

Budget Paper A

ECONOMIC REVIEW AND OUTLOOK

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ECONOMIC REVIEW AND OUTLOOK

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■ INTRODUCTION

Gradual Improvements in Economic Growth, Outlook Marked by Uncertainty

The Manitoba economy continues to expand at a steady pace and remains one of Canada's most stable provincial economies.

Following the Great Recession 2008/09 (recession), the uneven and modest pace of global growth slowed Manitoba's average annual growth in the last five years relative to the five years preceding the recession.

Weather conditions have also affected Manitoba's economic output, particularly for agriculture and construction. Wet weather and flooding in 2011 reduced real agriculture output to its lowest level in 14 years. Supported by core infrastructure projects, housing and private sector investments, Manitoba's construction output increased to a record level in 2013.

Manitoba's industrial diversity helped balance growth in 2014. Strength in manufacturing, retail and wholesale was partially offset by reduced crop production and weakness in the oil sector.

The pace and magnitude of the fall in crude oil prices has significantly elevated global economic uncertainty and has contributed to a depreciation of the Canadian dollar relative to the U.S. currency. It has also resulted in major commercial banks and other forecasters revising their economic forecasts for Canada and all provinces.

Other significant risks generating global uncertainty include: a slower than expected growth in the U.S. economy, stalling of the fragile economic recovery in the euro area, and further slowing in China. Domestically, prolonged low oil prices could have larger implications on interprovincial trade. And, as in the recent past, weather and commodity price volatility can quickly change the economic and financial market outlook.

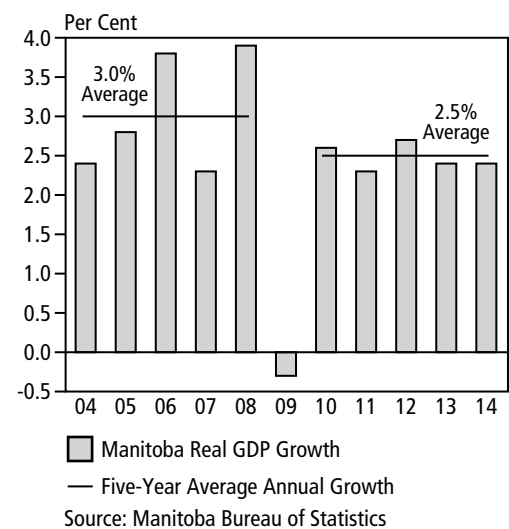
Depreciation of the Canadian currency by over 15% on the U.S. dollar has broad implications for Manitoba. U.S. priced products and services are directly 18% more expensive in Canadian dollar terms. This will put upward pressure on consumer prices, and for public and private sector imported machinery and equipment costs. Equally, the currency depreciation will make Manitoba's manufactured goods more competitive in global markets.

The lower Canadian dollar could reduce cross-border shopping and at the same time increase Manitoba's retail sales and tourism activity. Tourism in particular is benefitting from the opening of the Canadian Museum of Human Rights in September 2014, and the Investors Group Field that can now host larger entertainment and sporting events including the 2015 FIFA Women's World Cup, the Grey Cup, and the opening ceremonies for the 2017 Canada Summer Games.

Given the opportunities and the challenges emerging from the uneven pace of global growth, oil price shock, and the dollar depreciation, on balance, Manitoba's overall economic growth is expected to improve in 2015. The general consensus among forecasters is that Manitoba will gain from increased manufacturing sales, export sales and from the core infrastructure investment plan. The primary sector (mining and agriculture) will get a boost from the opening of two new mines in Manitoba and from increasing global demand for livestock.

Manitoba's real GDP is expected to increase by 2.5% in 2015 and by 2.3% in 2016. Nominal GDP is expected to increase by 3.8% in 2015 and by 4.6% in 2016. Despite the upward pressure on prices from the currency depreciation, lower oil prices will keep consumer price increases well within the Bank of Canada target range, to 0.9% in 2015 and 2.3% in 2016.

Manitoba Real GDP Growth, 2004-2014



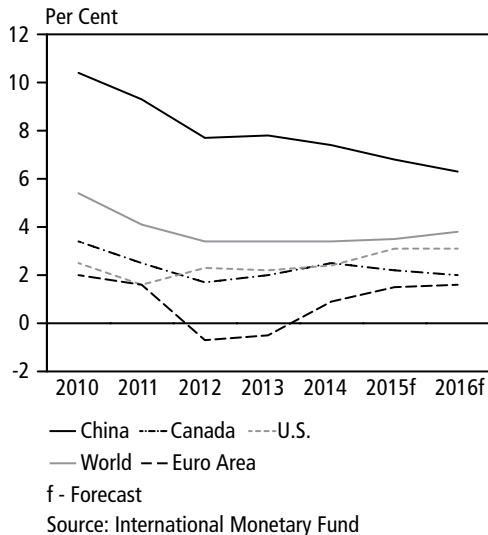
INTERNATIONAL ECONOMIC DEVELOPMENTS

Since the recession, it has been challenging for the global economy to gain any sustained footing in rebuilding aggregate demand. In the five years preceding the recession, economic growth had advanced at 4.9% annually, with growth above 5.0% in 2004, 2006 and 2007.

In the years following the recession, global growth sharply rebounded in 2010 with 5.4% growth, followed by a deceleration in growth, averaging 3.9% annually.

Deep cuts to interest rates, together with tax breaks and shovel-ready fiscal stimulus programs, provided a boost to growth in 2010. The subsequent general global slowdown is a result of restrained spending at all levels: businesses, households and governments, as balance sheets are being repaired. The euro area experienced the greatest slowdown and registered below zero growth in 2012 and 2013. Even the U.S., the world's largest economy, averaged only 2.3% annual growth from 2011 to 2014. China has also slowed from reduced demand from Europe and the U.S. and from domestic factors.

Annual Real GDP Growth, 2010-2016f



As prospects were encouraging for a sizable improvement in global growth in 2015, **oil prices** took a sharp turn down in late 2014, generating more economic uncertainty and risks. Mainly precipitated by over-supply conditions, West Texas Intermediate (WTI) crude oil price, for example, fell from over \$105 per barrel (bbl) in July 2014 to below \$50/bbl in March 2015. At prices below WTI \$60/bbl, the Bank of Canada estimates that one-third of global oil production would be uneconomical. This would include production from the Canadian oil sands, U.S. shale, Brazil and Mexico.

Given the scope and contribution of the oil industry to global growth through mega capital investment in innovation, exploration and jobs, an extended malaise in this industry could have broad negative implications on many sectors including finance, insurance, manufacturing, transportation, and wholesale trade. The repercussions in the oil industry have already started with cancellations of capital projects and job cuts.

Low oil prices, on the other hand, provide a large benefit to an economy through cost savings. Lower transportation and heating costs improve personal and corporate balance sheets, and could translate into increased spending. Net energy importing regions, like the U.S., China and Europe should benefit from these savings.

While the fundamentals are different, the global economy experienced a similar decline in 2008 when WTI fell from \$134/bbl to \$39/bbl in seven months. At that time, prices recovered to a \$70-\$80/bbl range within a year and then averaged \$95.8/bbl since 2011, with geopolitical events and other supply constraints occasionally increasing it above \$100/bbl.

The current consensus among analysts on the outlook for oil prices is a general recovery in the second half of 2015 and into 2016 as supply is reduced by high-cost producers. The International Monetary Fund's (IMF) initial assessment for the **global economy** suggests slower than previously anticipated growth. The losses in jobs and investments in energy and related sectors will outweigh the gains from lower fuel costs. As a result, the IMF lowered their medium-term global economic growth forecast by 0.3% to 3.5% in 2015 and 3.8% in 2016.

