

Budget Paper A

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

ECONOMIC REVIEW AND OUTLOOK

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INTERNATIONAL AND NATIONAL ECONOMIES

Global economic growth is proceeding at a relatively strong pace, fueled by improved financial market conditions and accommodative fiscal and monetary policies in advanced economies. The International Monetary Fund estimated world output had bounced back to 5.0% growth in 2010 after contracting by 0.6% in 2009. With an expected transition from fiscal stimulus programs to increasing private sector investment spending, world growth is expected to moderate to 4.4% and 4.5% in 2011 and 2012, respectively.

The pace of global growth in 2010, however, remains uneven between advanced economies (3.0%) and developing Asia (9.3%). Several advanced economies, including the U.S., continue to experience above average levels of unemployment while some European countries are dealing with elevated sovereign debt default concerns. Developing Asia, especially China and India, is experiencing significant growth in domestic demand and corresponding inflationary pressure.

The Canadian economy fared much better than other advanced economies during the global economic downturn but has grown in line with the advanced economies in the recovery period. After contracting 2.5% in 2009, real national GDP growth rebounded 3.1% in 2010, slightly above the average growth estimated for advanced economies. The Canadian recovery was initially buoyed by strong residential investments, government spending, consumer spending, and export sales and followed by improvements in business capital investment. Final domestic demand rebounded to 4.4% growth in 2010 after contracting by 1.8% in 2009.

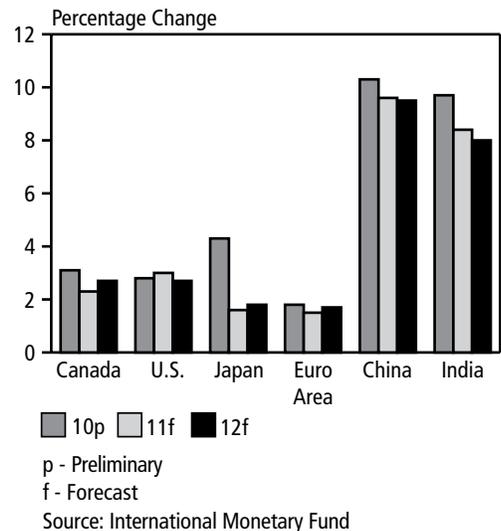
Incomes generated in Canada sharply improved in 2010, with nominal GDP accelerating to 6.2% growth, the best performance since 2005 and up from a 4.5% contraction in the previous year. Labour income grew 4.0% after remaining flat in 2009, while corporate profits increased 18.4% compared to the 32.3% loss in 2009.

The Canadian economic recovery in 2010 was relatively broad based. The labour market rallied over 18 months to recover the number of jobs lost during the downturn. As a result, the unemployment rate improved from 8.3% in 2009 to 8.0% in 2010. A gradual pick-up in demand from U.S. and overseas markets lifted Canadian merchandise exports to 11.7% in 2010, up from a 26.5% decline in the previous year. Manufacturing sales also rebounded 8.9% in 2010 after a 17.7% drop in 2009. Capital investment spending strengthened in both public and private sectors, jumping 10.3% in 2010 after declining 12.2% in 2009.

With demand from developing Asia remaining firm, commodity prices sharply turned around in 2010 with gold and copper prices setting records at \$1,225US an ounce and \$3.42US per pound, respectively. West Texas Intermediate oil price increased to average \$79.43US per barrel in 2010, up from \$61.69US per barrel in 2009. Higher commodity prices coupled with a 75 basis point increase in interest rates, lifted the average value of the Canadian dollar vis-à-vis the U.S. currency to \$0.971US in 2010, up from \$0.876US in 2009.

The momentum in private investment spending and export sales in the fourth quarter of 2010 bodes well for growth in 2011. According to the Bank of Canada, Canadian companies, bolstered by strong financial positions, are expected to increase investment spending in 2011. The renewal of tax cuts and other fiscal and monetary stimulus measures announced in the U.S. is expected to shore up American growth and, in turn, support Canadian exports.

Real GDP Growth Forecasts, 2010 to 2012



Canadian household balance sheets remain increasingly stretched and are not expected, in the near term, to be further supported by rapid house price gains which will moderate consumer spending.

With a rebalancing of growth focusing on business investments and export sales, the Bank of Canada projects 2.4% growth in 2011 and 2.8% growth in 2012. Several risks and challenges remain, including volatile commodity markets, sovereign debt concerns, continued appreciation of the Canadian dollar and slow growth in several advanced economies.

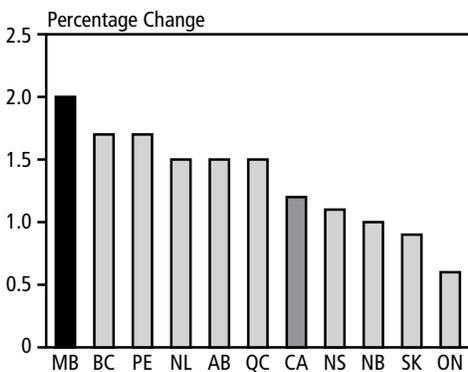
■ MANITOBA ECONOMY

Manitoba was well positioned to enter a period of global economic slowdown with a diversified economy, stable growth in domestic demand and broadening export markets. As a result, Manitoba fared better than other economies in 2009. According to Statistics Canada, Manitoba was the only provincial economy not to experience a decline in real economic activity in 2009. This compares favourably to the 2.5% decline in national economic growth and a 0.6% decline in world output.

Over the last five years, Manitoba has outpaced national growth by posting the strongest average annual growth among provinces. In addition, over the last 10 years, growth in economic activity has been among the most stable in Canada. This reflects some of Manitoba's structural advantages, including a diverse industrial base, balanced exports to interprovincial and global markets, relatively healthy household balance sheets, and an increasingly engaged labour force.

With a global recovery under way, Manitoba's growth has proceeded at a modest pace. Since Manitoba's economic activity slowed the least in 2009, the province had less ground to recover in 2010. Accordingly, the Manitoba Bureau of Statistics' (MBS) preliminary estimate shows real economic growth advancing at 2.5% in 2010, below the national growth of 3.1%. MBS also estimated a 0.1% decline in Manitoba's growth in 2009. Over two years, Manitoba advanced 2.4% while Canada advanced 0.5%.

Real GDP, Average Annual Growth, 2005 to 2010^f



f - Forecast

Sources: Statistics Canada

Manitoba Finance, survey of economic forecasters

A key factor underlying economic momentum in the province is population growth. The province has benefited from a significant boost in population through both higher levels of immigration and a reduction in net interprovincial out-migration. In 2010, immigration accelerated to over 15,800 persons, the largest influx since 1946, while interprovincial out-migration averaged 2,421, well below the five-year average of 5,126 persons.

Despite an increase in consumer activity, prices remained in check. Overall, consumer prices in Manitoba rose 0.8% in 2010, the lowest among provinces and below the national 1.8% increase.

Manitoba's **manufacturing sector** is diverse and stable, generating about 11% of provincial GDP and forms an important part of the economic structure of the provincial economy. Manufacturing is Manitoba's largest industrial sector.

