

Budget Paper A
ECONOMIC REVIEW AND OUTLOOK

ECONOMIC REVIEW AND OUTLOOK

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INTRODUCTION

Economic growth in Manitoba is expected to improve this year as several indicators are pointing towards improving economic activity. The gains, however, are expected to be modest and gradual as demand conditions grow and momentum builds in other provinces and in international markets.

Over the last three years, low primary commodity prices, national and international developments clearly slowed growth in Canada and in Manitoba. They contributed to a rapid drop in capital spending, a decline in export demand and a loss in productive capacity with regards to the unprecedented wildfires in Alberta. These factors kept growth in Canada and Manitoba well below historical annual average rates.

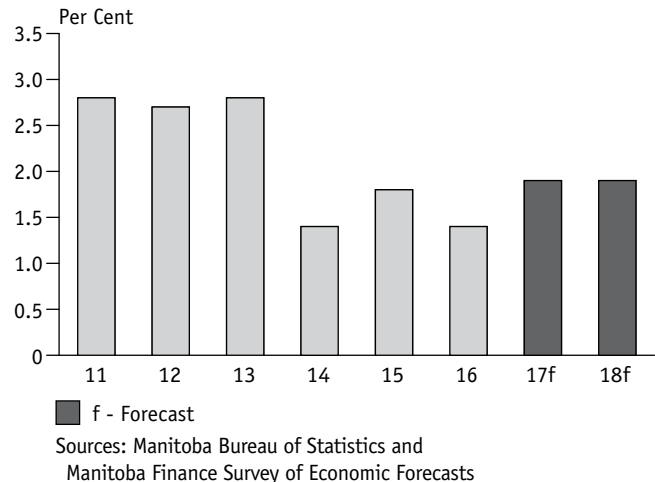
In Manitoba, real exports declined for two consecutive years, reflecting slowdowns in several manufacturing industries and in wholesale trade. Sales from Manitoba's petroleum and agriculture sectors were affected by the drop in commodity prices, despite higher production volumes for several commodities.

Other indicators are showing improvement. Retail sales, for example, accelerated in 2016 as the province marked a long-term record in annual population increase. Manufacturing sales turned around with a modest increase in sales compared to the decline in 2015. Last year, as construction started on several large commercial properties, the value of building permits in the province increased by 13.5%.

More recently, the housing market saw a large jump in the number of housing starts in the first two months of 2017. Similarly, over the same two months, the labour market added 4,700 jobs compared to a decline in jobs in 2016.

Reflecting the improvement in Manitoba and the momentum in Canada and the U.S., the Manitoba Finance Survey of Economic Forecasts shows real GDP increasing by 2.0% in both 2017 and 2018. Manitoba's expected growth in 2017 and 2018 matches the national average forecast and is ranked fourth highest among provinces in both years.

Manitoba Real GDP Growth, 2011-2018f



Improving from a slower pace, the expected medium-term growth is below the 2.4% annual average growth achieved over the past 20 years. Employment is expected to increase at a modest 0.7% growth rate in 2017 and 0.8% in 2018.

Even with the positive trend in Canada and the U.S., uncertainty remains elevated from the ongoing spillovers from previous global shocks and potential new repercussions from any broad policy measures from the new U.S. administration and from U.K.'s exit from the European Union. These factors pose both upside and downside risks to the outlook.

GLOBAL ECONOMY

After advancing by over 5% annually from 2003 to 2007, global economic growth slowed in the last five years. The repercussions from the U.S. subprime crisis, the European sovereign debt crisis, the slowdown in Emerging Market Economies, and more recently the rapid deflation in oil and base metal prices are still being absorbed. These shocks have increased indebtedness, reduced job creation, slowed income growth, and lowered demand for goods and services within countries and across borders.

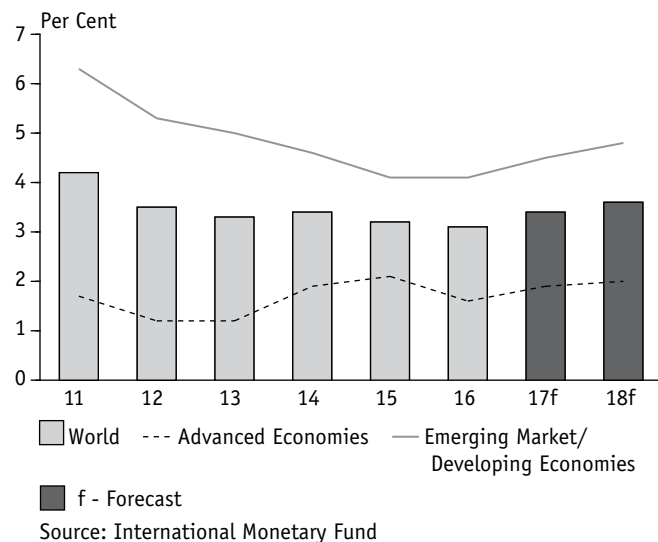
Increasing anti-globalization and anti-free trade sentiment in several advanced economies has come into sharper focus with Great Britain’s decision to leave the European Union (BREXIT) and the election of a new administration in the U.S.

Limited restrictive trade policies and trade disputes are not new. According to World Trade Organization statistics, 1,583 trade-restrictive measures have been implemented by G20 nations since 2009. However, dismantling comprehensive trade agreements is unprecedented and raises concerns about the outlook for global trade.

Affected by these factors, global demand remains weak despite aggressive monetary easing by many central banks around the world. However, there are signals of strengthening momentum in economic activity, particularly in the U.S. This is fueling an improvement in consumer and business confidence, and has led to a modest improvement in the outlook.

In its latest World Economic Outlook, the International Monetary Fund (IMF) forecasts global growth to expand by 3.4% in 2017 and increase further by 3.6% in 2018. This is up from 3.1% in 2016 and 3.2% in 2015. Led by

**Global, Advanced Economies and Emerging Market/Developing Economies
Real GDP Growth, 2011–2018f**



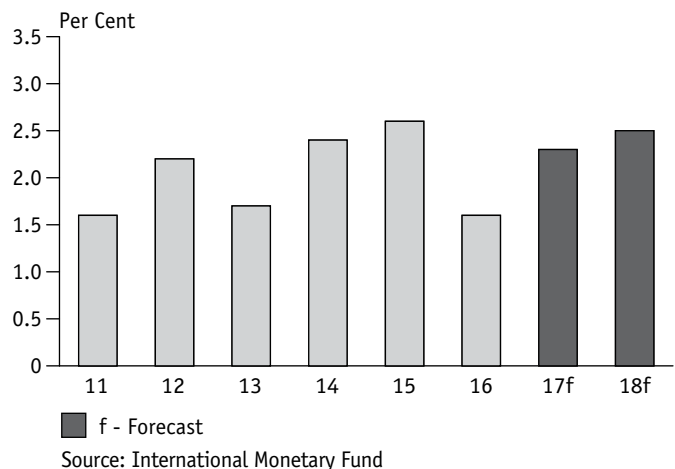
the U.S., growth in advanced economies is expected to improve to 1.9% in 2017 and 2.0% in 2018. As Russia and Brazil emerge from recessions in 2017, overall growth in emerging market and developing economies is expected to increase by 4.5% in 2017 and 4.8% in 2018.

Posting an average annual growth rate of 2.1% since the Great Recession, the American economy has grown well below its historical growth norm of 3.5%. Fundamentals point to stronger growth going forward. The U.S. labour market is tight, with the unemployment rate currently at 4.7%. Several labour compensation indicators are currently near pre-crisis levels, including average hourly earnings of all total private employees at 2.8% year-over-year.

At an annualized pace of 17.6 million units, automobile sales are well above pre-crisis levels. Existing home sales have sharply rebounded to 5.69 million units in January 2017, growing at their fastest pace in almost a decade.

Policy choices by the new U.S. administration on personal and corporate taxation, deregulation, international trade and fiscal stimulus will materially change the outlook for the U.S. economy.