The **U.S. economy**, although growing at a historically slow pace, is adding a significant number of jobs. Since September 2010, the U.S. gained more than 10.8 million workers and in 2014, the economy added 2.63 million jobs, the largest annual increase since 1999. These gains are providing momentum in the overall domestic economy. Last year, real consumer spending increased to its strongest pace in eight years. Private capital spending improved with companies increasing their investments in structures, machinery and equipment. Even total federal and state government spending improved to a 0.2% contraction last year compared to the 3.0% and 2.0% contraction in 2011 and 2013, respectively.

Soft global demand and a strong currency limited U.S. export sales in 2014. Conversely, the stronger dollar and increased domestic spending pulled imports up and thereby lowered U.S. international terms of trade. Strong support from the domestic sector lifted overall real GDP in the U.S. to 2.4% in 2014.

Despite a huge increase in U.S. oil production since 2007, the U.S. economy is still a net importer of crude oil. So, the drop in prices is expected to complement the already strengthening domestic spending. As a result, the IMF has considered the U.S. as a growth leader among the G7, by projecting 3.1% real GDP growth in 2015. This bodes well for Canada and Manitoba since the U.S. is the single largest international export market for both economies.

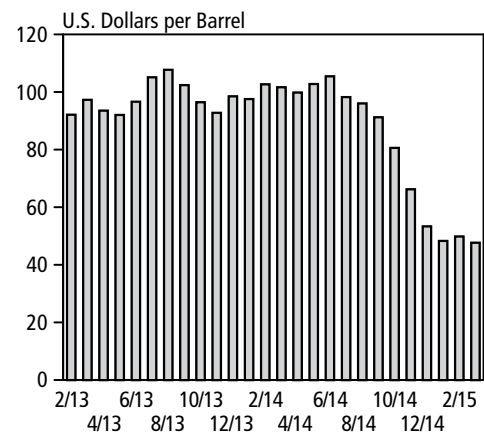
China, Manitoba's second-largest international market, is undergoing policy reforms to rebalance the economy. Accommodative policies immediately following the recession led to a sharp increase in corporate, personal and local government debt. It fueled a housing boom to a point where it is now correcting. New reforms were introduced to mitigate the emerging risks in housing and the secondary financial markets. As these markets stabilize, real GDP growth is expected to moderate to 6.8% in 2015 down from an estimated growth of 7.4% in 2014. The economy will further slow to 6.3% in 2016.

China is the world's largest energy consumer and a net importer of oil. Lower energy prices should shore up domestic spending in the country. China also ships roughly 20% of its exports to the U.S., so the strengthening U.S. economy could recharge China's manufacturing sector.

High debt levels, weak export sales and low inflation continue to restrain spending in **the euro area**. The lack of sales growth has subdued business investment in new structures, machinery and workers. As a result, the euro area is maintaining a relatively high unemployment rate, especially in the peripheral countries.

Lower energy prices are expected to support growth in the euro area, but also elevate concerns of a deflationary cycle, where consumption is perpetually postponed in hopes for lower prices in the future. A more natural fiscal policy stance, the depreciation of the euro, and the quantitative easing action by the European Central Bank is expected to lift growth to 1.5% in 2015 and 1.6% in 2016.

West Texas Intermediate Crude Oil



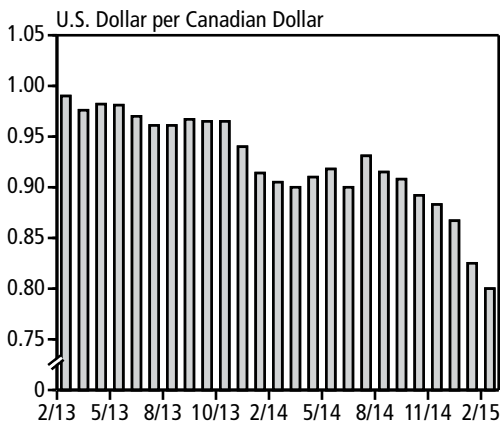
Source: Bloomberg

■ CANADIAN ECONOMIC DEVELOPMENTS

The Canadian economy, while growing slower than before the recession, has strengthened in the last three years. In 2014, real GDP increased by 2.5%, following 2.0% growth in 2013 and 1.9% in 2012. Last year, the economy was supported by solid gains in household spending and energy exports. Business capital investment expanded at a modest pace, while government investment spending decreased for the fourth consecutive year.

The Canadian labour market faced challenges in 2014, generating the smallest number of jobs in any non-recessionary period. Canada added just over 111,000 jobs compared to the historical average of 215,000 jobs per year since 1976 (including recessions). The number of hours worked declined for the first time since the recession, while growth in part-time jobs increased at a faster rate than full-time jobs. The slow labour market attracted fewer entrants and lowered the overall unemployment rate to 6.9% and the youth unemployment rate to 13.5%.

Canada-U.S. Exchange Rate



Source: Bank of Canada

Commodity prices were mixed in 2014. After a number of years of consolidation in livestock production, increasing demand drove cattle and hog prices to record levels. Most base metal prices came under pressure in the second half of 2014 due to slower economic activity in China and the stronger U.S. currency. Often viewed as a hedge on inflation and a safe haven from economic and financial market uncertainty, gold saw a sharp decline in value in 2014 as U.S. economic data showed positive results. Natural gas prices got a boost during the extreme cold weather conditions last winter ("polar vortex"), while oil prices collapsed due to oversupply conditions.

Canada is the fifth-largest oil producer in the world following China, the U.S., Russia and Saudi Arabia. Canadian oil is mostly extracted in Alberta, Saskatchewan and Newfoundland, with Alberta accounting for over 70% of production. In 2014, crude oil and crude bitumen exports contributed 18% or \$92.6 billion to Canadian exports or 4.7% to Canada's nominal GDP.

Acknowledging the scope of oil production in Canada, the fall in oil prices poses a major challenge for overall growth in the near term. For example, the depreciation of the Canadian currency relative to the U.S. dollar is partially attributed to oil prices. The latest economic forecasts for Canada were revised down as they reflected an expected contraction in the energy industry and related sectors.

According to the Manitoba Finance survey of economic forecasters, Canadian real GDP will expand by 2.1% in 2015 and by 2.2% in 2016. With oil prices lowering the deflator, nominal GDP is expected to match real GDP growth at 2.1% in 2015. In 2016, nominal GDP is expected to increase by 4.7%.

Inflation in Canada is expected to average 0.9% this year and 2.3% in 2016. Canada's unemployment rate is expected to progressively improve over the next two years, falling from 6.9% in 2014 to 6.7% in 2015 and 6.6% in 2016.

MANITOBA ECONOMY

Economic diversity with a broad industrial base is a key attribute of the Manitoba economy. Financial industry analysts and economic forecasters consistently point to economic diversity as one of the province's main assets.

Manitoba currently has 11 out of 16 industrial sectors, that each account for more than five per cent of overall production. The contribution from the largest sector to the smallest sector is the closest among provinces. Manitoba's external trade is balanced with roughly half of the exports shipped to international markets and the other half shipped to other provinces. Likewise, the international market for Manitoba exports is broadening with a larger share of trade flowing into some of the fastest growing regions of the world, including China.

The province is located at the geographical centre of Canada. As a result, it has developed a well functioning distribution network with northwestern Ontario, western prairies and the northern territories. To the south, the mid-continent trade corridor provides trade and economic development links to the U.S. This natural advantage has allowed Manitoba to create the largest transportation and warehousing sector among provinces, accounting for 6.2% of Manitoba's GDP.

Over the past decade, Manitoba has been a choice destination for Canadian immigration, lifting population growth to near record levels and providing the labour market with a balanced supply of skilled workers and the broader economy with a steady flow of new consumers.

