and forestry, fishing, mining, oil and gas (5.9%).

Employment in Manitoba's manufacturing sector increased by 1.1%, the third highest among provinces and contrasting the 2.9% national decline.

Manitoba's two largest industries by employment are health care and social assistance (15.0% of employment), and trade (14.5% of employment). These industries saw employment growth decline by 0.1% and 2.3%, respectively over the course of 2013. In addition, employment in public administration fell by 3.4%.

Manufacturing

Manufacturing is Manitoba's largest industry, accounting for 10% of Manitoba's GDP. Reflecting the overall contribution to personal incomes in the economy, Manitoba has the third-highest manufacturing employment share among provinces at 10%, following Quebec and Ontario. Manitoba exports a large percentage of manufacturing output, and manufacturing sales account for just under 60% of total foreign merchandise exports.

A diverse mix of industrial and consumer products make up Manitoba's manufacturing base including food products, such as meat and potato products; transportation equipment, mainly aerospace and buses; machinery, including tractors and agricultural implements; chemicals, including fertilizers and pharmaceuticals; and wood products, mostly lumber, cabinets, windows and doors.

Due to the uneven demand for Manitoba's exports, manufacturing shipments were mixed in 2013. Overall, shipments of non-durable goods increased 1.3%, while shipments of durable goods declined 1.6%. As a result, the value of manufacturing sales decreased 0.4% in 2013.

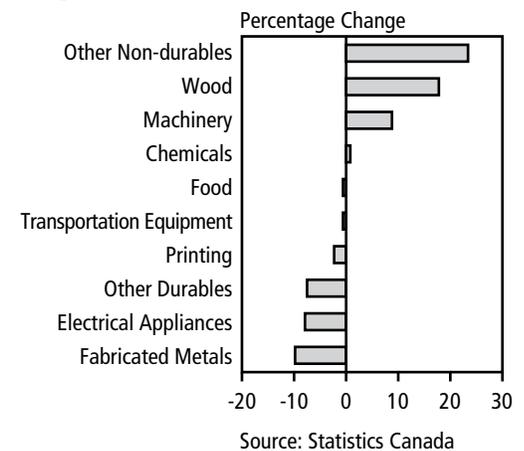
The strength in the Canadian and U.S. housing markets has driven up the sales of building materials from Manitoba. The rebound in agriculture has fueled demand for chemicals, and agricultural machinery and equipment. However, a number of larger sectors have seen declines in 2013. Transportation (13.7% of sales) decreased 0.6%, while food products (21.5% of sales) were down 0.6% and fabricated metals (5.4% of sales) sales were down 9.8%.

As the U.S. economy continues to recover, the pent-up demand for investment in infrastructure, including public and private transportation, will add to the demand for energy efficient buses and lighter aircrafts. This bodes well for Manitoba's bus manufacturers, as well as the aerospace and advanced composite materials industry. The depreciation of the Canadian dollar should also buoy the sector as manufactured product prices become increasingly competitive in U.S. dollar terms.

Mining and Oil Production

Mineral production has long been a major contributor to Manitoba's economic growth. While it employs just under 1% of Manitoba's workforce, it is responsible for nearly 7% of total economic activity, making it one of Manitoba's most productive industries.

Manitoba Manufacturing Shipments, 2013



Traditionally, Manitoba's primary mineral commodities have been nickel, copper, zinc and gold. However, oil production has grown rapidly over the last few years to become a significant component as well. Over the last 10 years, the contribution of the oil sector to overall economic activity has almost quadrupled from 0.6% of GDP in 2002 to 2.5% in 2012.

The Manitoba oil and gas industry was a very strong performer in 2013 with 530 new wells drilled in the province. Over the last five years, the total number of wells in the province has increased by 57% and oil investment has totalled \$5.3 billion, while the value of oil production over that period was \$6 billion. Oil production for 2013 is estimated to reach over 18.4 million barrels with a value of \$1.6 billion. Capital investment in 2013 has been estimated at \$1.4 billion.

Generally weak global economic conditions have reduced demand for many base metals produced in Manitoba. This has driven up world inventories, forcing prices downward. Nickel, Manitoba's largest mineral product, has seen its price fall by 14.5% since 2012. Copper prices are down 8.0%, while gold has declined by 15.4%.

