

Budget Paper A

**ECONOMIC REVIEW AND OUTLOOK
INCLUDES BUILDING MANITOBA'S
CAPACITY FOR INNOVATION**

ECONOMIC REVIEW AND OUTLOOK

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■ NATIONAL AND INTERNATIONAL ECONOMY

The global economy is recovering from the deepest downturn since the end of the Second World War. World economic output shrank 0.8% in 2009 with real GDP in advanced economies falling 3.2%. Growth in developing Asia slowed, but was well ahead of most other regions with a 6.5% gain.

Canada's economic downturn was most severe in the first half of 2009. Real GDP declined by an annualized rate of 7.0% and 3.5% in the first and second quarters of 2009, respectively. The economy recovered with two quarters of growth in the second half of the year, a 0.9% increase in the third quarter and, in the last quarter of 2009, 5.0% growth, the best quarterly performance since 2004. Overall, national output contracted 2.6% in 2009, the worst Canadian GDP performance since 1982. The 2.4% decline in U.S. GDP was the worst performance since 1946.

Nominal GDP in Canada declined 4.5% in 2009. Last year marked the first nominal GDP/GNP decline since 1933.

Few sectors of the Canadian economy were spared from the recession. Labour markets were severely affected as employment declined 1.6% and the unemployment rate jumped to 8.3% from 6.1% in 2008. Merchandise exports plummeted 26.7%. Manufacturing sales were down 17.3%, the third consecutive annual decline. Total capital investment fell 11.4% as private investment fell 17.6% and was only partially offset by a 13.4% increase in public capital spending. Housing starts dropped 29.4% to their lowest level since 1998, the biggest annual decline in housing starts since 1932.

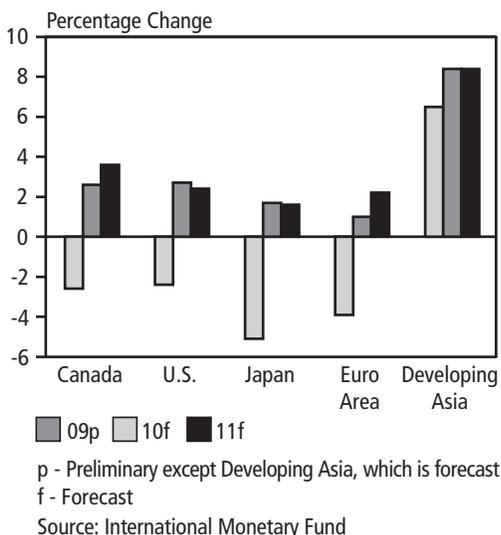
Though Canada's economy experienced a recession, it was less affected by the international downturn than most advanced economies. This is due to a number of factors working in Canada's favour including: a well-functioning and solid financial system; accommodating monetary policy including historically low interest rates; significant fiscal stimulus from governments; and the strong federal and provincial government fiscal positions going into the recession.

The Bank of Canada now predicts that the Canadian economy will grow 2.9% in 2010 and 3.5% in 2011. This is in line with the private sector forecast consensus. Considerable risks remain for the national economy, including the return of price inflation and higher interest rates, the sustained recovery of the U.S. economy – Canada's major export market – and future developments in the exchange rate. Currently, the Canadian dollar is near parity with the U.S. currency.

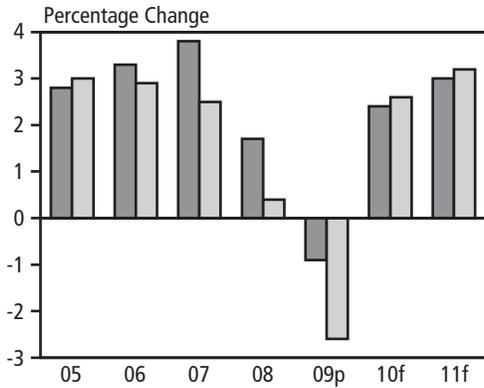
■ MANITOBA ECONOMY

The Manitoba economy was relatively well positioned entering into a period of slower global economic growth. Since 2006, Manitoba's growth has been consistently above the national average. For 2009, most key economic indicators show Manitoba outperforming the national average. However, many sectors in the provincial economy were weaker in 2009 relative to previous years.

Real GDP Growth Forecasts, 2009 to 2011



Real Gross Domestic Product



■ Manitoba ■ Canada
 p - Preliminary f - Forecast

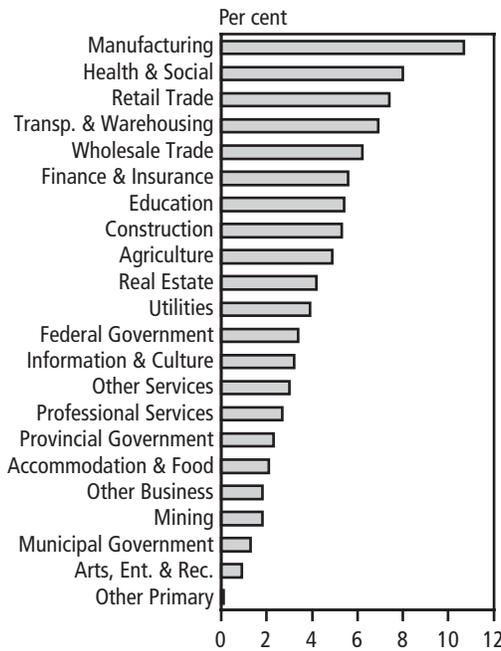
Sources: 2005-2009: Manitoba Bureau of Statistics, Statistics Canada
 2010-2011: Manitoba Finance, survey of economic forecasters

Preliminary estimates of real GDP from Manitoba Bureau of Statistics indicate that the Manitoba economy contracted 0.9% in 2009, the first decline since 1991. A sharp reduction in exports contributed to the slowdown in the economy while domestic demand, led by government investment expenditures, continued to expand at a modest pace. Manitoba households fared much better than their Canadian counterparts as personal expenditures expanded by 2.2% in 2009 compared to 0.2% nationally.

Nominal GDP fell 0.2% in 2009 as both corporation profits and investment income fell sharply – 18.4% and 9.9%, respectively. Income from farm operations declined 5.7% in 2009 after two years of solid growth.

Manitoba’s industrial output was constrained by a 3.5% drop in goods production. Manufacturing, utilities and agriculture output fell, while construction and mining output increased. Value-added in services remained virtually unchanged in 2009 as a 0.5% reduction in commercial service output was balanced by a 1.3% expansion in non-commercial service output.