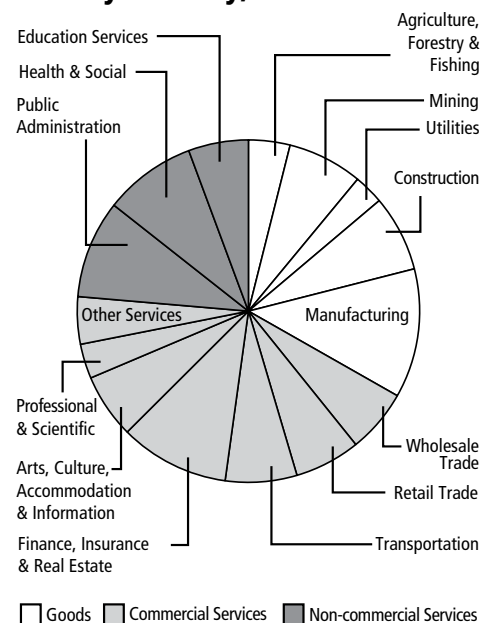
These factors provide Manitoba a steady sustainable pace of economic growth, the most stable among provinces. With increased confidence, the private sector has shown the most consistent growth in capital spending in Canada. As well, durable growth in personal income allows Manitobans to be the most generous, in terms of giving to charities, and the least indebted, in terms of personal finances.

Globalization has introduced opportunities but it has also increased risks and uncertainty. Following the global pattern, Manitoba's economic growth slowed since the recession, but remained relatively strong among provinces. From 2009 to 2014, Manitoba averaged 2.5% annual real GDP growth, the fourth best among provinces. In the five years prior to the recession (2004 to 2008), Manitoba averaged 3.0% annual growth.

According to Manitoba Bureau of Statistics, Manitoba's real GDP growth rate is estimated at 2.4% in 2014. According to the Manitoba Finance survey of economic forecasters, real GDP growth is expected to improve modestly to 2.5% in 2015, and moderate to 2.3% in 2016.

Consumer price inflation has remained low and stable at 1.9% annual growth in 2014 and 2.2% in 2013. Early into 2015, prices are being pushed down by lower transportation costs and pulled up by food costs, due partially to tight meat supplies and the lower dollar. Overall, Manitoba's inflation rate is averaging 0.9% in 2015.

Manitoba Economy, GDP by Industry, 2014

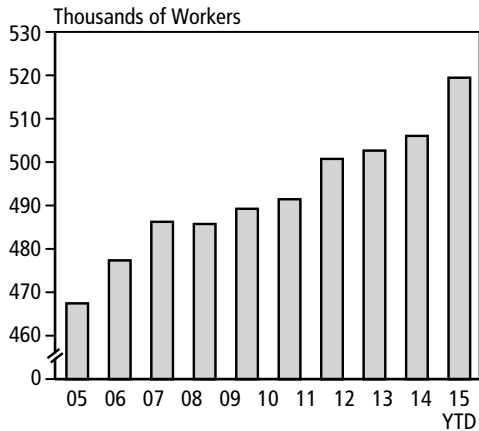


Source: Manitoba Bureau of Statistics

Labour Market

Manitoba's labour market benefits from a well-diversified industrial structure. This has historically provided balance, in terms of the steadiest job creation rate and among the lowest unemployment rate in Canada. During the recession, for example, several industries experienced a reduction in employment, but this was mostly offset in Manitoba by gains in other industries. This resulted in employment growth contracting a mere 0.2% rate in 2009, the second best among provinces and better than the 1.7% decline in Canada. The unemployment rate was also the second lowest among provinces in 2009.

Manitoba Full-Time Employment, 2005-2014



Source: Statistics Canada

Through the post-recession period and with near record population growth, Manitoba's labour market remains well balanced with new jobs being created at about the same rate as new workers joining the labour market, thereby keeping the unemployment rate steady. Since 2009, Manitoba has generated on average 36,300 jobs, a 6% increase. Almost all of these jobs are in the private sector (33,700 jobs) and most of them are full time (30,500 jobs). This bodes well for personal income growth and household confidence in the province.

In 2015, on a year-to-date basis, total employment in Manitoba has averaged a record 636,800 jobs, a 2.1% increase from 2014, the second strongest among provinces and above Canada (0.7%). The trend in full-time employment has continued with a 3.0% increase in 2015, the highest among provinces, while part-time employment is down by 1.6%.

Compensation of Employees

The growth in full-time employment is reflected in overall wages and salaries earned in Manitoba. Over the last five years, compensation of employees (labour income) increased on average by 3.6%, the fourth strongest among provinces following Newfoundland, Alberta and Saskatchewan.

In the last five years, growth in labour income was driven by a 7.7% annual increase in the oil and gas sector, closely followed by construction at 6.9% annual growth. Other sectors with solid gains included agriculture, utilities, health care, and professional and personal services.

For the first time, labour income in Manitoba surpassed \$30 billion in 2013. It increased a further 3.0% in 2014 to \$31.5 billion. Total wages and salaries in professional and personal services, health care, trade (retail and wholesale trade), and manufacturing were each above \$3 billion in 2014, while education, construction, finance and insurance were each above \$2 billion.

Manufacturing

Manufacturing is Manitoba's largest sector, accounting for approximately 11.2% of total real GDP output. The sector employs almost 64,000 workers, contributes over \$3.2 billion in wages and salaries and generates almost \$16 billion in annual sales.

The largest manufacturing industry is food manufacturing, providing a broad range of consumer products such as grain and oilseed milling, processed meat, potato products, dairy products and industrial agricultural feed products.

The second-largest manufacturing industry is transportation equipment, which is comprised mostly of aerospace products, and motor vehicle body and trailer products. The aerospace industry is led by three major firms: Boeing Canada Technology, StandardAero and Magellan Aerospace, as well as a number of established regional and national firms.

The motor vehicle body and trailer manufacturing sector specializes in the assembly of urban and intercity transit buses, fire trucks, motor homes, recreational vehicles, and trailers. Sales in the motor vehicle body manufacturing industry are concentrated in two large bus manufacturers: Motor Coach Industries International Inc. and New Flyer Industries Inc.

Other notable industries within manufacturing include machinery (mainly agricultural implements), primary metals, chemicals, fabricated metal products, wood products (cabinets and millwork), and electrical equipment such as industrial transformers.

Manitoba’s manufacturers posted a relatively strong rebound in 2014 as shipments to the U.S. improved. Total sales increased by 3.2%, compared to 0.2% growth in 2013.

Of the six major industries in Manitoba’s manufacturing sector, four posted strong gains in 2014. Strong Canadian housing investment coupled with improving U.S. demand drove furniture and related product sales by 9.2% in 2014 with sales of kitchen products increasing by 12.2%.

Deliveries of aerospace and motor vehicle body products increased transportation equipment sales by 7.6% last year. High demand in the airline industry increased aircraft products and parts sales by 11.2% annually since 2011. Sales in this industry reached a record \$1.4 billion in 2014.

Strong non-residential construction activity increased fabricated metal product sales by 7.1% in 2014. The expansion and addition of retail, warehouse and commercial properties combined with core infrastructure investment spurred demand for architectural and structural metal products, increasing sales by 3.3% in 2014, and by 6.3% annually over the past four years. Sales in this industry are expected to surpass \$1 billion in 2015.

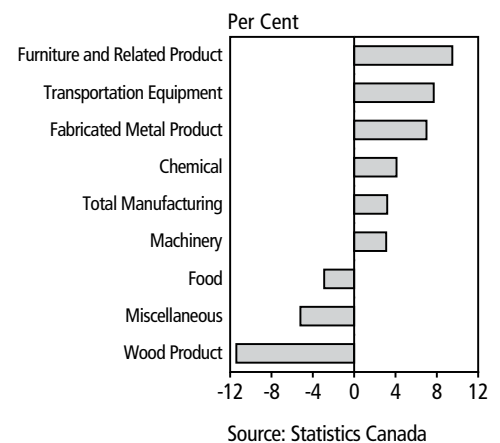
Growing demand for farm equipment increased Manitoba’s agricultural machinery sales by an average of 12.9% annually from 2010 to 2013. In 2014, sales of farm machinery increased by 3.1% to just over \$2 billion.