The global recession, currency appreciation, increased international competition, credit market conditions and labour shortages are some of the recent factors affecting the manufacturing industry in Canada. As a result, manufacturing sales in all provinces have not returned to the pre-recession record set in 2008. While all provinces faced these challenges to some degree,

manufacturing sales by Manitoba producers outperformed national sales for nine of the past 10 years.

Manitoba manufacturers were later to both experience a sales downturn and to start the recovery period. Among provinces, the impact on sales was also mild in Manitoba in percentage terms. Due to the timing, Manitoba's manufacturers did not experience as significant a decline in 2009 as in other provinces. Manitoba ranked second strongest overall despite a 10.7% decline in sales receipts, better than the Canadian decline of 17.7%. However, the later rebound in 2010 has resulted in a 1.7% decline in annual sales for Manitoba compared to an 8.9% increase for Canada.

Over the last year, Manitoba sales have significantly improved, increasing 9.1% in the fourth quarter of 2010 compared to the fourth quarter of 2009 (see chart). In contrast, national sales increased 7.2%. The recent increase in manufacturing sales is broad based with most sub-industries showing double digit year-over-year quarterly growth, including primary metals (22%), chemicals (19%), plastics and rubber (19%), transportation equipment (18%) and machinery and equipment (12%).

Corresponding to an increase in sales, employment and labour income in manufacturing rebounded over the past year. Statistics Canada reported a three-month average of 70,200 jobs in Manitoba's manufacturing sector in March 2011, up from an average of 60,100 jobs 12 months earlier. Labour income increased 5.6% in the fourth quarter of 2010 compared to a year ago.

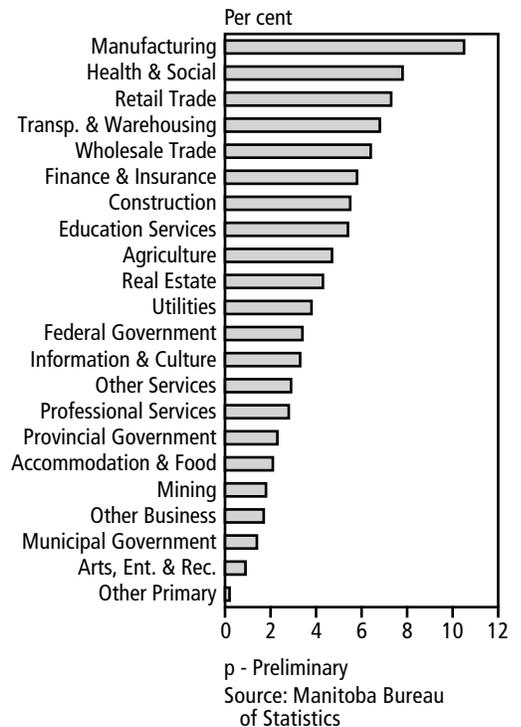
The momentum in the manufacturing sector in the latter half of 2010 points to an improving outlook for 2011 as steady demand from other provinces and developing Asia is supplemented by rebounding activity in the U.S. and Europe.

Agriculture is an important part of the Manitoba economy, with significant linkages to other sectors, including transportation, storage, food processing, retailing and agricultural equipment manufacturing. It makes up 5% of GDP, supporting more than 25,000 jobs.

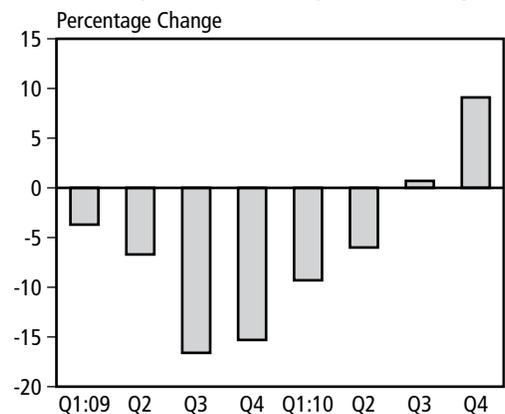
Agriculture production was mixed in 2010. Crop production sharply declined due to excessive moisture conditions while domestic value-added livestock processing sharply increased as live exports are progressively being constrained by market conditions and regulations.

Farm cash receipts were over \$4.8 billion for the third consecutive year in 2010, although they slipped 1.3% from 2009. Despite the drop, Manitoba receipts outperformed Canada's 1.7% decline. Receipts for crops fell 5.3% in 2010, while livestock gained 7.1%. Direct payments declined 7.0% (insurance, producer support programs, etc). For crops, wheat receipts were down 21.7%,

Industrial Shares of Manitoba GDP, 2010p

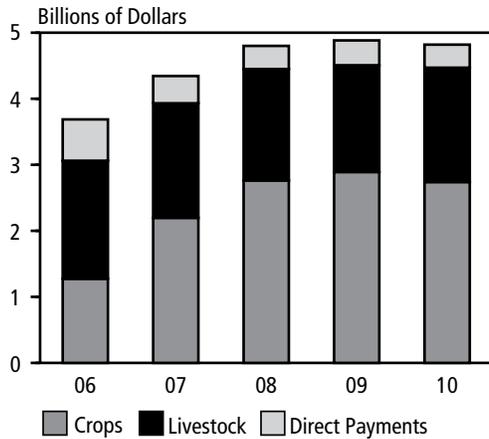


Manitoba Manufacturing Sales, Quarterly Year-over-year Change



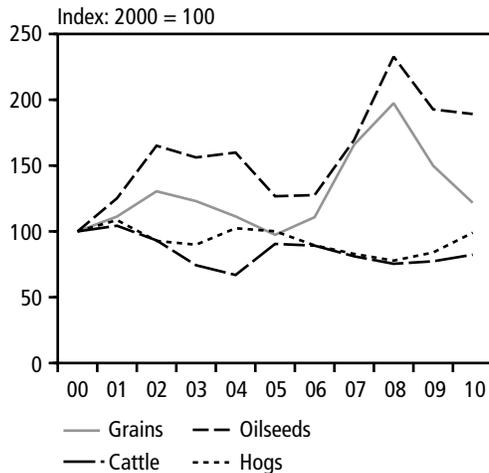
Source: Statistics Canada

Manitoba Farm Cash Receipts



Source: Statistics Canada

Manitoba Agricultural Price Index



Source: Statistics Canada

while oilseeds cash receipts (mainly canola) increased 6.6%. Receipts for hogs were up 13.7% and cattle and calves increased 3.2%.

Crop prices fell 10.1% in 2010, although they partially recovered in the latter part of the year. The decline comes after a large run-up in prices in 2007 and 2008. Most of the decline was caused by the decline in prices for grains, which fell 18.7% (see chart). In contrast, livestock prices in 2010 continued to build on 2009 gains, increasing 10.5%, driven by a 17.9% increase in hog prices and bolstered by a 6.4% rise in prices for cattle and calves.

Given excessive precipitation last year, the volume of major crop production was down substantially in 2010, including wheat (-21%), canola (-22%), oats (-30%), and barley (-49%). Seeded and harvested areas were down for most crops compared to 2009 due to the excess moisture. Inventories of wheat, canola, oats and barley fell significantly and yields fell for all but one crop, soybeans. Soybean inventory increased 19.8%. A growing number of farmers have been planting soybeans in recent years as soybeans are tolerant of excess moisture. Production increased 35.6% in 2010 and doubled over the past four years. While precipitation limited the 2010 harvest for all other crops, soybeans had the highest proportion of its seeded area harvested. In 2010, soybean receipts surpassed barley, and exports gained 25.2%.