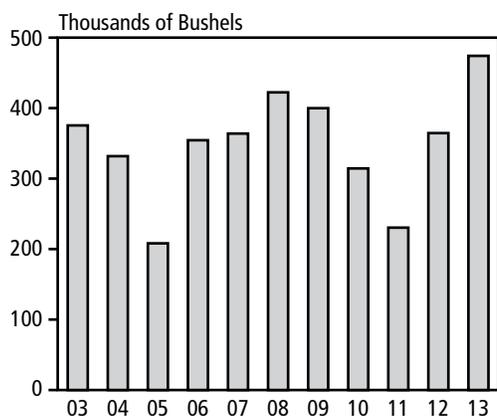
Due to weak commodity demand and prices, production quantities in Manitoba have varied. Copper production fell 26.0%, while gold production fell 12.2%. Zinc production saw a marginal increase in 2013 at 0.6% and nickel production increased by 4.6%.

As a result, in 2013, the total value of all metal production in Manitoba has been lower than it was in 2012. The value of silver (-32.4%), copper (-28.3%) and gold (-19.7%) production have all fallen significantly, while the value of nickel production has declined more modestly (-7.4%). Zinc is the only major commodity to enjoy both price and volume gains (for a 5.4% increase in the value of production) over the same period.

Agriculture

The agriculture sector represents 3.3% of the economy and 3.9% of employment. Agriculture is an important sector of the Manitoba economy with linkages to other industries, including food processing, manufacturing, transportation and financing. Primary production of crop and livestock combined with related food-processing businesses represent over 25% of total provincial exports.

Manitoba Total Crop Production



Note: Total production includes wheat, canola, soybeans, barley, grain, corn and oats
Source: Statistics Canada

Manitoba's agriculture sector is relatively balanced between crop and livestock market receipts, at 59% and 41% respectively. Farm cash receipts were strong, gaining 14.7% in the first three quarters of 2013, compared to the same period in 2012. Crop receipts were up 28.7%, while livestock receipts increased 2.9%. Reflecting an excellent crop, direct payments to agricultural producers, which include insurance and various types of income supports, declined 15.3% in 2013.

Crop production in 2013 reached record levels as ideal weather conditions resulted in the largest volume (bushels) of production in the past decade. Wheat harvest increased 31.5%, canola gained 36.7%, corn increased 49.5%, soybeans were up 38.7%, barley added 14.1%, and oats were lower in 2013 by 1.8%.

Corresponding to a bumper crop nationally and internationally, prices for major grains fell. Both wheat and canola prices were down 9% in 2013. In

addition, transportation constraints of moving the record harvest to market further exacerbated the challenges for Manitoba producers. With terminals across the country full to capacity, farmers are struggling to find storage options for crops. Producers who were able to sell early capitalized on the high prices, while others have to incur carrying costs.

Manitoba livestock producers are generally benefiting from improved market conditions. Over the last few years, livestock supply has diminished for both cattle and hogs. Manitoba cattle herds were reduced due to lower prices and higher production costs. Hog supply fell due to higher costs and a sharp decrease in demand from the U.S. created by the Country of Origin Labeling (COOL) legislation. With gradual improvements in the U.S., market demand for meat has increased. As a result, Manitoba producers saw higher sales, resulting in a 8.9% increase in cattle receipts and a 1.8% increase in hog receipts. It is anticipated that market conditions will favour continued improvement in demand in 2014.

In 2013, the U.S. tightened the COOL legislation by requiring a tracking of beef and pork from birth through the meat processing and distribution channels. While the new regulations are now enforced, both Canadian and American livestock and packer organizations are challenging COOL, and the Canadian and Mexican governments have stated that they are preparing retaliatory action, which could include retaliatory tariffs, through the World Trade Organization. The Manitoba government supports the federal efforts in opposition to COOL legislation.

Electricity Generation

Manitoba Hydro is responsible for electricity generation, transmission and distribution within the province. More than 98% of the electricity produced in Manitoba comes from clean, renewable sources. The vast majority of that comes from 14 hydro-electric generation stations, primarily on the Winnipeg, Saskatchewan and Nelson River systems. In total, these stations are capable of producing in excess of 5,200 megawatts (MW) of power.

With both domestic and export demand increasing, electricity production turned around in 2013. Total generation at Manitoba Hydro jumped 10% last year, following a 6.7% decline in 2012. Generation for export sales increased 21.2%, while generation for domestic sales increased by 5.1%. As prices firmed, the total receipts from electricity increased by 16.7% to a record \$1.8 billion. Receipts from export sales were up 21.3% with U.S. receipts increasing 28.9% to \$362 million, the highest level since 2008.