Manitoba’s meat processing industry faces a number of challenges. The effect of the U.S. Country of Origin Labeling regulations, the porcine epidemic diarrhea virus and environmental regulations to protect water quality are some factors undermining livestock numbers. Labour shortages and soft global demand are also weighing on the industry. Sales from the meat processing industry have declined by 10.4% annually over the last eight years to \$241 million from \$580 million in 2006. Grain and oilseed milling is now Manitoba’s largest food manufacturing industry with \$820 million in sales.

Employment in Manitoba’s manufacturing industries grew by 1.9% or 1,200 jobs in 2014, the third-best growth among provinces and the fourth consecutive year of manufacturing employment growth.

The outlook for manufacturing looks bright with the depreciation of the Canadian currency and strengthening U.S. demand. Near-record livestock prices should encourage a rebuilding of herds, thereby increasing supply and sales.

Manufacturing Sales Annual Growth, 2014



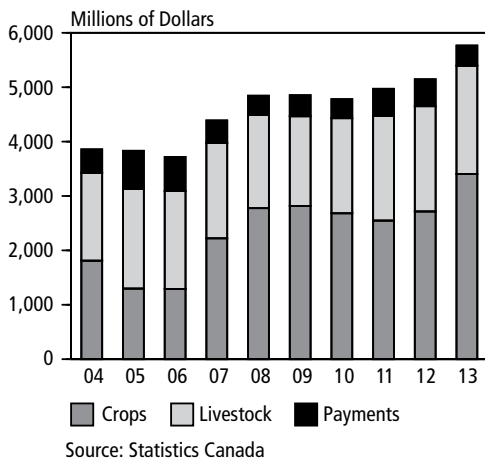
Agriculture

Large-scale production of grains, oilseeds, vegetables, specialty crops and livestock form the backbone of Manitoba's agriculture sector, bringing economic development and vibrancy to rural Manitoba. The sector supports many corporations and unincorporated businesses in a wide range of areas including transportation, finance and real estate, manufacturing, wholesale merchants and retail trade.

Largely influenced by prices, farm cash receipts from Manitoba's agriculture sector are relatively evenly balanced between crop production and livestock production.

The sector is subject to global and Canadian supply and demand conditions for food products. With growing global population and improving personal incomes in two of the world's most populated countries, China and India, agricultural producers are optimistic about an expanding market. Manitoba is in a good position to contribute to this growing need, with over 30,000 square miles of cultivable land.

Farm Cash Receipts, 2004-2013



In 2013, Manitoba crop producers reaped a record harvest and generated \$3.4 billion in crop receipts. This was a 25% increase from the previous year, the first time crop receipts rose above \$3.0 billion. Wheat producers took in over \$1.0 billion in receipts, the highest ever.

The livestock sector benefited from high prices and also generated the highest cash receipts in history at \$2.0 billion in 2013. The improvement in marketed cash receipts lowered direct program payments, which include insurance and other support programs to stabilize farm incomes, from \$495 million to \$371 million. Total farm cash receipts were over \$5.8 billion in 2013, growing by 12.0% from the previous year and the best growth nationally.

In 2014, market conditions for crop and livestock producers diverged. Crop producers encountered lower prices as grain and oilseed inventories increased from a second consecutive global bumper crop. Tight livestock numbers, on the other hand, drove up cattle and hog prices to record levels.

In addition to low prices, Manitoba crop producers reduced the number of acres seeded in 2014 due to unusually cold and wet weather conditions. Weather conditions for the rest of the growing season were less than ideal and as a result, total volume of production was down from the record crop of 2013, although it remained above the 10-year average. Production of wheat was down by 29%, while canola was down by 19%. Barley and corn production was down by 50% and 43%, respectively.

Tolerant to wet springs, soybean harvest bucked the downward trend and production increased by 3.7% in 2014. Soybean production is a success story for Manitoba. Statistics Canada only started reporting Manitoba's soybean harvest in 2001, when the province produced 2% of the Canadian total. By 2014, Manitoba's contribution had jumped to 18% of the Canadian total, with production increasing by 30% annually.

Reflecting the smaller overall harvest and lower prices, farm cash receipts from crop production fell by 0.7% in the first three quarters of 2014, compared to the same period in 2013. Receipts from wheat production were down 16%, while barley receipts were down 27%. Oilseeds continue to show higher receipts in 2014, with canola increasing by 8% and flax increasing by 6%.

Cattle and hog producers in Manitoba received unprecedented prices for their product in 2014. Cattle prices at the processing level averaged \$139.42 per hundred weights in 2014. Hog prices averaged \$91.15 per hundred weight.

These record prices are a result of tight North American livestock supplies. Prolonged drought conditions in the U.S. have severely limited cattle supplies. The number of beef cows in the U.S., for example, is at its lowest level since 1962. The porcine epidemic diarrhea virus reduced pork production significantly in the U.S. in 2014 and poultry supplies were also restrained. Domestic and global demand for meat remained strong further supporting prices. Country of Origin Labeling legislation has reduced returns for Canadian producers.

High prices, strong demand and lower feed costs have improved margins for Manitoba livestock producers in 2014. Cash receipts from cattle and hog sales both increased by 36% in the first three quarters of 2014. Receipts from other livestock producers are up 13% in 2014.

The outlook for Manitoba agriculture looks promising for 2015. Tight supply conditions should continue to support relatively high prices for livestock. The soil moisture conditions for spring seeding are currently favourable for grain and oilseed producers, however, prices are still impacted by the large global supplies.

In addition, the Canada-Korea Free Trade Agreement and Trans-Pacific Partnership Agreement, together with the new Canada and European Union Comprehensive Economic and Trade Agreement hold new opportunities for crop and livestock producers, food processors and farm machinery manufacturers in Manitoba.

Mining and Oil Production

Mining and oil production is a key contributor to the Manitoba economy and is the province's second-largest primary resource industry. The minerals sector directly employs 6,900 workers, mostly residing in northern and western Manitoba, and offers among the highest wages.

Output in the sector is divided into three categories: metallic mining, industrial minerals, and crude oil extraction. The largest metallic commodities in Manitoba are nickel, copper, zinc, gold and silver. Main industrial minerals are cesium, granite, gypsum, limestone, marble and peat moss. Manitoba produces light sour blend crude oil.

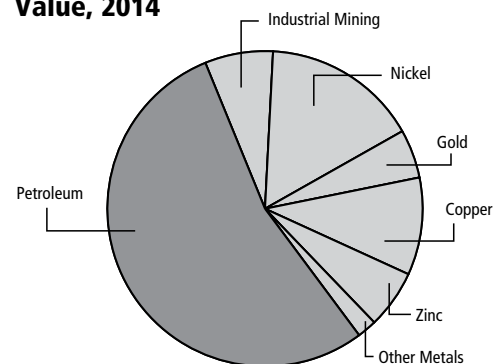
The mining and oil production sector adds approximately 6.5% to Manitoba's GDP. The sector generates \$3 billion in value of production. Crude oil contributes \$1.6 billion or 54% to the value of production, while metallic mining adds \$1.2 billion or 39% and industrial minerals adds \$214 million or 7%.

There are approximately 40 companies active in mineral exploration and metallic mining in Manitoba. The province has eight producing mines, one operating smelter and two refineries. There are about 11 major producers active in the industrial minerals sector in Manitoba.

There are 39 companies that produce oil in Manitoba, ranging from large multinationals to small locally based producers. At the end of 2014, there were 5,077 producing oil wells in Manitoba.