Industrial Shares of Manitoba GDP, 2009p



p - Preliminary
 Source: Manitoba Bureau of Statistics

The global recession has led to a broad-based decline in both international and interprovincial demand in the province. Foreign exports from Manitoba fell 17.8% in 2009 as manufacturing sales fell 11.0% and the value of metal mining production fell 23.2%. Housing starts dropped below the 5,000 unit threshold for the first time in four years. Retail sales contracted 0.9%, although this was a smaller decline than the 3.0% contraction for Canada. CPI growth was minimal at 0.6%, slightly higher than the national increase of 0.3%.

Despite several major capital projects winding down, capital investment spending increased 4.0% last year, compared to 11.4% decline in Canada. Manitoba’s labour market also fared better than most provinces since the onset of the global downturn, gaining 200 jobs last year and establishing a new record annual level of employment in 2009. Labour income in the province rose 1.8% in 2009, well above the 0.1% Canadian average growth. Manitoba’s industrial aggregate average weekly earnings increased 2.8% in 2009, also ahead of Canada’s increase of 1.6%.

Going into the recession, Manitoba consumers had relatively low debt loads compared to the rest of Canada, with among the lowest ratio of consumer debt relative to disposable income. With improving incomes, consumer confidence progressively increased through 2009.

Another source of strength for the province has been population growth. On an annual basis in October 2009, Manitoba’s population increased by 17,085 persons, the fastest annual increase since 1971.

Manitoba's economic growth rate is the most stable in Canada over the past decade. Several factors account for Manitoba's relative stability, including the diversity of the industrial base, the relatively large and broad-based service sector, and the diversified external trade portfolio, which reflects balanced exports both to interprovincial and international markets.

Manufacturing has a large economic footprint in Manitoba. It is the largest industry, accounting for 11% of GDP. Earnings in the sector are on average 13% higher than the industrial average.

For several years, the North American manufacturing sector has faced strong headwinds from offshore competition, increased transportation costs, rapid currency movements and skilled labour shortages. More recently, the global recession and tighter credit conditions have challenged manufacturers.

Despite these factors, Manitoba's manufacturing sector has performed relatively well. For nine consecutive years, Manitoba outperformed the national average in terms of annual sales performance. However, Manitoba's manufacturers were not immune to the global recession. Total manufacturing sales in 2009 contracted 11.0%. This was the third-smallest decline among provinces and better than the national contraction of 17.3%.

Most categories of manufacturing sales declined in 2009. Shipments of processed wood products and printed materials declined 23.6% and 24.8%, respectively. Weaker demand and lower nickel prices depressed primary metal sales 13.8% in 2008 and a further 29.8% in 2009. The downturn in primary metals sales followed exceptional growth in 2006 (55.7%) and 2007 (25.2%).

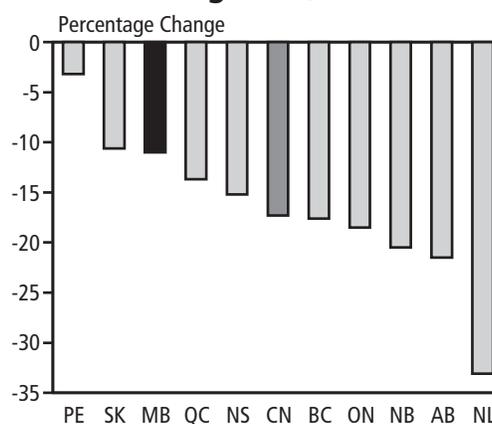
A few industries posted sales growth. An increase in farm equipment and implements sales through early 2009 helped lift machinery and equipment sales 1.2%. The province-wide growth in non-residential construction buoyed sales of electrical products 14.4% in 2009. Pharmaceutical sales increased 36.5%.

Agriculture is an important part of the Manitoba economy, accounting for 5% of GDP. It has significant linkages to other Manitoba industries, including food processing, retailing and agricultural equipment manufacturing.

Preliminary estimates of 2009 Manitoba farm cash receipts from Manitoba Bureau of Statistics show a 3.8% increase relative to 2008. Receipts for both crops and livestock increased last year, as did producer receipts from direct payments (insurance, other producer support programs, etc.). The growth in direct payments to producers reflects payments from the new Hog Farm Transition Program.

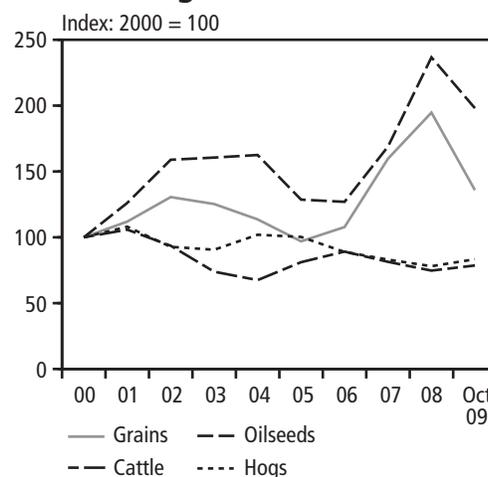
Strong price gains through 2007 and 2008 propelled crop sales to record highs. However, in the first three quarters of 2009, market prices fell 20.6%. As a result, despite a 9.8% increase in the volume of canola production, receipts fell by 8.7%. Wheat production volumes and receipts

Manufacturing Sales, 2009



Source: Statistics Canada

Manitoba Agricultural Price Index



Source: Statistics Canada

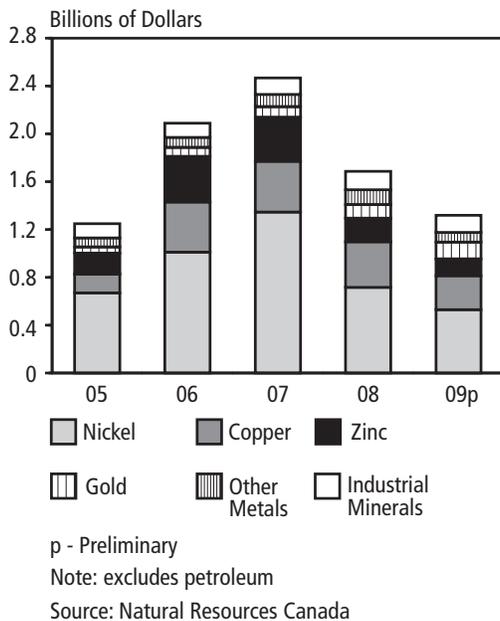
fell 6.6% and 5.7%, respectively. MBS estimates that, for 2009, overall crop receipts were up 1.4% with weakness in wheat and canola offset by gains in other crops.