With the completion and activation of the final generator at Wuskwatim in October 2012, Manitoba Hydro is moving to consider a number of new capital projects to help meet future energy demands and safeguard service supply. In addition to the requirement to service increases in domestic demand, Manitoba Hydro has signed more than \$9 billion of export contracts since 2010 that will support and require the expansion of generating capacity. The Keeyask station would be a 695 MW facility on the Nelson River projected to commence producing power in 2019. The Conawapa generation station, potentially Manitoba's largest hydro facility at 1,485 MW, is also being evaluated with a view to commencing production in 2025.

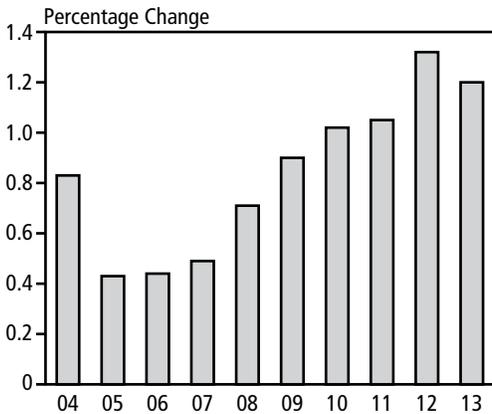
To transmit new capacity and ease the risk of service disruptions, Manitoba Hydro is proposing to build Bipole III. Its projected in-service date is 2017.

Manitoba Hydro Generating Stations, 2013

Station	MW
Limestone	1,340
Kettle Rapids	1,220
Long Spruce	1,010
Grand Rapids	479
Kelsey	250
Wuskwatim	200
Seven Sisters Falls	165
Great Falls	129
Jenpeg	129
Pine Falls	88
Pointe du Bois	75
Slave Falls	67
McArthur Falls	55
Laurie River 1 & 2	10
Total	5,217

Source: Manitoba Hydro

Manitoba Population



Note: at July 1

Source: Statistics Canada

Manitoba gained 10,968 persons through net international migration. The province also gained a record 2,775 persons through “other net” migration, which includes non-permanent residents and returning emigrants less temporary emigrants. Net interprovincial outmigration remained stable at 4,221 persons last year compared to 4,212 persons in the previous year.

In 2013, Statistics Canada revised down Manitoba’s population for 2011 by 18,000 persons. The revised estimate has been contested by Manitoba’s Chief Statistician. See the Update on Fiscal Arrangements Budget Paper D for more details. The population growth rates since 2011, however, are not in dispute.

Manitoba Finance’s survey of demographic forecasters highlights a continuing positive trend in Manitoba’s population growth, increasing by 1.2% in 2014 and 1.1% in 2015. These increases are above or match the recent five-year average of 1.1%, and are almost four times the average annual increase of 0.3% in the 1990s.

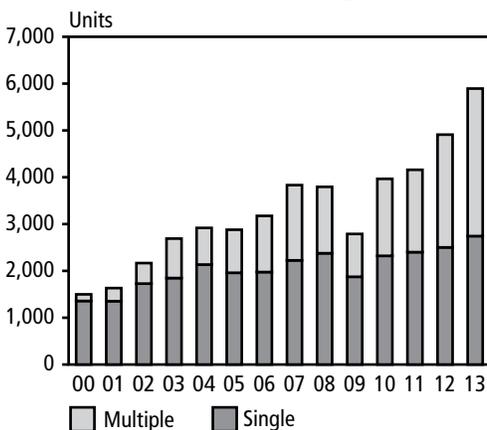
Population

Following the new National Household Survey 2011 Census, Statistics Canada has provided historically revised estimates of population for Canada and all provinces. Based on the revised information, Manitoba’s population in 2013 is estimated at 1,265,015 persons (July 1, 2013).

Manitoba’s population is fifth largest among provinces and increased by 14,983 persons in 2013 (second largest year-over-year increase in 41 years) or 1.20 % annual growth. Relative to other provinces, Manitoba’s population growth was the third highest and above Canada’s increase of 1.16%. Over the last three years, Manitoba’s annual growth in population has surpassed the national increase.

Over a 12-month period ending in July 2013, there were 16,026 births and 10,565 deaths in the province, resulting in a net natural population increase of 5,461 persons, the sixth consecutive increase above 5,000 persons.