The crude oil that is produced in Manitoba is shipped through the Enbridge pipeline system or via Canadian National Railway to refineries in eastern Canada, and the northeast and north-central areas of the U.S.

Share of Mining and Oil Production, Value, 2014



Sources: Natural Resources Canada, Manitoba Mineral Resources

With the price of West Texas Intermediate oil averaging over \$90/bbl from 2011 to 2014, Manitoba’s oil production quickly expanded. Real output in oil production increased by 16.5% annually for the five years ending in 2013, with growth in both 2011 and 2012 at above 26%.

Crude oil production increased to 19.2 million barrels in 2013, closely matching the level in 2012.

Last year, 464 new oil wells were drilled, down from 553 in 2013. After two years of relatively high volumes, crude oil production decreased to 17.3 million barrels. Lower production and prices dropped the value of production by 8.3% in 2014.

Mining development activities, in 2014, are highlighted by the commissioning of two new mines in the Snow Lake region. The Lalor mine also officially opened on September 24, 2014. It contains gold, copper, zinc and silver, and is expected to be in production until at least 2030 and beyond. The total budget for construction of the mine is \$441 million and its ore will be processed at the refurbished Snow Lake concentrator, which now has a capacity of 2,700 tonnes per day.

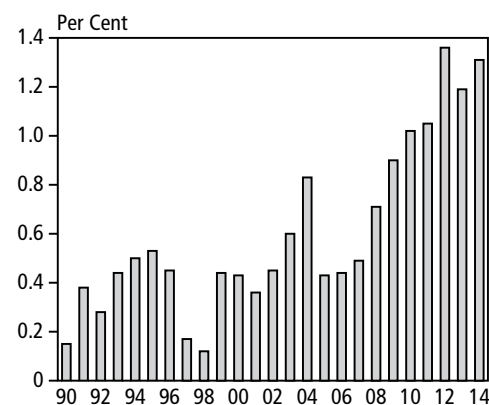
Reed copper mine officially opened on September 24, 2014. This mine is expected to add approximately 15,000 tonnes of annual copper production over a five-year mine life. It is located 120 kms from Flin Flon, and ore is transported to the Flin Flon concentrator for processing.

Most base metals have generally come under pressure as demand from Asia remains modest and prices are off their pre-recession peak levels. Nickel prices averaged US\$7.65/lb in 2014, up 12% from the previous year but down significantly from US\$16.89/lb in 2007. Copper averaged US\$3.11/lb last year, down 6.3% from 2013 and from US\$4.00/lb in 2011. Zinc prices increased by 12.6% in 2014 to US\$0.98/lb in 2014, but are much lower from a peak of US\$1.48/lb in 2006.

Manitoba produces approximately 12% of Canada’s nickel. In 2014, the value of nickel production increased by 13.9%, despite a 4.3% reduction in the volume of output. Zinc production was unchanged in 2014; however, higher prices increased the value of sales by 20%. Gold volume and value fell by 24% and 27%, respectively, and copper was the only base metal that saw a notable 24% increase in production and a 27% increase in value.

Population

Manitoba's Population Growth, 1990-2014



Source: Statistics Canada

Manitoba is experiencing a remarkable gain in population. Over the last 10 years, the province has added close to 120,000 persons. Over the last five years, population growth has averaged 1.2% annually. These increases are among the strongest in 50 years and an important turnaround from the late 1990s when population growth averaged 0.3%. Manitoba’s population growth has been the third fastest among provinces in the last six years following Alberta and Saskatchewan.

Immigration to Manitoba averaged close to 15,000 persons annually in the last five years, well above the 11,000 person average in the previous five years and a stark contrast to the 4,000 person average in the late 1990s. Young families immigrating to Manitoba and the echo boom generation maturing into adulthood are both contributing to the natural increase in population. The number of births in the province has rapidly climbed from 13,811 in 2004 to 16,392 in 2014, the highest level since 1994.

The natural growth and immigration have lowered Manitoba's median population age to 37.7 years. It is the third lowest among provinces after Saskatchewan and Alberta. It is also opposite of the national trend where the aging baby boom generation has increased the median age.

In 2014, Manitoba's population increased by 16,638 persons. Net international migration increased to 14,717 persons up from 11,605 persons in 2013. The natural increase in population was 5,731 persons, while the net interprovincial out migration was 6,192 persons.

Manitoba Finance's survey of demographic forecasters highlights a continuing positive trend in Manitoba's population growth, increasing by 1.3% in 2015 and 2016, and above the recent five-year average of 1.2%.

Housing

Investment spending from residential construction was important in supporting economic growth in Manitoba through the post-recession period. Low vacancy rates, low mortgage rates, increasing number of young adults and seniors, and strong population growth have all contributed to the surge in construction of new single and multiple units of residential properties throughout Manitoba.

Easier financing options, tax incentives and rising property values also motivated renovation investments in some of the older stock of housing in the province.

In the last five years, Manitoba added almost 33,000 new housing units, of which 19,000 were the higher-value single-family detached units and 14,000 were semi-detached or multiple units. This was a 31% increase over the previous five years, the second strongest among provinces and stands in contrast to the 6% decline in Canada. Twenty-seven per cent of all new housing units built in Manitoba were in rural areas.

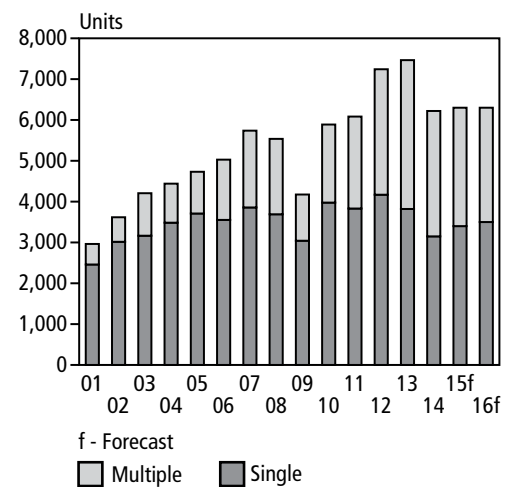
Residential resale activity has stabilized in the last two years at around 13,700 units annually compared to 13,900 units in 2012. Property values in Manitoba remain affordable with the average residential resale price in 2014 at \$266,329, the fourth lowest among provinces.

The Housing Affordability Report, published by RBC Economics Research, ranks Manitoba as having the most affordable housing in Canada in two out of three housing categories: standard two-storey and standard condo, with Manitoba ranked fourth among provinces in the detached-bungalow category.

After several years of strong growth, 2014 saw a correction in new residential construction activity. The total number of housing starts decreased 16.7%, after posting the largest number of starts in 26 years in 2013. Single-family housing starts decreased 17.6%, while multiple units declined by 15.7%.

Economic and demographic fundamentals are sound for continued growth in housing in 2015. Canada Mortgage and Housing Corporation forecasts that Manitoba's total housing starts will strengthen from 6,220 units in 2014 to 6,300 units in both 2015 and 2016. Canadian housing starts are expected to decline this year and next year.

Manitoba All Area Housing Starts, 2001-2016f



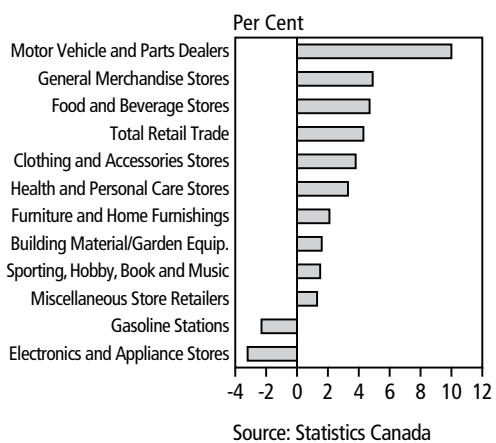
Source: Canada Mortgage and Housing Corporation

Property sales will continue to be supported by population growth, with total resales increasing to an expected 14,000 transactions in 2015 and 14,200 transactions in 2016. Reflecting a balanced market, the average price is expected to increase by 2.3% to \$272,400 in 2015.