Livestock receipts rose 0.4%. After a 13.5% decline in hog receipts in 2008, sales in 2009 were up 9.4%. Cattle receipts were down 9.0%. Market conditions continue to be challenging, with a higher Canadian dollar, higher feed costs, and trade regulations in the U.S. market hurting export sales. Though the average hog price in 2009 was better than in 2008, prices fell sharply at the end of the year to reach two-year lows.

U.S. importers are reluctant to purchase Manitoba livestock without discounts due to production and administration requirements under country of origin labeling (“COOL”) provisions. Exports of live cattle and hogs were down 35.0% in 2009. Manitoba producers have responded to these changes, reducing their herd sizes for both cattle and hogs.

Despite an 81.7% drop in U.S.-destined processed pork exports in 2009, significant gains in several other markets more than made up the difference, with particular strength in the Pacific Rim. Pork product exports increased 1.9%, with Japan being Manitoba’s largest pork consumer.

Manitoba Mining Production



The **minerals** sector is Manitoba’s second-largest primary industry, employing 5,400 people and offering among the highest wages. Manitoba is among Canada’s most competitive jurisdictions for mining.

With the global recession, inventories of important base metals increased substantially in 2009. Prices fell more than 20% for nickel and copper in Canadian dollars and zinc prices fell 5.1% following a drastic decline in 2008. The total value of production for Manitoba’s mining, decreased 21.7% in 2009.

The volume of nickel produced in the province in 2009 increased 1.3%, though depressed prices caused the total value of production to fall 25.8%. Similarly, copper volumes fell 5.0% while the total value of production declined 26.0%. Zinc production decreased 21.9%, leading to a 27.8% decline in value. However, gold prices increased to a record-high C\$1,106 in 2009 and Manitoba output rose 4.2%, contributing to a 22.6% increase in value. For petroleum, output volume increased 9.6%, but price declines compared to 2008 contributed to value of output falling 26.0%. Altogether, Manitoba’s mineral industries value of production (including petroleum) declined 23.2% last year.

Exploration was down 48.4% in 2009 to \$78.5 million from the historically high 2008 level. Capital investment in mining fell 31.6% in 2009 to \$461.1 million, the first decline after four consecutive years of double-digit growth. Investment intentions indicate the mining sector will boost capital spending in 2010, with an increase of 3.8%.

Quality known deposits and improving market conditions are prompting companies to invest in large, new capital projects and reopen mines. HudBay Minerals’ Lalor Lake gold and zinc project is expected to result in a \$450 million capital investment; in addition, a nickel deposit is being developed at Victory Nickel’s Minago site. Mines that reopened include Crowflight’s Bucko Lake nickel site and HudBay’s Chisel North zinc mine near Snow Lake. Alexis Minerals’ New Britannia gold mine, also near Snow Lake, is being studied for feasibility and expects to reopen in early 2011.

HudBay announced that it will shut down its Flin Flon smelter by mid-2010 due to federal emissions targets that take effect in 2015. HudBay is building a filtration plant that will enable it to ship its copper offshore, if necessary, for refining and it expects to have new arrangements in place by the time the smelter shuts down. Approximately 85 jobs will be affected by the closure. HudBay will work with unions and government to ease the impact of the closure.

Manitoba housing starts fell sharply after two years of major construction activity not seen since the late 1980s. In 2009, Manitoba housing starts fell 24.6% to 4,174, slightly better than the 29.4% fall for Canada overall. Single-unit construction was down 17.6%, while multiples contracted 38.7% with the market absorbing extensive apartment completions from the previous three years. Similarly, the value of residential building permits issued fell 14.7%. New housing prices increased 2.5%, the fourth highest among provinces and the only increase among Western provinces.

Multiple Listing Service resale volumes slipped 3.5% in 2009. The dollar value of activity registered a modest 1.8% gain for the year overall. After six years of double-digit gains, the weighted average of prices for single-detached homes in Winnipeg increased 5.4%.

Strong economic fundamentals have contributed to Manitoba's mortgages-in-arrears rate being the lowest in Canada at 0.25%, among the smallest increases from 2008 and lower than the 0.41% national average. Despite higher prices, Manitoba housing affordability improved compared to a year earlier due to rising incomes. Manitoba housing remains more affordable than the Canadian average. According to the RBC Economics Research housing affordability index, Manitoba ranks favourably in most categories of home types, and has the most affordable homes in two out of four categories: condominiums and townhouses.

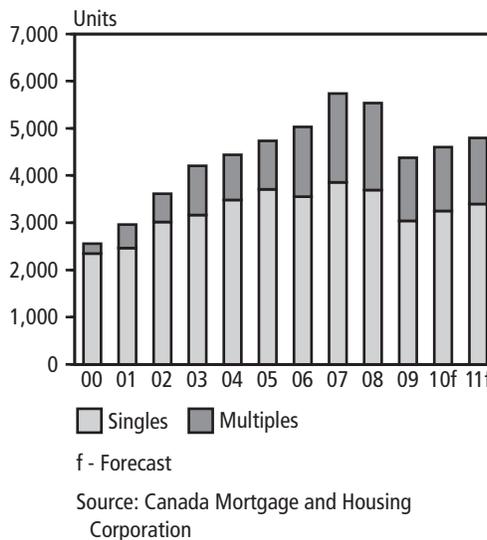
For 2010, Canada Mortgage and Housing Corporation forecasts a 10.2% increase in Manitoba housing starts, driven by a rebound in multiple starts, and a 4.3% gain in 2011. Average residential resale prices are projected to grow 4.8% in 2010 to \$211,000 and increase 3.8% in 2011 to \$219,000.

Manitoba consumers became more optimistic over the course of 2009. Retail trade in Manitoba decreased in the first part of 2009, but became stronger as the year progressed. For 2009 overall, retail sales fell 0.9%, a smaller decline than the 3.0% contraction for Canada. Gasoline sales fell 10.7% as average gas prices fell 17.9%. Food and beverage sales, the largest component of retail sales, increased 4.0%.