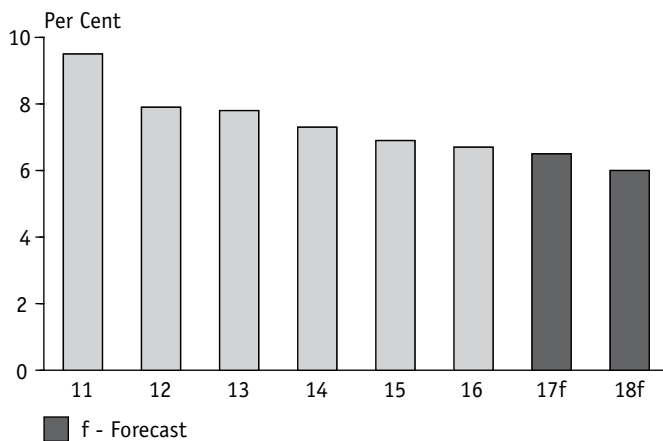
U.S. Real GDP Growth, 2011–2018f



China is Manitoba's second-largest trading partner. Economic growth in China rapidly expanded after China joined the World Trade Organization. The expansion boosted demand for raw materials from across the globe, including Manitoba. In the post-recession period, as exports slowed, China focused on monetary and fiscal stimulus policy to boost domestic demand.

This transition has resulted in high indebtedness and heightened risks of broader credit default. Inflation has also picked up, resulting in higher labour costs and a lowering of China's competitive advantage in

China Real GDP Growth, 2011–2018f



production costs. Given the downward pressures in the domestic economy, Chinese economic growth is expected to moderate to 6.4% in 2017 and ease further to 6.3% in 2018, down from 6.6% in 2016 and 6.9% in 2015.

Japan is Manitoba's third-largest trading partner. Japan has struggled with low growth and deflation for well over two decades. Ageing population and slow growth in wages and salaries are other factors contributing to anemic economic growth conditions. Despite the best efforts of the Bank of Japan, increasing private consumption remains a challenge.

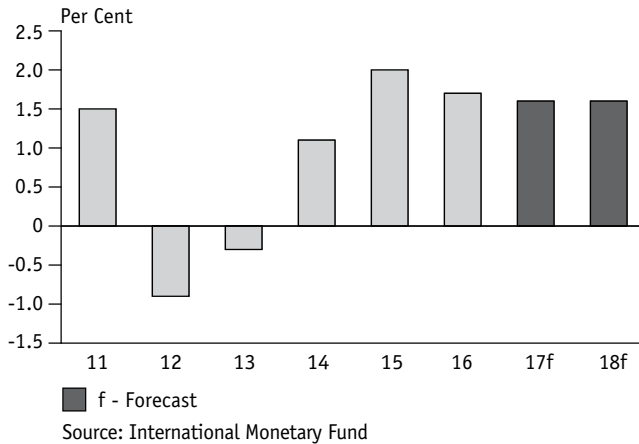
In 2016, the Japanese economy expanded at an annualized pace of 1.0% compared to 1.2% in 2015. More importantly, private consumption, which accounts for nearly 60% of the Japanese economy, grew at a modest 0.4% annual rate. The recent depreciation of the currency has provided some support to the economy. Growth in Japan is expected to remain relatively unchanged at 0.8% in 2017 before slowing to 0.5% in 2018.

Mexico is Manitoba's fourth-largest trading partner. The Mexican economy is being impacted by increasing uncertainty from any pending U.S. international trade and immigration policy choices. The currency has already retreated by around 20% against the U.S. dollar in the last 12 months prompting the Mexican central bank to increase its target policy interest rate several times. Reflecting these pressures, the IMF has downgraded Mexico's 2017 and 2018 economic growth forecast by 0.6% – the IMF now foresees the Mexican economy growing by 1.7% and 2.0% in 2017 and 2018, respectively.

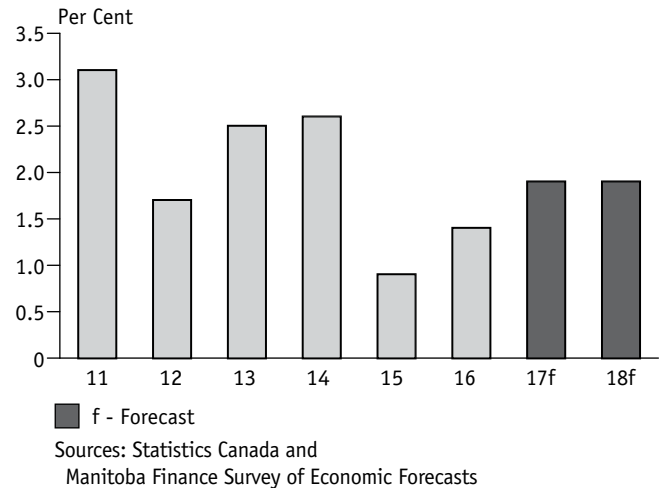
The euro area economy slipped into a recession in the years following its sovereign debt crisis. Growth appears to be stabilizing. The IMF is forecasting real growth rates of 1.6% in both 2017 and 2018, lower than the 2.0% and 1.7% registered in 2015 and 2016, respectively. Labour markets have improved materially and the unemployment rate has dipped below 10% for the first time since 2009, but the youth (18-24 year olds) unemployment rate still remains around 20%.

Euro area-wide core inflation, a good gauge of underlying price pressures, continues to be well below the European Central Bank's (ECB) target rate of 2.0%. The ECB, citing reduced deflationary pressures, has embarked on a very gradual path of normalization by reducing its asset purchase program from €80 billion to €60 billion/month. Partly in response, government bond yields have risen across the common currency area.

Euro Area Real GDP Growth, 2011–2018f



Canada Real GDP Growth, 2011–2018f



CANADIAN ECONOMY

The contraction in the Canadian economy during the Great Recession was one of the shortest and shallowest among the Group of Seven (G7) industrialized economies. The recovery was underpinned by the relatively quick turnaround in commodity prices. However, the collapse of commodity prices in mid-2014 sent the Canadian economy into a recession in the first half of 2015.

Real capital investment has subtracted from economic growth in every quarter since the third quarter of 2014. The decline in capital spending was especially severe in the energy sector, dampening overall real GDP growth to 0.9% in 2015.

As a proactive move to support the contracting economy, the Bank of Canada (BoC) lowered its main policy rate by 0.25% in January 2015. Recognizing that the downside risks to the economy were more widespread than it had initially anticipated, the BoC cut the interest rate by a further 0.25% in July 2015.

This narrowed the Canada/U.S. interest rate differential and prompted a rapid depreciation of the Canadian dollar to US\$0.69 in January 2016. As oil prices firmed, the Canadian dollar recovered and has traded between US\$0.74 and US\$0.77 for much of the last 12 months.

In the U.S., improving economic conditions led the Federal Reserve to reverse their monetary policy stance. Following a pause since December 2008, the Federal Reserve raised their target rate on three occasions in the last 15 months with a possibility of two more hikes in 2017. The now, higher interest rates in U.S. will add downward pressure on the Canadian dollar and may compel the BoC to start increasing interest rates in Canada.

The Canadian economy rebounded in 2016, but annual growth was pulled down by lower business investment in non-residential structures, which posted its second consecutive year of double-digit decline in growth. The decline in non-residential investment was mainly due to weakness in the energy sector. Corporate profits decreased by 4.5% in 2016 and followed a 19.5% drop in 2015. Labour income increased by 2.5%, the smallest increase since the 0.9% decline recorded in 2009.

Employment increase of 133,300 jobs in 2016 came in lower than the 144,400 increase registered the previous year. The average unemployment rate inched up by one-tenth to 7.0% in 2016, and six out of ten jobs created were part-time jobs. The number of hours worked in the economy increased by just 0.8% in 2016.

These annual statistics, however, mask the underlying momentum in the economy in the second half of 2016. The labour market created 235,000 full-time jobs in the second half of last year and a further 187,000 full-time jobs were added in the first two months of 2017. Labour income increased by 1.8% in the fourth quarter after declining in the third quarter.

Household incomes were supported by employment income and by the enhanced Canada Child Benefit introduced by the federal government as a part of the fiscal stimulus in Budget 2016. With the boost in incomes, growth in household disposable income outpaced the growth in household consumer spending, bumping up the household saving rate slightly from 5.0% in 2015 to 5.3% in 2016.