Manitoba Urban Housing Starts



Source: Canada Mortgage and Housing Corporation

Housing

Manitoba’s housing market had another strong year in 2013. Enumerated single-detached starts in urban areas, the best measure of real housing demand, were up 9.6% over 2012, compared to a decline of 6.0% nationally. Meanwhile, all areas starts in Manitoba were up 3.1% versus a 12.5% reduction in the Canadian housing market. Province-wide, more than 7,400 starts were recorded, the highest number since 1987.

The pace of new home construction has been driven by the multiple-family sector, with 48.0% of all starts in this sector in 2013, as compared to just over 21.5% in 2004. The apartment vacancy rate in Manitoba, long a source of concern, moved up to 2.0% in the fall of 2013, reflecting a more balanced market between tenants and landlords. Both government and market incentives have spurred rental construction activity in recent years. There were more than 800 new rental units started in 2013, which is consistent with the average of more than 900 starts in each of the last three years.

Growth in the resale market remained robust, although not as heated as has been the case in recent years. While unit sales dropped less than 1% from historically high levels, the average price of a resale home in Winnipeg grew by 5.7% to \$259,981.

Despite the strong price growth in both the new and resale markets, Manitoba remains one of the most affordable jurisdictions in Canada and only slightly above long-term affordability measures, according to the Royal Bank's Housing Trends and Affordability Report.

Canada Mortgage and Housing Corporation is forecasting a small moderation in both new and resale markets as both move towards more balanced market conditions in 2014, with 6,800 starts across the province. Real demand, coupled with relative economic and demographic strength, means Manitoba is expected to remain somewhat insulated in the event of a national housing downturn.

Retail Trade

In Manitoba, activity in the retail trade sector makes up 5.7% of the economy and 11.5% of all jobs. Supported by economic and demographic fundamentals, retail trade has expanded in all but one of the last 20 years, placing third among provinces in average annual growth over that time.

In 2013, retail sales grew by 2.0% an improvement from the 1.6% growth in 2012. Among the sectors responsible for the expansion in overall sales were motor vehicles, which were up by 14.0% growth in 2013. This has been fueled by the used car market, which is up 25.1%, and a 14.6% gain in new car sales, good for the second-largest increase among provinces.

Furniture and home furnishing stores, which are up 10.8% thus far in 2013 (driven by a 22.5% gain in home furnishing sales), have helped support the expansion in retail sales. These gains were offset by general merchandise sales, which were down 8.8%.

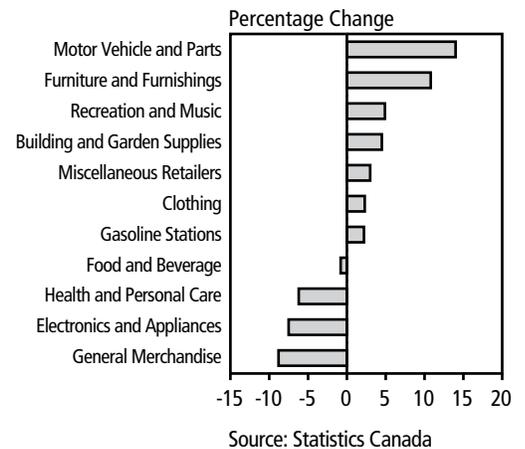
Retail trade has been boosted in recent years by the arrival of a number of major international chains, including IKEA, Target and Marshall's. Further expansion of a number of retail sites around the province, coupled with continued economic expansion, should continue to support growth in the sector.

Capital Investment

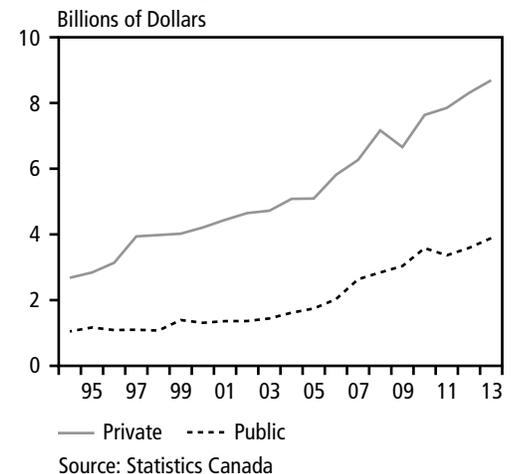
Capital investment plays a vital role in virtually every facet of economic development. Investment in industrial and commercial projects provides the means for economic activity, while machinery and equipment, intellectual property products, and other technology also enhance efficiency and productivity. Every bit as important, is investment in transportation, health care, and flood protection infrastructure that facilitates the flow of business, and the safety and well-being of Manitobans.

