

Budget Paper A
ECONOMIC REVIEW AND OUTLOOK

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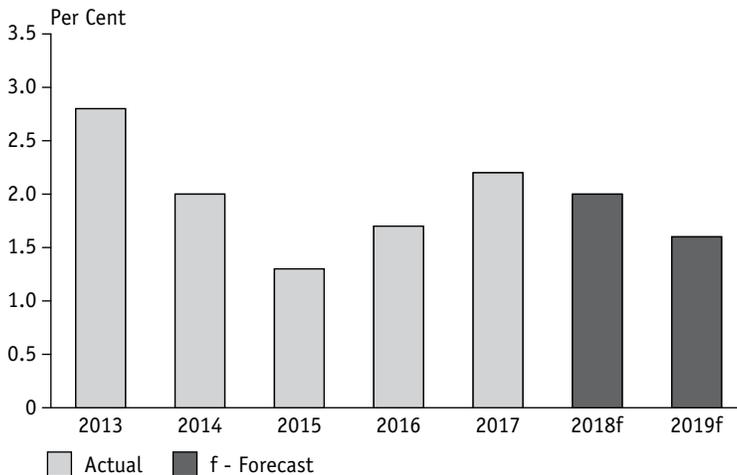
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OVERVIEW

Manitoba's economic performance indicators show an improvement in growth, which began in 2016 and strengthened in the first half of 2017. Most key indicators reveal a sharp acceleration in economic activity in 2017 compared to the two previous years.

Manitoba Real GDP Growth, 2013–2019f



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

This momentum in economic growth is attributed to a number of factors. Stable commodity prices are supporting a recovery in national and international exports of goods and services. Strong provincial population growth is maintaining confidence and boosting capital spending on residential, commercial and industrial properties in Manitoba. Record harvest of grains and oilseeds is lifting output in agriculture and in a number of other supporting sectors.

As well, Manitoba hosted the 2017 Canada Summer Games in Winnipeg. This provided an additional lift to domestic spending as spectator sports, performing arts, restaurants, accommodation and transportation facilities provided services for hundreds of visiting athletes, their families and spectators.

Offsetting these gains were developments in Manitoba's mining and oil extraction sector. Weak market fundamentals and depletion of reserves in certain sections of existing mines are lowering production and jobs in the sector. While further consolidation is expected in 2018 and 2019, activity could quickly turn around if prices surge, or exploration and technology reveal new finds or cost-efficient ways to extract natural resources.

As the impact from one-time transitory factors and commodity price recovery-fueled stimulus diminish, economic growth is expected to slow over the medium term. Some indicators, including employment, point to a slower pace of growth in the latter half of 2017. Similarly, several major projects completing or winding down are expected to slow the pace of capital spending in the near term.

The broad and sustained increase in global demand is expected to support Manitoba's exports and business investment in manufacturing and wholesale capacity, while growth in population and jobs will continue to lift domestic spending. In addition, stable government infrastructure spending will add to growth.

According to the Manitoba Bureau of Statistics, real GDP growth in Manitoba improved from a low of 1.3% in 2015 to 2.2% in 2017. The Manitoba Finance Survey of Economic Forecasts indicates 2.0% growth in 2018 and 1.6% growth in 2019. This compares to 2.3% and 1.8% growth forecast for Canada in 2018 and 2019, respectively.

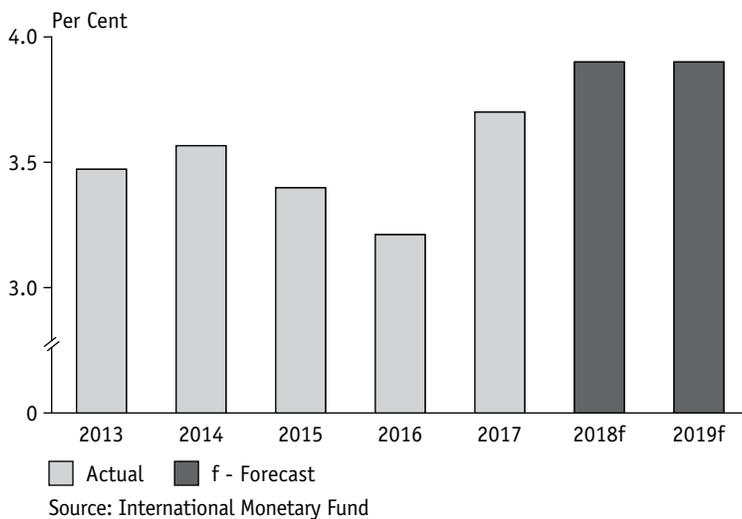
The general economic outlook is subject to considerable risks associated with the ongoing North American Free Trade Agreement (NAFTA) renegotiations and higher interest rates. Federal measures to cool the housing market are elevating concerns of their impact on Manitoba's relatively balanced housing market. In addition, corporate and

personal tax rate changes in the U.S. and Canada are placing a spotlight on global tax competitiveness. This could cause a measurable behavioural response by businesses and households.

INTERNATIONAL ECONOMIC DEVELOPMENTS

In 2017, after several years of below average growth, the global economy turned a corner. This global growth is broad-based as evidenced by the International Monetary Fund (IMF) highlighting positive year-over-year growth in 120 countries around the world, representing 75% of the global economic output, the best broad-based expansion since 2010.

Global Real GDP Growth, 2013–2019f



Citing tax cuts and infrastructure spending, the IMF upgraded U.S. economic growth by 0.4% to 2.7% in 2018 and by 0.6% to 2.5% in 2019. The strengthening recovery in the Eurozone and Japan is also cause for greater optimism. Progress in structural reforms in key Emerging Market Economies (EMEs), along with a gradual increase in commodity prices, should keep growth in emerging markets resilient and buoyant.

Considering these factors, the IMF increased its global economic forecasts for 2018 and 2019. The global economy is expected to grow by 3.9% in 2018 and 2019, 0.2% higher for both years compared to its previous forecast and the highest growth since 2011.

Advanced economies are expected to grow by 2.3% in 2018 and 2.2% in 2019, up 0.3% and 0.4% higher compared to earlier projections. EMEs are forecast to grow solidly at rates of 4.9% and 5.0% in 2018 and 2019, respectively.

While there is optimism and confidence coming from the expansion in global trade that is currently taking root, a considerable amount of risk clouds the outlook. Prolonged uncertainty on long-standing free trade agreements like NAFTA and United Kingdom's membership in the European Union (EU) is weighing down investment spending and productivity. Government, business and household indebtedness is stretched and increasingly sensitive to further interest rate increases.

Furthermore, as is always the case, unexpected international trade frictions can quickly derail the expansion in global trade, while a wider rise in geopolitical tensions could increase volatility in financial and commodity markets.

U.S.

The U.S. is Manitoba's largest international market, accounting for 65% of merchandise exports in 2017. The pace of economic growth in the U.S. significantly picked up, during the last three quarters of 2017, averaging 2.9%, close to its historical norm of 3.1%. U.S. labour markets have tightened and the unemployment rate has fallen to 4.1%,

the lowest since January 2001. Average hourly earnings grew by a noticeably higher than expected 2.9% year-over-year increase in January.

Recently, the higher than expected increase in earnings stoked concerns of inflation, leading to a sharp increase in bond yields and financial market volatility. Other factors that are fueling higher inflation expectation and a corresponding rise in borrowing costs include a positive momentum in the economy, large personal and corporate income tax cuts, and the proposed \$1.5 trillion infrastructure plan.

If providing stimulus in an already tight labor market leads to a substantial increase in inflation and higher interest rates, some of the boost to economic growth will be lost. On the other hand, increased U.S. demand could further support rising global demand and trade.

China

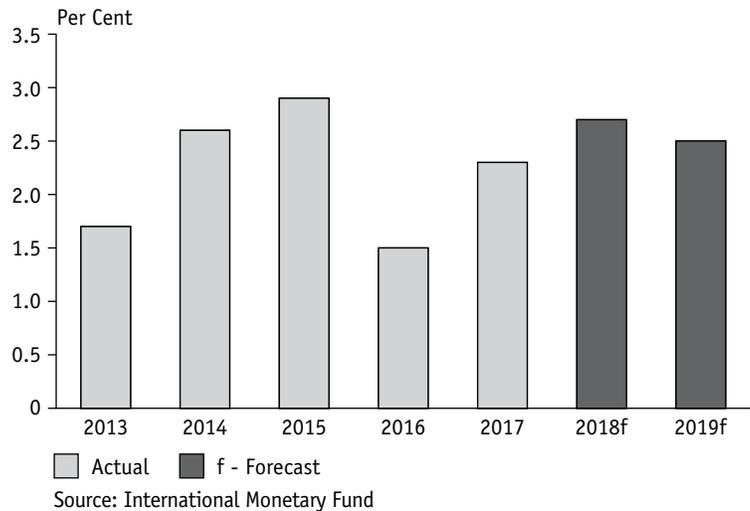
China is Manitoba’s second-largest global trading partner, accounting for 10.1% of total international merchandise trade in 2017. The Chinese economy is continuing its transition from investment and exports to consumer spending and services. The steady growth in the share of services to over half of the Chinese economy and accelerating consumer spending are indicative of the progress being made in rebalancing the economy.

Significant headway in reforms in areas such as restructuring State-Owned Enterprises point to a more balanced and durable economic growth ahead.

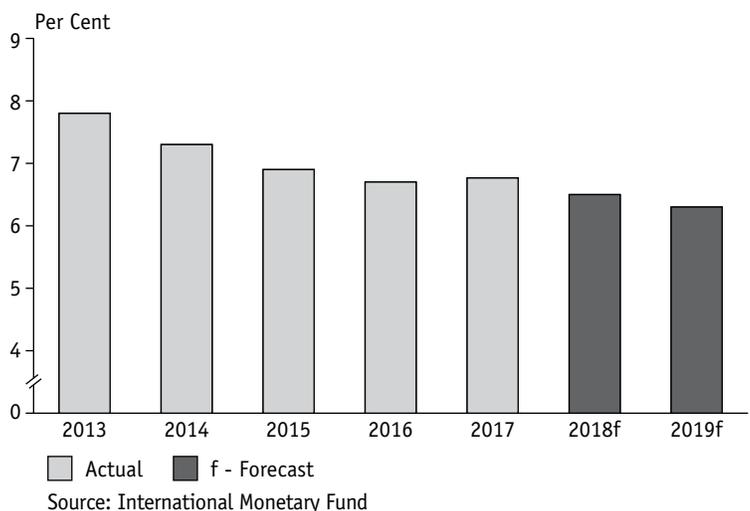
High indebtedness, especially at the sub-sovereign level and trade frictions between China and the U.S. are near term concerns.