There are signs of a modest recovery in the energy sector as oil prices firmed somewhat after the Organization of the Petroleum Exporting Countries and other key oil producers decided to cut production. The latest Business Outlook Survey from the BoC indicates an increase in capital spending intentions in 2017.

The strengthening U.S. economy combined with a competitively priced Canadian dollar should spur Canadian exports in 2017. In addition, measurable gains from the federal government’s multi-year fiscal stimulus program, which includes a 10-year, \$120 billion infrastructure spending plan covering a wide variety of projects, ranging from public transit to green infrastructure to social housing, is also expected to boost growth in the medium term.

These positive factors are raising the economic growth forecast for Canada over the medium term. The average of growth projections from the Manitoba Finance Survey of Economic Forecasts indicates 2.0% growth in both 2017 and 2018.

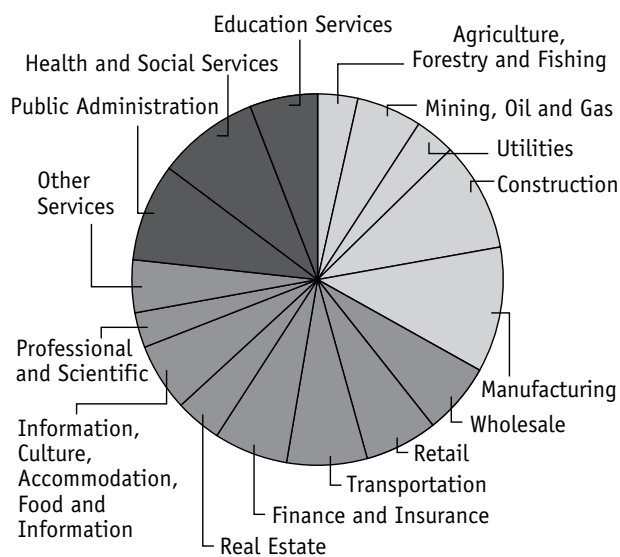
Low commodity prices kept inflation relatively low in the past two years at 1.1% in 2015 and 1.4% in 2016. With economic activity forecast to improve, consumer prices are expected to increase by 2.1% in 2017 and by 2.0% in 2018, closely matching the BoC’s target rate.

Reflecting the slack in the economy, employment is expected to increase by a moderate 1.1% in 2017 and 0.9% in 2018.

MANITOBA ECONOMY

The Manitoba economy has a relatively well-balanced industrial base. The majority of industrial sectors in the province are medium-sized, each contributing over 5% to total value-added output. This provides a noticeable level of economic stability. Over the last 20 years, the compounded average annual growth in real GDP, real exports and employment was the most stable in Canada.

Manitoba GDP By Industry Shares, 2015



Source: Statistics Canada



As with most jurisdictions in Canada, the numerous global economic, financial and commodity price shocks over the past decade have slowed the pace of average annual growth. However, due to industrial diversity within the province, a balance in interprovincial and international export, strong population growth, high

labour force participation, low unemployment rate and the lowest household debt per capita among provinces, Manitoba's annual real GDP growth consistently ranks high in Canada, despite the slower pace of growth.

In 2016, Manitoba's real GDP grew by 1.4% after a gain of 1.8% in 2015 and 1.4% in 2014. Combined over three years the economy expanded by 1.5% annually, well below the 2.4% average annual growth achieved in the last 20 years. Manitoba's real GDP growth in 2016 matched the national average and ranked fourth among provinces.

Growth in 2016 was supported by household spending, capital investment in engineering construction and fewer imports and offset by a decline in exports, reduction in residential capital investment, and decrease in spending on machinery and equipment.

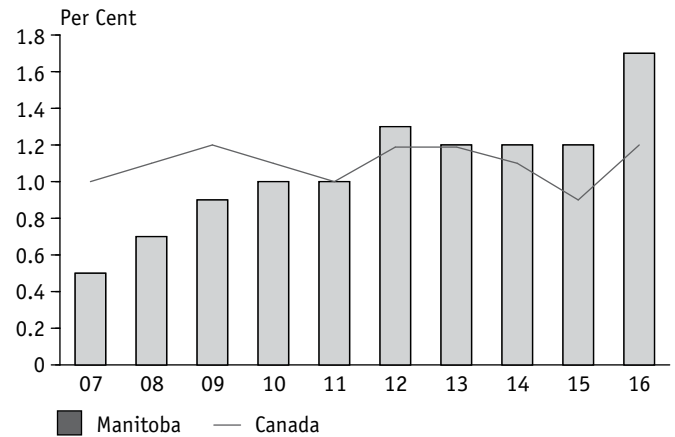
Manitoba's inflation rate averaged 1.3% in 2016, up marginally from 1.2% in 2015. Consumer prices for clothing and footwear fell by 2.9% last year, while food prices increased by 0.3%. Alcohol and tobacco, transportation, shelter and household operations prices increased above the 1.3% average.

Population

Manitoba is experiencing a population boom. Over the last seven years, Manitoba's population increased by over 1.0% per year. Manitoba exceeded Canada's population growth in each of the last six years. The higher rate of population growth is a key factor in supporting overall economic growth in Manitoba, directly lifting retail sales, housing demand and labour supply.

In 2016, Manitoba's population was estimated at 1,318,128 persons, an increase of 1.7%. This was the second highest growth rate among Canadian provinces. Population increased by 22,147 persons, the largest annual increase ever. The 2016 population estimate is as of July 2016, which is considered to be the annual population for the calendar year.

Population Growth, Manitoba and Canada, 2007–2016



Sources: Manitoba Bureau of Statistics and Manitoba Finance Survey of Economic Forecasts

Statistics Canada releases population estimates, on a quarterly basis. The fourth quarter of 2016 was the latest available and shows population at 1,328,346. Population increased by 1.7% or 21,859 persons from a year earlier – the highest annual growth rate among provinces.

The significant increase in the population base can largely be attributed to the Manitoba Provincial Nominee Program. This program provides a broad framework to recruit and nominate skilled workers and business immigrants who have a strong likelihood of becoming successfully established and make a positive contribution to the province. This program helps coordinate business, labour and government interests in expanding employment and business enterprises in Manitoba through immigration.

In October 2016, Manitoba set a new all time 12-month record for international immigration, with 17,392 persons arriving. An increase in the number of births is also lifting population estimates. Supported by immigration and the echo boom generation maturing into the prime child rearing age cohort, the number of births increased by over 17,600 in 2016, the highest number of births since 1972.

These same factors are stabilizing Manitoba's median population age. Since 2009, the Manitoba median

population age stopped increasing and in 2014 it fell by 0.1 of a year and fell again last year by 0.2 of a year. In contrast, the Canadian median rate has continued to increase. In 2016, Manitoba's median age was 37.5 years, third lowest among provinces, and was also below the 40.6 years national average.

The population growth forecast for Manitoba remains positive. Manitoba Finance's survey of demographic forecasts highlights this encouraging trend, with population increases projected at 1.4% and 1.3% in 2017 and 2018, respectively.

Retail Sales

Strong population growth continued to buoy retail activity in Manitoba as consumer spending advanced at its quickest pace in six years. Retail sales rose by 4.4% in 2016, an improvement from the 1.5% increase recorded in 2015. Manitoba's retail sales growth was fourth best among provinces and better than the national increase of 3.7%.

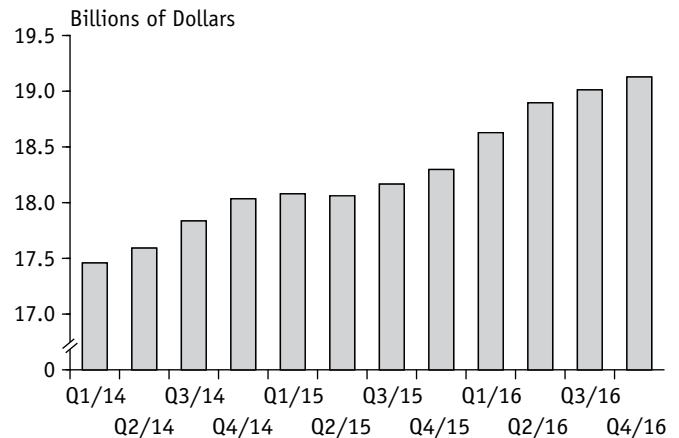
The annual value of retail sales surpassed \$19 billion for the first time ever with monthly sales averaging close to \$1.6 billion. Manitoba's retail sector employed just over 70,000 workers in 2016, an increase of 3.1% from 2015.