Retail Trade

Corresponding to strong population and labour income growth, consumer spending has been growing at a solid pace in Manitoba. Over the last 10 years, retail sales increased by 4.4% annually, tied with Newfoundland for the third strongest among provinces following Saskatchewan and Alberta. Retail trade adds approximately 5.6% to value-added production in Manitoba and employs 39,000 workers.

Retail Sales Annual Growth, 2014



According to the Statistics Canada survey, total retail sales were just over \$18 billion in 2014, with motor vehicle and parts dealers' sales at \$4.4 billion, the largest among all categories. Food and beverage stores reported \$4.2 billion in sales and general department stores reported \$2.5 billion. Gasoline stations reported \$2.2 billion in sales.

The largest three sectors, motor vehicle and parts dealers; food and beverage; and general and department stores, make up almost two-thirds of all Manitoba retail sales.

Total retail sales increased by 4.3% in 2014, exceeding the previous year's growth and the fifth highest among provinces, and compared favourably to the 4.6% national increase. Sales increases were broad based among all the major categories. Sales rose on the strength of motor vehicle and parts sales 10.0%, department stores 4.9%, food and beverage stores 4.7%, clothing stores 3.8% and health and personal services 3.3%. Sales declined at gasoline stations 2.3% and in electronics and appliances 3.2%.

After three years of 7.5% average growth, the growth in the number of new motor vehicle sales slowed in 2014, increasing by 2.7% to 57,783 units, the sixth-best growth rate nationally. The sale of trucks, including SUVs and minivans, represents 69.7% of all new motor vehicles sold and continues to show strong growth, rising 7.6% in 2014 (40,256 units). This follows on a 7.1% increase in 2013. Passenger car sales declined 7.2% in 2014 (17,527 units), but this comes after increasing more than 9% average growth in the previous two years.

Wholesale Trade

As a central distribution hub for Canada, wholesale trade has always played a key role in value-added production in Manitoba. The sector currently contributes 5.5% of GDP and employs approximately 25,000 Manitobans.

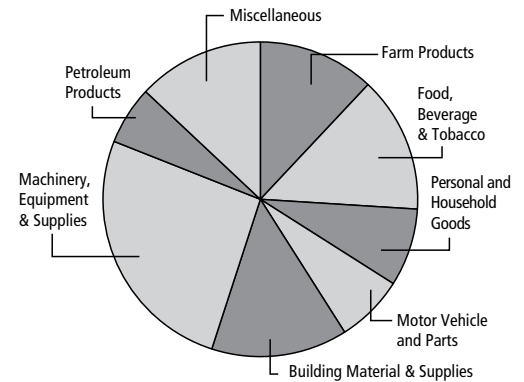
Reflecting the province's industrial diversity, there is an evenly distributed variety of wholesale merchants. The largest is machinery and equipment, accounting for 26% of activity, followed by food, beverage and tobacco products; and building material and supplies, both at 14%. Farm product merchants account for 12%, while personal and household goods, motor vehicle and parts, and petroleum products account for 8%, 7% and 6%, respectively.

The expansion of wholesale sales in Manitoba has been strong over the past decade, increasing by 5.6% annually, the fourth highest among provinces following Saskatchewan, Newfoundland and Alberta. Canadian sales over the same period increased by 3.6%.

The wholesale trade sector did particularly well in 2014 with sales increasing by 8.6%, the third-highest among provinces. Wholesale merchants surpassed \$17.3 billion in sales, closely rivalling retail sales that are just under \$18.0 billion.

Through marketing of the 2013 bumper crop, farm product sales jumped 38.7% in 2014. Sales from building material and supplies increased by 11.8%, and machinery and equipment sales rose 11.5%. Motor vehicle and parts supplies merchants saw a 4.4% increase in sales, and personal and household goods gained 1.0%.

Share of Wholesale Real GDP, 2013



Source: Statistics Canada

Capital Investment

Capital investment provides a good indication of business and household confidence. Large-scale investments are generally undertaken when there is greater assurance in the market and the economic outlook. Capital investment provides an immediate boost to the economy through jobs and spending on goods and services, and long-term benefits by lifting the productive capacity of the economy.

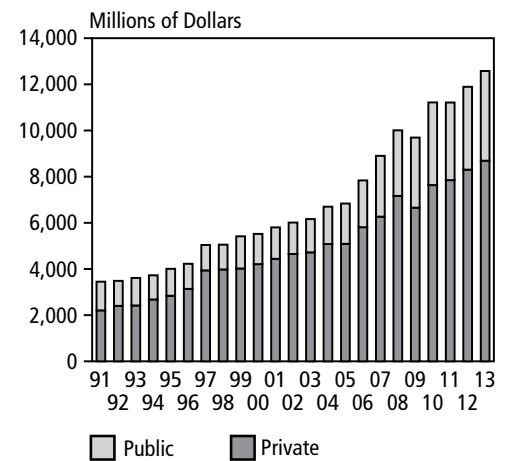
In Manitoba, the stable economic and labour market performance has been ideal for reassuring potential business and household investors. Private sector capital investment has increased in all but one of the last 25 years, the most consistent profile among provinces. The number of housing units being constructed are the highest since 1987.

The strong and sustained pace of capital spending in Manitoba has elevated its contribution to total domestic real spending in the economy from 16% in 1993 to 23% by 2013. The business sector accounts for most of the capital spending in the province at a 78% share, while the three levels of government (federal, provincial and municipal) account for 21%, and the non-profit institutions serving households account for 1%.

Over the past two decades, Manitoba has experienced significant growth in nominal capital spending, averaging 6.5% annually, fourth strongest among provinces following the three energy-rich provinces of Alberta, Saskatchewan and Newfoundland. Spending by businesses (6.6%), governments (6.2%) and non-profit institutions (6.8%), increased at a similar annual pace over this period.

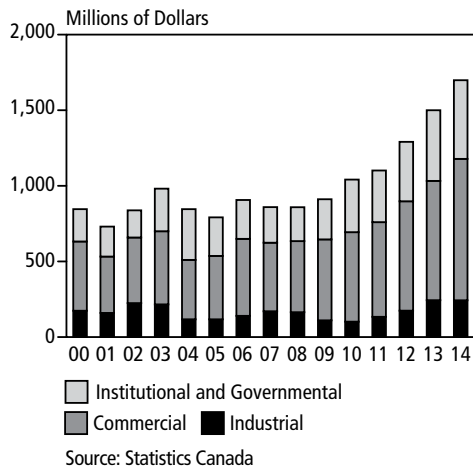
In the four years following the recession, cheap imports, through an appreciating Canadian dollar and strong population growth, propelled business investments up by 8.0% annually, with spending on machinery and equipment increasing by 10.1% annually and housing investments increasing by 8.9%. The three levels of government moderated investment spending to 5.9% annually from 2009 to 2013.

Capital Investment, 1991-2013



Source: Statistics Canada

Investment in Non-Residential Construction in Manitoba, 2000-2014



Statistics Canada shows continued strength in capital expenditures in Manitoba in 2014. Nominal investment in non-residential building construction increased by 13.2%. These investments were supported by an 18.5% increase in commercial building projects and an 11.3% increase in institutional building projects. Capital spending on industrial buildings contracted by 0.3% in 2014 after a 39.7% increase in 2013.

Total capital investment in residential properties fell by 0.7% in 2014 with decreased spending on new units largely offset by increased spending on renovations, conversions, mobile units and cottages. Corresponding to fewer housing starts in 2014, investment in new housing units fell by 6.3% last year, while spending on residential renovations, the largest component, continued at a firm pace, increasing by 4.7%.