Market conditions in the livestock sector have been difficult in recent years, with producers facing declining prices, a high Canadian dollar, increased regulation in the U.S., and high feed and fuel costs. In 2010, however, prices improved and expenses declined. Domestic slaughter was up as exports continue to decline in part due to Country of Origin Labelling legislation required by the U.S., making it more difficult for Canadian exporters to sell into the American market.

The **mining sector** is Manitoba's second-largest primary industry. Mining offers among the highest wages across Manitoba industries and Manitoba is among Canada's most competitive mining jurisdictions. The sector grew 5.7% in real terms in 2010 and mining employment was 6,100, a 5.2% increase.

Manitoba's chief mining commodities include nickel, copper, zinc, gold and petroleum. Prices for these five commodities increased by double-digit rates in 2010, which led to a sharp 26.2% rise in total value of all mining production

to \$2.5 billion, despite a drop in the volume of nickel production.

Volume of output for Manitoba's most significant base metal, nickel, declined 6.1% in 2010 and zinc production was nearly unchanged, falling 0.1%. However, gold and copper volumes partially offset these declines with increases of 11.5% and 8.0%, respectively. Gold production increased to 4.4 million grams, its highest level since 2004. Petroleum production was at record levels with a 16.8% increase.

Minerals exploration investment is estimated to be \$85.9 million in 2010, down 12.2% from 2009, but remains higher than pre-recession levels. Most exploration is for base metals, which was estimated to increase 6.6% in 2010 to \$53.5 million, while precious metals exploration was down 35.3%.

Capital investment in mining is estimated to have grown 24.4% to a record \$706.8 million in 2010, according to Statistics Canada. Its survey of investment intentions shows Manitoba mining is expected to sustain its high level of capital investment with \$705.4 million in 2011.

Total petroleum expenditures, including capital investment and operating costs, were a record \$800 million in 2010, supporting 516 new wells and more drilling activity. Both were almost double from the previous year and both were also at record levels. Manitoba oil output jumped in 2006 and has been strongly rising ever since. In fact, average production in the last five years has more than doubled compared to the average of the previous five years (see chart).

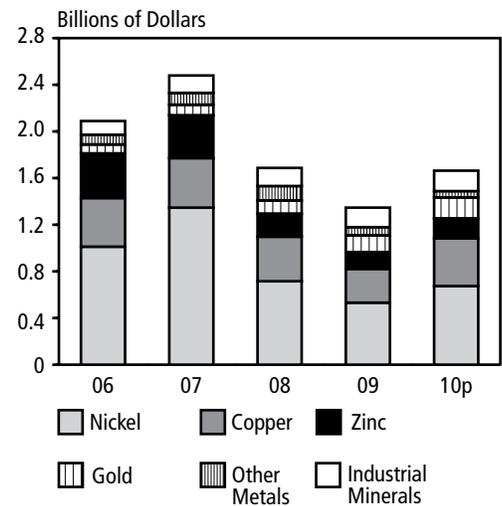
Quality known deposits and favourable market conditions are contributing to a number of new developments in the Manitoba minerals sector. Alexis Minerals has had good results from a recent feasibility study for reopening the Snow Lake gold mine, a \$55-million project. HudBay Minerals expects the life of its Chisel North zinc mine to expire at the end of 2012, while its \$560-million Lalor Lake zinc and gold deposit sees a large capital program in 2011. Lalor's production is expected to start in 2012 and increase to full production in 2016. Victory Nickel has also reported improved drill results at its Minago nickel mine, a projected investment of \$596 million if it proceeds.

Last year, the number of new **housing** units constructed in Manitoba sharply rebounded after a decline in 2009. Single- and multiple-residential-unit starts rose to levels not seen in more than two decades. Manitoba total housing starts increased 41.1% to 5,888, better than the 27.4% increase for Canada overall. Single-unit starts rose 30.7%, while multiples increased 68.9% to 1,912 starts with 1,344 of those being apartments.

The value of residential building permits issued increased 23.7% in 2010, to almost \$1.2 billion. Overall, building permits increased 12.6%, with gains in residential and industrial components, while commercial, institutional and government permits declined. New housing prices increased 4.8%, the second-highest increase among provinces and above the national increase of 2.2% in 2010. In 2011, capital investment in housing is expected to grow at the third-highest rate among provinces at 5.2%.

Historically low mortgage rates, together with stable economic growth, high employment and strong population gains, continue to create housing demand in the province as more buyers are attracted to the housing market. Multiple Listing Service resale activity indicates a slight increase in the number of sales in 2010, up 0.6%, after a 3.2% decline in 2009. The

Manitoba Mineral Production

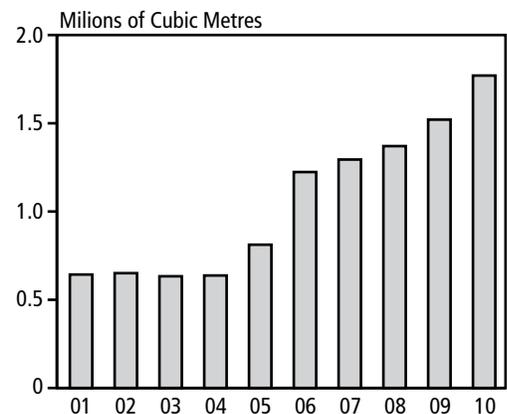


p - Preliminary

Note: excludes petroleum

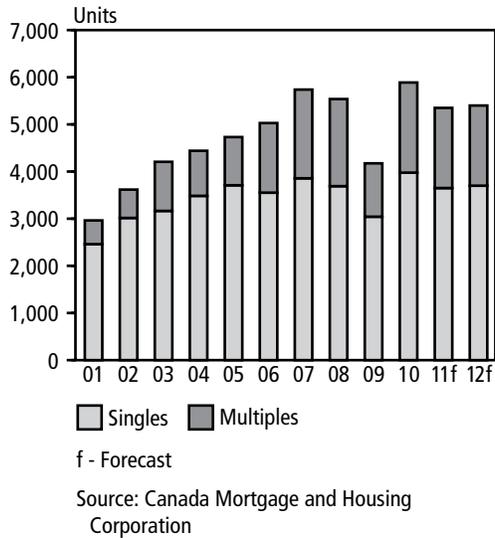
Source: Natural Resources Canada

Manitoba Oil Production



Source: Manitoba Innovation, Energy and Mines

Manitoba Housing Starts



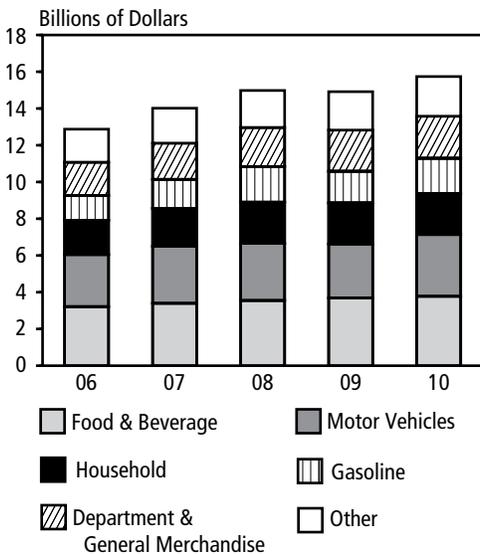
average home price in 2010 advanced 10.3% following a 2009 gain of 5.8%, returning to the double-digit gains of the previous six years.