China, however, has monetary and fiscal policy space at the central government (federal) level to balance some of the risks.

U.S. Real GDP Growth, 2013–2019f



China Real GDP Growth, 2013–2019f



Japan

Japan is Manitoba's third-largest overseas market with a 5.9% market share of international merchandise sales in 2017. Should a new Trans-Pacific Partnership agreement be reached, it would increase Manitoba's trade with Japan and with the Asia-Pacific region.

Japan posted eight consecutive quarters of positive economic growth. Earnings growth is key to Japan's economic recovery as consumer spending accounts for roughly 60% of the economy. Wages have improved and are likely to boost consumer spending going forward. Business investment is also picking up.

Interest rates are low in Japan and should be supportive of consumer spending and business investment. Government spending on infrastructure to host the 2020 Olympics will add to the economic momentum. As the global economy strengthens, Japanese exports to the rest of the world are also picking up. Despite the Bank of Japan's accommodative policies, deflationary pressures remain.

Eurozone

The EU, which includes the Eurozone (countries using the euro as their currency), has the potential of becoming a significant trading partner of the province, with the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) coming into force last September. The EU accounted for 4.3% of Manitoba's total international merchandise exports.

Eurozone, buoyed by low energy prices, low interest rates and increasing exports, posted its best economic growth since the recovery began almost a decade ago. Consumer spending led the recovery and is expected to stay buoyant this year with steady gains in employment, rising wages and low interest rates. Exports should continue to grow with strengthening global demand. A tightening in production capacity should spur business investment spending in 2018.

THE CANADIAN ECONOMIC DEVELOPMENTS

The Canadian economy emerged from a year and a half of weak growth conditions at the end of 2016 and posted 3.0% real GDP growth in 2017, the highest among the G7 and more than twice the rate of 1.4% recorded in 2016.

The rebound was led by consumer spending, which increased by 3.5% in 2017, the largest increase since 2010. Business capital spending turned around and posted its first increase in three years. Growth in exports remained relatively steady, increasing by 1.0% both in 2017 and in 2016. Reflecting the strength in consumer and business spending, imports increased by 3.6%, the highest growth since 2011.

The acceleration in economic activity added 336,500 jobs in 2017, the best annual increase since the Great Recession. Quality of jobs materially improved. Roughly five out of six jobs were full-time and seven out of ten were in the private sector. Furthermore, the number of hours worked advanced 1.4% in 2017 compared to a gain of 0.8% in 2016. Average weekly earnings – a key driver of consumer spending – rebounded in 2017, increasing by 2.0% compared to a gain of 0.4% in 2016.

Despite a strong annual result for GDP growth in 2017, quarterly national economic accounts reveal a slower pace in the second half of the year. The deceleration was broad based among spending categories and indicates a leveling of demand following the transitory boost from an upturn in capital investment, low energy prices and from

larger Canada Child Benefit (CCB) transfers to households.

The current outlook factors in a slower pace of growth. After a lift from the CCB transfers and robust employment gains, consumer spending, which accounts for 57% of all expenditure in Canada, is expected to slow as interest rates continue to increase.

Strengthening global demand is expected to lift export sales and business investment in Canada, partially offsetting the weakness from the household sector. As a result, the Canadian economy is forecast to slow to 2.3% this year and to 1.8% in 2019. Nominal GDP is expected to increase by 4.1% in 2018 and 3.8% in 2019.

Economic and fiscal developments currently unfolding can materially change the outlook.

The uncertainty surrounding NAFTA, a trade deal that has been in place for almost a quarter of a century, can slow and discourage actual and planned investments in Canada. Major tax reforms in the U.S. and recent federal tax changes in Canada increase flight risks for capital, businesses and skilled workers from jurisdiction to jurisdiction.

Recent increases in interest rates, and the Bank of Canada's (BoC) signal to move rates even higher, could reduce overall spending in the economy by more than expected. With relatively low interest rates in the past decade, a sensitivity to higher rates and higher debt servicing costs will be tested with each interest rate increase.

At the national level, consumers seem to be the most vulnerable to a downturn as they continue to add to household debt. The latest figures show the average Canadian household debt-to-disposable income at a record 172.1% in 2017. However, the BoC does have the flexibility to adjust interest rates down, as it did during the Great Recession and after the commodity price collapse in 2015.

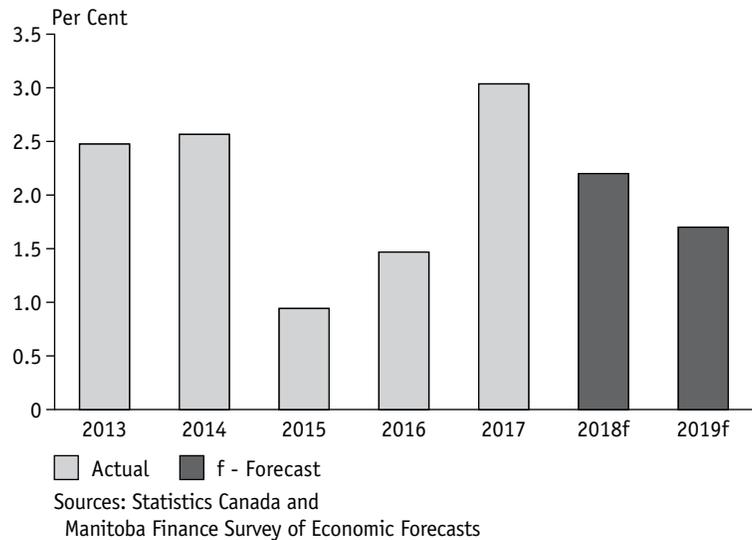
A positive outcome on NAFTA combined with very accommodative U.S. tax cuts and infrastructure plan could boost capital investment and job creation in Canada. In addition, an acceleration in the broad based expansion in global trade could lift commodity prices and Canadian exports above current expectations.

MANITOBA ECONOMY

The Manitoba economy generates relatively stable annual economic growth over time, even during periods of increased volatility in financial and commodity markets. Over the long-term, the province maintained consistent average annual growth in most key economic indicators, including real GDP, employment and manufacturing sales when compared to other provinces.

Even with increased volatility, the trend in Manitoba's 10-year average annual real GDP growth has been relatively stable over the last 15 years, while the national average has declined. The province surpassed the national average 10-year growth trend in 2009 and was the second highest among provinces in 2016.

Canada Real GDP Growth, 2013–2019f



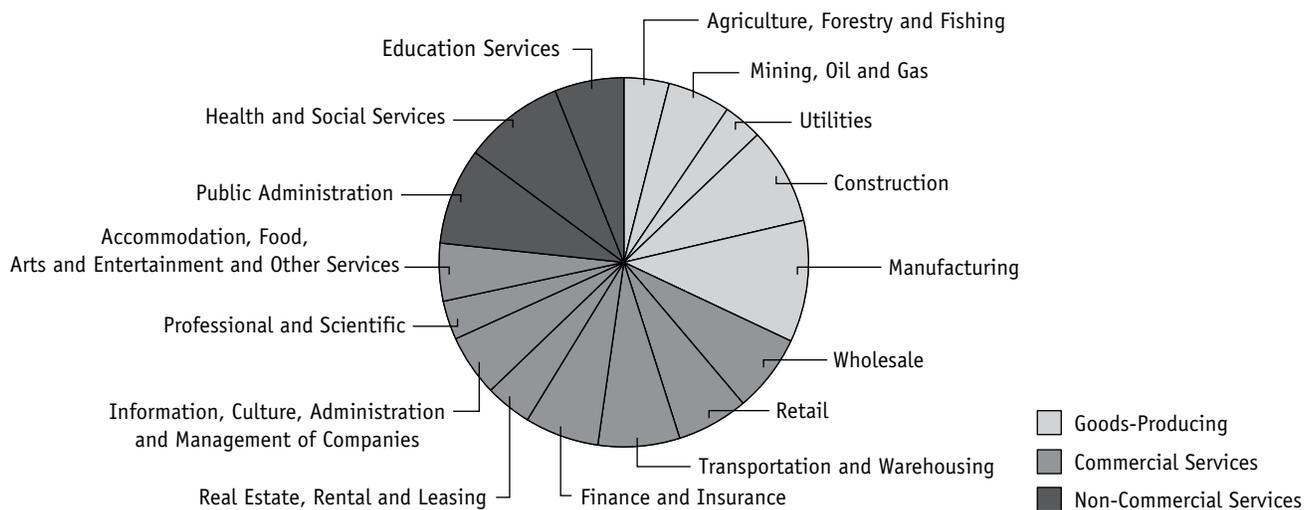
Manitoba has been successful in attracting a record number of skilled workers, entrepreneurs and their families to the province. This has resulted in the province recording the fastest rate of population growth among provinces in the last three years. In 2017, the working age population exceeded 1,000,000 persons for the first time in Manitoba’s history. Moreover, population growth is providing confidence for investing in productive capacity and expanding domestic demand.

Also, in 2017, Manitoba posted a record level of capital investment in residential and non-residential buildings in the province. The number of housing starts were the highest level since 1987.