In 2016, retail sales rose on the strength of health and personal care stores (18.8%), motor vehicles (5.5%), department stores (5.2%), sporting goods (3.5%) and clothing (3.0%).

The three largest sectors (motor vehicle and parts dealers, food and beverage, and general and department stores) grew by a combined 4.2% in 2016, almost double the 2.3% growth in 2015. These three sectors together make up 62% of all retail sales provincially.

Motor vehicle sales and services represent 26% of all retail sales in Manitoba. Following a national pattern, sales of new trucks and SUVs have been gaining market share of all new vehicle sales in Manitoba, representing 75% of all sales in 2016. Truck and SUV sales increased

Manitoba Retail Sales, Quarterly at Annual Total Sales First Quarter 2014 – Fourth Quarter 2016



Source: Statistics Canada

by 2.5% in 2016 to 43,045 units. Passenger car sales declined for the third consecutive year falling by 10.0% in 2016 (14,383 units) after an 8.8% decline in 2015 and a 7.2% decline in 2014. The total value of new car sales last year in Manitoba increased 6.3% to \$4.0 billion and follows a 5.9% increase in 2015.

The retail sector seems poised for growth over the medium term with continued strong population growth, rising employment, stable economic growth and an increasing variety of new retail merchant stores opening in the province for the first time. For example, the opening this year of the Outlet Collection Winnipeg mall, a \$200 million dollar premium fashion outlet mall, will expand the type of shopping experience available in Manitoba and draw residents and visitors from neighbouring provinces and U.S.

Housing

Capital investment in housing is an important component of the Manitoba economy. In 2016, residential capital investment amounted to \$3.7 billion, or 5.5% of nominal GDP. While its share of total provincial expenditures has somewhat diminished from all-time highs of 6.2% of GDP, recorded during the housing peak years of 2012 and 2013, the housing

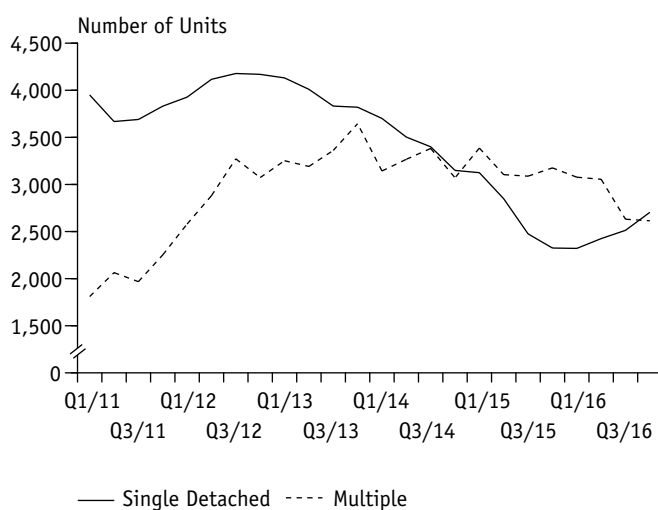
sector nonetheless is a key contributor to the provincial economy. Average employment in the construction sector, of which housing is a major part of, was 47,100 workers, or 7.4% of the provincial labour force. Weekly earnings in the construction sector averaged \$1,144 in 2016, placing it fifth among industries.

Underpinned by a number of favourable factors, housing construction surged in the early post-Great Recession years, reaching 7,465 housing starts in 2013, which was also the highest level recorded since 1987. Some of the factors that contributed to the housing boom include: strong employment and wage gains, strong population growth, historically low mortgage rates, affordable housing and low rental vacancy rates.

Motivated by the low vacancy rate, residential developers focused their attention on adding multi-family housing units during the boom years. As a result, multi-family housing units' share of total homes built rose from an average of 33% in 2007 and 2008, to nearly 50% between 2012 and 2016.

The rapid pace of expansion in construction of new homes led Canada Mortgage and Housing Corporation (CMHC) to conclude that the housing boom in 2013 generated an overhang of inventory in the province and

Manitoba Housing Starts Single Detached and Multiple Units First Quarter 2011 – Fourth Quarter 2016



Source: Canada Mortgage and Housing Corporation

that the market was due for a slowdown. New housing construction did decrease for the next three years, with the number of higher value-added single detached units declining faster than the number of multiple units.

In 2016, the housing market for single detached units reached a balance, with the number of single detached units starting a rebound. Total single detached units increased by 16% in 2016, while the number of multiple units declined by 18% in 2016.

Concerned by the rapid increase in property values in certain jurisdictions and by high indebtedness among Canadian households, the federal government introduced a number of policies in October 2016 to cool the Canadian housing market, including increasing the qualifying interest rates for mortgage approvals and tightening rules on capital gains tax exemption from the sale of a principal residence. According to CMHC, the impact from these measures is difficult to evaluate as potential buyers may substitute for lower priced homes, increase the down payment or exit the housing market altogether.

Housing in Manitoba is one of the most affordable in Canada, as evidenced in the Royal Bank of Canada's Housing Affordability Index. Comparing 14 major urban markets in Canada, they rank Winnipeg as the fifth most affordable place to live in both single-family and condominium categories. In addition, based on Bank of Canada's information from chartered banks, Manitoba has the lowest mortgage debt per person in Canada. Given the high affordability of housing and relatively low debt liability, there is reason to be cautiously optimistic that the impact of the federal government's mortgage rules on the provincial housing market will be limited.

Capital Investment

Capital investment growth in Manitoba moderated to 1.4% in 2016, down from 5.0% in 2015. An increase in expenditures on non-residential structures was offset by a reduction in spending on machinery and equipment, and residential properties.

Due to completion of several major building projects, investment on non-residential structures slowed to 8.7% in 2016 compared to 17.6% in 2015. Building permits information indicates that a rebound in investments is well underway with construction of the \$400 million True North Square, a mixed-use development complex in downtown Winnipeg, and other commercial building projects.

In 2016, the value of non-residential building permits issued in Manitoba increased by 30.1%, with industrial permits up 69.3%, commercial up 30.4% and institutional up 7.6%. Since the second quarter of 2016, total capital spending on building construction increased by 6.3%.

Following the depreciation of the Canadian dollar, spending on machinery and equipment declined for the second consecutive year after a 10.4% gain in 2014. Total spending was down by 3.9% in 2016 following a 1.6% decline in 2015.

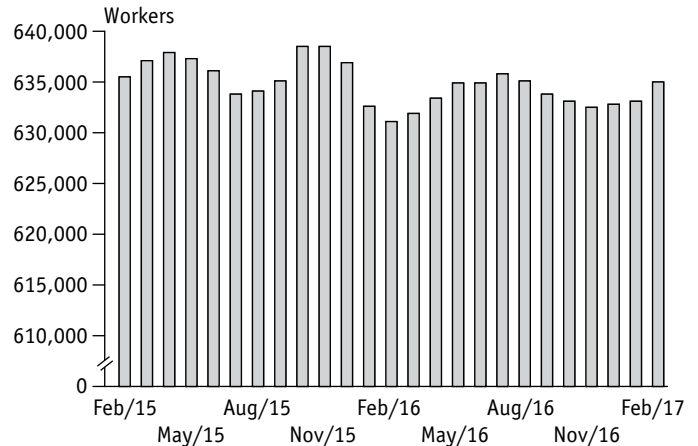
According to Statistics Canada's investment intentions survey, private sector capital spending is expected to increase by 2.0% in 2017. Capital spending in the transportation and warehousing sector is expected to increase by 13% or \$160 million, while spending in the mining and petroleum sector is expected to increase by 26% or \$110 million. Investment in the wholesale trade sector is expected to decline by 56% in 2017 after increasing by 29% annually over the last five years.

Labour Market

Consistent with strong population growth, and for the first time in its history, Manitoba's working age population surpassed the million person mark with a labour force that is now over 676,000 workers. Individual engagement in the labour market is high with the participation rate averaging 67.2%, third highest among provinces and above Canada's rate of 65.9%.