Population growth, particularly through the Provincial Nominee Program, has increased demand for accommodation services in Manitoba. As a result, Winnipeg had a vacancy rate of 0.8% in 2010 (1.1% in 2009), and the housing market is reflecting the trend in demand for rental units. Over the last five years, 1,165 apartment units were started in Manitoba; on an average annual basis, this compares to 635 units on average in the previous five years.

Manitoba housing affordability improved even as house prices increased because of growing incomes. According to RBC Economics Research, Manitoba's housing affordability index eased in the fourth quarter of 2010, the province remained among the only two markets in Canada where affordability stands below the long-term averages for all housing categories.

For 2011, Canada Mortgage and Housing Corporation forecast housing starts to decline in eight provinces. For Manitoba, the total number of housing starts moderated to 5,350 units, a 9.1% decrease from the record set in 2010, but still high by historical standards. Single-detached housing starts are expected to decline 8.2% to 3,650, while multiple starts are expected to decline 11.1% to 1,700 units. Total starts in 2012 are projected to increase 0.9% to 5,400. Average residential resale prices are projected to grow 3.9% in 2011 to \$230,700 and increase 1.7% in 2012 to \$234,700.

Manitoba Retail Sales by Type



Source: Statistics Canada

Retail trade in Manitoba grew 5.5% in 2010, ranked third highest among provinces and better than the national average of 5.1%. Growth in retail activity has been robust over the past five years, increasing at a 4.9% annual average rate, and ranked second.

A rebound in used and new car dealer sales drove a 14.1% increase in the value of motor vehicle sales. The number of new vehicles sold increased 3.1% in 2010, recovering from a decline in 2009. Increased fuel prices contributed to gasoline station sales rising 10.9% in 2010. Furniture and home furnishing store sales gained 6.7%. Bolstering growth was food and beverage, the largest sector, up 2.6%, as well as general merchandise and department store sales, with a 2.2% gain.

Relatively healthy balance sheets and confidence of Manitoba consumers contributed to the strong recovery in retail sales. Debt is low compared to the national average and debt servicing is correspondingly more manageable. Consumer debt per capita for Manitoba was \$20,463 in 2009 compared to Canada's at \$30,978, according to the Institute of Chartered Accountants of Manitoba. Statistics Canada indicates Manitoba's debt service to disposable income ratio was among the lowest compared to other provinces at 5.9% in 2009, while Canada's was 7.4%. TD Economics reports that debt accumulation in Manitoba has been slow. The debt-to-asset ratio, debt-service

ratio and share of vulnerable households were the lowest among regions last year, making Manitoba households the least financially vulnerable in Canada.

Labour market conditions are improving around the world following the recession. The Canadian market substantially improved with the total number of jobs now back above the pre-recession level. The unemployment rate has dropped from 8.3% in 2009 to 8.0% in 2010, but remains above the five-year average (6.7%).

Manitoba's labour market was resilient during the global downturn. In 2009, total employment in Manitoba was virtually flat at just over 608,000 workers. On average in 2009, employment in Manitoba fell by 200 jobs, but this compares favourably to a loss of 274,300 jobs in Canada.

Starting in January 2010 and through most of the year, the number of jobs in the province surged. As a result, provincial employment increased by 21,100 jobs since December 2009 (see chart). On an annual basis, the province generated 11,500 jobs in 2010, a 1.9% increase and the best growth in eight years. Relative to other provinces, Manitoba's employment growth was third highest.

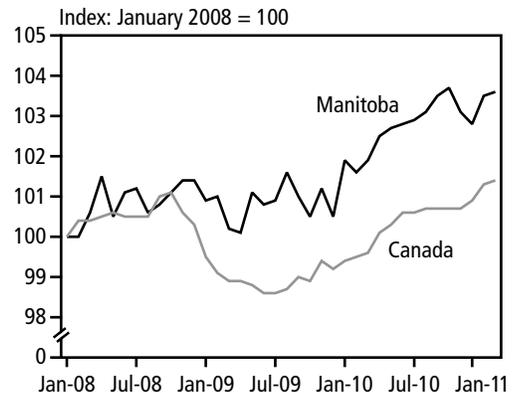
Manitoba's service sector employment, which accounts for 77% of total employment, increased by 8,400 jobs in 2010, while the goods sector employment increased by 3,100 jobs. Provincial manufacturing employment sharply improved in 2010, recouping all of the losses experienced in 2009.

Supported by positive demographic and economic fundamentals, Manitoba's labour force expanded by 13,100 workers in 2010, the best growth since 2002 and follows a gain of 6,800 in 2009. The labour force participation rate, which shows the share of working age population engaging in the labour market activity, rose to record 69.6% in 2010, the third highest among provinces and above the national average. As a result, the unemployment rate marginally increased in 2010 to 5.4%, the second lowest among provinces.

So far in 2011, Manitoba's employment has increased 1.9%, or 11,400 jobs, relative to the same period in 2010. Full-time employment is up 2.1% while part-time employment is up 0.7%. The labour force has expanded 1.7%. With employment gains outpacing the labour supply, Manitoba's unemployment rate has fallen to average 5.3%, the lowest among provinces.

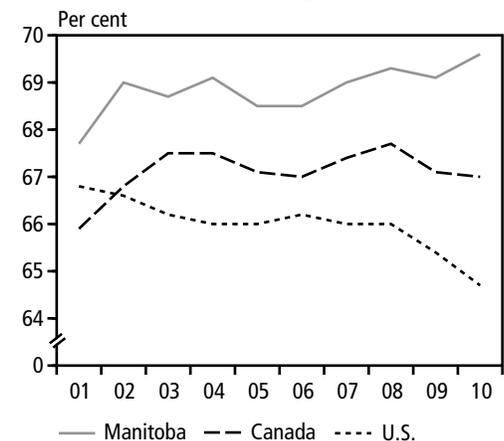
The labour market outlook for Manitoba, based on the Manitoba Finance survey of economic forecasters, indicates that the current momentum will flow into 2012. Employment is expected to increase 1.5% in both 2011 and 2012. The unemployment rate is expected to decline to 5.1% in 2011 and to 4.9% in 2012.