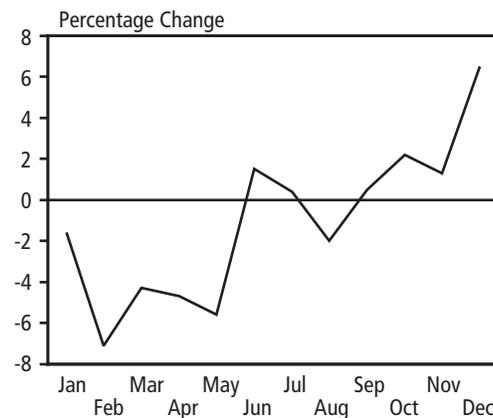
Manitoba's new car sales volumes fell 8.1%, better than the national decline of 11.2%. Retail sales of both new and used cars and recreational vehicles fell 6.8%.

Going into the recession, Manitoba consumers had relatively low debt levels compared to the rest of Canada. In 2008, when compared to disposable

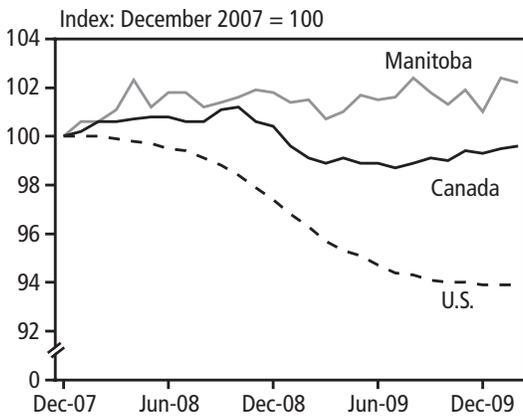
Manitoba Housing Starts



Manitoba Retail Sales, Monthly Year-over-year Change, 2009

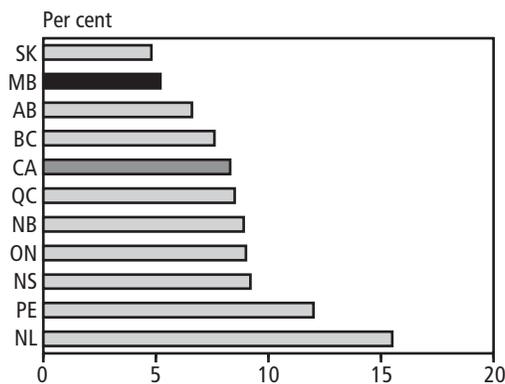


Employment Index



Sources: Statistics Canada
U.S. Department of Labor

Unemployment Rate by Province, 2009



Source: Statistics Canada

income, Manitoba consumer debt was among the lowest in Canada. Debt service payments for mortgage and non-mortgage interest were below the national average.

Labour markets around the world reacted dramatically to the global recession in 2008 and 2009. The rapid onset of the international recession caused significant employment losses in many advanced economies. Canadian employment fell 258,900 (1.5%) over 16 months while the U.K. declined 659,000 (2.2%) in 19 months and U.S. employment declined 8.4 million (6.1%) over 26 months. In 2009, Manitoba established a new record-high annual employment level.

Manitoba's labour market fared better than most provinces in 2009, being one of three provinces to avoid employment losses. Total employment in Manitoba posted a marginal increase of 200 jobs, third best among provinces. This was the seventeenth consecutive annual increase in Manitoba employment, the longest such growth streak among provinces.

Manitoba's 0.1% decline in part-time employment was not quite large enough to offset the 0.1% gain in full-time jobs. This is in sharp contrast with Canada, where part-time jobs rose 2.3% as full-time employment dropped 2.5%.

With the labour force expanding by 7,200 last year, the unemployment rate increased from 4.2% in 2008 to 5.2%. Relative to other provinces, Manitoba's unemployment rate improved from third lowest in 2008 to second lowest. The comparable national rate was 8.3%, up sharply from 6.1% in 2008.

The employment performances in the goods and services sectors were markedly different in 2009. The goods producing industries were particularly hard hit by weak national and international demand. Manufacturing employment fell 7,200, while agriculture lost 2,300. Construction employment was unchanged in 2009, after averaging 3,900 new jobs annually in the previous two years.

Supported by strong population growth, Manitoba's service sector employment, which accounts for 77% of total employment, expanded by 8,400 in 2009. In absolute terms, employment growth was strongest in transportation and warehousing (3,600) and education (1,900).

The labour market outlook for Manitoba, as in other regions, suggests a modest expansion in 2010 followed by stronger growth in 2011. Manitoba's employment is expected to grow 0.8% in 2010 and 1.7% in 2011. This is generally in line with the national outlook. Manitoba's unemployment rate is expected to increase to 5.7% in 2010 but decline to 5.3% in 2011.

Capital investment in Manitoba increased 4.0% in 2009, the eighteenth consecutive annual increase. This increase was second strongest among provinces last year and the fourth consecutive year that investment in the province outpaced the

national average. Private capital investment declined 8.7%, considerably better than the estimated national decrease of 17.6%. Public investment rose 36.1% compared to a national increase of 13.4%.

Manitoba has outperformed Canada in private capital investment growth for the past four consecutive years. Since 2005, the level of private capital investment in Manitoba has increased by 28.5%, second highest in Canada and well above the national growth in private investment of 2.0% over the same period.

In 2010, Statistics Canada's Survey of Private and Public Investment Intentions shows that Manitoba's capital investment will slip 1.1% as national investment increases 4.4%. Private investment is expected to decline 7.8%, while public investment is projected to increase 10.3%.

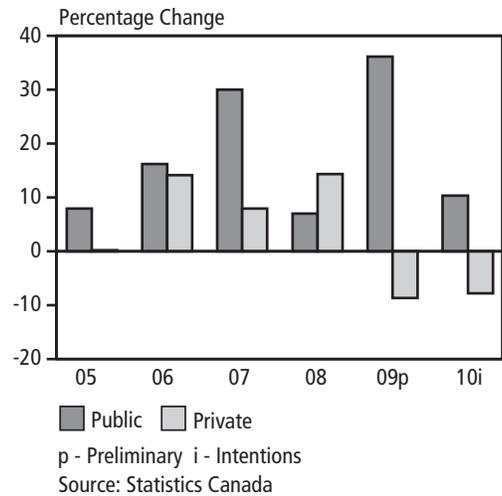
A number of **major capital projects** are under way in the province, while others are expected to be initiated this year: HudBay Minerals is undertaking Phase 1 of the Lalor zinc-gold project near Snow Lake, the first part of a planned \$450 million capital investment; Magellan Aerospace plans to invest up to \$120 million in its Winnipeg Bristol Aerospace plant to facilitate work on the Joint Strike Fighter program; infrastructure work is beginning on the first phase of a shopping complex that will anchor the IKEA development in south west Winnipeg, a \$400 million investment; Nisichawayasihk Cree Nation and Manitoba Hydro continue to develop the \$1.6 billion Wuskwatim hydro-electric generating project, planned for completion in 2011; construction of the Canadian Museum for Human Rights is proceeding, with completion expected in 2012 at a projected cost of \$265 million; work continues on the main terminal building, part of the \$585 million capital investment by the Winnipeg Airports Authority, with completion expected in 2010.