A number of other key performance indicators showed significant improvement in 2017:

- Total employment increased by 10,500 workers, the largest gain in 15 years.
- Private sector jobs increased by 11,800 workers, the largest gain in 15 years.
- Second-highest increase in average weekly earnings among provinces and the highest since 2014.
- Labour income growth improved to 4.7% in 2017, compared to 0.8% in 2016.
- Manufacturing sales increased by 5.3%, the best in six years.
- Wholesale merchandise sales increased by 7.4%, the best since 2014.
- Motor vehicle sales increased by 10.1%, the best in 15 years.
- Truck and SUV sales increased by 15.4%, the best in 20 years.
- Exports to Non-U.S. markets increased by 13.0%, the best in six years.
- Manitoba crop farmers reported a record volume of harvest (bushels) in 2017.
- Total farm cash receipts surpassed \$6.5 billion in 2017, the highest ever in Manitoba.
- Highest number of births since 1972.

Manitoba GDP By Industry Shares, 2016



Source: Statistics Canada

Reflecting this momentum, real GDP growth increased to 2.2% in 2017, up from 1.7% in 2016 and 1.3% in 2015. As some of the boost from transitory factors and prior commodity price shock ease, economic activity is expected to moderate to a sustainable pace going forward in Canada and in Manitoba.

The Manitoba economy will continue to benefit from a broad and balanced mix of medium-sized sectors. With the range in contribution from the smallest to largest sector being the narrowest among provincial economies, no single industry dominates overall production and jobs.

The strength of the Manitoba economy is not limited to its diverse economic base. Centrally located in North America, the province has a recognized and extensive manufacturing, wholesale trade, transportation and warehousing network that produces and distributes raw commodities and goods and services across Canada and globally. Almost half of the provincial exports are destined for foreign markets while the other half are destined for Canadian provincial markets. This distribution is the most balanced among provinces.

Diversity in markets and production lowers Manitoba's foreign trade exposure for domestically produced goods and services as well as jobs. Furthermore, the mix of primary commodities, processed products and services contained in provincial exports reduces Manitoba's overall supply chain dependence on imported items that are embodied in exports.

In this Economic Review and Outlook Report, annual, quarterly and monthly economic statistics are on a calendar year basis. These statistics are often revised and can change the assessment of economic performance over time.

Population

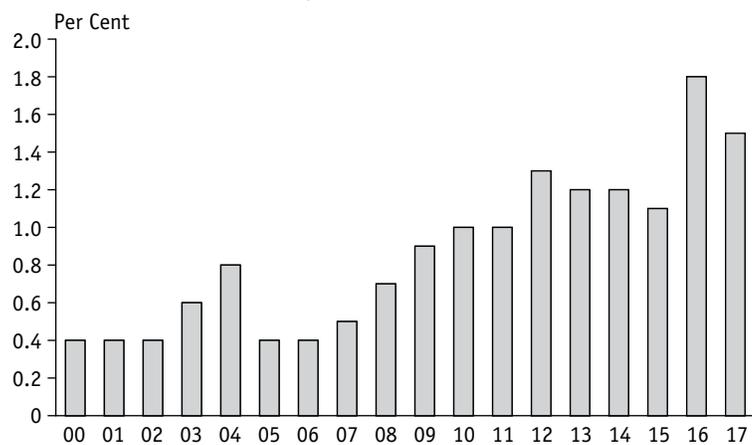
Manitoba's population was estimated at 1,338,109 persons in 2017, an annual increase of 19,994 persons or 1.5%. This follows a record annual increase of 22,693 persons or 1.8% in 2016.

In the past decade, population increased by 1.2% annually, 50% higher than the long-term average rate of 0.8%. In the last three years, Manitoba showed the fastest population growth among provinces, averaging 1.5% annual growth, well above the national average of 1.1%.

Most of this growth is due to a concerted effort by the Manitoba Provincial Nominee Program (MPNP) to use immigration to recruit for labour market and entrepreneurial needs. The MPNP is an economic immigration program designed to attract job-ready skilled workers and active investors. It has been an important part of the immigration system since 1998.

The renewal of the MPNP is streamlining the application process to achieve better and quicker outcomes. It has already reduced application-processing time to under six-months and it has eliminated the \$100,000 deposit previously required from business investors.

Manitoba's Annual Population Growth, 2000–2017



Source: Statistics Canada

Recent enhancements will make it easier for international students with a Manitoba education to build careers and settle in the province. Priority will be given to business investors who start a business within the first 12 months of their arrival in Manitoba, particularly those who start a business outside of Winnipeg. For skilled workers, priority will be given to candidates with close family connections in Manitoba and spouses who have the language proficiency, training and experience to quickly find in-demand jobs.

In addition to immigration, population growth has been increasingly supported by the natural rate of increase. Given a younger demographic arriving through immigration and the echo boom cohort maturing into the prime child rearing age, the number of births has increased to noteworthy levels. From a low of 13,764 births in 2001/02, the number of births has increased to a record 17,641 births in 2016/17.

As the proportion of younger people increase, the median age has declined, making Manitoba’s overall population age younger. The median population age peaked at 37.8 years from 2008 to 2013 and has since declined. In 2017, the median age fell to 37.4 years, the third lowest among provinces and below Canada (40.6 years).

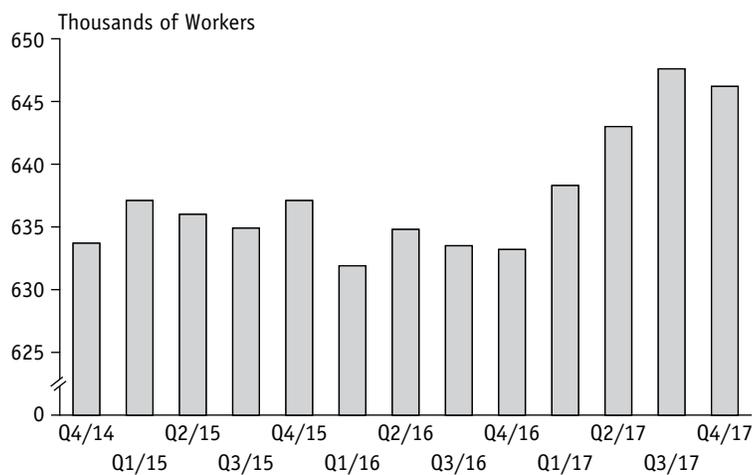
The demographic dynamics are reflected in the labour market. Since 1990, Manitoba once again has the majority of the working age population in 20 to 29 year age cohort, surpassing the 50 to 59 year age cohort in 2016. The second-largest working age cohort is aged 30 to 39 years.

In addition, Manitoba has a proportionally higher share of youth in the population compared to other provinces. As a result, the labour supply is expected to continue to increase over the medium term.

Labour Market

Displaying the smallest swings in annual average growth, Manitoba’s labour market is the most stable in Canada. It reflects a balance in supply and demand, with employment and labour force growing at a steady 1.0% annual pace since 1976.

Manitoba’s Employment Level, Quarterly Average Fourth Quarter 2014–Fourth Quarter 2017



Source: Statistics Canada

The labour market has shown resilience in absorbing a record increase in population, while maintaining the second-lowest unemployment rate and the third-highest labour force participation rate in Canada.

Last year was an exceptional year for Manitoba’s labour market. The number of working age Manitobans surpassed 1,000,000 individuals for the first time. The number of jobs increased by 10,500, the largest gain in 15 years. An average of 644,100 workers were employed during the year, the highest ever.

Most of the employment growth was due to full-time jobs, which increased by 9,200 or 1.8%. Part-time employment increased by 1,300 workers, or 1.1%. Youth employment increased

by 2,200 jobs, the first increase in three years and the largest increase in 11 years. Employment growth in the private sector was exceptionally strong and rose by 11,800 workers, or 2.5%. This was the largest increase in private sector jobs in 15 years.

The strong growth in jobs reduced the number of unemployed by 4,600 workers, the largest annual reduction in the number of unemployed since 1998. It also cut the unemployment rate for 2017 to 5.4% from 6.1% in 2016.

The service sector added 9,700 jobs or 92% of all the jobs in 2017 and the goods producing sector added 800 jobs. The leading job creating industries were finance and insurance (3,500), retail trade (1,600), business, building and support services (1,200), construction (1,200), transportation and warehousing (1,100) and mining and oil extraction (1,000). Some of the gains were offset by losses in utilities (-1,000), forestry, logging and fishing (-500), real estate and leasing (-400) and agriculture (-300).

As the labour market tightened, compensation for employees improved in 2017. Average weekly earnings rose by 2.4% in 2017 after gaining 1.0% in 2016. Correspondingly, labour income increased by 4.7% last year following a 0.8% gain in 2016.

Housing

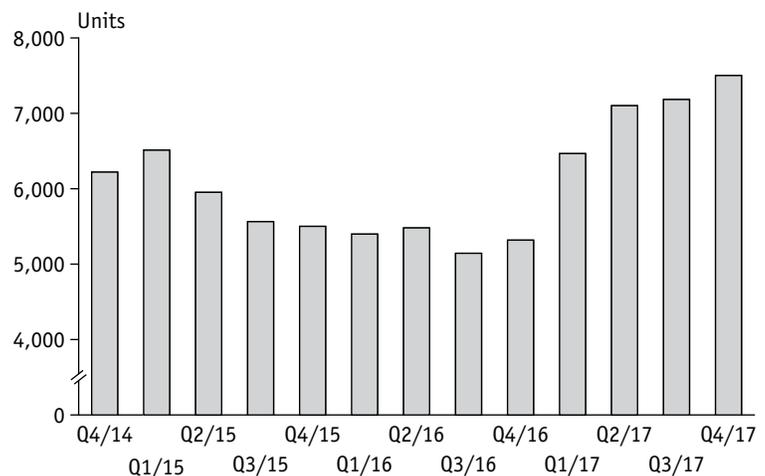
Residential investment is an important component of the provincial economy. In 2017, capital investment in residential structures was estimated at a record \$4.4 billion, or 6.2% of total nominal expenditures in the province. These expenditures include spending on new housing construction, renovations and acquisition costs.

Rapid increases in home prices in some Canadian cities has brought housing affordability into sharper focus in Canada. In contrast, housing remains very affordable in Manitoba. Housing Trends and Affordability is a quarterly publication by Royal Bank of Canada (RBC) on housing affordability in Canada's major cities. In its latest report, RBC notes affordability in Winnipeg remains roughly in line with its long-term trends.