Total Employment Index, Manitoba and Canada



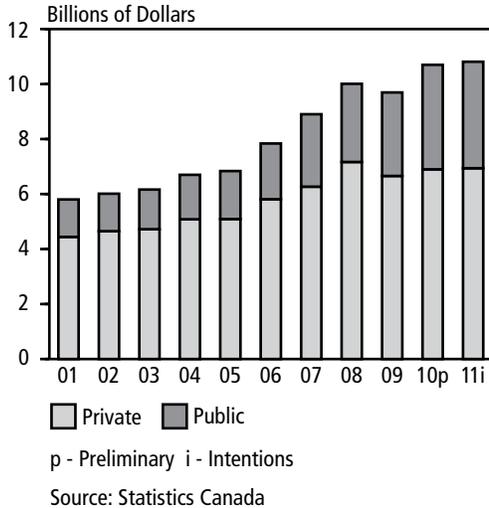
Source: Statistics Canada

Labour Force Participation Rate



Sources: Statistics Canada
U.S. Bureau of Labor Statistics

Private and Public Capital Investment



In 2010, total **capital investment** in Manitoba grew at a strong pace and increased 10.4%, the fourth-best growth in Canada. Manitoba also has the best record for consistent growth in capital investment of all provinces with only one year of decline in the past 20 years.

Private investment posted strong growth over the past several years, and increased 3.6% in 2010. Public investment increased by an estimated 25.2% in 2010, supporting economic activity through province-wide infrastructure investment.

From 2005, Manitoba's capital investment grew on average 9.4% annually, second best among the provinces. By comparison, Canada's investment growth was 4.3% per year. Over the same period, private capital investment grew 6.3% per year, second best among the provinces, and above Canada's growth rate of 2.3%. Manitoba's public sector investment growth averaged 16.9%, second best among the provinces, and above the national increase of 12.4%.

For 2011, Statistics Canada estimates Manitoba's capital investment will increase by 1.1%, to a record of \$10.8 billion. Private sector capital spending in Manitoba is expected to reach \$6.9 billion in 2011, a 0.6% increase over 2010, and public investment is expected to grow 1.9%.

By industry, manufacturing investment is expected to post the strongest growth with a 29.4% expected increase in 2011 following a 7.8% increase in 2010. Manitoba manufacturers are expected to increase spending on machinery and equipment by 32.1% in 2011 up from a 9.2% increase in 2009. This bodes well for productivity gains over the medium term.

Other areas of investment growth in 2011 include housing (5%), and health care and social assistance (18%). Utility investment in 2010 grew 49%, and is expected to maintain this high level of investment of \$1.4 billion in 2011. Mining, oil and gas investment more than doubled in the past five years to over \$700 million in both 2010 and 2011. With the completion of the new Winnipeg airport, declines are expected in transportation and warehousing services (-14%).

A large number of **major investment projects** are under way in 2011, including continuation of the Wuskwatim hydro-electric dam, and refurbishment of Manitoba Hydro's infrastructure throughout the province. Work on the Canadian Museum of Human Rights (\$310 million) continues with an expected completion date in 2012. CentrePort (\$212 million), Manitoba's inland port and free trade zone, moves forward with land sales for business development. As well, work has begun on the Disraeli Bridges, a \$195-million investment in infrastructure and planned for completion in 2013. Standard Aero and GE will invest \$50 million in an engine testing plant, greatly expanding the capacity and scope of the Winnipeg facility. Construction of Winnipeg's new football stadium at the University of Manitoba will add \$190 million of capital investment in the province.

Manitoba's **exports** to foreign markets sharply improved through the course of 2010, but are down slightly compared to 2009. Global dynamics have contributed to significant industrial and market shifts in Manitoba's exports. During the global recession, weakness in the U.S. and European markets as well as weather-related events weighed down demand in key exports, but strength in other important industries and in several other countries, particularly developing Asia, offset much of the decline.

Manitoba exports declined 2.9% in 2010, after an 18.5% contraction in 2009. While Manitoba's exports did not rebound like Canada's 11.7% increase in 2010, Manitoba did not suffer the same level of contraction in 2009, ranking second best among provinces and tied with Quebec. Exports to the U.S. decreased 7.5%, while non-U.S. exports gained 6.8% in 2010 (see table).

Steadily recovering markets increased demand for base metals, with non-ferrous metals (smelting and refining) increasing 11.3% and contributing the largest dollar value gain among industries in 2010. China became Manitoba's largest buyer of base metals in 2010. Base metal sales increased substantially to other parts of Asia, including Singapore, Taiwan, South Korea and Hong Kong.

Manitoba's exports increased over 2010, showing sharp improvements in sales over the last four quarters (see chart). For non-U.S. markets overall, fourth quarter exports were up 42% in 2010 compared to the same quarter in 2009. Exports to China (+18%), Japan (+10%), and Mexico (+22%) substantially increased in the fourth quarter of 2010. While exports to the U.S. still declined 1.8% in the fourth quarter, it was the smallest contraction of the year. Many industries were boosted in the fourth quarter of 2010, including crops (wheat, oilseeds and soybeans), agricultural equipment, and fertilizer. Heavy-duty truck exports more than doubled compared to the fourth quarter of 2009.

Manitoba has been successful in finding new markets for its products. Ten years ago, non-U.S. markets constituted 21.5% of total exports. In 2010, that proportion had risen to 35.7%, well above the 25.3% non-U.S. share for Canada. The U.S. remains an important trading partner to Manitoba, comprising almost two-thirds of export destinations.

Export Development Canada forecasts Manitoba exports to turn around in 2011, with a projected 6% increase from gains based in all industries. 2011 is projected to benefit from higher value and volume of crude oil exports, electricity demand in a recovering U.S. market, ramped-up production in aerospace, and improved base metal prices.

Manitoba's **population** in 2010 was estimated at 1,235,412 persons, fifth largest among provinces, based on the July 1 official population estimate.

Manitoba's population grew by 15,850 persons in 2010, the largest year-over-year increase in 39 years, and the 1.3% annual growth rate was ahead of the national increase.

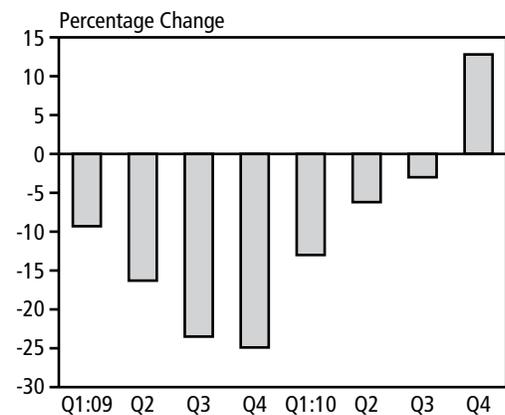
Manitoba's population continues to increase, and on January 1, 2011 was estimated at 1,243,653, up 16,915 persons from January 2010. Net migration reached 11,315 persons in 2010, the largest increase since 1971 and was helped by the continual slowing of net interprovincial out-migration.