With economic growth moderating, employment growth was relatively flat in 2016, down by 2,600 jobs after increasing by 9,700 jobs in 2015. Similarly to Canada,

Manitoba Employment Trend, Three-Month Moving Average Employment February 2015 – February 2017



Source: Statistics Canada

the labour market in the province has been gaining strength in the latter part of 2016 and is continuing into 2017.

On a year-to-date basis in February 2017, employment is up by 6,200 jobs, or 1.0% higher than 2016. Full-time employment increased by 6,700 jobs and part-time employment fell by 500 jobs. Manitoba's unemployment rate averaged 6.0%, the second lowest among provinces and below Canada's unemployment rate of 6.7%.

Over the same period, the number of service sector jobs increased by 4,700, while the number of goods-producing sector jobs increased by 1,600. Finance, insurance, real estate and leasing industries has the largest gain in jobs at 5,100 followed by professional, scientific and technical services jobs at 1,800. Recovering from a sharp loss in late 2014 and early 2016, employment in mining, oil and gas is up by 1,100 jobs in 2017.

Employment has declined in business, building and other support services (1,100 jobs), educational services (900 jobs), and accommodation and food services (900 jobs).

The benefits of industrial diversity can be observed in the labour market. Manitoba has the most stable

labour market among provinces, averaging the lowest level of annual fluctuation in employment growth over the long term. Annual employment growth averages around 1.0%. The province is generally among the top three in Canada with the lowest unemployment rate and the top three with the highest rate of labour force participation.

Manufacturing

Manufacturing is the largest industrial sector in Manitoba, accounting for 10% of provincial GDP and 10% of employment. The sector generated \$17.4 billion in nominal sales and added \$3.1 billion to wages and salaries in 2016. Manitoba is one of four provinces in Canada that had more manufacturing workers in 2016 compared to the low in 2010.

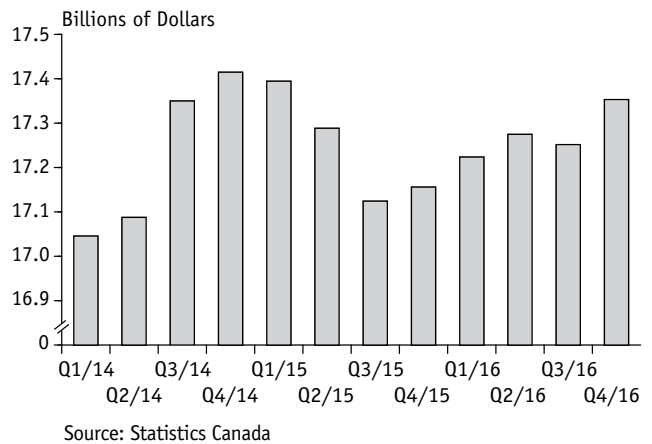
Manitoba's manufacturing sector, like the overall economy, is relatively diverse. The largest industry in manufacturing is food processing, which provides a broad range of products, such as processed meat and potato products, milled grain and oilseeds, dairy products and industrial agricultural feed. The second-largest industry is transportation equipment, which is comprised of aerospace products and parts manufacturing, and motor vehicle body and trailer manufacturing.

Other notable industries within manufacturing include machinery equipment (agricultural implements), primary metals, chemicals (pharmaceuticals and agricultural), fabricated metal products (structural steel), wood products (cabinets, millwork and lumber), printing, and electrical equipment (industrial and hydroelectric transformers, and electronic components).

Most manufactured products from Manitoba are exported to international and interprovincial markets. The decline in profitability and incomes in many sectors that followed the drop in commodity prices in 2014 clearly reduced capital spending and demand for manufactured products.

Manufacturing sales turned around in the second half of 2015 and advanced at a moderate pace in 2016. Total

Manitoba Manufacturing Sales, Quarterly at Annual Total Sales First Quarter 2014 – Fourth Quarter 2016



sales increased by 1.3% with sales of durable goods increasing by 1.1% and sales of non-durables increasing by 1.7%. Last year, the increase in manufacturing sales was led by wood products (30.3%), printing (5.1%) and processed food products (4.1%). Fabricated metal product sales edged up 1.8%, as investment in construction of new buildings turned around in mid-2016.

Supported by steady U.S. demand for urban transit and inter-city buses and global demand for passenger aircrafts, transportation equipment sales remained unchanged at \$2.8 billion in 2016. Falling agriculture commodity prices and trade related issues impacted demand for Manitoba made tractors and harvesting equipment. As a result, machinery equipment sales declined by 1.4% in 2016 and followed a 12.7% drop in 2015. Chemical sales decreased 3.7%, as increased pharmaceutical sales were offset by weak basic chemical and fertilizer sales.

Mining and Petroleum

The mining, quarrying and petroleum extraction (mining and petroleum) sector makes up the largest primary resource sector of the Manitoba economy. The sector contributed \$3 billion, or 5.4% of provincial real GDP output in 2015. Mining and petroleum companies

spent, on average, almost \$1 billion annually on capital projects since 2009.

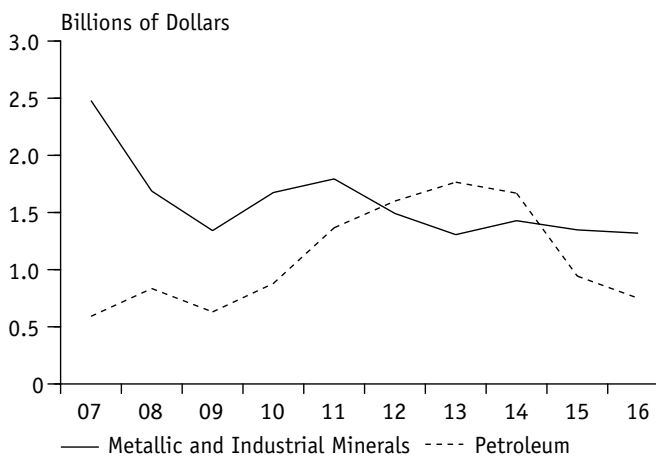
Mining and petroleum can be divided into three broad categories: metallic minerals, industrial minerals and petroleum. The principal metallic minerals mined in Manitoba are nickel, copper, zinc and gold. Industrial mineral production consists principally of sand and gravel, stone, peat moss, lime, as well as granite, gypsum and limestone. The petroleum industry produces a light sour blend of crude oil that is exported via pipeline and by rail to refineries in eastern Canada, and the northeast and north-central areas of the United States.

The collapse of oil prices in 2014 had a significant impact on the mining and petroleum sector in Manitoba. Prior to the oil price drop, total value of mining and petroleum was relatively stable from 2011 to 2014 averaging \$3.1 billion a year in nominal dollars. The 56% plunge in oil prices from the 2013 average to the 2016 average contributed to a reduction in both the volume and value of crude oil production in the province. The volume of oil production fell from an all-time record of 19.3 million barrels in 2013 to 14.7 million barrels in 2016. The value of oil production fell by 42% from \$1.8 billion to \$750 million over the same period.

Total sales from metallic minerals has been steady in the past four years, averaging \$1.1 billion annually, but is lower compared to the peak recorded in 2007 of \$2.3 billion. In 2016, the value decreased by 2.1% to \$1,090 million. The value of industrial minerals mined has steadily climbed since the mid-1990s and marked a peak in 2015 at \$280 million, accounting for 12% of total mining and petroleum that year. In 2016, the value declined to \$229 million.

Capital spending in the mining sector was an important contributor to overall economic growth in the early years of the post-Great Recession recovery and grew by a compounded annual growth rate of 45% between 2009 and 2012 to \$1.3 billion. As a result of the collapse of commodity prices, capital spending in the mining

Manitoba Value of Mining and Petroleum Production, 2007–2016



Sources: Natural Resources Canada and Manitoba Petroleum Branch

sector also declined sharply between 2014 and 2016. According to a survey published by Statistics Canada, mining companies spent \$427.6 million in capital expenditures in 2016. Capital spending by mining companies is expected to break a four-year trend of declines and increase by roughly 26% to \$537.2 million in 2017.