Housing affordability in Winnipeg is further illustrated by the low prices of housing in the city. According to RBC's report, the average price of a single-family detached home and condominium apartment in the city are \$314,900 and \$246,900, respectively, making them the third most and second most affordable in their respective categories among the cities tracked by the report.

Manitoba's new housing market picked-up in 2017. With growing demand, supply responded with housing starts increasing by 41% in 2017 to 7,501 units, the highest since 1987. The increase was partially motivated by the new

**Manitoba's Housing Starts,
Quarterly At Annual Total Units
Fourth Quarter 2014–Fourth Quarter 2017**



Source: Statistics Canada

City of Winnipeg impact fee, which advanced housing starts in Winnipeg. However, construction was strong not just in Winnipeg, but also throughout Manitoba. Total starts increased by 39% in Winnipeg and by 49% elsewhere in 2017.

The overall housing market in Manitoba has been on a positive trend since the early 2000s, but a number of factors led to a historical increase in new residential construction in the early years of the post-Great Recession recovery. Housing starts topped the 7,000 mark in both 2012 and 2013, the highest since the mid-1980s when the baby boom cohort purchased homes.

The surge in 2012 and 2013 led to some overbuilding, especially in smaller cities and rural Manitoba, where absorption rates are slower. As a result, provincial housing starts fell in 2014 and 2015.

Factors driving new housing include record international immigration, echo boom cohort purchasing homes, low mortgage rates, demand for independent housing for seniors and general affordability of housing in the province compared to other regions of Canada.

Given the strong population growth and high number of sales every year, the increased housing supply will be absorbed, but the total number of starts are expected to decline in 2018 as construction returns to more balanced conditions. According to the forecast survey, housing starts in Manitoba should average 6,200 in 2018 and 6,500 in 2019. This is expected to lower housing investment spending in 2018.

A number of external factors, however, has elevated uncertainty in Manitoba's housing market. To cool the Canadian housing market, the federal government, through the Department of Finance, the Office of the Superintendent of Financial Institutions (OSFI) and the Canada Revenue Agency, has imposed a number of measures.

These measures include stress testing all new mortgage applicants on their ability to service mortgages in a rising interest rate environment and restricting capital gains tax exemptions from the sale of a house to just one transaction per year for Canadian citizens and permanent residents.

Furthermore, the move by the BoC to raise interest rates will increase the cost of holding a mortgage. The 0.75% increase in rates in the last nine months has already pushed up the benchmark 5-year conventional mortgage rate from 4.64% in June 2017 to 5.14% in January 2018.

Manufacturing

Manufacturing is Manitoba's largest industrial sector accounting for 9.7% of total economic output (real GDP at basic prices). Manufacturers employ 10% of all workers in the province and contribute almost 11% of total wages and salaries. The sector spent over \$550 million annually, on average in the last three years, on construction and on machinery.

Manitoba's manufacturing sales passed the \$18 billion mark in 2017 to \$18.3 billion, up from \$17.4 billion in 2016 and beating the record for sales established in 2014. The growth rate was 5.3% in 2017, the highest growth in six years. The increase in 2017 is well above the 1.5% average annual pace in the previous five years.

Last year's growth in manufacturing sales was broad-based with over two-thirds of the reporting manufacturing industries posting higher sales.

Manitoba's largest manufacturing industry is food processing. Sales in this industry rose by 5.1% in 2017 following a 4.4% increase in 2016. Over the past decade, this industry has grown and diversified, and now produces a broad range of non-durable consumer products such as processed meat, dairy products, frozen french fries, grain and oilseed products, agricultural feed products and a variety of vegetables.

Food processing is also getting a boost in Manitoba. With recent developments, the industry is expanding and further diversifying. Roquette's is constructing a new \$400 million pea-protein production facility near Portage la Prairie that will begin production in 2019. The new facility will be the largest in the world with a capacity to process 120,000 tonnes of peas annually.

In addition, Simplot confirmed a \$460 million expansion plan to more than double its food processing capacity for frozen french fries and formed potatoes in the province. When completed in 2019, the footprint of its Portage la Prairie facility will increase from 180,000 to 460,000 square feet. These two new facilities will not only add value to Canadian grown peas and potatoes, it will create close to 240 permanent jobs.

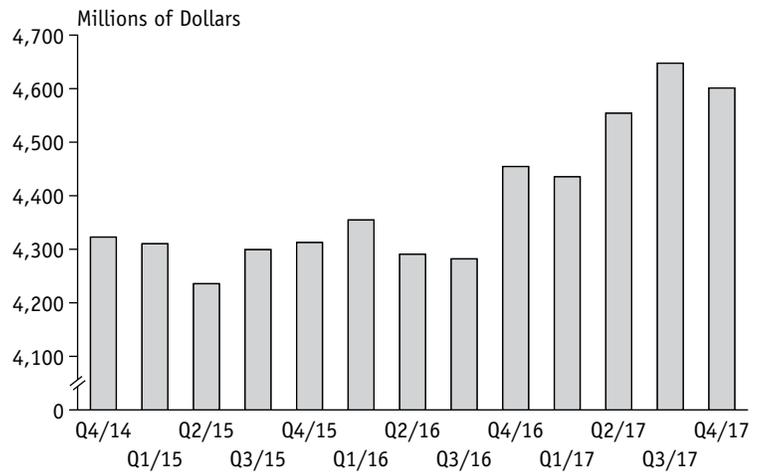
Transportation equipment, the province's second-largest manufacturing industry, recorded 9.3% growth in sales to over \$3 billion for the first time. This industry specializes in aerospace products, parts and repair and heavy vehicle production. Manitoba has the third-largest aerospace industry in Canada. Three multinational firms underpin this industry: Boeing Canada Technology, StandardAero and Magellan Aerospace, as well as a number of other established regional and national firms.

Manitoba's heavy vehicle-manufacturing sector focuses on producing buses, fire trucks, motor homes, recreational vehicles and trailers. Manitoba is home to North America's largest manufacturer of inter-city coaches and urban transit buses for the Canadian and U.S. market. The province also has Canada's largest manufacturing facility of fire-fighting equipment including fire trucks, custom-built pumpers, aerial ladders and water delivery tankers.

Machinery manufacturing, the province's third-largest manufacturing industry, staged a remarkable turnaround in 2017. After declining in the previous two years by over 14%, sales accelerated by 9.7% in 2017. The sharp increase was a result of a rebound in demand for agricultural, construction and mining machinery. Manitoba's machinery manufacturing is largely concentrated in the production of agricultural machinery and equipment. Manitoba has the only farm tractor manufacturing facility in Canada and the largest manufacturer of windrowers (swathers).

Sales from electrical equipment, appliance and component manufacturers increased by 13.7% in 2017. Other industries which reported strong gains include fabricated metals (10.2%), printing (6.3%) and primary metals (3.6%). Two reporting industries saw sales decline in 2017. Furniture manufacturing sales slipped by 1.2% followed by wood product sales declining 0.6%.

Manitoba's Manufacturing Sales, Quarterly Total Sales Fourth Quarter 2014–Fourth Quarter 2017



Source: Statistics Canada

Most of the manufactured products from Manitoba are sold outside of the province, with the bulk going to the international markets. Reflecting weaker international demand following the Great Recession, the share of domestic and interprovincial sales of manufactured products have increased while international sales share has declined. The key international markets are U.S. China, and Mexico, while the key provincial markets are Ontario, Alberta and Quebec.

Based on the international and interprovincial trade flow information released by Statistics Canada in June 2017, from 2010 to 2014, 78% of manufactured products were exported. On average, 41% were shipped to international markets while 37% were sold in interprovincial markets. The remaining 22% were used either as inputs or as final products within Manitoba.

Agriculture

Agriculture is an important contributor to Manitoba's economy. Crop, livestock and agri-food enterprises produce a variety of raw commodities and processed products. Agriculture in Manitoba has built a solid and durable network with food manufacturing, transportation and warehousing, retail trade, wholesale trade, as well as finance, insurance and real estate sectors.

Primary agriculture (crops and livestock) represents 3.6% of Manitoba's industrial output, while food and beverage manufacturing represents 1.9% of Manitoba's industrial output, for a combined contribution of 5.5%. These two sectors generated a record of approximately \$10.8 billion in sales last year.

The scale of agriculture in Manitoba is relatively large. According to Statistics Canada, land use for agriculture in 2016 (both improved and unimproved land) totaled over 17.6 million acres. About 11.5 million acres (46,661 square kilometers) or 65% was used for crop production and 3.3 million acres or 19% was used for livestock pasture. Manitoba's land use for agriculture and for crop production accounts for 11% and 12% of the Canadian total, respectively.

Given the scale of the operations, Manitoba represents a significant share of the total Canadian supply of crops (grains and oilseeds) and livestock. In 2017, Manitoba produced 100% of Canadian sunflower seeds, 35% of rye, 29% of soybeans, 22% of potatoes, 22% of oats, 15% of canola and 15% of wheat. The number of hogs and pigs on Manitoba farms represented 24% of the Canadian total while cattle and calves represented 9%.

With close proximity to raw materials, skilled workers and a competitive cost environment, food processing continues to grow in Manitoba, with new investment in pea and potato processing facilities. This increases value-added processing of Canadian grown agricultural commodities and jobs in the province.

Statistics Canada's supply and use tables show that on average 40% of agricultural commodities are domestically used, while 60% are exported (38% international and 22% interprovincial). Once the commodities are processed into food and beverage products, a larger share is exported. On average 70% of the processed food and beverage products are exported in a somewhat even share, 35% to international and 30% to interprovincial markets. The remaining 30% are used within Manitoba.

The key international markets for Manitoba's primary agricultural commodities are the U.S., China, Japan, Mexico and European Union. The key interprovincial markets are Ontario, Alberta, Saskatchewan and British Columbia.

Production and market conditions were favourable for Manitoba agriculture in 2017. Crop producers reaped a record harvest; cattle, calves and hog producers increased the number of livestock on their farms.