Top 10 Manitoba Export Destinations, 2010

	Percentage change
1. United States	-7.5
2. China	5.5
3. Japan	16.4
4. Mexico	28.0
5. Hong Kong	12.0
6. South Korea	59.9
7. Taiwan	47.3
8. United Arab Emirates	42.9
9. United Kingdom	-9.6
10. Bangladesh	20.2
Others	-5.9
Total	-2.9

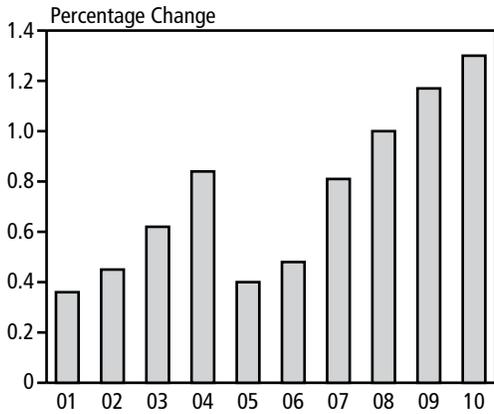
Source: Statistics Canada

Manitoba Exports, Quarterly Year-over-year Change



Source: Statistics Canada

Manitoba Population



Source: Statistics Canada

Manitoba’s population growth has been positive over the last decade, growing on average by 8,800 persons per year, more than double the average 4,200 persons per year in the previous decade. Over the last five years, population increased on average by 11,400 persons annually. Shown by the median age, Manitoba’s population is getting younger, as more Manitobans stay in the province, and this trend is expected to continue over the next decade.

As competition for skilled workers continues to increase, Manitoba has been very successful in attracting and retaining residents. A cornerstone to this achievement has been the Provincial Nominee Program and the ability to integrate and settle skilled international workers in the province. As a result, net international migration in 2010 was 13,760 persons, almost seven times the level in 1999.

Manitoba Finance’s survey of demographic forecasters highlights an encouraging trend, with continued population increases of 1.3% in 2011 and 1.2% in 2012. Both of these increases are above the recent five-year average of 1.0% and almost four times the average annual increase of 0.3% in the 1990s.

■ MANITOBA OUTLOOK

Based on the Manitoba Finance survey of economic forecasters, Manitoba's economy is expected to grow 2.7% in both 2011 and 2012, matching the national average in both years. Employment growth is expected to remain strong, growing at 1.5% annually in the next two years. Consumer prices are expected to remain in check, increasing 2.0% in both 2011 and 2012. Manitoba's population growth is expected to remain strong over the outlook period.

During the global recession and in the current expansion phase, economic activity in the province has been supported by strong population growth together with strengthening private and public investments. In the last six months of 2010, the momentum in Manitoba's production and export of both primary and manufactured goods has sharply increased.

This positive trend in Manitoba export sales is expected to continue into 2011 as growth in advanced economies stabilizes and demand for goods and services returns to historical trend growth. For the U.S. economy, in addition to an expected increase in business investment, the recently introduced government stimulus programs, including extending personal income tax cuts, should further buoy growth. Demand from developing Asia is expected to remain firm as China and India maintain a relatively fast growth.

Manitoba Outlook at a Glance

	2010	2011f	2012f
		(% Change)	
Gross Domestic Product			
Real	2.5	2.7	2.7
Nominal	5.0	5.5	4.5
Employment	1.9	1.5	1.5
Unemployment Rate (%)	5.4	5.1	4.9
CPI	0.8	2.0	2.0
Population	1.3	1.3	1.2

f—Forecast

Sources: 2010: Statistics Canada and Manitoba Bureau of Statistics
2011 and 2012: Manitoba Finance, survey of economic forecasters

MANITOBA ECONOMIC STATISTICS, 2006 TO 2010

	2006	2007	2008	2009	2010
	Millions of Dollars				
POPULATION					
July 1 (000's)	1,184	1,194	1,206	1,220	1,235
GROSS DOMESTIC PRODUCT ¹					
Nominal	45,150	48,903	51,065	50,990	53,528
Real (\$2002)	40,038	41,119	41,965	41,928	42,974
SECTORS					
Farm Cash Receipts	3,688	4,344	4,801	4,882	4,819
Crops	1,275	2,197	2,763	2,891	2,739
Livestock	1,787	1,734	1,687	1,616	1,731
Direct Payments	626	413	350	376	349
Manufacturing Shipments	14,862	16,185	16,376	14,622	14,378
Mining	2,616	3,081	2,528	1,979	2,497
Electric Power Sales	1,697	1,667	1,737	1,560	1,569
Export Sales	702	613	634	399	410
Housing Starts (no. of units)	5,028	5,738	5,537	4,174	5,888
Retail Trade	12,874	14,016	14,980	14,915	15,738
New Car Sales (no. of units)	45,924	47,099	48,029	43,995	45,355
FOREIGN EXPORTS					
Total Exports	10,195	12,196	12,972	10,567	10,263
U.S.	7,671	8,348	8,905	7,138	6,602
LABOUR MARKET					
Labour Force (000's)	615.2	626.4	635.0	641.8	654.9
Employment (000's)	588.5	598.6	608.5	608.3	619.8
Participation Rate (%)	68.5	69.0	69.3	69.1	69.6
Unemployment Rate (%)	4.3	4.4	4.2	5.2	5.4
Average Weekly Earnings (\$)	688.78	729.15	749.59	771.29	786.35
INVESTMENT					
Total	7,837	8,903	10,008	9,694	10,699
Private	5,811	6,267	7,166	6,657	6,898
Public	2,027	2,635	2,842	3,037	3,801
Non-residential	6,042	6,803	7,698	7,448	8,286
Housing	1,796	2,099	2,310	2,246	2,413
CONSUMER PRICE INDEX					
(Index, 2002 = 100)	108.7	110.9	113.4	114.1	115.0
BANKRUPTCIES					
Business	160	102	103	65	68
Farm	36	14	22	17	6
Personal	2,254	2,041	2,025	2,443	1,994

¹ 2010 are preliminary estimates by Manitoba Bureau of Statistics

Sources: Statistics Canada and Manitoba Bureau of Statistics

Totals may not add due to rounding.

2006	2007	2008	2009	2010	
Annual Percentage Change					
0.5	0.8	1.0	1.2	1.3	POPULATION July 1 (000's)
8.8	8.3	4.4	-0.1	5.0	GROSS DOMESTIC PRODUCT¹ Nominal
3.7	2.7	2.1	-0.1	2.5	Real (\$2002)
					SECTORS
-3.3	17.8	10.5	1.7	-1.3	Farm Cash Receipts
-1.6	72.3	25.8	4.6	-5.3	Crops
-1.7	-2.9	-2.7	-4.2	7.1	Livestock
-10.4	-34.1	-15.1	7.2	-7.0	Direct Payments
8.6	8.9	1.2	-10.7	-1.7	Manufacturing Shipments
66.0	17.7	-17.9	-21.7	26.2	Mining
-5.5	-1.8	4.2	-10.2	0.5	Electric Power Sales
-14.2	-12.6	3.4	-37.0	2.6	Export Sales
6.3	14.1	-3.5	-24.6	41.1	Housing Starts (no. of units)
4.1	8.9	6.9	-0.4	5.5	Retail Trade
-1.2	2.6	2.0	-8.4	3.1	New Car Sales (no. of units)
					FOREIGN EXPORTS
9.6	19.6	6.4	-18.5	-2.9	Total Exports
10.0	8.8	6.7	-19.8	-7.5	U.S.
					LABOUR MARKET
0.8	1.8	1.4	1.1	2.0	Labour Force (000's)
1.2	1.7	1.7	0.0	1.9	Employment (000's)
-	-	-	-	-	Participation Rate (%)
-	-	-	-	-	Unemployment Rate (%)
3.0	5.9	2.8	2.9	2.0	Average Weekly Earnings (\$)
					INVESTMENT
14.6	13.6	12.4	-3.1	10.4	Total
14.1	7.9	14.3	-7.1	3.6	Private
16.2	30.0	7.8	6.9	25.2	Public
16.2	12.6	13.2	-3.2	11.2	Non-residential
9.8	16.9	10.0	-2.8	7.4	Housing
					CONSUMER PRICE INDEX (Index, 2002 = 100)
2.0	2.0	2.3	0.6	0.8	
					BANKRUPTCIES
7.4	-36.3	1.0	-36.9	4.6	Business
38.5	-61.1	57.1	-22.7	-64.7	Farm
-10.1	-9.4	-0.8	20.6	-18.4	Personal

■ Appendix 1: EXPANDING MANITOBA'S CAPACITY FOR INNOVATION

Innovation is one of the cornerstones of Manitoba's five-year economic plan. New ideas, new products, new processes, new markets, and new jobs – these are the things that build Manitoba's economy and provide a brighter future for all Manitobans.