The volume of base metal extraction in Manitoba got a boost in 2014 with the opening of two new mines. HudBay Minerals Inc. (Hudbay) officially opened two mines in Manitoba in September 2014: Lalor mine and Reed mine. The Lalor mine, which is located 13 kilometres west of Snow Lake, contains gold, zinc, copper and silver. The Reed mine, located 45 kilometres west-southwest of Snow Lake, is a joint venture between Hudbay and VMS Ventures Inc. and contains mostly copper.

Market conditions for nickel have not been favourable, but extraction levels have been steady in Manitoba. Nickel ore production averaged 26.0 Mt in the past six years. However, prices have fallen by almost 60% since 2011 as global supply outstripped demand, leading to burgeoning inventory. Extraction levels were up 1.7% in 2015. However, the value of nickel production fell

by 16% in 2016 to \$317.5 million. As the supply and demand conditions continue to balance, future markets are indicating confidence for nickel prices to improve, with the London Metal Exchange's nickel futures data pointing to steady increases in nickel prices in the medium term.

Copper mining in the province, which held up relatively well in the early years of the post-Great Recession period, fell to a near-term low 30.1 Mt in 2013. Copper mining has rebounded strongly since. The 42.9 Mt of copper mined in 2016 represents a roughly 40% increase compared to 2013 levels and is 8% above 2015 output. Copper prices reached an all-time high of approximately US\$9,900/Mt in February 2011, but have steadily declined for much of the next five years. In 2016, copper prices fell by almost 12% from 2015, thereby lowering the value of copper production by 3% to \$272.2 million. Similar to nickel, markets are anticipating a modest improvement in copper prices this year, with prices increasing by roughly 20% compared to prices recorded last year.

Zinc mining in the province tumbled in the years following the Great Recession and reached an all-time low of 73.8 Mt in 2011. Zinc ore extraction has rebounded since with 102.2 Mt mined in 2016, close to levels recorded prior to the Great Recession. Market for zinc has been very strong in the last 12 months, with prices rising by roughly 80% to around US\$2,700/Mt. There are several reasons to be optimistic about the outlook for zinc, including a supply strain that is likely to continue due to natural depletion and strategic idling of production by large producers. The increase in volume and price drove up the value of zinc production by 36% in 2016 to \$275.9 million.

Gold production has been cyclical in the province with an upward trend from 2005 to 2012 followed by a decline. In 2016, 3,104 kilograms of gold was extracted, roughly 45% lower compared to the near-term high of 5,477 kilograms in 2012 and down 4% from 2015. The decline in production closely follows prices, which have declined annually since 2011. However, prices rose by

almost 8% lifting the value of gold production by 7% in 2016 to \$166.2 million.

Manitoba has had a long-standing reputation as a desirable destination for mining investment. That reputation was recently solidified by the Fraser Institute's 2016 Survey of Mining Companies, which found the province the second-most-attractive in the world for mining investment.

Agriculture

Agriculture is an important contributor to the Manitoba economy. Primary agricultural production directly represents 3.0% of provincial GDP. Agriculture has both direct and indirect linkages to food manufacturing, transportation and storage, retail trade, wholesale trade, and finance and insurance. Manitoba has major food production facilities for pork, potatoes, turkey and chicken, oilseeds, grains and dairy. Food production contributes almost a quarter of total manufacturing sales in the province.

Crop production estimates from Statistics Canada indicate that 2016 was another high volume production year for Manitoba grains and oilseeds. Overall production was the second-largest harvest on record after the bumper crop year of 2013.

Many crop producers changed their crop mix for the 2016 season, away from barley, oats and wheat, and more toward soybeans, corn and peas. The growing season opened with an early spring and good precipitation levels for seeding. General weather conditions were good through the early summer months. However, untimely precipitation in late summer and during harvest affected the quality of some cereal crops.

Estimates from Statistics Canada indicate soybean production set a new record, increasing by 27.2% over 2015 and is now the third-largest cash crop behind canola and wheat. Manitoba's soybean production represents 27.4% of Canada's total production and is up from just 7.3% a decade ago.

Production was also notably up for peas (109.9%), rye (64.9%) and corn (48.4%), and down for oats (-15.5%), barley (-4.6%) and canola (-4.0%). Wheat production was unchanged but despite this, production of Manitoba's two key crops, wheat and canola, remained above the recent five-year average levels. Manitoba produced 17% of Canada's total canola production, and 90% of Canada's processed canola is exported as either seed, oil or meal.

Crop prices remain under pressure, as global inventory of grains and oilseeds are high due to favourable growing conditions. Strong demand has largely offset this supply pressure and Manitoba prices have remained mostly flat for wheat and canola in 2016.

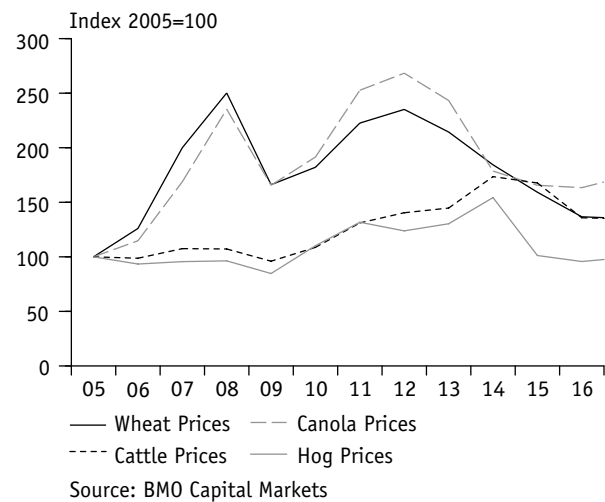
In the livestock sector, Manitoba farmers reported 1.14 million cattle on their farms on January 1, 2017, up 1.3% from January 1, 2016. For perspective, the current inventory is well below 1.49 million cattle which were on farms in January 2005 and 2006, during the bovine spongiform encephalopathy (BSE) outbreak in Canada, and fewer farmers are reporting cattle on their farm. In 2016, only 6,670 farms had cattle, 1% lower than last year.

Total disposition (exports and food processing) of Manitoba cattle and calves rose 2.3% in 2016 compared to 2015, driven by higher processing levels. Total processing numbers increased 20.1% to 69,700 million heads in 2016.

Livestock prices are determined in the North American market. Lower feed costs and better weather conditions has increased the supply in the U.S., thereby prices for calves in Manitoba were down 29% averaging \$215.64/cwt, while cow prices were 27% lower, averaging \$90.27/cwt compared to 2015. However, the prices remained above the previous five-year average.

Manitoba farmers had 3.1 million pigs on their farms on January 1, 2017, up 1.4% from January 1, 2016. This is the highest inventory for the January reporting period. There were 600 farms reporting pigs on farms, less than 1% higher than last year.

Farm Commodity Price Indices, 2005–2016



Total disposition of Manitoba pigs declined by 1.2% in 2016 compared with 2015, driven by lower international export levels, which declined 4% from 2015 to 3.16 million head in 2016.

In 2016, prices for hogs in Manitoba were down 3.5% compared to 2015, averaging \$157.58/100 kg. These prices were 6.3% lower than the previous five-year average. Contributing to the hog price weakness has been the control of the porcine epidemic diarrhea (PED) virus that has resulted in increasing hog herds in the U.S.

Cattle producers reported a 26.1% decrease in cattle and calves cash receipts in the first three quarters of 2016, compared to the first three quarters of 2015. Manitoba hog producers have seen a decline in receipts over the same period, down 3.2%. The decline in livestock prices has reduced livestock cash receipts in 2016, even with increased marketing. In 2015, Manitoba produced about 30% of Canada's pigs and is the largest pig exporting province in Canada.

Agriculture Canada estimates that 2016 total farm cash receipts for Manitoba will be \$6.0 billion, a 2.4% increase from 2015. Projected estimates of 2016 crop receipts indicate a 14.1% increase to \$3.7 billion, while livestock receipts were projected to decline 9.4% to \$2.1 billion.

The pressure on wheat and canola prices is expected to continue in 2017 as grain inventory remains high from increased global production. The lower value of the Canadian dollar is moderating the impact from low prices.