Manitoba's diverse economic base was a partial buffer to the shock of the global recession, though **foreign exports** fell 17.8% in 2009. Despite the drop, Manitoba performed relatively well, ranking second best among provinces as Canada's exports declined 26.7%. Lower exposure to U.S. markets played a role, as Manitoba exporters sent 68% of their goods to the U.S. last year compared to 75% for Canada overall. Manitoba exports destined for the U.S. were down 19.0%. While declines were widespread, the single largest factor for lower exports was lower primary metals exports.

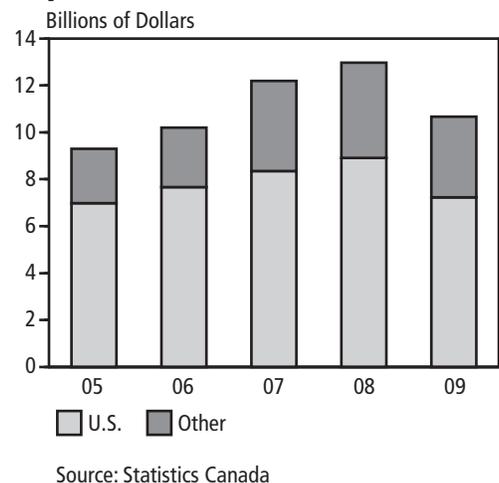
Exports to non-U.S. markets fell 15.2% in 2009, with the top five destinations being China, Japan, Mexico, Hong Kong and Australia. Chinese exports were up 4.0%, though Hong Kong exports were down 29.8%, and Australian exports gained 52.4%. Japanese and Mexican exports fell, 23.5% and 18.0% respectively.

The largest three export commodity categories, all primary goods, declined in 2009 with softer prices and less global demand after significant increases in the previous years: metals fell 43.2%, wheat decreased 12.4%, and oilseeds were down 13.6%.

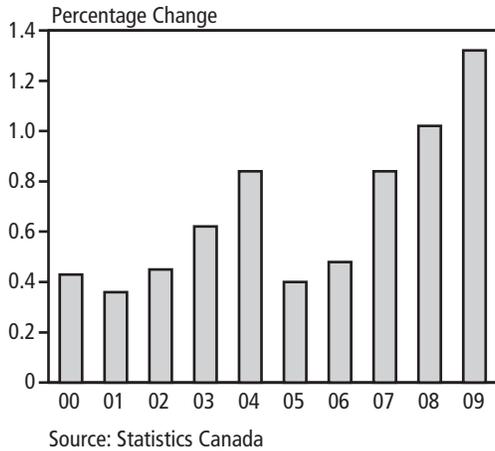
Public and Private Capital Investment



Manitoba Foreign Merchandise Exports



Manitoba Population



However, several important manufacturing industries expanded exports, including aerospace (20.4%), frozen food (10.0%), agricultural machinery (9.1%), motor vehicle bodies, primarily buses (5.4%) and animal processing (3.6%).

Manitoba's **population** in 2009 was estimated at 1,221,964 persons, fifth largest among provinces, based on the "official" July 1 population count. Population increased by 15,864 relative to 2008 or 1.3%. This is the first year that Manitoba's population growth rate exceeded the national since 1985. Net interprovincial migration fell to its lowest level since 1985.

For the third quarter of 2009, population continued to grow, increasing by 17,085 from the previous year, to 1,226,196 persons.

The trend in Manitoba's population growth has been extremely positive. Over the last five years, population increased on average by 10,300 persons annually, up from 6,200 persons in the previous five years.

Recent Manitoba population increases have been due, in large part, to the success of the Provincial Nominee Program. This program helps identify skilled workers and business persons for possible immigration. Since the program's inception in 1998, annual immigration to Manitoba has increased from about 3,000 persons to over 13,000 persons annually.

The outlook for population remains encouraging. Manitoba Finance's survey of forecasters shows that population is projected to increase 1.0% in 2010 and 0.9% in 2011. Both of these increases are above the recent five-year average of 0.8%.

■ MANITOBA OUTLOOK

The gradual strengthening of the international economy will boost Manitoba output in 2010 and 2011. Manitoba Finance's survey of independent forecasts indicates real GDP will grow 2.5% this year and 3.0% in 2011.

Based on the survey of economic forecasters for 2010 and 2011, Manitoba's economy is expected to outperform Canada's in the recession-recovery period. Manitoba's real GDP increase between 2008 and 2011 is forecast to be 4.6%, above the projected national real growth of 3.4%.

While employment growth will improve in 2010, the unemployment rate will increase to 5.7%. In 2011, stronger employment growth will help bring down the unemployment rate to 5.3%, equal to the 2009 average level. Consumer price inflation is projected to remain modest. The rate of population growth will be lower in the next two years relative to 2009, but will remain above the recent annual average.

Manitoba Outlook at a Glance

	2009	2010f	2011f
		(% change)	
Gross Domestic Product			
Real	-0.9	2.5	3.0
Nominal	-0.2	4.0	4.6
Employment	0.0	0.8	1.7
Unemployment Rate (%)	5.2	5.7	5.3
CPI	0.6	1.5	1.9
Population	1.3	1.0	0.9

f - Forecast

Sources: 2009: Statistics Canada and Manitoba Bureau of Statistics
2010-2011: Manitoba Finance, survey of economic forecasters