Capital investment growth in Manitoba has been among the most consistent in the country over the last 20 years, recording only one year of decline in that time. Last year was no exception, as capital spending in the province grew by 5.8%, easily

Manitoba Retail Sales, 2013



Manitoba Capital Investment



outpacing the 1.5% growth in the rest of the country. This level of growth has become normal in Manitoba, as the 10-year average annual gain is 7.4%.

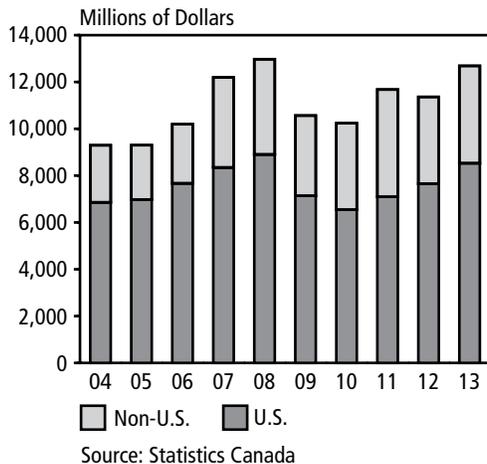
Manitoba's economy has benefitted from a sharp increase in business capital spending on residential and non-residential projects. From 2008 to 2013, Manitoba's private sector capital investment increased by 21.3% compared to a 11.6% national increase. Manitoba's growth was ranked third highest among provinces. Among industrial sectors, waste management and remedial services nearly doubled. Finance and insurance (83.1%), manufacturing (32.3%), and utilities (30.1%) are also expected to see significant gains in investment.

While the value of building permits advanced 3.9% in 2013, this was the second best performance among provinces and followed on the heels of a 34.9% increase in 2012. Non-residential construction advanced 15% in 2013, led by a 36% increase in the value of industrial investment, the highest such increase among provinces.

Foreign Merchandise Exports

With the onset of the Great Recession in 2008, Manitoba's exports slipped in both 2009 and 2010. As in Canada, foreign exports have not fully recovered to pre-recession levels. The slow recovery in the U.S. has kept total nominal export receipts 2.2% and 2.8% below the 2008 level in Manitoba and Canada, respectively.

Manitoba Foreign Merchandise Exports



With two years of solid growth in crop production, coupled with record oil production, Manitoba's export commodity inventory was significantly replenished in 2013. As a result, merchandise exports jumped 11.7% to \$12.7 billion in 2013, following a 2.7% decline in 2012. Manitoba's export sales were the strongest among provinces in 2013 and above the national average of 3.5%. Foreign export sales growth was equally balanced last year, increasing 11.4% to the U.S. and 12.1% to other markets.

The U.S. recovery, although slow, has been uneven across states. Manitoba has benefited from having, as its largest trading partners, those states with some of the most robust growth in the U.S. The top three U.S. markets for Manitoba are Minnesota (14.9% of U.S. exports), Illinois (14.5% of U.S. exports) and North Dakota (7.9% of U.S. exports). Minnesota and North Dakota have done well through the recovery. The Minnesota economy expanded 3.5% in real terms in 2012 while North Dakota, spurred by the oil and gas industry, has been the fastest growing state in over three years. In 2012, North Dakota's real GDP increased 13.4%. Manitoba's export sales to North Dakota and

Minnesota increased 25.2% and 18.6% in 2013, respectively.

The Chinese economy has been expanding at a rapid pace over the last decade and is now the world's second-largest economy. This rapid expansion has led to a significant increase in bilateral trade. Over the past decade, Manitoba's export receipts to China have increased from \$158 million to over \$1 billion, while its share of exports to China has grown from 1.7% in 2003 to 8.1% in 2013. Relative to other provinces, Manitoba has the second-largest share of exports to China, including a broad range of commodities but somewhat concentrated on primary goods (agricultural and mining).

Green Economy and Green Jobs

According to the United Nations Environment Programme, the green economy is defined as “one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities”. Expenditures in new and emerging renewable and energy efficient technologies, and other business ventures that promote sustainable long-term economic prosperity could be considered as green economy investments.

Green jobs are defined as employment in any sector of the economy that “contributes to preserving or restoring the quality of the environment”. Green jobs help reduce energy and raw material use through high efficiency strategies and technology.

Given the considerable interest and attention green products and services are gaining, and the pace of economic development in emerging markets, opportunities from “green” investments are massive. The green economy is already growing faster than the overall global economy with a global market value currently estimated at over \$5 trillion U.S.