More than ever before, innovation is the engine that drives economic growth. Globalization is leveling the international playing field. Changes in trade agreements and financial markets, along with technological advances in information and communications technology, have reduced or eliminated many of the barriers that once sheltered local industry from international competition. The new reality is that local firms must continually innovate, adapt and create new products and services to compete beyond regional borders.

Manitoba has worked hard over the past decade to build capacity for innovation in our economy. When the first *Action Strategy for Economic Growth* was released in 2003, support for research and innovation was a key feature of Manitoba's overall plan. Based on the recommendations of the Premier's Economic Advisory Council, the strategy emphasized the importance of investments in research and innovation to build competitive advantage. This was supported by the introduction of the *Manitoba Innovation Framework*, which identified key actions to encourage and sustain innovation.

Manitoba's support for the initiatives outlined in the *Manitoba Innovation Framework* and *Manitoba's Action Strategy for Economic Growth* continue to show results. One of the key measures of innovation is productivity and Manitoba is a leader in real productivity growth. Over the last six years, Manitoba has seen the largest increase in labour productivity at 9.5% and more than double the national increase of 4.3%. That is the highest increase in Canada.

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Manitoba Bureau of Statistics

Looking to the future, prospects for continued productivity growth are excellent. According to Statistics Canada, capital investment for machinery and equipment increased by 5.6% in 2010 and is expected to increase by another 6.9% in 2011. In the manufacturing sector, machinery and equipment investment spending is expected to grow even faster, going from 9.2% in 2010 to 32% in 2011.

Support for research and development (R&D) activity is another key indicator. Manitoba has one of the best R&D climates in Canada, with an extensive network of R&D facilities supporting innovation, commercialization and productivity growth. Since 1999, Manitoba's annual direct support for R&D has doubled, to almost \$40 million.

New and improved infrastructure is available to support innovation, including business incubators like Biomedical Commercialization Canada Inc. and the Eureka Project, new research centres like the Composites Innovation Centre and the Richardson Centre for Functional Foods and Nutraceuticals, and significant improvements at existing centres like the Industrial Technology Centre and the Food Development Centre.

Manitoba exporters benefit from a modern, well-established network of highways, railways, air and sea connections. New developments under way now will increase the already significant advantages Manitoba has to offer to companies looking to grow their international trade. One of these is CentrePort Canada, Manitoba's new 2,000 acre inland port and Canada's first Foreign Trade Zone. The Arctic Gateway Initiative, in which Manitoba is working with key stakeholders, including Russia and China, to help realize the Arctic's potential as a trade and economic development zone, is another.

Building an Innovative Economy

Well-educated and technically skilled workers, a strong and collaborative research and development culture, entrepreneurial spirit and a supportive business environment are the building blocks of an innovative economy. Strategic investments in these areas over the years have laid the foundation for strong growth in the future.

Building a Skilled Work Force

An educated, skilled and motivated population is a critical part of Manitoba's competitive advantage. Investments supporting high-quality, affordable and accessible opportunities for education and training help build Manitoba's economy and secure a prosperous future for all Manitobans.

- Since 1999, total provincial operating funding for Manitoba's colleges and universities has increased by more than 80% and the province has supported over \$800 million in capital investment for our post-secondary institutions.
- Better funding for colleges and universities has been a key to keeping education affordable and accessible. Manitoba has the second-lowest college tuition fees in the country and the third-lowest university tuition fees. Enrolment in post-secondary institutions has increased by more than one-third since 1999.
- Manitoba's Tuition Fee Income Tax Rebate also helps encourage young people to live, work and build businesses in Manitoba by providing a 60% tuition rebate for all post-secondary graduates. Since 2007, \$19 million in rebates have been claimed and \$19 million is forecast to be claimed in 2010. Beginning in 2010, Manitoba students can claim a 5% advance on this rebate, providing immediate income assistance to students and saving them \$7.5 million annually.
- The number of active apprentices has more than doubled since 1999, and Manitoba has committed to continuing to create additional apprenticeship opportunities.
- Manitoba recently announced \$6.4 million in new funding for technical vocational training. With every new innovation and high-tech invention, demand for skilled workers increases. This new funding will be used to increase opportunities and ensure the curriculum incorporates and directly relates to world-class, cutting-edge resources for students and professional staff.
- To help more young Manitobans qualify for high-skilled jobs, the new Len Evans Centre for Trades and Technology was opened at the Assiniboine Community College in Brandon in 2010. This new high-tech, world-class training facility will accommodate more than 1,400 students and include more than 700 new apprenticeship spaces.
- The University of Manitoba is undergoing a historic transformation of its campus. The new Engineering building, the Smartpark research and development park, and the Richardson Centre for Functional Foods and Nutraceuticals are already completed and a multi-building redevelopment program is under way which includes the construction of a completely new student residence.
- The new building housing the University of Winnipeg's Science Complex and Richardson College for the Environment is scheduled to open in 2011. This new state-of-the-art instructional facility will ensure that students who study in Manitoba have leading-edge educations that prepare them for the jobs of the future.

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- The University College of the North campus in The Pas is being renovated and expanded, including a library expansion, on-campus housing, a new child-care facility and a redeveloped student service centre. In Thompson, a new campus will expand the capacity of the college from 342 to 510 students, and apprenticeship spaces will increase from 48 to 150. The Thompson campus will also feature on-campus housing, a child-care centre, new library and learner support services, as well as ceremonial and elder space and other Aboriginal student services.

Strengthening Research and Development

Research and development are key elements in the capacity for innovation, but it is the transformation from research to practical application that really creates growth. Over the past decade, the Government of Manitoba has focused more on enhancing the capacity for innovation through building research infrastructure and encouraging investments in research and development. Building on that foundation, the future will see an increasing emphasis on the full range of commercialization activities, from the development of an idea to the successful marketing of the result.

The Manitoba Research and Innovation Fund (MRIF) was created to help increase the capacity of the province's universities, colleges, hospitals and other institutions to carry out important, world-class research and development. Since 2003, it has provided over \$90 million in research and innovation support for health and agriculture, technology and aerospace, cultural and new media industries, and alternative energy developments. Budget 2011 adds another \$1.5 million to MRIF.