MANITOBA ECONOMIC STATISTICS, 2005 TO 2009

	2005	2006	2007	2008	2009
	Millions of Dollars				
POPULATION					
July 1 (000's)	1,178	1,184	1,194	1,206	1,222
GROSS DOMESTIC PRODUCT¹					
Nominal	41,512	44,957	48,727	50,324	50,200
Real (\$2002)	38,603	39,880	41,394	42,079	41,685
SECTORS					
Farm Cash Receipts ¹	3,801	3,677	4,339	4,766	4,948
Crops	1,293	1,271	2,199	2,743	2,781
Livestock	1,809	1,780	1,727	1,673	1,679
Direct Payments	699	626	413	350	488
Manufacturing Shipments	13,688	14,862	16,168	16,378	14,581
Mining	1,576	2,616	3,070	2,528	1,943
Electric Power Sales	1,797	1,697	1,667	1,737	1,560
Housing Starts (no. of units)	4,731	5,028	5,738	5,537	4,174
Retail Trade	12,381	12,870	14,008	15,017	14,882
New Car Sales (no. of units)	46,500	45,924	47,099	48,029	44,119
FOREIGN EXPORTS					
Total Exports	9,301	10,195	12,196	12,973	10,665
U.S.	6,973	7,671	8,348	8,906	7,214
LABOUR MARKET					
Labour Force (000's)	609.4	613.5	623.9	633.0	640.2
Employment (000's)	580.3	587.0	596.5	606.7	606.9
Participation Rate (%)	68.6	68.8	69.4	69.6	69.4
Unemployment Rate (%)	4.8	4.3	4.4	4.2	5.2
Average Weekly Earnings (\$)	671.11	690.55	731.21	750.82	771.77
INVESTMENT					
Total	6,836	7,837	8,903	10,008	10,410
Private	5,091	5,811	6,267	7,166	6,542
Public	1,745	2,027	2,635	2,842	3,867
Non-residential	5,201	6,042	6,803	7,698	8,080
Housing	1,635	1,796	2,099	2,310	2,330
CONSUMER PRICE INDEX					
(Index, 2002 = 100)	106.6	108.7	110.9	113.4	114.1
BANKRUPTCIES					
Business	149	160	102	103	65
Farm	26	36	14	22	14
Personal	2,507	2,254	2,041	2,025	2,443

¹ 2009 are preliminary estimates by Manitoba Bureau of Statistics
Sources: Statistics Canada and Manitoba Bureau of Statistics

2005	2006	2007	2008	2009	
Annual Percentage Change					
0.4	0.5	0.8	1.0	1.3	POPULATION July 1 (000's)
5.1	8.3	8.4	3.3	-0.2	GROSS DOMESTIC PRODUCT¹ Nominal
2.8	3.3	3.8	1.7	-0.9	Real (\$2002)
					SECTORS
-1.5	-3.3	18.0	9.8	3.8	Farm Cash Receipts ¹
-28.6	-1.7	73.0	24.7	1.4	Crops
12.0	-1.6	-2.9	-3.2	0.4	Livestock
62.4	-10.4	-34.1	-15.1	39.3	Direct Payments
3.2	8.6	8.8	1.3	-11.0	Manufacturing Shipments
12.1	66.0	17.3	-17.7	-23.2	Mining
25.2	-5.5	-1.8	4.2	-10.2	Electric Power Sales
6.6	6.3	14.1	-3.5	-24.6	Housing Starts (no. of units)
5.9	3.9	8.8	7.2	-0.9	Retail Trade
2.6	-1.2	2.6	2.0	-8.1	New Car Sales (no. of units)
					FOREIGN EXPORTS
0.0	9.6	19.6	6.4	-17.8	Total Exports
1.7	10.0	8.8	6.7	-19.0	U.S.
					LABOUR MARKET
0.1	0.7	1.7	1.5	1.1	Labour Force (000's)
0.6	1.2	1.6	1.7	0.0	Employment (000's)
-	-	-	-	-	Participation Rate (%)
-	-	-	-	-	Unemployment Rate (%)
4.6	2.9	5.9	2.7	2.8	Average Weekly Earnings (\$)
					INVESTMENT
2.0	14.6	13.6	12.4	4.0	Total
0.2	14.1	7.9	14.3	-8.7	Private
7.9	16.2	30.0	7.8	36.1	Public
0.4	16.2	12.6	13.2	5.0	Non-residential
7.8	9.8	16.9	10.0	0.9	Housing
					CONSUMER PRICE INDEX (Index, 2002 = 100)
2.7	2.0	2.0	2.3	0.6	
					BANKRUPTCIES
-16.3	7.4	-36.3	1.0	-36.9	Business
-3.7	38.5	-61.1	57.1	-36.4	Farm
7.2	-10.1	-9.4	-0.8	20.6	Personal

■ Appendix 1: BUILDING MANITOBA'S CAPACITY FOR INNOVATION

Manitoba's *Action Strategy for Economic Growth*, developed with input from the Premier's Economic Advisory Council, emphasizes the importance of investments in research and innovation. The *Manitoba Innovation Framework* identifies key actions to enhance the innovative capacity of the economy and to foster an environment favourable for sustainable economic growth, job creation and quality of life for Manitobans.

Manitoba's efforts continue to show positive results. Productivity in Manitoba has grown at an impressive rate over the past several years. According to the latest data from Statistics Canada, Manitoba is a leader in real business labour productivity growth, with an increase of 9.5% over the five years to 2008. This represents average annual growth of 1.8%, second best among provinces and well above the national average increase of 0.6% per year.

“Innovation is the specific instrument of entrepreneurship... the act that endows resources with a new capacity to create wealth.”

– Peter Drucker,
Management Expert
Innovation and Entrepreneurship, 1985

Manitoba is proud of its already thriving innovation and technology sector. The province is home to many leading-edge innovation businesses in key sectors such as advanced manufacturing, information and communications technology, new media, life sciences and biotechnology, and others.

In the current economic environment, it is important to continue to focus on and invest in Manitoba's innovation system. This will help business to remain globally competitive and provide opportunities for growth in tomorrow's economy. Innovation is also critical to support ongoing

productivity growth and raising the standard of living of Manitobans. To ensure growth we must continue to build our capacity for innovation.

Strategic investments in education and skills, research and innovation, and a competitive business environment will enable Manitoba to cultivate the research and entrepreneurial talent needed to create knowledge and turn it into social and economic prosperity.

Recent Efforts to Build Manitoba's Capacity for Innovation

I. Education and Skills

Manitoba's *Action Strategy for Economic Growth* begins with a comprehensive education and skills development plan to ensure Manitobans have the knowledge and skills needed in an increasingly competitive economy. Manitoba has focussed attention

“Innovation is the key while skilled labor is the bottleneck. ...skilled labor, in particular those with specific, specialized skills...are essential for unlocking innovative capabilities, creating new products and services, and reaching new consumers on a global scale.”

– The Conference Board of Canada

on developing knowledge and skills by: making education and training more accessible; attracting and retaining skilled people; investing in college and university programs and infrastructure; and expanding the training and apprenticeship system.