The Manitoba economy already benefits from green investments and green jobs in electricity production, transportation, manufacturing, waste management, and bio-products among other sectors. There are more than 30 companies in Manitoba that currently provide a wide range of products from renewable agricultural and forestry resources. The province has a strong commitment to develop renewable energy sources from new-generation hydro, geothermal, ethanol and wind power.

To seize further opportunities in this rapidly expanding sector, Manitoba businesses, academics and government are collaborating to establish and expand on a variety of policies and programs. The goal is to enhance enabling conditions that will generate a positive business environment, build climate resilience, ensure sustained green economic development, and create green jobs for Manitobans. It is part of an eight-year environment plan termed “TomorrowNow”. The collaborative effort will feed into the development of the province’s first Green Economy and Green Jobs Action Plan.

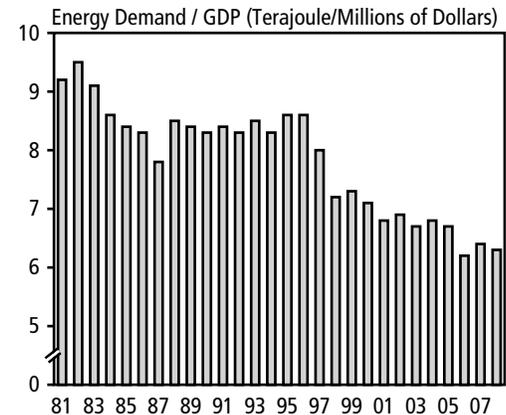
■ ECONOMIC OUTLOOK

Uncertainty about medium-term economic conditions has recently been elevated as global growth continued to soften through 2012 and 2013. Although the euro area has resumed growth after two years of contraction, the momentum in two of the world’s largest economies, China and in the U.S., is slower than previously anticipated. As a result, the IMF revised its world growth forecast to 3.0% in 2013 and 3.7% in 2014, representing a downward revision from their July 2013 outlook.

Given the forecast for the external environment, Manitoba is expected to post modest but increasing growth over the next two years. Manitoba Finance surveys several independent forecasting agencies regarding their economic projections for Manitoba and Canada. The survey is used to establish a consensus for the medium-term economic outlook. The current forecast calls 2.2% growth in 2014 before increasing to 2.4% in 2015.

Nominal GDP is projected to increase by 3.5% in 2014 and by 4.4% in 2015. With continued weak overall demand conditions, Manitoba consumer price inflation is expected to average 1.8% in 2014 and 1.9% in 2015. The labour market is expected to improve with the unemployment rate falling to 5.0% by 2015.

Energy Intensity in Manitoba



Source: Statistics Canada

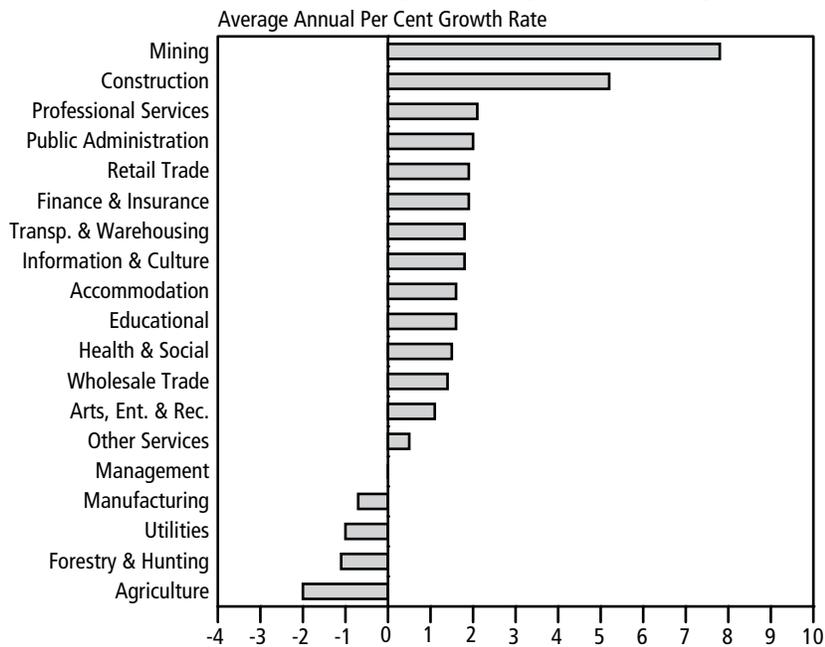
Manitoba Outlook at a Glance

	2013	2014f	2015f
	(per cent change unless noted)		
Gross Domestic Product			
Real	2.4	2.2	2.4
Nominal	3.7	3.5	4.4
Employment	0.5	1.0	1.3
Unemployment Rate (%)	5.4	5.2	5.0
Consumer Price Index	2.2	1.8	1.9
Population	1.2	1.2	1.1