Estimates from Statistics Canada indicate higher than expected crop yields and an overall record in the volume of grains and oilseeds produced in 2017. Compared to the 2016 harvest, crop production increased for dry beans (63%), oats (44%), soybeans (27%), canola (21%), sunflower seeds (14%), corn (9%) and wheat (4%). Production for peas (51%), flaxseed (-34%), barley (-26%) and rye (-18%) declined in 2017.

In Manitoba, farmers reported record soybean production for the sixth consecutive year, up 26.9% from 2016 to 2.2 million tonnes in 2017. This was entirely the result of a 45.1% increase in harvested area to a record 2.3 million acres.

Through over a decade of significant challenges in the livestock sector (the bovine spongiform encephalopathy crisis, U.S. Country of Origin Labeling trade restrictions, rising costs, severe weather conditions and porcine epidemic diarrhea outbreak), cattle farms significantly curtailed their operations in Manitoba. The number of cattle and calves fell from a record 1,735,000 head in 2005 to 1,155,000 head in 2015, a one-third reduction in scale.

In an effort to rebuild capacity in the industry, Manitoba Agriculture is engaging stakeholders to gain their input and leadership in developing a *Livestock Growth Strategy* for Manitoba. One of the goals in the strategy includes a ten-year growth target to increase the number of beef cows on Manitoba farms from 430,000 head in 2015 to 574,000 head in 2025. Last year's results were encouraging, showing the first notable turnaround in cattle and calves production, with the inventory increasing by 1.7%, the largest increase since 2004.

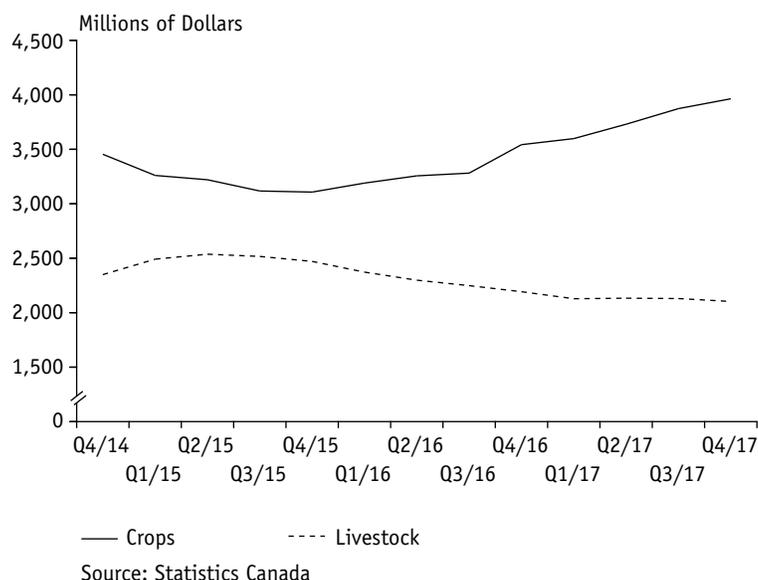
Hog production, which requires a shorter gestation period, can adjust to market conditions quicker. The hog inventory in Manitoba fell quickly and sharply in 2008 and 2009, and took eight years, until 2015 to recover. Production has continued to increase and has almost caught up to Ontario (3,444,000) with inventory at a record of 3,340,000 pigs in 2017, the third highest among provinces following Quebec and Ontario.

Agricultural commodity prices are mostly determined in the broader external market. Crop prices are influenced by global supply and demand conditions, while livestock prices react to Canadian and U.S. market conditions. Both crop and livestock prices have generally declined from record or near record levels as supply conditions exceeded demand. As demand conditions improved, prices have stabilized with modest gains in 2017.

Gains in crop and livestock production led to a record increase in farm cash receipts. Total farm cash receipts increased by 8.8% in 2017, the highest growth among provinces. In 2017, total farm cash receipts rose to a record \$6.5 billion. Cash receipts from wheat, canola and hogs exceeded \$1.0 billion in 2017.

The Comprehensive Economic Trade Agreement (CETA) between Canada and the EUs is expected to support agriculture in Manitoba. CETA will improve market access for key agricultural product exports, such as meats, grains,

Manitoba's Marketed Farm Cash Receipts, Quarterly Total Sales Fourth Quarter 2014–Fourth Quarter 2017



oilseeds, fruits, vegetables and processed products. With CETA's provisional application, almost 94% of the EU's agricultural tariff lines are now duty-free. Canadian beef, pork, bison and sweet corn will also benefit from annual duty-free tariff rate quotas.

Wholesale Trade

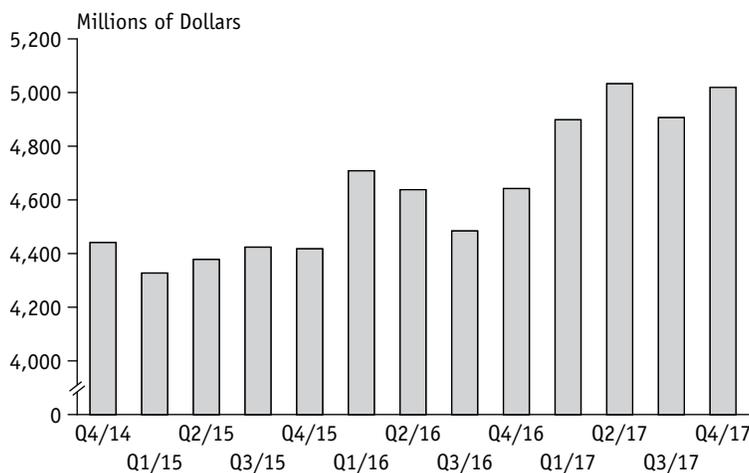
Wholesale merchants have benefited from Manitoba's central location and Manitoba's transportation hub, which links Eastern Canada, Western Canada and the U.S. Midwest. Wholesale trade, as an essential part of the Prairie economy, contributes in the distribution of farm products and agricultural supplies.

Wholesale trade is the second-largest commercial services sector in Manitoba, generating 6.2% of Manitoba's total industrial output. Only Ontario has a larger wholesale sector, contributing 6.9% of the provinces output. Record levels of capital spending on facilities and machinery have contributed to expand the scale of wholesale trade in the province. From 2009 to 2017, spending on construction increased by 24% annually, while spending on machinery and equipment increased by 18% annually.

In 2017, wholesale merchants employed almost 21,000 workers, or about 3.2% of all employees in Manitoba. Workers in the sector earned on average \$1,123 per week in 2017, approximately 23% higher than the overall industrial aggregate of \$910 per week.

Like the broader Manitoba economy, wholesale trade is relatively balanced. There is a cluster of large merchant wholesalers who contribute to between 12% to 21% of total sales, and another cluster of medium-sized wholesalers who contribute to between 6% to 8% of total sales.

Manitoba's Wholesale Trade Sales, Quarterly Total Sales Fourth Quarter 2014–Fourth Quarter 2017



Source: Statistics Canada

A bumper crop combined with an increase in business investment and consumer spending accelerated sales in 2017. Total sales from wholesale trade reached almost \$20 billion in 2017, a 7.3% increase from 2016, and the fastest pace recorded since 2014.

Sales of machinery, equipment and supplies, which account for 21% of total sales in wholesale, increased by 10.5% to over a record \$4.1 billion in 2017. Construction, mining and industrial machinery sales marked a notable rebound of 8.2% growth in sales after declining in each of the previous two years. Farm, lawn, garden machinery and equipment sales increased by 4.1% in 2017 following 8.2% increase in 2016.

Agriculture supplies merchants, distributors of agricultural feed, seed and chemicals, have experienced exceptional growth in sales over the last eight years. Sales rose by 12.7%

annually over this period, to \$3.5 billion in 2017. Agriculture supplies sales increased by 6.1% in 2017 and now account for almost 18% of total wholesale trade sales.

The record volume of grain and oil seed harvest helped boost sales of farm products sales by 20.8% in 2017. Other wholesale merchants who reported gains include motor vehicle and parts (9.1%), food, beverage and tobacco (9.1%), personal and household goods (2.5%) and building materials and supplies (2.5%).

Mining and Oil Production

Mining and petroleum sector is the largest primary resource industry in the province; it generated 5.0% of the total industrial output in 2016.

The principal metallic minerals produced in Manitoba are nickel, copper, zinc and gold. Other metals produced include silver, platinum, cobalt, selenium, cesium and tellurium. Industrial mineral production consists principally of sand and gravel, stone, peat moss and lime, as well as granite, gypsum and limestone. Manitoba produces a light sour blend of crude oil that is exported via pipeline and by rail to refiners in eastern Canada, the northeast and north-central areas of the U.S.

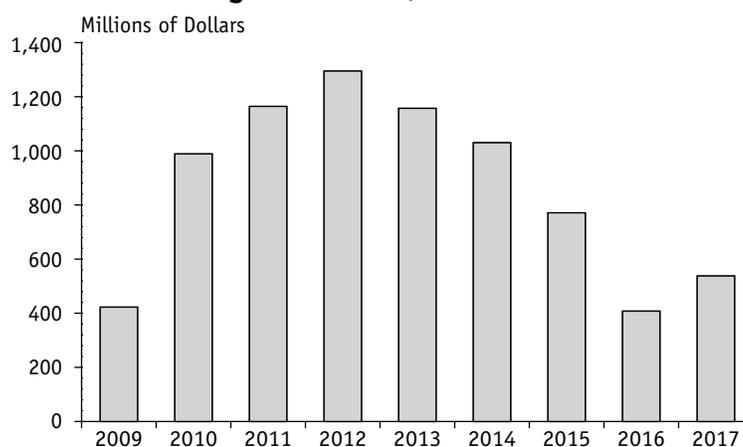
The global volatility in oil and base metal prices continues to exert a significant impact on the provincial mining sector, with sales consistently declining since 2011. With current prices well below the peak levels, total nominal value of mining and oil production totaled \$2.2 billion in 2016, down close to \$1.0 billion or 31.4% from the record in 2011. Petroleum output fell the most, declining by \$141 million, or 16%, to \$750 million in 2016. Offsetting the aforementioned decline, both metals and non-metal mining increased in 2016. Metals mining advanced by \$46.2 million, or 4.3%, to \$1.113 billion, while non-metals mining advanced by \$23.8 million, or 8.5%, to \$304.3 million in 2016.