Highlights of recent accomplishments:

- Under the *Canada-Manitoba Knowledge Infrastructure Program (KIP Agreement)*, delivery of advanced knowledge and skills training in Manitoba is being strengthened by supporting deferred maintenance, renovation, new construction and research and development improvements at post-secondary institutions.

- Twenty-nine KIP projects are being supported in Manitoba, including the University of Winnipeg **Science Complex** and the University of Manitoba **Buller Building Science Labs and Infrastructure Renovation**.
- The **Science Complex** will enhance research and development through state-of-the-art energy efficient labs and act as a new gateway to the downtown, enhancing the overall development of the downtown and inner city while contributing to a science innovation network. The **Buller Building** project will renew microbiology research and teaching labs and research support infrastructure, and will greatly improve the efficacy of research and advanced teaching in science and technology priority areas.
- As of 2009/10, the **College Expansion Initiative (CEI)** has met its commitment to double college enrolments in Manitoba, helping to address demand for skilled workers in growth sectors.
- Start-up funding from CEI was recently approved for Red River College's new **Bachelor of Technology in Construction Management** program, the very first college degree program in Manitoba that will be offered through the new 2009 degree-granting authority for colleges.
- In 2008, the Winnipeg **Business and Training Centre** was opened in partnership with the **Alliance of Manitoba Sector Councils** and **Workplace Education Manitoba**, providing an innovative hub for the services of 17 sector councils and associations. The Centre houses state-of-the art training labs, including one of only a handful of Apple Authorized Training Centres in Canada.
- The **Provincial Nominee Program** for skilled immigrants and the **Provincial Nominee Program for Business** have attracted record numbers of skilled workers and business immigrants to Manitoba. There were more immigrant businesses started and more investment dollars in 2008/09 than in any previous year and 2009/10 is on track to raise the bar higher again. 2009 is also expected to be a record year for skilled immigrant arrivals in Manitoba – the preliminary count is 10,148 provincial nominees, making up three quarters of all arrivals.
- Manitoba has actively contributed to the development of the **Pan-Canadian Framework for the Assessment and Recognition of Foreign Qualifications**. The Framework complements work already under way in Manitoba to improve outcomes for internationally trained professionals.
- The **Tuition Fee Income Tax Rebate** helps encourage young people, from anywhere in the world, to live and work in Manitoba by providing a 60% tuition rebate for all post-secondary graduates, including apprentices. Beginning in 2010, Manitoba students will be provided with a 5% advance on this rebate.
- In co-operation with Western Economic Diversification Canada, Manitoba's University College of the North will construct and equip a new **Northern Manitoba Mining Academy** in Flin Flon. The new academy will provide facilities for training and research in mining, including a geology lab, a multi-purpose wet lab, video-conference facilities and a library specializing in mining and geosciences.

Manitoba's Sector Councils

Arts and Cultural Industries
 Association of Manitoba
 Canadian Manufacturers & Exporters
 Film Training Manitoba
 Information and Communication
 Technologies Association of Manitoba
 Life Science Association of Manitoba
 Manitoba Aerospace
 Manitoba Aviation Council
 Manitoba Construction Sector Council
 Manitoba Customer Contact Association
 Manitoba Environmental
 Industries Association
 Manitoba Federation of Non-
 Profit Organizations
 Manitoba Food Processors Association
 Manitoba Music
 Manitoba Print Industry Association
 Manitoba Tourism Education Council
 New Media Manitoba
 Northern Manitoba Sector Council

II. Research, Innovation and Commercialization

Technology commercialization is an important priority for Manitoba and is critical to future economic growth. New research and technologies provide us with the knowledge, tools and means to deal with current challenges, such as health and the environment. More effective translation of research into practical applications will allow more local firms to commercialize new technologies.

The Government of Manitoba is supporting the development of the province's capacity to innovate by placing a priority on the following areas: building research infrastructure; encouraging investments in research and development activities; and supporting technology commercialization.

“The value of an idea lies in the using of it.”

– Thomas Edison

Recent activities that support these priorities:

- Total Government of Manitoba support for research and development in 2008/09 was \$32.2 million, a 5.2% increase over 2007/08 and nearly double the level provided in 1999/2000.
- The **Manitoba Research and Innovation Fund (MRIF)** is the Government of Manitoba's primary R&D support initiative. Since 2003, MRIF has provided over \$85 million to support Manitoba's scientists and entrepreneurs in a wide range of sectors.
- Under the Canada-Manitoba Western Economic Partnership Agreement, the Governments of Canada and Manitoba are investing a total of \$7 million toward 34 leading-edge research and teaching labs as a core part of the new **UWin CREATE** alliance (the University of Winnipeg Commercialization Research and Education Alliance for Science, Technology and the Environment).
- In further support of UWin CREATE's research and teaching capabilities, the Province of Manitoba, under MRIF, and Cisco Systems Inc. are contributing \$2 million each in support of the **Cisco Endowed Research Chair**.
 - The Manitoba Government continues to support the province's technology business incubators, which are integral elements of Manitoba's innovation and technology commercialization strategy. **Biomedical Commercialization Canada Inc.** and the **Eureka Project** are two such incubators, which are providing hands-on assistance to Manitoba's future business successes.
 - The **Advanced Manufacturing Initiative** has continued to encourage industry to reduce waste and implement lean manufacturing principles, allowing manufacturers to increase productivity and become more profitable.
 - Canada and Manitoba are collaborating to accelerate innovation under **Growing Forward**, a strategic framework for agriculture and food, which will make available up to \$39.2 million in support of innovation between 2009/10 and 2012/13 through the Strategic Innovation Fund and the Industry Innovation Fund.

The Winnipeg Chamber of Commerce recognizes New Flyer Industries with a Spirit of Winnipeg Award

The Chamber notes “New Flyer is known for breaking new ground with the first low-floor bus, the first diesel-electric bus and, most recently, the world's first zero-emission hydrogen fuel cell fleet. Innovations like these have made New Flyer the ‘go-to’ manufacturer for 235 transit authorities across North America – including 20 of the 25 largest transit authorities.”