f = Forecast

Sources: 2013 Statistics Canada and Manitoba Bureau of Statistics. 2014f and 2015f Manitoba Finance survey of economic forecasters.

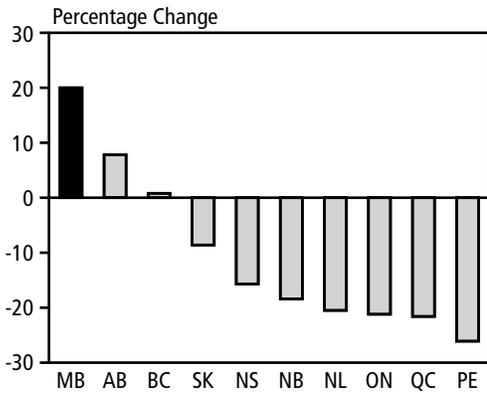
Manitoba Real GDP Growth by Industry, 2008-2013p



p - Preliminary

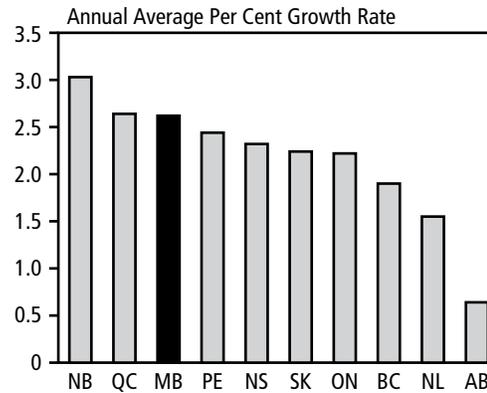
Source: Manitoba Bureau of Statistics

Housing Starts, 2013



Source: Statistics Canada

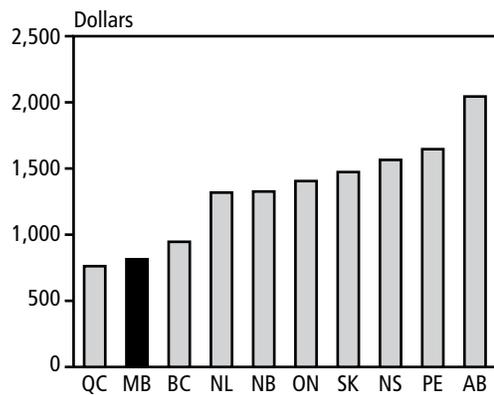
Labour Productivity, 2008-2013f



f - Forecast

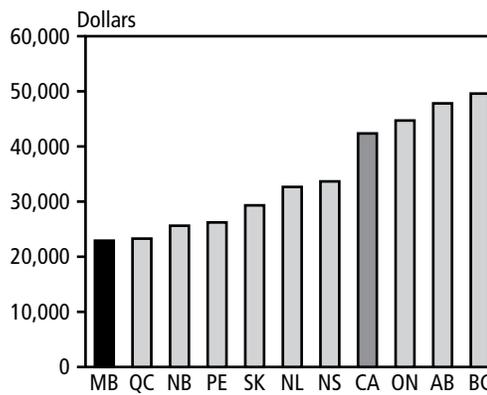
Source: Manitoba Bureau of Statistics, Statistics Canada, Manitoba Finance