Capital spending in the mining sector is an important contributor to economic growth. When commodity prices were increasing and remained at high levels, capital spending in Manitoba accelerated at an exceptional compounded annual growth rate of 45% between 2009 and 2012 to \$1.3 billion. Spending remained above \$1.0 billion in 2013 and 2014, but as commodity prices fell, total investment dropped to \$407.7 million in 2016. Spending was almost evenly divided in oil extraction, mining and quarrying.

According to the latest available Annual Capital and Repairs Expenditures survey published by Statistics Canada, mining investment broke a four-year trend of declines and increased by roughly 32% to \$537.5 million in 2017.

Results for the volumes of production for Manitoba's largest metals were mixed in 2017. Production volumes of gold and zinc surged in 2017 by 24.1% and 19.3%, respectively. Copper and Nickel production volumes, on the other hand, fell by 11.6% and 12.6%, respectively.

Manitoba Mining Investment, 2009–2017



Source: Statistics Canada

Prices for metals and minerals are improving, but remain well below the highs seen in the early part of the economic recovery. As a result of lower prices, depletion of reserves and environmental regulations, operations at three mines in Northern Manitoba have been affected. Citing weak nickel prices, Vale Canada put its Birchtree mine operations in Thompson under care and maintenance in October 2017. Vale is also slated to close its smelter and refinery in Thompson in July 2018 due to changes in federal environmental regulations. As a result of the Birchtree closure, 6k tonnes a year of nickel production is expected to be lost or delayed.

Citing depletion of reserves, Hudbay Minerals Inc., the operator of Reed mine, announced that it will close the mine in late 2018. The closure of Reed mine will decrease annual copper production in the province by 15k tonnes. The company also announced that it intends to close the 777 mine in late 2020. Should the 777 mine be closed as planned, it would lead to the decrease of 51k tonnes of zinc and 25k tonnes of copper production annually.

A number of projects, currently in their advanced development stages, could help offset the aforementioned. An example is the Lynn Lake Project by Alamos Gold, which recently concluded a positive feasibility study that estimated the mine could produce 143,000 ounces of gold, on average, per annum during its expected mine life span of 10.4 years. Another is Minnova Corporation's Puffy Lake Project. A preliminary economic assessment conducted by the firm concluded that the project has the potential to produce 48,100 ounces of gold per annum over a 10+ year mine life.

The new provincial mineral development protocol, agreed to by the provincial government and First Nation communities, should further enhance Manitoba's reputation as a top-tier destination for mining investment. By clearly defining a pathway forward and by engaging First Nation communities in the various phases of mineral development, the new mining protocol provides a stable and predictive consultation process.

The protocol ensures that Manitoba is informed of, and addresses potential adverse effects to the exercise of Aboriginal and Treaty rights and shares with First Nation communities the benefits of mineral development.

As a result of widening global demand and supply imbalances, international crude oil prices fell sharply between mid-2014 and late 2016. Reflecting these factors, crude oil production in the province also fell from an all-time record of 3.06 million m³ in 2012 to 2.33 million m³ in 2016.

International Merchandise Exports

Manitoba's international merchandise exports amounted to \$13.8 billion in 2017. This international export information is compiled from administrative records used by customs agencies and does not include foreign exports of services, investment income, capital and financial flows. At the provincial level, this monthly information is often subject to large revisions and as a result, the assessment of trends could materially change.

The Manitoba economy tends to have lower exposure to international trade compared to the national economy. In information published by Statistics Canada in June 2017, 19.2% of total industrial output from Manitoba was driven by foreign demand in 2013 (latest available), well below the national average of 21.7%. International demand accounted for 10.7% of all jobs in Manitoba. This compares to 14.5% national average.

The drop in oil and other commodity prices in 2014 and 2015 stalled the steady expansion in international merchandise exports from Manitoba, particular to the two main markets, U.S. and China.

While low commodity prices are disproportionately affecting commodity producing regions, they are supporting all regions by lowering inflation and lifting demand. Linking to this demand, Manitoba's international exports

rebounded by 2.6% in 2017, more than reversing the 2.0% decline in 2016 and setting a new record for sales.

Exports to Non-U.S. regions accelerated by 13.0% in 2017, the best in six years. Exports to nine of the top-10 Non-U.S. countries reported gains in 2017.

The U.S. is Manitoba's largest international market accounting for 64.8% of merchandise exports in 2017. The main U.S. markets in 2017 were Minnesota and Illinois, each accounting for over 10% of total U.S. sales. Other U.S. states accounting for a 5% share or more included Texas, North Dakota, Tennessee, California and Iowa.

Manitoba's second largest foreign market was China accounting for 10.1% of foreign sales in 2017. This was the first double-digit export share to China, beating the previous record of 8.5% from 2012. Merchandise trade to China expanded rapidly from 2004 to 2011, but has since leveled.

Other key international markets in 2017 were Japan with a 5.9% share of international merchandise exports followed by the EU at 4.3% and Mexico at 2.9%.

Export sales to China marked an exceptional rebound. After declining in the past three years by 7.3%, sales to China jumped by 45.5% in 2017, the best one-year increase in 10 years, to a record \$1.4 billion. Exports to Japan and Mexico also posted impressive gains of 9.6% and 11.3%, respectively, in 2017.

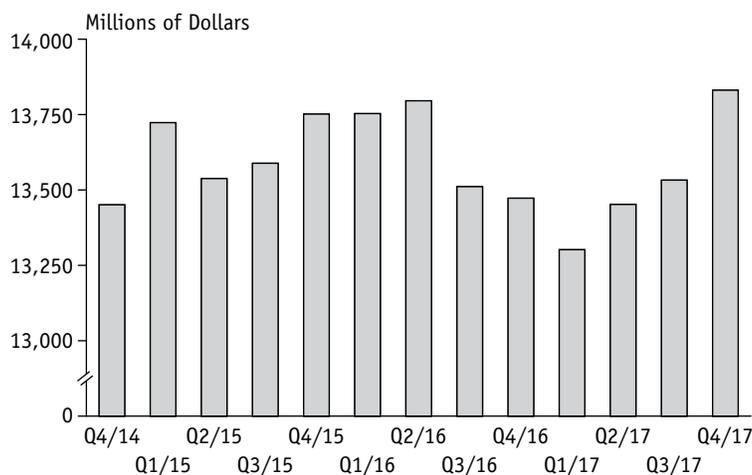
Low prices and weak demand among other factors continue to impact U.S. sales, particularly for primary products. Exports have declined in each of the past two years by a total reduction of 6.1%. This erased most of the gains from the previous four years and lowered total sales to just under \$9 billion. Sales from mining and oil extraction declined to only \$156 million in 2017 from over \$1.0 billion in 2014. Sales from agriculture fell to \$886 million down from \$1.4 billion in 2014.

The diversity in exports of manufactured products has moderated the overall slowdown in sales to the U.S. Total manufacturing exports increased 1.2% in 2016 and declined by 0.8% in 2017. Large declines in chemical products, primary metal products and paper products were offset by gains in two of the largest manufacturing industries, food products and transportation equipment.

The growth in international exports to a wide range of countries in 2017 provides much optimism that Manitoba's export sector will continue to broaden its base and reduce its exposure from any single market. The recent trade agreement with the EU will further advance this goal. Under this new trade agreement, 98% of tariff lines are duty free and 99% of tariff lines will be duty free within seven years. Prior to agreement, only 25% of EU tariff lines were duty free.

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

Manitoba's International Merchandise Exports, Quarterly At Annual Total Exports Fourth Quarter 2014–Fourth Quarter 2017



Source: Statistics Canada

have preferential access to the EU services market. This access is expected to benefit service sectors, such as construction engineering and architectural services. Furthermore, the trade agreement offers Manitoba firms the opportunity to bid on contracts in European government procurement markets, which alone is estimated to be worth \$3.3 trillion annually.

The likelihood of reaching a deal on a new Trans-Pacific Partnership (TPP) trade agreement is increasing. The eleven remaining countries of TPP concluded discussions and finalized the text of the agreement in January 2018. Should a new TPP deal be reached, it would afford Manitoba exporters access to some of the fastest-growing, populous and prosperous regions in the Asia-Pacific region.

MANITOBA OUTLOOK

The positive growth in 120 countries around the world is progressively expanding demand for goods and services and creating jobs. It prompted the IMF to lift its global growth forecast to 3.9% in 2018 and 2019, the strongest in six years.

In Manitoba, the recovery from the prior commodity price shock, stronger local, interprovincial and international demand increased growth to 2.2% in 2017, a sharp improvement from 1.3% growth in 2015.

As demand conditions return to a more sustainable level, growth is expected to remain relatively stable in the outlook. In addition, the balance in Manitoba's interprovincial and international trade combined with the broad and diverse industrial base will continue to minimize fluctuations in annual growth. The current Manitoba Finance Survey of Economic Forecasts calls for 2.0% growth in 2018 and 1.6% in 2019. Nominal GDP is projected to increase by 3.8% in 2018 and by 3.5% in 2019.

There are many risks to the Manitoba outlook. NAFTA negotiations resulting in a significant alteration in trade could have lasting impact on economic activity in all three member countries. The behavioral impact from increasing interest rates and major tax changes in the U.S. and Canada could have a material impact on capital and labour mobility.

However, the strengthening global economy is encouraging and could elevate commodity prices, international export demand and investment in Manitoba above current expectations. The spinoffs from investing approximately \$860 million in Manitoba's food processing capacity is expected to accelerate spending in rural Manitoba. In addition, the exceptional pace of growth in population and the record number of workers in Manitoba could provide a larger than expected support for domestic demand.