- The **Industrial Technology Centre (ITC)** provides services to small- and medium-sized enterprises and through this has developed strong relationships with the Canadian Manufacturers & Exporters, Manitoba Aerospace association and the Consulting Engineers of Manitoba. Government understands the importance of stimulating innovation and therefore has committed, in 2010/11, to invest over \$1 million in ITC to ensure that Manitoba small- and medium-sized companies have access to needed new technologies.
- Manitoba's composites cluster will solidify its leadership position in domestic and international markets, due in part to an investment of more than \$11.6 million to the **Composites Innovation Centre** from the Governments of Canada and Manitoba.
- Manitoba and the world's aviation industry will benefit from the development of the new **Canadian Environmental Test Research and Education Center** in Thompson, a cold weather aerospace engine test centre. An investment of \$13.4 million from the Government of Canada and a \$9.0 million secured, repayable loan from the Province of Manitoba toward this major northern initiative will create value-added economic activities in northern Manitoba as the knowledge and technology developed in Thompson emerge into commercial opportunities.

III. Competitive Business Environment

Important to building an innovative economy is a competitive business environment, where researchers and entrepreneurs are able to thrive. Factors affecting a competitive business environment include the costs of conducting business, such as taxation and the cost of inputs including labour and capital; government policies, services and programs that support innovation and competitiveness; and the ease of interacting with government.

As of 2010, when fully implemented, businesses in Manitoba will pay \$422 million less in Manitoba taxes than in 1999. Not only do these tax savings provide businesses with additional working capital for innovation and reinvestment, several measures introduced since 1999 specifically target investments in innovation.

Recent Provincial Government taxation measures that support innovation and competitiveness:

- The **R&D Tax Credit** was increased from 15% to 20% in 2005 and has been enhanced by making the credit refundable for corporations that incur prescribed expenditures in Manitoba after 2009, and under an eligible contract with a qualifying Manitoba research institute.
- **The Corporation Capital Tax** was eliminated for manufacturers and processors, effective July 1, 2008. The general *Corporation Capital Tax* will be eliminated, except for Crown corporations, as of December 31, 2010.
- **The Small Business Corporation Income Tax** will be eliminated, effective December 1, 2010.
- In 2008, the refundable portion of the **Manufacturing Investment Tax Credit** was increased to 70%.
- In 2009, the annual approval limit for the **Small Business Venture Capital Tax Credit** was doubled from \$16.7 million to \$33.0 million.
- The **Co-op Education and Apprenticeship Tax Credits** have been expanded to include an **Advanced-Level Apprentices Hiring Incentive** component, and all program components have been extended to the end of 2011. Budget 2010 further broadens eligibility to include early year apprentices in high school and post-secondary training.

R&D Tax Credit Enhanced

Budget 2010 announces that the R&D tax credit for in-house R&D will become partly refundable starting in 2011. The refundable portion will be one-quarter in 2011 and one-half in 2012.

- In 2008, the Government introduced the **Interactive Digital Media Tax Credit**. Budget 2010 extends the credit for another three years and improves access to the credit.
- A federal budget measure has been paralleled by Manitoba to extend the accelerated capital cost allowance (CCA), or tax depreciation, rate on manufacturing machinery and equipment acquired in 2010 and 2011 and allows 100% CCA on computer hardware and systems software acquired in 2009 and 2010.
- In 2008, the **Green Energy Equipment Tax Credit** was made applicable to geothermal heating systems. In 2009, the maximum 10% credit was expanded to apply to purchasers who install solar heating systems in Manitoba.

Manitoba Innovation Council

Dr. Albert D. Friesen, Co-chair, President and CEO, Medicare Inc. and President, Genesys Venture Inc.

Dr. Joanne C. Keselman, Co-chair, Vice-President (Academic) and Provost, University of Manitoba

Ms. Doneta Brotchie, Program Director, Leadership Winnipeg

Ms. Marilyn Kapitany, Assistant Deputy Minister, Manitoba Region, Western Economic Diversification Canada

Dr. Sandra Kirby, Associate Vice-President (Research) and Dean of Graduate Studies, University of Winnipeg

Dr. John Langstaff, President and CEO, Cangene Corporation

Ms. Jan Lederman, Partner, Thompson Dorfman Sweatman LLP

Ms. Heather Reichert, CA, Deputy Minister, Manitoba Advanced Education and Literacy

Mr. H. Sanford Riley C.M., President and CEO, Richardson Financial Group Limited

Dr. Ian C.P. Smith, Director General, National Research Council of Canada Institute for Biodiagnostics

Mr. Paul Soubry Jr., President & CEO, New Flyer Industries

To make it easier for entrepreneurs to interact with government, the Province has introduced a variety of initiatives to simplify and streamline services and move toward a more client-centred approach to service delivery.

Recent progress in this area:

- **BizPaL**, an on-line self-serve tool that provides a customized list of the permits and licenses a business requires to start up or expand, is now available in 30 communities across Manitoba.
- The **Manitoba Business Gateway** has been established in Brandon. This single-window service centre provides information and referrals for the province's business and employer services that support innovation and competitiveness.
- The **Manitoba e-Learning Network** enables small business seminars to be video-cast to 48 video conference sites across the province.

Continuing to Build Manitoba's Capacity for Innovation

Manitoba recognizes the importance of innovation to the future of the province and commits to continued provincial investments in research and innovation.

The Manitoba Innovation Council was announced on April 6, 2009 as a new mechanism for the business and academic communities, as well as the federal government, to provide advice to the Provincial Government on innovative economic development. The Council, co-chaired by prominent leaders, Dr. Albert Friesen and Dr. Joanne Keselman, is focussed on priorities such as the technology commercialization to capitalize on research and development resulting from academic, business and government collaboration. As well, the Council is assessing opportunities for enhanced investments through capital markets that would increase economic growth for Manitoba-based companies. Finally, building on the 2010 Innovation

Symposium and 2010 Winnipeg Chamber of Commerce Awards, the Innovation Council is promoting a culture of innovation in Manitoba through entrepreneurs' and innovators' success stories.

Federal Budget 2010 announced that the federal government "in close consultation with business leaders from all sectors and our provincial partners, will conduct a comprehensive review of all federal support for R&D to improve its contribution to innovation and to economic opportunities for business. This review will inform future decisions regarding federal support for R&D." Manitoba looks forward to participating in this review and considers it an opportunity to strengthen partnerships with the federal government in this area. Working together will allow Manitoba businesses to maximize benefits of a wide range of research and innovation supports.

Innovation is critical to Manitoba's future economic success. Manitoba companies' ability to grow and succeed, now more than ever, depends on their capacity to commercialize new technologies, products and processes. A great deal has been accomplished in Manitoba to create an environment that supports innovation, but more work remains to be done.