Average Annual Electricity Cost, 2012



Source: Deloitte & Touche LLP

Personal Debt per Capita, Third Quarter 2013



Source: Bank of Canada, Manitoba Finance

MANITOBA ECONOMIC STATISTICS, 2009 TO 2013

	2009	2010	2011	2012	2013
	Millions of Dollars				
POPULATION					
July 1 (000's)	1,209	1,221	1,234	1,250	1,265
GROSS DOMESTIC PRODUCT¹					
Nominal	50,683	52,934	55,214	58,156	60,315
Real (\$2007)	51,076	52,378	53,287	54,548	55,847
SECTORS					
Farm Cash Receipts	4,853	4,781	4,970	5,178	n/a
Crops	2,816	2,683	2,550	2,749	n/a
Livestock	1,651	1,748	1,920	1,934	n/a
Direct Payments	386	349	500	496	n/a
Manufacturing Shipments	14,753	14,434	15,401	15,611	15,550
Mining	1,971	2,582	3,188	3,026	n/a
Electric Power Sales	1,560	1,569	1,592	1,547	1,805
Export Sales	399	410	354	321	389
Housing Starts (no. of units)	4,174	5,888	6,083	7,242	7,465
Retail Trade	15,127	16,029	16,758	17,018	17,355
New Car Sales (no. of units)	43,995	45,355	48,546	52,236	56,275
FOREIGN EXPORTS					
Total Exports	10,567	10,238	11,678	11,363	12,687
U.S.	7,138	6,545	7,096	7,655	8,530
LABOUR MARKET					
Labour Force (000's)	641.8	654.9	660.2	665.4	669.0
Employment (000's)	608.3	619.8	624.5	630.1	633.2
Participation Rate (%)	69.1	69.6	69.3	69.1	68.7
Unemployment Rate (%)	5.2	5.4	5.4	5.3	5.4
Average Weekly Earnings (\$)	770.87	785.92	807.46	829.50	835.79
INVESTMENT					
Total	9,694	11,218	11,213	11,894	12,578
Private	6,657	7,635	7,850	8,305	8,691
Public	3,037	3,582	3,363	3,589	3,887
Non-residential	7,448	8,567	8,381	8,745	9,446
Housing	2,246	2,651	2,832	3,149	3,132
CONSUMER PRICE INDEX					
(Index, 2002 = 100)	114.1	115.0	118.4	120.3	123.0
BANKRUPTCIES					
Business	65	68	60	36	n/a
Farm	17	6	5	7	n/a
Personal	2,443	1,994	1,514	1,276	n/a

¹ 2013 are preliminary estimates by Manitoba Bureau of Statistics.

Sources: Statistics Canada, Manitoba Bureau of Statistics and Manitoba Finance.

Totals may not add due to rounding

2009	2010	2011	2012	2013	
Annual Percentage Change					
0.9	1.0	1.0	1.3	1.2	POPULATION July 1 (000's)
-2.5	4.4	4.3	5.3	3.7	GROSS DOMESTIC PRODUCT¹ Nominal
-0.2	2.6	1.7	2.4	2.4	Real (\$2007)
0.2	-1.5	4.0	4.2	n/a	SECTORS Farm Cash Receipts
1.4	-4.7	-5.0	7.8	n/a	Crops
-3.8	5.8	9.9	0.7	n/a	Livestock
10.2	-9.6	43.0	-0.8	n/a	Direct Payments
-9.9	-2.2	6.7	1.4	-0.4	Manufacturing Shipments
-21.8	31.0	23.5	-5.1	n/a	Mining
-10.2	0.5	1.5	-2.8	16.7	Electric Power Sales
-37.0	2.6	-13.6	-9.3	21.3	Export Sales
-24.6	41.1	3.3	19.1	3.1	Housing Starts (no. of units)
-0.1	6.0	4.5	1.6	2.0	Retail Trade
-8.4	3.1	7.0	7.6	7.7	New Car Sales (no. of units)
-18.5	-3.1	14.1	-2.7	11.7	FOREIGN EXPORTS Total Exports
-19.8	-8.3	8.4	7.9	11.4	U.S.
1.1	2.0	0.8	0.8	0.5	LABOUR MARKET Labour Force (000's)
0.0	1.9	0.8	0.9	0.5	Employment (000's)
-	-	-	-	-	Participation Rate (%)
-	-	-	-	-	Unemployment Rate (%)
2.9	2.0	2.7	2.7	0.8	Average Weekly Earnings (\$)
-3.1	15.7	0.0	6.1	5.8	INVESTMENT Total
-7.1	14.7	2.8	5.8	4.6	Private
6.9	18.0	-6.1	6.7	8.3	Public
-3.2	15.0	-2.2	4.3	8.0	Non-residential
-2.8	18.0	6.8	11.2	-0.5	Housing
0.6	0.8	3.0	1.6	2.2	CONSUMER PRICE INDEX (Index, 2002 = 100)
-36.9	4.6	-11.8	-40.0	n/a	BANKRUPTCIES Business
-22.7	-64.7	-16.7	40.0	n/a	Farm
20.6	-18.4	-24.1	-15.7	n/a	Personal