Manitoba Outlook at a Glance

| | 2017 | 2018f | 2019f |
|------------------------|--------------------------------|--------------|--------------|
| | (Per Cent Change Unless Noted) | | |
| Gross Domestic Product | | | |
| Real | 2.2 | 2.0 | 1.6 |
| Nominal | 4.3 | 3.8 | 3.5 |
| Employment | 1.7 | 0.8 | 0.5 |
| Unemployment Rate (%) | 5.4 | 5.3 | 5.3 |
| Consumer Price Index | 1.6 | 2.1 | 2.1 |
| Population | 1.5 | 1.2 | 1.3 |

f – Forecast

Sources: Statistics Canada, Manitoba Bureau of Statistics and Manitoba Finance Survey of Economic Forecasts (2018f–2019f)

CHANGING ECONOMIC AND FISCAL LANDSCAPE

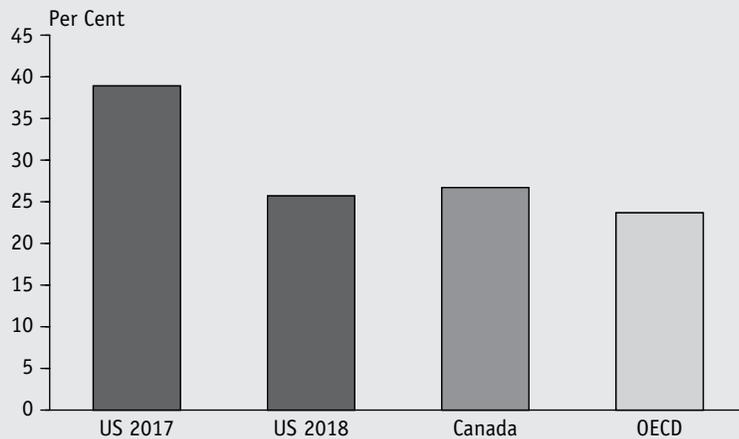
The general economic outlook is subject to risks, including from tax policy developments in the U.S. and Canada, the ongoing North American Free Trade Agreement (NAFTA) renegotiations and rising interest rates.

In the biggest tax overhaul since 1987, the U.S. government deeply cut personal and corporate income taxes in 2018. Newly introduced measures lowered statutory rates for most personal income brackets and increased standard deductions that increase disposable incomes and spurs economic growth.

U.S. corporate tax relief in the form of deductions for certain businesses and a 14 percentage point reduction in the corporate tax rate from 35% to 21% is expected to encourage business investment, increase profitability, repatriate capital and heighten the competitiveness of the American economy.

The following chart shows the competitive edge for the U.S. relative to Canada and the Organisation for Economic Co-operation and Development (OECD) countries when comparing the combined average national and subnational corporate income tax rates:

Corporate Income Tax Rates Canada, U.S., OECD



Sources: Organisation for Economic Co-operation and Development, Finance Canada, Tax Foundation

Manitoba remains competitive compared to key U.S. trading partners on the small business tax rate. Manitoba's small business tax rate is currently at 0% on income up to \$450,000, which will increase to \$500,000 in 2019. Manitoba's general corporate income tax rate of 12% is above the average of our key U.S. trading partners but remains below the 13% Canadian provincial average. The combined Manitoba and federal general corporate income tax rate of 27% is comparable to the 26.6% median of our ten largest U.S. state trading partners.

On personal income taxation, the U.S. tax reforms reduced the tax rates and adjusted the thresholds applicable on most incomes.

For individual states that tax personal income, the top combined U.S. federal-state rate was reduced to around 42.5%, down from 45%. In comparison, the current combined Canadian federal-provincial income tax rate in Canada averages 50%, and 50.4% in Manitoba.

In Canada, recent federal changes have increased the tax burden for some taxpayers. Measures announced in December 2015 raised taxes on top earners from 29% to 33%, which resulted in significant tax planning activity that shifted personal income from one year to another. In its most recent Budget, the federal government acknowledged that high-income individuals recognized additional income in the 2015 tax year and lower income in the 2016 tax year when the 33% tax bracket came into effect.

Tax planning behaviour that moved additional income from 2016 to 2015 has generated significant variances in budgeted revenue for the federal government, provinces, and territories, adding volatility in estimating government revenue. In Manitoba, the increase in the top federal tax rate has resulted in tax planning that attributed \$160 million in positive variance in personal income taxes in 2016/17 and is lowering them by approximately \$262 million in 2017/18.

As initially signalled in Budget 2017, and confirmed in Budget 2018 following brief consultations over the summer of 2017, the federal government has increased taxes on many private corporations, in particular, related to income splitting and passive investments. These measures will further complicate reporting and estimating personal and corporate income tax revenues given the anticipated tax planning and reconfiguration of corporate structures.

“The US tax reforms are anticipated to reinforce these uncertainty effects and dampen investment growth further. Firms may decide to redirect some of their planned investment spending from Canada to the United States to benefit from the lower corporate taxes. The negative effects of US tax reforms on Canadian investment...are expected to subtract 0.5 per cent from the level of investment by the end of 2019.”

—Monetary Policy Report, January 2018, Bank of Canada

“The reduction in corporate tax rates will put American companies on par with major trading partners in Europe and Canada. Meantime, the ability to fully expense investments should extend the upswing in business spending. A tax break to repatriate foreign earnings will also help, even if companies do not need the funds to finance investments given resurgent profits and record liquid assets. Companies are already using their tax windfall to lift worker pay.”

—North America Outlook, February 7, 2018, BMO Capital Markets

“The complexity of both TCJA [U.S. Tax Cuts and Jobs Act] reforms and the numerous non-tax factors that drive investment and labour mobility decisions make it difficult to gauge the potential impacts on Canada. Mobility of capital tends to be higher than labour, which along with growing NAFTA uncertainties, increases the likelihood of a slow bleed of investment from Canada to south of the border.”

—The Implications for Canada of U.S. Tax Reform, February 12, 2018 TD Economics

“This leads us back to one of the major issues we have discussed over the past year – trade. In our opinion, US protectionism was already bad for Canada. Whether NAFTA is successfully re-negotiated or not, businesses will be somewhat tentative on betting too heavily that Canadian exports have long-term, unfettered access to the US. With a revitalized tax code, CEOs have another reason to locate in (or worse yet, relocate to) the US.”

—US Tax Reforms And Its Negative Consequences, February 12, 2018 CIBC Capital Markets Inc.

The economic situation is also rapidly changing. After almost a decade of ultra low interest rates, many leading central banks around the world are raising them. The U.S. Federal Reserve started in December 2015 and has raised rates four times, for a cumulative increase of 1.25%. The Bank of Canada (BoC) raised bank rates by 0.75% over the same period.

Canadian and U.S. monetary authorities have both signalled further rate increases in a process to normalize rates to where inflation remains in check. Rates could be lowered to support growth should recession condition re-emerge.

The fact that rates have been so low for so long, businesses, households and governments have developed long-term plans based on a low interest rate environment. Bond yields, loans, mortgages and credit rates are currently all established at relatively low interest rates. As these instruments mature and adjust to higher interest rates, the higher servicing costs will lower expenditures in the economy. For highly leveraged instruments, the possibility of defaults increase at every interest rate increase, even at small increments.

As interest rates increase, household spending is likely to slow, especially for big-ticket items, such as homes and vehicles. Higher credit card charges could also affect discretionary spending. For businesses, the risk return decisions may curtail capital spending if returns from fixed guaranteed investments become attractive. Government finances will also come under stress as new bond issues and refinancing will be at higher interest rates.

As evidenced by the increased volatility in the financial markets that is due to expectation of higher inflation rate and corresponding higher interest rates, the timing of interest rate increases can quickly slow economic growth. Given the elevated level in indebtedness, economic forecasts are currently factoring in slower economic growth over the medium term due to higher interest rates.

The ongoing negotiations to modernize North American Free Trade Agreement, a free trade agreement between the U.S., Canada and Mexico, currently seem far from a conclusion. Major issues remain unresolved between the three trading partners on areas, such as auto content, supply management, government procurement, the dispute resolution mechanism and the sunset clause.

The prolonged uncertainty on this trade agreement, that has been in place for almost a quarter of a century, and has benefited businesses and workers in all three countries, has lowered investment intentions. According to the BoC, trade policy uncertainty is expected to reduce the level of investment in Canada by about 2% by the end of 2019.

These economic and fiscal dynamics currently unfolding create significant risks of migration of capital, businesses and skilled workers from jurisdiction to jurisdiction. Economic and fiscal competitiveness is now in the spotlight with tax reforms in the U.S. and Canada. Provinces and territories are evaluating the longer-term implications from these actions.

Economic conditions and corporate and personal income tax rates are among many factors considered when making decisions about where to live, invest or locate. The implications for Canada, provinces and territories from economic uncertainty, the U.S. tax reforms and federal tax policy actions continue to be evaluated by governments. Manitoba will continue to focus on maintaining long-term fiscal sustainability and improving the effectiveness of the tax system, while examining how to improve Manitoba's competitiveness with neighboring jurisdictions and trading partners.

Starting with Budget 2016, steps are being taken to improve the tax system by eliminating ineffective tax credits and other wasteful tax expenditures. The Government's regulatory environment is also being revamped to find and remove unnecessary delays and burdens for doing business in Manitoba for businesses, non-profit organizations, local governments and residents.

As introduced in Budget 2016, the personal income tax brackets are now annually indexed to the rate of inflation, lowering taxes for all Manitobans.

Budget 2018 also announces that the Basic Personal Amount will be increased by \$1,010 in 2019 and an additional \$1,010 in 2020, or \$2,020 by 2020. This significant tax saving measure means that Manitoba's forecasted exemption increases to \$10,392 in 2019 and \$11,402 in 2020.

In Budget 2018, the competitiveness of the small business tax rate is also enhanced by increasing the income threshold from \$450,000 to \$500,000, saving a corporation up to an additional \$6,000 per year.

The personal and corporate tax measures announced in Budget 2018 are further outlined in the Tax Measures paper.