Looking forward, the Conference Board of Canada has marked the Manitoba construction industry as a growth leader over the short term. "The five-year core infrastructure investment program is contributing growth to the economy in the short and medium terms, and Manitoba should reap the economic benefit of

increased productivity resulting from this investment over the long run. In addition to the immediate positive impact of key strategic infrastructure activities (such as CentrePort, key trade routes, and enhanced flood protection), the boost to the economy will last well past the construction phases."

According to the Conference Board of Canada, the value added in Manitoba's construction sector is expected to increase on average by 6.4% annually from 2014 to 2017, the highest among provinces and above the 2.6% annual national increase.

Foreign Merchandise Exports

Globalization and trade agreements have encouraged more trade across countries. As these new opportunities open, Manitoba businesses and agricultural producers are taking advantage by increasing volumes and broadening markets.

Over the last 20 years, real exports have increased by 4.0% annually, the second-fastest growth among provinces and above the national increase of 3.3%. In the post-recession period, Manitoba's exports grew the fastest among non-resource based provincial economies. This solid pace of growth has increased the contribution of exports from 43% of total real expenditures in 1993 to 58% by 2013.

Centrally located in North America, Manitoba also has one of the most balanced export markets in Canada. On average, over 52% of Manitoba export sales are destined for international markets, and 48% for provincial markets. The U.S. dominates the international market with 67% share of all foreign merchandise exports. This is considerably lower than the national average of 77%, indicating that Manitoba has a lower exposure to the U.S. market than Canada overall.

China is Manitoba's second-largest international export market with 7.5% share of foreign merchandise exports. Manitoba currently exports over \$1 billion in sales to China. Relative to other provinces, at 7.5%, Manitoba has the second-largest share of exports

to China, following British Columbia. Japan is Manitoba's third-largest export market with a 5.3% share and the European Union accounts for 3.5% of Manitoba's foreign export sales.

Provincially, Ontario is by far Manitoba's largest market, accounting for approximately 41% of interprovincial exports (2011 latest information). Alberta accounts for roughly 19% of interprovincial exports, while Quebec and Saskatchewan are relatively equally matched at 13% and 12%, respectively. British Columbia accounts for 10% of interprovincial exports, while the Maritime provinces account for 3%.

Manitoba's export performance has fluctuated since 2009 with swings generated from weather-related changes in grain production and sales. Wet weather and flooding in 2011 and 2012 resulted in a 21% drop in exports of agricultural products, pushing down overall foreign merchandise exports by 2.7%. The bumper crop in 2013 led to a 47% increase in agricultural exports and contributed to a 10.4% increase in overall exports.

Export sales of manufactured goods have grown at a relatively strong pace since 2011, expanding on average by 7.1% annually. Shipments of food products, transportation equipment, and wood products were the main exports driving growth.

With uneven pace of growth in overseas markets, the U.S. has been a key destination for Manitoba exports over the last four years, with sales accelerating by 8.6% annually. In 2014, exports to the U.S. increased by 8.4% to a record \$9.1 billion, with notable sales of manufactured products and primary products (crops and livestock).

Reduced shipments of nickel and processed meat products drove down export sales to China by 2.7% in 2014; however, the Asian market was supported by a 47% increase to Taiwan and a 45% increase to Hong Kong.

Demand for Manitoba goods and services is expected to remain firm in 2015 with stronger growth predicted for the U.S. economy. The weaker currency is also expected to boost sales as Manitoba products become more competitive.

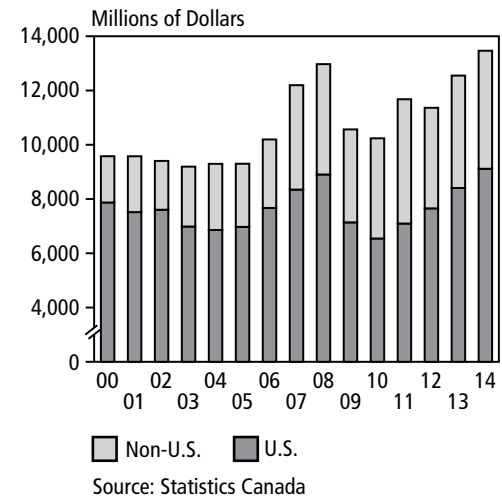
■ ECONOMIC OUTLOOK

Manitoba Finance surveys several independent economic 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 recent dramatic fall in oil prices generated large revisions to the economic forecasts for Canada and all provinces. Further revisions are likely if oil prices move rapidly in either direction. This adds to the already high level of economic uncertainty, especially for sectors that have a high exposure to the oil industry and for the Canadian exchange rate.

The most recent survey shows slower-than-previously-forecast medium-term real GDP growth for Canada and for the large oil-producing provinces, and slightly improved expectations for provinces with relatively high non-energy related exports to the U.S. Canada is expected to grow by 2.1% in 2015 and by 2.2% in 2016, down from 2.5% in 2014.

Manitoba Foreign Merchandise Exports, 2000-2014



According to the Manitoba Bureau of Statistics, Manitoba's real GDP is estimated at 2.4% in 2014. Manitoba Finance survey of economic forecasters estimates real GDP in 2014 at 2.0%.

In Manitoba, the depreciation of the Canadian dollar is expected to lift manufacturing and export sales, while base metal production is expected to increase from two new mines in Northern Manitoba. The livestock industry should continue to benefit from high prices. The core infrastructure program will also support growth throughout the province. As a result, Manitoba's real GDP is expected to increase by 2.5% in 2015, a 0.1% improvement from last year's budget estimates. Nominal GDP is expected to soften to 3.8% in 2015 from an estimated 3.9% increase in 2014. For 2016, real GDP growth is expected to moderate to 2.3%.

The current momentum in the labour market is expected to lift employment growth to 1.2% in 2015 and to 1.1% in 2016. The unemployment rate is expected to remain steady at 5.4% in both 2015 and 2016, reflecting a balanced labour market.

The U.S. is currently viewed as a growth leader among the G7, however, slower-than-anticipated growth in 2015 could pose a risk to the medium-term outlook. The Chinese economy is expected to slow slightly in 2015, but if reforms to mitigate risks in their housing and secondary financial markets fall short, the economy could slow further. Also, weather and commodity price volatility can quickly change the outlook.

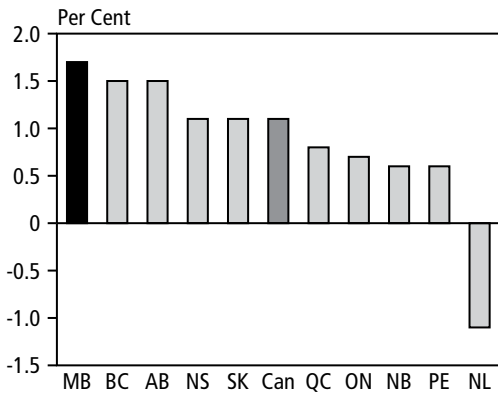
Manitoba Outlook at a Glance

	2014	2015f	2016f
	(per cent change unless noted)		
Gross Domestic Product			
Real	2.4	2.5	2.3
Nominal	3.9	3.8	4.6
Employment	0.1	1.2	1.1
Unemployment Rate (%)	5.4	5.4	5.4
Consumer Price Index	1.9	0.9	2.3
Population	1.3	1.3	1.3

f - Forecast

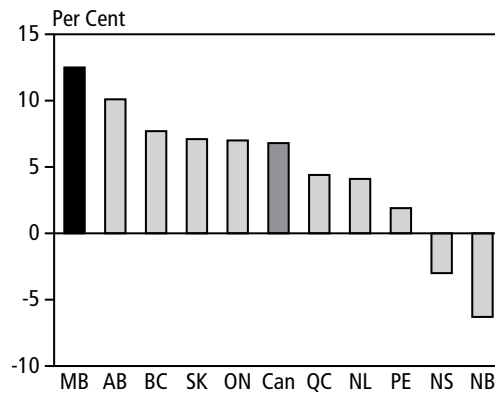
Sources: 2014 Statistics Canada and Manitoba Bureau of Statistics. 2015f and 2016f Manitoba Finance survey of economic forecasters.