Lower feed prices, and an improvement in pasture conditions in Texas and other cattle producing states, supported an increase in U.S. cattle numbers. With increased supply, cattle prices are expected to further decline in 2017. The relatively short gestation period for hogs (compared to cattle) allows producers to react more quickly to market signals. Prices are expected to remain relatively stable over the near term as supply and demand conditions become more aligned.

Exports

Global economic, financial and commodity price shocks can directly impact the economy through exports. The ongoing volatility and uncertainty in global trade has lowered real international exports' contribution to Manitoba's economic growth. From 2007 to 2016, the share of international exports to real GDP in Manitoba declined from 33% to 27%. In contrast, the share of interprovincial exports has remained relatively stable, declining from 29% to 27% over the same period.

Weaker global demand has had a larger impact on Manitoba's export volumes compared to interprovincial trade volumes. From 2007 to 2016, annual growth in real international exports slowed to 0.1% compared to 4.0% in the prior nine-year period. Real interprovincial trade, in contrast, slowed to 1.3% from 3.4% annual growth over the same period. Combined, Manitoba's total real exports slowed to 0.7% annual growth from 3.7% annual growth earlier. The pattern continued into 2016 as real international exports fell by 1.3% and real interprovincial exports increased by 0.3%.

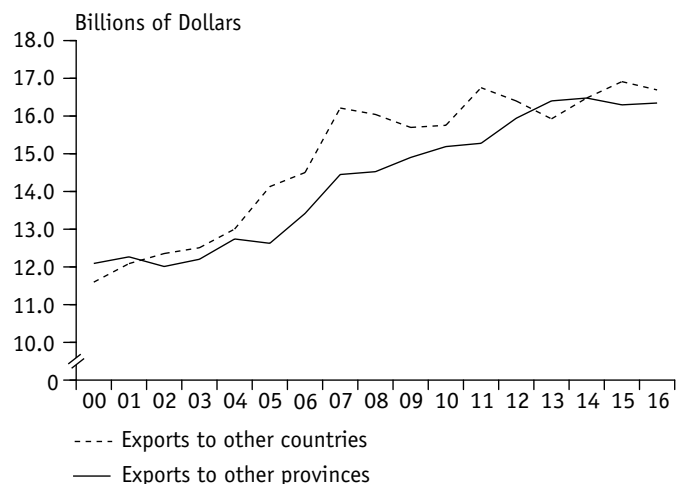
Since Manitoba has the most even export market among provinces with 48% of exports shipped to international markets and 52% shipped to other provinces, the balance derived from the varying growth rates of

international and interprovincial exports provide stability in overall growth in Manitoba. As a result, Manitoba has the most stable growth in real total exports in Canada.

The U.S. is Manitoba's largest international export destination, accounting for 68% of all merchandise shipments that crossed international borders in 2016. Manitoba's exposure to the U.S. market is lower than the national average, where 75% of Canadian exports are shipped to the U.S. The three other largest trading partners for Manitoba in 2016 were the China, Japan and Mexico, which purchased 7.1%, 5.5% and 2.7%, respectively, of the all merchandise shipped internationally.

Manitoba's total nominal international merchandise exports declined 2.1% in 2016. Nonetheless, the province fared better than Canada, which saw its exports fall by 2.6% last year. Manitoba's international export decline was primarily due to the 3.8% drop in exports to the U.S. A 1.9% increase in exports to non-U.S. markets contributed to partially offset the decline in exports to the U.S.

Manitoba Real International and Interprovincial Exports, 2000–2016



Sources: Statistics Canada and Manitoba Bureau of Statistics

The diversity of the province's economy is reflected in its exports, with no export accounting for more than 25% of the total. The five largest exports of the province in 2016 were grains and oilseed products (20.2%), transport equipment (12.7%), livestock and processed meats (10.7%), machinery and electrical equipment (9.5%), and chemical products (8.9%).

Transport equipment (4.7%), livestock and processed meats (4.2%), and grains and oilseed products (1.9%) posted the biggest gains among exports that exceeded a billion dollars in value in 2016. Reflecting low commodity prices and weak investment conditions, base metals and articles of base metal (-20.7%), machinery and electrical equipment (-6.6%), and chemical products (-3.0%) declined the most among major exports.

Many analysts predict that the strengthening recovery in Canada and the U.S., and the Canadian dollar's depreciation should boost Manitoba's exports in 2017. Furthermore, implementation of the Canada/European Union (EU) Comprehensive Economic and Trade Agreement will expand export opportunities for Manitoba. This agreement will provide expanded export opportunities for Manitoba beef, pork, wheat, canola, freshwater fish and electronics sectors.

Manitoba's services sector, the largest sector in Manitoba's economy, will also have preferential access to the EU services market and Manitoba companies will gain access to the \$2.7 trillion/year EU government procurement market. Upon implementation, 98% of tariff lines will be duty free and 99% of tariff lines will be duty free within seven years. Currently only 25% of EU tariff lines are duty free.

China also partially lifted the ban on Canadian cattle that was imposed following the BSE ban. Exports of bone-in beef from Canadian cattle under 30 months of age will now resume. This follows Taiwan lifting its temporary ban on Canadian beef in July 2016 and Mexico lifting its ban in October 2016.

MANITOBA OUTLOOK

The number of large economic, financial and commodity market events with global implications has increased in recent years due to a broader integration of trade. The integration provides benefits, but at the same time exposes countries to economic and financial volatilities. In addition, the spillovers from global shocks are enduring longer than expected, generating uncertainty and risks to the outlook.

The consistent strength in several major economic indicators is lifting consumer and business confidence, and leading to a modest improvement in the outlook. The current outlook incorporates the economic momentum that is building in the U.S. and in Canada.

According to the Manitoba Finance Survey of Economic Forecasts, Manitoba's real GDP is expected to increase by 2.0% in 2017 and 2018, placing the province fourth highest in Canada, in both years, and up from 1.4% in 2016. The medium-term real GDP forecast is well below the 2.4% average annual growth achieved in the past two decades.

Nominal GDP (the broadest measure of the tax base) is expected to increase by 3.6% in 2017 and by 3.8% in 2018. This is well below the 4.3% annual average growth historically. Due to a moderation in the expected growth, Manitoba's unemployment rate is expected to average 6.1% in 2017 and 5.9% in 2018, the second-lowest rate among provinces in 2017 and tied for lowest in 2018.

Uncertainty about policy choices taken by the EU regarding BREXIT and by the new U.S. administration regarding personal and corporate taxation, deregulation, international trade and infrastructure spending combined with the lingering effects from past shocks present upside and downside risks to the outlook.

Manitoba Outlook at a Glance

| | 2016 | 2017f | 2018f |
|------------------------|--------------------------------|--------------|--------------|
| | (Per Cent Change Unless Noted) | | |
| Gross Domestic Product | | | |
| Real | 1.4 | 2.0 | 2.0 |
| Nominal | 2.0 | 3.6 | 3.8 |
| Employment | -0.4 | 0.7 | 0.8 |
| Unemployment Rate (%) | 6.1 | 6.1 | 5.9 |
| Consumer Price Index | 1.3 | 1.9 | 2.1 |
| Population | 1.7 | 1.4 | 1.3 |

f – Forecast

Sources: Statistics Canada, Manitoba Bureau of Statistics and Manitoba Finance Survey of Economic Forecasts (2017f–2018f)

MANITOBA FINANCE SURVEY OF ECONOMIC FORECASTS 2017f–2018f

Real GDP Growth Forecast (%)

| | 2017f | 2018f |
|-----------|------------|------------|
| CA | 2.0 | 2.0 |
| NL | -2.0 | 0.8 |
| PE | 1.3 | 1.3 |
| NS | 1.2 | 1.3 |
| NB | 0.7 | 0.9 |
| QC | 1.7 | 1.6 |
| ON | 2.3 | 2.1 |
| MB | 2.0 | 2.0 |
| SK | 1.7 | 1.9 |
| AB | 2.3 | 2.3 |
| BC | 2.2 | 2.2 |