MANITOBA FINANCE SURVEY OF ECONOMIC FORECASTS 2017f–2019f

Real GDP Growth Forecast (%)

| | <u>2017f</u> | <u>2018f</u> | <u>2019f</u> |
|-----------|--------------|--------------|--------------|
| CA | 3.0 | 2.3 | 1.8 |
| NL | -1.8 | 1.2 | 1.8 |
| PE | 2.2 | 1.7 | 1.3 |
| NS | 1.3 | 1.2 | 1.0 |
| NB | 1.6 | 1.1 | 1.0 |
| QC | 2.9 | 2.1 | 1.6 |
| ON | 2.9 | 2.3 | 1.9 |
| MB | 2.2 | 2.0 | 1.6 |
| SK | 1.9 | 2.1 | 1.9 |
| AB | 4.3 | 2.5 | 2.0 |
| BC | 3.3 | 2.6 | 1.9 |

Nominal GDP Growth Forecast (%)

| | <u>2017f</u> | <u>2018f</u> | <u>2019f</u> |
|-----------|--------------|--------------|--------------|
| CA | 5.3 | 4.1 | 3.8 |
| NL | 1.8 | 4.0 | 4.4 |
| PE | 4.1 | 3.6 | 3.3 |
| NS | 3.1 | 3.0 | 2.8 |
| NB | 3.8 | 3.0 | 2.8 |
| QC | 4.3 | 3.7 | 3.3 |
| ON | 4.9 | 4.2 | 3.8 |
| MB | 4.3 | 3.8 | 3.5 |
| SK | 5.0 | 4.3 | 4.5 |
| AB | 7.7 | 4.9 | 4.8 |
| BC | 5.7 | 4.7 | 4.0 |

Unemployment Rate Forecast (%)

| | <u>2017</u> | <u>2018f</u> | <u>2019f</u> |
|-----------|-------------|--------------|--------------|
| CA | 6.3 | 5.9 | 5.8 |
| NL | 14.8 | 14.5 | 14.3 |
| PE | 9.8 | 9.5 | 9.4 |
| NS | 8.4 | 8.1 | 8.1 |
| NB | 8.1 | 8.1 | 8.0 |
| QC | 6.1 | 5.5 | 5.4 |
| ON | 6.0 | 5.6 | 5.5 |
| MB | 5.4 | 5.3 | 5.3 |
| SK | 6.3 | 5.9 | 5.7 |
| AB | 7.8 | 6.8 | 6.5 |
| BC | 5.1 | 4.8 | 4.9 |

Employment Growth Forecast (%)

| | <u>2017</u> | <u>2018f</u> | <u>2019f</u> |
|-----------|-------------|--------------|--------------|
| CA | 1.9 | 1.4 | 0.9 |
| NL | -3.7 | -0.6 | -0.3 |
| PE | 3.1 | 0.7 | 0.4 |
| NS | 0.6 | 0.4 | 0.2 |
| NB | 0.4 | 0.3 | 0.2 |
| QC | 2.2 | 1.5 | 0.8 |
| ON | 1.8 | 1.6 | 1.0 |
| MB | 1.7 | 0.8 | 0.5 |
| SK | -0.2 | 0.6 | 0.8 |
| AB | 1.0 | 1.8 | 1.2 |
| BC | 3.7 | 1.5 | 1.0 |

f – Forecast

Source: Statistics Canada, Manitoba Bureau of Statistics and Manitoba Finance Survey of Economic forecasts

MANITOBA ECONOMIC STATISTICS, 2013 TO 2017

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|-----------------------|--------|--------|--------|--------|
| | (Millions of Dollars) | | | | |
| POPULATION | | | | | |
| July 1 (000's) | 1,266 | 1,281 | 1,295 | 1,318 | 1,338 |
| GROSS DOMESTIC PRODUCT¹ | | | | | |
| Nominal | 62,302 | 64,201 | 66,299 | 67,455 | 70,360 |
| Real (chained 2007 dollars) | 57,182 | 58,327 | 59,056 | 60,044 | 61,353 |
| INVESTMENT | | | | | |
| Residential Construction | 3,476 | 3,556 | 3,381 | 3,431 | 3,921 |
| Housing Starts (no. of units) | 7,465 | 6,220 | 5,501 | 5,318 | 7,501 |
| Building Permits | 2,608 | 2,815 | 2,313 | 2,626 | 2,964 |
| Non-Residential Building Construction | 1,477 | 1,700 | 1,860 | 1,729 | 1,889 |
| Total Capital and Repair Investment | 7,620 | 8,633 | 9,493 | 8,862 | 9,139 |
| Private Capital Investment | 4,331 | 5,537 | 4,892 | 4,154 | 4,411 |
| Public Capital Investment | 3,289 | 3,096 | 4,600 | 4,708 | 4,727 |
| SECTORS | | | | | |
| Manufacturing Shipments | 16,930 | 17,427 | 17,158 | 17,382 | 18,305 |
| Retail Trade | 17,314 | 18,071 | 18,368 | 19,147 | 19,820 |
| Wholesale Trade | 15,819 | 17,193 | 17,546 | 18,473 | 19,844 |
| Farm Cash Receipts | 5,833 | 5,983 | 5,867 | 5,948 | 6,474 |
| Crops | 3,468 | 3,260 | 3,190 | 3,598 | 4,080 |
| Livestock | 1,993 | 2,491 | 2,372 | 2,128 | 2,184 |
| Direct Payments | 371 | 231 | 305 | 222 | 210 |
| Mining and Petroleum | 3,071 | 3,097 | 2,239 | 2,168 | N/A |
| Mining | 1,306 | 1,428 | 1,348 | 1,418 | 1,656 |
| Petroleum | 1,765 | 1,669 | 891 | 750 | N/A |
| New Car Sales (no. of units) | 56,275 | 57,783 | 57,986 | 57,428 | 63,228 |
| FOREIGN EXPORTS | | | | | |
| Total Exports | 12,550 | 13,451 | 13,752 | 13,473 | 13,821 |
| U.S. | 8,407 | 9,093 | 9,528 | 9,161 | 8,949 |
| LABOUR MARKET | | | | | |
| Labour Force (000's) | 661.5 | 662.1 | 674.1 | 674.9 | 680.9 |
| Employment (000's) | 625.8 | 626.5 | 636.2 | 633.6 | 644.1 |
| Participation Rate (%) | 68.6 | 67.8 | 68.3 | 67.6 | 67.2 |
| Unemployment Rate (%) | 5.4 | 5.4 | 5.6 | 6.1 | 5.4 |
| Average Weekly Earnings (\$) | 827.34 | 862.99 | 880.17 | 888.52 | 909.87 |
| CONSUMER PRICE INDEX | | | | | |
| (Index, 2002 = 100) | 123.0 | 125.3 | 126.8 | 128.4 | 130.5 |

¹ Manitoba Bureau of Statistics

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

Sums may not add due to rounding.

| 2013 | 2014 | 2015 | 2016 | 2017 | |
|----------------------------|-------|-------|-------|------|---|
| (Annual Percentage Change) | | | | | |
| 1.2 | 1.2 | 1.1 | 1.8 | 1.5 | POPULATION |
| | | | | | July 1 (000's) |
| 4.2 | 3.0 | 3.3 | 1.7 | 4.3 | GROSS DOMESTIC PRODUCT¹ |
| 2.8 | 2.0 | 1.3 | 1.7 | 2.2 | Nominal |
| | | | | | Real (chained 2007 dollars) |
| | | | | | INVESTMENT |
| 8.2 | 2.3 | -4.9 | 1.5 | 14.3 | Residential Construction |
| 3.1 | -16.7 | -11.6 | -3.3 | 41.0 | Housing Starts (no. of units) |
| 4.9 | 7.9 | -17.9 | 13.5 | 12.9 | Building Permits |
| 9.3 | 15.0 | 9.4 | -7.0 | 9.2 | Non-Residential Building Construction |
| -2.3 | 13.3 | 10.0 | -6.6 | 3.1 | Total Capital and Repair Investment |
| -1.3 | 27.8 | -11.6 | -15.1 | 6.2 | Private Capital Investment |
| -3.5 | -5.9 | 48.6 | 2.3 | 0.4 | Public Capital Investment |
| | | | | | SECTORS |
| 3.7 | 2.9 | -1.5 | 1.3 | 5.3 | Manufacturing Shipments |
| 3.9 | 4.4 | 1.6 | 4.2 | 3.5 | Retail Trade |
| -0.6 | 8.7 | 2.1 | 5.3 | 7.4 | Wholesale Trade |
| 13.3 | 2.6 | -1.9 | 1.4 | 8.8 | Farm Cash Receipts |
| 27.6 | -6.0 | -2.2 | 12.8 | 13.4 | Crops |
| 3.1 | 25.0 | -4.8 | -10.3 | 2.6 | Livestock |
| -25.0 | -37.7 | 31.7 | -27.2 | -5.4 | Direct Payments |
| -0.7 | 0.9 | -27.7 | -3.2 | - | Mining and Petroleum |
| -12.4 | 9.4 | -5.6 | 5.2 | 16.8 | Mining |
| 10.3 | -5.4 | -46.6 | -15.8 | - | Petroleum |
| 7.7 | 2.7 | 0.4 | -1.0 | 10.1 | New Car Sales (no. of units) |
| | | | | | FOREIGN EXPORTS |
| 10.5 | 7.2 | 2.2 | -2.0 | 2.6 | Total Exports |
| 9.8 | 8.2 | 4.8 | -3.8 | -2.3 | U.S. |
| | | | | | LABOUR MARKET |
| 0.7 | 0.1 | 1.8 | 0.1 | 0.9 | Labour Force (000's) |
| 0.7 | 0.1 | 1.5 | -0.4 | 1.7 | Employment (000's) |
| - | - | - | - | - | Participation Rate (%) |
| - | - | - | - | - | Unemployment Rate (%) |
| 0.6 | 4.3 | 2.0 | 0.9 | 2.4 | Average Weekly Earnings (\$) |
| | | | | | CONSUMER PRICE INDEX |
| 2.2 | 1.9 | 1.2 | 1.3 | 1.6 | (Index, 2002 = 100) |

¹ Manitoba Bureau of Statistics

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

Sums may not add due to rounding.