Labour Productivity Annual Growth, 2008 to 2013



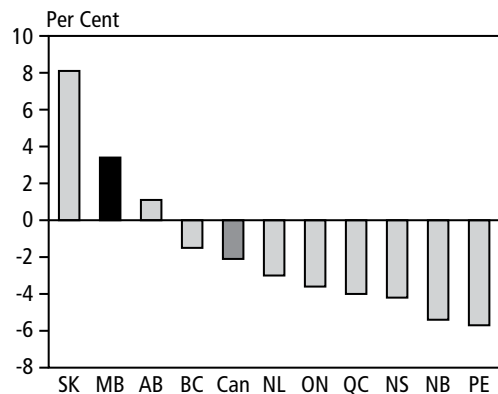
Source: Statistics Canada

Building Permits Annual Growth, 2009 to 2014



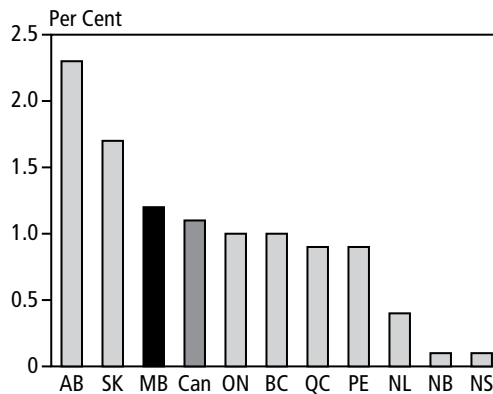
Source: Statistics Canada

Housing Starts Annual Growth, 2004 to 2014



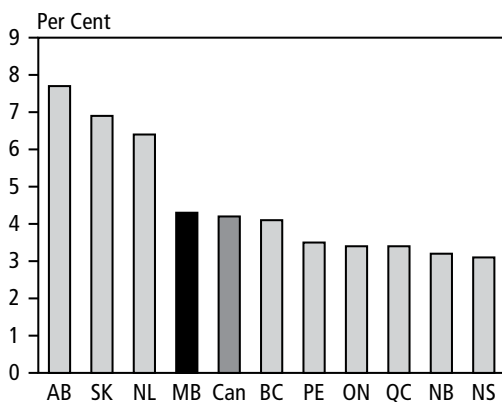
Source: Canada Mortgage and Housing Corporation

Population Annual Growth, 2009 to 2014



Source: Statistics Canada

Labour Income Annual Growth, 2004 to 2014



Source: Statistics Canada

MANITOBA ECONOMIC STATISTICS, 2009 TO 2014

	2010	2011	2012	2013	2014
	(Millions of Dollars)				
POPULATION					
July 1 (000's)	1,221	1,234	1,251	1,265	1,282
GROSS DOMESTIC PRODUCT¹					
Nominal	52,934	55,829	58,881	61,244	63,633
Real (chained 2007 dollars)	52,361	53,541	55,009	56,348	57,700
SECTORS					
Farm Cash Receipts	4,781	4,971	5,146	5,767	n/a
Crops	2,683	2,550	2,718	3,404	n/a
Livestock	1,748	1,921	1,934	1,992	n/a
Direct Payments	349	501	495	371	n/a
Manufacturing Shipments	14,367	15,229	15,398	15,428	15,926
Mining	2,582	3,188	3,005	3,071	3,001
Electric Power Sales	1,569	1,592	1,547	1,805	1,833
Export Sales	410	354	321	389	400
Housing Starts (no. of units)	5,888	6,083	7,242	7,465	6,220
Retail Trade	15,770	16,443	16,652	17,297	18,034
New Car Sales (no. of units)	45,355	48,546	52,236	56,275	57,783
FOREIGN EXPORTS					
Total Exports	10,238	11,678	11,363	12,550	13,466
U.S.	6,545	7,096	7,655	8,407	9,115
LABOUR MARKET					
Labour Force (000's)	643.9	647.4	656.6	661.5	662.1
Employment (000's)	609.0	611.7	621.6	625.8	626.5
Participation Rate (%)	69.4	68.9	68.9	68.6	67.8
Unemployment Rate (%)	5.4	5.5	5.3	5.4	5.4
Average Weekly Earnings (\$)	780.77	801.33	822.99	827.52	862.87
INVESTMENT					
Total	11,218	11,213	11,894	12,578	12,391
Private	7,635	7,850	8,305	8,691	8,522
Public	3,582	3,363	3,589	3,887	3,869
Non-residential	8,567	8,381	8,745	9,446	9,389
Housing	2,651	2,832	3,149	3,132	3,002
CONSUMER PRICE INDEX					
(Index, 2002 = 100)	115.0	118.4	120.3	123.0	125.3
BANKRUPTCIES					
Business	68	60	36	55	48
Farm	6	5	7	13	2
Personal	1,994	1,514	1,276	1,214	1,200

¹ 2014 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.

2010	2011	2012	2013	2014	
(Annual Percentage Change)					
1.0	1.0	1.4	1.2	1.3	POPULATION
					July 1 (000's)
4.5	5.5	5.5	4.0	3.9	GROSS DOMESTIC PRODUCT¹
2.6	2.3	2.7	2.4	2.4	Nominal
					Real (chained 2007 dollars)
					SECTORS
-1.5	4.0	3.5	12.0	n/a	Farm Cash Receipts
-4.7	-5.0	6.6	25.3	n/a	Crops
5.8	9.9	0.7	3.0	n/a	Livestock
-9.6	43.3	-1.2	-25.0	n/a	Direct Payments
-2.1	6.0	1.1	0.2	3.2	Manufacturing Shipments
31.0	23.5	-5.8	2.2	-2.3	Mining
0.5	1.5	-2.8	16.7	1.6	Electric Power Sales
2.6	-13.6	-9.3	21.3	2.9	Export Sales
41.1	3.3	19.1	3.1	-16.7	Housing Starts (no. of units)
5.7	4.3	1.3	3.9	4.3	Retail Trade
3.1	7.0	7.6	7.7	2.7	New Car Sales (no. of units)
					FOREIGN EXPORTS
-3.1	14.1	-2.7	10.4	7.3	Total Exports
-8.3	8.4	7.9	9.8	8.4	U.S.
					LABOUR MARKET
1.6	0.5	1.4	0.7	0.1	Labour Force (000's)
1.4	0.4	1.6	0.7	0.1	Employment (000's)
-	-	-	-	-	Participation Rate (%)
-	-	-	-	-	Unemployment Rate (%)
2.1	2.6	2.7	0.6	4.3	Average Weekly Earnings (\$)
					INVESTMENT
15.7	0.0	6.1	5.8	-1.5	Total
14.7	2.8	5.8	4.6	-1.9	Private
18.0	-6.1	6.7	8.3	-0.5	Public
15.0	-2.2	4.3	8.0	-0.6	Non-residential
18.0	6.8	11.2	-0.5	-4.1	Housing
					CONSUMER PRICE INDEX
0.8	3.0	1.6	2.2	1.9	(Index, 2002 = 100)
					BANKRUPTCIES
4.6	-11.8	-40.0	52.8	-12.7	Business
-64.7	-16.7	40.0	85.7	-84.6	Farm
-18.4	-24.1	-15.7	-4.9	-1.2	Personal