Nominal GDP Growth Forecast (%)

| | 2017f | 2018f |
|-----------|------------|------------|
| CA | 4.2 | 3.9 |
| NL | 1.3 | 3.3 |
| PE | 2.9 | 3.1 |
| NS | 2.9 | 3.1 |
| NB | 2.7 | 2.6 |
| QC | 3.4 | 3.3 |
| ON | 4.2 | 4.0 |
| MB | 3.6 | 3.8 |
| SK | 4.7 | 4.1 |
| AB | 6.2 | 5.0 |
| BC | 4.1 | 3.9 |

Unemployment Rate Forecast (%)

| | 2017f | 2018f |
|-----------|------------|------------|
| CA | 6.8 | 6.6 |
| NL | 14.3 | 14.8 |
| PE | 10.9 | 10.7 |
| NS | 8.1 | 8.1 |
| NB | 9.5 | 9.3 |
| QC | 6.6 | 6.5 |
| ON | 6.4 | 6.2 |
| MB | 6.1 | 5.9 |
| SK | 6.3 | 6.0 |
| AB | 8.3 | 7.7 |
| BC | 5.9 | 5.9 |

Employment Growth Forecast (%)

| | 2017f | 2018f |
|-----------|------------|------------|
| CA | 1.1 | 0.9 |
| NL | -1.9 | -1.3 |
| PE | 0.3 | 0.4 |
| NS | 0.4 | 0.3 |
| NB | 0.4 | 0.3 |
| QC | 1.3 | 0.7 |
| ON | 1.2 | 1.1 |
| MB | 0.7 | 0.8 |
| SK | 0.5 | 0.8 |
| AB | 0.5 | 1.1 |
| BC | 1.4 | 1.1 |

f – Forecast

Source: Manitoba Finance Survey of Economic Forecasts

MANITOBA ECONOMIC STATISTICS, 2012 TO 2016

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|-----------------------|--------|--------|--------|--------|
| | (Millions of Dollars) | | | | |
| POPULATION | | | | | |
| July 1 (000's) | 1,250 | 1,266 | 1,281 | 1,296 | 1,318 |
| GROSS DOMESTIC PRODUCT¹ | | | | | |
| Nominal | 59,802 | 62,322 | 63,779 | 65,717 | 67,053 |
| Real (chained 2007 dollars) | 55,665 | 57,204 | 57,996 | 59,065 | 59,902 |
| INVESTMENT | | | | | |
| Residential Construction | 3,211 | 3,476 | 3,539 | 3,336 | 3,252 |
| Housing Starts (no. of units) | 7,242 | 7,465 | 6,220 | 5,501 | 5,318 |
| Building Permits | 2,486 | 2,608 | 2,815 | 2,313 | 2,626 |
| Non-Residential Building Construction | 1,352 | 1,477 | 1,649 | 1,748 | 1,637 |
| Total Capital and Repair Investment | 7,795 | 7,620 | 8,633 | 9,493 | 10,213 |
| Private Capital Investment | 4,388 | 4,331 | 5,537 | 4,892 | 4,485 |
| Public Capital Investment | 3,407 | 3,289 | 3,096 | 4,600 | 5,728 |
| SECTORS | | | | | |
| Manufacturing Shipments | 16,333 | 16,930 | 17,415 | 17,156 | 17,386 |
| Retail Trade | 16,652 | 17,297 | 18,034 | 18,297 | 19,111 |
| Wholesale Trade | 15,891 | 15,750 | 17,031 | 17,254 | 17,079 |
| Farm Cash Receipts | 5,146 | 5,833 | 5,978 | 5,849 | 5,992 |
| Crops | 2,718 | 3,468 | 3,254 | 3,211 | 3,664 |
| Livestock | 1,934 | 1,993 | 2,493 | 2,334 | 2,114 |
| Direct Payments | 495 | 371 | 231 | 305 | 214 |
| Mining and Petroleum | 3,092 | 3,071 | 3,097 | 2,291 | 2,069 |
| New Vehicle Sales (no. of units) | 52,236 | 56,275 | 57,783 | 57,986 | 57,428 |
| FOREIGN EXPORTS | | | | | |
| Total Exports | 11,363 | 12,550 | 13,451 | 13,724 | 13,437 |
| U.S. | 7,655 | 8,407 | 9,093 | 9,528 | 9,162 |
| LABOUR MARKET | | | | | |
| Labour Force (000's) | 656.6 | 661.5 | 662.1 | 674.1 | 674.9 |
| Employment (000's) | 621.6 | 625.8 | 626.5 | 636.2 | 633.6 |
| Participation Rate (%) | 68.9 | 68.6 | 67.8 | 68.3 | 67.6 |
| Unemployment Rate (%) | 5.3 | 5.4 | 5.4 | 5.6 | 6.1 |
| Average Weekly Earnings (\$) | 822.66 | 827.34 | 862.99 | 880.17 | 888.52 |
| CONSUMER PRICE INDEX | | | | | |
| (Index, 2002 = 100) | 120.3 | 123.0 | 125.3 | 126.8 | 128.4 |

¹ 2016 Manitoba Bureau of Statistics

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

Sums may not add due to rounding.

| 2012 | 2013 | 2014 | 2015 | 2016 | |
|----------------------------|-------|-------|-------|-------|---|
| (Annual Percentage Change) | | | | | |
| 1.3 | 1.2 | 1.2 | 1.2 | 1.7 | POPULATION |
| | | | | | July 1 (000's) |
| 6.1 | 4.2 | 2.3 | 3.0 | 2.0 | GROSS DOMESTIC PRODUCT¹ |
| 2.7 | 2.8 | 1.4 | 1.8 | 1.4 | Nominal |
| | | | | | Real (chained 2007 dollars) |
| | | | | | INVESTMENT |
| 13.4 | 8.2 | 1.8 | -5.7 | -2.5 | Residential Construction |
| 19.1 | 3.1 | -16.7 | -11.6 | -3.3 | Housing Starts (no. of units) |
| 34.9 | 4.9 | 7.9 | -17.9 | 13.5 | Building Permits |
| 21.0 | 9.3 | 11.6 | 6.0 | -6.3 | Non-Residential Building Construction |
| 3.8 | -2.3 | 13.3 | 10.0 | 7.6 | Total Capital and Repair Investment |
| 0.8 | -1.3 | 27.8 | -11.6 | -8.3 | Private Capital Investment |
| 8.0 | -3.5 | -5.9 | 48.6 | 24.5 | Public Capital Investment |
| | | | | | SECTORS |
| 1.1 | 3.7 | 2.9 | -1.5 | 1.3 | Manufacturing Shipments |
| 1.3 | 3.9 | 4.3 | 1.5 | 4.4 | Retail Trade |
| 5.6 | -0.9 | 8.1 | 1.3 | -1.0 | Wholesale Trade |
| 3.5 | 13.3 | 2.5 | -2.1 | 2.4 | Farm Cash Receipts |
| 6.6 | 27.6 | -6.2 | -1.3 | 14.1 | Crops |
| 0.7 | 3.1 | 25.1 | -6.4 | -9.4 | Livestock |
| -1.2 | -25.0 | -37.7 | 31.7 | -29.6 | Direct Payments |
| -2.2 | -0.7 | 0.9 | -26.0 | -9.7 | Mining and Petroleum |
| 7.6 | 7.7 | 2.7 | 0.4 | -1.0 | New Vehicle Sales (no. of units) |
| | | | | | FOREIGN EXPORTS |
| -2.7 | 10.4 | 7.2 | 2.0 | -2.1 | Total Exports |
| 7.9 | 9.8 | 8.2 | 4.8 | -3.8 | U.S. |
| | | | | | LABOUR MARKET |
| 1.4 | 0.7 | 0.1 | 1.8 | 0.1 | Labour Force (000's) |
| 1.6 | 0.7 | 0.1 | 1.5 | -0.4 | Employment (000's) |
| - | - | - | - | - | Participation Rate (%) |
| - | - | - | - | - | Unemployment Rate (%) |
| 2.7 | 0.6 | 4.3 | 2.0 | 1.0 | Average Weekly Earnings (\$) |
| | | | | | CONSUMER PRICE INDEX |
| 1.6 | 2.2 | 1.9 | 1.2 | 1.3 | (Index, 2002 = 100) |

¹ 2016 Manitoba Bureau of Statistics

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

Sums may not add due to rounding.