- The Advanced Manufacturing Initiative encouraged industry to reduce waste and implement lean manufacturing principles, allowing manufacturers to increase productivity and become more profitable. Supported by funding of \$4.2 million under the Canada-Manitoba Economic Partnership Agreement, the Centre of Manufacturing Excellence Initiative will build on the success of the Advanced Manufacturing Initiative.
- Manitoba's technology business incubators 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. In total, these two incubators have graduated 11 companies and are currently providing hands-on mentoring assistance to 24 start-up and early-stage firms that are poised for future business success.
- The Composites Innovation Centre assists companies in developing, testing and commercializing composite materials and technologies for manufacturing industries. Since it was created in 2003, it has undertaken more than \$12 million in projects.
- The \$10 million Concordia Hip and Knee Institute Strategic Research Initiative will enhance the capacity of the province's medical device industry to develop and commercialize specialized joint replacement technology. This is a unique collaborative effort where surgeons and professional engineers work side by side in developing, testing and assessing novel solutions under controlled laboratory environments and in clinical trial.
- Manitoba is partnering with the Government of Canada 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.
- The Richardson Centre for Functional Foods and Nutraceuticals unites researchers from a variety of disciplines, along with industry partners to study bioactive compounds in prairie crops and develop functional foods and nutraceuticals.

- The Food Development Centre in Portage la Prairie is being expanded with the support of the federal and provincial governments to provide additional resources to innovators engaged in food and ingredient development. In 2009/10, the Food Development Centre has helped to develop 48 new food products and completed nutritional analysis for 351 products.
- A Strategic Innovation Grant to the Prairie Agricultural Machinery Institute is supporting agricultural research, development, and testing of farm equipment and technology aimed at enhancing the productivity and income of Manitoba's agricultural producers.
- Prairie Pulp and Paper is using \$400,000 in Advancing Agri-Innovation funding to take its new non-wood products to the market evaluation phase, moving the company closer to its decade-long dream of mass-producing paper from flax and cereal by-products.
- Schweitzer-Mauduit Canada used \$385,000 of Advancing Agri-Innovation funding for equipment that transforms low-value flax shives into biomaterials. This new product line is helping the company access higher value markets so it can keep jobs in Carman, Winkler and Treherne.

Creating a Supportive Environment

Just as important as having the right people and the right ideas is having the right environment to support the translation of ideas into commercially successful ventures. Fostering the right environment requires a combination of well-designed funding supports and tax measures, along with a business culture that encourages collaboration and celebrates success. In Manitoba, the after-tax cost of one dollar of R&D expenditure in 2011 is just 46 cents.

- The R&D Tax Credit was increased from 15% to 20% in 2005 and has been enhanced, making it refundable for corporations that incur prescribed expenditures in Manitoba after 2009, under an eligible contract with a qualifying Manitoba research institute.
- The tax credit for in-house R&D is also now partly refundable: one-quarter in 2011 and one-half starting in 2012. In total, R&D Tax Credit benefits will increase from \$22 million to \$35 million annually with these improvements.
- The refundable portion of the Manufacturing Investment Tax Credit was increased to 70% in 2008.
- The annual approval limit for the Small Business Venture Capital Tax Credit was doubled from \$16.7 million to \$33.0 million in 2009.
- The Corporation Capital Tax was eliminated for manufacturers and processors in 2008 and general Corporation Capital Tax was eliminated as of December 31, 2010.
- The Small Business Corporation Income Tax was also eliminated on December 1, 2010.
- The Co-op Education and Apprenticeship Tax Credit provides incentives up to \$2,500 per eligible employee to employers who offer work experience to young Manitobans. Eligible hires include co-op students and graduates, apprentices and newly certified journeypersons.

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- The total Green Energy Equipment Tax Credit on geothermal heating systems is increased from 10% to 15%, effective for installations after April 12, 2011. The tax credit for Manitoba manufacturers of qualifying geothermal heat pumps will increase from 5% to 7.5%. The tax credit for purchasers of qualifying made-in-Manitoba geothermal heat pumps installed in Manitoba will also increase from 5% to 7.5%.
- In 2008, the government introduced the Interactive Digital Media Tax Credit. Budget 2010 extended the credit for another three years and improves access to the credit.
- To attract and encourage the expansion of small, innovative financial institutions in Manitoba, banks with taxable paid-up capital under \$4 billion will be exempt from the 3% capital tax, commencing with taxation years ending after April 12, 2011. This will provide Manitoba companies with access to more diverse sources of capital for growing their businesses.

It is also important for the government to provide a solid infrastructure to facilitate business activity. This is why Manitoba has established the Manitoba Business Gateway, a single-window solution to provide access and referrals to a wide array of business and employment information and services including how to start a business, permits and licenses, financial programs, business planning, recruiting, training and managing employees, business expansion and growth, interprovincial and international export opportunities and more, including new innovative online services such as BizPal and TAXcess.

Renewing the Commitment

With the *Five-Year Economic Plan* entering its second year, the time is right to renew the commitment to supporting innovation as a key driver of future growth. As the effects of the global recession fade, renewed economic growth based on innovation will allow businesses to hire employees and provide investors with returns, and enable governments to manage public resources and deliver essential services. Manitobans have the ideas, the ability and the drive to make Manitoba the province of choice for

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innovators and inventors who create new ideas as well as the entrepreneurs and investors who turn ideas into action.

In 2009, the Manitoba Innovation Council was created to bring together people with diverse backgrounds in research, business and government to work on developing and implementing a plan to achieve this goal. The Council has been working diligently to provide advice to the government on a new innovation action plan, including new investments and a new single-window approach to delivering the government's innovation, entrepreneurship and business development programs.

The next stage of Manitoba's innovation strategy will be business oriented and focused on promoting the successful commercialization of new ideas. It will prioritize support in market sectors where Manitoba has a global competitive advantage and/or existing infrastructure to build momentum and support investments over the long term in sectors like green energy. In Manitoba, research and development is already under way on a wide range of new energy technologies ranging from biomass projects that turn agricultural waste into fuel to wind energy, hydrogen-fueled buses, plug-in electric vehicles and more.

Manitoba will increase its emphasis on exploring partnerships and networking by strengthening the links between research agendas and market requirements. The province will also continue to work to increase access to capital, striving to strike the appropriate balance between public investments that support investors directly and those that provide incubation or technical expertise through market channels.

Drawing on a network of internal and external sector experts, and with the support of the private sector, the province will launch new programs to support commercial innovation that will be outcomes oriented, activity based and flexible enough to provide support when it is needed throughout a venture's life cycle from start-up to market expansion.

Budget 2011 introduces the first of these new programs, the Manitoba Commercialization Support for Business Program. Manitoba is committing \$30 million over the next five years to support entrepreneurship, commercialization and business development, and fill gaps which the Innovation Council has identified by offering a comprehensive suite of new grants and services across the full development life cycle.

The goal of the renewed commitment is to build a culture and economy where innovators and inventors create new ideas and entrepreneurs and investors prosper in new markets. Consultations with the Innovation Council, Premier's Economic Advisory Council and other stakeholders will help shape the next steps in our effort to expand Manitoba's capacity for innovation. The Council will continue to be a champion and catalyst for innovation, and advise the government as we move forward.